Comments

The author has highlighted an issue of significance in a vein similar to that of Calvo and Mishkin (2003) in emphasizing that in emerging market economies the debate between the choice of an appropriate monetary cum exchange rate regime is of second order importance. What's more important is the development of institutions, which equip these economies with the requisite proactive mechanisms to cope with and recover from external shocks.

This has been proven over time as societies with strong institutional framework, i.e. generally developed nations, who subscribe to the rule of law, to property rights and the market allocation of resources have been economically more efficient and resilient to external shocks.

According to the author a sound institutional framework needs to be in place prior to embarking on a financial liberalization program in which the choice of a monetary cum exchange rate regime can then be considered.

As the author himself has noted in the paper, the financial sector is an exception to the weak institutional framework largely prevalent in the country when he mentions that "Pakistan is now on its way to a well integrated institutional structure for its financial sector". However he has raised some pertinent issues regarding further strengthening of these institutions, and in considering these issues it is important to keep in mind that the financial sector in Pakistan is governed by two regulators, the State Bank of Pakistan (SBP) and the Securities and Exchange Commission (SECP). The State Bank has been rather proactive, focused and dynamic in implementing the financial sector reforms, and has taken the initiative of institutionalizing a number of crucial reforms regarding the banking sector, the conduct of the monetary policy, accuracy and access to information thus promoting transparency, maintaining a consultative decision-making approach etc. These measures have served to strengthen the institutional mechanism in the financial sector by resulting in an improved competitive environment, enhancing allocative efficiency, promoting a predominant role of the private sector. As we have seen, most of the author's recommendations regarding improvement of governance issues in the financial sector itself are directed towards SECP, which is already in the process of implementing most of the changes and reforms recommended in the paper.

What is patently obvious is that the existing institutional role of the financial sector can be further strengthened by the extent of coordination between the two regulators in order for the financial sector to develop as a whole in line with international best practices. This in particular can lead to promoting the role of the capital markets within the framework of the overall financial sector reforms.

Since the financial sector does not operate in isolation and has linkages to other institutions which are at different stages of the reform process, requisite support is also needed from the legal infrastructure, and from the taxation system to simplify and facilitate transactions, promote a conducive investment environment, enhance national savings, and for the markets to operate on a robust, sustainable and efficient economic base.

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Reference

Calvo, G. and F. Mishkin (2003). *The Mirage of Exchange Rate Regimes for Emerging Market Countries*. NBER Working Paper No. 9808. Massachusetts: NBER.