

**M. Ashraf Janjua.** *History of the State Bank of Pakistan (1988–2003)*. State Bank of Pakistan. 976 pages. Hardback. Price not given. **M. Ashraf Janjua.** *History of the State Bank of Pakistan (1988–2003) Supplement*. State Bank of Pakistan. 352 pages. Hardback. Price not given.

*History of the State Bank of Pakistan* is a series beginning with two volumes published first in 1992 and 1994. The former covered the 1948–60 period and the latter the years from 1961 to 77. M. Ashraf Janjua then wrote the next two volumes covering the years 1977–88 and 1988–2003. The third volume, pertaining to the years 1977–88, was reviewed by A. R. Kemal (*PDR*, 42:2, pp. 161–166). That volume contains not only the major developments in the monetary and real sectors during the eleven-year period but also traces the developments since Independence.

The present volume of the *History of the State Bank of Pakistan* reviews the development of the monetary and real sectors during the fifteen-year period (1988–2003) taken up by the author. Its fifteen chapters, starting with an overview of the economic development during the period, examine the linkages between monetary policy and credit management, and financial sector reforms and macroeconomic restructuring. Also reviewed are exchange rate and trade policies; foreign exchange reserves management; the role of the IMF, the State Bank of Pakistan (SBP), banks and non-bank financial institutions (NBFIs); issues in the management of foreign currency accounts (FCA); autonomy of the State Bank and the relationship between the government and the State Bank; the development of Islamic financial system; and the restructuring of the State Bank of Pakistan. In general, the chapters focus on various reforms introduced in the economic system and their implementation during the fifteen-year period.

Chapter 1 introduces the book and reviews the performance of the economy. The author terms the 1980s as a decade of missed opportunities despite a reasonably high growth rate financed by foreign capital inflows in the form of both remittances and foreign aid. This is because the savings rates remained quite low, investment rate failed to rise, and the fiscal and balance-of-payments deficit increased sharply. The 1990s are considered a lost decade because of the low growth resulting mainly from the decline in capital inflows, low human resource development, high unemployment and a sharp increase in the proportion of the population falling below the poverty line. The author however points out that thanks to 9/11, the capital inflows have improved, resulting in strong macroeconomic fundamentals.

Chapter 2 discusses four phases of the financial sector reforms and implementation of the monetary policy, and points out that fiscal deficit has been the major constraint in carrying out the monetary policy. The chapter includes a view of the experience of the monetary policy framework under a floating exchange rate operating through treasury bills, open market operations, three-day repo facility, rediscount facility, and liquidity and reserves requirements. Comparisons between

the actual and target growth of GDP, inflation, monetary assets, domestic credit, inflationary gap, current account as percentage of GDP, and depreciation of Pak. Rupee are also included in the chapter. It is found that actual credit expansion to the government and the other agencies differs widely from the targets, but why this happens has not been analysed. The author suggests that whereas price stability is the major function of the SBP, the bank failed because of large monetary expansion combined with a low rate of growth since 1992-93.

Chapter 3 discusses setting up new banks and NBFIs, privatisation, mergers, takeover, reconstruction, rehabilitation, and right-sizing of banks and NBFIs. It provides information and data that are not generally accessible about the micro finance sector. The chapter also discusses the fund management by the SBP, including total outstanding credit, recovery of loans, policy of writing-off irrecoverable loans, and the strategy of dealing with non-performing loans.

Chapter 4 discusses the implementation and types of reforms and examines the impact of those reforms on macroeconomic restructuring. The reforms include greater competition within the banking sector, rationalisation of interest rate structure, money and credit reforms, regulatory reforms, prudential regulations, and capital market reforms. The impact of reforms is examined on financial deepening, assets and advances of banks, savings, investments, inflation rate, interest rate and credit distribution. It has been argued that these reforms have been instrumental in improving efficiency of the banking system. One may agree with the author about his evaluations yet these must be rigorously assessed.

Chapter 5 is divided into two sub-periods, i.e., 1988-92 and 1992-2003. The first period is the period of transition under adjustment in the financial sector reforms. The main reforms during the period included appropriate provisions against the classified loans; authorisation of licences to open new banks and branches; the criterion of capital adequacy; setting the interest rates and the cash reserve requirements; limits on the lending per party; rules regarding the foreign currency; banks' borrowing from the SBP and the writing-off of debts; the debt equity ratios; and other management issues. Over the 1992-2003 period, the above reforms were not only implemented and consolidated, changes were also made to harmonise Pakistani regulations with the international standards. The supervision of the banks and the NBFIs, discussed in Chapter 6, ensured soundness of the financial sector and the protection of depositor's money. It was done in the form of off-site and on-site surveillance. A comprehensive surveillance procedure and the inspection methodology are given in the chapter.

Chapter 7 reviews the trade policy, the balance-of-payments situation, and the impact of trade liberalisation on Pakistan's external trade. Reforms in the exchange rate systems and real effective exchange rates are also reported here. An account of the management of reserves is also included in the chapter, and it is noted that 96 percent of the reserves holdings are in US dollars.

Chapter 8 deals with the IMF-initiated programmes of structural adjustment facility and stand-by arrangements to correct the structural weaknesses in the economy. Flaws in the design of the IMF programmes are criticised on grounds of over-optimistic assumptions and a lack of contingency plans. Chapter 9 deals with the policy of allowing the residents to open foreign currency accounts and the later crisis of the frozen foreign currency accounts in late 1990s. Details, generally not available, of forward-cover rates, balances held under resident, institutional, and non-resident foreign currency accounts (FCA), currency-wise composition of FCA, are relationship between exchange rate changes and forward-cover fee are also provided.

Chapters 10, 11, and 12 examine the development role of SBP, the autonomy of SBP, and the fiscal and monetary issues. The author argues that a highly developed financial system is the hallmark of a modern business enterprise economy. According to him, several studies conclude that Central Bank independence leads to low inflation but actually the autonomy may not be all that necessary for low inflation. Chapter 13 focuses on the payments system, instruments, and regulations governing the payments systems. Chapter 14 discusses the development of the Islamic financial system and suggests that only a few minor measures have been taken towards Islamic Banking. The concluding chapter focuses on management matters, organisational structure, and responsibilities of the administration.

The details of the changes in existing legislation since 1988, such as Banks (Nationalisation) Act 1975, State Bank of Pakistan Act, 1956, etc. are given in the *Supplement* to this Volume. Other sections of the *Supplement* include the new legislation and amendments, such as the National Accountability Bureau Ordinance and other regulations, including various prudential regulations of banks, NBFIs, and microfinance bank institutions.

The book is of a great value to all those interested in studying the monetary sector developments over the 1988–2003 period together with some critical analysis of the overall developments in the economy. Chapter-wise bibliography and an alphabetical index are also provided in the main volume, with a separate index in the *Supplement*.

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