

# **“Banking”**

Human left the need of bank When they use the money as a medium of exchange.

## **The Development Of Banking Sector**

**The first phase:1947-74**

### **“History of banking in Pakistan”**

#### **Before independence:**

Most of the banking business was in the hand of Hindus of British people and only two banks were in the hand of Muslims and one bank was already in Pakistan. There were 19 non-indian foreign banks in Pakistan before independence whose policies and operation were controlled by their head offices abroad. These banks were engaged in exports of crops from Pakistan.

Established just few months before independence

- Habib bank was established in early 1947 in Bombay{India} shifted in Pakistan after independence.

- Muslim commercial bank was established in July 1947, in Calcutta{India}, shifted in Pakistan after independence.
- Australian bank renamed Allied bank in 1942 Lahore Pakistan.

## **Phase-1 1947 to 1974 Establishment of Commercial banking system.**

This was the first phase of Pakistan commercial banking system. In subcontinent **Reserve bank of India** was central bank. The bank of India closed down most of its offices in Pakistan, which had been working as the agent of reserve bank of India was not willing to purchase even token amount of the government of Pakistan. Securities and Indian reserve banks issued notes were not marketable declared by India government. The reserve bank of India was hardly of any help. It refused to help the government of Pakistan so salaries and other obligation did not fulfill. After independence of Pakistan 1947. On December 1948 British government decide to divide the the reserve of India central bank 30% reserve for Pakistan and 70% reserve for India.

After taking this reserve.

- In May 1948 “M. Ali Jinnah” immediately established “**state bank of Pakistan**”.

- After one year in **November 1949 National bank** of Pakistan was established in Dacca {East Pakistan}. The main purpose was to act as an agent of state bank of Pakistan.

Number of more banks were established according to the need of country with passage of time.

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Most banks were controlled and owned by Hindus and the services were no longer available after their head offices were transferred to India. The only scheduled bank that remained in Pakistan was the Muslim owned Australasia bank, which was just too small and ill equipped to handle the business. the acute shortage of skilled staff was a key factor in inhibiting the evolution of even a basic system of banking.

On 1 July 1948 state bank of Pakistan began operation and became the sole note issuing authority, at that time government of Pakistan had no note printing press to print them on. On 1 July 1948 the total bank deposit of Rs1.1081 billion held in Pakistan as much as 73% was held by foreign banks whose activities was largely confined to foreign trade.

In first eighteen month 51 new branches were opened in both east and west Pakistan of which 28 were Pakistani banks 12 were Indian and 4 were exchange banks and 7 were newly open national bank of Pakistan of which 6 were in east Pakistan.

In December 1949 there were 35 schedule banks in Pakistan, of which 4 were Pakistani 23 were Indian and 8 exchange bank these banks had 109 branches in west Pakistan and 83 in east Pakistan. 59 branches of Pakistani banks only 7 were in east Pakistan.

As the number of branches of commercial banks expended in 1950 these banks continue to mobilize increasing domestic savings which were then channeled in to the demand for credit in economy and commercial bank started playing an important role in supplying credit to domestic industries as well. Pakistani banks began to play and important role in financing in economic development. In 1952 total advances made to different sectors. 38% were by Pakistani banks, 22% by Indian banks and 40% by foreign banks. In 1955 Pakistani banks supplied 59% of credit advanced. In 1970 this had risen to as much as 89%.

Over the years the state bank of Pakistan decides to set up a system of new branches. By the state bank commercial were asked to extend their areas of operation to region that were not partially economically viable. As well as agriculture

production was taking place in west Pakistan most of the new branches were opened in western province. In 1963 there were 957 branches in both wings with the most populous eastern wings having less than 35% bank branches and state bank of Pakistan ordered commercial banks to open one branch in east Pakistan for each branch they had in west Pakistan. And most of the branches had become viable according to the state bank of Pakistan.