

[ TO BE INTRODUCED IN THE NATIONAL ASSEMBLY ]

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BILL

*further to amend the State Bank of Pakistan Act, 1956*

WHEREAS it is expedient further to amend the State Bank of Pakistan Act, 1956 (XXXIII of 1956), for the purposes hereinafter appearing.

It is hereby enacted as follows:-

1. **Short title and commencement.**- This Act may be called the State Bank of Pakistan (Amendment) Act, 2010.

(2) It shall come into force at once.

2. **Substitution of section 9, Act XXXIII of 1956.**-In the State Bank of Pakistan Act, 1956 (XXXIII of 1956), hereinafter referred to as the said Act, in section 9 for sub-section (1), the following shall be substituted, namely:-

“(1) Subject to section 9A, the general superintendence and direction of the affairs and purpose of the Bank shall be entrusted to the Central Board.”

3. **Substitution of section 9A, Act XXXIII of 1956.**- In the said Act, for section 9A, the following shall be substituted, namely:-

“9A. **Functions and responsibility of the Central Board.**-(1) The Central Board, with the exception of the powers entrusted to the Monetary Policy Committee, and the supervisory and regulatory functions, shall perform the following, namely:-

(a) to define and determine policies of the Bank regarding the execution of its functions and approve internal rules for their implementation;

(b) oversee foreign exchange reserve management and approve strategic investment and risk policy.

- (2) The Central Board shall submit a quarterly report to the Majlis-e-Shoora (Parliament) on the state of economy with special reference to economic growth, money supply, credit, balance of payments and price development.”.

4. **Substitution of section 9B, Act XXXIII of 1956.-** In the said Act, for section 9B, the following shall be substituted, namely:-

**“9B. Functions and responsibilities of the Monetary Policy Committee.-** There shall be a Monetary Policy Committee which, without prejudice to its powers and functions and those of the Bank, shall support the general economic policies of the Federal Government and shall -

- (a) formulate, decide and implement the monetary policy, including, as appropriate, decisions, relating to intermediate monetary objectives, key interest rates and the supply of reserves in Pakistan, and may adopt internal rules for their implementation;
- (b) formulate, decide and implement the exchange rate policy;
- (c) determine the limits and nature of advances and loans to be extended by the Bank to the Government;
- (d) approve and issue the monetary policy statement and other monetary policy measures;
- (e) perform any other functions conferred on it by law; and
- (f) carry out any ancillary activities incidental to the exercise of its functions under this Act.”.

5. **Insertion of section 9C, Act XXXIII of 1956.-** (1) In the said Act, after section 9B, the following new section shall be inserted, namely:-

**“9C. Composition of the Monetary Policy Committee.-**

- (1) The Monetary Policy Committee shall be chaired by the Governor and shall consist of,-
- (a) Governor, or in his absence, a Deputy Governor nominated by him;
  - (b) a Deputy Governor nominated by the Governor, who shall be chairperson in absence of the Governor;
  - (c) three senior executives of the Bank to be nominated by the Governor;
  - (d) two members of the Central Board, to be nominated by the Central Board; and
  - (e) two external members who shall be economists, to be appointed by the Federal Government on the recommendation of the Central Board.
- (2) The Monetary Policy Committee may co-opt additional experts as members without voting rights.
- (3) Each member of the Monetary Policy Committee shall have knowledge or expertise which is likely to be relevant to the Committee's functions.
- (4) The external members of the Monetary Policy Committee shall be appointed for a period of three years and shall be eligible for re-appointment for another term of three years.
- (5) The qualification and disqualification specified in section 13 will apply to external members.
- (6) A member of the Monetary Policy Committee shall terminate his appointment or be removed from this Committee

in accordance with the procedure laid down in section 15 for removal of a member of the Central Board on any of the following grounds, namely:-

- (a) when that member becomes ineligible to serve on the Monetary Policy Committee pursuant to the previous sub-section; or
- (b) to whom grounds for removal of the members of the Central Board or termination of their appointments apply; and
- (c) when that member contravenes the rules of procedure of the Monetary Policy Committee.

(7) The Monetary Policy Committee shall determine its own rules of procedure and shall nominate the secretary of the Committee.

(8) All decisions of the Monetary Policy Committee shall be taken by majority of members present and voting and in the event of equality of votes, the Governor may exercise a casting vote.”.

**6. Amendment of section 10, Act XXXIII of 1956.-** In the said Act, in section 10,-

- (a) after sub-section (2), the following new sub-section shall be inserted, namely:-

“2A. Notwithstanding anything contained in sections 9A and 9B the Governor may, in an emergency which in his opinion requires immediate action, take such measures as may be necessary in the circumstances and shall report such measures to the Central Board or, as the case

may be, the Monetary Policy Committee at its next meeting.”.

(b) after sub-section (13) the following new sub-section shall be added, namely:-

“(14) The Governor shall apprise the Central Board, for its information, of the monetary policy.”.

**7. Amendment of section 17, Act XXXIII of 1956** – In the said Act, in section 17, after sub-section (1), the following new sub-sections shall be inserted namely:

“(1A) formulate and implement foreign exchange policy;

(1B) hold and manage the international reserves of Pakistan;”.

**8. Substitution of Section 18. Act XXXIII of 1956.**- In the said Act, for section 18 the following shall be substituted, namely:-

“18. Open Market and Credit Operations.- (1) The Bank may operate in the financial markets by buying and selling outright (spot or forward) or under repurchase agreement or such other means as may be deemed expedient, and by lending or borrowing claims and marketable instruments, as well as precious metals and conduct credit operations with banks operating in Pakistan, with lending based on adequate collateral.

(2) The Monetary Policy Committee shall determine the types of instruments and activities and other operational methods of monetary control including Shariah-based instruments to be used for open market and credit operations; and it shall announce the conditions under which the Bank stands ready to enter into such transactions.”.

9. **Insertion of new section 20A, XXXIII of 1956.**—In the said Act, after section 20, the following new section 20A shall be inserted, namely:--

**“20A. Prohibition on lending to the Government.**-(1) Save as provided in this section, the Bank shall not grant any direct or indirect credits to the Federal Government, or as the case may be, the Provincial Government or to any other public agency or State-owned entity, with the exception of intra-day credits to secure the smooth functioning of the payment system. Such intra-day credits shall be fully repaid before the end of the same day.

(2) The restrictions of the previous sub-section shall not apply to publicly-owned banks and other financial institutions, which shall be given the same treatment as privately-owned banks and other financial institutions.

(3) The Bank may purchase government securities provided that such purchases are only made in the secondary market.

(4) Notwithstanding anything hereinbefore contained the Bank may,-

(a) the Bank may, if required, extend ways and means advance to the Provincial Governments provided that such advance shall not, at any time, exceed ten per cent of the general revenue receipts of the borrowing Provincial Government in the previous financial year; and

(b) if required to temporarily cover a deficit of the Federal Government's current yearly budget, -

(i) make advances and loans to the Federal Government on overdraft or in such other

forms as determined by the Monetary Policy Committee; and

- (ii) acquire by purchases on the secondary market treasury bills and other negotiable securities at market rates representing obligations of the Federal Government. The Bank will make public any such assistance to the Government.
- (5) The total of such loans, advances and holdings of treasury bills and other Federal Government securities, whether or not acquired according to sub-clause (ii) of clause (b) of sub-section (4) excluding any Federal Government securities held as part of the share capital of the Bank and less any credit balances in the account of Federal Government with the Bank, shall, at no instance, exceed ten per cent of the Federal Government's actual revenue in the previous year's budget.
  - (6) Treasury bills and other Federal Government securities held by the Bank against repurchase agreements entered into with it by licensed banks shall be excluded from the total holdings of Federal Government securities of the Bank where the repurchase is required to be effective within ninety-three days from the date of the agreement.
  - (7) Any advance made under clause (a) or sub-clause (i) of sub-section (4) shall be repaid within ninety-three days from the end of the Federal Government's financial year to which it relates, and where any such advance remains unpaid after

the due date, the power of the Bank to make further advances in any subsequent financial year shall not be exercised unless the amounts due in respect of outstanding advance have been repaid.

- (8) The Bank shall charge interest, mark-up or remuneration or return on advances granted under this section at prevailing market rates:

Provided that nothing contained in this section shall apply to any lending, credit or advances to the Federal Government or Provincial Government existing at the commencement of the State Bank of Pakistan (Amendment) Act, 2009 for a period of sixty months.”.

10. **Substitution of section 23, Act XXXIII of 1956.**-In the said Act, for section 23 the following shall be substituted namely: -

“ **23. International reserves portfolio.**-(1) The Bank may directly or indirectly purchase, hold, and sell currencies, financial and capital instruments, including indices and derivatives, issued by governments, agencies, local authorities, corporate, and supranational in countries, wherever issued, whose currency has been declared as approved foreign exchange and the remaining effective maturity of which is determined to be of not more than thirty years at the time of purchase:

Provided that the restrictions relating to maturity shall not apply to securities held by the State Bank on the date on which this Act comes into force or any securities that may be received as assets under the Pakistan (Monetary System and Reserve Bank) Order 1947. The permissibility of each asset class shall be determined by the Central Board.



(2) The Bank may appoint managers, custodians, consultants, and any other professional advisors for the effective management of Foreign Exchange Reserves of the country.

11. **Substitution of section 36, Act XXXIII of 1956.**-In the said Act, for section 36 the following shall be substituted, namely:--

“ **36. Minimum Reserves.**-(1) The Bank may require banks or financial institutions to hold minimum reserves on deposit accounts with the Bank in pursuance of its monetary policy objectives.

(2) The Bank may require the banks and financial institutions to hold special reserves on deposit accounts with the Bank in pursuance of its monetary policy or risk management of banking or financial sector and may provide for any remuneration or return on such special reserves.

(3) The Monetary Policy Committee shall, by regulation, establish the method for calculating the minimum reserves required to be maintained under sub-section (2).

12. **Amendment of Section 46B Act XXXIII of 1956.**- In the said Act, in section 46B,-

(a) the existing section shall be renumbered as sub-section (1) of that section and in sub-section (1) , renumbered as aforesaid, for the words, comma, brackets and figures “this Act, the Banking Companies Ordinance, 1962 (LVII of 1962) or any other law in force” the words “or in exercise of its powers under this Act or any other law in force” shall be substituted;

- (b) after sub-section (1) renumbered as aforesaid, the following new sub-section shall be added, namely:
- (2) The Bank, the members of the Central Board and Monetary Policy Committee, or the staff, shall not take instructions from any other person or entity, including government or quasi government entities. The autonomy of the Bank shall be respected at all times and no person or entity shall seek to influence the members of the Central Board and Monetary Policy Committee or the staff of the Bank in the performance of their functions or interfere in the activities of the Bank.”

**13. Amendment of Section 47 Act XXXIII of 1956.**- In the said Act, in section 47 after the word "pensions", wherever occurring , a comma and the words ", gratuity and provident fund", shall be inserted.

**14. Amendment of section 51, Act XXXIII of 1956.**- In the said Act, in section 51,-

- (a) in the marginal note, after the word "Board" , the words "or Monetary Policy Committee", shall be inserted;
- (b) for the words "Local Board", the words "Monetary Policy Committee", shall be substituted; and
- (c) for the words "of such Board" the word thereof shall be substituted.

**15. Omission of section 52, Act XXXIII of 1956** – In the said Act section 52 shall be omitted.

## STATEMENT OF OBJECTS AND REASONS

The State Bank of Pakistan Act, 1956, being an old law would benefit from being updated to bring it closer to the current emerging functions of a modern central bank and to better conform to best international practice.

2. The Monetary and Fiscal Policies Co-ordination Board is redundant in terms of current practice. It is proposed to replace it and give the current Monetary Policy Committee statutory status, with external experts to be appointed by the Federal Government. The Central Board will be represented by two members on the Committee which will be responsible to formulate, decide and implement the monetary policy and decide on matters such as those relating to key interest rates, supply of reserves, exchange rate policy, and the limits and nature of advances and loans to the Government. The main object for introducing this statutory committee is to facilitate the State Bank's autonomy in performance of its essential functions in the changing financial environment. Consequently, various sections in the Act have also been amended in order to bring them in line with the role of the Monetary Policy Committee.

3. Lending to the Government has been restricted by insertion of a new section (Section No.20A).

4. Emergent functions pertaining to open market and credit operations and international reserves have been elaborated and clarified by substitution of the existing sections.

5. Section 52 of the SBP Act which provided for the supersession of the Central Board by the Federal Government since the time the State Bank was privately owned, has been repealed in conformity with the current autonomy of the Central Bank, and international practice.

6. These amendments will make the law more conducive to the changing global economic and regulatory environment and will better enable the modern functions of the Central Bank.

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