[AS PASSED BY THE SENATE]

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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 purpose hereinafter appearing.

It is hereby enacted as follows:-

1. **Short Title and commencement.** (1) This Act may be called the State Bank of Pakistan (Amendment) Act, 2011.

(2) It shall come into force at once.

2. **Amendment 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 9A, in sub-section (2), for clause (c) the following shall be substituted, namely:-

"(c) eight directors, including at least one from each province, who shall be eminent professionals from the fields of economics, finance, banking and accountancy, to be appointed by the Federal Government. Those appointed to the Board shall have no conflict of interest with the business of the Bank.".

3. **Amendment of section 9B, Act XXXIII of 1956.**—In the said Act, in section 9B, in sub-section (1), after clause (v) the following shall be added, namely:--

"(vi) two eminent macro or monetary economists with proven record of research and teaching to be appointed by the Federal Government.".

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

"9C. Limitation on Federal Government borrowing .- (1) Notwithstanding anything contained in sections 9A and 9B, the Federal Government borrowing from the Bank shall be such that at the end of each quarter they shall be brought to zero barring the ways and means limit that shall be determined by the Central Board from time to time.

(2) The debt of the Federal Government owed to the Bank as on 30th April, 2011, shall be retired not later than eight years from that date.

(3) If any of the provisions of sub-sections (1) and (2) are not observed by the Federal Government, the Finance Minister shall place before the Parliament a statement giving detailed justification for the said failure.".

5. **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 of Government securities purchased in the secondary market 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 Central Board 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.

(3) For the purpose of regulating the monetary and credit system the Bank may issue certificates of deposit and new instruments including those that are Shariah compliant.".

6. **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 of 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.".

7. **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 Bank shall, by regulation, establish the method for calculating the minimum reserves required to be maintained under sub-section (2).".

8. **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, commas, 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; and

(b) after sub-section (1), re-numbered as aforesaid, the following new sub-section shall be added, namely:-

"(2) The Bank, the members of the Central Board or the staff of the Bank, 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.".

9. **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.

10. **Deletion of section 52, Act XXXIII of 1956** – In the State Bank of Pakistan Act, 1956 (XXXIII of 1956) 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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