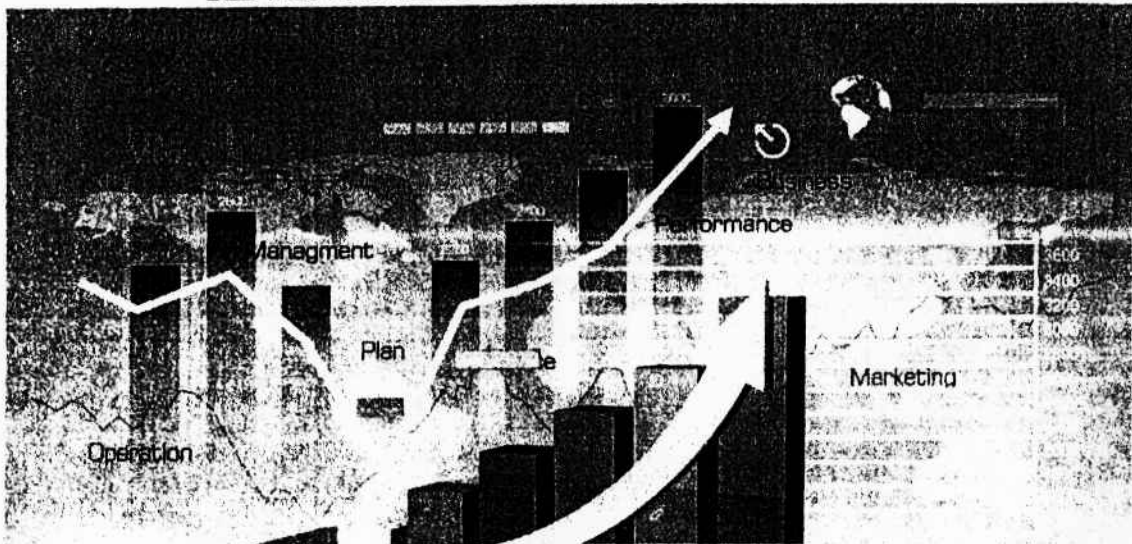


SENATE OF PAKISTAN



REPORT OF THE SENATE STANDING COMMITTEE ON FINANCE, REVENUE AND ECONOMIC AFFAIRS



**REPORT OF THE SENATE STANDING COMMITTEE ON FINANCE
REVENUE AND ECONOMICS AFFAIRS ON " THE BILL FURTHER TO
AMEND THE STATE BANK OF PAKISTAN ACT, 1956 [THE STATE
BANK OF PAKISTAN (AMENDMENT) BILL, 2021", INTRODUCED BY
SENATOR MOHSIN AZIZ IN THE SITTING OF THE SENATE HELD ON
15TH NOVEMBER, 2021.**

**PRESENTED BY
SENATOR MUHAMMAD TALHA MAHMOOD
CHAIRMAN**

SENATE SECRETARIAT

Report of the Senate Standing Committee on Finance, Revenue and Economics Affairs on "The Bill further to amend the State Bank of Pakistan Act, 1956 [The State Bank of Pakistan (Amendment) Bill, 2021]", introduced by Senator Mohsin Aziz in the sitting of the Senate held on 15th November, 2021.

I, Senator Muhammad Talha Mahmood, Chairman of the Standing Committee on Finance, Revenue and Economic Affairs have the honour to present, on behalf of the Committee, this report on "The Bill further to amend the State Bank of Pakistan Act, 1956 [The State Bank of Pakistan (Amendment) Bill, 2021, referred by the House in its sitting on held on 15th November, 2021, to the Committee for consideration and report.

2. The composition of the Committee is as under:

1. Senator Muhammad Talha Mahmood	Chairman
2. Senator Dr. Shahzad Waseem (Leader of the House)	Member
3. Senator Farooq Hamid Naek	Member
4. Senator Saleem Mandviwala	Member
5. Senator Sherry Rehman	Member
6. Senator Mohsin Aziz	Member
7. Senator Zeeshan Khanzada	Member
8. Senator Kamil Ali Agha	Member
9. Senator Musadik Masood Malik	Member
10. Senator Dilawar Khan	Member
11. Senator Anwaar ul Haq Kakar	Member
12. Senator Saadia Abbasi	Member
13. Senator Syed Faisal Ali Subzwari	Member
14. Senator Faisal Saleem Rehman	Member
15. Minister for Finance, Revenue and Economic Affairs	Ex-Officio Member

3. The Committee took up discussion on the Bill at 'Annexure-B' in its meeting held on 2nd March, 2022.

4. The following members of the Committee attended the meeting on 2nd March, 2022:

i. Senator Muhammad Talha Mahmood	Chairman
ii. Senator Dr. Shahzad Waseem (Leader of the House)	Member
iii. Senator Mohsin Aziz	Member
iv. Senator Farooq H. Naek	Member
v. Senator Saadia Abbasi	Member
vi. Senator Zeeshan Khanzada	Member
vii. Senator Kamil Ali Agha	Member
viii. Senator Musadik Masood Malik	Member
ix. Senator Dilawar Khan	Member
x. Senator Faisal Saleem Rehman	Member

5. Senator Mohsin Aziz briefed the Committee about the overall purpose of the bill that it was proposed to remove the disparity in loan disbursement by the banks in smaller provinces and

that it will not affect other provinces or businesses. He said that previously question was raised and a motion (under 2018) was also placed in the House. It was then referred to the Senate Standing Committee on Finance headed by Farooq Hamid Naek where it was discussed in the presence of SBP which agreed with our concerns and suggested for legislation in this regard. Now it has been brought in the legislation form and in May, 2021 a unanimous resolution was passed on this matter. He further elaborated that loan advances to the private sector by banks in the underserved areas should have been increased so that they can act as shield against terrorism instead they have been declared unsafe areas. Therefore, this bill intends to bring them out of deprivation.

6. Senator Mohsin Aziz, shared the data for of the loan advances by the private banks in KPK to apprise the Committee about the severity of the situation. In 1987 loan portfolio to KPK was 11.5% in the country, which then fell to 5.5 % in 2000, 2.5% in 2007 and is now 0.8% in 2022. Mover, Balochistan has 0.2% of total loan portfolio to private sector in the country and KPK has 0.8 % which is very low. While on the other side, in KPK against their deposits they have been only receiving loan advances of 26% and the other 74% is advanced to somewhere else. Therefore, this bill has been introduced to correct this link of the bank deposits with its loan advances in the respective provinces.

7. Senator Mohsin Aziz highlighted that historically there was a mechanism under the PIDC which provided funding for industrial development in provinces then it was privatized. After that the PMLN government strengthened the banks like NBP, PICIC, IDBP in the small provinces which improved the situation and the loan portfolio was good but after their privatization it became an individual business decision that they are getting money but not lending.

8. Senator Dilawar Khan was of the opinion that if banks feel less secure due to security reasons in Ex-FATA the collateral can be arranged in the settled areas for such location alternatively.

9. Senator Farooq Hamid Naek appreciated the bill and asked the SBP Governor for his opinion, on the bench mark proposed in the sub-section 2 that weather it would be feasible or not. Senator Zeeshan Khanzada also supported the bill and said that these provinces suffer discrimination and even in settled areas when collateral is provide still loans are not extended given the excuse of security.

10. Senator Musadik Masood Malik also appreciated the bill and said if deposit are collected then there should also be investment in that area but is it feasible to give such strict mandate to banks. He further said that recently SBP introduced a framework for loan to SMEs and start-ups which should be extended to large entities. He also drew the attention to the fact as now SBP

can't give loans to government then most money would be going to the government from banks and their would be crowding out of private sector money and now making them bound by law leave lesser funds.

11. Governor SBP agreed with the concern of Senator Mohsin Aziz regarding loan disbursement to the underserved areas. He elaborated that they believe that by making changes in the law as in the proposed sub-section 2 of this bill, there would be deposit shedding by the private banks. As regulator we can't interfere in the credit decisions of the banks. However, we have public banks owned by governments like NBP, Bank of Khyber and Bank of Punjab which can be directed to lend into underserved areas. Besides, under the SME scheme the most importantly government gives 50% risk guarantee on first loss basis to reduce the banks hesitation. Similarly, Provincial and Federal governments can't consider this option of risk guarantee for 50% where banks would be encouraged to go such areas. Moreover, SBP in the agriculture sector had introduced a score card with more weightage to lending in underserved areas which would be published and made public as banks are ESG concerned and many banks wants their profile should be good. We had also brought a concept of champion bank under which HBL had led for Balochistan, Bank of Khyber for KPK and UBL for Sindh in the underserved areas.


12. Senator Farooq Hamid Naek suggested that there should be two categories like private and public banks and some balance should brought like for private banks 50% of their deposits and public banks may be obligated for 100% of deposits. Senator Zeeshan Khanzada said if still the security is available they do delaying tactics for months and their major issue is profitably, if SBP gives some incentive to them they would be encouraged.

13. Senator Musadik Masood Malik suggested that we must understand the externality of deposit shedding and interference in the private banks decisions. Senator Mohsin Aziz said this bill is for deprived provinces as one province is getting a loan of Rs.2.4 trillion while the other is getting loan of only Rs.44 billion.

14. After hearing out all the Members, the Committee unanimously proposed the following amendment in the State Bank of Pakistan (Amendment) Bill, 2021:

"2. **Insertion of new section 36A, Act XXXIII of 1956.-** in the State Bank of Pakistan Act, 1956 (XXXIII of 1956), in section 36A, for clause (2), following new clause shall be substituted, namely:-

"(2) **The minimum credit limit required to be maintained under sub-section (1) shall not be less than sixty percent of total deposits of the scheduled banks or financial institutions from that province or, as the case maybe, Islamabad Capital Territory, excluding government borrowings and regulatory requirements of the banks under this Act.**"



15. After discussion, the Chairman Committee put the Bill to vote. With the above amendments, the Bill was passed unanimously. The Committee recommended that "The Bill further to amend the State Bank of Pakistan Act, 1956 [The State Bank of Pakistan (Amendment) Bill, 2021]" as reported by the Committee may be passed by the Senate of Pakistan. The Committee also gave approval for presentation of this report to the House.

16. The Bill as reported by the Committee is at Annex-A, and the Bill as introduced in the Senate is at Annex-B.



(Iffat Mustafa)
Secretary Committee

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(Senator Muhammad Talha Mahmood)
Chairman Committee

[AS INTRODUCED IN THE SENATE]

A

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.**—(1) This Act may be called the State Bank of Pakistan (Amendment) Act, 2021.

(2) It shall come into force at once.

2. **Insertion of new section 36A, Act XXXIII of 1956.**— In the State Bank of Pakistan Act, 1956 (XXXIII of 1956), after section 36, the following new section shall be inserted, namely,-

"36A. Minimum Credit Limit to be extended to private sector.- (1) The Bank shall determine and ensure maintenance of minimum limit of credit to be extended by the scheduled banks or financial institutions to the private sector in each Province and Islamabad Capital Territory in pursuance of its monetary and fiscal policy objectives.

(2) The minimum credit limit required to be maintained under subsection (1) shall not be less than sixty percent of total deposits of the scheduled banks or financial institutions from that province or, as the case maybe, Islamabad Capital Territory, excluding government borrowings and regulatory requirements of the banks under this Act."

STATEMENT OF OBJECTS AND REASONS

The private sector of smaller provinces of the country especially Balochistan and Khyber Pakhtunkhwa had a long standing demand to eliminate improper, unjustified and inequitable credit/lending by the commercial banks in their provinces which is leading to continuous deprivation, disparity and slow progress of industrialization and commercial activities in those provinces.

Senate Standing Committee on Finance in its report laid in the Senate on 10th March 2021 observed that commercial banks can not be forced to extend loans unless a law exists that demands the same, hence, recommended to bring legislation in this regard.

Moreover, the Senate of Pakistan on 31st May 2021 also unanimously passed a resolution demanding immediate and result oriented steps including introduction of new legislation or amending the present laws/rules/regulations to ensure that the minimum credit/lending of the commercial banks to the private sector for establishing industry and commercial activities in the smaller provinces is at par with those provinces' total deposits in the banks.

Hence, the Bill seeks to achieve the above said purposes.

(SENATOR MOHSIN AZIZ)
Member-in-charge

ANNEX - B

INTRODUCED ON 15-11-2021

[AS INTRODUCED IN THE SENATE]

A

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.—(1) This Act may be called the State Bank of Pakistan (Amendment) Act, 2021.

(2) It shall come into force at once.

2. Insertion of new section 36A, Act XXXIII of 1956.— In the State Bank of Pakistan Act, 1956 (XXXIII of 1956), after section 36, the following new section shall be inserted, namely:-

"36A. Minimum Credit Limit to be extended to private sector.—(1) The Bank shall determine and ensure maintenance of minimum limit of credit to be extended by the scheduled banks or financial institutions to the private sector in each Province and the Islamabad Capital Territory in pursuance of its monetary and fiscal policy objectives.

(2) The minimum credit limit required to be maintained under sub-section (1) shall not be less than total deposits received by scheduled banks or financial institutions from that Province or, as the case may be, the Islamabad Capital Territory."

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SENATOR MOHSIN AZIZ
Member-in-charge