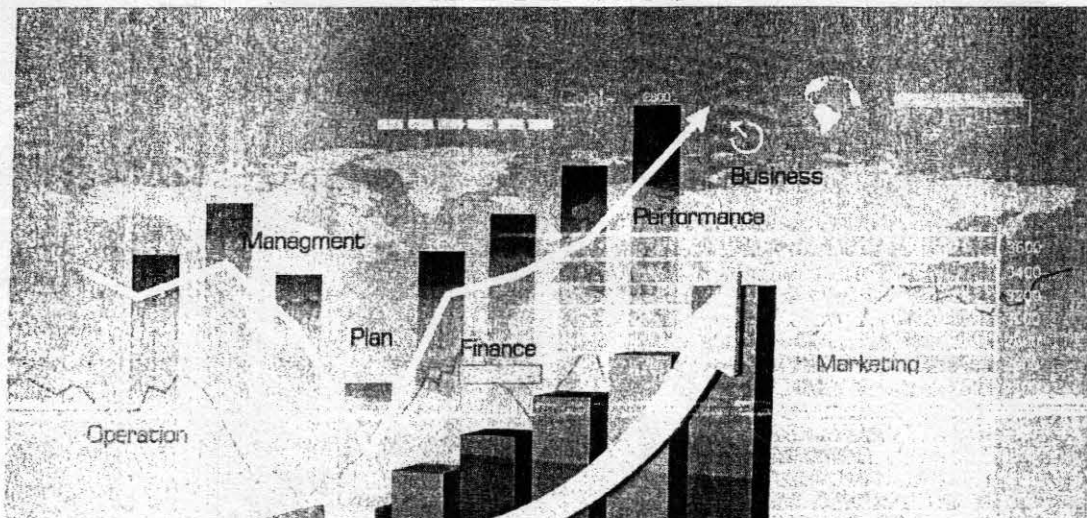


SENATE OF PAKISTAN

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REPORT OF THE SENATE STANDING COMMITTEE ON FINANCE AND REVENUE



REPORT OF THE SENATE STANDING COMMITTEE ON FINANCE AND REVENUE ON SENATOR MUSHTAQ AHMED, PRIVATE MEMBER BILL "THE STATE BANK OF PAKISTAN (AMENDMENT) BILL, 2023"

PRESENTED BY
SENATOR SALEEM MANDVIWALLA
CHAIRMAN

SENATE SECRETARIAT

REPORT OF THE SENATE STANDING COMMITTEE ON FINANCE AND REVENUE ON SENATOR MUSHTAQ AHMED, PRIVATE MEMBER BILL "THE STATE BANK OF PAKISTAN (AMENDMENT) BILL, 2023" REFERRED BY THE HOUSE ON 24-07-2023

I, Senator Saleem Mandviwalla, Chairman of the Standing Committee on Finance and Revenue have the honour to present, on behalf of the Committee, this report on "The State Bank of Pakistan (Amendment) Bill, 2023" referred by the Senate in its sitting held on 24th July, 2023 to the Committee for consideration and report.

2. The composition of the Committee is as under:

1.	Senator Saleem Mandviwalla	Chairman
2.	Senator Sherry Rehman	Member
3.	Senator Farooq Hamid Naek	Member
4.	Senator Musadiq Masood Malik	Member
5.	Senator Saadia Abbasi	Member
6.	Senator Zeeshan Khanzada	Member
7.	Senator Mohsin Aziz	Member
8.	Senator Faisal Saleem Rehman	Member
9.	Senator Kamil Ali Agha	Member
10.	Senator Syed Faisal Ali Subzwari	Member
11.	Senator Muhammad Talha Mahmood	Member
12.	Senator Shibli Faraz	Member
13.	Senator Dilawar Khan	Member
14.	Senator Manzoor Ahmed	Member
15.	Minister for Finance and Revenue	Ex-Officio Member

3. The Committee considered the Bill on its meetings held on 23rd and 30th August, 2023 and 20th September, 2023. The attendance of 23rd August, 2023 meeting is as follows:-

i.	Senator Saleem Mandviwalla	Chairman
ii.	Senator Sherry Rehman	Member
iii.	Senator Saadia Abbasi	Member
iv.	Senator Faisal Saleem Rahman	Member
v.	Senator Kamil Ali Agha	Member
vi.	Senator Dilawar Khan	Member

5. For the meeting held on 23rd August, 2023, Senator Mushtaq Ahmed requested Chairman Committee to defer the agenda. Chairman Committee approved the request, but sought briefing from Deputy Governor State Bank of Pakistan (SBP) on the amendments proposed to understand the bill before next meeting.

6. Mr. Inayat Hussain, Deputy Governor SBP stated that there are three provisions of the State Bank Act which is proposed to be omitted or deleted. The first omission / deletion is the clause prohibiting government to borrowing from SBP. It is proposed to delete this clause so government can borrow from state bank directly, it was introduced to increase fiscal



discipline and decrease unlimited access of the government to borrow from the state bank. Chairman Committee inquired how the government is borrowing currently. Deputy Governor SBP stated that currently the government is borrowing from the commercial banks. When they borrowed from SBP, it was also on a specific rate but the difference was in price discovery. For example, if government is borrowing 50% from SBP and remaining from interbank market, there is no price discovery because the demand is 50% less. When banks borrow 100% from interbank market, there is price discovery and when price escalates, government has to bear the burden. So ideally this should discourage government to borrow more, and discipline its finances.

7. The second omission / deletion is the provision added in the new law of the executive committee. Before this, governor SBP had all the powers, the executive committee is a collegial decision-making body, involving the Governor, deputy governors and all executive directors. This is an internationally growing trend in central banks that instead of giving a single man all the power, a collegial body is formed. It is being proposed to delete this provision as well. Thirdly, section 52A, a provision that was presented before, and was strengthened. Under the provision all those actions taken in good faith, the board and officials of SBP were indemnified. It is proposed to qualify this provision that under any loss this indemnity would not hold for the SBP official and executive directors. Deputy Governor SBP further clarified that this provision is only available if the action taken is in good faith and not have mala fide intent involved. He suggested that this provision should be kept intact.

8. The Mover attended the meeting held on 30th August, 2023 the attendance is as follows.

i.	Senator Saleem Mandviwalla	Chairman
ii.	Senator Sherry Rehman	Member
iii.	Senator Saadia Abbasi	Member
iv.	Senator Zeeshan Khanzada	Member
v.	Senator Kamil Ali Agha	Member
vi.	Senator Mohsin Aziz	Member
vii.	Senator Dilawar Khan	Member
viii.	Senator Manzoor Ahmed	Member
ix.	Ms. Shamshad Akhtar, Minister for Finance and Revenue	Ex-officio Member
x.	Senator Mushtaq Ahmed	Mover

9. Senator Mushtaq Ahmed briefed the Committee on the Private Member Bill titled "The State Bank of Pakistan (Amendment) Bill, 2023," which was referred by the house on July 24, 2023. He mentioned that Quaid-e-Azam laid the foundation of the State Bank of Pakistan on July 1, 1948, with the vision of proposing an alternate model of Islamic finance, free from exploitation and interest, as an alternative to the western model of democracy. However, he expressed concern that Pakistan had veered far from that original vision. He



explained that he had opposed previous amendments in the SBP Act, and he had the support of the opposition in this regard. He recalled a statement from the previous finance minister, Mr. Ishaq Dar, who had stated that the SBP was not under their control, and he had implied that the IMF would impose conditions on Pakistan, therefore, he realized the need to propose these amendments to regain control over the bank.

10. Senator Mushtaq Ahmed referred to Section 9D of the State Bank Act, which outlines the establishment of a Monetary Policy Committee. This committee consists of various members, including the Governor or a Deputy Governor nominated by the Governor, three senior executives nominated by the Governor, three members nominated by the Board, and three external members.

11. In Section 46B, under Section 8 of the amendment, it states, "The Bank (SBP) shall be consulted prior to the introduction of any Bill by the Federal Government in the Parliament which may have a bearing on the functions of the Bank." Senator Mushtaq Ahmed expressed his belief that these amendments are extra-constitutional because they compel Parliament to consult with the bank, which he considers in-appropriate. He further explained that constraints on government borrowing are detrimental to Pakistan. Additionally, he raised concerns about the significant power granted to the executive committee, suggesting that it may be above the parliament. He also emphasized that if the bank causes someone undue loss, it is their constitutional right to claim against the bank.

12. In response to the bank's assertion that the amendments were made in line with international best practices, Senator Mushtaq Ahmed pointed out that despite these changes, inflation has increased even more than in defaulting countries like Sri Lanka. He questioned whether the legislation was enacted due to pressure from the IMF or FATF. The Deputy Governor of the State Bank clarified that it was part of institutional reforms. He explained that the IMF advised on institutional reforms and highlighted areas where Pakistan could align its laws with international best practices. These discussions did not imply that the IMF had dictated the amendments, but rather that Pakistan had agreed to consider and implement them to improve its institutional framework.

13. The Deputy Governor SBP echoed Senator Dilawar's point that excessive government borrowing is crowding out private investors. He mentioned that when the government borrows from the SBP, there are no checks and balances on the interest rate. This lack of fiscal discipline could be problematic. Conversely, if the government borrows from the banking system, the cost of borrowing increases as they borrow more, which naturally encourages fiscal discipline. When the cost of borrowing, or interest servicing cost, rises, there is pressure to rationalize expenses.

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14. Senator Mushtaq Ahmed argued that the Fiscal Responsibility and Debt Limitation Act 2005 (FRDL) stipulates that when the debt-to-GDP ratio reaches 60% or more, the government must seek approval from Parliament before borrowing. According to his sources, the debt-to-GDP ratio is currently at 102%. He also informed that after these amendments, Pakistan had taken a record amount of loans, totaling 60,000 billion rupees.

15. In response, the Chairman Committee asked the Deputy Governor SBP to provide insights into the amendments and whether they agree with the proposed amendments

16. The Deputy Governor SBP stated that they oppose these amendments as SBP is now aligned with international best practices, and accepting these amendments would be counterproductive. The Secretary Finance also opposed these amendments as they are not in line with international practices and would hurt intended fiscal discipline in government borrowings. He emphasized that Article 74 grants the prerogative to the federal government. The formation of the executive committee aimed to diversify decision-making power and avoid concentration of authority in the hands of a single individual.

17. Senator Dilawar Khan stated that when dealing with IMF loans, he had sought to limit the government's ability to borrow indefinitely from the central bank. He argued that borrowing from commercial banks would encourage the greater scrutiny and curtailment of the borrowing. Additionally, he mentioned that the legislation was necessary to secure the extended IMF program. The Chairman Committee pointed out that Pakistan had sought assistance from the IMF, not the other way around, and it was the government at that time that determined the necessary measures to secure the IMF loan.

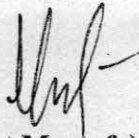
18. After detailed discussion the Committee requested Senator Mushtaq Ahmed to withdraw the bill however, the mover requested the committee to defer the agenda to the next meeting, to which Chairman agreed.

19. The Committee again considered the bill in its meeting held on 20th Sep, 2023. The following members of the Committee attended the meeting:

i.	Senator Salim Mianviwalla	Chairman
ii.	Senator Sherry Rehman	Member
iii.	Senator Farooq H. Naek	Member
iv.	Senator Saadia Abbasi	Member
v.	Senator Zeeshan Khanzada	Member
vi.	Senator Kamil Ali Agha	Member
vii.	Senator Mohsin Aziz	Member
viii.	Senator Dilawar Khan	Member
ix.	Senator Manzoor Ahmed	Member



20. As the Committee had already discussed the agenda at length in previous meetings, so the Committee unanimously rejected the bill on account of detailed discussion held in the previous meetings.



(Iffat Mustafa)
Secretary Committee



(~~Senator Saleem Mandviwalla~~)
Chairman Committee

INTRODUCED ON 24.07.2023.

[AS INTRODUCED IN THE SENATE]

**A
BILL**

further to amend the State Bank of Pakistan Act, 1956

WHEREAS It is expedient and substantial to bring meaningful and significant amendments in the State Bank of Pakistan Act, 1956 (XXXIII of 1956) in the manner and 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, 2023.

(2) It shall come into force at once.

2. Omission of section 9C, Act XXXIII of 1956.- In the State Bank of Pakistan Act, 1956 (XXXIII of 1956), hereinafter referred to as the said Act, section 9C, shall be omitted.

3. Omission of section 9F, Act XXXIII of 1956.- In the said Act, section 9F, shall be omitted.

4. Amendment of section 52A, Act XXXIII of 1956.- In the said Act, in section 52A, in sub-section (1), for the full stop "." occurring at the end a colon ":" shall be substituted and thereafter, the following new proviso shall be inserted, namely:-

"Provided that the State Bank shall be liable to compensate the citizen if anything done in good faith by the Governor, Deputy Governor, Director or member of any Board Committee or Policy Committee, officer or employee of the State Bank."

STATEMENT OF OBJECTS AND REASONS

In the year 2022 the State Bank of Pakistan Act, 1956 was amended, by drastically changing its internal structure and performance. Under section 9C the State Bank was prohibited to extend any direct credits to or guarantee any obligations of the Government. In section 9F of the said Act, the Executive Committee of the Bank was awarded with unbridled powers and in section 52A through insertion of the proviso the Bank and its employees including Governor and Deputy Governor are held liable for the loss rendered against any citizen even in good faith.

2. The Bill seeks to achieve the said purpose.

**SENATOR MUSHTAQ AHMED
MEMBER-IN-CHARGE**