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## **STATE BANK DISPELS MEDIA REPORTS ON FCY ACCOUNTS**

The State Bank of Pakistan has categorically dispelled the impression created by some media reports that the SBP enjoys excessive power to take action against any person who maintains overseas foreign currency account beyond US\$ 1000 under Foreign Exchange Regulations Act (FERA) 1947.

A SBP Spokesman in a statement issued today also denied media reports that the State Bank had promised to provide cash liquidity at PKR80/US\$ to Exchange Companies at all the times.

Explaining the factual position, the Spokesman pointed out that in terms of Government's Notification No.SRO.1016(1)79 of October 1979, Pakistani nationals resident in Pakistan were not allowed to hold more than US\$1000/- abroad in their Foreign Currency Accounts (FCY A/Cs). The same was incorporated in Para-9 of the Chapter VI of FE Manual (8th Edition-2002). However, subsequently Protection of Economic Reforms Act, (PERA) 1992 was promulgated which provides complete freedom to an individual to bring, hold, sell, transfer and take out foreign exchange within or outside Pakistan. This legislation has a categorical overriding effect over Foreign Exchange Regulations Act (FERA) 1947. Since provisions in above referred SRO of 1979 and PERA 1992 became contradictory, the issue was taken up with the Government. Accordingly, SRO of 1979 which restricts Pakistani nationals from holding more than US\$1000/- in FCY account abroad was withdrawn by issuance of Government's SRO No. 984(I)/2003 of October 11, 2003. With the promulgation of the said SRO, the restriction of holding not more than US\$1000/- abroad does not stand valid any more.

Regarding the issue of penalties on account of violations of Foreign Exchange Regulations, the Spokesman clarified that due to contradictory legislations in place as pointed out above, it has become difficult for the Central Bank to effectively monitor and supervise foreign exchange activities as PERA 1992 has an overriding effect over FERA 1947 and all other laws. As an example to explain the effect of this, it may be noted that under FERA 1947, an individual cannot take out of the country an amount more than US\$ 10,000/- in cash whereas PERA 1992 provides complete freedom in this respect.

As regards imposition of monetary penalties on account of violations of foreign exchange rules & regulations, the Spokesman pointed out that at present there is no such provision in FERA 1947. Accordingly, the only option available with SBP is to go through a complex and lengthy adjudication process. This issue becomes graver where immediate action is required against the Banks and Exchange Companies particularly when evidence is found on rising speculative activities in forex markets. Under such circumstances, the only recourse available with SBP is to suspend / cancel licences of the

banks/Exchange Companies which often becomes more severe than the violation warrants.

In the light of the above two factors, SBP has time and again proposed to the Government to make two amendments in FERA, 1947 (for giving powers to SBP to impose direct monetary penalties) and PERA, 1992 (excluding FERA 1947 from PERA 1992's overriding effect). However, no development on requisite amendments in legislations has yet taken place, the Spokesman added.

He pointed out that the SBP has been enforcing the Foreign Exchange Manual and its various provisions as well as using these tools like disallowing certain activities of the Exchange Companies or suspending the licences for a certain period. Letters for calling explanation and Show Cause Notices were also issued. The State Bank took a number of actions against Exchange Companies for violating its rules and regulations. Moreover, SBP has also taken a number of policy and administrative measures to stabilize forex markets since April, 2008.

The Spokesman categorically denied that SBP has ever made the commitment to provide cash liquidity at PKR80/US\$ to Exchange Companies at all the times. Clarifying the SBP's position on this issue, he explained that in a meeting held recently with the representatives of Exchange Companies, the SBP had asked the companies to ensure maintenance of reasonable exchange rate differential between interbank and kerb market. In order to meet their (Exchange Companies') immediate requirements of cash US\$, SBP provided cash liquidity at the then prevailing kerb rate i.e. PKR80/US\$. Hence, he said, linking this arrangement to any specific exchange rate is entirely misleading.

He further clarified that the State Bank had provided and will provide cash FCY liquidity for market support to the Exchange Companies as and when required, so that Exchange Companies may ensure uninterrupted supply of Cash FCY to their bonafide customers. However, he pointed out that such support will be provided in accordance with the exchange rate prevailing on the day of transaction. He further said that under these arrangements, SBP provided the liquidity to both Exchange Companies and Banks to meet the market demand.

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