



External Relations Department

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SBP Notifies Changes in Foreign Exchange Manual to Promote Ease of Doing Business

State Bank of Pakistan (SBP) has notified revision of foreign exchange instructions pertaining to commercial remittances with the objective of promoting ease of doing business and facilitating legitimate cross border commercial payments on account of services.

The significant changes made in the chapter 14 of the Foreign Exchange Manual pertain to following policies:

- **Remittance of Royalty, Franchise & Technical (RFT) Fees for Manufacturing Sector:** SBP has revised the policy on remittance of RFT fees. Banks have been delegated the authority to register the agreements of parties and to allow remittances of RFT fees under revised policy. The threshold for remittance of such fee has been revised upwards to cater the needs of business community. Now, entities belonging to manufacturing sector, through their designated bank, can remit USD 1 million as upfront payment and up to 8% of net sales (excluding taxes and cost of imported components). Moreover, a new category i.e. royalty on export related manufacturing has been introduced under which Pakistani entities collaborating with foreign counterparts can remit recurring royalty payment of up to 10% of net export sales (i.e. excluding taxes and cost of imported components).
- **Acquisition of Services:** In view of increasing reliance of businesses on digital services procured from abroad, SBP has enhanced the per year limit assigned to 62 whitelisted digital service provider companies from USD 200,000 to USD 400,000 per annum. Further, for acquiring digital services from companies not included in the list, per year limit of remittance has also been increased from USD 25,000 to USD 40,000. Moreover, to facilitate businesses in acquiring services from abroad, apart from digital service providers, SBP has enhanced the threshold from USD 10,000 to USD 25,000 up to which banks can process request for acquiring services from abroad. Beyond this limit remittances can be made after getting the agreement registered with Foreign Exchange Operations Department (FEOD) of SBP-Banking Services Corporation (BSC).
- **Remittance of profit/ head-office expense by branches of foreign companies:** In order to facilitate branches of foreign companies in remitting legitimate payments such as profit, head office expenses and winding up proceeds, SBP has made changes in existing regulations and authorized banks to allow such remittances with minimum involvement of SBP. The branches of foreign companies working in Pakistan and intending to remit profit/ head office expenses/ winding up proceeds, shall get their bank designated from Exchange Policy Department, SBP, after which the remittances under these heads can be made by the designated bank.
- **Business Process Outsourcing (BPO) for non-core activities:** To share expertise and reduce related costs, companies are increasingly restructuring their business processes by outsourcing their supporting (non-core/shared service) functions to the related or third parties abroad. Accordingly, in order to cater the demands of such companies, SBP has introduced foreign exchange regulations on Business Process Outsourcing for non-core activities. Now resident companies intending to outsource non-critical/non-core business processes to foreign entities can approach FEOD, SBP-BSC, through a bank, for acknowledgment of underlying agreement based on the guidelines. After obtaining



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acknowledgment, the designated bank can effect remittance as per applicable regulations.

- **Logistics related Remittances:** SBP has issued specific instructions on logistic related cross border payments such as container detention charges, port demurrage charges etc. with an aim of harmonizing foreign exchange regime with current business environment. Banks have been delegated to process such payments up to a certain threshold under the newly introduced policy.
- **Payment of charter cost direct to the owner of ship/air craft:** With the intention to facilitate business community of Pakistan in making payment of charter cost directly to the owner of ship/ aircraft, SBP has revised regulations and banks have been authorized to process such payments without prior regulatory approval of SBP.

It is envisaged that the above mentioned facilitative measures will help the business community of Pakistan in growing their businesses.

The circular issued to banks announcing above policy measures can be accessed at the following link:
<https://www.sbp.org.pk/epd/2021/FEC7.htm>
