

**Prime Minister's Office
Board of Investment**

4TH REGULATORY REFORMS PACKAGE
FOREIGN EXCHANGE REGIME REFORM

It outlines the need to **streamline Pakistan's foreign exchange (FX) management framework** to better support cross-border economic activities, building on recent progress in economic recovery.

Current Context:

Pakistan's FX regime is governed by multiple legal and regulatory instruments, including the **Foreign Exchange Regulation Act (FERA) 1947**, **Foreign Exchange Manual**, and the **Protection of Economic Reforms Act 1992**. Under the current framework, **Authorized Dealers (Ads)** operate as mini-state banks, while the **State Bank of Pakistan (SBP)** exercises extensive ex-ante control over FX transactions, including the power to deny approvals across numerous case categories and influence exchange rate outcomes.

Despite recent economic stabilization, the existing FX framework continues to impose **significant procedural and operational barriers** on legitimate foreign exchange transactions, constraining cross-border trade, investment, and financial flows. Strict regulatory oversight has resulted in delays, uncertainty, and increased transaction costs.

Reform Rationale

It improves FX management is essential to sustain economic recovery, enhance investor confidence, reduce capital flight, and ensure continuous availability of foreign exchange. A shift from transaction-level controls toward a more market-oriented and risk-based system is required.

Way Forward

The proposed reform approach includes:

- **A conditions-based liberalization roadmap (12–15 months)**, coordinated with the IMF, rather than rigid time-bound measures.

- **Transition toward a market-determined exchange rate** to build trust and improve FX availability.
- **Phasing out mandatory surrender requirements**, allowing exporters to retain foreign currency earnings.
- **Modernization of payment channels**, including permitting credit card usage for business current account transactions and enabling digital payment service providers for external payments.
- **Shift from ex-ante verification to risk-based ex-post supervision**, improving efficiency while maintaining oversight.

Reform Phasing

- **Short-term measures** focus on clarifying and streamlining responsibilities of Authorized Dealers, simplifying documentation requirements, and facilitating international transactions.
- **Medium-term reforms** emphasize market-based approaches and digitalization.
- **Long-term reforms** propose the development of a **new legal framework** for foreign exchange management.
- **Replace FERA 1947**

Institutional Engagement

It reflects ongoing engagement with the **State Bank of Pakistan**, with SBP responses noted across short-, medium-, and long-term reform proposals.
