

Foreign Exchange Regime in Pakistan: Navigating the Operational Challenges

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This is the third article of the collaborative legal series between AHK and Schlüter Graf Legal Consultants LLC, featured in this Quarterly Newsletter. This initiative brings together AHK's commitment to supporting German and international businesses in Pakistan with Schlüter Graf's legal expertise. The series will explore key legal and regulatory topics relevant to doing business in Pakistan, including foreign investment and trade, supply chain operations, business set-up and structuring, employment and labour matters, and dispute resolution. This series aims to equip businesses with the legal knowledge needed to navigate the complexities of operating, investing, and growing in Pakistan with clarity and confidence.

I. Introduction

Foreign businesses investing or operating in Pakistan are, on paper, afforded strong legal protections regarding capital mobility. Statutes such as the Foreign Private Investment (Promotion and Protection) Act 1976 ("FPIA") and the Protection of Economic Reforms Act 1992 ("PERA") expressly guarantee the repatriation of capital, profits, dividends and disinvestment proceeds. The State Bank of Pakistan ("SBP") Foreign Exchange Manual ("FE Manual") further lays down regulatory procedures for royalty payments, technical service fees, intercompany charges, and imports. For German corporations operating through subsidiaries or contractual arrangements in Pakistan, these safeguards provide a baseline expectation of financial continuity. However, foreign exchange management in Pakistan is not solely a matter of legal entitlement. Bank-level compliance procedures, SBP verification steps, tax clearance requirements, and routine anti-money laundering ("AML") checks may

slow down remittances — not because outward payments are legally prohibited, but because each remittance must fit within defined regulatory formats. As a result, the efficiency of execution often depends less on policy, and more on the quality of documentation, contractual clarity and proactive coordination with authorised dealers (i.e. banks under the guidance of SBP). German businesses exporting to or operating within Pakistan must therefore distinguish legal permissibility from operational achievability.

This article examines key provisions of Pakistan's foreign exchange regime relevant to German investors and suppliers, outlines pain points historically encountered by foreign companies, and provides structuring strategies for both inward and outward payments, with key updates expected in 2025.

II. Statutory Protections for Foreign Exchange Mobility in Pakistan

Pakistan's legal framework contains multiple layers of protection designed to assure foreign investors that capital and commercial payments can be moved freely across borders. The most widely cited guarantee is found in Section 6 of the FPIA, which expressly secures the right of foreign investors to remit profits, dividends and disinvestment proceeds "in the currency of the country from which the investment originated"; with conversion into other major currencies generally permitted subject to banking availability and SBP procedures. This is complemented by Section 4 of PERA, which protects the ability of individuals and companies to hold, transfer and remit foreign currency, and restricts the SBP or government authorities from imposing transactional controls except through legislation.

In addition to equity-related protections, Pakistan's regulatory regime also safeguards commercial and contractual remittances. The SBP FE Manual, which governs all cross-border payments, permits the remittance of royalties, technical service fees and intercompany charges, subject to documentation and pricing compliance. Chapter 14 of the FE Manual regulates payments arising from intellectual property, technical assistance or brand licensing agreements, while Chapter 19 covers broader service arrangements and intra-group support functions. Similarly, import-related payments, whether structured through letters of credit or open account mechanisms, fall under Chapter 13, allowing foreign suppliers — including German companies exporting to Pakistan — to receive payments against valid contracts.

Furthermore, double taxation treaties, such as the Pakistan-Germany Convention of 1959 (as amended), reinforce transferability by capping withholding taxes on dividends, interest and royalties, thereby ensuring that remittances are not

eroded through excessive fiscal friction. Together, these instruments establish a comprehensive legal framework that recognises the right of foreign companies to not only extract their returns but also operate commercially through service, licensing and supply contracts without foreign exchange entrapment.

III. Ground Reality — Legal Permission vs Operational Delays

While Pakistan's statutes formally guarantee free movement of foreign currency, foreign businesses quickly discover that "permission in law" does not automatically translate into "permission in practice." Outward remittances — whether for dividends, technical fees, royalties, or intercompany service charges — are processed not directly by the SPB, but by authorised dealers (commercial banks) under the guidance of SBP. These banks act as gatekeepers, obligated to verify that each remittance request fully complies with tax law, foreign exchange regulations, AML protocols and transfer pricing guidelines.

In practice, this means that even legally permitted remittances may still face additional questions or processing time, depending on how clearly the underlying transaction is documented and presented to the bank. Common bottlenecks include:

- **Foreign Currency Liquidity Constraints**

During periods of dollar scarcity (as in 2022–2023), some banks often adopted a conservative stance on outward remittances regardless of documentation, citing limited foreign currency allocation or permissions from SBP. This left multinational companies with temporary accumulated trapped cash.

- **Inconsistent Bank-by-Bank Interpretation of SBP Rules**

Two banks may treat the same transaction differently — one may remit upon submission of a basic contract, while another may demand board resolutions, audited statements and notarised affidavits.

- **Tax Clearance Delays**
Before a dividend or service payment can be remitted, banks often require withholding tax payment certificates issued by the Federal Board of Revenue (FBR). Even when tax has been deducted, delays in certificate issuance or validation can freeze payments.
- **Transfer Pricing Scrutiny on Intercompany Payments**
Banks frequently ask foreign subsidiaries to justify *why* a service or royalty fee is being paid — requesting benchmarking studies, agreements, invoices, and supporting evidence. If not “arm’s length”, banks may make further inquiries.
- **AML and Source of Funds Queries**
Even routine payments may be held up pending detailed beneficial ownership disclosures or KYC refreshes, particularly if the counterparty is abroad or in a group structure.

The net result is that foreign exchange compliance in Pakistan **is a question of documentation quality, transaction structuring and constant follow-up.** Pakistani importers attempting to pay German suppliers may experience delays in LC processing or remittances over clarifications unrelated to the underlying contract. These delays however, are typically resolved once the documentation is aligned with bank or SBP format expectations, which underscores the importance of upfront structuring.

IV. Policy Improvements in Recent Years

Unlike the crisis-driven years of 2022–2023 and the transitional stabilisation phase of 2024, 2025 has marked the first year of tangible, operational improvement in Pakistan’s foreign exchange regime. While regulations on paper have long permitted outward remittances, this year, banks have begun processing them with relative predictability, owing to three structural changes introduced by the SBP:

1. Updated Foreign Exchange Manual with Standardised Approval Thresholds

Early 2025 saw the formal rollout of the revised SBP FE Manual, issued via EPD Circular Letter No. 09 of 2025 (11 September 2025) consolidating dispersed circulars and clarifying grey areas — particularly around service payments, intercompany settlements, and contract-based remittances. The update also introduced standardized approval thresholds, enabling banks to process routine transactions more efficiently while ensuring that complex or high-value transactions receive appropriate oversight from the SBP.

2. Expansion of the Regulatory Approval System (RAS) into a Full Digital Workflow

Previously limited to selective remittance approvals, the RAS portal now handles end-to-end submission, document upload, tracking and post-clearance audit. This has allowed German subsidiaries and Pakistani payers to pre-load tax certificates, contracts and pricing benchmarks, enabling banks to approve within days rather than weeks.

3. Bank-Level FX Quota Stabilisation and SBP Guidance on Dividend Remittances

Following improvements in reserve buffers and IMF-led monitoring, banks have been given clearer forward visibility on foreign exchange allocation, allowing them to commit to remittance timelines. Dividend

repatriation — previously one of the most delayed categories — has become more systematised, with several major banks introducing scheduled remittance cycles for multinational clients, rather than handling requests on an ad-hoc basis.

V. Structuring Strategies

Given the gap between legal rights and banking reality, foreign exchange compliance in Pakistan is best managed not reactively at the remittance stage, but proactively at the contract and transaction design stage. The key is to anticipate how authorised dealers (banks) and the SPB will evaluate a remittance request — and then **design documentation, pricing structures and payment clauses in a way that reduces ambiguity and approval friction.**

Several structuring approaches have proven effective in practice:

- **Allocate currency risk expressly in contracts.** Rather than leaving foreign exchange fluctuations to assumption, contracts between German and Pakistani companies should state which party bears currency conversion losses or delays. Such clauses may help prevent later disputes and bank-driven renegotiations.
- **Use USD-indexed or EUR-indexed pricing models, even where the invoice is payable in PKR.** This may be done through exchange rate fixation clauses or currency adjustment formulas, ensuring that prolonged delays by banks do not erode the real value of payments due to depreciation of the Pakistani rupee.
- **Make SBP or bank regulatory approval an express contractual obligation.** For example, service agreements can include a clause stating that payments shall be

subject to the concerned party obtaining SBP approval and providing documentary proof thereof within a defined timeline. This can help shift the regulatory compliance risk onto the party in control of the approval process.

- **Maintain a complete documentary trail from the beginning.** SBP-authorised dealers will not process any remittance — even if legally permitted — unless the invoices, agreements, FBR tax withholding certificates, board resolutions (for dividends), transfer pricing documentation and proof of service performance are perfectly aligned. In some cases, foreign clients provide pre-formatted compliance binders to their Pakistani counterparties to ensure consistency.

Ultimately, foreign exchange compliance in Pakistan is not won at the time of remittance — it is won at the time of contracting. Contracts that do not anticipate SBP procedural requirements often experience extended payment timelines, while those structured with banking documentation and approval mechanics in mind tend to move through the system more efficiently — even during tighter policy periods.

VI. Conclusion

Pakistan's legal framework clearly recognises the rights of foreign investors — including German companies — to repatriate profits, dividends, royalties, and other legitimate payments. The statutory entitlement is not in dispute; rather the challenge lies in how these rights are practically executed. While the SBP FE Manual provides explicit authority for outward remittances, in practice, banks adopt a conservative approach.

This gap between legal certainty and operational reality makes proactive planning essential. Anticipating regulatory and banking approval requirements at the contract drafting stage allows investors and counterparties to clarify risk allocation, address currency volatility, and integrate SBP-compliant clauses into service agreements, royalty contracts, or dividend distribution terms. Early engagement with banks to pre-validate documentation and outline remittance timelines further reduces friction and avoids the costly “capital lock-in” that can arise from ad-hoc approvals or incomplete paperwork.

For multinational investors, especially those operating along the Pakistan-Germany corridor, the benefits of compliance engineering are significant.

Schlüter Graf provides end-to-end advisory on these matters, assisting clients in SBP regulatory engagement, drafting contracts with FX-sensitive clauses, and advises on structuring remittances to maximize liquidity and enforceability. As Pakistan implements its 2025 exchange reforms, investors who adopt a proactive, compliance-driven approach will gain a strategic advantage: uninterrupted financial flows, predictable repatriation schedules, and a more resilient cross-border investment framework.

In essence, while legal rights are secure, operational certainty depends on meticulous structuring and forward-looking compliance — turning regulatory knowledge into a strategic tool for efficiency and risk mitigation.

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The German-Emirati Chamber of Industry and Commerce (AHK UAE) officially represents the interests of German business in the United Arab Emirates. In addition, AHK UAE coordinates activities in Iraq, Qatar, Kuwait, Oman, and Pakistan. As a membership-based organization, AHK UAE offers a strong local network, supports German companies in entering regional markets, and promotes bilateral exchange through a variety of events, delegations, and tailored services.

Pakistan at AHK UAE

Activities related to Pakistan at AHK UAE are led by Florian Walther, Pakistan Representative.

About Schlüter Graf

Schlüter Graf is a law firm with a track record of over 30 years in the Middle East as a leading corporate & commercial boutique firm. We maintain an extensive network of offices and co-operations across the region, allowing us to cover Germany, all jurisdictions of the Middle East (including the United Arab Emirates, the Kingdom of Saudi Arabia, Oman, Bahrain, Qatar, Kuwait, Egypt, Lebanon, Iraq, Iran) as well as emerging markets, in particular Ethiopia and Pakistan.

From straightforward legal advice and representation to complex multi-jurisdictional corporate and commercial matters, at Schlüter Graf, we have the team, the passion, and the experience to look at the law from every angle and we work hard to make the law work for you.

The dedicated Pakistan team at Schlüter Graf can gladly assist you across all legal, regulatory, and structuring matters—from market entry to ongoing compliance, as well as disputes. For any Pakistan related queries please reach out to Mr. Usama Munir, Head of Pakistan Practice at Schlüter Graf.

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