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Exchange rate likely to remain stable in inter-bank market

SBP computations indicate that there is no fundamental misalignment of the real effective exchange rate of the rupee and therefore, consistent with recent trends, the exchange rate will remain stable in the inter-bank market. The SBP believes that stability in the exchange rate has proved to be, and will remain, important to ensure macroeconomic stability and to attract investment in the country.

This view is based on the substantial improvement in the country's economic performance and better investment climate. This has boosted investor confidence (leading to higher non-debt creating flows into the economy, including remittances and FDI) as well as the country's ability to borrow from international markets at relatively favorable terms. As a result, Pakistan's external financing prospects will remain favorable for several years. This is also acknowledged in the recent IMF Report on Article IV Consultations with Pakistan in 2006.

Consistent with its stance, the SBP believes that it is important for macroeconomic stability to contain excessive demand growth in the economy, and therefore remains committed to maintaining a tight monetary posture. A decline in domestic inflation, consequent to the tight monetary policy, will be crucial in improving the competitiveness of Pakistan's exports and reducing current account imbalances.