May 09, 2008

Up to $3.5Billion FX inflows to stabilize Foreign Exchange Markets: Dr Akhtar

Dr Shamshad Akhtar, Governor, State Bank of Pakistan said today that foreign exchange inflows to the tune of $3.0 billion to $3.5 billion are expected to come in the banking system in the short to medium-term. These flows coupled with joint efforts of SBP – Commercial Banks will further stabilize the Pakistani Rupee parity vis-a-vis U.S. Dollar and calm down foreign exchange markets.

During a meeting with heads of commercial banks at the State Bank of Pakistan in Karachi, Dr Akhtar assured the participants that there will be 'no reversal' of foreign exchange liberalization measures seen in the past years. However, she expressed her concerns over excessive volatility and weakened Exchange Rate and commented that the recent behavior of the exchange market "is totally out of line."

"We aren't in a crisis like situation … several measures are in place to remove macro-economic imbalances," she said and added that the Government has expressed its firm resolve to bring down fiscal-deficit, retire central bank borrowings and cut non-developmental expenditures. "There is a strong recognition that macro-economic imbalances have to be resurrected and this is the corner stone of Government's economic policy," she added.

Dr Akhtar informed the meeting that the Government has taken steps to mobilize foreign funds and added that some of the inflows which are expected to realize soon include $2.1 billion from Multilateral Banks, $500 million from friendly countries, $200million for earthquake relief, $100million from DFID, $700million from MCB Bank's stake sale, $100 million from Barclays Bank and the rest through private sector GDRs and other regular sources.

She said that the Government is also taking measures to control inflation and added that the central bank will continue to remain in a monetary tightening phase.

Given these facts, SBP Governor said: "Current rupee volatility is not reflective of the macro-economic fundamentals." She said that she is perplexed over recent Inter-Bank market behavior and urged banks to play a proactive role to kill negative sentiments in the market. She said that the central bank has made timely and effective interventions in the market and added that any future interventions by the central bank will be in accordance with its analysis of the situation. The Central Bank is vigilant of the situation and will take the necessary steps as the situation warrants.

"Had we not intervened effectively, the exchange rate would have been at a different level, but present level doesn't reflect fundamentals" she added.

SBP Governor urged the bankers to educate their clients, including importers and exporters, about true macro-economic fundamentals and play their role to bring stability in the Inter-Bank market, which is not only in the interest of the country but banks as well.

She said that banks have a duty to encourage exporters not to hold back export receipts and mobilize foreign exchange funds in the interest of the country. “Let’s think of the country…strong economy is also in the interest of the banking industry.”

SBP Governor urged banks to increase their deposit rates and said that banks should also focus on increasing private sector credit disbursements as it will help the country to remain on a high GDP growth trajectory.

Dr Akhtar said that the central bank realizes that some moderate trading is healthy to nurture interbank market and ensure price discovery and liquidity; however it has been noticed that some banks are engaged in excessive trading which is detrimental to market discipline. In the current environment it is not appropriate to indulge in excessive trading creating undue volatility in the Exchange Rate. She added that the central bank’s advice is that banks’ treasuries maintain strong relationships with their customers; this should help mute excessive volatility. “Customer’s excessive shopping with different banks for the same transaction often creates a perception of larger outflows, which is not always the case,” she added.

SBP Governor said that the central bank has conducted a few surprise inspections and it is found that some banks were not following regulations in closing-forward import contracts. In some cases contracts have been closed out at off-market prices rather than current market prices, she said and added such practices encourage customers to take frequent speculative positions rather than ‘true’ hedging.

Moreover, she said it is also noticed during surprise inspections that a few large cash transactions were going through the FE-25 accounts i.e. cash deposits followed by TT outflows. There is also considerable delay in exporters selling their proceeds in the market. “Banks are responsible to ensure compliance with all SBP regulations in this regard otherwise they will face penalties. We will also increase our vigilance to ensure that the export proceeds are realized in time,” the Governor asserted.

Dr Akhtar said that the central bank is in no mood to impose any severe administrative controls over the Foreign Exchange market and added that it is expected that the market players will behave rationally. “However, if the market fails to discipline itself, the regulator has to fix things,” she asserted.

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