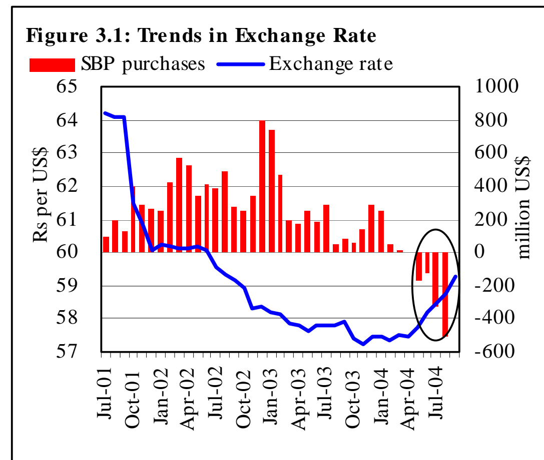
3 Forex Market

FY04 was an eventful year for the foreign exchange market in Pakistan. Not only did it witness the end to the steady appreciation of the Rupee since mid-FY02, the pressure on the local currency was caused by both a sharp squeeze in the current account surplus as well as a dip in the differential between Rupee and US$ interest rates. In fact, the increased sensitivity to interest rates has been a hallmark of the exchange rate market in both FY03 and FY04.

The impact of interest rate changes on the Rupee movements is particularly visible during H1-FY04. In this period, the Rupee was initially stable as a small weakening of the net external account surpluses was mitigated by the SBP reducing its net inter-bank market purchases (see **Figure 3.1**). However, as the differential between Rupee and US$ interest rates narrowed by August 2003, traders increasingly sought to retire their foreign currency loans, thus putting pressure on the exchange rate.

Figure 3.1: Trends in Exchange Rate



It should be noted that during the first half of FY04 the country was still recording substantial current account surpluses, and therefore, a small upward correction in Rupee interest rates and market interventions was sufficient to allow the domestic currency to regain strength. Thereafter, as the monthly current account surpluses first dipped sharply and then turned into deficits, the Rupee began depreciating. As this movement was now driven by deterioration in fundamentals, the larger SBP interventions in this period were less fruitful and only moderated the downtrend of the Rupee.

As a result, in contrast to a 0.61 percent appreciation in H1-FY04, the Rupee witnessed a net depreciation of 0.68 percent by the end of FY04. It is important to note here that in the face of a weakness in the external account, it would have been

inappropriate for the central bank to hold the exchange rate unchanged – this would have only resulted in draining foreign currency reserves, and would have made the eventual corrections for the economy even more difficult. Therefore the SBP market interventions, through both, direct sales of foreign currency as well as through interest rate movements, aimed at striking a balance between adhering to market fundamentals and allowing the economy some time to adjust to the changing economic environment.

3.1 Market Developments

The initial pressure on the Rupee during FY04 appeared to be driven more by a carry over of the market expectations witnessed in the final months of FY03 rather than a weakness in market fundamentals. At that time, the impact of a (very gradual) recovery in the kerb market premium coincided with a *temporary* liquidity shortage in the inter-bank forex market, due to an apparent downtrend in remittances as well as a jump in debt-related outflows. In the meanwhile, by August 2003 domestic interest rates had also fallen to record lows, thus eliminating the differential between benchmark Rupee and US Dollar interest rates. This interest rate parity together with the weakness of the Rupee meant that the *effective* cost of foreign currency loans was expected to be higher than for Rupee loans. Not surprisingly therefore, traders pre-maturely retired their foreign currency loans against FE-25 deposits. This effectively drained the liquidity from the forex market, thereby augmenting pressure on the Rs/US$ Dollar parity (see

Figure 3.2: Exchange Rate, Forex Loans and SBP Purchases

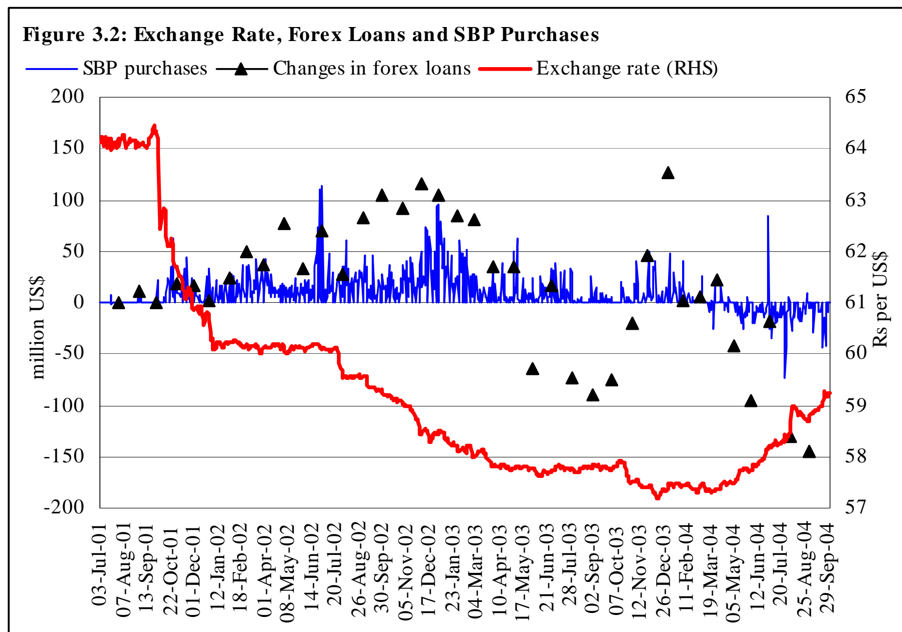


Table 3.1: Overall Reserves as per BOP
million US Dollars

	FY 03	Q1	Q2	Q3	Q4	FY04
Opening balance	**6,398**	**11,667**	**12,303**	**12,759**	**12,496**	**11,667**
Inflows	**25,239**	**5,779**	**6,273**	**7,036**	**6,556**	**25,644**
Exports of goods	**10,889**	3014	3055	3106	3220	**12,395**
Export of services (excluding interest)	**2,830**	884	754	650	508	**2,796**
Of which logistic support	**847**	384	197	172	0	**753**
Workers' Remittances	**4,237**	906	968	1001	996	**3,871**
Foreign Direct Investment	**585**	118	137	149	306	**710**
Foreign Portfolio Investment	**22**	-28	10	-26	20	**(24)**
Euro Bonds	**-**	0	0	500	0	**500**
Loan Disbursements	**2,208**	305	516	433	477	**1,731**
Official	**1,858**	*247*	*496*	*93*	*392*	**1,228**
Long-term loans	**1,671**	*247*	*488*	*93*	*392*	**1,220**
Program loans	**1,090**	*131*	*363*	-	*292*	**786**
IMF	**469**	0	245	0	0	**245**
IDA/IBRD	**213**	0	0	0	192	**192**
ADB	**408**	131	118	0	100	**349**
Project & food loans	**581**	116	125	93	100	**434**
Short-term including IDB	**187**	0	8	0	0	**8**
Private un-guaranteed	**350**	58	20	340	85	**503**
Privatization proceeds	**186**	0	0	199	0	**199**
Official Grants	**1,051**	218	246	115	34	**613**
Saudi oil facility	**637**	147	128	27	0	**302**
Others	**414**	71	118	88	34	**311**
Other Receipts	**3,231**	362	587	909	995	**2,853**
Outflows	**19,970**	**5,144**	**5,817**	**7,299**	**6,663**	**24,923**
Imports of goods	**11,333**	3015	3205	3603	3784	**13,607**
Imports of Services (excluding interest)	**2,714**	820	970	1134	1183	**4,107**
Interest payments	**976**	213	349	227	267	**1,056**
Amortization of official loans	**1,231**	388	458	1493	754	**3,093**
IMF	**418**	141	202	189	141	**673**
IDA/IBRD	**338**	108	80	116	86	**390**
AsDB	**268**	57	88	1177	73	**1,395**
Others actual paid	**207**	82	88	11	454	**635**
Profit and Dividends	**631**	127	184	110	201	**622**
Purchase of crude oil	**473**	108	158	211	237	**714**
Principal repaid on private loans	**663**	164	123	226	104	**617**
Foreign exchange liabilities liquidated	**1,192**	93	120	83	95	**391**
FE-31 & FE45	**406**	0	0	0	0	**-**
PTMA & commercial loans-actual paid	**84**	*17*	*16*	*0*	*0*	**33**
IDB (Short Term)	**183**	*35*	*70*	*56*	*30*	**191**
Swaps	**235**	*0*	*0*	*0*	*0*	**-**
Special US$ bonds	**284**	*41*	*34*	*27*	*65*	**167**
Other Payments	**757**	*216*	*250*	*212*	*38*	**716**
Gross reserves at end of period	***11,667***	***12,302***	***12,759***	***12,496***	***12,389***	***12,389***
CRR	**468**	**476**	**507**	**522**	**553**	**553**
Sinking Fund	**920**	**920**	**920**	**0**	**65**	**65**
Net reserves of SBP	**9,529**	**10,019**	**10,525**	**11,001**	**10,564**	**10,564**
DMB Reserves without sinking fund but including CRR	**1,218**	**1,363**	**1,314**	**1,499**	**1,760**	**1,760**

Figure 3.2).[39]

However, with the current account still recording substantial surpluses, the weakness in the Rupee was clearly only a short-term development, and the SBP therefore moved to stabilize the Rupee by raising the interest rates and lowering its net purchases from the inter-bank market.[40] While the rise in interest rates did alleviate some pressures on the Rupee/US Dollar exchange rate, it was SBP's net selling in the spot market that effectively squelched expectations of the Rupee depreciation by early October 2003.

As a result of the SBP intervention, the Rupee strengthened sharply towards mid-October 2003, reviving interest in forex FE-25 loans and thereby improving the forex liquidity in the inter-bank market. This enabled SBP to resume its purchases from the inter-bank market both in spot and forward; the SBP was a net purchaser in the inter-bank during this period. The fact that the Rupee appreciation continued till end-November 2003 despite heavier SBP forex purchases underlines the relatively comfortable forex market liquidity at this stage, which allowed the exchange rate to reach a three year high of Rs 57.21/US$.

The downward pressures on the exchange rate then re-emerged in December 2003. However, as at end-September, 2003, these pressures were temporary; surfacing largely due to the seasonal debt and import payments. Thereafter, the exchange rate continued to move in a narrow band till end-March 2004. Though the economic fundamentals (particularly trade deficit and inflation) had already started to show some signs of weakness in this period, it was probably the forex inflows stemming from foreign currency lending that continued to support the market.

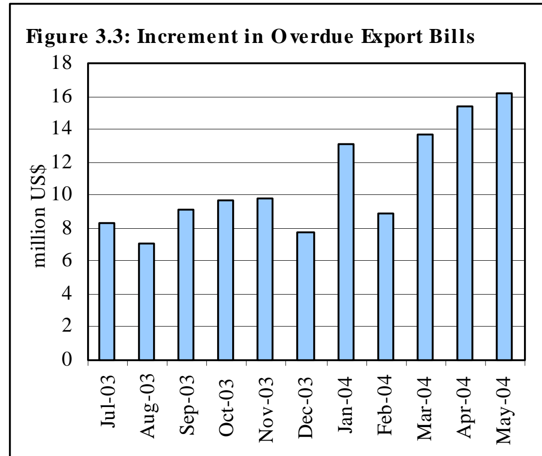
By April 2004, the forex market was already witnessing some pressure, amidst a discernable widening of the current account deficit, and therefore the news of the

[39] The forex loans make the pool of FE25 deposits temporarily available for trade transactions. When a commercial bank extends forex loan to an exporter, the foreign currency is immediately sold in the market. This augments the foreign currency liquidity, which otherwise would have realized in future (i.e., when export receipts materialized). On the other hand, forex loans to importers delay the demand of Dollars till the period of maturity of loan, i.e., import payments are temporarily met from the pool of FE25 deposits. This suggests that an increase in lending against FE25 deposits temporarily improves the foreign exchange liquidity in the interbank market. On the other hand, a decline in forex lending drains the liquidity from the inter-bank market.

[40] The maturing forward purchases were also a source of pressure on the Rupee in the spot forex market. In addition, SBP had temporarily suspended its forward purchases. However, in overall terms, the SBP was still purchasing US Dollar from the inter-bank market, but it is due to maturing forward purchases made in earlier quarters

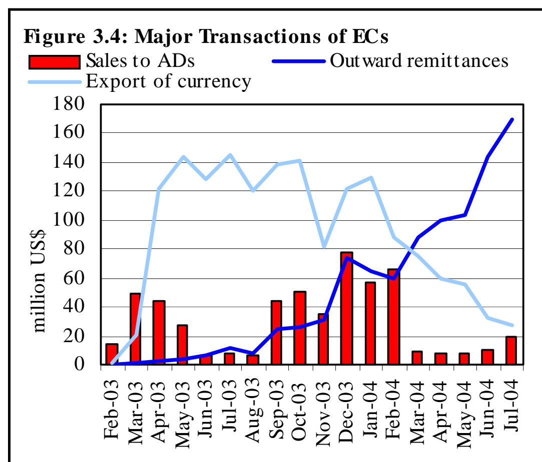
termination of the Saudi Oil Facility significantly altered perception on the Rupee. As customary, these perceptions initiated a vicious cycle, adding to the pressure on the Rupee, which persisted thereafter[41] even in the wake of sizeable market interventions from the central bank (see **Figure 3.1**).[42]

Figure 3.3: Increment in Overdue Export Bills



For example, the weakening Rupee induced the settlement of forex loans draining market liquidity; it also probably encouraged exporters to delay the remittance of export proceeds to the maximum allowable limit, and halt forward sales of export proceeds. It may have also contributed to an increase in overdue exports bills (see **Figure 3.3**). Similarly, it is interesting to note that sale of excess foreign exchange by exchange companies to ADs also reduced considerably in the same period (see **Figure 3.4**).[43] Finally, import demand also rose in the same period.

Figure 3.4: Major Transactions of ECs



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[41] During the 30-month period since June 2001, the Rupee appreciated by approximately 12 percent. This trend continued into most of FY04, with the Rupee gaining additional 0.5 percent against the US$. However, since April 2004 the Rupee remained under pressures, despite substantial interventions by SBP to moderate its decline.

[42] The SBP injected US$ 294 million during Mar-Jun FY04 compared with purchases of US$ 603 million during the corresponding period last year. In addition to direct intervention, the SBP has also been moderating the pressures on Pak-Rupee by actively monitoring the forex flows in the inter-bank market.

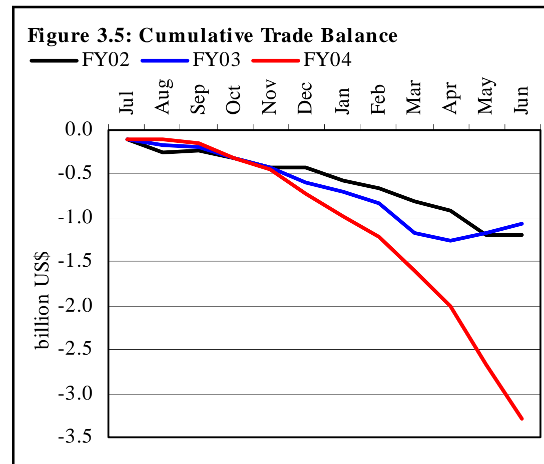
[43] Since the integration of moneychanger business with formal channel in February 2003, exchange companies had been supplying excess foreign exchange to inter-bank market. The fall in inflows

In this backdrop, it is necessary to examine the underlying economic conditions that caused changes in market flows and in turn led to shift in sentiments.

Widening trade deficit
The most important contributor to market sentiment was the rising trade deficit. As evident from **Figure 3.5**, the trade deficit witnessed stunning growth in FY04 (registering 177 percent YoY rise to US$ 3.2 billion). However, the rise in the trade deficit was particularly sharper during Q4-FY04, rising $1.6 billion compared with US$ 0.1 billion same period last year.[44] Although not all of the rise represented an immediate drain on the market liquidity (see **Box 3.1**), the large trade deficit in the period nonetheless added significantly to worsening market perceptions on the Rupee.

Remittances
The second factor that impacted the market expectations was the apparent moderation of remittance flows from their FY03 levels (see

Figure 3.5: Cumulative Trade Balance



Box 3.1: Transitory Factors that Inflated Imports
Transitory factors that have inflated the deficit in Q4-FY04 include:
(1) The import of aircrafts by PIA worth US$ 316.7 million under its fleet renewal program. Out of the total amount, US$ 141.1 million had been paid earlier, thus leaving US$ US$ 175.6 million to be paid in FY04. Interestingly, the purchase of these aircrafts has been financed by the EXIM Bank (USA). This means that the resulting foreign exchange demand for aircraft import should not affect the inter-bank market flows.
(2) Similarly, the trade numbers also include US$ 269 million for the import of dredgers. The dredging operations are routine features and relevant firms acquire machinery from abroad on rental or lease basis. However, this temporary acquisition of dredger is shown as an import item in the trade data reported by Federal Bureau of Statistics (FBS). Later, when the dredger leaves Pakistan following the completion of the dredging operation, it will appear as a re-export item in the trade record. While the actual payments on dredgers are limited to small rental charges, the import numbers (as well as trade deficit) include total value of dredgers.

owed to both (a) higher outward remittances in face of travel expenses; and (b) lower proceeds from 'export of currency' resulting in drop of net inflows in exchange companies.
[44] One major source of rising trade deficit during the Q4-FY04 is the swelling oil import bill, which showed an increase of US$ 410 million over Q4-FY03.

Figure 3.6). Although the remittances (net of Hajj inflows) were still more than the target level of US$ 3.6 billion in FY04, this decline was nonetheless perceived as an additional indicator of mounting pressure on the Rupee.

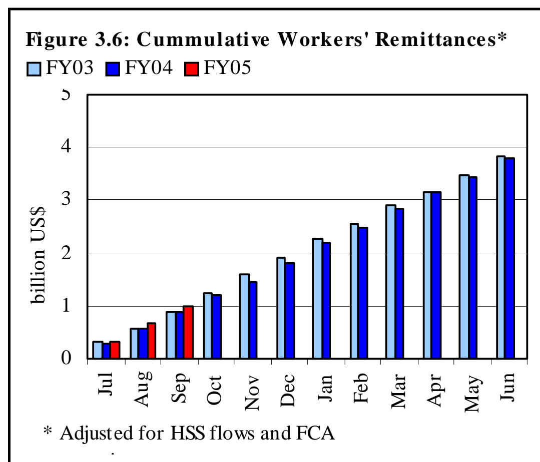


Figure 3.6: Cummulative Workers' Remittances*

* Adjusted for HSS flows and FCA

However, a close look at the remittances data reveals that inflows during FY03 were inflated due to Hajj Sponsorship Scheme (HSS) and conversion of FCAs into the Rupee. Following the cancellation of HSS and a significant decline in Rupee conversion of FCAs during FY04, some weakness in remittance inflows was expected. Adjusting for these two factors, the fall in remittances during FY04 is very insignificant (see **Figure 3.6**). Thus, remittance flows effecting through the market did not decline significantly. However, once again, the market only incorporated the headline figures into its expectations.

Exchange companies

The exchange rate pressures were evident in the growing premium charged by exchange companies over the inter-bank rate particularly during H2-FY04.[45] At the same time, there were also reports of rising capital outflows through undocumented channels.[46] Anecdotal evidence also suggests some capital outflows to Dubai to capitalize on the real estate investment opportunity there. An unusual increase in the premium for undocumented outflows could further exacerbate pressures on exchange companies.

Oil prices

The increase in oil prices in the international market was another element that influenced market expectations for the Rupee depreciation. There are at least two possible channels through which rising oil prices could influence the exchange rate: (1) an increase in import prices could add to the import bill and to the foreign exchange demand, thereby resulting into more pressure on exchange rate; and (2)

[45] A large premium indicates higher demand for US Dollars through exchange companies.
[46] Some of the foreign exchange transactions pass through illegal channels to escape official scrutiny. The premium for such undocumented outflows is supposed to be more than the one charged by exchange companies.

the imported inflation due to rising international oil prices could translate into higher domestic prices, which in turn could lead to depreciation of the exchange rate.

Table 3.2: Import of Petroleum Crude & Products

million US Dollar

	FY03	FY04	Difference
Q1	707.5	684.8	-22.7
Q2	764.2	670.9	-93.2
Q3	947.0	752.5	-194.5
Q4	647.8	1,058.3	410.5
Total	**3,066.4**	**3,166.6**	**100.1**

Although, the impact of record oil price on trade deficit for FY04 was limited to approximately US$ 100 million,[47] this masks the major rise of US$ 410.5 million in oil imports during the Q4-FY04 over same period in FY03 (see **Table 3.2**). In this backdrop, it is clear that the significant impact of the termination of Saudi Oil facility was most evident in the final quarter.

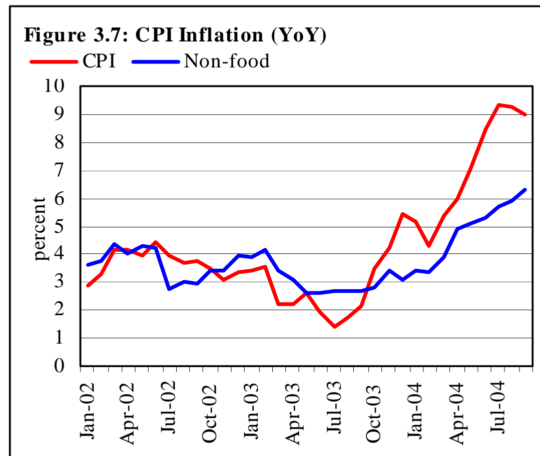


Figure 3.7: CPI Inflation (YoY)

Although the facility was terminated in December 2003, the market largely became aware of this by March 2004, which also saw a further jump in the oil import bill, forcing the market to revise its assessment of the impact of rising oil prices on the import bill.

The impact through the price channel was more limited. While the government kept some domestic fuel prices unchanged,[48] the increase in the cost of furnace oil as well as in the prices of petroleum derivatives such as lubricants, greases, etc. were not buffered. In addition, the economy was also facing inflationary pressures during H2-FY04 mainly due to rising prices of selected food items and raw material for construction (see **Figure 3.7**). This sharp rise in prices made the

[47] This was possible as the higher crude oil imports were substantially offset by falling imports of (refined) petroleum products.
[48] With domestic oil prices unchanged since May 2004, government is also facing losses under development surcharge collection.

market to believe that in order to restore competitive position of exports, the central bank would allow the exchange rate to depreciate.[49]

Pre-payment of expensive debt

The pre-mature repayment of expensive debt in FY04 also influenced the market sentiments by adding to foreign exchange demand in the inter-bank market. It may be pointed out here that the program for early debt repayment was initiated primarily to address the problems arising from excessive foreign exchange inflows after September 2001. Specifically the central bank was purchasing much of the foreign exchange liquidity from the market to stem upward pressure on the exchange rate.[50] In order to lessen the impact of Rupee injection on reserve money growth and inflation, the central bank was sterilizing its foreign currency purchases by reducing its stock of T-bill holdings. Given the fact that SBP's T-bill stocks were continuously falling, there was a need to encourage outflows from the foreign exchange market. With this view, SBP not only liberalized the import outflows but also encouraged pre-payment of expensive debt.

However, as lumpy debt repayments could lead to large exchange rate fluctuations, the central bank built up a sinking fund through gradual purchase of foreign exchange from the inter-bank market. This sinking fund was effectively a buffer against heavy repayments, such as US$ 1.1 billion to ADB in January 2004. Some of the pre-payments were, however, made through the inter-bank market, such as pre-payment of US$70 million by Civil Aviation Authority in early April 2004.

While most of the pre-payments were made without significantly disturbing the market liquidity, the expected payment of US$ 355 million by Pak Arab Refinery Company (PARCO) in June 2004 created additional pressure precisely when the market expectations were already very sensitive to pressures from imports and inflation. In order to ease this pressure, SBP encouraged the corporate entity to enter into a Rupee-Dollar swap agreement with consortium of local and foreign banks, to push back the market outflow, hoping that inter-bank liquidity would improve.

[49] High domestic prices can mean that export goods become relatively expensive and imported goods become relatively cheaper. Thus, inflationary pressures can lead to deteriorating external accounts and thereby put pressure on exchange rate.

[50] Given the uncertainty regarding the sustainability of the large foreign exchange inflows at that time, a sharp appreciation of the rupee (and attendant risk of losing hard to re-capture export markets) was undesirable.

The Rupee remained under stress during Q1-FY05, depreciating by 1.8 percent during this period. These pressures largely reflect the rising trade deficit that reached US$ 754.7 million during Jul-Sep 2004 compared with US$ 144.8 million during the same period last year. In particular, the increased import of machinery and crude oil & petroleum products (due to higher oil prices in the international market)[51] accounts for over 48 percent of the increment in trade deficit. In view of the resulting increased outflows, the government even discontinued the further pre-payment of public sector external debt.[52]

However, this proved insufficient to change market expectations, and economic agents continued to try to hedge against a further fall of the Rupee[53]. Not surprisingly, the expectations proved self-fulfilling, and the increased demand for foreign exchange led to a 3.45 percent depreciation of the Rupee against the US dollar during October 2004.[54]

3.2 Real Effective Exchange rate

While the Pak-Rupee depreciated only by 0.5 percent against US Dollar, its depreciation against other major currencies was far greater as US Dollar itself weakened in the international market (see **Table 3.3**).

Table 3.3: Rupee vis-à-vis Selected Currencies
percent changes

			July-September		
	FY03	**FY04**	**FY03**	**FY04**	**FY05**
US Dollar	3.9	-0.5	1.5	-0.2	-1.8
Euro	-9.3	-6.5	2.7	-2.1	-3.8
Japanese Yen	4.2	-10.1	3.3	-7.4	0.5
Pound sterling	-3.2	-9.4	-0.3	-1.6	-1.1
Chinese Yuan	3.9	-0.5	1.5	-0.2	-1.8
Indian Rupee	-1.1	-1.7	0.1	-2.7	-1.5
Thai Baht	5.0	-3.2	5.8	-5.1	-0.5
Indonesian Rupiah	-1.4	13.0	4.8	1.1	-4.4

However, as the regional countries kept their currencies closely linked to the US Dollar, in net terms the Rupee is showing smaller deprecation against these regional currencies (such as Indian Rupee, Chinese Yuan).

[51] The oil prices of West Texas Intermediate rose sharply from US$ 37 a barrel to US$ 50 a barrel by end September 2004. The pressure on oil prices continued even in October when it reached record high of over US$ 56 a barrel mark.
[52] In the case of PARCO loan, after paying the first installment of US$ 50 million to inter-bank market in July 2004, PARCO rolled over August 2004 installment for three months due to evident pressure on Rupee Dollar parity in the inter-bank market. However, later the SBP provided Dollar liquidity in the inter-bank market so that PARCO could settle its maturing swaps.
[53] It is important to note that in aggregate domestic banks were holding a net short position and were therefore sensitive to any expectation of a weakening rupee.
[54] Thus, in order to moderate these expectations, SBP finally decided to meet the lumpy payments for oil imports directly from its foreign exchange reserves. This October 30, 2004 announcement was instrumental in finally reversing market expectations.

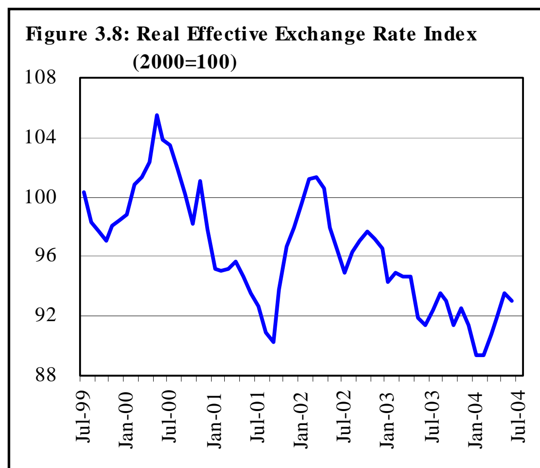


Figure 3.8: Real Effective Exchange Rate Index (2000=100)

The exchange rate in real terms has depreciated during FY04 due to nominal depreciation of the Rupee against US Dollar.[55] This was supported by weakening of US Dollar in the international market against the major currencies. However, the recent inflationary pressure has started to show up in real appreciation. In fact, despite nominal effective exchange rate depreciation in Q4-FY04, the Rupee competitiveness eroded due to relatively high inflation rate in Pakistan compared to trading partners. Thus, in real terms, Rupee rose by 0.4 percent in Q4-FY04 entirely due to 0.9 percent increase in relative prices compared to its trading partner (see **Figure 3.8**).

3.3 Exchange Companies

Prior to the introduction of exchange companies, there were around 375 authorized moneychangers (AMCs) in Pakistan. These AMCs have allegedly been acting as a conduit for informal forex market flows and operating in parallel with banks by dealing in traveler's checks and transfers. Moreover, their businesses were inadequately capitalized, and the monitoring was limited. With the aim to address these issues, SBP in July 2002 proposed a plan to replace AMCs by exchange companies having following characteristics:

- The exchange companies can deal in foreign currency notes, coins, postal notes, money orders, bank draft, traveler's cheques and transfers; but are prohibited to engage in deposit taking, lending activities directly or indirectly.

- They are required to maintain the paid up capital of Rs 100 million with the central bank including 25 percent as SLR.

[55] The real effective exchange rate (REER) index showed net depreciation of 2.8 percent in FY04 compared with depreciation of 1.6 percent in FY03.

- The exchange companies shall limit their exposure at the close of business each day at a level not higher than 50 percent of their capital base.

- Exchange companies will have to document all their transactions and get their books properly audited by the auditors approved by the SBP.

Thereafter, in order to increase the coverage of exchange companies, SBP allowed establishment of exchange companies under 'B' category, with following features:

- They are required to maintain paid up capital of Rs 20 million with reserve requirement of only 10 percent of the paid up capital.

- A minimum of 5 AMCs were required to form exchange companies of category 'B'.

- They are allowed only the sale & purchase of foreign currency notes and coins.

As of end-October 2004, the central bank has issued 22 licenses to exchange companies in 'A' category (see **Table 3.4**). These exchange companies have further granted franchises to 172 money changers.[56] The SBP has also issued 33 licenses to exchange companies under 'B' category. These companies in turn opened 244 retail branches throughout the country. This suggests that in overall terms, the service coverage to the customers at the retail level has increased in comparison to the branch network of old authorized money changers. At the same time, this will facilitate spread of corporate culture in the foreign exchange business of the country, while improving the documentation, reporting and inspection by SBP.

Table 3.4: Status Report on Exchange Companies

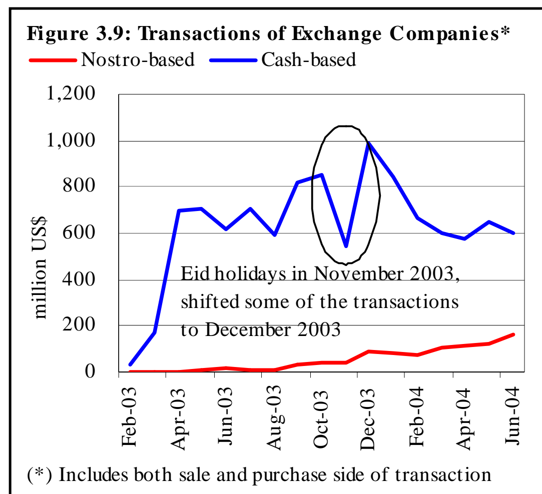
	Number
Exchange companies of Type (A)	**22**
Franchise with EC(A)	172
Branches with EC (A)	63
Exchange companies of Type (B)	**33**
Licenses to branches	244
Authorized money changers	**375**

In addition, 22 hotels were also granted 'restricted authorization' to deal in foreign exchange.

[56] Franchise is the authorization granted to someone to sell or distribute a company's goods or services in a certain area.

While it is too early to make any objective assessment of the performance of exchange companies,[57] the available data suggests increase in their transaction volumes (see **Figure 3.9**). Since most of this increase occurred in the early stage of transition, it can be argued that the higher volumes mainly reflect the impact of new exchange companies adding to SBP's reporting list. However, encouragingly, more of the transactions are routing through exchange companies' nostro accounts.[58]

Figure 3.9: Transactions of Exchange Companies*



(*) Includes both sale and purchase side of transaction

In overall terms, the exchange companies have purchased US$ 6.6 billion and sold around US$ 5.7 billion during FY04 (**Table 3.5**). According to SBP regulations, exchange companies are required to limit their exposure at the close of business each day at a level not higher than 50 percent of their capital base; any excess amount is sold to authorized dealers. As shown in **Table 3.5**, the exchange companies sold US$ 288 million to banks during the FY04.

Presently, most of the exchange companies are located in large cities (see **Table 3.6**). Thus, people living in remote areas cannot access the services provided by the exchange companies. To overcome this problem, SBP has directed exchange companies to form 'payment booth'.

Table 3.6: Geographical Coverage of Exchange Companies

	EC (B)	EC (A)	Franchise with EC (A)
Total branches	244	20	171
Located in big 5 cities[1]	179	18	82
Share (in percent)	73	90	48

Includes Karachi, Lahore, Islamabad, Rawalpindi, and Quetta

[57] The exchange companies (A) are working since February 2003, while ECs (B) started their operations from 1st July 2004.
[58] SBP has already directed exchange companies to ensure that the major transactions take place through their nostro accounts. This practice corresponds to international standards of 'Know Your Customer' policy and help in the identification of suspicious transactions. In addition, SBP has also directed exchange companies to import currencies through nostro accounts or FCAs.

Table 3.5: Exchange Companies Volume

million US Dollars

	Q4 FY03		Q4 FY04		FY04	
	Purchase/ Receipts	**Sale/ Payments**	**Purchase/ Receipts**	**Sale/ Payments**	**Purchase/ Receipts**	**Sale/ Payments**
Nostro-based						
Remittances	1.45	12.29	58.38	346.26	1,48.86	736.22
With other exchange companies	0.01	0.58	0.20	36.89	4.15	44.08
Against sales/purchase of other currencies	389.44	219.19	601.17	228.33	2,180.82	1,005.68
Sales to authorized dealers	0.00	56.50	0.00	8.65	0.00	287.77
Branch transaction adjusted	0.37	0.00	11.08	0.00	45.66	0.00
Total	**391.27**	**288.56**	**670.82**	**620.13**	**2,379.49**	**2,073.75**
Cash-based						
From resident against payments in Rupee	574.05	0.00	643.45	0.00	2,582.97	0.00
From non-resident against payments in Rupee	0.00	0.00	0.96	0.00	3.13	0.00
With other exchange companies	40.03	14.15	117.27	87.13	438.15	410.26
For credit to FCA of resident	0.00	270.56	0.00	148.19	0.00	939.56
Sales to authorized dealer	0.00	14.51	0.00	15.37	0.00	95.59
Contra to import / export of foreign currency	394.20	475.74	147.56	536.86	1,188.27	2,151.48
Total	**1,008.29**	**774.97**	**909.23**	**787.55**	**4,212.51**	**3,596.90**