

### **Rupee stabilises against dollar**

KARACHI: Interest rate hike diverted investment from US dollar to domestic bonds and deposits in banks which reduced pressure on dollar demand, said financial market sources.

The exchange rate remained relatively calm during the week ended on Saturday while the dollar lost in both interbank and open market against the local currency.

The dollar fell to Rs148.20 in the interbank market on Friday after trading as high as Rs150.30, registering a decline of Rs2.10 during the week. The interbank market was closed on Saturday, but in the open market where retail clients buy and sell foreign exchange, the US currency lost another Re1 and was traded at Rs149.

‘The depreciation of the dollar has many reasons but the main reason was the price decline in the interbank which halted the rapid increase in the open market,’ said Zafar Paracha, Secretary General Exchange Companies Association of Pakistan.

He said increased supply of dollars created ample availability in the open market helping the local currency to recoup some of the earlier losses.

‘The exporters who were anticipating further increase in dollar price also returned to the interbank after falling trend in exchange rate,’ he said, adding that demand also dropped.

He said those who invested in dollars have started selling their holdings as the price started falling.

Currency experts said another reason for declining demand for dollars was the recent interest rate hike. ‘Investing in banking products is much more attractive than in dollars,’ he remarked.

The current policy rate is 12.25pc and the government offers more than this rate through Pakistan Investment Bonds (PIBs) and Savings Certificates.

Sources in financial sector said the big banks are still offering less than 10pc on deposits, but small banks are offering up to 14-15pc return per annum on deposits as they depend largely on deposits.

‘If the government sells PIBs through stock market and lets other outlets like exchange companies, it will make it easier for general public to invest in these bonds, pressure on the dollar would vanish. Also, the government will directly raise liquidity from the public,’ said Paracha.

At present, usually big banks invest in government securities including PIBs. They get deposits at lower rates and invest in the government papers carrying much higher yield. The latest yield on three and five-year PIBs were 13.69pc and 13.8pc, respectively.

Currency dealers said that inflow of foreign currencies during Ramadan has increased by 10 to 15pc.

The currency dealers have been depositing up to \$4 million per day in the banks. The dollar holdings of banks have been increasing for more than a year.

By Shahid Iqbal