

**Exchange rate remains strictly market determined: State Bank of Pakistan**

KARACHI: The central bank on Friday reiterated that currently market forces were controlling the exchange rate and an impression that the government was pulling rate on International Monetary Fund's (IMF) behest is not true.

"Under the IMF-supported programme, there is no agreed target level for the exchange rate. ER [exchange rate] is market-determined," the State Bank of Pakistan (SBP) said in a tweet on Friday.

"Forward exchange rates are not a forecast of future exchange rates," it said, adding that the IMF report on Pakistan included exchange rate assumptions, which were not predictions. The exchange rate was determined by market forces on demand and supply and is a reflection of the existing balance of payments position, the SBP said.

"Forward exchange rates are determined by the existing spot rates and interest rate differentials of the relevant period, i.e., time value of money," it added. Earlier, the IMF had tweeted about the inclusion of the exchange rate assumptions in its published staff report on Pakistan.

IMF's new assumptions, published in its staff-level report, suggest that the average exchange rate at the end of this fiscal year could be Rs160.64 to a dollar, which is significantly lower than the steep depreciation it had predicted while mapping the \$6-billion loan programme.

Some analysts said the new valuation of Rs160.64 was better than market expectations and underlined an orderly transformation to the market-determined flexible exchange rate regime.

The IMF however said, "The flexible, market-determined exchange rate remains essential to cushion the economy against external shocks and rebuild reserve buffers..."

The SBP, in its publications, repeatedly said one key aspect of the IMF reform programme had been the shift to a market-based exchange rate system since May 2019, which had addressed the previous concerns regarding the sustainability of the exchange rate regime.

"The transition to the market-determined exchange rate has helped stabilise the rupee," the central bank said. The currency witnessed devaluation of 14 percent versus the greenback over the six weeks period preceding an IMF's programme, but has appreciated by three percent since then.

The rupee is hovering at an average of 155 to the dollar in the interbank market. The current account deficit dropped 73 percent to \$1.821 billion in the first five months of the current fiscal year. The central bank's foreign exchange reserves rose to \$11.5 billion as of January 3, 2020 from \$7.2 billion at the end of June 2019.