

Rupee gains against dollar in open market

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KARACHI: Elections brought stability to the exchange rate on the very first day after polls' results were announced in Pakistan, said currency dealers.

During the two months of the caretaker government, the local currency hit the rock bottom against the dollar.

“Uncertainty attached with the general elections is no more there which helped the currency market to show strength and the rupee gained about Rs1.10 per dollar on Thursday,” said General Exchange Companies Association of Pakistan Secretary Zafar Paracha.

The dollar was traded at maximum Rs128.90 in the open market compared to Rs130 just before the elections. The market was closed on Wednesday, the day of elections.

The market was not sure that the stability would further improve the exchange rate in favour of local currency as the country's problems regarding the external front still remained there. They said only the uncertainty factor has been replaced with a hope for better performance by the future government. However, it has helped the sinking local currency to gain against the bullish dollar.

With reserves of the State Bank of Pakistan (SBP) falling, the local currency lost weight against the dollar but the most inflicting factor was the \$18-billion current account deficit in FY18.

“I believe that the local currency could gain when the economic and financial policy is announced by the new government and a clear solution to resolve the ever increasing problem of current account deficit consuming the reserves of the country is in sight,” said Paracha.

Currently the market is short of dollars as buyers outnumber the sellers. The foreign currency holders were cautious to sell their holdings in the hope of more rupee depreciation while they kept depositing in the foreign currency accounts.

SBP reserves fall to 5-year low

The foreign exchange reserves of the SBP fell by \$53 million to \$9.01bn — their lowest level during the last five years — during the week ended on July 20. This scenario poses a critical situation for the new government to take charge in Islamabad.

The reserves of the central bank began their downward journey after touching peak at \$18.142bn in FY16. The total liquid foreign reserves stood at \$15.73bn while net holdings of commercial banks were \$6.72bn.

The holdings of the commercial banks in June 2017 were \$5.258bn which reached \$6.718bn, an increase of \$1.46bn was noted. During the fiscal FY18 the dollar gained about 20 per cent against the local currency indicating the reason for higher growth in deposits of the commercial banks.

The new government is expected to approach International Monetary Fund for a bailout package as the risk of default on the external front is visible.

The caretaker government as well as the SBP have taken a number of steps to reduce the trade deficit which touched \$37bn in FY18 but the results are expected in FY19.

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