

3rd June, 2004

**SBP'S CLARIFICATION ON
DOLLAR PURCHASES FROM MARKET**

A report, which appeared in a section of the press today, alleges that the purchases of 10 billion dollars by the State Bank during the last four years has resulted in a loss of Rs 6.2 billion. The report further says that the State Bank had paid between rupees 2-3 per dollar over and above the prevailing inter bank rate.

It is clarified that the State Bank had purchased only \$ 5.654 billion during July 1998 to May 2002 from the kerb market. After May 2002, the State Bank, stopped purchasing dollars from the kerb market when the country had built up adequate foreign exchange reserves.

It may be pointed out that after the nuclear test in 1998, when the open market exchange rate shot up because the inflows of foreign currency into the country had almost dried up and level of reserves was inadequate to meet the maturing foreign currency obligations, there were two options available i.e. either to resort to the usual foreign currency denominated commercial borrowings and thus create additional foreign currency debt servicing obligations for the future or to purchase the remittances of Pakistani workers channeled through open market at the prevailing market rate which, specially for large purchases, was Rs 2-3 higher than the inter bank-rate for all types of buyers, including SBP. The SBP paid the same rate for acquiring dollars from the open market as every one else. Any insinuation of SBP paying higher than the prevailing market price is totally unfounded and baseless. This second option was chosen as a policy measure, with the approval of the Federal Government, to make all payments due on time and to build up reserves to minimize foreign currency commercial borrowings and to save the country from future foreign currency debt servicing liability whose cost would have been many times higher than Rs. 6.2 billion. The chosen option of purchasing dollars from the kerb/open market has been disclosed to the public from time to time through print and electronic media and duly communicated by SBP in its various reports and statements. All payments made by SBP were included in the annual financial statements which were duly audited by the external auditors.

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Year-wise details of dollars purchases made from the kerb market are as under:

(Amounts in Million)

Year	US Dollar
1998-99	531.00
1999-00	1,633.00

2000-01	2,157.00
2001-02	1,333.00
Total	5,654.00

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