



Pakistan's Parallel FX Market

10th Annual Conference. Lahore School of Economics

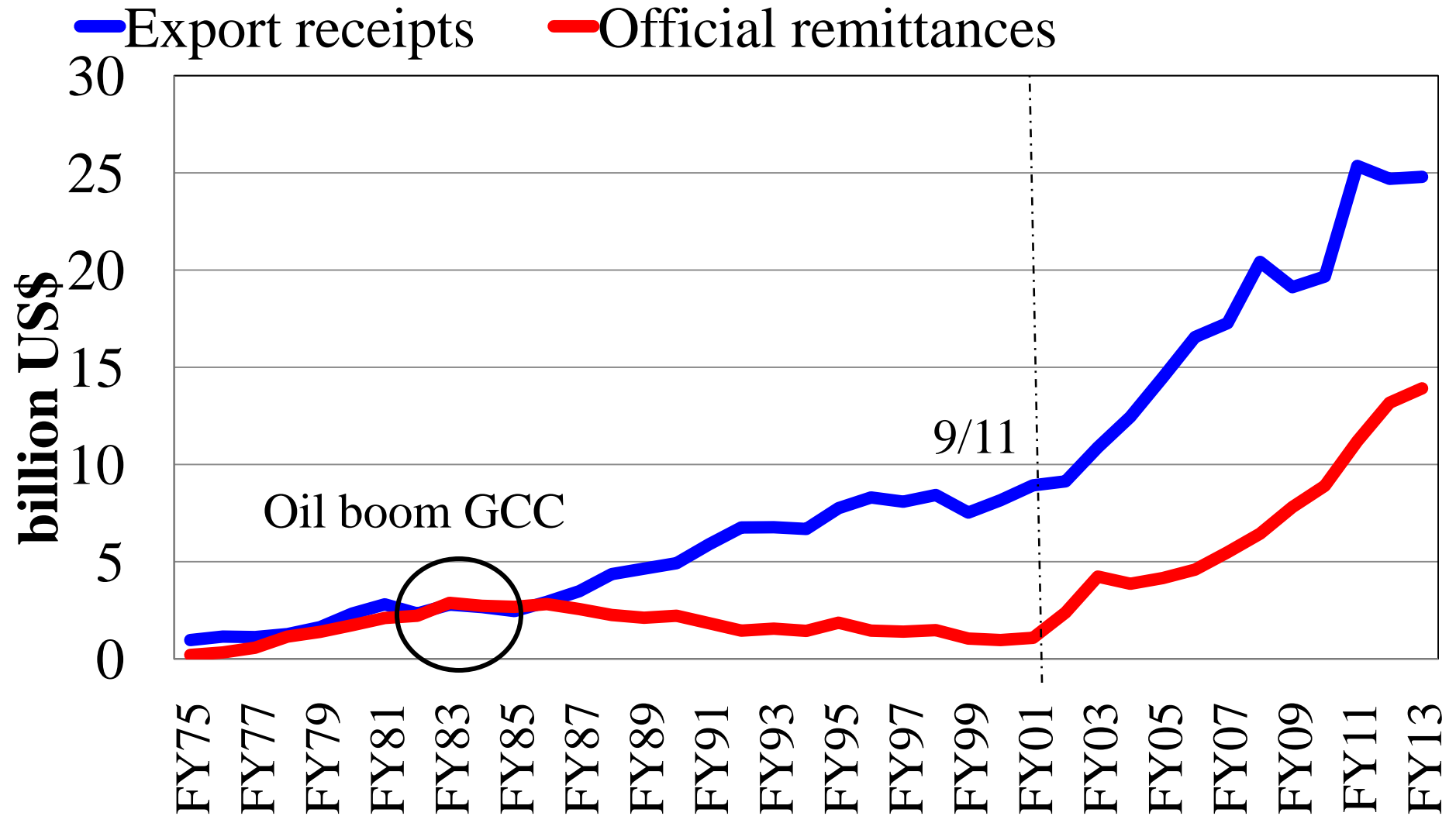
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26th March 2014

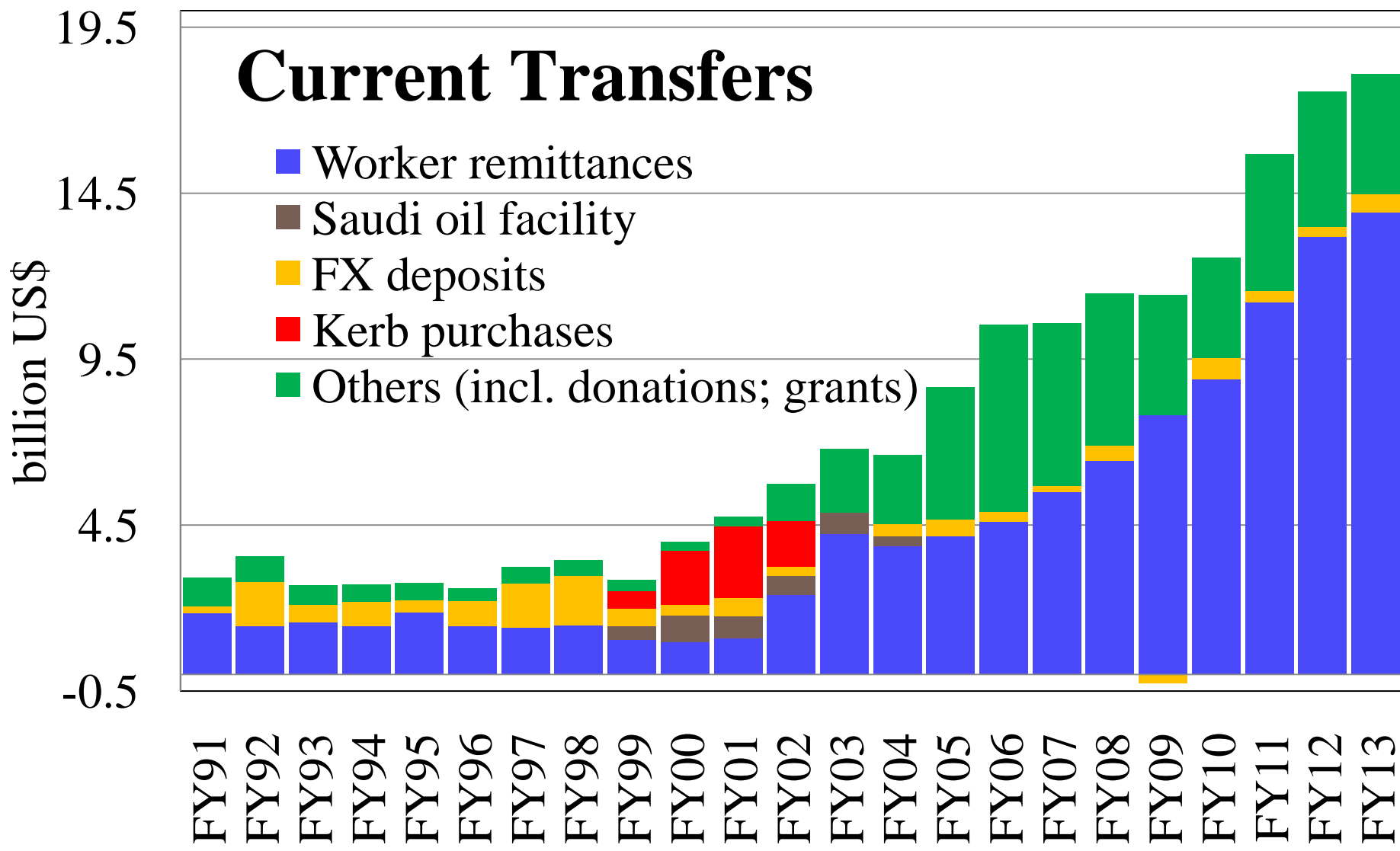
Roadmap

- Structure of Market:
 - ▣ Historical evolution & landmarks.
- As things stand:
 - ▣ Flowchart (Interbank and Exchange Co.);
 - ▣ Existing regulations;
 - ▣ Flowchart (Hundi/Hawala).
- Recent developments:
 - PKR appreciation & concerns about kerb.
- Conclusion.

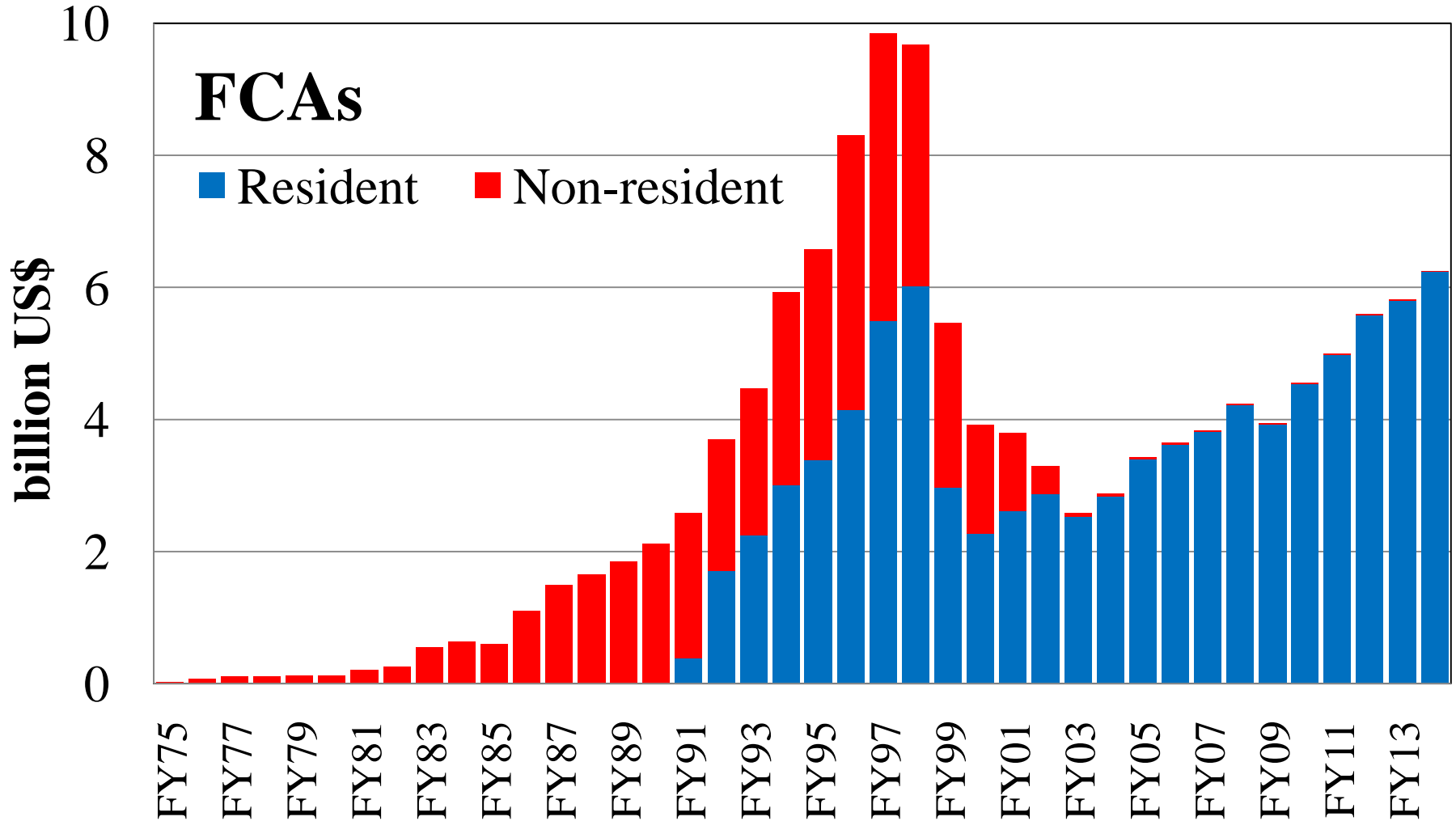
Historical Evolution - 1



Historical Evolution - 2



Historical Evolution - 3



As Things Stand: Existing Regulations

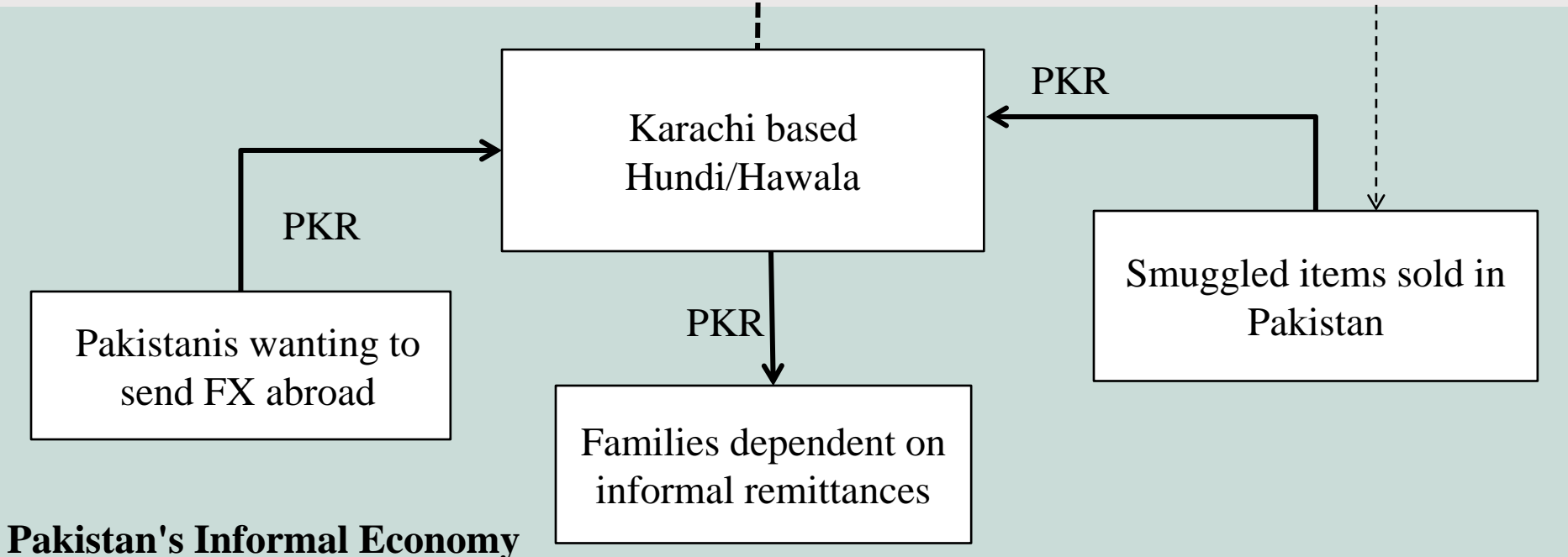
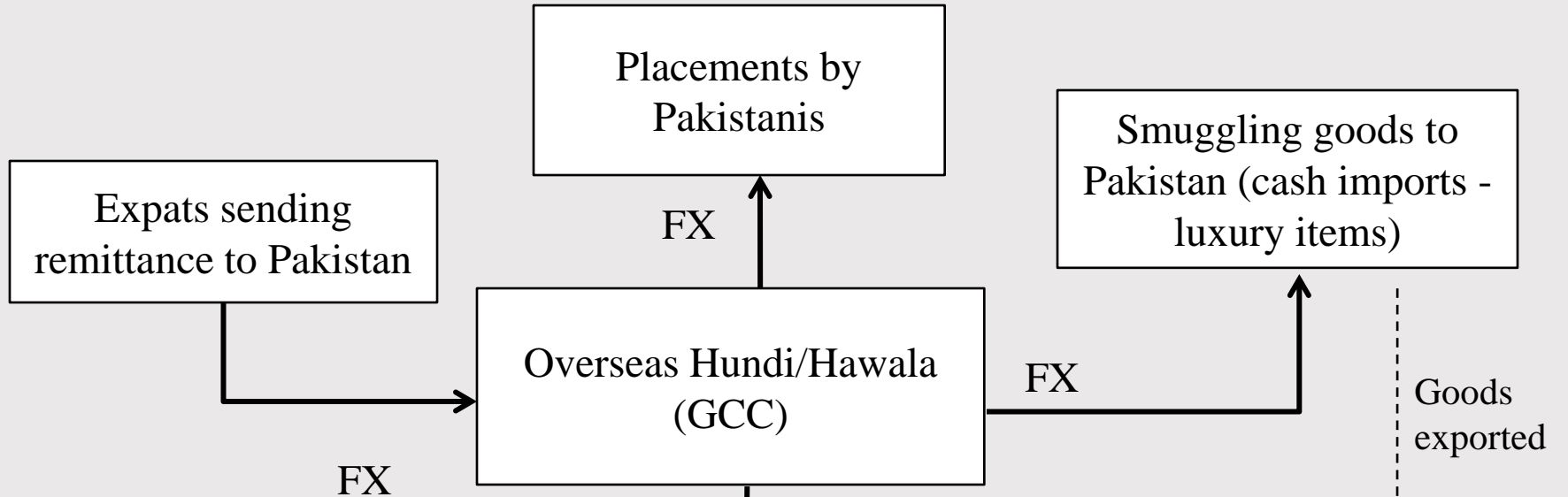
Banks

- No restrictions on TTs, but cannot remit to corporates;
- Transfer funds via TTs (FCAs) only;
- Only official individual medical/education/travel expenses;
- Cannot finance gold imports;
- Debit/Credit Card payments (use PKR Credit Cards overseas purchase FX via ECs); IMF's recent concerns).

Exchange Companies

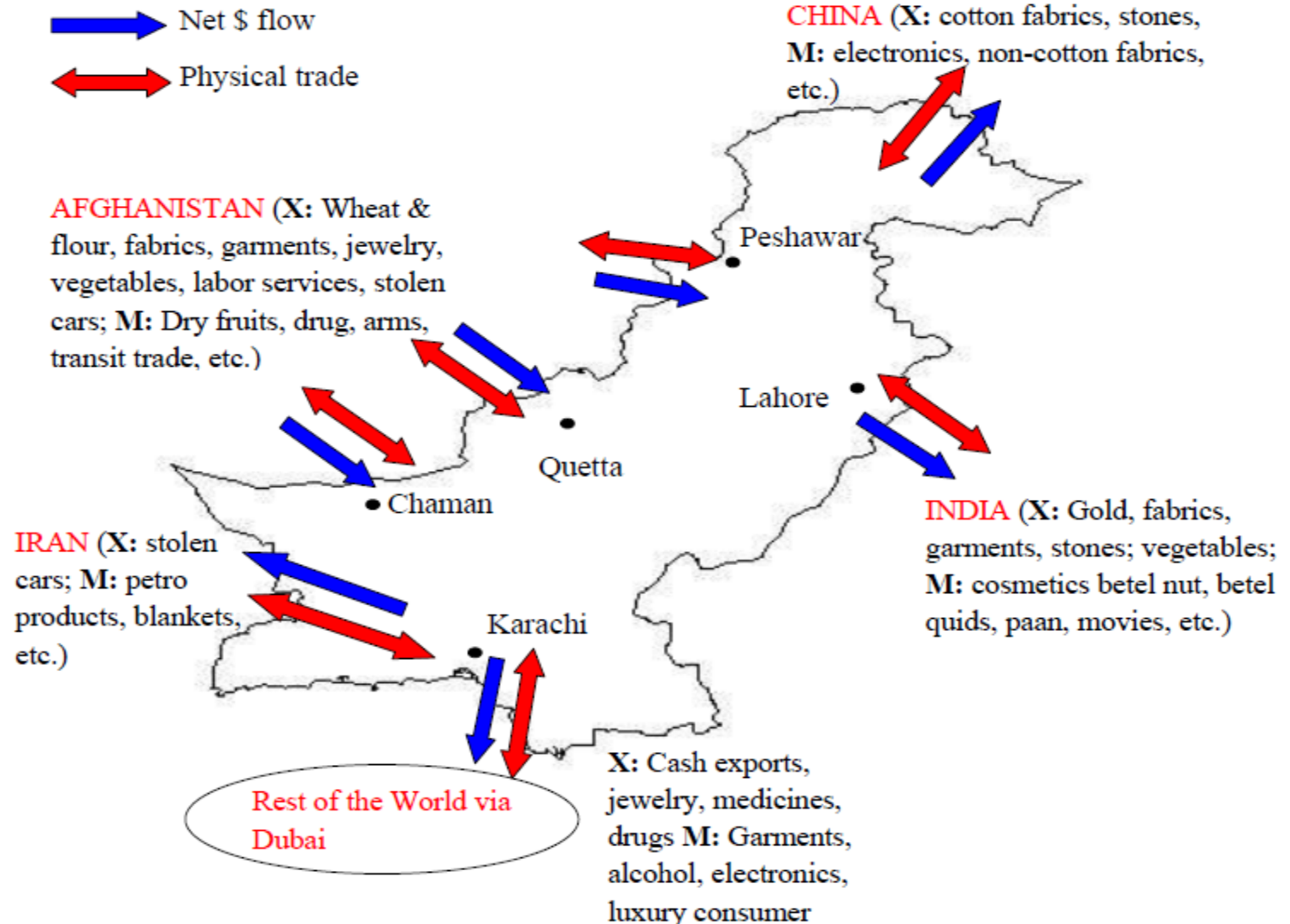
- Required to sell 15% of remittances;
- Paid up capital of US\$ 200 mln for 'A' category; US\$ 25 mln for 'B';
- Required to disclose FX inflows /outflows to SBP on a daily basis:
 - ▣ Documentation is incomplete – others.
- First allowed to hold Nostros abroad, now must execute via ADs;
- As of June 2013, combined asset size of ECs (A&B) was US\$ 100 million:

Overseas Informal Economy



Pakistan's Informal Economy

Geographic Handle (Anecdotal)





Recent Appreciation of PKR

Liquid FX Reserves

	SBP's reserves	Commercial banks	Total	Data release	PKR/USD
14-Feb-14	3,197	4797.5	7,994		104.96
17-Feb-14					104.92
18-Feb-14					104.99
19-Feb-14					104.93
20-Feb-14				√	104.92
21-Feb-14	3,871	4783.8	8,654		104.92
24-Feb-14					104.99
25-Feb-14					105.09
26-Feb-14					105.03
27-Feb-14				√	104.97
28-Feb-14	3,920	4816.3	8,736		104.96
3-Mar-14					104.96
4-Mar-14					104.95
5-Mar-14					104.65
6-Mar-14				√	104.17
7-Mar-14	4,624	4753.1	9,377		103.52
10-Mar-14					101.95
11-Mar-14					100.34
12-Mar-14					98.45
13-Mar-14				√	98.19
14-Mar-14	4,807	4840.4	9,647		99.47
17-Mar-14					99.10
18-Mar-14					99.13
19-Mar-14					98.33
20-Mar-14				√	98.15

Recent developments

- Appreciating PKR (Mar 5th) was unanticipated:
 - ▣ First tranche of \$750 realized in 3rd week of Feb;
 - Official data published on Feb 20;
 - ▣ Second tranche (\$750) realized in 1st week of Mar (disclosed Mar 13);
 - ▣ Panic selling by exporters on Mar 6-7;
 - ▣ PKR stabilizes Mar 12 onwards.
- Trigger: market reaction, not SBP intervention.
- Kerb market became dysfunctional (Mar 6-21):
 - ▣ Hard to buy cash FX at designated rates.
- Interbank stability since Mar 19 has helped ease kerb flows;
 - ▣ Interbank flows sufficient to maintain this level;
 - ▣ But kerb sellers are trying to bid up rates to reduce their costs.

Conclusion

- Cannot fully eliminate Hundi/Hawala;
- Must however continue to tighten AML and KYC:
 - ▣ Transaction limit for KYC lowered from \$10,000 to \$2,500;
 - ▣ Licenses of 2 large exchange companies cancelled for indulging in Hundi/Hawala (K&K).
- Must continue to divert remittances through banks (PRI);
- Kerb FX is popular because it is not documented, but...
- Documentation will not discourage all these transactions:
 - ▣ Tax payers may continue sending abroad, but documented (FE-25);
 - ▣ Only hit corrupt practices that need (& made possible by) Hundi/Hawala outlet.
- In net terms, Pakistan is a recipient of FX from informal channels;
- Must eventually integrate FX markets, which effectively means full capital account convertibility:
 - ▣ Need to tackle valuation issues (esp. real estate);
 - ▣ Need to **document** all wealth and income sources.