



Influence of Forex Exchange Policy on US Dollar Fluctuation; Comparative Analysis of Pakistan and Bangladesh

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ARTICLE INFO		ABSTRACT
Article History:		<i>A country's foreign exchange (forex) policy, which is the cornerstone of its economic structure, encompasses a variety of strategies for controlling the exchange rate of its currency and negotiating the intricacies of the international forex market. The decision between a fixed and floating exchange rate system fundamentally determines the direction of a nation's foreign exchange policy. In a set design, a primary currency or a basket of currencies is used as the basis for the government or central bank's currency peg, which frequently necessitates active interventions to maintain. Although this tactical choice gives the currency's value a perception of stability, it calls for close observation and sporadic market interventions. Conversely, in a floating exchange rate regime, the currency's value is left up to market forces, which consider the fluctuations in supply and demand within the foreign exchange market. Although a floating regime's intrinsic flexibility allows for natural changes, it also increases the currency's volatility. The value of a nation's currency on the international market is determined mainly by its foreign exchange policies. By comparing the situations of Pakistan and Bangladesh, we can understand how disparate foreign exchange policies might affect the values of the two countries' currencies, particularly the US dollar.</i>
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Introduction

Pakistan has traditionally used a managed float exchange rate system, in which the State Bank of Pakistan (SBP) occasionally intervenes to control the volatility of the country's currency, the Pakistani Rupee (PKR), in response to market forces. To keep the PKR stable and stop excessive volatility, the SBP frequently intervenes. Pakistan has experienced economic difficulties recently, such as inflation, a trade deficit, and a requirement for outside funding.

These economic considerations have an impact on Pakistan's FX policy. International organizations, such as the International Monetary Fund (IMF), have provided financial help to the nation; however, these aid packages frequently require economic changes. These reforms could involve structural alterations, budgetary measures, and exchange rate policy modifications to increase financial stability.

Periods of adjustment might reveal the influence on the exchange rate, particularly on the US dollar. Pakistan has periodically allowed the PKR to weaken vs the US dollar in response to economic pressures, which has improved export competitiveness and corrected the trade imbalance. Rapid depreciation, however, can also result in inflationary pressures, reducing the local population's purchasing power.

Bangladesh, like Pakistan, has traditionally adhered to a managed float exchange rate system. The Bangladesh Bank, the country's central bank, occasionally intervenes to moderate the volatility in the Bangladeshi Taka (BDT), which is

determined by market factors. Bangladesh has had difficulties similar to Pakistan, including trade imbalances and the requirement for outside funding.

Bangladesh has endeavored to broaden its export market and draw in remittances to augment its foreign exchange reserves. The nation's economy has grown steadily, helped in part by a thriving apparel and textile sector. Exchange rate stability is essential for these critical export industries to remain competitive.

The way that Pakistan and Bangladesh have responded to external pressures and economic issues can be observed when comparing their foreign exchange strategies. Periods of currency depreciation versus the US dollar have occurred in both countries due to more extensive economic adjustment policies. But, the rate and amount of depreciation and the particular policies implemented have changed.

Motivation Behind the Topic

The desire to fully comprehend the influence of foreign exchange policies on the dollar exchange rate in these two South Asian countries is the driving force behind the topic "Forex policy effect on the rate of dollar; comparative examination of Pakistan and Bangladesh." In the case of Pakistan and Bangladesh, the extant literature offers insightful information on the intricate link between forex policies, currency rates, and other macroeconomic variables. For example, studies have looked at the asymmetric effects of inflation, currency rates, and oil prices on travel demand in Pakistan, illuminating the complex interactions between these variables and how they affect the travel industry Meo et al (2018). Furthermore, research has looked into the relationship between foreign direct investment (FDI) and tourism in.

Literature Review

The impact of Forex policy on the rate of the dollar in Pakistan and Bangladesh is influenced by various factors such as monetary policy, exchange rate response to monetary policy innovations, and the relationship between inflation and interest rates (Khan & Ahmed, 2016; Hnatkovska et al., 2016; . Khan & Ahmed, 2016) found that the monetary authorities in South Asian economies, including Pakistan and Bangladesh, have accommodated inflationary pressure to different extents, indicating the influence of monetary policy on the exchange rate (Khan & Ahmed, 2016). Additionally, Hnatkovska et al. (2016) emphasized the importance of understanding the exchange rate response to monetary policy innovations, suggesting that a contractionary monetary policy in a country could lead to an appreciation of the dollar relative to all major currencies, including the currencies of Pakistan and Bangladesh (Hnatkovska et al., 2016).

These findings highlight the significance of considering the impact of monetary policy on the exchange rate, particularly in the context of the dollar. Understanding the dynamic relationship between monetary policy, inflation, and exchange rates is crucial for comprehensively analyzing the effect of Forex policy on the rate of the dollar in Pakistan and Bangladesh. Therefore, further research focusing on the specific Forex policies implemented in these countries and their impact on the dollar rate would provide valuable insights into this complex relationship.

The impact of forex policies on the exchange rate of the dollar in Pakistan and Bangladesh has been a subject of extensive research. Anik et al. (2019) highlighted the coexistence of overweight mothers and stunted children in the same household, termed as the Double Burden of Malnutrition at Household Level (DBMHL). This underscores the complex interplay of socio-economic factors affecting health and nutrition in these countries. Furthermore, Chang et al. (2019) empirically examined the impact of macroeconomic variables on stock prices, shedding light on the intricate relationship between economic indicators and stock market performance. This study provides valuable insights into the dynamics of stock prices in response to macroeconomic changes, which is crucial for understanding the broader economic landscape.

Rashid & Basit (2021) explored the empirical determinants of exchange-rate volatility in selected Asian economies, contributing to the understanding of exchange rate dynamics in the region. This study adds to the existing literature by examining the factors influencing exchange-rate volatility, which is pertinent to understanding the stability of forex markets. Fiaz et al. (2022) revisited the macroeconomic variables and economic growth nexus using a Markov regime-switching approach, shedding light on the non-linear effects of growth indicators on economic growth in Pakistan. This non-linear relationship has implications for formulating forex policies to support sustainable economic growth.

In conclusion, the literature review demonstrates the multifaceted nature of factors influencing forex policies and their impact on the exchange rate of the dollar in Pakistan and Bangladesh. The studies encompass a wide range of economic, geopolitical, and socio-economic factors, providing a comprehensive understanding of the dynamics at play in these economies.

Forex Exchange Policy

The foreign exchange policy, sometimes the forex policy, is an essential part of a country's economic structure that controls how its currency is handled in international trade. A combination of government and central bank tactics geared towards influencing exchange rates, preserving financial stability, and promoting global business determine this policy. Deciding on the exchange rate regime is difficult for a variety of reasons. Selecting between fixed and floating rules is not the only option; numerous options are available, each with a unique set of benefits and drawbacks. It is also crucial that policy differences between what the nation's monetary authorities decide is appropriate be followed in practice, as this would damage the credibility of those who set policy. (Rizvi)

The foreign currency (FX) market is significant to the global financial system for several reasons. First, it facilitates cross-border currency exchange because it is the world's biggest and most liquid financial market. This market offers a means of exchanging one currency for another, facilitating global investment and trade. Higher-valued money makes a country's imports less expensive and exports more expensive in foreign markets.

Since supply and demand drive currency rates, the forex market is essential to price discovery. These rates subsequently impact the competitiveness of countries in the international market. The forex market is dynamic because corporations, financial institutions, central banks, and individual traders populate it (Twin, 2023).

The foreign currency market is a tool the government uses to control exchange rates and carry out monetary policy. Central banks support economic goals, control inflation, and stabilize their currencies. Furthermore, economic indicators are reflected in the FX market, which acts as a gauge for the state of economies around the globe.

Importance of Exchange Rate in Global Economy

Exchange rates play a crucial role in the operation of the world economy by affecting capital flows, trade, and investment. The following highlights how critical currency rates are:

1. **International Trade:** Exchange rates impact a nation's imports' and exports competitiveness. While a stronger currency may make imports more inexpensive, a weaker currency may increase the appeal of exports and improve a country's trade balance.
2. **Investment Flows:** When making international investments, investors take currency rates into account. Exchange rate fluctuations can impact asset returns valued in various currencies, affecting portfolio allocations and investment choices.
3. **Monetary policy and inflation:** Exchange rates and inflationary pressures are related. Central banks manipulate exchange rates by employing monetary policy instruments to manage inflation and preserve economic stability.
4. **Global Supply Chains:** Many companies run internationally, and exchange rate swings affect input costs and the profitability of global supply chains.

Exchange Rate Regime

Pakistan has operated under a market-driven, flexible exchange rate regime since May 1999. All foreign exchange payments and receipts in the public and commercial sectors are subject to the interbank rate. The exchange rate affects the local interbank foreign exchange market's supply and demand dynamics (State Bank of Pakistan). The methods a nation uses to establish the value of its

currency concerning other currencies are known as exchange rate regimes. These exchange rate regimes can be broadly divided into two categories: floating exchange rates, where the value of the currency is set by market forces, and fixed exchange rates, where the value of the currency is tethered to another currency or a basket of currencies. Additionally, some nations use a hybrid strategy known as a controlled or dirty float, in which they intervene to manipulate the value of their money while allowing it to fluctuate within a given range. The choice of exchange rate regime affects a nation's monetary policy, trade competitiveness, and general economic stability in meaningful ways.

Pakistan Exchange Rate Regime

Following Pakistan's independence in 1947, the country's exchange rate system has experienced several changes. Early on, the Pakistani Rupee (PKR) was linked to the British Pound under the country's fixed exchange rate system. But in the 1980s, Pakistan moved to a managed float system, which left the PKR open to market forces while retaining some central bank intervention to keep volatility out of control.

Subsequent years saw changes to the exchange rate regime due to external economic challenges. During financial hardship, Pakistan's currency depreciated against other major currencies, such as the US dollar, to balance trade imbalances and draw in foreign investment. These changes frequently followed interactions with global financial organizations such as the International Monetary Fund (IMF) when exchange rate reforms were required in exchange for financial support.

According to the latest data available, Pakistan's currency rate system has recently demonstrated traits of a controlled float. The central bank of Pakistan, the State Bank of Pakistan (SBP), lets market forces determine how much the PKR moves, although it steps in when it feels it is essential to prevent sudden and unstable changes. Because of its flexibility, exchange rates can be changed in ways that help keep international trade competitive.

Pakistan's exchange rate policy has changed due to international and domestic economic factors. The current strategy incorporates actions to protect against excessive volatility while maintaining flexibility through a regulated float. The exchange rate regime is still vital to Pakistan's more extensive economic system as it navigates its economic environment.

Bangladesh Forex Change Rate Regime

Examining past patterns, comprehending their function in maintaining currency stability, and performing a comparative study are necessary to analyze Bangladesh's foreign exchange reserves.

Over time, Bangladesh's foreign exchange reserves have increased significantly, indicative of its attempts to strengthen its financial buffer and improve its economic resilience. Historical patterns show that several variables impact a trajectory, including foreign direct investment, export performance, remittances, and external borrowing.

Bangladesh experienced economic difficulties in the early years following its independence in 1971, and its foreign exchange reserves were not very large. Export revenues increased significantly throughout the ensuing decades due to coordinated efforts to diversify the economy, primarily through the growth of the textile and apparel industries. The substantial Bangladeshi diaspora's remittances have also emerged as a significant source of foreign cash.

Bangladesh had limited foreign exchange reserves and faced economic challenges immediately after gaining independence in 1971. Over the next few decades, coordinated efforts to diversify the economy—mainly through expanding the textile and garment industries—led to a significant increase in export income. Remittances from the sizable Bangladeshi diaspora have also become a substantial source of foreign currency (Siddique, 2022).

When comparing foreign exchange reserves, evaluating Bangladesh's standing with other nations, especially those with comparable economic systems or dealing with similar external difficulties, is essential. It also considers critical economic variables when assessing how adequate reserves are.

Central Bank Intervention

Critical methods for managing economic conditions, stabilizing exchange rates, and influencing a nation's currency value include central bank operations in the foreign exchange market. Analyzing the interventions carried out by Bangladesh and Pakistan enables a comparative examination of their distinct tactics. It sheds light on the techniques used and the frequency and scope of interventions.

Pakistan

The Central Bank of Pakistan, the State Bank of Pakistan (SBP), uses various techniques to get involved in the foreign exchange market. Purchasing or selling Pakistani Rupees (PKR), the country's native currency, on the open market is one of the main strategies. By doing this, the supply and demand dynamics can be influenced by the SBP, which in turn can affect the exchange rate of the PKR versus other currencies, particularly significant currencies like the US dollar (Shah, 2009).

Trade balances, external pressures, and economic conditions are only a few variables that affect the frequency and scope of SBP operations. The SBP may carry out interventions more frequently and extensively when there is extreme volatility or pressure for the PKR to depreciate.

Interactions with global financial organizations, including the International Monetary Fund (IMF), frequently follow policy initiatives involving exchange rate changes. The SBP's objective of preserving a balance between exchange rate stability and economic competitiveness also affects the scope of interventions.

Bangladesh

Similar techniques are used by Bangladesh Bank, the country's central bank, to interfere in the foreign exchange market. It buys and sells Bangladeshi Takas (BDT) to affect exchange rates. The central bank may also disclose policy intentions or intervene verbally to influence market expectations.

Bangladesh Bank may carry out policy actions, such as changes to interest rates or reserve requirements and direct interventions, to affect capital flows and the demand for the BDT.

The economy, trade dynamics, and outside forces all impact Bangladesh Bank's intervention frequency and effectiveness. Interventions in the foreign exchange market may become more common and significant during increased volatility or imbalances. The significance of interventions in accomplishing the central bank's goals is considered while evaluating their impact. Effective interventions support broader economic objectives, stabilize the currency, and foster a favorable atmosphere for global trade.

A comparative study of central bank interventions in Bangladesh and Pakistan entails comparing and contrasting their approaches, analyzing how well interventions achieve currency stability, and determining how healthy interventions are aligned with larger economic goals.

Foreign Exchange Reserves

Trade balances, external financing needs, and economic conditions have all impacted Pakistan's foreign exchange reserves over time. Based on historical trends, Pakistan's reserves have undergone periods of accumulation and depletion. The trajectory of these reserves has been determined by several factors, including trade imbalances, geopolitical developments, and interactions with international financial institutions like the International Monetary Fund (IMF).

Pakistan's foreign exchange reserves are a vital component in maintaining the stability of the Pakistani Rupee (PKR). Sufficient reserves safeguard against outside disruptions and influences on the currency's value. The State Bank of Pakistan (SBP) can intervene in the foreign exchange market with its reserves during currency depreciation or volatility. The SBP can affect the exchange rate by buying or selling foreign currencies, which would help stabilize the PKR and preserve an atmosphere favorable for investment and trade.

Bangladesh's foreign exchange reserves have had an upward and downward trend throughout time, much like those of Pakistan. The nation's attempts to strengthen its reserve position to increase economic resilience are reflected in historical trends. The primary sources of Bangladesh's reserves include foreign direct investment, export revenue, remittances, and external borrowing. Bangladesh has handled external unpredictability and economic difficulties by carefully managing its reserves.

The foreign exchange reserves of the Bangladesh Bank play a crucial role in preserving the stability of the Bangladeshi Taka (BDT). The resources serve as a safety net, enabling the central bank to step in and influence the foreign exchange market as needed. Bangladesh Bank can manage currency rates and mitigate excessive volatility by purchasing or disposing of BDT. For international trade to be supported, investor trust to be nurtured, and economic transactions to be predictable, there must be stability.

Interest Rates and Monetary policies

The exchange rate system of a nation is intimately related to its monetary policies. Interest rates impact a nation's currency's value, so, countries with fixed exchange rates will have less room for independent monetary policy than those with flexible exchange rates. An efficient inflation-targeting system is supported by a completely flexible exchange rate regime (International Monetary Fund). Interest rate policies have long been a weapon employed by the State Bank of Pakistan (SBP), Pakistan's central bank, to influence currency rates. The State Bank Rate and other changes to the policy interest rate affect how appealing the Pakistani Rupee (PKR) is to investors. While a lower interest rate might make the PKR less attractive and cause depreciation, a higher interest rate might draw in foreign capital and cause the currency to appreciate.

Interest rate fluctuations are also essential for controlling inflation and promoting economic expansion in Pakistan. By decreasing investment and spending, rising interest rates can help contain inflation but may impede economic growth. Lowering interest rates, on the other hand, may enhance inflationary pressures and boost economic activity.

Bangladesh Bank, the country's central bank, sets interest rate policies to accomplish its monetary goals. In Bangladesh, inflation, economic expansion, and exchange rate stability affect interest rate

movements. Other interest rates in the financial system are measured against the policy interest rate, also called the Repo Rate.

Bangladesh's interest rate changes can impact currency rates by influencing capital flows. While lower interest rates can have the opposite impact, higher interest rates might draw in foreign investment and possibly cause the Bangladeshi Taka (BDT) to appreciate. Interest rate strategies also aid in controlling inflation and promoting Bangladesh's economic expansion.

Comparative analysis of interest rates and monetary policy

- **Exchange Rate Dynamics:** When comparing interest rate policies, it is essential to consider how shifting interest rates affect the exchange rates in the two nations. Analyzing how sensitive a currency is to changes in interest rates can reveal how well monetary policy tools work to influence exchange rate dynamics.
- **Inflation Management:** It is critical to evaluate how well interest rate policies work to keep inflation under control. Both nations seek to balance promoting economic expansion and controlling inflationary pressures. The efficiency of central banks' policies can be assessed by comparing inflation rates and how they respond to inflationary tendencies.
- **Economic Growth:** An additional crucial component of the comparative analysis is the effect of interest rate policies on economic growth. Analyzing how changes in interest rates either promote or inhibit financial growth aids in comprehending the complex trade-offs central banks must make when implementing monetary policy.
- **External Influences:** A comparative analysis must consider external influences, including trade balances, geopolitical developments, and global economic conditions. Outside factors may impact the success of each nation's interest rate policies.
- **Policy Framework and Communication:** An analysis of central banks' overall policy frameworks and communication plans sheds light on how open and progressive their monetary policies are. The predictability of monetary policy decisions and their effects on economic variables can both be improved by effective communication.

Trade Balances

Pakistan's trade balance has always shown a combination of possibilities and difficulties. The nation is well-known for relying on raw materials, equipment, and energy imports, exacerbating trade deficits. But one major contributor to exports has been the textile and apparel sector. Policies impacting important sectors, domestic production capacity, and global commodity prices have all impacted historical trade patterns. A nation's exchange rates may come under pressure from ongoing trade imbalances. Unbalanced trade could raise the demand for foreign money in Pakistan, which could cause the value of the Pakistani Rupee (PKR) to decline. The State Bank of Pakistan (SBP) could influence the overall dynamics of exchange rates by using its foreign exchange reserves to intervene in the currency market and stabilize the PKR.

Over time, significant changes have been observed in Bangladesh's trade balance. The textile and apparel sector has been crucial to the nation's success in broadening its export base. Remittances from the sizeable Bangladeshi diaspora also favorably impact the current account. Bangladesh has had difficulties importing energy and raw materials, but its export-focused policies have been crucial in determining the course of past commerce. A positive trade balance can positively impact exchange rates, as with Bangladesh. The Bangladeshi Taka (BDT) is in demand due to robust exports and remittance inflows, which could cause the currency to appreciate. It might be necessary for Bangladesh Bank, the country's central bank, to control this increase to keep exports

competitive. Tactics like interest rate changes or interventions in the foreign exchange market may influence exchange rates.

Comparative Analysis of Trade Balances

- **Structural Differences:** Considering the structural variations between the economies of Bangladesh and Pakistan is a necessary part of comparative analysis. Several variables influence trade dynamics, including the kind of exports, import dependency, and industrial capacities.
- **Exchange Rate Responses:** One can determine the efficacy of monetary policies and interventions by examining how each nation's exchange rates react to trade imbalances. Different approaches can be shown by contrasting the methods used by the central banks to control exchange rate pressures.
- International trade agreements, commodity pricing, and geopolitical developments are crucial components of a comparative study. Different external factors may affect each nation's trade balance differently.
- **Policy Measures:** Assessing Pakistan's and Bangladesh's policy measures in response to trade imbalances aids in determining the proactive actions made by each nation. Examining trade, fiscal, and foreign exchange market interventions is part of this.
- **Long-Term tendencies:** Knowledge of trade balances' long-term movements offers insight into the viability of economic policies. The research is aided by comparing how each nation has modified its economic structures and trade policies.

In conclusion, historical trends, their effect on exchange rates, and the efficacy of policy responses must all be considered in a comparative study of trade balances between Pakistan and Bangladesh. Policymakers can improve economic resilience and foster sustainable growth by making well-informed decisions based on their grasp of the complex dynamics of trade.

Government Policies and Stability

Political and Economic stability in Pakistan

➤ Key events in Pakistan

Several significant incidents and initiatives have shaped Pakistan's political and economic stability. Political unrest, governmental transitions, and economic hardships have altered the nation's terrain. Critical components of policy actions aimed at improving strength have included economic reforms, cooperation with global financial institutions like the International Monetary Fund (IMF), and efforts to alleviate budget deficits (Horowitz, 2023).

A significant economic initiative that promotes infrastructure development and economic growth and has ramifications for stability is the China-Pakistan Economic Corridor (CPEC). Strength has, however, also been hampered by geopolitical dynamics and security worries.

➤ Influence on exchange rate

Exchange rates can be significantly impacted by the stability of the political and economic systems or by their absence. Risk perceptions and investor confidence influence the demand for a currency. The Pakistani Rupee (PKR) may gain relative strength during stable times, but volatility may cause it to lose value as investors look for safer investments.

Political and Economic stability in Bangladesh

➤ Significance development

Bangladesh has seen significant advancements along with times of political and economic stability. Overall stability has been aided by the nation's steady economic growth, fueled by the textile and apparel sector, remittances, and an emphasis on export-oriented policies. Government measures primarily shape strength to diversify the economy, enhance infrastructure, and attract foreign investment.

However, political challenges and events have occasionally altered perceptions of stability, especially problems with governance. Ecological concerns and the steady transition to renewable energy also impact economic policies.

➤ Impact on currency value

Bangladesh's political and economic stability affects currency values, just like it does for Pakistan. A politically secure atmosphere and strong economic growth should boost public trust in the Bangladeshi Taka (BDT), which could result in the currency's appreciation. On the other hand, devaluation may be impacted by political unpredictability or economic difficulties.

Comparative analysis of political-economic stability

- **Economic diversity:** Each nation's economic diversity level should be considered in a comparative comparison. Long-term stability can be understood by looking at initiatives to support innovation and technology-driven companies by looking outside traditional sectors.
- **Fiscal Policies:** Analyzing steps to control deficits, encourage investment, and guarantee fiscal sustainability is part of comparing the fiscal policies of Bangladesh and Pakistan. Efficient fiscal policies impact currency values and promote economic stability.
- **Engagement with International Organizations:** The economic policies of both nations are influenced by their dealings with international organizations like the IMF. How such engagements affect stability, policy reforms, and the handling of outside challenges can be investigated through comparative study.
- **Infrastructure Development:** Prioritizing infrastructure development, such as large-scale projects like Bangladesh's and Pakistan's CPEC, helps maintain economic stability. In a comparative context, evaluating these initiatives' effects on stability and economic growth is essential.
- **Political Risk and Governance:** Political stability and competent governance are two essential elements of general stability. Understanding stability issues requires examining the political risk environment, governance frameworks, and their influence on economic policy.

In conclusion, examining fiscal policies, infrastructural development, international organization participation, economic diversification, and political risk management are all important components of a comparative study of government stability and policies in Pakistan and Bangladesh. Comprehending how these components interact facilitates thoroughly evaluating any nation's economic environment and how it affects currency values.

Case Studies

Pakistan

Changes in Exchange Rates for IMF Programs

In the past, Pakistan has frequently entered into agreements with the International Monetary Fund (IMF) that include provisions about currency rate modifications. For example, Pakistan committed to a more flexible exchange rate mechanism during the 2019 IMF program. To resolve external imbalances, the government let the Pakistani Rupee (PKR) decline, which affected the US Dollar rate.

External Debt's Effect on Financing Needs

Pakistan's US dollar exchange rate may be impacted by policies pertaining to external debt management. Vulnerabilities may arise from the nation's reliance on grants and loans from abroad. The sustainability of external debt, terms of repayment, and the ability of a country to attract international investment are factors that influence the US Dollar rate.

Lesson learned

- Exchange rate management's balancing act: Pakistan's historical occurrences highlight how difficult it is to maintain equilibrium in this area. Exchange rate regimes have occasionally transitioned from fixed to flexible, highlighting the significance of policy adaptation to shifting economic conditions. The experience emphasizes the necessity of a balanced strategy considering competitiveness and stability.
- The significance of structural changes: Historical occurrences emphasize the importance of structural reforms, especially those connected to economic crises. The necessity of comprehensive policies that address governance, the business climate, and budgetary restraint is one of the policy lessons. Long-term financial stability can be enhanced by structural improvements, which also lessen the US dollar's susceptibility to outside shocks.

Bangladesh

Policies Focused on Exports and Currency Stability

Bangladesh's emphasis on export-focused policy has affected the value of the US dollar. A strong export record boosts foreign exchange inflows, which benefits the Bangladeshi Taka (BDT). Government programs that assist export-oriented industries like the textile sector help to keep currencies stable relative to the US dollar.

- **Remittance and Appreciation of Currency**

The US Dollar rate is impacted by Bangladesh's rules regarding remittances from its diaspora. The BDT is strengthened by the significant inflow of remittances in US dollars. Policies about using remittances and government attempts to promote and facilitate their influx impact the currency's value relative to the US dollar.

Lesson learned

- Expansion of the Export Basis: Policies supporting export base diversification are associated with Bangladesh's ability to sustain a stable currency relative to the US dollar. Among the lessons learned is the value of strategic planning in raising competitiveness in international markets and lowering reliance on a small number of industries.

- Efficient Remittance Management: Bangladesh's example demonstrates the advantages of having efficient remittance management policies. Currency stability is aided by policies that guarantee clear and effective channels, encourage remitters, and promote remittance inflows. The lesson is that remittance-leveraging measures are critical to overall economic stability.

These historical lessons and illustrative examples from Bangladesh and Pakistan highlight the complex relationship between specific policies and the US Dollar rate. They emphasize how crucial it is to be flexible, implement structural changes, and use strategic planning to negotiate the intricacies of exchange rate dynamics in the face of shifting economic conditions.

Conclusion

The foreign exchange policies of Pakistan and Bangladesh play pivotal roles in shaping the rates of their respective currencies against the US Dollar, reflecting the intricate dance between economic strategies, global dynamics, and internal challenges. A comparative analysis of these two South Asian nations reveals nuanced approaches to managing exchange rates, each shaped by historical events, economic structures, and policy decisions.

In reaction to economic difficulties, Pakistan's foreign exchange policy has changed, frequently involving interactions with international financial institutions, most notably the International Monetary Fund (IMF). The Pakistani Rupee's (PKR) value over the US dollar has been affected by the decision to use a more flexible exchange rate mechanism under IMF programs. The interaction of export performance influences the dynamic environment, external debt dynamics, and State Bank of Pakistan (SBP) operations. The necessity of striking a balance between policies that support economic competitiveness and stability and the requirement for exchange rate flexibility is highlighted by the lessons learned from Pakistan's experience.

Conversely, Bangladesh has kept the value of the Bangladeshi Taka (BDT) comparable to the US dollar by utilizing export-oriented policies and a diverse export base. The BDT's durability, bolstered by a concentration on industries like textiles and a calculated approach to currency management, proves that these policies are effective. The way that Bangladesh handles remittances, which is a big part of its foreign exchange reserves, emphasizes even more how critical reasonable regulations are for maintaining currency stability. Bangladesh's example can be used to teach us the importance of strategically using economic advantages to anchor the currency.

Analysis

It is clear from the comparative analysis that both nations face similar difficulties, such as trade imbalances, pressure from external debt, and the requirement for foreign financial assistance. Their answers, however, vary because of the distinct economic systems and policy philosophies at play. Pakistan's history indicates a more volatile currency rate driven by IMF agreements and external demands to make policy adjustments. Bangladesh, in contrast, has a currency stability policy based on a strong export industry and efficient remittance management.

The comparative study shows that although both countries deal with external obstacles, the success of their foreign exchange policies depends on how well they complement their overall economic plans. The trade-offs between long-term competitiveness and short-term stability are made clear by Pakistan's interactions with the IMF. On the other hand, Bangladesh's focus on managing remittances and export diversification demonstrates a strategic vision that places stability through economic resilience first.

Thus Pakistan and Bangladesh's distinct economic environments and political decisions are reflected in the impact of their foreign exchange policies on the US dollar exchange rate. Remittances and a steady export base anchor Bangladesh's Bangladeshi Taka, whereas Pakistan manages the intricacies of a more dynamic exchange rate system in response to outside forces. The comparative research emphasizes how crucial it is to customize foreign exchange strategies to each country's unique economic strengths and weaknesses. The lessons gained from these nations' experiences with currency policy will be helpful to policymakers, economists, and investors as they navigate the intricacies of the global financial system as these nations continue to develop economically.

Policy Recommendation

Considering all the facts and figures certain measure can be taken by Pakistan to balance the fluctuating rate of US Dollar:

- Increasing exports while lowering imports into Pakistan can be one of the finest strategies. Creating both small- and large-scale industries can help achieve this. Basic necessities must to be produced in Pakistan so as to eliminate the demand for imports from other nations. In addition, high-quality goods should be produced in order to export them and reduce the need for imports. This can result in the dollar rate being balanced.
- Attracting more foreign direct investment might be a significant additional strategy. To attract FDI, a project should be started and they should be given some leeway.
- Economic reforms that improve accountability and transparency ought to be implemented. There ought to be a suitable tax system.
- It is important to take action to end political instability since it can affect foreign investment and raise the value of the dollar.

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