

## Long-term interest rates

# Bond indices to establish benchmark

By Mohiuddin Aazim

KARACHI, Feb 15: After benchmarking short-term interest rates through Karachi Inter-bank Offered Rate (KIBOR), Pakistan's financial market is moving ahead to have a yardstick for long-term interest rates.

Financial Markets Association of Pakistan (FMA), a platform for bank treasurers and inter-bank brokers, is going to launch on February 21, Pakistan Government Bond Index (PGBI).

"This would help in establishing a benchmark for long-term interest rates," like KIBOR has established one for short-term rates", said Asad Qureshi, treasurer of American Express and General Secretary of FMA. Talking to *Dawn* he said the bond index would particularly help insurance companies, fund managers and corporates in scientifically evaluating the market conditions before making long-term investments.

As Karachi Stock Exchange 100-share index provides a clue to the equity investors on how and when to invest, "the bond index will give an idea to the institutions desiring to invest in long-term bonds."

The bond index developed by FMA is the third one that would enter the market in a row. Bond indices developed by Jahangir Siddiqui & Co Ltd. and BMA, two leading brokerage houses, have already hit the market this week.

All the three bond indices have been developed to track movements in the rupee-based bonds. Mr Qureshi said it was too early to develop an index for foreign currency bonds.

The development of all these bond indices would not only help the market make a more-informed decision before making long-term investment it would also enable the government to assess the market conditions before selling existing long-term bonds or issuing new ones.

When the government had launched long-term Pakistan Investment Bonds (PIBs) in 2000, one of the key objectives was to establish a long-term yield curve but this could not be achieved. The development of bond indices may help the market development in achieving this objective now but bankers say the development of indices alone is not enough.

They say if the government decisions to announce the timing and size of bonds auction are not kept in line with the market conditions and if interest rates are kept artificially low or high, then the dream of having a market-based long term yield curve would never fulfil.

A press release issued by the FMA on Tuesday said the development of Pakistan Government Bond Index would strengthen the financial market as it would help in tracking daily price performance of the bond market as well as total returns for fixed income investments.

The index would make tracking of historical performance and volatility possible and would also provide the market with risk measures and transparency in bond market. It would also enable investment managers to measure their performance besides providing a benchmark to measure the performance of the emerging fixed income mutual funds market.

The bond index will assist both local and global investors and fund managers in their asset allocation strategies.

Meanwhile, JS PGBI or the bond index developed by Jahangir Siddiqui & Co, fell 0.65 points over the past seven days, according to Salman Ali Jafri, Chief Dealer, Fixed Income Trading, at JS.

"This reflects the upward movement in medium-to-long-term bond yields and the consequent deterioration in the prices of the Pakistan Investment Bonds constituting this index."