

Currency Swap Arrangement with Turkey becomes operational from today: SBP

The three-year bilateral Currency Swap Arrangement (CSA) between the State Bank of Pakistan (SBP) and the Central Bank of Republic of Turkey (CBRT) amounting to US\$ 1 billion in equivalent local currencies is being implemented from today and SBP has issued necessary instructions to banks for its implementation after due consultations with various stakeholders and completion of operational formalities with CBRT.

A landmark bilateral CSA was signed between SBP and CBRT by SBP Governor, Mr. Yaseen Anwar and CBRT Governor, Mr. Erdem Başçı in presence of the Presidents of the Islamic Republic of Pakistan and the Republic of Turkey in November last year.

Objectives & Structure of CSA: The objective of the currency swap is to 1) promote bilateral trade between the two countries in the respective local currencies and 2) any 'Other' purpose as mutually agreed between the two central banks. Since the CSA is a bi-lateral financial transaction, all terms & conditions apply equally to both countries and the pricing is based on standard market benchmarks which are widely acceptable in the respective domestic markets.

Implementation Guidelines from SBP: Currency Swap Agreement between the two Central Banks gives a positive signal to the market on the availability of liquidity of other country's currency in the onshore market. The arrangement will augment the pool of liquidity available to finance bilateral trade between the two countries, supplementing the already available sources of liquidity.

By virtue of this arrangement, SBP will have the ability to draw on the swap line and provide Turkish Lira (TRY) to banks in Pakistan. Banks will on-lend this liquidity to importers/ exporters involved in trade denominated in TRY. At maturity, the importer/exporter will repay the foreign currency to the lending bank, which in turn will repay to the respective central bank.

In order to ensure transparency in determination of market interest rates, the State Bank of Pakistan has decided to conduct competitive auctions of Turkish Lira (TRY) Loan Facility as under:

- All commercial banks will be allowed to take FE-25 deposits and extend FE-25 loans in Turkish Lira (TRY) for financing of Imports / Exports in accordance with SBP's prevailing instructions on FE-25 loans / deposits. Necessary instructions to that effect have been issued vide FE Circular No. 4 dated 04Sep2012.
- In order to provide TRY funding to scheduled banks, so that they can on-lend the TRY to importers / exporters with underlying Trade documents in TRY, SBP will conduct competitive auctions of Turkish Lira (TRY) Loan Facility using proceeds drawn under the Currency Swap Arrangement with CBRT.
- Participation in auctions will be dependent on the submission of documentary evidence of Export or Import bills denominated in TRY, SBP will conduct 'uniform price' competitive TRY auctions in 3 and 6 month tenors. All scheduled banks will be eligible to participate in such auctions.

Further details on the utilization of TRY in Pakistan on account of PKR/TRY swap are as follows:

- a) **Importers with underlying trade documents denominated in TRY:** On the maturity date of the letter of credit (LC), the importer will pay off the overseas supplier by borrowing in TRY. Assuming borrowing is for 6 months, the importer will save on the rupee cost and after six months the importer will buy TRY against PKR and pay off the TRY loan. Availability of onshore TRY financing will encourage importers to open TRY denominated LCs.
- b) **Exporters with underlying trade documents denominated in TRY:** Once the contract is established, the exporter will borrow in TRY, sell TRY against PKR and utilize PKR for its local operations. On the maturity date of the contract, the exporter will receive TRY from the overseas buyer and payoff the TRY loan locally.

All participating banks are expected to educate their customers on the additional option of denominating their Trade documents in TRY. SBP encourages banks to hold sessions with local Trade bodies. All importers/ exporters are also requested to contact their respective banks for more details on how they can borrow Turkish Lira (TRY) liquidity to finance bilateral trade.
