

## **Currency Swap Arrangement with China becomes operational and Auction announced: SBP**

A bilateral Currency Swap Arrangement (CSA) between the State Bank of Pakistan (SBP) and the People's Bank of China (PBoC) amounting to Chinese Yuan (CNY) 10 billion and PKR 140 billion is being implemented from today after issuance of necessary instructions to banks and completion of operational formalities with PBoC.

The landmark bilateral CSA was signed between SBP and PBoC by SBP Governor, Mr. Yaseen Anwar and PBoC Deputy Governor, Mr. DU Jinfu in December 2011 in Islamabad.

Implementation Guidelines from SBP: Currency Swap Agreement between the two Central Banks will give 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.

In order to ensure transparency in determination of market interest rates, the State Bank of Pakistan has decided to conduct competitive auctions of Chinese Yuan (CNY) Loan Facility. As part of the implementation guidelines, SBP has also announced an Auction of Chinese Yuan Loan Facility. Based on the participation of banks in this auction, SBP will draw on the Swap Line and provide CNY to banks in Pakistan. Banks will on-lend this liquidity to importers/ exporters involved in trade denominated in CNY. At maturity, the importer/exporter will repay the foreign currency to the lending bank, which in turn will repay to the respective central bank. Detailed guidelines can be accessed from the following link to SBP website: <http://www.sbp.org.pk/dmmd/2013/C9.htm>

In order to provide sufficient lead time for banks to arrange on-lending of CNY to importers / exporters, the first auction will be conducted on 04Jun2013 with settlement on 13Jun2013.

All banks are expected to educate their customers on the additional option of denominating their Trade documents in CNY. SBP would encourage 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 Chinese Yuan (CNY) liquidity to finance bilateral trade.

Objectives & Structure of CSA: The objective of the Currency Swap Arrangement is to promote bilateral trade and investment between the two countries in the respective local currencies. 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. The execution of bilateral CSA was achieved through series of technical level team discussions between both Central Banks lead by Mr. YAO Yudong from People's Bank of China & Mr. Asad Qureshi from State Bank of Pakistan.

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