

# Pakistan should be more transparent on \$46 bn China deal, state bank head says

KARACHI | By Katharine Houreld

Dec 4 Pakistan needs to be more transparent about the details of energy and infrastructure deals worth \$46 billion signed with China earlier this year, the governor of the State Bank of Pakistan told Reuters on Friday.

The deals, called the China-Pakistan Economic Corridor, should help shore up Pakistan's crumbling infrastructure and reduce its electricity shortages by building more power plants.

China will get a free trade zone in Pakistan's Gwadar port and access to the Indian Ocean. New Pakistani roads will open up routes for Chinese goods into Europe and the Middle East.

But the details, terms and financing of many of the deals remain unclear.

"CPEC needs to be more transparent," Ashraf Mahmood Wathra said. "I don't know out of the \$46 billion how much is debt, how much is equity and how much is in kind."

Pakistan, a nuclear-armed nation of 190 million people, has frequently struggled to manage its cash flows because the government is reluctant to tax the wealthy and powerful.

In September of 2013, Pakistan faced a balance of payments crisis, with just over \$4 billion in foreign reserves held by the State Bank - less than a month of imports.

But since then, the state bank's reserves have recovered to \$14.6 billion, with the help of an International Monetary Fund program agreed after Prime Minister Nawaz Sharif took power in 2013, a \$1.5 billion gift from Saudi Arabia, an auction of telecommunications licenses and the issuing of a Euro bond.

Inflation dropped 2.73 percent as oil prices in particular and commodity prices in general declined. The rupee has stabilised at 105 to the U.S. dollar, although last month the IMF said it believes the rupee is over-valued.

Pakistan's economy grew 4.2 percent this year, a slight improvement over the last year, and the country hopes to reach 4.5 to 5.0 percent growth next year, Wathra said.

Yet underlying problems plaguing the economy, including daily power cuts and security problems, remain.

"Our long-term solutions lie in increasing exports and increasing FDI (foreign direct investment)," Wathra said. "Without these two strong inflows, it is very difficult to keep the economy on track."

Foreign investment flows have been shrinking, falling by nearly a quarter this financial year compared with last year, and exporters say the energy crisis and an over-valued rupee is crippling business.

(\$1 = 105.3500 Pakistani rupees) (Reporting by Katharine Houreld, editing by Larry King)

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**Governor's remarks on CPEC not quoted in its entirety: SBP**

China Pakistan Economic Corridor (CPEC) is one of the most important initiatives of the government in recent times and is expected to play a significant role in accelerating economic growth of the country, going forward. The State Bank is fully aware of broader contours of this initiative, unfolded to date and has full confidence on its potential to play the role of a game changer for the country.

On Friday last an interview given to a foreign news agency has been reported in a way that portrays Governor SBP apprehensive of the CPEC project. The same story has also been published in various local newspapers later on as well. The views expressed in the interview have not been referred in its entirety. The transcript of expression on the subject has been the following:

"...we have CPEC in the lime light now which is a large investment program...well with debt some equity would also come...I think CPEC needs to be made more transparent...day before yesterday I was talking to the Planning Minister that we need to share the blue print of the project with all and sundry so that people could find their roles in that greater plan...right now... it is a bit of difficulty for analysts...if you ask me I don't know out of 46 billion dollars how much is debt how much is equity and how much is in kind...where the investor would only sell his machine... and that will convert into a kind of debt with no inflows and in the longer run we have to make sure that we...have more capability to export which most likely CPEC will itself be generating some export. There is a plan to have industrial estates alongside this major route they are going to have with Chinese and Pakistani collaboration and these JVs are going to be export oriented but we need to see this plan with more clarity".

It would be pertinent to mention that regarding CPEC, Governor has expressed his optimism on several occasions/interviews in the past and is in complete agreement with the government over its potential.