



External Relations Department

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Use of Chinese Yuan for denominating foreign currency transactions in Pakistan

State Bank of Pakistan, in the capacity of the policy maker of financial & currency markets, has taken comprehensive policy related measures to ensure that imports, exports and financing transactions can be denominated in CNY. Both public and private sector enterprises (i.e. both Pakistanis and Chinese) are free to choose CNY for bilateral Trade & Investment activities.

As per current foreign exchange regulations, Chinese Yuan (CNY) is an approved foreign currency for denominating foreign currency transactions in Pakistan. SBP has already put in place the required regulatory framework which facilitates use of CNY in trade and investment transactions such as opening of L/Cs and availing financing facilities in CNY. In terms of regulations in Pakistan, CNY is at par with other international currencies such as USD, Euro and JPY etc.

It may be mentioned here that after signing Currency Swap Agreement (CSA) with People's Bank of China (PBoC), SBP had taken a series of steps to promote use of CNY in Pakistan for bilateral trade and investment with China. SBP allowed banks to accept CNY deposits and give CNY Trade loans (<http://www.sbp.org.pk/epd/2012/FEC4.htm>). For onward lending the proceeds of CSA, SBP has put in place the loan mechanism for banks to get the CNY financing from SBP for onward lending to importers and exporters having underlying trade transactions denominated in CNY. The modus operandi of this liquidity facility for banks is already explained in SBP Circular No 9 of 2013 (<http://www.sbp.org.pk/dmmd/2013/C9.htm>)

Industrial and Commercial Bank of China Limited (ICBC) Pakistan has been allowed to establish a local CNY settlement and clearing setup in Pakistan enabling it to open CNY accounts of the banks operating in Pakistan and to facilitate settlement of CNY based transactions such as remittance to/from China. With the opening of Bank of China in Pakistan, the access to onshore Chinese markets will strengthen further. Apart from the above, several banks in Pakistan maintain onshore CNY nostro accounts.

Considering the recent local and global economic developments, particularly with the growing size of trade and investment with China under CPEC, SBP foresees that CNY denominated trade with China will increase significantly, going forward; and will yield long term benefits for both the countries.
