

Pakistan gets \$2.2bln commercial loan from China

KARACHI: Pakistan on Monday received \$2.2 billion in commercial loans from China to shore up its foreign currency reserves and also to meet debt repayments in the coming months, central bank said.

“The State Bank of Pakistan has received RMB 15 billion value today equivalent to \$2.2 billion as proceeds of the loan obtained by the government of Pakistan from China,” the State bank of Pakistan (SBP) said.

Khaqan Hassan Najeed, finance ministry spokesman, said deposit of 15 billion renminbi (Chinese yuan) had “received in SBP account on March 25 from China”.

The spokesman said foreign currency reserves have reached to “comfortable levels” after “successful GoP (government of Pakistan) multipronged strategy to ensure stability in BoP (balance of payment) including curtailing C/A (current account) deficit, improving remittances and ensuring adequate foreign currency financing”.

“As of today FX reserves held by SBP have hit a double digit mark of \$10.67 billion,” he added. The inflows from China have increased the country’s foreign currency reserves to \$17.909 billion.

The interest rate for the \$2.2 billion loan is around 5.5 percent and it’s a sovereign loan and does not require any collateral.

Analysts said the 5.5 percent interest rate is attractive compared to the country’s sovereign bonds in the market. A series of credit rating downgrades in recent months amid a political crisis have made it harder for Pakistan to tap international capital markets. Pakistan is battling to bring under control a gaping current account deficit that’s wobbled its economy and lowered growth.

Islamabad is engaged in bailout talks with the International Monetary Fund (IMF) but has also sought financial help from allies United Arab Emirates (UAE) and Saudi Arabia.

The SBP signed an agreement with Abu Dhabi Fund for Development (ADFD) for the placement of the \$3.2 billion in its account. The country had received two first tranches of \$1 billion each, and the SBP is expected to receive another \$1 billion from the UAE soon. Furthermore, Saudi Arabia also placed \$3 billion in the SBP account. The SBP, in its second quarterly report issued on Monday said foreign exchange payment pressures persisted in the interbank, and were accentuated by maturities of short-term official debt contracted in the previous year.

This led the government to seek balance of payments support, particularly from bilateral sources. While sizable inflows were realized from the friendly countries, they were insufficient to completely finance the current account deficit.

Consequently, SBP's FX reserves continued to decline and the rupee depreciated 12.5 percent against the dollar, during the first half of FY19. However, net financial inflows were lower than last year, as the new government did not pursue sovereign debt issuance or heavy short-term borrowings. Instead, it engaged bilateral sources for balance of payments support, while simultaneously entering into bailout negotiations with the IMF.

"The resulting FX inflows from China and Saudi Arabia cumulatively amounted to \$4.0 billion during H1-FY19, and allowed the government to retire both the long- and short-term debt payments falling due in the period," the central bank said.

Our Correspondent