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Govt seeks applications for lead managers to launch Panda Bond

ISLAMABAD: The government has sought application for selection of lead managers to launch the Panda Bond in Chinese-denominated Yuan currency. With possible transaction size equivalent to $500 million in two tranches in order to finance its yawning trade deficit with Beijing, the PTI led government has sought Request for Proposals (RFPs) for selection of Financial Adviser/Lead Manager for this transaction till March 20, 2019.

"After finalisation of lead manager for which the RFP has been floated with closing date of March 20, 2019, the required approval will be undertaken for launching of Panda Bond preferably within the current financial year," says Dr Khaqan Najeeb Advisor/Spokesman Ministry of Finance while talking to The News here on Sunday night.

Pakistan's trade deficit with China stood approximately at $12 billion per annum and Islamabad is asking for ASEAN level tariff reduction on its exportable items. China had promised for market access during the premier's last visit to Beijing, helping Islamabad to boost its exports to China by $1 billion.

First of all, this idea was floated during the last PML-N government but the Debt Office in the Ministry of Finance had always cautioned the government to review fluctuation of Chinese currency versus US dollar before moving ahead as it should be determined that in case of losses who was going to absorb it keeping in view the fluctuating currency rates.

"The Chinese Renminbi-denominated Panda Bond will be accomplished in two tranches in Shanghai (China) and expected to fetch half a billion dollars," top official sources said. The China's bond market is the third largest in the world (behind the United States and Japan) and has an estimated market size of $11.8 trillion. The Panda bonds, Yuan-denominated debt issued by foreign borrowers, make up a small fraction of China's $11 trillion dollar onshore bond market.

The official said that the government decided to move ahead with RMB-based Panda Bond for using this tool for repayment to Chinese loan as well as for financing the trade deficit. Pakistan has so far utilised over $26 billion under the China Pakistan Economic Corridor (CPEC) out of which $6 to $7 billion was utilised through the government to government (G to G) loans while the remaining was done through the IPP mode under private sector arrangements.

The overall obligations in terms of dividends, repayment of loans and other repayments were estimated at around $42 billion over the next 20 years, however, official circles made points that the private sector obligations could not be calculated as liability on the shoulders of the government. "If private sector loans are calculated, then the US economy might have drowned into the debt trap," said one top official of the Planning Commission, but another official said that it was overall obligations on the state and there was a need to portray realistic picture on the economic front.

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