

**Budgetary support: China allows Pakistan to use its \$1 bn SBP deposit**

ISLAMABAD: China has allowed Pakistan for utilising its \$1 billion deposited in the State Bank of Pakistan (SBP) for financing budgetary support, The News has learnt.

With this permission, the government would minimise at least Rs165 to Rs169 billion requirements for raising domestic debt from banking or non-banking institutions to finance its budget deficit. Beijing has provided \$1 billion for deposit in the SBP in order to bridge the financing needs when Saudi Arabia had withdrawn its money. "China has come forward to bridge this gap. Beijing provided additional facility by allowing utilisation of \$1 billion equivalent in rupee term for financing the budgetary requirements," top official sources confirmed to The News here on Friday.

When the Ministry of Finance Spokesman was contacted for comments, he replied that Chinese deposits are public debt which means the Government of Pakistan receives Pak rupee equivalent to that amount.

Saudi Arabia, UAE and China helped Pakistan to manage its external account woes as the friendly countries had extended support in shape of rolling over their deposited money under three-year IMF programme. Pakistan's financing sector requirements stood at \$29.3 billion for the current fiscal year and because of stalled IMF programme it would be quite hard to manage external financing needs without any slippages.

China is the top depositor at the SBP for improving Pakistan's foreign exchange reserves. At the moment, total foreign exchange reserves stand at \$19.6 billion out of which the foreign exchange reserves held by the SBP were \$12.6 billion and reserves held by commercial banks were \$7.01 billion on August 13, 2020, despite making repayment of \$151 million on external loan obligations.

With decreased discount rates, the exchange rate faced pressures in recent weeks so there is risk that imports might witness surge in months ahead so imbalance on external account might occur. The economic managers will have to develop synergies among fiscal and monetary policies in order to avoid surfacing of imbalances on macroeconomic front.

When contacted, renowned economist Dr Ashfaq Hassan Khan said there was no economic justification for placing pressure on exchange rate because the foreign currency reserves increased in the wake of improved dollar inflows through different avenues. He said it seemed that the SBP was forced to decrease the discount rate after which the country's debt servicing was slashed down by Rs200 to Rs300 billion. But now the exchange rate was depreciated without any justification so the public debt surged so the gains obtained through reduced discount rate got neutralised, he maintained.