

**Cabinet approves plan to float yuan-denominated ‘Panda bonds’**

ISLAMABAD: The federal cabinet approved a strategy to issue so-called ‘Panda bonds’ in the Chinese market to raise foreign exchange from global markets, though the size of the issue has not been released at the moment. The bonds will be denominated in Chinese yuan.

The cabinet meeting headed by Prime Minister Imran Khan approved the strategy on Thursday.

Official Spokesperson to Finance Ministry Dr Khaqan Najeed told Dawn that the Panda bond has been finalised “after several rounds of discussions with Chinese banks, investment groups, regulatory authorities in China and stock exchange and traditional financial advisers.”

“They will help government diversify investor base of capital market issuance and provide a source of raising renminbi (RMB).”

Size of issue not yet known

The spokesperson said the size, tenor and pricing would be determined on the market response at the time of issuance, which is to be done in several rounds.

“A good response is expected considering the interest shown by Chinese banks and investment groups,” the spokesperson added.

The size of the issue has yet to be determined, but a source in the finance ministry said it will be around \$1 billion. It will be in instalments, the source said, adding it will provide the government a space to move and diversify from US dollars into RMB, as well as providing cover to pay for imports from China.

At the moment, a swap facility exists to settle payments between buyers and sellers in China and Pakistan, but it has seen virtually zero utilisation. It is not known yet how the funds raised from the Panda bond flotation will be utilised in bilateral trade between the two countries.

The Chinese yuan cannot be settle payments with countries other than China.

In 2013, the State Bank had purchased a \$1.5bn worth of Chinese yuan and sold them in forex markets in the far east in exchange for US dollars to shore up the reserves.

That option may still be available, otherwise the government will have to play a more proactive role in urging local traders to use the yuan to pay for imports from China to make productive use of the proceeds of the Panda bonds.

Market sources have been expecting up to \$2.2bn worth of Panda bonds to be floated in two separate flotations of late.

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