



While five years ago the currency swap had not worked, mainly due to a lack of interest from banks and businesses, it looks like this time it will

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"Now the context has changed. So attitudes will hopefully change and you will see our banks participating in a yuan auction with some enthusiasm," says the treasurer of a large local bank.

"China is our biggest trade partner. Two Chinese banks are operating here. The China Pakistan Economic Corridor (CPEC) has taken off. Politically, Pakistan is distancing itself from the US and stands even more closely with China. For banks and businesses such things matter more than people generally think."

Bankers say the first auction of the yuan under the enlarged rupee-yuan swap facility will be held shortly. Some are expecting the auction as early as this month but SBP officials are silent on the matter.

Top bankers say the SBP has kept them informed about the deal and impressed upon the need to make the swap facility work well when yuan auctions begin under its umbrella.

Right from the beginning of the year, following the foreign office's confirmation of a full-fledged rupee-yuan swap being in the works, some banks have been holding awareness sessions for business houses trading with China.

They say that in the near future relevant central bankers and officials of bank treasuries might also begin visiting offices of trade bodies to explain how exactly the yuan can be used, instead of the dollar for settling trade with China.

As CPEC projects gain momentum and economic growth picks up pace, bilateral trade volume that was around \$10bn in the last fiscal year is expected to cross \$13bn this year. In nine months of the year, it has already crossed \$10bn, official statistics show.

Imports from China are far higher than exports to that country. Whereas exports this year will remain somewhere between \$1.5bn and \$2bn, imports will easily cross the \$11bn mark, analysis of nine month statistics reveal.

On the other hand, SBP forex reserves are at \$10.03bn and total reserves at \$16.4bn (as of May 25), barely enough to cover the country's total imports for two-and-a-half months and three-and-a-months respectively. Under such circumstances, footing even a part of an estimated \$11bn plus Chinese imports

bill in yuan instead of dollars can ease off pressure on forex reserves and exchange rate stability.

Whenever the SBP invites bids from banks to purchase yuan against the rupee out of the yuan-rupee swap fund available with both country's central banks, banks can purchase yuan according to their needs and resell the same to their clients to settle imports from China.

On the other hand, whenever the central bank of China offers to sell rupees against yuan to banks in China, those banks can buy rupees for clients making imports from Pakistan.

"This would reduce the need for dollars to finance Pak-China trade, in China's case perhaps just symbolically but in our case substantially," explains the treasurer of another large local bank.

The facility is also designed to finance investment claims of both countries.

This means that a Chinese company investing in Pakistan will be able to transfer yuan-denominated funds into Pakistan and get its rupee counterpart here, and vice versa.

Bankers say once the rupee-yuan swap arrangement gets into gear Chinese companies investing in CPEC projects will benefit. They will not only be able to bring in yuan denominated funds here but will also be able to remit their profits and dividends in yuan instead of the dollar or other hard currencies.

Even non-Chinese companies participating in the CPEC will have the option to do the same through their principal Chinese companies, bankers explain.

Going forward, both central banks also aim to find a way to ensure the settlement of cross-border movement of yuan and rupee denominated trade and investment funds under a tailor-made clearing system without necessarily routing the currencies through New York and London.

All this does not mean that the dollar will lose its importance anytime soon. The dollar will retain its status as the most dominating medium of exchange for a long time "but if the rupee-renminbi romance really keeps growing, the greenback will certainly begin to feel jealous," says a treasury official of the state-run National Bank of Pakistan with a wink and a smile.

The trend to use local currencies for trade settlement between two or more countries is growing globally to reduce dependence on the dollar.

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