ADB MAKES SECOND OFFER TO FUND CPEC'S $10B ML-I PROJECT: BANK HAS ONLY OFFERED TO FINANCE THE PORTION SEVERELY DAMAGED BY FLOODS

ISLAMABAD: The Asian Development Bank (ADB) has offered to fund China-Pakistan Economic Corridor (CPEC)'s $10 billion Mainline-I (ML-I) project, said the administration head of the planning ministry on Wednesday – a move that may require Beijing's consent in order to onboard a second financier.

"ADB has offered to finance the ML-I project," said Zafar Ali Shah, Secretary of the Ministry of Planning while talking to the journalists at his office.

To a question, Shah said "Pakistan is still pursuing the project with Beijing and is keen to start the first phase of $2.7 billion."

Sources, however, said that China has not yet signed a financing agreement due to differences over terms and Pakistan's weak financial position.

This is the second time that the ADB has shown interest in the delayed project – also the only scheme to be declared strategically important under the CPEC framework.

Nearly eight years ago, ADB had offered to finance the said scheme but China declined their proposal.

A diplomatic source privy to these discussions said that ADB has only offered to finance the portion of the ML-I project severely damaged by the recent floods. He said that, at this stage, the financing and scope of the ADB offer has not been finalised. Of the total cost of $10 billion, Pakistan has planned to take a loan of $8.4 billion from China, although it has not been able to finalise negotiations, and Islamabad will arrange the remaining $1.5 billion.

In rupee terms, the project cost, which was a staggering Rs2 trillion at the time of its approval four months ago, has now increased to Rs2.7 trillion at today's exchange rate.

Pakistan had decided to implement the project in phases and stagger the loan of $8.4 billion accordingly to ensure smooth construction and at the same time book loans as per its need. Due to the Pakistan Tehreek-e-Insaaf (PTI) government's negligence, however, the ML-I project remained side-lined and as a result its cost in rupee terms increased three folds. In the past 10 months, however, the Pakistan Democratic Movement (PDM) government too has failed to break the deadlock with China.

During Prime Minister Shehbaz Sharif's visit to China in November, Pakistan proposed the signing of a joint memorandum, indicating the timelines of project milestones but nothing was finalised. Under the project, a 1,733km-long route will be rehabilitated, 482 underpasses, 53 flyovers, 130 biker bridges and 130 stations will be constructed along the route. The ML-I starts from Karachi, passes through Kotri/Hyderabad, Rohri, Multan, Lahore, and Rawalpindi.

In August 2020, the Executive Committee of the National Economic Council (ECNEC) had approved the ML-I project at a cost of $6.8 billion, including a $6 billion Chinese loan. The project, however, could not reach ground-breaking stage due to a disagreement over loan terms and China's objections to the cost of the scheme.

The PDM government has now approved the cost of $10 billion, a surge of over $3 billion, or 45%. The increase has been approved for all three packages of the project that are planned to be constructed from 2023 to 2031.

Pakistan faces the gigantic task of avoiding default and, at the same time, meeting its financing needs.

In a background briefing, the Ministry of Finance said last week that the government will have to slash the Public Sector Development Programme (PSDP)'s budget for the sake of the International Monetary Fund (IMF). The secretary planning, however, said that as of Wednesday there had been no cut on the Rs727 billion budget approved by the National Assembly. He added that no such decision had been communicated to the ministry.

During the first seven months of the fiscal year, Rs207 billion of the budget were spent, which were equal to 28% of the annual allocations. The secretary said that foreign project funding was picked during the first seven months as the entire annual budgeted Rs60 billion were received during this period.

He hoped that after the approval of the $3 billion flood related projects, about $1 billion should flow in the current fiscal year. The assumption, however, appears to be on the higher side.

To a question, the secretary said that the cost of the $1.5 billion Sindh Housing flood rehabilitation project has been reduced to $727 million. The provincial government had hoped that it would receive $1.5 billion in foreign assistance but only $500 million was given by the World Bank, he added.

TR 6-2-2023

FIRST SIX MONTHS: FISCAL DEFICIT SWELLS TO 2PC OF GDP

ISLAMABAD: Fiscal deficit has been recorded at two percent of the GDP or Rs1,683 billion during the first six months of the current fiscal year, according to the Finance Ministry. A summary of consolidated federal and provincial fiscal operation for July-December 2022-23, showed that total revenue stood at Rs4,698 billion against the total expenditure of Rs6,382 billion during the first six months of the current fiscal year. Current expenditures stood at Rs6,061 billion following a whooping increase of over 77 percent compared to the last fiscal year. Debt servicing during July-December last year was Rs1,452 billion which increased to Rs2,573 billion during the same period of the current fiscal year.

The development expenditure and net lending was Rs636 billion. Tax revenue was recorded Rs3,731 billion and non-tax revenue Rs967 billion. In tax revenue, federal government collection was Rs3,428 billion, whereas, the provincial collection stood at Rs303 billion. In non-tax revenue, federal government collection stood at Rs896.4 billion and provincial governments Rs70 billion.

In current expenditure mark-up payments of Rs2,573 billion included Rs2,273.4 billion domestic, Rs299.5 billion foreign, Rs638.8 billion defence affairs and services, Rs321.1 billion pension, Rs226.6 billion civil government expenses, Rs196.6 billion subsidies, and Rs389.1 billion grants.

The report also noted that a statistical discrepancy of negative Rs315 billion was also recorded during the period under review. Overall, the budget deficit was recorded at Rs1,683 billion, whereas, the primary balance was Rs889.5 billion (1.1 per cent of GDP). Fiscal deficit was financed by domestic net borrowing of Rs1,685 billion from non-bank resources and Rs393.842 billion from the bank.

Total federal share in tax revenue was Rs3,428 billion which included Rs1,525 billion direct taxes, Rs466 billion in taxes on international trade, Rs1,271 billion in sales tax, and Rs164 billion in Federal Excise Duty. The total provincial share in tax revenue was Rs303 billion which included the sales tax on services Rs186.3 billion, excise duty Rs4.7 billion, stamp duty Rs31.04 billion, motor vehicle taxes Rs15.6 billion, whereas, other taxes were Rs65.2 billion.

In non- tax revenue, federal share includes a mark-up on PESs Rs77.6 billion, dividend Rs40.8 billion, SBP profit Rs371 billion, PTA profit Rs32.5 billion, royalties on gas Rs56.6 billion, defence receipts Rs9.2 billion, passport fee Rs16.4 billion, discount retained on crude oil Rs10.8 billion, windfall levy against crude oil Rs14.8 billion, Gas Infrastructure Development (GID) Cess Rs6.02 billion, natural gas surcharges Rs10.8 billion, petroleum levy Rs177 billion, and other taxes were Rs68.2 billion. The provinces' non-tax revenue was recorded at Rs70.6 billion in the first six months of 2022-23.

R 9-2-2023

GOVT RAISES RS464BN VIA MTBs' SALE

KARACHI: The government on Wednesday raised Rs464 billion through an auction of the Market Treasury Bills (MTBs) against a target of Rs800 billion, with yields on a short-duration paper rising slightly. The cut-off yield on the three-month T-bill increased by 6 basis points to 17.9996 percent. The yield on six-month paper stood at 17.8400 percent. The yield on 12-month paper was 17.9499 percent.

A bid pattern in the most recent auction, according to analysts, indicated expectations for higher interest rates at the upcoming monetary policy reviews. "Considering SBP's recent strategy to keep rates higher than core inflation, rates are likely to increase further as the inflation expectations have increased after sharp currency depreciation," said Fahad Rauf, head of research at Ismail Iqbal Securities. The State Bank of Pakistan (SBP) raised the policy rate by 100 bps to 17 percent last month in order to contain persistent inflationary pressures. Inflation is expected to remain high on fiscal tightening and the impact of the rupee's depreciation, rising exceeding 30 percent during the coming months and averaging 27 percent in FY2023. In light of that, analysts said that the central bank would maintain a tight monetary policy, hike rates by further 100–200 basis points before June 2023, and then gradually loosen up starting in the fourth quarter of that year as inflationary pressures abate.

TN 9-2-2023

PM FORMS BODY TO ACTIVATE STZA

ISLAMABAD: Prime Minister Shehbaz Sharif has formed a committee to activate the Special Technology Zones Authority (STZA) following its poor performance that disappointed the premier. The prime minister said that the country's youth are earning jobs on their own in the IT sector, but the relevant authority is ineffective. The committee is to be headed by Finance Minister Ishaq Dar and would have Information Technology Minister, Law Minister, Investment Minister, and Advisor to Prime Minister Ahad Cheema, Senator Afnanullah, and the CDA chairman as its members.

The committee has been directed to submit its recommendations for activating the Special Technology Zones Authority within a week. The board of governors of the authority should also be activated immediately. The committee was asked to ensure the presence of relevant field experts on the Board of Governors and instead of investing in plots attention should be given to its main purpose, i.e., development of technology in the country. While giving a detailed briefing regarding Special Technology Zones to the meeting, it was told that 400 companies are currently registered in the authority, out of which, 63 percent are Pakistani, while the rest belong to China, the USA, Turkey and other countries. The meeting was also briefed about the Board of Governors of the Authority and the issues.

The prime minister directed the authority to actively and effectively implement measures on a priority basis to play its role in domestic IT exports.

QATAR AGREES TO BUY OGDCL, PPL SHARES

ISLAMABAD: Qatar has reportedly agreed to consider Pakistan's offer to buy shares/ stakes of Oil and Gas Development Company Limited (OGDCL) and Pakistan Petroleum Limited (PPL) and sell Mirage-2000 fighter aircrafts to Pakistan. This was revealed at a recent inter-ministerial meeting presided over by Special Assistant to Prime Minister on Coordination, Syed Tariq Fatemi as a follow up of Prime Minister's visit to Qatar on 22-23 August 2023.

The Finance Minister during his recent visit to Qatar offered the Qatari side to buy stakes/ shares of OGDCL and PPL. The Qatari side agreed to consider and continue further negotiations on the proposal. During the recent meeting with the Prime Minister the Ambassador of Qatar stated that Qatar is ready to provide Mirage-2000 fighter aircraft to Pakistan. He further stated that a formal request may be made by the Prime Minister of Pakistan for the subject matter. Same was reiterated by the Ambassador during his meeting with Additional Secretary Middle East, MoFA.

Pakistan has requested Qatar for a third contract of Liquefied Natural Gas (LNG) for two more cargoes monthly but the latter is seeking details of reforms taken by Islamabad. Pakistan is importing LNG from Qatar under two different contracts signed by Pakistan Muslim League-Nawaz (PML-N) Government and PTI Government.

According to sources, Prime Minister during his visit to Qatar had requested for another contract for two more LNG cargoes monthly. Minister for Finance, Ishaq Dar, who recently visited Qatar, also raised this issue. During the inter-ministerial meeting, it was noted that CEO PARCO and MD SSGCL have been assigned to engage with Qatari side. Meeting/ interaction has not yet taken place. The meeting decided that progress would be communicated to MoFA and SAPM (Coordination).

On solar power project, Government had decided that it would be through competitive bidding. Solar power policy has been formulated on this basis. Nepra has also confirmed the benchmark tariff and next step is open bidding. Price discovery would be ready by end of April after which engagements with other governments (Qatar, UAE, and KSA) on G2G basis can take place.

Power Division had recommended that the cost of land for the project should be factored into the tariff but Nepra did not agree. The finances for cost of the land would have to be arranged although it was not a huge sum compared to the project size.

SAPM emphasized importance of the solar projects and asked Power Division to send written comments/ report on issues. On acquisition of Islamabad and Karachi airports, the meeting was informed that Qatari side noted that they are only interested if it includes Aeronautical Income (which is major part of airports' income). Any attempts to only lease the retail areas and real estate development will have little chance of success. QIA requested to include Lahore airport in the deal. Agencies have concerns about Lahore airport which is in a dual use.

Qatar also requested to provide initial PIA financial and operational data at the earliest. During the meeting of Finance Minister with CEO of QIA, Qatar expressed desire to acquire Islamabad and Karachi airports first and informed that matter of Lahore airport may be dealt with at a later stage.

The sources said, as instructed by the Prime Minister, Public Private Partnership (PPP) options are being discussed with IFIs, which have been hired to determine the modalities/ structure of the proposed transaction for each of the three airports. On the basis of that Aviation Division would coordinate further with Qatar side.

SAPM stressed that this was an important and potential area for investment. He asked the Aviation Division to share a written report on the matter especially highlighting issues it faces. Sharing details about acquisition of two LNG power plants by Qatar Investment Authority (QIA), Power Division noted that Gas Sales Agreement (GSA) was an issue and has been resolved. Debt re-profiling still has to be worked out by Finance Ministry.

However, on the acquisition of two RLNG power plants, Haveli Bahadur Shah and Balloki, Finance Ministry informed that an exercise to address issues related to the balance sheet of NPPMCL is under way at Finance Division. Additionally, G2G framework, intergovernmental commercial transaction Act has been enacted. During discussion on Q terminal (bulk cargo handling capability), Ministry of Maritime Affairs informed that Q terminal will soon be concluding the deal with KPT for building terminals at Karachi port for receiving bulk cargo/ LNG. Finalization of the deal is awaited from the concerned Ministry.

Finance Minister, during his recent visit to Qatar, informed the Qatar side about steps taken by the Government of Pakistan for facilitation of G2G agreements. Qatari side informed that they prefer open bidding to bring transparency in the process of investing in Pakistani ports.

330 GOVT BUILDINGS: PD BLAMES UNCERTAINTY OVER LCs FOR FAILURE OF SOLARISATION PLAN

ISLAMABAD: Power Division has reportedly held State Bank of Pakistan (SBP) responsible for failure of solarization of 330 government buildings project as there is uncertainty among vendors regarding opening of LCs, well informed sources told Business Recorder.

A senior official of Power Division, sources said, has shared current status of solarization project with the Finance Minister, Ishaq Dar who has already been facing intense criticism across the country for failing to rescue the dwindling economy.

Power Division, in its letter, informed the Finance Minister that Prime Minister chaired Strategic Roadmap Stock take -Energy Conservation on February 1, 2023 and it was revealed that the response to bid for solarization of public buildings was lacklustre. Only one bid was received for solarization of 330 buildings, which too is non-compliant and was rejected.

The reasons, interalia, are uncertainty among the vendors regarding clearance of solar equipment held up at the ports and inability to open Letters of Credit (LCs). PM desired that conducive conditions be created for success of the solar initiative. Finance Minister sought details of consignments of solar equipment held up due to non-clearance.

Power Division is tasked to make necessary changes/ modifications in the RFP documents and standard security package and re-advertised the RFP. Furthermore, Power Division was also directed to squeeze the timelines and strategize the phased rollout of RFP to clear held-up equipment due to non-clearance.

The matter was earlier brought to notice of Finance Minister on January 2, 2023 through a letter. Reportedly, solar industry requested SBP permission to import solar panels/ invertors worth $ 302.172 million in December 2022. Import, was; however, not allowed due to constrained external account.

According to SBP, as on January 20, 2023, imports of solar panels inverters to the tune of $ 20 million ($ 5 million through LC and $ 15 million through other modes of import settlement) are pending with banks.

Finance Minister has been requested that priority be given to the release of solar power equipment currently held at the port and adequate forex provision made for the expected imports in the coming months for successful implementation of PM's solar power initiative.

The agenda of meeting held on February 1, 2023 was as follows:

(i) 10,000 MW solarization;

(ii) local production of solar panels;

(iii) local introduction of e-bikes;

(iv) conical baffles in gas geysers; and

(v) energy efficient bulbs and fans.

The meeting directed Nepra to notify the tariff in solar panel generation at 11 KV feeders immediately. On large-scale solarization project (10,000 MW) meeting was informed that Nepra will approve the RFP documents and determine the benchmark tariff. Power Division was asked to immediately float the RFP and award contract as per timelines once the approved RFP and benchmark tariff is available from Nepra.

The sources said Ministry of Industries and Production (MoI&P) will get approval of the draft policy on "local manufacturing of solar panels & allied equipment" from the competent forums and rollout it for investors/ manufacturers.

MoI&P will share with Prime Minister Office (PMO) the financial analysis (cost benefit) about the economic feasibility of local production of solar panels and allied equipment vis-à-vis incentives being offered under the policy and challenges of current macroeconomic environment.

The sources said Ministry of Industries and Production discussed the various financing modalities for the implementation of local introduction of E-Bikes initiative with the SAMP on Revenue, Tariq Pasha; MoI&P is also in discussion with Poverty Alleviation & Social Division to finalize the proposal. Once finalized and approved by the competent forums, MoI&P would launch the scheme by March 1, 2023. Furthermore, MoI&P is to coordinate with SBP on resolution of potential issues regarding opening of LCs of F-Bikes/ related equipment.

The meeting was informed that Petroleum Division has initiated the procurement process for the installation of Conical Baffles in geysers/water heaters. PD will complete the procurement process by January 30, 2023. Furthermore, PD is to consider the proposal installation of timer devices in the geysers. lso, NEECA would investigate the appropriate size/ design of conical baffles and communicate it to SSGCL and SNGPL. Petroleum Division is tasked to also share firmed up timelines with SAPM-Governance Effectiveness on the implementation of the initiative. Manufacturing of inefficient fans will be discontinued by July 1, 2023. MoI&P to review the demand of small-scale fan manufactures of slashing 5% duty on imported steel sheet required for the energy efficient fans and share firmed up proposal along with timelines in the next stock-take with Prime Minister.

Power Division is to firm up the (financial) proposal on “inefficient fan replacement program” and present it in the next stock-take.

NEECA to revise the building codes/ housing societies by laws in context of energy efficiency/ conservation directions of the PM by March 30, 2023 and present to the PM a firmed up timeline of the implementation plan.

R 9-2-2023

OGRA IDENTIFIES 19 ILLEGAL FUEL STORAGES IN PUNJAB

The Oil and Gas Regulatory Authority (OGRA) on Wednesday identified 19 illegal storage facilities in different areas of Punjab which could allegedly be used for hoarding petroleum products, causing fuel shortages across the country. The Authority in a letter written to the Punjab chief secretary pointed out the illegal storages which “might be in use to dump/store petroleum products for inventory gains and contribute to the existing shortage in different cities of Punjab, being an illegal act,” OGRA Spokesman Imran Ghaznavi said in a press statement. He said OGRA had directed the chief secretary to take strict action against the illegal hoarders, sharing a list of illegal petrol/diesel storages, identified through market intelligence.

APP – PO 9-2-2023

OGRA LOCATES POINTS OF PETROL HOARDING: IDENTIFIES 19 ILLEGAL WAREHOUSES IN PUNJAB; MUSADIK SAYS FUEL SUPPLIES ADEQUATE

ISLAMABAD: The Oil and Gas Regulatory Authority (Ogra) has identified 19 illegal storage points and warehouses located in Punjab that have been used to dump and store petroleum products to make inventory gains by hoarders and black marketers.

In a letter sent to the Punjab chief secretary, the regulator said that the illegal storages and warehouses were being used to dump the products and contributing towards the recent oil shortage.

It has asked the chief secretary to take immediate action against the culprits involved in this illegal act of storing petroleum products.

Ogra in a statement said that it has advised the chief secretary (Punjab) to take strict action against the illegal hoarders and shared the list of illegal petrol/diesel storages identified through market intelligence to avoid deliberate shortage in the province.

The authority has also disseminated its enforcement teams to check storages and ensure smooth supply of petroleum products in the province.

The storages are located in Gujrat, Kharian, Machike Sheikhupura, 18-Hazari, Shorkot, Darbar Sultan Bahu, Road Sultan 18-Hazari Jhang, Mehmood Kot, near oil depot Habibabad Pattoki, near oil depot Vehari, at Jassar Bypass in Narowal.

The government claims that the oil crisis is artificial and hoarders were involved in it. According to official figures released by the Petroleum Division, the country has stocks of 363,085 metric tons petrol which is sufficient to meet the country’s 20-day needs.

It further said that there had been 515,687 metric tons available in the country enough to meet 29-day requirements of the country.

The country had faced oil crisis several times in the past. However, the Petroleum Division was unable to chalk out any strategy to tackle the crisis.

In the past, there had been issues with the availability of the product. However, this time the product is available but the government and the regulator are unable to control the shortage.
The oil regulator had imposed multimillion rupee fines on oil marketing companies in the past. But despite this, dealers of the oil marketing companies continue milking money from consumers by creating artificial shortage in the country.
Meanwhile, Minister of State for Petroleum Dr Musadik Malik said the government was not planning to hike fuel prices and warned oil companies against stockpiling petrol after some consumers complained they had been unable to purchase fuel at pumps.
The minister told the media that the country had enough fuel to last at least 20 days, in line with regulatory requirements, and any consumer shortages were due to stockpiling by oil marketing companies.
"I am requesting and warning companies... their licences will be taken away," the minister said.
A member of Oil Companies Advisory Council (OCAC) told Reuters that only a few of the licensed companies are selling fuel while the others are not either due to financial issues or due to hoarding. He added that while the petroleum ministry is helping process letters of credits to import fuels, the country's low foreign exchange reserves and artificial curbs remain a hindrance.
Some consumers in Punjab reported petrol stations were closed and others were limiting the amount people could buy. Ali Malik, a businessman and Punjab resident, said he visited the cities of Sialkot, Wazirabad and Lahore in the last few days where he had struggled to fill up his vehicle.
"I went to Sialkot where I found the majority of petrol stations closed. When I saw a functioning fuel station, I could not get more than eight litres," he said, adding he had experienced similar issues in other cities.
Abdul Sami Khan, the chairman of Pakistan Petroleum Dealers Association, said that the shortage is not from the dealers and said they had not received enough supply from oil marketing companies. "Consumers think we're not giving them fuel and they blame us -- but we aren't being supplied enough," he said. Also, the LPG hoarders were making money by hoarding the product in the country. LPG Distributors Association Chairman Irfan Khokhar challenged the state minister for petroleum that no LPG was available at notified price in the country. He alleged that a state-owned gas utility was reportedly involved in black marketing of the product.

R 9-2-2023

POWER WHEELING CRUCIAL TO ENSURE CLEAN, AFFORDABLE ENERGY: EXPERTS

The energy experts on Wednesday were of the view that power-wheeling was crucial to producing clean and affordable energy in order to enhance power productivity by reducing production cost for the industrial sector.

The experts made the remarks at a public-private dialogue titled with “Power Wheeling Reforms for Offtake of Renewable Energy: Options and Challenges for Pakistan’s Corporate Sector” organized by Sustainable Development Policy Institute (SDPI) here. Speaking on the occasion, Advisor to Competitive Trading Bilateral Contract Market (CTBCM), NEPRA Gul Hassan Bhutto said since 1992 NEPRA had been unable to make the power market competitive, but CTBCM and power wheeling would overcome these hurdles. He said that wheeling allowed meeting energy demand by transporting power from point of generation to point of demand and the wholesale power market aims to align policy and regulatory frameworks, provide non-discriminatory access to all market players, attract investments, build efficiency, and lower the power tariffs. This would also lead to auctions and bilateral contracts, reduction in consumer price, credit worthiness, moving away from sovereign guarantees, and integrated system planning, he maintained. Manager, Market Design and Development, Central Power Purchasing Agency (CPPA) Ahmed Tanvir Qazi said that CTBCM enabled fair and affordable power supply keeping in view the interests of all stakeholders by considering a holistic view of how each decision in CTBCM impacts each stakeholder and ultimately the economy. Senior Advisor, SDPI Dr Hassan Daud Butt stressed the need for addressing legal and regulatory headwinds, incorporating all energy generation sources to increase the efficacy of power wheeling in Pakistan. He informed that at the beginning of CPEC, the energy sector was confronted with various challenges but private sector investments of $22billion in a period of 3 years proved instrumental. He stressed transparency and ensuring delivery on the policies which must be developed and executed in consultation with indigenous experts particularly for industrial and export sector. General Manager Special Projects, K-Electric Alia Idris said that KE had plans to invest Rs 500 billion in power generation, transmission and distribution and will inject 30% power through renewables by 2030. She emphasized on establishing safe and fair mechanism for cost determination in a regulated market, ensuring grid stability, transmission and distribution infrastructure reinforcement to encourage power wheeling in Pakistan and sought more collaboration with NTDC so that affordable power might be provided to consumers.

Times 9-2-2023

DON’T BLAME CUSTOMERS IN INCIDENTS OF FRAUDS AND SCAMS, SBP OFFICIAL TELLS BANKS

State Bank of Pakistan (SBP) Director Payment Systems Department Sohail Javaad took a dig at commercial banks on Wednesday and blamed them for treating customers with contempt “which is a leading reason why many people choose to remain financially excluded.”

Speaking at 4th Digital Banking and Payments Summit & Expo - DigiBAP2023 at a local hotel in Karachi, he said that banks only treated priority customers with respect. “When an ordinary customer walks into a bank, they don’t get the service they deserve.”

The event discussed financial inclusion of the unbanked population of Pakistan. In a bid to boost financial inclusion, the SBP granted licenses to five digital banks. These financial institutions have promised to enhance financial inclusion among the unbanked masses and investment in technology and customer services to aid the growth of the financial sector. Top officials of Mashreq Bank, Raqami and Easypaisa DB reiterated their resolve towards this aim in future. These three financial institutions recently secured the digital banking licence from SBP. peaking as a regulator, Javaad spoke at length about the pitfalls in Pakistan’s banking industry and discussed the drawbacks that should be addressed. He expected the digital banks to work towards alleviation of the problems. Javaad added that when customers contact banks to complain about frauds or scams, they are told that it was their fault since they gave away vital information related to their accounts. He pointed out that bank call centres make customers wait for hours and even when they are able to connect to bank officials, their grievances are rarely addressed. “I think that this attitude is one of the leading reasons why people choose to remain financially excluded,” he added.

The SBP official said that if banks failed to respect customers and serve them, then SBP will launch a Central Bank Digital Currency (CBDC) “and I would not want banks to be a part of the digital currency”.

A CBDC is virtual money that is backed and issued by a central bank. “The CBDC technology is disruptive, which means that it will revolutionise the entire system.” He further said that many kinds of banking frauds are taking place in the country and urged banks to respond to it. “I don’t mean to say that banks aren’t doing anything however, fraudsters remain ahead of the system and come up with new techniques all the time.” “What SBP doesn’t like is banks telling customers that it was their fault because that they gave their passwords.” “We are thinking of changing the liability structure. In case of frauds, we are asking banks to agree to return the money in a few days.”

According to Javaad, a huge problem of Pakistan’s economy was the presence of large quantities of cash. “It shows that people are choosing to remain financially excluded,” he said. “People are okay with using cash because it’s free and easy. The language and terminologies that banks use also turn the potential customers away.” Speaking on the occasion, Mashreq Bank CEO Irfan Lodhi said that his organisation had entered the Pakistani market with long term vision and plans to achieving greater market penetration and financial inclusion. He was of the opinion that new entrants to the financial sector should focus on creating a place in the market by filling the gaps in services rather than yearning for immediate profits.

In his address, former SBP governor Dr. Ishrat Husain said that financial reforms are an ongoing process. “SBP has encouraged new initiatives over the years like Islamic banking, microfinance banking and banking for women,” he said. “It also provided financial services to traditionally unserved sections of the society from agriculture and small and medium enterprises.”

“Digital banks are the future and they have the means and opportunity to promote financial inclusion and fill gaps which conventional banks cannot,” he said. Raqami Executive Director Nadeem Hussain said that people chose not to save money in banks because the returns did not offset the inflation.

UBL President and Chief Executive Shazad Dada was of the opinion that cultural change in the organization is a huge challenge. He said that his bank was moving forward on basis of design thinking and data analytics to enter the future of banking with increased services to customers.

R 8-2-2023

‘DISCREPANCY’ OF RS320B ACCEPTED: RAISES QUESTIONS OVER CREDIBILITY OF FIGURES RELEASED

ISLAMABAD: The federal statistical discrepancy – a term used to describe untraceable expenses or unknown revenues – shot up dangerously to nearly Rs320 billion during the first half of this fiscal year, admitted the Ministry of Finance on Wednesday.

The fiscal operations summary report for the July-December 2022 period showed that due to a huge discrepancy, the federal government’s total expenses did not match with its current expenditures – causing another inconsistency in numbers.

The report showed that there was no trace of Rs319.6 billion of the federal government’s spending or revenues, which the finance ministry has described as a “statistical discrepancy”, reflecting the poor working of the finance ministry’s budget wing.

As a result, the federal government’s total expenditure has been shown at Rs4.247 trillion – Rs147 billion less than the current expenses of Rs4.390 trillion, as shown by the finance ministry.

The huge discrepancies raise questions over the credibility of the figures released by the ministry, a dilemma that the International Monetary Fund (IMF) is also facing.

The report showed that interest expenses have shot-up significantly to Rs2.57 trillion during the first half of this fiscal year. This equals 65% of the annual debt servicing budget; an alarming increase of 77% in the cost of interest on the federal government's debt stock.
Domestic debt servicing stood at Rs2.27 trillion or equal to 88.3% of total debt servicing. External debt servicing amounted to Rs300 billion; a 152% increase compared to the same period a year ago.
Development expenses amounted to only Rs162 billion in six months – equal to only 6.2% of the debt servicing cost.
Pakistan has informed the IMF that the cost of debt servicing may rise to nearly Rs5.2 trillion in this fiscal year – equalling more than half of this year's total budget of Rs9.6 trillion.
Despite the precarious situation, the finance ministry seems to be indifferent towards the biggest challenge threatening the country's long-term viability. There is an urgent need to restructure domestic debt and create some fiscal space – this can also strengthen Pakistan's case for foreign debt restructuring.
In view of this, Prime Minister Shehbaz Sharif has appointed seven more members to the federal cabinet, taking the total to 85 – including special assistants. While these special assistants are said to be appointed on 'pro bono basis', they still avail official vehicles, offices, staff and residences.
Excluding military pensions and expenses on the armed forces development programme, Rs638 billion was spent on defence in six months – Rs118 billion or nearly 23% more than last year. The annual stated defence budget is Rs1.563 trillion and six-month spending is in line with the allocation.
With a net income of Rs2.46 trillion, accumulative spending on debt servicing and defence jumped to over Rs3.2 trillion – 130% or Rs749 billion more than the government's net income – suggesting that Pakistan will remain debt trapped as expenses are not being curtailed.
Compared to the Rs3.2 trillion spent on debt servicing and defence, only Rs162 billion was spent on development. All the other expenses of the government amounted to Rs1.1 trillion, down compared to the previous year. The cost of running the civil government was only Rs227 billion in six months, while subsidies amounted to Rs197 billion.
Under the IMF programme, Pakistan has committed converting the primary deficit, calculated after excluding interest payments, into a surplus of 0.2% of GDP, down from last fiscal year's 3.6%. As a result of uncontrolled spending, however, the government will miss the deficit target agreed upon with the lender.
The federal budget deficit widened to nearly Rs1.8 trillion in the first six months of the current fiscal year, as the gap between expenses and revenues was equal to 2% of the GDP.
During the current fiscal year, the government's total expenditure shot up to nearly Rs4.24 trillion – thanks to the huge statistical discrepancy. Current expenditure, however, only rose to over Rs4.4 trillion. Gross revenues swelled to Rs4.34 trillion and Rs1.9 trillion of the federal tax share was transferred to the provinces.
According to the finance ministry, the statistical discrepancy occurred due to a Rs319 billion addition in the cash deposits of the government and its entities. It added that the deposits have jumped from Rs2 trillion to Rs2.3 trillion, causing a reduction in the overall expenses. These deposits have been identified as part of the IMF's conditions to implement a Treasury Single Account (TSA).

TR 9-2-2023

AFGHANISTAN TIGHTEN CURRENCY CONTROLS AFTER DOLLAR SMUGGLING REPORT

KABUL: The Taliban imposed fresh restrictions on people carrying foreign currency out of Afghanistan via a rare directive from the prime minister's office after a report that millions of dollars were being smuggled in each day from Pakistan, shoring up its battered economy. Tuesday's order from Mullah Mohammad Hassan's office spelled out new currency limits clearly for the first time and laid out new punishments — up to a year in prison. While a $5,000 limit was already in place, the new edict added that the amount people could take via road border crossings was only $500 and barred the transport of gold or precious stones out of the nation. "If someone transfers a million dollars, he will be imprisoned for a year, and for hundred thousand dollars, he will be jailed for a month and for less than the amount, he will receive ten days in jail," the order said.

The Taliban also reiterated that bringing in foreign currency is "prohibited," without specifying how much and under what circumstances. Before the report's publication, the Afghan Finance Ministry had said that it encourages individuals to bring in any value of foreign currency.

Bloomberg reported Tuesday that traders and smugglers are bringing as much as $5 million into Afghanistan from across the border with Pakistan, providing some support for the country's squeezed economy after the US and Europe denied the Taliban regime access to more than $9 billion in foreign reserves.

The illicit flows show how the Taliban are evading sanctions after their 2021 takeover of the country. For Pakistan, it's contributing to the depletion of foreign reserves and adding to the downward pressure on the rupee as the currency tumbles to record lows and the economy teeters on the edge of collapse. Earlier Da Afghanistan Bank, the Taliban-run central bank, said it has enough dollars in reserve to support the economy. Some of it comes from the UN, which has been providing about $40 million in humanitarian aid each week since last year, said spokesman Haseeb Noori. The Taliban's ban on the use of the Pakistani rupee as legal tender in Afghanistan has also increased smuggling by forcing exporters to trade in dollars and bring the US currency back to the country, the report stated quoting officials who spoke on condition of anonymity.

TN 9-2-2023

EX SBP GOVERNOR SLAMS BANKS FOR MAKING RISK-FREE RETURNS

KARACHI: Former central bank chief Dr Ishrat Husain took commercial lenders to task on Wednesday for their laziness, which has resulted in vast gaps in banking services in agriculture, small and medium enterprises (SMEs), low-cost housing and personal finance segments.

In his keynote address at the fourth Digital Banking and Payments Summit organised by TerraBiz, Dr Husain said he was "not satisfied" with the progress that the banking sector has made since his time as governor of the State Bank of Pakistan (SBP) in the early 2000s. "The size of the banking industry is small relative to the economy and its peers," he said while noting that banks are overly focused on the corporate sector, high net worth individuals, trade financing and fee-based activities. "Their networks in under-developed areas are confined to deposit mobilisation rather than lending," he said.

Referring to the industry-wide advances-to-deposit ratio (ADR) of less than 50 per cent, he said banks invest heavily in government securities. Meanwhile, the share of SME credit has gone down to 7pc from a high of 17pc some years ago.

Investments of commercial banks in risk-free government securities as a percentage of deposits are about 70pc — which is "not what banks should be doing… this is stifling private-sector growth".

"The share of agri-credit has remained stagnant. The number of bank accounts is still low compared to neighbouring countries. Pakistan lags behind in terms of market development, access to finance, depth of financial institutions, credit to private sector, insurance penetration and development of capital markets," he said. Dr Husain said he expects the upcoming five digital banks to raise the share of e-banking to "80-90pc in the next five years". With Rs46.4 trillion, the quarterly value of paper-based transactions exceeded the corresponding figure of Rs35.4tr for e-banking in January-March 2022, the latest period for which data is available on the SBP website. "The currency in circulation has doubled in 10 years. The new five digital banks will have a substantial market (to serve)," he said.

Digital banks will have to ensure their transaction cost is lower than that of the existing providers, that their customers have greater convenience, their fees and service charges are lower while the speed of transaction is faster, he said.

Earlier, entrepreneur associated with the upcoming digital bank Raqami Nadeem Hussain said people don't keep their savings in banks because banking returns don't even offset the impact of inflation. Irfan Lodhi, chief executive of Mashreq Bank Pakistan, one of the upcoming digital banks, said new entrants to the financial sector should focus on meeting the unfulfilled needs of the market rather than trying to make profits in the immediate run.

Dawn 9-2-2023

FORMER PM CHALLENGES BANKING COURT DECISION IN IHC

ISLAMABAD: Former prime minister Imran Khan has challenged the Special Judge Banking Court decision of rejecting his request for joining court proceedings through video link due to health conditions, and approached the Islamabad High Court (IHC). The PTI chairman has filed a petition under Section 435 CrPC 1898 read with Section 561-A for setting aside the impugned order dated 31-01-2023 passed by the banking court. After the decision of the Election Commission of Pakistan (ECP) in the prohibited funding case, the Federal Investigation Agency (FIA) Corporate Banking Circle had registered a case against the PTI chief and 10 others over accusations of receiving foreign funding.

TN 9-2-2023

NEW LANDFILL SITES: GOVT DECIDES TO ALTER ICT MASTER PLAN

ISLAMABAD: The government has decided to alter Master Plan of Islamabad Capital Territory (ICT) to develop a sanitary landfill site at one or more sites, subject to feasibility assessment by the Consultant by March, 2023, official sources told *Business Recorder*.

Sharing the details, sources said, Interior Division apprised the Federal Cabinet on February 1, 2023 that the Prime Minister's Office, in a letter on December 02, 2022 noted that the Honourable Islamabad High Court (IHC), in its Orders of August 12, 2022, directed Secretary to the Prime Minister to submit a report before the Court, providing details of the steps to be taken to ensure that an environmentally sustainable waste management and disposal system was put in place for Islamabad Capital Territory (ICT).

The Prime Minister's Office had stated that the detailed report had been submitted in the IHC on October 04, 2022 and had directed that the matter be placed before the Federal Cabinet.

The sources said, Capital Development Authority (CDA) in its letter of January 17, 2023 had informed that ICT, with an estimated population of 2.2 million, was fast expanding. Owing to the population addition in recent years there had been a substantial increase in municipal waste generation in the city with more than 1,200 tons of solid waste generated per day. The waste lifting capacity of CDA as of today was around 650 tons per day while a substantial portion was being managed by private contractors in housing societies and in rural areas. The same was being done by the respective Union Council. While population was continuously growling, the related infrastructure and service delivery aspects had not been upgraded at the same pace over the years. A major portion of developments had taken place in areas other than defined Sectors and necessary paraphernalia was not developed over this period of time by the local municipal bodies for management of such areas falling outside CDA's purview.

The functions of MCI related to sanitation were handed over to the CDA on October 5, 2020 for six months initially and had been extended from time to time till date. However, owing to limited resources and workforce of CDA, full area coverage had not materialized so far.

The IHC in its orders of August 12, 2022 and November 03, 2022 had instructed, inter alia, for development of a sustainable waste management plan for the city along with development of a scheme for final disposal of the waste generated. In compliance thereof, CDA had already started working on multiple fronts including the following: (i) declaration of emergency for immediate transport of solid waste from waste transfer stations at I-11/4 in ICT area to Losar, Rawalpindi Waste Management Company (RWMC) dumping site in compliance of court orders to stop waste disposal in I-12 from October 4, 2022.

Procurement of services through competitive bidding was in process; (ii) hiring of The Urban Unit as a consultant to develop a complete waste management plan and undertake waste characterization and generation studies in entire city.

The integrated waste management plan would be submitted by the consultant by first week of March, 2023 ;(iii) Urban Unit (consultant) would also recommend sites for development of a sanitary landfill site and transfer stations/ treatment facilities for which survey was being conducted ;(iv) allocation of land for development of waste transfer stations in I-9 and Humak Industrial Triangle which had been made as a part of the layout plan; (v) Comprehensive waste generation survey had been conducted by the CDA for the first-time including collection method, disposal and fees charged in private housing societies, Katchi Abadis and rural areas and ;(vi) disposal of solid waste at Losar, Rawalpindi had been worked out with RWMC as an interim arrangement.

However, due to limited ability of RWMC to continue the disposal arrangement for extended period of time, some space was available beyond the power lines of NTDC and IESCO running through the site with limited access to said area.

These steps had been taken to create a comprehensive solution for the entire city and the same would be presented before the Islamabad High Court, once approved by the CDA Board.

The Interior Division; therefore, informed that following had been proposed by CDA for consideration of the Cabinet:

(i) development of a sanitary landfill site at one or more sites, subject to feasibility assessment by the consultant by March, 2023 and subsequent amendment in the master plan, if so required. Environmental Impact Assessment and other codal formalities would be fulfilled as and when construction was initiated and ;

(ii) development of a sanitary landfill site at one or more sites, subject to feasibility assessment by the consultant by March, 2023 and subsequent amendment in the master plan, if so required. Environmental Impact Assessment and other codal formalities would be fulfilled as and when construction was initiated.

After brief discussion, the Federal Cabinet approved the proposal and directed Cabinet Division to issue the decision prior to formal approval of the minutes.

HOUSING CONSTRUCTION COMES TO HALT IN PAKISTAN ON HIGH STEEL PRICES

KARACHI: Housing constructions comes to a halt in Pakistan as an association on Wednesday decided to boycott purchasing steel due to high prices. Altaf Tai, Chairman, Association of Builders and Developers (ABAD) Pakistan in a video massage announced that all members of the association had unanimously decided not to purchase iron with immediate effect.

A meeting of members was held at ABAD house, which was attended by past chairmen and members, he said, adding that all the members had agreed not to purchase steel.

The members also assured that no construction activities would be undertaken on their sites. “If any member found undertaking construction activity from Thursday February 9, 2023, then ABAD will not issue guarantee to such member,” he added. Altaf Tai said that the situation would be considered in a meeting to be held next Wednesday.

In its previous statement on January 31, 2023, the association lamented that recent iron and steel crisis is dragging construction industry towards total collapse and steel prices has gone all time high to Rs 280000 per metric ton PMT (two lacs eighty thousands) because the government is not allowing to open Letter of Credits (LCs) and moreover no steel is available in this rate, too. He said that builders and developers have closed their projects costing billions of rupees and hundreds and thousands people have lost their jobs due to ever high prices of construction materials.

“The government should allow import of construction materials from neighboring countries on the basis of barter to defuse current situation otherwise builders and developers will be forced to move their investments to other countries and that move will be detrimental to Pakistan’s economy,” the ABAD chairman said. Altaf Tai said that if the government will not allow opening LCs, shortage of other essentials items will also create which can lead to chaos and law and order situation in the country. He said that the construction industry is given special attention all over the world to balance the economy because more than 70 allied industries are running when construction industry is running but unfortunately no such attention is given in Pakistan.

Chairman ABAD was of the view that the government is not opening LCs for import of raw materials because of foreign currency’s shortage but it is feared that this decision will be more harmful than favorable. He said that not only local builders and developers but foreign investors are also not investing their money in Pakistan due to crisis of construction materials.

PR 9-2-2023