OPTIONS TO SETTLE POWER SECTOR DEBT ON THE TABLE FOR IMF POLICY TALKS

ISLAMABAD: Consumers must brace for another hike in electricity tariff as the government was left with no other option but to receive additional payment from consumers to retire the power sector debt hovering at Rs1,000bn. This will be in addition to a slew of other measures, including removal of subsidies and other adjustments, to retire the debt. The move is part of the government's actions to meet preconditions set by the International Monetary Fund (IMF) to resume the loan programme.

The development came a day before the visiting IMF mission and the government were set to begin policy-level talks on Tuesday, after concluding extended technical consultations on Monday.

Officials said the government has no option but to cover Rs952-1,000bn power sector circular debt through tariff measures as the IMF had made it clear that it was no longer acceptable to park the gaps in power holding companies. The gap had to be financed through a combination of budget measures and tariff surcharges, officials said.

According to the breakdown, the electricity base tariff has to be jacked up by more than Rs7 per unit to generate almost Rs600bn for the power sector on top of three quarterly adjustments for another Rs75bn during the current fiscal year.

The combined impact of base tariff adjustment and quarterly adjustment would average around Rs10 per unit in the first round — starting in February — but would remain around Rs7.65 per unit in the second phase i.e. March through May with quarterly tariff adjustments, power ministry sources said. This will be other than expenditure cuts and additional revenue measures expected to be announced in a couple of days. Moreover, gas price adjustments and immediate removal of subsidies for industrial consumers are also set to be modified as the government desperately attempts to meet the IMF's demands.

The finance and power ministries have already finalised "Revised Circular Debt Management Plan," based on the Rs2.253 trillion amount as of June 30, 2022. Under the plan, the government will have to find ways to manage debt of Rs952bn during the current fiscal year, including Rs675bn worth of additional subsidies.

However, the IMF was not on board with it as it sought full financing of the circular debt through tariff measures. Thus, about Rs600bn additional funds would now be recovered from consumers through increase in base tariff on top of outstanding quarterly adjustments from last year. Among the taxation measures that would still need to be finalised over the next three days include flood levy, increased taxes on sugary drinks and banking sector's windfall gain tax on top of increased tax collection due to inflation and exchange rate depreciation.

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POWER SECTOR: GOVT HAS ACHILLES HEEL SOMEWHERE, IMF FINDS IT

ISLAMABAD: Circular debt's unexpected growth, subsidy to untargeted domestic consumers and five zero-rated sectors have reportedly irritated the visiting International Money Fund (IMF) Mission, which has suggested an increase of over Rs 5 per unit and withdrawal of subsidies, well-informed sources told Business Recorder.

The government's team comprising Finance Ministry and Power Division again held threadbare discussions on the data, which has been shared with the Fund and World Bank, the sources added. The country's circular debt is now over Rs 2.5 trillion due to a dismal performance of power sector.

The Finance Minister, sources said, has put a bar on any Minister or official of any Ministry, except designated authorities of Finance Division to talk to the media claiming that talks with the Fund are of a very sensitive nature which is why no other official except Finance Division should speak to the media. "Finance has taken some kind of oath from officials of other Ministries that they will not communicate at all with the media," the sources added.

The Ministries have shared their data with the Fund and responded to their questions on the authenticity of data. Power Division has just shared figures of circular debt with the Fund as decision making power lies with the Finance Division or political leadership of the government. Both the Fund and Power Division are making efforts to contain and minimize circular debt, which is showing substantial growth, the sources said, adding that it is up to the government to decide how much circular debt will remain on the books and how much will be passed on to consumers.

The sources further stated that by September 2022 the flow of circular debt was agreed to be negative but instead it increased by Rs 185 billion whereas in December 2022 as well the flow was to be negative by Rs 157 billion but it grew by Rs 385 billion. "We are completely off-track and Fund wants us to be on track for which someone has to bear the cost," the sources added. The Fund has clearly conveyed to the government that it must withdraw subsidy for the five zero-rated sectors projected to have a financial impact of Rs 100 billion.

The government is supplying electricity to five zero-rated sectors at Rs 19.99 per unit all-inclusive despite opposition by the Fund. The sources said, Fund has urged Pakistani authorities to extend subsidy only to vulnerable segments of society through Benazir Income Support fund. Pakistani authorities have assured the Fund that it would determine some mutually acceptable mechanism.

The government is to bridge the gap of Rs 950 billion by imposing new surcharge of over Rs 2.90 per unit through amendments to the NEPRA Act in addition to continuing existing surcharge of Rs 0.43 per unit. According to sources, a high-level meeting was held in the Prime Minister Office on Monday afternoon, in the light of discussions and demands of the Fund in which concerned Ministries made presentations.

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SHARES SURGE OVER 500 POINTS ON EXPECTATIONS OF CIRCULAR DEBT RESOLUTION

Shares at the Pakistan Stock Exchange (PSX) continued their bull run on Tuesday, rising immediately after the opening bell. The benchmark KSE-100 index jumped 509.61 points, or 1.24 per cent, to reach 41,700.38 points at 10:03am.

Dalal Securities CEO Siddique Dalal said the index rose on expectations that the gas sector's circular debt would be resolved which would result in gas companies paying better dividends. State-owned companies — Pakistan Petroleum Ltd (PPL), Sui Southern Gas Company Ltd (SSGC), Sui Northern Gas Pipelines Ltd (SNGPL) and Oil and Gas Development Corporation Ltd (OGDC) — were performing well and pushing the KSE-100 index higher, he added.

The cement sector was also performing better, Dalal said. Besides this, several companies were buying back shares which was also a positive for the market. Dalal said investor confidence would be strengthened if the government fulfilled its commitment to resolve the circular debt issue and the agreement with the International Monetary Fund (IMF) was done.

Topline Securities Senior Manager Equity Mohammad Arbash said the market rallied on expectations that the government would reach an agreement with the IMF over the weekend. He also attributed it to reports that the government would settle Rs540 billion circular debt by giving supplementary grants to SSGC and SNGPL, which would in turn, pay dues owed to OGDC and PPL.

First National Equities CEO Ali Malik also said that oil and gas companies, including PPL, OGDC, SSGC and SNGPL, were leading the rally on expectations that they would give heavy dividends. "Besides this, the market is looking towards the IMF. If the deal is done, it will also unlock inflows from other countries and lenders and our balance of payments situation will start improving. Once that has happened, the market will take its position. It is very discounted right now," he commented.

Circular debt

A delegation of the IMF is currently in Islamabad for discussions on the completion of the ninth review of a $7bn loan programme, which would release $1.18bn that Pakistan needs to stave off default.

The IMF mission and the government were set to begin policy-level talks on Tuesday, after concluding extended technical consultations on Monday.

The government has been left with no other option but to receive additional payment from consumers to retire the power sector debt hovering at Rs1,000bn. This will be in addition to a slew of other measures, including removal of subsidies and other adjustments, to retire the debt. The move is part of the government's actions to meet preconditions set by the IMF to resume the loan programme.

The finance and power ministries have already finalised "Revised Circular Debt Management Plan," based on the Rs2.253 trillion amount as of June 30, 2022. Under the plan, the government will have to find ways to manage debt of Rs952bn during the current fiscal year, including Rs675bn worth of additional subsidies.

However, the IMF was not on board with it as it sought full financing of the circular debt through tariff measures. Thus, about Rs600bn additional funds would now be recovered from consumers through increase in base tariff on top of outstanding quarterly adjustments from last year.

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GOVT DECIDES TO ENHANCE CAPACITY OF NEECA

ISLAMABAD: Prime Minister Muhammad Shehbaz Sharif has decided to increase the capacity of the National Energy Efficiency and Conservation Authority (NEECA).

The prime minister chaired a review meeting on measures to save energy in the country, wherein, the meeting was further informed that the draft of the National Energy Efficiency and Conservation Policy will be presented for approval in the cabinet meeting very soon.

The prime minister established an inter-ministerial steering committee under Shahid Khaqan Abbasi to enhance the capacity of the NEECA and reform it. He also expressed his displeasure at the performance of the NEECA and the deficiencies in its capacity. The inter-ministerial committee should take steps to make the NEECA active immediately.

The experts of the NEECA have given action plans to the ministries for efficient energy saving in the construction, industrial, communication, and power and agriculture sectors. The meeting was informed in detail about the current capacity of the NEECA and its mandate. The meeting was told that no substantial steps have been taken to increase the capacity of the NEECA besides briefing about its budget.

The prime minister emphasized making a comprehensive plan regarding the reforms of the NEECA to determine the time of necessary steps and to ensure these steps within a specified period. The meeting was attended by Shahid Khaqan Abbasi, federal ministers Ishaq Dar and Khurram Dastgir Khan, Adviser to Prime Minister Ahad Cheema, Minister of State for Petroleum Dr Musadik Malik, special assistants Jahanzeb Khan and Syed Fahad Hussain, and relevant senior officials.

ELECTRICITY BILLS: LHC DECLARES FUEL ADJUSTMENT CHARGES ILLEGAL

LAHORE: The Lahore High Court directed the government to provide maximum subsidy to the domestic consumers of 500 units per month and not demand extra ordinary taxes having no nexus with the consumption of energy which may be recovered through other modes.

The court passed these directions in about three thousand of petitions filed by domestic, industrial and commercial consumers against different charges collected through the electricity bills and declared that the Fuel Price Adjustment, Quarter Tariff Adjustment, Change of status of tariff from industrial to commercial by the Nepra as illegal and without lawful authority. The court had reserved its judgment on the petitions on October 10, 2022. The court directed the government to explore the solar, hydel, nuclear and wind sources of producing electricity or arrange for cheap purchase of sources of electricity from other countries.

The court also asked the government to explore the cheap modes of producing electricity and evolve mechanisms for its quick availability. The court asked the government to ensure the smooth supply of electricity based on demand and not unilaterally change the type of tariff from industrial to commercial without hearing such consumers.

The court also directed the Nepra not to charge any exorbitant tariff beyond the paying capacity of the domestic consumers. The court directed the Nepra to inform the consumers about the charges on monthly basis and the fuel price adjustment shall not go beyond 07 days and the Quarter Tariff Adjustment shall not go beyond the statutory period.

The court observed that imposition of various taxes which can be recovered otherwise, amounts to economic strangulation of the consumers. The court said the Nepra while deciding about the tariff must keep in mind that interaction between the consumer and the producer should not be excited by the fiduciary relationship for the simple reason that to earn huge profit the performance of the producing company must increase and not the price be increased.

RS22.52BN CROSS-SUBSIDY FOR LPG AIR MIX SUPPLY DECLINED

ISLAMABAD: Federal government has declined a request of gas companies- Sui Northern Gas Pipeline Limited (SNGPL) and Sui Southern Gas Company Limited (SSGCL) for Rs22.52 billion cross-subsidy for LPG air mix supply to consumers in selected areas where natural gas is not available. The two gas companies have been given the task to set up 30 liquefied petroleum gas (LPG) air mix plants to cater to domestic gas needs.

Sources maintained that the plants were aimed at providing gas facility to the population in the areas where it is not available and discouraging deforestation. At the plants, the LPG will be mixed with air to produce synthetic gas for onward supply to consumers through distribution networks like natural gas.

The gas company, SSGC has required Rs9.92 billion while SNGPL needs Rs12.60 billion cross-subsidy as LPG air mix tariff is much higher than the consumers of natural gas are paying. In order to lessen cross-subsidy impact, the tariff for LPG air mix supply to consumers is Rs4,640 per million British thermal units (mmbtu) – which is even higher than the highest slab upto Rs1,460 for natural gas supply to domestic consumers. Per unit generation cost for the SNGPL and the SSGC LPG-air mix plants was calculated at Rs4,640 respectively, which were much higher than the gas tariffs for domestic consumers who were paying Rs121 per mmbtu under the lowest slab and Rs1,460 per mmbtu under the highest slab.

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40 PHARMA FIRMS WARN OF HALTING PRODUCTION

ISLAMABAD: Over three dozen pharmaceutical companies have expressed their inability to continue production citing unavailability of raw material and delay in their cases seeking price increase.

The health ministry, however, has held out an assurance that the government would make sure there was no shortage of medicines in the country. As many as 40 companies informed the Drug Regulatory Authority of Pakistan (Drap) on Monday that they are going to halt production in a week due to unavailability of raw material.

Moreover, they claimed that their cases seeking increase in prices under the 'hardship category' were not being decided by courts. Under the hardship category, companies may file court cases to increase prices if production cost goes beyond the maximum sale price.

Pakistan Pharmaceutical Manufacturers Association chairman Syed Farooq Bukhari, while talking to *Dawn*, said PPMA had demanded a 28.5 per cent across-the-board increase in prices. "In 2018, one US dollar was of around Rs140 but now, due to depreciation of rupee, that value has increased to around Rs270. Because of this situation 40 companies have written letters to the health ministry and Drap that they will not be able to continue production of medicines [after] one week," he said.

Pharma Bureau executive director Ayesha Tammy Haq, while talking to *Dawn*, said the companies were facing severe shortage of dollars. "It is unfortunate that the government has dollars to import vehicles but LCs (letters of credit) are not being opened. A number of containers are not being cleared. We have run out of raw material. Moreover, there is massive devaluation of rupee as it has dropped by Rs60 against the dollar in just one month," she said.

Import of material

According to the letter sent to the health minister, the ministry's secretary and the Drap CEO, the pharmaceutical industry is heavily dependent on import of raw materials. "Unfortunately, the pharmaceutical industry suffered a devastating blow as prices of the Active Pharmaceutical Ingredients i.e. raw material used in the manufacturing of drugs increased exponentially in the international market since the outbreak of Covid-19 coronavirus pandemic. Simultaneously, factors of production like cost of fuel, electricity, freight charges and packing material witnessed unprecedented increase during the same period," said the letter, draft of which is available with *Dawn*. To avert an imminent 'catastrophe', it said, the industry repeatedly urged the government and Drap to take remedial measures by allowing inflationary adjustments in the maximum retail prices of medicines, which if not addressed would result in the inevitable collapse of the industry.

However, it claimed, the government and Drap failed to take any measures to protect the public and remedy the ongoing situation, which has resulted in the collapse of the pharmaceutical industry as it is unable to ensure further production of safe, efficacious, and qualitative therapeutic goods with rational use at reasonable prices to the general public. Therefore, the letter read, "it has become completely unsustainable to manufacture medicines and ensure their availability beyond the next seven days". When contacted, Ministry of National Health Services Director General Dr Baseer Khan Achakzai said the ministry would take appropriate action after receiving the companies' letters. "However the government will make sure that there would be no shortage of medicines in Pakistan," he said.

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SINDH CABINET APPROVES DRAFT BILL FOR KARACHI WATER AND SEWERAGE CORPORATION

In an over-five-hour lengthy session on Monday, the Sindh cabinet approved the draft law for establishing the Karachi Water and Sewerage Corporation with the mayor as the head of its board. The cabinet also decided to start wheat procurement on February 15 at a rate of Rs4,000 per 40 kilogrammes, approved Rs58.7 billion for flood relief work, enhanced the scope of the Rapid Response Force and created the crowd management unit to respond during violent incidents in the province causing public disorder. The cabinet meeting was held at the Sindh Chief Minister House with CM Syed Murad Ali Shah in chair. The session was attended by provincial ministers, advisers, special assistants, Chief Secretary Sohail Rajput and others.

At the outset of the meeting, the cabinet condemned the terrorist attack in Peshawar that claimed over 82 innocent lives and vowed to eradicate terrorists and their facilitators in the country. The CM and his cabinet members also expressed solidarity with the people of Turkiye whose southern areas have been hit by a deadly earthquake.

The cabinet decided to dispatch 100,000 blankets to Turkiye for earthquake-affected people. It also appreciated the Sindh CM's visit to Peshawar where he visited the blast site and a hospital to give consolation to the injured. The meeting also endorsed the CM's announcement of providing Rs1 million compensation for the families of the persons killed in the blast and Rs500,000 for the injured.

Water corporation

After a thorough discussion, the cabinet approved the draft of the Karachi Water & Sewerage Corporation Bill 2022 so that it could be tabled before the provincial legislature.

The draft bill has been prepared to establish the Karachi Water & Sewerage Corporation with the responsibility of planning and execution of bulk production, supply and distribution of potable water in Karachi.

According to the draft law, the corporation will have a board whose chairperson will be the Karachi mayor. In case there is no elected mayor, the Karachi Metropolitan Corporation (KMC) administrator will be the chairman of its board, which will also have seven ex-officio and nine non-official members. The board will develop and approve strategic plans for water delivery and approve the budget of Karachi's water utility. The corporation will be managed by a chief executive officer appointed by the board for a period of four years. It will also have a chief operating officer, chief financial officer, chief internal audit officer, and chief IT officer.

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