IMF UNIMPRESSED BY PLAN TO CONTAIN RS952B CIRCULAR DEBT: LENDER SEEKS TARIFF MEASURES AGAINST UNBUDGETED SUBSIDIES

ISLAMABAD: The International Monetary Fund (IMF) asked Pakistan on Wednesday to plug unbudgeted Rs675 billion power subsidies with a mix of electricity tariff increase and other revenue enhancing measures, while finding serious deficiencies in the revised 'Circular Debt Management Plan' (CDMP) of Rs952 billion. During the first review of the revised plan that was prepared by the Power Division, the IMF team also asked Pakistan to withdraw the unbudgeted electricity subsidies for exporters and other sectors, according to sources privy to the ongoing discussions.

The Power Division prepared the revised plan to eliminate the Rs975 billion circular debt that it had now projected as against the earlier commitment to the IMF to keep the flow zero. However, the plan did not pass through the IMF scrutiny due to faulty assumptions and heavy reliance on getting Rs675 billion more subsidies.

The IMF's first set of observations may increase the troubles for the government that is eying to satisfy the lender with a mix of tariff increase and additional subsidies. Pakistan's economic survival hinges on the success of these 10-day long talks after it could not receive any support from foreign nations.

The IMF's view was that due to almost negligible fiscal space, there was no room for any additional subsidies, therefore, it asked the government to bridge this Rs675 billion gap with increase in electricity prices and other measures, said the sources.

The global lender asked the government to come up with a proposal to increase tariffs, including withdrawal of the exporters package, which is estimated to cost Rs143 billion in this fiscal year. Out of Rs143 billion, Rs123 billion are unfunded, the sources said.

Prime Minister Shehbaz Sharif had announced the preferential untargeted subsidy for exporters in October, which has now created more troubles for his government and the people. At the time of the budget, the government kept only Rs355 billion power subsidies for the current fiscal year. In order to manage the flow of the additional circular debt, the Power Division has now sought Rs675 billion more subsidies, bringing the total needs to over Rs1.03 trillion.

However, this did not go well with the IMF. The Express Tribune reported on Wednesday that the revised CDMP revealed that a staggering Rs952 billion more would be added to the circular debt in a 'business-as-usual' move.

The government has proposed the imposition of three separate quarterly tariff adjustments, ranging from 69 paisas per unit to Rs3.21 per unit from February to May this year to reduce a gap of Rs73 billion, details showed.

The plan appeared unrealistic, as it had been made on the assumption that the rupee-dollar exchange rate was Rs232 per dollar and 16.84% Karachi Interbank Offered (KIBOR) rate. The current exchange rate stands at Rs270 and KIBOR is close to 18%.

The sources said that the IMF did not appear satisfied with the Power Division's performance that could not improve the sector's finances during the past six months. Instead of honouring commitments, the Plan showed about Rs223 billion to Rs275 billion further increase in the circular debt despite increasing tariffs in coming weeks.

The circular debt was Rs2.253 trillion at the end of the last fiscal year – a matter of concern for the IMF. After the exchange rate, the power sector is the second non-negotiable area for the IMF where the government may not be able to get any major relief against its many failures that also date back to the PTI era.

The government has given a gradual implementation plan for the removal of agriculture tube-wells subsidies, which seeks their complete withdrawal by mid of 2025. However, the IMF did not agree to this plan. Since fiscal 2018-19, the K-Electric has stopped making payments against power purchases due to lapse of the Power Purchase Agreement. The K-Electric's outstanding payables to the government have increased to Rs490 billion as of December 2022. The estimated addition in the circular debt due to non-payment of K-E dues during the current fiscal year is Rs172 billion, according to the Power Division.

The IMF and the World Bank are pushing Pakistan to sign the agreement with the K-E but the Power Division informed the IMF that the deal could be signed in the fourth quarter of this fiscal year. The Fund was told that the gap in the consumer reference rate and projected cost of supplying power would be mitigated through timely tariff increases.

The IMF was told that only 0.58% improvement is expected in the line losses, which are now estimated at 16.27% and would result in mere Rs12 billion saving.

Compared to 16.27% projections, the Nepra has set the target at 11.7%. The government is showing the total average 0.58% improvement in areas where its writ is very weak.

After the recoveries of the bills dipped to 83%, the government assured the IMF that it will be able to increase the ratio to 90% by end of this fiscal year. Still, the Iesco recovery, once considered very efficient, is shown at 86.4%.

The Qesco recovery is shown only at 33.7%, Sepco 63.8% and Hesco 75%. Due to low recoveries by the power distribution companies, the government sustained Rs180 billion losses in the previous fiscal year.

The revised plan claims that the monthly circular debt reports are published on the Power Division on 18th of every month. Ironically, the last report that is available on the ministry's website is from October 2021.

The government informed the IMF that It would impose quarterly surcharges to reduce another Rs73 billion in the flow of the circular debt. In any given time from now till June, there will be an additional Rs3.62 to Rs6.14 per unit surge in the cost of electricity, excluding the impact of the pending FCAs.

Earlier, the government had planned that circular debt will be lowered to Rs1.526 trillion through a blend of reductions – Rs284 billion in the old stock and further reducing the flows.

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FISCAL CONSOLIDATION KEY TO SAVING RESERVES: REPORT

The Finance Ministry in its latest report on the state of the economy released here on Tuesday termed fiscal consolidation as the key to saving official reserves and exchange rate stability of the country. According to the monthly Economic Update and Outlook for January 2023, released by the ministry, the fiscal consolidation may temporarily be costly in terms of growth prospects in the short term. However, long-run prosperity and growth could only be achieved by augmenting the country's long-term equilibrium growth path by expanding production capacities and productivity. It says, the first five months of the current fiscal year have ended with some developments; containing fiscal deficit and surplus in a primary balance due to effective fiscal management.

The report says, Pakistan was currently confronted with the challenges like high inflation, low growth, and low levels of official foreign exchange reserves. Further Month-on-Month (MoM) increases in consumer prices may be countered by a further mean reverting international commodity prices and some exchange rate stability due to decreased pace of depreciation.

The overall money supply (M2) growth remains compatible with a return to low and stable inflation, says the report adding but the outlook of M2 is broadly dependent on fiscal accounts which are under immense pressure on account of heavy interest payments and rehabilitation spending.According to the report, inflationary pressure was expected to calm down gradually due to flood-led damages which have disrupted the supply of essential items. On the agricultural front, the wheat crop sowing is estimated at 21.48 million acres which is 94 percent of the target area of 22.85 million acres. The government's pro-Agri initiatives are playing role in the revival of agriculture sector productivity.

On industrial activity, the report says, monetary tightening, import compression strategies, and recessionary global pressure continued to suppress the performance of the manufacturing sector since the beginning of the current fiscal year. During July-November FY2023, the LSM witnessed a contraction of 3.6 percent against the growth of 7.2 percent same period last year. On Year-on-Year (basis), LSM plunged by 5.5 percent in November 2022, while over the previous month, it grew by 3.5 percent.

The fiscal deficit during July-November FY2023 has been contained to the same level of 1.4 percent of GDP as it was recorded in the comparable period last year. While the deficit of Rs 36 billion (-0.1 percent of GDP) last year. The provisional net tax collection increased by 17.4 percent to Rs 3428.8 billion during July-December FY2023 against Rs 2919.9 billion in the same period last year. The increase in growth is largely attributed to a 49 percent growth in direct taxes. The Current Account posted a deficit of $ 3.7 billion for Jul-Dec FY2023 as against a deficit of $ 9.1 billion last year, mainly due to a contraction in imports. However, the current account deficit shrank to $ 400 million in December 2022 as against $ 1857 million in the same period last year, largely reflecting an improvement in the trade balance.

Foreign direct investment (FDI) reached $ 460.9 million during July-December FY2023 ($ 1114.7 million last year) decreasing by 58.7 percent. In July-December FY2023, workers' remittances were recorded at $ 14.1 billion ($ 15.8 billion last year), which decreased by 11.1 percent. MoM basis, remittances decreased by 3.2 percent in December 2022 ($ 2.0 billion) as compared to November ($ 2.1 billion). Pakistan's total liquid foreign exchange reserves increased to $ 9.45 billion on January 24, 2022, with the SBP's reserves now standing at $ 3.678 billion. Commercial banks' reserves remained at $ 5.77 billion

The KSE-100 index closed at 40,420 points as of 30th December 2022 while market capitalization settled at Rs 6,501 billion, it adds.

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SINDH MULLS CONDITIONAL CONTROL OF HESCO, SEPCO

ISLAMABAD: Sindh government was willing to control HESCO and SEPCO, but with zero liability and permission to offload 49 percent shares to a private company along with management, sources in Sindh's power and energy divisions told The News. "However, the bureaucracy in Islamabad is not in favour of offloading 49 percent shareholding of each DISCO, but is endorsing handing over management to the private sector," top officials privy to the development told The News.

The Sindh government's argument was that if the private management did not have a sizeable shareholding and stakes in the DISCOs it might not perform up to the mark, they said. "The private management would perform only when it would have monetary stakes in the DISCO." When the DISCOs would be handed over to the provincial governments with 51 percent shareholding, then the provincial government would enforce the writ and extend help to the private management effectively in terms of coping with the theft of electricity and recovery of bills.

The federal government, they said, wants to hand over the DISCOs to provincial governments and to this effect, the Sindh government was the first one that has shown a positive response, but with some prerequisites.

In the past, PTI government had initiated back door dialogue for handing over SEPCO and HESCO to the Sindh government, but somehow the talks could not advance on the said issues

The PTI government had tailored a plan to offer management contracts of all the DISCOs to the private sector, through a competitive bidding process and incremental revenue sharing basis aimed at bringing down losses and improving recovery. Under the PTI government plan, the new managements were to be allowed to constitute their own boards of directors and powers to offer the voluntary separation scheme (VSS) to the employees. However, the private sector management would not have been allowed to terminate the service of any employee.

The circular debt in the power sector has increased to Rs2.4 trillion mainly because of electricity theft and low recovery of bills. There are also many factors that contribute to circular debt. As per the latest evaluation report of NEPRA 2021-22, SEPCO's transmission and distribution losses stand on the higher side at 36 percent and HESCO's at 25.40 percent.

In addition, PESCO's losses stand at 37.23 percent – the highest among all DISCOs. However, IESCO is the best and most efficient among the DISCOs as its losses stand at 8.18 percent. However, GEPCO's loss remained at 9.07 percent, LESCO's at 11.50 percent, MEPCO's at 14.70 percent, and K-Electric's at 15.30 percent. Right now the total losses stand at 17 percent.

Overall, the financial loss born by the National Exchequer in FY 2021-22, in the wake of transmission and distribution losses, stands at around Rs122.6 billion.

In FY 2021-22, around Rs2,517 billion were collected against the billed amount of Rs2,686 billion, showing that a total loss of around Rs170 billion has to be suffered by the National Exchequer for FY 2021-22.

In this regard, the highest contributor is QESCO followed by SEPCO and HESCO. It is evident that less recovery of such a huge amount has mainly contributed to increasing the circular debt of Pakistan.

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PM TO OPEN K3 NUCLEAR POWER PLANT TODAY

ISLAMABAD: Prime Minister Shehbaz Sharif has stated that he is going to inaugurate the K3 today (Thursday) which would increase the total electricity production from nuclear power plant in Karachi to 2200 MW.

The prime minister stated this while talking to Chinese Atomic Energy Authority (CAEA) Vice Chairman Liu Jing, Pang Chunxue, Director General of the Chinese Embassy in Pakistan, and other high-level Chinese officials who participated in the meeting. The meeting was also attended by Finance Minister Ishaq Dar, Minister for Planning and Development Ahsan Iqbal, Minister for Power Khuram Dastgir, Special Assistants Tariq Fatemi, Tariq Bajwa, and related officials.

The prime minister was briefed on China's investment in nuclear energy projects in Pakistan. The premier said that China is a long-time friend of Pakistan who has helped Pakistan in every good and bad situation. He added that the strategic partnership between Pakistan and China is ideal and Pakistan wants to strengthen it further. The investment of billions of dollars under the China-Pakistan Economic Corridor is proof of the love of the Chinese government and people for Pakistan. He further stated that under the CPEC, China played a key role in controlling the electricity shortfall in Pakistan.

KE FILES FOUR TARIFF PLEAS WITH NEPRA

ISLAMABAD: K-Electric (KE) has reportedly filed four tariff petitions including distribution tariff sans territorial exclusivity, which expires from June 2023, well-informed sources told *Business Recorder*. KE has submitted four petitions with the National Electric Power Regulatory Authority (Nepra) i.e., generation, transmission, distribution, and supply.

The future investment proposals of over Rs465.5 billion were related to distribution and transmission over the years. However, details of the investment plan were not shared with the regulator, after which, the later returned the petition with the request to share a detailed investment plan.

Insiders; however, are of the view that a KE team recently held a meeting with the Nepra chairman and shared its investment plan, main features of which are expected to be unveiled by the regulator in an advertisement. According to insiders, KE requested total investment of Rs465.57 billion for transmission and distribution. The sources said the Nepra has admitted petition regarding generation tariff as there were no figures of investment.

KE CEO DIRECTED TO APPEAR BEFORE SENATE PANEL

ISLAMABAD: Power Minister Khurram Dastgir Khan has directed Chief Executive Officer (CEO) KE to appear in the meeting of Senate Standing Committee on Power, well-informed sources told *Business Recorder*.

According to Senate Secretariat, Senator Saifullah Abro, chairman Senate Standing Committee on Power, in a DO letter has expressed serious reservation and displeasure shown by the committee members regarding the continuous absence of CEO KE from the last 18 meetings of the committee held from October 6, 2021 to October 30, 2022, creating delays/hurdles in the committee business. The behaviour of CEO KE tantamount to the breach of privilege of the committee, therefore, a privilege motion has been moved against him. Moreover, the committee unanimously decided that the CEO KE may be summoned to the next committee meeting.

Senate Secretariat has informed Power Division that Chairman Sadiq Sanjrani has directed attendance of CEO KE as desired by the committee may be ensured in future meetings, failing which the matter may be referred to the Committee on Rules and Procedure and Privilege for an appropriate action.

The agenda of the forthcoming meeting of the committee will be a detailed briefing by CEO K-Electric on the inception of the company, complete procedure including the tendering process of privatisation of K-Electric, ownership and achievements made so far, development sector plan and projects along with complete tendering process and investments made and complete details of correspondence made with Power Division regarding the installation of new power plants, correspondence regarding financial matters in pending from taking the charge of DISCO till date and agreement in-camera only.

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