NO MONEY RAISED FROM PIBS AUCTION

KARACHI: The government on Wednesday was unable to raise any funds through an auction of Pakistan Investment bonds (PIBs) on investors' demand for higher returns on the papers. The bids for three-year, five-year, and 10-year were rejected by the government, while no bids were received for 15, 20, and 30 years papers, according to the SBP's auction result.

The auction target for the PIBs was Rs100 billion. "Market demanding higher yields because of heightening expectations of a further hike in interest rates soon," said Mustafa Mustansir, head of research at Taurus Securities.

The cash-strapped government has been forced to expand its borrowing from both local and foreign sources in order to maintain its economy. The inflows of foreign currency remained dry as a result of the stalled IMF loan programme and a lack of foreign funding from other bilateral and multilateral creditors. Due to income deficiencies, the government needs to borrow additional money from domestic banks to finance its budget deficit, which grew by 23 percent annually to Rs1.7 trillion in the first half of FY2023.

The government continues to aggressively borrow money from banks through treasury bills and PIBs auctions to cover its increasing expenses at high-interest rates.

WHY PAKISTAN IS IMF'S MOST LOYAL CUSTOMER: RUNNING TO THE GLOBAL EMERGENCY WARD 23 TIMES IN 75 YEARS IS NO WAY TO RUN A COUNTRY

People often wonder why Pakistan keeps going to the IMF again and again. A whopping number of 23 programs clearly suggests that we are addicted to the Fund's tough love. In fact, we are the **IMF's** most loyal customer. Argentina, with 21 programs, is number two. In contrast, our Midnight twin India has only been to the IMF seven times and never since the landmark Manmohan-Rao reforms of 1991. Running to the global emergency ward 23 times in 75 years is no way to run a country. This article tries to explain as plainly as possible why Pakistan has never been able to wean itself off the IMF. Buckle up and pour yourself a strong one. It is not a pretty story.

A country typically goes to the IMF if it has run out of foreign exchange reserves. Foreign exchange reserves are used to pay for imports and to pay back money borrowed from abroad, including other countries, multilaterals like the IMF and World Bank, and foreign residents.

A country can build foreign exchange reserves in one of two ways. First, it can do so by running a current account surplus, which is a situation where exports plus remittances exceed imports. Second, even if it runs a current account deficit (the reverse of a surplus), it can still build reserves by attracting foreign currency inflows in the form of debt or equity that exceed this deficit.

In our history, we have hardly ever run a current account surplus in stark contrast to the Asian tiger economies. Sometimes our current account deficits have been very large, for instance during 2017-19 and 2022, running at more than 3 percent of GDP. Whenever this has happened, we have typically had to go the IMF shortly after. Our current account deficits occur because our exports have always been very weak. As a share of our economy, they are only around 10 percent. In successful countries, they are much higher, typically 20-30 percent of **GDP.**

A country's current account position basically reflects how much it saves and invests. If a country invests a lot, it typically needs funds from abroad and therefore runs a current account deficit. This kind of current account deficit is healthy as the investment will generate future growth and exports that can be used to pay back the foreigners from whom the capital was borrowed. In addition, if the capital borrowed from abroad is in the form of foreign direct investment (FDI) rather than debt, it is even better as it means that if the economy does not do so well, the country does not have to pay back as much. Unfortunately, our current account deficits fail on both counts.

First, they do not occur because we invest too much. Indeed, our investment as a share of GDP is only 15 percent. In successful countries, it is two to three times as high. Our current account deficits occur because we do not save enough and consume too much. At a staggering 95 percent of GDP, our share of consumption is even higher than in the US, which is notorious for being consumption-obsessed. This excess consumption increases our imports and does not allow us to build exports. Our national tendency toward over-consumption stems from both public and private profligacy. The public sector runs significant fiscal deficits, typically around 5-8 percent of GDP, which are very large by international standards. Meanwhile, our private sector, consisting of individuals and companies, also does not save enough due to cultural habits and poor banking services.

Second, the way we finance our current account deficits is not through FDI. Indeed, FDI into Pakistan is less than 0.5 percent of GDP compared to around 2 percent in successful countries. Instead, we finance our deficits through **government** borrowing from abroad. This increases our government debt burden significantly. Today, at around 78 percent of GDP, Pakistan's government debt is close to levels considered excessive for an emerging market.

So when do we run out of foreign exchange reserves? This happens whenever our import bill rises beyond a reasonable amount because of global prices or excessive stimulus-fueled growth and we have not been able to attract enough funds from abroad to pay for this high import bill and the debt that is coming due to foreigners. In technical jargon, our foreign exchange reserves decline whenever our "external financing needs", which are the sum of the current account deficit and foreign debt coming due that year, exceed our "available external financing", consisting of FDI and borrowing from other countries, foreign residents and multilateral agencies. If this gap between external financing needs and available financing is too big and continues for too long, we eventually run out of foreign exchange reserves and we need to go back to the IMF. Since much of a country's external financing needs are known more or less in advance, running out of foreign exchange reserves is generally an indication of bad macroeconomic management and flaws in planning. It must be called out as such when it happens.

So this is the pathology that takes us back time and time again to the IMF. To overcome it, we need to focus on four achievable targets. First, we must increase our exports to at least double their current level as a share of GDP. Second, we must also increase our savings and investment to at least double their current level as a share of GDP, notably by running a tighter government budget and making banks serve the needs of the economy better. Third, we need to attract more FDI and less debt to finance our current account deficit, including by strengthening the rule of law and property rights. And fourth, we must plan our external financing needs and availability in advance so that we are not caught unaware at the last minute. These are the metrics on which we should judge a government's macroeconomic strategy and achievements.

Achieving these four targets will require innovative microeconomic strategies, constant experimentation, and single-minded perseverance. I will write about these in subsequent articles, based on international experiences and our local context. Some actions can be taken straight away. Others will take a little more time, as they involve shifting resources across sectors and improving the business climate and financial intermediation. However, as India's post-1991 reform experience shows, these actions can pay off spectacularly after some period of necessary adjustment. If we are serious about never returning to the IMF again, there is no escaping these four pre-requisites and we must hold the feet of policymakers to the fire by constantly asking them for a progress report on them.

Combined, these four priority areas will allow us to build our foreign exchanges reserves and get off the IMF treadmill once and for all. Let me leave you with a final killer statistic that illustrates the primacy of foreign exchange reserves in determining recourse to the IMF. Pakistan has less than $3 billion in foreign exchange reserves today. Our reserves have never exceeded $21 billion in our history. Bangladesh has around $35 billion, India has around $600 billion and China has around $4 trillion. Since the early 1990s, Pakistan has had 11 IMF programs. Bangladesh has had three. India and China have had none. Go figure.

TN 16-2-2023

PM FOR GIVING DISCOS TO PROVINCES

ISLAMABAD: Prime Minister Shehbaz Sharif is all set to hold meeting with Chief Ministers to convince them of provincialisation of at least one power Distribution Company (Disco) before placing this proposal before the Council of Common Interests (CCI). This decision was taken at a meeting of Strategic Roadmap on Privatisation held on February 8, 2023 with the Prime Minister in the chair.

The meeting discussed progress on privatisation of Pakistan Steel Mills (PSM), National Power Parks Management Company Limited (NPPMCL), Heavy Electrical Complex (HEC), House Building Finance Corporation (HBFC), First Women Bank (FWB) and private sector management of Discos.

The officials of concerned ministries shared update on the entities, which fall under their administrative control and sought Prime Minister's guidance for future approach. After detailed discussion, Prime Minister directed Privatisation Commission (PC) to shortlist firms through their enabling regulations for quick hiring of Financial Advisors (FAs) to fast track the privatisation/ divestment process of listed SoEs.

PC has also been asked to make earnest efforts to re-engage with pre-qualified bidder (only one currently) for PSM through a multi-pronged strategy to keep intact its interest in the transaction. With this context, PC in consultation with Financial Advisors of the investor, i.e., Bank of China and China-Pak Investment Company will address concerns of the bidders.

The meeting decided that to expedite the divestment of Pakistan Steel Mill, issuance of NoC by SSGC and withdrawal of litigation/ stay order against PSMC (to facilitate transfer of Core Operating Assets as envisaged in the SoA). Minister of State for Petroleum and Secretary Privatisation Commission would meet CM Sindh and resolve this issue at the earliest.

On NPPMCL, Secretary Power Division has been directed to share data/ working files of valuation of NPPMCL with the Minister Finance for review. Furthermore, Minister Finance will hold a meeting to discuss/ review the valuation numbers with Power and Petroleum Divisions and prepare recommendation for a follow-up meeting. Power Division is tasked to follow up on the template of Non-Disclosure Agreement (NDA) with TAQA-UAE for fast track approval and signing. The virtual data room of PC will be available to investors for next steps thereafter.

Minister Finance briefed the Prime Minister regarding delisting of NPPMCL from the active privatisation list and shared that delisting (duly approved by CCoP) is not required to divest the asset, NPPMCL, under G2G arrangement. With this context, the Privatisation Commission is to conclude the matter with the Credit Suisse (Transaction Advisor) for finalization of transaction structure including its valuation.

PC has also been directed to expedite the financial closure of privatisation of Heavy Electrical Complex (HEC). Minister Finance informed the meeting that ECC has already directed the PC to finalize/ complete the land related matters of HEC by Feb 15, 2023. Principal Secretary to PM is to coordinate with Security Planning Division (SPD)/ Secretary Privatisation to fast track the finalization of land related matters as per PM's directions. To expedite the privatisation process of House Building Finance Corporation (HBFC), PC is to schedule a meeting HBFC Board to pre-qualify the investors and sign the NDA for next steps.

Finance Division has been directed to finalize/ issue the audited financial accounts of the First Women Bank Ltd (pending from 2019 to date) to allow PC to proceed with marketing and privatisation process.

Prime Minster has desired the provincialisation of at least one (minimum number) power distribution companies (Discos) per province at fast pace. The Power Division is to prepare and circulate position paper to the relevant provinces. Also Power Division in coordination with SAPM-Governance Effectiveness (GE) would undertake the groundwork for finalizing the provincialisation proposal before consideration by CCI.

Principal Secretary to PM has been directed to schedule the Prime Minister's meeting with the Chief Ministers to discuss the initiative of provincialisation of Discos after position paper is circulated by Power Division. Secretary PC, in coordination with SAPM-GF, would schedule a follow-up meeting of privatisation and G2G Framework today (Feb 16).

R 16-2-2023

ENERGY TARIFF 'COMPULSORY' FOR EXPORT SECTORS: BUSINESSPEOPLE SAY DISCONTINUATION WILL MAKE TEXTILE EXPORT INDUSTRIES UNVIABLE

KARACHI: The government's decision to discontinue the Regionally Competitive Energy Tariff (RCET) of gas and electricity for five export-oriented sectors is expected to create a significant setback for the national economy, potentially leading to reduced competitiveness and revenue losses for the affected industries.

"Discontinuation of RCET of gas and electricity for five export-oriented sectors will sabotage national exports," stressed Muhammad Babar Khan, Central Chairman of the Pakistan Hosiery Manufacturers and Exporters Association (PHMA), in a statement.

The economic situation of the country is volatile as the Pakistan Stock Exchange (PSX) has crashed several times, inflation has skyrocketed and the rupee has depreciated to historic lows. Currently, the only sector performing is exports which is earning forex in these difficult times, generating revenue and providing employment, he said.

"Any imprudent and unwise decision to discontinue RCET for five export-oriented sectors shall be disastrous and will destroy the relentless struggle and efforts of exporters to enhance exports," commented Khan. Speaking to the Express Tribune, Union of Small and Medium Enterprises (UNISAME) Chairman, Zulfikar Thaver said, "The government always learns its lesson after it makes the mess."

Giving examples, Thaver said, "Despite Murtaza Syed, the acting State Bank of Pakistan governor, being the most competent to negotiate with the International Monetary Fund (IMF), they appointed Jameel Ahmed."

"For the past few months, we have been reiterating that the government facilitate exports, sit with exporters and tell them to give suggestions as they know how best to resolve matters," said Thaver, adding that, "The factors of production can control the export prices – if prices are uncompetitive, exports will not pick up."

"Textile exports were at the top with a share of 61%, to the tune of $19.4 billion, in exports in 2021-22 with a notable enhancement of over 25%," said PHMA Patron in-Chief, Muhammad Jawed Bilwani.

"In the wake of economic turbulence in the last six months, textile exports have witnessed a decline of 7% while national exports faced a downfall of 5.73%. If RCET is discontinued, it will cause further decline in exports of the five big export sectors," he remarked.

“Value-added textile exporters are highly distressed over the news that the government, on IMF’s behest, has decided to increase RCET by 34.31%, raising the tariff from Rs819 to Rs1,100 and a 30% increase raising tariff of captive power of export industries from Rs852 to Rs1,100 retrospectively from 1 January 2023. This will make the textile export industries unviable to operate and lead to massive closures and huge lay-offs,” Bilwani explained, adding that “In order to save exports, continuation of RCET is compulsory.”

TR 16-2-2023

CCP APPLAUDS NEPRA’S DECI SION TO MAINTAIN NET METERING REGULATIONS

The Competition Commission of Pakistan (CCP) has welcomed the decision of the National Electric Power Regulatory Authority (NEPRA) to maintain the existing NEPRA (Alternative & Renewable Energy) Distributed Generation and Net Metering Regulation, 2015.

The decision comes after NEPRA proposed amendments to the net metering regulations, which raised concerns over competition, said a press release issued here.m The proposed amendments would have replaced the National Average Power Purchase Price (NAPP) with the National Average Energy Purchase Price (NAEPP), resulting in a decrease in the amount payable to distributed generators/ prosumers (consumers/customers who both produce and consumes electricity). CCP had reservations over the proposed amendments and conveyed its concerns to NEPRA in Nov 2022. NEPRA assured to give due consideration to all stakeholders’ views before reaching a decision on the proposed amendments. The Competition Act, 2010, mandates CCP to review policy frameworks for promoting competition and making suitable recommendations for amendments to any law affecting competition in Pakistan to the government. CCP noted that the proposed amendments would have been detrimental to the distributed generators/prosumers, who made investments in solar systems based on policy provisions, agreement with their respective DISCOs, and a license from NEPRA. After receiving concerns from various sources, CCP highlighted it to the NEPRA that Pakistan’s energy sector heavily relies on costly imported fuels with thermal power dominating the energy mix and renewables contributing very little. Despite the savings from distributed generation, rising international oil prices, inefficiencies in DISCOs, limited fiscal space, and global renewable energy efforts contradict NEPRA’s proposed amendments. NEPRA in its decision dated Feb 10, 2023, has recognized the advantages of net metering, including displacement of expensive electricity, savings in foreign exchange, and minimal losses. The proposed amendments would have also placed distributed generators/ prosumers at a disadvantage compared to other generation companies and IPPs. Moreover, DISCOs would have purchased electricity units from distributed generators at Rs. 9/kWh (existing rate is 19.32kWh) and sold them back to end consumers on the grid at a significant markup. However, NEPRA’s recent decision would result in equal treatment of all players in the sector. CCP supports NEPRA’S decision and looks forward to continued collaboration to promote competition, fair play, and equal treatment for all the players in the sector.

TRANSPARENCY IN BANK INSURANCE TO INCREASE PUBLIC INVESTMENT: PRESIDENT

President Dr Arif Alvi Wednesday said due diligence and transparency in the bancassurance sector were vital to increasing the quantum of public investment, thereby strengthening the economy. Attractive insurance and banking products would not only enhance public confidence in the bancassurance sector but also ensure increased liquidity in the economy, he said while addressing a conference on ‘Transparency in Bancassurance and Role of Ombudsman’ here at the Governor House. President Alvi said it was the state’s responsibility to provide a regulatory framework for growth and transparency in the banking and insurance industries. The insurance industry, he said, should improve checks and balances, and filtering mechanisms to conduct due diligence before the issuance of policies to policyholders, besides honouring claims in a timely and transparent manner. He stressed the need of strengthening the insurance sector and enhancing its contribution to the gross domestic product. The share of the insurance sector in Pakistan’s economy was less than 1%, whereas in other regional countries, it was around 3%. President Alvi said the insurance sector could offer profitable products to the general public to attract their savings and support the economy simultaneously. He stressed that the money parked in the real estate sector should be shifted to other productive sectors of the economy to keep the wealth of the nation in circulation. New products like crop insurance and social insurance should be introduced in the wake of the current climatic situation, he suggested. Highlighting the significance of transparency, the president said accurate information about the insurance policies should be provided to the people at the time of selling the policy, which would enhance their confidence in the sector. He further said the sales force of the insurance and banking sectors should adopt the best practices and fair play to win the trust of the clientele. Federal Insurance Ombudsman Khawar Jameel shed light on the performance and growth of his organisation. He said the monetary relief to the tune of Rs 2.57 billion had been provided to the complainants during the last year. “This has been achieved through an amicable dispute resolution and effective complaint redressal system at the Federal Insurance Ombudsman office,” he added. The event, organized by the Federal Insurance Ombudsman, was attended by Federal Banking Ombudsman Kamran Shahzad, Insurance Association of Pakistan Chairman Muhammad Hussain Hirji, and officials and representatives from the banking and insurance industries. Earlier, the president also distributed cheques among the complainants who had got their insurance disputes resolved through the Federal Insurance Ombudsman.

Times 16-2-2023

SIGNIFICANT CUT IN OIL, GAS PRICES LIKELY AFTER IMPLEMENTATION OF RUSSIA DEAL

ISLAMABAD: The finalisation and implementation of deals achieved during the Russia-Pakistan Inter-Governmental Commission (IGC) would result in a significant reduction in the prices of oil and gas in the country. This was shared during a meeting between Danila Ganich, Ambassador of Russia to Pakistan and Federal Minister for Economic Affairs Sardar Ayaz Sadiq, here on Wednesday. Both sides expressed good sentiments during the meeting to each other and reaffirmed their commitment to augmenting advanced collaborations between Pakistan and Russia for the good of economies, cultural exchange and mutual assistance to achieve a significant comparative advantage.

The Minister for Economic Affairs greeted the Russian ambassador and highlighted the bilateral, economic and historic ties between Pakistan and Russia. The federal minister stated that both sides had always enjoyed outstanding bilateral relations based on mutual respect, trust and interest. The Minister for Economic Affairs appreciated the progress achieved during IGC and shared that those deals were in the interest of both countries.

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