IMF, SBP HOLD TALKS ON INTEREST RATE: PAKISTAN'S FOREIGN EXCHANGE RESERVES, HELD BY THE SBP, STOOD AT $3.1 BILLION AFTER IT WENT UP BY $276 MILLION TILL FEBRUARY 10, 2023

ISLAMABAD: The International Monetary Fund (IMF) and State Bank of Pakistan (SBP) on Friday held a round of talks about the possibility of further tightening of monetary policy and building up foreign exchange reserves for the end of June 2023. Pakistan's foreign exchange reserves, held by the SBP, stood at $3.1 billion after it went up by $276 million till February 10, 2023. This was mainly because of improved liquidity in the market after narrowing down differences between the inter-bank and open markets after allowing adjustments of the exchange rate.

Keeping in view the **IMF's** prescriptions to jack up the foreign exchange reserves up to $12 billion till end June 2023, **Pakistan** will have to secure at least $17-18 billion in four-and-a-half months. It included external debt repayment requirement of $5 billion, **financing** of current account deficit (CAD) of $3-4 billion and $8-9 billion for building up the foreign exchange reserves till June 30, 2023. If Pakistan's wish-list is accepted by the IMF, it requires dollar inflows of $11-12 billion for meeting foreign debt servicing, financing of CAD and building up of foreign exchange reserves up to $6-$7 billion till end of June 2023.

The IMF has also asked the SBP for jacking up the policy rate by 300 to 400 basis points in order to move towards interest rate from negative to positive trajectory. But the SBP high-ups made it clear that the independent Monetary Policy Committee (MPC) was established under the SBP's Amendment Act, and the forum was empowered to take decision keeping in view the macroeconomic fundamentals. A senior official of the finance ministry told The News on Friday that the Pakistani side was asking the IMF review mission to strike the staff level agreement (SLA) next week before the IMF's executive board meeting, expected in four to six weeks.

The Pakistani authorities are still hoping for striking a staff-level agreement next week, but a gap still existed on projection of the external financing front. One senior official conceded that Pakistan undertook tough and bold decisions by increasing electricity and gas tariffs and slapping Rs170 billion taxes through a mini-budget. The exchange rate was brought to market-based and the POL [petrol, oil, lubricants] prices surged. Taking all these steps were in the hands of Pakistani authorities, but now the most critical steps remained unresolved on account of securing confirmation from all multilateral and bilateral creditors for meeting the yawning external financing requirements during the programme period. The IMF programme of EFF would expire on June 30, 2023, and there is no possibility to grant any further extension in it.

"The IMF is pressing hard on gross foreign exchange reserves target up to $11-$12 billion till the end of June 2023. However, the Pakistani side is asking for fixing gross foreign exchange reserves less than double digit in the range of $6 to $8 billion, keeping in view the possibility of reduced confirmation from bilateral partners," said official sources, who are privy to the developments on the ongoing virtual parleys with the IMF mission for moving towards the signing of staff level agreement. Both sides have agreed that there was no possibility to touch gross foreign exchange reserves position up to $16.2 billion till the end of June 2023, as sought on the occasion of finalising the 7th and 8th reviews under $6.5 billion EFF arrangement. Now the Pakistani side wants 50 per cent reduction in fixing the target for end of the program period, but the IMF is insisting on seeking confirmation from all possible avenues.

Finance Minister Ishaq Dar, who is currently visiting Dubai, has been running from pillar to post for seeking confirmation from multilateral, bilateral creditors and commercial banks in order to muster up required dollar inflows support for securing approval from the IMF for the revival of the stalled programme.

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MAIDEN AUCTION: GOVT BORROWS RS5.5BN VIA IJARAH SUKUK - SUKUK IS ALSO APPROVED BY THE SHARIAH ADVISORY COMMITTEE OF THE SBP TO ENSURE ITS ADHERENCE TO ISLAMIC LAW

KARACHI: The federal government has borrowed some Rs 5.5 billion through the auction for first ever 1-year tenure Ijarah Sukuk. Recently, the Ministry of Finance announced the auction for first-ever 1-year tenure sovereign domestic Ijarah Sukuk and the first auction was held on Feb 16, conducted by State Bank of Pakistan (SBP). The Sukuk is also approved by the Shariah Advisory Committee of the SBP to ensure its adherence to Islamic law.

According to State Bank, overall received bids amounted to Rs 10.663 billion for the sale of Variable Rental Rate (VRR) Government of Pakistan Ijara Sukuk (GIS) 1-Year, GIS 3-Year and GIS 5-Year. This included Rs 10.622 billion worth bids for the sale of GIS 1-year, Rs 28.10 million for 3-year and Rs 13.5 million for 5-year Sukuk.

Cumulatively, the federal government raised Rs 5.801 billion against the sale of VRR Ijara Sukuk. Some Rs 5.515 billion were borrowed through the sale of GIS 1-year against the initial target Rs 30 billion set by the ministry of finance. Similarly, Rs 28.1 million were borrowed against the sale of 3-year and Rs 3 million of 5-year Ijara Sukuk. In addition, some Rs 255 million non-competitive bids were also accepted in the auction for GIS VRR.

The SBP also conducted an auction for the GIS Fixed Rental Rate (FRR), for which Rs 3 million bids were received for the sale of 1-year and 3-year GIFS FRR. However, only Rs 0.5 million were accepted against GIS 1-year. The return of the Sukuk is 17.5 p.a. Ahmed Ali Siddique, Head of Shariah Compliance Meezan Bank, said for the first time Pakistan is offering a 1-year sovereign Ijarah Sukuk in the domestic market with 6-month rental payment and it will be another step towards conversion of government financing to Islamic modes and to provide the financial sector and investors an alternative avenue to invest in Shariah-compliant Sukuk of shorter tenure. He said the Sukuk is being offered to all banks, mutual funds, pension funds, corporate sector and individual investors looking for Shariah compliant attractive returns. The Sukuk can also attract High Net worth local and international Shariah minded investors and also those who are looking to shift from interest based National Saving schemes offered by CDNS. Ahmed hoped that the launch of one-year GIS can also provide the government an option to discontinue 12 months T-bills after the Federal Shariat Court decision for elimination of Riba from the financial sector and Finance Minister and SBP Governor announcement to shift to Islamic banking system in the next 5 years.

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‘EMERGING OMCS RESPONSIBLE FOR PETROL CRISIS’

KARACHI: Emerging oil marketing companies (OMCs) contributed the most to the frequent petrol shortages in recent months, with local refineries unwilling to supply them petroleum products because of their non-commercial approach, The News learnt on Friday. Emerging OMCs or the smaller ones in the oil sector are not financially strong to keep the stock of petroleum products especially petrol and diesel as per the regulatory requirements and their stock often goes dry, official sources in the oil sector revealed.

The country has more than fifty OMCs, but 90 to 95 percent stock of petroleum products is held by four big OMCs. Limited capabilities meant that emerging OMCs did not keep the required 20-day inventories with some stocking only two to three days’ worth of the fuel, while others having none. Some emerging OMCs take the products from bigger companies for supply to their fuel filling stations in the country.

Sources said that these emerging OMCs asked the Oil and Gas Regulatory Authority (OGRA) and Petroleum Division to direct refineries to supply them the petroleum products and a meeting was held on Thursday on this issue.

However, representatives of refineries did not show any interest to accommodate them. OGRA cannot intervene either as refineries and OMCs have commercial arrangements in which the government cannot intervene. Calling their business model unsound, it was disclosed that these emerging OMCs were not good customers as when prices were expected to rise, they rushed to get supplies from refineries to make windfall profits, but stayed away when prices were expected to go down. They noted that big OMCs make profits as well as bear the losses, especially when they have to incur the losses on exchange rate adjustments.

The oil industry source said that the actual fault lies with OGRA, which issued dozens of licenses for OMCs without a proper monitoring mechanism to check whether these companies maintained the required stocks as per law or not. They said that India, which was five to six times bigger than Pakistan in terms of population, has only five to six OMCs. They said that the issuance of so many licenses would not ensure energy security in the country and rather often created problems in supply chain of petroleum products, especially when prices went up in the international market.

Since these OMCs do not import, they rely on the bigger companies to run their filling stations. The recent crisis was a glaring example of the problems within these emerging OMCS, sources added.

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