ADB RENEWS RESOLVE TO HELP GOVT DEAL WITH ECONOMIC CHALLENGES

ISLAMABAD: A delegation of Executive Directors of the Asian Development Bank (ADB) of Japan, China and South Korea called on Prime Minister Shehbaz Sharif here Tuesday and renewed ADB's resolve to continue working closely with Pakistan in addressing its economic challenges.

The prime minister lauded ADB's longstanding association with Pakistan and for being a reliable partner in the socioeconomic development of Pakistan. He appreciated ADB's generous support in the wake of the 2022 floods. This includes the emergency relief grant, Post Disaster Needs Assessment, and pledges made during the Climate Resilience Conference in Geneva.

The prime minister appreciated ADB's financing across key economic sectors of Pakistan, particularly transport, energy, climate change, and social sector. He expressed the hope that ADB's would continue its strong partnership with Pakistan in addressing the country's macroeconomic challenges.

The participants were apprised that the 9th review under the International Monetary Fund (IMF) programme is progressing well with staff-level agreement expected in the next few days.

The prime minister underlined that Pakistan is committed to complete the reforms agreed in the programme.

The ADB's executive directors expressed their deep satisfaction with the government's efforts in addressing the huge challenges of the devastation caused by the recent floods. The meeting was attended by Federal Minister for Economic Affairs Sardar Ayaz Sadiq and relevant senior officials.

$5M FLOOD EMERGENCY GRANT SIGNED WITH ADB

ISLAMABAD: The government of Pakistan and the Asian Development Bank (ADB) on Tuesday signed grant agreement of five million dollars for Emergency Flood Assistance Project (Additional Financing).

Dr Kazim Niaz, secretary Ministry of Economic Affairs and Yong Ye, country director ADB, signed the grant agreement. The $5 million grant is from Japan Fund for Prosperous and Resilient Asia and the Pacific administered by ADB to Pakistan for the Emergency Flood Assistance Project—Additional Financing. The additional financing will be used to expand the scope of the original project, particularly to support (i) urgent provision of climate-resilient seeds for staple crop cultivation and (ii) women-led livelihoods to meet basic household needs.

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PAKISTAN MAY DEFAULT: MOODY'S

(Cuts rating to Caa3, says disbursements may not be secured in time)

Moody's Credit Rating

Rating	Outlook	Date
Caa3	Stable	Feb 28 2023
Caa1	Negative	Oct 06 2022
B3	Negative	Jun 02 2022
B3	Stable	Aug 08 2020
B3	Under Review	May 14 2020
B3	Stable	Dec 02 2019
B3	Negative	Jun 20 2018
B3	Stable	Jun 11 2015
Caa2	Positive	Mar 25 2015
Caa2	Stable	Jul 14 2014
Caa2	Negative	Jul 13 2012

SOURCE: Topline Research

KARACHI: Moody's Investors Service has downgraded the government of Pakistan's local and foreign currency credit rating to Caa3 from Caa1, suggesting that the risk of default on foreign debt repayment has peaked with little chance for recovery.

"In the current extremely fragile balance of payments situation, disbursements may not be secured in time to avoid a default," the global rating agency said in a statement on Tuesday. The decision to downgrade the ratings is driven by Moody's assessment that Pakistan's increasingly fragile liquidity and external position significantly "raise default risks to a level consistent with a Caa3 rating."

In particular, the country's foreign exchange reserves have plunged to "extremely low levels, far lower than necessary to cover its imports needs and external debt obligations over the immediate and medium term."

The global rating agency has cut Pakistan's rating for the second time in the past fourth months in the wake of a further fall in the country's foreign exchange reserves. Currently, the country's reserves stand at around $4 billion, import cover of less than one month.

The last time Moody's revised Pakistan's rating down to Caa3 from B3 was in October 2022.

The agency has, however, "changed the outlook to stable from negative," in anticipation that the government will succeed in reviving the International Monetary Fund (IMF) loan programme and acquire new foreign debt required for the remaining four-months of the current fiscal year 2023, according to Moody's statement on Tuesday. Prime Minister Shehbaz Sharif's statement from last week suggests that his government is expected to achieve staff-level agreement (SLA) with the IMF this week or early next week. After SLA, the IMF executive board may take another few weeks to approve and release the next tranche of $1.1 billion.

Although the government is implementing some tax measures to meet the conditions of the IMF programme and a disbursement from the IMF may help cover the country's immediate needs, "weak governance and heightened social risks impede Pakistan's ability to continually implement the range of policies that would secure large amounts of financing and decisively mitigate risks to the balance of payments."

The rating agency also questioned whether Pakistan was negotiating a new loan programme with the Fund to meet its external financing requirements beyond June 30, 2023, as "Pakistan's external debt repayments will remain high for the next few years." The government is to repay around $73 billion between FY24 and FY26, it was learnt.

According to Moody's "there is very limited visibility on Pakistan's sources of financing for its sizeable external payments needs…beyond the life of the current IMF programme that ends in June 2023." "In the absence of an IMF programme after June 30, 2023, Pakistan is unlikely to unlock sufficient financing from multilateral and bilateral partners." The agency further estimates that interest payments will increase to around 50% of the government's revenue in fiscal year 2023.

It noted the inflation reading has spiked to "very high" in Pakistan, with food inflation at 42.9% and transport inflation at 39.1% year-on-year in January 2023.

Some two weeks ago, Fitch Ratings downgraded the credit ratings for the second time in the past four months as well. Moody's said the rating agency has downgraded the government of Pakistan's local and foreign currency issuer and senior unsecured debt ratings to Caa3 from Caa1. It has also downgraded the rating for the senior unsecured Medium Term Note (MTN) programme to (P) Caa3 from (P) Caa1. Concurrently, Moody's has also changed the outlook to stable from negative. "China lent $700 million to Pakistan last week, but still finds the available forex reserves inadequate," it added. The rating agency estimated that the country needs a total of $11 billion in the remaining four months of the current fiscal year, to finance the current account deficit and meet the foreign debt obligations.

Concurrent with today's action, Moody's has lowered Pakistan's local and foreign currency country ceilings to Caa1 and Caa3 from B2 and Caa1, respectively. "The two-notch gap between the local currency ceiling and sovereign rating is driven by the government's relatively large footprint in the economy, weak institutions, and relatively high political and external vulnerability risk. The two-notch gap between the foreign currency ceiling and the local currency ceiling reflects incomplete capital account convertibility and relatively weak policy effectiveness. It also considers the material risks of transfer and convertibility restrictions being imposed."

The stable outlook reflects Moody's assessment that the pressures Pakistan faces are consistent with a Caa3 rating. "Significant external financing becoming available in the very near term, such as through the disbursement of the next tranches under the IMF programme and related financing, would reduce default risk potentially to a level consistent with a higher rating."

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POWER SECTOR: IMF HAS CONCERNS ABOUT NEXT YEAR'S CIRCULAR DEBT

ISLAMABAD: Minister for Power, Khurram Dastgir Khan said on Tuesday that International Monetary Fund (IMF) has concerns on government's proposed mode to deal with power sector circular debt in the next fiscal year. Responding to questions during a press conference, the minister, who also faced IMF team during its recent visit, said that issues related to circular debt flow in current fiscal year have already been sorted out but the Fund is concerned over next year's plan.

The Minister categorically stated that there would no increase in basic tariff of electricity consumers. Secretary Power, Rashid Mehmood Langrial informed National Assembly Standing Committee on Power that current stock of circular debt is Rs 2.6 trillion. The government has already submitted its requests to Nepra for imposition of additional surcharge on consumers across the country.

The additional surcharge will be recovered from consumers using 300 units and above. Power Division, in its petition has sought imposition of additional surcharge of Rs 3.39 per unit from March 1 to June 30, 2023. From 1 July the amount of surcharge will be Rs 1.43 per unit (Re 1 per unit new surcharge and Rs 0.43 per unit existing surcharge). In addition, Power Division has also decided to recover Rs 20 billion from consumers using 300 units and above to recover FCA which was deferred in flood hit areas.

Nepra is scheduled to conduct a public hearing on the Motion of federal government on March 2, 2023 regarding imposition of additional surcharge of Rs 3.39 per unit, in addition to request to recover Rs 20 billion from flood hit consumers. Dastgir said Shanghai Thar Coal Power Project has started generating 1320 Megawatt electricity utilizing local fuel which will not only control load-shedding, but also help in reducing electricity prices. He said the PDM government, under the leadership of Prime Minister Muhammad Shehbaz Sharif, made hectic efforts to produce electricity using local fuel and succeeded in adding 1980 Megawatts electricity from Thar Coal in the system during the past ten months. Khurram Dastgir said Thar Coal have 175 billion tons of reserves which are sufficient to generate 0.1 million megawatts of electricity. He said the government is tirelessly working on power projects and another project of Thal Nova Thar Coal Power Project with a capacity to generate 330 Megawatt electricity has also been energized.

The Minster maintained that Iran-Gwadar Transmission Line project has also been completed, which will be inaugurated soon by Prime Minister Muhammad Shehbaz Sharif. He said the government has launched a project to generate 6000 Megawatt electricity through solar energy, and in the first phase, request for proposal for establishing a 600 megawatts project in Muzaffargarh has also been floated.

MPC TO MEET TOMORROW: HIKE IN POLICY RATE ON THE CARDS

KARACHI: The SBP’s Monetary Policy Committee (MPC) meeting has preponed and now it will be held on March 02, 2023 which was earlier scheduled for March 16, 2023.

“The Monetary Policy Committee of SBP will meet on Thursday, March 02, 2023 at SBP Karachi to decide about the Monetary Policy”, SBP said on Tuesday. Later on, SBP will issue the Monetary Policy Statement through a press release on the same day.

Majority of experts and analysts expect 200bps to 300bps increase in the Policy Rate. In order to gauge the view on monetary policy outlook, Topline Research conducted a poll of key market participants on expectations over policy rate and key macro estimates. As per the survey, 87 percent of the participants expect policy rate to increase by 200-300bps. Out of these, 64 percent expects 200bps increase, and 23 percent eyeing 300bps increase. Out of the remaining participants, 7.0 percent expects 100bps increase, whereas 4.0 percent eyeing above 300bps increase and only 1.0 percent expect no change.

In response to the question on average inflation expectations for FY23, 38 percent of the total participants believe that inflation is likely to average above 30 percent. On other hand, 29 percent and 23 percent of the participants expect inflation of 28-30 percent and 26-28 percent, respectively.

The remaining 10 percent of the participants expect inflation to average at 22-26 percent. According to the survey, 40 percent of the participants anticipate Policy Rate to remain in a range of 19-21 percent during the calendar year 2023. Around 21 percent expect it to be at 15-17 percent and 19 percent expect it to be 17-19 percent. On other hand, 3.0 percent expect it to be below 15 percent. To highlight, since the last MPC meeting held on January 23, 2023, secondary market rates including T-Bill/ Kibor rates have gone up by around 200bps.

CPI inflation has also increased to 27.6 percent in January 2023 as compared to 24.5 percent in December 2022. Urban core inflation (Non Food Non Energy) stood at 15.4 percent in January 2023 versus 14.7 percent in December 2022. Rural Core Inflation increased to 19.4 percent in January 2023 against 19.0 percent in December 2022.

CPI in February 2023 is likely to be 30-31 percent. “Considering above factors, we also expect 200bps increase in upcoming MPC meeting considering higher inflation amid recent hike in fuel prices and rupee devaluation against US dollar where we see CPI inflation in FY23 to average at around 28 percent”, Muhammad Sohail, leading analyst and CEO of Topline Securities said.

FIRST HALF OF FINANCIAL YEAR 2023: INFLATIONARY PRESSURES, RISING ELECTRICITY PRICES FURTHER IMPAIR KE'S RECOVERIES, PROFITABILITY

KARACHI: Challenging socio-political and macroeconomic factors have had a cascading impact on multiple sectors including KE which grapples with immense challenges during the first half of FY23. Surging inflation, policy rate hike and reduction in economic activity had a significant impact on the company's operations and profitability.

The company observed a reduction in units sent-out by 5.7 percent on account of reduction in economic activity and an increase in impairment loss against doubtful debts due to high inflation, increase in consumer tariff and current economic conditions impacting customers propensity to pay. An additional burden is being placed by surging finance cost mainly on account of increase in effective rate of borrowing and higher levels of borrowing due to non-payment of dues by government entities which have surged to an alarming level of Rs 79.6 billion on net principal basis.

The company operates under regulated tariff and as per current Multi-Year Tariff effective from July 01, 2016, no adjustment is provided to the company in tariff for changes in sent-out and policy rates. The aforementioned factors resulted in net loss of Rs 27.0 billion in the first half of FY23 compared with the net profit of Rs 3.3 billion in the same period for FY22.

KE reiterates that regular bill payment is critical to ensuring uninterrupted supply of power and is taking initiatives to improve recoveries by introducing easy instalment payment solution for its customers under the scheme named as "Humqadam – Recovery Plan" and establishing facilitation camps to address billing concerns.

KE's BQPS-III power plant successfully dispatched during testing its full capacity of 900 MW to grid just before the turn of the period. On the transmission front, KE is making quick progress on its KKI Grid – the first 500 kV facility in KE's network strengthening the connection with the National Grid – and the new 220 kV Dhabeji Interconnection.

Further projects to enhance system reliability are also underway. KE's proposed investment plan for the next control period (FY24-FY30) which is scheduled for a public hearing by NEPRA on March 01, 2023 is also focused on improving network stability, safety, and reliability to ensure access to affordable energy for all.

KE remains committed to tackle the challenges and focus on furthering its operational improvements. The company is also working on the renewal of the tariff for the next control period starting from July 1, 2023 with an aim to obtain a sustainable, cost reflective and investment enabling tariff with adjustment mechanism at par with other power sector entities. Further, the company remains engaged with GoP for sustainable resolution of the government receivables issue as the same is severely impacting the company's cash flow position and the bottom line. Support from key stakeholders including government and regulator remains critical for KE to ensure continuity of reliable and smooth service to customers at least possible costs.

NEGATIVE ADJUSTMENT IN KE'S Q2 QTA: POSITIVE ADJUSTMENT IN JAN FCAS OF DISCOS, KE APPROVED

ISLAMABAD: National Electric Power Regulatory Authority (Nepra) on Tuesday approved positive adjustments in Fuel Charges Adjustment (FCAs) of Distribution Companies and K-Electric for January 2023 and negative adjustment in QTA of KE for second quarter of 2022-23.

The authority announced its indicative decisions after two separate public hearings, officiated by Chairman Nepra Tauseef H Farooqi, Member Sindh Rafique Ahmad Shaikh, Member KP Maqsood Anwar Khan, Member Balochistan Mathar Niaz Rana and Member Punjab Amina Ahmed.

CPPA-G had sought positive adjustment of Rs 1.17 per unit in FCAs to raise Rs 9.6 billion from Discos consumers; however, after some adjustments, the Authority calculated positive adjustment of Paisa 47.79 per unit. CPPA-G has also sought previous adjustments, of which claims of over Rs 1.5 billion have already been verified. If this amount is included, impact of FCA will be up to Paisa 99 per unit. The positive adjustment will be applicable to all consumers, excluding lifeline consumers and electric vehicle charging stations. In another hearing, the Authority approved negative adjustment of Rs 7.36 per unit in QTA of KE power utility company for second quarter of FY 2022-23, after which the amount of subsidy will be Rs 2 per unit, reduced from Rs 16 per unit due to reduction in cost of generation.

The Regulator also approved indicative positive adjustment of Rs 1.71 per unit for January 2023 against request of Rs 2.70 per unit. However, the amount of the negative adjustment can be altered if some pending adjustments are allowed by the Authority after verification. During the hearing arguments were offered on generation of cheap electricity which can bring down cost of electricity as in January KE’s own generation cost was Rs 21.06 per unit whereas cost of electricity from external sources was Rs 11.98 per unit. Tanveer Barry, representative from Karachi chamber, said that QTA of KE for second quarter (Oct to Dec) of current fiscal year is Rs 7.336 per unit negative whereas QTA for first quarter was Rs 7.833 per unit negative but not passed on to consumers.

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