

Mehtab Haider

ADB approves \$1.3 bn loans for Pakistan

ISLAMABAD: The Asian Development Bank (ADB) on Friday approved two loans of \$1.3 billion for Pakistan's budgetary support and policy based lending for crippling energy sector.

Thus, Pakistan has become the first country, which accessed this window of ADB and obtained \$1 billion budgetary support in order to avert crisis. The ADB had created this financing window in 1997-98 in the aftermath of Asian financial crisis but no country had ever accessed this facility.

"The ADB will charge London Inter-Bank Offered Rates (LIBOR) plus 200 basis points, which means that the total mark-up on \$1 billion will be standing at 3.92 percent for period of eight years including three years grace period," top official sources confirmed to The News in background discussions here on Friday.

In another policy based lending for energy sector, the ADB approved \$300 million loan for Pakistan. The Korea will also provide \$80 million for Pakistan's energy sector. In totality, Pakistan will receive \$1.38 billion disbursements on coming Monday as Pakistan and ADB will sign loan agreements here in Islamabad.

The top official compared mark-up charged on this loan with the rate of capital market for generating \$1 billion and said that Pakistan would have to pay around 8 percent for raising \$1 billion through international capital market while the ADB loan would charge 3.92 percent over next eight years.

According to the ADB's announcement, the Manila based Bank approved \$1 billion in immediate budget support to Pakistan to shore up the country's public finances and help strengthen a slowing economy.

The quick dispersing Special Policy-Based Loan is part of a comprehensive multi-donor economic reform programme led by the International Monetary Fund (IMF) to stabilise Pakistan's economy after a major deterioration in its fiscal and financial position in mid-2018 caused growth to slump and threatened progress in alleviating poverty.

The ADB's financing was approved after the government implemented a series of IMF-supported reforms and actions to improve its current account deficit, strengthen its revenue base, and protect the poor against the social impact of the economic crisis.

"ADB is committed to providing wide-ranging support to strengthen Pakistan's economy and reduce the risk of external economic shocks," said ADB Director General for Central and West Asia Werner Liepach. "These funds will meet the government's emergency financing needs to prevent significant adverse social and economic impacts and lay down the foundations for a return to balanced growth."

The ADB states that Pakistan is facing significant economic challenges on the back of a large balance of payments gap and critically low foreign exchange reserves together with weak and unbalanced growth. While the country's economy has a history of boom and bust economic cycles, it

reached a tipping point in 2018 after foreign investment shrank sharply in an uncertain political and global economic environment and the ongoing poor performance of state-owned enterprises caused public debt to reach unsustainable levels.

In July, the IMF approved a three-year \$6 billion Extended Fund Facility (EFF) to finance the government's economic reform programme that aims to put Pakistan's economy on the path of sustainable and inclusive growth. The EFF is expected to catalyse at least \$38 billion in financing from Pakistan's development partners. ADB has committed to provide a total of \$2.1 billion in policy-based lending during fiscal year 2019–2020 to support the reform programme.

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty.

In another loan, the ADB approved a \$300 million policy-based loan that will help the government of Pakistan to address financial sustainability, governance, and energy infrastructure policy constraints in Pakistan's energy sector.

The financing will support the first of three subprogrammes totaling \$1 billion under the Energy Sector Reforms and Financial Sustainability Programme, a key component of a comprehensive multidonor economic reform programme led by the International Monetary Fund that aims to put Pakistan's economy on the path to sustainable and inclusive growth after a deterioration in its fiscal and financial position in recent years.

“The cash shortfall across the power supply chain in Pakistan, also known as circular debt, has shot up to more than \$10 billion and is a longstanding chronic issue ailing the country's power sector,” said ADB Director General for Central and West Asia Werner Liepach. “A comprehensive and realistic Circular Debt Reduction Plan, assisted by ADB in close coordination with other development partners, is the cornerstone of this subprogramme. The plan aims to drastically cut the new flows of circular debt and provides policy directions on addressing accumulated circular debt.”

While Pakistan has made significant effort in recent years to expand its electricity generation capacity and stabilise supply, the country is yet to overcome the challenge of inefficiencies, distortions, and uneven reform progress in the sector. These inefficiencies were estimated to have cost the country's economy up to \$18 billion, or 6.5 percent of gross domestic product, in 2015.

The energy reform programme aims to address the underlying causes of circular debt with a focus on improving inadequate tariff and subsidy systems, strengthening energy accounting, and reducing generation costs.

ADB will finance the programme with support from its development partners. The Export–Import Bank of Korea has confirmed it will provide \$80 million in co-financing for the first subprogramme.

In 2018, ADB made commitments of new loans and grants amounting to \$21.6 billion. Established in 1966, it is owned by 68 members — 49 from the region.