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Circular debt reduction plan submitted to ECC

ISLAMABAD: Power Division has submitted circular debt reduction plan agreed with the International Monetary Fund (IMF) to the Economic Coordination Committee (ECC) of the Cabinet according to which circular debt will be reduced from Rs 465 billion (2018-19) to Rs 75 billion (2022-23). However, the circular debt appears to be in reverse gear as it has crossed Rs 800 billion minus the Rs 806 billion parked in the PHPL books.

Minister for Power, Omar Ayub Khan has claimed on a number of occasions that growth rate of circular debt has reduced to Rs 15 billion from Rs 35 billion per month. However, the claims of Power Division are not verified from independent sources.

According to the Power Division, to ensure effective implementation of the National Energy Policy (NEP), 2019, there is a need to address the flow of the circular debt through effective efficiency improvement measurers. The circular debt management plan 2019 (CD Plan 2019) intends to reduce the existing flow of Rs 465 billion per annum to less than Rs 75 billion per annum while maintaining the annual subsidy budgeted target of 0.4 per cent of GDP. The CD Plan 2019 covers the period from FY 2019- 2020 to FY 2022- 2023 and describes the mechanism to address the circular debt issue in Pakistan power sector and to control the flow of circular debt. The plan has been prepared by Power Division and discussed and agreed with the International Monetary Fund (IMF) and other multilaterals.

The circular debt management plan includes measures to reduce the existing flows. The plan, however, also proposes some measures as to how to reduce the stock of circular debt. For selected public sector companies' collections are planned to increase by 5 per cent from FY 2020 and average loses are planned to be reduced to 16.01 per cent from existing level of 17.7 per cent through efficiency gains. Collection from government customers will be rationalized and subsidies will be on actual basis and paid according to schedule.

GoP will continue to take measures to rationalize the tariff which covers all cost including debt servicing and ensure sufficient budgetary provision in subsidies. All reduction in circular debt stock through borrowings will be reflected as borrowing in Power Holding (Pvt.) Limited, while lowering the cost of borrowed capital.

The following are the issues addressed by CD Plan: (i) sector efficiencies; (ii) discrepancies in tariff regime; (iii) inadequate fiscal allocations and government policy measures; (iv) inadequate planning; and (v) debt servicing of Power Holding (Pvt.) Limited loans.

According to sources, the CD plan assumes: (i) improving power distribution collection in selected Distribution Companies (Discos) annually in the range of 3 per cent to 5 per cent that will reduce circular debt flows by Rs 334 billion over the plan period (FY 2020-FY 2023); (ii) five Discos to achieve 100 per cent collection over the plan period; (iii) reducing line losses in selected Discos annually by approximately 1 per cent that will provide fiscal space of Rs 118 billion over the plan period; (iv) annual projected generation and sales of Rs 136

GWh and 111 GWh respectively by FY 2022-2023; (v) rationalization of subsidy allocations to bring it to a previous agreed level of 0.4 per cent of GDP from existing level of 0.6 per cent of GDP; (vi) annual reduction of running and permanent defaulters by Rs 78 billion; and (vii) reducing power sector annual flows to less than Rs 75 billion per annum (FY 2022-2023) from the level of Rs 465 billion per annum (FY 2018-19)

Power Division states that the plan is based on an extensive interactive model for the sector financial flows and actions to yield a reduction in the flow on annual quarterly basis. The monitoring of the plan will be done through quarterly submission of the progress report on the plan before the ECC of the Cabinet on actions points according to the monitoring mechanism included in the plan.