BUSINESS RECORDER
Founded by M.A. Zuberi

- EDITORIALS

ECC decisions

Page NO.40 ColNO.01

The Economic Coordination Committee (ECC) meeting, chaired by Federal Finance Minister Asad Umar, has sought suggestions from various relevant departments on how to deal with the circular debt estimated at 1178 billion rupees, out of which 582 billion rupees is parked in the Power Holding Private Limited (PHPL) under Syndicated Term Finance Facility arrangements with interest added on as tariff and paid for by the consumers. In July 2018, during the tenure of the caretakers, 30 billion rupees was added on as circular debt and banks were requested to extend a 50 billion rupee loan, however, banks refused claiming they were already over exposed to the sector. And to further take the energy supply situation to a critical level, Pakistan State Oil (PSO) is facing the prospect of a default due to receivables of over 300 billion rupees that would compromise its ability to open letters of credit. The decision on releasing funds to PSO was also deferred as it was rightly argued that it is closely linked to the circular debt.

Request for suggestions by Asad Umar to be presented in the next ECC meeting scheduled for next week indicates that he is taking a cautious approach that can be appreciated under normal circumstances. However, with a 30 billion rupee addition in just one month and with a similar amount expected to be added onto the circular debt in August given that there have been no mitigating measures designed to deal with the crisis to date, these are far from normal circumstances. Umar must also take cognizance of the fact that if the liquidity situation of PSO is acute then imports would be impacted and consequently the country's productive sectors may come to a halt till such a time as the supply of fuel is restored. It is therefore imperative for the Finance Minister to hasten the process of decision-making with the objective of minimizing around one billion rupee daily addition to the circular debt as well as to ensure uninterrupted supply of oil imports.

The reasons for the circular debt and the politically challenging solutions to ending it have been identified time and again; however, neither the PPP-led coalition government nor the PML-N administration took up the challenge as they consistently subjugated economic imperatives to their political considerations, which accounts for the over trillion rupee debt today that pertains to the power sector. One can only hope that the government will take the challenge head on and make decisions that would deal with this menace once and for all.

The ECC also directed Razzak Dawood the Advisor to the Prime Minister on Industry and Production to discuss prices with local fertilizer industry and assess domestic production levels. He also reportedly expressed serious reservations at the increase in fertilizer prices and attributed the rise to exports, which, he maintained, are against the interest of the poor farmers. One would urge the government to also focus on raising yield per hectare of the poor farmers, which is significantly lower than that of large landlords.

There is no doubt that fertilizer prices were raised by the local manufacturers recently. While exports may have contributed to the rise, yet it is also relevant to note that 2018-19 budget documents indicate that the PML-N government disbursed 10.78 billion rupee subsidy to fertilizer manufacturers in 2017-18, even though no amount was budgeted for the purpose for the year, and did not budget any subsidy to this sector in the current fiscal year which, given that the caretakers had no mandate to alter any component of the budget approved by the National Assembly, implied no subsidy releases in July and August. Thus until and unless the PTI administration revisits the budget components, it is unlikely for prices to be reduced.

Again, the urgency of taking decisions must be emphasized given that the current state of affairs is not only due to flawed economic policies of the past five years but also due to the overarching focus of the then PML-N government on elections 2018 when presenting the budget for 2018-19.