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IMF pours cold water on Punjab's cheap power plan

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ISLAMABAD:

The International Monetary Fund (IMF) has slapped Pakistan with a slew of new conditions regarding energy subsidies and provincial budgets after Punjab took a "fiscally reckless" decision to give Rs45 to Rs90 billion electricity subsidies for two months. Government sources told The Express Tribune on Monday that the global lender imposed at least three critical-nature conditions on the Punjab government after the province gave Rs14 per unit electricity subsidy for two months. The IMF also asked an end to this temporary subsidy by September 30th and made it clear that no provincial government would give any such new subsidy during the 37-month Extended Fund Facility (EEF) programme. The new conditions may jeopardise Punjab's plan to dole out Rs700 billion for giving solar panels to the consumers having up to 500 monthly consumption. “The provinces agree that they will not introduce any subsidy for electricity or gas,” according to a condition lately introduced by the IMF. The conditions also belie the claims that the provincial governments can give subsidies on electricity and also bring into question the statement of Prime Minister Shehbaz Sharif, who had encouraged the three other provinces to follow suit.Due to bad governance, higher line losses, higher taxes, putting burden of subsidies on the consumers of over 300 units monthly consumption and expensive deals, the electricity has now become unaffordable for the majority of the residential consumers. These factors have pushed the prices to Rs64 to Rs76 per unit for residential and commercial consumers. But instead of finding a permanent solution, both the federal and the Punjab provincial governments came up with a two-month subsidy plan. The Punjab government approved the Rs14 per unit subsidy in August and September electricity bills for the consumers in the province and Islamabad, using from 201 to 500 units. The provincial finance minister had reportedly said that the actual cost of the subsidy was Rs90 billion but the Chief Minister Punjab said that the cost would be Rs45 billion. The sources said that the IMF also introduced another condition that would make it binding upon all the provincial governments that they would not introduce any policy or action which could be considered to undermine or run against any of the commitments given under the $7 billion programme. This condition will clip the wings of the four provincial governments in fiscal matters.

The provinces had committed to the IMF that they would sign a National Fiscal Pact by the end of September for taking ownership of some of the expenditures currently sponsored by the federal government. The provincial governments have also committed that they would improve their agriculture income tax, property tax and sales tax on services. Now after the introduction of the new condition about "not undermining" these commitments, the provinces could not take unilateral actions, said the sources. According to a third new critical condition, the provinces would consult with the Finance Ministry before modifying or adopting any measures that could affect or undercut the structural benchmarks and key actions agreed with the IMF, said the sources. Pakistan's new IMF programme, still unapproved by the IMF board, covers five budgets and policies of five governments, unlike the past when there was not much focus on provincial policies and the budgets. The finance ministry is struggling to get a date for the meeting of the IMF Executive Board for the approval of the $7 billion. This week is described as very critical for securing the approvals of new loans and rollovers. The board was earlier scheduled to take up the case on August 30th but had to defer it due to Islamabad's inability to secure the rollover of the $12 billon loans and arrange $2 billion in new financing.