

Pakistan Development Update

Fiscal Impact from Federal State-Owned Enterprises

Tuesday April 2, 2024

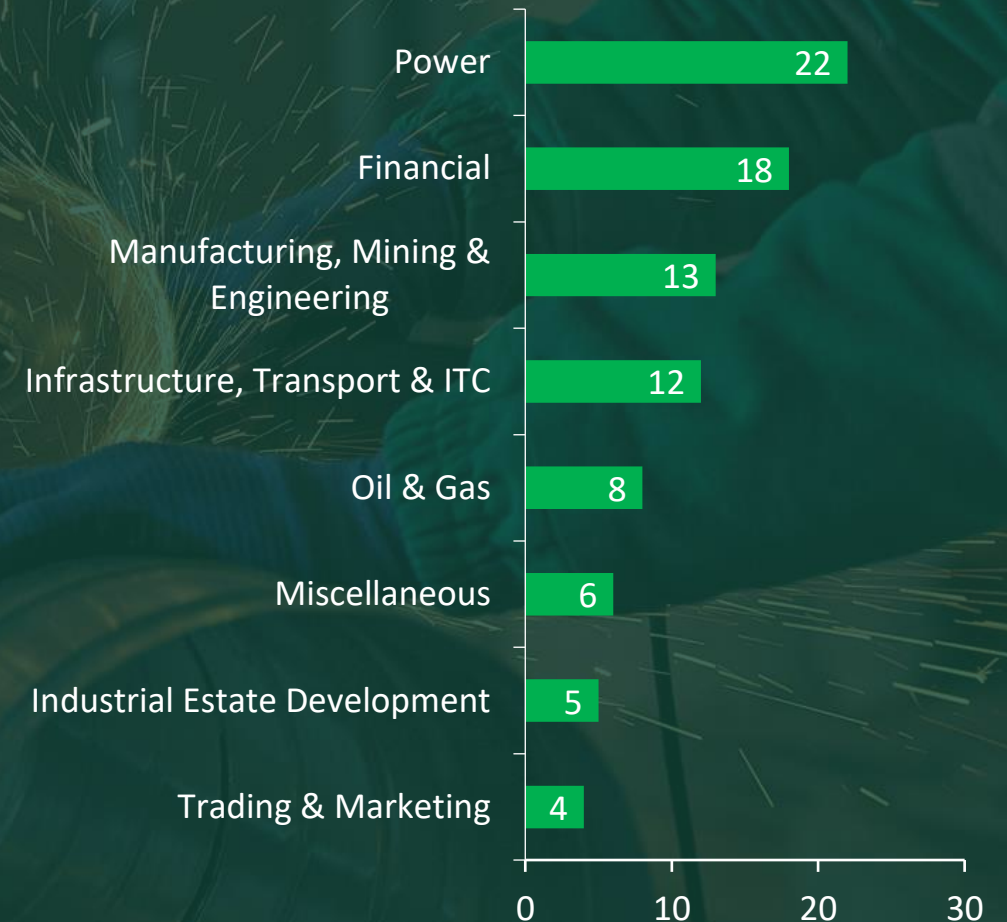
Islamabad



The Federal State-Owned Enterprises Landscape

The federal Government owns 206 SOEs including **88 commercial** SOEs and **45 non-commercial** SOEs; the remaining are subsidiaries of these SOEs.

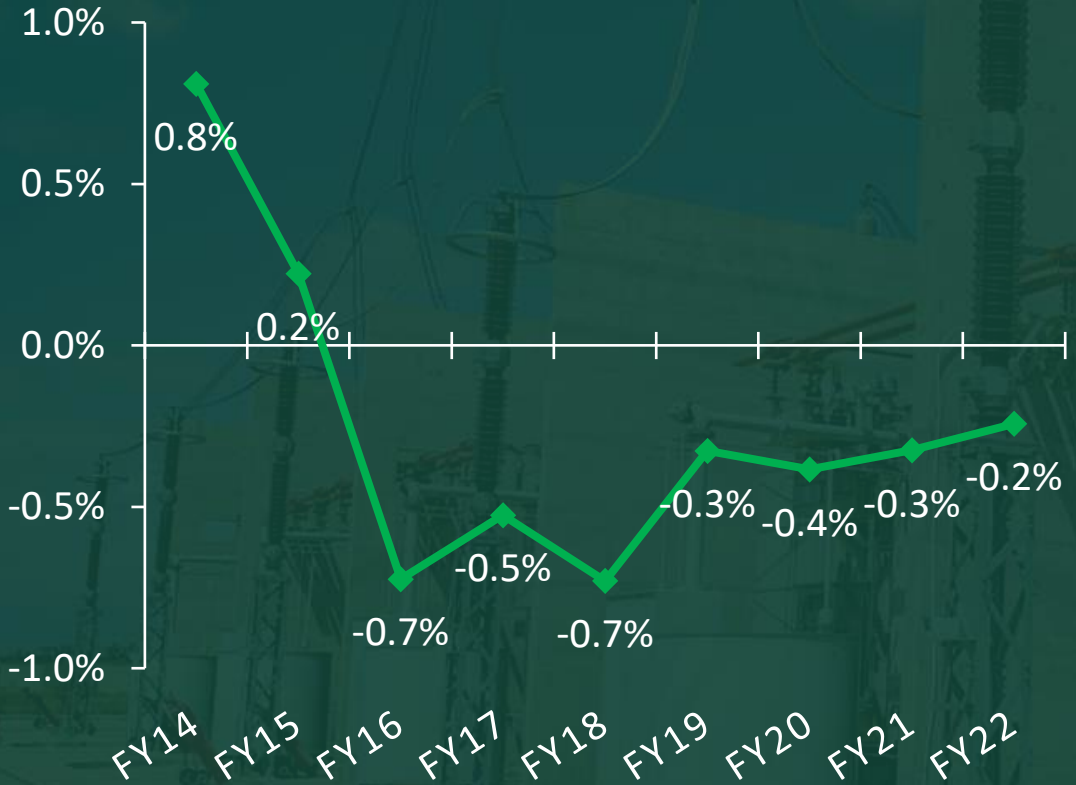
The Special Chapter focuses on these 88 commercial SOEs only, representing **99 percent of total SOE portfolio's asset and revenue base**



Source: Federal Footprint SOE Consolidated Report 2020-2022

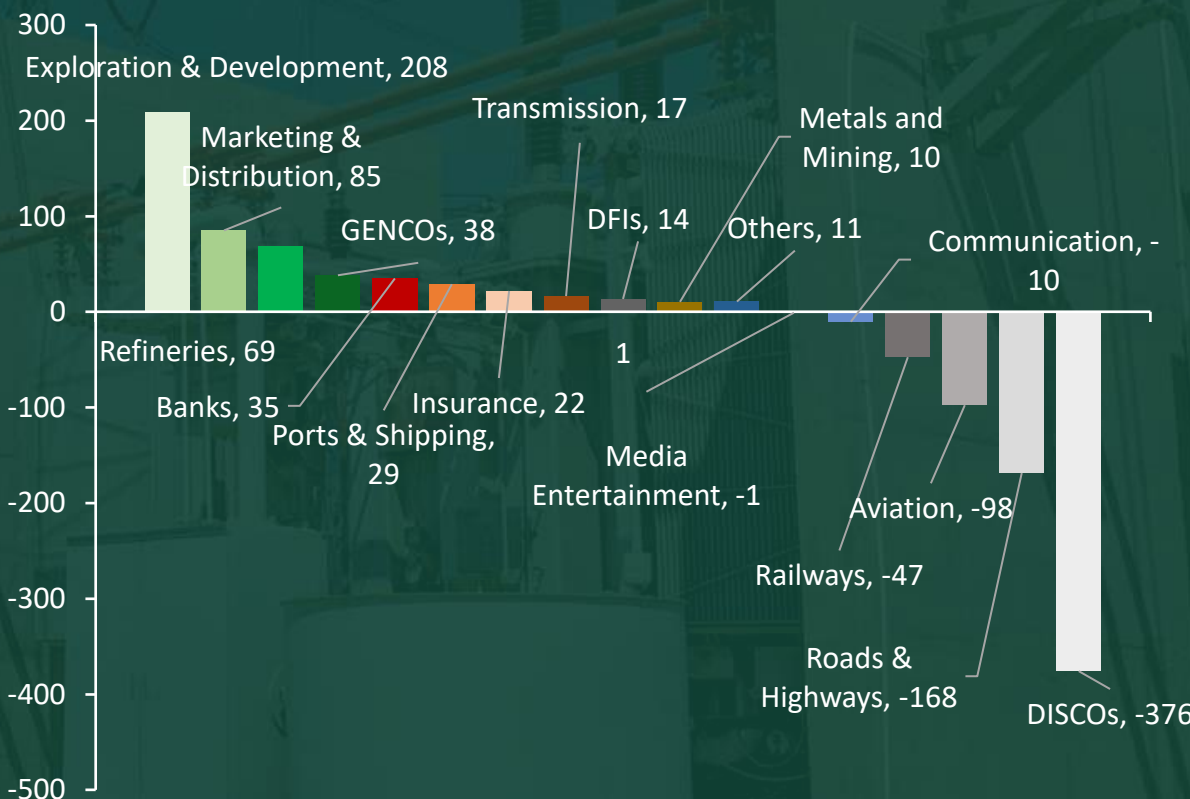
Federal Commercial SOEs are important to society, economy and the government's financial infrastructure.....

Federal Commercial SOEs – Net Profit (% of GDP)



Source: Ministry of Finance

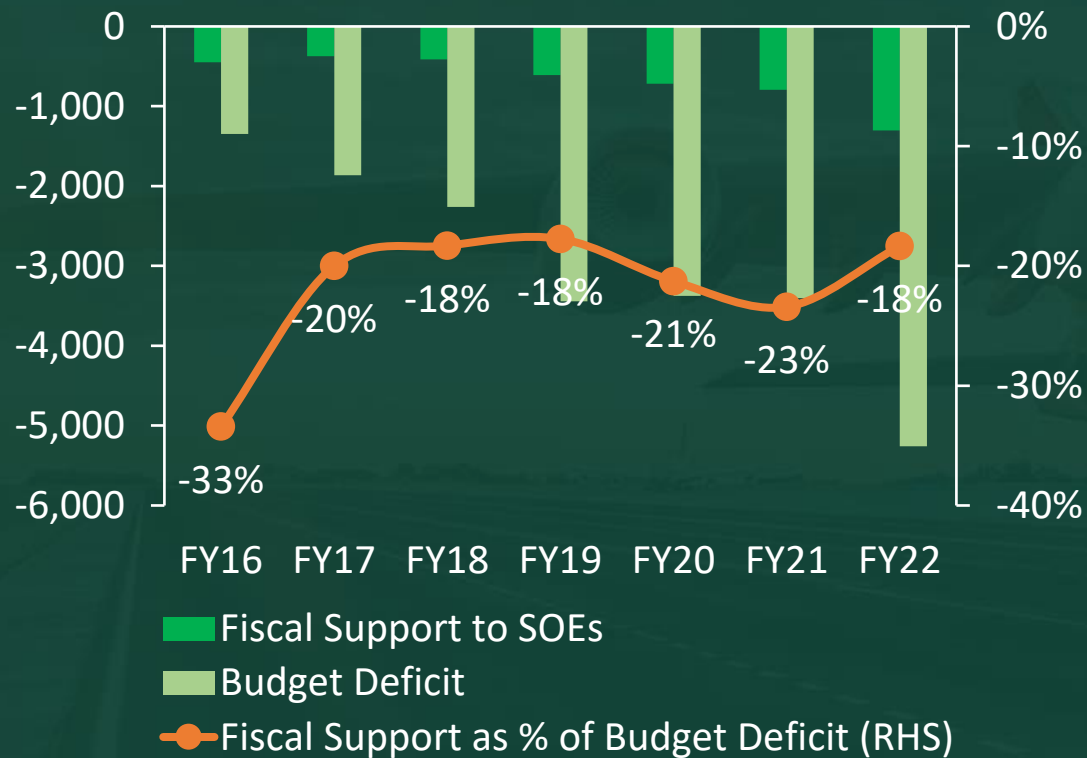
Federal Commercial SOEs – Net Profit/Loss by Sub-Sectors in FY22 (PKR billion)



Source: Ministry of Finance

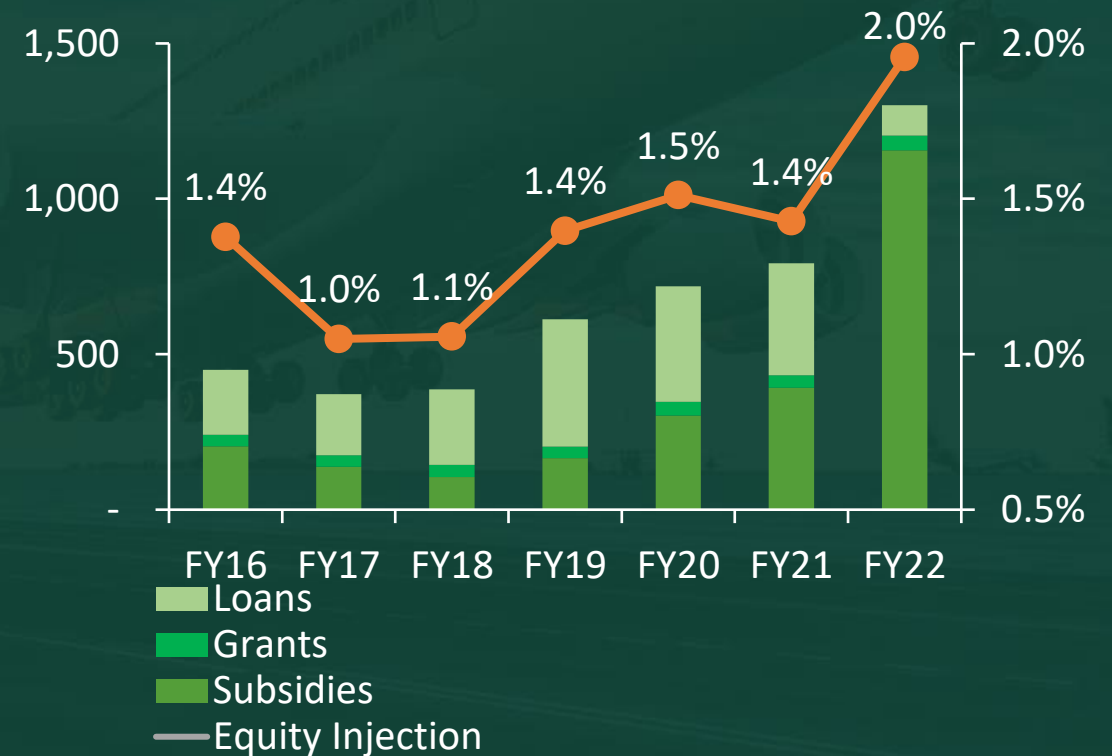
Federal Commercial SOEs are important to society, economy and the government's financial infrastructure (contd)

*Fiscal Support to SOEs vs Fiscal Deficit
(PKR billion, % of budget deficit)*



Source: Ministry of Finance

Direct Fiscal Support to SOEs



Source: Ministry of Finance

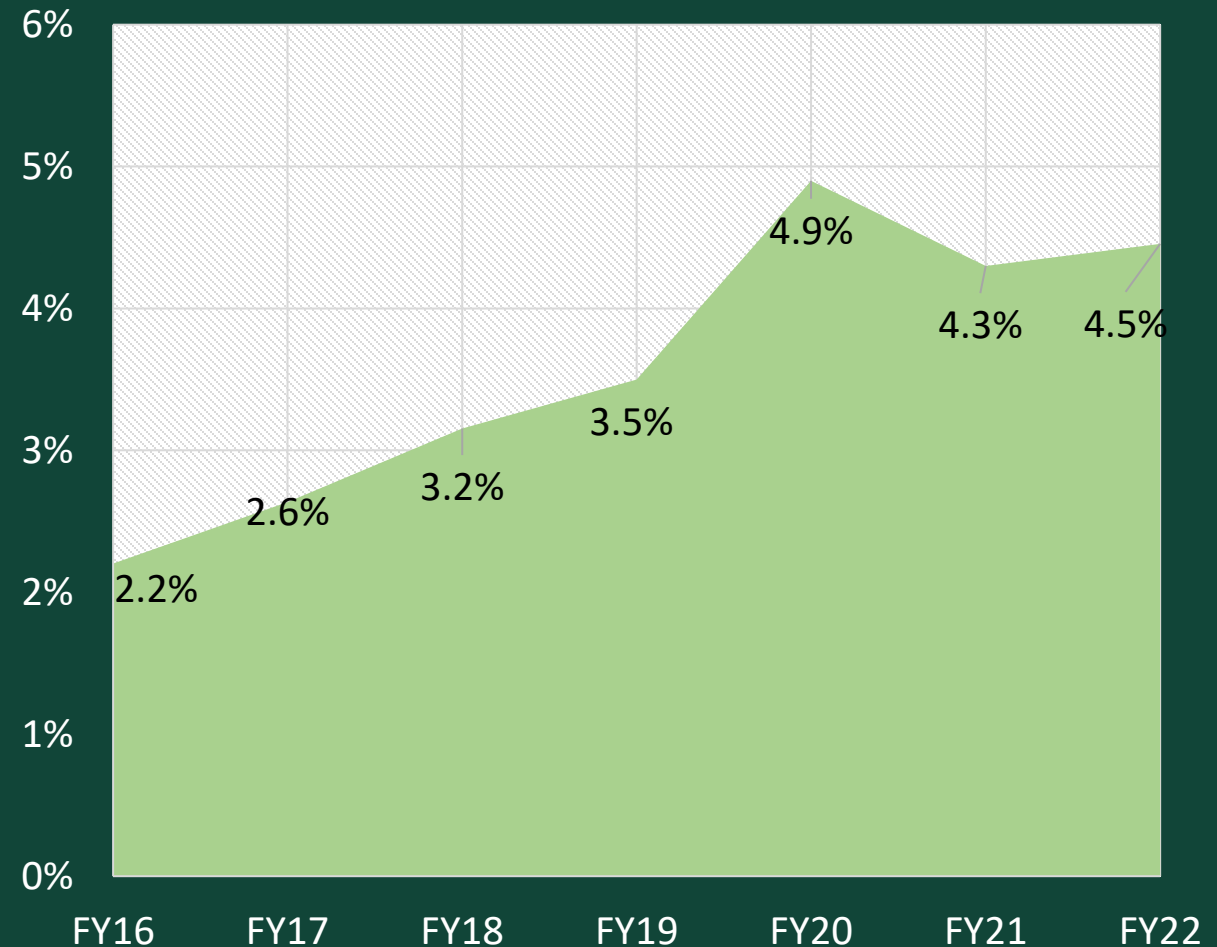
The Federal Government also issues guarantees to SOEs for commercial financing

Outstanding guarantees doubled between FY16 and FY22

Annual issuance of total new government guarantees has been averaging 0.9 percent of GDP over the FY16–22 period

It can likely lead to crowding-out bank financing to the private sector.

Outstanding Guarantees to SOEs (excl. commodity operations) (% of GDP)



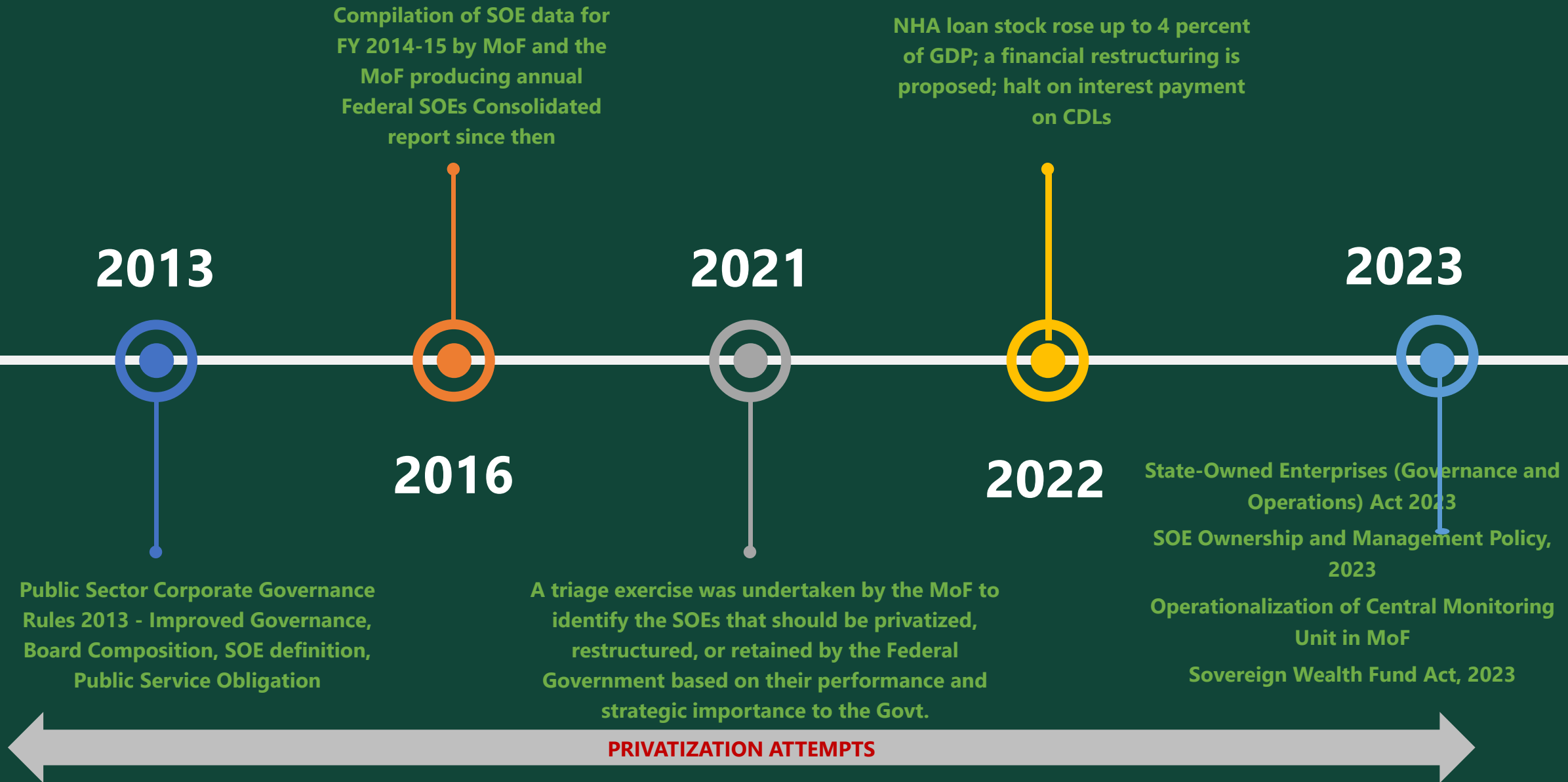
Source: Ministry of Finance

The Government's financial support has surpassed the financial returns from these SOEs

PKR Billion

	FY16	FY17	FY18	FY19	FY20	FY21	FY22
<u>Fiscal Outflows</u>							
Subsidies	204	138	105	166	302	392	1,156
Grants	37	37	38.5	37	45	40	47
Equity Injection	1	2	27	-	-	5	2.2
Domestic Loans	168	205	204	103	133	165	98
Foreign Re-lent Loans	41	-9	39	306	239	195	Not available
Total Outflows	451	373	414	612	719	797	1,303
Total Outflows (% of GDP)	1.4	1	1.1	1.4	1.5	1.4	2.0
<u>Fiscal Inflows</u>							
Dividend Payments	63	70	57	60	41	44	44
Corporate Tax – Aggregate	77	108	127	154	135	157	376
Interest on Domestic Loans	Not available	Not available	Not available	Not available	23	16	Not available
Interest on Foreign Re-lent Loans	Not available	Not available	Not available	Not available	22	10	Not available
Total Inflows	140	178	184	214	221	227	421
Total Inflows (% of GDP)	0.4	0.5	0.5	0.5	0.5	0.4	0.6
<u>Net Impact (% of GDP)</u>	-0.9	-0.6	-0.6	-0.9	-1.0	-1.0	-1.4

The Government response to growing fiscal challenges from Federal SOEs



However, the expected results have yet to be materialized

as of FY2022		Annual Fiscal Cost		Fiscal Exposure		Triage Outcome
		Grants/ Subsidies/ Equity	Loans Disbursed**	Outstanding Loans	Outstanding Guarantees	Updated based on ongoing reforms
Electricity DISCOs*	PKR Billion	337		64.4**		Triage Report suggests privatization in the medium term. To improve immediate performance, introduce private sector participation through concession in the short term
	% of GDP	0.51		0.10		
Pakistan International Airlines Corporation	PKR Billion		22	109	268	Initially planned to retain and restructure in Triage Report; however, the Government revisited its plan and now pursuing privatization
	% of GDP		0.03	0.16	0.4	
Pakistan Steel Mills Corporation (Private) Limited	PKR Billion		8	145		Immediate privatization
	% of GDP		0.01	0.22		
Pakistan Railways	PKR Billion	47				Retain and Restructure
	% of GDP	0.1				
Power Holding Private Limited	PKR Billion	132			800	Retain. The Government has agreed to absorb the existing debt into public debt and clears portion of it every year (as certain debt mature). In addition, the IMF has imposed increasing the surcharge for power consumers to clear the markup under PHPL loans
	% of GDP	0.20			1.2	
Total	PKR Billion	546		1,391		
	% of GDP	0.8		2.1		

*Electricity DISCOs include the following 10 SOEs: Islamabad Electric Supply Company (IESCO), Lahore Electric Supply Company (LESCO), Faisalabad Electric Supply Company (FESCO), Gujranwala Electric Power Company (GEPCO), Multan Electric Power Company (MEPCO), Peshawar Electric Supply Company (PESCO), Tribal Electric Supply Company (TESCO), Sukkur Electric Power Company (SEPCO), Hyderabad Electric Supply Company (HESCO), and Quetta Electric Supply Company (QESCO).

**Outstanding loan for DISCOs is as of June 30, 2021. Consolidated information for DISCO loan stock is not available.

Recommendation: Implement reforms for fiscal sustainability

NHA requires immediate Financial management reforms And corporatization

Required because of high level of public service mandate and high level of project loans

Implementation of SOE Law and Policy 2023

Immediate implementation of the law and policy to all Federal SOEs including those included in SWF to improve governance practices

Implementation of SOEs Triage 2021

Is critical to reduce government fiscal costs and contain fiscal risks

Adopt good financial management practices

Adopt viable business plans incorporating PSO framework and approved by BoD

The Central Monitoring Unit Should be strengthened

The functions under the act and policy should be set in practice. Build centralized SOE database

Government to tighten Financing reviews

including submission of independently audited financial statements and credible business plans to reduce losses, as required in the SOE Act

Manage Fiscal risk with new Guarantee issuance rules, credit ratings, IFRS adherence

Improve fiscal transparency for informed decision making and mitigating fiscal risk.



Thank You

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