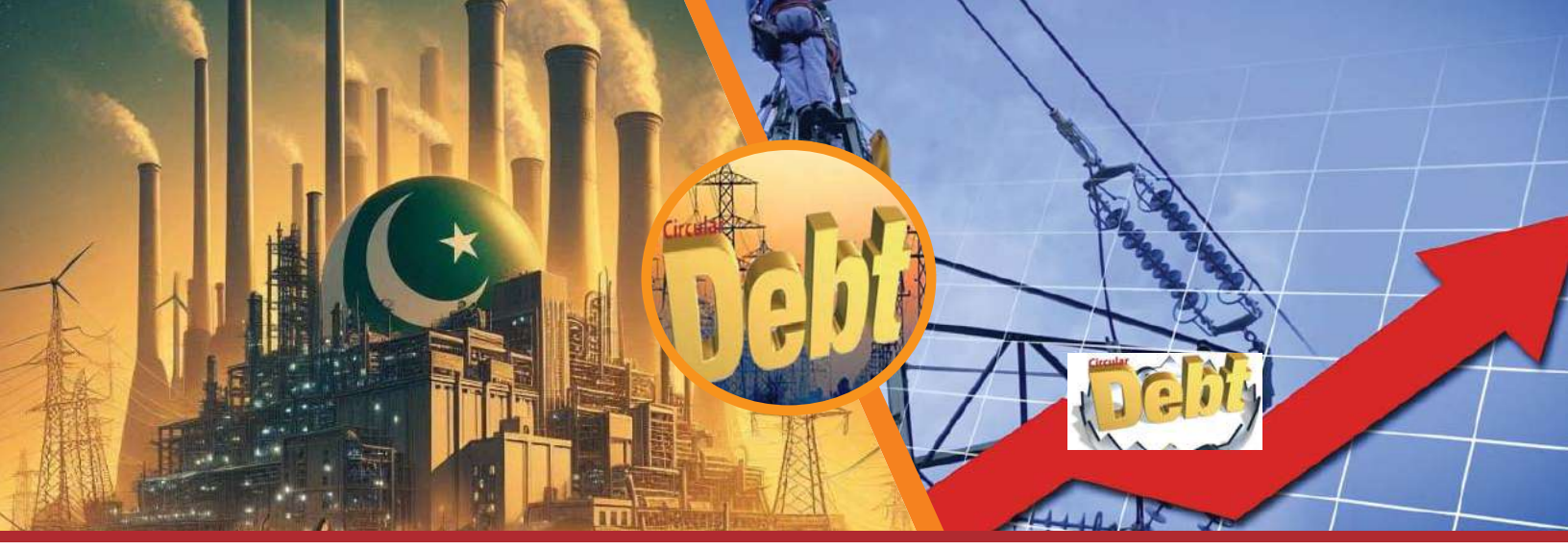


Circular Debt Crisis in Pakistan's Power Sector and its Management



Hasnain Imam, ACMA
Senior Manager Investments
Lucky Cement Limited

The circular debt crisis in Pakistan's power sector is a significant challenge impacting the sector's stability and efficiency. This article explores the root causes of circular debt, reviews its current status, and presents a forecast for FY-2025 as outlined in the Circular Debt Management Plan.

Outstanding stock of circular debt

The energy sector has become a major source of macro-fiscal risk, with circular debt (CD) in the power sector increasing significantly from 2013 to 2021. To address this, authorities began substantial adjustments to electricity tariffs in 2021 to better reflect costs. Coupled with sizable power subsidies, estimated at 1% of GDP in FY-2024, these measures helped stabilize the nominal flow of circular debt in 2023-24. However, relying on large-scale subsidies is not a sustainable long-term solution for the sector's financial challenges. Structural reforms are urgently needed to reduce costs and tackle issues like power theft, reliance on captive power, and inefficiencies within Distribution Companies (DISCOs).

As per the Circular Debt Management Plan (CDMP), circular debt in Pakistan's power sector stood at Rs. 2.393 trillion by the end of June 2024, reflecting a year-on-year increase of Rs. 83 billion. This growing debt further constrains the already limited electricity supply, adversely affecting economic growth. The Government of Pakistan is actively pursuing the CDMP for 2024-25 to minimize the flow of circular debt in the power sector. Below are the **year-wise details** of Pakistan's power sector circular debt:

Year-wise Power Sector Circular Debt (Rs. In Billion)

Beginning Period	July 01, 2018	July 01, 2019	July 01, 2020	July 01, 2021	July 01, 2022	July 01, 2023
Ending Period	**June 30, 2019**	**June 30, 2020**	**June 30, 2021**	**June 30, 2022**	**June 30, 2023**	**May 31, 2024**
Due for payment against verified invoice of Power Generation Companies	694.3	1,038.1	1,244.8	1,351.0	1,434.2	1,780.0
Payables to GENCOS	17.5	48.0	Nil	101.5	110.5	110.0
Payable to fuel suppliers by GENCOs	100.7	105.1	105.3	Nil	Nil	Nil
Total payables to IPPs/GENCOs	**812.4**	**1,191.2**	**1,350.1**	**1,452.5**	**1,544.7**	**1,890**
Energy payableswapped by government through loans from commercial banks vi Power Holding (Pvt) Limited	805.8	1,007.2	930.0	800.3	765.3	765.0
Circular Debt	**1,618.2**	**2,198.5**	**2,280.1**	**2,252.8**	**2,309.9**	**2,655.0**
Flow of Circular Debt *		**580.30**	**81.60**	**(27.30)**	**(57.10)**	

Source: Ministry of Energy (Power Division), State of Industry Report (Power Sector), 2023

- *As per Circular Debt Management Plan ("CDMP"), FY-2024-25 power sector circular debt stood at Rs. 2.393 billion by end-June 2024, up Rs. 83.10 billion, Year-on-Year.*
- *This originated from: (i) Discos under recoveries; (ii) Line losses above regulatory targets; (iii) Unpaid/unbudgeted subsidies; (iv) Pending generation cost; (v) Non-payment by K-Electric; (vi) mark-ups*

Power sector Circular Debt – Represented in Flow Chart

1) OMC buys fuel from international supplier

Fuel

2) OMC sells fuel to IPPs

Fuel

3) IPPs generate electricity on oil/gas and sell it to WAPDA

Electricity

4) WAPDA buys electricity and sells it to subscribers

Electricity

5) Subscribers pay WAPDA

Paid bills are less than sold electricity

6) WAPDA defaults because of: -

- Heavy line losses
- Huge corruption
- Heavy subsidy given to consumers
- Electricity theft
- Default by consumers

Fails to pay back on time because of losses

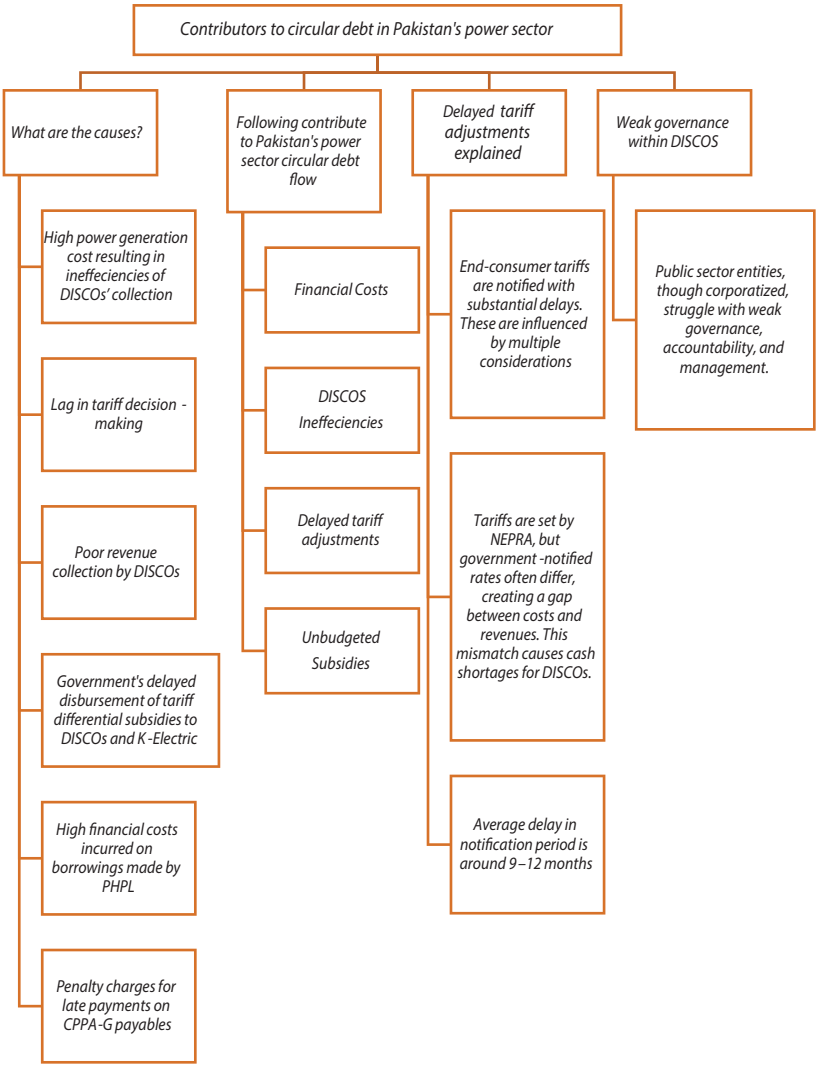
7) IPPs Default

Fails to pay back on time because of WAPDA's failure to pay back

8) OMCs default

Unable to pay back

What is contributing to circular debt in Pakistan's power sector



Circular Debt, FY-2025 (Forecast) by NEPRA

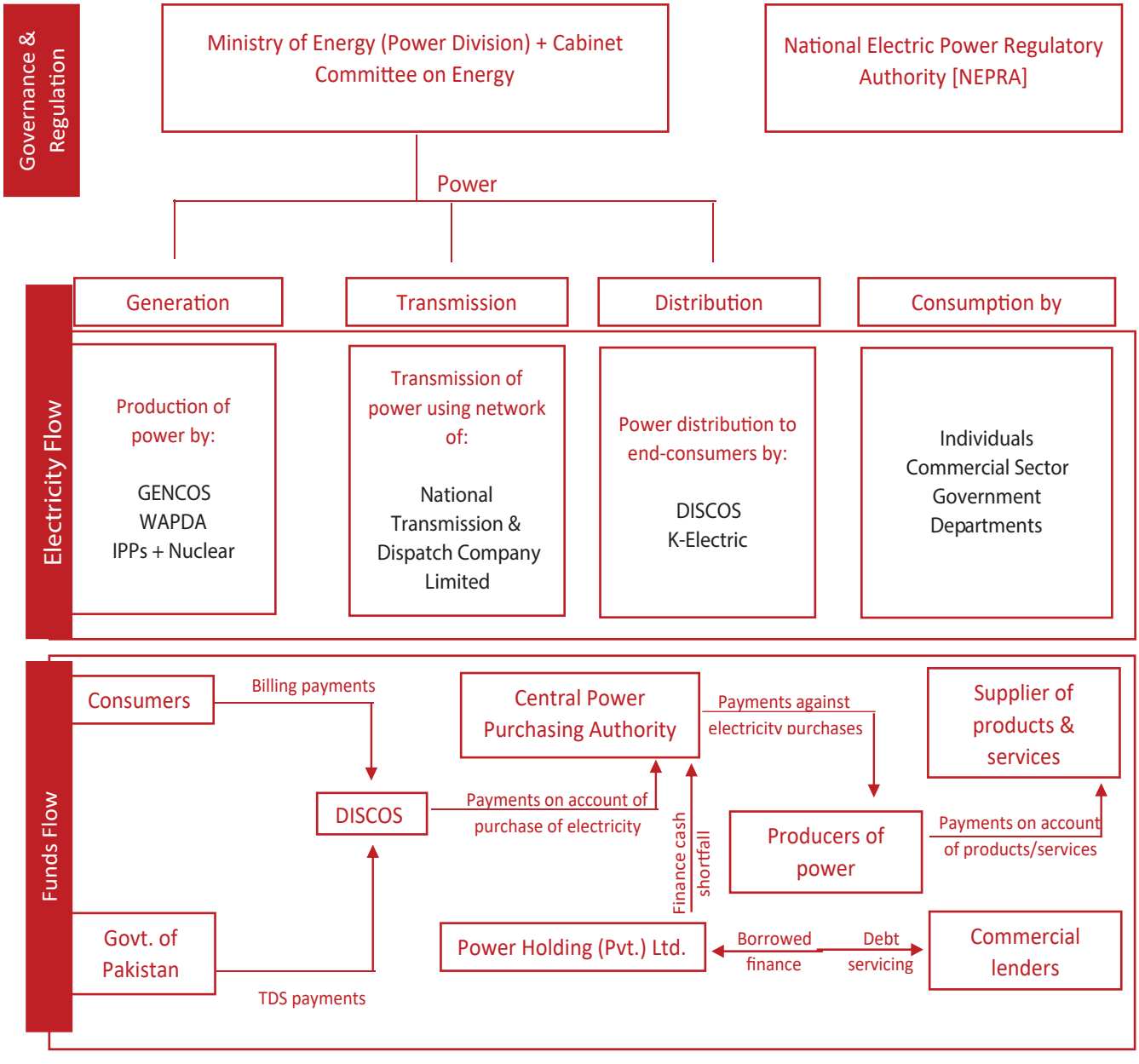
The Government of Pakistan has allocated Rs. 1,229 billion in the FY-2025 budget to cover power sector subsidies and reduce the stock of circular debt. Despite this, NEPRA forecasts the circular debt stock to rise by Rs. 36 billion year-on-year, reaching Rs. 2,429 billion in FY-2025, based on the following assumptions:

Parameters	FY-2025
Rs. /USD	300
KIBOR	18.44%
LIBOR	5.31%
Local CPI	291
US CPI	314
RLNG (Rs. /MMBTU)	3,917
Local Gas (Rs. /MMBTU)	1,050
Imported Coal (Rs. /MT)	39,621
RFO (Rs. /MT)	170,479
Consumer Sales (BkWh)	106

Source: Ministry of Energy (Power Division), State of Industry Report (Power Sector), 2023



Appendix: Structure of Power Sector of Pakistan



Source: Asian Development Bank

About the Author: *The writer is an Associate Member of Institute of Cost and Management Accountants of Pakistan (A-4229). Currently, he holds the position of Senior Manager Investments, Lucky Cement Limited. Previously, he served as Senior Manager in the Investment Banking Division of Bank AL Habib Limited. He has almost 20 years of experience in equities research and investments.*