

Q (2013) Critically evaluate the causes of Energy crisis in Pakistan and its consequences for the economic growth and social fabric in the country

Ans

### Introduction

Pakistan is the fifth largest populous country in the world. Pakistan is facing a lot of problems including economic crisis, political instability, circular debt to bilateral and multilateral lenders, currency devaluation, and energy crisis. One of the major crisis right now Pakistan is facing, is of energy crisis. In present time, the crisis is not only about demand and supply (loadshedding), instead of it another challenge faced by Pakistan is increasing electricity prices. There are number of reasons behind this energy crisis and implications of it on Pakistan's economy and citizens are damaging

How does energy sector operate?  
According to Pakistan economic

survey, Pakistan's total installed capacity for electricity is around 41,000 MW and the demand has been increased for the last 10 years. In summer 2023, the demand of electricity was 28,000 MW which still seems feasible for the state to fulfill as installed capacity is more than that. But this is not the case as there are number of factors that results in the shortage of supply. Hydrocarbons are used by electricity producers to generate electricity. These hydrocarbons are imported by importers such as PSO that disburses it to the electricity producers. These electricity producers then supply the electricity to national grid from where NTDC supply it to local suppliers such as DISCOs for example: LESCO, IESCO, FESCO, K-Electric etc. The decision making body on electricity is NEBRA.

## Causes of the energy crisis

### 1) Use of Hydrocarbons:-

Almost 60% of electricity produced in Pakistan is generated by imported Hydrocarbons. These hydrocarbons include diesel which is the most expensive, gas that is the second most expensive and coal at the third place. Due to the ongoing global crisis in commodity prices after the start of Russia-Ukraine war, the prices of these hydrocarbons also inflated. Another setback for Pakistan to buy these already expensive hydrocarbons was currency devaluation as all purchases are made through US dollar. This increase in price led to the inflation in electricity prices all across the Pakistan.

### 2) Agreements with TPPs:-

Pakistan has a history of facing power shortage due to the increased demand in the

consumption of electricity. Whenever Pakistan faced such shortage crisis, governments tend to short-term solutions rather than long-term solution. Pakistan agreed with independent power producers in 1994, 2005, 2011 and 2014 to provide electricity due to the increased demand. These agreements were based on capacity charges instead of charges on only used units. This resulted in a failure that the state still has to pay even if it consumes electricity or not. In case of summer 2022, the demand of electricity was 28,000 MW, but in winter it decreases to half. ~~Even~~ <sup>Despite</sup> the decrease in consumption, government still needs to pay to these independent power producers to the minimum capacity. Another clause in this agreement was of payments in dollar even to the local IPPs. Thus, currency devaluation also increased this

circular debt that stands at 2.6 Trillion PKR.

### 3) Conditions by the IMF

The conditions by the IMF to remove subsidies from the electricity bills and to let free-float the dollar value of Pakistani rupee also led to the increase in electricity prices. Pakistan is struggling for a loan agreement from with the IMF which comes with pre-conditions and reforms that ultimately increased the electricity prices.

### 4) Transmission Loss:-

Pakistan faces a significant amount of electricity losses through its transmission lines and distribution companies that stand at 33%. Out of 100% electricity generated, around 17% of electricity disappears through transmission lines which is the highest in Asia due to outdated system. This loss is just

3% in China, 9% in India and Bangladesh and 12% in Afghanistan. The remaining 16% out of 33% is lost through the distribution companies that are DISCOs. One of the major reason of this loss is electricity theft conducted by both urban and rural areas. Karachi is the leading urban city which is involved in such malfeasance. People use different techniques known as konda system and meter tampering to avoid electricity bills.

### Implication on economic and social fabric

1) Negative impact on Industry  
During the period of past 3 years, almost more than 200 industries have been closed so far. The reason behind closure of these industries ~~are~~<sup>is</sup> because they are unable to compete

in the international market. Due to the higher prices of electricity, almost 29% as compared to Bangladesh and India, the cost of product has been increased. Pakistan textile export stands at \$17 billion whereas Bangladesh exports around \$47 billion which shows us how severe the industry has been hit by recent price hike.

2) Balance payment crisis:

Due to the decrease in export and increase in import, Pakistan is facing trade deficit. Decrease in export is due to the negative impacts on the industry.

3) Setback for agriculture

Agriculture contributes to 22.5% of Pakistan's economy. Around 30% of agriculture work is based on tubewells and digwells, the increase in electricity prices has negatively impacted the agriculture industry of Pakistan.

4) Increase in domestic electric price:-

This inflation in electricity prices has now affected the social fabric of Pakistan also by ~~is~~ consuming 40% of income of lower-middle and middle-middle family class. The slab price for the domestic unit starts from 26 PKR upto 70 PKR based on the consumption of units of electricity.

5) Unemployment

The closure of industries and inflation has led to the increase in unemployment rate majorly affecting social life of people.

### Conclusion

In a nutshell, Pakistan is facing severe ~~economy~~ <sup>energy</sup> crisis because of the increase in electricity prices due to the global crisis as well as due to some past mistakes of government. It is having negative consequences on economy and people's lives which need an immediate redressal.