



HBL's stake sale proceeds shown as profit of State Bank

Shahid Iqbal — Updated Jul 26, 2015 11:04am

KARACHI: The government seemed to have resorted to creative accounting as it kept Habib Bank's (HBL) privatisation proceeds in the profits of the State Bank of Pakistan (SBP) under the head of non-tax revenue collection.

During a press briefing on Saturday, SBP Governor Ashraf Mahmood Wathra confirmed that the sale of "the remaining shares of the HBL was kept in the books of the State Bank".

Independent economists and analysts find it hard to digest this as they say such proceeds should be in government's accounts under the head of privatisation proceeds.

The government sold its entire 41.5 per cent stake, or 609 million shares, in the country's largest private-sector bank for \$1.02 billion.

HBL, formerly known as Habib Bank Limited, was partly privatised in 2004 through which Aga Khan Fund for Economic Development acquired 51pc of the bank's shareholding and management control.

The bank is 7.5pc owned by the general public — by over 170,000 shareholders — following the public listing that took place in July 2007.

By including HBL's privatisation proceeds in the SBP's books, the government tried to increase its revenue collection up to the acceptance level of the International Monetary Fund. The Federal Board of Revenue failed to meet the revenue collection target during the previous fiscal year despite the fact that it was reduced thrice, from Rs2.810 trillion to Rs2.605tr.

However, had the HBL's sale proceeds excluded from the collection (Rs2.580tr in FY15), the amount would have been much lower. The government earned \$1.02bn through the HBL sale, including a foreign exchange component of \$764m.

On the other hand, to reduce the fiscal gap the government excluded circular debt (which was estimated at about Rs600bn in May) out of the budget, while experts doubted that the provincial cash surplus was overstated. This was also in line with the IMF's condition to bring down the fiscal deficit to 4.3pc of GDP. However, the government managed to contain the deficit at 5pc in FY15.

HBL Sale Proceeds-----SBP clarifies the news item

Reference the news item on the business page of Daily Dawn of Sunday the 26th July 2015 regarding making HBL sale proceeds as part of the SBP profit. We would like to clarify that bulk of the Federal Government Investment in banks and financial institutions appear in SBP books as its (SBP) investments. The SBP however, can neither make investment in any financial institution nor can sell/liquidate such investments without the permission of the Federal Government. Under this policy, SBP had 595.567 million shares of HBL, at a cost of Rs.8.193 billion, in its books as of April 2015. After the divestment of these shares, SBP received sale proceeds of Rs.98.878 billion and a capital gain of Rs.90.685 billion was booked after adjusting the cost,. This capital gain became part of the overall SBP profits for FY15 and transferred to the government under the normal course.

It would be pertinent to mention here that SBP has followed the same accounting policy and practice for the sale proceeds of ABL shares in FY15 and UBL shares in FY14. It is therefore, incorrect and misleading to state that the government has used any 'creative accounting technique' to make the HBL sale proceeds as part of the SBP profits just to inflate its revenue collection.