Q. 2. Privatization is inevitable as State Owned Enterprises have been a huge burden for the budgetary economy of Pakistan. Analyze the statement and give recommendations.

Q2. Answer

Introduction:

State-Owned Enterprises (SOEs) play an important role in Pakistan's economy, operating in key sectors such as energy, transport, aviation, steel and finance. However, instead of supporting economic growth, many SOEs have become a serious burden on Pakistan's budgetary economy. Continuous losses, rising debt and heavy government support have made privitization not just an option but an economic necessity.

Fiscal Burden of SOEs on Pakistan's Economy:

Pakistan's SOEs impose a heavy strain on public finances. According to Ministry of Finance, federal SOEs earned around Rs 11.9 trillion in FY2023, yet loss-making SOEs recorded losses of over Rs 900 billion in the same year. Over the last decade, cumulative losses of SOEs have crossed

Rs 5.7 trillion. To keep these enterprises running, government has provided more than Rs 1 trillion in subsidies, loans and guarantees during the past ten years.

This continuous financial support directly increas the fiscal deficit. In FY2024 alone, goverment bailouts to SOEs exceeded Rs 1.5 trillion, consuming nearly 13% percent of total federal revenues. Money that could have been spent on education, health or infrastructure is instead used to cover SOE inefficiencies.

Inefficiency and Structural Losses:

The core economic problem of SOEs is poor efficiency. Many SOEs operate with outdated technology, overstaffing, political interference and weak accountability. Pakistan Internation Airlines (PIA) is a clear example. Despite repeated bailouts, PIA has accumulated losses of over Rs 800 billion, while private airlines operate profitably without government support.

Impact on Public Debt and Economic Stability:

SOEs significantly worsen Pakistan's public debt situation. Total liabilities of SOEs have crossed Rs 32 trillion, creating hidden fiscal risks for the government.

International lenders such as IMF have repeatedly highligted SOE reform as a key condition of financial stability. Persistent SOE losses force the government to borrow more, leading to inflation, currency depreciation and reduced economic growth.

Privitization Appears Inevitable:

Privitization becomes inevitable when state fails to manage commercial activities efficiently. In competitive sectors like aviation, steel, banking and power distribution, there is no strong economic justification for continued public ownership. Private firms operate under profit incentives, face competition and are more discipline in cost control. As, past experiences and international evidences also sugest that privitization reduces fiscal pressure and improves productivity when properly regulated.

Recommendations: The Way Forward

1. Prioritize Loss-Making SOEs:
The government should immediately privitize or liquidate chronically loss-making SOEs, such as PIA and Pakistan Steel Mills, wher continued public ownership has no economic justification.

2. Restructure Before Privatization:
Ballance should be cleaned by setting excessive debt and improving governance before sale to attract credible investors and fair prices.

3. Strengthen Regulatory Frameworks:
Independent regulators must be

empowered to prevent monopolies, ensure fair pricing and protect consumers after privitization.

4. Use Public-Private Partnerships (PPP): In strategic sectors, PPPs can combine private efficiency with public oversight, especially in power distribution and infrastructure.