

Question No. 1

- ① State owned enterprises have been a huge and persistent burden on the budgetary economy of Pakistan why and how these enterprises should be privatized.

Introduction:

When the state owns, nobody owns and when nobody owns, nobody cares. This phrase resembles with the state owned enterprises of Pakistan (SOEs). These SOEs have been a persistent burden on the economy of Pakistan and have been a persistent problem to the economy of the country. These enterprises should be privatized which would be because they are in loss continuously, debt is mounting and their services are

not up to the mark of the market demand. However, the process of privatization should be carried out in a transparent manner; it should be privatized gradually and investors should be attracted by giving them tax incentives.

Why state owned enterprises should be privatized:

SOEs should be privatized because they cause budget deficits no part in revenues generation and due to continuous political interference their services are not that much good.

① SOEs privatization would reduce burden on national Exchequer:

There are 113 SOEs in Pakistan, their annual loss is \$4.1 billion (1200 billion PKR). The top five Enterprises include National Highway Authority, Pakistan

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international airlines, Pak railway, QESCO and PESCO.

The PIA from 2018-2022 lost 310 billion PKR. So, these enterprises are a huge burden on the national exchequer.

② Debt Accumulated on SOEs:

SOEs are unable to meet their operational cost and they rely on government bailouts. Moreover, they are unable to collect their bill from the customers. For instance, the circular debt on energy has risen to 5.7 trillion rupees. In which, 3 trillion debt is on gas sector and 2.7 trillion is on electricity sector. This inefficiency of the SOEs has led to accumulation of debt.

③ Privatization would attract Foreign investment:

Privatization of SOEs would bring boost in the foreign direct investment (FDI) to the country. According to Joseph Stiglitz Privatization helps the FDI as investors seek opportunities in well managed and well oriented companies.

④ Privatization of SOEs would generate funds.

The privatization of SOEs would be helpful in revenue generation. It would help in the reduction of budget deficit. For instance, the ~~sale~~ privatization of PTCL in 2006 brought \$ 2.6 billion to the national exchequer.

5) The tax circle would grow:

Currently the SOEs are in loss they do not meet its operation cost. How they can boost the tax circle? A. Can they contribute in tax generation? If these SOEs are privatized they would generate a huge amount of tax to the government. For instance, MCB bank was privatized in 1990s, up to 2022 it has paid 39 billion in tax revenue. So, by privatization tax circle would grow.

6) Privatization would ensure transparency in SOEs:

Currently the SOEs are inefficient and there are no checks and balances on them. There is no transparency in SOEs. For instance, the political appointment

has curbed the growth of SOEs.
For PIA there are 269 employees
for a plane, while in Turkish
Airlines there are 23 employees
per plane. Similarly, steel mill
is closed since 2015, but
the stationary to still mill costs
2 crore every year. Therefore, they
should be privatized.

How SOEs should be privatized.

① Through a transparent process.

The
process of privatization should be
transparent. It should be conducted
through open bidding to ensure
transparency and prevent corruption.
Moreover, the state should hire
independent auditing firms to
evaluate the assets and liabilities
of SOEs. Then, bidding should
be conducted according to the
report of auditing firm. So, the

will ensure transparency in the privatization process.

② Privatization should be gradual:

The privatization should not be carried out abruptly or quickly. However, it should be a gradual process and must be done in phases to avoid disruption to the economy and workforce.

③ Attract Local and Foreign investors:

The government should attract the local and foreign investors by giving them tax incentives. After privatization, these companies should be given tax exemption for some years. This will help in attracting investment to the market.

④ Public private partnership:

The government should also utilize the option of public-private partnership (PPP). The management will transfer to private entities while retaining some public control. This will result in efficient management.

Conclusion:

To sum up, Pakistan state owned enterprises possess a great challenge to the economy of the country. They are huge burdens on the economy and have plunged the country into budget crises. However, planned and transparent model of privatization would reduce the strain on the budgetary economy and it will also help in fastening the tax revenue and attract foreign direct investment.

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Question No 2

Introduction

Pakistan has been to IMF for 24 times, since its inception. Pakistan has been facing the problems of budget deficit and balance of payment crisis. To fix these problems Pakistan knocks the door of IMF. However, IMF impose some strict conditions that has far reaching negative impacts. It impose conditions of strict monetary policy, floating exchange rate and tight fiscal policy. These conditions increase the unemployment, inflation and country trap in a vicious cycle. Pakistan can come out of this by increasing their exports and tax to GDP ratios. It will help to meet the problems of budget deficit and balance of payment crisis.

Causes of Budget deficit and balance of payment:

Following are
the causes of budget deficit
and balance of payment

① More import than export:

The economy of Pakistan is import oriented. Due to low investment in technology it export raw materials and then import finished product. The importing goods have high worth and paying the cost in dollar, which resultantly cause trade deficit and Pakistan face problems to pay the price of imports. So it face balance of payment

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Low tax to GDP ratios

The tax to GDP ratio is also low in Pakistan.

According to World Bank if the tax to GDP ratio is 15%.

The ~~same~~ country is comparatively good. In Pakistan this ratio is

9%. Moreover, in fiscal year

2023-2024 the total Revenue was

9.78 trillion while the expenditure

of the government was 13.68 trillion.

So this low revenue lead to

budget deficit.

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Debt Servicing:

The minimum 35-40%

of the expenditure portion of

the budget is allocated to debt

servicing. It means out of 100 PKR

40 ~~PKR~~ PKR are allocated by

the government for the return of

loan. In the ~~the~~ current fiscal year

the loan returned by the government

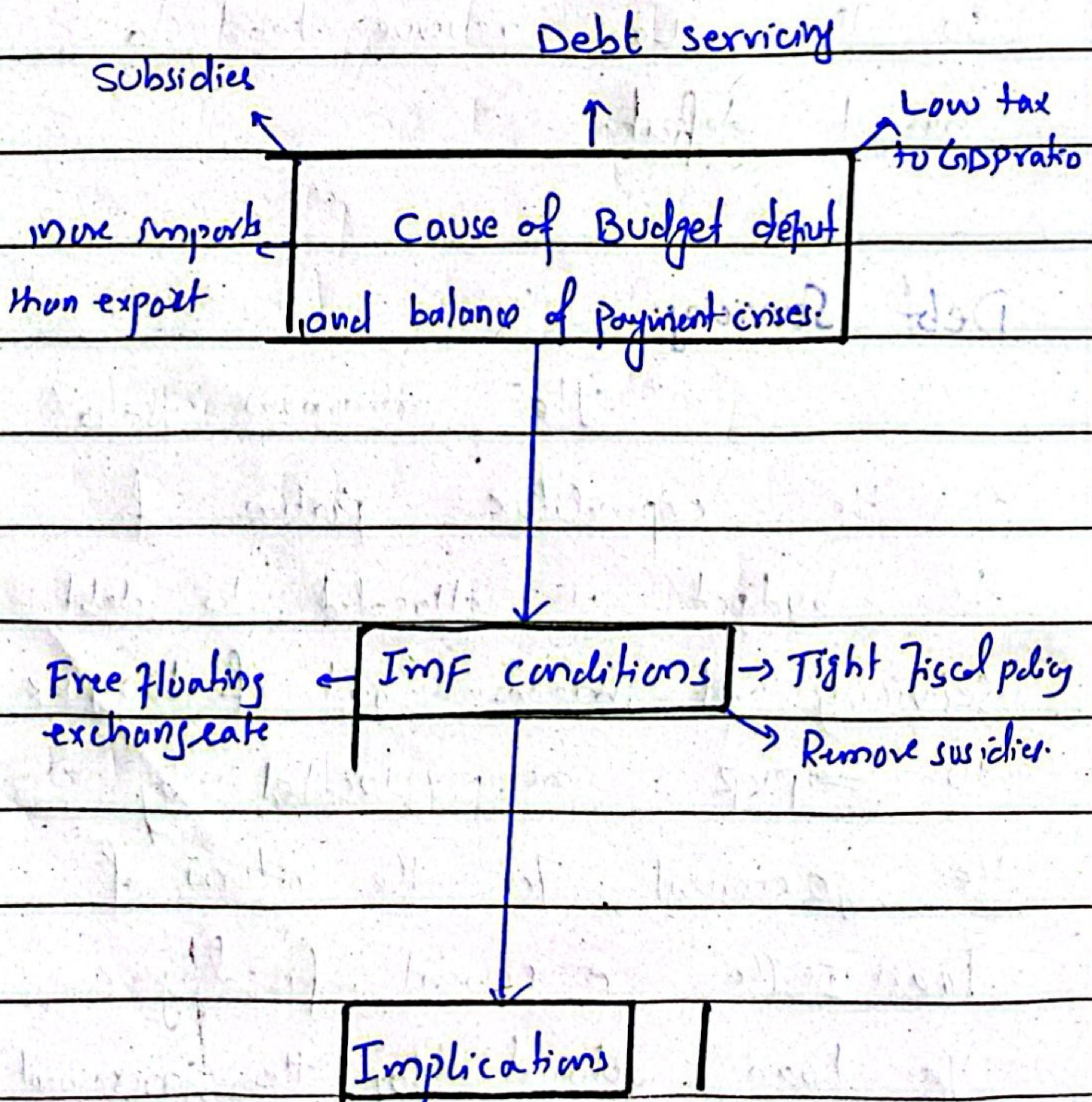
to be 9 trillion PKR while

The total budget is 18.9 trillion.

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Subsidies:

The allocation of subsidies by the government is another reason of budget deficit. In the current year the government has allotted 1363 billion while in last year the subsidies granted were of 1071 billion. It shows a 27.3% increase.



Terms and conditions of IMF and Implications

Whenever a loan is given by IMF, it is accompanied by some conditions.

① Floating exchange rate policy:

Due to this condition the currency get devalued, due to which the imports are expensive. So this cause inflation. The loan borrowed by the government is also increased due to the devaluation of currency.

② Tight Fiscal policies

It refers to government actions aimed at reducing budget deficit or maintaining fiscal discipline by cutting government spending, increase taxes or both. Due to this condition the government often stop spending due to which no employment opportunities generates. Hence it leads

Recommendations:

① Introduce tax reforms:

The government should introduced tax reforms to increase the revenue generation. The standard define by world bank is 15% of tax to GDP ratio should be meet. Moreover, the tax should be impose directly on eligible people. It should not be direct tax that affect the poor people.

② Privatization: should be carried out

The government should carry out the privation. because the SOEs are in loss and their loss is 1200 billion annually. This is a huge amount so privatization would get rid off these losses and it will also help to increase the revenue generation.

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Power Sector reforms:

The government should also introduced some power sector reforms. It should revise the agreement with IPPs and should encourage the use of green energy which will help in saving the huge amount of energy bills.

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Conclusion:

To conclude, the import oriented economy, low tax collection and debt servicing have cause a budget deficit and balance of payment crisis in Pakistan. To meet these issues, the country go to IMF loan which is accompanied with some strict conditions like tight fiscal policies and cut on subsidies. These conditions caused inflation and unemployment in the country. Pakistan can get rid off IMF by introducing tax reforms, reforms in power sector and carry out privatization