

QUESTION 1

1) Introduction:-

Pakistan being one of the aspirant of becoming a fully welfare state has adopted in past some measures regarding the acquisition of some assets, as seen in the nationalization process. Also it had made some institutes regarding infrastructural development or provision of energy facilities. PSM, WAPDA, and SNGPL are some of the examples in this regard. Similarly, Pakistan has incorporated institutes that has reached to more than 100, all these are dubbed as state owned enterprises. For one reason or the other these enterprises, especially some ones like PSM, Pakistan Railway, PIA has become a source of economic burden for us. Now there is talk about their privatization, so that we may get some relieve from these loss making entities.

2: Understanding State Owned Enterprises

2.1) Definition:-

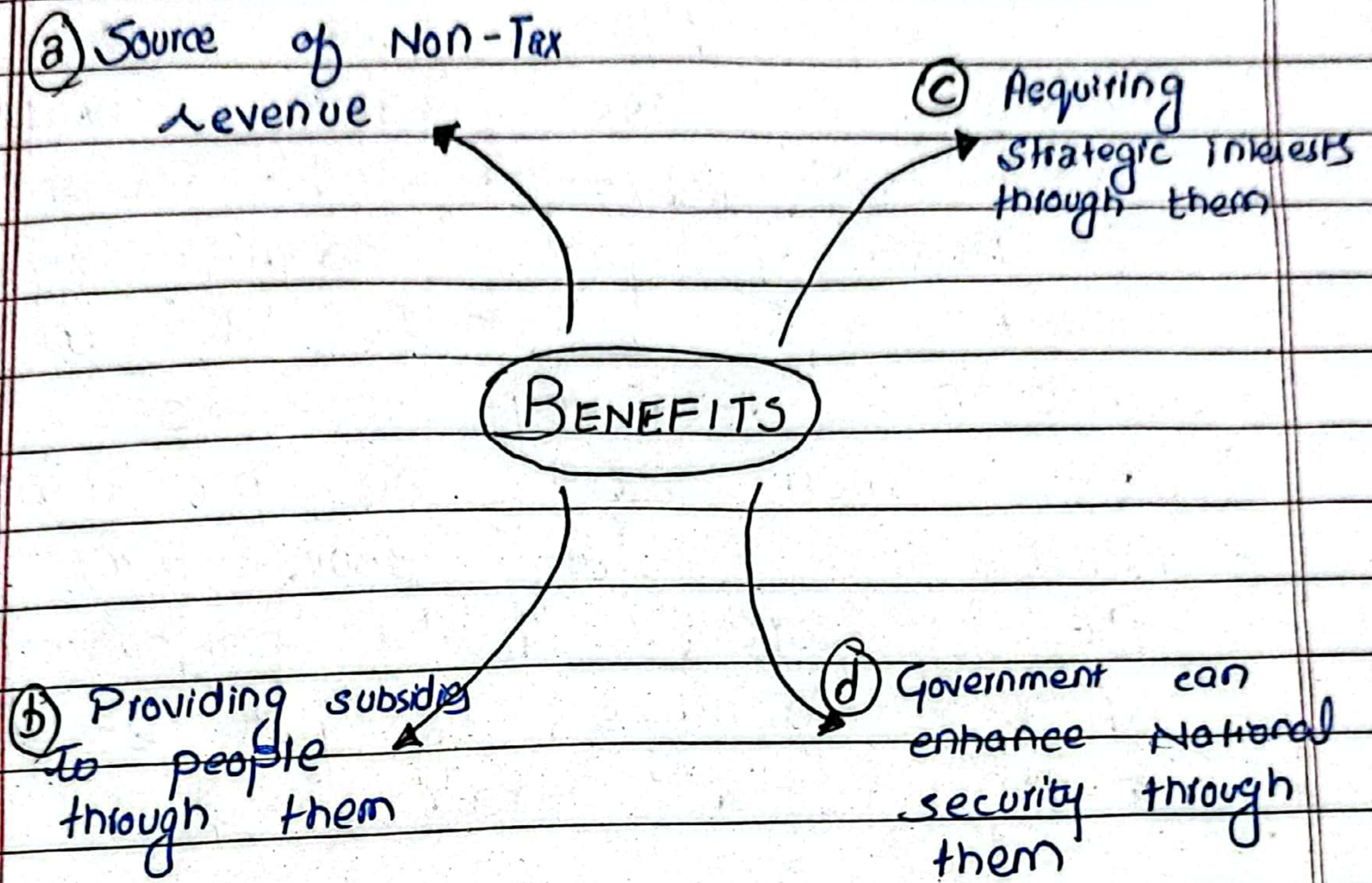
SOE's are those enterprises that are either partially or fully owned by the state, which in our case is owned by the government of Pakistan.

2.2) Examples:-

There are around 113 state-owned enterprises in Pakistan. Notable among them are

- a) Pakistan Steel Mill (PSM)
- b) Pakistan Railways (PR)
- c) Pakistan International Airlines (PIA)
- d) Sui Northern Gas Pipeline Limited (SNGPL).

2.3) Rationale behind having SOEs:-



3) SOEs as a huge and persistent burdens.

The total accumulated losses behind SOE's stands at \$8 bn. Also their contribution towards taxation, as compared to the private sectors are very low.

For instance: PIA accumulated loss is at Rs 600 bn.

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Similarly the losses are not staggered and are growing. In PIA case it is growing at Rs 150bn/year.

Also we have other loss making enterprises like PSM, ~~PIA~~ and Pakistan Railways. Despite having huge number of staffs, like in Pakistan Railway it is more than 269 on per train, which is far above than the world's best performing Turk railways, of just 23 persons per train.

3.2) The phenomenon of circular debt

Two companies related with gas and power sector, SNGPL and WAPDA has unable to address the problems of gas or electricity theft, transmission losses and thus results in contributing to the circular debt.

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3.3) Huge budgetary burden:

Thus losses accrued by these loss making enterprises has burdened our budget. To make them running, Pakistan has to borrowed more and more money from either public or private borrowing sources.

4) Why SOEs should be privatized.

4.1) Relieving from huge losses.

The first rationale behind the privatization of SOEs is that it will relieve us from huge losses that these enterprises are making.

4.2) Source of revenue

Their privatization can also yield significant economic dividends.

For instance, Pakistan Railways has a lot of lands, The selling of such assets can provide us valuable, much-needed revenue.

4.3) Shifts government focus towards good governance.

Rather paying attention towards the profitability of SOEs, privatization relieve state from them. This relieving give state time to focus towards governance and regulation rather actively involving in it.

4.4) Privatization provides valuable revenue sources and ample amount of tax contributions.

Banks which were in losses in the late last century, is not now in profits but giving significant taxes. They were the second largest tax contributors as

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the last fiscal year with
Rs 946 bn.

4.5) Bring foreign and domestic
investments

As in the case
of the Telecom sector, where
PTCL privatization has
brought in foreign investors
like Zong,
Telenor.

4.6) Provides employment to
the young graduates

Banks have also
been one of the
best sources for providing
employment to youth based
on their skills and aptitude.

4.7) Provision of better &
diverse services.

Nowadays, no matter
how much is opposition
to the privatization process

one is, is watching
 private news channels,
 use private cellular networks.
 Also he wants them
 children to study in
 private institutes and availing
 other private services. All
 because due to the
 provision of better, efficient services

5) How SOEs should be privatized?

5.1) Distinction between big
 loss making enterprises
 from others:

First there should
 we make distinction
 between big loss making
 enterprises like PSM, PIA,
 PR, and others from
 others like PSO, and ~~others~~
 state-owned enterprises

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5.2) Huge loss making enterprises
assets to be sold first

Assets like lands,
hotels and others be
privatized through the competitive
bidding process

5.3) Shifting government role
as a facilitator and regulator

However, the ownership
and full stakes should
not be privatized rather
shared. As it can help
in future to government
in securing national strategic
interest

5.4) Strategic SOEs to be privatized
later or not

Some SOEs like those
that make weapons, provides
ammunition and other should
not be privatized. Also those
have strategic importance should
be privatized last.

5.5) " Envisioning public private partnership

Saudi's Aramco has been a source of \$161bn per year to Saudi Arabia. It is working on public private partnership model.

5.6) Learning from Chinese example:-

Around 22% of all the world's biggest firms are SOEs, in which Chinese has the most. Pakistan can learn from Chinese example, where they have incorporated successful public private model into their economic governance.

6) CONCLUSION

It is no doubt that Pakistan's

SOEs are causing huge economic problems for us. These should either be privatized fully or partially. As the basic purpose of state should not be running enterprises but maintaining its good governance to its citizens.

QUESTION 2

① Introduction:-

Pakistan has very dismal Balance of trade numbers. It has also very low foreign direct investments. Further, it has also significant interest on debt repayments each year. Adding more complexion, its macro-economic fundamentals are also not supportive to its growth. Friendly countries tie their investments to the IMF conditionalities, which

are very strict in the economic sense. Thus giving Pakistan a tough time to complete these conditionalities. However, like any other problem, the economic problems of Pakistan has also solutions, that lie in multifaceted approach.

2) PAKISTAN'S Budget

DEFICIT.

The snapshot for FY25 budget is as under

<u>REVENUE SIDE</u> (17.8 tr)		<u>EXPENDITURE SIDE</u> (18.1 tr)	
a)	Total Taxation: Rs 12.9 tr	a)	Debt repayment → Rs 9.2 tr
	i) Direct taxes: Rs 5.8 tr		b) Pensions & other → Rs 2.4 tr
	ii) Indirect taxes: Rs 7.1 tr		
b)	Non-tax revenue: Rs 5 bn		

Transfer to provinces after NFC 43% of the total revenue.

b) Budget deficit = 6.9 pc of the GDP
OR = Rs 7.2 U

c) Interest payment

Pakistan total interest on debt payments accounts for 12.2% of the ~~GDP~~ gross federal revenue

d) gross financing needs

Pakistan's gross financing needs, which is the sum of budget deficit and debt repayment is \$25bn per year, for the next five years.

3) BALANCE OF PAYMENT

CRISES

$$\text{BOP} = (\text{exports} - \text{imports}) + \text{FDI} + \text{remittances} - \text{outflows}$$

Pakistan's exports are around \$30bn in last years. Its imports are around \$68bn. This trade deficit has been covered by \$30bn remittances. Thus in total we have a deficit of around \$6bn every year.

3.2 Whole Scenario of budget deficit & BOP in nutshell:

As around the next five years Pakistan BOP would be in deficit of \$6bn, whereas budget deficit of \$19bn. So totalling at \$25bn per year, with just \$9.8bn reserves.

3.3) RESORTING TO IMF

Thus to finance these needs Pakistan resort to IMF.

3.4) Acquiring more loans

Different countries and multilateral institutes tied down their loan to the IMF conditionalities. So Pakistan to finance budget deficit has to resort to the IMF and its conditionalities.

4) IMF conditionalities and its Affects

a) Market-driven exchange rate

The effect can be seen in PKR devaluation from Rs 153 to Rs 278 in last 4 years.

b) Eliminating subsidies

Elimination of subsidies resulted in costly energy prices

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and thus causing spike in power and gas bills.

4.3) Rising oil prices

When PKR devaluates the prices of oil gets high, causing a spike in inflation

4.4) Austerity measures

Government was asked to reduce the number of institutions owned by state and state privatisation. This lead to significant concern for masses

4.5) Increasing Taxation measures

Government was asked to increase the Taxation measures especially on the real-estate and retailers. The recent taxation on real-estate resulted in the decrease in profitability in this sector

4.6) Taxation on salaried class

As tax on income of salaried class is very immediate - result yielding steps of government in order to meet revenue targets of IMF resort to it

4.7) INTEREST RATES

Pakistan has in past maintained high interest rates to contain inflation on IMF demand

4.8) Low economic growth

Contractionary monetary policy of high interest rate resulted in the low economic growth in the last few years

4.9) SBP's autonomy

Pakistan on IMF's demand has legislated so to provide greater autonomy to SBP.

5) RECOMMENDATIONS

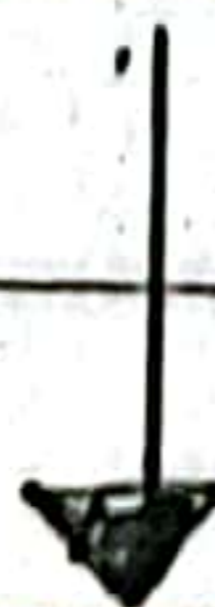
5.1) Reduce the role of government to only facilitator and regulator



5.2 INCREASING the quantity of exports and diversifying it in quantity & destinations



5.3 Increasing Investment, so that FDI increases & BOP deficit decrease



5.4 DECREASING Oil imports bills by utilizing Renewable energy resources

5.5 Developing human capital especially for IT related exports so to contain budget deficit.



5.6 Economic diplomacy with friendly countries to meet immediate financing needs.

6) CONCLUSION:

In a nutshell, we may say that due to inability of ours to increase exports by the debt we had acquired in past, we have to continuously resort to IMF. The conditions imposed by them is so strict and has much

negative implications for us.
Thus immediate, long-term
measures are needed
to resolve these issues
