DATE: 10/01/2025

Current Affairs
Test : 03

QUESTION : 01

State owned enterprises huge burden. How and why they should be privatized?

STATE - OWNED ENTERPRISES

State owned enterprises in Pakistan have a huge and persistent burden on economy of Pakistan. There are about hundred SOEs and more than 600 billion PKR bailed out packages given to the known enterprises like PIA, Pak Railway, Pakistan Post, National Steel Mill etc. They have been a burden due to chronical financial losses as significantly in:

1. PIA

PIA is one of the major SOE that goes in loss due to over-employment as in Pakistan the number is 300, however, it should be 50. Secondly, the aerial transportation along with affiliated businesses. In the last two decades, approximately 1000 billion, the government has paid to PIA, which it had to bail out every year.

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2. ELECTRICITY DISTRIBUTION

Electricity distribution companies are the major burden over the budget of Pakistan. The average loss in DISCOS is 16% resulting in continued bail out. Every year it gives 200 billion PKR and burden falls on the budgetary economy of Pakistan.

SOEs TO BE PRIVATIZED:

The privatization of SOEs is essential in Pakistan due to the persistent inefficiencies, financial burden and economical losses. The privatization would bring with it social, economic and governance benefits.

REDUCED FISCAL BURDEN

Privatization would relieve the Pakistan's government from drainage of public funds via subsidies and bailouts, in order to redirect the resources towards infrastructure, healthcare and education.

IMPROVING EFFICIENCY

Private companies work under the profit-driven models encouraging efficiency, cost-cutting and innovation.

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ATTRACTING INVESTMENTS

Privatization attracts foreign direct investment and local investors, fostering innovation by making enterprises more competitive in global market.

REDUCING DEBT BURDEN

The government can reduce its public debt by the selling away of state-owned enterprises and generating substantial revenue.

MECHANISM OF PRIVATIZATION :

Comprehensive Performance Audits

Phased Privatiz-ation Approach

Attracting Foreign Direct Investment

Prevention of Monoply

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ADOPTING PHASED PRIVATIZATION

To privatize SOEs, the large enterprises must begin with the partial and staged privatization in order to protect from huge economic losses.

STRATEGIC SECTOR PROTECTION

Secondly, by ensuring strategic sector protection mechanism by important critical resources for national security.

ABROAD BASED OWNERSHIP

SOEs to be listed in order to attract international investors for a much stable investment and to enable and encourage public to invest and share in profits.

FOREIGN DIRECT INVESTMENT

The procedures, taxation system and bureacratic hurdles to be removed in order for the foreign direct investment

AVOIDING MARKET ABUSE

Pakistan's government should adopt policies that encourage healthy competition along with complete selling of companies to single entity to avoid monoply.

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CONCLUSION :

For Pakistan to privatize State-Owned Enterprises, it must adopt phased, transparent and well-balanced regulated approach. Various policy formations and privatization can reduce the fiscal burdens and drive the sustainable economic growth.

QUESTION : 02

Persistent budget deficit and ballooning balance of payment. IMF conditionalities, negative implications on Pakistan.

BUDGET DEFICIT and BALANCE OF PAYMENT

The quantity of expenditure and exports when unbalanced, they create budget deficit. It further aggravates the ballooning of balance of payment where country's expenditure on imports, foreign aid exceeds its earnings from exports and financial inflows. They maybe due to various reasons like; foreign debt payment, decrease in foreign investment and trade imbalances.

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Pakistan faces these economic issues collectively known as "Twin economic problems" because its collection is less and expenditure is more. In fiscal year 2023-24, the budget deficit was 4.5 trillion PKR.

REASON FOR DEFICIT

The poor and flawed taxation system leads to the lesser collection where National Finance Commission, after application is left with limited. After NFC, 57.5% was given to provinces and 42.5% was left with the center. Secondly, tax on hydrocarbon is given to the center, with 4.6 trillion PKR left behind. This results in the total expenditure of 9.1 trillion with 4.5 trillion deficit.

IMF CONDITIONALITIES

The Austerity measures refer to the cutting down of or reducing the spending amounts by government officials especially on subsidies.

Increase in GST and indirect tax systems raise inflation, poorly affecting the weak class of society, and removing energy subsidies leads to increased rate of electricity & fuels.

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Forced privatization of state owned enterprises without pre-hand notice and ~~required~~ insufficient terms conditions may lead to loss in economy, and private monopolies.

LOAN ACQUIRING

IMF provide financial aid to countries at time of demand but along with the strict terms and conditions. The most significant of them is to remove subsidies.

Time End :

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