Kiran Shahzadi   Test # 3

Question # 1

State Owned Enterprises of Pakistan:-

Pakistan has 113 state owned enterprises - State owned enterprises are those entities which are owned by the state, or government of the state weather partially or fully. The state is responsible for its functioning, profits as well as losses. In the case of Pakistan these state owned enterprises are nothing more than ~~a~~ persistent and huge burden on the economy - economy which already ~~have~~ has a looming threat of default as Pakistan had in recent years. The need is to privatise these SOEs in order to convert these state burdened entities to state assets in the form of revenue generators although there are many arguments against doing ~~to~~ so but the same has their counter points as well. Now its government responsibility to decide how to privatise these state owned enterprises.

Why There is a Need to Privatise:

The state owned enterprises which can be an asset and revenue generator for any state as state solely has rights over the profits of these entities. but in Pakistan there is a persistent loss from these entities which accounts for $4.1 billion annually. The following factors which requires these entities privatization

Factors

(a) Reduce fiscal burden

(b) hampering other sectors.

(c) Increase competitiveness in Business market

(d) attraction for Foreign Direct investment in the country

(e) modernization and technical upgradation

(f) Public trust through accountability and transparency

(g) from state burden to state revenue

a Reduced Fiscal Burden:

These SOEs in Pakistan are a persistent burden on Pakistan's fiscal. As Pakistan face a long fiscal deficit on yearly basis and needs to take more loans from domestic as well as international institutions in order to manage this deficit as in 2023-24 fiscal deficit was 3.7 % of GDP as per Pakistan's economic survey 2023-24 and the state owned enterprises contributed to this deficit with a net loss of 470 billion rupees, resource of this is Pakistan's economic survey 2023-2024. So there is a need to privatise these state owned enterprises so that this looming fiscal burden can be reduced and Pakistan's reliance on loan can also be reduced through this.

b Hampering Other Sectors:

As the fiscal deficit increases due to loss of these state owned enterprises the government spending on other sectors such as health and education which are necessary for public well being get curtailed for example in year 2023-2024 government spendings on health sector was $3.3 billion and on education sector government

Spending was of $2.8 billion dollar. while in the same year state owned enterprises encurred $ 4.1 billion losses. then same which can be spent on public well being and human development. so there is an increasing need to privatise these state owned enterprises so that the other sectors can be safeguard from the effects of these SOEs.

c- **Privatization will bring Competitiveness in the market:**

As the state owned enterprises ~~has~~ due to its loss making charecteristic has stagnent the market. If the same will be privatised it will increase competetiveness in the market by adding technical upgradation as well as modernizatio and innovation. The government being a fragile economy does not have enough spending to upgrade or modernized these entities. while through privatisation the new owners will upgrade these SOEs through investment. ~~and~~ which ultimately will increase competetion in the market and incourage other industries to invest and improve. So there is a need of privatization not only for the entities itself but to other connected sectors/industr

d. ## Attraction For Foreign Direct Investment:

Pakistan's looming economy need foreign direct investment. which can be attracted through privatization of SOEs. The same will motivate other investors to invest in the country by seeing investment in SOEs. At the end the country will prosper its economy through this. As it will get trust of foreign investors. This will increase foreign reserves of the country as well.

e. ## Public Trust Enhancement:

When these SOEs which are persistent burden on the economy will get privatise there will be new management which will ensure transparency as well as accountability in these sectors. The same will enhance public trust on these institutions. As there will be less chances of corruption and mismanagement. So the overall national integrity will be enhanced.

f. ## From state burden to state asset:

As these loss making entities will get privatise then there will be an ~~advent~~ advancement in these sectors which will lead to revenue generation. for the same will become ~~public~~ Country's asset. For example: In 1990's banking sector in Pakistan got privatised at that time Muslim Commercial Bank which earned 0.4 billion rupees now contributes 29 billion Rupees in tax alone.

~~Case Study of Karachi Electric:~~

How to privatized their SOEs.

~~when the government decides ~~that~~ that the part~~

After making decision over privatization of SOEs. the government needs to decide or select the method to privatise these entities there are following methods that can be adopted for privatisation.

a. Public Private Partnership:

Here the government is a collaborative agreement between government entity and private sector like business organization to deliver a public service or infrastructure project: Here the government and private organization share risks. as well as the private entity brings investment while the government entity will keep an oversight over the project to maintain regulatory control over the Project. For example. India's Approach in railway Sector where it selectively Privatized operations and stations while retained infrastructure. ownership. balancing the efficiency with Public access

b- **Outright Sale:**

Another method is to go with Outright Sale agreement. when the government sells a State-owned enterprise or asset to a private buyer, here transfer of full ownership and control takes Place. For example: In 1984 UK government sold 51 % of British Telecom - the country's state owned enterprise to the private sector through the outright sale. This same example proved to be successful outright sale of a SOE, which helped to Promote private sector investment and efficiency in the UK's Communication sector. The same can be adapted by. Pakistan.

c- **Joint Venture:**

Joint venture is an another method which can be adopted to Privatise SOEs in Pakistan as here private entity with the government. and work together to achieve a specific goal.

For example: In 2006 Pakistan government privatised its 26% of PTCL, the country's largest communication company, to a UAE based telecommunication company which provided PTCL with efficiency, performance enhancements as well as technological adoption and better service to public. The same can be done to other SOEs in Pakistan.

- ~~Arguments Against it.~~

~~There are certain arguments against~~

Comparisions with world:

Pakistan's SOEs are under performed which put extra pressure on country's fragile economy to go for privatisation. For example During Covid-19, many sectors get on brink of collapse on the other hand many get opportunities. Airlines was a sector which get severly hit worldwide but the same get instant boost post covid-19, as the prices reached to triplicate values and this sector achieved 25-35% growth. On the other hand Pakistan's PIA only get 0.4% growth, which shows that these SOEs in Pakistan have even suffered its decline phase so the need is to go for privatisation

Govnmt Role

(a) An administrative Role

The government can adopt an administrative role in privatisation by making policies which will be beneficial for public interests as well as boost foreign investors to invest in SOEs. moreover government needs to strengthen other institutions so that there will not be any monopoly of foreign entities after investment in the market so that the competitiveness of the market keep going.

Infrastructure and Policies development!

The government needs to develop an infrastructure and formulate policies and regulatory framework for trade and investment with which foreign investors will get attracted towards investing and sponsoring in Pakistan. The same will increase the value of SOEs in Pakistan. As through providing ease of doing business business activities can be streamlined in the economy.

- Conduct a diagnostic studies:

First of all after deciding privatisation mechanism the government needs to conduct a diagnostic study ~~of~~ over SOEs. to know the weakness, challenges of the sector, secondly to calculate its losses and thirdly to know the actual worth so that they will not be a chance of selling SOEs on lower prices as well as governments will have data to substantiate and satisfy buyers on bidding higher amounts. for example in 2005 steel mills was bid on 17 billion but the supreme court stopped its privatization as the amount was less than its worth.

Conclusion:

The state owned enterprises in Pakistan are a huge and consistent burden over budgetary economy of Pakistan as it increases deficit, hampers other sectors, and through privatisation government can boost modernization, FDI in the country as well as public trust. Now its government is going to go for ~~anyone~~ any one or multiple methods of privatization as

Per the demand and worth of the sector SOE. As there is a need of Privatisation of state owned enterprises to convert them from state burden to state revenue.

Question # 2

Nexus Among Pakistan, Loan, And IMF

The economy of Pakistan has two major problems one is balance of payment crisis or ~~budget~~ dollar shortage and other is persistent budget deficit. These two persistent factors compels Pakistan to go for further ex acquisition of loans for which IMF is one of the options which Pakistan chose. As on December 31, 2024 Pakistan has availed 25th IMF loans worth of $8.7 billion. The number of loans and amount shows Pakistan's economic reliance and vulnerabilities to loans. On the other hand IMF against these loans apply strict loan conditionalities on IMF which has far reaching effects / negative implications on Pakistan. ~~Pakistan~~ like, money devaluation, reduction in subsidies, increase in inflation as well as increasing budget deficit and balance of Payments which further compels Pakistan to acquire more loans. There is an increasing need to take necessary actions, measures, strategies to get out of this ~~a~~ vicious circle of IMF loans.

- Budget crisis and its Reason:

Budget crisis has always been a problem for Pakistan but it has increased its severity in recent years. as in Year 2024-2025 budget deficit will stand at about 8 trillion as collection target for the Year is 13 trillion and expenditure at 18.9 trillion. ~~In~~ Previously in Year 2023-24 it stood at 4.7 trillion, and in 2022-23 at 4.5 trillion, and 4.1 trillion in Year 2021-22. There are multiple reasons which contributes to budget crisis the foremost of them is flawed taxation system which results in less taxation collection, this flawed taxation system gives opportunities to tax evaders to not to pay taxes. on the other hand debt servicing ~~took~~ take a measure ~~about~~ chunk of budget allocation, and so on. collectively these reasons lead to budget deficit as government's expenses surpass its total collected revenue. In order to meet budget deficit Pakistan acquires more loans.

Balance of Payment crisis:

is ~~are~~: Balance of payment crisis the ~~am~~ total amount of dollars inflow and outflow managed through an account called current account when the total outflow surpass total inflow it is called balance of payment. In case of Pakistan it stood at $6.8 billion for the period of july-march 2024 according to State Bank of Pakistan. and for the year 2024-2025 is projected to be around 8-10 billion dollars. This shows Pakistan's vulnerable balance of payment crisis. In order to maintain its current account as all imports are done through this and pakistan's 60% energy generation depends on imported fossil fuels and hydro carbons, moreover, Pakistan imported $8-9 billion food items in 2023-24. ~~Pakist~~ To do all these payments and maintain current account pakistan needs to acquire more loans.

Loan Acquisition and IMF:

In order to meet budget deficit and balance of payment crisis pakistan has to go for loan acquisition. for which IMF is one of the options which is availed by Pakistan multiple times. As December 31, 2024 Pakistan availed 25th

IMF Program worth of $8.7 billion :

In response of which IMF impose multiple far reaching conditionalities which are as follows.

Tax Conditions and Its Implications

IMF has imposed a condition on Pakistan to reform its tax policies which includes increasing tax collection. In response of which the government has increased tax rates for individuals as well as for companies. In Pakistan the direct taxes are cumulated 33% of the total taxes while indirect taxes are 66% of taxes. According to a research 1% of indirect tax increment leads to 1.68% decrease in economic growth.

Implications

higher taxation rates leads to less investment in the country which hampers economic activities. moreover, individuals which rely on salaries has to pay tax upto 39% leads to ~~~~ decrease purchasing power and deteriorate living style and standards. causing malnutritions and a hand to mouth conditions of salaried individuals.

Monetary Policies and reduce Trade Barriers

IMF imposed a condition of free market where free floating of money and exchange rates without any interference observe this lead to devalue Pakistan currency. as rupee devalued from 225 to 265 in three days. Minimum reduction in trade barriers leads to increase ~~...~~ imports in the country.

(a) Money devaluation

From 225 to 265 in three days.

(b) Increase foreign debt

as money devalue eg the loan was of 100 billion Pemlly now stood on 300+ billion

(c) Reduce IMF

As market value of money dollar investor were not willing to invest in such a fragile currency holding country.

Implications

(c) Capital Fly

Capital in the country fly to abroad as many industries fly to other countries for sustainable profit margins

(d) Increase Import values

As ~~...~~ currency devaluation leads to decrease rupee worth against dollar ultimately lead to higher import expense increase balance of payment crisis.

(e) Emerged Balance of Payment crisis

When there are less trade barriers people were allowed to import luxury items which lead to increase in balance of payment crisis.

- Lower competitive advantage in ~~international~~ international market. As Pakistan's value decreases. Pakistani products cost of production increases e.g. Production machine which would be imported from abroad now worth tripple in Pakistan currency which increase its cost. So no advantage in international market own price.

- Increase Inflations.

As exports decrease due to higher Production cost leads to increase in domestic prices which impacts negatively on Purchasing Power of masses and ultimately ~~inflation~~ increase inflation in the country. as in 2023 - 2024 Pakistan faced highest inflation rate of its history. as on 37%. Plus ~~as electricity~~

- Cut off ~~subsidies~~ Subsidiese.

Pakistan was asked to cut of Subsidies on energy Products as Petrol, diesel, electricity. resultantly it increases Prices of the same to next level as in recent Years prices have increased to almost tripple of electricity. around 700% of gas and petrol to double prices. which ultimately increase inflation level.

All above impacts of conditionalities are severe which needed only one solution which is stable economy and no more loans of IMF.

Recommendations

There are following recommendations which can be adopt to avoid IMF loans.

- **loan From Friendly countries:**

Pakistan through confidence building with friendly countries such as China, Saudia, UAE, etc can avail loans from friendly countries as Pakistan already take hydro carbon from Saudia & ME only on deferred payment. moreover saudia has given loans to pakistan in history as well.

- **Converting current Account deficit to surplus:**

In order to convert current account deficit into surplus Pakistan needs to control its imports and increase its exports e.g in year 2024 pakistan's export growth was of 14% in year 2022 it was 16% as per economic survey of Pakistan. Pakistan needs to maintain this performance

- **Boosting Exports:**

pakistan need to boost its exports which can be done through increasing export

Product line, by adding values in the product e.g Pakistan's cotton ~~bits~~ is high quality but Pakistan sell it as a raw material. The same cotton earn more for Bangladesh in the form of end product (cloth). moreover, need to spend on IT infrastructure as Pakistan's freelancer markets is one of the best in the world. moreover, Projects like Riko Dig needs to be speed up to generate mining revenue.

- **Developing ~~E~~ (SEZs)**

Pakistan under CPEC is developing 6 special economic zones, work on the same must be speed up so that Foreign direct investment in those zones can be attracted.

- **Screening Foreign Investment.**

A committee must be formed to screen foreign investment which are based on technology transfer as well as leading to generate export oriented products and increasing jobs should be prioritized. As these will be beneficial for the state in long term.

- **Use of SIFC:**

SIFC a platform where government and military will work together for economic prosperity must be utilized as the dual partnership will provide surety to foreign investors and countries on international level.

- **Invest in labor productivity:**

Pakistan needs to invest in labour productivity as the same will enhance foreign remittance. As Pakistan's workers do not have higher skills and get to work on lower class wage duties on the other hand Indians are leading giant companies in the world eg Google's CEO is an Indian. Pakistan should export skilled labour, for which need to organize vocational trainings and programs to enhance foreign remittance which will balance the balance of payment crisis and budget deficit.

- **Opt Privatization..**

Pakistan owns 113 SOEs which generates $4.1 billion annually. There is an immense need to go for privatization and make these loss generating SOEs into revenue generating entities for the state. as Karachi electric in 2005 earn 50 crores and 200 million in taxes while in 2022, KE generates 8.4 billion rupees profit and gives 2.8 billion rupees in taxes.

- **Power Sector Reforms.**

Need to go for indigenous power production as well as revise IPPs contracts which are burden on economy as Pakistan made capacity payments to them and that too in dollars. need to utilize CPEC's energy Projects.

- **Tax Reforms:**

There is a need to enhance tax base instead of increasing tax rates. only then the collection can be increased without pressuring the already pressurized tax payers.

- **Agricultural Reforms:**

As in CPEC China will help Pakistan's agriculture sector by investing in research and development and implementing modern techniques of agriculture. As Chinese minister said "Pakistan's agricultural production will reach $100 billion". As this sector will decrease agricultural imports and will increase exports. means dollar inflow will increase as well as outflow decrease.

- **Conclusion:**

Pakistan's budget deficit and balance of payment crisis increase its dependence on IMF in the form of loan acquisition. against which IMF's conditions have more far reaching impacts on Pakistan. There need is to work on strategies to get out of this vicious ~~cycle~~ type cycle of IMF loans.

CamScanner