

Question # 1

12/20

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 whether partially or fully. The state is responsible for its functioning, profits as well as losses.

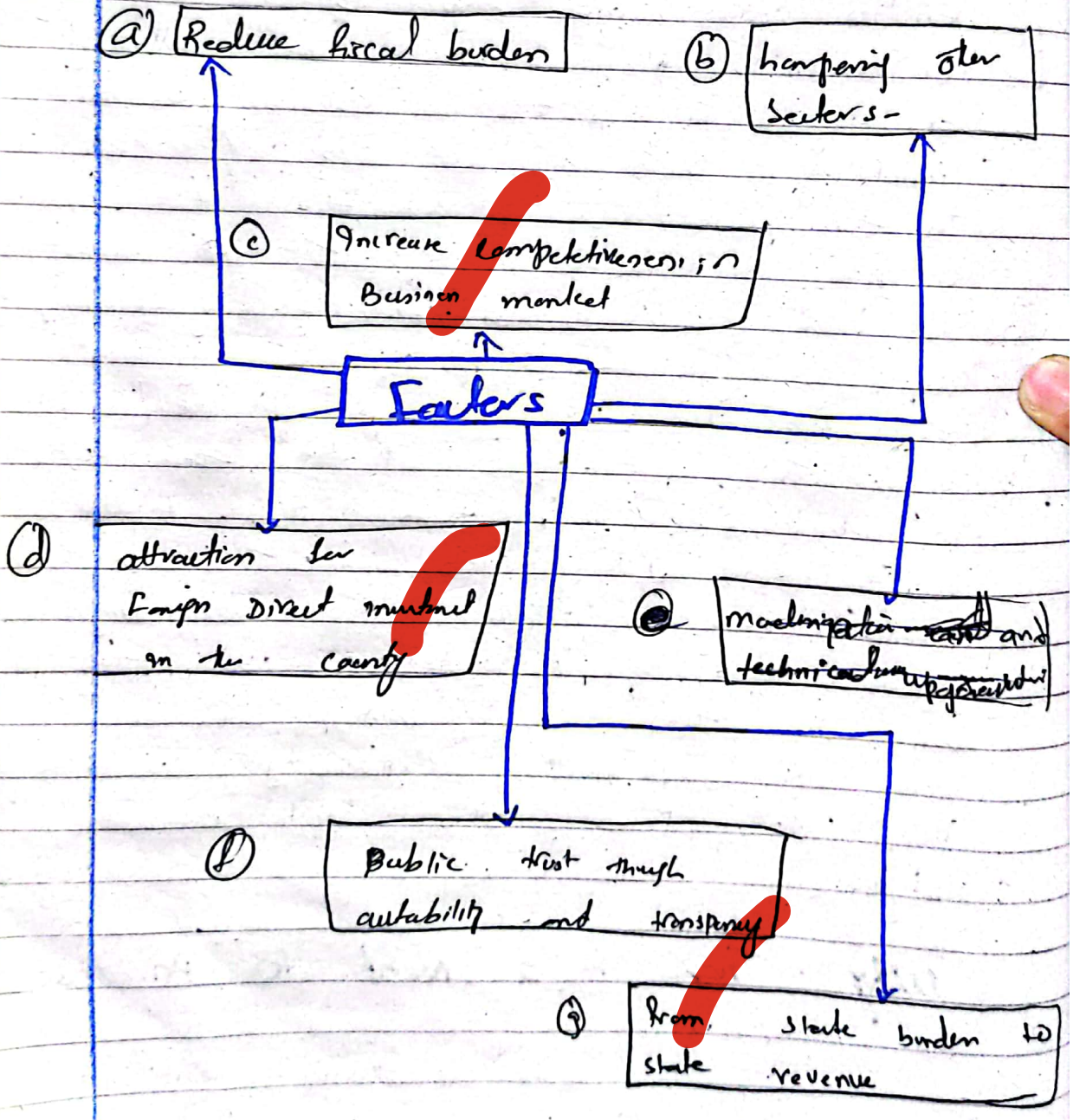
In the case of Pakistan - these state owned enterprises are nothing more than a persistent and huge burden on the economy - economy which already has a looming threat of default as Pakistan had in recent years. The need is to privatise these SOEs in order to convert these state burdened entities to state assets in the form of revenue generators although there are many arguments against doing so but the same has their counter points as well.

Now it's 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 amounts for \$ 4.1 billion annually.  
 The following factors which requires these  
 entities privatization



## a. Reduced Fiscal Burden:

These SOEs in Pakistan are a persistent burden on Pakistan's fiscal. A Pakistan face a huge 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 privatize these state owned enterprises so that this heavy 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's 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 spending 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 incurred \$ 4.1 billion losses. The same which can be spent on public well being and human development. So there is an increasing need to privatise these state owned enterprises to put 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 due to its loss making character has stagnated the market. If the same will be privatised it will increase competitiveness in the market by adding technical upgradation as well as modernisation and innovation. The government being a fragile economy does not have enough spending to upgrade or modernised these entities. While through privatisation the new owners will upgrade these SOEs through investment and which ultimately will increase competition in the market and increase other industries to invest and improve. So there is a need of privatisation not only for the entities itself but to other connected sectors/industries.

## d Attraction For Foreign Direct Investment:

Pakistan's looming economy need  
Foreign direct investment. which can be attracted  
through privatisation of SOEs. The same  
will motivate other investors to invest  
in the country by seeing investment in  
SOEs. At the end of the country will  
prosper its economy though 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 will be privatised  
burden on the economy will get privatised  
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's burden to state assets:

As these loss making entities  
will get private then there will be  
an overall advancement in these sectors

which will lead to revenue generation, for the same will become public Country's asset. For example: In 1990s banking sector in Pakistan got privatized 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 privatize the SOEs.

When the government decides that the SOE

After making decision over privatization of SOEs, the government needs to decide or select the method to privatize. There are three methods that can be adopted in privatization.

#### 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. leading to 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 B.T.  
or British Telecom - the country's state owned  
enterprise to the private sector through the  
outright sale. This same example proved  
to be a successful <sup>outright</sup> 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 another  
method which can be adopted to  
Privatize SOEs in Pakistan or here  
the government and private entity with

work together to achieve a specific goal.

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

~~Arguments against it.~~

### Comparison with world:

Pakistan's SOEs are under performed with 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 severely hit worldwide but the same get instant boost post Covid-19, as the prices reached to triple value 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 surpassed



its double phase so the need is to go for privatisation

## Government 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 spending in Pakistan. The same will increase the value of SOEs in Pakistan. As though providing ease of doing business business activities can be streamlined in the economy.

## - Conduct a diagnostic studies!

First of all after deciding Privatization mechanism the government needs to conduct a diagnostic study over SOEs to know the weaknesses, challenges of the sector, secondly to calculate its losses and thirdly to know the actual worth so that they will not be a choice 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 it as the amount was less than its worth.

## Conclusion:

The state owned enterprises in Pakistan are a huge and consistent burden on budgetary economy of Pakistan as it incurs huge deficit, hampers other sectors, and through privatization government can boost manufacturing, FDI in the country as well as public trust. Now its government is going to use so far ~~of~~ any one or multiple methods of privatization as

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

## Question # 2

11/20

### 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 acquisition of loans for  
which IMF is one of the options  
which Pakistan chose. As on December 31, 2014  
Pakistan has availed 25th IMF loan  
worth of \$8.7 billion. The number of loans  
and amount shows Pakistan's economic reliance  
and its 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 many developing,  
reduction in subsidies, increase in inflation as  
well on increasing budget deficit and balance

of payments with further. compels Pakistan  
to acquire more loans. There is an  
increasing need to take necessary actions,  
measures, strategies to get out of  
this 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 2019-2025 budget deficit will stand  
at about 8 trillion as collection target  
for the year is 13 trillion and expenditure  
at 18.9 trillion. In primary 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 contribute to budget crisis. the  
Government of Pakistan 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 cost 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 the amount of dollars inflow and outflow. Current account surplus <sup>total</sup> inflow minus the total outflow 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. For January 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. ~~And~~ 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 Pakistan availed 25th December 31, 2024

IMF Program worth of \$8.7 billion.  
In response of which IMF impose multiple  
conditionality which are as follows.

## Tax Conditions and IB 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 cumulative 33% of the total taxes while indirect taxes are 66% of taxes. According to a research - 1% of indirect tax increase 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 ~~inter~~ decrease purchasing power and deteriorate living style and standards. causing malnutrition and hard to mouth conditions of suburban individuals.

# Monetary Policies and 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. money restriction in trade barrier leads to increase ~~in~~ imports in the country.

(a) **Money devaluation**

From 225 to 265 in three days.

(b) **Reduce IMF**

As market value of money dollar number were not willing to

(c)

**Increase foreign debt** on money devalue by the loan was of 100 billion. Presently now stood on 300+ billion

invest in such a fragile currency holding country.

## Implications

(d)

**Capital Fly**

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

(e)

**Increase Import value**

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

(f)

**Increased Balance of Payment Crisis**

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

- Lower competitive advantage in international markets. As Pakistan's value decreases, Pakistani products cost of production increases e.g. production machine which could be imported from abroad now worth triple in Pakistan currency which increase its cost. So no advantage in international market over price.

- Increase Inflation.

As exports decrease due to higher production cost leads to increase in domestic prices with inputs negatively on purchasing power of masses and ultimately increase inflation in the country. as in 2023-2024 Pakistan found highest inflation rate of its history as on 37.1% plus as electricity

- Cut off subsidies

Pakistan was asked to cut off subsidies on energy products as petrol, diesel, electricity. resultantly it increases prices of the same to next level as in result years prices has increased to almost triple of electricity, and 700% of gas and petrol to double prices. which ultimately increase inflation level.



All above impacts of conditions are same will needed only one solution which is stable economy and no more loans of IMF.

## Recommendations

There are ~~policy~~ recommendations which can be adopted to ~~avoid~~ IMF loans.

### - Loan From Friendly countries:

Pakistan through confidence building with friendly countries such as China, Saudi, UAE, etc can avoid loans from friendly countries as Pakistan already takes hydro carbons from Saudi & ME only on deferred payments. Saudi has 300 loans to Pakistan in history as well.

### - Correcting 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 14% in year 2022 it was 16% on per economic survey of Pakistan. Pakistan needs to maintain this performance.

### - Boosting exports:

Pakistan needs 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 on Pakistan's  
freelancer market is one of the best in the  
world. moreover, projects like Riko Dig  
needs to be speed up to generate  
mining revenue.

### - Developing 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 there will be  
beneficial for the state in long term

### - USE OF SIFC:

SIFC a platform where government  
and military will work together for  
economy prospect must be utilized

as the dual membership will provide security to foreign investors and countries on international level.

## - Invest in labour productivity:

Pakistan needs to invest in labour productivity on the same will enhance foreign remittance. As Pakistan's workers do not have higher skills and get to work on lower wage duties on the other hand Indians are leading giant companies in the world eg. Google CEO in an Indian. Pakistan should adopt 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 generate \$ 4.1 billion annually. There is an immediate 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, KEC generates 8.4 billion rupees profit and give 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 ~~energy~~ in 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 ~~pressurised~~ 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 inputs and will increase exports  
means dollar inflow will increase as well  
as outflow decreases.

### - Conclusion:

Pakistan's budget deficit and balance of  
payments crisis increase its dependence on  
IMF in the form of loan acquisition.  
against which IMF's conditions have more  
for reality inputs on Pakistan. The  
need is to work on strategies to  
get out of this vicious cycle of  
IMF loans.