Malaika Khalil
Test # 3 (Current Affairs)

1

Question # 1:

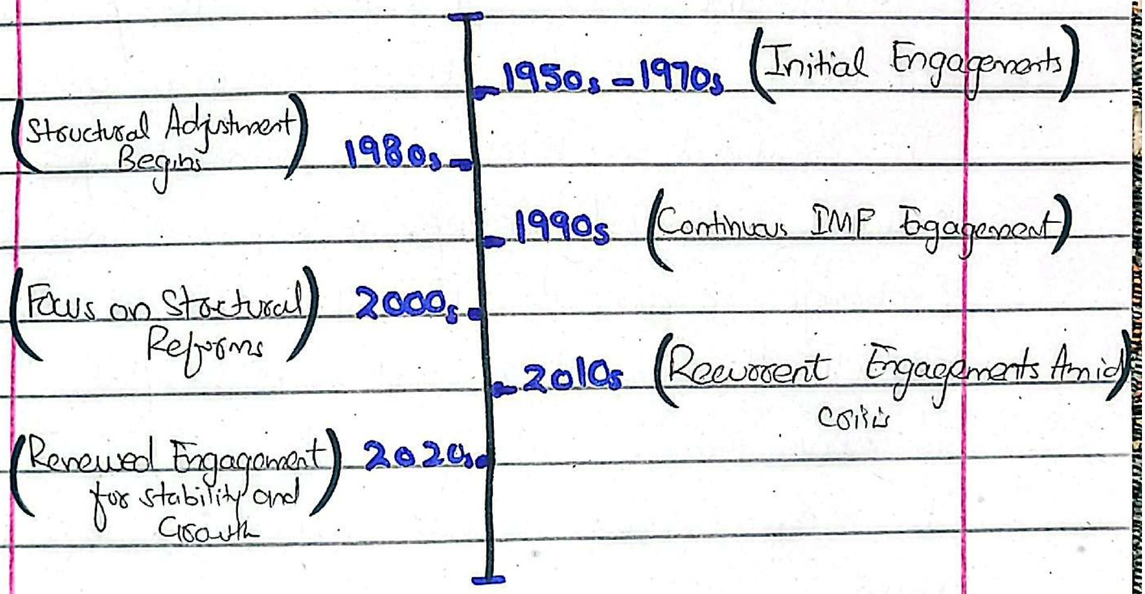
Analyze Pakistan's journey with IMF: Is it a path to long-term ... and their impacts on sustainable growth.

I. Introduction:

Pakistan's economic relationship with International Monetary Fund (IMF) began in 1950, and since then, it has taken more than twenty (20) loan programs. These programs are usually taken in period of severe economic distress, balance of payment crisis, currency devaluation, Inflation, and low foreign exchange reserve. However, the cyclic nature of these loans raise a question as if they pave way for long-term stabilization or do they merely act as short-term relief that postpones deeper structural reforms. The question will explore Pakistan's historic pattern with IMF and the core structural weakness that perpetuate economic fragility, and access how chronic political instability undermine sustainable development.

II. Pakistan-IMF Journey: A Brief History

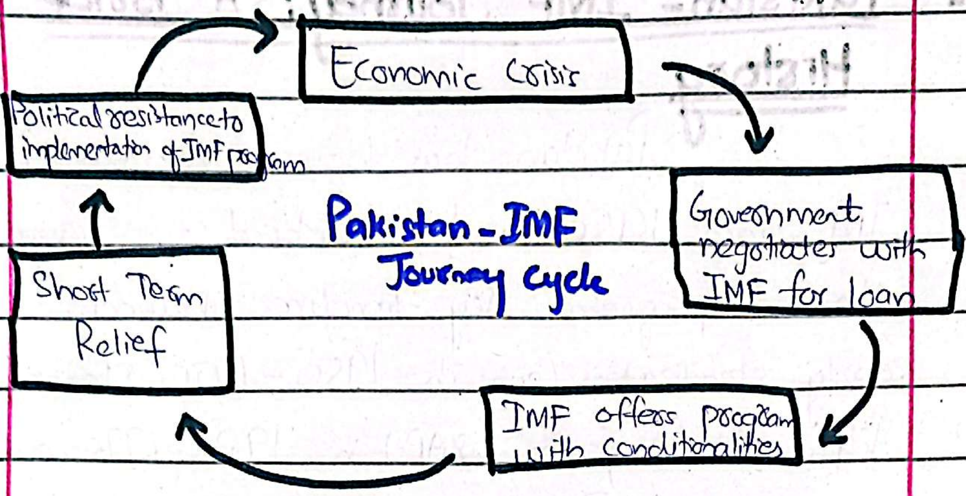
Pakistan has been a member of IMF since 1950 and has entered over more than 20 programs. Key timeline includes early stabilization loans in 1950s – 1970s, Structural Adjustment Programs (SAPs) in 1980s – 1990s, and recent Extended Fund Facilities (EFF) focusing on energy and tax reforms i.e. 2000s – 2020s. The 2023-24 Stand-by Agreement (SBA) continues this pattern of short-term relief without long-term transformation.



Pakistan-IMF Journey Timeline

III. Pakistan's IMF Journey: A Source of Short Term Relief

Pakistan's experience with IMF follows a predictable and frustrating cycle. It begins with economic crisis — balance of payment crisis, high external debt or runaway inflation. Then, the government negotiates with IMF for loan or agreements, with conditionalities. These conditions comes with austerity measures — reducing subsidies, increasing taxes, and privatizing state-owned enterprises. Initially, the loan provides short-term relief as it boosts foreign exchange reserves, stabalizes the currency, and prevents default. This allows for essential imports and debt payments, restoring temporary market confidence and unlocking other funding. However, the implementation of reforms temporarily stalls due to political resistance or institutional capacity. Consequently, the economic issues are not resolved and Pakistan is compelled to seek yet another IMF program.

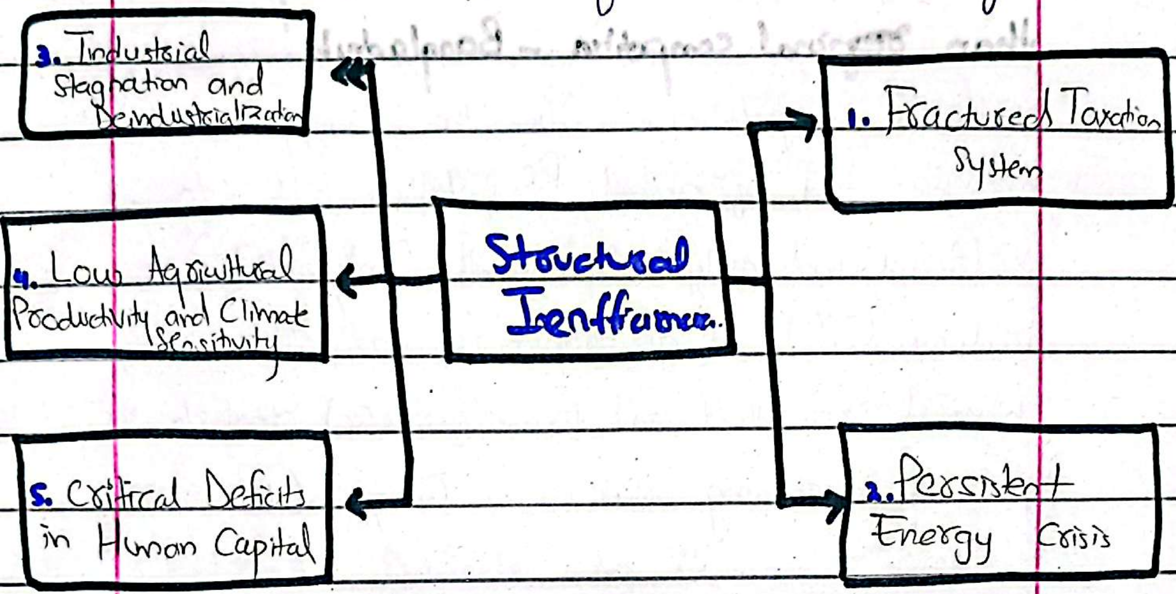


(i) The 2023 IMF Deal: Reinforcing Pakistan's Painful Cycle of Short Term Relief

The 2023 \$3 billion Stand-by Agreement reflects Pakistan's recurring cycle. The required tax hikes and cuts in subsidy provided immediate relief, raising foreign exchange reserves to \$18.9 billion and preventing default. However, it resulted in high inflation i.e. above 25% and deepened poverty. Thus, it reinforced the conditions for the next crisis.

IV. Deep Rooted Structural Inefficiencies: A Key Economic Challenge of Pakistan

The deep rooted structural weaknesses in the economy of the country forces it to ~~consult~~ ask for IMF program. Following are the structural flaws in the economy.



(i) Fractured Taxation System:

Pakistan's tax-to-GDP ratio hovers around 9%–10% due to its narrow tax base and vast informal economy that operates outside the tax net. As the system relies heavily on indirect taxes such as heavy reliance on General Sales Tax (GST) which disproportionately burdens lower-income households. Furthermore, extensive tax exemptions, estimated to cover over half of potential revenue, deprives state of generating revenue for public investment and development.

(ii) **Persistent Energy Crisis:**

The persistence in the energy crisis also lead to economic crisis. As, the country's electricity is approximately **30% more expensive than regional competitor - Bangladesh**, undermining industrial competitiveness. Also, the energy sector faces circular debt of around Rs. 2.5 trillion due to inefficient and costly contracts with Independent Power Producers (IPPs), high transmission and distribution losses (due to theft and poor infrastructure) and slow pace of reforming State-owned Enterprises (SOE).

(iii) **Industrial Stagnation and Deindustrialization.**

The industrial sector's output is contracting with an output decline of 1.5% in the first nine months of 2025. Due to high energy costs, unfair tax regime and inconsistent regulatory policies companies like Procter and Gamble, Shell, and Microsoft have left Pakistan. Pakistan's export basket remains undiversified and highly dependent on low-income driven export industry hindering the creation of sustainable and high paying jobs.

(iv) **Low Agricultural Productivity and Climate sensitivity:**

Pakistan's agriculture is severely unproductive despite the fact that is has more than 37% of workforce. Crop yields are below due to outdated farming, techniques and inefficient irrigation. Agriculture sector is also vulnerable due to climate change that destroy crops, threatens food security and push rural communities into poverty.

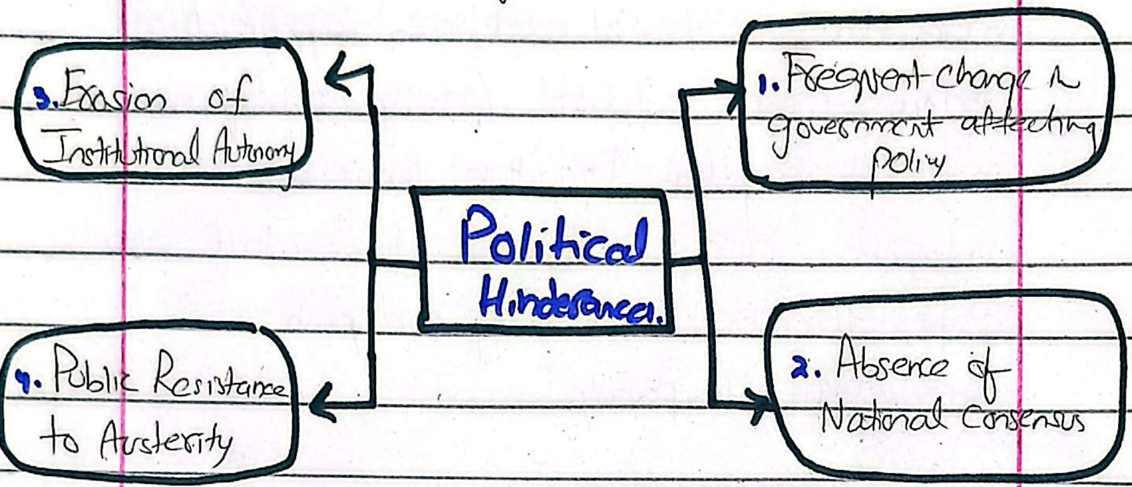
(v) **Critical Deficits in Human Capital:**

Pakistan ranks 168th out of 193 countries on Human Development Index. Moreover, 60% of children complete primary school. Similarly, healthcare remaining below 2% of GDP. This underinvestment results in under-skilled and less productive workforce, creating a vicious cycle where human capital stifles economic growth.

V. **Deep Rooted Political Instability: A Key Economic Challenge of Pakistan**

The deeproot political issues

and weak governance also cause economic barriers to the Country. Following are the political issues which undermine the economic growth:-



(i) Frequent Change in Government Affecting Policy:

The frequent changes in the Government whether through election or by other means often lead to abandonment of long-term policies. This lack of continuity destroys the investors' confidence and prevents any policy from reaching maturity.

(ii) Absence of National Consensus:

Most of the political parties prioritize short-term partisan gains over the national economic interest. There is a critical failure to build a cross-party consensus on critical but difficult reforms, such as broadening the tax base or restructuring loss-making entities. as in the recent privatization case of Pakistan International Airlines (PIA).

(iii) Erosion of Institutional Autonomy:

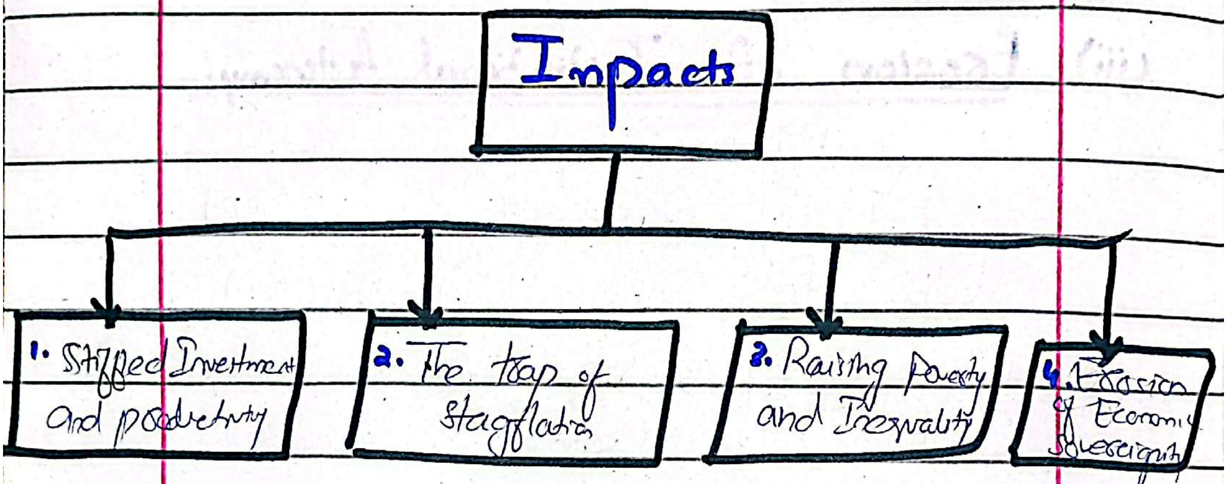
Pakistan's key economic institutions such as Federal Board of Revenue (FBR) and the State Bank of Pakistan (SBP) are subject to political interference, which undermines their operational independence and professionalism leading to corruption and weak monetary policies.

(iv) Public Resistance to Austerity:

IMF-mandated austerity measures such as removal of subsidies, broadening of tax base and tariff hikes, directly increase cost of living. Consequently, public protests and causes social unrest. forcing the government to delay or abandon reforms.

VI. Impact of the Key Challenges on the Sustainable Growth of Pakistan:

The combination of deep structural flaws and political instability creates a vicious cycle that actively hinders the prospects for sustainable growth.



(i) Stiffled investment and Productivity:

Uncertain policies, high business cost, and poor infrastructure deters both foreign and domestic investment. Net Foreign Direct Investment (FDI) has declined, falling from $1.9 billion ~~in~~ FY22 to $1.5 billion in FY23.

(ii) The Trap of Stagflation:

Pakistan's economy is caught in a

state of stagflation, simultaneously experiencing high inflation, high unemployment and low growth. While the State Bank of Pakistan (SBP) raises interest rates to combat inflation — which peaked at 29.3% in 2023 — that chocked economic activity.

(iii) Rising Poverty and Inequality:

Economic stagnation and inflation erodes real incomes and pushed the common household towards the poverty line. Also the austerity measures worsen the social tensions and produce economic inequality.

(iv) Erosion of Economic Sovereignty:

The recurring need for IMF programs and the strict conditions attached have led to a widespread public perception that Pakistan's economic policy is being dictated by external actors. As, the Federal Budget of FY25 - FY26 was first approved by the IMF and then implement in the country.

III. **Conclusion:**

In a Nutshell, Pakistan's long history with the IMF has been one of the short-term relief, not lasting reform. While IMF loans have the economy from collapse multiple times, they have not fixed its built-in problem such as unfair tax system, persistent energy crisis, poor and weak industries and weak education and health. Making things worse, political instability and weak leadership kept stopping the real change from happening. Pakistan's future does not depend on another IMF deal, but on its own leaders uniting to fix their core issues with unity and courage. Without this, the country will stuck in a cycle of crisis and tempory bailout, never achieving true prosperity.

Question # 2:

Discuss the need for privatization in Pakistan, considering the performance of SOEs... framework for future privatization process in Pakistan.

I- Introduction:

State Owned Enterprises (SOEs) in Pakistan were created to support development and provide essential services to the public. Over the time, these SOEs become a heavy burden on the national exchequer due to inefficiency, political interference and continuous financial losses. As a result, privatization has emerged as a key policy tool to improve efficiency, reduce fiscal pressure and reform economic grievances. **The December 2025 privatization of Pakistan International Airline (PIA)** represents a major milestone in this process, but it also exposes serious structural weaknesses in Pakistan's reform approach. The question analyzes the need for privatization with a case study of PIA privatization, and propose strategic framework to ensure that future privatizations serve long-term national interest.

II. Why there is need of Privatization: Reviewing the Performance of State-Owned Enterprises of Pakistan

The performance of Pakistan's SOEs has been bad for many years. They waste money, work inefficiently and put a heavy burden on national budget. This leads to strong economic and administrative case for privatization.

(i) Continuous Financial Losses and Poor Management:

SOEs in Pakistan, in practice, often become financial drains due to systemic inefficiency, rooted in political interference, weak accountability, and mismanagement, contradicting their essential public service's provider. As it is evident in major SOEs; **Pakistan Steel Mills**, which ceased production in 2015, has accumulated losses exceeding PKR 600 billion while continuing to incur substantial administrative costs; **Pakistan International Airlines**, which operates with high employee-to-aircraft ratio of 269:1 compared to global benchmarks like Turkish Airlines' 23:1 and **Pakistan Railways**, which is crippled by outdated infrastructure, and persistent financial deficits that undermine the national transport network. These cases collectively illustrate how poor governance and operational failures public assets into persistant burdens on the national exchequer.

(ii) Demonstrated Success of Privatization:

Evidence of economic theory, both at domestic and international level, confirms that privatization can enhance efficiency and profitability by aligning management with market incentives. Pakistan's own experience in the 1990s illustrates banks like; **MCB, HBL, UBL** became profitable taxpayers following their sale, with **MCB alone contributing PKR 29 billion.** Similarly, **Karachi Electric** reduced line losses from 34% to 15% post-privatization, eliminated costly benefits, and began generating profits, paying **Rs 2.8 billion in taxes by 2022.** This aligns with global models, such as **Japan's efficient privatized railways** and **India's public-private partnerships,** which demonstrate that service quality and operational performance can improve under private management.

(iii) The Appropriate Role of Government:

The economic consensus holds that the state is a poor commercial manager. Its primary function should not be running businesses but enabling a competitive market through regulation and public good provision. This entails a three-part role to stimulate private investment and sectoral growth.

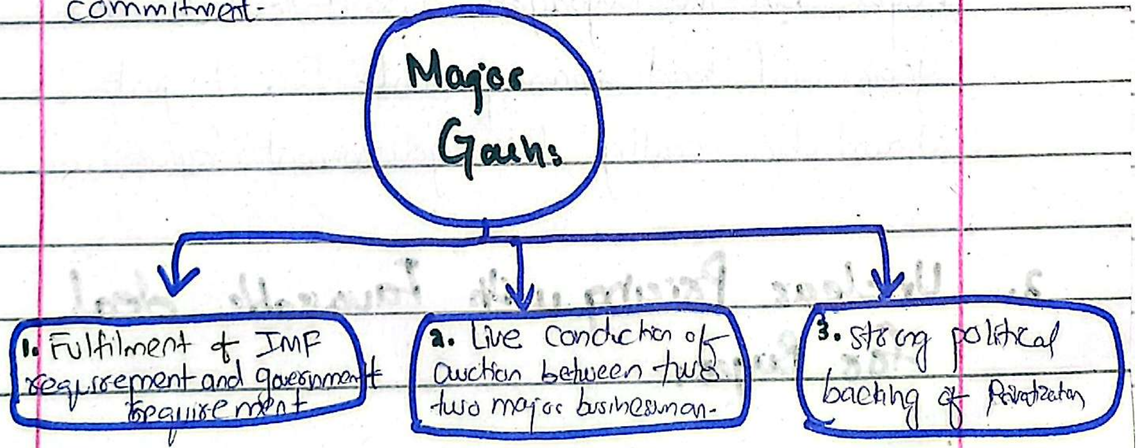
1. Ensuring quality, fair pricing, and market fairness as a regulator.
2. Investing in foundational transport, energy, and digital infrastructure to lower business costs.
3. and crafting supportive policies — like tax incentives and trade agreements.

III. Critical Review of the Privatization Process of Pakistan International Airline (PIA):

In December 2025, the government sold a controlling share of PIA to **Arif Habib-led consortium for Rs. 135 billion.** Although this was an important step, the entire process had serious weaknesses and exposed the deep problems in Pakistan's reform system.

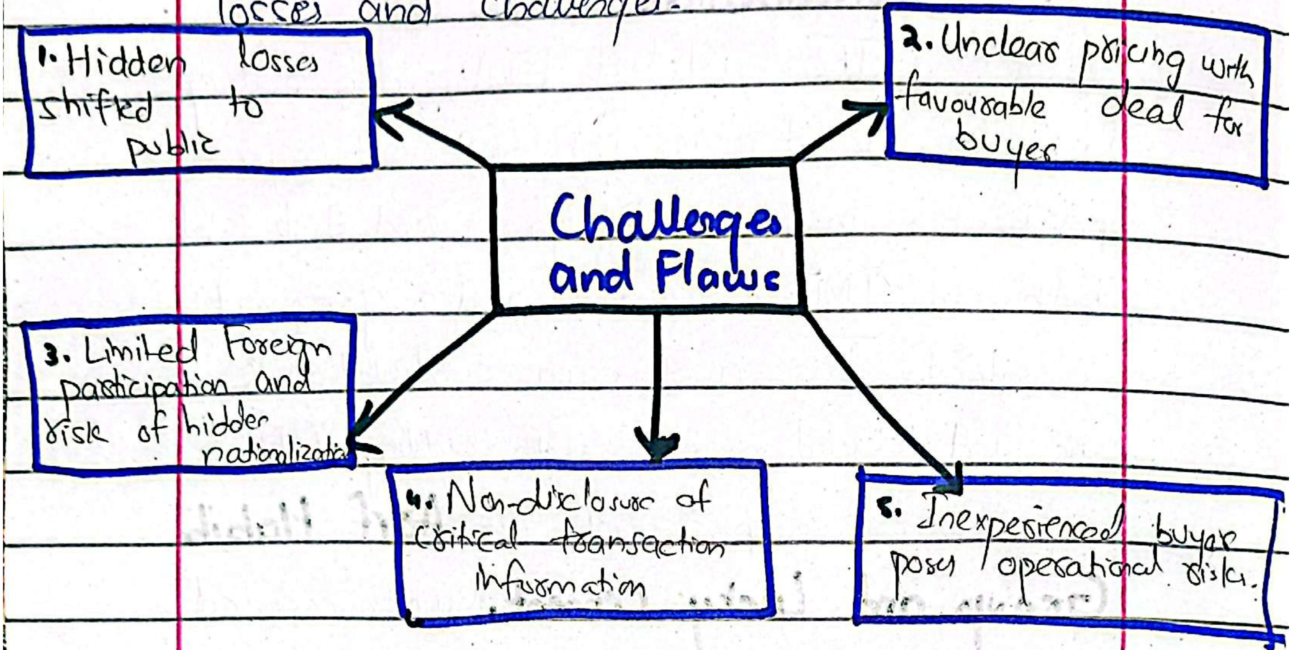
(i) **Major Gains and Milestones in PIA Privatization:**

The sale of PIA ended a very long delay, as it was Pakistan's first major privatization in almost 20 years, and it fulfilled both an IMF requirement and a government commitment. The auction was conducted in a live and televised manner, with bidding between major business groups, namely the **Arif Habib Group and Lucky Cement**, which created real competition. As a result, the final price was **35% higher than the Rs.100 billion reserve price.** The process also had strong political backing, as the Prime Minister described it as a **'historic day'**, showing clear political commitment.



(ii) Flaws and Challenges in the PIA privatization Process:

The privatization process of PIA has undergone the following losses and challenges.



1. Hidden Losses Shifted to Public:

The sale of PIA only happened because the government paid off its RS. 670 billion debt. This made the airline look good for buyer, but the taxpayers covered the bill for years of bad management. So, it just showed how costly the government's failure was.

2. Unclear Pricing with Favourable deal for Buyers:

The deal lacked transparency, as the bidding method was never disclosed. Its terms were buyer-friendly, with only Rs.10 billion paid upfront for a controlling 75% stake. The remaining Rs. 125 billion is merely a long-term investment promise, shifting the risk of non-delivery to the state.

3. **Limited Foreign Participation and Risk of Hidden Nationalization:**

The absence of foreign bidders points to low global confidence or an unattractive deal structure. Furthermore, the involvement of military-owned Fauji Fertiliser suggest this was a "Hidden Nationalization" — shifting control between state institutions, not genuine privatization.

4. **Non-disclosure of Critical Transactional Information:**

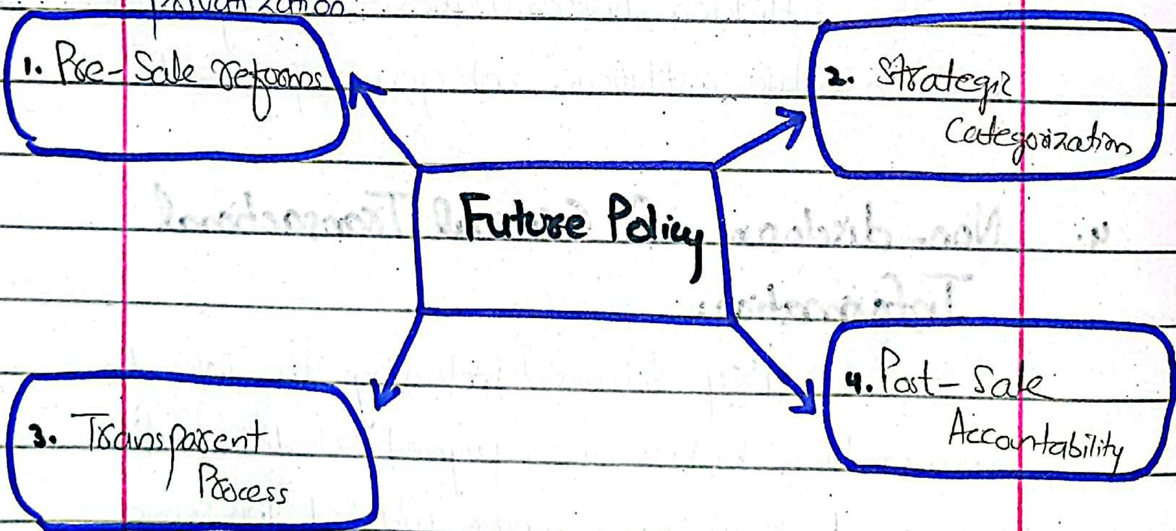
Key documents including the information memorandum, bidder rules, payment schedule, and enforcement details were never published. This severe lack of transparency eroded public trust and fueled widespread speculation and suspicion.

5. Inexperienced Buyer Poses Operational Risks:

The winning consortium lacks aviation experience, unlike past sales like sale of Air India to Tata. Granting them operational control over fares, routes and staffing poses a significant risk to PIA's service quality and long-term stability.

III. A Better Policy Framework for Privatization in Pakistan:

The case of PIA's privatization clearly shows that Pakistan urgently needs a clear, honest, and transparent system for future privatization.



(i) **Pre-Sale Reforms:**

Government should pass SOE Autonomy Law to ensure professional, apolitical management. Mandate the publication of an independent "SOE Health Report" before any sale, clearly separating core value from legacy debt.

(ii) **Strategic Categorization:**

SOEs should be classified into three groups:-

- **Strategic** - Keep state owned, reform management
- **Commercial** - Prioritize for privatization
- **Failed** - Liquidate immediately

The government must declare if the goal for each sale is maximum revenue or structural improvement.

(iii) **Transparent Policy:**

Legally require a full public transaction document before bidding. Establish an independent Privatization Commission under parliamentary oversight to manage the process.

(iv) **Post-Sale Accountability:**

Strengthen Sector regulators before

selling utilities. Create a public online dashboard to track the buyer's compliance with all post-sale commitments.

V. Conclusion:

The privatization of PIA was necessary but it also proved that privatization cannot replace good governance; it only exposes its absence. If Pakistan wants to break the cycle of failure, bailouts, and forced sales, it must stop relying on emergency and secretive deals. The failure lies in a planned, transparent, and accountable privatization system in which the state acts as a strong regulator instead of a bad business manager. Only in this way can privatization truly serve the long-term interest rather than short-term political or financial needs.