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**Tough times**

Pakistan has rejoined the $6 billion IMF programme that commenced in July 2019 and was put on hold in April 2020 because of Covid 19. However, the IMF while agreeing to release a tranche of $500 million asked the government to withdraw corporate tax exemptions to the tune of Rs140 billion, give autonomy to the National Electric Power Regulatory Authority regarding increase in power tariff which according to the new arrangement will put additional burden of Rs700 billion on to the consumers, and bring structural reforms to broaden the tax base.

The government has issued two ordinances to implement these measures with immediate effect. It has also introduced 75 new amendments to the tax law designed to broaden the tax base and also given more autonomy to the State Bank.

The agreement with the IMF is being criticized by the political opponents of the government as a sell-off and fears are also being expressed by the business community that the withdrawal of tax exemptions will affect the corporate sector in a bad way and the increase in the utility prices and more taxes will make the lives of the people miserable since they are already suffering under the impact of the hydra-headed inflation.

These fears are not unfounded. The measures taken by the government will surely have their impact felt. But the question is: did the government have any other choice? I am afraid the answer is not in the affirmative. It is an indispensable recipe to rejuvenate the economy and eventually reach a stage where dependence on IMF loans can be terminated.

The PTI government inherited an economy in complete shambles with a whopping public debt and, like the previous governments, had no choice other than to seek assistance from friendly countries and approach the IMF for a bailout package. Approaching the IMF has been a compulsion for successive governments in Pakistan. Since 1958, Pakistan has availed IMF loan facilities 19 times – including the current bail-out package.

When a country approaches the IMF, it makes sure that the assistance seeker is capable of making repayments of the extended facility. It requires the loan seeker to implement some structural, monetary and fiscal reforms to be able to generate the required finances not only for meeting its loan obligations but also putting the country on the path of sustained economic progress. It is like someone applying for a loan to a bank on terms spelled out by the bank and not on the choice of the individual. The banks invariably determine the ability of the loan applicant to repay before agreeing to the request.

Governments require indigenously raised resources to finance projects related to socio-economic development and public wellbeing. This necessitates broadening the tax base and enhancing the tax-to-GDP ratio, which shows the tax revenue collected by the government as a percentage of GDP. Unfortunately, Pakistan ranks among the countries that have a very low tax-to-GDP ratio. The consequence of this low tax-to-GDP ratio has been that the governments mostly relied on loans from external and internal resources to finance their developmental and other needs, coupled with phenomenal increase in the non-development expenditure which has pushed the country into a debt-trap and a burgeoning budget deficit, with all the debilitating implications.

The remedy undoubtedly lies in broadening the tax base which means bringing more and more people into the tax net, eliminating avenues of tax evasion, documenting the economy and improving the tax administration.

The reforms suggested by the IMF are badly needed for the country. It is indeed a very arduous situation for the incumbent government and a challenge to its political will to do the right things without caring for the political cost. It is a reality that raising the prices of gas, oil, electricity and imposition of additional taxes as well as removal and lowering of subsidies is hurting the poorer sections of society that are already burdened by the crippling inflation set in motion by these steps. However, the problem is that the government has no other options available. It is a now or never situation. So better do it now than allowing the country to drift further into the economic sand-pit.

The opponents of the government might try to exploit the situation by whipping up public sentiment against the government but the reality is that they also do not have any alternate plan or idea to stem the rot and they are also responsible for the mess the country is in at the moment. It is encouraging to note that the PTI government has shown the political will to take the bull by horns. It is said: where there is a will there’s a way. Though it will be a hard path for the government to traverse but ultimately it would lead to the rectification of most of the aberrations afflicting the economy and set the course for sustained economic development, enabling the government to provide the desired relief to the people as well as spend on their well-being.

The economy has already started showing signs of revival and Pakistan is predicted by international lending agencies to achieve 1.4 percent growth rate during the fiscal year 2021-22. This is a very encouraging development after the country was hit by the Covid-19 pandemic which lent a serious blow to the economy taking the growth rate into the negative domain.

It is perhaps not out of place to mention that before the pandemic struck, the macro reforms introduced by the government had started creating their impact. These are indeed difficult times and the people need to show an understanding of the compulsions of the government and support its reform agenda. It surely demands sacrifices.

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