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Pasha lauds wide-ranging tax reforms

ISLAMABAD: Former finance minister Dr Abdul Hafeez Pasha stated that wide ranging tax reforms undertaken by the government is the right approach particularly the focus on documentation of financial transactions and catching tax evaders wherever possible.

He was speaking at 'Paisa Bolta Hai with Anjum Ibrahim' in response to the IMF's resident representative Theresa Daban Sanchez's presentation of the ongoing Extended Fund Facility's main thrust.

Sanchez stated that the goal of IMF programme is to reduce the country's debt through a combination of reduction in imports and increase in exports as well as increasing remittances and investment.

With stabilisation, the positive impact of the IMF programme would be visible, Sanchez said, adding that adjustments have contributed to a slow down but emphasized that what is important for Pakistan is to reallocate resources away from consumption based and import led activities to investment and production based activities.

Achieving stability and moving to a path of robust and sustainable growth requires (i) fiscal stability by improving tax collections, reducing circular debt and losses of public sector entities, (ii) strengthening monetary policy to deal with inflation and transition to a new regime of exchange rate in a transparent manner; and (iii) provide fiscal space for social spending to protect the most vulnerable.

Dr Pasha praised the IMF for coming to Pakistan's assistance and for supporting the stabilisation programme. He said that it would have been much better for the country if government had gone to the IMF earlier because that would have enabled it to focus on fundamental issues much earlier.

Pasha added that with the programme operational Pakistan has already received first tranche of \$1 billion, which is substantial and would certainly help in stabilising Pakistan's foreign exchange reserve position.

Former finance minister added that this year the focus, as visible in the budget, has been on raising revenues with some arguments that the target for the current fiscal year is very ambitious. "But nevertheless what we do see is wide ranging tax reforms and that is the right priority with a particular focus on documentation of the transactions and catching tax evaders wherever possible" Pasha said.

Sanchez acknowledged that Pakistan's gross financing requirements for the medium term to finance the current account deficit is very large but added that there is a need to finance the current account deficit as (i) import of essential thing such as machinery, oil and other goods can not be curtailed and (ii) there is a need to pay back part of the debt that was incurred in the past and on top of that there is also need to rebuild balance sheet of the central bank.

Therefore, State Bank of Pakistan needs to have strong level of resources to protect the country against shocks and that was the primary reason that the IMF sought from Pakistan to identify resources and support from other multilateral as well as bilateral and friendly countries under the IMF programme.

Pasha said as highlighted by the IMF resident representative, there are two kinds of external financing requirements – current account deficit and external debt repayment obligations. He said as it has been stated by the government, Pakistan would have to make \$10 billion debt repayment this year and this amount is likely to peak next year adding that as per initial estimates, Pakistan would be in need of anywhere between \$70 and \$75 billion overall external financing during the IMF programme.

He added that a substantial amount has already been lined up including new inflows and rollover by the friendly countries. There is a need to ensure that current account deficit is brought down so that financial requirements over time reduce and stability is achieved. He said that this must be done without cutting essential imports but what has been a matter of concern is lack of growth in exports despite large devaluation of the rupee and incentives to exporters in the last fiscal year.

Former finance minister stated that the previous IMF programme was moderately successful but after the Fund left, there was a degree of financial profligacy.