

### **Tax and the IMF**

The mini-budget announced by the PTI government could already be in trouble, with the IMF reportedly asking the government to take measures to increase tax collection. The mini-budget had offered tax relief to a number of sectors in the economy, and left the government with a reduced target of tax collection. This would be fine if the government were not pursuing another bailout from the IMF. The trouble with the bailout option is that the IMF can effectively dictate conditions. The IMF took the unusual step of commenting on the PTI-led government's economic reform package before it has been passed through the National Assembly – which could indicate that the IMF will push for greater taxation and regulation. This is also what most observers were expecting from the government when it announced it would be revising the budget again in January.

Finance Minister Asad Umar has made light of the IMF's comments, and has said that the IMF is likely to soften its demands. He did, however suggest that the IMF programme was needed to open doors to other funding. This in itself is a rather strange point unless it is read in conjunction with the latest external financing figures. Pakistan's actual external financing figures have gone down by 60 percent compared to last year, despite the hoopla made by the government about the assistance from the UAE and Saudi Arabia. This is a far better explanation for why an IMF programme is needed. While it was good to see the government refuse to cave into external pressure in its mini-budget, and put forward a positive set of proposals, it remains to be seen whether it will be able to stand its ground and yet still convince the IMF to give it what it wants.

The IMF's worry comes from the fact that the government is already missing its revenue targets by Rs158 billion in the first six months. The projected loss of another Rs6.8 billion could mean that the government will likely miss its targets by a much greater amount at the end of the year. The FBR is claiming that the revenue targets will be met due to a number of administrative steps taken to streamline revenue collection during the year as well as the ongoing crackdown on high net worth tax evaders. The trouble is that the desired tax collection target needs to be met, simply due to the fact that the rupee devaluation means that each rupee of tax collected this year is worth 35 percent less than a rupee collected last year. As it stands, we are unlikely to meet the budget deficit target of 5.1 percent, regardless of any claims about tightening finances. This is a problem the PTI government must address while the current mini-budget is yet to pass – unless it wants to take more ad-hoc measures in the future.

### **Editorial**