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IMF imposes stringent austerity measures on Pakistan

By Sampath Perera

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The International Monetary Fund (IMF) approved a $US6.64billion bailout loan on September 4 to increase Pakistan’s foreign exchange reserves. In exchange, it demanded strict austerity measures that will devastate the living conditions of workers and the poor.

The cash-strapped Pakistan Muslim League (PML) government of Prime Minister Nawaz Sharif has promised to implement all the IMF’s demands. Agreeing to the IMF’s policy demands was a major part of Sharif’s election program to win the backing of global investors and Pakistani big business.

Without the bailout, Pakistan was heading to an imminent default on foreign loans. A total of $3 billion has to be repaid during the financial year started in July, including to the IMF. Pakistan’s dollar reserves stood at $6 billion—only enough for Pakistan to pay for six weeks of imports.

Western officials and media have criticized the austerity measures as “insufficiently stringent,” as the *Financial Times* wrote, adding that Washington is supporting Pakistan at the IMF mainly in return for Pakistani support for the “AfPak” war. The Pakistani regime provides critical transit routes to resupply US and NATO occupation forces in neighbouring Afghanistan, and allows continuing US drone strikes inside Pakistan itself.

One Western diplomat in Islamabad complained to the *Financial Times* that "Pakistan's strategic importance is much too high for the US right now. Nobody wants to see an economic crisis which will deepen other crises" in Pakistan.

IMF Deputy Managing Director Nemat Shafik endorsed Pakistan's austerity measures as "timely," however, adding that Pakistan's "vulnerabilities and crisis risks are high."

The IMF's mission chief for Pakistan, Jeffrey Franks, said the bailout aimed to "avoid a full-blown crisis and a collapse of the currency." Pakistan is to receive $544.5 million immediately, relieving fears of an imminent collapse for now, though austerity measures and the worsening global recession will intensify Pakistan's social crisis.

The conditions attached to the three-year loan program included:

*Savage budget cuts to lower the deficit from 8.8 percent of gross domestic product (GDP) to 6.3 percent during the fiscal year ending next year June. The government must cut the budget deficit further, to 3.5 percent of GDP, by mid-2016.

*Deficits are to be cut by eliminating most subsidies and raising taxes. One immediate target of subsidy cuts is electricity. The government agreed to a 30 percent increase in electricity prices for domestic users consuming more than 200 units, starting October 1. However, the so-called phasing-out of electricity subsidies is to continue. Gas prices will be "rationalized," with a new levy aiming to generate revenues of 124 billion rupees.

*The Pakistani rupee is to be devalued further. Its value will be brought down to an average of 110 rupees to the US dollar. Currently, 105 rupees are enough to buy $1.

*Speeding the restructuring and privatization of state-run enterprises. Justifying the measure, Finance Minister Ishaq Dar claimed public-sector firms register a loss between $4 and 5 billion annually. He told the *Wall Street Journal*, "Surely, we can't keep bleeding like that." By the end of September, government will select 30 public firms for privatization, beyond the 35 that have already been chosen.

*The government will "aggressively" collect taxes to cut the budget deficit. Further increases in sales and other taxes are likely, as the IMF considers spending cuts alone insufficient to meet its budget deficit targets. The IMF has also demanded a significant increase in tax revenues from their current levels of 9.7 percent of GDP to 15 percent by 2018.

The previous Pakistani People's Party (PPP)-led government obtained $11.3 billion from the IMF in 2008 to avert a balance of payments crisis. As the PPP failed to implement all the IMF's conditions, the IMF withheld $3.7 billion, agreeing to a new loan only after Sharif publicly declared he was ready to adhere to its policies. He took some measures, such as increasing fuel prices, to convince the IMF of his loyalty.

The overall impact of these moves will be a harsh blow to the living and social conditions of workers and the poor. Pakistan Economy Watch, an independent think-tank, wrote: “Foreign loans have weakened the economy, eroded the currency, decreased the buying power of the masses, and have promoted the interests of the elite.”

Economic growth is expected to further decline to around 2.5 to 3 percent. IMF mission chief Franks said, “Growth may actually slip a little bit in the first year of the program, because of the necessary fiscal adjustment and the time lag before the structural reforms yield fruit.” Later, growth figures will go up to 4.5 to 5 percent, the IMF said.

Whatever the truth of these projections, Pakistan’s weak economy has been severely battered by the world capitalist crisis. The IMF stated that “an uncertain global and regional environment” is intensifying Pakistan’s economic problems.

The IMF program has been designed to extract as much as possible from working people, to pay for the crisis of big business and international finance capital. The IMF intervention in Pakistan is similar to its program for Greece—which has deepened the recession in that country, reducing working people’s conditions to miserable levels, increasing unemployment, imposing deep wage cuts, and wiping out medical programs.

Inflation will rise due to continuing devaluation of the rupee, and subsidy cuts and taxes will increase the cost of living unbearably, under conditions where the masses are already living in dire poverty. Twenty five percent of Pakistanis live below a poverty line of $1 per day. According to a definition of poverty established by the United Nations Development Programme, which defines poverty as being deprived of a number of key goods or social needs, 49.4 percent of Pakistanis live in poverty.

Pakistan is also seeking financing from other sources: $1.5 billion from the World Bank, $1.6 billion from the Asian Development Bank, and $2.4 billion from other countries.