Pakistan forced to seek IMF bailout package

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27 October 2008

After failing to obtain financial assistance from allies including the US and China, Pakistan's government has turned to the International Monetary Fund for the emergency loans it needs to stave off state bankruptcy. Pakistan's central bank governor and top finance ministry officials began discussions with IMF officials in Dubai last Tuesday, and which will continue until the middle of this week.

The IMF is reported to have agreed in principle to provide Pakistan with $9.6 billion over three years, including immediate assistance of $4 to $5 billion, but only if Islamabad agrees to certain stringent conditions. These are said to include IMF oversight of the Finance Ministry, massive cuts in government expenditures, and a new wave of privatizations and public sector downsizing that will result in job cuts and the gutting of working conditions.

Final approval of the loan would be given at a meeting of the IMF's board of governors on November 7.

Shaukat Tarin, a senior economic advisor to Prime Minister Yousuf Raza Gilani, said last Thursday that Islamabad has yet to formally request an IMF loan and will only do so, "when our discussions are complete and once we believe that there is no other option."

Tarin conceded that Pakistani officials had presented the IMF with an economic restructuring plan, but claimed IMF assistance was Islamabad's "option C" and would only be pursued if options "A" and "B" failed. Tarin's comments notwithstanding, the Pakistani government's other options are, for all intents and purposes, exhausted. "We are in dire need of dollars so the situation is that we have no choice," an unnamed senior government official told the *Dawn* last Wednesday.

Summing up Pakistan's economic plight, the London-based *Economist* wrote October 23: "The economy is close to freefall. Inflation is running at about 30 percent. The rupee has devalued by about 25 percent in just three months. The fiscal deficit is a whopping 10 percent of GDP. Foreign-exchange reserves cover just six weeks of imports ... The country needs at least $ US 3 billion in short order, and a further $ US 10 billion over the next two years to plug a balance-of-payments gap. Without it, default abroad might well coincide with political anarchy at home."

In recent weeks Pakistani officials have made the rounds of foreign capitals seeking assistance from such diverse allies as the US, China, Saudi Arabia, and Iran, but have been rebuffed at every turn.

On a trip to Islamabad last week, US Assistant Secretary of State for South and Central Asia, Richard Boucher, arrogantly declared, "There is no money on the table. The goal is to put money where it belongs. It is not cash in advance."

Boucher said that "any kind of assistance will only come after a thorough assessment of Pakistan's plans." A bill yet to be passed by the US Congress makes economic assistance of up to $1.5 billion a year for ten years to Islamabad contingent upon the latter's progress in pacifying the tribal areas bordering Afghanistan, that is, it will be given once Islamabad does more to suppress Islamic militia groups as well as civilians living in the area. Washington also wants the Pakistani government to implement economic restructuring which will make it even more open to foreign investment and under the sway of the "free market."

"Even the ‘strong commitment' of many friends to support the nascent democratic government," observed the *Dawn* in an editorial last week, "doesn't compel them to open their coffers to us. The world expects us to ‘do more' on the economic front—just as it wants us to do more in the terror war. Pakistan wouldn't be able to tap global markets to raise cash even if there wasn't a global liquidity crunch. The international rating agencies have already declared Pakistan the riskiest government borrower after Argentina."

That Tarin still clings to the hope of other options is a measure of the trepidation with which Pakistan's government is approaching the IMF. To put matters bluntly, the Pakistani government fears a social explosion.

Not only do Pakistanis remember the wrenching restructuring programs the IMF imposed in the 1990s under Pakistan People's Party (PPP) and Pakistan Muslim League governments, but they exhibit massive discontent over current conditions as well; with protests and riots over chronic, yet irregular power-outages and soaring food prices.

An IMF bailout would also represent a further blow to the Pakistani elite's legitimacy. Under conditions where the US is regularly carrying out military actions within Pakistan in defiance of the stated wishes of the Pakistan government and military, Pakistani economic policy is now to be dictated by the US-dominated IMF.

Tarin has said, "discussion with IMF was going on about reducing the budget deficit to 4.3 percent of GDP, flexibility in exchange rate, [and] control on fiscal deficit." Last year Pakistan's budget deficit ballooned to 7.7 percent of GDP. Limiting it to 4.3 percent would require draconian cuts in government expenditures, including the likely elimination of food subsidies as well as massive cuts to other social expenditures including health and education.

Indeed, the new PPP-led coalition government has already removed subsidies on fuel in this first budget and pledged to eliminate all subsidies on electricity by next June order to placate foreign lenders and credit agencies.

Further details of the IMF's demands are also now beginning to leak onto the pages of Pakistan's newspapers.

In an Oct. 24 article in *The News* bearing the title "Bitter Fruits of IMF Bailout," correspondent Mazhar Tufail said that the IMF is demanding effective control over Pakistan's budget. It has proposed "that six IMF directors and two World Bank directors would monitor preparation of the federal budget in the finance ministry."

Reports Turfail, "They would give budget proposals and the Pakistan government would be obliged to comply with all these proposals." According to the *Weekend Australian* this measure has been described as "economic martial law."

The *Dawn* subsequently confirmed the IMF has demanded it oversee the drafting of the country's next budget. The newspaper added that The IMF and World Bank appointees "would also have a say in the affairs of the State Bank of Pakistan" and that "IMF officials will monitor tax collection at the provincial level."

Turfail's article, which was based on a document used in the Dubai talks, adds "that if Pakistan accepted the IMF funding, it would have to reduce the number of posts entailing pension in the government and semi-government departments from 350,000 to 120,000."

Turfail also claimed that the IMF had pressed Pakistan to cut its massive defense budget by 30 percent.

This alone has provoked a strong political reaction. An outraged senior Pakistani military official told the *Australian*, "A cut to military spending of anything that magnitude ... would rip the heart out of the army."

And Pakistan Defense Minister Chaudhry Ahmad Mukthar was quick to vow that "there will not be any cut in the expenditure in the defense sector which is already facing financial crunch because of the devaluation of the rupee."

The Pakistani officer corps, which effectively ruled the country with US support until the dictatorship of General Pervez Musharraf unraveled in the first months of this year, retains vast political power and is a major factor in the economy as well.

In an interview with *Dawn*, a senior Pakistani diplomat vehemently denied that the IMF had urged Pakistan to reduce military spending. "There have been suggestions of general reductions in expenses but not a word about the military," said the diplomat.

"The United States and other allies," added the diplomat, "want Pakistan to play a greater role in [the Afghan war] and they know that this cannot be done by downsizing the army."

There have been varying reports on the terms of the IMF loan, with several saying that Pakistan will have to pay interest of as high as 6 percent annually.

The IMF package will no doubt intensify the conflicts within Pakistan's ruling elite over the allocation of a shrinking budget and proposals to tax agricultural income. (Pakistan's landlords have long escaped taxation.) But the burden of the restructuring of Pakistan's economy will be borne by the toiling masses whose incomes have already been ravaged by skyrocketing prices, especially for food.

According to the Pakistani Institute of Public Opinion, a Pakistan think-tank, 32 percent of Pakistanis have been forced to reduce their food consumption because of rising prices. In a report released on Friday, the Institute said that 56 percent of those surveyed said rising prices of food, fuel, and electricity have had a severe impact on them and their families. "It might be a serious concern for the government to know that 70 percent of Pakistanis blame the food price hike on government policies as opposed to other factors such as global price trends," added the report.

According to the UN World Food Program, (WFP), 77 million of Pakistan's 160 million people are now "food insecure."

Stratfor, a US think tank with close ties to the Pentagon and White House, expressed grave concern about Pakistan's mounting economic and political crisis in a report dated October 16: "Pakistan might avoid defaulting on its debt, but it has a very small margin for error. And even if it dodges the bullet now, it will be living with the threat of default for some time to come."

The article went on to warn that the economic crisis "could unleash a massive tidal wave of social unrest," which "the civilian government would not be in a position to handle. Such conditions could pave the way for the imposition of martial law by the civilian government and/or the military."