

Pakistan to impose IMF-approved economic restructuring program

Keith Jones**13 November 2008**

A senior Pakistani official told the country's Senate Tuesday that the Pakistan People's Party-led coalition government will be seeking International Monetary Fund approval of its economic program in the next two to three weeks.

"Adviser to Prime Minister on Finance" Shaukat Tarin said the government requires IMF "endorsement of our plans" if Islamabad is to obtain the billions of US dollars that it desperately needs from international financial institutions and friendly states. International financial institutions, Tarin claimed, have "agreed [to] and appreciated our economic program and social safety net, but they desire to get it approved from the IMF before offering us a financial facility."

Pakistan, whose economy has been roiled by galloping inflation, power shortages, the withdrawal of foreign funds, and the rapid depreciation of its currency, faces a severe balance of payments crisis. At the end of October, the Pakistani central bank held foreign reserves of just \$3.71 billion, less than the country's September import bill of \$3.8 billion.

Tarin's Senate presentation was full of contradictions. He claimed that the IMF has not pressed Pakistan to take severe austerity measures or otherwise sought to impose harsh conditions. Yet he invoked the metaphor of an ill-person having to take "bitter pills" and said that the IMF and foreign banks deem the government's revised economic targets as "ambitious" and "needing "a lot of discipline and a lot of determination."

The truth is the Pakistani government has already begun to implement IMF-type "restructuring," including several measures directly at the IMF's behest, and this restructuring will have a devastating impact on Pakistan's toiling masses.

The PPP-led government has announced the impending elimination of all price subsidies on petroleum products and electricity.

In his Senate address, Tarin said the government has pledged to reduce the fiscal deficit in the current fiscal year from 7.4 percent of GDP to 4.3 percent. This will require both major spending cuts and onerous tax hikes.

Under IMF pressure, Pakistan has agreed to raise an additional 100 billion rupees (\$1.25 billion US) in tax revenue, the Pakistan *Daily Times* reported Nov. 3. This revenue, an unnamed government official explained, will have to be squeezed out of ordinary Pakistani people. "The consumers of public utilities and other products," said the official, "would bear the burden of increase in tax collection target, as the government has no mechanism to realize this increase exclusively from rich and elite of the society."

Yesterday Pakistan's central bank raised interest rates 2 percentage points and let it be known that a further 1.5 percentage point hike will

be implemented in January.

Dr. Mirza Ikhtiar Baig, an advisor to the government on the textile industry and himself an industrialist, told the *Dawn*, "The IMF was insisting on a 5 percent increase ... but we successfully negotiated to restrict it to 3.5 percent."

With Wednesday's increase, interest rates for industrial concerns will be in the order of 20 percent. According to press reports, many businessmen are warning that the interest rate hike will have a severe negative impact on their production and investment plans.

In recent weeks the government has accelerated its privatization program.

"The privatisation of public-sector entities," declared Privatization Minister Naveed Qamar, "will remain [the] cornerstone of the government's economic agenda."

Companies earmarked for partial or total privatization include: the National Power Construction Company, Jamshoro Power Company, Faisalabad Electric Supply Company, Heavy Electrical Complex, and the Qadirpur gas field. The government says it hopes to raise between \$2 billion and \$3 billion through this latest privatization wave.

In his Senate address, Tarin claimed that Pakistan needs only the IMF's "endorsement" of its financial program, not IMF funds. He, President Asif Ali Zardari, and other senior government officials have repeatedly described an IMF bailout as a last resort, a so-called Option C. Moreover, they have continued to claim that Pakistan can obtain the emergency injection of funds that it needs to avert bankruptcy from sources other than the IMF, even as such key allies as the US, China, and Saudi Arabia have spurned Islamabad's requests for funds.

Last week, Zardari visited Saudi Arabia in a further attempt to get aid. According to press reports, the Saudi government was willing only to agree to a Pakistani request that it be allowed to defer payments on Saudi oil imports for six months, but even that announcement has been delayed, possibly until the Nov. 17 meeting of the recently established "Friends of Pakistan."

Sponsored by Washington and supported by a dozen or so states (including Britain, Germany, France, China, Japan, and Saudi Arabia,) the "Friends of Pakistan" has promised to provide long-term economic assistance to Pakistan. But its members are insistent that they can provide no solution to Pakistan's immediate crisis. In other words, Islamabad must accept "IMF discipline."

Talks between Pakistani and IMF officials were held for ten days in Dubai at the end of October. Press reports say that Pakistan sought more than \$9 billion in loans over two to three years. In return, Islamabad agreed to a long series of IMF conditions, including a 20 percent cut in all "non-development spending" of civil departments

and federal ministries, non-provision of supplementary funds to government departments, abolition of energy price subsidies, the gradually imposition of Central Excise Duty (CED) at the rate of 8 to 18 per cent on the service and agriculture sectors, and the devaluation of the rupee in US dollar terms by six to seven percent.

The IMF was also said to be demanding reducing the number of government jobs that provide a pension from 350,000 to 120,000.

Pakistani state spending on education and health care are, it need be noted, already among the lowest in the world—respectively 2.7 and .75 percent of GDP. One estimate puts combined per capita Pakistani public expenditure on education and health care at \$23, as compared with \$34 per capita spending on Pakistan's politically powerful military.

The Pakistani and international press have repeatedly claimed that a formal request from Islamabad for an IMF bailout is imminent.

If Islamabad continues to prevaricate, it is for two reasons.

First, it continues to cling to the forlorn hope that it will be able to receive significant funds from another source, thus enabling it to somewhat temper the IMF's conditions.

Tarin's claims notwithstanding, the IMF measures will clearly have a dramatic impact. Moreover, they imply a further erosion of Pakistani sovereignty. One report said the IMF is demanding that IMF officials directly oversee the preparation of the budget and other Finance Ministry activities.

And this erosion of state sovereignty would come at a time when there is already massive popular outrage in Pakistan over Washington's interference in Pakistani affairs and patently illegal violations of Pakistani sovereignty. For eight years, Washington helped sustain the dictator Pervez Musharraf in power. Now, with his departure, the US, in flagrant contravention of international law, is routinely carrying out air strikes inside Pakistan and under a July US presidential order has arrogated the right to carry out ground raids in Pakistan.

The second reason the government is desperately trying to put off its day of reckoning with the IMF is its fear of the popular reaction in Pakistan.

The PPP—which postures as a party of the poor even though it, no less than its great rival the Pakistan Muslim League (Nawaz), imposed brutal IMF austerity measures in the 1990s—has seen its popular support, as measured by opinion polls, plummet in recent months.

This is due in part to its months-long attempt to work out some type of compromise with Musharraf and its acquiescence before US violations of Pakistani sovereignty and strong support for the US occupation of Afghanistan. But it is principally because of the deepening economic crisis and the PPP-led government's pursuit of essentially the same neo-liberal economic program as previously pursued by the Musharraf dictatorship.

In October the year-to-year increase in prices was 25 percent, with non-perishable food items rising over 40 percent and perishables over 23 percent. One survey found that one-fifth of all Pakistanis, or about 32 million people, are spending 30 percent or more of their total income just on cereals and cereal products, i.e., for the most basic food staple.

The economy, meanwhile, has been devastated due to the mismanagement—with privatization a key element—of the power system. A report in the Oct. 23 *News* said, "[The] current spell of load-shedding is causing productivity loss of Rs1 billion (or \$11.5 million) a day to the textile industry besides threatening the livelihood of 2.28 million textile workers. Around 500,000 of them have already lost

their jobs."

The government and the Pakistani elite are haunted by the fear of the eruption of mass discontent. Zardari's assassinated wife and predecessor as PPP supremo, Benazir Bhutto, repeatedly explained her opposition to any mass campaign against the Musharraf dictatorship from the standpoint that it could quickly spin out of the control of the bourgeois opposition. Her fear was that the entry of the masses into struggle could become the catalyst for a broader movement linking the struggle for democratic rights with opposition to poverty and social inequality.

Recent weeks have seen growing signs of social protest, including an agitation against the threatened privatization of Qadirpur Gas Field.

Faced with protests in much of the country involving workers, small traders and others, the government was forced on October 26 to temporarily rescind the increase in power prices resulting from the reduction in the electricity price-subsidy. The protesters had argued that it was unconscionable to force people to pay more for power even as they face chronic, haphazard power cuts.

The government was clearly shaken by the protests, with Minister for Water and Power Raja Pervez Ashraf publicly pleading for the protests to end following the decision to suspend the rate increases, even as he denounced the opposition movement as politically motivated.

But any cut in the power price will prove fleeting, as both the government and IMF are insistent that Pakistan must eliminate price subsidies forthwith, as part of the restructuring of the economy in the interests of domestic and international capital.

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While the Pakistani elite has been conniving with imperialism in the form of the IMF and foreign banks to "save" Pakistan's economy at the expense of the people, it has been seeking to protect its own obscene wealth by covertly funneling billions of dollars out of the country and, in the process, has further aggravated the balance of payments crisis.

The *Dawn* has reported that four billion dollars was transferred out of Pakistan in recent months using a 2003 amendment to the country's foreign-exchange laws that was so secret that "during all this period neither the Finance Ministry nor the State Bank of Pakistan posted it on their respective websites." "Experts say," added the Nov. 12 *Dawn* article, that the covert amendment "was used by the rich and influential to send billions of dollars through 'legal' channels" out of the country.



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