Pakistan: Conditions attached to IMF “bailout” will exacerbate slump and poverty

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The International Monetary Fund (IMF), in its first "bailout" of an Asian country during the current world financial crisis, approved a 23-month, US $7.6 billion loan to Pakistan last month in order to avert a current accounts crisis and Pakistan's default on foreign loans. On November 27, the IMF released to Islamabad a first installment of $3.1 billion.

Under its emergency financing mechanism, the IMF has approved more than $40 billion in loans in recent weeks to countries such as the Ukraine, Serbia, and Iceland.

The conditions the IMF is attaching to its loan to Pakistan will severely impact the country's workers and toilers. They include: eliminating all subsidies on energy, petroleum products, and fertilizer; slashing government spending, including "non-priority" development spending; and raising taxes.

In order to pave the way for the IMF loan, Pakistan's central bank raised its bank lending rate in early November by 2 percentage points to 15 percent and the government has let it be known that a further 1.5 percentage point hike will be implemented in January.

The high-interest rate policy the IMF is imposing on the State Bank of Pakistan has caused consternation among large sections of Pakistan's business elite, including various trade and industrial lobby groups. According to an *Asia Times Online* report, Anjum Nisar, the president of the Karachi Chamber of Commerce and Industry, has said, "Pakistan's industrial landscape may soon be marked with dead and sick units and there will be massive unemployment because of the devastating impact on businesses of the higher cost of bank loans arising from the interest rate increase."

The IMF's November 24 press release announcing its executive board's decision to approve the $7 billion plus loan to Pakistan said that Islamabad has committed to an economic stabilization package that calls for the government's annual budget deficit to "be reduced from 7.4 percent of GDP in 2007/2008 (July-June) to 4.2 percent in 2008/2009 and 3.3 percent in 2009/2010." The IMF added, "This fiscal adjustment will be achieved primarily by phasing out energy subsidies, better prioritizing development spending, and implementing strong tax policy and administration measures."

The achievement of these targets will require dramatic spending and tax cuts—all the more so given that economic growth in Pakistan has already fallen off sharply and is expected to continue to contract in 2009 due to the world recession. The IMF and World Bank are themselves forecasting that Pakistan's economy will grow by only 3 percent in 2009 as compared with 6 percent in each of 2007 and 2008.

The IMF is reportedly pressing, as part of a scheme to raise the Pakistan state's income from the present 10 percent of gross domestic product (GDP) to 15 percent by 2013, for the introduction of a tax on agricultural income. Pakistan's large landowners have tenaciously resisted such proposals in the past. Should Islamabad ultimately impose a tax on agricultural income, it will only be after a bitter struggle within the Pakistani bourgeoisie over how to fashion it so small producers bear a disproportionate share of the tax burden.

The IMF, which is controlled by the US and other western powers, made no demands for cuts to Pakistan's massive military budget. Juan Carlos Di Tata, IMF senior special advisor for the Middle East and Central Asia, expressed concern about the rise in Pakistan's defence spending, but then added that the question of Pakistan's military expenditure had been excluded from the bank's negotiations with the country's Pakistan People's Party-led coalition government. "The issue of defence spending was not discussed during the programme negotiations," said Di Tata. "Defence spending is basically an item that was determined by the government and included in the budget projections for this fiscal year. There was no discussion of this topic."

For years the US has had a close partnership with the Pakistani military, using it as an instrument of its predatory foreign policy, first again the USSR and now in expanding US influence in oil-rich Central Asia. This has included support for a succession of Pakistani military dictatorships. At Washington's prodding, the Pakistani military has dramatically stepped up its efforts over the past five months to crush support within Pakistan's Federally Administered Tribal Area (FATA) for the anti-US insurgency in Afghanistan, mounting an offensive involving tens of thousands of troops, tanks, and fighter planes.

In last summer's budget the government officially listed defence expenditure at 290 billion rupees ($4.4 billion). But this figure is a gross underestimation, as much military spending is included in other departments' budgets and the military budget does not include the $1.5 billion per year Washington has been funneling to the Pakistani military in payments for services rendered in the so-called war on terror.

The Pakistan *Daily News* reports Di Tata as observing "Pakistan's defence spending ... clubbed with administrative expenditure, has reached the alarming figure of 10 percent of GDP, compared with 4 percent three years ago."

The Pakistani economy was already mired in crisis before the eruption in September of what is conceded to be the worst financial crisis since the Great Depression. In the first eight months of the year, Pakistan was roiled by rising oil and food prices, a sharp decline in the value of the rupee, a chronic shortage of electricity and recurring brownouts and blackouts, and a slowdown in Pakistan's real-estate and services-led economic expansion.

The financial crisis and continuing political instability dealt the economy a further bodyblow. Not only foreign investors, but also large swathes of the Pakistani elite, pulled their money, or at least much of it, out of the country. By November the country's foreign reserves had fallen by 75 percent to just $3.45 billion.

Pakistanis have bitter memories of the IMF austerity programs implemented by the PPP and Pakistan Muslim League (Nawaz) governments in the late 1980s and 1990s. Fearing a hostile public reaction and not wanting to countenance a further loss of Pakistani "sovereignty" under conditions where the US is routinely carrying out military operations within Pakistan, the PPP-led government long hesitated in contracting a loan with the IMF.

But the deteriorating economic situation left it no choice. Under conditions of a global credit crunch, its closest allies—the US, China, Saudi Arabia and the EU—rebuffed Islamabad's request for emergency financial aid, insisting that any aid would be conditional on Pakistan first obtaining IMF support.

According to the IMF itself, even after last month's IMF loan, Pakistan will need another $20 billion "to get control over its imbalances." It is far from clear from whence these funds will come. The so-called "Friends of Pakistan"—an inter-state group recently founded on the initiative of the US, Britain and Saudi Arabia and including Germany, France, and China—met on November 16, but failed to commit any funds to Pakistan. The "Friends" are scheduled to meet again January 13-16.

In recent weeks, inflation, which in September was approaching 30 percent, has abated somewhat due to falling world prices for oil, edible oil, steel, and other goods. But this is being offset by stagnating Pakistani exports. Pakistan's export trade, as that of other Asian countries, is being hit by the drying up of credit and plummetting demand from the advanced capitalist countries.

In its press release, the IMF said, "The IMF-supported program has two key objectives: to restore macroeconomic stability and confidence through a tightening of macroeconomic policies; and to ensure social stability and adequate support for the poor and vulnerable in Pakistan." It went on to promise support to Pakistani authorities in putting "in place a comprehensive and effectively-targeted social safety net in close cooperation with the World Bank." As a first step "spending on the social safety net will be increased by 0.6 percentage point of GDP, to 0.9 percent of GDP in 2008/2009."

The reality is that Pakistan's IMF-approved stabilization program is aimed at making the country a better source of profit for international and domestic capital. Indeed, the IMF's own statement bluntly says, "The programme aims to restore the confidence of domestic and foreign investors with a tightening of fiscal and monetary policies."

As for the claims of a "targeted social safety net," not only would .9 percent of GDP, even if achieved, constitute a pittance in a country where more than 40 million people are living in dire poverty, the other policies being imposed by the PPP-government, its pro-poor rhetoric notwithstanding, and the IMF will have a devastating impact on the economy as a whole, and especially the most vulnerable layers of society. Already there have been significant popular protests against the subsidy cuts.

Just as importantly, the interest rates increases and government spending cuts will lead to widespread job losses, thus further swelling the ranks of the poor.

Sakeeb Sherani of the Royal Bank of Scotland, told a meeting organized by Pakistan's Centre for Research and Security Studies that the IMF package will "cause up to three million job cuts in deferment sectors and push another 5.6 million to 7.5 million Pakistanis into poverty over the next two years."

Shahid Javed Burki, himself a former World Bank vice-president and ex-Pakistani finance minister has strongly criticized the IMF/PPP-led government's "stabilization" program saying that it will deflate the economy at a time when demand threatens to fall dramatically due to world recession. "While other Asian countries," said Burki, have introduced stimulation packages to generate growth, Pakistan has done no such thing. Pakistan is being advised, in fact, to cut expenditure when it needs to invest in employment generating projects. ... At the present rate, only high growth in poverty can be expected."