Austerity measures unveiled in Pakistan's budget

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The Pakistan Peoples Party (PPP)-led government presented a budget on June 6 that continues the unpopular International Monetary Fund (IMF) program of cutting public expenditure and increasing taxes. Finance Minister Abdul Hafeez Shaikh openly declared that the "focus of this budget is on austerity".

Shaikh, who was recently installed as the fourth finance minister of the 27-month-old government of President Asif Ali Zardari, was the privatisation minister from 2000 to 2002 under the former military dictator, General Pervez Musharraf. Shaikh said a "fragile" economic recovery, "volatile" global situation and "not controlled" security situation reinforced the need for austerity.

The estimated budget deficit for the current fiscal year ending June 30 is 5.6 percent of the GDP, substantially above the IMF target of 4.9 percent. In order to cut the 2010-11 deficit to 4 percent, as pledged to the IMF, the government will slash social spending, at the cost of public sector jobs and the already limited health, education and welfare programs.

In the context of the sovereign debt crisis developing globally, the bankrupt Pakistani government has no room to manoeuvre. Pakistan was forced to obtain an IMF bailout loan of $US7.6 billion loan in 2008 to avert a balance of payment crisis. The loan was later extended to $11.3 billion. The IMF withheld the third instalment in February because its conditions were not observed, but later released it after the military extended its offensives in the tribal areas along the Pakistan-Afghanistan border.

Debt servicing and military spending together consume 45.5 percent of expenditure. The allocation for defence will increase by 17 percent to 442 billion rupees ($5.2 billion), or 13.5 percent of the budget. The military generals remain in a dominant position in the country's political and economic life. Prime Minister Yousuf Raza Gilani, finance minister Shaikh and other senior officials met army chief Ashfaq Parvez Kayani last week to hear the military's proposals on the budget.

Announcing the defence increase, Shaikh stated: "Security is our topmost concern." Praising the operations in the tribal areas that have led to hundreds of civilian deaths, he told parliament: "We are facing a situation in which our armed forces, paramilitary forces and security forces are laying down their lives. They should know from this house that we all stand by them."

The boost to military expenditure flows from the Pakistan government's proxy war on behalf of Washington in the Afghan border regions, aimed at crushing the Taliban and popular resistance to the US-led occupation in Afghanistan. The Obama administration is contributing $1.5 billion annually for this war.

Pakistan's debt servicing bill next year will reach 873 billion rupees, or 32 percent of budget expenditure, up from last year's 30 percent. Public debt stands at 56 percent of GDP. The government is seeking to reduce that to 50 percent on the advice of the IMF. However, it is also hoping to obtain another $19 billion in new loans over the next three years. According to IMF projections, Pakistan's external debt could rise to $64.607 billion by June 2011 and $74.161 billion by June 2016.

By contrast to the defence budget, the allocation for health—just 17 billion rupees—was cut by 27 percent from last year. Total health expenditure is only 0.7 percent of GDP. Education spending will rise marginally by 3 billion rupees to 34 billion, or 2.3 percent of GDP, even though a little less than half the population is illiterate.

The government is preparing further public sector "reforms," including privatisation. Shaikh pledged to cut subsidies for state enterprises, citing losses of 245 billion rupees by the electricity, railway, airline, trading and steel companies. This restructuring will affect the jobs and conditions of public sector workers while increasing prices.

Public sector spending has been branded "non-development expenditure," and the government has frozen all recruitment. Unable to provide jobs for young people, the government has introduced a program of 100 days work per year for 200,000 unemployed youth. According to conservative government statistics, the unemployment rate is 5.5 percent, up from 5.2 percent last year.

Shaikh announced several measures to attempt to placate the simmering discontent among workers and the poor. One is a 50 percent increase in public sector salaries, over three years. However, this will barely offset inflation, which rose to 28 percent in 2008. The inflation rate fell to 8.9 percent last October but rose to 13.3 percent in April. Food inflation is even higher at 14.5 percent. A recent report revealed that consumption of wheat—a basic staple—had declined by 10 percent.

The finance minister said the government would continue with the Benazir Income Support Program (BISP), introduced last year. About 5 million poor families will receive a meagre 2,000 rupees every two months. Around 36.1 percent of the population, or 12 million families, live below the poverty line of one US dollar a day.

The budget raised the general sales tax (GST) by 1 percentage point to 17 percent, and set October 1 as the date for the GST's replacement by a 15 percent value added tax (VAT)—one of the key pledges made to the IMF. According to the details available, the VAT will cover all business transactions, with the burden ultimately passed onto the masses via higher prices, as in other countries.

The government had hoped to attract foreign investment by implementing the IMF's conditions. Because of the global economic crisis, foreign direct investment fell 32 percent in 2008-2009. During the 10 months from last July, however, the level fell by a further 45 percent to $1.8 billion, compared to $3.2 billion for the corresponding period of the previous year.

Pakistan Muslim League (PML-N) leader Nawaz Sharif rhetorically condemned the budget, saying it "would make the common man further buckle under the burden of price hikes". At the same time, he criticised the government's reliance on borrowings to cover the budget deficit. Sharif has not opposed the IMF loan or its conditions. All the mainstream political parties in Pakistan, including the PML-N, support pro-market policies and back Islamabad's war on behalf of the US.

There is no alternative for the different sections of the Pakistani elite apart from implementing savage cuts. Last year saw sporadic food riots and strikes. The latest austerity measures will inevitably fuel wider struggles against the government.