IMF demands blood from flood-ravaged Pakistan

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Callously exploiting the humanitarian disaster caused by six weeks of flooding, the International Monetary Fund (IMF) is spurning Pakistan's pleas for the release of funds under a 2008 loan agreement until Islamabad implements wrenching policy changes—changes that will further squeeze the incomes of the country's impoverished toilers.

Earlier this summer Pakistan was due to receive a $1.3 billion tranche from an IMF loan of $11.3 billion. But the IMF delayed release of the funds after Islamabad failed to meet various IMF performance targets.

Since then, more than 20 million people and 79 of Pakistan's 124 administrative districts have been affected by the Indus Valley floods.

The current government death toll of around 1,700 is low in comparison with the 2004 Indian Ocean tsunami and last January's Haitian earthquake. But millions of hungry, homeless people remain at risk from disease and in many other respects the catastrophe in Pakistan dwarfs these tragedies.

Earlier this week, Maurizio Giuliano of the UN Office for the Coordination of Humanitarian Affairs described the floods as "one of the worst humanitarian disasters in UN history, in terms of the number of people that we have to assist and also the area covered."

According to Giuliano, at least 10 million people are currently without shelter. Much of the country's physical infrastructure—including an estimated 1,000 bridges and 4,000 kilometers of highway—has been destroyed and at least 23 percent of the country's late summer-fall harvest ruined.

Since the floods have yet to fully recede, particularly in the south of Sind, and household and business losses have only begun to be tabulated, estimates of the flood damage are bare approximations. But the current government estimate of $43 billion in losses is equal to about a quarter of Pakistan's annual GNP.

Moreover, the floods will have an enduring impact on Pakistan's economy, especially on the availability and cost of food and of cotton, which is vital to Pakistan's textile industry, its biggest export earner. And this occurs under conditions where even before the floods one in four Pakistanis or 45 million people were malnourished.

Last week, the credit rating agency Moody's Investor Service changed its outlook for Pakistan's five biggest banks from stable to negative, due to concerns that the banks will be undermined by nonperforming loans. Nondas Nicolaides, a senior analyst at Moody's, told the British *Financial Times*, "Mostly the agricultural and textiles sectors" will be damaged by the floods, "but we expect an indirect impact on the banking system going forward."

Under conditions of such an acute social and economic crisis Pakistani officials hoped the IMF could be convinced to relax its criteria for extending the sixth tranche of the 2008 loan. But when they met with IMF leaders in Washington for ten days at the end of August and the beginning of this month they were curtly rebuffed.

According to an account published in the September 8 *Dawn*, IMF authorities took "a very strong position" during the talks, affirming "that the IMF executive board would not be interested in considering Pakistan's request for more funds unless it made tangible progress" on implementing the IMF-dictated economic restructuring program.

The talks ended with IMF Managing Director Dominique Strauss-Kahn saying this publicly in almost as blunt terms.

Strauss-Kahn indicated that the Pakistani delegation, which was led by Finance Minster Abdul Hafeez Shaikh, had pledged to implement the IMF's diktats—including the elimination of energy price subsidies and the imposition of a general sales tax. But he said the IMF will not release a penny of the $2.6 billion remaining from the $11.3 billion loan negotiated in 2008 until Islamabad makes good on its pledge to implement the requisite reforms.

The IMF's Managing Director said the performance of Pakistan's government would be reviewed again at the end of the year to determine if the reforms had been carried out and only if they had been would a further tranche be transferred to Islamabad.

"Our dialogue with Pakistan on the current Standby Arrangement is progressing," said Strauss-Kahn, "and the authorities have expressed their intention to implement measures for the completion of the fifth review of the programme later this year."

"We will stay in close contact as these efforts proceed. Completion of the [IMF's] fifth review [targets] will allow the Fund to disburse an additional $1.7 billion."

The IMF's Managing Director did say that he would recommend to the IMF's executive board that it lend Pakistan $450 million from the Emergency Natural Disaster Assistance program to help Islamabad provide flood relief.

But with much of Pakistan in ruins—and about a third of the country's national budget already consumed by debt payments—this was, to say the least, cold comfort.

Strauss-Kahn's stance was seconded by the World Bank, which like the IMF is a US-led, western-dominated organization.

Speaking Sept. 1, following a meeting with Finance Minister Shaikh, World Bank President Robert B. Zoellick emphasized the need for Islamabad to implement pro-market reforms before all else. "We need," said Zoellick, "to respond strongly to the crisis at hand, but we need to do it without losing sight of important economic reforms."

He then went on to threaten the Pakistani government and the people of Pakistan, declaring "the response of donors to the floods will also depend on the government's ability to deliver in this area."

Relief to Pakistan's flooded millions thus constitutes for the imperialist financial institutions a bludgeon that they are wielding to press for market reforms that will facilitate profit-making by domestic and especially international capital.

Given the size and scope of the disaster, Pakistan has received little more than spoonfuls of aid from the world's governments. The World Bank, for its part, has made $1 billion available to Islamabad to finance immediate relief and long-term reconstruction. But all of this money has been rerouted from existing World Bank programs for Pakistan.

The reforms that the IMF and World Bank are demanding include:

• The transformation of a General Sales Tax into a 15 percent Value Added Tax or VAT. The new tax will shift the burden of taxation from business to working people.

• The complete elimination of energy price subsidies. Previously the government had committed to increase the cost of electricity by at least 25 percent in three phrases over 6 months beginning this October 1. (The World Bank and Asian Development Back estimated earlier this year that a 49 percent increase would be required to meet the government's pledge to end all electricity subsidies.)

• Full autonomy for the country's central bank and the cessation of loans from the State Bank of Pakistan to the government.

The Pakistan Peoples Party-led coalition that forms Pakistan's government has repeatedly signed on to these and other rightwing policies, including stepped-up privatization. Before the IMF it again did so last week.

Following the Washington meeting, Finance Minster Shaikh declared, "I want to reaffirm the commitment of the government of Pakistan towards the economic reform program, which includes fiscal austerity; domestic resource mobilization; reform of governance structures, including public sector corporations; and an enabling environment for the private sector. We are committed to that program because that is the way to keep the recovery strong and to get back on the growth trajectory."

Pakistan's government realizes, however, that it is sitting atop a social powder keg. Hence its reluctance to carry through policy changes whose immediate impact will be to fuel inflation and depress economic output. The implementation of VAT has been repeatedly postponed and is now slated for Oct. 1 and recently the government cancelled the electricity price increase due next month.

Even before this summer's floods, Pakistan's newspapers were full of commentary about the threat of social unrest due to growing hunger and social inequality and the popular disaffection with a civilian government that has continued the basic policies of the US-backed military dictatorship that preceded it. This includes deepening collaboration with the US in waging war in Afghanistan and against Taliban-allied militias based among Pashtun tribesmen in the country's northwest.

The floodwaters that are ravaging the lives of millions of Pakistanis have also provided a searing exposure of the incompetence, indifference and corruption of the government and of the ruling elite as a whole, further stoking elite apprehension of a social upheaval.

But just as the Pakistani elite, in pursuit of its mercenary alliance with US imperialism, has been ready to plunge much of the country into civil war, so it will buckle under to the pressure of the IMF and World Bank and implement socially incendiary economic reforms in the months ahead.