Pakistan: IMF demands brutal restructuring in return for further funding

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A Pakistani delegation led by Finance Minister Abdul Hafeez Sheikh returned home from Washington last week after failing to win approval from the International Monetary Fund (IMF) for the release of the sixth tranche of an $11 billion loan extended in the fall of 2008 at the height of the world financial crisis.

The failure to secure the tranche is a major setback for the Pakistani elite, which has already served notice that it will soon be approaching the IMF for a new loan package of at least $3 billion.

The IMF is insistent that the Pakistan People's Party (PPP)-led national coalition government introduce a series of wrenching policy changes—changes that the government and Pakistani elite fear will bring it into headlong conflict with the working class as they involve raising energy prices and taxes under conditions where living standards have already been badly hit by 15 percent inflation and an economic slowdown.

Further complicating the situation for the government is the fact that many of the PPP's political rivals, including two recent defectors from the government, the Karachi-based MQM and the Islamic fundamentalist JUI-F, are posturing as opponents of the IMF reforms. Their aim is to force the PPP to bear the entire political responsibility for implementing yet another round of regressive capitalist restructuring.

Unable to secure a parliamentary majority for several tax changes demanded by the IMF, the PPP government imposed them last month by presidential decree—a move that was both antidemocratic and of dubious constitutional validity.

But the IMF, which is dominated by the US and its allies, has made clear it considers the measures taken to date insufficient. This stance is akin to that Washington has taken toward Pakistan government's support for the US-NATO occupation of Afghanistan.

Pakistan received some $7.25 billion of the 2008 loan in five installments, but the sixth tranche was suspended in May 2010 after the PPP-led national coalition government failed to implement the Reformed General Sales Tax (RGST) demanded of it by the IMF.

"There are no indications" that last week's Pakistani delegation to Washington "was able to convince the IMF to release the next tranche," an anonymous diplomatic source told the *Dawn.* "And until the sixth tranche is released, it is highly unlikely that the IMF will hold any negotiations on a future arrangement (loan)."

"The country's economic performance is so poor," continued the *Dawn*'s diplomatic source, "that it is difficult to imagine how they could have convinced the IMF to release the next tranche," let alone initiate discussion on a new loan. "This was not a good trip for the Pakistani delegation."

Pakistan's Stand By Credit arrangement with the IMF was extended till the end of this September at the end of 2010. But the IMF has reportedly made it clear that there is no question of Pakistan receiving another loan unless and until it fully implements its previous pledges to the agency.

As Finance Minister Sheikh arrived in Washington for last week's talks, the IMF issued a Programme Note in which it sharply criticized the PPP-led government for failing to implement all the reactionary pro-big business reforms it has been demanding. "It is an unprecedentedly harsh statement which shows the IMF's intentions regarding the tough conditions it may impose on Pakistan for the second loan programme," a finance ministry official told the *Express Tribune*. In its Programme Note, the IMF says that the PPP-led government did press forward with structural reforms in 2008 and 2009— strengthening bank supervision, raising petroleum prices, reforming taxation, and liberalizing the foreign exchange market—but since then such measures have been stalled or reversed.

The note was issued some two weeks after the White House, in a report to the US Congress, blasted Pakistan for not being aggressive enough in its counterinsurgency campaign in the northwest tribal areas, even though the brutal tactics employed by Pakistan's army have displaced millions of people and outraged working people across the country. The report also raised concerns about the fragile state of Pakistan's economy.

"The note is very damaging not only for the government but also for the economic team, suggesting the IMF is not at all satisfied with Pakistan's performance," said Dr. Ashfaque Hasan Khan, a former adviser to the finance ministry. The note criticized Pakistan for failing to reform its energy sector. The IMF has long been demanding that Islamabad eliminate all energy price subsidies. It was angered when the government, in the face of popular opposition and defections to the opposition benches, partially rolled back a nearly 10 percent increase in petroleum prices announced earlier this year.

The IMF also criticized the steps the government has taken to replace the longstanding sales tax with a goods and services tax. "This reform has been delayed and its scope has been far narrower than earlier envisaged," complained the IMF.

During the meeting in Washington, IMF officials criticized a notification issued by the Pakistani government on April 1 that exempted textiles, leather and sporting goods from the Reformed General Sales Tax (RGST). Noting that these industries are the country's biggest income earners, the IMF argued that Pakistan could not afford to exempt them from the tax, especially since it is hesitant to implement an agriculture tax.

While provincial governments have the authority to collect taxes on agriculture, they are dominated by powerful landlords and tribal chiefs who vehemently oppose any measures that threaten their interests.

Further IMF support is also conditioned on the government fulfilling its pledge to eliminate all subsidies on petroleum products, natural gas, and electricity. This measure will further cramp living standards under conditions where the majority of Pakistan's workers and toilers earn less than $2 per day and hunger and malnutrition are widespread, especially among children.

The IMF has also begun to spell out what changes it expects to impose on Pakistan as conditions for a new loan. According to the *Express Tribune*, "Officials said that the next loan programme, if approved by the IMF, is likely to revolve around the conditions of restructuring the public sector enterprises that includes shedding the workforce—a condition that may put the PPP-led coalition government in an awkward situation ahead of the general elections scheduled for 2013." The IMF has told Islamabad to implement measures aimed at transforming major public sector corporations into profit-making enterprises in preparation for their partial or complete privatization. This includes Pakistan International Airlines, Pakistan Railways, Pakistan Steel Mills, Pakistan Electric Power Company, Trading Corporation of Pakistan, and Pakistan Agriculture Storage and Supply Corporation.

According to the *Dawn*, the IMF warned the Pakistani delegation in Washington that the country's budget deficit might reach 6 percent of GDP by the end of the current fiscal year, approximately $3 billion. Nearly half of the country's tax revenue is currently being used to meet debt-servicing interest payments on the country's $58 billion foreign debt. During the first nine months of the current fiscal year that ends June 30, Pakistan paid out more in interest than the entire development budget for the full year.

Higher food and energy costs and decreasing tax revenue have forced Pakistan to revise its fiscal deficit target for the year ending June 30 to 5.5 percent from 4 percent. Pakistan's economic growth, meanwhile, is expected to be in the range of 2.5 percent for the 2010-11 fiscal year, down from 4 percent in the previous fiscal year.

In his talks with the IMF, Pakistan's Finance Minister effectively attacked democracy for frustrating the government's efforts to implement the IMF measures. Sheikh, it is important to recall, first came to prominence as Privatization Minister under the US-supported dictator General Pervez Musharraf. According to the *Daily Times*, "Mr. Sheikh dumped the entire responsibility for the inability to carry out the tax, energy, and withdrawal of all subsidies reforms onto parliament, calling it the most serious obstacle to such reforms."

While none of the establishment parties want to be associated with the pro-market reforms that they know will be met with stiff opposition from the working class, the ruling elite as a whole is determined to push through the cuts to placate its international allies.

The PPP-led coalition government has made it clear that it is doing everything possible to include the reforms in the upcoming budget, including a broader-based RGST.

Last month, Pakistani President and PPP co-chairman Asif Ali Zardari imposed three presidential ordinances enacting tax increases and spending cuts of 120 billion Pakistani rupees (about $1.4 billion US), so as to reduce the budget deficit for the current fiscal year to a projected 5.5 percent of GDP from 6.3 percent.

Zardari's decrees implemented a 15 percent flood surcharge on income tax, increased power tariffs by 2 percent, raised the special excise duty from 1 percent to 2.5 percent, and withdrew exemptions to the 17 percent general sales tax, which affected fertilizers, pesticides and tractors. A zero rating on plant machinery and equipment, including parts, was withdrawn. And an 8 percent sales tax was imposed on the ex-factory price of sugar.

As part of its March 15 mini-budget, the government also froze or scaled back spending in many areas.

And in early April, the government announced 10 to 13 per cent increases in the prices of petroleum products due to rising international oil prices.

However, none of these measures were enough to convince the IMF to agree to release the sixth tranche of the 2008 loan.

Meanwhile, the working class must contend with spiraling inflation, which is expected to increase in the coming months. Prices rose on average by 14.2 percent in the nine months ending in March and, according to the Asian Development Bank, inflation will reach 16 percent by the end of the current fiscal year,

Inflation has been exacerbated by rising food and oil prices. Last summer's devastating floods destroyed an estimated $3 billion worth of crops, leading to food shortages that are still contributing to inflation. Politicians and journalists have repeatedly warned the price rises could lead to widespread unrest. The rising cost of oil will also worsen the country's energy crisis, which continues to cripple production and infuriate workers across the country. A power shortfall in the country last week led to electricity cuts of up to14 hours per day in Punjab and other parts of the country. Massive power cuts in Karachi sparked protests in several neighborhoods in the country's largest city.