

Pakistan “highly vulnerable” to economic shocks, warns IMF

Ali Ismail, Sampath Perera
16 February 2012

The International Monetary Fund released a report last week that sharply criticized Pakistan’s government and state bank and warned that Pakistan’s economy remains highly vulnerable to both internal and external shocks. Highlighting a rapidly deteriorating balance of payments situation, the IMF said Pakistan might soon be forced to seek a new loan from the agency.

“Two major floods, difficulties in implementing key policy reforms, and a more challenging global environment have combined to limit growth and employment creation and made the economy highly vulnerable, with few buffers to absorb shocks,” states the IMF report. The report’s emphasis on the need for Pakistani authorities to take “politically difficult decisions” is a clear warning that a fresh round of pro-big business “reforms” aimed at making workers and toilers pay for the economic crisis is in preparation.

The IMF issued its report amid a deep political crisis that has pitted the military and a traditional ally, the Supreme Court, against a Pakistan’s People’s Party (PPP)-led civilian government that is deeply unpopular due to its imposition of IMF austerity measures, inability to deal with chronic power-shortages, and complicity in US imperialism’s AfPak War.

According to the IMF report, Pakistan’s economy will grow by just 3.4 percent in fiscal year 2011-2012. This is less than half the rate of growth the agency says is needed to absorb the two million new workers entering the labour force every year. Unemployment is much higher than the official rate of 6.6 percent and much of the workforce, by some estimates a quarter or more, is underemployed. Inflation, meanwhile, is expected to remain around 12 percent over the next year.

The IMF report accused Islamabad of understating its expenditures by \$3.5 billion and overstating its

revenues by \$2.3 billion in a bid to hide a budget deficit that far exceeds the government’s target of a deficit equivalent to 4.7 percent of GDP. Criticizing the government for balking at the full-implementation of such revenues raising measures as the complete elimination of energy-subsidies and the introduction of a new regressive goods and services tax, the IMF forecast that the budget deficit will reach 7 percent of GDP as compared with 6.6 percent in the 2010-11 fiscal year.

The IMF report complained, “High spending on subsidies, security, and interest, as well as a 15 per cent salary increase [for government workers], [had] crowded out more productive spending.” Unlike its denunciations of subsidies and nominal wage hikes for workers, the IMF’s mention of Pakistan’s large military-security expenditure was a throwaway line. The Western-dominated IMF is fully supportive of Pakistan’s close collaboration with the US in the AfPak War. Its detailed plans for social spending cuts and privatizing large parts of Pakistan’s economy form a striking contrast with its laissez-faire attitude toward Pakistan’s military spending.

The IMF report also criticized the State Bank of Pakistan, saying that its loose monetary policies were contributing to double-digit inflation.

In recent months there has been growing concern within the Pakistani press that spiralling world oil prices, diminishing foreign investment (foreign direct investment fell 27 percent between July and November 2011), reduced foreign aid, and a widening trade deficit could lead to a balance of payments crisis.

The IMF report has further fuelled these fears. It predicted that Pakistan’s foreign currency reserves would fall to \$12.1 billion by the end of June, enough for less than three months of imports. According to the

report, the country's foreign currency reserves will continue to decline due to "lower cotton/textile prices [Pakistan's main exports] and a sharp slowdown in remittances growth, continued difficulties in attracting external financing, and the beginning of repayments to the IMF." Pakistan must pay a total of \$1.3 billion to the agency by July as partial payment for an emergency loan it contracted in the wake of the 2008 global financial crisis.

Within a year of its coming to power in March 2008, the PPP-led government drastically slashed public spending and launched a privatization drive in exchange for an \$11.3 billion IMF loan. However, being a fragile coalition, and facing stiff resistance from the toiling masses, especially the working class, the government failed to implement all of the measures demanded by the IMF. In response, the lending agency suspended disbursement of the last two instalments of its loan beginning in May 2010.

Even when floods devastated the country in the summer of 2010, temporarily displacing some 20 million people, the IMF, with Washington's backing, was adamant that there could be no further loan disbursements until Pakistan fully implemented its diktats.

Last September, after repeated failed attempts to convince the IMF to ease its terms; Pakistan abruptly terminated the lending program negotiated in 2008. But it is an open secret in Islamabad that Pakistan is laying the groundwork for a fresh request to the IMF for support. Only the government hopes to avoid having to do this until after a national election, so as to avoid implementing unpopular measures—measures that the PPP's bourgeois political rivals would cynically claim to oppose so as to win votes.

An unnamed senior finance ministry official told *Dawn* last month that he was certain the government "wouldn't want to risk losing votes by seeking yet another [IMF loan] in an election year." But he warned that events could force the government's hand: "All these challenges, particularly oil prices, could bring the balance of payments situation under pressure, cause the foreign exchange reserves to deplete fast and [the] rupee to become even cheaper against [the] dollar, leaving the government with no choice but to seek help from the IMF."

Last fall, Pakistan's government reportedly asked

Washington to use its influence with the IMF to help it secure financing, but the Obama administration refused.

Relations between the US and Pakistan were in crisis throughout 2011, as the US demanded that Pakistan bear an even greater share of the burdens of the AfPak War and repeatedly violated Pakistani sovereignty with drone and cross-border attacks, causing a popular groundswell of anti-US sentiment in Pakistan.

Since late November Pakistan has suspended land resupply shipments to US-NATO forces in Afghanistan in retaliation for a NATO attack on a Pakistani border post that killed 24 Pakistani soldiers.

Recently, however, the Pakistani elite has been manoeuvring to rapidly restore full and open cooperation with Washington. Government officials have repeatedly said that the US-NATO supply route will soon be reopened. On February 6, the US sent the Pakistani air force three F-16 fighter jets, part of an outstanding purchase order. This was widely interpreted as a "goodwill" gesture.

The US-Pakistani alliance has been the pivot of the Pakistani bourgeoisie's geo-political and class strategy for decades. That said, the deteriorating economic situation is—as Washington calculated—serving as a further incentive for Islamabad to press for a speedy end to the diplomatic standoff.

The situation of the working class and rural toilers has only worsened during the four years of the PPP government. According to the IMF report, nearly half the population now lives in poverty.

The miserable social conditions and anger over the war are fuelling popular unrest, including a wave of working-class anti-privatization struggles, and prompting warnings from politicians and journalists that the country could soon experience Egyptian-style unrest.



To contact the WWSWS and the
Socialist Equality Party visit:

wsws.org/contact