IMF demands deeper austerity in Pakistan

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The International Monetary Fund (IMF) last month warned Pakistan of a looming foreign exchange crisis. The strongly worded statement foresaw a depletion of foreign reserves as in 2008, when the country's government was forced to seek an emergency bailout.

The IMF executive board report made clear that further funding will require unprecedented budget cuts and pro-market "reforms" that will lead to further attacks on jobs, working conditions and living standards.

The report observed that "while some progress has been made, Pakistan continues to face difficult macro-economic challenges as growth remains insufficient, underlying inflation is high, and the external position is weakening." It underscored the negative impact of "an uncertain global environment and a difficult domestic situation, as well as adverse effects of natural disasters."

Gross domestic product, adjusted for price changes, has averaged 3 percent growth annually over the past four years and is projected to expand by 3.25 percent for this financial year. This is insufficient to absorb the growing labour force, for the fifth consecutive year, according to the IMF. The report also forecast double-digit inflation by next June.

Foreign exchange reserves had fallen "below adequate levels" to $10 billion by October, reflecting "weak financial inflows and debt repayments". Pakistani exports have reduced drastically as a result of the downturn in its chief export markets, the US and Europe.

State Bank of Pakistan (SBP) figures released in December also revealed a bleak picture. The SBP said the government held $US63.82 billion (6,233 billion rupees) in external debt, including $7 billion still owing to the IMF from the 2008 bailout. Foreign direct investment (FDI) was in a sharp decline, from a peak of $5.3 billion in the 2007-08 financial year to just $813 million in 2011-12.

The IMF's reference to "some progress" was to the Pakistan Peoples Party (PPP)-led government's economic restructuring and budget cuts, implemented as part of its bailout agreement with the IMF. These measures have featured cutbacks in social spending, "flexible" exchange rates and a commitment to privatisation.

These measures have made a shattering blow to the living standards of most people. The many millions affected by the massive floods of 2010 and 2011 have been left without assistance as a result. According to the Sustainable Development Policy Institute, an Islamabad based think-tank, 33 percent of Pakistanis, and 46 percent in rural areas, live in poverty.

The IMF's prescription is more austerity. "[R]educing the large fiscal deficit is essential," the report said. It proposed lowering subsidies and price differences, which would drastically raise energy prices. Other measures included privatising "loss making" public sector enterprises, "improving the investment climate, and further trade liberalisation".

The IMF falsely claimed that these "strong policy measures" would address "vulnerabilities, boosting sustainable growth and reducing poverty". In reality, Pakistan's crisis has resulted from the world capitalist breakdown and the country's chronic backwardness. The implementation of similar policies in Greece, prescribed by the IMF and associated bodies, has already set a devastating example.

The IMF rejected the Pakistani government's proposed "tax amnesty program," supposedly designed to bring influential tax evaders into the tax net. With a general election due in May, the amnesty is a concession to sections of the ruling elite that have illegally earned "black money". The IMF has also insisted on widening the base of the Value Added Tax to increase government revenue, which would result in sharp price rises for essentials.

The IMF refused to release the final instalments, amounting to $1.3 billion, of the last $11.3 billion bailout loan, citing the government's failure to implement all its recommendations.

The government of President Asif Ali Zardari said it would not ask for a new IMF bailout for the time being. It is desperate to delay any further austerity program that would fuel mass opposition and dash any prospect of re-election in May.

The government appealed to the IMF to defer at least some of the repayment of $1.7 billion due within the next six months. The *Dawn* reported on December 14 that an IMF team was likely to visit the country soon. Islamabad is hoping that US influence would have a favourable impact on its negotiations with the IMF in the short term.

The Obama administration has agreed to pay $600 million from the Coalition Support Fund to Islamabad for the services it provided in waging war against Taliban-allied militants on Pakistan soil. This is a further sign of Islamabad's efforts in recent months to mend tense relations with Washington and to further accommodate US imperialism.

Conscious of mounting public opposition to the austerity measures and privatisation, the IMF stressed that "securing broad political support for tax and other reforms is critical". This was a warning to the ruling PPP, as well as the main opposition parties, the Pakistan Muslim League (PML-N) and Pakistan Tehreek-e-Insaf (PTI), to keep the IMF's dictates out of the election debate.

The PML-N, which has implemented IMF policies in the past, has no opposition to the austerity agenda. The same applies to the PTI, which has repeatedly stressed that the party is committed to improving the "investment climate" as a means of addressing the fiscal crisis. If these parties pose as opponents of the IMF measures, it is only to divert the anger of workers and the poor.

Whichever government takes office after the next election, it will step up the onslaught on the conditions of the masses.