Pakistan's new government delivers pro-business budget

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Pakistan's newly-installed government of Nawaz Sharif's Pakistan Muslim League (PML-N) announced its first budget amid slow economic growth, a massive fiscal deficit and dangerously depleted foreign reserves. The government also faces declining foreign investment, a chronic power crisis and double digit inflation. The budget is a desperate attempt to encourage investment, while cutting public spending and imposing huge new burdens on the toiling masses.

The budget presented to the National Assembly last Wednesday contains 3,591 billion rupees ($36.4 billion) in total outlays, of which 975 billion rupees is to be borrowed. Public spending has been slashed by a massive 373 billion rupees ($3.8 billion) in order to reduce the deficit from 8.8 percent of gross domestic product (GDP) to 6.3 percent. The government has pledged to lower the figure even further by 2016 to 4 percent of GDP.

Finance Minister Ishaq Dar blamed the previous government for the country's "broken economy." He pointed to the signs of economic stagnation, including a growth rate of less than 3 percent, inflation of 13 percent and a 2.5-fold increase in public debt over the past five years to 63.5 percent of GDP.

The austerity measures are in line with the demands of the International Monetary Fund (IMF), the largest sources of loans to Pakistan in recent years. An IMF team is due to arrive today in the country for what it called "post program monitoring" after its 2008 bailout. Many analysts suggest that it is only a matter of time before the Sharif government seeks another IMF loan. Although the government has made no formal request, at least publicly, the caretaker government that held office during the election campaign negotiated a "framework" agreement with the IMF.

The budget plans to increase tax revenue, a major IMF demand, from the current 9 percent of GDP to 15 percent by 2018. As an initial measure, the general sales tax is to rise from 16 to 17 percent. The effective sales tax for unregistered retailers—95 percent of the total—is even higher at 19 percent. Working people already face spiralling price hikes for commodities, beginning with petroleum products. At the same time, the budget gave new tax concessions to business—a 1 percent cut in the corporate tax rate to 30 percent over the next five years and an extension of tax holidays for Special Economic Zones from 5 years to 10 years.

Justifying the slashing of public spending, Dar declared: "The culture of exemptions and concessions must end to build a self-reliant economy." He announced an overall cut of 34.5 percent in spending on price subsidies, which he condemned as a "burden" on the economy.

The deepest subsidy cuts are for electricity. The government has already announced an electricity tariff hike of 2.5 rupees a unit, which will bring in 150 billion rupees of additional income. The elimination of subsidies is in line with IMF's demands to privatise the power sector, supposedly in order to solve the country's chronic blackouts and electricity shortages. Any privatisation will further raise prices and put electricity, a basic social necessity, beyond the reach of even larger sections of the population.

The government also announced the adoption of another IMF demand: to eliminate borrowings from the State Bank of Pakistan, a decision that will have a serious impact on social services. Health and education, which are primarily funded by provincial governments, were allocated just 9.8 billion rupees and 59.2 billion rupees respectively. In the most populous province of Punjab, the provincial government, also run by the PML-N, has provided 44.6 billion rupees ($452 million) for health and 40.5 billion rupees ($410 million) for education. Overall, this represents an annual amount of less than $5 per person on health care.

The budget initially froze public sector wages, while raising pensions by 10 percent, which is still well below the inflation rate. But following a huge public outcry, the government was forced to announce that the wages of central government employees will also rise by 10 percent.

At the same time, the government increased the defence budget by 15 percent to 627 billion rupees ($6.3 billion) or 17 percent of total outlays, second only to debt servicing, which consumes 32 percent of government spending.

Dar boasted that the budget was "not a mere balancing of revenues and expenditures" but involved major pro-market "reforms." His installation as finance minister was greeted with enthusiasm in business circles. Dar is a well-known World Bank and Asian Development Bank technocrat who imposed IMF measures during a previous term as finance minister.

Dar declared that he had laid out an agenda for an economy "based on competitive advantage and market considerations," in which the private sector would be "the lynchpin of economic activities." Dar said the government would "reinvigorate" the privatisation program, targetting the railways, international airlines and steel mills, as well as the energy sector.

The PML-N is known for right-wing, pro-market policies during its two earlier terms of office. Despite forming the government, the party won just over 32 percent of the votes cast, representing the support of only 17 percent of the total number of registered voters. Its "victory" was above all due to the overwhelming rejection of the previous coalition government led by the Pakistan People's Party (PPP).

The hostility toward the PPP-led coalition was due to its support for the US-led occupation of Afghanistan and the extension of the war through drone strikes into the border areas of Pakistan. It was also the result of the PPP implementing IMF measures to boost investors' profits at the expense of the jobs and living standards of working people.

According to World Bank figures, 60 percent of 180 million Pakistanis live in poverty. Yet the finance ministry's annual Economic Survey, released just before the budget, made no mention of this statistic. Dar made only a passing reference to the need "to protect our weak and poor segments"—a completely empty phrase.

The IMF was highly critical of the PPP government for failing to deliver its entire "reform" agenda. In 2010, the IMF stopped the release of the remaining $1.3 billion from its 2008 bailout loan and persuaded other lenders to cut off funding. The caretaker government's agreement to the framework for a new IMF loan was an indication of the extent of the crisis facing the Pakistani economy.

Last week's budget is an attempt to place the government in the best possible position to negotiate with the IMF. However, economic restructuring alone will not secure an IMF bailout, which will need Washington's final approval. The Sharif government will be required to prove its fidelity to the US by giving its continued support to the US-led occupation of Afghanistan and by suppressing anti-US militias operating from Pakistan's border areas.