New Pakistani government desperate for IMF bailout

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The newly elected Pakistani government of Nawaz Sharif is desperately seeking a bailout from the International Monetary Fund (IMF) to avert an imminent foreign reserves crisis. Having imposed savage spending cuts in its first budget presented in June, the Sharif government is pledging the IMF to deepen those attacks.

Pakistan urgently needs external financing, as its foreign reserves have dwindled to US$6.3 billion, barely enough for six weeks of imports. The government is also reaching out to the World Bank and the Asian Development Bank, among others, for more aid, up to US$5 billion. It has to re-pay the IMF alone US$3.9 billion of debt in next 12 months.

The IMF has agreed to consider a US$5.3 billion bailout package for Pakistan, according to a July 4 statement. However, it is demanding that Pakistan meet a number of set targets to slash expenditure, increase taxes, and reform economic policy to obtain this bailout.

Washington, which holds the largest single voting bloc inside the IMF, will doubtless also use the impending balance-of-payments crisis to further prod the Sharif government to do its bidding in the Afghanistan-Pakistan war.

The Pakistan Muslim League (PML-N) government has until September to implement these conditions. This is yet another instance in which the IMF demands drastic reforms before any loan is granted, a practice that is rapidly becoming the norm internationally.

The government has formally requested that the IMF increase the loan to US$7.3 billion last week. Whether the IMF agreed to the request is unknown. However, an IMF mission visiting Islamabad refused a similar request in early July, after two weeks of talks.

In a statement, the IMF described the precarious state of the Pakistan economy to justify its push for austerity measures. Pakistan faces a “challenging economic outlook, compounded by an uncertain global and regional environment,” it wrote. It demanded that Pakistan solve “longstanding structural problems, particularly in the energy sector” and “difficult business climate,” saying those were the problems behind the severe economic crisis Pakistan faces today. Growth, averaging 3 percent in recent years, is not enough to provide jobs to the country’s expanding workforce.

The IMF demands slashing cuts to energy subsidies, which it denounces as “untargeted.” It demands “[power sector] tariff rationalisation,” which in plain words means that full costs would be passed on to consumers.

It is also pushing for measures to restructure state-controlled enterprises, mainly basic needs such as energy, and also railway and postal services, leading to their privatisation.

Pakistan is heavily depending on loans from international banks, including the IMF and World Bank, compelling it to implement the demands of financial capital. The country’s agricultural product and infrastructure were devastated by floods in 2010 and 2011, worsening the situation. Its currency fell to over 100 rupees per US dollar, from just 64 rupees in 2008.

The former Pakistan People’s Party (PPP)-led government was forced to quit the 2008 bailout agreement abruptly as it failed to implement savage reforms demanded by the IMF. As a result, in 2010, the IMF refused to release a remaining tranche of US$3.7 billion of the US$11.3 billion bailout. Apart from massive budget deficits, inflation stood at 13 percent when the PPP left office.

Though the PPP regime, like all factions of the Pakistani ruling elite, agreed with the IMF on austerity measures, it was held back by fears of mass opposition that could spill out of control. The PPP's identification with market reforms played a major role in its humiliating defeat in this year's general elections.

The Sharif government began work on such reforms with its initial budget last month. It made large-scale budget cuts, lowering the deficit from 8.8 percent of gross domestic product (GDP) to 6.3 percent in one year. Taxes like the general sales tax (GST) were increased, triggering a spiral of price hikes for basic goods. Electricity costs immediately rose by 2.5 rupees a unit, about a 28 percent increase, as a result of subsidy cuts.

The impact of the IMF's further demands on the masses can only be catastrophic.

Well aware of popular opposition to IMF policies, Finance Minister Ishaq Dar tried to hide his government's desperate situation. "We have successfully agreed over a programme that is home-grown and consistent with the new government's policies," he said. "We are not begging. We are members of IMF."

To divert attention away from the government, he blamed the PPP for the economic crisis facing the country. "The crisis we are facing today is because of the fiscal indiscipline that was practiced over the last few years," he said. Claiming the Sharif government entered the agreement "for the good of the country," Dar added: "A better tomorrow dawns only when the requisite pains are borne today."

Jeffrey Franks, the head of the IMF mission, said it would not turn down the new government because "previous governments did not do what they had promised to do."

However, Sakib Sherani, an economist and former adviser to the finance ministry, warned that "there were no guarantees that this government would be any different from previous ones that reneged on promises to the IMF," the London-based *Financial Times* reported.

Behind the IMF offer there are also concerns of the United States that Pakistan could plunge into further instability if the economic crisis worsens. Noting that US relies on the Pakistani army to "fight Taliban and al-Qaida militants and negotiate peace in neighbouring Afghanistan," the *Associated Press* wrote: "Analysts predicted U.S. pressure would be key to sealing a deal."