Pakistan to impose new raft of austerity measures and pro-investor reforms to secure IMF bailout funds

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With Pakistan mired in economic crisis, Prime Minister Imran Khan and his Islamic populist Pakistan Tehrik-e-Insaaf (PTI)-led coalition government have once again been forced to turn to the US-led International Monetary Fund (IMF) for emergency financial support.

They are doing so with great trepidation. IMF assistance is contingent on the government implementing deeply unpopular austerity measures and economic reforms.

Already there is mass popular anger over rapidly rising prices, especially for food, and the disastrous health and economic impact of the COVID-19 pandemic. According to official figures, the pandemic has killed some 28,900 people. But this figure is simply not credible, given Pakistan's ramshackle public health care system, teeming slums, and serological studies that indicate well over a third of the population in the country's major cities has been infected.

Throughout the pandemic, Imran Khan's government has prioritized protecting big business profits and investor wealth. It imposed only a brief lockdown in the spring of 2020, and while admitting millions of jobs have been lost, has provided little more than token pandemic "financial relief," with eligibility to it restricted to the poorest of the poor.

Even before the pandemic struck, the jobless rate had risen to 6.9 percent, according to the most recent government Labour Force Survey, while the proportion of the population living in poverty was rapidly approaching 40 percent, a prominent Pakistani economist estimated.

When major opposition parties called protests in October in an attempt to exploit popular anger over the economic crisis, tens of thousands of people rallied in major cities across Pakistan to denounce the soaring cost of food and petroleum products and widespread job losses. Recent months have also seen widespread protests and strikes by government workers demanding pay rises to offset double-digit inflation, although the unions have largely succeeded in isolating and containing these struggles.

The government has been frantically maneuvering to try to deflect blame for, and contain the political fallout from, a new round of savage austerity. During the past several weeks, Khan has repeatedly delayed seeking parliamentary approval for a "mini-budget" written according to IMF diktats.

Fearing divisions within its own parliamentary coalition and not wanting to give the opposition parties a platform from which to posture as opponents of IMF-imposed austerity, the PTI top brass initially resisted getting parliament's sanction for the mini-budget. Instead it proposed to impose the IMF measures by government decree. However, the IMF has insisted that it will only release $1 billion in desperately needed emergency bailout funds if the mini-budget is approved by parliament.

Pakistan faces a looming current accounts crisis. Its imports now cost $8 billion per month, meaning that Pakistan Central Bank's currency reserves of $18 billion are enough to cover little more than two months of imports. Moreover, the Pakistani rupee is rapidly depreciating, and is the worst-performing currency in the region. On Tuesday, it fell to a record low of 178.19 rupees per US dollar, bringing its total depreciation vis-a-vis the world's premier trading currency to 11 percent in 2021 and over 30 percent since Khan assumed office in August 2018.

Pakistan also has South Asia's highest inflation rate, with prices rising on a year-to-year basis by 11.5 percent in November.

In 2019, the PTI government negotiated a $6 billion IMF loan, and received close to $1.5 billion in two tranches that year, in return for pledging to implement what the London-based *Financial Times* called "the toughest IMF bailout yet." This included draconian cuts in social spending and price-subsidies, and a sweeping privatization program.

After the outbreak of the pandemic, the PTI government pleaded for the IMF to "relax" the terms of the bailout program, but it refused. While the IMF did give Islamabad access to a special COVID assistance program, further dispersal of monies from the $6 billion loan have been stalled for the better part of two years as an increasingly unpopular government sought to avoid adding further fuel to the social-political crisis.

Pakistan's increasingly dire economic straits, however, have now given it no choice. Further assistance, whether in the form of new loans or the restructuring of existing debts, from China and Saudi Arabia is not forthcoming (or in Saudi Arabia's case at least conditional on securing IMF support), and the government has tapped out on high-interest loans from foreign commercial banks. Total external debt has nearly doubled under Khan's government and now stands at more than $85 billion.

Under the mini-budget, which was formally approved by Khan's cabinet yesterday, exemptions from the 17 percent national sales tax for essential food items and pharmaceuticals will be removed, development expenditures will be slashed by 22 percent, and prices subsidies, especially in the energy sector, will be slashed. The latter measure will mean a sharp increase in the price of petrol, other petroleum products, and heating. In total the combination of tax hikes and subsidy cuts are supposed to "save" the government—that is squeeze from working people—$3.4 billion by July 2022, and countless billions more in the years to come.

In addition to securing parliamentary approval for the mini budget, the IMF is adamant the government pass a second bill, the State Bank of Pakistan (SBP) Autonomy Bill. It will drastically reduce the government's ability to borrow from the country's central bank. This is a long-standing IMF demand, so as to curtail spending on subsidies, social-welfare measures and development projects.

The IMF has agreed to hold a review on January 12 of the government's progress in meeting its criteria for releasing a $1 billion tranche from the existing bailout loan. Unless the two bills have been adopted by then, the government will in all likelihood be prevented from accessing the funds.

The PTI, which gained power with phony promises of an Islamic welfare state and by railing against corruption and austerity, predictably made an about-face once in office. Within weeks of forming the government, it began implementing a slew of austerity and privatization measures, which were subsequently expanded as result of the negotiations to secure the 2019 IMF bailout loan. This, and its ruinous handling of the pandemic, have led to a steep fall in the PTI's popular support, and caused fissures in the PTI-led governmental coalition.

Khan intervened on Dec. 21 to prevent a parliamentary vote on the mini-budget bill after his PTI suffered major reversals in the local elections held in Khyber-Pakhtunkhwa province on Dec. 19.

The IMF wants parliament to endorse the latest round of austerity measures both to make it harder for the government to claim it lacks the political support to carry them out, and to provide a veneer of "democratic" legitimacy for imposing them in the face of popular opposition that it fears could quickly surge onto the streets.

The opposition parties' criticisms of the IMF austerity program and "reforms" are entirely cynical and hypocritical. When in office, both the Pakistan Muslim League-Nawaz and the Pakistan People's Party repeatedly imposed IMF austerity and "pro-investor" reforms.

Forming government for the first time in 2018, the PTI enhanced its credentials with the ruling elite by pushing through the privatization of a long list of state-run enterprises, destroying tens of thousands of jobs and lowering wages.

The PTI government has also extensively promoted serving and ex-military officers to major economic positions, with the aim of imposing a regime of super-exploitation with even more limited worker rights. The military itself has a long record of implementing the brutal measures demanded by the IMF whenever it has ruled the country, including under General Pervez Musharraf, who with staunch US-backing was the country's dictator-president from 1999 to 2008.

Washington has frequently used IMF bailouts to bully Pakistan and bring it closer into line with its geo-political agenda. The current negotiations are taking place under conditions of heightened tensions between Washington and Islamabad. Much of the US political and military-security establishments holds Pakistan responsible for the debacle of the two-decade long US occupation of Afghanistan. But the biggest source of tensions is the ever-closer partnership Islamabad has forged with Beijing, in response to Washington's promotion and arming of India, its principal strategic rival.