

On IMF orders, Pakistan's government imposes massive price hikes ahead of crisis budget

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At the behest of the International Monetary Fund (IMF), Pakistan's grand coalition government has increased prices for electricity, natural gas and petrol by a shocking 47 percent, 45 percent, and 40 percent, respectively.

The coalition, which is led by the rival Muslim League (PML-N) and Pakistan People's Party (PPP), assumed power in April amid a deepening socioeconomic crisis in the poverty-stricken country. It is committed to imposing brutal austerity measures in order to convince the IMF to lift the suspension it has placed on Islamabad's loan disbursements and negotiate a further multibillion-dollar emergency loan.

The devastating price increases were imposed in two rounds over the past two weeks by withdrawing energy price subsidies. In addition to the direct increase for energy and fuel, the price rises will cascade throughout the economy, triggering a further acceleration of inflation, including food prices.

All indications are that further attacks in the form of tax increases, subsidy cuts, and the sell-off of public enterprises will be included in the federal budget for the 2022–2023 financial year, which starts July 1. The budget is to be announced on Friday, June 10.

In May, Pakistan's grossly understated year-to-year official inflation rate was 13.76 percent. The *Express Tribune*, which questioned the "glaring contradiction" in official data in a June 4 article, quoted Steve Hanke, an economist at Johns Hopkins University, who termed the official figures "false." He estimated that the real annual inflation rate is as high as 38.17 percent, and that prices are currently increasing at a "staggering" 7 percent per month.

The immediate aim of the government, led by prime minister and PML-N leader Shehbaz Sharif, is to win IMF approval. In early March, the IMF suspended the release of the remaining \$3 billion of a previously agreed-upon loan after the former prime minister, Imran Khan, announced he was reinstating government subsidies for energy. The loan suspension has also effectively blocked Pakistan's ability to

raise funds from international lenders.

Despite Khan's rhetoric prior to coming power about creating an "Islamic welfare" state, he is a staunch advocate of the pro-investor, anti-working-class reforms advocated by the IMF. During his first two years in office, his government implemented two rounds of some of the "toughest" IMF-dictated austerity measures and "structural reforms" in Pakistan's history. Then, to persuade the IMF to release a further loan tranche, his government signed on to a new raft of right-wing measures in January, including curtailing and eliminating price subsidies.

After presiding over the wholesale destruction of jobs through privatization and other "restructuring" measures, Khan all but abandoned tens of millions to fend for themselves during successive COVID-19-pandemic-triggered economic shocks. His government covered up the true scale of the virus's spread and the death toll. While Pakistan, the world's fifth most populous country, has officially recorded only 31,300 COVID deaths, estimates based on excess mortality put the true figure at 700,000 or more.

Khan's sole aim in restoring energy subsidies was to prevent the mounting popular anger against the policies of his Tehreek-e-Insaf (PTI) government from exploding, amid a fresh surge in global oil and food prices, fueled by the US-instigated Russian invasion of Ukraine.

The PML-N and PPP are no strangers to imposing socially regressive policies and have repeatedly worked with the IMF during their turns in government. In his inaugural address as prime minister, Shehbaz Sharif promised a "paradise" for investment, which means ever-closer alignment with the hated "pro-market" policies demanded by the IMF.

Pakistan's ruling elite pushed hard for the new government to impose the massive electricity, natural gas and petrol increases, which removed a major obstacle to reviving cooperation with the IMF. But there is an evident sense of fear in Islamabad, because the political

establishment is well aware of the price hikes' socially explosive character.

The IMF, for its part, has made clear that the removal of Khan's subsidies is only a first step. The government has reportedly been attempting to negotiate the percentage of the deficit it must eliminate in the budget to secure IMF support. The continuing "uncertainty" over an IMF-government agreement led Moody's to recently downgrade Pakistan's economic outlook to "negative" from "stable." Earlier this week, the rupee hit an all-time low of 203.45 rupees per US dollar.

Speaking to *Bloomberg* in late May, Pakistan Finance Minister Miftah Ismail acknowledged that Islamabad's allies, including Saudi Arabia, the Gulf states, and China, rejected requests for emergency financial support. "All roads lead to the IMF," Ismail said, adding that "all of them say we need to go to the IMF first." According to reports, a loan or restructuring of an existing loan facility worth \$2.3 billion by Pakistan's "all-weather ally" China has yet to be finalized.

In the meantime, the country's foreign reserves declined to \$9.7 billion last week, roughly enough to pay for another six weeks of imports. Ismail told the press that Pakistan will have to raise a staggering \$41 billion in the next 12 months from external lenders. According to a June 7 *Dawn* report, more than half of this, some \$21 billion, will simply go to debt repayments. Nevertheless, Ismail said he was "very, very confident" the government will "soon have an agreement with the IMF."

If Ismail is confident, it is because his government's determination to comply with the IMF is essentially endorsed by the entire ruling elite. This includes the military, which wields immense power in Pakistani politics and greenlighted Khan's ouster in April, because they feared he was too unpopular to push through more draconian IMF measures and had drifted too far from Washington. The upcoming budget reportedly includes a 6 percent increase in military spending, even as ever-greater numbers of ordinary people are pushed into hunger and starvation.

This week, the government also withdrew its decision, announced with much fanfare shortly after it took the reins of power, to extend the workweek for government workers to six days. To save fuel, the workweek will revert to five days. Amid sweltering heat, in some places as high as 50 degrees Celsius or 122 degrees Fahrenheit, government-imposed power cuts last four to six hours in urban areas and over eight hours elsewhere.

The country's establishment media acknowledges the "hardship" that will befall the masses but insists there is no alternative to going to the US-dominated IMF and implementing its diktats. Media outlets argue that the

measures proposed by the government are "tough" but "necessary decisions" to prevent a crisis on the scale of that now roiling Sri Lanka. Since the 1950s, the crisis-ridden state of Pakistan's immensely wealthy ruling elite has drawn IMF loans 22 times, while Sri Lanka has done so 16 times.

Hit by a massive balance-of-payments crisis, the Sri Lankan government recently defaulted on its foreign debt. Shortages and skyrocketing prices of essentials and hours-long power outages have provoked weeks of nationwide protests against the government, with the working class increasingly coming to the fore as the decisive oppositional force in a series of general strikes.

What concerns Pakistan's capitalist elite and its media mouthpieces is not that the financial ruin, poverty and hunger now being experienced by Sri Lanka's workers and toilers will soon be inflicted on their Pakistani class brothers and sisters. Rather, the Islamabad establishment is fearful that the mass anger that has erupted in Sri Lanka, and has increasingly taken the form of a political movement against the capitalist ruling elite as a whole, will be replicated in Pakistan.

Dawn, Pakistan's most influential English-language daily, nervously opined in a June 6 editorial titled "No more perks": "It is time for a reckoning. The tinderbox of public discontent demands nothing less." The editorial urged the government to "impose highly visible, across-the-board austerity measures on the ruling elite immediately," insisting no half-measures will suffice.

Such "equality of sacrifice" would of course amount to nothing more than a charade, with any tax increases on the rich at most causing them to put off one or another luxury purchase, while ordinary Pakistanis are increasingly forced to go without one or more meals on a daily basis.

According to press reports, the government intends to allot 28 billion rupees (US\$135 million) per month to "protect the poor from the burden of petrol and diesel price hikes." Even if this materializes, it will be a drop in the ocean. Each of Pakistan's poorest 14 million families, encompassing 85 million people, would receive 2,000 rupees (US\$9.89) per family per month or 329 rupees (US\$1.63) per person. By comparison, 10 kilograms of wheat costs over 700 rupees, while a liter of petrol costs 209.86 rupees.



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