

Facing bankruptcy, Pakistan government unleashes brutal IMF austerity on flood-devastated population

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Pakistan, the world's fifth most populous country, with more than 230 million inhabitants, is teetering on the brink of financial default. Its fast-depleting foreign currency reserves are currently around \$3 billion, which is less than the cost of a month's imports. Despite the approach of general elections, Prime Minister Shehbaz Sharif and his interim coalition government are implementing the International Monetary Fund's socially devastating diktats in the hopes of convincing it to release the next tranche of a loan agreement and avert state bankruptcy.

The IMF suspended a \$1.1 billion loan tranche last September following the government's failure to meet its demands in full. Amid widespread fears within ruling circles that further austerity and privatizations could trigger a social explosion like that which erupted in Sri Lanka last April, the government last week implemented a series of preliminary measures demanded by the IMF as a condition for resuming talks.

An IMF team visited Islamabad on January 31, after the rupee was allowed to depreciate more than 7 percent in value last Thursday. By Monday, Pakistan's currency had fallen further to 270 rupees to the US dollar. At the beginning of 2022, just over 175 rupees were equivalent to \$1, meaning Pakistan's currency has lost more than 50 percent of its value in just over a year.

Petrol and diesel prices were increased by 35 rupees per litre on Sunday, reaching new record prices of 249.8 and 262.8 rupees per litre respectively. These government-mandated price rises will have a knock-on effect on the cost of food and other essentials.

In an interview with the *Financial Times* last week, Planning Minister Ahsan Iqbal voiced his fears of mass social unrest if the IMF's demands were carried out in full. "If we just comply with the IMF conditionalities, as they want, there will be riots in the streets," he said. Repeating his government's appeals for a "staggered programme" of economic "reforms" and insisting that the government is committed to the IMF, Iqbal said, "The economy and society cannot absorb the shock or cost of a front-loaded programme."

The government has also lifted curbs that it had imposed on

imports with the aim of limiting the depletion of foreign currency reserves. Domestic manufacturers had complained the curbs were self-defeating, since they adversely impacted the exports needed to earn foreign exchange.

The News reported unnamed sources had told it that the IMF is demanding 600 billion rupees in new taxes to partially recover a 2 trillion rupee "breach" in budgetary estimates. For its part, *Dawn* reported that energy subsidies are on the chopping block. Both the IMF and the government are hiding their discussions and agreements from the public.

The government is desperate for an agreement with the IMF, since all avenues of external financing have dried up, including from virtually all of its traditional allies among the Gulf monarchies. Islamabad needs \$8 billion by June for debt repayments alone. Debt obligations by 2025 stand at a whopping \$73 billion.

The interim government is also in a deep political crisis. Sharif's Muslim League (PML-N) and its chief coalition partner, the Pakistan People's Party (PPP)—both of which have long records of enforcing IMF austerity—orchestrated the ouster of Imran Khan's Tehreek-e-Insaf (PTI) government in April 2022 with the support of the army top brass and the judges of the country's highest court. During his three and a half years in office, Khan carried out two rounds of some of the most brutal austerity and "reform" measures in the country's history to secure and continue a \$6 billion bailout agreement with the IMF. He was ousted after reintroducing energy subsidies in February 2022, in violation of an IMF agreement, in the hopes of mollifying mass discontent over price hikes.

Another factor in Khan's ouster was concern among a significant section of the Islamabad elite that he was shifting Pakistan's foreign policy too far away from its traditional alliance with Washington, and towards closer ties with Russia and China. China has been blamed for the debt crisis as Pakistan owes \$30 billion to Beijing. Islamabad was ordered by the IMF to renegotiate power purchasing agreements with Chinese plants worth \$1.1 billion. Reportedly, the IMF has taken exception to Islamabad's failure to reschedule this debt. In contrast, Islamabad owes \$41 billion to international banks,

including the IMF.

Since his ouster, Khan has been able to win support among professionals and middle-class layers on the basis of anti-US rhetoric. He has blamed Washington for his ouster, and exploited the interim coalition government's implementation of hated IMF austerity. The IMF released a long-delayed tranche of its loan package last August after the new government had implemented a series of devastating cuts.

The social catastrophe in Pakistan is most starkly revealed among 33 million people affected by last summer's floods. A third of the country was inundated as an extreme heat wave provoked by climate change triggered glacial melting in the Himalayas that sent vast quantities of water plunging onto lower-lying terrain. Ten million children remain in dire need of "immediate, lifesaving support," according to the UN. It has also warned that 4 million children are still living near contaminated and stagnant flood waters, "risking their survival and wellbeing." "Nearly 15 million people in flood-affected areas need emergency food assistance, while an estimated 9 million people are being pushed into monetary poverty," the UN reported in January.

Less than half of the utterly inadequate \$816 million pledged to the UN's emergency Pakistan relief fund has materialised. The UN fears there won't be any money left beyond January to assist those in desperate need.

Last month, Prime Minister Sharif and UN Secretary-General António Guterres co-sponsored an International Conference on Climate Resilient Pakistan that was supposed to raise money to both support immediate flood rehabilitation projects and investments in infrastructure to protect Pakistan from the long-term impacts of climate change. While \$9 billion was purportedly raised, the money is expected to be made conditional on the fulfillment of the IMF agreement. "There is no free money. And everybody who pledged their contributions today will come with certain expectations," Achim Steiner, the head of the UN Development Program, said after the conference concluded.

In line with the global onslaught of finance capital, the IMF has refused to relax any of its stringent conditions even in the face of the devastation caused by the floods. Last year's flooding is estimated to have caused over \$30 billion in damage and wiped out 80 percent of the country's crops. Exacerbating the plight of the masses, the government restricted its aid spending in order to remain compliant with the IMF.

The grossly underestimated official inflation rate was 24.5 percent in December. Prices of foodstuffs in urban areas were up by a 32.7 percent annual rate and by 37.9 percent in rural areas. Economist and former finance minister Hafiz Pasha estimated that annualised inflation will hit 70 percent in case of a default and 35 percent if an agreement with the IMF is reached.

Conditions of daily life are already horrendous. One person died and several others were injured, in Mirpurkhas in Sindh

province, on January 8, in a stampede of several hundred people desperately trying to access a few truck loads of subsidized goods that had arrived in the town. They were attempting to buy a kilogram of wheat for 65 rupees, when the retail price is between 140 and 160 rupees. Large shipments are stuck at ports due to a lack of dollars to settle bills, which is contributing to price hikes.

Exacerbated by the supply chain disruption due to the global pandemic, the war in Ukraine, and unrestrained price gouging by large corporations, skyrocketing prices have worsened widespread food insecurity and hunger in Pakistan. The vast majority of workers and rural toilers cannot make enough to even pay for food. A daily wage worker earns between 15,000 (\$56) and 20,000 (\$75) rupees a month and in most cases must feed an extended family. In most areas of the country, a graduated teacher of a government school might make 22,000 (\$82) to 30,000 rupees (\$112) a month.

Aiming to cash in on the growing popular hostility to the government, Khan and the PTI are intensifying their demands for an early general election. In January, the PTI withdrew from provincial governments in Punjab and Khyber Pakhtunkhwa, forcing snap elections for both provinces, which must be held within 90 days. Punjab was the traditional power base of the PML-N, but the big-business party synonymous with IMF austerity has lost in all by-elections held since assuming national office in April.

The 12-hour power outage that affected the entire country on January 23, the second grid breakdown in three months, further discredited the government. The outage was attributable to aging and outdated infrastructure.

Regardless of which of the three main parties have held power, they have all propped up and bowed to the most powerful institution in the country, the US-backed Pakistan army. Pakistan's ruling elite has a long history of resorting to brutal military dictatorships whenever it feels its grip on power challenged by opposition from below.

Without the IMF's blessing, Pakistan can hardly raise a dime. And without Washington's approval, the IMF will not talk to Islamabad. In comments to the *Dawn* last month, an unnamed US government official insisted that Islamabad must implement the pro-global investor reforms demanded by the IMF. "To put Pakistan on a sustainable growth path and restore investor confidence, we encourage Pakistan to continue working with the [IMF] on implementing reforms, especially those which will improve Pakistan's business environment," the official told the newspaper.



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