

# Pakistan economy unravels as IMF imposes ever harsher conditions

**Sampath Perera**  
10 March 2023

Even as Pakistan's government implements brutal International Monetary Fund-dictated austerity measures, the US-dominated international lender is pushing for even more sweeping "reforms" before allowing Islamabad access to a previously agreed tranche of \$1.1 billion from a 2019 loan.

While the country is on the verge of state bankruptcy, its impoverished population is subjected to systematic hunger and destitution due to the impact of decades of austerity, last summer's devastating climate-change driven floods, and soaring prices. All indications are that the conspiratorial "negotiations" between the IMF and Islamabad are being used to pressure Pakistan to undertake a geopolitical realignment away from China and towards reviving its long-standing but recently strained partnership with US imperialism.

An IMF delegation visited Islamabad between January 31 and February 9. However, instead of the visit concluding with the release of desperately needed funds, IMF officials demanded that the highly unpopular interim coalition government led by Shehbaz Sharif further increase electricity prices and raise interest rates. These measures would further exacerbate the catastrophic social crisis facing the country's 230 million people.

According to IMF official Esther Perez Ruiz, Pakistan must also present "firm and credible assurances that there is sufficient financing to ensure... (its) balance of payments is fully financed." The IMF insists that there is a \$7 billion gap in financing, while Islamabad asserts that the gap is only \$5 billion for the fiscal year ending in June.

The IMF's fresh demands come as the agency has imposed a de facto embargo on virtually all external financing options for Islamabad, including from its traditional Gulf allies of Saudi Arabia and the United Arab Emirates. Islamabad had a reprieve from this Catch-22 situation last week when China extended a \$2 billion loan. The reason for Beijing's policy shift remains unclear, but in welcoming it Pakistani political leaders and opinion-makers were quick to reiterate that China is the country's "all-weather friend." The Chinese government had previously indicated that an agreement between Islamabad and the IMF would be essential for the provision of further financial assistance.

On Feb. 28, the global rating agency Moody's lowered

Pakistan's credit rating by two more notches to "Caa3," reportedly the lowest in three decades. It cited the country's "increasingly fragile liquidity and external position" by way of explanation. Pakistan lacked the funds to pay for three weeks of imports, it added.

The current impasse has nothing to do with any reluctance on Islamabad's part to impose ruthless austerity measures. Former prime minister Imran Khan's government was promptly removed in April 2022 after he reversed IMF-demanded subsidy cuts in the face of country-wide protests. Khan had previously implemented two rounds of some of the toughest austerity in the country's history. In the final year of his government, Khan shifted the country's foreign policy towards a closer alliance with Russia and deepened ties with China, prompting concern and anger in Washington.

Sharif's Muslim League (PML-N) and the People's Party (PPP) assumed power in a coalition with the approval of the military, long the most powerful political actor in the country and the linchpin of the alliance between the Pakistani bourgeoisie and US imperialism. The express aim of the new government was to implement IMF austerity, which it has done. As soon as it took office, it worked to patch up ties with the US. While Khan initially accused the US of involvement in his ouster, he has since repudiated this claim as a means to curry favour with Washington, placate the military, and pave a path for his potential return to power.

Khan is attempting to exploit the popular opposition to ruinous IMF reforms and seething anger against Islamabad's decades-long reactionary partnership with US imperialism that has led the country from one disaster to another. He is cynically posturing as an opponent of IMF austerity and US bullying and wars. The government, meanwhile, is attempting to implicate Khan in a politically motivated corruption scandal. With an arrest warrant from a court hearing pending, his supporters rallied in Lahore this week to demand early general elections. Armed with an anti-democratic ban on public gatherings imposed by the provincial government, the police attacked Wednesday's rally and killed at least one Khan supporter.

The ruling elite is increasingly concerned that the political turmoil and social crisis could escape its control, resulting in the development of mass opposition to its ruthless austerity

measures like last year's popular upsurge in Sri Lanka that forced president Rajapakse to flee.

A March 1 report in the widely read English language daily *Dawn* cited unnamed officials who compared the current impasse with the IMF to a "1998-like situation," when Islamabad was sanctioned for carrying out nuclear weapons test, and claimed that "foreign capitals (are) working for Pakistan's 'meltdown.'" According to one official, "This time some powers had Pakistan's missile programme in mind."

Neither the quoted officials nor *Dawn* named the countries being referred to. However, the only plausible candidate is the US, which not only dominates the IMF but has a record of ruthlessly leveraging it to advance its geostrategic aims.

Pakistan remains under constant pressure from the US for its increasingly close economic and defence partnership with Beijing. Washington publicly opposes the strategic \$66 billion China-Pakistan Economic Corridor initiative, which it denounces as the cause of Islamabad's debt crisis. Washington's determination to escalate the war against Russia in Ukraine is intimately connected with its advanced preparation for war against China, which American imperialism views as its chief strategic rival.

On March 2, the US Commerce Department's Bureau of Industry and Security blacklisted 14 "entities" in China and Pakistan for "contributing to ballistic missile programs of concern," including Pakistan's missile program, "and for involvement in unsafeguarded nuclear activities." While this is not the first time such actions have been taken against Pakistani entities, these measures are always aimed at bullying Islamabad to line-up with Washington's geostrategic agenda.

Prominent PPP leader Raza Rabbani, once a close aide to the assassinated former prime minister Benazir Bhutto and a longstanding member of Pakistan's senate, demanded on Monday that Sharif explain the "pressures" Islamabad is coming under to a joint session of the parliament's lower and upper houses. Rabbani questioned "if our nuclear assets are under pressure" and demanded to know "if our strategic relationship with China is under threat or we are being called up to play [a] role in the region which will facilitate the military presence of an imperialist power." Rabbani also wanted to know the reason for the "reluctance of friendly countries" to assist Islamabad.

It is worth recalling that in June 2021 Prime Minister Khan, questioned by an HBO Axios interviewer on the stationing of the CIA in Pakistan, declared, "There's no way we're going to allow any bases or any sort of action from Pakistani territory into Afghanistan. Absolutely not."

Another noteworthy development was Pakistan's statement last month denying reports that it is supplying "defence items" to Ukraine. Due to its close Cold War alliance with Washington, during which it armed Islamist fighters against the Soviet forces in Afghanistan, and later as an ally of the fraudulent "war on terror," Pakistan is armed with US fighter

jets, artillery, and other military equipment. Pakistan's military maintains relations with Washington independently of the civilian government.

Pakistan has developed a range of "strategic" nuclear weapons and nuclear-capable missile systems in addition to an arsenal of "tactical" nuclear weapons to compete with its geostrategic rival India.

The crisis of Pakistan's bankrupt capitalist economy is hardly unique. It has been exacerbated by the continuing ravages of the global pandemic and the inflationary pressure around the world resulting from the ongoing war in Ukraine. Despite having made no contribution to this crisis, the working people and the poor, who encompass the overwhelming majority of Pakistan's population, are encountering a social catastrophe of unprecedented scale.

Before the country's central bank, the State Bank of Pakistan (SBP), raised its trend-setting policy rate by an unprecedented 300 basis points to 20 percent in response to IMF demands, the rupee was in a tailspin, falling to over 278 rupees per dollar on March 2. While it subsequently recovered somewhat, a further devaluation is likely due to the IMF demanding the "free floating" of the currency. For comparison, the rupee stood at 179.5 per dollar in March 2022.

Prior to the devaluation of the rupee, the understated official inflation rate was recorded at 31.5 percent, the highest since 1975. The rate stood at 41.07 percent last week when the prices were compared to the same week of the previous year.

In addition to crushing inflation, the brutal austerity program is being imposed on top of the unprecedented level of devastation caused by last summer's floods that inundated one-third of the country, producing \$30 billion in damage. A total of 30 million people were directly impacted.

*Dawn* quoted Muhammad Khan, a cart pusher in an industrial market in Lahore, who said his earnings barely allow him to provide his family with two meals a day. "With a family of six, we need at least 20 rotis [a round flatbread native to the Indian subcontinent] twice a day, which cost a staggering 600 rupees [at a rate of 15 rupees each]... basic family meals cost me more than 1,000 rupees a day (\$3.63) and I cannot make that kind of money every day given my age and health," he said.

Niaz Ahmed, a loom worker from Faisalabad, said, "Falling ill, especially to any life-threatening ailment, is almost a death sentence for a poor [person] now." The report contrasted the 25,000 rupees (\$90.69) monthly minimum wage to unprecedented price hikes in all essentials, the increasing joblessness and added, "Even normal medicines are out of the middle-income group's reach."



To contact the WSWs and the Socialist Equality Party visit:

**[wsws.org/contact](https://www.wsws.org/contact)**