Pakistan on the brink of default as IMF pushes for still more austerity

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The government of Pakistan, the world's fifth most populous country, is desperately attempting to secure the release of at least a portion of the remaining $2.5 billion of a previously approved International Monetary Fund (IMF) bailout loan package, which expires June 30.

Prospects for an agreement suffered a major blow earlier this month, when the IMF sharply criticized the budget for the 2023/24 financial year that the government presented June 9, and demanded further austerity.

Esther Perez Ruiz, the IMF's resident representative, said the budget "misses an opportunity to broaden the tax base in a more progressive way" and questioned the introduction of "a long list of new tax expenditures." The widely hated financial institution, which demanded the government slash social spending even amid last summer's catastrophic floods that impacted 30 million people and inflicted tens of billions of dollars in damages, feigned sympathy for the poor, saying the budget "undercuts the resources needed for greater support for the vulnerable."

The Islamabad elite's attitude to Pakistan's workers and poor is characterized by indifference and contempt, which is confirmed by the latest budget proposal. However, the IMF's long history of using the country's perpetual economic crisis to demand brutal austerity measures, privatization and other pro-investor reforms is a crucial factor behind the unprecedented level of social crisis engulfing its 240 million, overwhelmingly impoverished inhabitants.

Negotiations on the loan tranche have been dragging on since November. Observers believe that the chances of an agreement with the IMF before the loan permanently expires at the end of this month are virtually nil. The government—a coalition of the Pakistan Muslim League (Nawaz) and the Pakistan People's Party or PPP—has complained that the IMF has repeatedly shifted the "goal posts" for it accessing the bailout loan despite it agreeing to and imposing the US-dominated agency's savage austerity diktats.

Pakistan's bankrupt economy is surviving on increasing debt, but without the approval of the IMF any further financing options threaten to disappear. All that Finance Minister Ishaq Dar has said is that he has "a plan" should Islamabad prove unable to secure the release of the IMF funds.

An analyst at the credit rating agency Moody's found "increasing risks" of Pakistan becoming "unable to complete the IMF programme," and said the country's "financing options beyond June are highly uncertain." "Without an IMF programme, Pakistan could default given its very weak reserves," the analyst said.

The country's foreign currency reserves are currently hovering around $4 billion, barely enough for a month of imports. The government has already slashed import costs by halting the import of essential supplies, like some medicines, and even stopping the import of materials critical to export-oriented industries, causing thousands of job losses. In contrast, Pakistan's loan commitments for the coming financial year alone are beyond $22 billion.

Finance Minister Dar has blamed "geopolitics" for the "unnecessary delay" in the IMF's approval of the release of the final two loan tranches. Claiming that "foreign powers" want Pakistan to default like Sri Lanka, Dar declared, "IMF or no-IMF, Pakistan will stay, and will not default."

While Dar did not directly accuse the US, which dominates the IMF, of using the negotiations to pressure Islamabad, he added "China realised the geopolitics behind the unnecessary delay, and its commercial banks agreed to roll over loans to Pakistan."

The remaining financing options for Islamabad are the Gulf monarchies and its "all-weather ally" Beijing. China, Saudi Arabia and United Arab Emirates have provided loans to buoy the Pakistan economy, including during the present crisis, but are wary of continuing their support for fear of throwing good money after bad.

However, it is becoming increasingly evident that the issues surrounding the IMF loan go beyond its demands for austerity and "pro-investment" measures. They are inseparably bound up with Pakistan's deepening foreign policy crisis.

The US-dominated lender has been a tool in the hands of Washington to extract geopolitical and economic concessions in the past. While the IMF demanded to know the details of loans related to the strategic China-Pakistan Economic Corridor infrastructure development project, which Washington bitterly opposes, it maintains strict secrecy over its closed door negotiations with the government.

As the negotiations with the IMF dragged on, a prominent Pakistan senator demanded to know in March if Islamabad's nuclear arsenal was "under pressure" and its strategic partnership with China "under threat." In February, Pakistan issued a statement denying reports that it is supplying "defence items" to Ukraine, indicating the country is coming under pressure to become part of the weapons supply chain to the US-led NATO war against Russia in Ukraine—if it has not already done so covertly.

The coalition of big-business parties led by the Muslim League (PML-N) ousted former Prime Minister Imran Khan's Tehreek-i-Insaf (PTI) government in April 2022, after the military withdrew its support for Khan. It and much of the Pakistani ruling class soured on Khan because, after imposing round after round of IMF-dictated austerity, he bowed to public pressure and restored some energy price subsidies. They were also concerned that he was jeopardizing what remains of the traditional US-Pakistan alliance by courting Russia at the outset of the Ukraine war.

The new government has sought to mend fences with Washington and the Biden administration has made some small gestures of encouragement. Nevertheless, as the stalled IMF negotiations indicate, Islamabad seems to have hit a brick wall as to any substantial improvement in its relations with a US intent on ratcheting up its all-rounded strategic offensive against China and using India as a main instrument to do so.

The budget for the 2023-24 fiscal year, which begins July 1, calls for total outlays of 14.46 trillion rupees or $50.45 billion.

More than half of the total budget or $25.4 billion is given over to repaying debts. This amid an unprecedented social crisis produced by the brutal austerity measures, last summer's floods, raging inflation and the job losses triggered by the economic crisis as well as the global pandemic.

The damages of last year's climate-change linked floods were estimated at a staggering $30 billion. At least 9 million people out of the 33 million affected were pushed into poverty, if the conservative estimates of the agencies involved are to be believed. The utterly inadequate UN fund of $816 million set up in October was merely 30 percent funded as of March, indicating near non-existence of support for those affected. Pakistan was also named a hotspot in the global hunger risk ranking. According to another estimate, 42 percent of all children under 5 are stunted due to lack of nutrition.

The big-business government, however, insisted its priority is to meet its debt obligations. Dar assured that Pakistan is not seeking debt restructuring or a "haircut," meaning a reduction of interest payments or other concessions, from the Paris Club of multilateral lenders. He said the government is talking to bilateral lenders to seek potential debt restructuring, which will include China, Saudi Arabia and United Arab Emirates.

As a result of the IMF driven policies, especially the elimination of energy subsidies, the inflation rate has risen to 38 percent as of May, making it increasingly difficult for many families to even provide for two meals per day. A second factor causing an increased cost of living is the devaluation of the rupee by at least 20 percent during this year alone. A mandatory condition of the IMF loans is free-floating exchange rates, regardless of their impact on the population.

The increased allocation to development projects and the pay hike between 30 and 35 percent for government employees and retirees contained in the budget are motivated by the fear of growing social opposition. Both the PML-N and PPP are projected to be routed in the general elections due by November, if they are actually held.

The IMF has indicated that these allocations will need to be curtailed, if not scrapped entirely, if Islamabad is to access the long-delayed next loan tranche in the emergency bailout program set to expire at the end of next week.

In an editorial statement, *Dawn*, which speaks for powerful sections of Pakistan's capitalist elite, lamented, "The government has failed to turn a crisis into an opportunity." It called for the privatization of "loss-making" state-owned enterprises and criticised the token social welfare and development measures. "If the government thinks it can revive the competitiveness of a broken economy and stimulate growth through large but borrowed development stimulus and the distribution of freebies," declared the *Dawn*, "it is mistaken."

The popularly despised military will also receive a big chunk of the budget—12.5 percent of the total outlay and what amounts to a 16 percent increase from the last budget.

In recent weeks, the military and its intelligence arm have been busy denouncing the PTI for not playing according to the "rule book." It has erected kangaroo-style military-run courts to try civilians who purportedly attacked military installations during the nationwide protests that erupted against the May 9 seizure-arrest of Khan by paramilitary personnel from the premises of the Islamabad High Court. Prominent government ministers are already arguing that Khan, who is currently on bail, should face a military court.

While the PTI is in disarray, a new party has been formed at the instigation of factions of the ruling elite, the Istehkam-i-Pakistan Party or Stable Pakistan Party. Its leading representative is Jahangir Khan Tareen, who was once regarded as something of a hero by the PTI and is one of the country's powerful sugar barons. The new party is expected to attract many notables, including former supporters of the dictator Musharraf, who joined Khan's PTI and quickly assumed leadership positions in the run-up to the 2018 elections. At the time, the military sent clear signals that it was intent on paving the way for Khan to take office, supplanting the PML (N) and PPP, the two parties that had dominated Pakistani electoral politics for the previous three decades.

Khan is a right-wing Islamist politician, hostile to the working class and rural poor. Indeed, he implemented two rounds of some of the toughest IMF austerity measures in Pakistan's history prior to being removed from office. He also was seen as having generously rewarded the top generals for their widely acknowledged behind-the-scenes role in his 2018 electoral victory by granting them positions of economic power and conceding them further political authority.

In its June 15 editorial, *Dawn* warned the elections slated for this fall maybe delayed, as both the government and military fear a backlash against the political elite that will impede the quick implementation of their plans to increase the profitability of Pakistani capitalism through mass social spending cuts and privatization.

"Another factor complicating matters is the untouchable power that has taken over the wheels of the political omnibus from the current dispensation," said the *Dawn*, referring to the military's power as the final arbiter over government policies and personnel. According to the statement, the government is deliberating on a "workaround" to the constitutionally-mandated election schedule that involves imposing a "'planned' emergency."