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Pakistan

The IMF deal and its critics

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Pakistan is on the precipice of a financial crisis. The population struggles to cope with ever-dwindling purchasing power, foreign reserves dwindle, inflation soars, and the country faces widespread unrest. Tensions are high as forthcoming elections loom, adding to the uncertainty. The administration is balancing on a financial, economic, and political tightrope while increasing questions are asked about civilian rule's future. The situation is in danger of escalating into a humanitarian calamity akin to what occurred in Sri Lanka in 2022.

According to *Dawn*, *"in February this year, annualised food inflation shot up to 41.9 per cent in urban areas and 47 pc in rural areas of Pakistan. In February last year, these readings stood at 14.3 pc and 14. 6pc, respectively. This means that food inflation — or the pace of increase in the prices of food items — has more than tripled in just one year."*

In April 2023, Pakistan's reported foreign exchange reserves were hovering at $4 billion, insufficient to pay even one month's import bill.

This enormous external debt places significant repayment pressure on the country. Pakistan is required to repay $77.5 billion in external debt between April 2023 and June 2026. This is a significant burden for a $376 billion economy. The biggest repayments will be made to Chinese financial institutions, private creditors, and Saudi Arabia during the following three years. Pakistan had $126.3 billion in external debt and liabilities as of December 2022. Nearly 77% of this debt, or $97.5 billion, is owed directly by the government of Pakistan to various creditors; an additional $7.9 billion is owing to multilateral creditors by government-controlled public sector firms.

Current Account deficit

According to State Bank of Pakistan data issued on May 17, the economy posted a current account surplus for the second consecutive month in April, reducing the existing fiscal year's current account deficit by a staggering 76% to $3.3 billion in July-April compared to the same period previous year.

The reduction was caused by a $13.5 billion decrease in imports, a direct result of the 2022 import ban on luxury items and non-essential raw materials. While it may appear to be encouraging, the country's current account advantage may actually be detrimental.

The initial impact of the raw material import prohibition was in the manufacturing sector, which accounted for 19% of GDP in 2022. According to Pakistan's Ministry of Finance's April Monthly Report, the Large-Scale Manufacturing (LSM) sector decreased 5.56% between July 2012 and February 2023, compared to a 7.8% expansion during the same time last year. Atif Rehman Mian, a Pakistani-American economist at Priceton University, opines that the government's restrictions on imports of raw materials needed for production and export will eventually cut the country's production, and a lower GDP will make it more difficult to pay off the debt, leading to more devaluation and more misery.

Currency depreciation, in fact, has the terrible ability to increase industrial prices and diminish the intensity of capacity utilisation. In truth, the Pakistani Rupee has been progressively losing value in relation to the US dollar in recent years.

IMF bailout

The International Monetary Fund's (IMF) enters the stage in this setting as the supreme saviour. On July 12, 2023, the IMF Executive Board agreed a 9-month Stand-By Arrangement (SBA) for Pakistan in the sum of SDR2,250 million (about $3 billion, or 111 percent of quota) to assist the authorities' economic stabilisation programme.

The agreement of the Executive Board allows for an immediate disbursement of SDR894 million (about US$1.2 billion). The remaining funds will be phased in throughout the course of the programme, with two quarterly evaluations. Subsequent to the Executive Board discussion, Kristalina Georgieva, Managing Director and Chair, made the following statement: *"Pakistan's economy was hit hard by significant shocks last year, notably the spillovers from the severe impacts of floods, the large volatility in commodity prices, and the tightening of external and domestic financing conditions. These factors together with uneven policy implementation under the EFF combined to halt the post-pandemic recovery, sharply increase inflation, and significantly depleted internal and external buffers. The authorities' new StandBy Arrangement, implemented faithfully, offers Pakistan an opportunity to regain macroeconomic stability and address these imbalances through consistent policy implementation."*

An upbeat Shehbaz Sharif, Pakistan's Prime Minister, said the bailout was a significant step forward in attempts to stabilise the economy. "It bolsters Pakistan's economic position to overcome immediate to medium-term economic challenges, giving next government the fiscal space to chart the way forward." The country's Finance Minister, Ishaq Dar, felt that "things are now moving in the right direction."

According to Lahore-based economist Ali Khizr,, *"the currency and inflation could have gone out of control" had the government and IMF not reached this agreement.* He also said, *"the absence of foreign exchange could have resulted in massive shortages of fuel, food, medicine and other items. Things are likely to improve now – as the currency will stabilise and inflation will slowly come down in the short to medium term."*

Dissent from the ground

However, not everyone in the country or overseas shares this upbeat outlook. Abdul Khaliq, CADTM Pakistan, observed that the latest financial lifeline – and its reliance on hardline countries for support – wouldn't spur political reforms needed to enable stability. He further said, *"Pakistan has sought a bailout agreement with the IMF desperately, but it is not a way out of the crisis. The policies funded by the Fund have worsened Pakistan's food and energy dependency and insecurity, increased inequality and reinforced the trend towards an authoritarian regime. A comprehensive debt relief followed by establishment of parliamentary Debt Audit Commission would be helpful to get Pakistan out of this worst economic crisis."*

In this context, it is important to note that, since 1958, 11 years after the birth of the nation, Pakistan has entered into 22 agreements with the IMF. Since the government borrowed to deal with worldwide oil price rises in the 1970s, Pakistan became heavily indebted. People have suffered as a result of the massive external debt ever since. Successive administrations have sought IMF rescue assistance on an ongoing basis. These bailout loans have ensured that debt carries down through generations, providing the IMF immense leverage over Pakistan's progress through the economic conditions imposed on the country.

Lending and grants have also been used to assist Western-backed military regimes in Pakistan, such as those of General Musharraf (1999-2008) and Zia-ul-Haq (1977-1988). Earlier, IMF loans were liberally granted to the General Ayub Khan regime (1958–1968). This raises concerns about the odious nature of a significant portion of Pakistan's external debt.

Tess Woolfenden, Senior Policy Officer Head of Policy at Debt Justice remarked, *"the IMF is continuing to follow its flawed strategy of bailing out previous lenders, while forcing austerity on the people of Pakistan. This perpetuates Pakistan's decades long debt crisis, which is worsening because of the impacts of climate change caused by rich people, such as 2022's devastating floods. Instead, Pakistan needs debt cancellation from all its creditors, alongside grant based finance to cope with the impacts of climate change."*

Indeed, debt-ridden Pakistan will become the world's fourth largest IMF borrower after getting a new loan of USD 3 billion over the next nine months under a standby agreement with the global lender. Pakistan, which is experiencing its worst economic crisis in history, was earlier rated fifth in the list of countries with the largest borrowing from the Fund on March 31, 2023.

A large portion of Pakistan's debt, almost $45 billion, is owed to multilateral organisations. The World Bank ($18 billion), the Asian Development Bank ($15 billion), and the IMF ($7.6 billion) are Islamabad's biggest multilateral creditors. Pakistan also owes considerably to the Islamic Development Bank and the Asian Infrastructure Investment Bank.

Farooq Tariq, General Secretary of the Pakistan Kissan Rabita Committee, a network of 26 peasant organizations feels that while the government has been spared for the moment, but not its people. According to him, *"The IMF conditionalities imposed on Pakistan may not have parallels internationally. The IMF has exerted significant influence over the Pakistani ruling class, requiring them to comply with every demand. This situation is also influenced by the geopolitical dynamics at play, with China being Pakistan's largest economic partner. Through the Pakistan-China Economic Corridor (CPEC), China has invested over $25 billion, out of a promised $60 billion, in Pakistan, primarily in the form of loans. The IMF feared that Pakistan might utilise the IMF loans to repay the Chinese debts.*

Despite last year's devastating floods, which resulted in a loss of $30 billion, the strict IMF conditionalities have been enforced without considering these challenges. The government has failed to adequately rehabilitate flood victims, with over 4 million people still residing in roadside camps. Furthermore, the promises made to Pakistan at COP 27 under the "loss and damage agreement" have yet to materialise."

A hike in power tariffs followed hard on the heels of the agreement. The IMF has reportedly ordered Pakistan to raise power and gas prices. According to the agreement, Pakistan's monetary policy must be tight in order to reduce inflation in the country. Needless to say, the Fund applauded Pakistan's hike in interest rates. It has recommended that Pakistan gradually reduce subsidies in the power industry as well as salaries and pension costs. Pension reform is also one of the major priorities for the IMF.

While Pakistan has averted an imminent default, Farooq Tariq adds : *"the state has already defaulted in various aspects. The Covid-19 pandemic led to an increase of 20 million people living below the poverty line, and the recent austerity measures implemented by the government since April 2022 have added another 10 million to that count. While there was a 35% wage increase for public sector employees (who had demanded a 100% increase), no relief was provided to workers in the private sector. According to a conservative estimate by the World Bank, the poverty rate in Pakistan is expected to reach 37.2 percent ($3.65 a day)."*

According to Oxfam, the country's top 1% is wealthier than the bottom 70% of the population. This wealth disparity has far-reaching ramifications for the country's economic and social development. The statistics and figures on wealth inequality in Pakistan are mind-boggling. According to a World Inequality Database analysis, the top 10% of Pakistani households earn 42% of the country's income, while the lowest 50% earn only 13%. This means that the richest households in Pakistan earn more than three times as much as the lowest. When it comes to wealth rather than income, the issue is much more pronounced. According to the Oxfam research, the top 1% of Pakistani households own 21.9% of the country's wealth, while the lowest 50% control only 4.4%. This means that Pakistan's wealthiest households have more than five times the wealth of the poorest households. These wealth and income discrepancies have serious implications for the country's economic and social development. The IMF accord will almost certainly not help the country improve its predicament.

Instead of focusing on the people they govern, successive governments and regimes have ironically shifted the debt load onto Pakistan's working classes, as dictated by international financial organisations. Sadly enough, these have made the lives of ordinary folks more miserable.

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Source CADTM.

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