

The IMF Is Using the Debt Crisis to Hollow Out Pakistan's Sovereignty

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Imran Khan's government came to power in 2018 promising to reorient Pakistan's economy toward the needs of the population. But faced with a debt crisis it soon dropped its reformist agenda — and now, the International Monetary Fund is pressuring it to place its State Bank permanently beyond democratic control.

As the COVID-19 crisis continues to wreak havoc, at the end of March UN Secretary General António Guterres called for “decisive action” to avert the developing world's deepening debt crisis. He warned that the previous debt obligations of poor countries were fast maturing, threatening to prolong the economic crisis. African governments alone owe \$23.4 billion in repayments to financial institutions this year, notwithstanding current pressures — signaling the scale of the economic burden imposed on poor nations across the globe.

The kind of future in store for the developing world can be gauged by the sweeping financial reforms being imposed by the global financial technocracy in Pakistan. A poor country struggling to meet the basic needs of its people, under the pressure of the pandemic its creditors are now being forced into a financial arrangement that will erode any semblance of democratic control over the country's economy.

IMF Stranglehold

Imran Khan's Pakistan Tehreek-e-Insaf (PTI) government came to power in August 2018 promising to break the “begging bowl” of the International Monetary Fund and reorient the economy toward meeting the development needs of the public. However, a mounting balance-of-payments crisis inherited from the previous government, as well as economic mismanagement in the first few months under the new administration, forced the country back to the IMF in April 2019.

Pakistan signed a punishing deal the following month, which demanded massive austerity, including cuts to social and development spending, in exchange for a loan of \$6 billion over three years. Finance minister Asad Umar, who had been vocal in his criticisms of the IMF in the past, was forced to resign, and replaced by Hafeez Shaikh.

Upon his appointment, Shaikh was widely viewed as a representative of the international financial technocracy in Pakistan. Under the military dictatorship of General Musharraf, he had worked as Sindh province's finance and planning minister, and was later appointed federal minister for privatization. He also served as finance minister under the Pakistan People's Party government (2008–2013), overseeing the implementation of a tough IMF program, which was heavily criticized at the time by Imran Khan for its negative impact on ordinary Pakistanis.

Shaikh was working at the World Bank in 2019, before he made his spectacular return to office as Khan's finance minister. To further ensure that Pakistan's economic policy obeyed the diktats of international financial institutions, the former IMF country representative in Egypt, Raza Baqir, was

appointed governor of the State Bank of Pakistan. It was clear that both the manifesto of the ruling party and the aspirations of the people had been torpedoed to hand over key decision-making to bureaucrats nurtured by the global financial oligarchy.

The measures introduced by the new economic team soon led to an unprecedented contraction in the economy. Pakistan's GDP growth rate plummeting to -0.4 percent, the first time it had fallen below negative in seven decades. The devaluation of Pakistani currency created massive inflation, rising from 3.93 percent in 2018 to 10.74 percent by 2020.

The program also imposed austerity measures such as a whopping 40 percent budget cut to higher education, while plans to privatize the health sector were also set in motion last year. Under IMF pressure, Pakistan was forced to reduce subsidies on utilities as well as to cancel the yearly increments of wages for public sector employees.

This structural adjustment program was not implemented without resistance. Indeed, the result over the last two years has been an unprecedented rise in labor and student militancy. For example, in November 2019 student mobilizations in dozens of cities shook Pakistan, as thousands of students denounced the rising costs of education as well as rampant sexual harassment on campuses.

Similarly, government employees staged two large sit-ins in the capital Islamabad (in October and December 2020), while teachers also staged countrywide protests against job insecurity in December 2020. More dramatically, a farmers' alliance staged a tractor march to Punjab's provincial capital of Lahore, highlighting the breadth and depth of the discontent boiling up across the country.

Having already limited its own capacity to intervene in financial matters, in line with the IMF conditions, the government responded to these demonstrations with brute force. Organizers of the student movement were charged with sedition, and the government suffocated the peaceful protests of teachers and government employees in clouds of tear gas.

The most horrific incident occurred at the farmers' protest, where the police used [water mixed with chemicals](#) against the demonstration, leading to the tragic death of farmer leader Ashfaq Langrial. The repression highlighted a new normal in which decisions imposed by technocrats would not only be rubber-stamped by elected governments but would also have the violent backing of the coercive state machine.

A Financial Coup

Pakistan's economy, much like in the rest of the world, has been ravaged by the COVID-19 pandemic. Millions of people were forced out of work when the government imposed a lockdown in March 2020 due to mushrooming cases of the virus. A recent report by the Mahbub ul Haq Center shows that unemployment rose by 34 percent, while mean income fell by a massive 42 percent. By November 2020, three million workers still had not regained employment, whereas the average income remained 5.5 percent below its pre-lockdown level. The sustained unemployment and rising inflation were emblematic of the struggles faced by ordinary people across the country.

However, some of the most deleterious effects of the crisis were mitigated by the intervention of the government, which issued a relief package of 430 billion rupees (roughly \$2.78 billion) as part of the Temporary Economic Refinance Facility (TERF) provided by the State Bank at government instigation. The package was used to inject liquidity into the economy and boost industry. A similar package was announced to offer partial relief to workers rendered jobless after the lockdown — highlighting the importance of public spending during a crisis.

However, today the IMF is pushing Pakistan's government to make its State Bank "independent" of

democratic politics through an act in Parliament. Termed the State Bank Amendment Bill, the proposed legislation purportedly aims to protect the bank from “political interference” in order to ensure that the country can service debt and maintain price stability at manageable levels. Yet, the bill entails the complete erasure of the country’s economic sovereignty — with potential disastrous consequences for working families in Pakistan.

The bill stipulates that the government will no longer be able to acquire facilities such as TERF or borrow money from the State Bank to support local banks, placing serious constraints on the state’s capacity for public investment. As a result, the government will be forced to seek loans from commercial banks at higher interest rates to pay its pending bills, compounding rather than resolving Pakistan’s debt problem in the long term. Furthermore, the bill sets price and financial stability as its primary and secondary objectives respectively — pushing development to a “tertiary” objective.

So, while countries in the developed world are pushing “stimulus” packages to jump-start the economy, Pakistan will face increasing constraints in shaping its monetary policy to facilitate badly needed investment for providing essential services and jobs to citizens. In a country where over a million young people enter the job market each year, a prolonged recession threatens not only economic stability but social breakdown.

Despite the prevailing crisis, the government has announced its plans for an unprecedented hike in power tariffs of Rs. 5.65 per unit. Starting in July, the move will hit ordinary consumers with a 36 percent electricity price increase and aims to squeeze an extra Rs. 884 billion (\$58 billion) this year in order to generate revenue for repaying foreign loans, revealing the extractive nature of the IMF’s prescriptions.

Removing decision-making from even notional democratic control, the bill will stop the government from appointing its own representative to the bank’s board of governors and prevents Pakistan’s legal institutions from holding board members accountable for their actions.

This blatant disregard for public or juridical scrutiny is supplemented by the directive in the bill that stipulates that the bank will have the responsibility of servicing the country’s foreign debt “without reserve to the government” (i.e., without being answerable to the elected government). If the bank does not possess enough resources to meet the country’s debt obligations, it will “request” the government to transfer funds “within a period not exceeding 30 calendar days.”

These amendments thus reflect yet another clear case of a Third World country being forced to abdicate its responsibility toward the public, conform to the dogmas of neoliberal orthodoxy, and reorient its priorities to meet the impossible demands of predatory creditors.

It’s About Democracy

While the bill is still pending approval in Pakistan’s parliament, the prime minister dismissed Hafeez Shaikh as finance minister on March 29 due to growing concerns over inflation — creating more ambiguity over the country’s economic direction. The growing financial chaos is emblematic of the dire future confronting debt-stricken nations across the world.

These crippling financial constraints suggest that, while the United States is imagining a “return to normal” by the end of the summer, most poor countries will continue to face a burgeoning health crisis for years to come. In Pakistan, less than even 1 percent of the population has been vaccinated, while the slow pace of the vaccination drive has opened up a private market for vaccines at the exorbitant rate of Rs. 12,000 (roughly \$80 per person).

This is especially damaging in a country whose public health infrastructure was crumbling even before the pandemic arrived. According to the World Health Organization, 40 percent of deaths in Pakistan owe to waterborne diseases such as typhoid and hepatitis, while dengue fever and malaria remain common.

A [recent article](#) in the *New York Times* noted the rapid spread of HIV among children in the Sindh province of Pakistan, making the country an emerging hot spot for the disease. Sindh is ruled by the federal government's opposition, the Pakistan People's Party, whose mismanagement has exacerbated the crisis. This indicates that the social crisis has deepened to the extent that it can no longer be associated with a single party, but has to be viewed as general decay afflicting the entire system.

The rising movements against austerity in Pakistan offer the best hope for building a viable political project against the stranglehold of international financial institutions and their local collaborators. Yet, the fight for popular sovereignty in the Global South is incomplete without solidarity from the Global North. This is especially urgent since we know that each time global capitalism "overcomes" its crisis at the center, it does so at the expense of an exacerbation of the crisis on the peripheries.

Moreover, even apart from the emerging vaccine apartheid, the further accumulation of debt poses the greatest challenge to stability in the developing world. The destabilization of poor countries eventually creates a boomerang effect, fueling right-wing movements that scapegoat immigrants fleeing economic hardship to pit them against struggling workers in the metropolitan centers.

Yet, the creditors in New York and London exploiting the labor of workers in the Global North are the same ones aiming to reap returns from further exploitation of the Global South. This is why we need a transnational alliance of debtors and progressive forces resisting the dismantling of democratic institutions and creating an alternative development agenda for the post-COVID-19 world. Ending Third World Debt and cooperating on global public health are the points of convergence for a new internationalism that can exorcise the ghosts of imperialism and regenerate our broken world.

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