The IMF Bias: Signals from Pakistan*

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On July 14 this year, the shaky government of a debt-stressed Pakistan, won itself a surprising reprieve. The country had experienced a collapse in foreign reserves to less than one month worth of imports and was on the verge of defaulting on its external debt of more than $120 billion. The government had been in negotiations for months with the IMF for the release of a tranche of $1.1 billion out of a $7 billion loan programme, which had stalled because of failure to meet IMF conditions. But in a turnaround, the IMF has now granted Pakistan a larger-than expected, nine-month, short-term loan package of $3 billion. This is independent of the earlier IMF-supported program.

Providing a new loan to a country for which a loan programme has been temporarily suspended for failure to meet conditions is indeed an exceptional move for the IMF. Pakistan paid a price, accepting a hike in interest rates, cuts in fuel subsidies, a revision of the pre-election budget to increase revenues and reduce expenditures, and a flexible and depreciating exchange rate of the currency. The resulting three billion is small compared to the $25 billion of debt repayments due in fiscal 2023-24 (starting July). But it does buy time for the government.

This willingness of the IMF to accommodate Pakistan in this fashion with a larger-than-expected loan was surprising, given the IMF's niggardly offers in other contexts. Pakistan's government has combined this with flows from 'friendly' nations: $3.7 billion from bilateral partners such as Saudi Arabia and the United Arab Emirates and a roll-over of around $4 billion in loan payments by China and its state-owned banks. In the event, Pakistan's reserves have risen sharply, and the bond market reflects new confidence. The secondary market prices of $1 billion worth of bonds due for repayment in April 2024 jumped to 80 cents on the dollar from about 50 cents in late June, which was double the gains registered by bonds due 2031. The fear of immediate default on external debt held by Pakistan has clearly receded.

In winning this reprieve, Pakistan has benefited not just from the IMF's largesse. Equally, if not more, surprising has been the sudden fast-tracking of the IMF's 'new' loan decision for Pakistan. Initial staff level approval for the new loan was granted on June 29 and Board approval was granted less than a fortnight later, on July 12. In other cases of debt-stressed countries, obtaining clearance from staff level delegations was a prolonged process and board approval came after much delay. In Sri Lanka's case the period between staff level and board approval stretched to more than six months. The rapidity with which the new loan has been processed in Pakistan contrasts not just with such experiences, but also with the long delays in the incomplete discussion on the final tranche of the earlier loan.

The new urgency is clearly driven by internal political developments in Pakistan and its crucial location in the current geopolitical environment. On July 17, Pakistan's Prime Minister Shehbaz Sharif declared that he would hand over power to a caretaker government before the completion of his term on August 12, paving the way for elections. The IMF's new loan has not been granted just prior to Sharif's announcement but provides the funding in full over a short nine-month period. The

$2.9 billion loan to Sri Lanka, in contrast, is stretched out over 48 months, with periodic reviews of performance. Clearly, the loan decision for Pakistan is aimed at giving the current government some breathing space and credibility before the election, to be followed by a larger and more elaborate programme once a 'compliant' new government is in place. Not surprisingly, the media and interested observers have argued that the grant of the IMF loan will help smoothen the country's transition to a newly elected administration later this year. Many in the opposition are likely to see this set of events as reflecting a strategy to engineer a new parliament that is not controlled or influenced by former Prime Minister Imran Khan, who appears in his current avatar to be less accommodating of the US and the IMF.

For the US and its allies, the fear is not just Imran Khan but also the possibility that Pakistan may fall even more under Chinese influence if default leads to a crisis. Credit to Pakistan has historically served as a strategic instrument for various players. Yet, official lending to Pakistan has been on the decline relative to total. Official multilateral and bilateral creditors who accounted for 87 per cent of total long-term external debt in 2010, accounted for only 66 per cent in 2021. But almost all this decline in official credit share was on account of a decline in the share of multilateral credit, from 51 per cent in 2010 to 32 per cent in 2021. The share of bilateral credit on the other hand fell only marginally from 36 to 34 per cent.

This resilience in bilateral credit flows is surprising given the long-term "aid fatigue" among Paris Club donors. If despite this bilateral credit flows retained their relative importance, it was because of a rise in credit flows from China, from just 4 per cent of Pakistan's total long-term external debt, to 9 per cent in 2014, 20 per cent in 2018 and 23 per cent in 2021. Pakistan being for China an easy route to the oceans and the world and strategically positioned in the Asian region was one of the major beneficiaries of the Belt and Road initiative. But the stand-off between the US and its allies and China implies the US cannot let Pakistan go. The IMF and its largesse are possibly being used as an instrument to counter China, by engineering a transfer of government to more US-friendly domestic political formations.

This only establishes, once again, that contrary to its protestations, the IMF is not a neutral, technocratic player, administering doses of pain and austerity in already-crisis-ridden countries for the good off all. It is an interested player serving the economic interests of financial conglomerates from the West through the policies it recommends and the 'discipline' it imposes. But when the strategic interests of the dominant western powers are at stake, it can drop all what it normally recommends in order to further those interests.

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