

# Miftah Ismail



## The Economic Tale of Two Regimes

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In FY 2010-11 Pakistan, under the PPP government, registered its highest exports ever at \$25.4 billion. The next year under the PPP exports declined slightly to \$24.7 and were \$24.8 billion when the PML-N came to power in 2013.

In our first year, we were able to increase Pakistan's exports to \$25.1 billion. After that our exports declined or remained stagnant, due to – among other things – internationally falling commodity prices, until they increased by a healthy 13 percent in our last year to \$24.8 billion.

Throughout our five years, we were constantly criticised by PTI politicians and others for not being able to increase exports. Then when we left, the currency was devalued from Rs115 to Rs160 to the dollar and we were assured that exports would register an unprecedented boom. Of course, nothing of the sort happened.

Last year, exports were actually two percent below the level we had achieved and this year too, up to March, exports were about the level we had achieved two years ago. Since the pandemic, exports have taken a nosedive and there is no chance they will increase. The point is that even before the pandemic and after a 40 percent devaluation, the current government has only managed to decrease exports.

Among the reasons our exports didn't increase after the huge and rapid devaluation was not just uncertainty caused due to the rapid fluctuation in the currency markets, but also due to huge increases in interest rates and utility prices. Predictably, the blame was put on the PML-N: that it failed to raise utility prices and hence pushed up circular debt to "unsustainable" levels. So the PTI did the 'right' thing and raised gas prices by up to 140 percent and electricity prices by more than 60 percent.

Yet unfortunately power-sector circular debt today is the highest it has ever been. And it is increasing at the fastest rate in history. The receivables of the two Sui gas companies have also reached their highest levels ever. The twin objectives of the unprecedented increase in utility prices were to curtail circular debt and placate the IMF. It turns out that circular debt has increased immensely and I cannot imagine the IMF is too pleased with this performance either.

The PML-N's "corruption and incompetence" was blamed for our inability to increase tax collection. Never mind the fact that we almost doubled revenues in our five years, taking them from Rs1946 billion to Rs3850 billion. As it turns out, the PTI government, after imposing additional taxes of Rs200 billion as soon as it took over, wasn't able to collect as much revenue in its first year as we did a year ago – the only time this has happened in FBR history.

This year, the PTI set a tax target of Rs5500 billion, imposed new taxes of Rs700 billion, and yet even before the pandemic set in was going at a pace to collect only about Rs4200 billion. Now after Covid-19, it is aiming for Rs3900 billion, about what we collected two years ago.

Some PTI supporters disingenuously claim that the decrease in revenues is due to a decrease in imports, resulting in a decrease in custom duties. The claim is wrong. Remember: only the dollar value of imports has decreased, not the rupee value, and our custom revenues depend on the rupee value of imports.

Readers would remember the PTI's charge that the PML-N's "low" collection of taxes and "wasteful spending" led to high budget deficits. These high deficits were proof enough of our corruption, if proof was ever required. (In reality, of course, proof is never required if the allegations are made vociferously and repeatedly by leaders and TV anchors whose own credibility, integrity and character one is not allowed to question).

The reality is that the deficits we ran in four out of five years were under five percent of GDP and only during our last year did it go to 6.6 percent of the GDP. In the PTI's first year – after accounting for all the austerity, including 'discontinuing' protocols and motorcades and auctioning off all the buffalos and used cars – the deficit actually increased to 8.9 percent of GDP. That was the highest absolute level of deficit ever and also the largest deficit as a fraction of GDP in 40 years. Alas, even this record won't last. Even before the pandemic most economists predicted that the deficit this year would be around 9.5 percent, but now the deficit will probably be north of 10.5 percent.

We were also criticised because the "huge" deficits that the PML-N ran ended up adding to our nation's "unsustainable" debt. Yet the fact is that Pakistan's deficits during the PML-N's tenure were hardly one percent above our economic growth. Hence, the debt-to-GDP number inched up quite slowly, with gross debt-to-GDP ratio moving from 63.8 percent to 72.1 percent, an increase of eight percent in five years.

Even though Pakistan's much higher debt today is not called unsustainable anymore, our national debt is now growing at the fastest pace in history. In fact, our debt-to-GDP ratio increased by 12.7 percent to 84.8 percent in the PTI's first year, which is more than the entire five-year PML-N period. And again in its second year, the current government will increase our debt-to-GDP ratio more in a year than the PML-N ever did.

Such is (or maybe was) Imran Khan's aversion to debt, that in a midnight speech he formed a Debt Commission to inquire about debt taken from 2008 to 2018. A friend has sent me what appears to be a draft report of the Debt Commission. The report rightly calculates that between 2008 and 2018, Pakistan's debt went up by a whopping 311 percent. Taking the report's own numbers and methodology, I have calculated that Pakistan's debt from 2008 to 2019 (including the PTI's first year) has gone up by a 'meagre' 453 percent. Hence by adding the PTI's first year, our debt goes up from 311 percent to 453 percent.

Since the PTI is frugal and prudent and, given the integrity and intelligence that exclusively belong to its leaders, this performance has become quite disconcerting to the party's supporters. I suppose they can still try to blame the PML-N but that excuse is getting stale. (After all, the PML-N can only be blamed if deficit or circular debt or domestic debt or foreign debt or tax revenues or power rate or gas tariff or exports or anything really were improving. Nothing is.) But now the ruling party has the virus to blame.

There is no doubt that this pandemic has hurt our economy tremendously and the very significant decrease in exports and revenues in April are due to the economic fallout of the pandemic. But it must also be said that neither exports nor tax revenues were anywhere near their original targets, and the 18-month economic performance of the PTI has been most underwhelming.

In his first two years, PM Khan has presided over the highest deficits and lowest growth of any prime minister in history. Let's hope his economic management is better in his remaining term.

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