

The big economic ditch

Think of a company that has a total debt of Rs25,000 and undergoes a management change. A little while later under the new management the company has debt of Rs28,000. When the management is asked why has the debt increased, when they have not increased any assets or paid any dividends, the management answers that they borrowed the additional Rs3,000 to repay the old debt and the interest on that debt. That seems a plausible answer until you ask how much they paid in debt servicing and they answer: Rs700. This, of course, means that the additional Rs2300 debt is a new burden on shareholders – and an additional loss.

The management has a ready answer for that too. They say the old management was corrupt and working against the company's interest, and that this management is honest, competent and hardworking. But that makes you wonder: if the previous management was both corrupt and working against the interest of the company shouldn't there now be some profits for the shareholders and a decrease in debt? Why are debt and losses increasing at the fastest pace in the company's history?

Obviously, I am talking not about any company but our country and the grim economic slowdown the PTI government has imposed on our country in such a short time. In June 2108, at the end of the last fiscal year our total national debt was a shade under Rs 25,000 billion. In a span of seven months, till end-January 2109, PTI has added Rs 3000 billion to the national debt, that is, they have added 12 percent to our national debt in less than one percent of the time.

Let's look at it another way. In 60 months (five years), while spending a lot of money on development and setting up 10,000 MWs of power plants, the PML-N added Rs11,000 billion to our national debt. And we were called corrupt and incompetent. And the incoming non -corrupt, competent government of the PTI has added Rs3000 billion in seven months. If they keep going at this speed in 60 months, they will have added about Rs26,000 to the national debt. Meaning: they will add more to our debt that all the previous governments put together.

Of course our “naar ke bache” leaders of the PTI (someone needs to tell them of the role women play in reproduction) respond that the increase in national debt is due to the interest they have to pay on the debt taken by the PPP and PML-N governments. (I think PTI leaders are over-compensating by not counting Musharraf-era and earlier debts. The powers-that-be in Pakistan are not narrow-minded or intolerant. They wouldn't take the PTI off the same page if the government were to acknowledge that it also has to pay interest on debts taken by earlier military and civilian rulers. But I digress).

The fact is that the total interest paid by the government till January was only about Rs700 billion, leaving another Rs2300 unaccounted for. And, of course, it would be fair to mention that the PPP and the PML-N paid interest on debts contracted by previous governments too. In fact, last year the PML-N government paid Rs1400 billion in interest payments. And we budgeted about Rs1500 billion for debt repayment this fiscal year. One reason the PTI will end up paying more is due to the huge increase in interest rates the tabdeeli sarkar has brought about. What logic there is to slow down the economy and raise interest rates so much faster than inflation is not something I fully understand.

But wait. These exclusively-patriotic leaders of the PTI (imagine the diabolical and Armageddon-anticipating speeches by PTI patriots if the state had decided to correctly and graciously let Abhinandan go during Nawaz Sharif's time) also say that part of the increase in debt is due to the devaluation. Of course, the same PTI leaders don't acknowledge the devaluation effect on our national debt between the time when Gen Musharraf left and when Prime Minister Khan came. But then consistency has never been their forte.

The devaluation effect is only important in understanding why the debt has gone up and not to justify the increase since the real burden of debt has increased. But even if we take out the devaluation effect of Rs1250 billion, there is still a gaping hole of Rs1050 billion in seven months. And this is the first half of the year. Most of the bills come due in the later half. So it is safe to say that the PTI will incur the highest deficit ever in our history, a deficit bigger as a fraction of GDP than in any year of the PML-N government. And what's worse, in our last year when we ran a high deficit we at least had high growth and added about Rs2000 billion to the national income. And we invested about Rs700 billion on development projects. But the PTI is neither investing in development nor giving us growth. It's as if the PTI and the GDP can't grow together.

Even after raising tariffs for electricity by over 15 percent and for gas by 45 percent, the PTI is increasing circular debt at the rate of Rs127 crore per day. The average daily addition to the circular debt during the five years of the PML-N was Rs7.7 crore per day. So we were bad. But the PTI is sixteen times worse.

This daily addition of Rs127 crore to the circular debt is not part of the budget deficit. Thus, this fast growing circular debt number is another burden the PTI is bequeathing to the people. This is a burden people don't feel right away, unlike the dramatic increases in prices of gas and electricity. (I should add that the PTI raised gas tariffs ostensibly because the two Sui gas companies were losing money. It turns out that both gas companies are making money and, according to the latest audited accounts available for both companies (end June 2017), the combined profits were Rs16 billion. Why did they need to raise prices this much this fast is something a purana Pakistani like me cannot fathom.)

The PTI is adding to the circular debt 16 times faster and adding to the national debt two and a half times faster than the PML-N. If PML-N leaders were corrupt, what does that make the PTI leaders? I am not willing to throw around the word 'corrupt' without a substantial charge to back it up. But by all measures they have been a disappointment.

Interestingly – yet, not ironically – the urban transport projects undertaken by our three main parties are very prototypical of their performances. If the nonexistent metrobus service in Karachi defines the PPP's governance, and the working transport service in Lahore defines the PML-N's governance, then the Rs100 billion ditch that exists in Peshawar today instead of a metrobus system defines the PTI's governance. One hopes that both the Peshawar metro bus and our economy will come out of the expensive ditches the PTI has dug for them.

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