**Experience vs inexperience**

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As the curtain has fallen on the PDM government, it is time to review their performance in managing the economy, in particular to compare their management of the economy compared with that of the PTI government. Since the PDM government did not have a full term, we will compare its performance over a similar initial period of the PTI government to allow for a fair comparison.

When the PTI government was formed there was an unprecedented media assault on its handling of the economy and the then opposition hammered the point that not only was the PTI government inexperienced but also unprepared for the task of managing the economic crises it had inherited from the PML-N government. So we will compare the scale of the crises at the start of the PTI government in August 2018 and the situation inherited by the PDM government in April 2022. We will then look at the key metrics of the results achieved by both PTI and PDM.

First, the scale of the crises. The PTI inherited a current account deficit of 6.1 per cent of GDP versus PDM inheriting a current account deficit of 4.6 per cent of GDP. So the current account deficit the PTI inherited was about one-third worse than the deficit inherited by the PDM government. Looking at the reserves at the beginning of the PTI term, the State Bank had $3 billion net reserves (gross reserves minus forward swaps). When the PDM took over, the SBP net reserves were $6 billion. Simply put, the external crises the PTI inherited was much worse.

Now let’s look at the results obtained by both the PTI and PDM in dealing with the external crises. When an external crisis arises, the steps that need to be taken will result in both a slowing down of the economy and rising inflation. This happens because in the short term the only significant tool available is demand constriction to reduce the gap between inflows and outflow of dollars. You can say this is the price to be paid for allowing the external imbalance to reach a level which is unsustainable. So let’s look at both these aspects – growth and inflation – in the initial period of macro-economic adjustment under both governments.

First, a look at what happened to growth. In the first year of the PTI government, GDP growth was 3.1 per cent. Manufacturing grew by 3.5 per cent in the first year. So while growth slowed down, which was as per design, it stayed positive and exceeded the population growth rate and hence even while successfully dealing with extreme external crises the wheels of the economy kept turning, albeit at a slower pace. According to estimated GDP data published by the PDM government, GDP growth crashed to 0.3 per cent only. Which means per capita income declined in this year as population growth according to the 2023 census was 2.5 per cent per annum. The manufacturing slump was even more severe with large-scale manufacturing declining by 8.0 per cent. In other words, the economy was absolutely gutted by the actions taken, or lack thereof, by the PDM government.

As the government is trying to finance the large external deficit which is the cause of the crises, what happens to non-debt inflows for the country becomes a vital indicator during this adjustment period. In the first year of the PTI government, exports plus remittances increased by $1.3 billion. In the first year of the PDM government, exports plus remittances declined by $9.1 billion!

This collapse of non-debt inflows of foreign currency was one of the key reasons the global markets flagged a serious risk of Pakistan defaulting on its external debt in 2022-23 and the credit default swap rate (the cost of insuring Pakistan dollar bonds against risk of default) which was below 5.0 per cent when the vote of no-confidence was introduced shot up to above 50 per cent a few months later and even one year after the PDM government was at 46.9 per cent.

As opposed to this, in the first year of the PTI government the credit default swap rates remained below 5.0 per cent and actually lower than when the PTI government was formed, In other words, the global markets were never worried that there could be any risk of default while the PTI government was dealing with the external crises it had inherited.

Now let’s look at how the citizens and businesses fared during the first year of adjustment in terms of the inflation during the PTI and PDM governments. Inflation, as measured by the consumer price index, was at 6.2 per cent in July 2018, the last month before the PTI government was formed. One year later, in July 2019, it was 10.5 per cent – an increase of 4.3 per cent. In April 2022, inflation was 13.4 per cent when the PDM government was formed and 36.4 per cent a year later in April 2023 – an increase of 23 per cent in a year. In other words, the increase in inflation in the PDM government’s first year was almost six times greater than the increase in the first year of the PTI government. Pakistan witnessed the worst inflation in its history during the PDM government. The sensitive price index reached the high forties and food inflation exceeded 50 per cent at its peak, devastating the lives of millions of Pakistanis.

One of the reasons inflation hit so much harder during the PDM macro-adjustment period versus the PTI was the collapse of non-debt inflows during the PDM regime and the consequential impact on the currency. In the first 12 months after the PTI government, the rupee weakened by Rs33 against the dollar and the fall in the PDM first year was Rs100 per dollar.

To sum it up, the PTI inherited a greater external crisis than the PDM government and was able to handle the situation in a far better manner, maintaining a much better growth rate and much lower inflation compared to the PDM government.

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