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**Where is the debt report?**

Whatever happened to the Debt Commission report? This is a legitimate question, considering it was set up in June 2019 by PM Imran Khan. The commission was to complete its task and submit its report within six months. More than 20 months later, there is no news of the report. The fact is that it was never to be. Just a classic example of setting up a commission without even understanding the basics.

Much before coming into power, Imran Khan and his economic team blamed the previous governments for accumulating unusually large amounts of debt. The debt issue was exploited by the PTI before Election 2018 to showcase that incompetence and corruption under the PPP and PML-N governments were the primary reasons for higher borrowings. He famously quoted debt numbers saying that the total debt accumulated in the first 60 years of Pakistan, till 2008, was only Rs 6000 billion but it shot up to 30,000 billion between 2008 and 2018. (These numbers included debt and liabilities – not just debt). Without ever understanding the reasons why debt increased to the extent it did, he consistently attributed higher borrowings to mismanagement and corruption by the previous governments.

Imran Khan also believed, or was made to believe by his economic managers, that once the PTI came to power there would be no more debt increase or, in the worst case, the pace of debt increase would significantly slow down. Indeed, he is on record saying that he would rather commit suicide than take IMF loans – so much for his lack of understanding.

For a party aspiring to come to power, this was not just a flawed understanding but one with seriously dangerous implications. Based on this flawed and poor understanding, the PM announced the setting up of the Debt Commission in June 2019. The commission was restricted to investigate the amount of debt added during the period 2008-2018. By June 2019, the PTI government was completing its first fiscal year and had added more debt in less than one year compared to any year in our history. Yet, the PM was oblivious of this fact – which made the setting up of the commission laughable.

As soon as the PM announced the debt commission, I wrote an article in these pages, titled ‘A non-starter’, on June 30, 2019. All my arguments have been vindicated after more than 20 months. There was no rocket science in what I predicted at the time.

Fiscal deficit is the primary reason for accumulating debt. A simple fact was perhaps not known to the PM and his team: the larger the fiscal deficit, the higher the number of borrowings. In 2019, the current government posted a fiscal deficit of 8.9 percent – the largest deficit in the last 40 years. In the last fiscal year, the fiscal deficit was 8.6 percent – again one of the largest in our history. This year is going to be no different, with the deficit expected to be well above 8 percent.

Since 1947, Pakistan has never faced fiscal deficits of more than 8 percent in three consecutive years. Among other poor performances by the PTI government, this perhaps is the worst indicator. Compare this with the PML-N’s first three years –-5.5 percent in its first year followed by 5.3 percent in the second year and 4.6 percent in the third year.

It is very easy to understand why the deficits were in control in the PML-N period. There was a consistent increase in tax revenues in each of the five-year tenure under the PML-N – doubling the tax revenues in five years. This despite extreme low inflation and stable currency, two factors that automatically help increase tax revenues. It has been a completely different story in the first three years of the current government. Tax revenue actually went down in its first year, almost remained stagnant in its second year and had just a single-digit increase in its third year. Considering high inflation and massive devaluation, tax growth is actually negative.

In rupee terms, the total fiscal deficit in the first two years of the PTI government has been Rs7045 billion. Even if we consider the 8 percent deficit this year, we will add another Rs3645 billion, making a combined total of Rs 10,690 billion. All of this amount has resulted in higher levels of borrowing since the current government came to power, and has nothing to do with any previous government.

Simply stated, the PTI government has not been able to increase tax revenues in any significant way while expenditure has shot up to unprecedented levels. In contrast, in the first three years of PML-N rule, the total fiscal deficit was Rs4193 billion – a staggering difference of Rs6497 billion. This clearly shows why the borrowing during the PTI’s tenure has broken all records. If only there had been better fiscal discipline by the current government, borrowing would have been contained.

It would not be out of context to remind the PM that total public debt has gone up from Rs24,953 billion in June 2018 to Rs37,455 billion by end-December 2020 – a staggering increase of Rs12,502 billion in just two and a half years of the current regime. Compare this to a gross increase of just Rs10,500 billion in five years of the PML-N government. It is for the PM to decide which government should be investigated for high borrowing – the PTI’s or the PML-N’s?

Had the PM known these facts, he would never have set up the Debt Commission. Now he faces an embarrassing situation: should he publish the report, which will completely negate his accusations against the previous government? One hopes he now realises that the borrowing under the PML-N government was justified and extremely reasonable considering the infrastructure projects and development work undertaken in those five years. Hopefully, he would have also understood by now that his government has borrowed more in two and a half years than five years of borrowing by the PML-N government. He would also have understood that this record borrowing in his government is a direct result of high fiscal deficits, high interest rates, poor governance, incompetence of his team and mismanagement.

Despite these shortcomings, we would still urge the PM to release the report by the Debt Commission so everyone can understand how flawed narratives can lead to devastating consequences.

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