Exclusive Interview

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ICMA: How does FPCCI assess the current economic situation in Pakistan and its recent engagements with the IMF?

President FPCCI: The incompatibility between the IMF programs and the evolving dynamics of Pakistan's economy has emerged as a significant challenge with most of the IMF reforms appearing counterproductive such as curbing supply-driven inflation through persistent raises in the policy rate and adoption of a flexible exchange rate which only increased the volatility of the Pakistani rupee and have adversely impacted the economic growth. FPCCI has always emphasized building a consensus on the long-term economic plan with clear objectives and economic targets, specifically tailored to Pakistan's economic context. To fix the recurrent economic crisis, it is crucial to look towards nations like Turkiye and Indonesia, which have effectively navigated away from IMF dependencies, as models for successful policy-making.

ICMA: As per FPCCI, what are the implications of IMF conditions on Pakistani businesses?

President FPCCI: The engagement of Pakistan with the IMF typically necessitates economic reforms that impact businesses including contractionary monetary policy, removal of tax exemptions, adoption of a flexible exchange rate, and increased energy tariffs. Analyzing past IMF engagements, the average industrial growth and GDP growth were lowered by 2.27 and 1.44 percentage points respectively during periods when Pakistan underwent IMF programs as compared to periods without IMF programs. The FPCCI has raised concerns over these reforms increasing operational costs for businesses, challenging their competitiveness both domestically and internationally.

ICMA: What strategies does FPCCI propose for addressing Pakistan's debt burden?

President FPCCI: Addressing Pakistan's debt burden involves strategic and prudent debt management. The FPCCI, in its research report titled "Impact of IMF Programs: A Context of Pakistan," proposes several strategic measures. These include aligning monetary policy with fiscal outcomes and reducing the policy rate to reduce the debt servicing cost that adds on every year. Secondly, reprofiling (shifting to long-term domestic debt during low inflation) and restructuring of both domestic and external debt is inevitable to mitigate the country's escalating debt issues.

> We advocate for robust fiscal and tax reforms aimed at stabilizing the economy and fostering an environment conducive to both local and foreign investments. For instance, joint ventures between Pakistan and China hold promising potential to bolster export-oriented

Additionally, the development of bond markets would allow corporate sectors to access other debt sources, ultimately increasing the competition and optimizing the cost of debt.

ICMA: What are the current challenges for businesses in Pakistan, and how does FPCCI intend to collaborate with the government to address them?

President FPCCI: The high inflation, steep mark-ups, and stagnant industrial growth threatening job security, coupled with complexities such as import restrictions and banking issues hampering foreign exchange transactions, the challenges are indeed daunting. These obstacles are further compounded by a narrow tax base and heavy reliance on borrowing, resulting in escalating internal debts of Rs. 42.59 trillion and external debts of Rs. 22.6 trillion in December 2023. These fiscal imbalances, in turn, constrain resources for vital social welfare and development programs, while the power sector's circular debt adds to the financial strain, standing at Rs. 2.61 trillion as of October 2023.

FPCCI is steadfast in its commitment to collaborating closely with the government to confront these challenges head-on. We advocate for robust fiscal and tax reforms aimed at stabilizing the economy and fostering an environment conducive to both local and foreign investments. For instance, joint ventures between Pakistan and China hold promising potential to bolster export-oriented sectors. Our goal is to align with the government's priorities in driving economic recovery, alleviating poverty, and generating employment opportunities. Together, through concerted efforts, we can navigate these obstacles and pave the path toward sustained growth and prosperity for Pakistan.

ICMA: How is FPCCI addressing the impact of rising energy costs on manufacturing, particularly textiles, and what steps are being taken to secure discounted energy tariffs for sustaining exports?

President FPCCI: The soaring energy costs for industrial consumers have reached unprecedented levels. If this trend persists, businesses may be forced to resort to drastic measures such as employee layoffs and plant closures to maintain viability. At FPCCI, we are steadfastly advocating for government intervention through official correspondences, press conferences, and other avenues to alleviate the burden of energy tariffs on industrial consumers. One potential solution to mitigate input costs is to explore captive power generation options utilizing solar or wind energy. However, the current interest rates pose a significant obstacle to implementing this alternative.

ICMA: How can Pakistan's tax system be improved to support business growth? What is your take on FBR Restructuring Plan proposed by the Caretaker Finance Minister?

President FPCCI: Efforts to enhance Pakistan's tax system for fostering business growth involve simplifying tax procedures, embracing digitalization, restructuring the Federal Bureau of Revenue (FBR) to separate tax policy and collection functions, consulting with business representatives like the Federation of Pakistan Chambers of Commerce and Industry (FPCCI), supporting small and medium enterprises (SMEs) through favorable policies, addressing industry-specific challenges, and ensuring inclusion of business organizations in decision-making processes. These measures aim to streamline operations, promote transparency, curb corruption, address industry concerns, and foster collaboration between the government and the business community to drive economic development and stability.

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Business community and FPCCI support the restructuring plan of the Federal Board of Revenue (FBR) as visualized by Dr. Shamshad Akhtar, Federal Caretaker Minister for Finance & Revenue. The underlining principle of separation of tax policy and collection functions will help resolve contradictions, conflict of interest and maladministration; and, that's why, FPCCI supports the restructuring proposals. The bifurcation of inland revenue and customs will streamline the operations of FBR; and, will not only align it with international best practices, but also remove the concerns of international financial institutions like IMF, World Bank, and Asian Development Bank. This is specifically important in Pakistan's peculiar case as the country will continue to depend on external financing for the foreseeable future. It is also a longstanding demand of the entire business, industry, and trade community of Pakistan to implement complete digitalization and transparency of FBR operations to deal with harassment of the business community at the hands of tax officers and unnecessary issuance of tax notices.

ICMA: What policy changes does FPCCI suggest to boost the competitiveness of Pakistani exports globally?

President FPCCI: In its pursuit of bolstering the export sector, FPCCI advocates for a multifaceted strategy. This approach involves streamlining export procedures, improving infrastructure development, and actively promoting exports through trade missions and participation in international fairs. Moreover, the FPCCI also emphasizes the critical importance of maintaining stringent quality standards, facilitating accessible finance for exporters, and ensuring stable policies. These collective measures are essential for creating a conducive environment that is favorable for export-driven growth.

Looking forward, Pakistan recognizes the urgent need to prioritize identifying investment opportunities within its Special Economic Zones (SEZs). Leveraging its abundant and affordable labor force, coupled with its untapped mineral potential, presents a significant avenue for economic advancement. Notably, strategic partners such as KSA, China, UAE, and Kuwait have demonstrated a keen interest in Pakistan's mineral resources, offering promising opportunities for collaboration and growth.

ICMA: How does FPCCI assess the effectiveness of recent government initiatives to attract foreign direct investment, and what more can be done?

President FPCCI: Recently, the Pakistani government established the SIFC committee, signaling a commitment to fostering growth across various sectors including high-tech industries, renewable energy, agriculture, e-commerce, logistics, value-added textiles, the food value chain, and minerals. By prioritizing these sectors, Pakistan aims to attract significant foreign investments

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and lay the groundwork for sustainable economic development. FPCCI's analysis of foreign direct investment (FDI) trends over the past two decades highlights untapped opportunities in sectors like Electrical Equipment, Petrochemicals, Leather, Minerals to Chemicals, Light Engineering, Warehousing, and Mass Transit. Particularly, the chemical industry stands out for its potential to yield billion-dollar exports with the support of joint ventures between minerals and chemical industries, recommended by FPCCI to the Board of Investment (BOI). Unlocking this potential can substantially boost economic growth by addressing the current underinvestment and maximizing the export value of high-quality products.

ICMA: Does the sustained policy rate of 22 percent by the SBP for several months bode well for trade and industry growth, particularly in addressing inflation in the country?

President FPCCI: Obviously, not. The persistently high policy rate of 22 percent has significantly hampered the operational capabilities of businesses in Pakistan, making the cost of borrowing excessively high for the local business community and stifling investment and expansion plans for businesses, especially for SMEs. This financial environment has led to a situation where an overwhelming majority of available credit, approximately 70-75%, is absorbed by the government, as banks show a preference for lending to the government at these elevated rates over businesses. This, along with several other factors, has led to a situation where a mere 7% of Pakistani firms obtain financing through formal lending channels, as reported by the World Bank.

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