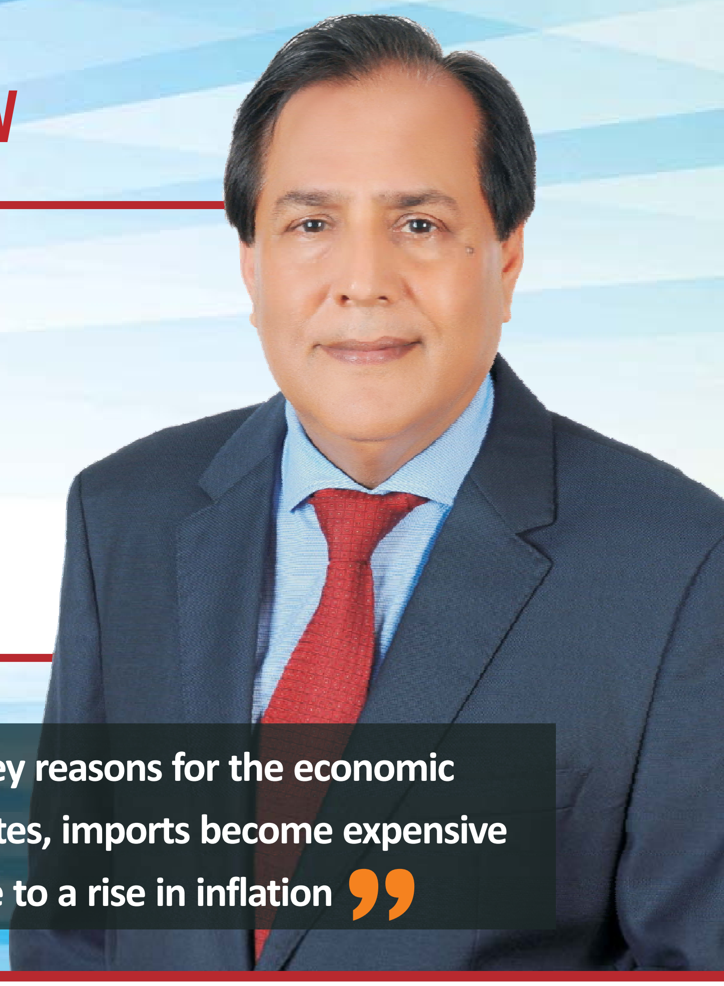
Exclusive Interview



Mian Nasser Hyatt Maggo
President
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ICMA: What is FPCCI's viewpoint on the surging inflation in the country? What are its root causes and how it could be tackled by the Government and Policymakers?

President FPCCI: Historical trend of inflation has different dynamics; sometimes it surges due to domestic policies and sometimes the globally rising trend in prices of oil, energy and food commodities fuels inflation. Economist believes that the nature of inflation in Pakistan has different reasons and aspects. The majority has the opinion that it is a cause of supply-side constraint or expensive import of oil. In my opinion, the recent surge in inflation is due to the expensive import of commodities such as oil, including palm oil that have contributed significantly to food inflation. Edible oil will continue to rise in given circumstances if it remains unattended. The Government should move promptly and make decisions swiftly to control the damaging effects of food inflation and rupee-dollar parity and protect those segments of the society who are already living below the poverty line.

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ICMA: Pakistan has witnessed a record rise in the inflation rate recently. The Government maintains that inflation in Pakistan is a consequence of global inflation. How far do you agree with this?

President FPCCI: This stance by the government on the rise in inflation is acceptable to some extent; however, it is not a justifiable reason for not making any serious effort to reduce its consequences or check inflation by adopting appropriate measures. The rupee witnessed massive depreciation that put pressure on the reserves, debt servicing and inflation.

If on the recommendation of donor agencies, we increase the prices of electricity, gas, and other items, it would ultimately fuel inflation in the country. If the government withdraws Custom Duty of Rs. 9,180 per tonne, 17% FED, 2% Additional Customs Duty, 5% to 6% Adjusted Sales Tax after value addition and 2% Income Tax, the edible oil prices will surely come down by up to 25% to 30% and there will be considerable downward balancing effect on overall food inflation in the country.

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ICMA: Do you think inflation in Pakistan is comparatively lower than in other countries in the region?

President FPCCI: It is unjustifiable to say that inflation in Pakistan is comparatively lower than in other regional countries because we should also compare the socio-economic and accounting costs in these countries. By saying this, I mean per capita income, disposable income in the hands of the public; how much they can buy in one unit of currency, HDI index, and of course the living standard and sense of security.

I may add here that the rate of inflation in Bangladesh is 5.5 (September 2021), India 5.7 (8th October 2021), China 1.5 percent (October 2021), and in the Maldives inflation rate is negative.

ICMA: What would be the impact of the IMF conditionalities and the impending Mini-Budget on the business community, especially the export-oriented industries?

President FPCCI: As per the latest information, the Federal Board of Revenue (FBR) has completed its task of finalizing the 'Mini-budget'. As the government had already announced its Annual budget in June 2021, this mini-budget seems to be on the suggestion and recommendation of the IMF.

In the mini-budget government would withdraw some exemptions given to various sectors to increase revenue such as sales tax exemptions are to be withdrawn in the upcoming mini-budget. The government will generate an additional Rs. 330 billion to Rs. 350 billion. Pakistan and IMF had recently agreed to revise the upward revenue target to Rs. 6.1 trillion instead of Rs. 5.8 trillion in the original budget for 2021-22. The government has revised upwards the valuation rates in the real estate sector to 90% of the market level for the calculation of tax in 40 major cities of the country, including Karachi, Lahore, Peshawar, and Islamabad.

I believe that the revenue-generating measures proposed by the Government would increase inflation instead of bringing economic stability to the country. The key economic sectors contributing to the GDP will drastically decline and the expensive raw materials for both industry and agriculture will make food and essential items expensive. So, in my opinion, the proposed mini-budget will cause a further hike in the prices of daily-use items and make the lives of the people more difficult.

ICMA: What suggestions you would like to give to the Government to stabilize the exchange rate and strengthen the value of the Pak Rupee against the US Dollar?

President FPCCI: Due to the supply-demand gap, the dollar-rupee parity is going up. Demand for dollar for import payments is surging upward and with rising international commodity prices, coupled with uncertainty about the IMF loan program, the value of the Pak Rupee is continuously facing downward adjustment. I think devaluation is one of the key reasons for the economic slowdown. When the currency depreciates, imports become expensive and it impacts consumers due to a rise in inflation. Another aspect of the weakening of the rupee is the current account deficit and the slowdown in the manufacturing sector.

The foreign exchange rate for conversion of currencies depends on the market scenario and the exchange rate being followed by the countries.

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Floating exchange rates, or flexible exchange rates, are determined by market forces without the active intervention of the governments. For example, due to heavy imports, the supply of the rupee may go up and its value falls. In contrast, when exports increase and dollar inflows are high, the rupee strengthens. Some ways through which the central bank controls the movement of the rupee are changes in interest rates, relaxation or tightening of rules for fund flows, change in the cash reserve ratio, and selling or buying dollars in the open market. The government should enforce effective corrective measures taken under various SBP policies to avoid and control over speculation.

ICMA: The Government expects a growth target of around 5 percent this year. Do you think this is achievable? What needs to be done by the Government to facilitate the industry to help achieve this target?

President FPCCI: Though the world is facing a new variant/wave of COVID-19 (Omicron), the resumption of economic and commercial activities could ensure achieving growth target. I think, if uncertainty about the IMF program and regional peace maintains a positive trend, it would signal positively to the global economic players and investors to consider Pakistan's attractive and friendly investment policies.

CPEC as from its creation and objective is clear that whoever joins this mega project will earn profit. This attraction would stimulate various pillars and economic agents to contribute significantly to GDP growth. However, I must say here that the role of our policymakers is of crucial importance. If you fail to achieve/convey global trading agreements, unable to handle a domestic uncertain environment that is moving towards bad law and order situation and political and economic stability, then it will become difficult to achieve the growth target. Trade and industry are fully supporting the vision of socio-economic prosperity, but trade and the industry itself are not getting the proper attention of the government.

The industry is confronted with various challenges i.e., fiscal, monetary, infrastructure, and now the energy and gas shortage has compelled the industry to work below capacity or close down. In such an unfavorable environment for trade and industry which is as a sector share nearly 20 percent in GDP could not contribute and hence this 5 percent growth may be missed.

ICMA: FPCCI and ICMA can collaborate to initiate industry-specific studies and seminars to highlight the bottlenecks and way forward for each industry. What is your input on this proposal?

President FPCCI: Yes, it is a good idea and I think under the prevailing circumstances and to explore potential items for exports, both FPCCI and ICMA can collaborate in this area. Further, both institutes have their expertise in respective fields and can support each other in planning to improve and expand the trade and industry through identification of bottlenecks for each sector presently contributing toward the production process but unfortunately weakly participating in the promotion of exports.

FPCCI is an apex body whose responsibility is to promote Pakistan trade and facilitate the business and industry, while ICMA's role is very critical in the promotion of

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business sectors through the supply of human resources and research-based solutions to industry. The skilled experts from ICMA are performing varied and versatile roles to serve the industry with multi-dimensional responsibilities. The members of the FPCCI (Trade & Industry) needs the cost of exporting in a particular market while FPCCI engages in exploring new potential markets. Both national institutes are very critical for enhancing Pakistan's foreign trade. Hence, I fully support the idea of ICMA and FPCCI collaboration on industry-academia linkages, organization of joint activities to achieve the desired target of economic growth. I always prefer industry-academia collaboration to provide opportunities for both sides of that industry with appropriate research and academic scholars to practice and find employment.

*The Editorial Board thanks **Mian Nasser Hyatt Maggo** for giving his exclusive interview for Management Accountant Journal.*