



Irfan Iqbal Sheikh
President

FPCCI/Prime Minister Secretariat/2022
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Honorable Prime Minister of Pakistan

Prime Minister Secretariat
Constitutional Avenue
Islamabad.

Subject: FPCCI's Call for Economic Emergency and Proposed Reforms

Dear Prime Minister,

On behalf of the Federation of Pakistan Chambers of Commerce and Industry (FPCCI), we would like to extend our heartiest gratitude to you for your appointment as the Prime Minister. The business community is quite much optimistic that your able leadership will bring a required change in the governance and help revive the economy towards sustainable and inclusive economic growth.

We are deeply concerned about the ongoing economic turmoil amid continuously depleting foreign reserves and tremendous inflationary pressure. The trade deficit reached US\$ 35.5 billion whereas the import bill spiked to a daunting US\$ 58.8 billion during July-March 2021-22. In addition, higher interest rates tend to erode the fiscal capacity of the government by enhancing the cost of debt servicing. To tackle the immediate and pressing economic challenges, the FPCCI proposes that the government to declare a state of economic emergency and implement a set of proposed reforms pertaining to fiscal consolidation, energy sector, foreign exchange reserves, and managing import bills – attached as Annexure-I.

We are sure that FPCCI's input and the collective opinion of the business community will be given due consideration in decision-making.

Best regards

Mohammad Younus Dagha

Chairman, Policy Advisory Board – FPCCI

Irfan Iqbal Sheikh

President – FPCCI

Copy to:

1. Minister for Finance, Revenue and Economic Affairs
2. Minister for Planning, Development and Reforms
3. Minister for Commerce and Textile Industry
4. Secretary, Ministry of Finance, Revenue and Economic Affairs
5. Secretary, Ministry of Planning, Development, and Reforms
6. Secretary, Ministry of Commerce and Textile Industry
7. Secretary, Power Division, Ministry of Energy
8. Secretary, Energy Division, Ministry of Energy
9. Secretary, Ministry of Industries and Production
10. Secretary, Ministry of National Food Security & Research
11. Governor, State Bank of Pakistan
12. Chairman, Federal Board of Revenue

Annex-I: FPCCI's Call for Economic Emergency and Proposed Reforms

The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) urges the government to declare a state of economic emergency and implement the following set of reforms in order to moderate the impact of the current economic turmoil.

Part-A: Measures for Fiscal Consolidation

1. Reduction in Policy Rates.

According to the State Bank of Pakistan, government borrowing stood at around 63.6% of the total outstanding loans in March 2022. Higher policy rates erode the fiscal capacity of the government as the cost of debt increases. It is recommended to reduce policy rates from 12.25% to 7.0% which would allow curtailing debt servicing of short-term loans by at least Rs. 300 billion¹.

2. Restructuring State-Owned Enterprises (SOEs).

The net budgetary impact due to SOEs has reached around 23 percent of the total budget deficit in 2021-22. It is suggested to introduce an SOE reform/privatization strategy with measures that can at least reduce SOE's share in the budget deficit by 8 percentage points during 2022-23. This will help save around Rs. 273 billion.

3. Reduce Personal Income Tax slabs.

The current structure of personal income tax in Pakistan is relatively less progressive. The total number of income tax slabs in Pakistan is 11 as opposed to 5-7 slabs in peer countries. It is recommended to reduce income tax slabs from 11 to 5-7 slabs in order to increase the progressivity of income tax. According to the IMF estimates, this would help mobilize additional revenues worth Rs. 200 billion (or 0.3 percent of GDP) by FY2024.

4. Increase of FED on Cigarettes to 70% of the retail price.

It is recommended to revise the FED mechanism to the single tax regime by implementing a FED rate of 70 percent across the board on the retail price of cigarettes in line with the WHO's suggestion. According to the Social Policy and Development Centre (SPDC) estimates², FED up to 70% of the retail price would help mobilize additional revenues worth around Rs. 240 billion.

5. Increase FED on Carbonated and Sugar-Sweetened Drinks

Pakistan is currently encountering alarming Non-Communicable Diseases including diabetes and obesity. Pakistan has ranked as the country with the 4th highest number of type 2 diabetic cases in Pakistan³. High consumption of carbonated/ sugar-sweetened drinks is one of the main causes of these diseases.

¹ Overall debt servicing including both short-term and long-term debt will be more than Rs. 200 billion

² Economic Implications of Cigarette Taxation in Pakistan: An Exploration through a CGE Model. SPDC (2021)

³ <https://www.thenews.com.pk/print/821326-dap-demands-doubling-taxes-on-sugary-drinks-in-pakistan>

In line with the WHO, World Bank, and Diabetic Association of Pakistan suggestions; it is recommended that the federal excise duty on carbonated and sugar-sweetened beverages must be increased from the existing rate of 13% to 20% in order to reduce the consumption of the sweetened drinks.

6. Subsidies on Fuel and Energy need to be withdrawn.

Despite soaring global oil prices, the previous government has maintained the fuel and energy prices by introducing subsidies worth around Rs.250-300 billion (\$1.5 Billion)⁴ with a commitment to keep them static till the end of the current fiscal year. However, global oil prices have escalated by around 40% since December 2021 amid the Russia-Ukraine war.

The FPCCI contends that fuel and power subsidies must be rolled back on a priority basis as these subsidies are fiscally unsustainable.

Table 1: Estimated Budgetary Impact of Fiscal Consolidation Measures

Fiscal Consolidation Measures	Revenue Impact	Expenditure Impact
Increase of FED on Cigarettes to 70% of the retail price	Increase by Rs 120 billion ⁵	-
Reduction in Personal Income Tax (PIT) Slabs	Increase by Rs. 200 billion (0.3% of the GDP). (IMF, 2021)	-
Control misuse of concessionary duties by removing SRO culture & control tax evasion (due to smuggling)	Increase by Rs. 600 billion ⁶ (PBC, 2021)	-
Reduction in Policy Rates	-	Decrease by Rs. 300 bn
Restructuring SOEs	-	Decrease by Rs. 273 bn
Removal of subsidy on fuel and energy	-	Decrease by Rs. 250 bn
Net Budgetary Impact	Rs. 1,743 billion	

Part-B: Measures for Energy Sector

7. Seek public support for the short-term Energy Crisis and the need for conservation and to curb fuel imports.

- Limit gas availability by SSGC/SNGPL according to their regions for 1-3 hours on daily basis after Eid and redirect gas for power generation. Similarly, MOGAS be made available by provinces every 4 days whereas HSD must have no restrictions due to needs in the agriculture and transportation sectors.

⁴ <https://www.reuters.com/markets/rates-bonds/pakistan-confident-defending-15-billion-fuel-subsidy-imf-review-2022-03-04/>

⁵ Economic Implications of Cigarette Taxation in Pakistan: An Exploration through a CGE Model. SPDC (2021)

⁶ Pakistan Business Council. <https://www.pbc.org.pk/research/a-brief-analysis-of-import-value-discrepancies-in-pakistans-imports-from-uae/>

- Request nationals for the reduction in usage of electricity during 6-9 pm and operation of ACs at 22 degrees centigrade during the day. Scheduled load shedding may be initiated for 2 to 4 hours per day to help curb pressure on the current account amid the ongoing economic turbulence.

8. Arrangement of Fuel for Power Generation requires G2G aggressive action.

- Replace spot buying with medium and long-term contracts. Form PNC and approach Oman and Qatar for LNG in the medium term for winter and summer. Form separate PNC and approach Saudi Arabia and Emirates for MOGAS. Request increase in HSD quantity from Kuwait from June 2023.
- Immediately institute energy planning (3+6 month revolving basis) within CPPA for fuel and generation to ensure the lowest cost of generation to be regulated by NEPRA and OGRA vigorously. In addition, redefine the weighted average cost of gas (WACOG) to ensure the role of the private sector in distribution and competitive gas import.

9. Remove Cross-Subsidization.

- To foster industrial growth in Pakistan, input costs for the commercial sector and industrial sectors have to be lowered. Instead of cross-subsidization between the sectors, we recommend consumers of the same sector should cross-subsidize each other rather than industrial consumers cross-subsidize residential or agricultural consumers. This will reduce the quantum of subsidy on export industries.

10. Circular Debt.

- The artificial fuel price freeze be held off till the Budget. PSDP Funds be made available till then and then be gradually increased every month.

Part-C: Measures for Improving Foreign Exchange Reserves

11. Launch Amnesty Scheme to deposit Dollars into Local Banks.

Pakistan's total foreign exchange reserves have been depleting significantly since December 2021. The liquid forex reserves have reached the lowest level of US\$ 17.01 billion in April 2022 since June 2020 (on weekly basis). The reserves held by SBP are only enough to bear the imports bill for only two more months⁷. Increasing current account deficit and debt repayments (including repayment of the US\$ 2.4 billion loan facility given by China) have eroded reserves significantly.

It is urged that government should launch an incentive scheme to channelize dollar holdings from lockers and personal safes into bank accounts. The government may exempt such deposits from any taxes if these have not been declared earlier in tax returns which will be held in local accounts for at least one year.

⁷ <https://www.thenews.com.pk/print/950433-forex-reserves-plunge-to-lowest-since-june-2020>

I2. Launch Asset Declaration Scheme for Cryptocurrencies.

Investments in cryptocurrencies started with speculative gaming but in recent years have grown into humongous sizes. It is imperative for government authorities to first launch a one-time asset declaration scheme and devise a regulatory framework for future transactions. Capital gain taxes, similar to stock market investments, may also be introduced which will provide an additional source of tax revenues for the country. The scheme may have the following categories:

- i. Encashment of cryptocurrencies in Pakistan and converting the foreign exchange into the Pakistani rupee may be allowed with no tax.
- ii. Encashment of cryptocurrencies in Pakistan and held as deposits in foreign exchange accounts Pakistan may be allowed with a 5% tax.
- iii. Encashment of cryptocurrencies in Pakistan and held as deposits in Roshan Digital accounts may be allowed with 10% tax for non-resident Pakistani nationals/dual nationals.

Part-D: Measures for Controlling Imports Bill

I3. Import Substitution of Cotton.

Cotton production has deteriorated significantly with around 27% of the area has been reduced for cotton cultivation in the last decade whereas around 17% of the area has been diverted to other crops during 2020-21. As a consequence, cotton imports reached US\$ 1.4 billion. Similarly, import bills for crops such as pulses and oilseeds reached US\$ 1.1 billion in 2020-21.

Similar to other crops, the government must set minimum support prices for crops including cotton, pulses, and oilseeds which are being imported in large quantities. In addition, the federal government must work out with provinces to devise a strategy in order to control and reverse the diversion of cotton cultivation areas.

I4. Ban on Imports of Non-Essential/Luxury Items.

An alarming rise in imports due to the global supply shock has depleted the foreign reserves significantly. The overall import bill of Pakistan spiked by 49.1% to US\$ 58.8 billion during July-March 2021-22 against the US\$ 39.4 billion during the same period last year.

Rather than controlling imports through regulatory duties, FPCCI advocates for the blanket ban on the following non-essential items amid the current state of economic emergency:

Table 2: Proposed Items for the Consideration of Import Ban

HS code	Product	Import Values (US\$ million) 2020
87	Motor vehicles CBUs	918.4
'870210	"Motor vehicles for the transport of ≥ 10 persons	48.6
'870220	Motor vehicles for the transport of ≥ 10 persons	0.8
'870240	Motor vehicles for the transport of ≥ 10 persons	0.2
'870290	"Motor vehicles for the transport of ≥ 10 persons, capacity of $> 2.500 \text{ cm}^3$, new"	8.5
'870310	Vehicles for the transport of persons on snow; golf cars and similar vehicles	0.5
'870321	Motor cars and other motor vehicles station wagons and racing carspersons on snow	204.3
'870322	Motor cars, incl. station wagons and racing cars, engine of a cylinder capacity $> 1.000 \text{ cm}^3$ but $\leq 1.500 \text{ cm}^3$	169.8
'870323	Motor cars and other motor vehicles incl. station wagons and racing cars, n engine of a cylinder capacity $> 1.500 \text{ cm}^3$ but $\leq 3.000 \text{ cm}^3$	354.8
'870324	Motor cars and other motor vehicles p, incl. station wagons and racing cars, engine of a cylinder capacity $> 3.000 \text{ cm}^3$	17.8
'870332	"Motor cars incl. station wagons and racing cars, cylinder capacity $> 1.500 \text{ cm}^3$ but $\leq 2.500 \text{ cm}^3$	0.3
'870333	"Motor cars and other motor vehicles principally designed for the transport of persons,cylinder capacity $> 2.500 \text{ cm}^3$	32.7
'870340	Motor cars and other motor vehicles principally designed for the transport of	46.5
'870350	Motor cars and other motor vehicles principally designed for the transport of	4.4
'870360	Motor cars and other motor vehicles principally designed for the transport of	2.3
'870380	Motor cars and other motor vehicles principally designed for the transport of	26.9
'89	Ships, boats and floating structures	268.0
'890110	Cruise ships, excursion boats and similar vessels principally designed for the transport of persons; ferry-boats of all kinds	30.6
'890190	Vessels for the transport of goods and vessels for the transport of both persons and goods (excluding refrigerated vessels, tankers, ferry-boats and vessels principally designed for the transport of persons)	8.4
'890200	Fishing vessels; factory ships and other vessels for processing or preserving fishery products (excluding fishing boats for sport)	3.1
'890310	Inflatable vessels for pleasure or sports	0.0
'890392	Motor boats and motor yachts, for pleasure or sports (other than outboard motor boats)	0.0
'890399	Outboard motorboats, for pleasure or sports, and rowing boats and canoes, of a length $> 7,5 \text{ m}$ (excl. inflatable)	0.3
'890400	Tugs and pusher craft	3.3
'890510	Dredgers	0.1
'890520	Floating or submersible drilling or production platforms	0.1
'890590	Light-vessels, fire-floats, floating cranes and other vessels, the navigability of which is subsidiary to their main function (excluding dredgers, floating	0.1

HS code	Product	Import Values (US\$ million) 2020
	or submersible drilling or production platforms; fishing vessels and warships)	
'890710	Inflatable rafts	0.0
'890790	Rafts, tanks, coffer-dams, landing stages, buoys, beacons and other floating structures (excluding inflatable rafts, vessels of heading 8901 to 8906 and floating structures for breaking up)	0.5
'890800	Vessels and other floating structures for breaking up	221.5
'69	Ceramic products	80.0
'21	Miscellaneous edible preparations	80.7
'210111	Extracts, essences and concentrates, of coffee	4.6
'210112	Preparations with a basis of extracts, essences or concentrates of coffee or with a basis of coffee	0.1
'210120	Extracts, essences and concentrates, of tea or mate, and preparations with a basis of these extracts, essences or concentrates, or with a basis of tea or mate	0.5
'210210	Active yeasts	7.8
'210220	Inactive yeasts; other dead single-cell micro-organisms (excluding packaged as medicaments)	0.6
'210230	Prepared baking powders	0.4
'210310	Soya sauce	1.1
'210320	Tomato ketchup and other tomato sauces	0.2
'210330	Mustard flour and meal, whether or not prepared, and mustard	0.2
'210390	Preparations for sauces and prepared sauces; mixed condiments and seasonings (excluding soya sauce, tomato ketchup and other tomato sauces, mustard, and mustard flour and meal)	3.2
'210410	Soups and broths and preparations therefor	0.1
'210420	Food preparations consisting of finely homogenised mixtures of two or more basic ingredients, such as meat, fish, vegetables or fruit, put up for retail sale as infant food or for dietetic purposes, in containers of ≤ 250 g	0.0
'210500	Ice cream and other edible ice, whether or not containing cocoa	0.8
'210610	Protein concentrates and textured protein substances	0.3
'210690	Food preparations, n.e.s.	60.9
'18	Cocoa and cocoa preparations	36.5
'180310	Cocoa paste (excluding defatted)	1.8
'180400	Cocoa butter, fat and oil	4.4
'180500	Cocoa powder, not containing added sugar or other sweetening matter	17.9
'180610	Cocoa powder, sweetened	0.1
'180620	Chocolate and other food preparations containing cocoa, in blocks, slabs or bars weighing > 2 kg or in liquid, paste, powder, granular or other bulk form, in containers or immediate packings of a content > 2 kg (excluding cocoa powder)	6.3
'180631	Chocolate and other preparations containing cocoa, in blocks, slabs or bars of ≤ 2 kg, filled	0.0

HS code	Product	Import Values (US\$ million) 2020
'180690	Chocolate and other preparations containing cocoa, in containers or immediate packings of <= 2 kg (excl. in blocks, slabs or bars and cocoa powder)	5.9
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	1,716.1
'851712	"Telephones for cellular networks ""mobile telephones"" or for other wireless networks"	1,695.3
'851629	Electric space-heating and soil-heating apparatus (excluding storage heating radiators)	4.9
'851631	Electric hairdryers	0.6
'851632	Electro-thermic hairdressing apparatus (excluding hairdryers)	0.8
'851633	Electric hand-drying apparatus	0.1
'851640	Electric smoothing irons	1.0
'851650	Microwave ovens	0.6
'851660	Electric ovens, cookers, cooking plates and boiling rings, electric grillers and roasters, for domestic use (excluding space-heating stoves and microwave ovens)	2.4
'850940	Domestic food grinders and mixers and fruit or vegetable juice extractors, with self-contained electric motor	3.5
'850980	Electromechanical domestic appliances, with self-contained electric motor (excluding vacuum cleaners, dry and wet vacuum cleaners, food grinders and mixers, fruit or vegetable juice extractors, and hair-removing appliances)	0.8
'850990	Parts of electromechanical domestic appliances, with self-contained electric motor, n.e.s. (excluding of vacuum cleaners, dry and wet vacuum cleaners)	3.9
'851010	Shavers, electric	0.8
'850811	Vacuum cleaners, incl. dry cleaners and wet vacuum cleaners, with self-contained electric motor, power <= 1 500 W and having a dust bag or other receptacle capacity <= 20 l	0.7
'850819	Vacuum cleaners, incl. dry cleaners and wet vacuum cleaners, with self-contained electric motor (excluding of a power <= 1 500 W and having a dust bag or other receptacle capacity <= 20 l)	0.2
'850860	Vacuum cleaners, incl. dry cleaners and wet vacuum cleaners (excluding with self-contained electric motor)	0.3
Others		431.8
'94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	96.5
'95	Toys, games and sports requisites; parts and accessories thereof	40.7
'64	Footwear, gaiters and the like; parts of such articles	37.4
'49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, ...	30.6
'42	Articles of leather; saddlery and harness; travel goods, handbags...	17.6
'91	Clocks and watches and parts thereof	12.4
'24	Tobacco and manufactured tobacco substitutes	12.1
'57	Carpets and other textile floor coverings	12.0
'01	Live animals	12.0

HS code	Product	Import Values (US\$ million) 2020
'51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	7.9
'86	Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures ...	10.4
'50	Silk	7.3
'03	Fish and crustaceans, molluscs and other aquatic invertebrates	6.8
'22	Beverages, spirits and vinegar	6.4
'05	Products of animal origin, not elsewhere specified or included	3.7
'67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	3.7
'66	Umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof	3.3
'36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	2.6
'93	Arms and ammunition; parts and accessories thereof	2.5
'06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	2.1
'02	Meat and edible meat offal	2.0
'16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	2.0
'92	Musical instruments; parts and accessories of such articles	1.4
'97	Works of art, collectors' pieces and antiques	1.3
'45	Cork and articles of cork	0.3
'46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	0.3
'43	Furskins and artificial fur; manufactures thereof	0.1
'94	Furniture; bedding, mattresses, mattress supports, cushions and similar	96.5