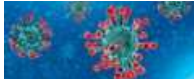


| STOCKS | | COMMODITIES | | ASIAN MARKETS | | | | CURRENCIES | | | |
|----------|----------|-------------|--------------|---------------|-----------|-----------|----------|---------------|-------|--------|-------|
| DSEX | CSCX | Gold | Oil | MUMBAI | TOKYO | SINGAPORE | SHANGHAI | USD | EUR | GBP | CNY |
| ▲ 0.20% | ▲ 0.21% | \$1,685.23 | \$42.30 | ▲ 0.90% | ▲ 0.74% | ▲ 1.64% | ▲ 0.40% | BUY TK 83.95 | 93.75 | 105.47 | 11.74 |
| 3,961.51 | 6,822.92 | (per ounce) | (per barrel) | 34,287.24 | 22,863.73 | 2,751.50 | 2,930.80 | SELL TK 84.95 | 97.55 | 109.27 | 12.34 |



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TAMING CORONAVIRUS RAMPAGE

Banks call for measures in budget to lessen their load



AKM ZAMIR UDDIN

Banks have urged the government to take a series of measures in the upcoming budget to protect the banking sector from the ongoing financial meltdown.

Lenders are now in mired a bad state of affairs and the situation will worsen in the days ahead as there is no ray of hope of a V-shaped economic recovery given the blistering spread of coronavirus.

A V-shaped recovery means that the economy bounces back quickly to its baseline before the crisis, with no hiccups along the way.

The government should take steps to

help businesses so that they can recover quickly and this will subsequently put a positive impact on the financial health of banks, the lenders said.

"The government should cut the source tax on the depositors' income from the fixed and deposit pension schemes," said Syed Mahbubur Rahman, managing director of Mutual Trust Bank.

Depositors now pay 15 per cent tax on their profit stemming from the savings amount if they do not have a tax identification number (TIN). But the payable tax is 10 per cent on the profit if savers have the TIN.

The tax ratio should be cut so that depositors feel comfortable to keep their funds in banks, which will strengthen the financial health of lenders as well, said Rahman, also the immediate past chairman of the Association of Bankers, Bangladesh, a forum of managing directors of banks.

Banks' capacity to give out loans would expand if they could mobilise more funds from people, he said.

The majority of lenders are installing IT software and hardware as part of their move to enhance digital solutions for both credit and deposit products to tackle the pandemic.

The government should

reduce the tax on IT equipment to a great extent to speed up the ongoing digital banking programme.

"This will help speed up the popularity of cashless transaction in the days ahead," Rahman said.

The small and medium enterprises should be offered incentives so that they can continue businesses bypassing the ongoing crisis. The enterprises that will not sack employees will be enlisted for support.

The upcoming budget should offer a merger and acquisition policy for banks as the financial health of lenders will worsen due to the economic fallout, Rahman said.

The government should also cut the corporate tax for banks as the ongoing financial recession will erode the profitability in the banking sector, he added.

A certain portion of corporate tax should be reduced for at least 3-4 years given the gravity of the pandemic-stricken economy, said Md Arfan Ali, managing director of Bank Asia.

The income of banks will decrease significantly as they have implemented the 9-per cent interest rate on lending, he said.

The government will have to borrow heavily from the banking sector to manage its deficit financing in the wake of the revenue shortfall.

But the cash-strapped banking sector

would get a respite from the situation if the government keeps the onus on the central bank to manage the required funds, Ali said.

The government should not impose any extra tax on the banking sector for the next fiscal year, said Naser Ezaz Bijoy, chief executive officer of Standard Chartered Bangladesh.

"We have to keep in mind that default loans in the banking sector will increase in the months to come and this will reduce the balance sheet of banks."

Defaulted loans hit Tk 94,313 crore at the end of 2019, up 0.42 per cent year-on-year, according to data from the Bangladesh Bank.

The savers, whose deposits are up to Tk 100,000, should be rebated from the excise duty as they have been in a more stressed situation than the other segments of the society, Bijoy added.

The government should avoid imposing a corporate tax on provisioning, which banks keep against their default and unclassified loans, said Emranul Huq, managing director of Dhaka Bank.

Lenders are not permitted to enjoy the provisioning as income until they recover the defaulted loans.

"If lenders are allowed to do so, the liquidity base in the banking sector will improve and this will help them fight off a financial meltdown."

Cheer for retail investors as BB allows banks to give cash dividends to them

STAR BUSINESS REPORT

Bangladesh Bank has allowed listed banks to disburse cash dividends to general shareholders, including foreign investors, for 2019, walking back from its earlier bold announcement to put such payments on hold.

The central bank issued a notice yesterday asking banks to disburse the dividends before September 30 as it looks to protect the interests of the general investors.

However, sponsors and directors are not allowed to take dividends.

Earlier on May 11, the central bank instructed banks to not give any cash dividend to both sponsors and investors until September to boost their capacity to absorb the strain on their capital base amid the economic fallout of the pandemic.



Several investors and stockbrokers opposed the BB decision saying it would negatively impact the sentiment of general investors.

Against the backdrop, the stock market regulator urged the BB last week to ease the dividend restrictions for general investors.

"As directors declare the dividends, they might intend to provide only stock dividends as they are not allowed to get cash dividends now," said the managing director of a listed bank, preferring anonymity.

So, the central bank should monitor whether they are giving enough cash dividend, he said.

"It is a good decision for retail investors because they will get some money amid the hardship inflicted by the pandemic," said a top official of another listed bank.

However, sponsor directors may exploit the opportunity as they hold huge shares in others' names, he said.

"So, the central bank should put a curb on the number of shares that would be entitled to the dividend."

On the other hand, foreign investors prefer stock dividends over cash because they want to see a higher valuation of their stocks after a few years and hence they should also be excluded, he added.

As the stock market has been bleeding for the last few months, investors were longing for cash dividend, said Khairul Bashar Abu Taher Mohammed, chief executive officer of MTB Capital.

"It will help them a lot and boost their confidence," he said.

However, as banks may face liquidity shortages, they will have to be cautious in giving dividends.

Banks that can declare cash dividend should do so such that small investors benefit from their investment, Mohammed added.

"General investors deserve something during this hard time of the pandemic, at least through cash dividends, because they have been incurring huge losses for long," said an official of the Chittagong Stock Exchange.

Meanwhile, DSEX, the benchmark index of the Dhaka Stock Exchange, rose 8.12 points, or 0.20 per cent to close at 3,961.51 yesterday.

Turnover, another important indicator of the market, edged up 62 per cent to Tk 70 crore.

Eighteen stocks advanced and 19 declined while prices of 256 companies remained unchanged.

Square Pharmaceuticals topped the turnover list trading shares worth Tk 9.70 crore, followed by Grameenphone, Central Pharmaceuticals, Beximco Pharmaceuticals and Linde Bangladesh.

Money whitening may get full amnesty

Tax-free income limit may go up, corporate tax for non-listed firms may trim



REJAUL KARIM BYRON

The government may grant full amnesty to the people if they invest their untaxed money, also known as black money, as it looks to give a boost to the economy reeling from the coronavirus pandemic.

Black money is largely attributed to tax evasion and its direct impact is the loss of government revenue.

For the last five years, black money-holders have been able to whiten their assets by investing in residential buildings by paying a tax of 10 per cent on the amount invested, which for regular taxpayers is between 10 and 30 per cent.

But the Anti-Corruption Commission (ACC) has the power to raise questions about the source of the funds.

But the government is now looking for ways to give full amnesty as the instrument has failed to achieve its objectives of raising revenue for the government while inducing investments, said an official of the finance ministry.

The government may also cut the corporate tax for the non-listed companies by 2.5 percentage points to 32.5 per cent to give some breathing space to the companies after their operations were

seriously impacted by the shutdown and sales collapsed.

The government may increase the tax-free income limit for individual taxpayers after five years in fiscal 2020-21 to give relief to people in the lower-income bracket such that they can manage the economic hardship brought on by the pandemic better.

The tax-free income tax threshold may go up to Tk 3 lakh from Tk 2.5 lakh.

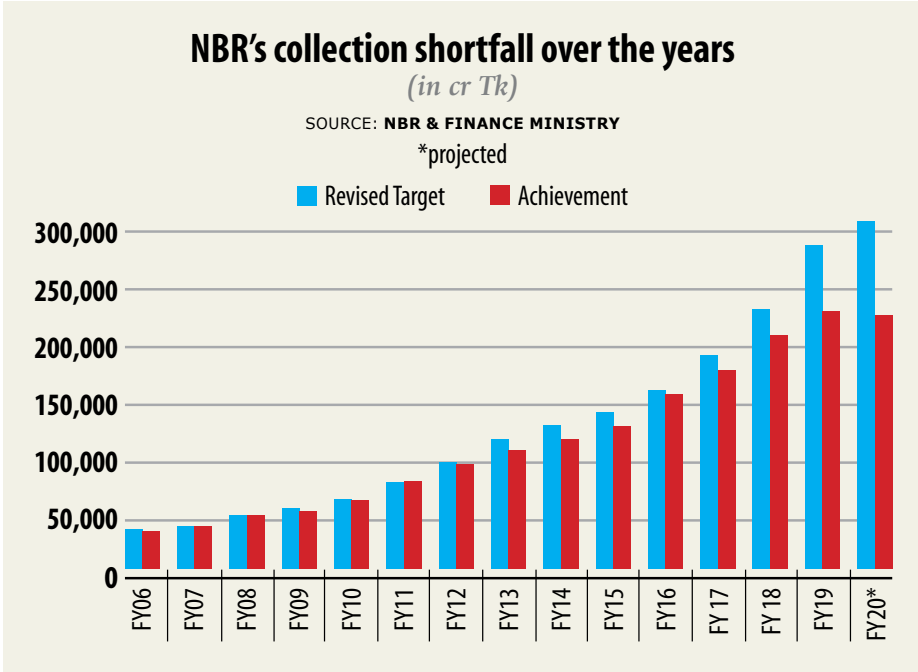
The income tax slabs may be rearranged as well. The rates of income tax now stand at 10 per cent to 30 per cent but it may be cut to 5 per cent to 25 per cent in the next fiscal year.

Meanwhile, the government has responded positively to a National Board of Revenue (NBR) plea and set a lower target for fiscal 2020-21.

The massive plunge in revenue collection prompted the NBR to request the government to set a realistic target for the next fiscal year.

Now, the government may set a revenue mobilisation goal of Tk 301,000 crore for the upcoming fiscal year, down from Tk 330,000 crore initially planned, said the official of the finance ministry.

The NBR is expected to log about Tk 220,000 crore in the ongoing fiscal year, leaving the highest ever shortfall in history largely owing to the massive fall in tax receipts caused by the pandemic and consequent stoppage of economic activities.



The collection, as projected by the NBR, would also fall below last year's total tax collection of Tk 223,892 crore, in an unprecedented development.

"This is the first time since Independence that the collection is below the previous year's total," said NBR Chairman Abu Hena Md Rahmatul Muneem in a letter to Finance Secretary Abdur Rouf Talukder last month.

The collection would not be more than Tk 250,000 crore in the next fiscal year, the NBR said.

As the collection is going to decline and be far below than the target in fiscal 2019-20, this would be the ninth consecutive year that the NBR would miss both actual and revised collection goals set by the government to finance its overall fiscal plans.

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Income inequality to balloon like never before

Says CPD in its latest review of the economy



STAR BUSINESS REPORT

Income inequality is set to blow up to a record high this year, as the coronavirus pandemic continues to wipe out jobs and sweep away livelihoods, said the Centre for Policy Dialogue (CPD) yesterday.

The think-tank conducted an analysis to explore the implications of coronavirus in the short-term on poverty and inequality using the unit-level data of the Household Income and Expenditure Survey 2016.

The analysis has applied negative shocks on household consumption in the range of 9-25 per cent among household groups. This led to an increase of national (upper) poverty rate to 35 per cent in 2020 from 24.3 per cent in 2016.

At the same time, consumption inequality, measured by the Gini coefficient, rose from 0.32 in 2016 to 0.35 in 2020 and income

inequality went up from 0.48 in 2016 to 0.52 in 2020, the CPD said in its independent review of Bangladesh's development, which was presented in a virtual media briefing yesterday.

The Gini coefficient is measured on a scale of 0 to 1; the closer it is to 1 the higher the inequality is in the society. A figure above 0.5 represents a severe income gap.

"We have been saying for the last few years that one of the major weaknesses standing in the way of GDP growth is growing inequality," said Mustafizur Rahman, a distinguished fellow of the CPD, in his observation.

It is not acceptable from the economics point of view and it is an ominous sign from the societal point of view, Rahman added.

Disruption of economic activities led to the loss of employment (in terms of the number of jobs or working hours), leading to a decline in income for a large section of the population, be it extreme poor, moderately poor, vulnerable non-poor or non-poor households, the CPD said.

Bangladesh's economy would grow at best 2.5 per cent this fiscal year because of the coronavirus pandemic, which, if materialises,

| CPD's reading on the state of the economy |
|---|
| <ul style="list-style-type: none"> GDP growth would be at best 2.5% in FY20 Pandemic caused poverty to rise to 35% Revenue shortfall to be Tk 125,000cr Revenue earning growth would be 0.4% in FY20 Fiscal deficit can be increased to 7-8% of GDP |

would be the lowest in Bangladesh's history.

"We are thinking too much about GDP despite this pandemic -- we have to come out of this," said Fahmida Khatun, executive director of the CPD.

Reforms should get the highest priority. "We have forgotten it. We neglect this every

| Its prescription |
|---|
| <ul style="list-style-type: none"> Prioritise saving lives Incentivise consumption Harness all potential sources for foreign finance Reduce import-related tariffs Increase allocation for agriculture sector Fast-track ongoing priority projects Earmark financial resources for food budget Continue support measures for garment, export sectors Depreciate taka gradually Discontinue black money whitening facility |

time. Reforms initiatives should be undertaken immediately. There is a fascination about GDP growth," she added.

The pandemic is having a significant impact on various aspects of the economy and will no doubt have important repercussions for fiscal 2020-21 budget, the think-tank said in a paper presented by Towfique Islam Khan, its senior research fellow.

But the research organisation, however, called for prioritising saving lives over everything.

"GDP growth rate should not be the anchor outcome variable for economic policies, including the national budget in the current context. Instead, the focus should be on saving the lives of people in the country and reducing the vulnerabilities of the marginalised groups."

Both the demand side (recession-induced) and supply side (lockdown-induced) disruptions are having adverse implications for Bangladesh's macroeconomic and sectoral performance, as the economy is being adversely impacted through a host of transmission channels, both global and national.

"The real challenge perhaps lies ahead."

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