STOCKS		COMMODITIES		ASIAN MARKETS				CURRENCIES (STANDARD CHARTERED BANK)				
DSEX	CSCX	Gold ▼	Oil ▼	MUMBAI	TOKYO	SINGAPORE	SHANGHAI		$USD	€EUR	£GBP	¥CNY
▲ 0.03%	▲ 0.05%	$1,769.30	$41.53	▼ 1.58%	▼ 0.07%	▼ 0.24%	▲ 0.30%	BUY TK	83.95	93.78	103.93	11.72
3,964.83	6,817.62	(per ounce)	(per barrel)	34,868.98	22,534.32	2,628.62	2,979.55	SELL TK	84.95	97.58	107.73	12.32

Star BUSINESS

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Taka gains on falling imports, rising remittances

Forex reserves cross $35b

AKM Zamir Uddin

The local currency has started appreciating suddenly due to a massive fall in import payments and rise in remittances in recent weeks.

This helped the country's foreign exchange reserve surpass the $35-billion mark for the first time yesterday, according to data from the central bank.

Typically, an increase in the value of one currency makes imports cheaper and exports costlier.

Bankers and an economist said the central bank will have to step in to stop the appreciating trend of the taka at any cost in the interest of the country's export sector, or else it will impact badly the financial sector as a whole in the days to come.

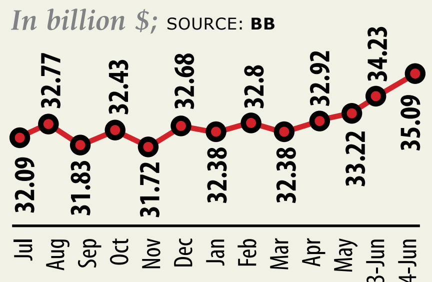
Yesterday, the interbank exchange rate stood at Tk 84.80 per dollar, down from Tk 84.95 on June 18. The exchange rate of the taka had been maintaining a stable position since November last year until the latest uptick.

Multilateral lender agencies have recently released nearly $1.5 billion in soft loans to help Bangladesh fight against the ongoing economic meltdown brought on by the coronavirus pandemic along with meeting their previous commitments for various projects.

In addition, the expatriate Bangladeshis sent remittance amounting to $1.41 billion in the first 23 days of June, which is higher than the same period a year ago when the inflow stood at $1.36 billion.

FOREX RESERVE OVER THE MONTHS

In billion $; SOURCE: **BB**



Against the backdrop, the reserve rose to a record high of $34 billion on June 3 and made another record yesterday.

"There is no scope to feel complacency about the rising trend of remittance as thousands of expatriates have been forced to return home and many others are set to be deported," said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh. The workers are sending their liquid assets to the country before leaving their host countries, he said.

Exporters are struggling to survive from the current economic fallout and the appreciating trend of the local currency has dealt a blow to them, said Mansur, also a former high official of the International Monetary Fund.

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NBR's bid to cap promotional expenses leaves firms hot and bothered

Sohel Parvez

The revenue authority has sought to tax companies' promotional expenditure exceeding 0.50 per cent of their turnover, an unprecedented move that has left firms flustered.

Promotional expenses exceeding the proposed cap would instead be listed as income and therefore, companies will have to pay tax on the expenditure from the upcoming fiscal year.

consumer goods (FMCG) and similar industries spend between 5 to 10 per cent of their turnover on promotional activities, a long-established practice that drives sales.

The proposed cap on such expenditures means that the cost of doing business will increase.

This will also likely force companies to cut down on promotional activities at a time when the economy needs more investment to make a speedy recovery from the pandemic fallout.

The coronavirus pandemic has devastated incomes and both domestic and global demand. This means that companies are struggling to generate enough income to pay salaries and meet operating expenses amid a lack of sales.

Due to this unprecedented situation, many industries are currently running at minimum capacity, the industry insiders said.

Under these circumstances, if various industries have to decrease their promotional activities then business growth, and, in turn, the government's revenue, will be affected.

"This will create a chain reaction in the economy," said Abul Kasem Khan, chairperson of the Business Initiative Leading Development (BUILD), a joint initiative of leading chambers.

The cap might be introduced to curb the misquoting of expenses. However, a stronger audit system would be more beneficial to that end than the proposed cap.

"This will disincentivise large companies," said Khan, also a former president of the Dhaka Chamber of Commerce and Industry.

Along with the FICCI, the Metropolitan Chamber of Commerce and Industry (MCCI) also demanded the removal of the provision, said its Secretary General Farooq Ahmed.

IMPACT OF CAPPING PROMOTIONAL EXPENSES UP TO 0.5% OF TURNOVER

TURNOVER (TK)	PROFIT (%)	PROFIT (TK)	TAX RATE (%)	TAX ON NORMAL PROFIT (TK)	PROMOTIONAL EXPENSE (%)	INADMISSIBLE PROMOTIONAL EXPENSES (TK)	TAX ON INADMISSIBLE EXPENSES (TK)	TOTAL TAX (TK)	INCREASE IN EFFECTIVE TAX RATE (%)	OVERALL EFFECTIVE TAX RATE (%)
100	2%	2	32.5%	0.65	6%	5.5	1.79	2.4	89%	122%
	5%	5		1.625				3.4	36%	68%
	10%	10		3.25				5.0	18%	50%
	15%	15		4.875				6.7	12%	44%
	20%	20		6.5				8.3	9%	41%
	25%	25		8.125				9.9	7%	40%
	30%	30		9.75				11.5	6%	38%

SOURCE: **SNEHASISH MAHMUD & CO**

In turn, this may increase the effective tax rate from 6 per cent to 36 per cent depending on a profit base range between 5 and 30 per cent, Rupali Chowdhury, president of the Foreign Investors' Chamber of Commerce and Industry (FICCI), told Finance Minister AHM Mustafa Kamal last week in a letter seeking the cap's removal.

Due to the increase in effective tax rates, non-listed companies, the country's biggest taxpayers, will not be able to take full advantage of the proposed reduction of corporate tax from 35 per cent to 32.5 per cent.

"This will subside the government's initiative to reduce corporate tax rates," said a top executive of a multinational company operating in Bangladesh for many years requesting anonymity to speak candidly on the matter.

The FICCI also said that fast-moving

The FICCI said that if the measure is passed, it will give the wrong signal to all potential foreign direct investors as an investment in Bangladesh will look 'very unattractive'.

If the FMCG and other industries want to minimise their taxes on promotional expenses, more than 90 per cent of those activities will be reduced, which will significantly hinder business growth, read the FICCI president's letter, which was also forwarded to the National Board of Revenue.

The revenue authority is seeking to fix a maximum ceiling on promotional expenses to discourage certain malpractices among firms, particularly a section of pharmaceuticals companies that claim various benefits provided to their physicians as promotional expenses, said a senior taxman.

READ MORE ON B2

Overcapacity in power sector a growing concern: CPD

Star Business Report

Overcapacity is a growing concern for the power sector as it is creating fiscal and financial burdens for the country, said the Centre for Policy Dialogue (CPD) yesterday.

The power division has confronted rising fiscal and financial burden due to the overcapacity related problems, which aggravated further during the Covid-19 period and would deepen in the post-COVID period, the think-tank said.

Payment of capacity charges to power plants is a growing expenditure for Bangladesh Power Development Board (BPDB), particularly for rising unused and under-utilisation of capacity, said Khondaker Golam Moazzem, research director of the CPD, in a paper.

The paper was presented at a virtual dialogue on "Covid-19 - Power Sector in National Budget for FY2020-21: Allocative Priorities and Alternate Proposals" organised by the CPD.

The power sector is one of the major areas of success of the government over the last decade, the CPD said. But the transmission and distribution systems did not make considerable progress in commensurate with that of power generation.

The amount of overcapacity on June 16 of FY18, FY19 and FY20 was 9,437 megawatts, 8,806MW, and 10,216MW respectively. During the same period, the rates of overcapacity was as 59 per cent, 46 per cent and 49.8 per cent respectively.

Such a high amount of reserve capacity is against the 25 per cent target set in the Power Sector Master Plan and significantly higher than the 10 per cent reserve capacity maintained in developing countries, the CPD paper said.

The capacity payment has significantly increased over the years: from Tk 1,790 crore in FY10 to Tk 8,929 crore in FY19, up 398 per cent.

The CPD called for reprioritisation of budget allocation of the power division, particularly towards promoting clean energy by discouraging new investment in coal or fuel-based power plants as well as retiring private sector quick rental power plants on a priority basis.

The Covid-19 has provided an opportunity to revisit existing approaches, operations, management, cost and return of the ongoing power generation, distribution, transmission and related activities, the CPD said.

"It is a good time to rethink the power sector development strategies in view of redirecting the power sector towards clean energy led sector by 2030 and 2041."

The power division needs to follow 'go-slow' policy in power generation-related projects both under public and private sector given the huge amount of overcapacity currently exists, the CPD said.

CENTRE FOR POLICY DIALOGUE

CPD recommends

- Redirecting power sector towards clean energy-led sector by 2030
- Rationalising power division's budget
- Reprioritising investment projects
- Going slow in power generation related projects given existing overcapacity
- Making exit plan for quick rental power plants

The government should make a clear exit plan for the quick rental power plants and should gradually phase out those projects, it said.

Nasrul Hamid, state minister for power, however, said there is no overcapacity.

Of the 23,500MW installed power generation capacity, 4,000MW is produced by industries through captive generation.

There is 10 per cent of de-rated capacity. There are old plants with combined capacity of 1,500MW that are not used but have been put on standby and these plants would retire soon, according to Hamid.

Then, the installed generation capacity comes to 16,000MW, he said. But the demand rose to 12,000MW even during the Covid-period, he said.

"I would have been in trouble if there had been no Covid-19. So, it is not overcapacity."

"We have to put in place a maximum capacity, whether it is used or not."

There is only 19 per cent in excess capacity now in Bangladesh whereas it is 100 per cent in India and the US, he said.

Japan has plans to invest $6 billion in the power sector in Bangladesh, said the state minister. "We have got assurance for another $2 billion worth of investment."

"Why are they investing in Bangladesh? Because they are going for big manufacturing industries in Bangladesh. They are setting up ports in Matarbari."

So, the power generation capacity is increasing keeping in mind the future demand scenario, he said.

Of the power plants, 35 per cent are based on liquid fuel and the government wants to get rid of them, according to the state minister.

"But we have to bring in base-load and more efficient power plants. We are working on them," he said, adding that power plants with capacity of 2,000MW would retire in the next three years.

On coal, he said the government is reviewing its plans on coal-based power plants because of falling prices of liquified natural gas.

"We are keeping the three coal-based power plants," he said, referring to the plants in Paira, Rampal and Matarbari.

He talked about the government plan on issuing bonds in Singapore or other big markets to raise funds for power projects as well as enlisting public power projects in the stock markets.

Bangladesh would require an investment worth $30 billion if it wants to have a stable electricity in the next five years, he said.

The government is rightfully investing in distribution and transmission systems as the coronavirus pandemic has shown that modernisation of the systems is very important, said M Tamim, a professor of petroleum and mineral resources engineering of the Buet.

READ MORE ON B3