More domestic savings needed for a sound capital market

by Maj Gen (Rtd) M A Matin

World Development Report 1990 once again reminds us that Bangladesh is still one of the world's poorest countries, with a GNP per capita of only 170 Dollars.

The Report's projections for 1990s show buoyant growth of about 3 per cent a year in the developed countries and about 5.1 per cent in the developing world — compared with 4.3 per cent achieved by developing countries in 1980s. Sounds great, but what is our actual position. Has poverty declined in our country?

More than 85 per cent of our people live in the rural areas and about 57 per cent are in poverty. They had no say in political and economic decision making, and had to remain content ascribing everything to luck.

Bangladesh is predominantly an agricultural country. Her economy is largely dependent on agriculture. But dependence on this sector alone would not enable the country to meet the growing needs of our people and to create enough employment opportunities.

Large scale and rapid industrialisation is the only option to overcome the problems. It would enhance growth, which still remains the major means to combat poverty. World Bank has rightly recommended a two-fold strategy for reducing poverty.

Industrial development is heavily dependent upon the availability of investable surplus. And savings are the prime source of such investable surplus. The rate of savings of our country in 1978 was no more than 2 per cent to 3 per cent of GDP, and in 1987-88 it was about 2.6 per cent. The desirable level of savings should not go below 12 per cent mark. The remittances of Bangladeshi workers abroad constituted 6 per cent of our GDP till Iraqi invasion of Kuwait.

And now the question before us is how to increase our savings and mobilise savings for useful investments.

A sound and active capital market, is the only solution to our problems. There is a growing focus now on the development of capital market in the developing countries. An efficient capital market is not an end in itself. It complements and supports the productive activities of the economy. The capital market of Bangladesh has a narrow and low operational base capital comes from savings, and our rate of savings is low. Hence our capital market remains underdeveloped.

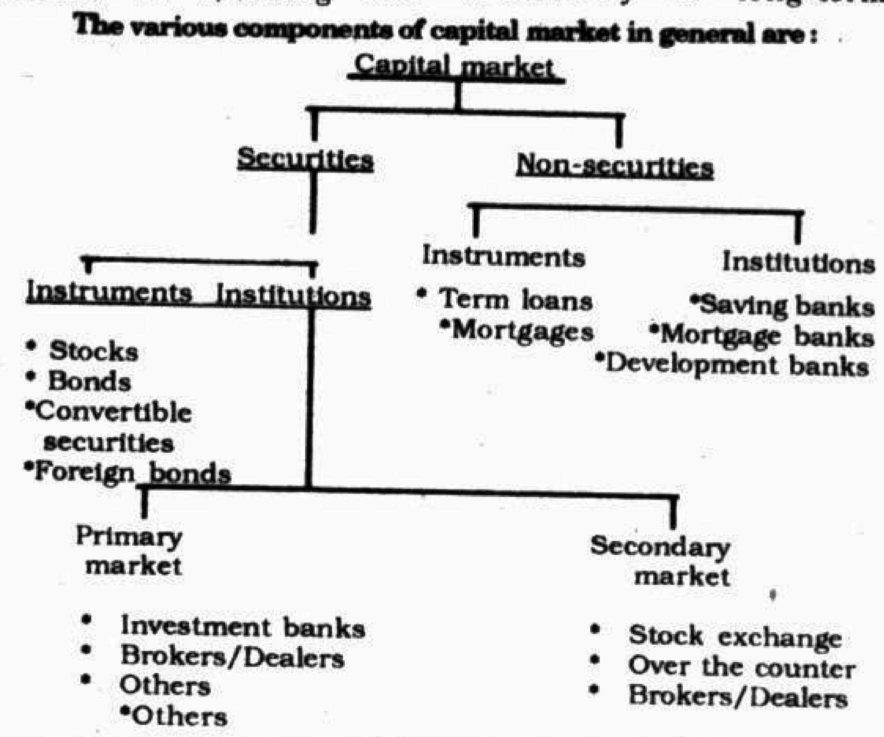
Many factors, of course, affect the saving rate, and some of them are rate of income growth, age of composition of population, attitude toward thrift, availability of institutional facilities, communication facility (particularly for rural people), macroeconomic and political stability affect expectations and thus affect saving and services provided by government (social securities, etc.).

Today natural resources endowments have declined in importance in most high-income countries. In Great Britain, for example, the value of land and minerals was 60 per cent of the value of all tangible assets in 1688, but only 15 per cent in 1977. In fact, natural resources have not determined wealth. In 1870, Australia, a country rich in natural resources had twice the per capita income of Switzerland. Today Switzerland's per capita income exceeds Australia's by more than half.

The ability to raise efficiency, depends on good financial system. The ultimate objective of strengthening a country's financial system is to make possible an increase in, and more efficient utilisation of, financial resources in the development process as a means of speeding real economic growth.

The specific objectives of financial development are to increase domestic savings, improve the efficiency of the allocation of savings to investment in the public and private sectors, broaden the base of ownership of real and financial assets, make investment capital available to more people, ensure the availability of long-term financial resources while minimising the risk of financial instability by lengthening the term of financial assets acceptable to savers, and establishing a proper framework for term transformation by financial institutions, widen the range of financial services available through financial institutions, improve the operational effectiveness of financial institutions and to improve the terms under which foreign funds are raised and reduce the relative amounts required.

The various components of capital market in general are :



While talking about financial system, money and capital markets emerge as the obvious issues. Development of money and capital markets means development of the financial system of the country.

A sound capital market can achieve economic growth by strengthening and improving the mobilisation of resources and then allocating/utilising it appropriately. The speedy development of industrial activities in the country needs the support of a balanced and efficient capital market. Capital market may be defined as the demand for the supply of capital as a reproductive capacity. The following are the important considerations for development of a sound capital market:

It must ensure greater mobilisation of domestic savings, broadening the base of industrial ownership and assist the entrepreneurs (both in private and public sectors) to acquire capital for feasible projects.

Considering the importance of capital market, the Government of Ziaur Rahman established the Investment Corporation of Bangladesh (ICB) on 01 October, 1976 with the following aims and objectives : To encourage and broader the base of investments, develop capital market, mobilise savings and to cater for the need of institutional support to meet the equity gap of the industrial enterprises (having public company status).

In order to achieve the objectives, the Corporation was bent upon to carry out some major functions which include : Underwrite the public issue of shares and provide bridging loan against underwriting, where necessary, purchase corporate debentures/bonds, merchandising stocks and shares by opening and maintaining investors' accounts, issuing mutual funds and unit certificates, operating on stock exchange and direct purchase of Shares from government and other institutions/investors, provide investment counsel to issuers/investors, participate in Govt disinvestment programme and to participate in joint-venture projects.

In order to develop the capital market ICB's role had been quite commendable. In addition to underwriting/bridge finance, debenture finance, etc., it launched and floated Investors' Scheme, Mutual Funds and Unit Fund.

Floatation of Mutual Funds and issue of Unit Certificates have encouraged supply of attractive securities in the stock market. Through Investors' Scheme, Mutual Funds, and Unit Fund machanism, ICB has been able to mobilise domestic savings.

(The writer is the former Chairman of Investment Corporation of Bangladesh).

Finance Act '91 : Challenges and opportunities

By A K M Sahabub Alam

The Finance Act, 1991 is the first Fiscal Act promulgated by the democratically-elected Government. It includes some changes, challenges and opportunities offered both to the Government, the business and to the public.

The changes effected to under the new Finance Act, are many.

It abolished all types of surcharges including development surcharges. Excise duty on goods and services produced by domestic producers, manufacturers and service-renderers except in some sectors have also been abolished.

The power of abatement of duty on lost or destroyed goods has been delegated under the Act to the Collector of Customs from the National Board of Revenue (NBR).

The exemption limit from payment of wealth tax of a house if the owner himself lives in the house has been extended from Taka 25 lakh to Taka 50 lakh.

Foreign travel tax on all foreign travels by air, land and sea has been reduced.

The rates of duty on locally produced alcohols and spirits have been increased upto 50 per cent.

The rates of import duty on 2,055 specified items have been increased upto 10 per cent by substituting the earlier second schedule of the Customs Act, 1969 by a new schedule. This amendment will partly compensate the loss of revenue from withdrawal of sur-charge.

The Finance Act, 1991 also made amendments, substitutions and inclusions in the Income-Tax Act, 1984. These changes can be categorised as (a) Major Changes, (b) Challenges and (c) Opportunities.

Under the major changes, the definition of company has been widened to include an association or combination of persons, called by whatever name if any of such persons is a company as defined in the Companies Act, 1913; and any association or body incorporated by or under the laws of a foreign country. The qualifications of the judicial and accountant members of Taxes Appellate Tribunal have been amended.

Besides, the investment allowance has been reduced from 33 1/3% to 30 per cent of the total income, and the maximum limit has been lowered from Taka 2,00,000.00 to Taka 1,00,000.00. This reduction will affect investment in National Savings Scheme.

Continuance of tax holiday to specified industrial units has been restricted upto 1995, instead of 2000 AD. Though this amendment will have no impact on industrialization in the country for the time being, it may affect later on if tax holiday is not extended beyond 1995.

The scope of tax deduction at source has been extended to (i) income from interest on savings, term or fixed deposits or share of profit from term deposits, (ii) income from insurance commission and (iii) income from capital gains.

The existing provisions concerning exemption of dividend have been modified.

Thus, dividend income of assesses (other than companies) on shares of quoted companies acquired on or after July 1, 1984 upto Taka 30,000.00 will be exempted. But no exemption for dividend on shares of private and unquoted public companies will be provided. Income-tax will be deducted at source from dividend 10 per cent, 15 per cent and 30 per cent in the case of resident assesses (other than companies) companies and non-residents respectively. These changes may reduce investments in shares, and in turn, affect the development of capital market.

The scope of presumptive assessment has been widened to include "business" in addition to "profession" to help ease tax administration.

The income tax rate for companies has been increased by 5 per cent to compensate for the loss of revenue because withdrawal of income-tax surcharge.

The challenges of the Finance Act can be deserbed as follows: The interest or share of profit on loan taken by any assessee from any bank or financial institution that was so long allowable whether paid or not in the income year or succeeding year (s) will henceforth be deemed to be income in the third year if not paid within two years after expiry of the income year. This will have a negative impact on capital intensive, cash-hungry assessees.

A Chartered Accountant who issues a certificate as to the correctness of the total income of an assessee, being a public company, a sector corporation or a nationalised bank, financial institution, insurance, or industrial or business enterprise, will henceforth be liable to pay a penalty upto 2.50 times of the tax avoided if he "willingly or knowingly withhelds any information relating to particulars of such income". This provision may lead to a lot of litigations between the chartered accountants and the tax authorities.

The time limit for disposal of appeals filed by an assessee to the Appellate Tribunal has been fixed at two years from the end of the year in which the appeal was filed. This amendment will expedite disposal of appeals, remove the assessee's uncertainties, and increase collections of income-tax.

The opportunities of the Finance Act can be listed as follows.

Capital gains from buildings or lands are to be exempted if such gains are invested, not only in the acquisition of capital assets or an industrial undertaking, but also "in the construction of a new building or purchase of a new apartment to be used for residence". This will encourage investment in housing, and will create opportunities for relators.

The existing provision of an industrial company enjoying tax-holiday having to invest 50 per cent of its exempted income in the purchase of Government bonds has been reduced to 20 per cent. This will ease cash flow problem of tax-holiday companies, and facilitate them to fund their own requirements.

The requirement for obtaining Transfer of Property certificate by an individual assessee, by paying anticipated tax on capital gains and arrear taxes, if any, before registration of immovable property has been withdrawn and instead, provision has been made to the effect that the sub-Registrar will collect income tax at source at 5 per cent of the value of the property. These amendments shall remove the lengthy and allegedly corrupt practices in the issuance of TPCs; and will create opportunities for relators.

The requirements for submitting "statement of assets, liabilities and expenses" by an individual-assessee having income exceeding Taka 40,000.00 has been relaxed to Taka 1,00,000.00. This will mitigate inconveniences of the lower income group and ease tax administration.

The "self assessment scheme" (i.e. accepting return filed by assessees as correct and complete by the Deputy Commissioner of Taxes) has been extended to public companies, sector corporations and nationalised banking, insurance, industrial and business enterprises whose income tax return is accompanied by a certified copy of accounts of the assessee audited by a Chartered Accountant and a certificate as to the correctness of the total income of the assessee signed and issued by the Chartered Accountant himself in the prescribed form. This amendment will create congenial atmosphere for both the taxpayers and the tax-assessors; and will increase government revenues.

The requirement of paying 50 per cent tax before filing appeals to both High Court and Appellate Divisions of the Supreme Court of Bangladesh has been lowered to 25 per cent. Provision has further been made even to modify or waive this requirement on the appellant's application to the NBR. These amendments shall enhance the appellants' ability to seek justice from the higher courts.

The maximum rate of income tax for assessees (other than companies, registered firms and non residents) has been lowered from 50 per cent to 45 per cent and the slabs of taxable income as well as the rates of income-tax have been rationalised to reduce income-tax liability. These variations in income-tax rates shall benefit the aforesaid assessees and increase their personal savings and investments because of their higher disposal income.

In addition to the Finance Act, 1991, fiscal provisions were amendment by changes in Rules and SROs. These include the following major amendments: Exemption of entertainment allowance upto Taka 4,200 in the hands of salaried-individual has been withdrawn. Self-assessment scheme has been made inapplicable to cases claiming income-tax refunds arising out of tax deducted to source. The scope of tax deduction at source at import stage has been extended to import of raw materials for industries approved by the Board of Investment.

(The contributor is a Chartered Accountant. Here the writer reviews the Finance Act 1991 and explains various changes under it to assess how it will affect the businesses, the tax-payers and the government. The views expressed in the article are the writer's own, not necessarily of the Daily Star. — Economic Editor)

Market Prices of Listed Shares and Debentures with Dhaka Stock Exchange

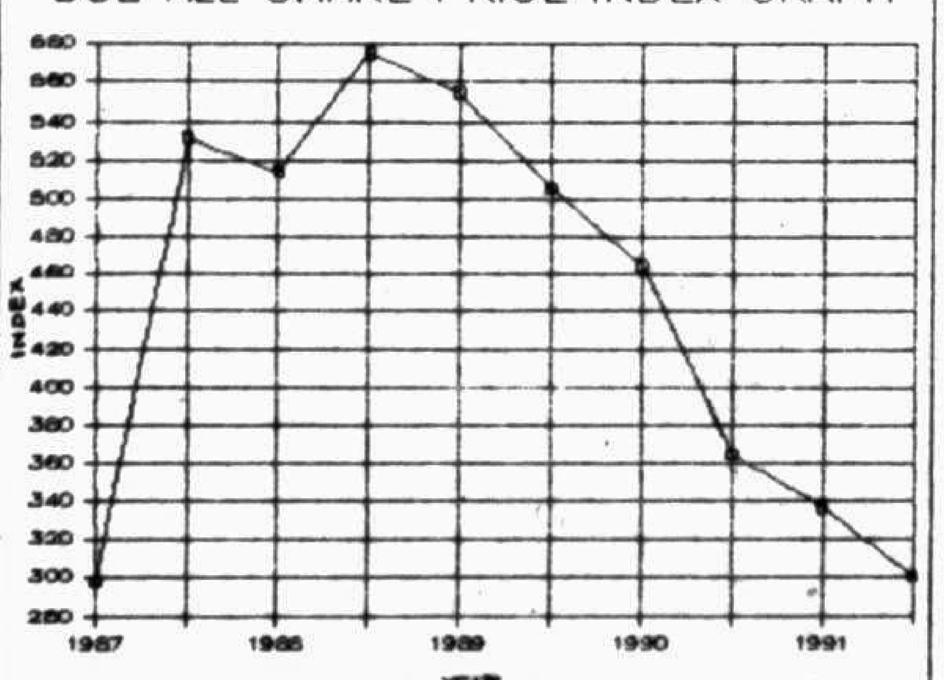
At the close of trading on August 1 and August 7, 1991.

Company	FV/ML*	August 1 Taka	August 7 Taka	1990-91 High Taka	1990-91 Low Taka
BANKS (Ten)					
AL Baraka Bank	1000/1	800.00	800.00	1010.00	725.00
A.B Bank	100/5	185.00	185.00	185.00	135.00
City Bank	100/5	270.00	270.00	275.00	178.00
I.F.I.C	100/5	190.00	185.00	202.00	140.00
Islami Bank	1000/1	1350.00	13.00XD	1400.00	1000.00
National Bank	100/5	110.29	109.00	125.00	102.00
Pubali Bank	100/5	105.00	110.00	110.00	90.00
Rupali Bank	100/10	77.66	77.70	110.00	75.00
U.C.B.L	100/5	131.00	129.00	138.00	128.00
Uttara Bank	100/5	214.00	214.00	230.00	193.00
INVESTMENT (Eight)					
I.C.B	100/5	100.00	90.00	100.00	90.00
1st ICB M.Fund	100/5	400.00	400.00	450.00	400.00
2nd ICB Fund	100/5	160.00	160.00	200.00	160.00
3rd ICB M. Fund	100/5	140.00	142.00	168.00	140.00
4th ICB M. Fund	100/10	135.00	135.00	157.00	133.00
5th ICB M. Fund	100/10	100.00	104.00	139.00	100.00
6th ICB M. Fund	100/10	60.00	64.50	100.00	60.00
ICB Unit Cert.		114.00	114.00		
Sales Price		109.00	109.00		
Re-purchase					
INSURANCE (Four)					
BGIC	100/10	112.00	112.00	117.00	104.00
Green Delta	100/10	112.00	112.50	122.00	104.50
Peoples	100/10	120.00AL	120.00AL	120.50	108.00
United	100/10	117.00	120.00	122.00	105.00
ENGINEERING (Nineteen)					
Aftab Automobiles	100/5	200.00	200.00	220.00	184.00
Atlas Bangladesh	1050	40.00	40.00	44.00	36.00
Aziz Pipes	100/5	230.00	236.67	250.00	218.00
Bangladesh Autocars	100/5	101.00	101.00	123.00	100.00
Bangladesh Lamps	105/5	266.00	266.00	290.00	230.00
B.Thai Alluminium	100/10	91.00XD	92.95XD	110.00	75.00
Bengal Carbide	100/5	400.00	400.00		
Bengal Steel	10/50	18.00	18.00		
Eastern Cables	100/5	78.00	78.70	109.00	75.00
Howlader PVC	100/10	100.00	98.00	122.00	9700
Karim Pipe	100/5	117.00	117.00	130.00	110.00
Metalex Corp.	100/5	102.00	102.00	102.00	75.00
Monno Stafllers	10/05	250.00	250.00	250.00	250.00
Monno Jutex	100/5	350.00	350.00	350.00	350.00
National Tubes	100/10	111.00	111.00	137.00	103.00
Panther Steel	10/50	6.00	6.00	6.30	
Quasem Drycells	10.50	8.20	8.20	7.50	
Renwick Jajneswar	100/5	67.00	66.86	74.00	48.00
Singer Bangladesh	100/5	1005.00	1010.00	1125.00	1000.00
FOOD & ALLIED (Twenty one)					
A.B Biscuit	100/5	200.00	190.00	200.00	190.00
Alpha Tobacco	10/50	48.00	48.00	48.00	48.00
Aman Sea Food	100/5	36.00	36.00	40.00	36.00
Apex Food	100/5	340.00	340.00	340.00	270.00
Aroma Tea	100/5	50.00	55.00	50.00	45.00
Bangas	100/5	305.00	305.00		
Bengal Food	100/5	148.00	149.00	255.00	140.00
B.L.T.C.	100/5	600.00	600.00	600.00	600.00
B.T.C.	10/50	47.00	47.00	83.00	35.00
Ctg. Vegetable	100/0	100.00	102.00	117.00	92.00
Dhaka Vegetable	100/5	135.19	134.00	175.00	127.00
E.L. Camellia	100/5	700.00	700.00	700.00	500.00
Frogleg Export	10/50	6.00	6.00	6.75	4.00
Gemini Sea Food	100.00	100.00	100.00	100.00	100.00
Modern Industries	100/5	160.00	160.00	160.00	135.00
N.T.C	100/5	267.00	268.00	280.00	220.00
Rabeya Flour	10/100	NT	NT		
Rupan Oil	10/100	6.25AL	6.25AL	7.50	6.00
Tulip Dairy	100/10	92.00AL	92.00AL	105.00	90.00
Yousuf Flour	10/50	NT	NT		
Zeal Bangla	10/50	8.00	8.25	10.00	7.50
FUEL & POWER (Three)					
Padma Oil Co.	10/50	40.00	40.00	45.00	40.00
Eastern Lubricant	10/50	14.00	14.00	81.00	46.50
Oxygen	10/50	50.90	50.90		
JUTE (Twelve)					
Ahad Jute	100/10	NT	NT		
Anowara Jute	10/50	NT	NT		
Delta Jute	10/50	8.50	8.50		
Gawsia Jute	10/50	NT	NT		
Islam Jute	100/5	55.00	56.00	63.00	53.00
Jute Spinner	100/5	96.00	100.00	100.00	93.00
Mutual Jute	100/5	100.00	100.00	100.00	80.00
Northern Jute	10/50	NT	NT		
Shamser Jute	100/5	100.00	100.00		
Specialised Jute	10/50	NT	NT		
Shine Pukur Jute	100/5	94.00	94.00	95.00	94.00
Sonali Aansh	100/5	83.00	86.00	85.00	60.00
PHARMACEUTICALS & CHEMICALS (Fifteen)					
Ambee Pharma	10.50	14.50	15.00	15.50	13.50
Bangla Process	100/5	51.00	51.00	68.00	50.00
Beximco Pharma	100/5	173.00	169.91	185.00	149.00
Glaxo	10/50	125.00	125.00	240.00	125.00
I C I	10/50	10.00	10.00		
Kohinoor Chemical	10/50	69.25	68.50	90.00	66.00
Petro Synthetic	10/50	15.75	15.75	16.00	13.00
Pfizer	100/5	110.00	110.00		
Phama Aids	100/5	165.00	160.00	175.00	150.00
Phamaco	100/5	40.00	40.00	42.00	39.00
Progressive Plastic	110/5	45.00	45.00	58.00	45.00
Reckitt & Colman	10/50	240.00	240.00	240.00	240.00
Rahman Chemicals	100/10	35.00AL	35.00AL	60.00	35.00
Therapeutics	100/5	40.00	40.00	40.00	35.00
The Ibnsina	100/10	90.00	90.00	100.00	79.00
PAPER & PRINTING (Six)					
Eagle Box	10/50	14.00	14.39	15.00	11.50
Monospool	100/5	105.00	105.00	125.00	98.00
Paper Converting	100/5	113.00	113.00	113.00	100.00
Paper Processing	100/10	106.00AL	106.00AL	112.00	106.00
Padma Printers	10/50	50.00	50.00	50.00	25.00
Sonali Paper	10/50	55.00	55.00	55.00	55.00
SERVICE (Two)					
Bangladesh Hotel	10/50	12.00	12.00		
Bd. Service	10/50	NT	NT		
TEXTILE (Eighteen)					
Alhaj Textile	10/50	NT	NT		
Arbee Textile	100/10	NT	NT		
Ashraf Textile	10/50	30.00	30.00	33.00	27.00
Chand Textile	10/50	NT	NT		
Chand Spining	10/50	NT	NT		
Desh Garments	100/10	67.00	67.00	100.00	67.00
Dulamia Cotton	100.10	85.00AL	86.00AL	104.00	69.00
Eagle Star	10/50	33.50	33.00	36.50	30.00
GMG Ind. Corp.	10/50	13.00	13.00	13.00	10.00
Modern Dyeing	100/5	34.00	37.00	44.00	32.00
Quasem Silk	10/50	6.00	6.10	8.00	6.00
Quasem Textile	10/50	8.00	8.00	9.25	7.50
Rahim Textile	100/5	48.00	48.00	65.00	46.00
Saiham Textile	100/10	78.00	77.22	90.00	77.00
S.T.M. (ORD)	100/5	17.00	17.00	17.00	12.00
Stylecraft	100/5	100.00	100.00		
Swan Textile	100/5	60.00	60.00	73.00	60.00
Tallu Spinning	100/10	114.50AL	115.40AL	126.50	101.00
MISCELLANEOUS (Fourteen)					
Apex Tannery	100/5	147.08	151.00	150.00	138.00
Aramit	10/50	NT	NT		
Bata Shoe	10/100	38.00	38.00	47.00	36.50
Beximco	10/100	9.25	9.00	10.50	8.25
BSC	100/5	45.00	45.00	45.00	45.00
Chittagong Cement	100/5	183.40	175.00	186.00	129.00
G. Q. Ball Pen	10/50	55.50	45.00	64.00	45.00
Himadri Ltd.	10/100	NT	NT		
Milon Tannery	100/5	28.00	28.00	39.00	26.00
Monno Ceramic	100/5	142.00	140.00	160.00	127.00
Phoenix Leather	100/5	90.00	90.00	100.00	90.00
Savar Refractories	100/5	112.00	112.00	132.00	104.00
The Engineers	100/5	100.00	100.00		
Usmania Glass	100/5	135.67	140.00	150.00	123.00
DEBENTURES (Four)					
Apex Tannery (17% 1992)	1000/1	990.00	996.00	1040.00	950.00
Bengal Food (18.5% 1992)	1470/1	889.38	889.38	1230.00	875.00
Beximco Pharma (17% 1997)	1714/1	1570.00	1565.00	1735.00	1540.00
Quasem Silk (17% 1994)	2000/1	1580.00	1580.00	1600.00	1400.00

** FV = Face Value* ML= Market Lot NT= Not Traded. AL=Allotment Letter XB= Ex.Bonus/ XD= Ex. Dividend

* Trading was closed on February 21 because of 'Shaheed Day'

DSE ALL SHARE PRICE INDEX GRAPH



DSE ALL SHARE PRICE INDEX-MONTH ENDED

COMPOSITE INDEX

	Month	Date	Month High	Month Low	Month Close
1990	-January	30-01-90	469.7346	464.0666	464.601
	-February	27-02-90	465.4052	442.2537	442.2592
	-March	31-03-90	441.4893	373.7249	373.7249
	-April	25-04-90	388.6221	372.7877	388.6221
	-May	31-05-90	393.0542	378.0239	376.9795
	-June	30-06-90	378.7163	361.0733	362.2283
	-July	31-07-90	370.9738	362.1224	364.8722
	-August	30-08-90	374.5132	362.8992	372.3114
	-September	30-09-90	371.6622	360.4589	360.4589
	-October	31-10-90	369.5127	349.9282	357.9916
	-November	27-11-90	362.5652	355.3023	358.0205
	-December	30-12-90	358.5256	350.6728	350.7662
1991	-January	31-01-91	351.0338	336.2454	336.2454
	-February	28-02-91	343.4079	333.3602	343.4079
	-March	31-03-91	356.1456	344.5764	353.7324
	-April	30-04-91	356.4085	353.8956	355.8956
	-May	21-05-91	353.8958	352.2432	342.2432
	-June	30-06-91	317.6781	291.6650	320.9147

BCCI depositors observe hunger strike

Star Economic Report

The depositors with Bank of Credit and Commerce International (BCCI) observed a eight-hour hunger strike on Thursday.

Speakers at the meeting of BCCI (O) Ltd Depositors Association held after the strike demanded the publication of the names of the borrowers from the bank. They said the borrowers had taken the depositors' money and as such, they demanded to know when this money would be refunded.

They also wanted to know the reason of the silence of the Government in conserving the rights of the depositors.

The meeting also declared that there would be a grand rally of the depositors. However, they did not disclose the date.