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Reduction in depreciation rate

Higher taxes weigh industries down

By Inam Ahmed

Investors need a stable economic and tax regime to flourish their businesses. When policies change suddenly and drastically, they find their business estimates gone awry. This is exactly what happened with the new Finance Act this year. The Act has drastically increased the tax liabilities of industries as well as leasing companies with retrospective effect.

As an aftermath, industries as well as leasing companies find themselves counting huge additional taxes which they had never anticipated.

The Act, supported by a SRO issued on August 20, has radically reduced the depreciation rate for capital machinery and plant from the existing rate of 55 per cent to only 18 per cent for the first year of acquisition. This has been made with retrospective effect, only to make things worse.

As a result, not only companies have to pay taxes many times higher than before, they also have to count taxes for the last year for which many listed companies have already closed their books and distributed dividends.

The new SRO is effective from the 1998-1999 assessment year, which means the actual period under scrutiny is from

July 1, 1997, to June 30, 1998, industrialists defined.

The situation has raised high concerns forcing the Foreign Investors Chamber of Industry and Commerce (FICCI) to comment: "Investments by the existing foreign investors will surely decline. It will inhibit future foreign investment and a sudden increase in tax is not conducive to a really foreign investment-friendly regime."

It said that foreign investors needed a stable and predictable policy so that their headquarters could make advanced projections.

FICCI has sent its views to NBR for revision of the SRO.

The root of the problem lies in the budget proposal to withdraw the initial and shift depreciation allowances on machinery and plants. It also proposed compensation for the withdrawal by an increase in the normal depreciation rate by an additional 20 per cent in those cases where initial or extra shift depreciation allowance were applicable. As a result, the new consolidated rate in such cases is now 35 per cent, including 15 per cent normal and 20 per cent additional depreciation rates.

In the Finance Act, issued subsequently, the initial and

shift depreciation allowances were withdrawn. In its SRO on August 20, 1998, NBR revised the normal depreciation rate to 18 per cent. This is a drastic reduction from the existing aggregate rate of 55 per cent in the first year of acquisition and 30 per cent thereafter for a three-shift operation.

As a result of this drastic hike in tax liability, a manufacturing company has now to pay Tk 1.30 crore additional tax on a Tk 10 crore investment in machinery and plant in the first year of acquisition.

NBR reasons that the change in rates was made to remove complexities in accounting for depreciation and to simplify tax calculation.

"The drastic depreciation rate cut could spell a disaster for industrial undertakings by increasing their tax liabilities manifold," said the chief executive of a multinational company doing business in Bangladesh since independence. "This will consequently reduce the shareholders' return and the size of appropriation and reserves on which the viability of a company depend."

A multinational company which has already disbursed share dividends is now facing Tk 1.30 crore additional tax liabilities for the year. Another in-

vestment company finds its purse shrunk by Tk six crore.

Foreign Private Investment (Promotion and Protection) Act 1980 guarantees protection to companies with foreign investment from adverse effects of sudden policy shifts.

The above policy changes negate the privileges guaranteed by the Act, many foreign companies now say.

"The measure is also likely to damage investor confidence and discourage new capital flows affecting the country's industrial output and quality," said a pharmaceutical company finance manager.

But for the leasing companies, the impact of the new measure is even greater due to the accepted method of taxing them.

The leasing companies buy capital machinery and rent them to others. Being the owners of equipment, they are entitled to the depreciation facility. With the new change in rates they have to pay a lot more than before.

Leasing sources say that the high tax liability might surpass some companies' total income for some years. It is now feared that the negative cash flow may force some companies to go bust.

However, over the period of a

lease, the total tax revenue from the leasing companies to the government will not increase no matter whether initial depreciation is allowed or not. But due to the timing difference, tax in the early years of a lease could be higher than its total profit.

The leasing companies had been playing a vital role in financing the country's industries. In 1997, the total investment by all the leasing companies stood at Tk 2318 million, achieving a 32 per cent year-on-year growth. During the year, their shares in the country's total term loan was 30 per cent. Small and medium-scale industries are their main clients.

Prior to withdrawal of the initial depreciation allowance, one leading leasing company's taxable profit was 39 per cent and 48 per cent of book profit for 1996 and 1997 respectively. With the new budget now, the recalculated taxable profit for 1997 stands at 186 per cent of the book profit, raising the tax liability to a phenomenal extent.

"With the increase in tax incidence, our cash flow will be affected," said the chief executive of a company, which is by nature capital-intensive. "Withdrawal of shift allowances is also a big blow to us," he added.

JB group loan for rural women

Janata Bank (JB) has decided to extend credit to the economically backward and destitute women in rural areas, says a press release.

To make them self-reliant, JB will organise them in homogeneous groups and finance to undertake income-generating activities. Small but regular savings by the women is another important feature of the programme.

JB will assist them in adopting profitable production plans for growing crops and vegetables, fish cultivation, family-based poultry, milching cow and setting up cottage industries, bakeries and other small trades.

Loans will be repaid by instalments.

Initially the bank will start this programme in 32 districts which are Panchagarh, Thakurgaon, Dinajpur, Nilfamar, Lalmonirhat, Rangpur, Kurigram, Gaibandha, Bogra, Rajshahi, Natore, Naogaon, Faridpur, Gopalganj, Madaripur, Shariatpur, Kishoreganj, Narasingdi, Dhaka, Kustia, Meherpur, Chuadanga, Jhenaidah, Jessore, Barisal, Patuakhali, Comilla, Chandpur, Noakhali, Moulvibazar, Sylhet and Chittagong.

A significant portion of the rural people consists of poor women and due to lack of opportunities they can't take part in the country's development process. Through involving them in the income-generating activities the poverty-alleviation process will be accelerated, the release added.

Dhaka strikes deal with London Tk 474cr okayed for poverty alleviation

Britain's support for poverty elimination in Bangladesh was further demonstrated yesterday through the approval of grants totalling 59 million pound sterling (about Tk 474 crore) for two projects.

The British High Commissioner, David Walker and Economic Relations Division (ERD) Secretary Dr AKM Masihur Rahman, signed the formal Exchange of Letters for the projects at the ERD in Dhaka yesterday morning, says a press release.

The first project, Strengthening Health and Population for Less Advantage (SHAPLA), will contribute 55 million pound sterling (Tk 440 crore) to the government's new five-year Health and Population Sector Programme (HPSPP).

This programme is strongly focused on improving essential health and family welfare services, especially for the poor. Through Shapla, the British government's Department for International Development (DFID), will finance specific activities which will strengthen the management and delivery of health services and improve access for the poor. It will also contribute 25 million pound sterling to overall HPSPP running costs, through a multi-donor Trust Fund.

The second grant will contribute 4.3 million pound sterling (Tk 34 crore) towards the Primary and Mass Education Division's project for providing Basic Education for Hard to Reach Urban Children.

The overall project will provide non-formal basic education to up to 351,000 poor urban children, aged between 8 to 14, who have not had access to basic schooling and who are engaged in hazardous or exploitative child labour.

Singer changes date for book closure

Star Business Report

The Register of Member and Share Transfer Book of Singer Bangladesh Limited will now remain closed from Tuesday (17 November) to Wednesday (25 November) instead of November 12 to November 22 as announced earlier through a declaration published in some national dailies, says a press release issued yesterday.

During the period no share transfer will be effected.

Shareholders whose name will be appearing in the Member's Register on November 16 and will deposit their share certificates for transfer within 5 pm on the same day will be eligible for the 2nd interim dividend.

Higher wages, promotion demands Indian govt employees plan series of strikes

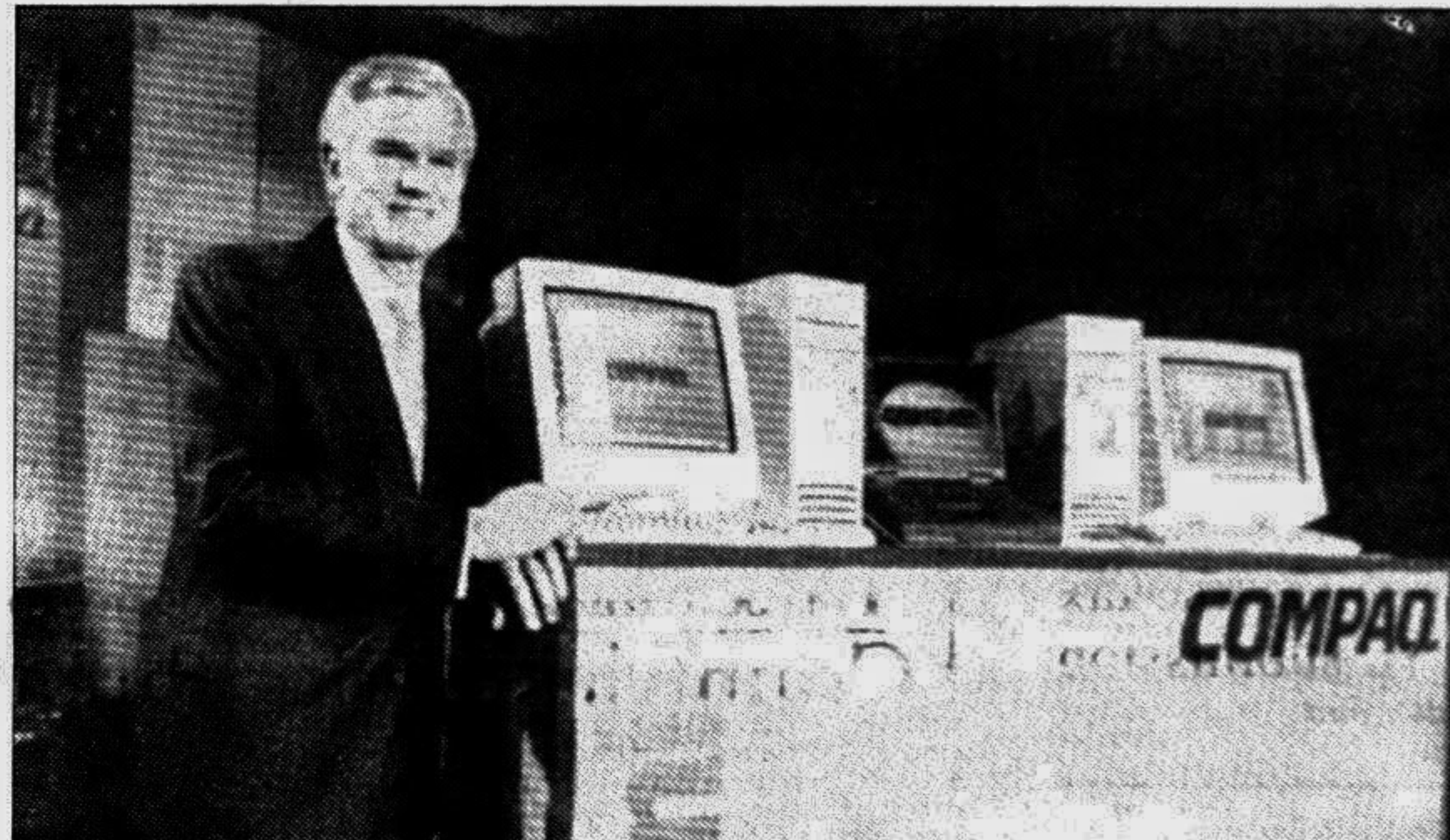
NEW DELHI, Nov 12: Disgruntled Indian government employees are planning a series of strikes in the next two months, despite warnings from an export body yesterday that industrial action will cripple the economy, says AFP.

India is currently in the midst of a three-day strike by 100,000 government tax department employees. Trade Union officials said the stoppage, which began Tuesday, would cost the country more than 20 million dollars.

The employees, including customs and excise workers, are demanding higher wages and assured promotions.

"The strike is total," said Trade Union official KKN Kutty.

"Work at airport and cargo complexes have come to a



Compaq President and CEO Eckhard Pfeiffer unveils the new Compaq Prosignia family of computer products for consumers in the small to medium business market, in New York city on Wednesday. The new products feature made to order configurations and several purchase and lease options.

India, Pakistan discuss drug trade across border

NEW DELHI, Nov 12: Indian and Pakistani officials Thursday discussed cooperation in fighting terrorism and drug trafficking to the backdrop of mutual accusations of fueling sabotage against each other, reports AP.

On the eve of the meeting, the Indian minister in-charge of internal security, Home Minister Lal Krishna Advani, accused Pakistan of being a terrorist state for its support of Muslim insurgents in the disputed territory of Kashmir.

For its part, Pakistan has accused India of fomenting ethnic violence, particularly in its southern province of Sindh. Each denies active involvement in the other's troubles.

At a meeting in a palace-turned-guest house in New Delhi, India's senior Home Ministry bureaucrat again accused Pakistan of sponsoring cross-border terrorism. Press Trust of India reported.

ODA for LDCs Rich C' wealth states urged to raise flow

Foreign Secretary Mustafizur Rahman has urged the developed Commonwealth states to enhance the flow of the development assistances to the least developed countries (LDCs), a message received here from London said last night, reports BSS.

"The developed countries must fulfil their commitment to ensure 7 per cent of the ODA flow for the developing countries and within that 15 per cent to 20 per cent flow of (ODA) should be earmarked for the least developed countries (LDCs)," Rahman said while addressing a senior Commonwealth officials meeting in the British capital yesterday.

The foreign secretary said that globalisation and liberalisation of the world economy had brought about economic opportunities to some developing countries.

He added that the process had, however, also brought formidable challenges to the least developed countries and have pushed them to the brink of marginalisation.

Rahman said that the economic declaration of the 1997 Commonwealth heads of government meeting in Edinburgh had taken note of the gravity of the situation in the LDCs posed by globalisation.

He said that the Edinburgh meeting had underscored the need for managing globalisation carefully to meet the risks.

Hyundai may resist force to recall 'faulty' cars

SYDNEY, Nov 12: South Korean car manufacturer Hyundai said Thursday it would resist pressure to recall 46,000 vehicles sold in Australia which consumer and motoring groups claim are potentially unsafe, says AP.

Hyundai chief executive CK Lew said the company was adopting responsible engineering, legal and moral procedures towards an investigation of potential welding failures affecting the front suspension and steering of some Excel models.

"We will not be railroaded into making premature decisions that are not in the best interests of customers," Lew said.

Hyundai executives met Thursday with officers of the government's Federal office of Road Safety about the investigation.

Transport Minister John Anderson said Hyundai had until next week to prove it had adequately dealt with safety problems in the cars in question.

It was revealed this week

Japan outlines plans for stimulus package

TOKYO, Nov 12: In the broadest effort yet to jumpstart the world's second-largest economy, Japanese Prime Minister Keizo Obuchi's ruling party outlined plans Thursday for the country's biggest stimulus package ever, reports AP.

The Liberal Democratic Party proposals will form the basis of an official government plan to be formally announced on Monday and expected to be passed later this month in a special session of Parliament.

The center piece of the party's package calls for 10 trillion yen (81 billion dollars) in public works-related spending through next March and 4 trillion yen (33 billion dollar) in income tax cuts next year.

With the addition of corporate tax cuts and other tax relief measures, it was expected to total a record 18 trillion yen (147 billion dollars).

The head of Japan's Economic Planning Agency, Taichi Sakaiya, said Thursday that the government plan will likely include a mix of tax cuts worth about 7 trillion yen (57 billion dollars).

The widely expected package was compiled in a bid to prevent Japan's economy from shrinking for a third consecutive year and to fulfill Obuchi's pledge to engineer a recovery within two years.

One million new jobs were expected to be created once the new economic package has been implemented, the governing party said.

Many private economists were also skeptical the stimulus measures would put Japan back on track for solid recovery.

"It's just enough to prevent further deterioration," said Cameron Uematsu, senior economist in the Tokyo office of Warburg Dillon Read. He added that it was "clearly not sufficient" to pull the economy out of the doldrums.

Meanwhile, an AFP reports says: Japanese Prime Minister Keizo Obuchi arrived in Moscow yesterday for an historic summit with President Boris Yeltsin, as Tokyo offered rapid payout of loan millions while seeking answers on the thorny Kuril islands dispute.

Obuchi touched down at Moscow's Sheremetevo Airport shortly after 5.00 PM (1400 GMT) at the start of a three-day summit, the first official visit to Moscow by a serving Japanese premier for 25 years.

Nepalese team visits SEC

A six-member Nepalese delegation headed by a London-based financial consulting firm, GMA Capital, recently visited Bangladesh to gather first-hand information about the country's capital market.

The visit was arranged as per advice of the Asian Development Bank (ADB) as Bangladesh market has shown a good sign for progress in the past few years and is currently at an intermediate stage.

The delegation, headed by Chairman of GMA Capital Roger Garside, also included Rabi Raj Pant, Under Secretary of the Ministry of Finance, Niraj Giri, Chief of the Registration Division, Securities Board of Nepal, Binaya Dev Acharya, Chief of the Internal Control Division, Securities Board of Nepal, Bisham Pokharel and Madhav Prasad Neupane, Offices of Nepal Stock Exchange.

The delegation also called on MA Syed, Chairman of the Securities and Exchange Commission (SEC), and discussed the on-going reform programmes carried out in Bangladesh's capital market, its regulating, monitoring and training procedures.

It also visited Dhaka Stock Exchange, ICB and Union Capital Ltd.

Exchange Rates

American Express Bank Ltd foreign exchange rates (indicative) against the Taka to clients.

Currency	Selling TT & OD	Buying TT Clean	Selling BC	Buying OD Sight	Buying TT & OD
USD	48.7050	48.7450	48.3100	48.1570	48.0850
GBP	81.1182	79.9531	81.1848	79.6998	79.5807
DEM	29.1037	28.6876	29.1276	28.5968	28.5540
JPY	0.4005	0.3937	0.4009	0.3925	0.3919
FRF	8.7460	8.4906	8.7532	8.4637	8.4511
SAR	13.0213	12.8464	13.0320	12.8057	12.7865
MYR	12.4497	12.3457	12.4610	12.2562	12.2865
AED	13.2976	13.1163	13.3085	13.0748	13.0552
KWD	166.3990	154.3944	166.5357	153.9054	153.6753
QAR	13.4144	13.2313	13.4254	13.1894	13.1696

Bill buying rates:

TT Doc	30 Days	60 Days	90 Days	120 Days	180 Days
46.8112	46.5191	46.1282	45.7373	45.3463	44.9545

US Dollar London Interbank Offered Rate (LIBOR) as of November 12, 1998

	Buying	Selling	Curren cy	1 Month	3 Months	6 Months	9 Months	12 Months
Cas	46.6850	47.3050	USD	5.28	5.40	5.21	5.13	5.09
h	46.6850	47.3050	GBP	6.937	6.9375	6.70	6.53	6.50

Exchange rates of some Asian currencies against US dollars

Indian Rupee	Pak Rupee	Thai Baht	Malaysian Ringgit	Indonesian Rupiah	Korean Won
42.332/42.342	56.90/57.15	36.80/36.90	3.799/3.800	7950/825	1315/1317

Amex notes on Tuesday market
Market commentary as of November 12, 1998
USD/BDT market was very active on Thursday, as most of the leading market players did not sell dollars. USD/BDT mostly traded within a range of 48.6500-48.6570.
Call money market was very dull and call rates opened at 7.25 per cent before slipping to 6.25 per cent.
The dollar rose against major currencies on Thursday and remained strong amid concern about mounting tensions in the Middle East. Iraq's refusal to cooperate with the United Nations arms inspections despite US forces' gathering in the Gulf has helped enhance the 'safe haven' status of the dollar and the Swiss francs. Gains of more than one per cent that the dollar made against the yen were fuelled by disappointment that there were no surprises in the economic stimulus measures outlined overnight by Japan's ruling Liberal Democratic Party. "The tensions in the Gulf have had a knee-jerk impact on the dollar because of the risk factor, but this is a short-term move and what is probably more important is that yen weakness in a general sense has resumed," said Jonathan Griggs, head of foreign exchange research at ING Barings in London.
The dollar rose as high as 1.6867 marks and 123.37 yen from 1.6782/85 and 121.71/81 late in Europe on Wednesday and stood at 1.6842/45 and 123.24/29 at 0849 GMT. The mark was a beneficiary of the Japanese currency's weakness, hitting a peak of 73.20/25 yen. Its best in nearly a month compared with 72.53/58 on Wednesday. Independent yen weakness and a 2.45 per cent decline in Japan's 225-stock Nikkei Index was triggered overnight as traders bet the Japanese economy would not be pulled out of recession by stimulus measures outlined so far. In particular, they were disappointed that the measures did not include plans to cut or suspend consumption tax, a proposal which government spokesman Hiromu Nonaka said the LDP was discussing.
"The tensions in the Gulf have had a knee-jerk impact on the dollar because of the risk factor but this is a short term move and what is probably more important is that yen weakness in a general sense has resumed," a dealer said.
Deutsche Bank's Lewis said the dollar would accordingly struggle to extend its gains much beyond 1.70 marks. Two Bundesbank council members on Wednesday played down the need for lower rates and a similar message is expected from the German central bankers who are scheduled to speak on Thursday. Sterling was steady, continuing to draw support from the quarterly Bank of England report released on Wednesday that dampened rate cut talk by forecasting growth and inflation rates higher than traders had expected. The pound was at 2.7945/55 marks and \$1.6603/08 from 2.7896/01 and \$1.6613/23 late in Europe on Wednesday.
USD stood at 1.6874/84 DEM, 1.3905/15 CHF, 123.90/124.00 JPY 5.6594/6614 FRF and GBP was at 1.6558/64 USD at 11:50 GMT.

Iceland seeks accord on fish conservation

ROME, Nov 12: The President of Iceland, Olafur Ragnar Grimsson, has argued in favour of multilateral and regional agreements on conservation of stocks of fish at the Food and Agriculture Organisation (FAO) here, reports AP.

He told the United Nations body yesterday that the life of fish stocks should be an integral part of any world food strategy for the next century.

There was a need to reach agreements on conservation of stocks in international waters, he said, adding that reconstitution of stocks of fish which crossed international waters was vital.

He also stressed a need to abolish different systems of subsidy in the fishing industry in developed and developing countries.

Abolition of subsidies should be on the agenda of the next round of negotiations at the World Trade Organisation (WTO), he said.

Grimsson argued for establishment of a world system of free trade for fish and fish products together with abolition of import quotas, customs

Rating agency says Only 3 Thai banks meet provision requirement

BANGKOK, Nov 12: Only Thailand's three biggest commercial banks have made provisions approaching the real level of their expected loan losses, and international rating agency said Thursday, reports AP.

Fitch IBCA said in a statement that after reviewing the third quarter results reported by Thai banks, it found that the other banks have made provisions "far short of what is required."

The three biggest banks are Bangkok Bank PCL, Thai Farmers Bank PCL and Krung Thai Bank PCL.

Fitch said that "subject to a continued improvement in Thailand's economy," only Bangkok Bank and Thai Farmers Bank appear to be better placed to manage a turnaround in core operating performance in 1999.

The commercial banks have not yet started any significant loan restructuring, and their high level of problem loans will continue to depress their earnings over the next two years, Fitch said.

Their current weak equity positions and poor earnings performance are clearly inadequate to absorb anything but the most optimistic of projections," the agency said.

Under tougher loan-loss provision rules adopted by the Bank of Thailand on July 1, commercial banks will have to classify any loan that does not pay interest or principal for three consecutive months as problem loans, against previous rules of six months.

Banks will need to start to make additional provisions under these new rules in the fourth quarter this year.

Fitch reaffirmed its earlier projection that the total cost of bailing out Thai commercial banks and finance companies would amount to 1.4 trillion baht (3.83 billion dollars), equivalent to 29 per cent of the country's gross domestic product.

Shell decides to retain production holding in Thailand

BANGKOK, Nov 12: After receiving no attractive offers for its Thai exploration and production subsidiary, Shell announced Wednesday that it had decided to retain its interest in the company, says AP.

The subsidiary operates an offshore concession in the Gulf of Thailand and an onshore concession.

"While we received considerable interest following our announcement last February to approach the market, Shell has not been able to secure an offer in line with our expectations," Thai Shell Executive Director Martin Bradshaw said in a statement.

Thai Shell reported a 50 per cent increase in onshore oil reserves over the last year, and said total oil production has risen to more than 24,000 barrels of crude oil a day.