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Businesses want rate lowering steps in budget

STAR BUSINESS REPORT

Widening of tax net, reduction of corporate tax and tariff level and encouraging fiscal incentives for rapid industrial growth are the major issues that the country's business community wants in the new budget to be placed today in the parliament.

Terming the current lending rate 'too high' in view of low inflation rate, the businessmen think that there should be policy guidelines in the finance minister's budget speech to lower the rate to encourage new investments in the manufacturing sector.

On the other hand, as the quota free regime for the readymade garments nears, they hope the government would allocate a fund to develop the backward linkage industry.

They also think that the maximum tariff rate should be lowered further to 30 per cent from the existing 37.5 per cent.

Wali Bhuiyan, President of Foreign Investors' Chamber of Commerce and Industry (FICCI), said that the corporate tax should be re-fixed at 25 per cent for the publicly traded companies and 30 per cent for others.

"The theoretical drop in revenue due to reduction in corporate tax rate would be compensated by increased investment and indirect taxes collected from enhanced economic activities," Wali Bhuiyan said.

The government should exempt import and supplementary duties on capital machinery to encourage rapid industrialisation, said Bhuiyan, adding that the existing provision of concessional duty on import of capital machinery is a bit misleading, resulting in corruption.

Kutubuddin Ahmed, President of Bangladesh Garment Manufacturers and Exporters Association (BGMEA), said that the policy thrust should be on developing backward linkage industry to face challenges after MFA phase out in 2004.

Urging the government to lower the lending rate for the garment sector, he suggested Tk 2000 crore be allocated for this sector.

The Dhaka Stock Exchange (DSE) Chairman Shahiq Khan said the government should offer five-year tax holiday to the newly listed companies to help overcome the depression in the capital market.

Khan also said that the corporate tax gap between the listed and non-listed companies should be widened to 10 per cent from current five per cent. Now the listed companies pay 35 per cent while the non-listed companies pay 40 per cent taxes.

He said the tax exemption on dividend income should be re-fixed at Tk 50,000 from the existing Tk 40,000.

Chittagong Stock Exchange (CSE) President Amir Khosru Mahmud Chowdhury MP said the three-year lock-in on sponsors, promoters and foreign investors should be reduced to one year so that the fund can be ploughed back to the market.

He was of the opinion that the tax gap between the listed and non-listed companies should be minimum 15 per cent.

He also said that capital market intermediaries should be kept outside the tax net so that they can participate actively in the market.

He also called for full tax exemption on dividend to avoid double taxation since dividend is declared after the companies pay taxes.

The Internet service providers, hardware vendors and software exporters said the government should continue the existing tax exemption on computer and accessories, and at the same time add new incentives for the promising sector.

An official of an Internet Service Provider said the existing VAT on Internet use should be withdrawn.

PHOTO: FICCI

A two-member International Finance Corporation (IFC) mission from its South Asia regional office in New Delhi headed by Per Kjellerhaug (2nd from left) met some members of the Foreign Investors' Chamber of Commerce & Industry (FICCI) yesterday and exchanged views on how IFC could contribute to the growth and development of the private sector in Bangladesh. Country Manager of IFC Hafeezuddin Ahmad, FICCI president Waliur Rahman Bhuiyan, Chamber secretary Jahangir Bin Alam and FICCI committee member Jean Alfonsi were present. The mission also made a presentation on the activities of IFC.

Expats remit Tk 5.75cr in May

UNB, *Dhaka*

Bangladeshi nationals living abroad remitted through Foreign Money Orders (FMO) more than Tk 5.75 crore in exchange value of local currency during the month of May.

They remitted Pound Sterling 321,813.11 and US$ 605,383.08 against 6,092 FMOs during the month, according to a press release of Bangladesh Post Office.

It said the total remittances received during the current financial year amounted to Pound Sterling 3,540,227.60 and US$ 6,500,732.80 against 70,999 FMOs. The exchange value of these foreign money orders is above Tk 61.48 crore in local currency.

Sony to move financial operations to London

REUTERS, *Tokyo*

Sony Corp said Monday it plans to consolidate its four global financial operations centres – Tokyo, New York, London, and Singapore – into one in London to cut costs and reduce global settlement risk.

The move would bring Sony cost savings of around six to seven billion yen ($50. 37 million to $58.77 million) annually, enabling it to consolidate an estimated three trillion yen in group funds, a spokesman for the consumer electronics giant said.

Sony also plans to reduce global settlement risk by using a sophisticated cash-management system at the London operations.

It would transfer a significant part of its Tokyo and Singapore financial operations to Sony Global Treasury Services, the London-based financial operations subsidiary established last December, the spokesman said.

The Tokyo and Singapore centres will continue to operate as branch offices of Sony Global Treasury Services, and will continue to handle operations such as local currency hedging.

The New York operations would be transferred to London in stages, but the office will likely continue to handle operations such currency hedging Latin America, he said.

Current responsibilities at the four global financial centres include handling forward-exchange contracts for imports and exports in different regions, and developing financial risk-management strategies for subsidiaries.

German services activity hits 2-year low

REUTERS, *Frankfurt*

Activity in the German services sector contracted for the first time in almost two years in May as new business continued to fall, while higher wage demands and energy costs pushed up input prices, the Reuters German services survey showed yesterday.

The business activity index fell to a seasonally adjusted 49.8 in May from 51.5 in April.

On an unadjusted basis, the index fell to 52.4 from 53.4 in the previous month, said NTC Research, which complies the monthly survey for Reuters.

A reading above 50 points indicates expansion, below 50 a decline.

The decline in the index was largely driven by a continued drop in levels of incoming new business.

With an index reading of 47.2 in May, the rate of contraction in levels of new business eased slightly from the April level of 46.7, but was still well below the no-change level of 50.0.

"Demand for services, as measured by the incoming new Business Index, declined for the fourth consecutive month and the rate of contraction was only slightly less than April's two-year high," NTC said.

"Panel members again reported that slowing global economic growth had hit new business to both the domestic and export markets," it added.

The index of input prices jumped to 56.8 in May from 53.6 the previous month as a result of higher wage costs and fuel prices, while the decline in prices charged eased only slightly to 49.3 from 48.1 in April as competition remained fierce.

"Strong underlying growth of wage bills was the most common factor behind the increase, with increases in fuel and energy costs also widely blamed for rising input prices," NTC said.

OPEC delays extra oil to cover Iraqi supply cut

REUTERS, *Vienna*

OPEC oil producers Tuesday put off for a month a decision on whether to lift exports to make up for Iraq's sudden stoppage of its UN-administered crude sales.

Ministers said ample crude inventories and stable prices meant there was no need to panic over Baghdad's decision to suspend deliveries under the United Nations oil-for-food programme.

They agreed to leave output at 24.2 million barrels daily for 10 members, some 60 per cent of world exports, and to gather for an emergency session on July 3.

"By then the picture will be more clear and we can see how the market will react," said Qatari Oil Minister Abdullah al-Attiyah. "OPEC and the market need time to assess if Iraq's decision will cause a crisis."

"If the situation in July needs more supply we will increase the supply," cartel Secretary-General Ali Rodriguez said. Oil traders took comfort from the decision and Brent crude finished up a modest 40 cents at $29.66 a barrel.

The Organisation of the Petroleum Exporting Countries has no easy answer to the conundrum set by Baghdad's withdrawal on Monday of nearly five per cent of world oil exports.

Iraq halted deliveries after the Security Council voted to extend the UN oil-food programme by only a month, instead of the normal six-month renewal.

Iraq's OPEC representative, Taha Humud Musa, said supplies would stay on hold for the duration of the extension to early July and possibly beyond that.

OPEC, though, was loath to jack up production too quickly for fear that Baghdad might repeat the pattern seen during its previous self-imposed outages – and resume exports shortly.

Saudi Oil Minister Ali al-Naimi indicated that the cartel would probably need to add to production if Iraq keeps sales on hold for 30 days or more.

"We do not know what Iraq's gameplan is," said Naimi. "Will this last day, a week, a month?"

He agreed that a month-long outage of Iraq's two million barrels daily would leave a shortfall in supplies. "Yes, 60 million barrels out of the market is a shortage," he said.

Analysts say that, with or without Iraq, OPEC will need to raise production sometime soon to meet rising demand as refiners build stocks for winter.

"There's plenty of oil out there for now but the market was always going to need more in the second half of the year and with Iraq out it's going to need a lot more," said Gary Ross of leading US consultancy PIRA Energy.

"I think the market may be misreading the situation. Supply will be much tighter in a month's time," Ross added.

After slicing supply earlier this year by 2.5 million barrels daily, producers have plenty of spare capacity.

Some of that is likely to appear on the markets in the form of leakage above official quota limits before OPEC actually sanctions extra output.

"To keep the market in balance they'll need to add a million barrels a day in July," said Roger Diwan of Washington's Petroleum Finance Corp. "But they will probably be only making official what they will be leaking by then."

A lengthy absence by Iraq could stretch the cartel and see a return of the premium attached to prices that drove crude up to $35 a barrel last autumn.

"The idea of a protracted disruption is significant for the market because it would bring to light the fact that every OPEC country is going to be at their maximum export capacity," said Michael Rothman of Merrill Lynch.

Iraqi observers said Baghdad had moved quickly to stop oil sales in a bid to influence debate at the United Nations over a revised package of sanctions.

An Anglo-US proposal would lift restrictions on civilian imports to Iraq but crack down on oil smuggled across the Iraqi border, the main source of hard cash for President Saddam Hussein's government.

Iraq's Musa told OPEC reporters that Baghdad now was only supplying Jordan with oil. Previously it had also been smuggling deliveries across its borders to Turkey and Syria.

A CEO's expectations on the budget day

A K M SHAMSUDDIN

Finance Minister S M A S Kibria will announce his sixth budget today. However, it can be said with a degree of certainty that the new government, which will take office after the next national election in a few months, will opt for its own budget. The present government did the same in July 1996. Can one, therefore, expect that Kibria will not present a full budget, or even if he does, he will keep mandatory provisions for the next government to revise and adopt his budget? The logic is clear. The next government cannot accept the budgetary provisions made by a government during its final moments. This holds true even if the same party is returned to power. The present government knows that tough measures are necessary to ensure development and fiscal discipline. But conventional wisdom will not dictate that at this juncture of pre-election time.

Today's budget is the second in the new millennium and is being presented right after the UN Conference on poor nations. Many provisions of the WTO dictum are coming into effect. International competition is becoming fierce in the face of globalisation and new regional alignments. The garment sector is under pressure of competition and urgently requires new direction. New thrust sectors must be identified where we can profitably exploit our competitive advantage. GDP growth in recent years witnessed dominant contribution from the agriculture and related sectors, but it failed to create new jobs. Out of the 4 million people entering the job market every year, hardly one million can find new jobs. We ought to think about the remaining 3 million each year.

Progress has been made in recent years as structural reforms are concerned. One may argue the adequacy of these reforms, but none the less reform did take place. The tax base has increased. VAT net has widened, compulsory pre-shipment inspection (PSI) now works and the tyranny of the tax officials is slowly but surely softening down. More must be done no doubt, but can we or should we expect this from today's budget? The best legacy that Kibria can leave behind is a measure of continuity. Hence, may first exception today would be to find no surprise. If the present drive to widen the tax net continues, tax revenue will keep going up and thereby existing taxpayers will be spared of new and additional taxes.

Loopholes, complications and escape mechanisms have to be plugged. This is where is unfair competition originates from. Honest brokers pay genuine tax and unscrupulous business houses escape through the loopholes. One entrepreneur once told me that the VAT inspector leaves with his people signed and sealed blank VAT *challan* forms. How to compete with him then? Another surprise often comes from mid-level officers of NRB. They put in things in between the lines to give advantage to some to the detriment of others. Chaos and criticism then start and the government is unnecessarily blamed. For example, last year, duty on aluminum foil was raised on the plea that these are locally available. In reality, this was not true and it was found out that one petty official was responsible for that. One has to be watchful of that.

While exemptions on the part of the taxpayers have been minimized, discretion to disallow tax deductible expenses has not been withdrawn. As a result, taxpayers are unnecessarily harassed. For example, 3 per cent advance income tax is compulsorily deducted at the time of import. There is no exception to this rule. But during assessment, due tax credit is denied on the plea that there is no proof of advance tax payment. Why would proof be required for something, which is by law compulsory?

Measures to develop skilled manpower and building infrastructure capability are my other expectations. Opening new thrust sectors hinges on success in making skilled and trained personnel available. Closely linked to this is development of infrastructure. What will the finance minister propose to remove this irritant? Will he have something new to offer? Will the age-old electricity law be amended to remove the provision of compulsory use of PDB or DESA electricity and thereby removing the hurdle from enterprises to generate over electricity? Will BTTB be privatised and thereby freeing up the telecom sector to open competition?

Making the bureaucrats responsible and accountable for their actions is another imperative. Bureaucracy was created by the British Raj for tax collection and punishment of non-payers. In today's business dominated world, it cannot and must not remain the same. Will we see the much-talked about reform this time? Let me quote the finance minister from his 1996 budget speech: "there is an urgent need for immediate reforms in administration and economy of Bangladesh. Whatever might be the odds, the present government will not hesitate to undertake reform." Five years later, the vampire bureaucrats are still there with their full glory and flair. In fact, they have become healthier thee days.

Kibria will find it hard to explain the rationale of the recent massive devaluation. Was it necessary? Did it have the desired effect? Why is our foreign exchange reserve going down instead of coming up? If import volume was to go down, why then is call money rate so high? If boosting of export was the objective, did it work? Does it really work? Devaluation may not be a solution for an economy so heavily dependent on imports. It did not work in the past. Therefore, it is unlikely to be effective in the future too. It can, therefore, be said that the recent devaluation did not help, rather it increase the sufferings of the citizenry.

Foreign investment has been shy recently. we all know the reasons. Can we expect some guidelines from the budget being presented today?

The writer is the Managing Director of Aventis Pharma group in Bangladesh.

Riyadh signs $50b gas deal with 8 firms

AFP, *Jeddah, Saudi Arabia*

Saudi Arabia signed preparatory accords with eight oil majors Sunday for three gas projects worth as much as 50 billion dollars, with ExxonMobil and Shell clinching the top stakes.

The deals, valued at around 20 billion dollars in near-term investments, are the first upstream energy projects open to foreign companies since the sector was nationalised in Saudi Arabia a quarter of a century ago.

Saudi Foreign Minister Prince Saud al-Faisal signed the accords with the chief executives of ExxonMobil, Royal Dutch Shell, British Petroleum, Phillips, Occidental Petroleum, Marathon, TotalFinaElf and Conoco.

Indian bank unions plan strike on Jul 4

REUTERS, *Bombay*

The unions of nine Indian banks, representing the entire industry, said today members would strike on July 4 to demand payment of wage arrears to employees of three weak state-run banks.

In a letter to the Indian Banks' Association (IBA), the United Forum of Bank Unions (UBFU) representing nearly 850,000 employees, said if the demand is not met, employees of the three banks — Indian Bank, UCO Bank and United Bank — will strike again on July 17.

A senior union official told Reuters from Calcutta that the arrears total 880 million rupees.

"The new salary settlement agreement which has been in place since November 1997 has been implemented in all public sector banks from July 1, 2000 with retrospective effect," the official said.

"But the arrears from November 1997 to July 2000 have not been paid to the employees of these three banks as the government said they wanted the banks to turnaround by March 31, 2001 before the payment was made."

According to a recent Reserve Bank of India report, 57.29 billion rupees ($1.22 billion) in support was injected into these three banks by the federal government between 1992 to 1999.

An expert panel appointed by the central bank in 1998 estimated that in the following three years another 55 billion restructuring these banks.

Although the performance of these three banks has improved slightly in recently, analysts say a lot is left to be done before these banks are financially sound.

In 1999/2000, the capital adequacy of Indian Bank, one of the three weak banks, was four per cent against a prescribed nine per cent.

Telephone directory contract
HC issues rule nisi on BTTB

The High Court division of the Supreme Court on Sunday issued a rule nisi on Bangladesh Telegram and Telephone Board's (BTTB) Chairman, its Member (Administration) and Director (PR & Publication) for withholding the printing and publication of telephone directories for Dhaka (North & South) and Chittagong telecom regions, says a press release.

A division bench comprising Justice Syed J R Mudassir Hussain and Justice Syed Mahmood Hossain issued the rule nisi upon a writ petition filed on behalf of Business Information Systems Ltd.

The rule was made returnable in three weeks.

The petitioner said the BTTB floated tender for printing and publication of telephone directories in Bangla, and Business Information Systems (BIS) was selected for the job. On January 6, 2000 the BTTB entered into a contract with BIS to buy 340,000 pieces of directories per year of the two regions, for a period of five years.

Thereafter, the BIS invested funds for the production of the directories.

In the end of the last year, when the company was ready to go into final printing of the directories, the BTTB put a suspension order on the printing of the directories without assigning any reason.

Barrister Rafiqur Rahman appeared for the petitioner. He was assisted by Serajur Rahman, Abu Naser Siddiqui and Probir Neogi.

AB Bank urges importers to take its Mumbai branch facilities

An open discussion meeting on Reimbursement of L/Cs against International Trade between Bangladesh and India was held in Sylhet Parjatan Hotel recently, says a press release.

At the discussion, C M Koyes Sami, Chief Executive Officer of AB Bank, advised the eminent bankers and importers of Sylhet region to avail themselves of the service of AB Bank's Mumbai Branch.

The meeting was attended by senior bankers from different banks, high officials of Sylhet Chamber of Commerce, Sylhet Coal Association and Fruit Importers.

M A Munim, ex-vice chairman of FBCCI, D K Kunda, Managing Director of Chattak Cement Co Ltd, Mir Abdur Rahim, General Manager for Sylhet region, and Md Shafiquddin, Executive Vice President of AB Bank, participated in the discussion.

C M Koyes Sami speaks to the Businessmen of Sylhet Region, at a meeting held at Sylhet Parjatan Hotel recently.

US lawmakers move to undo NTR with China

REUTERS, *Washington*

Two lawmakers in the US House of Representatives launched a bid Tuesday to overturn President George W Bush's decision to extend normal trade relations to China for an additional year.

In a statement, Rep Dana Rohrabacher, California Republican, said he had introduced a joint resolution with Rep Sherrod Brown, Ohio Democrat, to undo the decision.

Rohrabacher, a longtime critic of the China's communist leaders, blasted Beijing for recently holding 24 members of a downed US spy plane for 11 days.

"Not only has Beijing been more repressive of its own people, but for the first time since the Korean War, Communist China has been detaining American citizens and US permanent residents," Rohrabacher said.

Bush formally announced on Friday that he was renewing normal trade relations with China, saying it would help foster "a strong and productive relationship."

Last year, Congress approved granting China "permanent normal trade relations" (PNTR) putting it on a par with most other US trading partners. But the deal hinged on Beijing's entry into the World Trade Organization.

Entry talks have dragged on and China is not expected to join the WTO until late this year at the earliest.

"It's not in America's interest to reward Beijing with an advantageous trade status that allows Communist China to use their $80 billion-dollar trade surplus with us to modernize their military," Rohrabacher said.

The House now has 60 days to vote on the Rohrabacher-Brown resolution. Once the House Ways and Means Committee has acted on the measure, it will be up to Republican leaders to decide when to schedule a full House vote.

French budget deficit widens

REUTERS, *Paris*

The French budget deficit widened to 26.1 billion euros at the end of the April from 22.1 billion euros in the year-ago period, the Finance Ministry said yesterday.

Net revenues in the first four months of the year were 78.6 billion euros, a 1.1 per cent rise compared with April 2000.

Government expenditure was 92.7 billion euros, a 5.3 per cent increase in comparison to the year-ago period.

The ministry said the increased spending was largely due to seasonal effects and other one-off factors.

"Excluding capital expenditure on the military and after stripping out other one-off factors, this rise of 5.3 per cent amounts to a little more than two per cent compared with the same period a year ago," the ministry said in a statement.

France is under pressure from its European Union partners to act faster to reduce its deficit.