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Proposed tax structure may hit leasing businesses hard

BLFCA fears forced entry of stocks into Z category

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Post budget scenario of listed companies vs FIs

Descriptions	Listed Company	Banks	NBFIs
Tax rate	30%	45%	45%
Profit before Tax (PBT)	40,000,000	40,000,000	40,000,000
Tax	12,000,000	18,000,000	18,000,000
Profit after Tax	28,000,000	22,000,000	22,000,000
Transfer to Statutory Reserve	-	20%	20%
Funds available for Dividend	28,000,000	17,600,000	17,600,000
Expected dividend rate	15%	15%	15%
Dividend Tax @ 10%	420,000	264,000	264,000
Funds after Dividend Tax	27,580,000	17,336,000	17,336,000
Funds available as %ge of PBT	**69%**	**43%**	**43%**

In the absence of a tax provisioning system against bad and doubtful debts, the leasing companies will be forced to pay more corporate tax than the banks.

After the 1996 debacle, the share market barely survived on banks and non-banking financial institutions (NBFIs), the main attractions for the shareholders that were offering higher returns than any other sector.

But these stocks may find themselves in the worst-performing category, the Z group, if the budget for the 2003-04 fiscal with the proposed tax structure is passed, fear leaders of leasing companies.

They said under the proposed tax structure, banks and NBFIs will be forced to offer very little dividend after deduction of taxes. The taxes will be in the form of 45 per cent corporate tax, statutory obligation in maintaining 20 per cent reserve from profit and 10 per cent tax for distribution on dividend amount.

Furthermore, leasing companies will be forced to count more in corporate taxes than commercial banks due to the absence of a tax provisioning system against bad and doubtful debts. In case of banks the officials accept the provisions as non-taxable expense.

"If the proposed tax structure sails through, we will land in the Z category," said A Quadir Choudhury, acting chairman of Bangladesh Leasing and Financing Companies Association (BLFCA), yesterday while talking to this correspondent.

Z-category companies represent the worst performing companies in terms of dividend pay out.

Choudhury said the leasing companies are still in infant stage and need more care before gaining maturity.

He said the banks and other non-banking financial institutions have been brought to a common platform with discriminatory tax structure.

But banks have diversified businesses which let them earn more money than NBFIs.

Choudhury said banks' cost of fund is half compared to the cost of fund of leasing companies.

Banks' total fund is comprised of 35 per cent clients' deposit money, 15 per cent totally interest free deposit, and 50 per cent are fixed deposits.

While leasing companies borrow funds from banks and other sources which are expensive than banks' fund.

"The banks take deposits of clients and make advances. Their cost of fund comes to 9 to 10 per cent while our cost of fund is around 15 to 16 per cent," Choudhury said.

"Banks lend money at 13.5 per cent, 14 per cent and 15 per cent while leasing companies lend at 17 to 18 per cent.

"With such increased cost of borrowing, it will be a great injustice to bring us to a parallel level with banks," Choudhury said demanding government help to revise the tax structure for leasing companies.

He said leasing companies are helping growth of the small and medium enterprises, development of which is very essential for the growth of the Bangladeshi private sector. "The proposed tax structure will hurt the growth of the entire SME sector."

Thai launches biggest promotional drive

STAR BUSINESS REPORT

Thai Airways International has come up with its largest-ever promotion campaign 'Luck is in the Air'.

Under the promotion, any person travelling to Thailand or returning from Thailand by Thai Airways may get another chance to visit Thailand.

The promotion that started on Sunday will continue till September 30.

A lucky draw will be arranged in every flight going to Thailand or departing from Thailand to choose a lucky passenger, said Thai Airways International General Manager in Bangladesh Nivat Chantarachoti at a press conference held at a local hotel yesterday.

About 16,000 passengers around the world, who will travel to Thailand during the promotion period and 4,000 passengers returning from Thailand during the same period will be chosen using this method.

Passengers will get economy or business class tickets depending on which classes he/she was traveling in at the time of draw. Passengers must avail of the prizes in the period April 1 to June 30 next year.

Chantarachoti said the promotion is launched to increase passenger number after a slowdown following the Iraq war and severe acute respiratory syndrome (SARS).

Thai Airways has daily flights on Dhaka-Thailand route and three flights a week on Chittagong-Chiang Mai route.

Thai Airways International Sales Manager Mohammed Faisal and Station Manager Zabir Karim were present at the press conference.

RECKITT BENCKISER
৪২তম বার্ষিক সাধারন সভা

PHOTO: RECKITT BENCKISER

Officials of Reckitt Benckiser (Bangladesh) Limited pose for a photograph at the 42nd annual general meeting of the company held in Dhaka yesterday.

HeidelbergCement declares 5pc cash, 10pc stock dividends

HeidelbergCement Bangladesh Ltd has declared 5 per cent cash and 10 per cent stock dividends for the shareholders for the year 2002.

The dividend was announced at the 14th annual general meeting of the company held in Chittagong on Tuesday, says a press release.

Earlier, at the 6th extra-ordinary general meeting held on the same day the shareholders of Chittagong Cement Clinker Grinding Co. Ltd. (CCCGCL) approved the change of the company's name as HeidelbergCement Bangladesh Ltd.

Yavuz Ermis, chairman of Chittagong Cement Clinker Grinding Co Ltd, presided over the meetings.

Directors Abdul Awal Minto, Md Ziaul Haque Khondker, A S Shahudul Huque Bulbul, Managing Director Mark Van Kempen and M Abul Hashem, company secretary, attended the meetings.

The company earned a gross profit and net profit of Tk. 104.906 million and Tk. 46.570 million respectively in the year 2002.

The company also completed the setting up of a gas-based power plant with a capacity of 5.8 MW, which will be switched on soon. This will meet the electricity requirement of the factory and will reduce the load on national grid.

The power plant will ensure uninterrupted power supply and will increase the production as well as reduce the power cost.

A large number of shareholders attended the meetings and approved the audited accounts for the year 2002 along with directors' report for that period.

Emirates wins 'Deal of the Year' award

Emirates has added another feather to its crown by winning 'Deal of the Year' award from the Airfinance Journal.

The award was announced during the annual dinner of the US financial publication in New York recently, says a press release.

The awards of Airfinance Journal are regarded as the Oscars of the airline financial industry. Emirates clinched the award in 'Middle East Deal of the Year' category.

More than 150 international financial leaders from airlines, aircraft manufacturers, banks and institutional investors were present at the award ceremony.

Eastland Ins declares 16pc dividend

Eastland Insurance Company Limited has declared a 16 per cent dividend for the shareholders for the year 2002.

The dividend was announced at the 16th annual general meeting of the company held in Dhaka on Wednesday, says a press release.

Mahbubur Rahman, chairman of the company, presided over the meeting.

The company earned a gross premium income of Tk 12.81 crore during the year 2002. It settled 358 claims for a total amount of Tk 9.84 crore on account of fire, marine, motor and miscellaneous insurance.

Total assets of the company as at December 2002 stood at Tk 40.80 crore.

The company's contribution towards national exchequer was Tk 2.52 crore as income-tax, VAT and stamp duty for 2002.

Speaking at the meeting, the chairman hoped that the company would continue its progress through dedicated personalised services to the clients.

Trust Bank to collect GP phone bills

The Trust Bank Limited will collect bills, subscription fees, rentals, and other deposits of GP mobile telephones from the subscribers of GrameenPhone through its branches, says a press release.

An agreement to this effect was signed between the two organisations in Dhaka on Tuesday.

Managing Director of the bank Zahid Hossain Chowdhury and Finance Director of GrameenPhone NKA Mobin signed the agreement on behalf of their organisations.

GrameenPhone Managing Director Ola Ree was present at the signing ceremony.

Company Secretary AFM Asaduzzaman, Vice-President Md Masoom and GrameenPhone General Manager Md Arif Al Islam were, among others, present.

High deposit rates bar PCBs from cutting lending rates

Premier Bank MD tells The Daily Star

REJAUL KARIM BYRON

MA Yusuf Khan

It is not possible for private banks to easily cut down lending rates, because they are compelled to collect deposits at an attractive rate in an intensely competitive market.

Premier Bank Managing Director MA Yusuf Khan in an interview with The Daily Star said the conditions prevailing in the market are determining the interest rates.

Banks are offering loans to prime customers at 12 to 13 per cent interests while, in general, the rate is 15 per cent, said Khan, who has served in vital positions of various government and private banks. "Interest is high for loans with high risks and that is natural."

"Although the government deposit rate is low, government organisations keep their deposits with nationalised commercial banks only. As a result, the private banks only deal with non-government customers. To attract them, the private banks offer attractive rates. This pushes up the cost of fund of private banks," he added.

Focusing on floating exchange rate, he said, "The rate has been floated-- but not the currency." As a result, there had not been any adverse impact after introduction of the floating exchange rate, he added.

Echoing what many other senior bankers feel regarding the issue, Khan noted the Bangladesh Bank (BB) had taken elaborate preparation to handle post-floating rate market. "It has aptly handled the situation. But the commercial dealing rooms of banks should be improved in order to handle any crisis that may arise in future," he said, adding that aide by side, there should be more skilled manpower in the sector.

On reforms of public banks, he opined efficient and honest leadership is required to implement reforms. "The initiatives taken by the government apparently look good, but these should be properly implemented to achieve success," he said.

He felt without reforming the nationalised commercial banks, it is not possible to improve the banking sector. And without improving the banking sector, the economy will not speed up.

He observed the BB has recently taken up some good steps, which will have positive impact. "But the commercial banks should also take up some measures on their own. There is a need for more skilled manpower and technology development," he added.

Khan favours the proposed budget. "But some of the proposals will burden the banks with additional taxation. We had expected the level of corporate tax would decrease. But, the tax level has increased," he said.

Fed cuts rates to 45-yr lows

REUTERS, *Washington*

The Federal Reserve on Wednesday trimmed US interest rates a quarter percentage point to 45-year lows, citing recent hopeful economic signs as it offered a less potent growth tonic than markets had hoped.

Repeating its concern about risks of a further fall in inflation, the central bank's Federal Open Market Committee voted 11-1 to lower its bellwether federal funds rate for overnight loans between banks to 1 per cent.

One policy-maker San Francisco Fed bank President Robert Parry dissented in favour of a bolder cut of a half percentage point. Wall Street analysts had been split on the likely size of the expected reduction and bond prices tumbled on the news that the Fed had opted for a smaller cut.

Economists said policy-makers had at least two reasons for a smaller decrease -- a brightening outlook for second-half growth and a dwindling stock of rate-cutting power.

"Recent signs point to a firming in spending, markedly improved financial conditions and labour and product markets that are stabilizing," the FOMC said in its statement. "The economy, nonetheless, has yet to exhibit sustainable growth."

Disappointment landed hard on stocks and sparked the biggest treasury bond sell-off in six months. Yields spiked, a trend that could raise costs for such loans as mortgages and undo much of the Fed's intended easing.

৩১তম বার্ষিক সাধারণ সভা
31ST ANNUAL GENERAL MEETING
বাটা সু কোম্পানী (বাংলাদেশ) লিমিটেড
Bata Shoe Co. (Bangladesh) Limited
ROKANUDDIN MAHMUD
CHANDU MORZARIA
RASHID-UL HASAN

PHOTO: BATA

Chandu Morzaria, chairman of Bata Shoe Company (Bangladesh) Ltd, presides over the 31th annual general meeting of the company at Dhamrai in Dhaka yesterday. Managing Director and Vice-Chairman Bernard Rhodes, directors Rashid-ul Hasan, Feroze J Kapadia and Rokanuddin Mahmud, Company Secretary M Saiduzzaman and other officials of the company were present at the meeting.

Bata declares 150pc cash dividend

The Board of Directors of Bata Shoe Company (Bangladesh) Ltd declared a 150 per cent dividend for its shareholders for year 2002.

The dividend comprises a final 75 per cent and an interim dividend of 75 per cent.

The declaration came at 31st annual general meeting of the company held at Dhamrai in Dhaka yesterday.

Chandu Morzaria, chairman of the company, presided over the meeting.

Addressing the meeting, he said the company's turnover was increased by Tk 184 million representing a growth of 7 per cent over preceding year.

The chairman further stated that the company achieved a net profit of Tk 270.1 million, an increase of Tk 54.8 million registering a 25 per cent rise over the year 2001.

Managing Director and Vice-Chairman Bernard Rhodes, directors Rashid-ul Hasan, Feroze J Kapadia and Rokanuddin Mahmud, Company Secretary M Saiduzzaman and other officials were present at the meeting.

EU farm deal to help revive trade talks: WTO chief

AFP, *Geneva*

World Trade Organisation (WTO) director general Supachai Panitchpakdi on Thursday welcomed the EU's agreement on farm policy reform, saying it would revive deadlocked world trade talks on agriculture.

US against more say for poor at WB

REUTERS, *Washington*

The United States is set to oppose proposals giving poor countries more say in decisions at the World Bank, in a move that could quash further discussion on the contentious issue, bank sources said Wednesday.

At an informal board meeting next Monday, to consider a new World Bank report discussing ways of giving developing countries more voice, the United States will say it does not believe the current structure, which developing countries say favors the opinions of rich countries, should be changed.

In recent years there has been a growing number of complaints from developing countries that they do not have enough representation at the decision-making executive board.

Backed by nongovernmental groups, developing countries say World Bank and International Monetary Fund loan decisions affecting the developing world are dominated by rich countries and their political considerations.

"One major aspect of 'voice' in bank decision-making stems from the growing/perceived disparity in voting power between developed country and developing country shareholders," the bank report, a copy of which was obtained by Reuters, said.

The United States, the largest World Bank shareholder because of the size of its economy and amount of money it pays into bank coffers, often influences lending decisions. Other leading industrial countries can also have powerful sway.

The United States, Japan, and three European countries each have their own seats at the board, while a number of other European countries dominate other seats they share with smaller countries.

The 47 African country members of the IMF, who pay less into the coffers and have smaller economies, have only two seats on the board and they would like to have more.

Some European countries are in favor of giving developing countries extra seats, but others have been "ambiguous" on the issue, the sources said.

AGM of Bank for Int'l Settlements Monday

Central bankers to tackle growth, sinking dollar

REUTERS, *Geneva*

Central bankers meeting in the Swiss city of Basel this weekend will only have a brief moment to congratulate themselves on the resilience of the financial system during three years of tumbling markets.

Policy-makers gathering for the Bank for International Settlements' (BIS) annual meeting still face perhaps the most precarious and uncertain economic environment in decades, even if financial markets appear to be stabilising.

Sluggish economic growth, a sinking dollar and deflation -- the new threat on the block -- are set to dominate discussions at both the AGM on Monday and during private chats among the scores of officials from the major G10 central banks and beyond.

The BIS, a bank and forum for the world's central banks, has been reasonably upbeat, seeing faint signs that economies are recovering helped by a three-month rally on stock markets.

However, historically low interest rates have as yet failed to give economies a proper kickstart and central bankers will be wondering, in private at least, what more they can do.

All eyes are on the US economy, the world's biggest, to see if it can maintain its role as the engine which will lead the world back onto a growth path.

Later on Wednesday, the Federal Reserve is expected to decide to prune the key fed funds rate from its current 1.25 per cent to goad the US economy back to a fuller recovery.

Japan is suffering its fifth year of falling prices and despite interest rates at zero there are few signs of it dragging itself out of the mire.

In Europe, the picture is bleak with Germany teetering on the brink of recession, the European Central Bank slashing its growth outlook for the bloc to 0.4-1.0 per cent and the key euro zone repo rate already at two per cent.

Low inflation has made it easier for central banks to ease monetary policy, but there is little room left to take rates down further and stable or falling consumer prices raise a whole new set of fears of their own.

Many central bankers may have had to dig out economic text books to read up on an issue which last reared its ugly head more than half a century ago.

Having fought -- and won -- the battle against rising prices in recent years, they are aware that inflation remained subdued even amid the heady growth and bull markets of the late 1990s.

It seems a natural next step that stubbornly low economic growth combined with over capacity in many areas could prompt falling inflation -- where prices rise but at slower rates -- to tip into deflation -- where prices actually fall.

On its own, deflation is not necessarily a bad thing, but combined with concerns long voiced by the BIS that borrowers are overextending themselves, central bankers fear it could lead to widespread debt defaults and yet another cycle of instability.

Reckitt Benckiser declares 15pc dividend

Reckitt Benckiser (Bangladesh) Limited, a local subsidiary of the UK-based Reckitt Benckiser Plc, declared a 15 per cent dividend for its shareholders yesterday.

This was announced at the 42nd annual general meeting (AGM) of the company held at Dhaka, says a press release.

Colin Day, chairman of Reckitt Benckiser (Bangladesh) and also chief financial officer of Reckitt Benckiser Plc, presided over the meeting.

Chander M Sethi, senior vice-president, regional director-South Asia, and director of the company, was present. Ata Safdar, managing director, and Manish Dawar, Md Sarwaruzzaman, Dhiraj Malakar, directors, and Ranjan Naik, company secretary, were also present at the AGM.

SEDF workshop on foundry techniques held

SouthAsia Enterprise Development Facility (SEDF), an International Finance Corporation (IFC) managed facility, organized a week long workshop on foundry modernization techniques in Dhaka, Faridpur, Bogra and Rangpur recently with technical support from the Institute of Indian Foundrymen.

The workshop was held on demands from the Foundries in Bangladesh who were very keen to upgrade their foundries in terms of process, methods and skills to improve productivity and reduce rejection rates, says a press release.

Deepak P. Adhikary, program manager, Shahnawaz Ahmed Shishir, project officer from SEDF, consultants from India and participants from Dhaka, Faridpur, Bogra and Rangpur were present at the workshop.

Pak shares hit record high on US aid deal

REUTERS, *Karachi*

Pakistani stocks rose to a life high Wednesday after a $3 billion US aid pledge that analysts said would benefit the country's economy and strengthen President Pervez Musharraf's position.

President George W Bush pledged the five-year aid package to Pakistan for its help in the US-led war on terrorism after meeting with Musharraf at Camp David on Tuesday.

It inspired fresh buying on Wednesday on the Karachi Stock Exchange (KSE), which has been trading at record highs due to a turnaround in Pakistan's economy brought about by debt write-offs and other support since it backed the US war in Afghanistan.