

Enlarged EU shows big tax level disparity

REUTERS, Brussels

European Union newcomers have significantly lower corporate and income tax rates than the bloc's old members, but they are not guaranteed to see floods of foreign investment as a result, an EU study showed Thursday.

A European Commission paper on taxation systems in Europe adds to a heated debate in the block that pits Germany and France, which want direct EU taxes to be harmonised, against Britain and most new member states, who oppose the plan.

The report by the EU's executive said the average effective tax rate on corporate income was 31.4 percent for the bloc's 15 old members, compared with 21.5 percent for newcomers.

The top average personal income tax rate was 46.2 percent in the EU-15 against 34.9 percent in the new

member states.

But the paper showed that in many new member states, high indirect taxes and big social security contributions undermined advantages resulting from low direct taxation.

"The low share of direct taxes in the new member states is counterbalanced by higher share of indirect taxes and for the Czech Republic, Poland and Slovakia by social contributions," the report said.

"In an investment decision, direct taxation is just one element taken into consideration," commented Jean-Pierre Laet from the Commission's taxation department.

Still, the total tax burden in relation to gross domestic product was 6.6 percentage points lower in the new member states than in the average that in the EU-15.

Germany and France have proposed tax harmonisation across the

EU, possibly involving a minimum corporate tax rate, to avoid "tax dumping" by countries eager to lure investors.

The Commission says it is unlikely to draft any legislation on harmonising taxes, because the proposal does not enjoy sufficient support in the bloc. Britain and most EU newcomers vehemently oppose any such regulation.

The report said that Sweden recorded the highest tax-to-GDP ratio of 50.6 percent, followed by Denmark with 48.9 percent and Belgium with 46.6 percent.

The lowest rates were observed in Ireland, 28.6 percent, Lithuania, 28.8 percent and Latvia, 31.3 percent.

In general, tax burden as part of GDP declined in the EU-25 to 40.4 percent in 2002 from 41.1 percent in 2001 due to tax cuts and low economic growth in many countries.

Siemens wins \$50m service contract from India's Bharti

AFP, New Delhi

Bharti Televentures, India's largest private telecoms company, said Friday it has awarded a 50 million-dollar contract to German giant Siemens to help run its growing mobile network.

Bharti gave the three-year contract to Siemens to manage three out of its 21 Airtel mobile network areas, covering 1,650 towns. Bharti has 6.5 million mobile subscribers and 544,900 fixed-line customers.

"Siemens will supply, manage, maintain and provide quality assurance in three circles of Calcutta, Madhya Pradesh and West Bengal," Bharti said in a statement.

In February Bharti awarded a similar contract worth 400 million dollars to Sweden's Ericsson to manage 13 of the 21 Airtel network areas.

"Arrangements like this will result in providing congestion-free networks," said Akhil Gupta, joint managing director of Bharti Televentures.

"We're going to have to do something about it," adding that the trend was most evident on the bond market.

The yield on the 10-year German Bund is now around 4.3 percent against 3.8 percent about three months ago. The OAT, a French equivalent, is at 4.35 percent against 3.85 percent a quarter

ECB chief economist signals concern over inflation anticipation

AFP, Frankfurt

The chief economist at the European Central Bank, Otmar Issing, said Friday he was very concerned about rising inflation anticipation in the eurozone.

Anticipation of inflation is a process whereby businesses and individuals take decisions in the expectation that inflation will rise.

"To be frank, I am very anxious about increasing inflation anticipation (on financial markets) in the eurozone," he said in speech here.

"The bank foresees 1.7 percent eurozone inflation in 2005 after 2.1 percent this year.

The ECB for the moment has shown no sign that it is about to follow the lead of the US Federal Reserve and tighten monetary policy. The guardian of the euro on Thursday left its benchmark interest rate at two percent but appeared to harden its position in view of remaining "vigilant" in the face of possible oil-driven inflationary pressure.

ago. Issing expressed concern over

the current level of inflation in the 12-nation eurozone, noting that annual increases in consumer prices remain "stubbornly above two percent, which is a problem."

Eurozone inflation came to 2.4 percent in June after 2.5 percent in May, with the ECB predicting that it will stay above two percent until early next year.

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PHOTO: SOCIAL INVESTMENT BANK

Social Investment Bank Ltd has organised Meet the Customers-2004 at Chittagong Club recently. Among others, Chairman Kamaluddin Ahmed, Vice-chairman Abdul Awal Patwary and Managing Director Kazi Anwarul Mahabub were present at the programme.

Weekly Currency Roundup

June 26-June 30, 2004

Local FX Market

US dollar eased substantially against Bangladeshi taka in this week. Increased supply of USD helped to improve the liquidity position of the market.

Money Market

Bangladesh Bank issued BDT 5,415.50 million by the Treasury bill auction held on Sunday, compared with BDT 2,809.00 million in the previous week's bid. The weighted average yields of 28-day t-bills fell by 4 bps, while the rate of other tenors were unchanged from the previous bid.

The call money rate was in slightly upward trend this week. In the beginning of the week the rate ranged between 2.50 and 3.00 percent. The rate increased later to end the week at 3.00 and 4.50 percent.

International FX Market

The dollar recovered ground against the euro and yen on Monday as investors grew cautious of extending the greenback's recent losses ahead of a meeting of the US Federal Reserve later this week. The US central bank was widely expected to raise interest rates for the first time in four years on Wednesday, marking the beginning of a measured campaign to ward off inflationary pressure in the fast-growing economy.

The dollar gained against the yen and Euro on Tuesday after weaker than expected Japanese industrial output but the market was largely playing a waiting game ahead of this week's US rate decision. Japanese output rose by 0.5 percent in May from April, less than forecast which tempered expectations for an upbeat reading of the Bank of Japan's "tanakai" business survey this week and took the yen down over half a percent on the day of the dollar. Some analysts, however, said the data were far from discouraging and noted the market was unlikely to see much action before the US Federal Reserve long-awaited interest rate decision on Wednesday.

The yen fell broadly on Wednesday while the dollar struggled versus European currencies ahead of a US interest rate decision later in the day and the bank of Japan's "tanakai" survey of business sentiment this week. Markets were keenly awaiting the Fed statement that will accompany its expected 25 bps rate hike due at 1815 GMT, and will scrutinise it for clues on how aggressively US rates will rise later this year. Against the Euro, the dollar lost almost a third of a percent. A 25 bps rate hike has long been factored in the market. If the Fed statement provides no surprises, the market will keep its expectations for mild tightening through a series of 25-bps increases, and the dollar will likely fail to get any sharp boost.

Standard Chartered Bank

Microsoft pays 497m euro fine

AFP, Brussels

US software giant Microsoft has paid a fine of 497 million euros (605 million dollars) imposed on it by the European Commission in March for having abused its dominant market position, a commission spokesman said here Thursday.

Microsoft had paid the fine even though it has appealed to the European Court of Justice to cancel it and was seeking suspension of corrective measures imposed by the commission to re-establish competition on the European software market.

The commission, in fining Microsoft, said that the company had to offer a version of its operating system Windows without its Media Player software offering access to audio and video content.

The commission also required Microsoft to provide competitors with the information they needed to enable their products to communicate with Windows.

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