Star BUSINESS

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Meghna Cement approves 25pc cash dividend

Meghna Cement Mills Ltd, a concern of Bashundhara Group, has approved a 25 per cent cash dividend for its shareholders for the year 2005.

The dividend was approved at the 14th annual general meeting (AGM) of the company held on Thursday in Dhaka, says a press release.

Sponsor Director of the company Mahaboob Morshed Hassan presided over the AGM, which was also attended by other senior officials.

Bangladesh Export Import Co okays 5pc cash, 10pc stock dividends

Bangladesh Export Import Company Ltd has declared a five per cent cash dividend and 10 per cent stock dividend for the year 2005.

The dividends were okayed at the 33rd annual general meeting (AGM) of the company held yesterday in Dhaka, says a press release.

Vice Chairman of the company Salman F Rahman presided over the AGM, which was attended, among others, by directors Iqbal Ahmed, MA Qasem, Abdul Alim Khan and AB Siddiqur Rahman.

Mittal, Arcelor close to merger

PTI, *London*

After steadfastly resisting Mittal Steel's hostile bid since January, rival Arcelor looks closer to agreeing to the takeover, as the two sides held discussions that were described as advanced and constructive.

"Talks are ongoing and constructive" and some parts of the offer "in principle have been agreed," Sudhir Maheshwari, Mittal's managing director (business development and treasury) told Bloomberg Friday.

The two firms Friday and Saturday will continue talks on Mittal's 30 billion USD offer, amid speculations that Mittal is all set to clinch the deal, company sources said.

Make power, telecoms firms go public

CSE urges govt

STAR BUSINESS REPORT

The government should formulate a policy so that power, infrastructure and telecommunications companies offload a portion of their shares in the stock markets, suggested the CSE president yesterday.

Also the shares of cent percent government-owned profitable companies should be offloaded for public participation through the bourses, he said.

"Framing policies needs to be driven by the fact that foreign direct investment (FDI) along with these thrust sectors could substantially boost the capital market," said CSE President MKM Mohiuddin addressing a post-budget press conference in the port city.

Mohiuddin lamented that the proposed budget virtually contained nothing regarding the capital market.

Chittagong Stock Exchange chief also placed an 11-point demand for the benefit of the capital market as well as betterment of the economy.

The demands include tax rebate for listed companies besides rebate on individual dividend income and bond rate and investment allowance for income tax assessment.

Recalling consecutive deficiency in the earlier budgets, Mohiuddin said deficit budget might destabilise the capital market in many ways.

He said a Tk171 billion deficit is very likely to force the government to rely on internal borrowing from the money market, despite Tk120 billion has been planned to be externally financed.

The growing dependence on bank borrowing to meet deficit financing, coupled with the existing contractionary monetary policy, will shrink the funds for the private sector, he said, making an observation that the liquidity crunch has already led to an unhealthy competition among the private commercial banks to attract depositors by raising deposit rates up to 13 percent.

"Instead of high reliance on the banking sector, the government should collect money by using marketable bonds and offloading government shares in the capital market," the chief of the second bourse in the port city proposed.

Among others, CSE Vice-president AQI Chowdhury and Chief Executive Officer AB Siddiqi spoke at the press conference.

BOL okays 10pc cash, 10pc stock dividends

Bangladesh Online Ltd (BOL), an internet service provider (ISP), has declared a 10 per cent cash dividend and a 10 per cent stock dividend for its shareholders for the year 2005.

The dividends were announced at the ninth annual general meeting (AGM) of the company held yesterday in Dhaka, says a press release.

Vice Chairman of the company Salman F Rahman presided over the AGM, which was attended, among others, by Director Iqbal Ahmed.

$100m WB credit for Vietnam

AFP, *Hanoi*

The World Bank has granted Vietnam a 100-million-dollar credit for poverty reduction and economic reform, the bank said in a statement Saturday.

The credit will be used to support the government's efforts to gradually shift to a market economy, maintain sustainable development and build modern governance.

Capital market won't face '96-style debacle: SEC chief

DSE roadshow held in Ctg

SARWAR A CHOWDHURY, *from Chittagong*

Securities and Exchange Commission (SEC) Chairman Faruq Ahmad Siddiqi yesterday said the country's capital market will no more meet any 1996-style debacle as the market is now mature enough.

"Rather, the capital market has a great potential to grow further in the next five to ten years," he told the opening ceremony of a daylong roadshow here organised to woo investors in the capital market.

"Unfortunately, the capital market is not being used as an alternative source of funding in our country," he told the roadshow, organised by Dhaka Stock Exchange (DSE).

He said fund raising from the capital market is more cost effective. But, entrepreneurs usually go to banks to collect funds despite high interest rates, he added.

The entrepreneurs can reduce the dependency on bank borrowing through raising a portion of equity from the capital market and it will also encourage the general investors, he said.

The SEC chief also said losses of the state-owned enterprises are causing a liquidity crisis in the money market, hampering the stock markets.

Speaking at the function, Chittagong Chamber of Commerce and Industry (CCCI) President Saifuzzaman Chowdhury urged enterprises to go public. He also said the cell phone operators should offload a portion of their shares in the capital market as they are making huge profits.

Responding to a call to offload shares of PHP Group, Mizanur Rahman, chairman of the group, said his group will offload a certain portion of shares and the process is going on.

DSE President Abdullah Bokhari said the objective of the roadshow is to create awareness among the investors to invest in the capital market.

Echoing him, DSE CEO Salahuddin Ahmed Khan said under the present automated system investors can take part in share trading from any corner of the country through wide area network (WAN) connectivity.

A total of 155 general investors took part in the programme where SEC and DSE officials presented keynote papers. Chittagong Stock Exchange President MKM Mohiuddin also spoke at the function.

Besides, seven brokerage houses -- Lanka Bangla Securities, M Shahidullah and Co, ICB Securities, Royal Capital, E-Securities, Salta Capital and Haji Ahmed and Brothers -- showcased their services and products at the roadshow.

PHOTO: BASHUNDHARA GROUP

The 14th annual general meeting (AGM) of Meghna Cement Mills Ltd, a concern of Bashundhara Group, was held on Thursday in Dhaka. Sponsor Director of the company Mahaboob Morshed Hassan presided over the AGM while other senior officials were also present.

Door fair offers 5-10pc discount on products

STAR BUSINESS REPORT

Participants at the 1st National Door Fair-2006 were offering five to ten percent discounts on their products, as the six-day fair entered the third day yesterday.

The exhibitors said the fair, which began Thursday at Bashundhara City shopping mall in Dhaka, was yet to gain momentum. They, however, termed the response satisfactory saying that the real customers visit the fair.

Partex Doors and Boards, a local door manufacturer, offers five percent discount on different types of products.

"This is the first time that some door manufacturers gathered under one roof to showcase the products to the customers. So, with the receipt of some spot orders, our main goal is to introduce the latest door models to the customers," said an official of the company.

"Though, we received a thin response from the customers, but we are happy, because the customers are being introduced to the new models of doors," said DM Mamun, manager of Showdagar Complex, which offers ten percent discount.

A total of 40 door manufacturing companies, including some foreign ones, are showcasing the doors at a price ranging from Tk 12,000 to Tk 50,000 in the fair. The doors on display at 60 stalls are made of wood, glass, steel and plastic. A variety of door-making materials are also put on display at the fair.

Communicare Dot Events, an event management company, organised the fair. Partex Doors and Boards, a local door maker, is the event partner of the show while The Daily Star and private satellite television channel ATN Bangla are the media partners.

"I am really wondered to see the design of doors in the fair", said Moshiur Rahman, a visitor at Furnitech stall.

He said the products prove that Bangladeshi furniture manufacturers have the ability to make world class home appliances.

M A Samad, managing partner of Communicare Dot Event, said," We are not worried about customers flow to the fair. Because we have targeted the people who take real interest in coming across the country's door manufacturers."

The exhibition remains open to visitors from 10am to 9pm everyday without any entry fee.

EU warns of 'enormous cost' of Doha failure

AFP, *London*

EU Trade Commissioner Peter Mandelson has warned of "truly enormous costs" should the Doha round of trade talks fail to reach agreement, ahead of crunch talks next week in Geneva.

Mandelson was speaking at a lunch hosted by the British Chamber of Commerce and attended by journalists.

He spoke ahead of a crucial ministerial meeting at the World Trade Organization in the Swiss city starting June 29 and aimed at salvaging the stalled Doha negotiations.

"Before we travel to Geneva next week all negotiators, and all those who criticise the process from the sidelines, should contemplate the truly enormous costs of failure -- both economic and political," Mandelson said.

Participants in Geneva must not be "tempted by the false comfort of inflexible and entrenched positions", he added.

Mandelson also welcomed US President George W. Bush's comments last Wednesday that the United States and the European Union wanted to reach an agreement to break down barriers to international trade.

"There is a three-way bargain here. The G20 wants steeper cuts in US farm subsidies before it is willing to table the required cuts in industrial goods.

"Washington can unlock this by stepping forward with a better offer. If this happens the EU will, at the same time, meet them both with a strengthened offer."

Mandelson said that failure to clinch agreement would have wide-ranging consequences.

"Failure means losing the possibility of binding the EUs agricultural reform in Geneva and the possibility of locking in similar reform in the United States."

He added: "We would lose the chance to rewrite the global trade rulebook in a way that opens the door to new trade and closes the door on corruption.

"And we would lose the conviction that the WTO system can function with a membership that reaches 150 and mirrors every increment of size, interest and capacity in the global economy."

The WTO's current Doha round of trade talks focus on agriculture trade and developing market access.

National budget for FY2006-07: A CPD analysis

The National Budget for the fiscal year 2006-07 (FY07), the last budget of the present government, has been placed at a critical juncture both from political and economic perspectives. The Centre for Policy Dialogue (CPD), in continuation of its tradition, presented an analysis of the budget for FY07 on 9 June 2006. The present review is an excerpt of the immediate response by CPD, which examines the proposed budget in the context of current trends in the Bangladesh economy.

CONTINUED FROM JUNE 24

Instalment 2

FISCAL MEASURES

Restructuring the tax administration

Considering growing importance of mobilisation of domestic sources (as against external trade related taxes), increased effectiveness of tax administration by developing its capacity and extending its outreach is essential. The budget has proposed some measures to enhance efficiency of the tax administration. However, enhancing scope and coverage of the Large Tax-Payers' Unit (LTU) including its immediate extension in Chittagong is necessary. To ensure transparency and accountability in tax administration, Office of the Tax Ombudsman, as promised, should be operational from July 2006. For speedy clearance in Chittagong Customs House, setting up two units, one for export and the other for import would be a good step. It will be a positive step if the government can reduce, as proposed, the time limit for filing and disposal of appeals in different stages including Taxes Appellate Tribunal. For quicker disposal of the Appeal Cases, proposal for reduction of time limit for disposal of VAT appeal cases from one year to nine months is a good one. Making it mandatory for the income tax practitioners to be members of any registered Taxes Bar Association for working as an authorised person, may enable to bring more accountability of the profession.

Tax and duty measures

The budget proposals have left the basic structure of the personal income tax rates and corporate (include listed, unlisted and financial institutions) tax rates untouched. However, there had been some measures at the margin, which will only benefit the people above middle class. For instance, increase in allowable investment level for tax rebates will benefit people with yearly earning from Tk. 1000000 to 1250000. Increased limit of conveyance allowance for tax-exemption will only benefit salaried people with annual gross income of Tk 600000.

Given the investment incentives (effectively of Tk. 7500) allowed to the highest income bracket, it would have been only proper to raise the tax exemption base from Tk. 1,20,000 to Tk. 1,500,000 without raising the minimum income tax of Tk. 1,800.

The highest corporate tax slab (45 per cent) now imposed on the banking sector has to be extended to other high-profit service industries (telecommunication).

Keeping the existing four tiers intact, budget has offered reduction of customs duty at the lower level: from 6 per cent to 5 per cent (raw materials), from 13 per cent to 12 per cent (intermediate goods). This will help accessing of intermediate goods and raw materials at close to global price. However, the specific implication of this general measure on competing domestic industries is not fully known. To overcome the limitation of existing 4-slab system and likely abuse, particularly in import of capital machineries of selected industries at zero duty, it would be good to impose a low level of duty (0.5 per cent) instead of zero.

Export promotion vs import substitution

The budget has proposed a number of steps to promote exports including (a) concessional import duty on raw materials for export-oriented industries specially for the textile and RMG sectors, (b) withdrawal of all duties and taxes from certain spares and required for readymade garments, textiles, hosiery, label, and terry towel industries and effluent treat plant, and (c) income tax rebate on export earnings. The budget tries to figure out an initiative to promote export diversification like introducing the tax reduction on diamond cutting industry, but that is not enough to diversify the export basket of the country.

To provide protection and to promote domestic industries, the budget has proposed a number of fiscal measures including (a) reducing tariff on selected raw materials, (b) raising tariffs, and (b) imposition of supplementary duties (SDs).

Sectoral measures

Allocation for agricultural subsidy and rehabilitation has increased from Tk 1100 crore to Tk 1200 crore. Allocation of subsidy is a necessary condition to benefit farmers', but not a sufficient one. Although there was subsidy for agriculture (fertilizer and electricity used for irrigation) in FY06 but farmers faced severe problems for agricultural inputs including fertilizer and irrigation. This year government is going to import fertilizer and then market those at subsidized rates to the farmers through private dealers. Therefore, special monitoring and administrative efforts would be required to ensure that benefits reaches to the farmers.

The Budget has proposed exemption on fertilizer, seeds, capital machinery, drum-seeder and other agricultural inputs from duties and taxes at the importation stage and withdrawal of Infrastructure Development Surcharge (IDSC) from all kinds of hybrid rice seeds. This is likely to have positive impact on agricultural production.

Though the growth of the RMG sector is phenomenal after the MFA phase out especially for the knit industry but for the overall wellbeing of this sector, the support for RMG sector was rather weak. One positive move is that import duty of spare parts, and raw materials have been reduced. The budget has also proposed to allocate Tk. 20 crore to create Skill Development Fund for the Readymade Garments Workers. The allocation was also existed in the earlier budget, but how far this could have a positive impact on the workers need to be figured out. The recent unrest in the garments industry also indicated a need for special training for the workers management relations which could be incorporated in the budget.

Development of backward linkage industry for RMG is very important. Withdrawal of duties from yarn, spare parts and raw materials is expected to reduce cost of production in this sector. Extension of tax exemption and rebate from 30th June, 2006 to 30th June, 2008 would benefit textile industries.

Existing import duty on newsprint paper has been kept at 25 per cent despite continued demand of the Newspaper Owners Association making duty on newsprint paper free. We consider this as anti-knowledge taxation. Since Bangladesh's paper industry cannot support the demand for newspaper both in terms of quality and quantity, reduction of import duty is very essential to make newspaper less costly. In neighbouring countries the import duty on newsprint paper are much lower than in Bangladesh with 6 per cent in Pakistan, 5 per cent in Nepal and India and 2.5 per cent in Sri Lanka.

It seems that the government is not considering power crisis seriously. Government has allocated Tk.3586 crore, which is merely 5.5 per cent higher than the revised budget of FY06. A total of 52 projects have been implemented under the power division of which only 2 are new.

Government has announced a Power Rehabilitation Programme, which is worth Tk.100 crore only for repair and maintenance of old power plants. It seems that such a programme would not generate enough power considering very old age of most of the plants. A huge amount of public investment is necessary in order to undertake new power plant projects. However, it seems that government is fully depending on foreign fund to develop its power-infrastructure.

Given the lack of adequate power supply in our industrial and residential areas and the measures taken by our neighbours for the development of the power sector, the proposals are insufficient.

Social safety net

Towards targeted poverty reduction, social safety net and employment generation programmes, the budget for FY07 proposed an additional allocation of Tk 935 crore which is 1.5 per cent higher than allocation in FY06. No new programme is launched through this budget. Total allocation (Tk 940 crore) for the Credit Programmes for Employment Generation is 4.18 per cent less than FY06.

Budget has allocated Tk 55 crores to the "Seasonal Unemployment Reduction Fund" created in FY06 under non-development budget with an amount of Tk 50 crore for employment creation especially in Monga prone areas. The concern is on the utilization of this fund as the fund allocated for FY06 was not spent at all. The government has proposed an additional Tk. 940 crores for the 7 existing credit programmes for employment generation.

CONCLUDING OBSERVATIONS

As FY06 was the last full fiscal year of the outgoing government, it was expected that there would be a comprehensive assessment of the economic performance of the regime. The budget speech has quite inadequately treated this issue. Rather it becomes a swan song of the minister long on claims, short on delivery, absence of vision.

Notwithstanding reference to a conceptual framework in the beginning of the budget speech of the minister, the macroeconomic framework has not been applied to explain the future fiscal and monetary stances of the government in achieving the growth target, fiscal and external balance and assumed inflation rate. As such, the interface of the budget with the MTMF is not apparent.

It appears that the budget preparation process took the public expenditure outlay as the point of departure and then made revenue projections with the shortfall covered by foreign financing and domestic borrowing. The budget has proposed an impossible spending target underwritten by an improbable financing scheme. Compatibility of monetary and fiscal policy as suggested in the budget is questionable.

It is evident that the PRS (Poverty Reduction Strategy) in the very first year of its implementation got scuttled. The minister has made no effort to assess the outcomes of FY06 based on the Policy Matrix contained in the PRS document. There had been no attempt to explain how the incremental growth has benefited the poor. Our assessment indicates that the pro-poor dimension of the growth had been rather weak, particularly in case of wage employment.

No courageous or creative fiscal and institutional initiatives have been proposed in the new budget except for making only symbolic allocation in disparate areas. It is highly unlikely that the government will be able to speed much in the next three months. The budget for FY07 can, in fact, be termed as A budget for everybody, but for nobody.

The proposed fiscal measures in general indicate an attempt to liberalize the trade regime further and to make inputs available at a globally acceptable price. Some discrete attempts to provide protection to emerging domestic industries are also visible. However, current tariff structure continues to protect specific interest group as it is in the case of newsprint.

The assumed inflation rate for FY07 is 6 per cent. However, given the improbable projection for foreign financing, it is quite obvious that the government will have to lean heavily on domestic (bank) borrowing. Reduction of tariffs on certain food items will have marginal effect on the market, as global price of rice continues to rise. With the added pressure from fuel price hike, there will possibly be no respite on the inflation front.

Other than some initiatives in the tax administration, the budget neither recognises the poor state of policy management in the government. The budget, having mentioned in three places the adverse consequences of corruption, does not even mention ACC (Anti-Corruption Commission) or any other initiatives to check wastage, leakage and outright theft of public resources. Admittedly, the introduction of the PPR (Public Procurement Regulations) or the Financial Management Manual only is not sufficient.

The experience of the ongoing fiscal management restructuring is not discussed in the budget. Till date, the struggle of the 10 ministries trying to adapt the MTBF (medium-term budget framework) in their respective ministries continues. The performance of the first four ministries (Education, Social Welfare, Women and Children Affairs, and Agriculture) is not at all above average. The state of integration of the development and non-development budget is also not clear. The presentation is filled with language of "creative ambiguity."

For all practical purposes one may expect a slowdown in the economy during FY07. The growth rate will take the hit as indicated by the recent trend in credit flow to private sector, import performance, growth in L/C opening etc. The issue is to pre-empt any serious destabilization in terms of inflation rate, import rate and exchange rate in the coming months (till new government takes charge).

Indeed, the incoming caretaker government is expected to take measures to settle the economy at a low equilibrium. By the time the new political government prepares its economic policy and programmes in line with the PRS, FY07 may very well be over. Thus, one should be prepared to see phased downward revision of the proposed budget as the regime changes successively.

CONCLUDED

[The analysis has been made by the researchers of the Centre for Policy Dialogue (CPD)]