

DHAKA FRIDAY JUNE 12, 2009

News in brief

Budget deficit unchanged at 5pc of GDP

Budget deficit in the next fiscal year will stand at 5 percent of GDP, up about 1.0 percentage point from the revised budget of the outgoing fiscal 2008-09, as the size of the overall outlay declined to Tk 94,140 crore after revision from Tk 99,962 crore.

The government will have to face an overall deficit of Tk 34,359 crore in implementing the more than Tk 113,000 crore budget next fiscal year (2009-10).

However, in the original budget for FY2008-09 total budget deficit was kept at 5 percent of GDP.

Cars to be costlier

Cars will be costlier for both existing and prospective owners, if the finance minister's budget proposal is executed finally.

The supplementary duty on cars below 1500cc increased to 45 percent from 20 percent, 100 percent from 60 percent for 1500-2000cc cars, 250 percent from 100 percent for 2000-2500cc cars, and 350 percent for 2750-3500cc cars, as proposed in the new budget yesterday.

"I propose to fix the consolidated rate of depreciation at 30 percent for old, used and reconditioned vehicles not exceeding five years. Dealers' commission for deduction from the value of such vehicles shall be 10 percent instead of the existing 20 percent," said AMA Muhith.

Best's imposing huge tax on cars, the finance minister also proposed bringing the owners under the tax net.

He, however, proposed waiving supplementary duty on the import of fuel-efficient hybrid cars.

Business leaders point to merits, slips

REFAYET ULLAH MIRDHA

Major chamber and trade body leaders yesterday expressed mixed reactions over the proposed budget for fiscal 2009-10, claiming it spells out both positive and negative aspects for the growth of business.

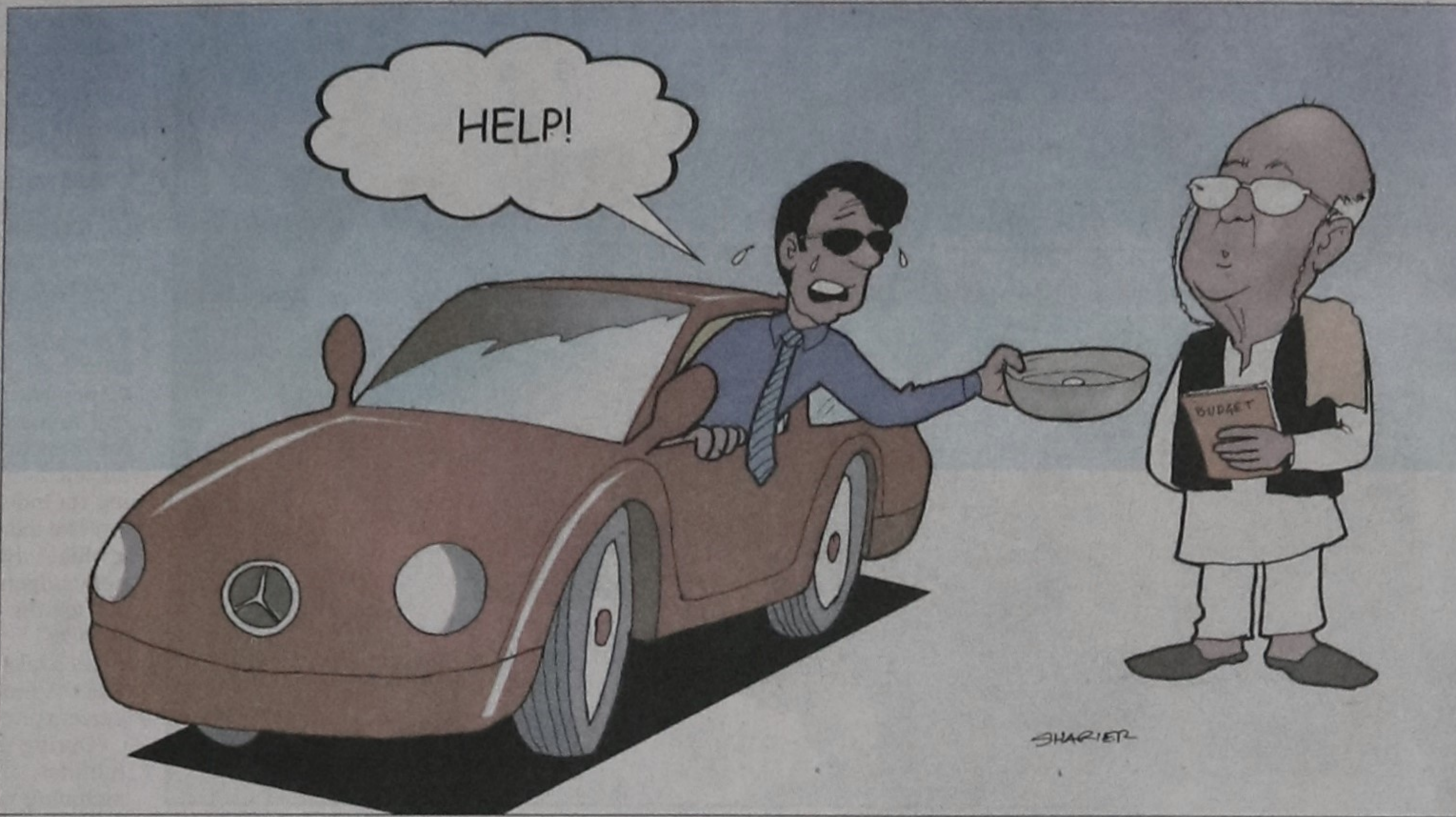
The leaders said the government emphasised the growth of rural economy and agricultural sectors to benefit farmers the most.

In an instant reaction to the budget, Annisul Huq, president of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), termed the proposed budget quite impressive, as some new concepts, like public-private partnership (PPP) programmes, have been introduced.

"Most recommendations made by the FBCCI have been reflected in the national budget for fiscal 2009-10. The introduction of PPP is the most favourable characteristic of the budget," Huq said.

However, a number of bad impacts may be observed in the investment and export sectors, as some demands were not addressed in the proposed budget.

If the government depends on the banking sector to finance the huge deficit budget, it will have negative consequences on private sector investment, according to Huq.



Abdul Hafiz Choudhury, president of Metropolitan Chamber of Commerce and Industry, said the proposed budget is business-friendly to some extent as the minister proposed a duty reduction of 2 percent on the import of basic raw materials.

On one hand, the budget tries to protect local industries, but on

the other hand, allows the whitening of black money, which may hinder the expected growth of the businesses.

"The tendency to evade taxes has been encouraged in the budget speech, allowing the whitening of black money for three years at a stretch," Choudhury said.

He feels the government may

record low employment generation, as it will be unable to initiate new ventures as a result of low tax collection.

Nasir Uddin Chowdhury, acting president of Bangladesh Garment Manufacturers and Exporters Association, said their demands for a stimulus package were not met.

"I am not at all happy with the proposed budget," he said. "The readymade garment (RMG) exporters have been demanding a stimulus package over the last few months, but to no avail. The government's dithering over the matter may negatively affect the country's main export earning sector."

Bangladesh Knitwear Manufacturers and Exporters Association, said the budget does not reflect their demands.

"I am not happy over the budget as our sector was not adequately addressed," Hoque said.

Expressing dissatisfaction over the proposed budget, Abdul Hai Sarker, president of Bangladesh Textile Mills Association, said the budget is not textile-friendly as the sector was bypassed.

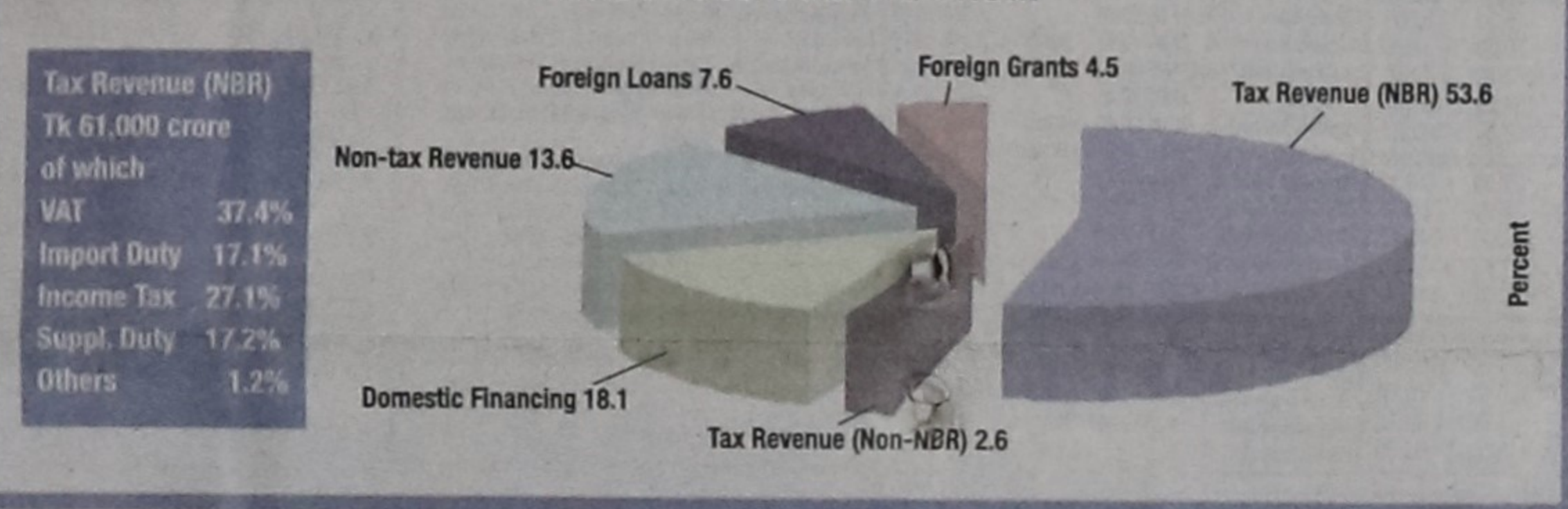
"While the government speaks of the use of effluent treatment plants (ETPs) in factories, he (finance minister) did not even mention it in his speech."

"The growth of investment in the Primary Textile Sector (PTS) would be hampered due to withdrawal of the tax-holiday facility, as was proposed in the budget speech," Sarker said.

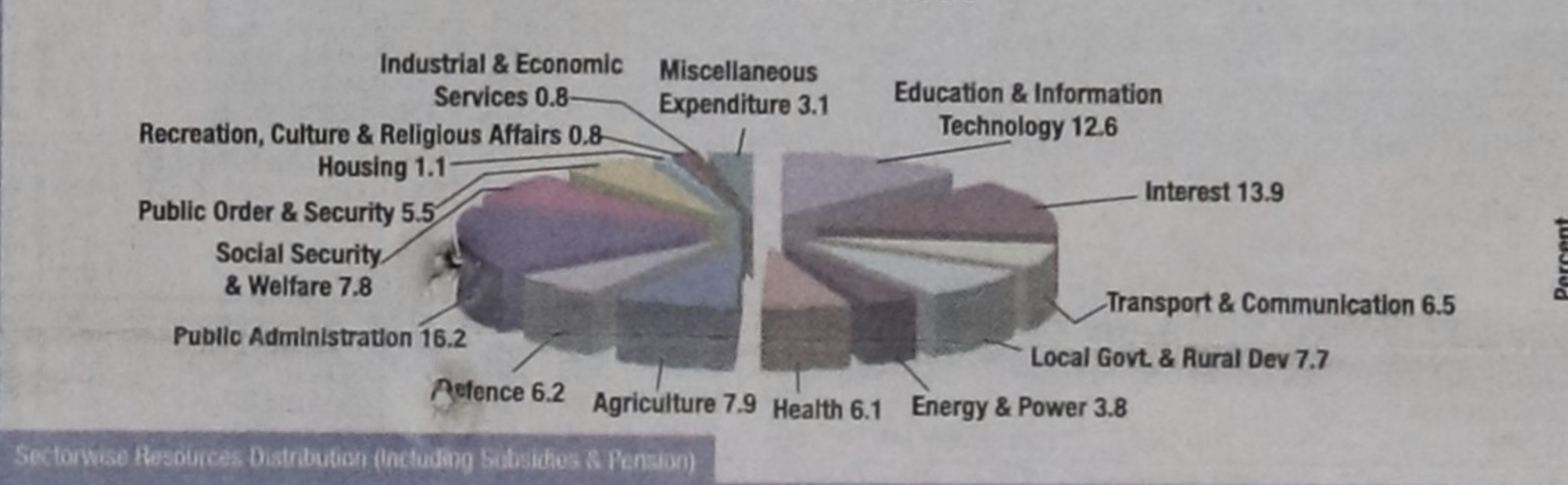
Zafar Osman, president of Dhaka Chamber of Commerce and Industry, said the budget proposal was in accordance with the government's election pledges, which would facilitate growth of business.

"Bypassing the RMG sector was not a wise decision, as this is the main export sector in Bangladesh," Osman said. "The allocations made for the agricultural sector and introduction of the PPP are credit worthy initiatives by the government."

NON-DEVELOPMENT & DEVELOPMENT BUDGET: 2009-10 (TK 113,819 CRORE) RESEOURCES COMING FROM



NON-DEVELOPMENT & DEVELOPMENT BUDGET: 2009-10 (TK 113,819 CRORE) USE OF RESOURCES



Govt to undertake massive housing projects

STAR BUSINESS REPORT

The Ministry of Housing and Public Works has chalked out plans to develop real estate projects on a large scale, targeting the lower and middle-income groups, Finance Minister AMA Muhith said in his budget speech yesterday.

The government is to develop 22,800 plots and construct 26,000 apartments in the next three years.

He said Awami League made the plan in line with the electoral pledge of Vision 2021, in which it pledged to provide accommodation for all by the year 2021.

In this regard, the government would also set up rural housing around the growth centres in each union and upazila and housing compounds with modern facilities for the urban regions as well.

The proposed budget also includes steps to save arable land from being used for housing projects.

Muhith said the government is planning to formulate a 'Land Use Policy', considering the country's population density.

Instead of scattered and unplanned homesteads, compact townships would be developed at union centres, growing villages, towns and metropolitan cities, Muhith said.

"This will free up land for agriculture and other purposes. The government is contemplating to provide civic amenities and other incentives to attract private initiatives in the areas identified for townships," said Muhith.

In the 2008-09 budget, the government had offered the tax holiday facility for constructing high-rise buildings in rural areas.

In efforts to keep domestic demand buoyant, Muhith proposed to raise the 'Housing Fund' of Bangladesh Bank to Tk 500 crore in fiscal 2009-10 from Tk 300 crore in the previous fiscal year.

To make housing and construction activities safe, sustainable and streamlined, the government has taken steps to reform the Bangladesh National Building Code 1993, said the minister.

The government is also working to revise the National Housing Policy, 1999.

In addition, the government would also provide accommodation for insolvent freedom fighters.

In the proposed budget, the government kept a provision to allow unquestioned investment in purchasing flats and houses by paying tax at a specific rate.

In response to the budget, Real Estate and Housing Association of Bangladesh (REHAB) President Tanveerul Haque Probal welcomed some of the budget proposals for the housing sector.

"The proposal to develop the plots and construct flats is good and I guess it would be under a public private partnership," said Probal.

"Despite some positive aspects, we did not receive any decision in regards to the import of reconditioned construction machinery, as in our budget proposal to the government," he added.

Urging full implementation of the budget, he said, "In every budget, we see a lot of good proposals. But unfortunately, a significant portion is not translated into action," said Probal.

Tax holiday, in new form

REJAUL KARIM BYRON

The government has proposed a new system of tax holiday for the next fiscal year by introducing a reduced rate of tax for select categories of industries instead of 100 percent tax waiver for a certain period.

Under the new system, which aims to prevent tax evasion and increase revenue earning, sectors eligible for the facility will have to pay taxes ranging from 5 percent to 15 percent in different phases.

"Tax holiday acts as an impediment to the tax-paying culture. So, the existing system of tax holiday, which remains in force until 2012, shall not be extended any further. Under this scheme, I propose to offer reduced tax rate for certain sectors," Finance Minister AMA Muhith said yesterday in parliament while proposing the budget for fiscal year 2009-2010.

Under the new system, qualified industries in Dhaka and Chittagong divisions will have to pay 5



The government is yet to specify the industries to be covered in the new tax system

percent tax in the first two years, 10 percent in the next two years and 15 percent in the fifth year.

In Rajshahi, Khulna, Sylhet and Barisal divisions and the three hill districts, the rate of tax will be 5 percent in the first three years, 10 percent in the next three years and 15 percent in the seventh

year.

The government is yet to specify the categories of industries to be covered by the new tax holiday system. But sources said the sectors would include agro-processing, infrastructure, shipbuilding, toy manufacturing, and the backward and forward linkage units of garment industry.

At present about 20 sectors enjoy tax holiday and industries in these sectors to be set up by June 30, 2011 will get the facility.

The existing system allows 100 percent tax holiday in Dhaka and Chittagong divisions in the first two years, 50 percent in the next two years and 25 percent in the fifth year. In four other divisions and the three hill districts, tax exemption is 100 percent in the first three years, 50 percent in the next three years and 25 percent in the next year.

Sources at the National Board of Revenue said industries enjoying tax holiday at present would continue to enjoy it until the end of the period for which they are entitled to.



Govt opts for stock market finance

The government is underlining capital market for resource mobilisation to reduce its dependency on bank borrowing.

"We are stressing finding resources from the capital market rather than borrowing from the banking system," Finance Minister AMA Muhith said in his budget speech.

"An efficient and transparent capital market complements the banking sector in industrialisation of a country," he said.

Referring to offloading shares of state-owned enterprises, Muhith said some additional supportive programmes have been taken for capital market development.

Penalty proposed for tax dodgers

The government has proposed measures to stop tax evasion in the proposed budget for the coming fiscal year.

The budget is to re-fix the minimum penalty sum at an amount that is equivalent to the evaded tax and a maximum to two and a half times the evaded tax to safeguard revenues.

Currently, the penalty for VAT or supplementary duty evasion is a minimum of 25 percent and a maximum of 75 percent of the tax amount.



No direct fund for RMG

STAR BUSINESS REPORT

The government has proposed an allocation of around Tk 5,000 crore for a stimulus package, but has not allocated any direct fund for the readymade garment (RMG) sector.

However, the minister proposed different policy supports, most of which had been announced earlier, for RMG and textile sectors.

Finance Minister AMA Muhith in his budget speech said three fronts -- export, import and remittance -- have been affected by the recession.

Muhith said there is already a package of incentives in place for the RMG and textile sectors. This includes bonded warehouse facilities through which the exporters can import fabrics and other raw materials without any duty, the minister said.

The government is already providing 5.0 percent cash incentive of the export value to those who use local yarn and fabrics to make their products, Muhith said, adding that a zero tariff facility for imports of cotton for the interest of yarn producers is in place.

He said the time limit for making down-payment in respect of repayment of bank loans for all manufacturers and exporters has been extended up to September 2009 and rescheduling facilities are to be extended on a case-by-case basis.

"The government provides subsidy to 13 export items. We have increased export subsidy for three worst-affected sectors by 2.5 percent. To this end, there is an increase in allocation of Tk 450 crore in the revised budget," Muhith said.