Star Business

Dhaka Sunday June 14, 2009

Stocks

DGEN	▲ 2.34%	2,747.27
CSCX	▼ 0.84%	6,124.40

(Week-on-week)

Asian Markets

MUMBAI	▼ 1.13%	15,237.94
TOKYO	▲ 1.55%	10,135.82
SINGAPORE	▼ 0.20%	2,377.07
SHANGHAI	▼ 1.91%	2,743.76

(Friday closings)

Commodities

Gold	▼	$950.05 (per ounce)
Oil	▼	$72.17 (per barrel)

SOURCE: AFP

(As of Friday)

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A document to appease all

The budget for fiscal 2009-10 has three major objectives: macroeconomic stability, GDP growth and poverty reduction. Several priority areas are identified: employment generation, enhancement of social safety net, reduction of regional disparity, emphasis on agricultural development, power generation, acceleration of industrialisation and building infrastructure for "Digital Bangladesh". Let's have a quick look at some of the major socioeconomic parameters.

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International

Tata Indian Hotels profit plunges 96pc

Tata Group's hospitality arm Indian Hotels Company Ltd. said Friday its annual net profit plunged 96.4 percent, hit by last November's militant attack on its landmark Taj Mahal hotel. The subsidiary said consolidated net profit for year ending March fell to 124.6 million rupees (2.62 million dollars) from 3.54 billion rupees a year earlier.

Taiwan passes major green energy bill

Taiwan has passed a bill on renewable energy in a move which is expected to attract 30 billion Taiwan dollar (937 million US) worth of investment, the government and reports said Saturday. Parliament on Friday approved the bill, which is aimed at adding between 6,500 and 10,000 megawatts of installed energy from renewable sources over the next 20 years, said the economics ministry.

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If you have views on Star Business or news about business in Bangladesh, please email us at business@thedailystar.net

FBCCI pushes for PPP bonds

Star Business Report

The country's apex trade body yesterday suggested that the government should float public-private partnership (PPP) bonds on the stock market to raise funds to cover a deficit budget.

Raising funds through PPP bonds will help the government reduce its dependency on bank borrowing and foreign aid to meet the deficit in the budget, the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) said in its reaction to the proposed budget.

Finance Minister AMA Muhith in his budget speech proposed Tk 2,500 crore for PPP funds for developing the country's weak infrastructure and power sector.

The budget deficit runs into more than Tk 34,000 crore of which Tk 16,755 crore would be borrowed from the banking system, Tk 3,800 crore from the non-banking system and the rest to be managed from foreign and other sources.

In their reactions to the proposed budget, businessmen, chamber and trade body leaders observed that the private sector may face fund dearth if the government depends heavily on banking system to meet the budget deficit.

FBCCI President Annisul Huq urged the government to reduce corporate tax to attract both domestic and international investment, which he said is most important for employment generation in the time of global recession.

Huq suggested 25 percent corporate tax for listed manufacturing companies, and non-listed companies whose net income is Tk 1 crore, 30 percent for the companies whose net income is above 1 crore and 35 percent for trading limited companies.

Huq proposed the government reduce corporate tax for banks and financial institutions to 30 percent from the existing 45 percent.

The FBCCI chief also called upon the government to make it clear soon through circulating an SRO (statutory regulatory order) what would be the rate of duty on import of capital machinery for export-oriented industries. Muhith proposed a 3 percent duty on import of capital machinery in his budget speech.

Now the duty on import of export-oriented capital machinery is 1 percent and 3 percent for capital machinery for the local industries. The minister did not clarify such duty in his budget speech, which raised confusion in the business community.

The government should give a specific definition of luxury goods, Huq said, adding that cars are not luxury items as the economic activities have changed a lot.

"Cars are now a near-essential item as we need a constant communication for personal and business purposes," he said.

Terming the proposed budget a reflection of the government's election pledges, Huq said: "It's not very difficult to achieve an 8 percent GDP growth from the existing 5.5 percent. It needs only Tk 66,000 crore additional allocation in the budget."

Huq urged the government to appoint the chief of Board of Investment (BoI) from the private sector to bring dynamism in the activities of the state-run investment promotion agency.

The FBCCI chief hailed the government for taking initiatives for developing the country's power and energy sector. He said if the government can implement the proposals of the budget, an additional 750-megawatt electricity will be added to the national grid by the yearend.

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Annisul Huq, president of Federation of Bangladesh Chambers of Commerce and Industry, speaks to the press on the Proposed National Budget 2009-10, in Dhaka yesterday.

Knitwear exporters demand govt's clear stance on stimulus

Star Business Report

Knitwear exporters have demanded that the government make a clear stance on whether this prime foreign currency earning sector was awarded a stimulus package to tackle the ongoing global recession fallout.

They lamented the absence of any proper directions in the 2009-10 national budget proposed by the finance minister Thursday.

At a post-budget press conference in Dhaka yesterday, Fazlul Hoque, president of the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), said, "We need government support at this moment so that we can take advantage in the post-recession scenario like what we got during the post-MFA (multi fibre arrangements) period."

The sectoral trade body leader pointed to a 0.28 percent decline in knitwear exports growth in April 2009, while it witnessed a robust 84 percent growth in July 2008.

"The slowdown shows that we are in a bad situation because of the crisis worldwide," Hoque said, demanding immediate clearance of the stimulus.

A Tk 5,000 crore fund has been proposed to earmark in the new budget for the continuation of such bailout next financial year.

Earlier, as per a Tk3,424crore announced on April 19 some recession-hit export sectors like jute and jute goods, leather and leather goods and frozen foods were offered bailout packages, including cash subsidy, loan facilities and social security.

However, ready made garments, knitwear and textile industry remained out of the purview of such packages.

Pointing to no indication of apparel stimulus programme in the new budget proposals, leaders of the knitwear sector, which fetched $5.231 billion from exports during the first ten months of the outgoing fiscal year, expressed their concerns over the government's indecision.

In the July-April period, Bangladesh exported RMG products worth $10.133 billion, registering an 18.13 percent rise compared to the same period a year earlier.

Of the total RMG exports, the contribution of woven garment was 38.25 percent or $4.902 billion, while the figure for knitwear products was 40.82 percent or $5.231 billion.

The BKMEA chief also came down heavily on the budget proposals as those did not incorporate knitwear in the government's priority lists.

Terming the global recession a 'game', Fazlul Hoque said, "Government targets either a win or draw, but we want to win the game".

He expected that the government would clear its plan on big export sectors like garments in the final budget.

Budget frustrates corporate leaders

Sajjadur Rahman

Corporate houses have vented frustration over the finance minister's 'no' to reduce their tax, which they claimed is the highest in the world.

Banks, insurance, leasing and finance companies have long been demanding a cut in the corporate tax rate from the existing 45 percent.

The demand was raised afresh this year because of erosion in income of corporate sector, especially of the banks, in the face of global recession fallout.

"Our demand has totally been ignored in the proposed budget. We are concerned about the fate of banking business in the coming years," said Nazrul Islam Mazumder, chairman of Bangladesh Association of Banks (BAB), a forum of bank owners.

Top bankers said the ongoing economic slowdown has caused a sharp decline in corporate profits, which led to a depression in the capital market and lowered corporate lending by banks.

"This downward trend has resulted in deferment of industrial investment that in turn will lead to lesser employment generation," a managing director of a private bank said, requesting not to be named.

The corporate tax rate in India is 30 percent, while it is 35 percent in Pakistan and Sri Lanka.

The global average corporate tax rate was 26.8 percent in 2007. The regional rates almost match the average corporate tax rate of European Union's 24 percent, OECD countries' 27.8 percent, the Asia Pacific's 30 percent, and Latin America's 28 percent.

The Bangladesh's rate is by far higher than the regional and global averages.

The banks, insurance, leasing and finance companies expected that the corporate tax would be reduced to 40 percent, with experts arguing that such a move would revive primary capital market and encourage banks and other financial entities to lend more to industries to help absorb external shocks.

Mazumder, also the chairman of EXIM Bank, said: "I expected at least a 5 percentage-point cut in corporate tax in the proposed budget."

During a pre-budget meeting with the BAB and top bankers, Finance Minister AMA Muhith assured them of considering the issue actively, according to media reports.

The banks are under a severe pressure to reduce their lending rate, which the government and the private sector people said is the highest in the region. Recently the central bank capped the lending rate for certain sectors at 13 percent.

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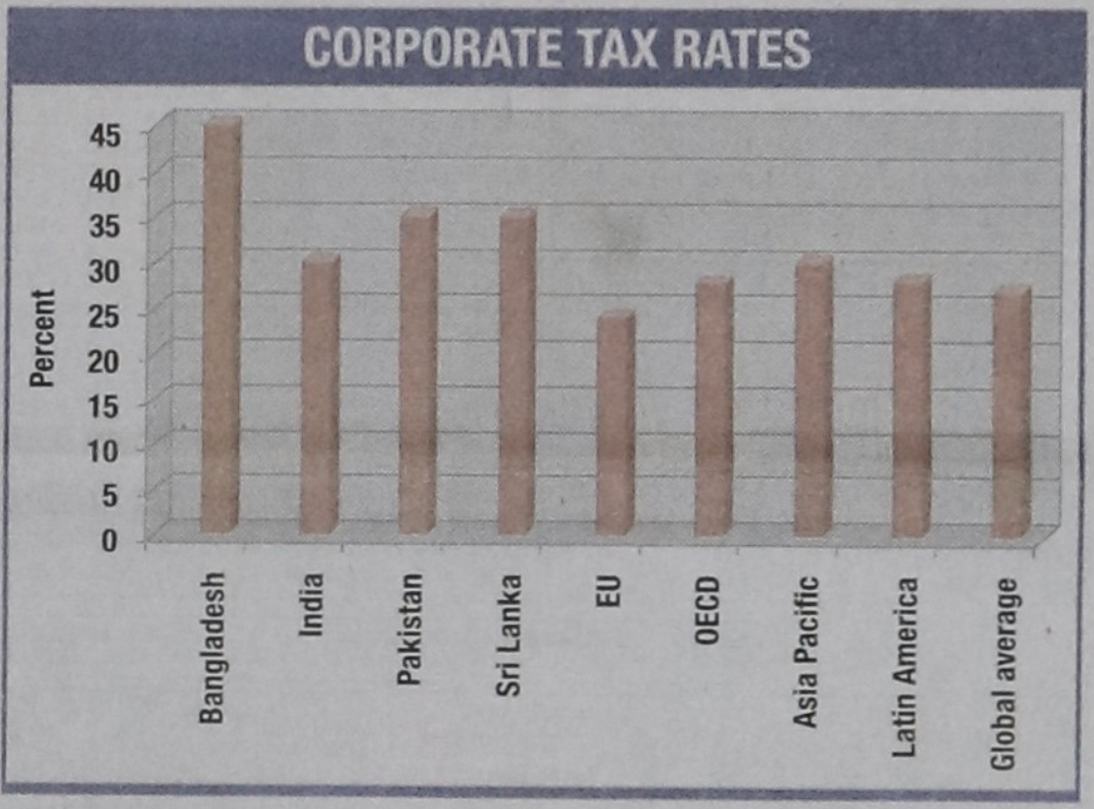


G8 finance chiefs dampen recovery hopes

AFP, *Lecce, Italy*

G8 finance chiefs on Saturday warned the global economic outlook remained uncertain and risky despite encouraging signs, while Europe stalled on carrying out US-style "stress tests" on its banks.

"There are signs of stabilisation in our economies... but the situation remains uncertain and significant risks remain to economic and financial stability," ministers from the G8 leading world powers said in a statement.

"We must remain vigilant to ensure that consumer and investor confidence is fully restored and that growth is underpinned by stable financial markets and strong fundamentals," they said following two days of talks in southern Italy.

US Treasury Secretary Timothy Geithner said there was no real turnaround yet.

"I don't think we're at the point yet where we can say we have a recovery in place," he said, adding: "It's too early to shift towards policy restraint."

Geithner said the global economy was still "well below potential" and encouraging growth should still be "the main focus of policy" for world powers.

There have been calls from countries like Germany for major economies to start reducing huge deficits and spending approved to stimulate growth.

"The G8 meeting was characterised by ill-concealed disagreement on the key issues of banks stress testing and of developing concrete strategies for unwinding policy stimulus," said Unicredit bank analyst Marco Annunziata.

International Monetary Fund chief Dominique Strauss-Kahn was also downbeat, saying: "We have to stay very careful, recovery is weak... We have to think about exit strategies but before the exit strategy we have to exit the crisis."

Strauss-Kahn also warned global unemployment would peak in 2011.

French Finance Minister Christine Lagarde meanwhile pointed to "early signs of an economic recovery but said that these remained "fragile."

"We're still in uncharted territory," said Italian minister Giulio Tremonti.

There were also rifts over "stress tests" to check on the financial stability of crisis-hit European banks, with Washington and London in favour but Berlin warning that they could undermine economic confidence.

"In Europe we haven't begun speaking about stress tests," Tremonti said.

In an interview with the Financial Times before the meeting, British finance minister Alistair Darling warned Britain's recovery could be held back by other European countries failing to clean up their banks.

In their statement, the ministers agreed only they would continue to provide liquidity for banks as required and begin to prepare "exit strategies" for after the crisis, adding that these "may vary from country to country."

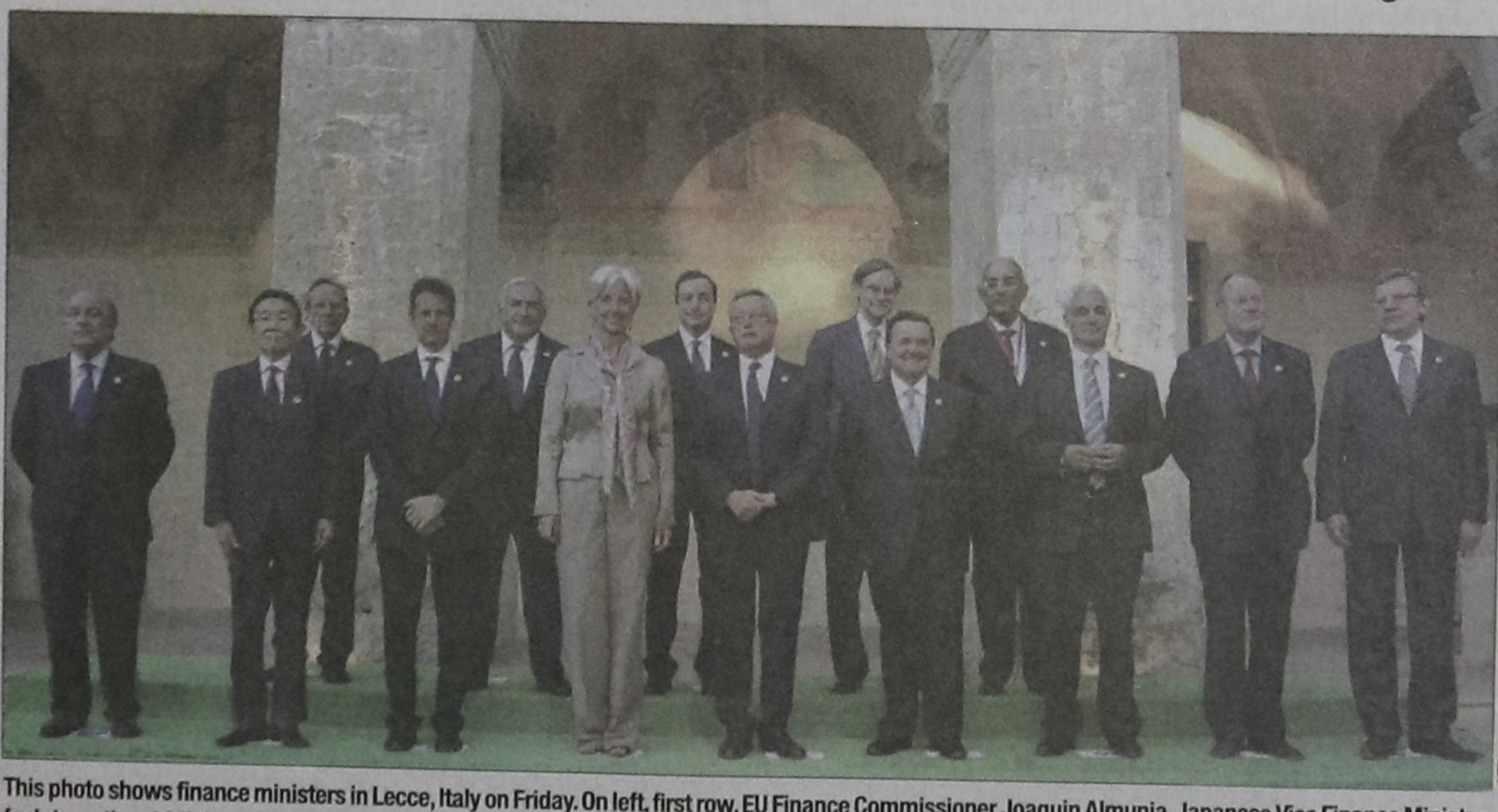
They also warned unemployment could rise even if economic growth returns.

German Finance Minister Peer Steinbrueck tols reporters on the sidelines of the meeting that rescue measures for economies hit by the crisis must "increasingly be combined with a credible exit strategy."

"This means we must now think about how will go about it once we are getting out of this hole, this valley," he said, adding that this applied to monetary and fiscal policy as well as to the rescue efforts for the banking sector.

The IMF has upped its forecast for global growth in 2010 to 2.4 percent, but the World Bank says the crisis in 2009 will be worse than expected and the World Trade Organisation says there are no signs of a trade recovery yet.

Strauss-Kahn said the increase in the IMF's forecast was due to "improvement in the United States, in Asia and particularly in Japan" but added that the situation in emerging economies was "very concerning."



AFP

This photo shows finance ministers in Lecce, Italy on Friday. On left, first row, EU Finance Commissioner Joaquin Almunia, Japanese Vice Finance Minister for International Affairs Naoyuki Shinohara, US Treasury Secretary Timothy Geithner, French Economy Minister Christine Lagarde, Italian Economy Minister Giulio Tremonti, Canadian Finance minister Jim Flaherty, UK Economy Minister Alistair Darling, German Finance Minister Peer Steinbrueck, Russian Finance Minister Alexei Kudrin; second row, from left: Unidentified, IMF's Managing Director Dominique Strauss-Kahn, Governor of Italy Bank Mario Draghi, World Bank President Robert Zoellick and International Monetary and Financial Committee Chairman Youssef Boutros-Ghali.