

Budget faces inflation test

Maintaining growth pace is a key challenge: CPD



Mustafizur Rahman, *middle*, executive director of Centre for Policy Dialogue (CPD), speaks at a press conference in Dhaka yesterday. Debapriya Bhattacharya, *right*, CPD distinguished fellow, and Fahmida Khatun, *left*, head of research of the private think-tank, are also seen.

STAR BUSINESS REPORT

Maintaining macroeconomic stability and growth momentum amid soaring inflation will be a major challenge in the upcoming budget, the Centre for Policy Dialogue (CPD) said yesterday.

The think-tank also identified growing subsidy requirements, rising interest rate, poor implementation of public investment programmes, low foreign aid disbursement and a declining balance of payment as potential threats.

The CPD placed a set of proposals for the upcoming budget. The proposals include raising the tax exemption limit to Tk 200,000, mandatory tax identification number for all beneficiary owner's accounts and introduction of capital gain tax on stockmarket transactions.

The FY2011-12 budget should not allow legalising black money, said the CPD, arguing that it did not work anytime in the past.

Fahmida Khatun, head of research, read out the proposals at a press conference at the CPD's Dhanmondi office in Dhaka.

"There is no magic bullet to contain inflation. It must be

addressed by overall macroeconomic management," said Debapriya Bhattacharya, CPD distinguished fellow.

Bhattacharya said inflation is expected to be higher next fiscal year due to high commodity prices on the international markets.

He said the initiative to contain inflation is limited. The government can better concentrate on facilitating investment to help people get jobs and increase their purchasing power, he pointed out.

CPD Executive Director Mustafizur Rahman said food inflation on a point-to-point basis has crossed the double-digit level. "So, an increase in homestead productivity could reduce both costs and food inflation," he said.

The CPD proposed continuation of zero tariffs on import of rice, wheat and lentils, while VAT on edible oil should be withdrawn. It also said food procurement should be set at 1.2-1.5 million tonnes.

It asked the government to invest in agriculture in Africa where Bangladeshis work.

About non-ADP (annual development programme) expenditure, Bhattacharya said the amount has

been increasing without transparency. "We still don't know who is getting how much subsidy in agriculture or energy," he said.

About the revenue collection, he said non-NBR (National Board of Revenue) income is about 25 percent of the total revenue earnings, but surprisingly it is declining.

"It means that the government assets including dividend from public enterprises and income from railway or telephone, fail to provide return to the government," said Bhattacharya.

Fahmida said introduction of tax on capital gain would reduce stockmarket volatility. "This is a common practice in many countries."

The CPD said tax break facility will end in June and the government should impose 1 percent tax for a limited period on selected industries.

The NBR should be strengthened to avoid duplication, harassment, reduce corruption and improve transparency and efficiency in tax collection.

The introduction of Value Added Tax (VAT) Act 2011 and direct tax acts is a welcome move but the stakeholders and experts should be

SOME MAJOR PROPOSALS

- Tax-free income limit at Tk 200,000
- Mandatory TIN for BO accounts
- Capital-gain tax on individuals
- 'Sectoral mutual fund' to develop infrastructure
- Licence renewal fees for mobile operators should be based on justified arguments
- Withdrawal of 15 percent VAT on internet services
- Bandwidth charges should be reduced further from Tk 12,000 for one MB
- Development of 'exclusive tourist zone'
- Exemption of VAT on raw materials for domestically produced medicines
- Contingency fund for migrant workers
- Reduction of VAT on edible oils

consulted before finalising the laws, said the CPD.

The CPD also supports a government move to introduce wealth tax as assets are being accumulated by a section of people.

It also asked the government to expand entrepreneurship equity fund beyond the agriculture and IT sectors to light engineering, melamine and electronics industries. The think-tank said the government should allocate special funds for the development of industrial clusters and garment zones.

The VAT on raw materials for domestically produced medicines and powder milk should be exempted. The CPD also suggested jute be treated as an agro-based industry and cutting import tariff on capital machineries for SMEs.

It also called for continuing cash subsidy for the textile industries for another five years and extending time limit for claiming duty-drawback to one year.

The speakers said the budget must raise allocative efficiency of public expenditure, enhance implementation capacity, and strengthen monitoring and outcome assessment.

BB hikes repo rate again

REJAUL KARIM BYRON

Bangladesh Bank (BB) yesterday increased repo and reverse repo rates by 0.25 percentage points -- the second attempt in about one and a half months -- to rein in credit growth and inflation.

The central bank increased the interest rate on repo to 6.25 percent, which was 6 percent earlier.

The repo rate is the interest rate at which the central bank lends money to commercial banks. The reverse repo rate is the return banks earn on excess funds parked with the central bank.

The rate of interest on reverse repo was hiked by 0.25 percentage points to 4.25 percent. A central bank circular said the new rates of interest will come into effect from today.

Earlier, on March 13 repo and reverse repo were increased by 0.5 percentage points. On December 15 last year, BB increased the cash reserve requirement (CRR).

The central bank has taken the step at a time when both inflation and credit have been continuously increasing despite taking different measures.

According to Bangladesh Bureau of Statistics (BBS) data, in March overall inflation crossed the double-digit mark and reached 10.49 percent which was 9.79 percent in February.

In the rural area food inflation was 14.84 percent in March which was 11.66 percent in urban areas.

For lowering inflation Bangladesh Bank took steps to contain the private sector's galloping credit growth. In February, private-sector credit growth was 28.34 percent which was 27.58 percent in December last year.

In July last year, in the first Monetary Policy Statement (MPS) of the current fiscal year, BB set a target of cutting down private sector credit growth to 16 percent by June 2011 from 24 percent in June 2010.

The bankers said the moves will make credit costlier. In January, BB indicated repeatedly in MPS that it will hike the policy interest rate to contain inflation.

"There is no magic bullet to contain inflation. It must be addressed by overall macroeconomic management," Dr Debapriya Bhattacharya, CPD distinguished fellow, said yesterday during a briefing on the upcoming budget.

Regulator directs bourses to list MI Cement

STAR BUSINESS REPORT

The stockmarket regulator yesterday directed twin bourses to list MI Cement Factory Ltd on their trading boards, a move that ends a stalemate over the listing of the cement maker.

The Securities and Exchange Commission issued a circular after a meeting on the MI Cement issue, said an SEC official.

"The bourses will have to list MI Cement immediately after fulfilment of the conditions that the company proposed, and agreed by the regulator as well as the bourses," the official said.

Earlier, MI Cement proposed that sponsor directors will compensate the investors if share prices go below the offer price within the first six months of trade. The company will deposit Tk 5 crore in security funds to fulfil the compensation package before receiving the listing approval from the bourses.

Also, the company will set aside a fourth of total shares from the directors' portion for the bourses. If the compensation amount crosses Tk 5 crore, the exchanges could go for selling those shares.

MI Cement has already raised Tk 335.05 crore from the public using the book-building method by floating 3 crore ordinary shares of Tk 10 each with issue price of Tk 111.60 per share.

Data submitted by the company to the DSE shows earnings per share of MI are Tk 93.87 and net asset value is Tk 37.01 per share as of June 2009.

Earlier, the SEC asked the company to buy back shares, if its share prices slip below the offer price within the first six months of trading, and asked the bourses to take

proposals as per the listing rules.

But the listing committee of bourses opposed the move on a condition of buy-back, saying huge complexities would arise if the company is listed.

The stalemate was created over MI Cement after the stockmarket regulator suspended the book building method in January following a government instruction.

A volley of criticisms came from economists, market experts, analysts and stakeholders over the misuse of the mechanism.

At yesterday's meeting, the SEC however rejected rights offering proposal of Saiham Textiles, a listed company.

"The rejection came after the commission found inconsistency between the company's net asset value and the offering price for rights shares," the SEC executive director said.

Earlier, Saiham Textiles recommended one and a half rights shares for each existing share at an issue price of Tk 40, including Tk 30 in premium.

Meanwhile, stocks continued to decline for a third day with investors gradually losing their confidence in the market.

The benchmark index of the Dhaka Stock Exchange, DSE General Index, fell 57 points, or 0.9 percent, to 5,806 at the end of a four-hour trading session.

Of the issues traded on the DSE floor, 154 declined, 88 advanced and 11 remained unchanged.

The low confidence also left its impact on the day's turnover, which came down to Tk 446 crore, down by Tk 167 crore from that of the previous day.

DSE to press demutualisation law

GAZI TOWHID AHMED

The Dhaka Stock Exchange will urge the government to make a law to complete the much-talked-about demutualisation of stock exchanges.

"We studied international practices and will select one model this week. We will urge the government to take steps to pass a demutualisation law," said Ahasanul Islam, senior vice president of Dhaka Stock Exchange. "We will

make a presentation to the government, explaining a demutualisation roadmap."

AB Mirza Azizul Islam, former adviser of caretaker government, said: "The government should make the law as soon as possible."

"I had selected a model based on the demutualisation model of Hong Kong when I was chairman of the SEC," he said.

Demutualisation transforms a stock exchange from an entity owned by mostly brokerage-

owning members into a for-profit company owned by shareholders. It ensures a sound corporate governance, alternative business models and operational efficiency.

A demutualised exchange can also freely trade on the market like any other public company.

Bangladesh's stock exchanges are now non-profit cooperative organisations, owned by the exchange members who are usually stockbrokers.

Ford Q1 profits go up 22 percent

AFP, New York

from a year ago, revved up by sales of fuel-efficient vehicles. The company reported \$2.55 billion profit.



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