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BB clears stance on market worries

Discusses interest rate, liquidity and capital market recovery with business leaders

STAR BUSINESS REPORT

The central bank yesterday said people who now blame Bangladesh Bank (BB) for its inaction in dealing with the banks' overexposure to the capital markets had once put pressure on the BB to go soft on the banks' links with the stockmarket.

"It is curious that those now blaming the BB for inaction were themselves actively lobbying to pressurise the BB to prolong compliance timelines for banks," the central bank said in a statement yesterday after a meeting with business leaders.

The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) on Sunday blamed the BB for not taking actions against the errant banks that had invested heavily in the stockmarket to make quick profits.

FBCCI President AK Azad said they raised the issues of liquidity crisis and interest rate. "The central bank told us that the situation is improving and the problems will be over soon," he added.

BB Executive Director Jahangir Alam said, "We have told the businessmen that the banks do not have any liquidity crisis."

The central bank in a written statement said the assertion in FBCCI's press bulletin that the BB did nothing to restrain banks from capital market investments beyond statutory ceiling is incorrect.

The BB asked banks to set aside their 2010 capital market investment gains for adjustment of subsequent losses, it said.

Banks are free to make their business decisions about investment of the post-adjustment remainders in the capital market, and there can be no question of coercing them to do so by a BB directive.

On the FBCCI's demand for imposing cap on the rate of interest on loans, the BB said, with inflation high and rising, the banks cannot attract deposits at low interest rates from individuals, households and businesses; and rising deposit interest rates necessarily push up lending interest rates.

Imposing ceilings on deposit and lending interest rates will worsen matters, hurting growth in deposits and the volume of available credit.

The BB also said, only by bringing down credit expansion to levels com-

mensurate with nominal growth of the economy, inflation level can be brought down, in turn bringing down the deposit and lending interest rates.

The lending rate caps still remaining on credit for some essential and productive purposes are proving counterproductive, reducing credit access for these purposes, creating a sense of liquidity crunch, the central bank said.

Fighting down the rising trend of inflation is now a key concern in all economies -- developed and developing, the BB said.

It said, the lending and deposit interest rate ceilings in China mentioned in FBCCI's press bulletin are remnants of their communist era practices; and China has acted far more aggressively in fighting down their inflation rate, which is only half that of Bangladesh.

Since January 2011, China has raised interest rates four times, while Bank of England has done so twice. India has raised Indian policy interest rates nine times from January 2010, against thrice by the BB.

Bigger businesses in Bangladesh can contribute significantly in easing the rise in domestic lending interest

rates by leaning less on local banks for term financing of their investment projects.

This will also ease depreciation pressure on exchange rate of the taka, and help avoid buildup of asset liability maturity mismatch in books of local banks, the BB said.

It said the rise in deposit interest rates is already showing pickup in deposit growth, improving market liquidity and the volume of loanable funds.

"We believe the business community is fully aware of the necessary tradeoffs in short term adjustment pains for stable, sound growth over the medium and longer term," the BB said in the statement.

In the current local and global inflationary environment, it is impracticable to continue with lending rate caps imposed during the global downturn.

The central bank is closely monitoring interest rate practices of individual banks to weed out practices or tendencies unfair or undesirable from consumer protection viewpoint, the BB said.

The BB will look into specific grievances of individual businesses in this respect for prompt redress, it said.

Dhaka bourse to introduce e-trade

STAR BUSINESS REPORT

The Dhaka bourse will introduce electronic trading (e-trading) in the stock market in July, in a move to create a virtual marketplace for share transactions.

With the e-trading system in place, stock investors will not have to place buy or sell orders with traders, rather the investors will be able to do it direct from any location after logging into the trading web server using secret passwords.

"We have been working for the last 10 years on e-trading," said Ahsanul Islam, senior vice-president of Dhaka Stock Exchange. "Electronic trading will enable investors to trade from home. They won't have to be present at any brokerage house," he said.

"It will also ensure transparency in share transactions," Islam said. "It's a shift from electronic transaction to electronic trading."

The investors can also see the financial statement of their portfolios at any time from anywhere, he added.

Presently, the DSE uses "TESA Trading Software (Client Part) MSA" system for share transaction electronically, and it is now working on the MSA-Plus system for electronic trading.

Prior to the commencement of the e-trading, the premier bourse yesterday launched a training workshop on the e-trading system for authorised representatives of the DSE stockbrokers.

Prof M Khairul Hossain, chairman of the Securities and Exchange Commission, inaugurated the training programme at Bangladesh Institute of Capital Market.

Tax reforms still at slow pace

SAYEDA AKTER

The government is set to bring some changes to tax regulations in the upcoming national budget for 2011-12 amid slow pace in implementing many promises to reform tax laws in the previous years.

The National Board of Revenue (NBR) may raise the income tax threshold, but is yet to show responses about the chances to allow black-money holders to legalise their undisclosed wealth through investment only in industries.

Also, the tax administrator is likely to respond to the demand of the business community to reduce corporate taxes and rationalise it further.

In addition, the NBR is set to rationalise the tariff structure and remove anomalies in the taxation system to encourage more taxpayers to submit value added taxes, customs duties and income taxes.

The NBR is also set to review the turnover tax for the small and medium enterprises (SMEs) and reduce the rate to encourage the sector further.

However, the pledges of reforming tax regulations and making the tax administrator taxpayer-friendly are yet to see light. Some initiatives, such as introduction of single VAT registration for entrepreneurs and spot assessment of new taxpayers, still lag behind.

Although the government plans to collect 28 percent more revenue in the next fiscal year than the target set in 2010-11 by domestic resources mobilisation, the NBR still suffers from acute manpower shortage.

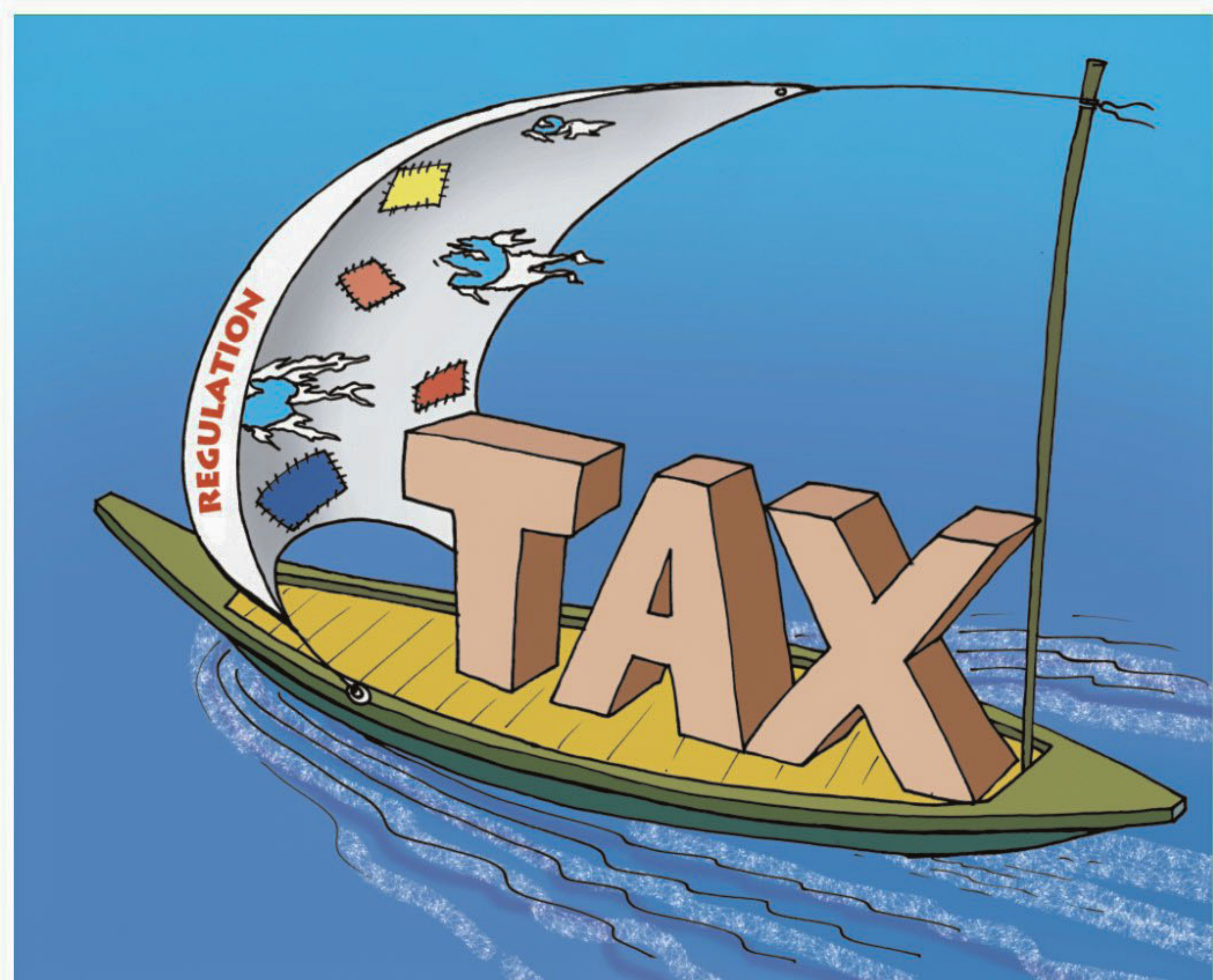
Asif Ibrahim, president of Dhaka Chamber of Commerce and Industries (DCCI), said the government should raise the limit of taxable income for individuals to help them cope with the rising cost of living.

"The cost of living has increased manifold due to the rising prices of commodities, and inflation. Although, it (raising the income tax ceiling) may lessen the tax income for now, eventually it will help widen the tax net and make people pay taxes," he said.

He proposed extending the limit of taxable income for an individual from Tk 1.65 lakh to Tk 2.25 lakh and, for women and elderly taxpayers, from Tk 1.8 lakh to Tk 2.5 lakh.

He suggested the government reduce the tax rate on income tax and rationalise the corporate tax rates. The tax rates on the profit of registered companies in the stockmarket should also be reduced from 27.5 percent to 25 percent, he added.

The government is likely to bring some



major changes in the VAT laws in the upcoming budget, including reduction of tax on SIM (subscriber's identity module) cards, while it also plans to increase taxes on all tobacco products such as cigarettes and chewing tobacco items.

Also, the NBR plans to introduce a new system to recognise top VAT paying businesses, and wants to lower the existing penal taxes.

The tax on SIM cards might be cut by Tk 200 from existing Tk 800, following a long-standing demand by the mobile phone operators that generate VAT of around Tk 1,300 crore a year from sales of SIM cards.

However, the business communities have long been demanding a tax exemption from VAT on investment in plants, machinery and equipment of cottage industries with an investment of Tk 25 lakh to Tk 50 lakh.

The government also has to respond to the demand of reducing the maximum VAT rate from 15 percent to 10 percent for the sake of expansion of the local industries, said insiders.

They also demanded an increase in the rate of VAT on annual turnover from Tk 60

lakh to Tk 1 crore, and a cut in the turnover tax from 4 percent to 2 percent.

However, the NBR has to face some challenges in meeting a bigger target of revenue with its present capacities

For the next fiscal year, the government has set a target of Tk 119,000 crore revenue, which is Tk 92,847 crore for the current year. Of the total amount, the NBR's target of revenue collection may rise by 27 percent.

To achieve the target, the NBR has to depend on revenues from income tax and VAT, where the board is likely to set a target of 35 percent more income tax and 22 percent more VAT in the upcoming fiscal year.

In the revised budget of the current fiscal year, the NBR's collection target may be increased by more than Tk 3,000 crore and set at Tk 76,000 crore.

"We are going to take several initiatives to collect more revenue. A major reform will be made in VAT," said a member of the NBR, asking not to be named.

"And for income tax, the government considers keeping the option of tax holiday for few more years. Also, property tax may be introduced to widen the tax net," he said.

He also said the NBR will soon launch a drive to stop tax evasion, and take prompt actions to collect revenues from disputed accounts.

However, the tax administrator still cannot make any satisfactory progress in collecting Tk 8,000 crore stuck in lengthy court procedures, although an Alternative Dispute Resolution (ADR) system comes to effect from the current fiscal year to ensure prompt collection of the dues.

The ADR is a legal framework that enables authorities to resolve cases through mutual understanding and across the table negotiations. In this system, both parties compromise on certain aspects to strike a balance.

At present, around 20,000 NBR-related cases, involving around Tk 8,000 crore in revenues, are pending with courts.

Also, the recruitment process for the 18 tax zones of the NBR across the country is progressing in slow pace, which is another challenge for the board to accelerate its revenue collection efforts.

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Govt gets \$40m from WB for Libya returnees

STAR BUSINESS REPORT

The government signed a \$40 million credit agreement with the World Bank yesterday for the Bangladeshi migrant workers escaping the troubled Libya.

Each of the returnees will get \$775 or around Tk 55,000, the World Bank said in a statement yesterday.

M Musharraf Hossain Bhuiyan, Economic Relations Division secretary, and Ellen Goldstein, World Bank country director, signed the agreement at the ERD in the city.

The "Repatriation and Livelihood Restoration for Migrant Workers Project" will provide a one-time cash grant to help returning migrants meet immediate needs and restore livelihoods, the World Bank said in a statement.

The bank said the recent crisis in Libya poses a significant shock to the income of Bangladeshi migrants and their families.

Of the estimated 70,000 to 80,000 Bangladeshis working in Libya, more than 35,000 have returned home since the anti-government protests began in the North African country in March this year.

"Migrant workers are a source of great economic resilience for Bangladesh," said Khandker Mosharraf Hossain, the expatriate's welfare and overseas employment minister.

The World Bank financing will retroactively cover the cost of transport for 10,000 returnees brought to Bangladesh with support from the International Migration Organisation (IOM). It will also provide a one-time cash grant of around Tk 35,000 to Tk 50,000 to eligible Bangladeshi migrant workers following their return.

The amount will be added to the government financing of \$4.6 million, as well as nearly \$30 million in grant funding from donor organisations raised through IOM's global appeal, the statement said.

Bhuiyan said returning workers are affected not only through loss of wages income, but also through increased debts often incurred in order to migrate.

The World Bank statement said additional government programmes would help returning workers seek available employment opportunities in both domestic and foreign labour markets.

Goldstein said: "We received a request in late March to support the government's efforts in repatriation and livelihood restoration."

"I am pleased that we were able to approve this operation one month later, on April 26, with our senior management and executive directors agreeing to exceptional streamlining of procedures in order to respond quickly to an emergency situation."

An official of the expatriate's welfare and overseas employment ministry said primarily there was a plan that the returnees would be given \$300 per head. But as the WB increased the financing to \$40 million the government has enhanced the amount per head to \$775.

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