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Move to hike interest rates on savings tools

REJAUL KARIM BYRON

The government has moved to increase sales of savings instruments by raising their interest rates and cutting taxes on profit, as sales marked a fall in the outgoing fiscal year.

A government committee has recommended raising the rate of interest on all types of savings instruments by 0.5 percent to 1 percent and cutting taxes on profit by 5 percent.

A seven-member committee led by Bangladesh Bank Deputy Governor Ziaul Hasan Siddiqui last week submitted the recommendations to the government.

The committee was formed in January to make recommendations after reviewing tax structure on various types of savings instruments. In the current fiscal year, the rate of interest on various savings instruments was cut by 1 percent to 1.5 percent. On the other hand, 10 percent tax was imposed on the profit.

The committee recommended the rate of interest on Paribar Sanchaypatra at 12.05 percent from existing 11.04 percent, Pensioner Sanchaypatra at 11 percent from 11.80 percent now, and five-year Bangladesh Sanchaypatra at 11.55 percent from existing 10.5 percent. The interest rate on three-year

Sanchaypatra and Post Office Sanchaypatra will rise to 10.76 percent from existing 10.25 percent, and five-year Wage Earners' Development Bond to 11.80 percent from 10.5 percent now.

The committee said Paribar Sanchaypatra is now sold to women and the highest interest is paid on it considering the buyers' segment as a group lagging behind.

But as no socio-economic class is specified as to who will be able to buy those, the higher sales of Paribar Sanchaypatra are mainly confined to the middle and upper-

The survey showed that 99.43 percent people made investment in the category of Tk one lakh or more. Of these, 82.59 percent opted for the range of Tk 5 lakh or more and 46 percent made investment in the category of Tk 15 lakh or above.

The study found that the investment coming through the savings instruments is not actually from the lower and lower middle classes. The high rate of interest given on these savings instruments is actually enjoyed by the middle and higher middle class people.

The committee also suggested re-evaluation of the savings instruments.

Of the existing 10 savings instruments and bonds, there is no tax imposed on five. Of the rest, tax is deducted at a rate of 10 percent on four and 20 percent tax imposed on prize bonds.

The committee said the proposal made by it to increase the rate of interest will cost the government an additional Tk 60 crore.

A member of the committee said, if the rate of interest on savings instrument is raised excessively, it will increase the rate of interest on bank loans and deposits, and the government expenditure will go up.

So they have recommended fixing a pragmatic rate of interest, the member said.

Interest rates on savings certificates		
	2010-11 (%)	Proposed (%)
5-year family savings certificate	11.04	12.05
5-year pensioner savings certificate	11	11.80
5-year wage earners development bond	10.05	11.80
5-year Bangladesh savings certificate	10.05	11.55
3-year 3-monthly profit savings certificate	10	10.76
3-year postoffice savings scheme	10	10.76

class families, as they invest in this savings instrument through women.

The committee said, in future it should be specified to which socio-economic class this savings instruments will be sold. Besides, the committee members also felt tax should be imposed on these savings instruments.

Finance ministry officials said, under Strengthening Public Expenditure Management Programme they conducted a country-wide survey in December to know which classes of people purchase savings instruments.

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Overseas investment hope fades as pressure mounts on reserves

SAJJADUR RAHMAN

Local businesses willing to invest in foreign lands suffered a blow after the government reneged on its previous plan to allow capital transfer due to mounting pressure on reserves and balance of payments.

Both the finance minister and the central bank governor, who in the past endorsed local business groups' foreign investment plan, have admitted the pressure.

"We have no plan to allow capital exports due to tremendous pressure on the reserve and BOP," Bangladesh Bank Governor Atiur Rahman told The Daily Star yesterday.

Foreign exchange reserve, which reached over \$11 billion in 2010, has come down to \$10.45 billion due to a continued rise in imports.

Overall BOP has gone down to negative territory (\$529 million) in the first nine months till March of the current fiscal year. The BOP was over \$2.2 billion in the same period a year ago.

The issue of exporting capital came to the limelight in recent days following some business groups' interests to buy farmlands in African countries.

The government's about-face could deal a blow to the businesses who had been trying for years to convince the central bank to allow them to invest in foreign countries.

PRAN-RFL Group, a leading consumer goods maker, has long been trying to export capital to set up a factory in India's north-eastern state of Tripura.

Meghna Group that exports bicycles to Europe and the US sought permission from the central bank in 2009 to invest in Sri Lanka. Also, several garment and pharmaceuticals makers are known to have expressed their intention to do so.

Riding on good growth in foreign exchange reserve, the central bank last year planned to approve capital account convertibility as a test case, which means Bangladeshis will be able to invest in foreign countries. Bangla-

desh Bank however maintained that no floodgate will be kept open.

Capital account convertibility means the abolition of limitations on the movement of capital from Bangladesh to different countries across the globe.

"We agreed to consider proposals on a case-by-case basis in 2010 when we had pretty good growth in foreign exchange reserve," AMA Muhiith said. "Now, we have to be cautious about using reserves, as import payment is increasing fast."

According to BB guidelines, exporters are entitled to a foreign exchange retention quota of 50 percent of the repatriated free on board value of their exports. For exports of goods with high import contents like petroleum products, garments made of imported fabrics and electronic goods, the retention quota is 10 percent of the repatriated FOB value.

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Robi profit edges down

STAR BUSINESS REPORT

Net profit of Robi Axiata Ltd has declined by 12.90 percent to Tk 54 million in the first quarter to March 31, compared to the same period last year, the company said yesterday.

Bangladesh's third largest telecom company said the profit decline was due to "high acquisition costs and devaluation of the taka".

Robi posted 19 percent revenue growth or Tk 7,061 million in the first quarter, compared to the same quarter of 2010, driven by "sustained operational

improvements by all key drivers," it said.

According to official data, Robi has 13.794 million subscribers.

EBITDA (earnings before interest, taxes, depreciation and amortisation) improved by 45 percent in the first quarter, compared to the same quarter of last year.

"The company saw stable performance in all financial metrics, in a seasonally slow quarter, amidst heightened competitive pressures, and the devaluation of the taka impacting foreign loan and licence renewal issue in Bangladesh," said Michael Kuehner, managing director and CEO of the company.



Dr Philip Kotler, a marketing guru, speaks to the media at Sonargaon Hotel in Dhaka yesterday.

STAR

Kotler's formula for faster growth

STAR BUSINESS REPORT

Philip Kotler, known as the guru of marketing, yesterday laid out a number of recommendations for Bangladesh to achieve faster economic progress.

The suggestions are: targeting some selective countries to attract investment, following the models of emerging economies such as China and India, making cheaper and better products for the poor, and branding the country based on its strength.

"To brand Bangladesh better, the concerned people should run a good campaign into those countries in which Bangladesh wants their products or services to sell more and to know a lot about it," said Prof Kotler at a session with the media at Sonargaon Hotel.

Kotler, a well known personality among business students, academics and marketing executives worldwide, put forward these suggestions hours after he landed for the first time in Dhaka.

"Bangladesh should select some countries, which can invest in here, where they can run a strong campaign, which I believe could turn upside down the whole economy within no time," he said.

"China, India, Russia, and Brazil all have done it. Even Indonesia is progressing really well. They have a GDP growth of 6.9 percent right now. So why can't Bangladesh?" said Kotler.

The professor also pointed to Bangladesh's garments, the biggest export earner.

He said the garments made by Bangladesh are creating an impact among customers in advanced economies.

"Your garment is going to Marks and Spencer. Made in Bangladesh has got a good meaning," he said.

Kotler suggested Bangladesh focus on widening industries that generate more foreign exchange through export, and also attracting foreign capital.

He said Bangladesh, a country of over 160 million population, can follow the examples of Japan, which

made better and cheaper products to lift its economy from the devastation of World War II.

"Japan, after the Second World War, started copying US products, but they made it better and cheaper," he said, adding that the strategy helped Japan win.

After four to five years, the US manufacturers started envying the Japanese, the marketing boss said.

"You can always win the market through making better and cheaper product."

Kotler stressed the need for a strong tourism industry, saying that it plays an important role in portraying a good image of the country among people abroad.

"You really have to run a good campaign if you want others to know."

He suggested following the Singapore growth model as the country has advanced by focusing on education, healthcare and financial markets.

The professor also asked Bangladesh to target a niche section of people abroad, especially those who have capital.

"You don't need 6.5 billion people of the world to know about you," he said, advising that Bangladesh should take lessons from other emerging economies.

"The common thing between Bangladesh and BRIC countries (Brazil, Russia, India and China) is all of them are densely populated. So, if they can do it, I believe Bangladesh has the potentiality of doing it as well."

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