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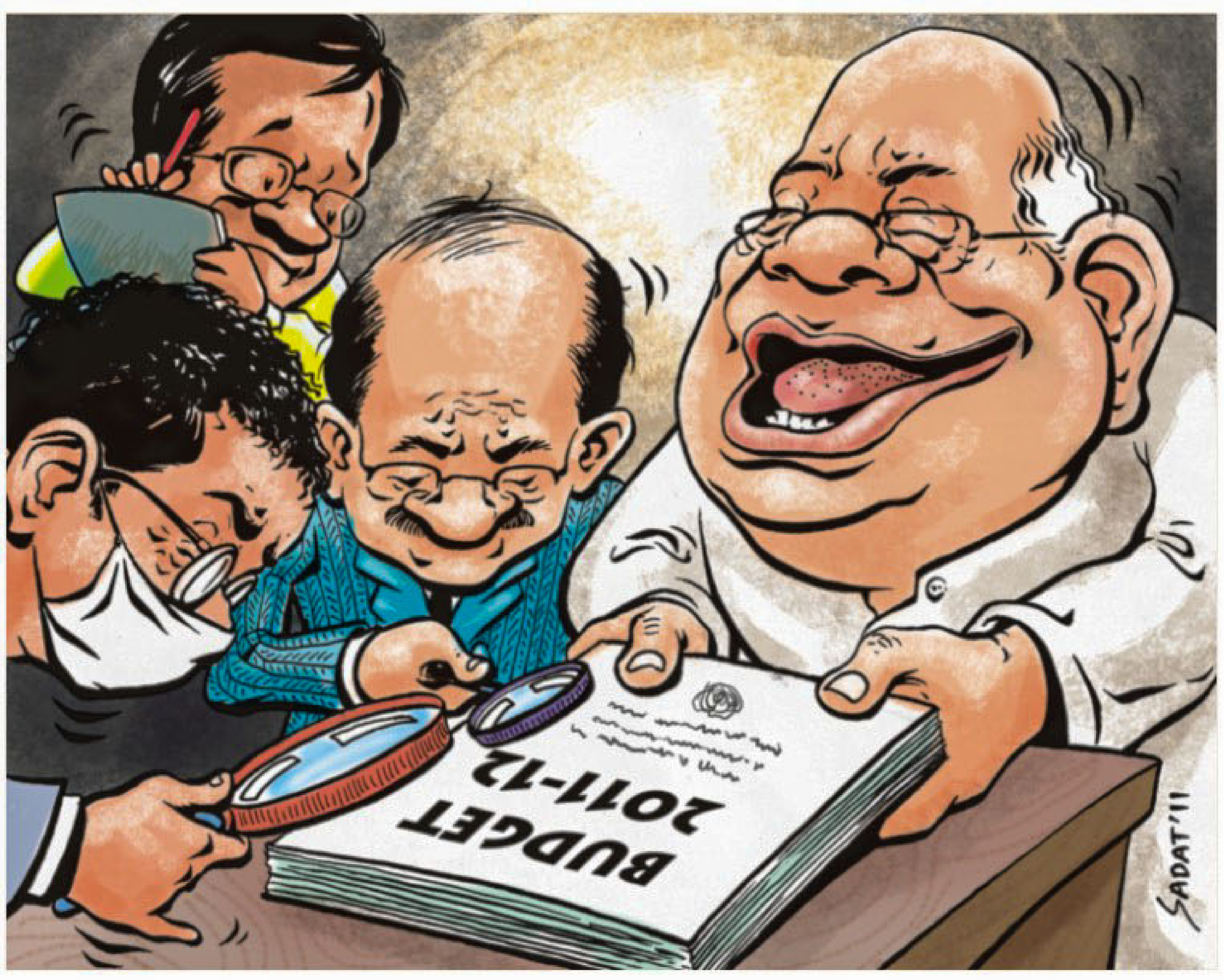
Budget draws mixed reactions

Refayet Ullah Mirdha



Chamber and trade body leaders yesterday expressed their mixed reactions to the proposed national budget for fiscal 2011-12. They agreed with some proposals but disagreed with many others.

In his instant reaction, AK Azad, president of the Federation of Bangladesh Chambers of Commerce and Industry, said the industrial sector may face a further liquidity crisis for proposing higher annual development programme.

If the government borrows huge money for implementing ADP, the industrial sector will not get enough loans from the banking system, which will ultimately lead to a higher bank interest rate, he said. The government may implement the ADP from the foreign fund, he suggested.

Raising the tax at source on exportable goods is not expected, he added. The finance minister proposed 1.5 percent tax at source on all exportable goods from the existing 0.40 percent.

The higher tax on import of double cabin pick-up vans will also have a negative impact on the industry as the transport mode is widely used for industrial purposes, he said. The finance minister proposed an increase of up to 500 percent supplementary duty on imports of double-cabin pick-ups.

Reduced duty on import of capital machinery, LNG and chemical of ETP will have a positive impact on industrial growth, Azad said.

FBCCI is scheduled to give its formal reactions to the budget proposals today.

Asif Ibrahim, president of Dhaka Chamber of Commerce and Industry, said the budget proposal is ambitious on tax collections including value-added tax.

Higher tax at source on exportable goods will make the garment business more competitive, he said. The minister stressed the development of the power sector, but similar emphasis was not paid to the development of infrastructure, which is very vital for overall development.

Murshed Murad Ibrahim, president of Chittagong Chamber of Commerce and Industry, said the proposal has widened the tax-net which is not favourable for business activities.

The growth of small and medium enterprises may be hampered due to higher taxes, Ibrahim. The government should attach priority to the ship building industry as the sector is growing.

Shafiul Islam Mohiuddin, president of Bangladesh Garment Manufacturers and Exporters Association, also said proposing 1.5 percent tax on exportable goods is a wrong move. "The move is unrealistic and it will hamper the growth of apparel export, as the business is becoming more competitive," he said.

He, however, welcomed the government's move on improvement of gas and power situation, higher allocation for the development of infrastructures.

He criticised the partial implementation of the stimulus package that was given two years back to tackle the recession fallout.

Jahangir Alamin, president of Bangladesh Textile Mills Association, said the proposed budget is not textile industry friendly as the minister did not pay enough attention to the sector.

"Before the budget day, we demanded a 15 percent cash incentive from the existing 5 percent, but the government did not agree with the demand," he said.

Moreover, the minister proposed tax-holiday for some industries up to 2013 although it was proposed up to 2015, he said. In his speech the minister did not clearly mention whether the textile sector will be able to enjoy the facility or not, he said.

Govt takes tough line on inflation

Sajjadur Rahman

The government has hinted at taking some harsh decisions to rein in soaring inflation following a continued rally in oil and food prices on the international markets.

Finance Minister AMA Muhith in his budget speech said he may have to take some unpopular decisions like reducing discretionary public spending including subsidy.

The government may also take austerity measures, launch drive to earn more revenues, reduce money supply and align exchange rate.

"We all should be prepared to face the impact of oil price hike," said Muhith, citing the continued rally in oil prices and the ongoing crisis in North Africa and Middle East.

Data shows the average inflation in fiscal 2009-10 was 7.3 percent. On a point-to-point basis, it went up to 10.7 percent in April this year. On the basis of ten months' average, it was 8.5 percent in fiscal 2010-11.

Though the Bangladesh Bank raised the cash reserve requirement (CRR) and statutory liquidity ratio (SLR) of scheduled banks by 50 basis points once in May 2010 and again by another 50 basis points in December 2010, the moves failed to contain the soaring inflation.

In addition, repo and reverse repo rates were also adjusted to keep the money supply at an appropriate level.

But the finance minister did not leave hope.

"We presume that these steps will play a significant role in reducing inflation in the long-run though their immediate impact is not discernible," said Muhith.

However, the minister seems a bit soft to the rural poor, the main victims of inflation.

He said the government is alert and keeps on working to ensure an unhindered supply of food grains so that the poor are not affected badly.

A noted economist and an analyst sees some measures in the budget that at least will not fuel inflation.

"The continued tax exemption for the import of essential foods and certain other raw materials will help in not further fuelling inflation," said economist Wahiduddin Mahmud.

Mustafizur Rahman, executive director of Centre for Policy Dialogue, said a pick in national savings certificate can act as a non-inflationary tool.

Rahman, however, said there must be coordination between fiscal and monetary policies to have a positive impact on the soaring inflation.

sajjad@thedailystar.net

e-commerce gets a boost

Star Business Report

The government in the proposed budget has concentrated more on e-commerce (electronic commerce) to make financial transaction by using information and communication technology (ICT) to create an environment for ICT-based trade and commerce.

The government plans to accelerate banking and commerce by using electronic banking. It is also going to introduce automation in dealing with financial transactions between the public and government officials in relation to distribution of social safety net benefits, payment of salaries, depositing money with the government treasury and payment of all kinds of fees.

Steps have taken to establish a national e-payment switch in the Bangladesh Bank (BB).

The BB would introduce mobile phone-based online transaction systems, which would simplify government transactions.

The central bank has introduced automated clearing houses that processes cheques fast. The BB has given permission for mobile banking and making credit card-based

No tax on capital gains, no TIN

Tax on brokerage commission to double

Staff Correspondent

The government neither imposed any capital gains tax on individual investors, nor made tax identification number (TIN) compulsory for retail investors for the next fiscal year.

However, such a positive speculation has been rife in the market for the last few days, keeping the stocks in a gaining streak for four consecutive sessions.

The government took the decision to ensure growth and stability of the capital market that went through massive jitters early this year.

Key indices on the twin bourses rose yesterday, buoyed by the investors' expectation that the government would not do anything investment unfriendly.

The benchmark index of Dhaka Stock Exchange gained 52.77 points, or 0.88 percent, to 6,001, while the Selective Categories Index of Chittagong Stock Exchange advanced 45 points, or 0.42 percent, to 10,679.

However, the government in the proposed budget has doubled tax on brokerage commission that may hurt the stockbrokers.

Presently, the tax deductible at source for brokerage commission of the stockbrokers is 0.05 percent, which has been proposed to 0.10 percent.

Mahmud Osman Imam, a professor of finance at Dhaka University, said: "The government could have increased the tax to 0.06-0.07 percent."

With the trading volume on a continuous downside following the recent market debacle, it is not the right time to double tax on brokerage commission, he said.

The professor also said the issue of tax on capital gains and TIN for beneficiary accounts had sensitised the market, and now it ended.

On the recent stock debacle, Finance Minister AMA Muhith in his budget speech said the rise of stockmarket within just two years was not desirable, while there had been failures on the part of relevant quarters and also interference from outside.

He also said steps have been taken to contain irregularities in the capital market.

The measures include amendment of different securities rules, companies act, formation of financial reporting act to maintain stability, setting up of a financial reporting council to oversee the audit and accounting standards and their transparency, and establishing a separate clearing and settlement company to settle stock transactions.