

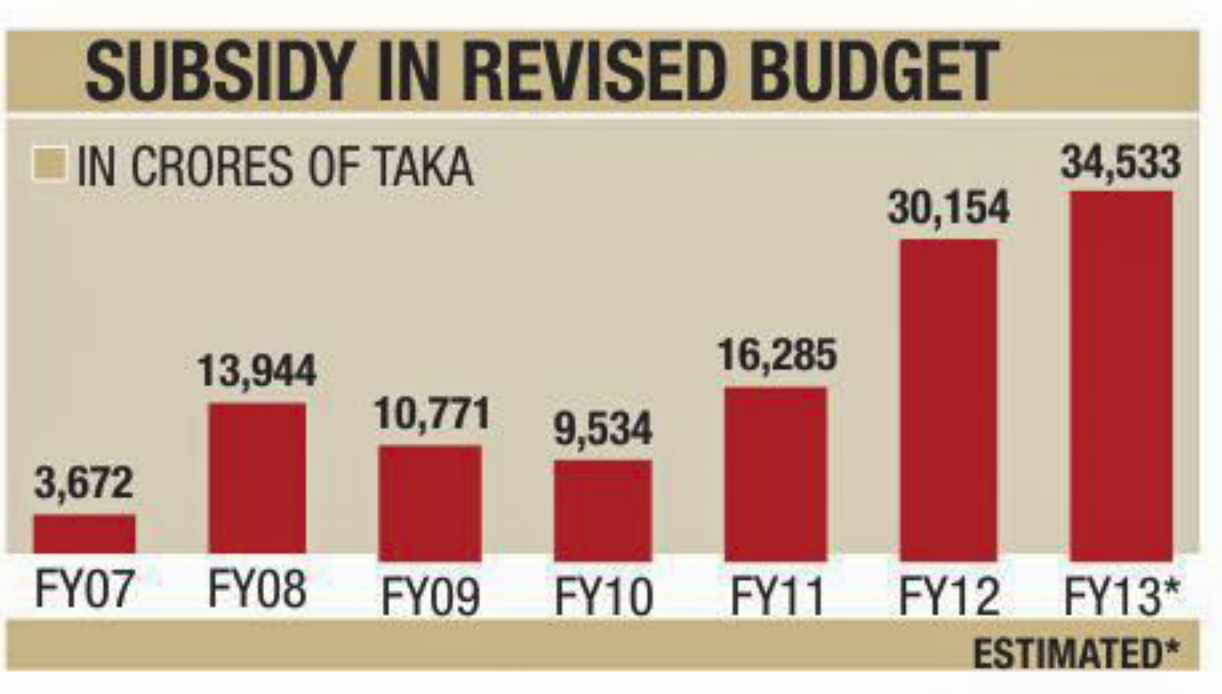
star BUSINESS

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Subsidy zooms, again

REJAUL KARIM BYRON
 The growing dominance of subsidy in budget allocations in recent times has started to worry the finance minister.

BUDGET 2012-2013



In the proposed budget for next fiscal year, subsidy, at 18 percent of the total outlay, yet again stands to become the highest single expenditure for the government.

The allocation for subsidy has been kept at Tk 34,533 crore for fiscal 2012-13, a 14.5 percent rise from this year's Tk 30,154 crore.

For fiscal 2011-12, the original allocation for subsidy was Tk 20,477 crore, which was then revised to Tk 30,154 crore, making it the highest single expenditure for the year.

The steep increase in subsidy is mostly in fuel, electricity and agriculture sectors, with the upward trend mainly due to soaring petroleum prices in the world market and an increase in fuel consumption by rental power plants.

Extension of support to the jute sector by the government also accounts for the inflated figures. The sector's subsidy -- historically in the range of Tk 200 crore to Tk 300 crore -- went up to Tk 2,900 crore in 2011-12. For the next year, the government set aside Tk 1,700 crore.

"Our subsidy payment is spiralling due to lack of sufficient price adjustment to match the increasing fuel prices in the international market," the finance minister said in his budget speech.

"This is intensifying pressure on the financial sector, government budget and the economy. We must, therefore, cut down on subsidy, especially on fuel," AMA

Muhith said. Some economists, however, have opposed the proposed move and would like the subsidy carried into the future. Their premise is that the price adjustment will push up inflation which, in turn, will hurt the poor.

On the other hand, Binayak Sen, research director of Bangladesh Institute of Development Studies, would like the subsidy to be reduced for the sake of macroeconomic stability.

"If subsidy pushes inflation up it will not bring any benefit," he said.

On certain quarters' demand for equal subsidy to the power and agricultural sectors, Sen said a greater weight must be given to the power sector in the interests of investment and growth.

The government should reconsider its decision on rental power plants if the fuel price continues to spiral in the world market, Sen said. "If the price does not increase further there is no need to assign more subsidies."

For fiscal 2012-13, the government has allocated Tk 6,200 crore for energy subsidy and Tk 6,400 crore for power.

Tax hike may drive away small savers from banks

The new budget move has a negative side to it: analysts

MD FAZLUR RAHMAN

A proposal to hike tax on interest incomes of bank-account holders with no tax identification numbers will hurt small savers and Bangladesh's financial inclusion effort.

The government announced plans to increase tax at source on bank interests to 15 percent for those without TIN from the current 10 percent, a uniform rate for all account holders with or without TIN.

Some experts said it would be an attempt to squeeze money out of the general people. It could also discourage thousands of pensioners, housewives, students and other professionals to park their money with the banks.

The plan has a negative side to it, said Ahsan H Mansur, executive director of Policy Research Institute.

The tax hike is not equitable and will put pressure on the poor, he said. "There is a regressive element in it."

"It will hurt small-savers the most. There should be a cut-off point for them," Mansur said.

Mansur suggested a threshold for those with low interest income.

The best part of the move is that it will force the savers to obtain TIN and be compliant, he said.

"It is more of a compliance initiative so that everyone obtains TIN and later submits tax," Mansur said.

The 15 percent tax is adjustable against the total income tax liability, he said.

Asking not to be named, a senior central banker said: "The new tax move is a threat to financial inclusion."

"It would have been better if budget makers had consulted with Bangladesh Bank before increasing tax for account holders with no TIN," the official said.

Mustafizur Rahman, executive director of Centre for Policy Dialogue, said the proposal would encourage the bank account-holders to obtain TIN.

"It does not seem too illogical to me. The idea is to widen the tax net."

In the past, the government tried to widen the tax net by making TIN mandatory for people who owned cars and telephones. "But those were not successful to a great extent," he said.

The analyst said people should not

worry too much, as obtaining TIN does not mean they have to pay taxes.

With 10.5 percent, Bangladesh's tax-GDP ratio is the lowest in South Asia. The new budget has aimed to raise the ratio to 11.2 percent next fiscal year, Rahman said.

"The ratio of direct tax in Bangladesh is also low. It will also contribute to enhancing the direct tax ratio," Rahman said.

Mansur said it was a wrong decision for the government not to make TIN mandatory for stock investors. "All stock investors must have TIN. In principle, the people who are investing in the stockmarket are not small earners."

Anis A Khan, managing director of Mutual Trust Bank, has disagreed with the government's move.

"It goes against the principle of financial inclusion," Khan said.

It jars with the central bank's effort to encourage banks to open farmers' accounts with only Tk 10, Khan said. Mutual Trust Bank will allow people to open accounts with Tk 500 so that the low-income group can get the bank's services, he added.



Bangladesh needs better investment climate

Speakers urge govt to support Bangladesh Diaspora

STAR BUSINESS REPORT

The government must improve the investment climate to attract more investment from expatriate Bangladeshis, speakers said yesterday.

Expatriate Bangladeshis contribute greatly to the economy, but they do not get the required support and environment when they want to set up a business or industry in Bangladesh, they said.

They spoke at a discussion on "US-Bangladesh people to people relations: role of Bangladeshi Americans, organised by the Centre for Non-Resident Bangladeshis and presided over by Shakil Chowdhury, chairperson of the centre, at Sonargaon Hotel in Dhaka.

A policy should be formed to get more benefits out of the 7.6 million Bangladeshis living abroad, said Humayn Kabir, former ambassador to the US. Bangladeshis fail to avail themselves of many opportunities due to political influence and lack of professionalism, he said.

Former ambassador Ashraur Rahman suggested forming a commission with the National Board of Revenue to help create the environment.

"Bangladesh's focus should be on improving the investment climate. If Bangladesh really wants to be Bengal tigers to make Bangladesh a golden and middle-income country, the key challenge is to build an investment climate," said Dan W Mozena, US ambassador to Bangladesh.

"I think that should be the focus of the government and the business community."

The Bangladesh Diaspora has a huge role to play to promote US-Bangladesh relations to the benefit of both the countries, he said.

"I believe the best way to strengthen Bangladesh-US relations and to build this country is to work with the young people," said Mozena, adding that the youth population can bring the real changes.

As some discussants came up with the issue of lengthy US visa system, the envoy said sometimes there appear so many overlapping names which cause difficulties and delays in issuance of student visas.

"I am pushing hard to change the system," he said, hoping that the system will change this year.

On why America gives importance to Bangladesh, he said a peaceful and democratic country is good for people of this region and for America.

Gowher Rizvi, prime minister's foreign affairs adviser, emphasised the need for facilitating the Bangladeshi Diaspora and NRBs so that they can contribute more to the nation.

The Bangladeshi Diaspora in America, Europe and Middle East will be enormously strong if they can remove their conflicts and divisions, he added.

Khandker Ibrahim Khaled, chairman of Bangladesh Krishi Bank; Helal Ahmed Chowdhury, managing director of Pubali Bank; and Shah A Sarwar, managing director of Trust Bank, also spoke.

100b euros planned for Spain's banks

AFP, Brussels

Eurozone finance ministers eyed an up to 100-billion-euro (\$125 billion) strings-attached rescue of Spain's distressed banks at emergency talks Saturday.

With banks in the eurozone's fourth largest economy hobbled by heavy losses on real estate, finance ministers in the 17-nation Eurogroup held an emergency conference call to outline a rescue

deal for Spain.

"The amount on the table at the moment is as much as up to 100 billion euros but this hasn't been decided yet," a senior EU official told AFP on condition of anonymity.

Asked whether the eurozone would set conditions in return, the source said: "Conditions to the Spanish government but these will only entail a clean-up of the financial sector."

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