

Star BUSINESS

DHAKA WEDNESDAY JUNE 29, 2016

Brexit: garment makers face price cuts

UK buyers seek discounts on Bangladeshi garments as pound falls

SAJJADUR RAHMAN

The British buyers of Bangladeshi garment products have started putting price pressure on manufacturers following the freefall of pound sterling as a result of Brexit.

The pound sterling sank as low as \$1.35 -- its lowest rate against the dollar since September 1985 -- before recovering to \$1.37.

It has also declined sharply in Bangladesh.

On June 22, a day before the Britons went to the polls over the European Union membership, the inter-bank exchange rate of the pound sterling stood at Tk 115.27.

The following day it came down to Tk 107.26 and on Monday, it stood at Tk 103.64, meaning the British currency slumped about 10 percent in the space of five days.

For the UK, a weaker exchange rate means its import bills will swell and so will inflation.

But it seems the British retailers are not ready to pay more for the garment products they source from Bangladesh, according to exporters.

"One of our big buyers in the UK has already communicated with us to give discount on prices," said MA Jabbar, managing director of DBL Group, a leading garment exporter from Bangladesh.

This pressure on price will further affect exporters' margins that have already been squeezed due to a rise in operational and compliance costs, he added.



EFFECTS OF A FALLING POUND

- For the UK, a weaker exchange rate will push up its import costs
- Pound sank to a record low of **\$1.35**
- Sterling has also declined sharply in Bangladesh
- Bangladesh exported goods of **\$3.23b** to the UK in 2014-15
- Garments make up nearly **90%** of the export figure
- During July-May, exports to the UK rose to over **\$3.4b**

David Hasanat, chairman and chief executive officer of Viyellatex Group, echoed the same. "We have a big exposure to the UK market. So, we will feel the pain of price pressure."

He is not too concerned about the short-term impact of the rapid fall of the British currency as more than 95 percent of Bangladesh's exports are done through the US dollar, regardless of the shipping destination.

"If the trend continues for a long time, inflation will go up and the British consumers will buy less, which will then affect our exports there," Hasanat added.

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New VAT measures to bring in Tk 6,423cr

REJAUL KARIM BYRON

The government is set to rake in an additional Tk 6,423 crore next fiscal year due to various value added tax measures proposed in the budget.

The disclosure comes after tax officials last week presented a picture to Finance Minister AMA Muhith of how much revenue will be gained or lost owing to the various tax measures.

However, the proposed VAT waiver to some items would result in revenue loss of Tk 20 crore.

Muhith, who will present today an amended version of the budget he had proposed on June 2, is unlikely to make any changes to the tax measures save for the source tax on export earnings.

The source tax may be brought down to 0.8 percent or 1 percent from the proposed 1.5 percent, said a finance ministry official.

The revenue target for fiscal 2016-17 has been set at Tk 203,152 crore, up 35.43 percent from current year's target.

The target for income tax collection would be Tk 71,940 crore and VAT collection Tk 72,764 crore.

The targets have come under fire from economists, who termed them unachievable.

The finance minister, however, is determined to meet the target.

"The target is higher but you must achieve it," he told officials of the National Board of Revenue in the meeting last week.

The package VAT in the proposed budget

REVENUE SCENARIO	
Revenue target is	Tk 203,152cr , up 35.43% from current year's target
The target for income tax is	Tk 71,940cr and VAT collection Tk 72,764cr
VAT waiver may result in revenue loss of	Tk 20cr
The number of firms registered with NBR is	140,000
Of them only	40,000 pay VAT

has been doubled in almost all cases, with the higher ceiling being Tk 28,000, up from the current Tk 14,000.

Businessmen have demanded lowering the ceiling but the NBR officials said it is unlikely to happen.

Only Tk 10 crore to Tk 12 crore is collected from package VAT, said NBR officials.

"The tax collection from this is not the main factor, but making the businessmen habituated to paying VAT before the VAT law comes into effect is the main reason," said an official.

At present, the number of companies registered with the NBR is 140,000, of which only 40,000 pay VAT.

However, some small commodities that were brought under the VAT purview may be given a waiver.

France, Germany offer \$60m for factory upgrades

REFAYET ULLAH MIRDHA

France and Germany yesterday offered more than \$60 million in low-cost loans to Bangladesh, to speed up remediation process in the garments sector.

The French and German governments are offering the money as many garment factories, especially the small and medium ones, are delaying remediation because of a fund crisis, said German Ambassador Thomas Prinz.

"We are ready to give the money anytime. It is just waiting for an approval from the Bangladesh government," he told The Daily Star after a meeting with Finance Minister AMA Muhith at the latter's secretariat office in Dhaka yesterday.

The loan carries an interest rate of 1 percent.

"We are offering the money at a low interest rate to make funds available for investment in the factories and to make the units safe and more environment-friendly," Prinz said.

The main credit line of \$50 million is coming from the French government, which is complemented by \$4 million from German state-run bank KfW, \$6 million from the European Union and a small component from GIZ, German's international development organisation.

On the progress in safety improvement by the Accord and the Alliance, two factory inspection agencies run by brands and retailers, Prinz said rehabilitation is going on, but it is slow in many cases because of a fund crisis.

The factory owners either are not getting money from banks or they are not interested in borrowing from the banks at a higher interest rate, he said. Sometimes, the banks are not interested in giving the money to them, he added.

Recently, international retailers and garment makers called for a government-guaranteed fund to finance the remediation as many small and medium units are yet to complete upgrades due to a shortage of low-cost funds.

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Lack of manpower slows audit settlements

STAR BUSINESS REPORT

The government has been deprived of a large sum of unrealised money as only 3.34 percent of audit observations were settled in 2012-13 owing to a lack of adequate manpower, weak documentation and negligence.

According to the Office of the Comptroller and Auditor General (OCAG), the total number of outstanding audit observations in 10 directorates was 860,699 worth Tk 489,224 crore, which is more than the national budget of the upcoming fiscal year.

Meanwhile, the number of settled observations stood at 29,753 in 2012-13 having a financial involvement of Tk 139,812 crore, according to a strategy paper on improving responsiveness to audit observations.

"Audit observations are piling up day by day in the audit directorates and the pace of settlement is relatively slow," Masud Ahmed, comptroller and auditor general, said in the report.

The paper was presented at a meeting of the OCAG at Bangabandhu International Conference Centre in Dhaka.

Ahmed said auditors raise observations on apparent wrong-doing by the executives. Here, the responsibility of the executives is to defend their position by relying to the audit observations on time.

"If these are not responded timely and



Mashiur Rahman, centre, economic affairs adviser to the prime minister, and Masud Ahmed, second from left, comptroller and auditor general, attend a programme on audit observations, at Bangabandhu International Conference Centre in Dhaka yesterday.

appropriately, the audit may lose its effectiveness."

The paper said due to a workforce shortage, audit directorates are able to audit only 40 percent of their auditable units or entities.

A third of the sanctioned posts at the OCAG office are currently vacant.

And a third of their existing staff has to be present at the head office to process the audit related activities, follow-up and settlement of pending observations and perform administrative and supervising activities. The rest of their staff are able to work on the field.

"As a result, the workforce directly involved in conducting and managing auditing activities is not adequate," according to the strategy paper.

The annual settlement rate of pending audit observations ranges between 1 percent and 21 percent, and averages 2.3 percent, the paper shows.

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GP seeks to continue Jan-Dec as income year

STAR BUSINESS REPORT

Grameenphone has sought exemption from following July-June as the 'uniform' income year, set by the stockmarket regulator.

The lone listed mobile phone operator made the plea as its parent company Telenor has 11 other operations globally that follow January-December as their income year.

The change in one company's income year may create problems to others, especially in the case of financial disclosures, officials said.

The company has already placed the issue before Finance Minister AMA Muhith and requested him to allow the operator to continue the income year that it follows now.



"We requested the authorities about the issue and they gave us assurance to solve the problem," said Mahmud Hossain, chief corporate affairs officer at Grameenphone.

He expects that they will get a positive response from the authorities and can continue to follow January-December as their income year.

All taxpaying companies other than banks, non-bank financial institutions and insurance will have to follow the uniform income year from July to June from this July, according to a regulatory directive.

There are several listed companies other than banks, insurance and financial institutions that are not maintaining their financial year from July to June.

Instead, they are maintaining different income years, Bangladesh Securities and Exchange Commission said in the directive sent out on May 27.

Out of 291 equity companies, 171 have year ending on December 31, 105 on June 30, five on March 31, five on September 30, two on April 30, one on July 31, one on August 31 and one on October 31, according to Dhaka Stock Exchange data.

Of 171 companies having December as their year-end, 30 are banks, 47 insurance companies and 19 financial institutions, which do not need to change their income year.

PM urges Mongolia to import more from Bangladesh

UNB, Dhaka

Prime Minister Sheikh Hasina yesterday urged Mongolia to import more products from Bangladesh, especially food, pharmaceuticals and jute items, to improve bilateral trade for mutual benefits.

The prime minister made the call when Gonching Ganbold, Mongolian non-resident ambassador to Bangladesh, paid a courtesy call on her at her office at national parliament.

After the meeting, Ihsanul Karim, press secretary to the prime minister, briefed reporters.

Karim quoted Hasina as saying that efforts should be made to boost the trade volume between

Bangladesh and Mongolia.

The prime minister also urged Mongolian entrepreneurs to invest in Bangladesh's potential sectors for the greater interest of the two countries.

She said her government has ensured an investment-friendly environment in Bangladesh.

The bilateral ties among the participating countries of the upcoming 11th Asia-Europe Meeting, which will be held in Mongolia, will be strengthened further after the event, Hasina said.

Hasina conveyed her best wishes to the Mongolian president and prime minister through the envoy.

The Mongolian ambassador said his country imports huge amount of jute and pharmaceutical items from Bangladesh.

He said Bangladesh and Mongolia share good bilateral relations, which will be consolidated further in the years to come.

The envoy said his government is very happy to come to know that a high-level Bangladesh delegation led by Hasina will join the Asia-Europe Meeting.

"We're eagerly waiting to welcome the Bangladesh delegation headed by the prime minister as it'll be a historic one."

Mongolia will host the 11th Asia-Europe Meeting of Heads of State and Government in its capital Ulaanbaatar on July 15-16.

Suraiya Begum, secretary of the Prime Minister's Office, was also present.