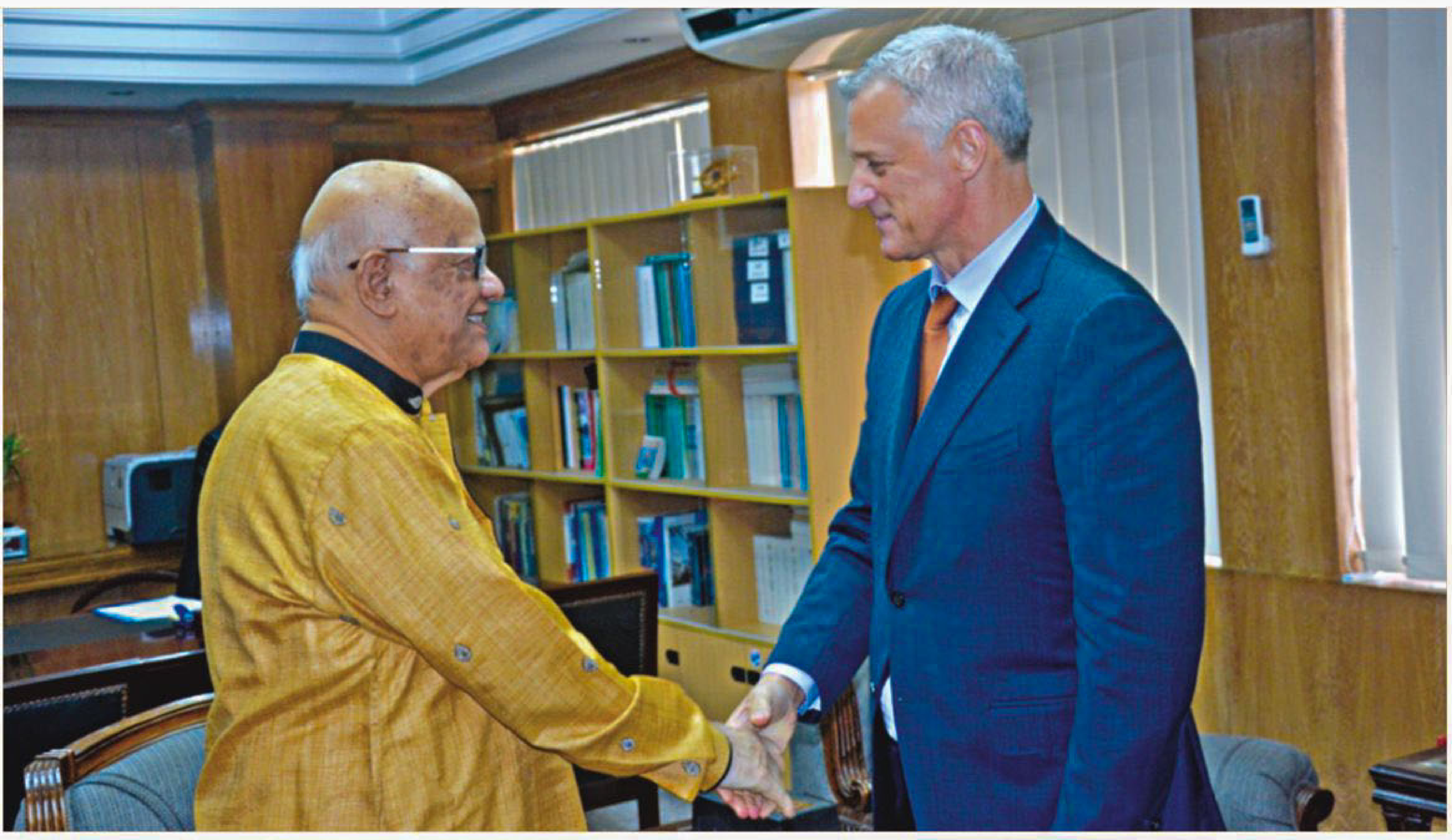


STANCHART

Group Chief Executive of Standard Chartered Bank Bill Winters calls on Finance Minister AMA Muhith, at the minister's office in Dhaka yesterday. Winters discussed his refreshed strategy to lead the bank forward in all 72 countries the bank currently operates in. The StanChart official reached Bangladesh on Tuesday on his first visit to the country after being appointed as Group CEO.

Muhith backs taxes at all income levels

STAR BUSINESS REPORT

IT should be compulsory for everyone with an income to pay taxes as it will create a culture of paying taxes and give a sense of pride among all, Finance Minister AMA Muhith said yesterday.

"We should impose a compulsory tax," Muhith proposed at a seminar on payroll tax and tax net expansion, organised by the National Board of Revenue at Officer's Club in Dhaka.

The tax authority organised the programme after tightening rules to ensure increased tax collection from salaried persons from this fiscal year. It said public and private sector employees, who earn Tk 16,000 or more a month, will have to have TINs to receive their salaries.

Companies will also have to submit a list of employees and their taxpayer identification numbers to the NBR while showing their salary expenses. If employers fail to do so, the salary payment that they have made will be treated as income and will be taxable, according to the changes in the tax law brought for fiscal 2016-17.

Taxmen and analysts at the programme said the enforcement of the rules would allow the government to collect higher amounts of tax from the salaries of public and private sector employees.

Muhith said he had earlier suggested everyone having an income must pay taxes, whatever the amount is: Tk 10, Tk 20 or Tk 50.

"It is to establish a culture of tax payment," he said. But his proposal might not be implemented immediately, he added.

"A climate should be created," he said. "It should be a matter of pride that I am a taxpayer and I have the right. Let there be a kind of public movement in favour of paying taxes."

But such a minimum tax should not be slapped on people who do not earn and are dependants, he added. He suggested the NBR consider imposing such a tax in the next two years.

Muhith also expressed his dissatisfaction over the very poor tax compliance rate.

Some 12 lakh people out of a population of 16 crore submit tax returns regularly, representing less than 1 percent.

Many, including Muhith, believe more people have the ability to pay income taxes.

Muhith also expressed dissatisfaction over the NBR's target to increase the number of tax returns by 3 lakh this year. "I am not very happy. It should be much larger. These are very low targets and these should be raised."

On payroll taxes, Muhith said public sector employees, now 18 lakh, pay tax against their pay.

There are some private sector firms but the ratio of tax payment by people who work in the private sector remains low, although the share of private sector in total employment is much higher than the public sector, he added.

He said more private sector companies have fixed payment structure now than in the past. Firms should deduct tax at the time of salary payment to employees, he added.

At present, NBR gets 3.5 percent of its total withholding income tax collection as advance tax from salaried persons.

The ratio of payroll tax is above 30 percent of total withholding income in advanced economies, said Md Alamgir Hossain, commissioner of Large Taxpayers Unit, in a paper at the seminar.

The number of salaried taxpayers was 4.55 lakh in fiscal 2013-14, he said.

Ahsan H Mansur, executive director of Policy Research Institute, said the tax collection potential from payroll is much higher than the amount the government gets now.

"Salary is the biggest component in national income. It will be big source if we can tap that," he said, suggesting collection of taxes from salaries under an automated system.

Mansur also advised NBR to refrain from increasing the tax-free income limit every year. Almost everyone will come under the tax net in five to six years if the tax-free threshold is kept unchanged, he said.

"Politically, the imposition of minimum tax will be impossible."

Comptroller and Auditor General of Bangladesh Masud Ahmed also spoke at the event chaired by NBR Chairman Md Nojibur Rahman.

China August forex reserves fall to lowest since 2011

REUTERS

CHINA'S foreign exchange reserves fell to the lowest since 2011 in August as the central bank intervened to support the yuan currency as it weakened to near-six year lows.

While the $15.89 billion drop was in line with market expectations and was described by analysts as modest, it was the biggest decline since May and could signal fresh capital outflows from the economy even as it starts to show signs of steadying.

China's reserves fell to $3.185 trillion in August -- the lowest since December 2011 -- from $3.20 trillion at the end of July, central bank data showed on Wednesday.

China's reserves, the largest in the world, fell by a record $513 billion last year after Beijing devalued the yuan currency, sparking a flood of capital outflows that threatened to destabilise the world's second-largest economy and alarmed global financial markets.

But declines have slowed sharply in recent months as authorities tightened capital controls and cracked down on forex trading which is suspected to be speculation.

Traders believe the central bank has stepped in via state-run banks since mid-July to slow the pace of depreciation in the yuan, which has weakened 2.6 percent against the U.S. dollar so far this year.

Analysts expect pressure on the yuan and reserves to continue as expectations of another U.S. Federal Reserve interest rate hike this year support the dollar.

"Lower FX reserves data is not surprising in light of the active intervention seen ahead of the G20 meeting (in China) in early September," said Chester Liaw, an economist at Forecast Pte Ltd in Singapore.

"With a Fed rate hike likely before the end of the year, the authorities will have their hands full with containing any wild spikes in USDCNY triggered by capital outflows, and can expect FX reserves to remain on a downward path through to the end of the year."

Nie Wen, an economist at Hwabao Trust in Shanghai, said a monthly drop of $10 billion-$20 billion in reserves "should be normal."

"The pressure is relatively small compared with last year and large-scale capital outflows should be over... partly because capital controls are stricter than last year."

The impact of forex supply and demand remains under control, the State Administration of Foreign Exchange (SAFE) said recently in a statement, adding that it expected cross-border capital flows to remain stable in the medium- to long-term.

Net foreign exchange sales by the People's Bank of China jumped to their highest in five months in July, as the central bank sought to support the yuan after it briefly broke through the key psychological level of 6.7 to the dollar. On Wednesday it was trading around 6.66.

India to focus reforms on tax, banks, infrastructure: Jaitley

REUTERS/FILE

India's Finance Minister Arun Jaitley gestures as he addresses a gathering during a seminar on 'Income Declaration Scheme-2016' in India.

REUTERS, *New Delhi*

INDIA will press ahead with tax reforms, repairing the banking system and getting stalled infrastructure projects moving to drive growth, Finance Minister Arun Jaitley said on Wednesday, but it is not yet ready to sell off its state banks.

Asked what his top economic policy priorities were, Jaitley told a conference he was determined to stick to a "very stiff" schedule that foresees passing critical enabling legislation for a new goods and services tax (GST) this autumn.

Jaitley said the new GST, once implemented, would have a "transformational" impact by creating a common market in India for the first time, while also acting as a transfer mechanism that would aid poorer federal states.

The goal of the federal and state governments would be for the tax to be revenue-neutral and, and as the tax becomes established, for its rate to come down over time, Jaitley said.A revenue-neutral tax changes a country's tax structure but is not intended to increase the overall amount of tax levied.

Jaitley did not say what rate he preferred but the government's economic adviser has pegged a revenue-neutral rate at about 18 percent.

Jaitley said it was vital to revive the banking sector, but ruled out selling controlling stakes in public-sector banks that control 70 percent of assets in the financial system and hold the lion's share of India's $120 billion in bad loans.

"I don't think that public or political opinion has converged to the point where we can think of privatisation in the banking sector," Jaitley told The Economist India Summit in New Delhi.

The government is consolidating some of the public sector banks to strengthen them, but does not plan to reduce the state's share below a threshold of 52 percent, Jaitley said.

India currently owns stakes of between 60 percent and 86 percent in nearly two dozen state-run banks.

Getting stalled infrastructure projects moving would help to drive growth and provide development benefits for the 1.3 billion people living in India, the economy of which continues to perform below potential, he said. The latest gross domestic figures showed that growth in Asia's third-largest economy slowed to 7.1 percent in the three months to June, from 7.9 percent previously.

"We are still far below our best," Jaitley said in a podium interview, adding that as India looks to key state elections next year and a general election in 2019, economic reforms should bring growth benefits to voters, but the government must also "blend" them with social programmes.

Euro zone countries issue long bonds to avoid shocks, but at a price

REUTERS, *London*

A push by some euro zone countries to issue debt that won't need repaying for many decades may come at a price - but for borrowers who lived through the bloc's 2010-2012 crisis, it's probably a price worth paying.

France, Belgium and Spain have all sold 50-year bonds this year, locking in record low borrowing rates, and Italy is considering following suit. Ireland and Belgium have even sold 100-year bonds, albeit in relatively small sizes.

Some bankers warn there is a point at which the economics of such transactions may not make sense. They calculate that Italy could save on interest payments if it instead issued 30-year bonds, and returned to the market three decades hence to raise funds for the final 20 years.

But borrowers are also seeking insulation against any future repayment crunch like the euro zone crisis, when some struggled to refinance maturing debt at an affordable price. For them the extra basis points they have to pay on long-term debt is effectively an insurance policy against "rollover risk".

So far there's been no shortage of buyers, as short-term debt yields have evaporated and turned negative in many cases due to the European Central Bank's ever easier policies and bond purchases to stimulate the euro zone economy. Big institutional investors such as pension and insurance funds have scrambled for long-dated bonds to get some kind of return on their fixed income investments.

In a recent analysis, Deutsche Bank said Italy could pay 2.65 percent annual interest on a 50-year bond, provided it does not have to pay a premium that markets sometimes demand for debut issues.

But, crunching numbers on the alternative, Deutsche reckoned that selling a 30-year bond at 2.2 percent today and then a 20-year bond in 30 years' time would be likely to work out cheaper for the Italian taxpayer.

The great unknown is how high yields on Italian 20-year bonds will be three decades' time. Deutsche calculated they would have to be significantly more than double today's levels of around 1.75 percent even to match the amount of cash the Italian Treasury would pay in coupons over the life of a 50-year bond.

"These numbers imply that if Italy sold a 30-year bond now, and then in 30 years' time they sold a 20-year bond at a yield of less than 4.5 percent, they would still make a saving compared to if they issued a 50-year bond now," Deutsche Bank research analyst Abhishek Singhania told Reuters.

"In short, looking purely at the economics of it, doing a 50-year bond right now comes at a cost."

However, the risk is that the era of cheap debt will be a very distant memory in 2046. Yields on 20-year Italian bonds were last at 4.5 percent only three years ago, and hit 8.2 percent during the crisis in 2011.

Under its quantitative easing programme, the ECB is buying bonds with maturities of between two and 30 years, depressing their yields. But for bonds outside the scope of its asset purchases, yields tend to increase dramatically past the 30-year point in the euro zone.

Two of Italy's primary dealers agreed that the cost of issuing a 50-year bond is quite high. One suggested that debt management officials at the treasury, led by Director General Maria Cannata, are grappling with this very issue at the moment.

"I think Ms Cannata is still considering whether or not it is worth it," the dealer said.

The Italian debt management office did not respond to requests for comment.

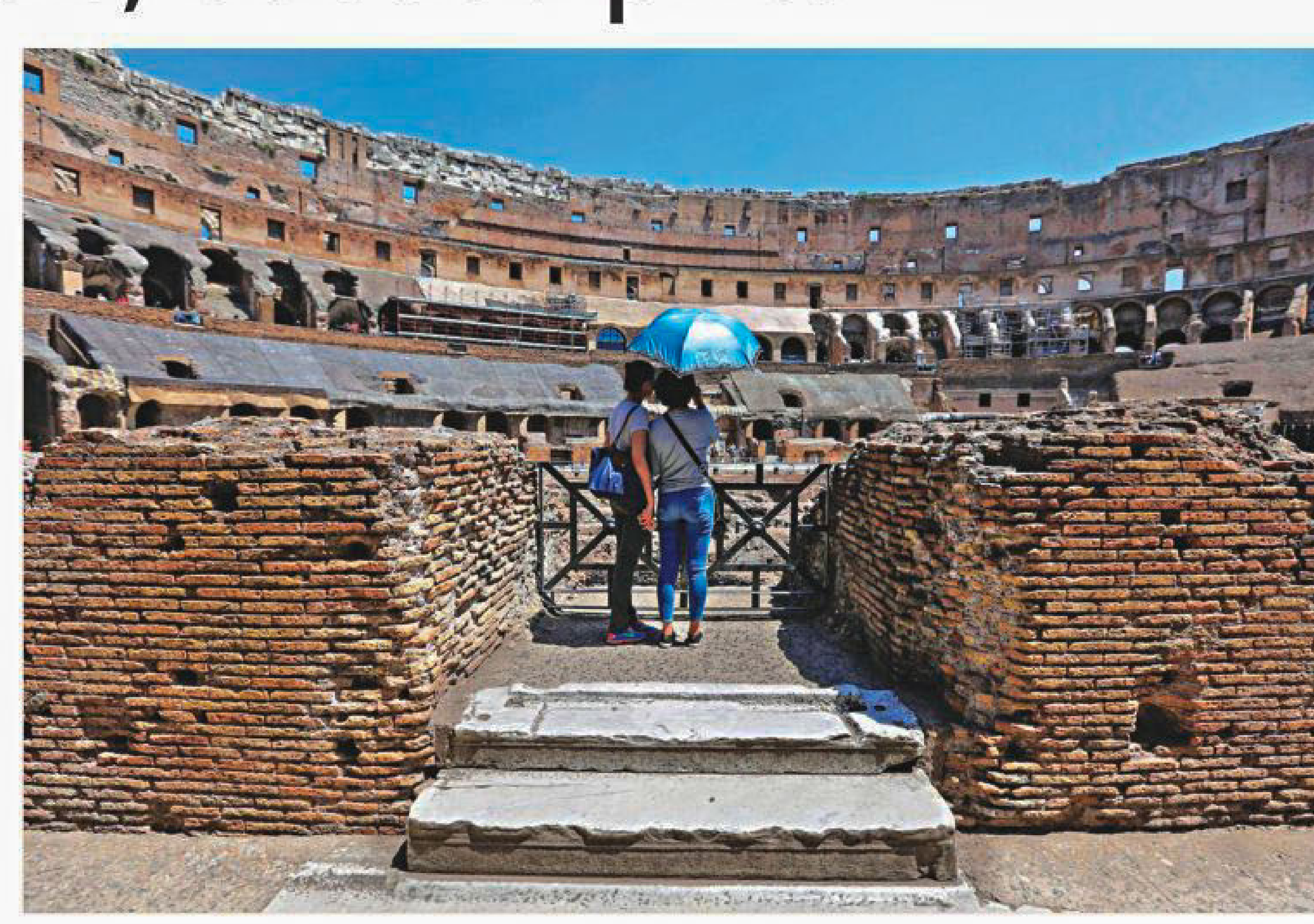
In addition to an Italian 50-year issue, Commerzbank analysts expect Spain and Belgium to sell 15-year bonds and France to revive plans for a 30-year inflation-linked bond, either through auctions or syndications.

But there is a danger that issuing long-dated bonds will test the market's appetite for risk at a time when a number of euro zone countries face political or economic uncertainty.

Italy is due to hold a referendum on constitutional reform sometime between Nov. 15 and Dec. 5, and Prime Minister Matteo Renzi has staked his future on winning it.

On top of that Spain is lurching towards its third election in a year following several failed attempts to form a government. Neighbouring Portugal faces a possible downgrading of its credit rating by DBRS, the only remaining agency to give it investment grade status.

If this happens, Portuguese debt will no longer be eligible for the ECB's quantitative easing programme. Long-dated bonds are more sensitive to shifts in sentiment than shorter-dated debt, and, because of their relative illiquidity, appetite for them tends to fade during times of uncertainty.



REUTERS/FILE

Tourists use an umbrella to protect themselves from the sun as they visit the Colosseum in Rome.