

CAPITAL SHORTFALL State banks to get Tk 2,000 cr

STAFF CORRESPONDENT

The government plans to set aside Tk 2,000 crore for state banks in the new budget for the coming fiscal year to meet up their huge capital shortfall.

The allocation was the same in the previous year, although the amount was 5,000 crore in 2016-17 when Tk 1,800 crore was finally disbursed.

The total budgetary expenditure for capital shortfall of such banks was over Tk 9,655 crore in five years from 2011-12. The seven state banks have total capital shortfall of Tk 13,977 crore as of March this year.

Among them, Agrani has capital shortage of Tk 442.63 crore followed by BASIS Tk 2,962 crore, Janata Tk 70.29 crore, Rupali Tk 637.88 crore, Sonali Tk 2,557 crore, Bangladesh Krishi Bank Tk 7,252 crore and Rajshahi Krishi Trishan Bank Tk 778.78 crore, Bangladesh Bank data shows.

Overall capital of the banking sector rose slightly by 0.79 percent in the first quarter of 2017. The capital surplus decreased to Tk 2,330 crore at the end of

March from Tk 2,945 crore due to increase in capital requirement in line with Basel III standards, an international capital framework that introduced in January last year by Bangladesh Bank.

Most of the private banks except Bangladesh Commerce Bank and Investment Corporation of Bangladesh succeeded in the field as they initiated to raise capital to comply with the new capital framework.

The central bank last year took steps to improve banks' financial health by increasing their capital to risk weighted assets ratio (CRAR) in line with Basel III standards, introduced in January.

Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen regulation and supervision and reduce risks of the banking sector globally.

In March, the total capital in the banking system was Tk 84,424 crore, up from Tk 83,758 crore in December last year, according to Bangladesh Bank.

In March, the banks' average CRAR was 10.68 percent. This was 10.80

percent three months ago.

CRAR is a measure of a bank's capital and is used to protect depositors and promote the stability and efficiency of financial systems around the world. Last year, the central bank decided to implement the Basel III framework and conducted a quantitative impact study.

On the basis of the study, the BB also sent a roadmap to the banks on how they would implement the framework.

In four quarters from January 2016, the BB evaluated the banks' capital adequacy as per the Basel III standards.

Until December 31, 2015, the banks had to maintain their capital adequacy ratio at 10 percent of risk-weighted credit exposures. From 2016 to 2019, the banks will have to maintain their capital at 0.625 percent in addition to 10 percent as their CRAR.

In the first quarter of 2017, the CRAR of the private banks decreased to 12.22 percent from 12.36 percent in the previous quarter.

For the state banks, it increased to 5.92 percent from 5.86 percent.

No gifts for stocks in new budget

STAFF CORRESPONDENT

Bangladesh's capital market, which is still struggling to regain investor confidence after the crash of 2010, did not get any incentive from Finance Minister AMA Muhith in the proposed budget for fiscal 2017-18.

In the lead-up to the budget announcement yesterday, the stock market leaders demanded continuation of tax exemption for five years as the stock market was going through the demutualisation process. But it did not get any attention in the proposed budget.

In the budget speech, Muhith mentioned the measures that had already been taken but did not propose any new incentive for the bourses.

As a result, the announcement of the largest ever budget in the country's history had no noticeable impact on the market indices yesterday.

DSEX, the key index of the Dhaka Stock Exchange, saw a moderate rise of 32.6 points to close the day at 5,438.7 points. Blue-chip index D30 witnessed a gain of 17.6 points to end at 2,022.7 points.

It is unfortunate that the stock market did not get any incentive

in the budget, said Ahsanul Islam Tiut, former president of the DSE.

"But we send our appreciation to the government for not including the stock exchange services in the new VAT net," he added.

In order to meet the capital needs of start-ups and new companies in the capital market, Bangladesh Securities and Exchange Commission (Alternative Investments) Rules, 2015 has been formulated. Muhith said in his budget speech. A modern surveillance system has already been installed to bring transparency in transactions.

An initiative has been taken to establish a small-cap platform to facilitate capital formation of small and medium enterprises, according to his speech.

A plan has been taken to establish a separate clearing and settlement company as part of a long-term action plan for the development of the capital market.

The necessary rules have already been formulated for the purpose.

Besides, initiatives to find strategic partners under the demutualisation law to enhance technical and professional capacities of the stock exchanges will continue, the minister said.

One lakh beggars to be rehabilitated

STAFF CORRESPONDENT

The government plans to rehabilitate one lakh beggars in the next four years under its 'Ekti Bari Ekti Khamar' (one house one farm) project.

Steps have been taken to select genuine poor/vagrant/beggar families to reduce their poverty through income generating activities under the project, Finance Minister AMA Muhith said yesterday.

The government targets to form a permanent fund under the small savings model of Prime Minister Sheikh Hasina by forming cooperative societies involving these families, he said.

There is also a plan to form 60,515 village development societies by involving 36 lakh poor families, he said.

"We plan to involve the beneficiaries of this project in silk farming. To begin with, we have taken steps to extend this programme to 25 upazilas of 20 districts."

Local software to be cheaper, imports costlier

FROM PAGE 4

Earlier, the government withdrew taxes from computer and accessories imports. This year, it proposed to withdraw VAT from the computer distribution process.

In the proposed budget, the finance minister also doubled allocation to Tk 3,974 crore for the Information and Communication Technology Division to help the digitisation process.

In the budget for 2016-17, the allocation was Tk 1,835 crore though the revised allocation is Tk 1,819 crore, according to the budget document.

Under the ICT division, there are some other digitisation projects of the government as well under different ministries.

At the same time, Muhith also proposed to allocate Tk 2,521 crore against the telecommunications division.

Referring to the seventh five-year plan, the finance minister said they have already planned to set up 12 IT parks at the district headquarters and have taken initiatives to set up 7 IT training and incubation centres at seven locations across the country and to expand high speed fibre optic cable connectivity up to the union level.

Earlier, the industry also urged for cash incentives, but there is nothing mentioned on budget about it.

Budget deficit remains 5pc of GDP

FROM PAGE 4

Of the deficit, Tk 51,924 crore will come from external sources while domestic sources will provide Tk 60,352 crore. Of the domestic source, Tk 28,203 crore will come from the banking sector and the remaining Tk 32,149 crore from savings certificates and other non-banking sources.

But the sales of saving instruments rose 59 percent year-on-year to Tk 42,098 crore in the last July-April period due to higher returns of the schemes while the government's target for the full-year was Tk 19,610 crore.

Sow projects dwarf power sector gains

FROM PAGE 5

If these had been implemented as per schedule, the Rampal and Matarbari projects would have already made significant progress. But construction of the Rampal project has only just started, while the contract for the Matarbari project has not been awarded yet. The Payra project was only floated last year.

Another large power project is the \$13 billion worth Rooppur nuclear power project that is now ready for implementation.

The 33 power projects mentioned by the finance minister include some large coal based private power projects, which have not made any significant progress in the last five years.

Some other medium to large power projects that are lagging behind the schedule are -- Bibiyana 3 Marubeni, Bibiyana South Iscol, Bhorashah third unit GE-CMC, Sirajganj CMC, Sirajganj Sepco, Anwara United, Patiya, Judda, and Bhola Shapoorji.



The government believes the country's power coverage would be 100 percent by 2021.

Subsidy expense to go up 17.3pc

FROM PAGE 5

However, in the upcoming budget, the allocation was set at Tk 9,000 crore.

There will be no change in the subsidies for exports and joint venture fiscal year, they will continue to be Tk 4,500 crore.

Public-Private Partnership (PPP) fund

Some Tk 2,000 crore has been allocated in the next budget for the public-private partnership fund with a view to expediting the projects under the initiative.

In his budget speech in the parliament, Finance Minister AMA Muhith said the government has already created the necessary legal and institutional framework of PPP to mobilise

private investment in construction of public infrastructure.

At present, 45 PPP projects are under implementation, where the share of private investment is about \$14 billion.

Of the projects, loan agreements have been signed for 9, while 13 are at the procurement stage, according to the finance minister.

Besides, the Bangladesh Infrastructure Finance Fund Limited was established in 2011 to finance physical infrastructure.

The fund has so far provided financing of Tk 2,113 crore to 26 PPP projects.

There are plans to invest about Tk 3,809 crore from the fund in 20 more projects in 2017 and 2018, Muhith added.

Big boost for road, railway

FROM PAGE 5

They suggested adopting more public private partnership (PPP) models in these sectors to ensure quality implementation of the projects and optimal benefits for the users.

Infrastructure expert Dr Shamsul Hoque, a professor of civil engineering at Bangladesh University of Engineering and Technology, said quality compliance is a crucial issue in implementing the projects.

The concern for quality would remain as long as the PPP model is not encouraged, he said.

Implementation of government funded projects face quality issues and witness delays too, he added.

The Buet professor said if there is quality implementation of the projects, then the country would get better infrastructure, which would lead to a developed economy.

VAT rate too high

FROM PAGE 4

"I am very happy that the government prioritised infrastructure in the budget. This move will help attract investment, which we need to generate jobs and economic development," said Abul Kasem Khan, president of Dhaka Chamber of Commerce and Industry (DCCI).

The subsidy for LNG imports will boost the confidence of the businessmen. On 15 percent VAT, the DCCI chief said it is much higher than their expectation.

The proposed hike in gas supplies to the industrial units and implementation of the SEZs will reduce the hassle of the investors, he said.

The move will help attract the VAT rate issue further at a joint press conference to be held on Saturday in Dhaka. The meet is expected to be held at FBCI, where leaders of DCCI, Bangladesh Chamber of Manufacturers and Exporters Association, Bangladesh Knitwear Manufacturers and Exporters Association, and other chambers will speak, he added.

Fazul Hoque, a former president of BKMEA, said the difference in the corporate tax for the garment factories and green garment factories should be at least five percent.

The finance minister reduced corporate taxes for the garment sector to 15 percent from an existing 20 percent, according to 14 percent for the green units.

So, the difference is only one percentage point. Factory owners would feel encouraged to set up more green units if the corporate tax is

reduced further for them, which will save more energy and water, he said.

KM Rezaul Hasanat, chairman and CEO of Vipelects Group, and Miran Ali, managing director of Bipop Group, who run green garment units, welcomed the move.

Our correspondent from Chittagong said Mahbubul Alam, president of Chittagong Chamber of Commerce and Industry, criticised the government for keeping the 15 percent VAT rate unchanged in the budget.

Alam proposed the rate at 10 to 12 percent. He also demanded the government for increasing the turnover tax from 3 percent to 4 percent; he suggested fixing it at 3 percent so that small entrepreneurs can benefit from it.

In the proposed budget, the excise tax has been increased to Tk 800 from Tk 500 for deposits from Tk 1 lakh to Tk 10 lakh in the banks; it will discourage people from keeping deposits in the banks, he said.

Alam, however, praised the government for some important projects in Chittagong, including building an elevated expressway from Lalkhan Bazar to Chittagong, Shaheed International Airport and the expansion of the rail line from Dohazari to Ghundium.

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Investment to be raised to 31.9pc of GDP Govt sets a huge target

FROM PAGE 5

Shafiqul Islam Mohiuddin, president of the Federation of Bangladesh Chambers of Commerce and Industry, also echoed Khan's views.

He suggested the prices of electricity, gas and other utilities as well as government policies be stable as free trade and investment encourages the investors.

The government has been establishing economic zones for long, but it should also give some stimulus for the investors for an interim period in the next five years until completion of the zones, he added.

In this backdrop, the government has proposed some strategies to attract the sluggish investment inflow and employment generation.

The government has already created the Bangladesh Investment Development Authority (BIDA) by dissolving the previous privatisation commission and board of investment.

The BIDA has been assigned to introduce One Stop Service and fully process investment proposals in nine months of application. Such initiatives are likely to improve the country's position in the Doing Business rank.

Presently, Bangladesh ranks 176th in the Doing Business Index. The BIDA has already formulated an action plan to move Bangladesh's rank within 100 in the next two years. The government has so far approved establishment of 22 economic zones, while construction of 10 zones has already started. In addition, locations have been selected for 59



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economic zones, while Bangladesh Economic Zones Authority has approved establishment of another 76.

"We are planning to inaugurate the development work of another 10 economic zones in 2017-18 fiscal.

In the medium term, 12 economic zones will go into operation where goods and services worth \$5 billion will be produced and 2 lakh jobs will be created," Finance Minister AMA Muhith said yesterday. Apart from the economic zones, the government has been

working to bring reforms in the public private partnership (PPP) to encourage private sector investment in construction of public infrastructure.

Currently, 45 PPP projects are under implementation where the share of private investment is about \$14 billion. Of these projects, loan agreements have been signed for nine projects, while 13 projects are at procurement stage.

Besides, the government established Bangladesh Infrastructure Finance Fund Limited in 2011 to finance physical infrastructure. This Fund has so far provided financing of Tk 2,113 crore to 26 PPP projects. "We have plans to invest around Tk 3,809 crore from this fund in 20 more projects in 2017 and 2018," Muhith said.

Ground stimulating 10 large projects have been brought under fast track monitoring and steps have been taken to accelerate their implementation. "We will continue to ensure financing of these projects on a priority basis and monitor their implementation closely," Muhith added.

The government is expecting to import LNG and supply the gas by 2018. Installation of coal-based power plants in Rampal, Matarbari and Payra is going on, while installation of power plants in private sector is being encouraged.

"Furthermore, we have taken initiatives to install four power plants in Maheshkhali with financial supports from Malaysia, South Korea and Singapore,"

FROM PAGE 4

Another project is the Rooppur nuclear power plant, where the government plans to use about \$1 billion of foreign assistance. China has committed about \$5 billion for the Padma Rail Link project and the Karnaphuli tunnel construction project.

The government has a target to open the Padma Bridge in 2018. Prime Minister Sheikh Hasina has also issued a directive to connect the rail link at Jazira point with the bridge as soon as it is opened.

Though loan agreement for Karnaphuli tunnel has already been signed with China no such deal has been inked for the Padma rail link.