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IMF warns of revenue leakage

Says move from single VAT rate poses compliance risks

REJAUL KARIM BYRON
 The government's decision to have multiple rates under the new VAT law poses significant risks of revenue leakages, said the International Monetary Fund in a recent report.

The law, which was framed at the prescription of the IMF with a view to boosting revenue collection in the country that has the lowest tax-GDP ratio in South Asia, insisted on a uniform 15 percent VAT rate on all goods and services in Bangladesh save for 15 items.

But the 15 percent single rate drew the ire of the business community and certain sections of the society, whose fervent opposition delayed the implementation of the VAT and Supplementary Duty Act 2012

several times.

Now, in a bid to appease them, the government has come up with multiple VAT rates of 5 percent, 7.5 percent, 10 percent and 15 percent.

"The experience of many countries with a multi-rate VAT system is that it is more vulnerable to significant revenue leakages," said the IMF report prepared by a technical mission that visited Dhaka from March 11-24.

The report was submitted to Finance Minister AHM Mustafa Kamal earlier this week.

Taxpayers selling goods chargeable at different rates often misclassify goods, either accidentally or deliberately, and report VAT outputs at lower rates than the law requires, the report said.

A single rate VAT structure, with few exemptions, is most apt to facilitate compliance and ensure high revenue efficiently.

Furthermore, multiple rates give rise to many administrative complications and impair the revenue administration's ability to efficiently enforce the legislation.



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GDP PER CAPITA Countryside far behind Dhaka, Ctg: ADB

STAR BUSINESS REPORT

Districts in the countryside lag far behind two big cities, Dhaka and Chattogram, in terms of GDP per capita, indicating that the country's rapid economic growth is not necessarily benefitting all regions and sections of society.

This came up in a paper of the Asian Development Bank (ADB) which was presented at a seminar titled "Spreading equitable development in the countryside" organised by the lender at InterContinental Dhaka yesterday.

It showed that per capita product of districts such as the southeast hill-tract of Khagrachhari was Tk 24,556 in 2010, 36 percent of Dhaka's Tk 66,548 and 42 percent of Chattogram's.

The GDP per capita of northeast border district Sunamganj was 42 percent of that of Dhaka, said ADB Country Director Manmohan Parkash.

He said Bangladesh's economy grew over 6.5 percent on an average in the last 10 years. It currently grows by nearly 8 percent, making it one of the fastest growing economies in the world.

"The country has also achieved the lower-middle income status and is aspiring to be an upper middle income and higher income country by 2041. This is ambitious and challenging," he said.

He said as Bangladesh has made rapid progress, it faces several development challenges.

"The higher economic growth may not necessarily be benefitting all regions and sections of the society. The Gini coefficient is increasing and so is the disparity," said Parkash, adding that almost 20 lakh new faces get added to the labour market annually.

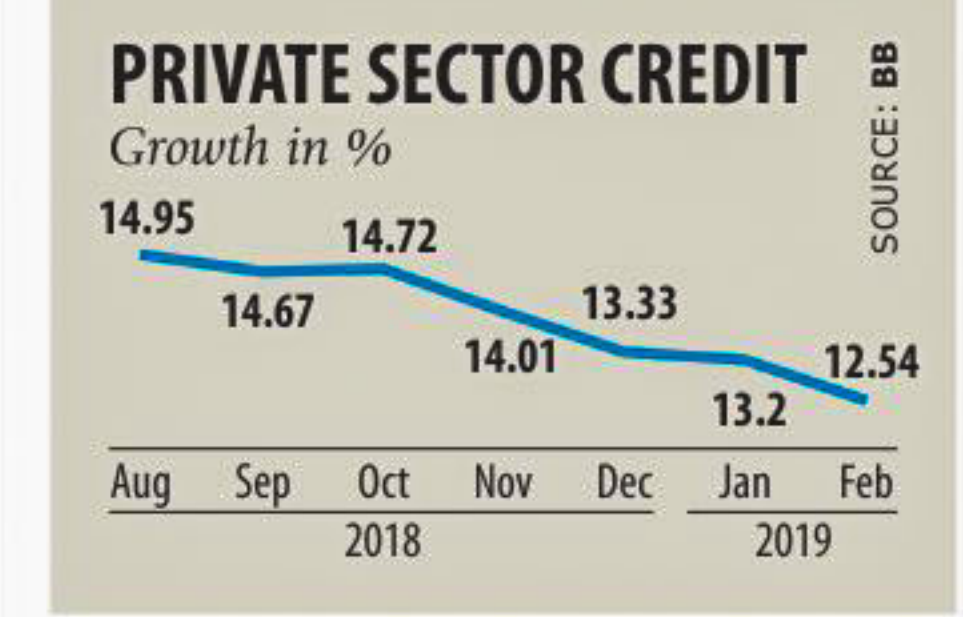
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Private credit growth hits 53-month low

AKM ZAMIR UDDIN

Private sector credit growth hit a 53-month low in February thanks to the ongoing liquidity crunch brought about by the rising default loans.

In February, credit growth stood at 12.54 percent, the lowest since October 2014, according to data from the central bank.



The growth was much lower than the central bank's target of 16.5 percent for the second half of fiscal 2018-19.

Scarcity of funds to give loans with, shortage of greenbacks to meet import payments and disbursement of large amounts of loans for the mega infrastructure projects are responsible for the dwindling credit growth, analysts said.

"The growth will be on the decline in the months to come if the existing unpleasant situation persists," said Ahsan H Mansur, executive director of the Policy Research Institute.

He says deposit growth in banks is

lower than the credit growth and that has forced banks to adopt a cautious lending policy.

Net foreign asset in the country's balance of payment is now negative, which has also weakened the deposit base of banks.

In such a situation, a good portion of the deposits has gone abroad to meet the country's foreign exchange liabilities, said Mansur, also a former official of the International Monetary Fund.

"Extensive measures should be taken immediately to recover the default loans as it will help lenders strengthen their capacity to disburse loans."

At the end of 2018, total non-performing loans (NPL) amounted to Tk 93,911 crore, up from Tk 74,303 crore a year earlier.

At the same time, savers are gravitating towards savings certificates and bonds instead of bank deposits because of higher returns from the former.

"The government should adjust the rate of interest on its tools for the sake of restoring stability in the financial sector," Mansur added.

The interest rate on deposits has shot up to double digits recently but it has still failed to catch the attention of depositors, said Syed Mahbubur Rahman, chairman of the Association of Bankers, Bangladesh.

"Banks face criticism from different corners when they want to set the lending rate in keeping with the returns on deposits. It is not viable for banks to disburse loans at single-digit interest rate."

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Cotton prices unscathed despite trade war

REFAFET ULLAH MIRDHA

Fears of cotton prices soaring as a result of the US-China tariff war are unlikely to materialise, in a welcoming development for Bangladesh's textile millers.

Bangladesh is almost entirely dependent on imports for its cotton requirement, making it the world's largest buyer of the natural fibre from the global market.

Last week cotton was trading at between 75.5 cents and 77.5 cents per pound in the international futures markets, down from 90 cents per pound in March and April last year, when talks of the trade war were at its peak.

"Cotton prices declined a bit over the last one year instead of soaring," said Monsoor Ahmed, secretary to

Bangladesh Textile Mills Association (BTMA), a platform for textile millers, spinners and cotton importers.

Bangladesh imported 8 million bales of cotton last year, up from 7.6 million bales a year earlier, he said.

The reason for the dip in cotton prices is that China, the biggest consumer of cotton due to being the world's largest supplier of apparel, has cut down on its cotton purchases to clear out its old stock.

China has old stocks of 38 million bales of cotton and 27.5 million bales in production in the 2018-19 season, which runs from September to August, according to data from the United States Department of Agriculture (USDA).

World trade is expected to increase to 42.3 million bales in 2018-19, the highest level since 2012-13's record.

Production will exceed consumption in 2019-20, raising world stocks slightly by 1 million bales.

World cotton consumption in 2018-19 is expected to reach 123.6 million bales, growing 0.9 percent from the previous year, to the highest level since 2007-08.

"So, there is ample supply of cotton worldwide but the demand from major countries is almost the same," said Mehdi Ali, president of Bangladesh Cotton Association (BCA).

The production in major cotton-producing countries is also high except for in India.

"As a result, the trade war could not have any bad impact on cotton trade worldwide," Ali said.

The US is the largest grower of cotton.

Mechanisation key to higher farm yield

Says executive director of ACI Motors

AHSAN HABIB

Bangladesh lags far behind its peers in the use of farm machinery despite having huge potential as agriculture remains an important sector of the country's economy, said Subrata Ranjan Das, executive director of ACI Motors.

The South Asian nation has mechanised the cultivation process to a great extent but is yet to do much in harvesting and transplanting, he said.

"Mechanisation at the time of harvesting and transplanting is very important for getting higher yields," Das told The Daily Star in an interview.

Financing is a big problem for agricultural mechanisation in Bangladesh although the country has highly fertile land, he said.

For instance, Bangladesh's crop intensity is 190 (100 denoting one crop in a year) while it is 141 in India and 105 in South Korea, he said.

Das said ACI Motors has the ability to provide farmers with all kinds of farming mechanisation solutions, including tractors, power tillers, reapers, mini combine harvesters and rice transplanters.

Since launching in 2007, the company will amount to around Tk 1,500 crore, he said.



Subrata Ranjan Das

	POWER CONSUMPTION (KILOWATT/PER HECTARE)	CROPPING INTENSITY
Bangladesh	1.8	190
India	2.4	141
Vietnam	2.6	135
Thailand	3.1	112
South Korea	9.3	105
Japan	14	70

SOURCE: BAU AND BAC

on credit.

"We have so far got back some 70 percent of the amount. There are some cases of payments being delayed but none for too long. We did not have to write-off any amount on their principal," said Das.

"So our experience is very good but we also have financing limitations," he said, adding that the government could come up with different financing solutions.

"Farmers have to conduct transplantations on time otherwise crops will not grow well. They need to go for harvests on time as well to avoid crop loss," he added.

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FARM MACHINERY Local makers flex muscles



RASHED SHUMON

An exhibitor describes one of his products at the National Industrial Fair 2019 at Bangabandhu International Conference Center in the capital. The photo was taken on Sunday, when the weeklong fair kicked off.

JAGARAN CHAKMA

Agriculture equipment manufacturers are helping the country's farmers mechanise and increase crop production by way of supplying quality machinery at lower prices.

They can make 40 to 45 varieties of agriculture equipment, enough to supply 99 percent of the machinery needed for farmers, manufacturers say.

"The sales of machinery are on the rise as awareness among the farmers is rising," said Sheikh Sadi, managing director of Agro Machinery Industry (AMI) Ltd.

"Agriculture equipment manufacturers are indirectly helping the country ensure food security and higher production as well as mechanisation from traditional cultivation," he told The Daily Star.

Sadi's company took part in the National Industrial Fair organised by the industries ministry at the Bangabandhu International Conference Center in Dhaka.

About 250 companies are participating at the weeklong fair, which kicked off on Sunday.

Sadi started making agriculture equipment in 2015 with a small capital in Darshana, Chuadanga. He now has

26 employs and Agro Machinery's annual earnings stood at around Tk 6 crore last year.

"The sales of machinery are on the rise as awareness among the farmers is rising," he said, adding that the government is providing up to 50 percent subsidies on the price of equipment to encourage farmers to embrace mechanised farming.

Sadi gave the credit to his technicians who despite having no academic background are developing quality products and producing new items based on their own idea.

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