STOCKS
DSEX ▼ 0.79% 5,430.83
CSCX ▼ 0.82% 10,073.61

COMMODITIES As on Friday
Gold ▲ $1,340.10 (per ounce)
Oil ▲ $62.01 (per barrel)

ASIAN MARKETS Friday closing
MUMBAI ▼ 0.73% 39,452.07
TOKYO ▲ 0.40% 21,116.89
SINGAPORE ▲ 0.06% 3,222.63
SHANGHAI ▼ 0.99% 2,881.97

CURRENCIES STANDARD CHARTERED BANK

	$USD	€EUR	£GBP	¥JPY
BUY TK	83.50	92.59	104.28	0.75
SELL TK	84.50	96.39	108.08	0.79

Star BUSINESS

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Raising private investment to be tricky: analysts

JAGARAN CHAKMA

The government's target to raise private investment to 24.2 percent of GDP will be challenging given the trend in last several years and the ongoing liquidity crisis in the banking sector.

Private investment has been hovering around the 22-23 percent mark for long. For instance, this fiscal year it reached 23.40 percent of GDP, up from 22.07 percent five years ago, according to the Bangladesh Bureau of Statistic (BBS).

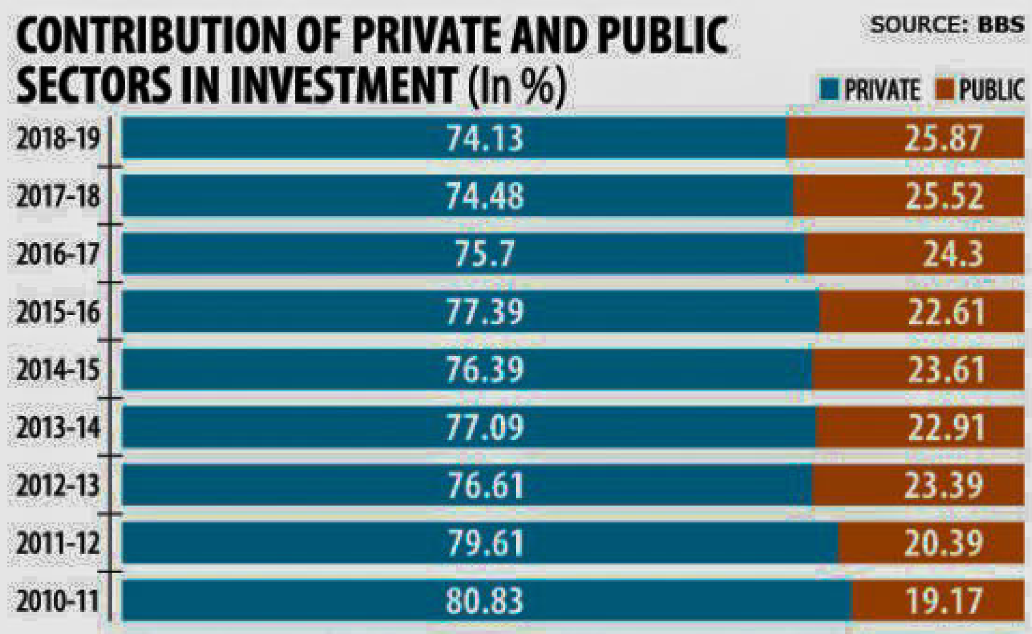
Bangladesh needs additional Tk 23,000 crore to achieve the investment target, said Abul Kasem Khan, former president of Dhaka Chamber of Commerce and Industry.

"As the banking sector is facing liquidity shortage, we don't know where the money will come from," he added.

Private sector credit growth sank to a 56-month low of 12.07 percent in April and the government's target to borrow more from the banks may tighten the situation further.

The government last year set a target to raise private investment to 25.15 percent of GDP for the outgoing fiscal year, but budget documents show it edged up to 23.4 percent from 23.26 percent a year ago.

Despite stagnant private investment, Bangladesh's economic growth has been impressive for the past decade. Provisional estimates show the economy is likely to grow at more than 8 percent in the outgoing fiscal year thanks to a steady rise in public investment.



Public investment jumped to 8.17 percent of GDP in the outgoing fiscal year, up from 6.82 percent five years ago.

Private investments are constrained by a lack of land, reliability of energy supply, poor connectivity, cumbersome regulatory processes as well as regulatory unpredictability, high corporate taxes, limited access to long-term finance and shortage of skills, said Zahid Hussain, lead economist of the World Bank's Dhaka Office.

Without removing the constraints, it will be difficult to achieve a sustained increase in the private investment rate.

Public investment has increased because of higher expenditure in investment projects, mostly under the annual development programme, he said.

"Many of these projects are yet to be completed. Their crowding-in effects on private investment cannot materialise until the projects are up and running."

However, there are also quality deficits in public investment expenditures.

"What is spent does not entirely result in the building of useful public assets."

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Spare banks from stock dividend tax

Bankers urge govt

AKM ZAMIR UDDIN

Banks have sought to be excused from the government's plan to introduce 15 percent tax on stock dividend and retained earnings and reserves to encourage cash dividends as it will put some listed lenders in a difficult spot.

"It makes sense for other listed companies but not for banks as their dividend policies are transparent and regulated," said Syed Mahbubur Rahman, president of the Association of Bankers, Bangladesh, the platform of private banks' managing directors.

At present, banks that face provisioning shortfall are not allowed by the Bangladesh Bank to hand out cash dividend; they can only give stock dividend.

As of March this year, 14 banks failed to keep the required provisioning against their bad loans. Of them, 10 lenders are listed with the capital market.

And lenders usually strengthen their capital base from their retained earnings and reserves, so the move to put 15 percent tax on that would be a double-whammy for them, said Md Arfan Ali, managing director of Bank Asia.

"The budgetary proposals will have an adverse impact on the entire banking sector more or less," he added.

The capital base of the banking sector eroded last year and the trend will continue if the proposals are implemented.

As of December last year, banks' capital adequacy ratio (CAR), which determines the adequacy of banks' capital in keeping with their risk exposures, stood at 10.50 percent, down from 10.83 percent a year earlier, according to data from the central bank.

However, MA Halim Chowdhury, managing director of Pubali Bank, said only the weak banks might face problem because of the proposed measure.

"The proposed tax policy on stock dividend and retained earnings and reserves will not bring anything positive for the growth-oriented companies," said Ahsan H Mansur, executive director of the Policy Reserve Institute.

Businesses have to preserve their retained earnings and reserves for future investment, he said.

Good companies will show reluctance in going to the capital market for their funding needs in the days to come if such proposals are imposed on them, said Abul Kasem Khan, a former president of the Dhaka Chamber of Commerce and Industry.

"The whole process of offering stock dividend is highly transparent. So banks should be exempt from the upcoming instruction or else it will hurt lenders," said Rahman, also the managing director of Dhaka Bank.

Despite rise, ADP spend to miss target

Tk 56,577cr must be spent in June to reach goal

STAR BUSINESS REPORT

The government is set to miss the development spending target despite a 21.28 percent year-on-year rise in such spending in the first 11 months of 2018-19.

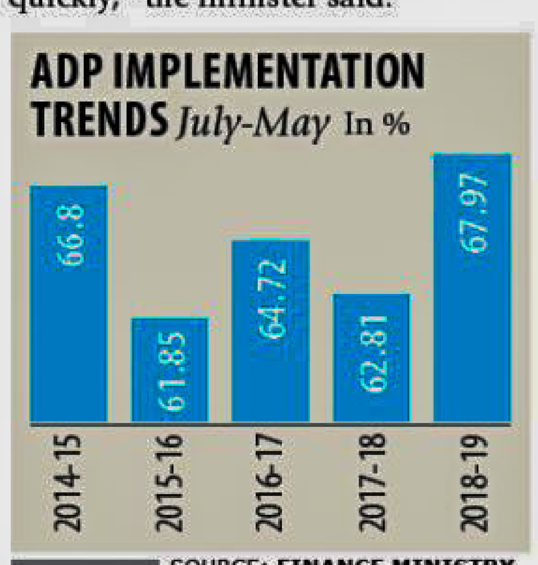
The government will have to spend five times more—Tk 56,577 crore—in June than its monthly average of Tk 10,913 crore to reach the target of the Annual Development Programme (ADP) for the full fiscal year.

Between July and May, ministries and divisions expended Tk 120,043 crore, up from Tk 98,978 crore in the same period a year ago, according to data from the Implementation Monitoring and Evaluation Division of the planning ministry.

Planning Minister MA Mannan reviewed the progress in the development spending yesterday at a meeting with the officials of ministries and divisions, instructing them to be more sincere about implementation.

The priority for the government is to end corruption in the implementation of projects and accelerate the pace of execution, he said at the meeting at the auditorium of the National Economic Council at the Planning Commission in Dhaka.

"I hope you will be careful about it and help implement the ADP quickly," the minister said.



The ADP implementation scenario, however, has changed from what it was at the beginning of the fiscal year.

It picked up in November amid the fervour surrounding the parliamentary polls in December.

A planning ministry official said the finance and planning ministries took some measures in the beginning of 2018-19 to boost the spending and the measures started to bear fruit from November.

Since November, the expenditure has averaged more than Tk 12,000 crore per month in contrast to Tk 6,216 crore posted every month in the preceding four months.

In June last year, the finance division empowered project directors, giving them authority to release funds in the first two quarters of a fiscal year by themselves instead of waiting for approval from ministries or divisions, an exercise that takes up two to three months.

The top ADP performer was the power division, which spent 79.64 percent of the allocation, followed by the Prime Minister's Office 79.25 percent, the science and technology ministry 78.89 percent, the primary and mass education ministry 73.54 percent, and the shipping ministry 72.75 percent.

Among the poor performers, the public security division managed to spend 23.07 percent, followed by the railways ministry 44.68 percent, the secondary and higher education division 53.87 percent, the water resources ministry 59.41 percent and the bridges division 64.51 percent.

Garment exporters not happy with budget proposals

Demand 3pc cash incentive instead of 1pc proposed

COLLECTED

Centre, **BGMEA President Rubana Huq attends a press meet to present the chamber's post-budget reaction at the hotel Amari Dhaka yesterday.**

STAR BUSINESS REPORT

Apparel exporters yesterday voiced their dissatisfaction with the 1 percent cash incentive handed to them in the proposed budget for fiscal 2019-20 as it is insufficient to help them tide through the current volatile situation in garment trade.

They had originally demanded 5 percent cash incentive, but are now meeting the government halfway and asking for 3 percent.

Finance Minister AHM Mustafa Kamal has already allocated Tk 2,825 crore in the budget; another Tk 5,650 crore would be needed if the garment exporters' new demand is to be entertained.

In a post-budget reaction press conference at the Amari Dhaka, Rubana Huq, president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), also urged the government to devalue the local currency by at least Tk 5 against the US dollar to enhance the garment exporters' competitiveness in global trade.

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Tax hike to affect digital business

Trade bodies say online shopping should be exempted from VAT for at least five more years

STAR BUSINESS REPORT

Four tech-centric trade bodies yesterday said the proposed budget would hinder the growth of digital business and increase costs for consumers.

The government has proposed increasing some taxes, including value-added tax, on different services which will ultimately increase the cost of doing business, the leaders of the organisations opined.

However, the leaders of Bangladesh Association of Software and Information Services (BASIS), Bangladesh Computer Samity, Internet Service Providers Association of Bangladesh (ISPAB) and Bangladesh Association of Call Center and Outsourcing (BACCO) welcomed the overall budget for 2019-20.

They also said there are some anomalies in the proposed budget, which need to be addressed to continue the sector's growth.

They made the call at a press conference at Pan Pacific Sonargaon Dhaka. The four platforms also demanded that online shopping get exempted from VAT for at least five more years.

Lamenting the finance minister's suggestion on Thursday for imposing 7.5 percent VAT on the virtual business, Syed Almas Kabir, president of the BASIS, said it was not what was expected for digital services.

"Shoppers just started spending though this platform…first we need to give time for the industry to grow and then the tax issue can come," he said.

ISPAB President MA Hakim raised concerns over increasing VAT on fibre optic cables, which he termed "the backbone of the digital ecosystem".

"This initiative will definitely increase our cost of doing business and that will be passed on to customers who are using broadband services," he said.

"Already we have talked with the state minister for ICT and he promised placing our demand before top policymakers of the government," he added.

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BASIS President Syed Almas Kabir speaks at a press meet to share the association's observation about the proposed budget at the Pan Pacific Sonargaon hotel in Dhaka yesterday. Four technology-related trade bodies organised the briefing.

Bourses praise budget, indices fall though

STAR BUSINESS REPORT

Both bourses yesterday welcomed the measures proposed in the national budget but the market responded negatively on the first working day since the finance minister unveiled his financial plan on Thursday.

The DSEX, the benchmark index of Dhaka Stock Exchange (DSE), dropped 43.47 points, or 0.79 percent, to close at nearly 5,431. The CSCX, the key index of Chittagong Stock Exchange (CSE), fell nearly 84.15 points, or 0.82 percent, to 10,073.

Both the stock exchanges held media briefings in their respective offices in Dhaka to give their reaction to the proposed budget for 2019-20. "The budget has been the most stock market-friendly ever," said Rakibur Rahman, a director of the DSE.

Finance Minister AHM Mustafa Kamal has doubled the tax-free dividend income limit to Tk 50,000 and created a scope for listed, financially sound companies to buy the sick ones.

The double taxation on dividend income of foreign companies has been removed.

Kamal also proposed additional tax on stock dividend and retained earnings, a move both the DSE and the CSE welcomed.

"It should be implemented for at least a few years even if it creates problems for some companies," Rakibur said.

Prof Abul Hashem, chairman of the Dhaka bourse, welcomed the proposed tax, saying many companies have deprived investors by giving only stock dividend year after year.

"The DSE will not send any recommendation seeking withdrawal of the proposal although some are differing," he said.

KAM Majedur Rahman, managing director of the DSE, however, said some good initiatives have been proposed in the budget and the tax on retained earnings deserves further discussion to find whether it would be positive for the market.

Minhaz Mannan Emon, a director of the bourse, said imposing tax on stock dividend and retained earnings was not the right way to encourage cash dividend.

"Moreover, it may affect the capital formation of well performing companies. So, we should not create any hurdles for capital formation and the proposal should be reconsidered," he said.

Capital formation is a term used to describe the net capital accumulation.

Talking to reporters after the briefing, DSE Director Sharif Ataur Rahman backed Emon, saying, "It is illogical to impose the tax on stock dividend and retained earnings."

Both bourses also urged the government to allow black money into the stock market, considering the recent slump.

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