



The government should increase allocations for social safety net programmes to offset the impact of the soaring prices of essential commodities resulting from the Russia-Ukraine war as well as natural calamities such as the current floods in Sylhet, experts say. The photo was taken from Karwan Bazar in the capital yesterday.

PHOTO: AMRAN HOSSAIN

Govt missed opportunity to contain inflation: experts

STAR BUSINESS REPORT

The government missed an opportunity to contain inflationary pressure by leaving the tax and other duties levied on most essential products unchanged in the proposed national budget for fiscal year 2022-23, according to various economists and business leaders.

They suggested increasing direct taxes instead of indirect taxes to reduce the growing inequality while the tax system should be made more business-friendly to encourage investment and create jobs.

"The current inflation problem may be imported but poor people are getting hurt so this monster must be tamed," said Zaidi Sattar, chairman of the Policy Research Institute (PRI).

With the local currency having depreciated by nearly 8 per cent over the past month, there is ample opportunity to cut tariffs without under-cutting production or revenue, which are usually the two main stumbling blocks.

However, monetary management alone will not be enough to sort out the issue of inflation.

"It is time to tame inflation with tariff cuts but the government missed this opportunity in its proposed national plan," Sattar said while hoping that something can be done to this end before parliament passes the final budget.

Sattar yesterday made these comments at a post-budget discussion, styled "Bangladesh - From Vulnerability to Resilience and Rapid Inclusive Development", organised by the PRI and Metropolitan Chamber of Commerce and Industry (MCCI).

"The government proposed lowering the corporate tax rate but most companies will struggle to enjoy this benefit due to the stringent conditions involved," said Md Saiful Islam, president of the MCCI.

On the other hand, those present at the meeting unanimously lauded the government's plan to impose uniform corporate tax rates equal to that of the garment sector on all export-oriented industries.

Islam, also managing director of Picard Bangladesh, suggested increasing allocations for social safety net

programmes to address the inflationary pressure resulting from the Russia-Ukraine war as well as natural calamities such as the current flooding in Sylhet.

The tax-free threshold on personal income should also be raised, he said.

Regarding the black money whitening opportunity, the MCCI president said the continuation of such measures would discourage honest taxpayers.

Planning Minister MA Mannan said the government has taken many steps to reduce poverty and got results but the recent Covid-19 crisis has created "new poor" and so, plans need to be reassessed to see how they can be helped.

Bangladesh's public spending compared to its gross domestic product (GDP) is low in comparison with neighbouring countries due to the lower tax-GDP ratio, said MA Razzaque, research director of the PRI.

"Lower tax income shrinks the government's fiscal limit and then it is bound to borrow from the private sector," he said, adding that the government spends on development projects in exchange of private sector investment.

Targeted revenue collection is a major challenge as failure to meet the target will have some spillover effect on the private sector, said Ahsan H Mansur, executive director of the PRI.

"To overcome the challenge, the National Board of Revenue should be reformed."

Mansur then questioned how long the government can continue providing such huge amounts of subsidies on agriculture.

Delays in the price adjustment of fuel and other products may also raise the subsidy bill so it may create pressure on the banking sector while an overall liquidity remains in the economy, he added.

Shamsul Alam, state minister of planning, said the governments' pockets will continue to be very tight in the coming year due to the pandemic fallout and war between Russia and Ukraine.

"Due to the double blow, we had to reduce allocations for many sectors, however, the outcome of our spending is high so the socio-economic indicators of Bangladesh look brighter than that of neighbouring countries," he added.

Haval service campaign begins

STAR BUSINESS DESK

Haval, in association with Ace Autos, the sole distributor of the sport utility vehicle (SUV), launched its fourth nationwide service campaign at Ace Workshop in Tejgaon, Dhaka on Saturday.

The campaign will also run in Chattogram, Sylhet, Khulna, Jessore and Rajshahi till June 30, offering discounts on various products and services, said a press release.

Fed official supports another big rate hike

AFP, Washington

Federal Reserve Governor Christopher Waller on Saturday threw his support behind another large interest rate increase next month.

The Fed on Wednesday announced the biggest hike in nearly 30 years, raising the benchmark borrowing rate by 0.75 percentage point in the ongoing effort to rein in scorching inflation.

"If the data comes in as I expect, I will support a similar-sized move at our July meeting," Waller said in a speech prepared for delivery to a conference in Dallas.

"The Fed is 'all in' on re-establishing price stability." In recent weeks, the central bank had telegraphed plans for a half-point increase, but a surprise resurgence in consumer prices, which have risen at the fastest pace in four decades, changed its thinking.

The super-sized rate increase came as the Fed faces intense pressure to curb soaring gas, food and housing prices, spurred by the fallout from the war in Ukraine as well as Covid-lockdowns that have disrupted global supply chains.

China to host virtual BRICS summit

AFP, Beijing

Chinese President Xi Jinping will host a virtual summit with top leaders from Russia, India, Brazil and South Africa next week, marking the first such meeting since the Ukraine crisis unfolded.

The influential club of BRICS emerging economies formed in 2009 is home to more than 40 per cent of the global population and accounts for nearly a quarter of the world's gross domestic product.

Three of its members -- China, India and South Africa -- have abstained from voting on a UN resolution condemning Russia's invasion of Ukraine. China and India have strong military links with Russia and purchase significant amounts of its oil and gas.

Xi in a call Wednesday assured his Russian counterpart Vladimir Putin that China will support Moscow's core interests in "sovereignty and security" -- leading Washington to warn Beijing it risked ending up "on the wrong side of history".

South Africa, one of the few African countries wielding diplomatic influence outside the continent, has also refused to condemn the Russian military action, to safeguard important economic ties.

Budget failed middle class

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are excluded, total allocation for social safety net budget has declined by approximately Tk 3,000 crore in FY23 compared to the revised budget of FY22," he added.

Bhattacharya, also a distinguished fellow of the Centre for Policy Dialogue, said allowances for the financially insolvent and destitute have not been increased and no allowance for youths has been considered in the proposed budget.

In fiscal year 2017-18, these allowances as a percentage of the GDP stood at 3.72 per cent, which will decrease to 2.15 per cent of the GDP in fiscal year 2022-23, he said.

"Imagine only Tk 500 is given as allowance to a person and what this money brings for a family or destitute people," he said.

"What was the crime of these people? The per capita GDP of all the people has increased, but they (the destitute people) are deprived of their rights. How is it possible? What kind of justice can it be?" questioned Bhattacharya.

"Either you (government) do not have the capability to serve them or you are depriving them," he said.

Overall subsidy allocation increased by nearly 54 per cent in fiscal year 2022-23 compared to that of fiscal year 2021-22 and it is true that the government might not have the ability to provide even more at this moment,

he said. But the highest subsidy went to the power sector, where the government spends a big amount in the form of capacity payments for unutilised power of independent producers, said the economist.

There are good and bad subsidies and the subsidy structure should be changed laying paramount importance public welfare, he said.

Bhattacharya was delivering a presentation on the "National Budget 2022-23: What is there for the people left behind?" organised by the Citizen's Platform for SDGs, Bangladesh at Brac Centre Inn in Dhaka.

He said the government had declared that the universal pension scheme would take effect from fiscal year 2022-23, but no major explicit allocation has been made.

He said the government should reconsider the composition of social safety nets to make proper and transparent allocations eliminating pension schemes and interest payments from it.

Time has come for Bangladesh to evaluate if it now needs to avail foreign exchange assistance from International Monetary Fund, said Bhattacharya.

He criticised the decision to provide a scope for bringing laundered money back.

"It's unethical, politically reckless and unsuitable to the economic end. It is discriminatory to the

honest taxpayers who pay 25 to 23 per cent taxes for years," he said.

The financially insolvent barely gets anything in the budget but owners of anonymous assets abroad benefitted. This budget has been hijacked, he added.

Iftekharuzzaman, executive director of Transparency International Bangladesh, said Bangladesh set a positive example bringing back laundered money from Singapore and that system of bringing back money become more sophisticated.

Now, this type of announcement of bringing laundered money back to the country has no logical essence, he said.

Ensure banking

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However, most of the Sylhet and Sunamganj districts are reportedly inundated while new areas are being submerged at a pace that has surprised many, with as many as 17 districts now feared to be in danger.

The flood was triggered on Wednesday by heavy rains and water flowing from upstream India's Meghalaya and Assam, where record-breaking rainfall had occurred.

In Sylhet and Sunamganj, where the situation is particularly dire, more than 40 lakh people are said to have been marooned by the incessant rains, which show little sign of slowing.

Inflation rockets

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not GDP growth, should be central to macroeconomic management under the prevailing circumstances," said Hussain, a former lead economist of the World Bank's Dhaka office.

He argues that both monetary and fiscal responses are needed to manage inflation better.

"The increase in the repo rate is weightless when the lending rate is capped. The latter is the policy rate for all practical purposes. It needs significant upward adjustment, if not removal."

The lingering higher prices in Bangladesh mean that the government is set to miss its inflation target for the third year running in the outgoing fiscal year.

It had set a 5.3 per cent

average inflation target at the beginning of FY22. It has been revised upwards to 5.7 per cent.

The CPI averaged 5.99 per cent during the July-May period, data from the BBS showed.

The government has set a 5.6 per cent inflation target for FY23, starting on July 1, although a number of local economists and even the International Monetary Fund are expecting the price pressure to persist for a longer period.

According to the Centre for Policy Dialogue, inflationary pressure will hamper a sustainable and inclusive recovery from the coronavirus pandemic, since the real purchasing power of many people will decline, causing further inequality.

Floods wash away

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A decade ago, overall production of cultured fish was 13.5 lakh tonnes, which was around 47 per cent of the total production, as per DoF data.

Sylhet accounts for 3 per cent of the total cultured fish produced in the country.

Officials say fish production in open waterbodies is usually higher in the northeast region, where farmers are showing interest in producing catfish and freshwater prawn, Hossain said, adding that tilapia and pangasius fish are already farmed in the region along with carps.

The flood damage to farms will affect consumers along with farmers, officials said. Hossain went on to suggest that farmers should use nets to protect their fish farms from the flood.

Md Moshir Rahman, managing director of Paragon Group, a leading poultry and feed producer, said the group has two hatcheries and two fish farms in Sylhet.

"We built a dam that is three-feet higher than normal to stop the flow of flood water in the past but as water levels have risen, we are increasing the height of our nets," he added.

Problems soar for airlines despite pandemic recovery

AFP, Paris

Desperate to put the coronavirus pandemic behind them, airlines will hold talks on Sunday ahead of a potential summer of chaos with shortages and strikes that could threaten their recovery.

While trade is roaring back to life, representatives from the aviation sector meeting for three days in Qatar have a packed agenda with multiple geopolitical crises including the war in Ukraine and the environment.

Cracks are already showing in the sector's recovery, though industry figures are optimistic about the future despite the issues.

In the past few weeks, delays and cancellations caused by a lack of staff at airports and strikes for better pay have wreaked havoc upon travellers.

The problems originate with the pandemic when airlines and airports

laid off thousands of workers during its worst-ever crisis. Now, they are scrambling for workers.

Passenger numbers dropped by 60 per cent in 2020, and in 2021 it was still down 50 per cent. Airlines lost nearly \$200 billion over two years.

While some firms in the sector went bankrupt, others -- backed often by states -- have emerged from the pandemic with profits intact.

European airlines are excited about the prospect for a "beautiful summer", with some data showing booking rates higher than in 2019. In the United States, the domestic market has almost returned to pre-pandemic levels.

"Airlines are generating cash again, which is a real positive," said Willie Walsh, head of the International Air Transport Association, during a visit to Paris earlier this month. The sector's morale was buoyant after "a very long and barren two years", he told reporters.

Russia gas squeeze threatens Europe's stockpiling plans

AFP, Paris

With France becoming the latest country to be cut off from Russian natural gas, and supplies sharply reduced in Italy and Germany, Europe's summer stockpiling plans are looking shaky.

As the war in Ukraine nears its fourth month, Moscow is hitting Europe -- which gets some 40 per cent of its gas from Russia -- where it hurts.

Several European countries, including Italy and Germany, are highly reliant upon Russian gas for their energy needs and Italian Prime Minister Mario Draghi has bluntly accused energy giant Gazprom of lying over the reasons for the cuts.

Europe uses less gas in summer

months as it does not need to heat buildings, but countries are racing to replenish their reserves for the following winter.

The EU wants the gas storage infrastructures of its member states to be filled to at least 80 per cent of their capacity by November.

The gas squeeze, which pushes prices up, "has consequences, not immediately on consumption, but on stockpiling", Draghi said Thursday, adding that Italy's reserves were at 52 per cent.

The reduction in supplies will also be costly for manufacturers -- especially in countries like Germany, where factories in the chemical, steel, cement and fertiliser industries need huge quantities of gas.