Star BUSINESS

Bancassurance will open a new horizon for the insurance industry as the collaborative arrangement is helping insurers expand their coverage

Story on B4

Bangladesh lowers cash incentive for exporters to prepare for post-LDC era

REDUCTION IN INCENTIVE RATES

Sectors	Previous rate	New rate
All apparels	1%	0.5%
New product/market for garments	4%	3%
RMG shipment to emerging markets	4%	4%
Diversified jute products	20%	15%
Leather products	15%	12%
Vegetables, fruits, processed foods	20%	15%
Potatoes	20%	15%
Furniture	15%	10%
Plastic products	10%	8%
Software, ITES hardware	10%	8%
Software, ITES services	4%	3%
Pharma instruments	10%	8%
Motorcycles	10%	8%
Rice	15%	5%
Tea	4%	3%

SOURCE: BANGLADESH BANK

CASH SUPPORT FOR EXPORTS

- Govt set aside Tk 9,025cr as export subsidy for FY24
- 43 sectors currently enjoy the support

Reasons behind latest decision

- Export subsidy can't be provided by developing countries
- Bangladesh is set to become a developing country in 2026
- Govt plans to reduce the rates of cash support in phases

Implications

- Export diversification might take a beating
- Earnings may drop
- Bangladesh will lose competitiveness

MD FAZLUR RAHMAN, MD ASADUZ ZAMAN *and* SUKANTA HALDER

The government has cut the export subsidy for almost all sectors to reduce the pressures on Bangladesh's coffers and bring down the rates gradually since the country can't provide such subsidies once it becomes a developing nation.

In their immediate reactions, economists welcomed the move while exporters expressed sheer disappointment, saying the export will be hit hard.

Bangladesh used to give cash assistance ranging from 1 percent to 20 percent on export earnings in order to encourage exporters and make them more competitive in international markets, with a view to raising the income from the biggest foreign currency earning sector.

Now, the maximum rate has been set at 15 percent and the minimum at 0.5 percent and it would be applicable for January 1 to June 30 this year, the central bank said in a notice yesterday.

Currently, 43 sectors are eligible for the aid, with the government spending about Tk 9,025 crore annually in the past three years.

Yesterday's change comes as the World Trade Organisation (WTO) considers cash incentives as export subsidies. But when a least-developed country (LDC) becomes a developing nation, it can't continue the cash assistance as per the agreement on subsidies and countervailing measures of the global body.

Bangladesh is set to become a developing nation in 2026.

If the cash support is withdrawn completely in one-go when the graduation takes place, the export sector might face challenges in the post-LDC period. So, the government has decided to reduce the direct cash assistance in phases from January 1 this year, the BB said.

Only four sectors – diversified jute products, vegetables, fruits and products in the agro-processing sector, potatoes, and halal meat and processed meat exporters -- will qualify for the highest rate. It was 20 percent for them previously.

The cash assistance on the export earnings of apparel makers in all markets has halved to 0.50 percent from 1 percent.

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Apparel buyers yet to raise prices despite promise after wage hike

STAR BUSINESS REPORT

Some 79.1 percent of the apparel factory owners said international buyers are yet to increase prices of Bangladeshi goods, which they earlier promised to do after the new garment wage comes into effect in December last year, a survey found.

In 2023, the cost in customs and bonds increased 47.85 percent year-on-year because of delays and other procedural issues, according to the survey.

Moreover, around 27.5 percent of the installed production capacity remained unutilised last year due to lower number of work orders following high inflationary pressure on the western consumers, stemming from the fallout of the Covid-19 pandemic and the Ukraine war, it said.

But the international retailers did not raise the rates after the implementation of the new garment wage with a 56 percent rise, according to the survey.

Forum panel, the opposition group of the last election of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), conducted the survey among 100 garment factory owners on December 21 last year.

Around 27.5 percent of the installed production capacity remained unutilised last year due to lower number of work orders

Some 66 factory owners took part in the survey out of the 100 interviewed, Faisal Samad, leader of the Forum panel, said while presenting the findings of the survey at a discussion with journalists at the Dhaka Club yesterday.

Samad said last year the factory owners also faced a 3.9 percent year-on-year decline in the freight on board value of the locally-made garment items.

The owners are still suffering from inadequate energy supply although the price of gas was doubled last year, he said.

The worst sufferers of the lower inflow of work orders were the small and medium level factories as they do not have strong financial capability to face the challenges, he said.

The growth of the apparel sector started declining in 2022 because of the global challenges, Samad said.

In the second quarter of 2023, only 9 percent factories had full work orders and 82 percent of them had work orders below their capacity. "6 percent factories had no work orders in 2023."

Some of the factory owners may become victim of forced loan as the buyers who defaulted in their businesses are yet to clear around 6 to 7 percent price of the goods exported, he added.

Samad also promised to ensure improved compliance in business and lobby with the government for reducing source tax if his panel can form the board by winning the next BGMEA election scheduled to be held on March 9 this year.

Bonded warehouse licence tenure extended to 3 years

STAR BUSINESS REPORT

The National Board of Revenue (NBR) has extended the tenure of licences for bonded warehouses to three years from two years to cut the time and cost for exporters.

With this, the revenue authority removed the discrepancy in the tenure of bonded warehouse licences held by factories located inside the export processing zones (EPZs) and outside the estates.

Prior to this, the validity of licences for the factories inside the EPZs was three years, while it was two years for those outside the zones.

"We have now made the validity period of all bonded warehouse licences the same irrespective of their locations," said a senior official of the NBR.

Under the licencing facility, exporters can import raw materials duty-free to make goods for overseas markets.

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BSRM logs falling sales as demand declines

STAR BUSINESS REPORT

BSRM Ltd, the biggest steelmaker in Bangladesh, said its sales dropped in the first half of the current financial year, suffered by reduced demand amid the economic slowdown.

The Chattogram-based steelmaker recorded Tk 1,961 crore in sales in the October-December period of financial 2023-24, down 14 percent year-on-year.

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STOCKS

DSEX ▲	CASPI ▲
0.86% 6,150.21	1.03% 17,442.79

COMMODITIES

Gold ▲	Oil ▼
$2,045.63 (per ounce)	$76.12 (per barrel)

ASIAN MARKETS

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▼ 1.11% 71,139.90	▲ 0.11% 36,065.86	▲ 0.31% 3,150.04	▼ 1.83% 2,830.53

Beximco suffers 99% profit drop in Jul-Dec

Sales plunge 64%

STAR BUSINESS REPORT

Local conglomerate Beximco Ltd suffered a massive 64 percent or Tk 2,500 crore drop in sales in the first six months of 2023-24 fiscal year due to a fall in exports and domestic demand.

The company sold goods worth Tk 1,441 crore in the last six months of 2023, according to the financial report of the company which operates in different sectors, including trading, textile, denim, knitting, IT, fisheries and real estate.

In the period, the company's cost of revenue also increased due to the disruption in the international supply chain owing to the US dollar crisis, the Russia-Ukraine war and the price hike of gas and electricity, it said.

The jump in the cost of revenue—total cost incurred to produce and sell a product or service—reduced the company's profit by 99.6 percent year-on-year to Tk 2 crore in the last six months of 2023.

Thus, its earnings per share nosedived to Tk 0.03 from Tk 7.35 in the first half of FY23.

The company's sales dropped as higher costs reduced competitiveness of the company's products in the international market, said a top official of the company preferring anonymity as he is not the authorised person to talk to the media.

Due to the higher raw material prices, its costs of revenue rose to 76 percent of its total revenue in the first half of the current fiscal year which was 69 percent in the same period of the previous year.

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Development spending slows to 13-year low

MD ASADUZ ZAMAN

Spending under the Annual Development Programme (ADP) has been going slow in the current fiscal year (FY), with implementing agencies having used just 22.48 percent of their allocations till December last year, official figures showed.

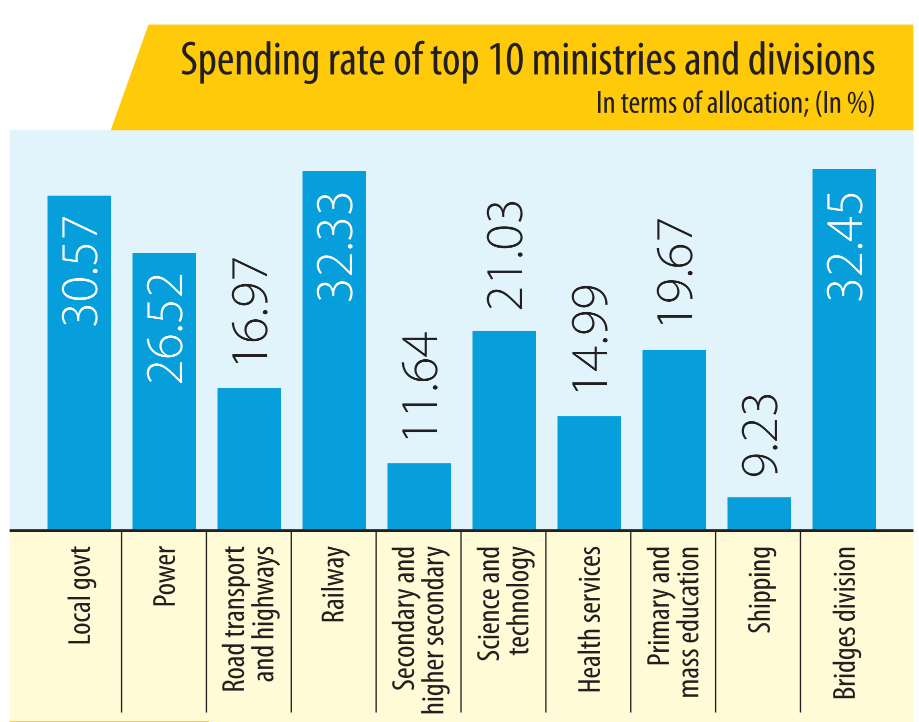
The government managed to spend just Tk 61,739 crore of its Tk 274,678 crore ADP budget in the first six months of FY24, which was its lowest execution rate in at least the past 13 years.

The current execution rate is even lower than that witnessed in FY21, when ADP spending slowed to 23.89 percent of the Tk 214,611 crore allocation, as per data of the Implementation Monitoring and Evaluation Division (IMED).

"The significantly low implementation rate is a bad sign for the economy," said Muntaseer Kamal, a research fellow of the Centre for Policy Dialogue.

Kamal attributed the recent general elections as a potential reason for the slow ADP implementation as administrative activities had become restricted at the time.

Apart from that, government revenue collection is expected to reduce this year, which may contribute to slower disbursals for project implementation.



The tax collector logged revenue of Tk 165,630 crore in the July-December period of FY24, missing its target by more than Tk 23,200 crore, according to provisional data of the National Board of Revenue.

Kamal welcomed the rising trend of the utilisation of foreign funds for various project. However, spending from foreign loans for local projects decreased slightly to 26.14 percent in the first six months of the current fiscal.

On the other hand, spending by state-run enterprises in the July-December period increased to Tk 2,742 crore, or 23.49 percent, of the Tk 11,674 crore allocated for FY24, the IMED data showed.

Meanwhile, Prime Minister Sheikh Hasina directed officials at the last planning commission meeting on January 24 to ensure feasibility studies for improving the quality of implementation.

To this end, she also gave direction to utilise foreign loans and grants, take effective projects for the people and make an "experienced panel" for project directors.

Among the 15 highest recipients of ADP allocations, the shipping ministry was the worst performer in the July-December period.

The ministry's spending stood at Tk 917.11 crore, accounting for only 9.23 percent of its total allocation.

Other low performers include the secondary and higher education division, and the health services division. The bridges division was the top performer, spending 32.45 percent of its budget.

The railway ministry came second with its expenditure standing at 32.33 percent followed by the agriculture ministry with 32.03 percent.