Star BUSINESS

Competition in the cement industry of Bangladesh could become even narrower as smaller producers are at risk of going out of business

Story on B4

Business leaders call for interest rate ceiling

STAR BUSINESS REPORT

The Bangladesh Bank yesterday told businesspeople that the lending rates will not exceed 14 percent, according to the leaders of several trade bodies.

The assurance comes a week after the banking regulator introduced a market-driven interest rate regime prescribed by the International Monetary Fund (IMF) as part of its conditions for a $4.7 billion loan.

Under the market-driven interest rate regime, banks can fix interest rates based on demand and supply.

"The central bank let us know that interest rates will be decided by market conditions," said Mahbubul Alam, president of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI).

However, the BB assured that the lending rate would not cross 14 percent and it may be even 1 percent less for good borrowers, he added.

Alam made the comments while speaking to reporters after a meeting with Governor Abdur Rouf Talukder at the central bank in Dhaka yesterday.

The FBCCI chief informed that the governor also assured that the business leaders would be able to buy US dollars at Tk 117 per greenback for opening letters of credit.

However, industry people say the governor can give no such assurance under the market-based interest rate regime as some banks have allegedly already hiked their lending rates to more than 14 percent.

Mezbaul Haque, executive director and spokesperson of the BB, told The Daily Star that the governor said there is no justification for the interest rate to go above 14 percent.

"This is because central bank assessments show that the cost of funds is around 6 percent to 7 percent."

Also, Haque believes the exchange rate will not exceed Tk 117 per US dollar as the country will now follow the real effective exchange rate.

"We told the businesspeople to submit a complaint to the central bank if any bank is doing malpractice regarding the fixing of interest rates and exchange rates."

FBCCI President Alam said businesses are suffering financially due to the huge hike in the exchange rate.

The dollar traded at Tk 85 two years ago. Now, the US currency costs as high as Tk 122.

Alam said considering the current global economic situation, they have urged the governor not to raise the interest rate and thereby help maintain the competitiveness of Bangladeshi products.

"If interest rates are increased, the cost of doing business will go up and local industries will suffer. So, a maximum ceiling for the interest rate should be fixed."

SM Mannan, president of the Bangladesh Garment Manufacturers and Exporters Association, said he believed the central bank would support the business sector like it did throughout the coronavirus pandemic.

Mohammad Hatem, executive president of the Bangladesh Knitwear Manufacturers and Exporters Association, said they also demanded that the existing single borrower exposure limit be raised from 15 percent to 30 percent.

They also recommended the US dollar exchange rate be left to the market, he added.

The FBCCI chief also said the cost of industrial raw materials and components has increased drastically and fuel and transportation costs have gone up.

"Consequently, the cost of production has climbed and the cost of running businesses has surged."

FBCCI calls for...

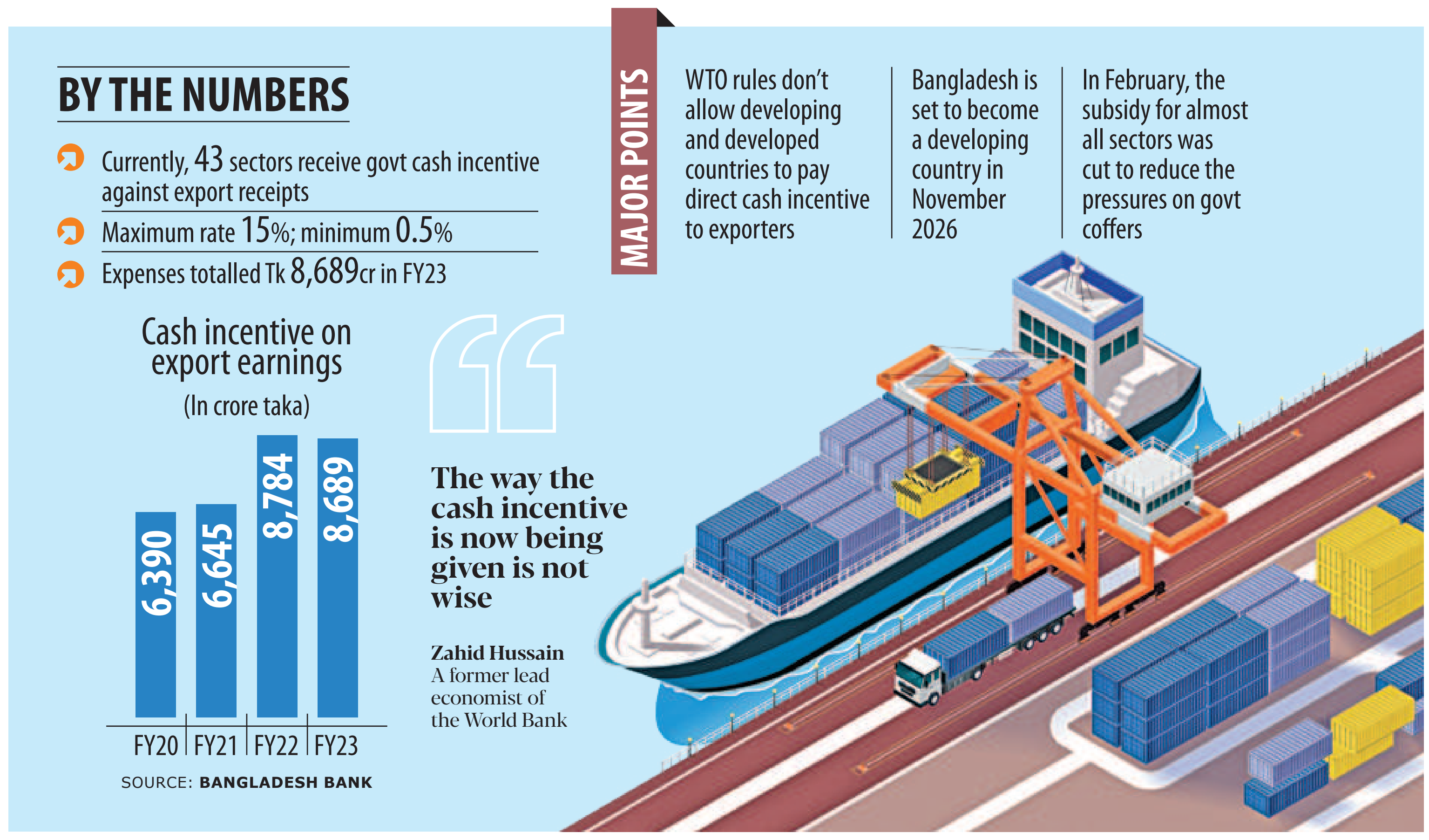
- Increasing existing single borrower exposure limit from 15% to 30%
- Converting short-term loans into long-term ones to protect manufacturers
- Taking steps so that businesses can open LCs regularly
- Leaving the exchange rate of the dollar on the market
- Not increasing the interest rate

Against this backdrop, businesspeople requested keeping the supply of US dollars in the market as normal as possible for the sake of keeping import activities uninterrupted.

If the exchange rate is left to the market, the supply of US dollars must be normal, they said.

Leaders of the Metropolitan Chamber of Commerce and Industry, the Dhaka Chamber of Commerce and Industry, the Bangladesh Textile Mills Association and other trade bodies were also present at the meeting.

Cash subsidy for exports surges. Only garment yields expected results



REFAYET ULLAH MIRDHA

The government's cash incentive against export receipts has soared over the years although many sectors could not make their mark in the global market, bringing in limited results for the government's diversification initiative.

Currently, 43 sectors receive taxpayer-funded cash support, with the maximum rate standing at 15 percent and the minimum rate at 0.5 percent.

Of them, only the garment sector has consistently fared well, turning Bangladesh as the second-largest apparel supplier in the world. The sector accounts for about 85 percent of the country's exports as well.

The government has spent thousands of crores of taka over the years to help exporters become competitive in international trade. The subsidy amount stood at Tk 8,689 crore in the last financial year of 2022-23, slightly down from Tk 8,784 crore from a year prior, Bangladesh Bank data showed.

However, the generous handout can't be continued after 2026 since World Trade Organisation (WTO) rules don't allow developing and developed countries to pay direct cash incentives to exporters. Bangladesh is set to become a developing country in November 2026.

The imminent graduation and persisting pressure on the coffer amid low tax collections prompted the government to cut the subsidy for almost all sectors in February with a view to bringing down the rates gradually and protecting exporters from any shock that may emanate in the event of a sudden withdrawal of the cash aid.

The highest cash incentive rate has been reduced to 15 percent from 20 percent for most sectors. 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 top rate.

Despite immense potential and direct cash assistance, sectors such as jute and jute goods, leather and leather goods, and agro-processing and frozen foods have not been able to emulate the feat achieved by the garment sector.

Even, results are mixed within the garment sector. For example, Bangladesh is still strong in cotton fibre garment items although the world has moved towards non-cotton items. Furthermore, apparel items produced from artificial materials fetch better prices than those made from the natural fibre.

Speaking to The Daily Star, Zahid Hussain, a former lead economist of the World Bank, said the way the cash incentive is now being given is not wise.

"The way should be reconsidered because many sectors could not produce positive outcomes though the money was spent."

If Bangladesh, as a developing nation, provides direct cash incentives on export receipts, disputes regarding compliance will arise, he said.

Hussain said the diversification in the export sector did not take place except in the garment industry despite spending the money. Even corruption took place in the management of cash incentives.

"Therefore, if the incentive is retained for any sectors after the LDC graduation in different forms, the eligibility of sectors should be assessed."

SM Mannan Kochi, president of the Bangladesh Garment Manufacturers and Exporters Association, said they had already held meetings with finance ministry officials and called for the continuation of incentives after the LDC graduation since countries such as India and China pay such incentives under different names.

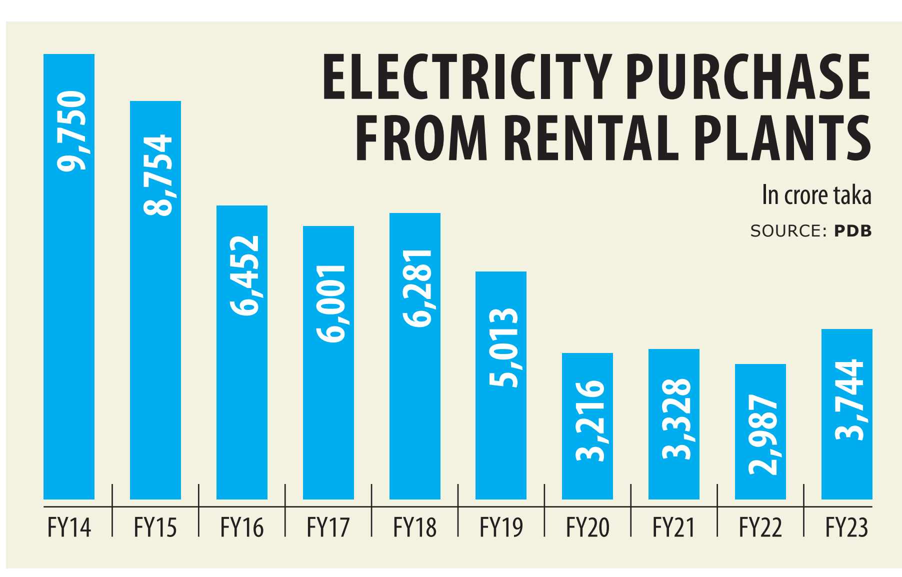
"Many countries are giving the incentive in the name of technology upgradation or skills development funds."

According to the business leader, there are numerous small and medium enterprises and emerging sectors in Bangladesh that are not strong enough financially to cope up with the potential challenges in the post-LDC era.

"The cost of doing business is increasing because of the power tariff hike, so the government should continue the incentive even after the graduation."

Power producers may lose zero-duty benefit

MOHAMMAD SUMAN *and* ASIFUR RAHMAN



Power generation companies, including rental ones, may see an end to a zero-duty benefit on their import of machinery, equipment and spare parts from next fiscal year as the government moves towards generating more revenue curtailing the practice of handing out tax exemptions.

The companies may need to pay a 5 percent customs duty when importing goods from the upcoming fiscal year of 2024-25, according to officials of the National Board of Revenue (NBR).

The rental power plants have been enjoying the duty-free benefit since 2008. Prior to that, there was an import tax of around 10 percent.

The government exempted the rental power companies from paying the duties to enhance private investment in this sector at a time when there was a huge deficit in power production, said the officials concerned.

There were times when Bangladesh Power Development Board (BPDB) had no option but to impose power cuts around the country by rotation for hours on end.

"The government awarded contracts to a good number of small power plants at that time to increase the power generation capacity within a short time," said a BPDB official wishing anonymity.

"But later the validity of contracts with them were extended several times. Besides, they were provided advantages, including different VAT and tax exemptions," said the official.

According to a private sector power generation policy (PSPGP) of Bangladesh 2004, private investors enjoy a corporate income tax waiver, relaxed customs duties, exemptions from stamp duty payments and interest on foreign loans and other benefits.

Such decisions were changed and extended several times.

About the customs duty, a government circular of March 11, 2008 reads that rental power companies have been exempted from paying all kinds of import duties, value added taxes and supplementary duties.

This was applicable whenever equipment or spare parts were being imported for power plants being set up temporarily.

There were some conditions in the circular, including one that stipulated that rental companies would have to export their plants and parts after the end of the contracts.

But later, most of the plants got extensions on the durations of their contracts. The validity of the circular was also extended multiple times, the last being till June 2026.

The new proposal for imposing the 5 percent customs duty comes at a time when the government is facing pressure from the civil society to stop availing power from the rental plants for it being more expensive than that from other sources.

The other sources are government-run power plants and independent power producers, which have a much larger power generation capacity than the rental ones.

On the other hand, the NBR is also seeking ways to enhance revenue collection in order to finance public expenditure and reduce government dependence on borrowing.

"We are working to place the proposals as duty measures for the next fiscal year with the objective of coming out of the culture of giving out tax breaks," said a senior official of the NBR, seeking anonymity.

"A 5 percent customs duty will be applicable on all types of equipment required for setting up any power plant," said the source in the NBR.

According to the NBR's data, investors in this sector have received duty exemptions amounting to Tk 1,853 crore in the last two years from July 2022 to March 2024.

There were at least 32 rental power plants operating in fiscal year 2015-16.

Now there are 18 with a combined capacity of 1,170MW. Of it, 797MW is being availed on a "No Electricity No Payment" basis following renewals of associated contracts, said the BPDB officials.

Amnesty to black money in EZs, hi-tech park may go

STAR BUSINESS REPORT

An amnesty provided to black money invested in economic zones and hi-tech parks is unlikely to be continued from the next fiscal year of 2024-25 as per plans of the National Board of Revenue (NBR).

Currently the tax authority does not raise questions about the source of investment if any person invests undisclosed wealth in the construction of factories inside economic zones and high-tech parks and pays a 10 percent tax on the invested amount.

The amnesty was available since the first day of July 2019 and is to last till June 30, 2024, said the NBR in an income tax law 2023.

"As the benefit is going to expire next month, we are not considering extending it further," said a senior official of the NBR.

Bangladesh began establishing economic zones under public and private arrangements over a decade ago to encourage investment, create jobs and enable organised industrialisation.

The authorities of the industrial enclaves offered land, utility services and other investment-related services to encourage investment.

Currently, the public and private sectors are operating 11 economic zones.

Around $4.78 billion has been invested in the economic zones as of June 2023, according to Bangladesh Economic Zones Authority.

Besides, 11 hi-tech parks are in operation where Bangladesh Hi-Tech Park Authority (BHTPA) has allotted land and space to 230 firms.

It has given co-working space rent free to 151 startups. The investment in the parks contributed to the creation of 28,000 jobs, said the BHPTA.

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