Achieving inflation target will be a challenge: BCI

STAR BUSINESS REPORT

Achieving the targets for inflation and gross domestic product in the proposed budget for the fiscal year 2024-25 will be challenging for the government, according to the Bangladesh Chamber of Industries (BCI).

"The government proposed an inflation target of 6.5 percent for FY25 and a GDP growth target of 6.75 percent. But achieving those targets will be challenging as the inflation rate has been hovering at over 9 percent for the last 14 months," said Anwar-Ul-Alam Chowdhury, president of the BCI, according to a press release.

Chowdhury added that the budget lacked the provisions to keep industries running during these challenging times, especially given that the number of unemployed has risen by almost 1.20 lakh since most factories are operating at 60-70 percent of their capacity due to inadequate supply of electricity and gas supplies.

Data from the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) indicate that the export situation is not favourable. At the same time, remittances are also decreasing.

Chowdhury urged the government to reconsider imposing a one percent duty on raw materials and capital machinery imports.

He also expressed concerns about the lack of initiatives taken to ensure the survival of micro, small and medium-sized enterprises (SMEs).

"Despite discussions about climate change and energy efficiency, the budget imposes taxation on locally manufactured bulbs, LED lights, air conditioners, and refrigerators. This move is expected to cause losses to the local industry and put pressure on consumers."

The proposed budget deficit stands at 4.6 percent of the GDP, with around Tk 160,900 crore expected to be financed from local sources.

As such, Chowdhury suggested the government should reduce expenses to decrease the deficit and borrow from foreign sources.

He warned that sourcing large amounts from local sources could eat away at private sector investment.

A customer inspects a fishing net at a makeshift stall during a weekly market in the Bagribazar area of Jhalakathi's Rajapur upazila recently. Locals purchase fishing nets, locally known as tona jal, to catch fish from canals and ponds during the rainy season. The nets, which are made of thin nylon fibre and bamboo twigs, are sold for Tk 300 to Tk 1,000 depending on size. PHOTO: TITU DAS

Corrective measures taken, but many elements missing

Experts say at BIDS seminar

STAR BUSINESS REPORT

Corrective measures were taken in the proposed budget to reduce inflation through demand management and encouraging supply response, said Binayak Sen, the director general at the Bangladesh Institute of Development Studies (BIDS).

He said the proposed budget is embedded in a conscious framework of policy-coordinated action across five dimensions -- a move towards a flexible exchange rate regime, removal of interest control, fiscal realism, enhancing supply response by boosting production, especially in agriculture and domestic industry via policy incentives, and preparing the country in the post-LDC context.

"But adjustments take time. It is not possible to reach a new equilibrium overnight."

He added that there were things missing from the budget such as private health insurance for all salaried workers, and smart family cards for urban industrial workers via the Trading Corporation of Bangladesh.

He also said extreme poverty had fallen. As a result, although inflation is close to double digits, there is no significant risk.

He was speaking at a discussion on the proposed national budget for fiscal year 2024-25 and the medium-term economic outlook of Bangladesh, held at the BIDS office in Dhaka.

In reply to a question about whether booming default loans were pushing inflation, the BIDS chief said there are two types of defaulters.

"One is the first-generation entrepreneur, who took loans, failed in the industry, and became a defaulter. The other group will take money, but will not repay it. They are willful defaulters. The two groups should be separated."

He added that as the government has cut expenditure for stabilisation, it should take steps to protect soft sectors.

"Agriculture, social protection, education and health should be protected. Bring down the physical infrastructure investment, cut unnecessary expenditure like buying cars,"

Sen further said that setting a fixed tax rate to legalise undisclosed wealth without scrutiny has violated tax equity and questioned the origin of the proposed 15 percent tax rate.

According to a proposed provision, no authority can raise any question if taxpayers, including companies, pay a 15 percent tax on cash, bank deposits, financial securities, or any other forms of previously undisclosed wealth.

This rate could be 15 percent for some, 10 percent for others, and 30 percent for others, depending on the specific circumstances, he said.

He added that various factors lead to some money remaining unaccounted for in legitimate processes. So, Sen was in support of the opportunity to legalise undisclosed wealth.

Mohammad Yunus, a research director at BIDS, said that very little allocation has been given to the agriculture sector compared to total national income.

If the agricultural sector falls into a crisis, food insecurity will increase, he said.

SM Zulfiqar Ali, another research director, said that despite the contractionary budget, the allocation for the education and health sectors increased.

However, what matters is how this allocation is used. In the past, allocations have shown that infrastructure spending is higher than improving service quality, he added.

Higher effective tax rate contributes to capital flight

Allege entrepreneurs

STAR BUSINESS REPORT

A higher effective tax rate is driving away potential investors from Bangladesh, and it may contribute to capital flight and discourage reinvestments, businesspeople and analysts warned yesterday.

Despite the cuts in corporate tax rates, the imposition of a minimum tax and withholding taxes, especially at import stage, has created a higher tax burden for taxpayers and investors, they said.

"We have been paying around 40 percent effective income tax for the last 15-20 years," said AKM Fahim Mashroor, a former president of the Bangladesh Association of Software and Information Services.

He made the observation at a post-budget discussion at The Westin Dhaka hotel in Gulshan. The Policy Exchange Bangladesh (PEB) and SMAC Advisory Services Limited, a consultancy firm, jointly organised the event.

Mashroor said it seems that only the compliant firms are forced to pay higher taxes. "On the other hand, a vested group can whiten black money by paying 15 percent tax."

The imposition of a minimum tax and withholding taxes has created a higher tax burden for taxpayers and investors

"This is unfair. Why will an investor invest in this country instead of resorting to capital flight?"

The entrepreneur warned that although the government reaps benefits in the short-term from the higher effective tax rate, it inspires capital flight in the long-run. However, he welcomed the exemption extended to the IT sector.

The tax exemption facility for the software and information technology-enabled services sector has been extended by three more years to 2027.

While moderating the event, M Masrur Reaz, chairman of the PEB, said the proposed budget has undertaken some good steps like a smaller development budget, which may contribute to taming inflation.

"But the budget has not paid heed to ensuring a conducive business environment," he said, calling for steps to accelerate trade competitiveness.

Snehasish Barua, director of SMAC Advisory, said the National Board of Revenue has brought some changes to the Finance Bill which will bring about a paradigm shift in tax collections.

He cited the introduction of the prospective tax, saying this will offer some predictability. A lack of predictability in the tax system had been standing in the way of attracting foreign direct investments, he added.

Fazlee Shamim Ehsan, vice-president of the Bangladesh Knitwear Manufacturers and Exporters Association, urged the government to bring NBR officials who try to harass to businessmen under accountability.

Former NBR members Md Farid Uddin, Alamgir Kabir and Zakia Sultana and Chittagong Stock Exchange President Asif Ibrahim also spoke.

India central bank holds rates as inflation risks linger

AFP, *Mumbai*

India's central bank kept interest rates unchanged for the eighth time in a row on Friday, as inflation risks continue to linger in the world's fifth-largest economy.

The Reserve Bank of India (RBI) said its benchmark repo rate, the level at which it lends to commercial banks, would remain steady at 6.50 percent.

Two major central banks have started bringing down interest rates, including the European Central Bank which on Thursday cut rates for the first time since 2019.

Inflation in India has cooled from its 2022 peak of 7.8 percent but still remains above the RBI's four percent target.

RBI governor Shaktikanta Das said the bank "remains vigilant to any upside risks" of inflation, particularly from food prices.

The decision comes days after Prime Minister Narendra Modi's Bharatiya Janata Party failed to secure an outright majority in the national elections, forcing it to depend on coalition partners to govern.

Experts believe that may force Modi's next administration to resort to populist spending to shore up its support base and mollify allies, which could stoke inflation.

India's economy grew at a robust

Govt's higher bank

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The rise in inflation must be curbed. If not, the pains and sufferings of common people will be increased."

Although a raft of steps has been taken to rein in inflation, such as by controlling the import of luxury and non-essential goods and reducing expenditure in unproductive and non-essential sectors, the government's austerity policy needs to be strengthened, the FBCCI president said.

"Taking into consideration the cost of living, inflation and the overall economic condition, we had requested to increase the tax-free income limit from Tk 350,000 to Tk 450,000. But the proposal was not taken into consideration. At present, considering inflation, we urge the government to reconsider the tax-free income limit."

He also urged the government to reconsider its proposal to abolish Advance Income Tax (AIT) and Advance Tax (AT) at the import level as such taxes are increasing business costs.

Alam said they proposed to reduce the tax deduction at source on all exports to 0.5 percent from 1 percent now, but it was not reflected in the budget.

He said the imposition of a one percent duty on capital machinery imported by firms in economic zones and hi-tech parks would discourage investors and send the wrong message to foreign investors.

Responding to a question about the FBCCI's stance on loan defaulters, Alam said they were not in favour of businessmen who default on loans.

The banks as well as the authorities concerned should follow up on the loan performance of borrowers, so they do not become defaulters, he said.

"We think banks should scrutinise the prospects of businesses thoroughly and understand their intention before granting loans," he added.

Other senior leaders of the FBCCI were also present at the press conference.

Power Grid gets

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The Sustainable and Renewable Energy Development Authority (SREDA) has been given Tk 11 crore.

Bangladesh Rural Electrification Board's (REB) irrigation with solar power project has seen allocation doubling to Tk 330 crore.

Most of the state-run enterprise's projects are related to distribution.

Companies under the power division also include Rural Power Companies of Bangladesh, and North-West Power Generation Company, which are executing some generation projects, including the Rupsha 800MW power plant.

Other distribution companies are executing projects either on pre-paid metre or upgradation.

Mohammad Hossain, director-general of the Power Cell, said the government has mainly prioritised transmission and distribution-linked projects in FY25.

"We have 100 percent people under our coverage. Now our priority is to provide a sustainable and reliable electricity supply. We want a smart grid network across the country."

About the reduction in the allocation, he said, "Owing to the volatile market situation globally, we sought a lower-than-usual budgetary allocation. However, we have got what we require."

The proposed increase of Tk 93 crore for the energy and mineral resources division in the budget is not enough for the explorations needed to discover domestic gas and other mineral resources, said experts.

Citing the volatile fuel market, they said the budget allocation predominantly focused on importing fuel to cover needs when sourcing primary energy like gas and coal from the domestic front was needed.

The allocation for the Ministry of Power, Energy and Mineral Resources declined 13 percent to Tk 30,317 crore in FY25.

Khondaker Golam Moazzem, research director at the Centre for Policy Dialogue, welcomed the government's focus on transmission and distribution instead of raising generation.

"Due to a lack of adequate transmission networks, there are many areas where disruption takes place in the supply system. It is common that power plants go into operation long after their construction due to a lack of infrastructure."

He also lauded the Tk 100 crore special allocation for renewable energy research and development activities.

The economist, however, added it was upsetting that the SREDA, which works to promote renewable energy, was given the lowest allocation. "It comes at a time when wind power installations should get attention."

"The government says it is focusing on renewables, but the budget allocation doesn't reflect it."

Moazzem added that there are organisations which receive funds for renewable research. "There should be an assessment to find out how these funds are spent."

Prof Mohammad Tamim, a former adviser to a caretaker government, said in the current context, it is clear that local gas exploration and extraction is more important than the import of high-cost LNG and other fuels. However, the allocation is miniscule for the energy division.

He added that as there is overcapacity in the power sector, there is no need to increase the budget for electricity generation.

"It is time to invest in the transmission system and the primary fuel supply chain. The government has prioritised the first one. However, the second one has been neglected."

Prof M Shamsul Alam, energy adviser of the Consumers Association of Bangladesh, said the huge gap in allocation between the two divisions reflects that the government is raising power generation capacity without securing the energy supply chain.

Why have loan defaults risen

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"From today, NPL will not increase," he added while announcing the policy.

Other than the relaxed rescheduling policy, the BB unveiled several policy measures over the years in favour of borrowers and other vested quarters who influenced the policymaking.

For example, the cheaper loans thanks to the 9 percent lending rate cap, the loan moratorium facility amid the Covid-19 pandemic, and the loan classification facility were major policy supports. However, rather than reining in NPLs, these measures seem to have only motivated defaulters.

The central bank in April 2020 introduced the 9 percent lending rate cap that remained until June 2023. Borrowers who took loans during that period have to pay more than 16 percent now in interests. This perhaps has motivated many to refrain from paying their instalments.

Besides, borrowers enjoyed a loan moratorium benefit amid the Covid-19 pandemic from 2020 to 2022. At the time, businesspeople did not have to repay bank loans. But when this facility was withdrawn, borrowers faced a sudden pressure to pay back and many eventually became defaulters.

For a long time, borrowers enjoyed easy repayment terms due to the loan classification facility. However, recently, the BB tightened the loan classification rules to be in line with the IMF prescription.

In April this year, the central bank tightened the definition of overdue term loans to conform to international best practices.

As per the new rules, banks have to treat a loan as overdue if a borrower does not make any instalment payment within three months after the due date while it was six months previously.

Additionally, irregularities, scams and weak corporate governance in the banking sector alongside the lack of proper monitoring by the BB are also responsible for the record levels of bad loans.

Most state enterprises turned a profit

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Humayun Kabir, the spokesperson of the TCB, said the enterprise is selling many essential commodities at prices that are around 50 percent lower than the market rates.

"So, we have no other option but to secure funds from the government in the form of subsidy."

Currently, the TCB is selling goods at subsidised rates among one crore families.

According to Kabir, since the price increased, the subsidy also went up. "If the price drops, the loss may narrow."

An official of the BSFIC said almost all the sugar mills under the corporation are 60 years to 70 years old and their economic lifespan ended many years ago. "Modernisation of the mills is needed."

On the other hand, the cost of sugar production is higher than the going rate of the sweetener. "Therefore, we are making losses," he said, adding that the government wants to keep the mills operational so that the private sector can't dictate prices.

Mirza Azizul Islam recommended ensuring accountability at the SOEs so that they can make profits while giving services to the people.