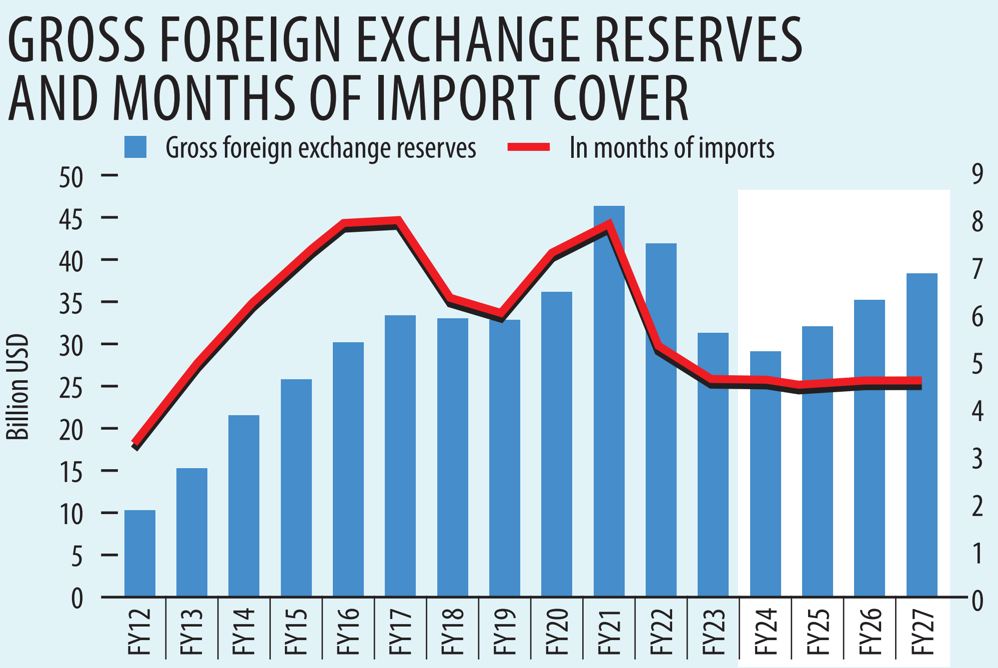
Star BUSINESS

Realtors believe the provision to whiten black money will be beneficial for both the real estate sector and the government

Story on B4

Govt to bank on crawling peg, global interest rate cuts to rebuild reserves



SOURCE: BB, FINANCE MINISTRY

CHALLENGES

- High inflation
- Low tax-GDP ratio
- Tight monetary policy
- High interest rates
- Non-performing loans
- LDC graduation
- Climate change-induced losses

REJAUL KARIM BYRON *and* **ASIFUR RAHMAN**

The crawling peg that has almost made the exchange rate market-oriented as well as the falling global interest rates will help Bangladesh rebuild its foreign currency reserves, the finance ministry said.

The high interest rates prevailing in the advanced economies is one of the major reasons for the dwindling reserves in Bangladesh, said the finance ministry in its medium-term macroeconomic policy statement.

The revised gross forex reserves target for the current fiscal year ending on June 30 was $29.1 billion. It stood at $24.23 billion on June 5, according to the traditional calculation of the Bangladesh Bank. To meet the goal, another $4.87 billion will have to be added to the reserves by this month.

The reserves amounted to $18.67 billion as per the International Monetary Fund's calculation, more than half of the $41 billion seen in August 2021.

The good news for Bangladesh is that central banks around the world are either cutting interest rates or have kept them on hold, a positive development for the countries that saw investors pulling their money out of Asian countries in late 2021, triggering currency depreciation in most of the economies.

On Thursday, the European Central Bank reduced interest rates, the first rate cut in nearly five years. On Wednesday, the Bank of Canada became the first G7 central bank to reduce borrowing costs in the past few years.

Central banks in Switzerland and Sweden have also decreased interest rates this year. The US Federal Reserve will cut its key interest rate in September and once more this year, reported Reuters on Wednesday, citing a poll.

"The interest rates around the world seem to have peaked, and it would come down in the medium-term, which will help rebuild the reserves in Bangladesh," the finance ministry said.

It is also aware that this high-interest rate regime in the advanced countries may continue for a while. Hence, it will be challenging to increase reserves in the coming months.

On May 8, the BB withdrew its traditional fixed exchange rate mechanism and introduced the crawling peg system for spot purchase and sale of US dollars. Under the arrangement, a crawling peg mid-rate has been set to Tk 117 per USD.

"It is expected that the introduction of the crawling peg exchange rate system will help stabilise the exchange rate in the near future. Hence, the reserves are also expected to grow in the following years," the finance ministry report said.

The report has identified seven challenges facing the economy, including higher inflation and classified loans in the banking sector.

The taka has depreciated against the US dollar since the middle of 2022, primarily due to falling reserves. This depreciation is, in turn, fuelling domestic inflation through increased costs of imports.

The taka against the dollar weakened by 7 percent during July-May of the current fiscal year against a 14.4 percent fall in the identical period of 2022-23. Overall, the taka has lost its value by 36 percent since the Russia-Ukraine war began in February 2022.

According to the report, classified loans and lack of financial discipline have become a concern recently.

"Restoring discipline and painful restructuring, such as mergers, may need to be completed for some banks. The process may be lengthy as well as difficult."

The top priority for the government in FY25 is to contain high inflation.

Last year, it was projected that inflation in Bangladesh would remain around 6 percent in FY24. However, inflation remained high mainly due to the pass-through effect of the sharp depreciation of the taka.

In May, inflation, a measure of the increase in the prices of a basket of commodities and services, edged up to 9.89 percent. The trend is likely to continue at least for some months, the report warned.

Although the developed countries have been more successful in reining in consumer prices through appropriate policy measures, developing countries like Bangladesh are still struggling in this regard, it said.

READ MORE ON B3

BB allows new entities to assess credit worthiness of borrowers

MD MEHEDI HASAN

The Bangladesh Bank (BB) decided to allow individuals and private-sector companies to form 'credit bureaus' to assess loan eligibility and verify the repayment capacity of borrowers.

These credit bureaus will work to determine credit standards by analysing borrower data before sharing it with banks, which will help financial institutions make informed decisions, said the central bank guidelines on the licensing, operating and regulating of credit bureaus.

The central bank issued the guidelines last Wednesday.

These bureaus will collect information from various sources, including the BB-maintained Credit Information Bureau (CIB), with the permission of the borrowers and share lenders' credit ratings with financial institutions, central bank officials said.

The guidelines said that the addition of credit bureaus would reduce information asymmetry about borrowers in the financial market.

It said making client information, which is often kept confidential, available to other lenders would increase competition in the credit market and benefit better credit applicants.

In time, credit bureaus will also help to reduce default rates and average interest rates, facilitated by increased credit information which will lead to increased quality of lending.

Industry insiders said that this is a good initiative but the central bank will have to be very careful about any vested quarter forming a bureau to serve their purpose.

The central bank should have done more due diligence before publishing the guidelines, they added.

Syed Mahbubur Rahman, managing director of Mutual Trust Bank, told The Daily Star that credit bureaus exist virtually all over the world.

They will make banks' work easier, he added.

Rahman, also a former chairman of the Association of Bankers Bangladesh, said that credit bureaus would help banks assess borrowers' eligibility for loans.

However, he cautioned that the BB would have to be very careful in issuing licences for credit bureaus.

ESTABLISHMENT OF CREDIT BUREAU

A company seeking to operate a credit bureau in Bangladesh will have to apply to the central bank. However, an individual or a company shall not operate a credit bureau in Bangladesh unless licensed by BB.

The proposed company must be a limited company. Investment from an individual or business entity incorporated outside of Bangladesh is also allowed, read the guidelines.

The minimum paid-up capital of a credit bureau will be Tk 10 crore.

The central bank guidelines said that the number of directors will not exceed 11. It also stipulated that at least two directors must have 10 years of experience in the banking industry. It added that at least two more directors must have experience and academic background in technology-related businesses.

CONDITIONS
for setting up credit bureaus

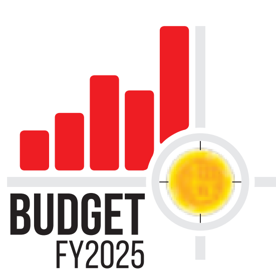
- Minimum paid-up capital should be Tk 10cr to form a credit bureau
- Maximum number of directors will be eleven
- Two directors must have banking experience of 10 years
- Interested individuals or companies will have to apply to BB for licence

A shareholder that owns more than two percent of the total shares of a credit bureau will be eligible to become a director, it said, adding that no individual could be a director at more than one credit bureau at any point in time.

The central bank said that a licensed credit bureau would be allowed to collect relevant information for permissible purposes only on the credit history relating to the commitment of the data subject, in order to determine their overall debt exposure, repayment behaviour and other contractual obligations.

NBR tightens ambulance import rules

MOHAMMAD SUMAN



The National Board of Revenue (NBR) has tightened rules on the import of microbuses used as ambulances since a section of people have been found to have misused the facility.

To prevent misuse, it was decided that the minimum length of a vehicle's passenger cabin must be at least nine feet to be eligible as an ambulance. Currently, mostly Toyota Noah and Toyota HiAce models are imported as ambulances.

However, as per the new rules, Noah can no longer be imported as an ambulance from the current fiscal year as its passenger cabin does not meet the length requirement, according to an NBR official.

The decision was announced last Thursday when Finance Minister Abul Hassan Mahmood Ali unveiled a Tk 7.97 lakh crore budget for 2024-25.

Importers get an average of up to Tk 12 lakh in duty exemptions when importing microbuses for use as ambulances, according to NBR officials.

Some importers were using the facility to import microbuses and registered them as ambulances with the Bangladesh Road Transport Authority, but the vehicles were not used for that purpose. This prompted the NBR to toughen the rules, they said.

About 6,570 microbuses have been imported as ambulances since 2019-20, customs data from Chattogram and Mongla ports showed. The government provided duty exemptions of about Tk 820 crore to the sector during the period.

According to a report from the NBR's Central Intelligence Cell in January, these vehicles are used by

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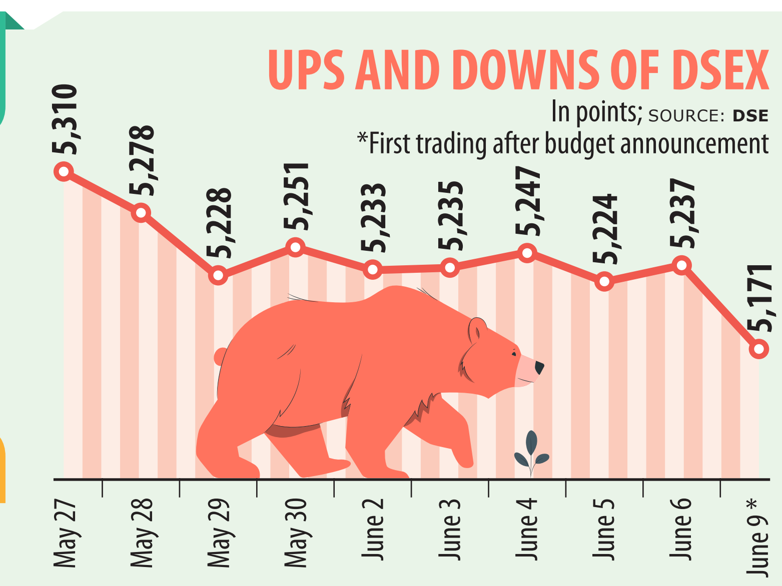
DSE welcomes budget but investors don't

Budget measures that hurt general investors

- Govt reintroduced at least **15**% capital gains tax if income crosses Tk **50** lakh
- Raised capital gains tax to **10**% for sponsors and directors
- Reduced gap of corporate tax for listed and non-listed firms in some cases

Investors appreciate…

- Govt allowed investment of black money in stock market



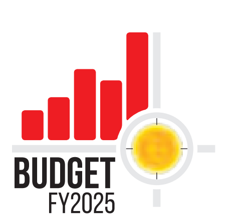
AHSAN HABIB

The Dhaka Stock Exchange (DSE) welcomed the proposed national budget for fiscal 2024-25 even though certain measures could further deteriorate investor confidence as the market has been facing a bear-run for the past four months.

For example, the National Board of Revenue (NBR) has proposed reintroducing a tax measure for large investors and reducing the corporate tax gap between listed and non-listed companies in some cases.

The one positive for investors is that the government included a provision that would allow the use of undisclosed income for purchasing stocks by paying 15 percent tax.

However, the move could have little effect on revitalising the market in the past as it was seen that black money holders do not prefer parking funds in stocks when the amnesty was in place.



This is because the stock market is a riskier investment compared to bank deposits or real estate, according to experts.

Still, the country's premier bourse issued a press release on June 7 welcoming the budget, saying that it would guide the economy towards enhanced development and productivity.

However, the DSE did not mention anything about the government's decision to reinstate capital gains tax of at least 15 percent on investors' income of more than Tk 50 lakh.

After the measure was announced, most market analysts urged the government not to impose it for now as they fear it will hurt the market further amid the ongoing bear-run.

Yesterday, the first trading day since the proposed budget was unveiled last Thursday, the DSE's benchmark index DSEX plunged by 1.25 percent to a 38-month low of 5,171 points.

Similarly, the DSES, an index that represents Shariah-compliant companies, dropped by 1.4 percent to 1,120 points while the DS30, comprising blue-chip stocks, declined by 1.21 percent to 1,835 points.

A top official of a stock brokerage said the capital gains tax will impact large investors.

So, these investors are now shaky about keeping their funds in the market, which is already risky to invest in. And although small investors will not be impacted by the capital gain tax, the selling pressure from large investors may affect them, the official added.

"We are not against the capital gain tax, but this is not the right time as it will spread a negative sentiment among investors while the market has been suffering for the last four years," said Md Saiful Islam, president of the DSE Brokers Association of Bangladesh.

The situation has only intensified in recent months as major market indices have been falling continuously. So, the move may fuel the negative sentiment among investors, he added.

The benchmark index of the DSE

READ MORE ON B3

Japan consumer spending rises

REUTERS, *Tokyo*

Japanese household spending rose for the first time in 14 months in April from the year earlier, data showed on Friday, although the tepid growth showed consumers remained reluctant to loosen their purse-strings in the face of higher prices.

Consumer spending rose 0.5 percent in April from a year earlier, data from the internal affairs ministry showed. That was slightly below the median market forecast for a 0.6 percent uptick.

On a seasonally adjusted, month-on-month basis, spending fell 1.2 percent, versus an estimated 0.2 percent rise.

"Personal consumption, which has been stagnant for a long time, continues to be weak," said Masato Koike, economist at Sompo Institute Plus. "High prices are weighing on household consumption."

Sluggish private consumption is a source of concern for policymakers striving to achieve sustained economic growth underpinned by solid wages and durable inflation, which are prerequisites for normalising monetary policy.

While spending on education and clothing and footwear increased in April, expenditures in food, entertainment and utilities decreased, the government data showed.

The consumption data comes a day after a Bank of Japan board member Toyoaki Nakamura, one of the more dovish members, said domestic consumption has been sluggish recently, expressing concern that inflation may fall short of the central bank's 2 percent target from fiscal 2025 onwards if such conditions persist.

Walton launches self-made 'AI Doctor' feature for smart fridges

Mohammad Rayhan, managing director of Walton Plaza, and Nazrul Islam Sarker and Eva Rizwana Nilu, additional managing directors of Walton Hi-Tech Industries, inaugurate its "AI Doctor" feature for smart fridges at the company's corporate office in Dhaka yesterday. The feature was invented by the team at the Walton Research and Innovation Centre. PHOTO: WALTON

STAR BUSINESS DESK

Walton yesterday launched an artificial intelligence based "AI Doctor", invented by the team at the Walton Research and Innovation (R&I) Centre.

Mohammad Rayhan, managing director of Walton Plaza, and Nazrul Islam Sarker and Eva Rizwana Nilu, additional managing directors of Walton Hi-Tech Industries, inaugurated the feature at the company's corporate office in Dhaka.

This artificial intelligence system can automatically analyse the performance of a 'Walton Smart' fridge, according to a press release.

From the performance data, it can tell what kind of problem is occurring and also predict probable component failure.

If it sees no improvement, the 'AI Doctor' will send a notification to the nearest service centre with the customer's contact information.

Speaking at the function, Tahasinul Haque, chief business officer of Walton Fridge, said: "With their tireless efforts, Walton has been able to introduce its own 'AI Doctor' feature in smart refrigerators."

"Customers of Walton Smart Fridges will now get faster after-sales service without asking for services. By introducing the 'AI Doctor' feature, Walton reached new heights in manufacturing smart fridges with innovative features," he added.

Highlighting the details of the 'AI Doctor', Azmal Ferdous Bappi, head of Walton Fridge R&I Centre, said: "AI Doctor is an invention of the Walton R&I team. Engineers of our R&I team have worked for almost two years to develop this artificial intelligence feature."

Md Yousuf Ali, deputy managing director of Walton Hi-Tech Industries, Didarul Alam Khan, chief marketing officer, Anisur Rahman Mollick, deputy chief business officer, and Abdul Malek Sikder, deputy head of Walton Fridge R&I Centre were among those present.

Russia holds rates steady despite high inflation

AFP, *Moscow*

Russia's central bank held interest rates unchanged on Friday, despite inflation running well ahead of government plans and repeated warnings that a surge in military spending is overheating the economy.

The bank kept its key rate at 16 percent, it said in a statement, but signalled it could hike borrowing costs in the future if the pace of price rises does not slow down.

Inflation is currently running at 8.2 percent on an annual basis -- more than double the central bank's four percent target.

"Returning inflation to the target will require a significantly longer period of maintaining tight monetary conditions in the economy," it said.

It added that it "holds open the prospect of increasing the key rate" at a future meeting.

Speaking earlier this week, Central Bank governor Elvira Nabiullina said she remained committed to bringing inflation down to four percent.

But the bank removed an inflation forecast for 2024 from its statement on Friday and said price rises would only hit that level next year.

Russia's economy has grown strongly after recovering from the initial shock of sanctions and the immediate fallout of launching its full-scale military offensive on Ukraine in February 2022.

Surging military spending has supported the economy, but triggered critical labour shortages in many sectors.

Hundreds of thousands of young men have been called up to fight, fled the country, or recruited by a booming arms industry.

"Labour shortages come as the key constraint on the expansion of output of goods and services. Labour market tightness continues to grow," the central bank said Friday.

The head of Russia's largest lender warned Friday that despite high headline growth rates -- 5.4 percent on an annualised basis in the first quarter -- Russia's economic model was "fragile."

German Gref, the CEO of state-run Sberbank, said Russia's economic growth was based on rising government expenditures that have pushed wages higher and fuelled consumer spending.

"But this model is very fragile," he said Friday at the Saint Petersburg International Economic Forum (SPIEF).

Md Nazeem A Choudhury, deputy managing director of Prime Bank, and Vinay Kaul, chief marketing officer of Evercare Hospital Dhaka, pose for photographs after signing an agreement at the bank's corporate office in the capital's Gulshan recently. PHOTO: PRIME BANK

Prime Bank, Evercare Hospital sign deal on healthcare services

STAR BUSINESS DESK

Prime Bank recently signed an agreement with Evercare Hospital Dhaka.

Md Nazeem A Choudhury, deputy managing director of the bank, and Vinay Kaul, chief marketing officer of the hospital, penned the deal at the bank's corporate office in the capital's Gulshan, according to a press release.

Under the agreement, the hospital will provide special healthcare packages to priority banking customers of Prime Bank.

Tamanna Quadry, head of priority banking of the bank, and AM Abul Kashem Rony, head of corporate marketing of the hospital, along with other senior officials from both organisations were also present.

PRICES OF KEY ESSENTIALS IN DHAKA CITY

	PRICE (JUNE 8, 2024)	% CHANGES FROM A MONTH AGO	% CHANGE FROM A YEAR AGO
Fine rice (kg)	Tk 60-Tk 78	-1.43 ↓	2.22 ↑
Coarse rice (kg)	Tk 50-Tk 54	0	6.12 ↑
Loose flour (kg)	Tk 40-Tk 45	6.25 ↑	-20.56 ↓
Lentil (kg)	Tk 105-Tk 110	0	13.16 ↑
Soybean (litre)	Tk 145-Tk 150	-1.67 ↓	-18.06 ↓
Potato (kg)	Tk 55-Tk 60	13.86 ↑	51.32 ↑
Onion (kg)	Tk 80-Tk 90	21.43 ↑	17.24 ↑
Egg (4 pcs)	Tk 50-Tk 52	10.87 ↑	9.68 ↑

SOURCE: TCB

Premier Bank holds workshop in Sirajganj on prevention of money laundering

STAR BUSINESS DESK

Premier Bank recently organised a daylong workshop on "Prevention of Money Laundering and Combating the Financing of Terrorism" under the guidelines of the Bangladesh Financial Intelligence Unit (BFIU) for officials of commercial banks operating in Sirajganj district.

Imtiaz Ahmad Masum, director of BFIU, attended the programme as chief guest, the bank said in a press release.

A total of 84 officers from multiple banks located in Sirajganj participated in the workshop.

Among others, Md Moktar Hossain, additional director of BFIU, was also present at the event.

Imtiaz Ahmad Masum, director of Bangladesh Financial Intelligence Unit, poses for photographs with participants of a workshop on "Prevention of Money Laundering and Combating the Financing of Terrorism" for officials of commercial banks operating in Sirajganj district recently. PHOTO: PREMIER BANK

PHOTO: NCC BANK

M Shamsul Arefin, managing director and CEO of NCC Bank, greets Khaled A Ibrahim, head of TeleMoney Remittance Services of the ANB, with a souvenir after holding a meeting at the former's head office in Dhaka recently.

NCC Bank, Arab National Bank hold bilateral development meeting on remittance

STAR BUSINESS DESK

NCC Bank and Arab National Bank (ANB) recently held a bilateral development meeting on remittance.

Khaled A Ibrahim, head of TeleMoney Remittance Services of the ANB, and M Shamsul Arefin, managing director and CEO of NCC Bank, led the delegations at the bilateral meeting held at the latter's head office in Dhaka, the bank said in a press release.

During the meeting, both parties agreed to ensure safe distribution of money remitted by expatriates through NCC Bank's network across the country and mobile remittance services.

Md Mahbub Alam, deputy managing director, Md Rashidul Hasan, head of treasury (front office), and Md Foraduzzaman, head of remittance and NRB services department, also attended the meeting.

Midland Bank, Mana Bay Water Park strike MoU

STAR BUSINESS DESK

Midland Bank recently signed a memorandum of understanding (MoU) with Mana Bay Water Park, one of the most exciting water parks at Gazaria in Munshiganj.

Salim Khan Surattee, assistant vice-president of the water park, and Md Rashed Akter, head of retail distribution division of the bank, penned the MoU at the bank's head office in Dhaka, the bank said in a press release.

All the Visa debit, credit and prepaid cardholders will enjoy "Buy 3, Get 1" free tickets from the water park, which will include access to all rides under the terms of this deal.

Mana Bay offers the ultimate aquatic adventure with thrilling water slides, serene lazy rivers and a tropical oasis for all ages.

Md Rashadul Anwar, head of policy research department of the bank, Sazal Ahmed, merchant relationship officer, and Arifa Afroz, senior manager for marketing of the water park, along with other officials from both organisations were also present.

Md Rashed Akter, head of retail distribution division of Midland Bank, and Salim Khan Surattee, assistant vice-president of Mana Bay Water Park, pose for photographs after signing a memorandum of understanding at the bank's head office in Dhaka recently. PHOTO: MIDLAND BANK

PHOTO: HABIBUR RAHMAN

Abdul Hamid and Alamin Kazi collect larvae of Harina shrimps after netting them during low tide on the Shoilmari river in Khulna's Batiaghata upazila. Together they can catch two bucketfuls of the larvae in a day, with shrimp farmers paying anywhere from Tk 1,200 to Tk 1,500 for each bucket. *Inset*, a juvenile Harina shrimp. The photos were taken at Shoilmari village recently.

Don't impose tax on web hosting, cloud service companies

ICT trade bodies urge govt

STAR BUSINESS REPORT

Trade bodies of the ICT industry in Bangladesh have urged the government to keep web hosting and cloud service companies tax-free to enhance data protection and localisation.

Currently, only 10 percent of the country's cloud service and web hosting market, estimated to be worth $20 million, is held by local entrepreneurs.

So bringing these service providers under taxation could discourage their development, said Russell T Ahmed, president of the Bangladesh Association of Software and Information Services (BASIS).

The demand comes as the government has proposed three-year tax exemptions for 19 ICT businesses on the grounds that they implement cashless transactions to promote the digital economy.

However, services such as web hosting and cloud services were removed from the exemption list while others were added in some proposed measures of the national budget for fiscal 2024-25.

Against this backdrop, Ahmed emphasised the need to keep web hosting and cloud services providers tax-free to sustain the growth of related local ICT companies.

He also called for the government to reconsider imposing a 1 percent duty on imports of capital equipment for investors of high-tech parks and urged to maintain the current duty-free status.

He was speaking at a post-budget press conference organised by four ICT trade bodies at the BASIS Auditorium in Dhaka yesterday.

The organisations are BASIS, Bangladesh Association of Contact Center and Outsourcing (BACCO), Internet Service Provider Association of Bangladesh (ISPAB) and E-Commerce Association of Bangladesh (E-CAB).

The BASIS president thanked Prime Minister Sheikh Hasina for extending tax exemptions for the ICT sector by three years.

Syeda Ambareen Reza, vice president of E-CAB, said the existing VAT in the logistics sector needs to be withdrawn to expand e-commerce and smart logistics services.

"This tax exemption will not only contribute to the development of the ICT sector, but also play a crucial role in building a Smart Bangladesh, impacting various fields such as education, healthcare, agriculture, banking and export-oriented manufacturing," she added.

BACCO President Wahid Sharif highlighted the tax exemption's positive impact on various export-oriented industries, education, healthcare, and banking, which would lead to job creation and substantial foreign currency earnings, thereby boosting the economy.

He said the proposal to increase supplementary duty on mobile SIM card usage by 5 percent would raise the cost of mobile internet services. He stressed that expanding mobile internet and rural internet services is crucial for achieving Smart Bangladesh.

ISPAB President Md Emdadul Hoque said despite directives from the prime minister, broadband internet services providers have not gotten any tax exemptions.

On top of that, a 10 percent advance income tax on broadband internet service providers and 37 percent VAT on optical network units and optical line terminal equipment pose significant challenges for internet service providers, he added.

No initiative in budget to stop gold smuggling: Bajus

STAR BUSINESS REPORT

No effective initiative has been taken in the proposed national budget for fiscal year (FY) 2024-25 to stop gold smuggling, the country's jewellery makers and sellers said yesterday.

The government should amend the baggage rule to stop illegal entry of gold and silver bars to the country, said leaders of the Bangladesh Jewellers' Association (Bajus).

The smugglers are taking advantage of the baggage rule and bringing in gold bars, because of which money is being laundered and the local businesses are getting affected, they said.

Although the National Board of Revenue (NBR) has repeatedly assured the jewellery makers to take into account their problems and demands in the pre-budget meetings, there is no reflection of it in the proposed budget, said Anwar Hossain, chairman of Bajus standing committee on tariff and taxation.

Those who import gold bars and coins through legal channels will feel encouraged to make and export gold ornaments. But, the burden of unequal duty rates has been imposed on the import of raw materials and machinery due to the indifference of the government departments concerned, he added.

The jewellery makers shared their observation on the proposed national budget for FY25 at a media briefing at the Bajus office in Dhaka yesterday.

The jewellery industry in Bangladesh has apparently remained largely dependent on unauthorised channels for sourcing gold although there is no direct government bar on importing the precious metal.

Industry insiders said the high tax imposed on legally imported gold is the main reason for the companies to feel more comfortable to source the precious metal from unauthorised channels.

New office hour for bankers after Eid

STAR BUSINESS REPORT

Banks in Bangladesh will remain open from 10am to 6pm and the transaction hour will end at 4pm after the Eid holidays.

The new office hours for bankers will come into effect on June 19, Bangladesh Bank said in a notice yesterday.

At present, banks remain open from 10am to 5pm while the transaction hour ends at 3:30pm.

The office schedule of banks was 10am to 6pm previously, but it was changed in 2022 as part of the government's efforts to save power and energy.

Singapore, five other Asean economies see stronger investments

ANN/THE STRAITS TIMES

Singapore and five other Asean countries have received most of the investment flows as companies diversify their supply chains and adopt a China-plus-one strategy, economists said.

Foreign direct investment (FDI) inflows into the Asean economies of Indonesia, Malaysia, the Philippines, Thailand, Singapore and Vietnam have been gaining traction, although there are some differences across sectors and countries, they added.

Inflows into the region rose to US$236 billion (S$318 billion) last year, compared with the annual average of US$190 billion from 2020 and 2022.

The major contributors were the United States, Japan, Europe as well as mainland China and Hong Kong, attracted by the region's strong domestic reforms, which have led to improving macroeconomic fundamentals.

Many firms have diversified their operations away from China, following the Covid-19 pandemic and amid rising geopolitical tensions between Beijing and Washington.

According to the American Chamber of Commerce in Shanghai, 40 per cent of those surveyed last year had redirected investment or planned to redirect investment originally meant for China.

For these companies, South-east Asia was the most preferred destination, with technology hardware, software and services companies looking at Singapore. The US was the second-most preferred destination, followed by Mexico, the survey showed.

In its latest report on Asean penned by its economists Lavanya Venkateswaran, Ahmad Enver and Jonathan Ng, OCBC Bank said Singapore received the bulk of the inflows, followed by Indonesia, Vietnam, the Philippines, Malaysia and Thailand.

Most investments into the region went into manufacturing, financial and insurance, transportation, construction and wholesale sectors.

FDI inflows from China into the region, which tumbled during the pandemic in 2020, have since rebounded, but the nature of its investments into Asean has shifted from infrastructure to electronics, resources and food industries.

The manufacturing, wholesale and retail trade, finance and insurance, real estate and professional services sectors have seen higher FDI inflows from China too.

China has become one of the top contributors to FDI inflows in Indonesia, surpassing the US and Japan. Indonesia accounts for almost a third of China's investment in Asean in 2022. Most of its investments are parked in the manufacturing sector, OCBC economists said.

In contrast, the Philippines has not benefited as much from Chinese investments. This is not surprising, given geopolitical tensions between the two countries have worsened in recent years, they said.

Singapore continues to be the largest recipient of FDI from China, reflecting the Republic's status as a financial hub with strong synergies in the manufacturing, real estate and services sectors.

Dollar rebounds

REUTERS, *New York*

The US dollar rebounded on Friday after data showed the world's largest economy created a lot more jobs than expected last month, suggesting that the Federal Reserve could take time in starting its easing cycle this year.

The dollar index , which tracks the currency's value against six major peers led by the euro, rose 0.8 percent to 104.91, its best daily gain since April 10.

For the week, the index was on track for a 0.2 percent gain, with the strong jobs number offsetting a run of weaker macro data that had earlier prompted investors to put two quarter-point Fed rate cuts back on the table in 2024.

US nonfarm payrolls expanded by 272,000 jobs last month, data showed, while revisions showed 15,000 fewer jobs created in March and April combined than previously reported. Economists polled by Reuters had forecast payrolls advancing by 185,000.

Average hourly earnings rose 0.4 percent after having slowed to a 0.2 percent rate in April. Wages increased 4.1 percent in the 12 months through May following an upwardly revised 4 percent annual rise the prior month.

The unemployment rate, however, edged up to 4 percent from 3.9 percent in April, breaching a level that had previously held for 27 straight months.

"The markets and the Fed bow down to the holy grail of one number, and it is the payrolls report. Of course, it is not just about that headline print but also the higher-than-expected wage number," said David Rosenberg, founder and president of Rosenberg Research in Montreal.

"But as they say — 'it is what it is.' And because we know what the Fed is laser-focused on, and how the Fed is so omnipresent when it comes to market activity in stocks and bonds, consider this to be a bearish report because it simply will embolden the hawks on the FOMC (Federal Open Market Committee)."

Govt to bank on crawling peg, global interest rate

FROM PAGE B1

In order to contain inflation, the government is increasingly tightening monetary and fiscal policy stances and providing necessary support to boost domestic agricultural and industrial production to keep supply stable.

"These factors are expected to ease the current inflationary pressure in FY25 and bring inflation down to 5.5 percent by FY27," the report said.

However, the contractionary monetary and fiscal policies could hurt the economy.

"The tight monetary and fiscal policy stance is making the business environment difficult. If inflation does not come down in the next few months, the high-interest rate prevailing in the market may have adverse impacts on the GDP," the report said.

It said Bangladesh's graduation from the group of the least-developed countries in 2026 will gradually diminish certain benefits, necessitating emphasis on export diversification, increasing productive capacity, and improving the business environment.

It also talked about the tax-GDP ratio, which is lower than in comparable countries.

"This indicates that there is substantial room for reforms and new initiatives in the tax collection system. Designing those reforms may be challenging."

The report projects agricultural and industrial production will remain strong in FY25, and it will contribute to the growth of the economy.

"Growth in advanced countries will remain stable in the medium-term, and it will contribute to the growth of export items from Bangladesh."

DSE welcomes budget but investors don't

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dropped by more than 17 percent, or 1,000 points, over the past three months, DSE data showed.

But even if the tax is reinstated, the tax-free limit on capital gains should be at least Tk 1 crore.

Besides, the NBR needs to clarify whether it will allow investors to adjust previous capital losses with their capital gains when calculating the tax due, Islam said.

He also expressed disappointment with the DSE for not playing a proper role in supporting the market.

"Since independent directors are running the stock exchange, the DSE is not playing its role properly in favour of stock investors and brokerage houses," Islam said.

"In most cases, the DSE does not talk in favour of investors when it should. Rather, it remains silent and tries to please the government," he added.

Against this backdrop, Islam urged the DSE to act for the interest of investors as their funds have been being squeezed for months on end.

Prof Hafiz Md Hasan Babu, chairman of the DSE, did not respond to phone calls or text messages for a comment on the issue by the time this report was filed.

Turnover, an indicator of the volume of shares traded, nosedived by 34 percent to Tk 357 crore yesterday as the market saw a scarcity of buyers.

Among the stocks traded, 33 advanced, 340 declined and 19 remained unchanged.

The decline of Square Pharmaceuticals dragged down the DSEX the most, with the company's reduced share value draining six points alone. Meanwhile, Beximco Pharmaceuticals followed suit with its shares claiming four points, according to LankaBangla Securities.

Preferring anonymity, a top official of the DSE said although the imposition of capital gains tax will not impact general investors, they are panicked by the move for fears that large investors will shift their funds to the money market instead.

As the yield rate of treasury bonds is above 12 percent and may rise further, large investors have less incentive to keep funds in the equity market, which is full of risks of fund erosion.

So, the capital gains tax will further disincentivise them from keeping fund in the stock market.

Pointing to how this fear is logical, the official said the market has been falling for the past few months due to huge selling pressure from foreign investors.

"Now if large investors come to the queue, then the stock market indices will be hammered massively," the official added.

NBR tightens ambulance

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various organisations and institutions to serve personal purposes despite being imported as ambulances.

Especially, small-sized microbuses, mainly Noah, imported as ambulances are largely misused, it said.

The report recommended three measures to end the misuse of ambulance import facilities, including fixing the minimum length of the passenger compartment.

Another recommendation was to check whether the vehicles were already being used as ambulances in their manufacturing country and whether required alarms and lights were permanently attached.

If ambulances are imported following the amended rules, the misuse will come down, officials say.

Provision on black money to benefit realtors and govt

REHAB says

STAR BUSINESS REPORT

Realtors believe the provision in the proposed budget to whiten black money will be beneficial for both the real estate sector and the government.

As per the proposed budget for fiscal year 2024-25, the government will allow both individuals and companies to legalise money without facing scrutiny by paying a 15 percent tax.

"We welcome the opportunity to legalise untaxed money as realistic and time-befitting as the government will get revenue while realtors will get business," said Md Wahiduzzaman, president of the Real Estate and Housing Association of Bangladesh (REHAB).

He was speaking during a post-budget media briefing at the auditorium of the Centre on Integrated Rural Development for Asia and the Pacific.

"In FY21, the provision to whiten black money led to Tk 20,600 crore being injected into the economy. The government also earned revenue of over Tk 2,000 crore," said Wahiduzzaman.

However, REHAB could not provide an estimate of how much business it would get from the legalised money.

He added that the government should prioritise opinions and suggestions from prominent economists and relevant stakeholders for economic development.

Wahiduzzaman claimed that if productive sectors such as real estate remain active and dynamic, then it will be possible to achieve the budget's growth projection.

In addition, the construction sector's contribution to economic growth through employment and linkage industry expansion is very important for the government's revenue earnings.

"Alongside providing homes, the real estate sector also provides a livelihood to the two crore people who are dependent on the 40 lakh workers of the sector."

"We welcome the opportunity to legalise untaxed money as realistic and time-befitting as the government will get revenue while realtors will get business," said Md Wahiduzzaman, president of REHAB

He demanded that the Bangladesh Bank provide home loans to middle-class buyers at a single-digit interest rate alongside the introduction of a secondary market and taking effective measures to reduce the cost of construction materials.

"Rods, cement, bricks and other construction materials are very expensive now although some raw materials prices have decreased worldwide."

He added that the budget did not address the rising prices of construction materials, registration fees and housing loans for low and middle-class citizens.

Policy support in these areas is needed to boost the housing sector as its contribution to GDP is significant.

He said many people who cannot afford to buy a new house tend to opt to buy used flats.

But the registration cost for them is the same as the new flats. As a result, many cannot become flat-owners, which lead to a lack of dynamism in the secondary market.

Wahiduzzaman believes that if a four percent registration fee is introduced for used flats that are at least five years old, then people from lower income brackets would get the opportunity to purchase flats.

He also alleged that the option to create a secondary market was not included in the proposed budget and sought for it to be kept in the final budget.

FY2025 national budget: business as usual

SADIQ AHMED

The much-anticipated national budget for FY2025 was formally announced on June 6. Every year the budget draws considerable attention because it deals with people's money. But this year the budget received additional scrutiny because of the ongoing severe macroeconomic imbalances that have persisted for more than 24 months.

Optimistically, people were expecting some extra-ordinary budgetary acumen that would not only help stabilise the macroeconomy but also assist in arresting the downward slide of GDP growth, exports and the investment rate.

The new budget has several nice features including more realistic revenue projections, removal of several tax exemptions, alignment of several VAT rates to the standard 15 percent rate, and digitisation of the VAT system to improve efficiency. These are welcome steps and will likely help increase the tax-to-GDP ratio.

Yet, a review of the main features of the FY2025 budget suggests that it would not only likely miss the stabilisation target, but it will also not be very effective in spurring GDP growth or supporting the equity agenda.

Stabilisation challenge for fiscal policy

Near double digit inflation, shortage of foreign reserves, and import controls have prevailed for almost two years. Severe import controls have hurt the growth of exports, manufacturing sector value-added and GDP growth. The situation called for a coordinated use of monetary policy, exchange rate and fiscal policy to control inflation through monetary and fiscal tightening and use exchange rate flexibility to boost exports by offsetting the adverse effects of the large appreciation of the real exchange rate during 2011-2022.

After nearly two years of delay, on May 8, the government finally eliminated interest rate controls by moving to a market-based interest rate. It also unified the exchange rate and adopted a crawling peg system as a step toward instituting a flexible market-based exchange system.

The next logical step would have been to align fiscal policy to support these reforms. The adjustment challenge for fiscal policy was to reduce fiscal deficit to around 3 percent of GDP to restrict budget borrowing from the banking sector to around 1 percent of GDP. Detailed calculations show that this level of government bank borrowing would avoid a crowding out of private credit while remaining consistent with the inflation control target of monetary policy.

As against this, the FY2025 budget sets a fiscal deficit target of 4.6 percent of GDP that requires bank borrowing of 2.5 percent of GDP. This level of bank borrowing will exert substantial pressure on the interest rate, crowd out private credit and force an expansion in domestic credit, thereby jeopardising the monetary policy focus on inflation control and exchange rate stability.

Budget's impact on GDP

The two main fiscal channels for influencing GDP growth are through the incentives for private investment and exports based on taxes and subsidies, and through public development spending, especially on transport, energy, power, agriculture, water and human capital.

On the incentive front, some tweaking of VAT and trade tax rates are proposed, whose aggregate impact on investment, exports and GDP growth is hard to evaluate. But, importantly, the budget misses out on the key reform of trade taxes that is essential to eliminate the anti-export bias of trade policy and push export diversification. This is a serious policy gap at a time when the export growth has plunged to only 2 percent in the first 11 months of FY2025.

Regarding development spending, the budget makes a brave effort to push ADP spending by 27 percent over the estimated spending of Tk 222,100 crore in FY2024. Given the past track record of revenue and implementation shortfalls, it is most likely that actual ADP spending will grow much less (around 8-10 percent). Even so, the GDP growth effects would depend upon sound sectoral allocations.

The ADP seeks to emphasise transport and energy as in the past, allocating 40.2 percent of the ADP to these two sectors. Yet, ADP spending on water, agriculture and health will remain subdued. Without addressing adequately, the supply side constraint of primary energy (gas, oil, coal, renewable energy) owing to foreign exchange shortage, the growth impact of additional power investment will be minimal. There is already substantial unused power capacity. In transport, the long-gestation lag in completion of mega projects will likely limit the short-term effects on GDP growth.

Refocusing ADP spending to the implementation of the Bangladesh Delta Plan (e.g. on flood control, irrigation, riverbank erosion, salinity and waterlogging) and skills development probably would yield better shorter-term results by limiting the adverse effects of climate change on agriculture and filling the skills gap in the manufacturing sector. As in the past several years, the inadequate attention of the budget to the implementation of the Bangladesh Delta Plan is a serious policy gap.

Budget and equity

Perhaps the biggest disappointment is the inability of the budget to address the equity issue by instituting a redistributive fiscal policy. This was a major policy objective of the Eighth Five-Year Plan but has remained unimplemented.

Although in paper the personal income tax system is progressive, there is very little reliance on personal income taxes. This budget is no exception. As in previous years, 65 percent of revenues are targeted to come from indirect taxes, which are generally regressive in nature especially when combined with the inflation tax.

On the spending side, the FY2025 budget proposes a mere 3.2 percent of GDP for social sectors: spending on health (0.7 percent of GDP), education and training (1.7 percent of GDP) and social protection, excluding civil service pensions (0.8 percent of GDP).

These levels of spending are basically unchanged from the previous two years. At a time when inflation is badly hurting the poor, the FY2025 budget ought to have shown much greater sensitivity and scaled up spending on social sectors while cutting subsidies and lowering spending in other areas.

The author is vice-chairman of the Policy Research Institute of Bangladesh.

Garments account for more than 84 percent of Bangladesh's total exports in a year. The proposed budget misses out on the key reform of trade taxes that is essential to eliminate the anti-export bias of trade policy and push export diversification, says an economist.

PHOTO: STAR

US hiring surges past expectations as job market still strong

AFP, *Washington*

US job growth blew past estimates in May even as unemployment edged up, data showed Friday, underscoring the labor market's resilience as policymakers seek to cool the economy gradually.

But the hotter than expected figures could complicate the Federal Reserve's calculus as it weighs the right time to lower interest rates.

It also remains to be seen if positive employment data would translate into rosier perceptions of President Joe Biden, who has been struggling to convince voters of his handling of the economy.

The world's biggest economy added 272,000 jobs last month, up from a revised 165,000 in April, said the Department of Labor.

This was significantly above the 185,000 increase analysts predicted according to Briefing.com. It was also the highest level since December 2023.

The jobless rate crept up from 3.9 percent to 4.0 percent. But unemployment remains relatively low compared with recent decades, painting a picture of a still-healthy labor market.

"The great American comeback continues, but we still have to make more progress," said Biden in a statement.

He added that unemployment has been at or below four percent for 30 months, calling this "the longest stretch in 50 years."

- Later rate cuts -

"The mixed report will complicate the Fed's job," said Julia Pollak, chief economist at employment platform ZipRecruiter.

"Fed members and investors had clearly been hoping for a softer report, which would have raised confidence in the appropriateness of a July or September rate cut," she added.

The US central bank has held rates at a 23-year high in recent months, in hopes of easing demand to lower inflation sustainably.

With the economy still adding more jobs than anticipated, analysts expect the Fed to hold off rate reductions for longer.

A hot labor market could "help keep inflation more buoyant and delay Fed rate cuts to later this year or into next year," cautioned Nationwide chief economist Kathy Bostjancic.

In May, sectors like health care and government, as well as leisure and hospitality, saw employment continuing to trend up, the Labor Department said.

While average hourly earnings rose by 0.4 percent month-on-month, the year-on-year increase of 4.1 percent remains similar to rates in recent months.

Despite wage gains outpacing consumer price inflation, Americans "have not shown recognition, according to many polls, of an improving economy," said National Association of Realtors chief economist Lawrence Yun.

This is undoubtedly "due to the fact that the cumulative rise in consumer prices is still higher than the cumulative wage gain of the past four years," Yun said.

Yet "the report is good news for workers still seeking jobs, and stronger wage gains benefit Americans scrambling to deal with high inflation," added Robert Frick, Navy Federal Credit Union corporate economist.

"The report bodes well for the economy continuing its steady expansion through this year," he said.

A robust labor market has allowed consumers to keep spending even in the face of elevated interest rates -- boosting the economy.

Futures traders widely expect Fed officials to hold rates steady until at least September, according to CME Group's FedWatch Tool.

The Fed's next policy meeting takes place on Tuesday and Wednesday.

PHOTO: AFP/FILE

People walk by a "now hiring" sign in San Rafael, California. The world's biggest economy added 272,000 jobs last month, up from a revised 165,000 in April, said the Department of Labor.

ECB policymakers warn about inflation challenge

REUTERS, *Frankfurt*

European Central Bank policymakers warned on Friday that the final stage of pushing inflation down to 2 percent could be especially hard but said they were confident that policy was working as intended, while some even saw room to ease policy further in 2024.

The ECB cut interest rates from record highs on Thursday in a long-telegraphed move, but held back from any pledge to ease policy further after inflation and wage growth data in recent weeks came in above its expectations, indicating it will need even longer to meet its target.

Wage rises increase disposable incomes and thus put upward pressure on prices, particularly in wage sensitive sectors like services

The biggest warning came perhaps from Germany, the euro zone's largest economy, which poured cold water on suggestions that a big wage jump this year was a one-off.

"Negotiated wages are expected to rise particularly sharply this year and continue to see strong growth thereafter," the Bundesbank said. "Inflation is proving to be stubborn, especially in the case of services."

Wage rises increase disposable incomes and thus put upward pressure on prices, particularly in wage sensitive sectors like services.

Bundesbank chief Joachim Nagel said Thursday's rate cut was not premature given the progress on inflation but he also said the ECB would not be on auto pilot for further rate cuts.

Austria's Robert Holzmann, the only policymaker to oppose Thursday's cut, said that inflation was stickier than the ECB predicted, so the bank needed to act more cautiously in the future.

ECB Vice President Luis de Guindos said that inflation could still rise from current levels before dropping back to 2 percent towards the end of next year, making the next few months difficult.

"There will be months when inflation may even accelerate slightly but we are convinced that next year it will converge with the target," he told Spanish radio station Onda Cero.

"The coming months will not be easy," he said. While most policymakers refrained from making policy predictions, Lithuania's Gediminas Simkus suggested there could be room to ease further this year.

When asked if further monetary easing this year was possible, Simkus said: "If the economy develops according to forecast, I think so, yes".

Markets see between one and two cuts this year and a total of four cuts between now and the end of next year in the 3.75 percent deposit rate.

Economists argue that any rate at or above 3 percent restricts economic growth so ECB policy will continue to hold back the economy well into next year.

The closest ECB President Christine Lagarde came to predicting future moves on Thursday was when she said there was a "strong likelihood" that Thursday's cut was not a one-off but rather the start of a dialling back process.

Policymakers speaking to Reuters on Thursday, however, said that any step in July is highly unlikely and the next possible window to cut rates would be in September, provided data in the run up to that meeting supported such a move.

ECB board member Isabel Schnabel, who has already called for a pause in July, nuanced her words on Friday, steering clear of any specific comment on the next meeting.

"As the future inflation outlook remains uncertain, we cannot pre-commit to a particular rate path," she said.