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.

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.

PHOTO: AFP/FILE

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.