DHAKA SUNDAY JUNE 30, 2024, ASHAR 16, 1431 BS • starbusiness@thedailystar.net

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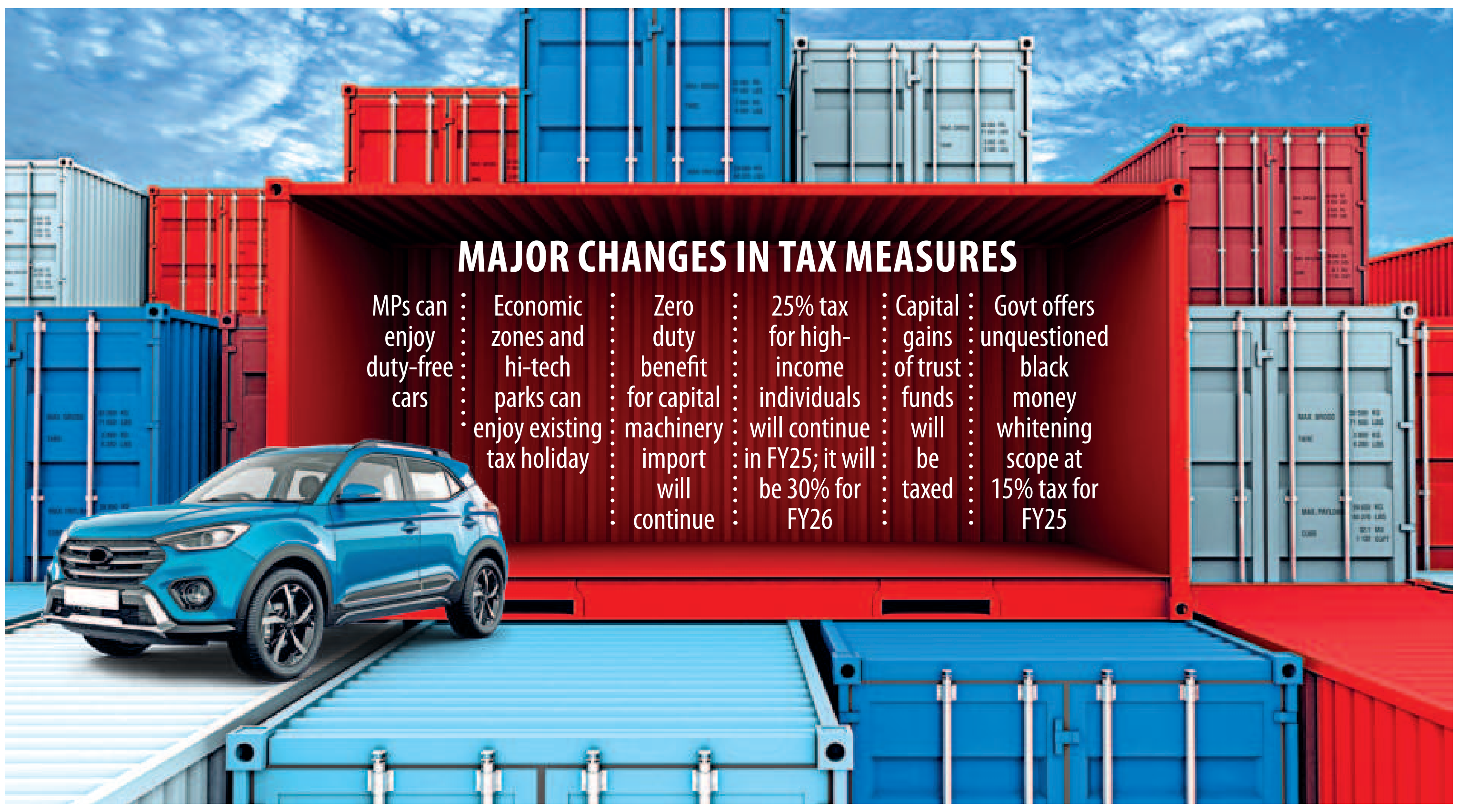
World Bank's board approved a $650 million loan on Friday to finance the Bay Terminal's dredging of the access channel and construction of the breakwater.

Story on B4

Highest income tax rate stays unchanged at 25%

Lawmakers pass budget for FY25



MD ASADUZ ZAMAN *and* MOHAMMAD SUMAN

The government has moved away from its decision to raise the highest income tax rate to 30 percent and end tax holidays for investors in economic zones and hi-tech parks.

However, the proposal aimed at granting amnesty for whitening the black money has been approved while the plan to levy duties for the first time on the cars imported by lawmakers has been scrapped – developments that upset the opposition.

Yesterday, lawmakers passed the Finance Act 2024 with several amendments after Finance Minister Abul Hassan Mahmood Ali placed the bill in parliament.

When he unveiled the budget for 2024-25 on June 6, the finance minister proposed to elevate the highest slab of the tax rate to 30 percent applicable to annual incomes of more than Tk 38.50 lakh that high-income earners can generate.

The government has retained it at 25 percent "to ease the tax burden" on taxpayers, according to the amended Finance Act. The highest tax rate would be 30 percent from 2025-26, it said.

The government has extended the existing 10-year holiday for investors in private economic zones and hi-tech parks and continued the zero-duty benefit on the imports of capital machinery, components and construction materials. The finance minister had proposed a 1 percent duty.

Ignoring widespread condemnation from economists, watchdogs and businesspeople, the scope to allow individuals and businesses to legalise black money without facing any question and by paying a 15 percent tax was passed.

According to the new provision, no authority can question if a taxpayer pays tax at fixed rates for immovable properties such as flats and land, and a 15 percent tax on other assets, including cash, securities, bank deposits, and savings schemes.

Yesterday, several lawmakers including GM Quader, also the opposition leader, and Hamidul Haque opposed the amnesty.

"It is double standards on the part of the government because it has committed to eliminate corruption. It should be stopped," Haque, the lawmaker of Kurigram-2, told parliament.

After the budget was unveiled, the finance minister was praised for his plan to amend the Member of Parliament (MPs) Order 1973 in order to withdraw the duty-free vehicle import facility for lawmakers. A 25 percent import duty, along with other taxes, was scheduled to be in place in FY25.

Since no amendment was proposed yesterday, lawmakers will keep enjoying the benefit.

Currently, vehicles are considered luxury goods in Bangladesh and are subject to a maximum of 500 percent supplementary duty. In some cases, it goes up to 800 percent. Also, there are other duties and taxes that regular importers must cough up. In contrast, MPs have been exempted from paying any customs duties since 1988.

Officials of the finance ministry and the National Board of Revenue (NBR) who were involved with the budget preparation said the change in plan comes as the initiative contradicts the MPs (Remuneration and Allowances) Order, 1973 (President's Order).

NBR data showed that of the 572 cars imported by the MPs since 2009, at least 563

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Record budget support helps govt meet IMF's reserve condition for first time

REJAUL KARIM BYRON *and* AHSAN HABIB

Bangladesh is going to fulfil the International Monetary Fund's condition on foreign exchange reserves in June on the back of record budget assistance from global creditors, the first time since the IMF approved its $4.7 billion loan programme more than a year ago.

The development comes after several bilateral and multilateral lenders approved $4.8 billion this month. Of the volume, budget support amounted to $2.76 billion and project loans stood at $2.04 billion. The budget support has already been added to the forex account of the Bangladesh Bank.

The IMF unveiled the loan scheme in January 2023 as the country was compelled to turn to external creditors owing to the unprecedented balance of payments crisis amid a sharp decline in the forex reserves because of higher outflows against inflows.

Approved loans: $4.8b
(As of June)

World Bank $**1.55**b
IMF $**1.15**b
South Korea $**914**m
ADB: $**290**m
Asian Infrastructure Investment Bank: $**400**m
France: $**107**m

Maintaining a certain level of net international reserves (NIR) has been a major condition attached with the loan. However, the government could not meet the target set for June, September and December last year and March this year. Still, Bangladesh has received three instalments under the programme.

The country was given a revised target of keeping an NIR of $17.78 billion in December. The actual NIR stood at $16.73 billion.

In order to secure the fourth instalment, the country would have to keep an NIR of $14.79 billion on June 30. However, thanks to the disbursement of a record amount of budget support, the country is going to hit the goal.

"Bangladesh has fulfilled the condition on the NIR," BB Spokesperson Md Mezbaul Haque told The Daily Star, without disclosing the exact figure.

Another central banker said the NIR would be above $15 billion. "The overall reserves have increased riding on the budget support and the incremental rise in inward remittance earnings ahead of Eid-ul-Azha."

In the first three weeks of June, remittance earnings were around $2 billion. It was $2.5 billion in the previous month.

Among the budget support, the IMF lent $1.15 billion, the World Bank approved $500 million, the Asian Development Bank extended $290 million, South Korea provided $100 million, and France gave $107 million.

The Asian Infrastructure Investment Bank is scheduled to approve a $400 million loan today. The disbursement would be made on the day as well, according to a finance ministry official.

BB officials said the gross forex reserves amounted to $21.99 billion on Thursday while the NIR was $15.5 billion.

The NIR is defined as reserves assets minus forex liabilities. Currently, the central bank releases data on the reserves as per its traditional accounting method as well as in line with the balance of payments and investment position manual (BPM6) of the IMF.

Usually, the NIR is $5 billion to $6 billion lower than the amount reported in line with the manual.

The fund from the ADB is going to be added to the central bank's reserves. It will also have to make some repayments. Afterwards, the NIR would be above $15 billion.

This month, the WB approved loans totalling $1.5 billion. South Korea gave its nod for $814 million in credit support.

Bilateral and multilateral lenders committed $7.93 billion in loans and support in the first 11 months of 2023-24, up 33 percent year-on-year, financial ministry figures showed.

They disbursed $7.02 billion in July-May against $6.98 billion in the similar period in the previous financial year. Bangladesh repaid $3.07 billion in loans, and it was $2.46 billion a year earlier.

Too much reliance on one export item is a major risk: ADB

REFAYET ULLAH MIRDHA

Bangladesh's earnings from exports, excluding apparel, grew at a compound annual rate of 7.6 percent over the past three decades or so whereas garments witnessed 14.6 percent growth, which highlights a lack of product diversity, according to a new study yesterday.

Earnings from garment shipments were nearly equal to that from the rest of the exports in the late 80s.

However, garment exports surged from $1 billion in the early 1990s to $47 billion in 2023 while earnings from the export of the rest of the products rose from $1 billion to just over $8 billion.

For Bangladesh, export concentration has emerged as a major and longstanding challenge, as the success in garment exports did not come about in other sectors, said Asian Development Bank (ADB) in the June issue of its South Asia Working Paper Series.

This overwhelming dependence on one category of exports means that Bangladesh's export basket is one of the least diversified in the world, it said.

Around 99 percent of the growth in export earnings was generated from the same types of products.

New products, which are components for export diversification, accounted for less than 5 percent.

In striking contrast, for all comparator countries, new products accounted for a much higher proportion of their earnings growth, such as almost 78 percent for Malaysia, about 42 percent for Vietnam and 32 percent for China.

When compared with the achievements of non-least developed countries, Bangladesh's export success does not leave room for complacency.

Most Southeast Asian countries exhibited a much stronger export performance than Bangladesh.

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FY24: one of the gloomiest years for economy

ANALYSIS

MD MEHEDI HASAN

At the beginning of fiscal year 2023-24, there was an expectation that the country's economy would recover from the shocks of the Covid-19 pandemic and other external pressures.

However, things did not turn out that way as almost all economic indicators remained downbeat throughout the year due to some major issues.

There were concerns over inflation persistently hovering above 9 percent, dwindling forex reserves, lower-than-expected remittance inflow, slow export growth, negative import growth, and a record amount of non-performing loans (NPLs) in the banking sector.

The central bank's liquidity support for weak Islamic banks and hasty merger initiatives and volatility in the foreign exchange market further intensified the crisis in the financial sector in FY24.

One of the fiscal year's biggest setbacks came in the form of a "negative" outlook put in place for Bangladesh by international credit rating agencies Moody's and Fitch.

The consumer price index (CPI) hovered at over 9 percent since March last year and the monetary policy of the central bank could do little to bring it down. However, most countries, including the US and India, succeeded in reining in inflation.

The inflation in Bangladesh on a point-to-point basis stood at 9.89 percent in May, well above the government target of 6 percent for FY24.

As a result, lower and middle-income people bore the brunt of rising prices, amplifying the woes in managing the cost of living.

The central bank adopted a tight monetary policy by hiking the policy rate but it did not provide much success in subduing the skyrocketing inflation because of the lack of a market-based interest rate system.

In April 2020, the BB first introduced a 9 percent interest rate ceiling.

Although that was withdrawn at the beginning of this fiscal year, the banking regulator introduced a new interest rate system based on the six-month moving average rate of treasury bills, abbreviated as SMART, which was another cap.

Finally, in May this year, Bangladesh Bank allowed banks to determine a market-driven interest rate in line with International Monetary Fund (IMF)'s prescription.

Despite a series of government initiatives to address the depletion of the foreign exchange reserves since it began in September 2021, foreign currency holdings did not increase, prevailing as an area of concern in FY24.

After joining the central bank as its governor in mid-2022, Abdur Rouf Talukder said the foreign exchange crisis would be resolved by January 2023.

However, the banking regulator failed to maintain the minimum level of forex reserves as per the IMF target thereafter.

Since August 2021, the forex reserves have fallen by $24 billion. As per the IMF calculation, gross forex reserves stood at around $22 billion on June 26 this year.

The foreign exchange market was volatile throughout the year because of higher US dollar outflow despite austerity measures taken up by the government, including controlling import payments.

There was no good news over exports either, as export growth slowed while import growth remained in the negative territory due to import control measures.

During the July-March period of this

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KEY ECONOMIC INDICATORS

- **Inflation** in May: 9.89%
- **Forex reserves** as on June 27: $22b
- **Exports** (July-May) **grew**: 2.01%
- **Imports** (July-Mar) **fell**: 15.42%
- **Financial account** (July-Mar): $9.25b (negative)
- **Remittance inflow** (July-May) **rose**: 10.10%
- **Private sector credit growth** (April): 9.9%
- **Bad loan ratio up**: 11.11%