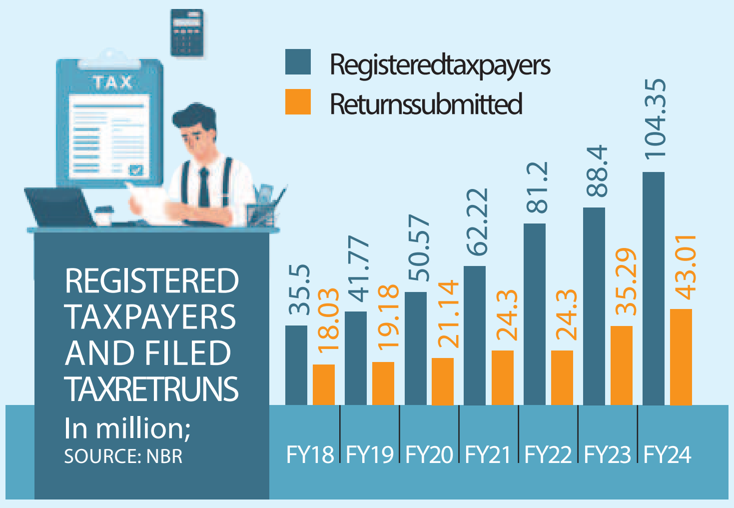
WHITEPAPERONBANGLADESHECONOMY

Powerful lobbies, elites and corporate interests thwart tax reforms

STAR BUSINESS REPORT

A complex political economy that sees powerful lobbies, political elites and corporate interests oppose changes to the status quo has limited the mobilisation of domestic resources by slowing the pace of planned reforms, according to the white paper on the state of the economy.

Although multiple documents have outlined various tax reforms and emphasised the need for the digitalisation of government services, these reforms have never been fully implemented.



Among the most pressing issues has been low tax collection, which the paper said was driven by weak governance, widespread corruption, and a lack of trust in how tax revenue is used.

According to the paper, it is worth noting that the 7th Five Year Plan had set a target of raising the revenue-GDP ratio from 10.9 percent to 16 percent by the end of the plan period.

However, the paper added it is abundantly evident that "corruption, especially in tax administration, leads to widespread tax evasion and poor compliance".

"The informal and discretionary tax system benefits these groups, making reform difficult," it said, adding that the so-called push for digitalisation has stalled for the same reasons.

It stated that the 1991 VAT reform's success stands in contrast to subsequent failures, emphasising the necessity of substantial political backing, technical planning, and stakeholder ownership in order to accomplish significant tax reforms.

The half-hearted automation of the National Board of Revenue's (NBR) tax collection system is a major barrier to effective revenue generation, deepening inefficiencies and fostering a climate of non-compliance, the white paper pointed out.

Although the NBR has implemented certain automated tax filing and payment systems, these initiatives are dispersed and not entirely integrated with other pertinent and vital organisations, including the Ministry of Finance, the Registrar of Joint Stock Companies, the Bangladesh Bank, and others, the paper alleged.

Because of this fragmented strategy, the NBR is unable to obtain up-to-date information on individuals and companies, which makes it more difficult to effectively track revenue, monitor corporate operations and stop tax evasion.

If the NBR does not have a comprehensive picture of a taxpayer's financial transactions across several industries, it is exposed to fraud, false declarations, and underreporting, the paper added.

Additionally, weak local governance and limited fiscal decentralisation hinder public service delivery, discouraging citizens from paying taxes, it said.

While the 1991 VAT reform succeeded, subsequent attempts, such as customs duties reform and VAT expansions, faced opposition and were poorly implemented, it added.

According to the paper, efforts like the 2011 Tax Modernisation Plan and 2012 VAT Law failed to modernise the tax system, which is outdated and ineffective in generating sufficient revenue.

The paper also pointed out that personal income tax yields, which account for only 1 percent of the GDP, are still low although per capita income is rising. It attributed this to poor compliance, a disproportionate number of exemptions, and ineffective administration in the personal income tax system.

It also said tax evasion is common, especially among high earners, driven by corruption, political connections and informal deals with tax collectors.

READ MORE ON B3

Trillions embezzled from stock market

STAR BUSINESS REPORT

Bangladesh's devastating 2010-11 stock market crash exposed the dark elements of a financial system riddled with manipulation, fraud and weak regulatory enforcement.

According to the white paper on the state of Bangladesh economy, share prices surged amid the influence of powerful business groups and regulatory lapses. Shares of some companies skyrocketed between 300 percent and 900 percent during 2009-10.

Within months, the benchmark index of Dhaka Stock Exchange (DSE) plummeted by nearly 50 percent, erasing $27 billion in market capitalisation -- a loss equivalent to about 22 percent of the country's gross domestic product (GDP), it said.

As such, trillions of taka were embezzled through fraud, manipulation of placement shares, and deceitful initial public offering (IPO) processes.

The white paper prepared by a government-formed panel of mostly economists was submitted to the Chief Adviser on Sunday.

It alleged that the collapse of the stock market triggered a wave of despair, with some investors resorting to suicide, as social discontent mounted across the nation. The roots of the crash mirrored the infamous 1996 stock market debacle.

The white paper panel observed that both the crashes were driven by collusion among institutional investors, high-net-worth individuals, and brokerage firms, who manipulated share prices to enrich themselves at the expense of retail investors.

It said an investigation team, formed by the government after the 2010-11 crash, flagged egregious irregularities, including placement trading, inflated IPO valuations, and suspicious transactions under omnibus accounts.

"Despite public outcry, many perpetrators avoided accountability, often shielded by political connections."

A manipulation network involving entrepreneurs, auditors, and issue managers thrived, exploiting regulatory loopholes and public trust, the paper added.

According to the white paper on the state of Bangladesh economy, share prices surged amid the influence of powerful business groups and regulatory lapses

It said market intermediaries suffered massive losses, with merchant banks and brokerage firms collectively bearing around Tk 13,000 crore in negative equity.

The white paper also said development of the capital market has stagnated. The number of listed issues remains low, corporate debt securities are virtually non-existent, and market capitalisation lags behind regional peers.

A 2023 study by the Centre for Policy Dialogue revealed persistent distrust, with some 56.3 percent of businessmen blaming weak regulatory enforcement and around 50 percent citing suspicious trading in secondary markets.

While reforms such as the Demutualization Act of 2012 and the Financial Reporting Act of 2015 aimed to restore integrity, systemic weaknesses persisted, the paper said.

Dhaka Bank to issue Tk 400cr bond

STAR BUSINESS REPORT

Dhaka Bank has received approval from the Bangladesh Securities and Exchange Commission (BSEC) to issue its fourth subordinated bond worth Tk 400 crore.

The unsecured, non-convertible, floating-rate, and fully redeemable bond will be offered through private placement, with a minimum subscription price set at Tk 10 lakh, according to a disclosure on the Dhaka Stock Exchange website yesterday.

Proceeds from the issuance aim to bolster the bank's tier-2 capital in line with regulatory requirements, according to the disclosure.

Tier-2 is designated as the second or supplementary layer of a bank's capital and comprises items such as revaluation reserves, hybrid instruments, and subordinated term debt.

The announcement follows earlier disclosures made by Dhaka Bank on July 2, 2023, and October 3, 2024, regarding plans for the bond issuance.

Chinese firm to invest $19.53m in Mongla EPZ

STAR BUSINESS REPORT

Chinese company Bangladesh BaoRui Textile Co Ltd will invest $19.53 million in the Mongla Export Processing Zone (EPZ) to establish a composite textile manufacturing facility.

BaoRui Textile aims to produce 10 million pounds of raw yarn, 6 million pounds of knitted fabric and 1 million garment pieces annually under the project, which is expected to generate 1,505 jobs for Bangladeshi workers.

Huang Hua, managing director of Bangladesh BaoRui Textile, yesterday signed an agreement in this regard with Md Ashraful Kabir, a member for investment promotion of the Bangladesh Export Processing Zones Authority (Bepza), at a ceremony at the Bepza Complex in Dhaka.

At the event, Major General Abul Kalam Mohammad Ziaur Rahman, Bepza executive chairman, expressed optimism about the project, underscoring Bepza's commitment to fostering a secure and supportive environment for investors.

KEPZ decides to fast-track land registration

STAR BUSINESS REPORT

The governing body of the Korean Export Processing Zone (KEPZ) has decided to fast-track its land registration and ease its bond licensing procedures to turn the key industrial park into a hub for foreign direct investment.

Chief Adviser Professor Muhammad Yunus convened the governing body meeting for the KEPZ at his office in Dhaka's Tejgaon yesterday, according to a statement from the Chief Adviser's Office.

This was the first meeting of the KEPZ governing body presided over by a head of the state in nine years.

READ MORE ON B3

India's slowdown flashes an early-warning signal

Workers sort out glass bangles at a factory in Firozabad. Weak factory production and consumer demand dinged the Reserve Bank of India's 7 percent headline estimate.
PHOTO: AFP/FILE

REUTERS, *Mumbai*

India's world-beating economic growth is getting a reality check. Output rose 5.4 percent during the three months to the end of September, its slowest pace in nearly two years, belying hopes that a good monsoon would boost spending. Perhaps it's a blip. But there are looming pressures that could all deal blows to rosy assumptions about the world's fifth-largest economy.

Weak factory production and consumer demand dinged the Reserve Bank of India's 7 percent headline estimate. Manufacturing crawled in at 2.2 percent in the country which aspires to assemble a quarter of all iPhones by 2028, up from 14 percent in the last financial year.

Earnings at top companies disappointed too: only around half the firms in the Nifty 50 index beat analysts' estimates, the lowest since March 2020, per data compiled by LSEG. Tight-fisted shoppers ate into profits of giants like Reliance Industries and Hindustan Unilever.

A national election in April and May caused New Delhi to hit the brakes on infrastructure spending, a heavy lifter of growth in recent years. Some of the country's 28 states have been cutting back capital expenditure to offer election-winning cash handouts. All that coincided with a clampdown on unsecured credit by

ANALYSIS

the central bank, which now finds itself squashed between inflation running at 6.2 percent, above the target range, and sliding economic growth. Its rate-setting panel is scheduled to meet this week.

Prime Minister Narendra Modi's administration calls the latest print a one-off and hopes festive spending and benign crude will lift the number in the second half of the financial year. A more sceptical view is that India has returned to its pre-Covid slow lane after three years of revenge spending. Market shares are churning too, with some demand moving to smaller players in the informal economy which the data is less good at capturing.

Gautam Adani is one of India's biggest tycoons with interest in ports, telecoms and renewable energy.

More pain looms. US prosecutors' indictment of Gautam Adani on fraud charges, which he denies, is likely to curb expansion by his conglomerate, a rare private-sector contributor to investment spending. The threat of higher levies under the Trump administration could increase dumping of Chinese goods in India and hurt exports. Cooling growth might accelerate outflows of offshore funds in favour of the People's Republic, which is administering boosters to shore up its economy.

The shock data print will lead to questions about whether bets on the $3.7 trillion economy are tracking the right indicators. India's moment is getting a bit of reckoning.

Eurozone factory activity falls sharply

REUTERS, *London*

Euro zone manufacturing activity fell sharply last month and a further decline in demand likely dashed any hopes for an imminent recovery after the sector had showed some signs of stabilisation in October, a survey showed.

HCOB's final euro zone manufacturing Purchasing Managers' Index (PMI), compiled by S&P Global, sank to 45.2 in November, matching a preliminary estimate and further below the 50 mark separating growth from contraction.

In October it was 46.0 and the headline reading has been sub-50 since mid-2022.

An index measuring output, which feeds into a composite PMI due on Wednesday and seen as a good gauge of economic health, dropped to 45.1 from 45.8 in October.

"These numbers look terrible. It's like the euro zone's manufacturing recession is never going to end. As new orders fell fast and at an accelerated pace, there's no sign of a recovery anytime soon," said Cyrus de la Rubia, chief economist at Hamburg Commercial Bank.

As new orders fell fast and at an accelerated pace, there's no sign of a recovery anytime soon, says an expert

"The downturn is widespread, hitting all of the top three euro zone countries. Germany and France are faring the worst, and Italy is not doing much better."

With overall demand falling, despite manufacturers reducing their prices, factories cut headcount at the fastest rate since the COVID-19 pandemic was cementing its grip on the world. The employment index fell to 45.2 from 46.2, its lowest since August 2020.

Foreign demand - including trade between euro zone nations - also fell faster and is likely to worsen as US President-elect Donald Trump, who returns to the White House in January, has proposed a 10 percent tariff on all imports which would make European goods more expensive there and so less desirable.