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# FICCI

FOREIGN INVESTORS' CHAMBER OF COMMERCE & INDUSTRY

## Contents


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# Feature

## Boosting trade relations within South Asia:World Bank

Last month, India reelected Narendra Modi to serve a second term as prime minister. General elections were also held in neighboring Pakistan and Bangladesh last year. These new administrations have a rare opportunity to collectively work on issues that affect the entire region. Among them is the very inadequate level of economic engagement within a region that is the world's fastest growing. As our recent report, A Glass Half Full: The Promise of Regional Trade in South Asia shows, South Asian countries' trade regimes actively discriminate against each other, thus denying their citizens the benefits of vibrant trade. Intraregional trade could increase almost threefold, from $23 billion to $67 billion and even this is an underestimate. To realize this potential, there are several concrete steps South Asian countries can take.

### Let SAFTA serve its purpose

The South Asian Free Trade Agreement (SAFTA) was established in 2006 but too little success. One of the reasons behind SAFTA's ineffectiveness is the so-called "sensitive list"- a long list of products that are exempt from the tariff liberalization program.

Many countries have long sensitive lists, over 44 percent of the value of imports in Bangladesh and Sri Lanka, and 36 percent in Nepal, and 35 percent on average for the region. These lists undermine the purpose of a free trade agreement. SAFTA can only work if South Asian countries agree on a schedule to eliminate sensitive lists.

To achieve that with minimal disruption, the tariff reduction should be transparent and gradual for sectors where employment is high.

Eventually, the lists should contain very few products to be protected, as has been done in the Association of Southeast Asian Nations (ASEAN) Free Trade Agreement. Furthermore, SAFTA members should gradually eliminate para-tariffs that are protective and non-transparent duties on imports and non-domestic products, and contribute to the overall anti-export bias of many trade regimes in South Asia. These para-tariffs are currently not included in free trade negotiations.

### Tackle non-tariff barriers too

Several other factors obstruct free trade in South Asia. Some of these are real barriers while others are perceived. The latter arise due to a lack of information on regulations and standards and inadequate infrastructure for measuring and certifying quality.

South Asian countries could consider establishing a regional institution which can provide traders with the information they need to address their issues or direct complaints to relevant authorities within countries. Campaigns and workshops can also be initiated.

For instance, spreading awareness about the need for and procedures relating to pest risk analysis on agricultural products in different countries would facilitate the movement of such products across borders. This institution can start work even on a bilateral basis, and then expand to include other countries, based on demand.

## Improve intraregional connectivity

A lack of adequate transportation between South Asian countries makes moving goods and services across borders costly. For example, high-value trade often depends on air travel, but regional air connectivity is restricted in South Asia and poor even between capitals.

South Asian countries would benefit greatly from following the example of India and Sri Lanka who bilaterally liberalized air services through a series of reforms that began in 2003.

Today there are 147 flights per week between Colombo and at least 12 Indian cities significantly higher than any pair of South Asian countries

This liberalization occurred without an open skies agreement. Rather, India and Sri Lanka pursued an incremental approach which was accompanied by supporting reforms such as Sri Lanka providing visa-on-arrival for Indian travelers and the implementation of the India-Sri Lanka Free Trade Agreement in 2000.

## Reduce the trust deficit

Healthy trade relations around the world are grounded in mutual trust. In South Asia, however, a conflict-ridden history has eroded trust between countries. This has given rise to negative stereotypes which are exacerbated by a lack of people-to-people contact. Initiatives that reduce this trust deficit should be promoted across the region.

An example that could be replicated by other South Asian countries is the border haats between India and Bangladesh. These haats allow small-volume trade in weekly markets amongst the two countries' border communities. Not only have participating vendors reported an increase in income and a decline in informal trade. Contact and exposure have also led to positive views of each other.

Haats could be scaled up and replicated at other land borders in the region- perhaps at the India-Pakistan or Pakistan-Afghanistan borders where illegal trade is rampant and trust short in supply.

Another promising initiative is the South Asia Economic Students' Meet, which has brought together students from colleges and universities across the region for the past 15 years. The annual conference allows these young leaders to engage on development issues and form friendships they cherish.

## Let trade lead the way

Trade can help catalyze relations between countries. Trade helps build trust which in turn leads to more trade. South Asian countries, therefore, need not wait for relations to improve before they can increase trade with each other. Rather, trade can help pave the path for more prosperity and perhaps better relations.

*[Source: http://blogs.worldbank.org/endpovertyinsouthasia/boosting-trade-relations-within-south-asia]*

# Business News

## Fiscal Year 2019 exports rise by 10.55pc, hit $40.53b

The country's export earnings reached an all-time high of US$ 40.53 billion in the just concluded fiscal year (FY), 2018-19, registering a 10.55 per cent growth over that of the previous fiscal, according to official data of EPB. Bangladesh fetched $36.66 billion in FY 2017-18. The export earnings in FY 19 also surpassed the target, set for the fiscal FY 18, by 3.94 per cent. The single month earnings in June 2019, however, declined by 5.27 per cent to $ 2.78 billion over that of June 2018. The June earnings also fell short of the target by 22.65 per cent. The ready-made garment (RMG) sector contributed more than 84 per cent or $34.13 billion to the total export income in FY 19. In last fiscal, the RMG exports grew by 11.49 per cent from $ 30.61 billion of FY 18. The sector's earnings also exceeded the respective target in FY 19 by 4.42 per cent. The country earned $ 16.88 billion from knitwear exports, registering a growth of 11.19 per cent. Bangladesh fetched $ 15.18 billion from knitwear exports in FY 18. Earnings from export of woven garments were $ 17.24 billion in last fiscal, up by 11.79 per cent. The earnings were $ 15.42 billion in FY 18. On the other hand, earnings from home textile exports fell by 3.07 per cent to $ 851.72 million. The figure also fell short of the twelve-month target by 9.39 per cent. Buyers are now placing more orders to local companies, as they are satisfied with workplace safety situation here. The ongoing trade war between China and the US are offering an opportunity to local exporters. The country's garment exports in the US market have increased in the wake of the trade war between China and the US, as the latter is shifting orders to other countries, including Bangladesh.

The profit margin is gradually declining with the rise in export growth. The companies are forced to take orders at lower rates to continue operating factories, as their workers as well as installments of bank loans need to be paid. Meanwhile, the jute sector has demonstrated a negative growth throughout the last fiscal. The earnings from exports of jute and jute goods fell by 20.41 per cent to $ 816.27 million in FY 19 from $ 1.02 billion in the previous fiscal.

## Bangladesh one of great success stories in world: US envoy

US Ambassador to Bangladesh Earl R Miller on Wednesday said Bangladesh is one of the United States' most valued partners and one of the great development success stories in the world. The US envoy said security and military relationship between the two countries has never been stronger. He said the United States is the leading contributor of humanitarian assistance to the Rohingya crisis, providing more than $541 million since August 2017. "The United States salutes the people of Bangladesh for opening their borders and hearts to over one million persecuted Rohingya. American companies produce more than half of Bangladesh's natural gas, build power plants, supply locomotives, and train thousands of Bangladeshi workers to the highest international standards. USAID has provided more than $7 billion to Bangladesh in development assistance, including $219 million last year, to promote economic opportunity, effective health and education service, food security, and responsiveness to climate change and natural disasters.

## Tax collection faces headwinds in FY 2019

Tax collection faced a Tk 600 billion shortfall in the just-concluded fiscal year (FY) against the revised target, lowest in five years. The National Board of Revenue (NBR) mobilized Tk 2.22 trillion tax revenue in FY 2018-19 against its revised target for Tk 2.80 trillion, according to provisional figure. The original target of the board was Tk 2.96 trillion for the fiscal year that has just gone by. In the provisional estimate, the revenue collection growth stood at 7.76 per cent over the corresponding year. However, officials said that the revenue collection growth could stand at 9.0 per cent after compilation of final figure from the field-level VAT offices.

In FY 2018-19, the VAT wing collected the highest revenue worth Tk 856 billion, which is 40 per cent of the combined collection. The income tax wing collected the second-highest amount of Tk 723 billion while the customs wing Tk 644 billion. In FY 2017-18, the NBR collected Tk 2.06 trillion tax and achieved a 20. 24 per cent growth over the corresponding fiscal. Revenue collection growth was 11.74 per cent, 13.21 per cent and 12.32 per cent in the FY 2016-17, 2015-16 and 2014-15 FY respectively.

Import payment dropped to 3.0 per cent last year, which was 25 per cent the year before. The lack of reform in the tax administration is mainly responsible for poor revenue collection growth. It may go down further in the current fiscal year unless the government takes proper initiative. For FY 2019-20, the government set Tk 3.25 trillion target for the NBR. To achieve the target, the NBR will have to achieve 46.39 per cent growth in revenue collection this year. The revenue collection figure illustrates that 8.0 per cent-plus GDP growth estimate of the government is not correct.

He said the efficiency in tax administration is required to increase the internal revenue collection. About the shortfall, he said the government would have to cut its expenditure plan to avoid increasing the budget deficit beyond 5.0 per cent. Until FY 18, the country's tax-GDP ratio was 9.28 per cent, which is one of the lowest in the region. Tax-GDP ratios were 8.75 per cent, 8.88 per cent and 8.95 per cent in FY 17, FY 16 and FY 15 respectively. Expecting a 13.32 per cent tax-GDP ratio, the authorities had set the tax collection target at Tk 2.96 trillion in the just-concluded financial year. Officials said the target was too ambitious to achieve as the board expected a 43.50 per cent growth in revenue collection. Tax collection has averaged 14 per cent in the last five years.

## Vietnam a step closer to beating Bangladesh in apparel exports

In a blow to apparel exporters, the EU, Bangladesh's largest export destination, has extended duty-free access to Vietnam, eliminating the competitive edge that the country held over its biggest rival in the trade. As a least-developed country Bangladesh enjoyed duty-free benefit to the EU since its independence, whereas Vietnam had to pay 12 percent duty. Now, Southeast Asian country has obtained the same privilege as Bangladesh thanks to the signing of a free trade agreement (FTA) with the EU on June 30, 2019.

Bangladesh will face even tougher completion once it fully graduates from the LDC bracket in 2027 as the duty benefits would be withdrawn then. Exports to the EU will then face 12 percent duty but Vietnam will continue to ship to the trading bloc at zero duty. Bangladesh may lobby with the EU either for the signing of an FTA or for continuation of the duty benefit. Bangladesh's apparel exports have lost 3.64 percent value in terms of price per unit during 2014-2018, whereas Vietnam's price has gone up. With the gradual elimination of tariff on Vietnam's exports the price competition will be more intense. Apart from erosion of competitiveness and the resulting trade diversion, the FTA may have a severe toll on the price level for Bangladeshi manufacturers.

In 2018, Bangladesh exported $19.32 billion worth of garment items to the EU, up 11.17 percent year-on-year. Vietnam's exports that year stood at $3.92 billion with an annual growth of 9.74 percent, according to data from the BGMEA. With its 4 percent share Vietnam is currently is the sixth largest apparel exporting nation to the EU, whereas Bangladesh is the second with its share of 19 percent.

## Korea pledges investment boost

South Korean Prime Minister Lee Nak-yon expressed interest in investing in Bangladesh's infrastructure, power, ICT, deep sea fishing, construction, shipbuilding and energy sectors to deepen ties between the two countries. The trade between Bangladesh and Korea needs to be increased beyond the textile and garment sectors, Nak-yon said in the Korea-Bangladesh Business Forum, organized by the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and the Korea International Trade Association (KITA) at the Hotel InterContinental in Dhaka. Ministers, diplomats, exporters, importers, businesspersons and trade body leaders attended the forum to explore trade opportunities.

Some big Korean companies have already invested in Bangladesh, but there is a scope for further business expansion. South Korea expressed interest in helping construct 10,000 ICT centres across Bangladesh. Korea's Daewoo helped train up manpower for the garment sector in Bangladesh in 1979. Later, Korean multinational company Youngone, a member of FICCI, invested in Bangladesh's garment sector and employed thousands of workers. Currently, the size of total investment by Korean companies in Bangladesh is $1.12 billion and most of them are in the textile and leather sectors. South Korean Super Petrochemical has proposed investments worth $2.38 billion in petrochemicals, which will positively contribute towards the bilateral investment relations.

## Vivo to open mobile assembly plant in Bangladesh

Chinese smartphone manufacturer Vivo is all set to roll out the first mobile assembly plant in Bangladesh with full foreign direct investment, as international companies flock to the country to make the best use of the favourable tax regime. The plant in Rupganj of Narayanganj will put together at least one million smartphones every year. 'Made in Bangladesh' handsets will be available in the market within three months.

This will be the Chinese company's fifth factory, after two in China and one each in India and Indonesia. The company aims to export 'Made in Bangladesh' handsets within a few years. Vivo has already received green light from the tax administrator and the Bangladesh Telecommunication Regulatory Commission. Now, it is at the final stage of getting approval from the telecom regulator. Some tests will be carried out before giving a no-objection certificate, a senior official of the BTRC said.

## Exporters get a boost: They can now issue certificate of origin to enjoy EU GSP

Exporters will now be able to issue the certificate of origin to enjoy the generalised system of preferences (GSP) facility in the European Union, instead of relying on the Export Promotion Bureau (EPB) for the document. This will save time and cut cost for exporters.

This will allow exporters to enjoy the GSP benefit quickly after sending a shipment. A certificate of origin is an important international trade document that certifies that goods in a particular export shipment are wholly obtained, produced, manufactured or processed in a particular country. It also serves as a declaration by the exporter. About 6,000 exporters will receive the Rex number gradually. "With this, Bangladesh's export simplification takes another step forward. The Rex system will progressively and completely replace the current system of origin certification based on certificates of origin issued by government authorities and on invoice declarations made out under certain conditions by economic operators. The new system was introduced in line with the rules of the World Trade Organization.

## Local firm to set up $200m plant to make electric vehicle

Local automobile company Bangladesh Auto Industries Ltd (BAIL) is all set to make electric vehicles from next year with an initial investment of $200 million. The facilities, civil work and utility connection of the proposed plant on a 100-acre of land at the Mirsarai economic zone in Chattogram will be completed by December this year. BAIL will manufacture two-wheelers, three-wheelers, sedan, hatchback and sport utility vehicle (SUV) and has plans to produce pick-ups, mini-trucks and multipurpose vehicles.

Of the planned $200 million investment, 80 percent will be sourced locally, while the rest will enter the country as a foreign direct investment. The total investment for the project will reach $1 billion within the next five years. Leading local telecom service provider Mango Teleservices Ltd holds a majority share in BAIL established in November 2017. An electric vehicle (EV) uses chemical energy stored in efficient and environment-friendly rechargeable lithium ion battery packs instead of fossil fuel to propel it. Globally, the electric car's share in the total automobile industry is on the rise. At the end of 2018, it stood at 4.6 percent, almost double from what it was in 2017, according to the Centre of Automotive Management (CAM), a research and consultancy institute based in Germany. China is leading the countries in electric car use, followed by the US, Norway, Japan and the UK. By 2025, electric cars will account for one-fourth of all new registrations, according to CAM. Within the next 25 years all fossil fuel cars would be replaced by the EVs.

Foreign partners from the US, China, India and Italy will provide technical and expert support for the facility. The plant will manufacture almost 60 percent of the component of the vehicles, including lithium battery, motor, controller, software platform, chassis and body. Customers will replace their fossil fuel-run vehicles with EVs thanks to lower price and cheaper fuel cost and the environmental benefits. According to a market analysis of BAIL, annual car sales will reach two lakh units by 2025 from about 20,000 units in 2018. The battery capacity will be 50 kilowatt hour and it will cost Tk 400 to fully charge an EV each time as per the existing electricity tariff.

## Export of plastic products rises as new markets emerge

Shipments of plastic products rose 22 percent year-on-year to $120 million in fiscal 2018-19, something manufacturers and traders attribute to the emergence of new export destinations. In fiscal 2017-18, the export had seen a 16 percent year-on-year drop when China stopped importing PET (polyethylene terephthalate) bottle scrap, according to the Export Promotion Bureau. "New buyers are coming from Europe, particularly Germany-based supermarkets which source household plastic products from Bangladesh, aiding the export rise. German buyers used to place orders with Chinese manufacturers but now they are sourcing from Bangladesh to avail cheaper, quality products.

The export volume would increase even further if the government provides policy support along with cash incentives. Currently there are around 100 plastic product manufacturers who also aid export earnings of almost $800 million per year through direct and indirect backward linkage supplies to different sectors, especially the apparel sector. The plastics sector was quite dependent on raw material import, for which global competitiveness had an influence on their business.

The main raw material for producing plastic goods is polyolefin, which is derived during the refining of crude oil and cracking or distillation of natural gas liquids. The PET resin pellets are availed by type-based sorting, shredding, cleaning and melting of waste plastic. Despite having no polyolefin manufacturing facility, Bangladesh currently manufactures over 142 plastic items and mainly exports intermediate products like film plastic, household items and garment accessories. The sector's sales is growing by about 20 percent every year on the back of spiralling demand from domestic and export markets. According to his estimate, domestic market sales hit Tk 30,000 crore in fiscal 2018-19, up from Tk 25,000 crore in the previous year. The export volume would double within a couple of years if the government help them in establishing a plastic industrial park. The plastic industry was directly contributing to multiple export-oriented sectors. However, a 5 percent advance tax during raw material import is pushing the sector towards difficulties as a huge amount of investment has to be made.

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# Market & Financial News

## Economists warn revenue shortfall may put Bangladesh into debt trap

As the government spending is growing, failure in meeting the revenue targets could put Bangladesh into a debt trap. To avoid such unpleasant macroeconomic situation, the policymakers should focus not only on aspiration towards upper middle-income country but on the capacity building of the revenue board to raise the revenue-GDP (gross domestic product) ratio. The economists, at the same time, called for setting up development priorities and raising budgetary allocations for the health and education sectors to properly reap the benefits of high demographic dividend.

Bangladesh should managed to maintain its socioeconomic growth over the years despite having low revenue-GDP ratio. The country is now moving towards upper MIC (middle-income country) and the size of the government expenses keeps increasing. There is pressure in the exchange market, BoP (balance of payment) under pressure and the pressure was also observed from the government to fund its mega projects. The government is implementing most of the mega projects, except the Padma Multipurpose Bridge, through borrowing from external sources. Giving example of Rooppur Nuclear Power Plant project, the cost of the project is around US$ 13 billion, which will be borrowed from outside.

The project would alone increase the foreign debt-GDP ratio by around 50 per cent. "These are the risks. If Bangladesh can't maintain fiscal management, this will bring trouble. Temptation is very high as most of the countries have fallen into those temptations. Bangladesh may develop the capacity first and move forward. Renowned economist Dr Wahiduddin Mahmud said, managing fiscal policy, enhancing revenue-GDP ratio and social public spending would be challenging tasks for the government in the coming years. Executive director of the Centre for Policy Dialogue (CPD) Dr Fahmida Khatun said many countries remained in the trap of MIC for years because of poor governance while some countries in the East Asian region became successful. She said the government should learn lessons from them after analyzing the factors behind the stories of their successes and failures. She said Bangladesh is moving towards dual transition-upper MIC and achieving SDGs (sustainable development goals) by 2030 and that resource mobilization will be a huge challenge.

## Soaring Non-Performing Loans poses downside risk to growth momentum

Rising non-performing loans (NPLs) and tight liquidity condition on the domestic front alongside external challenges are likely to pose downside risk to growth momentum. The external challenges include global economic slowdown, uncertainties over a lingering US-China trade conflicts, tightening financial condition in the global market and a delayed Brexit deal. A good financial and fiscal policy measures would be required to maintain growth and price stability. The indicators of the banking sector showed some concerns during the third quarter (Q3) of the fiscal year (FY) 2018-19, as reflected in the NPL, capital adequacy, provision shortfall position and liquidity conditions, according to the BB report.

Overall NPL edged up during the period under review, driven mainly by the state-owned commercial banks (SoCBs) and private commercial banks (PCBs), the report noted. The central bank's views came against the backdrop of NPLs in the banking sector that surpassed the Tk 1.0 trillion-mark for the first time in March 2019. The volume of classified loans jumped by more than 18 per cent to Tk 1,108.73 billion in Q1 of the year from Tk 939.11 billion in the preceding quarter, the BB data showed. Besides, the share of NPL also rose to 11.87 per cent of the total outstanding loans in the January-March period of 2019 from 10.30 per cent in the previous quarter. The classified loans cover substandard, doubtful and bad/loss of total outstanding credits, which stood at Tk 9,337.27 billion as on March 31. It was Tk 9,114.30 billion three months before.

The economic growth momentum and financial stability may hamper if the rising trend in classified loans continues, they warned. The NPL issue should be addressed immediately. The bankers will have to comply with the existing rules and regulations properly before they sanction any loans to avoid loans becoming bad. Excess liquidity in the banking system squeezed owing to slower deposit growth, a significant increase in currency outside banks, and a rise in NPL.

Economic activity maintained its momentum during the period under review in line with projected 8.1 per cent GDP growth in FY 19, supported by both strong domestic and external demands. The report also said a pick-up in remittance inflows and acceleration in the government's mega project implementation helped boost domestic demand. On the production side, growth impetus largely came from the industrial sector, favoured by substantial improvement in electricity generation. Besides, buoyant service sector activities along with bumper agricultural production further spurred growth dynamics, the report said, adding that an uptrend in export growth has been maintained by continued external demand. "Looking ahead, growth prospect is favourable owing to continued solid domestic demand in near future with falling inflation," the report predicted.

## Annual inflation remains within target

The government has been able to keep inflation within the limit it had set a year back for the just-concluded fiscal year, largely on the back of higher rice production. Inflation stood at 5.48 percent in fiscal 2018-19, comfortably below the target of 5.6 percent for the fiscal year.

Inflation fell to 5.52 percent in June, the lowest in four months, riding on a decline in both food and non-food prices, according to the Bangladesh Bureau of Statistics. It was down from 5.63 percent in May this year and 5.54 percent in June last year. Food inflation fell nine basis points from 5.49 percent in May to 5.40 percent in June while non-food inflation dropped to 5.71 percent last month, down 13 basis points from 5.84 percent a month ago. June's inflation figure is an about-face from that of May when it hit a 13-month high owing to a sharp increase in prices of non-food items marking Ramadan, which typically sees a spike in consumption. The good news was that headline inflation has remained stable in fiscal 2018-19 and below the 5.6 percent target in the government's medium-term macroeconomic framework.

Decline in the food inflation counteracted the rise in the non-food inflation. However, rural inflation increased, while inflation declined in urban areas indicating gradual convergence of prices between urban and rural areas. The rise in non-food inflation in both rural and urban areas appears to have resulted from demand pull effects caused by strong income growth and fiscal expansion. Continued policy vigilance will be needed to manage the cost-push pressures arising from the new VAT law implementation and gas price increase. In June, general inflation in rural areas was 5.38 percent, down from 5.44 percent in May. In urban areas, inflation fell 18 basis points to 5.78 percent in June. Inflation has been on a downward trajectory since fiscal 2013-14. Starting with 7.35 percent, it fell to 5.44 percent in fiscal 2016-17 but slightly increased to 5.78 percent the following year. Satisfactory domestic production, favourable environment, low budget deficit and prudent monetary policy coupled with low fuel and commodity prices in the international markets contributed to the slide in overall inflation, according to government documents. The government has targeted a 5.5 percent inflation rate in the current fiscal year.

## Current account deficit narrows 40pc

A massive decline in import and an inflow of record remittance have helped narrow the current account deficit by 40 percent in the first 11 months of the just concluded fiscal year, much to the relief of the Bangladesh Bank. "This is a good trend that will help stabilise the country's foreign exchange regime. At the end of May the current account deficit stood at $5.17 billion, according to data from the central bank. But the import of capital machinery and raw materials has nosedived, which is worrying though.

Exports have so far showed a good performance and more initiatives should be taken to keep it up. Between July last year and May this year, exports increased 11.45 percent year-on-year to $37.18 billion, while imports grew only 2.62 percent to $51.84 billion. This narrowed the trade deficit by 14.56 percent year-on-year to $14.65 billion. Both current account and trade deficit trends have given some breathing space to the government. Despite attracting a record remittance last fiscal year, the inflow dropped 11.55 percent to $1.36 billion in June, he said, while urging the central bank and the government to focus on the issue on a priority basis. "All things of the balance of payments are good, but foreign exchange reserve is not working as expected," said an official of the central bank who has strong knowledge on the matter. Any country must maintain foreign exchange reserves to make import payments for at least three months and Bangladesh's reserves now are good for at most 5.2 months, down from 5.3 months a month ago and 5.8 months a year ago.

## Bangladesh Bank bent on 9/6% interest rates

The central bank is adamant about having 9 percent and 6 percent interest rates respectively for lending and deposits in the banking sector, slapping the 46 errant banks with warning letters recently. The higher rates are not acceptable given the commitment made by the sponsors of private banks in August last year, the Bangladesh Bank said in the letter on July 8 to 46 banks whose interest rates are well above the specified rates. As per the decision, the BB had instructed all banks in December last year to implement the new rates. But many did not follow the instruction. Now, the central bank has decided to crack its whip on the banks. The issue will be discussed again at the quarterly meeting of all banks' managing directors at the central bank headquarters. But economists and bankers said the BB's demand will deteriorate the sector's financial health.

This time the liquidity crunch in the banking sector is more intense than last year. As of April, the excess liquidity in the banking sector stood at Tk 66,760 crore, down 12.60 percent from December last year and 8.23 percent a year earlier, according to data from the central bank. The whole banking sector will go up in flames if the central bank tries to set the rates artificially. Depositors will shy away from banks if they get returns as low as six percent. Instead, many will park their funds with the capital market or the real estate and some may even turn to money laundering.

Already, savers are opting for government savings tools because of their higher yield in comparison to banks' deposit products. The interest rate of the national savings instrument ranges from 11.04 percent to 11.76 percent while banks offer a maximum of 7-8.50 percent. In June, the interest rates on both lending and deposit of 31 banks exceeded the 9-6 percent bounds, according to data from the central bank. Some 12 banks failed to offer the 9 percent interest rate on lending, while four banks' offered more than 6 percent interest for deposits. Banks will hardly bother to follow the central bank instruction as interest rates are determined by demand and supply.

## Teletalk to take LG's billion-dollar loan

The government has decided to take a billion-dollar loan from Korean company LG U+ for expanding Teletalk's network coverage and making the state-run operator's infrastructure 5G compatible. The Korean company has offered $1.2 billion as loan last year and the proposal was placed before PM office. To bring Teletalk up to speed with the other operators a huge amount of investment is needed. The proposal's pros are that Bangladesh will not need to take any sovereign guarantee for the loan and the interest rate is only 3 percent and the tenure of the loan 25 years. As of June, there are 16.18 crore active mobile connections, of which Teletalk have a 2.37 percent market share, according to the Bangladesh Telecommunication Regulatory Commission's monthly report. LG also wants to improve Teletalk's core network to make it capable of handling 2.4 crore customers, reads the proposal. "Teletalk had the first-mover advantage when 3G service was launched but not in case of 4G.

## BSEC seeks fiscal concessions to help develop bond market

The Bangladesh Securities and Exchange Commission (BSEC) has sought a number of fiscal concessions, including tax waivers, to help develop the country's moribund bond market, officials said. The commission has put forward a set of proposals to the National Board of Revenue (NBR) for consideration, they added. "The development of bond market is essential for the much-expected expansion of the stock market.

Currently, tax waiver facility is conditionally available in case of zero coupon bond. The facility needs to be made available for all types of corporate bonds and investors concerned. Presently, 0.10 per cent tax at source is applicable to a broker, depending on the transaction price.

Currently, 2.0 per cent stamp duty is levied on the issuance of corporate bonds which can be handed over through endorsement. Again, 3.0 per cent stamp duty is realised on 'value of consideration' of bonds which can be handed over through delivery. The high stamp duty as a barrier to the growth of bond market. The stamp duty on paper-based bonds be fixed at 0.01 per cent or Tk 0.5 million. The BSEC also recommended withdrawal of stamp duty on dematerialized corporate bonds.

# Article

## National Budget 2019-2020: An introspection of the changes driven by FICCI

*FICCI Sub-Committee on Trade, Tariff, Tax and Company Affairs*

**National Board of Revenue, the enabler**

In Bangladesh, National Board of Revenue (NBR) as part of its role of formulating the fiscal budget, every year invites the Industry to submit their proposals for addressing in the national budget. Upon collection of all the proposals, NBR also sits with Industry separately for each sector. This entire process is very unique and shows the inclusiveness offered by NBR to the Industry.

National budget is announced normally in the first week of June for the fiscal period of one year starting from 1st July, which is passed in the Parliament by end of June. Foreign Investors' Chamber of Commerce & Industry (FICCI) through its Tax & Tariff Committee submits its proposals every year for addressing in the national budget.

**How FICCI prepares its proposal and pursues for incorporation in the National Budget**

In line with the above, FICCI invites its member companies to submit their genuine business concerns in relation to income tax, Value Added Tax (VAT) and customs matters. All the concerns collected from the members are discussed in details, analyzed and thereafter final proposals are prepared for submitting with NBR, highlighting mainly the common industry matters.

In the exclusive meeting with NBR, FICCI submits all its major proposals with further details and substantiation, which enables NBR to conclude their position considering the Government's priorities set for the overall fiscal policies. **FICCI feels extremely honored** as NBR while finalizing the national budget through Finance Bill/Finance Act each year, considers addressing genuine business concerns raised by FICCI.

**Impact of declaration of National budget through Finance Bill**

Upon declaration of national budget, the Finance Bill is published along with some SROs in relation to income tax, Value Added Tax (VAT) and customs matters. Accordingly some of the changes are made effective immediately (i.e. from the date of announcement) and some are from 1st July of the following month.

One can think, based on the proposals of the Industry, Government's fiscal policies and priorities, now budget has been announced, where some of the concerns raised by FICCI may also been considered, hence job is finished for that year. Actually it will be wrong, announcement of national budget does not necessarily mean that it has been passed. As mentioned above, it will actually be passed upon lot of discussions, analysis etc. in the Parliament by end of June in the same month. Hence, apart from the existing concerns some of which may have been addressed in the Finance Bill, there can be new concerns created based on the Finance Bill, which unless taken up with NBR, those will remain as concerns.

In relation to this, FICCI has been acting as a good associate for NBR by providing very constructive Industry feedback with detail impact analysis on the proposed changes. As such for 2019-2020 budget also some of the changes brought in the Finance Bill/Finance Act were based on the constructive feedback of FICCI. This has been possible because of the credibility established by FICCI members and relentless effort of FICCI, which includes fruitful analytical feedback, continuous discussions and numerous visits to NBR by the respective team of FICCI.

**The proposals of FICCI considered in the Finance Bill/ Finance Act, 2019-2020**

**A Income Tax:**

**i) Fixed time line for NBR certificate u/s 56(2):** In the Finance Act a fixed 30 days' time line has been set for issuing mandatory certificate by NBR for applying "0" or lesser WHT rate applicable for non-resident payments (dividend, royalty etc.). This was a huge concern, particularly for MNCs requiring payment to non-resident abroad as all outward remittances were stuck for indefinite periods (in some cases more than six months) in the absence of any set time line.

**ii) WHT on Retained Earnings and Stock Dividend:** Through Finance Bill, a WHT @ 15% was imposed on Retained Earnings (exceeding 50% of paid-up capital and Stock Dividend for listed company only). FICCI took up this matter with very high importance highlighting among others, the potential impact on Foreign Direct Investment (FDI). Thanks to NBR for realizing the impacts highlighted by FICCI and for the revision made in the Finance Act in the following manner:

- On Retained Earnings: WHT @ 10% on the total amount transferred to retained earnings, when such amount exceeds 70% of net income after tax in a year.

- On Stock Dividend: WHT @ 10% tax on stock dividend if the amount of stock dividend exceeds the amount of cash dividend in a year.

**iii) New mechanism to compute Arm's length Range (ALP) proposed in the Finance Bill:** As part of this new mechanism, among others, a stringent range between 40% and 60% of the data set was proposed for computing ALP. Upon very practical submission, highlighting that this is not aligned with the OECD model and even more stringent than our neighboring country like India, NBR finally revised this range to between 30% and 70% of the data set.

**iv) Rationalization of wealth tax ceilings:** Although there are further improvement required, however FICCI was strongly behind the revision of enhancing the lowest ceiling from Taka 2.25 crore to Taka 3.00 crore

**B VAT:**

**i) Implementation of the new VAT law:** FICCI is one of the pioneer Chambers, who has been advocating for the new VAT law with a transition time for smooth implementation of the new law.

**ii) Introduction of fixed 5% VAT for Trading business (no input tax credit allowed):** Through Finance Bill, this new provision was introduced, which could have extremely adverse impact for the entire Industry if not addressed in the Finance Act (based on the number of intermediaries, total incidence at end consumer level could go up to 6%-20%). FICCI was one of the fastest Chamber to take-up this matter with NBR highlighting the extreme adverse impact of this new provision. Thanks to NBR again, the provision has been revised in the Finance Act. Now as an alternative to 5% fixed VAT, Trader is also allowed input tax credit on payment of standard 15% VAT.

**iii) Other major changes driven by FICCI implemented in the Finance Act:**

- Withdrawal of withholding VAT provision, in case of when VAT @ 15% is applicable

- Removing the condition of payment of input VAT for taking credit against output

VAT

- Rationalization of certain VAT forms

**C Customs:**

**Increase in tariff/minimum assessable value for certain imported items** Through FICCI, the concerns were presented before NBR, highlighting probable impact of the same being much higher than international market price. Although, NBR did not address the concerns entirely, however for some items as raised by FICCI, it has reduced the minimum value for certain goods, which has been reflected in the SRO issued by NBR in end June, 2019.

The key concerns still unresolved and needs to be taken up by FICCI

Because of different sets of priorities, very high revenue target and sometimes lack of understanding about the industry issue in view of lack of research, all the concerns raised by FICCI is not always addressed in the national budget. Consequently, among others following key concerns are still unresolved and needs to be taken up with NBR and other relevant ministries by providing a comprehensive justifications:

**A Income Tax:**

i) Reduction of corporate tax rate, in view of very high effective tax rates

ii Withdrawal of admissibility range of 8% of profit for Royalty expenses and 10% of profit for Head office expenses

iii Withdrawal of excess perquisite tax, as it is a double tax

iv Rationalization of WHT based on legitimate income level and allowing tax refund in all cases, where WHT is higher than actual tax liability (in some cases by setting as minimum tax u/s 82C the eligibility of refund has been taken away)

v) Rationalization very high level of WHT rate (20%) for non-resident payment

vi) Withdrawal of minimum tax, particularly for telco industry, which has been increased from 0.75% to 2.00% of turnover in this Finance Act

**B VAT (under new law):**

i) Removal of complexities like mandatory submission of input/out co-efficient

ii) Removal of complexities for claiming input tax credit

iii)Withdrawal of Supplementary Duty (SD) on locally manufactured goods

iv) Rationalization of SD for certain imported goods

**C Customs:**

i) Rationalization of basic duties for certain imported goods

ii) Rationalization of minimum assessable values for certain goods based on actual transaction price

iii) Ensure assessment of imported goods following Valuation Rules, 2000

**Conclusion:**

Over the years, the member companies of FICCI have established a very strong reputation for their commitments towards adherence to laws and regulations, which is evident from among others in the contribution made by these companies to the National Exchequer (about 30%+ compared to the overall Govt. revenue). This has created a huge credibility of FICCI as well as an additional responsibility to provide NBR constructive feedback as to how fiscal policy should be formulated aligning with the global standards and ethical practices, which is not necessarily to advice only on reduction of taxes but also as to how tax revenue can be increased on the untapped areas, by providing research based inputs.

# News from Member Companies

## Revolutionizing Sustainable Farming

Private-sector entities such as British American Tobacco (BAT) Bangladesh, has been responsible for a modernising revolution in farming that is improving farmer incomes, productivity, crop yields and product quality, whilst also protecting the environment.

BAT Bangladesh has been operating in the country since 1910 and believes it has a key role to play in helping the farming community to develop practices that achieve economic, social and environmental benefits. It is committed to advancing towards Integrated Farm Management — a system that delivers sustainable agriculture through the site-specific use of cutting-edge tools, technologies and practices — and is able to achieve this through its unique relationship with over 34,000 Bangladeshi farmers that gets registered with the company each year through which they also ensure zero child labour and equal pay.

New ways of growing seedlings, such as using bio fungicides (trichodarma,etc), have been introduced that reduce labour costs and are environmentally friendly, along with quality fertilisers, production techniques and post-harvest fuel economy curing technologies. One of the main reasons for the increased productivity in Bangladesh's agricultural sector overall has been a major shift to Good Agricultural Practices (GAP) from traditional farming.

Bangladesh and its cultivable fertile land is extremely vulnerable to climate change, especially being a Delta country. To combat this challenge, BAT Bangladesh has brought in numerous initiatives to support its goal and the government's goal of protecting the environment. It has adopted sustainable soil management techniques, and promoted green manuring

using the plant Dhaincha, which is also an alternative source of energy, as well as through the free installation of compost pits at farms. As a result of the company's actions, 93% of its farmers adopted IPM approaches which resulted less use of agrochemicals and ensures a safe environment, example trap crop, pheromone trap, etc.

To spread the word about these techniques, BAT Bangladesh has set up 75 Integrated Pest Management Clubs, in collaboration with the government's Department of Agricultural Extension. Through the clubs, farmers receive advanced understanding and

skills training for using bio-fertilisers and environmentally friendly pest control methods.

'I have received training not only for tobacco cultivation but also for many other important aspects of farming for example – IPM, ICM, IFMC, Farm Labour Compliance & Safety etc. This sets me apart from other farmers. If all the farmers get such training, it will have a greater positive impact on our communities.' Said a progressive tobacco farmer from Manikganj.[1]

As well as reducing chemical usage on crops, BAT Bangladesh has reduced the amount of water its farmers use, by ensuring irrigation systems (polytube irrigation) that accurately control the volume of water and prevent wastage. It also promotes awareness amongst the farming community about the importance of diversity. BAT Bangladesh also distributes 4 Million tree saplings every year with an admix of fruit, timber and medicinal plants at free of cost to its farmers and its communities to promote environmental protection through afforestation.

BAT Bangladesh encourages farmers to increase their production of other agricultural products, such as horticulture crops, poultry, livestock, fish, fruit and vegetables. This enables its farmers to get the most from their lands, increase the income they can generate and diversifies any risk across seasons and crops.

Such actions by the Company not only helps the community but also helps the government to attain their national goals as well as Sustainable Development Goals (SDGs). Goals #11 (Sustainable Cities and Communities) and #12 (Responsible Consumption and Production) are directly complemented by such activities. It is evident from these activities that BAT Bangladesh is always striving for new and innovative ways to implement sustainability in all of its models – not just agriculture.

*Changing Socioscapes of Farming Communities. A research conducted by Bangladesh Agricultural University*

# Key Economic Indicators

## Consumer Price Index & Inflation Rate

| CPI Classification | 2016-17 | 2017 - 18 | 2018- 19 | 2017 - 18 | | | 2018 -19 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Apr'18 | May'18 | June'18 | Apr'19 | May'19 | June'19 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| NATIONAL | | | | | | | | | |
| General index | 231.82 | 245.22 | 258.65 | 248.85 | 245.80 | 246.82 | 262.73 | 259.63 | 260.44 |
| Inflation | 5.44 | 5.78 | 5.48 | 5.63 | 5.57 | 5.54 | 5.58 | 5.63 | 5.52 |
| Food index | 248.90 | 266.64 | 281.33 | 271.42 | 265.27 | 265.33 | 286.46 | 279.83 | 279.65 |
| Inflation | 6.02 | 7.13 | 5.51 | 7.03 | 6.56 | 5.98 | 5.54 | 5.49 | 5.40 |
| Non-food index | 209.92 | 217.76 | 229.58 | 219.90 | 220.83 | 223.09 | 232.31 | 233.72 | 235.82 |
| Inflation | 4.61 | 3.74 | 5.43 | 3.49 | 4.08 | 4.87 | 5.64 | 5.84 | 5.71 |
| RURAL | | | | | | | | | |
| General index | 231.02 | 244.17 | 256.74 | 247.86 | 243.62 | 244.38 | 261.27 | 256.87 | 257.52 |
| Inflation | 4.96 | 5.69 | 5.15 | 5.59 | 5.07 | 5.07 | 5.41 | 5.44 | 5.38 |
| Food index | 243.08 | 259.86 | 273.55 | 264.56 | 257.06 | 257.11 | 279.59 | 271.64 | 271.45 |
| Inflation | 5.54 | 6.90 | 5.27 | 6.76 | 5.62 | 5.25 | 5.68 | 5.67 | 5.58 |
| Non-food index | 211.83 | 219.21 | 230.01 | 221.29 | 222.22 | 224.13 | 232.12 | 233.36 | 235.36 |
| Inflation | 3.91 | 3.48 | 4.93 | 3.44 | 4.07 | 4.76 | 4.89 | 5.01 | 5.01 |
| URBAN | | | | | | | | | |
| General index | 233.29 | 247.17 | 262.17 | 250.67 | 249.83 | 251.32 | 265.44 | 264.73 | 265.85 |
| Inflation | 6.37 | 5.95 | 6.07 | 5.70 | 6.48 | 6.38 | 5.89 | 5.96 | 5.78 |
| Food index | 263.09 | 283.19 | 300.30 | 288.18 | 285.30 | 285.38 | 303.23 | 299.83 | 299.67 |
| Inflation | 7.10 | 7.63 | 6.04 | 7.63 | 8.69 | 7.63 | 5.22 | 5.09 | 5.01 |
| Non-food index | 207.38 | 215.83 | 229.00 | 218.05 | 218.98 | 221.70 | 232.57 | 234.20 | 236.42 |
| Inflation | 5.60 | 4.08 | 6.10 | 3.57 | 4.08 | 5.03 | 6.66 | 6.95 | 6.64 |

Source: Bangladesh Bureau of Statistics

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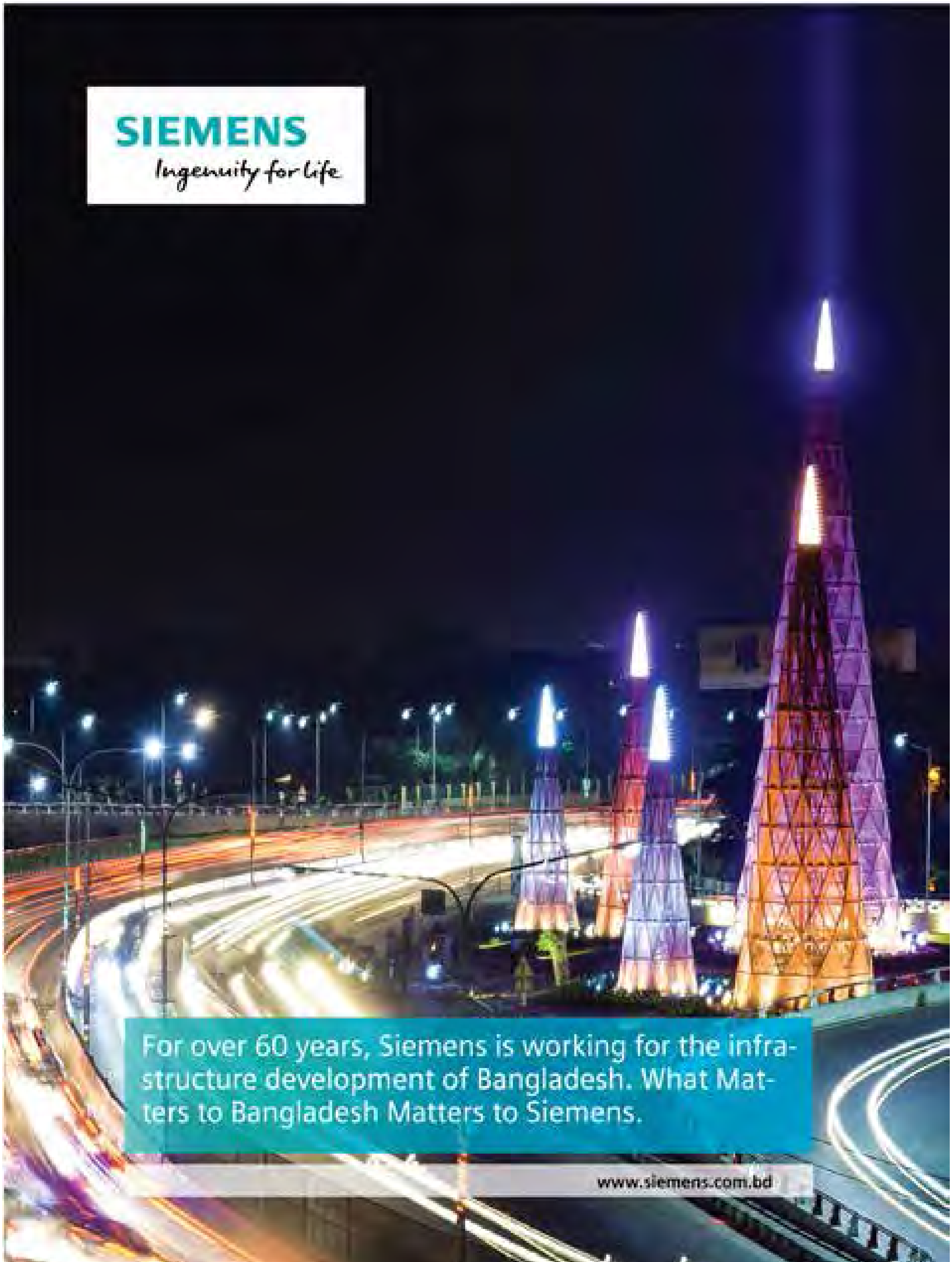
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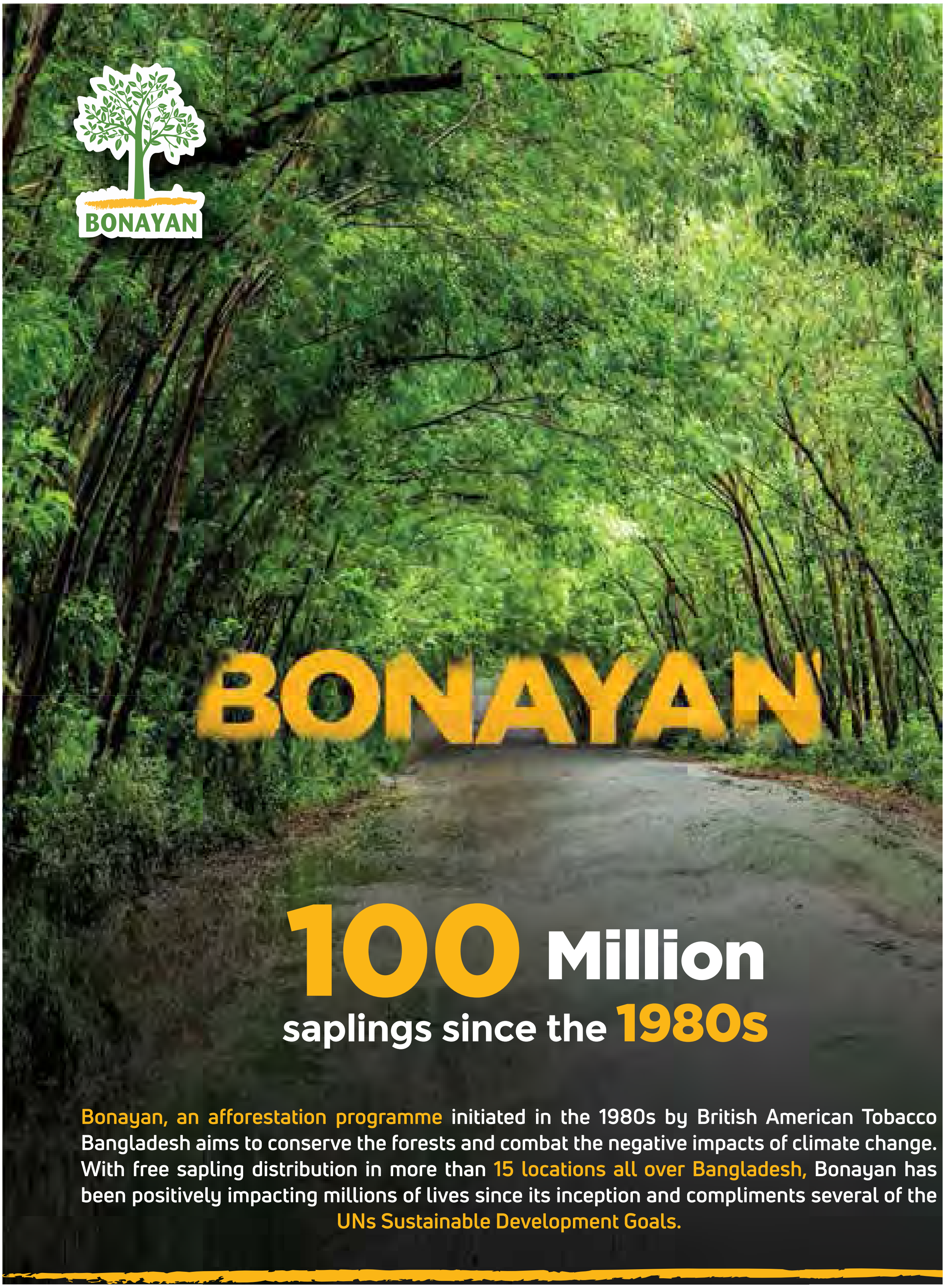
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