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Pandemic nudging Bangladesh's debt-to-GDP ratio out of comfort zone

EYE ON BUDGET

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The coronavirus pandemic is turning out to be a quite a costly affair for Bangladesh, due to which its public debt-to-GDP ratio, which has thus far been in a healthy position, is set to exceed the responsible threshold of 40 per cent.

In the coming years, Bangladesh's public debt-to-GDP ratio, which stood at 36 per cent at the end of 2019, would swell to about 41 per cent owing to increased borrowing to safeguard both lives and livelihoods, the International Monetary Fund said.

"Even so, debt should remain sustainable," said Ragnar Gudmundsson, resident representative for Bangladesh of the IMF, on the crisis lender's website.

In a way, this is a testament to the sound economic and fiscal policies implemented in recent years, with limited aid dependency, prudent borrowing and, up until the crisis, adherence to a deficit ceiling of 5 per cent of GDP.

"Before the crisis, Bangladesh was in a very good position, with a low risk of overall and external debt distress," Gudmundsson said.

One of the most densely populated countries in the world, Bangladesh exemplifies the triple blow that many emerging market countries have suffered from the pandemic: domestic slowdown caused by the disease and the efforts to contain its spread; a sharp decline in exports, particularly of its main product garment, and a decline in remittance.

This has left Bangladesh suddenly requiring additional funds.

But the updated debt sustainability analysis capturing the impact of the pandemic shock shows that debt remains at low risk of debt distress, the IMF said earlier this month while approving $732 million in emergency financing.

Despite the adverse shock to growth and exports, all external debt indicators are below their respective thresholds under the baseline and stress-test scenarios.

Public debt also remains below its indicative benchmark under the baseline and stress-test scenarios, it said.

Higher economic growth, limited revenue shortfall, the right mix of credit and stable foreign currencies helped keep the public debt-to-GDP ratio at about 35 per cent for a decade from fiscal 2008-09.

The government has unveiled various stimulus packages amounting to $103,117 crore, which is 3.7 per cent of the country's gross domestic product, to help people, businesses, entrepreneurs, farmers, industrialists and exporters counter the impact of the pandemic.

The stimulus packages are the second-highest among the peer countries in Asia and the highest in South Asia.

As a result, the total outstanding debt expanded by 1.7 percentage points of GDP in the revised budget for fiscal 2019-20 from the original one, the paper said.

The debt level would go up by another 1.2 percentage points to Tk 117,000 crore in fiscal 2020-21 when most of the stimulus packages would be implemented. Domestic debt would account for 63 per cent and the external financing 37 per cent in the next fiscal year.

The cost of funds for foreign financing is still lower than domestic financing although external borrowing entails some foreign currency risks.

Any devaluation of local currencies immediately increases the cost of overseas borrowing, the finance division paper said.

It would be relatively cheaper to finance the budget deficit relying on the external sources and an appropriate mix of foreign and local loans would help cut financing debt expenditure and the overall outstanding debt.

The budget deficit for this fiscal year was estimated at Tk 145,380 crore. However, the deficit in the revised budget has been set at Tk 153,513 crore, which is 5.5 per cent of GDP.

The overall budget deficit in fiscal 2020-21 will be Tk 190,000 crore, which is 6 per cent of GDP.

It is expected that the economy would receive momentum on the back of the implementation of the stimulus packages and the central bank's expansionary monetary policies, prompting the government to project 8.2 per cent GDP growth in the next fiscal year.

The growth projection is higher than 5.7 per cent forecasted by the IMF.

The reforms of debt management, the lower interest rate in the international market and higher GDP growth would create a congenial environment for credit management in the near future, the finance division said.

"So, an uptick in the debt-to-GDP ratio would not emerge as a matter of concern in the medium term."

Experts, however, suggest caution.

In the developed countries, the revenue-to-GDP ratio is 30 per cent to 35 per cent and the debt-to-GDP ratio is 70 to 100 per cent. This brings the debt-to-tax ratio to 300 per cent, according to Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh.

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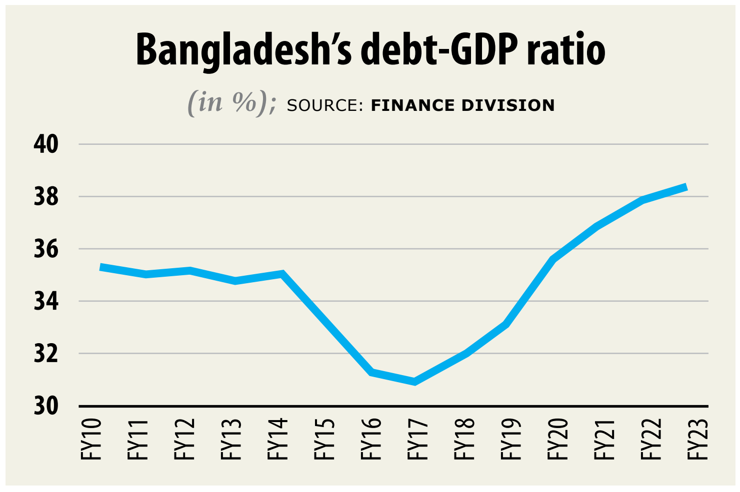


Mobile carriers feel hard done by

Demands revision of supplementary duty hike

Star Business Report

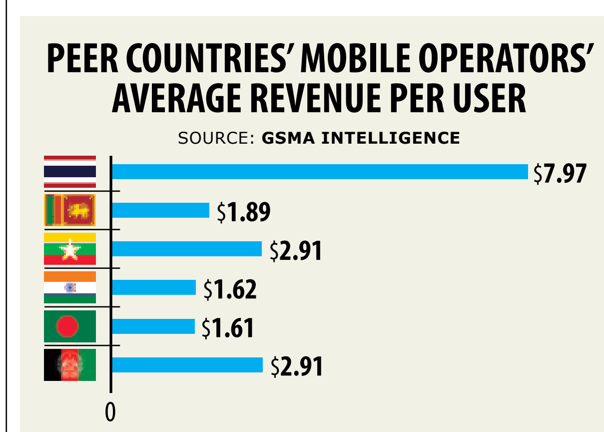
EYE ON BUDGET

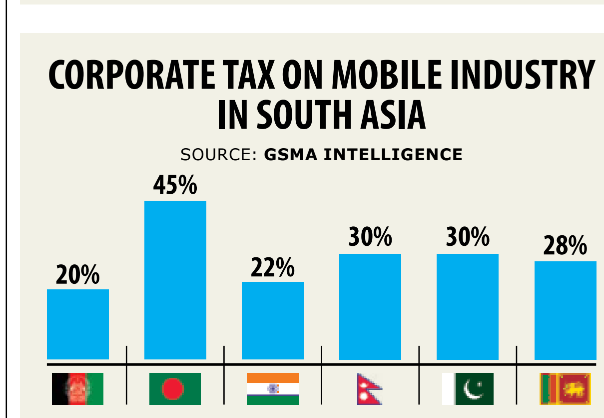
The government may not achieve their target revenue from the telecom industry with just a 5 per cent increase in supplementary duty for the upcoming fiscal year, said senior executives of the country's mobile network providers yesterday.

During the budget proposal last Thursday, Finance Minister AHM Mustafa Kamal announced a 15 per cent supplementary duty on telecommunication services, a significant rise from the previous 10 per cent. This decision came into effect on Friday.

Each year, the taxes are increased in various ways since it is easy to collect revenue from the telecom industry, said Taimur Rahman, chief corporate and regulatory affairs officer of Banglalink.

"The authorities consider the telecom industry to be a cash cow. This is why investors shy away from Bangladesh but jump in wholeheartedly in other markets," he added.





The new supplementary duty rate could give the government an additional Tk 300 crore but it would also damage the industry, said Shahed Alam, chief corporate and regulatory officer of Robi, during a digital press conference organised by the Association of Mobile Telecom Operators of Bangladesh (AMTOB).

The government expects to collect an additional Tk 1,008 crore through this 5 per cent increase. However, this move will only reduce their expected revenue by Tk 700 crore, he said.

The telecom industry considers the tax burden as a major obstruction for growth and this will hinder Bangladesh's journey to become a digital economy, Alam added.

With this backdrop, the AMTOB has asked the government to review the new tax as the telecom sector has been declared as an essential service.

To address their concerns, AMTOB General Secretary SM Farhad said that the organisation already contacted Telecom Minister Mustafa Jabbar, who expressed frustration over the budget and assured that the Prime Minister's ICT Affairs Adviser, Sajeeb Wazed, was informed on the matter.

Currently, the telecom industry accounts for about 7 per cent of Bangladesh's economy.

If the telecom companies get a more favourable business environment, then it will help the industry contribute up to 10 per cent of the economy within a very short time.

"But this is not the case. Instead, the sector has found a new challenge in running regular operations."

In terms of the customer to revenue ratio, Bangladesh's telecom sector is in the lowest position.

In terms of taxes, however, Bangladesh's mobile network providers pay the highest tax among their counterparts in other South Asian countries.

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Parcel delivery arena heats up as Uber makes its grand entry

Global tech giant to provide the service in Dhaka city for now

Mahmudul Hasan

Uber seemed to have had another trick up its sleeve when it announced last month that it was shutting down its highly popular food delivery arm, Uber Eats, in Bangladesh from June 2.

It turns out the San Francisco-based tech giant was pivoting to package delivery, a service whose demand saw a huge leap as the pandemic enforced switch to online shopping.

The company yesterday announced the rollout of its new service Uber Connect, which would enable residents in Dhaka to send and receive parcels from each other and also order items from shops within city limits.

Uber's entry into this arena comes at a time when e-commerce platforms and courier services providers are grappling with swelling orders and are failing to deliver products to customer's doorstep because of ill-preparedness, obstacles on commuting goods and adequate service personals.

"We are thrilled to be launching Uber Connect, which will help users send and receive essential items to their friends and family or order items from shops during this crisis, without having to step out of their homes," said Ratul Ghosh, head of Uber for Bangladesh and East India.

The new service also means the thousands of drivers who have left without income for more than two-and-a-half months now for the government's reluctance to allow ride-hailing service providers back on the roads would be able to find a new source of living.

"Uber Connect is a prime example of how we are adapting our platform to meet the needs of our communities, which still need to practice social distancing in these challenging times. This is also an extension of our ongoing efforts to provide driver-partners with new earning opportunities," Ghosh added.

All packages should be transportable on a two-wheeler vehicle, be under 5 kilograms in weight, securely sealed and not include prohibited items such as alcohol, recreational drugs, or dangerous and illegal items.

The new delivery service can only be used for transporting goods and not ferrying passengers.

Similar to on-demand trips, customers will be able to continue monitoring the trip's progress before pick-up, en route and at the drop-off point, Uber said in a statement.

Customers can also share the delivery status with the recipient of the package.

Uber though would face serious competition from its top rival in Bangladesh Pathao, which introduced parcel delivery service in 2017.

Pathao is the market leader of the on-demand package delivery category in Bangladesh and has its footprint in the port city Chattogram too.

"Our orders have increased significantly since the lockdown began," said Sayeda Nabila Mahabub, director for marketing and public relations at Pathao.

Another rival Shohoz, which provides on-demand and offline truck service alongside ridesharing and food delivery services, is also gearing up to introduce such service.

"We are observing the opportunities and considering launching it since we already have both long-haul and last-mile logistics," Maliha M Quadir, managing director of Shohoz, told The Daily Star yesterday.

For the last few years, logistics companies have been experiencing enormous growth thanks to people's appetite for shopping and consuming food and beverage from the convenience of one's home.

Before the pandemic, logistics companies used to make about 1 lakh home deliveries daily, of which 30,000 were food deliveries, according to industry insiders.

Including e-commerce and f-commerce, the number of deliveries made by logistics companies would now be more than 1.5 lakh, said Biplob Ghosh Rahul, chief executive officer of eCourier, a leading logistic provider.

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Krishibid Feed plans to go public for Tk 30cr

Ahsan Habib

Krishibid Feed, a sister concern of Krishibid Group, has deisgns to go public to raise Tk 30 crore to expand its business to meet the growing demand for feeds in the livestock sector.

The poultry, fish and cattle feed producer has already applied to the stock market regulator for its initial public offering.

One-third of the IPO proceeds will be used to repay bank loans. About Tk 18 crore would be used for business expansion purposes and the rest to foot IPO expenses.

It will set up two factories in Bogra and Panchagarh as it makes a push towards grabbing the feed market of the country's northern region and also expand its existing factories in Bhaluka of Mymensingh.

The building and other civil construction works would cost Tk 7 crore and the new machinery Tk 4.08 crore.

The company will also shell out Tk 4.06 crore to buy 13 delivery vans to strengthen its supply chain and Tk 2.85 crore to buy two diesel generators.

With the new plants and delivery vans, Krishibid Feed's transport cost will drop, said Sifat Ahmed Chaudhuri, its finance director.

"It will help us compete aggressively in the market," he said, adding that the company is also on the lookout for foreign funds to set up more plants as animal feed has huge demand.

According to the IPO prospectus, the industry's current turnover is more than Tk 10,000 crore and a growth rate of about 10 per cent a year.

Since the 2015-16 financial year, the company has witnessed handsome growth in its turnover every year. But Krishibid Feed's profits did not increase at the same rate.

The company's turnover rose 133 per cent to Tk 89.92 crore in its 2018-19 financial year compared with the 2015-16 financial year, but its net profit rose 45 per cent to Tk 5.10 crore during the time, according to the prospectus.

"We had to keep our prices low to compete in the market as we barely sold our products on credit like our competitors. This has impacted our profit," said Chaudhuri, also a director of the Bangladesh-Malaysia Chamber of Commerce and Industries.

But once the expansion is complete the eight-year-old company will see brighter days, he said, adding that their sales remained almost unscathed during the ongoing pandemic as their products have a constant demand.

Though their main markets are Mymensingh, Satkhira and Comilla, now they are trying to expand the network all over the country, Chaudhuri said.

"Krishibid Feed has huge potential as its directors are highly educated with professional backgrounds in agriculture," said Khairul Bashar Abu Taher Mohammed, chief executive officer of MTB Capital, the issue manager of the company.