Fitch cuts India's sovereign rating outlook to 'negative'

REUTERS, Mumbai/Bengaluru

Fitch cut its outlook on India's sovereign rating to "negative" from "stable" on Thursday and forecast a 5 per cent contraction in growth for the current fiscal year, saying the coronavirus outbreak was extracting a heavy toll on the economy.

"The coronavirus pandemic has significantly weakened India's growth outlook for this year and exposed the challenges associated with a high public-debt burden," the ratings agency said in a statement.

However, Fitch maintained its India rating at 'BBB-', the lowest investment grade.

The move comes after Moody's downgraded India earlier this month to a notch above junk, falling in line with other global agencies, while also cutting its outlook to 'negative'. But S&P shortly after affirmed its rating and maintained a 'stable' outlook.

Fitch said it expected India to rebound with growth of 9.5 per cent in 2021/22, mainly due to a low base but highlighted that its forecasts are subjected to considerable risks due to continued rise in new COVID-19 cases as nationwide lockdowns are eased gradually.

The agency said the medium-term fiscal outlook is of particular importance from the rating perspective, but is subject to great uncertainty and would depend on the level of GDP growth and government's policy intentions.

Fiscal metrics have deteriorated significantly and Fitch said it expects government debt to jump to 84.5 per cent of GDP this year from 71 per cent last year and sharply higher than the median 52.6 per cent for other similar rated countries in 2020.

Fitch said India's medium-term GDP growth outlook might be negatively affected by renewed asset-quality challenges in banks and liquidity issues in non-banking financial companies and need for further financial support for banks is inevitable.

"It remains to be seen whether India can return to sustained growth rates of 6 per cent to 7 per cent as we previously estimated, depending on the lasting impact of the pandemic, particularly in the financial sector," they wrote.

REUTERS/FILE

The offices of Fitch Ratings building appears empty in Canary Wharf, following the outbreak of the coronavirus disease, London, Britain.

Air maintenance firms, manufacturers plan for $60 billion in lost sales

REUTERS

Maintenance firms and spare parts producers who keep airplanes running are bracing for a decline of up to 75 per cent in sales this year - and more pain to follow - as airlines park or retire thousands of aircraft due to the coronavirus pandemic.

Worth about $80 billion in sales last year, the industry ranges from engine makers like General Electric Co and Rolls-Royce Holdings Plc to systems companies like Honeywell International Inc and Raytheon Technologies Corp and a host of smaller suppliers.

Jetliners on average cost $3 million a year to service and make up a significant portion of revenue for most of these firms. That is under threat as the crisis cripples air travel and reduces the number of hours planes spend in the air, pushing back overhauls.

"We foresee reduction in maintenance, repair and overhaul demand of 60 per cent or more for commercial aero engines (in 2020). And production will fall 40-50 per cent," said Kevin Michaels, managing director at aerospace consulting firm AeroDynamic Advisory.

"We will have an overhang of thousands and thousands of aircraft more than we require for years. To balance that out, you are going to have to retire thousands of aircraft."

The decline of up to 75 per cent in services revenue, which amounts to about $60 billion in lost sales, was estimated by analyst Richard Aboulafia at aerospace consultancy Teal Group.

Lower demand for new jets is also causing the industry to revisit projections for demand for services later on, as fewer jets come down the pipeline for future parts servicing.

Thousands of layoffs are already planned or under way but some aerospace experts suggest the impact is likely to be deeper than originally thought and point to several years of hard choices, with the market properly recovering only in 2023.

The International Air Transport Association said last week that airlines would lose $84 billion in 2020, with revenue down by half to $419 billion, the worst year in the sector's history.

"This is going to be a very brutal time for companies dependent upon aftermarket revenues," Aboulafia said.

"The job cuts and spending cuts have only begun," he added. "Generally, they need to fall as closely in line with output as possible, and output - of aircraft and spare parts - has only begun to be cut too."

Advance tax weighs heavy on businesses amid pandemic

FROM PAGE B1

The idea behind the move was to widen the VAT net and curb the scope for money laundering through trade misinvoicing.

The new AT would be adjustable with the total payable VAT in their returns and the tax paid in excess would be refunded to the taxpayer.

However, steel manufacturers already have to invest huge sums of money to import raw materials and with the new AT, which was first introduced under VAT law in fiscal 2019-20, firms will have to pay a considerable amount of AT, which exceeds the actual VAT payable, the BSMA said.

Manufacturers suffer financially while taking the hassle to get refunds, blocking their working capital and increasing costs in the process, the association added.

Following their demands to withdraw AT completely, it was only reduced by a single percentage.

"This one per cent reduction is not enough. While the COVID-19 crisis has induced a capital shortage, steel millers will only incur more losses due to the imposed AT," the BSMA said.

Aside from those in the steel industry, manufacturers in other sectors who sell their products in the domestic market will face similar difficulties.

"We kept our factory shut for two months because of the coronavirus outbreak and are now suffering from liquidity shortage. At this time, it would have been very helpful had AT been exempted," said Abu Sufian Chowdhury, managing director of Modern Poly Industries.

Modern Poly Industries, a producer of yarn and other man-made fibres used in clothing, imports PET chips to make drawn textured yarn, also known as polyester textured yarn.

Up until fiscal 2018-19, AT was not levied on the import of PET chips while cotton or staple fibre imports remain exempt from the charge for the upcoming fiscal year, beginning on July 1.

Therefore, it is justifiable to exempt AT on similar products like PET chips, Chowdhury said.

AT charges are comparatively higher for Modern Poly Industries as the customs authority assess the value of ingredients needed to make polyester yarn to be higher than its invoice value, he added.

Besides, although the 1 per cent reduction in AT rates is a welcome change, most manufacturers were hoping for a complete withdrawal of the provision.

The managing director also demanded similar VAT rates for cotton yarn and man-made fibres.

Echoing Chowdhury's sentiment, Md Shafiul Ather Taslim, director for finance of TK Group, said that the change in AT to 4 per cent comes as a relief.

"There will be some savings at the least even though we still have to bear interest on bank loans while waiting for a refund," he said.

TK Group, a company that caters to diversified sectors such as commodity importing and processing, has been waiting for a refund amounting to about Tk 100 crore for several months now.

"But there is still no update," Taslim added.

Refunds are generated in sectors with low-value addition and so, if the government wants to levy AT, it should be industry-specific, according to the director.

An official of the VAT Commissionerate in Dhaka said that the issue of blocked working capital would be eased once the refund process is streamlined.

However, others remain adamant about the tax being a bane on the production process.

"AT should be eliminated. It is a very inefficient system for doing business as it increases costs at a time when we are seeking to build an investment-friendly environment," said Abul Kasem Khan, chairman of the Business Initiative Leading Development (BUILD).

On the other hand, the government could levy advance tax and corporate tax if it increases investment in productive sectors and job creation, he added.

Please don't go for pay and job cuts

FROM PAGE B1

In a notice yesterday, the BB asked banks' chief executives to take 'all required measures' such that the bankers feel regenerated and play a proactive role in implementing the government-announced Tk 103,000 crore stimulus package for revival of the coronavirus-battered economy.

"The role of bankers and staffs to keep the wheels of the economy rolling is undeniable during this hard time of the country. It will not be possible to make a turnaround of the economy and attain the desired goal of GDP without the active participation of bankers and employees," the central bank said in the notice.

In its notice yesterday, the BB did not mention the salary cut issue but asked the bank chief executives for taking all sorts of initiatives so that bankers and employees, infused with a new life, can play the role of front liners in executing the stimulus packages.

"We have issued the directive so that banks do not take any step like salary cuts or job cuts, which would make bankers morally weak," said a senior central banker seeking to remain unnamed.

Over the last three months, since the country's first confirmed cases of COVID-19 were announced and the subsequent shutdown to slow the spread of the rogue virus, the government announced various incentive packages to take the businesses and the economy out of the wreckage caused by the two-and-a-half month-long countrywide shutdown and waned domestic and global demand.

The BB said banks will use of their own funds to provide working capital support of Tk 20,000 crore to the affected cottage, micro, small and medium enterprises, and Tk 30,000 crore to industries and service sectors.

The government will bear a portion of the interest of the funds.

Most of the packages announced by the government are being implemented by banks. As such, bankers are required to have adequate knowledge of the packages.

It is also urgent to include officials of branches and head office for implementation of the packages.

The BB asked banks to open help desks at every branch so that the affected businesses get finance in the least possible time.

Private sector should lead economic recovery: experts

FROM PAGE B4

Selim Raihan, executive director of the South Asian Network on Economic Modeling (SANEM), suggested that the government should effectively implement its stimulus packages so that firms, especially cottage, micro, small and medium enterprises, can continue to grow even during these troubled times.

A complete reform of the country's VAT law is required as the harassment businesspeople face under the current law is on the rise, said Rupali Chowdhury, president of the Foreign Investors' Chamber of Commerce and Industry.

"The effective VAT rate on honest taxpayers is also really very high," Chowdhury added.

While presenting his keynote paper, MA Razzaque said that if the economic development witnessed in Bangladesh during the pre-coronavirus era had held steady, then the country could have been free of extreme poverty by 2028-29.

But the Covid-19 pandemic abruptly upset the economy in such a way that that it could take an additional 5 years beyond that point to reach zero poverty, Razzaque said while suggesting that the government should increase the flow of funding in the private sector and increase exports.

Asif Ibrahim, chairman of the Chittagong Stock Exchange, recommended the government set corporate tax for listed companies at 20 per cent as opposed to the proposed 25 per cent to encourage more companies to go public.

Offshore banking units to get more funds from banks' local operations

FROM PAGE 1

But with permission from the Foreign Exchange Investment Department of the BB, banks, as part of their offshore banking, may also make loans or advances to the juristic persons not resident in Bangladesh provided that the full amount of loan or advance is covered by requirements.

The central bank on May 27 last year revised its policy to allow local industrial enterprises to take foreign currency loans from OBUs. Applications for approval of loans from offshore banking to resident industrial enterprises have to be submitted to the foreign exchange investment department, not to the banking regulation and policy department.

For OBUs, banks are required to maintain a minimum 2 per cent cash reserve ratio with the BB on bi-weekly average basis with a provision of minimum 1.5 per cent on a daily basis of the average total demand and time liabilities of OBUs.

This order will be effective from July 1.

With a view to bringing discipline to the offshore banking programme, the BB on February 25 last year issued a full-fledged policy.

Bangladesh to post highest GDP growth in Asia this fiscal year

FROM PAGE B1

Afghanistan is expected to contract by 4.5 per cent in 2020. Maldives's economy is expected to contract by 11.3 per cent in 2020. Sri Lanka's forecast for 2020 is downgraded to contraction by 6.1 per cent.

"If the pandemic dissipates in 2021, these three economies are set to rebound to growth by 3 per cent in Afghanistan, 13.7 per cent in the Maldives, and 4.1 per cent in Sri Lanka," the ADOS said.

Stockbrokers call for slashing advance income tax

FROM PAGE B1

He said they had appealed to the regulator, bourses and other stakeholders seeking a waiver of some charges at least for the current year, but to no avail.

"If we survive, so will investors. Otherwise, the government will lose huge revenue from stock trading," Hossain said.

He went on to call for a special fund for three years such that they can pay staff salaries.

"Every year we expect that the coming year would be better, but that year too ends in mounting losses," said another stockbroker asking not to be named.

Very few stockbrokers can book some profit at the end of the year.

"So the government should help us remain in business," he added.

The platform of brokers in its letter also urged the government to lower the corporate tax for listed companies to maintain the gap in corporate tax between listed and non-listed firms the same as before.

The provision in the proposed budget to allow investment of undisclosed money in the stock market is a positive gesture but the lock-in period of three years tagged with the proposal should be lifted, it said.

The tax rate for investing the undisclosed money in stocks should be 5 per cent and not 10 per cent as was proposed, the stockbrokers said.

BB asks banks to continue identifying good borrowers

FROM PAGE B1

If a borrower has more than one loan, they have to fulfil each condition for all of the load products, the BB notice said.

In all cases, if a borrower or their related companies have a classified loan in any bank in the preceding 12 months, they would not qualify as good borrowers.

If a loan is regularised through a restructuring or rescheduling for the first time for logical reasons, they would qualify as a good borrower.

The information about the loan of a good borrower has to be sent to the Credit Information Bureau.

Cement manufacturers on shaky ground

FROM PAGE B4

To establish their factories, cement companies collectively borrowed at least Tk 30,000 crore from the banking sector as market assessments found that the demand for the key construction product would remain constant until 2041.

"However, it is unfortunate that the industry continues to suffer because of the novel coronavirus," Kabir said.

Besides, the government receives a huge amount of income tax from the country's cement companies while the industry creates thousands of opportunities for direct and indirect employment.

The current economic climate caused panic among cement manufacturers seeing that as much as 60 per cent of the country's construction projects have been put on hold.

This means that while production remains underutilised, factories have had to pay their workers' wages and other fixed operating costs.

With decreased demand leading to a lack of revenue, factory owners have had an increased burden of paying interest on their loans during this period as well.

Md Shahidullah, first vice-president of the BCMA and managing director of Metrocem Cement, also participated in the virtual press conference.