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Fitch lowers Bangladesh rating as external buffers weaken

WHAT'S WHAT

"BB" ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time

"B" ratings indicate that material default risk is present, but a limited margin of safety remains

OBSERVATIONS

- Stable outlook reflects mitigation of external refinancing risks thanks to IMF's loan
- Recent reforms to stabilise reserves
- Medium-term growth outlook is favourable
- Remittances through formal channels should accelerate
- Removal of lending rate caps a significant step towards improving banking sector profitability
- Current debt composition is favourable
- Projected external debt service is low relative to peers

RISKS

- Downgrade reflects sustained weakening of external buffers
- Policy actions insufficient to stem the fall in forex reserves
- It is unclear whether crawling peg will fully address lingering forex market distortions
- High inflation to persist
- Banking sector's credit metrics are weak

STAR BUSINESS REPORT

Fitch Ratings yesterday downgraded Bangladesh's long-term foreign-currency issuer default rating to "B+" from "BB-" owing to the lingering weakening of the country's external buffers.

However, the outlook is stable, said the agency in a report.

"BB" ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time. It, however, means business or financial flexibility exists that supports the servicing of financial commitments.

"B" ratings indicate that material default risk is present, but a limited margin of safety remains. It also means financial commitments are currently being met but the capacity for continued payments is vulnerable to deterioration in the business and economic environment.

Fitch said the downgrade of Bangladesh's ratings reflects the sustained weakening of the external buffers, which could prove challenging to sufficiently reverse despite recent policy reforms, leaving the country more vulnerable to external shocks.

"Policy actions since early 2022

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Tax benefit for infrastructure unlikely to continue

STAR BUSINESS REPORT

The government may not extend the tax holiday to investors of physical infrastructure in the upcoming fiscal year as the revenue administration seeks to trim the list of tax-exempt items to attain higher collection targets, officials said.

Currently, the National Board of Revenue (NBR) provides a 10-year tax benefit on the income from physical infrastructure such as deep-sea ports, sea and river ports, elevated expressways, flyovers, toll roads and bridges, ICT parks, hi-tech parks, liquified natural gas terminals and transmission lines, and renewable energy generation facilities.

As per the Income Tax Act 2023, the NBR has to provide a tax break on the income from physical infrastructure if it begins commercial operations within June 2024.

However, the tax administration is unwilling to continue the tax exemption for any projects that begin commercial operations after June this year.

"We are considering the measures to reduce tax exemptions to augment collection," a senior official of the NBR said.

Such a move would mean that investors of such facilities may not enjoy the tax holiday from next fiscal year.

The tax administration

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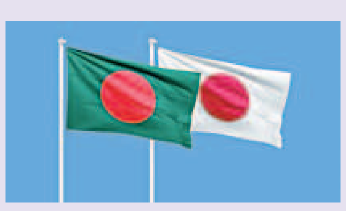
Govt begins formal talks with Japan to sign trade deal

REFAYET ULLAH MIRDHA

Bangladesh and Japan have formally begun the negotiation to strike a trade deal to allow manufacturers to keep enjoying duty-free export benefits in the post-LDC era and draw investments from the Far East nation.



KEY POINTS

- First round of EPA negotiation with Japan ended on May 23
- Negotiators discussed issues on **17** sectors
- Bangladesh wants to retain duty benefit by signing EPA with Japan
- With LDC graduation, Bangladesh will face **18**% duty on export to Japan if the EPA is not signed
- **85.4**% Japanese companies in favour of FTA between the two countries

Post-LDC scenario

- Bangladesh may lose exports worth $**8**b a year because of LDC graduation
- Currently, **73**% of Bangladesh's exports enjoy LDC-linked benefit

The first round of the talks aimed at signing an Economic Partnership Agreement (EPA) started in Dhaka on May 19 and ended on May 23. Details of the meeting were not made public.

"In this round of negotiation, both sides exchanged their views on the method of negotiations and a broad range of negotiating areas," said a press release.

"At the meeting, we mainly shared information on the 17 sectors that were identified in the joint study," said a senior official of the government of Bangladesh and a member of the negotiation team, requesting anonymity.

The joint study group has identified the sectors, which include trade in goods, trade remedies, rules of origin, customs procedures, and trade facilitation, sanitary and phytosanitary measures.

The other sectors are technical barriers to trade, trade in services, investment, electronic commerce, government procurement, intellectual property, competition, improvement of the business environment, labour, environment, transparency, cooperation, and dispute settlement.

The meeting was attended on the Japanese side by Taketani Atsushi, ambassador in charge of economic diplomacy and deputy director-general of the Economic Affairs Bureau of the foreign affairs ministry, and representatives from other ministries, according to the statement.

Ahmad Munirus Saleheen, chairman of the Bangladesh Trade and Tariff Commission, and representatives from relevant ministries attended from the host side.

Iwama Kiminori, Japanese ambassador to Bangladesh, and Ahasanul Islam Titu, state minister for commerce, took part in the opening session.

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