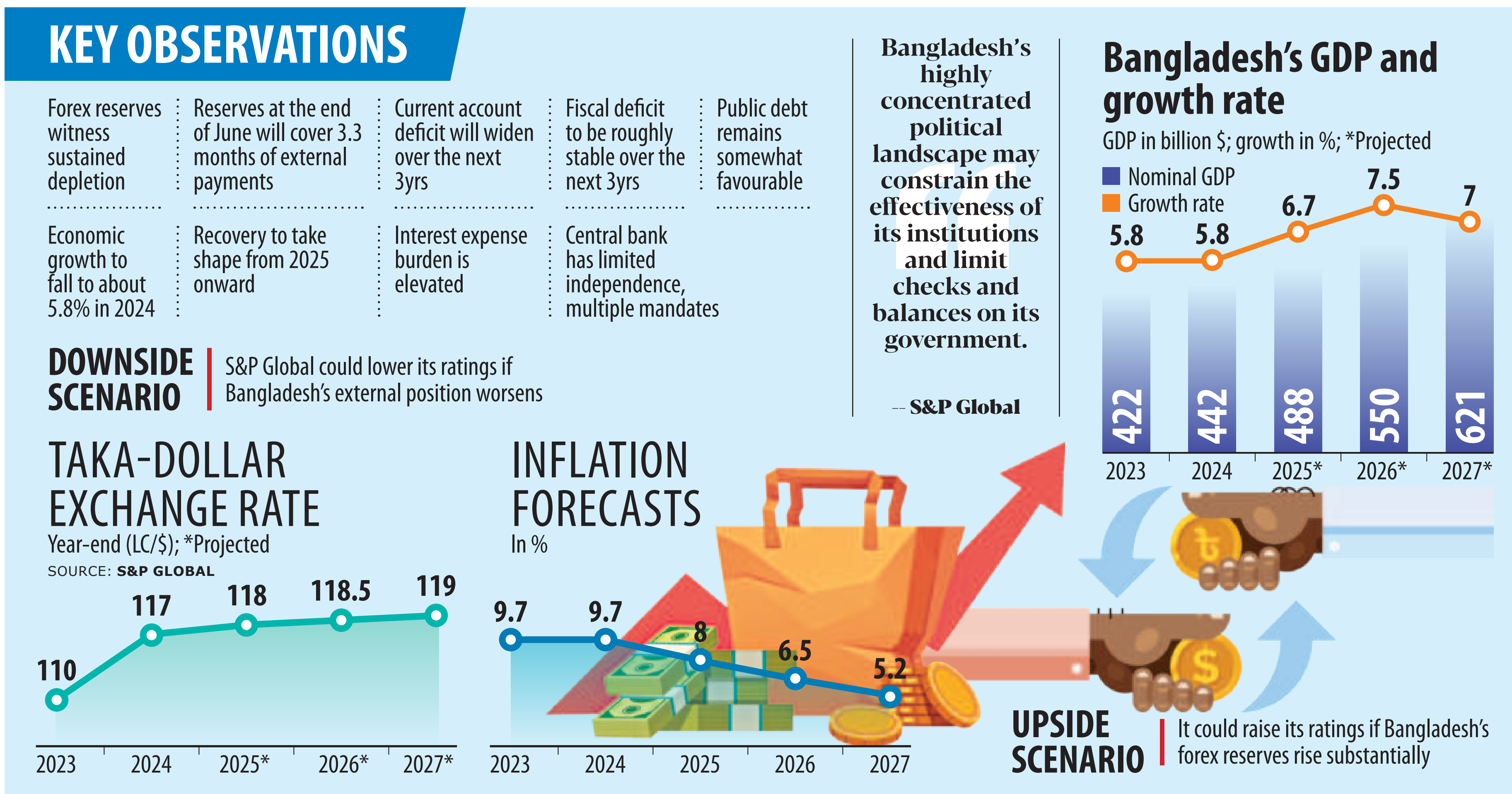
Star BUSINESS

Out of one crore registered TIN-holders, nearly 59 percent did not file tax returns in the just-concluded fiscal year of 2023-24.

Story on B4



S&P downgrades Bangladesh rating amid deadly protests

STAR BUSINESS REPORT

S&P Global has downgraded Bangladesh's long-term sovereign rating from BB- to B+ amid deadly protests over the quota-based hiring system for government jobs.

The violence stemming from the protests led to the deaths of at least 163 people alongside massive destruction and arson of government property.

The government imposed a nationwide curfew on July 20 to contain the situation.

Citing local news sources, S&P said Bangladesh is "currently grappling with widespread student-led protests that have reportedly led to more than 200 deaths."

"In response to the protests, the government imposed a telecommunications blackout and nationwide curfew," it added.

However, despite tensions easing to some extent, economic activities are yet to return to normal.

The global rating agency mentioned that Bangladesh is still at risk of failing to rebound from lingering economic pressures due to a lack of competitiveness in political culture and inefficacy in bureaucracy.

"The government faces little opposition in parliament, which limits checks and balances.

"The ruling Awami League won a fourth five-year term following the general elections in January 2024, with the main opposition Bangladesh Nationalist Party (BNP) boycotting the poll. There is deep division between the two historically prominent parties."

It added that Bangladesh's "highly concentrated political environment may undermine the predictability of future policy responses.

"Future policy responses are difficult to predict because of increasingly centralised decision-making. Respect for the rule of law is not assured, owing to high perceived corruption and interference by political institutions."

A major reason for the downgrade is the persistent pressure on Bangladesh's external metrics, marked in particular by a continued decline in foreign exchange reserves, the S&P said.

"This has occurred despite import compression measures enacted by Bangladesh Bank and a smaller current account deficit. Gross external financing needs, by our measures, now exceed the sum of current account receipts and usable reserves."

In its outlook, the S&P said Bangladesh's per capita real growth rate would remain very strong compared to peers despite near-term headwinds from tighter financial conditions.

It added that downside and upside risks to its external balance sheet are now broadly balanced.

Mentioning the downside scenario, it said: "Lower generation of current account receipts than we expect, a higher overall current account deficit than we forecast, or a failure to materially boost foreign exchange reserves could all contribute to downward pressure on these metrics."

Explaining the upside, it said foreign exchange reserves have declined sharply due to interventions to prop up the taka through May 2024. However, a transition to the crawling-peg exchange rate regime, combined with tighter monetary policy, may help to attenuate the decline.

However, Bangladesh's external profile remains under pressure. Falling foreign exchange reserves through May 2024 reflect continued net balance of payments outflows, and suggest elevated demand for dollars relative to the taka.

The latest data shows that gross reserves, measured on an IMF formula, stood at $21.8 billion at the end of June 2024. This is 35 percent lower than the figure in June 2022, and enough to cover only about 3.3 months of current account payments.

It said the Bangladesh Bank's policy reforms might help to alleviate this pressure, depending on how well they are executed.

On May 8, the Bangladesh Bank introduced the crawling peg with a mid-rate of taka 117 per US dollar. This represented a 6 percent depreciation from the previous official rate of taka 110 per dollar.

The central bank also raised its policy rate by 50 basis points to 8.5 percent, with the cumulative increase since May 2022 reaching 350 basis points.

"The central bank describes the crawling peg as a transitional measure toward a fully flexible, market-based exchange rate, although it has not yet set a timeframe for this transition.

"We estimate the current account is tracking toward a small deficit of about 1 percent of GDP in the June 2024 fiscal year, a significant improvement from the 4.2 percent deficit two years ago.

"We base this on revised export data published by Bangladesh Bank in July 2024, with the revisions resulting in notable shifts in the compositions of the current and financial accounts."

Remittance inflows grew a healthy 10.7 percent in fiscal 2024. However, exports declined 5.9 percent due to weaker demand from trading partners, it said.

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Stocks fall as worries dent confidence

STAR BUSINESS REPORT

Stocks in Bangladesh plunged for a third consecutive trading day yesterday amid falling investor confidence centring the countrywide violence and curfew following a quota reform movement.

The DSEX, the benchmark index of Dhaka Stock Exchange (DSE), dipped 60 points or 1.13 percent compared to the previous day to close at 5,269, the lowest in the past month.

Likewise, the DSES, the index for Shariah-based companies, fell 14 points, or 1.27 percent, to 1,151.

The DS30, the index for blue-chip stocks, slumped 20 points, or 1 percent, to 1,881.

The market has a low number of investors who are still buying stocks, said a top official of a leading stock brokerage firm requesting anonymity.

The market has been falling as most of the investors have been going for sales, he said.

The investors have become cautious as they believe the recent instability originating from the quota reform movement may lead to the deterioration of the economy, he said.

They want to get a better understanding of the effect of the movement on the economy and will buy stocks if they see that the economy is recovering, otherwise the falling trend may continue, he said.

Law Minister Anisul Huq yesterday said the government has decided to ban the politics of Jamaat-e-Islami and Islami Chhatra Shibir by today through an executive order.

Investors have become cautious as they believe the recent instability originating from the quota reform movement may lead to the deterioration of the economy, said an official of a brokerage firm

Stock investors fear that the economic situation may worsen further after the imposition of the ban, as a countrywide curfew is still ongoing alongside the movement of students and teachers.

Meanwhile, the turnover of the market followed the trend of the benchmark index of Dhaka Stock Exchange.

It stood at Tk 432 crore yesterday and Tk 450 crore in the preceding day.

Among the issues that underwent trade, 25 advanced, 340 declined and 32 remained the same.

Most of the listed companies struggled to run operations over the past two weeks, said a merchant banker, preferring anonymity.

Even when normalcy returns, the listed firms will need a couple of weeks more to be able to run their operations in full swing again, the banker said.

A price adjustment is happening now and the impact of the ongoing crisis will be apparent on the companies' profits in the coming quarters, he said.

Almost all the sectors closed in the negative yesterday.

Travel and leisure, jute and services and the real estate sector were the top three sectors that closed in the negative.

Renata had the biggest impact, causing the DSEX to drop by 4 points, according to LankaBangla Securities.

Square Pharmaceuticals and Beximco Pharmaceuticals jointly brought it down by another 7 points.

Luxury hotels hit hard by unrest

SUKANTA HALDER

Luxury hotels in Dhaka are suffering from a dearth of customers as foreigners and locals are avoiding travel in fear of unrest centring the quota reform movement, according to industry people.

Besides, people are also being unable to travel as the government has imposed a nationwide curfew.

Hoteliers said the cancellation of advance room bookings picked up in mid-July, with the current occupancy rate standing at less than 30 percent.

They also said the number of hotel guests has decreased by up to 90 percent.

Furthermore, room and hall bookings for corporate meetings, conferences and exhibitions have all been cancelled, they added.

Students launched the quota reform movement earlier this month, citing that the policy was discriminatory towards general students looking to secure public jobs.

According to The Daily Star database, at least 163 lives have been lost in the violence since July 16.

Mahmud Hassan, director of sales and marketing at Dhaka Regency Hotel and Resort Limited, said many people started cancelling bookings since July 18.

Citing that no new reservations had been received as of yesterday, he informed only 35 percent of their rooms are currently occupied.

"Most of the hotel rooms were booked for several national and local events, but due to the recent unrest, everything has been cancelled," he said.

"This has had a major negative impact on our business, with fixed maintenance costs taking the biggest toll," Hassan added.

Against this backdrop, he said it is not possible to say how the market will recover until the curfew is lifted.

On condition of anonymity, a senior official of a luxury hotel in Uttara, said they noticed a declining trend of guests from July 19.

"Bookings have now dropped by 80 percent," the official said, citing how bookings for events in August have all been cancelled.

"Business has never been as bad as it is now," the official added.

A senior official of the Radisson Blu Dhaka Water Garden echoed the same.

"The daily maintenance and operational costs of our hotel cannot be met with the number of customers we are getting," the official said.

"So, we cannot predict when we will be able to recover from this situation," the official added.

Mohammed Nafeuzzaman, the public relations manager of Pan Pacific Sonargaon Dhaka, said all the bookings for events between July 15 and 20 were cancelled.

"No new guests came during the first few days of curfew. So, our business suffered at the time," he said, adding that the presence of guests has almost returned to normal now.

Syed Huq, manager of the Golden Tulip - The Grandmark Dhaka, said rooms and events bookings were being cancelled since July 17.

After that day, only one wedding reception was held. Apart from that, no other event was hosted at the hotel during this time.

"Currently, only six rooms are booked. The entire hotel is virtually empty," he added.

Huq informed that some European, Indian and Chinese nationals engaged in different projects in Bangladesh had rooms booked for a full year. "But they checked out after seeing the situation," he lamented.

Haq also said some of their employees who have accrued annual leaves were sent on leave to minimise costs in areas such as food and accommodation for them. As such, the hotel is carrying out its operations with limited staff.

According to the Ministry of Civil Aviation and Tourism, there are 17 five-star hotels in the country.

The luxury hotel business in Dhaka sustained a big blow due to the recent violence centring the quota reform movement and the imposition of a nationwide curfew. The turmoil has left foreigners and locals apprehensive, with room occupancy rates plummeting to 10-30 percent.

PHOTO: ANISUR RAHMAN