

How to stimulate the stock market?



Sharif Haque

In my previous write-up for *The Daily Star*, dated August 16, I discussed the credibility of some of the arguments that called for a reduction in the yield of national savings schemes (NSS), focusing particularly on banking sector issues, monetary policy and the government's fiscal challenges.

So is investment in NSS getting in the way of investment in stocks? In theory, this claim is certainly plausible. Higher return from fixed-income instruments has a negative impact on stock prices. But this idea relies heavily on several assumptions. For instance, if both markets have similar levels of liquidity, quality of securities, consistency of regulatory support, then one could make a credible

corporations with a reputation for good governance, an ordinary citizen would be more confident in investing in stocks in the medium to long-term. But that has not happened simply because big private corporations view the cost of getting listed in the stock market to be far greater than the gains. Regulators have not been able to change that perception. And while some may argue that the market has turned the corner and better times lie

from the stock market. That will only happen if an investor believes stock prices will exhibit more stability/less volatility than in the past. For instance, consider a father who is saving in NSS for his child's future education, marriage, etc. Given the general lack of trust in our stock market, would he invest that saving in stocks if NSS yield was lower?

On the other hand, suppose the government is making visible

So it isn't NSS which is necessarily getting in the way of greater stock investment. Rather, the market's mediocre condition itself is the reason compelling people to think of alternatives.

Be that as it may, one could still make the claim that money is flowing from stocks to NSS. But if that were to be the case, one would expect general stock indices to fall as demand shifts to NSS from stocks. And yet the general DSEX index from, let's say first week of January 2016 to August 2017, rose by over 25 percent! There were no reductions in NSS rates during this period. So why did money flow in (instead of flowing out) given the high NSS returns?

Alternatively the period from early 2012—to late 2015 was characterised by long episodes of largely "flat" trends in the general market index, with occasional blips in both direction. In other words, while the market may not have lured in more money, it certainly did not lose money to fixed-income instruments like NSS at any significant level. Obviously not to the extent of the banking sector, but the stock market as everyone knows all too well.

What remains apparent is that the relationship between investment in NSS and in stocks is quite weak in Bangladesh. So without addressing the shortcomings in the stock market, slashing rates on NSS is unlikely to see large inflows into our public bourse. The "high-NSS-yield" argument can be used as a scapegoat to justify lack of participation in the stock market, but it will not accomplish anything else.

Sharif Haque is a PhD student in economics at the University of North Carolina, and former research analyst, International Monetary Fund, Washington DC.

Reducing NSS rates to, let's say, 6-7 percent will not necessarily reduce investors' expected rate of return from the stock market. That will only happen if an investor believes stock prices will exhibit more stability/less volatility than in the past.

One common discourse in the financial and policy arena of Bangladesh is the idea that higher rate on national savings schemes discourages investment in the stock market. Some experts claim that the attractiveness of NSS is creating lazy "savers" and lowering "investment" in the stock market. The end result is apparently money flowing from stocks to NSS. Let us assess this claim objectively.

First, let's recall that from a macroeconomic perspective, money held in domestic financial assets is, by definition, an investment in the domestic economy. It does not matter if it's in stocks or NSS. An investor putting money in, suppose, an initial public offering, is essentially contributing capital to a corporation. This is presumably used for business expansion with the goal of higher profits (leading to higher stock prices), generating higher employment. While an NSS investor is lending money to the government for public sector projects like new infrastructure which involves importing capital machinery, employing labour, etc. In either case, capital from the saver is engaged in some form of economic activity, while the saver makes a profit/yield. From a strictly economic sense, only money stuffed under mattresses or pillows could be considered lying idle.



argument that higher yield from NSS significantly discourages investment in stocks.

No one needs reminding that the stock market in Bangladesh lacks both liquid and quality stocks. Regulatory support has traditionally been patchy, particularly in terms of generating investor confidence. If the market were able to list a higher number of multinational corporations, or domestic

ahead, investor confidence is still dented by the memories of 2010.

True, investors have high expected rate of return from the stock market, perhaps in excess of 15 percent! So it is easy to claim that a rational investor will not go to the stock market for 11-12 percent return if he can earn the same from NSS. Yet, reducing NSS rates to, let's say, 6-7 percent will not necessarily reduce investors' expected rate of return

improvements in infrastructure, stimulating private investment and generating quality jobs. The stock market would be benefited both directly and indirectly. Stocks of firms directly involved in infrastructure and/or manufacturing projects would become more attractive to the public. And better jobs mean higher disposable income, giving citizens more freedom to invest in stocks with their savings.

Profiting from adaptation to climate change

POLITICS OF CLIMATE CHANGE



Saleem Hossain

THERE are two ways in which the global problem of climate change can be tackled. The first is by mitigation, which means reducing the emissions of greenhouse gases that are causing the problem, and the second is to adapt to the adverse impacts of climate change such as floods, droughts, cyclones, sea-level rise, saltwater intrusion, etc.

Mitigation measures generally include, but are not limited to, replacing the use of fossil fuels such as coal, petroleum and natural gas with sustainable and renewable sources of energy such as solar, wind and so on.

The private sector around the world is already making profits by delivering renewable energy which is fast becoming cost-competitive compared to fossil fuels. This is also true for Bangladesh where we already have the world's biggest solar power programme with over four million households with photovoltaic (PV) systems, providing electricity to nearly 20 million people who used to be dependent on kerosene lamps before.

There are many private sector companies now operating in this sector and making profits from mitigation to climate change. However, this did not happen all by



itself. It took considerable nurturing, both financial as well as technical, by the public-private-partnership entity called Infrastructure Development Company Limited (IDCOL) for a number of years before the private companies were able to run with the products on a profit-making basis.

It also requires considerable policy support from the government to enable the programme to be a success.

The next phase is to expand the solar-power-system beyond household and lighting purposes only, and make it useful for

commercial and even industrial purposes also. A number of private companies are pursuing such projects.

However, when it comes to making profits from adaptation, there has been little progress so far, as managing climate change impacts is

still largely seen as a matter of managing an extra risk that adds to a company's costs, but not to its profits.

Hence, most corporate companies that have done anything as regards to adaptation have done so as part of their Corporate Social Responsibility (CSR) rather than as a core business initiative. However, it is not impossible to find ways to make profits from adaptation to climate change, some of which I will discuss below.

The first sector to realise the importance of climate change impacts to their business model was the weather insurance companies. These reinsurance companies have realised that they could not possibly reinsure against effects of global climate change if nothing was done to prevent it from happening. Hence, they have been supporting action to tackle climate change as well as developing index-based insurance (IBI) instruments to tackle climate change impacts like floods, droughts and hurricanes.

The second sector to understand the importance of adaptation products that can generate profits for companies is in the agriculture supply chain, coming up with products such as salt-tolerant varieties of crops such as rice that can be grown in the coastal areas which are already suffering from sea-level rise. Other such agriculture products can

also be part of such profit-making opportunities.

The third sector is in managing both too much water when floods occur, as well as water quality such as saline water in the coastal regions, where supplying fresh drinking water is already a profit-making business. Finally, and perhaps most importantly, the sector that has great potential is the knowledge sector where adaptation solutions who come up with adaptation companies can seek and even export their adaptation knowledge to other countries. Already, leading consulting companies are making significant profits by selling their knowledge of adaptation mainly to public sector bilateral and multilateral donors funding adaptation projects.

International consulting companies have already earned hundreds of millions of dollars from selling adaptation knowledge and this is a sector that Bangladesh can also develop as we have the problem on our doorstep. We can come up with solutions that can then be shared profitably with others.

So, despite the difficulty of making profits from adaptation to climate change, it is nevertheless possible to think about doing so and, once successful, to sell that adaptive knowledge.

Saleem Hossain is Director, International Centre for Climate Change and Development at the Independent University, Bangladesh and E-mail: saleem.hossain@iuc.edu.bd

QUOTABLE Quote

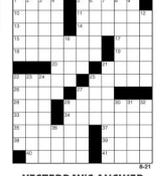


One should say before sleeping: I have lived many lives. I have been a slave and a prince. Many a beloved has sat upon my knee and I have sat upon the knees of many a beloved. Everything that has been shall be again.

WILLIAM BUTLER YEATS IRISH POET AND ONE OF THE FOREMOST FIGURES OF 20TH CENTURY LITERATURE

CROSSWORD BY THOMAS JOSEPH

- | | | |
|-------------------------|-------------------------------|------------------------|
| ACROSS | 28 Overhead trains | blooded |
| 1 Get-out-of-jail money | 29 Safety from the elements | 5 ABC book |
| 5 Entreaties | 33 Saloon supplies | 6 Socratic sort |
| 10 Florence's river | 34 When goods may be rationed | 7 Have lunch |
| 11 Nomad | 35 Slight colours | 8 One-celled creatures |
| 13 Bird's gullet | 36 Break away | 9 Reversal |
| 14 Completely | 37 Refinery rocks | 12 Scottish outlaw |
| 15 "Why?" | 38 Break away | 16 Singer Redding |
| 17 Flow out | 39 Car scar | 21 Prosperous |
| 18 Suffer from the heat | 40 Hinder | 22 Tract aids |
| 19 Saloon | 41 Track figures | 23 Came from behind |
| 20 Vacuum lack | | 24 Death |
| 21 Texas city | DOWN | 25 Jury member |
| 22 Boorish | 1 Family of German composers | 27 Beer after a shot |
| 23 Anonymity | 19 Stockholm native | 29 Stockholmd native |
| 24 Chemist's 'pings' | 1 Company of German composers | 30 Exhaust |
| 25 Ancestress | 2 Cupid's misseled | 31 Correct, as text |
| 26 Chemist's 'pings' | 3 Deeply impressed | 32 Work breaks |
| 27 Animation frame | 4 Hardly blue- | 36 Obtain |



YESTERDAY'S ANSWER

MAD MEN TICS
ARRIVE KICHE
COAXED ACHEN
ASPIEN ZEPHA
WELLER MOUT
WAGON ABE
ALPHABETIS
SRO ITRAO
PURIFY USPS
AGENT NINA
GULL JANICE
ELLE WLOPED
SAIL WAXERS

BETWEEN BAILEY



BY MORT WALKER



BABY BLUES



BY KIRKMAN & SCOTT

