WEEKLY
INTERVIEW

Abu Ahmed

‘Scope for investing in stocks has never been so narrow’

AHSAN HABIB

Bangladesh's stock market has never fallen into such a bad situation in terms of the narrowing of investment opportunities in the last 30 years, said Abu Ahmed, a stock market analyst.

Half of the banks, non-bank financial institutions and mutual funds are showcasing a dismal performance by giving out very low dividends, he said.

Power companies are also facing problems when it comes to generating revenue as their agreements with the government are very near to expiring, he said.

Local companies which had earlier staged a strong performance are struggling due to high inflationary pressure, rising energy costs and a massive devaluation of the local currency, which is deteriorating their performance, he added.

Multinational companies (MNCs) were comparatively in a better position in making money but they were declaring very low dividends, said Ahmed, who is a former chairman of the economic department of the University of Dhaka and a stock market investor.

"I have never, in my entire investment period since 1985, seen the MNCs pay such low dividends," he said.

As the country is facing a shortage of the US dollar, these companies did not continue declaring high dividends last year, he said in an interview with The Daily Star yesterday.

"So, where will people invest? I have not seen such a bad situation in the stock market in the past, at least in the last 30 years," he said.

Ahmed initially invested in the primary stock market and later started to trade in the secondary stock market in 1987. Since then, he has been active.

The performance of listed companies is not up to par, for which the stock market index is on a falling trend, he said.

Foreign investors have been making sales on a massive scale for the last couple of years because they knew that the local currency was artificially overvalued and it would certainly fall, he said.

"Now, it is happening, so I will not be surprised if foreign investors' investment slowly reaches zero," said Ahmed.

Institutional investors are also trying to shift their investments into treasury bonds as their yield rates are high, he said.

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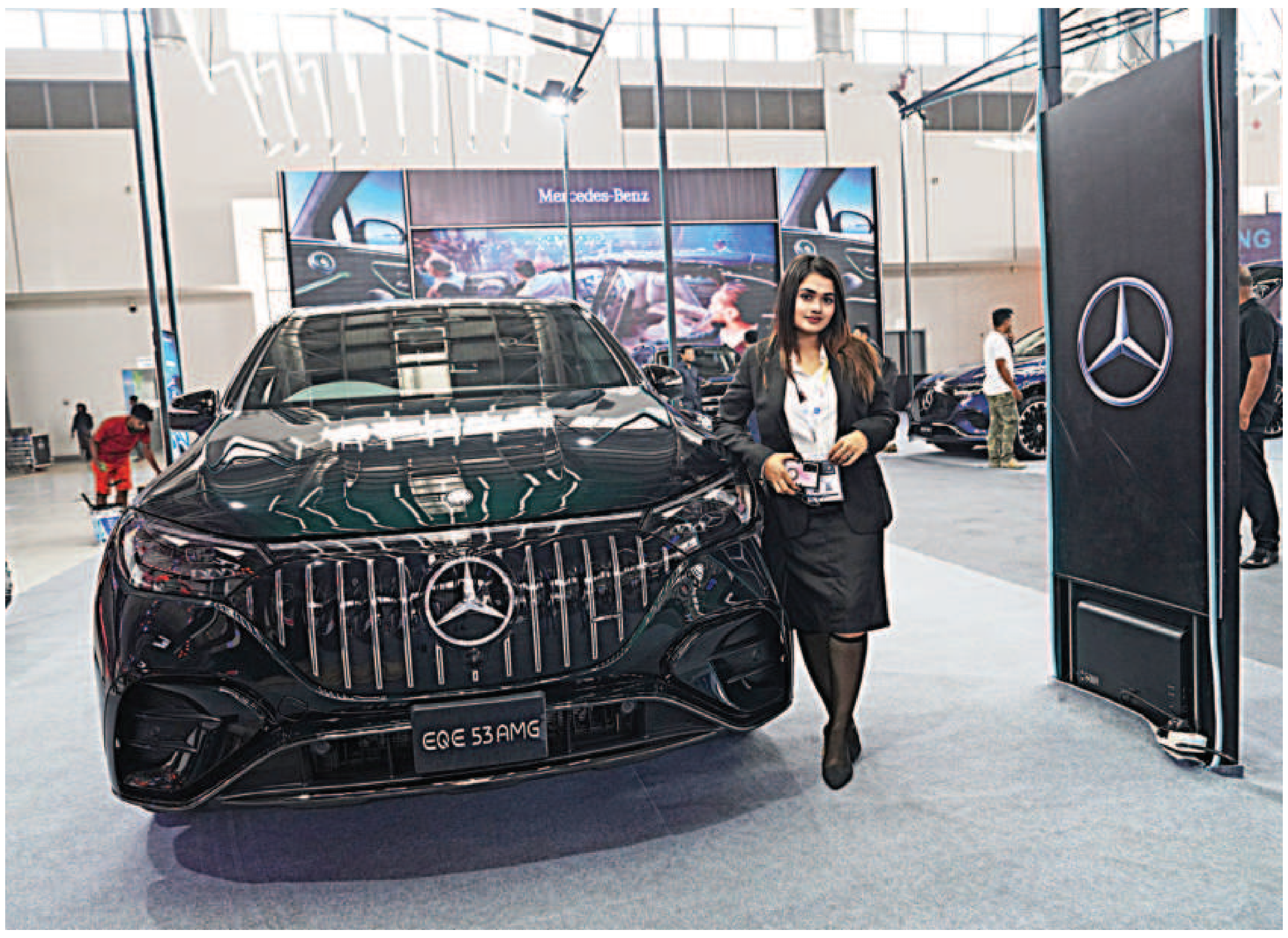

A Mercedes-Benz car is on display at Dhaka Motor Show at the Bangabandhu Bangladesh-China Friendship Exhibition Center in the capital. The three-day exposition ended yesterday.

PHOTO: COLLECTED

DHAKA MOTOR SHOW 2024

EVs, locally assembled cars steal the show

JAGARAN CHAKMA

Locally assembled cars and a range of electric vehicles (EVs) offered by Mercedes-Benz were the main attraction during the 17th Dhaka Motor Show at the Bangabandhu Bangladesh-China Friendship Exhibition Center on Friday.

The show, which ran from May 23-25, was organised by CEMS-Global.

Rancon Motors was showcasing Malaysian brand Proton's X70 model, which is assembled in Rancon's hi-tech industrial park, while Meghna Automobiles Ltd (MAL) was displaying two cars under South Korean brand Kia, the 1,500cc Seltos and 1,600cc Cerato.

Yasir Quader Abedin, head of marketing of Rancon Cars Ltd, said the locally-assembled five-seater was launched in Bangladesh on the first day of the motor show.

He added that the compact sports utility vehicle was available for pre-booking at a special price of Tk 36 lakh and would come with a warranty of five years or 150,000 kilometres, whichever comes first, along with six free after-sales services.

Genuine spare parts will also be ensured at authorised service centres in Dhaka and Chattogram initially.

Meanwhile, MAL was aiming to provide brand-new passenger cars at a lower price than it would cost to import.

Mridul Hasan Ridoy, manager at MAL, said the price of both the Seltos and Cerato price came down to Tk 43 lakh from Tk 50 lakh after local assembly started.

However, he said they could not start selling locally assembled cars as they are yet to receive the go-ahead from the Bangladesh Road Transport Authority.

Ridoy added that MAL may assemble Kia's popular Sportage model in the future, saying: "It is in the pipeline."

He added that their aim was not to sell cars at the show but to showcase locally-assembled vehicles.

Rancon also showcased four EVs of Mercedes Benz's EQ series, with prices ranging from Tk 1.95 crore to Tk 2.95 crore.

Haval of China, Mitsubishi of Japan, and MG of the UK also displayed their latest models.

Farhana Yasmin, a senior executive of Rancon Motors, was in charge of the MG stall and said they had three models on display -- the MG HS, MG ZST, and MG 5.

She said they were offering MG HS at Tk 46 lakh and MG ZST at Tk 36 lakh. The turbo-equipped MG 5 was selling for Tk 38 lakh while the non-turbo variant cost Tk 34 lakh.

Yasmin added that three units had been booked on the first day of the fair.

Besides, the 8th Dhaka Bike Show, 7th Dhaka Auto Parts Show, 6th Dhaka Commercial Automotive Show, and 1st Electric Vehicle Bangladesh Expo were held simultaneously.

Meherun N Islam, president and group managing director of CEMS-Global USA & Asia-Pacific, said the Dhaka Motor Show and related exhibitions were one-stop platforms for motor enthusiasts and businesses in the auto industry.

According to her, the show will play a helpful role in the progress of related sectors and also enhance Bangladesh's image in the global market.

Various brands from 17 countries, including Japan, India, China, Malaysia, and South Korea, and over 175 companies participated across all the events.

How do we stabilise the economy?

MAMUN RASHID

Bangladesh's economy is struggling with higher inflation, depletion of foreign exchange reserves, pressure on the exchange rate, shrinking capital inflows, and pressure on the budget.

While the government's intentions to address the macroeconomic challenges are gradually gaining momentum, the results so far fall short of what is required. GDP growth is downward, investments are down, and export growth is much below the estimates. The shortage of foreign exchange and the associated import reductions are likely to heavily impact GDP growth, private investment, and exports.

The policy response from the government in recent past was to manage the balance of payments (BoP) with import controls and the use of forex reserves and to control domestic inflation through budgetary subsidies. Efforts were also there to protect GDP growth and investments through a strong grip over interest rates, the increase of fiscal deficits, and the liberal use of central bank financing.

Incidentally, these instead of helping the situation, further worsened it. There was an unsustainable run on forex reserves that put pressure on the exchange rate, foreign capital flows fell, and inflation rose significantly. Growing budgetary subsidies lowered spending on core social services and put pressure on fiscal deficits. To stop the slide in the exchange rate, the government further tightened imports, adversely affecting GDP growth, investment, and exports.

The macroeconomic imbalances have emerged from inflationary pressure, BoP pressure and fiscal pressure. Addressing these issues required the use of policy instruments that best relate to each of these areas -- monetary policy to ease the inflationary pressure, exchange rate policy to ease the BoP pressure, and tax or expenditure policy to ease the budgetary pressure.

The excessive reliance on import controls is inconsistent with GDP growth aspiration. While selective import controls can play a short-term emergency adjustment role, resorting to import controls can cause serious supply disruptions, discourage domestic and foreign private investments, hurt exports, and lower GDP growth.

Our exchange rate has been highly overvalued for almost 10 years. By failing to correct this overvaluation on a timely basis, the country exposed its currency to substantial depreciation in recent times.

An accepted way of managing the BoP is to let the exchange rate be market-determined. This should be complemented by trade policy reforms that lower trade protection and the anti-export bias of trade policy. A flexible exchange rate along with a lower trade protection can boost exports and remittances, thereby increasing the forex supply.

On the demand side, reduction in private spending through the increase in interest rate combined with higher taxes and lower fiscal deficit will help reduce the demand for imports and avoid the exchange rate slide.

Various research showed the main source of inflationary pressure is excess liquidity in the system. These were further intensified by the persistence of interest controls through the 6/9 interest rate policy, rising fiscal deficit, and liberal central bank financing of fiscal deficit.

Inflation reduction in a weakly governed market like ours usually takes time and may require further increases in interest rates. Hence the budget deficit must be reduced.

The right policy approach to cut the fiscal deficit is to increase revenues through effective tax reforms and by reforming state-owned enterprises. Every year, the government sets ambitious tax targets that are not met. As a result, the tax-to-GDP ratio is not only extremely low at less than 8 percent of GDP, but also declining.

The recent exchange rate adjustment seems to be yielding results with a bit of increased USD liquidity in the market. The interest rate increase should help with inflation if handled well. Foreign and local currency liquidity rise hence remains to be the main key to improving investors and business confidence.

The author is an economic analyst.

Google to invest $350m in India's Flipkart

REUTERS, *Bengaluru*

Alphabet's Google will pick up a minority stake worth $350 million in Walmart-backed Flipkart, valuing the Indian e-commerce firm at $37 billion, a source with direct knowledge of the matter told Reuters.

Google and Flipkart were not immediately available to confirm the value of the investment.

The tech giant will join in as an investor in the latest funding round for the Bengaluru-based company, Flipkart said in a statement.

The round will be led by Walmart, Flipkart's biggest shareholder and will make Google a minority investor, subject to approvals.

"Google's proposed investment and its Cloud collaboration will help Flipkart expand its business and advance the modernization of its digital infrastructure to serve customers across the country," Flipkart said in a statement.

In December 2023, a Flipkart spokesperson confirmed that Walmart was set to infuse $600 million in the company as part of a $1 billion round.

Flipkart has been a source of IPO speculation since Walmart took over the company, which competes with Amazon.com in India.

Earlier this month, executives at the U.S. retail giant said they are "looking and exploring" for the right time for Flipkart's initial public offering.

EU told to tackle food cost differences across the bloc

AFP, *Brussels*

Eight EU states urged Brussels Friday to clamp down on multinational giants unfairly limiting the sale of products within the bloc, forcing European consumers to pay more.

Their call comes a day after the European Commission slapped a 337.5 million-euro ($366 million) antitrust fine on Mondelez, the US confectioner behind major brands including Toblerone and Oreo, for restricting cross-border sales of chocolate.

The cost of living is a hot topic ahead of EU-wide elections in June as European households have been hit hard by soaring consumer prices following the coronavirus pandemic and Russia's war on Ukraine. Inflation has slowed down since its peak in late 2022 but food costs remain high.

Several EU countries believe addressing unfairness in the single market is one way to help struggling consumers.

Eight EU governments led by the Netherlands said there are price differences for the same products within the European Union and Brussels "should take action" if it was because big multinationals were limiting the sale of goods in the EU's single market.

The seven others named in a joint paper are Belgium, Croatia, the Czech Republic, Denmark, Greece, Luxembourg and Slovakia. The issue was discussed during a meeting of EU ministers in Brussels Friday.

EU competition commissioner Margrethe Vestager said Brussels would start with a "fact-finding mission" and then "figure out what tools are actually necessary in order to prevent territorial restrictions that make prices rise where they shouldn't".

The commission, the EU's antitrust watchdog, would work with member states to find a solution, she told reporters after the meeting.

A woman stops to buy vegetables at a stall as people shop in the local market in the northern city Thessaloniki, Greece. Several EU countries believe addressing unfairness in the single market is one way to help struggling consumers.

PHOTO: AFP/FILE

The constraints cost EU consumers more than 14 billion euros a year, the eight countries said, pointing to an estimate from a 2020 commission study.

Greek Prime Minister Kyriakos Mitsotakis also urged the EU to crack down on giant firms at the weekend in a letter to commission president, Ursula von der Leyen.

The free movement of goods is one of the key pillars of the EU's single market.

"Removing trade barriers should be a key priority for the single market. This helps in keeping consumer retail prices for food and non-food products fair. Something which is especially important in times of high consumer prices," Dutch Economy Minister Micky Adriaansens said.

The eight states propose "a concrete way forward towards an EU ban" on restricting the exchange of goods within the bloc "by amending existing or new common EU rules or instruments", she added.

The concerns are not new. In 2019, Brussels fined the world's largest brewer AB InBev 200 million euros for hindering cheaper beer imports into Belgium from the Netherlands.