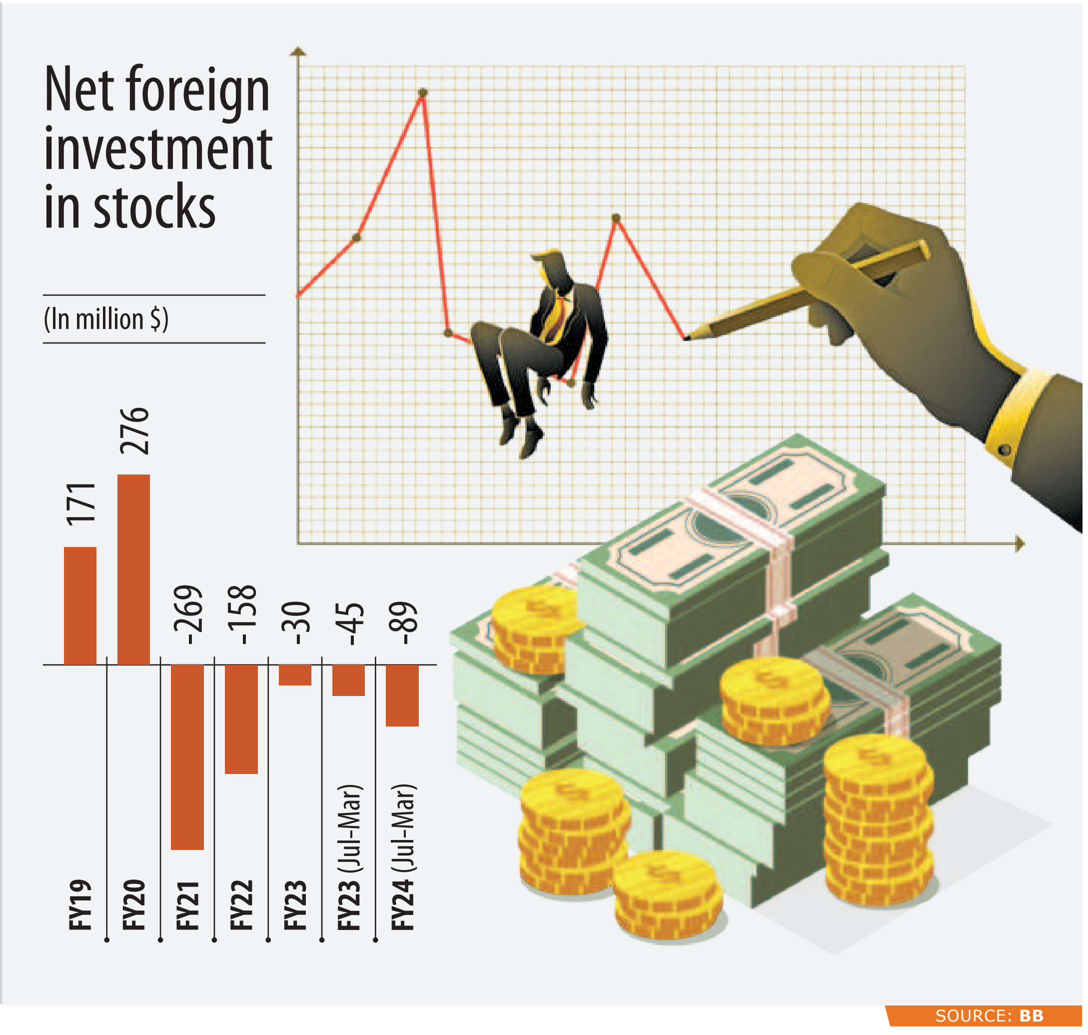
WHY FOREIGN INVESTORS SELLING SHARES

- Devaluation of local currency
- Imposition of floor price
- New policy regarding circuit breaker
- Frequent policy changes
- Worsening macroeconomic outlook
- Lower number of good companies

IMPACT OF SALES BY FOREIGN INVESTORS

- Drop in the prices of good stocks
- Plunge in index amid a lack of buyers of these stocks



Foreign investors continue to sell shares

Gloomy economic outlook, devaluation of taka to blame

AHSAN HABIB

The net foreign portfolio investment in Bangladesh continued to fall in the July-March period of fiscal year 2023-24 due to the negative economic outlook, repeated devaluation of the local currency against the US dollar, and policy instability.

During those nine months, the country's net foreign portfolio investment stood at $89 million in the negative compared to $45 million in the negative in the same period the year prior, according to Bangladesh Bank data.

Foreigners started offloading their shares in 2020, when they predicted that the local currency may face significant devaluations.

Seeing the huge selling pressure, the Dhaka Stock Exchange (DSE) stopped providing data on foreign investments upon receiving verbal instructions from the Bangladesh Securities and Exchange Commission (BSEC).

The main reason for the massive sale of shares held by foreigners was currency instability and the imposition of the floor price mechanism, said Saiful Islam, president of the DSE Brokers Association of Bangladesh.

When the local currency is devalued, foreign investors incur losses. So, they sold their shares when they forecasted that the currency would be devalued.

Besides, the ongoing foreign currency crunch in the country has made it difficult for foreign investors to repatriate profits.

"This also fuelled them to sell shares," he added.

Bangladesh's forex reserve has almost halved in the past two years. At the same time, the taka depreciated by around 35 percent compared to the US dollar, as per central bank data.

Furthermore, when the BSEC launched floor prices in 2020 to stop the freefall of market indices, it went against the regulatory guidelines of many other countries.

This was because they recognised that the mechanism had rendered the local market illiquid as share selling was tough due to floor prices.

The floor prices were gradually removed but were brought back in mid-2022 amid the Russia-Ukraine war.

"So, this was another major reason for their share sales," Islam said.

However, he hopes that the selling pressure from foreign investors will reduce now as they have already sold a large portion of their holdings.

The net selling trend of foreign investors started in FY21 and still persists. Their net sales were $30 million in the negative in FY23, $158 million in the negative in FY22 and $269 million in the negative in FY21, central bank data showed.

> **Foreigners started offloading their shares in 2020, when they predicted that the local currency may face significant devaluations**

Due to the huge sell-off, shares of blue-chip companies and well-performing companies dropped massively as foreigners mostly held such stocks, said Islam, who is also a director of Brac EPL Stock Brokerage Ltd.

Local investors do not have adequate liquidity to absorb this selling pressure, he added.

A top official of a leading brokerage that deals with a large portion of foreign trade said foreign investors are forecasting that the country's macroeconomic indicators may deteriorate further.

"This means the currency may devalue further, so they are selling shares," the official added.

Already, most blue-chip companies and multinational companies have reduced their dividends for 2023 due to the US dollar shortage.

Frequent policy changes also discourage foreigners from keeping funds in the share market, the broker said, adding that the imposition of floor prices totally caught them off guard.

When the floor price mechanism was withdrawn, the lower circuit breaker was reduced to 3 percent to stop the indices from falling.

"This was another blow," the broker said

Citing how foreign investors never invest in a stock market where the exit system is strict, he said floor prices, the stringent circuit breaker, and the US dollar shortage were all barriers in this regard, he said.

"What has been done by the BSEC to attract investors except narrowing their selling system by launching these policies?" he asked. "Only a few companies where foreigners can invest got listed in the last 15 years. So, why they will invest in the market?"

By simply arranging road shows, foreign investors will not come to the market, he added.

In the past, foreign investors have experienced many sudden policy changes that impacted their investment.

For instance, the Bangladesh Telecommunication Regulatory Commission banned Grameenphone, the largest listed company in the country, from selling SIMs in June 2022, citing its failure to improve the quality of its services.

The restriction was withdrawn after six months, but the decision dented the company's share price and foreign investors lost confidence.

Before that, in 2015, the Bangladesh Energy Regulatory Commission cut the distribution charge for Titas Gas. As a result, the utility company lost more than Tk 3,000 crore in market value over a period of five months.

On those occasions, foreign investors held a major part of the companies' stocks.

Challenges and policy pathways for private investment

MD DEEN ISLAM

Gross investment in Bangladesh has declined from more than 32 percent of GDP to about 31 percent. Given the recent hike in borrowing costs, it is feared that private investment could see a further fall in the near future. However, the government can take critical policy measures to stimulate private investment. To identify which policy measures will be most effective, we first need to understand why investment is dwindling in Bangladesh. Private investment is sluggish and lagging because of various types of uncertainty.

First, there is uncertainty regarding the state of critical infrastructure and energy. Investors consider both the short-term and long-term conditions of their potential returns, which largely depend on an uninterrupted energy supply to produce goods and services, and on critical infrastructure to sell these goods and services domestically and internationally.

Although Bangladesh has made significant progress in energy, the cost per unit of energy is significantly higher than in neighbouring countries. For example, in West Bengal, India, the average per unit electricity price is about 7 rupees (equivalent to Tk 10), whereas in Bangladesh, it is about Tk 12. This means the per unit electricity price is 20 percent higher in Bangladesh than in India.

This price is expected to rise significantly due to subsidy reductions in the sector. Despite higher electricity prices, there is no guarantee of an uninterrupted power supply. Higher prices and uncertainty surrounding future energy price hikes, coupled with sporadic power supply, seriously undermine Bangladesh's investment potential.

> **Interestingly, the total corporate tax collection has not increased in recent years, despite the economy consistently growing over 6 percent annually since 2011**

Additionally, the processes, services, and physical infrastructure—such as port facilities, customs clearance processes, transportation time, and costs—essential for importing critical capital machinery and raw materials and exporting finished products are also of poorer quality compared to neighbouring countries. In the World Bank's overall logistic performance index, Bangladesh ranked 88th in 2023, whereas India secured the 38th position. Persistent poor logistic conditions also take a toll on private investment in Bangladesh.

Second, there is significant uncertainty surrounding the bureaucratic processes involved in obtaining various government services, such as licences and certificates necessary for starting and continuing business operations. These processes are often complicated and time-consuming unless a significant amount of 'speed money' is paid.

Furthermore, corporate taxation is not streamlined. Some sectors receive ad-hoc tax holidays while others face exorbitant corporate taxes. For instance, the corporate tax rate for most domestic corporations in India is 25 percent, while in Bangladesh, it is 27.5 percent.

Interestingly, the total corporate tax collection has not increased in recent years, despite the economy consistently growing over 6 percent annually since 2011, except for 2020, the Covid-19 year. Therefore, the high corporate tax rate has not translated into increased tax collection from corporate sources but rather acts as a barrier for potential honest investors.

Third, uncertainty about sources of financing is a serious barrier to stimulating private investment. Currently, the cost of borrowing for private investors has surpassed double digits, and even with such high borrowing costs, there is a liquidity crisis in many banks.

Private businesses can't raise the required funds from the share market due to uncertainty caused by insider-trading and frequent market manipulation, leading to a loss of investor confidence.

Uncertainty in the foreign exchange market and the shortage of foreign exchange supply also deter investors from making any investment decisions. If investors can't import machinery and raw materials due to the foreign exchange crisis, they will make no further investments but rather contract their existing ones.

What are the policy options that the government can implement in the next fiscal budget to overcome these barriers?

First, achieving efficiency in the energy sector and providing a roadmap for uninterrupted power supply for businesses is of paramount importance. Rationalising the prices of electricity is necessary, but a radical adjustment in electricity and other fuel prices will further deteriorate the investment potential.

Second, the government should prioritise infrastructure projects that could significantly lower the time and costs of transporting goods and services within the country and to export markets. Third, and one of the most important steps that need to be taken to facilitate private investment, is to adopt digitalisation in providing various government services and ensure accountability and monitoring of the offices responsible for these services. If the process of starting a business is made simpler, many young entrepreneurs will come forward with innovative ideas to invest in various thrust sectors, generating decent employment opportunities and contributing to the national income.

Rationalising corporate income tax and not granting ad-hoc tax holidays is equally important for stimulating private investment. High corporate income tax has not yielded high tax revenue, so lowering this rate slightly and encouraging more businesses to pay taxes, along with a simple digitalised tax payment system, can help businesses and raise more revenue.

Finally, allowing the market to determine the foreign exchange rate is important to stabilise the foreign exchange market. Though Bangladesh Bank recently announced a crawling peg for exchange rate determination, it has been observed that Bangladesh Bank has failed to follow through with its announced policy in the past.

If Bangladesh Bank continues to tightly manage the exchange rate, a speculative bubble will form, leading to greater uncertainty, which could have serious negative consequences on private investment. Therefore, the government could provide additional incentives to expatriates to invest in Bangladesh, not only in real estate but also in stock markets and banks. For this, it is important to ensure good governance in both the banking sector and the stock market.

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Turkish inflation exceeds 75%

AFP, *Istanbul*

Turkish inflation jumped above 75 percent in May, official data showed Monday, but officials expect consumer prices to have finally peaked in a cost-of-living crisis that has dogged President Recep Tayyip Erdogan.

Turkey has been battling soaring consumer prices that prompted Erdogan to drop his opposition to interest-rate hikes to combat inflation.

The central bank began to raise its key rate in June 2023, gradually taking it from 8.5 percent to 50 percent.

Last month, central bank governor Fatih Karahan raised the year-end inflation forecast to 38 percent, up from a previous estimate of 36 percent.

But Karahan also said inflation would begin to slow in June after reaching a peak in May.

"The hardest part is over," Finance Minister Mehmet Simsek wrote Monday on X.

"The permanent drop in inflation will begin in June," he added. "The transition period in the fight against inflation has been completed and we are entering the process of disinflation."

Inflation will "very likely" fall under 50 percent by the end of the third quarter, Simsek predicted.

The staggering rise of consumer prices and the collapse of the Turkish lira are deemed responsible for the severe electoral setback inflicted on Erdogan's AKP party in March municipal elections.

Turkey's national statistics office said Monday that annual inflation reached 75.45 percent in May after accelerating to 69.8 percent in April.

It added that consumer prices had risen by 3.7 percent on a monthly basis between April and May, in line with central bank forecasts.

New airports, aircraft: Wealthy Gulf prepares for aviation boom

AFP, *Dubai*

With major new airports emerging from the desert and aircraft orders rolling in, the resource-rich Gulf is raising its stake in an industry forecast to boom in the decades ahead.

As the International Air Transport Association's AGM takes place this week in Dubai -- two years after it was held in Qatar -- billions of dollars are being poured into aviation around the wealthy region.

And with good reason: according to the global industry body, Middle East passenger traffic will double in the next 20 years, climbing to 530 million passengers by 2043. Global figures will see a similar rise.

Dubai, which is already home to the world's busiest airport by international traffic, has started work on an even larger airport which authorities say will handle up to 260 million passengers annually, which would be the biggest in the world.

A short drive away, the United Arab Emirates' capital Abu Dhabi opened a new terminal in November, while gas-rich Qatar has also been expanding Doha's Hamad International Airport.

An Airbus A380-800 takes off behind an Emirates Boeing 777-300ER aircraft at Dubai International Airport in Dubai. UAE has started work on an even larger airport, which will handle up to 260 million passengers annually. PHOTO: AFP/FILE

Neighbouring Saudi Arabia, which is pouring its oil wealth into projects that will help it weather the clean energy transition, is also making a major play.

Along with announcing a new air hub in Riyadh with capacity for 120 million passengers a year, Saudi Arabia has also unveiled Riyadh Air, a new airline with 39 Boeing jets on order.

Meanwhile, Jeddah-based Saudia Group, which runs the Saudia and flyadeal carriers, announced a bumper deal for 105 Airbus aircraft last month.

Emirates, Dubai's state-owned carrier, with its large fleet of long-range, wide-body aircraft, epitomises the Gulf's "hub and spoke" model in which a globe-spanning range of long-haul destinations are linked by connecting flights through Dubai.

The Gulf "is a unique region due to its geography. In an eight-hour flight, we can reach 80 percent of the world's population", explained Stan Deal, then head of Boeing's commercial aircraft division, late last year.

While Asia is expected to drive the rise in global passenger traffic, the Gulf expects to benefit, lying just a short hop from the growing markets of South Asia.

"They're very well positioned to capture the Indian traffic and connect the subcontinent," said Nina Lind, an aviation specialist at management consultancy McKinsey.

"There's also a lot of incoming travel growth from Indonesia," she said, referring to pilgrims heading to Saudi Arabia's holy sites from the world's biggest majority-Muslim country.

"There's a ton of growth."

According to Airbus, traffic between the Middle East and Asia is expected to increase three-fold by 2042, and more than double between the Middle East and Europe.