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THE DIMENSIONS AFFECTING INVESTMENT RESULTING STABILIZED ECONOMIC GROWTH IN BANGLADESH: PERCEPTION ANALYSIS OF INVESTORS AND BANKERS

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Abstract:

The purpose of the study is to identify the impact of some assumed dimensions as vital reasons for investment sluggishness in Bangladesh resulting stabilized GDP growth rate around 6 percent over last decade in spite of having some favorable microeconomic and macroeconomic indicators such as controlled inflation rate, huge foreign exchange reserve, export growth etc. The study is descriptive in nature where correlation, regression and trend analysis have been conducted from the data of primary and secondary sources. The result of the analysis shows that mainly five important dimensions of investment sluggishness named high lending interest rate, corruption in public and private organizations, political unrest, inadequate power generation and supply and infrastructure problem are significantly affecting investment sluggishness in Bangladesh resulting stabilized GDP growth rate. At the end of the research paper, some measures have been recommended to overcome the obstacles of investment growth.

Key words: *Investment Sluggishness, GDP Growth, Bangladesh Bank, Excess Liquidity, Interest Rate*

1. Introduction

Bangladesh has already achieved a respectable average annual GDP growth rate of 6.16 percent throughout the last 12 years (2004-2015) (Bangladesh Bank). Due to the impressive GDP growth rate and locational advantage of transport, communication and trade with neighboring countries (India, Srilanka, Nepal Bhutan, Myanmar, Thailand etc), global mega lenders are interested to invest in infrastructure, technology, education, housing and energy. China, India and Japan seems to extend investment in infrastructure development to enhance connectivity in South Asia.

Besides, China is emphasizing on making investment in power, infrastructure and trade sector in Bangladesh where India is considering Bangladesh as reliable neighbor to be benefited from mutual investment, trade, connectivity and harmony. As a labor intensive market, people are very much hardworking and adaptive with political disturbance and natural disaster to maintain sustainable GDP growth rate in Bangladesh. Bangladesh government is working hard to develop investment friendly environment adopting investment friendly policy and regulatory reform with the purpose of expanding foreign and local investment in Bangladesh. Investment Board and Privatization Commission are working collectively to emphasize on investment friendly environment for private investment specially. Initiative has been already taken to establish 100 special economic zone in whole Bangladesh within next 15 years under Bangladesh Economic Zone Authority. Government has already approved to establish 56 (42 govt. and 14 private) economic zones till April 2016. Besides, government has taken initiatives to implement the plans about infrastructure development under ADP and PPP, quick power generation and supply, development of transportation and communication, usage of information and communication technology with the expectation to achieve higher investment growth as well as higher GDP growth (Bangladesh, Ministry of Finance). From the review of literature, it has been found that in most of the cases analysis of investment sluggishness has been conducted based on secondary data without considering the perceptions of demand side (investors) and supply side (banks) of investible fund. Hence, some impact of some vital reasons for investment sluggishness have been identified based on the opinion of bankers and investors to recommend some measures to improve in these sectors for ensuring higher investment growth and higher GDP growth. Emphasize has been given on personal opinion of bankers and investors rather than secondary data of independent variables and dependent variable as secondary data can be manipulated.

2. Objective of the Study

- To depict private and public sector investment scenario in Bangladesh
- To explain how the reasons for investment sluggishness affect the investment for economic growth in Bangladesh
- To identify the impact of the dimensions that affect investment growth in Bangladesh
- To make recommendation to improve in each and every important dimension of investment sluggishness

3. Research Methodology

Type of research: The research is descriptive and empirical in nature.
Data Sources: Both primary and secondary data have been used to conduct the research.
Sampling Method: Purposive sampling has been used in the research for personal interview. Total sample size is 391 where target population is bankers (50%) and

investors (50%). The sample of convenient elements has been collected. The selection of sampling unit was left to the interviewer.

Survey Instrument: Structured questionnaire has been developed with 5 point Likert scale from Strongly Disagree (1) to Strongly Agree. Personal interviewing technique has been adopted to collect needed data through survey method for research and data analysis purpose.

Data Analysis Tools: Data has been analyzed using SPSS software and Microsoft Excel. Test of Hypothesis and regression analysis have been performed to measure the relative influence of each independent variable on the dependent variable.

Limitation of the Study:

- The survey has been conducted through purposive sampling rather than random sampling.
- The research is mainly based on the opinion of the bankers and investors that may vary person to person

4.Review of Literature

Tobin (1968), in his study regarding “Money and Economic Growth” has identified that people saves for future consumption or invest in real capital assets out of current income for future consumption. Hence, it has been concluded that monetary expansion can generate higher economic growth but higher inflation that reduces the purchasing power of money. According to the study of Lucas (1973) titled “Some International Evidence of Output- Inflation Tradeoffs”, monetary expansion can hamper the price level of output with uncertainty generated from inflation. Hence, it can be assumed that monetary expansion gears up the price level and reduces the level of economic growth. Sitiglitz and Weiss (1981), in his study drawn attention on relationship between interest rate and creditworthiness of borrower and found that if borrower is concerned about only getting fund promptly rather than higher interest rate than the probability of repaying the loan is low. Dornbusch, Fischer and Starz (1998) in their study named “Macroeconomics”, have depicted that increased money supply generates disequilibrium resulting purchase of financial assets by the consumers that raises their prices to correct the disequilibrium. Therefore, due to increase in price of financial assets, interest rate will decline stimulating aggregate demand and investment spending. Khabo (2002) from his study named “The Impact of Monetary Policy of the Economic Growth of a Small and Open Economy: The Case of South Africa”, has found that, in case of ability of monetary policy, there is a weak and indirect link between monetary policy and economic growth however monetarists advocate to use monetary policy to influence economic growth. Besides, he has concluded that increase in money supply will result liquidity trap if it can not decline the interest rate or if the prevailing interest rate is close to zero resulting no further change through the monetary policy to stimulate economic growth. Mustafa, Kivilcim and Aysit (2002) in his study titled “Macroeconomic Instability, Capital Accumulation and Growth”, have found that public infrastructure investment does not have any impact on private sector investment. He concluded that macroeconomic instability is the serious hindrance to public investment. Islam (2016) in his study titled “Impediments of Investment and Impact of Monetary Policy to Drive Investment for Economic Growth in Bangladesh” has concluded that policy adoption of interest rate, bureaucracy, attitude of political parties toward national interest rather than individual interest etc. are main determinants of level of investment in Bangladesh that should get emphasize.

5. Reasons for Investment Sluggishness in Bangladesh:

5.1 High Lending Interest Rate

Excess liquidity is the main problem of financial institutions at this moment resulting from sluggish investment demand. On the other hand, banks are not being able to cut down lending interest rate to single digit for encouraging loan seekers and stimulating loan demand because of burden of high default loan, high operating cost of banks, high risk premium due to high risk of most borrowers, lack of adequate competition due to market power of few large dominant banks, limitations in using open market operation etc (Mackinnoon, 1973). As a result of, less corporate governance, less regulatory supervision and more window dressing off classified loans through rescheduling, non performing loans have been augmented.

5.2 Political Unrest

Political stability and investment friendly environment are highly required to generate investors’ confidence for medium and long term investment. Investors face unstable transportation services that hampers the profitability and sustainability of their business during political turmoil.

5.3 Lack of Access to Fuel and Energy:

Price of oil in international market has drop down resulting declining import expenditure as well as less government subsidy requirement. However, oil price inside the country neither has nor declined to the expected level of the investors due to adjustment of previously given subsidy by the government. Declining price of raw material from international market has become a vital reason for declining loan demand by loan seekers.

5.4 Infrastructure Problem

Government has taken some mega projects for infrastructure development which are remaining incomplete and investors are not getting any benefit out of these. Bangladesh has adequate foreign exchange reserve (around 30 billion USD) to make payment to the foreign construction companies and accomplish the incomplete projects working against the clock. Inept implementation of government infrastructure development projects in road and transportation, bridge, IT, health, education and social safety and welfare is one of the obstacles of investment growth. Declining allocation of budgetary funds in development activities in the above mentioned sectors may hamper the investment climate in the economy of Bangladesh.

5.5 Lack of Availability of Land

Population is growing but land area is limited that is the reason for contraction of land availability to take investment projects. Besides, agro based cultivable lands are being consumed by unproductive sectors. Some land areas are not being utilized due to lack of investment friendly platform. Some initiatives have been taken already for infrastructure development such as establishing economic zone, generating fuel and electricity, expanding the activities of digital Bangladesh to rural areas, development of internal water transportation, increasing port facilities, initiatives to construct deep sea port, ensuring institutional development of Board of Investment, BEZA (Bangladesh Economic Zone Authority), Public Private Partnership, introducing One Stop Centre for the investors etc.

5.6 Corruption in Public and Private Organizations

Due to corruption, government can not facilitate the investment through decreasing the price of oil and other sources of energy in line movement in international market. Huge amount of money has been lost because of embezzlement in financial sector that is adjusted with VAT and tax from public and oil price movement. Bribery and red tapism generates sluggishness of investment and hampers the returns from investment. Public sector requires reform in government policies so that corruption can be minimized. Besides, lack of fund management for labor market reform, training and safety of labor market are also responsible for investment sluggishness.

5.7 Illegal Transfer of Investable Fund

Illegal transfer of investable fund through over invoicing and other mechanisms of money laundering generates transfer of huge investable fund abroad which can contribute for GDP growth if properly invested in the country. Government is passing through narrow tax revenue base and week tax collection. If the investors get some tax benefits and incentives than they may invest inside the country rather than transferring investable fund abroad.

5.8 Lack of Confidence on Government Policies

Some investors have lack of confidence on changes of government policies that may not be favorable for their business. Besides, if government changes suddenly than government policies can also be changed vastly that may hamper the profitability of small business to survive. It seems that investors are not confident enough to search and utilize new opportunities of investment home and abroad. Investors will have confidence in government policies if the policies are accountable, transparent, responsive equitable, inclusive, effective, efficient, consensus oriented, participatory and follows the rules of law to ensure good governance.

5.9 High Interest Rate of Government Financial Instruments

Deficit financing of government through issuing National Savings Deposit (NSD) ensures less government borrowing from banking sector and more availability of fund to private sectors. But, due to high interest rate of government financial instruments compared to deposit accounts in banks and return from investment in productive sectors, it discourages the investors to invest and take risk. Besides, dependency on National Savings Deposit for fund generation can generate high cost debt burden for the government if the fund is excessive and cannot be invested in productive sectors to generate adequate returns for paying off the debt burden.

5.10 Concentration to a Particular Sector

Growth of manufacturing sector is highly dependent on Ready Made Garments industry. It is difficult to sustain and remain competitive in international market with only RMG. That is why, it is required to give emphasize on some other potential sectors as lather, food processing, building shipyard, electronics etc.

5.11 Lack of enabling Environment to Attract FDI

Foreign Direct Investment is still sluggish in Bangladesh that requires enabling environment through ensuring political stability, macroeconomic stability, adequate physical and social infrastructure, sound policy and regulatory framework supported by efficient institutions to enforce relevant laws and regulations etc.

6.Statistical Results and Findings

For econometric analysis, Investment Sluggishness (IS) has been considered as dependent variable. Besides, some vital reasons for investment sluggishness such as High Lending Interest Rate (HLIR), Corruption in Public and Private Organizations (CPPO), Political Unrest (PU), Inadequate Power Generation and Supply (IPGS), Lack of Confidence on Govt. Policies (LCGP), Infrastructure Problem (IP), Scarce Land Availability (SLA), Illegal Transfer of Investable Funds Abroad (ITIFA) and High Interest Rate of Government Financial Instruments (HIRGFI) have been taken into consideration to determine independent variables. Due to collinearity, only five independent variables have been taken to conduct econometric analysis, findings of the study are categorically discussed in the following subsections:

6.1 Test of Hypothesis

In this study, following hypothesis have been developed:

H_0 : *The coefficient of multiple determinations in the population is zero*

H_1 : *The coefficient of multiple determinations in the population is not zero*

Due to the nature of variables and availability information, we have used analysis of variance (ANOVA) to test the above hypothesis. The statistical method of F-test has been used at 5% level of significance to identify whether there are significant relationship between Investment Sluggishness and above mentioned nine independent variables. In this regard, we can accept null hypothesis if the calculated p (Significance) value is greater than 0.05 and we can reject the null hypothesis if the calculated p (Significance) value is less than 0.05.

From the Table 03 of appendix, it has been found that the value of p (Significance) is 0.000 against all the independent variables which is less than 0.05. Hence, the null hypothesis is rejected. There is significant relationship between the independent variables named High Lending Interest Rate (HLIR), Corruption in Public and Private Organizations (CPPO), Political Unrest (PU), Inadequate Power Generation and Supply (IPGS), Infrastructure Problem (IP) and dependent variable named Investment Sluggishness (IS). Besides, the value of R is 0.962 according to Table 01 of appendix which indicates that there is high degree of positive correlation among the independent and dependent variables.

6.2 Regression analysis

The standardized regression model is:

$$IS = \alpha_0 + \beta_1 HLIR + \beta_2 CPPO + \beta_3 PU + \beta_4 IPGS + \beta_5 IP + \in_i \text{............} \quad \text{(i)}$$

The fitted regression model is:

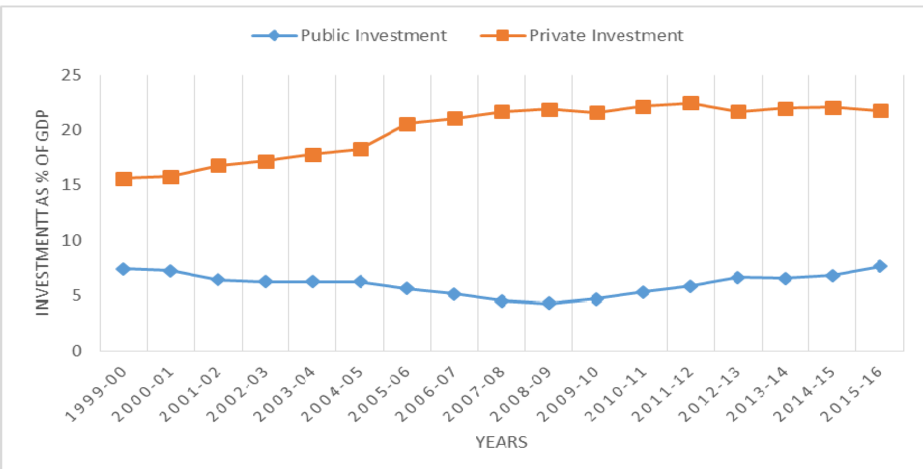
$$IS = 1.527 + .439(HLIR) + .368(CPPO) + .233(PU) + .274(IPGS) + .248(IP)$$

$$\text{......} \quad \text{(ii)}$$

According to Table 01 of appendix, the value of R^2 is 0.926 or 92.6% which indicates that 93% of variation in the dependent variables can be explained by the above mentioned regression model. The value of adjusted R^2 is .925 or 92.5% which suggests that addition of other independent variables will not make any contribution to explain the variation in the dependent variable (Kothari, 2001).

6.3 Trend Analysis

Figure 1: Trend of Public investment and private investment



Source: Bangladesh Economic Review 2015-16

Above figure shows both public and private investment sluggishness throughout the last 16 years but private investment is gradually increasing compared to public investment. We have observed sharp decline of public sector credit growth since October 2014 and it became negative since February 2015. Government generated huge debt burden from issuing and selling National Savings Deposit to public at higher interest rate. Hence, financial institutions were facing less pressure to render credit facility for public sector. Public sector credit growth seemed volatile with high fluctuation. Public sector prefers the concept of economic profit (loss has some other benefits) rather than accounting profit that is why private commercial banks are not much interest about servicing credit facilities to public sector resulting lower investment. Above figure depicts that private sector credit growth is stable but not at the level to support higher GDP growth rate of more than 7%. Private sector credit seems stagnant due to declining oil price in international market that will require low demand of bank credit for importing raw material. Besides, large corporations are getting foreign loans at very low interest rate with long tenure compared to the credit facilities provided by financial institutions in Bangladesh (Ministry of Finance).

7. Conclusions and Recommendations

From the econometric analysis it has been found that five assumed reasons named high lending interest rate, corruption in public and private organizations, political unrest, inadequate power generation and supply and infrastructure problem have significant impact on investment sluggishness that represents 93% variation in the investment sluggishness. Besides, there is huge gap between private sector investment and public sector investment that has been found from trend analysis. Hence, the study recommends following issues to overcome the obstacles of investment growth:

- To ensure discipline in the credit sector of financial institutions, significant structural reforms should be taken. Besides, financial institutions and supervisory authority have to ensure proper utilization of fund in productive sectors to get rid of higher default rate. Besides, there is a scope of increasing competition in the financial market through diversification of products using cost saving and efficient technology resulting higher non interest income and lower spread.
- Government subsidy should be managed properly to ensure power generation and power supply on equity basis giving preference to productive sectors. As oil price has declined in international market, government can use it to generate alternative sources of power and determine a reasonable fuel price besides adjusting subsidy efficiently. Besides, new sources of power generation have to be identified and existing unauthorized power supply have to be disconnected to ensure utilization of power without wastage.
- To ensure proper infrastructure development it is highly required to formulate a task force for timely implementation of the priority projects. Implementation of

Public Private Partnership can faster the completion of small and mega infrastructure projects. Besides, decentralization of fund emphasizing on implementation of district budget can accelerate infrastructure development all over the country.

- It has been found that criminal offences are becoming more sophisticated to transfer fund illegally that are beyond the capacity of existing information technology experts and requires the assistance of experts from foreign countries.

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Appendix

Table 1

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.962[a]	.926	.925	1.000	.926	975.794	5	388	.000	1.647

a. Predictors: (Constant), Infrastructure problem, High lending interest rate, Political unrest, Corruption in public and private organizations, Inadequate Power Supply

b. Dependent Variable: Investment

Table 2

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4877.554	5	975.511	975.794	.000[b]
	Residual	387.887	388	1.000		
	Total	5265.442	393			

a. Dependent Variable: Investment

b. Predictors: (Constant), Infrastructure problem, High lending interest rate, Political unrest, Corruption in public and private organizations, Inadequate Power Supply

Table 3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	1.527	.326		4.690	.000	.887	2.167					
	High lending interest rate	1.320	.044	.439	29.906	.000	1.233	1.407	.675	.835	.412	.883	1.132
	Political unrest	.955	.061	.233	15.718	.000	.835	1.074	.542	.624	.217	.866	1.155
	Corruption in public and private organizations	1.292	.052	.368	24.861	.000	1.189	1.394	.635	.784	.343	.868	1.152
	Inadequate Power Supply	1.046	.057	.274	18.489	.000	.935	1.157	.525	.684	.255	.866	1.155
	Infrastructure problem	.915	.055	.248	16.750	.000	.808	1.022	.511	.648	.231	.863	1.159

a. Dependent Variable: Investment