

This is why there was a slowdown in profit repatriation

FIGURES released by the State Bank of Pakistan (SBP) last week showed a 40 per cent slump in profits and dividends repatriated on Foreign Direct Investment (FDI) in the first half of the financial year (July-Dec 2018).

There could be numerous reasons for this slowdown. FDI has fallen to \$628.8 million in 1H FY19 against \$1,055.4m in the same period last year, representing a fall of \$426.6m.

Although slowdown in economic activity that has generated reduced earnings cannot be ruled out, two other reasons mentioned by analysts related to the steep drop in the value of the rupee against the dollar.

Since dividends are disbursed by companies in the home currency, which is then converted into dollars for repatriation to their head offices abroad, a depreciation of the rupee resulted in a lesser sum in terms of dollars for repatriation.

Individuals familiar with the situation, on condition of anonymity said that the lesser outflow could also suggest 'SBP flow management' alluding to a possibility of the Central Bank's attempt to slowdown permission for outflow of sums that foreign companies earn in franchise fee and royalties.

Two reasons mentioned by analysts explain the phenomenon

But most do not subscribe to that view. Doubtless, the country is scraping the barrel for dollars to increase its foreign exchange reserve, and there are countries that restrict outflows to prevent a drain on capital, But Pakistan can ill afford to drive away foreign investors by resorting to such petty means.

Much of the progress of the economy now hinges on the inflow of investment from foreign countries in various sectors. Sector-wise oil and gas revealed the highest sum of 134.7m FDI in July-Dec 2019, followed by \$203.4m in the financial sector.

The Securities and Exchange Commission of Pakistan (SECP) recently released the Foreign Companies Regulations, 2018, with a view to tighten regulations for foreign companies operating in Pakistan and to effectively monitor them.

The rules, however, do not impact the promise enshrined in chapter II titled 'Liberal Investment Regime' of the Board of Investment's (BOI) 'Investment Policy 2013' which stipulates: "All sectors and activities are open for foreign investment unless specifically prohibited or restricted for reasons of national security and public safety."

There is no minimum requirement for the amount of foreign equity investment in any sector and there is no upper limit on the share of foreign equity allowed, except in specific sectors including airline, banking, agriculture and media.

Section 2.1.4 of chapter II clearly mentions: "Foreign investors in any sector shall at any time repatriate profits, dividends, or any other funds in the currency of the country from which the investment originated; as per clause six of the Foreign Private Investment (Promotion and Protection) Act, 1976."

Foreign investors are allowed to invest in an industrial project on a 100pc equity basis without any permission from the government. There is no requirement for a No Objection Certificate from the provincial government.

In addition to the manufacturing sector, foreign investment on a repatriate-able basis is allowed in the services, infrastructure and social sectors.

Full repatriation of capital gains, dividends and profits is permissible. The facility for contracting foreign private loans is available to all those foreign investors who make investment in the approved sectors.

Foreign controlled manufacturing concerns are allowed to borrow on the domestic market according to their requirements. BOI approval is not required for foreign companies to open a bank account.

Among the companies with foreign investment, the BoI lists a number of success stories including Nestle Pakistan, Atlas Honda, Toyota, Standard Chartered Bank, Telenor Pakistan and Procter and Gamble.

Analysts point out that in recent times some major multinationals have divested their controlling stake to the local big conglomerates, which could be another for the slower outflow of profit and dividends.

The figures posted by BoI on its website shows net foreign investment in Pakistan in the period July-Dec 2019 at \$1.32 billion against \$3.092bn in FY18. This marked the lowest investment since \$988m in FY15.

According to 1HFY19 figures, the profits and dividends on portfolio investments dropped to \$130.7m, from \$146.6m YoY, while the aggregate outflow of profits — the sum of FDI and Foreign Institutional Portfolio Investment (FIPI) combined to a sum of \$759.5m during the six months under review, against \$1,201.2m in July-December of the earlier year, reflecting a decrease of 37pc or \$442m.

Apart from possibly lower profit earned by corporations and the rupee depreciation, other quite logical reasons for the downward spiral in repatriation could be the tilt of company boards in favour of retention of profit against distribution of dividends.

Doing so would strengthen their balance sheets and save funds in anticipation of planned or already ongoing expansions and diversifications.

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