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the DSE only 5 months ago, and its Tk. 10 shares (face value) are currently trading at Tk. 340 and rising further! The day after GP announced a Tk 6 dividend per share, newspapers and press releases issued loudly announced that as a 60 per cent cash dividend. The next day, GP shares jumped by 8 per cent. In reality, the amount of dividend at current market value (of more than Tk. 340) was less than 2 per cent, but an illusion was created that it was 60 per cent. By announcing a dividend of Tk. 6, GP has de facto got more than Tk. 24 increase in its share price.

At P/E ratio of more than 135, is it not insane to invest in the company? I agree that GP is the largest listed company at the DSE, and is a fairly well managed one with significant growth potential. However, its track record of profitability is not that good and more importantly, with the coming of Bharti Airtel in Bangladesh (with Warid), it will be facing much tougher competition in the domestic telecom market in the coming years. Certainly not a good outlook for justifying a P/E ratio of more than 135!

What Role can the Policy-Makers Play?

The SEC has been sending mixed signals about market developments. Until early March, SEC had taken a number of steps to contain inflow of funds into the over-heated market and help it calm down, including tightening of conditions for margin loans. First, SEC set a limit on the equity-to-loan ratio at 1:1.5 and restricted such lending only for stocks with P/E ratio not exceeding 75. Subsequently, SEC further tightened the criteria by lowering the loan ratio to 1:1 in shares which have P/E ratios lower than 50. This policy directive essentially required investors to pay 50% of the share price in cash and shares with P/E ratio over 50 can be purchased only with cash.

These were right moves and the market started to respond to such actions: the DSE index declined from its peak of 5,828.4 on February 17 to a low of 5,338 on March 15; daily market turnover also slowed down from a high of Tk. 13.2 billion in February to Tk. 8 billion in March (Figure 3); and the DSE index became range bound moving within a relatively moderate band of 5,300-5,800.

However, as some demonstrators started agitating against the market correction, in a surprise move the SEC eased the margin lending condition by increasing the equity-to-debt limit 1:1.5 on March 15. Yielding to pressures from demonstrating investors definitely sent a wrong signal to the market.

The stock price development is also a manifestation of the general inflationary trend visible across the economy. As the economy has been passing through a liquidity overhang in recent months, inflationary pressures are building up all across the economy: general inflation as measured by the consumer price index (CPI) increased to 9 per cent in January from a low of 2.25 per cent in June 2009; real estate prices are all time high; land prices are high across the country; and the surge in the stock price index is the topic of discussion in this paper. With