



Stocks	
DGEN	▲ 0.34%
	6,743.20
	▲ 0.30%
	12,937.76

IDLC Index	
IDLC 50	▲ 1.28%
	6,871.47

### Asian Markets

MUMBAI	▲ 1.08%	18,454.94
TOKYO	▲ 1.32%	9,362.68
SINGAPORE	▲ 0.94%	2,946.77
SHANGHAI	▲ 0.81%	2,687.98

### Currencies

	Buy Tk	Sell Tk
USD	68.87	69.87
EUR	86.85	90.91
GBP	105.85	110.21
JPY	0.79	0.85

### Commodities

<b>Gold</b>	▲	\$1,229.88	(per ounce)
<b>Oil</b>	▲	\$75.46	(per barrel)

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## BB fires again at inflation

REJAUL KARIM BYRON

Bangladesh Bank (BB) moved to contain inflation yesterday, increasing by one percentage point repurchase agreements (repo) and reverse-repo rates.

The repo rate is the interest rate on commercial banks' borrowing from the central bank; the reverse repo is the rate paid to the commercial banks that deposit money with the BB.

The central bank increased the repo and reverse repo to 5.5 percent and 3.5 percent, respectively.

The move means the banks will pay more when borrowing from the central bank, and so may do so less. The banks may soon deposit more money with the BB, given the higher interest earned. It should decrease the amount of money, including credit, now circulating.

"The central bank took the step as part of management of excess liquidity in banks," said an anonymity-seeking high official of the BB. He also said it will help manage the inflation.

K Mahmood Sattar, president of the Association of Bankers Bangladesh (ABB), said: "The economic signal of the central bank step is that money is getting dearer, but it will not increase the lending rate, as it has been capped at 13 percent."

In May, the central bank increased the cash reserve requirement of national banks by half percentage point, also to contain inflation. That same month it increased the cash-reserve ratio (CRR) by half a percentage point, to 5.5 percent.

In October of 2009, BB cut both repo and reverse-repo rates by four percentage points to curb inflation.

BB officials said the amount of excess liquidity in the banks was about Tk 35,000 crore on June 30.

In the last fiscal year, private sector credit increased by more than 24 percent, which is a jump of nearly 15 percent from

the previous fiscal year.

The BB high official said high credit growth is creating inflationary pressure. BB found that if the private sector increases loans by 10 percent, inflation goes up by 2.4 percent.

In July, the biannual Monetary Policy Statement of the central bank emphasised containing inflation: "BB's monetary policy will continue pursuing the dual objectives of maintaining price stability and supporting faster economic growth."

The statement said liquidity levels in the market would be actively managed to limit demand-side pressure; and field-level surveys will gauge leakages of bank credit from declared purposes (including agricultural and SME loans) into other uses (personal consumption or market speculation).

In addition to repo and reverse-repo rates, cash reserves and liquidity requirements can be adjusted to rein in unwanted growth in the "broad money" and domestic credit portions of the money supply.

Mahmood Sattar, also managing director of City Bank, said it is not a pure contraction policy even though the deposit rate increased, because the lending rate was capped. As a result, the spread decreased. (The spread is the margin between lending and deposit rates.)

Sattar said the lending-rate moves would not continue. The rising rate of repo and reverse-repo will reduce loans in "unnecessary sectors" (land speculation, buying stocks on margin), but its effect will also fall on other sectors.

"By 'unnecessary sector' we understand the land and share markets," he said. "BB, by issuing a circular, prohibited us from giving loans for purchasing land, so we are not giving loans for this purpose. BB has also imposed various restrictions on providing loans for investment in the share market."

## Eastern Housing under scanner

STAR BUSINESS REPORT

Dhaka Stock Exchange (DSE) will investigate an abnormal hike in the prices of Eastern Housing Ltd (EHL) shares, following instructions from the market regulator.

The Securities and Exchange Commission (SEC) yesterday directed the bourse to probe



**The real estate company suffers a 37 percent fall on Dhaka Stock Exchange**

EHL's abnormal share price rise, as its prices advanced by around 99 percent or Tk 690 in the last 19 trading days.

Each share price of EHL increased by Tk 123 and Tk 143 on Tuesday and Wednesday.

But it suffered a 37 percent price fall on the DSE yesterday, after the directive was posted on its trade server.

The stock market regulator also directed DSE to submit the probe report by August 31.

EHL was listed on the DSE in 1994 under the services and real estate segment.

## Market cap swells to all-time high

Market capitalisation crosses Tk 300,000cr on DSE

SARWAR A CHOWDHURY

Total market capitalisation on the premier bourse yesterday crossed the Tk 300,000 crore mark to hit an all-time-high.

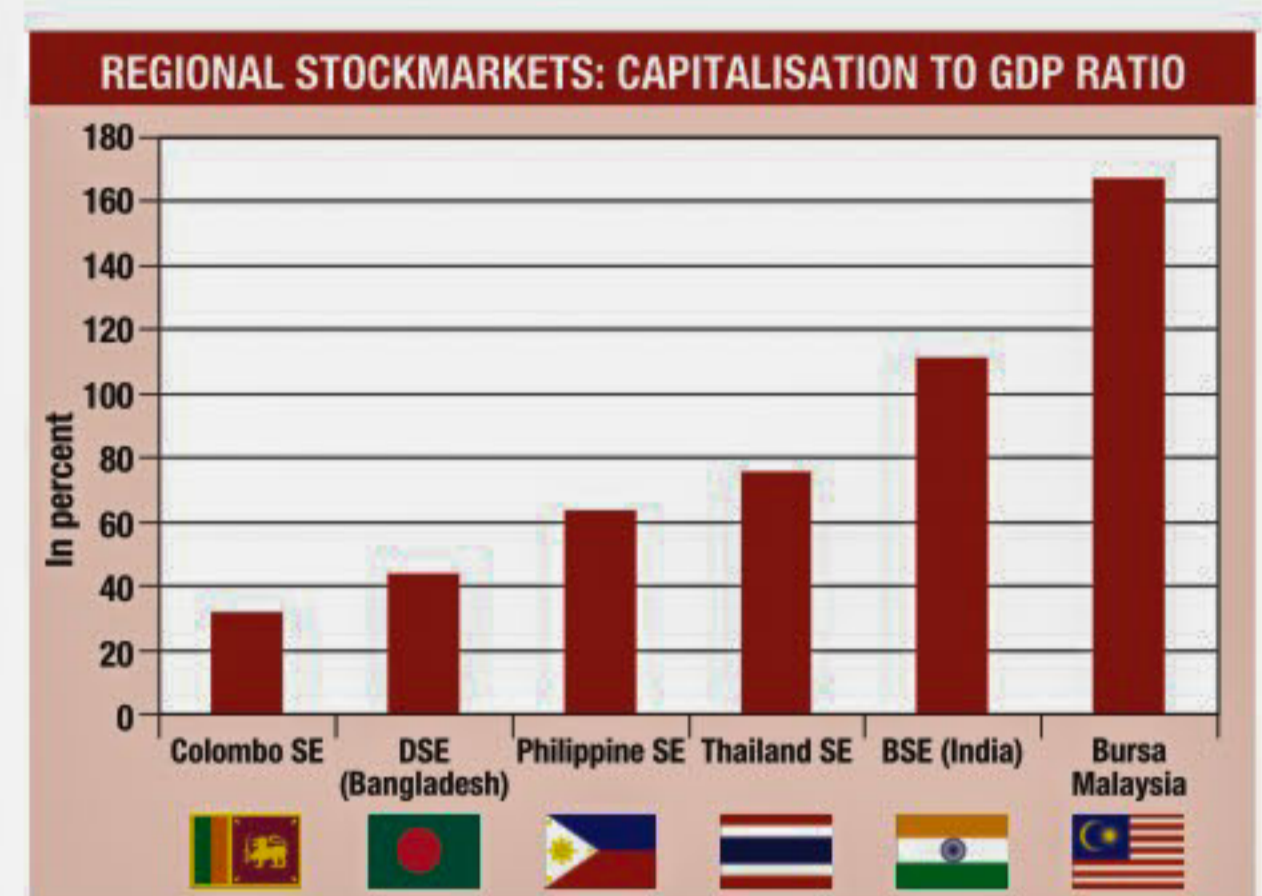
Thanks to the current bullish trend, the market capitalisation to GDP ratio also reached the highest level at 43.65 percent. GDP (gross domestic product) at current price has been estimated at Tk 6,90,000 crore at the end of fiscal 2009-10.

At the end of yesterday's trading session on the Dhaka Stock Exchange, market capitalisation stood at Tk 301,439 crore, up by more than 50 percent since January.

Market capitalisation represents the aggregate value of companies or stocks. It is obtained by multiplying the number of shares outstanding by their current price per share.

The market capitalisation to GDP ratio shows the depth a stockmarket relatively to the economy. But the ratio can also be used to determine whether an overall market is undervalued or overvalued.

The market capitalisation to GDP ratio of the Bombay Stock Exchange, India, was 111.36 percent at the end of July. The ratio was 32.05 percent



on the Colombo Stock Exchange in Sri Lanka.

Analysts said market capitalisation of the Dhaka bourse is increasing, as stocks prices are on the rise.

The Dhaka market rose yesterday for a third consecutive session. With the gaining momentum, the benchmark index -- DSE General Index -- also reached its highest level at 6,743 points.

The analysts said market capitalisation is rising only because share prices are soaring. Growth in capitalisation based on share prices is neither a good sign for the market, nor sustainable.

Growth should be based on the entry of new securities. When the market absorbs a new issue, capitalisation goes up.

While thousands of new investors entered the market

with crores of taka in cash since January, the Dhaka market listed only four new securities, except for some mutual funds and a convertible zero coupon bond.

The investors, including the newcomers, are now chasing a limited number of shares, and pushing share prices up.

"The record market capitalisation and its ratio to the GDP theoretically show that our market is becoming bigger," said Arif Khan, deputy managing director of IDLC Finance.

"But it is a matter of worry that the growth is based on share prices, instead of new securities."

Without higher company earnings, the only possible way to maintain sustainable market growth is by bringing in more securities, he said.

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## Let's celebrate the joy of giving with HSBC Amanah

This Ramadan, HSBC Amanah would like to celebrate the joy of giving with you. Together, we can make this Eid-ul-Fitr a celebration of joy and love for the underprivileged street children.

**How:** You can contribute books, toys, clothes - any suitable non cash item is welcome  
**Where:** Joy of giving boxes are placed at all HSBC branches in Bangladesh  
**When:** Contributions can be made during banking hours during the month of Ramadan

At the end of Ramadan, all your contributions will be collated and distributed among the underprivileged street children, with the help of **actionaid**.

In the coming months, HSBC Amanah will have the full range of Shariah compliant products and services made available to you in Bangladesh.

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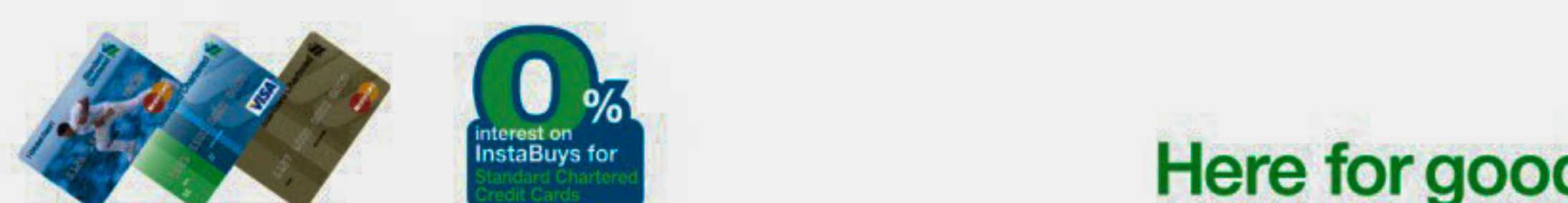
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