

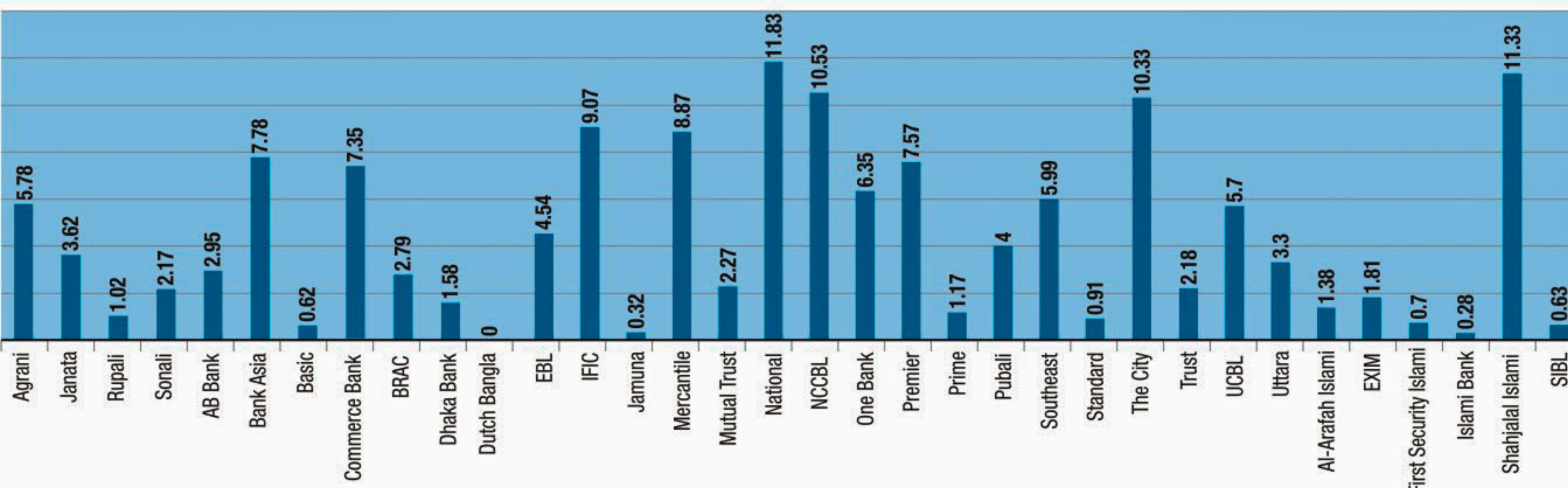
DHAKA THURSDAY APRIL 14, 2011, e-mail:business@thelialstar.net



Gift to Life

Banks cut stock exposure

PERCENTAGE OF TOTAL HOLDING TO TOTAL LIABILITIES



REJAUL KARIM BYRON

Banks' exposure to the stockmarket came down to almost half of their legal limit but the amount of their total holding in the capital market is still above the best practices.

About the legal limit of holding shares, a stockmarket probe committee has said, if such exposure is not contained, both the capital and money markets will plunge into deeper crisis and the economy may be destabilised.

According to the Banking Companies Act, a bank can hold up to 10 percent of its liabilities (deposit) in the capi-

tal market. As per Bangladesh Bank (BB) statistics on February 28, the total holding by the banks was 3.72 percent or Tk 15,548 crore of their liabilities.

The four state-owned banks held 3.21 percent of their liabilities or Tk 3,777 crore in the share market, and 4.84 percent of the 24 private commercial banks' liabilities or Tk 9,668 crore was invested in the capital market.

Holdings of the six Islamic banks plunged to 1.97 percent of their liabilities to stand at Tk 1,342 crore.

According to BB statistics, the banks' overall holding in the capital market came below the limit, although holdings by

four private banks were slightly above the ceiling. However, officials of the banks said some of the four banks have brought down their holdings by March.

The probe committee report said the banks should invest a certain percentage of their capital in the share market instead of their deposits.

Keeping the money market and capital market separate is a global practice, as an individual will invest his own capital in the capital market; the subscribers do not give a bank the right to invest their deposit in the share market, said the report of the probe committee.

Investing the subscribers' money in the capital market without their permission is unethical, the report said, adding that in India and Pakistan, the banks' investment in the capital market is determined according to the ratio with the capital instead of the deposit.

A high official of BB said, since last year they have been monitoring the banks' exposure to the stockmarket to minimise their involvement in the share market.

It also said: "As the big amount of banks' money entered the capital market, the market saw a liquidity surge and share prices went up abnormally, which created a crisis in the money market."

The committee recommended the central bank take punitive actions against the banks which invested in the capital market violating laws and helped swell the share

prices.

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Early this week, the central bank governor, in a meeting with the chief executives of all commercial banks, warned that punitive measures will be taken if any bank was found excessively involved in the share market.

The BB officials said they have taken initiatives to amend the legal limitations of the banks regarding investments in the capital market.

per the recommendations of the stockmarket probe committee.

The banking sector lost 0.85 percent, reaching 27 percent of the total market capitalisation. Of 30 issues, only IFIC Bank and Premier Bank closed positive.

Non-bank financial institutions lost 0.48 percent. Of 21 issues, only ICB closed green, while the fuel and power sector lost 0.96 percent, reaching 11.5 percent of the total market capitalisation.

The general index of DSE started with a bull-run and gained 50 points within the first 10 minutes of trade.

But it quickly reversed, backed by the investors' selling pressure, and the index started to lose points.

The market experts believe the new coupon rate of Bangladesh Government Treasury Bonds, which increased to 9.3 percent from 9.2 percent, will likely impact the capital market, said Green Delta Financial Services in its daily analysis.

SaifulIslam, vice-chairman of BRAC EPL Investment, said: "Institutional investors have adopted a wait-and-see policy. Some retail investors also went into profit-taking sales."

Islam said the government should take proper actions as

April 14.

Markets finish down on sell-offs

STAR BUSINESS REPORT

Share prices declined on the bourses yesterday as selling pressure pushed down the stocks.

The benchmark general index of Dhaka Stock Exchange (DGEN) lost 36.56 points, or 0.57 percent, to close at 6,386 points, while the selective categories index of Chittagong Stock Exchange slumped 40.96 points, or 0.35 percent, to 11,540 points.

The general index of DSE started with a bull-run and gained 50 points within the first 10 minutes of trade.

Daily turnover on the DSE soared to Tk 855 crore, up Tk 62.46 crore from the previous day.

Beximco topped the turnover leaders with 91.51 lakh shares worth Tk 26.80 crore traded on the day.

Active Fine Chemicals was the biggest gainer of the day, posting a 9.73 percent rise in share prices. Mercantile Insurance finished as the worst loser, slumping by 38.24 percent.

In another development, the Securities and Exchange Committee has increased the listing time of MJL Bangladesh Ltd by one week from April 14.

BIDS finds mismatch in monetary policy

STAR BUSINESS REPORT

Bangladesh Institute of Development Studies (BIDS) yesterday termed the monetary policy of the central bank contradictory, saying it is increasing the supply of liquid money while withdrawing it from the system by raising the cash reserve ratio for banks at the same time.

As a result, the interest rate has gone up, slowing industrial growth, said Nazneen Ahmed, senior research fellow of BIDS, at a seminar on the state of the economy at Dhaka Sheraton Hotel.

Nazneen said money supply has grown 22 percent, exceeding the central bank's 17 percent target. She said a rise in money supply influences consumer demand and inflation.

Finance Minister AMA Muhith who was present at the programme said he would look into the issue.

Lawmaker Mohiuddin Khan Alamgir and BIDS Director General Mustafa K Mujeri also spoke.

BIDS, an autonomous research organisation, said the economy is doing well on different fronts such as agriculture and exports. But there are challenges to deal with: inflation, balance of payments, infrastructure and implementation of annual development programme.

BIDS focused on the contradictions of monetary policy at a time when inflation led by a food price spike rose to 9.04 percent in January from 8.28 percent in the previous month.

High prices of foods on the global market mainly contributed to the inflation, while an increase in money supply is partly responsible



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Finance Minister AMA Muhith speaks at a seminar on the state of the economy at Dhaka Sheraton Hotel yesterday. Bangladesh Institute of Development Studies organised the programme where the organisation's Director General Mustafa K Mujeri and lawmaker Mohiuddin Khan Alamgir also spoke.

for a rise in consumer prices.

To curb the money supply and demand-led inflation, Bangladesh Bank had earlier increased the cash-reserve ratio for banks.

"Industrial growth was higher in the past one year because the interest rate had been lower. But the rise in the interest rate due to tightening will discourage investments and raise cost of imports," she said.

Muhith said it is not easy to curb the price hike. "When I was not in government I thought there was a syndicate that could be controlled. But when I am in government, I find it hard to control," he said.

The minister said the government cannot control prices of all commodities but has targeted four essential commodities -- rice, flour, sugar and edible oil -- to curb prices through fair price cards and rationing. "That's what India does to

do that."

Focusing on the budget, Lawmaker Mohiuddin Khan Alamgir said the share of development budget should be increased in the overall budget to create productive capacity of the economy.

"During the period of Bangabandhu [Sheikh Mujibur Rahman] the share of development budget was 66 percent. Now it is less than a third of the total budget," he said.

Alamgir favoured a discussion in parliament about the allocation for the defence sector in the budget.

Referring to the stockmarket, Alamgir said the government should not offload shares of state companies to support the share market.

Alamgir said the stockmarket should not be controlled too much. "We should proceed with caution," said the lawmaker, pointing to market reforms.

BB asks banks to e-transfer dividends

STAR BUSINESS REPORT

Bangladesh Bank yesterday asked all commercial banks and other financial institutions to give dividends to shareholders through the newly-introduced electronic fund transfer network.

The central bank put in place the e-fund transfer system on February 28. The system makes it easy to transfer cash to client accounts.



ত্র্যাক ব্যাংক এর পক্ষ থেকে আমাদের সকল প্রাচুর, শেয়ার হোড়ার, রেঙ্গলেটির ও শুভাব্যাধীনের জানাই নববর্ষের শুভেচ্ছা।

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