

STOCKS		COMMODITIES		ASIAN MARKETS				CURRENCIES				
DGEN	CSCX	Gold	Oil	MUMBAI	TOKYO	SINGAPORE	SHANGHAI	USD	EUR	GBP	JPY	
1.61%	1.77%	\$1,630.80 (per ounce)	\$98.70 (per barrel)	0.73%	1.36%	1.75%	1.34%	84.05	104.46	126.83	1.06	
5,031.98	9,229.34			16,154.62	8,500.02	2,791.54	2,244.58	BUY TK	85.05	108.70	131.15	1.17

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Star BUSINESS

DHAKA MONDAY JANUARY 16, 2012, e-mail:business@thedailystar.net

Sudden hike in interest rate rattles industry

Bankers say default rates may spike

SAJJADUR RAHMAN

A sudden but significant rise in interest rates has emerged as a threat to the local industry, which is already feeling the pinch of a record devaluation of the taka against the dollar.

Bankers forecast that a rising interest rate can lead to an increase in default rates.

Earlier this month, Bangladesh Bank (BB) withdrew the cap on lending interest rates, except on farm credit, to put brakes on soaring inflation. BB had placed the cap in April 2009 in the backdrop of the world economic crisis.

Soon after the cap was withdrawn, banks that were collecting deposits at higher costs to maintain the regulatory ratio entered a race to raise the lending rate.

The borrowing cost increased 4-5 percentage points in the past two weeks.

The lending rate for commodity imports, which was 12 percent, went up to 17-18 percent. Similarly, the cost of borrowing for corporate loans (both term loan and working capital) and small and medium enterprise also shot up 3-5 percentage points.

"I came to know last week that my bank has increased the interest rate by 4 percentage points to 18 percent," said Mizanur Rahman, a bicycle manufacturer.

Shaheenur Alam, a small businessman, who borrowed funds initially at 13 percent, has now been asked to pay 18 percent. Moreover, he is facing difficulties with depreciation of the taka as he imports raw materials.

In addition, bankers are unhappy

with the rapid rate hike. Senior bankers said the banks are in a mad rush to collect deposits at any cost to maintain a loan-deposit ratio at 85 percent set by the central bank.

Shahjahan Bhuiyan, managing director of United Commercial Bank, described the interest rate rise, for both deposits and lending, as reckless.

"This is an unhealthy environment, not competition among the banks," said Bhuiyan.

He is however not surprised to see the 14-15 percent interest for deposits, taking 12 percent inflation into account. Last year, the Association of Bankers Bangladesh, a forum of bank chief executive officers, set the highest deposit rate at 12 percent, which was never followed.

Helal Ahmed Chowdhury, managing director of Pubali Bank, said banks should fix the rate rationally. He blamed the unusual interest rate hike on treasury mismanagement by some banks.

"We should be self-restricted."

Both bankers agreed that this spike in interest rate may lead to an increase in non-performing loans.

Amjad Khan Chowdhury, chief executive officer of Pran-RFL Group, however, is more concerned with an increase in other costs than the financial cost.

"The financial cost is a very small component compared to other costs. Poor roads, transportation and doing business cost more than the lending rate hike," said Chowdhury, also the president of Metropolitan Chamber of Commerce and Industry.

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New CEO for HSBC



Andrew Tilke

STAR BUSINESS DESK

The Hong Kong and Shanghai Banking Corporation (HSBC) has appointed Andrew Tilke as the chief executive officer of HSBC Bangladesh, effective from today.

Tilke joined HSBC Group in 1983 and has worked in a variety of roles in Europe and the Asia-Pacific region, the bank said in a statement yesterday.

Since 2009, Tilke was based in Shanghai as a senior member of the executive team in China, undertaking the responsibilities of chief risk officer, HSBC Bank (China) Company Ltd.

Tilke is a member of the Institute of Financial Services of the UK.

He replaces Sanjay Prakash, who is moving to HSBC's regional head office in Hong Kong as chief operating officer, for Asia Pacific commercial banking.

"I wish Andrew all the very best for his new assignment," said Guy Harvey-Samuel, head of international HSBC Asia Pacific.

"Under his leadership, I am confident that HSBC Bangladesh will grow from strength to strength. I would also like to thank Sanjay for doing a phenomenal job in Bangladesh in a professional and resilient manner during his tenure."

Panel defines new stock index method

SARWAR A CHOWDHURY

A stockmarket regulatory panel has adopted an international definition of the free-float methodology in market capitalisation to introduce a new index for a more accurate reflection of market movements.

The committee set the definition in line with a regulatory requirement, as the Securities and Exchange Commission (SEC) plans to replace

the existing indices of Dhaka and Chittagong bourses with a new one.

Under the free-float system, market capitalisation is calculated by taking the equity's price and multiplying it by the number of shares readily available for trading on a particular day in the market.

Instead of using all shares outstanding as in the full-market capitalisation method, the free-float method excludes promoters' hold-

ings, government holdings, strategic holdings and other locked-in shares.

The free-float method is seen as a better way of calculating market capitalisation because it provides a more accurate reflection of market movements. When using a free-float methodology, the resulting market capitalisation is smaller than what would result from a full-market capitalisation method.

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