

STOCKS		COMMODITIES		ASIAN MARKETS				CURRENCIES					
DGEN	CSCX	Gold	Oil	MUMBAI	TOKYO	SINGAPORE	SHANGHAI	USD	EUR	GBP	JPY		
3.33%	2.56%	\$1,645.10	\$99.46	0.22%	1.43%	1.26%	1.71%	84.05	105.84	126.73	1.07		
4,864.30	8,993.49	(per ounce)	(per barrel)	16,189.36	8,378.36	2,756.49	2,206.19	BUY TK	SELL TK	85.05	110.21	131.05	1.17

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star BUSINESS

DHAKA TUESDAY JANUARY 17, 2012, e-mail:business@thedailystar.net

IMF pushes for repo rate hike

REJAUL KARIM BYRON

The International Monetary Fund (IMF) has recommended increasing repo and reverse repo rates by 200 basis points by March to tighten Bangladesh's monetary policy, a finance ministry official said.

The IMF sent the recommendations to the government last month, the official said.

The IMF recommended that the monetary policy be further tightened and interest rate distortions be eliminated, which are leading to a mispricing of bank credit and adding to liquidity pressure.

Besides, it recommended increasing the special repo rate by 300 basis points. However, no deadline has been set for that.

In the first week of January, Bangladesh Bank (BB) hiked the repo rate by 50 basis points making it to 7.75 percent. The central bank increased the special repo rate by 100 basis points to make it to 10.25 percent at the end of last month.

In its report, the IMF said BB should ensure that the domestic money markets are adequately liquid on the days of the rate hikes to mitigate the risks of disruptive moves in call money rates.

The IMF said mounting pressure on balance of payments, accelerating non-food inflation and rising government bank borrowing are all signs of widening macroeconomic imbalances.

In December, food inflation fell by 2.07 percentage points and non-food inflation went up by 1.19 percentage points in November.

In the last several months, non-food inflation has been rising continuously for which BB has been taking steps to bring down credit growth. In BB's first monetary policy for the current fiscal year, the target was fixed to bring down private sector credit growth to 16 percent.

Last year, the central bank increased the repo and reverse repo rates four times. On the other hand, India and China increased the rates more than 10 times to contain non-food inflation.

The central bank is set to announce its half yearly monetary policy for the last six months of the current fiscal year, focusing on a tight monetary policy to contain inflation, a BB official said.

Apparently, it is not private sector credit growth but high government borrowing that is a hindrance to containing inflation. In December last year, the government's bank borrowing crossed the target.

The finance ministry official said the government borrowing started decreasing: it came down to Tk 16,175 crore on January 12 from nearly Tk 22,000 crore in the first week of December.

In the current fiscal year, the government borrowing will exceed the target by around Tk 6,000, according to another official of the finance ministry.



Investors shout slogans to protest a continuous fall in stocks in Motijheel yesterday.

Falling stocks bring protesters back

GAZI TOWHID AHMED

Stocks declined 3.33 percent yesterday, taking investors out on the streets once again to protest volatility in share prices.

The benchmark General Index, the yardstick of Dhaka Stock Exchange, closed at 4,864.30 points, after falling 167.69 points -- the highest in the New Year -- at the 3pm close.

Experts believe the withdrawal of the cap on lending interest rates and investors' misinterpretation of a circular of the National Board of Revenue (NBR) on undisclosed money quickened yesterday's fall.

Under the banner of Bangladesh Share Investors Association, a group of small investors staged demonstrations in front of the DSE building at 12:15pm.

They halted traffic for hours in front of the Dhaka bourse and shouted slogans demanding quick stabilisation of the market.

The market suffered a liquidity crisis as money had been transferred from the stockmarket to the money market, said Ahmed Rashid, director of DSE.

Investors were perturbed by the withdrawal of limits on banks' lending rates, Rashid said.

The NBR's circular on undisclosed money also created a negative impact on investors. The tax administrator should clarify the situation, he added.

The NBR on Sunday modified scope for investing black money in stocks and said money earned through criminal acts will not be allowed into the market.

Black money in stocks will not be questioned under the income tax law, but other laws can be applied against such investment, the tax adminis-

trator said in a statement.

"The indicators of DSE continued to puzzle the investors as it resumed price correction for the second day this week," said Green Delta LR Holdings in its daily market analysis.

"Experts believe that the ongoing debate regarding the involvement of black money in the capital market has been the key to this price correction."

The downtrend in the market has been exacerbated by the structural problems of the economy, said Yawer Sayeed, managing director and chief executive officer of AIMS of Bangladesh, an asset management company.

Once the market is back on track, the economy will also start to gain, said Sayeed.

He said after such a big plunge the market will recover slowly. There is no chance to be hopeful that the market will gain sharply as the regulator declined stimulus packages.

A dearth of liquidity and lack of institutional participation are exerting a negative impact on the general investors, said LankaBangla Securities in its market analysis.

Market PE has come down to the level of 11.94, LankaBangla said, adding that if the market continues to decline, Bangladesh capital market will become one of the cheapest in the South Asian region.

Turnover gained 29 percent compared with the previous day. A total of 1.02 lakh trades were executed, generating a turnover of Tk 318.33 crore with 6.87 crore shares being traded on DSE.

Of the 256 issues changed hands, 10 advanced, 242 declined and four remained unchanged.

The Chittagong Stock Exchange also declined yesterday. The Selective Categories Index went down 235.85, to end the day at 8,993.49.

Bangladesh may link up with another submarine cable via Myanmar

ABDULLAH MAMUN

Bangladesh plans to connect with the world's longest undersea cable through Myanmar to strengthen its back-up for internet operation, officials said.

To connect with the SEA-ME-WE 3 (South-East Asia - Middle East-Western Europe), Bangladesh Submarine Cable Company Ltd (BSCCL) will build about 50-kilometre fibre optic link from Cox's Bazar up to the Myanmar border.

State-run BSCCL has started working with Myanmar authorities to get the connectivity, said Sunil Kanti Bose, the telecom secretary.

"We are exploring the possibility of getting connectivity with Myanmar through microwave or terrestrial cable link. Recently a group of experts from Myanmar came to Bangladesh to this effect," he said.

Bangladesh has no direct scope to be connected with the SEA-ME-WE 3. But Bose said it is however possible to connect to the cable via Myanmar. It is Myanmar's only one under sea connectivity.

Recently the government has approved BSCCL to be a consortium member of another new under sea cable system SEA-ME-WE 5, said the secretary.

The new connection will be used as a back-up of Bangladesh's lone under sea cable SEA-ME-WE 4. It will also be used as a core bandwidth supplier.

BSCCL Managing Director Monwar Hossain said Bangladesh will build part of the cable on its own border side while the other part will be built by Myanmar.

BSCCL is the consortium member of the country's lone submarine cable SEA-ME-WE 4.

The company will have to spend \$2.75 million to complete the project, said a BSCCL official. The project would take 12 months to complete, he said.

Thirty-three countries are connected with SEA-ME-WE 3, a 39,000-kilometre cable.

Bangladesh was proposed to join the consortium but the then government chose not to connect with the cable fearing information leaks out of the country.

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