

Impact of Inflation on Growth of Net Assets of Listed Companies in Bangladesh: A Study on DS30 Companies

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Abstract

This study compared between nominal growth and inflation adjusted growth of net assets of DS30 companies of Bangladesh and it is found that inflation has significant impact on the growth of net assets. When inflation is adjusted to the growth rate of net assets, it is easy to decide whether net assets grow because of performance or inflation. Measuring net asset is important because it is one of the important elements to decide for doing investments. Investors should consider inflation adjusted net asset growth to consider of their investments. To do the study, 30 companies which are considered as DS30 companies in Dhaka Stock Exchange are taken as sample.

Keywords: Inflation, Net asset growth, Bangladesh, Dhaka Stock Exchange.

1. Introduction

For companies, Assets equal to the combination of liabilities and equity. An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity (IFRS 2015). A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (IFRS 2015). And equity is the residual interest in the assets of the entity after deducting all its liabilities (IFRS 2015). Net asset value of an investment company is the company's total assets minus its total liabilities (US SEC 2013). Equity is the net asset of a particular company. Growth of equity is always desirable by the shareholders. Because of the growth, equity will increase the return of the shareholders. Value of the equity can be increased by two ways: investments by owner and positive growth of operational performance. Investors always expect positive growth of the operation. To find out the growth of net assets, a comparison is made between the net assets at beginning of the period and at ending of the period. Through this comparison, nominal growth of net assets can be found. Real growth can be found when inflation will be adjusted with the year end net asset.

Inflation is the rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling (Bora 2013). Economists think of inflation more plainly as a "sustained rise in the general level of prices" (Hellerstein 1997). General price level includes price of all goods in the economy and when all prices rise in equal proportions, relative price do not change (Hellerstein 1997). It basically reduces the purchasing power of money. An increase in the rate of inflation drives down the real rate of return not just on money, but on assets in general (Boyd, 2001). "In a market economy, inflation is the first to bear the brunt of commodity prices. Commodity price changes can make all kinds of resources in the market have some degree of tilt or changes" (Bai, Z., 2014). Chaudhary (1996) stated that "the monetarist-structuralist debate on sources of inflation continues unabated. The roots of this debate spread wider during the 1950s when efforts were being made to find out the sources of inflation in Latin America; which suffered severely from this problem. The view that inflation is a monetary phenomenon claims that inflation cannot continue in the long-run without continuous higher monetary growth".

Bangladesh is a country where inflation is always exists. Rate of inflation in Bangladesh is very much consistent. Most of the time, inflation rate is in between 6 to 7 percent. So, inflation has an impact on the growth of net asset. The objective of this study is to find out the impact of inflation on the growth rate of net assets of listed companies of Bangladesh.

2. Methodology

This study is done on the basis of sampling. 30 companies which are listed in Dhaka Stock Exchange (DSE) and these 30 companies are DS30 companies in DSE. To analyze the impact of inflation on the growth rate of net assets, a comparison of net assets of DS30 companies is made. The analysis is based on following hypothesis:

H0: Inflation does not have significant impact on the growth of net assets

H1: Inflation has significant impact on the growth of net assets

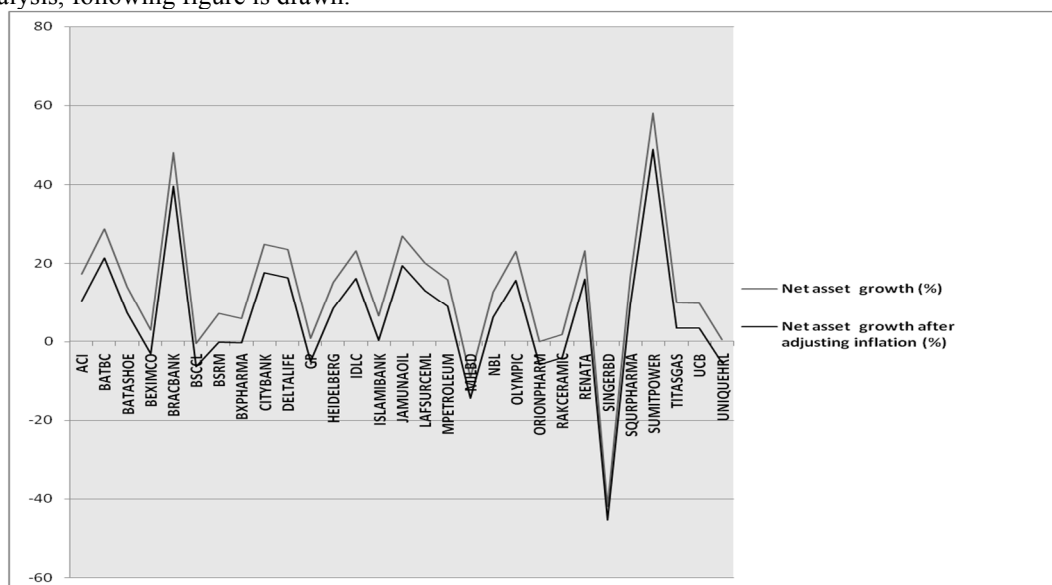
Initially, growth rate is calculated without considering the inflation. Growth rate of each company of DS30 companies is calculated by comparing ending net assets with beginning net assets. After having growth rate of net assets of DS30 companies, inflation adjusted growth rate is calculated. To calculate the inflation adjusted net assets, each company's net asset is adjusted with reporting date's applicable inflation rate. After having inflation adjusted net assets, it is compared with beginning net asset and inflation adjusted growth rate is calculated. These two growth rates are compared to analyze the hypothesis.

Number of the Companies	Reporting Date	Applicable Inflation rate
22	December 31, 2014	6.11%
5	June 30, 2015	6.25%
1	December 31, 2013	7.35%
1	March 31, 2015	6.27%
Total: 29		

Though sample size is 30 but 29 samples are analyzed because 1 sample was listed in 2015 and the value of ending net assets is published yet.

3. Result and Discussion

The growth of net assets of DS30 companies is calculated. The analysis is shown in Appendix 1. On the basis of the analysis, following figure is drawn:



In the upper figure, two lines are found where ash colored line represents net asset growth and black colored represents net asset growth after adjusting inflation. In the figure, the difference between two lines is obvious. Most of companies' reported equities are highly inflation affected. Some companies reported positive growth of equity, but when the real equity growth is calculated, the growth becomes negative. As inflation decreases purchasing power of money, inflation is needed to adjust to find the real financial positions of the companies. From the analysis, it can be said that inflation has significant impact on the growth of net assets. So, null hypothesis H0 is rejected.

4. Conclusion

Inflation has significant impact on the growth on net assets. Net assets are the available resources for the shareholders. Increase of net asset is always an expectation of the shareholders. Higher net assets ensure higher return on equity (ROE) and higher dividend. On the other hand, growth of net assets is another key indicator of analyzing the performance of the company. Increase of net asset without the contribution from shareholders indicates the positive growth of income of the company. It needs to analysis whether income increases because of adding value to the society or devaluing purchasing power of money. If income increases because of adding value to the society, it ensures real growth of net assets. But if income increases because of inflation, it reduces the real financial positions of the shareholders. Inflation adjusted net asset growth rate is a very useful tool to analyze actual equity growth of the company.

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Appendix 1

S. L	Company Name	Net Asset		Net Asset Growth (%)	Inflation Adjusted Net Asset Growth (%)	Reporting Date
		Beginning Balance (BDT)	Ending Balance (BDT)			
1	ACI	5,63,72,52,251	6,60,66,85,402	17.20	10.45	31-12-14
2	BATBC	89,01,590	1,14,63,511	28.78	21.37	31-12-14
3	BATASHOE	2,25,66,84,143	2,57,10,23,893	13.93	7.37	31-12-14
4	BEXIMCO	49,98,83,96,524	51,43,79,56,594	2.90	-3.03	31-12-14
5	BRACBANK	13,02,35,76,964	19,28,85,75,777	48.11	39.58	31-12-14
6	BSCCL	4,05,44,68,522	4,03,36,09,513	-0.51	-6.37	30-06-15
7	BSRM	7,52,32,78,897	8,06,21,35,683	7.16	-0.17	31-12-13
8	BXPHERMA	19,77,55,52,465	20,92,01,85,325	5.79	-0.30	31-12-14
9	CITYBANK	18,52,47,74,703	23,11,78,35,102	24.79	17.61	31-12-14
10	DELTALIFE	29,04,28,18,778	35,86,25,16,596	23.48	16.37	31-12-14
11	GP	31,14,05,70,000	31,36,45,02,000	0.72	-5.08	31-12-14
12	HEIDELBERG	7,49,16,84,000	8,62,40,02,000	15.11	8.49	31-12-14
13	IDLC	4,62,07,22,835	5,69,38,20,351	23.22	16.13	31-12-14
14	ISLAMIBANK	43,76,06,81,314	46,61,28,12,331	6.52	0.38	31-12-14
15	JAMUNAOIL	11,89,82,85,588	15,09,97,88,456	26.91	19.44	30-06-15
16	LAFSURCEML	11,04,44,25,000	13,25,55,58,000	20.02	13.11	31-12-14
17	MPETROLEUM	6,96,32,03,138	8,06,33,89,198	15.80	8.99	30-06-15
18	MJLBD	8,57,26,76,719	7,78,03,49,426	-9.24	-14.47	31-12-14
19	NBL	23,81,68,63,266	26,85,92,30,167	12.77	6.28	31-12-14
20	OLYMPIC	3,07,14,05,142	3,77,55,80,804	22.93	15.70	30-06-15
21	ORIONPHARM	13,22,75,25,217	13,20,72,96,361	-0.15	-5.90	31-12-14
22	RAKCERAMIC	5,81,59,71,876	5,91,94,29,484	1.78	-4.08	31-12-14
23	RENATA	6,29,51,14,611	7,75,07,13,063	23.12	16.03	31-12-14
24	SINGERBD	2,63,27,95,742	1,52,71,52,540	-42.00	-45.34	31-12-14
25	SQURPHARMA	26,73,95,81,929	31,09,33,02,284	16.28	9.42	31-03-15
26	SUMITPOWER	9,77,84,18,320	15,45,51,13,251	58.05	48.95	31-12-14
27	TITASGAS	52,55,66,72,668	57,73,34,55,330	9.85	3.39	30-06-15
28	UCB	20,50,49,66,726	22,49,15,41,524	9.69	3.37	31-12-14
29	UNIQUEHRL	25,73,09,57,059	25,83,08,65,872	0.39	-5.39	31-12-14

Source: Published audited financial statements of DS30 companies.