to sell state enterprises. The state-owned companies -- Jamuna Oil Company Ltd. and Meghna Petroleum Ltd. -- debuted in the bourses early this month. Some analysts think that the market had been undervalued before the surge, and the uphill trend, therefore, played the role of an upward correction of the market.

The P/E ratio now stands at 20x as compared to 14.1x for emerging markets. It seems sustainable if the planned big IPOs of a few SOEs and the top telecom companies take place. More such large issues are required, which can emerge out of the energy, infrastructure and public sectors.

Opportunities

The capital markets in Asia are getting more and more focus with the growing corporatisation of the Asian economies. Eastern Asia has progressed a lot with respect to attracting western companies to get listed in Asian bourses as well as supporting innovative instruments, and Southeast Asia is also coming up with India leading the way. Comparing the local market scenario with that of the rest of the region, Bangladesh is in pretty good shape as we have most of the infrastructure in place. Our market capitalisation is relatively smaller and it currently stands at $9.3 billion, which is just over 13 percent of GDP. Higher liquidity is skewed towards a handful of scrips, while a stagnant situation exists for few less profitable issuers.

At present, the government is heavily focusing on developing a debt capital market. Such measures are certainly welcome as Bangladesh lacks a proper secondary market for bonds. The market is yet to support short-term capital requirements of corporations. Commercial Paper (CP) has not yet been tried primarily due to interest rate volatility and illiquid risk-free instruments that can be used as benchmark neither for short-term and hardly for long-term financing. It can, therefore, be said that we have a somewhat flat yield curve in Bangladesh at the moment.

Debut trading of state-owned oil companies like Jamuna Oil Company Ltd and Meghna Petroleum Limited on the local bourses in January 2008 has spurred a lot of encouragement among investors. This initiative taken by the government to list SOEs will increase market capitalisation and improved liquidity.

SEC is also contemplating the introduction of the book-building method in the valuation of IPOs in order to ensure a fair price within this year. This will encourage companies with sound financial health to come into the market.

Regulatory pressures are mounting on telecom companies to get listed. It is estimated that the listing of the top telecom companies will attract more foreign investment, increase the market capitalisation by few folds, and bring about higher standards of corporate governance.

There is still huge potential in the market for securitisation and other debt instruments like commercial papers and corporate bonds, and derivatives, which will help foreign investors hedge their exposure.

Recommendations

The market needs more and more good scrips. The process would be easier if we could draw attention of good issuers by improving the market governance system and eliminating scope for manipulation. There are only limited instances, such as in commercial banks/leasing companies, where regulators can impose guidelines relating to capital structure. Hence, it may be difficult to force a corporate house to list unless it agrees at the time of licensing or registration. Inadequate disclosure requirement, and a culture of family-owned conglomerates deter the expansion of corporate governance into the local industry. The regulators need to play an active role in removing the bureaucratic bottlenecks, and promote rules that provide incentives to these groups of companies to list.

To expedite the market development process, it may be a good idea to decide on certain milestones and link them to the disbursement of Development Credit Support of the World Bank. The government is making good progress in other sectors, including monetary management, corporatisation of public-sector banks and others through this linkage.

The missing link between the SEC, Bangladesh Bank, Bangladesh Telecom Regulatory Commission and other regulatory bodies is now getting established. Individually, they were not serving each others' interests, and there was no effective coordination among them, hence the country was deprived of great initiatives. A dedicated financial market cell at the Ministry of Finance could be formed to coordinate with these regulators as well as other ministries.

Comparing the local market scenario with that of the rest of the region, Bangladesh is in pretty good shape as we have most of the infrastructure in place.