

# Dhaka Stock Exchange: what next?

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JYOTI RAHMAN

**P**RICES in Dhaka Stock Exchange (DSE) nearly doubled in the half year to January, bringing back uncomfortable memories of 1996. In a few months to October that year, DSE more than trebled. The bull run seemed to have ended in November 1996, when the stock market rose by only 3 percent. Then came the fall -- stock prices halved in the next three months, eventually returning to the January 1996 level by the end of 1997. That kind of sharp rise and fall in asset prices, with little changes in the fundamental economic reality, is what we call bubble.

In February this year, DSE rose by 3 percent. Chart 1 compares the current bull run with that of 1996. In this chart, the horizontal axis shows number of months since the beginning of the bull run, while the vertical axis shows the DSE indexed to that beginning. Back in 1996, DSE

started rising from January, so that's what the grey line is indexed to. Back in November 1996 (that is, 11th month of the run), DSE peaked at 395% of its January value.

Now, the market is indexed to March 2009, when the global asset markets reached the post global financial crisis trough. Since then, DSE had risen by nearly 125 percent by February 2010 (that is, the 12th month of the bull run). Is the current bull run over? Are we on the edge of a precipice? Or are the stock prices likely to have found a new plateau? Or are we in for a bigger bubble and a worse burst?

Asset price bubbles are often very difficult to identify before they burst. But in the case of DSE, there are strong (believe not conclusive) reasons to believe that we are in the bubble territory.

Since last March, DSE has far outperformed other markets in the region (Chart 2). There are two reasons why one might expect

Bangladeshi stocks to be attractive for global investors seeking emerging market bargains. First, with only a small proportion of stocks held by foreigners, Bangladesh remains a "hidden opportunity" for international investors. And second, Bangladesh weathered the global financial crisis relatively well, with respectable growth expected in the next half decade (Chart 3).

Another way to gauge whether we are looking at a bubble or a new equilibrium of high prices is to consider the price-earning ratio. All else being equal, high price-earning ratio means the stock has a high growth potential. But if price-earning ratio rises very quickly in the absence of any new information, then that might point to a bubble.

The weighted average ratio for the DSE has nearly doubled to 30 during the current bull run. But looking at the ratios in individual industries, it seems cement, information technology, services and real estate, and textile are the four industries where prices have really skyrocketed (Chart 4).

What's going on in these industries to justify such rises in the price-earning ratio? One possible

story driving the real estate stocks is that there is a housing boom as well as a stock market boom. And this housing boom, along with the expectation that there will be an infrastructure boom in the coming period, may be driving the cement stocks. Similarly, one can argue that various "Digital Bangladesh" initiatives may well have been boosting IT stocks. And textile may have benefitted from the resilience shown by the export sector.

All these possible stories notwithstanding, there are stories of price-earning ratios reaching 70 or higher, suggesting nothing but "irrational exuberance."

What could be driving such an exuberance?

Monetary and tax policies may well have been contributing to it. With Bangladesh Bank's expansionary monetary stance, an undervalued taka, and strong remittance inflows fuelling a reserve surge, it's no surprise that the economy is awash with liquidity. This excess liquidity could be fuelling inflationary pressures in the goods market, with CPI inflation rising in recent months. And it is quite likely that the liquidity is fuelling bubbles in both housing and stock market. Add to this the measures introduced in the 2009 budget that allowed tax evaders to recycle black / undisclosed money.

And finally, there is a socio-cultural element of get-rich-quick that is driving the current herd mentality. Indeed, asset bubbles everywhere are driven by such behaviour of relatively unsophisticated small investors. In the case of Bangladesh, worsening law and order and red tape continuing to stifle entrepreneurship can only make a quick buck in the share market much more attractive than the difficult and risky investment in bricks-and-mortar venture.

Of course, bubbles always end badly and usually the retail investor suffers. This means the authorities need to act, and act fast. The thing with bubbles is, the longer they fester the bigger the usual aftermath is.

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# Pandemonium

What is important at this stage is intervention of the heads of the parties, particularly the heads of the two major parties, for improving the behaviour of the members of the concerned party. They must impress upon their party members the need for showing tolerance and respect toward members of other parties.

A.B.M.S. ZAHUR

**D**EMOCRACY is indeed a process of accommodation involving a combination of division and cohesion and of conflict and consent. This means it needs tolerance. To make things interesting a combination of division and cohesion and conflict and consent is required. However, there is a difference between mature democracies like United States, Britain or Sweden and countries like Sri Lanka, Bangladesh, which are struggling to achieve democracy.

Democracy is a system of rule by temporary majorities. Rulers and policies may freely change, but the boundaries must endure. Bangladesh attained its independence through an armed struggle, sacrificing the lives of about three million people to establish democracy. It is unfortunate that it is still limping due to emergence of a strong anti-democratic force, which was almost successful in crushing the democratic spirit of the people in general.

Fortunately, the emergence of a strong democratic force through united struggle of our two major political parties successfully threw out the dictatorial regime to re-establish democracy in Bangladesh. Unfortunately, these parties, instead of building a strong base for democracy, faced the re-emergence of semi-dictatorial rule (so called caretaker government of 2007-08). Once again these parties united to the throw out the said government.

At last, democracy was brought back through a free, fair and credible election in 2008.

Democracy cannot thrive or put down roots where there is no mutual respect among the parties. Opinions may differ, but that does not mean that the majority should dictate to the minority. We find no logic in the plea that, because the 4-party alliance committed mistakes, the present government has the right to retaliate or behave in the same fashion. In fact, no retaliation but reconciliation, and no coercion but cooperation and competition are needed.

By stalling the efforts of the government the opposition does not gain, though it may be successful in denying the party/parties in position from enjoying the glory of success. But ultimately it loses

It is generally said that both the major parties are basically against dictatorial regime. If this is true, then why should there be mud-slinging, use of abusive language against each other, and destruction of the dignity of the Parliament through mean behaviour. To any sensible person it inconceivable that there can be pandemonium caused by attempts to damage the image of the father of the nation.

Why should this happen when the members of Parliament are supposed to make sacrifices for setting democracy on a firm footing? Have the parliamentarians forgotten the black days of the caretaker regime of 2007-08? Have the people of Bangladesh brought back democracy repeatedly only for the members of Parliament to behave in the most irresponsible and undignified way in the Parliament?

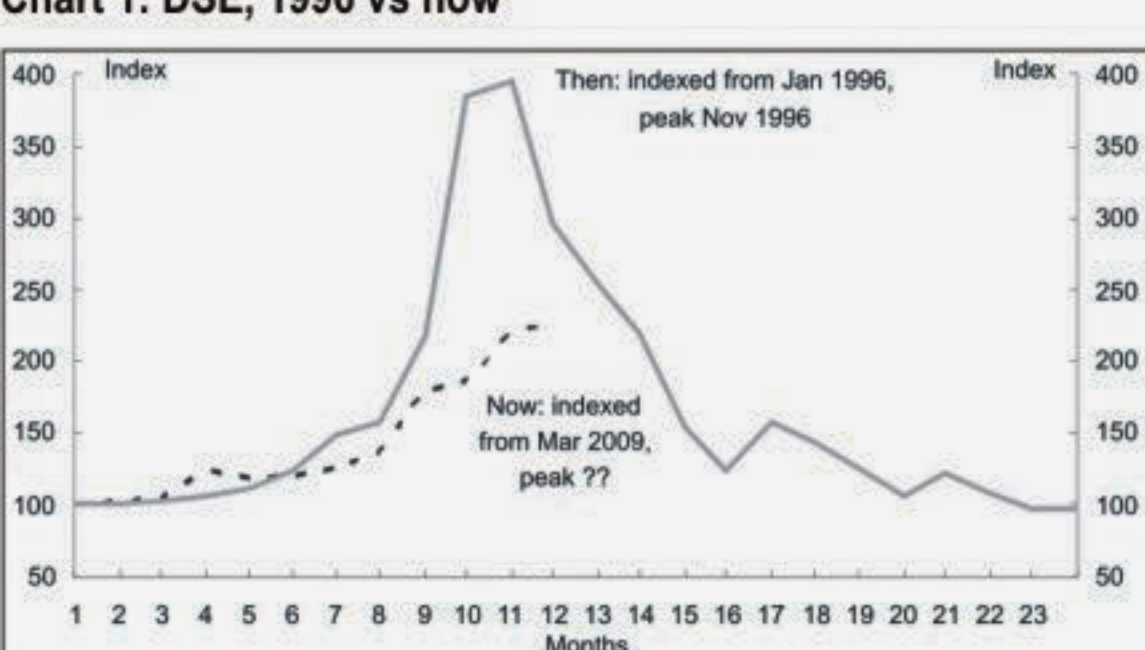
We are glad that the parliamentarians have agreed to be more responsible and dignified in their behaviour in future and that the speaker has taken a tough stand. It may be pointed out that the Rules of Procedure provide sweeping powers to the speaker -- even to take punitive action against errant lawmakers.

What is important at this stage is intervention of the heads of the parties, particularly the heads of the two major parties, for improving the behaviour of the members of the concerned party. They must impress upon their party members the need for showing tolerance and respect toward members of other parties.

Ordinarily, Bengalis are tolerant. However, to establish democracy on a firmer footing, our politicians need to be more tolerant. We hope that our major political parties will be more attentive towards the need for tolerance and accommodation to take the country forward with grace and dignity.

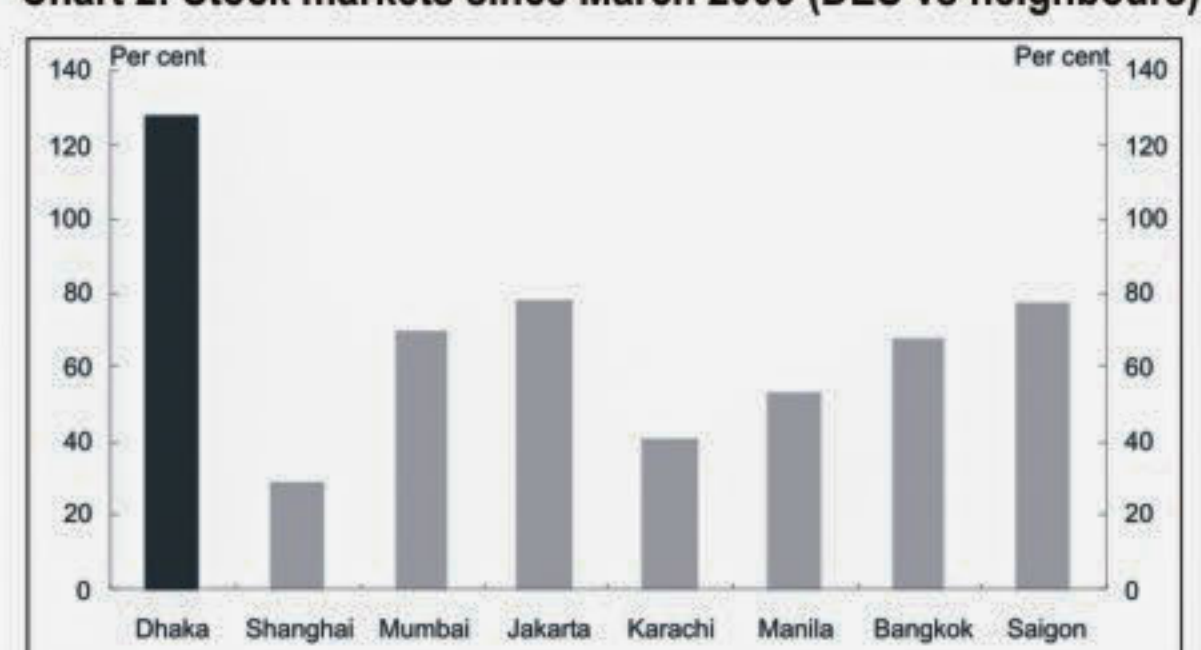
A.B.M.S. Zahur is a former Joint Secretary.

Chart 1: DSE, 1996 vs now



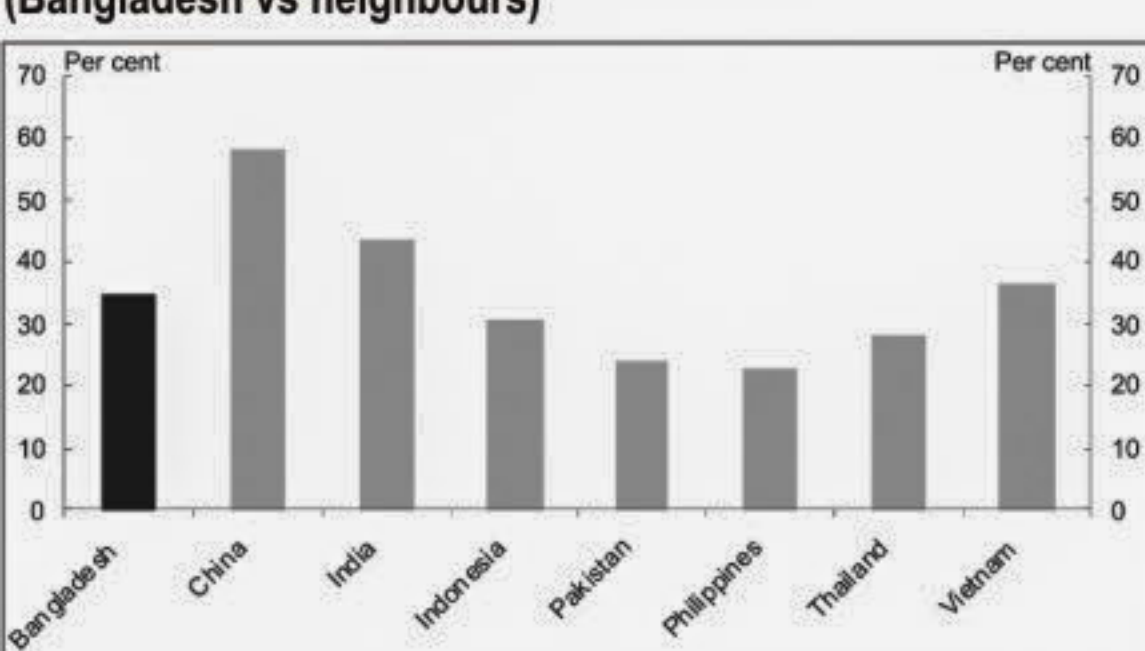
Source: CEIC Asia database.

Chart 2: Stock markets since March 2009 (DES vs neighbours)



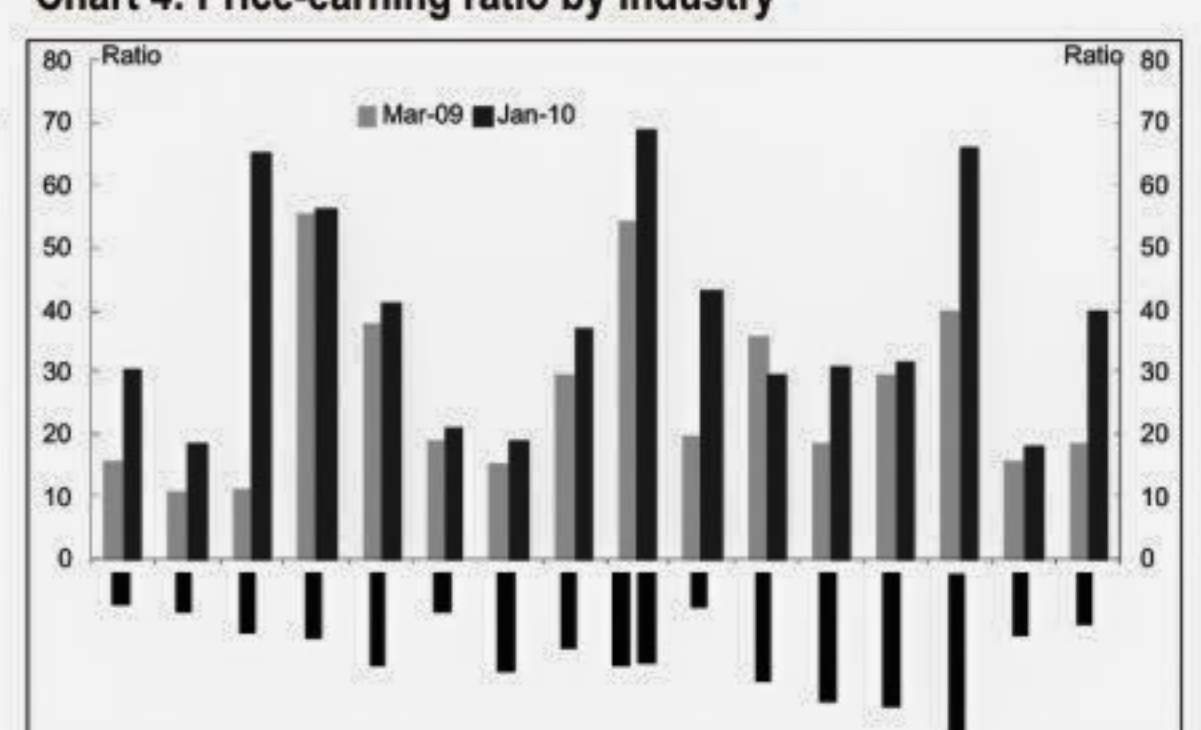
Source: CEIC Asia database.

Chart 3: Forecast economic growth, 2009-14 (Bangladesh vs neighbours)



Source: IMF World Economic Outlook, October 2009

Chart 4: Price-earning ratio by industry



Source: CEIC Asia database.

# Many happy returns of the day

CONTINUED FROM FRIDAY, MARCH 12

I arrived in Washington in mid-April. No one there had a clear idea of what exactly was going on. My good friend A.M.A. Muhith was still at the embassy. He took a risk and came to receive me at the airport. That night I met all the Bengalis who were then serving in the Washington embassy and gave them the message from Tajuddin.

Since no one from the Bangladesh government was available at the time in DC, I was projected into the role of a public spokesman in Washington for the Bangladesh cause. Given the internal unsympathetic stance of the Nixon administration, my main task was to meet people in Congress and make contact with the media to mobilise opinion against aid to Pakistan. I went on TV. I met all the leading newspapers and was even invited to address the National Press Club, an honour normally reserved for major public figures from abroad. As a teacher of economics at Dhaka University, I was hardly prepared for the role of a high profile diplomat.

As it transpired, the day that M.M. Ahmed arrived in DC, all the leading papers, New York Times, Washington Post, Washington Sun, and Washington Times all ran editorials demanding that aid to Pakistan be stopped until the genocide came to an end.

We next heard that M.M. Ahmed was being invited to address some senators, a lunch was being hosted for him. By then I was in touch with Sen. Kennedy and Sen. Church, and their aides had become very closely involved with the Bangladesh cause.

They insisted that I have similar exposure, and arranged a lunch for me in the Senate, hosted by Sen. Saxby, a

ranking Republican, which Sen. Fulbright and half a dozen other senior senators attended. I told them what had happened and how the critical issue was that US tax-payer dollars should not finance this genocide. Eventually a major mobilisation involving the Bangladesh community in the US supported by American sympathisers culminated in the Saxby-Church amendment to the aid bill that held that aid not be resumed to Pakistan until they stopped genocide and came to terms with the democratic mandate of the people.

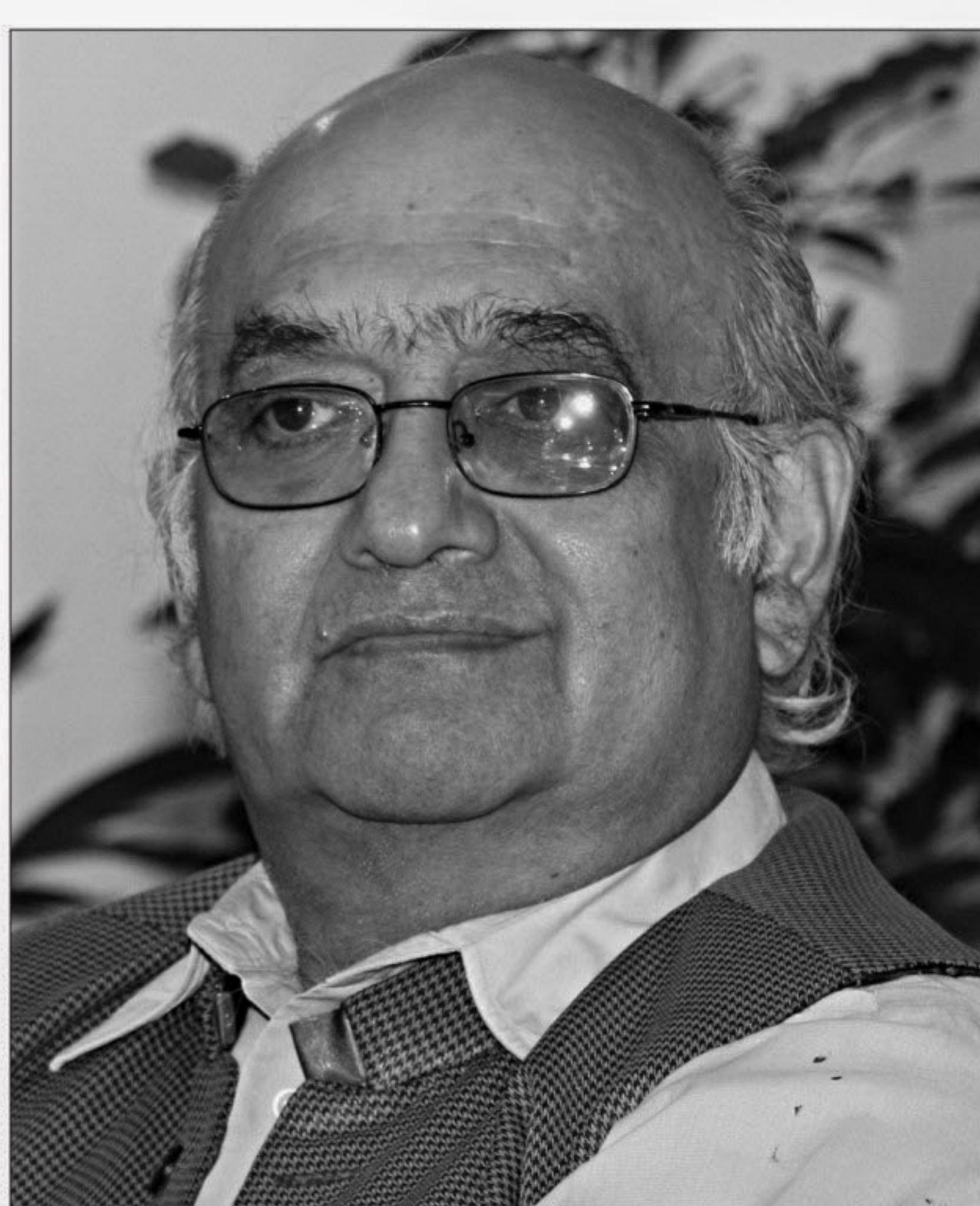
It was an extraordinary time. I met Robert McNamara then president of the World Bank with the same request that aid should not be resumed to Pakistan. I attended the aid consortium meeting in Paris where they decided to freeze aid to Pakistan. I went to Rome to argue that food aid not be resumed and that, if anything, food aid should be channelled to the Bangladeshi refugees in India.

I then returned to India in July to give a full briefing to the Mujibnagar government. The note I wrote about my mission is now in the Liberation War Museum. The Liberation War had elevated me into a role for which I was hardly equipped.

I then returned to Washington with the formal status of economic envoy to participate in the campaign to stop aid to Pakistan. I finally returned to Dhaka on December 31, 1971.

I flew in from Calcutta. It was exhilarating. We had an independent country. A whole new world was open to us. That was surely the high point for all of us of that generation.

My house had been looted and so I was staying at my good friend Ziaul Huq Tulu's house. He held a New Year's Eve



Prof. Rehman Sobhan

party that night. For many of us, we were meeting for first time after the Liberation War had started, and didn't know who was dead and who had survived. It was a very emotional night.

What do you do to relax?

I love sports. I won school colours in athletics (I was the long distance running champion in St. Paul's), boxing,

hockey and football and played hockey for my college in Cambridge. I still love to watch sports and have seen some of the world's leading cricketers in action at the Eden gardens in Kolkata, the Dhaka Stadium, Lords and the Oval. Today I prefer to watch my sporting events relaxing at home before a colour TV. I love to read and have accumulated

a decent library. Thrillers are one of my weaknesses. I am a great movie watcher, preferably on screen but otherwise on TV. I enjoy good food perhaps more than my doctors would advise. I particularly enjoy a good adda. My sons Babar and Zafar have kept up this tradition and are two of the most lively conversationalists I know.

Please comment on Bangabandhu's murder on August 15, 1975.

With Bangabandhu's murder the ethos of the country changed. We moved from the notion of egalitarianism to becoming an elitist society. For 21 years the person at the core of Bangladesh became a non-person. The philosophy that guided us to independence was abandoned. This is a very different country today from the one that Bangabandhu had hoped to create.

Would you care to share with us some of your fundamental concerns about the country?

2010 is not 1971. We live in a changed world. Nevertheless, I still believe that the sentiments and assumptions which motivated Bangabandhu remain valid. In spite of the many more dollar millionaires who now constitute our new elite, the majority of this country made up of ordinary working people: farmers, day labourers, garment workers, small businessmen, school teachers. Much has changed. Some of it for the better. Our hardworking farmers have tripled food production. Millions of Bangladeshis are working in every corner of the globe and remitting over \$10 billion home. Our garment exports are globally competitive, sustained by the labour of 3 million women workers and a dynamic class of entrepreneurs. As a result, our aid

dependence is now below 3 percent of GDP. Our microcredit revolution has been a role model for the world. We have achieved gender parity not just in primary education but also in secondary education. All these achievements provide new opportunities for improving the lives of the people. But we are also a more divided and unequal society.

Democracy can only be preserved if these millions of ordinary people could be given enough of a stake in the democratic order to be willing to rise up to protect it as they did in 1971. Until such time as they are fully included in the democratic process and can share in the fruits of development the entire democratic edifice will remain fragile.

My hope would be that Bangabandhu's daughter, who has been invested with a historic opportunity, will remain steadfast in her commitment to bring about din bodol for the deprived masses of Bangladesh. In this process she will not only be able to realise the unfulfilled dreams of her father but would build strong foundations for a sustainable democratic and development order.

Do you have any prescription for the future?

At the age of 75, I am much less sure that I have all the answers than when I was 35. All I can say is that there are large reservoirs of talent in the country, who need to be encouraged to contribute to the process of realising din bodol. Those of my generation who still have the capacity and motivation can stand beside them and contribute what little we have learnt from our experience. But we should not presume to lead them. The mantle has already been passed on to another generation.