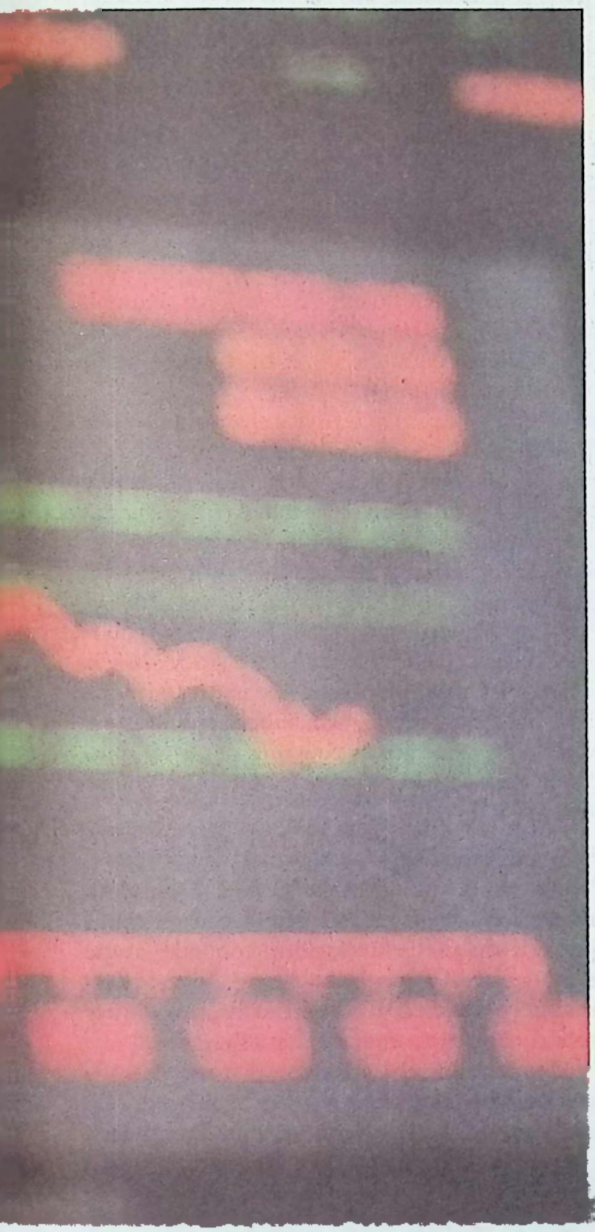


AFP

THE Dhaka Stock Exchange (DSE) is one of the best performing stock markets in the world in recent years. During the 4-year period since January 2006, the DSE general index has increased by more than four-fold to more than 5,800 in recent weeks.

The DSE gained further momentum with the Grameen Phone IPO in November 2009. Along with the price index, the market capitalisation has also increased rapidly, from $3.4 billion in January 2006 to $34.2 billion today.

Table 1. Normalised Indices of Different Countries (Dec 2003=100)

Countries	Indices	2003	2005	2007	2009
Bangladesh	DGEN	100	173.3	311.7	468.6
India	Sensex	100	194.9	406.7	293.3
Pakistan	Karachi 100	100	234.4	378.3	216.4
Hong Kong	Hang Seng	100	152.3	214.3	154.8
Japan	Nikkei 225	100	132.2	199.8	103.7
England	FTSE 100	100	122.2	157.9	112.5
United States	Dow Jones	100	143	173.5	129.9

Source: www.econstats.com

The strong market performance also attracted an increasing number of small investors to the market, with the number of new Beneficiary Owners' (BO) accounts surging to high levels.

All these positive developments have opened up the potential for the stock market to become a real alternative to mobilise funds for investment, moving away from the traditional dependence on the banking system. However, while welcoming these developments, we also observe a number of disturbing phenomena, which, if unattended, may seriously undermine the sustainability of this positive trend.

Significance of Healthy Stock Market

It is generally well accepted in economic and financial literature that both banking and stock market developments play important roles in output expansion, capital formation, and productivity gains, even after controlling for many other factors associated with long-run economic performance of an economy. Beyond the macro-economic relationship, even micro-economic studies of finance and growth, and firm-level data also find that financial development disproportionately boosts the growth performance of industries that are naturally heavy users external finance.

The banking sector, which dominates the financial sector in Bangladesh, has served the economy very well, and its coverage is broadly comparable with other developing countries. However, equity markets which generally serve as the second most important pillar of the financial sector, have significantly lagged behind in Bangladesh. The recent

Table 2. Selected Banking and Capital Market Indicators

Countries	Private sector Credit in % of GDP			Deposit Liabilities in % of GDP			Market Capitalization in % of GDP			Turnover in % of GDP		
	FY 03	FY 08	FY 09	FY 03	FY 08	FY 09	FY 03	FY 08	FY 09	FY 03	FY 08	FY 09
Bangladesh	27.6	34.5	35.1	36.5	39.6	46.0	2.3	14.5	16.3	1.0	10.0	17.3
India	36.3	54.0	56.3	52.2	67.7	72.0	23.3	108.8	58.0	12.8	33.4	20.7
Pakistan	21.9	28.4	24.9	39.1	38.9	33.2	19.7	37.6	17.7	50.1	8.8	---
Sri Lanka**	28.5	29.0	26.4	35.7	32.0	34.9	14.4	11.1	18.6	4.0	2.5	2.4

** Calendar year

Source: Central Banks and Stock Markets of respective countries