Table 3. Portfolio Investment by the non-resident Bangladeshis, FY 93-98

Fiscal Year	Investment in Securities	Amount Sold	Capital gain	Outflow of sold amount
FY 93	38.75	96.51	0.58	3.86
FY 94	310.18	133.42	40.46	91.84
FY 95	298.27	187.71	40.61	138.89
FY 96	71.68	618.68	1.63	197.2
FY 97	51.8	51.75	274.34	633.21
FY 98	31.6	41.07	17.56	60.18

Figures are in crore Tk. Source: Bangladesh Bank

Table 4. Size of Mutual Funds in selected South Asian Countries in 2010

Countries	Mkt Cap (billion US)	Mutual Fund (billion US)	GDP (billion US)	Pet/Mkt Cap	Pet/ GDP
Bangladesh	27	0.41	81	1.5%	0.5%
Indonesia	240	10	515	4.2%	1.9%
India	1,315	160	1,243	12.2%	12.9%
Malaysia	300	65	208	2.1%	31.3%
Pakistan	31	4	167	14.7%	2.7%
Thailand	197	53	266	26.9%	19.9%

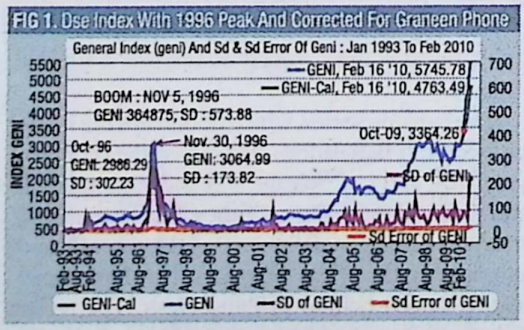
Source : Stock market of respective countries and the IMF

increase in investor interest in the Bangladesh capital market, as reflected in terms of market capitalisation and turnover, has significantly changed this situation; the capital market is gaining its position as a sizable source of investment financing after the banking sector, which is a welcome development.

Market developments and sustainability depend on market fundamentals, and the fundamental strength of the market essentially comes from financial strength of the listed enterprises. Strong regulatory environment created and maintained by the regulatory bodies (like the SEC) and participation of institutional investors and professional market analysts help orderly market operations.

The problem comes when market prices overshoot fundamentals in a big way, transactions become speculative, and market becomes unstable in terms of prices, turnover, and volatility. Such developments are not new in Bangladesh; we experienced it in the boom and bust of 1996 (see box).

The global landscape is also littered with such boom and bust episodes, the recent ones being: the crash of the US stock markets in 2000 (NASDAQ tumbling from 5,100 to less than 1,600); Japanese stock market crash of 1989 with Nikkei tumbling from 31,000 to less than 10,000;





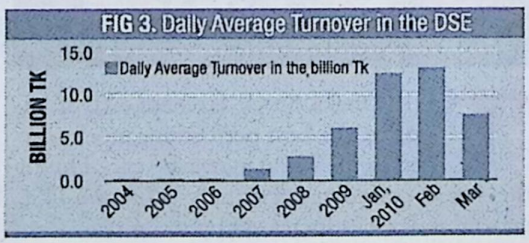
the crash of GCC (Saudi Arabia, UAE, Kuwait, and Qatar in particular) stock markets in 2005; and more recently the crash of Chinese stock markets in 2007.

We must keep in mind that a sharp rise in stock prices does not necessarily mean formation of a bubble. Sometimes stock prices may rise sharply across the board when some things change fundamentally in the economy or in the economic outlook, as happened in the case of Spanish and Irish stock markets on the eve of their joining the EU. Several East European (former Soviet Bloc) countries also experienced surges in their stock markets because of their anticipated integration with the EU. Furthermore, no two bubble episodes are exactly the same across countries or across time. Each episode had its own features and unique background.

What Worries Us?

While we do not necessarily view Bangladesh markets as having reached a bubble stage at this point, if the rise in stock prices continues at the same pace as it has been during August 2009 through February 2010, the market valuations may reach bubble proportions within a short time.

The common characteristics that are generally associated with a stock market bubble episode are also visible in several ways in Bangladesh



today. Some of these characteristics include: exuberant demand manifested through weak correlation between economic values and prices, high price volatility, acceleration in margin lending for stock market investment, narrow market leadership, structural weaknesses like weak, and sometimes inconsistent signals from the regulatory regimes.

Existence of exuberant demand has been quite visible during the August-February period, although