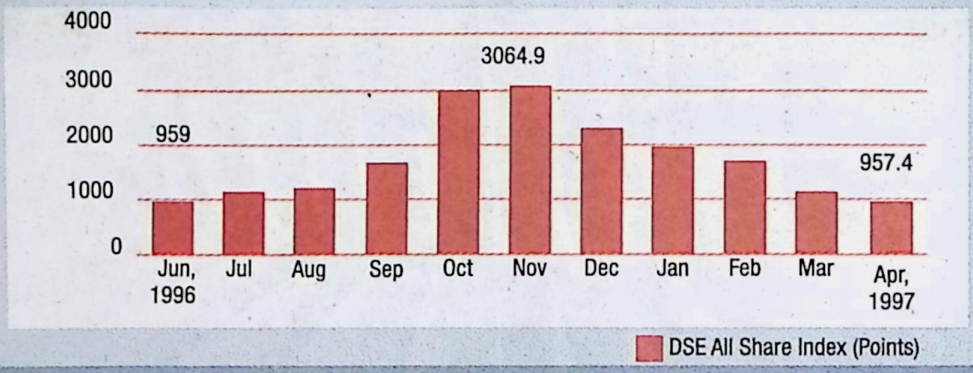
FIG 4. Movement in the DSE all share index during 1996 bubble



A snapshot of the 1996 debacle:

During the second half of 1996, the DSE all share index increased by 139 per cent, a robust growth by any measure, fueled by the herd mentality of the non-professional retail investors and a huge influx of funds. Participants in the overheated market were aggressively chasing a few available stocks. The hike in market capitalisation and market turnover were also aberrant as the number of listed companies and available shares of good companies remained almost unchanged in this period (Fig 2). During June to November 1996, the DSE all share price index increased more than three-fold from 959 to 3065 or by 220 per cent!

The newly-elected government of that time, initially misinterpreted this formation of the stock market bubble as fundamental strength of the economy and a manifestation of people's confidence in the new government. However, policy-makers' enthusiasm was short-lived and was soon replaced by concerns about the demise of the bubble and the impending market crash. When the market index more than doubled in one month to 3,000 in October 1996, efforts were made to stabilise the market, but it was too little and too late. As the bubble burst in November 1996, the DSE general index collapsed to its post-peak lowest level of 957 in April 1997, stabilising at about the same level where it was some 10 months back (see Fig 1). By the end of April 1997, the DSE price index plunged by almost 70 per cent from its peak of November 1996.

During this bubble period only few traders and market manipulators who had knowledge and inside information gained, while general investors paid heavily. The bear market that started with the busting of the bubble lasted for seven years, the DSE general index rarely crossing the 1,000-point mark during this period. The market started a recovery from April 2004, when it was somewhat under priced with the average price-earnings ratio at about 10.

Foreign investors repatriated massively:

During 1992-95, purchase of shares by foreign investors exceeded the amount of share sale and repatriation (Table 3). After 1995-96, in anticipation of a major market correction, the trend reversed and share sale and repatriation exceeded share purchases for most of the years. During the period of 1995-96 and 1996-97 there was a massive outflow of foreign investment (more than Tk 6 billion a year) as against Tk 0.6 billion investments by foreign investors during the corresponding period.

Table 5. Developments in equity valuations of selected countries (Equity indices rebased to 100 at peak price date)

Countries	Indices	2 years back	1 years back	6 Months Back	Peak	6 months Latrer	1 years Latrer	2 years Latrer
Bangladesh	DGENI	22.36	24.38	23.15	100	30.21	22.84	15.84
India	Sensex	45.91	65.41	72.08	100	63.96	45.06	82.5
Sri Lanka	CSE all share	56.67	71.15	71.15	100	80.47	83.13	57.95
Japan	Nikkei 225	55.54	77.5	84.67	100	82.07	61.28	59.06
China	Shanghai Composite Index	18.35	30.87	64.51	100	62.02	29.03	52.19
KSA	Tasi	24.32	43.42	70.8	100	56.63	38.04	47.05
USA	JYSE Composite Index	34.63	47.66	57.19	100	77.18	40.66	38.22

Source : Stock market of respective countries and the IMF