broad money (M2) expanding by more than 20 per cent last fiscal year and once again this year, fueled by inflow of worker remittances, there is enough liquidity to create the general inflationary environment. The budgetary provision to allow whitening of undisclosed money through investment in the stock market and real estate has also contributed to the asset market inflation in Bangladesh.

Increased investment by commercial banks, and bank lending for investment in stocks, lured by high return on such investments, have also greatly contributed to the high market valuation and volatility. It is widely reported that a sizable part of the increased bank profitability is attributable to the gains from such investments. Measures should be taken by Bangladesh Bank to minimize the exposure of banks to the stock market in order to safeguard depositors' interest.

Increasing supply of stocks would surely help meet the growing market demand for stocks. Recently introduced book building method (BBM) for new IPOs is certainly a positive development and should encourage private corporations to consider floating of IPOs as part of their expansion program, since IPO pricing under the BBM would reflect issuer and investors expectations. This new method would also allow institutional investors to carry out due diligence since they would have to take up shares at prices they bid in the bidding process. High price earnings ratios would certainly be a big incentive for established companies to consider public floating of their shares. While we do not believe that bringing loss-making public entities to the stock market should be the right solution, if the government can bring the profitable enterprises to the market with scope for management change, that would help increase supply of quality stock.

Mutual Funds (MFs) can also play an important role in institutionalisation of capital markets of Bangladesh by increasing supply of professionally managed funds, providing liquidity, reducing the scope for market manipulation, and increasing institutional investor market depth. Although the MF sector has gained some momentum in Bangladesh, the size of MF industry in Bangladesh at less than 1 per cent of GDP and less than 2 per cent of market capitalisation is very small.

In contrast, the size of the thriving MF industry in India is 12.5 per cent of GDP. Certainly the MF industry has a long way to go from its current state of infancy. The strong interest among the private sector investors and sponsors to launch new MFs, as reflected in the pipeline of about Tk. 40 billion (0.65% of GDP), if allowed to materialise in a phased manner, will be a positive move toward institutionalization of the capital market in Bangladesh. A broader and deeper MF industry should be able to play an important role in price discovery and valuations, and reduce scope for market manipulation.

Concluding Observations

Current unsettled market environment is certainly not conducive for market development and for small investors. All indicators are pointing to the conclusion that the stock prices are generally over valued and a market correction to bring prices in line with economic fundamentals of the companies would be desirable for future market development. When foreign and domestic institutional investors are pulling out of the market and holding large cash reserves for future investments, it is not the time for new and uninformed investors to join the market.

The investment guru Warren Buffet has rightly characterized stock market frenzy in the following manner in 2000: "The line separating investment and speculation is never bright and clear ... becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money." It is thus imperative on the part of policy-makers to send clear warning signals highlighting the heightened risks in order to protect ordinary investors.

Today's stock market is not as immature as it was in 1996. Nevertheless, when we see small investors erecting road blocks and burning tires whenever stock prices come down marginally, we have to believe that this market is being driven by mob frenzy.

When the great scientist Sir Isaac Newton lost a bundle with the bursting of the South Sea Bubble, he observed that: "I can calculate the movements of stars, but not the madness of men." If the madness in Bangladesh stock market continues for a few more months, the bubble would become much bigger and it would explode like it did in 1996. We may still have time, but the policy-makers would have to act now and in a concerted manner.

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