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WITH the successful IPO of Grameenphone (GP), market capitalisation has risen to $32.9 billion (30 per cent of GDP) versus $3.2 billion and 6 per cent just 5 years ago. Turnover has increased by a factor of 30 times over the same period, averaging around $140 million daily. While foreign participation in the equity market remains low at around 1 per cent, this lack of effective integration into global financial markets was undoubtedly a blessing in disguise in shielding Bangladesh from the bulk of the spillover from the global financial crisis.

However, there have been growing concerns from a number of capital markets observers that the Bangladesh stock market is becoming a "bubble." This might be defined either as a market where price levels are substantially in excess of fundamentally justified levels as a result of excess liquidity or potentially a speculative element whereby some investors are merely buying because prices are rising rather than by an assessment of fair value. Recently the finance minister has alluded to the "shallowness" of the market, whereby there is a growing demand/supply imbalance for stocks.

In this article we will be primarily focusing on how to increase the supply of equities, and deal with the issue of excess demand in a future piece of analysis. A combination of weak investment demand for capital investment from the corporate sector and strong remittance inflows has left the banking system with excess liquidity of up to Tk 35,000 crore at its peak.

This excess liquidity has manifested itself in asset price inflation in both equities and real estate markets. Clearly one solution to the supply/demand imbalance is for Bangladesh Bank to mop up excess liquidity through its money market operations. However, this should be done in conjunction with increasing the supply of new stocks coming to the market place. We will focus on measures to improve the supply side in the balance of this article.

**Corporate Financing Decisions in Developing Countries**

Before we come back to assessing the prospects for Bangladeshi corporates to issue more equity, it is worth taking a step back and looking at corporate financing considerations more broadly. Questions that have been analysed in the academic literature include: How do firms in developing countries choose between debt and equity? What role do domestic and international capital markets play in this choice? Is this choice influenced by the level of development of the stock market in a country?

Broadly speaking, economies can be characterised as being either stock market-oriented or bank-oriented. Traditionally, the UK and U.S. economies have been regarded as being stock market-oriented while Japanese and German economies are regarded as being bank-oriented. In this framework, Bangladesh, like India and other countries in South Asia, can be considered a bank-oriented system.

Drawing on some of the work from Marvin Goodfriend, professor of economics at Carne-