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accelerated listing of SOEs as a means of increasing supply on the stock market. While we believe there are merits in terms of economic efficiency as well as redressing the supply/demand imbalance in the capital markets, this is unlikely to be a short-term fix. The state banks are likely immediate candidates for listing, but the authorities need to be careful that the companies they wish to privatise have been restructured and are financially viable before coming to market. The listings of Titas Gas, PGCB, and Desco have been received with much enthusiasm; as such, this can be extended to state-owned power plants, utilities, airports, hotels, transportation companies, jute mills, paper mills, fertiliser factories, etc.

Private equity investment: Again, not a short-term solution, but private equity investors are primarily interested in exiting their non-market investments, and the favoured method in a developing economy like Bangladesh would be an IPO. So the authorities should look to encourage both the growth of the domestic PE industry as well as attract international PE investors to take stakes in BD companies.

Conclusions

In this article we have outlined some of the key factors on the supply side that might help address imbalances in Bangladesh's capital markets. Some reforms such as book-building are already in place, but we believe careful consideration should also be given to increasing tax incentives to list. With MCCI recently calling for a substantial cut in corporate tax to 22 per cent, it may be that anything approaching this kind of aggressive tax cut is only justifiable for those companies with a maximum free float on the market place.

We remain confident that the high P/E ratio of the market as well as the ongoing frustration among corporates on high nominal bank lending rates will see a significant acceleration of IPOs in the next 12-18 months. More companies looking to globalise are feeling increasingly capital constrained and will likely come to market.

Likewise, we believe that a significant amount of the estimated $35 billion of infrastructure financing needs of Bangladesh can come from the capital markets with the necessary institutional reforms. This positive outlook notwithstanding, in the near term the monetary authorities may need to address the excess liquidity in the market-place until the supply side can catch up.

References:

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