Scholars Journal of Economics, Business and Management OPEN ACCESS
Abbreviated Key Title: Sch J Econ Bus Manag
ISSN 2348-8875 (Print) | ISSN 2348-5302 (Online)
Journal homepage: https://saspublishers.com

Capital Market and its Prospects and Problems in Bangladesh

Rowshan Akter[1*], Md. Mizanur Rahman[2]

[1]Assistant Professor, Department of Finance & Banking, Dhaka Mohanagor Mohila College, Bangaldesh
[2]Senior Officer, IT Project Coordinator, The Premier Bank Limited, Dhaka, Bangladesh

DOI: 10.36347/sjebm.2023.v10i03.001 | **Received:** 02.03.2023 | **Accepted:** 08.04.2023 | **Published:** 16.04.2023

***Corresponding author:** Rowshan Akter
Assistant Professor, Department of Finance & Banking, Dhaka Mohanagor Mohila College, Bangaldesh

Abstract **Original Research Article**

A country's whole financial system may depend on a healthy capital market. Bangladesh's capital market is far less developed than that of many other nations, including those of its neighbors. In 1976, the capital market in Bangladesh was given a new lease of life. The market has been volatile ever since then. In recent years, the market has reached new heights on a near-constant basis. Inadequate financial depth, product diversity, uniformity of the supporting legal and regulatory framework, and similar issues continue to plague the country's capital market despite the many improvements made over the years. Although facing several internal and external obstacles, the market's potential is highlighted in this report. There have been proposals for new policies to inject the market with more energy, making it an instrument of the rapid economic development the government has prioritized.
Keywords: Dhaka Stock Exchange (DSE), Capital Market, GDP, Prospects, Problems.

INTRODUCTION

Being a crucial component of the country's monetary system, the capital market has a major impact on the national economy. According to research by Garretsen, Lensink, and Sterken (2004), a gain in market capitalization relative to GDP of 0.4% is directly attributable to a 1% increase in GDP growth. Capital market growth was positively correlated with GDP expansion, according to research by Beck, Lundberg, and Majnoni (2006). Bose (2005) presented a theoretical financial model that elucidates the connection between rising stock markets and expanding economies. Beckaert, Harvey, and Lundblad (2005) examined financial liberalization as a subset of capital market development and found that, on average, opening up the stock market boosts yearly real economic growth by 1 percentage point. Nonetheless, it is generally agreed that advanced capital markets are only a means to an end—the advancement of industry and the economy. The importance of the capital market to a country's economic growth has been noted by several authors, including Saha (1995).

Japan and the United States both have deep, active, and highly sensitive capital markets, whereas countries like Bangladesh have capital markets that are small, under-developed, and somewhat insensitive (The World Bank, 2010). Capital markets have two main functions regardless of their level of development: (i) facilitating the acquisition of new capital by businesses, and (ii) the liquidation of holdings by current investors. According to Mujeri and Rahman (2009), a number of conditions must be met before a capital market can be developed that works smoothly. One of these conditions is the adoption of a process approach. According to Haque (1992), a developed capital market would have many of the following characteristics: a large number of individual and institutional investors with a significant portion of their portfolio invested in the capital market instruments; a relatively large and expanding private sector that relies on market provision of financing via equity and debt instruments; healthy and competitive capital market institutions; a large number of users of capital market instruments; and a high level of competition among capital market institutions.

Five primary environmental elements have been identified by Lassiter (1998) as having an impact on investor confidence, and hence the development and performance of the capital market. Among them are investor confidence in the company's political stability, domestic tax and regulatory climate, information flow, liquidity, marketability, and perceived fairness (i.e. adequate disclosure, codes of conduct, guidelines for trading and the like). Bangladesh is on the cusp of great economic development, and a robust domestic capital market might be the catalyst needed to speed up the country's progress toward its full economic potential.

Vietnam's capital market has been a major factor in the country's success in attracting large amounts of foreign direct investment (FDI) during the last several years. Foreign direct investment (FDI) via stock markets was also very beneficial to China and India, two of the largest economies in Asia.

With these considerations in mind, the purpose of this study is to examine the opportunities and threats facing Bangladesh's capital market. Policies are proposed to inject the market with more vitality. The research drew on a survey of the available literature and public documents from various capital market players. Due to the exploratory character of the study, data from a broad range of sources was gathered and analyzed. To back up the data provided in the secondary sources, interviews with experts were conducted. The acquired information was used to conduct a SWOT analysis for comparison purposes. The focus of this article is strictly on the Bangladeshi financial sector.

METHOD

Data of each trading day's last return is collected from the website DSE and CSE library. DSE and CSE All Share price Index is collected on daily basis and monthly basis from 2018 to 2021. In addition, sizes of dividends paid out with its respective dates, splits, bonus issues, new is-sues, and special offers to the stockowners are considered and reflected in the data. These adjusted data of individual stocks are used to calculate the momentum effect. DSE All Share price Index is used to calculate the autocorrelation, day-of-the-week effect and the turn-of-the-year effect.

RESULTS

Less investment in real sectors, as exports and imports were sluggish due to the fallout of the global downturn, set an ideal ground for the surplus liquidity to be invested in stocks. As a result, while the real economy was heading for the worst growth in eight years, the DSE was on a record-spree, shattering one mark after another (Table 1). The single-day turnover at the DSE also hit a record Tk12.45 billion on 20 October 2009.

Table 1: Comparison between Some Indicators

Selected Indicators	2010	2009	2008
Benchmark index at DSE (i.e. DGEN)	8,290.41 points (at year end)	4,535.53 points (at year end)	2807.61 points (at year end)
Average daily turnover	Tk. 17.83 billion	Tk. 6.05 billion	Tk. 2.82 billion
Number of share accounts	3.3 million	2.0 million	1.5 million
Total market capitalisation	Tk. 3.06 trilllion	Tk. 1.90 trillion	Tk. 1.06 trillion

Source: The SEC, The DSE

Key Participants in the Capital Market

There are both retail and institutional players in Bangladesh's capital market. Yet, the SEC has only granted capital-market activity licenses to 39 organizations so far. Thirty-one of these organizations serve in the capacity of merchant banker and/or portfolio manager, seven manage issues, and one is both an issue manager and underwriter. The ICB, which is controlled by the government, was founded in 1976 to promote and widen the scope of industrial investment. To guarantee a steady supply of securities and stimulate demand for them, the ICB underwrites new issues, runs significant bridge financing programs, keeps investment accounts open, and floats and administers mutual funds. It's also a dealer on the DSE and the CSE. A firm or other organization that offers securities for sale to investors is known as an issuer. There were 450 securities listed with the DSE as of June 30, 2010 and 232 listed with the CSE. Around 243 corporations, 26 mutual funds, 8 debentures, 171 treasury bonds, and 2 corporate bonds were among the 450 securities listed on the DSE. Insurance firms, commercial banks, the ICB, provident funds, trusts, and pension funds from various enterprises are the primary institutional investors in Bangladesh's capital market. The capital market in Bangladesh is now served by 30 merchant banks. Twenty-three of them are fully licensed to conduct commercial banking, while the other two can only do issue management and one can handle just portfolio management. There were 443 brokerage firms operating in the country's capital market in 2010. Investment banks, rating agencies, asset management firms, issue managers, underwriters, and so on are also participants in the market.

Major Financial Products and Services Offered in the Bangladesh's Capital Market

The Bangladesh capital market is dominated by stocks. The listed companies stocks are categorised as A, B, G, N and Z.

Table 2: Category-wise Listed Companies

Category	Criteria	FY09 No. of companies	FY08 No. of companies	FY07 No. of companies
A	Pay 10% or more dividend, regularly hold AGM,	186	158	141
B	Pay less than 10% dividend, regularly hold AGM,	27	18	28
G	Greenfield companies	0	0	1
N	Newly listed companies	11	11	9
Z	Fail to pay any dividend or hold AGM, accumulated loss exceed the issued capital, closed for more than 6 months	83	99	94

Source: Annual Report (2010), The SEC

The growth of the Bangladesh capital Market

The growth of a capital market over time may be conceptualized by using a number of indicators such as total number of companies and securities enlisted with the bourses, total number of securities traded, paid-up capital, market capitalization, various share price index and so on (Krishan, 1989).

i) Total Number of Companies and Securities

More and more companies are coming to the stock markets of Bangladesh. Nevertheless, many local companies as well as multinational ones are yet to be listed. At present there are 243 listed companies among more than 40000 registered with the RJSC and around 60,000 private companies. Various indicators of the country's stock exchanges also reflect somewhat under-developed status of the market.

Table-3: Various Indicators of DSE and CSE

Parameters	June 2003		June 2004		June 2005		June 2006	
	DSE	CSE	DSE	CSE	DSE	CSE	DSE	CSE
Listed companies	241	172	248	182	239	184	256	198
Mutual funds	10	10	11	11	12	12	13	13
Debentures	9	3	8	2	8	2	8	2
T-bonds	0	0	0	0	18	0	26	0
Corporate bonds	0	0	0	0	0	0	0	0
Total No. of Listed Securities	260	185	267	195	277	198	303	213
Total Market capitalization (million Tk.)	72,998	60,208.6	142,369	125,911.3	224,611	203044.4	225,300	196,340
Parameters	**June 2007**		**June 2008**		**June 2009**		**June 2010**	
	DSE	**CSE**	**DSE**	**CSE**	**DSE**	**CSE**	**DSE**	**CSE**
Listed companies	259	204	271	216	282	227	243	204
Mutual funds	14	14	14	14	17	17	26	26
Debentures	8	1	8	0	8	1	8	2
T-bonds	44	0	84	0	135	0	171	0
Corporate bonds	0	0	1	1	1	0	2	0
Total No. of Listed Securities	325	219	378	231	443	245	450	232
Total Market capitalization (million Tk.)	491,684	399,250	964,800	777,743	1312,770	962,477	2670,996	2534,393

Source: Annual Report (various years) and Quarterly Reports (various issues), The SEC

ii) The Market Capitalization

The capital market in Bangladesh has been growing at a slow pace except for the last three fiscal years (Table 4). The market capitalization was at a mere US$ 321 million during FY90 and reached US$1.54 billion level, five times higher, in just seven years time. The market capitalization stood at about US$36 billion during FY10. The rapidly growing Bangladesh capital market constituted about 34% of the country's GDP in the calendar year 2010 against a mere 6% in 2006.

Table 4: Ratio of Market Capitalization to GDP (in %)

FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
5.0	4.9	6.2	4.1	6.0	5.2	10.1	17.01	20.2	36.0

Source: The SEC and Bangladesh Bank

iii) Price Indices

The price indices are the barometers in measuring the performance of the capital market. Dhaka stocks greeted the 2010 on a buoyant note. Dhaka Stock Exchange benchmark index (DGEN) reached above historic 8,900 mark and turnover crossed the record

Tk.28 billion-mark for the first time during the second half of calendar year 2010.

iv) Price Earnings Ratio

The price earnings (P/E) ratio depicts the relationship between market valuation of a company's shares and the earnings of the company. A high P/E ratio is risky because there is a possibility that current price does not reflect the company’s fundamentals while other factors may be contributing to the price rise so that the price may go down in future. The overall P/E ratio of DSE fell to 18.4 in December 2008 which was 22.8 in June 2008 and 23.6 in December 2007. The trend reversed since December 2008. During December 2009, the overall P/E ratio of DSE was 25.65 and it was 29.16 in December 2010. The highest P/E ratio of 106.86 was observed for the ceramic sector in December 2010 which was 29.9 in December 2007.

Figure-1 shows current state of capital market in Bangladesh where The capital market has returned to an upward trajectory While in last 3 years, market generated return of 6.7% p.a., it generated 21.3% return alone in 2017.

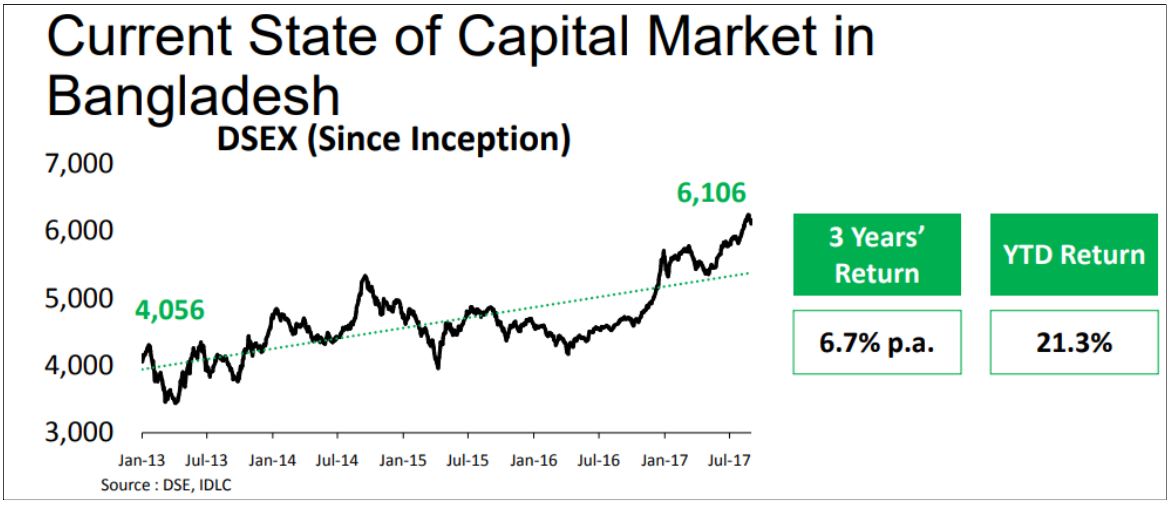

Figure-1: Current state of capital market in Bangladesh

Figure-2 shows value creation by the capital market. Capital Market delivered immense value for the patients. If anyone invested only BDT 100 in the year 2000, he/she’ll have BDT 1,260 in September, 2017.

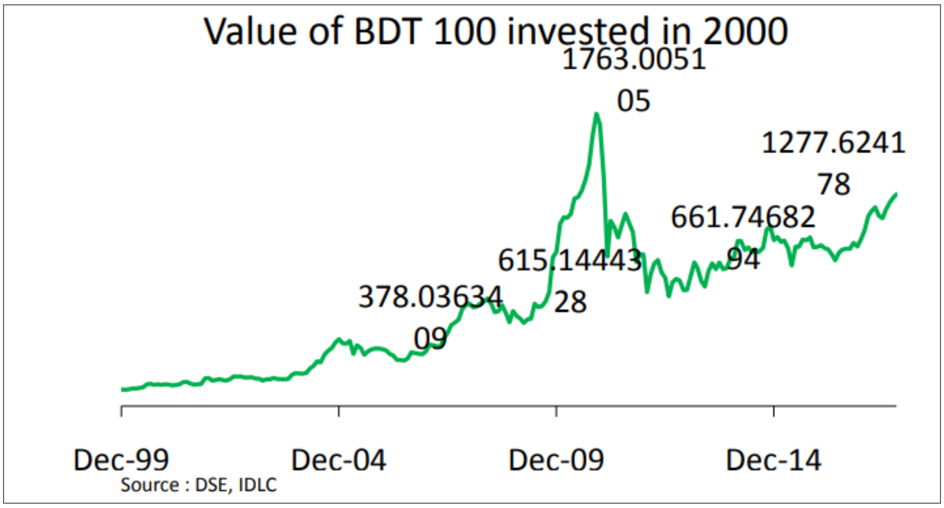

Figure-2: Value creation by the capital market.

Figure-3 shows Bangladesh capital market prospects where Bangladesh’s Mcap/GDP Ratio is staying stable since 2012 The ratio is at relatively lower side, compared to Asian Frontier Markets* Mcap/GDP ratio of 36.5%

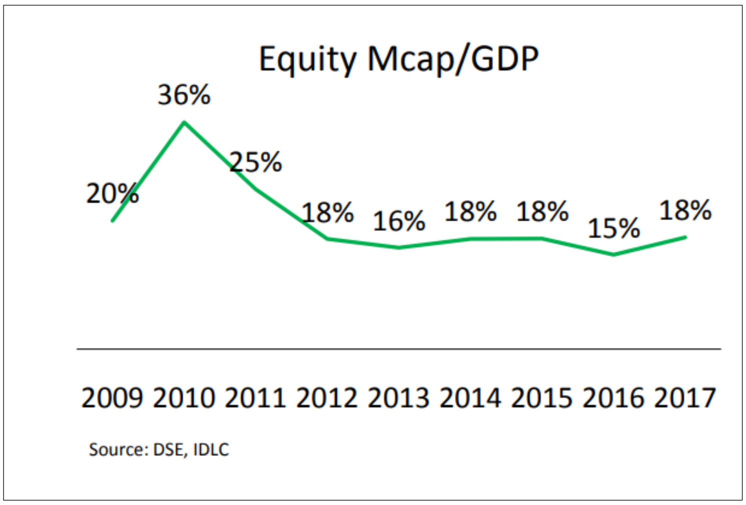

Figure-3: Bangladesh capital market prospects

DISCUSSION

The Bangladesh capital market has been providing significant returns to the investors over the last six years. Despite recent significant performance over the last few years and tremendous potential for future growth, the market in Bangladesh is still trading at low multiples and in relatively cheap compared to other countries in Asia. Consequently, the market capitalization to GDP ratio in Bangladesh is only around 31%, the lowest among the South Asian emerging markets.

Strengths

- In recent times the number of BO accounts has been increasing. This indicates heightened confidence of the investors, especially the retail ones.
- The presence of the institutional investors in the market is imperative for propping up the market as they have sound knowledge and professionalism in this field.
- The SEC is responding well to the growth in institutional funds by formulating regulations and guidelines for the asset management companies.
- The stock exchanges have created trading platforms for debt securities
- The depository system is working well at present.
- Steps are already underway to establish the "Capital Market Institute".

Opportunities

- The Bangladesh capital market provides significant opportunities for both local and foreign investors in terms of high returns with low risk.
- The government can tap the stock market well to finance its large infrastructure projects and the investors have a strong liking for anything the government floats in the market.
- More and more professionally managed, innovative and quality mutual funds will meet the growing demand of investors in the market.
- The private sector entrepreneurs are coming to the stock market in increased numbers in recent years. Such a development not only enriches the stock market but also contributes to the development of corporate culture in the country.

Weaknesses

- The small or retail individual investors hardly focus on the fundamentals of a company. This sometimes results in volatility in the market.
- The institutional investors, lifeline of the market, prefer managing their clients' portfolios rather than their own.
- There is an absence of the long-term investors who would invest their money in stocks having strong fundamentals to enjoy handsome dividends for years together.
- Although the number of BO account has increased over the years, the number of shares has not kept up with the demand.
- There is also a lack of quality shares.
- Due to the absence of diversified products, the liquidity of market is declining.
- Theoretically, a country cannot be immune to the developments in the global economy, but in practice Bangladesh is. On many occasions, when stock markets in major countries were going down consistently, the Bangladesh market went up and vice versa. The local stock market also shrugged off the impact of serious political developments in the past and went up. No market in the world would behave this way. The absence of any large-scale foreign portfolio investment could be one of the major reasons for the Bangladesh market behaving differently.

- Enlightened investors prefer mutual funds to other stocks. There are some funds listed with the bourses. But the number is far less than the market demand.
- Delay in approval of new proposals hinders the growth of the country's mutual fund industry.
- The Bangladesh capital market does not reflect the country's real economy as companies of leading sectors of the economy (such as textiles) are not listed with stock markets.
- The market also draws a little amount of domestic savings for investment therein.
- The Bangladesh capital market has had several debentures in the past but because of high registration and issue cost, most large companies prefer to borrow from the commercial banks.
- The Bangladesh capital market is dominated by the equities.
- The bonds which have been recently listed in the stock exchange are government treasury bonds issued by the Bangladesh Bank.
- The dominance of banks acts as a prime hindrance to the development of a well-performing bond market in Bangladesh.
- Derivatives and option market is unavailable only due to our lack of professionals and technical weakness and also there are no specific regulations relating to these products.
- The SEC lacks adequate number of capable human resources to monitor and conduct surveillance activities of the market.
- The Bangladesh capital market is dominated by local investors. Foreign portfolio investment is still accounts for less than 2 per cent of the total market capitalization.
- Despite bright prospects, the government has always been hesitant to come to the stock market to finance its large projects or divest the existing state-owned entities. The bureaucracy has been one of the strong hurdles in this respect.
- Generally stocks are subject to two types of risk: market (or systematic) risk and non-market risk. Market risk is unlikely to be controlled but non-market risk can be reduced through effective measures such as diversification of the portfolio.

Threats

To attract millions of non-resident Bangladeshi (NRBs) residing in middle-east, the UK and the USA, branches of DSE and CSE can be set up in Dubai or New York. This will facilitate the NRB investment in the stock market.

- Over longer term, strengthening the capacity of domestic financial markets for handling and absorbing large inflows will require deepening of secondary markets in treasury and corporate securities, creating new secondary markets in asset-backed securities, supporting growth of new capital market institutions like venture capital and private equity institutions.

Conclusion & Recommendation

Bangladesh's banking system is more developed and efficient than the norm for low-income nations and on pace with the rest of South Asia, but other parts of the financial system, such as the insurance industry and the stock market, are far less developed (Beck and Rahman, 2006). Yet, there is a lot of room for expansion in Bangladesh's capital market. The previous two years have seen explosive expansion in the market. The ratio of market value to GDP increased over this time, from under 10% to over 30%. Investors and traders alike should treat the stock market like a serious business, not a casino. The health of the securities market requires that supply and demand remain stable. The market suffers just as much from an abundance of cash as it does from a shortage.

According to a recent central bank policy document, capital expansion projects in Bangladesh will have to depend substantially on market financing in the future (Akhtaruzzaman *et al.*, 2009). It has been argued that the market requires an ever-increasing supply of 'excellent' items to satisfy the demands of demanding investors. During the last several years, a steady stream of new issues has been added to the bourses. Nonetheless, the desire to eat remains. To hasten the expansion of the country's economy, the current pace of capital market growth must be maintained and even increased. As the capital market matures, previously dispersed resources may be pooled more effectively for investment, resulting in faster economic expansion.

- The SEC should expedite its supervision to bring more transparency, accountability and stability in the country's share market.
- The SEC is to update its rules and regulations to bring more dynamism in the market.
- The monitoring and surveillance activities of the market regulatory body could be enhanced if more efficient, professional manpower is added.
- More efforts are needed in settling legal, regulatory, tax, and design issues in developing the corporate bond and securitization market.
- The government may offload its holdings in different state-owned-enterprises and multinational companies operating in Bangladesh. This will meet the increased demand of 'quality' stocks.
- The government must also play a key role in developing the capital market by clearly defining legal and regulatory framework, facilitating the users and suppliers of funds, and eradicating the mismatch between the

supply and demand of stocks with minimum intervention in the market.

- Efficient leadership, mutual cooperation and understanding among the market stakeholders are also important for the sustainable development of the stock market.

REFERENCES

- Ahmed, F. (2005). *Financial Sector Reform in Bangladesh: Developments and Achievements*, Bangladesh Bank, Dhaka.
- Ahsan, A. F. M. (2009). *More Disclosure Is Needed*, The Financial Express, Dhaka.
- AIMS of Bangladesh Ltd, various publications.
- Akhtaruzzaman, M., Rahman, H., & Rahman, H. (2009). *Prospects and Challenges of Bond Market Development in Bangladesh*, Policy Note Series: PN 0901, The Policy Analysis Unit, Bangladesh Bank, Dhaka
- Asian Development Bank. (2004). *Bangladesh Country Governance Assessment*, Manila.
- Asian Development Bank (various years), different publications related to the "Capital Market Development Program" undertaken in Bangladesh.
- AT Capital, various publications.
- Barth, J., Caprio, G., & Levine, R. (2006), *Rethinking Bank Regulation: Till Angels Govern*, Cambridge University Press.
- Barth, J., Caprio, G., & Levine, R. (2004). Bank Regulation and Supervision: What Works Best?, *Journal of Financial Intermediation*.
- Bangladesh Bank (various years), *Annual Reports.*
- Bangladesh Bank (various volumes), *Financial Sector Review.*
- Barua, S., & Rahman, M. H. (2008), *Monetary Policy and Capital Market Development in Bangladesh*, Policy Note 0708, Policy Analysis Unit, Bangladesh Bank.
- Beck, T., Lundberg, M., & Majnoni, G. (2006). Financial Intermediary Development and Growth Volatility: Do Intermediaries Dampen or Magnify Shocks?, *Journal of International Money and Finance, Elsevier*, 25(7).
- Beck, T., & Rahman, H. (2006). *Creating a More Efficient Financial System: Challenges for Bangladesh*, the World Bank in Dhaka and Washington D.C.
- Beck, T. (2006). *Creating and Efficient Financial System: Challenges in a Global Economy*, World Bank mimeo.
- Beck, T., & Levine, R. (2004). *Stock Markets, Banks and Growth: Panel Evidence*, Journal of Banking and Finance.
- Bose, N. (2005). Endogenous Growth and the Emergence of Equity Finance**,** *Journal of Development Economics*, 77.
- Boyd, J. H., Levine, R., & Smith, B. D. (2001). The Impact of Inflation on Financial Sector Performance, *Journal of Monetary Economics*.
- Boyd, J. H., & Smith, B. D. (1998), *The Evolution of Debt and Equity Markets in Economic Development*, Economic Theory Chittagong.
- Stock Exchange, various publications.
- Clarke, G., Cull, R., & Shirley, M. (2005). Bank Privatization in Developing Countries: A Summary of Lessons and Findings, *Journal of Banking and Finance*.
- Dhaka Stock Exchange, various publications.
- Garretsen, H., Lensink, R., & Sterken, E. (2004). Growth, Financial Development, Social Norms and Legal Institutions, *Journal of International Financial Markets, Elsevier*, 14(2).
- Geert, B., Campbell, R., & Christian, L. (2005). Does Financial Liberalization Spur Growth?, *Journal of Financial Economics*, 77.
- Haque, A. (2009). *Mutual funds on the rise*, The Daily Star, Dhaka.
- Hassan, K. (2005). *Impediments To Private Sector Bond Market Development*, The Financial Express, Dhaka.
- Husain, I. (2005). *Understanding the Bond Market*, The Financial Express, Dhaka.
- Islam, K. A. (2009). *The Prospects, Possibilities and Challenges of Bangladesh Capital Market*, the Financial Express, Dhaka.
- Mujeri, M. K., & Rahman, M. H. (2008). *Financing Long Term Investments in Bangladesh: Capital Market Development Issues*, Policy Paper 0905, Policy Analysis Unit, Bangladesh Bank.
- Securities and Exchange Commission Bangladesh (various years), *Annual Reports.*
- Securities and Exchange Commission Bangladesh (various years), *Quarterly Reports.*
- The World Bank. (2010). *Corporate Governance Country Assessment 2009*, Washington D.C.
- The World Bank (various years), different publications related to the "Financial Institutions Development Project" undertaken in Bangladesh.
- Various newspapers, especially the Financial Express, the Daily Star, the New Age, the Daily Prothom Alo, the Daily Share Biz, the weekly Economic Times, the quarterly Artha Katha.
- Zahid, S. H. (2009). *The Puzzle Of Junks Shining In A Drab Market*, The Financial Express, Dhaka
- Zahid, S. H. (2009). *It's time for SEC to be innovative*, The Financial Express, Dhaka.