

Capital Market in Bangladesh: An Overview

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Abstract: *There are so many economic indicators that show the strength or weakness of economic condition of a country like Bangladesh and Gross Domestic Products (GDP) is one of them, while the turnover of capital market can contribute a lot towards the GDP. The objective of the study is to show the contribution of capital market, especially of share market to the economy of Bangladesh, while the hypothesis regarding the unsound capital market takes place. Unfortunately, the said market could not play the proper role as it was expected in comparison with the neighboring, regional and some other countries that the study finds. It suggests that the government along with the authorities concerned should be more active in strengthening this market so that the investors as well as issuers could come forward to involve themselves with full confidence.*

Keywords: *Capital market, Investors & Issuers, Share market, Turnover, Gross Domestic Product*

1. Introduction

For the betterment of economy as a whole, of a country like Bangladesh an efficient monetary policy is very essential and an efficient monetary policy of the Government helps its economy to be strengthened in the long run. The very policy encompasses money market and capital market. Both the markets deal with financing for the institutions concerned. In the capital market some major institutions like Securities and Exchange Commission (SEC), Investment Corporation of Bangladesh (ICB), commercial banks and other banks like Bangladesh Shilpa Rin Sangstha and Bangladesh Shilpa Bank (both these banks are now converted into Bangladesh Development Bank Ltd.-BDBL), Issue Houses, Insurance Companies etc. mainly deal with long-term financing which covers the source of funds and application of the same, while SEC works as the controlling authority of the said market. Both the markets have a strong role to play in the Gross Domestic Product and Gross National Product (GNP) of this country because of the financing for the personal and institutional concerned and these markets are inter-dependent between each other. The accumulated savings of the people in the money market are invested in the capital market. In fact, two groups are keenly associated with the capital market and they are investors and issuers. Both the parties participate in this market with a view to achieving their targets. Actually, capital market acts as a bridge for financing for the industrial development of a country like Bangladesh through the selling and purchasing of shares, debentures, bonds, mutual funds, treasury bills, certificates & papers etc and the turn-over of capital market contributes to the GDP every year. Out of these dealings share market (stock market) plays a crucial role in the capital market, while the other contributions of loan from banks and financial institutions, bonds and mutual funds etc. cannot be undermined. Whereas, a great portion of people of this country remain behind the seen of Capital Market where they should come forward for the individual development in particular and for the emancipation of the economy in general. Considering this gap the study is planned. Of course, the present study will mainly focus on the share market issues of this country which play a terrific role in the capital market as a key component.

2. Literature Review

S. M. Solaiman¹ in his study titled “Recent Reforms and the Development of the Securities Market in Bangladesh” found that the Bangladesh Securities Market has failed to play any significant growth since its inception in 1954 and this may cause for a number of factors which include, inter alia, the existence of weak legal and regulatory frameworks, the absence of active market professionals, the predominance of individual investors, and a serious dearth of foreign and institutional investors. Legal and regulatory weaknesses are considered to have critically hindered the market's potential growth. Conducting the study he observed that some important laws are outdated, and the regulator has introduced some unrealistic reforms over the years. Most of the reforms accomplished thus far concentrate on incentives to investors and issuers alike, but nothing significant has been done for investor protection. The study argues that effective legal protection to investors has to be given for the development of said market and the restoration of public confidence has to be established in the infant securities market of Bangladesh.

M. K. Mujeri, and Md. Habibur Rahman² focused in the research paper titled “Financing Long Term Investments in Bangladesh: Capital Market Development Issues” regarding the capital market position that there has been an increased demand for the development of infrastructural services and opening up of the infrastructural sector for private investment so that a large number of financial intermediaries and private sector participants would participate the financial market to raise long term funds in Bangladesh. He, therefore, opined to set up the required debt market infrastructure which can create a vibrant secondary debt market in Bangladesh. The paper analyzes recent developments in the country's capital market and suggests measures and ways to ensure a liquid capital market in Bangladesh in support of the country's rapid development needs.

Kh. Asadul Islam Ripon³ reported in an Article like “The prospects, possibilities and challenges of Bangladesh capital market” that the recent growth of capital market (CM) of Bangladesh was behind time. He witnessed the money market (MM) grew stable in this country over the last decade and the economy was starving for a matured and stable

capital market. The stability came through a variety of sources namely, educated retail investors, institutional investors and last but not least the capital market regulators.

The study also found that the central bank (CB) played a thoughtful part in developing the capital market. It brought transparency to the banking sector, which actually welcomed the retail investors to join the capital market with high confidence. The performance and healthy return of the banking sector worked as a crucial component to bring in institutions and foreign investors.

In addition to that, the government facilitated the capital market by structuring its monetary and fiscal policies in a pro-capital market manner which helps to invite the funds from all over the world. It also helps investors to gain more confidence and positively impact on Gross Domestic Product (GDP) of the country. In the study he compared the Bangladesh capital market to the neighboring countries and opined that India and Pakistan have market capitalization more than 75% of their GDP.

Unfortunately, the Bangladesh capital market accounts for a far lesser share of its GDP indicating ample scope for future intensification in this sector. Hence, he suggested, the concerned authorities should have utmost seriousness with a future vision.

3. Objective of the study

The objectives of the study are:

- i. To analyze the nature and characteristics of the share market prevailing in Bangladesh;
- ii. To find out the problems and hindrances associated with this market;
- iii. To show the impact of the capital market on the economy and
- iv. To give suggestions for the development of the capital market in Bangladesh

4. Methodology of the Study

The study used observation method and is mainly based on secondary data while these have been collected from the various documents and papers like Reports of Securities and Exchange Commission; Monthly Economic Trends prepared by Statistical Department of Bangladesh Bank, Bangladesh Economic Review, Industrial Policy-2005, Annual Budgets, Reviewed Literatures, Web Site Data, Selected Books, Journals and Daily News Papers covering the recent periods. Analyses and interpretation have been done using tabular form.

5. Hypotheses of the Study

- i. The effectiveness of the Regulatory Systems of the Capital Market is not sound;
- ii. The Contribution of the Share Market towards the economy of Bangladesh is not propitiatory.

6. Terms and Concepts

Basically, money market is associated with the short-term financing while capital market deals with the long-term financing along with short-term of the same. For example, bank and financial institutions, private enterprises and so on handle this financing with the interested people through the term-deposits as well as short-term loans. Collecting money from the capital market the concerned institutions use the fund in terms of investment for operational and developing activities. At the same time, the investors' participation in this market, especially investment in shares benefits them potentially if the investments take place accordingly, which can play a crucial role for the development of economy in Bangladesh.

7. Limitation of the Study

The study has data and time limitations. Had these been overcome, the study would have been more effective.

8. Analyses and Interpretations

It is, in fact that the contribution of capital market to GDP is not as good as of the neighboring countries like India, Sri Lanka and so on which could be identified gradually. There are so many reasons behind the scene. Presently, the depression in world economy has hindered the capital market to be strengthened, imbalance of our trade reduces the export earnings, political instability in the recent years has polluted the investment environment and as a result, the investors especially, the small investors are afraid of their investment with return. Now a day, it is noticeable that the small investors feel interested to invest their money in the share market where they seem to get their returns expected on a regular basis, but the things do not remain constant due to various socio-economic and world-economic reasons. However, it can be stated how an investor can participate in the share market.

With a view to ensuring the proper issuance of securities, preserving the interest of investors, developing the capital and security market and controlling the same, the Securities and Exchange Commission of Bangladesh started its activities since 8th June, 1993 under the Securities and Exchange Commission Act, 1993. This Commission is directed by a board comprising of one Chairman and four other Members appointed by the Government of Bangladesh. The board has overall responsibilities to administer the securities legislation and is a statutory body, while it is an attached department to the ministry of finance. Under this commission Broker/Dealer, Merchant Banker, Port-Folio Manager, Mutual fund, Asset Management Company, Trusty, Custodian, Depository Company and other Intermediaries have been working to develop the capital market as a whole. Share Market is the main part of Capital Market where Dhaka Stock Exchange (DSE)/Dhaka Stock Market and Chittagong Stock Exchange (CSE)/ Chittagong Stock Market have been functioning under the control of Securities and Exchange Commission. In this Market mainly, two parties play key role i.e. one party collects the capital expected while other ones invest the money they have.

Basically, the companies collect their capital through issuing of shares/debentures/certificates/bonds and they (companies) are called the Issuers, while small and big money holders invest their money in purchasing the shares/debentures/certificates/bonds and they are called the Investors. In the stock market (market with shares/debentures/certificates/bonds etc.) the investors have two options regarding the purchase of shares. In the 1st option they can invest to purchase the Primary Shares of the newly established companies in the primary market through the initial public offering (IPO) and they become considered to be the Share Holders who can get the ultimate dividend of the companies concerned. Of course, in this market purchased shares cannot be sold. The investors can also invest their money in the secondary market purchasing the secondary shares in case of 2nd option. Basically, the most known transactions of shares are dealt with this market. It is noticeable that the newly established companies cannot sell their shares directly in the share market because they are unknown to this market. So their shares are sold out through the 'Consortium' comprising of Investment Corporation of Bangladesh (ICB), Bangladesh Shilpa Rin Sangstha (BSRS) and Bangladesh Shilpa Bank (BSB) belonging now to the Bangladesh Development Bank Ltd (BDBL) in exchange of commission which is called Underwriter Commission. In other words, this financing is termed 'Bridge Financing'. When those companies become acquainted with the share market, do not need to seek help for financing through the 'Consortium'. In this market (secondary market) the investors can purchase and sell their shares with the help of registered Brokers. At present, with the help of a broker an investor has to open a 'Beneficiary Owner' (BO) account to participate in the share market for purchasing and selling of shares and this account is used in any Depository Participant (DP) under the 'Central Depository of Bangladesh Limited' (CDBL) on behalf of the investor for the transaction of Electronic Shares, because all the shares of the companies concerned have been taken under this system (Demated shares/Electronic shares) since 24 January, 2004. An investor can purchase certificate shares, but he/she cannot get benefits of the Annual General Meeting (AGM) of the companies until those shares are converted into the Electronic Shares. Actually, this system is considered to be a Screen-Based Trading System through which the investors can participate in Trading Floor of every day with the help of a computer with internet seating at any place in home and abroad. By this time some of the district towns where these types of transactions are dealt with this system.

Share market of this country has been playing role for the economic development since after the independence though this is not sufficient compared to the neighboring countries mentioned earlier. In fact, this market is termed as a 'speculative market'. Here investors have to think over their investments very deeply so that they should not be affected. Actually, there are so many factors that have to be considered while purchasing or selling the shares. Out of those factors, fundamentals and technical analyses of the companies concerned are deeply considered. Besides, tendency of the market, turnover of the market, alternative selection of the projects, availability of the loans, rate of interest, risk in the market, knowledge in the market,

inflation rate, role of the intermediaries, government facilities, world market conditions, political situation and so on play crucial role in taking decision of the said transactions. In Bangladesh almost the above mentioned factors have been functioning, especially, the recession of the share market in 1996 still alarms the investors in investing their money though the concerned parties have now become more alert owing to the benefits of modern technologies. Presently, in the light of profit and loss position, holding of Annual General Meeting (AGM), operational activities, declaration of dividend etc. the companies are categorically segregated and examining the categories the investors decide to invest their money in the share market. The companies are the categories of A, B, G, Z and N which are shown below in detail:

Table 1: Categories of the Companies

Name of the Category	Criteria for selecting the Category
A Category	1. Regular holding of AGM, 2. Declaration of dividend at 10% or more;
B Category	1. Regular holding of AGM, 2. Declaration of dividend at less than 10%;
G Category	The Companies which did not yet start the commercial operations;
Z Category	1. Failure in regular holding of AGM or 2. Non-payment of any dividend or 3; Excess of Accumulated loss over Paid up Capital or 4. Stopping commercial operation for more than six months;
N Category	The companies which are newly enlisted with the Securities and Exchange Commission and could not hold the AGM within Six months from the enlisted date. Of course, this is a proposal to be categorized under consideration.

Source: Prospectus of Security and Exchange Commission, Bangladesh

The investors choose the companies for purchasing of shares analyzing as well as examining the facts and findings mentioned above. Of course, the Merchant Bank(s) play an important role in this regard. It acts as an Issue Manager and Underwriter for issuer Company and serves as a Port-Folio Manager for Investors in the capital market. Under the SEC rules, 1996 the Commission issued the registration certificates of Merchant Banker in favor of 29 Companies, out of which Issue Manager, Underwriter and Port-Folio Manager for 22 Companies, only Issue Manager for 6 Companies and only Port-Folio Manager for 1 Company have been confirmed up to this time⁴

9. Problems of Capital Market

However, in the capital market especially, in the share market some problems are hindering the smooth running of the same; as a result, the capital market through the share market cannot substantially contribute towards the GDP of this country. There are four Interested Groups in the capital market and they are Issuer, Savings holder/Investor,

Intermediaries and Securities Exchange Commission. Without the combined contribution of them the position of capital market can no longer be developed. The issuer Companies cannot contribute well because of the fewer numbers, irregularities in holding AGM and declaration of dividend or inadequate dividend, facing loss, corruptions, bad relationship between the lower management and top management, bad impact of Trade Unionism etc. The role of the saving holders/investors is not commendable, because they have no sufficient knowledge about this market, they become afraid of investing their capital, they feel better in investment of saving certificates or in small and medium business etc. The Intermediaries like banks and other financial institutions, issue houses somehow become engaged otherwise. For example, commercial banks involve in generating special credit program or become reluctant to allow loan for share market without sound securities, the merchant banks do no work properly etc. The guardian, Securities and Exchange Commission (SEC) cannot play proper role as it could do. It cannot attract the investors especially, the small investors introducing some lucrative packages like minimum benefit of investment, avoiding the risk, training center, proper supervision in the market; it cannot also create congenial environment for the larger as well as foreign direct investment (FDI), constructive coordination between or among the parties concerned and so on. Of course, recently, SEC suspended the transaction of nine Z category companies' shares because of the ill-transactions done by those companies. In those companies the shareholders are not getting dividends, AGMs are not being held, whereas due to the rumors and cheating done by the dishonest investors as well as syndicates the price of those shares are increasing artificially where the small investors are being affected in loss purchasing those shares. Another problem is found that the presence of strong and mostly sound organizations in this market is negligible which could help make this market sound. In the existing system of determination of the price of Initial Public Offering (IPO) shares, the companies have to present their Prospectus to the SEC for scrutiny, and then SEC approves the Prospectus determining the price of the shares. Hence the large companies alleged for not getting the proper value of their shares and accordingly, they are not satisfied and interested to come in this market. Of Course, considering the matter concerned the SEC decided to introduce a new system namely, Book Building System (BBS) for the determination of the same. In this system the price of IPO (initial public offering) shares will be determined through the automated bidding process where the value of IPO shares will be initially determined by the indicative price through the 5 institutional investors and then that indicative price will be brought under the automated bidding process where the general institutional investors will participate and determine the price of the shares which will be approved by the SEC subsequently. Here only those companies can enjoy this system whose net worth is Tk. 30 crore and offers are either at least 10% of their paid-up capital or the shares valued at least Tk. 30 crore. Again, the transactions of debentures, bonds and other certificates which are also the parts of capital market are not so sound. The availability of loans with low interest, financial condition of the companies,

tendency of the investors etc. are not supposed to be attractive in this market based upon which the sound financing system could be introduced. Besides, here the inflation rate is more or less high and fluctuating. However, analyzing the points mentioned above it is clear that the capital market cannot contribute a lot to the economy of this country despite its lots of possibilities.

10. Impact on the Economy

The internal force like capital market which can make the economy healthy is weak in the perspective of this country so far. Thus, Bangladesh is being deprived of getting some extra benefits from this market due to the lack of sound position in comparison with other neighboring, regional and some other countries. In support of this statement a recent comparative study regarding some aspects of this market can be shown below:

Table 2: Comparative Statement of Different Countries' Position (Source: www.econstats.com)

Country's Stock Exchange	Terminologies			
	Indices	Market Capitalization (Millions US \$)	Turnover (US \$)	% of GDP
Dhaka Stock Exchange (SE)	2384.18	7915	623	11.67
Colombo SE	2442.11	7042	579	26.28
Karachi SE	13,630.50	65,820	66,598	51.02
Mumbai SE	15,551	11,11,791	1,55,650.80	126.05
Philippines SE	3501.20	93951	17,305	80.35
Singapore SE	3547.10	5,12,895	2,12,568	388.10
Hong Kong SE	23,184.90	22,29,101	9,21,992	1176
London SE	6360.10	39,45,829	65,32,036	166.02

From the above Table it is seen that in terms of Indices, Dhaka Stock Exchange (DSE) had 2384.18, while Colombo SE, Karachi SE, Mumbai SE, Philippines SE, Singapore SE, Hong Kong SE, and London SE had 2442.11, 13630.5, 15551, 3501.2, 3547.1, 23184.9 and 6360.1 respectively on July 2007 indicating the unfavorable position for DSE. In the light of Market Capitalization (US \$) DSE had 7915 Million against 7042, 65820, 1117910, 93951, 512895, 2229101 and 3945829 Millions respectively of the same. One of the most important aspect, Turnover indicated (US \$) 623 Million for DSE while other ones of the same were for 579, 66598, 155650.8, 17305, 212568, 921992 and 6532036 Millions respectively. In case of the percentage of GDP other than DSE there had been lots of contributions of the SEs of those countries described while the DSE of Bangladesh belonged to only 11.67% of GDP as against 26.28% of Colombo,

51.02% of Karachi, 126.05% of Mumbai, 80.35% of Philippine, 388.10% of Singapore, 1176% of Hong Kong and 166.02% of London which highlighted the lamenting position for the country, Bangladesh.

Since 2007 the data published by the SEC were not also satisfactory, because sometimes it was seen that the flow of capital market especially, share market was upward and sometimes the same was downward which indicate the fluctuating trend and this trend is not considered to be congenial for the economy of Bangladesh. Again, for the last couple of months the indices of share market broke all the prior records in terms of both the increasing and decreasing trends, while these are not the sound signals of contributions what the analysts consider.

11. Conclusion and Suggestions

The above data as well as information reveal the facts that the contribution of capital market especially, of share market towards the economy of Bangladesh is not propitiatory so far. Because, in terms of indices, market capitalization, turnover, percentage of GDP, amount of securities, issued capital etc, the capital market position as a whole, does not support the sound economy. Besides, the position of primary and secondary share market is not smooth as well as stable where the issuers and investors could not feel better involving themselves. Thus, the second hypothesis could be considered established. Hence, the said market could not play the desired role to the economy of Bangladesh. Again, as per the analyses and interpretations done, regulatory systems are not transparent as well as not sound, as a result investors remain in dark in knowing the rules which are fluctuating also and that consequently invite the syndication appears to have dominated which causes market situation uncertain when local investors do not keenly intend to invest in the said market and foreign investments do not take place in time as well. Here, the intermediaries among the four groups mentioned earlier do not play adequate role in the development of this market. Here, first hypothesis corroborates the same ideas. Of course the Government of Bangladesh has taken some positive steps regarding the strengthening of SEC imposing some compulsory terms on the intermediaries and developing the activities of banks and financial institutions. However, to upgrade the share market, in other words, to generate the capital market for smooth financing for the stakeholders the following suggestions could play the fruitful role:

- a. The presence of the financially sound institutions is negligible in the market. So, lots of Companies which are financially sound should come forward towards this market e.g. Grameen Phone Company has already appeared in this market, Again, careful attention should be given for regular holding of AGM of the Companies, preparation of financial statements along with the audit reports according to the Accounting and Auditing Standards;
- b. The bridge financing activities are not satisfactory, here 'Consortium body' (ICB, BDBL) should be more active in playing their role for 'Bridge Financing';

- c. The monitoring phenomenon is some how weak, hence, Merchant Bank which has been directed under the control of SEC must be monitored time to time whether it is properly functioning for the interest of participators in the said market;
- d. The inflation rate is fluctuating and it has to be kept stable so that the value of money could not be degraded;
- e. Adequate training and other options are not to be observed, thus, SEC should conduct a well-established Training Center where the new comers could have knowledge regarding their involvements in this market. At the same time, there should be an arrangement of seminars, symposiums and talk shows for the betterment of the investors;
- f. To ensure the availability of loans along with low interests for the investors as well as participators (especially for the Small and Medium Scale Enterprises, SMEs) Bangladesh Bank should take positive steps through the schedule banks either public or private whatever they are;
- g. The arms for control of the share market like 'Circuit Breaker', 'Surveillance with On-Line and Of-Line mechanism etc. have to be active more so that somebody could not take the chance otherwise;
- h. High Savings-Investment Ratio can play a good role in this market. So, Proper steps should be taken for the increase of flow of savings of the people through the money market and facilities should be given to the expatriates for their participation in this market which could bring the positive result for financing through the impact of Foreign Exchange Reserve opening Non-Resident Investors Taka Account (NITA) actively. Besides, congenial atmosphere should have to be created for Foreign Direct Investment (FDI) to increase the foreign Cash-In-Flows;
 - a. There should be a provision for SEC that it can directly purchase and sell the securities with the parties concerned so that they could keep them out of the financial crises;
 - b. Tax facilities should be increased for the enlisted companies along with other facilities like tax-holiday, tax-free transactions, reduction of the excise and duties by which other institutions could be encouraged to participate in the said market;
 - c. Research activities must be conducted to find out the deficiencies as well as efficiencies associated with this market which could contribute to the achievement of Gross Domestic Product and Gross National Product so far.

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