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Barriers to the Development of Bangladesh Capital Market

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ABSTRACT

A successful stock market in a developing economy can provide a major source of financial development both by channelling domestic savings and attracting foreign investment. However, this objective is not always met, particularly in underdeveloped stock markets due to underlying some problems of the capital market. A study of Dhaka Stock Exchange during the period of 2000 to 2009 illustrates some problems like small size of the market, low and unstable liquidity, small listing, high concentration, low foreign portfolio investment and integration, weak regulatory framework, lagging development of bond market, absence of demutualisation, information asymmetry and so on. These are the major hindrances of sustainable and developed stock market in Bangladesh. Without sound and efficient capital market, rapid economic development could be hampered as capital market provides long term funds to entrepreneurs. Further, the capital market Bangladesh is still underdeveloped, in spite of recent initiatives. Thus the study provides a number of suggestions that will help towards a stable and developed stock market in Bangladesh. However, the government is making efforts to develop the reliability and efficiency of stock exchanges as investment market.

Keywords: *Bangladesh capital market, stock market problems, stock market development, Dhaka stock exchange, Securities and Exchange Commission*

1. INTRODUCTION

The capital market of Bangladesh is passing with some problems and these are barriers to the development and sustainable stock market in the Bangladesh. However the economists and policymakers had high expectations about the prospects for capital market development in emerging economies like Bangladesh. This led to significant measures, including policy formulation and reforms for the stock exchanges, development of regulatory and supervisory frameworks, automated trading system, electronic settlement of shares transactions, ICT based development, continuing monitoring activities by Investigation and Compliance Department (MIC) for the development of Bangladesh capital market.

Despite the intense reform efforts, the performance of domestic capital markets in Bangladesh has been disappointing. In particular, the study finds that there is a shortfall in domestic stock market activity (market size, market liquidity, market listing, market concentration, foreign portfolio investment and integration etc.) in Bangladesh capital market. This paper suggests that it might be necessary to revise the reform agenda and related expectations to take into account certain characteristics of these countries that may be the scope for developing deep domestic securities markets. This exercise helps to gain a better understanding of the possible reasons for this divergence and sharpen the criteria to guide an appropriate reformulation of policy recommendations.

2. AN OVERVIEW OF BANGLADESH CAPITAL MARKET

Bangladesh capital market is one of the smallest in Asia but one of the largest in the South Asian region. It consists of mainly two full-fledged automated stock exchanges. The Dhaka Stock Exchange generally known as DSE is the first and main stock exchange of Bangladesh. It was incorporated as East Pakistan Stock Exchange Association Ltd. on 28 April 1954 and started formal trading in 1956. After the liberation war in 1971, the trading was discontinued for five years. In 1976 trading resumed with only 9 listed companies on DSE board in Bangladesh. Now there are 415 securities listed on DSE as of 30 December 2009, consisting of 236 companies, 19 mutual funds, 8 debentures, 151 Treasury bonds and 1 corporate bond with a total market capitalisation of 27,244 million US dollars. The second stock exchange of the country, the Chittagong Stock Exchange (CSE) began its journey on 10th October of 1995. Both the DSE and the CSE operate separate trading floor over-the-counter exchange to facilitate trading of the non-listed and delisted companies, which are unable to give dividend for several years, do not arrange AGM or EGM and non-dematerialised shares.

The Securities and Exchange Commission (SEC) of Bangladesh was established on 8th June 1993 under the Securities and Exchange Commission Act, 1993. The mission of the SEC is to protect the interests of securities investors, develop and maintain

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fair, transparent and efficient securities markets and ensure proper issuance of securities and compliance with securities laws. The main functions of the commission are regulating the business of the stock exchanges, registering, regulating and training the intermediaries in the securities market and conducting research and publishing information.

Central Depository Bangladesh Limited (CDBL) was incorporated on 20th August 2000. CDBL's core services cover the efficient delivery, settlement and transfer of securities through computerised book entry system i.e. recording and maintaining securities accounts and registering transfer of securities; changing the ownership without any physical movement or endorsement of certificates and execution of transfer instruments.

¹ The DGEN includes the securities of A, B, G & N category. The index excludes companies of Z category and is calculated on the basis of price movement of individual stocks. On the other hand, while computing DSI the bourse includes share prices of all categories. And finally DSE 20, is comprises of share prices of selected 20 companies

The Dhaka Stock Exchange maintains three indices; DGEN (Dhaka Stock Exchange General Index) which is considered as the benchmark or barometer index of the country's capital market, DSI (All Share Price Index) and DS20 (DSE 20 Index). As of 30 the December, 2009 the DSI, DGEN and DSE20 stood at 3747.53, 4535.53 and 2613.49 points respectively.

3. REVIEW OF LITERATURE

There is a general consensus among scholars that stock market plays an important role in the development of an economy (Hearn and Piesse, 2010; Adjasi and Biekpe, 2006; Levine and Zervos, 1998). For instance, it accelerates economic growth by enhancing mobilisation of domestic and foreign resources and facilitating investment (Bencivenga et al., 1996). Critics of securities market, however, argue that markets characterised by weak corporate control mechanisms may jeopardize investor wealth (Khanna, 2009; La Porta et al., 1998; 1997). This phenomenon is more pervasive in developing economies because they are characterised by weak regulatory institutions and poor systems of corporate governance (Hearn and Piesse, 2010). It is presumed that the determinants of securities market development vary from country to country depending on nature of regulatory mechanisms, economic policies, as well as institutional structures.

4. RATIONALE OF THE STUDY

The large number of policy initiatives and the disappointing performance of capital markets have left policymakers without clear guidance on how to revise the reform agenda going forward, and many do not envision a bright future for domestic capital markets in developing countries. In this paper, the study analyses the state of capital market in Bangladesh and discusses how to rethink the reform agenda going forward in light of this evidence. The focus on Dhaka Stock Exchange is motivated by the fact that the forefront of the capital market reform process over the last decades in this market.

Despite the intense reform effort, capital markets in the region seem to have lagged behind relative to developed countries. Analysing the experience of Bangladesh capital market may provide significant lessons for the capital market reform agenda going forward, which may also apply to emerging economies in other regions. In particular, the study gives emphasis in assessing the problems and performance of Dhaka Stock Exchange which in turn should result in more developed capital markets.

5. OBJECTIVES OF THE STUDY

The first objective of study is to provide a brief review (based on theoretical concepts) of the problems that characterise the capital market in Bangladesh. The second objective of the study is to examine the performance of country's prime bourse the Dhaka Stock Exchange to present the real scenario of the Bangladesh capital market. The third objective of the study is to provide a number of concrete suggestions for the development of Bangladesh capital market.

6. METHODOLOGY AND DATA DESCRIPTION

6.1 Secondary Data

Since the data required from the Dhaka Stock Exchange before 2000 is not published in DSE website and is not available in any other easily accessible way, the study limited to use data which are already available in soft copy, compiled and printed. The data for all stocks listed on DSE have been collected from four sources. One is DSE website. The second is the publications of central library of the Dhaka Stock Exchange such as Various Issues of Monthly Review, fortnightly capital market, and Annual Report of the Dhaka Stock Exchange during the study period. The third is the website of Securities Exchange Commission of Bangladesh. The fourth is

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the publications of SEC such as Quarterly Review and Annual Report under the study period.

The study examines the performance Dhaka Stock Exchange with some indicators of capital market (market size, market liquidity, market listing, market concentration, foreign portfolio investment and integration etc.) as well as reviews contemporary texts on daily newspapers, weeklies, publications of Dhaka Stock Exchange and Securities & Exchange Commission of Bangladesh regarding capital market issues in Bangladesh to analyses the state of the Dhaka Stock Exchange.

7. PROBLEMS OF THE DHAKA STOCK EXCHANGE

There are some problems in Dhaka Stock Exchange and these are the barriers to development and growth of country's prime bourse. The DSE has a low level of supervision and the major market players—such as stock exchanges, brokers, dealers, and asset managers—have limited professional capacity. Transparency is poor and there is inadequate disclosure both in trading and in the quality of information provided for listed companies. The introduction of up-to-date technology to support market infrastructure has been slow. Widespread reports of malpractice culminated in a domestic stock market crisis in 1996. As a result, investor confidence is low. The stock exchanges are owned and dominated by brokers, so their businesses take precedence over the governance of their respective exchanges. The management of the exchange is weak at the strategic, senior, and mid-management levels; hence their members' activities are not supervised or regulated effectively. The major problems of DSE may be summarized as below.

7.1 Gaps in Legal and Supervisory Framework, and Weak Implementation Capacity.

Governance structures are deficient and market regulators have ineffective enforcement and weak implementation capacity. The Securities and Exchange Commission (SEC) was established and given the mandate to oversee the operation of the capital market; however, recurring violations of securities laws and regulations have been reported. Complaints have been aired about shortcomings in the SEC's consultation process when issuing a new rule or regulation. The SEC is understaffed and its staff lack technical knowledge and skills. Although its oversight and regulatory functions have more than doubled, staffing of the SEC has remained severely inadequate and its remuneration structure was not attractive to potential qualified applicants from the private sector.

Recruitment and career progression were constrained by government policy. As a result, the SEC has limited capacity to regulate and monitor activities with its limited resources to devote to development functions. There are too few qualified accountants and financial analysts due to high staff turnover, and the SEC does not have enough legal experts to effectively exercise its oversight authority. Many cases have been filed by the SEC against companies and brokers for violation of SEC rules. Even though there is a separate bench at the High Court to deal with company-related matters, most of the cases remain unresolved.

7.2 Inadequate Systems and Surveillance

The trading and surveillance systems and standards are inadequate. Good governance depends on having sound technical infrastructure in place, but neither the SEC nor the exchange has effective automated systems of surveillance to help them detect market abuse. One of the system's modules—the surveillance module—was not designed to provide online market surveillance. Consequently, the system is no longer adequate for the market surveillance function it now needs to perform. Surveillance at the exchanges concerns the issuers' obligation of disclosure and monitoring of the trading portfolio of brokers, market manipulation, and insider trading. The staff at the exchange lack training in market surveillance, evidence gathering, and analysis of data. The SEC does not have an independent system for monitoring the DSE.

7.3 Shortage of Fundamental Securities

The limited number of listed securities has constrained increases in the liquidity and market capitalisation of the stock exchanges. In addition, investors have restricted investment choices because of the lack of fundamental equity issues, investment-grade equities, and debt instruments in the market. However, a supply side constraint is one of the reasons for price manipulation. There were 415 securities listed on the DSE as of 30 December 2009, consisting of 236 companies, 19 mutual funds, 8 debentures, 151 Treasury bonds and 1 corporate bond. The main impediments to increasing the number of new listings are the inefficient pricing mechanism, the owner's concerns over poor corporate governance, and the high cost of listing. The mismatch between supply and demand is also indicative of speculation and distrust in the market.

7.4 Lack of Professional Standards for Licensing

The categories of market participants requiring a license from the SEC include (i) brokers, who provide trading services to clients; (ii) dealers,

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who are permitted to trade for their own account; (iii) merchant bankers, who provide underwriting, issue management, and portfolio investment services; (iv) investment advisors, who provide investment advice to clients; and (v) authorized representatives, who are engaged in a broker's office to trade on the exchange on behalf of a broker or dealer. However, there were no standards or minimum qualification requirements imposed by the SEC or the exchange on any of the intermediaries.

7.5 Lagging Development of Bond Market.

Bond markets link issuers having long-term financing needs with investors willing to place funds in long-term, interest-bearing securities. Bangladesh has both the issuers and the investors in place but it still has not been able to link them effectively through a bond market. The extraordinarily high-yield structure on savings schemes is the major impediment to the development of a bond market. The lack of an efficient long-term bond market makes it even more difficult to set a benchmark to determine long-term borrowing and lending interest rates. Financial institutions and corporate entities relying on banks for funds constantly experience difficulties stemming from maturity mismatches in their asset-liability positions. Demand-side weakness suffers from (i) a shortage of opportunity for trade and transfer; (ii) lack of any discount houses, money market dealer network, and strong secondary market for government securities; and (iii) limited opportunities for bond utilisation. According to the recent World Bank report on the South Asia bond market, there has been no infrastructure bond financing in Bangladesh though one corporate bond is enlisted on DSE.

7.6 Absence of Demutualisation and Strong Corporate Governance

Some members being the directors of DSE, CSE look for their own interest using their internal information of share market. As a result, there have been calls for the demutualisation of the stock exchanges and also merging of the exchanges to remove inherent conflicts of interest, eliminate opportunities for arbitrage between the exchanges, and enhance liquidity and public trust. The listed companies are also partly responsible for the poor performance of the two stock exchanges. They run the risk of alienating investors by continuing their opaque management practices. Strong corporate governance and transparency are not yet ingrained within the corporate system.

7.7 Small Market Size

Market capitalisation to GDP ratio or Market capitalisation ratio equals the value of listed shares divided by GDP. Analysts frequently use the ratio as a measure of stock market size. In terms of economic significance, the assumption behind market capitalisation is that market size is positively correlated with the ability to mobilise capital and diversify risk on economy wide basis (Agarwal 2001). La Porter et al. (1997), Levine, and Zervos (1998) used the market capitalisation to GDP ratio as an indicator of market development.

Table 1 shows the size of the Dhaka Stock Exchange. The capitalisation ratio has increased from 2.58 percent in 2000 to 30.95 percent in 2009. On November 11, 2009 the single largest capitalisation stock Grameenphone Ltd. (16.58 percent of total market capitalisation of the DSE as of December 2009) is listed on DSE main board. It is one of the reasons for the highest market capitalisation ratio in 2009 (30.95 percent). The average ratio is 9.73 percent which indicates relatively a very small size of capital market.

7.8 Low and unstable liquidity

The term liquidity generally refers to the ability of the market to buy or sell securities. Two measures are generally used to measure liquidity. They are turnover (total value traded) in the stock market as a ratio of: (i) stock market capitalisation and (ii) GDP. The first measure is also called turnover ratio.

Table 2 also shows the turnover ratio (total value traded/ stock market capitalisation) on DSE from 2000 to 2009. The mean turnover ratio is 45.70 percent which indicates low liquidity of the market.

Table 2 also shows the liquidity position of the Dhaka Stock Exchange in terms of Total Value Traded / GDP ratio. The mean ratio is 5.33 percent which is influenced by the large value of 2007, 2008, and 2009. The first seven years witnessed below mean ratio. The CV for the ratio is much higher (140.71) and it implies that the growth of Total Value to GDP ratio is not smooth. There is marked fluctuation in the Value Traded to GDP ratio over the years. The CV of Total Value Traded to GDP ratio is much higher than the CV of turnover ratio and it implies that the growth of Total Value Traded to GDP ratio is highly unstable compared with turnover ratio.

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7.9 Small Number of Market Listing

Another problem of Dhaka Stock Exchange is small number of market listing. The number of listed companies has grown from 24 in 2000 to 415 in 2009 with an average annual growth rate of 6.16 percent (Table 3). There are 151 treasury bonds of total listed companies that are actually inactive in the market. This indicates poor listing in the market.

7.10 High Market Concentration

High concentration is not desirable as it can adversely affect liquidity, and it is common to find a negative correlation between concentration and liquidity. The share of market capitalisation accounted for by the five largest stocks has been computed to measure the degree of market concentration. The leading 5 companies are being considered to be large stocks in the DSE. The selection of these leading companies changes with the new listings depending on whether they are part of the group of leading companies. Table 4 shows the market concentration in percentages. The market concentration at the DSE is the highest at 31.36 percentages in 2004, which means that 31.36 percent of total market capitalisation is under the group of largest five stocks. The study reveals that market concentration has remained at an average of 23.11 percent during the study period. This is a very high percentage of market concentration based on largest 5-stocks category, which is not desired by the modern theories of portfolio management; it is also not desirable for those who want to minimise the risk.

The study also examines market concentration by the largest banking shares and by the largest non-banking shares in each 5-largest stocks group. Table 5 shows the concentration of largest banking shares and largest non-banking shares in each largest 5-stocks group. The total 14 largest banking shares hold 38.42 percent concentration and the total 16 largest other non-banking shares hold 61.58 percent concentration. As a single largest category, the largest banking shares have influenced the market concentration heavily.

7.11 Low Foreign Portfolio Investment and Integration of the Market

Foreign portfolio investment and integration of the market into global market is an important indicator of stock market development and growth. In 2009, the foreign portfolio investment is accounted for less than three percent of market capitalisation in Bangladesh. Moreover, the Bangladesh stock market is very small in relation to world's developed stock markets. The market capitalisation of the country's prime bourse Dhaka Stock Exchange is 27515.22

million US dollar in 2009 which is the 0.06% of world market capitalisation. Where as in the same time the US market capitalisation is 29.90 percent even though the US stock market was heavily affected by the prolonged recession. One interesting puzzling in Bangladesh capital market is that when developed stock markets in the world are crashing due to recession in 2009 then the Bangladesh capital markets are booming. This indicates that the Bangladesh capital market is not as yet integrated with the international capital markets.

7.12 Other Problems

7.12.1 Lack of Professional Portfolio Management

The institutional investors bring stability through non-speculative long-term investments. However, the ratio of institutional-to-retail investors remains low.

7.12.2 Information Asymmetry

The access to credible information is strictly restricted for general investors. Most of the retail investors are forced to look to brokers for advice that may consist of market rumours. However

² World Market Capitalisation in 2009 is 45958132 million US dollar (Bloomberg). about 80 per cent business executives stated in a recent survey that insider trading is pervasive in the country's stock market. Weak monitoring and enforcement of existing rules as well as absence of specific rules related to these practices help manipulate the market, and act as a major obstacle for rule-based operation of the market. Syndicate of large investors manipulate the market through price inflation, pump and dump strategies.

7.12.3 Price Manipulation

Security regulators generally prohibit market manipulations on the basis that they distort prices, hamper price discovery, and create deadweight losses. In modern financial markets, manipulations are often done in hidden ways that cannot be easily detected and outlawed. While manipulative activities seem to have declined on the main exchanges, it is still a serious issue in the Dhaka Stock market. Although several theories on stock market manipulation have been investigated, empirical evidence about stock manipulation is still scarce. When investigating the possibility of a manipulation, there are many signs that may indicate whether price rigging has occurred. It has been observed that the share values of some companies has been increased fictitiously that hampers the smooth operation of Exchanges in Bangladesh.

<http://www.ejournalofbusiness.org>**7.12.4 Valuation Disparity**

Value of stocks is subject to speculative trading rather than sound fundamentals, resulting in market volatility.

7.12.5 Delays in Settlement

Financing procedures and delivery of securities sometimes take an unusual long time for which the money is blocked from nothing.

7.12.6 Irregularities in Dividends

Some companies do not hold Annual General Meeting (AGM) to declare dividends on a regular basis that confused the shareholders about the financial positions of the company

7.12.7 Improper Financial Statement

Many companies did not focus real position of the company as some audit firms involve in corruption while preparing financial statements. As a result the shareholders as well as investors do not have clear perception about position of that company.

7.12.8 Lack of Proper Policy Framework

There is lack of proper policy framework to provide incentives and protection to investors.

7.12.9 Little knowledge of retail investors

Most of the retail investors in Bangladesh have a very little knowledge about stock market. Most of them take their investment decision based on rumour. Since stock market is not a place of gambling, rather it is a place of knowledge-based game. So many of them behave irrationally in the market.

7.12.10 Quality Research and Analysis

There is no qualitative research based organisation operated by SEC or DSE. Quality research and data analysis is essential to the stakeholders of the market to cop with the present state of the market.

8. SUGGESTIONS TO IMPROVE THE ACTIVITIES OF DHAKA STOCK EXCHANGE

The findings of the study suggest that although Bangladesh stock market is growing over time, the growth has not yet assumed any stable and obvious trend. Bangladesh stock market is still at an early stage of its growth path with a small market size relative to GDP and is characterised by poor liquidity and high market concentration. Thus the following suggestions may be a guideline to develop capital market in Bangladesh.

8.1 Regularly Review Primary and Secondary Market Regulations

Primary market regulatory activities on new issues including disclosure, accounting and listing standards must be reviewed periodically to conform to changing international standards. Secondary market activities, such as surveillance and supervision of dealers to maintain high standards, must be monitored to boost investor confidence.

8.2 Integrate the DSE with the International Financial System

Because of the current trend of globalisation of economies, the management of the DSE must aim at integrating the DSE into the international capital markets. In this regard, the regulatory authorities must enforce the various regulations on securities. If this is done, both local and foreign investors will feel well protected and freely commit more of their financial resources to the DSE. The regulatory authority must confirm that the appropriate rules and regulations have been taken and the necessary skilled manpower with technical knowledge is available for operating the activities of DSE.

8.3 Strong Surveillance Department

Surveillance Department keeps vigil on securities transactions in stock market. To identify unlawful trading activities, surveillance department will watch and analyse the trading in stock exchange through on-line. In order to ensure proper compliance of securities related laws, surveillance department will conduct investigation and enquiry against involving parties regarding market manipulation, insider trading & other malpractices, if any. The main purpose of the said activities are to ensure fair-trading and build-up confidence of investors in the securities market.

8.4 Listing Fundamentally Sound, Well Reputed Companies

With the improvement of corporate governance, the DSE can attract sound corporates to come to the capital market. The quality scrips provide liquidity and motivation for educated investors to participate in capital market. The listing of large, reputable corporates attracts foreign investments and also increases liquidity to generate interest among other large capitalisation companies to list. However, introduction of new scrips in different sectors provides investors with broader options.

8.5 Provide Fiscal Incentives

If the number of companies on the stock market is to grow, then there is need to provide incentives for firms who may want to be listed on the

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Dhaka Stock Exchange. One such incentive is differential taxation in favour of listed companies. Such an incentive will help increase the number of listed companies on the exchange and improve liquidity of the market. Further privatisation of public enterprises and push for IPOs of large firms, including foreign enterprises with operations in Bangladesh, to increase supply of securities in the market. Institutional investments should be promoted.

8.6 Maintaining Professional Standard for Licensing

Minimum qualification should be maintained while giving license to the market participants. This standard can be set by requirements of professional courses, examinations or continuous professional training.

8.7 Developing Bond Market

The positive effect of developing a domestic bond market on the economy is well known. Government bond market development typically precedes the development of a corporate bond market. Moreover, bond markets are essential for a country to enter a sustained phase of development driven by market-based capital allocation and increased avenues for raising debt capital. To develop and strengthen debt market in DSE, the public debt policy and management including treasury operations, must be integrated into a broader fiscal framework. Expansion and promotional program should be taken into longer-term government bonds and corporate bond markets.

8.8 Demutualisation of Stock Exchanges

To smooth, transparent and efficient operation of stock exchanges, demutualisation is essential for both the DSE and CSE.

8.9 Strong Monitoring System

To be introduced automated monitoring system that may control price manipulation, insider trading and other malpractices of the exchange.

8.10 Introduction of Book Building Method for Price Discovery

It is necessary to introduce the book building method for a scientific price discovery for the forthcoming new listings. It reduces risk of undervaluation and over valuation of a new issue. However, it ensures fair pricing by factoring in demand, likely to encourage listing of large, well reputed companies.

8.11 Establish a Centralised Settlement System

The establishment of a centralized clearing and settlement system sooner than later will substantially improve the present settlement system, reduce time and cut costs at the same time.

8.12 Mount an Intensive Education and Promotion Campaign

The fact that most of the investors on the DSE are small investors and also non professional in investment. The greatest challenge to the DSE is to improve the level of knowledge of the small local investors. A program of continuous education for the investor, the intermediary, the issuer and the regulator is extremely important for the successful development of the Dhaka Stock Exchange. This education campaign should involve the development of financial journalists and improvements in the quality of financial market publications. Financial education should be strengthened in the secondary schools and particularly in the universities. As markets become more sophisticated, there is increasing need for investment advisors and other personnel who are capable of analysing complex financial concepts such as options and other derivatives. Radio and television should be used to reach more people explaining fundamental and technical analysis of financial investments in Dhaka Stock Exchange.

8.13 Central co-ordination of Regulators

The Co-ordination of SEC, DSE, Bangladesh Central Bank and other related bodies would streamline regulatory processes that will reduce time required for quality issuers and new capital products to reach market.

8.14 Flotation of Mutual Funds

The listing of mutual funds provides indirect market access to the retail investors with safer, preventing wealth and capital losses. Flotation of mutual funds reduces dependency on retail investors, allowing institutions to bring commitment and stability to the market.

8.15 Proper Measure to Reduce Insider Trading

Government's recent initiative to upgrade rules relating to the insider trading needs to be completed quickly. Upgradation of this rule should include identification of activities related to insider trading at all levels, and undertaking of quick and stern measures against people involved in insider trading.

8.16 Institutionalisation of the Market

More institutional investors bring long-term commitment and liquidity to the market. Institutional

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investment strategies are fundamental focused rather than speculative. Their longer investment horizons reduce market volatility.

9. CONCLUSIONS

Bangladesh has a small but growing capital market in South Asia. However, the capital market of Bangladesh is still underdeveloped, in spite of recent initiatives. The size of the country's capital market is quite small in relation to world's developed stock markets. Bangladesh capital market is characterised by poor liquidity with high market

concentration mainly due to the excessive dependence of leading corporate entities on the banking sector. Moreover the overall transparency of market transaction is also low compared to international standards and generally there has been slow development for the underlying problems. Mostly the retail investors are guided by rumours and insider trading is practicing in many cases. However, the government is making efforts to develop the reliability and efficiency of stock exchanges as investment market.

APPENDICES

Appendix Table 1: Market size of DSE, 2000-2009

Year	Market Cap (Taka in million)	GDP (Taka in million) at current market Price	Market Cap/ GDP (%)
2000	61262.18	2370860	2.58%
2001	63526.82	2535460	2.51%
2002	68677.28	2732010	2.51%
2003	97442.26	3005800	3.24%
2004	224159.21	3329730	6.73%
2005	228574.85	3707070	6.17%
2006	315446.21	4157280	7.59%
2007	742195.87	4724770	15.71%
2008	1043799.02	5419190	19.26%
2009	1903228.05	6149430	30.95%
Mean			9.73%

Appendix Table 2: Market liquidity of the DSE, 2000 - 2009

Year	GDP (Taka in million) at current market Price	Total value Traded (Taka in million)	Market Cap (Taka in million)	Total Value Traded / Market Cap (%) [Turnover Ratio]	Total Value Traded / GDP (%)
2000	2370860	40364.67	61262.18	65.89	1.70
2001	2535460	39869.29	63526.82	62.76	1.57
2002	2732010	34984.32	68677.28	50.94	1.28
2003	3005800	19152.27	97442.26	19.65	0.64

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2004	3329730	53181.71	224159.21	23.72	1.60
2005	3707070	64864	228574.85	28.38	1.75
2006	4157280	65079	315446.21	20.63	1.57
2007	4724770	322867	742195.87	43.50	6.83
2008	5419190	667965	1043799.02	63.99	12.33
2009	6149430	1475301	1903228.05	77.52	23.99
Descriptive Statistic of Turnover ratio and total value traded / GDP ratio			Mean	45.70	5.33
			Std.Dev	21.52	7.50
			C.V	47.09	140.71
			Minimum	19.65	0.64
			Maximum	77.52	23.99
			Skewness	0.034	2.118
			Kurtosis	-1.727	4.321

Appendix Table 3: Numbers and types of listed securities, 2000-2009

	Year										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total No. of Companies	211	221	230	241	248	237	247	255	266	276	236
Total No. of Mutual Funds	9	10	10	10	11	11	13	13	14	16	19
Total No. of Debentures	12	10	10	9	8	8	8	8	8	8	8
Total No. of Treasury Bonds	0	0	0	0	0	0	18	34	61	111	151
Total No. of Corporate Bonds	0	0	0	0	0	0	0	0	1	1	1
Total No. of Securities Listed	232	241	249	260	267	256	286	310	350	412	415

Appendix Table 4: Market concentration, 2000 – 2009

Year	Market Capitalisation of Large Stocks / Total Marker Capitalisation	Market Concentration (%)
2000	13089.74/61262.18	21.37
2001	12654.49/ 63526.82	19.92
2002	17059.58/68677.28	24.84
2003	25299.51/97442.26	25.97
2004	70301.38 / 224159.21	31.36
2005	68439.88 / 228574.85	29.94
2006	79945.14 / 315446.21	25.34
2007	131937.4 / 742195.87	17.78
2008	182569.5 / 1043799.02	17.49
2009	439875.96 / 1903228.05	23.11
	Mean	23.71

Appendix Table 5: Market concentration largest banking and largest non banking shares within largest five shares group, 2000 – 2009

Year	Market Concentration (%)		No. of Large Shares	
	Banking Shares	Non Banking Shares	Banking Shares	Non Banking Shares
2000	0	21.37	0	5
2001	3.30	16.62	1	4
2002	7.66	17.18	2	3
2003	11.01	14.96	3	2
2004	12.76	18.6	03	02
2005	14.05	15.89	03	02
2006	13.85	11.49	03	02
2007	6.23	11.55	02	03
2008	6.9	10.59	02	03
2009	1.92	21.19	01	04
Total	55.71	89.31	14	16

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