



# A Study on Capital Market of Bangladesh

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## Abstract

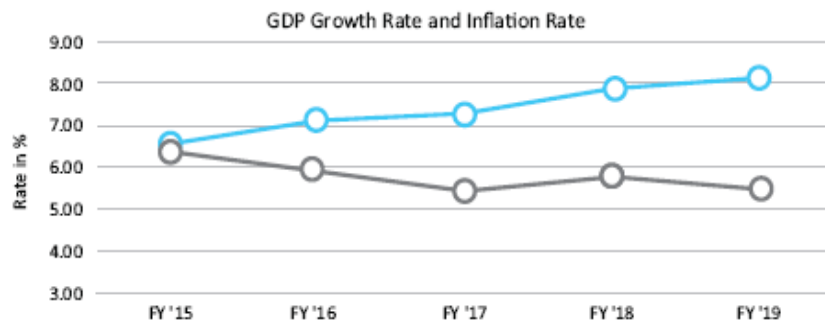
An efficient capital market helps to allocate capital to businesses effectively. Bangladesh's capital market has greatly lost the confidence of its investors due to negative performance in the previous two crucial market falls and the COVID-19 pandemic crisis. The study was conducted to explore the performance of capital market in Bangladesh. The study was descriptive and analytical type. The study was conducted at Dhaka district in Bangladesh. The study was conducted from April 2019 to July 2020. Basically, random sampling method was used in this study. The present study is based on secondary sources of data. Secondary data were collected from different relevant sources. The result of the study revealed that most of the investors of Bangladesh are not skilled. The investors have lack of knowledge and lack of experiences in investing in the capital market. Most of the investors use to motivate by the rumors; they don't want to study the financial statements of the companies where they will invest. In some cases, investors rely on the brokerage house to invest in any companies. From the result it was also found that there were some fraud companies who had no fruitful business history but submitted artificial financial statements and related documents. This type of intentional companies have got the opportunity to come in the capital market with the chance of lack of rigorous scrutinizes by the regulated authorities. Most of the cases that intentional companies showed their business performance for qualifying to able to sell their all shares; then gradually escaped from the market by depriving the general investors. But the irony of fate is that the concerned authorities have failed to stop the gateway or unsuccessful to give punishment or unable to bring back the money of the investors. However, recently present commission of the BSEC is working seriously on these issues. For these reasons capital market of Bangladesh has faced many challenges in its lifetime. From the result it was found that the securities market of Bangladesh was stable before 1996 but not automated and no corporate governance was there. In 1996, there were many bubbles in the capital market, there were many alluring news, false statements, market manipulation, corruptions and illegal interferences were done by the companies 'as well as concern bodies. As a result market was crushed at that time. More specifically, after that capital market has got automation and huge corrective measures have taken by implementing reasonable rules and regulations and the market tried to be behaved properly. To some extent the market became stable before 2010. But in 2010 the growth of the market has shown almost similar behavior as it was in 1996. And there were also many bubbles in the capital market, there were much unrealistic news, misleading statements, manipulation, exploitations and illegal interferences were done by the companies' authorities as well as the related concern. For cooling the extreme bubble SEC of that time rightly pointed out to increase the supply of profitable government shares but was not possible due to bureaucratic failure and ultimately failed to address the issue at that time. As a result market was once again crushed at the last month of 2010. Many investors lost their investment and turn into bankrupt and many became mad. After the down in 2010, many positive decisions have been taken by the concerned authorities related to capital market. Specifically, in 2020, the recent authority of Bangladesh Securities Exchange Commission has taken significant and very potential initiatives which were needed to change the attitude and the confidence of the investors of Bangladesh capital market. The Bangladesh Securities Exchange Commission is strictly obeying the prevailing rules and regulations regarding capital market. As a matter of fact, Bangladesh Securities and Exchange Commission has a significant role in bringing back the investor's confidence in the development of the capital market of Bangladesh.

**Key Words:** *Capital Market, Share, Companies, Index, Financial statement, Earning, Dividend, Market Capitalization, Fund, Price*

## INTRODUCTION

The economy of Bangladesh has observed balanced growth in the preceding decade, with the country's yearly gross domestic product (GDP) growth rate at nearby 6%. It is anticipated to rise by 7% on an average till 2033, conferring to a prediction by the Center for Economics and Business Research (CEBR). By means of a growing per capita income and a rising middle-class population, there has also been an outstanding rise

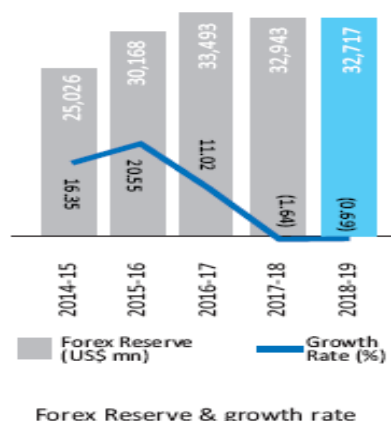
in domestic consumer demand. It can be said that this is an encouraging economic indication; an improved domestic consumption reveals a optimistic protection of the country’s economy from global blasts. The government of Bangladesh has been positive in the country’s advancement, for instance the evident from amplified government investments in numerous actions in the field of infrastructure namely the Padma Bridge, Metro Rail, Karnaphuli Tunnel, regional Asian high way as well as the “Belt and Road” project.



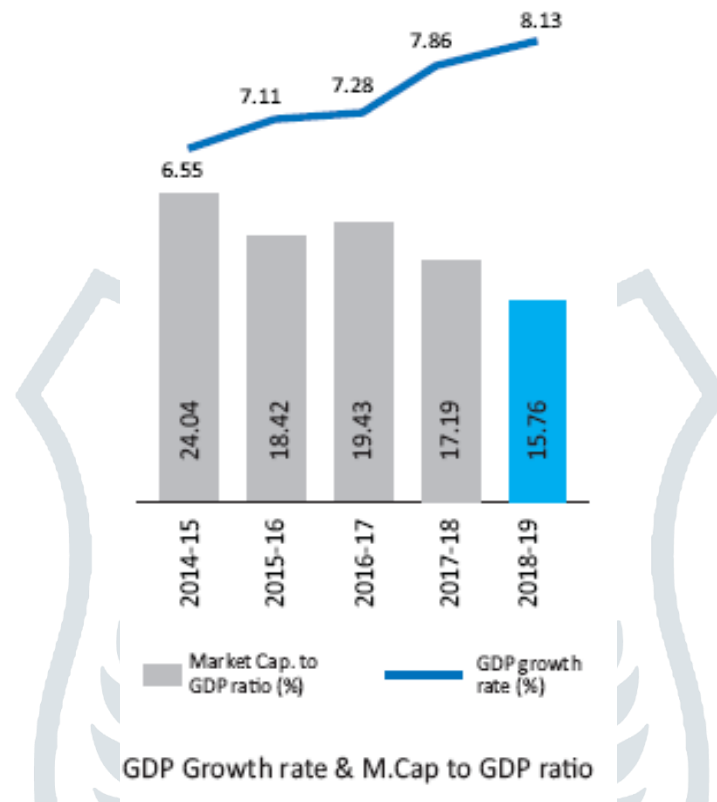
Bangladesh has been able to carry on her economic progress and high growth trend even if there are numerous national and international difficulties. As per to the provisional estimation of Bangladesh Bureau of Statistics (BBS), GDP growth for FY2018-19 reached 8.13%. Rather, as per to final estimation in FY2017-18, the country’s GDP growth rate was 7.86%. In FY2018-19 per capita income raises US\$152 compared to the preceding fiscal year and rises at US\$1,827. Similarly, per capita national income improved to US\$1,909 in FY2018-19 from US\$1,751 in previous fiscal year. The export earnings of Bangladesh increased at US\$ 30.90 billion throughout July-March of FY2018-19, which is 12.57% greater than the export earnings during similar period of former fiscal year. Bangladesh will stick out by increasing at best ever high GDP growth at 8% in 2019 and 2020 - making it the quick emergent economy in Asia-Pacific area. This will occur at a time when the global economic outlook remains puzzling, and GDP growth 5.7% in 2019 and 5.6% in 2020 is predictable to moderate through most of emerging in Asia.

Bangladesh’s market-based economy of is one of the rapid rising economies in the world. Driven by robust private consumption, public investment, remittance inflows and the economy of Bangladesh extended by a notable 7.86% to touch at USD 275.8 billion in FY2017-18, recording the peak GDP growth rate in the country’s history. Price water house Coopers, in its global economic forecast for 2050, estimations that Bangladesh has possibility to become the world’s 28th biggest economy by 2030 - exceeding countries compare to Australia, Spain, South Africa and Malaysia in terms of economic growth. In 2019, Bangladesh has been placed 41st amongst the world's leading economies shifting up two notches from preceding year's position. The Global Economist Forum (GEF), a distinct consultative prominence development and policy organization of the United Nations Economic and Social Council (ECOSOC), has believed the Bangladesh economy will delight one of the cheeriest years in 2019 in respect to economic liberty, attaining above 7.5% GDP growth.

Jonathan Garber, who is the market editor at Business Insider, penned an article inscribing Bangladesh as a “New Asian Tiger”. The article emphasized the strong point of Bangladesh in continuing a high GDP growth rate, over 6%, which is for more than a decade. Furthermore, political stability, steady macroeconomic performance and geopolitical backing were highlighted among the affirmative confounding aspects of the country. An economist at the South Asia Institute of the University of Heidelberg, who is Wolfgang- Peter Zingel, expressed about Bangladesh "The country is a prime example of successful development policy and is indeed far better off than it was a decade ago".



World Bank reported that females labour force contribution in Bangladesh is 36% higher than the South Asian average of 35%. Bangladesh is forward of India, where females account for 27% of the total labour force, and Pakistan, where the woman labour force contribution rate is 25%. Specialists say that if Bangladesh stays on the path, woman workforce will raise from the current 36% to 82% over the next decade, adding 1.8% to GDP growth every year. School dropout rate has considerably decreased. Government of Bangladesh has broadened the social safety net. Poverty rate is also on the drop. Padma Bridge is projected to open shortly connecting mass people of southern region. Why the experts are saying so positive there must have some reasons. Bangladesh is in improved position than its neighbors in regard to child mortality, birth control, child literacy and life expectancy.



### Major Sectors of the Country

In consideration of making Bangladesh self-dependent in food, agriculture has been specified the utmost importance. The government is demanding honestly for emerging agriculture sector conforming to 7th five year plan, National Agriculture Policy and SDG. In addition to generating jobs in the country, the government has well-thought-out industrial development as a more vital segment to speed up maintainable economic development. In keeping with the preliminary estimate of BBS, in FY2018-19 the involvement of industry sector to GDP is 35.14%. It needs to say that State-Owned Enterprises (SOEs) show a central role in national production, value addition, employment generation in addition to revenue earning. The involvement of SOEs is very significant specially in power and energy, transport, communication and service sector.

At this moment in time 93% people of the country is receiving electricity properly. End of FY 2018-19 the overall connected electricity generation capacity raised at 18,079 MW, which is 21,169 MW together with the capacity of captive and renewable energy. Up to February 2019, the entire measurement of road in the country is 21,569 km. Moreover, Padma Bridge, Dhaka Elevated Express way and some other mega-projects are being executed by Bridges Division. Communication from side to side rail and sea is also improving its height. The government is functioning for the whole development of investment situation in order to intensification domestic and foreign investment which concern to development undertakings. At this moment, the government is initiating various development schemes involving Public-Private Partnership (PPP) model together with individual schemes under government and private funding. Additionally, a comprehensive work plan has been framed with a view to attaining environmental goals of SDG's.

## OBJECTIVES OF THE STUDY

The objectives of the Study are as follows:

1. To evaluate the Capital Market of Bangladesh.
2. To find out the Barriers of Bangladesh Capital Market Development
3. To provide policy recommendations.

## METHODOLOGY OF THE STUDY

The study was descriptive and analytical type. This was also a documentary analysis type study. The study was conducted at Dhaka district in Bangladesh. The study was conducted from April 2019 to July 2020. The present study was based on secondary information and data. Secondary information and data were collected from different relevant publications, dissertations, books, journal articles, reports and website of Dhaka Stock Exchange and website of Bangladesh Securities and Exchange Commission and annual reports of DSE and BSEC and internet etc.

## RESULTS AND DISCUSSION

### Capital Market of Bangladesh

Like the development events of the country capital market plays the significant role. For the reason that in a high-tech digitized economy solid existence of capital market is an essential. It collects the domestic savings to mobilize and make available capital for productive growth-related ventures and businesses. In light of the absence of such a system, most businesses would certainly not be able to develop after a certain stage and would flop for lack of capitals and consequently progress and development of the country's economy would be surely obstructed.

Dhaka Stock Exchange has enhanced its advance initiative with the handy connotation of its strategic partners with an understanding to involving further to the national economy. Small as well as Medium Size enterprises (SMEs) are acknowledged as being vital contributors to economic development and expansion. DSE actually rely on that SME sector is dynamic to the Bangladesh's economy and SME are the heart of employment, innovation and entrepreneurial essence. It is normally established, but; that in absence of entrance to funding is a dominant obstruction to the development of SMEs, as bank is single main source of their funding. Considerably of the latest study and the policy consideration consequently concentrated on discovery ways to both enhanced entrance to bank funding and on improved access to substitute sources of supporting for instance capital market funding. On account of a lift of the economic growth of Bangladesh, DSE wishes to generate an enthusiastic platform where SME will become an opportunity to increase fund, develop corporate governance and uphold their amenities and products. It is the fund growing initiatives to lessen liability burden, improve corporate profile, generate optimal value for SMEs and appeal to quality aptitude.

On 30 April, 2019 the long-awaited "DSE-SME" platform was officially inaugurated by Mr. A H M Mustafa Kamal, Finance Minister, FCA, MP in presence of Dr. Khairul Hossain, BSEC Chairman at Pan Pacific Sonargaon Hotel in Dhaka. During this period of time DSE has stood itself at the peak of attention of the international institutions and exchanges. It has established a handy connection with Stock Exchanges of India, Singapore, Turkey, Malaysia, Thailand and Philippines. It is surely inspirational to finding out alternate proceeds streams for DSE through the exceptional contract with Bloomberg and globally acclaimed data vendors in improving productivity of a profit oriented association. In the meantime, Dhaka Stock Exchange completed note worthy advancement in the development of SME in addition to ATB trading platforms introduction of Scrip Netting facility, appointment of Market Maker, introduction of new asset classes similar to ETF and Bonds etc. Dhaka Stock Exchange is truly using the accumulated knowledge, technical expertise of the strategic investors. It needs to discuss that in the improvement of bonds and asset-backed securities (ABS) and index-based products in designing, promoting and showcasing Bangladeshi indices in China, DSE business development team has been working with the strategic partners, the new window has opened. They are working to promote bond, Exchange Traded Fund (ETF) side by side other funds tracking Bangladesh indices. Moreover, they are also working to introduce a derivatives market at the DSE.



In line with the offer of the SZSE consortium to mutually operate the V-Next Alliance program in Bangladesh, DSE's business team is working to match capital necessities of ambitious growing companies in Bangladesh and China. The ultimate vision is to construct an ecosystem between the two countries to participate financial intermediary services, institutional investors with projects.

The V-next has accomplished amazing achievement in China, with over 11,000 institutional competent investors registered and in excess of a 20% success rate in equivalent projects to meet capital necessities. In respect to statistics disclosure and investor relation service automation framework, SZSE in link with DSE is functioning to map statistics disclosure process for issuers at DSE, and is sharing knowledge in designing an electronic statistics disclosure system. SZSE recognizes that both Bangladeshi and Chinese capital markets are influenced by retail investors. A healthy investor relationships management platform proposing combined corporate information, simple analytical tools, online complaint and interactive Q&A services is essential to develop transparency and corporate governance. HR development, operating excellence and technological support are the finest means to develop. SZSE is similarly working on training programs on a complete range of disciplines. They are planning training programs to expand the technical capability of DSE employees, in specific in technology. In fact the consortium has state-of-the-art technology systems and industry-leading technical workforces. The consortium delight in entrance to the world's cutting edge stock exchange-based technology systems, and is observing onward to allocation these competencies with DSE to support transform its technological infrastructure as incorporated the better quality suggestions of strategic investors.

## Past & Present Situation of Bangladesh Capital Market

Figure 1: GDP Annual Growth Rate of Bangladesh (2008-2018)



From 1994 until 2018, over the last 25 years, the economy of Bangladesh has persistent an average GDP growth rate of 5.84%. Particularly, in 2018, GDP growth rate broke all the previous records by attainment 7.90% which is the maximum GDP growth rate till nowadays. In 2019, in the start of this year, while addressing a temporary estimation, AHM Mustafa Kamal, Finance Minister told, "Bangladesh's economy has grown 8.13 per cent this fiscal year, the highest in its history" (Daily Star, 2019, March 19); which signifies a growing tendency in Bangladesh's economy.

Beside by means of vigorous changes within the sectorial productivities, regularly towards the role of the private sector to progress in investment. Banking sector, is one of the drivers of the private sector role to investment has been the outstanding growth of Bangladesh. Although brokerage firms besides merchant banks generally characterize the non-banking financial institution (NBFI) sector of the economy, in addition to, there are many other banks which have sister-concern brokerage firms or merchant banks. On the other hand, despite all the development and expansion of the banking sector, the NBFI sector, mostly the capital markets, have lagged behind. In particular, in spite of the fact that stock exchanges of Bangladesh were officially inaugurated as initially as 1954, there has not been perceived any major action till 1990s in the markets. Up to that time, average turnover, market capitalization and the number of equities traded within DSE side by side CSE stayed noticeably lower the indicators for regional counterparts.

It can be presumed that capital market is similar to a roller coaster trip. Generally, Boom and Burst are the integral part of capital market. All booms finishes with a burst. There are a noticeable numbers of “Boom and Burst “instance in the history; like Great depression (1920s boom and 1930s burst), Black Monday (1987), Dot Com Bubble (1995-2001) etc. For that reason, because of insufficient controlling environment, outdated market regulations, weak institutional configuration and scanty governance, the capital market of Bangladesh faced the starting boom and burst in 1996-1997. Due to this, investors were harshly affected for the boom and burst which creates distant from the market for a long time. Nevertheless, the boom and burst initiated various effective improvements as well; such as the introduction of electronic trading in August 1998, the induction of the Central Depository Bangladesh Ltd (CDBL) as a public limited company in August 2000 and the founding of the Central Depository System (CDS) as independent company in January 2004.

In fact, in 2007, within the consequences of the most significant IPO at the time, that of Grameenphone Ltd., the market began to mounting a peak of a severe boom in 2010. With the general index, DGEN, at that time, posting a 92% year over year return, DSE was the second-highest healthy-performing market all over the world. From December 8, 2010, yet the boom was temporary and the market happening to go down beginning a lengthy chapter of slimming down.

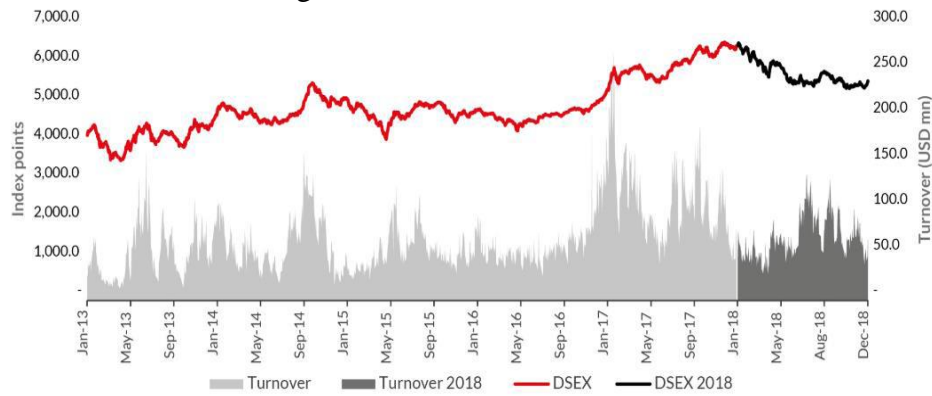
Particularly, in 2012, after the “Stock market crash of 2010” episode, BSEC organized a state of art surveillance system to identify manipulative activities in the market. DSE introduced DSE 30 Index (“DS30”), DSE Broad Index (“DSEX”) and the DSE Shariah Index (“DSES”) on January 28, 2013. S&P Dow-Jones generated and developed DSEX and DS30. The Exchange Demutualization Act 2013 was approved by the Bangladesh Parliament on April 29, 2013.

Moreover, to resolve the claims of the investors, related to 2010 incident, a board of retired High Court Judges was created. Surveillance software was installed via scrutiny of transactions for supervision accountability and transparency of the market. Furthermore, the Securities and Exchanges Commission Act 1990 and Securities and Exchange Ordinance 1969 had been altered. Although there were certain primary delays, yet the “Demutualization Act” and “Banking Control Act (BCA)” was submitted to Parliament and also acquired approval. Thus the demutualization of DSE and CSE has been finalized. In early 2014, the Government constructed a special tribunal for speedy clearance of causes connected to the capital market.

More evidently, new Public Issue Rule has been established to confirm more disclosure and better price discovery procedure in 2015. Specially, the “Financial Reporting Act” which incorporates provisions for establishment of “An Independent Financial Reporting Council “ received approval by Parliament in September 2015. Additionally, in 2015, the daily life and business events of people of Bangladesh were significantly slowed down because of political unrest and obstructions. In that situation, Government initiated various conclusive steps, like, lessening of corporate taxation for listed companies and alteration of revised regulations for new stocks and mutual fund issuance. In the meantime, the fall of short and long term interest was another important instance in 2015. Obviously, the issuance of stocks of large MNCs or large local companies is a contributing factor of the performance of fledgling capital markets. By the way, there are 13 MNCs are listed on DSE, for example, Grameenphone, Lafarge Surma Cement, British American Tobacco etc. Though, the number of listed MNCs is not adequate for our capital market.

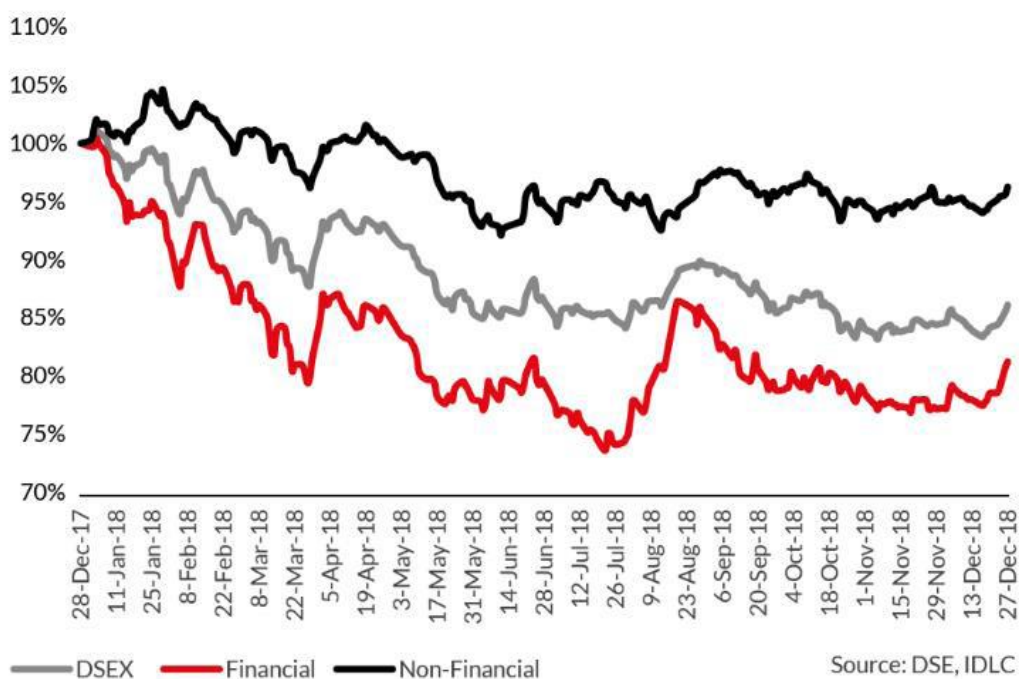
In fact, the year, 2018 was a challenging year for Bangladesh Capital Market. In 2018, broad index DSEX drooped by 13.8%, just after achieving a 24% stellar profit of 2017. Off course, this caused a wiping out of US\$ 4.3 billion worth market capitalization. Surprisingly, Average daily turnover was US\$65.6 million, decreased by 37% than that in 2017.

Figure 2: DSEX vs. Turnover



Furthermore, in 2018, increasing rate of interest and emerging NPL matters troubled financial sector by leading the stock exchange performance. Moreover, performance of NBFI, Bank, and Insurance showed failed by 18.6%, while total market performance drooped by of 13.8%.

Figure 3: Capital Market Performance in 2018



Source: DSE, IDLC

Side by side, a trend of ups and downs in market capitalization has been perceived in 2018. Significant sector, like Bank, NBFI, Telecommunication and Pharmaceuticals met a substantial decrease in their market capitalization.

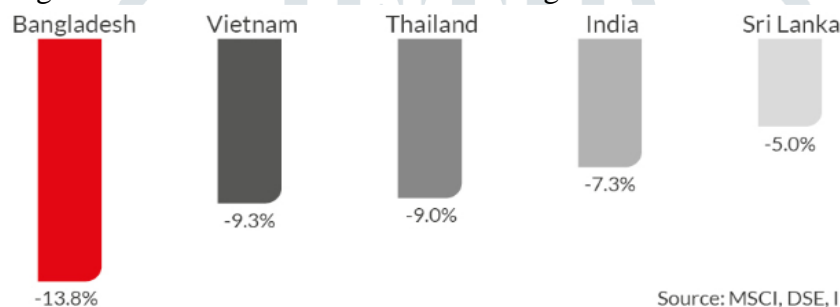
Table 1: Changes in Market Capitalization in 2018

SECTORS	CHANGE IN MCAP (YOY)
Cement	-26.4%
NBFI	-23.0%
Bank	-21.8%
Telecommunication	-21.7%
Engineering	-8.1%
Pharmaceuticals	-6.4%
Food & Allied	-1.9%
Fuel & Power	15.3%
Textile	15.9%
Insurance	17.1%

Source: IDLC

Beside this, in 2018 amongst the peer countries in this region such as India, Thailand etc., Bangladesh had the poorest market performance.

Figure 4: Market Performance Rate among the Peer Countries in 2018



Source: MSCI, DSE, IDLC

More evidently, in 2018, Interest rate climb played a dynamic role in the market performance. In this year, interest rate unexpectedly heightened up after several years. In 2018, current account shortfall of Bangladesh upraised to US\$ 9.8 billion which was the uppermost in the history. Foreign fund managers narrowed their exposure from Bangladesh capital market of Bangladesh due to currency devaluing. Particularly, large caps became exaggerated the foremost by this and confronted a lessening in index with them. Moreover, profitability of many companies was conjointly affected by the swelling price of imported raw materials. In addition to, Banking sector NPL touched at 11.5% in 2018. Amongst the peer countries, NPL in Bangladesh was the maximum in 2018.

Figure 5: NPL Ratio of Bangladesh & Peer Countries



Source: Bangladesh Bank, theglobaleconomy.com

It is true to say that political Environment has continuously an impact on Bangladesh capital market. Investors and market participants converted so cautious during the time of election in 2018. Yet, this time the political environment was quieter than preceding elections. Year 2018, Some major developments in Bangladesh Capital Market has shown, for instance, Strategic Partnership between Dhaka Stock Exchange and Chinese Consortium, Regulatory developments etc.



## Barriers of Bangladesh Capital Market Development

More specifically, from the previous and present condition of Bangladesh Capital Market, it can be identified some hurdles that disturb capital market development; a number of them are discussed below:

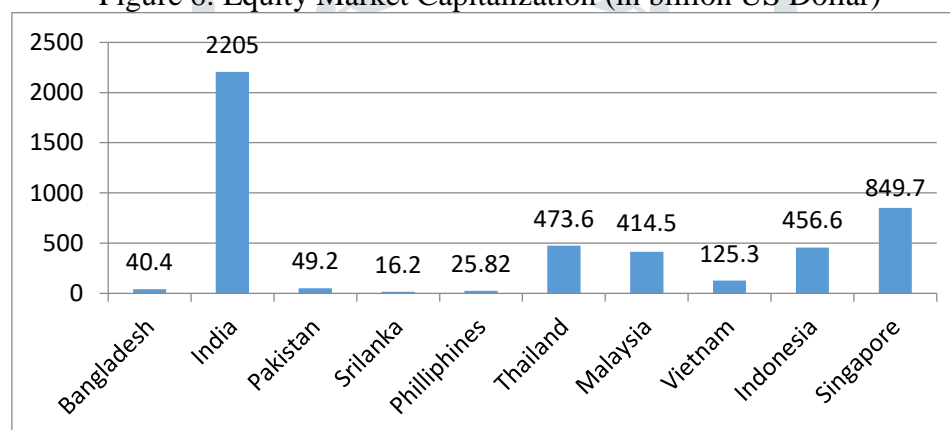
**Insufficient Surveillance System:** In the trading system of DSE and CSE the surveillance systems and standards are not up to the mark. It can ensure good governance by effective and well-organized technical infrastructure. For discovery market problems both BSEC and DSE or CSE do not have adequate actual technical arrangement to support them. In market surveillance, information collecting and scrutinizing the employees of DSE as well as CSE have absence of understanding. Moreover, the BSEC does not have fairly suitable system to detect the surveillance system of DSE or CSE.

**Lack of Quantitative and Qualitative Research:** In fact, BSEC or DSE both do not operates quantitative or qualitative research based activities. Generally, this is essential for the stakeholders or investors to deal with the recent market condition.

**Unsteady and Insufficient Liquidity:** Particularly, liquidity means the readiness of liquid resources in the market to transact securities. It can be noticed that, from the capital market picture of Bangladesh, liquidity is fairly unsteady and insufficient. This is also an obstacle to capital market improvement.

**Inadequate Market Size:** More specifically, in Bangladesh, capital market size is relatively insignificant. As a result, this hinders the development of capital market of Bangladesh. It can be seen from the graphical presentation the scope of capital market comparative to GDP is on the minor side.

Figure 6: Equity Market Capitalization (in billion US Dollar)



**Deficiency of Quality Securities:** The quality of the number of the traded securities is reasonably restricted and these securities have an unnatural growing within the liquidity and capitalization of the stock exchanges. Because of absence of quality equity issues, investors have controlled investment choices. More evidently, higher listing cost, extravagant pricing mechanism side by side insufficient corporate governance are the problems to growing the number of new listings. Additionally, the disparity between supply and demand is another reason of absence of quality securities.

**Knowledge deficiency of the Investors:** Shortage of knowledge of the investors about the capital market is additional difficulty in the path of capital market improvement. In fact, by means of maximum of the investors do mistake through taking decisions based on rumor plus securities market is not about betting, hence investor must take investment decision based on a massive number of knowledge about the market. Rightly, they must take suggestions from portfolio managers while involving in the market.

**Delayed in Settlement:** Occasionally investors have to delay for a long time to get done with all the financial settlements. Consequently, the money becomes blocked for a relatively a lengthy time.

**Wrongdoings of the Companies:** More specifically, there are quite number of companies that do not arrange Annual General Meeting (AGM) on a regular basis to declare dividends. Generally, this wrongdoing

makes misunderstanding about the financial state of the companies amongst the shareholders. Thus, this is a strong sign of poor governance of the companies.

**Manipulation:** More particularly, for the reason that of market manipulations, misrepresentation of price and making of deceased bulk losses occur. In fact, this kind of manipulations frequently occurs in such way that cannot be noticed easily. Mainly, this problem hampers capital market improvement. From time to time the stock price of certain companies has been elevated so speedily which hinders stock exchanges operation.

**Imbalance Information:** There are various constraints for the investors in relations of accessibility to trustworthy information of the capital market. Ultimately, they have a tendency to take brokers' assistance as well as most of the time those assistances like advices are constructed on rumors.

**Lack of Portfolio Management Professionals:** In fact, in Bangladesh, the number of professional portfolio managers is fairly lesser than the number of the investors. For that reason, capital market growth has a sluggish pace at this time.

Finally, it can be observed that these are various limited obstructions that hamper the improvement of Bangladesh Capital Market.

### Reasons of the Capital Market Crisis

#### Liquidity Crisis

The main reason for the fall in share prices is the liquidity crisis. Most evidently the capital market has been fund-hungry from the time when its collapse in December 2010. Lack of fund is the cause aimed at climbing call money rate. This crisis is also an apparent from the current scramble for alluring savers by some banks by hiking interest rates on savings. Greatest number of fund is now invested in government bonds. Bangladesh Bank will have to go for an expansionary monetary policy if it desires to solve the liquidity crisis.

#### Forceful Profit Captivating from Selective Stock

From 2007 to 2010 a significant number of banks that had made substantial profits from the capital market, after that the market do not have enough funds to invest in stocks. More specifically, the market would have become a genuine boost had all the banks injected fresh funds worth Tk. 3.0 billion to Tk. 4.0 billion respectively. But then again under the given situations, a good number of banks would discover it tough to do that. Furthermore, in the meantime a major turnaround of the market could take some years a lot of banks right at the moment cannot have enough money for investing in stocks.

#### Alluring FDR Rate by Financial Institutes

In fact, Bangladesh capital market is still not enough broad and deep. Recent and potential issuers do not usage the full prospective of the market for rising equity capital by issuing shares and borrowing funds by issuing corporate bonds. Likewise, people with depositing are feel painful in investing in Bangladesh capital market mechanisms. Relatively they feel more relaxed in upholding their savings with banks as FDRs and Savings Certificates. For instance, Lanka Bangla Finance Limited is offering 14% FDR rate at present. The saving rate of bank has climbed to 8.17 percent in April, 2012. There are high volatility and erosion in portfolios, so investors' confidence is very low. Maximum investors mainly the pension holders and retired people are feeling it as the safer policy to deposit their money in banks as Fixed Deposit Receipts (FDR) to gain the benefit of such attractive rate which is eventually causing in a flow away of capital from the share market.

#### Repeated Modifications in Policy and Directives

More evidently, the 'fruitless' procedures taken in the name of market stabilization have eventually generated price distortion in the market without holding the failing movement. The BSEC also produced price distortion in the market by delivering the directive of individually holding minimum 2 % shares by the sponsor-directors of the listed companies. The securities controller did not contemplate of the consequences of the directive. The SEC believed that a demand will be generated in the market resulting compulsory purchase of shares by sponsor-directors. The market was frequently affected because of hearing of the writ petitions, filed against the BSEC's directive. More specifically, the market certainly not got back its power

of natural movement owing to disturbances made by different stakeholders or the securities regulator itself. Ultimately, the situation restraining bank's exposure to the capital market and lessening of margin loan ratio may have also exaggerated the investors' sentimentality.

### **Merchant Banks' Action**

Generally, merchant banks offer margin loan to its clients. A number of merchant banks offer 1:1 loan of the equity of a client. For example, if an investor has Tk. 1 lac he will receive another Tk. 1 lac and in total he will be capable to invest Tk. 2 lac. In fact, for margin loan he has to pay interest to that bank. Additionally, merchant banks have to observe the margin ratio of their clients all the time. Particularly, every bank has its own margin ration yardstick and its own strategy to call margin from the clients. In the mean the time, when market was decreasing and decreasing, clients' margin ratio decreased and decreased. Consequently, at one time banks enforced their clients to sell their shares to avoid loss of banks money. Due to this there was extra selling force and that influenced the market to drived ownward more. After the new directive, already effective, an individual will get a loan of Tk. 50 compared to his investment of Tk. 100 in securities. In fact, the BSEC wanted to fix the margin loan ratio by accepting the merchant banks' suggestions and the ADB condition.

### **Lack of Confidence and knowledge of Small Investor**

This study provides top standing on this matter as a cause of market dilemma. Maximum numbers of the investors of our capital market are small investors. Moreover, it has been seen that, many of them have no appropriate understanding about the market. Their wishes are they will just buy a share to get profit after 3 days when the shares became matured. Unfortunately, how and why they were thought to get a profit they didn't know well. Therefore when market went weakening the investors were thought to wait and not to sell in loss. However, when they got nerves and sold off their share in loss even. Accordingly this approach continued the market to go in bearish condition. Because of investors' usual absence of self-reliance, risk dislike, encashment approach, and hesitancy to make fresh exposure has caused the market to collapse. Subsequent deprived half-yearly earnings by a number of financial organizations have upset their confidence further. Nonetheless the liquidity condition remains fortunate, because of valuation concerns the investors are a bit anxious to step up their investments.

### **Passiveness of the Institutional Investors'**

In fact, institutional Buyers like Mutual Funds, Merchant Banks etc. confirm stability in capital market through responding allowing to the dealings between demand and supply. However in recent past they totally did the opposite by way of when there was massive sales pressure in the market in its place of buying, they also sold shares in a huge scale consequential additional drop. Moreover, mutual funds are not playing their due starring role in the capital market, which if they played would boost the development of capital market.

### **Manipulation and Speculation, Rumors**

It is true to say that a market rumor is an untrustworthy report that has the prospective of touching the capital market. Evil rumors can guide to a loss of self-confidence in our markets. That loss of self-confidence can guide to fear selling which may be more worsened by "naked" short selling. Consequently, the prices of securities may exaggeratedly and unreasonably drop well below the price level that would have caused from the normal price discovery procedure. Additionally, media, broker houses, the dishonored members of BSEC and different gamblers spreads these rumors for their wicked purpose. Sometimes there was incorrectly prepared speculation and manipulation too. Let's for example, Eastern Housing Co. (EHL) had a price of Tk. 600 once upon a time. Just after one month it had price Tk.1000 and there was robust speculation that it would go to Tk.2000 effortlessly. As a result the investors who bought at 600-700 taka level didn't off load EHL. In this case they believed that speculation. Then ultimately that didn't occur. In Addition to that there was an example of manipulation too. A share had a price of Tk. 40 only. In a year this price rose up to Tk. 2000 which suppose that one share gave extreme 4900% gain in a single year. In fact, it has been observed that the share values of various profitable companies have been amplified fictitiously some times in such a way that hinders the market steadiness (Chowdhury, 29.5.2013)

### **Inappropriate Financial Statement**

More evidently, many listed companies of DSE do not emphasis actual situation of the company side by side some audit firms involve in dishonesty while making financial statements. So the shareholders and

investors do not have any correct knowledge about the position of that company. Moreover, some companies do not hold Annual General Meeting and ultimately declare no dividends that do not reveal the real or genuine financial positions of the company and eventually shareholders converted into confusion.

### **Substandard Corporate Governance**

In Bangladesh capital market corporate governance of international standard is still missing. In fact, multinational corporations and organizations working in Bangladesh frequently follow to a very high international standard compliance regime. Holding companies of most of these corporations and organizations have their scrapings listed in developed markets. Without the local market follows to, and efficiently imposes, a standard corporate governance system, there will not be a level-playing ground for international business houses vis-à-vis local operators. Truly, there is very unfortunate corporate governance in the capital market of Bangladesh so indices of this market are a vital reason of latest debacle.

### **Absence of Coordination among Different Financial Markets**

Finally, absence of coordination among different financial markets as well as debt market, equity market and bond market are considered as a main weakness for maintainable development of the capital market. Different decisions or indecisions of various market regulatory bodies have repeatedly contributed towards substantial variation in the market. Generally, absence of appropriate coordination between two major regulatory bodies of the financial sector, namely the Bangladesh Bank and BSEC are reflected to have contributed to the irregular activities of the capital market.

## **CONCLUSION AND RECOMMENDATIONS**

To create sustainable and comprehensive economic growth, a sound managed and energetic capital market is of massive significance for a country like Bangladesh. Generally, banks have been playing major role of financing long term capital intensive projects in our country, which should have been supported through capital market. Admittedly, this demand can be seen through issuance of some of financial devices similar to Sukuk bonds, debentures and derivative devices. Justifiably, capital market requires playing dynamic role to draw funds both from home and abroad, to upgrade the position of the country from lower middle income to higher middle income country. Ultimately, to do this, capital market additionally requires familiarizing with ongoing financial devices presented effectively by other countries and equipped for forthcoming devices will be familiarized in the international market. In 2018 the BSEC accepted DSE's offer for selling its 25% stake to the Chinese consortium of Shenzhen Stock Exchange (SZSE) and the Shanghai Stock Exchange (SSE) equivalent to 450,944,125 ordinary shares of DSE at Tk. 21 each with a view to partner with the bourse were incorporated in the market. As a consequence, the market began to develop in positive pace. Actually, Covid-19 has created an impression upon the capital market everywhere of the world; nevertheless the essence of the market will get back its place for contributing the industrialization and for the economic development of the country. Therefore, it can be concluded that after taking above steps the securities settlement policy of the capital market has got fresh momentum and the confidence of the investors in the capital market of Bangladesh has increased and well-built than that of any time of the country.

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