



**CAPITAL MARKET DEVELOPMENT IN BANGLADESH– A STUDY ON
CHITTAGONG STOCK EXCHANGE**

M. H. Uddin¹, F. E. Moula², M. O. Faruque³ and M. K. Uddin^{4*}

¹Department of Finance and Banking, Patuakhali Science and Technology University, Patuakhali, Bangladesh.

²Department of Sociology, University of Chittagong, Chittagong, Bangladesh.

³Department of Finance, Jogonath University, Dhaka, Bangladesh.

⁴Department of Management Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur, Bangladesh.

Received 26 April 2012, revised 25 February 2013, accepted 25 February 2013

ABSTRACT

Financial markets are absolutely vital for the proper functioning of capitalistic economy, since they serve to channel funds from surplus saving units to deficit saving units. They play an important role by channeling the funds to those who can make the proper and productive uses of the same. The financial markets permit both business and government to raise the needed funds by selling securities. Simultaneously, the surplus units of the economy are able to invest and earn and return, financial markets include primary markets where new securities are sold and secondary markets where existing securities are traded. Primary markets involve investment bankers who are specialized in selling new securities. Secondary markets consist of equity markets, bond markets and derivative markets. Investors in Bangladesh became increasingly interested in equity markets, bond markets and derivative markets. Investors in Bangladesh became increasingly interested in equity markets because many entrepreneurs look for requirements from the equity markets for many reasons. In this connection Chittagong Stock Exchange (CSE) play an integral role in the pace of the industrialization of the country.

Key words: CSE, market development, primary markets

INTRODUCTION

To achieve the desired objective for growth and prosperity the world economy has always been changing to integrate itself in the parts of the world. Both developed and underdeveloped countries are supposed to move the wheel of socioeconomic development by making resources to facilitate the economic growth through appropriate allocation of the same. In Bangladesh the idle money is not properly channelized due to some non availability of investment arena with a safe return of both principal and interest thereof. Most of the potential entrepreneurs often gather in the capital markets to meet the capital requirements (Khurshid 1992 and Hoque 1992). The surplus units of the society are not supposed to invest their money. So, they are often ready to supply their money to purchase securities from the capital market. As result stock exchange plays a crucial role to mobilize capital for the development of a capital market. As a result stock exchange plays a crucial role to mobilize capital for the development of a capital market. Dhaka Stock Exchange (DSE), the frontline organization for the

securities market development of Bangladesh, was incorporated on 28th April, 1954 as the East Pakistan Stock Exchange Association Limited which started formal trading in 1965 at Narayngonj. Subsequently, in 1962, it was renamed as Dhaka Stock Exchange Ltd. after the shiftiness of Dhaka in 1958. Dhaka Stock Exchange Ltd. (DSE) suspended its trading and all administrative activities in 1971. After independence of the country its trading was restarted in 1971 with the changes in government policies with nine listed companies. Gradually the securities market in Bangladesh has been developing and another securities market The Chittagong Stock Exchange (CSE) began its journey in 10th October of 1995 from Chittagong City through the cry-out trading system with the promise to create a state-of-the art bourse in the country. Now both the markets are automatically operated (Rahman 1992 and Loeb 1983).

After opening of the market to the foreign investors in 1992 the trading has been increasing day by day (Islam 1996). Foreign investors are encouraged because it has found that without substantial foreign

**Corresponding author: M. K. Uddin, Department of Management Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur, Bangladesh, e-mail: kutubhstu@yahoo.com, Cell: +8801713163349*

investment, domestic private investment would be inadequate to achieve economic development. The Chittagong Stock Exchange believes that a dynamic, automated, transparent stock exchange is needed in Bangladesh. It works towards an effective, efficient and transparent market of international standard to serve and invest in Bangladesh in order to facilitate the competent entrepreneurs to raise capital and accelerate industrial growth for overall benefit of the economy and keep pace with the global advancements (Alam and Jahan 1996). The study attempts to evaluate and examine the performance of Chittagong Stock Exchange in terms of securities analysis and market capitalization. Its specific objectives are: i) to evaluate the growth of companies as well as securities listed with CSE during the period from 2000 to 2012, ii) to examine and evaluate the issued capital and market capitalization of the securities during the period of study, iii) to identify the problems of CSE, iv) to make suggestions to improve the functioning of CSE.

MATERIALS AND METHODS

The present study is basically based on secondary data. Web Pages of Chittagong Stock Exchange Ltd., Annual Reports and Monthly Reviews of Chittagong Stock Exchange Ltd., Annual Reports of Securities and Exchange Commission, Investment Corporation of Bangladesh are the main sources of secondary data. In addition, capital market reports, Resumes of the Activities of Financial Institutions of Bangladesh, Annual Reports and other necessary papers of the listed companies of CSE and other related organizations are also viewed and analyzed for the sake of making a fruitful analysis. The study covers from 2000 to 2012.

RESULTS AND DISCUSSION

The importance of secondary market in Bangladesh is gradually increasing as the rate of savings and investment in the country has been increasing. Besides, the activities of CSE have been increased due to participation of foreign investors in the securities markets.

Analysis of listed securities: Shortly speaking, a security may be defined as an instrument that represents evidence of a property right. But in a broader sense, a security represents a claim on an asset or any future cash flows the asset may generate (Crock 1981). So a security itself is usually a document that identifies the investor's rights or claims. Typically securities means stock or bonds indicates that the investor is to receive certain interest and principal payments at a specific time and stock certificate indicates that the investor owns a certain number of shares and therefore has a claim to certain percentage of the cash dividends and other

distributions like bonus shares, right shares etc. made to the firm's shareholders. So securities may be of any Government Securities as defined in the Securities Act, 1920, or other instruments creating a charge or lien on the assets of the company.

Security analysis involves the process of estimating the future cash flows which will accrue to the owners of a particular security (Hoque 1992). Before doing this estimation, a great deal of preparatory work relating of a variety of data must be done.

The listed securities of CSE are comprised of shares, mutual funds and debentures. As on 30th June, 2000 there were 163 listed securities with Chittagong Stock Exchange. In 2012 the number of listed securities of CSE reached to 257 including 41 mutual funds and 1 debenture.

Table 1 focuses the trend of securities of CSE from 2000 to 2012 where the number of listed securities increases gradually showing a positive trend. In 2005 there was a tremendous growth of securities which is recorded as 7.57% than previous financial year. There had been a growth all round in the securities market during study period. The improvement of securities of CSE during the period can be attributed to trade liberalization and industrial policy of the government and increasing number of saves who prefer to hold their assets in the form of share etc. On 30th June 2012 the total number of tradable securities in CSE was 4987.3 million as compared to 4272.6 million and 3876.8 million in 2011 and 2010 respectively. The vast increase in tradable securities in CSE was occurred in 2003, which increased by 46.8% from the previous year. Table shows that the number of tradable securities keeps the increasing trend during the period under study. Various reasons for such development of CSE are attributed to the better management functioning in secondary market activities, a huge number of investors, proper supervision and control of SEC, government policies towards financial trade liberalization.

Analysis of Capitalization: The capital of securities market may be either issued capital of all listed securities market may be either issued capital of all list securities of market capital of all securities of listed companies. Issued capital or paid up capital means the face value of all securities listed with a stock exchange but it does not include premium whereas market capital or market capitalization which does not imply adjusted market capitalization means market values of all securities listed with a stock exchange. The market scenario of CSE through the operation statistics during the period from 2000 to 2012 is given in Table 2.

From the table it is found that as on 30th June 2012 the total issued capital of CSE reached to Tk. 143267 million as against Tk. 26,654.62 million in 2000.

Table 1. Listed Securities of CSE

Year	Securities				Change in %	Tradable Securities	
	No. of Cos.	No. of MF	No. of Deb.	Total		No. in Million	Change in %
2000	149	10	4	163	-	587.81	-
2001	157	10	4	171	4.91	612.6	4.22
2002	170	10	04	184	7.06	854.92	39.55
2003	172	10	3	185	0.54	895	46.8
2004	182	11	2	195	5.4	1062.05	18.66
2005	184	12	2	198	1.54	1160.5	9.27
2006	198	13	2	213	7.57	1438.65	24
2007	204	14	1	219	2.82	1692.35	17.63
2008	216	14	0	230	4.78	2166.7	28.03
2009	227	17	1	245	5.21	2979.0	37.49
2010	227	22	0	249	1.61	3876.8	30.14
2011	225	27	0	252	1.20	4272.6	10.21
2012	215	41	1	257	1.98	4987.3	16.73

Source: i) Annual report of SEC during the study period
ii) Annual report of CSE during the study period

Table 2. Market Capitalization of CSE

Year	Market Capitalization		Issued capital		Index	Annual Total turnover		Trade in million (Tk.)
	Tk. in Million	Increase (%)	Tk. in Million	Increase (%)		Volume	Volume in million (Tk.)	
2000	44,840	-	26,654.62		1173.89	276.59	9,545.51	587.81
2001	62,820	40	27,350	2.61	809.74	490.95	1088.6	612.6
2002	56,145	-10.63	30,804	13.63	1838.99	667.9	15,710.9	854.92
2003	60,208.6	72.3	31,906.7	35.8	1841.24	424.07	10,911.9	895
2004	125,911.3	109.12	44,361.2	39.03	2329.46	248.9	8470	1187
2005	203,044.4	61.26	49,988	12.68	3347.09	347.7	16,787.7	1250.6
2006	196,341	-3.3	62,531.3	25.09	2879.19	249.10	11,408.1	1438.65
2007	398,499	102.96	81,032.9	29.58	5,194.8	585.80	34,177.6	1692.35
2008	777743	95.16	102220	26.14	9050.56	748.9	79254.1	2166.7
2009	962477	23.75	131105	28.26	10477.67	1182	125149	2979.0
2010	256743	-73.32	134657	27.09	3754.98	875	109874	2870.87
2011	187345	-27.03	139843	3.85	2679.87	654	76543	2574.65
2012	365789	95.25	143267	2.45	5985.92	985	87659	3198.76

Source: i) Annual report of SEC during the study period
ii) Annual report of CSE during the study period

There is an increasing trend in the volume of issued capital of CSE. The vast increase in issued capital in CSE was occurred in 2004, which increased by 39.03% from the previous year. Markets Capitalization of all listed securities in CSE amount to during the period from 2000 to 2012 are also shown in Table 2. As on 30th June 2012 the total market capitalization of all listed securities in CSE amounts to Tk. 365789 million as compared to Tk. 187345 and Tk. 256743 in 2011 and 2010 respectively. Although there is no regular trend in the changes of market capitalization, vast amount of market capital is shown in 2004 amounting to Tk.

125,911.3 as compared to Tk. 60,208 million in 2003. In 2001-02 and 2005-06 there were decreases in the market capital than the previous year. The reasons for declining in market capitalization in 2001-02 are attributed to listing of lesser number of new issues, absence of right and bonus issues, impact of decrease in all share price index.

Total numbers of securities traded in CSE as on 30th June during 2000 to 2011 are depicted in Table 2. CSE experienced a regular positive trend in the number of securities traded in CSE during the period under study. Total turnover of securities as

on 30th June 2012 was experienced as Tk. 87659 million as compared to Tk. 76543 million on 30th June 2011 with a positive change of 14.52%. As on 30th June 2012, total number traded in CSE was 3198.76 million as compared to 2574.65 million in 30th June 2011. Moreover, the total numbers of tradable securities are increasing over the years at an increasing rate. The increasing rate is more or less equal over the years. This state of affairs indicates that the volume of transactions is increasing day by day with a vast amount in 2007 due to the automation system in trading and clearing of transactions.

CONCLUSION

Chittagong stock exchange is continuously growing in the stock market. The activities of CSE improved since 1998 when starts Screen Based Trading system replacing the Floor based Cry-out System of Trading and regional Settlement activities at Dhaka and Sylhet. Despite the overall growth, a vast improvement has been registered in 2009 where the all share price index of CSE was maximum during the period under study. The study shows that although CSE experienced are increasing trend in the case of number of securities traded in the exchange, total capitalization shows a decreasing trend over the period under study particularly in 2002 and 2006 (Choudhuri *et al.* 1992). The reasons are attributed to listing of lesser number of new issues, absence of right and bonus issues, impact of decrease in all share price index. The study has also identified a number of problems being encouraged by the market. Securities and Exchange Commission (SEC), as watchdog of the market, should play a prominent role in reactivating markets, which is essential for accelerating the pace of our industrialization.

The authorities take unusually long time to decide to allow the stuck up shares to be free from the application of circuit breaker temporarily in the CSE floor like DSE. As a result, all share price index of CSE did not reflect the actual position. The role of CSE in a sine-qua-non for the development of securities market of Bangladesh, to improve the market activities of CSE is to take some measures as under.

- 1) To introduce automated monitoring system that may control price manipulation, manipulation, malpractices and inside trading.

- 2) To introduce full computerized system for settlement of transactions.
- 3) To force the listed companies to publish their annual reports with actual and proper information that can ensure the interests of investors.
- 4) Person being the director of listed company should not be allowed to be a member of CSE.
- 5) To force the listed companies to declare and pay regular dividends through conducting annual general meeting.

REFERENCES

- Alam MN and Jahan SB. 1996. Impact of stock market-debacle in 1996 on national economy of Bangladesh. Bank Parikrama, pp: 11-40.
- Choudhuri AHM, Nurul I, Sujit SR and Choudhury TA. 1992. Status of capital market in Bangladesh: an overview. Bank Parikrama, pp: 1-9.
- Crock S. 1981. Experiment in competitive stock trading is likely to be postponed by the SEC. Wall Street J. p: 2.
- Hoque MS. 1992. Development of capital market in Bangladesh. Bank Parikrama, pp:10-13
- Islam MM. 1996. Stock market in Bangladesh, trends and potential. The Daily Independent, Dhaka.
- Khurshid A. 1992. Capital market and privatization-a new horizon of expanding equity in the development of Bangladesh. Bank Parikrama, pp: 25-33
- Loeb TF. 1983. Trading of cost, the critical link between investment information and result. Journal of Financial Analyst, 39(3): 23-34
- Rahman MM. 1992. Development of capital market and capital growth, role of investment finance institution. Bank Parikrama, pp: 20-24.