

Capital Markets Development in Bangladesh The Status of Dhaka Stock Exchange

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Abstract: Financial markets are absolutely vital for the proper functioning of capitalistic economy, since they serve to channel funds from savers to borrowers. 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 where new securities are sold and secondary markets where existing securities are traded. Primary markets involve investment bankers who specialize in selling new securities. Secondary markets consists of 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 Dhaka Stock Exchange (DSE) play an integral role in the pace of the industrialization of the country.

Key words: Market development, DSE, primary markets

INTRODUCTION

To achieve the desired objective for growth and prosperity the world economy always changed 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 are not properly canalizes 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. 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 markets. As a result stock exchange plays a crucial role to mobilize capital for the development of a capital market. Dhaka Stock Exchange, the frontline organization for the securities market development of Bangladesh, was incorporated on 28th April, 1954 as the East Pakistan Stock Exchange Association Limited (EPSEAL) which started formal trading in 1965 at Narayanganj. 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 resumed in

1976 with the changes in government policies with nine listed companies. Gradually the securities market in Bangladesh has been developing and another securities market in Chittagong, the commercial city of Bangladesh, started operation in 1995. Now both the markets are automatically operated.

After opening of the market to the foreign investors in 1992^[1] the trading has been increasing day by day. Foreign investors are encouraged because it was found that without substantial foreign investment, domestic private investment would be inadequate to achieve economic development. The role of DSE in promoting securities of Bangladesh, firstly it is essential to evaluate the objectives of DSE. Being a self-regulated non profit organization Dhaka Stock Exchange was established to perform the following objects:

- To bring together buyers and sellers to bargain for fixing the security-price providing them with a safer market place.
- To reflect the current market price of securities.
- To protect the interest of investors.
- To analyse and review the fiscal measures that affect the investors
- To reflect impartial and detailed disclosures about listed companies through publishing journals and brochures.

Role of securities markets in economic development: The increasing stringency of terms on both domestic and international loans, the urgency of mobilizing domestic resources by means other than debt finance has been greatly identified^[2]. The principal alternative to debt finance, of course is equity market. Capital market refers to the market for long and medium term funds for the business enterprises. It can be divided into securities and non-securities market. Securities market in turn may be divided into the markets for primary issues and markets for secondary trading of the issued securities^[3]. In the secondary market, the existing securities change from the investor to another. There is no additional flow of funds for investment purposes in a secondary market, it only provides liquidity and marketability to the existing securities. A secondary market is very essential for a new issue market to develop^[4]. The secondary market can play most crucial functions in the pace of economic development by the promotion of savings and investment and efficient allocation of funds among the users. The securities market offers both investors and issues a broad spectrum of investment alternatives, which can help increase the level of both savings and investment. An efficient capital market can play the crucial role in mobilizing domestic savings for the purpose of investment^[5].

Regulation of the securities market: The Companies Act. 1953 and the Capital Issues Act. 1954 are the two legislations governing the stock market in Bangladesh^[1]. Subsequent upon government has promulgated the Securities and Exchange Ordinance in 1969 that requires to take permission from the Controller of Capital Issues (CCI) in order to issue capital and make public offer of securities. This Ordinance also required the stock exchanges to take registration from the CCI. In order to accelerate economic development as well as to protect the interests of investors the Securities and Exchange (SEC) was established on 8th June, 1993 under the Securities and Exchange Commission Act. In performing the regulatory functions this Commission is guided by the following laws: Company Act. 1994, Securities and Exchange Ordinance 1969 as amended in 1993, Securities and Exchange Rules 1987, Securities and Exchange Commission Act. 1993, Securities and Exchange Commission (Stock-dealer), Stock-broker and sub-broker) Regulations, 1994 as amended in 1995, Securities and Exchange Commission (Appeal) Regulations, 1995 Securities and exchange Commission (prohibition of Insider Trading) Regulations, 1995, Securities and Exchange Commission (Merchant, Banker and Portfolio

Managers) Regulations 1996, Securities and Exchange Commission (Mutual Fund) Regulations, 1997, Right Issue Rules, 1998 and other guidelines as applicable. Thus, this paper now focuses on the findings of the study in the following section.

MATERIALS AND METHODS

The present study is basically based on secondary data. Annual Reports and Monthly Reviews of Dhaka 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 DSE and other related organizations are also viewed and analyzed for the sake of making a fruitful analysis. The study covers the period from 1990 to 2000.

Objectives of the study: The study attempts to evaluate and examine the performance of Dhaka Stock Exchange in terms of securities analysis and market capitalization. Its specific objectives are:

- To evaluate the growth of companies as well as securities listed with DSE during the period from 1990 to 2000;
- To examine and evaluate the issued capital and market capitalization of the securities during the period under study.
- To identify the problems of DSE; and
- To make suggestions to improve the activities of DSE.

RESULTS

The importance of secondary market in Bangladesh is gradually increasing as the rate savings and investment in the country has been increasing. Besides, the activities of DSE has been increased due to the 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. So a security itself is usually a document that identify the investor's rights or claims. Typically securities means stock or bonds of a company where a bond indicates that the investor is to receive certain interest and principal payments at a specific time

Table1: Showing the growth of listed securities of DSE during the period from 1990 to 2000

Year	Securities				% of Increase	Tradable securities	
	No. of Cos.	No. of MF	No. of Deb.	Total		No. in Million	% of increase
1990	127	6	1	134	---	161.1	---
1991	130	6	2	138	2.99	167.2	3.79
1992	140	6	3	149	7.97	172.3	3.05
1993	142	6	5	153	2.68	195.1	13.23
1994	144	6	6	156	1.96	214.4	9.89
1995	173	6	9	188	20.51	325.5	51.82
1996	183	7	11	201	6.91	375.3	15.3
1997	194	9	11	214	6.47	471.1	25.53
1998	204	9	11	224	4.67	523.2	11.06
1999	210	9	11	230	2.68	533.5	1.97
2000	219	10	10	239	3.91	685.7	28.53

Source: i) Annual Reports of DSE during the study period
ii) Annual Reports of SEC during the study period

Table 2: Showing the growth of market capitalization of DSE during the period from 1990-1999

30th June	Paid up capital		Market capitalization			Turnover in	Amount traded in
	Taka in million	% of increase	Taka in million	% of increase	Index	Million taka	Million taka
1990	5561.1	---	11485.9	---	349.1	2.7	187.8
1991	5586.6	0.46	10397.3	(9.48)	296.2	2.3	141.3
1992	6020.3	7.76	12299.1	18.29	396.5	3.8	261.1
1993	8201.7	36.23	18098.7	47.16	418.8	4.3	403.6
1994	9268.0	13.00	32715.0	80.76	659.8	11.6	2442.9
1995	18317.3	97.64	49998.1	52.83	776.9	25.9	4660.8
1996	21754.0	18.76	67728.0	35.47	959.1	44.8	8199.0
1997	26907.0	23.69	107827	59.21	1111.6	119.3	35414.0
1998	30211.5	12.28	62264.3	(42.25)	676.5	98.3	12616.0
1999	28684.0	(5.06)	50748.4	(18.50)	546.8	1331.3	51893.8
2000	30517.0	6.39	54004.0	6.42	561.0	658.0	27695.7

Source: i) Annual Reports of DSE for the period under study ii) Annual Reports of SEC for the period under study

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, rights 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. Before doing this estimation, a great deal of preparatory work relating to the gathering of a variety of data must be done.

The listed securities of DSE comprised of shares, mutual funds and debentures. Although the size of this securities market is very small with limited facilities, its activities improved since 1985 and gained momentum from early 1991. As on 30th June 1990 there were 134 listed securities with Dhaka Stock exchange. In 2000, the number of listed securities of DSE reached to 239 including 10 mutual funds and 10 debentures.

Table 1 focuses the trend of securities of DSE from 1990 to 2000 where the number of listed securities increase gradually showing a positive trend. In 1995 there was a tremendous growth of securities which is recorded as

20.51% growth than the previous financial year. There had been a growth all round in the securities market during the study period. The improvement of securities of DSE 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 shares etc. On 30th June 2000 the total number of tradable securities in DSE was 685.69 million as compared to 161.1 million and 533.51 million in 1990 and in 1999, respectively. The vast increase in tradable securities in DSE was occurred in 1995, which increased 51.82 % from the previous year. Table 1 shows that the number of tradable securities keeps the increasing trend during the period under study. Various reasons for such development of DSE 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 and trade liberalization.

Analysis of capitalization: The capital of securities market may be either issued capital of all listed 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 DSE through the operational statistics during the period from 1990 to 2000 is given in Table 2.

From the foregoing table it is found that as on 30th June 2000 the total paid up capital of DSE reached to Tk. 30,684 million as against Tk. 5,561.1 million in 1990. There is an increasing trend in the volume of paid up capital of DSE with a negative trend only in 1999. In 1998 DSE experienced the highest amount of paid up capital amounting to Tk. 30,211.5 million. The paid up capital was about twice in 1995 having Tk. 18,317.3 million whereas the same was Tk. 9,268 million only in 1994. Market capitalization of all securities of listed companies of DSE during the period from 1990 to 2000 are also shown in Table 2. As on 30th June 2000 the total market capitalization of all listed securities in DSE amounts to Tk. 54,004.0 million as compared to Tk. 50,748.43 million and Tk. 11,485.9 million in 1999 and in 1990 respectively. Although there is no regular trend in the changes of market capitalization, vast amount of market capital is shown in 1997 amounting to Tk. 1,07,827 million as compared to Tk. 67,728 million in 1996, the second highest during the period under study. In 1991, 1998 and 1999 there were decreases in the market capital than the previous years. The reasons for declining in market capitalization in 1999 are attributed to listing of lesser number of new issues, absence of right an bonus issues, impact of decrease in all share price index. All share price index of DSE declines from 1111.6 in June 1997 to 675.5 in June 1998 and 546.8 in June 1999 respectively. However, all share price index shows an increasing trend during the period from 1991 to 1997.

Total number of securities traded in DSE as on 30th June during 1990 to 2000 are depicted in Table-2. DSE experienced a regular positive trend in the number of securities traded in DSE during the period under study. Total turnover of securities as on 30th June in 2000 was experienced as Tk. 658.08 million as compared to Tk. 1331.3 million on 30th June in 1999 with a positive change of 1254.3%. As a 30th June 2000, total amount traded in DSE was Tk. 27,695.7 million as compared to Tk. 51893.8 million as on 30th June 1999. Moreover, the amount in DSE is increasing at an increasing rate except a decline in 1998 and 2000 where the volume of transactions was only Tk. 12,616 million and Tk. 27,695.7 million as compared to Tk. 35,414 million and Tk. 51,893.8 million in 1997 and 1999, respectively. This state of affairs indicate that the volume of transactions is increasing day by day with a vast amount in 1999 due to the implementation of automation system in trading and clearing of transactions.

PROBLEMS INVOLVED IN DSE

The unexpected rise and fall in share prices mostly followed from the general confidence of the investors about political stability, euphoria of investment in shares, prospect of quick capital gains, a vacuum in respect of institutional presence in the share market, monopolistic dominance of member brokers, inefficiency of the SEC to cope with the developments, existence to kerb market, absence of proper application of circuit breaker etc. Delivery Versus Payment mechanism was used as one of the main vehicles of manipulation. Kerb market gave birth fake and forged share certificates^[6]. Although there are increasing trends in all the indicators, DSE is not free from problems. The problems of DSE may be summarized as under.

- Price manipulation: It has been observed that the share values of some profitable companies has been increased fictitiously some times that hampers the smooth operation of DSE.
- Delays in settlement: Financing procedures and delivery of securities sometimes take an unusual long time for which the money is blocked for nothing.
- Irregularities in dividends: Some companies do not hold Annual General Meeting (AGM) and eventually declare dividends that confused the shareholders about the financial positions of the company.
- Selection of membership: Some members being the directors of listed companies of DSE look for their own interest using the internal information of share market.
- Improper financial statement: Many companies of DSE do 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 any idea about position of that company.
- The concept of centralization of the securities market has not been implemented that arises technical problems and political infighting^[7].
- As the DSE is small market, the spread/cost ratio is relatively higher which is a more important factor for capitalization^[8].
- The intrinsic value [12] for the securities traded in DSE are sometimes estimated without considering the current market prices of the securities.
- The absence of comprehensive legal and supervisory framework.
- Lack of skilled manpower in the DSE as well as financial and non-financial institutions involved in the securities market.

- The lack of proper policy framework that provides incentives and protection to investors.
- The dominance of bigger public sector and borrowing of public sector as well as government from the institutional sources rather than the market.

SUGGESTIONS TO IMPROVE THE ACTIVITIES OF DSE

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 DSE floor. As a result, all share price index of DSE did not reflect the actual position. The

role of DSE is a sine-qua-non for the development of securities market of Bangladesh. To improve the market activities DSE is to take some measures as under.

- To introduce automated monitoring system that may control price manipulation, malpractice's and inside trading.
- To introduce full computerized system for settlement of transactions.
- To force the listed companies to publish their annual reports with actual and proper information that can ensure the interests of investors.
- Person being the director of listed company should not be allowed to be a member of DSE.
- To force the listed companies to declare and pay regular dividends through conducting Annual General Meeting.
- To control and abolish kerb market from the premises of DSE.
- To take remedial action against the issues of fake certificates.
- The Composite Quotation System (CQS) should be introduced and implemented that available the exchange specialists' bid-ask quotes to the subscribers.
- To establish Central Depository System (CDS) to curb the scope of manipulation by the brokers.
- To make arrangement to set-up merchant banks, investment banks and flotation of more mutual funds particularly in the private sectors.
- Banks, insurance companies and other financial institutions should be encouraged deal in share business directly.
- The brokers should not be allowed to deal in the Scripps on their own accounts, there should be complete transparency in their transactions with the clients so that one is favoured as against the other.
- There should be a system to penalize defaults to fulfil contacts regulating share dealings Chartered Accounts' Firms should be allowed to certify the accounts.
- The management of DSE should be vested with professionals and should not in any way be linked with the ownership of stock exchange and other firms.

- To publicize and educate the investors about fundamentals to deal in share transactions.
- To punish the member brokers for breaching of contract.

The above suggestions are recommended as major to improve the overall performance of DSE to play an important role in the securities market development in Bangladesh.

CONCLUSIONS

The present study reveals that the activities of DSE improved since 1994. Despite the overall growth, a vast improvement has been registered in 1997 where the all share price index of DSE was maximum during the period under study. The study shows that although DSE experienced an 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 since 1996 (market crash.) Market disaster in 1996 shattered public confidence tremendously. The reason for such state of affairs deserves a separate study. The study has also identified a number of problems being encouraged by the market. Securities and Exchange Commission, as a watchdog of the market, should play prominent role in reactivating markets, which is essential for accelerating the pace of our industrialization.

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