

EMERGING EQUITY MARKET AND ECONOMIC DEVELOPMENT: BANGLADESH PERSPECTIVE

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Abstract

Bangladesh capital market is one of the smallest market in Asia but the third largest in the South Asian region. A stock market or equity market is a public entity for the trading of company stock and derivatives at an agreed price. These are securities listed on a stock exchange as well as those only traded privately. Economic development is a term that generally refers to the sustained, concerted effort of policymakers and community to promote the standard of living and economic health in a specific region. Such effort can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environment sustainability, social inclusion, health, safety, literacy and other plans. Economic development differs from economic growth and economic development is policy involvement activities with aims of economic and social well-being of people. Economic growth is a phenomenon of market productivity and rise in gross domestic product. In this paper an attempt has been taken to analyze the capital market in some details.

Keywords: Equity market, economic development, Security Exchange Commission, Chittagong Stock Exchange, and Dhaka Stock Exchange.

INTRODUCTION

In this paper we have discussed that the development of stock market must contribute to economic growth both directly and indirectly. Hence stock market plays an important role in the economy of a country. Following the direct channel, we show that market liquidity has a positive impact on growth and indirectly market size affects investments which must affect growth of the country. Security markets also play a crucial role in economic growth and financial stability. The primary purpose of security markets is to serve as a mechanism for the transformation of savings into financing for the real sector, and hence constituting an alternative to bank financing. Recent local and global studies show that there is a positive correlation between the developments of stock markets and economic growth. Stock markets must be very efficient in the allocation of capital to its highest-value users. These markets also help to increase savings and investment, which are essential for economic development. If an equity market is informationally inefficient then investors face difficulties in choosing the optimal investment, because information on corporate performance is slow. The Central Depository Bangladesh Limited (CDBL) introduced its first electronic book entry in 2004 in Bangladesh Capital Market.

The role of security markets is more significant in developed economies; there is evidence of the growing importance of these in emerging market and developing countries. In many emerging market in developing countries, security markets are beginning to gain a place as a source of financing for the corporate sector, although in most markets this is initially restricted to the larger corporate players. Along with private and public pension funds, collective investment schemes have become important players in many developing and emerging market countries and their demand for suitable investments is driving development.

As the global equity markets have experienced their most explosive growth over the past decade, emerging equity markets have experienced an even more rapid growth, taking on an increasingly

larger share of this global boom. Volatility and market efficiency are two important features which will ultimately determine the effectiveness of the equity market in economic development. This paper represents an attempt to reexamine the long-run impact of stock markets on economic growth.

In Bangladesh the capital market has a low level of supervision and the major market players such as stock exchanges, brokers, dealers, and asset managers have limited professional capacity. Here transparency is poor and there is inadequate disclosure both in trading and in the quality of information which are provided for listed companies. The introduction of up-to-date technology to support market infrastructure has been slow. Widespread reports of malpractice are terminated in a domestic stock market crisis prevails between 1996 and 2011. As a result, investors' confidence is low, which is not good for the future of the equity market of Bangladesh.

Changes in political commitment, a difficult political economy, and weak institutional capacity of executing agencies often frustrate in the implementation of financial sector assistance. This paper represents endeavors to investigate dynamic relationship between stock market development and economic growth in case of Bangladesh by using annual time series data from 1990 to 2011. If the investors are not pleased for taking on higher risk by investing in the equity market then they will not invest their savings which prevent economic growth.

This paper focuses on the growth of Bangladesh stock market over time. The market trends in terms of market capitalization, market liquidity, market concentration, number of listings, volatility in the market index and foreign portfolio investment were considered. The discussion expresses that key indicators are significantly correlated. Stock market growth index is constructed considering market capitalization ratio; turn over ratio, value traded to gross domestic product (GDP) ratio and volatility in market index. We show that although Bangladesh stock market is growing over time, the growth has not yet assumed any stable and obvious trend. Much work remains to be done to better understand the relationship between stock market development and economic growth.

Chowdhury (1995) explains the lack of efficiency in the emerging equity markets by investigating the issue of informational efficiency in the DSE in Bangladesh. He expressed that in an efficient market the stock market participants incorporate the information contained in money supply changes into stock prices. He also stressed that Stock Markets of Bangladesh are inefficient.

Financial globalization is primarily confined to rich countries that are from rich to other rich countries rather than, from rich to poor countries. Most international capital flows are just exchanges of assets between rich countries and are not flowing to poor countries to enhance their development. But in recent years there is a huge increase in international capital flows (Obstfeld and Taylor 2004). In developed countries the emerging equity markets offer an opportunity to examine the evolution of stock return distributions and stochastic processes in economic and political changes in these emerging economies.

Frost, Gordon and Pownall (2005) show that it is well-known which emerging market companies entering US and UK equity markets face regulatory and stock exchange requirements for expanded financial reporting and disclosure. Hussain and Chakraborty (2010) have estimated Weighted Average Cost of Capital (WACC) for selected private commercial banks of Bangladesh that are listed in DSE considering the period from January 2006 to December 2008.

PRESENT SITUATION OF CAPITAL MARKET IN BANGLADESH

At present capital market in Bangladesh has an instrumental segment of securities market that includes two stock exchanges, Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange

(CSE). Both are members of South Asian Federation of Exchanges (SAFE) which is a forum in South Asia to promote the development of securities markets in the region. A non-instrumental segment of institutional investors are such as Commercial Banks, Investment Bankers and Companies, Merchant Bankers, Insurance Companies, Pension Funds and Schemes, Direct Foreign Investments (DFIs), Postal Saving Schemes, Postal Life Insurance, Deposit Pension Schemes, Employees Insurance Fund, Security Deposits, Gift Certificate Deposits, Sundry Deposits, Surcharge and Development Charges, Leasing Companies, Non-bank Financial Institutions, and Co-operative Land Mortgage Banks. The average size of companies in the capital market in Bangladesh is very small compared to those of other developing countries.

At the end of 2007, there were 350 securities listed on the DSE with a market capitalization of \$10.82 billion (Table-1). The average growth of market capitalization had been 34.8% per annum over the last 10 years (Mizuno 2009). But at present, shares and debentures of 382 companies are traded in the equity market (238 in DSE and 144 in CSE). The number of mutual funds traded in the stock exchanges is 18 (9 in DSE and 9 in CSE) and that of debentures traded is also 18 (12 in DSE and 6 in CSE), (Table-2). The securities market instruments in Bangladesh include Shares, Debentures, Unit Certificates of the Investment Corporation of Bangladesh (ICB), Mutual Certificates, Wage Earners Development Bond, Fixed Deposit Receipts, and

Table 1: Key Statistics of Capital Market in Bangladesh, (Source: DSE, CSE and SEC reports).

Year	Number of Listed Securities	Market Capitalization (Billion US \$)	Transaction (Billion US \$)	Transaction/ Market Capital (%)	Price Index
2000	241	1.17	0.78	64	642.68
2001	249	1.12	0.74	62.52	817.79
2002	260	1.23	0.61	49.09	822.34
2003	267	1.67	0.33	19.63	967.88
2004	276	3.81	0.90	23.64	1971.31
2005	286	3.52	0.98	27.64	1275.05
2006	310	4.67	1.10	27.82	1321.39
2007	350	10.82	4.71	20.13	2535.96

various saving certificates under the national Savings Schemes (5-years Bangladesh Sanchaya Patra, 5-years Wage Earners Development Bond, 3-years Saving Certificate, 3-years National Investment Bond, 5-years Family Saving Certificate, 8-years Pratihakkha Sanchaya Patra), (Ahsan et al. 2006, Bahar 2009, Bangladesh Bank website).

Institutions allowed to conduct merchant banking operations in Bangladesh are the Industrial Development and Leasing Company of Bangladesh, Uttara Finance and Investment, Banco Trans World (BD), Millennium Investment Management Company, Fidelity Assets and Security Company, Raspit Securities and Management Company, Capital Market Services, Bay Leasing and Investment, Swadesh Investment Management, Vanik Bangladesh, Grameen Securities Management, South Asia Capital, Saudi-Bangladesh Industrial and Agricultural Investment Company (SABINCO), Prime Finance and Investment, EC Securities, Mercantile Securities, Bangladesh Mutual Securities, AAA Consultants and Financial Adviser, Pangaca Partners, Paramount Securities, Equity Valuation Research and Distribution, Prime Securities and

Table 2: Capital rose in the capital market, (Source: DSE, CSE and SEC reports).

Year	Number of initial Stock	Capital raised Stock (Million Taka)
2000	7	422.85
2001	11	572.20
2002	8	450.20
2003	14	2952.67
2004	3	588.04
2005	18	2310.50
2006	10	12624.83
2007	13	3463.97

Financial Services, MFH Financial Services, Satcom Securities and Management, and First Securities and Investment. Non-bank financial institutions established under the Financial Institutions Act 1993 are the United Leasing, Industrial Development and Leasing Company (IDLC), Industrial Promotion and Development Company (IPDC), SABINCO, Phonix Leasing Company Limited, Uttara Finance and Investment, UAE-Bangladesh Investment Company, International Leasing and Financial Services, Prime Finance and Investment, Bahrain Bangladesh Finance and Investment Company, Bay Leasing and Investment, Delta-BRAC Housing Finance Corporation, Vanik Bangladesh, People Leasing and Financial Services, Infrastructural Development Company, Bangladesh Industrial Finance Company, National Housing Finance and Investment, Midas Financing, First lease International, and Bangladesh Finance and Investment (Azim et al. 2011, Mohajan 2012).

Act and Ordinance

Securities business in Bangladesh is regulated by Capital Issues (Continuance of Control) Act 1947, Companies Act 1994, Securities and Exchange Ordinance 1969, Securities and Exchange Rules 1987, Securities and Exchange Commission Act 1993, Securities and Exchange Commission (Amendment) Act 1993, Securities and Exchange Commission (Brokers, Stock Dealers, Sub-Brokers) Regulation 1994, Securities and Exchange Commission (Insider Trading) Regulation 1994, Securities and Exchange Commission (Merchant Bankers and Portfolio Managers) Regulation 1994, Initial Public Offering (IPO) Rules 1998, The Central Depository Bill 1999, Margin Rules 1999, Trust Act 1882, and Securities and Exchange Commission (Mutual Funds) Regulation 1994. Moreover, there are specific rules and regulations for controlling the operation of stock exchanges. The Securities and Exchange Commission (SEC) established in 1993, regulates overall activities of the capital market in Bangladesh. The objectives of the SEC are to protect interests of investors in securities, develop the securities market, and ensure compliance of laws relating to proper issuance and exchange/trading of securities (Bangladesh Securities and Exchange Commission website).

The development of capital market got some momentum with shift in government policy towards privatization. Key players in the capital market viz. the investors and the issuers responded positively and have become active in expanding the market. Bangladesh security market statistics have been included in the Emerging Markets Fact Book of the International Finance Corporation (IFC). But the market is still very small and continues to suffer from imperfections.

Objectives to Invest in Bangladesh Capital Market

The objectives of investing in equity market are as follows:

- 100% repatriation of capital, dividend and investment profits,
- reinvestment of repatriable dividend treated as new investment,
- no tax on capital gains,

- 10% of all IPOs are reserved for non-resident Bangladeshis (NRBs),
- Bangladesh was considered as one of the Goldman Sachs Next 11 countries for a highpotential of becoming the world's largest economies in the 21st century along with the BRICs (Brazil, Russia, India and China), and
- easy access to ownership of infrastructure development companies, high net worth private banks and companies through capital market.

Objectives of the Study

The aim of this paper is to evaluate and examine the performance of DSE and CSE in terms of securities analysis and market capitalization. Its specific objectives are as follows (Dhaka Stock Exchange website and Chittagong Stock Exchange website):

- to evaluate the growth of companies,
- to investigate the pattern of Bangladesh stock market growth,
- to identify various indicators of Bangladesh stock market growth,
- to know the basic terminology of stock market,
- to make the investor aware about the factors this may affect their investment,
- to forecast or predict the future trend of stock market which helps in investment,
- to know the effect of these fluctuation on the Bangladesh economy,
- to examine and evaluate the issued capital and market capitalization of the securities during the period under study,
- to identify the problem of DSE, and
- to make suggestions to improve the activities of DSE.

The Scope of the Study

The purpose of the report is to analyze aspects of equity market, evaluation process and speculated investor satisfaction concerning the equity market. This paper also empirically evaluates the relationship between stock market development and long-run growth.

Methodology of the Study

Little evidence links corporate financial reporting and disclosure quality to a key aspect of cost of equity capital, the ability to raise new equity capital at reasonable prices in the context of emerging market companies. Because emerging market companies face greater barriers to equity capital access than their developed market counterparts, and higher financial reporting and disclosure quality might lessen such barriers (Frost, Gordon and Pownall 2005).

The article 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 of the equity market.

We examine secondary data of Stock Market of Bangladesh. Data are collected from various issues of annual report of Securities and Exchange Commission (SEC) of Bangladesh, Quarterly Review of SEC, Monthly Review of DSE (Dhaka Stock Exchange Ltd. 1990-2012), Bangladesh Economic Review, Statistical Year Book of Bangladesh, Website of Dhaka Stock Exchange (Dhaka Stock Exchange website), and Website of SEC Bangladesh (Bangladesh Securities and

Exchange Commission website).

We have taken assistance from various sources related to equity market. These have been reviewed to increase the knowledge regarding topic: Various publications, books, product brochures, websites, Bangladesh Bank Report and product books of DSE as well as CSE and other banks leaflets connected with this research were used to collect the secondary data.

Limitations of the Study

Limitations are the limiting lines that restrict the work in some way or other. In this study, there are some limiting factors; some of them are as follows:

Data Collection: The most important constraint in this study was data collection as Secondary data was selected for study. Secondary data means data that are already available i.e., they refer to the data which have already been collected and analyzed by someone else. In many cases, up to date information is not published.

Reliability: The data collected in research work was secondary data, so, this puts a question mark on the reliability of this data, which is a very important factor of this study. Other limitations are as follows:

- The bank has naturally shown us some indifference connecting its most confidential information.
- The study also suffered from inadequacy of data provided by DSE and CSE.
- Getting Relevant papers and documents were strictly prohibited. We had to write the informations that we found useful for our report by hand.

Barriers to Emerging Market Companies

Barriers to emerging market companies' access to capital are as follows (Frost, Gordon and Pownall 2005):

- emerging capital markets generally have highly limited pools of available capital,
- the high degree of risk in economic, political, and financial in emerging markets deters potential foreign investors, and
- a factor is that the generally weak corporate financial reporting and disclosure quality in emerging economies to potential investors.

ABOUT SECURITIES AND EXCHANGE COMMISSION (SEC)

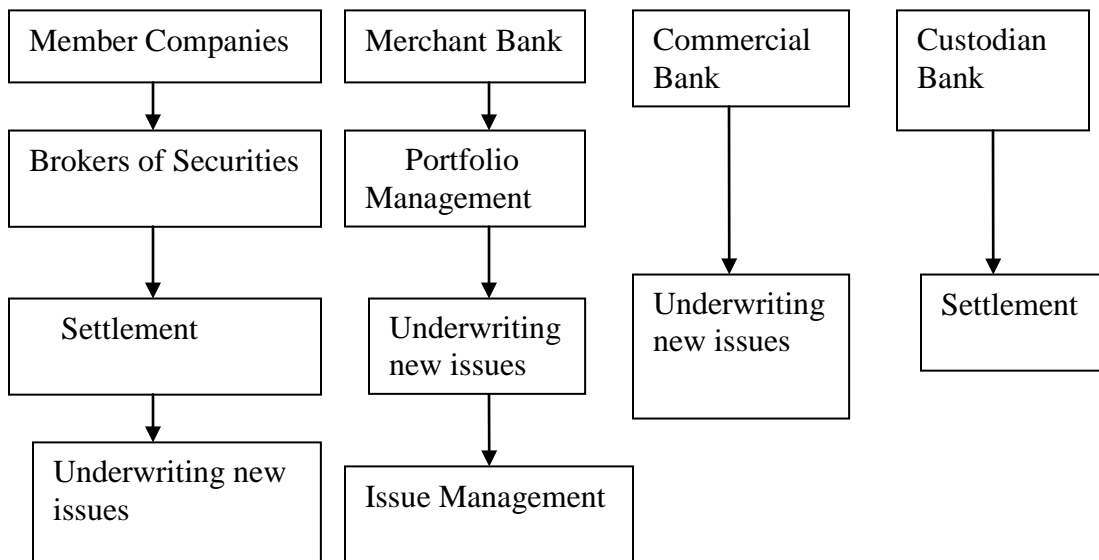
The Securities and Exchange Commission (SEC) was established on 8 June 1993 under the Securities and Exchange Commission Act, 1993. In Bangladesh, the Companies Act 1994 defines the basic legal framework for the formation, capital raising, financial reporting and management of joint stock companies. The Chairman and Members of the commission are appointed by the government and have overall responsibility to administer securities legislation. The SEC monitors and controls the securities market, which approves an issue of capital by the companies and the prospectus and other documents. At present the commission has three full time members, excluding the chairman. The commission is a statutory body and attached to the Ministry of Finance. It serves as the members of the commission and supervises its management. Provide policy direction to industry and staff and promulgate legally binding rules. These rules are related to mutual funds, public issue, right issue, credit rating, over-the-counter trading, margin trading, insider trading, merchant banking and portfolio management, stock dealers, brokers and authorized representatives, asset-backed securities, custodial service, acquisition of shares, and depository functions. Act as an Administrative Tribunal for decisions

on the capital market (Bangladesh Security and Exchange Commission website).

In 2006, SEC issued new rules in Bangladesh which offer the legal framework for making public issue of securities. The new rules were designed to protect the interest of investors which defines the structure and contents of prospectus to ensure disclosure of material information to the investors. Apart from the usual contents the prospectus must include the risk factors of the companies, directors' relationships and related transactions, due diligence certificate from issue manager and underwriter, executive compensation, and executive options (Mizuno 2009).

Structure of Financial Activities

The flow chart of the structure of financial activities in equity market is as follows:

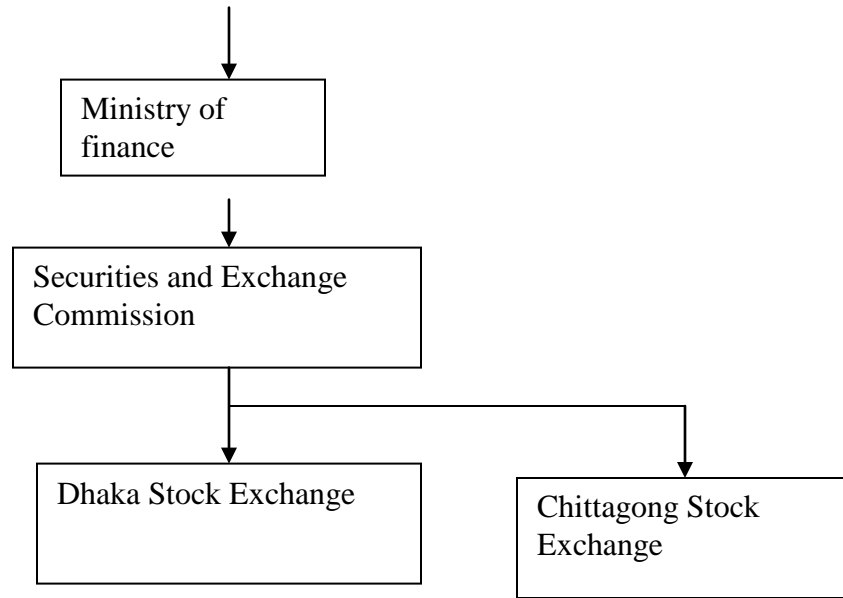


In Bangladesh, the Companies Act 1994 defines the basic legal framework for the formation, capital raising, financial reporting and management of joint stock companies. The SEC monitors and controls the securities market. It approves an issue of capital by the companies and the prospectus and other documents.

Regulatory Structure

The flow chart of the regulatory structure in equity market is as follows:





Responsibilities of Regulatory Body

The responsibilities of regulatory body of the equity market are as follows:

Securities and Exchange Commission (SEC)

The SEC is the regulator of the capital market of Bangladesh, comprising DSE and CSE. This backboneless institute is full of corrupted employees. SEC is totally failed to stabilize the capital market in Bangladesh. SEC was established on 8 June, 1993 under the Securities and Exchange Commission Act, 1993. The chairman and members of the commission are appointed by the government and have overall responsibility to administer securities legislation. The commission, at present has three full time members, excluding the chairman. The commission is a statutory body and attached to the Ministry of Finance (Bangladesh Security and Exchange Commission website).

The share of domestic debt securities in the country's GDP was approximately 12% in 2006 and that of India and Pakistan was respectively 35.9% and 26.3%. Equity market capitalization in Bangladesh over GDP was substantially lower among the South Asian countries. Bangladesh need acceleration of development of the capital market because it has an emergency need for investment resources to strengthen its infrastructure resources, to build more power stations, bridges, ports and gas-pipelines to empower the people in the development of enterprise and the creation of jobs (Mizuno 2009). There is no official record of foreign portfolio investment in the capital market; an assessment of the SEC indicates that the investment of foreign portfolio investors in Bangladesh is about 2.5% (Islam 2008).

Mission

The mission of emerging equity market being as follows:

- Protect the interests of securities investors.
- Develop and maintain fair, transparent and efficient securities markets.
- Ensure proper issuance of securities and compliance with securities laws.

Functions

The functions of emerging equity market being as follows (Dhaka Stock Exchange website):

- Regulating the business of the Stock Exchanges or any other securities market.
- Registering and regulating the business of stock-brokers, sub-brokers, share transfer agents, merchant bankers and managers of issues, trustee of trust deeds, registrar of an issue, underwriters, portfolio managers, investment advisers and other intermediaries in the securities market.
- Registering, monitoring and regulating of collective investment scheme including all forms of mutual funds.
- Monitoring and regulating all authorized self regulatory organizations in the securities market.
- Prohibiting fraudulent and unfair trade practices relating to securities trading in any securities market.
- Promoting investors' education and providing training for intermediaries of the securities market.
- Prohibiting insider trading in securities.
- Regulating the substantial acquisition of shares and take-over of companies.
- Undertaking investigation and inspection, inquiries and audit of any issuer or dealer of securities, the Stock Exchanges and intermediaries and any self regulatory organization in the securities market.
- Conducting research and publishing information.

Securities and Exchange Commission Regulatory Framework

The SEC regulatory framework is being as Follows (Securities and Exchange Commission website):

- Capital Issues (Continuance of Control) Act 1947.
- Securities and Exchange Ordinance 1969.
- Securities and Exchange Commission Act 1993.
- Securities and Exchange Commission (Stock Broker, Stock Dealer and Authorized Representative) Regulation 1994.
- Securities and Exchange Commission (Merchant Banker and Portfolio Manager) Regulation 1996.
- Securities and Exchange Commission (Mutual Fund) Regulation 1997.
- Credit Rating Rules 1996.
- Securities and Exchange Commission (Control of Insider Trading) Regulation 1998.
- Securities and Exchange Rules 1987.
- Public Issue Rules 1998.
- Right Issue Rules 1998.

Supervision of Stock Exchange Clearing House

The stock exchanges are Self-Regulatory Organizations under the supervision of the Securities and Exchange Commission. Both stock exchanges operate their own separate clearing houses for settlement of securities. All securities of the listed companies are handled by the stock exchange clearing houses.

Supervision of Broker/Dealers

The Rules of the SEC and Regulations and by-laws of the Stock Exchange govern the brokers/dealers of the stock exchanges. Banks providing custodial services are under the trading in 1956. It was renamed as East Pakistan Stock Exchange Ltd in 23 June 1962. Again renamed supervision of the Bangladesh Bank and are subject to the Bank Companies Act, 1991.

About Dhaka Stock Exchange

Dhaka Stock Exchange (DSE) is the main stock exchange of Bangladesh. It is the first stock exchange of the country. It is located in Motijheel at the heart of the Dhaka city (Dhaka Stock Exchange website). It was incorporated in 1954 and formal trading began in 1956 with 196 securities listed on the DSE with a total paid up capital of about Taka 4 billion (Chowdhury 1994). First incorporated as East Pakistan Stock Exchange Association Ltd in 28 April 1954 and started formal as Dacca (Dhaka) Stock Exchange Ltd in 13 May 1964. After the liberation war in 1971 the trading was discontinued for five years. After 1971, the trading activities of the Stock Exchange remained concealed until 1976 due to the liberation war and the economic policy pursued by the then government. The trading activities restarted in 1976 with only 9 companies listed having a paid up capital of Tk.137.52 million on the stock exchange (Chowdhury 1994). In 1976 trading restarted in Bangladesh, on 16 September 1986 DSE was started. The formula for calculating DSE all share price index was changed according to IFC on 1 November 1993. The Automated Trading was initiated in 10 August 1998 and started on 1 January 2001. Central Depository System was initiated in 24 January 2004. As of 16 November 2009, the benchmark index of the DSE crossed 4,000 points for the first time, setting another new high at 4,148 points. In 18 August 2010, the DSE had over 750 listed companies with a combined market capitalization of \$50.28 billion. In 2010, the index crossed 8,500 points and finally crashed in the first quarter of 2011. Millions of investors lost their money and came out onto the street blaming the speculators and regulators for the bubble that finally burst. DSE is a Public Limited Company and is formed and managed under Company Act 1994, Security Exchange Commission Act 1994, Security and Exchange Commission Regulation 1994, and Security Exchange (Inside Trading) Regulation 1994. The issue capital of this company is Tk.500,000 which is divided up to 250 shares each pricing Tk.2,000. The graphical representation of Global Stock Market is given in figure-1. No individual or firm can buy more than one share. According to stock market rule only members can participate in the floor and can buy shares for himself or his clients. At present it has 238 members. Market capitalization of the Dhaka Stock Exchange reached nearly \$9 billion in September 2007 and \$27.4 billion on 9 December 2009. The management and operation of DSE is entrusted on a 25 members Board of Director. Among them 12 are elected from DSE members, another 12 are selected from different trade bodies and relevant organizations. The Chief Executive Officer (CEO) is the 25th ex-officio member of the board. The following organizations are currently holding positions in DSE Board (Dhaka Stock Exchange Ltd. 1990-2012):

- Bangladesh Bank,
- ICB,
- President of Institute of Chartered Accountants of Bangladesh.
- President of Federation of Bangladesh Chambers of Commerce and Industries,
- President of Metropolitan Chambers of Commerce and Industries,
- Professor of Finance Department of Dhaka University, and
- President of Dhaka Chamber of Commerce and Industry (DCCI).

Background of Chittagong Stock Exchange

The Chittagong Stock Exchange (CSE) began its journey in 10 October 1995 from Chittagong City through the cry-out trading system with the promise to create a state-of-the art bourse in the country. Founder members of the proposed CSE approached the Bangladesh government in January 1995 and obtained the permission of the Securities and Exchange Commission on February 12, 1995 for establishing the country's second stock exchange. The Exchange comprised of twelve Board members, and run by an independent secretariat from the very first day of its start. CSE was formally opened by then Honorable Prime Minister of Bangladesh on 4 November 1995 (Chittagong Stock Exchange Limited 2009-2012). As legal entity CSE is a not-for-profit public limited company. All of its 129 members are corporate bodies. It has a separate secretariat independent of policymaking Board. The Board comprises of brokers and non-brokers directors with equal proportion to ensure the transparency. The Board constituted committees to delegate such functions and authority as it may deem fit. There is an independent secretariat headed by a full time Chief Executive Officer. CSE activities are regulated by its own regulations and bye laws along with the rules, orders and notification of the SEC (Chittagong Stock Exchange website).

IMPORTANCE OF EQUITY MARKET FOR ECONOMIC DEVELOPMENT

The stock market is one of the most important sources for companies to raise money. This allows businesses to be publicly traded, or raise additional financial capital for expansion by selling shares of ownership of the company in a public market. The liquidity that an exchange provides affords investors the ability to quickly and easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investments such as real estate.

The price of shares and other assets is an important part of the dynamics of economic activity, and can influence or be an indicator of social mood. An economy where the stock market is on the rise is considered to be an up-and-coming economy. In fact, the stock market is often considered the primary indicator of a country's economic strength and development.

Rising share prices, for instance, tend to be associated with increased business investment and vice versa. Share prices also affect the wealth of households and their consumption. Therefore, central banks tend to keep an eye on the control and behavior of the stock market and, in general, on the smooth operation of financial system functions.

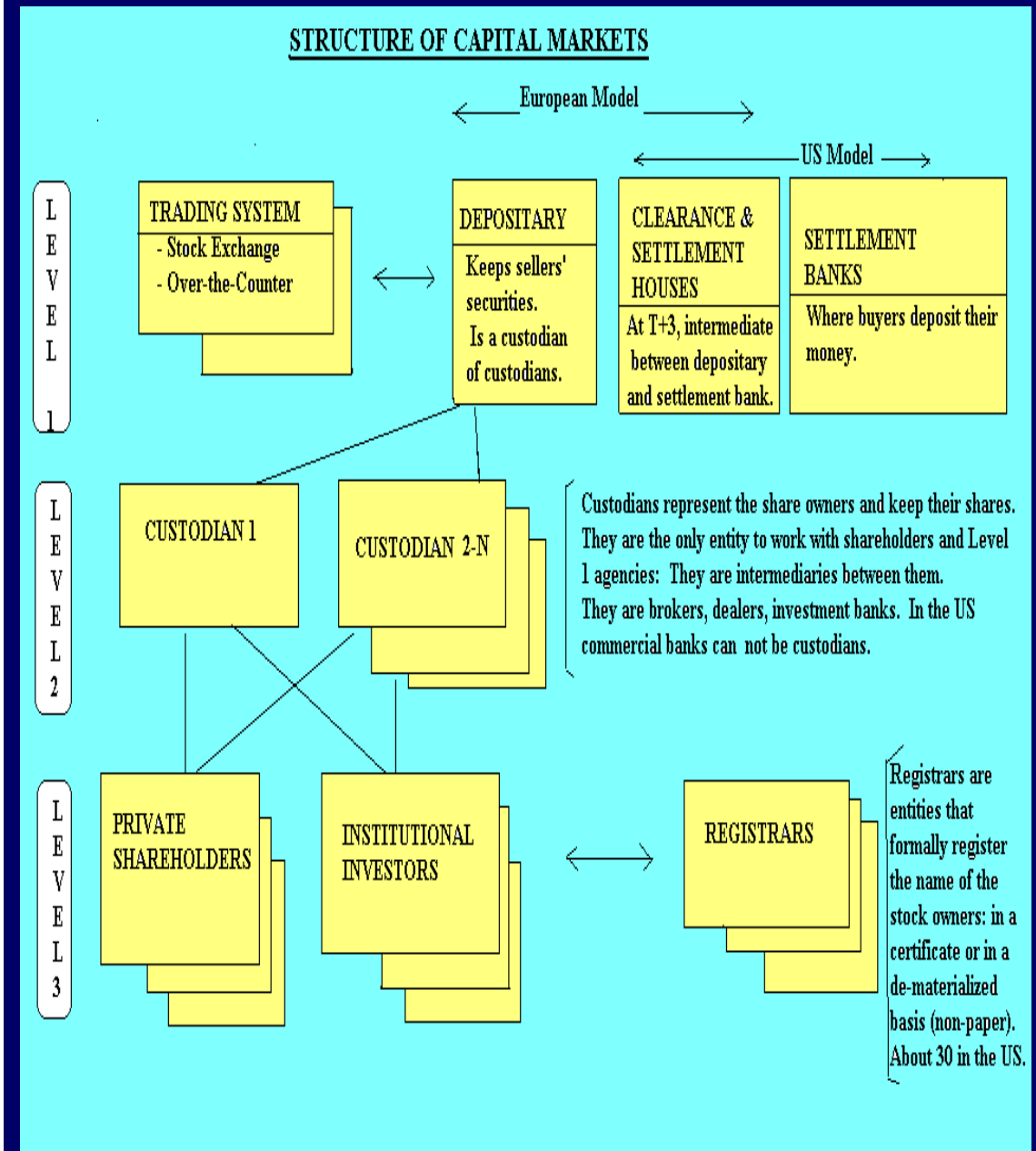
Exchanges also act as the clearinghouse for each transaction, meaning that they collect and deliver the shares, and guarantee payment to the seller of a security. This eliminates the risk to an individual buyer or seller that the counterparty could default on the transaction. The smooth functioning of all these activities facilitates economic growth in that lower costs and enterprise risks promote the production of goods and services as well as possibly employment. In this way the financial system is assumed to contribute to increased prosperity.

To achieve the desired objectives for growth and prosperity the world economy always changed to integrate itself in the parts of the world. Both developed and underdeveloped countries are supported 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 canalize 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

Figure 1: The flow chart (graphical representation) of Global Stock Market

VII. Structure of Stock Markets

The following chart provides a graphical representation of the structure of stock capital markets:



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. After opening of the market to the foreign investors in 1992 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 DES was established to perform the following objectives (Dhaka Stock Exchange website):

- 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 id securities,
- to protect the interest of investor,
- to analyze and review the fiscal measures that affects the investors, and
- to reflect impartial and detailed disclosures about listed companies through publishing journals and brochures.

Emerging equity markets are generally not sufficiently developed to attract the levels of private capital investment needed for significant improvements in economic conditions and social welfare (International Finance Corporation 2005). Related factors that deter potential investors are development economies are as follows:

- low levels of available information from governmental and corporate,
- low quality accounting standards from an investor protection perspective,
- weak corporate governance and careless regulation
- potential investors also face legal barriers such as foreign ownership restrictions and taxes on foreign investment.

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. The alternative to debt finance, of course is equity market. Capital market refers to the market for long and medium term funds for the business enterprise. It can be divided into securities and non-securities market. Securities market in turn may be divided unto the markets for primary issues and markets for secondary trading of the issued securities. 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. 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 finds 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.

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. Subsequent upon government has promulgated the Securities and Exchange Ordinance in 1969 that requires taking 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 SEC was established on 8 June 1993, under the Securities and Exchange Commission 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 (Merchant, Banker and Portfolio Managers) Regulations 1996, Securities and Exchange Commission (Mutual Fund) Regulations 1997, Right Issues Rules 1998 and other guidelines as applicable (Bangladesh Security Exchange website).

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

Analysis of Listed Securities

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 identifies 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 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 if any Government Securities as defined in the Securities Act 1920 or other instruments creating a charge or lien on the assets of the company.

Securities 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 shared, 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 30 June 1990 there were 134 listed securities with DSE. In 2000, the number of listed securities of DSE reached to 239 including 10 mutual funds and 10 debentures.

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.

In 30 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 2000 to 2007 is also shown in table-1. As on 30 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 a bonus issues, impact of decrease in all share price index. All share price index of DSE declines from 1,111.6 in June 1997 to 675.5 in June 1998 and 546.8 in June 1999 respectively. But all share price index shows an increasing trend during the period from 1991 to 1997.

Total number of securities traded in DSE as on 30 June during 2006 to 2010 depicted in figure-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 30 June in 2000 was experienced as Tk.658.08 million as compared to Tk.1331.3 million on 30 June in 1999 with a positive change of 1,254.3%. As a 30 June 2000, total amount traded in DSE was Tk.27,695.7 million as compared to Tk.51,893.8 million as on 30 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

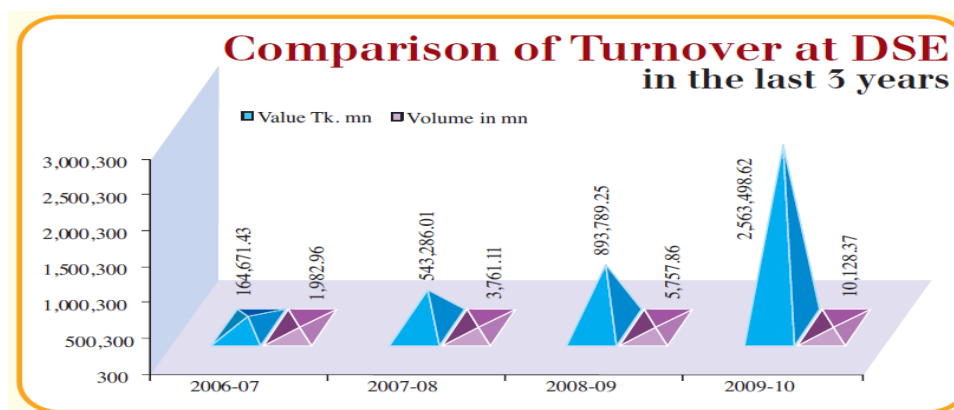


Figure 2: Comparison of turnover at DSE from 2006 to 2010 fiscal years.

million and Tk.51,893.8 million in 1997 and 1999, respectively. This state of affairs indicates that the volume of transaction is increasing day by day with vast amount in 1999 due to the implementation of automation system in trading and clearing of transaction.

Findings

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. Although there are increasing trends in all the indicators, DSE is not free from problems. The problems of DSE may be

summarized as follows (Dhaka Stock Exchange website):

- It has been observed that the share values of some profitable companies have been increased fictitiously some times that hampers the smooth operations of DSE due to price manipulation.
- Financing procedures and delivery of securities sometimes take an unusual long time for which the money is blocked for nothing.
- Some companies do not hold Annul General Meeting (AGM) and eventually declare dividends that confused the shareholders about the financial positions of the company.
- Some membership being the directors of listed companies of DSE looks for their own interest using the internal information of share market.
- 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 which arises technical problems and political infighting.
- As the DSE is small market, the spread/cost ratio is relatively higher which a more important factor for capitalization is.
- The intrinsic value for the securities traded in DSE is 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 involves 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 rater than the market.

SWOT Analysis of Stock Market

Strength, weakness, opportunity, and threats (SWOT) of Bangladesh Stock Market is given below:

Strength:

- The first and for most thing of strength of Bangladesh stock market is its ability to provide high return.
- Regulatory body of Bangladesh stock market that protects the interest of the investors.
- Large number of securities which provides medium for investment.
- Large number of Brokers who plays a role of facilitator for investment.

Weakness:

- The weak point of Bangladesh stock market is its volatility (i.e., high risk).
- It is a kind of gambling where no guarantee of return and some time it depends on luck also.

Opportunity:

- Stock market provides an opportunity to money lender and money seeker to invest and use money for their plan.

- It provides an opportunity to the investor to be the owner of the company and contribute in the business decision of the company.
- Stock market is a kind of indicator of the economic growth of the country where it provides an opportunity to gain according to the inflation of the country or more than that.

Threats:

- There are many competitors of stock market such as post office savings, public provident fund, company fixed deposits, fixed deposits with bank etc. which provides fixed and assured returns.
- Changing of economic condition.
- Capital market instrument is highly risky then money market.
- Changing of government rules and regulations.
- Speed of growth in Capital Market not complemented by the controlling agency.

RECOMMENDATION FOR EMERGING EQUITY MARKET

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

- To introduce automated monitoring system that may control price manipulation, malpractices 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 Quotations System (CQS) should be introduced and implemented that available the exchange specialists' bid-ask quotes to the subscribers.
- Banks, insurance companies and other financial institutions should be encouraged deal in share business directly.
- 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 publicized 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 role in the securities market development in Bangladesh.

CONCLUDING REMARKS

In this paper we have expressed 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 satisfactory. We also 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) which shattered public confidence tremendously. The reason for such state of affairs is deserve 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. Investors should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing in equity market. The capital market in Bangladesh is yet in a developing stage and there is no serious attempt from government to develop it.

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