

## **CHAPTER –2**

### **LITERATURE REVIEW**

Capital market of Bangladesh is a demanding topic and on various sites, studies, journals and newspapers have described the opportunity of future investment in Bangladesh's leading stock exchanges. By understanding the problem and solution of the capital market take the possible decision to the policy makers in the easy ways. This study can provide invaluable information to stakeholders like investor, Shareholders, Employees who involves in the security and exchange commission etc. That allows them to take initiative for improving capital market crisis to overcome and growing stable condition capital market in Bangladesh.

Different authors have written different economic books which relates to capital economy, policies and co-relation between capital market and monetary policy. Therefore, very few studies are found regarding Bangladesh context and their results are also not leading to a proper conclusion. In this part, the researcher reviews the studies related to capital market, financial policy to the aspect of Bangladesh.

Mukherjee and Naka (1995) showed the relationship between stock prices of Tokyo and country's several macroeconomic variables relates capital market, exchange rate, money supply, interest rate and impacts.

Ibrahim and Aziz (2003) the relations amongst stock prices and four macroeconomic variables and how that create impacts of Malaysian capital market. Other research by Ratanapakorn and Sharma (2007) intend to show the employs the Granger to show the causal approach with aim to start the short-term and long-term relationships between the macroeconomic variables and the US stock price index. The four variable are classified as the inflation, money, price, supply and other variable. Based on these studies it could be easily showing that the importance of capital market in Bangladesh and how things are going with stock exchange have significant pros and cons on future economic growth of the country.

#### **2.1. CAPITAL MARKET IN BANGLADESH CONCEPT AND INFORMATION**

##### **2.1.1. Capital Markets**

The capital market is defining as the market in which the individuals can conduct financial trade. The firms in both the private and public sector are able to see the securities on the market of capital and this aid to raise the funds. Also the market in combination of both the primary and secondary sector.

### **2.1.2. Investor explains Capital Markets**

The bond and the stock are the product of the capital markets. For instance, as the firm conduct the IPO, its generates the capital for the public and this need the firms to use the capital market for selling bond or share to the public. This is also implied to the government when they want to see the Treasury bonds in the bond market, and government employs bond to raise capital for their spending. Capital market transactions cover a multitude of deals that can be executed in the financial markets, including mergers and acquisitions. Certain financial institutions focus on performing deals in specific segments of the corporate markets, such as mid-sized deals, also known as middle market transactions. If a mid-sized company is looking to make an acquisition in the financial markets, a financial firm, such as an investment bank, is hired to recommend potential targets. A mid-sized transaction consists of two companies with revenues or sales that fall in a given range, and that size spectrum can be defined by the parties involved in the deal.

### **2.1.3 .Product of capital market:**

Bonds, Derivatives, Debentures, Mutual funds and Shares are classified as the product of the capital market.

### **2.1.4 .Players of capital market:**

The security and change commission, Investors, Stock Exchanges, PLC and Brokers or Dealers are considered as the key players in capital market.

### **2.1.5. Operation of capital market:**

CDBL under securities Act and SEC stock exchange set the rule and regulation for the capital market and suggest in the manner the capital market shall function.

### **2.1.6 .Parameters used to measure size of capital market:**

The size of the capital market is measure by the number of the listed companies on stock exchange, the size of the market capitalisation, weekly or daily trade volume, number of securities issues and the GSP ration in the market capitalisaions.

### **2.1.7. Efficiency indicators of capital market:**

Visible presence of regulation, Dividend yield, Liquidity, exist route regulation by PLC and PE multiple aids in indicating the efficiency of the capital market.

### **2.1.8. CSE role in Bangladesh capital market development:**

CSE plays an important role in Bangladesh capital market by providing, On-line trading services, Automation, training to the Investor, SAFE and other important service.

## **2.2. Future action plan for vibrant capital market in Bangladesh:**

There are number of parties who can vibrant Bangladesh capital market. As the PLC can employ the knowledge of capital market to educated its Directors, the education industry can vibrant the capital market, fully automated settlement system, the pricing mechanism of IPO, the section in the high court and broker house office.

### **2.2.1. The Economist Intelligence Unit:**

The Economist Intelligence unit was founded in 1946 and in the 21<sup>st</sup> century it is most well know magazine and providing help for it 40 offices around the world. The core function of Economist Intelligence unit is to conduct research and provides useful information to the business. The unit is being successful for 60 years and made it most trusted and valuable resource for the financial institution, international companies, government agencies and university. The aim of the Economist Intelligence unit is to provide executives with authoritative analysis and prediction to make informed international decisions.

### **2.2.2. Institutional investor:**

Institutional Investor is considered as the best international business publisher and provides use information of international finance. The institutional under takes the publishes of newsletters, research journal, magazines, maps, directories and books. Also get involved with seminars, training courses, running conferences and online business information which result in creating database for capital market and indicate the emerging markets to invest in.

### **2.3.1. History of capital market:**

In 1635 the capital market begins in the Wall Street. In 1890 the market moved in Mumbai and provided commercial capital for Indian market. The market enjoys the boomed of share investment in 1970s and took many years to comprising in Bangladesh. The stock market in Bangladesh was found in 1954 and at the time the stock market was run under the East Pakistan Stock Exchange Association at Narayanganj. The market seems it first trade in 1956 and the named changed to East Pakistan Stock Exchange LTD and moved to Dhaka in 1958. All trading activity were stopped during the 1971 Liberation War and in 1976 the named changed to Dhaka Stock Exchange and the market is full operation since them, there are 452 companies listed on the stock exchange. The improvement in market was seem in 1994 as created the Securities and exchange commission. The further expansion occurs as the

Chittagong Stock Exchange was added to the capital market in 1995. The same the operation of CSE was start. Hence, the market crash in 1996 result in thousands of investors losing their capital in stock exchange market. In 1990s the present of the trading flooring help is easy operation and follows the cry – out system. To analyzed the failure of the market, the A high powered enquiry committee was created to investigate the reason for market crash. Moreover, the virtually capital market is expanding and providing service to all big cities in the country. The CSE is also offering the internal trading facility to gain the external capital. The DCE will be operational sooner and the Asian Development Bank promise to aid the industry with better IT systems and to become vibrant capital market.

Comparing with the Asia nation capital market, the Bangladesh capital market is small and consider smallest among the main player in the Asia. However, the Bangladesh market is third largest in the south Asia region. There are to full operational stock exchange in the nation by the name of Chittagon Stock Exchange and Dhaka Stock Exchange. It contains of an enthusiastic regulator. The laws and rules is implement by the Securities and Exchange Commission and it also monitors their implications to operating and developed the market of capital. It all consist of the Central Depository Bangladesh Limited and the Central Depository the Bangladesh which provides facilities for the settlement of the transactions of the dematerialized securities in the DES and CSE.

### **2.3.2. History of Stock Exchange**

The share market in the capital city of Bangladesh contain of Dhaka Stock Exchange and DSE, it is the core share market of nation. The DSE is located in the heart market place in the Dhaka, which is the capital of the nation, entitled Motijhil. Dhaka Share Market officially started its trading furcation in 1956. DSM is still in the developing stage and need to travel long to reach the standards of Global Financial Market. The CSE started in the 1995 from the city of Chittagong city and cry out the trading system with the aim to create a state of the art bourse in the nation. The Founder members of the proposed CSE approached the . Founder members of the proposed Chittagong Stock Exchange approached the Bangladesh Government in 1995 and got the authorization to run the Securities and Exchange Commission on same year and become the second stock exchange of the nation. The stock exchange is often considered as the mutual organization and it aim to facilitates trading of the listed companies share, stock and securities to the brokers and traders. The stock exchange deal with the issue of the securities and other financial sector. The stock exchanges also comprise in the payment of income and dividends. The core function of the stock exchange is to increase capital for firms, organize savings for investment, enable company development, and redistribute capital as well as floating capital for financing the development plans of the government.

### **2.3.3. Table (1): Categorization of listed company**

**Categorization: A, B, G, N, Z.**

<b>Category</b>	<b>Dhaka stock exchange (DSE)</b>	<b>Chittagong stock exchange (CSE)</b>
A	155	130
B	18	13
G	1	1
N	13	14
Z	98	72
Debenture (A category)	8	2
Treasury Bonds:	75	-
<b>Grand total:</b>	<b>368</b>	<b>232</b>

## **2.4. MARKET ORGANIZATION**

### **2.4.1. Securities and Exchange Commission (SEC)**

In 1993 the securities and Exchange Commission was founded and was created under the securities and Exchange Commission Act, 1993. The core members, chairperson of the commission are appointed by the existed government and have many responsibility and are involve with administer of the legislation securities. The SEC is the separate body and comes under the Ministry of Finance.

### **2.4.2. Members performing the following function:**

The individual who operate as the SEC employees are responsible for supervise the management. Which include in making the policy which give direction to the sector and lays the rule for staff and create the binding rules to follows. Also act as the administrative tribunal for the decisions of the capital market.

Serve as the members of the Commission and supervise its management. Provide policy direction to industry and staff and promulgate legally binding rules. Act as an administrative tribunal for decisions on the capital market.

### **2.4.3. Members performing the following function of security and exchange commission (SEC):**

### **The Commissions main function:**

- Create the regulating that the firm in the stock exchange need to follows, also for other securities markets.
- Registering and regulating the firms 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.
- Promoting investors' education and providing training for intermediaries of the securities market.
- Barring core member to 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.

### **2.4.4. Achievement of SEC**

The main success of the SEC was seen in 1995, when the commission managed to joined the IOSOC and become the part of international body of the capital market regulators. The International Organization of Securities Commissions (IOSCO), the peak global body of capital market. IOSCO has the key role in maintaining cooperation, mutual assistance alone with the capital market regulatory and the exchange the information. At a time the SEC of Bangladesh participated in many programs created by IOSOC, which includes the Emerging Market Committee. Which meet with APRC, the APRC stand for Asia Pacific Regional Committee. IOSCO or any other associate of IOSCO in veneration of the substances connecting to the securities directions and rules, obedience, implementation etc. IOSCO in set record by have many eligible members to sign onto or committed to sign the Multilateral Memorandum of Understanding (MMoU) concerning consultation, collaboration and exchange of material within January 2010. After exchange of a series of correspondence between IOSCO and SEC Bangladesh concerning the relevant subjects relating to MMoU, Bangladesh SEC has recently been invited by IOSCO to be listed in Appendix B along with other 11-member countries. SEC Bangladesh needs certain amendment in the Securities and Exchange Ordinance, 1969 to become eligible for Appendix A, i.e. to be a full signatory of IOSCO MMoU. SEC Bangladesh has also committed to IOSCO to be a full signatory of IOSCO MMoU after making required amendment in the said Ordinance, 1969, which is under contemplation of the Government.

### **2.5. BACKGROUND OF DSE AND CSE**

In 1952 the government decide to create the stock exchange market in the East Pakistan and was created to encountered the challenge created by Calcutta Stock Exchange as the Calcutta Stock Exchange prohibited the share and securities in West Pakistan stock exchange. Therefore, the provincial industrial advisory council create the committee to operated a stock market in East Pakistan at that time. In 1953, during the second meeting organized by created

committee taken the decision to operate a stock exchange in East Pakistan. The decision was supported by Mr. A Khaleeli, who at that time was secretary of the government of East Bengal, commerce, labor and industries department. After that, the central government in the East Pakistan proposed Karachi about opening a Stock Exchange branch in East Pakistan and the meeting resulted in not favour of opening a branch in Dhaka and East Pakistan felt the need of its own Stock Exchange at that time and Chamber of commerce and Industry emphasize to its member to buy the membership card for RS 2000, for those who supported the independent body of stock exchange in East Pakistan. The committee suggest three possible locations for the stock exchange which are as follows; Chittagong, Dhaka and Narayanganj. This could be possible by appointing committee to analyze industrial personalities and commercial province with Mr. Ispahain to convert the organization of stock exchange. The committee informed its all members and taken feedback if the members are interested in joining the proposed stock exchange market. The meeting of member's result in some success as about 100 members were interested to make the stock exchange and on 1953 the success of those was seen in the face of stock exchange at East Pakistan. The meeting also requested 8 persons to become the promoters of the stock exchange with Mr. Isaphani, who worked at the convener and allow them to create article of association and memorandum to proceed with creating of the stock exchange. The stock exchange was successfully created under the company's act of 1913. The promoters name was as follows; Mr. M Shabbir Ahmed, Mr. J M Addison-Scott, Mr. A C Jain, Mr. Sakhawat Hossin., Mr. A K Khan and Mr. Mhodammed Hanif. It was decided that each member will pay a membership fee of RS 2000 and will subscription rate at 15 percentages per month. At the time the exchange consist of 150 members and meeting was held to promoters the chamber and that time it was decided to appointed Orr Dignam CO., to draw up the memorandum and articles of association of the stock exchange.

The 8 members who are the promoter of the formation of the East Pakistan Stock Exchange Association Ltd in 1954, as the public company was listed on the stock exchange. In 1962 the name changed to East Pakistan Stock Exchange Ltd. The name one again changed in 1964 to Dhaka Stock Exchange. At the period of time the incorporation and the authorized capital exchange was RS 300,000 and was divided into 150 shares. But in 1964 the authorized capital change and increase to TK. 500,000 divided and into as many as 250 shares. In the modern time capital authorized stands at TK. 460,000 and dividend into 230 shares and cost similar over the period of time of TK. 2000 per share. Moreover, the companies can issue 35 shares out 230 shares at premium price which cost TK 80,00,000, only per share of TK. 2000 with a premium of TK. 79, 98,000. As in 1952 the incorporated and officially started the trading in 1956 in Narayangani as the stock exchange as received it certificated to start the business. However, the stock exchange shifted to Dhaka in 1958 and started functioning at the Narayangonj Chamber Building in Motijheel C/A.

### **2.5.1. Formation**

Dhaka Stock Exchange was formed under the Company Act 1994, Commission Regulation 1994, Security Exchange regulation 1994 and Commission Act 1993; the stock exchange is considered as the public limited company. TK 500,000 is current issued capital of the company and the TK.2000 is per share value. The rules are simple, not a company or individual can buy more than one share. The stock market has rule, that only member of company can participate at the floor and they can buy share or buy shares for their client.

There are 238 members at stock exchange and the capitalization is growing at the Dhake Stock Exchange and it manage to reach \$27.4 billion on 2009.

### **2.5.2. Management**

Board of Director, who consist of 25 members runs and operated the Dhake Stock Exchange. Out of 25 , 12 are selected by DSE members and other 12 members are selected by different trade firms and relevant companies. The CEO is considered as the 25<sup>th</sup> members. That consist of 25 member.

### **2.5.3. Trading**

The DSE is operation from Sunday to Thursday and operates between 11.00 hours to 15.00 hours and stock exchange is closed on public holidays and holidays are said in advance. The time during the Ramadan month changed and exchanges operates from 10.30 hours to 13.00 hours.

### **2.5.4. The major functions are:**

- Listing of Companies (As per Listing Regulations).
- Providing the monitor based automatic trading of listed Securities.
- Clearance of trading (As per Settlement of Transaction Regulations).
- Gifting of share / granting approval to the transaction/transfer of share outside the trading system of the exchange (As per Listing Regulations 42).
- Market Management & Regulator.
- Market Investigation.
- Publication of Monthly Review.
- Monitoring the activities of listed companies (As per Listing Regulations).
- Investor's grievance Cell (Disposal of complaint bye laws 1997).
- Investors Protection Fund (As per investor protection fund Regulations 1999).

### **2.5.5. Background of Chittagong Stock Exchange (CSE)**

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. Founder members of the proposed Chittagong Stock Exchange 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, presided by Mr. Amir Khosru Mahmud Chowdhury (MP) and run by an independent secretariat from the very first day of its inception.CSE was formally opened by then Hon'ble Prime Minister of Bangladesh on November 4, 1995.

### **2.5.6. The major functions are:**

The DSE core main is to improve the firm turnover, create a channel for creating relationship with management, improve and update the trading system, try to create the atmosphere for professionalism and high level of confidence. To create the channel to create more product which result in market diversification and improve and give related quality service to member, companies.

### **2.5.7. Capital market window to faster growth**

Although the great recession of 2008 had little effect on economy of Bangladesh. The country is still getting less amount of investment and the economic growth was low during the period of 2009 and 2010, this effect was due to internally factors. As the individual are not willing or ready to take any risk as the country infrastructure is not stable. The added pressure of the extortion and changing or tampering with the work tenders are also the major concern of the investor. The bank charge high interest rate for many years and government, policy maker needed to work on reducing the interest rate charge by the banks. However, the central of the country had recent asked the commercial banks to lower the interest rate to 2 to 3 percentage, but the commercial bank are change at slow speed. Also change in other interest rate had discourage the bank to provide low interest rates. Although existing of high interest rate should discourage the individual from bank but that is not the case in the country, the business people are more comfortable to credits from the banks and not to invest in the capital market.

The great interest rate of not accomplishment credit with banks which as not collected over the period of time had added the attributed to business people to borrow more capital from the bank. However, the option in current period is changed as the bank been over taking by private bank and 75 percentage of the total deposits are done by private individual and oversea private banks. This recent change had change the old habit of business people who intend not to return the borrowed capital. This change in banking systems has limited the business people to get loan at easier. This should encourage the business to invest in capital market for better returns but in Bangladesh the grow in capital market is still limited.

The capital market remains smaller in the country, although the market has great potentiality to grow, the core reason is the lack of interest shows by the policy makers. Moreover, the individual investor had made it possible and the market manner to make \$20 billion. The small business people were not able to take advantage of the opportunity for raising the capital from this market, as the market demand for high premium for selling their equities. This stated the major issues for investor who seeking for long-term interest in the capital market and also put the rule and law at very difficult position, that to the deference of pricing of the initial public contribution. Lately, the capital market introduces the IPO pricing system which is known as the book-building way and hope to improve the small and reduce the further complaint by business people. In recent period the market manages to spread to the district level and managing to bring more investors to the market and for now there are 2.6 million investors who has come under the improved trade networks. Every operation day, week and month new investor are joining the market. The recent demand and more investor joining the market had put the market at overvalued tone and had failed to gained the government attention. The investors locally and globally are interested to put invest in market

but the policy makers are not show any interest and seem not understand the importance of market. The desirable investment in the country economy to can received by the capital market and want to move to growing economy path can be achieved by the capital market. If the market had been given more attention, it can give the middle class as better opportunity of owning industrial assts. Moreover, the market in the Bangladesh could have achieved the dreams of growth in better ways.

#### **2.5.8. The Book Building Method's Affect at Bangladesh Stock Market**

Important to analyze the price at which IPO offer is offered to the people. The record suggests that there is number price quote that investors are interested to pay for the share and as the book gets closer to issues the primary price, the book interested to issue a price which determined by the underwrite or the banker who is interest and willing to analyzing the values of the shares. It is the solicitation of hesitant interest from likely recognized and separate investors by the venture banking organization of a new security issue before the proposing has been accepted by the Securities and Exchange Commission.

The book building method is employ by capital market at the time of offering new share, and it done by primary markets and currently improving the popular over the old method of per-determining the price by the banker or companies, this create more flexibility and the price is more transparency and the primary share price change according to the market demand. It gives the investor more option and aid in investors participate with the companies and the banker emphasis on setting the final price of the issue. As per the demand and supply for the industry, there are different factors affect the demand. This is the common practice carry out by capital market around the world. This new method is simple and acceptable by many member and give freedom to the investor to invest more flexible. Moreover, this process is still very new for the emerging market like Bangladesh and the book building method is still very new phenomenon of process in the third countries and needed to function with IPOs, which emphasize the companies to list the on the stock exchange market.

In many developed countries or developing countries the book building method practice is carry out and companies are able to grate fresh capital. The growing market of the Bangladesh has introduced this system of book keeping and seem some success of implying this method.

#### **2.5.9. History of Book Building method in Bangladesh:**

The book building system was first used by RAK Ceramics company for the Bangladesh market and this method was success employed by approval from the SEC. The firm went for an IPO of 34.51 million of share equity for 10 TK each, the issues was ranged from 40 to 48 Taka each in the month of April. This system aids the companies in the country offers the issue worth Tk of 30 crores of more. Moreover, the succeeding of Rak Ceramic in the year 2010 had encouraged other companies to follows the step of Rak Ceramic and many firms manage to raise capital through book building method. For instance, the M.I Cements, the firm offered its IPO of 30 million share at price of 93-111 TK each.

### **2.5.10. Suspension of Book Building method:**

After the first year of success of IPO book building, the SEC in the country decided to suspend the book building process for raising the new fund. But in early 2011 the still the new orders were passed, some firms manage to list the price on SEC by change the method of book building. However, the regulator since then are trying to evolve a better process to floating IPOs, the focus is to avoid any misuse of the methods as the method in early stage had manipulated some inverteor and the cases was noticed by SEC.

### **2.5.11. Market crash and the role of Bangladesh Bank**

The question is common asked whether the central bank play some key role in bursting asset bubbles. This was an important which was discuss in the literature for a while. It's a balanced argument, as some individual favour the burst bubbles created by central bank as in there thinking the monetary policy must had responded to asset bubbles with moderate manner, in order to avoid any economic distortions. On the other hand, the some argue against the role played by the central bank.

The argument often to concluded the bubble was due to the combination of irrational exuberance, quick jumps forward in the technology and financial deregulation and that is believed to be connected between the monetary conditions and the result in arise of the bubble tenuous. Hence, the central bank is center of attraction for the debate. The recent crash at the stock market could also be associated with come policies of the central bank. The goal of this research it to analysis the following points; to analysis if the monetary policy response was associated to the rise and collapse of the bubble and if the behavior of the financial institutions was optimal to the policy response. In recent time the commercial banks are activity involved with the stock market and it has aid the merchant banking to exaggerated the situation. This move had created them the major player in the stock market. Any option to control will directly effect the capital market. Moreover, the monetary policy is review and been easing in last couples of years and helped the stock market to remain buoyant during these days. Hence, the Bangladesh Bank are not much aware about the exposure to the market. Fortunately, the banks profits from share market improve and this statement is support by the positive number in the income statement and balance sheet and the profit is made from the capital market by banks focuses on the debenture and investing in the shares. The correct number is still not accurate as the data able is not completed or often subject to effectiveness of the data.

However, all the policies intend to minimize the exposure of the bank and that continues still mid of 2010, as the stock index had touched a frightening level. For instance, the situation in the market worsened as the mandatory for all the banks to demanded to have 10 percent of equivalent of their total deposit in the stock market by the end of 2010. As the reality, the ratio was very high than this set level. Result in increasing the cash reserve ratio was a double debacle for the banks. Because, he major players need to sell huge volumes of the share as the issues of liquidity was occurring and this push the share price to decline. This also result in the casts doubt on the reported amount of extra liquidity in the banking industry and was indicate in the report published be BB's. This often result in the banks to withdrawal the large investments from the stock market. This result in the main reason for the recent crash in the

capital market in the Bangladesh. The question arises if the BB had any core reason for stopping the banks from substantially the investment in the stock market. The following reason was draw to solve the question. First the BB needed to contain the inflation, second for bank to credit more in the real estate business, finally, to protect the depositor of the bank and reduce the risky of investment. This study state, as the BB did so to control the supply of the money as it fears the inflation trends. Then BB had analyzed incorrectly.

The cash which was successively behind the shares had some multiplier effect in accumulating more stocks. That does not involve to inflation in any terms and it does not have any correlation with the price of products, which include the food items, the product is considered the main factor of inflation. Also the investing in the capital market out to invest in the real estate industry was not clear. Moreover, there was not strong evident to support the correlation of capital market investment and inflation. The credit given to the merchant banks appears to be insignificant associated to market capitalisation. The next reason is real concern but it does not need any measurement to measure and the soft landing was expected to minimize the banker investment in the market and expect to reduce to 10 percentage sum of the bank's deposits. The commercial banks must be given period of time to for adjustments. Moreover, CRR is not raised at correct time. Due to those reason the BB's policy does not strongly justify the action taken against the banks' to invest in stock market.

In 1990 the Japanese's bursting the bubble in result in the economic recession and is considered as the one of biggest banking crises. Hence, the bursting in the bubble was seems due the burst in real estate asset price bubble and this result in crash of Japanese stock market in 1990s. The core step to stop the bubble included the tightening of the monetary policy and government was focus to create now regulation to administer the real asset price and intended to adoption of the Basel Accord of capital adequacy. After affect of the bubble burst was seem for number of years, as in 1992 and 2003 around 180 banks failed and this number was provided by the Deposit Insurance Corporation, Japan. This result in creating the bank to assumed large burden of non-performing loans, recession and deflation. Throughout the 1990s the monetary policy of Bank of Japan was criticized. It was believed that the monetary policy is the core reason for the creation of the bubble burst and the bubble burst could be stopped with short period of time, particularly when the banks made collateral-based investments in the real-estate industry. It is commonly state that the asset price bubble and the policy of the monetary in 1990s were the core reason for the bubble burst in Japan. The literature on the bubble burst of Japan teach the capital market around a world good lesson and state the role of central banks to create or burst the bubbles.

#### **2.5.12. Monetary policy, capital market and inclusive growth in Bangladesh**

Contractionary and expansionary both are considered as the monetary policy. Expansionary is define as when the total supply of the money increase and contractionary is when the total supply of money decrease. At the time of high unemployment or recession period the expansionary policy is adopted and on the other hand the contractionary policy is used at the time of inflationary pressure by increase the interest rates. Recently, the market in Bangladesh is hearing about the "accommodative monetary policy", which emphasize on balancing between the taming price and supporting growth imperative. Under those policy, the market has seemed fast shifts from expansionary to contractionary and those methods are measure to fine the tune growth in the economy prone which can see the inflationary pressures.

In 2011, the Bangladesh Banks had taken same monetary policy method which result in the speaking of the similar tune in country market. As it is inception, the monetary policy in the country was conducted with aim to access direct control of exchange rates, interest rates and aim to control the volumes, directed the credit flows. Hence, in current time, the direction is lending eliminated and steady liberalization of interest rates has occurred. As the interest rate is depending on the market driven and the floating in the exchange rate was noticed by the BB and Bank kept on selling and buying the foreign money to keep the country liquidity at higher level. This attempted by bank was heard many time and bank stated that there are trying to managed float and working on the moral-suasion. The MPS and BB is considering the second half of the 2011 as important, as the BB and MPS emphasize their energy toward the location and trying reducing the inflationary pressures by providing supporting monetary policy and policy in credit, to the extent feasible and core targeted was to selected priority productive industry. As core priority is given to the small business, agriculture individual and medium business, also the ecological footprint and renewable energy area also remained as the core priority of this industry, as the BB continues to discouragement in the expansion of the business which create wasteful consumption product and unproductive speculation investment. In the developing economic like Bangladesh the monetary policy should focus on providing the balance between the investment growth and the inflationary pressure, as it will help in creating the jobs and will result in reducing the unemployment rate in the country. It believed commonly, as we err, it good if we can err with growth than inflation. A the emerging economic required quick growth, wealth to support the growth and adequate inputs. Bangladesh's main test is to invest more than its current rates, for instance, the GDP is 24% and the country manage to only 35% of its GDP. With the incremental capital output ratio (ICOR) value of 4.0 to 4.5, The saving of the country allows it to growth 8.0 to 8.5%. Also the country need solid level of foreign exchange in reserve which necessary for the desirable growth. In the first three-month payment from the import yardstick was \$ 5.5 billion. BB seems to crop the inflationary pressure well and huge credit growth was seen in unproductive sectors, as the most of the money was invested in the real estate business and capital market. There was 7% growth in the credit, as it changed from 20% to 27% and the inflation rate well control under 8.00%. Moreover, though BB is talking about achieving a better monetary policy at current time and improving in the cash reserve ratio and it was rather following a contractionary policy. Moreover, recently they are emphasis on smoothing the market by releasing more cash by repurchase agreement or REPO. The BB is facing a lot of difficult to differentiated between the normal credit growth to the unproductive sector of credit growth. As BB is focused to protect the banking industry from any effects of possible stock market crash, general susceptibility to the pressure from a popularly elected regime is not allowing them to be focused on execution. The core question is whether the BB has performed its due to key role in the capital market, as the market was in needed for their help. The positive result was that the despite of increase in money supply, the inflation rate remains low which mean the price of food or non-food items remain low, as the most of the cash was invested in the capital market. Moreover, as the BB begin to change the policy to mop up the surplus, there was last decline seen in the market and the liquidity of the market dried out and the market index fall from 8900 to 6300, this fall has push many small firm to loss investment and result in government policy planners bewildered. It was subject to huge debate in the country and many suggested that the BB is responsible for ensuring the real estate to grow through the policy of monetary and this result in the temporary asset bubble or sudden burst in the capital market. However, there are over 40 million or more bank account holders in the country. Improvement in the bank account was seen as more farmers begin to open the bank account with the state-owned bank to channel subsidy. The monetary watch people were

more interest in protect 3.2 million beneficiary owner account holders in the stock brokerage house. That is subject to heated up and massive correction is based on the fundamentals. The answer is short and simple, the BB is emphasized more on the real estate growth, and same the BB required to protect its country banking industry. Moreover, it is action as far warrant as a soul searching. BB found out that the bank exposure to the stock market beyond the control and BB need to control the investment of bank into capital market with care and coordinated perfectly to reduce the effect of banker on capital market. As the large bank intend to pressure the high volume of share sell in the capital market to create a panic in the stock exchange market, this will shaking the confidence and benefit the banker. BB is blame for their action success as the BB turn deaf ears to the SEC, who were later involve in creating liquidity in the stock market. In the modern time the retail investment in the stock market decline, as to many people select not invest in the stock market as the situation in the market is not stable and retail invest wait for the situation to be better and does serious threat to social security and political. Moreover, any regulator emphasized on protecting the regime and aid helping hand in this situation. They should do at least the deep dive evaluation and action in togetherness. There are over 445 listed companies with over USD 50 billion present in the capital market, still the market is considered too shallow, not showing the actual basics, this lack in the result leave the local society inclusive society but Bangladesh market has grown more in equitably and distributed. But still the market result in creating the known asset bubble in the country economy and similar time accelerate the process of regional disparity and inequality in the income to importance extent. In the labour surplus economy, where are employment is need at home and at oversea with increasing rise in the demand and the investment in both foreign and domestic market. Only it possible by the real estate expansion. The country need the labour laws, improvement in the agricultural technology and infrastructure, aid the backwards divisions beyond the metropolis in Dhaka and other region to catch up and needed to empower the poor proactive policies that aid them to participate in the stock market fairly and equitable terms. The country need to coordinated effectively with clear visibility about the goals. To distributed the wealth fairly to encounter the poverty. Therefore the country to creation in the correct streams of the economy.

### **2.5.13. Problems of the Political and others factor and possibilities to overcome all**

The country issues with political stability, monopolistic dominance of the main brokers, euphoria of investment in the shares, aim for quick capital gain, the vacuum in the institutional present in the stock market, inconsistent of the SECs to create the developments, the presence of carb market, not availability of proper application of circuit breaker has result in lack of confidence by the investors in the share price, result in the unexpected fall and rise in share price Delivery against payment tool was used as one of the main vehicles of manipulation. Kerb market has created forged and fake share certificates. Although there are increasing trends in all the indicators, DSE, CSE has some problems need to be solved and the problems are stated as follows;

1. **The Political Equation in the country**, in 1991, The People's Republic of Bangladesh had adapted the parliamentary democracy system to run the country. The current government is run by Awami League and had majority of support in the country. However, the opposition group in the country creating some issues and carry out some strike, demanding so many different think and result in the mass meeting. The activities by the opposition has definitely weakened the government's intentions to improve and develop the capital market alone with

the financial market. Moreover, many financial regulation, commercial methods are outdated, as those method focus on the institution more than the functions. The accountability of governance does lack in many areas and those lack in the area result in the inefficiency in the financial sector, similar concern is seen in the state-owned banking system. However, the government is well aware of the existing problems, it has try to improve the current capital market and improve the governance and aim to create strong institutional capacity. Those problems do weaken the institutions are element by an increasingly confrontational.

2. **A sense of urgency is missing in policymaking**, despite the growing imbalances in the economy and crowding out as Bangladesh continues to channel vast monetary resources into servicing bad loans. Given that macroeconomic changes can happen in short periods of time and that nonperforming loan, which account for a third of the loan portfolio, can create financial sector vulnerability, the bad-loan situation could trigger a severe liquidity crisis nationwide. It can take decades to build a fixed-income market in the wake of such crises. This issue clearly needs immediate and focused attention.

3. **Convinced errors or disadvantages** of the international broader rules and regulations is correlated the development of the country market which is classified as the fixed-income market.

4. Bangladesh market is existing with limited presence of the government securities and does not offer much to support the corporate market bond and also no provide with the intermediaries with ability to create profit base so it can support the bond of corporate in the market.

5. **Regulations and Regulators**, as the market is run by more than one party the regulation and regulators level is overlapping among the authority. SEC and BB share the authority of control and lying the regulation which is often over lapping and lack the jurisdiction over fixed-income market. Commonly, the BB is the regulates for the commercial banks and intend to control the then and NBFIs, control the capital market and the stock exchange. Second problem is, SEC has very little authority to create the rules that needed to followed. This result the SEC has not proposed regulations for issuing the bond or debentures. All rule must be first submitted to the Minister of Finance and wait for their approval and as it approval the law is made and to imply.

6. **Skill of the Investors**: on the other hand, only some of the investors has skill and thinking power to think about put their money in the bond market. However, large number of investors lack knowledge of the financial literacy.

7. **Mediators**: Mediators in Bangladesh does have basic skills that is needed to substitute inactive native corporate bond market. As the chapter state earlier, the banker, financial industry does not enough mediators who are skilled in the securities. Moreover, only few can state the issuers and investors and bring them to bond market. They give very little information and lack the research to support their analysis on the firm to force the investor to investment in the bond market. Also limited merchant bank can do the financial advisory and trust service. This dis motivated the individual to become a market maker for an issues and

this create more gap and create the greater need for intermediaries in the market. This cause the market to be illiquid and also the existing intermediaries does make money and charge high pricing, due this the market seen limited transactions and the intermediaries manage to make money. As they make not be participate, and they deal with risk as well.

**8. Development of mutual stock** in the country has been sluggish. Currently period has seen some demand new stock in the market. Most of the banks and financial sector are in the queue with suggestions for their funds. Mutual fund is often a misjudged topic in the country. Most of the investors do not recognize the difference between shares, bond, debentures and other types of company shares.

9. The SEC lack the professional attitude and need be more efficient in their approaches. The SEC lack the manpower and with current man power it cannot run efficiently. It professional member needed to more training at the home country or overseas. Other core issues the payment structure; with the current payment method they cannot attract high professionals.

**10. Lack of transparency** in public sector borrowing: Public sector borrowing has been riddled with lack of transparency that failed to eventually proffer any reliable demand-supply scenario in which an efficient debt market can function. Because of the frequent shifts and adhoc culture and volatility of demand, many of the debt instruments could not be designed to be publicly traded that could fuel a vibrant market. Efforts are now on to issue tradable instruments and bring fiscal discipline.

**11. Price manipulation:** It has been observed that the share values of some profitable companies have been increased fictitiously sometimes that hampers the smooth operation of DSE. Price of the company's share is increased to profit the companies and sometime subject to fictitiously and some of the items are often hamper the smooth running of the stock market. Taking long period of time to settlement of the payment; the procedures followed by the financing firms and to delivery the securities and it often take longer period of time and result in blocking the money for some thing else.

**12. Delays for settlement:** Financing procedures and delivery of securities sometimes take an unusual long time for which the money is blocked for nothing.

**13. 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

14. Some members being the directors of listed companies of DSE look for their own interest using the internal information of share market<sup>15</sup>. Many companies of DSE don't focus real position of the company as some audit firms involve in corruption while preparing financial statements.

**15. Choice of Members:** selection of the members is important and also give them the membership to be directors of listed companies in DSE and CSE, as it commonly believed the member work for their own interest and employ the internal information of the share market for benefiting.

**16. Issue with the financial statement:** Due the present of corruption in the audit firms, many of the firms does not focus on providing the real financial position of the firm. This inconsistency result, the shareholders and the new investors to not invest much as they do not have clearer ideas of the company financial position.

## **OTHERS**

There are number of other problems share market is facing. First the principle of the centralization for the securities market is not been implemented which cost the technical issues and political infighting. Second the not real value for the securities are issued in the market and traded are often estimated without understanding or considering the current market price for the securities. Third, and most import the absence of proper legal structure and supervisory framework. Fourthly, the market lacks the skilled workers in both non-financial and financial sector of the securities market. Lastly, lack the proper policy of the framework which give the incentives and protection to the investors.

### **2.5.14. Suggestions to improve the activities of Stock Market**

- To introduce automated monitoring system that may control price manipulation, malpractices and inside trading.
- To introduce full computerized system for settlement of transactions.
- To create the environment in listed companies on stock market are focus to publish their correct annual report with correct data and proper information that protect the interest of the investors.
- To understand the control and take legal action against to individual who are making or issues fake certificates.
- Advise to introduce the composite quotation system and must by implemented which will able for the exchange and allow the specialist to bid for asked quotes to the subscribers.
- Emphasis on creating the environment for set up the investment banks, merchant, float on the more mutual fund principally in the private sectors.
- The core partly in stock market like the insurance companies, financial institution and bank must be courage to deal with the share directly from the business.
- Brokers of the stock market shall not be allowed to deal with Scripps for their own interest or account.

- There should be more professional in the management team for DSE and CSE. The management team of professional should not be linked with, the ownership of the stock exchanges and other companies.

#### **2.5.15. Major future prospects that will change the Stock Market:**

8 large profitable public enterprises, in period of 12 to 24 weeks are going to register and listed on direct listing method which will add additional value of need worth of 1 billion USD.

- Under the IPO offer the Telecom Giants in Bangladesh is going to be finalising in the stock market.
- The Power and energy industry is need of capital worth of 5 to 10 billion dollars, need the capital urgently to meet the power demand of 5000 MW.
- The port, deep-sea port is need of additional USD 1 billion and planning to get the capital be listed on the stock market.
- The API and Pharmaceutical industry benefited from WTO and seen a sharp growth.
- The export industry is growing with booming was seen in the textile sector and is linkage with the thriving export- oriented garments.
- Export focused on food handling manufacturing wants enormous money and mechanical capacity to encounter the rising standards of the global market for marine food, fruits and poultry.
- The IT industry in the country is seen with talented developer, and required capital to show their massive potential of software in the industry of the country.

#### **2.5.16. Future Programs for Further Development**

For upcoming year, the government should create active market, emphasis to improve corporate bond aside to the corporate bonds to create any alternative investment option. Next two years all the securities must be brought under the CDS. All the country's main companies with infrastructure like the power companies, telecommunication and energy industry shall be listed on the stock market to create least USD 15 billion and expected to grow to turnover of USD 10 to 15 million per day by 2012. This turnover is suggesting to grow further to USD 70 to 100 million in next two years. Aim to create the environment, so the merchant banks can more active and invest in the market, also to improve the speedy disposal which lead to quick market operation decision. Lastly, to create atmosphere for degree of the transparency in the financial disclosure and structure in the management for good corporate governance.

#### **2.5.17. Capital Market stable growth over the last 9 years**

In last 9 years the country has achieved stable growth and the great recession of 2008 had not or little affected on Bangladesh market, as the market is growing in the exports and remittances the pressure of the global financial meltdown. In 2009 the market experience 6.5 per cent improvement in growth. The great recession last longer then the developed countries anticipated but still the country experience good economic growth, the growth was range from 5.5 per cent to 6.0 percent and last for next couple of year. However, the external debt is increased in recent years and it seems manageable as the ratio of exports is external so the debt is declining. Analyze with the neighboring nation, DSE is still a small market but still pay a major role in the economy. The share of the domestic debt securities in the Bangladesh is around 12% of it GDP in 2006 and at same time the Pakistan and India was at 26.3% and 35.9%. Similarly, the equity market capitalization over GDP was substantially lower among the South Asian countries. Moreover, the country need to accelerate the developed in the capital market because it has a pressing want for the investment resource to bolster in the resource for the infrastructure. The infrastructure must focus on building more power plants, ports, gas line, roads, rails and empower the enterprise system in the country, which will reduce the unemployment rate. The Debt markets is considered as the extremely effective mechanism for matching the long term needs and issuers are the savers’.

Therefore, Bangladesh must accelerate to develop the capital market because it has a pressing need for investment resources to bolster its stretched 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. Debt markets are an extremely effective mechanism for matching the long term needs of savers with those of issuers.

### **2.5. 18. Crisis of capital market**

The stock prices in the nation is shake up as the DSE experience some decline in the share prices and value, fall to 551 points or 6.71 percent. Sum of 243 issues traded on Sunday only 0.5 was up, 236 seen in declining in the share price and 2 issues remained unchanged. The issuer of insurance and banking was main victim of the crisis and lost turnover of TK. 14.90 billion, which is the 17 percent effect comparing with last trading session. The general index in Dhaka Stock Exchange has last 2264 points, 25 percent since 2004, the market hit highest ever level of 8918 points. The market experience 547 points decline at the first 80 minutes for the operation of that trading days of 2008. However, the stock prices started to regaining as a part of investors took to the streets and result in violent protests to ended the day with 105-point lower. In 2013 December, on Sunday the market increase by 285 points and the stock price at DSE has doubled over the period of the last year and great involvement by general investor and institutional. The insiders of the market suggest that the profit was taking by the banks at the end of their accounting year and shortage of the liquidity is seem as to hike the rate at CRR. Statutory Liquidity Ratio (SLR) and central bank's coaching connecting to banks experience to stock market as main reasons for the ongoing corrosion in stock price.

### **2.5.19. Reason behind this crisis**

There were number of reason for the crisis, first reason combined the number of inter-related factors, as the inability of the regulator’s to coordinated, not well unjustified or very

frequentations, the issue with liquidity of the BB and banking system. The risk informed by the IMF to the commercial banks over the proportional exposure of the stock market, the number of the investors' year-ending move to present a bright achievement to their shareholders and consumers and previous but not least the "rumors". Rumors killed humor of the small investors. Too frequent, uncoordinated and unjustified measures of the Securities and Exchange Commission (SEC) through controlling the liquidity flow failed to establishment the market despite issuing directive after directive. In fact, too frequent and inconsistent measures by the regulator send signals of uncertainty in the market forcing the investors to a panic reaction.

In August, the SEC instructed the lenders to follow a net asset value (NAV)-based calculation for loan disbursement as well as maintenance. The NAV-based calculation forced a merchant banker or a stockbroker to provide loan based on value of a stock as determined by adding the market value to NAV and dividing the sum by two.

#### **2.5.20. Impact on socioeconomic environment**

The investor main consist, who has the share is that if the shares price falls it will directly affect their wealth, if the shares price falls greatly the effect on the financial outlook will be great. If the investors are losing money, they will not plan to spend more on the shares, it is also correlated with the consumer spending pattern. Moreover, the effect is not given to much importance. Often the investor who purchase the shares are prepared to loss the investment. However, the falling in the share price can affect the future of the companies to raise the capital. The companies who are expanding to grow or expand can issues and raise the borrow and often issuing more share. It gives the low cost way of borrowing more money. Moreover, with falling share prices it becomes much more difficult.