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STOCK MARKET AND ECONOMIC DEVELOPMENT IN BANGLADESH: A CASE STUDY OF CHITTAGONG STOCK EXCHANGE

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Keyword: bangladesh, economic development, market capitalization, stock market.

I. INTRODUCTION

Stock market is considered to be a barometer of the Economy. The economic development of a country depends largely on the effective performance of stock market. The stock market augment the process of economic development through a number of ways: a) bringing together holders of surplus funds and users of such funds; b) offering a broad spectrum for investment and financing choices to both investors and issuers, c) drawing more institutions into investment, and e) reducing the dependence of industrial enterprises on non-security market for capital. Stock market can perform well to meet the continuous financial needs of business enterprises if exist a congenial environment for boosting confidence of both stock market operations and investors. The growth and development of stock market in a market economy largely depend upon the creation of enabling environment for boosting up investors' confidence. Bangladesh capital market has achieved some major

milestone events in the recent past. The capital market operations in this part of the country started in mid-fifties with the establishment of East Pakistan Stock Exchange Association in 1954, which started trading in 1956. Initially it was a mutual organization (cooperative body) which was corporatized in recent activity of the Dhaka Stock Exchange (DSE) in term of turnover in the name of Dacca Stock Exchange Ltd. During those early periods until 1971, all trades in the exchange were conducted using trading data collected over telephone from Karachi Stock Exchange. After independence of Bangladesh, the operations of the stock exchange remained suspended until August 1976. At that time market trading started with only 14 listed companies having market value of only taka 90 million. The trade volume was very thin and could not attract investors. Over time some reform in-initiatives were taken to strengthen the market. First time Tk.1crore daily trades were recorded in April 1992. Government adopted the Securities and Exchange Commission Act 1993 and established the SEC as the regulatory authority for the market and the Securities and Exchange Commission (SEC), established in 1993 under this Act, as the central regulatory agency oversees the activities of the entire capital market including issue of capital, monitoring the issue of stocks and operation of the stocks market including regulating of portfolio market.

Bangladesh capital market is one of the smallest in Asia but within the south Asian region, it is the third largest one. It has only two full-fledge automated stock exchange Namely Dhaka Stock Exchange (DSE), Chittagong stock exchange (CSE) and OTC stock exchange operated by CSE. It also consists of a dedicated regulator, the Securities and Exchange Commission (SEC), since, it implements rules and regulations, monitor their implication to operate and develop the capital. It consists of Central Depository in Bangladesh that provides facilities for settlement of transaction of dematerialized securities in CSE market and DSE.

II. RATIONALE OF THE STUDY

The Stock market is the market for long-term loans and equity capital. Developing countries in fact, view capital market as the engine for future growth

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through mobilizing of surplus fund to the deficit group. An efficient capital market may perform as an alternative to many other financing sources as being the least cost capital source. Especially in a country like ours, where savings is minimal, and capital market can no wonder be a lucrative source of finance.

At times when the banking sector of the country is facing the challenge of bringing down the advance-deposit ratio to sustainable level, the economy of the country is unfolding newer horizon of opportunities. Due to over-exposure level of the financial system the securities market could play a very positive role, had there been no market debacle.

The capital market also helps increase savings and investment, which are essential for economic development. A Stock market, by allowing diversification across a variety of assets, helps to reduce the risk of the investors must bear, thus reducing the cost of capital, which in turn spurs investment and economic growth.

From the above points it is easily realize that Stock Market is the most important sector to accumulate capital for the industrialization of the country, but it is most vulnerable. For that, I have motivated to dig deep into these issues and accordingly I have undertaken the study to evaluate the performance of the Stock Market. The study is an endeavor that will be helpful to the listed companies, stock brokers, Management of CSE, SEC, and Bangladesh Government.

III. OBJECTIVES OF THE STUDY

The main objective of the paper is to ascertain the impact of stock market on the economic development of Bangladesh. More specifically the main aim of this study is to evaluate stock market performance of the Chittagong Stock Exchange, highlight its growth and development, analyze the performance of securities listed and examine the market capitalization as well as the contribution to GDP of the country.

IV. METHODOLOGY

The article is basically based on secondary data. Annual Reports and Monthly Reviews of Chittagong Stock Exchange Ltd., Annual Reports of Securities and Exchange Commission, Investment Corporation of Bangladesh are the main sources of secondary data. In addition, capital market reports, Resumes of the Activities of Financial Institutions of Bangladesh, Annual Reports and other necessary papers of the listed companies of CSE and other related organizations are also viewed.

a) About CSE

Chittagong Stock Exchange (CSE) the second stock exchange of the country was established on 12 February, 1995 with the mission: To create an effective,

efficient and transparent market atmosphere of international standard to save and invest in Bangladesh in order to raise fund and accelerate industrial growth for overall benefit of the economy. Being a modern stock exchange, after its setting up in Agrabad commercial area of the port city, CSE has infused many new and innovative ideas for the development of share market. After six months of its incorporation in 1995 floor trading was started with open cry- out auction system. In the backdrop of a strong need to institute a dynamic automated and transparent stock exchange in the country, seventy reputed business personalities under the leadership of Mr. Amir Khosru Mahmud Chowdhury MP, the founder president established this bourse in the commercial capital Chittagong. Only 30 securities were listed on the first day trade when market capitalization stood at US\$ 0.2 Billion. Now CSE is a completely automated exchange with screen based trading facility on countrywide communication network. A policy-making committee having 18 members including 12 elected from its general members runs CSE. The Security and Exchange Commission selects other six members. The members of the committee elect the President and 3 vice-presidents of CSE.

The committee runs the exchange following the Security Act 1920, the Security Ordinance 1969, the Security and Exchange Commission Act 1993, the CSE Automatic Transaction Regulation 1999, the Chittagong Stock Exchange Investors Protection fund Regulation 1999, the Margins Rules 1999, and the Stock Exchange Transaction Resolution Provision 1998.

CSE made the government to launch the central depository system on wide area network connecting Dhaka, Shylet, Rajshai, Coxesbazar, based brokers to Chittagong enabling hinders of thousands of people to invest in the securities market. CSE made the government to launch the central Depository System and ails after proactive initiative of CSE, SEC is now in the process of implementing the idea of establishing a securities trading institute in the country alongside CSE has always been very active in the promoting stock investment by creating awareness among the general public since its inception.

CSE is committed to build and maintain a transparent, accountable and modern stock exchange to cater of the needs of the capital market for the best interest of the national economy.

b) Indices

i. CSE30

CSE-30 index is very useful for providing a historical comparison of returns on money invested in the stock market against other forms of investments. It can also be used as a standard against which to compare the performance of an equity fund, the CSE said in a statement.

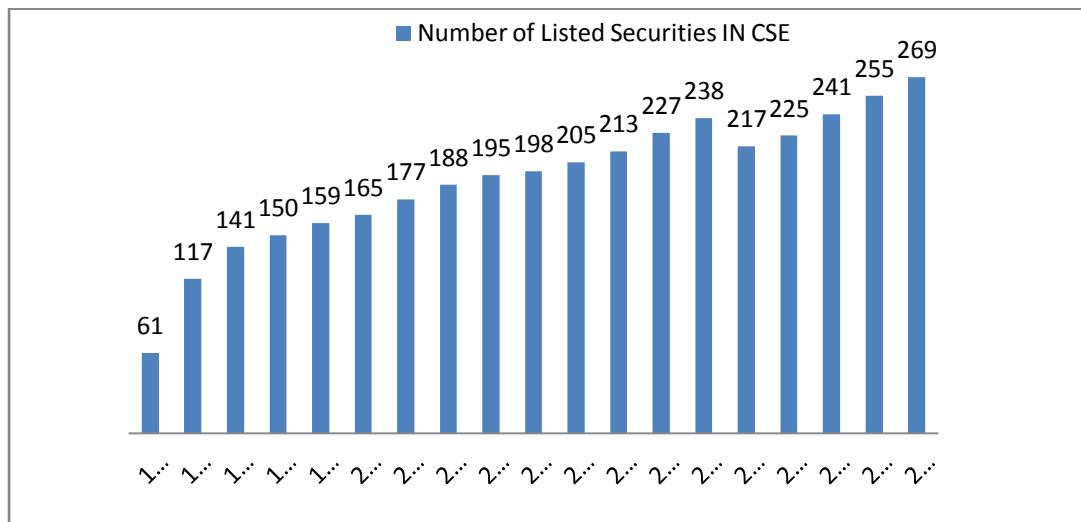
ii. CSCX (Selective category Index)

CSCX (CSE Selective Categories' Index) comprised A, B & G category companies. This index includes all but not the Z category companies. This also excludes the companies/scripts which are debt securities, mutual funds, suspended for indefinite period and non-traded for preceding six months of review meeting. The index will be reviewed in the Index Committee Meeting after every six months like other two indices of CSE.

iii. CASPI (All Price Index)

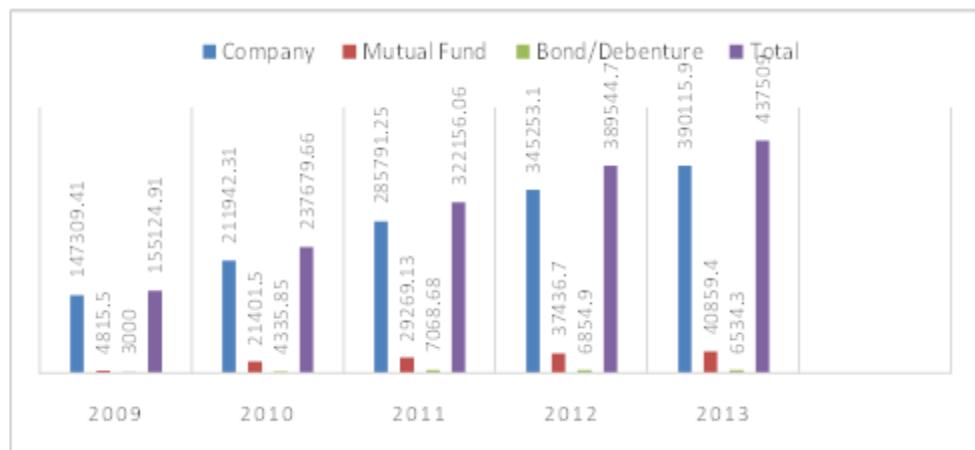
The only index the CSE has been maintaining since 10th October 1995 is an ALL SHARE PRICE

c) Number of Listed Securities in CSE



It is observed from the graph that between 1995 and 1996 the number of listed securities in CSE increase sharply. But from 1996 to 2008 it increased slowly. Between 2008 and 2009 number of listed securities fall into 217 from 238. From 2009 to 2013 almost every year number of listed securities increased.

i. Paid-up capital of listed company in CSE(Million Taka)

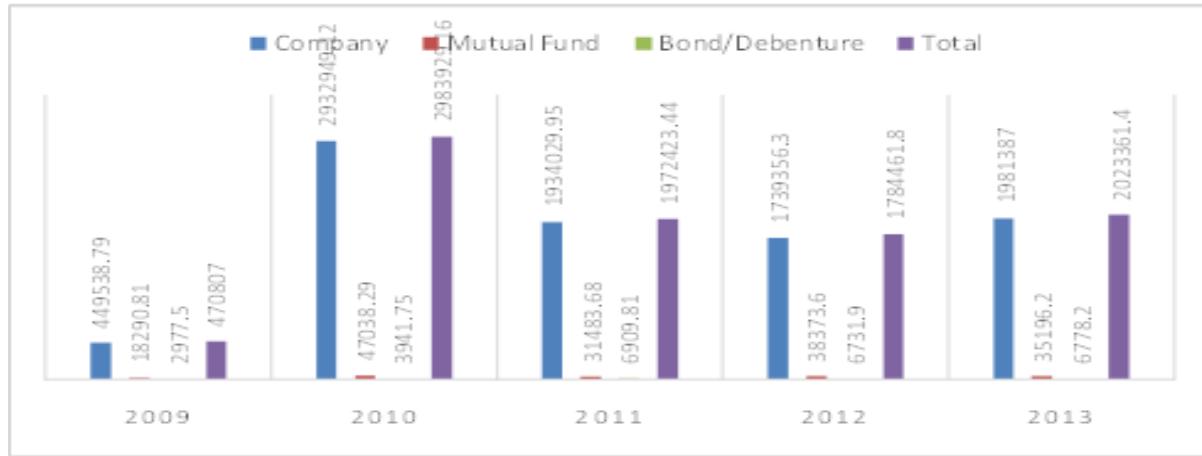


INDEX using Chained Panache method.. This index was subject to unusual ups and downs and without a distinct base value. Therefore in need of a clean slate CSE finds the date 1 January 2000 is the best date to start new Indices. An All-Share Price Index with new formula and base date 30th December 1999 (the last day of the year) and new base index of thousand (to mark the millennium) will replace the existing one and A completely new Selective Index incorporating 30 scripts with base date 30th December 1999 and base index 1000.

From the above graph we can easily say that, Paid up capital of listed company in CSE increase gradually year by year. This is the good sign for the development of the share market of our country. If our Share markets develop properly, industrialization of the

country can achieve easily. As we know that without development of the stock market, industrialization of a country is quite impossible. At last we can say that paid up capital showing positive performance.

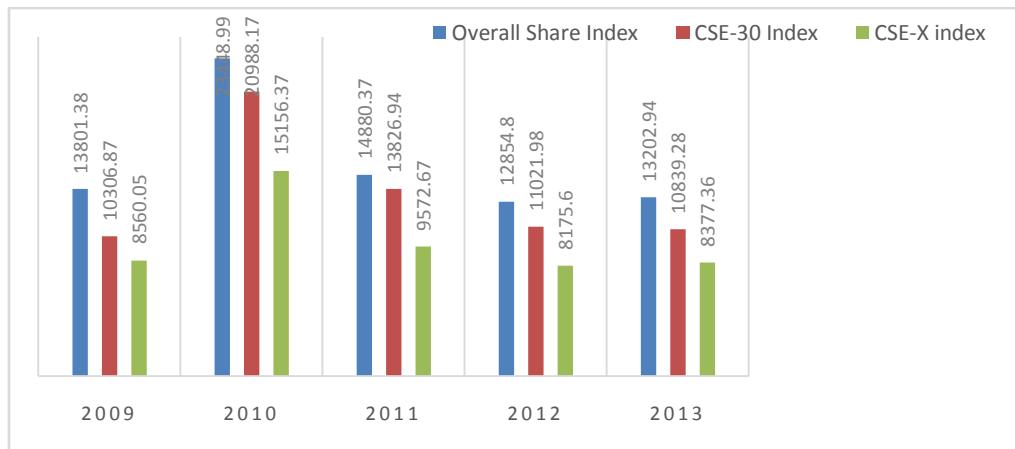
ii. *Market Capital of the Listed Securities in CSE (Million Taka)*



From the graph we are able to realize that, Market capital of the listed securities is not stable. In 2010 there was an excellent market capital increase happen in compare to year 2009.but it fell in 2011 in

great extent. In 2012 and 2013 it increases slightly. To develop a country gradual increase in the market capital is indispensable. Although last two years it increase partially but it should be increased in proportion.

e) *Price Index of Listed Securities in CSE (Million Taka)*



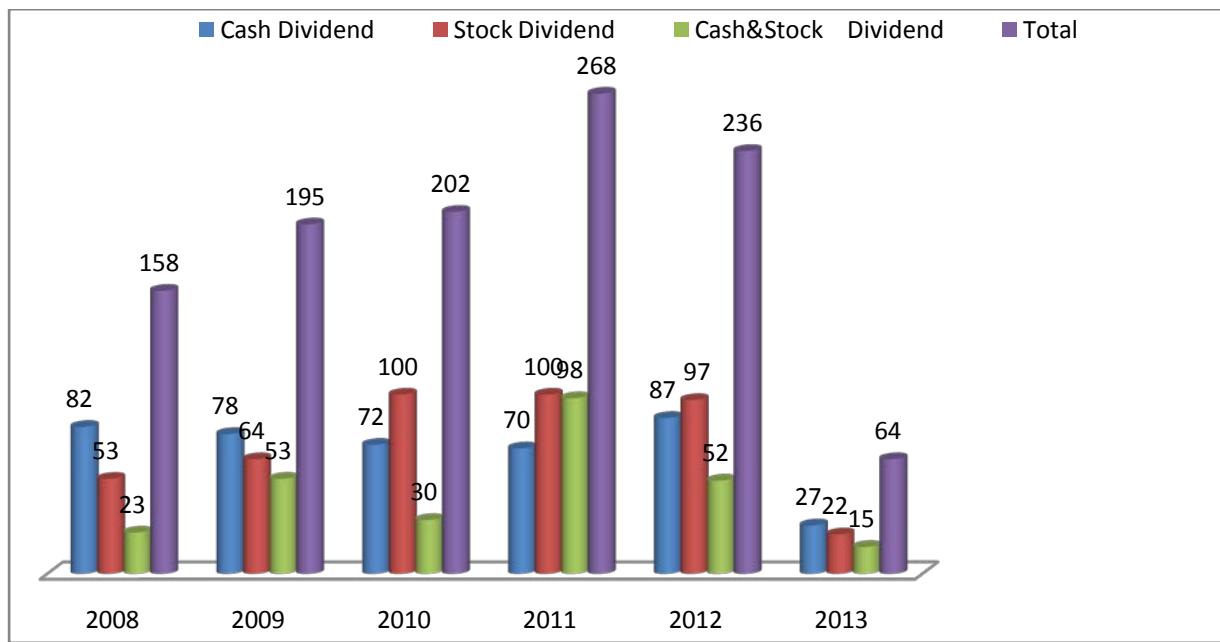
In the above table we see that, in 2010 price indices increased sharply in compare to year 2009. But it fell in 2011 dramatically. Although it again fell in 2012 slightly, but in 2013 it increased slightly. so we can say that price indices show, our capital market is highly instable. To show excellent performance, it needs to be stable. SEC should work for making stable stock market, which will attract the small investors to come forward to invest in stock market.

f) *Sector Wise Financial Performance of Listed Securities (Million Taka)*

Sl No	Sector	Index			% Change	% Change
		2011	2012	2013	2011-2012	2012-2013
1	Life Insurance	102218.47	98375.34	124880.73	(3.76)	26.94
2	General Insurance	11675.85	8978.52	9135.30	(23.10)	1.75
3	Textile & Clothing	4131.89	3308.72	3646.20	(19.92)	10.20
4	Pharma&Chemicals	15856.2	14206.86	18050.36	(10.40)	27.05
5	Foods and Allied	7660.66	6094.49	9041.37	(20.44)	48.35
6	Cement	3446.34	3837.81	4294.44	11.36	11.90
7	Eng. & Electrical	4429.12	4821.48	6405.86	(25.01)	32.86
8	Leather & Footwear	4317.63	3445.34	5283.05	(20.19)	53.34
9	Services & Property	3305.39	3548.61	2925.28	7.36	(17.57)
10	Papers & Printing	1783.92	977.48	1383.45	(45.21)	41.53
11	Energy	8738.66	8702.14	9890.80	(0.42)	13.66
12	Mutual Funds	5526.33	5443.53	4833.91	(1.50)	(11.20)
13	Bank	59775.75	43801.42	37597.31	(26.72)	(14.16)
14	Ceramic	729.8	545.36	535.56	(25.27)	(1.80)
15	ICT	8221.34	7128.97	8039.11	(13.29)	12.77
16	Leasing & Finance	28801.83	23464.85	23028.06	(18.53)	(1.86)
17	Telecommunication	989.74	1104.68	1341.85	11.61	21.47
18	Miscellaneous	6858.11	6752.03	6306.06	(1.55)	(6.60)

From the above table, it appears that between 2011 and 2012 Telecommunication sector gained most in respect of sector index followed by Papers & Printing sector. But in the 2013 Leather & Footwear sector gained most in respect of sector index followed by Foods & Allied sector. In the overall market situation Telecommunication sector growth sharply and Cement sector increase constantly. But the loss of mutual funds sharply increases. Sectors which made the loss in two financial years: Mutual Funds, Bank, Ceramic, Leasing and Finance, Miscellaneous.

g) Number of the Listed Companies in the CSE Declared Dividend



From the above table we see that, in the 2011 highest listed number of the companies declared dividend as calculated total 268 companies and lowest dividend declaration occurred in the 2013 recorded as total 64 companies. We also see that from 2008 to 2011

dividend declaration of the listed companies grew gradually and it fell last two years. But in the last year it fell sharply. So we say that in the last year performance of the listed securities is not expected good.

h) Market Capital Growth and Turnover of CSE

Year	Listed securities	(IPO)	Issued Capital (Mn Tk.)	Market Capitalization (Million Tk.)	Turnover (Mn Tk.)	Price Index*
2002	185	9	31079.9	60467.7	13586.1	1841.14
2003	199	10	41967.6	85312.3	6688.6	1642.78
2004	195	3	46978.7	215010.8	17551.3	3597.70
2005	210	16	55519.3	219942.8	14042.7	3378.68
2006	213	6	69378.4	270510.7	15893.1	3724.39
2007	227	13	89173.9	612580.02	52590.3	7657.06
2008	238	-	121603.2	807684.03	99803.7	8692.75
2009	217	18	155124.9	1470807.05	162562.6	13181.37
2010	232	7	206774.00	2241768.00	217112.09	23449.0
2011	241	13	285791.25	1934029.95	186337.01	14880.37
2012	255	16	389544.7	1784461.8	116905.11	12854.80
2013	269	14	437513.6	2023361.4	99038.1	13202.95

*All share price index is calculated on weighted average method from 24 November, 2001.

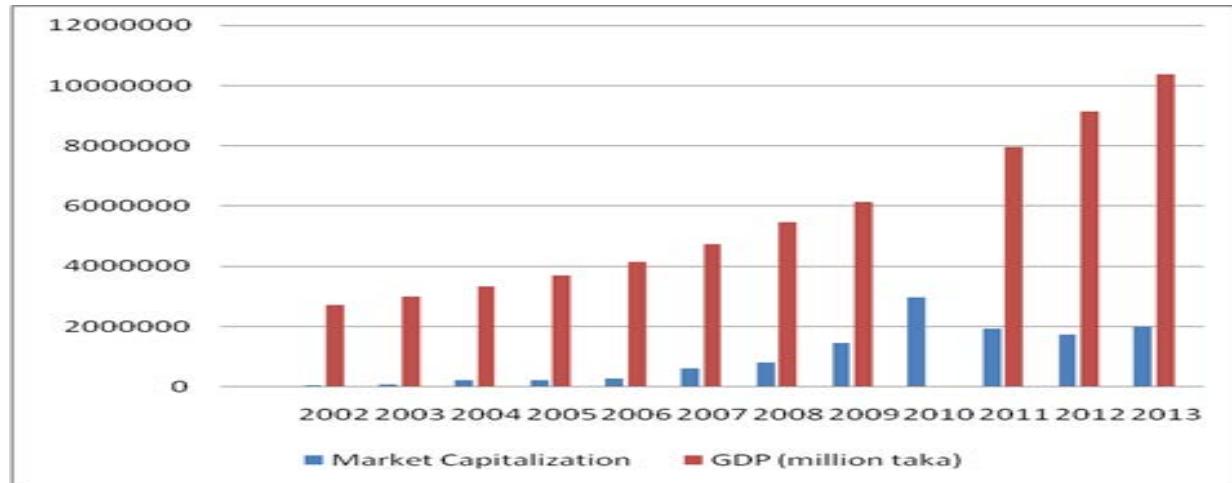
*All share price index is calculated on General Share Price Index (excluding 'Z' group) by withdrawing weighted averageMethod from 9 December, 2003.

The index base was 1000 for CSE From the year 2000. Previously it was 100.

From the above table, we can easily evaluate the performance of CSE. From 2002 to 2013 number of listed company increased, although initial public offerings fluctuate that means not that CSE perform weakly. It means, in every year except 2008 companies issued new shares for the public. Issued capital and

market capitalization of the CSE increased every year through the era. Higher the market turnover indicates the higher performance, Market turnover of the CSE fluctuate. It should be gradually increased. Price index increased gradually this is also good.

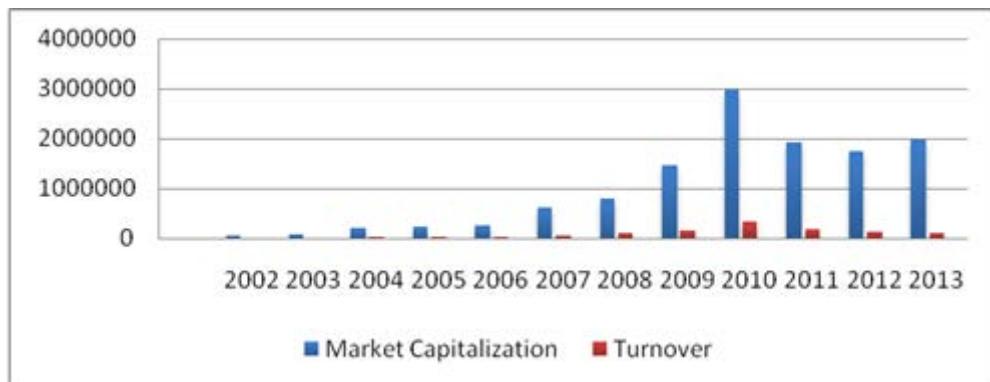
i) Market Capitalization of CSE and Contribution to the GDP



From the above table we can easily say that, from 2002 to 2004 market capitalization and its contribution in the GDP increased at 6.07% from 2.21%, but in the 2005 it decreased to the 5.61%. It again increased in the year 2006 to 6.44%. From the year 2006

to 2009 it increased moderately at 23.92% from 6.44 %.In the year 2010 it increased sharply to 43.20%, but it fell in the year 2011 to 24.27% and in the 2012 to 19.01%. In the last year it increased slightly to 19.08%.

j) Market Capitalization and Turnover of the CSE



From the above chart, we can say that highest market turnover ratio with the market capitalization in 2002 and lowest in the 2013.Average market market capitalization is Tk 1031542.25 million and the average market turnover value is Tk93701.52 million. The average market turnover ratio with the market capitalization is 9.08, By considering overall calculation we can say that ,the contribution of the CSE in the market capitalization of our country is indispensable. So SEC should make necessary rules and regulations to increase performance of the CSE.As the performance of

the CSE will increase our country capitalization also increase for the industrialization and development.

k) *Performance Summary Statistics of CSE*

Particulars	2008	2009	2010	2011	2012	2013
Market Days	238	244	244	235	238	238
New Listing	15	16	23	14	14	17
No. of Securities	238	217	225	241	255	269
% Changes	3.93	(8.82)	3.69	7.11	5.81	5.49
Annual Turnover(BDT Mn)	10074705	16201931	34092930	18633654	11690522	9903754
% Changes	92.37	60.82	110.43	(45.34)	(37.26)	(15.28)
Daily Average Turnover(BDT Mn)	423.30	664	1397.30	792.92	491.20	416.12
% Changes	91.63	56.86	110.44	(43.25)	(38.05)	(15.28)
Number of Shares Traded('000)	972811	1338780	2129129	2518282.47	2863509.68	2763476.06
% Changes	49.15	37.62	59.04	18.28	13.71	(3.49)
Number of Contracts	2805138	4403202	7415220	6059995	4375574	3896618
% Changes	79.09	56.97	68.41	(18.28)	(27.80)	(10.95)
Market Cap.(MnTk)	807875	1470807	2983929	1972423	1784461	2023261
% Changes	31.75	82.06	102.88	(33.90)	(9.53)	13.38
CASPI	869.75	13181.38	23448.99	14880.37	12854.80	13202.94
CSE-30	7566.95	10306.87	20988.17	13826.94	11021.98	10833.28
CSCx	5680.59	8560.05	15156.37	9572.67	8175.60	8377.36
Number of Company Declared Cash Dividend	82	78	72	70	87	27
Number of Company Declared Stock Dividend	53	64	100	100	97	22
Number of Company Declared Cash & Stock Dividend	23	53	30	98	52	15

In the table we see that, from the year 2008 to 2013 market days fluctuate within nine days. In the market days, new listing number of securities changed positively from 2008 to 2013 except the year 2009. Number of the share traded also increased over the period except 2013.

In 2013, CSE all share price index (CASPI), CSE selective categories Index (CSCX) recorded increase by

2.71% & 2.47% respectively while the CSE-30 Index decreased by 1.66% on point to point basis compared to the previous year. The average daily turnover decline by 15.29% recording Tk416.12 million in 2013 against Tk 491.20 million in 2012. market capitalization at the end of the year 2013 was USD26023 million as compared to USD22376 million, registering increase of 16.30%.the year 2013.

l) *Financial Highlights of the CSE*

Particulars	2008	2009	2010	2011	2012	2013
Operating income	124885616	191046083	279130352	227056343	212565076	154704104
Other Income	64877717	87154367	226862093	368026996	439015114	526943090
Total Income	189763333	278218450	505982445	595083339	651580190	681647194
Operating Expenses	61859317	86662956	122166207	146945839	153852680	236804807

Depreciation& Amortization	6644434	10125834	14311626	40935149	46883874	53307883
Total Expenditure	68503751	96788790	136477833	187880988	200736554	290112690
Excess Income over Expenditure	<u>121259582</u>	<u>181429660</u>	<u>369504612</u>	<u>407202351</u>	<u>450843636</u>	<u>391534504</u>
Total Reserves & Funds	722894478	2017435249	3780639861	4186442212	4637285848	257152837
Investment in FDR	405000000	1687500000	2005000000	2830000000	3450000000	3775000000
Paid-up Capital	405000000	41100000	43800000	44400000	44400000	6345248400
No. of Employees	68	73	84	98	97	96

In the above table show the financial position of the CSE from the year 2008 to 2013. In the table we see that total income and expenditure of the CSE increased in every year from 2008 to 2013. For the increased amount of the total expenditure of CSE, net profit fluctuates in every year. Sometimes it was better than the previous year; few times it was worse than the previous year. Investment in the FDR, paid up capital increased gradually in every year. Employees of CSE increased gradually in every year up to the year 2011, last two years it was decreased by two employees.

The year 2013 ended with a net profit of Tk391.53 million which was 59.31 million lower than that 2012. The exchange achieved surplus during the year, the operating revenue declined by 27.22% as the row of falling turnover continued this year too. The listing fee also dropped by tk35.84 million. Meanwhile, as the free annual maintenance period came to end the expenses under this head increased by Tk57.23 million in 2013. The general expenses increased by Tk24.09 million due to increase legal and professional expenses centring demutualization. CSE has to count excess depreciation of Tk 5.88 million due to the change in fixed asset base for revaluation as per the requirement of the exchange Demutualization Act 2013. In the 2013 total reserves and funds decreased with compare to year 2012 but investment in FDR and paid-up capital increased in 2013 against the year 2012. After all, although net profit decreased in the year 2013 than the year 2012, but performance through the year was good.

V. KEY FINDINGS AND RECOMMENDATION

Number of listed securities showing an increasing trend, from 2009 to 2013 almost every year it had increased. The paid up capital of the listed securities increase gradually year by year which is a good sign for the development of the stock market. Price indices are showing an unstable position of CSE, in 2009 it was low then in 2010 it had increased but it fell in 2011

dramatically. Although it again fell in 2012 slightly, but in 2013 it increased gradually. To show excellent performance, it need to be stable. SEC should work for making stable stock market.

Though the initial public offering fluctuate, number of listed companies in CSE increased from 2002 to 2013. Issued capital and market capitalization of the CSE increased every year through the era. Market turnover of CSE fluctuate over the year, CSE should try to increase it gradually.

The average contribution of the CSE to the GDP is 18.29%, this is mentionable contribution of the Chittagong Stock Exchange. So we can say that performance of the Chittagong stock exchange is the most important factor for the development of the country. Government should take necessary steps to develop our capital market to develop the country.

Average market capitalization of CSE is Tk 1031542.25 million and the average market turnover value is Tk93701.52 million. The average market turnover ratio with the market capitalization is 9.08. By considering overall calculation the study shows that, the contribution of the CSE in the market capitalization of the country is indispensable. Since the performance of the CSE will increase capitalization, industrialization and development of the country, SEC should make necessary rules and regulations to increase performance of the CSE.

VI. CONCLUSION

At the end of the study, it is understood that there is no way to improve our economy without augmenting the industrial sector from the present stalemate situation. At the beginning of the new millennium signs of improvement in the stock market are seen and it is evident that it has started contributing to the development of an alternative source of industrial financing gradually. CSE's contribution to this gradual change is immense which cannot be ignored. CSE's

relentless endeavour since its establishment to develop an active and vibrant capital market in the country has become a landmark of success.. CSE's continuous efforts in the pursuit of developing a mature, stable and an expanded stock market will always be there in its mission and vision.CSE has been performing different investment related jobs, and undertaking and implementing different programs in order to accomplish its objectives.

The study shows that CSE develop capital market of Bangladesh by developing many tools in the capital market which are previously discussed, the contribution of the CSE is indispensable in the industrialization of the country, CSE create employment opportunity in the country. Since the establishment to the present situation CSE's gradual development indicates a bright future of the capital market as well as the economic growth of Bangladesh..

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