

Bangladesh Economic Update

Capital Market

October 2011



উন্নয়ন অন্বেষণ
Unnayan Onneshan
The Innovators

centre for research and action on development

Bangladesh Economic Update
Volume 2, No. 9, October 2011

Acknowledgement:

Bangladesh Economic Update is an output of the Economic Policy Unit of the Unnayan Onneshan, a multidisciplinary research centre based in Dhaka, Bangladesh. The report is prepared by a team, under the guidance of **Rashed Al Mahmud Titumir**. The team comprises **Md. Aslam Hossain** and **A. Z. M. Saleh**.

The report is an output of the programme titled **Enhancing the responsiveness of the government to address exclusion and inequality**. The programme has been supported from a grant of Christian Aid.



© **Copyright:** Unnayan Onneshan-The Innovators

The content of this publication may be reproduced for non-commercial purposes with proper citation (please send output to the address mentioned below). Any other form of reproduction, storage in a retrieval system or transmission by any means for commercial purposes, requires permission from the Unnayan Onneshan-The Innovators.

For orders and request please contact:

Unnayan Onneshan - The Innovators

16/2, Indira Road, Farmgate

Dhaka-1215, Bangladesh

Tell: + (880-2) 8158274, 9110636

Fax: + (880-2) 8159135

E-mail: info@unnayan.org

Web: www.unnayan.org

SUMMARY

This issue of Bangladesh Economic Update discusses the continuous fall in the capital market of Bangladesh. Continuous decrease in the capital market has not only destabilised the entire capital market but also has dragged out a huge number of small investors from the market leaving behind their investments. The report is an assessment of the previous and recent downward trend in the capital market along with the initiatives taken by the government to address the downturn of the market.

An analysis of capital market depends on the observed trends in market capitalization, investment capitalization ratio, turnover, volatility of share index, the number of listed companies and monetary policy. Generally, the size of market is positively correlated with the ability to mobilize capital and diversify risk of an economy. In addition, market capitalization ratio equals the value of listed shares divided by GDP. So market capitalization to GDP ratio can be used as an indicator of market development.

In FY 1995-96, total market capitalization of DSE was Tk. 7936.17 crore while in FY 2002-03, it has increased at Tk.7216.3 crore. In this time interval, the rate of market capitalization ratio has remained between 2.3 and 5.85 percent. But in FY 2003-04, the market capitalization has increased rapidly and stood at Tk.14185.1 crore that is about 96.3 percent higher than that of the previous fiscal year. In the last five years, the market capitalization has increased significantly. This increasing trend has continued and finally reached at Tk. 232701.6 crore in FY 2010-11. The turning year was in FY 2009-10, in this year, the market capitalization has increased by 127.31 percent than that of the previous fiscal year and reached from Tk. 100143.3 crore to Tk. 227640.8 crore.

The indicators depicting value of a company like its profit, product positioning, balance sheet, etc. are not reflected in the market capitalization in Bangladesh. Between FY 1995-96 and FY 2008-09, market capitalization has stayed between 4 to 20 percent. In FY 1995-96, the rate of market capitalization was 4.77 percent while in FY 2004-05, it reached at 5.72 percent. Afterwards, the rate of market capitalization was increasing at a very smooth rate and in FY 2008-09; the market capitalization ratio has reached at 16.29 percent. Market capitalization ratio has become double in FY 2009-10 than that of the previous fiscal year and reached at 32.79 percent and finally in FY 2010-11, the market capitalization rate has become 29.55 percent.

GDP and market capitalization have not witnessed any significant correlation. In FY 1996-97, the percentage change of market capitalization was 33.26 percent whereas the percentage change of GDP at current price was 8.64 percent. Again in FY 2001-02, the percentage change of market capitalization was -9.82 percent whereas the percentages change of GDP at current price was 7.75 percent. And finally in FY 2010-11, the percentage change of market capitalization is 2.22 percent while the percentage change in GDP at current price is 13.42 percent. The size of market capitalization has not shown any significant relationship with GDP.

From FY 1995-96 to FY 2006-07, the market capitalization and investment ratio has stayed between 10 to 35 percent. In FY 1995-96, the market capitalization and investment ratio was 23.86 percent which has increased to 59.69 percent in FY 2007-08. This increasing rate has been

following an upward trend and in FY 2009-10 and FY 2010-11, while the market capitalization and investment ratio were 134.29 and 119.46 percent respectively. These events indicate that in these years, the market capitalization has exceeded the total investment of the economy.

Turnover equals the value of total shares traded divided by market capitalization. High turnover is often used as an indicator of high level of liquidity. Turnover also can be used as complements of total value traded ratio. While total value traded and GDP ratio captures trading compared with the size of the economy, turnover measures trading relative to the size of the stock market. Therefore, a small and liquid market may have a high turnover ratio but a small total value traded and GDP ratio.

In FY 1995-96, the turnover of DSE was Tk. 819.91 crore while in FY 1996-97, it reached at Tk. 6541.35 crore. Fake demand mechanism during this period has led the general index price to move vertically and hence increased the liquidity of capital market. But the following year in FY 1997-98, the turnover reduced at a significant rate and a total of Tk. 5279.66 crore has fallen short from the previous fiscal year and the turn over became Tk. 1261.69 crore. In FY 2005-06, the turnover was Tk. 4599.36 crore. In FY 2009-10, the turnover has again increased dramatically and reached at Tk. 256353.55 crore.

The extent of ups and downs in turnover of capital market mainly depends on economic environment and other factors such as short term increase in profit in capital market than those of other economic activities. In calendar year 1996, the sudden increase in general index has made the temptation to the people and it also has induced people to invest more in capital market. Therefore, in FY 1996-97, the turnover increased by 697.81 percent than the previous fiscal year. This turnover dramatically increased about 186.81 percent from FY 2008-09 to FY 2009-10 and became Tk. 256353.55 crore. The turnover and liquidity of capital market started to fall in FY 2010-11.

Volatility is a measure of the degree of price movements of a stock. High volatility, unaccompanied by any change in the real situation, may lead to a general erosion of investors' confidence in the market and redirect the flow of capital away from the stock market. The excessive level of volatility also reduces the usefulness of stock price as a reflector of the real worth of the firm. The nose dive of capital market in 1996 was created by fake demand mechanism resulting to short term price volatility in the capital market. The game plan of FY 2010-11 is different from 1996 and it has shown that the index volatility has a similar shape for a sudden time (about one year) before the downturn of the market.

In general, there stands a positive relation between the number of listed companies of a stock market and turnover. Over the time, the number of listed companies of DSE was following both positive and negative growth. In FY 1991-92, the number of listed companies was increased by 2.68 percent while in FY 1994-95 the number of listed companies was decreased by 4.47 percent. In FY 2009-10, the number of listed companies of DSE decreased from 300 to 273, about 9 percent less than that of the previous fiscal year. And finally in FY 2011-12, the number of listed companies declined to 268.

In terms of sector wise composition the financial sector including banks, investment and insurance continues to hold the majority of share in total market capitalization at DSE at present time. In FY 1995-96, the major contribution of market capitalization were engineering (22%), pharmaceuticals (13%), food and allied products (11%), banks (11%) and insurance (7%). In this time the major market contribution of market capitalization mainly depended on those sectors which had direct influence on the real sector of the economy.

In FY 2010-11, total market capitalization of banking sector was Tk. 68061.9 crore which was 5.67 percent higher than previous fiscal year. In this fiscal year total market capitalization of mutual fund was Tk. 3595.5 crore; 32 percent higher than previous fiscal year. In general, the investment in mutual fund is normally assumed to safe investment due to volatility in capital market but the market capitalization of mutual fund was comparably lower than other sector. Telecommunication sector has started its activities in capital market in FY 2009-10 and with a total market capitalization of Tk. 31826.6 crore. But in FY 2010-11, the market capitalization of this sector has dropped down about 30.46 percent and became Tk. 22131.4 crore.

The DSE (Dhaka Stock Exchange) general index has increased from 775.65 in January 1996 to 3064 in November, 1996. The short time game plan of market profit maximization has made the investors to invest more in the capital market. The index has started to fall down dramatically in December 1996 the index has fall down to 2300.15. The confidence of the investors was significantly damaged because of excessive speculations, allegedly aggravated by widespread irregular activities.

Share market downturn of 2011 is different from the incident of 1996. The ‘game planners’ of 2011 had ensured long-term market capitalization and liquidity. This long time growth of the capital market index has made a greater confidence among general investors of capital market and in this period there was no greater market price volatility of general index, as a result a continue trend of a greater profit has induced general investors to reinvest their profits along with additional capital.

In July 2009 the general index of DSE was 2914.53 while in April 2010 it has increased and reached to 5654.88. In December 2010, the general index first started to fall by 3.62 percent than previous month. In February 2011, it has decreased about 30.5 percent and reached at 5203.08. This declining trend of general index of DSE continued and finally in 15 November 2011 it dropped down to 4645.89 (lowest in last 22 months).

The government has taken many steps to address the continuous declining trend of the capital market like tax rebate of capital market investors, exemption of credit for margin level investors and also taking steps to influence banks to generate more investment in capital market. The recent most important step that the government has already declared to raise a banking fund and through investing in capital market by banking channel and tried to recover the capital market. But the ‘game planners’ of this capital market scenario have remained unspecified. The steps that government has already taken to recover the capital market have yet to be proved efficient. Moreover, the present economic adverse condition together with the contractionary monetary policy may cause a negative impact on turnover and liquidity of capital market.

1. INTRODUCTION

Capital Market of Bangladesh is one of the smallest in Asia but the third largest in the South Asia. It has two full-fledged automated stock exchanges: Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Securities and Exchange Commission (SEC) implements rules and regulations, monitors their implications to operate and develop the capital market.

This report has emphasized on the DSE in understanding the recent nose dive in capital market. This issue has also focused the trends in market capitalization, investment capitalization ratio, turnover, volatility of share index, the number of listed companies and monetary policy.

2. MARKET CAPITALIZATION

The market capitalization refers the sum that derived from the current stock price per share times the total number of shares outstanding. Although the market capitalization of a company is an indication of the value of the company, it is only a temporary metric based on the current stock market.

Market capitalization ratio equals the value of listed shares divided by GDP. This ratio are often using as a measure of stock market size. In terms of economic significance, the assumption behind market capitalization is that market size is positively correlated with the ability to mobilize capital and diversify risk on an economy wide basis. So market capitalization to GDP ratio can be used as an indicator of market development.

In FY 1995-96, total market capitalization of DSE was Tk. 7936.17 crore while in FY 2010-11, it increased at Tk. 232701.6 crore.

In FY 1995-96, total market capitalization of DSE was Tk. 7936.17 crore while in FY 2002-03, it increased at Tk.7216.3 crore. In this time interval, the market capitalization remained at approximately a constant level. But in FY 2003-04, the market capitalization increased rapidly and stood at Tk.14185.1 crore, about 96.3 percent larger than that of the previous fiscal year.

This increasing trend has continued and finally reached at Tk. 232701.6 crore in FY 2010-11. In the last five years, the market

capitalization increased significantly. The turning year was in FY 2009-10, in this year, the market capitalization increased by 127.31 percent than that of the previous fiscal year and reached from Tk. 100143.3 crore to Tk. 227640.8 crore.

The indicators depicting value of a company like its profits, product positioning, balance sheet, etc. are not reflected in the market capitalization in Bangladesh. Market capitalization only varies due to demand. Therefore the true scenario of business has not been reflected in market capitalization.

2.1 Market Capitalization Ratio

Between FY 1995-96 and FY 2008-09, market capitalization stayed between 4 to 20 percent. In FY1995-96, the rate of market capitalization was 4.77 percent while in FY 2004-05, it reached at 5.72 percent. After this period, the rate of market capitalization increased at a smooth rate and in FY 2008-09; the market capitalization ratio reached at 16.29 percent. But after that year, market capitalization ratio doubled than that of the previous year and reached at 32.79 percent in FY2009-10 and finally in FY 2010-11, the market capitalization rate became 29.55 percent.

The rate of market capitalization reached at 32.79 percent in FY2009-10 and finally in FY 2010-11 became 29.55 percent.

Figure 1: Market capitalization ratio in percent



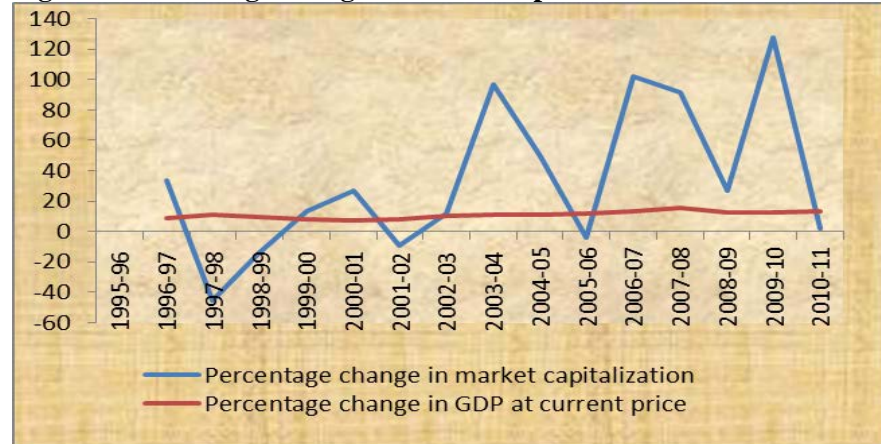
Source: Authors' calculation based on and Dhaka Stock Exchange and Bangladesh Bureau of Statistics, 2011

GDP and market capitalization have not displayed any significant correlation (Figure 2). That is, the size of market capitalization has not shown any relationship with GDP. The percentage change in GDP at current price has a smooth shape while the percentage change in market capitalization has shown an erratic trend. In FY 1996-97, the percentage change of market capitalization was 33.26 whereas the percentage change of GDP at current price was 8.64 percent. Again in FY 2001-02, the percentage change of market capitalization was -9.82 percent

In FY 2010-11, the percentage change of market capitalization is 2.22 percent while the percentage change in GDP at current price is 13.42 percent.

whereas the percentages change of GDP at current price was 7.75 percent. And finally in FY 2010-11, the percentage change of market capitalization is 2.22 percent while the percentage change in GDP at current price is 13.42 percent.

Figure 2: Percentage change in market capitalization and GDP



Source: Dhaka Stock Exchange and Bangladesh Bureau of Statistics, 2011

From FY 1995-96 to FY 2006-07, the market capitalization and investment ratio has stayed between 10 to 35 percent.

2.2 Market Capitalization and Investment Ratio

From FY 1995-96 to FY 2006-07, the market capitalization and investment ratio has stayed between 10 to 35 percent. Following that fiscal year the scenario has been changed significantly and the ratio of market capitalization and investment has increased with a maximum growth, indicating the huge accumulated concentration in capital market than those of other forms of investment.

Figure 3: Market capitalization and investment ratio



Source: Authors' calculation based on Dhaka Stock Exchange and Bangladesh Bank, 2011

In FY 1995-96 the market capitalization and investment ratio was 23.86 percent which increased with a growth rate of 1.12

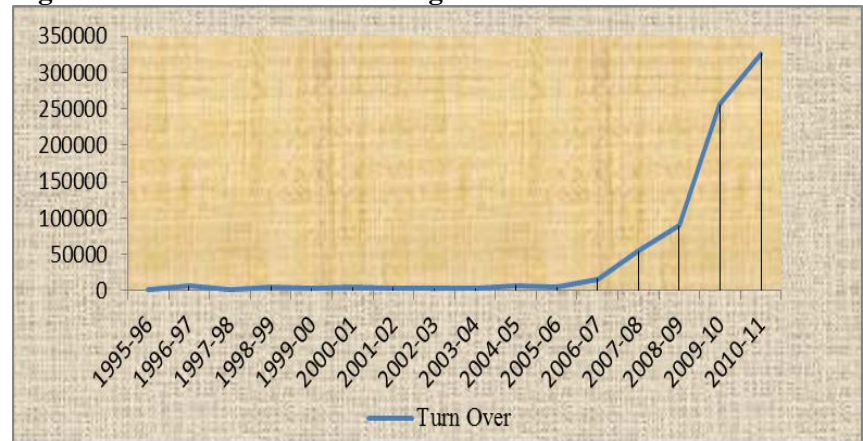
In FY 2009-10 and FY 2010-11, the market capitalization and investment ratio were 134.29 and 119.46 percent respectively.

percent in following year and reached 35 percent. In FY 2007-08, the market capitalization and investment ratio increased to 59.69 percent, 70.54 percent higher than previous fiscal year. This increasing rate has prevailed in FY 2009-10 and FY 2010-11 and the market capitalization and investment ratio were 134.29 and 119.46 percent respectively. These indicate that in these years the market capitalization exceeded the total investment of the economy.

3. TURNOVER

Turnover equals the value of total shares traded divided by market capitalization. High turnover is often used as an indicator of high level of liquidity. Turnover also can be used as complements of total value traded ratio. While total value traded and GDP ratio capture trading compared with the size of the economy, turnover measures trading relative to the size of the stock market. Therefore a small, liquid market may have a high turnover ratio but with a small total value traded and GDP ratio.

Figure 4: Turnover of DSE during FY 1995-96 to FY 2010-11



Source: Dhaka Stock Exchange, 2011

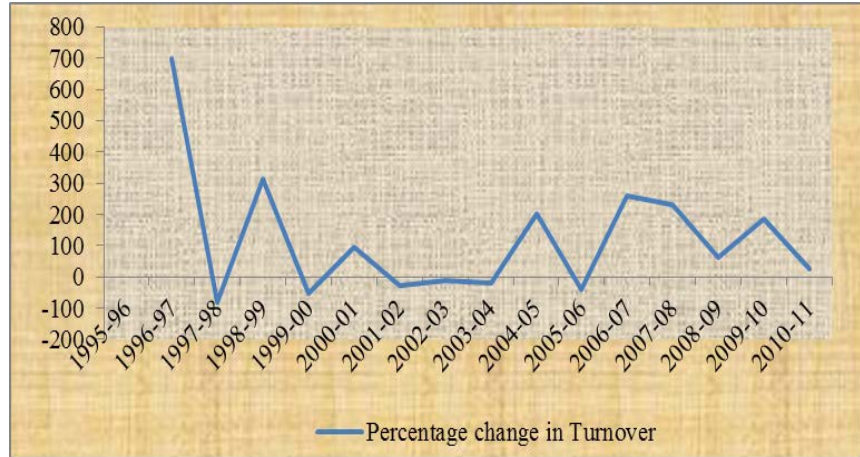
In FY 1995-96, the turnover of DSE was Tk. 819.91 crore while in FY 1996-97, it reached at Tk. 6541.35 crore.

In FY 1995-96, the turnover of DSE was Tk. 819.91 crore while in FY 1996-97, it reached at Tk. 6541.35 crore. ‘Fake’ demand mechanism during this period has led the general index price to move vertically and hence increased the liquidity of capital market. But the following year in FY 1997-98, the turn over reduced at a significant rate and a total of Tk. 5279.66 crore fell short from the previous fiscal year and the turn over became Tk. 1261.69 crore. In FY 2005-06, the turnover was Tk. 4599.36 crore. In FY 2009-10, the turnover again increased dramatically and reached at Tk. 256353.55 crore.

In FY 2009-10, the turnover increased dramatically to Tk. 256353.55 crore.

Figure 5: The percentage change of turnover of DSE during FY 1995-96 to FY 2010-11

The turnover increased dramatically from FY 2008-09 to FY 2009-10 about 186.81 percent than that of previous fiscal year and became Tk. 256353.55 crore.



Source: Dhaka Stock Exchange, 2011

The turnover as well as liquidity of capital market started to fall in FY 2010-11.

The extent of ups and downs in turnover of capital market mainly depends on economic environment and some others factors such as short term increase in profit in capital market than those of other economic activities. In calendar year 1996, the sudden increase in general index made the temptation to the people and it also has induced people to invest more in capital market. Therefore in FY 1996-97, the turnover increased by 697.81 percent than the previous fiscal year. But ‘game planner’ has achieved the goal and reduced the turnover by 80.71 percent than that of the previous fiscal year. The turnover increased dramatically from FY 2008-09 to FY 2009-10; in this period the turnover increased about 186.81 percent than that of previous fiscal year and became Tk. 256353.55 crore. The turnover as well as liquidity of capital market started to fall in FY 2010-11. The present economic adverse condition together with the contractionary monetary policy may cause a negative impact on turnover and liquidity of capital market may go down in near future.

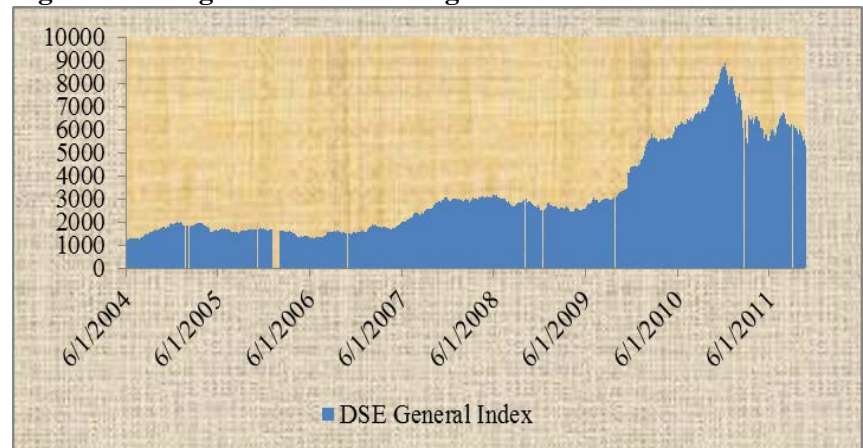
4. CAPITAL MARKET VOLATILITY

Volatility is a measure of the degree of price movements of a stock. It shows how active a stock price typically is over a certain period of time. In general, the volatility of stock return is determined by the fluctuations in stock index. Fluctuation in the stock index also depends on the demand and supply of securities traded in the stock exchange.

The market estimate of volatility can be used as the barometer of the vulnerability of the stock market. Stock return volatility

represents the variability of day-to-day stock price changes over a period of time, which is taken as a measure of risk by the relevant agents. High volatility, unaccompanied by any change in the real situation, may lead to a general erosion of investors' confidence in the market and redirect the flow of capital away from the stock market. The excessive level of volatility also reduces the usefulness of stock price as a reflector of the real worth of the firm.

Figure 6: DSE general index during 2004 to 2011



Source: Dhaka Stock Exchange, 2011

In FY 2010-11, the 'game plan' is different from 1996 and the index volatility has a similar shape for a sudden time (about one year) before the downturn of the market.

The volatility in stock return in DSE seems to follow clustering at particular points; there are periods of high volatility followed by periods of low volatility. Many events and random shocks are responsible for the index price fluctuations. For example declaration of lucrative incentives in FY 2003-04 national budget, floatation of shares of some profitable companies through Initial Public Offer (IPO) along with several important reform measures initiated by the Securities and Exchange Commission (SEC) helped regain investor's confidence back to the capital market. The downward drive of capital market in 1996 was created by fake demand mechanism resulting to short term price volatility in the capital market. In FY 2010-11, the 'game plan' is different from 1996 and the index volatility has a similar shape for a sudden time (about one year) before the downturn of the market.

5. CAPITAL MARKET SIZE

One of the important indicators of the capital market is the number of listed companies. The rationale of including this measure is that as the number of listed company increases, available securities and trading volume also increases. In basis of

the properties of the companies, the companies are divided into five groups; A, B, G, N and Z. The properties of these companies are shown in the table below.

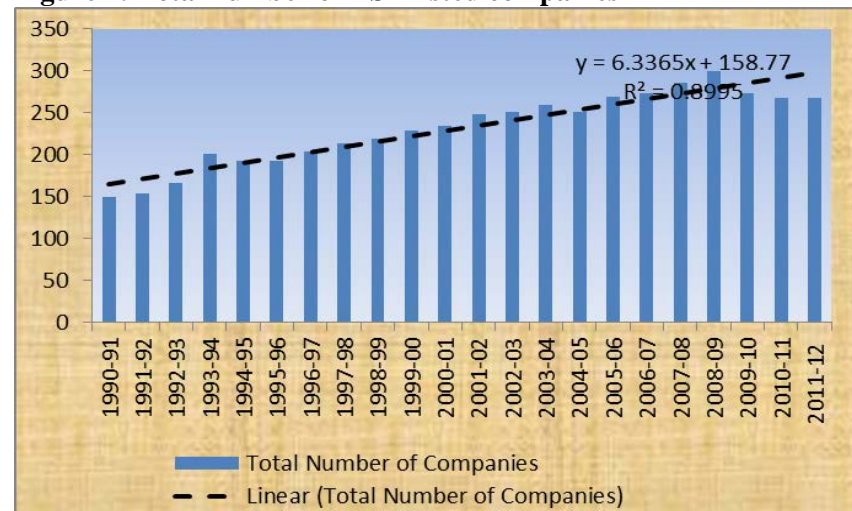
Table 1: Capital Market Company Category and Characteristics

Company	Properties
A	Holding Annual Meetings (AGM) and have declared dividend at the rate 10 percent or more in a calendar year
B	Holding Annual Meetings (AGM) and have declared dividend less at the rate 10 percent or more in a calendar year
G	Greenfield companies.
N	All new listed companies except Greenfield companies.
Z	Have failed to hold the AGM or fail to declare any dividend or which are not in operation continuously.

In FY 1990-91 the number of listed companies of DSE was 149 and finally in FY 2010-11, the listed companies of DSE stood at 268.

The number of listed companies has grown from 149 to 268 with an average annual growth rate of 2.99 and a standard deviation of 43.39 from fiscal year 1990-91 to FY2010-11. In FY 1990-91 the number of listed companies of DSE was 149 while in FY 2001-02, the number of listed companies was increased to 248 and finally in FY 2010-11, the listed companies of DSE stood at 268.

Figure 7: Total number of DSE listed companies



Source: Dhaka Stock Exchange, 2011

Table 2: Descriptive Statistics of DSE listed companies

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Total number of listed companies	22	149	300	231.64	43.385
Valid N (list-wise)	22				

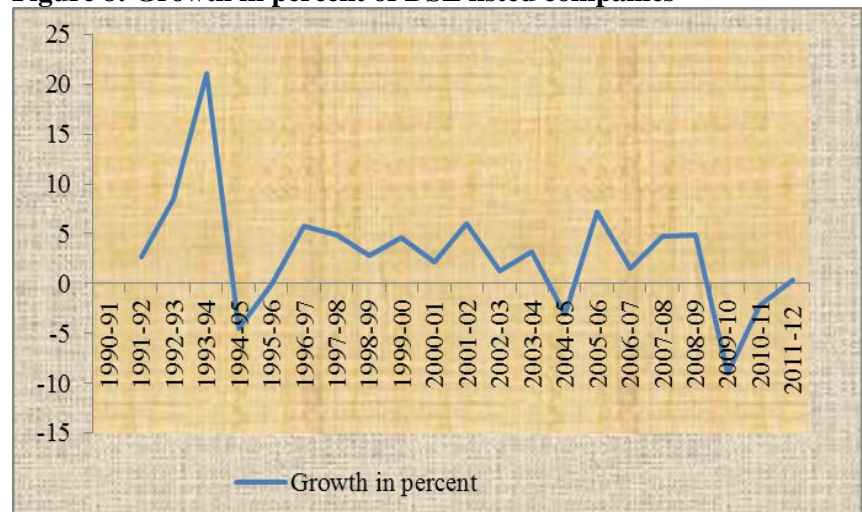
The descriptive statistics of total listed companies in DSE shows that the minimum and maximum numbers of listed companies of DSE were 149 and 300 respectively with an average mean value of listed companies was 232 based on the last twenty two years information. The standard deviation of the number of listed companies was 43.39.

In FY 2009-10, the number of listed companies of DSE decreased from 300 to 273 and in FY 2011-12, the number of listed companies declined to 268.

5.1 Growth of Listed Number of Companies

Over the time, the number of listed companies of DSE was following both positive and negative growth. In FY 1991-92, the numbers of listed companies increased by 2.68 percent while in FY 1994-95 the number of listed companies decreased by 4.47 percent. In FY 2009-10, the number of listed companies of DSE decreased from 300 to 273, about 9 percent less than that of the previous fiscal year. And finally in FY 2011-12, the number of listed companies declined to 268.

Figure 8: Growth in percent of DSE listed companies



Source: Dhaka Stock Exchange, 2011

6. SECTOR WISE PERFORMANCE

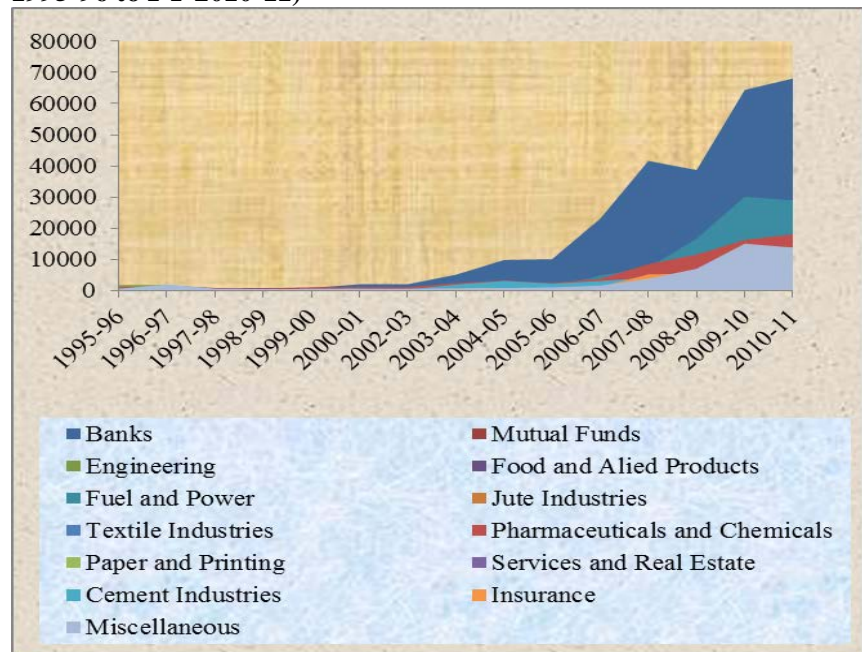
Total market capitalization of banking sector in FY 2010-11 was Tk. 68061.9 crore which was 5.67 percent higher than that of previous fiscal year.

In FY 2010-11, there was an upward trend in terms of sector wise performance; all sectors experienced an upward trend with a few exception. On the basis of market capitalization of ordinary shares of companies listed with DSE, total market capitalization of banking sector in FY 2010-11 was Tk. 68061.9 crore which was 5.67 percent higher than that of previous fiscal year. In this fiscal year total market capitalization of mutual fund was Tk. 3595.5 crore; 32 percent higher than that of previous fiscal year. In general the investment in mutual fund is normally assumed to safe investment due to volatility in capital market but the market

Telecommunication sector started its activities in capital market in FY 2009-10 with a total market capitalization of Tk. 31826.6 crore but dropped down about 30.46 percent and became Tk. 22131.4 crore in FY 2010-11.

capitalization of mutual fund was comparably lower than other sector. In FY 2010-11 the market capitalization of fuel and power sector was Tk. 28931.4 crore which was 4 percent lower than that of previous fiscal year on the other hand the market capitalization growth of insurance sector accumulated 32.28 percent in terms of previous fiscal year. But real sector components of economy such as jute industry although gained a positive market capitalization growth but the total market capitalization were lower and in last fiscal year it was only Tk. 79 crore. Telecommunication sector started its activities in capital market in FY 2009-10 with a total market capitalization of Tk. 31826.6 crore. But in the following fiscal year, the market capitalization of this sector dropped down about 30.46 percent and became Tk. 22131.4 crore.

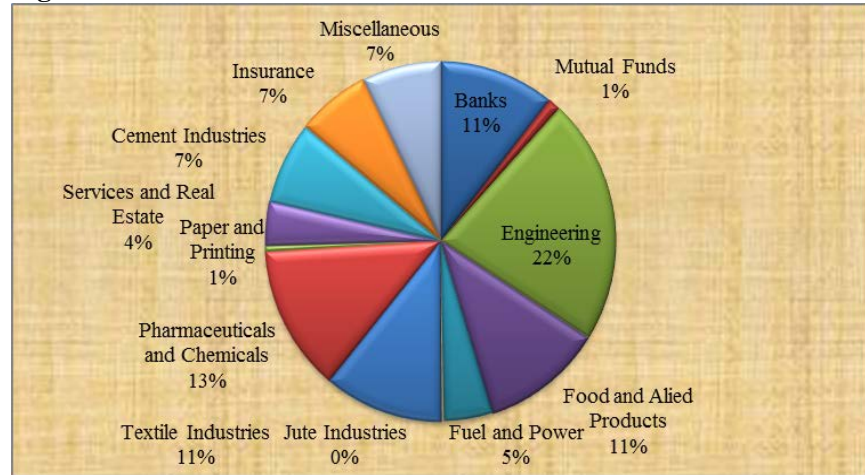
Figure 9: Sector-wise contribution in market capitalization (FY 1995-96 to FY 2010-11)



Source: Dhaka Stock Exchange, 2011

In terms of sector wise composition of the financial sector including banks, investment and insurance continues to hold the majority share in total market capitalization. In FY 1995-96 the major contribution of market capitalization were engineering (22%), pharmaceuticals (13%), food and allied products (11%), banks (11%) and insurance (7%). In this period the major market contribution of market capitalization was mainly depended on those sectors which have direct influence on the real sector of the economy.

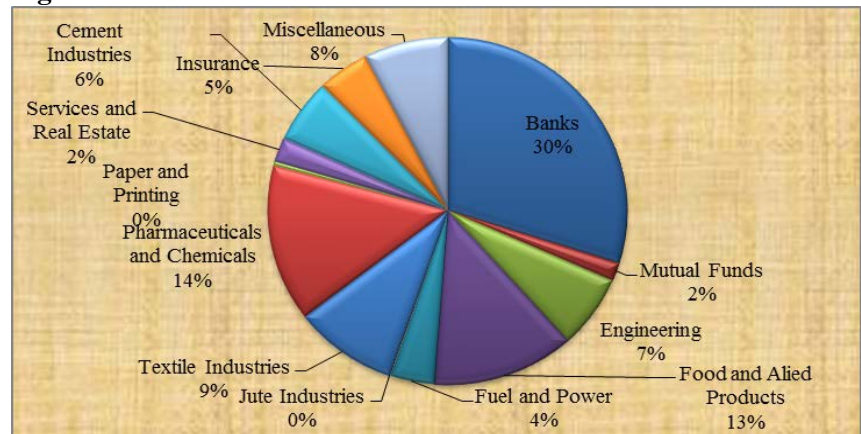
Figure 10: Sector Wise Performance in FY 1995-96



Source: Dhaka Stock Exchange, 2011

In FY 2001-02, the major sector wise contribution of market capitalization has significantly differed from the previous time trend. In this fiscal year the major market contribution in terms of market capitalization was banking sector. About 30 percent market capitalization has contributed by only single banking sector. All the other sectors like engineering, food and allied products, pharmaceuticals and fuel and power have less contribution in market capitalization. The sectors which can directly influence the real sector have contributed less than that of previous time and the growth of financial sector of market capitalization process has increased significantly.

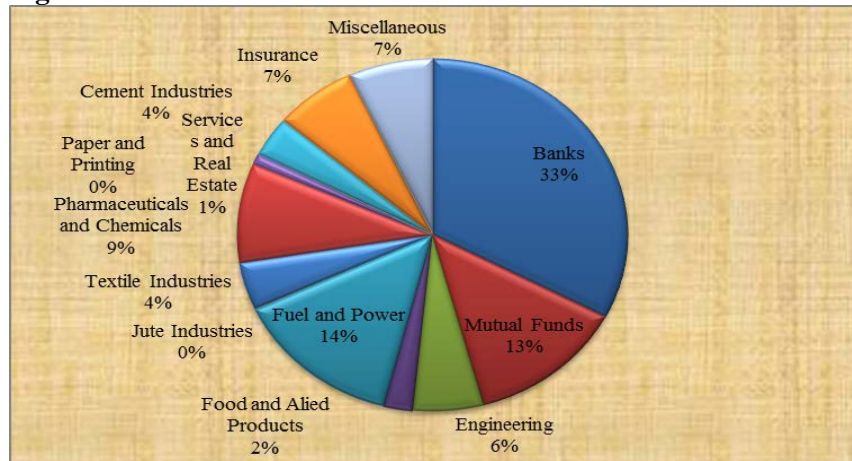
Figure 11: Sector Wise Performance in FY 2001-02



The financial market contribution in capital market in terms of market capitalization has increased significantly in FY 2010-11. In this year the banks, insurance including mutual funds have jointly contributed 53 percent of market capitalization whereas pharmaceuticals and chemicals, textile industries, food and allied

products and engineering have jointly contributed 21 percent of total market capitalization. The short term larger profit of financial sector has induced the investors to make a larger investment in financial sector than those of real sectors. Therefore in short run the profit has been maximized but in the long run it can make a disturbing effect on the economy which has already been observed through capital market downward trend and zero recovery in the capital market in this year.

Figure 12: Sector Wise Performance in FY 2011-12



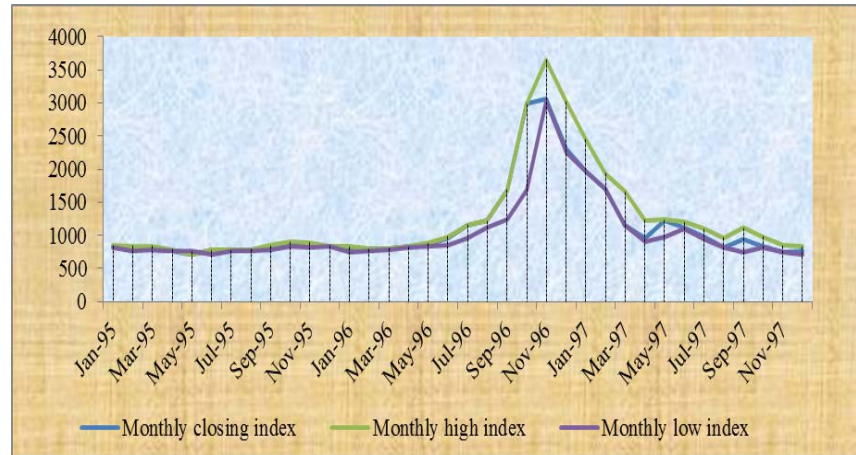
Source: Dhaka Stock Exchange, 2011

7. CAPITAL MARKET CONDITION IN 1996

There was a huge surge in the stock market in 1996 evidenced by an enormous increase in the market capitalization. Total annual turnover and daily average turnover in DSE general index increased from 775.65 in January 1996 to 3064 in November, 1996. After an increase in the general index of DSE for a short period, the index started to fall down dramatically and in December 1996, the index fell down to 2300.15. The short time ‘game plan’ made the investors to invest more in the capital market but when this ‘game plan’ achieved its goal; the confidence of the investors was significantly damaged because of excessive speculations, allegedly aggravated by widespread irregular activities. This fall down of general index of DSE continued over the calendar year of 1997. In April 1997, the general index of DSE was 957.48 while in December 1997 it fell down to 756.78.

In April 1997, the general index of DSE was 957.48 while in December 1997 it fell down to 756.78.

Figure 13: Trend of general index of DSE during capital market clash of 1996

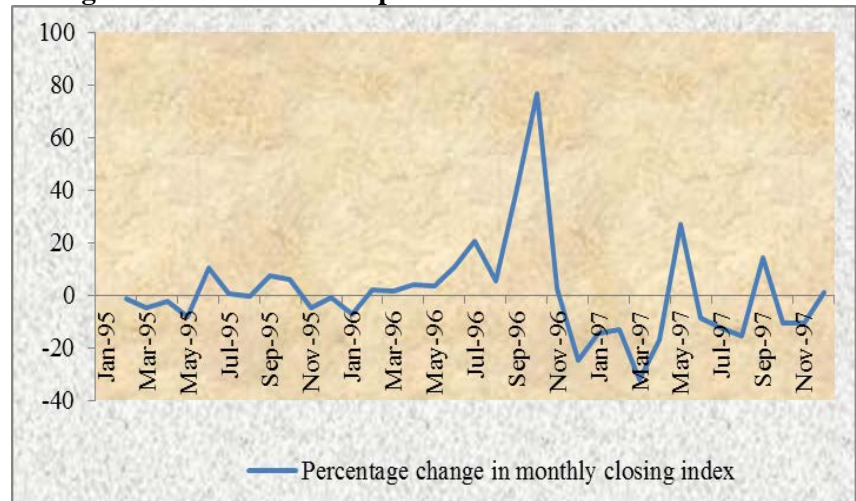


Source: Dhaka Stock Exchange, 2011

In November 1996, The index has reached at the peak and became 3064.99 and started to fall and reached at 749.85 in November 1997.

The trend of DSE general index during the nose dive of the capital market in 1996 shows that the general index has grown at a smooth rate from January 1995 to June 1996. In January 1995, the general index was 834.08 and in June 1996, it reached at 959. But after this month the ‘game plan’ started probably by creating false demand and the index started to grow significantly and in November 1996, it has reached at the peak and became 3064.99. The index started to fall and reached at 749.85 in November 1997.

Figure 14: Percentage change in monthly closing index DSE during the nose dive of the capital market in 1996

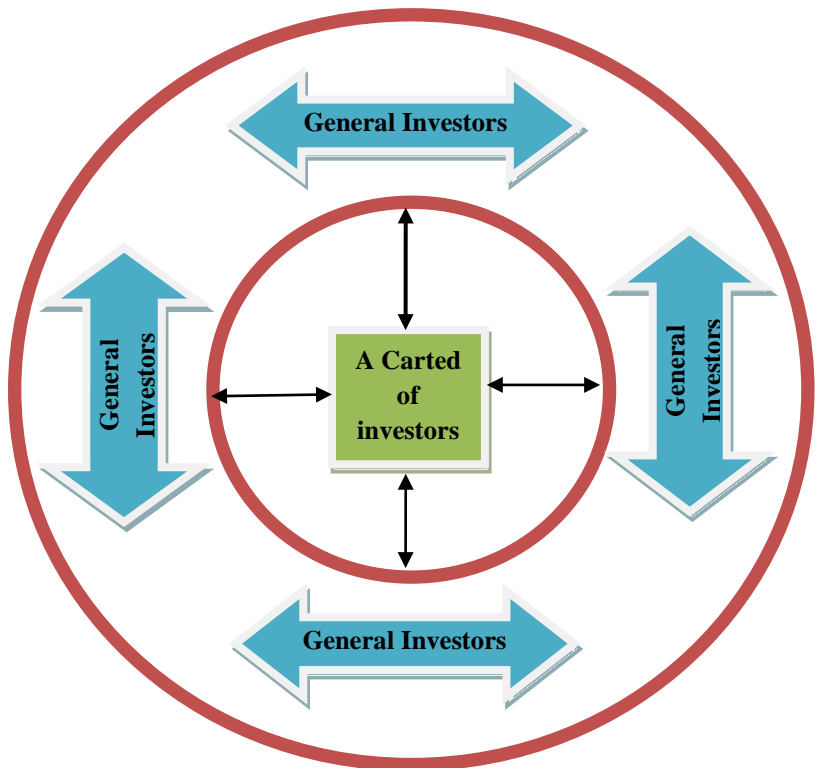


Source: Dhaka Stock Exchange, 2011

The percentage change in monthly closing index of DSE during capital market clash of 1996 shows that the price volatility of this market structure. The index took only three months to reach the

peak and short run game plan indicated that a carted of investors probably was engaged in this game. The change of general index of DSE remained between 1 to 10 percent during January 1995 to June 1996 but in July 1996 the index increased by about 20.55 percent than previous month and in September 1996 and October 1996 the index increased by 38.8 and 76.67 percent respectively and then it started to fall down and in December 1996 and March 1997, the general index of DSE fell down to 24.95 and 32.24 percent respectively.

Figure 15: Probable game plan of capital market in 1996

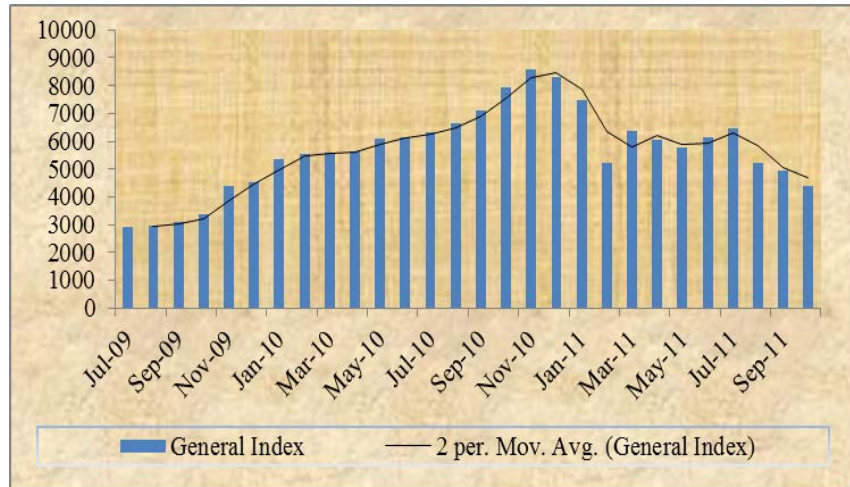


8. THE CAPITAL MARKET SCENARIO IN 2011

In July 2009 the general index of DSE was 2914.53 while in November 2010 it increased to 8602.44.

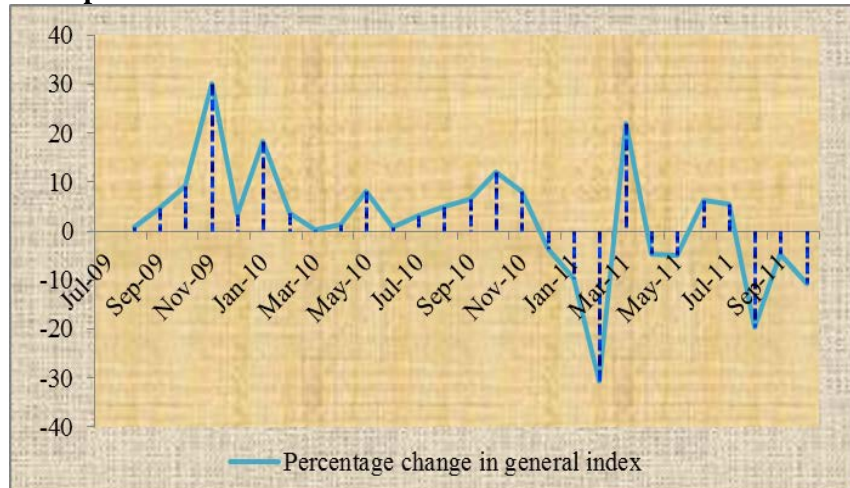
The trend of general index of DSE during July 2009 to August 2010 shows that the general index of DSE has increased smoothly. In July 2009 the general index of DSE was 2914.53 while in April 2010 it increased to 5654.88. During this time period, there was an increasing trend of general index. In August 2010 the general index of DSE stood at 6657.97 and finally in November 2010, it reached the peak and became 8602.44. After this general index has started to fall down and in February 2011 it reached to 5203.08.

Figure 16: The trend of general index of DSE during capital market downturn in 2011



Source: Dhaka Stock Exchange, 2011

Figure 17: The percentage change in general index of DSE during the capital market downturn in 2011



Source: Dhaka Stock Exchange, 2011

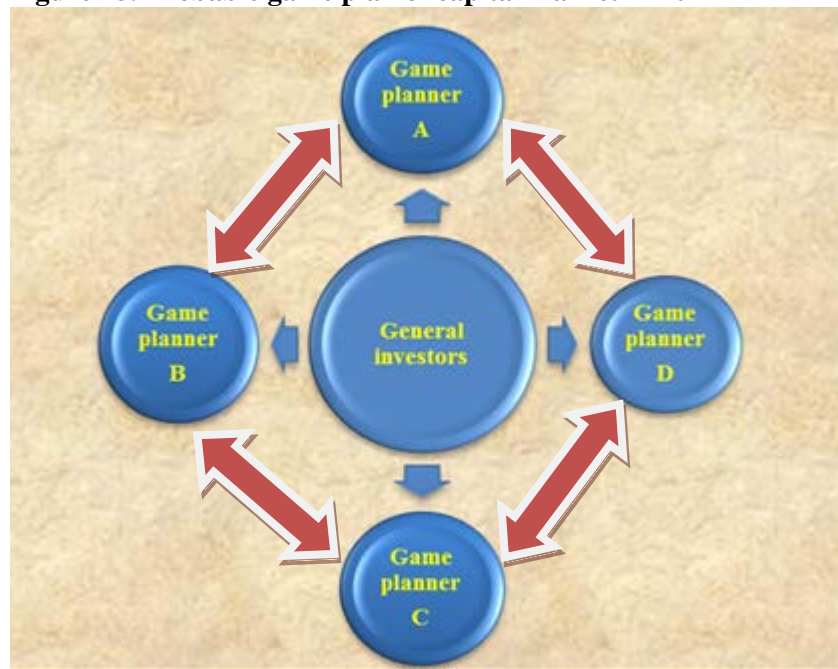
The percentage change of general index of DSE in 2011 suggests a different situation than that of the capital market downturn in 1996 because the market volatility of DSE was created long before the nose dive of the capital market during 2011. In November 2009, the general index of DSE increased about 30.22 percent than the previous month. During the consecutive twelve months the general index has risen on an average of 1 to 12 percent per month. This steady growth of the capital market index made a greater confidence among general investors of capital market. There was no greater market price volatility of general index, as a result a continue trend of a greater profit induced general investors to reinvest their profits along with

In February 2011, general index of DSE decreased about 30.5 percent and reached at 5203.08 and finally in 15 November 2011 it dropped down to 4645.89 (lowest in last 22 months).

additional capital. The ‘long term game planners’ have again won the game by selling the shares they have collected resulting in increased supply of shares, forcing the general index to fall. In December 2010 the general index started to fall by 3.62 percent than previous month. In February 2011, it decreased about 30.5 percent and reached at 5203.08. This declining trend of general index of DSE was continued and finally in 15 November 2011 it dropped down to 4645.89 (lowest in last 22 months).

The percentage change of general index during the downward trend of capital market in 2011 suggests a crafted long term ‘game plan’. By creating a artificial demand and sustaining it for a long time they made a strong confidence in investors.

Figure 18: Probable game plan of capital market in 2011



9. CONTRACTIONARY MONETARY POLICY

Most of the small investors invested money in the capital market by taking loan from banking sector to gain short-term profitability from the capital market. Moreover, due the contractionary monetary policy of the government, money supply has been squeezed which has affected the capitalization process of the capital market by declining the rate of investment in the capital market. The present economic adverse condition together with the contractionary monetary policy may cause a negative impact on turnover and liquidity of capital market.

10. GOVERNMENT INITIATIVES

Due to downturn of the capital market, the government has taken steps including tax rebate, exemption of credit for margin level investors and influencing banks to generate more investment in the capital market. But the ‘game planners’ of this capital market scenario have remained unspecified.

88.66

45.21

8

45.65

36.45

4

42.36

74.41

78.33

42.62

99.66

78.63

42.66

86.31

45.38

12.11

Unnayan Onneshan - The Innovators

16/2, Indira Road, Farmgate

Dhaka-1215, Bangladesh

Tell: + (880-2) 8158274, 9110636

Fax: + (880-2) 8159135

E-mail: info@unnayan.org

Web: www.unnayan.org

74.65

96.2

78.91

12.45

45.21