

# [The potential of the bangladesh capital market](https://assignbuster.com/the-potential-of-the-bangladesh-capital-market/)

The Potential of the Bangladesh Capital Market Mamun Rashid runs an expert eye over our financial future The capital market is the engine of growth for an economy. It performs a very critical role in acting as an intermediary between savers and companies seeking additional financing for business expansion. A huge amount of capital may stable economy of a country. Lending by commercial banks provides good initial support for corporate growth, but a developed stock-market may play a good role for big industrialization in the country.

Today, with a $67 billion economy and per capita income of roughly $500, Bangladesh should really focus on improving governance and developing advanced market products, such as derivatives, swaps etc. In spite of a challenging political environment and widespread poverty, Bangladesh has achieved significant development on the social welfare. With growth rate of 7 percent the economy has accelerated to an impressive level. The leading global investment banks like Citi, Goldman Sachs, JP Morgan and Merrill Lynch have all identified Bangladesh as a big investment market. Reasons behind the underdevelopment

It is encouraging for us to see that the capital market of Bangladesh is growing slowly. Some corporate inside information remains a major problem in the market. There are many institution and institutional investors who have an investment unit with qualified officers. This institution took advantage of corporate inside information and enjoys certain benefits. Most of The retail investors of Bangladesh have not adequate knowledge about capital market. They primarily focus on advice given their brokers and some times they traded their shares on the basis of market rumors.

For that reason the retail investors became looser again and again.. Filtering of company’s inside information among different types of investors may create scope of manipulation. but This is not acceptable. This may be a cause of falling down market in 1996 and 2011. The market does not have an adequate number of fundamental stock. The authorities should not force major corporations to come into the market. Now government takes initiartive for increasing shares in market by privatisation of state owned enterprises through public offerings.

The market has to reach such a stage of development that companies will take it as a serious alternative of bank financing. the ratio of institutional-to-retail investors is still low in Bangladesh, relative to other stock markets. Institutional investors bring long-term investment and a greater focus on fundamental share and, hence, create stability of the market. The presence of institutional investors is also expected to ensure better valuation levels due to their specialized analytical skills.

While have public sector as well as some private sector institutional investors in the economy but investment from these institutions is not enough. the Investment Corporation of Bangladesh which was created in 1976 and currently manages several mutual funds and invest a big amount in the capital market. Corporate governance of international standard is still lacking. Multinational corporations and institutions operating in Bangladesh often adhere to a very high international standard compliance regime. Parent companies of most of these corporations and institutions have their scrips listed in developed markets.

Unless the local market adheres to, and effectively enforces, a standard corporate governance system, there will not be a level-playing ground for international business houses vis-a-vis local operators. The government has reduced the interest rates on savings instru-ments, however this particular market is still limited to the commercial banks, and individual investors do not have access to these instruments. These savings instruments are considered risk-free, and since they are not present in the capital market, the overall risk of investment for an investor remains very high.

A portfolio investor does not have the option of reducing his average portfolio risk by adding these risk-free opportunities. An important aspect for capital market is reflection of fair value of scrips. This is not adequately present in the current scenario, and due to this reason the market is not receiving the attention of an important segment of investors, both foreign and local. Investors are perhaps depending more on speculative analysis, resulting in volatility in the market, as opposed to fundamental analysis, which could attract more stable long-term investors who are sure about their investment tenure and expectations. 996 and now The bull-run that took place in 1996 has left a number of positives for the market. A lot of investment-friendly regulatory reforms have been implemented by the SEC. We now have stronger surveillance and improved rules relating to public issue, rights issue, acquisition, mergers and so on. All these fundamental developments, which were well overdue, followed the 1996 bull-run. It was a learning experience for Bangladesh, and the desired level of changes was initiated by the market watchdog subsequently.

In the secondary market, surveillance is more active and particular than before. These developments, that are widely appreciated, are actually the fundamental requirements that are in place today resulting from the continuous efforts of the government and multilateral agencies. Trading has now become automated, led by the Chittagong Stock Exchange through the central depository. In the present automated trading environment, bids/offers, depth, and required broker particulars are all recorded and can be retrieved for future reference.

The Central Depository Bangladesh Limited (CDBL) was created in August 2000 to operate and maintain the Central Depository System (CDS) of Electronic Book Entry, recording and maintaining securities accounts and registering transfers of securities; changing the ownership without any physical movement or endorsement of certificates and execution of transfer instruments, as well as various other investor services including providing a platform for the secondary market trading of Treasury Bills and Government Bonds issued by the Bangladesh Bank. The stock market surveillance mechanics in place at present has no resemblance to that of 1996.

There are strict rules and guidelines, trading circuit breakers and international standard surveillance to protect investor rights and ensure fair play. The disclosure requirements and its timing for both listed scrips and IPOs as devised by the SEC are now more reflective of international practices. The SEC is also adopting new valuation methods that result in fair pricing of new issues. While there is still a lack of credible research organisations, a few firms like Asset and Investment Management Services of Bangladesh Ltd. (Aims) have come up, and they are investing in research and building up stock market related credentials.