Course: Project Work
Course code: BUS 498
Spring-2010

Project Work

On

Role of Institutional Investors in the Development of Bangladesh Stock Market

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2006-2-10-007

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April 19, 2010

EAST WEST UNIVERSITY

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Subject: Submission of Project Work

Dear Sir,

It is of great admiration and delight to me to present you my research paper prepared as a part of the BUS-498 (Project Work). The entire duration of preparing this report has been enormously helpful to me, giving me a golden opportunity to look outside the regular classroom and move to the real world. A lot of lessons were learnt and a vast amount experience was gained. Developing interpersonal skills, taking formal notes and of course handling each and every detail with a professional attitude were just to name a few. Truly this will help me in my future life, solving more complex situations and problems and also building a good observation trait for business planning.

I would once again like to express my sense of gratitude towards you for giving me this opportunity and sincerely hope that my report would give you immense satisfaction. I will always be available to respond to any queries that you may have in this regard.

Thank you.

Sincerely yours,

Ayesha Akther

Ayesha Akther
(2006-2-10-007)

Acknowledgements

I am very much pleased to complete the research paper under the supervision of Dr. Tanbir Ahmed Chowdhury. In this particular research paper I tried to find out the institutional investors role in the development of Bangladesh stock market. During the research work many respondents, professionals; professors helped me in a gear deal. I am very much obliged to those persons who gave their valuable time in the opinion and advice to complete this report. My profound gratification goes to Dr.Tanbir Ahmed Chowdhury the honorable supervisor of my financial research for his apt supervision to complete the report successfully. Not only this, he has also contributed much in this project by giving us proper guideline and his own writings. Then, I would like to thank for his participation with me through an interview session and sharing the required information about different perspective to complete this Project paper. I am also acknowledging to all of those web sites, newspapers and magazines from which I have taken necessary helps. I would like to thank my other finance teachers who shared their opinion on this topic. My gratitude also goes to some senior students for their guidance in various stages of completing the report and my dear friends and classmates for their ingenious advices and supports. Finally, I am pleased to complete the report on the given subject properly and authentically.

Table of Contents

Abstract

Institutional investors are the major investor group of the stock market in every country. The impact of institutional quality on stock market development because it widely believed that the strengthening of property rights could broaden appeal and confidence in stock market investment. In this paper I tried to show the performance of the institutional investor of Bangladesh, where they are performing as the mainstream investor in the stock market. The developments of these institutions are also correlated with the development of the stock market of Bangladesh. The total performance of the stock market in terms of market capitalization, turnover, liquidity, total value traded/GDP, number of listed company, volatility and concentration of the market is also shown here. At the end some of the findings are discussed regarding the problems and prospect with some recommended suggestions in order to get a stable and smooth capital market. Contributions of the institutional investors are simultaneously related to each other as I tried to show that the development of institution can help the stock market to develop as well.

Chapter 01: Introduction

1.1 Background of the Study

Institutional investors have become increasingly important in global capital markets and likely in Bangladesh stock market. In equity markets, institutional investors tend to prefer liquid stocks with larger market capitalization, higher turnover, and higher price levels. Institutional investors particularly favor stocks in popular equity indexes, giving them higher valuations because their performance is typically benchmarked against those indexes. In bond markets that are mainly populated by institutional investors, there is a clear clientele effect. Private equity funds are an important source of capital for entrepreneurial firms.

Institutional investors are a heterogeneous group of investors that populate the global capital markets. Based on their legal type, institutional investors can be broadly classified into bank, mutual funds, pension funds, insurance companies, sovereign funds, hedge funds, and private equity funds. Institutional investor's pool large sums of money and invest those sums in companies. So the major portion of the capital in a stock market comes from them. Economy of Bangladesh is very much depended on the performance of overall factors that plays a role in its development. Institutional investor's role in Bangladesh economy is to act as highly specialized investors on behalf of others. Any kind of funds are useful because they will hold a broad portfolio of investments in many companies. This spreads risk, so if one company fails, it will be only a small part of the whole fund's investment. As the business environment is not so stable, many individual investors fears to come into the market for trading. Our stock market is not so well grown up like others although it has a good past record.

The stock market history of Bangladesh refers back to 28 April, 1954 when the East Pakistan Stock Exchange Association Ltd. was established. Formal trading began on the bourse in 1956. The trading was suspended during the liberation war of Bangladesh in 1971. Operation resumed again in the 1976 with the change in government policy. During 1976, there were only 9 listed companies with total paid up capital of Tk.0 .138 billion and market capitalization of Tk. 0 .147 billion which was 0.138 % of GDP (Khan, 1992). Since then the stock exchange continued its journey of growth. The second stock exchange of the country, the Chittagong Stock Exchange (CSE) was established in December 1995. In order to control operation of the stock exchanges and trading of stocks of listed companies, the government of Bangladesh established the Securities and Exchange Commission of Bangladesh on 8th June, 1993 under the Securities and Exchange Commission Act, 1993 .The mission of the SEC is to protect the interests of

securities investors, develop and maintain fair, transparent and efficient securities markets, ensure proper issuance of securities and compliance with securities laws.
The sole purpose of the study is to show the simultaneous development of institutional investor and stock market to find the role if institutions investors contribution in the capital market of Bangladesh.

1.2 Objective

Institutional investors are the lead financer in our stock market though a less number of study have been conducted on them so the rigorous study is needed and this project paper's objective is -

- To investigate the pattern of Bangladesh stock market development with the institutional investor contribution
- To identify participants investment rate and trend.
- To find the development status of stock exchange.

1.3 Scope:

The scope of the project paper is limited to the research and analysis of the papers that are published by various writers all around the world, some data that are available in the library of stock exchange of Dhaka and few experts' opinion.

1.4 Limitation:

Due to the time limitation and the lack of useful writings the project paper was out of some information. Also the man power required to have a rigorous study on the investment data was an issue that can not be ignored.

1.5 Methodology:

The study covers the role of institutional investors' contribution in the stock market of Bangladesh for covering the area of contribution. Information regarding the development of both institutional investor and stock market were collected from the Dhaka stock exchange Library. Theoretical part is based with lot of literature including books on institutional investors & Capital Market. The major part of the discussion is based on the theoretical aspects of the topic. For which data were collected from university of Dhaka (IBA) library. So many journals, text books, magazines and financial newspaper were reviewed in order to process the structure of this project paper. So many websites were considered to analyze the data.

For the study purpose few informal interview were taken to get the idea about the progress of our stock market development. These ideas are reflected in the concluding remarks part of the project paper. Interviews were mostly unstructured as per time concern of the interviewee I had to fix a time with so many teachers of East West University. One of the MD of a brokerage house (United Financial Trading Company Ltd) and two managerial ranked employees of DBBL and EXIM bank were interviewed for their observation regarding the project topic.

For the analysis of the statistical parts I had to take help of different articles analytical model and also had to analyze data with the help statistical tools in MS excel 2007.

CHAPTER: 02

An Overview of Institutional Investor

Institutional investors like the Banks have significant contribution in country's GDP growth and stock market development. To develop a stagnant, war affected economy; the initial policy taken by Government of Bangladesh was to nationalize the banking sector.

Non-Bank Financial Institutions (NBFIs) play a significant role in meeting the diverse financial needs of various sectors of an economy and thus contribute to the economic development of the country as well as to the deepening of the country's financial system. According to Goldsmith (1969), financial development in a country starts with the development of banking institutions. As the development process proceeds, NBFIs become prominent alongside the banking sector. Both can play significant roles in influencing and mobilizing savings for investment. Their involvement in the process generally makes them competitors as they try to cater to the same needs. However, they are also complementary to each other as each can develop its own niche, and thus may venture into an area where the other may not, which ultimately strengthens the financial mobility of both. In relatively advanced economies there are different types of non-bank financial institutions namely insurance companies, finance companies, investment banks and those dealing with pension and mutual funds, though financial innovation is blurring the distinction between different institutions. In some countries financial institutions have adopted both banking and non-banking financial service packages to meet the changing requirements of the customers.

At present, there are only 19 mutual funds of which nine are managed by the Investment Corporation of Bangladesh (ICB), six by ICB Asset Management Co. Ltd. (a subsidiary of ICB), one by Bangladesh Shilpo Rin Shangstha (BSRS) and the remaining three are managed by the private sector (AIMS and Grameen-One and Grameen-One: Scheme Two). Among these, two are open-ended.

Chapter: 03

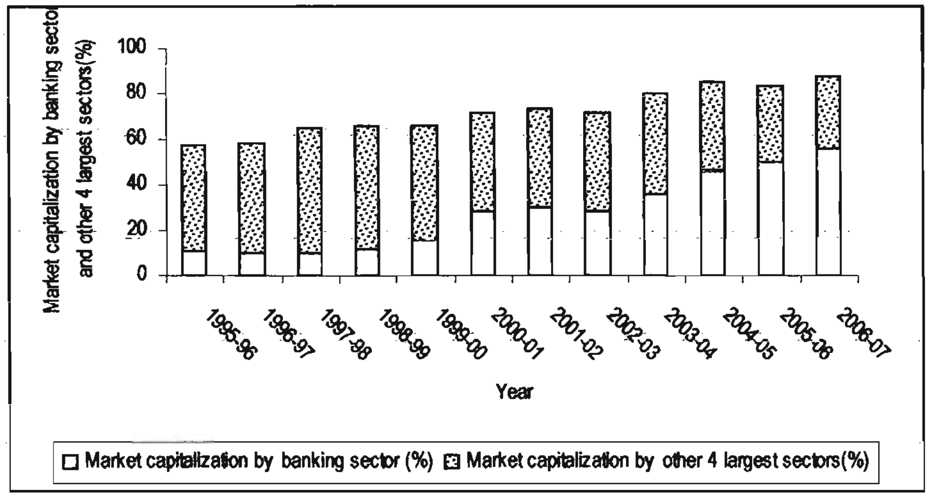
Institutional Investors in Bangladesh

3.1 Indicator of Specialized Institutions

Institutional investors are the heart of investment in any country. Banks and non banking institutions are the two parts of investors. As the numbers of banks are higher and most popular so they have a huge reserve of money to invest whereas the non banking institutions are getting popular in our country. Most spread institutions are the Bank. The major business of most non banking financial institutions in Bangladesh is leasing, though some are also diversifying into other lines of business like term lending, housing finance, merchant banking, equity financing, venture capital financing etc. Lease financing, term lending and housing finance constituted 94 percent of the total financing activities of all NBFIs up to June 2006. A break-up of their financing activities reveals that the share of leasing and housing finance in the total investment portfolio of NBFIs has gradually decreased from 59 and 15 percent, respectively, in 2002 to 46 and 14 percent in June 2006. The share of term loans, on the other hand, has increased from 20 percent to 34 percent during the same period implying increased focus on the former. So the concise ideas about the institutions are given below.

3.1.1 Banks: The number of banks in all now stands at 49 in Bangladesh. Out of the 49 banks, four are Nationalized Commercial Banks (NCBs), 28 local private commercial banks, 12 foreign banks and the rest five are Development Financial Institutions (DFIs). Sonali Bank is the largest among the NCBs while Pubali is leading in the private ones. Among the 12 foreign banks, Standard Chartered has become the largest in the country. Besides the scheduled banks, Samabai (Cooperative) Bank, Ansar-VDP Bank, Karmasansthan (Employment) Bank and Grameen bank are functioning in the financial sector.The number of total branches of all scheduled banks is 6,038 as of June 2000. Of the branches, 39.95 per cent (2,412) are located in the urban areas and 60.05 per cent (3,626) in the rural areas. Of the branches NCBs hold 3,616, private commercial banks 1,214, foreign banks 31 and specialised banks 1,177. Bangladesh Bank (BB) regulates and supervises the activities of all banks. The BB is now carrying out a reform programme to ensure quality services by the listed banks. Figure: shown below points to rather more sectoral concentration in the banking sector market capitalization which rose to 56.16% by 2006-07 from 10.72 % in 1995-96 with an average banking sector concentration growth rate of 16.74% per annum.

Figure: 1 Market capitalization by banking sector

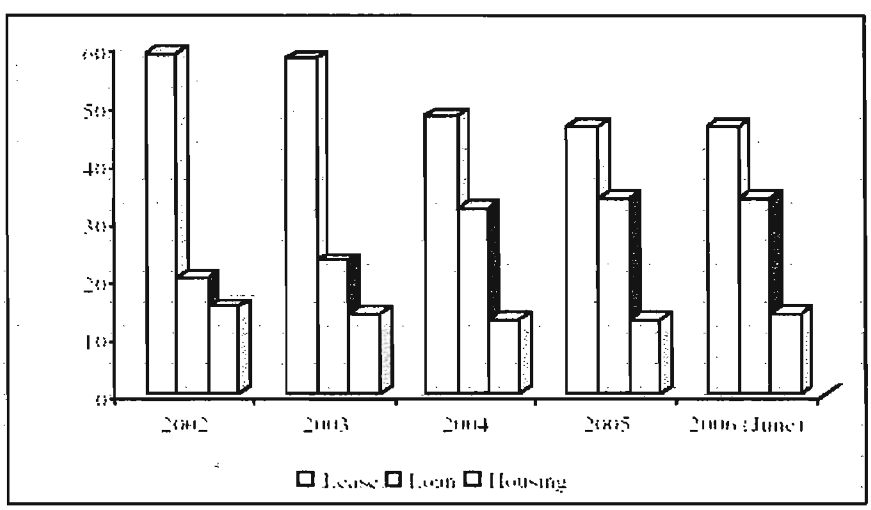


Data source: Calculations from various issues of Bangladesh Bank Quarterly and Monthly Economic Trends

3.1.2Non bank financial institution:

The major business of most NBFI s in Bangladesh is leasing, though some are also diversifying into other lines of business like term lending, housing finance, merchant banking, equity financing, venture capital financing etc. Lease financing, term lending and housing finance constituted 94 percent of the total financing activities of all NBFI s up to June 2006. A break-up of their financing activities reveals that the share of leasing and housing finance in the total investment portfolio of NBFI s has gradually decreased from 59 and 15 percent, respectively, in 2002 to 46 and 14 percent in June 2006. The share of term loans, on the other hand, has increased from 20 percent to 34 percent during the same period implying increased focus on the former. The evolvement of NBFI business activity is observed in Figure 2. It can also be seen from the figure that the portfolio mix of NBFI s has become quite stable from 2004.

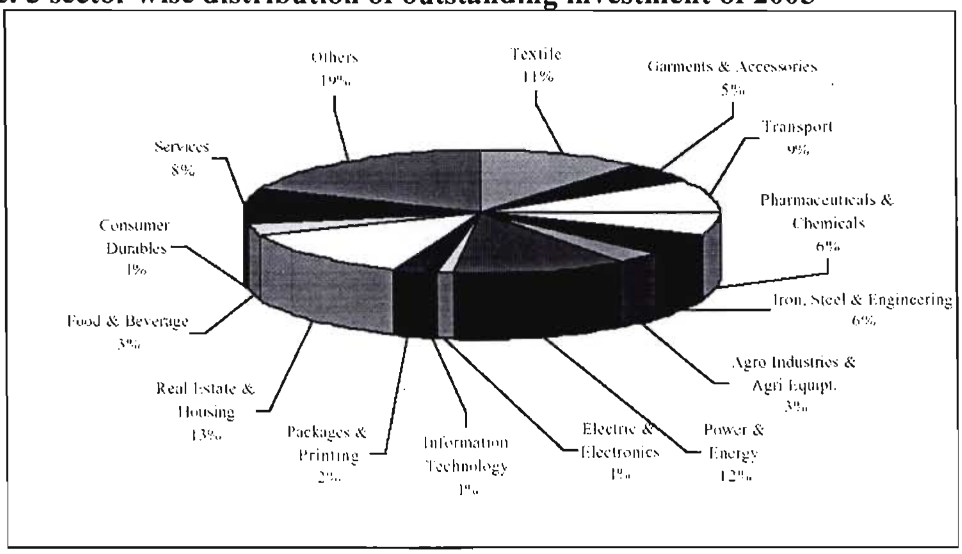
Figure: 2 share of lease, loan and house financing of total investment



Source: Authors' calculation from data provided by Financial Institution Department, Bangladesh Bank

NBFIs offer services to various sectors such as textile, chemicals, services, pharmaceuticals, transport, food and beverage, leather products, construction and engineering etc. The percentage of the sector wise distribution of NBFI s investment in 2005 is given in Figure 2. Although an individual NBFI may have a different portfolio as per its business strategy, the aggregated data shows that NBFI s mainly focus on real estate & housing (13%), power & energy (12%), textile (11%) and transport sector (9%). Service (finance and business) is another area of importance for NBFI s. From the perspective of broad economic sectors, investment in the industrial sector (42%) dominated that in the service sector (33%) in 2005. NBFIs are also exploring other sectors namely 'pharmaceuticals & chemicals', 'iron, steel & engineering', 'garments & accessories', 'food & beverage' and 'agro industries & Equipment'. The weight of these sectors is 23 percent of the total portfolio.

Figure: 3 sector wise distribution of outstanding investment of 2005



Source: BLFCA Year Book-2005

The contribution of NBFI s' financing activities (lease, loan, housing, investment etc.) to the overall economy persistently increased over the years as can be seen in Figure 3. In 2001, the share of NBFI s' financing to total GDP had been only 0.84 percent, which was more than doubled within 5 years and became 1.83 percent in 2005. The comparative figures for the banking sector were 34.55 and 41.32 percent in 2001 and 2005, respectively. The average yearly growth of NBFI s' contribution to GDP was about 22 percent during this period as compared to 4.7 percent of that by the banking sector. Even in the regional context, performance of NBFI sector is quite robust. As of December 2004, NBFI s contributed 5 percent of the total bank credit as against 3 percent in India, 6 percent in Pakistan and 8 percent in Sri Lanka (Chowdhury, 2005). The share is increasing over the years and reached 5.2 percent in 2005.

3.1.3 Mutual Fund:

Mutual funds are professionally managed investment schemes that collect funds from small investors and invest in stocks, bonds, short term money market instruments, and other securities. This ensures a diversified portfolio for the investors at much less efforts than through purchasing individual stocks and bonds. Mutual funds are usually managed by fund managers who undertake trading of the pooled money and are responsible for managing the portfolio of holdings. Generally, mutual funds are organized under the law as companies or business trusts and managed by separate entities. Mutual funds fall into two categories: open-end funds and closed-end funds .In Bangladesh, the number of mutual funds is small having low issued capital.

Table: 1 Information of ICB Mutual fund

Name	Year of listing	Share capital	Face value (Tk.)	Market capitalization		
				Jun 08	Dec 08	% change
1st ICB MF	1980	5	100	597.77	375.00	-37.27
2nd ICB MF	1984	5	100	168.55	100.00	-40.67
3rd ICB MF	1985	10	100	162.90	103.25	-36.62
4th ICB MF	1986	10	100	173.30	100.78	-41.85
5th ICB MF	1986	15	100	323.55	150.11	-53.61
6th ICB MF	1987	50	100	444.88	257.50	-42.12
7th ICB MF	1995	30	100	426.45	175.50	-58.85
8th ICB MF	1996	50	100	436.75	237.75	-45.56
1st BSRS	1998	50	100	614.88	413.13	-32.81
AIMS 1st MF	2000	70	1	2573.76	2363.76	-8.16
ICB AMCL 1st MF	2003	100	100	534.50	374.75	-29.89
ICB AMCL Islamic MF	2005	100	100	422.50	276.75	-34.50
Grameen MF One	2005	170	10	2170.90	1485.80	-31.56
ICB AMCL NRB MF	2007	100	100	464.75	279.25	-39.91
ICB AMCL 2nd NRB MF	2008	1000	100	na	1972.50	na
Grameen One: Scheme Two	2008	1250	10	na	7112.50	na

Source: *The Monthly Review*, Dhaka Stock Exchange, various issues.

3.1.4 Insurance companies: A total of 60 insurance companies are operating in Bangladesh till date. Of these companies, 57 are private, two state-owned and one is foreign. And 42 of the insurance company are listed with DSE. Insurance Directorate, under the Ministry of Commerce, is the regulatory-body of the country's insurance sector.

3.2 Rate of investment by the institutional investors: In DSE numbers of company is investing in the stock transactions. Calculating all of their investment is a matter of huge time concern, so we took 24 samples of the institutional investors' investment pattern in the corporate stocks. As corporate stocks is a risky stock and frequently traded in the market so these stocks boost the market activity. We found the percentage of investment by the investors and found that the rate of investment in the corporate stocks is higher than the rate of investment in the government stocks. A higher return is possible in corporate stock though the risk is higher as well. As we know that the market

performance is based on the level of transaction one market has. So higher contribution to the corporate stock by the large investors is appreciable and of course it gives a positive signal to the investors to come and participate in the stock market. Due to the insurance act they have to participate in corporate stock purchase. Investment from the statutory fund in government stock is also compulsory by rule for the Banks. Like wise it is the regulator who some times tries to control the market in order to keep it stable.
As the sample of the investment chat shown below is indicating more than 50% of the investment is to the corporate stock but time to time there are some institutions who invest in the opposite side due to their policy. Here I just tried to show the trend of investment by the Institutional investors.

Table: 2 The percentage of investment by the investors

Name of the Institutional investors	corporate stocks	Government stocks	Total Stocks	Investment % in corporation
Global insurance ltd	27211780	9000000	36211780	75.14621
Paramount insurance co. ltd.	619098	9000000	9619098	6.436134
Continenttal Insurance Limited	8218210	9000000	17218210	47.72976
Reliance Insurance limited	188665556	9870595	198536151	95.02831
Bangladesh Finance and Investment Co.	68763630	342572608	411336238	16.71713
Brac Bank	7880195243	365178030	8245373273	95.57112
Fidelity Assests and Securities Company Limited	83240546	5819992	89060538	93.46513
ICB Islamic Bank Ltd.	5000000	1041859735	1046859735	0.477619
Pubali Bank	570231504	7805362751	8375594255	6.808251
Midas financing Limited	141796624		141796624	100
National Bank	3523638059	6632974069	10156612128	34.69305
Eastern Bank Ltd.	401486455	4923272085	5324758540	7.539994
IDLC finance	174878498	175687000	350565498	49.88469
IPDC	193400000	409892894	603292894	32.0574
Islamic finance	187909510	-	187909510	100
Prime finance	6409241	-	6409241	100
Agrani Insurance Company Ltd.	11031750	9000000	20031750	55.07132
Capital Union Limited	13000000	130256	13130256	99.00797
South East Bank Ltd	178337793	10515269078	10693606871	1.667705
Peoples insurance company ltd.	24286534	4500000	28786534	84.36769
Dhaka Bank Ltd.	104817359	7134620224	7239437583	1.447866
Lanka Bangla Finance	226039314	-	226039314	100
NCC Bank	330090817	6196727844	6526818661	5.057453
Islami Bank Bangladesh Limited	24610399	7508000000	7532610399	0.326718
			Total % -	**52.54**

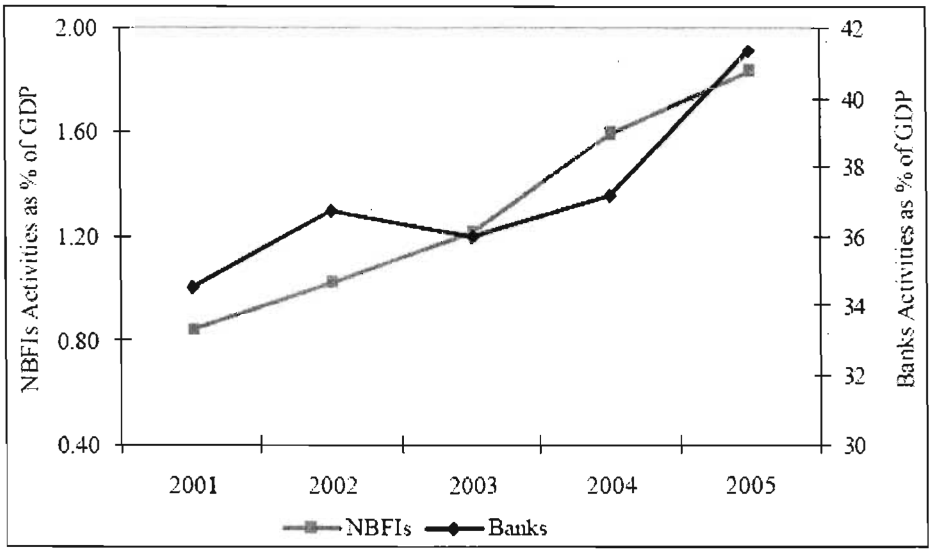
- Sample chat of investment by the randomly selected financial institutions.

3.3 Financial institutions share in the GDP on Bangladesh:

The contribution of NBFI s' financing activities (lease, loan, housing, investment etc.) to the overall economy persistently increased over the years as can be seen in Figure 4. In 2001, the share of NBFI s' financing to total GDP had been only 0.84 percent, which was more than doubled within 5 years and became 1.83 percent in 2005. The comparative figures for the banking sector were 34.55 and 41.32 percent in 2001 and 2005, respectively. The average yearly growth of NBFI s' contribution to GDP was about 22 percent during this period as compared to 4.7 percent of that by the banking sector. Even in the regional context, performance of NBFI sector is quite robust. As of December 2004, NBFI s contributed 5 percent of the total bank credit as against 3 percent in India, percent in Pakistan and 8 percent in Sri Lanka (Chowdhury, 2005). The share is increasing over the years and reached 5.2 percent in 2005.

Figure: 4

Banks And Non Bank financial institutions activities as GDP share



Source: Annual Report, Economic Trends and FID, Bangladesh Bank

Banks and Non-Bank Financial Institutions are both key elements of a sound and stable financial system. Banks usually dominate the financial system in most countries because businesses, households and the public sector all rely on the banking system for a wide range of financial products to meet their financial needs. However, by providing additional and alternative financial services, NBFIs have already gained considerable popularity both in developed and developing countries. In one hand these institutions help to facilitate long-term investment and financing, which is often a challenge to the banking sector and on the other; the growth of NBFIs widens the range of products available for individuals and institutions with resources to invest. Through their operation NBFI s can mobilize long-term funds necessary for the development of equity and corporate debt markets, leasing, factoring and venture capital. Another important role which NBFI's play in an economy is to act as a buffer, especially in the moments of economic distress. An efficient NBFI sector also acts as a systemic risk mitigator and contributes to the overall goal of financial stability in the economy.

3.4 Role of ICB **(Investment Corporation of Bangladesh)**

Investment Corporation of Bangladesh is the lone organization to perform the activities of creating demand for securities in Bangladesh capital markets. It is the national investment house established in 1976. The major steps in a series of measures undertaken by the government to accelerate the pace of industrialization and develop a well organized and vibrant capital market. It caters to the need of institutional support to meet the equity gap of the industrial enterprises. In recent years the changing economic climate, the government of Bangladesh has emphasized the development of ICB. Government is also trying to develop the ICB through different policy measures; even through the rate of development is not up to the expectation. Thus the situation warrants detailed examination of the activities of ICB.

3.4.1Goal of ICB: The goal that ICB had in the time of its establishment is to make the market more active and stable. ICB established in order to fulfill the objectives of establishing some goals like-

- To encourage and broaden the base of investment.
- To develop the capital market.
- To provide for matters ancillary thereto.
- To promote and establish subsidiaries for business development.

3.4.2Business Policy of ICB: Capital markets and financial institutions are the investment intermediaries linking the savers and users of capital. As they are running a business to help the capital market so they had some business policy to develop the market via its dedicated activity. The recent enactment of"The Investment Corporation of Bangladesh (Amendment) Act, 2000" (XXIV of 2000), Scope of ICB's activities through the formation if Subsidiaries, have been expanded. The business policy of ICB is like-

- To act on commercial consideration with due regard to the interest of industry, commerce, depositors, investors and to the public in general.
- To provide financial assistance to projects subject to their economic and commercial viability.
- To arrange consortium of financial institutions including merchant banks to provide equity support to projects and thereby spread the risk of underwriting.
- To develop and encourage entrepreneurs.
- To diversify investments.
- To induce small and medium savers for investment in securities.

- To create employment.
- To encourage Investment in IT sector.
- To encourage Investment in joint venture capital/project.

3.4.3Current composition of ICB: As part of the ongoing streamlining program of ICB under CMDP imitated by the Government of Bangladesh and the ADB. Three subsidiary companies, the ICB Capital Management Limited, ICB Asset Management Company Limited and ICB Securities Trading Company have been created to carry out merchant banking, mutual fund operations and securities trading functions respectively. All these companies are incorporated under the Company Act, 1994. Independent boards of Directors for the three companies were constituted with 50% directors from ICB and the rest from private sector, with no interlocking the Boards. As per relevant provision of the ICB ordinance, their own memorandum and article of association, company Act, 1994 and other relevant laws applicable to them, shall guide the subsidiary companies. The creation of ICB subsidiary company is the major events in the annals of ICB. It is expected that as a result of the fundamental and strategic change in modus operandi of ICB, the countries capital market and in particular ICB will strengthen.

3.4.4 Basic Function of ICB: ICB is an organization dedicated to the stock market so their functions are relatively straight forward for the market development activities like-

- Underwriting of initial public offering of shares and debentures
- Underwriting of right issue of shares
- Direct purchase of shares and debentures including Pre-IPO placement and equity participation
- Providing lease finance to industrial machinery and other equipments singly or by forming syndicate
- Managing investors' Accounts
- Managing Open End and Closed End Mutual Funds
- Operating on the Stock Exchanges
- Providing investment counsel to issuers and investors
- Participating in Government divestment Program
- Participating in and financing of, joint-venture projects
- Dealing in other matters related to capital market operations
- Trusty, Custodian, Bank Guarantee
- Consumer Credit

3.4.5 Share Capital Ownership Pattern and the investment in market: ICB's prime share holder is the Government. As we know they are the motivator of the company. As we see in the graph below that the next major share holders are the institutional investors and a small percentage of shares are owned by the general public. So it can be clearly shows what could impact of the institutional investor role over the market.

Classification of Shareholders as on 30 June, 2008

Shareholder	No. of Shareholders	No. of Shares	Percentage
Government of Bangladesh	1	1350000	27.00
State Owned Commercial Banks	4	1136900	22.74
Development Financial Institutions	2	1281550	25.63
Insurance Corporations	2	617781	12.35
Denationalised Private Commercial Banks	2	454263	9.08
Private Commercial Banks	3	28286	0.57
Foreign Commercial Banks	2	110	0.01
First BSRS Mutual Fund	1	5750	0.12
Other Institutions	12	17454	0.34
General Public	1109	107906	2.16
Total	**1138**	**5000000**	**100.00**

As the market grows the rate of investment also increases. By the span of time the investment rate in the market also grows. The part of the annual report of ICB is shown below. Where we can see the increase amount of investment also increased in a remarkable manner. The investment in the corporate stocks in higher in the case of ICB. As we already know the purpose of the company is to develop the capital market in order to strengthen the economy. Here the percentage of investment in the corporate market to the government securities is 99.83.

Investments:	5,156,487,899	4,799,449,320
Government Securities	7,893,000	10,693,000
Capital Investment in ICB Subsidiary Companies	262,499,100	142,499,100
Capital Investment in Other Institutions	27,500,000	27,500,000
Marketable Securities- at cost	4,783,595,799	4,543,757,220
Bonds	75,000,000	75,000,000

So looking at the motivation and activity if ICB it can be stated that they are definitely making a good arrangement for the capital market development of Bangladesh.

Chapter04: Indicators of Stock Market Growth and Trend of Market Performance

4.1 ***Market capitalization*** ratio equals the value of listed shares divided by GDP. Analysts frequently use the ratio 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 (Agarwal 2001). La Porter et al. (1997, 1998) and Levine and Zervos (1998) used the market capitalization to GDP ratio as an indicator of market development. Table 1 and figure A. Show the size of Bangladesh stock market. Market capitalization ratio has increased from 1.4 % in 1990-91 to 10.2 % in 2005-06 with a sudden increase to 29.0 % in 2006-07 .Total market capitalization reached to Tk. 1366.53 billion in 2006-07 from Tk11.485 billion in 1990-91.This shows a remarkable cumulative increase of 117.98 times . Mean market capitalization ratio of 0.077 with a standard deviation of 0.073 points to high level of volatility in market capitalization. Linear trend line shows an upward trend in market capitalization to GDP ratio though R^2 value of 0.3821 indicates a poor model fit.

Table 1.

Stock market size of Bangladesh, 1990-91 to2006-07

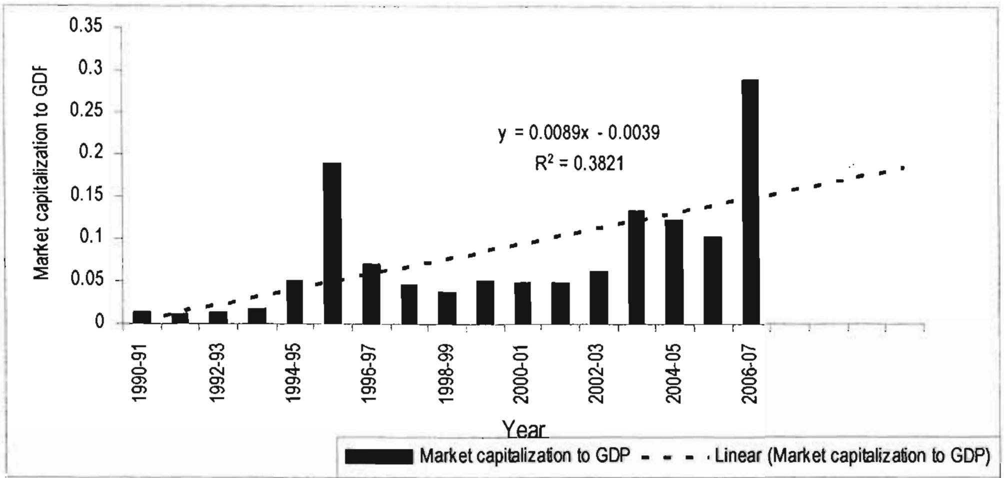
Year	GDP(billion Taka)	Market capitalization (billion Taka)	Market capitalization to GDP	Year	GDP(billion Taka)	Market capitalization(billion Taka)	Market capitalization to GDP
1990-91	834.39	11.485	0.014	1999-00	2370.86	120.69	0.051
1991-92	906.5	10.397	0.011	2000-01	2535.46	121.586	0.048
1992-93	948.07	12.29	0.013	2001-02	2732.01	131.73	0.048
1993-94	1354.12	18.098	0.018	2002-03	3005.80	182.899	0.061
1994-95	1525.18	80.657	0.051	2003-04	3329.73	439.934	0.132
1995-96	1663.24	315.149	0.189	2004-05	3707.07	453.018	0.122
1996-97	1807.01	124.134	0.069	2005-06	4157.28	420.850	0.102
1997-98	2001.77	91.637	0.046	2006-07	4674.97	1366.53	0.290
1998-99	2196.97	81.324	0.037				
Descriptive statistics of Market capitalization to GDP ratio		Mean	Standard deviation	Kurtosis	Skewness	Minimum	Maximum
		0.077	0.073	3.745	1.864	0.011	0.290

Data source: Authors' calculation from various issues of Bangladesh Economic Review, Statistical Year Book of Bangladesh, Dhaka stock exchange (main board) and Securities and exchange commission (Annual report and quarterly review).

The second indicator of market size 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. Table 2 shows that during the period under study, number of listed company has grown from 149 to 273 with an average annual growth rate of 4.421% and a standard deviation of 39.006. The upward trend line (figure B) with R^2 value of .9589 points to stable growth in the number of listing.

Figure A

Market capitalization to GDP ratio, 1990-91 to2006-07 with 4 years forecast



4.2 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. Table 2 shows that during the period under study, number of listed company has grown from 149 to 273 with an average annual growth rate of 4.421% and a standard deviation of 39.006. the upward trend line (figure B) with R^2 value of .9589 points to stable growth in the number of listing.

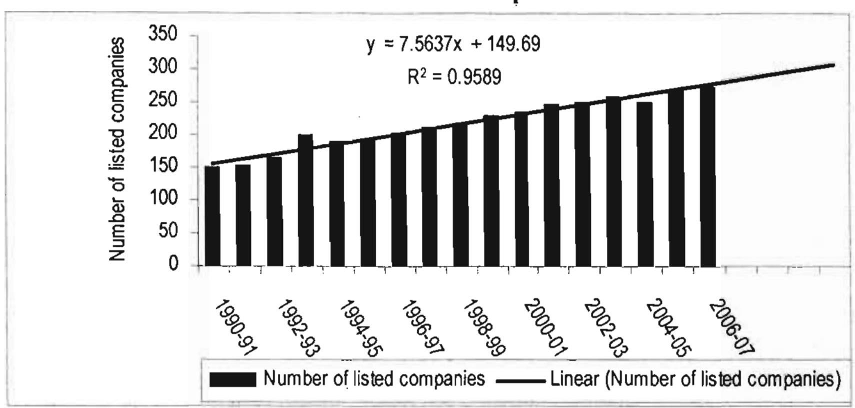
Table 2 Number of listed companies in Dhaka Stock Exchange

Year	Number of listed companies	Growth in %	Year	Number of listed companies	Growth in %
1990-91	149		1999-00	229	4.566
1991-92	153	2.685	2000-01	234	2.183
1992-93	166	8.497	2001-02	248	5.983
1993-94	201	21.084	2002-03	251	1.210
1994-95	192	-4.478	2003-04	259	3.187
1995-96	192	6.771	2004-05	251	-3.089
1996-97	203	5.729	2005-06	269	7.171
1997-98	213	4.926	2006-07	273	1.487
1998-99	219	2.817			
Descriptive statistics of number of listed companies	Mean	Standard deviation	Minimum	Maximum	Average growth rate
	217.765	39.006	149.000	273.000	4.421%

Data source: Compiled from different issues of monthly review, DSE.

Figure B

Number of listed companies



4.3Liquidity Analysts generally use the term "liquidity" to refer to the ability to easily buy and sell securities. A comprehensive measure of liquidity would include all the costs associated with trading, including the time costs and uncertainty of finding a counterpart and settling the trade. As the direct measure of liquidity is beset with complexity, analysts typically use proxy measures of liquidity.

4.4Total value traded/GDP equals total value of shares traded on the stock market divided by GDP. The total value traded ratio measures the organized trading of equities as a share of national output .The total value traded/GDP ratio complements the market capitalization ratio. Together, market capitalization and total value traded/GDP inform us about market size and liquidity. Table 3 shows the liquidity situation of Bangladesh stock market in terms of total value traded to GDP ratio. The ratio has increased form an insignificant number (0.000228) in 1990-91 to 4.05 % in 2006-07. Mean value of 0.015 with a standard deviation of 0.011 for the ratio imply that the increase is not even smooth; there is a marked fluctuation in the value traded to GDP ratio over the years.

4.5Turnover 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 complements total value traded ratio. While total value traded /GDP captures trading compared with the size of the economy, turnover measures trading relative to the size of the stock market. Put it differently, a small, liquid market will have a high turnover ratio but a small total value traded/GDP ratio.

Table 3 depicts the turnover ratio of the stock market of Bangladesh.. During the study period it increased form 1.1% to 17.5%. The turnover ratio peaked at 62.1% during the year 1998-99 showing a declining trend afterwards. Minimum and maximum ratio of 0.012 and 0.621 during the study period with a mean ratio of 0.215 and standard deviation of 0.192 (table 3) indicate marked fluctuations in the turnover ratio. The linear trend line (figure C) of turnover ratio shows an upward trend though the R^2 of 0.093 indicates a poor model fit.

Table 3:

Liquidity measure- total value traded to GDP, 1990-91 to 2006-07

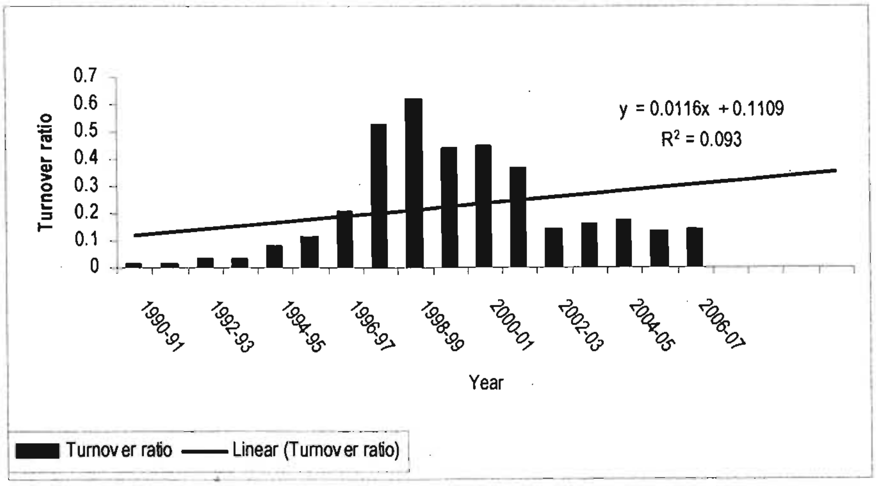
Year	GDP(billion Taka)	Total value traded(billion Taka)	Value traded /GDP	Year	GDP(billion Taka)	Total value traded(billion Taka)	Value traded /GDP
1990-91	834.39	0.19	0.000	1999-00	2370.85	53.2986	0.022
1991-92	906.5	0.12	0.000	2000-01	2535.46	54.6645	0.022
1992-93	948.07	0.44	0.001	2001-02	2732.01	48.571	0.018
1993-94	1030.36	0.58	0.001	2002-03	3005.8	25.8407	0.009
1994-95	1589.76	6.3997	0.004	2003-04	3329.73	70.7324	0.021
1995-96	1663.24	36.222	0.022	2004-05	3707.07	78.8775	0.021
1996-97	1807.07	25.9485	0.014	2005-06	4157.28	57.4001	0.014
1997-98	2001.76	48.4044	0.024	2006-07	4674.97	189.7104	0.041
1998-99	2196.95	50.5023	0.023				

Descriptive statistics	Mean	Standard deviation	Kurtosis	Skewness	Minimum	Maximum
Value traded to GDP ratio	0.015	0.011	0.024	0.264	0.000	0.041
Turnover ratio	0.215	0.192	-0.384	0.923	0.012	0.621

Source: Computed from data of various issues of Bangladesh statistical year book, SEC quarterly review and DSE monthly review

Figure C.

Liquidity measure-turnover ratio, 1990-91 to 2006-07



In terms of value, Banking Sector continued its leading position contributing 43.69 per cent in the DSE turnover in the financial year of 2007-2008, while fuel and power sector bagged the second position accounting for 13.21 per cent of the total turnover. Pharmaceuticals, investment, insurance and engineering sectors followed the rally with 9.95 per cent, 8.01 per cent, 7.04 per cent and 4.55 per cent contribution respectively.

Table: 5

Sectoral Turnover Performance during 2007 - 2008

Sector	Volume (in mn)	Value (in mn)	% of total Turnover
Banks	437.74	237,321.62	43.69
Pharmaceuticals	403.54	54,076.96	9.95
Insurance	60.13	38,263.87	7.04
Fuel & Power	147.02	71,769.06	13.21
IT	244.26	8,113.61	1.49
Textile	225.42	10,698.96	1.97
Cement	59.78	17,490.31	3.22
Miscellaneous	131.97	8,621.03	1.59
Engineering	196.23	24,692.55	4.55
Investment	1,624.07	43,525.71	8.01
Tannery	36.10	12,831.49	2.36
Foods	163.41	8,328.11	1.53
Service & Real Estate	21.64	4,111.75	0.76

4.6 Volatility: Indicators of stock market volatility are a **twelve month standard deviation and coefficient of variation (CV) estimates based on market index**. We include a second measure of volatility i.e. the difference between the highest and lowest stock market index of the year. We term it as range (this measures of volatility comes from Agarwal, R.N. , 2000).Then we calculate a composite index (rank) of volatility taking the simple average of mean- removed value of standard deviation, CV and range for different year. In our analysis lower rank for volatility means high level of volatility than higher rank for the variable volatility. Thus volatility rank of 1 for a year means the market index was the most volatile during the year. Table 6 depicts the volatility in the Dhaka stock exchange. The range, standard deviation, coefficient of variation and composite volatility ranking for each year during the study period indicate that the market was highly volatile during the study period. Table 6 also shows that the market was the most volatile during the period 1995-96 (rank 1) and 1996-97 (rank 2) which is congruent with the fact that during the year 1996 the capital of Bangladesh experienced a sudden on set of boom and a subsequent burst. However, the decreasing volatility ranks (with volatility index increasing) over the years may be interpreted to mean increasing volatility in stock markets.

Table 6.

Volatility in the stock market- range and standard deviation and coefficient of variation.

Year	Standard deviation	Range	CV	Volatility index	Volatility ranking	Year	Standard deviation	Range	CV	Volatility index	Volatility ranking
1990-91	25.383	60.9	0.068	-0.740	15	1999-00	66.557	176.49	0.115	-0.453	9
1991-92	37.628	100.95	0.111	-0.582	12	2000-01	73.273	222.18	0.108	-0.421	8
1992-93	24.849	76.61	0.063	-0.741	16	2001-02	49.392	125.46	0.061	-0.655	14
1993-94	103.587	346.28	0.145	-0.175	5	2002-03	61.364	217.04	0.075	-0.528	11
1994-95	48.571	185.03	0.06	-0.615	13	2003-04	360.654	1017.5	0.262	1.165	3
1995-96	860.964	2289.34	0.592	3.986	1	2004-05	122.742	409.14	0.072	-0.257	6
1996-97	377.758	1212.47	0.344	1.540	2	2005-06	98.097	254.34	0.083	-0.400	7
1997-98	58.270	201.61	0.093	-0.504	10	2006-07	180.645	649.21	0.128	0.181	4
1998-99	21.980	66.24	0.043	-0.802	17						

Data source: Computed form month end index of DSE from 1990-91 to 2006-07 (DSE main board –Monthly review and Graphs)

4.7: Concentration

Market concentration can be measured by looking at the share of market capitalization accounted for by the large stocks or large sectors. These large stocks are seen as the leading 3 to 5 firms in the market (Maunder et al. 1991). In many economies only a few companies dominate the stock market (Bundoo 1999). High concentration is not desirable as it can adversely affect liquidity, and it is common to find a negative correlation between concentration and liquidity. To measure the degree of market concentration, we compute the share of market capitalization accounted for by the ten largest stocks and five largest stocks and call this measure 'concentration'. We also include market capitalization by largest 4 sectors and by the largest sectors, turnover by the largest 4 sectors and by the largest sector.

Figure D. indicates increasing market concentration by largest five sectors in Bangladesh stock market. Market capitalization for largest five sectors during the period 1995-96 was 57.50 % which increased to 87.41 % by 2006-07. Figure E points to rather more sectoral concentration in the banking sector market capitalization which rose to 56.16% by 2006-07 from 10.72 % in 1995-96 with an average banking sector concentration growth rate of 16.74% per annum.

Figure D.

Market capitalization by largest five sectors

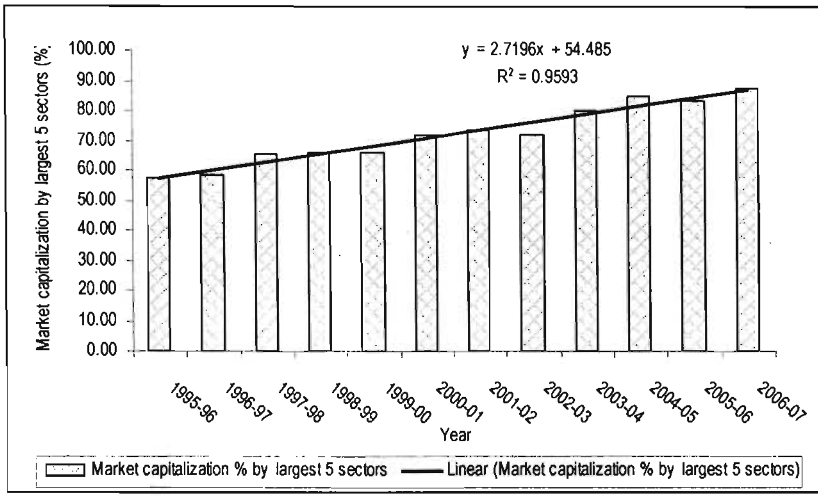
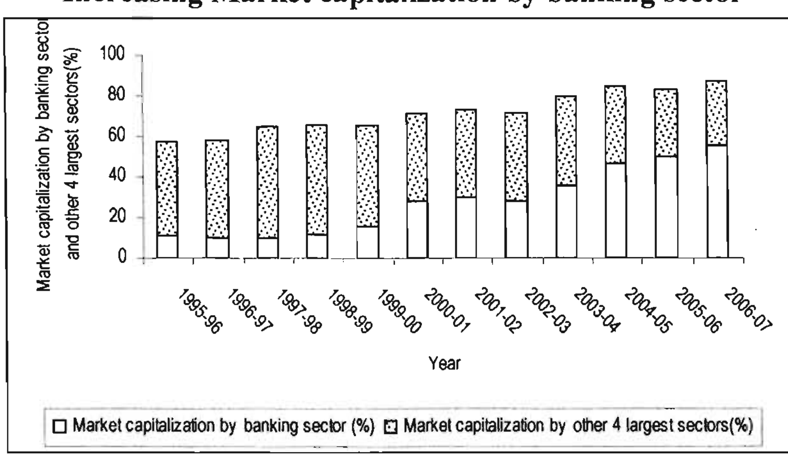


Figure E.
Increasing Market capitalization by banking sector



Data source: Authors calculations from various issues of Bangladesh Bank Quarterly and Monthly Economic Trends

Figure E shows that capitalization by largest 10 companies during August, 2004 was 45.74% which has decreased to 38.02 % during August, 2007. Market capitalization by the largest 5 companies during the same period has decreased from 34.12 % to 22.37 %.

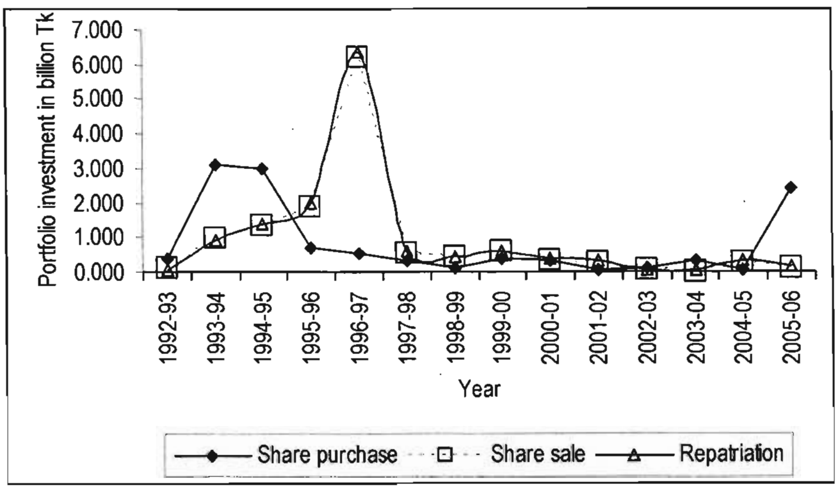
4.8Foreign portfolio investment

Foreign portfolio investment in equity and debt securities indicates the level of integration of a stock market with stock market of other countries. It also indicates growth level of a stock market. Bangladesh stock market is showing declining trend in terms of foreign portfolio investment in equity and debt securities. Figure G. depicts the foreign portfolio investment situation in Bangladesh stock market for the period of 1992

-93 to 2005-06. From 1992 to 1994-95 purchase of shares by foreign investors exceeded the amount of share sale and repatriation. After 1995-96 the trend reversed and share sale and repatriation exceeded that share purchase for most of the years. During the period of 1995-96 and 1996-97 Bangladesh experienced a massive outflow of foreign investment evidenced by Tk .6.332 billion repatriation and Tk. 6.187 billion sales as against Tk. 0.518 billion share purchases by foreign investors in 1996-97. The declining trend of portfolio investment, evidenced by average annual sales and repatriation of portfolio investment amounting to Tk. 0.995 billion and 1.036 billion per year with standard deviation of 1.603 and 1.636 exceeding the average annual purchase by portfolio investors of Tk. 0.718 billion with a standard deviation of 1.106 during the study period , may be interpreted to mean that Bangladesh stock markets remain non-attractive to foreign portfolio investors.

Figure G

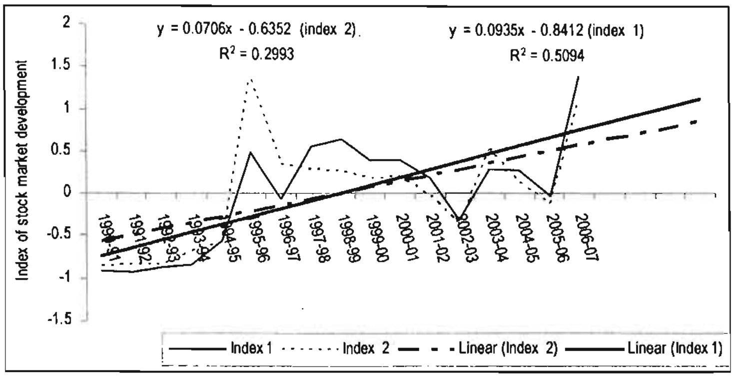
Portfolio Investment : 1992-93 to 2005-06 (in billion Tk.)



Source: SEC Bangladesh Annual Report 2005-06

Figure H.

Index of stock market growth1990-91 to 2006-07



To compute index 2, we include the indicators of market capitalization to GDP, turnover ratio, value traded to GDP and volatility. According to index 2, stock market was the most developed during 1995-96. The periods of 2006-07, 2003-04, 1996-97 and 1997-98 ranked second, third, fourth and fifth respectively. The upward trend line (figure H.) for both index 1 and index 2 may points to the growth of Bangladesh stock market over time, while R^2 value of 0.5094 (index 1) and 0.2993 (index 2) may mean poor fit in the trend line and unstable growth pattern .

Chapter 05: Concluding Remarks

5.1 Findings and recommendations: 1996 Share Market Crash still remains as a bad memory for today's capital market regulators as well as the investors of Bangladesh. Over the last 10 years, the Government of Bangladesh has taken a number of regulatory measures to boost the capital market of the country. The Government even sought assistance from various international agencies to suggest necessary capital market reforms for Bangladesh.

- The capital market of Bangladesh is yet to make a steady growth. The investors are still very scared to return to the market as they have lost their confidence in the market and specially, the regulatory body after the 1996 incidence.

- Earlier the private pensions and the provident funds were required to fully invest their funds into government securities only. However, the Section 20B Trusts (Amendment) Act 2000 permits private pensions and provident funds to invest up to 25% of their total investable funds into listed securities.

- All these recent regulatory measures were undertaken with a view to increasing the institutional investment in capital market. However, it is stated that even after making all of the regulatory moves, securities market in Bangladesh still suffers from various setbacks. The market is yet to recover from the 1996 shock. Domestic investors continue to exhibit lack of confidence in the market, especially in the secondary securities market.

- Only a limited number of foreign investors are showing interest to venture the capital market of Bangladesh. It is estimated that from 1997 to July 2003 the total foreign investment in the initial public offerings in Bangladesh stood at very poor level - on an average less than $ 1 million a year.

- The Government is very slow to adopt such recommendations in their full capacity. Government also at times lacks regulatory prudence to properly encourage institutional investments in capital market

After analyzing the nature and behavior of the institutional investment in the recent times and its influence on the Bangladesh stock market it would be safe enough to say that corporate funds are one of the most volatile instruments floating in the market and needs to be handled cautiously. Long term funds should be given priority and encouraged some of the actions that could be taken to ensure stability are

□Knowledge activities and research programs: Training and courses can be ran more often and in wider locations to create updates knowledge in the domestic institutional investors.

□Follow the developed market: here the develop markets policy regarding the investment strategy can help to boost the market in the long run.

□Credit rating agency: As our market has few number of credit rating agency so the performance of evaluating the market is not at all up to the mark. It really can help the big investor to get attracted to come in the market.

□ creating good image: having a good impression in the eyes of institutional investor can help the market grow faster.

5.2Conclusions

The dramatic expansion of institutional investors in global capital markets demonstrates the changing savings pattern of households in the global economy. The institutional investment is also behaving in a changing pattern. As such, corporate managers who wish to raise funds to finance the growth of their firms must understand such institutionalization in the global fund markets. In equity markets, institutional investors tend to prefer liquid stocks with larger market capitalization, higher turnover, and higher price levels. Because the performance of institutional investors is typically benchmarked against certain indexes, stocks in popular equity indexes are particularly favored by institutional investors and are thus priced at a higher valuation ratio. In markets that are mainly populated by institutional investors, there is a clear clientele effect. Banks, insurance companies, pension funds, and investment-grade bond mutual funds place severe restrictions on the holdings of high-yield bonds, whereas hedge funds and high-yield bond mutual funds provide capital for high-yield issuers. Lastly, private equity funds are an important source of capital for entrepreneurial firms. As a result the Bangladeshi stock market is facing a new challenge in facing the fact that without attracting fund the market can not grow in a smooth manner. So on the whole it can be said that for the developed and a well functioning stock market the contribution by the institutional investors is the most important for Bangladesh. And well developed system can change the development of the country at the same time.

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