Endeavour Education Excellence

FINANCIAL MARKET REVIEW

December 2023

Contents

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The BICM Financial Market Review provides analytical insights about the performance of the financial market in Bangladesh on a monthly basis.

> Political events like general elections are significant catalysts for stock market volatilities in Bangladesh. (Roy & Khan, 2021). Bangladesh is going through a rough patch in political economy that vitally can impact the capital market of Bangladesh in the coming months.
>
> Gourav Roy, Lecturer, BICM

Economy of Bangladesh

Key indicators at a glance

Countries	Nominal GDP (USD in billion)	Real GDP Growth (yearly % Change)	Inflation Point to point (as of Nov '23)	Currency Apprecialtion/Depreciation against USD	Reserve (Billion USD)	Currency Exchange Rates (per USD)
Bangladesh	426.85	6.03%	9.63%	-0.23%	20.71	110.05
Emerging Economies						
India	3,750.00	7.20%	4.87%	0.00%	597.94	83.36
China	19,373.00	4.50%	-0.20%	-0.09%	3,101.20	7.32
Developed Economies						
USA	23,618.00	2.90%	3.20%	0%	240.71	1
UK	3,080.00	1.90%	5.70%	0.09%	115.50	0.79

Appreciation or Depreciation of Different Currencies against USD

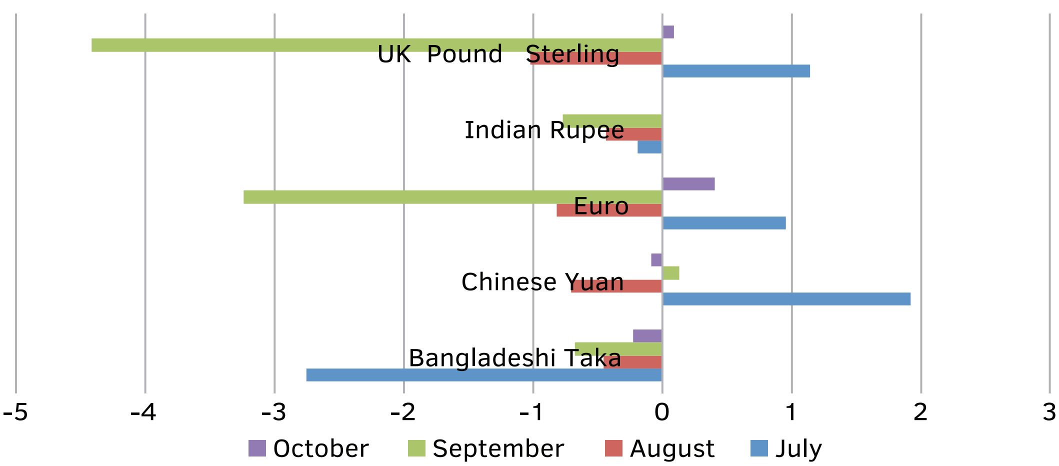


Figure 1: Appreciation or Depreciation of Different Currencies against USD (In Percentage)

A visual tour of the key statistics

Import-Export Growth Percentage of Bangladesh

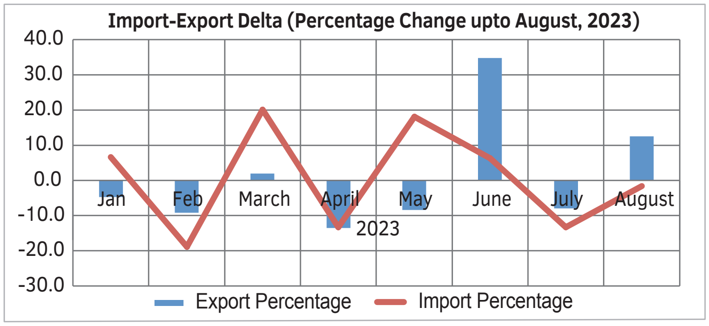


Figure 2: Import-Export Delta (Percentage Change up to August, 2023)

Foreign Remittance Growth of FY 2022-23

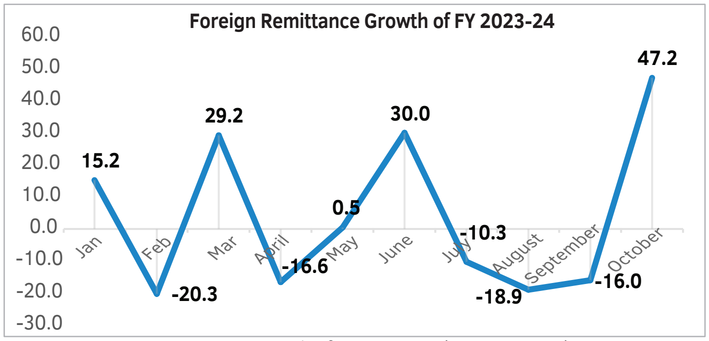


Figure 3: Foreign Remittance Growth of FY 2023-24 (In Percentage)

Percent Change of Foreign Reserve of Bangladesh

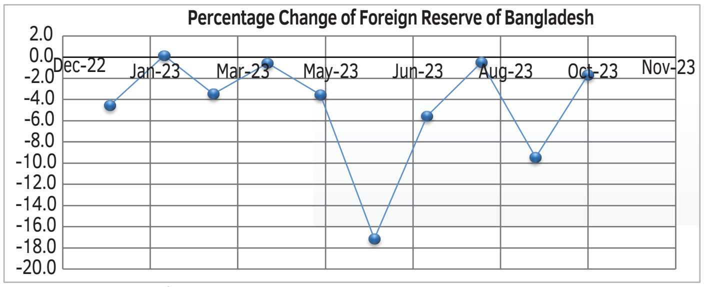


Figure 4: Percent Change in Foreign Reserve

Period Average Exchange Rate

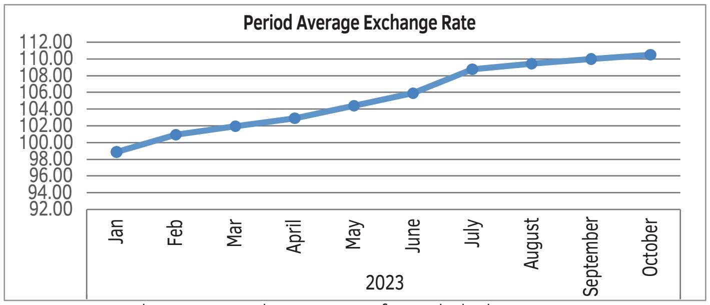


Figure 5: Period Average Exchange Rate of Bangladesh

Country-Wise Workers' Remittance

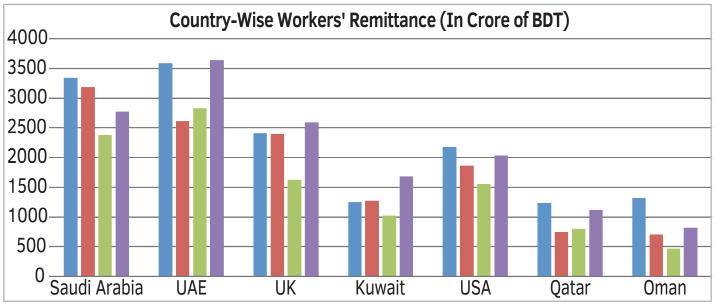


Figure 6: Country-wise Workers' Remittance

Total Domestic Credit

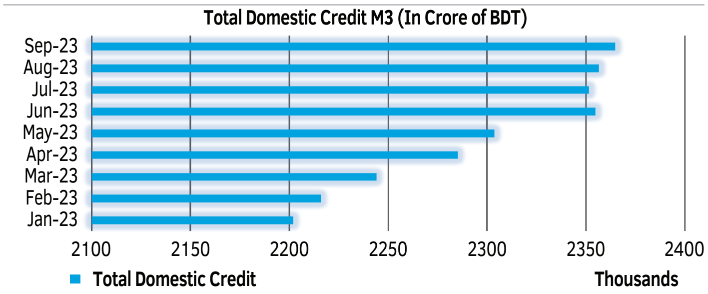


Figure 7: Total Domestic Credit

Twelve Month Average Inflation (In Percentage)

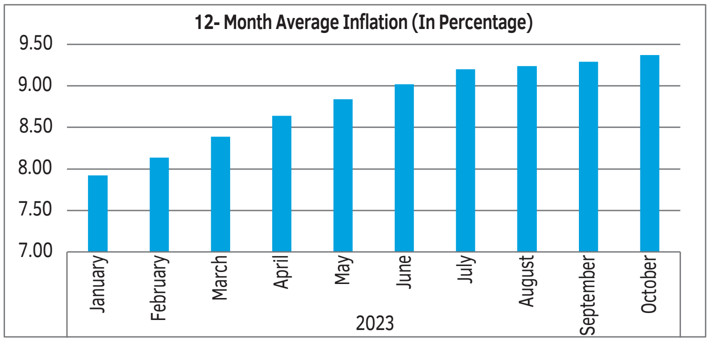


Figure 8: Twelve Month Average Inflation

Numbers to Note

1. BDT was found to be depreciating by 0.23% per USD while Indian Rupee remained constant and Chinese Yuan depreciated by 0.09%.
2. Export had 12.6% increase while import was found to have a decrease of 1.65% compared to the earlier month.
3. Foreign remittance growth increased by 47.2% in October, 2023 which is the highest increase in this fiscal year.
4. The reserve is now 20.71 billion US Dollar that was 21 billion US Dollar in the last month.
5. The average monthly exchange rate is now 110.47 Taka per US Dollar that represents continuous depreciation over the last few months.
6. The Debt to GDP percentage in 2023 is 38% which was 37.5% in the previous year.
7. The 12-month average inflation is 9.37% which was 9.29% in the last month.

Economic Challenges Ahead

1. For the last few months, inability to control the price level of food due to uncontrolled business syndicates may hinder the economic development by creating panic in commons.
2. Forex reserve has dropped by 1 billion USD that has led the foreign payment schedules be more tightened.
3. Prevailing political dynamics may cause hindrance to regular economic activities and also may impact the capital market.
4. General elections have always been impacted capital market negatively for a subtle time period which is practical in national economy of Bangladesh now-a-days.
5. The rising inflation is daunting the targeted GDP growth of FY 2023-24 which is getting addressed by uncapping interest rates by Bangladesh Bank which may tighten the economy.

[Data Source: Bangladesh Bank, IMF, WB & BBS]

November's Capital Market Swings Resulted in a 50-Point Loss

Capital Market

In November 2023, the market experienced a 0.81% decrease in the DSEX index compared to the previous month of October. The prices of the majority of issues remained unchanged along with mercurial trend in major shares.

It is glaringly apparent by analyzing the capital market snapshot of November 2023 that the DSE market indices demonstrated a deep steep fall in the last week of the month. The number of scripts with a precipitous price fall is higher than the number of scripts that have prices up compared to the previous month. Other indices have also decreased compared to those of October except a positive return of 2.91% in DSMEX index. During November, on an average, only 59 issues advanced, 83 issues declined while the remaining 162 issues closed unchanged. The AD ratio compares the number of stocks that increased in value to the number of stocks that decreased in value. By shedding light on the AD ratio of this month, it is evident that the 22-trading day denoted a somewhat volatile trend in the market throughout the month along a sharp decline in the last week and a stable trend during the rest of the month.

The month took off with a somewhat stable trend in the first week, however, an exacerbating downturn for the rest of the month prevailed. Investment in the market decreased as total traded value and average market capitalization decreased by 5.67% and 0.44% over the month, though, surprisingly the average number of trades and trade volume increased by 4.73% and 45.59% over the month implying investors going out of the market with losses. This month was quite chaotic for the country's capital market due to heightening inflation along with the political tension among mass people due to several political events across the country. Country's foreign exchange reserves (gross) declined to $19.40 billion and due to 'hundi' and mismatch in rates of foreign currency in organized and local market, little remittance is flowing through the formal channel. Lots of factors contributed to lower investment in the market including higher inflationary pressure, channeling of money of investors to Universal Pension Schemes from the capital market, news of political obstructions. Moreover, with the withdrawal of 4% interest rate spread limit to liberalize the new SMART interest rate margin poses an uncertainty to the future interest rate structures. The interest rate of loan and deposit in NBFI has been increased by 25 basis point to make money costlier. Overall, 16 IPOs are in the pipeline waiting for the approval from the BSEC and 2 IPOs are conducting their roadshows to penetrate the market.

Analyzing the returns of the world's major indices it is apparent that major indexes of India, USA, Japan, and UK all showed a positive return in November compared to that of Bangladesh. Among those, Japan's NIKKEI 225 index had a positive return of more than 8.5% greater than any other countries in comparison. In terms of global commodity future markets, except soybean and gold every major commodity futures showed a negative trend. Natural gas lost a maximum value of 21.51% whereas sugar and crude oil prices have decreased by more than 3.5% and 7.5% respectively in the month of November.

The market PE ratio of the Dhaka Stock Exchange Limited this month was 17.54 on an average. FUWANGFOOD was in the top position based on turnover; KPPL was the top gainer in terms of price with 135.16% increase over the month whereas CAPITECGBF was the top loser. In terms of sector return, only pharmaceuticals, IT, engineering, and ceramics performed well in this month. A piece of positive news this month for the economy of Bangladesh is that Bangladesh has secured USD 1.026 billion in financing from ADB to support sustainable development projects, increasing the flow of foreign currency in vault of Bangladesh Bank.

BSEC and BB already have taken several actions to improve the market performance. Their joint efforts will ensure a vibrant capital market for the upcoming days.

DSE Market Indices

Index Name	1-Nov-23	30-Nov-23	Change	% Change
DSEX	6,273.72	6,223.03	-50.69	-0.81%
DSES	1,360.42	1,353.21	-7.21	-0.53%
DS30	2,133.98	2,108.32	-25.66	-1.20%
CDSET	1,214.94	1,205.62	-9.32	-0.77%
DSMEX	1,227.50	1,263.25	35.75	2.91%
Scripts Movement (Monthly Average)	Advanced		Declined	Unchanged
	59		83	162

Table 1: DSE Market Indices

Market Aggregates

	30 Nov 2023	31 Oct 2023	Change	% Change
Average Market Capital (TK Million)	7,758,883.00	7,793,504.46	-34,621.46	-0.44%
Average Traded Value (TK Million)	4,317.36	4,576.70	-259.34	-5.67%
Average Number of Trades	123,687.14	118,104.27	5,582.86	4.73%
Average Trade Volume	121,433,860.55	83,410,456.59	38,023,403.95	45.59%

Table 2: Market Aggregates

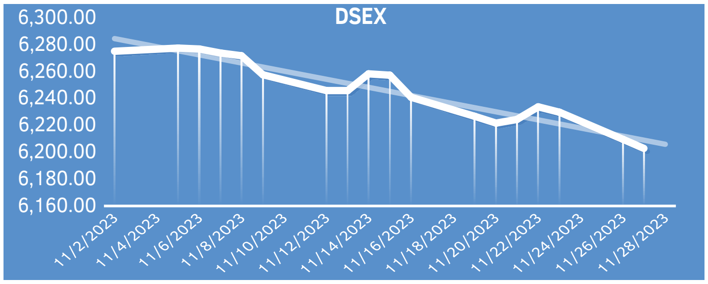


Figure 9: DSEX

Performance comparison of World's Major Index		
Country	Index Name	Return
India	BSESENSEX	4.87%
USA	DOWJONES	8.36%
Japan	Nikkei 225	8.52%
UK	FTSE 250	6.73%
Bangladesh	DSEX	-0.81%

Table 4: Performance comparison of commodity futures

Performance comparison of commodity futures	
Commodity name	Return
SUGAR	- 3.76%
NATURAL GAS	- 21.51%
COTTON	- 2.35%
SOYBEAN	0.42%
GOLD	3.10%
CRUDEOIL	- 7.51%

Table 5: Performance comparison of commodity futures

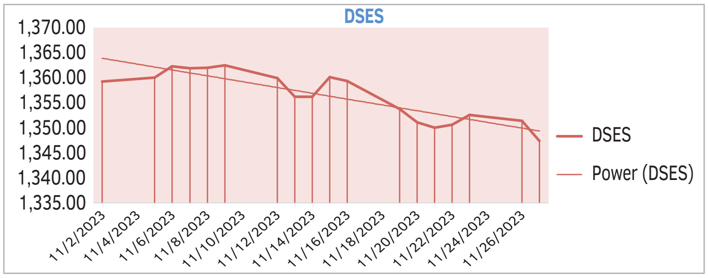


Figure 10: DSES

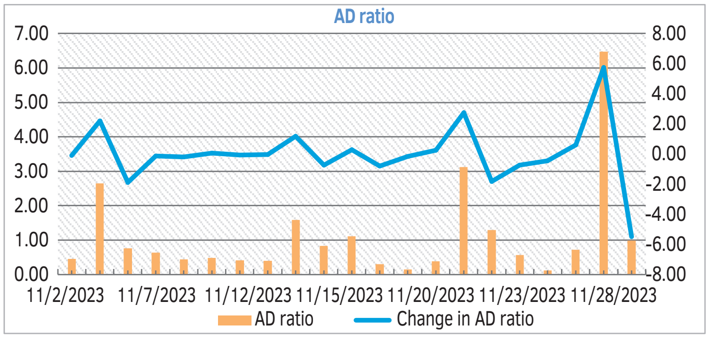


Figure 11: AD ratio

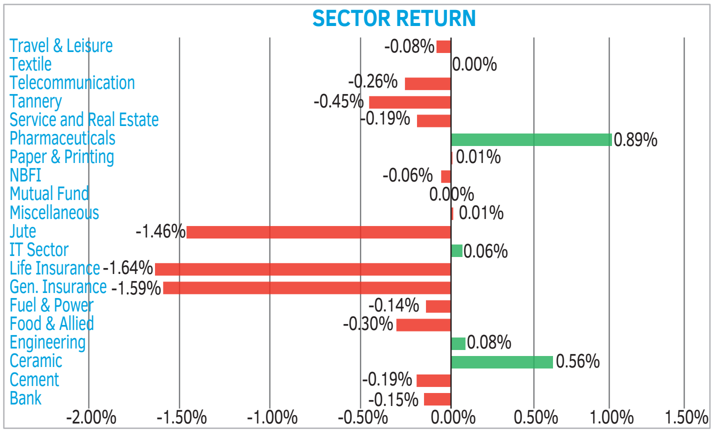


Figure13: Sector Return

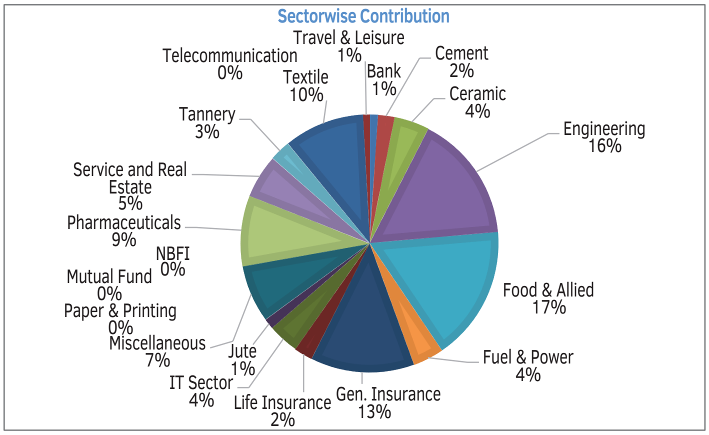


Figure 12: Sectorwise Contribution

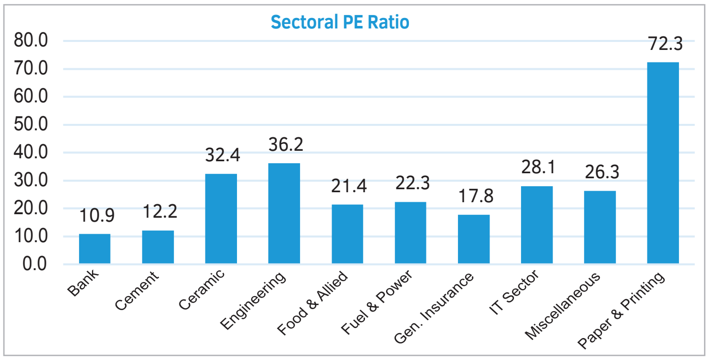


Figure14: Sectoral PE Ratio

Turnover				Gainer			Loser		
Sl	Stock	Turnover	Total (%)	Sl	Stock	Return (%)	Sl	Stock	Return(%)
1	FUWANGFOOD	371.81	-11.50%	1	KPPL	135.16%	1	CAPITECGBF	- 41.49%
2	KPPL	322.52	135.16%	2	KBPPWBIL	66.97%	2	GEMINISEA	- 22.85%
3	EMERALDOIL	305.18	-22.43%	3	CENTRALPHL	58.54%	3	EMERALDOIL	- 22.43%
4	YPL	282.98	17.60%	4	AFTABAUTO	39.59%	4	UNITEDINS	- 22.05%
5	CENTRALPHL	269.79	58.54%	5	PDL	39.39%	5	UNIONINS	- 18.88%

Table 3: Top Gainer and Loser

Money Market

“October saw healthy increase following a prolonged period of decline in the expansion of private sector credit”

Md. Adnan Ahmed, Lecturer, BICM

Demand deposits and time deposits grew by 4.56 and 10.18 percent, respectively, as of September 2023. This resulted in an annualized total deposit growth of almost 9.51 percent.

The total quantity of bank credits has increased yearly by 9.65%. While bank advances and bills both saw increases of 10.45 and 4.79 percentage points annually, bank investments grew by 6.95 percent. [Table-01]

Scheduled Banks’ Deposits and Credits

Deposits held in DMBs				(Taka in Millions)	
Items	Sep'23	Aug'23	Sep'22	Percentage Changes	
				Sep'23 vs Aug '23	Sep'23 vs Sep'22
Demand Deposits	1,859,107	1,857,994	1,777,983	0.06	4.56
Time Deposits	14,372,285	14,318,763	13,043,787	0.37	10.18
Total Deposits	16,231,392	16,176,757	14,821,770	0.34	9.51

Banks' Credit				(Taka in Millions)	
Items	Sep'23	Aug'23	Sep'22	Percentage Changes	
				Sep'23 vs Aug '23	Sep'23 vs Sep'22
Advances	14,985,865	14,791,814	13,567,988	1.31	10.45
Bills (Import & Inland)	339,314	353,875	323,810	-4.11	4.79
Investments	3,691,082	3,709,842	3,451,332	-0.51	6.95
Total Credits	19,016,261	18,855,531	17,343,130	0.85	9.65

Notes: 1. Deposits exclude Interbank Deposits and Government Deposits, 2. Advances include Loans & Advance, Money at Call, Balances & R. Repo with NBFI's & Accrued Interest, 3. Investments include Treasury Bills, Treasury Bonds, Share & Securities with accrued interest.

Table 01: Deposits held in DMBs and Bank Credit

Call money rate remained high in November, reaching its peak at 8.54 percentage during the last few working days of the month. [Figure-15]. The nominal interest rates on deposits and loans have gone up to 4.52 percent and 7.83 percent, respectively. [Figure-16]

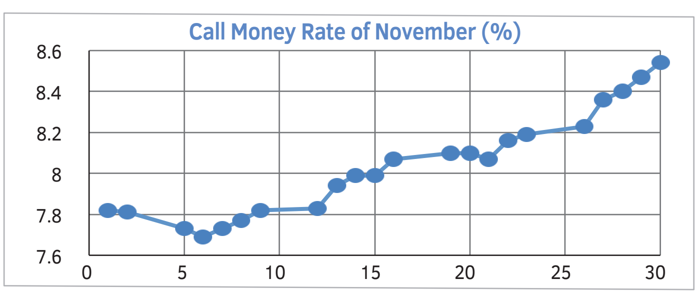


Figure 15: Call Money Rate of Nov ’23

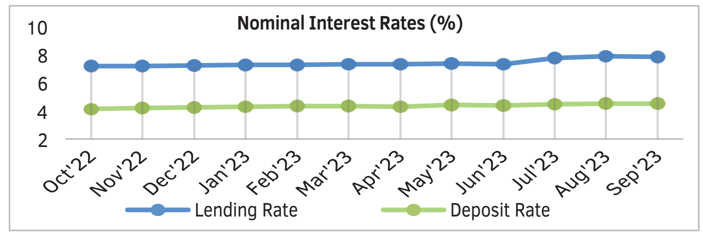


Figure 16: Nominal Interest Rates (%)

The cost of funds and the adjusted cost of funds, which came in at 7.20 and 8.28 percentage points, respectively. [Figure-17]. Until September of this FY24, the government has paid the banking industry around 3,778 crores instead of borrowing. [Figure-18]

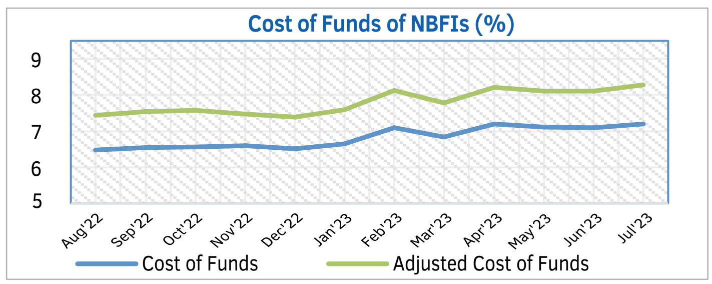


Figure 17: Cost of Funds of NBFIs

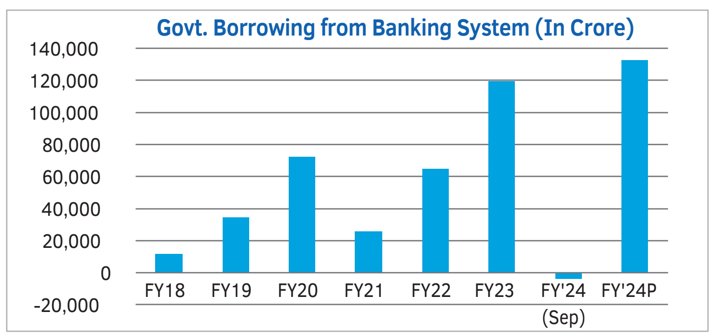


Figure 18: Govt. Borrowing

October witnessed an increase in private sector credit growth, at 10.09%. [Figure-19]. As of November, the 91day, 182day and 364day T-Bill rates were 10.8, 11.0, and 11.2 percentage respectively. The rates for 2,5,10,15 and 20year T-Bond were 10.9, 10.99, 11.02, 11.21, and 11.26 percentage respectively. [Figure-20].

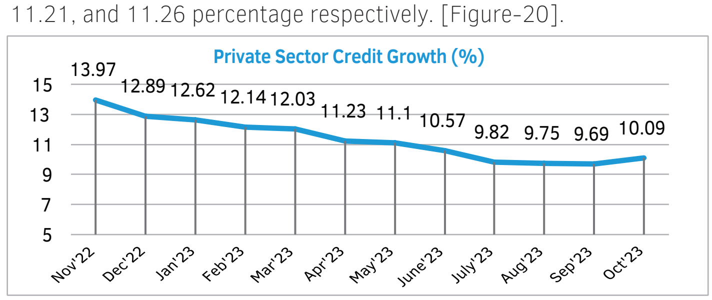


Figure 19: Private Sector Credit Growth

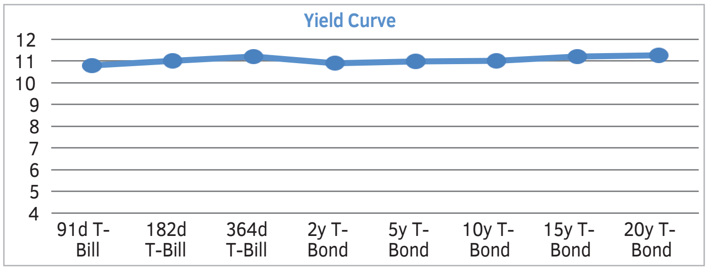


Figure 20: Yield Curve

Trends in Financial Inclusion and Digital Finance Statistics

As of August 2023, there were over 7.63 million users of internet banking, representing a YoY rise of almost 33.39 percent.. [Figure-21]. There are around 215.04 million MFS users as of September 2023, a YoY increase of 16.08%. [Figure-22].

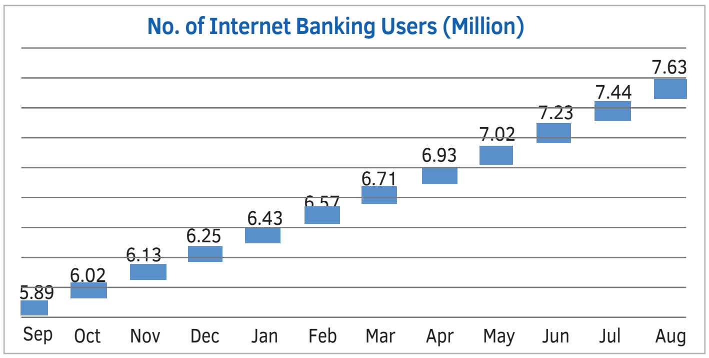


Figure 21: Number of MFS Accounts

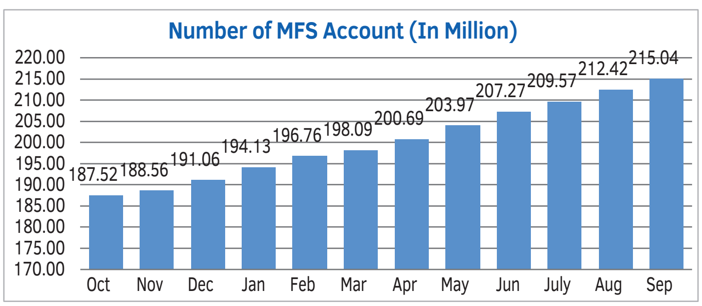


Figure 22: Number of Internet Banking Users

The deposit balance through agent banking grew yearly by 13.88% whereas loan disbursements, Utility Bill Payments and Inward Foreign Remittance declined by 2.04, 14.17, and 31.79 percentages respectively. [Figure-23]. Apart from ATM transactions which declined yearly by 8.38%, all other gateways including POS, CRM, Ecommerce grew by 21.57, 67.91, and 33.30 percentage respectively. [Figure-24]

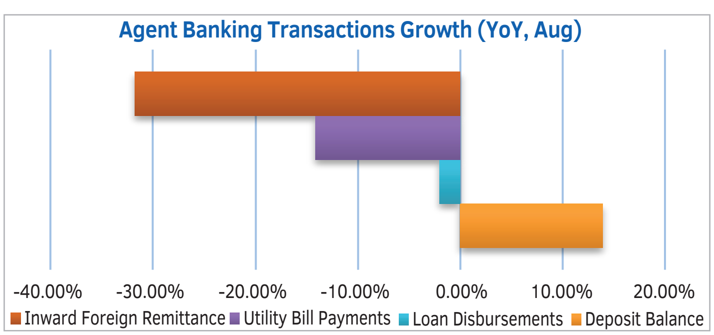


Figure 23: Types of Transactions through Agent Banking

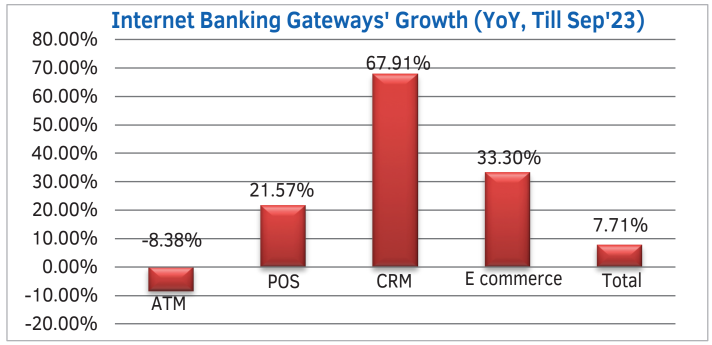


Figure 24: Transactions through Gateways

Key Takeaways

> Banks' deposits continue to rise. The upward adjustment of bank deposit rate is one of the key factors behind such deposit growth. Since the lending rate ceiling was lifted in June, interest rates on all types of deposits have actually been growing. The rates have increased due to the recent increases in policy rates.

> The weighted average call money rate has been steadily rising since September as a result of the increased liquidity strain. The Bangladesh Bank increased the policy rate by 75 basis points on October 5, which caused the rate to surge sharply.

> The low interest-rate spread is a product of growing funding costs for NBFIs. Moreover, the sector's prospects are not favorable due to a decrease in deposits and a rise in non-performing loans.

> The government is returning more of the money it borrows from the banking industry in an attempt to curb inflation before the next general elections. But taking on too much debt from scheduled banks will have the opposite impact, creating a scarcity of loanable money for the private sector.

> October saw healthy increase following a prolonged period of decline in the expansion of private sector lending. According to bankers, the surge in import-based payments is causing a spike in credit.

> Customers using internet banking are increasing rapidly as more and more people, especially members of the younger, tech-savvy age, use the digital platform for financial transactions. The number will rise even more now that the nation is actively participating in digital banking.

> With the growth of mobile financial services (MFS), Bangladesh is getting closer to its goal of digital banking and cashless transactions.

Source: Bangladesh Bank Website

POS: Point of Sale
ATM: Automated Teller Machine
MFS: Mobile Financial Service
NBFI: Non-Bank Financial Institution
CRM: Cash Recycling Machine
YoY: Year on Year

Md. Adnan Ahmed

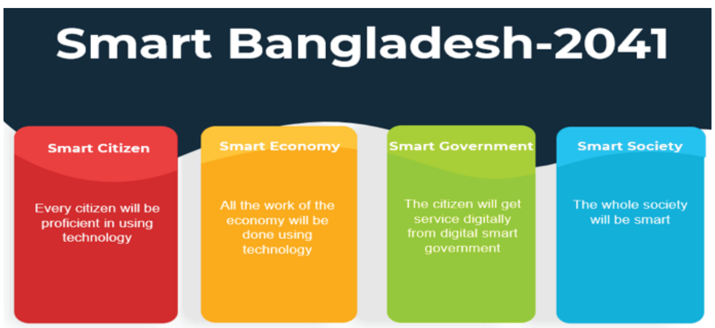
Capital Market: Being a Catalyst of Smart Bangladesh

Insights

Being ‘digital’ has been one of Bangladesh's most important and impactful trends during the last decade. The success of being ‘Digital Bangladesh’ has paved the road for the country to upgrade its status higher. In 2022, the Government of Bangladesh made it clear that it wants to create a “Smart Bangladesh” by the year 2041, and that it wants to become a developed nation by that time. Over the following two decades, a target for GDP growth of 9.02 percent has been set in order to meet this objective.

Pillars of Smart Bangladesh

The initiative “Smart Bangladesh” is intended to be built on the pillars of ’smart citizens,’ ’smart economy,’ ’smart government,’ and ’smart society.’ The word “Smart” is not merely attached with citizens, economy, government, and the society. It certainly has a deep impactful implication to transform the nation to a developed one by 2041.



Infographic: Author Developed

Current Status of Capital Market

Mobilizing savings from individuals, institutions, and businesses is made easier by the capital market. However, the participation of capital market in our GDP has been very low compared to other countries. If we see the Market Capitalization to GDP, a vital indicator to understand how much GDP is represented by market capitalization, it is around 19.01%. It clearly indicates capital market of the country has enough room to expand as well as greater opportunity to contribute to the GDP. In addition, the number of listed companies is very low in our country. Total number of registered companies till date under the Registrar of Joint Stock Companies and Firms is more than two lacs whereas number of listed companies in the Dhaka Stock Exchange Limited is only 350, which is less than 1%. There is little presence of corporate bond in our country whereas the government bond market is still nascent and lacks trading of such bonds in the secondary market. A legitimate derivatives market's development is also crucial. Derivatives have a notional value of more than $640 trillion and a total market value of $27 trillion globally. This demonstrates how crucial derivatives are to the contemporary economy. The Bangladeshi derivatives market, meanwhile, is essentially nonexistent.

Capital Market Being a Driver to Make Smart Economy

A smart economy results when the country adopts efficient allocation of funds as well as systematic investment plan. Most importantly, all the work of the economy will be done using technology. In the last two decades, technology has had an incredible impact on the world's financial markets. For instance, the remarkable growth of China’s online trading ecosystem has been the largest in the world with 160 million investors. At the peak of the bull market in 2015, three million online accounts were being added every week in China. The main source of liquidity now comes from high-frequency trading systems, which utilize sophisticated algorithms to monitor markets and purchase or sell stocks in milliseconds. One estimate state that in 2017, 54% of all global securities trading took place offline and 47% took place online.

The growing use of digital technologies and the ubiquitous accessibility of internet connectivity are the two major factors driving the market for online trade. More people and organizations have access to online trading platforms as internet usage continues to rise globally, creating a broader user base. Therefore, incorporating technology in capital market is vital to make the country’s economy smart. Despite such examples from developed countries, we still lag behind in incorporating technology in the capital market. For example, most of the brokers in our country do not have Order Management Service (OMS) of their own. They still follow the manual process in managing trade orders from investors.

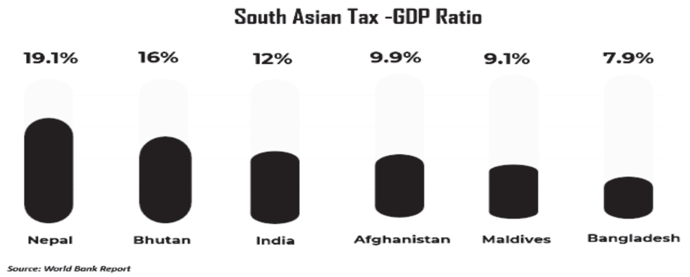
Capital Market Being a Driver to Make Smart Citizen

Another pillar of ‘Smart Bangladesh’ is ‘Smart Citizen’ which refers that every citizen needs to develop as a skilled human resource to meet the challenges of the fourth industrial revolution. To become such skilled and knowledge-based citizen for ‘Smart Bangladesh’, we need to ensure financial literacy among the mass people. If our mass people had proper financial knowledge, they could have invested in capital market. However, the situation is improving as the Bangladesh Securities and Exchange Commission (BSEC) has been undertaking a number of financial literacy program to reach every corner of the country. Financial literacy is an important aspect of personal and economic development, and Bangladesh has recognized this by implementing a National Strategy for Financial Literacy (NSFL) in 2019. The NSFL aims to promote financial education and awareness among the people of Bangladesh. In addition, the knowledge about capital market is spreading and Bangladesh Institute of Capital Market (BICM), the national institute for imparting capital market education, has been undertaking a number of free educational programs to spread the capital market education to mass people. When financial knowledge is spread towards such mass community, they will behave more rationally which further eradicates the rumors and fraudulent activities in the market. A rational community with proper financial knowledge yields smart citizens for sure.

Measures that can be taken to uplift capital market that subsequently act as catalyst for Smart Bangladesh

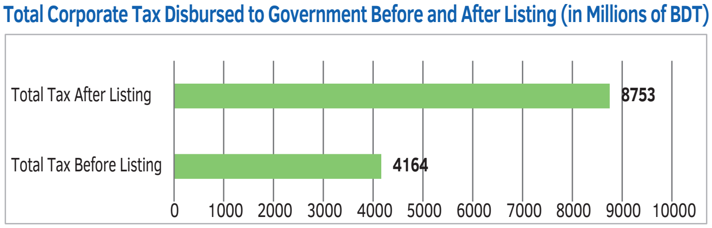
It goes without saying that the development of capital market is vital to make the country developed by 2041. The following measures may be taken with due consideration to uplift the capital market.

1. If we compare our Tax-to-GDP ratio, it is very low compared to other countries. Capital market can provide such revenues to the government in the form of corporate tax and other tax, such as tax generated from each trade in the secondary market.



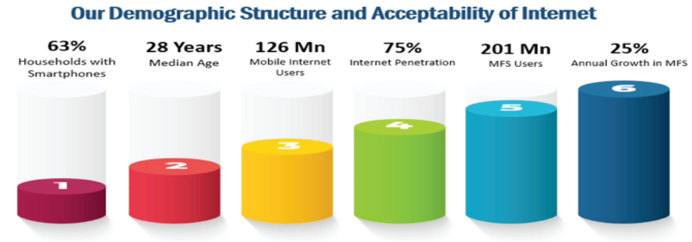
The corporate tax gap between listed and non-listed companies is 7.5 percentage which is very low to attract the companies to get listed. Listing into capital market yields a higher tax revenue for the government. A recent study by the Bangladesh Institute of Capital Market (BICM) has revealed that when companies are listed in the capital market, they provide more corporate tax to national coffers than what they did before listing. The growth of such tax payment is astounding, around 110% after listing into the market. The following graph depicts the scenario where we can clearly observe that tax disbursement significantly increases after listing into the capital market. Therefore, if the tax gap is widened, more companies will be opting to get listed into the market.

Total Corporate Tax Disbursed to Government Before and After Listing (in Millions of BDT)



Source: The Impact of Capital Market Listing of Companies on National Tax Revenues: The Case of Bangladesh [https://jfmg.bicm.ac.bd/published-article-full-text/2306221687409880]

2. If we observe our demographic structure, 62% of population is under the age of 35. Our internet penetration is around 75% and our Mobile Financial Services (MFS) has a growth of around 25%. It can be inferred from the statistics, if we can increase technological orientation in the capital market, we will be able to attract a large portion of the youth to invest in our capital market. There are many ways we can implement such technological orientation in capital market. If we want to attract young generations, we may need to cater them suitable mobile applications with real time data and research that may help them to take investment decisions. As chatbots have been widespread in many online trading platforms, they can also be integrated into the trading platform being created for Bangladesh. Real-time quotations, general FAQs, account statements, details on traders' holdings, and alerts concerning sudden price changes or margin calls are frequently provided by broker chat-bots. By engaging all the capital markets stakeholders, Bangladesh can realistically target 5 million new online investors within the next 5 years.



Source: Startup Bangladesh [Infographic: Author Developed]

3. The current Non-Performing Loan (NPL) of the Banking sector is above 8% and a number of banks are facing capital shortfall. Maturity mismatch is one of the reasons for such NPL. Typically, money market is supposed to provide short-term financing whereas long-term financing should be sourced from the capital market. It can be mandated that considering asset size and liability portion of non-listed companies, those who have high debt ratio with centralized sources should be monitored and incentivized for issuing equity in capital market.

4. The Bangladesh startup ecosystem is still at its early stage compared to its Asian peers, with significant room for growth in startup funding per capita.

With government support and a growing ecosystem, Bangladesh aims to have five unicorns by 2025, potentially raising over USD 2.5 Bn by the year 2030. With proper long-term instruments, capital market can be the best source of such financing. We have Alternative Trading Board (ATB) and SME board in our capital market where we can arrange such financing for start-ups. The emerging unicorn companies that are raising funds as seed capital should be mandated to issue equities in the capital market when they cross capital accumulation of small cap border.

5. Eligible companies are somewhat reluctant in getting listed. Offering tailored incentives to the companies for coming to the market, such as higher tax gaps, accelerated depreciation rates, and exemption from dividend payments during the initial years, to encourage their participation in the market should be promoted. Reintroducing and reinforcing the previous law of mandating the obligatory listing of multinational corporations (MNCs) may be considered, with a specific threshold of paid capital beyond which companies must be listed on the capital market.

6. Bond market of our country is still at its infant stage. Development projects of government may be financed through different kinds of asset-backed securities and bonds. If any company wants to issue debt for ensuring sustainable finance, it can issue sustainable bonds like, climate bond, green bond, catastrophic bond, infrastructural bond etc. for more financial inclusion, stakeholders' accretion of wealth and achievement of eco-friendly sustainable goals.

To make Smart Bangladesh by 2041, effective financial system and optimization of surplus funds are key prerequisite. Capital market can be one of the best avenues to cater such funds for economic development. We cannot think of a smart economy, keeping a vital financial market untapped.

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