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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.



During the election period, being a major political event across the country, it was expected that the broad index (DSEX) will not perform as a positive return indicator, but as the study predicted by (Roy et al., 2023), the DSEX performed well during the months of election successfully



— 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 Appreciation/Depreciation against USD	Reserve (Billion USD)	Currency Exchange Rates (per USD)
Bangladesh	426.85	6.03%	9.49%	-0.00%	19.30	109.95
Emerging Economies						
India	3,750.00	7.20%	5.55%	-0.12%	620.40	83.25
China	19,373.00	4.50%	0.50%	-1.07%	3172	7.08
Developed Economies						
USA	23,618.00	2.90%	3.14%	0%	243	1
UK	3,080.00	1.90%	3.90%	4.32%	115.50	0.78

Appreciation/Depreciation of Currencies against USD

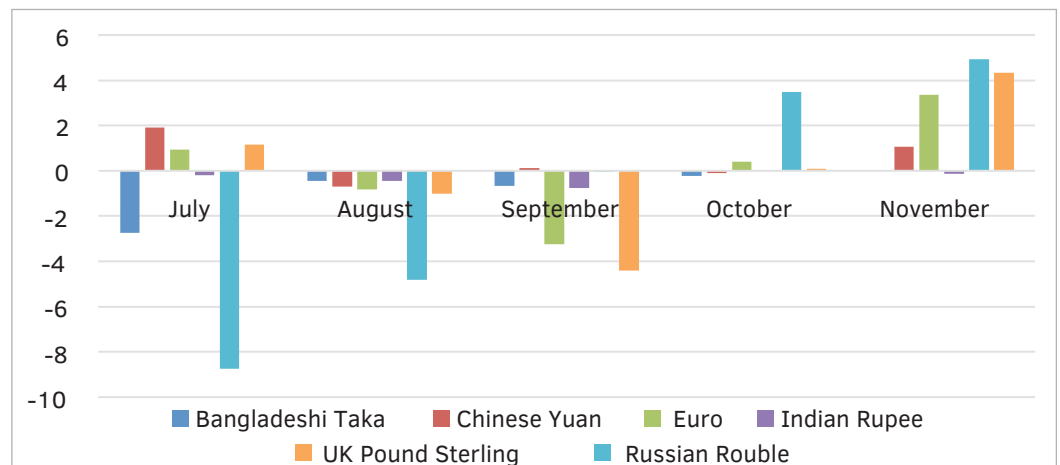


Figure 1: Appreciation or Depreciation of Different Currencies against USD (In Percentage)

A visual tour of the key statistics

Import-Export Delta (Percentage Change upto October, 2023)

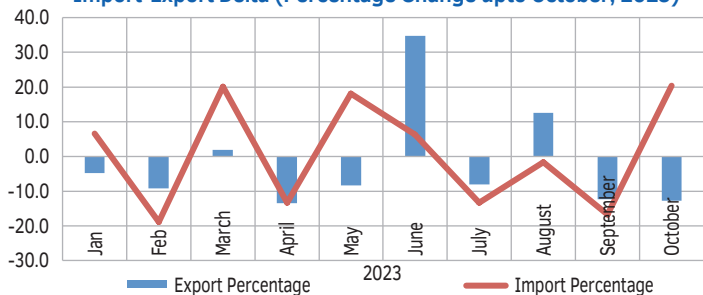


Figure 2: Import-Export Delta (Percentage Change up to October, 2023)

Foreign Remittance Growth of FY 2023-24

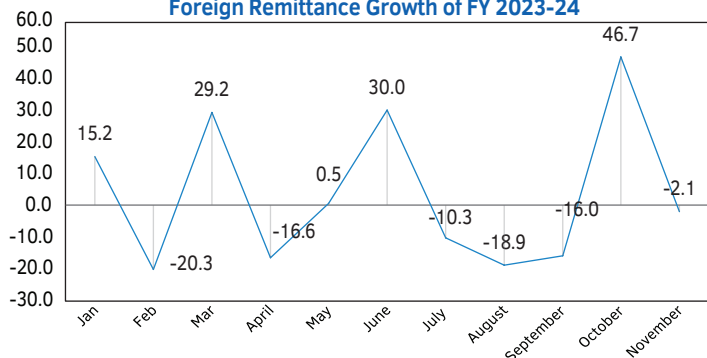


Figure 3: Foreign Remittance Growth of FY 2022-23 (In Percentage)

Percentage Change of Foreign Reserve of Bangladesh

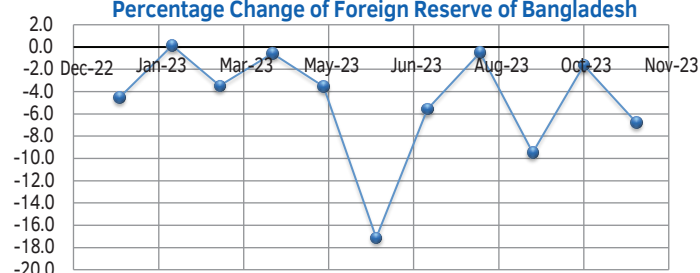


Figure 4: Percent Change of Foreign Reserve

Period Average Exchange Rate

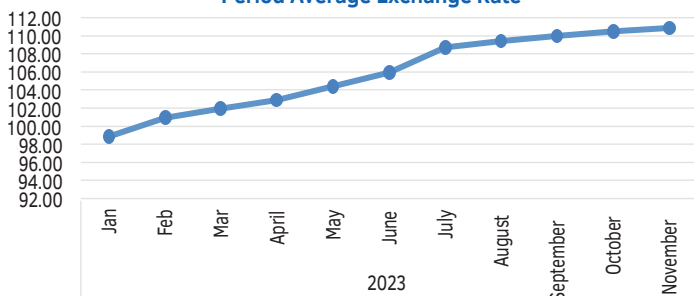


Figure 5: Period Average Exchange Rate of Bangladesh

Country-Wise Workers' Remittance (In Crore of BDT)

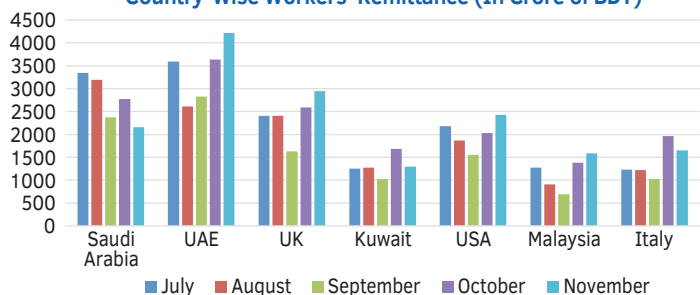


Figure 6: Country-wise Workers' Remittance

Total Domestic Credit M3 (In Crore of BDT)

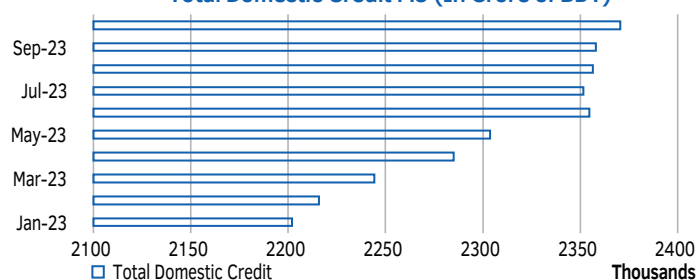


Figure 7: Total Domestic Credit

12- Month Average Inflation (In Percentage)

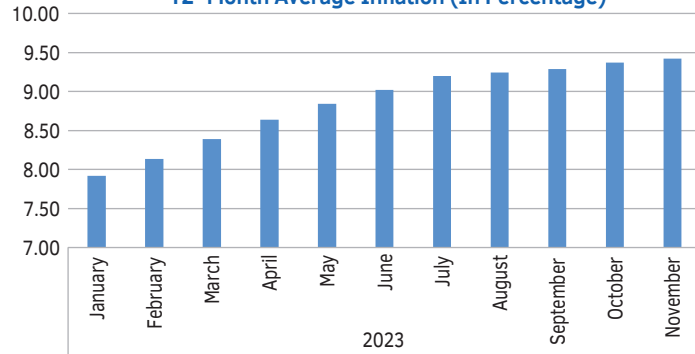


Figure 8: 12- Month Average Inflation (In Percentage)

Numbers to Note

1. BDT is found to be stable with respect to USD which is a good sign for currency stability.
2. Export decreased by 12.7% while import increased by 20% compared to the earlier month.
3. After a large growth in the last month's foreign remittance by 47.2%, this month faced a small downfall by 2.1%.
4. The reserve is now 19.3 billion USD which was 20.71 billion US Dollar in the last month.
5. The average monthly exchange rate is now 110.86 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 9.42% which was 9.37% in the last month.

Economic Challenges Ahead

1. Ensuring increase of export earnings and control of import payments is to optimize the Balance of Payment gap in the coming months.
2. Ensuring that foreign exchange reserve does not continue to drop further and does not lead the foreign payment schedules to be more tightened in future.
3. Prevailing political dynamics may cause hindrance to regular economic activities and also may impact the capital market.
4. Ensuring continuous growth in remittance inflow to support the reserve shortage and money supply requirements to meet the economic pressures.
5. Addressing the issues of rising inflation and domestic credit per capita which have been daunting the economic growth and burdening the country with lack of purchasing power with additional loans.

December's Capital Market Index Resulted in a 14-Point Gain



Capital Market

In December 2023, the market took a lift of 0.23% in the DSEX index compared to the previous month. The prices of the majority of issues remained unchanged along with mercurial trends in major shares.

The stock market snapshot for December 2023 depicts that the DSE market indices (DSEX & DSES) demonstrated a marginal positive change from the previous 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 decreased compared to those of November. During December, on average, only 75 issues advanced, 85 issues declined and the remaining 177 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. DSEX index was on an upward trend in the second and third weeks of the month. However, an exacerbating downturn was seen in the third week of the month. Investment in the market increased as total traded value increased by 24.42%. But average market capitalization decreased by 0.19% in this month. The average number of trades and trade volume increased by 28.73% and 45.59% over the month. 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 around the country. The country's foreign exchange reserves (gross) declined to \$19.30 billion and due to 'hundi' and mismatch in rates of foreign currency in organized and local markets, little remittance has been flowing through the formal channel. Lots of factors contributed to lower investment in the market including higher inflationary pressure, volatile exchange rate, higher cost of production, news of political obstructions, etc. A positive news in this month is that garment export has increased by 4.35%. Again USD1.0 billion has been added to the Bangladesh Bank Account where both IMF (International Monetary Fund) and ADB (Asian Development Bank) contributed jointly.

Moreover, the withdrawal of a 4% interest rate spread limit to liberalize the new SMART interest rate margin poses an uncertainty to the future interest rate structures. It can be noticed that the call money rate has already increased by 9.13% which is an 11-year high! Overall 17 IPOs are in the pipeline waiting for approval from the BSEC and 1 IPO is conducting its roadshows to penetrate the market. Analyzing the returns of the

world's major indices it is apparent that the major indexes of India, USA, and UK all showed a higher positive return in December compared to that of Bangladesh. Among those, India's BSE SENSEX index had a positive return of more than 7.99% greater than any other country in comparison. However, Japan's Nikkei 225 experienced a negative return in December compared to the previous month. In terms of global commodity future markets, except cotton and gold every major commodity futures showed a negative trend. Sugar lost a maximum value of 21.85% whereas natural gas and soybean prices decreased by more than 9.25% and 8.28% respectively in December.

The market PE ratio of the Dhaka Stock Exchange Limited this month was 17.34 on average. CENTRALPHL was in the top position based on turnover; 1STPRIMEMF was the top gainer in terms of price with a 103% increase over the month whereas SEAPEARL was the top loser. In terms of sector return, only mutual funds, banks, cement, textile, IT, engineering, and insurance performed well in this month. Another big news this month is that the country's hon'ble prime minister opened her BO account which will encourage the common people to come to the capital market and regain trust on the market. According to the Chairman of BSEC, after the National Election, country's capital market scenario is expected to improve. More foreign investors will enter the market and investors will make their investment plans in new ways in light of the new government formation. It can be said that the country's capital market will experience a positive shift after this significant political event of the country.

DSE Market Indices

Index Name	1-Dec-23	31-Dec-23	Change	% Change
DSEX	6,231.94	6,246.50	14.56	0.23%
DSES	1,355.33	1,364.13	8.8	0.65%
DS30	2,108.48	2,093.83	-14.65	-0.69%
CDSET	1,205.10	1,202.82	-2.28	-0.19%
DSMEX	1,277.96	1,264.32	-13.64	-1.07%
Scripts Movement (Monthly Average)	Advance		Decline	Unchanged
	75		85	177

Table 1: DSE Market Indices

Market Aggregates

	31 Dec 2023	30 Nov 2023	Change
Average Market Capital (TK Million)	7,744,448.38	7,758,883.00	-14,434.62
Average Traded Value (TK Million)	5,371.61	4,317.36	1,054.25
Average Number of Trades	153,723.95	123,687.14	30,036.81
Average Trade Volume	181,651,220.74	121,433,860.55	60,217,360.19

Table 2: Market Aggregates

DSEX

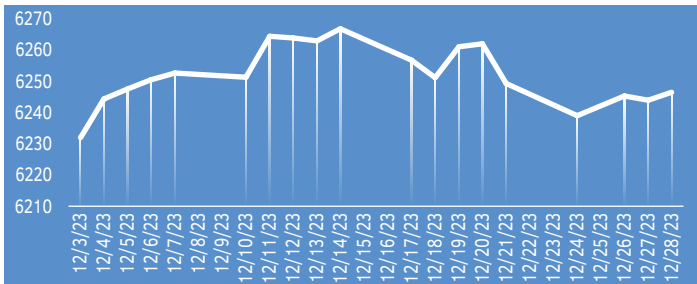


Figure 9: DSEX

DSES

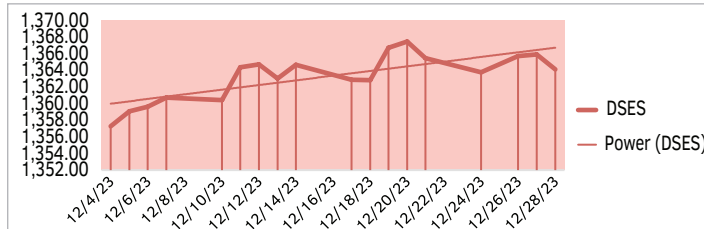


Figure 10: DSES

SECTOR WISE CONTRIBUTION IN TURNOVER

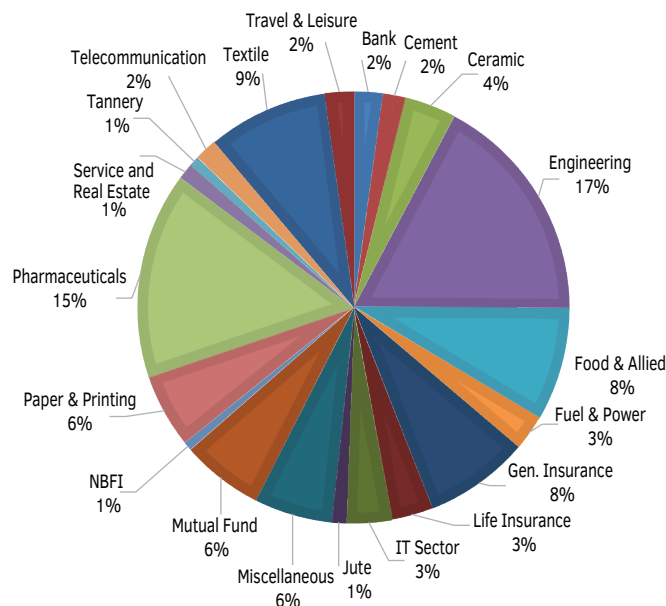


Figure11: Sectorwise Contribution

Top Gainer and Loser

Turnover			Gainer		Loser			
Sl	Stock	Turnover Total (%)	Sl	Stock Return(%)	Sl	Stock Return(%)		
1	CENTRALPHL	452.01	1	1STPRIMFMF	103.92%	1	SEAPEARL	-45.39%
2	!"#	408.11	2	BDTHAI	62.94%	2	GEMINISEA	-44.18%
3	ORIONINFU	403.8	3	GLDNJMF	62.22%	3	LIBRAINFU	-37.95%
4	KPPL	392.62	4	KBPPWBIL	53.16%	4	EMERALDOIL	-33.76%
5	PDL	320.92	5	OAL	23.58%	5	GQBALLPEN	-24.87%

Table 3: Top Gainer and Loser

Performance comparison of World's Major Index

Country	Index Name	Return
India	BSESENSEX	7.84%
USA	DOWJONES	5.15%
Japan	Nikkei 225	-0.07%
UK	FTSE 250	7.99%
Bangladesh	DSEX	0.23%

Table 4: Performance comparison of commodity futures

Performance comparison of commodity futures

Commodity name	Return
SUGAR	-21.85%
NATURAL GAS	-9.25%
COTTON	1.42%
SOYBEAN	-8.28%
GOLD	0.73%
CRUDEOIL	-5.15%

Table 5: Performance comparison of commodity futures

SECTOR RETURN

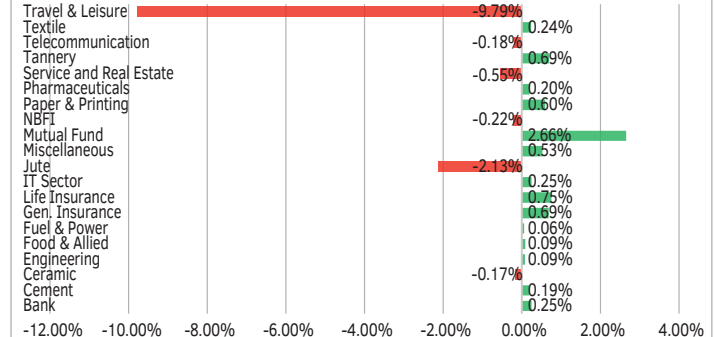


Figure12: Sector Return

Sectoral PE Ratio

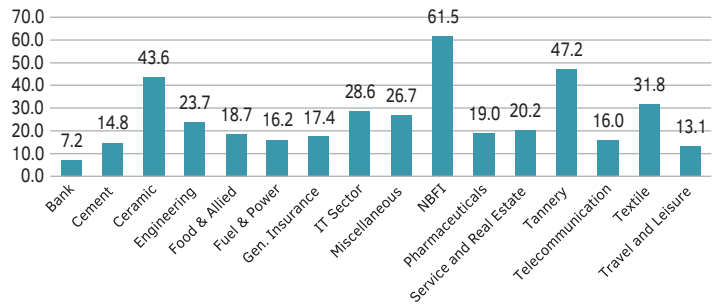


Figure13: Sectoral PE Ratio

Banks' deposits witnessed a sharp growth, mostly fueled by attractive interest rates



Money Market

Md. Adnan Ahmed, Lecturer, BICM

As of October 2023, demand deposits and time deposits have grown by 7.94 and 10.05 percent, respectively which resulted in a yearly total deposit growth of nearly 9.80 percent. The total amount of bank credits has climbed by 9.84%. Bills fell by 17.94 percent, but bank advances and investments increased by 11.16 and 7.28 percentage points, respectively. [Table-01]

Scheduled Banks' Deposits and Credits

Deposits held in DMBs				(Taka in Millions)	
Items	Oct'23	Sep'23	Oct'22	Percentage Changes	
				Oct'23 vs Sep'23	Oct'23 vs Oct'22
Demand Deposits	1,924,780	1,859,107	1,783,121	3.53	7.94
Time Deposits	14,435,952	14,372,285	13,117,312	0.44	10.05
Total Deposits	16,360,732	16,231,392	14,900,433	0.8	9.8

Banks' Credit				(Taka in Millions)	
Items	Oct'23	Sep'23	Oct'22	Percentage Changes	
				Oct'23 vs Sep'23	Oct'23 vs Oct'22
Advances	15,202,401	14,985,865	13,676,662	1.44	11.16
Bills (Import & Inland)	268,177	339,314	326,792	-20.96	-17.94
Investments	3,703,199	3,691,082	3,451,886	0.33	7.28
Total Credits	19,173,777	19,016,261	17,455,340	0.83	9.84

Table 01: Deposits held in DMBs and Bank Credit

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

Call money rate continues to remain high in December 2023, reaching highest at 9.19 percentage [Figure-14]. Nominal interest rates on loans and deposits have increased to 7.89 percent and 4.55 percent, respectively. [Figure-15]

Call Money Rate of December (%)

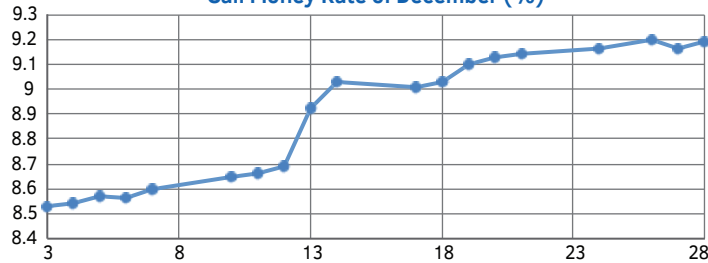


Figure 14: Call Money Rate of Dec'23

Nominal Interest Rates (%)

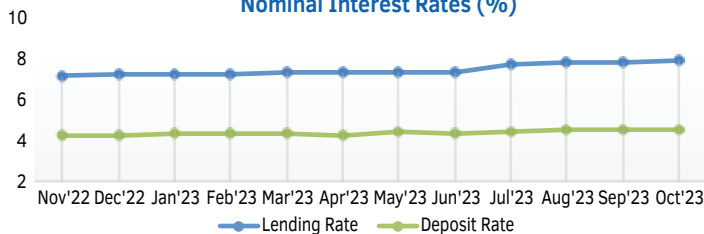


Figure 15: Nominal Interest Rates (%)

According to index, cost of funds and adjusted cost of funds of NBFIs peaked at 7.23 and 8.42 percentage respectively. [Figure-16]. The government's net borrowing from the banking system in the first five months of FY24 was Tk3,638 crore, down from Tk30,317 crore in the same time last year. [Figure-17]

Cost of Funds of NBFIs (%)

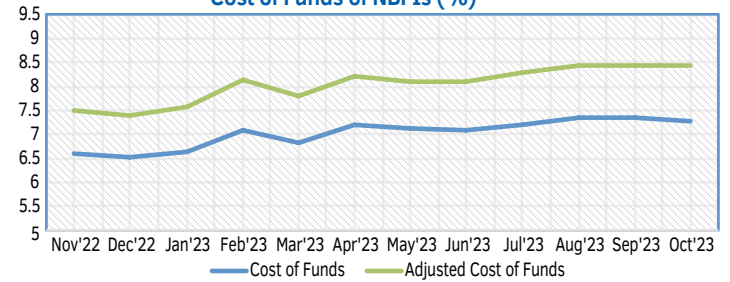


Figure 16: Cost of Funds of NBFIs

Govt. Borrowing from Banking Sector (In Crore)

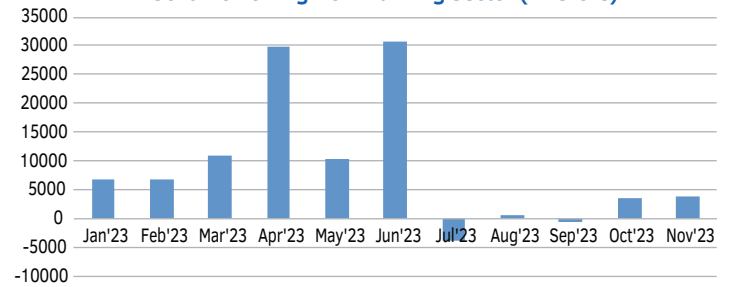


Figure 17: Govt. Borrowing

Private sector credit growth slowed to 9.9 percentage as of November 2023. [Figure-18]. As of December, the 91day, 182day and 364day T-Bill rates were 11.1, 11.2 and 11.5 percentage respectively. The rates for 2,5,10,15 and 20year T-Bond were 10.26, 10.35, 10.82, 11.13 and 11.22 percentage respectively. [Figure-19].

Private Sector Credit Growth (%)

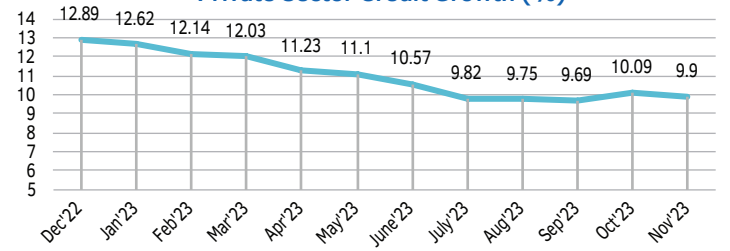


Figure 18: Private Sector Credit Growth

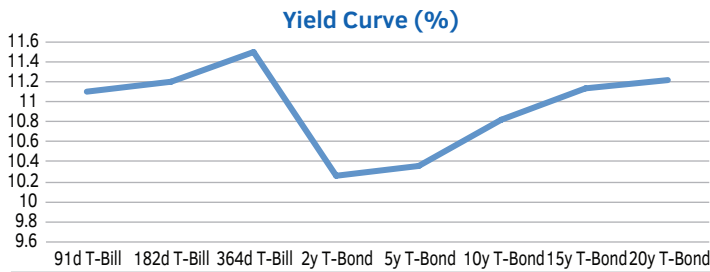


Figure 19: Yield Curve

Trends in Financial Inclusion and Digital Finance Statistics

Approximately 7.98 million people used online banking as of October 2023, a YoY increase of nearly 30.18 percent.. [Figure-20]. As of October 2023, there were around 218 million MFS account holders, representing a 14.04 percent YoY rise. [Figure-21].

Number of Internet Banking Users (in Million)

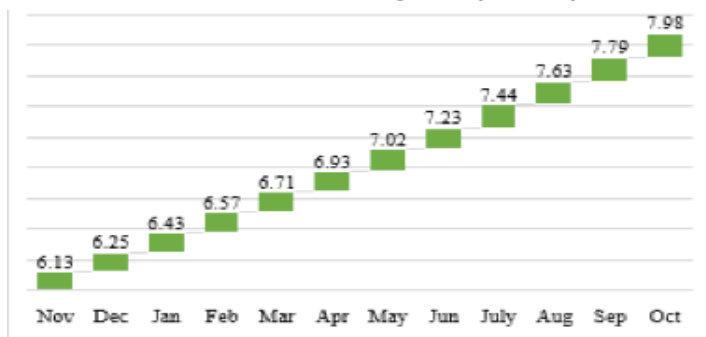


Figure 20: Number of Internet Banking Users

Number of MFS Account (In Million)

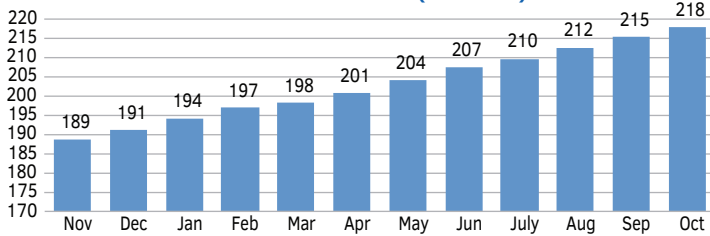


Figure 21: Number of MFS Accounts

Except inward foreign remittance which declined by 21.45 percentage, deposit balance, loan disbursements and utility bill payments increased by 14.36%, 19.97% and 7.80% respectively. [Figure-22]. The transaction through POS, CRM, e-commerce increased by 26.30%, 74.05% and 39.67% respectively whereas ATM's transaction declined by 2.76 percentage. [Figure-23]

Agent Banking Transactions Growth (YoY, Up to Oct'23)

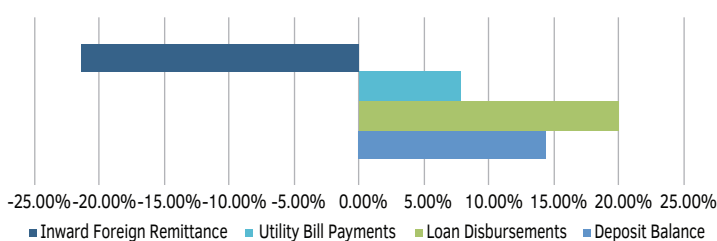


Figure 22: Types of Transactions through Agent Banking

Internet Banking Gateways' Growth (YoY, Upto Oct'23)

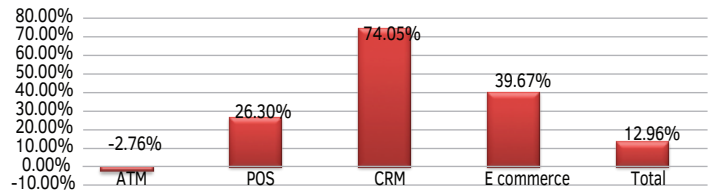


Figure 23: Transactions through Gateways

Key Takeaways

- > Banks' deposits witnessed a sharp growth, mostly fueled by attractive interest rates. Upon facing liquidity strain, some banks are offering higher interest rates on deposits which tempted many to park their funds into banking sector. Because of rising interest rates and high inflation, there is less demand for loans. The new year saw an increase in lending rate to 11.89%, after upward adjustment to SMART.
- > The persistent liquidity crisis in banking sector retains the call money rate the highest in 11 years. Upon failing to maintain cash reserve ratio (CRR) by a number of banks, they continue to borrow from the central bank and other banks which ultimately drove the call money rate high.
- > Cost of funds for NBFIs continues to increase as they need to compete with the high interest rates offered by the banks to attract funds. This fiscal year has been witnessing increased borrowing by government from commercial banks instead of central bank. Experts believe that if government persists to borrow more from commercial banks, then the banks may face a shortage of fund to lend to the private sector.
- > Due to a decline in business loan demand, rising interest rates, persistently high inflation, and banks' emphasis on drawing in additional deposits in the last few months of the year, credit growth to the private sector fell to 9.9 percent in November.
- > The attractive yield offered by government securities (G-Sec) entices the banks to simply purchase G-Sec instead of lending to the private sector.
- > As more and more individuals, particularly tech-savvy generation, use the digital platform for financial transactions, the number of customers using online banking is growing persistently. This will increase even further given that the country is actively using digital banking.
- > Agent banking has been playing a pivotal role in mobilizing savings into investments, as evidenced by its deposit and loan disbursements growth. This has made possible to bring unbanked people to the formal channel, a move towards financial inclusion

Source: Bangladesh Bank Website

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



Popy Rani Sarkar

Impact of Major Political Crisis and General Election on the Economy and Capital Market: Lessons for Bangladesh



Insights

1. Introduction

The independence of Bangladesh in 1971 from Pakistan, a significant portion in the history of South Asia, is characterized by the mixture of political, geographical, economic and cultural factors. The history of Bangladesh has been inextricably linked with politics and political ups and downs since its birth (Ahmed & Pulok 2013). There are various indicators of economic growth of Bangladesh. A well-functioning capital market is one of them that can play a significant role in boosting up economic growth. Stock market acts as a transparent mirror of a country's economy (Jensen et al., 1996). A study by Roy & Khan (2021) described growth of a stock market as the major evidence of economic progress which determines capital formation for the country.

According to Haque & Chowdhury (2020), Bangladesh holds a political economy and financial activities and economic decisions are heavily influenced by the political movement and structural plans of the ruling government in Bangladesh (Roy & Khan, 2021). A study by (Roy et al., 2023) found that there exists significant relationship between political dynamics and capital market returns in Bangladesh. This research focuses on the review studies of the previous articles regarding the impacts of political crisis and general election on the economy and capital market with special concentration on Bangladesh. After reviewing the relevant literature, this paper has clarified findings of the reviews and recommended some policies that can be considerable issues for the policy makers in Bangladesh.

2. Impacts of Political Crisis on Capital Market with Special Concentration on Bangladesh

Some previous research works on the impacts of political crisis on the capital market with special concentration on Bangladesh are summarized in Table-2.

Table-1: Impacts of Political Crisis on Capital Market

Sl.	Title of the Study	Author's Citation	Specified Country	Findings of the Study
1	Does Political Crisis Impact the Capital Market Returns in Bangladesh?	Roy et al.(2023)	Bangladesh	The study indicates that in Bangladesh, there is lower sensitivity between political instability and capital market returns in short span period (5 days) and higher sensitivity between political instability and capital market returns in long span period (15 days). It indicates the significant relationship between the two mentioned issues.
2	Relationship among Political Instability, Stock Market Returns and Stock Market Volatility	Irshad (2017)	Malaysia	It finds negative relationship between political instability and stock prices. It also reveals that political crisis results in decline of stock prices.
3	The Impact of Political Risk on the Volatility of Stock Returns: The Case of Canada	Beaulieu et. al. (2005)	Canada	The study indicates that fluctuation of stock returns increases with the increase of firm's exposure to political risk. It may happen that political instability becomes a support for some organizations, while hinders the returns for others.
4	The Relationship between Political Instability and Stock Market Performance: An Analysis of the MSCI Index in the Case of Pakistan	Mai et al. (2023)	Pakistan	The study shows the positive relationship between stock market performance and political stability as well as the negative relationship between the two. Political instability decreases the investor's confidence on financial markets and thus reduces foreign investment that becomes risk for the country. In this case, investors can follow portfolio rules for reducing the risk and policy makers can control political instability to run capital market smoothly.
5	Impact of Major Political Events on Stock Market Returns of Pakistan	Murtaza et al. (2015)	Pakistan	This research finds some events that bring changes in government policy which affects the stock returns of Karachi Stock Exchange and vice versa. Karachi stock exchange takes less time to readjust with any changing situation.
6	Effect of Political Decision Making on Indian Capital Market	Kapoor (2013)	India	This research indicates the possibility of price fluctuation due to some political decisions by the Indian government. It found chance of making abnormal returns in the stock market due to the impact of political decision taken from time to time.

3. Impacts of General Election on the Capital Market with Special Concentration on Bangladesh

Table-3 covers some previous explorations on the impacts of general election on the capital market with special concentration on Bangladesh.

Table-2: Impacts of General Election on the Capital Market

Sl.	Title of the Study	Author's Citation	Specified Country	Findings of the Study
1	Does Election Impact on Stock Market Returns in Bangladesh?	Roy & Khan (2021)	Bangladesh	This research shows the impact of general election on the stock market returns considering both abnormal returns and broad index returns in Bangladesh. It finds that up to 11th general election, negative shift in the stock prices happens just before the election period while direct opposite shift occurs after the election period. For taking investment decisions in this period, proper judgment needs to be made to avoid risk.
2	Impact of National Election on Stock Market Performance: An Analysis on Dhaka Stock Exchange (DSE)	Jamil & Mahmud (2019)	Bangladesh	It indicates the greater impacts of various political events on the performance of the stock market covering information from five elections for the period of 1996 to 2018. It also shows the lower volatility of stock market in pre-election period as well as higher volatility of stock market in post-election period except in the case during 2001, 2008 and 2018 election in Bangladesh.
3	The Role of Political Uncertainty in Australian Financial Markets	Smales (2014)	Australia	The study indicates the relationship between federal election and financial market uncertainty in Australia. It reveals that the higher (lower) levels of instability in election results in higher (lower) levels of fluctuation or instability in the financial markets.
4	The Impact of Election on Stock Market Returns of Government-Owned Banks: The Case of Indonesia, Malaysia and Thailand	Wong & Hooy (2016)	Indonesia, Malaysia and Thailand	This research indicates the impact of general election on banking sectors. This reveals that government banks quickly respond to the impacts of election than private banks.
5	Impact of General Election on Stock Market: A Case Study of NSE India	Kedia & Satpathy (2023)	India	This paper finds high variation in the stock market returns during election in India. After the declaration of election result, both positive and negative returns are found in the stock market. Election causes more uncertain returns. In this case, the investors need to be more cautious regarding investment to readjust their investment strategy.

4. Findings of Reviews

- ▶ Basing on the literature studied, it is found that political events and general election significantly impact the economy because the economic inputs are highly volatile to the dynamics of political events and general election. So, it can be concluded that political events and general election can have significant roles in making the economy subject to changes on different factors.
- ▶ Basing on different literature studied with special concentration on the literature related to Bangladesh, it can be concluded that Bangladesh capital market is susceptible to major political events and studies have found significant relationship between political events and capital market movement.
- ▶ From the studies already done, it can be confirmed that different country's capital market including that of Bangladesh is highly impacted by the events like general election. Capital market volatility is found to be significant before and after the event which confirms that there exists significant relationship between capital market movement and general election.

5. Policy Recommended

- ▶ Bangladesh Bank can take different policies to control the informal fund mobilization practices (money laundering, financial frauds, non-performing loans, hundi etc.) during political crisis and general election so that informal fund mobilization through channels (except for the channels of banks and different monetary financial institutions) can be regulated.
- ▶ Bangladesh's capital market can increase the surveillance on certain stocks which have tendency to be controlled by different political factors and entities and also Bangladesh Securities and Exchange Commission (BSEC) can increase the monitoring on certain stocks which have tendency to fluctuate during this time of political crisis and general election. Again, using certain strategies like providing capping on price fluctuation on specific stocks which are very suspicious and having possibility of political affiliation can be highly regulated. Moreover, BSEC can increase the checking on the issue of Initial Public Offering (IPO) and debt offering during election period to increase investor's confidence and financial literacy. Again, BSEC can concentrate on the analysis of fluctuating events through historical analysis.

— ■ — Popy Rani Sarkar
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