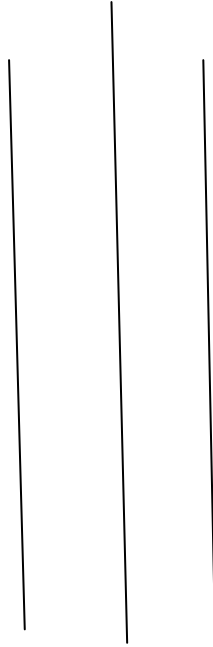


# Stock Market for Economic Growth

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## Stock Market for Economic Growth

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### Economic Development vs. Economic Growth

**Economic Growth** is a narrower concept than economic development. It is an increase in a country's real level of national output which can be caused by an increase in the quality of resources (by education etc.), increase in the quantity of resources & improvements in technology or in another way an increase in the value of goods and services produced by every sector of the economy. Economic Growth can be measured by an increase in a country's [GDP \(gross domestic product\)](#).

**Economic development** is a normative concept i.e. it applies in the context of people's sense of morality (right and wrong, good and bad). The definition of economic development given by Michael Todaro is an

increase in living standards, improvement in self-esteem needs and freedom from oppression as well as a greater choice. The most accurate method of measuring development is the [Human Development Index](#) which takes into account the literacy rates & life expectancy which affects productivity and could lead to Economic Growth. It also leads to the creation of more opportunities in the sectors of education, healthcare, employment and the conservation of the environment. It implies an increase in the per capita income of every citizen.

Economic Growth does not take into account the size of the informal economy. The informal economy is also known as the black economy which takes the unrecorded economic activities. Development alleviates people from low standards of living into proper employment with suitable shelter. Economic Growth does not take into account the depletion of natural resources which might lead to pollution, congestion & disease. Development however is concerned with sustainability which means meeting the needs of the present without compromising future needs. These environmental effects are becoming more of a problem for Governments now that the pressure has increased on them due to Global warming. Sustainable growth can be transformed in to economic development. Economic growth is a necessary but not sufficient condition of economic development.

### Options for Resources for Development

Resources for development are needed to foster economic growth for a take off to economic development . These resources can be tapped from various means. These are

**1. Domestic Resources:**

- Indigenous savings
- Public Borrowings
- Tax & Fiscal Measures
- VAT
- Import & Customs Duties
- Bank Finance

**2. Stock Market:**

- Private Sector Resources
- Debenture & Equity Firms
- Bonds & Securities

**3. Bilateral G to G Investments**

**4. World Bank**

**5. ADB**

**6. AID**

**7. Grants**

**8. FDI**

From all these sources the easiest accessible source is domestic savings mobilization. In case of Bangladesh with deficit of 2% or less of GDP on an annual basis, it is uniquely stock market possessing enormous inherent scope for harnessing fund for economic growth.

## **The Role of Capital Markets in Economy: Some Experiences**

### **Brazil**

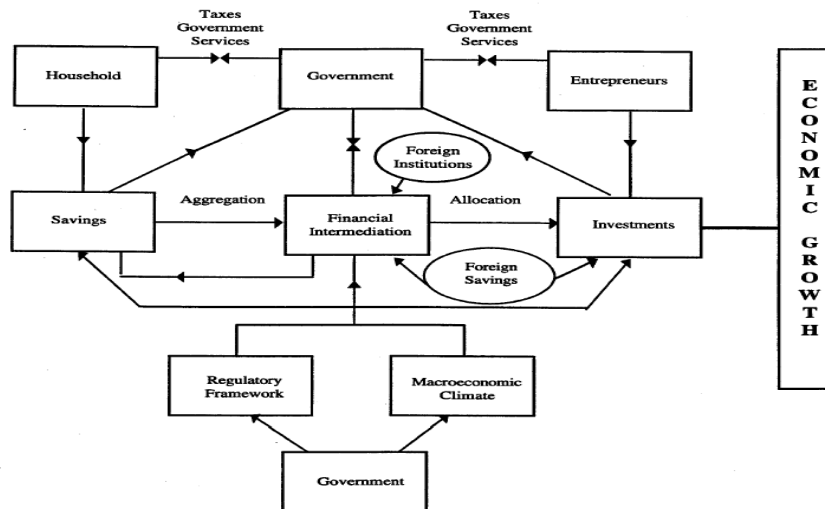
Households are net savers, and their savings are used by entrepreneurs to invest. The rate of growth in a particular economy directly depends on the savings rate of the households, the efficiency with which savings are channeled into investments, and the return on investments. Introducing an efficient, competitive financial sector between the dispersed households and entrepreneurs results as follows:

Transaction costs associated with funneling savings into investments are reduced. Transaction costs associated with the trading or liquidation of assets are reduced, so that household savings remain highly liquid. Information on investment returns is efficiently gathered, enabling selection of efficient investments. Markets for diversification of risks by households and firms are provided.

As the line emanating from the financial sector back to the savings box indicates, the higher returns for investors made possible by an efficient financial sector have ambiguous effects on the savings rate.

What is the role of the government? The government enters the diagram twice. In the upper part, the government's role as a saver and investor is depicted. The lower part depicts its role as the provider of an overall regulatory and macroeconomic climate for the economy. The government taxes households, firms, and the financial sector to fund its own expenses. If these expenses are primarily aimed at the development of infrastructure or human capital, the government may efficiently add to the capital stock of the nation and boost economic growth. Likely, some of these socially productive investments would not be undertaken by private companies. However, a wasteful government simply absorbs resources that otherwise would have been productively invested.

## FINANCIAL INTERMEDIATION AND ECONOMIC GROWTH



The rank correlations confirms that stock market development is positively associated with economic growth. Brazil ranks relatively low; that is, the Brazilian stock market seems relatively well developed, although for the first three measures this is primarily due to its size. Compared with size of the economy, the Brazilian stock market appears to have ample room to grow.

## Romania

Correlations Between Capital Market Development and Economic Growth: The Case of Romania in a Research Paper written by Laura OBREJA BRASOVEANU PhD, Associate Professor, Finance Department, Victor DRAGOTA PhD, University Professor, Finance Department, University of Economics, Bucharest, Romania, Delia CATARAMA PhD Candidate, Assistant Professor, Finance Department and Andreea SEMENESCU PhD Candidate, University Assistant, Finance Department, University of Economics, Bucharest, Romania

In the literature on endogenous growth, the link between capital markets development and economic growth has received much attention. Although there are many studies regarding this aspect, approaches on emergent ex-communist countries' economies, especially for Romania, are very few comparatively to the general cases. It examined the correlation between capital market development and economic growth in Romania using a regression function and VAR models. The results show that the capital market development is positively correlated with economic growth, with feed-back effect, but the strongest link is from economic growth to capital market, suggesting that financial development follows economic growth, economic growth determining financial institutions to change and develop.

Conclusions from it are that there are dependence between economic growth and capital market development for Romanian case. There is a feed-back effect between capital market trade volume and economic growth. Like that in (2005) for Greece, noted the authors.

The regressions and vector autoregressive suggest that the capital market development is positively correlated with economic growth, with feed-back effect, but the strongest link is from economic growth to capital market, suggesting that financial development follows economic growth, economic growth determining financial institutions to change and develop.

## Nigeria

Does stock market Promote Economic Growth in Nigeria was the title of paper by Tokunbo Simbowale Osinubi, Department of Economics, Faculty of the Social Sciences, University of Ibadan, Ibadan Oyo State, Nigeria and Department of Economics, Faculty of the Social Sciences, University of Lagos, Akoka, Yaba, Lagos State, Nigeria.

This paper observes that the stock market is a common feature of a modern economy and it is reputed to perform some necessary functions, which promote the growth and development of the economy. This study examined whether stock market promotes economic growth in Nigeria. Using the data, from 1980 to 2000. the results indicated that there is a positive relationship between growth and all the stock market development variables used. The result showed that economic growth in Nigeria is adequately explained by the model for the period between 1980 and 2000. By implications 98 percent of the variation in the growth of economic activities is explained by the independent variables. The results of the study, which established positive links between the stock market and economic growth, suggests the pursuit of policies geared towards rapid development of the stock market. Also, all sectors of the economy should act in a collaborative manner such that the optimum benefits of linkages between stock market and economic growth can be realized in Nigeria.

It concluded that the stock market promotes economic growth is not in doubt. It serves as an important mechanism for effective and efficient mobilization and allocation of savings, a crucial function, for an economy desirous of growth.

## Singapore

Ramin Cooper Maysami, Lee Chuin Howe, Mohamad Atkin Hamzah, In their research paper titled, Relationship between Macroeconomic Variables and Stock Market Indices: Co integration Evidence from Stock Exchange of Singapore's All-S Sector Indices found that the relationship between macroeconomic variables and stock market returns is, by now, well-documented in the literature. However, a void in the literature relates to examining the co integration between macroeconomic variables and stock market's sector indices rather than the composite index. The study concludes that the Singapore's stock market and the property index form co integrating relationship with changes in the short and long-term interest rates, industrial production, price levels, exchange rate and money supply.

At the same time, the relationship between macroeconomic variables and stock markets, though widely documented, is not universally shown or accepted.

Capital Market : As Engine for Economic Growth a paper by Geert Beakert, Stanford University, Stanford CA, 94305, National Bureau of Economic Research, Cambridge, MA 02138, Campbell R. Harvey, Duke University, Durham, NC 27708, National Bureau of Economic Research, Cambridge, MA 02138

They explored the links between financial markets and economic growth with a special emphasis on the stock market and capital market integration. It comes at an opportune time given the recent interest among the investment community in emerging markets and the enthusiasm of a number of countries to launch capital markets for the first time. Throughout, we stress the role of regulators in making financial markets an engine for economic growth.

## Stock markets and Economic Growth : General Empirical Evidence

Atje and Jovanovic (1989) compare the impact of the level of stock market development and bank development on subsequent economic growth. They found a large effect of stock market development as measured by the value traded divided by GDP on subsequent development, but they fail to find a similar effect for bank lending. In their conclusion they write, "It is even more surprising that more countries are not developing their stock markets as quickly as they can as a means of speeding up their economic development"

They computed the rank correlation between the different stock market development measures and economic growth. If the ranks according to economic growth were to completely correspond to the ranks according to stock market development, the rank correlation would be one. The rank correlations presented are without exception positive. The small number of countries used in the analysis makes the standard error of these correlations rather high; namely 0.23. Nevertheless, the evidence broadly confirms that stock market development is positively associated with economic growth.

It explored the link between capital market integration and economic growth. Argued that investment projects in segmented capital markets are likely to have higher discount rates because the required rate of return on equity is linked to the local market volatility & provided new empirical evidence to suggest that the openness of the economy is positively correlated with economic growth.

### STOCK MARKET DEVELOPMENT AND ECONOMIC GROWTH

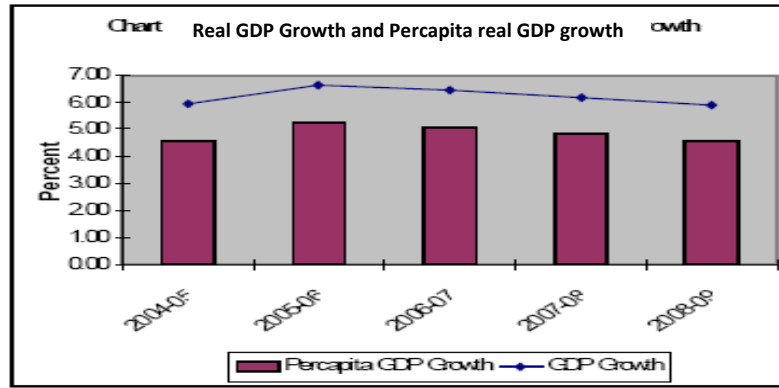
Stock Market Development Measure	Rank Correlation
Number of Stock	.412
Market Capitalization	.341
Value traded	.335
Turnover ratio	.203
Market Capitalization / GDP	.249
Value traded / GDP	.360

## Bangladesh Economy : GDP & Investments

Savings investment gap is wide in developing & LD countries. This gap has been causing hindrance in cycling investment for sustainable economic growth. Again there is general misnomer about economic growth and economic development. This gap can be narrowed by further stress on resource mobilization from indigenous means or in other words domestic resource mobilisation. The banks being in heavy dearth of funds, the cost of fund has been escalating constantly upwards. This is causing price instability & difficult living cost. While the off stream economy is said to over ride mainstream economy by heavy quantum, stock market is a simple boat to carry over the domestic micro level savings in investment for positive transformation of the economy. The GDP growth has been between 5 to 7% since prolonged years in last 2 decades. The stock market can be a feasible place for micro level savings to expedite transforming the investment into economic growth.

Accordingly Bangladesh either through stock market or PPP or other means can have its own growth engine ignited from enormous potential of savings mobilization. The only thing to remember is less than 2% of GDP is the recurrent foreign aid flow into ADP. So this small percentage can easily be replaced by channeling stock market for economic growth.

The GDP growths over years to 2009-2010 FY can be seen from below:



### 1 GDP, GNI, Per Capita GDP and GNI at Current Market Prices

Item	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10(r)
GDP (In Crore Tk.)	370707	415728	472477	545822	614795	692380
GNI (In Crore Tk.)	389635	442935	507752	594212	670696	758684
Population (In Crore)	13.70	13.88	14.06	14.24	14.42	14.61
Per Capita GDP (In Tk.)	27061	29955	33607	38330	42628	47405
Per Capita GNI (In Tk.)	28443	31915	36116	41728	46504	51945
Per Capita GDP (In US\$)	441	447	487	559	620	685
Per Capita GNI (In US\$)	463	476	523	608	676	751

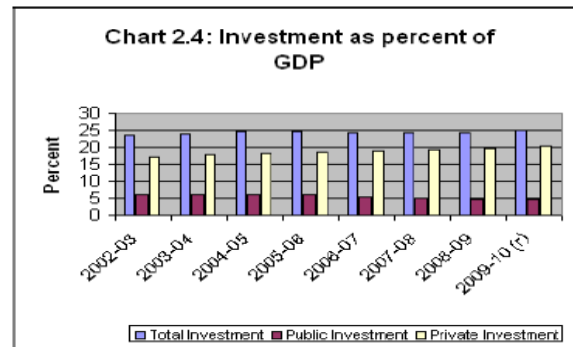
Source: Bangladesh Bureau of Statistics (BBS); r-denotes revised.

Investment in relation to GDP during years to FY 2009-2010 is depicted below wherein share of private sector is almost 75 to 80%. Thus the government can easily adopt placing measures to harness the huge scopes prevailing from private sector investment for furthering economic growth.

### Investment as Percent of Gross Domestic Product (GDP)

FY	Total Investment	Public Investment	Private Investment
2002-03	23.41	6.20	17.21
2003-04	24.02	6.19	17.83
2004-05	24.53	6.21	18.32
2005-06	24.65	6.00	18.65
2006-07	24.46	5.45	19.02
2007-08	24.21	4.95	19.25
2008-09	24.37	4.70	19.67
2009-10 (r)	24.96	4.77	20.19

Source: Bangladesh Bureau of Statistics (BBS). r- revised



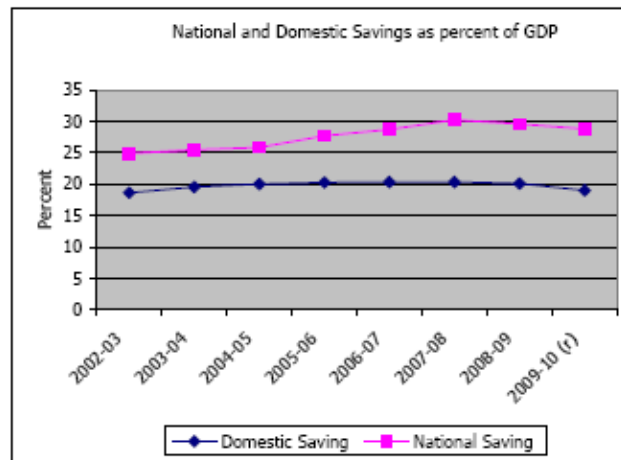
### Savings & Interest Rate in Bangladesh

The table below shows Bangladesh Savings as percentage of its GDP over a 8 years span to 2009-10 FYs. It is self explanatory depicting poor S-GDP ratio lagging far behind the domestic resource needs for investment driven to sustainable economic growth. Again graph beside the table readily present the table it self more lucidly.

Table Saving as Percentage of Gross Domestic Product (GDP)

FY	Domestic Saving	National Saving
2002-03	18.63	24.87
2003-04	19.53	25.44
2004-05	20.01	25.84
2005-06	20.25	27.67
2006-07	20.35	28.66
2007-08	20.31	30.21
2008-09	20.09	29.57
2009-10 (r)	18.99	28.75

Source: Bangladesh Bureau of Statistics (BBS). r-denotes revised



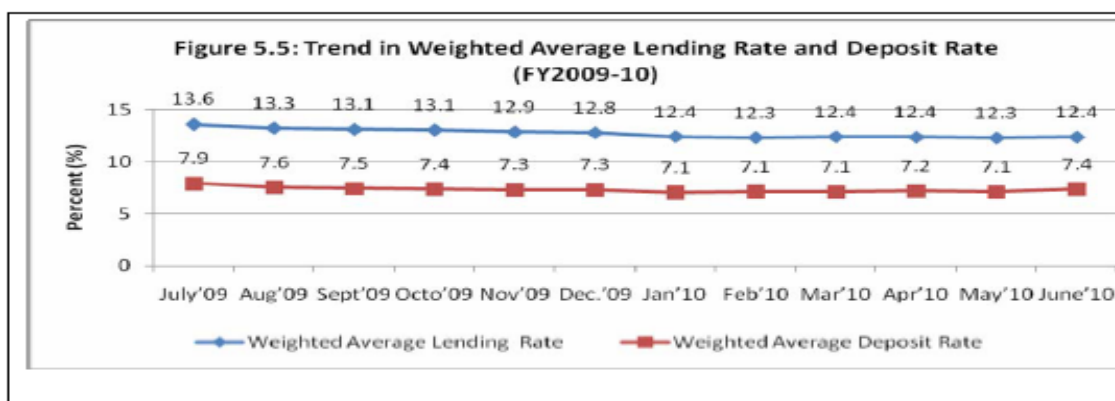
During the FY 2009-10 the deposit, lending and call rate are depicted in a following table. This shows high lending interest rate catered with low deposit rate rep & call rates during the year. All these add high cost to production making industries unfeasible. Again with dollar & euro etc. on consistent gain, the costs are constantly escalating leaving people lives into havoc of sorrows & horns. The financial institution are in liquidity crunch for many reasons. In this situation stock market is the easiest means for investment towards economic growth & industrialization at lowest fund cost in the hands of efficient & honest entrepreneurs.

#### Movement during FY2009-10

Month 91	Treasury Bill			B.B Bills	BGTB				Repo	Rev. Repo	Call Rate	Len- ding Rate*	Depo- sit Rate *
	- Day	182- Day	364- Day		5- Year	10- Year	15- Year	20- Year					
July'09	1.86	3.75	5.01	--	8.20	9.42	9.93	8.97	--	--	1.08	13.61	7.93
Aug'09	--	--	--	0.96	7.47	8.55	8.59	8.59	--	--	0.72	13.26	7.57
Sept'09	2.05	3.50	4.33	1.00	7.49	8.43	8.80	--	8.50	--	4.39	13.13	7.45
Oct'09	2.14	3.51	4.57	1.04	7.80	8.75	8.69	9.10	--	2.50	2.82	13.07	7.39
Nov'09	2.30	--	4.60	2.50	7.80	--	--	--	4.50	2.50	4.43	12.87	7.33
Dec.'09	2.30	3.54	4.61	2.48	7.80	8.75	8.69	9.10	4.50	2.50	5.05	12.80	7.33
Jan'10	2.34	3.55	4.61	2.50	7.80	--	8.74	--	4.50	2.50	4.83	12.43	7.06
Feb'10	--	3.56	4.62	--	7.82	8.75	8.74	9.11	4.50	2.50	4.51	12.33	7.14
Mar'10	--	3.54	4.63	2.53	7.85	8.76	8.75	9.15	4.50	2.50	3.51	12.41	7.13
Apr'10	2.34	3.42	4.15	2.55	7.85	8.77	8.77	9.17	4.50	2.50	4.36	12.37	7.20
May'10	2.37	3.52	4.20	2.55	--	8.77	8.80	9.19	4.50	2.50	5.18	12.30	7.13
June'10	2.42	3.51	4.24	2.54	7.87	8.78	8.80	9.15	4.50	2.50	6.46	12.37	7.40

Source: Bangladesh Bank, \* Weighted average rate





The gap between lending rate and deposit rate shown above also reveals enormous scope for funds to be invested at lower fund cost through stock market. For domestic savings mobilization stock market activation through broad based participation by a regulatory framework could be a much simpler means than any other means like FDI etc. All we need are accountable entrepreneurs in IPOs with commitment for economic transformation upward & regulator with efficacy.

## Capital Market in Bangladesh (Economic Survey 2010)

Although capital markets of different countries of the world collapsed in the face of global recession, the capital markets of Bangladesh remained quite buoyant at that time. The market capitalisation and the general index increased remarkably during the period. Market capitalisation of the Dhaka Stock Exchange (DSE) rose from 21.4 percent of GDP in June 2009 to 39 percent of GDP in June 2010 indicating keen interests showed by the investors in the capital market. By the end of June 2010, the number of BO (Beneficiary Owner) accounts has increased to 25.64 lakh from 14.15 lakh at the end of June 2009. Given the growing number of ordinary investors in capital markets, limited supply of securities and investors' expectations for more profit at times made the market volatile. Nevertheless, various steps have been taken to maintain market stability and to establish a transparent and vibrant capital market while deepening it. The Government has also started off-loading state-owned companies' shares. Already, [5 state-owned companies](#) have [completed](#) off-loading of shares. As a result, confidence on capital market of local and foreign investors has increased. The Securities and Exchange Commission (SEC) has strengthened its surveillance on securities transactions and supervision on market intermediaries so that market operates in transparent manner. The following steps have been taken to streamline the capital market during FY2009-10.

**New Investment in the Capital Markets:** During FY2009-10, SEC allowed 10 companies to raise Tk.1,398.92 crore (including premium) as capital through Initial Public Offering (IPO). The subscription money received against the said companies was Tk. 9,125.96 crore, which was 27.74times higher than the amount of public issues, indicating huge demand of securities in the market.

**Mutual Funds:** SEC has given approval of 8 companies to publish prospectus of mutual funds for raising capital (total Tk.850 crore) through IPO under Securities and Exchange Commission (Mutual Fund) Rules, 2001 during FY2009-10.

**Raise Paid-up Capital:** During FY2009-10, SEC has given consent to 50 private limited companies and 52 public limited companies to raise paid up capital of amount Tk.1,354.59 crore and Tk. 4,496.35 crore respectively.

**New Registration:** During FY2009-10, SEC has given registration certificate to 52 stock broker/dealer of DSE and to 44 stock broker/dealer of CSE. During this period, registration certificate were given to 1,289 authorised representatives of DSE and to 222 authorised representatives of CSE. Besides, 19 depository participant certificates were also issued.

**Enforcement Action:** During FY2009-10, SEC has taken enforcement actions against 263 issuer companies and other market intermediaries for non-compliance of securities related laws.

**Central Depository Systems (CDS):** At the end of June 2010, the number of active BO accounts in Central Depository Bangladesh Ltd (CDBL) was 25.64 lakh and the number of eligible companies was 267. They hold around 99 percent of market capitalisation. As a result of dematerialisation, time required for settlement reduced and existence of fake shares is abolished, which plays a significant role in development of market infrastructure.

**Implementation of Book Building Method:** As an alternative IPO valuation method, the book building method was introduced in Bangladesh capital market for the first time through a notification issued on 11 March 2009. This will attract private companies with good track record and sound fundamentals to raise capital from the market, where issuer may get better price of their shares depending on institutional demand for the shares.

**Establishment of OTC Market at DSE:** To facilitate transaction of companies delisted by DSE, DSE has established Over-the-Counter (OTC) market since September 6, 2009 upon instruction of the Commission.

**Bangladesh Institute of Capital Market:** To educate the investors and market intermediaries; and to train the companies in corporate governance in the listed companies 'Bangladesh Institute of Capital Market' has been established.

**Capital Market Governance Project:** To reform the market, improve the institutional capacity and human resources and enhance the market surveillance system, SEC has taken a project named 'Improvement of Capital Market Governance Program' with assistance of the Government and Asian Development Bank (ADB), which is now under implementation.

**Training Programme:** The Commission, in association with the Dhaka and Chittagong Stock Exchanges arranged 24 investors training programme, where a total of 705 participants attended. Besides, a total of 953 authorized representatives of the members of the stock exchanges have been trained during this period.

## Market Scenario

### CDBL Source

As on	BO Accounts setup in CDS	Valuation of Shares in CDS based on closing price in (Tk.)
31 <sup>st</sup> Dec, 2004	46,377	27,622,545,752
31 <sup>st</sup> Dec, 2005	588,641	65,146,547,805
31 <sup>st</sup> Dec, 2006	819,512	93,989,356,372
31 <sup>st</sup> Dec, 2007	1,311,101	285,786,768,467
31 <sup>st</sup> Dec, 2008	1,468,715	471,200,389,177
31 <sup>st</sup> Dec, 2009	1,920,602	845,691,918,096
31 <sup>st</sup> Dec, 2010	3,283,748	2,085,610,237,743
31 <sup>st</sup> Dec, 2011	2,806,396	1,498,937,091,580

### Dhaka Stock Exchange

The comparative statements of DSE at the end of FY 2008-09 and FY 2009-10 is shown below :

Indicators	As on 30 <sup>th</sup> June 2009	As on 30 <sup>th</sup> June 2010	% Increase
Number of listed securities (including mutual funds, debentures and bonds)	443	450	1.58
Issued capital of all listed securities (Tk. in crore)	45,794.40	60,726.30	32.6
Market Capitalisation of all listed securities (Tk. in crore)	1,31,277.30	2,70,074.46	105.73
All Share Price Index	2,520.15	5,111.63	102.83

Source: Dhaka Stock Exchange.

Note: All share price index is calculated on General Share Price Index (excluding 'Z' group) by withdrawing weighted average method from 9 December, 2003. The index base earlier was 100 for DSE. The DSE reintroduced All Share Price Index on March 28, 2005.

## DSE Market Capitalization to GDP & Trends

	2008	2009	2010	2011 (Oct)
Market Cap. To GDP	19.12%	30.89%	50.67%	29.33%
GDP (FY) US \$	77.97	89.10	98.03	112.49
Market Capitalization US \$	14.91	27.52	49.67	33.33
Turnover US\$ (Bn.)	9.71	21.33	56.77	18.87
General Index	2795.34	4535.53	8290.41	5,036.50
P/E Ration	18.42	25.65	29.16	13.36
Avg. Dividend	21.57	23.32	35.58	-
Yield	2.48	1.75	1.56	3.51
Market Capitalization US\$ (Bn)	15.17	27.52	49.67	33.33

Source : DSE

## CSE Market Capitalization to GDP etc.

	2008	2009	2010	2011
Market Cap to GDP (US \$ Bn)	11.88	21.63	36.21	23.73
GDP (US \$ Bn)	77.97	89.10	98.03	112.49
Market Cap (US \$ Bn)				28.58
Turnover (US \$ Bn)	1.46	2.40		2.4

Some : Chittagong Stock Exchange

The comparative statements of CSE at the end of FY 2008-09 and FY 2009-10 is shown below :

Indicators	As on 30 <sup>th</sup> June 2009	As on 30 <sup>th</sup> June 2010	% Increase
Number of listed securities (including mutual funds and debentures)	245	232	-5.30
Issued capital of all listed securities (Tk. in crore)	13,742.05	20,111.56	46.35
Market Capitalisation of all listed securities (Tk. in crore)	96,247.70	2,53,439.33	163.32
All Share Price Index	10,477.67	18,116.05	72.90

## Title of the Paper and Conclusion

Economic Growth is more visible as it is short term. Stock market can have easier positive impact on it. It is very lucid to understand that domestic & overseas resources can be recycled from stock market to foster development.

We need a smart and independent regulator with need based vision.

Investors are largely needed for stock market who:

are market educated

will have vision upward short, medium & long term.

will profit for the economy & selves

Honest & dedicated entrepreneurs required under smart regulator

Stock Market Capitalisation in Bangladesh was 50.67% of GDP on 30-12-2010. It is thus obvious that scopes are enormous to lap resources.

**Data used are not uniformly on 30.06.2011. This is a limitation of this write up.**

## Conclusion

Bangladesh should harness the ample scopes of Stock Market.

Away from Donors (2% of GDP) Bangladesh should be keen in indigenous investments.

Bangladesh must facilitate private sector investments.

FDIs can pour in, but these are attracted by assured Profit repatriation & infrastructures.

Let us envision our prospect of future in our country's future prospect.

## THANK YOU ALL

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