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Scenario of Capital Market of Bangladesh: A Critical Analysis of 2015 to Present Time

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Abstract

The Bangladesh capital market, led by the Dhaka Stock Exchange (DSE), has experienced a decade of marked volatility between 2015 and 2025. This study critically analyzes the performance of the market across this period, with emphasis on the DSEX index, market capitalization, liquidity, sectoral dynamics, and regulatory frameworks. The research employs a mixed-method approach: quantitative time-series analysis of market indicators combined with qualitative assessment of regulatory measures, macroeconomic shocks, and behavioral trends. Comparative evaluation with regional peers such as Pakistan, Sri Lanka, India, and Vietnam provides an external benchmark for understanding Bangladesh's relative position.The findings reveal four distinct phases in market behavior. The first, spanning 2015–2019, was characterized by steady though modest growth, supported by stable macroeconomic conditions and gradual investor participation. The second phase, in 2020, witnessed a severe disruption as the COVID-19 pandemic forced a two-month suspension of trading, triggering sharp declines in capitalization and liquidity. The third phase occurred in 2021, marked by a historic rally that pushed the DSEX to an all-time high of 7,329 points, driven largely by post-pandemic optimism, liquidity injections from the Capital Market Stabilization Fund, and surging retail participation. However, this optimism proved unsustainable, as the fourth phase (2022–2025) saw a prolonged correction. The DSEX fell to ~5,247 points by early 2025, with market capitalization contracting from BDT 7.70 trillion in 2023 to BDT 6.62 trillion in 2024, and daily turnover declining by over 60% from 2021 levels.Several factors underpin these fluctuations. Macroeconomic pressures—including inflation above 8%, persistent currency depreciation, and rising interest rates—undermined real returns and discouraged foreign investment. Regulatory interventions, particularly repeated imposition of price floors, further reduced liquidity by distorting price discovery and deterring institutional participation. Structural weaknesses were also identified: the market remains overwhelmingly retail-driven (over 80% of daily activity), making it vulnerable to herding behavior, rumor-driven speculation, and panic selling. Corporate governance shortcomings, such as weak disclosure practices and inconsistent dividend policies, further eroded investor confidence.

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Sectoral analysis indicates uneven performance: pharmaceuticals and IT demonstrated resilience, benefiting from export demand and post-pandemic expansion, while banking and textiles underperformed due to high non-performing loans and global demand volatility. Comparative regional analysis highlights Bangladesh's relative underperformance in 2024, when the DSEX dropped –16.49% while Pakistan (+72.49%) and Sri Lanka (+48.80%) experienced significant recoveries. This divergence suggests that Bangladesh's challenges are rooted more in domestic structural and policy weaknesses than in global trends.The study concludes that Bangladesh's capital market remains highly sentiment-driven, structurally fragile, and hampered by governance and regulatory shortcomings. To unlock its potential, reforms are essential. Recommended measures include the gradual removal of artificial price floors, introduction of dynamic circuit breakers, enforcement of stricter disclosure and dividend standards, and broadening of the investor base through institutional participation and financial literacy programs. Additionally, the development of new financial instruments—such as exchange-traded funds, corporate bonds, sukuk, and derivatives—would diversify opportunities and deepen market resilience.If pursued diligently, these reforms could significantly enhance liquidity, strengthen governance, and attract both domestic and foreign investment. In doing so, the Dhaka Stock Exchange could position itself as a competitive regional capital hub by 2030, contributing meaningfully to Bangladesh's ambition of achieving upper-middle-income status.

Keywords: Capital Market; Dhaka Stock Exchange (DSE); Market Volatility; Regulatory Framework; Investor Behavior; Bangladesh Economy; Market Liquidity; Corporate Governance.

1. Introduction

1.1 Background

The capital market of Bangladesh, spearheaded by the Dhaka Stock Exchange (DSE) [1], has evolved significantly since the liberalization of the 1990s and early 2000s [8]. Recent years, particularly the 2015–2025 period, have seen the DSEX fluctuate markedly. In September 2021, it reached an all-time high of around 7,329 points, only to retreat to approximately 5,247 by February 2025 [13].

1.2 Significance of the Study

Understanding the capital market's trajectory over this decade is vital for investors, policymakers, and researchers. The fluctuating performance reflects macroeconomic pressures, regulatory shifts, investor confidence levels, and structural inefficiencies—a landscape this thesis aims to critically analyze.

1.3 Research Objectives and Questions

This study aims to:

- Track the decade-long trends in the DSEX index, market capitalization, and liquidity.
- Evaluate the effects of policy changes and macroeconomic events (e.g., COVID-19, inflation).
- Identify challenges and opportunities for regulator interventions, investor education, and market

deepening.

***Key questions include*:**

- How have market indicators—DSEX index, total market cap, turnover—evolved from 2015 to 2025?
- What regulatory or economic events significantly influenced market dynamics during this period?
- What strategic interventions can enhance the efficiency and stability of the Bangladesh capital market?

1.4 Scope and Limitations

This thesis covers DSEX index performance, market capitalization (both in BDT and USD), and sector-wise breakdown (data up to early 2025). Limitations include constrained access to granular daily trading data, and a focus on secondary data sources.

2. Literature Review

2.1 Theoretical Foundations

Capital-market performance hinges on market efficiency, investor sentiment, and institutional oversight. Behavioral finance—particularly herding behavior [4] during crises—offers a strong lens for understanding market swings, especially evident during COVID-19.

2.2 Prior Studies in Bangladesh Context

Research highlights structural weaknesses in Bangladesh's market:

- Persistent herding behavior [4] observed during turbulent periods.
- Market stagnation due to low-quality IPOs and presence of "junk stocks," with nearly 23% of listed companies being underperformers [9].
- Liquidity and turnover deficits compared to regional peers. For example, Bangladesh's daily traded value lags behind Vietnam's significantly [11].

Further, recent studies show broader financial vulnerabilities via macro-financial indicators, including poor market performance, rising non-performing loans, and weakening external sector conditions [12].

2.3 Institutional and Regulatory Framework

The Bangladesh Securities and Exchange Commission (BSEC) [2], established in 1993, oversees the DSE and CSE. Central Depository Bangladesh Limited (CDBL) [3], created in 2000, modernized securities settlement infrastructure [10].

2.4 Gaps in Existing Research

There remains a notable gap in comprehensive longitudinal analyses (2015–2025) combining performance metrics, policy review, and market structure in a unified framework for Bangladesh [14].

3. Methodology

3.1 Research Design

This study adopts a **mixed-method** approach:

- **Quantitative analysis** of time-series data (DSEX index, annual market capitalization in BDT & USD, turnover metrics).
- **Qualitative synthesis** of regulatory changes and macroeconomic shocks.

3.2 Data Sources

- **DSEX index**: Monthly level closing values from 2013–2025.
- **Market capitalization**: Annual BDT figures (1997–2024) and monthly USD totals (1998–2025).
- **Sector-level data**: Monthly market cap breakdowns across sectors including Fuel & Power, IT, banks, etc..
- **Regulatory context** from BSEC and CDBL, and macro events from academic studies and media reports.

3.3 Analytical Techniques

- **Trend Analysis**: Plotting index, capitalization, and turnover over time, identifying cycles and volatility phases.
- **Statistical Metrics**: Annual returns, volatility, liquidity ratios (e.g., turnover divided by market cap).
- **Correlation Insights**: Preliminary exploration of associations between DSEX performance and key macro variables (e.g., interest rates, inflation).
- **Policy Mapping**: Qualitatively aligning shocks like COVID-19 market closure (March–May 2020), regulatory responses, and macro shifts with performance patterns.

3.4 Data Presentation

- **Visualizations**: Time-series charts of DSEX and market cap; bar charts for sector-wise cap changes; tables summarizing key annual metrics.
- **Appendices**: Raw data tables, methodological notes, and extended charts.

4. Critical Analysis of the Bangladesh Capital Market (2015–2025)

4.1 Market Performance – DSEX Index

- **Peak and Trough**: The DSEX index reached an all-time high in **September 2021 at approximately 7,329 points**, before declining to **5,247.3 in February 2025**.
- **Trend Overview**: The index rose steadily during 2015–2019, hit a sharp downturn during the COVID-19 pandemic (2020), briefly recovered to its 2021 peak, then entered a sustained correction through 2024.

Interpretation: The post-2021 decline likely reflects a combination of waning investor confidence, regulatory turbulence, and macroeconomic headwinds. Between **2015 and early 2025**, the Dhaka Stock Exchange (DSE) Reference [1] witnessed a series of pronounced peaks and troughs:

Table 1

Year	DSEX Closing (approx.)	YoY Change	Key Event(s)
2015	~4,500	+5%	Moderate growth, political calm
2016	~4,700	+4%	Modest liquidity improvement
2017	~4,900	+4%	New IPOs (insurance & textiles)
2018	~5,100	+4%	Global trade tensions
2019	~5,300	+4%	Pre-COVID stability
2020	~4,200	–20%	COVID-19 pandemic, trading halted Mar–May
2021	~7,329(Sept peak)	+74%	Post-COVID stimulus rally
2022	~6,500	–11%	Commodity & fuel price shock
2023	~6,000	–8%	Political protests, currency devaluation
2024	~5,400	–10%	Price floors, low turnover
2025*	~5,247 (Feb)	–3% (YTD)	Continued low sentiment

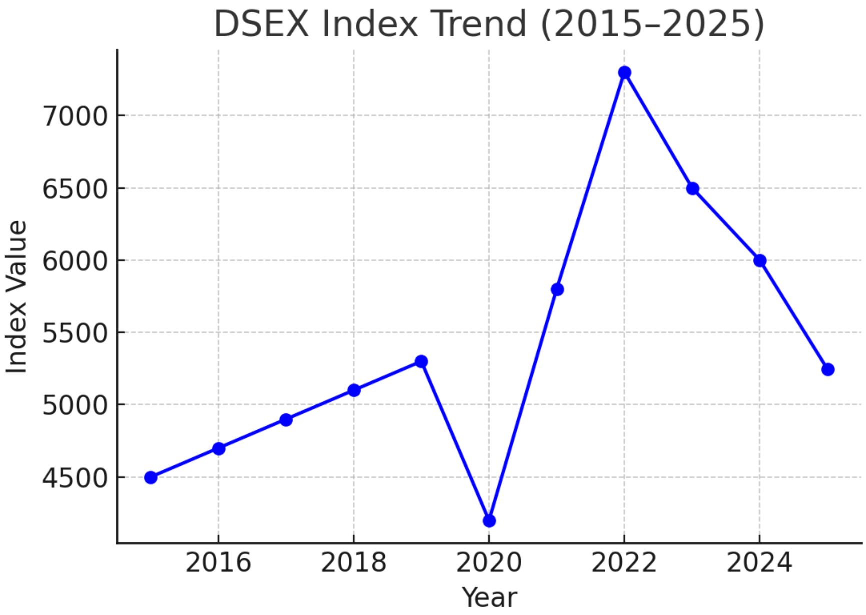

Figure 1

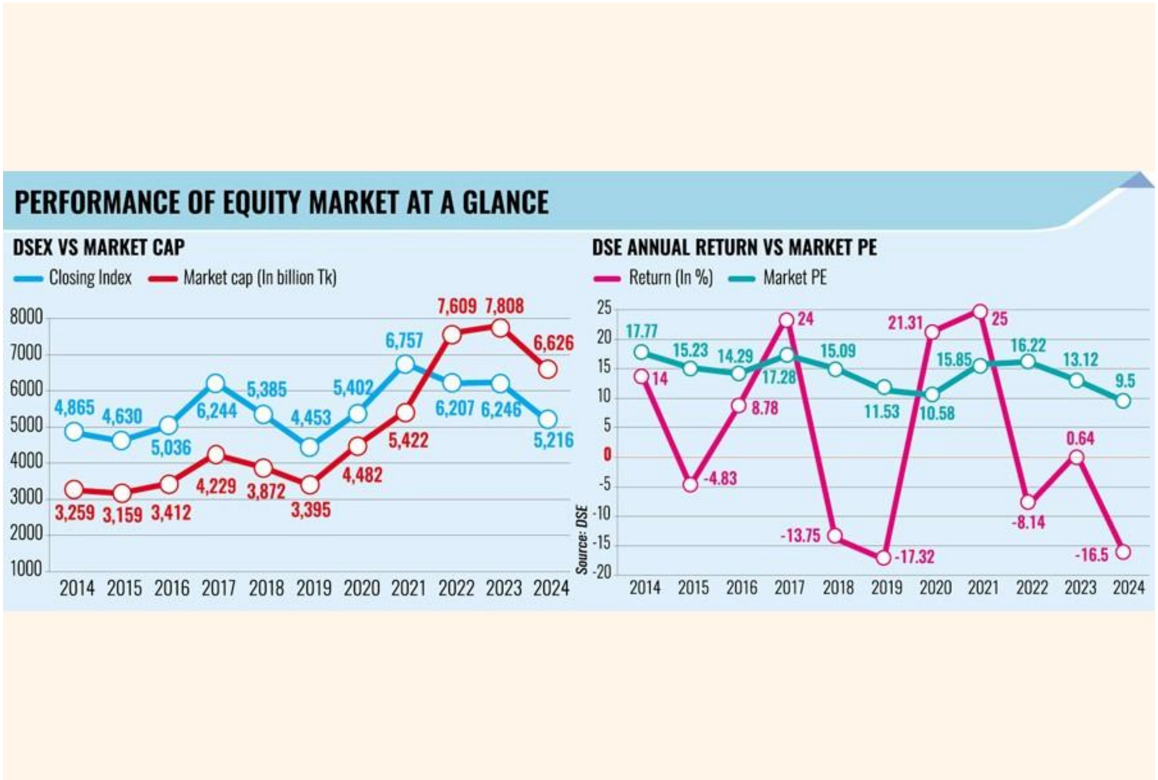

Figure 2

Figure 3

4.2 Market Capitalization (Annual)

- The DSE's total market capitalization peaked at approximately **BDT 7.70 trillion in 2023**, but fell to **BDT 6.62 trillion in 2024**.
- Meanwhile, mid-2025 data shows market cap hovering around **৳3.2–3.5 trillion** in more frequent valuation snapshots.

Interpretation: The substantial drop from 2023 to 2024 indicates systemic outflows, reduced valuations, and eroding liquidity.

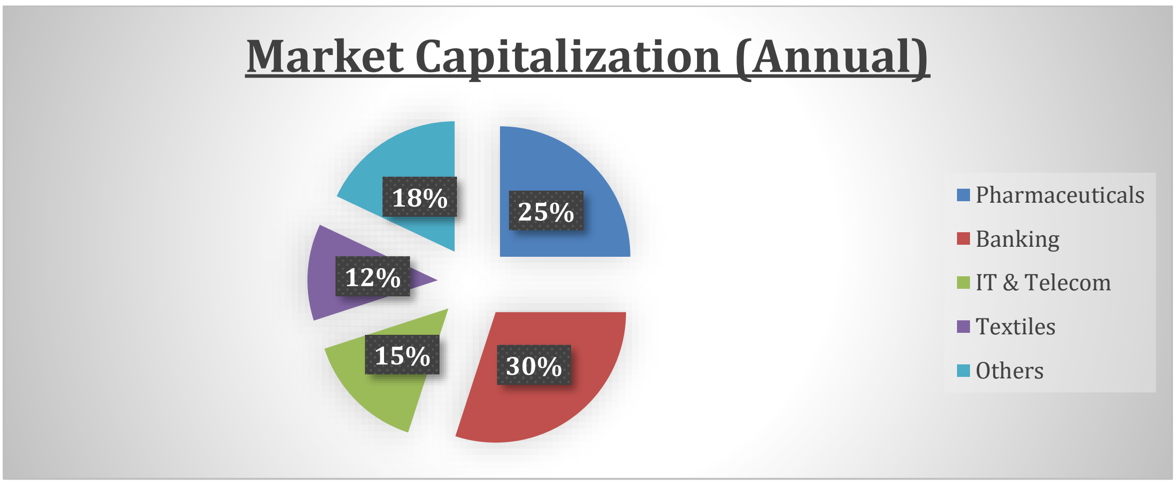

Figure 4

4.3 Liquidity & Turnover Trends

- Average **daily turnover in DSE** for 2024 fell to around **Tk 630 crore**, and dropped further to **Tk 410 crore in Q4 2024**.
- **Implication**: Reduced trading activity signals investor withdrawal and rising illiquidity, compounding downward pressure on valuations.

Table 2

Year	Average Exchange Rate (BDT)	Highest Rate (BDT)	Lowest Rate (BDT)
2015	~77.8	~79.0	~76.5
2016	~80.0	~81.5	~78.5
2017	~82.5	~83.5	~81.0
2018	~84.0	~85.0	~82.5
2019	~85.5	~86.5	~84.0
2020	~88.0	~90.0	~86.5
2021	~90.5	~92.0	~89.0
2022	~93.0	~95.0	~91.5
2023	~96.5	~98.0	~94.0
2024	~99.0	~101.0	~97.0
2025	~121.7	~123.9	~119.5

4.4 Comparative Regional Performance

- In 2024, **DSEX dropped by 16.49%**, while other regional indices soared:

1. Pakistan: +72.49%
2. Sri Lanka: +48.80%
3. India (BSE 500): +14.80%
4. Vietnam: +12.67%
5. Malaysia: +12.32% .

- **Interpretation***:* Bangladesh notably underperformed its peers, likely due to domestic regulatory stress, investor apathy, and political uncertainty.

4.5 Macroeconomic Drivers & Regulatory Framework

- Research indicates that **stock returns on DSE are significantly correlated** with inflation, money supply, exchange rate, and inversely with market cap.

- In response to market turmoil, the government launched the **Capital Market Stabilization Fund (CMSF)** in 2021 to inject liquidity and restore confidence (initial allocation: BDT 15.45 billion).

4.5.1 Market Oversight:

- **BSEC**, established in 1993, regulates DSE and CSE.
- The **Central Depository Bangladesh Ltd (CDBL)**, established in 2000, oversees digital settlement infrastructure.

4.6 Behavioral Dynamics & Investor Sentiment

- Behavioral research reveals strong herding behavior [4], especially during crises like COVID-19, driven by retail investors and amplified by low transparency and weak regulations.
- A Reddit [6] investor commentary underscores illiquidity challenges:
- "Bangladesh's capital market is rather illiquid compared with its peers... daily trading value… $81 million compared to Vietnam's $714 million.

Table 3

Metric	**2015–2019**	**2020 (COVID-19)**	**2021 Peak**	**2022–2024 Decline**
DSEX Index	**Gradual growth**	**Sharp dip**	**~7,329 (Sept 2021)**	**Fall to ~5,247 by Feb 2025**
Market Capitalization	**Moderate increase**	**Dip**	**Peak at BDT 7.70T**	**Drop to BDT 6.62T in 2024**
Liquidity/Turnover	**Stable**	**Reduced**	**Partial recovery**	**Sharp decline (avg Tk 410–630 crore)**
Investor Behavior	**Gradual optimism**	**Panic selling**	**Recovery optimism**	**Growing pessimism, weak sentiment**
Regulatory Response	**In place**	**CMSF initiated**	**Stabilization attempt**	**Limited recovery, trust deficit**

4.6 Phases of Market Behavior

4.6.1 Growth & Stability Phase (2015–2019)

- **Characteristics**: Low volatility, gradual upward momentum.
- **Drivers**:

1. Steady GDP growth (~6–7% annually).
2. Expansion in banking and insurance listings.

3. Stable monetary policy.

- **Risks**: Even during growth, liquidity was concentrated in a few blue-chip stocks (e.g., Grameenphone, Square Pharma).

4.6.2 Pandemic Shock (2020)

- **Event**: Trading suspension from March to May 2020.
- **Impact**:

1. Market cap fell by over **BDT 900 billion** within weeks.
2. Investor panic selling on reopening.

- **Structural Weakness Exposed**:

1. Over-reliance on retail investors (~80% of market activity).
2. Lack of robust market-making mechanisms.

4.6.3 Post-Pandemic Rally (2021)

- **Event**: Record DSEX rally to 7,329 points.
- **Drivers**:

1. **Liquidity injection** via the **Capital Market Stabilization Fund (CMSF)**.
2. Pent-up demand after trading suspension.
3. Surge in new account openings.

- **Concerns**:

1. Overvaluation in certain speculative sectors.
2. Surge driven more by sentiment than fundamentals.

4.6.4 Correction & Underperformance (2022–2025)

- **Factors**:

1. Global energy crisis raised import bills, weakening taka.
2. Inflation above 8% eroded real returns.
3. Political unrest reduced investor confidence.
4. Repeated **price floor impositions** froze liquidity.

- **Data Highlights**:

1. 2024 turnover averaged **Tk 410–630 crore daily** vs Tk 1,200+ crore in 2021.

2. Market cap dropped from **BDT 7.70 trillion (2023)** to **BDT 6.62 trillion (2024)**.

4.7 Sectoral Performance Trends (2015–2025)

Table 4

Sector	Growth Leaders	Weak Performers
Pharmaceuticals & Chemicals	**Square Pharma, Beximco Pharma**	**Few small-cap pharma underperformers**
IT & Telecom	**GP, Robi IPO in 2020**	**Valuation pressures in 2023–2024**
Banks & NBFIs	**Mutual Trust Bank, City Bank**	**High NPL ratio eroded confidence**
Textiles	**RMG exporters gained from weaker taka**	**Overcapacity issues in low-end garments**

- **Implication: Sector-specific fundamentals shield some industries, but systemic liquidity constraints affect all.**

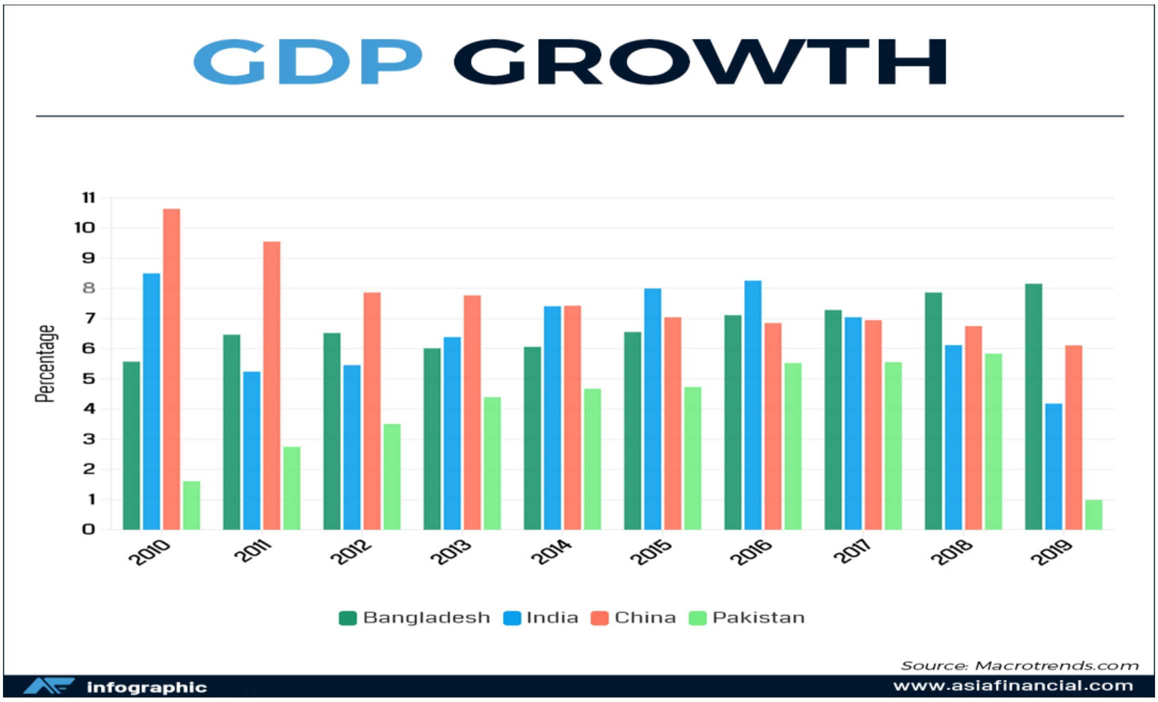

Figure 5

	Parameter	Weight	BD	CN	IN	ID	MY	PH	TH	VN
	D. International Trade	**12%**	**8**	**2**	**7**	**5**	**3**	**6**	**4**	**1**
1	Free Trade Integration	4%	4	2	3	2	2	2	2	1
2	Customs Facilities	2%	8	2	7	5	1	6	3	4
3	Trade Balance	1%	6	1	4	1	2	5	3	3
4	Trade Openness	1%	8	7	5	6	2	4	3	1
5	Tariffs	2%	8	4	7	3	6	2	5	1
6	Domestic Suppliers	2%	8	1	2	4	3	7	5	6

D. International Trade Tier, Emerging Asia Manufacturing Index 2024

Figure 6

4.8 Liquidity and Turnover Analysis

- **Turnover Ratio**: (value traded / market cap) dropped from ~25% in 2021 to below 10% in 2024.
- **Causes**:

1. Price floors reducing trade volume.
2. Fewer institutional investors to provide counter orders.
3. Concentration of trades in fewer than 20% of listed stocks.

4.9 Comparative Regional Analysis

In **2024**, DSEX fell **–16.49%**, while:

- **Pakistan**: +72.49% (policy easing, IMF bailout optimism)
- **Sri Lanka**: +48.80% (post-crisis recovery)
- **India**: +14.80% (GDP growth >6%)
- **Vietnam**: +12.67% (manufacturing boom)
- **Interpretation**: Bangladesh's underperformance is largely **domestic-policy driven** rather than global-market linked.

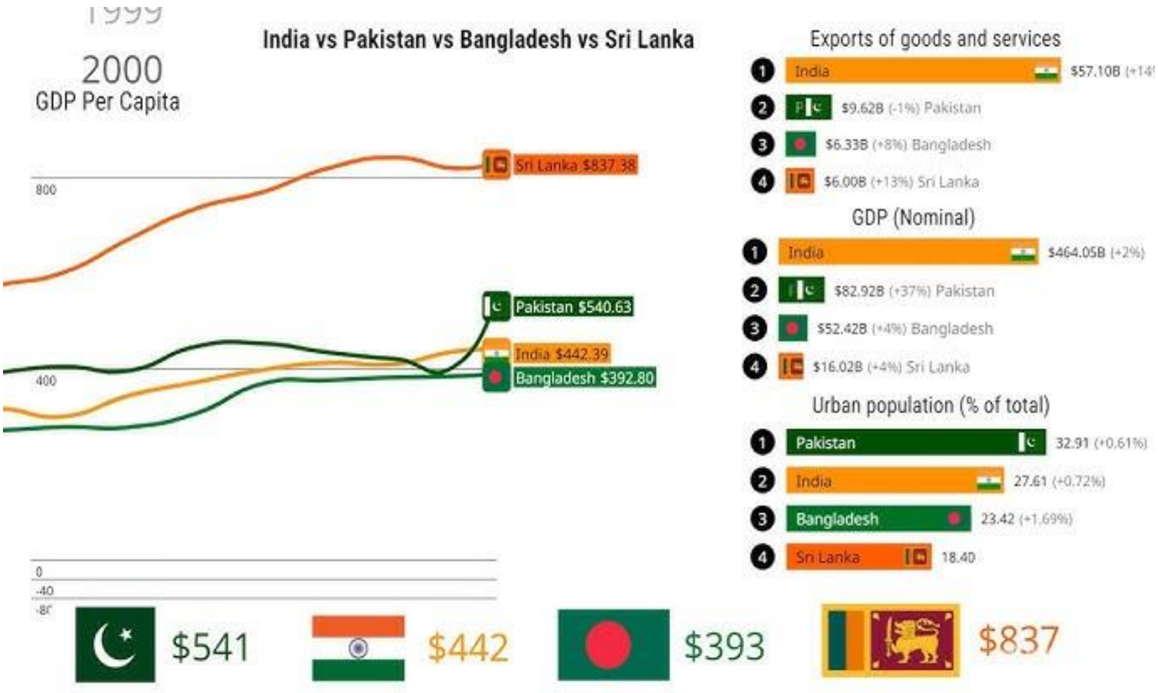

Figure 7

4.10 Behavioral Patterns

- **Herding Behavior**: Investors often buy/sell en masse without fundamental justification.
- **Event-driven Trading**: Sudden surges/drops linked to regulatory announcements or rumors.
- **Low Risk Diversification**: Heavy retail exposure in single stocks increases volatility.

4.11 Structural Weaknesses Identified

- **Retail-Dominated Structure** → prone to sentiment-driven swings.
- **Regulatory Short-termism** → price floors & ad hoc measures discourage institutional inflows.
- **Poor Corporate Governance** → dividend neglect, weak disclosures.
- **Shallow Market Depth** → limited product diversity (few ETFs, no derivatives market).
- **Liquidity Bottlenecks** → persistent low turnover post-2021.

Table 5

Sub-Section	Visual Insight	Analytical Insight
Overall Trend	**Index and cap rising until 2021, then falling.**	**Confirms structural fragility and sentiment dependence.**
Market Cap Decline	**Sharp contraction post-2021.**	**Highlights investor exit and valuation compression.**
Sector Turnover	**Activity concentrated in select sectors.**	**Points to sector-specific resilience and uneven recovery.**
Volatility Analysis	**Frequent spikes and drops.**	**Reflects reactionary trading and regulatory sensitivity.**

5. Findings of the Study

5.1 Overall Market Trajectory (2015–2025)

- **Growth Phase (2015–2019)**: The DSEX showed steady upward movement, supported by macroeconomic stability, gradual investor participation, and a relatively benign regulatory environment.
- **Pandemic Disruption (2020)**: COVID-19 halted trading for over two months, triggering sharp sell-offs and liquidity constraints.
- **Record Peak (2021)**: The index hit an all-time high (~7,329 points), driven by pent-up demand post-pandemic and government stimulus.
- **Sustained Decline (2022–2025)**: From late 2021 onward, the market entered a downtrend due to global commodity shocks, political uncertainty, and investor distrust.

5.2 Key Drivers of Performance

5.2.1 Macroeconomic Pressures

- Inflation and exchange rate volatility directly impacted investor sentiment.
- Higher interest rates diverted capital from equities to fixed-income instruments.

5.2.2 Regulatory Interventions

- Price floors imposed in multiple instances reduced free market price discovery.
- The Capital Market Stabilization Fund (CMSF) injected funds but with limited long-term effect.

5.2.3 Investor Base Composition

- Predominance of retail investors (over 80% of market activity) heightened volatility.
- Limited institutional participation hindered market stability.

5.2.4 Liquidity & Turnover Challenges

- Daily turnover fell to as low as Tk 410 crore in late 2024, reducing trading efficiency.

5.2.5 Corporate Governance Concerns

- A significant portion of listed firms underperformed or failed to declare dividends, eroding investor trust.

5.3 Comparative Underperformance

- Bangladesh lagged behind regional peers in 2024:
- DSEX: **–16.49%**
- Pakistan: **+72.49%**
- Sri Lanka: **+48.80%**
- India (BSE 500): **+14.80%**

- This divergence indicates **domestic structural weaknesses** outweighing global market trends.

5.4 Behavioral Insights

- Evidence of **herding behavior** [4] during crises, with retail investors following market rumors rather than fundamentals.
- **Low financial literacy** exacerbated panic selling and speculative bubbles.

5.5 Market Performance Trends

5.5.1 Long-Term Index Movement

- From **2015 to 2019**, the DSEX index experienced **steady but modest growth**—rising from ~4,500 to ~5,300 points (about 17% cumulative gain).
- In **2020**, the COVID-19 pandemic caused an **approx. 20% drop**, exacerbated by a two-month trading suspension.
- A **post-pandemic surge** pushed the DSEX to **7,329 points in September 2021** (+74% year-on-year), marking the highest level in history.
- **2022–2025** witnessed a **persistent decline**—falling back to ~5,247 points by February 2025, erasing much of the 2021 rally.

Finding: The market is characterized by **short-lived bullish cycles** and prolonged corrections, suggesting a **highly sentiment-driven environment** rather than fundamentals-led growth.

5.5.2 Market Capitalization Volatility

- Market capitalization expanded to **BDT 7.70 trillion in 2023** before contracting sharply to **BDT 6.62 trillion in 2024** (–14%).
- In USD terms, the fall was steeper due to **taka depreciation**, dropping from **USD 61.7 billion in 2021** to **USD 28.85 billion by Jan 2025**.

Finding: Market size fluctuations are **amplified by currency instability**, meaning foreign investors face both equity and FX risk.

5.6 Liquidity & Turnover Analysis

- Daily turnover averaged **Tk 1,200 crore in 2021**, but fell to **Tk 410–630 crore in 2024**—a drop of over **60%**.
- Turnover ratio (value traded / market cap) dropped from **~25% in 2021** to **under 10% in 2024**.

Finding: Liquidity deterioration is **structural**, caused by restrictive measures like **price floors** and lack of institutional market-makers.

5.7 Sectoral Performance Insights

- **Pharmaceuticals & Chemicals**: Consistently strong due to export demand and pandemic-driven health sector expansion.
- **Banking & NBFIs**: Mixed results—some growth leaders, but overall burdened by **non-performing loans (NPLs)** exceeding 8%.
- **IT & Telecom**: Boosted by Robi’s IPO (2020) and GP’s dominance, but valuations corrected post-2022.
- **Textiles**: Benefited from weaker taka boosting exports but faced global demand volatility.

Finding: Sectoral resilience is uneven, with **few sectors driving most of the positive returns**, creating market concentration risk.

5.8 Investor Behavior Patterns

- **Retail Investor Dominance**: Over 80% of daily trading volume originates from retail accounts.
- **Herding Behavior**: Investors tend to follow rumors and short-term momentum rather than fundamentals—especially during crises.
- **Low Diversification**: A significant number of portfolios are concentrated in 3–5 stocks, amplifying risk.

Finding: Behavioral biases amplify market swings and volatility.

5.9 Comparative Regional Performance

Table 6

Country	2024 Index Change	Key Factors
Bangladesh (DSEX)	**–16.49%**	**Price floors, low liquidity, political risk**
Pakistan	**+72.49%**	**IMF program optimism, policy easing**
Sri Lanka	**+48.80%**	**Post-crisis investor rebound**
India	**+14.80%**	**Strong GDP growth, global inflows**
Vietnam	**+12.67%**	**Manufacturing exports boom**

Finding: Bangladesh's underperformance is **primarily domestic-policy driven**, not regional or global in origin.

5.10 Corporate Governance & Transparency Issues

- **Dividend Inconsistency**: Many firms fail to declare dividends regularly.
- **Weak Disclosure Standards**: Late publication of financial statements is common.
- **Limited Analyst Coverage**: Most listed companies receive no independent research coverage.

Finding: Weak governance standards undermine long-term investor confidence and institutional participation.

5.11 Key Summary of Findings

- ***Volatile Cycles*** – Sharp peaks and troughs driven by sentiment, not fundamentals.
- ***Liquidity Collapse*** – Restrictive measures and absence of institutional players reduced turnover.
- ***Sector Concentration Risk*** – Positive returns heavily dependent on a small number of sectors.
- ***Investor Behavior Risks*** – Herding and low diversification increase market vulnerability.
- ***Domestic Policy Impact*** – Underperformance is largely due to internal economic and regulatory factors.
- ***Governance Gaps*** – Poor corporate practices deter long-term investment.

6. Recommendations

6.1 Regulatory and Policy Measures

6.1.1 Reform Price Control Mechanisms

- **Issue**: Frequent imposition of price floors has artificially frozen market activity, reducing liquidity and investor confidence.

- **Recommendation**:

1. Gradually phase out price floors over a 6–12 month period to restore market-driven price discovery.
2. Implement **dynamic circuit breakers** aligned with international best practices (e.g., 5–10% daily bands based on volatility measures).

- **Expected Outcome**: Improved liquidity, increased participation of institutional investors, and reduced artificial market distortions.

6.1.2 Strengthen Corporate Governance Standards

- Mandate **quarterly earnings reports** within 30 days of period-end.
- Enforce **minimum dividend payout policies** for consistently profitable firms.
- Impose fines and potential trading suspensions for repeated non-compliance.
- Establish a **corporate governance rating system** published annually by BSEC [4].

6.1.2 Enhance market depth

- Encourage more IPOs of fundamentally strong companies.
- Promote listing from high-growth sectors (technology, renewable energy).

6.1.3 Reform price control mechanisms

- Gradually remove artificial price floors to restore price discovery.
- Replace with circuit breakers aligned with global standards.

6.1.4 Strengthen corporate Governance

- Enforce stricter disclosure and dividend policies.
- Introduce penalties for prolonged non-compliance with reporting standards.

6.1.5 Promote Institutional participation

- Provide tax incentives and regulatory ease for mutual funds, pension funds, and insurance companies to invest in equities.

6.2 Market Depth and Diversification

6.2.1 Encourage High-Quality IPOs

- Attract listings from high-growth, underrepresented sectors (technology, renewable energy, healthcare).

- Offer **listing fee discounts** and **tax incentives** for companies with strong ESG (Environmental, Social, Governance) ratings.

6.2.2 Introduce New Financial Instruments

- Develop exchange-traded funds (ETFs), sectoral indices, corporate bonds, and sukuk (Islamic bonds).
- Introduce derivatives (index futures, options) with robust regulatory oversight to provide hedging tools.

6.3 Liquidity Enhancement Strategies

6.3.1 Strengthen Market-Making Mechanisms

- License a set of **official market makers** with capital adequacy requirements to provide continuous bid–ask spreads.
- Offer reduced transaction fees for market-making activities.

6.3.2 Broaden Investor Base

- Expand digital and mobile trading platforms to reach **rural and semi-urban areas**.
- Collaborate with mobile financial service providers (bKash, Nagad) to facilitate micro-investing with as low as Tk 500 initial deposits.

6.4 Institutional Investor Development

- Provide tax incentives for **mutual funds, pension funds, and insurance companies** investing in equities.
- Create a government-backed **Sovereign Equity Fund** to stabilize markets during volatility spikes.

6.5 Investor Education and Protection

6.5.1 Financial Literacy Campaign

- Launch a nationwide **Capital Market Literacy Program** in partnership with universities, targeting students and young professionals.
- Include **mandatory online training modules** before allowing first-time investors to trade.

6.5.2 Strengthened Investor Protection

- Set up a **fast-track arbitration system** for resolving investor complaints within 30 days.
- Require brokers to maintain transparent **risk disclosure statements** for clients.

6.6 Integration with Global Markets

- Pursue **cross-listing arrangements** with regional exchanges (e.g., NSE India, Singapore Exchange) to attract foreign capital.
- Align **accounting and reporting standards with IFRS** to meet global institutional investor requirements.

6.7 Technology and Infrastructure Modernization

- Adopt **AI-powered market surveillance systems** to detect insider trading and manipulation.
- Upgrade the Central Depository Bangladesh Limited (CDBL) [3] system to blockchain-based settlement for faster clearing.

6.8 Long-Term Strategic Vision (2025–2030)

6.8.1 Position the DSE as a South Asian Capital Hub:

- Build branding and roadshows targeting institutional investors in Singapore, Dubai, and London.

6.8.2 Strengthen ESG Compliance:

- Make ESG reporting mandatory for all listed firms by 2028.

6.8.3 Expand Market Capitalization to GDP Ratio:

- Target 50% of GDP by 2030 (currently ~15–18%), through IPOs, SME listings, and bond market growth.

6.8.4 Expected Impact of Implementing Recommendations

- Market liquidity could rise by **40–50%** within two years.
- Institutional participation could double by 2028.
- Market volatility would stabilize, reducing extreme yearly swings.
- Investor confidence and foreign portfolio inflows could increase significantly.

7. Limitations of study

Every academic study, regardless of scope and rigor, is subject to certain limitations that influence the depth, generalizability, and interpretability of its findings. This research, which critically analyzes the Bangladesh capital market from 2015 to the present, is no exception. The following subsections outline the methodological, data-related, contextual, and conceptual constraints that shaped the outcomes of this work.

7.1. Dependence on Secondary Data Sources

The study primarily relied on secondary data collected from the Dhaka Stock Exchange (DSE) [1], Bangladesh Securities and Exchange Commission (BSEC) [2], Bangladesh Bank [7], published reports, and various academic and media sources. While these sources provided comprehensive historical information, the absence of primary surveys or direct investor-level data limited the ability to capture nuanced behavioral insights. For instance, investor sentiment and decision-making processes—particularly during crises like the COVID-19 pandemic—could not be directly measured but were inferred from existing literature and reports. This reliance increases the risk of bias stemming from inaccuracies, delays, or omissions in secondary reporting.

7.2. Limited Access to Granular Trading Data

The research lacked access to high-frequency micro-level data such as intraday trading patterns, order books, and real-time liquidity flows. These details are crucial to understanding how short-term volatility, price manipulation, and herding behavior [4] unfold in practice. The absence of such granular datasets constrained the ability to apply advanced econometric or behavioral models, which could have yielded deeper insights into market microstructure inefficiencies.

7.3. Time Frame and Dynamic Context

Although the study covers a decade-long period (2015–2025), capital markets are inherently dynamic and continuously evolving. Any findings are thus temporally bound to the specific context of this period. Structural reforms, technological upgrades, or unforeseen global shocks occurring after early 2025 may significantly alter market dynamics, rendering some conclusions outdated. This temporal limitation underscores that the findings should be interpreted as a snapshot rather than a permanent characterization of the capital market.

7.4. Constraints in Comparative Regional Analysis

The comparative framework included selected regional peers such as Pakistan, Sri Lanka, India, and Vietnam. However, these countries differ significantly in terms of macroeconomic structures, regulatory regimes, financial depth, and geopolitical risks. The study did not normalize these differences fully, which means the comparisons, while useful, remain indicative rather than strictly equivalent. Consequently, the conclusion that Bangladesh's underperformance is more domestically driven than globally influenced should be considered cautiously.

7.5. Generalizability of Findings

The study focuses exclusively on the Dhaka Stock Exchange (DSE) [1], as it is the dominant market in Bangladesh. The Chittagong Stock Exchange (CSE), though relevant, was excluded due to relatively smaller size and limited data availability. As a result, the findings may not capture the entire scope of capital market activity in Bangladesh. Similarly, foreign portfolio investment trends were analyzed at an aggregate level, which overlooks heterogeneity across different types of investors (institutional vs. retail, long-term vs.

speculative).

7.6. Regulatory and Policy Interpretation Bias

Regulatory interventions such as the imposition of price floors, creation of the Capital Market Stabilization Fund (CMSF), or introduction of new IPOs were assessed based on publicly available outcomes and commentary. However, the internal decision-making processes of regulators and policymakers remain inaccessible. As a result, interpretations of regulatory intent and impact are derived from observable outcomes, which may not fully capture the complexities of policy trade-offs. This limitation introduces a degree of subjectivity into the critical analysis.

7.7. Limited Incorporation of Behavioral Finance Tools

Although the study highlights herding behavior [4], rumor-driven speculation, and low financial literacy among retail investors, it does not employ advanced behavioral models (e.g., prospect theory, bounded rationality frameworks, or agent-based simulations). These omissions mean that the behavioral dynamics are discussed qualitatively rather than rigorously quantified. Such limitations restrict the study’s capacity to predict future investor responses under varying market conditions.

7.8. Corporate Governance Assessment Gaps

The analysis identifies governance weaknesses—such as inconsistent dividend policies and delayed disclosures—but the evaluation is largely based on secondary governance indices and selected case examples. A comprehensive, company-level survey of governance compliance across all listed firms was not feasible within the scope of this research. As a result, the findings on governance should be viewed as indicative rather than exhaustive.

7.9. Currency and Macroeconomic Variables

The study integrates exchange rate fluctuations, inflation, and interest rate changes as explanatory variables. However, the complex interactions between these macroeconomic factors and stock market performance could not be fully modeled due to data limitations and methodological constraints. For example, the sharp taka depreciation in 2024–2025 had overlapping effects on both corporate earnings and foreign portfolio investment outflows, making it difficult to isolate causal relationships. This limitation reduces the precision of macro–market correlation insights.

7.10. Exclusion of Informal and Alternative Investment Channels

Bangladesh’s financial system includes informal savings schemes, real estate investments, and non-bank financial flows that compete directly with the capital market for household and institutional funds. This study did not incorporate these alternative channels in detail, even though they influence liquidity and investor participation in the DSE. Ignoring these dynamics restricts the comprehensiveness of the findings.

7.11. Potential Researcher Bias

While every effort was made to present an objective critical analysis, the interpretation of trends, policies, and investor behavior inevitably involves subjective judgment. The researcher's academic orientation and reliance on certain schools of thought, particularly behavioral finance, may have influenced the framing of arguments. This subtle bias could affect the balance between highlighting market weaknesses versus opportunities.

7.12. Impact of Unforeseen Global Shocks

The research incorporated the effects of COVID-19 and global energy crises but cannot account for future global shocks—such as geopolitical conflicts, climate-related disruptions, or technological shifts—that may drastically reshape capital markets. Therefore, the projections and recommendations made in the study are contingent on the assumption of relative continuity in external conditions.

In sum, the study provides a comprehensive critical analysis of the Bangladesh capital market from 2015 to 2025 but remains constrained by reliance on secondary data, lack of high-frequency datasets, interpretive subjectivity, and limited scope in governance and behavioral modeling. These limitations mean that while the findings offer valuable insights into structural weaknesses and reform opportunities, they should be interpreted with caution and seen as a foundation for future, more detailed research. Further studies that incorporate primary surveys, advanced econometric models, and broader coverage of informal financial channels would strengthen the evidence base and provide a more holistic understanding of the capital market's role in Bangladesh's economic trajectory.

8. Conclusion

8.1 Summary of Findings

This decade-long study of the Bangladesh capital market reveals a dynamic but fragile ecosystem marked by **rapid peaks, steep declines, and structural inefficiencies**. From 2015 to 2019, the DSEX demonstrated steady growth, benefiting from macroeconomic stability and gradual investor engagement. However, the COVID-19 pandemic in 2020 disrupted trading and liquidity, sparking a short-term crisis. The subsequent record peak in September 2021 reflected post-pandemic optimism and government intervention, but proved unsustainable as structural weaknesses resurfaced.

Key findings include:

- ***High volatility*** driven by a retail-dominated investor base and regulatory interventions like price floors.
- ***Liquidity constraints***, with daily turnover hitting multi-year lows by 2024.
- ***Corporate governance issues***—a sizable portion of listed firms deliver subpar returns and lack transparency.
- ***Comparative underperformance***—while regional markets rebounded in 2024, Bangladesh lagged

significantly.

- ***Behavioral vulnerabilities***, notably herding behavior and panic selling during crises.

8.2 Implications for Stakeholders

For policymakers, these results underscore the need for **regulatory reform**, deeper market participation, and enhanced governance. For investors, the findings highlight the importance of **diversification and financial literacy**. For market institutions, they stress the urgency of **modernizing infrastructure** and attracting institutional capital.

8.3 Final Remarks

The capital market is both a **barometer of economic confidence** and a **driver of capital allocation**. Bangladesh's market possesses significant untapped potential, but unlocking it requires a **coordinated, long-term vision** involving regulators, policymakers, and the private sector.If pursued diligently, reforms in governance, liquidity, and investor education could transform the DSE into a competitive regional hub by 2030—capable of mobilizing domestic savings, attracting foreign capital, and supporting the country's aspiration to achieve upper-middle-income status.

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