

The Impact of COVID-19 in the Capital Market in Bangladesh

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Abstract

Original Research Article

Background: COVID-19 has devastated the normal way of life. It has been raging over the globe since late January 2020. So far, 212 nations and territories throughout the world have been reported to be impacted. The viciousness of community transmission has reached its apex. Almost every country is waging a costly economic war against this epidemic. The situation of economic normality is becoming increasingly questionable as the epidemic spreads uncontrollably. **Objective:** In this study our main goal is to evaluate the impact of COVID-19 in the capital market in Bangladesh. **Method:** Data of each trading day's last return is collected from the DSE and CSE web library. DSE and CSE All Share price Index is collected on daily and monthly basis from 2018 to 2021. **Results:** The capital market developments of the DSE and CSE from June 2020 to June 2021 shows that Both the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE) showed an increased trend in terms of index and turnover at the end of June 2021 compared to the end of May 2021. The DSE broad index and the CSE all-share price index increased to 6150.48 points and 17795 points at the end of June 2021, respectively, from 5990.99 points and 17359.57 points at the end of May 2021. At the end of June 2021, the total turnover value of DSE and CSE traded shares were BDT 435.09 billion and BDT 21.3 billion, respectively, which was 40.30 percent and 37.72 percent higher than in May 2021. Whereas the ratio of market capitalization to GDP (at current market price) stood higher at 18.39 percent* at the end of June 2021 which was 18.02 percent at the end of May 2021. **Conclusion:** COVID-19 has presented significant concerns to economic regularity and financial market stability. Nonetheless, it is anticipated that the gloomy days would pass quickly. We must be prepared to battle on if this worst-case situation lasts longer than planned. General investors must also do their role in maintaining our market image and discipline by being careful enough to deal with this setback. Investors should ignore rumors and avoid investing in stocks with questionable financial health.

Keywords: Capital market, covid-19, Dhaka stock exchange (DSE), Chittagong Stock exchange (CSE).

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INTRODUCTION

The new coronavirus-caused illness Covid-19 spread over the world, resulting in a global pandemic. This virus was identified in Wuhan, China, towards the end of December 2019, and it severely harmed human respiratory functions, ranging from the ordinary cold to more severe disorders like MARS and SARS.

The Covid-19 has expanded to 220 nations and territories worldwide. Up to June 22, 2022, 546,127,794 individuals had been infected. The global economy has been shook by the Covid-19 epidemic, causing major economic, social, and financial devastation in several nations throughout the world. Like other countries, Bangladesh economy and capital market has been seriously affected [1-4].

The stock exchange is the beating heart of the country's economy. The stock market is where the majority of the economy's capital travels. The stock market has a significant impact on the country's economy. Following the discovery of the first three Covid-19 instances in Bangladesh, the DSE's general index fell by 6.51 percent, while the market's total capitalization fell by 5.5 percent. Now is the moment to contain and manage the Covid-19 pandemic breakout while also ensuring the economy's long-term stability. The breakout of the Covid-19 pandemic, if not controlled effectively and efficiently, has the potential to devastate any economy in many nations throughout the world [5, 6].

In this study our main goal is to evaluate the impact of covid-19 in the capital market in Bangladesh.

OBJECTIVE

To assess the impact of covid-19 in the capital market in Bangladesh.

METHODOLOGY

Data of each trading day's last return is collected from the website DSE and CSE library. Dse and CSE All Share price Index is collected on daily basis and monthly basis from 2018 to 2021. In addition, sizes of dividends paid out with its respective dates, splits, bonus issues, new is-sues, and special offers to the stockowners are considered and reflected in the

data. These adjusted data of individual stocks are used to calculate the momentum effect. DSE All Share price Index is used to calculate the autocorrelation, day-of-the-week effect and the turn-of-the-year effect.

RESULTS

In table-1 shows DSE Operational Statistics from July 2018–June 2019. The data shows that the monthly share trading was in a declining trend in the second half of FY 2017-2018. This trend continued in 2019, with a glimpse of rise in February 2019. A similar trend is noticeable in CSE monthly share trade.

Table 1: DSE Operational Statistics from July 2018–June 2019

Date	Data Index	Volume (Shares in Crore)		Value (TK in Crore)		Market Capitalization	
		Monthly	Daily average	Monthly	Daily average	Tk in core	%
Jul-18	5,860.65	429.79	19.54	18,676.95	848.95	384,144.87	0.15
Aug-18	6,006.43	339.56	18.86	11,495.26	638.63	396,226.11	3.14
Sep-18	6,092.84	338.58	16.93	14,810.27	740.51	387,684.20	2.16
Nov-18	6,019.59	311.60	13.55	12,737.05	553.78	384,197.80	0.90
Dec-18	6,306.86	281.77	14.09	11,673.79	583.69	381,782.44	0.63
Jan-19	6,244.52	234.19	13.01	8,705.64	483.65	387,295.28	1.44
Feb-19	6,039.78	630.43	27.41	22,347.94	971.65	416,360.38	7.50
Mar-19	5,804.94	309.94	17.22	13,779.14	765.51	415,073.76	0.31
April-19	5,597.44	187.54	9.87	9,391.78	494.30	411,965.34	0.75
May-19	5,739.23	159.06	7.95	6,981.57	349.08	383,984.70	6.79
Jun-19	5,343.88	146.13	6.96	7,716.12	367.43	390,200.25	1.62

In table-2 shows CSE Operational Statistics from July 2018–June 2019 [7]. The following table is given below in detail:

Table 2: CSE Operational Statistics from July 2018–June 2019

Date	CASPI Index	Security Transactions (Crore BDT)		Total Turnover (Crore BDT)		Market Capitalization	
		Monthly	Daily average	Monthly	Daily average	Tk in core	Changes with Previous month
Jul-18	16,296.11	29.93	1.36	1256.30	57.10	313,976.57	0.12%
Aug-18	17,277.19	20,711.15	1.15	611.11	33.95	326,722.93	4.06%
Sep-18	16,191.65	22.82	1.14	1066.99	53.35	316,891.11	3.01%
Nov-18	16,483.29	20.97	0.91	0.91	590.42	25.67	0.69%
Dec-18	16,182.32	17.62	0.88	527.89	26.39	309,968.06	2.85%
Jan-19	16,449.51	15.29	0.85	766.81	42.60	314,687.54	1.52%
Feb-19	17,473.49	15.21	0.85	841.63	26.76	342,432.90	0.75%
Mar-19	16,803.16	10.75	0.57	348.31	18.29	339,904.32	0.74%
April-19	15,912.87	13.91	0.70	462.68	23.13	311,826.67	8.26%
May-19	16,375.75	16.93	0.81	455.10	21.67	322,777.34	3.51%
Jun-19	16,634.21	26.46	1.65	891.97	55.75	329,330.28	2.03%

Table 3 depicts the capital market developments of the DSE and CSE from June 2020 to June 2021. Both the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE) showed an increased trend in terms of index and turnover at the end of June 2021 compared to the previous months. The DSE broad index and the CSE all-share price index increased to 6150.48 points and 17795 points at the end of June 2021, respectively, from 5990.99 points and 17359.57 points at the end of May 2021. At the end of June 2021, the total turnover value of DSE and CSE

traded shares was BDT 435.09 billion and BDT 21.3 billion, respectively, which was 40.30 percent and 37.72 percent higher than in May 2021.

Table 3: Capital market developments of the DSE and CSE from June 2020 to June 2021

End Month	Enlisted issues (Incl. Mutual Funds/Deb.)		Issued capital and Debentures		Market Capitalization		Turnover during the month		Indices		Price/Earnings Ratio		Yield	
	DSE	CSE	DSE	CSE	DSE [#]	CSE	DSE	CSE	DSE Broad Index (DSEX Shariah Index)	CSE All Share Price Index (CSE Shariah Index)	DSE	CSE	DSE	CSE
June-21	609	348	1397.34	833.65	5142.82	4383.65	435.09	21.30	6150.48 (1314.76)	17795 (1091.85)	18.50	17.68	3.98	3.63
May-21	604	345	1392.44	827.92	5038.69	4288.28	310.10	15.46	5990.99 (1286.20)	17359.57 (1044.59)	18.31	17.40	4.06	3.70
Apr-21	604	345	1387.28	824.31	4707.13	3973.52	143.77	8.69	5479.62 (1249.82)	15844.80 (1003.67)	16.91	16.44	4.26	3.59
Mar-21	603	344	1384.62	820.22	4589.02	3861.42	144.80	9.44	5278.16 (1204.18)	15264.62 (982.59)	16.89	17.27	3.85	3.61
Feb-21	600	341	1371.79	806.75	4657.37	3919.44	144.49	7.71	5404.80 (1222.84)	15603.80 (983.85)	17.41	16.70	3.09	2.99
Jan-21	597	338	1368.94	803.28	4790.29	4072.72	339.59	17.28	5649.86 (1265.37)	16474.97 (1031.29)	18.00	18.19	3.01	2.95
Dec-20	597	338	1375.28	809.29	4482.30	3754.95	215.88	9.18	5402.07 (1242.11)	15592.92 (1018.85)	16.53	14.98	3.16	3.11
Nov-20	593	335	1316.10	754.02	3899.79	3212.33	174.07	5.80	4866.84 (1113.98)	13991.43 (919.67)	12.98	12.82	3.73	3.46
Oct-20	593	335	1315.83	750.21	3912.52	3227.92	170.40	5.41	4846.1022 (1098.80)	13824.13 (888.06)	13.21	12.89	3.70	3.43
Sep-20	592	334	1311.98	748.25	3996.42	3300.77	222.58	7.19	4963.29 (1120.39)	14167.23 (912.64)	13.51	13.97	3.61	3.36
Aug-20	591	333	1306.01	744.83	3698.34	2997.00	186.18	5.94	4879.15 (1132.85)	13908.14 (902.97)	13.06	12.68	3.69	3.87
Jul-20	590	332	1300.96	743.24	3257.33	2572.76	60.01	3.50	4214.43 (976.50)	11957.06 (777.28)	11.37	11.40	4.29	4.56
Jun-20[@]	589	331	1297.44	735.90	3119.67	2447.57	47.80	9.53	3989.09 (925.08)	11332.59 (733.28)	10.78	10.68	4.43	4.73

Source: Dhaka Stock Exchange (DSE) & Chittagong Stock Exchange (CSE) Note: BDT= Bangladeshi Currency (Taka)

[#]Total Market Capitalization of all listed securities includes companies, mutual funds, corporate bonds, treasury bonds and debentures.

In table-4 demonstrates distribution of market GDP ratio from June 2020 to June 2021 where the ratio of market capitalization to GDP (at current market price) stood higher at 18.39 percent at the end of June

2021. The ratio decreased in every month in the period when Covid-19 pandemic was at pick. There was a slight increase in January 2021 which is assumed to be the cause of less infected rate in that month.

Table 4: Market Capitalization to GDP ratio (July-20 to June-21)

Month	Market Cap. to GDP ratio
June-21	18.39
May-21	18.02
Apr-21	16.83
Mar-21	16.41
Feb-21	16.65
Jan-21	17.13
Dec-20	16.03
Nov-20	13.95
Oct-20	13.99
Sep-20	14.29
Aug-20	13.23
Jul-20	11.65
Jun-20	11.16

In figure-1 shows sector wise Issued capital of DSE. Where issue of government bonds were around 39.26 percent of the capital market followed by Banks 23.56 percent, Mutual Funds 3.96 percent, Financial

Institutions (FIs) 3.74 percent, Insurance Companies 1.92 percent and others 27.56 percent. The following table is given below in detail:

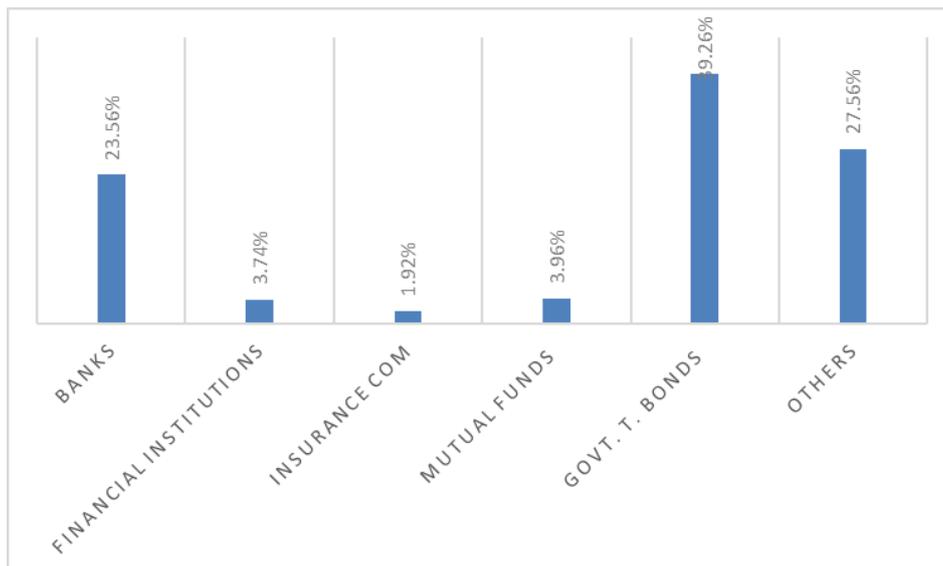


Figure 1: Sector wise Issued capital of DSE

In figure-2 shows sector wise market capitalization. At the end of June 2021, Telecommunication recorded as the highest contributor of market capitalization which was 15.93 percent followed by banks 14.81 percent, Pharmaceuticals & Chemicals 13.91 percent, Engineering 13.16 percent,

Fuel & Power 10.15 percent, Food & Allied Product 8.41 percent, Insurance Companies 4.86 percent, Financial Institutions 4.62 percent, and Others 14.15 percent [8]. The following figure is given below in detail:

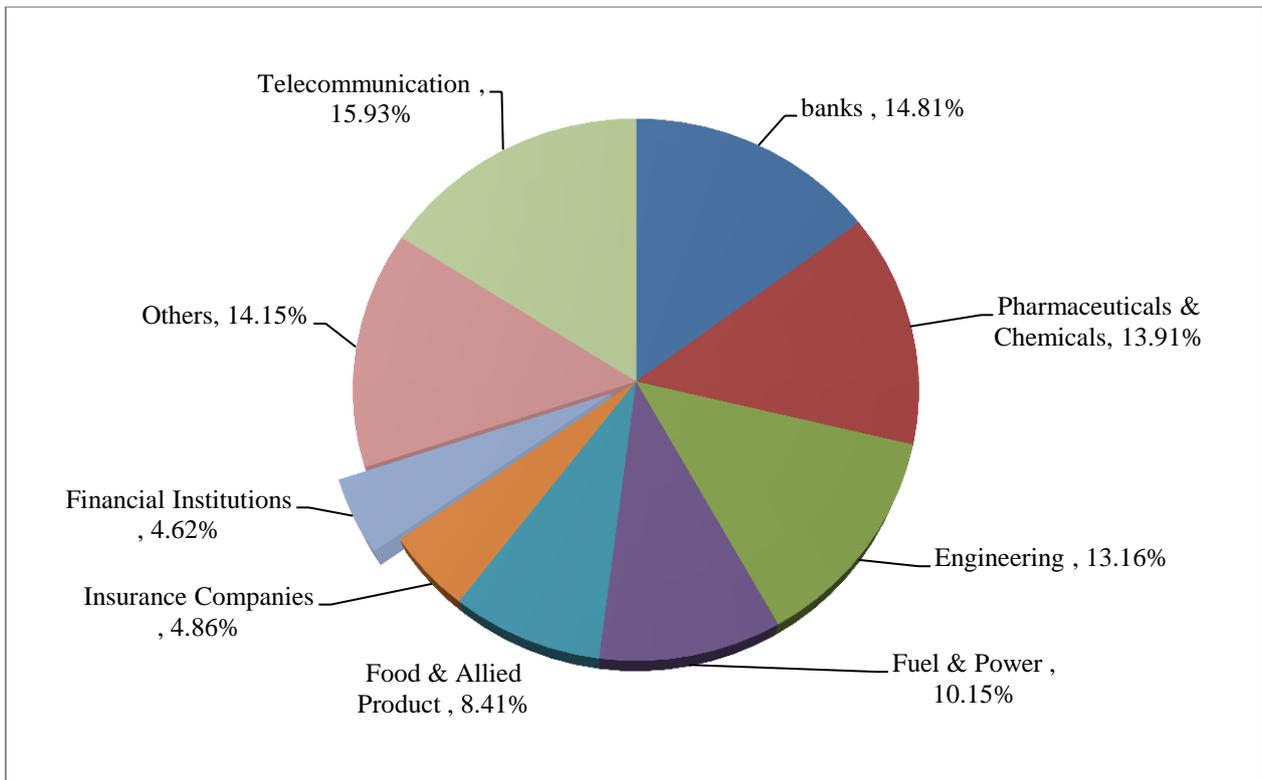


Figure 2: Sector wise market capitalization of DSE

In table-5 shows Comparative position of securities listing at the exchanges over the last eleven years, where according to 2019-2020 data in DSE and

CSE both cases insurer number was 5, which was upgraded in 2020-2021 years where insurer number 15 [9]. The following table is given below in detail:

Table 5: Number of Issuer Companies

Year	DSE	CSE
2008-09	17	18
2009-10	23	23
2010-11	19	19
2011-12	15	15
2012-13	15	15
2013-14	13	13
2014-15	20	20
2015-16	11	11
2016-17	9	9
2017-18	12	12
2018-19	15	15
2019-2020	5	5
2020-2021	15	15

In table-6 shows Scenario of capital markets in different countries where as on 2019 due to pandemic like Bangladesh trend of capital market of other countries has been impacted most. According to data, in june2019 USA had 26,599.96, followed by India had 39,112.70, Pakistan had 34,656.10, Uk had 7,403.50.

However, according 2020-2021 capital market of those countries dramatically shifted such as in USA it was 34,502.51, followed by India had 52,482.71, Pakistan had 47,356.02, Uk had 7,037.47 [9]. The following table is given below in detail:

Table 6: Scenario of capital markets in different countries

Country list	2020-2021	As on 2019
Bangladesh (DSEX)	6,150.48	5,421.62
India (BSE 30)	52,482.71	39,112.70
Pakistan (Karachi 100)	47,356.02	34,656.10
Indonesia (Jakarta Composite)	5,985.49	6,339.30
Malaysia (KLSE Composite)	1,532.63	1,666.50
Thailand (SET)	1,587.79	1,706.00
Taiwan (Taiwan Weighted)	17,755.46	10,775.30
Japan (Nikkei 225)	28,791.53	1,555.30
Hong Kong (Hang Seng)	28,827.95	28,202.10
Singapore (Straits Times)	3,130.46	3,288.20
Germany (DAX)	15,531.30	12,308.50
UK (FTSE 100)	7,037.47	7,403.50
USA (DJIA)	34,502.51	26,599.96

DISCUSSION

The stock market in Bangladesh was already shrinking, however, as soon as the massive panic was created by Covid-19, it is started to fall sharply albeit with the concrete effort of commercial bank investments. Thereafter, Government and stock market regulators took two steps within seven days span to stop the bleeding of this inefficient market. One of the attempts was introducing floor prices on individual scrip including block markets by the securities regulators. As soon as the regulators limit the share prices both indices have gained marginally which helped to revive the market after weeks of fall. Although junk and overvalued stocks are gained mostly as they are also included under this newly imposed circuit breaker. Junk stocks are those of the companies' stocks that have failed to provide dividends, hold annual general meetings, or have shuttered their factories [10, 11].

Another big attempt was taken by the stock exchange authorities of is that keeping the stock exchanges non-operational for more than 2 months, from 26th March to 30th May. The reason behind this closure was to confine the deadly virus from spreading among the stock market community.

No wonder these steps were taken from the good heart of the regulators amid heightened precaution and virus fear but eventually these turn out to be bad policies for the country's economy. Many foreign as well as local investors criticized the DSE and the BSEC for the prolonged closure of trading and floor price. Because of these steps capital market of Bangladesh drastically shifted [12-14].

According to 2020-2021 capitalization of Bangladesh was 6,150.48 whereas as of jun-19 it was 5,421.62. Apart from Bangladesh, in 2020-2021 timeline there are several countries capital market positively shifted. Such as According to data, in June 2019 USA had 26,599.96, followed by India had 39,112.70, Pakistan had 34,656.10, UK had 7,403.50.

However, according 2020-2021 capital market of those countries dramatically shifted such as in USA it was 34,502.51, followed by India had 52,482.71, Pakistan had 47,356.02, UK had 7,037.47.

CONCLUSION

COVID-19 has presented significant concerns to economic regularity and financial market stability. Nonetheless, it is anticipated that the gloomy days would pass quickly. We must be prepared to battle on if this worst- case situation lasts longer than planned. General investors must also do their role in maintaining our market image and discipline by being careful enough to deal with this setback. Investors should ignore rumors and avoid investing in stocks with questionable financial health.

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