

Corporate Bond Market: The Case of Bangladesh

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A sound financial system can ensure economic development of a country. In this system, bond market can play a vital role in Bangladesh. Bond market provides long term finance to issuers by creating alternative source of finance, besides it also provides steady source of income to investors. The study has explored the prospects of corporate bond market and identified major impediments to develop corporate bond market in Bangladesh. We have collected secondary data from various sources. The primary data have been collected from investors of Dhaka Stock Exchange (DSE). A total of eighty investors from fifteen brokerage firms were surveyed with the self-administrated questionnaires followed by in-depth interviews. The primary data have analyzed to explore investors' perception and reveal major hindrances to develop corporate bond market in Bangladesh. Finally, we concluded that there is an enormous prospect to develop long term corporate debt market in Bangladesh. In this regard, it has suggested that policy makers should create adequate platform to extend existing bond market.

Key Words: Bond Market, Issuer, Investor and policy maker.

1. Introduction

The financial system plays a significant role in the economy. The overall economic growth of any country depends mostly on the establishment of safe, effective and efficient financial system in that country (Mu, 2008). In channeling savings to investment, the financial system contributes to economic performance through several channels – mobilizing, savings, allocating funds to their most productive uses, monitoring managers and transferring and sharing risks (World Bank Report 2001).

To develop an efficient capital market, it is crucial to have a wide array of investment opportunities which ultimately attracts large number of potential small investors. The debt market plays a complementary role in developing economy through allocation of funds to different deficit sectors. The debt market composed of money market, bond market, mortgage market, and derivative market. The augmented development of bond market is the prerequisite for the development and diversification of the capital market as well as for economic growth of a country (Misir, M. Abu, et.al., 2010). Development of a secondary bond market will widen the financing options for both bond issuers and investors (Mortaza and Shadat, 2016). In this regard, a bond market can endorse financial stability by contributing to a more diverse financial system. Moreover, the development of bond markets might mitigate the adverse

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impact of financial crises or reduce the possibility of future crisis; the reasoning is that bond markets could provide an alternative source of financing if other financing channels, such as bank financing dry up (Jiang, 2001). Therefore, the stable and efficient bond market in a country is mostly depending on a well-developed bond market.

Bangladesh is an emerging economic country where the issuance of corporate bond market as very occasional (Jahur, 2009). Debt market plays a tiny role in in this country comparing with its neighboring countries like India, Sri Lanka, Nepal, Pakistan etc. (World Bank Report 2007). The bond market in Bangladesh is at initial stage where only three listed corporate bonds (ACI zero coupon bond, IBBL Perpetual Mudaraba Bond and BRAC subordinated convertible bond) are existing in the capital market (Hanifa et al., 2014). Despite this situation, Bangladesh has an incredible prospect for corporate bond market as there is no alternative potential sources pertaining for expanding and diversifying the capital market.

In the light of above perspective; this study seeks to explore the prospects to develop a sustainable corporate bond market in Bangladesh. To empower the primary objective, this study has revealed major hindrances and put some policy implications for the development of corporate bond market. Although some other researches were conducted focusing on bond market, the main significant difference between this paper and previous studies is that previous studies mostly focus on overall bond market (corporate and government sectors) while this study focuses only on corporate bond market. On the other hand, most of studies conducted earlier have focused on secondary data whereas this study has used primary data to explore investors' perception regarding the corporate bond in Bangladesh. Therefore, it can be asserted that there is a research gap and this study has mitigated the research gap.

This paper has been organized into several sections. Section 1 deals with introduction and reveals the research gap between previous studies and this research, Section 2 focuses on the literature review representing some previous studies in this field, Section 3 contains research methodology, Section 4 represents the results and analysis and finally section 5 deals with a constructive conclusion.

2. Literature Review

Corporate bond market plays an important role in the financing of firms' investments and operations (Goldstein et al., 2017). A developed bond market opens an additional window for both the government and private investors to accumulate resources for their long-term investments, in addition to existing financial sources such as taxes, banks and stock markets (Mortaza and Shadat, 2016). In their study they have also argued that the absence of well-developed bond markets is a major impediment to efficient public-sector resource mobilization and private sector development, particularly for building major infrastructure projects.

In addition, corporate bond market provides a secure source of financing to enterprises and allows them to grow and innovate, helping to reduce overreliance on commercial banks whose lending capacity is at times stressed (ICMA, 2013). On the related issue, Herring and Chatusripitak (2000) considered the consequences of not

having a well-functioning bond market and its implications for savers, investors and banks. In another study, Jiang, et al., (2001) discovered the principal benefits of a well-developed corporate bond market and ensures it as an effective and efficient alternative source of financing to bank financing. Misir, M. Abu et al., (2010) have examined that bond market is one of the diversification of a country's financial sector and it also reduces foreign currency risk. On the other hand, Jahur and Quadir, (2010) have also recognized in their research that bond market acts as buffer of equity market.

However, Hyun and Jang (2008) assert that, for most countries in Asia, the bond market is still in an infant state, is very small in size and is therefore not capable of bearing the burden of a developed market. Suk and Bum (2008) identified that the Asian bond markets are still very small compared to its GDP and fragmented compared with other regional bond markets such as that of EU.

However, the bond market in Bangladesh is still in its infancy (Mortaza and Shadat, 2016). On the other hand, Jahur (2009) examines that the corporate bond issues had been very occasional and had been stagnant due to a lack of varied corporate debt supply. To examine the corporate bond market scenario in Bangladesh Abu Hanifa et al., (2014) reveals in their study that corporate bond market of the country is not an efficient one and they have also pointed investors' unawareness about the security. Moreover, Mister and Hossain (2012) have also explored the market as very weak due to problems in the political, macroeconomic and financial system. Whereas, an efficient bond market is important for managing public debt and bank liquidity and for efficient conduct of the monetary policy (Jahur and Quadir, 2010).

The development of capital markets in Bangladesh should be prioritized to enrich the corporate bond market development. Without circulation of bond market, the monetary policy measures would be hindered, and the desired impact on the real economy cannot be fulfilled. However, the present study has been undertaken to identify prospects and put essential prerequisites to the development of corporate bond market in Bangladesh.

3. Methodology

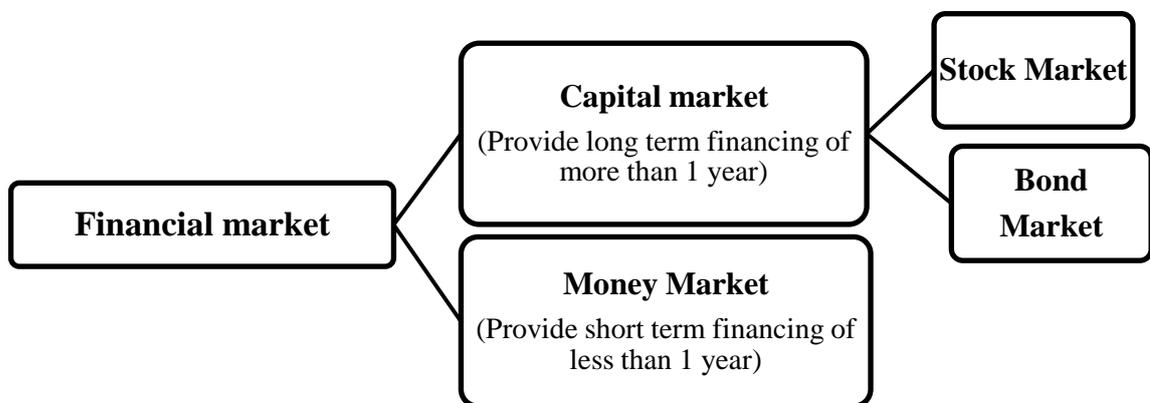
The study used both primary and secondary data. A survey has conducted through a structured questionnaire to collect the primary data. A total of eighty investors (from fifteen brokerage firms were surveyed with the self-administrated questionnaires followed by in-depth interviews. The primary data have analyzed to reveal investors' perception and explore major hindrances to develop corporate bond market in Bangladesh. The questionnaire has been structured through using two-point binary scale where Yes=1, No=0 and through MCQ (Multiple Choice Question). Secondary data for this study were extracted from different websites of existing bond issuers, BSEC (Bangladesh Securities and Exchange Commission), DSE (Dhaka Stock Exchange Ltd), CSE(Chittagong Stock Exchange Ltd), BB (Bangladesh Bank), MOF (ministry of Finance) of Bangladesh, ADB (Asian Development Bank) report, BIS (Financial System Stability Assessment) report, Asian Bond Monitor report etc. In addition to this, scholarly articles from academic journals and relevant textbooks were also used. The data are presented through using some statistical tools like descriptive statistics, tables, line chart and bar diagram.

4. Result and Analysis

4.1 Theoretical Issues of Bond Market

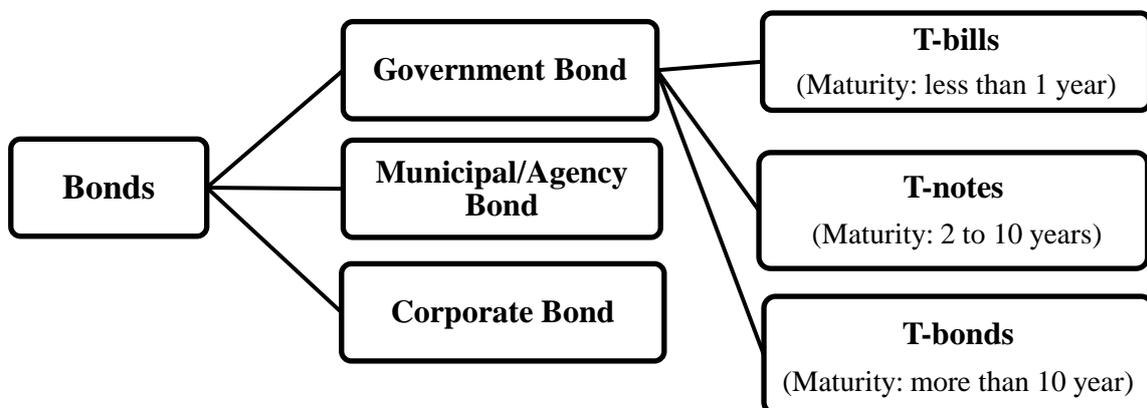
A financial market is a platform or system of economic exchange. Economists consider financial markets as a primary pillar supporting and stimulating economic growth and also in setting the velocity of growth. Markets play a fundamental economic role as a means for trading currency, assets, securities and financial instruments. Every capital market has distinctive characteristics, resulting from history, culture, and legal structure. However, gradually today they tend to function on common ground with identical basic landscapes. The following figure-1 is representing bond market which is an associated part of the financial market.

Figure1: Simplified Form of Financial Market



A bond is a debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. A simple way to classify bonds is based on the different kinds of the issuers. The three main issuers are government, governmental agencies, and corporations (figure-2).

Figure 2: Major Types of Bonds



Since the focus of this study is on corporate bond, the discussion is restricted to corporate bond market in Bangladesh. Corporate bond is issued by companies to raise capital. They are alternatives of issuing shares on the stock market (equity

finance) and are forms of debt finance. Corporate bond market is implemented mainly for the capitalization of firms or any business institutions.

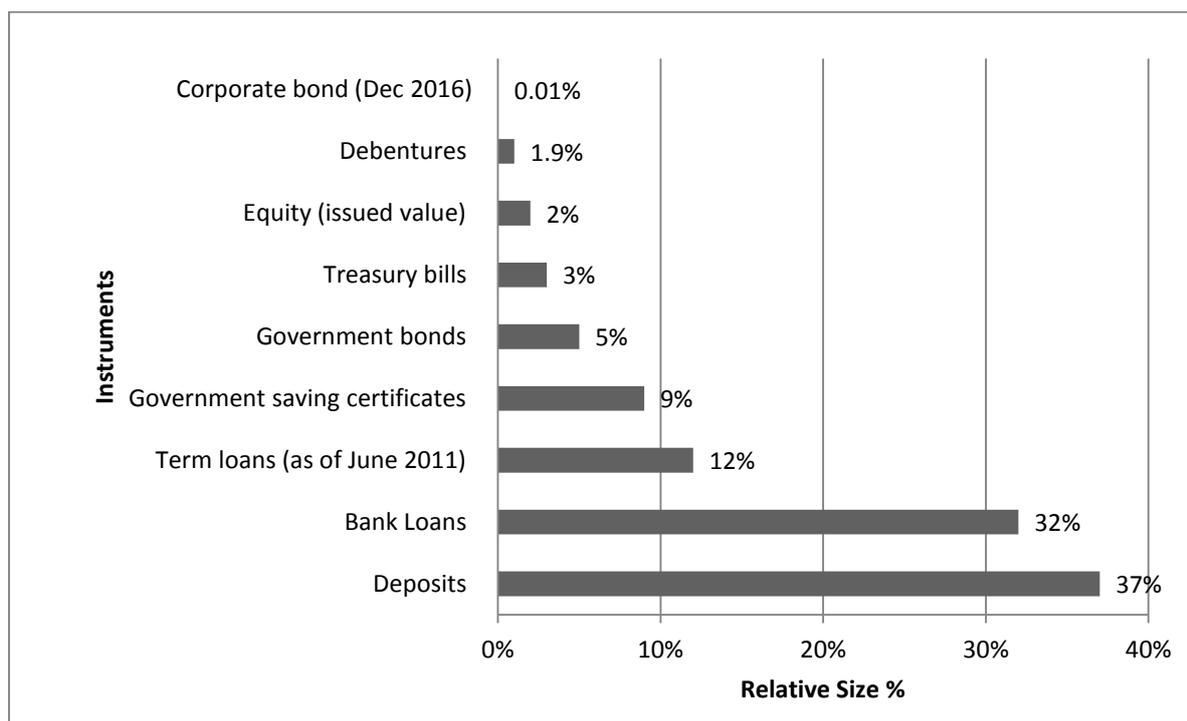
4.2 Corporate Bond Market Scenario in Bangladesh

The corporate bond market in Bangladesh is characterized by low base market and the market is still at initial stage of development. In Bangladesh Bond Market, fixed income securities first time came into existence in 1987 with the floatation of debenture by two companies. However, no debenture was issued after 1999. Trading of Government Treasury bonds started in December 2005 at the Dhaka Stock Exchange (DSE).

4.2.1 Financial Instruments Available In Bangladesh

The following bar chart (Figure-1) illustrates the instruments available in the Bangladesh capital market. According to the data, deposits and bank loans are the dominant sectors (37% and 32% respectively) compare with corporate bond, debentures, treasury bills, government bonds, government saving certificates and term loans. Among the all instruments corporate bond is signifying the lowest most percentage (0.01%).

Figure1: Financial Instruments Available in Bangladesh



Source: Dhaka Stock Exchange, National Saving Bureau, and Bangladesh Bank

Note: Data have been compiled by the researchers.

In recent years, around 70 percent of the domestic savings are held in the form of bank deposits, while only 30 percent are invested in the debt market which is entirely dominated by government instruments. Till the end of December 2016, eight debentures, 111 treasury bonds with different maturities, and 3 corporate

bonds (IBBL-Mudaraba Perpetual Bond, BRAC bank 25% convertible bond and ACI 20% convertible Zero Coupon Bonds) are being traded in Bangladesh capital market (Bangladesh Bank Report, 2016).

4.2.2 Corporate Debt Securities in Bangladesh :An overview

The bond market is still at a nascent stage in Bangladesh. However the debt securities of this country are not very significant in number. There are enormous impediments to develop the market which are attributed by a limited supply of debt instruments, especially long-term instruments. Therefore, the consistent yardstick for long-term bonds or debentures does not exist in the country. Following Table-1 has revealed the list of the corporate debt securities in Bangladesh.

Table 1: Corporate Debt Securities in Bangladesh

S.L	Securities	Issue Year	Features	(BDT million)
1	✕14% BD Luggage Debenture	1988	20% Convertible	40
2	✕17% Beximco Limited Debenture	1989	-	60
3	✕17% Beximco Infusion Debenture	1992	-	45
4	✕17% Bangladesh Chemical Debenture	1993	20% Convertible	20
5	✕17% Beximco Synthetic Debenture	1993	-	375
6	17% Beximco Knitting Debenture	1994	20% Convertible	240
7	17% Beximco Fisheries Debenture	1994	-	120
8	✕15% Eastern Housing Debenture	1994	10% Convertible	800
9	14% Beximco Textile Debenture	1995	-	250
10	14% BD Zipper Debenture	1995	20% Convertible	40
11	14% Beximco Denims Debenture	1995	-	300
12	14% BD Luggage Debenture	1996	20% Convertible	150
13	14% BD Aramit Cement Debenture	1998	20% Convertible	110
14	15% BD Welding Electrodes Debentures	1999	-	20
15	IBBL Mudaraba Perpetual Bond	2007	Profit Sharing	3000
16	ACI zero coupon Bond	2010	20% Convertible	1355
17	Sub bonds of BRAC Bank Ltd	2011	25% convertible	3000

Note: ✕ marked debentures are not available at present.

Source: SEC, DSE and CSE report.

4.2.3 List of Corporate Bonds in Bangladesh

The role of the local corporate bond market is very important in obtaining stable long-term fund for private sector (Hawang 2016). Corporate have many options to increase its capital from the debt market by issuing bonds. Although the corporate bond markets in Bangladesh have not expanding relative to equity market. Here, the Table-2 stated the list of bonds issued by the corporations in Bangladesh. As shown in the table, it can be revealed that there are only three corporations (i. e Islami Bank Bangladesh Ltd., BRAC bank Ltd., Advanced Chemical Industries (ACI) Ltd.) have issued bonds.

Table 2: List of Corporate Bonds in Bangladesh

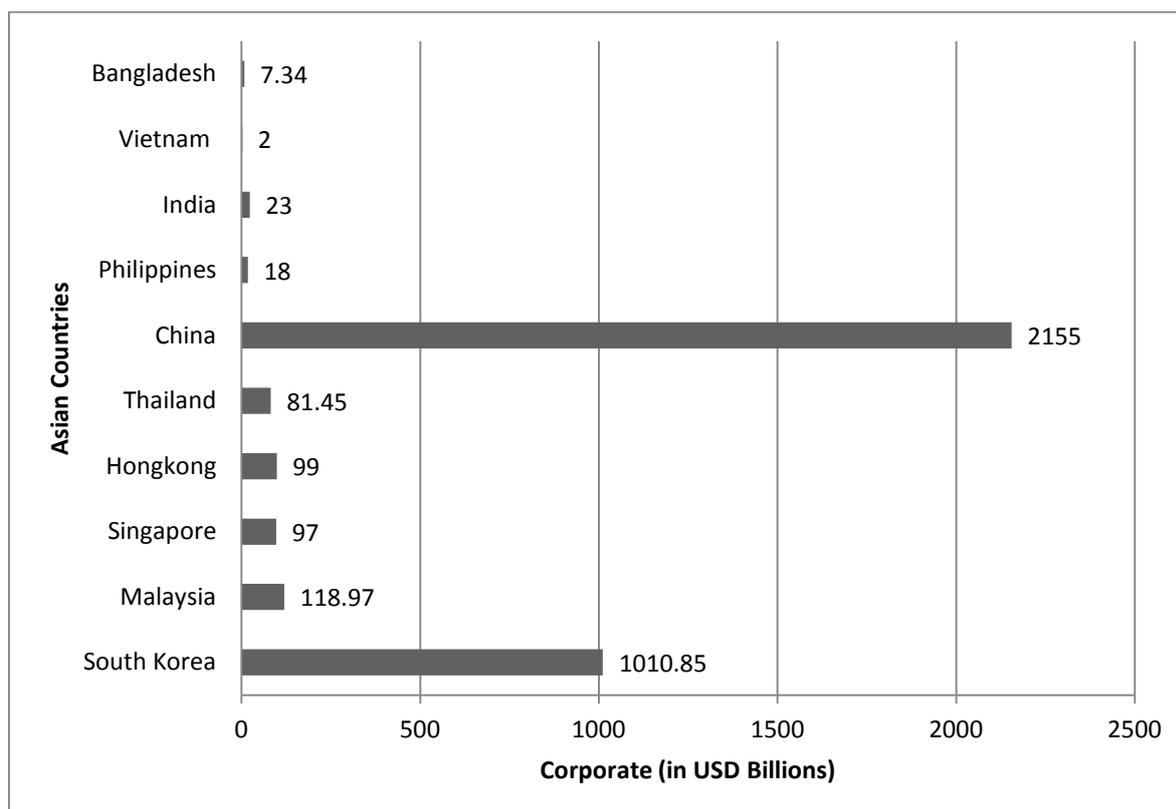
Name of the issue	Category	Issue Year	Time for maturity	Face value	Average profit or Coupon payment
IBBL Mudaraba Perpetual Bond	Profit sharing	2007	Perpetual (No maturity period)	Tk.1000	$1000 \times 12.476\% = 124.76$
Sub bonds of BRAC Bank Ltd.	Zero coupon	2010	3 years	Tk.1000	00
ACI Zero Coupon Bond	Zero coupon	2011	2years	Tk1000	00

Note: Data have been assembled by researcher
Sources: IBBL, BRAC BANK, BB, ACI Limited

4.2.4 Comparison of Corporate Bond Market in Some Asian Countries

Corporate bond markets in Asia differ widely in size (Gyntelberg at al 2005). It is notable that the corporate bond market developments in Asia are not quite successful so far. Many countries in Asia still heavily rely on banking sector to meet with the demand for funding from company side (Hawang 2016). Compared with the other Asian countries, Bangladesh bond market is rather small and has played a limited role in its economy.

Figure 2: Comparison of Corporate Bond Market in Some Asian Countries



Note: Data have been assembled by the researchers

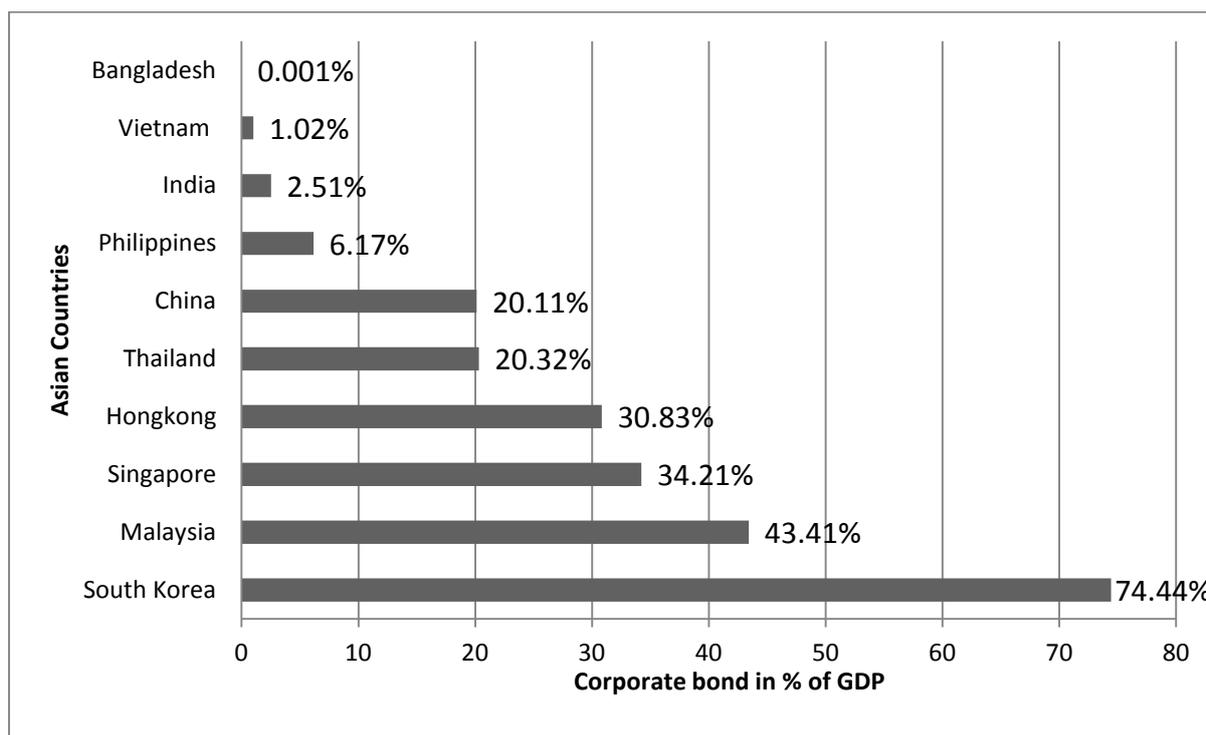
Sources: December 2016 (Asian bonds Online)

(https://asianbondsonline.adb.org/regional/data/bondmarket.php?code=LCY_in_GDP_Local)

From the preceding Figure-2, it can be depicted that the size of Bangladesh corporate bond market is very small (7.34 USD Billion) compared to other Asian countries like China (2155 USD Billion) and South Korea (1010.85 USD Billion). Therefore, corporate bond market in Bangladesh evidently has a long way to go.

Furthermore, as shown in Figure-3, Bangladesh is rather underdeveloped compared to the neighboring countries. The size of total corporate bond in percentage of GDP seems very lower (0.001%) compared to South Korea (74.44%), Malaysia (43.41%), Singapore (34.21%), Hongkong (30.83%), Thailand (20.32%), and China (20.11%).

Figure 3: Size of Corporate Bond Market in % of GDP



(GDP- Gross Domestic Products)

Note: Data have been compiled by the researchers.

Sources: December 2016 (Asian Bonds online, Bangladesh Bank)

4.3 Investors' Perceptions on Corporate Bond in Bangladesh

In this section researchers tried to reveal investors' perception about corporate bond in Bangladesh. More than 92% of the respondents judge the corporate bond market in Bangladesh as inefficient one. Majority (49%) of the investors have shown their investment preferences on the common stock of listed companies. Besides, 35% of them are interested to invest their fund in commercial bank deposit whereas only 7% of investors are exposed their preferences to invest in bond and the rest of the investors like to invest in other sectors.

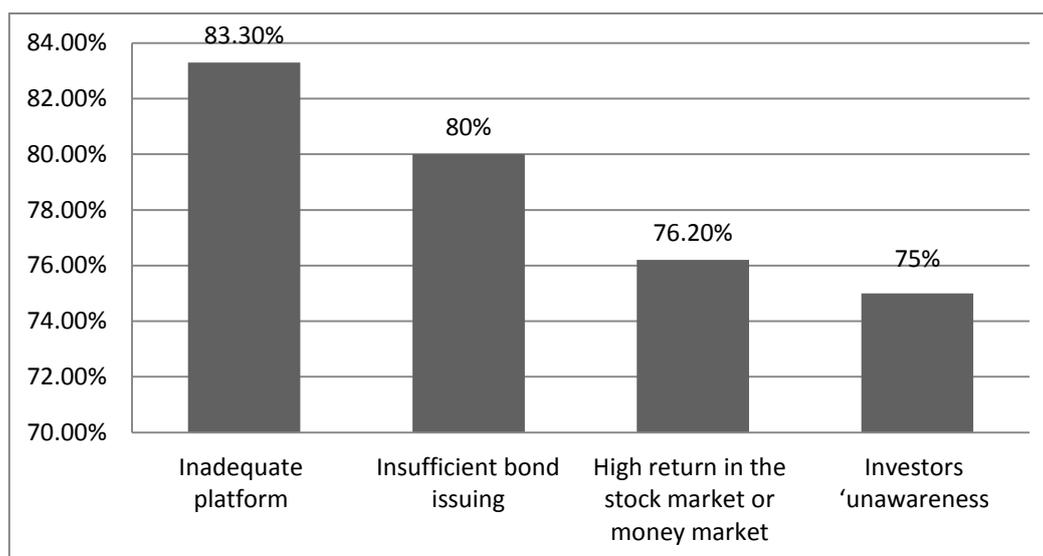
Among the 7% (mentioned above) of the investors who have shown their interest to invest in bond, it is found that 46% of them have preferred to invest in corporate bond reasoning its '*Fixed Periodic Income*' nature. 19% of them have expressed the reason of '*Less Risk*' factor. Moreover, '*Convertible Feature*' (15%), '*Capital Gain*' (15%) and '*Tax Advantage*' (5%) have also denoted by this group as the vital reasons for preferring corporate bond.

To identify the investors' preferred sectors to invest in corporate bond, it is found that 57% of the investors prefer to invest in the banking sectors' bond, and rest 43% of them prefer to invest in other corporate sectors' bond.

4.4 Major Hindrances to Develop Corporate Bond Market in Bangladesh

Corporate bond market is an evolving sector for Bangladesh capital market. Bond markets may improve efficiency in an economy and reduce vulnerability to financial crises (Herring and Chatusripitak (2000). To ensure the development of this market some significant factors need to be considered. As per the respondents' feedback, Figure-4 plots the four major deterrents that have a great influence to develop the corporate bond market in Bangladesh.

Figure 4: Major Hindrances to Develop Corporate Bond Market in Bangladesh



Source: Field survey (April, 2017)

The data has extracted from the survey and it is found that nearly 84% of respondents have claim '*Inadequate Platform*' as one of the key hindrances to develop the bond market in Bangladesh. Followed by this '*Insufficient Number of Bond Issuing*' (80%), '*High Return on Stock Market or Money Market*' (76.2%), '*Investors Unawareness*'(75%) are also prioritized by respondents as the major obstacles to develop the corporate bond market in this country.

5. Conclusion

The study has investigated the present status and prospects of corporate bond market in Bangladesh. It has also revealed the major hindrances for developing bond market. After examining both the primary and secondary data it is found that Bangladesh bond market seems very narrow compare to other Asian countries. Investors' approach toward different investments (i.e common stock, commercial bank deposits) seems very higher than that of corporate bond. Moreover, investors have also considered the bond market in Bangladesh as inefficient one. Insufficient numbers of bonds, high returns in the stock market or money market, lack of investors' awareness are considered as the major hindrances to develop the corporate bond market in this country.

There is an enormous prospect to develop the long term corporate debt market if policy makers can undertake proper measures. In this regard, policy makers should create adequate platform so that bond market can easily be extended. In addition, it is also recommended to take proper measures to influence of issuing corporate bond in Bangladesh. However, the study can further be extended in future, researchers can look into a comparative study between corporate bond and stock. The similar comparative research can also be carried out between government and corporate bond.

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Appendix

Brief on Investors' Demographic Information

Out of the total respondents 75% are service holders; 56.2% of them are within the age limit of 26-35 years; 63.8% have the graduation and 21.02% have post-graduation; 62.5% of the respondents have well known about bond market, 60% investor's depend on family and friends for their investment decision making; 78% have own financing for investment and 18% of them depends on bank borrowing or borrowing from stock broker; 46% of the respondents have the preference for fixed periodic income and only 15% are interested for capital gain ; 51% of the investors adopt technical analysis and 49% makes fundamental analysis for making investment decision. Risk taking attitude of the most of the respondents is little or moderate; a few of them have aggressiveness towards risk accounted for only 12%.