Financial literacy is the prerequisite to be involved in the capital market for any kind of investors. The role of the financial literacy fair run by BSEC is to provide appropriate knowledge of the financial market i.e. Capital Market and Money market which will endeavor the investors with basic indicators of the financial market. The program entails basic training to the capital market investors for identifying fundamentally strong stock and to keep aloof from the false trading behavior which eventually protects small investors and sustainably develops a strong capital market for Bangladesh.

As part of the process, BSEC is going to organize an event where investors will get literacy on the relationship between capital market and economy. Generally speaking, the capital market will reflect the economic conditions of an economy. If an economy is growing then output will be increasing and most firms should be experiencing increased profitability. This higher profit makes the company shares more attractive – because they can give bigger dividends to shareholders. If the economy is forecast to enter into a recession, then stock markets will generally fall. This is because a recession means lower profits, less dividends and even the prospect of firms going bankrupt, which would be bad news for shareholders.

If we think from valuation perspective then we also see that there should be a strong link between economic activity and security prices, given that the stock price is the discounted present value of the firm's payout. If this payout is ultimately a function of real activity, such a link should prevail. The standard discounted-cash-flow model implies that stock prices lead real economic activity if investors' expectations about firms' future payouts are correct on average.

Informed investors much look out for various economic indicators before taking any investment decision. An investor must delve into the current and expected GDP growth of the economy, current and expected inflation rate, current labor force condition, interest rate condition, FDI inflow, forex reserve condition, govt. policies, trade volume of the country, exchange rate condition etc. Investors must also look into what is happening in the world economy as well since most countries are dependent on each other for different goods and services. Based on any industry's elasticity to economic changes industries can be categorized as either Cyclical or Defensive. Cyclical firms are those whose profit are directly related to the economic conditions of a country. Examples of such industries are automobile industry, airline industry, construction material industries etc. Defensive firms are those whose business activity is not affected by any changes in economic activity. Examples include FMCG firms, health care companies, utilities firms etc. Investors must possess necessary knowledge to understand where to look at and how to mutate their decision based on various economic conditions.

Now, if we are to talk about the economy of Bangladesh; at least in terms of reported numbers we are doing fantastic. Bangladesh has entered into the 7% GDP growth trajectory and expected GDP growth rate of Bangladesh in 2017-18 is 7.4%. Good thing is we achieved double digit growth in industrial sector in FY16. Inflation is currently under control as well. Our location in world map gives us some competitive advantage; we are located very close to two to be super powers of the world, India and China and also have access to sea. We are currently enjoying demographic dividend meaning working age population as percentage of total population is the highest, ~58% of total population in Bangladesh aged between 15-54 years. We are already no. 2 as RMG exporter, we have very good prospect in pharmaceutical industry, agro processing industry, light engineering industry, construction materials industry, FMCG, leather and leather good industry, jute processing industry etc.

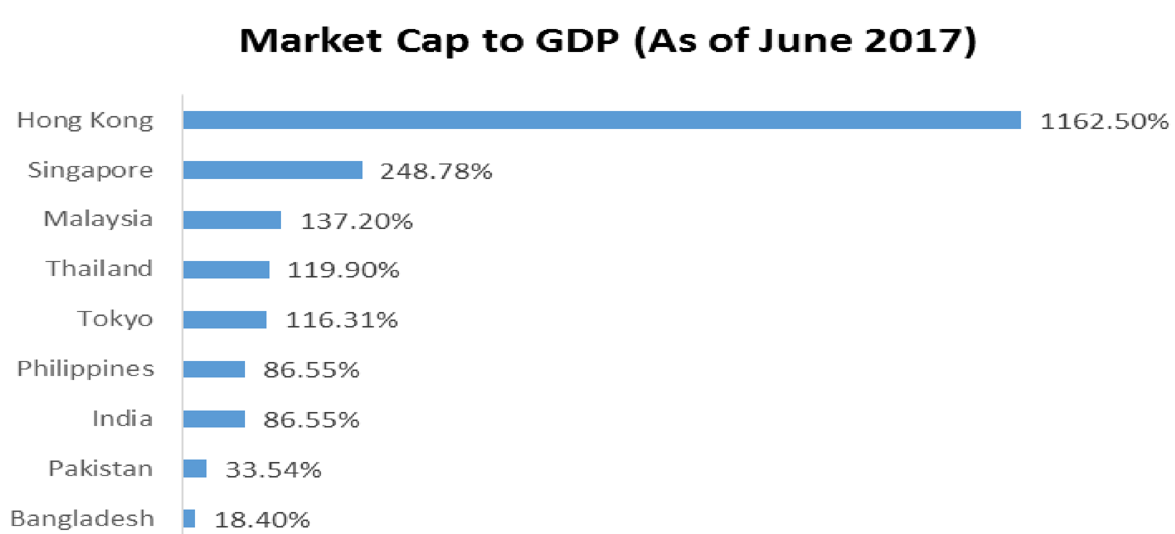
The following table contains data on major economic indicators of Bangladesh;

Particular	FY14	FY15	FY16	FY17
GDP Growth	6.06%	6.55%	7.11%	7.24% (P)
Inflation (June)	6.97%	6.25%	5.53%	5.94%
Export Growth (July to June)	11.69%	3.39%	9.72%	1.72%
Import Growth (July to June)	8.92%	0.21%	5.45%	9.00%
Forex Reserve USD Billion (June)	21.51	25.03	30.14	33.41
Private Sector Credit Growth	12.27%	13.19%	16.78%	15.66%
Current Account Balance (USD Million)	1,402	2,875	3,706	-1,480
Call Money Rate	6.25%	5.79%	3.70%	4.06%
91 Day T-Bill Rate	6.89%	5.37%	3.96%	3.86%
Repo Rate	7.25%	7.25%	6.75%	6.75%
M2 Growth	16.09%	12.42%	16.35%	10.88%
FDI USD Million	1,480	1,834	2,004	1,964

Source: Bangladesh Bank and Bureau of Statistics

Outside investors around the world is exhilarated by the prospect of Bangladesh. Among the global giant research firms, Goldman Sachs ranked Bangladesh as of the next 11 high potential economies, PWC predicts Bangladesh will be the 23rd largest economy within 2050, Forbes predicts Bangladesh will be one of the 30 largest economies in a decade with purchasing power at par with South Africa, HSBC included Bangladesh as the 31st largest economy by 2050 and Citi forecasted Bangladesh will be the 4th fastest growing economy for the next 40 years.

The growth of Bangladesh economy is phenomenon. By contrast, the growth of capital market is yet to be observed at par the growth of Bangladesh economy. Bangladesh's market cap to GDP ratio is only ~18% whereas it is ~87% for India, ~116% for Japan, ~137 for Malaysia, ~1163% for Hong Kong and ~249% for Singapore. If market capitalization as a percentage of GDP is below 50% that indicates the market is undervalued and the stocks from that market should be bought. Increased foreign investors participation in the stock market of Bangladesh now validates this theory. Foreign investors are very much interested in the capital market of Bangladesh since they know the growth potential of the economy of Bangladesh and hence in the long run the growth of the capital market as well.



Source: Dhaka Stock Exchange

We talked at the beginning that if an economy is growing; so the profitability of the companies operating in the economy should also increase. In the last few years most companies listed in Dhaka stock exchange disbursed very good dividend and yields from investing in stocks of those companies were as high as 18%. The interest rate in Bangladesh is near bottom and the situation is unlikely to change anytime soon. Average deposit rate currently stood at ~4.5% whereas the inflation is at around 5.5% which means investors are losing money in real terms.

Currently the economy of Bangladesh is undergoing a major overhaul. Govt. is investing heavily on infrastructure projects. Roads and bridges are being built. Borrowing rates hit all-time low. The situation we can describe as **Take-Off** stage. In this stage the economy is getting ready so it can fly soon. How this can benefit the economy is very simple. The mega projects that are currently under construction will give the economy a major boost. Among the projects that are undergoing currently major ones are **Payra Deep-Sea Port, Rooppur Power Plant, Dhaka Elevated Expressway, Matarabari Coal Power Plant, Padma Multipurpose Bridge, LNG Terminals, Metro Rail, Dohazar-Gundum Rail, Rampal Thermal Power Plant** etc. to name a few. After the construction work of LNG terminals end cost of doing business in Bangladesh will be reduced significantly

But how capital market will be benefited? As the economic activities take an uplift more financing needs will arise. More companies will get themselves listed in stock exchanges by issuing IPOs. More FDIs will be attracted in the country. Foreign investors typically invests in a company for long term and at one point of time they may want to take their money back. Listing in the exchanges give them the best exit route. Current economic indicators and condition of Bangladesh capital market as compared to the economy indicates that there is a possibility of booming capital market soon.

Current interest scenario can act as another major boon for the development of capital market. The rates offered by banks are below the weighted average inflation rate; investors are losing money in real terms. Since there is no alternative investment route for investors and investment in savings certificate has certain limit.