

# Essay on Stock Market in Bangladesh: The Present Situation

Hints: Introduction, What Is Stock Market? Stock Market in Bangladesh, Purpose of Stock Market, Functions of Stock Market, Causes of Recent Crisis, Means of Removing the Crisis, Government Steps, Conclusion.

## Introduction

The stock market in our country is regarded as a driving force of the economy. It plays a significant role in the health of the economy and is one of the most important sources for companies to raise money. Experiences of the past have shown that the price of shares and other assets is an important part of the dynamic of economic growth. Rising share prices, for instance, tend to be associated with increased business investments and vice versa. Must it be a matter of pathos that now the Bangladesh Stock Market is undergoing a crucial market due to various tricky devices adopted by many known or unknown business magnates of the country? The lower-middle-class clients of the carved or open market have been groping in the darkness for losing their small capital for the unexpected share market fall for about 4 months.

## What is Stock Market?

The stock market is a market that is an organized and regulated market for the new issue and subsequent exchange of securities of companies and other organizations. No doubt, the business in a stock market is a very risky one.

## Stock Market in Bangladesh

There are only two Stocks markets in our country: (1) DSE (Dhaka Stock Exchange) and (2) CSE (Chittagong Stock Exchange). DSE, established in 1954, has 195 SEC (Security Exchange Commission) registered trading members/brokers. CSE is a newly established stock market whose establishment period is 1995. It has 124 registered brokers. Many of these brokers have authorized representatives operating on the floor on behalf of the concerned brokers of DSE or CSE.

### Purpose of Stock Market

Capitalist trading is impossible without a stock market. It is through the stock market that the transactions of financial assets occur. The stock market also provides the world's industrialized nations with a way to conduct trade. One of the most important purposes of the stock market for the national economy is to stimulate investment. The stock market provides individual buyers and sellers with a platform to trade while individual investors still retain the services of stockbrokers.

### Functions of Stock Market

It is already noted above that the stock market is a major functionary in the economy of a country. The major functions of the stock market are as follows: (a) investors protecting fund, (b) listing of companies (as per listing regulations), (c) announcement of price-sensitive or other information about listed companies through online (d) providing the screen-based automated trading of listed securities, (e) settlement of trading, (f) market authorization and control, (g) market surveillance, (h) publication of the monthly review, (i) monitoring the activities of listed companies and, (j) investors' grievance cell.

## Causes of Recent Crisis

There are multifarious causes behind the recent stock market crisis in Bangladesh. The root cause is undoubtedly the corruption of the invisible hands of the upper section of the country. Due to the manipulation by a group of brokers or people the crisis has been rampant, and the crisis means the share market fall regarding share price. However, the reasons for the crisis are as follow:

(a) Forgery of shares or securities or sale or purchase of, or transaction informed shares causes serious damage or loss to the innocent investors and creates a crisis in the capital market.

(b) Industry loan has unbridledly used in share market and the market is facing an adverse effect now. Many bank chairmen are involved in this process. For example, an investigation report by the Daily Prothom Alo says the EXIM Bank chairman Nazrul Islam Mojumder has disbursed a huge sum of loan to his business partners from his bank. The report also says in the field of disbursing the loan to the M/S Kazi Erfanur Rahaman and M/S Loadstar Packaging the Management Authority has unlawfully disbursed a loan of the handsome amount by abusing their power.

(c) The Central Bank raised the mandatory Cash Reserve Requirement (CRR) of the banks to 6%, which contributed to reduce the turnover and raise the volatility in markets, prompting institutions to withdraw from stock markets.

(d) The capital market regulator introduced lock-in on shares on July 02, 2009, and the outcome was a restriction on supply creating an imbalance between demand and supply.

(e) The prices of shares nearly doubled in 2010, encouraging steam of

new investors into the markets, but prices have crumbled since early last month (February 2011) after the market regulator and central bank took measures to cool the market, prompting frequent street protests.

### Means of Removing the Crisis

First, stability in share markets has to be ensured to remove the crisis coordinated role of regulators, investors, education, strengthening monitoring and surveillance, etc is a crying need for this purpose. However, the following steps may be taken to thwart the running crises:

(a) The problematic pricing method of IPO should be reset.

(b) Alongside the capital market, the bond market should also be included in the 'equity market'.

(c) Government must take stringent punitive measures against the culprits who are involved in debacles of the share market.

(d) SEC must be remodeled and overhauled as the part of combing operation in the stock market fall.

(e) The regulators must be transparent in their actions so that they may make the right decision at right time.

(f) The new investors must be aware of the manifold affairs of the market. They must look before a leap. They must follow some guidelines about minimizing risk, seeking knowledge, getting familiar with the investing style, etc.

Government Steps SEC has kept the noxious activities related to

sharing market has kept under the cover of law, according to a report launched by the Ministry of Finance. In the meantime, the government has suspended the book building method for initial public offering (IPO). It has been decided by the said ministry that the index circuit breaker will not continue. Bangladesh Bank has to remain soft on banks to make the credit rules easy.

## Conclusion

Dr. Salehuddin Ahmed, a former governor of Bangladesh Bank, advised the government to remain alert as the share market debacle might affect the entire financial system. Market experts said the index circuit breaker will not help curb the volatility in the markets and restore investors' confidence unless the liquidity inflow increases to support fresh buying. Needless to mention, some persons are tangled with the rise and fall in the stock markets. The excessive valuation of the primary market in the secondary market is a vital organ of the scandal of the share markets. The tricky plans in the markets cannot be impeded if the guilty planners remain unpunished. However, recent experiences have made us believe that anything can happen in our capital markets. Most of the investors lost up to 60% of their capital. Now, govt steps, merchant banks, and mutual funds play a vital role in achieving a stable market. Otherwise, our national economy must be amputated today or tomorrow.