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Editorial Notes

Bangladesh achieved sustained annual growth of a bit more than 6 per cent in the One of the paradigms for industrial development in emerging economies like Bangladesh is to set up a number of special economic zones (EZs) across the country. EZs are generally defined as geographically delimited areas administered by a single body, offering certain incentives (generally duty-free importing and streamlined customs procedures, for instance) to businesses which physically locate within the zone. EZs are the designated areas in countries that possess special economic regulations that are different from other areas in the same country. Moreover, these regulations tend to contain measures that are conducive to foreign direct investment. Conducting business in a SEZ usually means that a company will receive tax incentives and the opportunity to pay lower tariffs. The Government's objective of developing a growth trajectory that will support an increase in the real GDP growth to 8 percent per annum and reducing poverty to 15 percent by 2021 is to maximize the potential direct and indirect impacts through a more modern, generalized regime for Economic Zones (EZs). The Government has launched an effort to establish a new EZ paradigm for Bangladesh drawing vast successful examples from around the world, as well as Bangladesh's positive experience with the EPZ model. The expectation is that, more spillovers will be harnessed by local firms from foreign direct investment, additional investment will be encouraged within value chains, more local produce will be procured and better linkages established between firms and educational institutions. A faster adaptation to international environmental and social practices in the private sector would also be encouraged through the new EZ policy. The policy allows the Government to develop and pilot an approach that is less reliant on Government subsidies, while leveraging comparative advantages and private sector capability where possible. The Economic Zone Act was passed in the Parliament in August 2010, providing the overall framework for establishing EZs throughout Bangladesh.

Special Economic Zones (SEZs) can be compared to their predecessors, Free Trade Zones and Export Processing Zones, in that they are aimed at stimulating foreign direct investment (FDI) and rapid, export-led, industrial growth. The essential characteristic of such schemes is that they allow the by-passing of particular social legislation or tax provisions which are perceived to be an impediment to progress or the competitiveness of an export-oriented activity.

The first article of this issue empirically examines the financial stability in the banking sector of Bangladesh over the period of 1997 to 2012 on the basis of Micro-Prudential Indicators (MPI) framework of IMF. Total Capital Adequacy Ratio (CAR) of the banking system increased to 11.4% at the end of December, 2011 and declined to 10.46% in December 2012 from 6.7% at the end of December, 2000, reflecting a good health of overall banking system in Bangladesh. It is still below as compared with that of SARRC countries. It is observed from cross-country scenario that India, Sri Lanka and Pakistan maintained CAR at 13.5%, 14.5% and 14.1% respectively in 2011. However, Banks could maintain 8.80 percent of RWA instead of 10.0 percent as on March 31, 2013. Banks have to maintain minimum regulatory capital of 12.5% of RWA as per Basel III along with consideration of three more risks. These include maintenance of capital for liquidity reserve for 30 days, capital in terms of net stable funding ratio and maintenance of capital buffet. The gross NPL for all banks declined to 6.20% in 2011 from the peak of 41.10% in 2000. The ratio again increased to 7.2% at the end of June 2012 due to sharp increase in NPL of SCBs and they are on rise in the first quarter of 2013. The Expenditure-Income (EI) for all banks came down to 68.60 in 2011 from 99.90 in 2000 reflecting a mark improvement was pronounced in SCBs over PCBs in recent times. The Credit Deposit Ratio (CDR), on average was 99.37% in 1990s and 8.42 percent in 2000s. The analysis of data shows that excess liquidity was a range of 4.46% and 9.80% during 1997-2011 in banking system. At the end of December, 2012, overall CDR for banking system came down to 76.59%. The recent financial scam-fraud in the SCBs and DFIs malign the performance of SCBs and DFIs. Despite the fact of account engineering, the recent rising trend of huge loan default including PCBs damaged the asset quality, which erodes the resilience of the overall banking sector in Bangladesh.

The second article delineates the journey towards compliance of Anti-Money Laundering and Combating Financing of Terrorism regime with FATF standard from the perspective of Bangladesh. The third article aims at assessing the impact of economic crisis in European Union on the economy of Bangladesh through the transmission channel of international trade. Though export has taken hit, new opportunities have opened up for Bangladesh. Low labor costs, proactive policy by devising appropriate trading policy strategy, implementation of rule of origin has moderated export growth of Bangladesh. The financial system of Bangladesh, dominated by banking system, has a very low level of reliance on international borrowing from commercial sources. This insulated the financial system of Bangladesh from the crisis to a large extent and limited the impact to a moderate slowdown.

The last and final note of this issue is concerned with the exposition of how the banking industry in Bangladesh puts the supervisory regimen into action. A stronger supervisory review process (SRP) indicates better shock absorbance of banks, and suggests more withstanding capability in adversarial circumstances. Intuitively, the SRP should flag those dimensions of risk that miss out in the systematic risk adjustment procedure of capital.

Mahmood Osman Imam **31 December, 2013**
Editor