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ARTICLE INFO	Muhammad Mahboob Ali and Anita Medhekar (2013). Role of financial intermediaries in creating international financial shock with special reference to Bangladesh: a critical review. *Banks and Bank Systems*, *8*(1)
RELEASED ON	Tuesday, 30 April 2013
JOURNAL	"Banks and Bank Systems"
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”

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Role of financial intermediaries in creating international financial shock with special reference to Bangladesh: a critical review

Abstract

Bangladesh economy has been facing the impact of international financial shock as it is an integral part of the global community. International financial shock and international downturn started in the USA during 2007-2008, followed by the European financial shock in 2011 and 2012 and the Arab-Spring of 2011-2012, which also has impacted on the domestic economy of Bangladesh. Financial intermediaries played an important role in the process of creating shock. This study has been undertaken to evaluate impact of international shock and convergence on Bangladesh economy. The time period of the study is from January 2012 to September 2012. The study is based on primary and secondary source of data. The paper suggests that the development of this poor country depends upon employment creation and reduction of prices of essential basic commodities. Given that the market structure of the country is based on asymmetric information, international cooperation is an important element where real, monetary and the external sector should work together to complement each other for strengthening the macroeconomic fundamental variables in order to achieve the development aspirations of Bangladesh and therefore to minimize the potential unfavorable crash of international financial shock on the Bangladesh economy.

Keywords: international financial shock, market structure, Bangladesh.
JEL Classification: G10, G21, L22.

Introduction

The United States of America has not fully recovered from international catastrophe of 2008. It is now spreading out to other parts of the world such as the European financial crisis and many countries such as China and Australia are slowing down. Some of the possible causative factors behind this massive catastrophe in the USA were liberalization of the economy, non-compliance of corporate governance, lack of corporate social responsibility, individualistic attitude, and unhealthy financial use of matrix and derivatives and perhaps some market manipulation. Several factors including laws and regulations, corporate procedures and behavioral impacts contributed to the meltdown in US financial industry (Medina, 2012). Only certain type of regulations in the financial market can explain the financial volatility, but not extreme deregulation, if the large financial institutions lack corporate governance and are not properly managed (Vranceanu, 2011). Further, the rise of the shadow banking system in the USA can be seen as a response to the regulation of the core financial institutions, but the interconnection between those core institutions and the shadow banks effectively made the system as a whole unstable (Adrian and Shin, 2010). Carneiro (2011) observes that measure of propensity to financial shock is a better predictor of the crisis than the efficiency and there is a trade-off between financial stability and efficiency of financial intermediation. Financial intermediaries have been playing vital role in creating international financial shock.

Moreover, political unrest in Middle East has also had an adverse impact on the domestic economy of Bangladesh as it is an integral part of the global financial system. Weak microeconomic foundation has also been working as one of the destabilizing factor of macro economic imbalance all over the world. Market distortion and information asymmetry created the problem accompanied by monetary, fiscal and exchange rate problem which spread out from the USA to rest of the world and caused economic damage especially in least developed nations of the world not only in the short run but also in the long run through business cycle fluctuations. The Bangladesh economy began to slow down in real, monetary and external terms and usual theory of Lucas model, random walk hypothesis theory of GDP or neoliberalization theory failed to apply in most of the countries within the time span of two/three years. Bangladesh is also gradually affected due to the spread of the financial catastrophe all over the world. Global business cycle is highly correlated to the economy of Bangladesh despite the fact that the economy is not still fully an open economy, mainly due the fall in the financial repatriation of foreign exchange and also many Bangladeshi who worked in the Arab world returned home due to unemployment.

The policy makers and business practitioners in the USA failed to distinguish between laissez faire policy of Adam Smith's capitalistic structure economy and the free market economy. Moreover, removal of Glass-Steagall Act during Bill Clinton's regime may also have played a role in spreading the USA crisis of 2008. Many newly engineered financial instruments and derivatives are used in the markets, which were not understood by the market players,

investors, clients and also regulators. Some of these financial instruments such as zero loss swaps to market mortgage derivatives instruments are outright illegal. Overvaluation and confidence of the customers were destroyed, causing panic and mismanagement in the economy.

Global Financial Crisis including Euro zone crisis and 2008 Global financial crisis which started in the USA is considered by many to be the worst since the 1930s (Hagen, 2009). Runs on complex securitizations, prime money market mutual funds and investment banks all contributed to the severity of the 2008 crisis. Compounding the problem, the investment bank structures were built on an assumption that runs were unlikely as long as lenders held collateral against their loans. In the depths of the crisis, however, lenders realized that relying on collateral could leave them with securities that they did not wish to hold – or in some cases that they were not even legally allowed to hold. When large losses on subprime mortgage assets and complex products amplified uncertainty about the value of collateral, investors ran – even though they held collateralized positions (Rosengren, 2012).

World Bank (2012) projections anticipate Eurozone growth to decline to -0.3 percent in 2012 and rise slightly to 1.1 percent in 2013, compared with 1.7 percent in 2010 and an estimated 1.6 percent in 2011. The initial major impact on Bangladesh would arise from a decline in EU imports and trade finance, with a smaller impact expected in the US market. Bangladesh can be expected to suffer from second round effects as well, including impact on non-garment exports and remittance due to reductions in derived demand from regions hit hardest in the first round. Export growth in FY12 has already slowed considerably to less than 9 percent, and this may improve only marginally to 12 percent in FY13. While the direct effect of the Euro zone crisis on remittances may be small, the indirect effects could be more significant (Bangladesh Economic Brief, 2012).

According to ADB (2011) to enhance macroeconomic stability of Bangladesh, closer coordination between monetary, fiscal, and exchange rate policies is essential. Inflationary pressures need to be dampened, subsidies contained, and foreign reserves replenished. The rapid growth in money and credit over the past several years needs to be slowed to contain inflationary pressures. Inflation in 2011 rose to 8.8%, which is considerably higher than the average of 7.7% over the preceding 5 years. Spending on subsidies needs to be curtailed by adopting market-based pricing policies for fuel and electricity and allowing domestic prices to adjust to international prices. This will limit fiscal burden and also restrict money and domestic credit growth by reducing bank borrowing. Revenue-GDP ratio at 11.6% in FY2011, has improved over the average of 10.7% in the previous 5 years. Revenue collection needs to be boosted to support higher public spending for infrastructure and human resource development.

The Guardian (2011a) comments that tens of thousands of Bangladeshi migrant workers have returned home from strife-torn Middle Eastern countries, threatening social and economic turmoil in their homeland which relies heavily on expatriates for a large part of its national income. Two problems have been acute in the economy of Bangladesh: one is most of the developed nations where Bangladesh sends consumer durables are facing financial shock and secondly, where migration from Bangladesh is occurring to Middle East have been suffering from political unrest. This study has been undertaken to assess the economic scenario of Bangladesh due to international financial shock. The first section of the paper deals with the literature review, followed by Bangladesh economic scenario. The third section deals with methodology, data analysis and finally recommendations and conclusions are presented.

1. Literature review

Many parallels such as in the USA (Reinhart and Rogoff, 2008), hold for other countries that began experiencing housing price distress during 2007 including Spain, the United Kingdom, and Ireland. Bhaskaran (2009) describes that Bangladesh has been relatively unscathed from the crisis in the world economy. However, as the downturn accelerates further and spreads to other markets to which Bangladesh has significant important links, the indirect effects of the crisis are likely to affect Bangladesh's economy. According to Hagen (2009) the crisis resembled to a remarkable degree to post-1929 crisis in the US, in terms of the behavior of the money multipliers. However, the loss of confidence among banks and along with it the disappearance of a large part of the interbank market was the decisive factor in the current crisis, while it was the loss of non-banks' confidence in the banking sector that was decisive in the Great Depression. Comparing the US and the UK economies indicates the stabilizing influence that comprehensive deposit insurance has in a crisis. Bernanke (2010) describes that the panic of 2008-09 threatened the very foundations of the global economy, "broad financial conditions, including monetary policy, are supportive of growth, and banks appear to have become somewhat more willing to lend" [p. 19], despite very difficult conditions and compressed time frames. By early 2009 most economies were growing again, and international trade was once again expanding.

Cochrane (2010) argues that the only way to solve the underlying Eurozone fiscal mess (and our own) is to slash government spending and to focus on growth. Countries only pay off debts by growing out of them. Growth does not necessarily come from spending on generous pensions and padded government payrolls. Greece's spending over 50% of GDP did not result in robust growth and budget surpluses. The Guardian (2011b) reported that the grand bargain struck by France to save and to restore confidence in the single currency was facing its first challenge within hours of being negotiated, after 15 Eurozone nations were warned that their credit ratings could be downgraded. Just after crunch talks in Paris seen as vital to preventing the collapse of the Euro, France and Germany were among the countries warned that Standard & Poor's was considering whether to reduce their ratings.

Ohanian (2010) depicts that the 2007-2009 recession is almost exclusively related to what appear to be labor market distortions that drive a wedge between the marginal product of labor and the marginal rate of substitution between consumption and leisure, a topic on which current classes of financial imperfection models are largely silent about. Stiglitz (2010) comments such as the deficits to finance wars or giveaway to the financial sector happened on a massive scale in the US lead to liabilities without corresponding assets, imposing a burden on future generations. But high-return public investments that more than pay, for themselves they can actually improve the well-being of future generations, and it would be doubly foolish to burden them with debts from unproductive spending and then cut back on productive infrastructure investments. One of the major problems that even experienced investors were with subprime derivatives as they were not really aware of the real risks and returns on relative new financial products (Tanvir and Chowdhury, 2011).

Reza and Khan (2011) are of the opinion that Bangladesh was able to minimize the impact and face the crisis. Both supply and demand side factors explain inflation in Bangladesh. According to the-World Bank (2011) report inflation was high reaching 12 percent in September 2011 in Bangladesh. This is the highest figure recorded since 1999. Increases in the overall CPI were driven by food prices, but non-food prices have also started rising in recent months. The rise in non-food inflation has been driven by rise in prices of clothing and footwear, transport, furniture and household equipments, and miscellaneous goods and services. Rising international commodity prices were the main source of food price increases. Rising oil prices also result in rise in prices of almost all other commodities in the consumer basket. The growing gap between domestic demand and domestic production appears to have contributed to the rise in non-food inflation that was concentrated in non-energy items.

Low economic development and an adversarial domestic political setting are rating constraints, for Bangladesh. New Age (2012) reported that according to Standard & Poor's (2012), the international rating agency, reaffirmed its 'BB-'rating for Bangladesh with a stable outlook of the economy. The country retained the agency's 'BB-' long-term and 'B' short-term foreign and local currency sovereign credit ratings in 2011. The rating on Bangladesh incorporated the country's limited fiscal flexibility due to low revenue-generation capacity and expenditure-side rigidities stemming from subsidy regime and significant physical and human capital development needs. Further, the garment sectors (woven and knitwear RMG) which are export oriented industry experienced contraction and also some expansions of the non-RMG export oriented sectors. Because of the reduced rates of growth in overall exports as well as much slower growth in knit and woven RMG sectors, there was also some negative impact on the economy in terms of falls in consumption, exports, imports and households' consumption and welfare (Raihan, 2012).

The poorer households suffered more as a result of negative export shock during the global economic crisis. Furthermore, the reduced rate of growth in remittances during the global economic crisis contributed to the fall in household income and real consumption. Demand for goods declined and, as a result, domestic demand and import decreased. Thus, reduction in inflow of foreign remittance from abroad would contribute to depreciation of the real exchange rate and growth of exports. All household categories thus encountered a fall in real consumption. On the basis of the above literature review, the following are the objectives of the study.

This study has been undertaken with following objectives:

- to understand the meaning and nature of international shock;
- to assess the present condition of the domestic economy of Bangladesh;
- to evaluate the impact of transformation of international shock on the domestic economy of Bangladesh;
- to suggest some recommendations, how international shock can be tacked able to create opportunities for the economy of Bangladesh.

2. Current Bangladesh economic scenario

Though democracy has been restored to Bangladesh in 2009, but still political instability prevails. In

addition to political crisis, the country is also dealing with the current global financial crisis, compounding the problems this poor country faces on the social front. The present elected government has been facing the impact of international financial disaster on the domestic economy. Bangladesh is a part of the global economy; as such they have to face the negative effects of the global financial crisis. The government all over the world have allocated special financial package to deal with the global crisis. Additionally, in developing economies such as Bangladesh, government interventions in the form of licenses and permits as well as directives, the ownership of private institutions and the control of public institutions are given to a few individuals who are well-connected politically, which often results in monopoly and oligopoly implicitly or explicitly. These monopolistic and oligopolistic market structures coupled with the political connections of a few powerful individuals and corruption invariantly lead to cartels and price fixing.

Hasan (2011) observes that in Bangladesh shadow economy is 10 percent according to the currency demand approach, and 38 percent according to Multiple Indicators, multiple causes approach. These phenomena hinders the effectiveness of the national economic policy actions and result in asymmetric adjustment in product and service pricings, unfair distribution of national income in favor of the few and diminished the efficiency and resilience of the Bangladesh economy. This thus prevented the economy from effectively coping with contagion effect of 2008 international financial crises. Out of three types of financial intermediaries i.e. depository intermediaries are relatively strong in Bangladesh. Other two types of intermediaries investment intermediaries are gradually growing and contractual intermediaries are also growing very slowly.

According to Annual report of Bangladesh Bank (2009-2010 published in 2011) due to global financial crisis Bangladesh bank needed to take monetary and exchange rate measures in an attempt to limit the damage to the economy from the spread in financial markets. Given its fundamental policy objective of price stability and difficulty of applying fiscal policy as a short-term adjustment policy, owing to long-term fiscal objectives as well as political factors, Bangladesh had to rely heavily on monetary policy in controlling its macroeconomic situation. Bangladesh is highly densely populated country with many socio-economic problems. According to Bangladesh Economic Review (2011) nearly 964 persons live per square kilometer. Further, capital market scam in Bangladesh from the period of 2010-2012, has been creating a difficult situation for the economy of Bangladesh. The inefficient and ineffective nature of the governmental interventions to manage and offset the negative impact of reduced capital in-flows made the Bangladeshi economy very vulnerable to international economic recession. Regarding export, about 80 per cent of the total export earnings are coming from the USA and European countries (Bangladesh Economic Review, 2011). Also, the flow of funds from expatriate Bangladeshi workers particularly from the Middle East is a significant source of financial capital inflow for Bangladesh, where the Arab spring started. Murshid et al. (2009) argue that the central bank of Bangladesh should continue to think of innovative ways to draw more remittances away from the hundi channel (means money transfer from one country to another through illegal way).

Bangladesh has dramatically reduced dependency syndrome on foreign aid and loans for last two decades. The country received about $48 billion of foreign aid, with an annual flow of aid that has ranged from about $1.0 billion to some $1.5 billion foreign aid from 1971 through 2008. Further, acceleration in economic growth has been achieved in the face of significant reduction in foreign assistance per capita from about $20 in 1990 to about $9 in 2008 (Quibria, 2010). Due to global shock, rate of foreign aid and loans disbursement will be reduced in many developing countries. World Bank has pulled out a project to build Bangladesh largest bridge, citing corruption concerns. It is cancelling a $1.2bn (£764m) credit for the 6km-long (four miles) road-rail bridge over the Padma River. In a statement, the bank accused the government in Dhaka of failing to investigate claims of high-level fraud in connection with the project (South Asia, 2012). Finance Minister of Bangladesh in National Assembly in a proposed budget for the period 2011-2012 commented that the country managed to protect export sector in the wake of global recession due to two incentive packages which were declared by the Government that included policy supports along with enhanced rate of cash incentives for exporters. Cash incentives were also given for some new export items. Because of the Government's timely intervention, the export sector staged a quick turnaround overcoming the recessionary shocks. His claim is not fully true as Bangladesh economy still suffers from economic aggregate supply shock.

Table 1 below illustrates the key economic indicators and macroeconomic variables of Bangladesh for the period from 2007-08 to 2010-11.

Table 1. Major economic indicators of Bangladesh

Type	2007-08	2008-09	2009-10	2010-11
GDP (million US$) at current market price	79554	89360	99989	110590
GNI per capita at current market price (US$)	608	676	751	818
GDP growth (%) (at constant price)	6.19	5.74	6.07	6.66
Per capita GDP (US$) (at current price)	559	620	687	755
Agriculture & forestry contribution to GDP (%) Growth (%)	16.23 2.93	15.91 4.10	20.29 5.24	19.95 4.96
Manufacturing (indus.) Contribution to GDP (%) Growth (%)	17.77 7.21	17.90 6.68	29.93 6.49	30.33 8.16
Export (million US$)	14110	15565	16204	22924.38
Export growth (%)	15.87	10.31	4.11	41.47
Import (million US$)	21629	22507	23738	33657.50
Import growth (%)	26.07	4.06	5.47	41.79
Trade balance (million US$)	(7519)	(6942)	(7534)	(10733.12)
Numbers of workers in abroad '000'	981	650	475	440
Workers' remittances (million US$)	7915	9689	10987	11650
Foreign exchange reserves (million US$)	6149	7471	10750	10912
Total revenue (million US$)	8824	10055	11445	13507
Tax revenue (million US$)	6998	8071	9210	11075
Import duty (million US$)	2646	3033	3291	3642
Total expenditure (million US$)	13644	13683	15915	18449
Revenue expenditure (million US$)	8370	9756	9808	10920
Current surplus (million US$)	453	299	1637	2587
Annual development program (million US$)	3279	3343	4104	5091
Money supply (M1) (million US$)	8723	9083	12671	14438
Money supply (M2) (million US$)	36262	43096	52279	61688
Total domestic credit (million US$)	35172	41783	41263	60694
Bank rate (%)	5.0	5.0	5.0	5.0
Exchange rate	68.61	68.8	69.44	71.21
Inflation rate Base year (1995-1996)	9.93	6.66	7.31	8.80
Consumption (private and public.) (billion US$)	63.12	71.41	79.89	89.85
Gross investment (million US$)	19086	21779	24411	27641
Public investment (million US$)	3960	4201	5014	5900
Private investment (million US$)	15126	17578	19396	21740
National savings (million US$)	23090	26426	30011	31736
Gross domestic savings (million US$)	15864	17950	20096	21893
Consumption (private and public)	79.7	79.9	79.90	80.4
Gross investment	24.2	24.4	24.40	24.7
Public investment	4.9	4.7	4.70	5.3
Private investment	19.3	19.7	19.70	19.5
National savings	30.2	29.6	30.00	28.4
Gross domestic saving	20.3	20.1	20.10	19.6
National consumer price index (1995-96=100)	193.54	206.43	217.08	241.02
% change in CPI	9.94	6.66	6.26	8.80

Source: http://www.fbcci-bd.org/fbcci/others/Major%20Economic%20indicators%202010-11.pdf.

Difference between the crisis of developed nations and Bangladesh is that their crisis originated from the financial sector and worst impact was felt in the real sector. In Bangladesh, however, crisis has been originated in the real sector due to the problem arising from the financial sector. This is good, as in the international market prices of the importable commodities are falling, especially fall of price of oil may worsen Middle-East countries economic scenario in a vulnerable situation. Most of the Bangladesh expatriates who are working in the Middle East might become unemployed or their salary might be reduced due to spread of global financial crisis in the Middle East. Beneficiaries of foreign remittances use the major portion of their fund for consumption purpose and from the rest hold a portion of the remittances to earn interest as well as for investment purposes.

Globalization has created an international division of labor related to trade flows which in turn induced a pattern of leading-lagging impacts of financial crises between developed and developing nations. Additionally, the pattern of "free" labor mobility legal or otherwise to developed countries from developing countries has increased the financial capital flow in the opposite direction – a flow which is very unstable owing to the insecurity of the employment and earnings of these guest workers. There is also a possibility of a synergic effect of the two phenomena. Due to Middle East crisis, foreign remittance has been declining.

Exchange rate of US dollar against Bangladesh Taka has been increasing in the local market from 2008-09. In the year 2006-07 Bangladesh Taka against USD appreciates for 1.26% , during 2007-08 appreciates for 0.42% but in the year 2008-09 Bangladesh Taka against USD depreciates for -0.79%, in 2009-10 Bangladesh Taka against USD depreciates for -0.55%, during the year 2010-11 Bangladesh Taka against USD depreciates for -6.34%, in the year 2011-12 Bangladesh Taka against USD depreciates for -9.38% (Source: Economic Trends, Bangladesh Bank, October 2012, p. 94).

Foreign Direct Investment in Bangladesh, Survey Report (July-December 2010) showed that the country's total stock of outstanding external debt as at end of December 2010 stood at US$ 23717.4 million, comprising public sector debt US$ 22190.0 million and private sector external debt US$ 1527.4 million. The share of public sector external debt in the total external debt stood at 93.6% while the share of private sector external debt stood at 6.4% as at end December, 2010. The trends shows that both the public and private sector external debt have increased steadily over the periods up to 2009, but as at end 2010 they moved downward (Survey Report, 2010).

IFC (2009) describes that in late 2006, financial sector assets totaled roughly 69 per cent of GDP. The banking sector accounted for the majority of these assets, at 58 percent, followed by the securities market, which accounted for another 6 percent of GDP. The remainder of financial sector assets was in non-bank financial institutions (NBFI), insurance companies, and microfinance institutions in Bangladesh.

The economy of Bangladesh faces another problem. When price rises in the international market, it is observed that in the domestic market price rises sharply. However, when the price falls in the international market, price falls very slowly in the domestic market. We know that at the time of opening of the Letter of Credit (L/C), the price, which is available in the international market, it will continue and as such all of a sudden it may not be possible to fall. But the rate of decrease of the price occurs at a far lower speed than what is actually desired. On the other hand, in Bangladesh through oligopolistic nature of business, cartels are created in the market mechanism, which ultimately charge higher prices than the prevailing rate in the international market. Due to different stages of bringing the commodities from the remote villages to urban areas and lack of well-developed supply chain management sometimes commodities are being sold at a too much higher price. Prices in the retail markets are much higher than what it would have been including all the costs including transportation and normal profit. Lack of alternative public business enterprises like Trading Corporation of Bangladesh (TCB) creates problem.

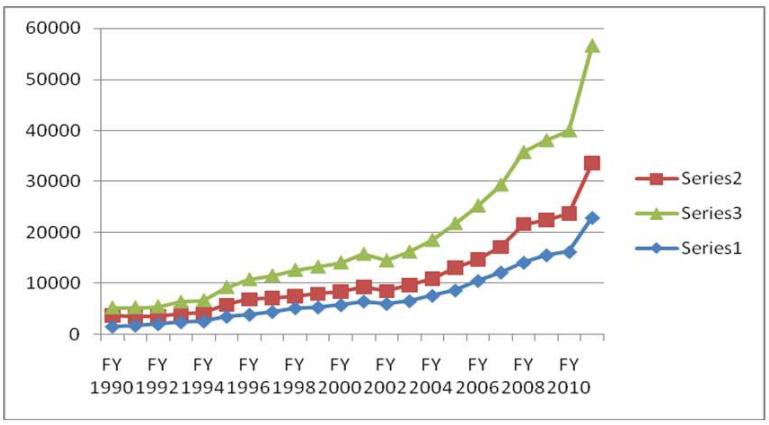
Moreover, there are at least 18-24 stages to bring products from the remote villages to the retail marketing. Each stage not only adds to the transportation cost but also rent seeking by the rent seekers including police and also different criminals' increases the price and cost of living for the poor.

There are inadequate numbers of financial instruments in Bangladesh. Some commercial and merchant banks are breaking the guidelines of the Bangladesh Bank as well as Securities and Exchange Commission rules and they are injecting to raise the price of the share of different companies. Though Bangladesh Bank requested all commercial banks to submit information regarding their portfolios in the share market but most of the banks are not compliance the rule properly. Non-Banking Financial Intermediaries cannot play their due role. As such share price index is raising and volume of the trade in the share market is increasing, resulting in profits in the short run. But capital market is not benefiting for the economic development of the country as it cannot play a vital role for long-term industrial financing as well as investment for construction of infrastructure projects such as bridge and ports.

Rahman (2012a) describes that revamp of financial sector regulatory and supervisory frameworks with sharper risk and systemic stability focus in line with post-global crisis revisions of international best practice standards are taken by Bangladesh Bank (BB). Following implementation of Basel II capital regime, preparatory work is on for phasing in Basel III capital and liquidity standards. Corporate governance, risk management and disclosure practices in the financial sector are now under sharpened BB supervisory vigilance. Mandatory periodical stress testing brings out vulnerabilities of banks and financial institutions. BB's regulatory and supervisory capabilities are being upgraded continually to meet the emerging new challenges. Rahman (2012b) argues that the recent global financial crisis has ag-

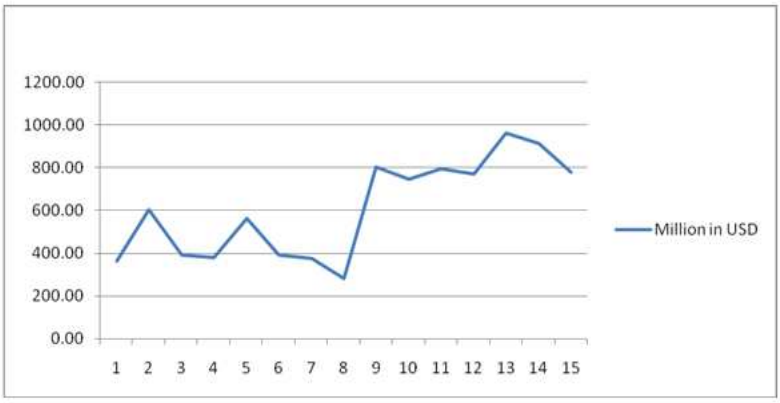
gravated the financing constraints for SMEs which are suffering from dual shocks of drastic drop in output demand and of credit crunch for small businesses and start up seven in advanced developed economies.

Figure 1 below illustrates the balance of trade position for Bangladesh in 2012. Where, Series 1 indicates export figure in US$ million; Series 2 indicates import figure in US$ million; Series 3 indicates balance of trade figure in US$ million.



Source: Bangladesh Bank, 2012.

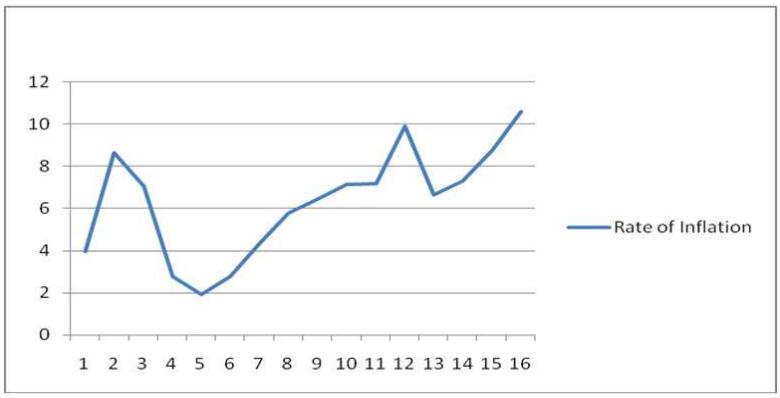
Fig. 1. Import, export and balance of trade position of Bangladesh in 2012



Source: Bangladesh Bank, 2012.

Fig. 2. Foreign direct investment of Bangladesh in million USD from 1996-97 to 2010-11

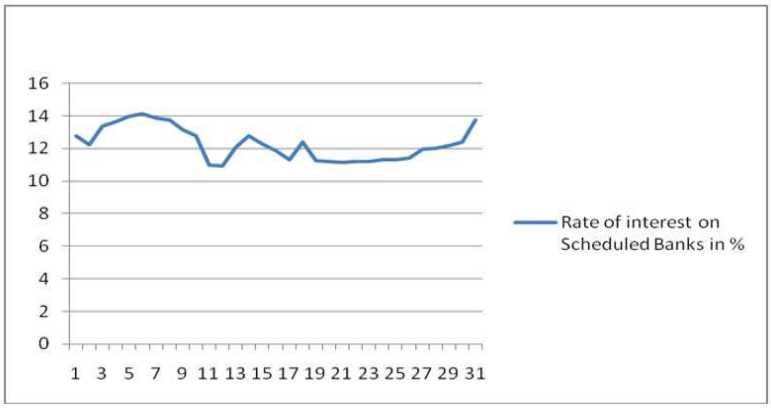
Rate of inflation in Bangladesh is measured by consumer price index considering 12 months average (base year 1995-96) which is shown in Figure 3 from 1996-97 to 2011-12.



Source: Bangladesh Bank, 2012.

Fig. 3. Rate of inflation in Bangladesh in percentage

Figure 4 illustrates the rate of interest on scheduled banks of Bangladesh in percentage (weighted average on advances) from 1993-94 to 2011-12.



Source: Bangladesh Bank, 2012.

Fig. 4. Rate of interest (advances) on scheduled banks of Bangladesh in percentage

There is lack of transparency, accountability and fairness creating problem for the banking sector and the economy of Bangladesh. Wise and Ali (2011) suggest that corporate regulators should ensure they are familiar with and consider extant best practice models for corporate governance of financial reporting issues when developing new, or revising existing accounting regulations. Unfortunately the present Government has reconstituted the Board of Directors of the public limited banks as the previous government based on political affiliation. The criteria for selecting directors of the banks in most cases become the relatives/leaders of the party even depriving lot of potential personalities/supporters of their own party. Independent directors are also being nominated on the basis of the same criteria. As a result the banks won't be able to contribute in the economic development process at the time of global crisis. It will also fail to comply with corporate governance. Most of the directors of the banks are also male dominated and gender inequality prevails.

The Information and Communication Technology (ICT) sector is still in an infant stage and cannot generate export earnings which are much below the target level. Bangladesh is now exporting ships and environment friendly bricks. The country cannot utilize SAFTA or BIMSTEC to avoid the problems of the global crisis. Even to create opportunities they can not effectively utilize regional cooperation. But ASEAN through regional cooperation develop strong bindings among its member countries and minimize the magnitude of the shock. The financial catastrophe prompted ASEAN to accelerate regional financial cooperation. In the ASEAN Vision 2020 which they issued in December 1997, ASEAN leaders resolved to: (a) maintain regional macroeconomic and financial stability by promoting closer consultations on macroeconomic and financial policies and (b) continue to liberalize the financial services sector and closely cooperate in money and capital market, tax, insurance and customs matters (http://www.aseansec.org/7660.htm).

Bangladesh export items have low price elasticity and targeted towards relatively lower income groups. So there will not be a major problem. But due to recession in foreign countries, there is a fall in export of products. Price of soybean oil is still higher in the domestic market. Similarly, price of flour is still two times higher in the domestic market compared to international market. Prices in the retail markets are much higher than what it would have been including all the costs including transportation and normal profit. Lack of alternative public business enterprises like Trading Corporation of Bangladesh (TCB) creates problem. Present Government is taking initiatives to activate TCB to avoid cartel situation created by the business syndicate prevailing in the Bangladesh economy. When in the international market price is declining, in Bangladesh prices of products are still high. Due to different stages of bringing the commodities from the remote villages to urban areas and lack of well-developed supply chain management sometimes commodities are being sold at a too much higher price. Moreover, rationing system for the poorer section of the country is required.

There is every possibility that Readymade Garments (RMG) sector will be affected in the long run. If financial shocks in European countries continue then there is a possibility that around 60 per cent of the total garments firms, which are not competitive, will collapse and shut down. This may cause 5 to 7 hundred thousand female workers in the RMG sector may be unemployed. If aforesaid assumption is predicted by the authors, but if this happens then it will be a most dangerous problem for the economy as economic destabilization and social unrest will be created. Not only female workers but also huge numbers of male workers of the export led growth industries are also losing their job. Moreover, price of raw leather has decreased in the international market. Moreover, Bangladesh does not have enough capability to produce finished leathers with product differentiation. In case of tea production, Bangladesh is still using old method of production process. Handicrafts

products are not getting due attention. Frozen foods are losing international market share due to global turmoil. Jute and jute related products need diverse development scheme starting from setting up new capital machinery (life cycle of the most of the capital machineries have expired), to getting access to new markets in the global arena. Pharmaceutical industries need special attention for marketing their product in the international arena. Due to financial crisis, not only exporters will face the problem, but the banking sector will also face problem due to non-recovery of advances against export financing (given the fall in exports).

In case of Shipping, Mongla port of the country is not utilized properly for which it becomes almost ineffective. Inefficient and ineffective transportation sector has created many problem of supply chain management. As such the economy has been lacking to ensure overall competitiveness. The country is not able to develop self-respect as the basic characteristics of development refer to freedom from dependence, freedom from hunger and freedom from ignorance. Non-resident Bangladeshis can work as a linkage and bridge the gap to develop business-friendly environment between the domestic and international arena.

According to Weekly Blitz (October 21, 2011), prices of securities in stock market fluctuate daily on account of continuous buying and selling. Every investor wants to buy securities at a low price and sell them at a high price so as to set a good return on investor's investment. Investor, therefore, tries to analyze the movement of share prices in the market. Fundamental and technical analyses are commonly used for this purpose. Fundamental analysis is the determination of intrinsic value of a share based on current and future earnings capacity whereas technical analysis concentrate on historical share price, trade volume, market indices and tries to forecast future movement of share price. Other analysis like price sensitive information should be properly analyzed. Though non-banking financial intermediaries consist of investment and fiancé companies are working in the country but they do not have very much participation in the domestic economy of Bangladesh. As such adverse impact on the economy was not too much through them. Rather banking sector has been greatly affected.

Rahman (2012a) depicts that Bangladesh most likely is not getting smooth soft loan from the donor agencies in the giant upcoming projects. Bangladesh Bank has projected even a wider deficit of trade balance for 2012 coupled with high import, low rate of export as well as low remittance growth. Balance of payment pressure are likely to intensify over the near to medium term because of rising oil import volumes and import-intensive infrastructure investment.

Unnayan Onnehsan in "The Innovators" (June 2012, pp. 3-4) observed that the percentage of labor migration decelerated in 2010-11, financial year because of the global economic recession, political instability in Middle East and squeezing demand of labor markets. During the first ten months of his 2010-11 fiscal year, the remittance flow stood up at US$ 10615.75 million which was 10.43 percent higher than that of the previous fiscal year. Foreign exchange reserve is increasing at a decreasing rate over the years due to soaring import bills, the global financial crisis, economic slowdown and higher rate of inflation. Other factors associated are the depreciation of Taka against US$ and the increase in debt and deficit cornered the reserve to decline in the 2010-11 fiscal years. United Arab Emirates has stopped issuing visas to workers from Bangladesh, recruiting companies said Monday, in a move that threatens to strangle vital remittances for the impoverished South Asian country. The UAE has emerged as the biggest recruiter of Bangladeshi laborers in recent years, accounting for about 50 per cent of all overseas employment opportunities after jobs dwindled in Saudi Arabia (The Daily Star, Lebanon, August 27, 2012).

Rahman (2012a) claims that the role of financial sector regulators came under sharp scrutiny worldwide following the global financial crisis of 2008. The Bangladesh economy and its financial sector came out largely unscathed from the crisis, with timely and proactive policy responses. This international depression indicates how all sorts of changes can occur in the world. Excessive deregulation creates scope for earning super normal profit, which destroys perfect competitive situation. During the period of mid nineties to early twenty first century, management of monetary policy of the Bangladesh Bank was very nice. However, monetary policy organized by the Bangladesh Bank for last four years are not well coordinated. Around 50% of the economy in Bangladesh is unrecorded economy. This is creating problem for the society. To add value in the society, procedures of unrecorded transactions should be turned to white in the transaction processes. This time Government has launched special scope for whitening the black money for next three fiscal years. Actually it should be given for one year and should be allowed to use in the productive sector with parallel market being more transparent and efficient.

The Singer-Prebisch thesis also known as Prebisch-Singer thesis and Prebisch-Singer hypothesis, postulates that while in industrial countries monopolistic market forms are common, the export industries in most of the less developed countries work under competitive condition. The rate of technological

progress tends to be higher under monopolistic market condition than under the competitive market condition (Wikipedia, 2012). Normally, countries like Bangladesh exports primary products and price of that product generally declines. And Bangladesh still lags diversified exportable commodities. Lacking of backward industries as well as forward linkage industries are also creating problem for Bangladesh. Bangladesh should have its own backward linkage industry. From 2005, a quota free textile trade regime has been started in the global scenario. Both the Government and the private sector should help to develop an adequate number of backward linkage industries as well as forward linkage industries by framing appropriate policy and making investment for the future survival and sustainable growth of the country's export oriented readymade garment industries. Bangladesh has suffered heavily due to trade liberalization which was too much and too fast. Many industries have become extinct and some have become sick resulting in huge loan default, which in turn puts pressure on the banking system.

The countries relying on import substitution strategies had very low reserves on foreign currencies. They had to cut back their imports immediately. The impact on production, for instance because of reduced fertilizer supplies were sharp and immediate. Countries that had relied upon promotion of exports were better able to adjust to the new circumstances. They had a better foreign exchange situation to start with, their knowledge of international markets was better, and they could push their exports further to at least offset partially the adverse terms of trade. To prosper in the global context import should be restricted though in the era of globalization it will be difficult. On the real side of the economy, economies of scale can be reaped more effectively in the context of export promoting policies. Markets in Bangladesh are small, in economic terms, compared to the population as the purchasing power of the large majority of the population is minimal and around one-fifth of the total population is outside the market. Import substitution policies are often motivated by a wish of self-reliance. Actually the country should well coordinate between export led and import substitution industrialization process (Rashid, 2012).

The global slowdown in the leading economies such as the US, Europe, and Japan is likely to adversely affect principally, in three sectors, namely exports, aid-flow and foreign direct investment and remittance from workers. About 75% of the exports of garments and knitwear go to the US and Europe. The exports of knitwear and ready made garments to the US and Europe are likely to fall because there will be no demand in those countries as people would keep money with themselves for meeting their basic needs during rainy days. Foreign direct investment and foreign aid may be less in the coming years from the G-7 countries to Bangladesh.

Financial reform measures to be further strengthened so that capital markets can be more efficient. Recent debacle of capital market has created a problem for the country. Bangladesh should be cautious in handling the foreign exchange reserve. Moreover, banking sector of country is now currently being shocked with scam especially by the largest public limited bank. According to Islam (2012) Sonali Bank scam involved over Taka 5,000 crore. However, the exact amount of loss from improper transactions in the Hallmark scandal is Taka 3,699 crores 53 lakhs; discovery of similar irregularities involving Taka 1400 crores loaned to 14 other business corporations having close relationship with high-ups in the government accounts for the rest. The anomalies have been corroborated in an audit by a Chartered Accountant Firm, Saiful Shamsul Alam & Company. According to Bangladesh Bank (2012) the foreign exchange reserve was at USD 11.148 billion on September 16, 2012 which hit a record USD 11.37 billion on May 12 last year, but dipped below USD 9 billion at one stage due to rising import costs and export slowdown. Unutilized foreign exchange reserve is burden for the country. Moreover, there is every scope to divert capital from Bangladesh. Those who are related to divert capital from any country always involved in the mechanism like a game theory.

3. Methodology

The study uses both primary and secondary sources. On the basis of questionnaire, primary data was also collected. Likert scale questionnaire was prepared on the basis of the literature review looking at the impact on the Bangladesh economy. Empirical observations were conducted in six divisional Headquarters of Bangladesh i.e. Dhaka, Chittagong, Rajshai, Khulna, Sylhet and Barisal and questionnaire was selected randomly. Total numbers of respondents were 1970 and total numbers of questionnaire randomly distributed were 2122. Time period of the study is from January 2012 to September 2012. Male respondents were 1275 and female respondents were 695. These results are given in Table 2. Types of respondents are also given in the Table.

On the basis of these primary data, Chi square tests were conducted. The reason behind choosing Chi square test for primary data is that Likert scale is used which has discrete distribution rather than normal distribution. As such it provides statically meaningful results. The major sources of secondary data included publications of various authors, research reports, journals, Internet etc.

3.1. Hypothesis testing. This section presents the following hypotheses

Ho1: International financial shock has an impact on Bangladesh economy.

Ha1: International financial shock has no impact on Bangladesh economy.

Ho2: International financial shock will have an adverse impact on existing business environment.

Ha2: International financial shock will not have an adverse impact on existing business environment.

Ho3: Bangladesh can take advantage of the international financial shock.

Ha3: Bangladesh cannot take advantage of the international financial shock.

Ho4: Bangladesh can face disadvantage of the international financial shock.

Ha4: Bangladesh cannot face disadvantage of the international financial shock.

3.2. Data analysis. Table 2 presents the opinion on impact of international financial shock on Bangladesh economy.

Table 2. Opinion on impact of international financial shock on Bangladesh economy

Type	Positive comment	Negative comment	Chi square test
Businessmen	156	235	
Entrepreneurs	85	193	
Academicians	42	87	
Bankers	61	62	$X^2 = 34.901$
Journalists	39	124	$DF = 9$
Politicians	107	239	
NGO and social orkers	75	196	$p = 0.0006203$
Members of civil society	44	90	
Govt. administrative officers	12	29	
Others	31	63	

Source: Opinion Pool Survey.
Note: 1970. Chi square test is determined.

From the above table we observe that Chi square test is significant. As such null hypothesis is accepted. This implies that international financial shock has an impact on Bangladesh economy.

Table 3. Existing business situation

Type	Strongly agreed	Moderately agreed	Neutral	Moderately disagreed	Strongly disagreed	Test of goodness of fit ($DF = 4$)
Export market good	137	217	375	453	788	$\chi^2 = 650.90$
Expansion of new market	80	138	354	315	1083	$\chi^2 = 1641.0$
Govt. help is sufficient	118	374	355	315	808	$\chi^2 = 1637.86$
Financial Institutions helped properly	98	139	276	551	906	$\chi^2 = 646.93$
Exchange rate policy is good	178	236	295	374	887	$\chi^2 = 824.54$

Source: Opinion Pool Survey.
Note: Chi square test is determined.

It is observed from Table 3, that Chi square test is significant. As such a null hypothesis is accepted. This implies that international financial shock will have an adverse impact on existing business environment.

Table 4. Advantage of the situation

Type	Strongly agreed	Moderately agreed	Neutral	Moderately disagreed	Strongly disagreed	Test of goodness of fit (DF = 4)
Govt. initiative is proper	59	158	315	374	1064	$\chi^2 = 1582.39$
Foreign buyers reduce price	611	689	473	157	39	$\chi^2 = 819.068$
Export of some exportable commonities rises	157	532	434	374	473	$\chi^2 = 211.812$

Source: Opinion Pool Survey.
Note: Chi square test is determined.

It is observed from Table 4 that Chi square test is significant. As such null hypothesis is accepted. This indicates that Bangladesh can take advantage of the international financial shock.

Table 5. Disadvantage of the situation

Type	Strongly agreed	Moderately agreed	Neutral	Moderately disagreed	Strongly disagreed	Test of goodness of fit (*DF* = 4)
Gender inequality rises	295	551	612	394	118	χ^2 = 401.396
Children are being oppressed	374	533	512	315	236	χ^2 = 164.594
Social unrest rises	335	610	433	354	236	χ^2 = 198.733
Economic welfare declines	414	651	472	335	98	χ^2 = 415.305
Unemployment rises and purchasing power declines	610	827	217	119	197	χ^2 = 964.234

Source: Opinion Pool Survey.
Note: Chi square test is determined

It is observed from the above table that Chi square test is significant. As such null hypothesis is accepted. As a result respondents think that Bangladesh can also face disadvantage of the international financial shock.

Recommendations

The following recommendations are suggested:

- Financial soundness is the key factor for the Bangladesh economy. Enhancing surveillance in the financial sector is very much required. Corporate governance in true sense should be implemented in different organizations especially financial intermediaries. Transparency, accountability and dissemination of information should be established. International accounting procedure should be implemented. Corruption should be minimized so that it doesn't retard economic development process.
- Monetary policy should be more effective so that investment rises but inflation can be reduced. Inflation should be reduced to 4 per cent so that real rate of return becomes positive. Readjustment of exchange rate should be made without any sort of favor towards USD. Fiscal policy should be redesigned to reduce indirect tax and to raise direct tax. Tax management system should be improved so that Tax-GDP ratio can be raised. Motivation for giving taxes should be increased. Debt/GDP ratio should be declined. Implementation of the fiscal policy should be done properly.
- Bangladesh Bank should come out from the direct supervision of the Goverment and should not regularly supplies credits to meet fiscal deficit through monetary measures. Bangladesh Bank as a central bank ought to work independent role. They should come out from the tussle between banking division under Ministry of Finance of Goverment of Bangladesh and themselves regarding control over banking sector. Bangladesh bank has to maintain external stability through maintaining stability in the exchange rate of the domestic currency with the foreign currencies in the international market. Calculation of the real effective exchange rate should be done properly. Stability in the balance of payment position is also required.
- Capital market should be properly utilized for long-term industrial financing. Demutualization of stock may be done to bring confidence of investors of the stock market. Investment for construction of bridge, port and electricity production and also long-term industrial financing should be arranged from the capital market. More companies should be enlisted in the stock market. As such proper initiatives should be implemented. Capital market should give more emphasis on debt financing and long-term financial derivatives.
- Sixth five-year economic planning should implement on the basis redistribution of the wealth for social justice, creation of employment opportunities, rise of purchasing power, removing income inequality, availability of investable fund, and control population growth rate through family planning. As such more emphasis should be given on corruption free financing in the productive sector through better utilization of financial intermediaries.

Conclusions

The basic development of the country depends on of employment and reduction of prices of essential commodities. Those who will be unemployed from the domestic industries as well as return from abroad after losing their job, it is the responsibility of the Government and the private sector to create employment opportunity. World Bank's caution about the economy of the country as reported in the World Bank report (2012) should be seriously taken by the policy implications so that shortcomings of the economy can be transformed to opportunities. Infrastructural development is a real problem for the economy. Government borrowing from the banking sector and high inflation rate are big challenges to develop the economy. Solar electricity system along with nuclear power system should be introduced. Though Government is trying to solve the problem of electricity, coal and gas problems, however implementation process is slow. Bangladesh not only needs good leadership as well as efficient and effective three tiers of management in every sphere i.e. top level, mid-level and lower level man-

agement at all level of functional organization. Strategic leadership should be accompanied with strategic formulation and strategic implementation. Starting from the junior level of management to the top level management, boosting up of development strategies should take the center stage. Any sort of development project should be well coordinated by the parliament members and Upzilla Chairmen. Mutual inclusive system of delegation of power should be designed.

From the primary survey we observe that the results are quite supportive. This implies that if Bangladesh economy can take appropriate measures it will be able to cope with the problems. For last forty-one years since independence problems have risen with globalization. Bangladesh achieved export growth mostly initiated by private sector. The success on international business largely depends on how effective and efficient will be the strategy of diplomacy. But the person in different stages of embassies does not properly handle business processes and bilateral trade relations. To thrive in the global world, import of the country should be declined and export should be raised with export diversification. Moreover, import substitution industries should be set up. Monetary, fiscal and exchange rate policy of the country should be more proactive and in favor of globalization programs. Present Governmentt should be more cautious and they should properly implement 6th five year plan. Vranceanu (2011) suggestions should be taken into account so that Bangladesh Bank, National Board of Revenue, Bangladesh Stock Market and Board of Foreign Investment can work efficiently and in partnership without misguiding the economy of the country. Moreover, Bangladesh Bank should play due role to reduce scams in the banking sector and venture capital organizations should be established in the country to promote growth.

To mitigate the problem of the international depression it is necessary to create employment opportunity, production of low cost product maintaining the quality, improvement of supply chain management and export diversification. Those who will be unemployed from the domestic industries as well as returned from abroad after losing their job, it is the duty for the Government to create employment opportunity for the groups. Solar electricity system side by side nuclear energy should be introduced due to power shortage. Any sort of infrastructure development project should be well coordinated by the parliament members and Upzilla Chairmen. Mutual inclusive system of delegation of power should be designed.

Raihan's (2012) findings should be cautiously dealt by the policy makers. Government of Bangladesh must be more cautious about the international collapse. Government should take appropriate decision beyond the interest of a very thin group of vested interest groups. Depending on the appropriate decision, it may be possible to avail the opportunities of the international financial catastrophe. Though the country is following free market economy, whenever any sort of imperfection creates market distortion, regulatory measures should be taken. The economy suffers from macroeconomic destabilization. International assistance is an important ingredient where real, monetary and also external sector should work to complement each other for strengthening macroeconomic variables. Without the cooperation among the world leaders, it will not be possible to address the international financial repression syndrome.

Developed and developing nations should work for their common interest and the danger of financial engineering should be overcome by structured market system where up to certain level market forces can act without any sort of hindrance but when market turmoil starts then there must be regulatory measures taken by the government. But currently relationships with western countries are not good due to Grameen Bank and corruption phobia within the economy. Bangladesh should be cautious to overcome the international financial shock. Synergy should be created through total quality management in every sphere for which employment generation and redistribution of income effect is the prime concern for economic progress of the country.

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