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banking sector in Bangladesh**

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Editorial Notes

There is a debate whether secondary market contributes to capital formation and hence national economy or not. It does indirectly through IPOs in primary market, which are going to be listed and traded in the secondary market, as good secondary market is a pre-requisite for the IPO market. The funds that are raised by issuing companies in the primary market and funds that are raised by issuing right offerings & repeat public offerings (RPO) are required to be used for further expansion and growth, and are indeed a part of capital formation for industrialization. All these are also part of market capitalization. However, a major part of high rocketing market capitalization in recent times is indeed an asset price bubbles in capital market rather than a response to growth in real sectors. It needs to be handled prudently and judiciously with strictest care by regulators because of market sensitiveness and consequent of loss/restoration of confidence by investors upon the market.

The offer price determination of IPOs is indeed critical and subject to talks in all times. Using price-discovery process through institutional participation in providing indicative price for the issue, book-building - two-stage method, introduced in recent times in Bangladesh, is deemed to derive fair price of the issue for the issuer and the general investors, as it is assumed that participating institutions are better informed than that of general individual investors. However, it is observed that only relative pricing methods are used by the issue manager in the Information Memorandum in the book-building method to justify the offer price in order to cash in the high booming market sentiment, other than fundamentals, and institutional prudence for quoting indicative price is missing and hence becomes boomerang for the general investors that will participate in the primary market. This so called fair price of the offer in the book building indicates expected prevailing market price (believe to be high due to booming market sentiment) having no consideration in fundamentals of issuing company and does not leave any money on the table for the general investors. This pricing behavior can not avoid the issue manager who is supposed to be primarily responsible, and regulator who is secondarily responsible (from the point of vetting prospectus), from determining the fair price of the offer being justified with fundamentals.

The first article of this issue argues for instillation of good corporate governance and corporate social responsibility in the banking sector and focuses on salient features of corporate governance in banks in Bangladesh within the regulatory framework. The paper highlighted issues relating to corporate governance spelt out in revised Bank Companies Act 1991 & in regulations issued by Bangladesh Bank from time to time, besides the Companies Act 1994, and the issues include, among others, board size, fit and proper criteria, specified roles & responsibilities

of the board and chief executive, and terms of removal from office for directors and chief executives.

The second article examines the causality between economic growth and electric consumption in Bangladesh during 1974 to 2006. Using Co-integration and Granger Causality tests, the paper finds no long run co-integrating relationship between economic growth and electricity consumption in Bangladesh. However, the paper also finds that there is a unidirectional causal relationship running from economic growth to electricity consumption and not vice versa. This finding may turn out to be counter intuitive to the common knowledge that energy consumption is the driving factor for growth. The finding of unidirectional relationship suggests that electricity consumption keep on growing as long as the economy grows in Bangladesh.

The third article aims at assessing major macro-economic policy changes made by the democratic governments in Bangladesh since 1991 in a political economy framework. The paper evaluates some important economic policies and, using some macro-economic indicators, the paper demonstrates that the economic policies of the country match with the broader umbrella of globalization more than the manifesto of the ruling political parties in all times.

Last but not the least, good corporate governance in financial institutions, removal of shortage of power and exploration of gas and other natural resources for its effective utilization, appropriate investment regime, dynamic macro-economic policies, building capacities of high internet connectivity, improved railways and telecommunication facilities, developed port and road networks, etc. are indeed crucial to ensure the increased productivity and thereby enables us to achieve inclusive economic growth.

Mahmood Osman Imam

Editor

01 January, 2011