



# JOURNAL OF THE INSTITUTE OF BANKERS BANGLADESH

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## Editorial Notes

### **Risk Based Capital Adequacy for Banks under Basel-II: Bangladesh Perspective**

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### **Determinants of Workers' Remittances: Evidence from Bangladesh**

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### **Analysis of Behavior of Female Investors in Stock Market in Bangladesh: Evidence from a Survey**

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### **A Survey of Economic Situation in Bangladesh: July-December- 2010**

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**Call for Papers and Notes to the Contributors**

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## *Editorial Notes*

Budgetary allocation for agriculture is presumed to be larger in the next fiscal year (FY12-13) and hence agricultural credit will also be bigger. Increasing agricultural credit is likely to be a positive step but whether it will prove so in unfolding farming scene is doubtful, because farmers are recently endangered with the production cost higher than the prices of their output. However, the subsidy in the agricultural sector will continue to decline as the government would like to ease off pressure on a deficit budget. One of the important concerns is that in current FY2011-12, Bangladesh started with the large fiscal deficit as a percent of GDP and the provision of increased subsidy in energy due to high consumption of furnace oil, HFO etc, which will lead to wider scope of destabilizing the macro-economic activity. In order to meet the deficit in coming budget too, government will continue to borrow largely from banking in the FY2012-13. Farmers have been credited with bumper production of paddy for three consecutive seasons and now they are encountering difficulties with their yield because of its low price. For a year now paddy price has been experiencing a slump at grower's level although at the consumer level in towns and cities the price is quite high. So, whatever may be the multilateral agencies' prescription for agriculture here, Bangladesh has reaped benefits or dividends in the food sector because of the subsidies in the farm sector. If subsidies to this sector make our country self reliant on the food sufficiency and not becoming dependent on the import of foods once again, then the government should continue to provide subsidies to the farm sector. However, one answer to providing no subsidies is raising the credit-worthiness of farmers. And to create such a situation, the most important move would be to stabilize the price of paddy with a reasonable profit margin for growers. This calls for doing away with the middlemen, parasites of the society, who pocket an irrational proportion of profit on their investment. The Government should directly procure paddy from farmer from designated markets at fixed price with provision for profit for growers. This arrangement should gradually be turned into a permanent system so that the middlemen do not have any opportunity to meddle in the affairs and manipulate the market.

The first article of this issue aims at assessing potential impact of minimum capital requirement -pillar I of Basel II in terms of not only credit risk but also market risk and operational risk for calculating RWA (risk weighted assets) on the banking groups in Bangladesh. More specifically, the article estimates the changes in the capital requirements of banks in Bangladesh due to the implementation of Risk Based Capital Adequacy for Banks in line with Basel II accord. It is found in Basel II parallel calculations of the sample banks that capital requirements to comply with Basel-II Standardized approach would go up significantly for all banking groups. In this study, it is also found that State Owned Commercial Banks need to increase their capital much more than those of any other category. The capital requirement under Basel II parallel calculation increased due to additional burden of capital from operational risk and market



risk. The paper has also highlighted the challenges of implementation of risk based capital adequacy for banks from the perspective of the bankers and their supervisors as well.

The second article investigates the determinants of remittances flows to Bangladesh. Using co-integration analysis, the authors find that there exists a long run equilibrium relationship between endogenous variables -remittances flows and GDP growth rate of home country, exchange rate and host country GDP growth rate. In vector error correction model, the error correction terms indicates that there is short run dynamics of remittance flows that are adjusted to long run. The long run co-efficient of home country growth rate indicates that migrants send remittance with a motive to invest but the short run coefficient of changes in GDP growth rate of home country in vector error correction model shows that they have consumption smoothing motive to remit money to the home country. The long run coefficient of exchange rate indicates that if the taka is depreciated against US dollar, it works as an incentive to remit more by realizing more realistic return. In the same connotation, rate of host country GDP growth increases remittances as they offer increased wages to migrant workers.

The last and final note of this issue empirically investigates the behavioral analysis of female investors in stock market in Bangladesh along with challenges for them. Due to extra household burden, female cannot provide sufficient time for collecting and analyzing data for making informed investment decision. Rather they resort to make decision following other investors revealing 'herding behavior'. In the study, it can be inferred from anecdotal evidence that female investors are more risk averse than male investors. From using bank loan and margin loan, the greed is more pronounced for male investor than that of female investor. Since most female investors opine that their initial losses were the outcome of either lack of information about companies and/or following other investors, female investors demonstrated herding behavior on account of disregarding their own analysis.