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## Editorial Notes

### Revenue-Expense Tradeoff and Profitability of Commercial Banks in Bangladesh

*Md. Mahabbat Hossain*

*A.N.K Mizan*

### The Determinants of Worker's Remittances in Bangladesh

*Mst. Nurnaher Begum*

### Loan Loss Provisions: Purpose, Desirability, and Necessity - A Policy Note

*Dr. Atiur Rahman*

### A Survey of Economic Situation in Bangladesh: July-December 2012

Call for Papers and Notes to the Contributors

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## *Editorial Notes*

Bangladesh achieved sustained annual growth of a bit more than 6 per cent in the last one decade, despite the global financial crisis and global food price shocks. Growth was driven by stable macroeconomic and prudent monetary policies, rising industry and services output, and continued high levels of remittances. Going forward, the Government of Bangladesh's objectives is to develop a growth trajectory that will support an overall increase in real GDP growth to 8 per cent per annum and reduce poverty from 30 per cent to 15 per cent by 2021.

The Government of Bangladesh has successfully provided tailored infrastructure services and business environment conditions through Export Processing Zones (EPZs). EPZs were used as a strategic instrument for attracting FDI and dealing with the shortcomings of the overall investment climate, business registration, licensing, etc. As an exporting enclave, EPZs have triggered impressive growth in exports, mainly in the RMG sector, at an average annual rate of 24 percent since 1993, reaching nearly US\$3.8 billion by FY2012, and employing almost 30,000 people.

To maximize potential direct and indirect impacts, high technology and efficiency spillovers, more linkages with domestic economy, the govt. of Bangladesh has recently launched an effort to develop a new Economic Zone (EZ) paradigm for Bangladesh drawing from numerous successful examples from around the world as well as Bangladesh's own positive experience with the EPZ model. A Special Economic Zones (SEZ) is a designated and duty-free enclave, which may have various economic regulations. SEZs is also regarded as a trade capacity development tool, with the goal to promote economic growth using business and other tax incentives to achieve foreign investment and technology. Today there are approximately 3,000 SEZ's functioning in 120 countries, which account for more than US\$ 600 billion in exports and 50 million jobs. By providing privileged terms, SEZs attract lucrative investments and foreign exchanges, generate employment opportunities and also gives a boost to technological development and infrastructure. An EZ must have (i) stable & sufficient power, (ii) sufficient water supply, (iii) a common waste water treatment facilities with an international standards, (iv) truly functional One Stop Services (OSS) reducing the administrative Red Tape as conditions for EZ to be successful.

The Economic Zone Act was passed in Parliament in August 2010, providing the overall framework for establishing EZs throughout Bangladesh. The law provides the legal coverage for attracting and leveraging private investment in the development of zones as zone developers or operators, and in the provision of tailored infrastructure services, such as private provision of power, effluent treatment, etc. selected and contracted on a Public-Private Partnership (PPP) basis. A strengthened institutional framework will also be supported through policy advice and capacity building to help accomplish these objectives.



The first article of this issue focuses on the analysis of revenue-expense tradeoff of commercial banks and the impact of its diversification on the profitability of these banks. Foreign private commercial banks (FCBs) are efficient enough to generate higher level of non-interest revenues and maintain a lower level of expenses. The state owned commercial banks (SOCBs) are good in generating non-traditional revenues but are found to be not cost-efficient, while the domestic private commercial banks (PCBs) are trying to diversify their revenue source for maximizing shareholder's wealth. The private Islamic commercial banks (PICBs) are good in maintaining lower level of operating expenses but fail to collect low cost of funds.

The second article aims at investigating the factors driving worker's remittances in Bangladesh over the period of 1981 to 2011. The domestic inflation and host country's GDP are the driving factors for the inflow of remittances in Bangladesh. The finding suggests that remittance be very sensitive to the GDP of the host countries. It is also documented that the measures taken by the government and Bangladesh bank contributed to boost up the inflow of remittances from informal to formal channel.

The last and final article of this issue is concerned with a policy note on the issue of loan loss provisions in terms of its purpose, desirability and necessity. Expected loan losses should be recognized through the use of loan loss provisions on the balance sheet as soon as they occur. There is some misconception that higher provisioning reduces banks' liquidity, because liquidity comes from cash flow, and higher provisioning does not affect cash flow at all. Higher provisions today can in fact even give a positive signal to the share market that the bank is adequately recognizing the expected loan losses that are inherent in its portfolio, avoiding the possibility of a nasty earning surprise in the future that could shock the investing public.

**Mahmood Osman Imam**  
*Editor*

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