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Financial Liberalization and Reforms in Bangladesh

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1. Introduction

There is no denying the fact that the financial system plays a significant role in the economic development of a country. The importance of an efficient financial sector lies in the fact that, it ensures domestic resources mobilization, generation of savings, and investments in productive sectors. In fact, it is the system by which a country’s most profitable and efficient projects are systematically and continuously directed to the most productive sources of future growth. The financial system not only transfers funds from savers to investors: it must be able to select projects which will yield the highest returns, accumulate sufficient quantities of capital to fund the range of investment projects across economic activities, account for price risks across assets, monitor performance, and enforce contracts. According to the McKinnon-Shaw hypothesis (1973), the conventional wisdom is that flexibility and efficiency of the financial system are crucial to the growth and development of a market economy. A comprehensive study by King and Levine (1993) from across 119 developed and developing countries over the 1960-1989 period provides compelling evidence that economic growth is dramatically dependent on the size of financial sector, credit to private sector and enterprises and interest rates. The larger the financial sector in the context of the overall economy, the greater the share of lending by depository rather than central banks, and the greater the share of credit to private sector rather than public sector, the greater is the rate of economic growth.

Financial sector in Bangladesh, like most in developing countries, is dominated by banking institutions. With recent gains in financial fronts Bangladesh's financial sector is now comparable with most of the countries in South and East Asia in terms of financial deepening (measured by broad money to GDP ratio). This was 80 percent in India (2008) followed by 50 percent in Bangladesh (2008) and Pakistan (2007) and 35 percent in Sri Lanka. Bangladesh, like other developing countries, still has an underdeveloped financial system and is facing serious problems with the operation of its financial system and poor financial intermediation presents significant disincentives to foster economic growth. Given the very low levels of both domestic and national savings, and together with population growth, Bangladesh needs more resources for investment. Thus, financial development is a prerequisite for economic growth. There is broad agreement that the establishment of a competitive efficient and transparent financial system will result in higher economic growth and create employment opportunities. Therefore, evolution of a sound and well-integrated financial system through appropriate policy stances in the monetary and banking arena is essential to facilitate the economic development of any country.

* The views expressed in the paper and author's own and in no way reflect those of the Bangladesh Bank. He is grateful to Dr. Md. Habibur Rahman, Deputy General Manager of the Bank in preparing the paper.
2. The Rationale for Financial Sector Reforms

Financial sector reform means two distinct but complementary types of changes that are to establish a modern financial system capable of acting as the “wheel of the economy” and allocating the economy’s savings in the most productive way among different potential investments. First, liberalization of the sector: putting the private sector rather than the government in charge of determining who gets credit and at what price. Second, establishing a system of prudential supervision designed to restrain the private actors so that it can be reasonably sure that their decisions will also be broadly in the general social interest. Financial Liberalization Theory of McKinnon and Shaw was the theoretical background of the Financial Sector Reform Program in Bangladesh. The McKinnon-Shaw hypothesis postulates that government control and intervention in the financial system, which limit the operation of market mechanisms, lead to financial repression, slow economic growth and development. However, financial reforms have been a major component of structural adjustment programs in developing countries. The pace of financial sector reforms and innovations began to accelerate in the late 70s in many industrial countries and in the early 80s in a number of developing countries of the Pacific Basin and Latin America. There was serious need of policy reforms and the institutional changes in the financial system to meet the changing market conditions throughout the world. Therefore, financial sector reforms are basically policy measures design to deregulate certain operations of the financial system and transform its structure, with a view to achieving a liberalized market oriented system within an appropriate regulatory framework. In other words, financial liberalization refers to measures directed at diluting or dismantling regulatory control over the institutional structures, instruments and activities of agents in different segments of the financial sector. These can relate to both internal and external (current account convertibility) liberalization measures. Typically, financial sector liberalization in developing countries has been associated with measures that are designed to make the central bank more independent, relieve "financial repression" by freeing interest rates and allowing financial innovation, reduce directed and subsidized credit, as well as allow greater freedom in terms of external flows of capital in various forms.

The linkages between financial sector reforms and financial structure on the one hand and stabilization and other structural reform policies on the other are close and complex. Financial sector reforms that allow greater freedom for banks and the public to choose their asset-liability portfolios according to market determined rates of return also alter the money supply process. Such reforms can have a major impact on the money multiplier. Following financial liberalization, money multiplier becomes more responsive to income, wealth, and structure of interest rates. Impact of financial sector reform on the monetary policy transmission mechanism depends on the effects of reform on interest rates on the evolution of interest sensitivity of various economic agents, and the developments in credit market conditions. The financial structure influences and is also influenced by macroeconomic performance and real economic developments. Thus financial developments and real sector developments are seen as jointly determined through an interactive process. Structural measures to strengthen prudential regulations and correct portfolio weaknesses in the financial sector are important for the effectiveness of stabilization polices, in particular monetary policies. Prudential regulation and banking supervision objectives could interact with monetary policy goals, an aspect which could influence the sequencing of reforms.
3. Banking System in Pre-independent Bangladesh

Bangladesh inherited its branch banking system from the British colonial regime. There were 44 banks and financial institutions working in erstwhile Pakistan before the partition of Indo-Pak subcontinent in 1947. Following the emergence of Pakistan in 1947, State Bank of Pakistan (the central bank) came into being in July 1948. The pattern of ownership of the commercial banks (36 banks were in operation till 1971) shows that the West Pakistanis owned most of the commercial banks. Although three commercial banks namely, National Bank of Pakistan, Habib Bank Ltd. and the Australasia Bank Ltd. had one branch of each in East Pakistan until 1949, no Bangladeshi had ownership in any of the banks. Three other Pakistani-owned banks (Premier Bank Ltd., Bank of Bahwalpur Ltd. and Muslim Commercial Bank) had opened their branches in East Pakistan during 1950-58. Later, another four banks (the United Bank Ltd., Union Bank Ltd., Standard Bank Ltd. and the Commerce Bank Ltd.) also opened their branches in the province during 1959-1965. However, all of them had their headquarters in West Pakistan. East Pakistan had only two banks, Eastern Mercantile Bank Ltd. (presently Pubali Bank Ltd.) and Eastern Banking Corporation Ltd. (presently Uttara Bank Ltd.) established in 1959 owned by local business groups with headquarters in Dhaka.

4. Nationalization of the Banking System in Bangladesh

Immediately after the liberation of the country in 1971, the government nationalized banking system of Bangladesh. The East Pakistan branch of the State Bank of Pakistan was converted into the country’s central bank named as Bangladesh Bank under the Bangladesh Bank Order, 1972 (P.O. 127 of 1972) with the multiple objects of the sole regulating authority to issue currency, keeping of the reserves and managing the monetary value, preserving the par value of Bangladesh Taka, promoting and maintaining a high level of production, employment and real income in Bangladesh and fostering growth and development of the country’s productive resources in the best national interest. Under the Bangladesh Banks Nationalization Order, 1972 (P.O. 126 of 1972) with the assets of 12 privately owned commercial banks which were operating in Bangladesh six nationalized commercial banks (NCBs) were established by the government. Moreover, two specialized banks- Bangladesh Shilpa Bank (BSB) and Bangladesh Krishi Bank (BKB) were also established by the government under the Bangladesh Shilpa Bank Order, 1972 (P.O. 129 of 1972) and the Bangladesh Krishi Bank Order 1973 (P.O. 127 of 1973) with the assets of the-then Industrial Development Bank of Pakistan and Agricultural Development Bank of Pakistan respectively.

5. Privatization of the Banking System in Bangladesh

With the gradual change in economic policy towards a more market based system, the government in early 1980 encouraged private sector banks to flourish in the country. Accordingly, in response to the call of the government some of the private banks (Arab Bangladesh Bank limited, National Bank Limited, IFIC Bank Ltd., and Islami Bank Bangladesh Limited) have started their banking operation. With the success of the new private banks and keeping in view the performance of loss recurring NCBs, government disinvested or transferred the Uttara Bank and the Pubali Bank in the private sector during 1984-85. The Rupali Bank Ltd. has also been transferred to the private sector in 1986 and during the mid 1990s more commercial banks were permitted to operate in the private
sector.

6. The Current Structure of Financial System in Bangladesh

At present the financial system in Bangladesh is mainly composed of two types of institutions like banks and non-bank financial institution (NBFIs). The formal financial sector in Bangladesh includes: (a) Bangladesh Bank as the central bank, (b) 48 commercial banks, including 4 Government owned commercial banks, 30 domestic private banks (PCBs) (of which 6 banks are operating under Islamic Shariah), 9 foreign banks (FCBs) (of which 1 bank is operating as Islamic bank); and 5 government-owned specialized banks (DFIs); (c) 28 non-bank financial institutions (NBFIs) – licensed by the Bangladesh Bank); (d) 2 large government-owned insurance companies (life and general) and 60 private owned (17 life and 43 general) insurance companies; (e) 2 stock exchanges and, (f) some co-operative banks. Besides, a good number of semi-formal micro finance institutions (MFIs) also are operating in Bangladesh.

7. Why Financial Sector Reform?

After emerging as an independent country, the new government adopted nationalization policy in almost every sector in Bangladesh. The entire financial system (except the foreign banks) was nationalized in accordance with the policy, the objective of which was to support the priority sectors. Bank loans were mostly directed to the public/government enterprises. Reconstruction of the war-ravaged country was the main focus of the period. The policy eventually led to deep financial crises as most commercial enterprises lacked commercial viability. As a result, loan recovery was extremely poor and government took measures to bring order in the financial sector. Besides, inefficiencies and distortions in the financial market and institutions inhibit the formal financial sector from performing the proper services, which have adverse effects on the economic development of Bangladesh. The deep-rooted structural problems existed in the financial market and institutions of Bangladesh. These are manifested in various forms:

- Non-existence of market oriented monetary policy instruments;
- Inefficient credit delivery system and insufficient mobilization of savings;
- Absence of prudent lending criteria that led to large scale directed lending. The loanable fund at the disposal of the banks was directed towards public sector without commercial consideration;
- Poor customer service;
- Low capital lease of the banks;
- Widespread loan defaults and delinquencies (deterioration in portfolio quality);
- The internal control system of commercial banks was weak, the books of accounts did never reflect the actual financial health of the banks, the quality of assets of the banks was not evaluated on strict accounting principles, the MIS was virtually non-existent in the banking sector;
- The system for classifying non-performing loans was extremely lax: long time was required for a loan to be classified as non-performing;
- Legal procedures for collection of non-performing loans was prohibitively costly;
• Inadequate bank supervision, inadequate capital adequacy, and loan provisioning requirements; thus profitability and liquidity aspect of portfolio management was unfamiliar concept among the management personnel, the elements of capital adequacy for banking operation were not given due weightage; and
• Pervasive weakness in the money market was observed in the capital market also. The only stock exchange of the country at that time namely the Dhaka Stock Exchange was there with only a few enlisted companies.

To overcome all these problems and distortions and to suggest remedial measures the “National Commission on Money, Banking and Credit” in 1984. The World Bank also provided assistance to carry out studies on the financial sector. Following these initiatives, a comprehensive “Financial Sector Reform Programs (FSRP)” was put into operation in early 1990s. The objective of FSRP was to remove distortions and bring competition the financial sector.

Financial liberalization theory of McKinnon and Shaw was the theoretical background of the Financial Sector Reform Program in Bangladesh. McKinnon and Shaw, in their works, argued in favor of removing distortions from the economy imposed by regulatory authorities. They emphasized that the liberalization policy would make the financial system more efficient and competitive if the distortions are removed. In line with this policy suggestion, the FSRP was designed to liberate the economy from government control, bring indirect control in monetary policy, enhance efficiency of public and private banks, and restoring order in the financial sector. The main targets of the Financial Sector Reform Program (FSRP) were:

(a) Liberalization of interest rates;
(b) Indirect monetary management;
(c) Implementation of capital adequacy requirement of commercial banks;
(d) Introduction of new policies for loan classification;
(e) Modernization of the banking sector and introduction of updated accounting system;
(f) Revision of the legal structure of financial sector;
(g) Development of capital market;
(h) Strengthening central bank’s supervision;
(i) Improvement of overall management of the banking sectors with special emphasis on credit management; and
(j) Computerization in the central bank and in the government owned commercial banks

8. Financial Sector Reform Program in Other Countries

Many countries of the world have undertaken reform measures for their financial sector since 1970s, though the motivation for reforms varies from country to country. The reforms of the financial sector in the advanced countries were triggered to a major extent by the phenomenon called “globalization” of banks and financial markets, which again was influenced by factors like restrictive regulations in domestic markets, collapse of Breton-Woods system and adoption of floating exchange rate system, abolition of capital control resulting in cross-border exchange and trade, technological development, debt-crisis of early 1980s leading to a series of financial crisis, etc. But the financial sector reforms in the developing countries, especially of Latin America and Asia, were introduced as part of their overall program of economic stabilization and growth. Due to adoption of interventionist development strategy by the governments of the developing countries
during the period preceding the reforms, mainly in terms of directing the resources of the financial institutions (which were largely owned by the governments) to state enterprises and priority sectors at below market interest rates left them (financial institutions) financially “repressed” as well as “distressed”. Therefore, a major aim of financial sector reforms is the matter of improving saving-investment process and thus enhancing the efficiency of the workings of the financial systems of developing countries.

The experiences of developing countries in financial sector reforms have been mixed: some were successful, while others were less so. In particular, Latin American countries, including Argentina, Chile, Columbia, Brazil, Mexico and Uruguay initiated radical financial reforms beginning from mid-1970s, but their efforts generally ended with financial distress, which caused the re-imposition of regulations (Lee 1991). In contrast to quick and sudden dismantling of all financial regulations in Latin American countries, financial liberalization progressed very cautiously in Korea and Taipei, China and achieved a reasonable amount of success. Cho and Khatkhate (1989) analyzed the experiences of five Asian countries: Korea, Philippines, Sri Lanka, Indonesia, and Malaysia. They found that though reforms greatly contributed to the financialization of savings, yet overall saving-investment activities did not improve significantly in those countries. In the mean time (in 1990s), a number of African countries as well as western European countries have also undertaken wide-ranging reform measures for their financial sectors, the results of which are yet to be available in published documents.

Regarding sequencing of liberalization, an important issue is the proper order between domestic and external liberalization (the opening up of current and capital accounts). It is now widely believed that domestic financial liberalization should be accomplished before external liberalization is undertaken. Moreover, in the context of external liberalization, trade and current account be liberalized first and the capital account afterwards. Some authors have also favored a gradual but steady process of liberalization in developing countries rather than sudden dismantling of all regulations.

9. Financial Sector Reform Measures in Bangladesh

The banking sector in Bangladesh was characterized basically by a “financially repressed” regime with directed deposit and lending rate resulting in distortion in resource allocation, with low productivity. To get rid of this situation and to infuse competition in the financial sector, the Government of Bangladesh decided to take up the issues with great earnest. Major policy changes have been brought about with our own initiatives and a National Commission on Money, Banking and Credit was formed in 1986 with a view to identifying the problems and suggest means for the efficient management of the banking system in Bangladesh. The Commission completed several studies on different issues relating to the financial sector and submitted recommendations to the Government. The major issues related to the topics were: capital adequacy requirements of Nationalized Commercial Banks (NCBs) and Development Financial Institutions (DFIs), overall structure of the banking system, monetary management of Bangladesh Bank, problems of overdue loans, agriculture and rural credit, supervision and inspection of financial institutions by Bangladesh Bank, legal framework affecting financial institutions, etc. Largely based on the findings and recommendations of the Commission, Bangladesh Bank adopted a good number of reform measures since 1991. Some of these measures include:
I. Decontrol of deposit and lending rates and making them more flexible according to market forces;
II. Strengthening of criteria/procedures for loan classification and provisioning, greater autonomy and self-regulation by banks and non-bank financial institutions;
III. Improvement of capital adequacy positions and strengthening the operations of Government owned banks and private sector banks;
IV. Replacement of refinance facilities by a single discount window;
V. Rationalization of branch network;
VI. Strengthening of Bangladesh Bank’s role in the field of supervision of banks;
VII. Protection of banks from shouldering the cost of subsidized loan and transferring the cost to the government;
VIII. Adoption of indirect and market oriented monetary policy instruments;
IX. Ensuring legal environment by enacting Bank Company’s Act- 1991 and Financial Loan Court Act- 1990; and
X. Opening of current account and making Taka convertible and computerization of banks.

The Government of Bangladesh also enacted two important Acts namely, Financial Institutions Act- 1993 and Securities and Exchange Commission Act- 1993 for the development of Non-bank Financial Institutions (NBFIs) and Securities market operations respectively in Bangladesh. In terms of broad policy objectives, these reform measures aimed at improving financial discipline in the short-run and making the environment more congenial for financial institutions to operate on the basis of market forces as well as achieving operational efficiency and promote financial deepening/development in the long-run.

In continuation of the reform process Bangladesh Bank undertook the Central Bank Strengthening Project (CBSP) in 2003 with the financial assistance of IDA. The main components of the project are. (i) Functional reorganization and automation (ii) Capacity building (strengthening Research, HRD) (iii) Strengthening prudential regulation and supervision (iv) Strengthening Accounting and Auditing standard, and (v) Strengthening legal framework, etc.

10. Relative Performance of Banks (by type of banks) and Non-banks- A Quantitative Analysis

The financial system in Bangladesh is dominated by the banking sector with limited role of NBFIs, and the insurance companies in capital market. Banking sector alone accounts for about 95 percent of assets of the financial system. Total number of scheduled bank branches has gradually risen from 5042 at the end of December 1985 to 6886 in December 2008 (6936 in June 2009). The structure of the banking system has changed substantially over the last few years. The market share of the Government owned banks declined substantially to 31.1 percent of the total industry assets in 2008 as against 54.4 percent in 1990 while PCBs' share rose to 54.2 percent in 2008 as against 22.6 percent in 1990. The foreign commercial banks held 8.0 percent of the industry assets in 2008, showing a slight increase by 0.03 percentage point over the year 1990.

The banking system again is dominated by the 4 Government owned banks, which in operated by 3387 branches (49.0 percent of the total) and together controlled 29.50 percent of deposits of in June 30, 2009. Despite their dominance and reasonably robust growth, these banks have been losing market share due to the rapid growth of private banks for their better service to the customers. Their
share in total deposits declined to 29.50 percent in June 2009 from 71.0 percent in 1985.

The domestic private bank’s growth is even more impressive. Private banks (including Islami banks) continues to increase their market share of total deposits from only 18.34 percent in June 1985 to 57.75 percent in June 2009 and share of total advances from 13.51 percent in 1985 to 62.95 percent in June 2009. On the other hand, foreign banks’ market share has remained more or less unchanged at about 7 percent of total deposits while market share of total advances increased from 5.3 percent in 1985 to 6.97 percent in June 2009. The market share of deposits and advances by type of banks ins given below in Table-1.

**Table1: Market Share of the Banks by Types (in percent)**

<table>
<thead>
<tr>
<th></th>
<th>Deposit of Scheduled Banks</th>
<th></th>
<th>Advances of Scheduled Banks</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td>89.45</td>
<td>70.89</td>
<td>62.43</td>
<td>62.07</td>
</tr>
<tr>
<td>DFIs</td>
<td>4.34</td>
<td>4.40</td>
<td>4.37</td>
<td>4.90</td>
</tr>
<tr>
<td>PCBs</td>
<td>0.00</td>
<td>18.34</td>
<td>26.06</td>
<td>31.47</td>
</tr>
<tr>
<td>FCBs</td>
<td>6021</td>
<td>6.37</td>
<td>7.14</td>
<td>5.18</td>
</tr>
</tbody>
</table>

Source: Statistics Department, Bangladesh Bank * End June

The distribution of bank branches reveals that most of the branches of Government owned banks and DFIs are situated in rural (non-municipal) areas while private sector banks and foreign banks are mainly concentrated in urban areas. The category wise urban and rural branches of the scheduled banks are given in Table-2.

**Table2: Category-wise urban/rural distribution of bank branches.**

<table>
<thead>
<tr>
<th></th>
<th>SOBs</th>
<th>DFIs</th>
<th>FCBs</th>
<th>PCBs</th>
<th>All Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban</td>
<td>Rural</td>
<td>Urban</td>
<td>Rural</td>
<td>Urban</td>
</tr>
<tr>
<td>1980</td>
<td>22.43</td>
<td>44.57</td>
<td>2.04</td>
<td>17.65</td>
<td>0.42</td>
</tr>
<tr>
<td>1985</td>
<td>21.38</td>
<td>42.27</td>
<td>2.01</td>
<td>18.50</td>
<td>0.39</td>
</tr>
<tr>
<td>1990</td>
<td>22.66</td>
<td>39.11</td>
<td>2.54</td>
<td>17.09</td>
<td>0.38</td>
</tr>
<tr>
<td>1995</td>
<td>21.83</td>
<td>37.13</td>
<td>2.45</td>
<td>17.37</td>
<td>0.56</td>
</tr>
<tr>
<td>2000</td>
<td>19.35</td>
<td>33.54</td>
<td>2.36</td>
<td>18.57</td>
<td>0.64</td>
</tr>
<tr>
<td>2005*</td>
<td>17.88</td>
<td>30.95</td>
<td>2.27</td>
<td>17.40</td>
<td>0.84</td>
</tr>
</tbody>
</table>

Source: Statistics Department, Bangladesh Bank * End June

The NBFIs (licensed by the Bangladesh Bank) are engaged primarily in leasing business, investment financing, merchant banking etc. These institutions (29 in numbers) have remained marginal accounting for about 1 percent of financial system assets. The insurance market is also dominated by two Government owned companies- one Sadharan (general) Bima Corporation and another Jiban (life) Bima Corporation, which together command almost 95 percent of the total assets of the insurance sector.
Stock market in Bangladesh consists of two stock exchanges - Dhaka Stock Exchange and Chittagong Stock Exchange. Their market capitalization as a percentage of GDP is considerably lower at 6 percent in Bangladesh compared to 26 percent in Sri Lanka and 54 percent in India.

11. Some Recent Reforms in the Financial Sector

Regulatory Reforms

a) Corporate governance:

(i) Governance structure of banks has been strengthened; better disclosure and transparency standards have been introduced and dissemination to the public at large has been mandated. Several measures have been taken by the Bangladesh Bank to put in place good corporate governance in the banks. These include (i) regulation limiting the tenure of the members of the Board of Directors; (ii) appointment of two independent directors in the boards of the banks by the Bangladesh Bank; (iii) limiting the number of Directors to 13 in the boards; (iv) 'fit and proper test' for appointment of Board members and Chief Executive Officer of the Private banks; (v) constitution of Audit Committee of the Board; (vi) the role and functions of the Board of Directors and the Management of the banks have been redefined specifying the powers of the Management and the Board; (vii) Audit Committees were mandated for all banks with clear guidelines and TORs. Banks have been asked to strengthen their internal control system.

(ii) Bangladesh Bank's capacity to supervise and regulate banks effectively, monitor non-performing loans, enforces actions against banks found violating regulations and laws have been strengthened.

(iii) The Bangladesh Bank has recently introduced Early Warning System (EWS) to identify certain weaknesses and deteriorating trends in selected indicators (Capital adequacy's asset growth, NPLs etc.). Monitoring of ‘problem banks’ has been strengthened through agreements on clear and quantifiable targets.

b) Risk Management

Bangladesh Bank has issued guidelines on Managing Core Risks in banking in October 2003. The five core risks that have been advised to manage in these guidelines are Credit Risks, Asset and Liability/Balance Sheet Risks, Foreign Exchange Risks, Internal Control and Compliance Risks and Money Laundering Risks. Banks have been advised to put in place an effective risk management system based on the guidelines prescribed by the Bangladesh Bank by June 2004 that will help the banking system to manage major i.e., credit, market and operational risks in a better way than before. Given the increasing importance, separate prudential guidelines have been issued for consumer credit and small and medium loans.

c) Policy to Improve the Management and Performance of Government owned Banks

All the 3 former NCBs have been made public limited companies with a view to improving their performance.
d) Loan Recovery
The Artha Rin Adalat Ain (Money Loan Court Act 2003) was enacted in 2003 with a view to improving the legal framework for recovery of overdue loans and advances by the banks and financial institutions; stringent loan rescheduling conditions have been introduced to stop evergreening of loans. An upper limit on a bank's exposure to a particular customer or group was introduced. Strict measures have been laid and enforced on loan loss provisioning, and tier 1 and tier 2 capital adequacies. Loan write off guidelines were issued by the Bangladesh Bank, allowing the banks for the first time, to write off "bad" debts against which full provisioning has been made.
e) Credit Information Bureau (CIB) set up in 1992 contains credit information of outstanding loan of Taka 50 thousand and above which embraces around 90 percent of total outstanding credit of the banking sector of the country. Banks submit input data to CIB on monthly (outstanding amount of Taka 10 million and above) and quarterly (outstanding amount of Taka 50 thousand and above but below 10 million) basis. Financial institutions furnish input data (outstanding amount of Taka 50 thousand and above) to CIB on half yearly basis.

12. Concluding Remarks
Financial sector reforms can play a vital role to bring financial system stability and transparency and is undoubtedly one of the crucial prerequisites for embarking upon a path of sustained economic growth. Financial system in Bangladesh faces enormous problems and poor financial intermediation presents significant disincentives to foster economic growth. A well designed financial sector reform program can address the issues. The pro-active measures taken in the financial sector in recent years have put salutary impact on the financial system. The on-going reform process in the financial system of Bangladesh will bring stability and transparency. In this regard, proper care should be taken in the reform process so that reforms in the financial sector embrace the socio-economic realities in Bangladesh.

Reforms of any sort may be in the financial sector or in any other sectors of the economy is a continuous process and cannot be bound by any time frame. For successful implementation of financial sector reforms an independent central bank as well as a sound overall macroeconomic stability is a necessity. Financial liberalization is an extremely important component of a successful development strategy. If financial deregulation is implemented in isolation, it is unlikely to promote growth and may, in fact, impede economic development. The importance of achieving macroeconomic stability prior to reform is well known, yet structural reform and institutional development in the financial sector, especially prudential financial supervision are equally essential as liberalization proceeds.
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