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Title: Capital Requirements, the Cost of Financial Intermediation and Risk-Taking: Empirical Evidence from Bangladesh

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Abstract
Using two-step Generalized Methods of Moments (GMM) estimation, we investigate the effects of capital regulations on the cost of financial intermediation and banks' risk-taking by employing a panel data of 32 Bangladeshi commercial banks over the period of 2000 to 2014. Higher capital adequacy ratio requires more regulatory capital in banks. The result is a higher the cost of intermediation and lower banks' risk-taking. The results hold when we use equity to total assets ratio as an alternative measure of bank capital. We also observe that switching from BASEL I to BASEL II has no measurable impact on the cost of financial intermediation and bank risk-taking in Bangladesh. Findings also reveal that some factors have reduced the cost of intermediation of banks: an increase in management efficiency, reserve and income diversification and a reduction in financial intermediation. Surprisingly, banking monopoly and GDP growth has no measurable impact on the cost of intermediation and risk-taking. Results also show that, increase risk-weighted assets and liabilities in the assets structure enhance the risk-seeking attitude of the banks'. Finally, the results support the Central Bank's initiative to enforce capital regulations to ensure the stability and competitiveness of the banking sector in Bangladesh.

JEL Classifications: G21, G32, C23
Keywords: Cost of intermediation; risk-taking; capital regulation; GMM estimation