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SCAN FOR DETAILS

INTEREST CAP REGIME

Interest rate cap of **9%** on lending since April 2020

Bankers and analysts have suggested removal of cap on lending rate

First relaxation after 31 months

Consumer loans is **6%** of total loans in the banking sector

Consumer loans stood at Tk **79,017cr** in 2021, up **26%** year-on-year

Economic purpose-wise advances June 2022

SOURCE: SCHEDULED BANK STATISTICS, BB

Trade	34%
Working capital	20.85%
Term loan	20.22%

Experts' recommendation

Interest rate cap should be withdrawn on all loans

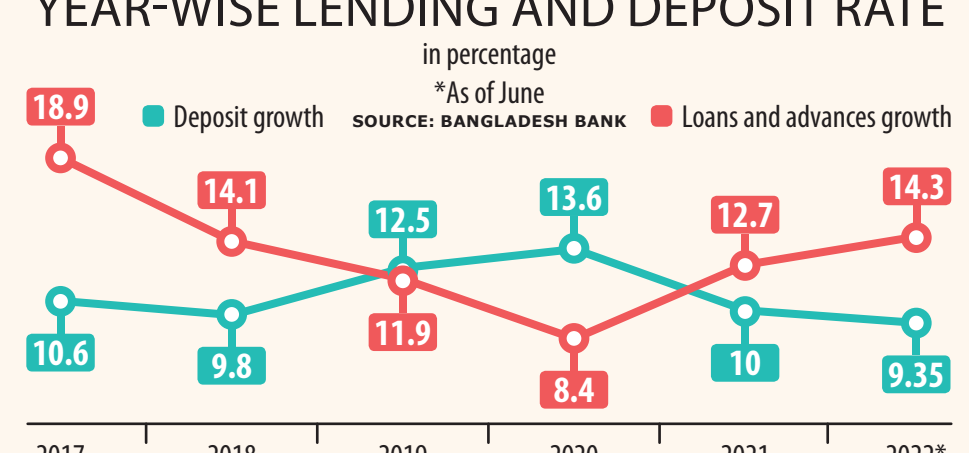
BB should issue a circular to remove confusion about the interest rate ceiling

BANKS DEPOSIT AND ADVANCES

	Amount	Growth (Apr-Jun 2022)
Total deposit:	Tk 1,57,38,23cr	4% year-on-year
Banks' advances:	Tk 1,29,86,59cr	2.42% year-on-year

YEAR-WISE LENDING AND DEPOSIT RATE

in percentage
*As of June
SOURCE: BANGLADESH BANK



Year	Deposit growth	Loans and advances growth
2017	10.6	18.9
2018	9.8	14.1
2019	12.5	11.9
2020	13.6	8.4
2021	10	12.7
2022*	9.35	14.3

BB eases cap on lending interest after 31 months

AKM ZAMIR UDDIN

The Bangladesh Bank has decided to raise the interest rate on consumer loans to 12 per cent from 9 per cent after economists have long called for the withdrawal of the cap on all loans to contain inflation.

As per a central bank instruction aimed at supporting the fast-growing economy, accelerating industrialisation and keeping the cost of funds lower for borrowers, banks have been maintaining the 9 per cent interest rate on all loans except for credit cards since April 2020.

Everything went well until February when the flooding of the cheap funds emerged as a major headache for the economy as the country has been struggling to contain inflation, which has rocketed to a record high in recent months for the higher global commodity prices and the depletion of foreign currency reserves.

Inflation surged to a 10-year high of

The move is in the right direction as the increase in the interest rate on consumer loans has brought some changes to the interest rate structure and this is required under the current circumstances.

AHSAN H MANSUR, executive director of the Policy Research Institute of Bangladesh

9.52 per cent in August. It fell to 9.10 per cent in September.

The decision to allow the interest rate to go up comes at a time when a delegation of the International Monetary Fund (IMF) is in talks with various state agencies as part of its assessment before sanctioning a credit support of \$4.5 billion to Bangladesh. It is advising the central bank to allow the interest rate to be market-driven.

The lending interest ceiling has been a

end yet. It communicated the decision to the Association of Bankers Bangladesh, a platform for managing directors of banks, around two weeks ago, said bankers.

Contacted, two officials of the central bank said that a circular will be sent out to banks if required.

They said that the new decision would help contain the money supply and bring a positive impact on controlling inflation.

BB Spokesperson GM Abul Kalam Azad declined to comment.

The ratio of consumer loans is 5-6 per cent of the total outstanding loans in the banking sector.

"So, the decision will not have a major impact," a managing director of a bank said.

Consumer loans in the banking sector stood at Tk 79,017 crore as of December, up 26 per cent year-on-year.

The managing director said that the central bank should disseminate a circular on the issue to remove confusion if any.

Mansur called the BB move partial. "This is not the first best solution. But the BB's move is in the right direction as the increase in the interest rate on consumer loans has brought some changes to the interest rate structure and this is required under the current circumstances," he said.

He hopes the central bank will allow the market to determine the interest rate across the board in the quickest possible time.

Mustafizur Rahman, a distinguished fellow at the Centre for Policy Dialogue, says that the central bank should also consider increasing the interest rates on other loans in order to contain inflation.

The exchange rate and the interest rate have a direct relationship when it comes to managing inflation efficiently, he said.

"The central bank should issue a circular to ensure transparency to this end. Verbal instruction is not expected given the gravity of the issue."



major barrier to curbing higher inflation despite the central bank hiking the key interest rate, also referred to as policy rates, thrice since May 29.

This is because the money supply did not less to a large extent owing to the ceiling, according to analysts, who think an increase in interest rate will reduce the money supply, thus helping tackle inflation.

The BB has not issued any notice to this

Both Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, and Syed Mahbubur Rahman, managing director of Mutual Trust Bank, welcomed the BB move.

"But so far I have understood that the new rule will not be applicable for the consumer loans that have already been given out," Rahman said.

"In addition, the new interest rate will not apply to mortgages or home loans."

CMSMEs bear the brunt of load-shedding

Says FBCCI president

STAR BUSINESS REPORT

Industries outside Dhaka, especially cottage, micro, small and medium enterprises (CMSMEs), are suffering the most from load-shedding due to the lower capacity of the Rural Electrification Board (REB), said the chief of the country's apex trade body.

The REB is responsible for supplying electricity to rural areas, where most industries are located, but the state-owned company receives a lower allocation of energy than other power companies.

As a result, various industries are not getting an adequate power supply, said Md Jashim Uddin, president of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI).

"CMSMEs are the worst-sufferers as many cannot operate properly now," he said at a dialogue organised by the Economic Reporters' Forum at its office.

Jashim suggested adopting coal-fired power plants to meet the energy demand. Some developed countries are even now going in this direction despite the environmental risks.

Moreover, CMSMEs do not have easy access to finance as banks fear they may not be able to recover funds from small scale businesses even though they generate 80 per cent of employment in the informal sector.

He urged banks to lend to CMSMEs by signing

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A general view of the GPH Ispat manufacturing facility in Chattogram, where the steel maker has launched production of high-grade steel rebar to cater to domestic construction projects.

PHOTO: GPH ISPAT

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Savers on the receiving end again

BB removes mechanism that sets deposit rate in line with inflation

AKM ZAMIR UDDIN

The Bangladesh Bank has decided to withdraw the interest rate floor on retail term deposits which had been set by banks equivalent to the average inflation rate of the immediate past three months, said bankers.

The central bank verbally informed the Association of Bankers, Bangladesh, a platform for managing directors of banks, of the decision two weeks earlier.

Contacted, an official of the central bank, said the BB has taken the decision following the method of the free market economy.

The central bank, however, has not sent out any circular yet to this end. If required, the BB will issue a circular to this end, said the official.

GM Abul Kalam Azad, the spokesperson of the BB, declined to comment on it.

In August last year, the BB asked banks not to set interest rates on fixed-term deposits below the inflation rate as it yields negative returns for savers.

Banks had been asked to set the interest rate on retail fixed deposits considering the inflation rates of the immediate past three months in order to protect the interests of depositors.

But the latest decision of the central bank will hand a blow to depositors, who will be getting rates from banks below the inflation rate even though inflation has been rising in recent periods.

Inflation in Bangladesh surged to a 10-year high of 9.52 per cent in August. It fell to 9.10 per cent in September, showed data from the Bangladesh Bureau of Statistics.

It is unlikely that inflation will come down significantly anytime soon since the factors – the war, higher commodity prices, the surge in energy prices, and supply disruption – that have sent the consumer prices higher in the first place are already there.

The weighted average rate of deposits – which is calculated based on the interest rates of all types of deposits offered by banks – stood at 4.07 per cent in August.

This means the real interest rate was 5.45 per cent in the negative in August.

If banks now set the interest rate on fixed

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STOCKS

WEEK-ON-WEEK

DSEX ▲	CASPI ▲
0.51% 6,410.67	0.88% 18,945.11

COMMODITIES

AS OF FRIDAY

Gold ▲	Oil ▲
\$1,681.3 (per ounce)	\$92.65 (per barrel)

ASIAN MARKETS

FRIDAY CLOSINGS

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 0.19% 60,950.36	▼ 1.68% 27,199.74	▲ 0.89% 3,130.11	▲ 2.43% 3,070.80