

# Star BUSINESS

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Story on B4

## Market-driven interest rate returns after four years

STAR BUSINESS REPORT

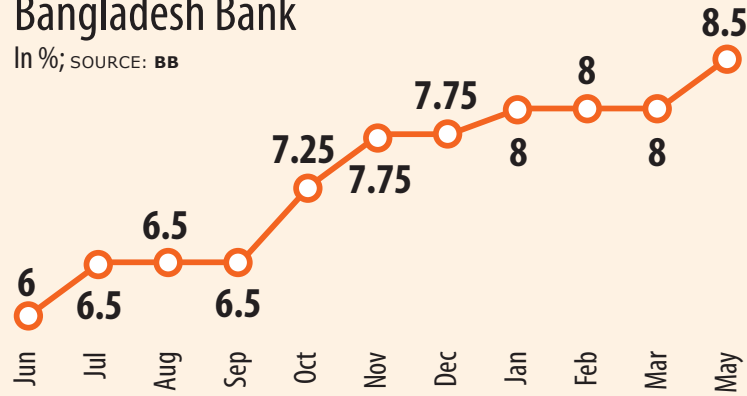
After a gap of four years, the banking sector in Bangladesh has returned to a market-driven interest rate regime at the prescription of the International Monetary Fund (IMF), in order to step up its fight against elevated level of inflation.

The central bank also raised the policy rate by 50 basis points to 8.5 percent, aiming to make money costlier.

The central bank took the decision as people have been struggling with the high level of

### Changes in policy rate by Bangladesh Bank

In %; SOURCE: BB



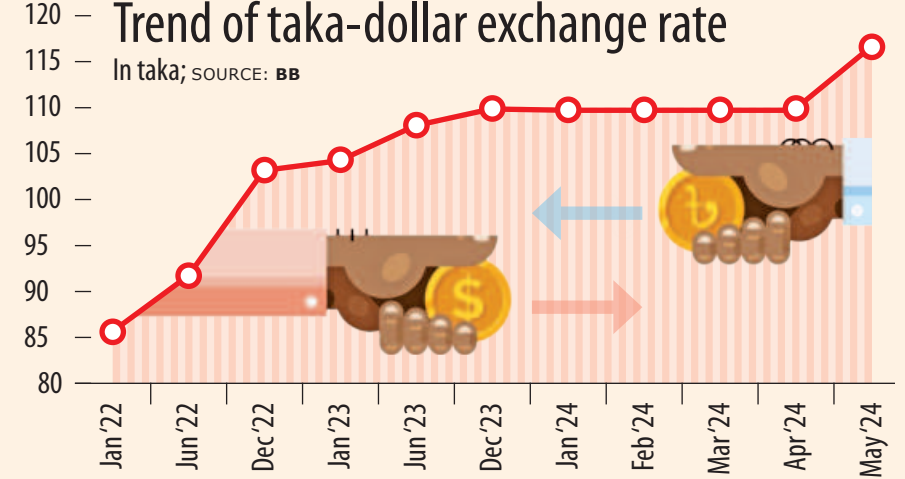
### TIMELINE

- April '20: 9% lending rate introduced
- July '23: SMART was launched
- May '24: Market-based interest rate returns

## Exporters cheer weaker taka

### Trend of taka-dollar exchange rate

In taka; SOURCE: BB



REFAYET ULLAH MIRDHA

In a historic move, the central bank of Bangladesh has depreciated the local currency against the US dollar mainly to make the country more competitive in international trade, a move that exporters and businesses welcomed.

In fact, the taka has been losing ground over the past three years, both during and after the Covid-19

pandemic, as Bangladesh's banking system struggled to supply dollars as per surging demand.

Owing to a chaotic and volatile exchange rate, local exporters were desperate for the introduction of a floating exchange rate so they could draw more money and be more competitive.

The taka stayed firm at Tk 85 per dollar for over a decade, but started

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prices for around two years. Analysts expect the interest rate in the banking sector to rise in the upcoming days and inflationary pressures to ease. The move to a market-based lending rate was one of the conditions for the IMF's \$4.7 billion loan to Bangladesh, the third tranche of which is expected soon.

Bankers welcomed the decision, opining that the lending rate may rise initially and a market-based rate was necessary to reduce inflationary pressures and make the banking sector healthy.

Selim RF Hussain, chairman of the Association of Bankers Bangladesh (ABB), told The Daily

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## Journey to be painful, but necessary



Ahsan H Mansur

Mustafizur Rahman

STAR BUSINESS REPORT

The road ahead is not smooth. The journey is going to be painful. But it is necessary for healing the wounds of the economy and taking it back to normalcy, two eminent economists said yesterday after Bangladesh Bank lifted the restrictions on interest rates and allowed the taka to move more freely.

"It is a good step forward. The rate of interest may rise for private lending, but that is necessary. We have to live through that to tackle the current challenges," said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh (PRI).

He also welcomed the move to let the taka find its value through the introduction of crawling peg -- a flexible exchange rate system.

He said this would stabilise the taka-dollar exchange rate and improve foreign exchange reserves, which have depleted substantially over the last two years.

"That is important," he said.

Until now, there has been an imbalance in the exchange rate and exporters were forced to take Tk 110 per US dollar.

It is a good step forward. The rate of interest may rise for private lending, but that is necessary. We have to live through that to tackle the current challenges

Ahsan H Mansur  
Executive director of PRI

"The situation turned such that yields of government's treasury bills and bonds were way above the lending rate for the private sector. Such an anomaly cannot exist in a market," he said. "Now, interest cannot be controlled because there is a huge requirement for borrowing by the government."

Mansur, a former economist at the International Monetary Fund, said interest rates would rise. This may slow the economy further, but it is necessary to overcome the challenges.

He also welcomed the move to let the taka find its value through the introduction of crawling peg -- a flexible exchange rate system.

He said this would stabilise the taka-dollar exchange rate and improve foreign exchange reserves, which have depleted substantially over the last two years.

"That is important," he said.

Until now, there has been an imbalance in the exchange rate and exporters were forced to take Tk 110 per US dollar.

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