Interest rates going down: BB

Bangladesh Bank has said interest rates in the country have declined and banks are free to fix the level and structure of interest rates under the market-based interest rate policy, in a clarification issued Tuesday amid the ongoing debate on interest rates, reports UNB. In the statement, the central bank said the board of directors of different banks determine interest rates based on their own considerations of profitability. Though the interest rate policy is market-based, Bangladesh Bank often sets the maximum cap for loans in different priority sectors considering the national interest and overall macroeconomic situation. The current ceiling on interest rates for pre-shipment export loans is 7 percent and for agricultural loans is 11 percent. The BB mentioned that the effective rate of interest for the Export Development Fund (EDF) is less than 3 percent. As of today, Taka 235 billion has been financed with the EDF to the export-oriented enterprises. Around Taka 260 billion has been disbursed to the buyers’ credit sector at 6 percent interest rate. The agricultural credit disbursement target for FY 2014-15 is Taka 160 billion, of which 72 percent has been disbursed during the first nine months of the current fiscal. According to the central bank, no more than 10 percent (9 percent in most cases) interest rate can be charged under the Bangladesh Bank refinancing scheme for SMEs and women entrepreneurs, while 4 percent rebate rate is applicable for the agriculture sector for cultivation of pulses, oilseeds, and spices. It said Bangladesh Bank has also submitted a proposal to the Ministry of Finance for providing SME loans to the dairy farms at a similar rebate rate. Taka 57 billion has been refinanced against loans to the SME sector till date. Businessmen now can avail loan facilities from foreign sources at lower rate (London Interbank Offer Rate or LIBOR plus 3 to 4 percent, which is less than 5 percent). Over the last five years, Bangladesh Bank has approved around Tk 500 billion of loans from foreign sources. These low-cost EDF, buyers’ credit, agricultural credit, SME refinance, and foreign loans are significantly contributing towards reducing interest rates in the domestic financial market. Moreover, there is a rebate on accrued rate of interest for good borrowers. The statement said interest rate depends mainly on banks’ cost of funds, administrative costs, provision expenses, profit margins, and so on. The overall cost of fund for banks is decreasing due to rationalization of various service charges, fees, commission charges, etc, avoiding high expenditure to establish bank branches, and adoption of policies towards limiting expenditure for the purchase of transport vehicles. Though banks' one-time initial costs have increased a bit because of implementation of information technology as instructed by Bangladesh Bank, the cost of funds is gradually falling over time. In recent months, lending rate has not declined at the same pace as the deposit rate; however, with intensive monitoring and moral persuasion from Bangladesh Bank, both the lending rate and the interest rate spread have decreased to 11.93 percent and 4.87 percent respectively. At the same time, the rate of inflation has been falling steadily with prudent monetary management from Bangladesh Bank. At the end of April 2015, the average annual rate of inflation stood at 6.57 percent, claimed the BB statement.
Banks' lending rates drop
Star Business Report

Banks' average lending rate came down to 11.93 percent in March, the lowest in two years, riding on lenders' falling cost of funds and measures aimed at reducing expenditures.

The fall in lending rates will come as a relief to industries and businesses, who have long described the higher bank interest rates as a key barrier to boosting investment.

March's average weighted lending rate was more than two percentage points lower than a year ago, when it was 13.73 percent, according to the central bank.

The deposit rate also went down to 7.06 percent in March from 8.67 percent two years ago. Thanks to the fall in both interest rates and deposit rates, the spread also fell below 5 percent to 4.87 percent in March.

Bangladesh Bank said the interest rates depend on the banks' cost of funds, operational costs, provisions and profit margins.

“Banks have rationalised their various services and commissions and cut back on setting up branches and vehicle purchases. As a result, the overall lending rates have fallen,” BB said in a statement yesterday.

Golam Hafiz Ahmed, chief executive of NCC Bank, said his bank has already brought down lending rates for good customers, and has also reduced the interest rates for short-term financing.

At present, banks are free to fix the level and structure of interest rates under the market-based interest rate policy.

Though the interest rate policy is market-based, Bangladesh Bank often sets the maximum cap for loans in priority sectors keeping in mind the national interests and overall macroeconomic situation.

For example, the current ceiling on interest rates for pre-shipment export loans is 7 percent and agricultural loan is 11 percent. The effective rate of interest for the Export Development Fund (EDF) is less than 3 percent.

As of today, Tk 23,500 crore has been financed with the EDF to export-oriented enterprises.

Around Tk 26,000 crore was disbursed to the buyers’ credit sector at 6 percent interest rate.

The agricultural credit disbursement target for fiscal 2014-15 is Tk 16,000 crore, of which 72 percent has been disbursed during the first nine months of the current fiscal year.
No more than 10 percent interest rate can be charged under the Bangladesh Bank refinance scheme for SMEs and women entrepreneurs, while a 4 percent rebate rate is applicable for the agriculture sector for cultivation of pulses, oilseeds and spices.

Bangladesh Bank has submitted a proposal to the finance ministry for providing SME loans to dairy farms at a similar rebate rate.

Businessmen now can borrow loans from foreign sources at lower rates: London Interbank Offer Rate plus 3 to 4 percent, which is less than 5 percent.

Over the last five years, Bangladesh Bank has approved around Tk 500 billion of loans from foreign sources.

“These low cost EDF, buyers' credit, agricultural credit, SME refinance and foreign loans are significantly contributing towards reducing interest rates in the domestic financial market,” said the central bank.

In recent times, the costs of funds fell gradually over time, but the lending rate did not decline at the same pace as the deposit rate.

The government also has created a further opportunity in lending rate cuts after it slashed deposit rates on all national savings instruments by around 2 percentage points.

“It would bring down the weighted average lending rate further in the coming days. Bangladesh Bank has been actively working towards reducing the lending rate to a rational level so as to ensure an investment-friendly economic environment,” said the central bank.

Finance Minister AMA Muhith said the cut in savings interest rates would make funds inexpensive for the private sector.

Industries and businesses however want single digit interest rates.

“If we can bring the banks' lending rates down to a single digit it would help immensely,” said Syed Manzur Elahi, a former president of the Metropolitan Chamber of Commerce and Industry in Dhaka, recently.
BB expects interest rates on lending to fall further

Dhaka, Bangladesh (BBN) - Bangladesh Bank (BB) expects that the interest rates on lending will fall further in the coming days as the central bank is working closely in this regard to ensure an investment friendly economic environment.

At present, the banks have sufficient liquidity to expand loans to the potential borrowers, the central bank of Bangladesh said in a clarification on Tuesday.

"The BB has therefore been promoting credit flows to the productive sectors at lower rates of interest through various financial inclusion activities which are contributing towards the socio-economic development along with ensuring financial and macro stability," the central bank explained.

The central bank also said interest rate depends mainly on banks' costs of fund, administrative costs, provision expresses, profit margins, and so on.

The overall cost of fund for banks is decreasing due to rationalization of various service charges, fees, commission charges etc, avoiding high expenditure to establish bank branches, and adoption of policies towards limiting expenditure for the purchase of transport vehicles, according to the clarification.

In recent months, lending rate has not declined at the same pace as the deposit rate; however, with intensive monitoring and moral suasion from the BB, both the lending rate and the interest rate spread have decreased to 11.93 per cent and 4.87 per cent respectively.

The overall interest-rate spread in the country’s banking sector came down to 4.87 per cent in March 2015 from 5.04 per cent in the previous month, the BB data showed.

The overall interest rate spread in the country’s banking sector fell below 5.0 per cent further in March 2015 after more than one year due to strict monitoring and supervision of the central bank.

The weighted average spread between lending and deposit rates offered by the commercial banks came down to 4.87 per cent in March, 2015 from 5.04 per cent in the previous month. The spread was 4.99 per cent in January, 2014.

On the other hand, the weighted average rates on deposits came down to 7.06 per cent in the same month from 7.19 per cent in the previous month while interest rates on lending dropped to 11.93 per cent from 12.23 per cent.

At the same time, the rate of inflation has been falling steadily with prudent monetary management from the BB. At the end of April 2015, the average annual rate of inflation came down to 6.57 per cent from 6.66 per cent.

On the other hand, the government has announced reduction of the interest rate on all types of National Savings Certificates by around 2.0 per cent.

"As a result, the weighted average lending rate is expected to fall further in the coming days," the central bank.

Currently, the banks are free to fix the level and structure of interest rates under the market based interest rate policy. The board of directors of commercial banks determines interest rates on their own considerations of profitability.

Though the interest rate policy is market based, the BB often sets the maximum cap for loans in different priority sectors considering national interests and the overall macroeconomic situation.
Earlier on Friday, BB Governor Dr. Atiur Rahman assured business leaders at a meeting with Sylhet Chamber of Commerce and Industry (SCCI) that the bank interest rates are already on the downturn and will fall further gradually.

The current ceiling on interest rates for pre-shipment export loans is 7.0 per cent and for agricultural loan is 11 per cent. The effective rate of interest for the Export Development Fund (EDF) is less than 3.0 per cent.

As of today, BDT 235 billion has been financed with the EDF to the export-oriented enterprises.

Around BDT 260 billion has been disbursed to the buyers’ credit sector at 6.0 per cent interest rate. The agricultural credit disbursement target for FY 2014-15 is BDT 160 billion, of which 72 per cent has been disbursed during the first nine months of current fiscal.

No more than 10 per cent (9.0 per cent in most cases) interest rate can be charged under the BB refinance scheme for SMEs and women entrepreneurs; 4.0 per cent rebate rate is applicable for the agriculture sector for cultivation of pulses, oilseeds, and spices.

The central bank of Bangladesh has also submitted a proposal to the Ministry of Finance for providing SME loans to the dairy farms at the similar rebate rate.

Businessmen now can avail loan facilities from foreign sources at lower rate (London Interbank Offer Rate or LIBOR plus 3.0 to 4.0 per cent, which is less than 5.0 per cent).

Over the last five years, the BB has approved around BDT 500 billion of loans from foreign sources.

“Those low cost EDF, buyers’ credit, agricultural credit, SME refinance, and foreign loans are significantly contributing towards reducing interest rates in the domestic financial market,” the BB observed.

BBN/SSR/AD-19May15-9:16 pm (BST)
Lending rates continue to fall: BB

Staff Correspondent

Bangladesh Bank (BB) on Tuesday said lending rates on refinancing schemes and loans for export and agriculture sectors have been reduced by the banks as per its directives.

Exporters are getting loans at 6 percent, down from government-fixed 7 percent, and all loans under refinance schemes are being disbursed at 10 percent while the current interest rate on agriculture loans is 11 percent, according to a BB statement issued on Tuesday.

The central bank said the weighted average lending rates came down to 11.93 percent at end of March this year from 13.73 percent during the same period last year.

The central bank directed the banks not to charge more than 10 percent (9 percent in most cases) interest for loans under the refinance schemes for SMEs and women entrepreneurs. Beside, 4 percent rebate rate is applicable on agri loans for cultivation of pulses, oilseeds, and spices.

Bangladesh Bank said it has submitted a proposal to the Ministry of Finance for providing SME loans to the dairy farms at the same rate.

The central bank said businessmen now can avail loans from foreign sources at lower rate (London Interbank Offer Rate or LIBOR plus 3 to 4 percent, which is less than 5 percent). Over the last five years, Bangladesh Bank has approved around Tk 500 billion of loans from foreign sources.

“These low cost EDF, buyers’ credit, agricultural credit, SME refinance, and foreign loans are significantly contributing towards reducing interest rates in the local financial market. Moreover, there is a rebate on accrued rate of interest for good borrowers,” BB said.

The central bank, however, said the banks are free to fix the level and structure of interest rates under the market-based interest rate policy. The Board of Directors of banks determines interest rates on their own considerations of profitability.

“Though the interest rate policy is market based, Bangladesh Bank often sets the maximum cap for loans in different priority sectors considering national interests and the overall macroeconomic situation,” said the central bank.
It said the overall cost of fund for banks is decreasing due to rationalisation of various service charges, fees, commission charges etc, avoiding high expenditure to establish bank branches, and adoption of policies towards limiting expenditure for the purchase of vehicles.

Though banks’ one-time initial costs have increased a bit because of implementation of the information technology as instructed by Bangladesh Bank, the costs of fund are gradually falling over time, it said.

In recent months, lending rate has not declined at the same pace as the deposit rate; however, with intensive monitoring and moral suasion from Bangladesh Bank, the interest rate spread has decreased to 4.87 percent.

Recently, the government has announced reduction of the interest rate on all types of savings certificates by around 2 percent. As a result, the weighted average lending rate is expected to fall further in the coming days.

Bangladesh Bank said it has been actively working towards reducing the lending rate to a rational level to ensure an investment friendly economic environment.

Besides, the banks now have sufficient liquidity to expand loans to the potential borrowers.

Bangladesh Bank has therefore been promoting credit flows to the productive sectors at lower rates of interest through various financial inclusion activities which are contributing towards the socio-economic development along with ensuring financial and macro stability.