Banks to set interest rates based on market: BB

The Bangladesh Bank (BB) said on Tuesday the interest rates in the country declined and the banks were free to fix the level and structure of the rates under the market-based interest rate policy.

The central bank stated it in a clarification issued on the day amid the ongoing debate on interest rates, reports UNB.

In the statement, the central bank said the boards of directors of different banks determine interest rates in consideration of their profitability.

Though the interest rate policy is market-based, the BB often sets the maximum cap for loans in different priority sectors considering the national interest and overall macroeconomic situation, it has added.

The current ceiling on interest rates for pre-shipment export loans is 7.0 per cent and for agricultural loans it is 11 per cent.

The BB mentioned that the effective rate of interest for the Export Development Fund (EDF) is less than 3.0 per cent.

According to the central bank, no more than 10 per cent (9.0 per cent in most cases) interest rate can be charged under the Bangladesh Bank refinancing scheme for SMEs and women entrepreneurs, while 4.0 per cent rebate rate is applicable for the agriculture sector for cultivation of pulses, oilseeds, and spices.

It also 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.

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).

In recent months the lending rate had 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 decreased to 11.93 per cent and 4.87 per cent respectively. At the same time, the deposit rate declined to 7.06 per cent, showed the statement.