

New monetary policy announced lifting 9% lending rate cap to curb inflation

June 18, 2023

Online Desk: Bangladesh Bank has announced a contractionary monetary policy withdrawing the single-digit lending rate cap to contain rising inflation. BB Governor Abdur Rouf Talukder announced the new monetary policy for the first half (July-December) of FY2024 at a press conference held at the central bank on Sunday (June 18, 2023).

The REPO rate has also been raised by 50 basis points to 6.50 per cent while the reverse REPO, which is now called the standing deposit facility (SDF), has also been raised by 25 basis points to 4.50 per cent. At the same time, the special REPO, which is called a standing lending facility (SLF), has narrowed down by 50 basis points to 8.50 per cent. The BB also narrowed down the credit growth target for the public and private sectors to 30 per cent and 11 per cent respectively.

At the launching, the central bank lifted the bank lending rate ceiling of the current 9 per cent by introducing a benchmark reference rate. Based on this, the banks can fix their lending rates. “This monetary policy focuses more on containing inflation, and the introduction of a single currency exchange rate,” he said. The new lending rate formula includes a reference rate, which is calculated as the six-month moving average rate of treasury bills, with a 3% margin for banks and a 5% margin for non-bank financial institutions.

Currently, the rate of the 6-month treasury bills stands at 7.10%, so the maximum lending rate for bank loans will be 10.10% and for NBFIs 12.10%. As part of this tight monetary policy stance, BB has increased the policy rate, also known as the repo rate, by 50 basis points to 6.50%, and the reverse repo rate by 25 basis points to 4.50%, effective from 1st July.

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The chief of BFIU, deputy governors, chief economist, executive director of the Research Department, and concerned officials of Bangladesh Bank were present at the press conference.