

## BB Relaxes Ceiling on Lending Rate Further

After raising the policy rate by 75 bps to 7.25%, BB (Bangladesh Bank) relaxed the lending rate ceiling as well. They revised the ceiling on lending rate to SMART + 3.5% from earlier SMART + 3.0%. Here, SMART means six months moving average of 182-days treasury bill rate.

For pre-shipment export, agriculture and rural loans, banks can add 2.5% with the SMART rate, which was 2.0% earlier.

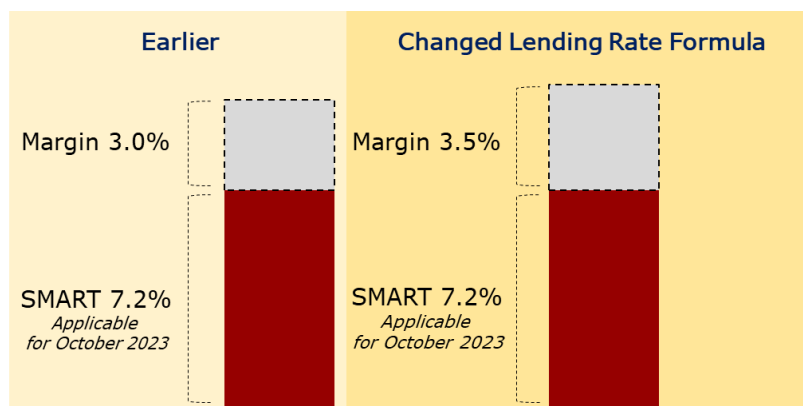
We are observing a change in intent in the monetary policy as BB is gearing towards higher interest rate regime amid rising inflation and pressure on forex reserve.

After this relaxation in the ceiling, banks with high CASA (current account and savings account which are low cost deposit) in deposit mix will have further room to widen their net interest margin and banks who need to raise their deposit rate to maintain adequate deposit growth will find further room to do so as well.

We view that BB will gradually rationalize the local lending rate considering the current inflationary environment in the local market and global interest rate scenario. For instance, currently local private institutions can borrow foreign loan at ~9-10.0% + local currency depreciation cost while they can avail local loan at maximum 10.7%. Hence, most private borrowers still consider local loan cheaper. As a result, many private borrowers are repaying their short term foreign loan and not opting for rolling over those foreign loan. This has driven financial account (part of Balance of Payment) into deficit which is putting pressure on forex reserve.

We anticipate that BB will find further hike of local lending rate necessary to relieve the pressure on forex reserve.

### BB Raises Margin over Reference Rate to 3.5% from 3.0%



Source: Bangladesh Bank

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We calculate our target price by weighting DCF, DDM, SOTP, asset-based and other relative valuation methods, and applying appropriate premiums/ discounts and/or other relevant adjustments.

Recommendation Type	Holding period (if not otherwise mentioned)	Absolute Return Potential
Buy	12 Months	More than +15%
Neutral/ Hold	12 Months	Between -5% and +15%
Underweight	12 Months	Less than -5%

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