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A quick analysis of deposit interest rates offered by commercial banks

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Objective of the Survey

All banks report fixed deposit rates of 12.5 percent or less in Bangladesh Bank (BB) in February 2013 even though there is no interest rate cap imposed by BB. The reason for this 12.5% reported rate could be due to an informal understanding reached by the Association of Bankers Bangladesh with its member banks that they should not offer more than this rate as the deposit rate is related to the ultimate lending rate to borrowers. Both deposit and lending rates are data reported to BB every month and uploaded on BB's website. Anecdotal evidence suggests that some commercial banks are collecting deposits by offering rates higher than 12.50 percent but are reporting it at as 12.50 percent or below. The main purpose of the survey is to collect data on the extent of this mis-reporting of deposit interest rates, as accurate data is essential for effective financial and monetary policy.

Methodology

A survey team was constituted of officials from different Departments of BB. The team collected data directly from different bank branches in Dhaka and outside Dhaka by posing as a potential depositor / customer. Information on offered interest rate to customers was collected for different time dimension (one month, 3-month and 1-year and more) as well as amount of deposit (less than 10-lac, 10-50 lac and 50 lac and above). Data were collected over telephone during last week of January and first two weeks of February 2013 from 340 banks branches of 4 SOBs, 30 PCBs and 7 FCBs (Table 1). Banks branches are selected randomly. Out of total branches, 179 branches have been contacted in Dhaka and rest of are outside Dhaka.

Total No. of Bank	41
• SOBs	4
• PCBs	30
• FCBs	7
Total Branches	340
• Dhaka	179
• Outside Dhaka	161

Findings of the Survey

1. Branch level data indicate that for deposit amount of Tk. 50 lac and above for one year and more maturity period about 16 percent branches (54 branches) offer more than 12.5 percent interest rate, about 62 percent branches offer equal to 12.5 percent, and about 22 percent branches offer less than 12.5 percent. Detailed data on interest offering by branch level for maturity period and deposit amount are given in Table-2 and chart 1-3. It is observed that interest rate is negotiable the higher the deposit amount and maturity period.

Table 2 : Interest Rate Offering by Branches of 41 Banks (number of Branches)

Interest Rate Offering	less than 10-lac			10-50 lac			50 lac and above		
	One month	3-month	1-year and more	One month	3-month	1-year and more	One month	3-month	1-year and more
More than 12.5%	4	5	20	1	5	22	25	32	54
Equal to 12.5 %	178	226	225	193	233	230	174	211	212
Less than 12.5 %	158	109	95	146	102	88	141	97	74
Total Branch	340	340	340	340	340	340	340	340	340
Percent of Total									
More than 12.5 %	1.2	1.5	5.9	0.3	1.5	6.5	7.4	9.4	15.9
Equal to 12.5 %	52.4	66.5	66.2	56.8	68.5	67.6	51.2	62.1	62.4
Less than 12.5 %	46.5	32.1	27.9	42.9	30.0	25.9	41.5	28.5	21.8
Total Branch	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: A quick Survey, CEU, 2013.

2. Bank wise data show that at least one or more branches of 17 banks (15 PCB and 2 FCBs) out of 41banks (see table 3) are offering more than 12.5 percent (13-14 percent). We also find that in 8 banks of these 17 banks, 50 percent or more of the sampled branches are offering more than the reported 12.5 percent interest rate.

Table 3: Banks and Branches which are Offering more than 12.5 % during survey Period

Name of Bank	No. Branch Contacted	No. Branch offering >12.5	% of Branch offering >12.5 over contacted Branch
1. Bank Asia Ltd.	10	10	100
2.Uttara Bank Ltd.	10	8	80
3.Mutual Trust Bank Ltd.	10	7	70
4.Bangladesh Commerce Bank Ltd.	10	6	60
5.Southeast Bank Ltd.	10	5	50
6.Social Islami Bank Ltd.	10	5	50
7.Exim Bank of Bangladesh Ltd.	10	5	50
8.National Bank of Pakistan*	4	2	50
9.Habib Bank Ltd.	5	2	40
10.One Bank Ltd.	10	2	20
11.Shahjalal Islami Bank Ltd.	10	2	20
12.National Bank Ltd.	10	1	10
13.IFIC Bank Ltd.	10	1	10
14.United Commercial Bank Ltd.	10	1	10
15.Mercantile Bank Ltd.	10	1	10
16.Standard Bank Ltd.	10	1	10
17.BRAC Bank Ltd.	10	1	10

Source: A quick Survey, CEU, 2013. Note: * = It has only 4 branch in Bangladesh

3. While the majority of branches offer 12.5 percent interest, some banks are currently offering less than 12.5 percent interest on fixed deposits. This is consistent with what they are reporting to BB and as such there is no mis-reporting problem. However, these banks should now be in a position to lower their lending rates as costs of funds have come down. Examples of these banks include Eastern Bank Ltd, Dutch Bangla Bank Ltd and BRAC Bank Ltd, whose deposit rates have decreased in last 3-6 months (Table 4). Moreover lending rates can also fall for banks who have high spreads between their weighted average deposit and lending rates. BB data shows that for January 2013, banks with 9% of more spread include National Bank of Pakistan, Woori Bank, Standard Chartered Bank, Citibank and BRAC Bank.

Table 4: Comparative position deposit and lending rate between November 2012 and February 2013

Banks	Reported FDR Rate on 1 year		Term loan lending rate for LMSI	
	November , 2012	February 2013	November 2012	February 2013
1. Eastern Bank Ltd.	12.0-12.5	11.0	15.5	14.00-17.00
2. Dutch Bangla Bank Ltd.	11.5*	11.0	15.5	15.5
3. BRAC Bank Ltd.	8.0-12.5	8.0-11.75	14	14.00-17.00

*September 2012.

Chart 1: Amount less than 10-lac

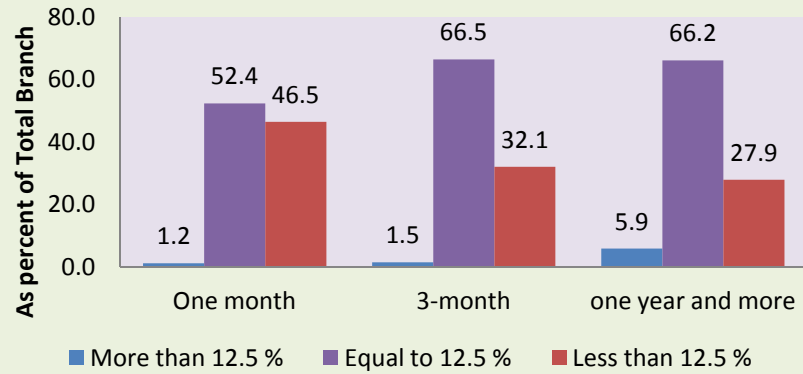


Chart 2: Amount 10-50 lac

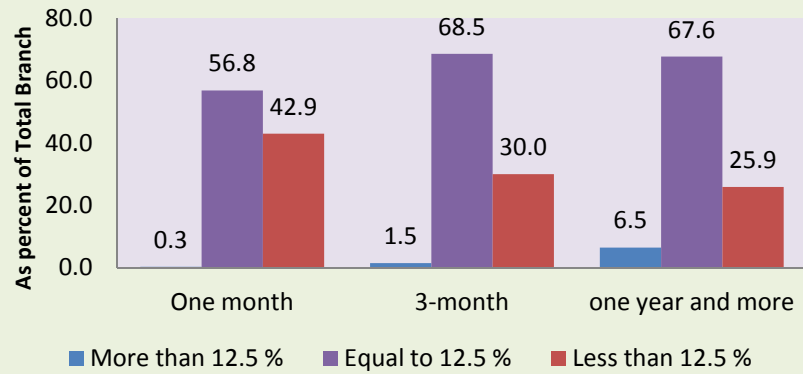


Chart 3: Amount 50 lac and Above

