Banks less likely to get foreign currency loans anytime soon

KATHMANDU : Though Nepal Rastra Bank (NRB) has paved the way for commercial banks for foreign currency borrowing, it seems that they will not be able to get resources from foreign banks anytime soon.

So far, only International Finance Corporation (IFC), a member of the World Bank Group, has shown interest to disburse loans to some commercial banks. NIC Asia Bank Ltd and NMB Bank Ltd have signed loan mandate with the IFC, initializing the process to get funds from the World Bank Group's investment arm. Other commercial banks are also approaching the IFC for such loans. However, bankers do not seem to be optimistic about the possibility of getting foreign currency loans from other international institutions anytime soon.

"We are unlikely to get foreign currency loans from international institutions immediately. They first carry out risk analysis of the country and then the prospective borrowing institution before assessing our repayment capacity," said Bhuvan Dahal, CEO of Sanima Bank Ltd. "It would take some years before banks receive foreign currency loans from international institutions except for those like IFC who have been working in Nepal and are interested to invest here," he added.

The NRB brought a new rule last month, allowing commercial banks to borrow in foreign currency as part of its efforts to address 'credit crunch'. NRB was hopeful that the shortage of lendable fund will ease to some extent by allowing banks, who have been facing huge mismatch in growth of deposits and loans, to take foreign currency loans.

The facility was also intended to ensure that priority sectors do not face shortage of financial resources.

Many banks, which were earlier upbeat about the new facility from the central bank, are not showing much interest to get such loans due to conditions set by the central bank in terms of investment areas and interest rates.

The central bank has set the criteria of investment of funds that banks borrow from foreign institutions.

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According to a directive issued by the NRB, a bank can borrow up to 25 percent of its core capital in foreign currency to provide loans to projects like hydro power generation and transmission lines, roads, tunnel, airport, cable car, bridge and physical infrastructure (except housing, land plotting and real estate), and tourism where there is return on foreign currency, as well as agriculture and micro-finance areas.

Interest rate of such foreign currency borrowing should not exceed 6 Month Libor (London interbank offered rate) plus 3 percent that includes all applicable fees. Also, banks are not allowed to provide any fee or commission while borrowing funds from foreign institutions.

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