Credit crunch situation not as severe as believed earlier

Dispelling concerns about huge cash withdrawal for tax submission at the end of the second quarter, swift and prompt handling of the situation by the banks seems to have averted a major crisis, according to Nepal Rastra Bank (NRB).

NRB — the central regulatory and monetary authority — has gauged the gravity of the situation through three different measures.

According to Nara Bahadur Thapa, executive director of the central bank, firstly, there has been no unnatural change in the cash reserves of the banks that is with the NRB.

Similarly, interbank rate is towards the lower bound of the interest rate corridor. “This means that the banks are not under any kind of pressure because if they were facing shortage of funds, the interbank rate would move towards higher end of the interest rate corridor,” Thapa explained.

Moreover, the banks have not approached the central bank for special instrument like the standing liquidity facility (SLF) that the banks can utilise when there is crisis of funds in the banks for domestic payment. As per Thapa, banks have not demanded SLF facility as they are in a comfortable position and the aforementioned factors indicate the situation in the market was not as severe as believed earlier.

The Inland Revenue Department has collected Rs 48 billion in the last month of second half of this fiscal (mid-December to mid-January). The prospects of huge amount being withdrawn from the banks for payment of taxes at the end of the second quarter had made the banks anxious as they already had a very thin cushion to maintain credit to core capital plus deposit (CCD) ratio of permissible 80 per cent.

During a conversation with *The Himalayan Times*, however, majority of banks said that their CCD level is in between 79 and 80 per cent. Still, banks have already halted loan disbursement, except in critical loan commitments since last month, as they no longer have funds to lend.

“Precautions taken by the banks saved them from overshooting the CCD level beyond 80 per cent,” said Bhuvan Kumar Dahal, CEO of Sanima Bank.

Deposits and lending of the banks are expected to have increased by around Rs 80 billion and Rs 60 billion, respectively, at the end of second quarter as the banks provided higher interest on deposit accounts and capitalised interests on loans at the end of the quarter, according to bankers.

By the week before the second quarter ended, commercial banks had mobilised credit worth Rs 1,891 billion against deposit collection of Rs 2,104 billion.

NRB Executive Director Thapa said that there is Rs 41 billion liquidity in the market at present compared to Rs 50 billion one-and-a-half weeks back.

Source: The Himalayan Times, 16th January 2018