

## Funds in govt coffers can't be transferred to banks: Panel

In a blow to banks reeling under the credit crunch, the study panel formed by the Ministry of Finance (MoF) has said that the ministry cannot allow Nepal Rastra Bank (NRB) to transfer the funds from the government's treasury to the banks for the short term to resolve the current crisis of loanable funds.

A panel led by Ram Sharan Pudasaini, joint secretary of the Economic Policies Analysis Division, MoF and comprising Executive Directors of NRB, Nara Bahadur Thapa and Narayan Paudel, and Deputy Financial Comptroller General Yadunath Bhattarai has submitted a report to the MoF stating that the idea of transferring the funds from the government's treasury to banks will contradict the Appropriation Act.

"Without amending the Appropriation Act and having a clear modality, the MoF cannot allow the central bank to deposit the government's fund in the banks," said Pudasaini, joint secretary at the MoF.

Banks are facing a crisis of loanable funds as loan growth was almost double the deposit collection in the first five months of this fiscal. According to Nepal Bankers' Association, commercial banks have floated Rs 156 billion in loans against deposit collection of Rs 88 billion in between mid-July and mid-December.

The credit to core capital plus deposit (CCD) ratio of all the banks, excluding the government-owned Rastriya Banijya Bank, is likely to overshoot the permissible 80 per cent limit in the near future. Hence, the banks had sought help from the government (requesting transfer of treasury funds) and NRB (through refinancing facility), as they have a very thin cushion to maintain the permissible CCD level.

Banks have almost halted credit disbursement as deposit collection has been sluggish. As a result, profit of the banks has been adversely affected as the loan expansion has also slowed down to a crawl due to lack of deposits in banks.

In the meantime, eyeing the possibility of market destabilisation when institutional depositors start to withdraw their funds from one bank and deposit it in another to reap benefits of increased interest rate, the central bank has instructed the banks to not breach 11 per cent interest on fixed deposits for institutional depositors.

Source: The Himalayan Times, 13<sup>th</sup> January 2018