

Govt starts consultation to address credit crunch

The government has taken initiatives toward resolving the problem of 'credit crunch' that has again grappled the banking sector due to mismatch between in deposit and loan growths.

The initiative of the Ministry of Finance toward finding solutions for resolving the credit crunch problem comes in the wake of growing calls from private sector and business leaders for curbing rising interest rates. Private sector and business leaders have intensified their lobby with the government to seek the latter's intervention for easing shortage of lendable fund in bank and financial institutions (BFIs) and tame the rising interest rates.

"We have been holding discussions and consultations with concerned stakeholders for addressing the current problem seen in the banking industry," Uttar Kumar Khatri, joint secretary at the Finance Sector Management Division of the finance ministry, told Republica.

Earlier this week, bankers had met Finance Secretary Shankar Prasad Adhikari and urged him to make needful efforts for keeping interest rates at a 'certain level'. "We had met the Finance Secretary to brief him about the current problem and seek his support in keeping interest rates to a certain level," said Gyanendra Dhungana, the acting president of Nepal Bankers' Association (NBA).

Bankers say that slow spending of capital budget is one of the major reasons behind the recurring liquidity problem in the banking industry. As most of the BFIs are nearing the upper level of prudential lending limit, they have faced shortage of fund to extend as loans. The rise of capital cum deposit ratio to nearly 77 percent has prompted BFIs to raise interest rates on fixed deposit to as high as 13 percent. While they believe that they can arrange funds by offering higher interest rates, the rise in deposit rate also gets passed on to the borrowers.

Meanwhile, speaking at an event organized by Global IME Bank Ltd in Kathmandu on Tuesday, Nepal Rastra Bank (NRB) Governor Chiranjibi Nepal said that the central bank was in close consultation with the finance ministry to manage treasury surplus of the government held at the NRB. He, however, said that the BFIs were responsible for the current problem. Governor Nepal said that the aggressive lending approach taken by the BFIs despite low deposit growth has resulted into the 'credit crunch' and spiral-like rise in interest rates. He also warned the BFIs that the central bank would take punitive action if they do not correct their aggressive lending approach to appease their shareholders.

"BFIs should increase their deposit if they want to extend more loans. They should work hard to attract new deposits," he said, adding: "More than 60 percent of people are still out of the banking reach. They should go there to increase deposit."

CNI Delegation meets PM

A delegation of Confederation of Nepalese Industries (CNI), led by its president Hari Bhakta Sharma, met with Prime Minister Sher Bahadur Deuba on Tuesday and urged him to take needful initiative for resolving the current shortage of lendable fund in the banking system.

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The umbrella organization of industrialists called for immediate solution to address the shortage of lendable fund in the banking industry. It told Prime Minister Deuba that the rising interest rates was making adverse impact on industrial and manufacturing sector due to increased cost of production and erosion of competitiveness of their productions. The CNI has requested Prime Minister Deuba to take initiatives for bringing interest rates to a desired level.

Issuing a statement, CNI said that Prime Minister Deuba assured them to resolve the problem as soon as possible after holding consultations with concerned stakeholders.

Source: MyRepublica, 2nd January 2018