

Loan disbursement of banks rises while deposits fall



Deposit collection of commercial banks in the first month of the third quarter has fallen, while loan disbursement is on the rise, a recent data of Nepal Bankers Association (NBA) shows.

According to the data, total deposits of 28 commercial banks fell by Rs 7 billion to Rs 2,207 billion between January 14 and February 15. Credit disbursement during the period, however, rose by a whopping Rs 30 billion to Rs 1,952 billion. Banks added Rs 5 billion in loans in the last week of the month (between February 9 and February 15) alone, according to the data.

Though bankers have been saying that they have slowed lending in the wake of shortage of lendable funds in recent weeks, the data of the NBA suggests otherwise.

The mismatch in deposit and credit growth indicates that the interest rates are unlikely to fall anytime soon. As bank and financial institutions (BFIs) are competing to lure deposits, interest rates on fixed deposit have already reached 13 percent while the lending rate is also on an upward trend.

As credit flow of banks started rising due to aggressive lending, credit to core capital-cum-deposit (CCD) ratio of many commercial banks has reached close to the regulatory limit of 80 percent, making it difficult for them to expand loans. The rise in deposit rates, however, has not helped banks to attract deposits. Many bankers say that the deposit has been moving from one to another bank rather than new money entering into the financial system.

Though bankers were expecting the NRB to come up with some relaxations on CCD norms through the mid-term review of the monetary policy like it did last year, the central bank did

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not bring any such measure this time. In its mid-term review report, it, however, indicated that it would pursue a lenient approach on enforcement of prudential lending limit. Though the NRB said that it will monitor the daily position of credit to core capital-cum-deposit (CCD) ratio of banking institutions, it will, however, penalize them only if there is breach in prudential lending limit in monthly average ratio.

The announcement provides some relief to banking institutions who were worried about the central bank action about the breach of the CCD ratio of 80 percent.

The surge in lending of BFIs comes despite the central bank's advice to banking institutions to become cautious in their lending approach. “

"Given the decline in remittance flow, deposit growth is expected to remain moderate. Once this becomes a key consideration for planning credit, financial imbalances currently seen will get corrected in due course of time," read the Current Macroeconomic and Financial Situation of Nepal (based on six months data of the current fiscal year) prepared by the NRB's Research Department.

Source: My Republica, 22nd February 2018