

NRB to tell BFIs to stick to published rates

At a time when banks are facing challenges related to credit crunch, Nepal Rastra Bank (NRB) — the central regulatory and monetary authority — is preparing to issue a circular to the banks and financial institutions (BFIs) to stick to the published interest rate for institutional depositors for at least a quarter (three months).

Banks can opt for up to 50 per cent of the deposit from institutional depositors. Citing the unhealthy competition among banks to attract institutional deposits, a high-ranking official of NRB said that the central bank is mulling over barring banks from raising or cutting the interest rate on institutional deposits in less than three months.

Due to high weightage of institutional deposits, lending rates are also fluctuating along with frequent changes in the interest rate of institutional depositors. Though BFIs cannot change the interest rates on loans in less than three months, as per the NRB rules, there is no rule for regulating interest rates on deposits.

According to the central bank's rule, banks have to publish their base rate every three months and they can change the interest rates at three-month intervals based on the changes in the base rate. Base rate is calculated on the basis of expenses incurred by the BFIs to collect deposits, plus 80 per cent of the bank's overhead expenses (salary and rent), plus up to 0.75 per cent profit. If a bank's returns on government securities is lower than their deposit collection rate, they can add the shortfall in the base rate.

Banks have been facing acute crisis of loanable funds as almost all, except government-owned Rastriya Banijya Bank (RBB), disbursed loans up to the permissible credit to core capital cum deposit (CCD) ratio. Banks are allowed to disburse loans of up to 80 per cent of the sum of deposit and core capital and the average CCD level of banks. When removing RBB from the list the average calculation of CCD stands at 79 per cent, according to Nepal Bankers' Association.

Banks have been seeking stimulus from the government to tackle the current crisis. Banks are apprehensive that the situation will further worsen as around Rs 35 billion to Rs 40 billion is expected to be withdrawn from the banking channel in the immediate future as the first tranche of income tax (40 per cent of annual income tax) needs to be filed by mid-January.

Source: The Himalayan Times, 3rd January 2018