

## NRB yet to increase size of refinancing fund to Rs 20b

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### **Plan to expand fund was announced in the monetary policy for Fiscal Year 2017/18**

KATHMANDU, Jan 9: Though Nepal Rastra Bank (NRB) has announced a plan to increase the size of refinancing fund to Rs 20 billion, it is yet to pump the additional cash into the fund that provides concessional financing on priority sectors.

The size of the reserve has reached only Rs 15 billion so far. The expansion of the fund could have provided a sigh of relief to business sector, particularly priority areas like hydropower, in the wake of skyrocketing interest rates of bank and financial institutions (BFIs).

Through its monetary policy for the current Fiscal Year 2017/18, the central bank had announced that the size of the refinancing fund that the central bank administers will be expanded to Rs 20 billion from the existing Rs 10.84 billion.

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The NRB was planning to include the unused Rs 5 billion of Economic Rehabilitation Fund in the refinancing fund and the remaining amount from the profit of the central bank in 2016/17 to expand the fund to support businesses. While the central bank has already poured a portion of the cash from its profit of last fiscal year in the fund, it has not been able to draw Rs 5 billion from the economic rehabilitation fund.

Narayan Prasad Paudel, the spokesperson for NRB, told Republica that the central bank has not been able to draw the fund from the economic rehabilitation fund as some cash in the fund has already been mobilized for the very purpose it was established for.

“The NRB has already put the fund from its profit. But, we have not been able to increase the size as per our target because some money in the economic rehabilitation fund has already been used,” said Paudel, who is also the chief of Banks and Financial Institution Regulation Department of the NRB.

According to Paudel, a total of Rs 250 million has already been spent from the economic rehabilitation fund that was established to provide concessional financing service to businesses firms that were battered by the 2015 earthquakes and unofficial economic blockade imposed by India. As the fund remained unused for a long time, the central bank announced its plan in the monetary policy of the current fiscal year to transfer it into the refinancing fund.

“We are holding consultations with the Ministry of Finance to identify possible sources to expand the fund,” added Paudel.

As of mid-November 2017, the outstanding refinancing amounted to Rs 8.32 billion, according to the NRB.

Private sector, on the other hand, is worried with the reluctance of the central bank to expand the size of the refinance fund. They say that a larger refinance fund could have insulated them from the

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exorbitant interest rates charged by the BFIs in the wake of lendable fund crunch. The Confederation of Nepalese Industries (CNI) was demanding the refinance fund of Rs 200 billion.

Due to the small refinance fund size, business firms complain that they have to wait in queue to get concessional loans under this scheme.

Some bankers also opine that expansion of refinance fund is one of the best ways to address the current shortage of lendable fund. As banks are not required to include the credit disbursed under the refinance facility in the calculation of their core capital cum deposit ratio, the increase of the fund will ease the current problem which was resulted from BFIs reaching to the saturation level, they say.

“There is already a system in the name of refinancing fund. Since this helps the government's objective of channelizing more credit to productive sector at a cheaper rate, the increment in the fund size will serve that purpose. It will also ease the current shortage of lendable fund,” Bhuvan Dahal, an executive member of Nepal Bankers' Association, told Republica.

Source: MyRepublica, 9<sup>th</sup> January 2018