

# TRU - Flash Alert



28 April 2020



## NRB's Stimulus to the BFIs and Borrowers

Nepal Rastra Bank (NRB), using its rights given by Section 79 of the Nepal Rastra Bank Act 2073, has issued a circular dated 28 April 2020 (16 Baisakh 2077) amending various provisions in the Unified Directives applicable to licensed institutions under Class A, B and C. The key amendments are summarized below:

**a) *Downgrading to 'Watchlist' not required (Unified Directive 2/076 Section 1 (ka)(2))***

Downgrading of loans to watchlist category is not required where loans could not be renewed due to the lockdown or the payment terms were extended on the instructions of supervisory body

**b) *Amendment in calculation of CCD ratio (Unified Directive 5/076 Section 6 (6 ga))***

Inclusion of foreign currency loans or deposits availed from foreign banks, financial institutions or other institutions with a maturing period of 1 year or more has been permitted for calculating the CCD ratio.

**c) *Addition to loan against fixed deposit (Unified Directive 5/076 Section 6 (6 ga))***

The banks have been permitted to disburse loans up to 100% against fixed deposit for 2 years or more with a repayment period remaining in excess of 1 year.

**d) *Employee training & capacity development expenses (Unified Directive 6/076 Section 6)***

The Banks are not required to spend at least 3% of the total annual staff expenses on training and capacity development for the FY 2076/77.

**e) *Changes in reporting to CIB (Unified Directive 12/076 Section 2 (2.1))***

All loan/facilities approved by the banks have to be reported to Credit Information Bureau (CIB) within 7 days of disbursement made against the earlier timeline of 15 days from the end of the month.

**f) *Deposit from the bidding procedure (Unified Directive 15/076 Section 1(2 kha))***

Banks now cannot offer interest rates on fixed deposit collected from the bidding procedure in excess of the published rates and such rates cannot be changed for the next 3 months.

**g) Fixed interest term loan (Unified Directive 15/076 Section 3(3))**

The BFI shall determine the premium rates on the basis of type of loans and repayment period and publish the interest rates on loans and advance quarterly. At the time of publishing interest rate, the title of premium rate shall be stated clearly. Any amendment in the premium rate can be done semi-annually however reduction on such rates can be made earlier. The banks are also required to publish the interest rates for certain types of term loans with fixed interest rates throughout the period of the loan.

**h) Interest rates on refinancing facilities reduced (Unified Directive 22/076 Section 30)**

The interest rate on refinancing facilities has been reduced to 2% from 3% against security of 'Pass' loans up to Rs 1.5 million to SMEs. Restrictions have been placed on the interest that BFIs can charge on loans extended by utilization of the refinance facility to a maximum of 5%.

**i) Reduction in CRR rates (Unified Directive 13/076 Section 1 (1))**

The CRR to be maintained by Class A, B and C licensed institutions has been reduced to 3% from the existing 4% of which 70% shall be maintained at NRB on a daily basis.

**j) Bank rates reduced (Unified Directive 21/076 Section 9)**

Interest rates on loans to be extended by NRB to licensed institutions have been fixed at 5% against the earlier rate of 6%.

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**PKF Nepal Comments** – *These amendments have been made with a view to provide relief to those industries, businesses and individuals affected by COVID-19 and also increase the liquidity of the banking sector as part of the 2<sup>nd</sup> stimulus package announced by NRB.*

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