

Flash Alert

29 August 2021



Amendment & Additions in Unified Directives, 2077

Nepal Rastra Bank (NRB), using its rights given by Section 79 of the Nepal Rastra Bank Act 2058, has issued a circular dated 2078/05/08 on amendments and additions of new provisions to the Unified Directive applicable to Class A, B and C Banks and Financial Institutions (BFIs). The key amendments are summarized below:

Requirement of maintaining Counter Cyclic Buffering for commercial banks postponed (Directive 1.1)

Requirement of maintaining Counter Cyclic Buffering as per Capital Adequacy Framework 2015 has been postponed till FY 2078/79 for commercial banks.

Amendment in watch list criteria for the companies having negative net worth and multi banking loan (Directive 2.1.2)

Loan provided to companies having negative net worth or net loss for consecutive 3 years is to be categorized as watch list loans despite regular payment of installments. However, the provision is only applicable on the basis of the financial statements of 3 years from date of commercial production to such projects that are under construction. Previously the period of loss or negative net worth was 2 years.

Similarly, multi-banking loan of Rs 2 billion and above not converted to consortium loan shall be categorized as watch-list loan. The amount limit for multi-banking loan that has to be mandatorily converted to consortium loan has been increased from Rs 1 billion to Rs 2 billion.

Loan restructuring facility to highly COVID-19 affected business (Directive 2.8.2)

Loans disbursed to sectors highly affected by COVID-19 like tourism, cinema, party palace, public transportation and education sector that have not been restructured or rescheduled due to inability of payment of 10% of interest payable within Poush 2077 may be restructured or rescheduled within Poush 2078 after recovery of 5% of the interest payable.

Additional 20% loan loss provisioning not required for organizations rendering technical and commercial training (Directive 2.9.6 (Gha))

Additional 20% loan loss provisioning for loan up to Rs 2.5 million provided to organizations rendering technical and commercial training will not be required despite being disbursed only on personal or corporate guarantee without any collateral. This facility is also applicable on loans provided to professional businessperson involved in occupations impacted by COVID-19.

Loan facility for COVID-19 affected business (Directive 2.36.2, 2.36.5, 2.41.3)

- Licensed institutions shall not fix interest rate at more than base rate plus 2% on loans up to Rs 10 million disbursed for operation of agriculture, handicraft, skill-based business and enterprise (other than those involved in import related business). When disbursing loans up to Rs 2 million, agricultural land without motor road access can also be considered as collateral.
- Additionally, such loans shall be accepted within 7 business days from the date of receiving the loan application. If such loan cannot be accepted, the reason of the same shall be duly disclosed and communicated to the applicant in writing.

- Similarly, licensed institutions shall have to provide loans at base rate after evaluation of commercial project for establishment of industries recognized by Government of Nepal for producing vaccine against pandemic, if required.
- BFIs may disburse loans at base rate plus 2% premium for establishment of hospital of up to 100 beds in areas where there are no hospitals.
- Restaurants, party palace, public transportation, educational institutions and entertainment business as well as MEs and SMEs with disrupted cash flow due to COVID-19 shall be provided with facility of extension of repayment of installments and interest due within Poush 2078 by 1 year and in at least 4 installments. Further, penal charge shall neither be collected nor interest shall be capitalized.

Capitalization of loan on moratorium period (Directive 2.39 (Yan))

Loans disbursed to long term agricultural projects including fruits, masala, herbs can capitalize interest due on the moratorium period.

In case of loan disbursed to projects under construction that have already obtained approval for capitalization of interest accrued during grace period, approval of NRB will not be required for capitalization of interest up to Ashad 2079.

Change in business model or business idea due to COVID-19 (Directive 2.42)

If sectors affected by COVID-19 change their business model or business idea based on a written business proposal and request is made to BFIs providing loan within Chaitra 2078 then such conversion shall not be considered as misuse of loan, restructuring or rescheduling and interest capitalization on such loan shall not be allowed.

Change in Single Obligor Limit for Margin Lending Shares (Directive 3.3)

Loans disbursed to long term agricultural projects including fruits, masala, herbs can capitalize interest due on the moratorium period. Single Obligor Limit for margin lending on shares shall be maximum Rs 4 crore from one licensed institution and maximum Rs 12 crore from all licensed institutions in total.

CD Ratio to be maintained by BFIs (Directive 5.6.6)

The credit-deposit ratio (CD Ratio) maintained by BFIs shall be maximum 90%.

Deprived sector loans (Directive 5.6.6)

- The credit-deposit ratio (CD Ratio) maintained by BFIs shall be maximum 90%.
- For Class 'A', 'B' and 'C' licensed institutions following loans can be considered as deprived sector loans:
 - Loans up to Rs 1.5 million disbursed for commencing business for self-employment to person who has lost employment in tourism sector due to COVID-19.
 - Loans up to Rs 2.5 million disbursed for purchase of public vehicle by person with intention to generate self-employment.
 - Loans up to Rs 2 million disbursed to women entrepreneurs for operation of micro industries or industries generating self-employment by pledging the project. It shall be mandatory to insure such loan.
 - Loans up to Rs 2 million disbursed to person carrying out agricultural business for operation of agricultural business by pledging the project. It shall be mandatory to insure such loan.
- Apart from saving and credit cooperatives, loan not exceeding Rs 50 million disbursed through group members for group agriculture and animal husbandry not exceeding Rs 0.5 million per member shall be considered as loan disbursed to marginalized class.
- The total loan amount and per member amount has been increased from previous Rs 10 million and Rs 0.125 million, respectively.

Further, BFIs shall disburse at least 15% of the total loans to SMEs and MSMEs (loan below Rs 10 million and loan disbursed to deprived sector by Ashad 2081 and shall give priority to establishment and operation of industries that use local raw materials.

Standing Liquidity Facility Rate & Repo Rate (Directive 21.13)

Standing Liquidity Facility Rate which as the upper band of the Interest Rate Corridor (IRC) has been kept as 5%, the lower limit that is Deposit Collection Rate has been set to 2% and . Repo rate as the policy rate has been set to 3.5%.

Additional incentives for Merger & Acquisition (M&A) of BFIs (Directive 18 (ga))

For commercial banks that commence transactions after M&A in the FY 2078-79, in addition to existing facilities following facilities and discounts shall be provided till Ashad 2080:

- Time limit for disbursement of loans in prescribed sectors shall be extended by 1 year.
- Statutory Liquidity Ratio to be maintained shall be reduced by 0.5% for 1 year from the commencement of unified transactions.
- Standing Liquidity Facility (SLF) to be maintained shall be reduced by 1% for 1 year from the commencement of unified transactions.
- Institutional Deposit Collection limit prescribed by NRB shall be increased by 5%.
- Restriction for members of Board of Directors and high level officers to be associated with other licensed institutions before lapse of 6 months from resigning from the post shall not be applicable.
- Mandatory difference to be maintained between rates of loan and deposit to be discounted by 1%.
- If the loan deposit ratio exceeds the limit after commencement of unified transactions then 1 year time shall be provided to regularize the same.
- On preparation of beginning unified transactions, approval of NRB shall not be required to keep 1 branch active out of branches within 1 km and merge or close other branches.
- It shall not be mandatory to carry out fit and proper test when promoters of commercial bank with 0.1% or less shares sell the same.
- In order to encourage M&A, candidacy for board of directors can be given from only 1 group selected by promoter and public shareholders after merger or acquisition.
- On commencement of unified transaction after M&A of provincial level development banks, approval shall be given to open corporate office in working area and contact office in Kathmandu and province capital.
- If development banks and financial companies declared problematic by NRB are acquired by licensed bank and financial institutions then facilities and discounts from point 6 shall be applicable.

For the circular issued by NRB [Click Here](#)