FINANCIAL STABILITY REPORT

FISCAL YEAR 2021/22

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Nepal Rastra Bank

June, 2023

Disclaimer

This *Fourteenth issue* of the Financial Stability Report is based on the provisional data of Bank and Financial Institutions (BFIs) and other financial institutions as of mid-July 2022. Data used in its analysis may thus differ from the most recent statistics or audited financials published by BFIs. The colors, boundaries, denominations, or any other signs and symbols used in the report do not imply any metamorphic judgments. This report, unless, or otherwise stated elsewhere, covers the financial performance and phenomena observed during the fiscal year ended mid-July 2022. All the data and information in this report are retrieved from the NRB depository, unless stated.

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TABLE OF CONTENTS

List of Figures

List of Tables

List of Abbreviations

ADBL	Agricultural Development Bank Limited
AON	All or None
ASBA	Application Supported by Blocked Amount
BCBS	Basel Committee on Banking Supervision
BFIs	Banks and Financial Institutions
CAR	Capital Adequacy Ratio
CD	Credit to Deposit Ratio
CICL	Credit Information Center Limited
CIT	Citizen Investment Trust
COPOMIS	Cooperative and Poverty-Related Management Information System
DCGF	Deposit and Credit Guarantee Fund
DoC	Department of Cooperatives
EPF	Employees Provident Fund
ERRS	Electronic Reporting and Retrieval System
EUR	Euro Currency
FDI	Foreign Direct Investment
FINGO	Financial Intermediary Non-government Organization
GBP	Great Britain Pound
GDP	Gross Domestic Product
GoN	Government of Nepal
HIDCL	Hydroelectricity Investment and Development Company Limited
IIP	International Investment Position
IMF	International Monetary Fund
INR	Indian Rupees
IPO	Initial Public Offering
IT	Information Technology
JNY	Japanese Yen
LTV	Loan to Value
MFIs	Micro Finance Institutions
NBFIs	Non Bank Financial Institutions
NBL	Nepal Bank Limited
NCBL	National Cooperative Bank Limited
NCHL	Nepal Clearing House Limited
NEPS	Nepal Electronic Payment System
NEPSE	Nepal Stock Exchange
NPLs	Non-Performing Loan
NPR	Nepalese Rupees
NPSDS	Nepal Payments System Development Strategy
NRB	Nepal Rastra Bank
NSO	National Statistics Office
PCA	Prompt Corrective Action
PSO	Payment System Operator
PSP	Payment System Provider
QIB	Qualified Institutional Buyer
QR	Quick Response
RBB	Rastriya Banijya Bank Limited
ROA	Return on Assets
ROE	Return on Equity
RPS	Retail Payment System
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
RWE	Risk Weighted Exposure
SCT	Smart Choice Technologies
SEBON	Securities Board of Nepal
SLF	Standing Liquidity Facility
SOB	State owned Banks
SSF	Social Security Fund
TMS	Trading Management System
USD	US Dollar

FOREWORD

The global economy is in the midst of financial stress and higher inflation. Central banks around the world have tightened monetary policy stance while gradually unwinding the relief measures and regulatory exemptions provided during the Covid-19 pandemic. Nevertheless, the geo-political tension and supply chain disruptions have posed new challenges to policy makers in both stability and growth fronts. Nepal's economy has also been affected directly and indirectly by these developments.

The pressure on price and external sector stability as well as the contraction in the supply of loanable funds created a challenge for Nepal in its path to economic recovery from the pandemic. In this context, this edition of Financial Stability Report thoroughly examined the performance of the domestic financial system and the policies undertaken to maintain stability.

Despite some pressure, the overall performance of Nepal's banks and financial institutions (BFIs) remained sound during the review year supported by the growth in assets, increase in profit, adequate capital and comfortable liquidity position. Nepal's banks and financial institutions remained reasonably sound in terms of capital, liquidity, and asset quality.

NRB is dedicated in its commitment to develop an efficient, robust, well functioning and responsive financial system that lays down the concrete foundation for sustainable and inclusive economic growth of the country.

Finally, I would like to appreciate the Financial Stability Oversight Committee, led by Deputy Governor for bringing out this important publication in coordination with all departments and agencies.

Maha Prasad Adhikari
Governor

June, 2023

EXECUTIVE SUMMARY

1. At the time of recovery from Covid-19, the global economy faced multiple challenges, which include higher-than-expected inflation, tight global financial conditions, Russia-Ukraine war, and the slowdown in China due to the pandemic. These circumstances have sparked worries about a potential recession. Advanced economies and emerging and developing economies expanded by 5.2 percent and 6.6 percent respectively in 2021. According to the International Monetary Fund (IMF) projection, the global output is expected to increase by 3.2 percent in 2022.

2. Gradual reopening of the economic activities following the removal of movement restrictions and availability of vaccine drove the economy's recovery with growth estimated to be 5.26 percent in 2021/22 compared to 4.49 percent a year ago. Annual average consumer price inflation increased to 6.32 percent in 2021/22, close to NRB's targeted ceiling. The rapid increase in domestic demand coupled with rise in commodity prices fueled imports thereby resulting the merchandise trade deficit to increase by 23.0 percent to Rs.1,720.42 billion in the review year. With imports outpacing exports and remittances, the current account deficit widened. Balance of Payments (BOP) remained at a deficit of Rs.255.26 billion in the review year.

3. The number of BFIs contracted owing to the merger and acquisition during the review year. 14 BFIs were involved in the merger/ acquisition process forming seven BFIs through four acquisitions and three mergers. As of mid-July 2022, the total number of BFIs stood at 127 comprising 26 Commercial Banks, 17 Development Banks, 17 Finance Companies, 65 MFIs, 1 Infrastructure Development Bank and 1 Hydroelectricity Investment and Development Company Ltd. (HIDCL). In addition, 19 life insurance companies, 19 non-life insurance companies, 2 reinsurance companies, and other non-bank financial institutions in the form of EPF, CIT, DCGF, SSF, and a Postal Saving Bank are also in operation.

4. Financial soundness indicators of BFIs remained sound despite liquidity constraints. The average capital to risk-weighted assets ratio remained above the regulatory minimum and the non-performing loan to total loan ratio declined marginally from 1.48 percent to 1.31 percent. The composition of NPLs, however,

shows some signs of deterioration in asset quality, primarily because of an increase in restructured or rescheduled loan.

5. During the review year, the share of BFIs in the financial system slightly increased. BFIs made up 80.27 percent of the financial system's total assets/ liabilities, up from 79.99 percent a year ago. Among BFIs, commercial banks hold the largest share followed by development banks. Among contractual savings institutions, insurance companies held the largest share, followed by the EPF, CIT, and reinsurance companies.

6. A decline in the growth of both credit and deposits was observed in the review year, largely attributed to the liquidity shortage brought on by the balance of payments deficit. In contrast to the growth of 27.54 percent in the previous year, credit flows from BFIs increased 12.91 percent in the review year.

7. Profitability of the BFIs improved in the review year as compared to the previous year. Net profit of the BFIs stood at Rs.83.44 billion in the fiscal year 2021/22 from Rs.71.31 billion in the previous year, recording an increase of 17.01 percent. Capital and Reserves of BFIs increased and remained well above regulatory requirements. Stress tests show the resiliency of the BFIs to liquidity, credit, and market shocks. It shows that the financial system remained broadly stable during the review year.

8. Non-bank financial Institutions witnessed an increase in their assets size in the review year. As of mid-March 2022, deposits of cooperatives totaled Rs. 477.96 billion while their credit stood at Rs. 462.26 billion. Total assets of insurance companies rose by 15.01 percent in the review year reaching Rs.624.13 billion. The total assets of EPF increased by 2.81 percent in the review year and reached Rs.459.21 billion in mid-July 2022. While the expansion of the non-banking sector is encouraging, concern regarding the risks associated with the loosely regulated cooperative sector is increasing.

9. As the Federal Reserve tightened its monetary policy, there was an appreciation in the value of the US dollar in the international market. Accordingly, Nepalese currency has depreciated by 6.64 percent against US Dollar during 2021/22 compared to an appreciation of 1.12 percent in the previous year.

10. NEPSE declined in the review year as a reflection of tighter domestic financial market. NEPSE Index dropped to 2,009.47 points in mid-July 2022 from 2,883.41 a year ago. As a result, the stock market capitalization in mid-July 2022 stood at Rs. 2,869.34 billion compared to Rs.4,010.96 billion in mid-July 2021. Similarly, float market capitalization also contracted to Rs. 1,031.31 billion.

11. The review year demonstrated continuous progress in enhancing financial inclusion and access. Commercial banks have reached 752 local bodies out of 753. The total number of branches of BFIs' reached 11,528 exhibiting a growth of 7.91 percent.

12. The impact of global economic slowdown as well as large build up of the private sector credit might have repercussions on the asset quality of the banking system. Further, efforts in checking the asset quality, harmonizing the capital market movement with the real economy and channeling resources towards productive sector will have significant impact on financial stability.

CHAPTER - I

GLOBAL MACRO- FINANCIAL CONTEXT

1.1 Global Macro Economic Situation

The global economy has been facing multiple challenges while recovering from Covid-19 pandemic, which include higher-than-expected inflation, tight global financial conditions, Russia-Ukraine war, and the slowdown in China due to the pandemic. Many Central banks have tightened monetary policy to bring back inflation to target.

1.1.1 Economic Growth

The World Economic Outlook (October 2022) published by the IMF estimates the expansion of world output by 6.0 percent in 2021 compared to a contraction of 3.0 percent in 2020. Recession concerns are surfacing and geopolitical tensions have increased further as Russia-Ukraine war persists. Advanced economies, and emerging and developing economies expanded by 5.2 percent and 6.6 percent respectively in 2021(IMF, 2022a)[1].

The world economy returned to normalcy after the wide availability of Covid-19 vaccines; however, challenges brought about by energy and commodity market disruptions have retarded or even reversed the economic growth of the majority of world economies. According to the IMF, the world output is projected to expand by 3.2 percent in 2022. Advanced economies are projected to expand by 2.4 percent and emerging and developing economies are projected to expand by 3.7 percent. The world output growth will remain low until the gloom persists.

Easing restrictions against Covid-19, both the Chinese and Indian economies experienced stunning growth. The Chinese economy grew by 8.1 percent in 2021 compared to a growth of 2.2 percent in 2020. The Indian economy grew more fervently by 8.7 percent in 2021 compared to the contraction of 6.6 percent in2020. Growth in both China and India is projected to slow down to 3.2 percent and 6.8 percent respectively in 2022(IMF, 2022a).

[1] IMF. (2022a). *World Economic Outlook*. (October edition). International Monetary Fund.

1.1.2 Inflation

Inflation has increased in advanced as well as emerging and developing economies. Advanced economies experienced an inflation of 3.1 percent in 2021 compared to 0.7 percent in 2020 whereas emerging and developing economies experienced an inflation of 5.9 percent in 2021 compared to 5.1 percent in 2020(IMF, 2022a). However, the IMF projects strong inflation pressure in 2022. In advanced economies, consumer inflation is projected to increase by 5.5 percent, and inflation in emerging and developing economies is projected to increase by 7.2 percent.

1.1.3 Trade

World trade volume (goods and services) expanded by 10.1 percent in 2021 compared to a contraction of 7.8 percent in 2020. In 2021, the advanced economies and emerging and developing economies experienced an expansion in import volume by 9.5 percent and 11.8 percent respectively. Likewise, the export volume of advanced economies and emerging and developing economies experienced a growth of 8.7 percent and 11.8 percent respectively (IMF, 2022a).

However, global trade activities are projected to contract in 2022. Import volume in advanced economies is expected to expand by 6.0 percent and import volume in emerging and developing economies is projected to expand by 2.4 percent. Similarly, exports of advanced economies are projected to grow by 4.2 percent, and such growth is projected 3.3 percent in emerging and developing economies.

1.1.4 Crude Oil

The average price of crude oil in US dollars increased by 65.9 percent in 2021 in comparison to a drop of 31.7 percent in 2020. Such a price is projected to increase by 41.4 percent in 2022(IMF, 2022a).

1.1.5 Fiscal Balance and Public Debt

The overall fiscal balance is estimated to reach -3.6 percent in advanced economies, -6.2 percent in emerging market economies, and -5.0 percent in low-income developing economies in 2022 (Table 1.1). Likewise, public debt as a percent of GDP in advanced economies, emerging market economies, and low-income developing economies is expected to remain at 112.4 percent, 65.1

percent, and 48.8 percent respectively in 2022 compared to 117.9 percent, 64.4 percent, and 48.6 percent respectively a year ago(IMF, 2022b)[2].

Table 1.1: Overall Fiscal Balance and Gross Debt as Percentage of GDP

Economies	Overall Fiscal Balance			Gross Debt		
	2020	**2021**	**2022**	**2020**	**2021**	**2022**
Advanced Economies	-10.4	-7.2	-3.6	123.2	117.9	112.4
Advanced Euro Area	-7.0	-5.1	-3.8	96.9	95.3	93.0
Emerging Asia	-9.7	-6.6	-8.6	68.7	71.2	75.4
Emerging Europe	-5.5	-1.9	-3.0	37.9	35.8	31.6
Low-Income Developing Countries	-4.9	-4.6	-5.0	48.6	48.6	48.8

Source: IMF (2022)

1.2 Global Financial Environment

The Global Financial Stability Report (October 2022) of the IMF states that the global financial conditions continue to tighten. Both advanced and emerging economies have tight financial conditions due to the tight monetary policy stance adopted to contain the higher-than-expected inflation and the rising uncertainty about the economic outlook. The financial condition index reported by the IMF was 0.32 for the USA, 0.78 for Euro Area, and 0.18 for other advanced economies in September 2022 which was –1.31, -0.75, and-0.65 respectively in September 2021. In emerging economies, it was -0.10 for China, -0.45 for Asia excluding China, 0.82 for Latin America, and 1.41 for Central, Eastern, and Southern Europe in September 2022. Such figures were 0.52, -0.49, -0.02, and 0.27 respectively in the previous year. Only China has some easing financial conditions. The major drivers of such tight conditions in advanced economies are higher interest rates and lower corporate valuations. Likewise, in emerging economies, weaker currencies, and wider spreads on dollar funding lead to such tight conditions. Financial market volatility has increased in almost all asset classes in 2022, and there is a risk of disorderly tightening of financial conditions

[2] IMF. (2022b). *Fiscal Monitor*. (October edition). International Monetary Fund.

(IMF, 2022c). Likewise, the market liquidity conditions have worsened along with deteriorating risk appetite and monetary tightening by the central banks.

The financial conditions in emerging economies have become tighter and more vulnerable. These economies are simultaneously facing the problems of high external borrowing costs, high inflation, volatile commodity markets, the effects of the Russia-Ukraine war, and policy tightening in the advanced economies. Likewise, the currencies of emerging economies experienced a significant depreciation in response to the tighter monetary policy stance of advanced economies. Many emerging economies are also facing the potential loss of market access and sovereign default. The risk to portfolio flows has also remained high due to the strong US dollar, market volatility, and uncertain outlook. The capital-flows-at-risk analysis by the IMF shows that the probability of capital outflows in the next three quarters has increased to 40 percent.

1.3 Global Financial Stability Overview

The IMF (2022c) states that global financial stability risks have increased in recent months. The global financial market has experienced large volatility due to the higher inflationary pressures, and increased uncertainty about the global economic outlook following the slowdown in China and Russia-Ukraine war. The global stress tests for banks by the IMF show the resiliency of most banks in advanced economies, but not of the banks in emerging economies under a severe downturn scenario. Up to 29 percent of banks in an emerging market may breach the minimum capital requirements during a severe downturn. The IMF's global financial stability report also indicates the increased financial vulnerabilities in the sovereign and nonbank financial institution sectors, including the deteriorating market liquidity. Thus, the IMF has emphasized the policies' actions to bring back inflation to target, the combination of targeted foreign exchange interventions, capital flow measures, and other actions to smooth exchange rate adjustments in emerging economies, efforts to contain risks associated with high debt vulnerabilities, selected macro prudential tools to tackle elevated vulnerabilities, and ensuring the robustness of trading infrastructure and transparency for market liquidity risks.

1.4 Conclusion

Several factors such as the slowdown in recovery from the Covid-19 pandemic, increased financial vulnerabilities due to the Russia Ukraine war, and heightened geopolitical uncertainties have led to increased challenges for financial stability globally. Both advanced and emerging economies are undergoing tight financial conditions owing to higher interest rates and lower corporate valuations in advanced economies, and weaker currencies along with wider spreads on dollar funding in emerging economies. Amid these extraordinary uncertainties and challenges, economies around the world are taking policy actions to mitigate these vulnerabilities and boost the economic recovery. All these global developments have implications for developing countries like Nepal.

CHAPTER - II

NEPALESE MACRO-FINANCIAL DEVELOPMENTS

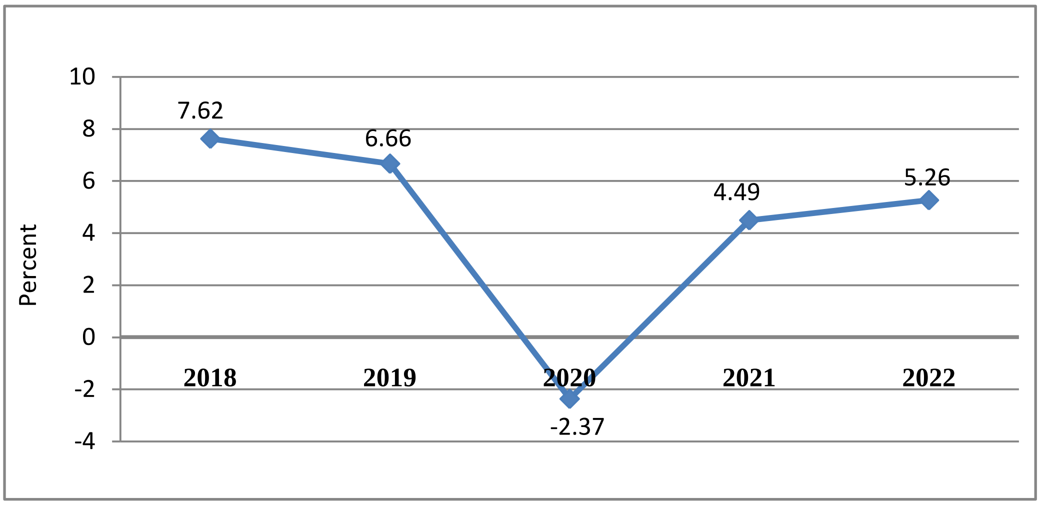
2.1 Overview of Nepalese Macro Economic Situation

The growth of the Nepalese economy remained moderate in 2021/22 with the gradual recovery of the economy from the Covid-19 pandemic. Likewise, inflation remained within the target but the external sector faced some stress. Remittance inflows along with government revenue and expenditures increased compared to the previous year. Foreign exchange reserves levels remained in a comfortable position, slightly less than the target at the end of fiscal year 2021/22 because of huge balance of payments deficit.

2.1.1 Economic Growth

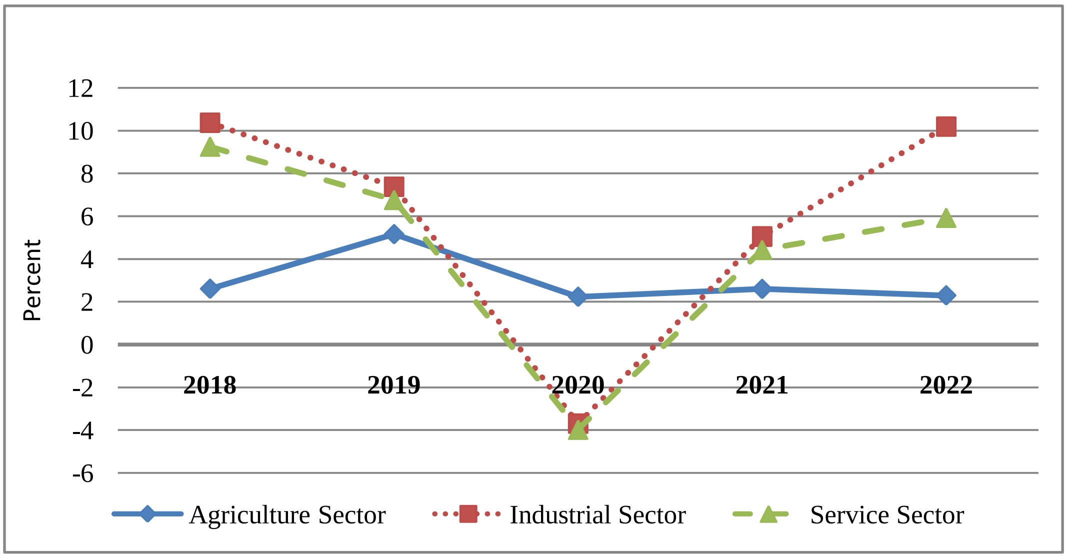
National Statistics Office (NSO) estimated the economic growth of Nepal to be 5.26 percent in 2021/22 (Figure 2.1). Economic growth in the review year is mainly supported by electricity generation, expansion in construction activities, and revival of the tourism sector. In 2020/21, the economic growth rate was 4.49 percent.

Figure 2.1: Real GDP Growth Rate



In the review year, the agriculture sector and non-agriculture sector are expected to expand by 2.3 percent and 6.88 percent respectively. Such growths were 2.85 and 4.26 percent respectively in the previous year. Under non-agriculture sector, industry sector increased by 10.19 percent and service sector by 5.96 percent (Figure 2.2). Such growth rates were 4.51 percent and 4.19 percent respectively in 2020/21. The FY 2021/22 seems to exhibit the continued recovery from the Covid-19 pandemic.

Figure 2.2: Sectoral GDP Growth

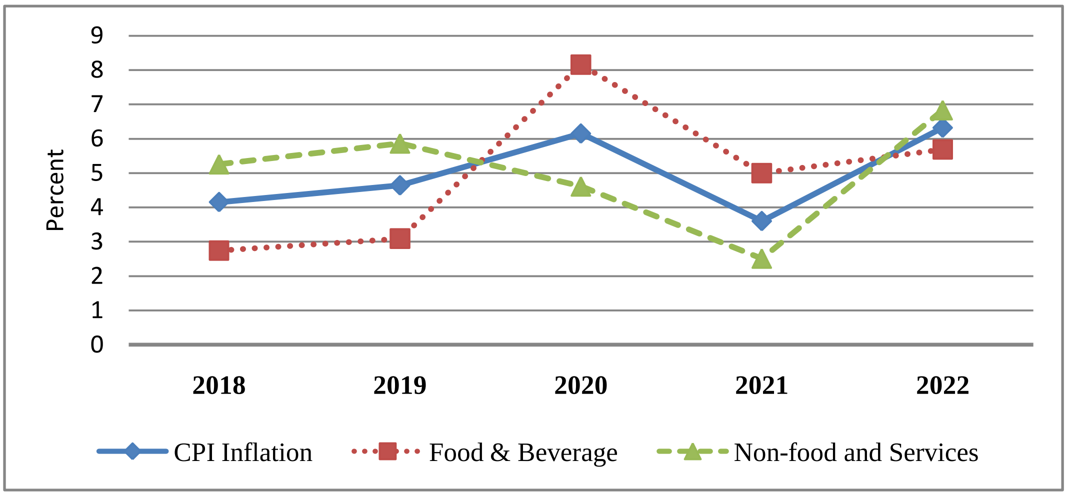


2.1.2 Inflation

Annual average consumer price inflation remained at 6.32 percent in 2021/22 compared to 3.60 percent a year ago. However, the second half of 2021/22 registered a higher rate of inflation than the first half, due to the impact of the Russia-Ukraine war on petroleum, commodity, and fuel prices. Depreciation of Nepalese Rupees with the US dollar also increased the prices of imported goods.

The annual average food and beverage inflation stood at 5.69 percent in 2021/22 compared to 5.00 percent a year ago, the non-food inflation stood at 6.83 percent compared to 2.51 percent a year ago (Figure 2.3).

Figure 2.3: Changes in Consumer Price Index



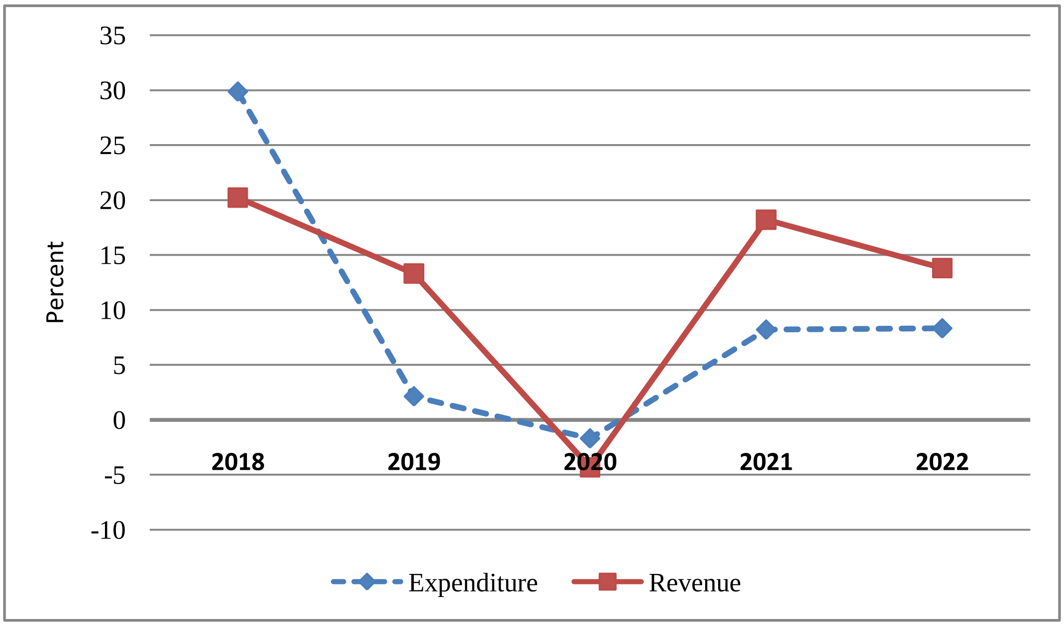
2.1.3 Government Finance

In the review year, the fiscal position of the Government of Nepal (GoN), based on banking transactions, remained at a deficit of Rs.260.16 billion in 2021/22 compared to a deficit of Rs.262.69 billion previous year.

In 2021/22, government revenue increased by 13.8 percent to Rs.1067.96 billion, compared to an increment of 18.2 percent in 2020/21 (Figure 2.4). Of the total revenue, the share of tax revenue and non-tax revenue stood at 92.15 percent and 7.85 percent, respectively in the review year.

Government expenditure increased by 8.32 percent to Rs.1,296.44 billion in 2021/22. During the review year, recurrent expenditure increased by 13.62 percent whereas the capital expenditure contracted by 5.45 percent. The capital expenditure in 2020/21 had increased by 21.0 percent.

Figure 2.4: Government Expenditure and Revenue Growth

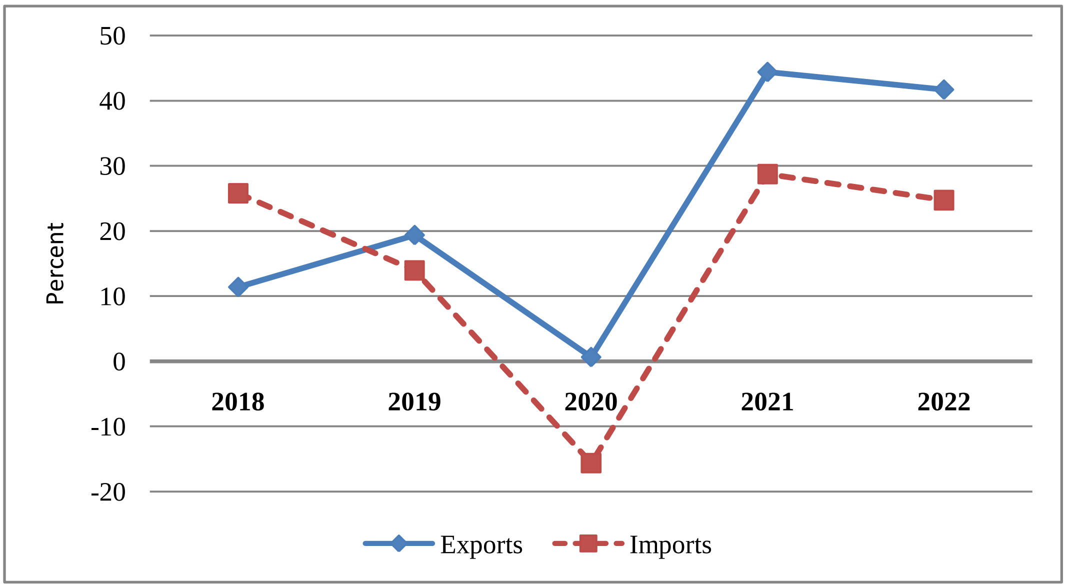


2.1.4 External Sector

In FY 2021/22 both exports and imports continued to grow at higher rates (Figure 2.5). Merchandise exports increased by 41.7 percent to Rs.200.03 billion compared to an increase of 44.4 percent in the previous year. In the review year, while the exports to India and other countries increased by 45.9 percent and 30.4 respectively, exports to China decreased by 20.4 percent. Total merchandise exports as a percentage of GDP remained at 4.12 percent in the review year.

Merchandise imports also increased by 24.7 percent to Rs.1,920.45 billion compared to an increase of 28.7 percent a year ago. In the review year, imports from India, China, and other countries increased by 23.5 percent, 13.2 percent, and 36.3 percent respectively. The total imports-to-GDP ratio increased to 41.5 percent in the review year from 38.6 percent in the previous year.

Figure 2.5: Growth Rate of Exports and Imports



Total trade deficit increased by 23.0 percent to Rs.1,720.42 billion in the review year. Such a deficit had increased by 27.3 percent in the previous year. The export-import ratio increased to 10.4 percent in the review year from 9.2 percent in the previous year.

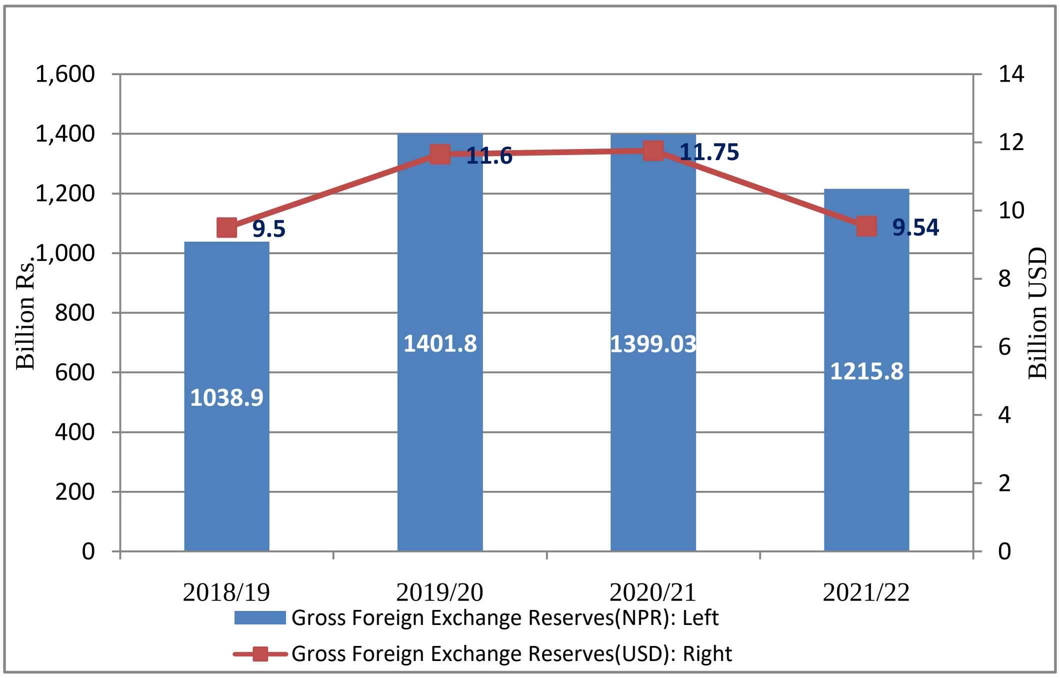
In the review year, total services receipts and expenses decreased by 54.4 percent and 51.5 percent respectively. As a result, net services income remained at a deficit of Rs.108.12 billion compared to a deficit of Rs.72.85 billion in the previous year.

Remittance inflows increased by a low rate of 4.8 percent to Rs.1,007.31 billion during 2021/22 compared to 9.8 percent in the previous year. However, the ratio of workers' remittances to GDP decreased to 20.80 percent in 2021/22 from 22.47 percent in 2020/21. Net transfer increased by 4.3 percent to Rs.1,117.88 billion in the review year. Such a transfer had increased by 9.1 percent in the previous year.

In the review year, capital transfer decreased by 34.5 percent to Rs.9.99 billion and net foreign direct investment (FDI) decreased by 4.9 percent to Rs.18.56 billion. In the previous year, capital transfer and net FDI amounted to Rs.15.26 billion and Rs.19.51 billion respectively.

As a result of the negative balance of payments, gross foreign exchange reserves decreased by 13.1 percent to Rs.1,215.80 billion in mid-July 2022 from Rs.1,399.03 billion in mid-July 2021 (Figure 2.6). Such reserves is sufficient for financing the import of goods and services for 6.9 months. In the USD terms, the gross foreign exchange reserves decreased by 18.9 percent reaching 9.54 billion in mid-July 2022 from 11.75 billion in mid-July 2021. During FY 2021/22, the foreign exchange reserves declined to as low as to cover just 6.6 months of goods and services in mid-January 2022; as a result of higher imports contributing to increasing BOP deficit.

Figure 2.6: Foreign Exchange Reserves Situation



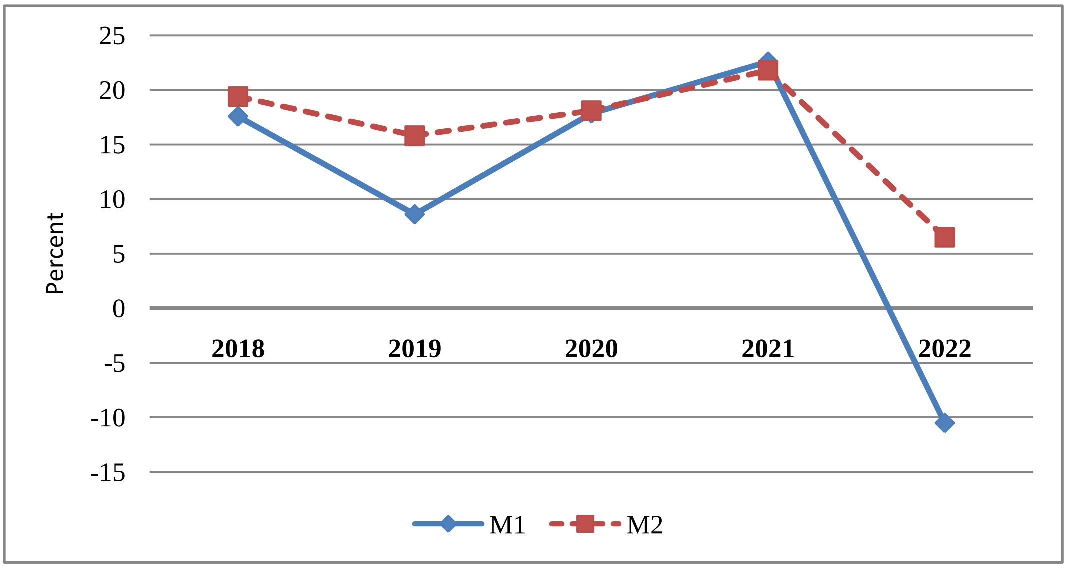
Foreign assets and liabilities of the country stood at Rs.1,330.65 billion and Rs.1,588.27 billion respectively in mid-July 2022. Accordingly, the net international investment position (IIP) remained at a deficit of Rs.257.62 billion in mid-July 2022. Net IIP was in surplus of Rs.80.12 billion in mid-July 2021.

2.1.5 Monetary Sector

Growth of monetary aggregates recorded a slowdown in the review year. Broad money (M2) expanded by 6.8 percent in 2021/22 compared to the growth of 21.8

percent in the previous year. Likewise, narrow money (M1) contracted by 9.7 percent in the review year compared to an expansion of 22.6 percent in the previous year (Figure 2.7). Reserve money decreased 11.4 percent in the review year in contrast to an increase of 5.2 percent in the previous year. Contraction of reserves level and narrow money, slow down in the growth of broad money was due to a decline in the net foreign assets.

Figure 2.7: Growth Rate of Money Supply



The net foreign assets decreased by Rs.255.26 billion (19.1 percent) in the review year in contrast to an increase of Rs.1.23 billion (0.1 percent) in the previous year.

Domestic credit increased 14.5 percent in the review year compared to a growth of 27.1 percent in the previous year. Deposits at banks and financial institutions (BFIs) increased 9 percent in the review year compared to a growth of 21.4 percent in the previous year.

Because of higher credit growth than that of deposit growth, the banking system faced a liquidity shortage during 2021/22. However, Nepal Rastra Bank (NRB) continued injected liquidity. In the review year, Rs.9,702.41 billion liquidity was injected through open market operations. Similarly, Rs.60 billion was mopped up through open market operations.

2.1.6 Interest Rates

Upward pressure on interest rate was observed during the review year. The weighted average 91-day treasury bills rate remained 10.66 percent the last month of 2021/22, which was 4.55 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 4.12 percent a year ago, increased to 6.99 percent during mid-June to mid-July 2022.

Box 1: Recent Macroeconomic Development

This box summarizes the recent macroeconomic development of 2022/23.

- National Statistics Office (NSO) has estimated economic growth of 2.16 percent in 2022/23. Such growth was 5.26 percent in 2021/22 and 4.49 percent in 2020/21.
- The y-o-y consumer price inflation remained at 7.76 percent in mid-April 2023 compared to 7.28 percent a year ago.
- During the nine months of 2022/23, total expenditure of the federal government according to data of Financial Comptroller General Office (FCGO), Ministry of Finance, stood at Rs.943.05 billion. The recurrent expenditure, capital expenditure and financial management expenditure amounted to Rs.706.77 billion, Rs.107.24 billion and Rs.129.04 billion respectively in the review period. Such expenditures were Rs. 625.50 billion, Rs.103.79 billion, and Rs. 64.97 billion during the same period of the previous year.
- During this period, merchandise exports decreased 26.3 percent to Rs.118.28 billion against an increase of 69.4 percent in the same period of the previous year.
- Balance of Payments (BOP) remained at a surplus of Rs.180.17 billion in the review period compared to a deficit of Rs.268.26 billion in the same period of the previous year.
- Gross foreign exchange reserves increased 17.9 percent to Rs.1433.73 billion in mid-April 2023 from Rs.1215.80 billion in mid-July 2022. Based on the imports of nine months of 2022/23, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 11.0 months, and merchandise and services imports of 9.4 months.
- Private sector credit from BFIs increased Rs.161.98 billion (3.5 percent) in the review period compared to an increase of Rs.550.64 billion (13.5 percent) in the corresponding period of previous year. Deposits at Banks and Financial Institutions (BFIs) increased Rs.355.89 billion (7.0 percent) in the review period compared to an increase of Rs.236.23 billion (5.1 percent) in the corresponding period of the previous year.

- In this period, NRB injected Rs.4449.09 billion liquidity on turnover basis of which Rs.413.94 billion was through repo, Rs.89.70 billion through outright purchase auction, Rs.2726.81 billion through standing liquidity facility (SLF) and Rs.1218.63 billion through Overnight Liquidity Facility (OLF). During the period, the NRB absorbed Rs.5 billion liquidity through reverse repo auction. In the corresponding period of the previous year, Rs.5182.72 billion net amount of liquidity was injected through various instruments.
- In this period, BFIs interbank transactions amounted Rs.2982.69 billion on turnover basis including Rs.2715.90 billion inter-bank transactions among commercial banks.
- The average base rate of commercial banks increased to 10.48 percent in the ninth month of 2022/23 from 9.17 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 8.26 percent and 12.84 percent respectively in the review month. Such rates were 7.11 percent and 10.78 percent respectively a year ago.
- NEPSE index stood 1934.48 in mid-April 2023 compared to 2415.25 a year ago. Stock market capitalization in mid- April 2023 stood Rs.2813.55 billion compared to Rs.3426.11 billion in mid-April 2022.

2.2 Overview of Nepalese Financial System

2.2.1 Financial Ecosystem of Nepal

Nepalese financial ecosystem comprises different financial players who are closely interacting for fulfilling the financing needs of the economy. The basic financial need of economy is to maintain adequate liquidity in the system to achieve financial stability. NRB is the regulator of bank and financial institutions, which comprises Commercial Banks, Development Banks, Finance Companies, Micro Finance Institutions, Infrastructure Development Bank along with some non-bank financial institutions. The Securities Board of Nepal (SEBON) regulates securities market, which comprises of stock exchange, listed companies, central securities depository, stockbrokers, merchant bankers, credit rating agencies, mutual funds, Application Supported by Blocked Amount (ASBA) members, Securities Dealers and depository participants. Likewise, insurance companies are under the purview of Nepal Insurance Authority and cooperatives fall under the jurisdiction of Department of Cooperatives. Other financial institutions that are legitimized by their respective acts and legislations include contractual saving and Non-Bank Financial Institutions (NBFIs) such as Employees Provident Fund (EPF), Citizen's Investment Trust (CIT), Postal Saving Banks and Social Security Fund (SSF), which are, focused on long term sources of funds. Besides, Deposit and Credit Guarantee Fund (DCGF) operating as financial safety net and Credit Information Center Ltd (CICL), the repository of credit information of consumers and commercial borrowers of banks and financial institutions are also important parts of the Nepalese Financial System.

The domestic financial system is gradually connecting to international market as they can borrow foreign loan, accept the foreign bank guarantee, invest in derivative instruments, involve in forward contracts etc. Nepalese financial regulators are actively involved in regulation and supervision for continued stability in the financial system. Along with this, NRB is actively pursuing greater accessibility, inclusiveness, transparency in the financial system.

The financial ecosystem can be considered sound if the players are performing well and risk are properly identified and managed. The efficient, effective, transparent and inclusive financial ecosystem is desirable in the economy which are able to collect and mobilize the best available financial resources in an efficient manner. There are wide ranges of financial institutions in operation and, so far, no significant imbalances were noted in financial ecosystem of Nepal.

2.2.2 Structure of the Overall Financial System

As of mid-July 2022, the total number of bank and financial institutions stood at 126 comprising 26 commercial Banks, 17 development banks, 17 finance companies, 65 micro finance institutions and 1 infrastructure development bank. Merger process continued in the review year resulting in the decline in the number of commercial banks by one and micro finance institutions by five. Merger process also began in the insurance companies resulting in the decline in number of insurance companies by one. There were 40 insurance companies including 19 life insurance companies, 19 non life insurance companies and 2 reinsurance companies were in operation as on mid-July 2022. Likewise, there are 1 stock exchange, 1 central depository company, 50 stock brokers, 30 merchant bankers, 18 mutual funds, 3 credit rating agencies, 116 qualified institutional buyer and 1 stock dealer, in operation, licensed by SEBON as of mid-July 2022. Besides these financial institutions, NBFIs in the form of EPF, CIT, DCGF, SSF and a Postal Saving Bank are also in operation (Table 2.1).

Table 2.1: Number of Financial Institutions

	2018	2019	2020	2021	2022
Commercial Banks	28	28	27	27	26
Development Banks	33	29	20	18	17
Finance Companies	25	23	22	17+	17+
Microfinance Financial Institutions	65	90	85	70	65
Infrastructure Development Bank	-	-	1	1	1
	151	**170**	**155**	**133**	**126**
Life Insurance Companies	18	19	19	19	19
Non-Life Insurance Companies	20	20	20	20	19
Reinsurance Company	1	1	1	2	2
	39	**40**	**40**	**41**	**40**
Stock Exchange	1	1	1	1	1
Central Depository Company	1	1	1	1	1
Stock brokers	50	50	50	50	50
Merchant Bankers	25	30	32	30	30
Mutual Funds	9	9	14	15	18
Credit Rating Agencies	2	2	2	2	3
Depository Participants	70	72	76	79	81
ASBA BFIs	65	52	52	52	49
Qualified Institutional Investor	-	-	-	87	116
Stock Dealer	-	-	-	1	1
	88	**93**	**100**	**187**	**220**
Employees Provident Fund	1	1	1	1	1
Citizen Investment Trust	1	1	1	1	1
Postal Saving Bank	1	1	1	1	1
Social Security Fund	-	-	1	1	1
	3	**3**	**4**	**4**	**4**
Deposit and Credit Guarantee Fund	1	1	1	1	1
Credit Information Center Limited	1	1	1	1	1
Total $	**283**	**308**	**301**	**359**	**392**

$ BFIs repeated as ASBA BFIs and Depository Participants not included in Sub-Total and Total.

+ including 2 problematic finance companies

Note: License provided by NRB to some cooperatives for conducting limited banking transactions were revoked from August 2018. Similarly, NRB licensed Financial Intermediary Non-Governmental Organizations (FINGOs) were converted into MFIs during the 2018/19.

The structure of Nepalese Financial system in terms of assets size (Table 2.2) shows the dominance of commercial banks. The share of BFIs in total assets/ liabilities of the financial system stood at 80.27 percent in the review year compared to 79.99 percent in the previous year.

Table 2.2: Structure of the Nepalese Financial Sector (Total Assets)

Institutions					*(Rs. in Billion)*
	2018	**2019**	**2020**	**2021**	**2022**
Commercial Banks	3,104.27	3,687.33	4,413.57	5420.35	6020.55
Development Banks	374.7	486.31	413.42	521.95	612.73
Finance Companies	96.01	112.54	126.75	126.68	152.04
Microfinance Financial Institutions	175.61	273.02	325.16	445.5	519.65
Infrastructure Development Bank	-	13.15	13.97	24.42	26.44
Cooperatives	388.13	491.93	383.14	383.14	383.14
Employees Provident Fund	292.16	346.64	388.71	444.47	459.01
Citizen Investment Trust	114.06	148.9	180.71	197.67	247.52
Insurance Companies	260.31	347.15	437.32	542.65	624.13
Reinsurance Company	10.04	12.14	15.09	29.33	33.96
Social Security Fund			28.96	38.69	54.702
Total	**4,815.29***	**5,905.96***	**6,726.80**	**8174.85**	**9133.87**
Market capitalization (NEPSE)	1,435.13	1,567.50	1,792.76	4010.96	2869.34
Total (incl. market capitalization)	**6,250.42**	**7,473.43**	**8519.56**	**12185.8**	**12003.2**
Percentage Share (Excluding NEPSE Market Capitalization)					
Commercial Banks	64.29	62.26	65.65	66.31	65.91
Development Banks	7.76	8.21	6.14	6.38	6.71
Finance Companies	1.99	1.9	1.83	1.55	1.66
Microfinance Financial Institutions	3.64	4.61	4.84	5.45	5.69
Infrastructure Development Bank	-	-	0.2	0.3	0.29
Cooperatives	8.04	8.3	5.7	4.69	4.19
Employees Provident Fund	6.05	5.85	5.79	5.44	5.03
Citizen Investment Trust	2.36	2.51	2.69	2.42	2.71
Insurance Companies	5.39	5.86	6.51	6.64	6.83
Reinsurance Company	0.21	0.2	0.22	0.36	0.37
Social Security Fund	-	-	0.43	0.47	0.60
Total	**100**	**100**	**100**	**100**	**100**

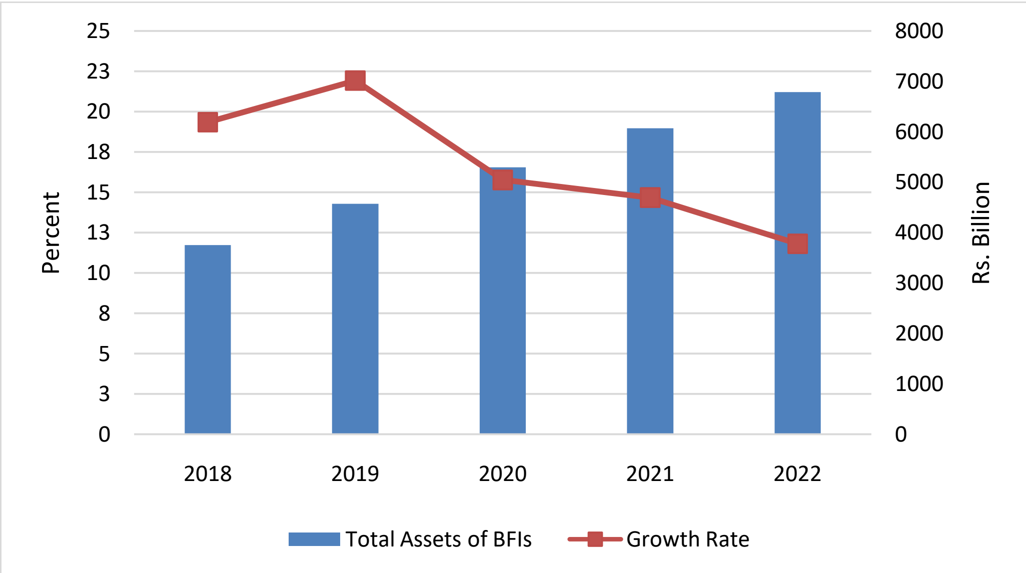
** Figures adjusted from earlier published figure because of delicensing of NRB Licensed cooperatives and FINGOs as well as licensing of Infrastructure Development Bank.*

Among BFIs[3], commercial banks hold the largest share (65.91 percent) in the financial system followed by development banks (6.71 percent). In case of contractual saving institutions, insurance companies have the largest share (6.83 percent) of the total assets of the financial system followed by Employees Provident Fund (5.03 percent), CIT (2.71 percent) and Reinsurance companies (0.37 percent) as of mid-July 2022. The share of cooperatives in the financial system stood at 4.19 percent compared to 4.69 percent a year ago.

2.2.3 Size of Bank and Financial Institutions

The value of assets of Nepalese BFIs continuously increased in the last five years, despite some fluctuations (Figure 2.8). The assets of BFIs amounted to Rs.6,785.32 billion in mid-July 2022 up from a value of 6,068.98 billion as of mid-July 2021. Total assets of BFIs recorded a growth of 11.80 percent in the review year. Such a growth was 14.66 percent in the previous year.

Figure 2.8: Total Assets and Growth rate

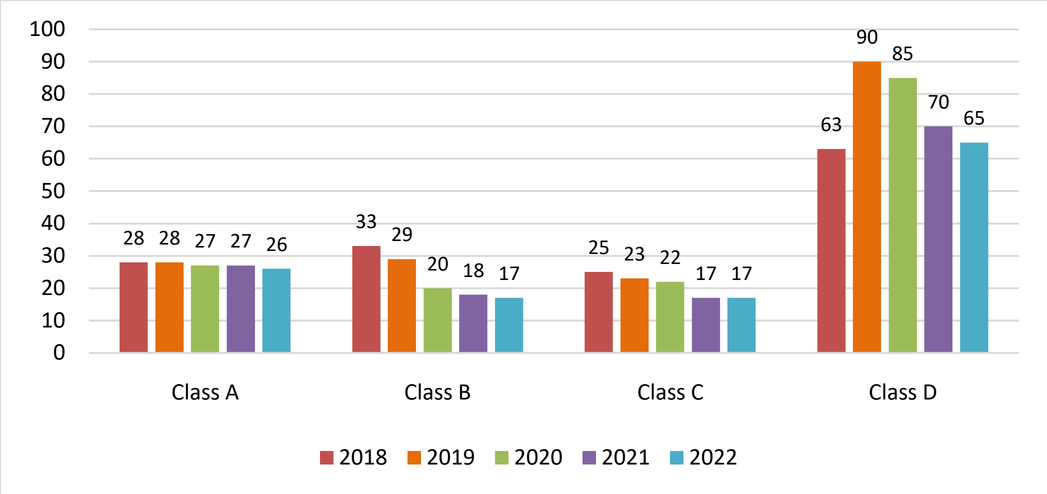


Increase in assets of BFIs is mainly due to the increment in deposit and credit. Increase in deposit is mainly driven by the increase in banking habits, expansion in banking outreach, supported by the wider adoption of information technology, and increasing remittance inflows. The increment in credit of the BFIs is driven

[3] *BFIs referred in data analysis part of this chapter covers Class A, B & C institutions only*

by expansion of full-fledged banking services in the local bodies of nation, increase in financial literacy and awareness.

Figure 2.9: Number of A, B, C and D class Financial Institutions



The number of financial institutions, mainly development banks, finance companies and MFIs has significantly decreased in last five years. The number of BFIs was 133 in mid-July 2021 and it reduced to 127 in mid-July 2022. The number of development banks, finance companies and MFIs stood at 17, 17 and 65 respectively in mid-July 2022. These numbers were 18, 17 and 70 respectively in mid-July 2021.

2.2.4 Sectoral Credit Disbursement

Sectoral credit distribution of the banking sector shows highest concentration in the wholesaler and retailer sector (Table 2.3). Of the total credit outstanding, as of mid-July 2022, the highest concentration was observed in wholesaler and retailer sector with 20.12 percent, followed by consumption loan (18.42 percent), agriculture, forestry and beverage production related (15.58 percent), other services (8.95 percent), and finance, insurance and real estate (7.97 percent. Such concentration was wholesaler and retailer sector 20.07 percent, followed by agriculture, forestry and beverage production related (16.45 percent), other services (15.38 percent), finance, insurance and real estate (8.08 percent) and agriculture and forest related (6.56 percent) in the previous year. Sectoral distribution of credit varies marginally across years. Concentration of lending to a certain sector exposes banks to credit concentration risk. Hence, NRB has made mandatory provision of lending to some specified sectors to bolster economic activities in those sectors.

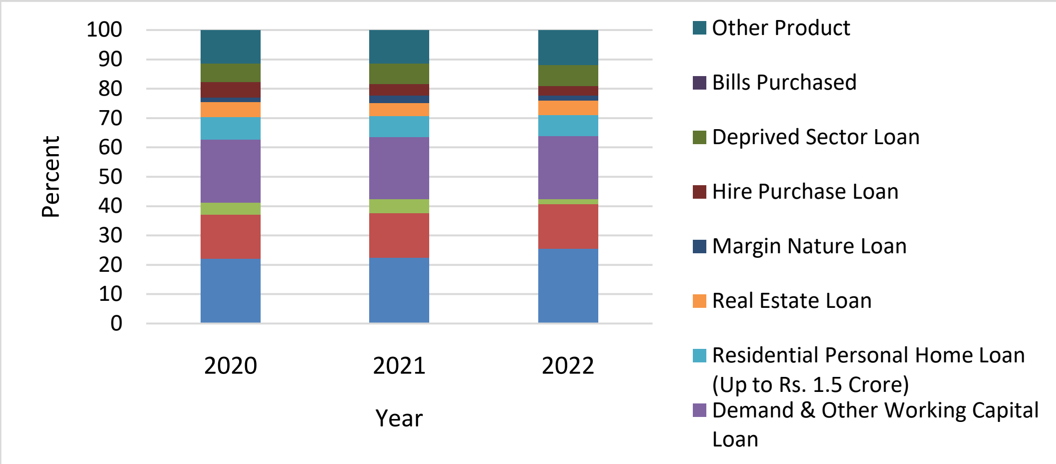
Table 2.3: Credit Distribution by Sectors

Sectors	mid-July 2020	mid-July 2021	mid-July 2022
Wholesaler & Retailer	20.29	20.07	20.12
Consumption Loan*	4.86	5.6	18.42
Agriculture, Forestry & Beverages Production Related	17.27	16.45	15.58
Others	14.45	15.38	8.95
Finance, Insurance and Real Estate	7.74	8.08	7.97
Agricultural and Forest Related	5.82	6.56	7.14
Electricity, Gas and Water	4.96	4.98	5.24
Hotel or Restaurant	4.55	4.41	4.26
Other Services	4.61	4.24	4.1
Construction	10.64	9.92	4.04
Transport, Communication and Public Utilities	2.99	2.34	2.14
Metal Products, Machinery & Electronic Equipment & Assemblage	1.41	1.5	1.54
Fishery Related	0.17	0.21	0.28
Mining Related	0.2	0.21	0.19
Local Government	0.05	0.04	0.02
TOTAL	**100.00**	**100.00**	**100.00**

**Year-on-year variation observed due to reclassification of the sub-sector Hirepurchase (personal consumption) loan, Education loan, Residential Personal Home Loan (Up to Rs.15 million), Personal Loan(<5M without specific purpose) previously reported under others category included in Consumption loan.*

As per the product-wise portfolio, BFIs have made highest lending in term loan (25.42 percent) followed by demand and working capital loan (21.53 percent) and overdraft (15.26 percent). Figure 2.10 depicts the product-wise lending of BFIs as of mid-July 2022.

Figure 2.10: Product wise Lending of BFIs



2.2.5 Real Estate Lending and Residential Home Loan

The banking system has gradually reduced its exposure in real estate and residential home loan sector. The volume of credit in these sectors shows marginal increment over the years (Figure 2.11). However, their relative exposure is seen declining (Figure 2.12). The real estate exposure amounted to Rs. 228.25 billion which accounts for 4.85 percent of total loan outstanding in mid-July 2022. Such exposure was Rs.183.54 billion (4.40 percent of the total outstanding loan) in mid-July 2021. Similarly, residential personal home loan amounted to Rs. 337.79 billion which accounts for 7.17 percent of total loan outstanding in mid-July 2022. Such exposure was Rs. 298.26 billion (7.15 percent of the total outstanding loan) in mid-July 2021.

Figure 2.11: Real Estate Lending and Residential Home Loan of BFIs

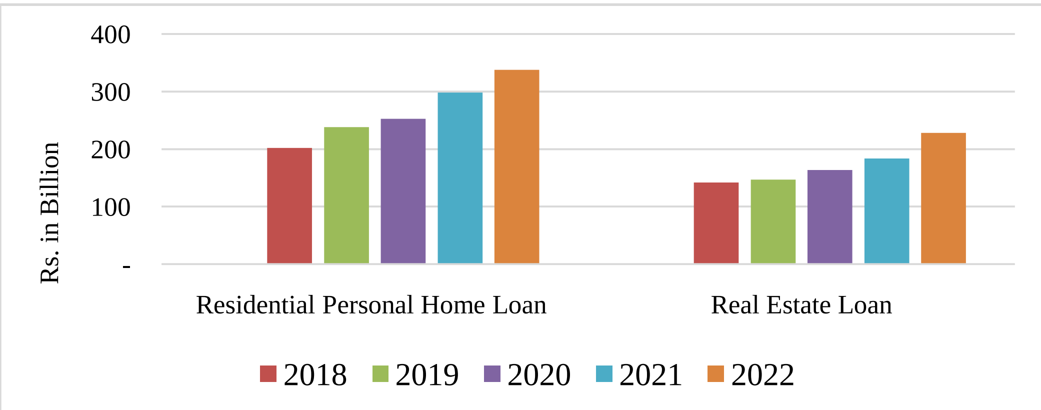
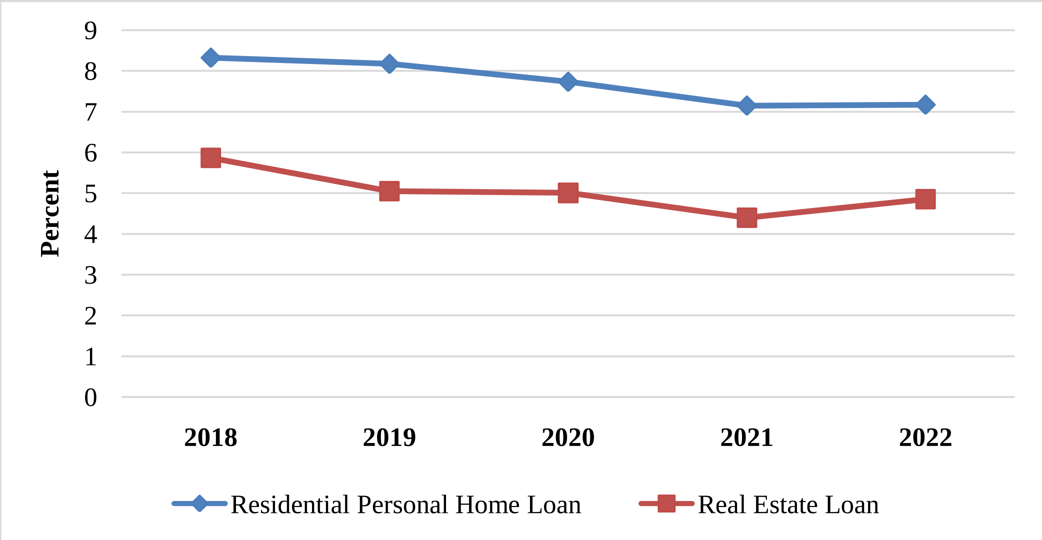


Figure 2.12: Real Estate Lending and Residential Home Loan of BFIs to Total Loan Ratio



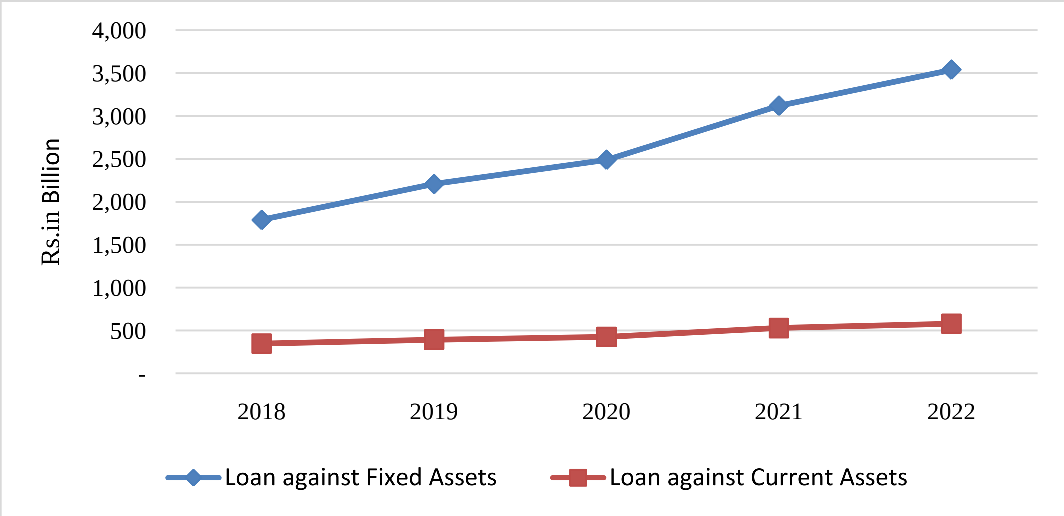
NRB has adopted some macro-prudential measures to address increasing exposure in real estate lending such as caps on real estate loan and loan-to-value ratio (LTV). NRB has directed BFIs to limit their real estate and housing loan exposure at 25 percent of their total loan and land purchase and development at 10 percent. The BFIs are also required not to provide loan exceeding 50 percent of fair market value of the collateral/project outside Kathmandu valley and 40 percent inside Kathmandu valley.

Commercial banks' exposure to real estate and housing loan has declined from the highest of 19.40 percent in mid-July 2010 to 4.78 percent of the total outstanding loan in mid-July 2022. Development banks and finance companies have lent 4.24 percent and 10.78 percent, respectively to real estate in mid-July 2022.

2.2.6 Loan against Collateral of Fixed Assets

BFIs have lent 75.13 percent of their total loan against collateral of fixed assets in mid-July 2022. Commercial banks have lent 74.14 percent, development banks and finance companies have lent respectively 83.18 percent and 81.46 percent of their total loan portfolio against collateral of fixed assets in mid-July 2022. These ratios were 73.75 percent, 83.26 percent and 80.79 percent of commercial banks, development banks and finance companies respectively in mid-July 2021.

Figure 2.13: Collateral-wise lending



2.3 Financial Soundness Indicators

2.3.1 Capital Adequacy

Despite the challenging macro environment, the banking sector remained resilient supported by healthy capital adequacy ratio (CAR), well above the regulatory requirement, which is 11 percent for commercial banks and 10 percent for development banks and finance companies. The total CAR and Core Capital ratios of BFIs declined to 13.58 and 10.81 from 14.19 and 11.12 percent respectively in mid-July 2022 from mid-July 2021 (Table 2.4). CAR of commercial banks, development banks, and finance companies declined marginally and stood at 13.53, 13.10, and 17.75 percent respectively in mid-July 2022. Such ratios were 14.13, 13.14, and 22.04 percent respectively in the previous year (Figure 2.14). The overall CAR and Core Capital ratios of BFIs declined marginally in the review year (Figure 2.15). Capital Fund of BFIs increased by 10.79 percent in the review year and reached Rs.618.79 billion. Such increment was 14.39 percent in the previous year. The capital fund is composed of paid-up capital (Rs. 407.79 billion), statutory reserves (Rs.120.97 billion), retained earnings (Rs.10.27 billion) and other reserves (Rs.79.78 billion).

Figure 2.14: Capital Adequacy Ratio

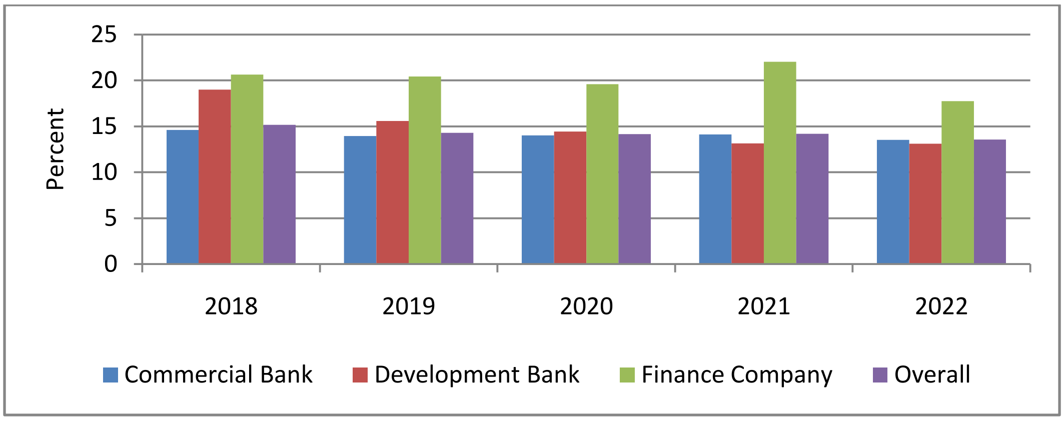
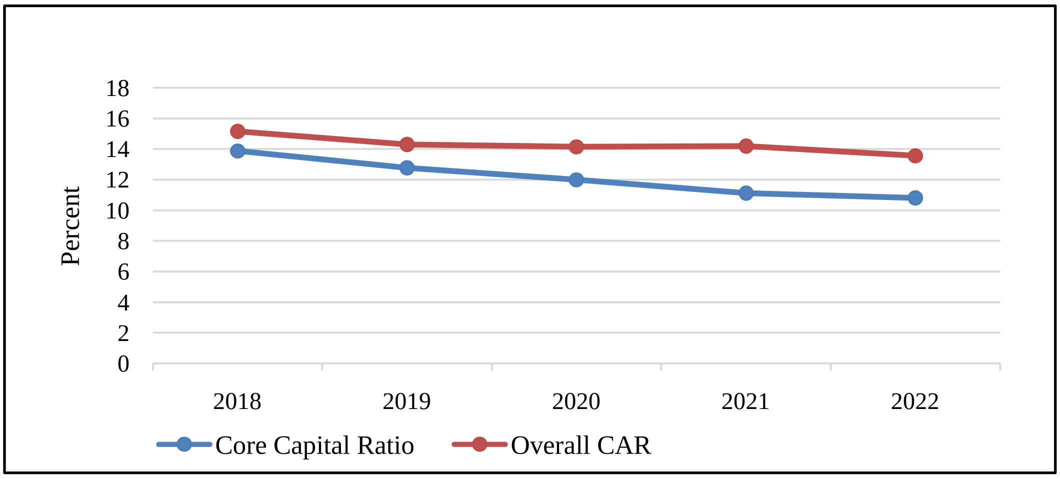


Figure 2.15: Core Capital Ratio and Overall CAR



2.3.2 Asset Quality

The overall NPL ratio of BFIs showed some improvement in the review year (Figure 2.16). NPL to total loan of BFIs decreased by 0.17 percent to 1.31 percent in the review year compared to 1.48 percent a year ago (Table 2.4). During the year, NPL ratio of commercial banks declined from 1.41 percent to 1.20 percent and that of development bank and finance companies increased from 1.30 percent and 6.19 percent to 1.36 percent and 6.23 percent respectively. The NPL ratio of finance companies is relatively higher as two of them were problematic during the review year.

NPL levels of BFIs increased marginally to Rs.61.87 billion in mid-July 2022 and Rs.61.65 billion in mid-July 2021. While the total loan and advances of BFIs showed an increment of 12.9 percent, the loan of watch list category increased by 34.11 percent. This indicates that the asset quality is deteriorating as compared to the previous year.

Although NPL ratios show improvement, the composition of NPL shows some signs of deterioration in asset quality with an increase in restructured/rescheduled loan within the banking sector (Figure 2.17). The share of restructured/ rescheduled loan in NPL increased to 3.24 percent in the review year as compared to 1.57 percent a year ago. The share of rescheduled loan in total loan increased from 0.02 percent at mid-July 2021 to 0.04 percent at mid-July 2022. A large share of NPLs in the banking sector falls into the loss category and represent 51.40 percent of the total NPLs. These loan are less likely to be recovered in due course.

Figure 2.16: Non-Performing Loan

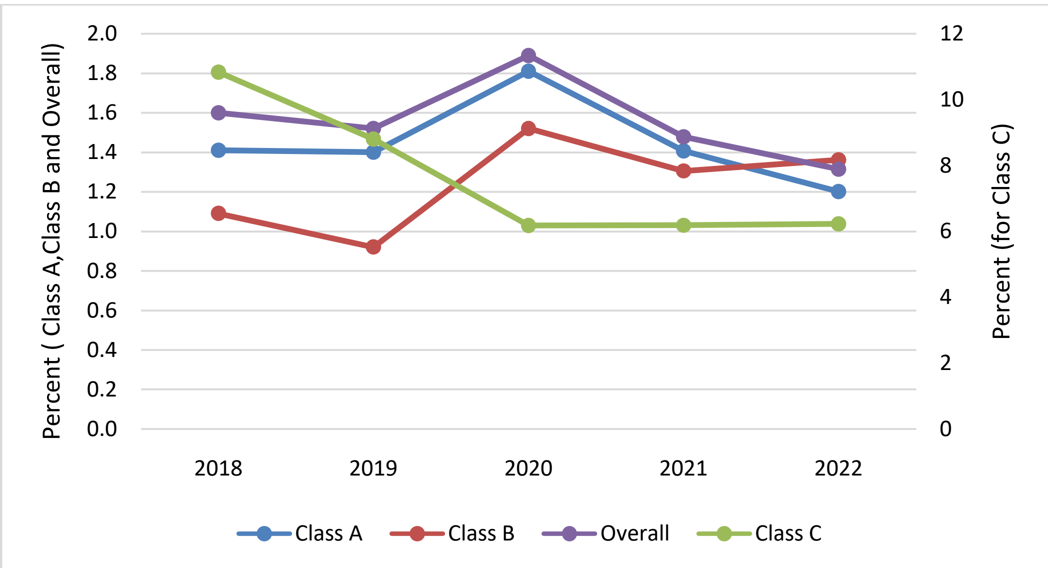
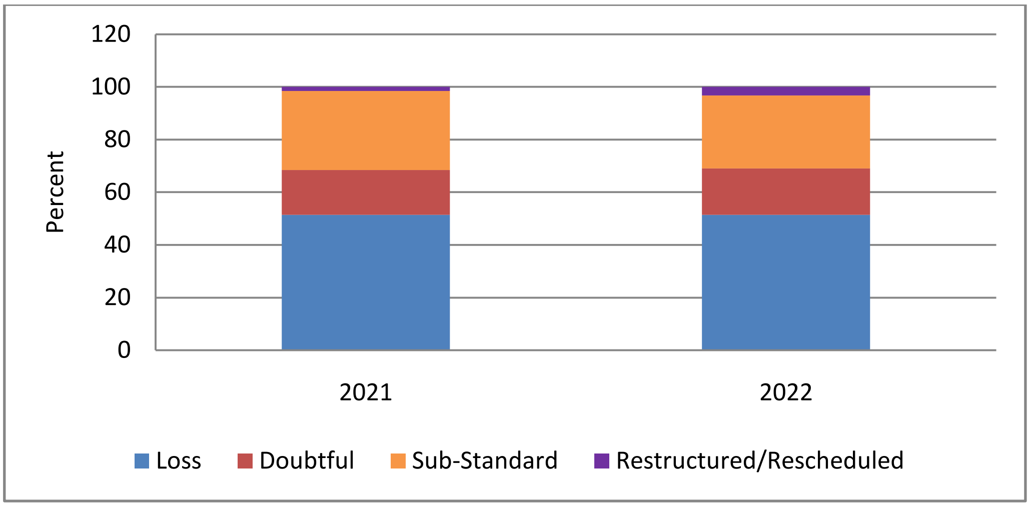


Figure 2.17: Composition of NPL



2.3.3 Leverage Ratio

Basel Committee on Banking Supervision (BCBS) introduced leverage ratio that is complementary to the risk-based capital framework and aims to restrict the build-up of excessive leverage in the banking sector. It assesses the adequacy of Tier 1 capital to on-balance sheet and off-balance sheet exposures. The leverage ratio of commercial banks stood at 7.58 percent in mid-July 2022. The ratio increased by 0.12 percent as compared to mid-July 2021. All commercial banks reported leverage ratio well above the regulatory requirement of 4 percent in the review year.

2.3.4 Credit and Deposit Growth

Both credit and deposit growth declined in the review year (Figure 2.18) owing to huge balance of payments deficit. Credit flows from BFIs increased by 12.91 percent in the review year compared to a growth of 27.54 percent a year ago. Deposit mobilization of BFIs increased by 8.84 percent in the review year compared to a growth of 20.50 percent a year ago.

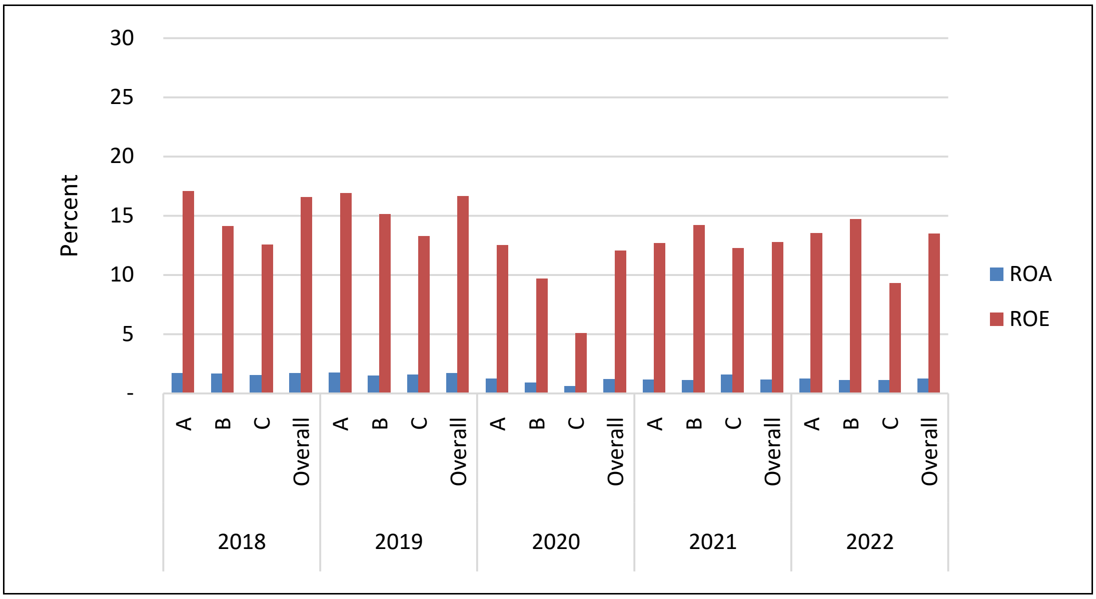
As of mid-July 2022, the ratio of total deposit to GDP reached 106.34 percent that was 111.10 percent in the previous year (Table 2.4). Likewise, the ratio of total credit to GDP reached 97.17 percent, which was 97.85 percent in the previous year. The deposit to GDP ratio and credit to GDP ratio of commercial banks alone is 93.68 percent and 86.22 percent respectively in mid-July 2022.

Figure: 2.18 Credit and Deposit Growth (%)

2.3.5 Profitability

Profitability of the banking sector improved in the review year as compared to the previous year. Net profit of the BFIs stood at Rs.83.44 billion in the FY 2021/22 from Rs.71.31 billion in the previous year, recording an increase of 17.01 percent. Net interest income recorded an increment of 20.67 percent, from Rs.148.63 billion in the previous year to Rs.179.36 billion. Increase in the net interest income is the main reasons for the growth in net profit.

Figure 2.19: ROA and ROE

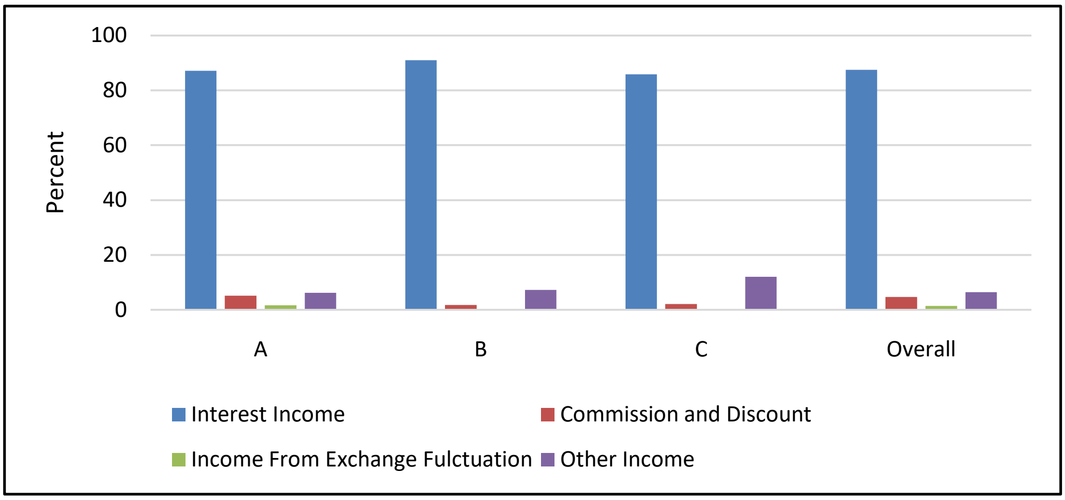


Both Return on Assets (ROA) and Return on Equity (ROE) of the overall banking industry increased marginally in the review year. Overall, ROA of BFIs increased to 1.23 percent in 2021/22 from 1.17 in 2020/21 and ROE increased to 13.48 in 2021/22 from 12.77 in 2020/21. But these ROA and ROE are lower than that of in 2017/18 and 2018/19.

ROA of commercial banks increased to 1.24 percent from 1.17 percent and ROE increased to 13.51 percent from 12.66 percent in the previous year. Increase in ROA and ROE of commercial banks was mainly due to the increase in their interest income during the review year. Similarly, the ROA and ROE of development banks increased marginally during the review year. However, in case of finance companies, the ROA and ROE declined from 1.58 percent and 12.27 percent to 1.10 percent and 9.33 percent respectively due to the decline in net profit. The decline in return from finance companies can be attributed to significant increase in their interest expenses compared to interest income.

The major component of interest income was interest on loan and advances. Interest income contributed to 87.48 percent of the total income of the BFIs (Figure 2.20). Interest income was mainly contributed by the, which accounted for 91.13 percent of the total interest income. Interest income from investment in government bond is the second largest contributor in total interest income.

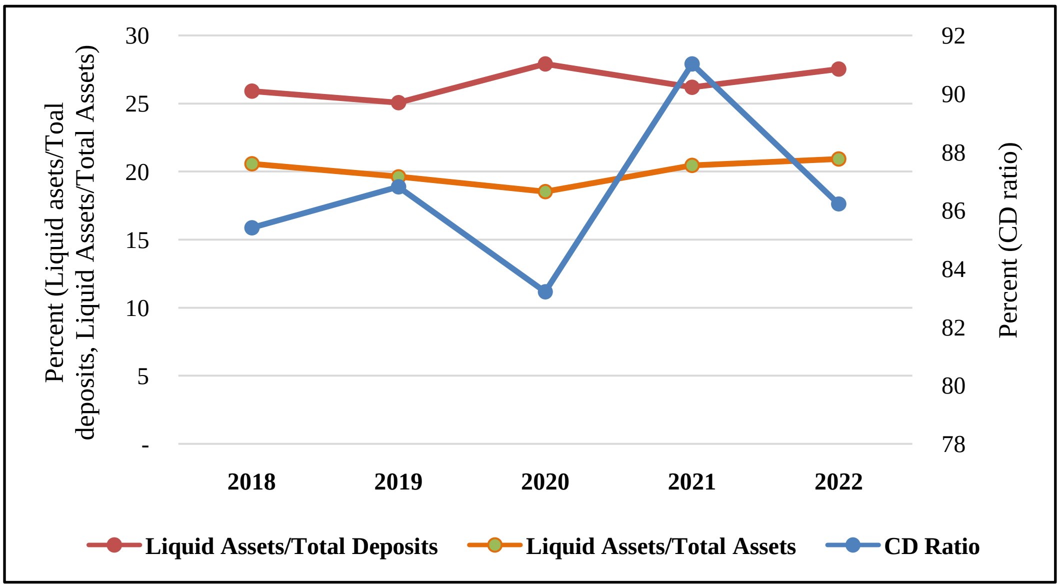
Figure 2.20: Income Distributions



2.3.6 Liquidity

NRB has been using credit to deposit (CD) ratio and net liquid assets to total deposit ratio as measures to monitor the liquidity condition in the financial system.

Figure 2.21: Liquidity Position



The total liquid assets to deposit ratio of BFIs stood at 27.52 percent in mid-July 2022 compared to 26.18 percent in the previous year. The total liquid assets to deposit ratios for "A", "B" and "C" class institutions were 27.27, 27.14, and 40.03 percent, respectively, in mid-July 2022. Such ratios were 25.96, 25.16, and 41.58 percent, respectively, in the previous year (Table 2.4). Net liquid assets to total deposit ratios of BFIs stood at 25.56 percent in mid-July 2022 compared to 31.00 percent in the previous year. Though declining, net liquid assets to total deposits ratio is well above the regulatory requirement of 20 percent level which shows that BFIs have managed to maintain the regulatory liquidity requirements.

Table 2.4: Financial Soundness Indicators of BFIs

Indicators	**Class A**		**Class B**		**Class C**		**Overall**	
	2021	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
Credit and deposit related indicators								
Total deposit/GDP	98.56	93.68	10.45	10.50	2.09	2.15	111.10	106.34
Total credit/GDP	87.19	86.22	8.99	9.17	1.68	1.78	97.86	97.17
Total credit/ Total deposit	88.47	92.04	86.02	87.33	80.08	82.56	88.08	91.38
CCD/CD Ratio$	76.28	86.43	78.39	84.32	68.41	85.59	76.32	86.22
Fixed deposit/Total deposit	45.65	53.62	54.60	64.21	56.57	68.63	46.70	54.97
Saving deposit/Total deposit	33.92	27.76	31.37	23.67	29.03	18.99	33.59	27.18
Current deposit/Total deposit	11.31	9.98	3.12	1.95	1.44	1.80	10.35	9.02
Call Deposit /Total Deposit	8.05	7.26	10.86	10.13	11.13	9.14	8.37	7.58
Assets quality related indicators								
NPL/ Total loan	1.41	1.20	1.30	1.36	6.19	6.23	1.48	1.31
Total LLP/Total loan	2.42	2.28	2.21	2.15	6.63	7.29	2.48	2.36
Res. Per. H. Loan #(Up to Rs. 15 mil.)/Total Loan	6.69	6.68	10.75	11.02	11.12	10.88	7.15	7.18
Real estate exposure/Total loan	4.28	4.78	4.55	4.24	9.60	10.78	4.40	4.84
Deprived sector loan/Total loan	7.43	6.83	14.90	11.25	13.05	8.16	8.25	7.27
Cash and bank balance/Total deposit	9.79	8.16	6.92	6.35	9.42	11.00	9.51	8.03
Investment in Gov. security/Total deposit	15.32	18.01	12.76	13.50	22.99	21.22	15.22	17.63
Total liquid assets/Total deposit	25.96	27.27	25.16	27.14	41.58	40.03	26.18	27.52
Capital adequacy related indicators								
Core capital/RWA (percent)	10.92	10.73	11.77	10.55	19.66	15.64	11.12	10.81
Total capital/RWA (percent)	14.13	13.53	13.14	13.10	22.04	17.75	14.19	13.58
Interest rate on deposit*	4.76	7.41			-		-	
Interest rate on credit*	8.43	11.62			-		-	

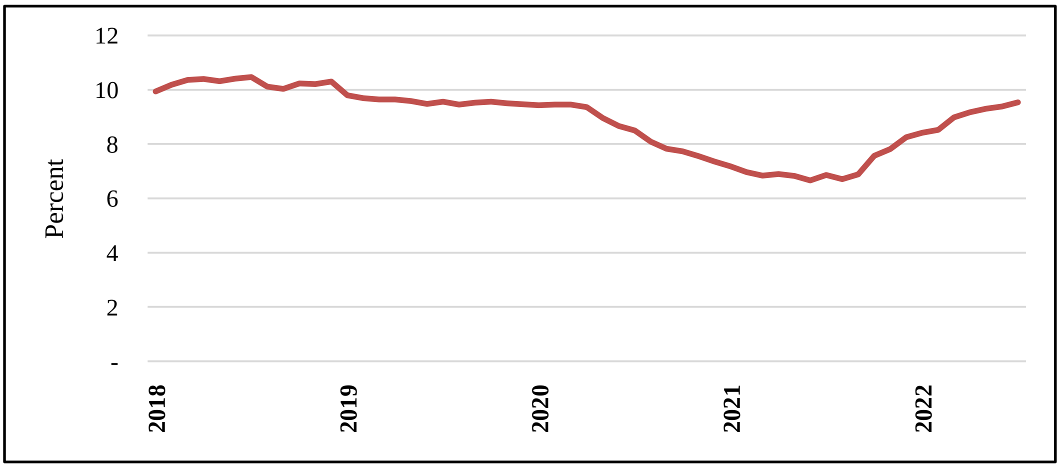
Note:
$ CCD ratio replaced by CD ratio
*Weighted average of mid Jun-mid Jul
Residential Personal Home Loan

In the review year, NRB injected Rs. 9702.41 billion liquidity of which Rs.476.39 billion was through repo, Rs.55.92 billion through outright purchase and Rs.9170.11 billion through standing liquidity facility (SLF). In the previous year, Rs.438.28 billion liquidity was injected. NRB mopped up Rs.60 billion liquidity of which Rs.28.35 billion was through reverse repo auction and Rs.31.65 billion through deposit collection.

2.3.7 Base Rate of BFIs

NRB introduced the principle of base rate for commercial banks in 2013 and for development banks and finance companies in 2014 advising the BFIs not to lend below such a rate and add premium to the base rate while determining the interest rate on lending. The base rate system facilitates BFIs in pricing their adjustable interest rates. Base rate is believed to enhance transparency in interest rate determination; protect the clients' interest; promote the healthy competition and sustainability of BFIs, and strengthen the monetary transmission mechanism.

Figure 2.22: Monthly Base Rate of Commercial Banks

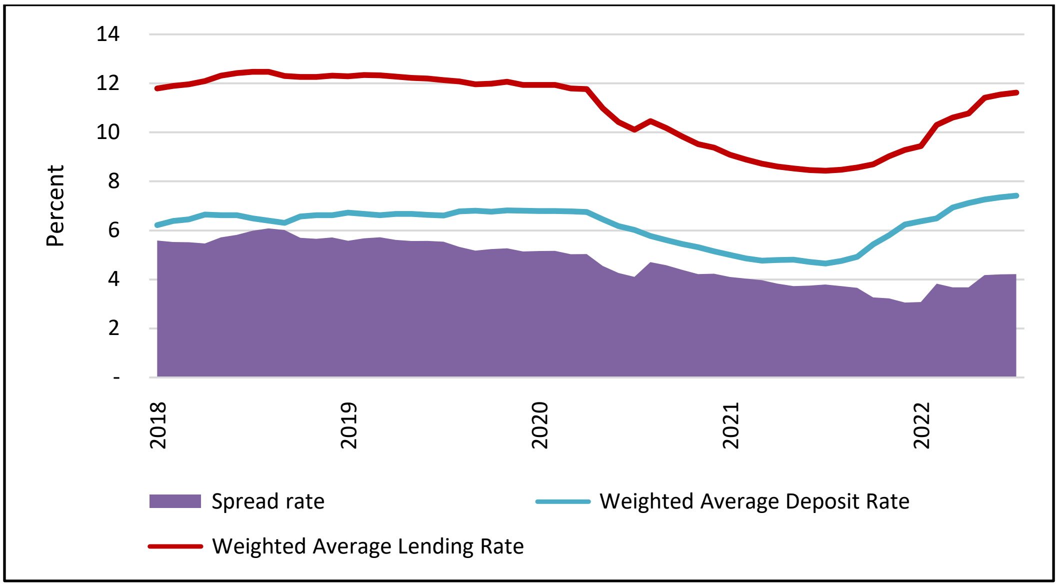


The industry average base rate is on the higher side in the review year compared to last fiscal year. The average of monthly base rates of commercial banks in the review year is 8.38 percent, which was 7.24 percent and 9.28 percent in FY2020/21 and FY2019/20 respectively. The average base rate of commercial banks increased to 9.54 percent in the last month of review year from 6.86 percent a year ago. Likewise, average of monthly base rates of development banks in the review year is 12.76 percent, which was 10.63 percent in FY 2020/21. The average base rate of development banks increased to 12.29 percent in the last month of review year from 10.33 percent a year ago. Similarly, average base rate of finance companies increased to 11.42 percent in the last month of review year from 9.27 percent a year ago.

2.3.8 Interest Rate Spread

Interest rate spread mainly shows the cost of financial intermediation in a period. This also shows the general level of competition in the banking sector, the extent of credit risk, and the managerial efficiency of the concerned bank. NRB had directed "A" class banks to bring down their interest spread rate within 4.4 percent and "B" and "C" class financial institutions within 5.00 percent. BFIs have also been directed to publish their interest spread monthly.

Figure 2.23: Lending, Deposit and Spread Rate of Commercial Banks



The overall interest spread of commercial banks gradually increased in last fiscal year and stood at 4.21 percent in mid-July 2022. However, it is at lower level as compared to the FY 2017/18 and 2018/19 (Figure 2.23). The spread rate for development banks and finance companies respectively stood at 4.53 percent and 4.82 percent in mid-July 2022. Such rates for commercial banks, development banks and finance companies were 3.61 percent, 5.14 percent and 4.86 percent respectively in mid-July 2021.

2.4 Banking Sector Consolidation: Merger & Acquisition

After introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 245 as of mid-July 2022. Out of which, the license of 178 BFIs was revoked thereby forming 67 BFIs.

In the review year, 14 BFIs were involved in the merger/ acquisition process forming 7 BFIs through four acquisitions and three mergers.[4] Of the four acquisitions, one involved commercial banks, one involved development banks and the remaining two involved micro finance institutions.

2.5 Liability Structure of the BFIs

As on mid-July 2022, the total liabilities of the BFIs stood at Rs. 6,785.32 billion. Deposits, the major portion of total liabilities, grew steadily over the last couple of years (figure 2.24). Total deposits increased by 8.84 percent in the review year. Such growth was 20.50 percent in the previous year. Decline in remittance growth, slow down in government expenditure, among others was some of the key reasons for declining deposit growth in the review year. This affected the asset growth of the BFIs and created pressure in liquidity management.

The share of total deposits to total liabilities in mid-July 2022 stood at 76.03 percent, which was 78.10 percent in the previous year. Capital fund occupies the second-largest share of the liability structure of BFIs. It is around 9 percent of the total liability and has marginally decreased compared to mid-July 2021. Borrowings constituting of 7.38 percent of the total liabilities showed significant increment (81.92 percent) and stood at Rs. 500 billion in the review year from around Rs. 275 billion in the previous year.

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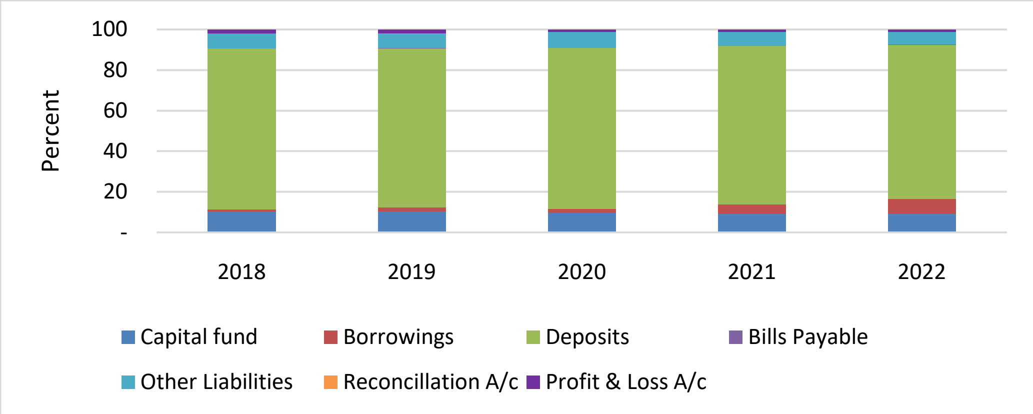
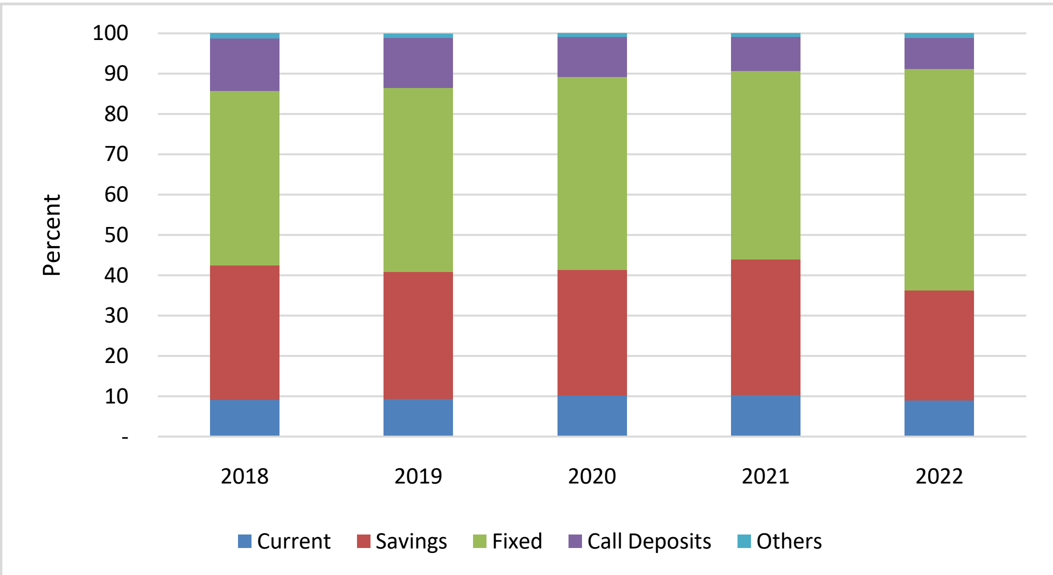
[4] Nepal Bangladesh Bank Ltd acquired by Nabil Bank Ltd., Nepal Agro Laghubitta Bittiya Sanstha Limted acquired by Infinity Laghubitta Bittiya Sanstha Limited, Sahara Bikash Bank Limited acquired by Garima Bikash Bank Limited , Deurali Laghubitta Bittiya Sanstha Limited acquired by Arambha Chautari Laghubitta Bittiya Sanstha Limited
Merger between Nepal Sewa Laghubitta Bittiya Sanstha Limited and Win Laghubitta Bittiya Sanstha Limited, Unique Nepal laghubitta Bittiya Sanstha Limited and Ghodighoda laghubitta Bittiya Sanstha Limited, womi laghubitta Bittiya sanstha Limited and suryodaya Laghubitta Bittiya Sanstha Limited

Figure 2.24: Liabilities Structure of BFIs



The share of saving deposits, fixed deposits, call deposits, current deposits, and other deposits in total deposits as on mid-July 2022 stood at 27.18 percent, 54.97 percent, 7.58 percent, 9.02 percent, and 1.25 percent respectively. The relative proportions of such deposit in mid-July 2021 were 33.59 percent, 46.70 percent, 8.37 percent, 10.35 percent and 0.99 percent respectively.

Figure 2.25: Deposit Structure of BFIs



Among the various deposits categories, fixed deposits recorded the highest growth of 28.11 percent in the review year while current, savings and call deposits declined by 5.17 percent, 11.93 percent and 1.42 percent respectively. This was due to the upward movement of the interest rate during the review year.

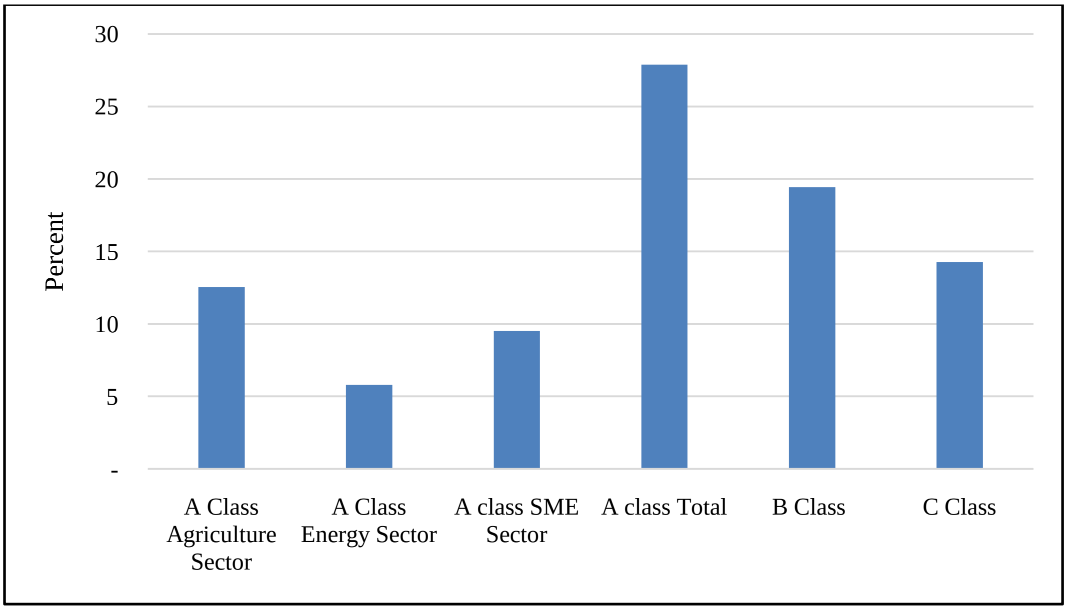
The share of the top five BFIs in total deposit of banking system stood at 26.64 percent depicting a sizeable concentration of deposit in these institutions. Such concentration ratio of deposit was 26.23 percent in the previous year. Likewise, three state-owned banks hold 12.50 percent of such deposit.

2.6 Directed Lending

2.6.1 Specified Sector Lending

Channelizing the loanable funds to priority sectors of the economy becomes essential to promote and support the sustainable economic growth. The monetary policy issued by NRB is designed to ensure adequate credit for such sectors to support the inclusive economic growth. NRB has mandated the minimum level of loan to be disbursed in the agriculture sector, energy sector, and micro, cottage, small and medium enterprises.

Figure 2.26: Specified Sector Lending



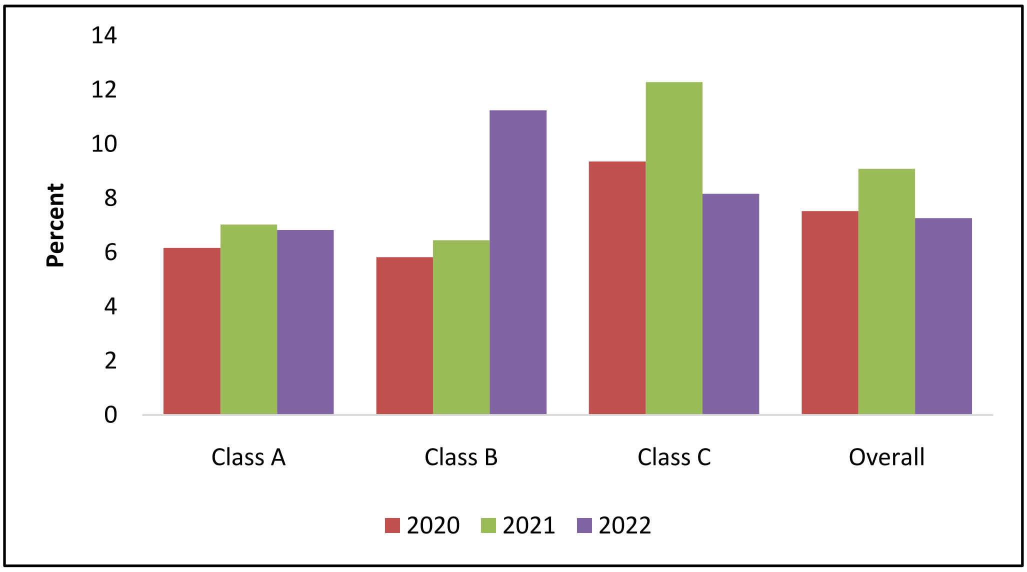
As of mid-July 2022, commercial banks provided 27.44 percent of their total loan to the specified sectors. Development bank and finance company provided 19.44 and 14.27 percent respectively of their total loan in the specified sectors.

2.6.2 Deprived Sector Lending

NRB has prescribed BFIs to disburse a minimum of 5 percent of their total loan portfolio to the deprived sector. This policy is designed to meet the microcredit demand of the poorer and weaker section of the economy and increase access to finance by ensuring adequate funds available for such small needs.

The overall deprived sector lending by BFIs as of mid-July 2022 remained 7.27 percent and the deprived sector lending by commercial banks, development banks and finance companies accounted to 6.83 percent, 11.25 percent, and 8.16 percent of their total lending respectively.

Figure 2.27: Deprived Sector Lending

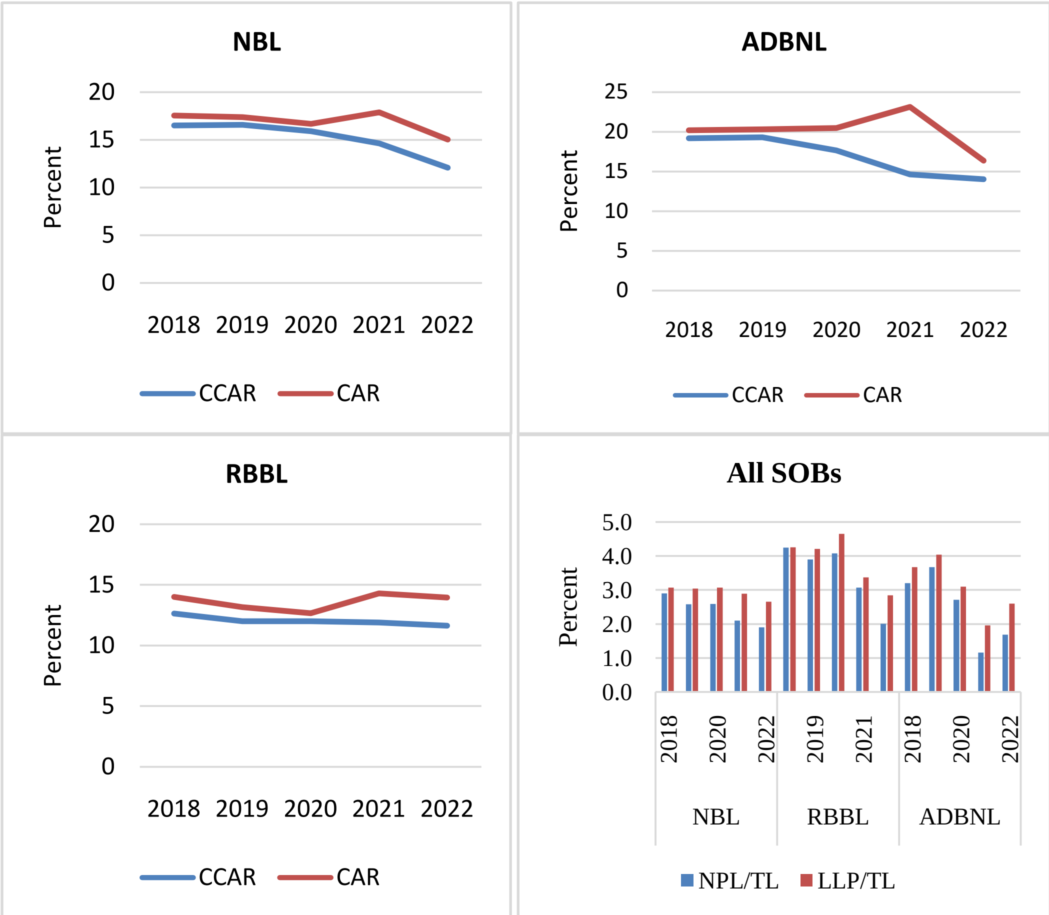


2.7 Performance of State-Owned Banks (SOBs)

Nepal Bank Limited (NBL), Rastriya Banijya Bank Limited (RBBL), and Agriculture Development Bank Limited (ADBL) are the three SOBs, whose total assets in mid-July 2022 were equivalent to 18.02 percent of GDP. The total share of SOBs in total assets of commercial bank stood at 14.52 percent in mid-July 2022.

The SOBs hold 13.71 percent share in total deposit of commercial banks and 12.08 percent share in total deposit of BFIs in mid-July 2022. Similarly, their market shares in terms of loan and advances stood at 13.93 percent of commercial banks and 12.44 percent of all BFIs in the same time.

Figure 2.28: Capital Adequacy Ratios of SOBs



The core-capital to risk-weighted-assets of NBL, ADBL and RBBL are 12.09 percent, 14.02 percent and 11.63 percent respectively in mid-July 2022. Likewise, the total capital to risk-weighted-assets of NBL, ADBL and RBBL are 15.04 percent, 16.34 percent and 13.97 percent respectively in mid-July 2022. Total capital adequacy ratios of all the SOBs decreased in the review year compared to the previous year. However, their capital adequacy is well above the regulatory requirement. The asset quality measured by NPL ratio of SOBs has improved in mid-July 2022 compared to in mid-July 2021 in case of NBL and RBBL whereas asset quality has deteriorated in case of ADBL. As on mid-July 2022, the NPL ratio of NBL, RBBL and ADBL stood at 1.90 percent, 2.00 percent and 1.68

percent respectively. Such ratios of NBL, RBBL and ADBL were 2.10 percent, 3.07 percent and 1.16 percent respectively in mid-July 2021. NPL ratios of SOBs are higher than that of overall commercial banks, which stood at 1.20 percent in mid-July 2022.

2.8 Conclusion

The economy was undergoing gradual recovery after the pandemic. Economic growth rate was moderate, remittance inflows increased, and reserves though declining remained near the required adequacy level. Financial soundness indicators revealed a stable picture of the financial system. NPL ratios showed modest improvement, assets size of BFIs increased albeit with some signs of deterioration in asset quality evident from the increase in rescheduled /restructured loans, credit to deposit ratios remained within regulatory requirements and overall loan loss provision of BFIs declined. Further, liquidity indicators remained in comfortable position, capital of BFIs remained adequate and profitability improved marginally. However, rising inflation and stress on asset quality of BFIs might pose challenge in maintaining financial stability.

CHAPTER – III

PERFORMANCE OF BANK AND FINANCIAL INSTITUTIONS

3.1 Performance of Commercial Banks

Nepalese financial system comprises dominant share (80.27 percent) of BFIs in terms of assets/liabilities size. Among BFIs, commercial banks hold the largest share. In mid-July 2022, the share of commercial banks in total assets/liabilities of BFIs slightly decreased to 88.73 percent from 89.31 percent as on mid-July 2021. Similarly, the ratio of total assets/liabilities of commercial banks to GDP slightly decreased to 124.09 percent in mid-July 2022 from 127.05 percent a year ago. The dominance of commercial banks in total banking sector in terms of assets and liabilities as well as in terms of balance sheet component has broadly remained stable. The total assets/liabilities of commercial banks increased by 11.07 percent to Rs. 6,020.55 billion in mid-July 2022 from Rs. 5,420.35 billion in mid-July 2021. The key financial indicators of commercial banks have been presented in table 3.1.

Table 3.1: Major Financial Indicators of Commercial Banks
(in Percent)

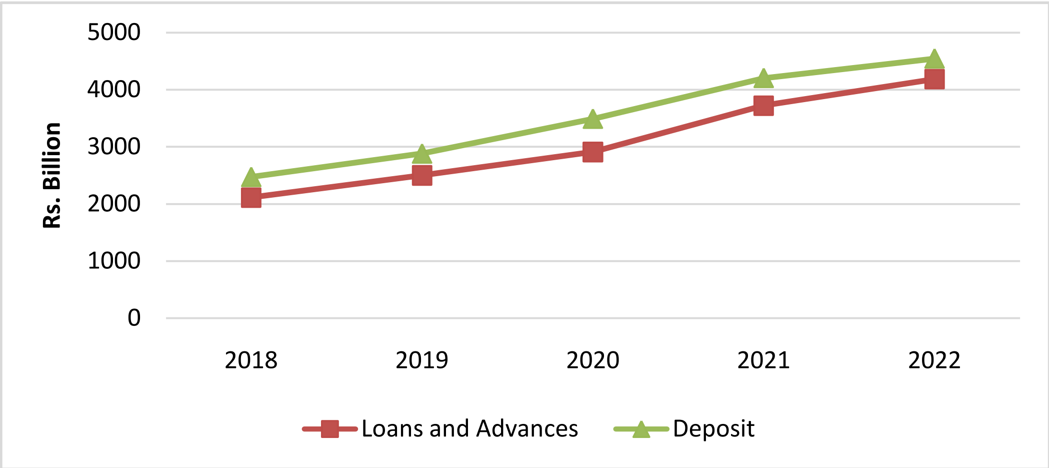
Indicators	mid-July 2021	mid-July 2022
Tier 1 & Tier 2 Capital /RWE	14.13	13.53
Tier 1 Capital/RWE	10.92	10.73
NPL/Total Loan	1.41	1.20
Return on Equity	13.07	13.67
Net Interest Spread	3.67	4.19
Total Credit to Total Deposit	88.47	92.04
Total Liquid Assets/Total Deposit	25.96	27.27
Base Rate	6.86	9.54

3.1.1 Deposits and Credit

Total deposits and credit of commercial banks stood at 93.68 percent and 86.22 percent of GDP, respectively, in mid-July 2022 compared to 98.56 percent and 87.19 percent respectively, in mid-July 2021. Total deposit grew by 8.09 percent to Rs. 4,545.16 billion in mid-July 2022 compared to a growth of 20.48 percent in the previous year. Total credit grew by 12.44 percent and reached to Rs.

4,182.29 billion in mid-July 2022 compared to a growth of 27.81 percent in the previous year (Figure 3.1).

Figure 3.1: Deposits and Loan Trend of Commercial Banks



Besides loan and advances, investment in government securities has emerged as the second best option for commercial banks to utilize their excess liquidity. Investment in government securities increased by 27.10 percent to Rs. 818.80 billion in mid-July 2022.

3.1.2 Capital

The capital fund of commercial banks rose by 10.60 percent to Rs. 553.63 billion in mid-July 2022 from Rs. 500.57 billion a year ago. Of the total capital fund, paid up capital was Rs. 356.09 billion (64.32 percent) and statutory reserves were Rs.110.43 billion (19.95 percent). Moreover, in mid-July 2022, all the commercial banks have maintained the mandatory capital adequacy ratio. Total capital fund to risk weighted exposure of commercial banks has slightly decreased to 13.53 percent in mid- July 2022 from 14.13 percent in mid-July 2021 (Table 3.1).

3.1.3 Assets

The aggregate NPL to total loan ratio of commercial banks decreased to 1.20 percent in mid-July 2022 from 1.40 percent in mid-July 2021. The three state-owned banks in total have a combined NPL ratio of 1.86 percent whereas that of private commercial banks is 1.09 percent in mid-July 2022. As of mid-July 2021, average NPL ratio of three state owned commercial banks was 2.41 percent, whereas such ratio for private commercial banks was 1.25 percent.

The total loan of commercial banks under priority sector in agriculture, energy and MSME sector accounts for 12.34 percent, 5.71 percent and 9.39 percent respectively, in mid-July 2022.

Lending by commercial banks in real estate and margin nature loan remained low representing 4.78 percent and 1.55 percent, respectively, of the total loan in mid-July 2022. Similarly, term loan, overdraft loan, demand and other working capital loan and hire purchase loan represent 25.11 percent, 14.85 percent, 23.70 percent and 3.15 percent respectively, of the total loan in mid-July 2022. Such ratios were 21.53 percent, 14.76 percent, 23.04 percent and 3.63 percent, respectively, in mid-July 2021. There was noticeable growth (28.41 percent) in term loan and decline (61.86 percent) in trust receipt loan/import loan as compared to last year. As of mid-July 2022, commercial banks have disbursed 6.70 percent of their total loan in the deprived sector, which was 6.45 percent in the last year. Loan against collateral of properties (fixed and current Assets) is similar in the review year as compared to the last year. Out of total loan, 87.99 percent is backed up by collateral of properties (74.14 percent against fixed assets and 13.84 percent against current assets) in mid-July 2022 compared to 87.97 percent a year ago.

3.1.4 Profitability

All commercial banks registered profit during the review year and net profit of the commercial banks increased by 18.03 percent to Rs.74.80 billion in mid-July 2022. Contribution of interest income was 87.10 percent of the total income in the review year, which was 81.39 percent in the last year. Also, there was significant increment (97.46 percent) in loan written off during the review year.

3.1.5 Base Rates and Spread Rates

The average base rate of commercial banks increased by 2.68 percent to 9.54 percent during FY 2021/22. Similarly, interest rate spread of commercial banks in mid-July 2022 stood at 4.19; which was 3.67 percent in the last year. The increase in base rate is largely due to increase in the cost of fund of banks mainly represented by the increased interest rate of deposit.

3.2 Stress Test of Commercial Banks

Resiliency of the commercial banks to credit shock, liquidity shock, market shock and combined shocks were assessed by the stress tests presented in table 3.2.

3.2.1 Credit Shock

Stress tests based on data of mid-July 2022 of commercial banks, revealed that a combined credit shock (15 percent of performing loan degraded to substandard, 15 percent of substandard loan deteriorated to doubtful loan, 25 percent of doubtful loan degraded to loss loan, and 5 percent of performing loan deteriorate to loss categories) would push down the capital adequacy ratio of 21 commercial banks below the minimum regulatory requirements of 11 percent (including conservation buffer). However, another scenario of 25 percent of performing loan of real estate loan directly downgraded to loss loan showed some respite. Under this scenario, capital adequacy ratio of only 3 commercial banks will come below the regulatory minimum. The result showed that majority of commercial banks maintained their resilience towards real estate sector during the fiscal year.

In another credit shock test, under the scenario of top two large exposures (loan) downgraded from performing to substandard category, the capital adequacy ratio of 5 commercial banks would fall below the regulatory minimum.

3.2.2 Liquidity Shock

The liquidity stress test, in mid-July 2022, under scenario of withdrawal of deposits by customers by 2, 5, 10, 10 and 10 percent for five consecutive days showed that 18 out of 26 commercial banks are vulnerable towards liquidity crisis.

In addition, 9 banks are prone to liquidity shock in case of withdrawal of 5 percent of deposits in a single day, while 20 banks' liquidity ratio would drop below 20 percent after withdrawal of 10 percent deposits in a single day. The number of banks seeing their liquidity ratio drop below 20 percent would grow to 22 if the single day deposits withdrawal increased to 15 percent. In mid-July 2021, the numbers of banks prone to liquidity crisis under single day deposits withdrawal of 5, 10 or 15 percent were 5, 20 and 22, respectively.

With the shock of withdrawal of deposits by top 2, 3 or 5 institutional depositors, liquid assets to deposit ratio of 14, 21 and 23 commercial banks would be below 20 percent in review year. Such numbers were 12, 17 and 21 in mid-July 2021. Likewise, due to the shock of withdrawal of deposits by top 2, 3 or 5 individual depositors, liquid assets to deposit ratio of 2 commercial banks in each case would be below 20 percent compared to 1, 2 and 2 in mid-July 2021.

3.2.3 Market and Combined Credit and Market Shock

The stress testing result under market shock revealed that 26 commercial banks have maintained enough CAR to absorb the interest rate shock and maintain it above the regulatory requirement. The interest rates were calibrated by changes in deposit and credit interest rates from one percent to two percent. Similarly, commercial banks were found to be safe from exchange rate risks as the net open position to foreign currency was within the limit for all 26 of them. Furthermore, since commercial banks have nominal equity investments, the impact of fluctuation in equity price is near to zero.

When going through market shock, all commercial banks could maintain their capital adequacy ratio above the regulatory requirement. The banks did not bear interest rate risks as they mostly pass it directly to their clients; so, they are found to be less affected by interest rate shock as well.

The combined credit and market shocks based on a scenario of 25 percent of performing loan of real estate and housing sector directly downgraded to substandard category and fall of the equity prices by 50 percent showed that there is no any impact on the CAR of all banks. However, under a more adverse scenario of 15 percent of performing loan deteriorated to substandard, 15 percent of substandard loan deteriorated to doubtful loan, 25 percent of doubtful loan deteriorated to loss loan and equity price fall by 50 percent, the CAR of only 5 banks remain above the regulatory minimum and CAR of 21 banks would fall below the regulatory requirement of 11 percent.

Table 3.2: Summary Results of Stress Test of Commercial Bank (mid-July 2022)

		Number of Banks with CAR		
		< 0%	0% - <11 %	>=11%
Pre-Shock		**0**	**0**	**26**
Post-Shock				
Credit Shocks				
C-1 a	15 percent of performing loan deteriorated to substandard	**0**	**19**	**7**
C-1 b	15 percent of substandard loan deteriorated to doubtful loan	**0**	**0**	**26**
C-1 c	25 percent of doubtful loan deteriorated to loss loan.	**0**	**0**	**26**
C-1 d	5 percent of performing loan deteriorated to loss loan.	**0**	**21**	**5**
C-2	All NPLs under substandard category downgraded to doubtful.	**0**	**0**	**26**
	All NPLs under doubtful category downgraded to loss.	**0**	**0**	**26**
C-3	25 percent of performing loan of Real Estate loan directly downgraded to substandard category of NPLs.	**0**	**0**	**26**
C-4	25 percent of performing loan of Real Estate loan directly downgraded to loss category of NPLs.	**0**	**3**	**23**
C-5	Top 2 large exposures downgraded: performing to loss category	**0**	**5**	**21**
Market Shocks				
Interest Rate Shocks				
IR-1a	Deposits interest rate change (+,-) by 1% on an average.	**0**	**0**	**26**
IR-1b	Deposits interest rate change (+,-) by 1.5% on an average.	**0**	**0**	**26**
IR-1c	Deposits interest rate change (+,-) by 2% on an average.	**0**	**0**	**26**
IR-2a	Loan interest rate change (+,-) by -1% on an average.	**0**	**0**	**26**
IR-2b	Loan interest rate change (+,-) by -1.5% on an average.	**0**	**0**	**26**
IR-2c	Loan interest rate change (+,-) by -2% on an average.	**0**	**0**	**26**
Exchange Rate Shocks				
ER-1a	Depreciation of currency exchange rate by 20%	**0**	**0**	**26**
ER-1b	Appreciation of currency exchange rate by 25%	**0**	**0**	**26**

Equity Price Shocks

Eq-1	Fall in the equity prices by 50%	**0**	**0**	**26**

Combined Credit & Market Shocks

COM B-1	25 percent of performing loan of Real Estate loan directly downgraded to substandard category of NPLs. and Fall in the equity prices by 50%	**0**	**0**	**26**
COM B-2	15 percent of performing loan deteriorated to substandard, 15 Percent of Substandard loan deteriorated to doubtful loan, 25 percent of doubtful loan deteriorated to loss loan. and fall in the equity prices by 50%	**0**	**21**	**5**

Liquidity Shocks

-		**Number of Banks becoming illiquid aftershock of**		
		3 days	**4 days**	**5 days**
L-1	Withdrawal of customer deposits by 2% 5% 10% 10% and 10% for five consecutive days respectively.	**0**	**2**	**16**

		Number of Banks with Liquid Assets to Deposit Ratio		
		< 0%	**0% - <20 %**	**>=20 %**
Pre-Shock		**0**	**1**	**25**

Post-Shock

L-2-a	Withdrawal of deposits by 5%	**0**	**9**	**17**
L-2-b	Withdrawal of deposits by 10%	**0**	**20**	**6**
L-2-c	Withdrawal of deposits by 15%	**0**	**22**	**4**
L-2-c	Withdrawal of deposits by 20%	**1**	**25**	**0**

L-3a	Withdrawal of deposits by top 2 institutional depositors.	**0**	**14**	**12**
L-3b	Withdrawal of deposits by top 3 institutional depositors.	**0**	**21**	**5**
L-3c	Withdrawal of deposits by top 5 institutional depositors.	**0**	**23**	**3**
L-3d	Withdrawal of deposits by top 2 individual depositors.	**0**	**2**	**24**
L-3e	Withdrawal of deposits by top 3 individual depositors.	**0**	**2**	**24**

L-3f	Withdrawal of deposits by top 5 individual depositors.	**0**	**2**	**24**
		< 0%	**0% - <11 %**	**>=11 %**
L-4	Top 2 inter bank lending goes bad number of banks with CAR	**0**	**0**	**26**
		< 0%	**0% - <20 %**	**>=20 %**
	Number of banks with liquid assets to deposit ratio	**0**	**4**	**22**

3.3 Performance of Development Banks

In the review year, share of development banks in total assets/liabilities of BFIs increased to 9.03 percent from 8.65 percent in mid-July 2021. There has been slight increment in base rate and interest rate spread as compared to the previous year. Such increase was a reflection of liquidity stress.

In the review year, 1 regional development bank (Garima Bikas Bank) was acquired by national level development bank (Sahara Bikas Bank Limited). As a result, the number of development banks reduced and reached to 17 from 18 in 2020/21. The major financial indicators of development banks have been presented in table 3.3.

Table 3.3: Major Financial Indicators of Development Banks
(in percent)

Indicators	mid-July 2021	mid-July 2022
Core Capital Ratio	11.77	10.55
Capital Adequacy Ratio	13.14	13.10
C/D Ratio	86.02	87.33
Non-Performing Assets (NPA)	1.30	1.36
Net Liquidity	24.93	25.24
Statutory Liquidity Ratio	18.17	17.49
Spread Rate	4.52	4.56
Base Rate	8.09	11.26
Priority Sector Lending	24.63	25.53
Deprived Sector	14.61	11.44
Total Real Estate exposure	4.55	4.24
Return on Assets (ROA)	1.14	1.14
Return on Equity (ROE)	14.23	14.73

3.3.1 Deposits and Credit

In the review year, total deposits of development bank increased by 14.28 percent to Rs.509.49 billion, compared to Rs.445.83 billion during 2020/21, while loan and advances increased by 16.03 percent to Rs.444.93 billion, compared to Rs. 383.48 billion in the previous year. Credit to deposit ratio (CD) stood at 87.33 percent during 2021/22, compared to 86.02 in the previous year.

3.3.2 Assets

In 2021/22, total assets of development banks increased by 17.39 percent to Rs.612.73 billion from Rs.521.95 billion in mid-July 2021. The NPL, which stood at Rs.6.0 billion as of mid-July 2022, accounted for 1.36 percent of total loan. The NPL as a percentage of total loan increased by 0.06 percent during 2021/22.

3.3.3 Capital

In the review year, the core capital increased by 13.75 percent to Rs.49.15 billion compared to an increase of 9.32 percent in the previous year. Core capital to risk weighted assets (RWA) declined to 10.55 percent as on mid-July 2022 from 11.77 percent on mid-July 2021. While capital fund to RWA declined to 13.10 percent from 13.14 percent.

The regulatory provision requires a minimum of 6 percent of tier 1 capital to RWE and a minimum 10 percent total capital fund to RWE for development banks. Though CAR is declining, development banks seem to be in a comfortable position with respect to capital adequacy requirement.

3.3.4 Profitability

Total net profit of development banks increased by 17.43 percent to Rs.6.97 billion during 2021/22, compared to Rs. 5.94 billion in the previous year. ROE and ROA of development banks as on mid-July 2022, stood at 14.73 and 1.14 percent respectively. ROE and ROA stood 14.23 and 1.14 percent respectively in previous year.

3.3.5 Base Rates and Spread Rates

The average base rate of development banks increased by 3.17 percent to 11.26 percent during 2021/22. Similarly, interest rate spread increased from 4.52 to 4.56 percent in review year. The increase in base and spread rate is largely attributable to the liquidity crunch in banking sector.

3.4 Stress Test of Development Banks

The stress test results of 2021/22 had indicated that development banks remain quite vulnerable to various kinds of shocks, thus, efforts to build greater resiliency seems necessary for credit and liquidity shocks.

3.4.1 Credit Shock

Standard credit shock test (where 5 percent of performing loan deteriorated into bad loan) results indicated that, 10 development banks' CAR fall below the regulatory requirement of 10 percent. The result reveals that in absence of regulatory relaxations, banks would not be able to withstand the shocks.

3.4.2 Liquidity Shock

Stress test results indicate that seven development banks would see its liquidity ratio dip below regulatory minimum level in case if there were withdrawal of deposits by 2 percent first day, 5 percent second day and 10 percent for 3 consecutive days.

Five percent withdrawal of deposit would push three national level development banks' liquidity ratio to fall below the regulatory requirement of 20 percent. In case if 5 percent of depositors withdrew their deposits, nine development banks' liquidity position falls below 20 percent. Similarly, five national level development banks would reach below 20 percent if top five institutional depositors withdrew their deposits.

3.4.3 Other Shocks

All development banks were found to be resilient to standard interest rate, exchange rate and equity price shocks such that none of the institutions would have their CAR fall below the regulatory minimum of 10 percent.

3.5 Performance of Finance Companies

The size of finance companies is smallest in the banking industry in Nepal. The share of the total assets of finance companies is 2.24 percent in mid-July 2022 compared to 2.01 percent in mid-July 2021. During the review year, all finance companies recorded a positive return, with ROA (1.10 percent) and ROE (9.33 percent). The major financial indicators of finance companies have been presented in table 3.4.

Table 3.4: Major Financial Indicators of Finance Companies (in percent)

Particulars	mid-July 2021	mid-July 2022
Core Capital to RWA	18.86	15.64
Capital Fund to RWA	21.33	17.75
Credit to Deposit (LCY) Ratio	77.80	82.56
Non-Performing Loan to Total Loan	3.16	6.23
Total Liquid Assets to Total Deposits	41.79	40.03
Weighted Average Interest Rate on Credit	11.37	14.00
Weighted Average Interest Rate on Deposit	6.93	9.59
Weighted Average Interest Rate on Govt. Securities	3.53	5.55

3.5.1 Deposits and Credit

Total deposits and credit of finance companies stood at 2.15 percent and 1.78 percent of GDP, respectively, in mid-July 2022 compared to 2.09 percent and 1.68 percent respectively, in mid-July 2021. The aggregate deposits of finance companies remained Rs.104.53 billion in mid-July 2022, with an increase of 17.02 percent compared to a year ago. Gross loan and advances of finance companies increased by 20.64 percent to Rs.86.30 billion in mid-July 2022 as compared to the previous year. The credit to deposit ratio of finance companies remained below the regulatory ceiling; it stood 80.08 percent in mid-July 2022 whereas such ratio was 82.56 percent in mid-July 2021.

3.5.2 Asset Quality

NPL to total loan of finance companies increased to 6.23 in mid-July 2022 from 6.19 in the previous year. However, NPL to total loan excluding problematic finance companies stood at 2.52 percent in mid-July 2022 from 3.16 percent in mid-July 2021.

3.5.3 Capital

Capital fund of finance companies stood at Rs.17.86 billion in mid-July 2022, which was Rs.16.26 billion in mid-July 2021. The ratio of capital fund with risk-weighted exposure of all national level finance companies was 18.32 percent in mid-July 2022, which was 21.33 percent in mid-July 2021.

3.5.4 Profitability

During the review year, all finance companies recorded a positive return, with ROA 1.10 percent and ROE 9.33 percent. Net profit of finance companies decreased by 16.56 percent to Rs. 1.67 billion in mid-July 2022.

3.5.4 Merger/Acquisition and Problematic Bank Resolution

In the review year, none of the finance companies were involved in merger/acquisition. Two finance companies (Nepal share market and finance ltd and capital merchant banking and finance Ltd) are in problematic status and under resolution process.

3.6 Stress Test of Finance Companies

NRB has mandated all the national-level finance companies to conduct stress tests and report it to NRB on quarterly basis. Among 15 finance companies, stress testing result of 13 national-level finance companies remained less vulnerable to individual credit shocks and liquidity shocks in aggregate. However, for 1 finance company, CAR decreased to less than 10 percent after combined credit shocks. In the same way, 10 finance companies will have liquidity ratio less than 20 percent after withdrawal of deposits by 20 percent.

3.7 Performance of Microfinance Financial Institutions

As of mid-July 2022, there are 65 MFIs operating as "D" class licensed institutions. Among them, 4 are wholesale lending MFIs. Out of 61 retail-lending MFIs, two are public deposit taking institutions.

3.7.1 Capital Adequacy and Assets Quality

As of mid-July 2022, total capital fund of MFIs increased by 28.75 percent and reached Rs.50.33 billion. The industry average of core capital and capital fund ratio to total risk weighted assets was found to be 11.87 percent and 13.00 percent in the review year. As per the regulatory requirement, MFIs are required to maintain at least 4.0 percent of total risk-weighted assets as core capital and 8.0 percent as the capital fund.

The total paid-up capital of MFIs increased by 21.62 percent and reached Rs. 30.09 billion in the review year (Table 3.5). The ratio of paid-up capital to total capital fund stood at 50.71 percent, which was 53.33 percent in previous fiscal year. The paid-up capital of wholesale MFIs increased by 17.48 percent compared to previous fiscal year and stood at Rs.4.57 billion.

The total outstanding loan of MFIs as of mid-July 2022 increased by 23.01 percent and reached Rs.449.69 billion as compared to Rs.365.55 billion in previous year. In review year, total assets of MFIs increased by 16.64 percent and reached Rs.519.65 billion. The share of total assets of wholesale MFIs' to total assets of MFIs remained 11.83 percent. Loan and advances registered a growth rate of 23.01 percent and reached Rs. 449.69 billion. In the review year, the ratio of loan and advances to the total assets stood at 86.54 percent as compared to 82.06 percent a year ago.

Table 3.5: Capital Adequacy and Assets Quality

Rs. in Billion

Particulars	**mid-July 2021**	**mid-July 2022**	**% Change**
Total Capital Fund of MFIs	39.09	50.33	28.75
Capital Fund of Retail MFIs	31.77	42.13	32.61
Capital Fund of Wholesale MFIs	7.32	8.2	12.02
Total Paid-up Capital of MFIs	24.74	30.09	21.62
Paid-up Capital of Retail MFIs	20.85	25.52	22.40
Paid-up Capital of Wholesale MFIs	3.89	4.57	17.48
Total Assets of MFIs	445.50	519.65	16.64
Assets of Retail MFIs	391.85	458.19	16.93
Assets of Wholesale MFIs	53.65	61.46	14.56
Total Loan and Advances of MFIs	365.55	449.69	23.02
Loan and Advances of Retail MFIs	317.36	391.75	23.44
Loan and Advances of Wholesale MFIs	48.19	57.94	20.23
Total Overdue (Loan & Interest) of MFIs	72.82	29.27	-59.80
Overdue (Loan & Interest) of Retail MFIs	72.52	29.00	-60.01
Overdue (Loan & Interest) of Wholesale MFIs	0.30	0.27	-10.00
Total Loan Loss Provision of MFIs	10.76	5.51	-48.79
Loan Loss Provisions of Retail MFIs	9.79	5.15	-47.40
Loan Loss Provisions of Wholesale MFIs	0.97	0.36	-62.89

The total amount of overdue loan, including interest of these institutions decreased significantly by 59.80 percent and dropped to Rs.29.27 billion from 72.82 billion as compared to the previous year. The overdue of wholesale MFIs stood at Rs. 0.27 billion and retail MFIs stood at Rs.29.00 billion. The amount of loan loss provision of these MFIs decreased by 48.79 percent and reached to Rs.5.51billion during the review year.

3.7.2 Profitability and Liquidity

Net profit of microfinance institutions increased by 12.78 percent to Rs. 12.22 billion in mid-July 2022. During the review year industry average ROA and ROE of MFIs stood at 2.35 percent and 19.53 percent respectively.

Total savings mobilized by the MFIs increased by 20.49 percent and reached Rs. 157.16 billion in the review year (Table 3.6). Out of the total liabilities, the share of savings remained at 30.60 percent. Out of total savings, public deposits accounted for only 1.17 percent which was collected by 2 public deposit taking MFIs, and the rest was collected from the members of 61 retail MFIs. Total borrowings of these MFIs during the review year increased by 12.65 percent and reached Rs.233.58 billion. Out of the total borrowings, wholesale MFIs borrowed Rs. 47.37 billion, which comprises 20.28 percent of total borrowing. As compared to total liabilities of MFIs, the share of borrowed amount remained at 44.95 percent.

Table 3.6: Profitability and Liquidity

Rs. in Billion

Particulars	mid- July 2021	mid- July 2022	% Change
Net Profit	10.83	12.22	12.78
Total Savings in MFIs	130.43	157.16	20.49
Total Borrowings of MFIs	207.35	233.58	12.65
Borrowings of Retail MFIs	165.97	186.21	12.19
Borrowings of Wholesale MFIs	41.37	47.37	14.50
Public deposit	1.94	1.86	-4.12

3.8 Performance of Infrastructure Development Bank

The only infrastructure development bank has total assets of Rs. 26.44 billion as of mid-July 2022. Total assets of the bank increased by 6.57 percent as compared to the previous year.

3.8.1 Deposits and Credit

The amount of deposit collection of infrastructure development bank increased by 45.42 percent to Rs. 438.03 million in mid-July 2022 including fixed deposit of Rs.250 million as compared to the deposit collection of Rs. 301.64 million in mid-July 2021. Infrastructure Development Bank has provided loan and advances in infrastructure development project with outstanding balance of Rs. 15.5 billion in mid-July 2022 as compared to Rs. 2.17 billion in mid-July 2021.

3.8.2 Capital

Infrastructure development bank has capital and reserves fund of Rs. 22.30 billion including paid up capital of Rs. 21.60 billion in mid-July 2022 as compared to Rs. 21.56 billion including Rs. 20.00 billion paid up capital in mid-July 2021.

3.8.3 Capital Adequacy

Total capital to risk weighted exposure ratio has declined significantly from 303.93 percent to 119.27 percent in mid-July 2022 as compared to mid-July 2021. Similarly, leverage ratio has also declined from 91.65 percent to 89.82 percent in mid-July 2022 as compared to mid-July 2021.

Table 3.7: Major Financial Indicators of Infrastructure Development Bank (in Percent)

Regulatory Ratios	mid-July 2021	mid-July 2022
Leverage Ratio	91.65	89.82
Common Equity Tier 1 to Risk Weighted Exposure Ratios	303.64	118.47
Tier 1 to Risk Weighted Exposure Ratios	303.64	118.47
Total Capital to Risk Weighted Exposure Ratio	303.93	119.27

3.8.4 Profitability

Infrastructure development bank's profit increased by 22.63 percent in the review year. Contribution of interest income was 98.23 percent in total income this year. Such contribution was 98.96 percent in the last year.

3.9 Conclusion

The overall performance of BFIs remained satisfactory in the review year supported by the growth in assets and increase in profit. Capital and reserves of BFIs increased and remained well above regulatory requirements. Stress tests show the resiliency of the BFIs to the liquidity, credit, and market shocks. Despite the sound indicators, there seems some level of vulnerability in the BFIs balance sheet if the shocks would be large and occur simultaneously. The BFIs are resilient to interest rate shock, exchange rate shock and fluctuation of the equity prices. This is because of the low level of foreign exchange exposure, nominal equity investments and the tendency to pass interest rate change to clients.

CHAPTER - IV

NON-BANK FINANCIAL INSTITUTIONS

4.1 Cooperatives

As the cooperative regulation has been shared between three levels of Government (Federal, Provincial and Local), the Department of Cooperative, as a federal agency, has a leading role to play in terms of necessary regulations, coordination and capacity building.

As of mid-July 2022, the total number of co-operatives reached 30,879, the number of shareholders reached 7,337,252 and share capital reached Rs. 94.12 billion. During the review year, savings of Rs. 477.99 billion and credit of Rs. 426.31 billion were mobilized which were Rs. 477.96 billion and Rs. 426.26 billion respectively in the previous year. The total number of direct employment generated in cooperative sector has reached 91,301.

Cooperative and Poverty-Related Management Information System (COPOMIS) was implemented for effective regulation and quick availability of information by creating an integrated database. As of mid-July 2022, 15,256 cooperatives were connected to the system.

Table 4.1: Key Indicators of Cooperatives

Indicators	mid-July 2021	mid-July 2022
No. of Cooperatives	29886	30879
Members (in Million)	7.30	7.33
Total Staff	88309	91301
Total Capital (Rs. in Billion)	94.10	94.12
Deposit (Rs. in Billion)	477.96	477.99
Credit (Rs. in Billion)	426.26	426.31

Source: Department of Cooperatives

With the growth of cooperatives and increase in capital and credit, its risk is also increasing. Credit risk, operation risk and market risk are major inherent risks of cooperative sector.

4.2 Insurance and Reinsurance Companies

There are altogether 40 (19 Life insurance, 19 Non-Life Insurance and 2 Reinsurance) insurance companies as of mid-July 2022. Despite Covid-19 pandemic and economic crisis around the globe, there have been some positive sign of growth in insurance sector in recent past in Nepalese insurance sector.

The average growth in gross insurance premium in the last four fiscal years is 24.97 percent. The growth in gross premium in FY 2021/22 is 16.48 percent as compared to 26.19 percent in the previous year. The average growth in gross premium in proportion to GDP (Penetration ratio) is 3.20 percent with maximum of 3.66 percent in FY 2021/22 and minimum 2.47 percent in FY 2018/19. This indicates steady growth in penetration ratio over the year.

Table 4.2: Key Indicators of Insurance Industry

Year	2018/19	2019/20	2020/21	2021/22	Average
Gross Premium (Rs. in billion)	95.37	120.97	152.65	177.81	136.7
Growth (Percent)	30.39	26.84	26.19	16.48	24.97
Gross Premium to GDP (Percent)	2.47	3.11	3.57	3.66	3.2
Coverage including F/E (Percent)	23	27	26.59	41.2	29.45
Surveyors	401	400	400	1240	
Agents	175,000	195,000	250,000	296,403	
Employment	9,490	10,236	10,752	12,031	
Branch	2523	2742	2933	3366	

Source: Nepal Insurance Authority

There has been significant growth in coverage of insurance in recent year. Percentage of population covered by life insurance have risen steadily over the years and reached 41.20 percent in FY 2021/22 from 27.53 percent in previous year. In the review year, insurance industry served customers with 12,301 employees directly engaged to provide insurance services with 3,366 branches over the different parts of the country as compared to 10,752 employees serving through 2,933 branches in the previous year.

Total assets of insurance companies increased by 15.01 percent to Rs.624.12 billion in the review year. Total assets of non-life insurance companies, increased by 15.37 percent whereas that of life insurance companies increased by 12.73 percent.

Table 4.3: Key Indicators of Insurance Companies

Rs. in Billion

Sources	Life				Non-Life				Total
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2021/22**
Paid-up Capital	30.84	32.79	38.90	43.89	13.91	17.61	19.84	22.80	66.69
Reserve Funds	248.75	323.5	409.81	458.18	35.15	40.22	46.51	27.25	485.43
Other Liabilities	12.63	16.13	20.13	38.84	5.86	7.04	7.44	33.15	71.99
Total	**292.22**	**372.44**	**468.85**	**540.92**	**54.93**	**64.88**	**73.80**	**83.20**	**624.12**
Uses				**Life**				**Non-Life**	
Cash and Bank	6.69	7.34	6.67	4.10	2.63	3.67	4.13	3.88	7.98
Investment	263.88	335.59	420.01	495.63	38.05	44.46	48.52	55.68	551.68
Fixed Assets	2.47	2.59	2.59	3.02	1.79	1.81	2.26	2.51	5.53
Other Assets	19.19	26.9	39.59	38.18	12.46	14.93	18.89	21.14	59.32
Total	**292.22**	**372.44**	**468.85**	**540.92**	**54.93**	**64.88**	**73.80**	**83.20**	**624.12**

Source: Nepal Insurance Authority

As of mid-July 2022, there are two reinsurance companies operating in Nepal. The total assets of reinsurance companies increased by 30.24 percent to Rs. 38.20 billion in the review year. The details of total assets/liabilities of reinsurance companies are presented in table 4.4:

Table 4.4: Key Indicators of Reinsurance Companies

Rs. in Billion

	2020/21	**2021/22**
Sources		
Paid-up Capital	10.00	18.65
Reserve Funds	5.82	7.40
Other Liabilities	13.50	12.15
Total	**29.33**	**38.20**
Uses		
Cash and Bank	1.14	0.34
Investment	16.99	26.68
Fixed Assets	0.41	0.58
Other Assets	10.78	10.59
Total	**29.33**	**38.20**

Source: Nepal Insurance Authority

4.3 Remittance Companies and Money Changers

Remittance companies undergo agreement with foreign partners to receive remittance from Nepalese residing in foreign countries. The share of remittance companies in remittance inflows is around 50 percent. The remaining half of the remittance inflows is made through BFIs, holding separate license from NRB to perform remittance transactions.

As of mid-July 2022, there were 42 remittance companies licensed by NRB. Remittance inflows amount to around 25 percent of the GDP. Large portion of remittances that enter Nepal come from the Nepalese migrants working abroad. The remittance companies, however, are not allowed to remit funds out of Nepal.

Table 4.5: Key Indicators of Remittance Companies
(As of mid-July 2022)

Rs. in Billion

Indicators	Amount
Paid Up Capital	2.27
Equity	4.82
Assets	14.70
Revenue	4.20
Expenses	2.72

Source: NRB

Money changers are licensed mainly to purchase convertible foreign currencies and to exchange foreign currency. Only the money changers located at the international airport are allowed to sell limited amount of convertible foreign currencies. As of mid-July 2022, there were 349 money changers licensed by NRB. Out of them onsite inspection of 58 money changers has been conducted by NRB in the review year. NRB also performs offsite surveillance of these companies.

4.4 Hire Purchase Companies

Hire purchase companies are allowed to provide hire purchase loan only. Hire purchase loan include loan given to purchase motor vehicles, machineries and other equipments that are used for agricultural, industrial, commercial or private purposes.

There are currently 10 hire purchase companies licensed by NRB. The total assets size of these companies is Rs.20.63 billion. Around 90 percent of the total assets comprise of loan and advances. On the other side, borrowings from banks comprise Rs.11.63 billion i.e. 56.23 percent of total capital and liabilities.

Table 4.6: Key Indicators of Hire Purchase Companies
(As of mid-July 2022)

Rs. in Billion

Sources of Fund	
Share Capital	3.40
Reserves and Surplus	2.60
Borrowings	11.63
Other Liabilities	3.00
Total	**20.63**
Uses of Fund	
Cash and Bank	0.75
Loan and Advances (Net)	18.52
Fixed Assets	0.31
Other Assets	1.05
Total	**20.63**

Source: NRB

4.5 Other Financial Institutions

4.5.1 Employees Provident Fund (EPF)

The total assets of EPF increased by 2.81 percent in the review year and reached Rs. 459.21 billion in mid-July 2022. Likewise, the funds collected by the EPF grew by 4.73 percent to Rs. 416.36 billion in mid-July 2022. It has general reserve and other reserves worth of Rs. 33.99 billion.

On utilization side, 48.22 percent of the fund is used in lending to contributors, whereas, 26.45 percent is invested as fixed deposits. The loan and investment to total fund ratio stands at 97.20 percent. Its cash and bank balance stood at Rs.8.48 billion, compared to Rs.4.44 billion of previous year.

Table 4.7: Key Indicators of Employees Provident Fund
(As on mid-July 2022)

Rs. in Billion

Sources of Fund	**mid-July 2021**	**mid-July 2022**
Provident Fund	397.57	416.36
Pension Fund	1.46	3.31
General Reserve and Other Reserves	41.98	33.98
Liabilities	1.53	1.67
Provisions	4.13	3.89
Total	**446.67**	**459.21**
Uses of Fund		
Cash and Bank	4.44	8.48
Investment in Government Savings Bonds	-	-
Investment in Government Debt Bonds	0.32	0.32
Investment in Fixed Deposit	130.61	121.47
Investment in Equity Shares	33.49	22.80
Investment in Debentures	1.11	2.21
Project Loan	68.32	75.96
Lending to Contributors	202.16	221.35
Staff Loan and Advances	2.11	2.26
Investment Properties	0.86	0.85
Property, Plant and Equipment	0.57	0.63
Assets Under Construction	0.12	0.16
Miscellaneous Assets	2.56	2.72
Total	**446.67**	**459.21**
Loan and Investment to Total Fund Ratio	0.98:1	0.97:1
Loan and Investment to Provident Fund Ratio	1.1:1	1.07:1

Source: EPF

4.5.2 Citizen Investment Trust (CIT)

As of mid-July 2022, net fund collections of CIT stood at Rs.187.45 billion, recording a growth of 16.67 percent from Rs.160.67 billion in mid-July 2021. Regular fund collection from members is the major source of fund for CIT which is 75.73 percent of total fund available.

Loan to members and fixed deposit investments are the major segments of its fund mobilization. CIT has placed 41.98 percent of total funds in fixed deposit in the Commercial Banks, 26.11 percent in loan and advances to members and 10.65 percent investment in shares and debentures as of mid-July 2022. CIT has one subsidiary company (Nagarik Stock Dealer Company Ltd.) and has investment of Rs.2.55 billions, which has been shown under Shares and Debenture.

Table 4.8: Key Indicators of CIT

Rs. in Billion

Sources of Funds	**mid-July 2021**	**mid-July 2022**
Paid up Capital	3.27	3.27
Share Premium	1.26	1.26
Reserve Fund	16.08	29.88
Fund Collection	160.67	187.45
Other Liabilities	16.39	25.66
Total	**197.67**	**247.52**
Uses of Fund		
Cash and Bank Balances	2.24	4.30
Investments	**122.66**	**130.29**
a) Fixed Deposit	103.32	103.91
b) Governments Bonds	1.05	-
c) Shares and Debentures	18.29	26.38
Loan and Advances	53.12	64.64
Fixed Assets and Assets in WIP	2.09	3.14
Other Assets	17.56	45.15
Total	**197.67**	**247.52**

Source: CIT

4.5.3 Social Security Fund (SSF)

The Social Security Fund (SSF) is an institution, which executes social insurance policy to its members. SSF consists of mainly three types of funds as its sources; contribution collected from members, national welfare fund and social security tax. Contribution based social security schemes are based on individual's and organizations' contribution. This fund provides various benefits such as medical treatment, health and maternity protection, accident and disability protection, dependent family protection, and old age protection of employee.

As of mid-July 2022, national welfare fund of SSF stood at Rs.23.77 billion. SSF funds are concentrated in investment in fixed deposit.

Table 4.9: Key Indicators of SSF

Rs. in Billion

Sources of Fund	**mid-July 2021**	**mid-July 2022**
Employees Facility Related Liability	0.0038	0.029
Social Security Related Liability	0.0045	0.013
Loan and other liability	0.2292	0.328
Medical, Health and Maternity Protection Fund	0.2327	0.461
Accident and Disability Protection Fund	0.3867	0.960
Dependent Family Protection Fund	0.0699	0.151
Old Age Protection Fund	7.8439	19.006
National Level Welfare Fund	22.4454	23.772
Social Security Tax Fund	0.4700	0.470
Accumulated Profit/ (loss)	7.0017	9.513
Total Sources of Fund	**38.6876**	**54.702**
Uses of Fund		
Cash and Cash Equivalents	5.3271	1.939
Placement with Bank and Financial Institutions	30.7547	49.779
Other Assets	1.6220	1.036
Investment on Securities	0.9417	1.905
Property, Plant and Equipment	0.0420	0.044
Intangible Assets	0.0001	0.00002
Total Uses of Fund	**38.6876**	**54.702**

Source: SSF

4.5.4 National Cooperative Bank Ltd (NCBL)

NCBL provides financial services to its member cooperatives. It accepts deposits from and provides loan to the member cooperatives. It has more than 13,000 member cooperatives and has presence in all the seven provinces. Besides, it also provides services related to education, trainings, consultation, and technical assistance in the cooperative sector.

Table 4.10: Key Indicators of NCBL

Rs. in Billion

Sources of Fund	**mid-July 2021**	**mid-July 2022**
Share Capital	2.87	2.92
Reserves and Funds	1.47	2.07
Deposit Liabilities	66.34	50.68
Other Liabilities	0.95	2.32
Total	**71.63**	**57.99**
Uses of Fund		
Cash and Bank	15.36	17.09
Investment	19.76	2.76
Loan and Bills Purchase	35.18	36.30
Fixed Assets	0.46	0.47
Other Assets	0.87	1.37
Total	**71.63**	**57.99**

Source: NCBL

NCBL's total deposit decreased from Rs.66.34 billion in mid-July 2021 to Rs.50.68 billion in mid-July 2022. On the other side, the total loan and bills purchase increased by Rs.1.12 billion during the same period. The company reduced its investment by Rs.17 billion as a result of the decline in the deposit amount. The total assets size of the company declined by Rs. 13.64 billion to Rs.57.99 billion.

4.5.5 Hydroelectricity Investment and Development Company Limited (HIDCL)

HIDCL is a state-owned enterprise established to mobilize funds for the investment in generation, transmission, and distribution of hydroelectricity in the country. The Government of Nepal owns 50 percent shares of the company. The share capital, which increased from Rs. 16.50 billion to Rs.20.72 billion in 2021/22 makes up more than 80 percent of total source of fund.

The term deposits increased from Rs.11.92 billion to Rs.12.38 billion in the review year. The loan to power projects increased from Rs.4.11 billion in mid-July 2021 to Rs.6.39 billion in mid-July 2022. Although, loan to power projects have increased by 50 percent in the last year, the loan amount still constitutes only around one-fourth of the total assets of the company. Most of the funds (52.92 percent) of the company are kept as term deposits in various banks.

Table 4.11: Key Indicators of HIDCL

Rs. in Billion

Sources of Fund	**mid-July 2021**	**mid-July 2022**
Share Capital	16.50	20.72
Reserves	1.77	1.67
Current Liabilities	0.52	0.59
Non-Current Liabilities	1.25	0.41
Total	**20.04**	**23.39**
Uses of Fund		
Cash and Bank Balance	0.15	0.85
Term Deposits with Banks	11.92	12.38
Other Current Assets	1.01	0.58
Loan to Power Projects (Net)	4.11	6.39
Investment in Corporate bonds and Equity	0.79	1.83
Other Non-Current Assets	2.06	1.36
Total	**20.04**	**23.39**

Source: HIDCL

4.6 Conclusion

Non-bank financial sector, especially the insurance and cooperative sector has been expanding. The size of both life and non life insurance increased significantly. Number of cooperatives increased along with their members. Remittance and moneychangers increased in number. With the expansion of the non-banking sector, the risk associated therein is also increasing. Non Bank Financial Institutions Supervision Department at NRB is given charge for the inspection and supervision of some of the non-bank financial institutions including remittance companies, moneychangers, hire purchase companies HIDCL and NCBL. Based on the work nature and volume of annual transactions, cooperatives are now under jurisdiction of federal, provincial and local governments. However, in absence of prudential regulation, cooperative sector faces the risk of financial irregularities, which may affect the stability of the financial system through direct and indirect linkages.

CHAPTER - V

FINANCIAL MARKETS

5.1 Domestic Financial Market

5.1.1 Money Market

Demand for credit after the pandemic and the tightened monetary policy to address the rising balance of payment deficits have affected the liquidity situation in the money market. Accordingly, NRB has been addressing the situation through several monetary tools such as repo, outright purchases, and standing liquidity facility (SLF).

In 2021/22, NRB injected Rs. 9,702.41 billion liquidity of which Rs.476.39 billion was through repo, Rs.55.92 billion through outright purchase, and Rs.9,170.11 billion through SLF. In the previous year, Rs.438.28 billion liquidity was injected. NRB also injected liquidity of Rs.355.57 billion through the net purchase of USD 2.91 billion from the foreign exchange market in the review year. Liquidity of Rs.425.94 billion was injected through the net purchase of USD 3.60 billion in the previous year.

NRB mopped up Rs.60 billion liquidity, last year, of which Rs.28.35 billion was through reverse repo auction and Rs.31.65 billion through deposit collection. In the previous year, Rs.303.29 billion liquidity was mopped up. NRB purchased Indian currency (INR) equivalent to Rs.595.23 billion through the sale of USD 4.92 billion in the review year. INR equivalent to Rs.535.23 billion was purchased through the sale of USD 4.54 billion in the previous year.

BFIs' interbank transactions amounted Rs.3,100.35 billion including Rs.2,784.10 billion inter-bank transactions among commercial banks and Rs.316.25 billion among other financial institutions in 2021/22. In the previous year, such transaction was Rs.1,996.58 billion including Rs.1,782.96 billion among commercial banks and Rs.213.62 billion among other financial institutions.

5.1.2 Capital Market

SEBON has been executing various structural reform program and policies to make the securities markets more fair, efficient and transparent. Services of securities market has been expanded nationwide through the institutions such as stockbrokers, merchant bankers and ASBA licensed BFIs. Further, securities market services have become more technology driven. All these efforts resulted into the significant participation of general investors in securities markets.

Ecosystem of Nepalese Securities Markets

The number of securities market participants increased slightly during the review year. Qualified institutional buyer (QIB) has been a new type of market participant added in the list, increasing the total number of the market participants. Similarly, the number of listed companies, and depository participants increased while other participants such as stockbroker, merchant banker remained same. One credit rating agency was added in the rating market. Open-ended fund is also increasing in mutual fund industry. Likewise, listed companies from diverse sectors (mainly hydropower) are increasing. The list of securities market participants in the past five years has been presented in table 5.1.

Table 5.1: Securities Market Participants

Participants	mid-July 2018	mid-July 2019	mid-July 2020	mid-July 2021	mid-July 2022
Stock Exchange	1	1	1	1	1
Central Depository Company	1	1	1	1	1
Stockbroker	50	50	50	50	50
Merchant Banker	25	30	32	30	31
Mutual Funds	9	11	14	15	18
Credit Rating Agency	2	2	2	2	3
Listed Companies	196	215	212	219	234
Depository Participant	70	72	76	79	82
ASBA BFIs	65	53	59	52	49
Qualified Institutional Buyer	-	-	-	87	116
Stock Dealer	-	-	-	1	1
Private Equity/ Venture Capitalists (PE/VC)	-	-	-	-	8
Total	**419**	**435**	**447**	**538**	**594**

Source: SEBON and NEPSE

5.1.2.1 Primary Market

In 2021/22, funds amounting Rs. 50.09 billion were mobilized via primary market comprising Rs 7.2 billion through IPOs, Rs 4.79 billion through right shares, Rs. 31.2 billion through debentures and Rs. 6.9 billion through mutual fund schemes. Total fund mobilization in 2021/22 decreased by 53.9 percent as compared to 2020/21. In the review year, issuance of debenture occupied highest share (62.29 percent) in primary market as in previous year. The debentures issued were mainly of BFIs. Some of the Debentures of BFIs approved during the review year include Civil Bank Debenture 2088, Garima Debenture 2085, NMB Energy Bond, Prime Debenture 2088, SBL Debenture 2089. Out of 28 issuers of ordinary shares, 19 issuers were hydropower companies. The status of the primary market for the past three fiscal years has been presented in table 5.2.

Table 5.2: Primary Market

Rs. in Billion

							Percent Change	
	2019/20		**2020/21**		**2021/22**		**Amount**	
	Number	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**2020/21**	**2021/22**
IPOs	9	3.99	22	15.19	28	7.2	280.7	-52.6
Right Offerings	11	4.41	7	14.05	11	4.79	218.6	-65.9
Debenture	12	23.45	23	69.6	10	31.2	196.8	-55.2
Mutual Fund	2	1.8	9	9.9	7	6.9	450.0	-30.3
Total	**34**	**33.65**	**61**	**108.74**	**56**	**50.09**	**223.2**	**-53.9**

Source: SEBON

5.1.2.2 Secondary Market

In 2021/22, most of the indicators of secondary markets trace the downturn momentum. However, some indicators such as number of listed companies and other liquidity indicators stayed positive. Turnover ratio, a major indicator of liquidity of securities market increased by 15.53 percent compared to previous year. Interest rate volatility, liquidity shortage, rising inflation and downturn of economic activities attributed to falling NEPSE index and investors' level of confidence.

The number of listed companies increased to 234 in 2021/22 from 219 in the previous year. In 2021/22, total annual turnover of the listed securities decreased by 17.35 percent to Rs.1,202.1 billion from Rs.1,454.44 billion of 2020/21. Average daily turnover was Rs.5.02 billion, a decrease of 14.93 percent as compared to Rs.5.91 billion of 2020/21.

The stock market capitalization in mid-July 2022 stood at Rs. 2,869.34 billion compared to Rs.4,010.96 billion in mid-July 2021. Similarly, float market capitalization also shrank to Rs. 1,031.31 billion. In review year, NEPSE Index also decreased to 2,009.47 points from 2,883.41 in last fiscal year. Likewise, float Index also reached to 139.37 points in review year, a decrease of 30.43 percent as compared to previous year. The major indicator of secondary market for last three fiscal years has been presented in Table 5.3.

Table 5.3: Secondary Market

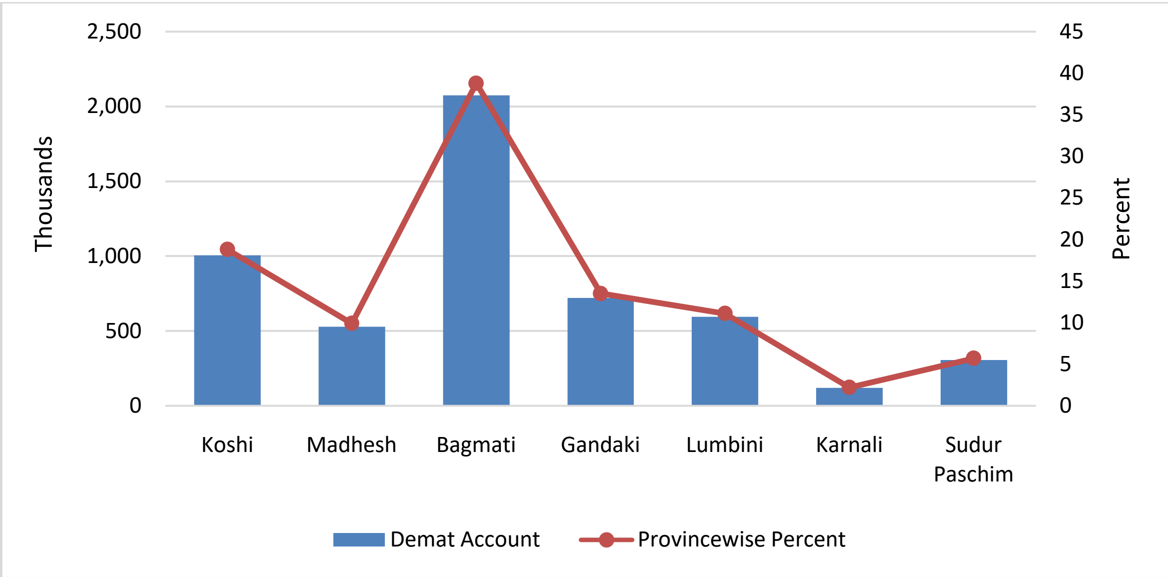
Particulars	**Fiscal Year**			**Percentage Change**	
	2019/20	**2020/21**	**2021/22**	**2020/21**	**2021/22**
Listed Companies	212	219	234	3.30	6.85
Listed Securities (in Billion)	4.83	5.83	6.77	20.7	16.12
Total Paid Up Capital of Listed Securities (Rs. in Billion)	473.39	573.24	667.75	21.09	16.49
Turnover (Rs. in Billion)	150.03	1454.44	1202.1	869.43	-17.35
Trading Days	182	246	239	35.16	-2.85
Average Daily Turnover (Rs. in Billion)	0.82	5.91	5.03	620.73	-14.89
No. of Securities Traded (in Billion)	0.43	3.40	2.49	690.70	-26.76
No. of Transaction	1,848,773	15,417,668	14,712,483	733.94	-4.57
Market Capitalization (Rs. in Billion)	1792.76	4010.96	2869.34	123.73	-28.46
Float Market Capitalization (Rs. in Billion)	638.09	1409.38	1031.31	120.87	-26.83
Turnover/ Market Capitalization (%)	8.37	36.26	41.89	333.30	15.53
Turnover/ Float Market Capitalization (%)	23.51	103.20	116.56	338.91	12.95
NEPSE Index	1362.35	2883.41	2009.47	111.65	-30.31
NEPSE Float Index	95.47	200.34	139.37	109.85	-30.43

Source: NEPSE

5.1.2.3 Inclusion and Participation in Securities Markets

Participation of general investors in Nepalese securities market has been increasing significantly. SEBON has encouraged market participants for technological adoption to provide the services more efficiently. There are around 5.4 million investors as on mid-July 2022 participating through their own Dematerialized (DEMAT) accounts, of which male occupies 57 percent. SEBON is also facilitating for opening branches of stockbroker and merchant banker services beyond Kathmandu valley. In provincial base, 38.8 percent DEMAT account is registered in Bagmati Province whereas 2.2 percent DEMAT account is registered in Karnali Province, being the lowest (figure 5.1). The distribution of accounts shows urban concentration.

Figure 5.1: Province wise DEMAT Account as on mid-July 2022



Source: SEBON

Out of 5.4 million DEMAT holders, 4.39 billion DEMAT holders have subscribed MERO Share service. Out of 1.5 million investors trading in secondary market, 1.48 million investors are online users indicating growing digitization in the market.

Table 5.4: Investors' Participation in Securities Markets

SN	Particulars	2019/20	2020/21	2021/22
1	Number of DEMAT Account	1,753,000	3,789,000	5,346,000
2	Number of MERO Share Users	742,000	2,850,000	4,395,000
3	Number of Investors in Secondary Market	1,368,598	1,494,171	1,511,764
4	Online Users	35,119	794,934	1,486,442
5	Active Investors	192,748	816,762	1,037,381
6	Active Online Investors	15,164	446,968	755,339

Source: NEPSE and CDSC

5.1.2.4 Commodity Derivatives Market

The Commodity Exchange Act has assigned the regulatory responsibility of the commodities market to SEBON since 26 July, 2017. SEBON formulated and implemented "Commodity Market Regulation, 2017" and the "Guidelines Related to Policy and Procedures to issue license to Commodities Exchange, 2021".

SEBON issued a public notice seeking applications to operate commodities exchange market in Nepal and has made policy decision to provide pre-approval to two companies considering the nation's economy, the industrial development, the probability of commodities trading and investors' welfare.

5.1.2.5 Policy Responses

Some of the policy responses introduced by the SEBON during the review year are presented below:

1. Third amendment on Securities Trading Bylaws, 2075 was made on 29 April, 2022 allowing the trading members to develop dedicated Trading Management System (TMS) linked with NEPSE's trading system.
2. SEBON directed NEPSE on 21 June, 2022 to remove the provision related to All or None (AON) while placing both buy and sell orders in order to prevent market manipulation and provide investors the actual information on demand and supply.
3. SEBON instructed NEPSE not to make public the information related to serial numbers of securities brokers and dealers in the floor sheet during the trading hours.
4. SEBON for the first time issued license to eight specialized investment (PE/VC) fund managers in order to create an alternative investment vehicle and develop a medium to mobilize funds for new ventures and SME's.
5. SEBON made Amendments in Securities Business persons (Securities Brokers and Securities dealers) Regulation, 2064 with a provision of granting license to all the entities who fulfill the criteria with an open entry and exit mechanism with specified interval.

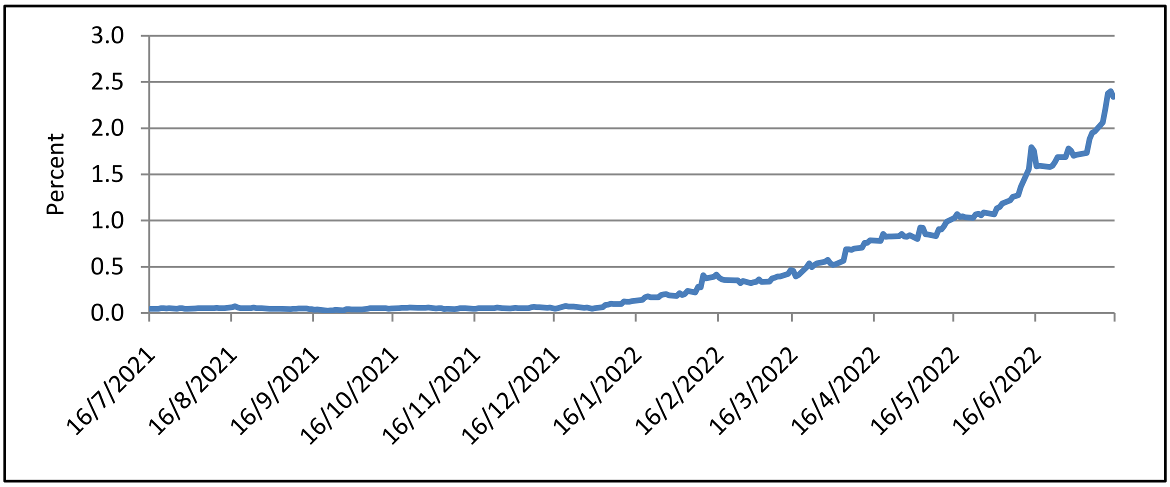
5.2 Foreign Exchange Market

5.2.1 US Government Treasuries

Increased interest rates by Federal Reserve in order to tame inflation has resulted into the subsequent increase of yield on three months US Treasury Bills in the review year. The yield was 0.05 percent per annum on 16 July 2021, which has reached 2.33 percent per annum on 15 July 2022 (figure 5.2). The average yield on three months T-bills was 0.45 percent per annum, which was 0.06 percent per annum in the previous year. The highest yield of 2.40

percent per annum was recorded on 14 July 2022 and the lowest yield of 0.02 percent per annum on 21 September 2021.

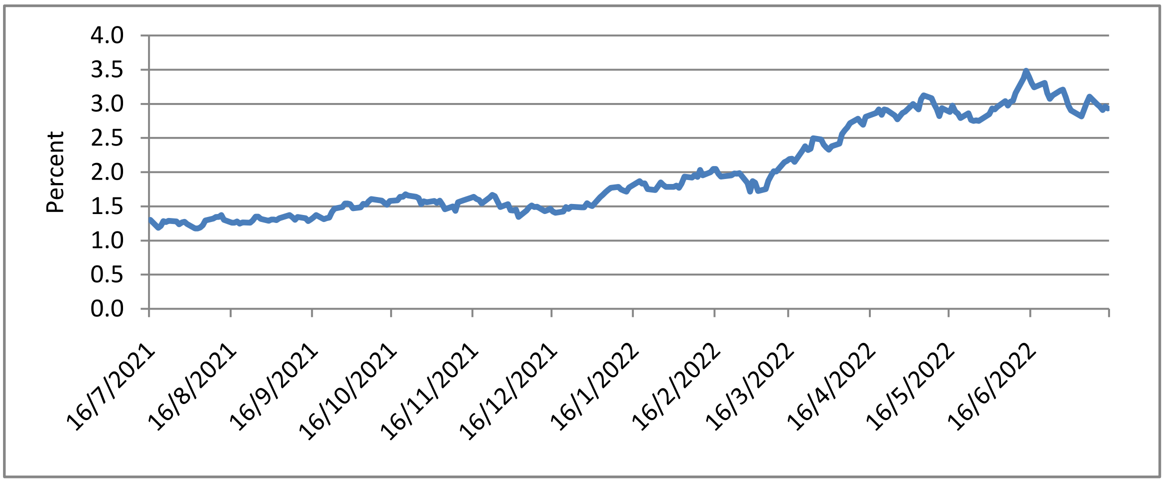
Figure 5.2: Daily Yield on 3- Months US T-Bills (in Percent)



Source: Refinitiv

Yield on long-term securities has also increased in the review year. The average yield on 10-year US Government Bond has been 1.99 percent per annum, which was 1.13 percent per annum in the previous year. During the review year, the highest yield was 3.48 percent per annum on 14 June 2022 and the lowest yield of 1.17 percent per annum was on 2 August 2021(figure 5.3).

Figure 5.3: Daily Yield on 10- Year US Government Bond (in Percent)

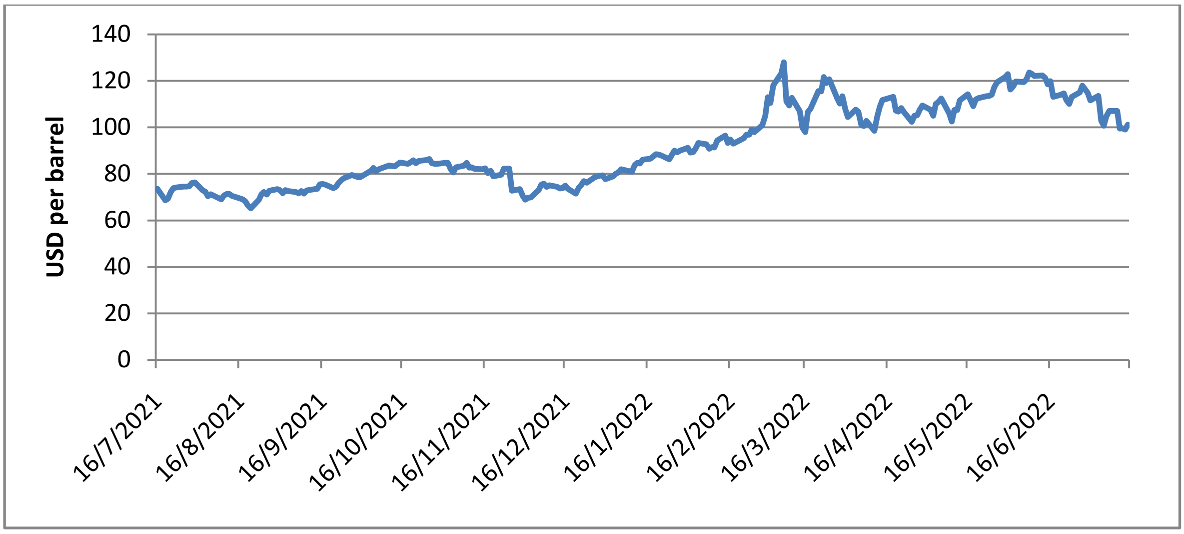


Source: Refinitiv

5.2.2 Crude Oil

Brent crude oil price, the international benchmark, which was trading at USD 73.59 per barrel on mid-July 2021 has increased to USD 101.16 per barrel on mid-July 2022 (figure 5.4). Crude oil price was highest at USD 127.98 per barrel on 8 March 2022 and the lowest was USD 65.18 on 20 August 2021.

Figure 5.4: Brent Crude Oil Price



Source: Refinitiv

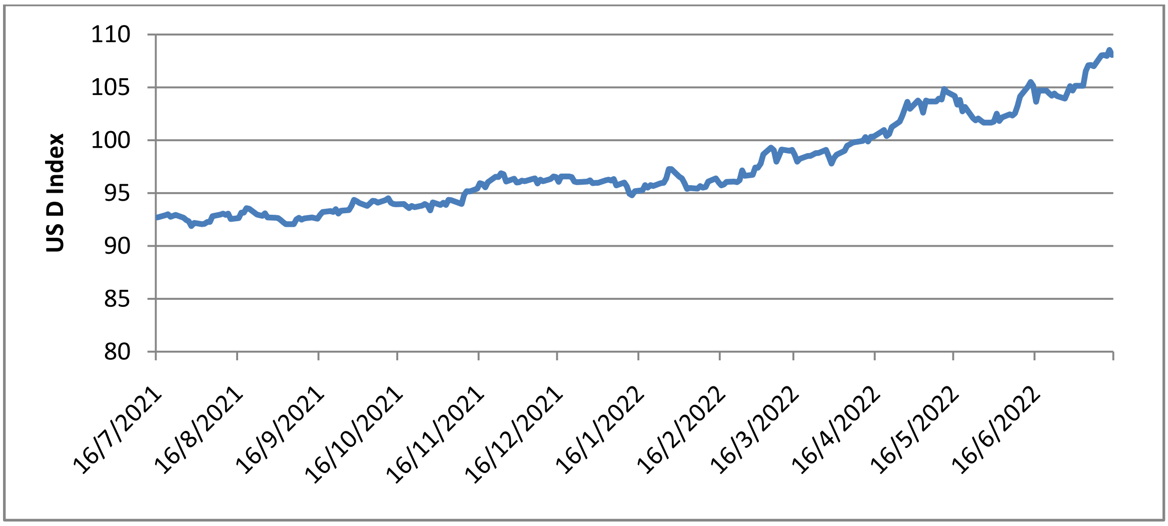
The increase in oil price is attributable mainly to Russia-Ukraine war and disruption in supply chains, following the war.

5.2.3 Dollar Index

The US Dollar Index is an index measure of the value of the USD relative to a basket of foreign currencies including Euro, Japanese Yen, Pound Sterling, Canadian Dollar, Swedish Kroner and Swiss Franc.

During the review year, the US Dollar index recorded the highest value of 108.54 in 14 July 2022 and lowest value of 91.86 on 29 July 2021. The index, which was 92.69 in mid-July 2021, has risen to 108.06 in mid-July 2022. The increase in the index is attributable mainly to increased interest rates by Federal Reserve in order to tame inflation. The federal funds rate, which was 0.00-0.25 percent in mid-July 2021, has increased three times and has reached 1.50-1.75 percent in mid-July 2022 (figure 5.5).

Figure 5.5: Movement of US Dollar Index

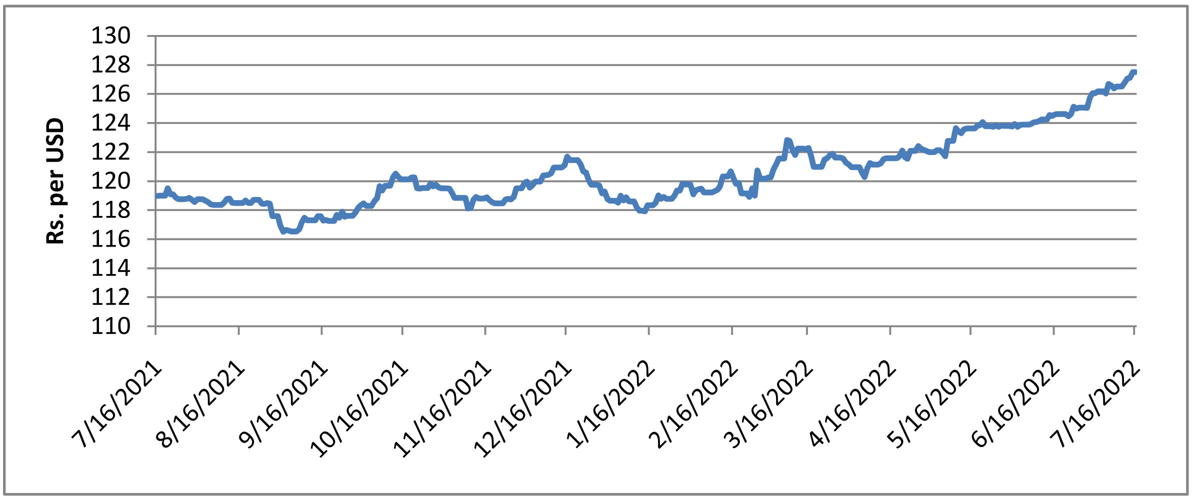


Source: Refinitiv

5.2.4 Dollar-Rupee Exchange Rate

Nepali currency has depreciated by 6.64 percent against US Dollar during FY 2021/22 compared to appreciation of 1.12 percent in the previous year. The exchange rate of one US Dollar stood at Rs. 127.51 in mid-July 2022 compared to Rs. 119.04 in mid-July 2021 (figure 5.6).

Figure 5.6: Movement of Nominal Exchange Rate



Source: Refinitiv

5.3 Conclusion

Along with the expansion of economic activity, financial market in Nepal has been expanding. Expansion of capital market in terms of investor base, market capitalization, market participants and diversification of listed companies has been encouraging. However, lack of sectoral and instrumental diversification pose risks of higher concentration. While the adoption of new technology and policy responses to conduct market activities more efficiently have helped modernize the capital market, new challenges and risks have also emerged. Growing complexity of the financial markets along with the increase in market participants has increasingly exposed the capital market to a multitude of risks emerging from the abuse of technology, inadequate corporate governance, and unsupervised information flow. Further, the volatility spillover effects of the foreign exchange market and capital market could have impact on the stability of the financial system.

CHAPTER - VI

FINANCIAL INCLUSION

6.1 Financial Access and Inclusion

Increasing financial access and inclusion has been a focal point for all regulatory institutions in Nepal. They have been operating various programs aimed to increase financial access and inclusion in the country. Nepal Financial Inclusion Portal was launched on 30 September 2018 to provide information on the status and progress of financial access and inclusion in Nepal.

6.1.1 Efforts of NRB in Expanding Financial Inclusion

Recognizing the need and importance of inclusive growth, NRB has taken several policy measures to ensure the availability of reliable and affordable financial services to the people residing in any part of the country. NRB has been endeavoring to extend financial access and inclusion through various incentives directed towards banks and financial institutions. Financial policy of establishing a branch of commercial banks in every local body, expanding the size of deprived sector lending requirement for licensed BFIs, mandatory requirements for them to invest certain percentage of their total credit in the specified sectors, special refinance facility to the cottage and small industries, interest-free loan to extend bank branches in all local levels, directives on consumer protection, simplified provision to extend financial services through branchless banking and mobile banking services, and policy regarding financial literacy are some of the policy measures adopted by NRB to ensure financial inclusion in the country. In this connection, GoN has also announced a policy aiming at a bank account for every citizen.

In addition to these, NRB has also been taking initiatives on extending the financial literacy programs enabling people to be aware of banking and financial services and on financial consumer protection, which is expected to ease financial service delivery and address the financial consumer grievances in an efficient ways.

Table 6.1: Number of Branches of BFIs

Financial Institutions	Number of Branches		Change (in percent)	Share (in percent)	
	2021	2022		2021	2022
Commercial Banks	4,753	5,009	5.39	44.49	43.45
Development Banks	1,023	1,118	9.29	9.58	9.69
Finance Companies	222	267	20.27	2.08	2.31
MFIs	4,685	5,134	9.58	43.85	44.53
Total	**10,683**	**11,528**	**7.91**	**100**	**100**

As of mid-July 2022, the number of branches of commercial banks has reached 5,009 followed by 1,118 branches of Development Banks, 267 of Finance Companies, and 5,134 of MFIs (Table 6.1). In mid-July 2021, the number of such branches of the respective categories of BFIs stood at 4753, 1,023, 222, and 4,685 respectively. The total number of BFIs' branches increased by 256 in number (5.38 percent) in the review year. Consequently, the number of people per BFI branch (excluding MFIs) came down from 5,065 in mid-July 2021 to 4,566 in mid-July 2022. Including MFIs per branch, this number comes further down to 2,532 in mid-July 2022.

An increase in the number of branches indicates the increase in financial outreach or financial access, which is also considered as one of the major indicators of financial inclusion. Despite the growth in the number of BFIs and their branches, BFIs are still mainly concentrated in urban and semi-urban areas where geographical access is relatively easy.

Table 6.2: Provincial Distribution of BFI's Branches

Province	A	B	C	D	Total (A+B+C)	Total (A+B+C+D)	Share (in %)	Population (per branch)*
Koshi	763	194	32	868	989	1,857	16.11	5,027
Madhesh	572	84	38	1,051	694	1,745	15.14	8,828
Bagmati	1,807	321	106	769	2,234	3,003	26.05	2,723
Gandaki	599	190	36	591	825	1,416	12.28	3,006
Lumbini	740	256	46	1,170	1,042	2,212	19.19	4,918
Karnali	199	21	3	232	223	455	3.95	7,600
SudurPaschim	329	52	6	453	387	840	7.29	7,006
Total	5,009	1,118	267	5,134	6,394	11,528	100	4,566

*Excluding MFIs

Looking upon the province-wise distribution (Table 6.2), the majority of branches are situated in Bagmati Province, totaling 3,003 (26.05 percent). The second largest BFI branch density is in Lumbini Province with a total of 2,212 (19.19 percent).

Kathmandu is a highly concentrated district in terms of a number of branches of BFIs, followed by Rupandehi and Kaski. Kathmandu alone has 1,103 branches which is around 10 percent of the total branches. Despite continuous efforts from NRB in increasing the outreach of financial services in remote areas, the result is still not satisfactory as seen from the status of branch expansion in Karnali Province. As of mid-July 2022, Rukum East and Mugu districts had 8 branches each while Humla and Manang districts had 10 and 11 branches respectively. In mid-July 2022, 30 districts have around 10 percent of total branches whereas 10 districts, mainly of urban areas, have around 50 percent of total branches.

Investment in information technology (IT) is vital to improve banking efficiency and quality service delivery in this competitive age. The greater efficiency and outreach will help promote financial inclusion, and reduce intermediation costs thereby improving the bottom line of the financial services. Table 6.3 demonstrates the status of electronic banking such as numbers of ATM terminals, number of debit cards, credit cards along with number of internet banking and mobile banking customers.

Table 6.3: Use of Financial Services

Particulars	Class A	Class B	Class C	Total
Deposit Accounts	38,892,532	5,436,035	643,402	44,971,969
Loan Accounts	1,491,767	295,692	41,585	1,829,044
Branchless Banking Centers	1,526	22	-	1,548
Branchless Banking Customers	283,351	129	-	283,480
Mobile Banking Customers	16,091,464	2,114,559	101,232	18,307,255
Internet Banking Customers	1,279,475	394,563	10,272	1,684,310
ATMs	4,235	323	44	4,602
Debit Cards	10,274,413	538,672	43,272	10,856,357
Credit Cards	238,794	-	-	238,794
Prepaid Cards	105,121	-	-	105,121

Concept of Branchless banking has also been introduced to address the needs of people who do not have physical access to the BFIs' branches. It is a cheaper means of a banking system that can be operated in remote districts. In mid-July 2022, branchless banking centers numbered 1,526.

6.2 Financial Literacy

Financial literacy empowers users to make sound financial decisions, which results in financial well-being of the individual. It is one of the key enablers of financial inclusion.

Financial literacy programs in Nepal are being conducted by various agencies including the central bank, BFIs, and non-bank financial institutions in a scattered and fragmented manner with different methodologies and delivery mechanism. NRB, with an aim to enhance and systematize the fragmented activities and make them more effective, implemented Financial Literacy Framework, 2020.

As financial literacy initiatives, NRB organizes the programs 'NRB with Students', facilitates the awareness programs through non-governmental organizations to provide awareness about the importance of saving, banking system, risks of fraudulent activities, clean note policies and financial digitalization on regular basis. The 'NRB with Students' has been initiated by NRB since FY 2013/14. In this program, a team of NRB visits a school to organize a brief presentation on financial literacy, focusing on financial awareness and personal finance and distributes the financial literacy materials to the students. NRB had also celebrated global money week, 2022 on request of OECD.

NRB has published various knowledge materials, books and audiovisual materials, to promote financial literacy. NRB has also been working closely with the Ministry of Education to incorporate the issues of financial literacy in formal educational curriculum.

In addition, SEBON also celebrated Global Money Week 2022 by organizing various activities to increase awareness among market participants. SEBON has been broadcasting a radio program on a regular basis in order to make the investors informed about its regulatory and other market related activities. It has also published various leaflets and pamphlets by listing major points investors should be aware of while making investment decisions.

6.3 Financial Consumer Protection

In 2021/22, 1315 grievances were resolved out of 1326 grievances received through various channels (Table 6.4). A new division "Financial Inclusion and Consumer Protection Division" was formed in NRB on 17 July, 2022. Consumer protection unit previously under the Banks and Financial Institutions Regulation Department has been shifted to this new division. Grievance portal is accessible from the NRB website; the URL for the same is http://gunaso.nrb.org.np/.

Table 6.4: Grievances Received and Resolved

Modes of Grievances	Received	Resolved	In Process
Written Complaints	166	166	–
Grievance Portal	990	979	11
Others (Telephone, Email or Oral)	160	160	–
Total	**1,326**	**1,315**	**11**

Source: NRB

6.4 Conclusion

There has been encouraging improvements in access to finance owing to NRB's continuous efforts to expand the coverage of financial services by introducing regulatory measures that target the specific sectors, deprived people and small borrowers. Greater financial inclusion may have positive implications on financial stability including diversification of bank assets, increased stability of deposits base and improved transmission of monetary policy. Financial literacy programs to empower people to make informed financial decisions have been conducted by NRB as well as other stakeholders. However, the need to synchronize such fragmented efforts is to be considered. In addition, concerns remain regarding the urban concentration of financial services, and lack of financial education to adapt to evolving financial services.

CHAPTER - VII

PAYMENT SYSTEM

7.1 Payment System Overview

Payment system is an important element of the financial stability and is rapidly evolving as a core component of financial system around the globe. The world is adopting advanced technologies for the payment system replacing the traditional methods. Similarly, Nepal is also gradually moving towards less cash society. NRB has been continuously facilitating the use of various instruments of electronic payments.

As of mid-July 2022, 37 institutions are licensed to operate as payment institutions. Among them, 27 are Payment Service Providers (PSPs) and 10 are Payment System Operators (PSOs). Similarly, all commercial banks (26), 13 development banks, 14 finance companies and 1 microfinance institution are licensed to operate as payment service provider (PSP).

Table 7.1: Licensed Institution to operate as PSP/PSO (as of mid-July 2022)

Category	Number
Payment Service Provider (PSP)	27
Payment System Operator (PSO)	10
Commercial Banks as PSP	26
Development Banks as PSP	13
Finance Companies as PSP	14
Microfinance Financial Institutions as PSP	1

7.2 Payment System, Reports and Indicators

7.2.1 Payment System

Payment system is an integral part of every country's financial system and are vital for monetary policy implementation and capital market development. NRB is committed to the safety and efficiency of payment system of Nepal and taking the lead role in formulating and implementing the strategy for the modernization of payment system. Key developments of the payment system include retail payment systems (RPS), large value payment system, instant payment, mobile banking and internet banking which have been briefly discussed below:

a. Retail Payment System (RPS)

The retail payment system in Nepal consists of cheque clearing, electronic funds transfer, card payment system, e-money and remittances, which are typically a low value payment system. They are mainly operated by Nepal Clearing House Limited (NCHL), which provides image-based cheque clearing solution and electronic fund transfers. Other major operators in the cards payment space are Smart Choice Technologies (SCT) Ltd. and Nepal Electronic Payment System (NEPS) Ltd. Similarly, FonePay Payment Services Limited is operating as PSO and provides the platform for QR payment as well as mobile banking services to BFIs. Internationally recognized institutions like VISA Worldwide Pvt. Ltd., Union Pay International Company Ltd., and Master Card Asia/Pacific Pvt. Ltd. are also operating as PSO in the Nepalese payment industry. The e-money and remittance service providers complement the retail payment infrastructure. The mode of retail payment has changed rapidly in these years. connectIPS, IPS, Mobile Banking, Internet Banking, Wallets, QR Code etc. are the major developments in the field of retail payments and are providing fast/instant payment services.

b. Large Value Payment System

NRB is operating Real Time Gross Settlement (RTGS) System for large value and critical payment. It is an electronic fund transfer system in which the transfer of funds between one bank/financial institution to another takes place in "real-time" and on a “gross" (transaction by transaction) basis, without bundling or netting with any other transaction.

NRB has issued a separate directive for the operation of RTGS. Transactions can be settled in five different currencies i.e. Nepalese Rupees (NPR), US Dollar (USD), Euro (EUR), Pound Sterling (GBP) and Japanese Yen (JPY). Minimum limit for value of credit transfers in RTGS is Rs. 2,00,000 and threshold for mandatory transaction has been set to NPR 2 million. As of mid-July 2022, all commercial banks (26), 10 development banks, 10 finance companies and Nepal Infrastructure Bank Limited are involved in RTGS system as direct participants.

RTGS operation has eased the large value and critical payment process, which was earlier, based on manual clearing in NRB's GL System. Further, it is expected that the RTGS System will enhance the trust and confidence towards the payment system as it significantly reduces settlement risk in payment mechanism. It helps to increase the velocity of money and boosts up the economic activities.

Both number of transactions and the amount transferred through RTGS show significant increment as compared to the previous year (Table 7.2).

Table 7.2: Number of Transaction and Amount through RTGS

Currency	FY 2020/21		FY 2021/22	
	No. of Transaction	Amount (Rs. in million)	No. of Transaction	Amount (Rs. in million)
NPR	5,22,174	20,445,704.04	7,15,143	41,927,870.26
USD	10,364	688.04	14,817	828.12
EUR	702	161.09	1,093	222.83
GBP	426	3.23	583	4.96
JPY	175	1,891.12	348	75,633.62

Source: NRB

c. ConnectIPS

ConnectIPS is one of the most popular products, at public level, offered and operated by NCHL where the system allows the bank customers to make instant payments. In FY 2021/22, total number of connectIPS transactions increased significantly by 108.6 percent and reached to 3,96,01,971 (Table 7.3).

Table 7.3: Count/number of connect IPS Transaction

FY (mid- July)	Total Transaction Presented Count (Yearly)	Growth (%)
2019	1,86,041	-
2020	28,49,964	1431.9
2021	1,89,80,725	566.0
2022	3,96,01,971	108.6

Source: NCHL

d. QR Code based Payment

QR Code based payment system is one of the cheapest and easy payment platforms for instant payment. Customer can pay to a merchant after scanning QR code through mobile phone. NRB is encouraging QR code-based payment. Nepal QR Standardization Framework and Guidelines has been issued to bring in uniformity and provide equal opportunity for all players in payment space.

e. Mobile Banking and Internet Banking

Mobile and internet banking services are being provided by the BFIs to their customer which allows users to perform financial transactions on digital mode like Electronic Fund Transfer, QR Payments, Utility Payments, Direct Debit and Direct Credit.

Table 7.4: Number of Customer using Mobile and Internet Banking

FY (mid-July)	Mobile Banking		Internet Banking	
	Number	Growth (%)	Number	Growth (%)
2018	50,86,069	-	8,34,302	-
2019	83,47,187	64.1	9,17,344	9.9
2020	1,13,06,797	35.5	10,31,227	12.4
2021	1,41,94,839	25.5	11,60,321	12.5
2022	1,83,07,255	29.0	16,84,310	45.2

In FY 2021/22, number of mobile banking users increased by 29.0 percent to 1,83,07,255. Similarly, number of internet banking users increased by 45.2 percent to 16,84,310 in the review year (Table 7.4).

Figure 7.1: Mobile Banking Customers

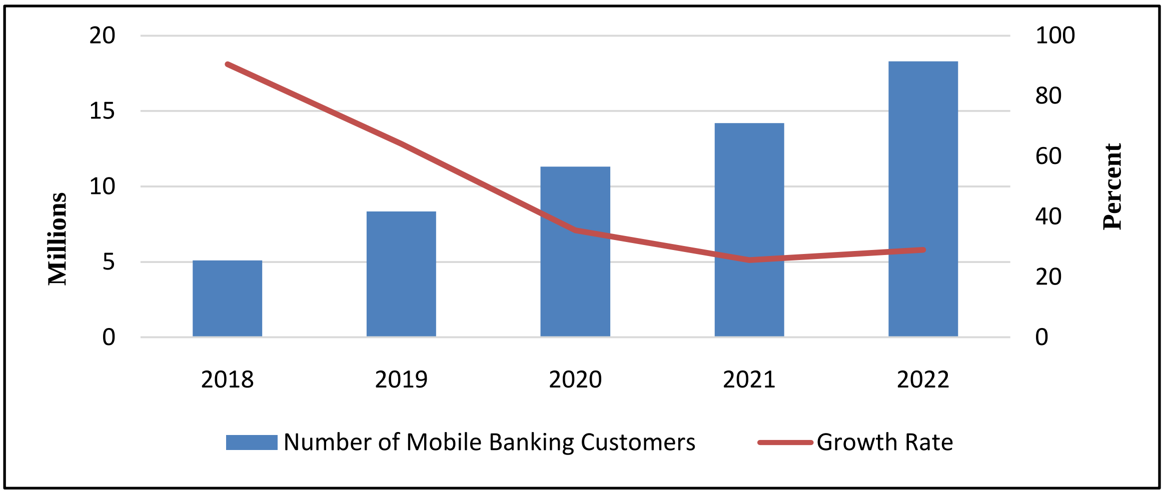
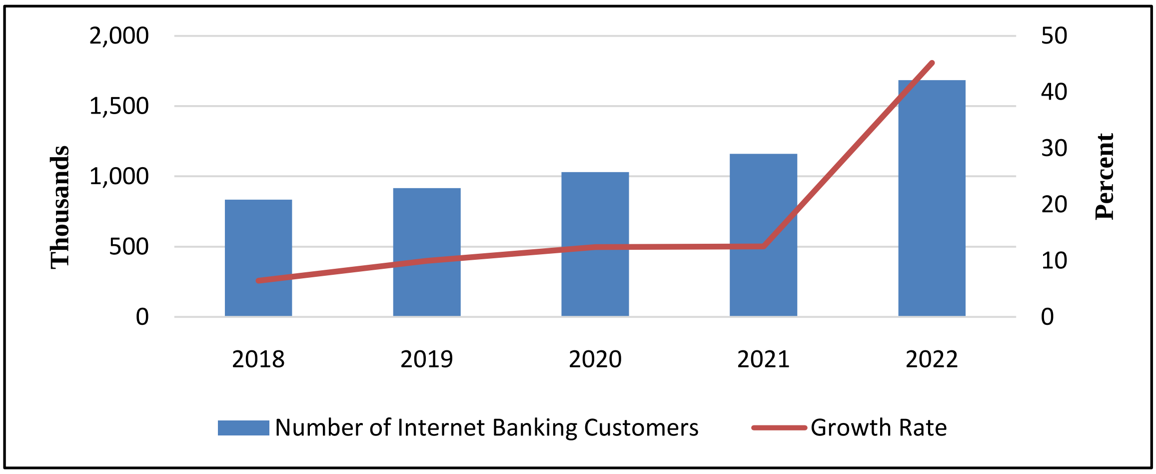


Figure 7.2: Internet Banking Customers



Payment System Indicators

Electronic payment transaction has increased significantly due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments by the wider group of consumers.

Table 7.5: Access on Payment System

Particulars	mid-July 2021	mid-July 2022
PSPs Agent	9,279	12,685
Wallet Users	88,85,914	1,36,75,993
ATM Machines/Terminals	4,325	4,602
Debit Cards	88,39,855	1,08,56,357
Credit Cards	1,92,370	2,38,794
Prepaid Cards*	68,265	1,08,641
Branchless Banking (BLB)	1,718	1,548
ConnectIPs Users	5,34,615	8,96,341
ECC Members	60	59
IPS Members	103	111

*Also includes cards issued by PSPs

Figure 7.3: Number of Wallet, Debit Card and connect IPS Users

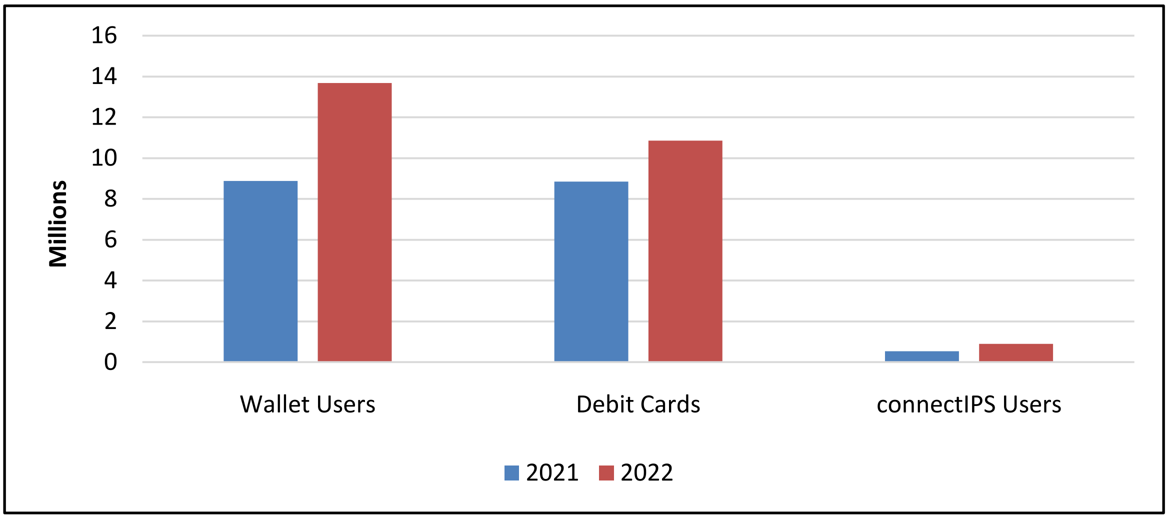


Table 7.6: Usage of Payment System

Particulars	FY 2020/21		FY 2021/22	
	Number of Transaction	Amount (Rs. in Million)	Number of Transaction	Amount (Rs. in Million)
RTGS	5,33,841	2,05,52,212	7,50,597	4,21,34,018
ATM-Cash Withdrawal	7,44,79,681	6,48,268	10,09,88,504	8,39,732
ECC	1,22,95,926	80,56,449	1,39,20,129	87,73,753
IPS	1,08,41,023	23,69,108	1,34,24,453	20,60,041
Connect IPS	1,88,33,752	13,56,742	3,94,17,168	30,81,764
Debit Cards	8,16,48,703	6,79,353	11,08,30,652	8,81,396
Credit Cards	17,17,397	9,986	22,70,929	14,143
Prepaid Cards	1,30,867	853	4,89,507	3,099
Internet Banking	31,79,362	98,656	33,55,888	1,59,489
Mobile Banking	11,19,23,386	4,60,014	18,15,45,676	12,10,134
Branchless Banking	6,39,338	12,869	7,52,248	16,190
Wallet	12,49,45,099	1,14,432	16,74,91,933	1,84,293
QR-Based Payments	55,81,779	20,282	2,69,50,009	94,508
Point of Sales (POS)	75,47,405	31,725	1,17,73,031	51,435
E-Commerce*	13,45,364	9,101	8,19,395	4,840

*Online Payment Using Cards

7.3 Conclusion

Payments system landscape is gradually evolving with digital innovation. Increment in the usage of digital financial services is prominent. The accelerated shift towards digital payments has posed new challenges to the providers of financial services, their users as well as the regulators. Efforts have been made by NRB to develop adequate infrastructure and policy measures to make payment system more systematic, secure and efficient. However, challenges pertaining to the safeguard of information, risks of online deception and frauds remain. Digital transformation of financial intermediation poses both opportunities and challenges for the stability of the financial system. The emergence of new types of institutions providing financial services on one hand lead to greater inclusion and access while on the other hand may increase the risks associated.

CHAPTER - VIII

FINANCIAL SECTOR POLICY DEVELOPMENT

8.1 Global Policy Development

With the decline in Covid-19 cases accompanied by the availability of vaccines, world economy moved towards a tentative recovery during the review year. However, financial vulnerabilities rose owing to Russia-Ukraine war that led to increase in commodity prices, growth slowdown and heightened geo-political uncertainties. Central banks faced heightened challenge of bringing inflation to target while safeguarding the economic recovery. Consequences of the conflict reverberate globally, and will test the resilience of the global financial system. In response, many central banks have already tightened macro prudential tools significantly to tackle elevated vulnerabilities.

8.2 Measures taken by NRB to maintain financial stability

The measures undertaken by NRB to maintain financial stability in the review year can be categorized into the following:

a) Measures related to asset quality

i. General loan loss provision increased to 1.3 percent from existing 1 percent in order to provide extra cushion against the probable degradation in asset quality due to Covid-19.

ii. The maximum single obligor limit for margin loan from any or all licensed institutions has been limited to Rs. 120 million for reduction of risk passed on to BFIs due to speculative investments of the borrowers.

iii. NRB has directed BFIs to cap the loan without specific purpose to Rs. 5 million per person. Aiming to downsize such loan, Loan to value (LTV) ratio for these loan is restricted to 40 percent for Kathmandu valley and 50 percent for outside valley.

b) Measures related to resiliency

i. Restrictions have been imposed to refrain BFIS from distributing cash dividend to strengthen their capital base. BFIs are restricted to distribute more than 30 percent as a cash dividend from the distributable income of FY 2020/21. Similarly, BFIs are restricted to declare and distribute cash dividend and bonus share unless released from Prompt Corrective Action (PCA).

c) Measures related to external sector stability

i. The tenure of trust receipt loan given by BFIs was lowered to 90 days from 120 days.
ii. Import of silver equivalent of USD 35,000 at a time has been allowed.
iii. Ceiling for gold import has been revised to 10 kg per day from 20 kg per day.
iv. Regulatory margin corresponding to import value has been imposed for non-essential and luxury goods.
v. Import from India exceeding INR 30 million has been mandated only through letter of credit, which was INR 50 million previously.
vi. Documentation from paying BFIs has been ensured for import from India in credit terms before release of goods through Nepal customs.
vii. Ban of crypto/virtual currency and pyramid based network marketing has been reinforced.

8.3 Other measures taken by different institutions to maintain financial stability

In addition to the measures taken by NRB, different stakeholders took steps to maintain the financial stability, which have been listed below:

i. SEBON amended Securities Trading Bylaws, 2075 and strengthened Electronic Reporting and Retrieval System (ERRS) in order to make capital market transactions more secure and efficient.

ii. Department of Cooperatives implemented COPOMIS to make effective regulation and quick availability of information by creating an integrated database of the cooperatives.

iii. SSF started the implementation of "Contributor's credit directive, 2079" to make the credit procedure more systematic and transparent.

8.4 Conclusion

While the immediate impacts of the Covid-19 pandemic are settling, new challenges, with potential impact on the financial stability may arise due to uncertainties in the global economy. Central banks have taken steps to address the same through tightened macro prudential tools. In line with the new developments in global financial markets and domestic economy, NRB has been taking measures to maintain the stability of the financial system. In addition, other regulators of the financial system have taken measures to ensure the smooth functioning of the economy while safeguarding the recovery process.

CHAPTER - IX

CONCLUSION

Nepal's economy is undergoing pressure in maintaining inflation and smoothening economic activities. In 2021/22, growth remained moderate, inflation remained within target, remittances increased and foreign exchange reserves, though in decreasing trend, remained near the required adequacy level. External sector in 2021/22 remained stressed mainly due to surges in imports coupled with the slowdown in foreign exchange inflows. The current account deficit widened exerting pressure on balance of payments. The general price level remained under pressure due to external forces that have disrupted the supply chain.

Development in the financial system is encouraging with gradual consolidation of the banks and financial institutions. The number of financial institutions came down due to merger and acquisition, but without any compromise on NRB's efforts to increase financial access and financial inclusion. The financial sector has expanded in terms of asset size. Total assets of the financial system increased significantly to more than double the size of GDP, indicating high degree of financialization. The system is highly bank-dominated, with more than two third of assets held by commercial banks.

Despite the challenging macro environment, financial soundness indicators show the stable state of the financial system. Capital of BFIs remained well above the regulatory requirements, liquidity remained in comfortable position, and profitability improved marginally. However, rising inflation, higher level of trade deficit and uncertainty in the global economy may create challenge to maintain financial stability.

The overall performance of BFIs remained sound in the review year supported by the growth in assets and increase in profit. BFIs have maintained adequate capital, well above the regulatory requirements. Stress tests show the resiliency of the BFIs to the liquidity, credit, and market shocks. Despite sound indicators, there seems some level of vulnerability in the BFIs balance sheet if the shocks are large and occur simultaneously. For instance, a large credit shock can push the capital of banks below the regulatory minimum. Likewise, BFIs are resilient to the interest rate shock, exchange rate shock and fluctuation of the equity prices. This is because of the low level of foreign exchange exposure, nominal equity investments and the practices to pass interest rate changes to clients at short intervals.

Non- bank financial sector has been expanding, especially the insurance and cooperative sector. The growth of cooperatives, however, has been quantitative than qualitative. The credibility of many saving and credit co-operatives has been questioned with multiple cases of members' savings being misused by unscrupulous directors. This highlights the need for prudential regulation and supervision in the cooperative sector. In addition, the lack of updated data has been a challenge in assessing the exact situation of the cooperatives. The size of both life and non life insurances has increased significantly. In addition, there has been significant growth in coverage of insurance. Other contractual saving institutions, EPF, CIT and SSF operated well. With the increase in non-bank financial institutions, risks associated with them are also increasing.

Along with the expansion of economic activities, Nepal's financial market has also grown significantly. The expansion of the capital market has been encouraging in terms of increase in investor base, market capitalization, market participants and listed companies. However, the lack of diversification in terms of sector and instruments lurks the risk of further concentration. Introduction of new technologies and policy responses to make market activities more efficient have contributed to the modernization of capital market. But new challenges and risks have also arisen. Due to the increasing complexity of financial markets and the number of market participants, capital market is increasingly exposed to numerous risks arising from the misuse of technology, inadequate corporate governance, and uncontrolled information flow.

NRB has been making continuous efforts towards financial inclusion and access by introducing regulatory measures that target specific sectors, deprived people and small borrowers. With the expansion of bank branches in almost all local levels and the use of other banking methods like electronic banking, mobile banking and branchless banking, financial inclusion and access has increased significantly. Financial literacy programs conducted by concerned stakeholders have helped increase the reach and impact of such programs. These programs are expected to increase financial inclusion as well. In addition, concern remains on the urban concentration of financial services, province-wise high concentration of services in Bagmati, and lack of financial education to adapt to evolving financial instruments and technologies.

Payment system is evolving with prominent increase in the use of digital financial services. Several new payment tools such as QR payment, e-money, mobile banking have expanded. The pandemic-fueled acceleration in the use of digital and contactless payments brings both opportunities and challenges to the financial system. On one hand, the shift towards digitization provides opportunities for increasing the inclusion and access to the financial system. On the other hand, risks from the digital sphere pertaining to the safeguard of information, online deception and frauds are also emerging. The increased adoption of digital services may have implications on financial stability. Therefore, the need is to strengthen the oversight function to ensure its robustness.

NRB has implemented monetary, macro prudential and regulatory measures to support the economic recovery after the pandemic, while gradually unwinding forbearances provided during the pandemic. The financial system remains stable amid increased uncertainties. However, the way forward appears challenging due to pressure stemming from tightened financial conditions and weaker macroeconomic fundamentals. First, uncertainty in the global economy may pose overall macroeconomic risk. Second, the growth of restructured/ rescheduled loan indicating potential deterioration of asset quality could put the banking system under pressure if the quality of assets further degrades. Third, slowdown in economic activities may pull down consumer confidence, decrease aggregate demand and prolong the stress in financial market.

Regulators' role in maintaining the financial stability remains crucial to assess the potential risks and adopt policy measures accordingly. Appropriate monetary, macro prudential and regulatory measures have to be adopted in response to changing context. Considering the macro economic situation and build up risks, NRB as well as other regulatory authorities should strengthen their regulatory and oversight function. The regulation of the saving and credit cooperatives requires an urgent attention, given their growing number and complexities.

Annexure

Annex-I
Statement of Assets and Liabilities of Banks & Financial Institutions (Aggregate)

(Rs. in Million)

	Liabilities	mid-July				% Change		
		2019	2020	2021	2022			
		1	2	3	4	2/1	3/2	4/3
1	**Capital Fund**	446,402.47	488,276.68	558,524.98	618,798.37	9.38	14.39	10.79
	a. Paid-up Capital	305,884.91	330,875.79	365,819.74	407,789.21	8.17	10.56	11.47
	b. Statutory Reserves	76,174.07	94,149.87	105,951.44	120,965.44	23.60	12.53	14.17
	c. Retained Earning	4,538.02	4,312.03	12,331.44	10,266.53	(4.98)	185.98	(16.75)
	d. Others Reserves	59,805.48	58,938.99	74,422.36	79,777.19	(1.45)	26.27	7.20
2	**Borrowings**	90,729.26	81,609.57	275,088.70	500,433.52	(10.05)	237.08	81.92
	a. NRB	22,927.12	7,991.88	118,779.11	259,218.39	(65.14)	1,386.25	118.24
	b. "A"Class Licensed Institution	34,285.55	5,392.12	28,829.15	40,169.60	(84.27)	434.65	39.34
	c. Foreign Banks and Fin. Ins.	3,298.50	14,809.97	25,778.84	58,032.58	348.99	74.06	125.12
	d. Other Financial Ins.	3,283.23	1,736.80	1,266.98	6,027.21	(47.10)	(27.05)	375.72
	e. Bonds and Securities	26,934.86	51,678.80	100,434.63	136,985.75	91.87	94.34	36.39
3	**Deposits**	3,354,427.87	3,933,737.54	4,740,065.55	5,159,174.99	17.27	20.50	8.84
	a. Current	311,505.36	401,129.83	490,764.94	465,414.62	28.77	22.35	(5.17)
	b. Savings	1,060,515.82	1,224,189.47	1,592,151.63	1,402,181.57	15.43	30.06	(11.93)
	c. Fixed	1,526,497.38	1,884,401.91	2,213,503.20	2,835,816.75	23.45	17.46	28.11
	d. Call Deposits	417,390.12	387,287.41	396,692.52	391,067.70	(7.21)	2.43	(1.42)
	e. Others	38,519.20	36,728.92	46,953.27	64,694.35	(4.65)	27.84	37.78
4	**Bills Payable**	2,309.25	2,052.75	3,067.30	2,782.19	(11.11)	49.42	(9.30)
5	**Other Liabilities**	303,249.45	385,596.32	418,432.37	424,125.60	27.15	8.52	1.36
	1. Loan Loss Provision	54,893.33	78,604.13	89,593.67	110,299.65	43.19	13.98	23.11
	2. Interest Suspense a/c	20,271.09	27,581.70	20,034.97	19,628.12	36.06	(27.36)	(2.03)
	3. Others	228,085.03	279,410.48	308,803.74	294,197.83	22.50	10.52	(4.73)
6	**Reconcillation A/c**	15,556.11	3,427.13	4,050.18	512.10	(77.97)	18.18	(87.36)
7	**Profit & Loss A/c**	73,518.78	59,044.90	69,757.43	79,497.36	(19.69)	18.14	13.96
Total		4,286,193.20	4,953,744.89	6,068,986.51	6,785,324.13	15.57	22.51	11.80
Assets								
1	**Liquid Funds**	466,278.56	563,629.66	519,339.57	509,990.03	20.88	(7.86)	(1.80)
	a. Cash Balance	92,563.12	110,726.17	116,799.19	111,630.74	19.62	5.48	(4.43)
	Nepalese Notes & Coins	84,640.15	98,161.03	99,422.33	108,250.20	15.97	1.28	8.88
	Foreign Currency	7,922.98	12,565.14	17,376.86	3,380.55	58.59	38.29	(80.55)
	b. Bank Balance	295,862.06	369,615.27	334,151.81	302,877.15	24.93	(9.59)	(9.36)
	1. In Nepal Rastra Bank	215,138.12	294,779.99	273,552.75	220,659.37	37.02	(7.20)	(19.34)
	2. "A"Class Institution	29,035.70	27,140.72	17,905.39	28,862.05	(6.53)	(34.03)	61.19
	3. Other Financial Ins.	13,009.76	3,372.09	3,274.72	6,958.63	(74.08)	(2.89)	112.50
	4. In Foreign banks	38,678.47	44,322.47	39,418.96	46,397.10	14.59	(11.06)	17.70
	c. Money at Call	77,853.38	83,288.22	68,388.56	95,482.14	6.98	(17.89)	39.62
2	**Investments**	375,402.17	534,611.11	732,619.01	911,434.87	42.41	37.04	24.41
	a. Govt.Securities	374,262.09	533,827.15	721,611.59	909,783.42	42.63	35.18	26.08
	b Others	1,140.08	783.96	11,007.41	1,651.45	(31.24)	1,304.07	(85.00)
3	**Share & Other Investment**	186,189.49	171,682.93	214,312.66	186,550.42	(7.79)	24.83	(12.95)
4	**Loan & Advances (Including Bills)**	2,913,969.79	3,273,095.57	4,174,616.04	4,713,536.55	12.32	27.54	12.91
	4.1 Loan & Advances	2,910,510.65	3,270,132.99	4,170,584.21	4,709,049.99	12.36	27.54	12.91
	a. Private Sector	2,819,278.66	3,156,509.39	4,014,771.22	4,493,911.82	11.96	27.19	11.93
	b. Financial Institutions	86,055.92	110,944.67	152,817.56	212,906.72	28.92	37.74	39.32
	c. Government Organizations	5,176.07	2,678.93	2,995.44	2,231.44	(48.24)	11.81	(25.51)
	4.2 Bills Purchased	3,459.14	2,962.58	4,031.82	4,486.57	(14.36)	36.09	11.28
5	**Loan Agt. Collected Bills**	-	-	412.39	951.39	-	-	130.70
6	**Fixed Assets**	71,419.84	78,567.61	82,988.98	95,029.97	10.01	5.63	14.51
7	**Other Assets**	253,948.55	312,752.28	331,101.08	353,787.74	23.16	5.87	6.85
	a. Accrued Interests	46,171.39	152,797.02	171,036.41	199,589.39	230.93	11.94	16.69
	b. Others	207,777.17	159,955.27	160,064.67	154,198.34	(23.02)	0.07	(3.66)
8	**Expenses not Written off**	26.42	188.57	342.13	218.55	613.61	81.43	(36.12)
9	**Non Banking Assets**	5,715.65	7,076.21	7,693.40	10,521.35	23.80	8.72	36.76
10	**Reconciliation Account**	13,167.24	11,715.01	5,153.91	3,240.70	(11.03)	(56.01)	(37.12)
11	**Profit & Loss A/c**	75.47	425.93	407.35	62.56	464.35	(4.36)	(84.64)
Total		4,286,193.19	4,953,744.88	6,068,986.51	6,785,324.13	15.57	22.51	11.80

Annex-II

Profit and Loss Statement of Banks & Financial Institutions (Aggregate)

(Rs. in Million)

	mid-July				% Change		
	2019	2020	2021	2022			
	1	2	3	4	2/1	3/2	4/3
1 Interest Expenses	212,129	232,951	224,341	330,008	9.82	(3.70)	47.10
1.1 Deposit Liabilities	208,274	227,205	215,183	305,976	9.09	(5.29)	42.19
1.1.1 Saving A/c	48,102	53,627	43,601	76,032	11.49	(18.70)	74.38
1.1.2 Fixed A/c	143,530	157,021	166,935	223,748	9.40	6.31	34.03
1.1.2.1 Upto 3 Months Fixed A/c	8,211	7,335	6,631	11,092	(10.68)	(9.59)	67.27
1.1.2.2 3 to 6 Months fixed A/c	10,806	18,168	18,574	31,919	68.14	2.23	71.84
1.1.2.3 6 Months to 1 Year Fixed A/c	72,244	74,620	69,135	99,440	3.29	(7.35)	43.83
1.1.2.4 Above 1 Year	52,269	56,898	72,595	81,297	8.86	27.59	11.99
1.1.3 Call Deposit	16,374	16,291	4,443	6,111	(0.51)	(72.73)	37.55
1.1.4 Certificate of Deposits	268	266	204	85	(0.75)	(23.26)	(58.37)
1.2 Others	3,855	5,746	9,158	24,032	49.04	59.39	162.41
2 Commission/Fee Expense	1,668	1,695	1,735	3,121	1.59	2.36	79.87
3 Employees Expenses	39,312	42,145	48,174	53,727	7.21	14.30	11.53
4 Office Operating Expenses	29,456	32,395	33,544	38,326	9.98	3.55	14.26
5 Exchange Fluctuation Loss	35	6	1	105	(83.89)	(74.82)	7,277.31
5.1 Due to Change in Exchange Rates	26	5	1	34	(81.86)	(74.17)	2,639.35
5.2 Due to Foreign Currency Transactions	9	1	0	71	(89.93)	(78.28)	36,644.30
6 Non-Operatiing Expenses	164	463	89	369	182.54	(80.71)	313.83
7. Provision for Risk	19,852	33,869	39,014	25,497	70.61	15.19	(34.65)
7.1 Loan loss Provision	19,032	33,522	38,874	25,367	76.13	15.96	(34.74)
7.1.1 General Loan loss Provision	8,358	17,257	25,113	12,849	106.46	45.52	(48.83)
7.1.1.1 Pass Loan Loss Provision	6,457	10,921	21,235	8,873	69.12	94.45	(58.22)
7.1.1.2 Watch List Provision	1,901	6,336	3,878	3,976	233.29	(38.80)	2.54
7.1.2 Special Loan Loss Provision	9,623	15,094	13,440	12,088	56.86	(10.96)	(10.06)
7.1.3 Additional Loan Loss Provision	1,051	1,171	321	430	11.40	(72.60)	34.16
7.2. Provision for Non-Banking Assets	481	124	48	13	(74.23)	(60.90)	(72.47)
7.3. Provision for Loss on Investment	147	92	3	98	(37.32)	(96.39)	2,840.70
7.4. Provision for Loss of Other Assets	191	131	88	19	(31.35)	(32.93)	(78.72)
8 Loan Written Off	917	411	814	1,607	(55.19)	97.97	97.46
9 Provision for Staff Bonus	8,857	7,499	9,238	11,766	(15.33)	23.20	27.35
10 Provision for Income Tax	30,505	24,783	30,913	34,273	(18.76)	24.73	10.87
11 Others	21	36	248	7	74.69	593.60	(97.24)
12 Net Profit	74,230	58,924	71,306	83,438	(20.62)	21.01	17.01
TOTAL EXPENSES	417,146	435,177	459,417	582,244	4.32	5.57	26.74
Income	-	-	-	-	-	-	-
1. Interest Income	359,820	378,136	372,972	509,366	5.09	(1.37)	36.57
1.1. On Loan and Advance	335,598	350,654	342,440	464,186	4.49	(2.34)	35.55
1.2. On Investment	13,247	19,023	25,974	38,306	43.60	36.54	47.48
1.2.1 Government Bonds	11,868	17,635	23,335	35,010	48.59	32.33	50.03
1.2.2 Foreign Bonds	195	109	215	341	(44.25)	97.64	59.06
1.2.3 NRB Bonds	620	1,038	589	343	67.49	(43.27)	(41.74)
1.2.4 Deventure & Bonds	565	242	1,835	2,612	(57.16)	658.86	42.30
1.3 Agency Balance	1,064	640	169	174	(39.84)	(73.59)	3.00
1.4 On Call Deposit	6,394	4,459	1,193	1,460	(30.26)	(73.23)	22.31
1.5 Others	3,517	3,360	3,196	5,239	(4.46)	(4.90)	63.95
2. Comission & Discount	18,694	19,439	24,942	27,259	3.99	28.31	9.29
2.1 Bills Purchase & Discount	218	194	228	310	(11.04)	17.68	35.78
2.2 Comission	15,685	15,925	20,920	22,861	1.53	31.37	9.28
2.3 Others	2,791	3,321	3,794	4,088	18.98	14.24	7.75
3 Income From Exchange Fluctuation	10,506	10,780	10,913	8,121	2.61	1.23	(25.58)
3.1 Due to Change in Exchange Rate	1,182	1,320	1,343	1,029	11.70	1.77	(23.41)
3.2 Due to Foreign Currency Trans.	9,324	9,461	9,569	7,092	1.46	1.15	(25.89)
4 Other Operating Income	15,376	11,434	16,789	12,504	(25.64)	46.84	(25.52)
5 Non Operating Income	792	2,353	8,176	3,584	196.94	247.49	(56.17)
6 Provision Written Back	10,302	12,606	24,835	20,530	22.36	97.02	(17.33)
7 Recovery from Written off Loan	995	449	760	669	(54.88)	69.26	(12.00)
8 Income from Extra Ordinary Expenses	635	(98)	12	156	(115.50)	(111.72)	1,252.34
9 Net Loss	26	79	19	56	203.28	(75.98)	197.60
TOTAL INCOME	417,146	435,177	459,417	582,244	4.32	5.57	26.74

Annex-III

Major Financial Indicators of Micro Finance Financial Institutions (Aggregate)

(Rs. in Million)

	Liabilities	mid-July 2019	2020	2021	2022	% change 2/1	3/2	4/3
		1	2	3	5	2/1	3/2	4/3
1	**Capital Fund**	25,503.40	33,423.54	39,092.26	50,333.99	31.06	16.96	28.76
	a. Paid-up Capital	17,077.80	21,495.34	24,739.79	30,093.15	25.87	15.09	21.64
	b. Statutory Reserves	3,531.26	4,813.65	5,802.80	9,012.43	36.32	20.55	55.31
	c. Retained Earning	1,750.02	2,790.30	3,434.37	5,519.88	59.44	23.08	60.72
	d. Others Reserves	3,144.31	4,324.25	5,115.30	5,708.53	37.53	18.29	11.60
2	**Borrowings**	126,378.12	142,094.63	207,349.06	233,581.54	12.44	45.92	12.65
	a. NRB	1,701.16	8.19	8,220.44	22,655.04	-99.52	100236.37	175.59
	b. Others	124,676.96	142,086.44	199,128.62	210,926.50	13.96	40.15	5.92
3	**Deposits**	85,606.23	106,150.20	130,425.41	159,022.78	24.00	22.87	21.93
4	**Bills Payable**	75.28	41.04	10.67	37.58	-45.48	-73.99	252.05
5	**Other Liabilities**	23,664.48	29,558.02	37,482.79	42,123.34	24.90	26.81	12.38
	a. Loan Loss Provision	4,013.07	7,631.05	10,760.37	11,707.88	90.16	41.01	8.81
	b. Interest Suspense a/c	1,800.17	4,002.88	4,175.63	4,726.98	122.36	4.32	13.20
	c. Others	17,851.24	17,924.09	22,546.78	25,688.48	0.41	25.79	13.93
6	**Reconciliation A/C**	5,192.15	8,481.86	19,298.35	22,174.09	63.36	127.52	14.90
7	**Profit & Loss A/C**	6,608.23	5,419.38	11,838.63	12,377.80	-17.99	118.45	4.55
	Total	**273,027.90**	**325,168.67**	**445,497.16**	**519,651.11**	**19.10**	**37.00**	**16.65**
	Assets	-	-	-	-			
1	**Liquid Funds**	19,246.27	30,381.57	28,288.44	20,319.62	57.86	-6.89	-28.17
	a. Cash Balance	214.46	379.46	521.10	371.41	76.94	37.33	-28.73
	b. Bank Balance	13,398.03	16,871.95	17,507.11	10,770.06	25.93	3.76	-38.48
	c. Money at Call	5,633.79	13,130.16	10,260.24	9,178.15	133.06	-21.86	-10.55
2	Investment In Securities Except Shares	311.89	467.56	559.34	761.60	49.91	19.63	36.16
3	**Share & Other Investment**	2,261.72	9,731.83	14,153.18	5,333.90	330.28	45.43	-62.31
4	**Loan & Advances**	235,101.47	262,732.25	365,554.02	449,685.76	11.75	39.14	23.01
	Institutional	38,954.85	39,720.69	54,127.79	90,238.86	1.97	36.27	66.71
	Individual	196,146.62	223,011.56	311,426.23	359,446.90	13.70	39.65	15.42
5	**Fixed Assets**	2,106.88	2,222.72	2,565.38	3,073.10	5.50	15.42	19.79
6	**Other Assets**	8,552.06	11,063.23	15,031.02	18,136.79	29.36	35.86	20.66
7	**Expenses Not Written Off**	10.88	11.08	7.20	3.30	1.87	-34.99	-54.15
8	**Non Banking Assets**	1.34	1.34	1.34	1.34	0.00	0.00	0.00
9	**Reconciliation A/C**	5,390.65	8,469.06	19,324.72	22,175.75	57.11	128.18	14.75
10	**Profit & Loss A/C**	44.73	88.03	12.51	159.96	96.81	-85.79	1178.33
	Total	**273,027.90**	**325,168.67**	**445,497.16**	**519,651.11**	**19.10**	**37.00**	**16.65**

Profit & Loss A/c

	Expenses							
1	**INTEREST EXPENSES**	17,021.80	21,964.54	18,279.40	30,522.15	29.04	(16.78)	66.98
	1.1 Deposit Liabilities	5,111.28	8,068.62	8,526.84	10,282.38	57.86	5.68	20.59
	1.2 On Borrowing	11,910.52	13,895.91	9,752.55	20,239.78	16.67	(29.82)	107.53
2	**Commission/Fee Expenses**	6.69	38.32	16.16	19.98	472.63	(57.81)	23.62
3	**Employee Expenses**	6,299.32	8,757.23	9,378.52	11,857.16	39.02	7.09	26.43
4	**Office Operating Expenses**	2,358.20	2,907.40	3,352.72	4,357.83	23.29	15.32	29.98
5	**Non Operating Expenses**	62.89	140.05	35.69	19.59	122.70	(74.52)	-45.12
6	**Provision For Risk**	1,920.61	6,648.25	17,302.77	5,527.16	246.15	160.26	-68.06
	6.1 Loan loss Provision	1,899.13	6,631.69	17,265.36	5,506.38	249.20	160.35	-68.11
	6.1.1 General Loan loss Provision	1,016.77	3,363.69	4,556.48	1,984.98	230.82	35.46	-56.44
	6.1.2 Special Loan Loss Provision	856.92	3,090.53	11,628.86	2,839.68	260.66	276.27	-75.58
	6.1.3 Additional Loan Loss Provision	25.44	177.47	1,080.02	681.72	597.58	508.55	-36.88
	6.2. Provision for Non-Banking Assets	-	-	-	-	-	-	
	6.3. Provision for Loss on Investment	8.09	0.51	-	1.18	(93.64)	(100.00)	
	6.4. Provision for Loss of Other Assets	13.38	16.05	37.41	19.60	19.92	133.14	-47.61

7	**LOAN WRITTEN OFF**	4.64	5.31	31.08	34.91	14.51	485.19	12.30
8	**Extraordinory Expenses**	1.30	17.96	9.12	18.08	1,279	(49.22)	98.29
9	**Provision For Staff Bonus**	861.36	835.98	1,847.74	1,955.13	(2.95)	121.03	5.81
10	**Provision For Income Tax**	2,544.76	2,353.35	5,069.25	5,462.43	(7.52)	115.41	7.76
11	**Net Profit**	6,248.96	5,393.83	11,829.12	12,376.26	(13.68)	119.31	4.63
	Total Expenses	**37,330.52**	**49,062.22**	**67,151.57**	**72,150.66**	**31.43**	**36.87**	7.44
	Income							
1	**Interest Income**	31,647.10	41,259.05	45,304.11	59,984.89	30.37	9.80	32.40
	1.1 On Loan and Advances	29,153.65	39,362.01	43,760.30	58,457.10	35.02	11.17	33.58
	1.2 On Investment	4.13	12.36	13.19	34.94	199.16	6.71	164.80
	1.5 Others	2,489.32	1,884.67	1,530.61	1,492.85	(24.29)	(18.79)	-2.47
2	**Commission & Discount**	804.88	717.96	1,419.69	1,442.45	(10.80)	97.74	1.60
	2.1 Bills Purchase & Discount	0.02	0.03	0.01	0.03	64.47	(69.53)	288.77
	2.2 Comission	511.54	414.59	717.54	746.96	(18.95)	73.07	4.10
	2.3 Others	293.33	303.34	702.14	695.46	3.41	131.47	-0.95
3	**Other Operating Income**	3,738.78	3,726.39	5,025.34	5,494.65	(0.33)	34.86	9.34
4	**Non Operating Income**	176.22	152.82	270.43	446.27	(13.28)	76.96	65.02
5	**Provision For Written Back**	935.81	3,133.85	15,072.16	4,554.55	234.88	380.95	-69.78
6	**Recovery For Write Back**	2.08	2.22	8.69	6.16	6.73	292.16	-29.10
7	**Income For Extra Ordinary Expenses**	0.03	18.12	48.35	63.28	53,203.70	166.79	30.87
8	**Net Loss**	25.63	51.82	2.81	158.42	102.16	(94.57)	5531.04
	Total Income	**37,330.52**	**49,062.22**	**67,151.57**	**72,150.66**	**31.43**	**36.87**	7.44
	Miscellaneous Information							
	No. of Total Staffs	17,361	19,017	20,872	23,303	9.54	9.75	11.65
	No. of Total Branches	3,629	4,057	4,685	5,134	11.79	15.48	9.58
	No. of Total Centers	274,186.20	310,895.20	362,982.20	428,783.20	13.39	16.75	18.13
	No. of Total Groups	926,624.60	1,039,695.9	1,183,363.6	1,351,729.0	12.20	13.82	14.23
	No. of Total Passive Groups	9,565.00	9,398.00	34,163.00	16,159.00	(1.75)	263.51	-52.70
	No. of Total Members	4,327,991.00	4,686,659.0	5,191,363.0	5,859,530.0	8.29	10.77	12.87
	No. of Total Passive Members	118,044.00	195,311.00	329,895.31	438,040.31	65.46	68.91	32.78
	No. of Total Borrowers	2,679,016.00	2,783,221.8	2,992,068.0	3,303,100.0	3.89	7.50	10.40
	No. of Total Overdue Borrowers	165,984.00	1,001,407.0	764,663.00	382,353.00	503.32	(23.64)	-50.00
	No. of Total Saving Members	4,323,956.80	4,679,986.8	5,193,581.8	5,888,077.0	8.23	10.97	13.37
	Total Saving Amount (Rs million)	101,910.06	106,150.20	130,471.71	159,022.78	4.16	22.91	21.88

Annex-IV
Sector wise, Product wise and Security wise Credit Flow from BFIs (Aggregate)

(Rs. in Million)

	mid-July			mid-July	% Change		
	2019	2020	2021	2022			
Sectorwise	1	2	3	4	2/1	3/2	4/3
Agricultural and Forest Related	157,905	189,981	273,901	336,187	20.31	44.17	22.74
Fishery Related	4,216	5,490	8,956	13,234	30.24	63.13	47.76
Mining Related	7,313	6,454	8,685	8,789	(11.75)	34.58	1.20
Agriculture, Forestry & Bevarage Production Related	510,038	563,969	686,582	733,900	10.57	21.74	6.89
Construction	309,417	347,420	414,030	190,196	12.28	19.17	(54.06)
Electricity,Gas and Water	126,594	161,972	207,797	246,839	27.95	28.29	18.79
Metal Products, Machinary & Electronic Equipment & Assemblage	37,076	46,073	62,562	72,472	24.27	35.79	15.84
Transport, Communication and Public Utilities	93,129	97,603	97,505	100,909	4.80	(0.10)	3.49
Wholesaler & Retailer	615,309	662,828	837,582	947,619	7.72	26.36	13.14
Finance, Insurance and Real Estate	233,847	252,638	337,170	375,243	8.04	33.46	11.29
Hotel or Restaurant	122,122	148,657	183,908	200,494	21.73	23.71	9.02
Other Services	122,900	150,620	177,036	192,913	22.55	17.54	8.97
Consumption Loan	163,819	158,624	233,767	867,483	(3.17)	47.37	271.09
Local Government	1,569	1,583	1,539	1,125	0.89	(2.79)	(26.88)
Others	406,642	472,099	641,727	421,635	16.10	35.93	(34.30)
TOTAL	2,911,897	3,266,012	4,172,747	4,709,039	12.16	27.76	12.85
Productwise							
Term Loan	562,527	718,480	932,079	1,196,841	27.72	29.73	28.41
Overdraft	455,716	488,596	634,300	718,773	7.22	29.82	13.32
Trust Receipt Loan / Import Loan	127,216	138,316	205,638	78,432	8.73	48.67	(61.86)
Demand & Other Working Capital Loan	615,755	702,115	880,234	1,014,048	14.03	25.37	15.20
Residential Home Loan (Up to Rs. 1.5 Crore)	237,959	252,542	298,258	337,799	6.13	18.10	13.26
Real Estate Loan	146,991	163,480	183,538	228,255	11.22	12.27	24.36
Margin Nature Loan	45,417	50,410	106,282	80,508	10.99	110.84	(24.25)
Hire Purchase Loan	180,957	174,058	160,657	157,162	(3.81)	(7.70)	(2.18)
Deprived Sector Loan	177,390	201,610	293,414	335,623	13.65	45.54	14.39
Bills Purchased	3,342	3,304	4,403	3,130	(1.14)	33.28	(28.92)
Other Product	358,628	373,101	473,944	558,470	4.04	27.03	17.83
Total	2,911,897	3,266,012	4,172,747	4,709,039	12.16	27.76	12.85
Collateral wise							
Gold and Silver	38,246	38,427	43,111	52,782	0.47	12.19	22.43
Government Securities	336	465	678	783	38.25	45.85	15.48
Non Governmental Securities	35,873	39,776	87,213	61,272	10.88	119.26	(29.74)
Fixed Deposit Receipts	24,099	20,041	29,313	64,221	(16.84)	46.27	119.08
Own	23,569	19,704	29,081	64,006	(16.40)	47.59	120.09
Other Licences Institutions	530	336	232	215	(36.49)	(31.05)	(7.34)
Collateral of Properties	2,600,225	2,913,947	3,647,609	4,116,123	12.07	25.18	12.84
Fixed Assets	2,206,624	2,489,020	3,118,968	3,538,076	12.80	25.31	13.44
Current Assets	393,601	424,927	528,641	578,047	7.96	24.41	9.35
Against security of Bill	23,281	33,694	47,628	19,623	44.73	41.35	(58.80)
Domestic Bills	2,382	720	556	880	(69.78)	(22.76)	58.24
Foreign Bills	20,899	32,974	47,072	18,744	57.78	42.75	(60.18)
Against Guarantee	100,601	110,038	181,603	195,088	9.38	65.04	7.43
Government Guarantee	2,365	2,666	2,597	2,307	12.73	(2.61)	(11.17)
Institutional Guarantee	77,217	80,995	135,679	136,841	4.89	67.52	0.86
Personal Guarantee	5,846	9,330	26,424	37,037	59.59	183.23	40.16
Collective Guarantee	7,398	8,340	8,130	7,418	12.72	(2.51)	(8.76)
International Rated Foreign Bank's Guarantee	1,662	1,901	1,783	1,509	14.39	(6.20)	(15.36)
Other Guarantee	6,112	6,806	6,990	9,977	11.35	2.70	42.74
Credit Card	1,670	1,748	2,152	3,521	4.62	23.15	63.61
Others	87,565	107,877	133,439	195,625	23.20	23.70	46.60
Total	2,911,897	3,266,012	4,172,747	4,709,039	12.16	27.76	12.85

Annex-V

Major Financial Indicators

As on mid-July, 2022

		Class "A"	Class "B"	Class "C"	Overall
A. Credit, Deposit Ratios (%)					
1	Total Deposit/GDP	93.68	10.50	2.15	106.34
2	Total Credit/GDP	86.22	9.17	1.78	97.17
3	Total Credit/ Total Deposit	92.04	87.33	82.56	91.38
4	CD Ratio	86.43	84.32	85.59	86.22
5	Fixed Deposit/Total Deposit	53.62	64.21	68.63	54.97
6	Saving Deposit/Total Deposit	27.76	23.67	18.99	27.18
7	Current Deposit/Total Deposit	9.98	1.95	1.80	9.02
8	Call Deposit/Total Deposit	7.26	10.13	9.14	7.58
9	NPL/ Total Loan	1.20	1.36	6.23	1.31
10	Total LLP /Total Loan	2.28	2.15	7.29	2.36
11	Deprived Sector Loan/Total Loan $	6.83	11.25	8.16	7.27
B. Liquidity Ratios (%)					
1	Cash & Bank Balance/Total Deposit	8.16	6.35	11.00	8.03
2	Investment in Gov. Securities/Total Deposit	18.01	13.50	21.22	17.63
3	Total Liquid Assets/Total Deposit	27.27	27.14	40.03	27.52
C. Capital Adequacy Ratios (%)					
1	Core Capital/RWA	10.73	10.55	15.64	10.81
2	Total Capital/RWA	13.53	13.10	17.75	13.58
D. Financial Access					
1	No. of institutions	26	17	17	60
2	No. of Branches	5,009	1,118	267	6,394
3	No. of Deposit Accounts	38,892,532	5,436,035	643,402	44,971,969
4	No.of Loan Accounts	1,491,767	295,692	41,585	1,829,044
5	No. of Branchless Banking Centers	1,526	22	-	1,548
6	No. of Branchless Banking Customers	283,351	129	-	283,480
7	No. of Mobile Banking Customers	16,091,464	2,114,559	101,232	18,307,255
8	No. of Internet Banking Customers	1,279,475	394,563	10,272	1,684,310
9	No. of ATMs	4,235	323	44	4,602
10	No. of Debit Cards	10,274,413	538,672	43,272	10,856,357
11	No. of Credit Cards	238,794	-	-	238,794
12	No. of Prepaid Cards	105,121	-	-	105,121

E. Interest Rate(%)

1	**Wt. Avg Interest Rate on Deposit**	**7.41**
	(a) Saving	6.24
	(b) Fixed	10.12
	(c) Call	2.29
2	**Wt. Avg Interest Rate on Credit**	**11.62**

Note:

Bank balance includes money at call

Nominal GDP for 2021/22(P) stands at Rs. 4,851,625 million

Negative core capital has been excluded in calculation of Capital Adequacy Ratios

$ 6 months prior Total Loan has been used to calculate Deprived Sector Lending Ratio

Annex-VI

Composition of Financial Stability Oversight Committee

Name and Designation	Status
Dr. Neelam Dhungana Timsina, Deputy Governor	Chairperson
Mr. Dev Kumar Dhakal, Executive Director, Bank Supervision Department	Member
Mr. Pradeep Raj Poudel, Execuitve Director, Non Bank Financial Institution Supervision Department	Member
Dr. Gunakar Bhatta, Executive Director, Banks and Financial Institution Regulation Department	Member
Dr. Prakash Kumar Shrestha, Executive Director, Economic Research Department	Member
Mr. Revati Prasad Nepal, Executive Director, Micro Finance Supervision Department	Member
Mr. Ramu Paudel, Executive Director, Foreign Exchange Management Department	Member
Mr. Vishrut Thapa, Executtive Director, Financial Institutions Supervision Department	Member
Mr. Guru Prasad Poudel, Executive Director, Payment System Department	Member
Dr. Satyendra Timilsina, Director, Banks and Financial Institutions Regulation Department	Member Secretary
Registrar, Department of Cooperative	Invitee Member
Chairman, Insurance Board	Invitee Member
Chairman, Security Board of Nepal	Invitee Member
Administrator, Employee Provident Fund	Invitee Member
Executive Director, Citizen Investment Trust	Invitee Member
Executive Director, Social security Fund	Invitee Member
Related Sector Experts (maximum 2)	Invitee Member

Composition of Financial Stability Sub-Committee

Name and Designation	Status
Dr. Satyendra Timilsina, Director, Banks and Financial Institutions Regulation Department	Coordinator
Mr. Prahlad Giri, Deputy Director, Economic Research Department	Member
Mr. Prakash Rai, Deputy Director, Payment System Department	Member
Mr. Chandramani Niroula, Deputy Director, Micro finance Institutions Supervision Department.	Member
Mr. Sushil Gyawali, Deputy Director, Bank Supervision Department	Member
Mr. Sachin Raj Piya, Deputy Director, Non- Bank Financial Institutions Supervision Department	Member
Mr. Mani Raj Shrestha, Deputy Director, Foreign Exchange Management Department	Member
Mr. Harishchandra Dhakal, Deputy Director, Financial Institutions Supervision Department	Member
Mr. Subash Acharya, Deputy Director, Banks and Financial Institutions Regulation Department	Member Secretary

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