Financial Stability Report

Fiscal Year 2022/2023

Issue 15

Nepal Rastra Bank

Banks and Financial Institutions Regulation Department

Baluwatar, Kathmandu

June 2024

Disclaimer

This *Fifteenth issue* of the Financial Stability Report is based on the provisional data of Bank and Financial Institutions (BFIs), financial markets, financial infrastructures and other financial institutions as of mid-July 2023. It summarizes the key developments in the Nepalese financial sector with various policy measures taken during the review period. However, more updated selected developments are also reported in the publication.

Data used in the 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 metaphoric judgments. This report, unless, or otherwise stated elsewhere, covers the financial performance and phenomena observed during the fiscal year ended mid-July 2023. All the data and information in this report are retrieved from the NRB depository unless stated.

Nothing herein shall constitute or be considered a limitation upon or waiver of the provisions of existing rules, regulations, and legislations.

Published by:
Nepal Rastra Bank
Central Office
Banks and Financial Institutions Regulation Department
Financial Stability Unit
Baluwatar, Kathmandu, Nepal
Ph: 977 1 5719614
Fax: 977 1 5719613
Email: fsu@nrb.org.np

FOREWORD

Geopolitical unrest, high inflation and elevated debt levels together with the post-pandemic slow economic recovery affected the global financial stability. For central banks around the world, the sharp rise in commodity prices created a trade-off between achieving faster economic growth and taming the heightened inflationary pressures. Tight monetary policy adopted by central banks as a policy response, raised the interest rates to a record high. Although inflation is gradually being contained in most of the economies, global economic activity has suffered due to high inflationary conditions.

Nepal's economy also experienced the spillover effects of these developments in the global economy. At the onset of fiscal year 2022/23, inflationary pressures, the deficit in balance of payments and depleting levels of foreign exchange reserves created pressure on external sector stability. Accordingly, the Government of Nepal and Nepal Rastra Bank took steps along with some macro prudential regulations which helped to contain the imbalances and preserve macroeconomic stability. Recent improvements in economic indicators are encouraging and symbolic of the resilience of our economy and financial system.

The domestic financial system remained sound and resilient despite downside risks to the economic outlook. The financial soundness indicators of Bank and Financial Institutions (BFIs) on capital adequacy, liquidity, leverage stood above the regulatory requirements while the gradual deterioration of asset quality has become a cause for concern. However, the resilience demonstrated by BFIs has reaffirmed the strength and robustness of the banking system to absorb the risks. In this context, the path ahead calls for cautious, proactive and prudent banking regulations in order to continue a higher growth trajectory by maintaining financial stability.

Finally, I would like to appreciate the Financial Stability Oversight Committee, led by the Deputy Governor for their fruitful oversight and Financial Stability Sub-committee for their untiring efforts at the working level to bring out this important publication in coordination with related departments and agencies. I hope this document will provide a comprehensive overview of overall financial stability of the Nepalese financial system.

Thank You,

Maha Prasad Adhikari
Governor

TABLE OF CONTENTS

FOREWORD i

EXECUTIVE SUMMARY ix

CHAPTER I: GLOBAL MACRO- FINANCIAL CONTEXT 1

1.1 Global Macroeconomic Environment 1

1.2 Global Financial Environment and Risks to Financial Stability 2

CHAPTER II: NEPALESE MACRO-FINANCIAL DEVELOPMENTS 4

2.1 Overview of Nepalese Macroeconomic Situation 4

2.2 Overview of Nepalese Financial System 12

2.3 Financial Soundness Indicators 19

2.4 Deposit and Liability Structure of the BFIs 27

2.5 Priority Lending Requirements 28

CHAPTER III: BANK AND FINANCIAL INSTITUTIONS 31

3.1 Commercial Banks 31

3.2 Development Banks 35

3.3 Finance Companies 37

3.4 Microfinance Financial Institutions 44

3.5 Infrastructure Development Bank 46

3.6 Stress Test Results 47

CHAPTER IV: NON BANK FINANCIAL INSTITUTIONS 52

4.1 Cooperatives 52

4.2 National Cooperative Bank Limited (NCBL) 53

4.3 Employees Provident Fund (EPF) 54

4.4 Citizen Investment Trust (CIT) 55

4.5 Remittance Companies and Money Changers 56

4.6 Hire Purchase Companies 56

4.7 Hydroelectricity Investment and Development Company Limited (HIDCL) 57

4.8 Insurance and Reinsurance Companies 58

4.9 Social Security Fund (SSF) 60

CHAPTER V: FINANCIAL MARKETS 61

5.1 Domestic Financial Market 61

5.2 Foreign Exchange Market 68

CHAPTER VI: FINANCIAL INFRASTRUCTURES 71

6.1 Payment System 71

6.2 Credit Information 75

6.3 Deposit and Credit Guarantee Fund 78

6.4 Debt Recovery Tribunal 79

6.5 Anti Money Laundering and Countering the Financing of Terrorism 80

Chapter – VII: FINANCIAL SECTOR DEVELOPMENT 82

7.1 Financial Inclusion and Consumer Protection 82

7.2 Global Policy Developments 87

7.3 Key Policy Changes and Regulatory Actions Implemented for the Financial Sector 89

7.4 Initiatives of NRB to Strengthen Financial System 95

CHAPTER VIII: CONCLUSION 98

ANNEXES 100

REFERENCES 110

LIST OF FIGURES

Figure 2.1: Real GDP Growth Rate Producer's Price 4
Figure 2.2: Sectoral GDP Growth 5
Figure 2.3: Changes in Consumer Price Index 5
Figure 2.4: Government Expenditure and Revenue Growth....6
Figure 2.5: Growth Rate of Exports and Imports 7
Figure 2.6: Foreign Exchange Reserves Situation....7
Figure 2.7: Major Monetary Sector Indicators 8
Figure 2.8: Structure and Trends in the Interest Rate 9
Figure 2.9: Real Interest Rates of Commercial Banks....9
Figure 2.10: Financial Institutions....14
Figure 2.11: Total Assets and Growth rate 15
Figure 2.12: Sectoral Credit Disbursement....16
Figure 2.13: Product wise Lending of BFIs....16
Figure 2.14: Real Estate Lending and Residential Home Loan of BFIs 17
Figure 2.15: Real Estate and Residential Home Loan of BFIs to Total Loan....18
Figure 2.16: Collateral-wise lending 18
Figure 2.17: Capital Adequacy Ratio - Classwise 19
Figure 2.18: Industry Capital Adequacy Ratio 19
Figure 2.19: Classification of NPL....20
Figure 2.20: Composition of NPL 21
Figure 2.21: Credit and Deposit Growth 21
Figure 2.22: ROA and ROE....22
Figure 2.23: Income Distributions....23
Figure 2.24: Liquidity Ratios....24
Figure 2.25: Monthly Base Rate of Commercial Banks 26
Figure 2.26: Spread Rate, Weighted Average Lending and Deposit rate of BFIs 26
Figure 2.27: Liabilities Structure of BFIs....27
Figure 2.28: Deposit Mix of BFIs....28
Figure 2.29: Priority Sector Lending 29
Figure 2.30: Deprived Sector Lending 30
Figure 3.1: Capital Adequacy Ratios of SOBs 32
Figure 3.2: Deposits and Loan of Commercial Banks....33
Figure 3.3: Deposits and Credit of Development Banks 36
Figure 3.4: Deposits and Credit of Finance Companies 38
Figure S35: Banking Stability Map (A class Commercial Banks) 40
Figure S36: Banking Stability Indicator - Contribution of Individual Risk Factors (A class Commercial Banks) 40
Figure S37: Banking Stability Map (B class Development Banks)....41
Figure S38: Banking Stability Indicator - Contribution of Individual Risk Factors (B class Development Banks)....41
Figure S39: Banking Stability Map (C class Finance Companies)....42
Figure S40: Banking Stability Indicator - Contribution of Individual Risk Factors (C class Finance Companies).....42
Figure S41: Banking Stability Map (Banking Industry - A, B and C class)....43
Figure S42: Banking Stability Indicator - Contribution of Individual Risk Factors (BIndustry- A, B and C class)....43
Figure 5.1: Liquidity Injection….61
Figure 5.2: Liquidity Absorption....62
Figure 5.3: Province-wise DMAT Account as of mid-July 2023....66
Figure 5.4: Age-wise DMAT Account as of mid-July 2023....66

Figure 5.5 : Daily Yield on 3 Months US T-Bills....68
Figure 5.6 : Daily Yield on 10 Year US Government Bond....68
Figure 5.7: Brent Crude Oil Price....69
Figure 5.8: Movement of US Dollar Index....69
Figure 5.9: Movement of Nominal Exchange Rate....70
Figure 6.1: Credit Report Subscriptions....76
Figure 6.2: Growth of the Borrowers....76
Figure 6.3: Notices Registered in Secured Transaction Registry....77
Figure 6.4: Total STR Reports Subscribed by the Users....77
Figure 6.5: Deposit Guarantee....78
Figure 6.6: Credit Guarantee....78
Figure 6.7: Review of legal proceedings....79
Figure 6.8: Key Timeline of AML-CFT implementation in Nepal....80

LIST OF TABLES

Table 1.1: Overall Fiscal Balance and Gross Debt as Percentage of GDP……………………………………………2
Table 2.1: Number of Financial Institutions……………………………………………………………………..12
Table 2.2: Structure of the Nepalese Financial Sector (Total Assets) ………………………………………………...13
Table 2.3: Financial Soundness Indicators of BFIs……………………………………………………………….. 24
Table 3.1 Major Financial Indicators of Commercial Banks…………………………………………………………31
Table 3.2: Major Financial Indicators of Development Banks (In percent) ………………………………………......35
Table 3.3: Major Financial Indicators of Finance Companies (In percent) …………………………………………...37
Table S1: Banking Stability Indicator – Composite Index (A, B and C class aggregate) ……………………………44
Table 3.4: Capital Adequacy and Assets Quality……………………………………………………………………..45
Table 3.5: Profitability and Liquidity…………………………………………………………………………………46
Table 3.6: Major Financial Indicators of Infrastructure Development Bank…………………………………………46
Table 3.7: Summary Results of Stress Test of Commercial Banks (mid-July 2023) ……………………………….....49
Table 4.1: Key Indicators of Cooperatives……………………………………………………………………………52
Table 4.2 Key Indicators of NCBL…………………………………………………………………………………....53
Table 4.3: Key Indicators of Employees Provident Fund……………………………………………………………54
Table 4.4: Key Indicators of CIT……………………………………………………...…………………………....55
Table 4.5 Key Indicators of Remittance Companies…………………………………………………………………56
Table 4.6 Key Indicators of Hire Purchase Companies…………………………………………………………......57
Table 4.7 Key Indicators of HIDCL………………………………………………………………………………..57
Table 4.8 Key Indicators of Insurance Companies…………………………………………………………………....58
Table 4.9: Key Indicators of Insurance Companies……………………………………………………………….....59
Table 4.10: Key Indicators of Reinsurance………………………………………………………………………....59
Table 4.11: Key Indicators of SSF……………………………………………………………………………………60
Table 5.1: Securities Market Participants…………………………………………………………………………..63
Table 5.2: Primary Market……………………………………………………………………………………………64
Table 5.3 Secondary Market………………………………………………………………………………………..65
Table 5.4: Investors' Participation in Securities Markets…………………………………………………………..66
Table 6.1: Technical Assessment Rating…………………………………………………………………………....81
Table 6.2: Effectiveness Rating of Nepal……………………………………………………………………………..81
Table 7.1: Grievances Received and Resolved……………………………………………………………………..86
Table 7.2: Policy Developments related to Financial Stability and Resiliency………………………………………87

LIST OF ABBREVIATIONS

ADBL	Agricultural Development Bank Limited
ALPA	Asset (Money) Laundering Prevention Act, 2008
AML	Anti-Money Laundering
APG	Asia Pacific Group on Money Laundering
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
CCD	Credit to Core Capital plus Deposit Ratio
CFT	Combating the Financing of Terrorism
CIB	Credit Information Bureau / Karja Suchana Kendra Limited
CIT	Citizen Investment Trust
DCGF	Deposit and Credit Guarantee Fund
DoC	Department of Cooperatives
EGMONT	The Egmont Group of Financial Intelligence Units
EPF	Employees Provident Fund
FATF	Financial Action Task Force
FICPD	Financial Inclusion and Consumer Protection Division
FINGO	Financial Intermediary Non-Government Organization
FIU-Nepal	Financial Information Unit of Nepal
FY	Fiscal Year
GDP	Gross Domestic Product
GoN	Government of Nepal
HIDCL	Hydroelectricity Investment and Development Company Limited
IMF	International Monetary Fund
INR	Indian Rupees
IPO	Initial Public Offering
IT	Information Technology
JNY	Japanese Yen
LTV	Loan to Value
MFIs	Micro Finance Financial Institutions
ML	Money Laundering
NBL	Nepal Bank Limited
NCBL	National Cooperative Bank Limited
NEPSE	Nepal Stock Exchange Limited

NPLs	Non-Performing Loans
NPR	Nepalese Rupees
NRB	Nepal Rastra Bank
NSO	National Statistics Office
PSO	Payment System Operator
PSP	Payment System Provider
QIB	Qualified Institutional Buyer
QR	Quick Response
RBBL	Rastriya Banijya Bank Limited
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk Weighted Assets
RWE	Risk Weighted Exposure
SEBON	Securities Board of Nepal
SLF	Standing Liquidity Facility
SOB	State owned Banks
SSF	Social Security Fund
USD	US Dollar

EXECUTIVE SUMMARY

1. The global economy is on a path of slow and steady growth. With the gradual normalization of the supply chains, reduction in energy prices, and adoption of tighter polices by central banks, the inflation is at the targeted level in most advanced economies. However, financial fragilities still prevail in the global economy due to the risks stemming from stress in commercial real estate (CRE) prices, sovereign bank nexus and cyber incidents driven by malicious intents. The International Monetary Fund (IMF) forecasts that the global economy will expand by 3.2 percent in 2024, while the advanced, emerging market, and developing economies will expand by 1.7 and 4.2 percent, respectively. Comparably, it is anticipated that the world trade growth will remain at 3.0 percent in 2024, below its historical average growth rate of 4.9 percent, and that the global headline inflation will decrease from 6.8 percent in 2023 to 5.9 percent in 2024.

2. According to the National Accounts Statistics of Nepal, the economic growth stands at 2.31 percent in FY 2022/23. Annual average consumer price inflation increased to 7.7 percent in FY 2022/23. Cautious tightening of monetary policy supported by macro prudential regulations contained the imbalances and preserved the macroeconomic stability. Trade deficit decreased by 15.5 percent to reach Rs. 1454.59 billion which had increased by 23.0 percent in the previous year. The increase in remittance inflows and gross foreign exchange reserves followed by declining imports strengthened the Balance of Payments (BoP) position during the review year. The BoP remained at a surplus of Rs. 290.5 billion in FY 2022/23, compared with a deficit of Rs. 255.3 billion in the previous year.

3. The number of BFIs has been gradually decreasing over the years owing to banks merger and consolidation stance taken by NRB. 28 BFIs were involved in the merger/ acquisition process during the review year. As of mid-July 2023, the total number of BFIs stood at 112 which comprises 20 Commercial Banks, 17 Development Banks, 17 Finance Companies, 57 MFIs, and 1 Infrastructure Development Bank. In addition, 14 life insurance companies, 14 non-life insurance companies, 2 reinsurance companies, 4 micro insurance 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. During the review year, the share of BFIs in the financial system decreased slightly. BFIs comprised of 79.84 percent of the financial system's total assets/ liabilities, which stood at 80.26 percent a year ago. Among BFIs, commercial banks hold the largest share followed by development banks. Likewise, amongst contractual savings institutions, insurance companies held the largest share, followed by the EPF, CIT, and reinsurance companies.

5. Non-bank financial Institutions witnessed an increase in their asset size in the review year. As of mid-March 2022, savings of cooperatives totaled Rs. 478.03 billion while their credit stood at Rs. 462.35 billion. Total assets of insurance companies rose by 9.09 percent in the

review year reaching Rs. 680.91 billion. The total assets of EPF increased by 12.14 percent to Rs.514.98 billion as of mid-July 2023. While the expansion of the non-banking sector is encouraging, concerns regarding the risks associated with the degradation of asset quality of cooperative sector is on the rise.

6. During the review year, sectoral credit distribution in wholesale and retail sector stood at 20.15 percent, Consumption loans stood at 18.98 percent, Agriculture, forestry, and beverage production stood at 16.04 percent, Agriculture and Forest sector stood at 7.57 percent, and finance, insurance and real estate sector stood at 7.49 percent, indicating heavy concentration of loans in these sectors.

7. Financial soundness indicators of BFIs remained sound. The average capital to risk-weighted assets ratio remained above the regulatory minimum. However, the capital adequacy ratios are on a declining trend. At the end of mid-July 2023, capital adequacy ratio (CAR) of commercial banks, development banks, and finance companies stood at 13.37 percent, 13.21 percent, and 17.01 percent respectively. The non-performing loan to total loans of BFI's increased from 1.31 percent to 3.02 percent during the review year. The non-performing loans (NPL) ratio of commercial banks increased from 1.20 percent to 2.98 percent and that of development banks and finance companies increased from 1.36 percent and 6.23 percent to 2.49 percent and 7.60 percent respectively. Despite the soundness of financial indicators, as per stress test results, there seems some level of vulnerability in the BFIs' balance sheet during stressful scenarios.

8. Credit growth from BFIs decreased to 3.48 percent in the review year compared to a growth of 12.91 percent a year ago while deposit mobilization of BFIs increased by 11.86 percent in the review year compared to a growth of 8.84 percent a year ago. Profitability of the BFIs decreased in the review year compared to the previous year. Net profit of the BFIs stood at Rs.76.99 billion in the FY 2022/23 in comparison to Rs.83.44 billion in the previous fiscal year, recording a decrease of 7.73 percent.

9. The total liquid assets to deposit ratio of BFIs stood at 27.10 percent in mid-July 2023 compared to 27.52 percent in the previous year. Net liquid assets to total deposit ratios of BFIs stood at 29 percent in mid-July 2023 compared to 29.56 percent in the same period of the previous year. Net liquid assets to total deposits ratio stood well above the regulatory requirement of at least 20 percent.

10. Market conduct regulations, which include the interest spread and base rate plus premium framework, ensured the dual goals of safeguarding financial consumers and promoting healthy competition. The average of monthly base rates of commercial banks in the review year stood at 10.32 percent which was 8.32 percent a year ago. Similarly, commercial banks' overall interest spread increased gradually and reached 4.44 percent in mid-July

2023. The spread rates for finance companies and development banks stood at 4.56 percent and 4.59 percent, respectively.

11. The composite index of banking stability indicator (A, B and C class aggregate) has increased steadily from 0.40 in mid-July 2022 to 0.69 in mid-Jan 2024. The surge in the index depicts an increased level of overall risk in banking stability. Liquidity risk and efficiency risk is gradually decreasing. However, risk in asset quality, soundness and sensitivity is increasing over the period requiring more prudential and supervisory actions.

12. US dollar appreciated in the global market as the Federal Reserve tightened its monetary policy. As a result, during FY 2022/2023, the value of the Nepali rupee fell by 2.79 percent against the US dollar. In mid-July 2023, the value of one US dollar was Rs. 131.17, while in mid-July 2022, it was Rs. 127.51.

13. As of mid-July 2023, 10 institutions licensed as Payment System Operators (PSOs) and 27 institutions licensed as Payment Service Providers (PSPs) are in operation. The use of digital modes of payments like large value payment system (RTGS system) and retail payment systems such as faster payment systems (connect IPS, Fonepay IBFT), QR-based payment, mobile banking, internet banking, cardless cash withdrawal, point-of-sale (POS) is on an increasing trend.

14. Financial inclusion and access have increased in the nation as a result of policy initiatives such as the mandate to open a commercial bank branch in every local level, the requirement to lend to the deprived sector, and specifically to certain prioritized sectors. Commercial banks have made their presence, offering services to 752 local levels out of 753. Consequently, the total number of branches of the BFIs reached 11,589 as of mid-July 2023.

CHAPTER I: GLOBAL MACRO- FINANCIAL CONTEXT

1.1 Global Macroeconomic Environment

The global economy, which was significantly impacted by the COVID-19 pandemic, is gradually recovering and regaining stability. The spillovers of supply chain disruption by COVID-19 and the Russia-Ukraine conflict led energy and consumer prices to substantially increase globally and pressured the central banks around the world to raise interest rates and use instruments to absorb liquidity from the market. Emerging market economies also raised interest rates to combat inflation and prevent sharp currency depreciation. With the timely implementation of prudent policies, the global economy is on a path of steady but slow economic growth followed by declining inflation.

1.1.1 Global Economic Growth and Inflation

Global economy remains resilient with steady growth. As per the world economic outlook (April 2024) by the International Monetary Fund (IMF), the world economy is projected to grow by 3.2 percent in 2024 and 2025. The growth of advanced economies, and emerging market and developing economies is projected to be 1.7 percent and 4.2 percent respectively in 2024. The projections of slowing down of economies indicate the emerging challenges to the path of the economic recovery.

Inflation is in a declining trend and returning to its targeted level. The global headline inflation is expected to fall from 6.8 percent (estimated annual average) in 2023 to 5.9 percent in 2024 (International Monetary Fund, 2024). IMF has projected advanced economy's inflation to remain at 2.6 percent in 2024, and inflation in emerging and developing economies to be 8.3 percent in 2024. The normalization of the supply chain, reduction in energy prices, and policy tightening by central banks are the primary reasons of disinflation. Although global inflation is subsiding gradually, geopolitical tensions including the Russia-Ukraine war and the Israel-Palestine conflict still poses downside risks regarding inflation in the advanced economies and the world at large.

1.1.2 Trade

Trade growth is expected to be subpar as uncertainty looms. The contraction in global demand has influenced the global trade. The world trade growth is projected to stay at 3.0 percent in 2024 and 3.3 percent in 2025 which is below its historical average growth rate of 4.9 percent. Global trade levels are anticipated to be affected by growing trade distortions and geo-economic fragmentation. The Global Trade Alert data shows that countries increased their trade restrictions by approximately 3,200 in 2022 and another 3,000 in 2023, compared to about 1,100 in 2019 (International Monetary Fund, 2024). However, the growth in goods and services of world trade volume is projected to be 3.0 percent in 2024. The growth in goods and services of trade volume in 2024 is projected to be 2.0 percent in advanced economies and 4.9 percent in in emerging and developing economies. At this juncture, the environment for global trade is expected to remain stable, in line with the global output.

1.1.3 Fiscal Balance and Public Debt

Persistent fiscal deficit keeps public debt levels elevated. The global fiscal balance and public debt levels continue to deteriorate in 2024. The overall fiscal balance has been projected to reach -4.4 percent of GDP in advanced economies, -6.85 percent in emerging Asian economies, and -3.65 percent in low-income developing economies in 2024 (Table 1.1). Likewise, public debt is projected to follow the similar trend. The public debt is projected to be 111.2 percent of GDP in advanced economies, 82.4 percent of GDP in emerging Asian economies, and 51.83 percent of GDP in low-income developing economies.

Table 3.1: Overall Fiscal Balance and Gross Debt as Percentage of GDP

Economies	Overall Fiscal Balance				Gross Debt			
	2021	2022	2023	2024	2021	2022	2023	2024*
Advanced Economies	-7.17	-3.15	-5.57	-4.4	116.19	111.2	110.97	111.2
Advanced Euro Area	-5.3	-3.6	-3.4	-2.7	94.8	91.0	89.6	89.9
Emerging Asia	-6.27	-7.18	-6.74	-6.85	70.86	74.22	78.99	82.4
Emerging Europe	-1.71	-2.36	-4.33	-4.02	34.42	31.92	33.9	36.24
Low-Income Developing Countries	-4.64	-4.49	-4.02	-3.65	49.22	50.5	53.24	51.83

Source: (International Monetary Fund, Overall Fiscal Monitior, April 2024)
*IMF Projection

1.2 Global Financial Environment and Risks to Financial Stability

As disinflation moves into its final stages, the short-term threats to the stability of the global financial system have decreased, but the medium-term risks are growing. The Global Financial Stability Report (GFSR) of April 2024 states the stress in commercial real estate (CRE) prices, sovereign bank nexus and cyber incidents with malicious intents are rising concerns for macro financial stability. In addition to these risks, the escalation of the geopolitical risks and banking turmoil further escalates the financial fragilities. In this context, in order to preserve the existing resilience and stability, authorities should strengthen efforts to contain debt vulnerabilities and adopt proactive supervisory and regulatory approach so that the risks originating from these exposures will be tamed effectively. On the other side, central banks should adopt a more neutral posture on monetary policy as global disinflation is nearing its end. However, as disinflation and economic growth vary throughout nations and regions, monetary policy should take into account the unique conditions of each one.

The global financial condition deteriorated in 2024 compared to 2023. The standard deviation in the long-run average of GFSR's global financial index measuring the cost of funding at the capital market remained negative for the USA and the Euro area, with a -1.5 and -0.5 respectively in 2024 (IMF, 2024). The index was recovering very quick post-Covid19 pandemic, between 2021 Q2 to 2022 Q2, and continued to deteriorate except for China. The major drivers of such tighter financial conditions have been identified to be the banking turmoil of 2022 in the USA and Europe, assets valuation, and higher interest rates. Nevertheless, the GFSR warns the EMEs as still vulnerable to the tightened financial conditions from advanced and Eurozone economies. This in turn calls economies to be cautious while easing their monetary policy. On the other side, for the majority of asset classes, volatility has dropped to multiyear lows, probably indicating growing confidence that the global cycle of rate hikes is almost over. The lower volatility obscured the reality that, compared to previous cycles, financial conditions are now more sensitive to announcements of economic data, particularly inflation. Significant inflation surprises have the potential to drastically alter investor mood, quickly depress asset price volatility, and trigger simultaneous price reversals across connected markets, all of which would lead to a sharp tightening of financial conditions.

CHAPTER II: NEPALESE MACRO-FINANCIAL DEVELOPMENTS

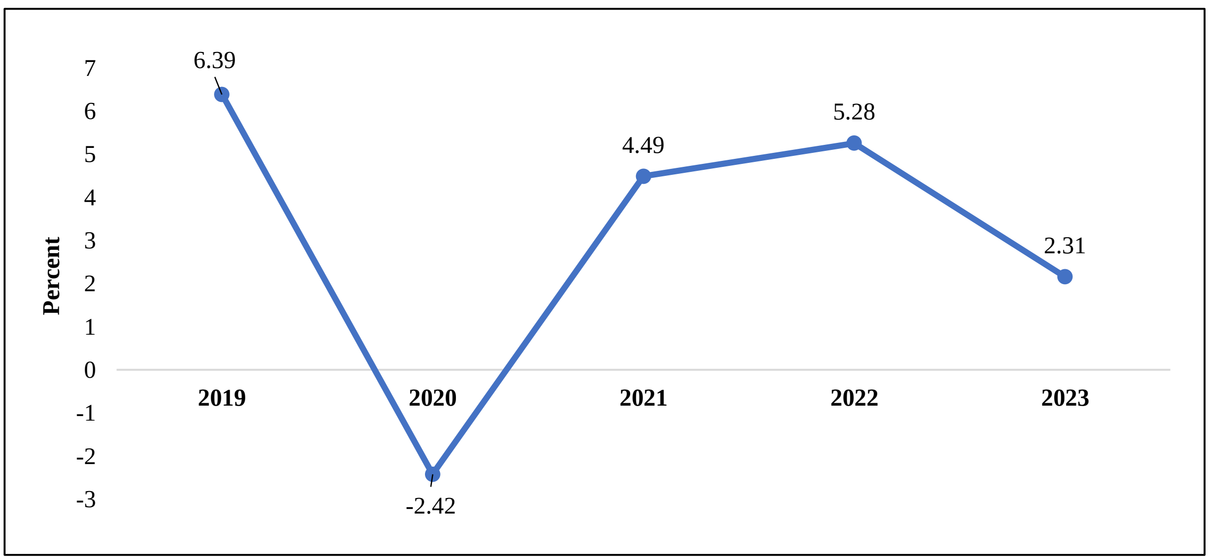
2.1 Overview of Nepalese Macroeconomic Situation

Nepal's economy is on its way of recovery amidst the turbulent macro-financial spillovers. Nepal witnessed pressure on the external sector on the backdrop of policy relaxations while supporting economic recovery in and after the COVID crisis. Consumer price inflation also sharply rose. Structural liquidity shortage stressed the banking sector. The external sector began to recover from the first quarter of 2022/23 due to a stricter monetary policy and high levels of remittance inflows. However, public finances still remain under stress. The sectoral summary has been discussed below.

2.1.1 Economic Growth

Nepal's economic growth remained sluggish in FY 2022/23. According to the National Accounts Statistics of Nepal, the economic growth stands at 2.31 percent in FY 2022/23 compared to a growth of 5.28 percent a year ago (Figure 2.1). Electricity generation and tourism mainly contributed to the growth in the review year.

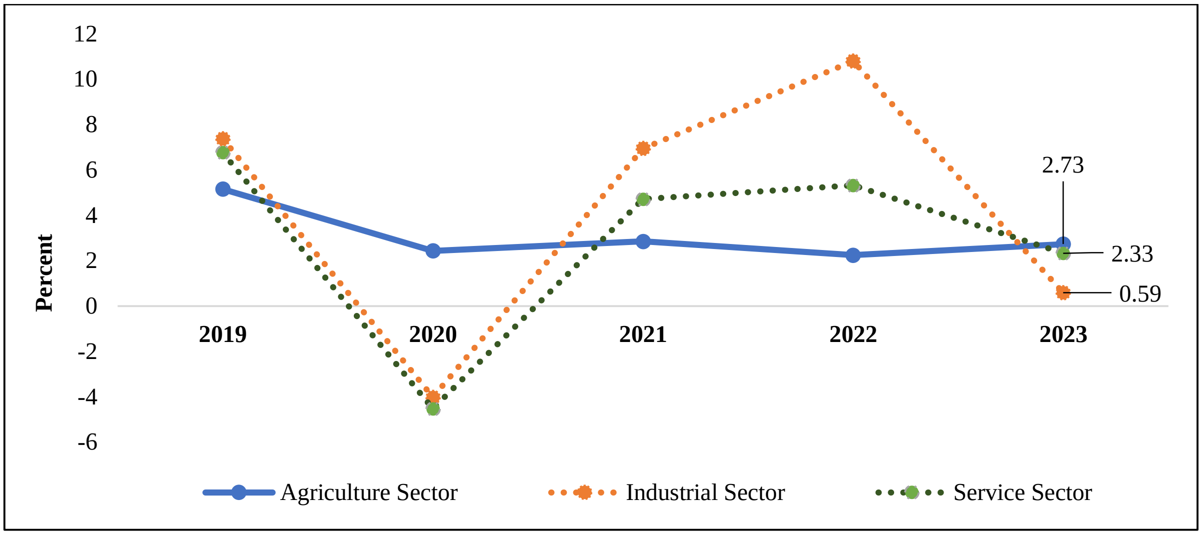
Figure 2.1: Real GDP Growth Rate (Producer's Price)



Source: National Statistics Office (2023)

The agriculture sector performed better than the non-agriculture sector in FY 2022/23. While the agriculture sector grew at 2.7 percent, the non-agriculture sector grew at 2.1 percent, compared to a growth of 2.2 percent and 6.7 percent respectively in the previous year. Industrial sector's growth remained weak within the non-agriculture sector (Figure 2.2).

Figure 2.2: Sectoral GDP Growth

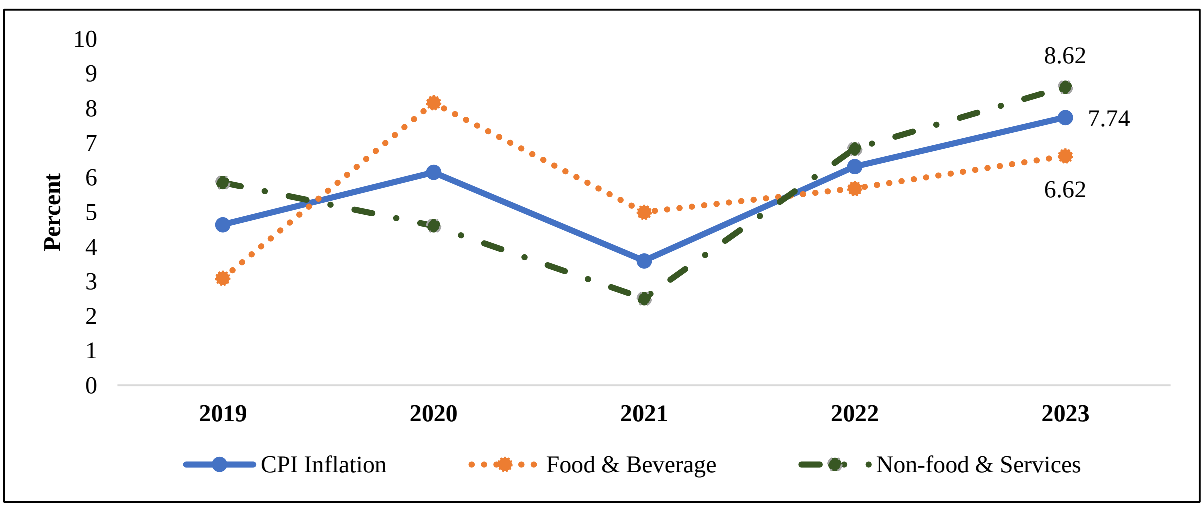


Source: National Statistics Office (2023)

2.1.2 Inflation

Consumer price inflation continued to rise, with non-food inflation remaining at the higher side. The annual average consumer price inflation remained at 7.7 percent in FY 2022/23, compared to 6.3 percent a year ago. The inflation which rose in the post-Covid-19 pandemic continued its upward trend in FY 2022/23. The non-food inflation remained under stress compared to food inflation, mainly driven up by surging energy prices. The annual average food and beverage inflation stood at 6.6 percent in FY 2022/23 compared to 5.7 percent a year ago, while the non-food inflation stood at 8.6 percent, compared to 6.8 percent a year ago (Figure 2.3).

Figure 2.3: Changes in Consumer Price Index

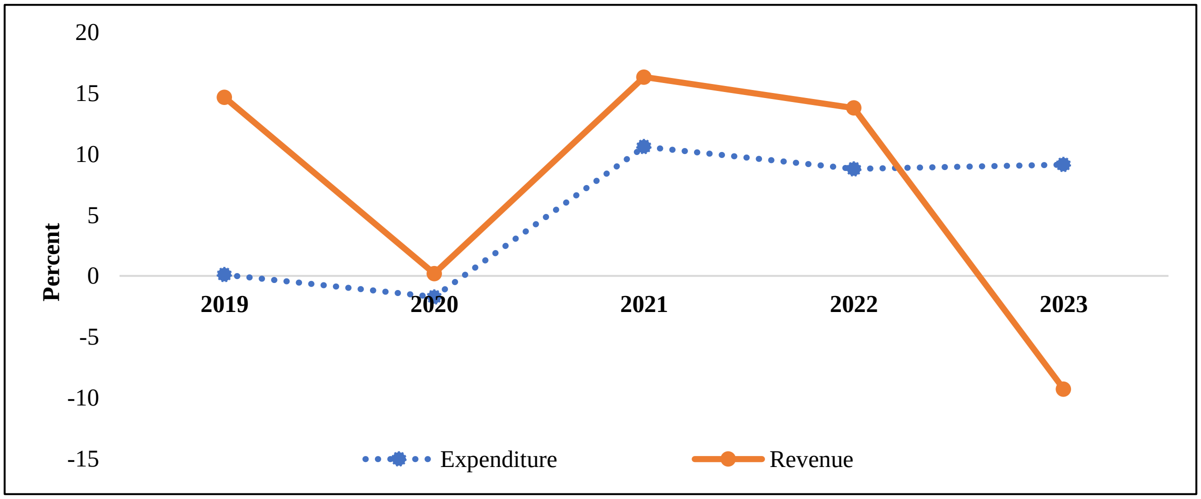


Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2023

2.1.3 Government Finance

The government finance remained under stress in FY 2022/23. In FY 2022/23, the fiscal position of the Government of Nepal (GoN), stood at a deficit of Rs. 486.9 billion based on banking transactions, compared to a deficit of Rs. 263.7 billion in the previous year. In the review year, government revenue decreased by 10.24 percent (based on banking transactions) to Rs. 957.2 billion compared to an increase of 13.9 percent in the previous year (Figure 2.4). The total government expenditure increased by 9.15 percent to Rs. 1377.9 billion in FY 2022/23 compared to an increase of 8.8 percent in previous fiscal year.

Figure 2.4: Government Expenditure and Revenue Growth



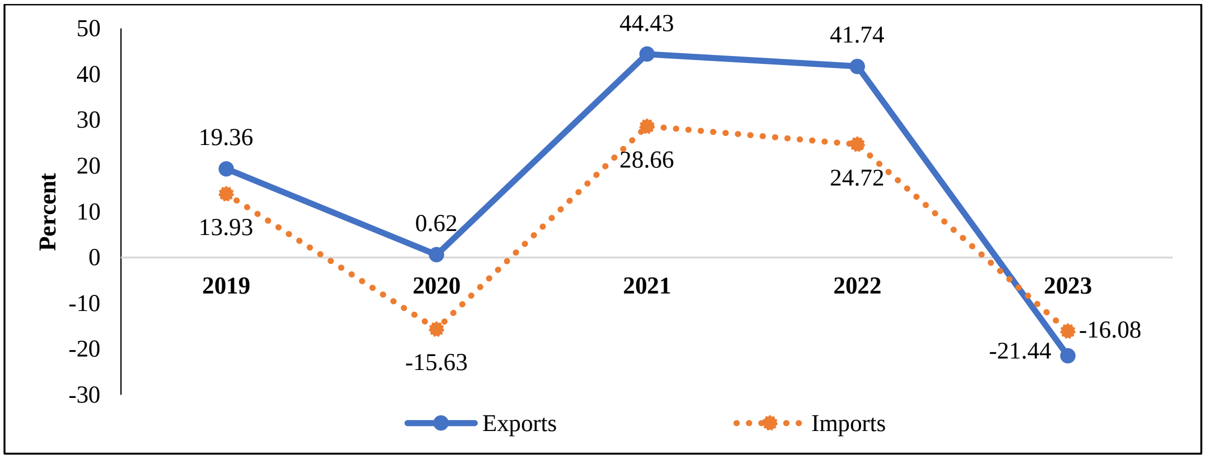
Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2023

The rise of government spending and fall in revenue collection has increased the budget deficit and borrowing resulting in the increase of government debt. As a result, government debt to GDP ratio has maintained record highs each passing year. Domestic debt increased by 4.2 percent to reach NRs. 1,025 billion and foreign debt increased by 4 percent to reach NRs. 1,170 billion in FY 2022/23. The total government debt increased to 42.7 percent of GDP in FY 2022/23 compared to 40.7 percent of GDP in the previous fiscal year.

2.1.4 External Sector

Nepal's external position has strengthened as a result of prudent regulations. After facing pressure in FY2021/22, the external sector has witnessed some improvement. The withdrawal of the policy measures introduced during the COVID period, tightening of monetary policy and import restrictions on select items in response to the loss of foreign exchange reserves, contracted the aggregate demand. During FY 2022/23, merchandise exports also decreased by 21.4 percent to reach Rs. 157.14 billion against increase of 41.7 percent in the previous fiscal year. Likewise, merchandise imports decreased by 16.1 percent to reach Rs. 1611.73 billion compared to an increase of 24.7 percent a year ago. With the decline in the trade volume of imports and exports, the trade deficit decreased by 15.5 percent to reach Rs. 1454.59 billion which was 23.0 percent in the previous fiscal year.

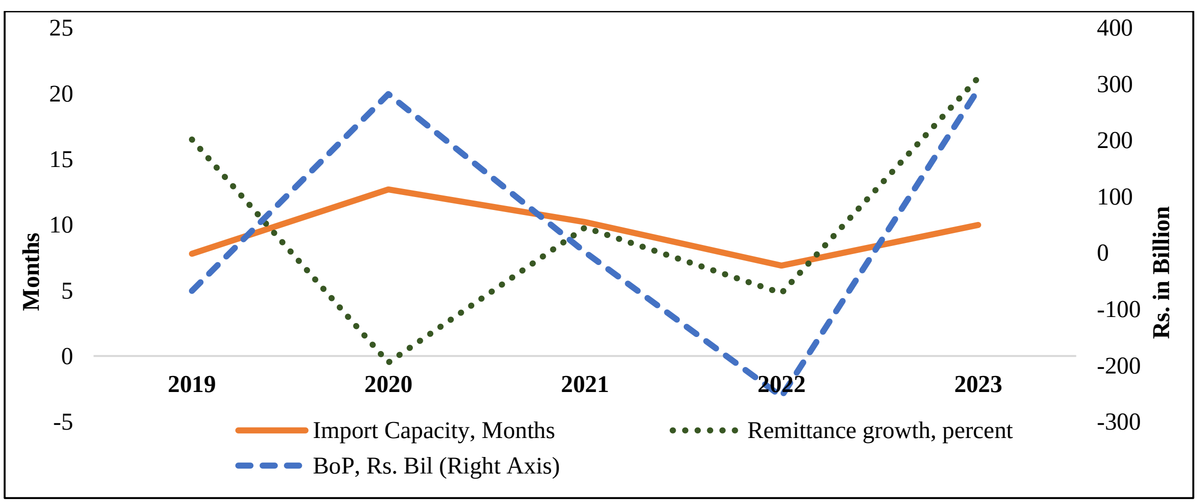
Figure 2.5: Growth Rate of Exports and Imports



Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2023

Remittance inflows and declining imports helped to strengthen the external sector. Remittance inflows increased 21.2 percent in FY 2022/23 to reach Rs. 1220.56 billion compared to 4.8 percent in the previous fiscal year. As a result, the gross foreign exchange reserves increased 26.6 percent to reach Rs. 1,539.36 billion in mid-July 2023, increasing the merchandise goods and services import capacity to 10 months from 6.9 months in mid-July 2022 (Figure 2.6). The BoP remained at a surplus of Rs.290.5 billion in FY 2022/23, against the deficit of Rs.255.3 billion in the previous year.

Figure 2.6: Foreign Exchange Reserves Situation



Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2023

2.1.5 Monetary Sector

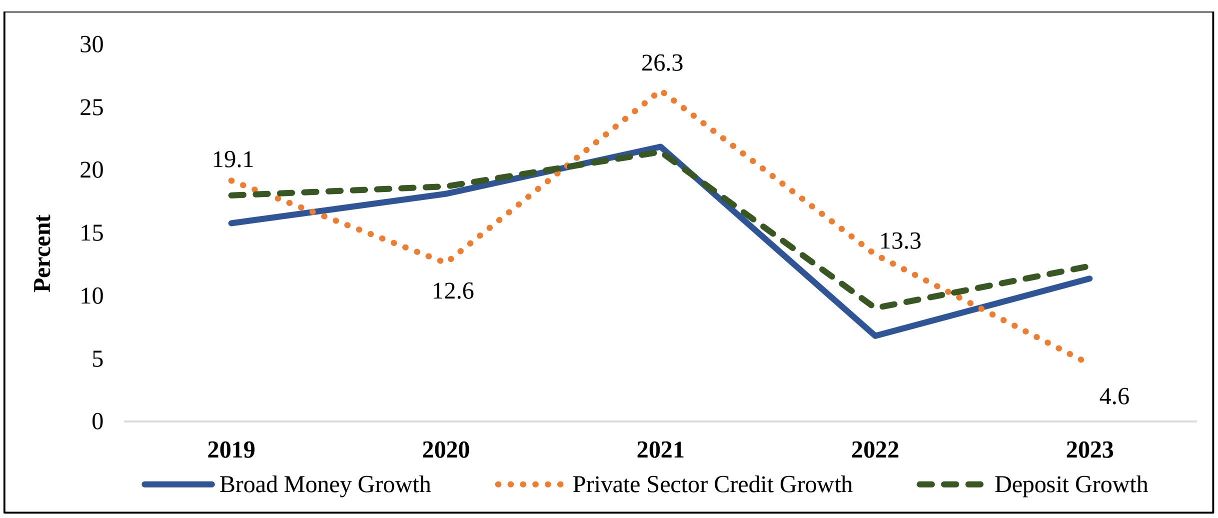
2.1.5.1 Money Supply, Deposit, and Credit

The monetary sector witnessed improvements in money supply, liquidity, and interest rates. The broad money grew 11.4 percent in FY 2022/2023 compared to 6.80 percent in the previous fiscal year. However, credit flow remained sluggish with the private sector credit growth of 4.6 percent in FY 2022/2023, compared to 13.3 percent in the previous fiscal year. Domestic credit increased by 8.73 percent compared to 14.45 percent increase in the previous fiscal year. Reserve money increased by 10.41 percent compared to the decrease by 11.37 percent in the previous fiscal year. The total deposits of banks and financial institutions grew by 12.34 percent compared to 9.01 percent increase in the previous year (Figure 2.7).

2.1.5.2 Liquidity Management

Open Market Operations has helped manage liquidity. NRB absorbed liquidity of Rs. 108.2 billion through open market operations in FY 2022/23. As a result, net liquidity injection stood Rs. 5,518.19 billion for the review year, which was Rs. 9,642.41 billion in the previous fiscal year. The interbank transactions of commercial banks amounted to Rs. 3,942.15 billion out of total interbank transactions amounting Rs. 4294.22 billion. These transactions were Rs. 2,784.09 billion and Rs. 3,100.35 billion respectively during the previous year. NRB, on the turnover basis, availed liquidity of Rs. 5,518.19 billion in FY 2022/23 through the Standing Liquidity Facility (SLF) and Overnight Liquidity Facility (OLF). Banks have used liquidity of Rs. 2,727.11 billion under SLF in FY 2022/23, which was Rs. 9,170.11 billion in the previous fiscal year. Similarly, banks have used the liquidity of Rs. 2,286.9 billion under OLF in FY 2022/23, which was introduced in January 2023.

Figure 2.7: Major Monetary Sector Indicators

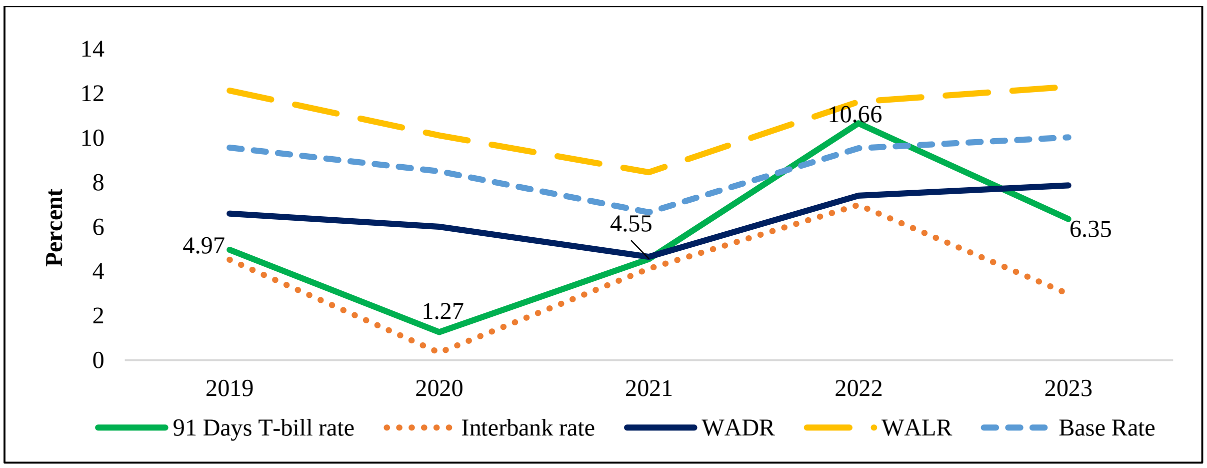


Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2023

2.1.6 Interest Rates

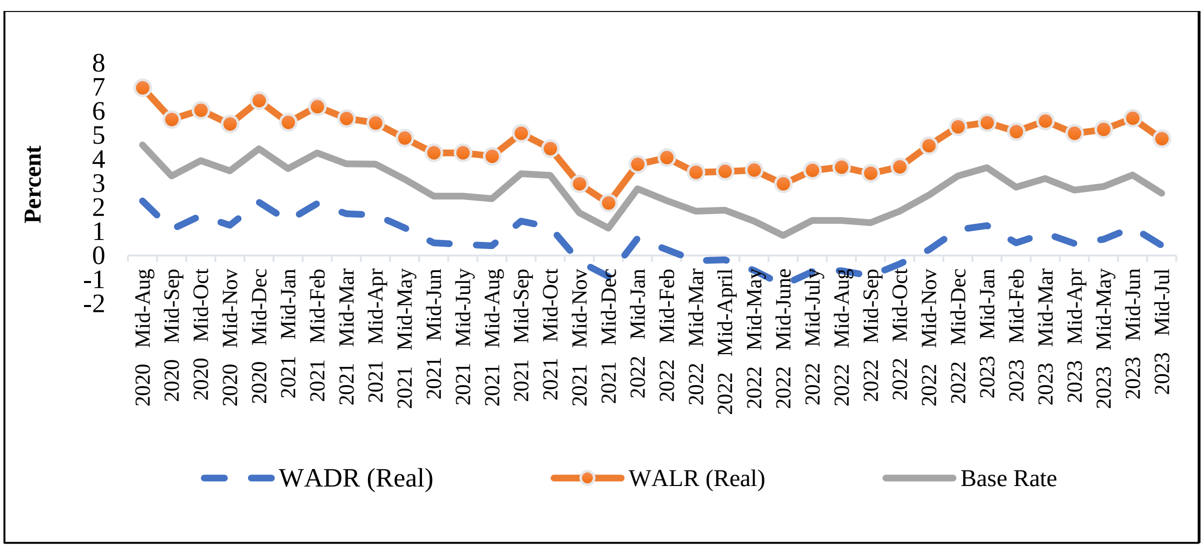
Interest rates are declining, and the base rate is expected to decrease further. The interest rate started to fall persistently from the third quarter of FY 2022/23 in response to the BoP surplus and sluggish credit demand. The short-term interest rates, both weighted average interbank rate and 91-day's T-bill rate remained at 2.98 percent and 6.35 percent respectively in mid-July 2023, compared to 6.99 percent and 10.66 percent a year ago. In FY 2022/23, the base rate showed an upward trend in mid-July 2023, aligning with the weighted average deposit and lending rates (Figure 2.8). However, due to improving liquidity, long-term rates are expected to decrease in FY 2023/24.

Figure 2.8: Structure and Trends in the Interest Rate



Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2023

Figure 2.9: Real Interest Rates of Commercial Banks



Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2023

Real weighted average deposit rate of commercial banks started to increase and turned positive from the 2nd quarter of the review year. Real weighted average deposit rate, lending rate, and base rate remained 0.42 percent, 4.86 percent, and 2.59 percent respectively in mid-July 2023, compared to the negative 0.67 percent, 3.54 percent, and 1.46 percent respectively a year ago.

Box 1: Recent Macroeconomic Development

This box summarizes the recent macroeconomic development of 2023/24.

- National Statistics Office (NSO) has estimated economic growth of 3.54 percent in FY 2023/24. Such growth was 2.31 percent in FY 2022/23 and 5.28 percent in FY 2021/22.
- The y-o-y consumer price inflation remained at 4.61 percent in mid-April 2024 compared to 7.76 percent a year ago.
- During the nine months of 2023/24, total expenditure of the federal government according to data of Financial Comptroller General Office (FCGO), Ministry of Finance, stood at Rs.909.39 billion, the recurrent expenditure, capital expenditure and financial management expenditure amounted to Rs. 644.03 billion, Rs. 97.38 billion and Rs. 167.99 billion respectively in the review period. Such expenditures were Rs. 706.77 billion, Rs. 107.24 billion, and Rs. 129.04 billion during the same period of the previous year.
- During the nine months of 2023/24, merchandise exports decreased 3.7 percent to Rs.113.95 billion against a decrease of 26.3 percent in the same period of the previous year.
- Balance of Payments (BOP) remained at a surplus of Rs. 365.16 billion in the review period compared to a surplus of Rs. 174.28 billion in the same period of the previous year.
- Gross foreign exchange reserves increased 24.2 percent to Rs. 1911.86 billion in mid-April 2024 from Rs. 1539.36 billion in mid-July 2023. Based on the imports of nine months of 2023/24, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 15 months, and merchandise and services imports of 12.5 months.
- Private sector credit from BFIs increased Rs. 222.21 billion (4.6 percent) in the review period compared to an increase of Rs. 161.98 billion (3.5 percent) in the corresponding period of previous year. Deposits at Banks and Financial Institutions (BFIs) increased Rs. 409.04 billion (7.2 percent) in the review period compared to an increase of Rs. 355.89 billion (7 percent) in the corresponding period of the previous year.
- In this period, NRB injected Rs. 795.21 billion liquidity on turnover basis of which Rs. 1.2 billion was through standing liquidity facility (SLF) and Rs. 794.01 billion through overnight liquidity facility (OLF).
- In this period, BFIs interbank transactions amounted Rs. 3508.04 billion on turnover basis including Rs. 3186.44 billion inter-bank transactions among commercial banks.
- The average base rate of commercial banks decreased to 8.51 percent in the 9th month of 2023/24 from 10.48 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 6.53 percent and 10.55 percent respectively in the review month. Such rates were 8.26 percent and 12.84 percent respectively a year ago.
- NEPSE index stood 2025.71 points in mid-April 2024 compared to 1934.48 points a year ago. Stock market capitalization in mid-April 2024 stood at Rs. 3212.01 billion compared to Rs. 2818.16 billion in mid-April 2023.

2.2 Overview of Nepalese Financial System

2.2.1 Structure of the Overall Financial System

The financial system of Nepal consists of Banks and Financial Institutions, Insurance Companies, Securities market, non-banks financial institutions such as Employees Provident Fund (EPF), Citizen's Investment Trust (CIT), Social Security Fund (SSF), Deposit and Credit Guarantee Fund (DCGF) and Credit Information Bureau (CIB) and Cooperatives. Nepal Rastra Bank (NRB) regulates bank and financial institutions, which comprises commercial banks, development banks, finance companies, micro finance institutions and infrastructure development bank. 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, qualified institutional investors, securities dealers, and depository participants. Likewise, insurance companies and cooperatives fall under the jurisdiction of Nepal Insurance Authority and the Department of Cooperatives (DoC) respectively.

Table 4.1: Number of Financial Institutions

Banks and Financial Institutions	**2019**	**2020**	**2021**	**2022**	**2023**
Commercial Banks	28	27	27	26	20
Development Banks	29	20	18	17	17
Finance Companies	23	22	17+	17+	17+
Microfinance Financial Institutions	90	85	70	65	57
Infrastructure Development Bank	-	1	1	1	1
Total	**170**	**155**	**133**	**126**	**112**
Insurance Companies					
Life Insurance Companies	19	19	19	19	14
Non-Life Insurance Companies	20	20	20	19	14
Reinsurance Company	1	1	2	2	2
Micro Life Insurance Companies	-	-	-	-	2
Micro Non-Life Insurance Companies	-	-	-	-	2
Total	**40**	**40**	**41**	**40**	**34**
Securities Market					
Stock Exchange	1	1	1	1	1
Central Depository Company	1	1	1	1	1
Stock brokers	50	50	50	50	50
Merchant Bankers	30	32	30	30	30
Mutual Funds	9	14	15	18	18
Credit Rating Agencies	2	2	2	3	3
Depository Participants	72	76	79	81	83
ASBA BFIs	52	52	52	49	50
Qualified Institutional Investors	-	-	87	116	116

Stock Dealers	-	-	1	1	1
Total	**93**	**100**	**187**	**220**	**223**
Other Non-Bank Financial Institutions					
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	1
Total	3	4	4	4	4
Financial Infrastructure					
Deposit and Credit Guarantee Fund	1	1	1	1	1
Credit Information Center Limited	1	1	1	1	1
Total *	**308**	**301**	**359**	**392**	**375**

* 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 2018/19.

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

Institutions					*(Rs. in Billion)*
	2019	**2020**	**2021**	**2022**	**2023**
Commercial Banks	3,687.33	4,413.57	5420.35	6020.6	6465.9
Development Banks	486.31	413.42	521.95	612.7	669.9
Finance Companies	112.54	126.75	126.68	152.0	155.2
Microfinance Financial Institutions	273.02	325.16	445.5	519.7	507.7
Infrastructure Development Bank	13.15	13.97	24.42	26.4	29.1
Cooperatives	491.93	383.14	383.14	383.1	383.1#
Employees Provident Fund	346.64	388.71	444.47	459.0	515.0
Citizen Investment Trust	148.9	180.71	197.67	247.5	265.6
Insurance Companies	347.15	437.32	542.65	624.1	680.9
Reinsurance Company	12.14	15.09	29.33	38.2	41.3
Social Security Fund	-	28.96	38.69	54.7	54.7
Total	**5,905.96***	**6,726.80**	**8174.85**	**9138.1**	**9768.4**
Market capitalization (NEPSE)	1,567.50	1,792.76	4010.96	2869.34	3082.52
Total (incl. market capitalization)	**7,473.43**	**8519.56**	**12185.8**	**12007.4**	**12850.9**
Percentage Share (Excluding NEPSE Market Capitalization)					
Commercial Banks	62.26	65.65	66.31	65.88	66.19
Development Banks	8.21	6.14	6.38	6.71	6.86
Finance Companies	1.9	1.83	1.55	1.66	1.59

Microfinance Financial Institutions	4.61	4.84	5.45	5.69	5.20
Infrastructure Development Bank	-	0.2	0.3	0.29	0.30
Cooperatives	8.3	5.7	4.69	4.19	3.92
Employees Provident Fund	5.85	5.79	5.44	5.02	5.27
Citizen Investment Trust	2.51	2.69	2.42	2.71	2.72
Insurance Companies	5.86	6.51	6.64	6.83	6.97
Reinsurance Company	0.2	0.22	0.36	0.42	0.42
Social Security Fund	-	0.43	0.47	0.60	0.56
Total	**100**	**100**	**100**	**100**	**100**

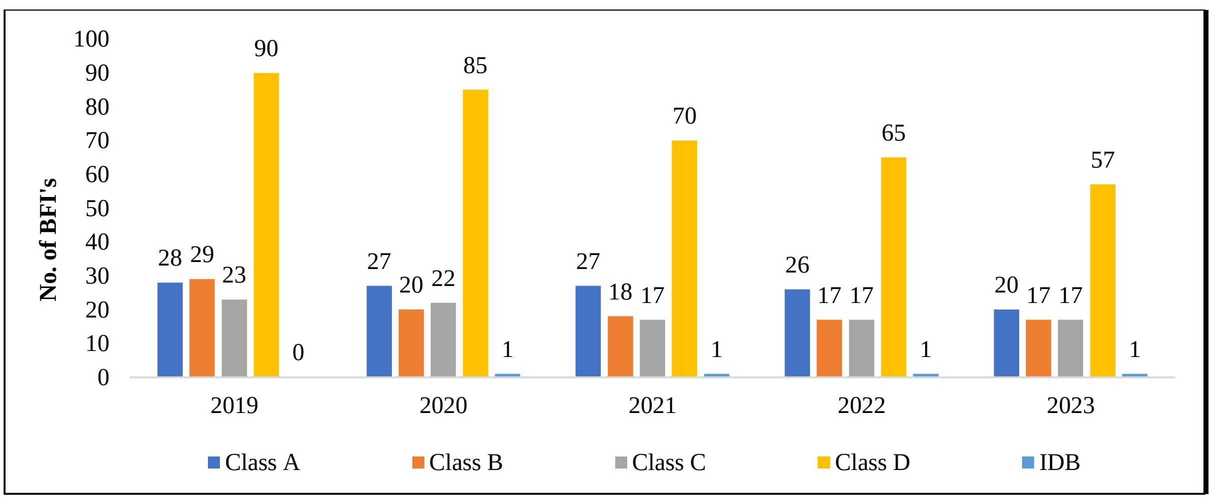
* Figures adjusted from earlier published figure because of the delicensing of NRB Licensed cooperatives and FINGOs as well as the licensing of Infrastructure Development Bank.

Figures used the same as in earlier years due to the unavailability of updated figures on Cooperatives.

2.2.2 Financial Sector Consolidation

Domestic financial sector has experienced a surge of mergers and acquisitions leading to a drastic reduction of banks and financial institutions[1]. The Number of BFIs has been decreasing ever since the introduction of Mergers and Acquisition Bylaw 2073[2]. During the fiscal year 2022/23, 12 commercial banks involved in merger/acquisition processed to form six commercial banks while 16 microfinance financial institutions were involved in merger/acquisition to form eight institutions. The number of banks and financial institutions reduced from 126 in mid-July 2022 to 112 in mid-July 2023.

Figure 2.10: Financial Institutions



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

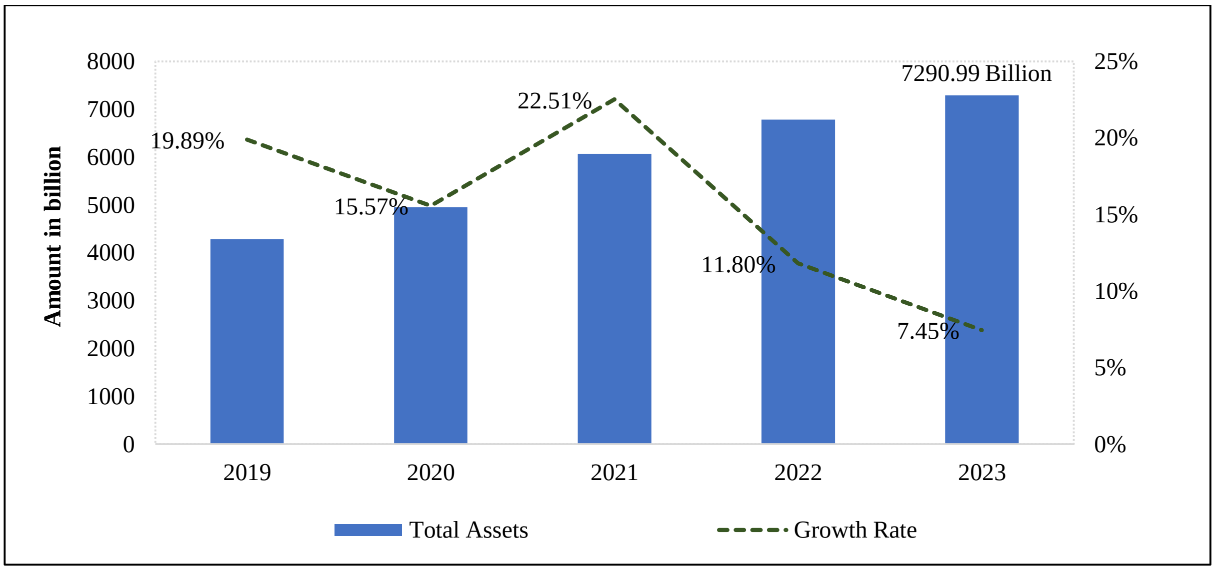
[1]The survey conducted by Nepal Rastra Bank in April 2022,"Optimal Number of Banks and Financial Institutions in Nepal" recommended the consolidation of commercial banks for healthier and more resilient banking system.

[2] Bylaw can be accessed from: https://www.nrb.org.np/contents/uploads/2019/12/Merger-Acquisition-Bylaw-2073-Final.pdf

2.2.3 Asset Size of Banks and Financial Institutions

The assets of Nepalese BFIs have continued to grow, but the growth rate has declined this year. The assets of BFIs increased by 7.45 percent to reach Rs. 7,290.99 billion in mid-July 2023 owing to the expansion in financial access, increasing level of financial literacy, increase in digital banking, and increasing level of remittance inflows. However, the asset growth rate has dropped from 11.80 percent in mid-July 2022 to 7.45 percent in mid-July 2023. This fall is attributed to the reduction in domestic demand in the context of tighter monetary policy and global recession.

Figure 2.11: Total Assets and Growth rate

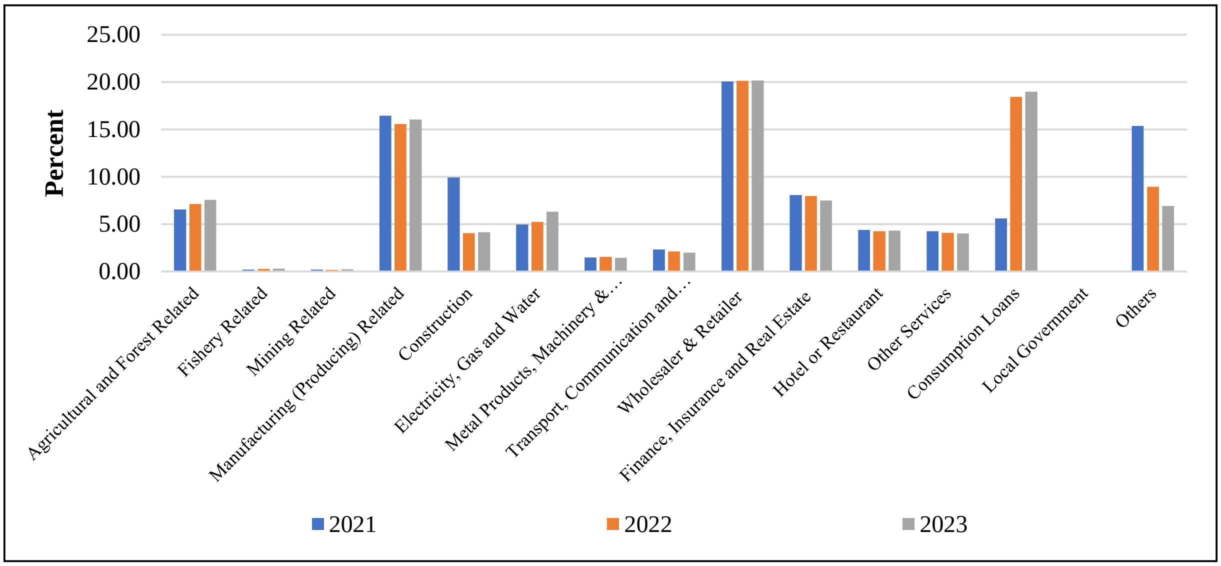


Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

2.2.4 Sectoral Credit Disbursement

BFI's Credit is heavily concentrated in wholesale & retail sector loans and consumption loans. As of mid-July 2023, wholesale and retail sector loans constituted 20.15 percent of total credit, followed by consumption loans at 18.98 percent. This is relatable to the fact that Nepal's consumption to GDP ratio hovering around 94 percent (Ministry of Finance, 2022/2023). Similarly, sectoral credit on agriculture, forestry, and beverage production related is 16.04 percent, agriculture and forest related is 7.57 percent, and finance, insurance, and real estate is 7.49 percent.

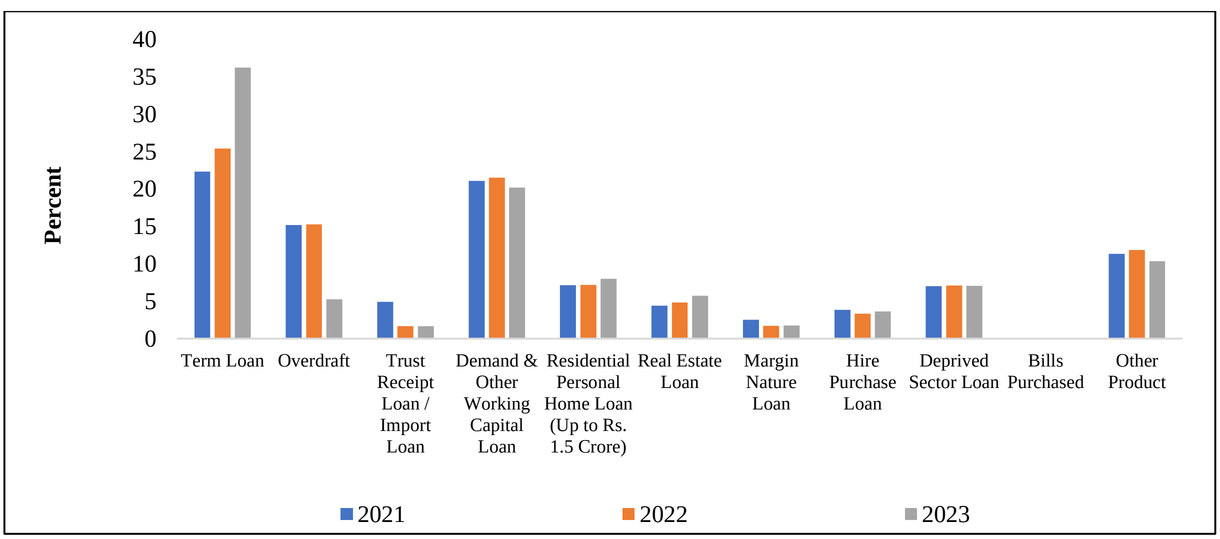
Figure 2.12: Sectoral Credit Disbursement



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

Demand Loan and Working Capital Loan has decreased while term loans have risen in 2023. The decrease in short term loan and increase in term loan can be attributed to the tightening of working capital loans by NRB[3]. Similarly, the cap on margin loans has decreased margin nature loans over last few years.

Figure 2.13: Product wise Lending of BFIs



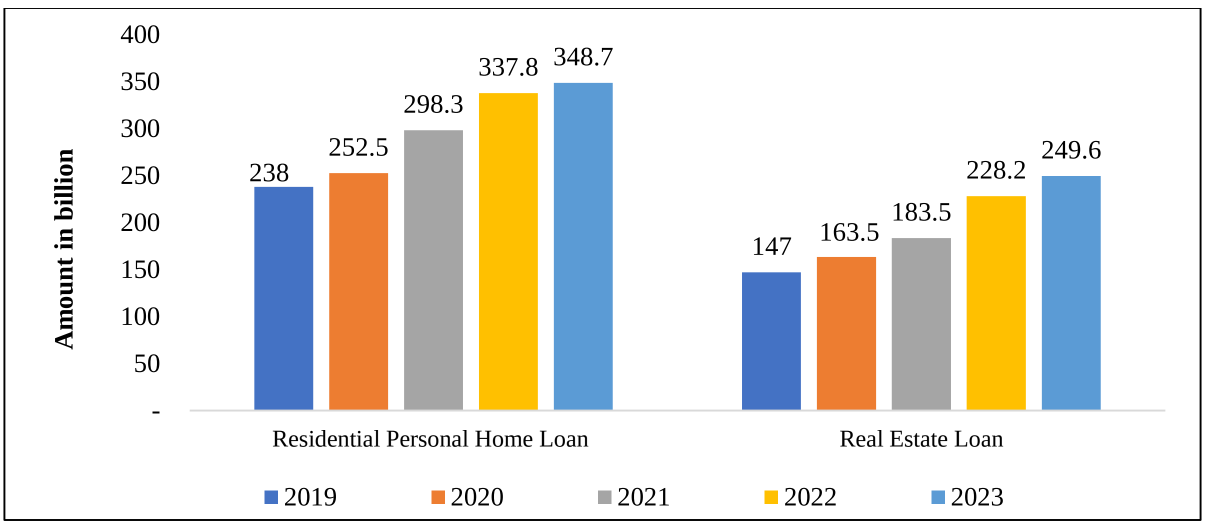
Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

[3] NRB issued Working Capital Guidelines-2022 in October 2022, to discourage the misuse of short-term loans

Credit in real estate and residential home loan sector increased but at a diminishing rate. Although the volume of credit in real estate and residential home loans shows a marginal increment from the last year, their exposure to total loans is declining (Figure 2.14 and Figure 2.15). NRB has adopted macro-prudential policy measures to address increasing exposure in real estate lending such as caps on real estate loans and loan-to-value ratio (LTV)[4].

The credit in real estate increased by 9.35 percent from last fiscal year to reach Rs. 249.59 billion and accounts for 5.1 percent of total loans outstanding in mid-July 2023. Similarly, the credit in residential personal home loans increased by 3.23 percent from last fiscal year to reach Rs. 348.72 billion and accounts for 7.15 percent of total loans outstanding in mid-July 2023. Commercial banks' exposure to real estate and housing loans has declined from the highest of 19.40 percent in mid-July 2010 to 4.99 percent of the total outstanding loan in mid-July 2023. Development banks and finance companies have availed 4.64 percent and 10.46 percent of the total outstanding loan, respectively to real estate in mid-July 2023.

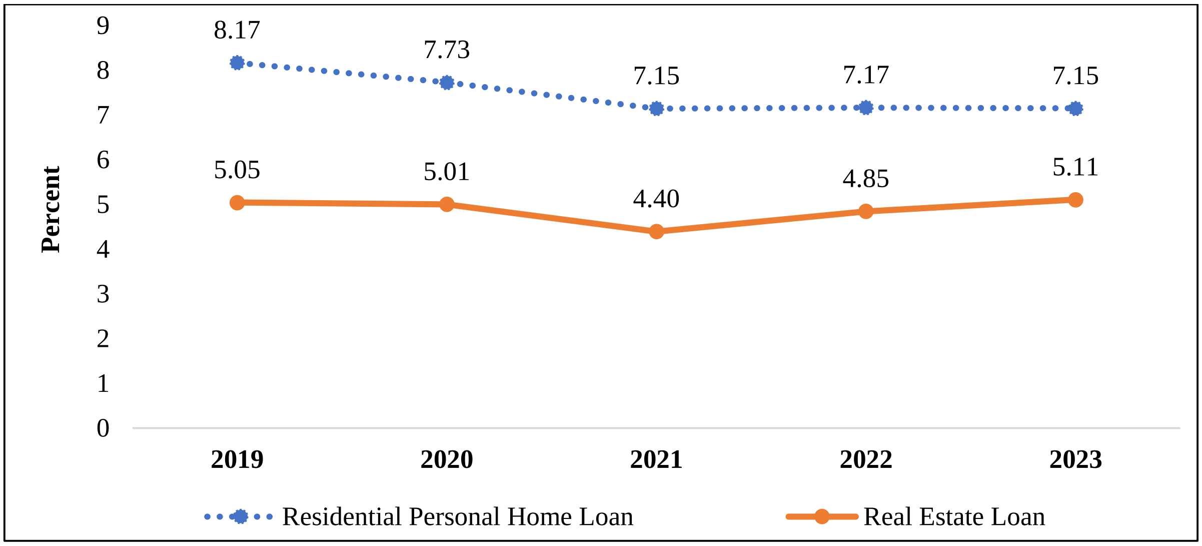
Figure 2.14: Real Estate Lending and Residential Home Loan of BFIs



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

[4] NRB has directed BFIs to limit their real estate and housing loan exposure at 25 percent of their total loan while land purchase and development loan exposure is limited at 10 percent. The BFIs are also required not to provide loan exceeding 50 percent of fair market value of the collateral.

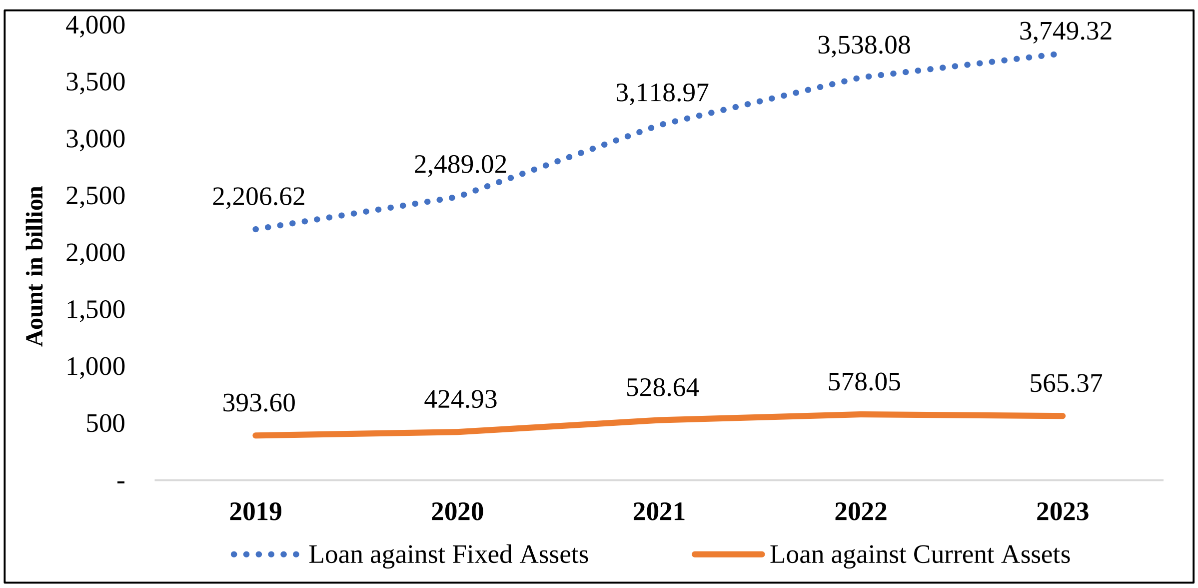
Figure 2.15: Real Estate and Residential Home Loan of BFIs to Total Loan



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

BFI's lending with collateral of fixed assets is high. BFIs have disbursed Rs. 3,749.32 billion which accounted 76.83 percent of their total loan against the collateral of fixed assets in mid-July 2023. Commercial banks, development banks and finance companies have disbursed 75.73 percent, 85.56 percent and 83.69 percent respectively of their total loan portfolio against collateral of fixed assets in mid-July 2023. These ratios were 74.14 percent, 83.18 percent, and 81.46 percent of commercial banks, development banks, and finance companies respectively in mid-July 2022.

Figure 2.16: Collateral-wise lending



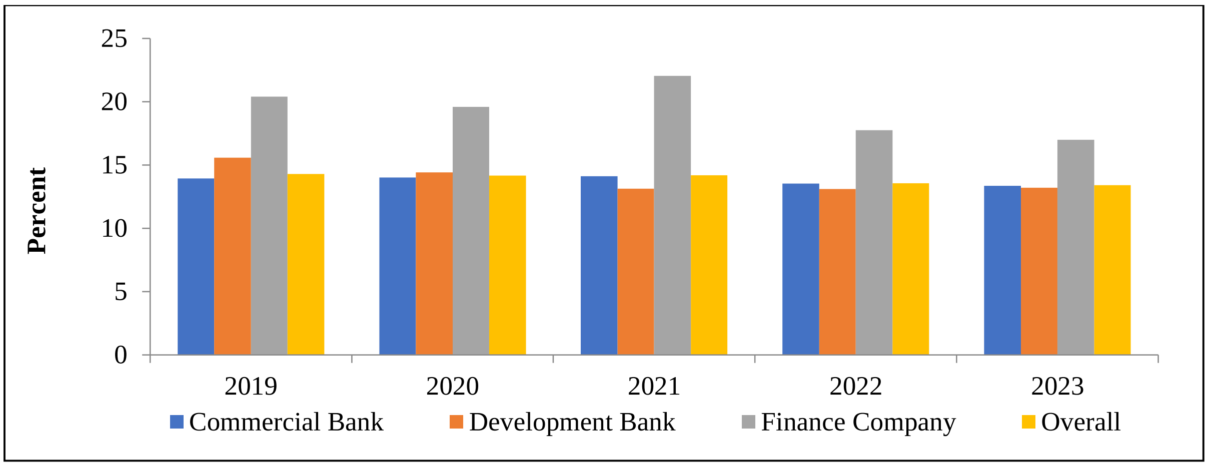
Source: Nepal Rastra Bank, Banking and Financial Statistics

2.3 Financial Soundness Indicators

2.3.1 Capital Adequacy

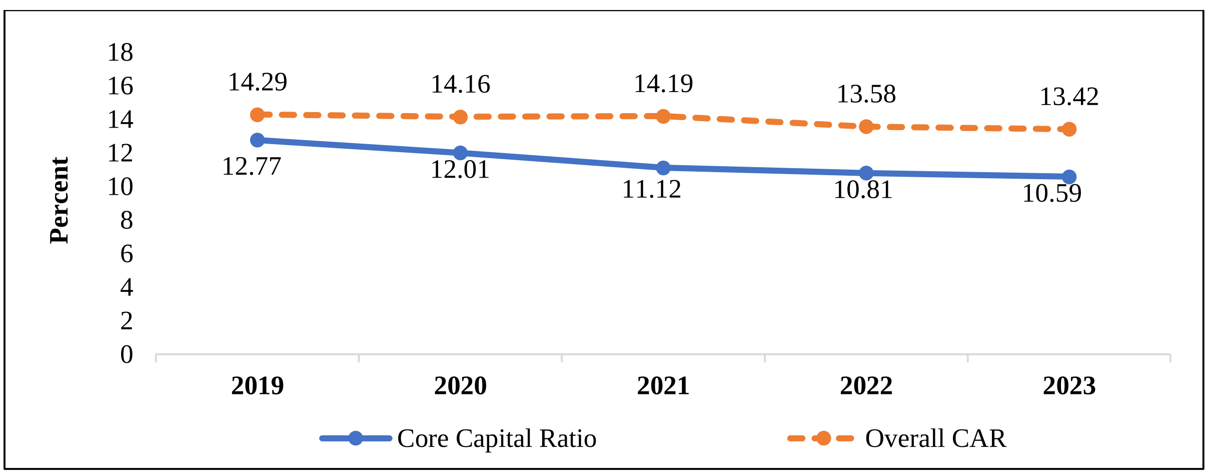
The banking industry remained well-capitalized during the period under review but concerns remain over quality. At the mid-July 2023, capital adequacy ratio (CAR) of commercial banks, development banks and finance companies declined to 13.37 percent, 13.21 percent and 17.01 percent respectively compared to 13.53 percent, 13.10 percent, and 17.75 percent, respectively, at mid-July 2022 (Figure 2.17). The overall capital adequacy ratio and core capital ratio stood at 13.42 percent and 10.59 percent respectively, which was 13.58 percent and 10.89 percent respectively, at mid-July 2022 (Figure 2.18). Although there is a declining trend of capital adequacy ratios, the capital adequacy ratios were well above the regulatory minimum.

Figure 2.17: Capital Adequacy Ratio - Classwise



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

Figure 2.18: Capital Adequacy Ratio - Banking Industry

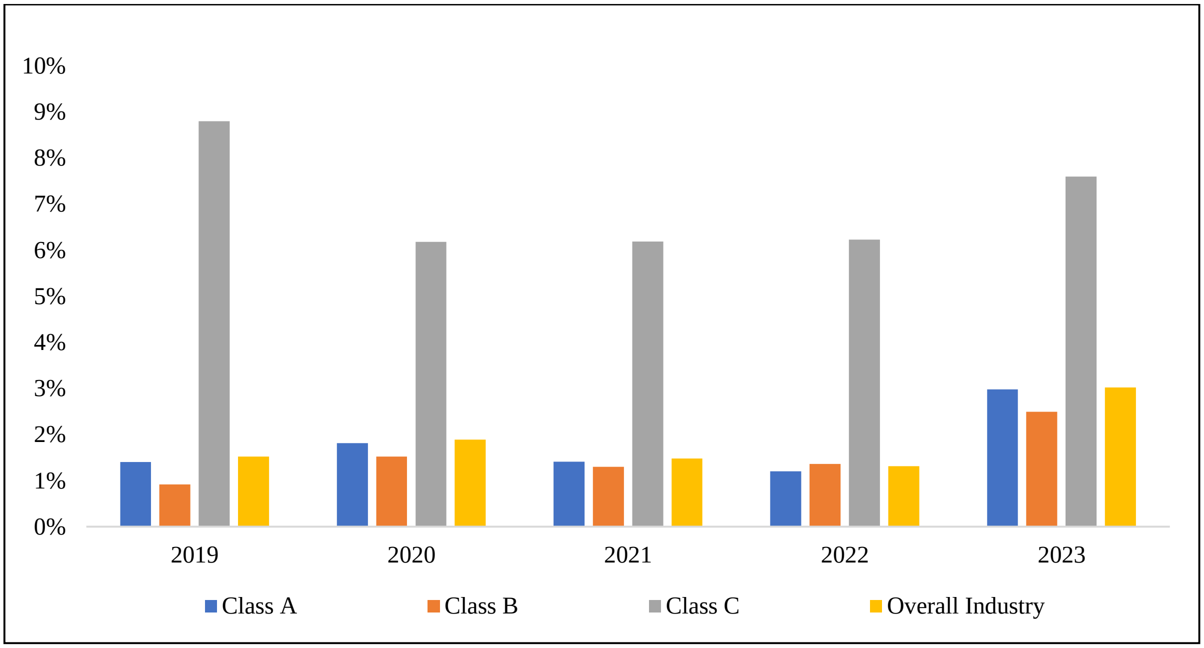


Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

2.3.2 Asset Quality

The overall NPL ratio of BFIs deteriorated during the review year. Supervisory concerns remain regarding the declining capital adequacy ratios and increasing NPL levels. NPL to total loan of BFIs increased by 1.71 percent to reach 3.02 percent in the review year compared to 1.31 percent a year ago. During the year, NPL ratio of commercial banks increased from 1.20 percent to 2.98 percent and that of development banks and finance companies increased from 1.36 percent and 6.23 percent to 2.49 percent and 7.60 percent respectively. The NPL ratio of finance companies is relatively higher during the review year.

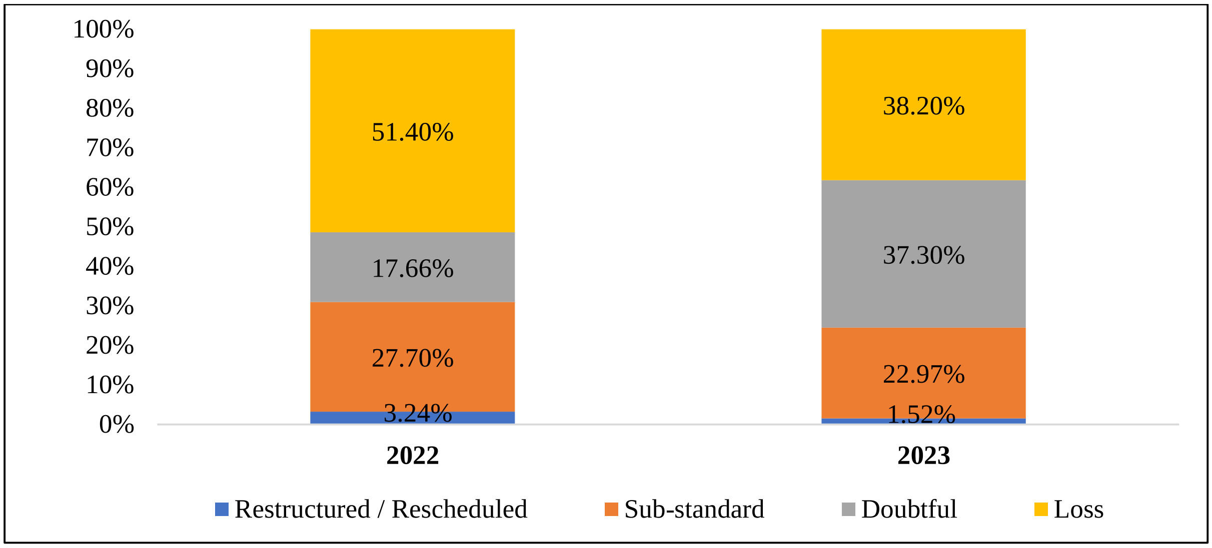
Figure 2.19: Classification of NPL



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

Concerns remain over asset quality as a significant portion of NPLs falls under the doubtful and loss category. NPL levels of BFIs increased to Rs.147.43 billion in mid-July 2023 from Rs.61.87 billion in mid-July 2022. The credit growth of BFIs showed an increment of 3.48 percent in the review year while the loans categorized as watch list increased by 66.59 percent, depicting the deteriorating asset quality. The composition of NPL shows signs of deterioration in asset quality with an increase in restructured/rescheduled loans within the banking sector (Figure 2.20). The share of restructured/ rescheduled loans in NPL decreased to 1.52 percent in the review year as compared to 3.24 percent a year ago. Similarly, the share of Doubtful loans has more than doubled during this fiscal year. A large share of NPL in the banking sector falls into the loss category and represents 38.20 percent of the total NPL.

Figure 2.20: Composition of NPL

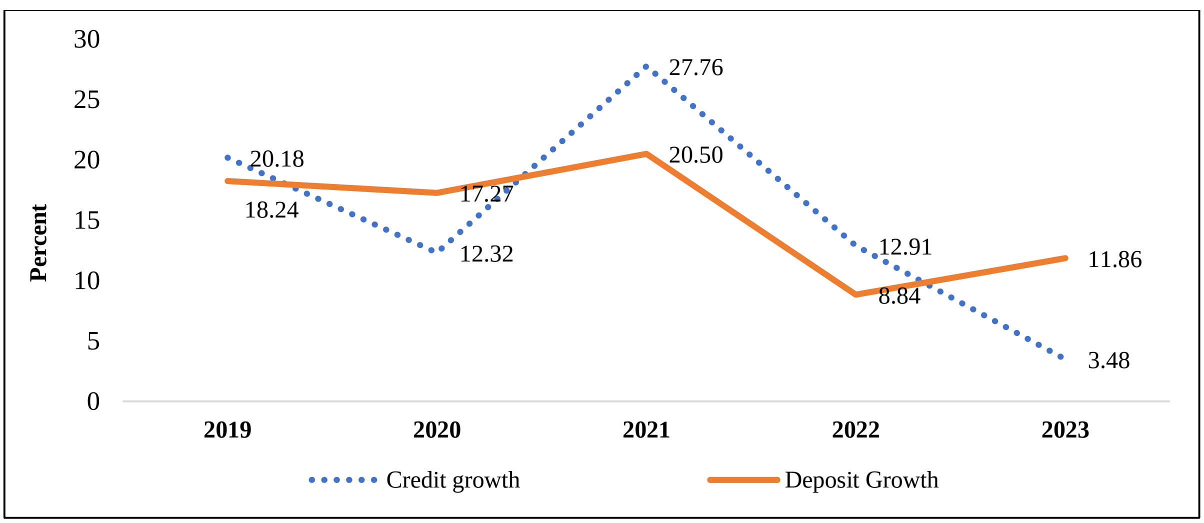


Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

2.3.3 Credit and Deposit Growth

Low domestic demand has led to a decline in credit growth. Credit growth from BFIs decreased to 3.48 percent in the review year compared to 12.91 percent a year ago. The ratio of total credit to GDP decreased to 90.65 percent from 97.17 percent in the previous year. Deposit mobilization of BFIs increased by 11.86 percent in the review year compared to a growth of 8.84 percent a year ago. As of mid-July 2023, the ratio of total deposits to GDP increased to 107.25 percent from 106.34 percent in the previous year (Table 2.1). The deposits to GDP ratio and credit to GDP ratio of commercial banks are 94.52 percent and 80.15 percent respectively in mid-July 2023.

Figure 2.21: Credit and Deposit Growth



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

2.3.4 Leverage Ratio

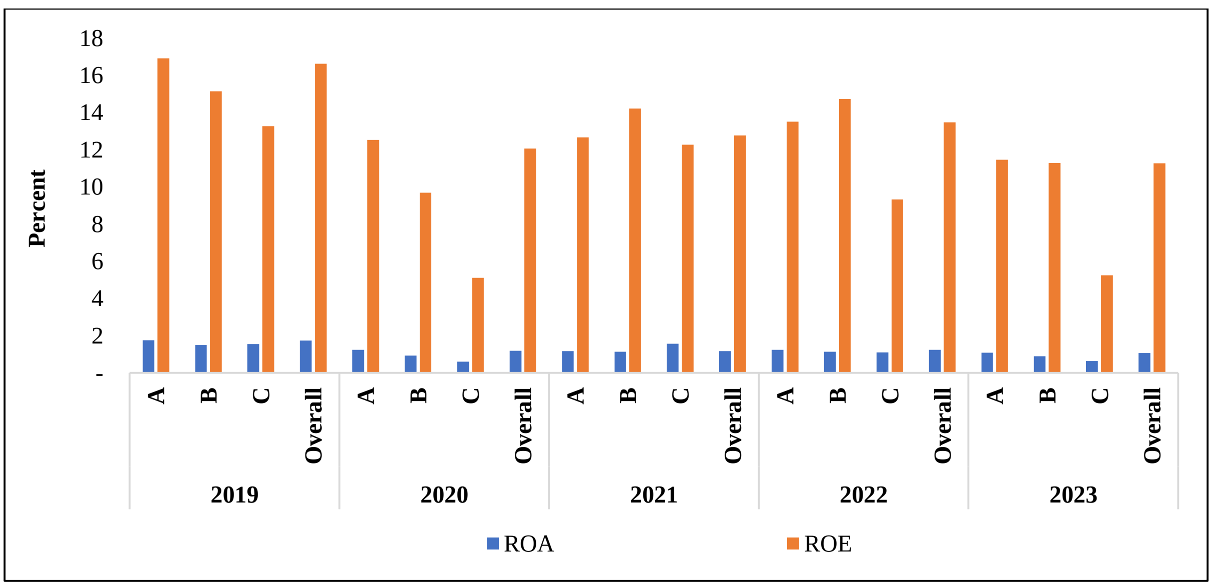
Leverage ratio complemented the risk-weighted capital ratio and stood well above the minimum regulatory requirement. Leverage ratio of commercial banks stood at 7.29 percent in mid-July 2023. All commercial banks reported leverage ratios well above the regulatory requirement of at least four percent in the review year.

2.3.5 Profitability

Profitability of the banking sector decreased in the review year as compared to the previous year. Net profit of the BFIs stood at Rs. 76.99 billion in the FY 2022/23 from Rs. 83.44 billion in the previous fiscal year, recording a decrease of 7.73 percent.

Return on Assets (ROA) and Return on Equity (ROE) of the overall banking industry decreased marginally in the review year. ROA of BFIs decreased to 1.06 percent in 2022/23 from 1.23 percent in 2021/22. The ROA of commercial banks decreased to 1.08 percent from 1.24 percent and ROE decreased to 11.46 percent from 13.51 percent in the previous year. Similarly, ROE decreased to 11.27 percent in 2022/23 from 13.48 percent in 2021/22. In the same manner, the ROA and ROE of development banks also decreased marginally during the review year. However, in the case of finance companies, the ROA and ROE declined from 1.10 percent and 9.33 percent to 0.64 percent and 5.24 percent respectively.

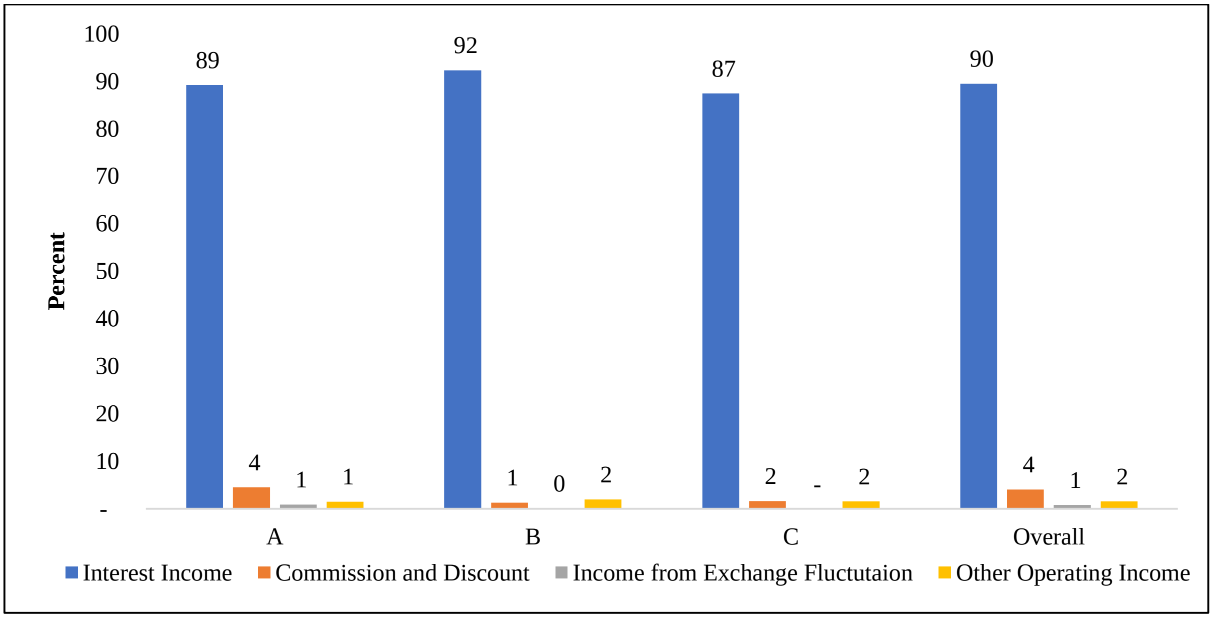
Figure 2.22: ROA and ROE



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

Interest from loans and advances made up the majority of income. Interest income contributed to 89.51 percent of the total income of the BFIs (Figure 2.23). In the composition of interest income, interest on loans and advances accounted for 89.15 percent. Interest income from investment in government bonds is the second largest contributor to total interest income.

Figure 2.23: Income Distributions



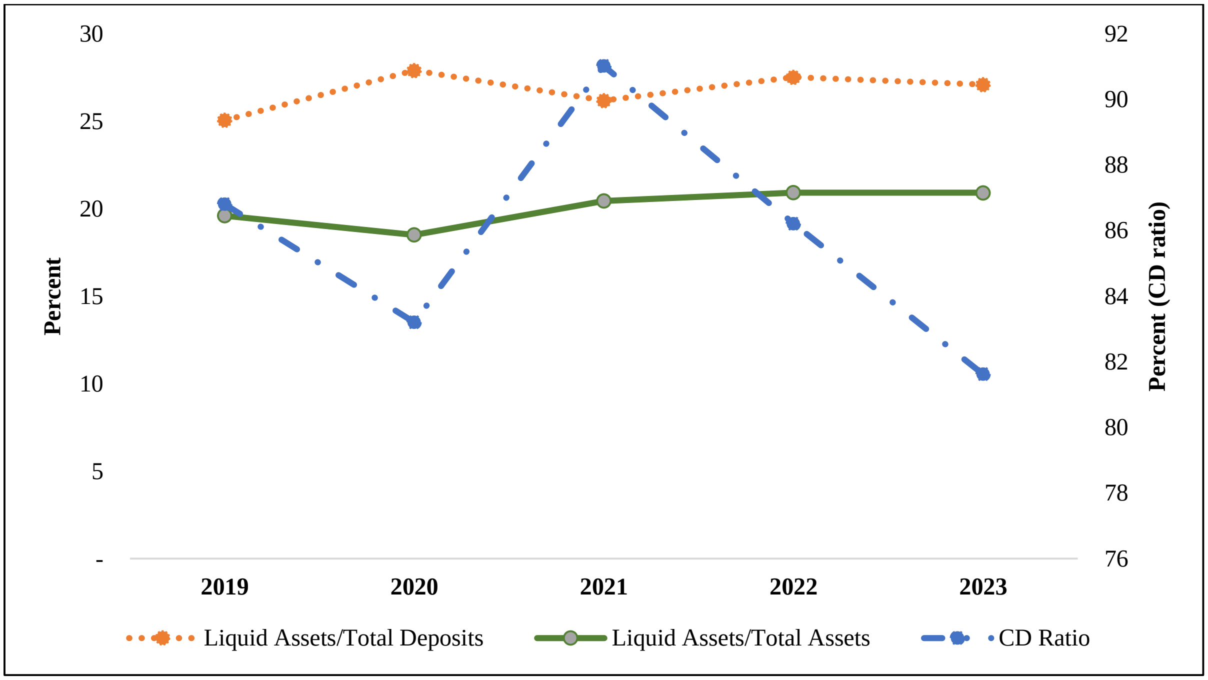
Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

2.3.6 Liquidity

The banking sector maintained adequate liquidity during the review year. The total liquid assets to deposit ratio of BFIs stood at 27.10 percent in mid-July 2023 compared to 27.52 percent in the previous fiscal year. The total liquid assets to deposit ratios for "A", "B" and "C" class institutions were 26.93 percent, 27.17 percent, and 34.15 percent, respectively, in mid-July 2023. Such ratios were 27.27 percent, 27.14 percent, and 40.03 percent, respectively, in the previous fiscal year (Table 2.1). Net liquid assets to total deposit ratios of BFIs stood at 29 percent in mid-July 2023 compared to 29.56 percent in the previous fiscal year. The net liquid assets to total deposits ratio is well above the required regulatory minimum of 20 percent.

NRB managed liquidity in the system through SLF, OLF, and repo facilities. In the review year, NRB injected Rs. 5,518.19 billion liquidity on the turnover basis, of which, Rs. 414.47 billion was through repo, Rs. 89.70 billion through outright purchase auction, Rs. 2,727.11 billion through standing liquidity facility (SLF) and Rs. 2,286.90 billion through Overnight Liquidity Facility (OLF). Meanwhile, the NRB absorbed Rs. 108.20 billion liquidity including Rs. 88.20 billion through reverse repo auction and Rs. 20 billion through deposit collection auction. In the corresponding period of the previous year, Rs. 9,642.41 billion net amounts of liquidity were injected through various instruments.

Figure 2.24: Liquidity Ratios



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

Table 2.3: Financial Soundness Indicators of BFIs

Indicators	Class A		Class B		Class C		Overall	
	2022	2023	2022	2023	2022	2023	2022	2023
Credit and deposit related indicators								
Total deposit/GDP	93.68	94.52	10.50	10.62	2.15	2.11	106.34	107.25
Total credit/GDP	86.22	80.15	9.17	8.77	1.78	1.73	97.17	90.65
Total credit/ Total deposit	92.04	84.80	87.33	82.56	82.56	81.93	91.38	84.53
CCD/CD Ratio[$]	86.43	81.62	84.32	81.80	85.59	81.02	86.22	81.63
Fixed deposit/Total deposit	53.62	56.98	64.21	66.59	68.63	71.00	54.97	58.21
Saving deposit/Total deposit	27.76	26.87	23.67	23.24	18.99	17.41	27.18	26.32
Current deposit/Total deposit	9.98	8.68	1.95	1.93	1.80	1.25	9.02	7.87
Call Deposit /Total Deposit	7.26	6.56	10.13	8.19	9.14	8.91	7.58	6.77
Assets quality related indicators								
NPL/ Total loan	1.20	2.98	1.36	2.49	6.23	7.60	1.31	3.02
Total LLP/Total loan	2.28	2.52	2.15	2.42	7.29	5.80	2.36	2.58

# Res. Per. H. Loan (Up to Rs. 15 million)/Total Loan	6.68	6.47	11.02	12.23	10.88	12.61	7.18	7.15
Real estate exposure/Total loan	4.78	5.05	4.24	4.64	10.78	10.46	4.84	5.11
Deprived sector loan/Total loan	6.83	6.49	11.25	8.78	8.16	8.76	7.27	6.75
Cash and bank balance/Total deposit	8.16	8.21	6.35	6.36	11.00	9.31	8.03	8.05
Investment in Government securities/Total deposit	18.01	18.07	13.50	15.87	21.22	17.76	17.63	17.84
Total liquid assets/Total deposit	27.27	26.93	27.14	27.17	40.03	34.15	27.52	27.10
Capital adequacy related indicators								
Core capital/RWA (percent)	10.73	10.53	10.55	10.26	15.64	14.91	10.81	10.59
Total capital/RWA (percent)	13.53	13.37	13.10	13.21	17.75	17.01	13.58	13.42
Interest rate on deposit*							7.41	7.86
Interest rate on credit*							11.62	12.30

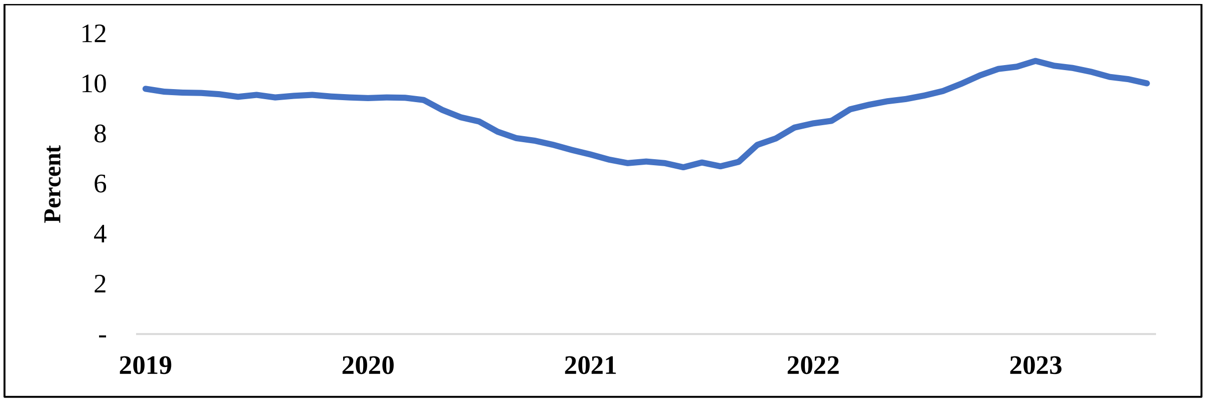
Note: $ CCD ratio replaced by CD ratio
*Weighted average
Residential Personal Home Loan

Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

2.3.7 Base Rate and interest rate spread of BFIs

Increase in deposit interest rates has driven up the base rate. During the review year, the industry's average base rate stood on the higher side as compared to last fiscal year. The average of monthly base rates of commercial banks in the review year stood at 10.32 percent which was 8.32 percent a year ago. The base rate of commercial banks stood at 9.99 percent in the last month of review year which was 9.42 percent a year ago. Likewise, the average monthly base rate of development banks in the review year is 12.36 percent, which was 9.80 percent in FY 2021/22. The base rate of development banks reached to 11.87 percent in July 2023 from 11.28 percent a year ago. Similarly, the base rate of finance companies stood at 12.99 percent in the last month of review year from 11.98 percent a year ago.

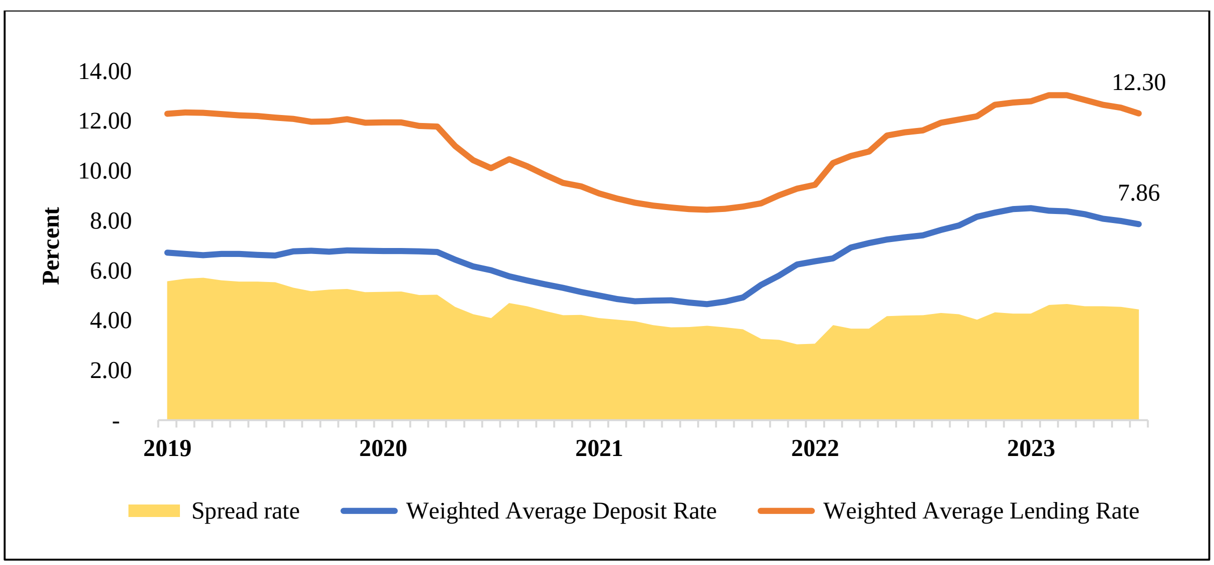
Figure 2.25: Monthly Base Rate of Commercial Banks



Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2023

NRB issued market conduct regulations on interest rate spread. NRB has directed "A" class banks to bring down their interest spread rate within 4 percent and "B" and "C" class financial institutions within 4.6 percent. BFIs are also required to publish their interest spread monthly. The overall interest spread of commercial banks gradually increased over the last fiscal year, reaching 4.44 percent in mid-July 2023. The spread rate for development banks and finance companies respectively stood at 4.59 percent and 4.56 percent in mid-July 2023. Such rates for commercial banks, development banks, and finance companies were 4.21 percent, 4.56 percent and 4.35 percent respectively in mid-July 2022. NRB directives on interest charged to customer on base rate plus premium and interest spread have helped to ensure the goal of promoting healthy competition and protecting financial consumers.

Figure 2.26: Spread Rate, Weighted Average Lending and Deposit rate of BFIs



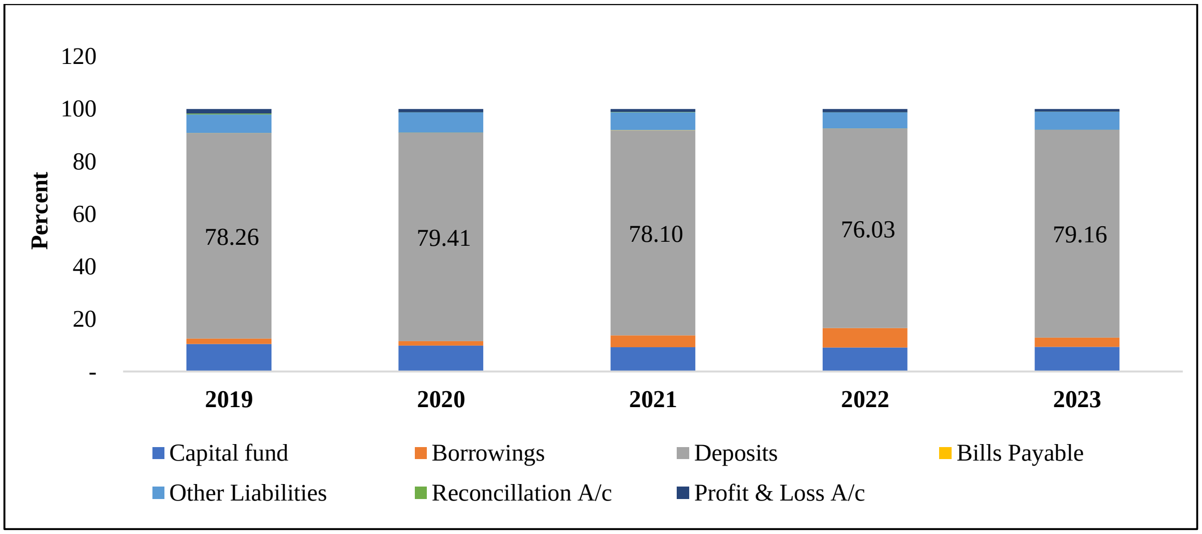
Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

2.4 Deposit and Liability Structure of the BFIs

2.4.1 Liability Structure of the BFIs

Deposits continued to represent the major portion of total liabilities. As of mid-July 2023, the total liabilities of the BFIs stood at Rs. 7,290.99 billion. Total deposits increased by 11.86 percent in the review year. The share of total deposits to total liabilities in mid-July 2023 stood at 79.16 percent. Higher inflows of remittance followed by higher interest rates on deposits are some of the key reasons for increasing deposit growth in the review year. Capital fund occupies the second-largest share of the liability structure of BFIs at 9.37 percent of the total liability. Borrowings, which make up 3.50 percent of total liabilities, exhibited a significant decline of 48.98 percent.

Figure 2.27: Liabilities Structure of BFIs

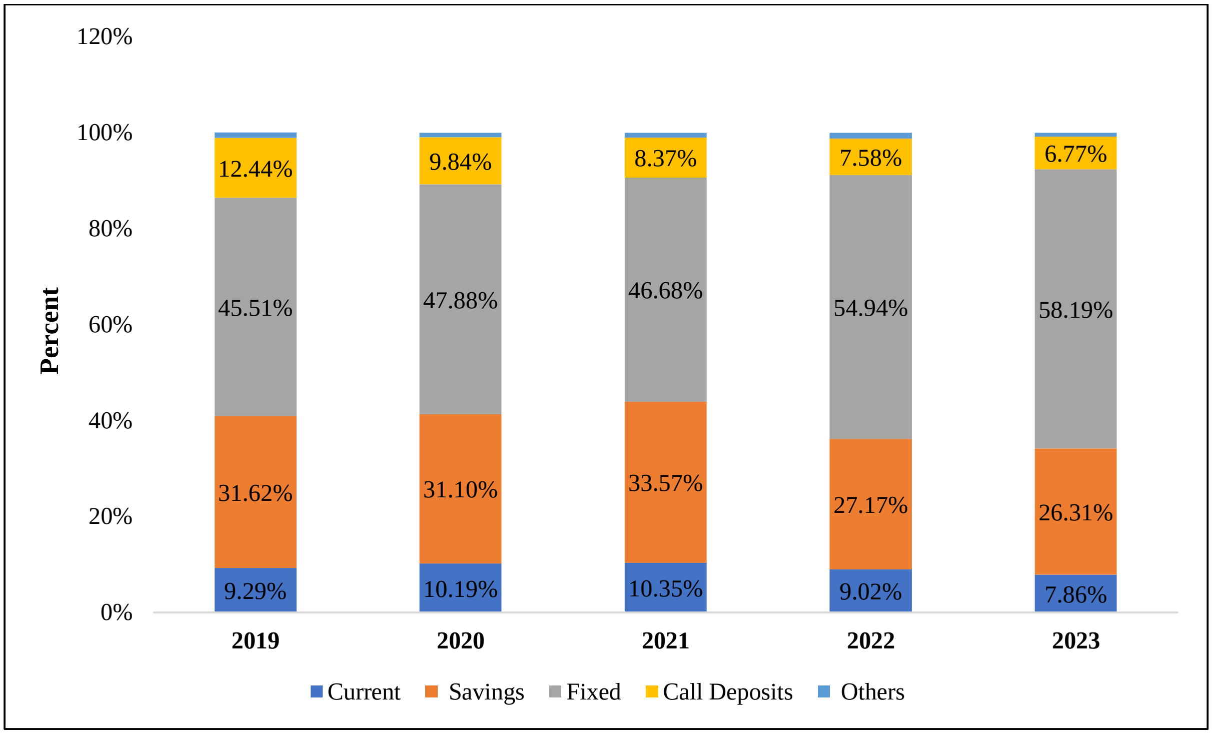


Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

2.4.2 Deposit Mix of BFIs

The share of fixed deposits and call deposits in total deposits has increased. The share of current deposits, saving deposits, fixed deposits, call deposits, and other deposits in total deposits as of mid-July 2023 stood at 7.86 percent, 26.31 percent, 58.19 percent, 6.77 percent, and 0.83 percent respectively. The relative proportions of such deposits in mid-July 2022 were 9.02 percent, 27.18 percent, 54.97 percent, 7.58 percent, and 1.25 percent respectively.

Figure 2.28: Deposit Mix of BFIs



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

Fixed deposits reported the highest y-o-y growth. Among the various deposits categories, fixed deposits recorded the highest growth of 18.46 percent in the review year. The savings deposits growth stood at 8.34 percent while current deposits and call deposits declined by 2.44 percent and 0.07 percent respectively.

Deposits concentration increased significantly in the review year. The share of the top five BFIs in total deposits of banking system stood at 32.06 percent depicting a sizeable concentration of deposits in these institutions. Such concentration ratio of deposits was 26.64 percent in the previous year. Likewise, three state-owned banks hold 13.31 percent of such deposits.

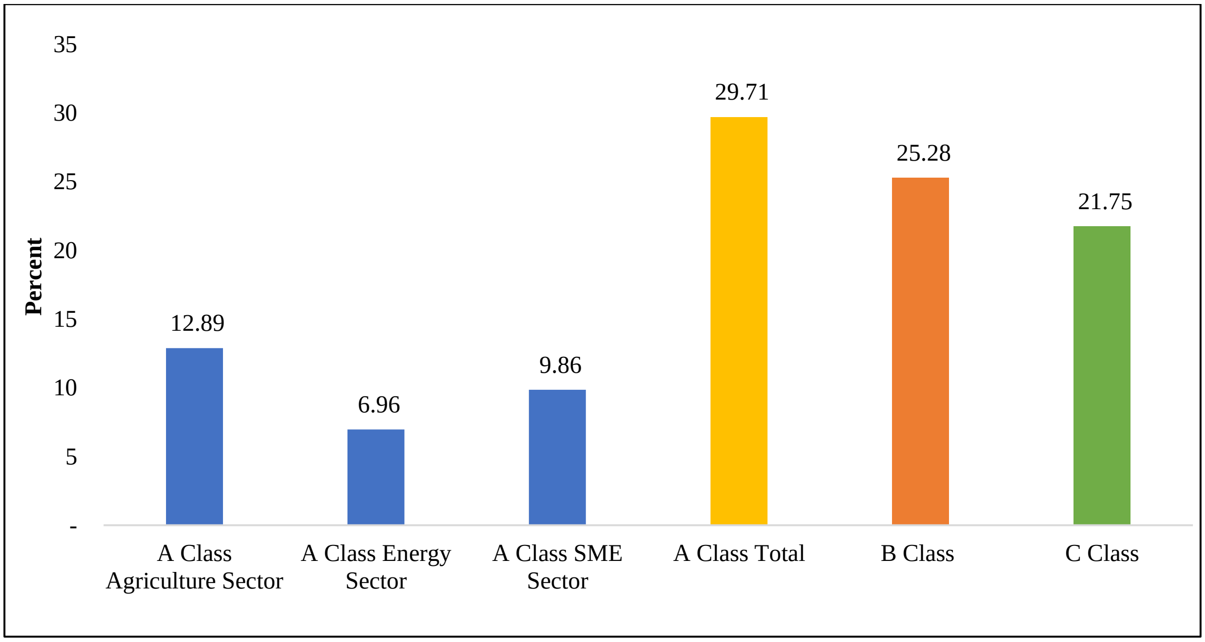
2.5 Priority Lending Requirements

The monetary policy for FY 2022/23 has defined the priority lending requirements for BFI's. By mid-July 2025, commercial banks must provide at least 15 percent of their total credit to the agricultural sector, 10 percent to the energy sector, and 15 percent to small, micro, cottage, and medium-sized businesses. Development banks have to disburse 20 percent of the total credit to agriculture, micro, cottage, and small enterprises/businesses, energy, and tourism sectors by mid-July 2024. Similarly, there is a provision that finance companies should disburse 14 percent of the total loan to such sectors by mid-July 2024.

2.5.1 Priority Sector Lending

Banks disbursed the credit to agriculture, energy and micro, cottage, small and medium enterprises in line with directed sector lending stated in monetary policy for FY 2022/23. The monetary policy issued by NRB is designed to ensure adequate credit for such sectors to support the inclusive economic growth. As of mid-July 2023, commercial banks provided 29.71 percent of their total loan to the specified sectors. Development banks and finance companies provided 25.28, and 21.75 percent respectively of their total loan in the specified sectors.

Figure 2.29: Priority Sector Lending

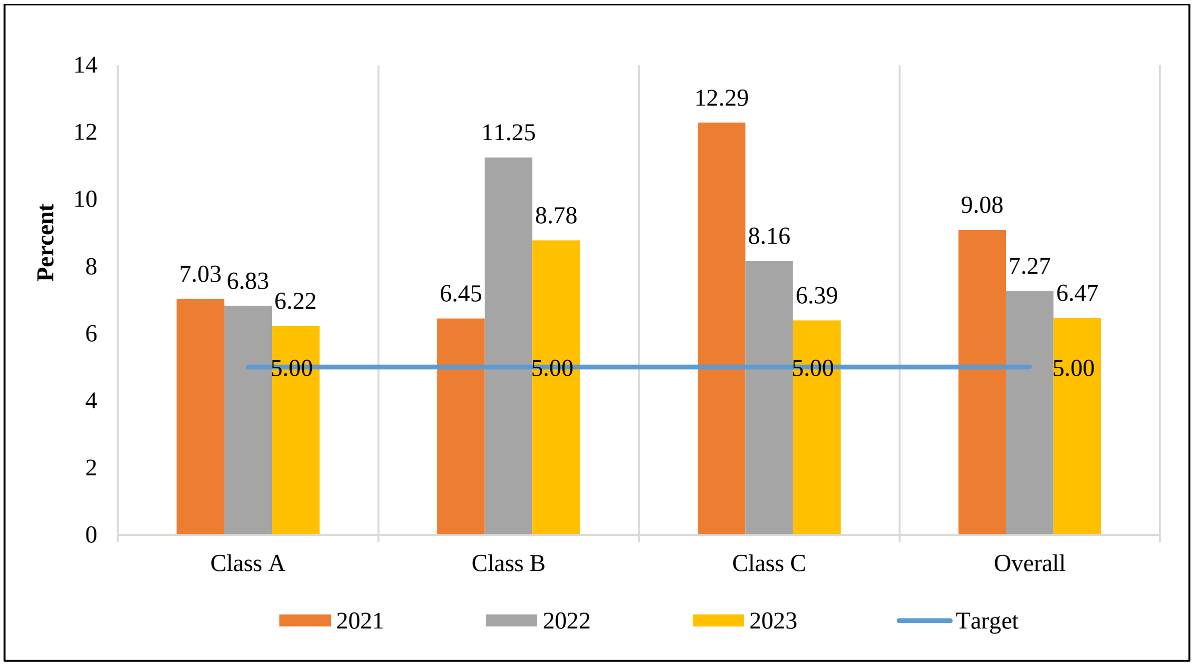


Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

2.5.2 Deprived Sector Lending

Banks complied with the deprived sector lending policy adopted by NRB. The overall deprived sector lending by BFIs as of mid-July 2023 remained 6.47 percent well above the regulatory requirement of 5 percent. The deprived sector lending by commercial banks, development banks and finance companies accounted to 6.22 percent, 8.78 percent, and 6.39 percent of their total lending respectively.

Figure 2.30: Deprived Sector Lending



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

CHAPTER III: BANK AND FINANCIAL INSTITUTIONS

3.1 Commercial Banks

Nepal's financial system comprises dominant share of commercial banks in terms of assets/liabilities size. Among BFIs, commercial banks hold the largest share. In mid-July 2023, the share of commercial banks in total assets/liabilities of BFIs slightly decreased to 88.68 percent from 88.73 percent as of mid-July 2022. Similarly, the ratio of total assets/liabilities of commercial banks to GDP has decreased to 120.15 percent in mid-July 2023 from 124.09 percent a year ago. The dominance of commercial banks in the total banking sector in terms of assets and liabilities as well as in terms of balance sheet components has broadly remained stable. The total assets/liabilities of commercial banks increased by 7.40 percent to Rs. 6,465.94 billion in mid-July 2023 from Rs. 6,020.55 billion in mid-July 2022. The key financial indicators of commercial banks have been presented in Table 3.1.

Table 3.2 Major Financial Indicators of Commercial Banks

Indicators	Mid-July 2022	Mid-July 2023
Tier 1 & Tier 2 Capital /RWE	13.53	13.37
Tier 1 Capital/RWE	10.73	10.53
NPL/Total Loan	1.20	2.98
Return on Equity	13.67	11.46
Net Interest Spread	4.19	4.45
Total Credit to Total Deposit	92.04	84.80
Total Liquid Assets/Total Deposit	27.27	27.25
Base Rate	9.54	9.98

Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

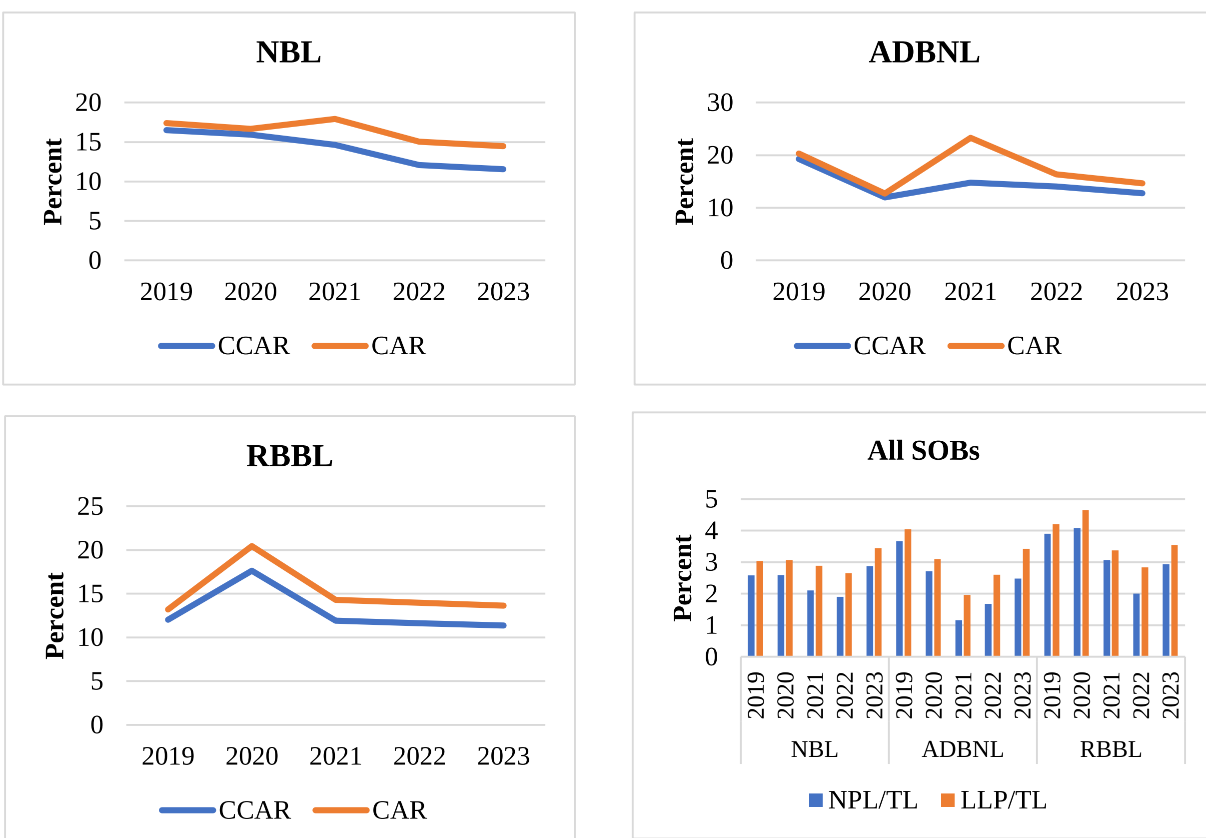
The total share of the three state owned banks (SOBs) predominantly hold 15% of the total assets of commercial banks. The total assets of three SOBs in Nepal - Nepal Bank Limited (NBL), Rastriya Banijya Bank Limited (RBBL), and Agriculture Development Bank Limited (ADBL) was equivalent to 18.59 percent of GDP in mid-July 2023. The total share of SOBs in total assets of commercial banks stood at 15.53 percent in mid-July 2023. The SOBs hold 15.11 percent share in total deposits of commercial banks and 13.31 percent share in total deposits of BFIs in mid-July 2023. Similarly, their market shares in terms of loans and advances stood at 14.31 percent of commercial banks and 12.66 percent of all BFIs at the same time.

3.1.1 Capital

Commercial banks regulatory capital is above the regulatory requirement. The capital fund of commercial banks rose by 10.42 percent to Rs.611.31 billion in mid-July 2023 from Rs.553.63 billion a year ago. Of the total capital fund, paid up capital was Rs.369.86 billion (60.50 percent) and statutory reserves was Rs.126.04 billion (20.62 percent). Moreover, in mid-July 2023, 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 13.37 percent in mid- July 2023 from 13.53 percent in mid-July 2022 (Table 3.1).

The total capital adequacy ratios of all the SOBs remained well above the regulatory requirement, albeit slightly decreased in the review year compared to the previous year.
The core-capital to risk-weighted-assets of NBL, ADBL, and RBBL are 11.56 percent, 12.78 percent, and 11.35 percent respectively in mid-July 2023. Likewise, the total capital to risk-weighted-assets of NBL, ADBL, and RBBL are 14.49 percent, 14.68 percent and 13.65 percent respectively in mid-July 2023. The asset quality measured by NPL ratio of all the SOBs has deteriorated in mid-July 2023 compared to mid-July 2022. As of mid-July 2023, the NPL ratio of NBL, RBBL, and ADBL stood at 2.88 percent, 2.94 percent and 2.48 percent respectively. Such ratios of NBL, RBBL, and ADBL were 1.90 percent, 2.00 percent and 1.68 percent respectively in mid-July 2022. NPL ratios of SOBs stood lower than that of overall commercial banks, which was 2.78 percent in mid-July 2023.

Figure 3.1: Capital Adequacy Ratios of SOBs

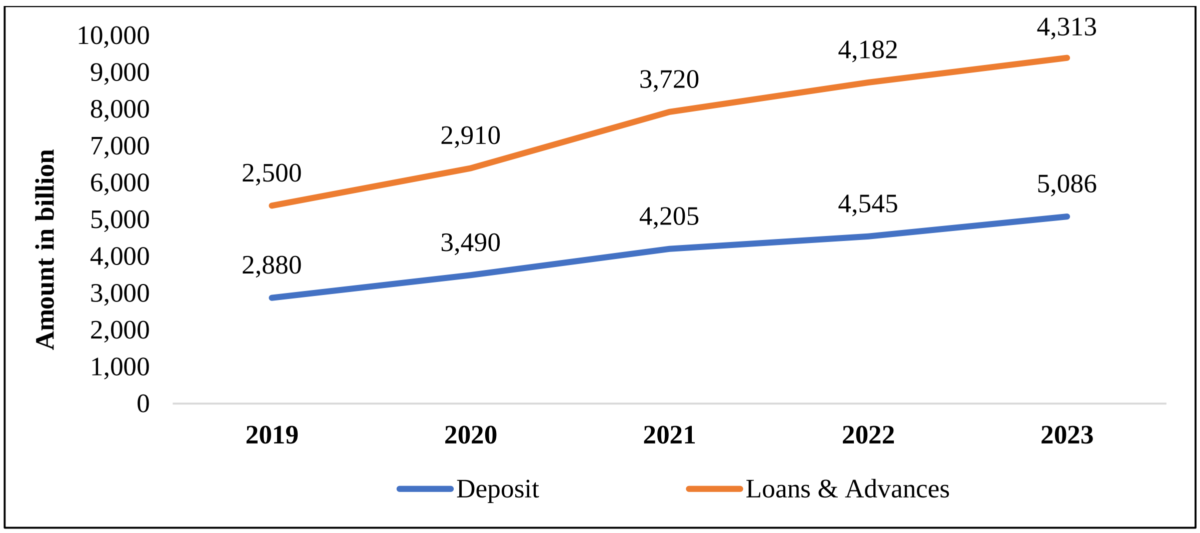


Source: Nepal Rastra Bank, Key financial indicators of commercial banks, July 2023

3.1.2 Deposits and Credit

Deposits grew faster than credit during the review year. Total deposits and credit of commercial banks stood at 94.52 percent and 80.15 percent of GDP, respectively, in mid-July 2023. Total deposits grew by 11.90 percent to Rs. 5,086.24 billion in mid-July 2023 compared to a growth of 8.09 percent in the previous year. Total credit grew by 3.12 percent and reached to Rs.4312.59 billion in mid-July 2023 compared to a growth of 12.44 percent in the previous year (Figure 3.1). 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 12.23 percent to Rs.918.94 billion in mid-July 2023.

Figure 3.2 : Deposits and Loan of Commercial Banks



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

3.1.3 Credit Composition and Assets quality

The share of term loans on total loans increased, however concerns over overall assets quality exists. The aggregate NPL to total loan ratio of commercial banks increased to 2.98 percent in mid-July 2023 from 1.20 percent in mid-July 2022. The three state-owned banks in total have a combined NPL ratio of 2.78 percent whereas that of private commercial banks is 3.01 percent in mid-July 2023. As of mid-July 2022, an average NPL ratio of three state-owned commercial banks was 1.86 percent, whereas such ratio for private commercial banks was 1.09 percent.

The total loan of commercial banks under the priority sector in agriculture, energy and MSME sector accounts for 12.89 percent, 6.96 percent, and 9.85 percent respectively, in mid-July 2023. Lending by commercial banks in real estate and margin nature loans remained low representing 5.05 percent and 1.36 percent, respectively, of the total loan in mid-July 2023. As of mid-July 2023, commercial banks have disbursed 6.08 percent of their total loan in the deprived sector, which was 6.70 percent in the last year. Loan against collateral of properties (fixed and current assets) has slightly increased in the review year as compared to the last year. Out of total loans, 88.75 percent is backed up by collateral of properties (75.65 percent against fixed assets and 13.10 percent against current assets) in mid-July 2023 compared to 87.97 percent a year ago.

Similarly, term loan, overdraft loan (including cash credit), demand and other working capital loan, and hire purchase loan represent 32.19 percent, 15.24 percent, 19.68 percent and 3.20 percent respectively, of the total loan in mid-July 2023. Such ratios were 25.11 percent, 14.85 percent, 23.70 percent, and 3.15 percent, respectively, in mid-July 2022. There was noticeable growth (32.48 percent) in term loan and decline (14.19 percent) in demand and other working capital loans as compared to last year.

3.1.4 Base Rate, Spread Rate and Profitability

Base rates and spread rates of commercial banks showed an increase. The average base rate of commercial banks increased by 44 basis points to reach 9.98 percent during FY 2022/23. Similarly, the interest rate spread of commercial banks in mid-July 2023 stood at 4.45, which was 4.19 percent in the last year. The increase in base rate is largely attributed to increase in the cost of funds of banks mainly represented by the increased interest rate of deposits. All commercial banks registered profit during the review year and net profit of the commercial banks decreased by 5.46 percent to Rs.70.04 billion in mid-July 2023.

3.2 Development Banks

Development banks constituted the second largest share in total assets/liabilities of BFI's. In the review year, the number of development banks stood at 17, among which 8 of them are of National Level, 1 is operational in only 1 district and 8 are operational in 3-7 Districts. The share of development banks in total assets/liabilities of BFIs increased to reach 9.19 percent from 9.03 percent in mid-July 2022. Similarly, the ratio of total assets/liabilities of development banks to GDP has increased slightly to reach 12.45 percent in mid-July 2023 from 11.39 percent a year ago. The total assets/liabilities of commercial banks increased by 9.33 percent to Rs. 669.9 billion in mid-July 2023 from Rs. 612.7 billion in mid-July 2022. The major financial indicators of finance companies have been presented in Table 3.2.

Table 3.2: Major Financial Indicators of Development Banks (In percent)

Indicators	Mid-July 2022	Mid-July 2023
Core Capital Ratio (CCAR)	10.55	10.26
Capital Adequacy Ratio	13.10	13.21
C/D Ratio	87.18	84.37
Non-Performing Assets (NPA)	1.36	2.45
Net Liquidity	25.24	24.82
Statutory Liquidity Ratio	17.49	22.56
Spread Rate	4.56	4.59
Base Rate	11.26	11.77
Priority Sector Lending	25.53	25.28
Deprived Sector	11.44	8.73
Total Real Estate exposure	4.24	4.64
Return on Assets (ROA)	1.14	0.60
Return on Equity (ROE)	14.73	7.55

Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

3.2.1 Capital

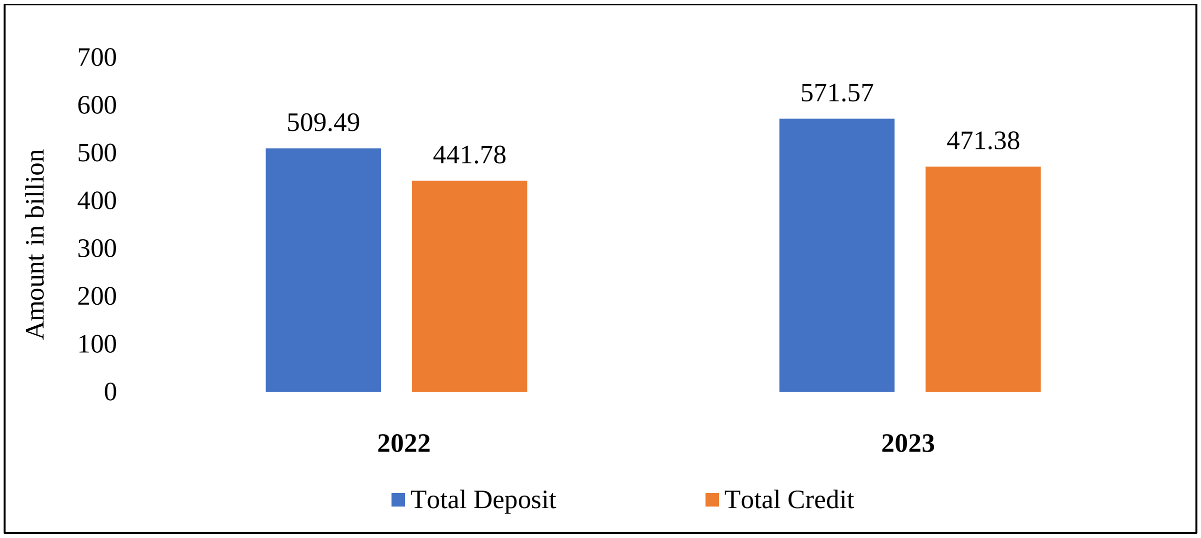
Development banks remained well-capitalized during the period under review but concerns remain. In the review year, the core capital increased by 4.77 percent to Rs.16.71 billion compared to an increase of 13.75 percent in the previous year. Core capital to risk weighted assets (RWA) declined to 10.26 percent as of mid-July 2023 from 10.55 percent on mid-July 2022. While capital fund to RWA increased to 13.21 percent from 13.10 percent during the same period.

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 requirements.

3.2.2 Deposits and Credit

Deposits and credit of development banks surged during the review year. In the review year, total deposits of development bank increased by 12.18 percent to Rs.571.57 billion, compared to Rs.509.49 billion in mid-July 2022, while loan and advances increased by 6.69 percent to Rs.471.38 billion in mid- July 2023 compared to Rs. 441.78 billion in the previous year. Credit to deposit ratio (CD) stood at 84.37 percent during 2022/23, compared to 87.18 in the previous year.

Figure 3.3: Deposits and Credit of Development Banks



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

3.2.3 Asset Quality

The size of the assets grew but there are still concerns over the asset quality. In mid- July 2023, total assets of development banks increased by 9.45 percent to Rs.693.88 billion from Rs.633.92 billion in mid-July 2022. The NPL, which was 1.36 percent as of mid-July 2022, increased to 2.45 percent in mid-July 2023.

3.2.4 Base Rate, Spread Rate and Profitability

Base rates and spread rates continued to be on the higher side while profits declined. The average base rate of development banks increased by 4.53 percent and stood at 11.77 percent during 2022/23. Similarly, the interest rate spread increased from 4.56 percent to 4.59 percent in the review year. The increase in base and spread rate is largely attributable to the liquidity crunch in the banking sector. The total net profit of development banks decreased by 32.16 percent to Rs. 4.18 billion. ROE and ROA of development banks as of mid-July 2023, stood at 7.55 and 0.60 percent respectively. ROE and ROA stood 4.24 percent and 1.14 percent respectively in the previous year.

3.3 Finance Companies

Among the BFI's, the size of finance companies is the smallest in the industry. The share of the total assets of finance companies among BFIs' was 2.13 percent in the review year as compared to 2.24 percent in mid-July 2022. Similarly, the ratio of total assets/liabilities of development banks to GDP has increased slightly to reach 2.88 percent in mid-July 2023 from 2.83 percent a year ago. The total assets/liabilities of commercial banks increased by 2.06 percent to reach Rs. 155.17 billion in mid-July 2023 from Rs. 152.04 billion in mid-July 2022. Two finance companies (Nepal Share Market and Finance Ltd. and Capital Merchant Banking and Finance Ltd.) are in problematic status and under the resolution process. The major financial indicators of finance companies have been presented in Table 3.3.

Table 3.3: Major Financial Indicators of Finance Companies (In percent)

Indicators	Mid-July 2022	Mid- July 2023
Core Capital Ratio (CCAR)	16.17	14.90
Capital Adequacy Ratio	18.32	17.06
C/D Ratio	87.13	83.52
Non-Performing Assets (NPA)	2.52	4.51
Net Liquidity	30.47	33.71
Statutory Liquidity Ratio	23.47	26.17
Spread Rate	4.41	4.57
Base Rate	12.03	13.00
Priority Sector Lending	20.33	22.50
Deprived Sector	8.28	6.59
Total Real Estate exposure	8.74	8.53
Return on Assets (ROA)	0.85	0.03
Return on Equity (ROE)	6.44	0.20

Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

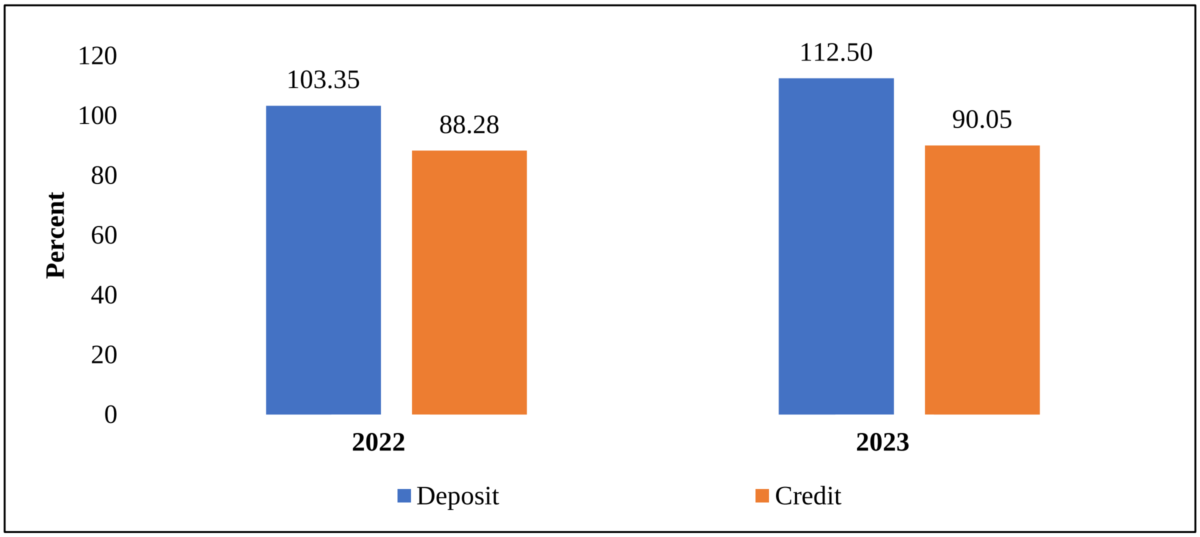
3.3.1 Capital

Finance companies remained well-capitalized during the review year. Capital fund of finance companies stood at Rs.18.26 billion in mid-July 2023, which was Rs.18.96 billion in mid-July 2022. The ratio of capital funds with risk-weighted exposure of all national level finance companies was 17.06 percent in mid-July 2023, which was 18.32 percent in mid-July 2022.

3.3.2 Deposits and Credit

Deposits and Credit both increased in the review year. In mid-July 2023, the total deposit and credit of finance companies increased by 8.85 percent and 2.00 percent respectively. The aggregate deposits of finance companies stood at Rs.112.50 billion in mid-July 2023 as compared to Rs.103.35 billion in mid-July 22. Total loan and advances of finance companies stood at Rs.90.04 billion in mid-July 2023 as compared to Rs.88.28 billion in the previous year. The credit to deposit ratio of finance companies remained below the regulatory ceiling; it stood at 83.52 percent in mid-July 2023 whereas such ratio was 87.13 percent in mid-July 2022.

Figure 3.4: Deposits and Credit of Finance Companies



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2023

3.3.2 Asset Quality

NPL notably elevated upwards during the review year. Finance companies' non-performing loan (NPL) rose to Rs. 7.07 billion in the review period from Rs. 5.72 billion last fiscal year. NPL to total loan excluding problematic finance companies stood at 7.60 percent in mid-July 2023 from 2.52 percent in mid-July 2022.

3.3.4 Profitability

During the review year, all finance companies recorded a positive return, with ROA 0.64 percent and ROE 5.24 percent. Finance companies' net profit dropped from Rs. 1.6 billion to reach Rs.0.97 billion in mid-July 2023.

Box 2: Assessing the Stability of Nepalese Banking System

Banking Stability Indicator (BSI) and Banking Stability Map

The BSI aggregates various financial metrics into a single composite index to provide an overall assessment of banking stability. This index typically includes metrics such as asset quality (NPL), soundness (Capital Adequacy Ratio), liquidity (Net liquid Assets Ratio), efficiency, and profitability. It helps to assess the overall health of the domestic banking system considering different risk areas comparing the present health of the banking system with its recent past.

The individual metrics used to construct the BSI are visualized in a radar chart, providing a detailed understanding of specific risk areas, commonly referred to as the Banking Stability Map.

The BSI simplifies complex data into an easily interpretable index but might not capture the nuances of individual risk factors. The Map, on the other hand, provides a more nuanced view, showing how different risk factors interact and contribute to the overall stability. This can help regulators, policymakers, and bank managers focus on specific areas that need attention. Together, these tools provide a comprehensive framework for assessing banking stability. The BSI offers a high-level overview, while the Banking Stability Map allows for deeper analysis and more informed decision-making.

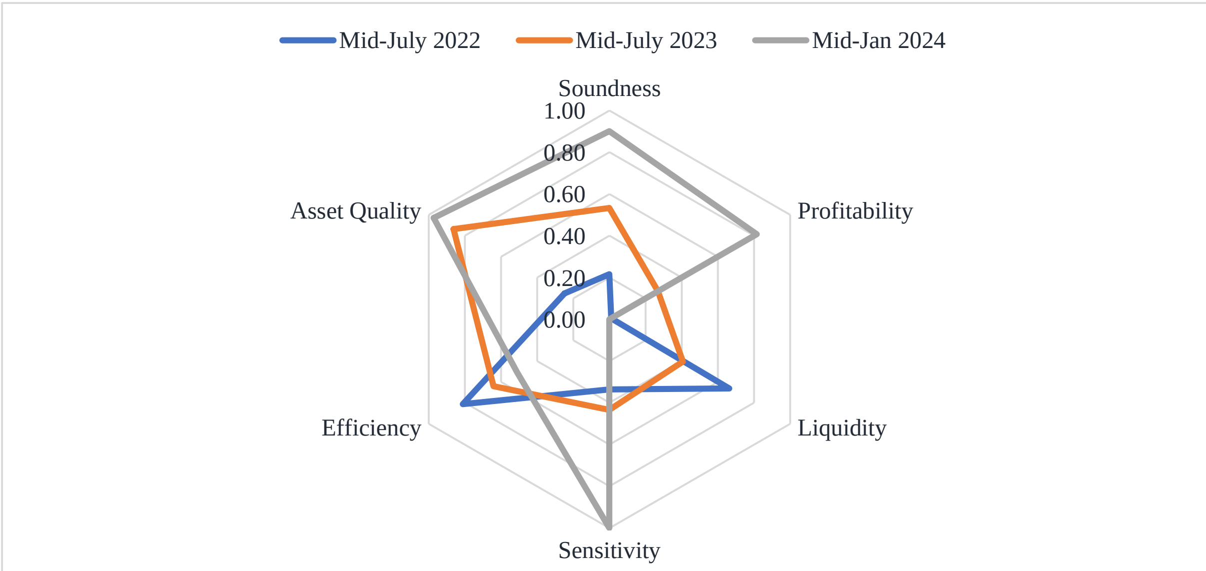
The Banking Stability Indicator (BSI) from mid-July 2022 to mid-January 2024 has shown continuous deterioration, driven by increased risks in most of the dimensions due to declining asset quality, which has led to reduced profitability and greater strain on capital requirements. Aided by increasing levels of NPL and restructured assets, the asset quality indicator has declined further, and decreasing return-on-assets (RoA) and return-on-equity (RoE) has degraded the profitability indicator too. Sensitivity dimension has also seen a steady increase in risk due to an increase in risk-weighted assets.

However, liquidity dimension has been improving over the period as net liquid assets has been increasing due to lower credit expansion and growing deposits. Efficiency indicator weakened due to increase in cost to income ratio.

Contribution of individual risk factors has also been shown corresponding to Banking Stability Indicators in the subsequent analysis. An increase in an indicator's value signifies a higher risk level, and a decrease signifies a lower risk level. The width of each risk factor represents its contribution to the overall risk. Understanding these concepts can help concerned stakeholders to identify which risk factors are most significant and need immediate attention, develop targeted strategies to mitigate the highest risks and monitor changes in risk levels over time, and adjust risk management practices accordingly.

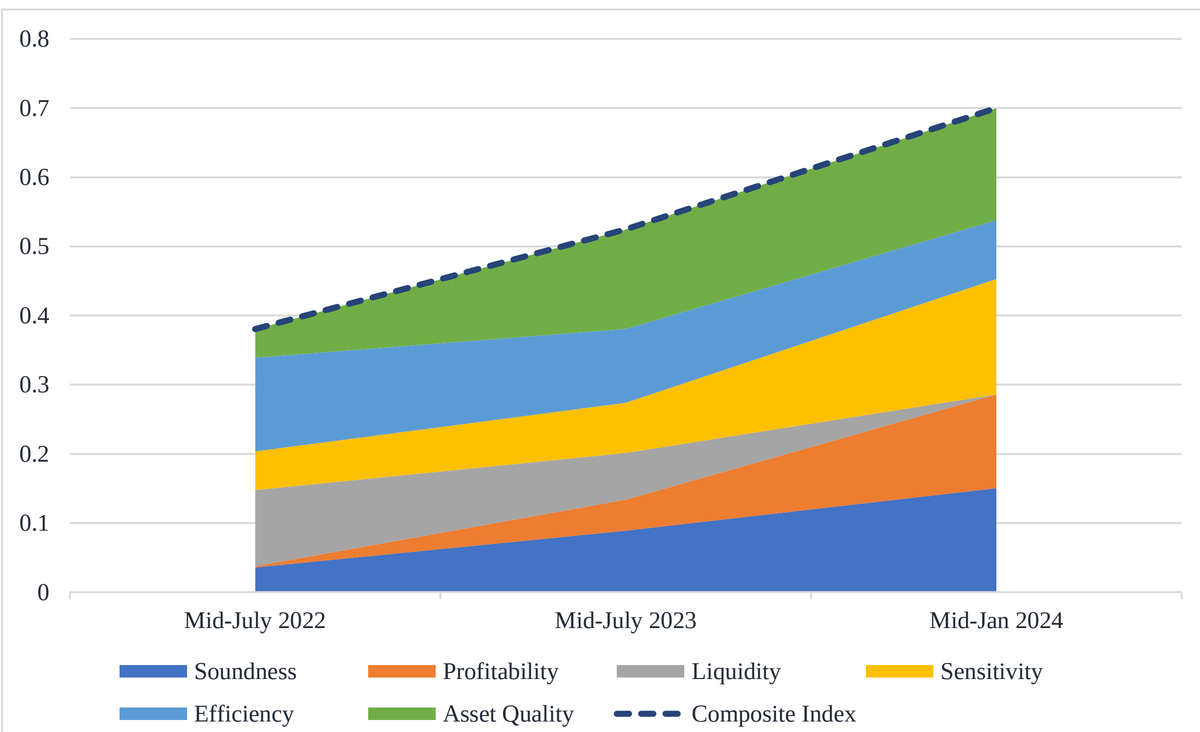
Banking Stability Map and graphical representation of each risk (represented by width) is presented below for A, B, C class, and Industry as a whole. Additionally, the composite index of the Banking Stability Indicator, along with sub-financial metrics, is presented for the aggregate of A, B, and C class banks.

Figure S31: Banking Stability Map (A class Commercial Banks)



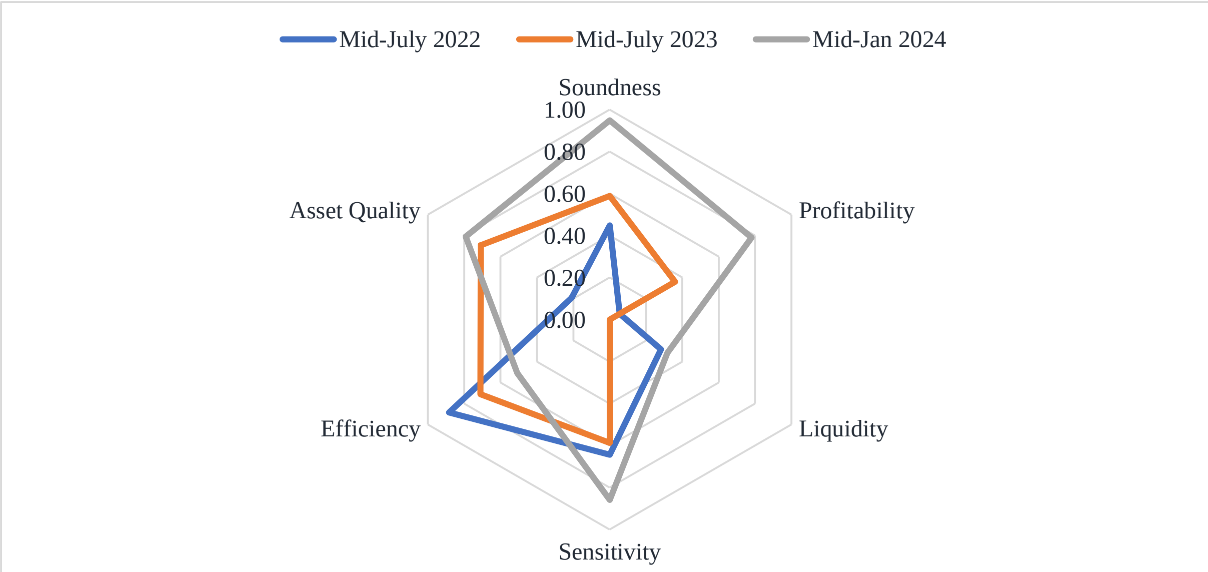
Note: Away from the center indicates increase in risk

Figure S32: Banking Stability Indicator - Contribution of Individual Risk Factors (A class Commercial Banks)



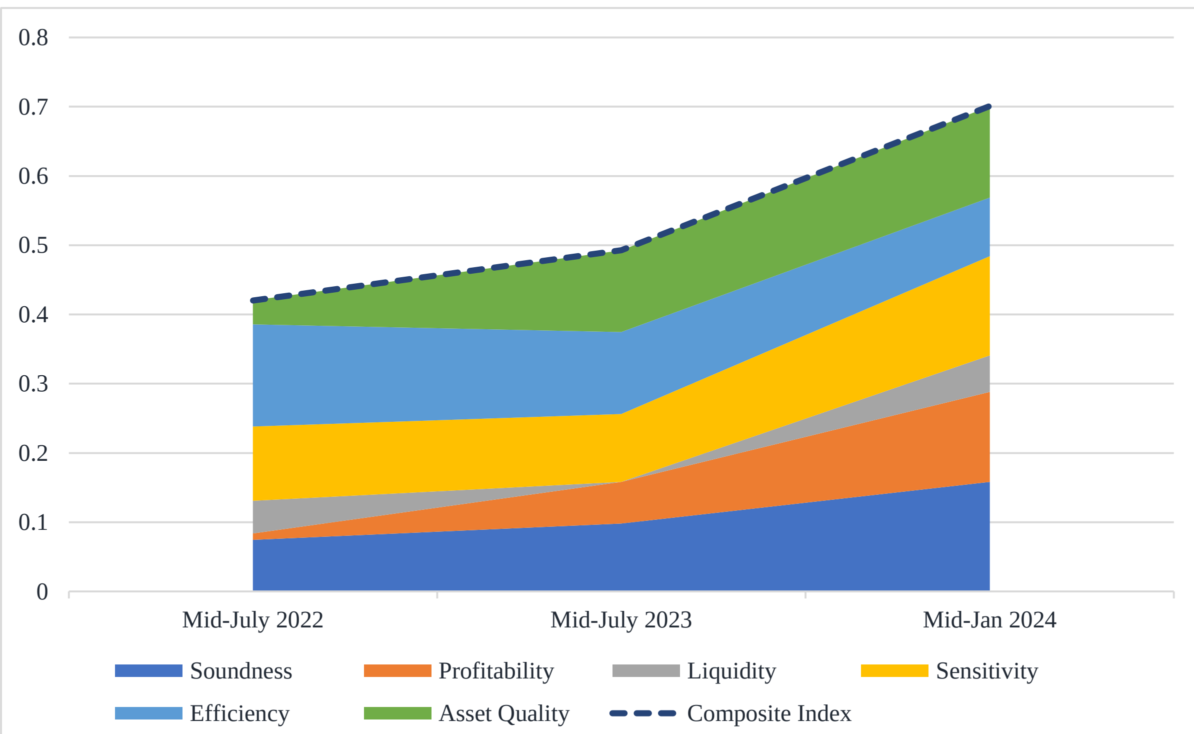
Note: Rise in the value of an indicator implies rise in risk level and vice versa. The width of each risk factor signifies its contribution towards aggregate risk.

Figure S33: Banking Stability Map (B class Development Banks)



Note: Away from the center indicates increase in risk.

Figure S34: Banking Stability Indicator - Contribution of Individual Risk Factors (B class Development Banks)

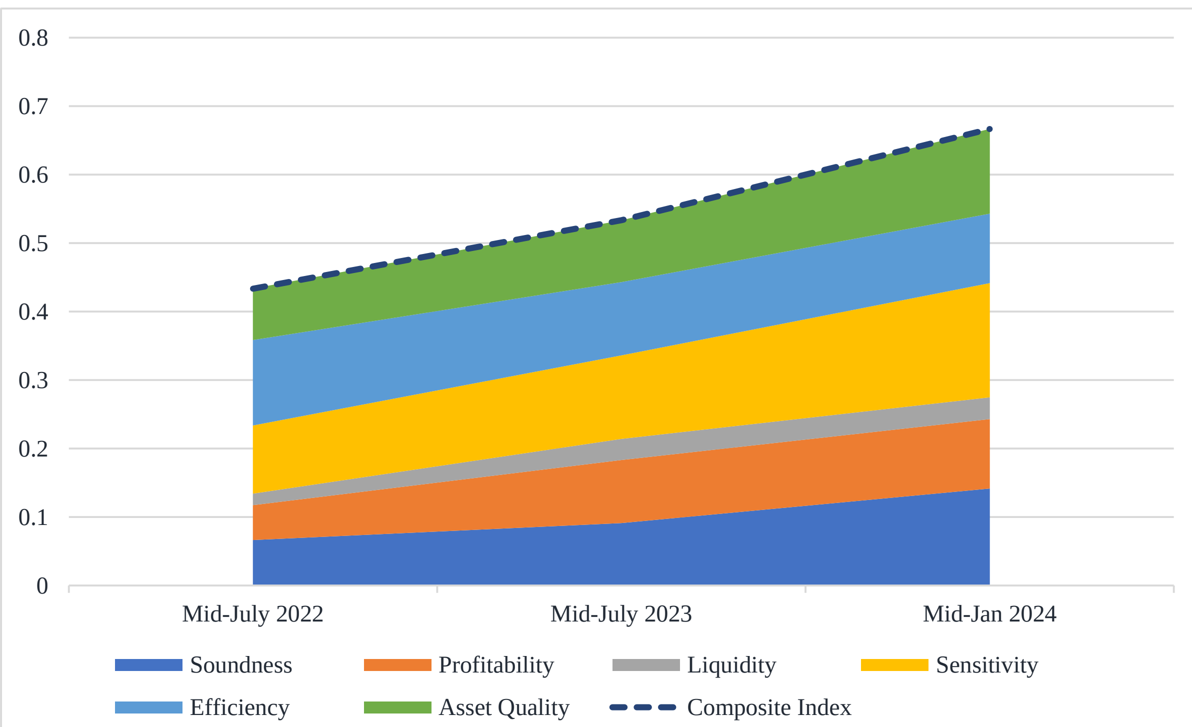


Note: Rise in the value of an indicator implies rise in risk level and vice versa. The width of each risk factor signifies its contribution towards aggregate risk.

Figure S35: Banking Stability Map (C class Finance Companies)

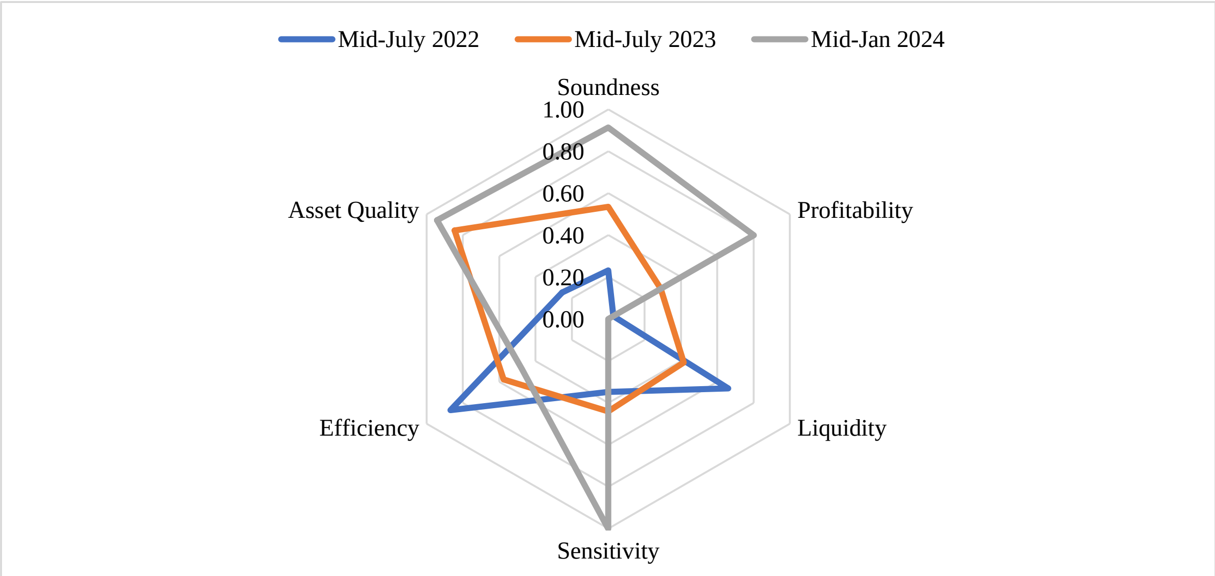
Note: Away from the centre indicates increase in risk.

Figure S36: Banking Stability Indicator - Contribution of Individual Risk Factors (C class Finance Companies)



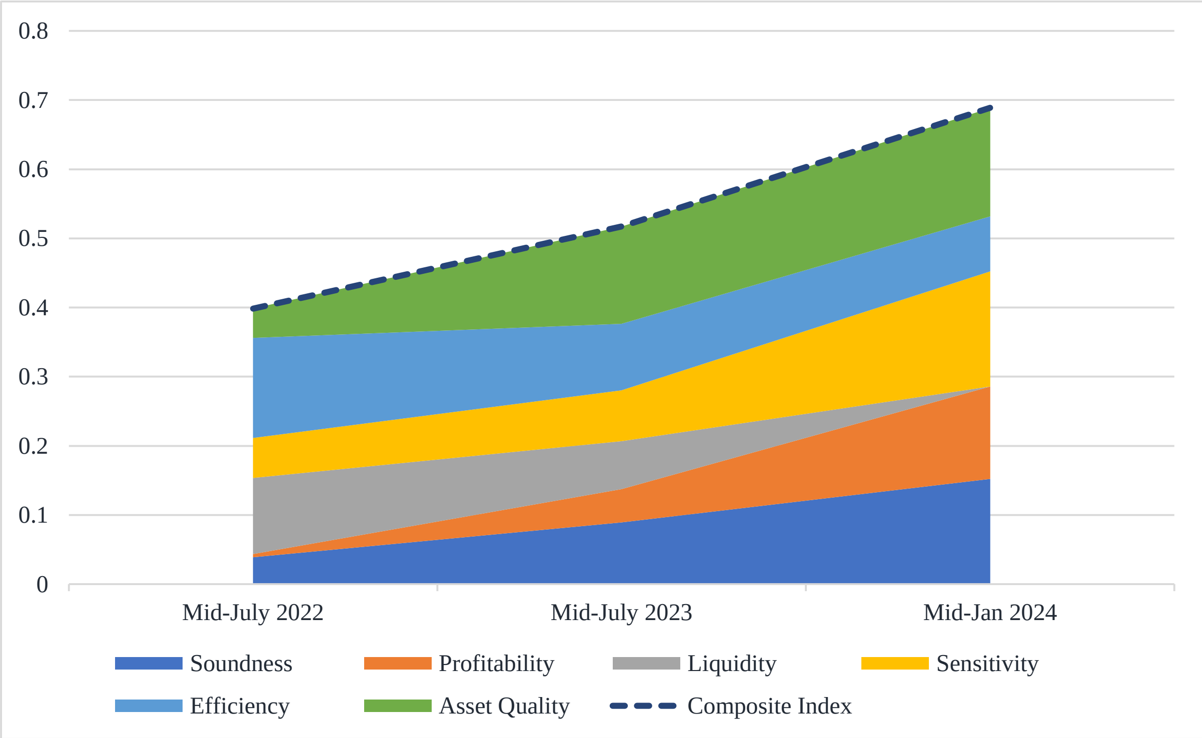
Note: Rise in the value of an indicator implies rise in risk level and vice versa. The width of each risk factor signifies its contribution towards aggregate risk.

Figure S37: Banking Stability Map (Banking Industry - A, B and C class)



Note: Away from the centre indicates increase in risk.

Figure S38: Banking Stability Indicator - Contribution of Individual Risk Factors (Banking Industry- A, B and C class)



Note: Rise in the value of an indicator implies rise in risk level and vice versa. The width of each risk factor signifies its contribution towards aggregate risk.

The individual index and composite index of the Banking Industry (A, B and C class aggregate) calculated for the different time periods is shown in the Table S1.

Table S1: Banking Stability Indicator – Composite Index (A, B and C class aggregate)

Period/Indicator	Soundness	Profitability	Liquidity	Sensitivity	Efficiency	Asset Quality	Composite Index
Mid-July 2022	0.23	0.03	0.66	0.35	0.87	0.25	**0.40**
Mid-July 2023	0.54	0.29	0.42	0.44	0.58	0.84	**0.52**
Mid-Jan 2024	0.91	0.80	0.00	1.00	0.48	0.94	**0.69**

The composite index of the banking industry's Banking Stability Indicator (A, B, and C class aggregate) has increased steadily from 0.40 in Mid-July 2022 to 0.69 in Mid-Jan 2024. The surge in the composite index depicts the increased level of overall risk in banking stability. Liquidity risk has been gradually decreasing and visibly shows no risk at the end of the period taken under study. Efficiency risk has also seen some gradual decrease in risk, though marginal, over the period. However, risk in asset quality, soundness, and sensitivity has been increasing quite steadily.

******NRB BFIRD's Computation***
Further detail has been provided on Annexes (Annex VIII)

3.4 Microfinance Financial Institutions

As of mid-July 2023, there are 57 MFIs operating as "D" class licensed institutions. Among them, three are wholesale lending MFIs. Out of 54 retail-lending MFIs, two are public deposit-taking institutions.

3.4.1 Capital Adequacy

Microfinance institutions maintained the regulatory capital but still concerns remain over asset quality. As of mid-July 2023, the total capital fund of MFIs increased by 17.86 percent and reached Rs.59.32 billion. The industry average of core capital and capital fund ratio to total risk-weighted assets stood at 11.99 percent and 13.33 percent in the review year. The total paid-up capital of MFIs increased by 14.26 percent and reached Rs. 34.38 billion in the review year (Table 3.4). The ratio of paid-up capital to total capital fund stood at 55.24 percent, which was 50.71 percent in the previous fiscal year. The paid-up capital of wholesale MFIs increased by 16.84 percent compared to the previous fiscal year and stood at Rs.5.34 billion. 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.

3.4.2 Assets Quality

NPL followed an upward trend during the review year. The total outstanding loan of MFIs as of mid-July 2022 has been decreased by 3.88 percent to Rs.432.23 billion as compared to Rs.449.69 billion in the previous year. In the review year, the ratio of loans and advances to the total assets stood at 85.12 percent as compared to 86.54 percent a year ago. The total amount of overdue loan, including interest of these institutions increased significantly by 73.39 percent and increased to Rs.50.75 billion from Rs. 29.27 billion as compared to the previous year. The overdue of wholesale MFIs stood at Rs. 0.37 billion and retail MFIs stood at Rs.50.38 billion. The amount of loan loss provision of these MFIs increased by 227.22 percent and reached Rs.18.03 billion during the review year.

Table 3.4: Capital Adequacy and Assets Quality

Rs in billion

Particulars	Mid-July 2022	Mid-July 2023	% Change
Total Capital Fund of MFIs	50.33	59.32	17.86
Capital Fund of Retail MFIs	42.13	49.19	16.76
Capital Fund of Wholesale MFIs	8.2	10.12	23.41
Total Paid-up Capital of MFIs	30.09	34.38	14.26
Paid-up Capital of Retail MFIs	25.52	29.09	13.99
Paid-up Capital of Wholesale MFIs	4.57	5.34	16.85
Total Assets of MFIs	519.65	507.74	-2.29
Assets of Retail MFIs	458.19	440.93	-3.77
Assets of Wholesale MFIs	61.46	66.81	8.70
Total Loan and Advances of MFIs	449.69	432.23	-3.88
Loan and Advances of Retail MFIs	391.75	371.92	-5.06
Loan and Advances of Wholesale MFIs	57.94	60.30	4.07
Total Overdue (Loan & Interest) of MFIs	29.27	50.75	73.39
Overdue (Loan & Interest) of Retail MFIs	29.00	50.38	73.72
Overdue (Loan & Interest) of Wholesale MFIs	0.27	0.37	37.04
Total Loan Loss Provision of MFIs	5.51	18.03	227.22
Loan Loss Provisions of Retail MFIs	5.15	16.93	228.74
Loan Loss Provisions of Wholesale MFIs	0.36	1.56	333.33

Source: Nepal Rastra Bank

3.4.3 Profitability and Liquidity

Low domestic demand has affected the profitability of MFIs as well. Net profit of microfinance institutions decreased significantly by 66.20 percent and declined to Rs. 4.13 billion in mid-July 2023. During the review year industry average ROA and ROE of MFIs stood at 0.81 percent and 6.52 percent respectively. Total savings mobilized by the MFIs has been increased by 6.32 percent and reached Rs. 167.09 billion in the review year (Table 3.5). Out of the total liabilities, the share of savings remained at 30.60 percent. Out of total savings, public deposits accounted for only 1.29 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 decreased by

8.28 percent and dropped to Rs.214.23 billion. Out of the total borrowings, wholesale MFIs borrowed Rs. 50.89 billion, which comprises 23.75 percent of total borrowing. As compared to total liabilities of MFIs, the share of borrowed amount remained at 42.19 percent.

Table 3.5: Profitability and Liquidity

Rs.in billion

Particulars	Mid- July 2022	Mid- July 2023	% Change
Net Profit	12.22	4.13	-66.20
Total Savings in MFIs	157.16	167.09	6.32
Total Borrowings of MFIs	233.58	214.23	-8.28
Borrowings of Retail MFIs	186.21	163.34	-12.28
Borrowings of Wholesale MFIs	47.37	50.89	7.43
Public deposit	1.86	2.17	16.67

Source: Nepal Rastra Bank

3.5 Infrastructure Development Bank

The only infrastructure development bank has total assets of Rs. 29.15 billion as of mid-July 2023. Total assets of the bank increased by 10.23 percent as compared to the previous year.

3.5.1 Capital

Capital adequacy and leverage ratio declined during the review year. Infrastructure development bank has capital and reserves fund of Rs. 22.42 billion including paid up capital of Rs. 21.60 billion in mid-July 2023 as compared to Rs. 22.30 billion in mid-July 2022. Total capital to risk-weighted exposure ratio has declined significantly from 119.27 percent to 96.40 percent in mid-July 2023 as compared to mid-July 2022. Likewise, leverage ratio has also declined from 89.82 percent to 78.78 percent in mid-July 2023 as compared to mid-July 2022.

Table 3.6: Major Financial Indicators of Infrastructure Development Bank

Figures in percent

Regulatory Ratios	Mid-July 2023	Mid-July 2022
Leverage Ratio	78.78	89.82
Common Equity Tier 1 to Risk Weighted Exposure Ratios	94.91	118.47
Tier 1 to Risk Weighted Exposure Ratios	94.91	118.47
Total Capital to Risk Weighted Exposure Ratio	96.40	119.27

Source: Nepal Rastra Bank

3.5.3 Deposits and Credit

Deposits collection and credit disbursement both continued to rise. The amount of deposit collection of the infrastructure development bank increased by 103.83 percent to Rs.892.82 million in mid-July 2023 including fixed deposit of Rs.700 million as compared to the deposit collection of Rs.438.03 million in mid-July 2022. Infrastructure Development Bank has provided loans and advances in infrastructure development projects with an outstanding balance of Rs.20.33 billion in mid-July 2023 as compared to Rs.15.5 billion in mid-July 2022.

3.5.4 Profitability

Infrastructure development bank's profit increased by 42.46 percent in the review year. Contribution of interest income was 96.81 percent in total income in the review year. Such contribution was 98.23 percent in the last year.

3.6 Stress Test Results

3.6.1 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 as presented in Table 3.7.

3.6.1.1 Credit Shock

The majority of commercial banks' capital adequacy is vulnerable to credit shocks. Stress tests based on data of mid-July 2023 of commercial banks, revealed that a combined credit shock (15 percent of performing loans degraded to substandard, 15 percent of substandard loans deteriorated to doubtful loans, 25 percent of doubtful loans degraded to loss loan, and 5 percent of performing loan deteriorate to loss categories) would push down the capital adequacy ratio of 19 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 loans showed some respite. Under this scenario, capital adequacy ratio of only 2 commercial banks will come below the regulatory minimum. The result show 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 the top two large exposures (loan) downgraded from performing to loss category, the capital adequacy ratio of one commercial bank would fall below the regulatory minimum.

3.6.1.2 Liquidity Shock

Liquidity shocks threatens the commercial banks resilience. The liquidity stress test, in mid-July 2023 under scenario of withdrawal of deposits by customers by 2 percent, 5 percent, 10 percent, 10 percent and 10 percent for five consecutive days showed that 11 out of 20 commercial banks are vulnerable toward liquidity crisis.

In addition, 2 banks are prone to liquidity shock in case of withdrawal of 5 percent of deposits in a single day, while 7 banks' liquidity ratio would drop below 20 percent after withdrawal of 10 percent of deposits in a single day. The number of banks with their liquidity ratio dropping below 20 percent would grow to 15 and 17 if the single day deposits withdrawal increased to 15 percent and 17 percent respectively. In mid-July 2022, the numbers of banks prone to liquidity crisis under single day deposits withdrawal of 5 percent, 10 percent, 15 percent and 20 percent were 9 percent, 20 percent, 22 percent and 25 percent respectively.

With the shock of withdrawal of deposits by top 2, 3 or 5 institutional depositors, liquid assets to deposit ratio of 3, 6 and 9 commercial banks would be below 20 percent in the review year. Likewise, due to the shock of withdrawal of deposits by top 2, 3 or 5 individual depositors, the liquid assets to deposit ratio of none of the commercial banks in each case would be below 20 percent.

3.6.1.3 Market Shock and Combined Credit and Market Shock

Commercial banks showed resilience to market rate shocks. The stress testing result under market shock revealed 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. 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.

However, combined credit and market shocks hamper the financial resilience of commercial banks. The combined credit and market shocks based on a scenario of 25 percent of performing loans of real estate and housing sector directly downgraded to the substandard category and a fall of the equity prices by 50 percent showed that the CAR of one bank would fall below the regulatory requirement of 11 percent. Likewise, under a more adverse scenario of 15 percent of performing loans deteriorated to substandard, 15 percent of substandard loans deteriorated to doubtful loan, 25 percent of doubtful loan deteriorated to loss loans and equity price fall by 50 percent, the CAR of only one bank remain above the regulatory minimum and CAR of 19 banks would fall below the regulatory requirement of 11 percent.

Table 3.7: Summary Results of Stress Test of Commercial Banks (mid-July 2023)

		Number of Banks with CAR		
		< 0%	**0% - <11%**	**>=11%**
Pre-Shock		**0**	**0**	**20**
Post-Shock				
Credit Shocks				
C-1 a	15 percent of performing loan deteriorated to substandard	**0**	**15**	**5**
C-1 b	15 percent of substandard loan deteriorated to doubtful loan	**0**	**0**	**20**
C-1 c	25 percent of doubtful loan deteriorated to loss loan.	**0**	**0**	**20**
C-1 d	5 percent of performing loan deteriorated to loss loan.	**0**	**18**	**2**
C-2	All NPLs under substandard category downgraded to doubtful.	**0**	**0**	**20**
	All NPLs under doubtful category downgraded to loss.	**0**	**0**	**20**
C-3	25 percent of performing loan of real estate loan directly downgraded to substandard category of NPLs.	**0**	**0**	**20**
C-4	25 percent of performing loan of real estate loan directly downgraded to loss category of NPLs.	**0**	**2**	**18**
C-5	Top 2 large exposures downgraded: performing to loss category	**0**	**1**	**19**
Market Shocks				
Interest Rate Shocks				
IR-1a	Deposits interest rate change (+, -) by 1% on an average.	**0**	**0**	**20**
IR-1b	Deposits interest rate change (+, -) by 1.5% on an average.	**0**	**0**	**20**
IR-1c	Deposits interest rate change (+, -) by 2% on an average.	**0**	**0**	**20**
IR-2a	Loan interest rate change (+, -) by -1% on an average.	**0**	**0**	**20**
IR-2b	Loan interest rate change (+, -) by -1.5% on an average.	**0**	**0**	**20**
IR-2c	Loan interest rate change (+, -) by -2% on an average.	**0**	**0**	**20**
Exchange Rate Shocks				
ER-1a	Depreciation of currency exchange rate by 20%	**0**	**0**	**20**
ER-1b	Appreciation of currency exchange rate by 25%	**0**	**0**	**20**
Equity Price Shocks				
Eq-1	Fall in the equity prices by 50%	**0**	**0**	**20**

Combined Credit & Market Shocks

COMB-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**	**1**	**19**
COMB-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**	**19**	**1**

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**	**0**	**11**

		Number of Banks with Liquid Assets to Deposit Ratio		
		< 0%	**0% - <20%**	**>=20%**
Pre-Shock		**0**	**0**	**20**
Post-Shock				
L-2-a	Withdrawal of deposits by 5%	**0**	**2**	**18**
L-2-b	Withdrawal of deposits by 10%	**0**	**7**	**13**
L-2-c	Withdrawal of deposits by 15%	**0**	**15**	**5**
L-2-c	Withdrawal of deposits by 20%	**0**	**17**	**3**
L-3a	Withdrawal of deposits by top 2 institutional depositors.	**0**	**3**	**17**
L-3b	Withdrawal of deposits by top 3 institutional depositors.	**0**	**6**	**14**
L-3c	Withdrawal of deposits by top 5 institutional depositors.	**0**	**9**	**11**
L-3d	Withdrawal of deposits by top 2 individual depositors.	**0**	**0**	**20**
L-3e	Withdrawal of deposits by top 3 individual depositors.	**0**	**0**	**20**
L-3f	Withdrawal of deposits by top 5 individual depositors.	**0**	**0**	**20**

		< 0%	**0% - <11%**	**>=11%**
L-4	Top 2 interbank lending goes bad number of banks with CAR	**0**	**0**	**20**
		< 0%	**0% - <20%**	**>=20%**
	Number of banks with liquid assets to deposit ratio	**0**	**0**	**20**

Source: NRB Bank Supervision Department

3.6.2 Stress test of Development Banks

Stress test results show that vulnerabilities is more prominent in Development Banks. The stress test results of FY 2022/23 indicated that development banks remain quite vulnerable to various kinds of shocks, thus, efforts to build greater resiliency seem necessary for credit and liquidity shocks.

Standard *credit shock test* (where five percent of performing loan deteriorated into bad loan) results indicated that 11 development banks' CAR falls below the regulatory requirement of 10 percent. The result reveals that in the absence of regulatory relaxations, banks would not be able to withstand the shocks.

Stress test on *Liquidity* indicates that seven development banks would see its liquidity ratio dip below the regulatory minimum level in case if there were withdrawal of deposits by two percent first day, five percent second day and 10 percent for the third consecutive day.

Five percent withdrawal of the deposit would push two national level development banks' liquidity ratios to fall below the regulatory requirement of 20 percent. In case if five percent of depositors withdraw their deposits, nine development banks' liquidity position falls below 20 percent. But, none of the national level development banks liquidity position would reach below 20 percent if the top five institutional depositors withdrew their deposits.

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.

3.6.3 Stress test of Finance Companies

Most finance companies maintain resilience to credit shocks and liquidity shocks, however for some, vulnerabilities persist. Among 15 finance companies, the stress testing results of 13 national-level finance companies remained less vulnerable to individual credit shocks and liquidity shocks in aggregate. However, for three finance companies, CAR decreased to less than 10 percent after combined credit shocks. In the same way, 10 finance companies will have a liquidity ratio less than 20 percent after the withdrawal of deposits by 20 percent.

CHAPTER IV: NON BANK FINANCIAL INSTITUTIONS

4.1 Cooperatives

Cooperatives are community-based, member-centric democratic and autonomous entities to meet certain economic, social and cultural upliftment of members. In Nepal, cooperatives are guided by the Cooperatives Act 2017 which envisions that cooperatives support in the integration of capital, technology, and talents scattered amongst farmers, craftspersons, laborers, low-income groups, and marginalized communities. The Department of Cooperatives[5], as a federal agency has been playing a leading role in the registration, regulation and promotion of the cooperative organizations.

As of mid-July 2023, the total number of co-operatives stands at 31,373 and the number of shareholders reached 7.38 million while the share capital is Rs. 94.15 billion. During the review year, savings of Rs. 478.03 billion and credit of Rs. 426.35 billion were mobilized which were Rs. 477.99 billion and Rs. 426.31 billion respectively in the previous year. The total number of direct employments generated in the cooperative sector has increased to 93,771 from 91,301.

There have been cases of misuse of savings in cooperatives in the review period. A working committee formed by the government has published a report in September 11, 2023, has recommended various policy measures for the improvement of governance and operation of cooperatives in Nepal.

Table 4.1: Key Indicators of Cooperatives

Indicators	Mid-July 2022	Mid-July 2023
No. of Cooperatives	30,879	31,373
Members (in Million)	7.33	7.38
Total Staff	91,301	93,771
Total Capital (Rs. in Billion)	94.12	94.15
Savings (Rs. in Billion)	477.99	478.03
Credit (Rs. in Billion)	426.31	426.35

Source: Department of Cooperatives

[5] https://www.deoc.gov.np/

4.2 National Cooperative Bank Limited (NCBL)

NCBL was established on 9th July 2003 as per the Section 26 sub-section (5) of the then Cooperative Act, 1992 (First Amendment, 2000). It received its license from Nepal Rastra Bank to carry out limited banking activities from 26th July 2010. Since then, it has been carrying out financial activities like accepting deposits from and providing wholesale loans to Cooperatives with 68 branches spread throughout seven provinces. The deposits experienced a notable increase of approximately 15%, reaching Rs. 58.24 billion in mid-July 2023 compared to the previous year.

Table 4.2 Key Indicators of NCBL

Rs in billion

Indicators	Mid-July		Percent Change
	2021/2022	**2022/23**	
Uses of Funds	**57.854**	**63.46**	**9.69**
Cash and Cash Equivalent	16.81	15.86	-5.65
Deposit at NRB	0.27	0.32	18.52
Deposit at BFIs	2.75	6.58	139.27
Loans and Advances to cooperatives	36.37	31.65	-12.98
Secured assets investment	0.00	7.39	
Tax Assets	0.29	0.32	10.34
Investment assets	0.084	0.13	54.76
Property and equipment	0.67	0.62	-7.46
Other Assets	0.61	0.59	-3.28
Sources of Fund	**57.85**	**63.46**	**9.69**
Deposit from Customers	50.68	58.24	14.92
Payables	1.28	-	-
Deferred Tax Liabilities	0.02	-	-
Other Liabilities	0.48	0.4	-16.67
Share Capital	2.91	2.8	-3.78
Retained Earnings	0.62	0.081	-86.94
Reserves and Surplus	1.85	2.11	14.05

Source: NCBL Annual Report, 2022/23

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.

4.3 Employees Provident Fund (EPF)

Employee Provident Fund[6] was established under the Employees Provident Fund Act, 2019 and manages Provident Fund in Nepal on behalf of the Government of Nepal for government, public enterprises and private sector employees. It has been entrusted to manage the Contributory Pension Scheme for the employees of the Federal Government of Nepal and other public sector employees appointed from FY 2076/77 as per the Pension Fund Act, 2075.

The total assets of EPF increased by 12.14 percent in the review year and reached Rs. 514.98 billion in mid-July 2023. The funds collected by the EPF grew by 11.69 percent to Rs. 465.02 billion in mid-July 2023. It has general reserve and other reserves worth of Rs. 37.32 billion.

Table 4.3: Key Indicators of Employees Provident Fund

Rs in billion

Sources of Fund	**Mid-July 2022**	**Mid-July 2023**
Provident Fund	416.36	465.02
Pension Fund	3.31	6.43
General Reserve and Other Reserves	33.98	37.32
Liabilities	1.67	1.97
Provisions	3.89	4.24
Total	**459.21**	**514.98**
Uses of Fund		
Cash and Bank	8.48	1.18
Investment in Government Savings Bonds	-	-
Investment in Government Debt Bonds	0.32	1.05
Investment in Fixed Deposit	121.47	147.21
Investment in Equity Shares	22.80	26.81
Investment in Debentures	2.21	4.39
Project Loan	75.96	84.25
Lending to Contributors	221.35	244.53
Staff Loan and Advances	2.26	2.34
Investment Properties	0.85	0.87
Property, Plant and Equipment	0.63	0.66
Assets Under Construction	0.16	0.17
Miscellaneous Assets	2.72	1.52
Total	**459.21**	**514.98**
Loan and Investment to Total Fund Ratio	0.97:1	0.99:1
Loan and Investment to Provident Fund Ratio	1.07:1	1.09:1

Source: Employee Provident Fund

6 https://epf.org.np/

4.4 Citizen Investment Trust (CIT)

Established under the Citizen Investment Trust Act, 2047, Citizen Investment Trust[7] was established on 18th March 1991 and it has been formally operating its activities since 15th January 1992. It operates and manages various types of retirement schemes and programs as well as various unit schemes and mutual fund programs for both domestic and foreign investors.

As of mid-July 2023, net fund collections of CIT stood at Rs. 204.14 billion, recording a growth of 8.90 percent from Rs. 187.45 billion in mid-July 2022. Regular fund collection from members is the major source of funds for CIT which is 76.87 percent of total funds available.

Loan to members and fixed deposit investments are the major segments of its fund mobilization. CIT has placed 43.20 percent of total funds in fixed deposits in the Commercial Banks, 27.80 percent in loans and advances to members and 12.04 percent investment in shares and debentures as of mid-July 2023. CIT has one subsidiary company (Nagarik Stock Dealer Company Ltd.) and has an investment of Rs. 2.72 billion, which has been shown under Shares and Debenture.

Table 4.4: Key Indicators of CIT

Rs in billion

Sources of Funds	Mid-July 2022	Mid-July 2023
Paid up Capital	3.27	5.31
Share Premium	1.26	0
Reserve Fund	29.88	22.37
Fund Collection	187.45	204.14
Other Liabilities	25.66	33.74
Total	**247.52**	**265.56**
Uses of Fund		
Cash and Bank Balances	4.30	3.82
Investments	**130.29**	**147.20**
a) Fixed Deposit	103.91	114.73
b) Governments Bonds	-	0.50
c) Shares and Debentures	26.38	31.98
Loan and Advances	64.64	73.83
Fixed Assets and Assets in WIP	3.14	2.29
Other Assets	45.15	38.42
Total	**247.52**	**265.56**

Source: CIT

[7] https://www.nlk.org.np/

4.5 Remittance Companies and Money Changers

4.5.1 Remittance

Remittance companies are licensed by Nepal Rastra Bank in accordance to Foreign Exchange Regulation Act, 1962 and Nepal Rastra Bank Act, 2002 to carry out international money transfer business. These companies establish agreements with international partners to receive inward remittances. Remittance companies contribute to around 50 percent of the total remittance inflows. The remaining portion of remittance inflows is facilitated by the Bank and Financial Institutions (BFIs) holding distinct licenses from the NRB to conduct remittance transactions.

As of mid-Jan 2024, 37 remittance companies are licensed by the NRB. A significant portion of the remittances entering Nepal originate from Nepalese migrants employed abroad. The remittance companies, however, are not allowed to remit funds out of Nepal.

Table 4.5 Key Indicators of Remittance Companies

Rs in billion

Indicators	Mid-July		Percent Change
	2022	2023	
Paid Up Capital	2.27	2.86	25.99
Equity	4.82	5.02	4.15
Assets	14.7	11.06	-24.76
Revenue	4.2	4.27	1.67
Expenses	2.72	2.73	0.37

Source: Money Transfer companies

4.5.2 Money Changers

Money changers are primarily licensed to acquire convertible foreign currencies and engage in the exchange of foreign currency. Only those situated at the international airport are permitted to sell a limited amount of convertible foreign currencies. As of mid-July 2023, NRB has granted license to 339 money changers.

4.6 Hire Purchase Companies

Hire purchase companies are exclusively authorized to provide hire purchase loans, covering financing for the acquisition of motor vehicles, machinery, and other equipment used for agricultural, industrial, commercial, or private purposes. As of mid-Jan 2024, 10 hire purchase companies are licensed by NRB. The total net worth of these companies has marginally increased to Rs. 5.98 billion from the previous year. In order to sustain their operations, these companies have obtained loans totaling Rs. 12.15 billion from the BFIs. The outstanding hire-purchase loans disbursed by these companies has reached to Rs. 17.79 billion compared to the preceding year.

Table 4.6 Key Indicators of Hire Purchase Companies

Rs in billion

Indicators	As of mid-July		Percent Change
	2022	2023	
Sources of Fund	**20.48**	**21.25**	**3.76**
Share Capital	3.40	3.70	8.82
Reserves and Surplus	2.53	2.28	-9.88
Net worth	5.93	5.98	0.84
Borrowings	9.73	10.65	9.46
Other Liabilities	4.82	4.62	-4.15
Uses of Fund	**20.48**	**21.25**	**3.76**
Cash and Bank	0.74	0.58	-21.62
Loan and Advances	17.83	18.65	4.60
Fixed Assets	0.31	0.32	3.23
Other Assets	1.60	1.69	5.62

Source: NRB reporting portal

4.7 Hydroelectricity Investment and Development Company Limited (HIDCL)

HIDCL is a state-owned enterprise with the primary objective of mobilizing funds for investment in hydroelectricity generation, transmission, and distribution projects. The loan extended to projects witnessed a significant rise from Rs. 6.45 billion to Rs. 9.27 billion whereas 52.92 percent of the company source of funds are kept as term deposits in various banks as of mid-July 2023.

Table 4.7 Key Indicators of HIDCL

Rs in billion

Indicators	Mid July		Percent Change
	2022	2023	
Sources of Fund	**23.37**	**25.34**	**0.08**
Share Capital	20.72	22.78	0.10
Reserves	1.65	2.34	0.41
Current Liabilities	0.59	0.16	-0.73
Non-Current Liabilities	0.41	0.07	-0.83

Uses of Fund	23.37	25.34	0.08
Cash and Bank Balance	0.85	0.36	-0.58
Term Deposits with Banks	12.38	12.37	0.00
Other Current Assets	1.71	0.17	-0.90
Loan to Power Projects	6.45	9.27	0.44
Investment in Corporate bonds and Equity	0.17	0.16	-0.06
Other Non-Current Assets	1.81	3.01	0.66

Source: HIDCL Annual Report 2022/23

4.8 Insurance and Reinsurance Companies

There are altogether 34 (14 Life insurance, 14 Non-Life Insurance, 2 Reinsurance, and 4 Micro insurance) insurance companies as of mid-July 2023 in Nepal. The average growth in gross insurance premium in the last five fiscal years is 20.55 percent and the average growth in gross premium in proportion to GDP (Penetration ratio) is 3.29 percent. The percentage of population covered by insurance services have risen steadily over the years and reached 44.38 percent in FY 2022/23. In the review year, the insurance industry served customers with 11,496 employees directly engaged to provide insurance services with 2801 branches.

Table 4.8 Key Indicators of Insurance Companies

Rs in billion

Years	2020/21	2021/22	2022/23
Gross Premium (in Billion)	152.66	177.81	182.91
Growth (Percent)	26.19	16.48	2.87
Gross Premium to GDP	3.51	3.60	3.40
Coverage including F/E (Percent)	27.53	41.39	44.38
Employment	10752	12031	11496
Branches	2933	3366	2801

Source: Nepal Insurance Authority

The total assets of insurance companies increased by 9.09 percent to Rs.680.91 billion in the review year. Total assets of non-life insurance companies, increased by 5.75 percent whereas that of life insurance companies increased by 9.62 percent.

Table 4.9: Key Indicators of Insurance Companies

Rs in billion

Sources	Life			Non-Life			Micro Life	Micro Non-Life	Total
	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23	2022/23	2022/23	2022/23
Paid-up Capital	38.907	43.891	53.048	19.844	22.8	25.01	1.05	1.58	78.058
Reserve Funds	409.812	458.187	503.282	46.518	27.25	31.36	0.00	0.01	534.642
Other Liabilities	20.131	38.845	36.597	7.442	33.15	31.61	0.02	0.05	68.207
Total	**468.85**	**540.92**	**592.93**	**73.8**	**83.2**	**87.98**	**1.08**	**1.64**	**680.91**
Uses	**Life**			**Non-Life**					
Cash and Bank	6.67	4.1	6.33	4.13	3.88	1.83	0.04	0.12	8.16
Investment	420.01	495.63	543.37	48.52	55.68	59.3	1.00	1.40	602.67
Fixed Assets	2.59	3.02	2.52	2.26	2.51	2.59	0.03	0.10	5.11
Other Assets	39.59	38.18	40.71	18.89	21.14	24.26	0.01	0.02	64.97
Total	**468.85**	**540.92**	**592.93**	**73.8**	**83.2**	**87.98**	**1.08**	**1.64**	**680.91**

Source: Nepal Insurance Authority

As of mid-July 2023, there are two reinsurance companies operating in Nepal. The total assets of reinsurance companies increased by 8.06 percent to Rs. 41.28 billion in the review year. The details of total assets/liabilities of reinsurance companies are presented in Table 4.10.

Table 4.10: Key Indicators of Reinsurance

Rs in billion

Sources	Reinsurance		
	2020/21	2021/22	2022/23
Paid-up Capital	10.00	18.65	19.23
Reserve Funds	5.82	7.40	9.26
Other Liabilities	13.51	12.15	12.79
Total	29.33	38.20	41.28
Uses			
Cash and Bank	1.14	0.34	0.44
Investment	16.99	26.68	30.25
Fixed Assets	0.41	0.58	0.65
Other Assets	10.78	10.59	9.94
Total	29.33	38.20	41.28

Source: Nepal Insurance Authority

4.9 Social Security Fund (SSF)

The Social Security Fund (SSF) executes social insurance policies 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 employees.

As of mid-July 2023, the national welfare fund of SSF stood at Rs. 25.72 billion. SSF funds are concentrated in investment in fixed deposits.

Table 4.11: Key Indicators of SSF

Rs in billion

Sources of Fund	Mid-July 2022	Mid-July 2023
Employees Facility Related Liability	0.028	0.047
Social Security Related Liability	0.007	0.052
Loan and other liability	0.329	0.275
Medical, Health and Maternity Protection Fund	0.460	0.937
Accident and Disability Protection Fund	0.958	1.708
Dependent Family Protection Fund	0.150	0.248
Old Age Protection Fund	18.983	32.700
National Level Welfare Fund	23.772	25.722
Social Security Tax Fund	0.470	0.470
Accumulated Profit/ (loss)	9.512	12.642
Uses of Fund	**54.670**	**74.800**
Cash and Cash Equivalents	0.000	15.313
Placement with Bank and Financial Institutions	51.717	42.973
Other Assets	1.003	1.639
Loan to Contributors	0.000	1.196
Investment on securities	1.905	13.622
Property, Plant and Equipment	0.045	0.057
Intangible Assets	0.00002	0.000
Total Uses of Fund	**54.670**	**74.800**

Source: SSF

CHAPTER V: FINANCIAL MARKETS

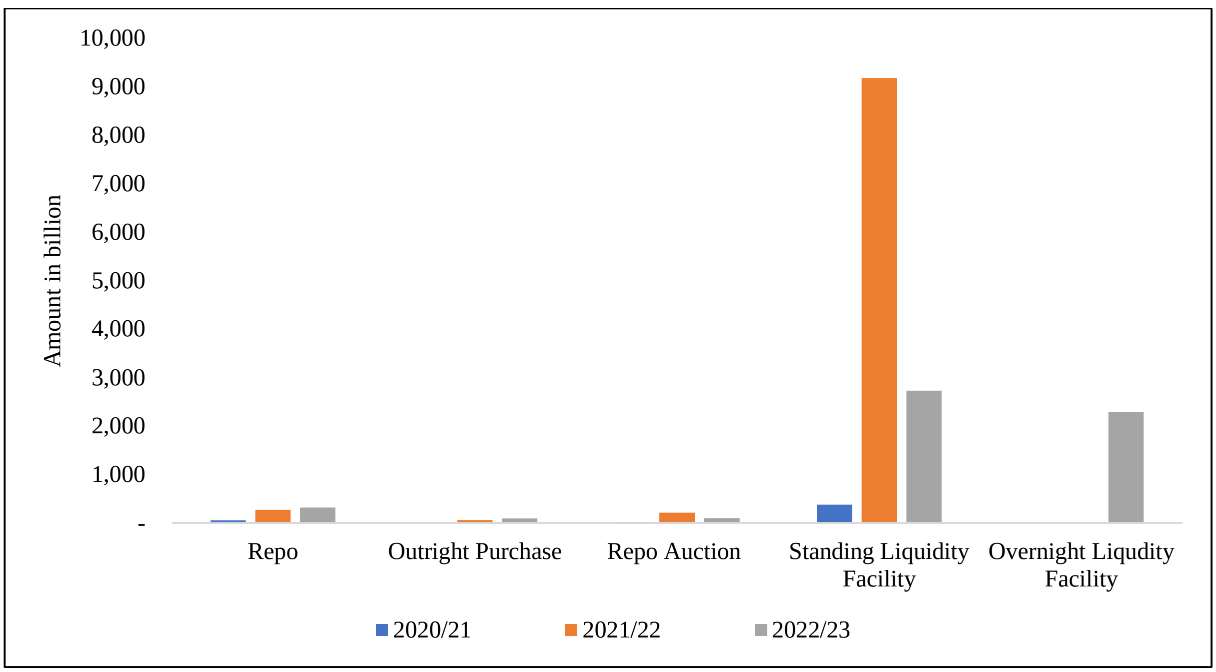
5.1 Domestic Financial Market

5.1.1 Money Market

NRB monitors and stabilizes the short-term interest rate of the baking system through monetary management instruments such as repo, reverse repo, outright purchase, outright sale, deposit collection along with the interest rate corridor framework and influences market interest rate through its policy rate.

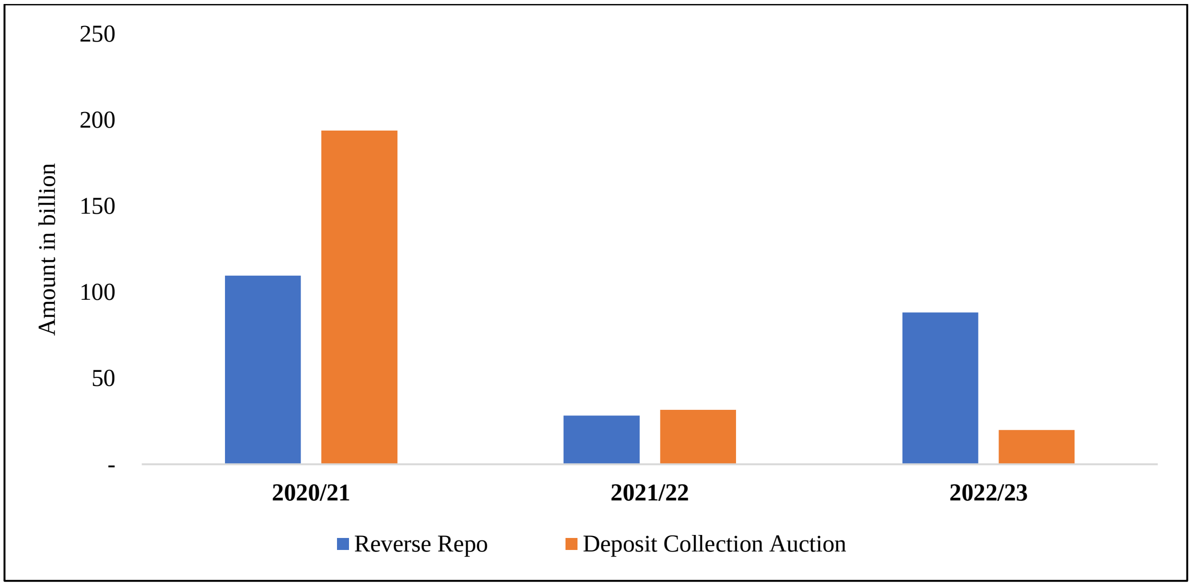
In 2022/23, NRB injected Rs.5518.19 billion liquidity of which Rs.414.47 billion was through repo, Rs.89.70 billion through outright purchase auction, Rs.2727.11 billion through standing liquidity facility (SLF), and Rs.2286.90 billion through overnight liquidity Facility (OLF). Also, NRB injected liquidity of Rs.712.50 billion through the net purchase of USD 5.45 billion from foreign exchange market. NRB mopped up Rs.108.20 billion liquidity including Rs.88.20 billion through reverse repo auction and Rs.20 billion through deposit collection auction. NRB purchased Indian currency (INR) equivalent to Rs.596.37 billion through the sale of USD 4.56 billion in the review year. Similarly, BFIs' interbank transactions amounted Rs.4294.22 billion including Rs.3942.15 billion inter-bank transactions among commercial banks and Rs.352.07 billion among other financial institutions.

Figure 5.1: Liquidity Injection



Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2023

Figure 5.2: Liquidity Absorption



Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2023

5.1.2 Capital Market

SEBON, the regulatory body of capital markets, issues necessary regulations, and directives guidelines to make the market stable, fair, efficient, and transparent. As a tool to encourage market entry of real sector companies and establish a free pricing mechanism, SEBON introduced book building directives for the pricing of shares in the issuance of IPO. Likewise, in order to promote the mobilization of capital in businesses or the latest ventures related to new goods, services, technology or intellectual property through the PE/VC ecosystem, SEBON introduced specialized Investment Fund Regulations, 2075. Likewise, in order to increase market competence, SEBON has granted licenses to 17 new stockbrokers and one stock dealer during the review year. In addition, with a rationale of increasing the competitive ability, SEBON has raised the minimum capital requirements of stockbrokers and stock dealers. The capital requirement for limited working stockbrokers is Rs. 0.20 billion, full functioning stockbrokers is Rs. 0.60 billion and Stock Dealers is Rs. 1.50 billion.

Further to strengthen the regulation of market conduct, SEBON investigated and submitted the case of insider trading, and market manipulation to the court. Similarly, merchant bankers, stockbrokers and directors of some listed companies were also penalized for non-compliance of securities and ML/CFT laws. All these efforts have aided to strengthen the capital market and protect the general investors.

5.1.2.1 Structure of Nepalese Securities Markets

Market participants in Nepalese Capital markets reached to 662 during the review period including the registrations of the Specialized Investment Funds (SIF). SEBON also granted the license to the stockbroker and stock dealer in the review period. The number of listed companies, depository participants, stockbroker, and stock dealer increased during the year 2023. Likewise, listed companies from real sector is increasing thereby reducing the BFIs concentration in securities markets.

Table 5.1: Securities Market Participants

S.N.	Participants	2019	2020	2021	2022	2023
1	Stock Exchange	1	1	1	1	1
2	Central Depository Company	1	1	1	1	1
3	Stockbroker	50	50	50	50	67
4	Merchant Banker	30	32	30	30	30
5	Mutual Fund Manager	11	14	15	18	20
6	Credit Rating Agency	2	2	2	3	3
7	Listed Companies	215	212	219	234	254
8	Depository Participant	72	76	79	81	91
9	ASBA BFIs	53	59	52	49	49
10	Qualified Institutional Buyer	-	-	87	116	132
11	Stock Dealer	-	-	1	1	2
12	Specialized Investment Fund Manager	-	-	-	-	12
	Total	**435**	**447**	**538**	**584**	**662**

Source: Securities Board of Nepal and Nepal Stock Exchange ltd.

5.1.2.2 Primary Market

Primary market helps channelize the funds from the surplus sector to the productive sector. Merchant Bankers, ASBA BFIs, CDS and QIBs play key roles in the process. In FY 2022/23, funds of Rs. 96.04 billion were mobilized via primary market which constitutes IPOs of Rs. 22.37 billion, right offerings of Rs. 15.98 billion, FPOs of Rs. 0.0379 billion, debentures issue of Rs. 31.00 billion, mutual funds issuances of Rs. 16.15 billion. SEBON approved specialized investment fund schemes of Rs. 10.55 billion in the review period. The total fund mobilization is increased by 89.68 percent in the review period as compared to FY 2021/22. In the review year, IPOs of ordinary shares, right shares, debentures, mutual funds, and the specialized investment fund scheme were issued in primary market, out of which debentures occupied the highest (32.27 percent) share like in the previous year. Out of 42 issuers of ordinary shares, 29 issuers were hydropower companies. In FY 2021/22, funds of Rs. 50.09 billion were mobilized via primary market consisting of 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. The status of the primary market of the last three fiscal years is presented in Table 5.2.

Table 5.2: Primary Market

SN	Particulars	Fiscal Year (Amount in billion)						Percentage Changes			
		2020/21		2021/22		2022/23		2020/21		2022/23	
		No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
1	Initial Public Offerings	22	15.19	28	7.2	42	22.37	27.3	-52.6	50.0	210.7
2	Right Offerings	7	14.05	11	4.79	7	15.98	57.1	-65.9	-36.4	233.6
3	Further Public Offerings	0	0	0	0	1	0.0379	-	-	-	-
4	Debentures	23	69.6	10	31.2	12	31	-56.5	-55.2	20.0	-0.6
5	Mutual Fund Schemes	9	9.9	7	6.9	16	16.15	-22.2	-30.3	128.6	134.1
6	Specialized Investment Fund Schemes	0	0	0	0	4	10.5	-	-	-	-
Total		**61**	**108.74**	**56**	**50.09**	**82**	**96.04**	**-8.2**	**46.4**	**-53.9**	**46.4**

Source: Securities Board of Nepal

5.1.2.3 Secondary Market

In FY 2022/23, most of the secondary market's indicators trace the downturn momentum. However, some indicators such as the number of listed companies, market capitalization, NEPSE index, and other liquidity indicators increased in comparison to previous fiscal years. The turnover ratio, a major indicator of the liquidity of securities markets, decreased by 63.83 percent as compared to the previous fiscal year. In the fiscal year 2022/23, the turnover ratio was only 15.15 percent which was 41.89 percent in previous year. Increased volatility of interest rate, liquidity problem, inflation rate, and the other external factors are attributed to the downfall of secondary markets indicators.

The number of listed companies increased slightly and reached to 254 from 234 in the review period. In FY 2022/23, the total annual turnover of the listed securities was to Rs. 467.12 billion which was a decrease of 61.14 percent as compared to Rs. 1202.01 billion in FY 2021/22. The average daily turnover was Rs. 1.97 billion, a decrease of 60.65 percent as compared to Rs. 5.02 billion in FY 2021/22.

The market capitalization stood at Rs. 3082.52 billion in FY 2022/23. Likewise, float market capitalization stood at Rs. 1088.65 billion. NEPSE Index stood at 2097.1 points in FY 2022/23. Similarly, float index stood at 144.97 points in FY 2022/23. The trend in secondary market during last three fiscal years is presented in Table 5.3.

Table 5.3 Secondary Market

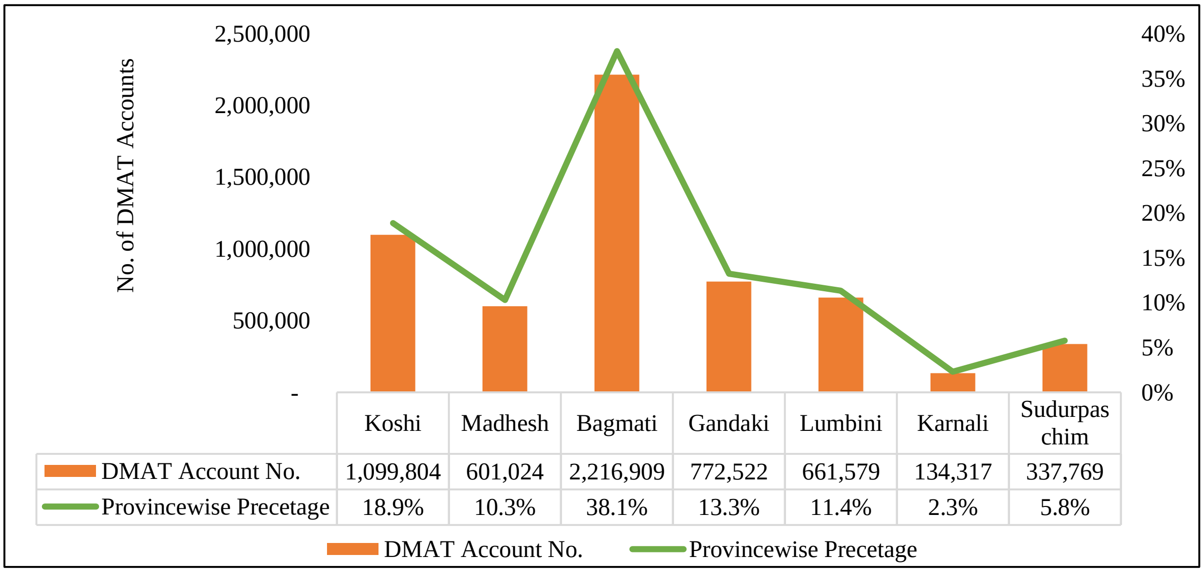
SN	Particulars	Unit	Fiscal Year			Percentage Change	
			2020/21	**2021/22**	**2022/23**	**2021/22**	**2022/23**
1	No. of Listed Companies	Number	219	234	254	6.85	8.55
2	No. of Listed Securities	Number in 10 million	582.60	677.12	738.71	16.22	9.10
3	Total Paid-Up Capital of Listed Securities	Rs in billion	573.24	667.75	728.95	16.49	9.17
4	Turnover	Rs in billion	1454.44	1202.1	467.13	-17.35	-61.14
5	Trading Days	Days	246	239	236	-2.85	-1.26
6	Average Daily Turnover	Rs in 10 million	591.24	502.97	197.93	-14.93	-60.65
7	No. of Securities Trade	Number in 10 million	340.45	249.2	127.72	-26.80	-48.75
8	No. of Transaction	Number	1,54,17,668	1,47,12,483	86,44,715	-4.57	-41.24
9	Market Capitalization	Rs in billion	4010.96	2869.34	3082.52	-28.46	7.43
10	Float Market Capitalization	Rs in billion	1409.38	1031.31	1088.65	-26.83	5.56
11	Turnover/Market Capitalization	Annual Percentage	36.26	41.89	15.15	15.53	-63.83
12	Turnover/ Float Market Capitalization	Annual Percentage	103.20	116.56	42.91	12.95	-63.19
13	NEPSE Index	Points	2883.41	2009.47	2097.1	-30.31	4.36
14	NEPSE Float Index	Points	200.34	139.37	144.97	-30.43	4.02

Source: Nepal Stock Exchange Ltd

5.1.2.4 Inclusion and Participation in Securities Markets

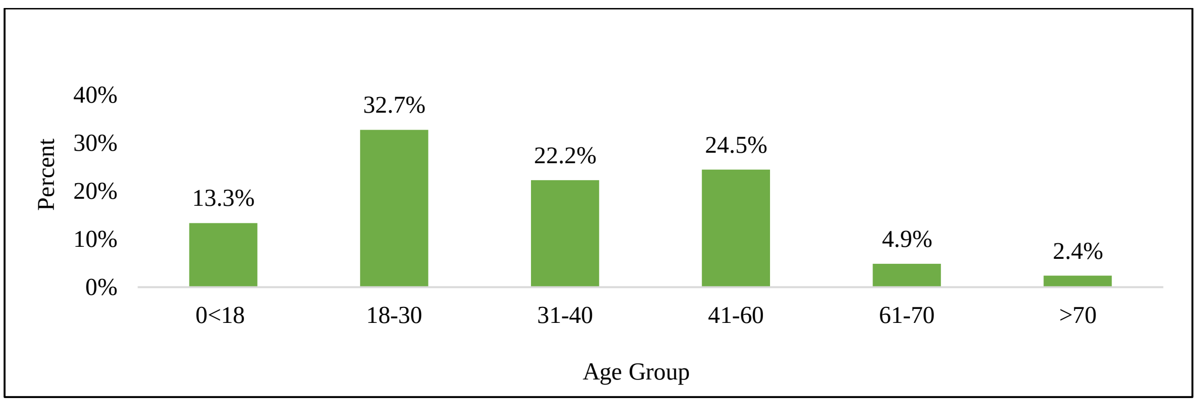
The participation of investors in the Nepalese securities market has been increasing significantly in recent years. SEBON has been facilitating the outreach of stockbrokers and merchant bankers outside Kathmandu valley and granting new licenses to the stockbrokers as well. SEBON has encouraged market participants for technological adoption to provide capital market services more efficiently to spur financial access and inclusion. There are around 5.82 million investors participating through their own Dematerialized (DEMAT) accounts in the review year. In the provincial basis, the highest number of DMAT accounts are opened in Bagmati Province (38.1 percent) whereas 2.2 percent DMAT accounts are opened in Karnali Province which is the lowest. Likewise, 3.28 million investors are trading in the secondary market out of which 1.76 million investors are online users in the review year.

Figure 5.3: Province-wise DMAT Account as of mid-July 2023



Source: Securities Board of Nepal

Figure 5.4: Age-wise DMAT Account as of mid-July 2023



Source: Securities Board of Nepal

Table 5.4: Investors' Participation in Securities Markets

SN	Particulars	2019/20	2020/21	2021/22	2022/23
1	DEMAT Account Holders	1,753,000	3,789,000	5,346,000	5,823,000
2	MERO Share Accounts	742,000	2,850,000	4,395,000	4,826,000
3	No. of Investors in Secondary Markets	1,368,598	1,494,171	1,511,764	3,283,966
4	Online Users	35,119	794,934	1,486,442	176,3301
5	Active Investors	192,748	816,762	1,037,381	842,437

Source: Nepal Stock Exchange Ltd and CDS and Clearing Ltd

5.1.2.5 Commodity Derivatives Market

The Commodity Exchange Act, 2074 has assigned the regulatory responsibility of the commodity derivatives markets to SEBON. SEBON formulated and implemented Commodity Market Regulations, 2074 using the powers conferred by the Act. During the year 2021, the “Directives Related to Policy and Procedures to Issue License to Commodity Derivatives Exchange, 2078” were also implemented.

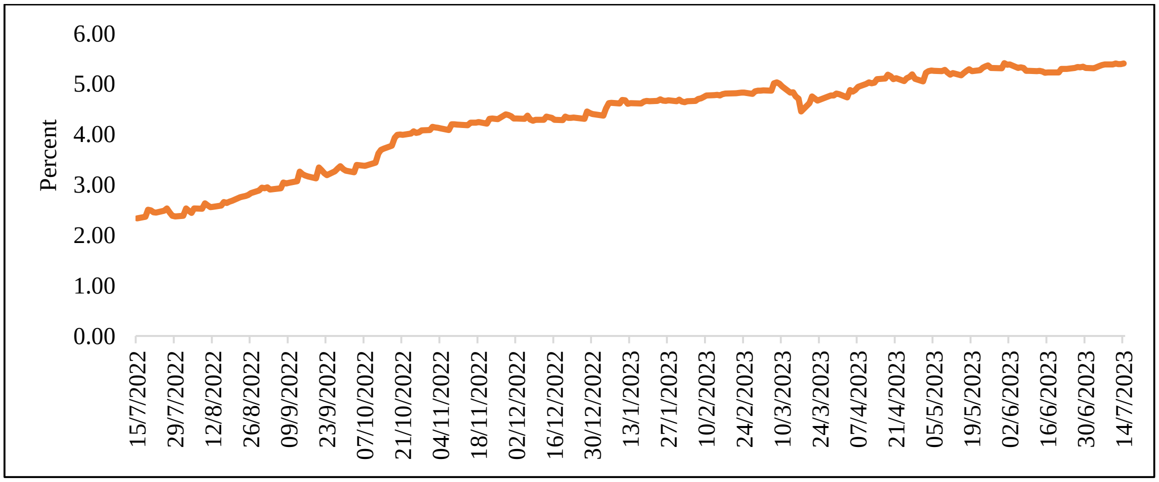
SEBON issued a public notice for the interested corporate bodies to submit applications for the operation of commodity derivatives exchange in Nepal as per the prevailing laws. SEBON also decided to provide pre-approval to two companies considering the nation’s economy, the industrial development, and the scope of commodity derivatives trading in Nepal. Following the SEBON notice four companies submitted the application for pre-approval to establish the Commodity Derivatives Exchange. SEBON board formed a committee to work on the vetting of the application. Granting of commodity derivatives exchange is in process. It is expected that the commodity derivatives markets will help in hedging, price discovery and arbitrage facilities to the investors.

5.2 Foreign Exchange Market

5.2.1 US Government Treasuries

Yield on three months US Treasury Bills has increased in the review period. The yield was 2.34 percent p.a. as of mid-July 2022, which has reached 5.41 percent p.a. as of mid-July 2023. The average yield on three months T-bills stood at 4.30 percent p.a., which was 0.45 percent p.a. in the previous year. The highest yield of 5.42 percent p.a. was recorded at end of May 2023.

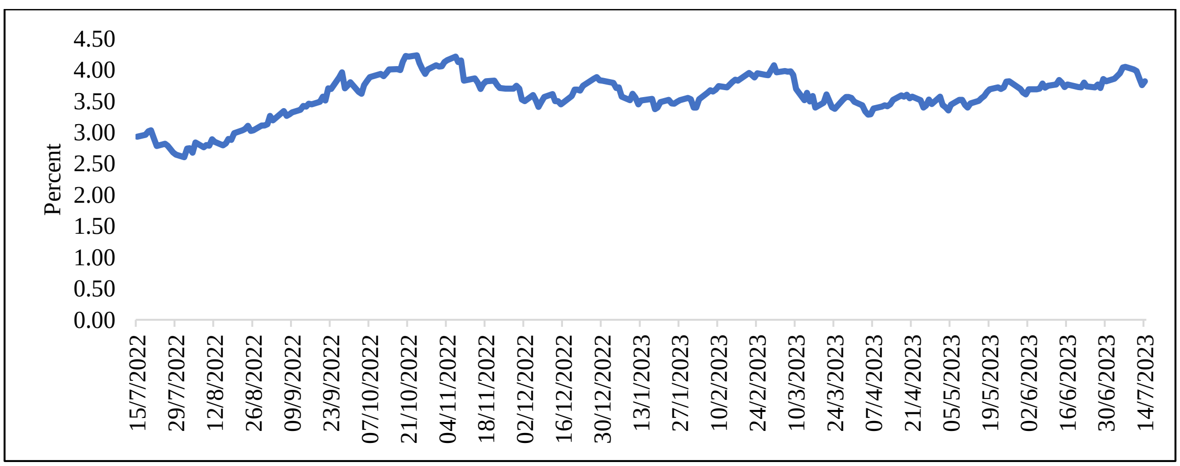
Figure 5.5: Daily Yield on 3 Months US T-Bills



Source: Refinitiv

The yield on long-term securities has increased in the review period. The average yield on 10-year US Government Bond has been 3.57 percent p.a., which was 1.99 percent p.a. in the same period of the previous year. During the review period, the highest yield was 4.23 percent p.a. on 24 October 2022 and the lowest yield of 2.60 percent p.a. was on 1 August 2022.

Figure 5.6: Daily Yield on 10 Year US Government Bond

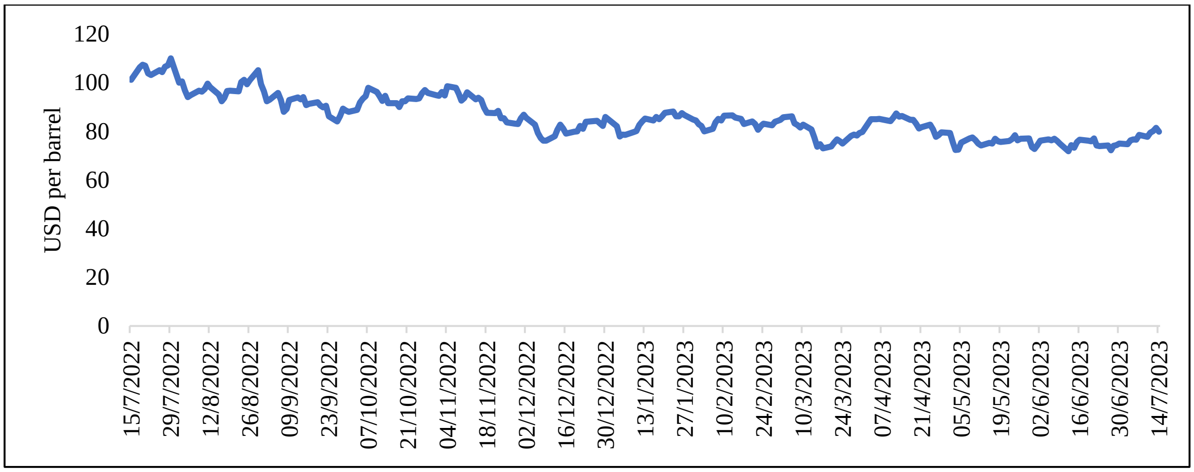


Source: Refinitiv

5.2.2 Crude Oil

The Russia-Ukraine War has been one of the factors impacting fluctuations in oil prices. Brent crude oil price, the international benchmark, which was trading at US Dollar 101.16 per barrel as of mid-July 2022 has decreased to US Dollar 78.87 per barrel as of mid-July 2023. During the review period, it traded between US Dollar 71.84 to US Dollar 110.01 per barrel. Crude oil price was highest at US Dollar 110.01 per barrel on 29 July 2022 and the lowest was US Dollar 71.84 on 12 June 2023.

Figure 5.7: Brent Crude Oil Price

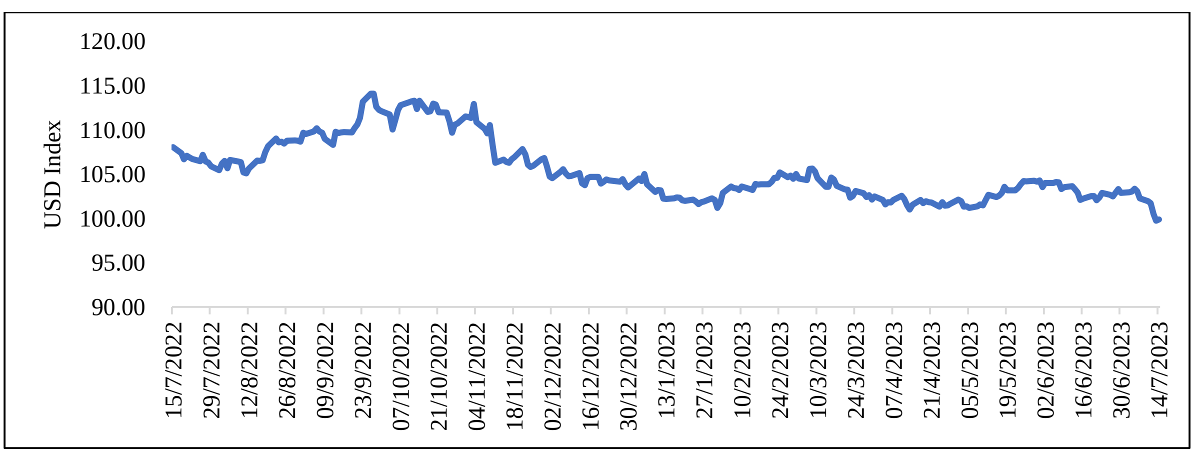


Source: Refinitiv

5.2.3 Dollar Index

The dollar Index on a declining trend. The US Dollar Index is an index measure of the value of the United States Dollar relative to a basket of foreign currencies including Euro (EUR), Japanese Yen (JNY), Pound Sterling, Canadian Dollar, Swedish Krona and Swiss Franc.

Figure 5.8: Movement of US Dollar Index



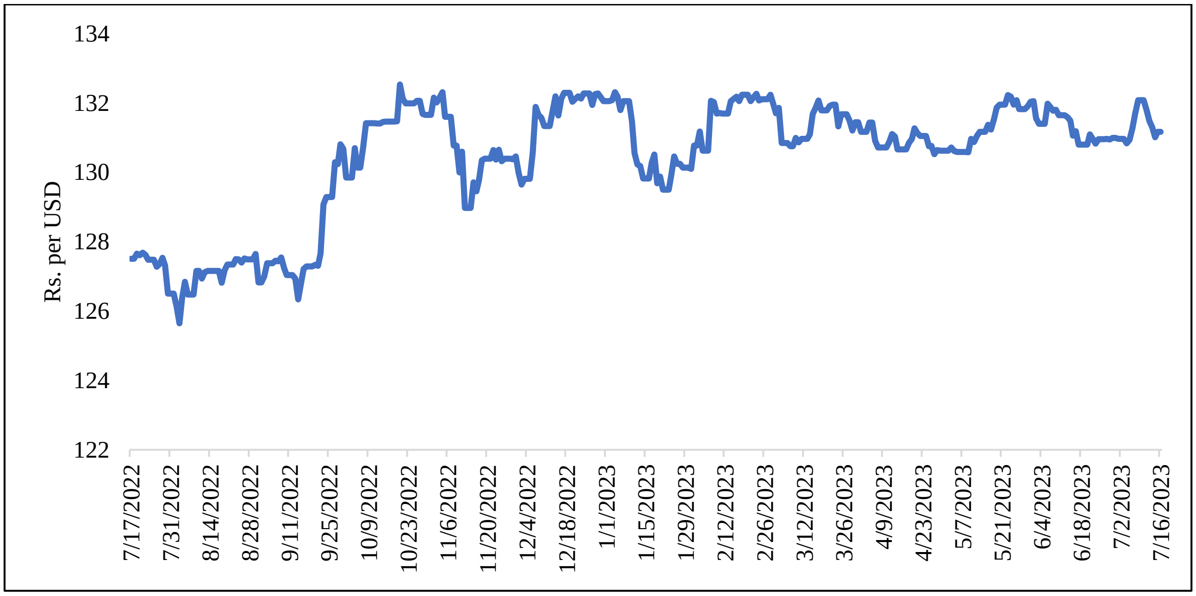
Source: Refinitiv

During the review period, the US Dollar index recorded highest value of 114.11 on 27 September 2022 and lowest value of 99.77 on 13 July 2023. The index, which was 108.06 on mid-July 2022, has decreased to 99.91 on mid-July 2023.

5.2.4 Dollar-Rupee Exchange Rate

Depreciation of Nepalese currency continued. Nepali currency has depreciated by 2.79 percent against US Dollar during FY 2022/23 compared to 6.64 percent in the same period of the previous year. The exchange rate of one US Dollar stood at Rs. 131.17 in mid-July 2023 compared to Rs. 127.51 in mid-July 2022.

Figure 5.9: Movement of Nominal Exchange Rate



Source: Refinitiv

CHAPTER VI: FINANCIAL INFRASTRUCTURES

6.1 Payment System

The Nepalese payment system is developing rapidly, further catalyzed by Covid 19[8]. Digital payments have surged, with a gradual decrease in the cash (currency in circulation)-to-GDP ratio in the last two fiscal years[9]. As of mid-July, 2023, there are 10 institutions licensed as Payment System Operators (PSOs) and 27 institutions licensed as Payment Service Providers (PSPs). Additionally, all 20 commercial banks, 16 development banks, 15 finance companies, and 7 microfinance financial institutions have been licensed as PSPs by NRB.

The surge in digital payments is fueled by significant progress in the digital economy. Around 73 percent of Nepali own smartphones[10] and 4G/LTE internet connectivity has now reached 739 local levels[11]. The cost of connectivity has dropped significantly from USD 2.23/ GB in 2019 to USD 0.43/GB in 2023[12]. The Government of Nepal (GON) has expedited the issuance of Digital ID, which will be the central infrastructure to implement a Centralized Know-Your-Customer (KYC) system in Nepal[13].

Progress on building payment systems infrastructures and CBDC was made during the review period. The payment system landscape of Nepal is rapidly evolving, with a focus on digital innovations empowered through the expansion of digital infrastructures and policy enablers. The National Payment Switch (NPS), one of the most significant infrastructures to standardize, simplify, and reduce the cost of digital financial services in Nepal. The NPS will be integrated with the large value payment infrastructure- Real Time Gross Settlement System (RTGS), owned and operated by the NRB. NRB has formed the CBDC division within PSD. The NRB further plans to implement the Regulatory Sandbox/ Innovation Center, a critical infrastructure to foster digital innovations while managing probable risks. NRB is also exploring regulatory and legal regimes to allow full-fledged digital banks in Nepal.

---

[8] Refer Payment Systems Oversight Report 2022/23: https://www.nrb.org.np/contents/uploads/2024/01/Payment-Oversight-Report-2022-23_V3_2023-12-29-1.pdf

[9] In 2020/21, the year when Covid 19 pandemic peaked, the cash-to-GDP ratio surged, reaching 13.1 percent in Nepal (NRB, 2023). In India, a similar trend was observed between 2016/17 and 2022/23. Despite a 51 percent compounded annual growth rate of digital payments in the same period, the rise in cash-to-GDP ratio was considered observed to have been influenced by the precautionary and store-of-value motives, while the use of cash as a payment medium continues to fall (Awasthy, Misra, & Dhal, 2022). The cash-to-GDP ratio has reduced in 2021/22 to 10.3 percent and 9.6 percent in 2022/23.

[10] NSO (2021)

[11] NTA (2023)

[12] See. https://www.cable.co.uk/mobiles/worldwide-data-pricing/

[13] NRB (2023)

Box 3: Recent Regulatory Developments undertaken by NRB in FY 2023/24

In addition to payments-related developments in FY 2022/23, several initiatives have been made to strengthen the payment systems in Nepal. One of the major developments after FY 2022/23 is the issuance of **Cyber Resilience Guidelines, 2080**. The Cyber Resilience Guideline has been issued to offer direction to Financial Market Infrastructures (FMIs) in improving their cyber resilience, with the goal of bolstering public confidence and supporting financial stability. Aligned with the PMFI, this document tackles issues pertaining to the governance, risk management framework, settlement finality, operational risks, and link-related risks of FMIs. The guideline focuses on strengthening the resilience capabilities of licensed institutions by addressing aspects such as identifying cyber threats, implementing protective measures against such threats, detecting them, and formulating responses and recovery strategies in the face of cyber threats.

NRB has issued **AML/CFT Supervisory Framework and Risk Based AML/CFT Supervision Manual** for PSOs and PSPs. The guideline has been forwarded to the AML/CFT Division, Bank Supervision Department for implementation. NRB also presented the **Framework for Identifying Systemically Important Payment Systems (SIPS)** before the management committee, and based on the instruction from the management committee, PSD is in the process of revising the framework. The framework is planned to be implemented within FY 2023/24. Based on the said framework, existing payment systems of Nepal will be designated as SIPS and such payment systems will be subject to enhanced supervision based on the principles of financial market infrastructures (PFMIs).

In the FY 2023/24, NRB has also amended the existing unified directive and implemented the **Payment System related Unified Directives, 2080** with the following major amendments:

- The LIs are required to relay information about the service unavailability in ATM Terminals.
- The BFIs are mandated to carry out Force Settlement, in case of deduction of balance from an account without the completion of transaction carried out via Mobile Banking, SMS Banking, e-money wallet, Interactive Voice Response System (IVRS), Unstructured Supplementary Service Data (USSD). The force settlement should follow the following turnaround time (TAT):
  - i) If the same LI is the issuer and the acquirer: Within the next day of the transaction (t+1 day)
  - ii) If the issuer and acquirer are different Nepalese LIs: Within t+3 days
  - iii) If any of the LIs (issuer or acquirer) is a foreign institution: Within t+30 Days
- LIs have been suggested to follow the Cyber Resilience Guidelines, 2080 as a guideline for identifying, measuring and managing risks associated with their payment systems.
- LIs have been directed to include, at least, provisions like a description of services; agreement tenure; financial transactions and settlement; operational procedure and regulation; systems, data, process, security, and customer data privacy related provisions; custodian and management of wallet fund; fee-related arrangements; intellectual property rights; force majeure; etc. in the agreement with the Settlement Bank.

- The provision to allow withdrawal from e-Wallets account the through ATM has been introduced.
- LIs have been directed to include the Board-approved decision for the proposed bonus share/ cash dividend, if any, while seeking approval from the NRB to publish their annual financial statement.
- BFIs, on-boarded as Direct Participants of the RTGS System, have been directed to make the information about the Sender's Name and Transaction ID/ Reference No. available to the beneficiary customers,
- The BFIs have been directed to ensure proper documentation and reporting of the following documents to operate branchless banking services:
  - Hardware, software, data communication/ transmission mechanism-related details
  - Criteria for the selection of authorized representatives and provisions related to the agreement with and training for the authorized representatives
  - Security of the place from where the BLB service will be operated and deposit insurance-related arrangements
  - Industry standards and security features of PSTN, Cellular communications
  - Permissible work area of BLB services and the description of the BLB center
  - Provisions related to dispute management and liabilities and compensation related arrangements
  - Mechanisms to control money laundering and financing of terrorism activities through BLB services.
- With regards to the institution and the Board of Directors, LIs have been directed to report the institution's name, registered address, policies and procedures, and amendments in Memorandum of Association (MOA) and Article of Association (AOA) through the Supervisory Information System (SIS) and Reporting Portal.
- Police Clearance Report (No Criminal Record) has been considered as one of the mandatory criteria to allow the transfer of promoter shares.
- While adding new promoter shares, LIs have been directed to value the per share based on Due Diligence Audit.
- LIs have been directed not to terminate any service offered to the customer with the consent of the customer.
- All LIs have been directed to mandatorily complete the full KYC of customers who are currently transacting without it by mid-July,2024.

- BFIs have been directed to make necessary technical arrangements in their card management systems to ensure interoperability with the proposed National Payment Switch and Domestic Card Scheme.

6.1.2 Issues in Nepal's Payment Systems:

1. **Financial Inclusion/ Digital Financial Literacy:** A considerable portion of the Nepalese population remains unbanked or underbanked, restricting access to formal payment systems. The proportion of adults with wallet accounts in rural municipalities is mere 6.94 percent compared to 32.96 percent in metropolitan cities. Similarly, only 4 percent of females living in rural municipalities use internet banking and digital wallet. Furthermore, less than 2 percent of illiterate people use internet banking and digital wallet compared to 56 percent and 52.40 percent of people with Master’s degree and above (NRB, 2022). In this context, it is important to create awareness among customers, particularly in rural and marginalized areas, about the benefits of digital payments.

2. **Interoperability:** Ensuring interoperability among different payment systems and service providers is crucial for creating a seamless experience for users, regardless of the platform they choose.

3. **Fraud Prevention:** As digital transactions increase, the risk of cyber threats and fraud has also grown, emphasizing the need for robust security measures. It is imperative to build trust and confidence in digital payment systems by strengthening measures to prevent fraud and protect user data.

4. **Consumer Data Protection/ Customer Support:** Protecting sensitive consumer data from being misused and ensuring data confidentiality in an inter-connected ecosystem is the need of the hour. Establishing efficient customer support systems is vital to address user queries, concerns, and issues promptly, contributing to overall user satisfaction.

5. **Cost of Transactions:** Addressing the cost associated with digital transactions can encourage greater usage, especially among low-income populations, promoting financial inclusion.

6. **Cybersecurity:** Nepal ranks at the 109th position in terms of NCSI, with an NCSI index of 28.57. The digital development level (DDL) of Nepal is higher (30.58)[14] than NCSI, pointing towards less focus on cyber security. Hence, as innovations are focus, a greater focus on enhancing the NCSI and overall cybersecurity is vital for Nepal.

[14] See. https://ncsi.ega.ee/ncsi-index/?order=-ncsi&archive=1

7. **Stakeholder Collaboration:** Building a strong collaborative network of various stakeholders, including BFIs, PSOs, PSPs, regulators, and technology solution providers through organized forums or other mechanisms.

8. **Cross-Border Transactions:** Facilitating and streamlining cross-border transactions to support international trade and remittances is a complex issue that requires cooperation with neighboring countries.

9. **Upskilling Regulators:** Enhancing the regulatory framework by utilizing Regtech and Suptech tools, capacity building of human resources, and hiring a blend of technical and banking resources in specialized departments like PSD are necessary to have a proactive regulatory landscape.

6.2 Credit Information

Credit Information Bureau[15] is a key enabling element of financial infrastructure. Credit Information Bureau (Karja Suchana Kendra Limited) was established in September 2004 under the Company Act, 1997, and started its operation as an independent and autonomous entity from March 2005. Its operation is guided by Section 88 of NRB Act, 2002 with shareholding of Nepal Rastra Bank (9.50%), commercial banks (78.05%), development banks (4.89%), and finance companies (7.56%).

Credit Information Bureau collects the credit information from Banks and Financial Institutions streamlines the information received into a structured format and disseminates those reports to the financial institutions upon their request in the form of credit reports. Credit Scores are based on various factors including credit age, repayment history, payment capacity, delinquent history, credit utilization, payment trend etc. It also maintains database of blacklist customers upon the request of the banks and financial institutions and delist them upon their request.

CIB has 1.5 million borrower records in its repository and generates more than 2 million credit reports annually. There was a negative growth of credit report subscriptions by member institutions in the last two years which has been attributed to the slowdown in the economy in the context of Covid 19. However, the borrower records uploaded by member institutions have continued to increase for the last several years.

[15] https://www.cibnepal.org.np/

Figure 6.1: Credit Report Subscriptions

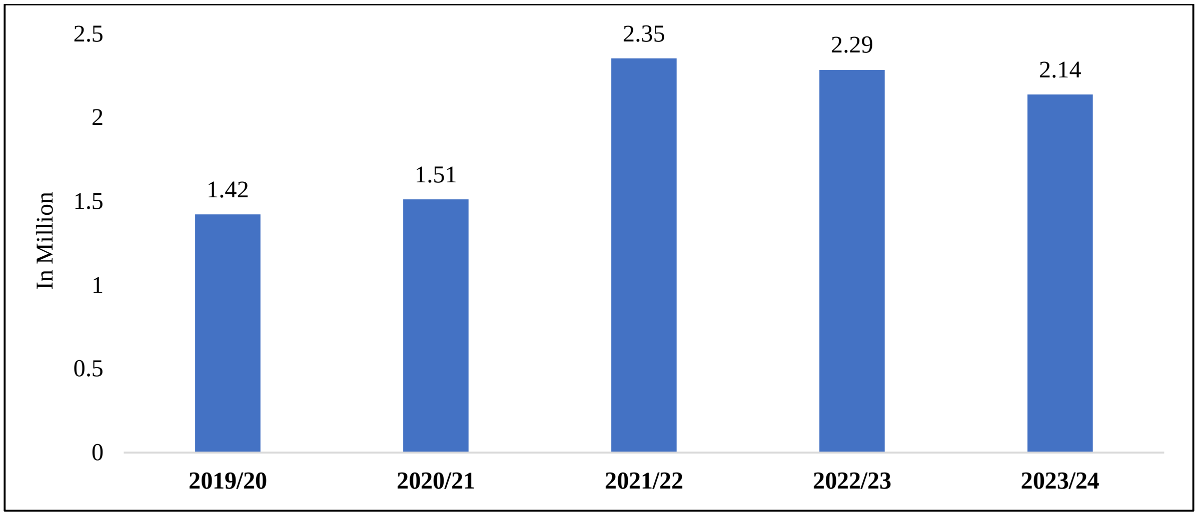
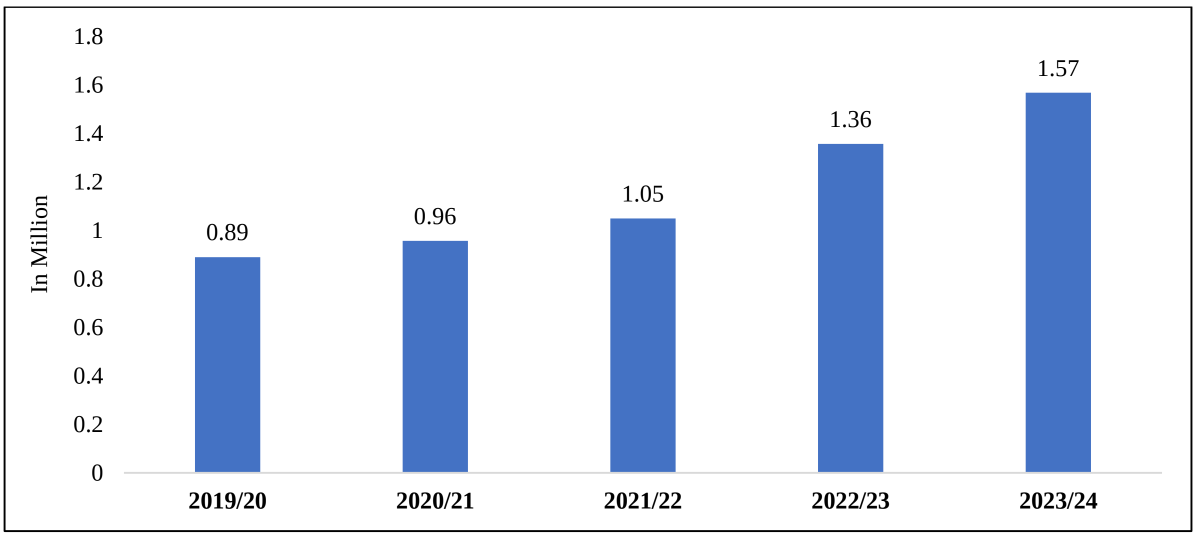


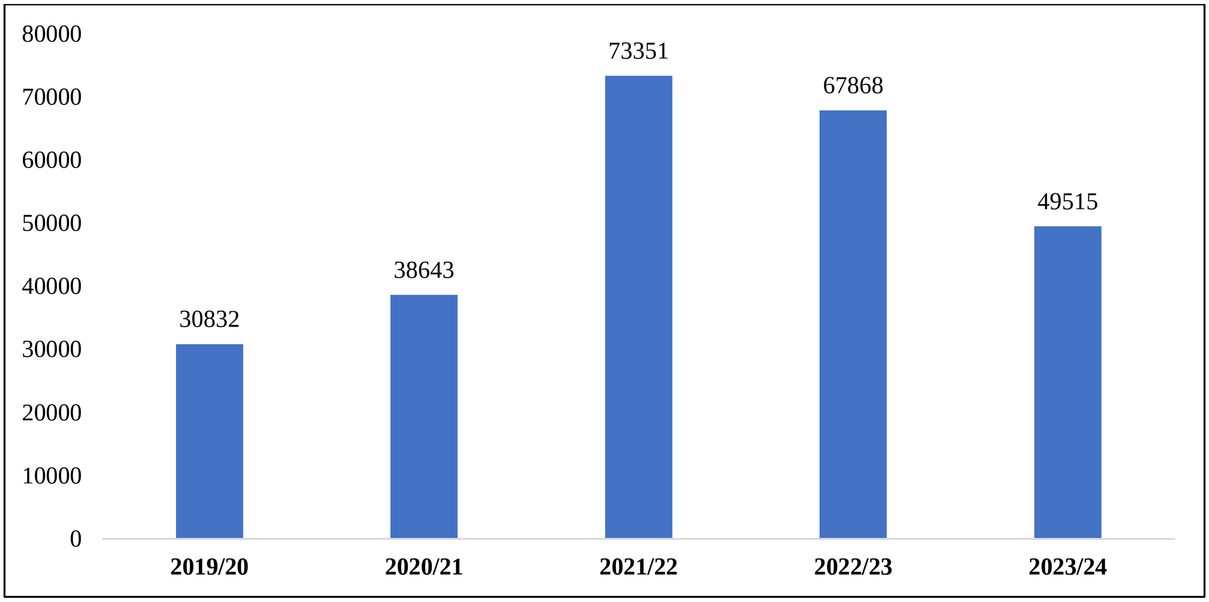
Figure 6.2: Growth of the Borrowers



Source: Credit Information Burea, Annual Report 2022/23

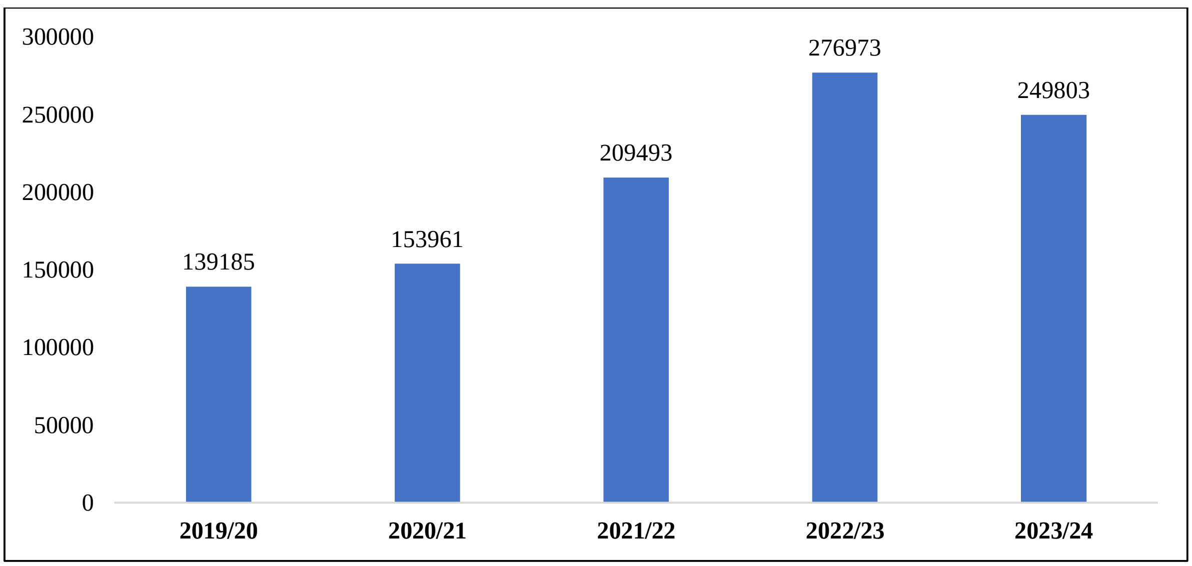
Secured Transaction Registry by the Bureau registers the notices related to lending made by any entity against the movable assets of the debtor. The notices registered in the registry is growing at a very slow pace with total registry of 0.5 million in FY 2022/23 and shows negative growth in last two fiscal years as shown in figure 6.3. Similarly, registry generated 2.5 million reports in the FY 2022/23 which is a decline of 9.8 percent from the previous fiscal year.

Figure 6.3: Notices Registered in Secured Transaction Registry



Source: Credit Information Bureau, Annual Report 2022/23

Figure 6.4: Total STR Reports Subscribed by the Users



Source: Credit Information Bureau, Annual Report 2022/23

At present, Credit Information Bureau on its way towards providing the most efficient advanced, connected, and seamless services to the member institutions is performing the crucial functions of gathering and distributing reliable credit information which supports responsible lending and ultimately helps in strengthening banking supervision and risk monitoring.

6.3 Deposit and Credit Guarantee Fund

Deposit and Credit Guarantee Fund Act, 2073 has given the statutory responsibility to perform both the deposit guarantee and credit guarantee function to the Deposit and Credit Guarantee Fund (DCGF). DCGF has been providing deposit guarantee scheme in Nepal from the year 2010. The total number of depositors have increased to 41.38 million in the year 2022/23, a 14.49 percent rise from last year. Deposit guarantee amount had likewise hiked by 40.23 percent this year. However, the total guaranteed credit decreased by 3.99 percent to 1.68 million in the year 2022/23 and the total credit guarantee amount has slightly increased by 3.92 percent this year.

Figure 6.5: Deposit Guarantee

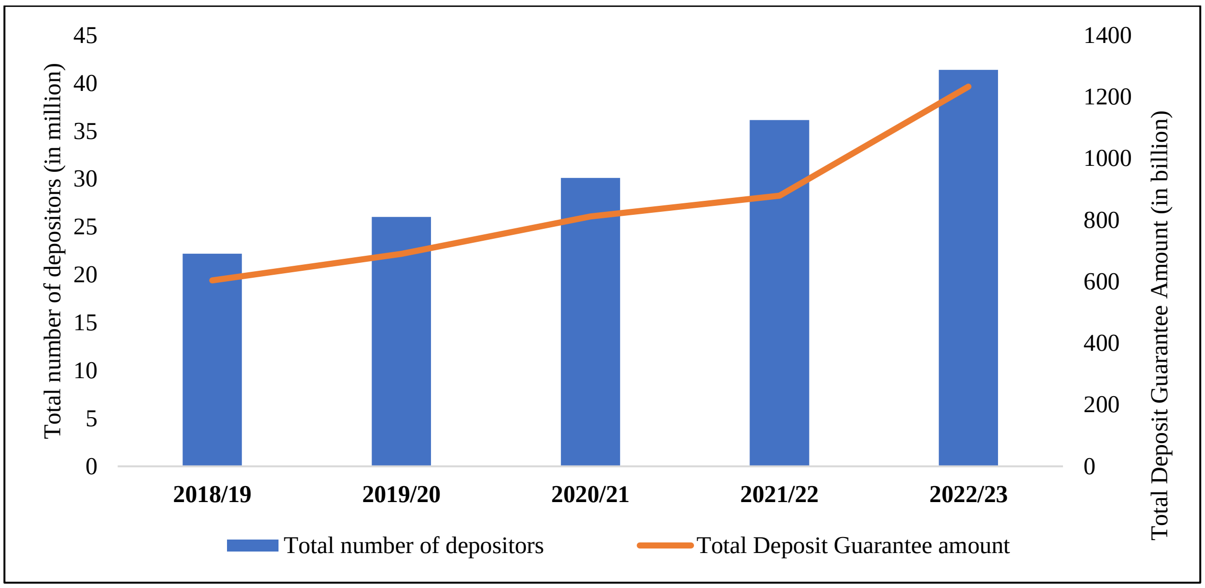
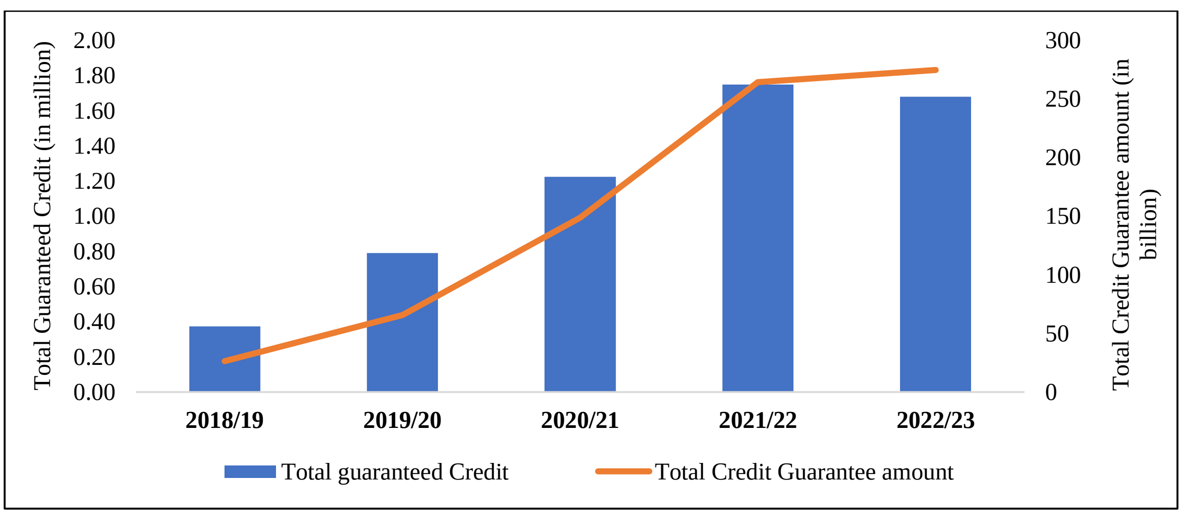


Figure 6.6: Credit Guarantee



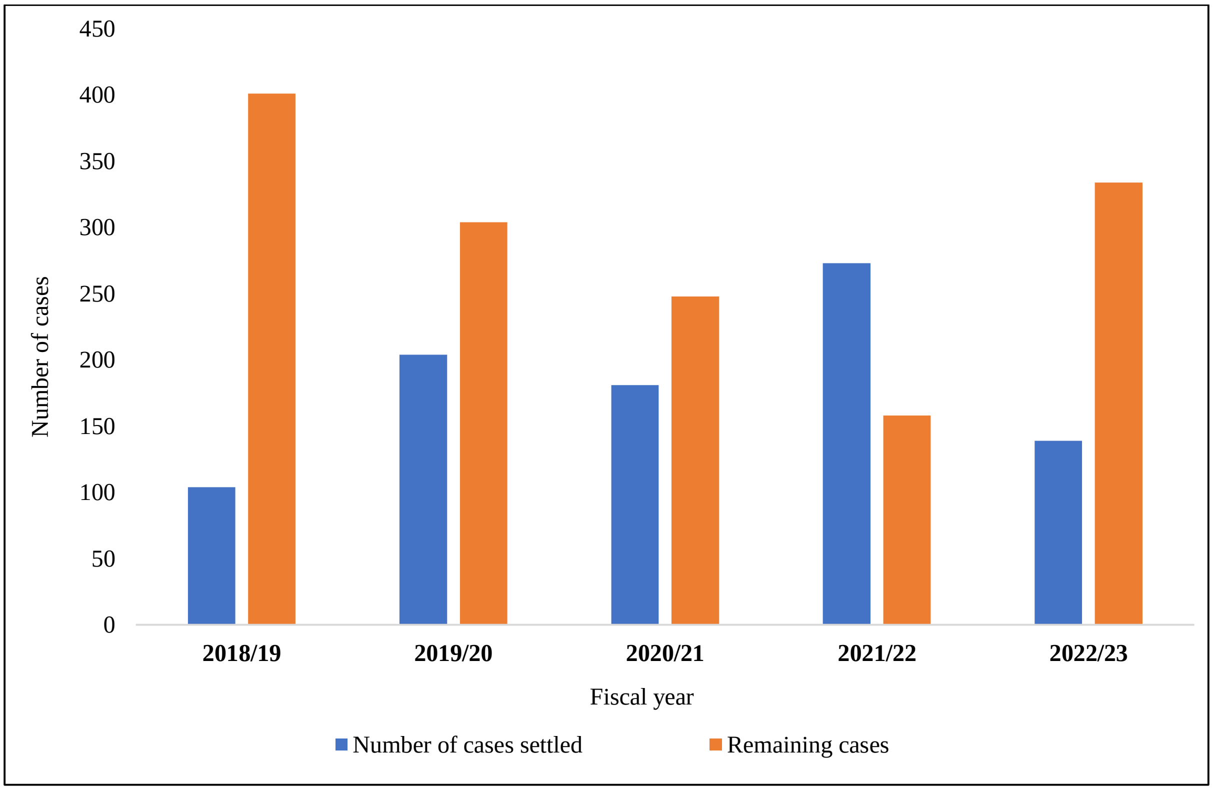
Source: Deposit and Credit Guarantee fund

6.4 Debt Recovery Tribunal

Debt Recovery Tribunal[16] (DRT) was established on 17th of July, 2003 with the purpose of ensuring fast and efficient resolution of problematic debt within the banking and financial institution sectors and its function is guided by The Debt Recovery Act of 2001. DRT. Debts owed to BFIs with a principal amount of 5 lakhs or more are exclusively eligible for resolution from DRT. Furthermore, such cases must be registered within four years of surpassing the predetermined time limit, requiring sufficient effort from BFIs towards recovery. Figure 6.7 shows the summary of DRT cases over the years.

In the fiscal year 2022/23, 139 out of 238 legal proceedings were settled, achieving 58.40 percent of the target.

Figure 6.7: Review of legal proceedings



Source: Debt Recovery Tribunal

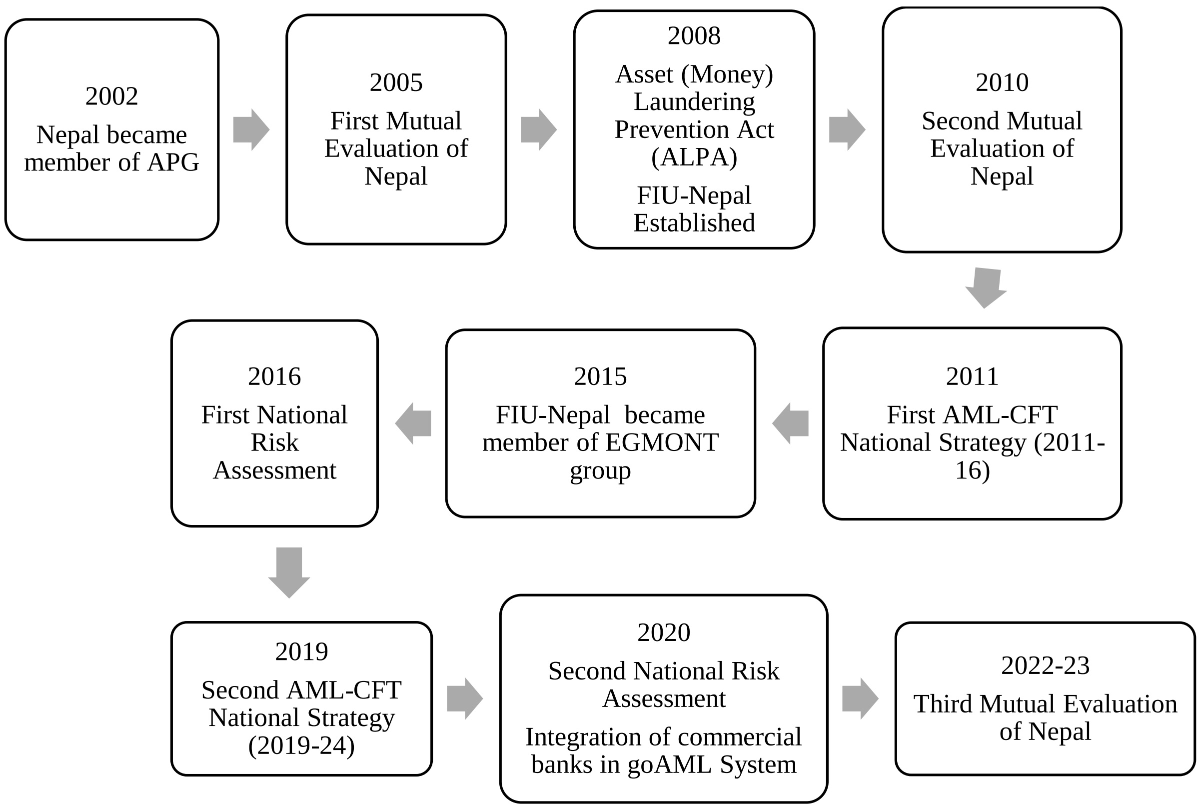
[16] https://drtribunal.gov.np/

6.5 Anti Money Laundering and Countering the Financing of Terrorism

6.5.1 Background

Nepal has made critical reforms and taken key steps against Money Laundering and Countering the financing of terrorism. Asset (Money) Laundering Prevention Act was enacted in 2008 and the Financial Intelligence Unit was established in the same year[17]. Figure 6.8 shows the key timeline of AML – CFT implementation in Nepal.

Figure 6.8: Key Timeline of AML-CFT implementation in Nepal



Source: FIU Annual Report 2023

During this year, the third round of Mutual Evaluation was conducted by APG. As per mutual evaluation report, the ratings are not so encouraging. However, some bright spots were identified as majority of 40 FATF recommendations were rated either Compliant or Largely Compliant which can be taken as reasonable progress to strengthen the implementation of AML/CFT measures. In the case of effectiveness compliance, the rating is moderate or low is not underwhelming. Currently, relevant agencies of Nepal are coordinating and preparing action plan as per Priority Actions, Key Findings and Recommended Actions mentioned in Nepal's mutual evaluation report 2023. The summary of ratings of Nepal in mutual evaluation report is as below:

[17] Further details on Nepal's Comprehensive journey on AML/CFT is available on website of Financial Intelligence unit at https://www.nrb.org.np/departments/fiu/

Table 6.1: Technical Assessment Rating

SN	Rating	Recommendations
1	Compliant	5
2	Largely Compliant	16
3	Partially Compliant	16
4	Non-Compliant	3
5	Not Applicable	0
	TOTAL	**40**

Source: Mutual Evaluation Report of Nepal, 2023, APG

Table 6.2: Effectiveness Rating of Nepal

Immediate Outcome	Rating
IO.1 Risk, Policy and Coordination	Moderate
IO.2 International Cooperation	Moderate
IO.3 Supervision	Low
IO.4 Preventative Measures	Low
IO.5 Legal persons and Arrangements	Low
IO.6 Financial Intelligence	Moderate
IO.7 ML Investigation & Prosecution	Moderate
IO.8 Confiscation	Low
IO.9 TF Investigation & Prosecution	Low
IO.10 TF Preventative Measures & Financial Sanctions	Low
IO.11 PF Financial Sanctions	Low

Source: Mutual Evaluation Report of Nepal, 2023, APG

CHAPTER – VII: FINANCIAL SECTOR DEVELOPMENT

7.1 Financial Inclusion and Consumer Protection

The NRB Act, 2002 has entrusted NRB to increase access to financial services and increase public confidence toward the financial system. NRB policy measures such as the requirement of establishing a branch of commercial banks in every local body, deprived sector lending requirement, specified sectoral lending requirements, special refinance facility to the cottage and small industries, directives on consumer protection, policy on financial literacy has helped to increase the level of financial access and financial inclusion in the country. The NRB Unified Directives to BFIs[18] has 21 broad headings and related annexes that cover comprehensive regulations on governance, interest rate, and consumer protection among others. Recently, NRB has established a dedicated Financial Inclusion and Consumer Protection Division[19] to enhance access and ensure consumer protection in Nepal. Below are a few of the highlights on financial services with consideration of access and consumer protection:

7.1.1.1 Deposit

Deposit is skewed towards fixed Deposit. Fixed deposit constituted 58% of total deposits. The number of deposit accounts with BFIs reached 44.9 million, which is more than the total population of the country and signals multiple accounts of the same person in different BFIs. NRB forbids commercial banks from accepting short-term fixed deposits for a term below three months to promote long-term savings while it has also stipulated that the difference in interest rates across savings accounts must not be higher than 2 percent. While these measures have helped to ensure longer-term savings, they may have also affected the flexibility of BFIs and may not be attractive for low-income savers.

7.1.1.2 Credit

Lending is still heavily based on fixed assets collateral. Loans based on the collateral of fixed assets stands at 88% of total loans, depicting the heavy concentration of collateralized lending. This makes it difficult for the low-income/ poor population and small and medium businesses to obtain credit from formal financial institutions. Moreover, the usage of personal credit rating or scoring to facilitate non-collateralized credit facility is still in its infancy in Nepal. The existing credit guarantee schemes as well as the existing framework for the use of movable assets, the secured transaction registry, require further strengthening. Further, the subsequent interest rate hikes and frequent volatility have also dampened the usage of formal credit[20]. NRB has taken actions against BFIs on frequent increase in interest premium charges against NRB regulation.

---

[18] Available at https://www.nrb.org.np/departments/bfr/

[19] Links to financial inclusion portal, financial literacy, financial consumer protection, financial literacy framework, other guidelines, list of financial trainers and other initiatives are available in https://www.nrb.org.np/departments/ficpd/

[20] Financial Inclusion Report 2023.IFC

7.1.1.3 Insurance

The insurance sector needs institutional and capacity development and further measures to ensure consumer protection. The insurance uptake has been mostly driven by mandatory government measures; however, the government health and social security schemes are not comprehensive and are not accessible to all. In addition, lack of awareness among customers is one of the biggest impediments to broadening the uptake of insurance, as insurance is seen as an expense rather than a risk mitigation tool at the household level. Many people still rely on credit and savings to protect themselves, while insurance agents are not well-trained and tend to focus on returns or discount rates. The insurance industry's product offerings are mostly homogeneous. To onboard new consumers, insurance companies continue to sell the same insurance products without much differentiation and understanding of the needs of the targeted groups and sectors. Along with a low level of awareness, the sector also lacks adequate insurance infrastructure required to develop insurance services, which also contributes to the low insurance uptake. Micro insurance companies, health care providers, agricultural technicians, and weather stations are expected to help expand insurance services in rural areas. Investing in technology and information technology (IT) is one of the industry's challenges in digitization[21]. Consumer protection in insurance is reported as not adequate with frequent reporting of non-payment of claim by insurance companies.

7.1.1.4 Payments

Along with the regulation, the payment ecosystem in Nepal is still at the nascent stage[22] which is hindering PSPs from introducing higher-value digital financial services that resemble more of a BFI's product range. Use of digital payments for other sectors is still limited. More people have started to use DFS to make payments to financial institutions (fees, loan payments, insurance premium payments, etc.), conduct brokerage transactions, and even pay government taxes. However, in e-commerce, the adoption of digital payments is not high. Likewise, the lack of robust digital KYC[23] and authentication option are still slowing customer onboarding and network security. For example, opening a bank account entirely virtually is not yet possible. Additionally, digital/online transactions have limits. Thus, access to DFS and digital client onboarding is limited in rural areas, also due to the lack of confidence in digital platforms[24]. PSPs and DFS players have limited capabilities. Though mobile payments have grown during the pandemic and QR codes have been introduced for merchant payments, they still face changes in onboarding more users and improving transaction volumes.

[21] Financial Inclusion Report 2023.IFC
[22]MAP Refresh Study, 2021, stakeholder consultations
[23] NRB is presently conducting study for Centralized CKYC
[24]MAP Refresh Study, 2021

7.1.1.5 Remittance

Remittance's inflow is growing but concerns remain over retention. Despite the growth in the usage of formal channels to receive or send remittances, the retention of remittances received in bank accounts is still very low, as cash withdrawals are common[25]. The majority of remittance receivers still lack digital knowhow and trust. There is a need to reduce the cost of remitting lower value amounts in order to attract remitters using informal channels to remit. It will be necessary to create a conducive environment to facilitate remittances via digital platforms and other providers. As remittance service providers complement the payment infrastructure, the existing agent network of the remittance companies – money transfer operators could be leveraged to offer various financial products and services. NRB is currently working to institutionalize policy measures to support cross border payments through both card and QR based systems.

7.1.2 Financial Literacy

Financial literacy level is on an increasing trend. In December 2022, NRB published the results of a Baseline Survey on Financial Literacy in Nepal[26]. Using the methodology of the Organization for Economic Co-operation and Development (OECD) and International Network on Financial Education (INFE), the survey measured financial literacy across three key components – financial knowledge, financial behavior, and financial attitudes. The survey found that the overall national financial literacy score is 11.59 out of the maximum score of 20. This is among the lowest scores among the 26 countries surveyed by OECD/ INFE in 2020, and lower than countries in the neighbor region.

Overall national financial literacy stands at 57.9 percent. Nepal financial literacy survey also found that only 27.5 percent of the adult population passed the minimum target score in all financial literacy components. By provinces, financial literacy is highest in Bagmati Province, whereas Madhesh Province scores the lowest. Men have higher scores than women by 7.5 percentage points. Financial literacy and its entire components have an inverse relation with the age of people, with younger people (18-30 years old) showing better financial knowledge scores compared to other age groups. Among the younger, the share of those reaching the minimum target score is 63.2 percent compared to 27.9 percent percent of people aged 60 and above. Similarly, higher levels of formal education have a positive impact on the financial literacy score. Finally, the financial literacy score is higher among individuals working in the formal sector than those working in the informal sector; among people working in industrial and service sectors than the agriculture sector; and among those living in urban versus rural areas.

[25]MAP Refresh Study, 2021

[26]This survey based on OECD/INFE Toolkit 2022 with some national customization explored the status of financial inclusion by collecting data on some indicators such as usage of payment products, usage of saving, investment, or retirement products, usage of insurance products, usage of credit products, awareness of financial product, and availability of family financial support.

Nepal financial literacy survey also measured the use of key financial services. And while it used a different methodology from the A2F Survey 2021/22, the main findings are consistent in showing increased overall use of financial services, while often still much lower use of formal institutions and channels. The awareness and use of financial products were found to be directly correlated with levels of education, urban dwelling, employment in the formal sector, and higher income levels. The study also concludes that the marginal contribution of financial literacy score to the utilization of financial products is significantly greater at lower levels of financial literacy. Therefore, financial literacy interventions will have a significant impact on populations with lower levels 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 mechanisms. NRB, with an aim to enhance and systematize the fragmented activities and make them more effective, implemented Financial Literacy Framework, 2022, and issues Financial Literacy Guidelines, 2023 to banks and financial institutions.

As financial literacy initiatives, NRB organizes grassroots efforts through one-day literacy programs at the programs in Provincial level, and facilitates awareness programs through non-governmental organizations to provide awareness out the importance of saving, the 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 also celebrated Global Money Week, 2023 on request of OECD.

Banks and financial institutions (BFIs) are required to allocate budget (out of profit) for CSR initiatives including promoting Digital Financial Services (DFS) and for Financial Literacy, with a focus on women and underserved groups. NRB has also developed a roster for financial literacy Trainers via Training of Trainers (TOT) program. NRB publishes various knowledge materials, books and audiovisual materials, to promote financial literacy. NRB has been working closely with the Ministry of Education to incorporate the issues of financial literacy in formal educational curriculum. In addition, NRB also celebrated Global Money Week 2023 by organizing various activities to increase awareness among market participants.

7.1.3 Financial Consumer Protection

NRB has a separate unit under the Financial Inclusion and Consumer Protection Division Institutional setup for consumer protection with the grievance handling mechanism[27]. In 2022/23, 2,647 grievances were resolved out of 2,903 grievances received through various channels (Table 7.1). A new division "Financial Inclusion and Consumer Protection Division" was

[27] http://gunaso.nrb.org.np/

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.

Table 7.1: Grievances Received and Resolved

Modes of Grievances	Received	Resolved	In Process
Written Complaints	325	305	20
Grievance Portal	1,985	1,748	237
Others (Telephone, Email or Oral)	593	593	–
Total	**2,903**	**2,646**	**257**

Source: NRB, FICPD

There have 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 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.

7.2 Global Policy Developments

Vulnerabilities in the global financial system still exist. Numerous shocks, including the intensification of the conflict in Ukraine and the ongoing strain in China's real estate market that has spread to the banking industry and local governments, have had a negative impact on the stability of the global financial system (International Monetary Fund, 2024). The consequences of the interest rate increase following the pandemic are becoming more apparent. The cost of financing has increased significantly during a period when debt levels in the public, business, and household sectors are extremely high which could raise issues over declining credit quality. (International Monetary Fund, 2023). In light of these risks, the consequent rate hikes and hawkish policy adopted by regulators have trickled down the inflation as a number of developed and emerging market economies have achieved notable decline in inflation.

The banking turmoil in March 2023 threatened financial stability. The US bank failures underscore the problems that the combination of vulnerabilities from liquidity and maturity mismatches can pose for the financial system during a time of significant monetary tightening (International Monetary Fund, 2023). While acute stress in the banking system has subsided, a weak tail of banks in some countries is still prevalent. In addition, cracks in other sectors may also become apparent and could turn into worrisome fault lines (International Monetary Fund, 2023). In light of this, the regulators have adopted enhanced financial sector regulation and supervision along with sharpened risk assessments.

There are still vulnerabilities arising from structural change. The frequency of extreme weather events is increasing, which is drawing attention to the potential threats that climate change may pose to financial stability. Physical hazards as well as an unruly shift to a low-carbon economy could cause asset prices to decline and risk premia to rise, which would destabilize the financial system (International Monetary Fund, 2023). At this juncture, global regulators have started to increase the disclosure requirements and granularity of climate related data from financial institutions as foundational elements in the identification and monitoring of climate related risks.

Table 7.2: Policy Developments related to Financial Stability and Resiliency

Policy Developments	Introduced By
Basel III Endgame Proposal	Federal banking regulators: Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation released U.S. Basel III Endgame Proposal on July 27, 2023
Long-Term Debt Instruments	The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation,

	and the Office of the Comptroller of the Currency jointly issued a notice of proposed rulemaking that would require certain large banking organizations to issue and maintain minimum amounts of long-term debt ("LTD") on August 29, 2023
Climate Change Stress Tests	The European Central Bank launched a supervisory climate risk stress test to assess how prepared banks are for dealing with financial and economic shocks stemming from climate risk on January 27, 2022. In the same line, the Federal Reserve and Reserve Bank of New Zealand also introduced Climate Change Stress Tests
Assessment of NSFR and Large Exposures on Banks	Basel Committee on Banking Supervision (BCBS) published the assessment reports on the implementation of the Net Stable Funding Ratio standard and large exposures framework in July 2023. The assessment finds regulations in the U.S are largely compliant with the global standards set by the Basel Committee on Banking Supervision
Financial Consumer Protection Laws	To strengthen the current financial consumer protection framework, the Central Banks of Sri lanka issued the Financial Consumer Protection Regulations on August 22, 2023.

7.3 Key Policy Changes and Regulatory Actions Implemented for the Financial Sector

Measures taken by Nepal Rastra Bank

Measures taken by Bank and Financial Institutions Regulation Department		
Regulation Area	**Regulation**	**Rationale**
Single Obligor Limit Circular No. 2 Issued on 2022/07/03	Limit for the margin type of loan against the collateral of shares from a single financial institution or all institutions is fixed at Rs.120 million per borrower.	To strengthen the risk management of banks by limiting concentrated credit exposures.
Loan to Value Ratio Circular No. 2 issued on 2022/07/03	Loan to Value Ratio has been restricted to 30 percent inside Kathmandu Valley and 40 for outside valley.	To reduce the possibility of negative shocks that housing market can exert to the financial system.
Loan Loss Provision Circular No. 8 issued on 2023/02/01	The loan loss provision for pass loans has been increased by 30 basis points to 1.3 percent from 1 percent.	To provide extra cushion against the probable degradation in asset quality
Restructuring and Rescheduling of credit Circular No. 10 issued on 2023/05/17 & 2023/02/24	Restructuring and rescheduling of credits availed to specific sectors has been introduced. NRB issued a circular for restructuring and rescheduling the credit availed in hotel, restaurant, agriculture & livestock farming and construction sectors. Along with this, credit up to Rs 5o million availed in any other sector and credit up to Rs 20 million availed to small and medium enterprises have also been rescheduled.	To prevent the degradation of asset quality.
Counter Cyclical Buffer Circular No. 2 issued on 2022/07/03	Counter Cyclical Buffer for commercial banks has been reintroduced, to be started from 2080/81.	To protect the economy from excess aggregate credit growth often been associated with the build-up of system-wide risk.
Mergers and Acquisition	Special incentives have been provided by NRB to BFIs undergoing mergers and acquisitions.	To strengthen the financial health and resiliency of financial institutions
Liquidity Ratios Circular No. 2 issued on 2022/07/03	The CRR has been increased by 100 basis points to 4 percent from 3 percent for A class commercial banks. Likewise, the SLR for A Class banks has been increased by 200 basis points to 12 percent from 10 percent and SLR for B and C Class banks has been increased by 300 basis points to reach 10 percent from 7 percent.	To ensure that banks have adequate liquid asset to absorb shocks arising from financial and economic stress

Base Rates Circular No.11 issued on 2023/05/08	Following requirements have been introduced in base rate regulation: • Publish the monthly and last three-month average base rate • Not to avail loans below the last three-month average base rate and, • Set the interest rates within the higher and lower limits of base rate fluctuations	To achieve twin goals of enhancing financial consumer protection and ensuring financial stability.

Measures taken by the Foreign Exchange Management Department

Regulation Area	**Regulation**	**Rationale**
Import Restriction Circular No. 1 Issued on 2022/07/17	Compliance with import restriction measures undertaken by the Government of Nepal for imports of non-essential and luxury goods.	To maintain consistency with the Government of Nepal circular.
Prevention of Trade Based Money Laundering Circular No. 4 Issued on 2022/08/15	Assurance of compliance with trade-based money laundering provisions for both import and export.	To prevent trade-based money laundering
Inflow of Foreign Currencies Circular No. 4 Issued on 2022/08/15	Cross-border inflow of funds, for various purposes without having obligation of repatriation, up to Rs. 1.5 million in a day has been allowed to be remitted into Nepal through licensed remittance companies, which was Rs. 1 million earlier.	To increase foreign exchange reserves.
Remittances in Cards Circular No. 4 Issued on 2022/08/15	Allowing BFIs and licensed remittance companies to bring remittances in cards issued by Nepali PSOs.	To increase foreign exchange reserves through newer instruments.
Restriction in Payment Circular No. 5 Issued on 2022/08/30	Restriction of eighteen Merchant Category Codes (MCCs) for payment through USD 500 prepaid cards.	To ensure prudent use of foreign exchanges
Import Documentation Circular No. 17 Issued on 2023/03/22	Allowing silver import with Master Airway Bill only and not with House Airway Bill/Bill of Lading.	To ensure compliance of silver import
Service Export	Provision regarding export of services has also been specified.	To provide clarity on export of services.

Circular No. 17 Issued on 2023/03/22		
Restriction on Crypto-like assets Notice dated 2023/04/03	Ban on crypto currencies/virtual currency, non-fungible token, digital asset, decentralized finance, network marketing and hyper fund has been reinforced.	To ensure compliance with existing legal provisions.

Key Measures taken by the Payment Systems Department

Regulation Area	**Regulation**	**Rationale**
Card Issuance related Guidelines and Most Important Terms and Conditions (Directive No. 1(1) and 1(2)/079)	Banks and Financial Institutions (BFIs) should, along with the card issuance application form, provide informative brochure containing the detailed information	The directive was issued to check BFIs from charging fees, interest, and penalties to customers without their consent or information. With informative brochures and most important terms and conditions in place, customers can make informed decision about card and related services right during the issuance.
Reporting of TTR, STR, SAR (Directive No.10.4/079)	LIs are required to report monthly threshold transactions report, suspicious transaction report/suspicious activity report within 7 days of the completion of a month through the SIS and Reporting Portal.	Considering the increased rate of frauds through digital channels, LIs have been directed to timely report and manage such transactions from AML/CFT perspective.
Restriction on representation of a BOD in multiple LIs (Directive No. 11.1(6)/079)	The regulation has directed the BODs of a LI not to hold any position whatsoever in other LIs, unless allowed by the Government of Nepal or the NRB	To strengthen the corporate governance and to mitigate any conflict of interest from the representation of a BOD in multiple LIs.
Employee Conducts and Management (Directive No. 11.4/079)	The regulation has directed LIs to implement policy related employment services, benefits, and conditions. The policy should be approved by the BODs.	To standardize employee conduct and to ensure there are well-defined procedures for the management of employees.
Transfer/ Buy/ Sell of Promoters' Shares (Directive No. 11.5(2)/ 079)	The recent regulation has slightly relaxed the previous regulation that promoter shares cannot be bought/sold within 5 years of license approval.	To allow LIs to strengthen themselves in lieu of promoter shares.

	If promoter shares are intended to be bought/sold to purchase new technology or to facilitate merger/acquisition, or for any other valid reasons, such a transaction can be allowed by the NRB after the share price is determined through the Due Diligence Audit.	
Risk classification and management (Directive No. 12.2/079)	In 2022/23, the risk-related directive was further extended including additional risks such as Credit risk, Systemic risk, and Legal risk.	To direct LIs to classify and manage wide spectrum of risks for uninterrupted service delivery to customers.
Implementing Risk Management Policy and Procedure (Directive No. 12.3/079)	The amended directive has specified the minimum subject matter to be included in the risk management policy and procedure.	To provide specificity and ensure standardization of risk management policy and procedures of LIs.
Maintaining a Risk Register (Directive No. 12.5/079)	The regulation has directed LIs to maintain a Risk Register to effectively implement provisions of the risk management policy, processes, and structures. The risk register should be updated on a quarterly basis.	To ensure effective management of the probable risks.
Disclosure of Services Provided (Directive No. 13.1(1)/079)	This regulation mandates the LIs to clearly disclose (in simple language) the details of services provided to customers via website and application (app).	To raise customer awareness and promote freedom of choice.
Disclosure of Procedural Information (Directive No. 13.1(4)/079)	The regulation directs the LIs to clearly disclose the features of services offered, transaction procedures, procedures related to PIN activation, PIN change, and terms and conditions, among others.	To raise customer awareness and promote consumer protection.
Disclosure of Transaction Details (Directive No. 13.1(6)/079)	The regulation ensures that the beneficiary of digital payments, if required, can access at least the following information related to payments: • Sender's Name • Sender's Account Number • PSP's name • Purpose of Transaction	To trace the origin of funds, when needed.
Grievance-related Provisions (Directive No. 13.4/079)	The new provisions added in the said directive include the following: • LIs should allow customers to lodge grievance/ compliant through the mobile app. • LIs should visibly display the link of NRB's Gunaso Portal (https://gunaso.nrb.org.np) in their website.	To provide easy access to the grievances portal of the NRB through LIs' website.
Digital financial literacy- related provisions (Directive No. 13.5(1)/079)	A provision has been added in FY 2022/23 stating that the LIs should publish leaflets, brochures, FAQs, knowledge kits, and	To raise awareness of customers about emerging

	informative videos to create awareness about digital risks, crimes, and frauds.	digital crimes, threats and frauds.
Temporary shutdowns of services/ System Downtime (Directive No. 13.6 (1)/079)	The regulation directs LIs to undertake activities related to system repair, upgradation, and others during off-hours (10 PM to 6 AM). Furthermore, if such downtime is needed for more than 2 hours, prior information needs to be provided to the PSD, NRB.	To ensure uninterrupted operations of services during peak hours.
Recording of Transaction Details (Directive No. 14.1(11)/079)	The regulation directs all LIs to consider, at minimum, the following information while recording transactions: • Customer's name, address, Contact Number and other KYC details • Transaction type and date • Transaction amount • Account number • Purpose of transaction	To facilitate the investigation agencies to assess fraudulent transactions.
Punishment for non-compliance from AML/CFT perspective (Directive No. 14.10 (2.10)	The directive has defined the following penalties for non-compliance to Section 6 B of the Asset (Money) Laundering Prevention Act (First Amendment), 2011: • For the first time: Rs. 1000,000 • From the second time onwards: Rs. 2000,000 or the penalty considering the severity of offence.	To control money laundering and fraudulent activities occurring through digital instruments.
Interoperability of Payment Systems (Directive No. 15.2 and 15.3/079)	The regulation requires the PSPs to be interoperable with at least one PSO. LIs should ensure interoperability of the following retail payment instruments and services: • Mobile banking and internet banking based interbank payments • Wallet-to-wallet transfer • QR codes through the use of APIs and/or interfacing. • Government payment services offered by limited institutions to be opened up for all.	To provide seamless payment options to customers through interoperable payment network.
Use of digital instruments for betting and other illegal activities	The notice was issued on December 13, 2022 to draw the attention of the general public on not to use online banking, mobile banking, digital wallets, and other digital payment instruments for making payments of online betting and other illegal activities.	To discourage money laundering, terrorism financing activities and others through the use of digital payment instruments.

Issuance of Licensing Policy, 2023	A new licensing policy has been issued covering all BFIs, PSOs, and PSPs with amended provisions related to capital increase, simplifying the process of licensing, provision of foreign direct investment in PSO/PSP, and exemption in providing license to BFIs.	To simplify the licensing process and to issue new licenses to resilient payment institutions fulfilling increased capital requirements.
Simplified KYC for small merchants (Circular No. 3/079/80)	Through the circular, additional provisions were included in Section 1.5 of Directive No. 14/079.A simplified KYC process can be followed for merchants transacting up to Rs. 100,000 annually.	To bring small merchants, that are less prone to money laundering risks, into the digital payments channel by simplifying the onboarding process.
Simultaneous representation as directors/ officials in the Board of multiple Lis	The regulation was issued in the form of a circular, issued on July 9, 2023, to amend Section 1.6 and Section 4 (B.4). Any person involved as the BOD of any licensed BFI, money changer, remittance company, PSO, and PSP should not simultaneously hold any position in other institutions. However, if a licensed institution has an investment in the other licensed institution, the employee of the investing institution can be a BOD of the institution receiving the investment. Furthermore, this provision is not applicable in case the BOD of an institution is deputed in another institution by the Government of Nepal and/or this Bank.	To further clarify the provision related to the simultaneous representation of directors' officials in the Board of multiple LIs.
Provisions related to Mergers and Acquisition in the Payment and Settlement Bylaw (First Amendment, 2023), 2020	The existing Payment and Settlement Bylaw, 2020 was amended in 2023 to include provisions related to the merger and acquisition of payment related institutions.	To provide opportunities to payment institutions to strengthen through merger and acquisition and to help problematic institutions in their exit strategy through merger and acquisition.

Guidelines Issued by NRB

Guidelines Issued	Rationale
Working Capital Guidelines Issued on 2023/01/04	To reduce the potential for ever-greening of bank exposures and ensure transparency, discipline and rightful use of credit, Working Capital guidelines (With first amendment) has been published.
ML/TF Risk Assessment Guidelines for Bank & Financial Institutions	In order to conduct risk assessment of money laundering and terrorism financing, Nepal Rastra Bank has introduced ML/TF risk assessment guidelines.

Issued on 2022/12/04	
Refinance Guidelines (Sixth Amendment) Issued on 2023/05/23	To support the micro, cottage, small, and medium enterprises/businesses and productive sectors which were hard hit by the COVID-19, the sixth amendment in Refinance guidelines was issued in order to provide pandemic refinance facilities at a concessional rate. Similarly, on the basis of data published by the National Statistics Office, NRB has made provisions for providing special refinancing facility to the businesses that faced negative growth for two consecutive quarters.
Financial Literacy Framework Issued on 2023/03/31	Achieving financial stability involves a combination of knowledge, discipline, and consistent application of financial principles. In light of this, Nepal Rastra Bank has published financial literacy framework.

7.4 Initiatives of NRB to Strengthen Financial System

Digital Bank: The Budget Speech of 2022/23 has provisioned those necessary arrangements will be made to establish a Digital Bank in Nepal. In line with the budget speech, the “Monetary Policy of 2022/23” has stated that necessary amendments in Nepal Rastra Bank (NRB) Act, 2002, Bank and Financial Institutions Act (BAFIA), 2017, and implementation of other necessary laws and institutional structure will be undertaken to support full-fledged Digital Bank in Nepal. The major policy objectives of establishing a digital bank are to promote financial inclusion, foster innovation and digitalization of the financial sector, and spur the degree of competition in the banking marketplace.

Domestic Systematically Important Banks (D-SIB): The Fourth Strategic Plan, Pillar 2, Objective 1 of NRB has mandated the issue of D-SIBs Framework by 2025 as well as annual work-plan of FY 2022/23 has also mandated the formulation of DSIB draft and consultation with the stakeholders. D-SIBs framework aims to identify banks which are too-big-to-fail and apply additional capital requirements and enhanced supervisory assessments.

Green Taxonomy: The Monetary Policy for 2022/23 under financial sector provisions, point number (104), has stated that "a draft of Green Taxonomy will be prepared by including the topics such as issuing green bonds, reporting climate risks, identifying capital needs, and others With a policy objective of developing a Green Taxonomy classification system that provides guidance and incentives for the financial services sector to finance green innovations.

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR): The Fourth Strategic Plan, Pillar 2, Objective 2 of NRB has mandated the issue of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) Framework under Basel III Liquidity Framework by 2025. LCR is introduced to promote short-term resilience by requiring sufficient high-quality liquid assets to survive acute stress lasting for 30 calendar days. NSFR is aimed at promoting resilience over the longer term through incentives for banks to fund activities with more stable sources of funding. The ratio is developed to address the maturity mismatch between liabilities and assets in the financial sector and to make sure that banks have sufficient stable funding to withstand a yearlong liquidity crisis.

Stressed Loan Resolution Framework: The Monetary Policy for FY 2023/24 Point 94 states "Stressed Loan Resolution Framework will be issued by incorporating the measures and procedures to be followed for the loan rescheduling, rehabilitation and other management of the borrowers who are in problem due to the natural disaster or other special circumstances". In this context, the stressed loan resolution framework aims to provide a guideline for early recognition, reporting and time-bound resolution of stressed assets.

Expected Credit Loss (ECL) Guidelines: Guided by the monetary policy, Nepal Rastra Bank has been preparing to mandate the ECL framework, aligned with NFRS 9, for banks and financial institutions to shift the loan loss provisioning from incurred loss-based model to forward looking approach. These guidelines are expected to bring clarity in implementation of ECL and also to introduce regulatory backstop measures. The central bank has floated the guidelines for public consultation.

Centralized KYC: The Monetary Policy of FY 2023/24 point 103 states "To facilitate the exchange of information of customers among the BFIs and other payment-related entities, necessary coordination will be made to develop and implement a centralized Know Your Customer (KYC) system by integrating with the National ID being issued by the GoN." The C-KYC aims to counter money laundering (ML) and terrorist financing (TF) violations. It also aims at providing an enhanced customer experience by eliminating the need for the same set of documentation and going through the same procedures across multiple FIs over what is often a lengthy process.

Credit Scoring Measurement: The Monetary Policy for FY 2023/24 point number (101), has stated that "Necessary coordination will be made with other related agencies to develop a credit scoring measurement system".

Corporate Governance Guidelines: The Fourth Strategic Plan, Pillar 2, Objective 2 of NRB has mandated to issue the Corporate Governance related Guidelines to licensed institutions with the participation of the Foreign Exchange Management Department and Payment System Department. The objective of the guideline is to strengthen governance in different licensed institutions.

Privileged Credit Policy: Guided by the Fourth Strategic Plan, Pillar 2, Objective 2 the Privileged Credit Policy (PCP) will consolidate all policies and circulars related to directed sector lending, deprived sector lending, and other priority sector loans.

Risk Management Guidelines for Class D BFI: As per the Fourth Strategic Plan, Pillar 2, Objective 2 “Strengthen Regulatory Frameworks”, Risk management guidelines is aimed improve financial soundness of individual financial institutions and stability of the overall financial sector by introducing tools and techniques for assessment and necessary treatment of various risks.

Central Bank Digital Currency at Nepal Rastra Bank Nepal Rastra Bank initiated the study of Central Bank Digital Currency (CBDC) after announcement in monetary policy of 2021/22. To spearhead this undertaking, a high-level steering committee, chaired by the Deputy Governor, was formed in August of 2021. The committee formed a cross-functional study task force incorporating members from economic research department, payments system department and currency management department. The task force prepared the concept note titled “Central Bank Digital Currency (CBDC): Identifying Policy Goals and Design for Nepal” and it was released for public consultation in August 2022. Based on the recommendation of the study taskforce and organization and management survey 2079, the decision was made to establish a separate CBDC division under payment systems department (PSD). The division is currently assessing the potential impact of CBDC on monetary policy transmission mechanisms and overall financial stability based on different design choices.

Swap Guidelines: As announced in the Monetary Policy for FY 2021/22, point no. 114, an initial study on Swap has been conducted to provide an additional avenue for managing foreign exchange risks. Based on the initial study and further deliberations, Swap instruments shall enable to hedge foreign exchange risks associated with borrowings made by banks and financial institutions from abroad, in line with Monetary Policy for FY 2022/23, point no. 120.

CHAPTER VIII: CONCLUSION

The economic condition of Nepal looked modest in FY 2022/2023. Inflation was marginally above target, remittance inflow was on an increasing trend, and foreign exchange reserve also increased gradually. The external sector performed well and as a result the current account deficit shrank and the balance of payments remained at surplus. The number of financial institutions decreased as a result of the consolidation of banks and financial institutions, which strengthened the resilience of the financial system. However, with banks and financial institutions getting bigger, the need for vigilant regulation regarding the buildup of risks is on the rise.

The financial soundness indicators indicated the resilience and stability of the financial system. Capital adequacy of BFIs continued to be well above regulatory requirements. Concerns regarding the stability of BFIs, however, have been raised due to the deterioration of asset quality. High interest rates and borrowing costs have inhibited demand and firms are still facing the challenge to finance their debt. This has negatively affected the banks' balance sheet as visible in low profitability and elevated levels of non-performing loans. Unwinding of accommodative monetary policy in the context of Covid-19 can further affect repayment capacity of borrowers and create pressure on the stability of financial institutions as well. Amidst these challenging scenarios, BFIs were still able to maintain adequate capital, liquidity and profitability.

On the other side, the rising share of the non-bank financial sector in the economy has colligated the knots of the financial system, raising interdependence and interconnectedness. Sharing of financial resources among the BFIs, Insurance companies, Cooperatives, FinTechs and other contractual savings institutions like Citizen Investment trust, Social Security Fund, and Employees Provident fund has helped the mobilization of scarce resources to foster economic activities, however, such interconnectedness also generates risks in the new corners of financial system. Issues such as mission drift from providing financial services to the underserved and unserved, the prevalence of weak governance practices, and predatory lending without proper financial analysis has raised concerns over the soundness of cooperative institutions. These issues when coupled with political instability and economic slowdown aggravates the situation further and could create a spillover effect in the financial system.

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 banks' branches in almost all local levels, rising level of financial literacy and the growing advent of digital financial services, financial inclusion and access has surged impressively. Similarly, the digital modes of payments such as QR payment, Connect IPS, mobile banking and RTGS has further helped to enhance the NRB's mandate to establish financial inclusion and access. However, the rapid acceleration in the use of digital financial services might bring challenges to the financial system. Protection of financial consumers against the risks pertaining to the safety of information, online deception, and fraud is still challenging. Along with this, any vulnerabilities and risks in digital infrastructures and institutions could dilute the overall effectiveness of regulation in the economy and increase the system wide risks as well. Therefore, strong oversight of digital financial services is necessary to conserve financial stability.

In nutshell, tighter monetary policy supported by macro prudential regulations helped to contain the price and external sector imbalances. The financial system remains stable amid increased uncertainties. However, the path ahead appears challenging as the downside risks in the domestic and international economies continue to jeopardize the soundness of the financial system. At this point, maintaining financial stability and resilience will be greatly impacted by initiatives to assess the soundness of the financial system in tandem with prudent regulation and supervision of buildup risks.

ANNEXES

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

		Statement of Assets and Liabilities of Banks & Financial Institutions (Aggregate of A,B and C Classes)							
								Amt in Mn of Rs	
Liabilities		Mid-July			Mid-June	Mid-July	% Change		
		2020	2021	2022	2023	2023			
		1	2	3	4	5	2/1	3/2	5/4
1	**CAPITAL FUND**	488,276.68	558,524.98	618,798.37	666,347.72	683,127.47	14.39	10.79	2.52
	a. Paid-up Capital	330,875.79	365,819.74	407,789.21	425,026.71	425,051.96	10.56	11.47	0.01
	b. Statutory Reserves	94,149.87	105,951.44	120,965.44	137,128.14	138,150.66	12.53	14.17	0.75
	c. Retained Earning	4,312.03	12,331.44	10,266.53	(3,036.36)	(6,632.92)	185.98	(16.75)	118.45
	d. Others Reserves	58,938.99	74,422.36	79,777.19	107,229.24	126,557.78	26.27	7.20	18.03
2	**BORROWINGS**	81,609.57	275,088.70	500,433.52	277,252.49	255,302.42	237.08	81.92	(7.92)
	a. NRB	7,991.88	118,779.11	259,218.39	3,884.36	2,022.34	1,386.25	118.24	(47.94)
	b. "A"Class Licensed Institution	5,392.12	28,829.15	40,169.60	34,829.56	18,992.72	434.65	39.34	(45.47)
	c. Foreign Banks and Fin. Ins.	14,809.97	25,778.84	58,032.58	68,931.33	64,404.08	74.06	125.12	(6.57)
	d. Other Financial Ins.	1,736.80	1,266.98	6,027.21	7,132.65	6,467.26	(27.05)	375.72	(9.33)
	e. Bonds and Securities	51,678.80	100,434.63	136,985.75	162,474.58	163,416.02	94.34	36.39	0.58
3	**DEPOSITS**	3,933,737.54	4,740,065.55	5,159,174.99	5,568,600.74	5,771,238.15	20.50	8.84	3.64
	a. Current	401,129.83	490,764.94	465,414.62	447,103.99	454,049.35	22.35	(5.17)	1.55
	b. Savings	1,224,189.47	1,592,151.63	1,402,181.57	1,415,608.57	1,519,064.43	30.06	(11.93)	7.31
	c. Fixed	1,884,401.91	2,213,503.20	2,835,816.75	3,301,994.58	3,359,257.40	17.46	28.11	1.73
	d. Call Deposits	387,287.41	396,692.52	391,067.70	356,120.97	390,784.71	2.43	(1.42)	9.73
	e. Others	36,728.92	46,953.27	64,694.35	47,772.63	48,082.26	27.84	37.78	0.65
4	**Bills Payable**	2,052.75	3,067.30	2,782.19	3,804.03	3,188.64	49.42	(9.30)	(16.18)
5	**Other Liabilities**	385,596.32	418,432.37	424,125.60	517,530.59	502,666.24	8.52	1.36	(2.87)
	1. Loan Loss Provision	78,604.13	89,593.67	110,299.65	162,979.99	168,123.62	13.98	23.11	3.16
	2. Interest Suspense a/c	27,581.70	20,034.97	19,628.12	37,261.57	28,909.75	(27.36)	(2.03)	(22.41)
	3. Others	279,410.48	308,803.74	294,197.83	317,289.02	305,632.87	10.52	(4.73)	(3.67)
6	**Reconcillation A/c**	3,427.13	4,050.18	512.10	437.67	471.02	18.18	(87.36)	7.62
7	**Profit & Loss A/c**	59,044.90	69,757.43	79,497.36	69,903.10	75,002.03	18.14	13.96	7.29
TOTAL		4,953,744.89	6,068,986.51	6,785,324.13	7,103,876.33	7,290,995.97	22.51	11.80	2.63
Assets									
1	**LIQUID FUNDS**	563,629.66	519,339.57	509,990.03	456,129.13	533,957.97	(7.86)	(1.80)	17.06
	a. Cash Balance	110,726.17	116,799.19	111,630.74	95,091.26	102,133.60	5.48	(4.43)	7.41
	Nepalese Notes & Coins	98,161.03	99,422.33	108,250.20	91,947.37	99,262.11	1.28	8.88	7.96
	Foreign Currency	12,565.14	17,376.86	3,380.55	3,143.89	2,871.49	38.29	(80.55)	(8.66)
	b. Bank Balance	369,615.27	334,151.81	302,877.15	304,786.75	362,360.90	(9.59)	(9.36)	18.89
	1. In Nepal Rastra Bank	294,779.99	273,552.75	220,659.37	244,519.47	288,686.54	(7.20)	(19.34)	18.06
	2. "A"Class Licensed Institution	27,140.72	17,905.39	28,862.05	17,450.05	23,869.69	(34.03)	61.19	36.79
	3. Other Financial Ins.	3,372.09	3,274.72	6,958.63	4,019.56	2,939.28	(2.89)	112.50	(26.88)
	4. In Foreign banks	44,322.47	39,418.96	46,397.10	38,797.67	46,865.39	(11.06)	17.70	20.79
	c. Money at Call	83,288.22	68,388.56	95,482.14	56,251.13	69,463.47	(17.89)	39.62	23.49
2	**INVESTMENTS**	534,611.11	732,619.01	911,434.87	949,778.96	1,049,633.50	37.04	24.41	10.51
	a. Govt.Securities	533,827.15	721,611.59	909,783.42	947,450.59	1,029,806.76	35.18	26.08	8.69
	b Others	783.96	11,007.41	1,651.45	2,328.36	19,826.74	1,304.07	(85.00)	751.53
3	**SHARE & OTHER INVESTMENT**	171,682.93	214,312.66	186,550.42	225,411.81	251,756.75	24.83	(12.95)	11.69
4	**LOANS & ADVANCES (Including Bills Purchased)**	3,273,095.57	4,174,616.04	4,713,536.55	4,858,077.52	4,877,407.26	27.54	12.91	0.40
	4.1 LOANS & ADVANCES	3,270,132.99	4,170,584.21	4,709,049.99	4,855,421.23	4,873,807.15	27.54	12.91	0.38
	a. Private Sector	3,156,509.39	4,014,771.22	4,493,911.82	4,675,776.86	4,687,782.12	27.19	11.93	0.26
	b. Financial Institutions	110,944.67	152,817.56	212,906.72	176,477.91	183,328.13	37.74	39.32	3.88
	c. Government Organizations	2,678.93	2,995.44	2,231.44	3,166.45	2,696.91	11.81	(25.51)	(14.83)
	4.2 BILLS PURCHASED	2,962.58	4,031.82	4,486.57	2,656.29	3,600.11	36.09	11.28	35.53
5	**LOANS AGT. COLLECTED BILLS**	-	412.39	951.39	-	797.35	-	130.70	-
6	**FIXED ASSETS**	78,567.61	82,988.98	95,029.97	109,682.87	136,783.25	5.63	14.51	24.71
7	**OTHER ASSETS**	312,752.28	331,101.08	353,787.74	485,435.29	417,471.87	5.87	6.85	(14.00)
	a. Accrued Interests	152,797.02	171,036.41	199,589.39	315,884.52	244,587.52	11.94	16.69	(22.57)
	b. Others	159,955.27	160,064.67	154,198.34	169,550.76	172,884.36	0.07	(3.66)	1.97
8	**Expenses not Written off**	188.57	342.13	218.55	224.82	364.13	81.43	(36.12)	61.96
9	**Non Banking Assets**	7,076.21	7,693.40	10,521.35	15,899.41	18,688.53	8.72	36.76	17.54
10	**Reconcillation Account**	11,715.01	5,153.91	3,240.70	2,452.08	2,304.15	(56.01)	(37.12)	(6.03)
11	**Profit & Loss A/c**	425.93	407.35	62.56	784.44	1,831.21	(4.36)	(84.64)	133.44
TOTAL		4,953,744.88	6,068,986.51	6,785,324.13	7,103,876.34	7,290,995.97	22.51	11.80	2.63

Annex-II: Statement of Profit and Loss Statement of Banks & Financial Institutions (Aggregate)

	Profit and Loss Statement of Banks & Financial Institutions (Aggregate of A,B and C Classes)							
							Amt in Mn of Rs	
		Mid-July		Mid-June	Mid-July		% Change	
	2020	2021	2022	2023	2023			
	1	2	3	4	5	2/1	3/2	5/4
1 Interest Expenses	232,950.82	224,341.00	330,008.16	400,674.22	429,253.49	(3.70)	47.10	7.13
1.1 Deposit Liabilities	227,204.92	215,182.71	305,975.67	376,234.94	402,421.27	(5.29)	42.19	6.96
1.1.1 Saving A/c	53,626.82	43,601.10	76,031.75	82,905.14	88,064.59	(18.70)	74.38	6.22
1.1.2 Fixed A/c	157,021.08	166,935.06	223,748.00	285,454.90	305,844.91	6.31	34.03	7.14
1.1.2.1 Upto 3 Months Fixed A/c	7,334.55	6,630.97	11,091.89	19,611.58	21,336.36	(9.59)	67.27	8.79
1.1.2.2 3 to 6 Months fixed A/c	18,168.40	18,574.35	31,918.93	41,503.92	38,568.98	2.23	71.84	(7.07)
1.1.2.3 6 Months to 1 Year Fixed A/c	74,620.45	69,134.73	99,439.70	97,957.73	107,125.10	(7.35)	43.83	9.36
1.1.2.4 Above 1 Year	56,897.68	72,595.01	81,297.48	126,381.66	138,814.47	27.59	11.99	9.84
1.1.3 Call Deposit	16,291.30	4,442.63	6,111.02	7,834.65	8,460.61	(72.73)	37.55	7.99
1.1.4 Certificate of Deposits	265.72	203.92	84.90	40.26	51.16	(23.26)	(58.37)	27.08
1.2 Others	5,745.90	9,158.28	24,032.49	24,439.27	26,832.23	59.39	162.41	9.79
2 Commission/Fee Expense	1,695.02	1,735.07	3,120.89	3,284.24	4,228.39	2.36	79.87	28.75
3 Employees Expenses	42,145.26	48,173.68	53,727.08	49,795.08	55,126.32	14.30	11.53	10.71
4 Office Operating Expenses	32,395.04	33,543.54	38,325.72	34,866.37	38,127.02	3.55	14.26	9.35
5 Exchange Fluctuation Loss	5.66	1.43	105.13	11.29	-	(74.82)	7,277.31	(100.00)
5.1 Due to Change in Exchange Rates	4.76	1.23	33.71	-	-	(74.17)	2,639.35	-
5.2 Due to Foreign Currency Transactions	0.89	0.19	71.42	11.29	-	(78.28)	36,644.30	(100.00)
6 Non-Operatiing Expenses	462.54	89.23	369.25	300.59	498.75	(80.71)	313.83	65.93
7. Provision for Risk	33,869.34	39,013.51	25,496.87	53,779.82	65,951.96	15.19	(34.65)	22.63
7.1 Loan loss Provision	33,521.92	38,873.56	25,367.14	53,727.28	65,818.03	15.96	(34.74)	22.50
7.1.1 General Loan loss Provision	17,256.91	25,113.08	12,849.17	16,292.22	17,472.52	45.52	(48.83)	7.24
7.1.1.1 Pass Loan Loss Provision	10,920.75	21,235.37	8,873.12	9,059.86	10,503.46	94.45	(58.22)	15.93
7.1.1.2 Watch List Provision	6,336.16	3,877.71	3,976.05	7,232.35	6,969.06	(38.80)	2.54	(3.64)
7.1.2 Special Loan Loss Provision	15,093.89	13,439.62	12,087.51	34,568.50	45,634.18	(10.96)	(10.06)	32.01
7.1.3 Additional Loan Loss Provision	1,171.12	320.85	430.46	2,866.56	2,711.33	(72.60)	34.16	(5.42)
7.2. Provision for Non-Banking Assets	123.99	48.48	13.35	27.62	88.54	(60.90)	(72.47)	220.59
7.3. Provision for Loss on Investment	91.99	3.32	97.62	24.13	16.36	(96.39)	2,840.70	(32.20)
7.4. Provision for Loss of Other Assets	131.44	88.15	18.76	0.79	29.03	(32.93)	(78.72)	3564.25
8 Loan Written Off	411.14	813.94	1,607.21	2,246.38	2,822.99	97.97	97.46	25.67
9 Provision for Staff Bonus	7,498.98	9,238.47	11,765.55	10,576.27	10,406.57	23.20	27.35	(1.60)
10 Provision for Income Tax	24,783.15	30,912.85	34,273.23	30,794.70	32,840.20	24.73	10.87	6.64
11 Others	35.82	248.44	6.85	20.65	79.06	593.60	(97.24)	282.85
12 Net Profit	58,924.35	71,305.54	83,437.64	73,806.50	77,770.81	21.01	17.01	5.37
TOTAL EXPENSES	**435,177.12**	**459,416.67**	**582,243.59**	**660,156.10**	**717,105.55**	**5.57**	**26.74**	**8.63**
Income								
1. Interest Income	378,136.31	372,972.19	509,365.65	599,968.76	641,876.88	(1.37)	36.57	6.99
1.1. On Loans and Advance	350,654.04	342,440.33	464,186.30	538,974.64	572,264.92	(2.34)	35.55	6.18
1.2. On Investment	19,023.42	25,973.90	38,306.43	50,589.85	57,477.34	36.54	47.48	13.61
1.2.1 Government Bonds	17,634.60	23,335.02	35,010.38	46,781.56	53,207.33	32.33	50.03	13.74
1.2.2 Foreign Bonds	108.53	214.51	341.19	200.22	228.25	97.64	59.06	14.00
1.2.3 NRB Bonds	1,038.43	589.07	343.22	490.94	557.96	(43.27)	(41.74)	13.65
1.2.4 Deventure & Bonds	241.85	1,835.29	2,611.64	3,117.13	3,483.80	658.86	42.30	11.76
1.3 Agency Balance	639.85	168.97	174.04	758.45	1,430.27	(73.59)	3.00	88.58
1.4 On Call Deposit	4,458.78	1,193.41	1,459.68	2,248.46	2,428.07	(73.23)	22.31	7.99
1.5 Others	3,360.22	3,195.59	5,239.18	7,397.37	8,276.27	(4.90)	63.95	11.88
2. Comission & Discount	19,439.24	24,942.07	27,258.63	25,581.21	29,085.60	28.31	9.29	13.70
2.1 Bills Purchase & Discount	193.76	228.02	309.61	234.74	205.85	17.68	35.78	(12.31)
2.2 Comission	15,924.59	20,920.28	22,861.24	19,590.16	22,064.50	31.37	9.28	12.63
2.3 Others	3,320.89	3,793.77	4,087.78	5,756.31	6,815.25	14.24	7.75	18.40
3 Income From Exchange Fluctuation	10,780.49	10,912.65	8,120.69	5,161.11	5,552.53	1.23	(25.58)	7.58
3.1 Due to Change in Exchange Rate	1,319.88	1,343.30	1,028.82	489.00	828.93	1.77	(23.41)	69.52
3.2 Due to Foreign Currency Trans.	9,460.61	9,569.35	7,091.87	4,672.12	4,723.60	1.15	(25.89)	1.10
4 Other Operating Income	11,433.52	16,788.63	12,504.13	8,932.43	11,095.46	46.84	(25.52)	24.22
5 Non Operating Income	2,352.84	8,175.93	3,583.75	1,442.23	1,971.16	247.49	(56.17)	36.67
6 Provision Written Back	12,605.66	24,835.06	20,530.20	17,549.11	27,558.42	97.02	(17.33)	57.04
7 Recovery from Written off Loan	448.89	759.77	668.57	167.92	245.12	69.26	(12.00)	45.98
8 Income from Extra Ordinary Expenses	(98.33)	11.52	155.85	497.72	(1,059.89)	(111.72)	1,252.34	(312.95)
9 Net Loss	78.51	18.86	56.13	855.60	780.26	(75.98)	197.60	(8.81)
TOTAL INCOME	**435,176.92**	**459,416.68**	**582,243.59**	**660,156.10**	**717,105.55**	**5.57**	**26.74**	**8.63**

Annex-III: Major Financial Indicators of Micro Finance Financial Institutions (Aggregate)

Major Financial Indicators of Microfinance Financial Institutions									
								Amt in Mn of Rs	
Liabilities		Mid-July			Mid-June	Mid-July	% change		
		2020	2021	2022	2022	2023			
		1	2	3	4	5	2/1	3/2	5/4
1	**CAPITAL FUND**	33,423.54	39,092.26	50,333.99	59,454.33	59,479.93	16.96	28.76	0.04
	a. Paid-up Capital	21,495.34	24,739.79	30,093.15	34,587.82	34,388.03	15.09	21.64	-0.58
	b. Statutory Reserves	4,813.65	5,802.80	9,012.43	11,134.49	11,189.70	20.55	55.31	0.50
	c. Retained Earning	2,790.30	3,434.37	5,519.88	6,834.42	6,644.62	23.08	60.72	-2.78
	d. Others Reserves	4,324.25	5,115.30	5,708.53	6,897.61	7,257.58	18.29	11.60	5.22
2	**BORROWINGS**	142,094.63	207,349.06	233,581.54	209,996.03	214,238.06	45.92	12.65	2.02
	a. NRB	8.19	8,220.44	22,655.04	6,463.77	7,943.87	100236.37	175.59	22.90
	b. Others	142,086.44	199,128.62	210,926.50	203,532.26	206,294.19	40.15	5.92	1.36
3	**DEPOSITS**	106,150.20	130,425.41	159,022.78	165,039.03	167,092.71	22.87	21.93	1.24
4	**BILLS PAYABLE**	41.04	10.67	37.58	35.71	27.20	-73.99	252.05	-23.82
5	**OTHER LIABILITIES**	29,558.02	37,482.79	42,123.34	55,234.00	46,184.92	26.81	12.38	-16.38
	a. Loan Loss Provision	7,631.05	10,760.37	11,707.88	20,491.90	18,382.94	41.01	8.81	-10.29
	b. Interest Suspense a/c	4,002.88	4,175.63	4,726.98	8,930.82	6,921.26	4.32	13.20	-22.50
	c. Others	17,924.09	22,546.78	25,688.48	25,811.28	20,880.73	25.79	13.93	-19.10
6	**RECONCILIATION A/c**	8,481.86	19,298.35	22,174.09	20,283.51	15,567.76	127.52	14.90	-23.25
7	**PROFIT & LOSS A/c**	5,419.38	11,838.63	12,377.80	3,608.99	5,191.09	118.45	4.55	43.84
Total		**325,168.67**	**445,497.16**	**519,651.11**	**513,651.60**	**507,781.68**	**37.00**	**16.65**	**-1.14**
	Assets	-	-	-	-	-			
1	**LIQUID FUNDS**	30,381.57	28,288.44	20,319.62	22,140.63	26,963.32	-6.89	-28.17	21.78
	a. Cash Balance	379.46	521.10	371.41	663.78	494.18	37.33	-28.73	-25.55
	b. Bank Balance	16,871.95	17,507.11	10,770.06	12,280.91	17,249.13	3.76	-38.48	40.45
	c. Money at Call	13,130.16	10,260.24	9,178.15	9,195.94	9,220.01	-21.86	-10.55	0.26
2	INVESTMENT IN SECURITIES EXCEPT SHARES	467.56	559.34	761.60	1,241.50	1,060.38	19.63	36.16	-14.59
3	**SHARE & OTHER INVESTMENT**	9,731.83	14,153.18	5,333.90	8,187.55	8,282.04	45.43	-62.31	1.15
4	**LOANS & ADVANCES**	262,732.25	365,554.02	449,685.76	435,065.79	432,237.45	39.14	23.01	-0.65
	Institutional	39,720.69	54,127.79	90,238.86	72,116.38	72,927.51	36.27	66.71	1.12
	Individual	223,011.56	311,426.23	359,446.90	362,949.41	359,309.93	39.65	15.42	-1.00
5	**FIXED ASSETS**	2,222.72	2,565.38	3,073.10	3,392.47	3,257.89	15.42	19.79	-3.97
6	**OTHER ASSETS**	11,063.23	15,031.02	18,136.79	21,825.61	20,077.65	35.86	20.66	-8.01
7	**EXPENSES NOT WRITTEN OFF**	11.08	7.20	3.30	33.66	38.60	-34.99	-54.15	14.67
8	**NON BANKING ASSETS**	1.34	1.34	1.34	1.34	1.34	0.00	0.00	0.00
9	**RECONCILIATION A/c**	8,469.06	19,324.72	22,175.75	19,835.48	14,809.40	128.18	14.75	-25.34
10	**PROFIT & LOSS A/c**	88.03	12.51	159.96	1,927.57	1,053.61	-85.79	1178.33	-45.34
Total		**325,168.67**	**445,497.16**	**519,651.11**	**513,651.60**	**507,781.68**	**37.00**	**16.65**	**-1.14**

Profit & Loss A/c								
Expenses								
1 INTEREST EXPENSES	21,964.54	18,279.40	30,522.15	35,186.59	36,965.94	(16.78)	66.98	5.06
1.1 Deposit Liabilities	8,068.62	8,526.84	10,282.38	11,384.90	12,474.20	5.68	20.59	9.57
1.2 On Borrowing	13,895.91	9,752.55	20,239.78	23,801.69	24,491.75	(29.82)	107.53	2.90
2 COMMISSION/FEE EXPENSES	38.32	16.16	19.98	39.77	44.78	(57.81)	23.62	12.60
3 EMPLOYEE EXPENSES	8,757.23	9,378.52	11,857.16	11,487.13	12,689.11	7.09	26.43	10.46
4 OFFICE OPERATING EXPENSES	2,907.40	3,352.72	4,357.83	3,984.78	4,650.55	15.32	29.98	16.71
5 NON OPERATING EXPENSES	140.05	35.69	19.59	4.78	14.22	(74.52)	(45.12)	197.52
6 PROVISION FOR RISK	6,648.25	17,302.77	5,527.16	18,097.90	25,658.45	160.26	(68.06)	41.78
6.1 Loan loss Provision	6,631.69	17,265.36	5,506.38	18,097.72	25,554.31	160.35	(68.11)	41.20
6.1.1 General Loan loss Provision	3,363.69	4,556.48	1,984.98	5,498.69	12,789.88	35.46	(56.44)	132.60
6.1.2 Special Loan Loss Provision	3,090.53	11,628.86	2,839.68	12,214.11	11,890.57	276.27	(75.58)	(2.65)
6.1.3 Additional Loan Loss Provision	177.47	1,080.02	681.72	384.85	1,079.21	508.55	(36.88)	180.42
6.2. Provision for Non-Banking Assets	-	-	-	-	-	-	-	-
6.3. Provision for Loss on Investment	0.51	-	1.18	-	-	(100.00)	-	-
6.4. Provision for Loss of Other Assets	16.05	37.41	19.60	0.18	104.14	133.14	(47.61)	56963
7 LOAN WRITTEN OFF	5.31	31.08	34.91	12.96	123.17	485.19	12.30	850.17
8 EXTRAORDINORY EXPENSES	17.96	9.12	18.08	0.01	0.12	(49.22)	98.29	727.13
9 PROVISION FOR STAFF BONUS	835.98	1,847.74	1,955.13	594.45	779.40	121.03	5.81	31.11
10 PROVISION FOR INCOME TAX	2,353.35	5,069.25	5,462.43	1,622.18	2,486.09	115.41	7.76	53.26
11 NET PROFIT	5,393.83	11,829.12	12,376.26	3,150.68	4,783.09	119.31	4.63	51.81
TOTAL EXPENSES	49,062.22	67,151.57	72,150.66	74,181.23	87,444.40	36.87	7.44	17.88
Income								
1. INTEREST INCOME	41,259.05	45,304.11	59,984.89	56,408.57	61,707.43	9.80	32.40	9.39
1.1 On Loans and Advances	39,362.01	43,760.30	58,457.10	54,898.66	59,841.56	11.17	33.58	9.00
1.2 On Investment	12.36	13.19	34.94	65.86	72.42	6.71	164.80	9.96
1.5 Others	1,884.67	1,530.61	1,492.85	1,444.05	1,793.46	(18.79)	(2.47)	24.20
2. COMMISSION & DISCOUNT	717.96	1,419.69	1,442.45	855.38	617.96	97.74	1.60	(27.76)

2.1 Bills Purchase & Discount	0.03	0.01	0.03	-	3.99	(69.53)	288.77	-
2.2 Comission	414.59	717.54	746.96	618.25	477.76	73.07	4.10	(22.72)
2.3 Others	303.34	702.14	695.46	237.13	136.21	131.47	(0.95)	(42.56)
3 OTHER OPERATING INCOME	3,726.39	5,025.34	5,494.65	3,948.87	3,971.08	34.86	9.34	0.56
4 NON OPERATING INCOME	152.82	270.43	446.27	157.01	157.53	76.96	65.02	0.33
5 PROVISION FOR WRITTEN BACK	3,133.85	15,072.16	4,554.55	11,227.58	21,199.71	380.95	(69.78)	88.82
6 RECOVERY FOR WRITE BACK	2.22	8.69	6.16	3.57	4.32	292.16	(29.10)	20.76
7 INCOME FOR EXTRA ORDINARY EXPENSES	18.12	48.35	63.28	110.99	112.51	166.79	30.87	1.37
8 NET LOSS	51.82	2.81	158.42	1,469.26	645.62	(94.57)	5,531.04	(56.06)
TOTAL INCOME	49,062.22	67,151.57	72,150.66	74,181.23	88,416.17	36.87	7.44	19.19
Miscellaneous Information								
No. of Total Staffs	19,017	20,872	23,303	22,528	22,493	9.75	11.65	(0.16)
No. of Total Branches	4,057	4,685	5,135	5,151	5,128	15.48	9.61	(0.45)
No. of Total Centers	310,895.20	362,982.20	428,783.20	443,647.20	445,666.20	16.75	18.13	0.46
No. of Total Groups	1,039,695.98	1,183,363.60	1,351,729.00	1,387,885.20	1,390,718.20	13.82	14.23	0.20
No. of Total Passive Groups	9,398.00	34,163.00	16,159.00	18,302.00	19,042.80	263.51	(52.70)	4.05
No. of Total Members	4,686,659.00	5,191,363.00	5,859,530.00	5,962,775.00	6,016,100.93	10.77	12.87	0.89
No. of Total Passive Members	195,311.00	329,895.31	438,040.31	582,759.31	528,081.81	68.91	32.78	(9.38)
No. of Total Borrowers	2,783,221.80	2,992,068.00	3,303,100.00	3,045,124.00	2,984,420.00	7.50	10.40	(1.99)
No. of Total Overdue Borrowers	1,001,407.00	764,663.00	382,353.00	888,103.01	587,163.23	(23.64)	(50.00)	(33.89)
No. of Total Saving Members	4,679,986.80	5,193,581.80	5,888,077.00	5,997,387.00	6,039,507.00	10.97	13.37	0.70
Total Saving Amount (Rs million)	106,150.20	130,471.71	159,022.78	164,963.16	167,026.54	22.91	21.88	1.25

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

(Rs in million)

	Mid-July			Mid-June	Mid-July	% Change		
	2020	2021	2022	2023	2023			
Sectorwise	**1**	**2**	**3**	**4**	**5**	**2/1**	**3/2**	**5/4**
Agricultural and Forest Related	189,981.19	273,900.75	336,186.98	368,215.42	369,626.80	44.17	22.74	0.38
Fishery Related	5,490.27	8,956.19	13,233.57	14,968.41	15,012.22	63.13	47.76	0.29
Mining Related	6,453.75	8,685.24	8,789.45	11,066.56	11,789.12	34.58	1.20	6.53
Agriculture, Forestry & Bevarage Production Related	563,969.11	686,582.06	733,900.39	783,907.76	782,535.67	21.74	6.89	(0.18)
Construction	347,419.77	414,030.33	190,196.00	204,691.53	203,379.34	19.17	(54.06)	(0.64)
Electricity,Gas and Water	161,972.16	207,796.52	246,838.95	296,721.37	307,456.88	28.29	18.79	3.62
Metal Products, Machinary & Electronic Equipment & Assemblage	46,073.16	62,562.17	72,472.00	73,075.12	70,298.23	35.79	15.84	(3.80)
Transport, Communication and Public Utilities	97,602.70	97,504.98	100,908.75	96,522.55	98,129.94	(0.10)	3.49	1.67
Wholesaler & Retailer	662,828.20	837,582.03	947,619.24	985,431.95	983,499.90	26.36	13.14	(0.20)
Finance, Insurance and Real Estate	252,637.87	337,169.65	375,243.40	358,003.03	365,558.94	33.46	11.29	2.11
Hotel or Restaurant	148,657.32	183,908.01	200,493.89	207,666.19	211,160.25	23.71	9.02	1.68
Other Services	150,620.10	177,035.52	192,913.09	198,691.07	196,597.38	17.54	8.97	(1.05)
Consumption Loans	158,624.47	233,767.41	867,483.32	925,928.83	926,138.24	47.37	271.09	0.02
Local Government	1,583.06	1,538.88	1,125.20	1,126.33	1,126.55	(2.79)	(26.88)	0.02
Others	472,098.75	641,727.16	421,635.04	332,065.97	337,541.19	35.93	(34.30)	1.65
TOTAL	**3,266,011.89**	**4,172,746.89**	**4,709,039.26**	**4,858,082.07**	**4,879,850.64**	**27.76**	**12.85**	**0.45**
Productwise								
Term Loan	718,479.78	932,079.37	1,196,840.77	1,476,738.67	1,579,614.25	29.73	28.41	6.97
Overdraft*	488,596.24	634,300.22	718,773.23	232,610.53	230,781.54	29.82	13.32	(0.79)
Cash Credit Loan*	-	-	-	516,309.35	516,456.00	-	-	0.03
Trust Receipt Loan / Import Loan	138,316.38	205,637.63	78,431.60	84,162.63	73,577.74	48.67	(61.86)	(12.58)
Demand & Other Working Capital Loan	702,115.42	880,233.54	1,014,047.53	972,931.77	880,225.96	25.37	15.20	(9.53)
Residential Personal Home Loan (Up to Rs. 1.5 Crore)	252,542.46	298,257.53	337,799.00	349,384.87	348,725.44	18.10	13.26	(0.19)
Real Estate Loan	163,480.30	183,538.18	228,254.81	246,099.24	249,588.32	12.27	24.36	1.42
Margin Nature Loan	50,409.69	106,281.51	80,507.79	74,699.33	76,535.28	110.84	(24.25)	2.46
Hire Purchase Loan	174,057.66	160,657.41	157,161.69	136,708.22	159,216.50	(7.70)	(2.18)	16.46
Deprived Sector Loan	201,609.71	293,413.85	335,623.25	308,804.44	308,356.46	45.54	14.39	(0.15)
Bills Purchased	3,303.65	4,403.15	3,129.78	3,344.36	4,270.83	33.28	(28.92)	27.70
Other Product	373,100.60	473,944.49	558,469.82	456,288.66	452,502.35	27.03	17.83	(0.83)
Total	**3,266,011.89**	**4,172,746.89**	**4,709,039.26**	**4,858,082.07**	**4,879,850.64**	**27.76**	**12.85**	**0.45**
Collateral wise								
Gold and Silver	38,427.04	43,111.28	52,781.58	55,308.86	55,533.44	12.19	22.43	0.41
Government Securities	464.82	677.94	782.89	3,469.12	3,238.79	45.85	15.48	(6.64)
Non-Governmental Securities	39,775.73	87,213.20	61,272.50	56,577.75	58,565.89	119.26	(29.74)	3.51
Fixed Deposit Receipts	20,040.53	29,313.43	64,220.99	54,865.96	58,120.30	46.27	119.08	5.93
Own	19,704.04	29,081.43	64,006.01	54,636.98	57,886.83	47.59	120.09	5.95
Other Licensed Institutions	336.49	231.99	214.98	228.99	233.48	(31.05)	(7.34)	1.96
Collateral of Properties	2,913,947.16	3,647,608.95	4,116,123.23	4,296,788.12	4,314,695.93	25.18	12.84	0.42
Fixed Assets	2,489,020.22	3,118,968.36	3,538,076.35	3,731,244.73	3,749,324.16	25.31	13.44	0.48
Current Assets	424,926.93	528,640.59	578,046.88	565,543.39	565,371.77	24.41	9.35	(0.03)
Against security of Bill	33,693.81	47,627.64	19,623.09	38,006.18	37,182.59	41.35	(58.80)	(2.17)
Domestic Bills	719.62	555.82	879.53	574.89	770.78	(22.76)	58.24	34.07
Foreign Bills	32,974.20	47,071.82	18,743.56	37,431.29	36,411.81	42.75	(60.18)	(2.72)
Against Guarantee	110,037.92	181,602.96	195,088.40	195,833.41	195,037.58	65.04	7.43	(0.41)
Government Guarantee	2,666.39	2,596.68	2,306.53	2,621.87	3,129.36	(2.61)	(11.17)	19.36
Institutional Guarantee	80,994.81	135,678.69	136,840.50	126,612.09	127,020.32	67.52	0.86	0.32
Personal Guarantee	9,329.54	26,424.04	37,037.20	41,236.76	41,125.08	183.23	40.16	(0.27)
Collective Guarantee	8,339.77	8,130.32	7,417.79	7,669.08	7,239.05	(2.51)	(8.76)	(5.61)
International Rated Foreign Bank's Guarantee	1,901.42	1,783.46	1,509.48	554.32	455.23	(6.20)	(15.36)	(17.88)
Other Guarantee	6,806.01	6,989.78	9,976.90	17,139.30	16,068.54	2.70	42.74	(6.25)
Credit Card	1,747.60	2,152.25	3,521.20	4,566.30	4,527.76	23.15	63.61	(0.84)
Others	107,877.28	133,439.23	195,625.39	152,666.36	152,948.36	23.70	46.60	0.18
Total	**3,266,011.89**	**4,172,746.89**	**4,709,039.26**	**4,858,082.07**	**4,879,850.64**	**27.76**	**12.85**	**0.45**

Annex-V Major Financial Indicators

As on mid-July, 2023

		Class "A"	Class "B"	Class "C"	Overall
A. Credit, Deposit Ratios (%)					
1	Total Deposit/GDP	94.52	10.62	2.11	107.25
2	Total Credit/GDP	80.15	8.77	1.73	90.65
3	Total Credit/ Total Deposit	84.80	82.56	81.93	84.53
4	CD Ratio	81.62	81.80	81.02	81.63
5	Fixed Deposit/Total Deposit	56.98	66.59	71.00	58.21
6	Saving Deposit/Total Deposit	26.87	23.24	17.41	26.32
7	Current Deposit/Total Deposit	8.68	1.93	1.25	7.87
8	Call Deposit/Total Deposit	6.56	8.19	8.91	6.77
9	NPL/ Total Loan^	2.98	2.49	7.60	3.02
10	Total LLP /Total Loan	2.52	2.42	5.80	2.58
11	Deprived Sector Loan/Total Loan $^	6.49	8.78	8.76	6.75
B. Liquidity Ratios (%)					
1	Cash & Bank Balance/Total Deposit	8.21	6.36	9.31	8.05
2	Investment in Gov. Securities/Total Deposit	18.07	15.87	17.76	17.84
3	Total Liquid Assets/Total Deposit	26.93	27.17	34.15	27.10
C. Capital Adequacy Ratios (%)					
1	Core Capital/RWA	10.53	10.26	14.91	10.59
2	Total Capital/RWA	13.37	13.21	17.01	13.42
D. Financial Access					
1	No. of institutions	20	17	17	54
2	No. of Branches	5,049	1,128	284	6,461
3	No. of Deposit Accounts	43,981,888	6,413,689	782,346	51,177,923
4	No.of Loan Accounts	1,512,193	291,236	41,784	1,845,213
5	No. of Branchless Banking Centers	1,298	21	-	1,319
6	No. of Branchless Banking Customers	320,700	49	-	320,749
7	No. of Mobile Banking Customers	18,438,455	2,772,852	152,682	21,363,989
8	No. of Internet Banking Customers	1,347,970	494,753	13,472	1,856,195
9	No. of ATMs	4,465	346	44	4,855
10	No. of Debit Cards	11,358,426	826,506	60,553	12,245,485
11	No. of Credit Cards	283,126	646	-	283,772
12	No. of Prepaid Cards	135,626	1,494	-	137,120

E. Interest Rate(%)

1	**Wt. Avg Interest Rate on Deposit**	**7.86**
	(a) Saving	5.81
	(b) Fixed	10.13
	(c) Call	2.34
2	**Wt. Avg Interest Rate on Credit**	**12.30**

Note:

Bank balance includes money at call

Nominal GDP for 2022/23(P) stands at Rs. 5,381,335 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
Mr. Bam Bahadur Mishra, Deputy Governor	Chairperson
Dr. Gunakar Bhatta, Executive Director, Payment Systems Department	Member
Dr. Prakash Kumar Shrestha, Executive Director, Economic Research Department	Member
Mr. Ramu Paudel, Executive Director, Bank Supervision Department	Member
Mr. Ram Bahadur Manandhar, Executive Director, Non Bank Financial Institutions Supervision Department	Member
Mr. Dayaram Sharma, Executive Director, Financial Institutions Supervision Department	Member
Mr. Tulashi Prasad Ghimire, Executive Director, Foreign Exchange Management Department	Member
Mr. Guru Prasad Poudel, Executive Director, Banks and Financial Institutions Regulation Department	Member
Mr. Bimal Raj Khanal, Executive Director, Micro Finance Supervision Department	Member
Dr. Satyendra Timilsina, Director, Banks and Financial Institutions Regulation Department	Member Secretary
Registrar, Department of Cooperatives	Invitee Member
Chairman, Nepal Insurance Authority	Invitee Member
Chairman, Securities Board of Nepal	Invitee Member
Administrator, Employees 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

Annex-VII: Composition of Financial Stability Sub-committee

Name and Designation	Status
Dr. Satyendra Timilsina, Director, Banks and Financial Institutions Regulation Department	Coordinator
Mr. Bishnu Prasad Subedi, Deputy Director, Economic Research Department	Member
Dr. Deepak Adhikari, Payment Systems Department	Member
Mr. Niraj Adhikari, Deputy Director, Micro finance Institutions Supervision Department	Member
Mr. Jagdish Kumar, Deputy Director, Bank Supervision Department	Member
Mr. Manoj Pokhrel, Deputy Director, Non Bank Financial Institutions Supervision Department	Member
Mr. Mani Raj Shrestha, Deputy Director, Foreign Exchange Management Department	Member
Mr. Binaya Sigdel, Financial Institutions Supervision Department	Member
Mr. Bibek Koirala, Deputy Director, Banks and Financial Institutions Regulation Department	Member Secretary

Annex-VIII: **Calculation of Banking Stability Indicators, Banking Stability Map and Banking Stability Index**

The banking stability map and indicator gives a snapshot of the banking sector's stability by looking at changes in various conditions and risk factors. There are six main risk areas: soundness, asset quality, profitability, liquidity, efficiency, and sensitivity to market risk. Each of these areas is measured using several financial ratios.

Here's a breakdown of how each composite index is calculated:

1. Soundness: This index assesses the overall health and stability of banks. It is calculated as the average of normalized ratios including Capital to Risk-Weighted Assets Ratio (CRAR), Non-performing loans net of provisions to capital, and Tier 1 capital to assets.

2. Asset Quality: This index evaluates the quality of assets held by banks. It is calculated as the average of normalized ratios including Gross NPAs to Total Advances, Provisions to non-performing loans, Sub-Standard Advances to Gross NPAs, and Restructured Standard Advances to Standard Advances.

3. Profitability: This index measures the ability of banks to generate profits. It is calculated as the average of normalized ratios including Return on Assets, Net Interest Margin, Growth in Profit Before Tax, and Interest margin to gross income.

4. Liquidity: This index assesses the ability of banks to meet short-term obligations. It is calculated as the average of normalized ratios including Liquid Assets to Total Assets, Liquidity Coverage Ratio, Customer Deposits to Total Assets, and Non-Bank Advances to Customer-Deposits.

5. Efficiency: This index evaluates the operational efficiency of banks. It is calculated as the average of normalized ratios including Cost to Income, Business (Credit + Deposits) to Staff Expenses, and Staff Expenses to Total Expenses.

6. Sensitivity to Market Risk: This index measures the susceptibility of banks to market fluctuations. It is calculated as the average of normalized ratios including RWA (market risk) to capital and Trading income to gross income.

Finally, the banking stability indicator is constructed as the simple average of these six composite indices. Each composite index and the overall banking stability indicator range between zero and one, where a higher value indicates higher risk in that dimension.

2. How to calculate normalized ratios

To calculate the normalized ratios as stated above, a specific formula is applied for each ratio. The general process is as follows:

1. **Determine the Ratio**: Identify the specific ratio to normalize based on the dimension being evaluated (e.g., CRAR for Soundness, Gross NPAs to Total Advances for Asset Quality, etc.).

2. **Collect Data**: Gather the necessary financial data for the relevant time period for the components of the ratio. For example, while calculating CRAR, the values of capital and risk-weighted assets for each period is required.

3. Apply the Normalization Formula:

- For ratios that are positively related to risk (denoted by "#"), normalize using the formula: $Y_t = \frac{X_t - \min(X)}{\max(X) - \min(X)}$
- For ratios that are negatively related to risk (also denoted by "#"), normalize using the formula: $Y_t = 1 - \frac{X_t - \min(X)}{\max(X) - \min(X)}$

Where:

- Y_t is the normalized value of the ratio at time t.
- X_t is the value of the ratio at time t.
- $\min(X)$ is the minimum value of the ratio over the sample period.
- $\max(X)$ is the maximum value of the ratio over the sample period.

3. **Repeat for Each Time Period**: Apply the normalization formula to each data point in the time series for the selected ratio.

4. **Calculate Composite Indices**: Once all the ratios for a specific dimension have been normalized, calculate the composite index by taking the simple average of the normalized ratios within that dimension.

5. **Calculate Banking Stability Indicator**: After obtaining the composite indices for all dimensions, calculate the banking stability indicator by taking the simple average of these composite indices.

4. What is the time period referred in the calculation?

The time period referred to in the normalization process and the calculation of composite indices and the banking stability indicator would typically depend on the data available and the specific analysis being conducted. The method described does not specify a fixed time period; rather, it's adaptable to the available data or the time frame of interest for the analysis.

For instance:

- For conducting an annual analysis, collect data for each ratio for each year in consideration.

- For conducting a quarterly analysis, collect data for each ratio for each quarter.
- For conducting a monthly analysis, collect data for each ratio for each month.

The time period used for normalization and calculation would be consistent across all ratios and dimensions to ensure comparability and consistency in the assessment of banking stability.

Therefore, the specific time period would be determined by the data availability, the frequency of reporting for financial ratios, and the needs of the analysis.

REFERENCES

International Monetary Fund. (2024). *World economic outlook.*

IMF. (2023). *Nepal: Technical Assistance Report—Financial Sector Stability Review*.

International Monetary Fund. (2023). *Global Financial Stability Report - Financial and Climate Policies for a high-interest era.* Washington DC.

International Monetary Fund (2023). Fiscal Monitor. Wasington DC: International Monetary Fund (IMF).

International Monetary Fund. (2023). *World Economic Outlook (International Monetary Fund).* Wasington DC: International Monetary Fund (IMF).

Awasthy, S., Misra, R., & Dhal, S. (2022). Cash versus Digital Payment Transactions in India: Decoding the Currency Demand Paradox. *Reserve Bank of India Occasional Papers*. Retrieved from https://rbidocs.rbi.org.in/rdocs/Content/PDFs/1CASHVERSUSDIGITALPAYMENTADCD3693E0F4456994DCBBD721A5FF3E.PDF

NRB. (2022). *Baseline Survery on Financial Literacy in Nepal (including Financial Inclusion Indicators)2022.* Kathmandu: Economic Research Department Nepal Rastra Bank. Retrieved from https://www.nrb.org.np/contents/uploads/2022/12/Baseline-Survey-on-Financial-Literacy-in-Nepal-including-Financial-Inclusion-Indicators.pdf

NRB. (2023). *Current Macroeconomic and Financial Situation.* Kathmandu: Nepal Rastra Bank.

NRB. (2023). *Monetary Policy for 2023/24.* Kathmandu: Nepal Rastra Bank. Retrieved from https://www.nrb.org.np/contents/uploads/2023/08/Monetary-policy-in-English-2023_24-Full-text.pdf

NSO. (2021). *National Population and Housing Census 2021.* Kathmandu: National Statistics Office.

NTA. (2023). *15th AGL report 2078-79.* Kathmandu: Nepal Telecommunication Authority. Retrieved from https://cms.ntc.net.np/storage/media/fngn3BSUeYGqIxf0nU0sYAYw9VCCTlOCfQ2eOm4O.pdf

Nepal Rastra Bank
Baluwatar,Kathmandu
Phone No.: 977 1 5719614
Fax No.: 977 1 5719613
www.nrb.org.np