



Current Economic Scenario Financial Sector Perspective

2066-10-19

**Presented by,
Maha Prasad Adhikari**

Presentation Outline

- ❑ Current Macro Economic Situations
- ❑ Current Banking scenario
- ❑ Liquidity Problem
 - ❑ Reason Behind Liquidity Crunch
 - ❑ NRB Initiatives to ease the situations
 - ❑ Possible Consequences
- ❑ Policy Dilemma
- ❑ Conclusion

Current Macro Economic Situations

3

Macro Economic Statistics

Based on 4 month Current Macro economic

- **Monetary Situations:**
 - Broad money increased by 4.1%
 - Demand deposits reduced by 7.4%
 - Liquid assets of commercial bank reduced by Rs 23 billion.
 - Loans to trading & capital goods increased by 21.8%
 - CPI: 9.9% double digit in five month.

4

Macro Economic Statistics

Based on 4 month Current Macro economic

- Fiscal situation:
 - Govt. Revenue increased by 41.6%
 - Govt. spending increased by 36.5%
 - Expenditure: 50 Billion against 37 billion last Yr.
 - Recurrent expenditure: 36 Billion against 24 billion last Yr.
 - Capital Expenditure: 4 Billion against 3 billion last Yr.
 - Revenue: 47 Billion against 33 billion last Yr.

5

Macro Economic Statistics

Based on 4 month Current Macro economic

- External sector:
 - Import increased by: 27.8% .
 - Export Reduced by: 23.7%
 - Remittances increased by Rs. 5 Billion (68 billion). However growth rate reduced from 66% to 6.6%
 - BOP deficit of Rs.20.49 Billion.
 - Net Trade deficit of Rs.100 Billion.(119-19)
 - Net Foreign Assets: Reduced by Rs.20.50 Billion(11%)
 - Net Foreign Assets reduced to Rs.196 billion from Rs.221 billion on July 2009

6

Major Import

4 Month 2066/67

Commodities	Amount in Million	% of total Import
Petroleum product	12,079	10.15
Vehicles, Spare Parts	7,864	6.61
M.S Billet & Rods	7,520	6.32
Medicine	2,469	2.08
Gold	19,256	16.19
Electrical Eqp	2,596	2.18
Telecom Eqp.	2,025	1.70

7

GOLD Import

Year	Nrs. In Crore
2063/64	351.99
2064/65	367.51
2065/66	1657.46
2065/66 (Up to Poush end)	876.84
2066/67 (Up to Poush End)	3360.62

8

Remittance Inflows

Year	Nrs. Million
2064/65	96,163.23
2065/66	120,053.01
2066/67	182,441.22
2065/66 (up to Poush 27)	87,566.76
2066/67 (Up to Poush 24)	100,730.16
Current growth rate	15.03 %

9

Reasons Behind
The economic downturn

10

Some of the
Reasons Behind the Economic downturn

- ❑ Industrial Environment
 - Labor issue
 - Administrative hurdles
 - Poor productivity
- ❑ Load Shading.
- ❑ Lack of export promotional initiatives.
- ❑ Dependents on limited products.
- ❑ Unwanted -non productive import. etc

11

Banking Statistics

12

Some Banking Numbers

Type of FI	Number
“A”	26
“B”	63
“C”	77
“D”	15
Co- Operatives	16
FINGO	45
Total	242

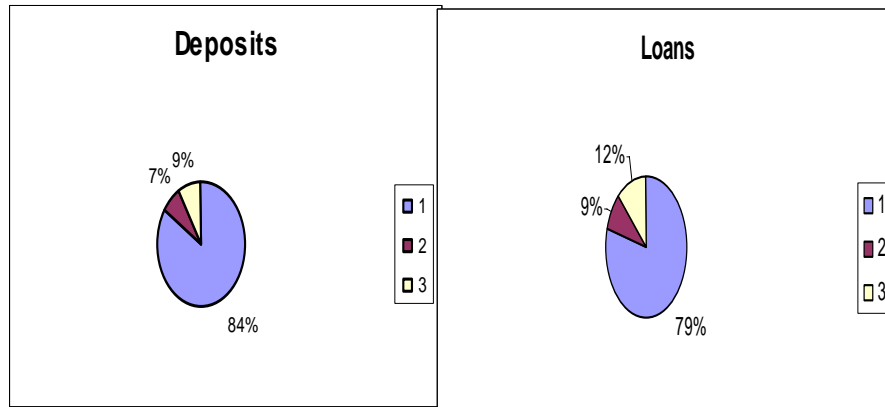
13

Commercial Bank Vs. FI

Ashad end 2066

Entity	Total deposits Billion Rs.	Total Loans Billion Rs.	NPA Billion Rs	NPA %
Commercial Banks	564	384	13.57	3.53
Development Banks	48	42	0.60	1.51
Finance Companies	57	60	1.11	1.89
Total	669	500	15.28	3.05

CB Vs. Other FI



15

Public & Private sector CB-Latest figure

Entity	Total deposits Billion Rs.	Total Loans Billion Rs.	CAR %	NPA %
Private sector Bank (77 & 80)	444	375	11.78	1.54
Public Sector Bank (23 & 20)	136	92	-5.22	10.50
Total	580	467	7.41	3.42

16

Current Years Growth

CB

Entity	Deposits		Growth %
	2066 Ashad	Latest	Deposits
Private sector Bank	405	444	8.01
Public Sector Bank	135	136	0.74
Total	540	580	7.90

17

Current Years Growth

CB

Entity	Credits		Growth %
	2066 Ashad	Latest	Credits
Private sector Bank	304	375	20.39
Public Sector Bank	87	92	5.55
Total	391	467	19.23

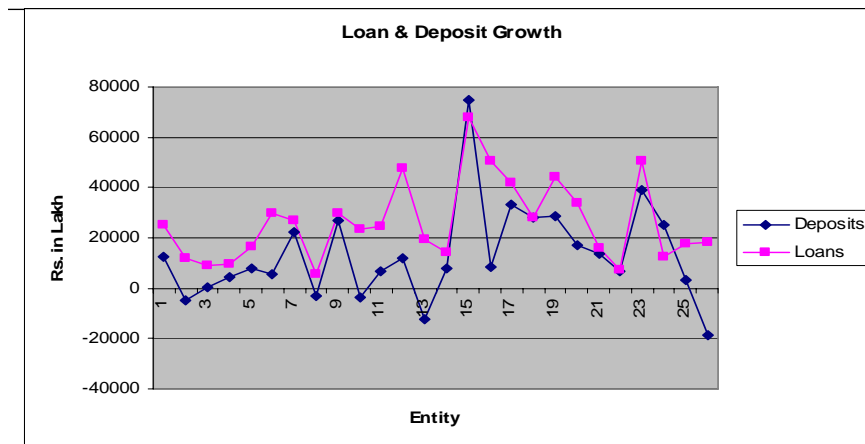
18

Current Liquidity problem

- Currently Financial sector is encountering liquidity problem.
- Market is quite tight during second quarter of 2066/67, which seems continue for some more weeks.

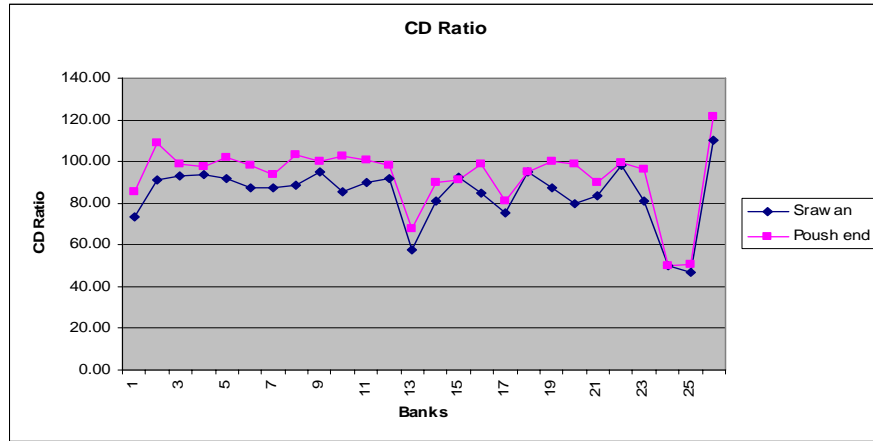
19

Growth Data



20

CD Ratio

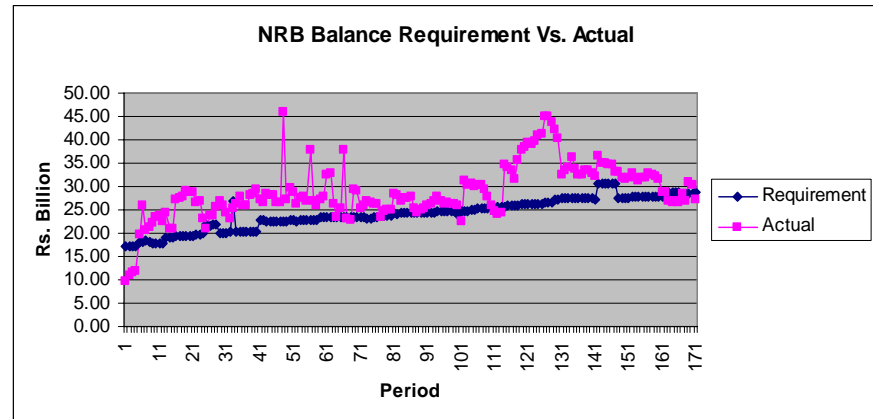


21

Comparative Scenario

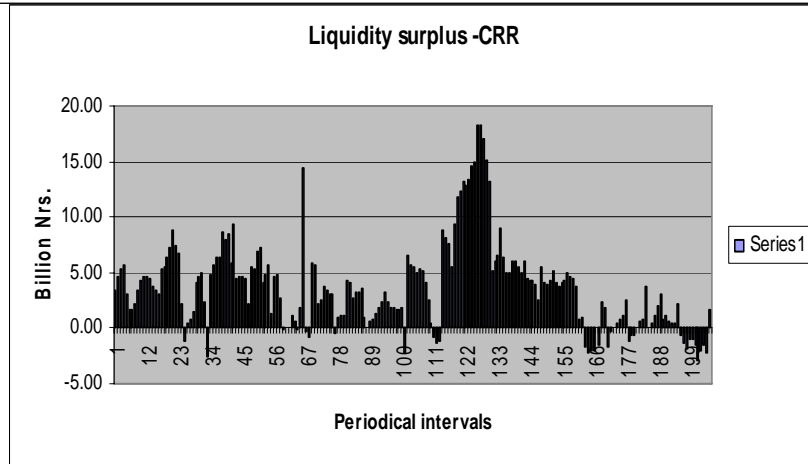
Commercial Banks

Rs. In Billion



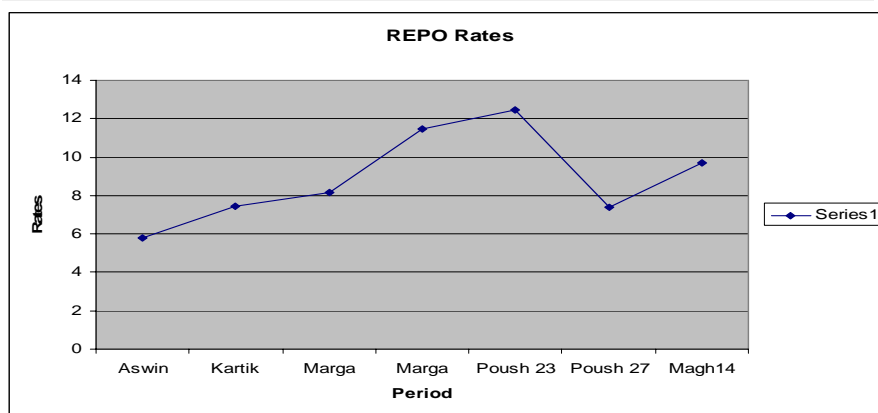
22

CRR History



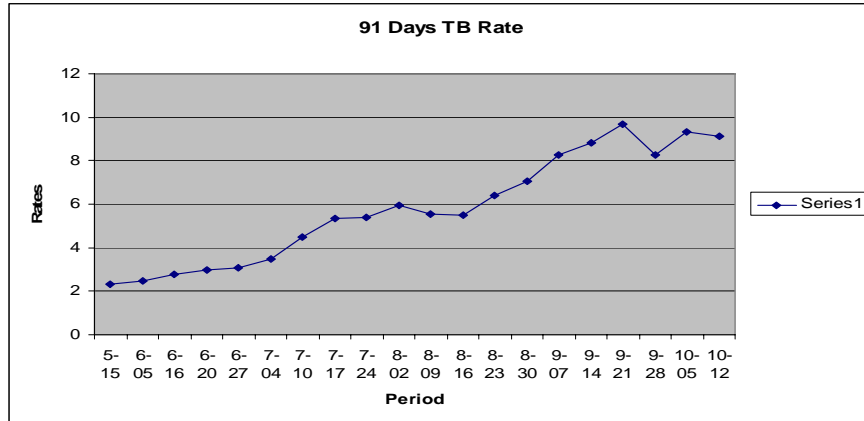
23

Repurchase Rates



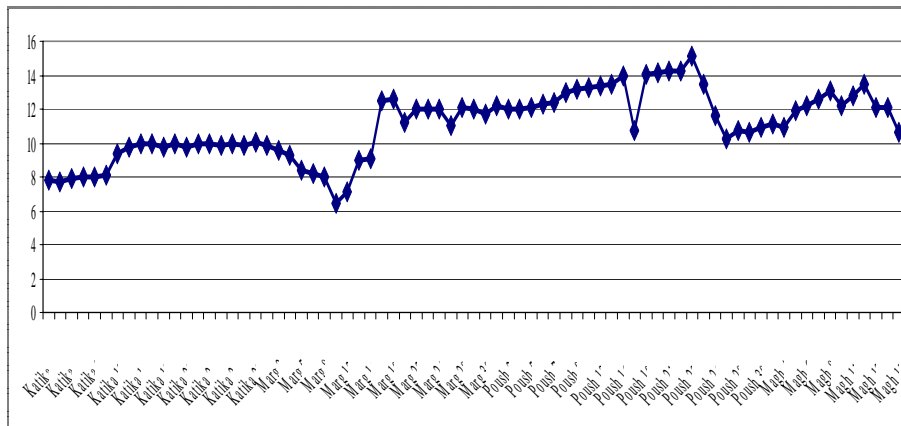
24

91 Days Treasury Bills Rate



25

Inter-Bank Rate



26

Reason Behind the Liquidity Crunch

- ❑ External imbalances of Rs.20.5 billion in the first 4 month.
- ❑ Aggressive Lending by the bank & FI: Lending of 76 Billion within this 6 month, where as the deposits increment was only 40 Billion. It indicates negligence on liquidity Risk Management from the banking sector.

27

Reason Behind the Liquidity Crunch

- ❑ Government Fiscal balances: Surplus fiscal status of around 3.33 billion compare to overdraft situation. Less Govt. spending.
- ❑ Hurdles on Credit creation cycle.
- ❑ Others
 - Proliferation- Heads, branch & ATMs.
 - Reduction on Foreign exchange Intervention.
 - Poor market governance & Policy implications.

28

NRB Initiatives on Liquidity

□ Proactive Measures:

- Liquidity profile monitoring
- Ceiling of 20% on corporate deposits.
- CRR Requirement of 5.5%/2%
- SLR requirement.
- Additional risk weight under Capital adequacy

29

NRB Initiatives on Liquidity

□ Reactive Measure:

- Repurchase arrangements (20Billion Current OS)
- Standing Liquidity Facility (SLF)
- Outright purchase arrangements

30

Possible Consequences of liquidity problem

- Bank specific consequences
 - Re-pricing of its product
 - Cost of fund increment
 - Encounter funding or market Liquidity risk
 - May loose confidence
 - PE may effected

31

Possible Consequences of liquidity problem

- Macro economic consequences:
 - Interest rate raise- cost of capital may go up.
 - Lender of the last resort requirement
 - Liquidity Crisis
 - Effect on growth
 - May lead to financial Crises

32

Possible Measure for the Economic Reform

- **Immediate Measure**
 - Reduction of informal sector stake in the economy.
 - Complete stop of all types of Strikes & other political issue till the new system establishes.
 - Avoid Load shading- Cost to the economy is immeasurable, Hence power supply at any cost.
 - Appropriate monetary measure to overcome the liquidity issue.

33

Possible Measure for the Economic Reform

- **Long Term Measure**
 - Smooth enforcement of Industrial & Trade policy.
 - Betterment in to Industrial environment including trade union issue.
 - Export promotion & encouragement to import substituting entity.
 - Identification of products that have relative advantages compare to others and increase competitiveness.
 - Big push to infrastructure, Hydro, tourism, herbs and agriculture.

34

Policy Dilemma

- ❑ Where BOP is deficit and the price is soaring up, central bank normally adopt tight monetary policy.
- ❑ Where market is illiquid central bank needs to ease the liquidity, which is normally against the above policy.
- ❑ In this scenario central bank is under policy dilemma.
- ❑ Under such circumstances central bank may set its preferences and choose certain specific instruments to address the situation.

35

Conclusion

- ❑ External sector imbalance and erosion of Foreign exchange should be the serious concern of the economy.
- ❑ The key reason behind the Liquidity crunch in to the financial sector is the BOP deficit and aggressive lending
- ❑ There is a liquidity crunch in the market and not the crisis. I understand that it is within the control with the efforts of central bank, Bank, FI and the Government.

36

Any  Please

37

THANKS

M.P. Adhikari,
Executive Director, NRB
mpadhikari@nrb.org.np

38