

Credit Information Bureau in Nepal



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Overview of Nepalese Economy

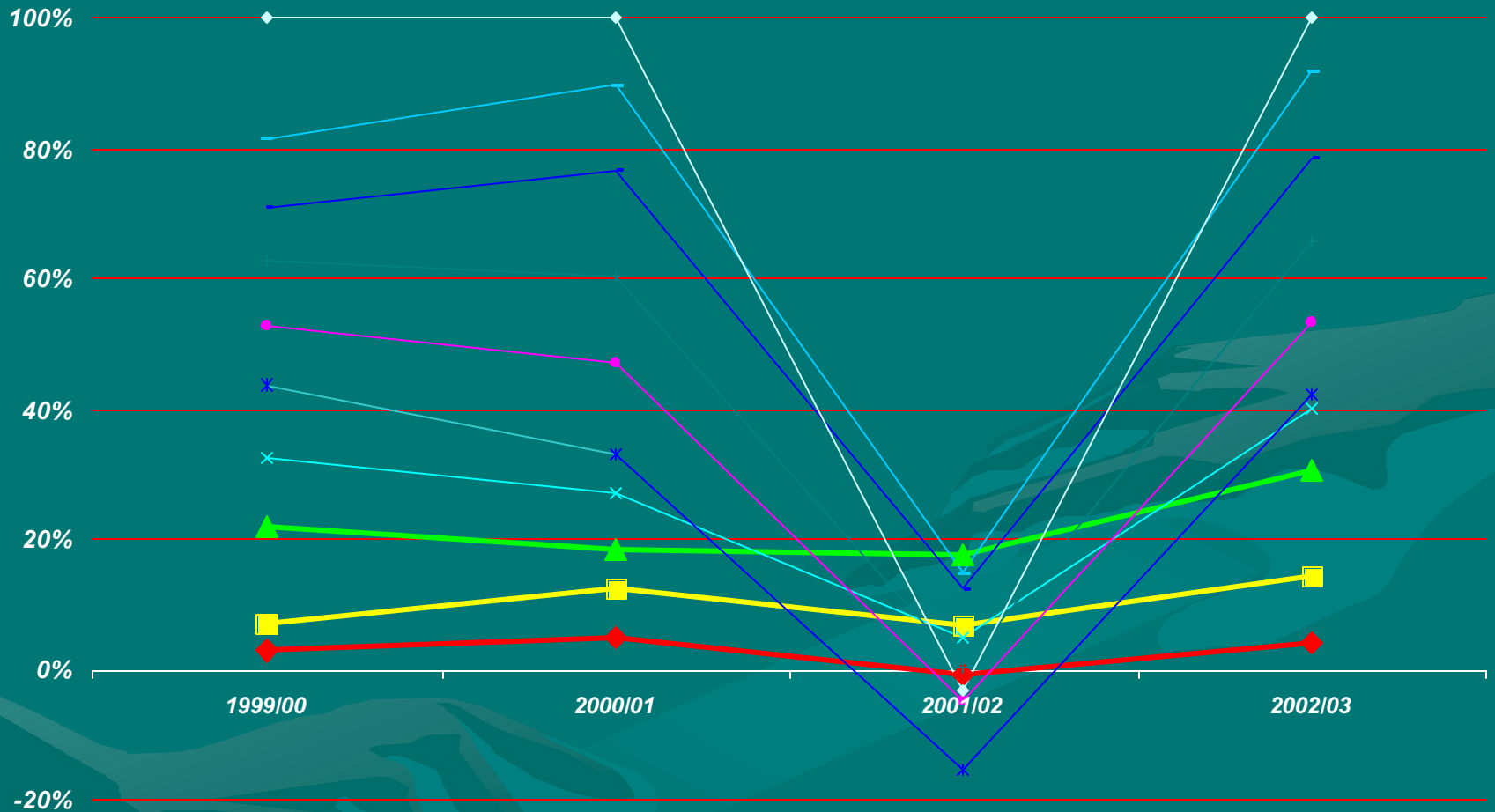
During FI 2002/03 following economic indicators registered upturn in comparison to FI 2001/02

- GDP grew by 3%
- CPI based average inflation rate increased by 4.8%
- Total exports & imports increased by 6.4% & 15.8%
- Surplus of Rs. 4.4 billion in Balance of Payments
- Foreign exchange holding of the Banking system amounted to Rs. 108.2 billion against 105.9 billion

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- Exchange rate of Nepalese Currency with Indian Currency was stable but appreciated vis-à-vis the US Dollar by 4.4 %
- Government expenditure on cash basis increased by 2%
- Revenue posted a higher growth of 11.5%
- The internal borrowings declined by 40.3%
- Time Deposits increased by 10.4%
- NFA after adjusting foreign exchange valuation grew by 4.9%
- The monetary sector's claims on the private sector surged by 13.2% to Rs. 151.0 billion

Macroeconomic Indicators



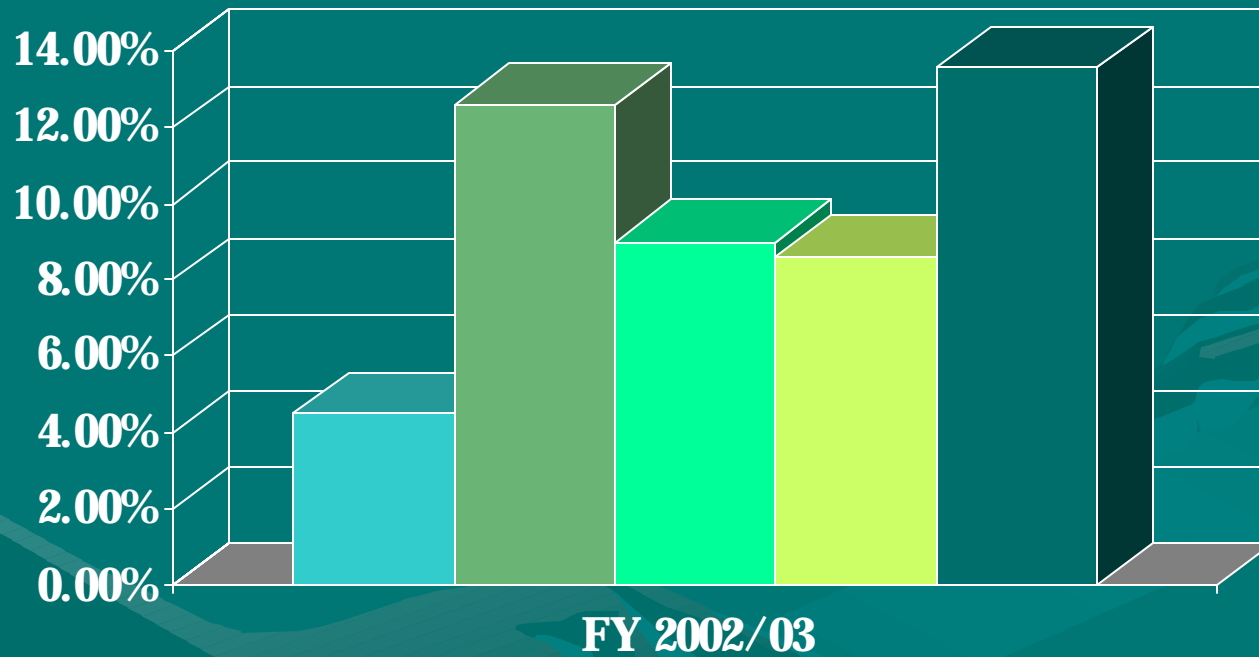
Macroeconomic Indicators continued...



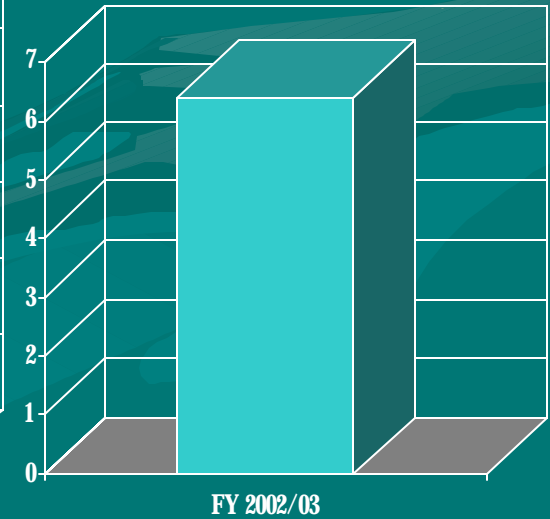
Economic outlook for FY 2003/04

- GDP estimated to grow by 4.5%
- M2 and M1 estimated to grow by 12.6% & 9.0%
- Private sector credit estimated to rise by 14%
- Exports and Imports estimated to go up by 8.6% & 13.6%, with Balance of Payments maintaining a surplus of about Rs. 6.4 billion

Economic Outlook for 2003/04



■ GDP ■ M2 ■ M1 ■ Exports ■ Imports



■ Balance of Payments (billion)

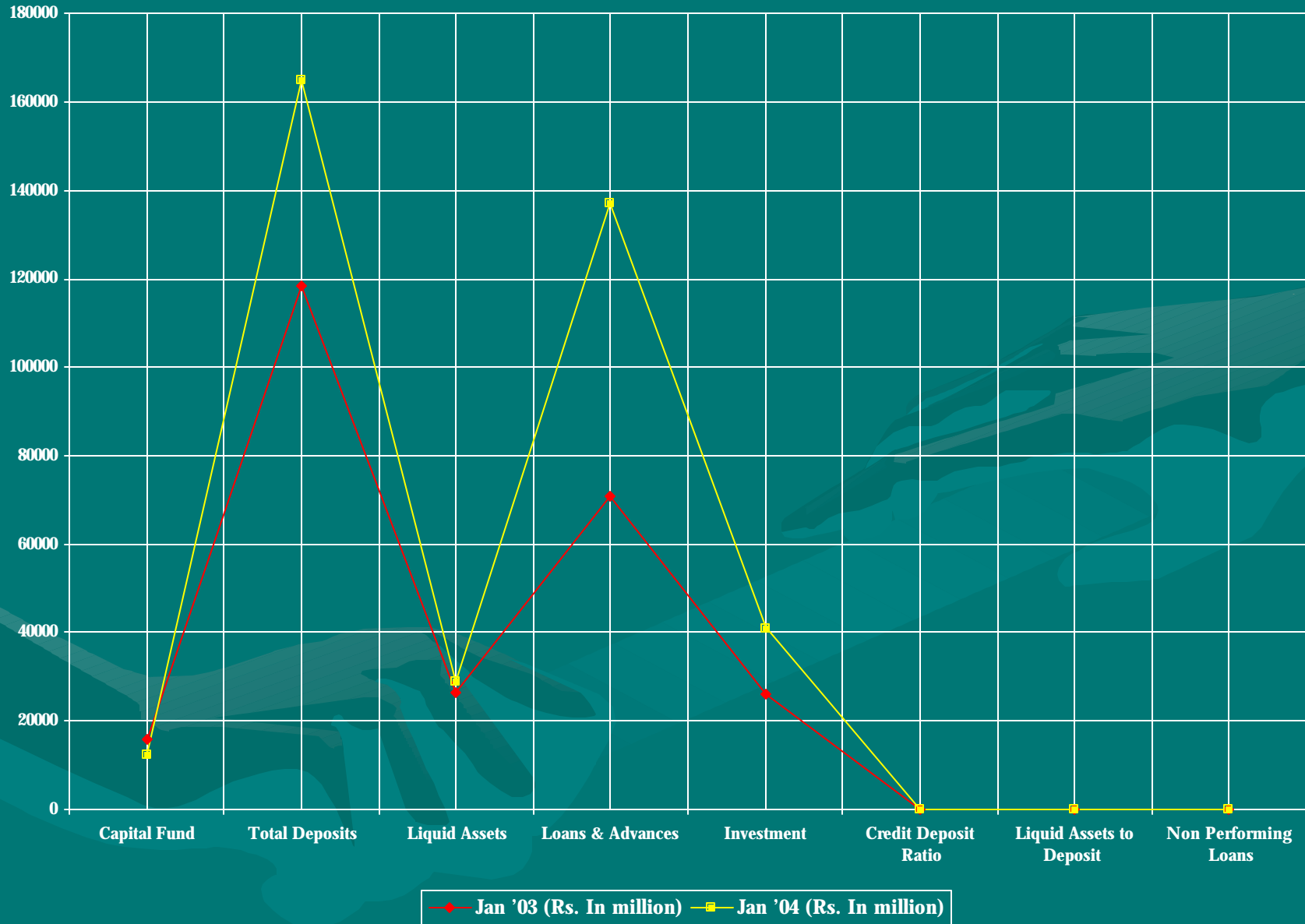
Overview of Nepalese Financial Sector

- 17 Commercial Banks including two large state owned Banks, 18 Development Banks and 58 Finance Companies
- Besides, there are 5 RRDBs, 34 Savings & Credit Co-Operatives, Postal Saving Banks, NGOs, Stock Exchange, 18 Insurance Companies, Employee Provident Fund, Citizen Investment Trust are in Operation
- Central Bank regulates CBs, DBs, RRDBs, FCs & other financial Institutions
- Insurance Board regulates Insurance Companies
- Security Board regulates Stock Exchange
- Government authorities regulates other Institutions

Financial Indicators of the Financial System (Without two large State owned Commercial Banks)

	(Rs. In million)		%
	<u>Jan '03</u>	<u>Jan '04</u>	<u>Growth</u>
Capital Fund	15749	12666	12.0
Total Deposits	118515	164903	39.0
Liquid Assets	26351	28808	9.0
Loans & Advances	70727	137257	94.0
Investment	26172	41017	57.0
Credit Deposit Ratio	59.7%	83.2%	39.0
Liquid Assets to Deposit	22.2%	17.5%	(21.0)
Non Performing Loans	9.9%	7.8%	(21.0)

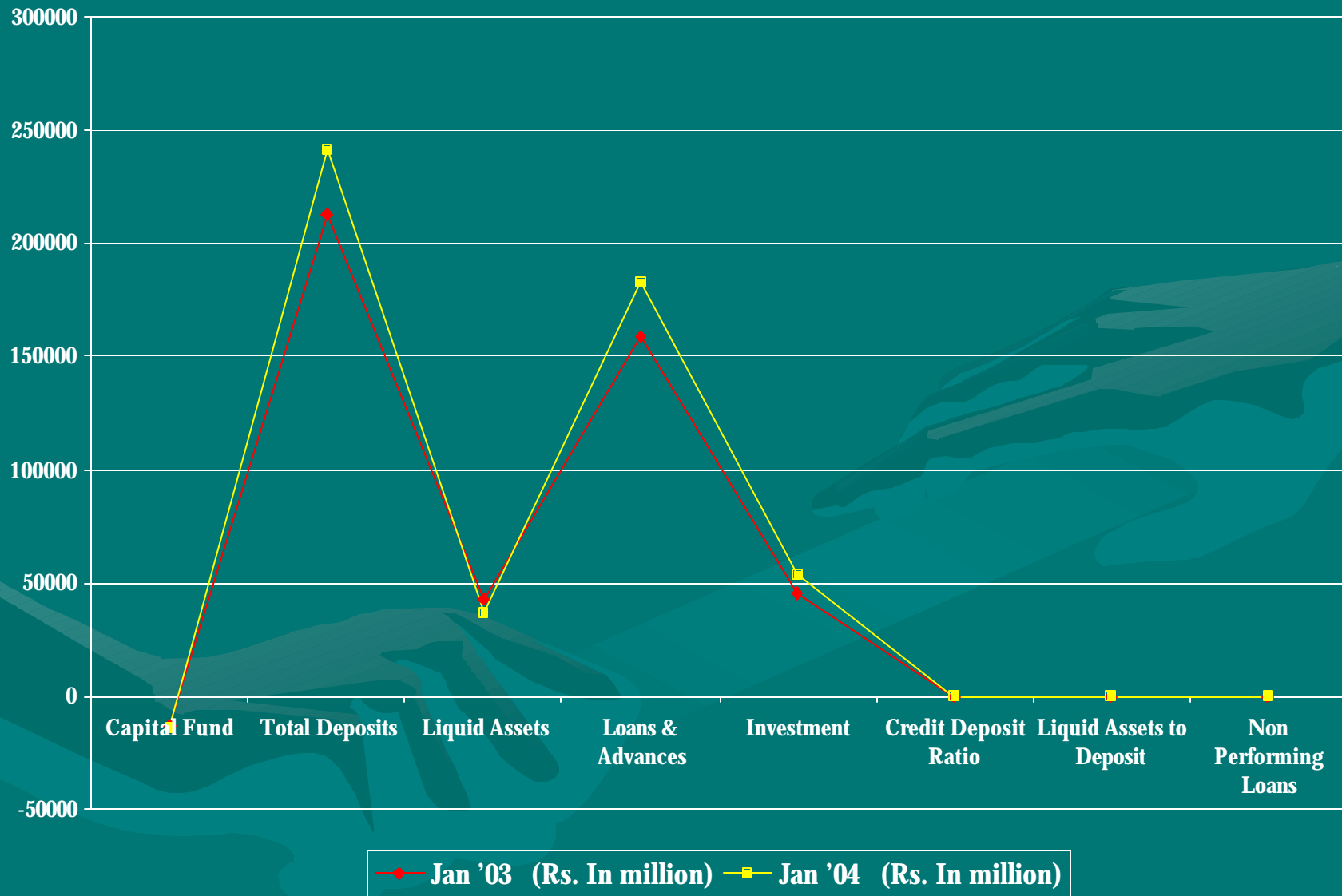
Financial Indicators



Financial Indicators of Financial System

	(Rs. In million)		%
	<u>Jan '03</u>	<u>Jan '04</u>	<u>Growth</u>
Capital Fund	(12604)	(14075)	(11.7)
Total Deposits	213039	241242	13.2
Liquid Assets	42748	36593	(14.4)
Loans & Advances	159382	182769	14.7
Investment	45782	53722	17.3
Credit Deposit Ratio	74.8%	75.8%	1.0
Liquid Assets to Deposit	20.1%	15.2%	(24.4)
Non Performing Loans	30.4%	28.8%	(5.5)

Financial Indicators



Credit Information Bureau

Background

- Established in 1989 under Banker's Association of Nepal
- Established with a view to maintain Credit information as well as to blacklist the defaulting borrower on the recommendation of Banks & Financial Institutions

Establishment

- Provision for the establishment of Credit Information Bureau has been incorporated in NRB Act, 2002
- Under the Financial Sector Reform Programme the CIB is being established with the capital injection of all the Financial Institutions along with the Central bank for the following purpose:
 - To make it more Independent
 - To strengthen the Functions
 - To increase the Operational Capacity

Directives on Credit Information & Blacklisting

Important Features

Every Bank & Financial Institution must send the information of the borrower borrowing NRs. One million or more in the prescribed format to the Credit Information Bureau on a quarterly basis.

Borrower's Credit Information is Compulsory

Every Bank & Financial Institution has to receive credit information of the potential borrower from the CIB, before the new credit extension, renewal, restructuring and /or rescheduling of NRs. 0.5 million and above facility

Borrower's Profile

Every Bank & FIs is under the duty to receive borrowers detail profile and information at the time of approving credit facility. This includes;

- In the case of an individual, Citizenship and detail information of the family members
- In the case of proprietorship/ partnership firm, detail information of the individual/ Partners
- In the case of private limited company, detail information of the promoter as well as directors
- In the case of public limited company detail information of the directors & shareholders holding more than 10 % stake.
- Information about Valuator
- Information about Guarantors.

Criteria for Blacklisting

On the request of Bank & FIs if following conditions arises :

- Interest or principle overdue for 6 month
- Bankruptcy or Disappearance of the Borrower
- Inadequate or Inappropriate security
- Misuse of Credit facilities by the Borrower
- Other circumstances such as
 - Auction notice by the Bank or FIs for loan recovery
 - Borrower proven guilty by the court for forgery cases
 - Borrower proven guilty for any kind of financial crime

Criteria for Removal from Blacklisting

Concerned Bank & FIs should recommend for the removal of such defaulted borrower within 3 days if under mentioned criteria are fulfilled & CIB should remove the name of such defaulted borrower within 3 days of receiving recommendation :

- On the settlement of Loan account
- Credit facilities rescheduled or restructured under the prudential norms of Central Bank
- Liabilities of the loan accepted by other person which is acceptable to the Board of Directors of the concerned Bank & FIs

Who are included in the Blacklist

- Individual/Firm/Company enjoying credit facility
- Proprietors/Partners in the case of Proprietorship/Partnership firm
- Guarantor, Cross Guarantor
- Directors of the Company
- All the Shareholders of Private Company
- Shareholders holding more than 10% stake in Public Limited Company
- Person/Firm/Company falling under the same group as per the prudential norms of the Central Bank
- Valuator
- Person who accepts the Assets of the Borrower in the case of death of the Borrower
- If the Blacklisted Person/Firm/Company holds more than 10% stake in another firm/company, such firm/company
- If the blacklisted Person or Director of the blacklisted organization represents another Firm/Company, such firm/company

Other Aspects

Concerned Bank & FIs should notify the defaulting borrower along with all the related parties at least 35 days ahead before Blacklisting them

Board of Directors of the Concerned Bank & FIs may recommend not to blacklist the name of such defaulting borrower on their request if they are convinced that there existed reasons which are beyond the control of the Borrower

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In the case of Consortium Finance, Lead Bank will be responsible for carrying out the processes to blacklist the defaulting borrower

To encourage as well as to pressurize the borrower for payment of loan, CIB will disclose the list of Blacklisted Borrower in National Daily twice a year

CONCLUSION

Establishment of CIB & Directives on Blacklisting on large has been proved to be very effective for Bank & FIs, especially for state owned Commercial Banks for controlling the level of Non performing Loans. Besides, disclosure of the list of Blacklisted borrower has pressurize for timely payment of the debt by the borrower.

Although the directives is being criticized at times by the fraternity but on a larger perspective it has helped Bank & FIs for loan recovery and has definitely contributed the economy as a whole in a positive manner which is proved by the decreasing trend of Non Performing Loans in the Financial System in Nepal.

The image features the words "Thank You" in a large, 3D, metallic silver font. The text is centered horizontally and has a slight shadow beneath it. The background is a solid teal color with a faint, stylized graphic of a hand reaching out from the bottom left towards the center. The overall composition is clean and professional.

Thank You