Non-performing loans of banks decline despite surge in lending rates

Non-performing loans (NPL) of commercial banks slightly increased in the first quarter of the current fiscal year 2017/18 compared to corresponding period of FY 2016/17.

Unaudited financial results of 28 commercial banks show that their average NPL stood at 1.77 percent in the first quarter of 2016/17, up from an average of 1.64 percent in the same period of the previous fiscal year.

The NPL of banks has declined despite worries that the rapid rise in lending rates of bank and financial institutions (BFIs) in recent months could push many borrowers toward delinquency.

BFIs have been upping deposit rates to attract deposits amid shortage of lendable fund which also caused lending rates to surge. There were worries that loan repayment capacity of many borrowers could be eroded due to sudden rise in lending rates, leading to rise in loan defaults. However, the decline in NPL indicates that the surge in lending rates has not significantly hit the asset quality of BFIs.

The decline in the NPL ratio of banks in the first quarter follows the annual downward trend. The annual average NPL to total loan of commercial banks nearly halved to 1.67 percent in FY 2016/17. In the previous fiscal year 2015/16, the NPL ratio of commercial banks was 3.16 percent compared to annual average ratio of 3.46 percent in FY 2014/15.

One of the major reasons behind the significant drop in the NPL ratio in FY 2016/17 was partly due to merger of the then Grand Bank Ltd whose NPL was at a whopping 36.2 percent.

Grand Bank Ltd had completed merger with Prabhu Bank Ltd in FY 2016/17. Bankers, however, claim that prudent lending practices helped them to reduce NPL in recent years. “The decline in non-performing loans of banks show that the banking industry is moving in the right direction,” Anil Keshary Shah, president of Nepal Bankers' Association (NBA), said. “Banks have become more careful while floating loans as part of prudent lending practice,” Shah, who is also the CEO of Mega Bank Ltd, added. He, however, said that it would be too early to measure the bank's health from the NPL level of the first quarter.

Nepal SBI Bank has the lowest NPL of 0.13 percent in the first quarter followed by Sanima Bank Ltd (0.14 percent), Standard Chartered Bank Nepal Ltd (0.18 percent), Everest Bank Ltd (0.26 percent) and NIC

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Asia Bank Ltd (0.29 percent). Civil Bank Ltd has the highest NPL (4.69 percent). Nepal Credit and Commerce Bank Ltd (4.29 percent) and Prabhu Bank Ltd (4.23 percent) have NPL above 4 percent.

Regular on-site and off-site monitoring and auditing of Nepal Rastra Bank (NRB) have also helped banks to keep their bad debts on check. According to an NRB rule, a bank has to keep NPL below 5 percent of the total loans. Rise in the NPL above 5 percent will lead to prompt corrective action by the central bank.

The amount of non-performing loans is one of the indicators of the performance of banks. Banks are required to provision the losses on their loans which also bring down their profit.

Some bankers also attribute better macroeconomic indicators which have helped the banks to bring the NPL level down.

“Economic growth has remained strong with the end of load-shedding. This is one of the factors that helped to bring NPL down,” Bhupendra Pandey, a deputy CEO of Rastriya Banijya Bank Ltd (RBBL), told Republica.

“Another reason behind improvement in quality of loans is the diversification of loan portfolios of banks,” Pandey added.

Source: My Republica, 29th November, 2017