

Rates for institutional depositors can be revised only in 3-month intervals

Due to the instability in the market caused by the bargaining of institutional depositors to hike interest rate on deposits during the period of slow deposit growth in banks and financial institutions (BFIs), Nepal Rastra Bank (NRB) — the central regulatory and monetary authority — today, issued an instruction to the BFIs to not revise the interest rates for institutional depositors for at least three months.

BFIs can fix the interest rate for institutional depositors by adding two per cent on the published interest rates, but it cannot be revised now for three months. It means the interest rate for the institutional depositors will be revised on a quarterly basis. NRB has ruled over the current practice of the institutional depositors including government-owned Employees Provident Fund (EPF) and Citizen Investment Trust (CIT) to only seek profits without taking into account their role in market stabilisation.

CIT and EPF deposit their funds based on the interest rates that banks offer and in recent times they have repeatedly withdrawn their funds from one bank and deposited the amount in another bank within a very short period, according to Nara Bahadur Thapa, executive director of NRB. “The central bank’s initiative will help bring stability in the financial market and also make EPF and CIT aware about their role in financial stability instead of just running after high returns.”

However, EPF has said that today’s instruction issued by central bank has made it easy for them too as they will be able to park their funds in the financial institutions for at least one quarter. Citing the provision of the procurement rules, Rajendra Kafle, chief officer of EPF, said that the EPF has to deposit its funds in banks that offer the highest interest rates. “During the deposit crisis banks revised their interest rates frequently and it was an obligation on the part of EPF to keep shifting deposits to reap benefits from the highest interest rates,” he stated.

BFIs can take 50 per cent of the total deposits from the institutional depositors, as per the provision of the monetary policy.

Likewise, the central bank has also enforced a provision that account holders of any bank or financial institution can make deposits and payments to/from his/her accounts from any BFI. Bank customers can deposit funds to their bank accounts or make utility payments from any financial institution that is convenient for them.

Banks that provide interbank payment system (IPS) have to provide a slip to depositors and in case of utility payments, an acknowledgement slip has to be provided stating the payment has been made through the concerned bank or financial institution. The concerned bank has to notify the client who has availed the service on the same day if any deposit or utility payment cannot be made. BFIs have to also inform customers regarding their charges while providing such services.

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