

Banking Development in Nepal:

Ancient times

- In ancient times, the business transactions of Sahu moneylenders were considered as the cornerstone of the bank
- Ghee, grain, contract, labor etc. interest was charged for taking loan.
- King Ram Shah of Gorkha fixed the annual interest at one hundred and ten per cent of cash and one hundred and twenty per cent of commodities.
- In ancient times, coinage, coefficient, Vaishnava, Pashupati etc. were used in coins.
- It is said that King Gunakamdev settled in Kathmandu in the 8th century, and Shankhadhar Shakhwa freed the people of Kathmandu and Bhaktapur from debt.
- The introduction of gold and silver coins by the Sadashiv Dev and Malla kings in the 16th century and later the introduction of seals by Shri 5 Prithvinarayan Shah is considered as the development of banking system.
- Institutionally, banking business was started in Nepal by establishing Tejarath Adda in 1933 BS and Taksar Adda in 1989 BS.

1994 to 2041: Beginning of modern banking

V.S. Nepal Bank Limited was established in 1994 as the first bank in Nepal. At the same time, a modern banking system was introduced in Nepal. As Nepal's financial market was not open to the private sector until 2041, only government-owned banks and financial institutions were established. During this period, Nepal Bank, Rastriya Banijya Bank, Nepal Rastra Bank, NIDC Development Bank, Krishi Vikas Bank and some other insurance companies were established.

After the referendum of 2038 BS, the government of Nepal started spending excessively and the budget deficit of the country increased. As a result, there was a crisis in the country. Nepal appealed to the Asian Development Bank to resolve the crisis. To this end, the ADB stipulates that financial markets should be open to the private sector as well and that government involvement should be reduced. Nepal accepted the condition as it needed foreign assistance. Subsequently, the provision of free entry and exit was added by amending the Commercial Banks Act 2031 and the private sector and foreign investment were introduced with the objective of increasing competition in the financial sector. As a result, by 2043 BS, three joint venture banks came into operation in Nepal, namely Navil Bank, Standard Chartered Bank (formerly Greenledge Bank) and Nepal Investment Bank (formerly IndusSwage Bank).

From 2041 to 2056: Open Economy

With the advent of multi-party system, the government adopted an open economy by further liberalizing. By embracing deregulation, privatization and globalization, the government has made financial markets more open. In 2053 BS, NRB adopted the concept that commercial banks should also go to the regional level. Accordingly, at that time NIC Bank, Laxmi Bank, NCC Bank, Lumbini Bank came into operation with their central office outside Kathmandu.

The situation of Nepal Bank and Rastriya Banijya Bank was not good when multi-party system came to Nepal. Their capital was gone. After Deveraj Pandey became the Finance

Minister, the government had recapitalized by adding Rs 3.5 billion. However, the situation of Nepal Bank and Rastriya Banijya Bank could not improve due to lack of management reform. By the year 056, their bad debts had reached almost 60 percent. Their net worth was negative at seven percent of GDP.

From 056 to 065: Legal Reforms of the Financial Sector

The Government of Nepal and NRB, in collaboration with the World Bank and IMF, implemented the Financial Sector Strategy (FSS) in 2057 BS. After that, Nepal's financial market took a new turn for 66 years. At the same time, the World Bank provided अर्ब 7 billion to Nepal for the reform of Nepal Bank and Rastriya Banijya Bank. Similarly, the IMF provided US ७ 72 million, while the Asian Development Bank provided US ग्रामीण 57 billion to support rural finance and agricultural development banks. Then came the Nepal Rastra Bank Act 2058. An ordinance was issued in 2061 BS under this reform program. Banking Offenses and Punishment Act came. Similarly, the Debt Recovery Act that came at that time strengthened the legal foundation of the financial sector. During this period, Nepal Rastra Bank was also given autonomy.

From 2066 to the present: Strengthening the financial sector

After gaining autonomy, NRB adopted four important policy measures to strengthen the financial sector.

1. Banning of banks and financial institutions other than microfinance institutions was stopped and no arrangement was made to open banks and financial institutions until further notice.
2. Depending on the macroprudential regulation, CCD ratio, LTD ratio and credit to risk areas were limited.
3. Banks and implemented. Regulation on merger and acquisition of financial institutions 2073
4. In 2072 BS, the policy of quadrupling the working capital of commercial banks, development banks and finance companies was adopted through monetary policy. NRB has been pursuing the policy of strengthening the financial sector through these four measures after 2066 BS. As a result, the number of banks and financial institutions has gradually declined.

C urrent Status of Nepali Banking Nepali bank current state

Banking Industry in Nepal is fighting with the situation created due to the Covid pandemic. The current picture can be presented in two perspectives:

Quantitative (Shrawan End 2078)

Category	No. of BFI	Branches
Central Bank	1	8
A Class	27	4,766
B Class	18	1,023
C Class	17	226
D Class	70	4,705
Infrastructure Bank	1	-

Qualitative

1. Growing Digital Banking Increased Digital Banking
2. Increasing Financial Literacy Financial Awareness
3. Affected by Covid
4. Financial Inclusion & Access
5. Fluctuating Interest Rate
6. Investment in Primary Sector Primary Sector Lending
7. Investment in Entrepreneurial Sector Lending
8. Strict NRB Supervision
9. Merger & Acquisition Promotion
10. Latest Banking Services Innovative Banking Products
11. High Remittance flow
12. Growing Customers Rise in Customers

Major Challenges of Nepali Banks Nepali bank main challenges

The Major challenges in current era of Nepali Banking business can be enlisted here in:

1. Liquidity Management is a major challenge with times when liquidity surges or declines in bank's vaults. Challenges created by excess or liquidity conditions
2. Information technology risks in a growing digital economy and high cost to manage those risks, technical challenges and high cost challenges in mitigating those challenges.
3. In a small economy like Nepal, there is unhealthy competition from time and again. The challenge posed by unhealthy competition
4. Number of BFIs is believed to be more in Nepal and it poses challenge to every single BFI. The challenge of more banks
5. The tendency to invest in loans on the basis of collateral rather than the condition of the project persists, etc. The challenge of disbursing loans based on the nature of the collateral rather than the analysis of the project

6. The slowdown in the overall world economy and Nepal's economy due to the pandemic caused by COVID-19 has affected the quantitative and qualitative growth of banking transactions. Challenges to the bank's business created by the Corona-laden economy
7. Due to COVID-19, there is a high risk of bad loans in various businesses such as tourism, luxury industries and many other loans / advances. Challenges to increase bad debt as various industries are affected
8. The pandemic of Covid-19 has shrink banks' credit disbursement resulting in excess liquidity. The challenge of not having the flow of credit in Corona's time
9. The challenge of increasing credit disbursement by lowering the overall lending interest rates while competing for deposit collection at a lower rate where there is existence of informal economy and shadow banking, problem of interest rate management, pressure to reduce interest rate on loans

Opportunities (Opportunities of Banking in Nepal)

1. Increased International Transactions & Relations
2. Focus on Healthy Competitive Banking
3. New Avenues of Investment
4. Financial Literacy and Inclusion Concept
5. Managing Remittances
6. Rural Banking Development Banking the unbanked- Rural Banking
7. Introduction to Digital Banking Digital Banking Revolution