

09 April 2018

Nepal Rastra Bank allows Class-A banks to borrow from foreign financial institutions

Nepal Rastra Bank, the Central Bank of Nepal ("NRB") has issued a notice on 03 April, 2018 ("Notice") to allow licensed Class-A banks (i.e., commercial banks) in Nepal to borrow loans from foreign bank and financial institution in convertible foreign currency up to twenty-five (25) percent of their core (or Tier I) capital.

With this regulatory ease, it is expected that the current challenge of credit crunch will get meaningful addressing and pooling of much needed capital for infrastructure sector will be relatively easier.

The Notice has set some conditions applicable on obtaining foreign loans, mainly relating to - (i) eligibility of borrowers and lenders; (ii) use of borrowed fund, and (iii) restrictions; and (iv) reporting. All of them are briefly highlighted below:

1. Eligibility of borrowers and lenders:

1.1 Eligibility of Borrower and maximum borrowings:

- (a) Only those Class-A banks who have maintained their capital fund as prescribed by the NRB (as per Capital Adequacy Framework 2015) can borrow loans from offshore banks and financial institutions.
- (b) The board of directors of the concerned bank has to pass resolution to obtain such loans.
- (c) The maximum borrowing is fixed at 25% of the core capital.

1.1 Eligibility of Lenders:

There should not have been any kind of restrictions for such foreign bank and financial institution to be engaged in financial transactions internationally.

2. Conditions of borrowing and use of borrowed fund

- (a) Prior approval of NRB must be obtained before obtaining loan.
- (b) The fund borrowed from foreign banks and financial institutions can be used for financing physical infrastructure projects such as hydropower, transmission lines, roads, tunnels, airports, cable car (except housing, land planning and real estate development) as well as in businesses in tourism, agriculture and micro-credit sector earning income in foreign currency.
- (c) The repayment timeline should not be less than one (1) year and more than five (5) year.
- (d) The total interest and fee payable shall be within the rate of 6 month LIBOR plus 3%.
- (e) The loan obtained from foreign bank and financial institution could be mobilized (as loan) in convertible foreign currency.

3. Restrictions:

- (a) No pledge or guarantee (whatever may be the form or type) can be given in favor of foreign banks and financial institutions while obtaining loan.
- (b) The convertible foreign currency obtained under the loan cannot be used in interbank transactions.

4. Reporting/Recording:

The receipt of money under the loan as well as repatriation (payment) of principal and interest should be compulsorily notified/recorded to NRB. Similarly, interest can be paid only after deducting withholding taxes.

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