

Analysis of Financial Sector of Nepal

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Abstract- This paper aims to assess the state of the financial sector in Nepal between 2012 and 2021. The study relies on secondary sources of information to present its findings. In terms of the financial structure, the research reveals that as of mid-March 2022, there are a total of 128 operating banks and financial institutions. Additionally, there are 42.451 million deposit accounts and 1.837 million loan accounts in these institutions. Furthermore, there are 16.848 million users of mobile banking and 1.609 million users of internet banking services. During the current fiscal year, there has been an addition of 135,000 loan accounts and 4.68 million deposit accounts. Electronic payment transactions have also significantly increased to 62,817. The inflation rate stands at 5.4 percent as of mid-March 2022, while foreign exchange reserves are sufficient to support monthly imports for 6.7 months. In 2021, broad money supply witnessed a growth of 11.4 percent. Import activities have expanded as the impact of Covid-19 has diminished and the economy has experienced a resurgence. By mid-March 2021/22, there has been a liquidity absorption of Rs. 60 billion. The interest rate on deposits is 6.93 percent, while the interest rate on loans is 10.60 percent. These rates were 4.76 percent and 8.73 percent, respectively, in mid-March 2021. Deposits in banks and financial institutions have increased by 4.1 percent to reach Rs. 4854.85 billion by mid-March 2022. The NEPSE index has reached 2668.1 points in mid-March 2022. Additionally, there are currently 41 insurance companies. The assets and liabilities of the Employees Provident Fund amount to Rs. 454.34 billion as of mid-January 2022, with a cumulative contribution of Rs. 408.45 billion. The assets and liabilities of the Citizen Investment Fund have reached Rs. 196.55 billion as of mid-January 2022. Furthermore, there are a total of 30,879 cooperatives, 7.337 million share members, and a share capital of Rs. 94.12 billion. Based on the empirical findings, this study recommends implementing reform programs in the financial system to enhance its stability, efficiency, and effectiveness in addressing emerging changes.

Keywords: NRB, Financial institutions, Insurance, Capital market, money

1. INTRODUCTION

Financial resource mobilization has crucial role in inclusive and sustainable economic development. There are predominantly two types of system to mobilize the financial resources viz. Bank-based and Market-based financial system. On the one hand, Bank based financial system promotes the debt financing and prevails mostly in developing countries. On the other hand, the market-based financial system encourages equity and debt financing both and found mostly in the advanced economies (Demircuc-Kunt & Levine, (1999). As in

many developing countries, compared to the market-based financial system, the bank based financial system is more developed in Nepal.

Under bank-based financial system, banks and financial institutions (BFIs) accept deposits from the surplus units by promoting savings and lend to the borrowers so that the investment in the economy is encouraged. Banking sector credit has significant role in encouraging investment which ultimately increases production, employment and entrepreneurship in the economy. So, either through channels of deposits or credits, BFIs play a significant role in accelerating economic growth through mobilizing financial resources (Kharel & Pokhrel, 2012). A balanced and inclusive financial resource mobilization is essential for financial stability as well. The mobilization of deposits plays a pivotal role in the bank financing as it is a dominant part of BFIs' liabilities, collected mainly from public. If such deposits are mobilized from the differentiated region, BFIs rarely face problems of short term solvency. Similarly, the balanced distribution of loans and advances in various sector and region automatically minimize the risk of default of large portions of loans. If loan portfolio is properly diversified, then problem faced in one sector has the lesser probability to impact other sectors so that the BFIs will bear minimum loss and can avoid the potential systemic risk. Therefore, the balanced distribution of financial resources from different perspective is important for the sustainable development of both the financial sector and the economy as a whole (UNCTAD, 2020). The optimal utilization of resources also indicates the efficiency of BFIs. Concentration of resources to a particular sector makes that sector over heated with asset price bubble and creates imbalance between the sources and uses of funds. Similarly, if the resources are concentrated to a particular region, then there will be regional imbalance in production, distribution, employment, income and also on economic activities. So, a planned and balanced approach to generation and mobilization of resources parallel to definite strategy is crucial for sustainable development of BFIs (Raipuria, 1991).

As guided by the Constitution of Nepal 2015, the country is restructured from centralized system to federal system (SoCA, 2015). Accordingly, several efforts have been initiated to make balance distribution of resources among all provinces. In

order to implement federal system effectively, Government of Nepal and Nepal Rastra Bank (NRB) have adopted policies to smooth out financial services and resources throughout all part of the country. The present paper is designed to assess the situation of financial sector of Nepal.

2. STATEMENT OF PROBLEMS

The primary obstacle to private sector capital formation and economic development in Nepal is the expensive cost of capital, which is a result of the lack of competition in the financial sector and the poor performance of government-owned banks. The Nepalese financial sector consists of both banking and non-banking sectors. The banking sector includes Nepal Rastra Bank (NRB) and commercial banks, while the non-banking sector consists of various institutions such as development banks, micro-credit development banks, finance companies, cooperatives, and non-government organizations (NGOs). The financial sector in Nepal has made significant progress since the 1980s when it was not liberalized. After the liberalization, more commercial banks entered the market, followed by the emergence of development banks. However, despite the growth of private banks in the 1990s, the performance of the banking system has shown little improvement. The gap between lending and borrowing rates has widened, and the market share of private banks has increased while the market share of Rastriya Banijya Bank (RBB) has remained unchanged. Some members of the business community believe that private joint venture banks have not sufficiently contributed to the nation's economic well-being, and instead have benefited from the inefficiency in the financial sector. In order to address these challenges, there is a need for increased access to financial services, lower interest rates, improved financial literacy, and enhanced access to capital.

3. LITERATURE REVIEW

Differences in the views on the relationship between finance and economic growth can be attributed to variations in market structure, features, and size, as seen in economic studies (Hondroyannis et al., 2005). On one hand, the demand-following hypothesis suggests that economic growth creates a demand for financial services, leading to financial development, which is supported by both theoretical and empirical evidence (Ang & Mckibbin, 2007; Apergis et al., 2007; Robinson, 1952). On the other hand, the supply-leading hypothesis argues that the growth of the financial sector leads to economic development, and this view is also supported by theoretical and empirical studies (Bayar et al., 2014; Cojocaru et al., 2016; Demircuc-Kunt & Levine, 1996; McKinnon, 1973; Naik et al., 2015; Shaw, 1973). Financial liberalization in low-income economies, including Nepal, was influenced by the works of McKinnon and Shaw, which emphasized the importance of financial liberalization in promoting domestic savings and investment (Alsamara et al., 2019). Additionally, the impact of financial development indicators varies depending on a country's legal, political, socio-economic, and institutional factors (Adu et al., 2013).

Alsamara et al. (2019) studied the impact of financial development, trade openness, and energy imports on real GDP per capita in Turkey from 1960 to 2014. Their findings revealed that broad money supply and trade openness had a positive effect on real GDP per capita, while energy imports had a negative impact. Biplop and Halder (2018), using data from Bangladesh between 1977 and 2016, found a significant long-run causality from financial development to economic growth. Samantha and Haiyun (2017), when examining the relationship between foreign direct investment (FDI) and economic growth in Sri Lanka, found that FDI had a positive impact on economic growth in the short-run and long-run, albeit not significant. Domestic investment, on the other hand, played a significant role in determining economic growth, while trade openness and the labor force showed positive but insignificant coefficients.

4. RESEARCH QUESTION

1. What is the situation of financial sector of Nepal?

5. OBJECTIVES OF STUDY

1. To analyze the situation of financial sector of Nepal.
2. To examine the status of central bank, other banks and financial institutions in Nepal.

6. LIMITATIONS OF STUDY

The paper seeks to search secondary source of information. The paper has applied the data of the period 2012 -21. No effort has been made to collect primary data.

7. METHODOLOGY

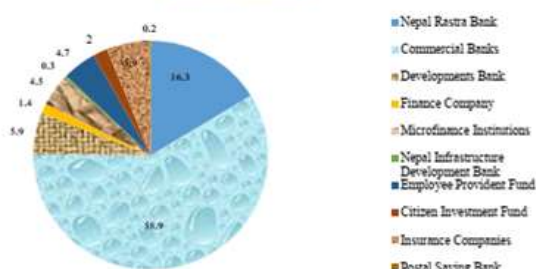
This research is a fundamental one aiming to construct the secondary data information existence documented. In this respect goal was to identify the main research papers, journals and publications of Nepal Rastra Bank (NRB), Ministry of Finance (Economic Survey), Nepal Rastra Bank (NRB), Nepal Stock Exchange, Nepal Insurance Board, Deposit and Credit Guarantee Fund, etc. that have contributed significantly to documenting the existence and magnitude of analysis of financial sector of Nepal. The methodology adopted was deductive and the empirical results drawn were based on the secondary sources.

8. RESULTS AND DISCUSSION

8.1 Financial Structure

As of mid-March 2022 (Economic Survey 2022), a total of 128 banks and financial institutions are under operation including 27 commercial banks, 17 development banks, 17 finance companies, 66 microfinance financial institutions and one Infrastructure Development Bank. The number of banks and financial institutions has declined due to incentives provided for mergers and acquisitions.

Fig-1 : Structure of Assets and Liabilities of Financial System in mid-January 2022
(Share In percentage)



Source: Nepal Rastra Bank, Employees Provident Fund, Citizens Investment Fund, National Insurance Board (Beema Samitee) and Central Postal Savings Office, 2022

Similarly, in the financial system, 39 insurance companies, 2 reinsurance companies, more than 30,000 cooperatives, Employees Provident Fund, Citizens Investment Fund, Deposit and Credit Guarantee Fund, Social Security Fund and Postal Savings Bank are also in operation.

8.2 Financial Stability

The indicators of financial stability (Economic Survey 2022), are overall satisfactory as of mid-March 2021/22. Nonperforming loans have improved during this period. The average ratio of non-performing loans of banks and financial institutions was 1.8 percent in mid-January 2021, which is 1.3 percent in mid-January 2022. 4.6 As of mid-March 2022, liquid assets accounted for 23.4 percent of the total deposits of banks and financial institutions, the share of cash and reserve is 7.0 percent and the share of total deposits and loans is 90.5 percent.

Table:1 : Major Indicators of Financial Sector Stability

Indicators	Mid July 2017	Mid July 2018	Mid July 2019	Mid July 2020	Mid July 2021	Mid-March 2022
Primary capital / Risk Weighted Asset Ratio	14.1	13.9	12.8	12.0	11.1	10.5
Capital Fund / Risk Weighted Asset Ratio	15.4	15.2	14.3	14.2	14.2	13.4
Total Credit / Total Deposit and Primary Capital Ratio	79.2	76.8	75.2	69.6	76.3	90.5 #
Non-performing loan ratio	1.8	1.6	1.5	1.9	1.5	1.3
Commerce The bank	1.5	1.4	1.4	1.8	1.4	1.2
Development Bank	1.4	1.1	0.9	1.5	1.3	1.4
Finance Company	13.4	10.8	8.8	6.2	6.2	7.1
Total Liquid Asset / Total Deposit Ratio	26.7	25.9	25.1	27.9	26.2	23.4
Cash and Bank Balance / Total Deposit Ratio	15.6	13.2	11.6	12.2	9.4	7.0

Source: Nepal Rastra Bank 2022 _ # Total Credit / Total Deposit Ratio @ mid-January

The ratio of primary capital and total capital as compared to risk weighted assets is 10.5 percent and 13.4 percent. The process of merger or acquisition of banks and financial institutions is continued. Following the commencement of merger and acquisition process of banks and financial institutions, a total of 239 banks and financial institutions have involved in this process as of mid-March 2022. Out of them, the licenses of 177 institutions have been revoked and 62 organizations have been existed.

8.3 Financial Deepening and Access

Financial deepening is steadily increasing in the economy. The ratios of broad money supply, credit to private sector as well as total deposits to GDP have been gradually increased. With

the reduction of the impact of Covid-19 (NRB, 2022), there was a significant increase in credit to the private sector in FY 2020/21. Such ratio has increased by 13.9 percent till mid-March 2021/22. In FY 2020/21, the ratio of broad money supply to GDP was 120.5 percent, the ratio of credit to private sector was 96.8 percent and the ratio of total deposits was 109.0 percent. Financial access is increasing due to expansion of branches networks of banks and financial institutions.

The banking population has grown significantly. As of mid-March 2022, the number of deposit accounts in bank and financial institutions is 42.451 million, the number of loan accounts is 1.837 million, number of mobile banking user is 16.848 million and number of users of internet banking service is 1.609 million. As of mid-March of the current fiscal year, 135,000 loan accounts and 4.68 million deposit accounts have been added. Based on the number of branches of banks and financial institutions (including microfinance), the service has reached an average of 2,572 people per branch in mid-March 2022. Such figure was 2,913 in mid-March 2021. In province-wise comparison, the population per branch is highest in Karnali and lowest in Gandaki.

8.4 Electronic Payment Transactions

Electronic payment transactions have grown significantly due to the continuous development of electronic payment infrastructure, incentives for electronic transactions and public access of electronic devices.

Table :2 :Electronic Payment Transaction

Details	Transaction Number			Transaction amount (Rs. In ten Million)		
	Mid July 2020	Mid July 2021	Mid-March 2022	Mid July 2020	Mid July 2021	Mid-March 2022
Real-Time Gross Settlement (RTGS)	37297	59655	60573	1567959	3502057	3692983
Automated Teller Machine (ATM)	6302846	6919199	8572620	54763	64389	69616
Electronic Check Clearing (ECC)	1260169	1440472	1201363	792007	987788	698349
Interbank Payment System (IPS)	596538	1164481	925202	223651	299059	165340
Connect IPS	696447	3204845	3339554	51306	237758	273858
Debit Card	3316554	7465439	9319884	25894	66417	72599
Credit Card	119610	124243	195878	584	859	1148
Prepaid Card	5249	17231	45651	36	73	302
Internet Banking	653459	329523	273699	19048	13832	13739
Mobile Banking	5817681	13700993	15559970	18839	73729	107119
Branchless Banking	83249	59783	67311	1338	1309	1469
Wallet	10179557	12515904	14033490	10222	12790	16599
#Based on Quick Response (QR)	-	855566	2307904	-	3651	7762
# Point of Sale (POS)	-	635599	924476	-	2665	4083
# E-Commerce **	-	52115	62817	-	296	348

Source: Nepal Rastra Bank, 2022

Collection of statistics was started since July 2020
** Online payment through the use of cards

Apart from banks and financial institutions, 10 payment system operators and 27 payment service providers are in operation till mid-March 2022 to facilitate electronic transactions.

9. MONETARY SECTOR

9.1 Monetary Policy Goal and Position

Monetary policy FY 2021/22 aimed to keep annual average inflation at 6.5, such inflation is 5.4 percent as of mid-March 2022. There are enough foreign exchange reserves to support monthly imports of goods and services for 6.7 months as of mid-March 2022. Expansion of broad money supply is

projected to be 18 percent in the FY 2021/22, but it has been 3.1 percent till mid-March of current fiscal year. Broad money supply had increased by 11.4 percent in the corresponding period of the previous year. On a year-on year basis, broad money supply has increased by 12.7 percent in mid-March 2022. Of FY 2021/22, narrow money supply as of mid-March 2022 has contracted by 10.7 percent. Such money supply had increased by 2.7 percent in the corresponding period of the previous year. On a year-on-year basis, narrow money supply has increased by 6.6 percent in mid-March 2022. Credit to private sectors was projected to increase by 19.0 percent in the FY 2021/22, the growth rate is 13.9 percent till mid-March 2022. Such growth rate was 17.5 percent as of mid-March of FY 2020/21. On a year-on-year basis, such loan was increased by 22.5 percent in mid-March 2022.

Table :3 : Annual Percentage Point Change of Major Monetary Aggregates (In percent)

Headings	2018/19	2019/20	2020/21	2021	
				Mid-March	Mid-March
Currency in Circulation	1.7	15.9	16.6	19.5	0.9
Reserve Money	-1.5	26.7	5.2	13.6	0.6
Demand Deposit	19.7	20.6	30.5	27.0	15.3
Time Deposit	22.4	25.1	17.6	19.0	30.6
Savings And Call Deposit	13.0	10.6	26.6	27.4	-5.2
Total Domestic Credit	21.4	13.6	26.8	22.0	24.3
Private Sector Credit	19.1	12.6	26.3	18.9	22.5
Narrow Money Supply	8.6	17.8	22.6	22.4	6.6
Broad Money supply	15.8	18.1	21.8	22.6	12.7

Source: Nepal Rastra Bank, 2022

Imports have expanded significantly as the impact of Covid-19 has waned and the economy has picked up. However, the decline in remittance inflows, a major source of foreign exchange earnings, has put some pressure on the external sector. In view of this situation, provision has been made to keep 50 to 100 percent cash margin for the specified items when opening the import letter of credit. Also, it has been made easier to open a deposit account in Nepal for non-resident Nepalis. As of mid-March of FY 2021/22, Rs. 60 billion liquidity has been absorbed through various instruments of open market operations. Such absorption was Rs. 303.29 billion in the

Table 4 : Back Rate, Refinancing Rate and Cash Reserve Ratio (In percent)

Instruments	2017/18	2018/19	2019/20	2020/21	2021/22 *
Bank rate	7.0	6.5	5.0	5.0	7.0
Refinance Rate					
Special Refinance	1.0	1.0	1.0	1.0	1.0
General Refinance	4.0	4.0	3.0	3.0	3.0
Micro, Cottage and Small Enterprise	-	-	-	2.0	2.0
Export Credit #	0.25	0.25	0.25	0.25	0.75
Cash Reserve Ratio					
Commercial Bank	6.0	4.0	3.0	3.0	3.0
Development Bank	5.0	4.0	3.0	3.0	3.0
Finance company	4.0	4.0	3.0	3.0	3.0
Standing Liquidity Facility Rate	7.0	6.5	5.0	5.0	7.0

Source: Nepal Rastra Bank, 2022 # In foreign currency # add to LIBOR To be added in the One year benchmark interest rate of mid-February 2021/22, * mid-February

corresponding period of the previous year. As of mid-March of FY2021/22, a total of Rs. 5070.76 billion has been injected including Rs. 55.92 billion through direct purchase bidding,

Rs. 393.37 billion through repo and Rs. 4621.48 billion through standing liquidity facility. Such absorption has been Rs. 2 billion in the corresponding period of the previous year. As on mid-March 2022, the weighted average interest rate offered by commercial banks

9.1.1 Interest Rate Position

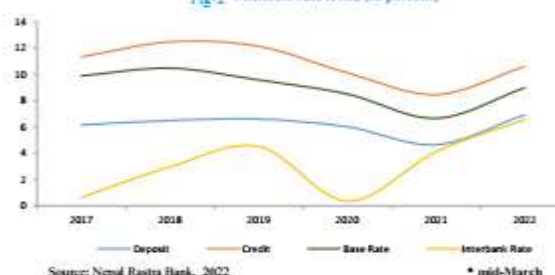
As on deposits is 6.93 percent and the weighted average interest rate on loans is 10.60 percent. On mid-March 2021, such interest rates were 4.76 percent and 8.73 percent respectively. The average base rate of commercial banks stood at 6.84 percent on mid-March 2021, compared to 8.98 percent in mid-March 2022.

Table :5 : Interest Rate Trend (in percent)

Headings	2017	2018	2019	2020	2021	2022 *
Weighted Average Interest Rate	6.15	6.49	6.60	6.01	4.65	6.93
Weighted Average Credit Rate	11.33	12.47	12.13	10.11	8.46	10.60
Base Rate	9.89	10.47	9.57	8.50	6.66	8.98
Interbank rate	0.64	2.96	4.52	0.35	4.12	6.56

Source: Nepal Rastra Bank, 2022

Fig-2 : Interest rate trend (in percent)

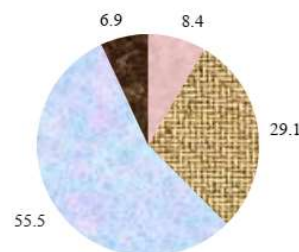


Source: Nepal Rastra Bank, 2022

Short-term interest rate has increased in FY 2021/22 due to pressure on liquidity in banking sector. The weighted average interest rate on 91-day treasury bills has risen from 2.03 percent on mid-March 2021 to 6.82 percent on mid-March 2022. The weighted average interest rate on inter-bank transactions among commercial banks stood at 6.56 percent on mid-March of 2022 as compared to 1.26 percent on mid-March of 2021.

9.1.2 Deposit Mobilization and Credit Flow

Deposits of banks and financial institutions till mid-March 2028 has increased by 4.1 percent and reached Rs. 4854.85 billion.



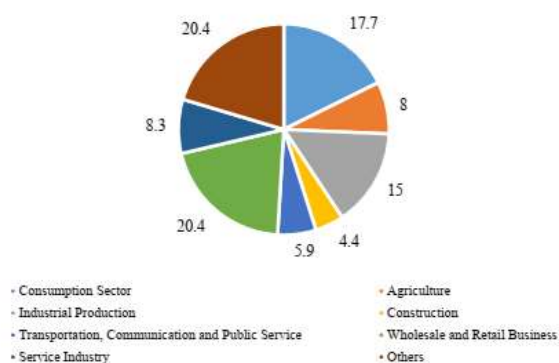
Source: Nepal Rastra Bank, 2022

Figure 3: Structure of Deposit Mobilization of Banks and Financial Institutions (in percent) (mid-March 2022)

Such growth rate was 11.0 percent in the corresponding period of the previous year. Loan to private sector from banks and financial institutions till mid-March 2022 has increased by 12.8 percent which reached Rs. 46.73 billion. The growth rate was 17.4 percent in the corresponding period of the previous year. As of mid-March 2022, the ratios fixed deposit, savings deposit, current deposit and other deposit to total deposit are 55.5 percent, 29.1 percent, 8.4 percent and 6.9 percent respectively. Out of total credit in investment as of mid-March 2022, the share of wholesale and retail trade is 20.4 percent, consumer loan is 17.7 percent, industrial production is 15.0 percent, service industry is 8.3 percent and agriculture is 8.0 percent, public services is 5.9 percent and the construction is 4.4 percent.

9.2 Capital Market

The NEPSE index, which was 2,458.5 points on mid-March of 2021, has reached to 2668.1 points on mid-March of 2022. The NEPSE index had reached to 2883.4 points on mid-July 2021. On 18th August 2021, NEPSE index reached to 3199.0 points which is the highest ever. By mid-March of 2022, the paid-up value of shares enlisted on Nepal Stock Exchange Limited has reached Rs. 651.21 billion.



Source: Nepal Rastra Bank, 2022

Figure-4: Nepse Index and Nepse Float Index (in points)

The ratio of market capitalization to GDP is 78.0. As of mid-March of FY 2021/22, the securities turnover amount is Rs.1053.98 billion. The security turnover was Rs. 716.93 billion in the corresponding period of the previous year. By mid-March of FY 2021/22, the company registered at CDSC that are providing service of security deposit and clearing has reached to 217. As of mid-March of FY 2021/22, the number of depository members registered in CDSC has reached 82 and the depository members have been providing deposit service from all 77 districts. By mid-March 2022, the number of dematerialized securities has reached to 8.39 billion. Such number was 6.26 billion in mid-March 2020. The number of beneficiary account openers has increased significantly after the beneficiary account was made mandatory in the primary offering. The number of beneficiary accounts has reached 5.096 million by mid-March of 2022. The number was 3.194 million on mid-March of 2021.

9.3 Insurance

As of mid-March 2022, there are altogether 41 insurance companies including 9 life insurance companies, 20 non-life insurance companies and 2 re-insurance companies.

Table-6: Investment amount in life and non-life insurance sector (Rs. 10 million)

Fiscal year	Insurance		Total
	Life	Lifeless	
2016/17	13883.9	2242.5	16126.4
2017/18	17781.5	2745.0	20526.5
2018/19	22517.9	3667.8	26185.7
2019/20	28467.5	5844.1	34311.6
2020/21	34337.6	6339.4	40677.0
2021/22 *	57832.4	10415.5	68247.9

Source: National Insurance Board (Beema Samitee) 2022

*Till Mid-march

By mid-March of 2022, the total financial resources and utilization of the insurance business was Rs. 604.03 billion. Of this, life insurance business insurers have Rs. 521.6 billion and non-life insurance business insurers have Rs. 82.97 billion.

9.4 Non-Bank Financial Institutions

The assets and liabilities of Employees Provident Fund has reached to Rs. 454.34 billion by mid-January 2022. During this period, accumulated amount of contributors is Rs. 408.45 billion. The assets and liabilities of Citizen Investment Fund has reached to Rs.196.55 billion by mid-January 2022.

Table 7: Status of Guarantees Provided by the Deposit and Credit Guarantee Fund

Details	Mid July 2020	Mid-January 2021	Mid-July 2021	Mid-January 2022
Credit Guarantee Amount (Rs. In ten million)	6214.5	7544.7	12515.4	16171.4
Deposit Guarantee amount (Rs. In ten million)	68 948.9	58 757.7	81161.6	86447.9
Number of Banks and Financial Institutions having Credit /Deposit Guarantee	73	68	66	63
Number of Deposit Accounts	26 026442	27397308	30107244	32911013

Source: Deposit and Credit Guarantee Fund, 2022

Total loan investment at various sectors is Rs. 183.91 billion. The total deposit of Postal Savings Bank is Rs. 1.61 billion while loan investment is Rs.387.1 million. The total number of savings accounts in this bank has reached to 58,453. As of mid-July 2021, Rs. 125.15 billion credits have been guaranteed, while upto mid-January 2022, Rs. 161.71 billion credits have been guaranteed. A sum of Rs. 864.48 billion deposits of 63 banks and financial institutions have been guaranteed. As of mid-April 2022, the Credit Information Bureau has collected the information of 12,78,620 borrowers from banks and financial institutions and 42,68,728 borrowers of microfinance financial institutions. A total of 24,594 borrowers of various banks and financial institutions till mid-April 2022, have been blacklisted by the Credit Information Bureau Limited. During this period, a number of 9,834 borrowers have been included in the blacklist, while 2,227 debtors have been removed from the blacklist.

9.5 Cooperative Organization

As of mid-March of 2022, the total number of cooperatives has reached to 30,879, the number of share members 7.337 million and the share capital has reached Rs. 94.12 billion. In the same period, a sum of Rs. 477.99 billion savings was mobilized and Rs. 426.31 billion credit has been provided

from the cooperative sector. As of mid-March, of FY 2022, a total of 91,301 direct employment has been generated in cooperative sector, up from 88,309 in FY 2020/21. A total of 8,765 cooperative organizations have been affiliated into Co-operative and Poverty-related Management Information System (COPOMIS), an online technology developed for making cooperative activities reliable and transparent as well as for integrated statistics.

10. CONCLUSION

Nepal's financial sector experienced significant growth as a result of increased credit and various reforms aimed at improving regulation, enhancing the autonomy of the central bank, and establishing key infrastructure. However, the restructuring of the three state-owned banks was not entirely successful due to complex political circumstances in the country. It is essential for further growth in the financial sector and the sustainable development of the economy to continue efforts to restructure the state-owned banks, enhance the independence of the central bank, and maintain sound financial sector policies. Overall, the reform programs in Nepal's finance sector have improved governance and capacity, resulting in enhanced supervisory and regulatory capabilities of the central bank. The development of important financial legislation and infrastructure has also contributed to the efficiency and profitability of the banking sector, including the state-owned banks. However, the reforms have not fundamentally changed the state-owned banks, suggesting that the government should avoid excessive interference in the credit decisions of these banks and promote competition by granting them autonomy. The government should continue the finance sector reform process by focusing on strengthening the central bank and restructuring the state-owned financial institutions. To ensure a successful outcome, several recommended actions should be taken.

11. POLICY IMPLICATIONS

The government's political will is crucial for the success of the finance sector reform. Previous reforms were prompted by internal and external factors, such as political instability and stagnant economic growth. Although international development agencies supported these reform initiatives, prolonged political instability weakened the government's commitment to critical actions like privatizing state-owned banks. Nepal's current political environment, with multiple parties, may pose challenges in formulating and implementing long-term finance sector policies. In this context, it is important for international development agencies to provide ongoing dialogue and constructive advice to improve governance and growth in the sector. A forum for external partners and the government should be established to facilitate dialogue and develop policies that promote a more liberalized finance sector for accelerated growth.

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