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Analysing the impact of macroeconomic variables on non-performing loans in Nepalese banks

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Abstracts

Nepal's financial system is largely bank-centric, with 18 private and 3 state-owned commercial banks as of 2023. Non-performing loans (NPLs) directly impact financial stability and the broader economy, making it essential to understand how macroeconomic indicators affect these loans. This study analyzes trends in NPL ratios between state-owned and privately owned commercial banks in Nepal, focusing on the influence of real GDP growth, the Nepal Rastra Bank (NRB) policy rate, and inflation on NPL levels. Using an explanatory research design, the study draws on secondary data from the Nepal Rastra Bank, the National Statistics Office, and the IMF, covering quarterly data from 2007/08 Q2 to 2022/23 Q1. The dependent variable, NPLs, is analyzed against independent variables—real GDP growth, NRB policy rate, and inflation. Adjustments are made to the CPI data, rebased to 2010/11, with seasonal adjustments applied using X12 from the US Bureau of Statistics. An ARDL regression model, combined with unit root testing, is used to measure the macroeconomic impacts on NPLs, with a robustness check involving data on private bank NPLs. The findings reveal that state-owned banks maintain higher NPL ratios than private banks. Moreover, inflation has been shown to have a significant negative effect on NPLs, while the NRB policy rate has had a considerable positive impact. The findings offer actionable insights for regulators, commercial banks, and policymakers to develop tailored strategies for mitigating NPL risks, contributing to the overall financial stability and economic resilience of Nepal.

Keywords: Non-performing loans, real GDP, policy rate, inflation, CPI

Introduction

A loan becomes a non-performing loan (NPL) when a borrower shows signs of inability to repay or has not made payments for over 90 days (European Central Bank, 2024). The NPL ratio, calculated as the proportion of non-performing loans within a bank's total loan portfolio, indicates the health of the banking sector (IMF, 2024). High levels of NPLs prevent banks from providing new loans, which limits business investments and job creation, and, if widespread, can have adverse effects on the overall economy (European Central Bank, 2024). When the economy grows, borrowers' incomes increase, improving their ability to service debt and thereby reducing NPL levels (Klein, 2013; Nkusu, 2011). Inflation, tracked through the Consumer Price Index (CPI), shows the average price change

of a basket of goods and services (Bureau of Labor Statistics, 2024). Inflation's effect on NPLs can be mixed; higher inflation can reduce the real debt burden, making repayment easier (Nkusu, 2011), but can also raise business costs. Nepal Rastra Bank (NRB) implements monetary policy in Nepal and sets interest rates that affect NPLs. For instance, a higher central bank rate raises lending costs, which may weaken borrowers' debt repayment ability, increasing NPLs, especially with variable interest rates (Maskay & Pandit, 2010).

Nepal's financial sector, dominated by banks, is vulnerable to NPL trends, which are influenced by factors like GDP growth, inflation, and policy rates (Panthi, 2021). As of January 2023, despite NRB's regulatory measures, Nepal's NPL ratio stood at 3.63 percent, a reflection of pandemic-era expansionary lending that boosted real estate lending and stressed the banking sector (Karanjit, 2023). Past banking crises in Nepal, such as the one following 2006, have shown how elevated NPL levels can lead to economic instability, which can discourage further credit creation and deepen economic downturns (Bhul et al., 2016). Given the influence of macroeconomic factors on NPLs and the potential implications for financial stability, ongoing analysis is essential to understand how these variables affect NPL levels in Nepal's evolving economic landscape (Klein, 2013).

Statement of the Problem

As of mid-January 2023, the NPL ratio in Nepalese banks stood at 3.63 percent, with this trend partly attributed to expansionary COVID-19-era lending policies, which led to excessive real estate lending and heightened financial vulnerability (Nepal Rastra Bank, 2023; Karanjit, 2023). Without appropriate measures, unchecked NPL growth may hinder credit creation, leading to recessionary pressures and economic instability (Nkusu, 2011). Some research, such as Bhattarai (2018) and Pradhan et al. (2016), does not support the expected inverse relationship between GDP growth and NPLs, suggesting that other contextual factors, like economic resilience or industry-specific exposures, may be influencing NPL levels. This discrepancy in findings creates an inconsistency in understanding macroeconomic influences on NPLs within Nepal, indicating a need for further investigation that considers unique economic conditions. Another problem is the limited scope of data in existing studies, which commonly use annual figures over short periods. Such a limited dataset can fail to capture the cyclical nature of economic factors and their long-term impact on NPLs (Nkusu, 2011). Moreover, international literature emphasizes the role of central bank policy rates on NPLs—particularly due to their effect on loan affordability and borrower repayment capacity (Nkusu, 2011). This relationship remains underexplored in Nepal. Finally, the impact of recent expansionary policies initiated during the COVID-19 pandemic remains largely unexplored. These policies led to significant real estate lending, raising concerns over increased sectoral risk exposure, as was observed in Nepal's post-2006 banking crisis, where excessive real estate investments led to problematic loans and bank liquidations (Bhul et al., 2016). Understanding the repercussions of these expansionary policies on NPLs is essential for assessing the potential for future

economic disruptions.
This study has attempted to answer the following research questions:
a. How is the trend of Non-Performing Loans of state-owned commercial banks compared to that of privately owned commercial banks in Nepal?
b. What is the impact of real GDP growth rate, NRB policy rate, and inflation, on Non-Performing Loans of commercial banks in Nepal?

Objectives of the study

As guided by the research questions for the study, the specific objectives of the study are as follows:
a. To compare the trend of Non-Performing Loans of state-owned and privately owned commercial banks in Nepal.
b. To assess the impact of the Real GDP growth rate, NRB policy rate, and inflation on Non-Performing Loans of commercial banks in Nepal.

Limitations of the study

The research's limitations are as follows:
a. The study has been limited to the data of Commercial banks in Nepal from 2008q2 to 2023q1.
b.The macroeconomic variables considered in the study are limited to real GDP growth rate, inflation, and NRB policy rate.

Methodology

Credit Risk Theory serves as the foundation for understanding and managing credit risk in the financial system. It underpins the practices of assessing, managing, and mitigating risks associated with lending and credit exposure, forming a cornerstone of modern banking and financial systems (Saunders & Allen, 2010). By integrating borrower behavior, economic conditions, and risk mitigation strategies, it provides a comprehensive framework to address the challenges posed by defaults (Jarrow & Turnbull, 1995). For Nepalese banks, leveraging credit risk theory is critical to ensuring financial stability and promoting sustainable lending practices (Nepal Rastra Bank, 2023). Credit risk is the possibility that a borrower or counterparty will default on contractual obligations, resulting in financial loss to the lender or investor (Crouhy, Galai, & Mark, 2001). Credit Risk Theory integrates concepts from multiple disciplines, including economics, statistics, and finance, and focuses on i) the borrower's ability to pay, ii) the borrower's willingness to pay, and iii) external economic conditions (Altman et al., 2005). Credit risk is influenced by various factors at both micro (borrower-specific) and macro (economy-wide) levels (Basel Committee on Banking Supervision, 2004).

The research design adopted in this study is explanatory. The trend analysis and Autoregressive Distributed Lag (ARDL) model are used in the study. The Autoregressive Distributed Lag (ARDL) model is particularly suited for datasets with mixed stationarity of variables, i.e., when some variables are stationary at level (I(0))

and others are stationary at the first difference (I(1)). This suitability arises from the following key advantages such as flexibility in stationarity, dynamic specification**,** and efficiency in small samples. The various sources of data are used: The quarterly data for NPL ratios and NPL amounts of the commercial banks are obtained from the Key Financial Statistics, Bank and Financial Statistics, Financial Stability Reports, and Annual Bank Supervision Reports from the Nepal Rastra Bank. NPL data does not require seasonal adjustment because of the absence of seasonal peaks and troughs as per Census X12. It is then transformed into logarithm form for the analysis. Quarterly CPI data is obtained from the IMF statistics portal. The CPI data is then rebased to 2010/11 Q1. The data is seasonally adjusted using Census X12. Data for CPI is then transformed into logarithm form. Quarterly Real GDP Growth rate data is obtained from the National Statistics Office. This data is already seasonally adjusted by NSO. Quarterly NRB policy rate data is obtained from the IMF statistics portal. The data does not require seasonal adjustment because of the absence of seasonal peaks and troughs as per Census X12. Data for all the variables are obtained quarterly from 2007/08 Q2 to 2022/23 Q1. The study used X12 from the US Bureau of Statistics for seasonal adjustment, STATA 17 for regression analysis, and Microsoft Excel for trend analysis.

To examine the impact of the Real GDP Growth rate, NRB Policy rate, and Inflation on NPL, NPL is regressed against these variables. NPL of the entire commercial banks, NPL of the privately owned commercial banks and CPI the proxy to inflation is taken in natural logarithm form. The inclusion of real GDP growth rate and inflation is based on the entirety of the studies in the literature review section. The inclusion of central bank policy rate i.e. NRB Policy rate is based on Nkusu (2011). The analytical model used for the study is specified as:

$$Model: lnNPL = f(RGDPGR, NRBPR, lnCPI)$$

The application of the econometric model is based on the unit root test. Since some of the variables are found stationary at a level while others are stationary at first difference, the Autoregressive distributed lag (ARDL) model is used in the study.

The basic ARDL model used for the study can be specified as:

$$Yt = \gamma 0 + \sum_{i=1}^{p} \delta i\, Yt\text{-}1 + \sum_{i=0}^{q} \beta i\, Xt\text{-}1 + \epsilon i$$

Where Yt is the vector of the dependent variable, $Yt\text{-}1$ is the vector representing lagged values of Yt and $Xt\text{-}1$ represents the vector of independent variables that are allowed to be purely I(0) or I(1); β and δ are coefficients; γ is the constant; p and q are the optimal lag orders of dependent and independent variables, respectively and ϵi is the vector of error terms. Here, we can see that the dependent variable is a function of its lagged values and the lagged values of other variables in the model.

Result and Discussion

Impact on NPL of overall commercial banks in Nepal

The Augmented Dickey-Fuller unit root test on the variables implies that the variables under the study have different orders of integration. The results of the Augmented Dickey-Fuller (ADF) test for the time series are presented in the following table, where the lag length was determined using the Akaike Information Criterion.

Table 1: Augmented Dickey-Fuller unit root test result

Variables	ADF Test Statistics	P-values	Critical values			Order of Integration
			1%	5%	10%	
lnNPL	-2.162	0.220	-3.570	-2.924	-2.597	I(1)
D(lnNPL)	-5.089	0.000	-3.570	-2.924	-2.597	
RGDPGR	-4.630	0.000	-3.573	-2.926	-2.598	I(0)
NRBPR	-2.032	0.273	-3.572	-2.925	-2.598	I(1)
D(NRBPR)	-4.132	0.001	-3.572	-2.925	-2.598	
lnCPI	-3.923	0.002	-3.569	-2.924	-2.597	I(0)

Source: Author's self-assessment

The variables lnCPI and RGDPGR are found stationary at level. The variables lnNPL and lnCPI are found stationary at first difference. Hence, the result of the ADF test with mixed order of integration implies that the ARDL model can be employed to analyze the impact of the Real GDP growth rate, inflation, and NRB Policy rate on NPL in both the short-run and long-run.

ARDL estimates

ARDL regression is used to assess the impact of the Real GDP growth rate, NRB policy rate, and inflation on the non-performing loans ratio. The dependent variable in the model is represented by lnNPL, while the independent variables are RGDPGR, NRBPR, and lnCPI. The dataset comprises 60 observations for the period of 2007/08Q2 to 2022/23Q1. ARDL (1, 0, 2, 0) was selected based on Akaike Information Criteria (AIC).

Table 2: ARDL estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
lnNPL(-1)	0.452	0.114	3.970	0.000
RGDPGR	-0.001	0.004	-0.250	0.801
NRBPR	-0.035	0.042	-0.830	0.408
NRBPR(-1)	-0.047	0.053	-0.890	0.378
NRBPR(-2)	0.122	0.041	2.940	0.005
lnCPI	-0.623	0.161	-3.870	0.000
Constant	3.253	0.898	3.620	0.001
R-squared	0.90	Mean dependent var		0.87
Adjusted R-squared	0.89	S.D. dependent var		0.45
Log likelihood	38.89	DW		2.11

Root MSE	0.13	F-statistic	74.46
Prob(F-statistic)	0.00		

Source: Author's self-assessment

The optimal lags based on AIC i.e. (1, 0, 2, 0) indicates that the dependent variable lnNPL is affected by only the previous one period value of itself and previous two period values of NRBPR. The R-squared and adjusted R-squared values of 90 percent and 89 percent, respectively indicate that the variability in the dependent variable is 89 percent explained by the regressors.

Table 3: ARDL Bounds test results

Test Statistic	Value	Significance.	I(0)	I(1)
F-statistic	8.063	10%	2.827	3.930
		5%	3.405	4.623
		1%	4.724	6.177

Source: Author's self-assessment

After conducting the ARDL bounds test, it can be established that the variables have a log run relationship and are co-integrated based on the results presented on table 4. The F-statistic is found to be 8.063, which is greater than all the upper bounds at all three levels of significance. Then, an error correction model is run because of the presence of long run relationship between the variables. The result of the error correction regression is presented in table 3.

Table 4: ARDL Error Correction Regression results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
lnNPL(-1)	-0.547	0.107	-5.140	0.000
Long-run				
RGDPGR	-0.002	0.008	-0.260	0.800
NRBPR	0.074	0.039	1.870	0.068
lnCPI	-1.137	0.119	-9.580	0.000
Short-run				
D(NRBPR(-1))	-0.075	0.042	-1.790	0.079
D(NRBPR(-2))	-0.122	0.041	-2.980	0.004
Constant	3.252	0.877	3.710	0.001

Source: Author's self-assessment

In the table 4, the negative adjustment coefficient indicates that there will be long run convergence among the variables and previous errors will be corrected in two quarters.

In our error correction model, the speed of adjustment is 54.7 percent.
In the short run, the coefficients of one-period and two-period lags of NRBPR are found to be negative and statistically significant at 10 percent and 1 percent, respectively. This indicates that the NRB policy rate harms NPL in the short run. On the other hand, the coefficient of NRBPR is positive and statistically significant at 10 percent in the long run. From the above table, we can infer that for every 1 percent increase in the NRB policy rate, the NPL increases by 7.6 percent. This indicates a strong and positive impact of the NRB policy rate on NPL in the long run.
In the long run, the coefficient of RGDPGR is found to be negative but statistically insignificant. In the case of lnCPI, the coefficient is negative and statistically significant at 1 percent. It can be inferred that for every 1 percent increase in CPI, NPL decreases by 1.14 percent. This implies a strong negative impact of inflation on NPL in the long run. It can also be observed that the constant is statistically significant at 1 percent, i.e. the intercept is non-zero.

Diagnostic and Residual Test

The following are the results of the residual test and diagnostic test conducted on the ARDL model:

Breusch Godfrey LM Test for autocorrelation

The Breusch-Godfrey serial correlation LM test is used to detect autocorrelation in residuals. The null hypothesis in this test is the absence of any autocorrelation.

Table 5: Breusch-Godfrey Serial Correlation LM Test

Lags(p)	1	df	1
Chi-Square	0.879	Prob > Chi-Square	0.348

Source: Author's self-assessment

In table 7, the probability value of 0.348 for the Chi-square test indicates that the null hypothesis cannot be rejected. Hence, there is no evidence of autocorrelation in the data.

White's Heteroscedasticity Test

The presence of heteroscedasticity in the model is examined using White's Test. The null hypothesis taken in this test is the presence of homoscedasticity.

Table 6: White's Heteroscedasticity Test

Heteroskedasticity		df	27
F-statistic	34.97	Prob. Chi-Square	0.139

Source: Estimation based on Annex III

Table 6 presents a probability value of 0.139 and this p-value greater than 0.05 in the model indicates that the null hypothesis cannot be rejected. Hence, it can be concluded that the model exhibits homoscedasticity.

Impact on NPL of private commercial banks in Nepal

Now, we use the NPL of Private commercial banks (lnNPL_p) as dependent variables

in place of the NPL of overall commercial banks as the dependent variable and examine the impact of real GDP growth rate, NRB policy rate, and inflation on the NPL of private commercial banks. Then, we compare the results with the previous model for the robustness check in the study.

Gregory Hansen test for structural breaks

The Gregory-Hansen test is a statistical test used to detect structural breaks in time series data. It is an extension of the traditional unit root test and is specifically designed for situations where structural breaks might exist.

In Table 10, the result of the Gregory Hansen test is presented. The test is run for breaks in level, trend, and regime. Zt values for all the tests are found smaller in magnitude compared to critical values for all significance levels. It can be inferred from the table that the break date for the robustness check model is at 2011q3. Hence, there is a structural break in the dependent variable data.

Table 7: Gregory Hansen test for structural breaks

Breaks		Test Statistics	Break Date	Asymptotic Critical Values		
				1percent	5percent	10percent
Level	Zt	-3.87	2011q3	-5.77	-5.28	-5.02
Trend	Zt	-3.91	2011q3	-6.05	-5.57	-5.33
Regime	ADF	-4.48	2011q3	-6.51	-6.00	-5.75
	Zt	-4.51	2011q2	-6.51	-6.00	-5.75

Source: Estimation based on Annex IV

Based on the presence of structural breaks in the robustness check model, dummy variables are introduced in the model. The dummy variables considered in the model are z, z_NRBPR, and z_lnCPI. The values for dummy variables are assigned based on the position of the structural break in the model. The ADF unit test results for the dependent variable lnNPL_p and dummy variables z, z_NRBPR and z. lnCPI are presented in Table 1. ARDL regression is again preferred based on the unit root test.

2 ARDL estimates for robustness check

The ARDL model estimates based on the Akaike Information Criterion (AIC) are presented in Table 8. The optimal lags based on AIC i.e. (1, 0, 2, 0) indicate that the dependent variable lnNPL_p is affected by one period lagged value of itself and two period lagged values of NRBPR,z and z_NRBPR. The R-squared and adjusted R-squared values of 88 percent and 85 percent, respectively indicate that the variability in the dependent variable is 85 percent explained by the regressors.

Table 8: ARDL estimates for robustness check

ARDL (1, 0, 2, 0,2 ,0,2) selected based on Akaike Information Criteria (AIC)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
lnNPL(-1)	0.494	0.103	4.780	0.000

RGDPGR	-0.006	0.004	-1.430	0.159
NRBPR	0.497	0.304	1.640	0.109
NRBPR(-1)	-0.145	0.303	-0.480	0.634
NRBPR(-2)	1.161	0.296	3.920	0.000
lnCPI	-4.688	1.438	-3.260	0.002
z	-15.823	5.486	-2.890	0.006
z(-1)	-0.668	2.150	-0.310	0.758
z(-2)	7.391	2.100	3.520	0.001
z_lnCPI	4.222	1.401	3.010	0.004
z_NRBPR	-0.513	0.306	-1.680	0.101
z_NRBPR(-1)	0.078	0.306	0.260	0.800
z_NRBPR(-2)	-1.027	0.299	-3.440	0.001
Constant	11.363	4.243	2.680	0.010
R-squared	0.88	Mean dependent var		0.553
Adjusted R-squared	0.85	S.D. dependent var		0.315
Log-likelihood	52.66	DW		1.62
Root MSE	0.110	F-statistic		24.52
Prob(F-statistic)	0.000			

Source: Author's self-assessment

After conducting the ARDL bounds test, it can be established that the variables have a log-run relationship and are co-integrated based on the results presented in Table 9. The F-statistic is found to be 7.393, which is greater than all the upper bounds at all three levels of significance. Then, an error correction model is run because of the presence of long-run relationship between the variables.

Table 9: ARDL Bounds test result for robustness check

Test Statistic	Value	Significance.	I(0)	I(1)
F-statistic	7.393	10%	2.245	3.514
		5%	2.659	4.070
		1%	3.614	5.334

Source: Author's self-assessment

Discussion

From the trend analysis, there is an increasing trend of NPL of commercial banks in

Nepal. The quarterly NPL ratio for the overall commercial banks stands at 3.23 as of 2022/23Q3. When compared to private commercial banks, state-owned commercial banks have greater NPL ratios over the years till the present. As a large majority of financial crises (81 percent) exhibit elevated NPLs that exceed 7 percent of total loans (Ari et al., 2020), it can be said that we are at almost half the crisis threshold. The estimation of ARDL regressions shows that there is a negative but insignificant relationship between the non-performing loans ratio and real GDP growth rate. Jha (2022); Poudel (2018) and Bhattarai (2014) also found a negative but insignificant impact of the Real GDP growth rate on NPL in Nepal. On the other hand, there is a negative and significant relationship between the non-performing loans ratio and inflation (Proxied by CPI). Mazreku et al. (2018); Anita et. al. (2022); Bhul et.al. (2016) and Poudel (2018) also found a negative and significant impact of inflation on NPL. This finding is inconsistent with the studies of Nkusu (2011) and Džidić et al. (2022). In the context of Nepal, we can say that the higher the inflation, the greater the reduction in the real value of outstanding loans making debt servicing easier and ultimately reducing the NPL. When it comes to the NRB Policy rate or the central bank policy rate, there is a positive and significant relationship between the non-performing loans ratio and the NRB policy rate in the long run. The finding is consistent with the study of Nkusu (2011). Also, the robustness test is justified with the same results in both models.

Summary & Conclusion

This study compared the trend of non-performing loans in terms of both the ratio and amount and examined the impact of the Real GDP growth rate, NRB policy rate, and inflation on the NPL of commercial banks in Nepal. Secondary data from the reliable sources of Nepal Rastra Bank (NRB), the National Statistics Office (NSO), and the International Monetary Fund (IMF) is used to conduct the study. Data for all the variables is obtained every quarter from 2007/08 Q2 to 2022/23 Q1.

CPI and NPL are expressed in logarithmic form to get a linear relationship among the variables under study. The augmented Dickey-Fuller test is applied to examine the presence of unit roots in the variables. The variables under the study showed different orders of integration. Some are found stationary at a level while others are found stationary at first difference. ARDL regression is used to examine the impact of the Real GDP growth rate, NRB Policy rate, and inflation on the NPL of commercial banks in Nepal.

The figure of quarterly NPL amount is dominated by state-owned commercial banks. The NPL amount for the state-owned banks stood at 7022.39 million in 2016/17Q4, increased gradually up to 2021/22, and then sharply inclined to 24595.32 million in 2022/23 Q3. As both the categories of commercial banks show an increasing trend as of present, overall commercial banks figures are going up and stand at 25357.77 as of 2022/23 Q3. The quarterly NPL ratio for the state-owned commercial banks decreased at a slower rate until the 2021/22 Q4 end from 18.56 in 2007/08 Q2 to 1.86 in 2021/22 Q4. It sharply increased in the recent quarters and stood at 4.06 in 2022/23 Q3. When compared to private commercial banks, state-owned commercial banks have had greater NPL ratios over the years till the present. The NPL ratio for private banks follows a similar trend but has less fluctuation during the study period. The quarterly NPL ratio

for the overall commercial bank stands at 3.23 in 2022/23Q3. This increasing trend indicates that if the NPL of commercial banks is not curtailed in time, we might be edging to the aforementioned crisis threshold.

The coefficient of Real GDP growth rate is found to be negative and statistically insignificant in both the models that include NPL for overall commercial banks and that include NPL for only privately owned commercial banks. The coefficient value of -0.002 and -0.011 signals the right direction of impact but a higher p-value of the RGDPGR indicates that the change in Real GDP growth rate is not significant in predicting NPL.

The coefficient of LnCPI is found to be negative and significant at 1 percent. It indicates that CPI has a significant inverse relationship with NPL. It can also be inferred that a 1 percent increase in CPI will lead to a 1.14 percent decrease in the NPL of overall commercial banks.

In the short run, the coefficients of one-period and two-period lags of NRBPR are found to be negative and statistically significant. This indicates that the NRB policy rate harms NPL in the short run. On the other hand, the coefficient of NRBPR is positive and statistically significant in the long run. It can be inferred that for every 1 percent increase in NRB policy rate, the NPL of overall commercial banks increases by 7.6 percent. This indicates a strong and positive impact of the NRB policy rate on NPL in the long run.

There is a significant and negative impact of inflation on Non-Performing Loans of commercial banks in Nepal. Additionally, it is found that there is a negative impact on the Real GDP growth rate, but it cannot significantly predict the NPL of commercial banks in Nepal. Also, it is found that there is a positive and significant impact of the NRB Policy rate on NPL. Moreover, macroeconomic variables NRB policy rate, and inflation, strongly impact the Non-Performing Loans of commercial banks in Nepal. The study suggests that it is necessary to reduce NPL for the sound financial health of the economy. There are different determinants leading to high NPL in Nepal. One originated through NRB policy and the remaining originate from the fiscal part. So, it needs a conscious and coordinated effort to manage the NPL in Nepal from monetary as well as fiscal domain.

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