

HIGHLIGHTS OF NEPAL MONETARY POLICY

FY 2077/78 (2020/21)

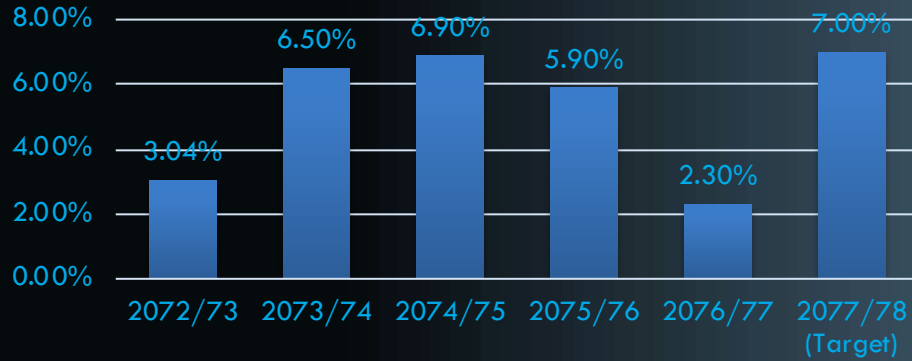


Table of Content

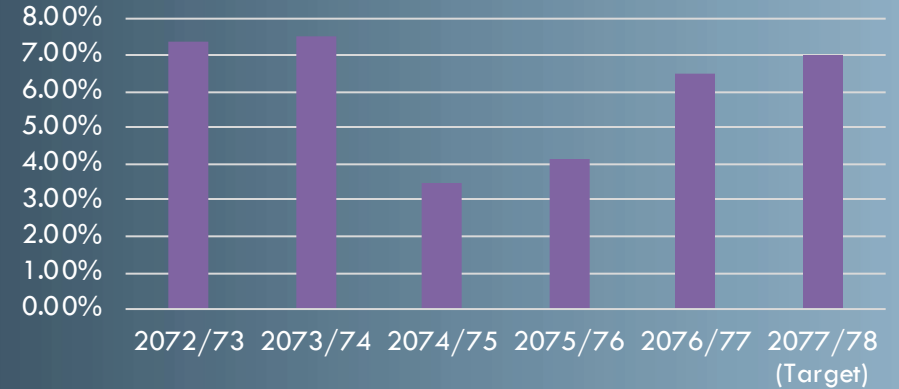
Economic Outlook	3
Economic & Monetary Target	4
Operating Target and Instruments	5
Economic Growth	6
Banking Sector Situation	7
Capital Market Situation	7
Special Program aimed at Economic Recovery	8
Mergers & Acquisitions	9
Agriculture Sector Loan	9
Energy Sector Credit	10
Tourism sector & SME loan	11
Concessional Loan	11
Miscellaneous	11
Regulation and Supervision	12
Payment System	13
Foreign Exchange Management	14
Others	14

ECONOMIC OUTLOOK

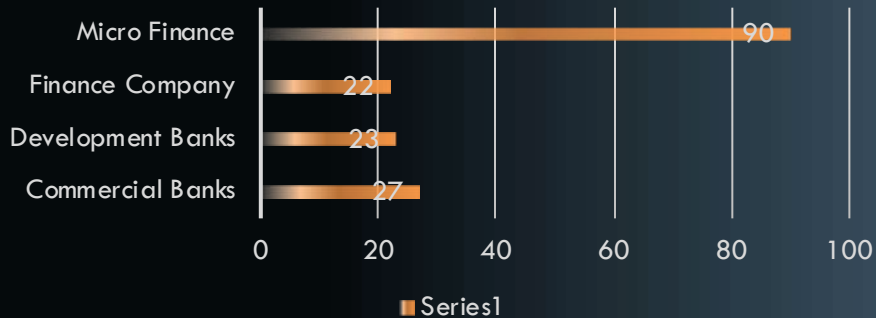
GROWTH RATE



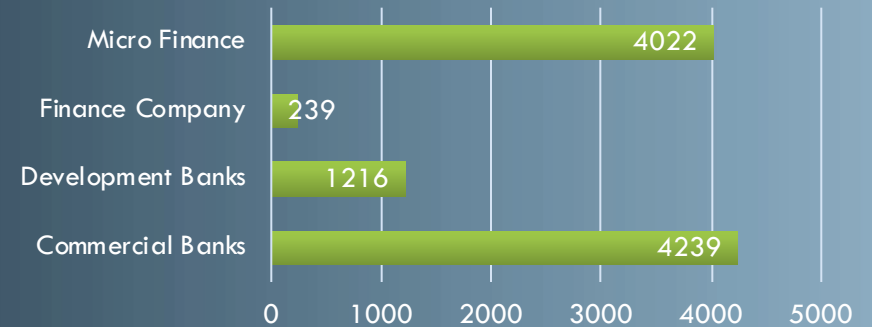
INFLATION RATE



NUMBER OF BANKS



NUMBER OF BRANCHES



ECONOMIC & MONETARY TARGET



Monetary policy has targeted to keep the inflation within 7% in FY. 2020/21.



Foreign exchange reserves will be maintained to cover imports of goods and services at least for 7 months in FY.2020/21, which was also 7 months in FY. 2019/20.

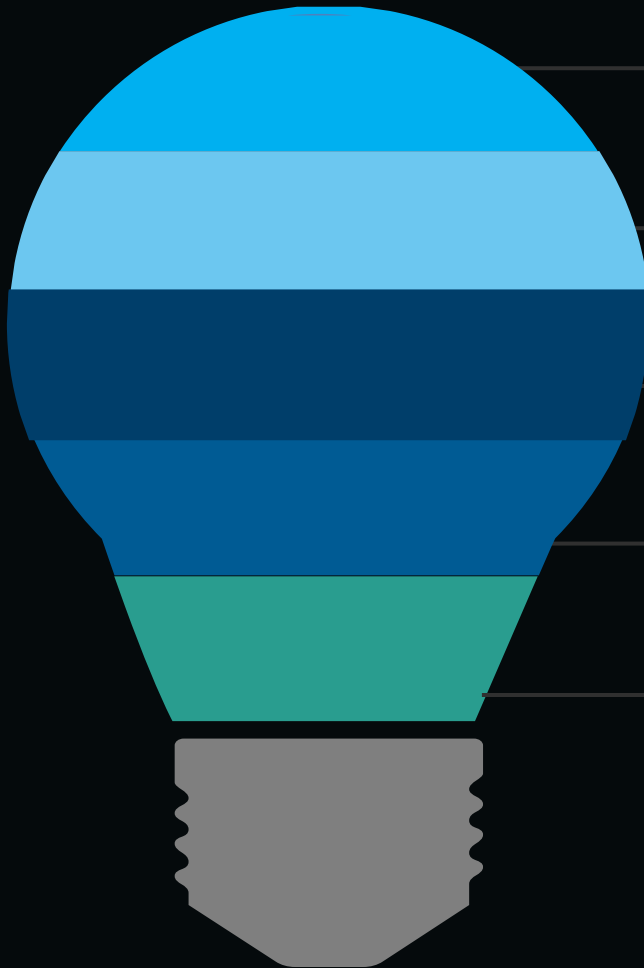


While keeping economy's revival as the priority, Liquidity Management will be carried out to achieve the target economic growth.



The nominal GDP has been taken as the basis for monetary projection. Given this, the limit for the growth of broad money (M2) has been set at 18%. Further, 20% limit has been set for private sector lending in FY 2020/21.

OPERATING TARGET & INSTRUMENTS



1

The existing Standing Liquidity Facility (SLF) rate as the upper bound of the Interest Rate Corridor has been kept unchanged at 5% and the deposit collection rate as the lower bound has been reduced to 1%. Further, Repo Rate as the policy rate has been reduced to 3% from 3.5%.

2

The cash reserve ratio to be maintained by the BFIs has been kept unchanged at 3%. CCD Ratio has been increased from 80% to 85%.

3

Statutory Liquidity Ratio (SLR) has been kept unchanged at 10% for commercial banks, 8% for development banks and 7% for finance companies.

4

The bank rate, applied for the purpose of Lender of Last Resort (LOLR) facility, has been kept unchanged at 5%.

5

Long-term repo facility will be provided as per the need to provide additional liquidity required for economic recovery.

ECONOMIC GROWTH

- According to the preliminary estimate of the Central Bureau of Statistics, the economic growth achieved in the FY 2076/77 was limited to 2.28%. The growth rate of agriculture sector is estimated at 2.6 %, industrial sector at 3.2% and service sector at 2%.
- In FY 2076/77, it is estimated that the Gross Domestic Savings (% of GDP) was 18.1% and the Gross National Savings to be 46%. In the previous year, these ratios were 19% and 48.9 % respectively.
- In FY 2076/77, the ratio of GDP to total fixed capital formation is estimated to be 28.1% and GDP to total capital formation to 50.2%. In the previous year, these ratios were 33.7% and 56.6% respectively.
- Annual point-based consumer price inflation stood at 4.54% in Jestha, 2077. In the eleven months of FY 2076/77, the average consumer price inflation stood at 6.28%. Such inflation was 4.51% in the corresponding period of the previous year.
- In the eleven months of FY 2076/77, exports increased by 0.2% to Rs. 88 Billion and imports declined by 15.3% to Rs. 1100.81 Billion. The trade deficit improved by 16.4% while the remittance inflow decreased by 3% to Rs. 774.87 Billion during the review period.



BANKING SECTOR SITUATION

- In the eleven months of FY 2076/77, deposit mobilization of BFIs increased by 13.3% to Rs. 3,666.62 Billion during the review period.
- In the eleven months of FY 2076/77, credit to BFIs increased by 10.7 % to Rs. 3172.98 Billion during the review period.
- The capital adequacy ratio of Commercial banks stood at 13.4 %, Development banks at 13.4% and Finance companies at 18.7% as on Jestha, 2077.
- The Non Performing Loan ratio of BFIs has increased from 1.52% in Ashad end, 2076 to 1.81% in Chaitra end, 2076.
- As on Jestha, 2077, the Paid-Up Capital of BFIs (including MFIs) increased by 8.2% to Rs. 349.59 Billion.
- The provision of Countercyclical Buffer to maintained by BFIs has been postponed.

CAPITAL MARKET SITUATION

- The NEPSE index that stood at 1,259 in Ashad end, 2076 has stood at 1,362.34 in Ashad end, 2077. Similarly, the market capitalization increased from Rs. 1,567.50 Billion in Ashad end, 2076 to Rs. 1,792.76 Billion in Ashad end, 2077.
- Commercial banks have been encouraged to mobilize financial instruments by issuing long-term bonds. In the eleven months of FY 2076/77, total 17 commercial banks and 2 finance companies issued Rs. 45.25 Billion, which has been approved by NRB for issuance of bonds.
- BFIs have a debt of Rs. 54.29 Billion in Jestha end, 2077.



SPECIAL PROGRAM AIMED AT ECONOMIC RECOVERY

Refinancing facility:

- The monetary policy has increased the refinancing facility. The process of getting such facility has also been made easier. Refinancing facility can be provided up to 5 times of existing Refinancing fund .
- Arrangement has been made to provide up to 20% of the total refinancing provided by NRB on the basis of customer valuation. In addition, up to 70% will be provided through commercial banks, development banks and finance companies and up to 10% through microfinance financial institutions.
- BFIs will be provided special refinancing in specified areas including export-oriented industries and sick industries at 1% interest rate, micro-domestic and small enterprise refinancing at 2% interest rate and general refinancing in specified areas at 3% interest rate. In such refinancing, the borrower has to pay only 3%, 5% and 5% interest respectively.
- NRB shall provide 80% of refinancing amount to BFIs. In the case of refinancing provided to BFIs, the limit of refinancing for small, home and small enterprises per customer is Rs. 1.5 Million, special and general refinancing limit of Rs. 50 Million and the limit of simple refinancing provided on the basis of customer valuation is Rs. 200 Million has been provided.

Extension of loan repayment period, loan restructuring and rescheduling:

- Arrangements will be made for BFIs to analyze the condition of the borrower and renew the short term capital loans including demand loan, cash credit with repayment period up to end, 2077 so that they can be repaid by Poush end, 2077.
- Arrangements will be made to repay the principal and interest installment amount on loans which are due in Ashad end, 2077
 - Loan to Profession/Business mildly affected by Covid-19: Poush end 2077
 - Loan to Profession/Business moderately affected by Covid-19: Chaitra end 2077
 - Loan to Profession/Business severely affected by Covid-19: Ashad end 2078. Further, Additional time as required will be provided for the repayment of loans in the most affected industries and businesses, including the tourism sector, which will take time to recover due to Covid-19.
- If the borrower submits a written action plan relating to the active class loan by Poush end, 2077, the BFIs will analyze it and make arrangements to restructure and reschedule the loan once and for all by charging minimum 10% interest.
- If it is not enough to restructure the loan extended in the most affected areas through restructuring and rescheduling, arrangements can be made to coordinate with the concerned agencies as per the need to restructure the loan through Private Equity, Venture Capital, Debt Equity Conversion, Special Purpose Vehicle.

- Arrangement will be made to capitalize the interest matured during the grace period of the loan having disbursed in the infrastructure project under construction by Poush End 2077 in case of pre-approved loan from NRB for such capitalization.
- In case of failure to complete the operation of the industry or project within period due to Covid-19, grace period will be extended in maximum 2 years in case of tourist level hotel, 1 year in case of loan in highly affected area, 9 months in case of loan in moderately affected area and 6 months in case of loan in low affected area.
- Arrangements will be made to extend the loan provided by Microfinance due on End 2077 up to a maximum of six months by assessing the need of the borrower and the time it takes for the business to start.

- In order to facilitate the smooth running of the most affected industries and businesses from Covid-19, an arrangement will be made for the concerned BFIs to disburse additional loan up to a maximum of 20% of the working capital limit as per the requirement and feasibility of the project / business.
- BFIs to provide loan at 5% interest rate to operate and sustain Covid-19 affected tourism and domestic, small and medium enterprises and such other businesses, to provide salary to the employees of such affected business and for the creation of new job opportunities in those affected sectors.
- The following additional facilities will be provided from the date of commencement of joint ventures to , 2079 in addition to the existing facilities.
 - a. CRR will be discounted by 0.5 percentage point and SLR by 1 percentage point.
 - b. Institutional term deposit collection limit prescribed by this bank will be increased by 10 percentage point.
 - c. The deposit collection limit prescribed by NRB will be increased by 5 percentage point per institution.
 - d. The existing provision that a member of the Board of Directors and a high-ranking employee shall not be allowed to join any other organization licensed by NRB for at least 6 months after removal from office shall not be applicable.
- Arrangement will be made to set the loan loss provision of 0.2% and 0.6% only in first and second year of extending credit respectively to Fruit farming Business such as Mango, Orange, Sweet limetta, Kiwi, Dragon fruit, Lemon, Litchi, Avocado etc.
- Relaxation in loan loss provision to be provided for loans provided for silk, jute and cotton farming.

MERGERS & ACQUISITION

- BFIs will be encouraged for mergers and acquisitions. Provision will be made for merger/acquisition of BFIs with cross holding. Prescribed additional facilities up to Ashad End, 2079 along with existent facilities will be provided to the BFI's starting joint operation by Ashad End, 2078 as per policy provisions of merger/acquisitions.
- Arrangements will be made to merge the BFIs promoted by the same person / group and under the direct or indirect ownership / control of a single family and business group and established business relations.

AGRICULTURE SECTOR LOAN

- Agriculture sector being the livelihood for the majority of the population and the main source of income and employment generation, arrangement shall be made requiring the Class "A" BFIs to extend at least 15% of their total credit to the agricultural sector by Ashad end, 2080.
- Agriculture Development Bank will be established as "Lead Bank" in Agricultural Sector. Further, in order to simplify the availability of Long term Financial instrument in Agricultural sector, an arrangement will be made to issue Agricultural Bond by Agriculture Development Bank.
- An arrangement will be made to provide "Kisan Credit Card" to Farmers by Agriculture Development Bank. Credit swap of agricultural loan to be simplified



ENERGY SECTOR CREDIT

- Arrangements will be made for commercial banks to invest the minimum 10% of your total loan investment in the energy sector by Ashad end, 2081.
- Arrangements will be made for the commercial banks that have gained investment experience in the energy sector to issue energy bonds.
- Arrangement will be made for the BFIs to extend loan to power project by adding only 1% point to the base rate for 5 years after the start of export if such power project is constructed and exported.
- In order to encourage investment in reservoir based hydropower projects, an arrangement will be made for such projects to get loan by adding only 1% point to the base rate.
- Arrangement will be made to partially capitalize the interest amount until the transmission line is constructed and is in operational stage in case of projects which could not be operated at full capacity due to non-construction of transmission line even after completion of hydropower project.

TOURISM SECTOR & SME LOAN

- Priority will be given to the flow of working capital, concessional loans and refinancing facility for the revival of aviation business, transportation, hotel, restaurant and other tourism enterprises which have been severely affected by the Covid-19 crisis.
- In case of lack of capital to complete the construction of projects related to the tourism sector, provision will be made for easy availability of loan from BFIs for such projects.
- By Asadh End 2081, arrangements will be made to disburse loans of less than Rs. 10 Million to a minimum of 15% of the total loan investment in Small, Cottage & Medium Enterprise sectors by commercial banks.

CONCESSIONAL LOAN

- Concessional loans will be available to borrowers at 5% interest rate in the areas specified by BFIs.
- For maintaining province wise balance of Concessional Loan,
 - Commercial Banks to provide concessional loan as- Higher of minimum 500 loans or 10 loans per branch
 - Development Banks to provide concessional loan as- Higher of minimum 300 loans or 5 loans per branch

MISCELLANEOUS

- Arrangement will be made for the Development Bank and Finance companies to disburse at least 20% & 15% of its total loan investment to the specified sectors including agriculture, micro, cottage and small enterprises, energy and tourism by Ashad end, 2081.
- The loan security value ratio will be fixed at 60% for the under construction housing project approved by the Government of Nepal to be operated by a licensed real estate entrepreneur and for private housing loan to be given to an individual for construction of first house.
- In case of real estate loan, the existing provision of 40% for loan within the Kathmandu Valley and 50% for other places has been kept unchanged.
- Arrangement will be made to increase the loan security value ratio for loans of margin nature to be provided against share from existing 65% to 70% after evaluation by the concerned financial institution.
- The valuation of shares in case of margin lending against shares done on the basis of the average price of the last 180 days or the prevailing market price of the stock whichever is less has been changed to average price of the last 120 days or the prevailing market price of the stock whichever is less.
- The BFIs can declare and distribute cash dividend only upto 30% of net distributable profit of the FY 2076/77 (not exceeding the weighted average interest rate of the deposit maintained by the said institution in Ashad end, 2077). However, the distribution of cash dividends of the banks with a net distributable profit of less than 5% of the total paid up capital will be prohibited.



REGULATION & SUPERVISION

- The provision for non-maintaining of regulatory reserve for recovery of interest up to 15 days after fiscal year end has been extended to 90 days.
- The time period for commercial banks to issue Debentures of at least 25% of their paid up capital by Ashad 2077 will be extended to Ashad 2079.
- Arrangements will be made to determine the risk weight of the loan on the basis of the rating given by the licensed credit rating agency.
- The loan falling under pass category in Poush end, 2076 shall be classified under pass category and 5% loan loss provision shall be made in the FY 2076/77 if repayment of principal & interest is not made in time as a result of Covid-19.
- From the FY 2077/78, the provision of Basel III will be implemented in parallel with the national level development banks.

For Microfinance:

- The licensing of microfinance financial institutions has been suspended. The licensing process of microfinance institutions in the process of licensing has also been cancelled.
- The maximum interest rate charged by MFIs to their customers will be maintained at 15%. The determination of interest rate in microfinance financial institutions will be made more systematic by fixing the base rate calculation method.
- Arrangement will be made to publish the financial statement of the FY 2077/78 in accordance with the Nepal Financial Reporting Standards(NFRS) for the institutions that have been approved to disburse wholesale loans and collect deposits from the general public.





PAYMENT SYSTEM

- All types of financial transactions will be encouraged through electronic means as per the Digital Nepal Framework implemented by the Government of Nepal.
- National Payment Switch will be established to further facilitate the payment system by keeping records of all types of electronic transactions within Nepal.
- The issuance of new permits has been postponed in addition to the earlier in-principle consent to operate payment service operators and payment service providers.
- Arrangement will be made to revoke the permission provided to Payment Service Provider (PSP) if it fails to reach at least 300,000 customers by Ashad end, 2078 and if the average monthly transaction number does not reach at least 600,000.
- Guidance will be issued to manage the electronic payment system mechanism through Quick Response (QR) Code.
- Government bonds will be dematerialized in coordination with the concerned agencies to manage the transactions of government bonds.

FOREIGN EXCHANGE MANAGEMENT

- The Limit of Foreign Money Exchange during import as per provisions related to DAP and DAA shall be kept at 50,000 USD.
- The limit of Foreign Money Exchange during import from third country via draft or TT shall be increased to 35,000 USD from 30,000 USD.
- The period of the Letter of Credit for the import shall be increased from 120 days to 180 days.
- The due date of issuance of advance payment certificate shall be increased from 1 month to 4 months.

OTHERS

- The remuneration and facilities of CEOs and other high ranking officers of bank and financial institutions shall be reviewed and criteria will be formulated for determining the meeting allowance and facilities of the Board of Directors.
- In order to make the services taken by the BFs more systematic and transparent, the commercial banks, development banks, finance companies and microfinance finance institutions can charge service fee up to a maximum of 0.75%, 1%, 1.25% and 1.5%, respectively during sanctioning of loan.
- Arrangement will be made not to charge penalty interest, fee or compensation from the customer if the payment period of capital or interest is extended due to Covid-19.
- Arrangement shall be made to waive off any charges for using the ATM Card of one organization at the ATM of another organization until the impact of Covid-19.



Disclaimer:

The information contained in this document is compiled by NBSM and is exclusively for the information of its clients and staffs. However the detail study is recommended before taking any decisions on the matters contained herein.

NBSM Consulting Private Limited

Four Square Complex
Narayan Chaur, Naxal, Kathmandu, Nepal
T : 977-1-4433069 | 4415242
E : info@nbsm.com.np
W: www.nbsm.com.np

Member of Moore Global Network