

# HIGHLIGHTS OF NEPAL MONETARY POLICY

FY 2079/80 (2022/23)

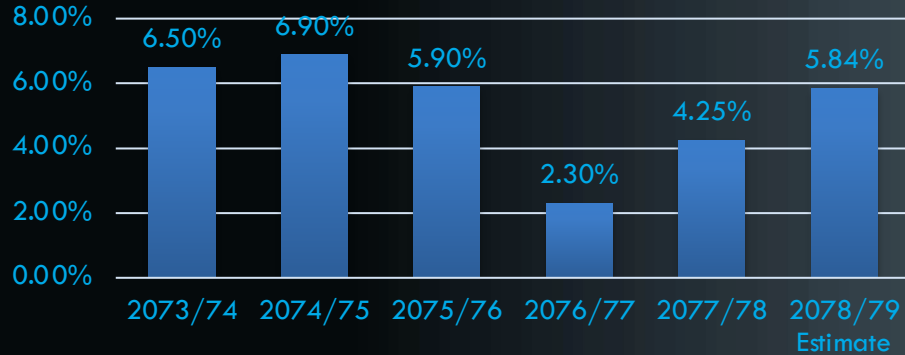


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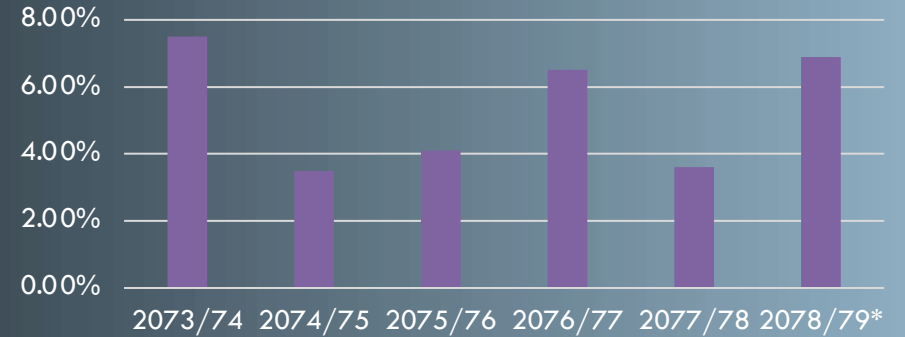
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# ECONOMIC OUTLOOK

## GROWTH RATE

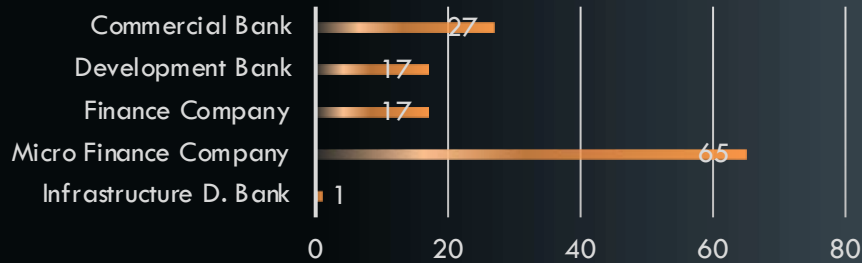


## INFLATION RATE



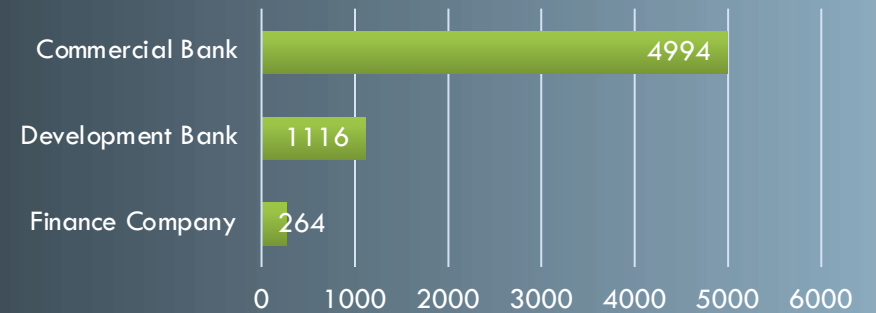
\*Average inflation of last 11 months(i.e. upto Jestha 2079)

## NUMBER OF BANKS



As at Jyestha End 2079

## NUMBER OF BRANCHES



As at Jyestha End 2079

## ECONOMIC & MONETARY TARGET



Pursuant to Budget Speech, it has been targeted to keep the economic growth rate at 8% whereas inflation within 7% in FY. 2079/80.



The ability of foreign exchange reserves to support the import of goods and services and inflation will be considered as the main basis for determining the policy rate. Foreign exchange reserves will be maintained to cover imports of goods and services at least for 7 months in FY.2079/80, which was 6.73 months in FY. 2078/79.

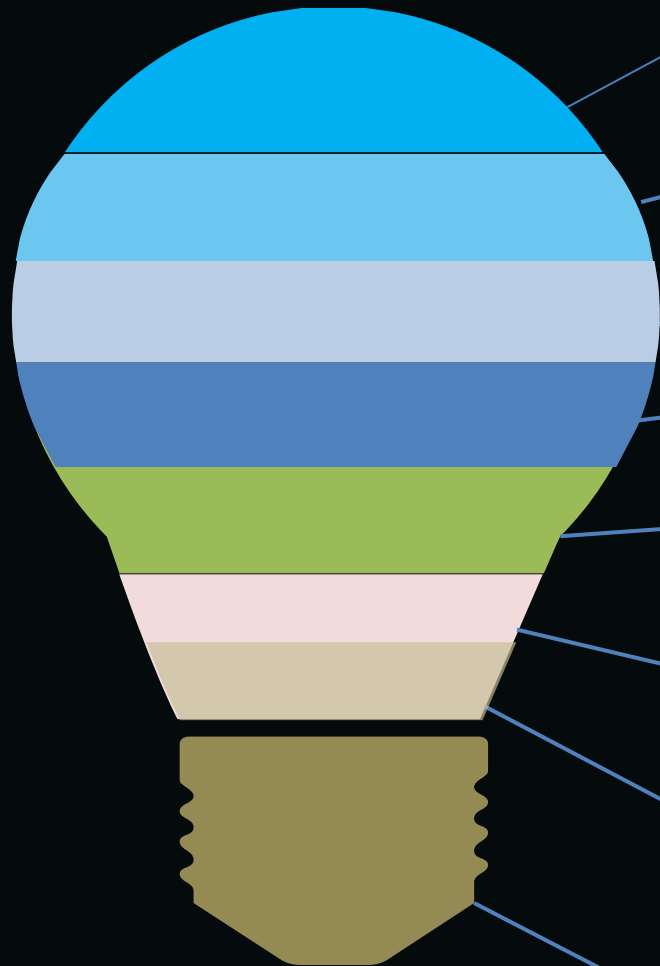


Monetary policy has been designed in order to promote macro economic stability while maintaining price and external sector stability. Priority for credit flow has been given to productive sector for economic growth of the country.



Liquidity will be managed by conducting open market transaction based on the status of operating targets. Weighted average interbank interest rate between banks and financial institutions has been continued as an operational target while strengthening interest rate as a means of disseminating monetary policy. The growth of comprehensive money lending is expected to be 12% and the growth rate of loans to the private sector is expected to be 12.6% in the FY 2079/80.

## MONETARY MEASURES



1

By considering the stress on foreign exchange reserve and for macro economic stability, rates under the interest rate corridor have been increased by 1.5% to maintain the bank rate at 8.5%, policy rate at 7%, and deposit collection rate at 5.5%.

2

If the weighted average interest rate of interbank transactions differs from the policy rate by more than 2% points, arrangements will be made to open repurchase option/reverse repurchase option. In case the weighted average interest rate of interbank transactions decreases by more than 3% points compared to the policy rate, arrangements will be made to open deposits.

3

Pursuant to arrangement made in Budget Speech open market transaction stabilization funds will be arranged and implemented in order to enhance the effectiveness of liquidity management.

4

Existing Intraday Liquidity Facility (ILF) provided by NRB to banks and financial institutions on the collateral of government bonds will be made available for overnight period at the bank rate.

5

BFIs will be provided permanent liquidity facilities at the bank rate for a maximum period of 5 days on the collateral of the bonds specified by this bank, provided that the outstanding balance of the total deposits in the domestic currency of the respective institutions at the end of the previous week is not more than 1 %. This arrangement will be implemented by making necessary amendments to the existing procedures

6

BFIs that are unable to manage the necessary liquidity through the interbank market, daily liquidity facility, open market transactions and permanent liquidity facility will be provided with the Lender of Last Resort Facility - LOLR by adding a penalty rate of 2% points to the bank rate if requested by that institution. Procedures yet to be issued.

7

Mandatory Cash Reserve Ratio (CRR) to be maintained by BFIs has been increased by 1% with effect from mid-August 2022 to 4%.

8

Statutory Liquidity Ratio (SLR) has been kept at 12% for commercial banks, 10% for development banks and finance companies by Mid- January 2023.

## ECONOMIC GROWTH

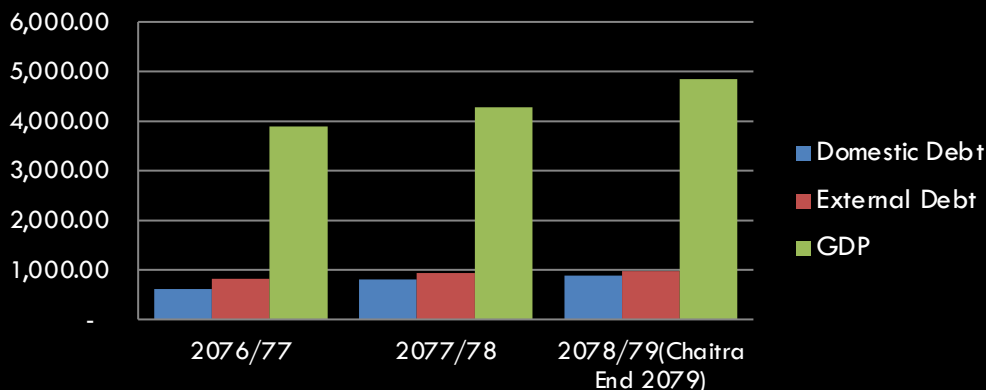
- For the F.Y. 2021/22, it is estimated that the Gross Domestic Savings (% of GDP) is 9.27% and the Gross National Savings is 31.95%. In the previous year, these ratios were 7.71% and 33.3 % respectively.
- For the F.Y. 2021/22, the ratio of GDP to total fixed capital formation is estimated to be 29.37% and GDP to total capital formation to be 37.45%. In the previous year, these ratios were 29.85% and 35.78% respectively.
- Annual point-based consumer price inflation stood at 8.56% in Mid-June 2022. In the FY 2021/22, the average consumer price inflation for the eleven month stood at 6.09%. Such inflation was 3.60% for the previous year.
- In the eleven months of FY 2021/22, exports increased by 53% to Rs. 185.84 Billion and imports increased by 27.5% to Rs. 1763.22 Billion. The trade deficit increased by 25% to Rs. 1577.4 Billion. Also, the remittance inflow increased by 3.77% to Rs. 904.20 Billion during the review period.
- The foreign currency reserve has been decreased by 19.30% to USD 9.45 Billion compared to USD 11.71 Billion of previous year.



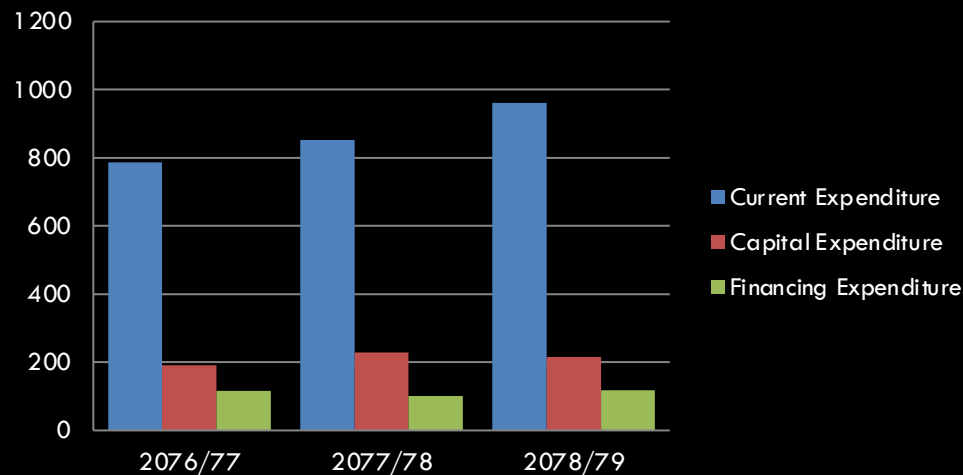
## GOVERNMENT EXPENDITURE, TAXES & INTERNAL DEBT

- Pursuant to Report published by Financial Comptroller General Office on Shrawan 01, 2079, total expenditure of Federal Government in FY 2078/79 was Rs. 1296.24 Billion. Out of this, current expenditure is Rs. 961.47 Billion, Capital Expenditure is Rs. 216.37 Billion and Financing Expenditure is Rs. 118.40 Billion.
- In FY 2078/79, Total Tax collection is Rs. 1067.96 Billion.
- During the FY 2078/79, mobilization of total domestic borrowing amounted to Rs. 231.30 Billion which is 4.8% of GDP. In the review year, the principal repayment of domestic debt amounted to RS. 47.33 Billion. Therefore, in the FY 2078/79, RS. 183.97 Billion net domestic debt has been mobilized.
- As on Ashad end 2079, total internal debt of the Government of Nepal increased by 22.9% and reached 984.28 Billion. Such debt was Rs. 800.32 Billion in the previous year.
- As on Chaitra end 2078, total external debt of the Government of Nepal is Rs. 976.46 Billion. Such external debt was Rs.934.10 Billion as on Ashad end 2078.

### Debt and GDP Comparison (Rs. in Billion)



### Expenditure of GON (Rs. in Billion)



## BANKING SECTOR SITUATION

- In the eleven months of FY 2078/79, deposit mobilization of BFIs increased by 5.7% to Rs. 4,928.50 Billion during the review period.
- In the eleven months of FY 2078/79, credit to BFIs increased by 13.5 % to Rs. 4637.50 Billion during the review period.
- As of Chaitra end 2079, average non-performing loans in respect of commercial banks, development banks and finance companies stood at 1.32%, 1.49% and 7% respectively. Comparative figures for previous year stood at 1.41%, 1.30% and 6.19%.
- After the facilitation from NRB for the Merger of BFIs through the formulation of Policy, altogether 245 BFIs have been engaged in the Merger /Merger process as of 16 July 2022. Out of the total 245 institutions, licenses of 178 institutions have been revoked and a total of 67 institutions have been retained.
- Total number of branches of BFIs have reached to 11528 as on Ashad end 2079 compare to 10683 as on Ashad end 2078. Average population to branch ratio as on Ashad end 2079 has been 2532 as compared to 2844 of previous year.





## CAPITAL MARKET SITUATION

- The NEPSE index that stood at 2883.41 in Ashad end, 2078 has stood at 2009.46 in Ashad end, 2079. Similarly, the market capitalization decreased from Rs. 4010.96 Billion in Ashad end, 2078 to Rs. 2869.34 Billion in Ashad end, 2079.
- In FY 2078/79, SEBON has approved the issue of debentures, ordinary shares, right shares and mutual fund units of NPR 11.28 Billion, 6.90 Billion, 6.51 Billion and 3.46 Billion, respectively making the total issue of Rs. 28.15 Billion.
- In FY 2078/79, seven commercial banks and one development bank have obtained approval from SEBON for the issuance of debentures of Rs. 10.88 Billion and 0.40 Billion respectively.
- The total amount of debenture injected in Capital Market up to Jestha end 2079 has been Rs. 123.76 Billion .
- An individual or institution can take margin loans against the collateral of shares maximum up to Rs. 120 million from one financial institution or from the entire financial institutions. Provision for margin loans shall be removed once the regularization and systematic process through the stock broker is established.
- Risk weight of loan against share will be kept at 100% for loan up to Rs. 2.5 million and 150% for loan above Rs. 2.5 million.
- Existing provisions as issued from NRB regarding the suspension of securities transactions at the time of merger and acquisitions of BFLs will be repealed and provisions will be made in accordance with the regulations of the Securities Board.



## SUMMARY OF THE PROVISION FOR BANK AND FINANCIAL INSTITUTION

### AGRICULTURAL LOAN

- Agriculture sector being the livelihood for the majority of the population and main source of income and employment generation, arrangement shall be made requiring commercial banks to extend at least 12%, 13%, 14% and 15% of their total credit investment to the agriculture sector by Ashad end 2079, 2080, 2081 and 2082 respectively. In the Chaitra end 2078, commercial banks have extended 12.28% of total credit to the agriculture sector amounting to Rs. 490.15 Billion.
- Premium for the loan availed up to 1 crore to agricultural, handicraft and skill based businesses shall not exceed 2 % above the base rate.

### ENERGY SECTOR LOAN

- Commercial banks are required to extend at least 6%, 7%, 8% & 10% of the total credit investment for the development of the energy sector by Ashad end 2079, 2080, 2081 & 2082 respectively. In the Chaitra end 2078, commercial bank have extended loans amounting to Rs. 220.8 Billion to energy sector which is 5.51% of total credit .

### MICRO, COTTAGE, SMALL AND MEDIUM SCALE INDUSTRIES LOAN

- Commercial banks are required to extend loans of at least 11%, 12%, 13% and 15% of the total credit investment to the micro, cottage and SMEs sector by Ashad end 2079, 2080, 2081 and 2082 respectively. Such loan shall not exceed Rs. 10 Million and also shall include loan provided to under privileged community.

- Development Banks are required to extend loan of at least 17%, 19% and 20% of the total credit investment to the agriculture, micro , cottage and SMEs, energy and tourism sector by the end of Ashad end 2079, 2080 and 2081 respectively. Development banks have extended loan of Rs. 111.92 Billion (26.62% of total credit investment) as on Chaitra end 2078 to such sectors.
- Finance companies are required to extend loan of at least 12%, 14%, and 15% of the total credit investment to the agriculture, micro, cottage and SMEs, energy and tourism sector by Ashad end 2079, 2080 and 2081 respectively. Finance companies have extended loan of Rs. 16.15 Billion( 21.92% of total credit investment) as on Chaitra end 2078 to such sectors.

### REFINANCING AND CONCESSIONAL LOAN

- As per the amendment in Nepal Rastra Bank Refinance Procedure 2077, the specified industries affected by Covid 19 pandemic are prioritized while granting refinancing facilities. In the FY 2078/79, refinancing of Rs. 115.68 Billion of 24,305 borrower has been approved. The total amount of Rs. 111.96 Billion has been utilized in refinancing investment as on Ashad end 2079
- Under the concessional credit program, Government of Nepal sanctioned loan at concessional rates to promote output, generate employment and develop entrepreneurship. 60,618 loans of Rs. 139.84 Billion to agriculture and animal husbandry business, 83,669 loans of Rs. 72.38 Billion to female entrepreneur and 2,860 loans of Rs. 3.69 Billion to other remaining head has been sanctioned.
- To facilitate the business continuity of tourism, domestic and SME businesses affected by the Covid 19 pandemic, the total loan of Rs. 1.15 billion has been approved as on Jestha end 2079 for the salary payment to employees of such sectors.

## REGULATION & SUPERVISION

- BFs were required to maintain a Credit Deposit Ratio (CD) of 90% by Ashad end 2079. However, CD ratio maintained at 86.22% as on Ashad end 2079.
- Premium for the loans availed up to 1 crore to agriculture, handicraft and skill based businesses shall not exceed 2% above the base rate.
- Provision for the consideration of loans up to NPR 2 million extended to agriculture business against collateral to commence the agricultural project and to female entrepreneurs against collateral to commence micro industry and self-employment project under deprived sector lending has come into effect. Similarly, vehicle loans up to NPR 2.5 million extended with a view to creating self employment shall also be considered as deprived sector lending. BFs have extended 7.88% of total credit investment to the deprived sector as of Chaitra end 2078.
- Institutions except BFs facilitating payment services or arranging payment systems are required to submit returns of transactions of suspicious nature and transactions above the prescribed limit to the Financial Information Unit.
- Arrangements have been made so as to facilitate the commercial banks to utilize deposits collected in convertible currency from Non Resident Nepali (NRN) or foreign-based institutions associated with NRN and repatriation in accordance with prescribed guidelines.
- Digital Lending Guideline has been implemented with a view to bringing ease to the loan sanction process, reduction in the cost of lending and extending credit facility.
- The Retail Payment Switch has been put into operation in the first phase as part of the work of establishing a national payment switch in order to streamline and documents the payment transactions within Nepal by maintaining interoperability between electronic payment devices and to bring Nepal's own payment card into use.
- A provision has been implemented that the application for citizen savings certificate and foreign employment savings certificate can be made through online means.

## FINANCIAL SECTOR REFORMS AND REGULATORY PROVISION

- Necessary review will be done on the regulatory arrangements such as loan restructuring and rescheduling, interest capitalization, dividend distribution, etc. adopted to speed up the economic revival during the COVID pandemic.
- Financial Sector Stability Review- FSSR is being conducted with the help of International Monetary Fund. The recommendation obtained from the report will be gradually implemented to maintain financial stability including the improvement of quality of loans in the financial sector.
- Necessary arrangements will be made to implement the Countercyclical Capital Buffer which was postponed during the Covid 19 pandemic i.e. FY 2076/77. A study will be conducted regarding the implementation of the said provision on a regional basis.
- Commercial banks and microfinance financial institution merged within their own categories or acquired by the Poush end 2079 conducting joint operation will be provided rebates and facilities related to merger and acquisitions provided by NRB.
- Large Exposure Framework will be prepared for the identification of the borrowers utilizing large-scale loans. The existing limit on single customer loans will be reviewed.
- Macro Stress Testing Framework will be prepared and implemented to test the pressure on the banking sector due to fluctuations in macroeconomic variables.
- Arrangements will be made to ensure non-chargeability of the penal interest in case of the loan up to Rs. 50 million from BFIs availed for running businesses if the payment of the principal amount of loan along with interest up to the period of Ashad end 2079 is done by the Ashoj end 2079.
- While disbursing loans to the private sector for the construction of information and technology and industrial parks, an arrangement will be made to determine the interest rate by adding a maximum of 2% premium to the base rate.
- There will be a gap in the interest rate of credit extended toward productive sectors and commercial sectors. As of now, banks and financial institutions will be allowed to determine the interest rate by adding a maximum of 2% points of premium to the base rate when extending credit up to Rs. 20 million on the productive sectors.
- Arrangements will be made for BFIs required to maintain the ratio between loan amount and the fair market value of mortgage security at a maximum of 30% inside Kathmandu valley and at a maximum of 40% in the case of other places wherein the home/land as kept as collateral when providing working capital loans without a specific purpose, mortgage loans, property loans, personal term loans.
- Nepal Infrastructure Development Bank established to invest in the infrastructure sector will be encouraged to increase the paid-up capital through mergers and acquisitions with other financial institutions established and operating in order to invest in the infrastructure sector itself.
- An individual or institution can take margin loans against the collateral of shares maximum up to Rs. 120 million from one financial institution or from the entire financial institutions. Provision for margin loans shall be removed once the regularization and systematic process through the stock broker is established.
- A draft of Green Taxonomy will be prepared, including issuing green bonds, climate risk reporting, identifying capital needs, etc. to encourage Green Financing.



## PAYMENT SYSTEM

- Continuation has been provided for the activities related to electronic payment transaction. Necessary institutional coordination shall be provided in order to celebrate FY 2079/80 as the year of promotion of the electronic payment transaction. Studies regarding the establishment of innovation center or regulatory sandbox shall be done.
- The existing laws and rules shall be reviewed for the merger of one or more authorized payment system organization and FDI on such organization.
- Various payment cards issued by authorized BFIs shall settle the transaction within Nepal and security deposit for such shall be issued in Nepalese currency. Necessary provision shall be made for such.
- Security guidance on cyber and information technology shall be issued for the Institution having approval of operating payment transaction.

## FINANCIAL LITERACY AND FINANCIAL INCLUSION

- A Financial Inclusion Index will be prepared to measure the actual status of financial access in the context of expanding the scope of the financial sector in Nepal.
- Financial Literacy Framework, 2022 will be prepared covering the guidelines issued for financial consumer protection, digital financial literacy and financial literacy training. Financial literacy will be introduced in the curriculum of schools and colleges by coordination with Ministry of Education.

## FOREIGN EXCHANGE MANAGEMENT

- Necessary amendments in Foreign Investment and Foreign Loan Management Byelaws, 2078 shall be made in order to simplify the process of automation of the foreign investment flows, support foreign investment, simplification in the process of repatriation of branch office's profit and repatriation to other countries etc.
- Existing policy regarding derivatives will be reviewed to ease in process of mobilization of foreign currency loans from foreign countries by BFLs for the purpose of managing foreign exchange risk.
- To widen the scope of remittance flow into Nepal from Nepali citizens, foreign citizens and overseas organizations/associations, the existing arrangements related to remittance will be reviewed.
- Nepali citizens going abroad for foreign employment shall be required to have compulsory bank account to get foreign currency equivalent facilities. In addition to this, Nepali citizen will get various services and facilities from GON based on evidence to prove that remittances were brought in through formal means. For this necessary coordination will be done with related agencies.
- Appropriate policy and arrangements shall be made in order to facilitate remittance from electronic and digital card issued by foreign BFLs directly into cards issued by Nepali BFLs (card to card).
- Necessary policy arrangements shall be made for encouraging the export of information technology and other services to bring in foreign currency.
- The existing system of maintaining a cash margin while issuing a letter of credit for the import of certain items shall be reviewed sequentially.
- Arrangements shall be made for implementation of the provision by BFLs such that they can issue draft, T.T. / Letter of Credit only after analyzing international market price and proforma price of concerned goods.
- Provisions for compulsory training arrangement shall be made for employees of BFLs who are involved in trade finance and credit operations for methods of import-export of goods and services, methods of payments used, country-wise challan for goods and credit analysis at regular intervals.
- To manage the risk in the foreign exchange market, NRB will conduct necessary studies/research regarding USD/NPR swap with commercial banks.



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