

MONETARY POLICY HIGHLIGHTS

FISCAL YEAR 2079/80



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MONETARY POLICY FOR THE FY 2079/80

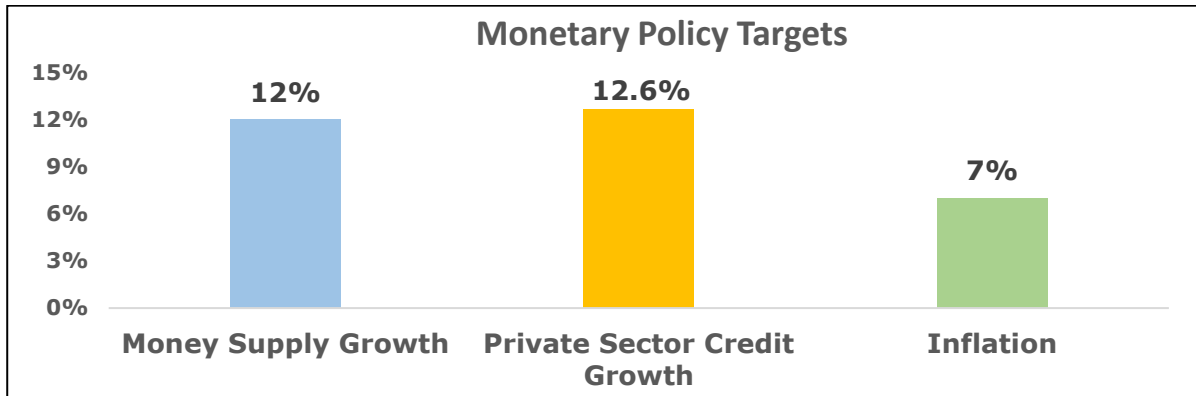
The monetary policy for the fiscal year (FY) 2079/80 was unveiled by the Nepal Rastra Bank on Friday, July 22, 2022. The current fiscal year's monetary policy is being implemented as the government deals with rising inflation, significant pressure on the current account deficit, and dwindling foreign currency reserves. A monetary policy that would provide macroeconomic stability and be in accordance with the fiscal policy addressed by the coalition government led by Sher Bahadur Deuba was sought after due to pressure in many sectors of macroeconomic indicators.

The monetary policy for the FY 2079–80 has concentrated on loan expansion toward the productive sector with a monetary policy that is cautiously restrictive, in line with the fiscal policy that focused on the productive sector growth. Various COVID-19-related relaxations will be gradually lifted, but they will be reviewed and maintained for the productive sectors, such as agriculture, export, and sectors that were hardly affected by the pandemic.

The goal of the monetary policy will be to diversify credit in micro, small, and medium-sized businesses while reducing over centralization of credit in particular sector. Monetary policy this year set to put a system in place that sets different interest rates for the commercial and productive sectors, with the latter receiving a lower interest rate.

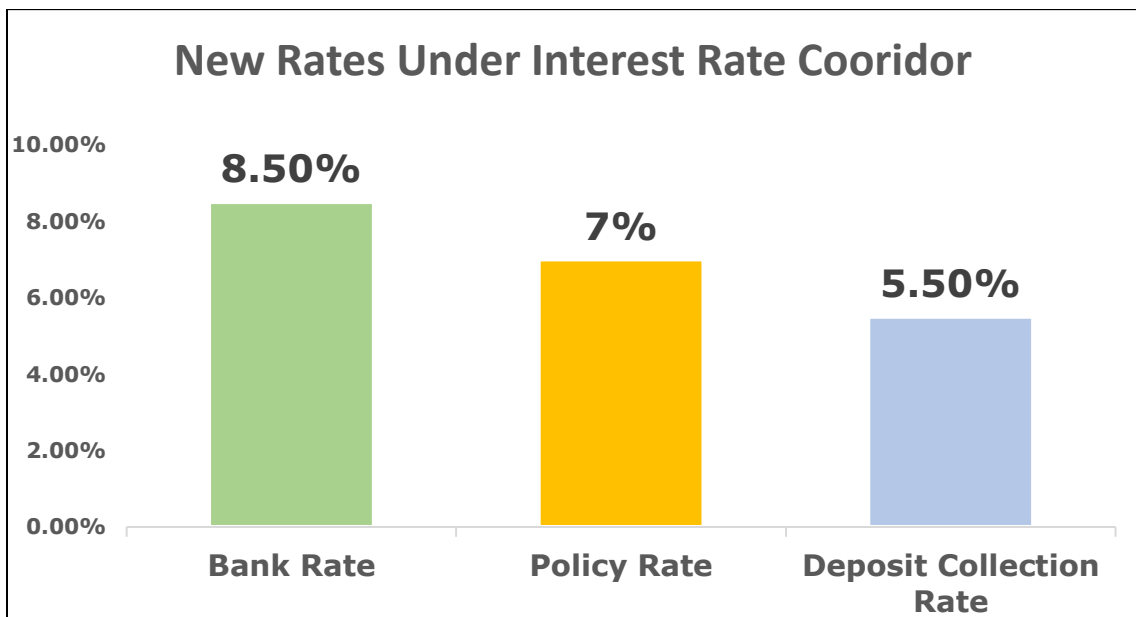
Targets of Monetary Policy

The monetary policy targets to achieve the money supply growth rate of 12 % and credit to private sector growth rate of 12.6%. Likewise, the budget of FY 2079/78 targets to achieve the economic growth rate of 8% and maintain inflation within 7%. The targeted growth rate and inflation rate are summarized below:



Monetary Measures

- Rate under the Interest Rate Corridor (IRC) increased by 1.5 %. Policy rate, IRC Rate and Deposit Collection rate are summarized below.



- If the weighted average interbank interest rate compared to policy rate is changed by ± 2 percentage points then NRB shall trigger auction of REPO/RESERVE REPO Instruments.
Likewise, if weighted average interbank interest rate decreases by more than 3 percentage points then deposit auction shall be kept open.

- Cash Reserve Ratio has been increased by 1 percentage point. Banks & Financial institution shall maintain a CRR of 4% which is to be made effective from Bhadra 1st, 2079.
- By the end of Poush 2079, commercial banks should maintain a Standing Liquidity Ratio (SLR) of 12% whereas development banks, and finance companies should maintain a Standing Liquidity Ratio (SLR) of 10%.
- Standing Liquidity Facility (SLF) facilities will be provided to bank and financial institutions on bank rate based on the total deposit liability of respective BFIs. SLF facilities cannot be taken more than 1% of the total deposit liability of respective BFIs as of last week. Likewise, the time frame of SLF has been reduced to 5 days from 7 days.
- Lending of the last resort (LOLR) facility shall be provided to Bank and Financial Institutions which could not manage the liquidity requirement even through the medium like interbank market, intraday liquidity facility, open market transaction and statutory liquidity facility shall be provided Lender of Last Resort (LOLR) facility by charging 2 percentage points penal to the bank rate.
- Existing Intraday liquidity facility (ILF) provided to bank and financial institutions shall be extended to overnight by charging bank rate.

Financial Sector Reform and Regulatory Provisions

- Countercyclical buffer shall be put in place from FY 2080 Shrawan.
 - Merger and Acquisition (M&A) by Commercial Banks and Microfinance companies within their own class shall continue to receive the merger and acquisition benefits if the joint operation is started by the end of Poush 2079.
 - Debenture issued by BFI's can be counted in deposit for calculating credit to deposit (CD) ratio till Ashad end, 2080.
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- Bank and financial institution should insure the mortgaged assets in such a manner that the claim amount should cover the loan amount.
 - Enterprise availing loan amounting less than 5 Crore and are not able to pay the principle as well as interest due by Ashadh end 2079, if paid within Aswin end 2079, no any penal interest shall be levied.
 - A differential interest rate structure will be made for loans provided to productive sector and commercial sector; for the time being in sectors like food production, livestock's, fishery, export-oriented business and companies that uses 100 percent of domestic raw material can avail interest at 2 percent premium plus base rate determined by BFI's. Loan facility up to 20 million for production of consumable products, Livestock's, Fishery, Exportable products and production industry shall be provided at 2% premium rate above base rate.
 - Loan to private sector for information technology and construction of Industrial Park shall be provided at an interest rate of base rate plus 2 percent premium.
 - The Loan to value ratio (LTV) for personal type of loans with no specific purpose mentioned has been reduced to 30 percent for land inside Kathmandu Valley and 40 percent for land outside Kathmandu Valley.
 - For enhancement of investment capacity of Infrastructure development bank, infrastructure development bank is encouraged to merge or acquire the companies established with the purpose of infrastructure development to in order to enhance it's paid up capital.
 - Trading halt of shares during the process of merger and acquisition has been removed and provision bought forward by the Securities Board of Nepal (SEBON) shall be made applicable.
 - Limit of NPR 40 million on margin lending per borrower from one bank has been scrapped. However, the limit of NPR 120 million per borrower still applies.
 - Risk weight on share loan above 25 lakhs has been unchanged at 150 percent and risk weight for share loan below 25 lakhs, Risk weight has been rearranged at 100 percent.
 - To regulate the cooperatives and non-government organization involved in financial transaction NRB shall create a second tier
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regulatory & supervision department as envisaged by the 2079/80 budget.

Foreign Exchange Management

- Necessary amendments in Foreign Investment and Foreign Debt Management Bylaws, 2078 will be made in order to make flow of foreign investment more automatic, to support foreign investment and profit repatriation of branch office and repatriation to other countries to make the process less burdensome.
- In order to increase the scope of inflow of remittance in the country, the existing remittance policy will be reviewed so that it will become easier for Nepali citizens and association/ organization to receive remittance from Nepali citizens, foreign citizens and associations/ organization remitted from aboard.
- Provision of compulsory bank account for availing foreign exchange facility to persons going for foreign employment will be made applicable. Further, co-ordination with various authorities of Nepal government shall be made in order to provide the benefits to those migrant workers based on the evidence of remittance through authentic medium.
- Necessary arrangement of card-to-card remittance transfer from card issued by foreign banks to cards issued by Nepali banks shall be made.
- The existing provision of cash margin on letter of credit for import shall be gradually reviewed.
- While issuing Draft or T.T for import or while opening Letter of credit, price of the product in international market and pro forma price must be reviewed.

Refinance and Concessional Loans

- Refinance facility shall be continued in agriculture sectors productive sectors, micro enterprise, export sector and sector that had been hardly hit by COVID 19. However, this type of loan will be gradually reduced
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and bought to the fund size of respective fund by the end Ashad End 2081.

- As stated in the budget of FY 2079/80, concessional loan related program shall be implemented as per approved operating procedure of Nepal Government.

Micro Finance Related

- Micro Finance institution will be promoted as social banking institution and will be encouraged to provide financial services in remote and backward areas.
 - As part of deprived sector lending by banks to wholesale microfinance, provision will be made to provide loan at an interest with up to 2 percent premium over the base rate.
 - Micro finance institution will be allowed to issue debenture up to their capital fund.
 - As part of the budget for FY 2079/80, after restructuring of Grammen Bikas Laghubittiya Sansthan, necessary arrangements will be made for capital structure and enhancement of institutional capacity.
 - As part of the budget for FY 2079/80 to make agricultural loan easily accessible, concept of Micro finance fund as envisaged by the government, facilitations shall be made for the fund to have a legal organizational and operational structure.
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