

MoU between NRB & IFC for 'Psychometric Scoring Solution'



Nepal Rastra Bank (NRB) and International Finance Corporation (IFC) signed an agreement to test a method of assessing a potential debtor based on individual capacity, behavior, style and qualification measurement 'Psychometric Scoring Solution' in Nepal's financial sector.

It is expected that psychometric scoring will make the system more technology-friendly by promoting the disbursement of credit in the financial system and promoting

simple and risk-free credit flow.

Mr. Suman Kumar Adhikari, Executive Director at Microfinance Institutions Supervision Department and Mr. Babacar Sedikh Faye, IFC Resident Representative for Nepal signed the Memorandum of Understanding (MoU) on February 1, 2022, in presence of Governor Mr. Maha Prasad Adhikari for the trial phase of the innovative method aimed at promoting digital financial services. The method is being tested in

Nepalese financial system in partnership with the Government of Japan and the United Kingdom (UK) for a period of two years.

This method is expected to bring micro and retail borrowers and Micro, Small and Medium Enterprises (MSMEs) under the purview of formal financial services. It is expected to enable banks and financial institutions to create risky profiles based on a statistical analysis of the personality and psychological characteristics of the potential borrowers

and to attract and simplify the client to consume the loan to be included in the formal financial services. It is believed that this would facilitate the expansion of financial services to the service recipients who did not have access to financial services in the past.

Stating that the IFC and NRB have been cooperating in further strengthening Nepalese financial sector, Governor Adhikari expressed confidence that the implementation of the new agreement would make microfinance management technology-friendly.

Similarly, Faye, Resident Representative



of the IFC, thanked the central bank for providing the opportunity for new cooperation and expressed confidence that the agreement would help in expanding financial access.

On the occasion

Deputy Governors Dr. Neelam Dhungana Timsina and Mr. Bam Bahadur Mishra, Executive Directors Dr. Nephil Matangi Maskay and Mr. Dev Kumar Dhakal among other officials of the bank were also present.

Mid-Term Review of Monetary Policy

Nepal Rastra Bank has unveiled the mid-term review of the monetary policy for the Fiscal Year 2021/22 on 17 February, 2022 through a virtual press meeting.

It is mentioned in the review that monetary management will be reflected towards maintaining macroeconomic stability including external sector stability considering the existing pressure in external sector and liquidity. The review states, "Considering the imbalance in the external sector, such regulatory facilities, including refinancing, will only be mobilized by COVID-19

seriously affected areas which are still to be revived. In order to strengthen the internal and external sector balance, emphasis will be laid on directing financial resources to the areas of productivity growth, job creation and entrepreneurship development".

• Monetary and Financial Measures

As a sign of the monetary policy direction, the bank rate has been hiked by 200 basis points from the existing 5 percent. The standing liquidity facility rate related to interest rate corridor has been fixed at 7 percent,

policy repo rate at 5.5 percent and deposit collection rate at 4 percent. The existing mandatory cash reserve ratio and statutory liquidity ratio have been kept unchanged.

As per the half-yearly review, the maximum interest rate to be charged from the concerned customers will be fixed at 7 percent under the refinancing facility provided by the banks and financial institutions licensed by the Nepal Rastra Bank. Among the various types of loans disbursed by banks and financial institutions, it is mentioned in the review that the interest rate of loan

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अर्द्ध-वार्षिक समीक्षा



नेपाल राष्ट्र बैंक
केन्द्रीय कार्यालय
बालुवाटार, काठमाडौं

• Macroeconomic and monetary scenario

According to the review, the balance of payments to the external sector has been in deficit since the first month of the current fiscal year and the liquidity of the banking sector has witnessed pressure due to higher demand for loans as compared to resource mobilization. The bank estimates that liquidity pressure will continue as long as the balance of payments deficit increases and foreign exchange reserves declines, with a large portion of credit focused on imports.

The review said, due to sharp expansion in bank loans to private sector and rise in asset prices, imports and trade deficit has increases at a higher rate. The bank estimates that the current pressure on the external sector will continue for some time as remittance inflows has shrunk and areas of foreign exchange earnings will take time to expand.

It is estimated that with the continuous rise in the price of petroleum products in the international market and upcoming local level elections in the current fiscal, there will be pressure on inflation. The bank's recent Inflation Expectations Survey also indicates that there may be pressure on inflation.

disbursed to productive sector will be different from that of loan disbursed to other sector. This arrangement will be implemented on a single sector as a model from next quarter, the review said.

It is mentioned in the review that the risk weight of import loan including trust receipt, personal overdraft loan, real estate loan, personal hire purchase loan and loan of margin nature, will be reviewed. The review also states that arrangements will be made to issue energy bond for the Infrastructure Development Bank.

As per the half-yearly

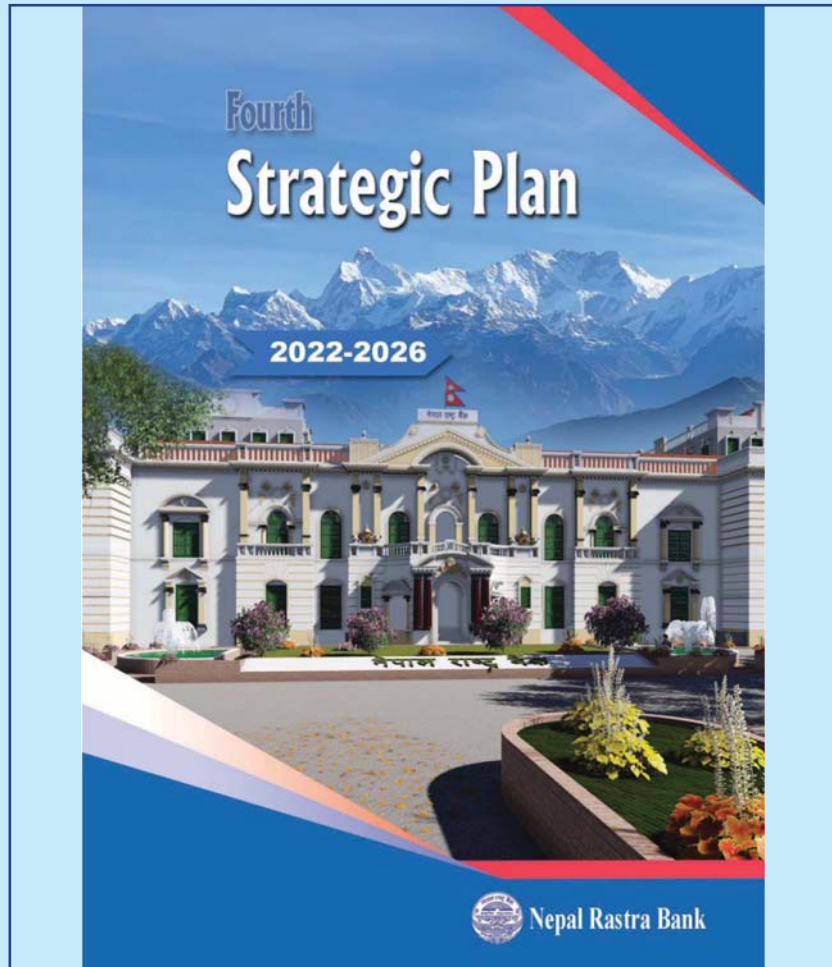
review, considering the impact of COVID-19, the provision of credit to the commercial banks to be extended to the agriculture, energy, small and medium enterprises in the sectors specified on the basis of their expertise, will be reviewed. Similarly, the existing system of importing goods from India through credit facility, opening of accounts in convertible foreign currency in the name of Non-Resident Nepali and limit of domestic remittance by remittance companies through their agents and sub-agents, will be reviewed.

Implementation of Fourth Strategic plan

Nepal Rastra Bank has implemented 'Fourth Strategic Plan (2022-2026)'. The plan was approved at a meeting of the bank's BoD on February 10, 2022.

The 'accountable, efficient, dynamic and credible central bank' is the vision of the strategic plan. For sustainable and inclusive economic development, the plan aims to achieve macroeconomic and financial stability through effective monetary, foreign exchange, financial sector and payment system policies. Five strategic directions have been identified for achieving this goal. The strategic direction is macroeconomic stability, flexible and inclusive financial system, electronic financial environment, recovery and crisis management, and organizational effectiveness and development of good relations. The plan prioritizes mitigation of the impact of the COVID-19 on financial system.

Seven strategic pillars have been identified for the implementation of the strategic plan. These include (1) Economic Research and Monetary Management (2) Regulation and Supervision



(3) External Sector Management (4) Payment System and Currency Management (5) Good Governance, Organizational Development and Talent Management (6) Infrastructure Development and Business Continuity (7) Co-operation and Coordination.

A four-member strategic planning committee was formed under the coordination of member of the Bank Board of Directors Mr. Ramji Regmi to prepare the plan. Two Deputy

Governors, Dr. Neelam Dhungana Timsina and Mr. Bam Bahadur Mishra were members and Mr. Dayaram Sharma Pangeni, Executive Director of Corporate Planning and Risk Management Department was the member-secretary.

The bank has already implemented the first strategic plan (2006-2010), second strategic plan (2012-2016) and third strategic plan (2017-2021). So far, 85, 78 and 71 percent progress of these plans have been achieved respectively.

'SAARCFINANCE e-Newsletter' released by Governor Adhikari

Nepal Rastra Bank has published 'SAARCFINANCE e-Newsletter'. Governor Mr. Maha Prasad Adhikari released the e-Newsletter at a program organized by Central Bank on February 28, 2022.

The Bank has published the e-Newsletter (Vol-2, 2022) in its capacity as the Chairman of SAARCFINANCE. In the publication, along with the Governor's address, the policy efforts put forward by the 41st and 42nd SAARCFINANCE Governors' Group Meeting and its implementation status have been mentioned.

Similarly, the e-Newsletter also covers organizational policy of SAARCFINANCE including its statistical methods, technical assistance, training programs, financial inclusion, mutual interaction, study/research, aid areas and the progress report of SAARC Payment Council. Moreover, the e-publication includes the impact of COVID-19 and its effects on the SAARC region, policies adopted to address the issues,



monitoring indicators and statistics of macroeconomics of SAARC member nations.

Governor Adhikari expressed that the publication includes the state of the financial sector, policy practice and common issues, and is a useful reference for the SAARC region.

The 42nd SAARCFINANCE Governors' Group Meeting held on November 15, 2021 had elected Nepal Rastra Bank as the Chairman of SAARCFINANCE for the period up to October 2022. SAARCFINANCE

e-Newsletter' which was a half-yearly publication in the past, is being published on annual basis since last year.

'SAARCFINANCE' is a Network of central banks and finance secretary of SAARC member countries. SAARCFINANCE was established in 1998 with the objective of holding an open discussion on macroeconomic policy among SAARC nations and exchanging mutual support. 11th SAARC Summit held in Kathmandu in January 2002 formally recognized the SAARCFINANCE.

Entrepreneurship is the backbone of the economy: Governor



Governor Mr. Maha Prasad Adhikari stated "Entrepreneurship is the backbone of the economy," while addressing as the chief guest at the 'Young Entrepreneurs Conference' organized by Baharkhari Media in Itahari, Sunsari on February 25, 2022. "In order to promote entrepreneurship, we must provide a conducive environment for entrepreneurs. It would be a mistake to ignore it," he said.

Stating that entrepreneurship would contribute to overall economic growth and prosperity, Governor Adhikari stressed on the need for coordination and

cooperation among the state regulatory bodies for policy and procedural facilitation of entrepreneurship development. He informed that the development of entrepreneurship has always been given priority in the policy suggestions of given by NRB provided to the government.

For the revival of industries and businesses affected by COVID-19, Governor Adhikari said that NRB has introduced an extraordinary policy last year and said that the business continuity has been restored from the COVID response policies adopted by Nepal Rastra Bank. He was of the view that the balance

of payments situation was under pressure due to the significant increase in the volume of imports as the COVID affected economy gradually gained momentum. As a result, the bank has taken a 'compulsory decision' of 'cash margin' on some imported goods, the Governor said, "urging the industrialists to exercise restraint for some time as it is not our intention to stop all import and is not applied forever."

Reminding that the NRB has banned the transactions including crypto currency and hyper fund, the Governor urged the entrepreneurs to avoid such illegal transactions. He clarified that the bank has banned such transactions as it would bring instability in the financial system and thereby in the economy as a whole. Stating that the promotion of electronic payment has been given high priority by the NRB, Governor Adhikari expressed confidence that it would help in increasing financial access, good governance and transparency. During the program, Governor Adhikari also responded to the queries raised by the young entrepreneurs.

National Conference on Economics and Finance



Nepal Rastra Bank organized 'National Conference on Economics and Finance' in Kathmandu. Honorable Finance Minister Mr. Janardan Sharma inaugurated the conference on 8th April, 2022. Addressing the event, Finance Minister Sharma said that the high import of petroleum products, vehicles and luxury items has put pressure on the foreign exchange reserves and pointed out the need and importance to promote domestic production so as to control imports. He stressed on the need to utilize the available resources for productivity growth and job creation.

Speaking on the occasion, Governor Mr. Maha Prasad Adhikari said that the current account and balance of payments situation continued to be in deficit due to rising imports

and declining income of the tourism sector. He opined that this has made external sector management challenging. He informed that the trade deficit has increased by about 34.5 percent during the first eight months of the current fiscal year.

Despite the declining remittance inflow in 2078 BS, the remittance inflow has improved in Falgun, said Governor Adhikari. At present, Nepal has sufficient foreign exchange reserve to import merchandise for 7.4 months and 6.7 months for import of Goods and Services.

He informed about the policy arrangements adopted by the Government of Nepal and NRB to overcome challenges in the external sector. He said that policy measures including increase in bank rate, reduction in

gold imports, incentives for foreign exchange, mobilization of foreign aid have been adopted. The International Monetary Fund (IMF) has recently approved a USD 395.9 million Extended Credit Facility (ECF) loan worth about NPR 47 billion, the Governor said.

He opined that the situation in the external sector has improved due to the policy measures adopted for external sector management. He acknowledged that unless the imports of consumer goods (which accounted for 35 percent of total imports) and geopolitical tensions between Russia and Ukraine; external sector poses the risk.

Governor Adhikari said that a common effort was needed to strengthen the external sector management. He said, "In a small and



open economy like Nepal where the source of foreign exchange earnings is limited, there is an obligation to maintain adequate foreign exchange reserves. Therefore, it is important for everyone to think about the impact that the external sector problem may have on the overall economy and its various indicators". Governor Adhikari pointed out the need to increase domestic production, export promotion, remittance inflow, foreign investment and foreign aid to strengthen external sector management.

On the occasion, Deputy Governor Dr. Neelam Dhungana Timsina welcomed the gathering, and said that the economy

was facing challenges due to high liquidity pressure, high trade deficit and remittance inflows.

In the inaugural session of the conference, Senior Research Fellow of the Policy Research Institute (PRI), Dr. Kalpana Khanal presented a working paper on 'COVID-19, Nepal's Economy and Policy System'. In that context, she discussed the impact of COVID-19 on Nepal's Economy, the policy measures adopted to address it, the current indicators of the economy and the course of action.

At the conference, 17 working papers on economic, monetary, banking, finance, trade,

capital market and other issues were presented by experts from different fields. This is the fourth edition of the conference on economics and finance organized by the bank. Earlier, international conferences were organized in 2012, 2015 and 2020. This year's conference is being organized at the national level due to continuing effects of the COVID-19 pandemic.

Around 100 people including NRB's Deputy Governor Mr. Bam Bahadur Mishra, Member of Board of Directors, Director Prof. Dr. Sri Ram Poudyal, executive directors, and representatives of various organizations and researchers were present in the program.

Establishment, merger and up-gradation of Departments

A 'Non-Banking Financial Institution Supervision Department' has been established for the inspection and supervision of licensed institutions and companies for non-banking financial transactions.

Corporate Planning and Risk Management Department informed that the department has been established as per the decision of the Bank Management Committee dated 27 January, 2022.

The department has been given the responsibility of supervising and monitoring of licensed institutions involved in the foreign exchange transactions, Hydroelectricity Investment and Development Company Ltd. (HIDCL), hire purchase companies and Co-operative Bank as well as off-site supervision through regular surveillance.

Meanwhile, 'Financial Institution Supervision Department' has been

established by integrating 'Development Bank Supervision Department' and 'Finance Company Supervision Department'. It is stated that the department was established by the decision of the meeting of the Management Committee on February 23, 2022. Similarly, the Information Technology Division has been upgraded to Information Technology Department with effect from 15th January, 2022.

Publisher

Nepal Rastra Bank
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Baluwatar, Kathmandu

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