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Nepal Rastra Bank unveiled monetary policy for FY 2079/80

Nepal Rastra Bank has unveiled monetary policy for FY 2079/80 on 22 July, 2022 from its central office by Governor Maha Prasad Adhikari.

The stance of monetary policy has been kept cautiously tight to promote macroeconomic stability by maintaining price and external sector stability and to support economic growth through increasing productivity by channelizing financial resources to the productive sector. Given that the credit to GDP ratio is high, the priority of the monetary policy is to reallocate credit to the productive sector rather than focus on credit growth, the policy stated.

The regulatory relaxations provided during the COVID-19 pandemic will be gradually withdrawn and made consistent with the prudent regulatory standards. The refinance facility will be reviewed to provide such facility to productive sectors including agriculture, exports, and the hard-hit

Unofficial Translation

Monetary Policy for 2022/23



Nepal Rastra Bank
Central Office
Baluwatar, Kathmandu
July 2022



areas from the COVID-19 that are yet to recover. The coverage of monetary policy will be enhanced by increasing financial literacy, financial access, and financial inclusion along with digitizing payments and financial transactions, as mentioned in the policy.

Monetary Policy Framework and Targets

The weighted average interbank rate among the BFIs has been continued as an operational target of the policy along with strengthening the interest rate as a channel of monetary policy transmission. The main basis for setting the policy rate will be foreign exchange reserves' capacity to cover the imports of goods and services as well as inflation, as stated in the policy.

'Liquidity will be managed by conducting an open market operations based on the status of the operating target. Given the context that the weighted average interbank rate is the operating target and the interest rate corridor serves as a strategy for monetary management, money supply and credit growth will be used as indicators to measure the situation of the monetary policy stance. Accordingly, in 2022/23, the growth rate of the broad money supply is projected to be 12 percent, and the growth rate of credit to the

private sector is projected to be 12.6 percent', stated in the policy.

The monetary policy has followed the target of economic growth of 8 percent as targeted by budget statement of the government for 2022/23 and inflation within 7 percent. Similarly, the target of monetary policy is to maintain the foreign exchange reserves at a level that can cover the imports of goods and services for up to 7 months.

Monetary Policy Measures

Considering the pressure on prices and foreign exchange reserves, and for ensuring macroeconomic stability, the rates under the interest rate corridor have been increased by 1.5 percentage points. Accordingly, the bank rate has been increased to 8.5 percent, the policy rate to 7.0 percent, and the deposit collection rate to 5.5 percent. NRB will develop a mechanism to open a repo/reverse repo auction if the interbank rate deviates from the policy rate by more than 2 percentage points. Likewise, a provision will be made to open the deposit collection auction if the interbank rate decreases by more than 3 percentage points from the policy rate.

For making the payment system easy and reliable, the existing intraday liquidity facility availed by this bank to the BFIs on the collateral

of government securities will be made available for the overnight period as per the need. Such a facility will be made available at the bank rate. Standing liquidity facility (SLF) will be availed to the BFIs on the collateral of securities specified by the NRB for a maximum period of 5 days at the bank rate. The outstanding SLF will be no more than one percent of the total local currency deposits held by the bank in the previous week. The BFIs that are unable to manage liquidity through the interbank market, daily liquidity facility, open market operations, and standing liquidity facility will be given Lender of Last Resort Facility at a penalty rate of 2 percentage points above the bank rate if requested by the respective institution. A procedure regarding the Lender of Last Resort Facility will be issued.

The cash reserve ratio to be maintained by the BFIs will be increased by 1 percentage point to 4 percent with effect from 17 August 2022. A provision has been made whereby the commercial banks need to maintain the Statutory Liquidity Ratio (SLR) of 12 percent and development banks as well as finance companies need to maintain 10 percent from mid-January 2023.

Financial Sector Reform and Regulation



The Monetary Policy has announced that necessary steps will be taken to amend the Nepal Rastra Bank Act, 2058 and other laws related to the financial sector. Necessary arrangements will be made to implement the provision of Counter-Cyclical Buffer from mid-July 2023 which has been suspended from 2019/20 due to the COVID 19 pandemic, the policy said.

A provision has been made to provide the existing merger-related discounts and facilities if Banks and Financial Institutions start integrated operations with the institution of the same class or acquire the institutions of the same class by mid-January 2023. The existing provision for the BFIs allowing them to include the resources mobilized from debenture in deposits while calculating the credit to deposit ratio will be continued until mid-July 2023.

Large Exposure Framework will be developed to identify the large-scale borrowers from the BFIs. In addition, monitoring of the credits availed by the big borrowers from the banking system will be made more effective and existing single obligor limit will be reviewed, the policy said.

A provision will be made where businesses and enterprises availing a maximum of Rs.50 million loans from the BFIs will be

waived from penal interest if they pay the principal and interest due on mid-July 2022 by mid-Oct 2022. Interest rate will be differentiated for credit disbursed to productive and commercial sectors. To start with, a provision will be made for the BFIs whereby they can add a maximum of 2 percentage points premium only on their base rate while determining the interest rate for the credit up to Rs.20 million provided to food production, animal husbandry, fishery, export-related business and productive enterprises using domestic raw materials only.

A provision will be made whereby the BFIs must maintain loan to value ratio at a maximum of 30 percent inside Kathmandu valley and a maximum of 40 percent outside Kathmandu valley while providing loans with no specific purpose against the collateral of land and house such as overdraft loans, mortgage loans, property loan, and personal term loan.

A limit for the margin type of loan against the collateral of shares from a single financial institution or all institutions will be fixed at Rs.120 million per borrower. Risk weight for loans against the collateral of shares up to Rs.2.5 million has been reduced to 100 percent while the risk weight for loans above this limit has been kept unchanged at 150 percent.

Necessary facilitation

will be done regarding the establishment of the second-tier regulatory institution (STI), as stated in the budget for 2022/23, for effective regulation, inspection, and supervision of savings and loan cooperatives and non-governmental organizations that are outside the supervisory scope of this bank. In order to encourage Green Financing, a draft of Green Taxonomy will be prepared by including the topics such as issuing green bonds, reporting climate risks, identifying capital needs, and others.

Foreign Exchange Management

The existing policy provisions related to derivatives will be reviewed for managing foreign exchange risk to facilitate the mobilization of external commercial borrowing by the BFIs. In order to widen the scope of remittance flow into Nepal, the existing remittance arrangements will be reviewed so that it will be easier for Nepali citizens and organizations to receive remittances from Nepali citizens living abroad, foreign citizens, and associations/organizations situated abroad.

Necessary arrangements will be made so that holders of various electronic and digital cards existing in banking payment devices issued by Nepali BFIs can receive card-to-card remittance transfers



from a similar type of cards issued by foreign banks, as stated in the policy.

Refinance and Concessional Loan

Refinance facility will be continued limiting such facility to productive sectors including agriculture, small enterprises, exports, and those sectors that are hard hit by the COVID19. Such a facility will be gradually reduced to the amount available in the refinance fund by mid-July 2024.

A study will be carried out regarding the use and effectiveness of the programs aimed at increasing credit flows to productive sectors such as the refinance facilities, concessional loans, deprived sector loans, and others and study on alternative forms of finance such as Peer-to-peer lending and Crowd funding in order to increase the access of start-up businesses to credit will be conducted, mentioned in the policy.

Microfinance Related Provisions

As per the budget statement of 2022/23, Microfinance Financial Institutions (MFIs) will be encouraged to provide financial services in remote and backward areas in accordance with the social banking concept. Provisions will be made for the BFIs to charge no more than a 2

percentage point's premium on the base rate while determining the interest rate on wholesale loans to the MFIs under the deprived sector lending. Arrangements will be made for the MFIs to mobilize resources by issuing debentures equal to their capital fund as mentioned in the policy.

Payment System Related Provisions

Electronic payment transactions will be further promoted. Necessary institutional coordination will be made to celebrate 2022/23 as 'Electronic Payment Promotion Year'. Necessary steps will be taken to establish a complete Digital Bank as stated in the budget statement of 2022/23. For this, necessary actions will be taken to amend the Nepal Rastra Bank Act, 2002, the Banks and Financial Institutions Act, 2017, and to prepare other necessary laws and institutional structures, stated in the policy.

Arrangements will be made to settle transactions in Nepal done through various payment cards issued by licensed BFIs within the country. For this purpose, a provision will be made for the BFIs to issue security bonds/guarantees in Nepali currency rather than in foreign currency. 'Cyber and Information Security Guideline' will be issued for the institutions licensed to

carry out payment-related transactions, mentioned in the policy.

Financial Inclusion Index will be prepared to measure the actual status of financial access in Nepal in the context of expanding the scope of the financial sector. Financial Literacy Framework, 2022' will be prepared including financial customer protection, digital financial literacy, and financial literacy training guidelines, said in the policy.

The pressure on prices and the external sector is likely to continue for some time given the international economic outlook, the Russia-Ukraine war, increase in fuel prices, the situation of domestic production and aggregate demand, and the trend of import and remittance flows. Therefore, the stance of monetary policy has been cautiously tightened considering the price and external sector outlook, and the target of economic growth. It is expected that this will help to maintain macroeconomic stability while keeping momentum in economic activities. It is believed that the implementation of this monetary policy will help maintain internal and external stability. Monetary measures will be changed, if necessary, in the quarterly review of monetary policy based on the status of inflation and foreign exchange reserves' capacity to cover imports.

Agreement on 2022 BOK-KPP Program



The agreement between Nepal Rastra Bank and Bank of Korea has been made on '2022 BOK Knowledge Partnership Program'.

Mr. Narayan Prasad Pokhrel, Director of the Governor's Office on behalf of Nepal Rastra Bank, and Dr. Junseo Park, Deputy Director General of International Affairs Department of the Bank of Korea, were the signatories. Based on the agreement, Nepal Rastra Bank, Bank of Korea, Korea's Sungkyunkwan University will jointly conduct research on 'Private Sector Credit Growth and its

Impact on Real Sector in the Nepalese Economy'.

Mr. Buddha Raj Sharma, Director of NRB's Banks and Financial Institutions Regulation Department, and Dr. Young Han Kim, Professor of Sungkyunkwan University and project manager of the program, delivered a welcome speech in the program. On that occasion, Ms. Teresa Daban Sanchez, resident representative of the International Monetary Fund in Nepal, Dr. Birendra Bahadur Budha, Deputy Director of the Economic Research Department, Mr. Chopkant Subedi Assistant Director

and Mr. Ravin Bhandari, Assistant Director of Banks and Financial Institutions Regulation Department and others presented working papers on the issues related to the research. Under this program, the joint research team will study the impact of private sector credit growth on Nepal's economy and submit a report with policy suggestions to Nepal Rastra Bank in two stages, interim and final (detailed).

This is the sixth time that the BOK-KPP program has been implemented by Bank of Korea where the program was started in 2017.

Global Policy Forum, 2022 Completed

Governor Adhikari elected as SARFII's vice chairman



Governor Maha Prasad Adhikari participated in the 'Global Policy Forum, 2022' held at the Dead Sea of Jordan on September 5-8, 2022 under the joint hosting of Alliance for Financial Inclusion (AFI) and the Central Bank of Jordan.

On the occasion, Governor Adhikari participated in AFI's Board of Director's meeting on September 05, AFI's annual meeting and AFI Leaders' Public-Private Dialogue (PPD) Roundtable, on September 06. Similarly, on September 07, he participated in the opening

ceremony of 2022 AFI's GPF, Plenary Sessions and Technical Breakouts.

In addition, in the session Technical Breakout 2- Innovative Finance: Accelerating MSME Access to Finance, A Regulatory Perspective, Governor Adhikari delivered the Theme Setter speech where he shed light on the dimensions of digital finance, its support to micro, small and medium enterprises, and the challenges of regulatory bodies.

Also, during a ceremony held on September 7, South Asia

Region Financial Inclusion Initiative (SARFII) has been formally launched. On that occasion, representatives of the Central Banks in South Asia and other member organizations of the region affiliated to AFI, attended the ceremony.

The central bank of the Maldives, Maldives Monetary Authority's Governor Ali Hashim, has been elected as the chairman and Governor Maha Prasad Adhikari elected as the vice chairman of SARFII. Ali Hashim, Governor of Maldives Monetary Authority and Maha Prasad Adhikari, Governor of

Nepal Rastra Bank, gave the opening speech in the capacity of Chairman and Vice Chairman respectively.

In a ceremony held on September 6, the day before SARFII's official launch, the Governors of Maldives Monetary Authority and Nepal Rastra Bank, Deputy Governors of State Bank of Pakistan and Bangladesh Bank and Executive Director of Alliance for Financial Inclusion Dr. Alfred Hanning signed the 'SARFII Charter'. Representatives of Micro Credit Regulatory Authority of Bangladesh, Royal Monetary Authority of Bhutan and Central Bank of

Sri Lanka also participated in the ceremony. SARFII was launched as a collective exercise to strengthen the formulation and implementation of policy arrangements for the promotion of financial inclusion in the South Asia region.

Under SARFII, strategic pillars such as knowledge sharing at the regional level, capacity building and joint learning exercises, implementation of technical assistance, promoting financial inclusion among all sectors by emulating global and regional level best practices have been decided. Under

this, various action plans have been proposed to be implemented from 2023-2025 to promote financial inclusion in the South Asia region.

The Prime Minister of Jordan Bisher Al-Khasaneh inaugurated the 'Global Policy Forum' as a flagship program of AFI. On that occasion, Governor Adhikari, Executive Director of Monetary Management Department Naresh Shakya, Director of Payment System Department Nischal Adhikari and Assistant Director of Governor's Office Roshan Dahal also participated in the program.

Governor Adhikari Participated in WBGs/IMF Annual Meeting

Governor Maha Prasad Adhikari participated in World Bank Groups (WBGs) and International Monetary Fund (IMF) annual meeting on October 10-16, 2022 in Washington DC, USA. 190 member country's central bank along with their monetary authority and ministries of finance participated in the program.

During the plenary session of the meeting, Board





of Governor’s Chairman Mr. Hassan Abdalla, World Bank Group’s president, Mr. David Malpass and IMF’s Managing Director, Dr. Kristalina Georgieva highlighted the risks seen in the world economy and the policy measures to be adopted by the world for its solution.

On that occasion, Governor Adhikari attended 53rd Joint Governors’ Meeting of IMF-WB South East Asia Constituency, held bilateral meeting with IMF’s Asia Pacific Department, Monetary and Capital Market Department (MCM) and officials of International Finance Corporation. Similarly, Governor Adhikari met with IMF’s Deputy Managing Director Dr. Bo Li, Officials of Asia Pacific Department, Southeast Asia Voting Group (SEAVG) along with officials of ECF where there was a discussion about the ongoing work and future programs related to Nepal. In addition, he participated in collective dialogue with the Central Bank governors of SAARC countries in a sideline Breakfast Meeting.

On the occasion of the event, Mr Abdur Rouf



Talukdar Governor of Bangladesh Bank’s, Reserve Bank of India’s Governor Shaktikanta Das, Maldives Monetary Authority’s Governor Ali Hashim, State Bank of Pakistan’s Governor Jamil Ahmed and Central Bank of Sri Lanka Governor Dr. P. Nandalal Weerasinghe held bilateral discussion

about the regional economy. Similarly, Governor Adhikari had informal meeting with Finance Minister of India, Nirmala Sitharaman. Governor Adhikari lead NRB delegation including Executive Director of Economic Research Department Dr. Prakash Kumar Shrestha.

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