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Nepal Rastra Bank unveiled monetary policy for FY 2023/24

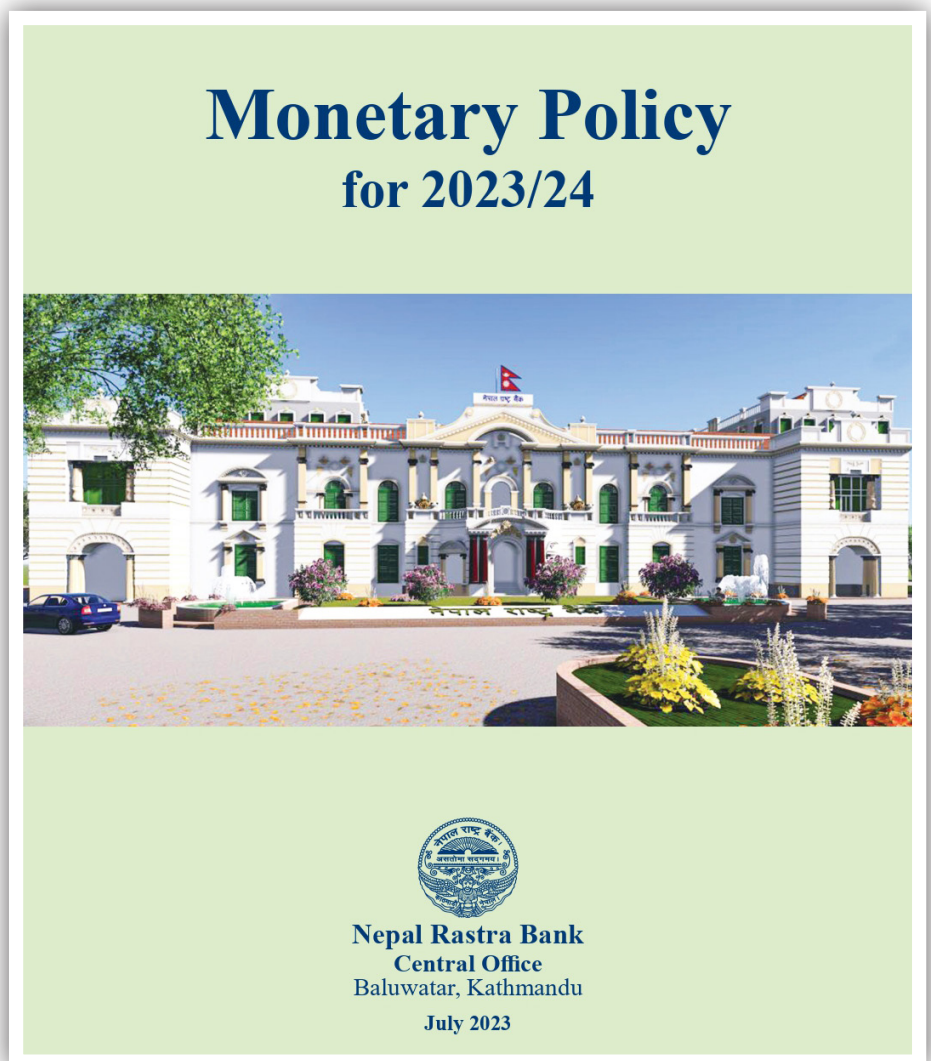
Nepal Rastra Bank unveiled the monetary policy for FY 2023/24 on 23 July, 2023. The stance of monetary policy has been kept cautiously accommodative to support economic activities while maintaining price and external sector stability.

The major objectives of the policy is to maintain price and external sector stability and thereby macroeconomic stability along with enhancing access to finance and promoting financial stability.

The policy focuses on channelizing resources to productive sectors and supporting domestic production. In addition, the policy aims to strengthen financial stability by enhancing the effectiveness of the monitoring, regulation and supervision of large borrowers, reducing the over-concentration of credit, prioritizing SME loans and enhancing the quality as well as access to credit.

Structure, Goals and Measures

The weighted average interbank rate among the BFIs has been continued as



an operating target of the monetary policy. The policy mentions that based on the status of the operating target, the interbank rate will be kept within the interest rate corridor by proactively conducting open

market operations. The target of the monetary policy is to keep inflation within 6.5 percent and maintain foreign exchange reserves sufficient to cover the imports of goods and services for at least 7 months.





Priority has been given to channelize financial resources towards the productive sector and thereby support achieving the economic growth of 6 percent as targeted by the GoN in the budget for 2023/24. The growth rate of the broad money supply and the credit to the private sector from the BFIs is projected to be 12.5 percent and 11.5 percent respectively in 2023/24.

Considering the internal and external economic outlook, the policy rate has been reduced by 50 basis points to 6.5 percent. Keeping the bank rate unchanged at 7.5 percent, the deposit collection rate has been reduced to 4.5 percent from 5.5 percent. The policy states that secondary open market operations and deposit collection auction will be opened if the weighted average interbank rate, taken as an operating target, becomes higher than the bank rate and lower than the deposit collection rate.

The provision of providing a standing liquidity facility (SLF) at the bank rate and an overnight liquidity facility (OLF) at the policy rate has been kept unchanged. In order to make the interest rate corridor effective, a provision will be made to provide the standing deposit facility (SDF) at the lower bound of the interest rate corridor. The cash reserve ratio and statutory liquidity ratio have been kept unchanged.

Regulation and Supervision

- Necessary amendment to the existing Banking Offence Act, 2007 will be moved forward including the provisions for controlling the nonprofessional and violent activities affecting the financial sector stability.
- The directives related to anti-money laundering will be issued based on the suggestions received from the mutual evaluation, among others. Similarly, the necessary amendments to the related laws and formulation of a national strategy will be facilitated.
- The limit of the first residential home loan will be increased from Rs.15 million to Rs.20 million.
- The current provision of providing at least one percentage point additional interest rate by BFIs for remittance account opened by Nepali people working abroad, has been continued.
- The Working Capital Guideline will be reviewed on the basis of the suggestions received from the BFIs.
- Stress Loan Resolution Framework will be issued by incorporating the measures and procedures to be followed for the loan rescheduling, rehabilitation and other management of the borrowers who are in problem due to natural disaster or other special circumstances.
- National level development banks will be required to fully comply the Capital

Adequacy Framework, 2015.

- Provision of lending requirement to the specified sectors will be reviewed by analyzing the current situation of the credit flow.
- To facilitate the exchange of information of customers among the BFIs and other payment-related entities, necessary coordination will be made to develop and implement a centralized Know Your Customer (KYC) system by integrating with the National ID being issued by the GoN.
- Financial Corporation Survey will be prepared and published to measure the financial depth by incorporating the balance sheets of microfinance financial institutions, insurance companies, Citizen Investment Trust, Employees Provident Fund and other non-bank financial institutions in addition to the BFIs.
- The existing risk weight of margin nature loans, real estate loans and hire purchase loans will be reviewed.

Payment system

- Further actions will be taken on the basis of the study done on the issuance of Central Bank Digital Currency.
- Collection of government revenue by using electronic payment instruments in the major public service delivery offices will be facilitated.
- The provision of receiving



foreign currency through electronic means from the export of information technology and other services will be made more effective.

Foreign exchange management

- As mentioned in the budget statement of the GoN for FY 2023/24, necessary amendments will be made to 'Nepal Rastra Bank Foreign Investment and Foreign Debt management Bylaw' to simplify and facilitate the processes related to foreign investment.
- The existing provisions related to the imports through the draft/TT and DAP/DAA will be reviewed as necessary.
- Provision will be made to provide the foreign currency exchange facility through commercial banks up to a certain percentage of their foreign currency earning made by the service exporting industry/business based on the specified documents. Such a foreign exchange facility will avail to establish contact officers in third countries, to make payments to foreign entities contact offices in third countries, to make payments to foreign entities/ transfer the funds to their bank accounts located abroad, and to purchase software or programs and install the equipment.
- The existing provision of

providing up to US Dollar 1,500 foreign exchange twice a year as passport facility to Nepalese travelling abroad other than India will be revised to the US Dollar 2,500.

- Necessary arrangement will be made to allow the air service providers to pay the various service fees abroad up to one hundred thousand US Dollars or other equivalent convertible foreign currency directly through licensed "A" class commercial banks, on the approval/recommendation of the regulatory body and presenting the other prescribed documents.

Microfinance

- Recommendations of the study report prepared by the committee formed to study the problems and suggestions related to microfinance financial institutions will be gradually implemented.
- Merger and acquisition of microfinance financial institutions will be promoted by availing the existing facilities for institutions who commence joint operation by mid-July 2024.

The implementation of this policy is expected to promote macroeconomic stability, enhance the productive use of financial resources, expand financial access and help achieve the goal of high and sustainable economic growth. Finally, the policy document

states that monetary, financial sector, payment system and foreign exchange related policy adjustments will be made based on the quarterly review of economic and financial situation.

In the press conference held after the release of the monetary policy, Governor Maha Prasad Adhikari shed light on some of the main provisions mentioned in policy and expressed his belief that its implementation would promote macroeconomic stability, productive use of financial resources, expand access to finance and achieve the targeted economic growth. In the press conference, Governor Adhikari also informed that preparations are being made to review the working capital loan guidance within the first quarter. He said, "Based on the review of the nine-month period since the issuance of the working capital loan guideline, we have tried to review it. During the review, the problems encountered in the operation of business will be addressed."

In the program, Deputy Governors Dr. Neelam Dhungana Timsina and Mr. Bam Bahadur Mishra, Board of Director Dr. Shankar Prasad Acharya, Executive Directors of various departments, Chief Executive Officers of banks and financial institutions, media persons, among others were present. Deputy Director of the Office of the Governor Dr. Bhagwat Acharya conducted the program. ■

Governor Adhikari attended the annual meeting of the IMF-World Bank Group



Governor Maha Prasad Adhikari participated in 2023 Annual Meetings of the International Monetary Fund and the World Bank Group (IMF-World Bank Group) held in Marrakesh, Morocco during 9-15 October 2023.

Finance ministers and central bank governors of member states, and officials representing from finance and monetary sectors participated in the program. In the plenary session held during the meeting, Governor Adhikari participated as a member of the delegation led by Honorable Finance Minister Dr. Prakash Sharan Mahat. The Plenary was chaired by Minister of Finance of Ukraine, Sergii Marchenko, while the president of World Bank Group, Ajay Banga and Managing Director

of IMF Kristalina Georgieva expressed their views on the ups and downs in the world economy and the measures that countries should take to address them.

Governor Adhikari attended the 54th Joint Governors' Meeting of the IMF-WB South East Asia Constituency. He also met with the senior officials from the IMF's Asia Pacific Department (APD), Monetary and Capital Market Department (MCM), and the International Finance Corporations (IFC's) Asia Pacific Region. During these meetings, discussions were held on topics including the extended credit facilities from the IMF and about future programs of the fund and cooperation. Moreover, Governor Adhikari

also had discussions with IMF officials of Asia Pacific Department

During the sidelines meetings, Governor Adhikari participated in the 44th SAARCFINANCE Governor's Meeting hosted by the State Bank of Pakistan. He also held bilateral meetings with Governor of Reserve Bank of India H.E. Shaktikanta Das and Governor of Royal Monetary Authority of Bhutan H.E. Daso Penjore. Currently, there are 189 countries under the World Bank Group, while 190 countries are members of the International Monetary Fund. Executive Director of Economic Research Department Dr. Prakash Kumar Shrestha and Assistant Director Mr. Puspa Chandra Khanal also accompanied the Governor in the event. ■

Governor Adhikari participated in AFI's Annual Meeting



Governor Maha Prasad Adhikari attended the Alliance for Financial Inclusion (AFI) Annual Meeting and Global Policy Forum held in Manila, Philippines during 12-15 September 2023.

During the annual meeting, AFI's audit report, report on gender inclusion and use of information technology in the financial sector were presented. Moreover, reports from various working groups within the organization, covering topics such as inclusive green finance, financial inclusion strategy, lending to small and medium enterprises, and electronic financial services, were also submitted. The meeting approved AFI's strategic plan for the year 2024-28, the Manila Declaration, the proposal for the formation of the Board of Directors for the year 2023-25. As a member of AFI's Board

of Director, Governor Adhikari emphasized the importance of expanding AFI's membership to other nations and organizations. He highlighted the need for advancing financial literacy and inclusion, fostering capacity-building among members, and sharing valuable experiences and best practices for genuine progress.

Governor Adhikari commended and expressed support for the six regional initiatives, including the South Asia Financial Inclusion Initiative (SARFII) under AFI. He acknowledged the efforts being made to tackle the challenges in financial inclusion. Governor Adhikari, while delivering the concluding remarks at the SARFII Leader's Roundtable, expressed the belief that there exists gender inequality, financial illiteracy, and the challenge of providing

easy access to credit for small and medium enterprises in the South Asian region in the context of financial inclusion. Likewise, he participated as a speaker in a plenary session on Financial Inclusion for Shared Prosperity. On this occasion, he stated the policies to be adopted by the various agencies of the state in terms of the impact on the overall economy of issues such as lending in designated areas, provision of subsidized loans, microfinance services, financial consumer protection, increasing the access of marginalized groups to financial services, use of technology, electronic financial services, transparency of financial sector and transactions. During the visit, Governor Adhikari engaged in a bilateral discussion with H.E. Eli M. Remolona Jr., the Governor of the Central Bank of the Philippines. In the

course of their discussion, they explored areas of collaboration between the central banks of both countries and delved into challenges related to financial inclusion. The role of AFI in this context was also a topic of conversation.

Executive Director of the Office of the Governor Dr. Nephil Matangi Maskay, Executive Director of Monetary Management Department Mr. Pitambar Bhandari, Executive Director of Banks and Financial

Institutions Regulation Department Dr. Gunakar Bhatta, Executive Director of Microfinance Institutions Supervision Department Mr. Revati Prasad Nepal, Director of Office of the Governor Mr. Kiran Pandit, Director of Bank Supervision Department Mr. Roshan Kumar Sigdel, Director of Banks and Financial Institutions Regulation Department Mr. Rajendra Bhattarai, Director of Payment System Department Ms. Niva

Shrestha and Deputy Director of Legal Division Mr. Dilliram Neupane also participated the event

A total of 84 institutions, including the central banks of 76 emerging and developing economies and eight other regulatory institutions, are members of the AFI network. Its headquarter is located in Kuala Lumpur, Malaysia. It has been collaborating with regulatory bodies to enhance financial inclusion. ■

Deputy Governor Mishra participated APRACA General Assembly



Deputy Governor Bam Bahadur Mishra participated in the '23rd APRACA General Assembly, 76th Executive Committee Meeting and Regional Policy Forum on 'Green and Climate Finance in Agriculture: Critical Trigger to Sustainable Food System' organized by the Asia-Pacific Rural and Agricultural Credit Association

(APRACA) in Nanjing, China during 5-7 September 2023.

On the first day of the program, an interaction program was organized on the topic 'Green and Climate Finance in Agriculture: Critical Trigger to Sustainable Food System'. The 76th meeting of the executive committee of the organization was held in the first session of

the second day while the 23rd general meeting was held in the second session. On the third day, an observation tour program was organized. Mr. Pramesh Pokharel, Deputy Director of Microfinance Institutions Supervision Department and Mr. Yubaraj Dahal, Assistant Director of the Office of the Governor also participated on this occasion. ■



Toronto Centre successfully concludes Digital Financial Services Supervision Training



Toronto Center conducted a training program on “Digital Financial Services Supervision for Financial Inclusion” in Kathmandu during 11-15 September 2023.

The program was organized by the center with the objective of enhancing capacity of supervision of the digital financial services. The training program was divided into 19 sessions which were conducted by three resource persons of the Center: Mr. Tomas

Prouza, Ms. Chuen Hwee Ng, and Mr. Mercy Buku. The training covered licensing, regulation, and supervision of digital financial services, financial inclusion, consumer protection, regulatory sandbox, anti-money laundering measures, risk mitigation in digital financial services, and data collection & analysis. The trainees were provided practical knowledge about the supervision of digital financial services through the action

plan method.

30 officer-level employees from various departments/offices of NRB participated in the training program. On the first day of the program, Executive Director of the Human Resources Management Department, Mr. Tulashi Prasad Ghimire delivered a welcome address and emphasized the training’s objectives, while Assistant Director Ms. Aakasha Bajracharya conducted the program. ■

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