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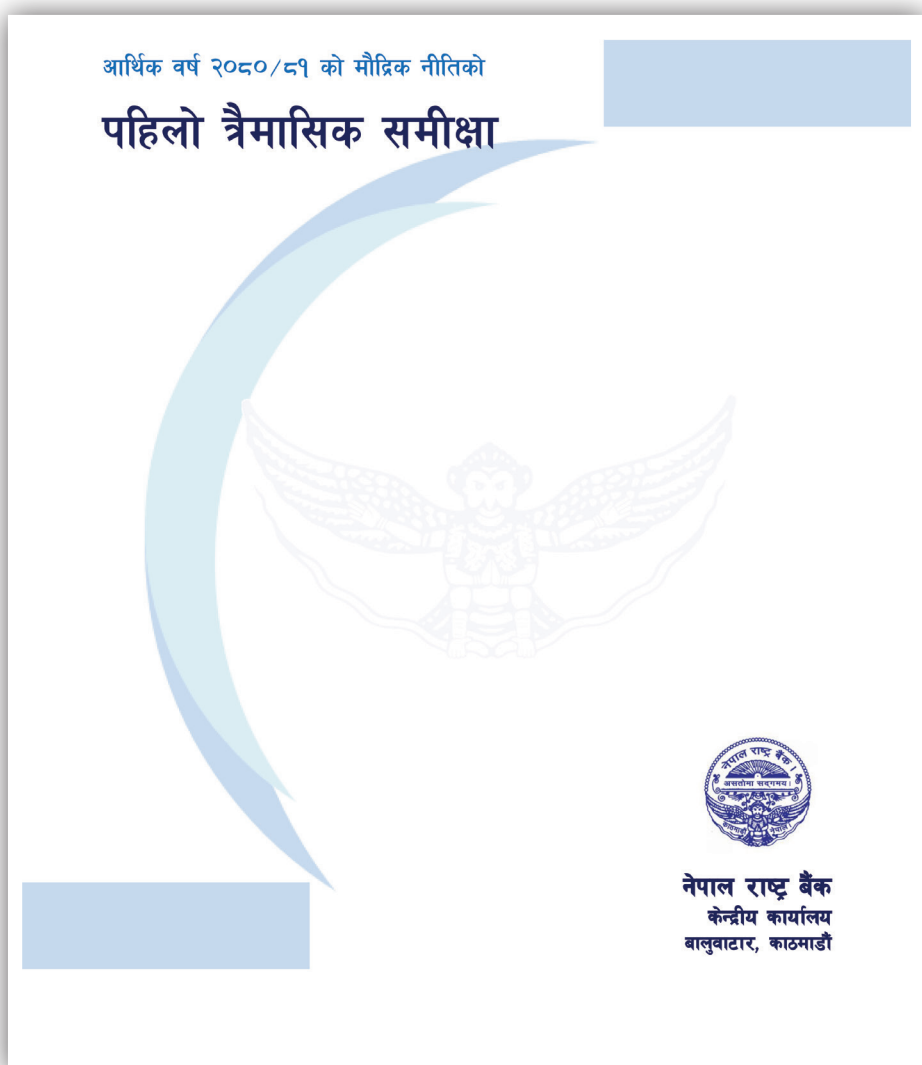
Volume 54

First Quarter Review of Monetary Policy Released

Nepal Rastra Bank (NRB) has released the first-quarter review of Monetary Policy for 2023/24 on December 08, 2023. Based on implementation status of up to the first quarter along with external and internal economic as well as financial situation and outlook, the review has continued the cautiously accommodative policy stance.

By analyzing the factors influencing existing inflation, external situation and growth rate of private sector credit, policy rate has been reduced from 6.5 percent to 5.5 percent. Likewise, bank rate has been reduced from 7.5 percent to 7.0 percent and deposit collection rate has been reduced to 3.0 percent from 4.5 percent. Cash reserve ratio (CRR) and statutory liquidity ratio (SLR) have been kept unchanged.

The review intends to take effective actions against the willful defaulters and facilitate borrowers who are in trouble due to unavoidable circumstances, by means of loans restructuring and rescheduling. For this, Banks and Financial Institutions (BFIs), by analyzing the borrowers' requests and



collecting 10% of outstanding interest, may restructure the loans by mid-April 2024. The review also intends to expand the areas of such loans.

Analyzing the existing liquidity situation and outlook

of credit demand, the review has reduced the existing limit of debentures issued by BFIs to count as resources. Accordingly, the existing provision for the BFIs allowing 100 percent of their debenture to include



in sources until mid-January 2024 has been reduced to 50 percent effective until mid-July 2024. For the construction of residential houses damaged by November 2023 earthquake, arrangements have been made such that BFIs cannot charge more than 2 percentage point premium on base rate for the residential house loans up to Rs. 2.5 million. For this, BFIs can add up to 10 percentage points or more to the existing loan-to-value ratio. Furthermore, BFIs can contribute up to 40 percent of the amount from corporate social responsibility (CSR) fund for the fiscal year 2022/23 and 2023/24 for the reconstruction of public schools, hospitals and health centers damaged by the earthquake.

Risk weights for both real estate loans along with loans of margin nature above Rs.5

million, have been reduced to 125%. Similarly, for the housing loans up to Rs.5 million, monthly installment to income ratio has been increased to 60%.

The review has announced that non-deliverable forward transactions and the provisions related to limit of local remittance transactions, will be reviewed. Moreover, microfinance financial institutions can restructure the loans of those borrowers by mid-April 2024 based on their application, if the borrowers are in regular contact with microfinance financial institutions but are unable to regularize their loans due to unavoidable circumstances. Moreover, the review announces that a monetary policy advisory committee will be formed, including external experts, for making suggestions regarding the direction, structure, goals

and tools of monetary policy.

It is expected that the arrangement made through this review will help to strengthen the internal economic situation. Considering the situation of internal economic activity and inflation, the monetary measures will be modified as needed during the half-yearly review of the monetary policy; the review says.

Governor Mr. Maha Prasad Adhikari, at the press conference, expressed his belief that the measures adopted in the review will expand internal economic activity. Deputy Governors; Dr. Neelam Dhungana Timsina and Mr. Bam Bahadur Mishra, executive directors of NRB, chief executive officers of BFIs, media persons and other stakeholders, were also presented at the press conference. ■

Governor Adhikari Participated in Climate Change Seminar

Governor Mr. Maha Prasad Adhikari attended the 'High-level Seminar on Climate Change Issues for Governors and Financial Sectors Policy Makers' organized by the International Monetary Fund (IMF) on December 12-13 in Bangkok, Thailand.

While addressing the session entitled 'Transition Challenges and Scaling up Climate Financing', Governor



Adhikari highlighted that Least Developed Countries (LDCs) are prone to climate change issues, with Nepal being highly vulnerable. In the session, he informed that NRB has adopted necessary policy measures to help implement the national climate change policies; mitigation, adaptation and transition. In addition, he further informed about the 'Guideline on Environmental and Social Risk Management, 2022' issued by NRB for Banks and Financial Institutions (BFIs), to help protect the domestic financial sector from climate related risks and to facilitate the implementation of Zero Carbon Emission Policy of the nation.

Governor Adhikari opined that assessing impact of climate change in financial sector is essential and the role of the IMF is indispensable for this. He mentioned that "Nepal has adopted the policy to achieve zero carbon emissions by 2045, for which US\$47 billion of green investment is necessary". He further said that capacity building to deal with climate related risks and vulnerabilities is a challenge.

Around 80 people from 13 countries including central bank governors, deputy governors, monetary authority officials including IMF representatives of the Asia and the Pacific Department (APD) attended the

Seminar.

During the Seminar, Governor Adhikari held a bilateral meeting with the Governor of Central Bank of Sri Lanka, P. Nandalal Weerasinghe. In the meeting, they discussed on the exchange of supervisory information between two central banks and cross-border digital payments between the countries.

Governor Adhikari was accompanied by Mr. Muktinath Sapkota, Director of Office of the Governor, Mr. Dilli Ram Pokharel, Deputy Director of Bank Supervision Department and Mr. Chop Kanta Subedi, Deputy Director of Office of the Governor during the seminar. ■

NRB-FNCCI Forge Pact for Data and Information Exchange

Nepal Rastra Bank (NRB) and Federation of Nepalese Chambers of Commerce and Industry (FNCCI) signed a Memorandum of Understanding (MOU) for exchange of information and economic data. With effect of MOU, industries will provide data to NRB on quarterly basis for the study of economic activities.

The MOU was made during a program held at the bank on 3rd November, 2023 in the presence of Governor Mr. Maha Prasad Adhikari



and President of FNCCI, Mr. Chandra Prasad Dhakal. In the agreement, Dr. Prakash Kumar Shrestha, Executive Director

of Economic Research Department of NRB and, Mr. Gokarna Raj Awasthi, Director General of the FNCCI, signed

on behalf of their respective organizations.

Under the terms of the MOU, the federation will play a key role in coordinating and facilitating the exchange of information between industries and NRB. Furthermore, industries associated with the federation have pledged to provide crucial industrial data and information quickly for ad-hoc and special studies whenever deemed necessary by NRB.

The shared data provided by the federation or industries, will be utilized exclusively for study, analysis, and unified publication by either the Government of Nepal (GoN) or NRB. A crucial aspect of this agreement is the bilateral commitment to maintain

confidentiality for the data and information received from relevant agencies and industries. It is explicitly agreed that these data will not be utilized for personal research, publication, and or any purposes other than formulating macroeconomic policies of the nation.

Underlining the collaborative spirit, the MOU empowers NRB to offer necessary manpower and technical support to the federation for various studies, research initiatives, interactive activities, and related tasks at different times. Reciprocally, the federation is committed to support NRB when required, fostering a mutual benefit.

Governor Adhikari mentioned that the agreement

between NRB and FNCCI will facilitate the exchange of data and information and, expressed his belief that it will help in the formulation and implementation of NRB's policies. Likewise, President Dhakal expressed FNCCI's commitment to work hand-in-hand, ensuring a steady flow of industrial sector statistics and information to NRB.

Deputy Governor Dr. Neelam Dhungana Timilsina, Directors; Mr. Mukti Nath Sapkota and Mr. Narayan Prasad Pokhrel from NRB, and Senior Vice Presidents Mr. Anjan Shrestha, along with Vice Presidents Mr. Sur Krishna Vaidya, Mr. Hemraj Dhakal, and Ms. Jyotsna Shrestha from FNCCI, were presented at the program. ■

BOK-KPP 2023 Final Seminar Concludes



The final seminar of the 'Bank of Korea-Knowledge Partnership Program (BOK-KPP), 2023', concluded in

Kathmandu on 4 January 2024.

Deputy Governor Dr. Neelam Dhungana Timsina delivered a special address, by

shedding light on the present condition of the Nepalese economy. She expressed the opinion that current liquidity



situation is favorable, with both the current account and balance of payments are in surplus and the economy is deemed satisfactory because of the demand for credit has increased with economic activity. In spite of these positive indicators, she expressed the opinion that there is a need to be aware of the possibility of problems in the case of low growth of remittances and increase of imports, as the external sector is sensitive. She emphasized that stress testing is the key tools in maintaining financial stability she said “regular stress testing has contributed to establish a culture of resilience in the banking sector.” H.E. the Ambassador of the Republic of Korea, Mr. Tae-Young Park, delivered a congratulatory

speech and appreciated the program’s impact on bilateral cooperation. He expressed his belief that Nepal could benefit from adopting Korea’s financial development model, emphasizing the interconnected nature of financial systems where the progress in one country’s financial sector can significantly influence others.

As part of this year’s program, it was mentioned that the joint research team of all the three agencies will study and research the subject of ‘Develop Macro Stress-Testing Framework for Financial Stability/Assessment’ which is based on a Memorandum of Understanding (MOU) signed on 25 July 2023. It is said that based on the feedbacks received in the final seminar,

the joint study team will present a final report with policy recommendations to Nepal Rastra Bank.

During the Seminar, four working papers were presented relating to the scope of the study by the joint research team of BOK-KPP, 2023. There was a rigorous discussion among the participants on the papers.

Mr. Ho-Soon Shin, Senior Advisor of the BOK-KPP Project, delivered an opening speech at the event. Likewise, Dr. Prakash Kumar Shrestha, Executive Director of the Economic Research Department of NRB, welcomed the delegates from the Republic of Korea. The closing remarks of the program was delivered by Dr. Kyeong-Hoon Kang, the Project Manager. ■

Sixth Meeting of the JTCC Concludes in Kathmandu

The sixth meeting of the Joint Technical Coordination Committee (JTCC) between Nepal Rastra Bank (NRB) and Reserve Bank of India (RBI), concluded on 28 December 2023 in Kathmandu, Nepal

Governor of NRB Mr. Maha Prasad Adhikari inaugurated the meeting. He expressed his belief that the JTCC is effective in resolving the issues on mutual benefit

related to monetary and foreign exchange, banking regulation and supervision, payment systems among others in a technical manner. Addressing the international challenges and issues observed in the financial sector, Governor Adhikari emphasized the need for JTCC’s role to be effective in the future to promote bilateral interests. Mentioning the target of pilot testing of Central Bank

Digital Currency (CBDC) in Nepal by 2026, he believed that the experience of the RBI would be beneficial.

Executive Director of RBI Mr. R. Subramaniam, delivered a special address and stated that India and Nepal have been cooperating in many fields including central banking for a long period and, with the establishment of JTCC, the mechanism has been more



effective to promote bilateral interests. Further, he mentioned that RBI is ready for the continuation and cooperation of the mechanism to address the common issues of the both institutions.

Executive Director of NRB Dr. Nephil Matangi Maskay, delivered a welcome speech and expressed his belief that the relationship and cooperation between both central banks have become stronger time ahead. Deputy Governors; Dr. Neelam Dhungana Timsina and Mr. Bam Bahadur Mishra attended the opening session.

In second session of the meeting, four different topics and issues of bilateral concern were discussed between the JTCC officials of both the central banks. NRB raised the issue for the facilitation of Nepalese citizens to open bank accounts in Indian banks. In addition, NRB sides urged for the arrangement allowing the opening of bank accounts

based on proof of Nepali citizenship, voter identity cards, or certificates issued by the Nepali diplomatic missions in India. As there is a provision in India where Nepali citizens can open bank accounts only with Aadhaar card, NRB requested RBI for process simplification. A positive response had been expressed by RBI officials regarding the matter.

Accordingly, discussion held on agenda regarding making necessary mechanisms for cooperation between the two central banks for study/research in the field of macroeconomic and financial stability, conducting cross-border digital transactions between Nepal and India and coordinating with RBI for the development of CBDC in Nepal, and possibility of conducting a training program to enhance the capacity of NRB staff and organizing an observation visit to RBI was received positively.

Dr. Nephil Matangi

Maskay, Executive Director and JTCC co-Chair from NRB, Executive Directors; Dr. Prakash Kumar Shrestha and Mr. Ramu Poudel, Directors; Dr. Satyendra Timilsina, Dr. Dilli Ram Pokhrel, Mr. Govinda Prasad Nagila, Mr. Ishwari Prasad Bhattarai, Mr. Krishna Ram Dhunju, Acting Director Dr. Birandra Bahadur Budha and Deputy Director Mr. Chop Kanta Subedi participated in the meeting. Similarly, delegates from the RBI including Executive Director and JTCC co-Chair from RBI Mr. R. Subramanyam, Advisor Mr. Rajan Goyal and Manager Mr. Maulik Shengal had also participated in the meeting

JTCC was formed in June 2016 with the effort of two central bank Governors in order to cooperate and coordinate on the bilateral concerns of banking and financial system and to provide a mechanism to solve the problems on mutual interest. ■

Interaction on ‘Green Taxonomy Development in Nepal’



Banks and Financial Institutions Regulation Department (BFIRD) organized an interaction program on the draft of ‘Green Taxonomy Development in Nepal’ from November 5-7, 2023 in Kathmandu.

The Department had prepared the draft with technical support from Alliance for Financial Inclusion (AFI) and grant from In Country Implementation (ICI). The interaction program was organized with the aim of getting suggestions of the concerned bodies on the draft.

Executive Director of the Department Dr. Gunakar Bhatta, representatives of various ministries, banks and financial institutions and other concerned bodies along with members of the drafting committee, participated in the program. At the event, a working paper was presented by Oxford Policy Management, the consultant of the project.

Mr. Kiran Pandit, Director of the Office of the Governor, highlighted the program objectives, while Ms. Ragni Singh, Deputy Director of BFIRD conducted the program. ■

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