

NRB Releases Monetary Policy for FY 2019-20

Nepal Rastra Bank (NRB) has released the Monetary Policy for FY 2019-20 on July 24, 2019. Governor Dr. Chiranjibi Nepal delivered the Monetary Policy on a program in Kathmandu.

Monetary policy (MP) for 2019/20 was formulated considering the domestic and international economic developments along with the programs outlined in the budget of the Government of Nepal (GoN) for 2019/20.

The MP has targeted for maintaining price stability by maintaining inflation within 6 percent and ensuring external sector stability by maintaining foreign exchange reserves sufficient to cover the prospective imports of goods and services for at least seven months. The policy has also aimed to facilitate the economic growth of 8.5 percent as targeted by the government.

The MP has continued the existing currency peg system for FY 2019-20. It has also focused on minimizing the volatility of short term interest rate through more effective implementation of Interest Rate Corridor (IRC).



In this regard, the policy has reduced the upper bound of IRC which is the Standing Liquidity Facility (SLF) to 6 percent, repo rate to 4.5 percent and the lower bound which is deposit collection rate to 3.5 percent.

The Cash Reserve Ratio (CRR) of 4 percent has not been revised in this year and Statutory Liquidity Ratio (SLR) has also remained unchanged with previous year at 10, 8 & 7 percent for 'A', 'B' & 'C' class Banks and Financial Institutions (BFIs) respectively. On the other hand, bank rate has been reduced to 6 percent from 6.5 percent.

This MP is assumed to expand the sources of foreign borrowing for BFIs from pension fund, hedge fund and similar other sources. The interest rate to be paid by BFIs on the borrowing in convertible currencies has

been set at 6-month LIBOR plus 4 percentage points. It was 6-month LIBOR plus 3 percentage points in last fiscal year.

The policy ensured provision for BFIs to mobilize foreign currency fixed deposit for at least 2 year maturity from institutional foreign depositors and Non-resident Nepali and had allowed therefore to mobilize 100 percent of such deposits for extending loan in Nepali currency. Similarly, the limit for deposit mobilization from a single institution by the BFIs has been reduced to 10 percent of their total domestic deposit liabilities whereas such limit for total institutional deposit has been kept unchanged at 50 percent.

The MP has required 'A' class commercial banks to issue debentures of at least 25 percent of their paid-up



capital by end of the fiscal year and those banks are allowed to use cent percent of the funds through the issuance of debentures. NRB has also announced that it will facilitate citizens to keep gold in banks as deposits through monetary policy.

The MP has introduced the provision to limit the Debt service to Gross Income Ratio (DTI) for the installment-based non-business loans such as personal loan, home loan, hire purchase loan and others. Similarly, the MP has made Permanent Account Number (PAN) mandatory for issuing loans of above Rs 5 million from existing limit of Rs 10 million.

Similarly, it has kept unchanged the requirements of extending at least 10 percent of total credit in agriculture sector and at least 15 percent in energy and tourism sector for the commercial banks, as well as the requirement that BFIs have to extend at least 5 percent of their total credit to the deprived sector.

The MP has also provided following additional incentive for the commercial banks for merger and acquisition by end of the FY 2019-20.

- a. The deadline to meet the credit requirements for agriculture, energy and tourism sector has been extended to mid-July 2021.
- b. The deadline to reduce the spread between lending and deposit rate

to 4.4 percent has been extended to mid-July 2021.

- c. Approval from this Bank will not be required to establish new branches.
- d. The existing provision of cooling period of six months will not be applicable for the members of board of directors, chief executive officer and deputy chief executive officers while joining other institutions licensed by this Bank.
- e. The deadline to issue debentures worth 25 percent of paid-up capital has been extended to mid-July 2021.

Similarly, a separate provision will be made to regulate and supervise the Systemically Important Banks (SIBs). The policy also declared that 'Financial Consumer Protection Unit' will be drafted and 'Financial Consumer Protection Unit' will be established at NRB to increase the confidence of general public and to address their grievances.

As per the MP, commercial banks are not required to take approval from NRB to open branchless banking centre in those ward where there is absence of bank branches.

The MP has also announced that NRB will enhance the effectiveness of the goAML system to prevent money laundering and combating financing of terrorism activities. NRB

has also mentioned that the provision of countercyclical buffer as a tool of macro-prudential regulation will be more effectively implemented. In addition, standard for Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) will be issued.

The MP has acknowledged that regulatory provision will be made for Nepali BFIs to open branches abroad and the existing regulation for opening representative offices/branches of foreign banks in Nepal will be also reviewed. As per the policy, Basel II will be fully implemented in development bank and finance companies.

As per the MP, NRB will adopt a policy of gradually reducing cash transactions and promote electronic payment system by focusing digitization & Fin-tech. MP has also announced that NRB will introduce a provision that disallows charging additional fees from customers through point of sale (POS) machine.

Governor Dr. Chiranjibi Nepal expected that all of the stakeholders will assist for effective implementation of Monetary Policy. Secretary at Ministry of Finance & NRB Board of Director Dr. Rajan Khanal, Deputy Governors Chinta Mani Siwakoti & Shiba Raj Shrestha, Prof. Dr. Sri Ram Poudyal, Ramjee Regmi, high level officers of NRB and CEOs from BFIs had also attended the program.

IMF-SRR Meets with Governor Dr. Nepal

Mr. Luis E. Breuer, newly appointed Senior Residential Representative (SRR) of International Monetary Fund (IMF) for India, Nepal and Bhutan met with Governor Dr. Chiranjibi Nepal on July 18, 2019.

On the occasion of meeting, Governor Dr. Nepal welcomed Mr. Breuer on his new appointment and informed him about the current economic status of the country. He informed about foreign trade, remittance inflows and the status of last three years economic growth of Nepal.

Governor Dr.

Nepal had also mentioned about the policies adopted by NRB for financial sector strengthening. Immediate SRR

Mr. Andreas Bauer was also present during the meeting. On the occasion, Governor Dr. Nepal appreciated Mr. Bauer's for role played during his tenure for strengthening bilateral relation between NRB & IMF and also expressed his best wishes to Mr. Bauer for the future endeavor.



Similarly, Mr. Bauer also expressed his sincere thanks to Governor Dr. Nepal for providing support during his tenure. Deputy Governor Chinta Mani Siwakoti, Executive Director of Office of the Governor and Research Department as well as other NRB officials had also attended the meeting.

BOK Research Team in Nepal

A research team from South Korea conducted a field study visit related to financial inclusion and literacy position of Nepal. The study visit was conducted under 'Bank of Korea - Knowledge Partnership Program (BOK-KPP), 2019'.

BOK-KPP is a knowledge exchange program initiated by Bank of Korea to improve the capacity of the central banks of developing country. It focuses on the major issues of central bank such as monetary policy, payment and settlement, foreign exchange reserve



management and financial stability etc.

The title of 2019 BOK-KPP with Nepal Rastra Bank is 'Financial Inclusion and Literacy, Policies and Programs'. It includes the three sub-topics such as (1) Financial Inclusion and Literacy Programs, (2) Channels of Financial Inclusion and Literacy such as Fintech etc. (3) Measuring the effectiveness

(i.e. methodology for monitoring and evaluation such as surveys etc.)

Professors of Korea University Choong Lyol LEE and Myung Kee KIM, professor of Yonsei University Joonmo YANG and research assistant Choongwon LEE had come to Nepal on July 26, 2019 for the study. The team had conducted field study until August 2, 2019.

NRB had also mobilized its five members team lead by Director Daya Ram Sharma Pangani and including Deputy Directors Rajan Prasad Adhikari & Sushil Gyawali, Assistant

Directors Manoj Kumar KC & Jugal Kishor Kushwaha for this study.

The joint team had conducted field study of Suryodaya Microfinance at Syanja, Laxmi Bank Ltd,

Nirdhan Microfinance, Chandragiri Saving & Credit Cooperative Ltd and Nepal Microfinance Association to discuss on the status of financial inclusion. A review meeting was also organized

on August 2, 2019.

The research team from South Korea had also met with Deputy Governors Chinta Mani Siwakoti & Shiba Raj Shrestha during the visit.

Risk Management as the Base of Corporate Governance: Governor Dr. Nepal

Governor Dr. Chiranjibi Nepal had emphasized that all Banks & Financial Institutions (BFIs) should endorse an intensive strategy for risk management. He was speaking as the chief guest at the Annual General Meeting of Banking Finance & Insurance Institute of Nepal (BFIN) and Risk Management Conference on August 14, 2019.

Governor Dr. Nepal mentioned that, risk management is a vital part of corporate governance with mutual relationship extended between corporate governance and risk management. He stated that "No any BFIs can perform effectively and cannot meet institutional goals without a proper risk management mechanism" and added that NRB has issued 'Risk Management Guidelines for BFIs, 2018'. According to him, guidelines have



included credit, liquidity, investment, operation, market and interest related risk.

He also elaborated that Unified Directives which had been issued by NRB to BFIs, also covers in detail additional concept of Oversight from top level management, adequacy of policy and procedure, risk management function, adequate MIS, effective internal control system, risk appetite, tolerance limit, appointment of chief risk officer etc. which is to be complied by BFIs.

This session was followed by rigorous discussion on risk management among the participants. Two working papers were presented and discussed about regulatory and supervisory perspective on risk management and risk mitigation strategy on retail investment. The representatives of BFIs along with experts of different institutions from India also participated in the conference. The conference was chaired by Dr. Binod Atreya, Managing Director of BFIN.

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