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NRB Releases First Quarter Review of Monetary Policy



Nepal Rastra Bank (NRB) has released first quarter review of the monetary policy for the fiscal year 2020-21. NRB released the review on December 3, 2020 via a virtual press conference.

The existing policy direction of monetary policy has been continued to support economic growth by preventing monetary expansion from creating further pressure on price and external sector stability and facilitating the availability of financial

instruments for increasing domestic production, employment creation and entrepreneurship development. It is stated that the regulatory flexibility adopted for financial facilitation will be used to avoid risk on financial stability.

Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR) and bank rate have been kept unchanged. The review states that the difference between the maximum and minimum interest rates to be paid

by Banks and Financial Institutions (BFIs) on deposit accounts except call deposit accounts shall not be more than five percentage points. At the press conference, Governor Mr. Maha Prasad Adhikari informed that the arrangement has been made to balance the gap between fixed deposits and other deposits.

It is mentioned in the review that the loan processing fees and swap fees charged for advance repayment of term loans will be further managed and in



case of loans at fixed interest rate, the interest rate will be adjusted in line with the risk management and resource management.

Through the review, the NRB has stated that the auction process of collateral will be postponed for some time if the borrower affected by COVID-19 has not paid interest for six months or less. The review further states, 'Arrangements will be made to repay the installment of the loan in Nepali currency in view of the inconvenience of borrowers borrowing in foreign currency from BFIs due to the global epidemic of COVID-19.'

The review also mentions that arrangements will be made to provide foreign currency exchange facility to import foreign goods and services up to a certain amount online and pay for it. Similarly, NRB has stated that the provision of service fee to be charged from BFIs, Payment Service Providers (PSPs) and Payment System Operators (PSOs) for providing electronic payment services will be reviewed. It is mentioned in the review that the existing arrangements related to personal overdraft loan, margin lending and real estate loan will be reviewed.

NRB said that further refinancing will be provided to tourism and livestock businesses, including hotels most affected by the COVID-19 pandemic and a study will be conducted to review the existing classification of highly affected, moderately affected and low-affected areas as needed.

Dr. Gunakar Bhatta, Executive Director of the Economic Research Department and Spokesperson of the NRB, presented the quarterly review of monetary policy at the press conference.

Governor Adhikari Addresses 'Singapore Fintech Festival-2020'

'NRB committed for development of digital economy and financial system'

Governor Mr. Maha Prasad Adhikari said that Nepal Rastra Bank (NRB) is committed for the development and promotion of digital economy and financial system in Nepal.

He delivered remarks while addressing the 'Singapore Fintech Festival (SFF)' jointly organized by the United Nations Capital Development Fund (UNCDF) and the Singapore Monetary Authority (SMA). Mentioning on the contribution of digital

banking to agriculture and food system, Governor Adhikari said, "As a leading body in the financial sector, we have realized the fact that NRB has a major role to play in the development of digital economy in Nepal. Therefore, we are committed to the development of a 'digital environment' in Nepal."

Stating that the Government of Nepal has put forward an ambitious plan of 'Digital Nepal Framework' for the promotion of

digital economy, Governor Adhikari expressed confidence that the campaign would play a significant role in the transformation of the country's economy, governance and social activities. "This framework has been taken as Nepal's 'digital foundation'. I am confident that the overall economic and social development of the country will take significant steps to the development of agriculture, health, education, energy, tourism, finance and urban



infrastructure through its implementation." He said.

Stating that the Government of Nepal and NRB have given high priority for the development of electronic banking and payment system in Nepal recently, Governor Adhikari expressed the view that the legal, procedural and institutional arrangements have been strengthened for its implementation. He said that significant achievements have been made in the field of development and operation of payment system, licensing process and supervision of the concerned institution in the recent times. Stating that the expansion of digital banking has added challenges in the field of its regulation and supervision, he opined that the regulatory bodies should be vigilant towards it.

Stating that the recent COVID-19 pandemic has strengthened the relevance of digital banking, Governor Adhikari stressed on requirement to integrate digital technology in agriculture and food system as well. He said, "The use of digital technology can facilitate agricultural production, productivity growth, investment, pricing, market management and payment. This will ultimately

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SINGAPORE FINTECH FESTIVAL

have a far-reaching impact on sustainable agriculture and the food system."

He suggested that the digital system, which is currently centered in urban areas, should be extended to rural areas to connect local farmers with e-commerce. He also indicated the need to provide financial resources, insurance, agricultural information and electronic payment and investment opportunities to rural farmers through the use of digital technology.

Stating that agriculture is the source of livelihood for about two-thirds of the total population and 28 percent contribution in Nepal's GDP, Governor Adhikari said that monetary policy is being implemented 'agriculture bond' and 'KISAN credit card' this year to make farmers more professional.

The festival was organized by the United Nations Capital Development Fund (UNCDF) and the Singapore Monetary Authority (SMA)

from December 7 to 11, 2020. Conferences on different topics were held every day during the festival. Conferences on economics, infrastructure, impact, investment and talent were included.

According to the organizers, the festival had included more than 600 sessions with 1,400 speakers, more than a thousand exhibitors and more than 60,000 participants. More than 7,000 international companies from more than 130 countries have represented the festival.

The SFF is considered to be the largest festival in the world in terms of promotion and development of digital banking technology. The festival has been taken as a common platform for the exchange of knowledge and skills among the participants of the concerned bodies on the latest innovations, latest practices and policy arrangements in the field of digital banking.



SAARCFINANCE Seminar Concludes

Nepal Rastra Bank (NRB) organized a one-day SAARCFINANCE Seminar on 'Financial Inclusion' via webinar on December 2, 2020.

Delivering the welcome remarks in the inaugural session of the seminar, Governor Mr. Maha Prasad Adhikari said that financial inclusion is essential to achieve sustainable economic development goals through poverty reduction. Stating that the South Asian countries are still suffering from poverty, he expressed that it is difficult to run enterprises in the changing situation.

Speaking on the occasion, H.E. Mr. Esala Ruwan Weerakoon, Secretary General of the SAARC Secretariat said that the agenda of financial inclusion in SAARC has been in place since 2007 and highlighted the current situation of financial inclusion in the region. In this occasion, Mr. Fazle Kabir, Governor of Bangladesh Bank delivered the inaugural address and highlighted the history of Bangladesh's financial inclusion, the current situation and the challenges of financial inclusion in South Asia.

The first business session of the seminar was chaired by Mrs. Nangsi Dema, Head of the Financial Inclusion Secretariat of the Royal Monetary Authority of Bhutan. During the session, Mr. Robin Newnham, Head of Policy Analysis at the Alliance for Financial Inclusion (AFI), presented a working paper titled 'Financial Inclusion in the

new normal (COVID-19)'. Mr. Matiullah Stanikzai, Payment Analyst of Da Afghanistan Bank, Dr. M. Farooq Arby, Director of State Bank of Pakistan and Ms. SD Nilanka Chamindani, Sr. Assistant Director of Central Bank of Sri Lanka commented on the paper.

Similarly, in the second business session, a presentation was made by all the Central Bank of SAARC countries. The session, chaired by Mr. Ahmad Imad, Deputy Governor of the Maldives Monetary Authority,

Shrestha, Economic Adviser to the Ministry of Finance (MoF) and Ms. Maria Pardomo, Regional Manager of the UN Capital Development Fund (UNCDF) were the panelists of the session.

The panel discussion focused on the relationship between financial stability and financial inclusion, and the role that central banks can play in promoting financial inclusion in the new context created by COVID-19.

In this occasion, Deputy Governor Mr. Chintamani



featured country papers from all SAARCFINANCE members.

The panel discussion was held in the third business session of the seminar. The session was chaired by Mr. Anil Kumar Sharma, Executive Director of Reserve Bank of India and three panelists were Mr. Luis Breuer, Senior Resident Representative of the International Monetary Fund (IMF), Dr. Prakash Kumar

Shiwakoti delivered concluding remarks with a brief review of the seminar while SAARCFINANCE coordinator and Acting Director of NRB Mr. Narayan Prasad Pokhrel expressed his gratitude on behalf of NRB. The seminar was conducted by alternate SAARCFINANCE coordinator and Deputy Director Mr. Damber Subedi.

Governor Adhikari Participates in SAARCFINANCE Group Meeting

Governor Mr. Maha Prasad Adhikari participated in a webinar on November 4, 2020 with the participation of the Governors of the Central Banks of SAARC countries.

The meeting was organized by the Reserve Bank of India (RBI) as the chair of SAARCFINANCE for 2020 AD. The meeting was attended by Governors, Deputy Governors and other distinguished officials from SAARC Central Banks including Da Afghanistan Bank, Bangladesh Bank, Royal Monetary Authority of Bhutan, Reserve Bank of India, Maldives Monetary Authority, State Bank of Pakistan and Central Bank of Sri Lanka.

On this occasion, Shree Shaktikant Das, Governor of RBI, delivered welcome remarks and informed that relief facility equal to 10 percent of the GDP has been provided to mitigate

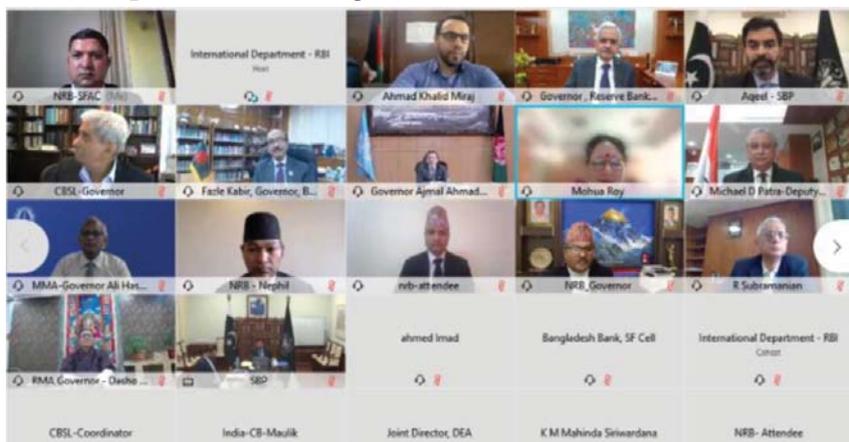


the impact of COVID-19. He also informed about the policy arrangements, overall economic indicators and financial condition adopted by the RBI.

During the virtual meeting, Governor Adhikari briefed about the impact of COVID-19 on Nepal's economy and financial sector and the policy measures adopted to address it. He informed about the policy provisions implemented by the NRB on the issues of increasing the limit of

refinancing, classification and provisioning of loans, provision of additional working capital loan, rescheduling/restructuring of loans and other issues. He also suggested that the central banks under SAARCFINANCE should study the feasibility of implementing Central Bank Digital Currency (CBDC).

On this occasion, the governors of SAARC countries discussed the impact of COVID-19 and the policy measures adopted by their respective governments and central banks to address it. Executive Directors Dr. Nephil Matangi Maskey and Dr. Gunakar Bhatta, Director Mr. Narayan Prasad Pokhrel, SAARCFINANCE alternate Coordinator and other officials were participated in the virtual meeting.



Governor Adhikari Participated in 56th SEACEN Governors' Conference/High-Level Seminar and 40th Meeting of the SEACEN Board of Governors'



The 56th High Level Seminar and 40th Meeting of the Governors/Managing Directors of 19 Central Banks of Southeast Asia was held on December 1, 2020.

The meeting was organized by The South East Asian Central Banks (SEACEN) Research and Training Centre via virtual medium. Participating in

the meeting, Governor Mr. Maha Prasad Adhikari expressed his views on the policy proposal of the Season Center for the coming year.

In this occasion, Mr. Chen Yulu, Deputy Governor of the People's Bank of China, presented a working paper on 'Opportunities and Challenges of Digital Currency Adopted by the

Central Bank'. During the meeting, the governors of the central banks of the member countries also discussed the impact of COVID-19 on the economy and the policy measures adopted to address this.

At the meeting, Dr. Mangal Goswami, Executive Director of the SEACEN Center, presented the agenda of the SEACEN Board, the progress report of 2020 and the budget and action plan for 2021. The members also approved the budget and action plan for 2021 by reviewing the progress report and budget presented in 2020.

Governor Adhikari Participates in WBGS/IMF Joint Annual Meeting

Governor Mr. Maha Prasad Adhikari participated in World Bank Groups (WBGS) and International Monetary Fund (IMF) joint annual meeting on October 18-20, 2020. The annual meeting was organized via webinar.

On this occasion, Governor Adhikari

discussed with Mr. Tao Zhang, Deputy Managing Director of IMF on October 13 about the impact of COVID-19 on Nepal's economy and financial sector and the policy measures taken to mitigate it. He also discussed the contribution made by the IMF in the

development process of Nepal through financial and technical assistance.

On the same day, he held discussions with Mr. Alfonso Garcia Mora, Vice President, Asia Pacific Region, International Finance Corporation (IFC). On the occasion, Vice President Mora



expressed interest in institutional restructuring of Nepal's financial sector, enhancement of financial capacity, investment in the hydropower sector, issuance of bonds in domestic currency and other issues.

Governor Adhikari also participated in the Plenary Session and the 'Toronto Center Round Table Discussion' on October 15. Similarly, Governor Adhikari briefed H.E. Alisara Mahasandana, Executive Director of the IMF's Southeast Asia

Voting Group and Mr. Keng Heng Tan, Alternate Executive Director, at the virtual side meeting on October 16 about the impact of COVID-19 on Nepal's economic situation and human health.

On this occasion, Dr. Gunakar Bhatta, Executive Director of Economic Research Department, in a virtual meeting with the officials of the Department of Monetary and Capital Markets of IMF, discussed about the technical assistance required in the monetary and financial

sector.

During the various meetings, discussions were held on the areas of promotion of bilateral interests, areas of economic and technical cooperation, the impact of COVID-19 on Nepal's financial sector and the policy measures taken to mitigate it. The Mr. Narayan Prasad Pokhrel, Acting Director of Office of the Governor and Deputy Director Damber Subedi were also present in the meeting.



Implementation Status of Monetary Policy 2020/21

1. Background

Nepal Rastra Bank (NRB), as mandated by the NRB Act, 2002, announced Monetary Policy for 2020/21 on July 17, 2020. The monetary policy was formulated taking into account the domestic as well as international economic outlook along with the Fifteenth Plan of the Government of Nepal (GoN), Government Budget for 2020/21, Financial Sector Development Strategy (FSDS) and the Third Strategic Plan of NRB. Since the monetary policy was formulated on the background of the abnormal and uncertain situation created by Covid-19, the policy focused on the credit availability for Covid-19 hard-hit areas and growth fostering economic activities. The essence of the policy was to retain confidence of investors and revive economy along with maintaining macroeconomic and financial stability. The policy has worked effectively on the intended direction.

2. Major Provisions of Monetary Policy 2020/21

The NRB adopted accommodative monetary policy stance for 2020/21 with the aim of supporting economic growth through effective mobilization

of financial resources, expanding financial access and developing secure, healthy and efficient digital payment. The policy has remained cautious about prospective risks in price and external sector stability due to excess liquidity. The policy aimed to maintain inflation at 7 percent and foreign exchange reserves sufficient to cover the prospective merchandise imports of goods and services for at least 7 months. The projections of broad money (M2) and private sector credit for 2020/21 are 18 percent and 20 percent respectively. The monetary policy has kept the existing CRR, SLR and Bank Rate unchanged whereas it has revised the policy rate and Interest Rate Corridor (IRC) bounds downward signaling the accommodative policy stance.

The financial sector provisions for 2020/21 incorporated credit provision, program of recovery, financial consolidation and regulation & supervision. Under the credit provisions, Commercial banks are required to extend at least 15 percent of their total credit in agriculture sector by mid-July 2023. Likewise, they are required to extend at least

✉ Nanda Kumar Dhakal
Deputy Director

10 percent of their credit in energy sector by mid-July 2024. Commercial banks are required to extend at least 15 percent of total loans to micro, small and medium enterprises (MSMEs) with loan limit up to Rs. 10 million by mid-July 2024. Besides, Concessional lending program has been simplified further to promote production, generate employment and develop entrepreneurship to mitigate the impact of Covid-19. The BFIs are encouraged to extend concessional loans to the prospective customers.

Monetary Policy introduced some unconventional measures and regulatory reliefs under the program of recovery. With the aim of inclusive finance and speedy recovery of economy, refinance facilities have been extended, decentralized and restructured giving priority on Covid-19 affected businesses. Credit Programs for Covid-19 affected business have been introduced including facility to provide 20 percent additional working capital loan, subsidized loan for the operation and continuation of Covid-19 affected businesses including tourism and



cottage, small and medium enterprises for payment of salaries to workers and employees of such sectors, and for providing opportunities to develop entrepreneurship to those who have lost jobs in the hard-hit sectors. Facilities such as the extension of loan payment schedule, restructuring and rescheduling of loans have been provided to all professions, industry and businesses including tourism, manufacturing, education, health, communication and entertainment that have faced difficulties in repaying the debt due to the measures taken to control the spread of Covid-19.

Giving priority on financial consolidation, monetary policy has encouraged BFIs for merger and acquisition providing additional incentives such as waving of CRR and SLR by 0.5 percent and 1 percent respectively, 10 percent addition to the limit in institutional fixed deposit, 5 percent addition to the individual institutional deposits limit and cooling period for specified high level officials of BFIs involved in merger and acquisition.

On the regulatory and supervisory front, some provisions such as CCD, dividend declaration and distribution, capital adequacy and loan loss provisions

have been relaxed. Monetary policy has made the provision of base rate for Microfinance Financial Institutions (MFIs). The provision of 15 percent maximum lending rate for MFIs has also been started. The policy has given high priority to digitization on payment system.

In the foreign exchange management, foreign exchange facility up to USD 50,000 has been provided for imports through Documents against Payment (DAP) and Documents against Acceptance (DAA). Foreign exchange facility for import from the third countries through draft/ TT has been increased from USD 30,000 to USD 35,000. The list of commodities that can be imported from India in convertible currency through LC has been extended to 167 by adding 3 commodities of metal and wire group. Provisions have been made to receive foreign currency earned from the exports of IT related services exported through online or electronic means in the bank account or card of the exporter or service provider. Necessary arrangements have been made to receive remittances through mobile wallets.

3. Progress in Monetary Policy Implementation

The monetary policy of 2020/21 has remained

successful in managing financial stress and developing business confidence. The regulatory reliefs not only supported investors to continue businesses but also created business confidence in difficult time.

Though the economic growth remained subdued in 2019/20 due to lockdown and other preventive measures adopted to control Covid-19 transmissions, the economy is on a positive track in recent months. A survey of NRB on Covid-19 impact on the economy conducted on mid-November to mid-December, 2020 has disclosed that 54 percent of industrial activities/businesses are in full operation and their production/transaction level has reached 50 percent compared to pre-Covid-19 period. Moreover, the employment situation has improved and employment level has reached 87 percent of pre-Covid period.

Economic stability has been maintained despite unfavorable situation. The average consumer price inflation remained 3.72 percent during the six month of 2020/21, which was 6.41 percent in the corresponding period of the previous year.

Gross foreign exchange reserve of the banking system stood Rs. 1493.75 billion (USD 12.8 billion) in mid-



January 2021. Based on the imports of the six months of 2020/21, foreign exchange holding of the banking sector is sufficient to cover prospective merchandise and service imports for 12.6 months.

Monetary expansion remained higher than the target whereas credit expansion remained slow. The y-o-y growth of broad money supply (M2) stood 23 percent in mid-January 2021 compared to the projection of 18 percent for 2020/21. Private sector credit, on y-o-y basis, increased by 15 percent in mid-January 2021 compared to the projection of 20 percent for 2020/21.

Financial sector stability has been maintained well. The NPL ratio of BFIs remained low (1.84 percent), liquidity ratio remained high (26.78 percent), capital adequacy ratio remained strong (13.86 percent) in mid-January 2021.

The liquidity in the banking system remained significantly surplus and consequently interest rates also declined. As a result, cost of doing business declined and investors are encouraged. Base rate of commercial banks declined to 7.18 percent in mid-January 2021 from 8.50 percent in mid-July 2020. Likewise, the average deposit rate of commercial

banks declined to 5 percent from 6.01 percent and the average lending rate declined to 9.09 percent from 10.11 percent in the same period.

The implementation of refinance and concessional lending programs promoted business activities. The credit expansion on the backing of these programs promoted employment and entrepreneurship, enhanced productivity and ensured access to credit. They have strong multiplier effects, which enhances the speedy recovery of the economy.

The credit targets for BFIs to the priority sectors including agriculture, energy, tourism and MSMEs is strategically important to develop self reliant economy. The credit to the agriculture, energy and other prioritized sectors expanded in recent months.

Electronic payment transaction increased significantly due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments. This has not only facilitated efficient payment system but also enhanced efficiency in exchange.

The new provisions of foreign exchange announced in monetary policy 2020/21 contributed to make

prudent management of foreign exchange expenses and encouraged inflows of foreign exchange through formal system.

4. Conclusion

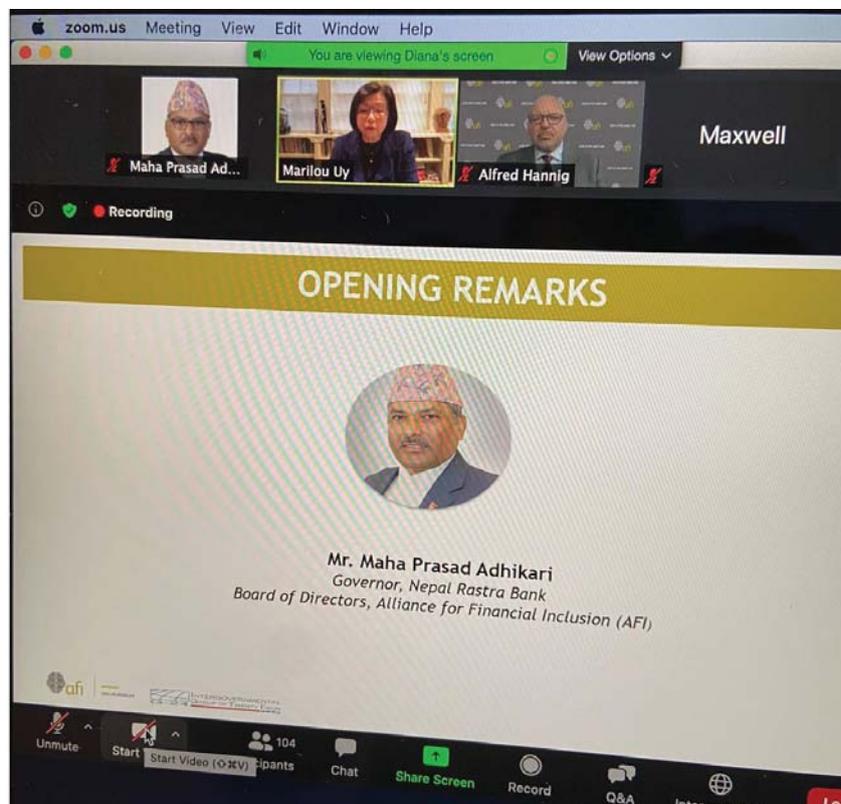
Besides addressing the unconventional needs of the economy, the monetary policy 2020/21 has contributed well in maintaining macroeconomic and financial stability. It has become remarkable in creating people's expectation on public policies as well. Since the monetary policy effectiveness depends on the behavior of stakeholders, mainly BFIs and business communities, there are additional efforts required from all stakeholders to make policy more effective. Likewise, NRB need to magnify supervisory lenses to maintain financial stability taking into consideration of potential risks originated from regulatory relaxations initiated for the recovery of economy. Likewise, it is essential to strengthen communication strategy so that BFIs will align their business strategies and practices with policy and guidance of NRB more effectively.

Governor Adhikari Participates in G-24/AFI Policymakers' Roundtable

Governor Mr. Maha Prasad Adhikari participated in a virtual meeting titled 'G-24/AFI Policymakers' Roundtable Alliance for Financial Inclusion (AFI)' on October 19, 2020. The virtual meeting was jointly organized by AFI and G-24.

Governor Adhikari, who is also a member of the Board of Directors of AFI, stressed on the need for governments and central banks of the member states to focus on reviving the economy affected by COVID-19. He urged that the focus should be on resource management, policy and regulatory facilitation and promotion of electronic banking system, especially for the revival of small and medium enterprises. In addition, Governor Adhikari pointed out the need to take the difficult situation of COVID pandemic as an opportunity for electronic payment system and e-commerce promotion. "The promotion of digital banking can help in the promotion of employment and development of entrepreneurship among the younger generation." he said.

On this occasion, Dr. Reza Baqir, Governor of State Bank of Pakistan



discussed the practices adopted by his bank for liquidity creation, policy rate revision, refinancing facilities and policy concessions in the situation of COVID pandemic. During the meeting, the participants discussed about the policy efforts taken to mitigate the impact of COVID-19 on the economy and the financial inclusion of the young generation. In addition, the participants also discussed the policy practices adopted in their respective countries for the revival of the economy in the pandemic situation. The participants also discussed the role

of the young generation in economic growth and development and the need to promote financial inclusion through digital financial literacy.

In the virtual meeting, Dr. Alfred Hannig, Executive Director of AFI, Policy Analysis Adviser, Mr. Robin Newnham, Mr. Jayathma Wickramnayake and special envoy for UN Secretary General, Mr. Maxwell Opoku-Afari, Governor of Bank of Ghana and other officials expressed their respective views.



Financial Consumer Protection & Grievance Management Procedure unveils

Nepal Rastra Bank (NRB) has unveiled 'Financial Customer Protection and Grievance Management Procedure, 2020' with the objective of making the service flow more fair, reliable and transparent of Banks and Financial Institutions (BFIs), Payment Service Operators (PSOs), remittance companies, money changers and other institutions.

Banks and Financial Institutions Regulation Department has issued a circular in this regard on September 28, 2020 and instructed the licensed institutions to provide banking and financial services to their customers as per the procedure. All the institutions licensed or permitted by the central bank shall fall under the purview of this procedure. "The main objective of financial customer protection will be to ensure fair, reliable and transparent financial intermediary

service delivery to all types of clients, to ensure that clients do not suffer any kind of difficulty and to be properly managed in case of difficulty," the procedure states.

Protecting the interests of financial customers, equal treatment, transparency, accountability and grievance hearing and dispute resolution have been accepted as the main principles of the procedure. An eight-member grievance management committee has been formed under the coordination of the senior Deputy Governor to hear the customer.

The committee will have another Deputy Governor, Executive Director of Banks and Financial Institutions Regulation Department and Bank Supervision Department, Joint Secretary of Ministry of Finance (MoF), President of Nepal Bankers Association, representative member of

Federation of Nepalese Chambers of Commerce (FNCCI) and Industry. A provision has been made for the Director of Banks and Financial Institutions Regulation Department to be a member-secretary. There is an arrangement in this procedure to have a 'Financial Consumer Protection Unit' under Banks and Financial Institutions Regulation Department as the secretariat of the committee. The unit will take necessary steps to recognize the customer's grievances, keep records and hear the grievances.

The procedure mentions the process of filing a complaint and hearing it. If any financial service provider repeatedly violates the directive issued by the NRB or does not follow the prevailing law, the grievance management committee should send a letter to the concerned supervision department for necessary action.

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