

NRB Unveiled Monetary Policy for FY 2021-22



Nepal Rastra Bank has unveiled the monetary policy for the fiscal year 2021/22. Governor Mr. Maha Prasad Adhikari unveiled the monetary policy public on August 13, 2021.

Speaking on the occasion, Governor Adhikari expressed that the monetary policy has taken a direction of monetary facilitation and economic and financial stability to help the economy expand through reviving the areas affected by the COVID-19 pandemic. Monetary management will be

implemented depending on the macroeconomic situation while being cautious about the potential pressure on price and external sector and maintaining the exchange peg as the nominal anchor.

Monetary policy stated that the scope of financial resources will be widened. Such available resources will be mobilized towards expanding production, generating employment, developing entrepreneurship and achieving sustainable inclusive economic development.

Economic and Monetary Target

Monetary policy aimed that liquidity will be managed to support the expansion of the economy by emphasizing economic recovery and contain consumer inflation at 6.5 percent in FY 2021/22.

Similarly, the policy stipulates that monetary and external sector management will be carried out to maintain foreign exchange reserves sufficient to cover the prospective merchandise imports of goods and services for at least seven months in FY 2021/22.

Operational Target and Instruments

Cash Reserve Ratio (CRR) to be maintained by the BFIs will remain unchanged at three percent. As per the policy, bank rate, used for the purpose of lender of the last resort (LOLR) facility by the BFIs, will be kept unchanged at five percent. Similarly, Standing Liquidity Facility (SLF) rate as the upper bound of the Interest Rate Corridor (IRC) will remain unchanged at five percent while deposit collection rate as the lower bound of IRC will be revised from one percent to two percent and repo rate as the policy rate will be revised from three percent to 3.5 percent. The IRC will be made effective through more proactive Open Market Operation (OMO). Statutory Liquidity Ratio (SLR) has been kept unchanged at 10 percent, 8 percent, and 7 percent for commercial banks, development banks, and finance companies respectively.

Debt and Resource Management

The policy stipulates that national level development banks, finance companies and wholesale lending microfinance financial institutions are required to issue bonds of 25 percent of their paid-up capital. Earlier, commercial banks were required to issue bonds of 25 percent of their paid-up capital. It is also

Monetary Policy for 2021/22



Nepal Rastra Bank
Central Office
Baluwatar, Kathmandu
August 2021

stated that an arrangement will be made for additional one percent interest if the remittance received from Nepalese remitters working as foreign employment is deposited in BFIs.

Monetary policy mentioned that the existing provision for the commercial banks to extend at least 15 percent of their total loan to the agriculture, energy, micro, cottage, and medium scale industries with a loan limit not exceeding Rs.10 million has been continued. A provision will be made for the commercial banks to establish focal desks in their branches operating the government transactions of rural municipalities and municipalities. This

provision aims to promote additional resources for agriculture, micro and cottage industries.

It is stated in the policy that the existing provisions related to deprive sector lending will be revised and gradually adjusted in the credit to micro, cottage, small and medium scale industries. "To expand the productive economy through enhancing production, generating employment, and developing entrepreneurship, the concessional loan program will be implemented effectively as per the unified procedure of the Government of Nepal related to interest subsidies on concessional loans", the



policy stated.

It is stated that BFIs will be required to limit the credit-deposit ratio (CD Ratio) maximum at 90 percent by mid-July 2022. And, the existing provision of CCD ratio will be abolished. An arrangement will be made to adjust the bonds and borrowings other than the capital fund and the bonds as a part of the capital fund in the credit-deposit ratio. As per the policy, the existing mandatory limit for the BFIs to go into consortium financing for loans of more than Rs. one billion will be increased to Rs. two billion.

The existing loan to value ratio for margin nature loans against the collateral of shares provided by the BFIs has been kept unchanged. Policy states that a provision will be made in which an individual or institution can take marginal nature loans against the collateral of shares up to Rs. 40 million from one financial institution and Rs.120 million from the financial system. This provision is supposed to minimize the credit risks of such margin nature loans and promote access of small investors. In the case that existing borrowers exceeded such loan limits, appropriate time will be provided to regulate such loans.

Economic Recovery Program

As per the monetary

policy, the existing refinance facility for the speedy recovery of COVID-19 affected industries/businesses will be continued. Accordingly, an arrangement will be made to provide refinance facilities not exceeding the maximum limit set in the previous year. Cottage, micro, small, and medium industries/businesses will be given priority while providing such refinance facility.

It is stated that the business continuity loan program will be implemented effectively for the recovery of businesses affected by the COVID-19 pandemic including tourism businesses, gyms, cinemas, party palaces, recreation businesses, and other crisis-hit industries. "Considering the fact that the COVID-19 has affected the overall economy, the existing provision of classifying borrowing firms, companies, or institutions by the BFIs into the watch list category if they incur loss for subsequent two years will be changed and such firms will be classified into watch list category only if they incur loss for subsequent three years", monetary policy stated.

Financial Sector Strengthening and Regulation

The policy stated that the second financial sector development strategy and the fourth strategic plan of

NRB will be formulated and implemented for the sustainable and inclusive development of the financial sector and enhance financial access. It has been stated that the amendment process will be initiated to amend the Foreign Exchange Regulation Act, 2019 BS, Negotiable Instrument Act 2034 BS, and Banking Offence and Punishment Act, 2064 BS will be initiated.

In order to enhance the BFIs' risk-bearing capacity by strengthening their capital base, the BFIs will be further encouraged to participate in the merger and acquisition process. In this regards, Commercial banks will be provided several additional incentives and concessions till mid-July 2023 if they commence joint operation by participating in the merger and acquisition process by fiscal year 2021/22.

The policy mentioned that the provision of Counter Cyclical buffer issued for commercial banks has been suspended till mid-July 2022. The existing provision of spread rate between lending and deposit rate to be maintained by the BFIs has been kept unchanged. As per the policy, the existing method of calculating the base rate will be revised. The provision that the BFIs can fix the premium rate to be added in the base rate while determining the



interest rate of the loan has been continued. But, an arrangement will be made to add a maximum premium of 2 percentage points in the base rate for the borrower utilizing a business loan exceeding ten million rupees.

An arrangement will be made for an independent audit to ensure the effectiveness and proper utilization of refinancing, business continuity loan, and concessional loan provided for the recovery of professions and businesses affected by the COVID-19 pandemic. The policy stated that Electronic-based Know Your Customer (E-KYC) will be developed by simplifying the provisions related to customer identification.

Provision Regarding Micro Finance Institutions

The monetary policy stipulates that a provision will be made for the merger of Micro Finance Institutions (MFIs) that have cross-holding of commercial banks, development banks and financial companies by mid-July 2022. Similarly, a provision will be made in which commercial banks, development banks, and finance companies can provide loans to the members of subjective cooperative societies (excluding the cooperatives conducting savings and credit transactions) not exceeding Rs.0.5 million per member for joint farming and animal

husbandry. The policy also stipulates that national level MFIs should publish financial statements as per Nepal Financial Reporting Standards (NFRS).

Payment Systems

Various technology friendly schemes have been put forward through monetary policy to promote electronic payment transactions. In this regards, the policy stated that emphasis will be given on the development of necessary infrastructure and increasing awareness this fiscal year to celebrate FY 2021/22 as 'E-Payment Transactions Promotion Year'.

According to monetary policy, a national payment switch will be established to settle and record payment transactions happening within Nepal by keeping inter-connectedness among instruments of e-payments and to start the use of Nepal's own payment card.

Monetary policy stated that special refinance will be provided to the payment service providers, payment system operators, and telecom service providers to invest in development and promotion of the overall ecosystem of the e-payment system. Similarly, revenue and all payments of the Government of Nepal will be facilitated through banking and electronic means of payments. Monetary policy stated that an arrangement will be made to receive

social security allowance by respective person through the means of e-payments from the bank branches undertaking government transactions.

The scope of transaction of payment service providers and payment system operators will be widened to promote e-payment services among the customers of the MFIs and Cooperatives. "Also, necessary coordination will be made to effectively implement the existing ceiling of cash transactions among saving and credit co-operative societies", policy stated.

Monetary policy stated that Digital Lending Framework will be formulated and implemented in order to facilitate the entire process from loan application to its approval in the BFIs electronically. A feasibility study of Central Bank Digital Currency (CBDC) in Nepal will be conducted in the context of global interest regarding the usage and feasibility of digital currency.

As per the policy, a study will be conducted relating to the concept of digital banking and micro-lending provision by payment service providers up to a certain amount to promote micro, SMEs, and Start-ups. An arrangement will be made for the payment service providers excluding the BFIs and payment system operators to submit

the report of transactions above the certain limit and suspicious transactions to the Financial Information Unit.

Foreign Exchange Management

An arrangement will be made to provide foreign currency exchange facilities up to USD 25 thousand based on specified documents for the service imports to institutions providing air transportations through commercial banks. Similarly, it states that an arrangement will be made for the national priority projects to provide payments for services from foreign institutions directly through the commercial banks based on the specified documents.

The monetary

policy has announced that necessary arrangements will be made for the merger and acquisitions of remittances service companies in order to strengthen these institutions.

A study will be conducted regarding a provision in which remittance companies of the countries, from where it is difficult to transfer remittances in Nepal; can transfer remittances through this bank's agency account by depositing money in local currency. Similarly, the use and implementation status of the USD 500 card issued last year for the promotion of e-commerce will be studied and made more effective.

Financial Consumer Protection

The policy states that a draft will be prepared for the law related to financial consumer protection to protect the interest of financial customers from licensed institutions.

Necessary arrangements will be made to ensure uniformity about the credit dispersal and KYC documents used by the BFIs. "To identify measure, evaluate and manage the risks inherent in the high-risk areas pointed out in the National Risk Assessment Report (NRA, 2020) on asset laundering, special inspection and monitoring of reporting entities will be carried out", policy stated. ❖

Director Marasini takes oath with Judge KC

Mr. Madhu Kumar Marasini, Secretary of Ministry of Finance (MoF), has taken oath of office and secrecy from Mr. Tej Bahadur KC, judge of Supreme Court as a member of the Board of Directors of Nepal Rastra Bank.

Secretary Marasini was administered the oath by judge KC at a program organized at the Supreme Court on August 4, 2021. Section-14 of the Nepal Rastra Bank Act, 2002 states that the Secretary of MoF shall be a member of the Board of Directors of



Nepal Rastra Bank (NRB). Section-108 of the same act stipulates that the Governor and Board of Directors of NRB must take an oath of office and secrecy from the Chief Justice of the Supreme Court or a judge appointed

by him.

Mr. Lal Bahadur Kunwar, Chief Registrar of Supreme Court, Mr. Mukti Nath Sapkota, Board Secretary of NRB and other officials also attended the program. ❖

IMF Representative Breuer Meets with Governor Adhikari



A meeting was held on August 12, 2021 between Governor Mr. Maha Prasad Adhikari and Senior Resident Representative of the International Monetary Fund (IMF) Mr. Luis E. Breuer.

During the meeting at the Governor's Office, they discussed the current state of Nepalese financial sector and the IMF's assistance in strengthening it. On the occasion, Governor Adhikari shared current macroeconomic and financial situation to Breuer. He also thanked the IMF for their support of Catastrophe Containment and Relief Trust (CCRT) and Rapid Credit Facility (RCF) and said that the RCF was useful in strengthening the economy

affected by the COVID-19 pandemic.

Governor Adhikari conveyed to the IMF resident representative Breuer on the policy measures adopted by NRB for the revival of the economy and financial sector affected by COVID-19. During the meeting, IMF representative Breuer expressed interest in implementation status of the recommendations made by the Safeguards Assessment Mission of IMF. Considering that the recommendations of the mission was useful for NRB, Governor Adhikari informed that a taskforce has been established for the effective implementation of the recommendations of the mission with necessary

arrangements having been made to facilitate departmental coordination. He informed that the suggestions made by the mission in the areas of disclosure of financial statements of the bank, risk management, institutional good governance are important.

During the meeting, Deputy Governors, Dr. Neelam Dhungana Timsina and Mr. Bam Bahadur Mishra, Dr. Nephil Matangi Maskay, Executive Director of the Office of the Governor, Dr. Prakash Kumar Shrestha, Executive Director of Economic Research Department and Mr. Narayan Prasad Pokhrel, Director of Office of the Governor had also attended in the meeting. ❖

Courtesy call between Governor Adhikari and Ambassador Berry



A courtesy call between Governor Mr. Maha Prasad Adhikari and US Ambassador to Nepal Mr. Randy W. Berry was held on September 15, 2021 in Office of the Governor. They discussed Nepalese macroeconomic and financial situation, commerce sector and mutual interests. Governor also opined that economic activity has expanded with the decline in the infection rate of COVID-19. In addition, Governor Adhikari presented the key

figure of remittance inflow in Nepal and highlighted the importance of remittances in Nepal's economy.

On the occasion, Ambassador Berry expressed concern over the impact of COVID-19 on Nepal's economy and inquired about the policy measures adopted to reduce the impact of COVID. Other matters of mutual interests were also discussed.

Deputy Governors Dr. Neelam Dhungana Timsina and Mr. Bam Bahadur Mishra, Dr. Nephil Matangi

Maskay, Executive Director of Office of the Governor, Mr. Revati Prasad Nepal, Executive Director of Currency Management Department attended the meeting on behalf of the NRB.

Similarly, Mr. Mark Templer, Head of Political and Economic Affairs and Mr. Abhishek Basnyat, financial sector specialist were also attended on behalf of the US Embassy. ❖

OFG organizes Knowledge Sharing Program



Office of the Governor organized a knowledge sharing program on September 2, 2021. The program was organized in the presence of Governor Mr. Maha Prasad Adhikari, Deputy Governors Dr. Neelam Dhungana Timsina and Mr. Bam Bahadur Mishra via virtual medium.

On the occasion, Mr. Luis E. Breuer, Senior Resident Representative of the International Monetary Fund (IMF) for Nepal, India and Bhutan presented a working paper titled 'The Evolving Impact of COVID-19'. He said the

world economy is projected to grow by 6.0 percent, developed countries by 5.6 percent and emerging and developing countries by 6.3 percent in 2021.

According to Breuer, the IMF projections are based on the assumption that by the end of 2022, COVID vaccines will be available in most countries and the rate of covid infection will be lower. He expressed his confidence that the policy practices adopted by various central banks to mitigate the impact of COVID on the economy would continue till at least 2022, which would help the

economy.

On the occasion, Senior Resident Representative Breuer presented various statistics on the impact of COVID pandemic on the global economy and the policy measures adopted by the IMF to address them. At the end of the program Governor Adhikari expressed his gratitude. The program was attended by 73 staffs of various departments, offices, divisions and unit. The program was conducted by Mr. Narayan Prasad Pokhrel, Director of the Office of the Governor. ❖

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