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NRB Releases Monetary Policy for FY 2020-21

Nepal Rastra Bank (NRB) has released the Monetary Policy for FY 2020-21 on July 17, 2020. Governor Mr. Maha Prasad Adhikari unveiled this Monetary Policy live via Nepal Television from Governor's Office at Baluwatar, Kathmandu.

Monetary policy has taken the policy of supporting the economic growth target set by the Government while maintaining macroeconomic stability and mobilizing financial resources to expand economic activities generate employment and enhancing sustainable economic development. Similarly, the monetary policy stipulates liquidity management, integration and consolidation of Banks and Financial Institutions (BFIs), enhancement of financial access and quality of services and promotion of electronic payment business focusing on the pressure on price and external sector stability.

Monetary policy has aimed to contain inflation within 7.0 percent in order to maintain price stability and to achieve economic growth of 7.0 percent in line with the target of the government budget.

Similarly, policy has aimed to maintain foreign exchange reserves sufficient for import of merchandise goods and services for at least seven months in current fiscal year to ensure the external sector stability. Monetary policy envisioned to attain the targeted economic growth keeping economic recovery in priority. In the current Fiscal Year, the monetary policy has projected the growth of broad money (M2) and private sector credit has been projected at 18 percent and 20 percent respectively.

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 IRC has been kept unchanged Standing Liquidity Facility (SLF) at 5.0 percent while the repo rate at the lower limit has been reduced from 2.0 to 1.0 percent. Similarly, the repo rate has been reduced from 3.5 to 3.0 percent.

Monetary policy has announced the provision of long-term repo facility to provide additional resources for the recovery of the economy affected by Covid-19. Cash Reserve Ratio (CRR) of three percent required by BFIs has been maintained. Similarly, the Statutory Liquidity Ratio (SLR) to be maintained by 'A', 'B' and 'C' class institutions has been kept unchanged at 10, 8.0 and 7.0 percent respectively. Bank rate, used for the purpose of lender of the last resort (LOLR) facility, has been kept unchanged at 5.0 percent.

Policy has focused on expanding credit on agriculture, energy, tourism, and cottage as well as small and medium enterprises so as to revive the economy affected by Covid-19. In line with this, provision for priority sector lending has been revised. Access to refinancing facilities has been decentralized. Concessional credit program has been restructured by widening the coverage.

A provision has been made for commercial banks to invest at least 15 percent of their total credit in agriculture sector by mid-July 2023 so as to ensure food security and generate employment while becoming self-reliant on agriculture production. The monetary policy states that the Agriculture Development Bank Limited (ADBL) will be promoted as the 'lead bank' to facilitate credit in agriculture sector.

The ADBL will be allowed to issue agricultural bond to ensure availability of long term financing in agriculture sector. It has been stated that 'Kisan Credit Card' will be provided through the ADBL, to provide agricultural information along with financial means to the farmers.

The monetary policy stipulates that commercial banks should invest at least 10 percent of their total loan in the energy sector by mid-July 2024 to support the target of generating 5,000 MW of hydropower during the 15th Plan for achieve self reliance in energy. The policy also states that arrangements will be made to issue 'energy bonds' through the commercial banks.

The policy states that concessional credit program will be further simplified to promote output, generate employment and develop entrepreneurship to mitigate the impact of Covid-19. Such loans will be provided at an annual interest rate of 5.0 percent.

It is also stated that each commercial bank will be required to extend at least 500 concessional loans or minimum 10 loans per branch, whichever is higher aimed at maintaining provincial balance. Similarly, each national Development Bank will be required to provide at least 300 such loans or minimum 5 loans

per branch, whichever is higher.

The monetary policy has made provision of refinance facilities, revised with making the provision of extending refinance facilities up to five times of the available fund so as to promote economic activities thereby providing concessional credit and enhancing access to credit for Covid-19 affected professions, enterprises and businesses.

Out of total refinance facilitates, up to 20 percent can be extended based on customer evaluation with up to 70 percent through commercial banks, development banks and finance companies and up to 10 percent through the MFIs on lump sum basis.

As per the monetary policy, special refinance for the specified sectors including export and sick industry will be provided to the BFIs at 1.0 percent. Likewise, MSME refinance will be provided at 2.0 percent and general refinance will be provided at 3 percent. Borrowers have to pay 3.0 percent, 5.0 percent and 5.0 percent interest rates respectively on these loans.

It is mentioned in the policy that under the provision of lump sum refinance facilities, the maximum limit per borrower will be Rs.1.5 million for MSME refinance, Rs.50 million for special and general refinance, and Rs.200 million for general refinance provided on the basis of customer evaluation.

In addition, the monetary policy also mentioned that a provision will be made to provide 20 percent additional loan based on the working capital limit of mid-April 2020. BFIs can provide such loans based on borrower's need and feasibility of project/ business so as to facilitate the continuation of business that are hard-hit by the Covid-19. As per the policy, a provision will be made to provide loan from the BFIs at 5.0 percent 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. The resources for this facility will be managed from the Rs. 50 billion fund that is to be established as mentioned in the budget speech for FY 2020/21.

The policy stated that Credit to Deposit cum Core Capital (CCD Ratio) will be increased from 80 percent to 85 percent to increase resource availability to BFIs and thereby revive the economy affected by Covid-19. The deadline for commercial banks to issue

Incentives for Mergers and Acquisition

In order to strengthen the capital base of Banks and Financial Institutions (BFIs) and thereby strengthening their risk-absorption capacity, the monetary policy has given priority to the merger and acquisition process of commercial banks. Commercial banks will be given following additional incentives till mid-July 2022 if they commence joint operation following merger and acquisition process by mid-July 2021:

- CRR and SLR to be waived by 0.5 percentage point and 1.0 percentage point respectively.
- Limit on institutional fixed deposit to be increased by 10 percentage points.
- Limit on individual institution's deposit to be increased by 5 percentage points.
- The existing provision of cooling period of six months will not be applicable for the members of board of directors and senior officers while joining other institutions licensed by this Bank.

Moreover, coordination will be made with concerned institutions for the adjustment of bank-wise institutional deposit ceiling.

bonds of at least 25 percent of their paid-up capital has been extended to mid-July of 2022.

Relaxation has been provided in the provision of capital adequacy to provide additional financial facilities to the COVID affected industries/businesses. Under this, the provision of counter cyclic buffer has been postponed till mid-July of 2021. For the same period, the monetary policy has announced to reduce the existing maximum risk weight for operating risk, market risk and overall risk from 5 percent, 3 percent and 5 percent to 3 percent, 1 percent and 3 percent respectively. It is mentioned that the guidelines on stress testing of BFIs will be modified and made as per the international standards.

The licenses of microfinance institutions have been suspended and licensing for new MFIs that are in the pipeline has also been cancelled. MFIs operating at provincial level will have to sell, close and relocate the existing branch offices, which are outside the province of their operation by mid-July 2021. Earlier, such deadline was mid-July 2020.

The credit limit for business projects with acceptable collateral provided to the deprived and low-income individuals, firms or group for agriculture, micro enterprises and businesses will be extended to Rs.1.5 million from existing Rs. 0.7 million. The monetary policy directed that the maximum interest rate on MFIs lending will be fixed at 15 percent.

As per the policy, MFIs will be required to establish new branches only in those wards of local levels where there MFIs nonexistent. It is expected that this provision will support in extending the MFIs network in all wards of local levels.

Monetary policy has announced that settlement of financial transactions through digital means will be encouraged following the spirit of the Digital Nepal Framework implemented by the GoN, which aims to promote sound and secure electronic payment system in order to minimize the cash transactions. National Payment Switch will be established to facilitate the payment system further in order to maintain records of all electronic transactions conducted in Nepal. The policy states that a national payment switch will be set up to further facilitate the payment system.

As per the policy, new license to Payment System Operator (PSO) and Payment Service Provider (PSP) has been suspended except in the case of those which have been provided Letter of Intent (LOI).

Unveiled Refinance Procedure, 2020

Nepal Rastra Bank (NRB) has issued 'Refinancing Procedure, 2020' with the objective of facilitating the revival of industry, profession and business by addressing the impact of Covid-19 on the economy. NRB has approved the procedure and brought it into implementation on July 9, 2020.

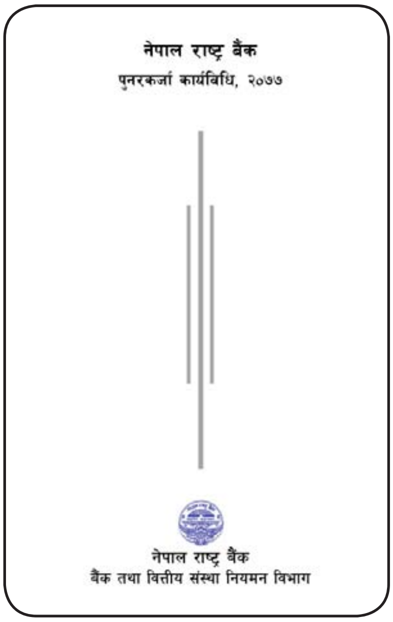
In order to address the impact of Covid-19, a limit has been set for NRB to provide refinancing up to a maximum of five times the available resource. The source of the fund to bear the risk of refinancing (1) amount of development fund in NRB (2) the amount of other funds of NRB specified by the Board of Directors (3) the amount of fund received from the donor partners (4) and the amount approved by the Government of Nepal and (5) the amount provided by the government.

According to the procedure, refinancing has been classified into three categories: 1) MSMEs, 2) special and 3) general. Different interest rates have been fixed for all the three refinancing categories in the procedure as in attached table.

The lump sum refinancing period will be a maximum of one year and no such loan will be renewed. In case of refinancing provided by the customer according to the debtor, the loan period will be one year for the debtor of the area specified by NRB as highly affected by Covid-19. In case of moderate and low affected, this period will be six months. As per the Nepal Rastra Bank Act, 2002, it is mentioned in the working procedure that such loan can be renewed.

A maximum limit of Rs.50 million has been set for the recipient refinancing to be provided to BFIs by NRB. Similarly, the borrower's limit of refinancing will be Rs. 200 million, while the refinancing amount provided to the microfinance institution will not exceed 10 percent of the amount that can be provided. The procedure covers various procedures for providing refinancing.

BFIs that have been declared problematic, have not completed one year of release from the problem, have not met the minimum capital and paid-up capital and have not been able to avail refinancing facility from time to time will be ineligible to apply for refinancing. The procedure also determines the list of eligible and ineligible loans for refinancing.



Refinancing Interest Rate

Types of Refinance	Interest rate charged by NRB	Interest rates charged by BFIs
MSMEs refinancing	2.0 percent	5.0 percent
Special Refinancing *	1.0 percent	3.0 percent
General Refinancing	3.0 percent	5.0 percent

* *In case of special refinancing, the same rate will be applicable in case a separate refinancing rate is fixed for any special loan.*

Interaction with CEOs of Commercial Banks

Nepal Rastra Bank organized a virtual interaction program with the Chief Executive Officers (CEOs) of Banks and Financial Institutions (BFIs) on contemporary issues of banking and financial sector on September 7, 2020. The program was organized by the Banks and Financial Institutions Regulation Department via webinar with the participation of the CEOs of 'A', 'B' and 'C' licensed institutions.

Addressing the webinar, Governor Mr. Maha Prasad Adhikari expressed that the overall economic and financial indicators of the country were positive even during the transition period of Covid-19. He informed that stability in exports, control of imports, significant improvement in current account deficit, balance of payments surplus

of Rs. 282 billion and foreign exchange reserves above Rs.14 trillion would help in expanding the country's economic activities.

Governor Adhikari informed that the financial sector has remained stable as the CCD Ratio has been maintained 72 percent, which has provided adequate means for investment with the capital adequacy ratio of the banking sector is 15 percent and the non-performing loan ratio is 1.8 percent.

He urged the CEOs of BFIs not to consider the liquidity, which has been around Rs. two trillion for the past few months, as 'excess liquidity'. He said, "As BFIs are business entities, it is natural for them to focus on profit. However, there is no need to be more profit-oriented now. Current situation is to survive business and not to be more profit oriented. Therefore, excess liquidity of BFI's shall be considered as a comfortable situation rather than a problem."

Indicating that speculative groups could take advantage from the liquidity situation and misuse loans, Governor Mr. Adhikari warned BFIs not to be distracted by this situation. He was of the view that excess liquidity should be taken as an 'indicator of ease'.

Stating that there have been complain ed about unnatural and unhealthy competition between BFIs in recent times, Governor Mr. Adhikari also instructed them not to take such activities that could endanger the financial system. "Let

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The FIU Nepal – A brief Discussion

✍ Dirgha Bahadur Rawal
Director
Nepal Rastra Bank

Existing Set Up

Globally, the concept of Financial Information Units (FIU) has been evolved as an intelligence unit to fight against money laundering (ML), terrorist financing (TF) and proliferation financing (PF). Most of the FIUs have a common primary function of receiving, analyzing, processing and dissemination of the information related to the Anti Money Laundering (AML) and combating the financing of terrorism (CFT). In line with the global practices, FIU Nepal (hereinafterUnit) is also an administrative type of institution whose primary function is to receive, analyze and disseminate the Threshold Transaction Report (TTR), Suspicious Activities Report (SAR) and Suspicious Transaction Reports (STR). Moreover, it works as a secretariat of National Coordination Committee (NCC) and a focal point for AML/CFT. The Unit also cooperates domestically and internationally on sharing the information regarding AML/CFT. Established in 2008, the Unit is stepping towards becoming an efficient and effective institution as envisaged by the international standards.

The roles, responsibilities, functions and power of the Unit are defined by the Assets Laundering Prevention Act 2008 (ALPA) and Rules 2016. ALPA has created a mechanism to report SAR/STR/TTR to the Unit. The reporting institutions are known as Reporting Entities (REs). REs are classified into two broad categories viz; 1) Financial Institutions; and 2) Designated Nonfinancial business and professions (DNFBPs). The Financial institutions are Banks and Financial Institutions, Non-Bank Financial Institutions, Insurance Companies, Cooperatives, Securities dealers and brokers etc. Similarly, DNFBPs include Casinos, Real estate agents, Dealers in precious metals and dealers in precious stones, Lawyers, Notaries, Other independent legal professionals and accountants, Trust and Company service providers.

Each of these reporting entities has its own regulatory agency viz; Nepal Rastra Bank (NRB), SEBON, Insurance Board (IB), Department of Cooperatives (DoC), Inland Revenued Department (IRD), Ministry of Culture, Tourism and Civil Aviation (MOCTCA), Department of land management and records, Office of the company Registrar (OCR) and Nepal Bar Councils. These regulatory agencies issue regulations to REs regarding reporting requirements.

The Unit analyzes received reports and disseminates the information to the Law Enforcement Agencies (LEAs) viz; Department of Money Laundering (DMLI), Commission for the investigation of Abuse of Authority (CIAA), Nepal Police, Department of Revenue Investigation, IRD, Custom Department etc. These LEAs further investigate and forward the case to the prosecutors for judicial proceedings.

Nepal has also kept its best efforts to developa comprehensive and consistent framework to combat ML and TFas outlined in the Financial Action Task Force (FATF) recommendations. As a result, aforementioned legal and institutional mechanisms have been developed so far. The FATF recommendation no. 29 emphasizes the establishment of FIU that serves as a national center for the receipt and analysis of the reports and other information. The recommendation further prescribes that the FIU should be able to receive additional information from REs as well as LEAs.

Effectiveness

The ALPA 2008 and Rules 2016 have given the legal power tothe Unit. In addition to the legal powers, NRB board has also approved FIU by rules 2020 to ensure functional/operational independence and autonomy as well as resource availability. Legislations and regulations have given enormous room for the Unit to exercise the best practices for achieving its objectives. There is no any instance of undue influence or interference of any kind which might compromise its operational independence.

As discussed, the Unit is an integral part of the AML/CFT regime in Nepal. Combating ML/TF functions are interrelated and interdependent among all stakeholders and other competent authorities. Therefore, the effectiveness ofthe Unitis commingled with the effectiveness of all concerned authorities.

The Unit is guided by the best practices to demonstrate highest level of professional and ethical standard as well as to maintain confidentiality.

Challenges

Following are somemajor challengesto the Unit:

- to perform efficiently under Covid-19 situation.
- to integrate all the REs into the goAML system.
- to have unique national identity of all citizens and integrate all information in one single database.
- to enhance analytical capacity ofhuman resources.
- to develop awareness on AML/CFT and its preventive mechanism.
- to implement the action plans developed by the National Strategy and National Risk Assessment(NRA) 2020.
- to enhance cooperation and coordination among all the stakeholders.

Finally, Covid 19 has become a major challengein the list. Dimensions of the risks and challenges have also been changing rapidly. Therefore, our new challenge is to manage all these issues even in the rapidly changing context.

Interaction with CEOs ....

no one think that a tiger that attacks others, will save me." activities that endanger the financial system cannot be tolerated by regulator. Stating that BFIs have been reluctant to apply for refinancing, Governor Mr. Adhikari urged the CEOs to be responsible in utilizing the policy provisions issued by NRB.

On the occasion, Mr. Dev Kumar Dhakal, Executive Director of Banks and Financial Institutions Regulation Department; said that the unhealthy competition among the banks has been increasing in recent times, adding to the challenge of promoting the interests of depositors.

Mr. Bhuwan Kumar Dahal, President of Nepal Bankers' Association; Mr. Govinda Prasad Dhakal, President of Development Bankers Association and Mr. Saroj Kaji Tuladhar President of Nepal Financial Institutions Association; had also expressed their views on contemporary banking issues.

Deputy Governors Mr. Chinta Mani Siwakoti and Mr. Shiba Raj Shrestha and Executive Directors of various departments had also participated in the webinar.

Macroeconomic Impact of COVID-19 Pandemic and Policy Response

✍ Narayan Prasad Pokhrel
Director (Act.)
Nepal Rastra Bank

1. Background

The general consensus is that the Covid-19 outbreak will cause a negative supply shock to the world economy, by forcing factories to shut down and disrupting global supply chains. This simple model shows that the spread of the virus causes a demand-driven slump, gives rise to a supply-demand doom loop, and opens the door to stagnation traps induced by pessimistic animal spirits. Besides the impact on public health of this Covid-19 outbreak, is likely to have significant economic consequences. But how deep and persistent will this supply disruption be? Will aggregate demand be affected? How should monetary policy respond? What about fiscal policy? In this regard, these questions are discussed through the lens of a simple macroeconomic model. Focus has been given on the possibility that the supply disruption caused by Covid-19 will be severe and persistent.

2. Impact on Aggregate Demand

As a stripped down version of the standard New Keynesian model, aggregate demand shifts downward, as the tradition, employment and output are determined by aggregate demand. In turn, aggregate demand depends positively on productivity growth. The reason is that faster productivity growth boosts agents' expectations of future income, inducing them to spend more at present. This effect gives rise to a positive relationship between productivity growth and employment.

Assume that pendemic causes a persistent drop in productivity growth; the result is lower demand and the emergence of involuntary unemployment. The lesson is that, through its negative impact on agents' expectations of future productivity growth, this will induce a demand-driven recession.

Now suppose that the central bank reacts by lowering the policy rate. This intervention sustains aggregate demand, by inducing agents to increase borrowing and spending. This corresponds to a rightward shift of the demand curve. If the monetary stimulus is strong enough, full employment is restored. The model thus lends support to the idea that central banks might need to respond to the Covid-19 outbreak by easing monetary policy. Of course, this policy might conflict with the zero lower bound on interest rates.

3. The supply-demand doom loop

In reality, productivity growth is at least in part driven by firms' investment. In turn, investment decisions depend on aggregate demand – when demand is strong, the return from investment tends to be high; weak aggregate demand, conversely, depresses firms' incentives to invest. This effect gives rise to a positive relationship between productivity growth and aggregate demand.

Let's again assume that the Covid-19 spread generates a persistent negative supply shock, interesting is that now a supply-demand doom loop takes place. As before, with an initial negative supply shock, this will depress aggregate demand. But now, lower demand induces firms to curtail their investment, which generates an endogenous drop in productivity growth. Lower productivity growth, in turn, causes a further curtailing demand, which again lowers productivity growth. This vicious spiral, or supply-demand doom loop, amplifies the impact of the initial supply shock on employment and productivity growth.

Monetary expansions have a multiplier effect on demand and employment. Suppose that the central bank eases monetary policy to increase aggregate demand. Higher demand, in turn, induces firms to increase investment. This sustains consumers' expectations of future income, leading to a further rise in demand. Monetary easing can thus reverse the supply-demand doom loop.

4. Animal spirits and stagnation traps

Once the zero lower bound binds, the impact of shifts in demand on output and employment are magnified, because conventional monetary policy can no longer act as a shock absorber. In fact, the demand curve now exhibits a kink. The horizontal portion of the demand curve captures cases in which monetary policy is constrained by the zero lower bound and the economy experiences a liquidity trap.

Once again, suppose that the Covid-19 reduces productivity growth, two equilibria are possible due to aggregate demand kick off, nothing fundamental determines which equilibrium materializes. Indeed, agents can coordinate their expectations on either of the two equilibria. This means that pessimistic animal spirits can push the economy into a stagnation trap.

Analysis suggests that the supply disruption caused by the Covid-19 pandemic, if it turns out to be persistent, might cause a severe slump driven by weak aggregate demand. In this case, drastic policy interventions – both monetary and fiscal – might be needed to prevent the negative supply shock triggered by the Covid-19 spread from severely affecting employment and productivity.

5. Impact on global and national level

Covid-19 has caused an economic shock three times worse than the 2008 financial crisis. Severe downturn in global economy, viz. estimated to be 4.4 percent GDP contraction globally, 6 years reversal in human development, 4 billion full time job losses and affecting 1.6 billion labors globally in informal sector. The crisis threatens to leave long lasting scars on the global economy, such as weaker productivity growth, heavier debt burdens, heightened financial burdens and higher poverty and inequality. Pandemic could push additional 114 million people into extreme poverty, defined as living on less than USD 1.90 a day.

Preliminary estimates of Nepalese GDP growth plummeted to 2.3 percent as against the target of 8.5 percent in the FY 2019/20. This implies that growth rate declined by more than 6 percentage points as compared to the target, and nearly by 5 percentage points as compared to the average growth rate of past three years. The effect of the outbreak of the disease and subsequent lockdown, have adversely affected the growth in real sectors. The economic growth is further expected to slow down since agricultural and industrial production will suffer due to supply disruptions and reduction in domestic demand. Likewise, service sector will also be affected due to slowdown in the tourist arrivals. Industrial production contracted more than 70 percent and one fourth of the employment has been reduced due to pandemic.

6. Relief measures floated by Government of Nepal

Government has made arrangement to spend/ transfer from annual budget, federal and sub national government's corona control fund, disaster management and Prime minister natural disaster relief fund for controlling Covid-19 pandemic. Tax clearance deadline has also been extended by the government.

Relief package includes a 25 percent discount on electricity for consumers who use more than 150 units each month. Penalty was waivered if utility bills and tax payments have not been cleared till mid-April. The government has also asked Internet Service Providers to extend a 25 percent discount to customers on data and voice call packages.

Among the other social safety net for those who have suffered loss of daily wages, the government also announced a 10 percent discount on rice, flour, dal, salt, sugar and oil supplies from Nepal Food Corporation and Salt Trading Corporation.

The government will start making up a list of those eligible for food aid, and beneficiaries have to obtain identity card from their ward councils. Provincial and municipal governments will also distribute food aid depending on size of families, and with special priority for expecting mothers, orphans, the disabled or those with chronic illnesses.

The government has asked companies, especially those in the tourism sector to pay salaries for employees for the period March-April, for which they will be allowed to use social welfare funds until business returns to normal. The government announced to deposit the salaries for March-April to workers in the organized sector who are registered with the Social Security Fund.

The government has also asked landlords not to demand one-month rent from daily wage earners, and private schools are urged not to charge one-month fee from students.

The Covid-19 Control High-level Task Force has also warned that the Home Ministry will enforce a law to imprison those who return from abroad and who have not stayed in quarantine for 14 days. The penalty for non-compliance of this is up to six months in jail. There are hundreds of Nepalese workers returning from India who are stranded on Nepal's southern and western borders after India also enforced a lockdown on 19 March, 2020.

7. Relief measures floated by Nepal Rastra Bank

NRB is proactive in addressing the impact of Covid-19 in Nepalese economy, and in that regard floated the following measures:

(i) To provide additional liquidity to the financial system, cash reserve ratio has been lowered from 4 to 3 percent and reduced the interest rate on the standing liquidity facility rate from 6 to 5 percent, (ii) Relaxation of the requirement for having 2 percent countercyclical capital buffer that was due in July 2020, (iii) The size of the Refinance Fund has been increased to provide subsidized funding for banks willing to lend at a concessional rate to priority sectors including SMEs affected by the pandemic, (iv) Announced that banks will defer loan repayments due in April and May until mid-July, (v) For working capital loans, banks will extend the repayment schedule of the amount due during the lockdown up to 60 days, (vi) Businesses in affected sectors, if borrowers show the needs, can qualify for additional working capital loans of up to 10 percent of the approved amount of their existing working capital loans, to be repaid within a year at most, (vii) Directed banks to apply lower interest rates, up to 2 percentage points, when calculating the interest due for the period of mid-April to mid-July, applicable to borrowers from affected sectors, (viii) Lowered the policy rate from 3.5 percent to 3 percent and announced that additional liquidity support will be made available through longer-term repo facility as necessary, (ix) The limit on the loan to value ratio for personal residential home loans was raised to 60 percent and margin natured loans to 70 percent from 65 percent, (x) The limit on banks' total loans was raised to 85 percent of the sum of core credit and deposits from 80 percent, and (xi) Banks required to increase their loans to priority sectors, such as agriculture, energy, tourism, and micro, small and mid-size enterprises, to 40 percent from 25 percent by 2024.

8. Development Partners joining hands

To support the Covid-19 response, International Monetary Fund, World Bank and Asian Development Bank have extended credit support. IMF RCF US$ 214 million, ADB US$ 250 million and WB US$ 29 million will help to close the financing gap. Similarly, IMF has supported USD 3.85 million to Nepal under the Catastrophe Containment window of the CCRT. Financial support of Donor's Partners will support the Government's National Relief Program that has been announced to address the impact of the Covid-19 pandemic and will help to strengthen the Nepalese public health system, provide social protection and create more employment.

9. Conclusion

Fiscal policy response to the Covid-19 emergency has been observed quick and powerful at the global level. Unlike in the past, the Nepalese economy is not shielded from the global outbreak of Covid-19. Unfortunately, there is little room that the government can do to mitigate the economic impact owing to limited fiscal space and budget execution capacity. Nepal has lost its two main sources of income: remittances and tourism. And while a drop in oil prices may give breathing space.

For the time being, prioritizing preparedness and vigilance by deploying resources as well as allocating more funds to the concerned agencies must be the priority. The goal should be to effectively contain the spread within the country in the most cost-effective way, but without compromising quality and standard healthcare procedures. The government shall have to intensify market monitoring to ensure that suppliers and sectoral cartels do not artificially raise prices taking advantage of market uncertainty. It will aggravate cost-push inflation in the face of supply disruption. To address the pandemic, government shall increase health spending, strengthen social assistance, ensure adequate liquidity in the banking system and support access to credit.

MoU Signed for BOK-KPP Program

Nepal Rastra Bank (NRB) and Bank of Korea (BOK) have signed the Memorandum of Understanding (MoU) of '2020 Bank of Korea - Knowledge Partnership Program (BOKKPP) on 15 July, 2020. Bank of Korea is the central bank of South Korea.

Mr. Narayan Prasad Pokhrel, Director (Acting) of Office of the Governor and Mr. Junseo PARK, Deputy Director General, International Affairs Department signed on MoU on behalf of NRB and BoK respectively.

Under this program, Bank of Korea provides necessary policy suggestions, field studies and capacity building training opportunities by conducting in-depth study on Nepal's macroeconomic analysis. It is stated that the program will focus on the study of the institutional context and the impact of collective discretionary regulation in terms of financial stability. A joint study team of BoK and NRB will be mobilized for the study and provide an interim and final (detailed) report to NRB in two phases with policy recommendations. The program is expected to provide important policy suggestions on Nepalese macroeconomic analysis and prudent regulation.

This is the fourth round of BOK-KPP engagement, with the support of the Bank of Korea. Such kinds of studies were conducted on the projection of macro-economy modeling, policy arrangements of payment system and financial literacy and inclusion. Initially such agreement was signed in 2017.

Webinar on COVID-19 Plicy Sharing Central Banks of SAARCFINANCE

Nepal Rastra Bank (NRB) organized 'Webinar on Covid-19, Policy Sharing by Members Central Banks of SAARCFINANCE' on participation of officials of Central Banks of SAARC nations on June 25, 2020.

The officials from 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 including NRB participated in the seminar. On the occasion, Deputy Governor of NRB Chinta Mani Siwakoti expressed welcome remarks and informed about the impact of Covid-19 in Nepalese economy and financial sector.

Dr. Gunakar Bhatta, Executive Director of NRB's Economic Research Department, presented the current economic situation of Nepal and informed about the policy measures adopted by the Government of Nepal and NRB to address the impact of Covid-19. Similarly, the officials from other central banks also informed about the policy responses implemented by their respective banks for Covid-19 containment.

The webinar is expected to help in the formulation of monetary policy and other policy measures requiring minimization the impact of Covid-19 on the financial sector. Executive Director of the Governor's Office, Dr. Nephil Matangi Maskay thanked all the participants. The program was conducted by Mr. Govinda Prasad Nagila, Director of Office of the Governor and SAARCFINANCE Coordinator.

Mr. Dev Kumar Dhakal; Executive Director of Banks and Financial Institutions Regulation Department; Mr. Mukunda Kumar Chhetri; Executive Director, Bank Supervision Department; Mr. Bam Bahadur Mishra; Executive Director, Foreign Exchange Management Department and other officials attended the seminar.

SAARCFINANCE is a network of Governors and Finance Secretaries of member states in the South Asian Association for Regional Cooperation (SAARC). SAARCFINANCE was established in 1998 with the objective of promoting, cooperation, harmonization of banking legislation and practices among the SAARC nations on macroeconomic policy.

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