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MONETARY POLICY

2021/22

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HIGHLIGHTS





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The Governor, CA Maha Prasad Adhikari unveiled the Monetary Policy 2078-79 (2021-22) on 13 August 2021. The monetary policy has been formulated in different environment that has created human and economic crisis due to COVID-19. The policy level initiative taken to minimize the impact of pandemic on the economy has helped in the economic activities as well as on overall economic and financial stability.

Key highlights addressed by monetary policy are summarized hereunder:

## Overall Economic Situation

Central Bureau of Statistics has made an initial projection of growth of economy by 4.01% in the current fiscal year against the 2.09% contraction during last year (FY 2019-20). However, considering the emergence of second wave of COVID-19 during 4th quarter, achievement of estimate of 4.01% economic growth seems challenging.

Fiscal Year:		2020/21	2019/20
A	Economic Growth Rate	4.01%	(2.09%)
B	Gross Domestic Saving to GDP	6.6%	6.3%
	- Gross National Savings to GDP	31.4%	32.6%
	- Gross Fixed Capital to GDP	27.3%	28.4%
C	Average Annual consumer Inflation Rate	3.6%	4.54%
D	Branch Networks as of mid-July	10,683	9,765
	- Average Population to Branch Ratio	2,844	3,072
E	Overall BOP - Surplus (NPR in billion)	123	282.41
	Foreign Exchange Reserve - Sufficient for goods and service import	10.2 months	11.7 months
	Weighted Average 91 day Treasury Bills Rate (as of mid-July)	4.55%	1.27%
	Weighted Average Inter Bank Rate among commercial banks (as of mid-July)	4.12%	0.35%
	Weighted Average interest rate on deposits of the commercial banks (as of mid-July)	4.65%	6.01%
	Weighted Average interest rate on loan of the commercial banks (as of mid-July)	8.43%	10.11%

Nepalese currency vis-à-vis the USD appreciated by 1.12 percent in mid-July 2021 compared to mid-July 2020. The buying rate for one USD stood at Rs.119.04 in mid July 2021.

## Monetary Policy Stance

- The monetary policy has been formulated considering the economic situation as a result of the impact of second wave of COVID-19 pandemic and the domestic as well as international economic outlook along with Government minimum program, policies and priorities, Financial Sector Development Strategy (FSDS) and the Third Strategic Plan of Nepal Rastra Bank (NRB).
- Monetary policy has focused on economic recovery hit by ongoing COVID-19 pandemic through management and easing refinancing facility and revival of highly affected business from COVID-19 such as tourism industry.
- Monetary policy has prioritized the objective of attaining digital inclusion as a part of the digital economy, effective implementation of interest rate corridor through interest stability and liquidity management.

## Global Economy Situation

- IMF's initial projection of growth of the global economy was 6% in 2021 against the 3.2% contraction in 2020.
- The economy of developing nations which contracted by 4.6% in 2020 is expected to be expand by 5.6% in 2021. Similarly, the economy of the emerging and developing countries are expected to grow by 6.3% in 2021 against the estimated contraction of 2.1% in 2020.
- World trade which contracted by 8.3% in 2020 is expected to increase by 9.7% in 2021.
- Petroleum price which decreased by 32.7% in 2020 is expected to increase by 56.6% in 2021.

## Financial Sector Situation

### Banking and Financial Institutions

Description	FY 2020/21	FY 2019/20
Increment in Deposits	21.4%	18.7%
Increment in Private Sector Investments	27.3%	12.0%
Paid up Capital (Including MFIs, in NPR billion)	390.43	352.37

- As of 15 July 2021, commercial banks, development banks and finance companies maintained Capital Adequacy Ratio of 14.1%, 13.2% and 22%, respectively.
- As of 15 July 2021, non-performing loans in respect of commercial banks, development banks and finance companies stood at 1.5%, 1.5% and 6.2%, respectively.



- Over past decade, 229 BFIs have been involved in merger and acquisition process thereby forming 58 BFIs. This is mainly because of the facilitation given by NRB to such initiatives. In this process, license of 171 institutions have been revoked.

## Share Market

- NEPSE index reached to 2,883.4 on 15 July 2021 as compared to 1,362.4 in 15 July 2020. Likewise, total market capitalization stood at NPR 4,010.96 billion on 15 July 2021.
- In FY 2020/21, SEBON has approved the issue of debentures, ordinary shares, right shares and mutual fund units of NPR 23.04 billion, 15.18 billion, 14.05 billion and 9.40 billion, respectively.
- In FY 2020/21, 16 commercial banks, 4 development banks and 1 finance company obtained approval from SEBON for the issuance of debenture of NPR 69.60 billion.

## Economy and Monetary Targets

- Maintain average consumer inflation rate within 6.5% for FY 2021/22. Prioritize the financial recovery and help aid in the expansion of economy through maintaining liquidity.
- Maintain foreign exchange reserve adequate to sustain 7 months' imports of goods and services in FY 2021/22.
- Given the basis of nominal GDP for monetary projection, growth of broad money and private sector credit have been projected at 18% and 19%, respectively in FY 2021/22.

## Monetary Management

To achieve the economic and monetary target, the Central Bank has proposed following measures:

- Standing Liquidity Facility (SLF) rate as the upper band of the Interest Rate Corridor (IRC) will remain unchanged at 5%. Repo rate as the policy rate will be increased from 3% to 3.5% and deposit collection rate as the lower band of IRC will be increased from 1% to 2%.
- Cash Reserve Ratio (CRR) to be maintained by the BFIs will remain unchanged at 3%.
- Statutory Liquidity Ratio (SLR) has been kept unchanged at 10 percent for commercial banks, 8 percent for development banks and 7 percent for finance companies.
- The bank rate applied for the purpose of Lender of Last Resort (LOLR) facility at 5% kept unchanged.

## COVID-19 Targeted Loans

### Refinancing

- 48,890 borrowers have benefitted from the refinancing facility implemented with a view to recover the economy through aid to the specified industries, businesses affected by COVID-19 through discounts in interest rate. Total refinancing loan amounting to NPR 148.75 billion approved as on 15 July 2021.
- The provisions for approval of loan amounting up to NPR 0.20 billion and NPR 0.50 billion, respectively for the establishment of oxygen plant and liquid oxygen plant by health institutions, hospitals and industries implemented.

### Working Capital Loan

- 16,182 borrowers have benefitted from additional loan up to 20% of the existing working capital loan provided to the highly affected industries with a view to aid in the resumption of the business and the total credit extended under this scheme was NPR 14.24 billion as on 15 July 2021.
- 7,269 customers have benefitted from additional 10% loan to be provided to the term loan borrowers with the same collateral and the total credit extended under this scheme amounts to NPR 9.36 billion.

### Extension of Grace Period

Additional grace period ranging from 6 months to one year was provided to 993 borrowers who were unable to commence / complete the projects under construction due to COVID-19 for existing credit facility of NPR 52 billion.

### Extension of Repayment Period, Debt Restructuring & Rescheduling

- Extension of repayment period ranging from 6 months to two years was provided to 19,786 borrowers having availed credit facility of NPR 93.63 billion who were unable to pay principal and interest within specified date due to COVID-19.
- In accordance with the provision for debt restructuring and rescheduling, the total debts of NPR 129.21 billion of 21,617 borrowers affected by COVID-19 till mid-January 2021 has been restructured and rescheduled.

### Business Continuity Loan

- Total loan approved under business continuity loan scheme facility by Government to COVID-19 affected tourism and domestic, SMEs business for purpose of continuity of business and salary payments to employees amounts to NPR 0.96 billion till 15 July 2021.

- Effective implementation of the business continuity loan program shall be made for the recovery of businesses of critical industries affected by COVID-19 e.g. tourism, communication, transport, party palace, gym, cinema and entertainment industries.

## Financial Sector Program for FY 2021/22

### Agriculture and Energy Sector Loans

- Commercial banks have extended loan amounting NPR 425.83 billion (13.2% of total credit) to agricultural sector as mid-July 2021. Commercial banks are required to extend at least 11%, 13% & 15% of the total credit investment for the development of agricultural sector by mid-July 2021, 2022, and 2023, respectively.
- Commercial banks have extended loan amounting NPR 194.13 billion (6% of total credit) to energy sector as mid-July 2021. Commercial banks are required to extend at least 6%, 7%, 9% and 10% of the total credit investment for the development of energy sector by mid-July 2021, 2022, 2023 and 2024, respectively.

### Micro, Cottage, SME Loans

- Commercial banks have extended loan amounting NPR 327.80 billion (10.1% of total credit) to micro, cottage and SMEs sector availing loan up to NPR 10 million as mid-July 2021. Commercial banks are required to extend at least 11%, 12%, 14% and 15% of the total credit investment for the development of such sector by mid-July 2021, 2022, 2023 and 2024, respectively.

### Deprived Sector Lending

- Commercial banks, development banks and finance companies to extend at least 5% of total credit investment to deprived sector, out of which 7% of the credit extended till 15 July 2021.

### Concessional Loans

- Under the concessional loan scheme introduced by GON for the purpose of production increment, employment creation, skill development, total of NPR 161.44 billion was extended to 104,109 borrowers (comprising NPR 106.98 billion in agriculture and animal husbandry business, NPR 50.98 billion to female entrepreneur and NPR 3.48 billion to other remaining headings of concessional loans).

## Financial Sector Program for FY 2020/21

### Resource Management

- Arrangements shall be made for the issue of debentures equivalent to 25% of paid-up capital by the national level development bank, finance companies and wholesale microfinance institutions.
- Continuation of the existing policy on issue of debenture instrument shall be made in order to meet the objective of the long-term operation and development in the field of agriculture and energy.
- To encourage the remittance through banking channels from Nepalese citizens in foreign employment and the deposits of such remittance in the BFIs, arrangements shall be made to provide minimum of additional 1% interest rate on such deposits.

### Credit Extension

- To encourage credit extension in agricultural, micro and cottage industries, focal desks shall be established in the branches of commercial banks dealing in government transactions of rural municipality and municipality.
- The existing provisions in relation to the deprived sectors loan being provided by BFIs shall be gradually modified so as to eventually be adjusted with micro, cottage and SMEs loans.

### Deprived Sector Loans

- Arrangement shall be made for the inclusion of loan up to NPR 1.5 million availed by the employees having lost jobs in tourism sector due to COVID-19 for the creation of self-employed business under deprived sector loan.
- Arrangement shall be made for the inclusion under deprived sector loan for loans up to NPR 2.5 million availed for purchase of vehicles by borrowers in the process of creation of self-employment.
- Credit being extended to female entrepreneurs under micro industries and self-employment generation schemes up to NPR 2 million shall be included under deprived sector loans. Insurance has been mandated for such credit extension.

### Concessional Loans

- For the formation of productive economy with enhancement in production, better employment

generation and development of entrepreneurship, effective implementation in relation to the interest subsidy for concessional loans shall be done as per the integrated procedure of Nepal Government.

## Special Programs Aimed for Economic Revival

### Refinancing

- For the quick recovery of industries and business impacted by COVID-19, the existing refinancing provisions shall be continued and arrangements made for extending refinancing facility as per the maximum allowable limits approved in the previous year. Micro, cottage and SMEs shall be prioritized while extending refinancing facility.

### Extension of Repayment Period, Debt Restructuring & Rescheduling

- To reduce the impact of COVID-19 on the overall economy, the existing provision for classification of the credit extended to firms, companies and institutions to watch list in case of continuous net losses of 2 years revised to 3 years.
- After the evaluation of financial and cash flows conditions of existing borrowers who have been negatively impacted due to COVID-19, BFIs shall decrease installment amount through extension of repayment period.
- After evaluation by the BFIs, arrangements shall be made for the extension of period up to mid-January 2022 for the payment of EMI/ EQI and other interest and principal amount by the defaulters who were unable to discharge off such charges during the prohibitory period up to 15 July 2021.
- Interest up to mid-July 2022 for the highly affected sectors due to COVID-19 such as hotel, travel, trekking and air services as well as businesses dependent on foreign tourists not expected to be normalized due to international travel restrictions shall be separately recorded after the due evaluation of the financial condition of such businesses. Additional charges and penal interest shall not be levied on such interest amount.
- The repayment period for the payment of principal and interest up to mid-January 2022 of the highly affected business due to COVID-19 such as restaurants, party palaces, public transportation, educational institutions and entertainment businesses shall be extended up to one year with provision for repayment in four installments. This

provision shall also be applicable to the micro, cottage, small and medium industries with negative impact in cash flows due to COVID-19.

- BFIs can restructure and reschedule credits extended to the highly effected businesses due to COVID-19 e.g. tourism, cinema, party palace, public transport and educational institution up to mid-January 2022.
- Additional loans up to NPR 0.2 million per vehicle can be extended by BFIs for the operation and repairs of the public transport highly affected due to COVID -19.

### Other Provisions in relation to Credit

- The existing provisions in relation to CCD ratio shall be removed by introducing the provision for Credit Deposit Ratio (CDR) to be maintained at 90% up to mid-July 2022. Bonds and borrowings except in the form of capital funds and capital fund denominations shall be included in the relevant credit deposit ratio.
- The provision for consortium loan shall be applicable for the credit extended above NPR 2 billion by extending the existing limit of above NPR 1 billion.
- Special refinancing shall be provided to internet service providers extending the internet facility to the rural areas through broad band extension.
- The sector wise loan ratio to be maintained by the commercial banks by 15 July 2021 shall now be assessed for completion by mid-July 2022 end giving due consideration to COVID-19.
- The projects under construction having obtained prior approval from NRB for interest capitalization and having grace period shall capitalize interest calculated up to mid-July 2022.
- Credit shall be extended at the base rate to the industries producing vaccines to control the epidemic diseases as authorized by Government of Nepal.
- In the cases of micro, cottage, small and medium industries affected by COVID-19 willing to convert their business, policy shall be formulated for the simplification of credit.
- The existing price ratio shall be maintained in case of the margin loans provided by BFIs on pledge of shares.
- With a view to minimize the risk on margin loan and to enhance accessibility of the small investors, maximum margin loan from a single BFI up to NPR 40 million can be availed by a borrower and the total loan amount shall not exceed NPR 120 million on overall basis from all BFIs on pledge of shares. A specified time period shall be provided

to the customers for regularization in case the customers availing such loans exceeding limits prescribed.

- No changes have been made in the debt pledge ratio for the purchase of the electronic vehicles and the arrangement of refinancing shall be made for the establishment of charging station of such vehicles.
- Extension of the simplified loan facility from BFIs to the local levels availing loan for establishment of hospitals up to 100 bed capacity shall be arranged.
- Extension of the simplified loan facility from BFIs to the institutions providing technical and professional trainings shall be arranged.
- The process of financial resource arrangements for the establishment of industries based on domestic raw materials shall be simplified.

## Financial Sector Strengthening

- Second Financial Area Development Strategy and NRB's fourth strategy shall be formulated and implemented for the sustainable and integrated development of the financial sector and to increase the accessibility over the financial sectors.
- The process of amendments in Foreign Exchange Regulation Act, 2019, Negotiable Instrument Act, 2034 and Banking Offence and Punishment Act, 2064 shall be initiated.
- BFIs shall be encouraged to go for merger and acquisition to increase the capital and operational efficiency and avail the following additional incentives up to mid July 2023 if joint operations are commenced within FY 2021/22:
  - Extension of one year period for sector wise loan ratio to be maintained.
  - Discount of 0.5% in compulsory Cash Ratio and 1% in Statutory Liquidity Ratio.
  - Additional 5% limit in institutional deposit per as prescribed.
  - The existing provision of cooling period of six months will not be applicable for the members of board of directors and high ranking employees while joining other institutions licensed by NRB
  - Relaxation of 1% in the interest rate corridor to be maintained for interest charged on credit extended and the deposits.
  - Extension of one year period for the regularization of CDD ratio in case of the limit is exceeded by the joint operation.

- NRB's approval shall not be required for the merger into single branch and closure of the other branches within the vicinity of 1 km for joint operation.

- Fit and proper test shall not be mandated for the sale of promotional shares by the shareholders holding 0.10 % of the shares of commercial banks.

- Arrangements shall be made for the relevant facilities and concessions in case of the acquisition of the problematic Class B & C BFIs as announced by NRB.
- In order to promote merger and acquisition, arrangements shall be made for the election of the director after merger/ acquisition only from a group as selected by the institutional shareholder and general shareholders.
- For the development banks undergoing joint operation after merger and acquisition at provincial level, the corporate office shall be permitted to be established in the area that fall in their common access and the contact office shall be permitted to be established in Province headquarter or Kathmandu.

## Regulation and Supervision

- The provisions in relation Counter Cyclical Buffer applicable to commercial banks has been postponed till mid-July 2022.
- BFIs shall provide fixed interest rate loan and such rates shall also be published along with other rates by BFIs.
- The existing method for base rate determination shall be reviewed. Premium in excess of 2% above the base rate for loans availed up to NPR 10 million cannot be charged.
- Guidelines shall be issued to bring transparency and effectiveness in overdraft and working capital loan facility issued by BFIs.
- BFIs including Infrastructure development bank shall submit the required information to NRB through the Supervisory Information System.
- The existing provision for the blacklisting as practiced by BFIs shall be reviewed.
- The regulations for institutions approved by NRB for dealing in hire purchase transaction shall be amended.
- Arrangement of independent inspection shall be made to ensure the effectiveness and utilization of the refinancing, business continuity loan, and concessional loans provided for the recovery of the highly effected business due to COVID-19.
- Guidelines shall be issued for the effective management of CSR liability of BFIs.



- Opening of contact office of the BFIs in Karnali Pradesh and Far Western region without prior approval of NRB shall be arranged.
- E-KYC shall be developed for the simplification of KYC process.
- Necessary coordination shall be done with The Institute of Chartered Accountants of Nepal for the maximum no. of audits that shall be carried out by audit firms.

## Micro Finance Regulation

- Continuation in the form of MFIs dealing in retail lending can be given for the joint operation after the merger / acquisition among the wholesale loan providing MFIs and those dealing in retail.
- Arrangements shall be made for the merger/ acquisition of the MFIs within mid-July 2022 having cross holding of the commercial banks, development banks and finance companies.
- Relevant studies shall be made for MFIs to act as the financial representatives of the commercial banks.
- Arrangements shall be made for the publication of financial information by the national level MFIs as per NFRS.

## Payment System

- In order to celebrate FY 2022/23 as Digital Payment Promotion year, aid in the infrastructural development and awareness programs shall be given in the current year.
- A national payment switch shall be established to further facilitate the payment system by maintaining records of all types of electronic transactions within Nepal.
- Arrangements shall be made for refinancing facility to the investors of payment facilitation service and communication service providers aiding in the overall growth of the ecosystem of electronic payment system.
- The transaction limits set of the electronic payment processed through different modes shall be reviewed. Policy for the levying charges on electronic payments shall be formulated
- Collection of revenue by GoN and other payments through banking and electronic modes shall be facilitated.
- Implementation of the electronic payment modes in the branches of banks dealing in government transactions to ease payment of social security allowances shall be arranged.
- The minimum transaction limit and the minimum no. of customers to be reached by PSPs and PSOs within 15 July

2021 shall now be extended till mid- July 2022 to reach such limits.

- Digital Lending Framework shall be formulated and implemented for the simplification of the process of loan application up to loan approval in digital network.
- Studies shall be undertaken for the possibility of Central Bank Digital Currency in Nepal in line with the Digital Currency in the global context.
- E-application of citizens savings certificate and foreign employment saving certificates shall be arranged.
- Studies shall be carried out for cloud network for the safe management of the payment system records and information.

## Foreign Exchange Management

- Existing arrangement on exchange facility that a commercial bank can provide on payment for import of services shall be reviewed.
- Organizations providing air services shall be able to obtain exchange facility for purchase of service up to USD 25,000 from commercial banks on furnishing the necessary documents.
- Existing list of industrial raw materials and machineries that can be imported from India in convertible foreign currency shall be reviewed and necessary adjustments shall be made.
- No additional charges shall be levied to organizations with license to carry out transactions in foreign currency from NRB including money changers, remittance companies, hotel, travel, trekking, cargo, airlines on renewal of their license up to mid July 2022.
- Payment procedures for import of applications as well as software and online advertisement service by various firm, company and organizations shall be made more systematic.
- Necessary arrangements shall be made for merger and acquisition of remittance companies.
- The limit of convertible foreign currency in cash that can be held by a Nepalese citizen along with the time for which it can be held and facility for exchange of such currency shall be reviewed.
- Existing facility on import of life saving medicine and health equipment used against health hazards from COVID-19 shall be reviewed and simplified.
- Use and implementation status of USD card up to \$500 introduced last year shall be studied and made effective so as to promote e-commerce.

- Implementation status of Foreign Investment and Loan Management Bylaw, 2078 will be studied.

### Customer Interest Protection

- Law for protection of interest of customers by licensed institutions shall be drafted.
- To ease the access of financial services for customers with disabilities, banks with number of branches and ATM lounges in excess of the prescribed numbers at local level shall be required to establish at least one branch and ATM lounge disable-friendly.
- To address the complaints against service of the banks and financial institutions in a convenient way, arrangements

shall be made for the BFIs to add the link to the complaint portal of NRB in their website.

- Necessary arrangements shall be made with regards to the uniformity of the documents to be obtained for credit extension and customer identification by BFIs.
- To improve the financial accessibility in Karnali and Far west province, arrangement of provincial financial institutions shall be studied.
- For identification of inherent risk, its measurement, evaluation and management in high risk areas specified by NRA, 2020 for money laundering, follow up and supervision of indicative organization shall be done.

right people  
right size  
right solutions

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## Contact us in Nepal

PKF T R Upadhy & Co.

Kathmandu Office

A: 124 Lal Colony Marg, Lal Durbar (Near Jai Nepal Hall), Kathmandu, Nepal

T: + 977 1 4410927 / 4420026

F: + 977 1 4413307

E: [trunco@ntc.net.np](mailto:trunco@ntc.net.np)

Visit us at [www.pkf.trunco.com.np](http://www.pkf.trunco.com.np)

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