

Half yearly review of **MONETARY POLICY**

FISCAL YEAR 2076/77

January 2020



TABLE OF CONTENTS

Background.....	3
Status of financial targets	3
Inflation rate.....	3
Status of monetary targets	3
Monetary policy operating target and instrument	3
Liquidity management (Flow and Mop Up)	3
Credit and resource management.....	3
Interest rates.....	3
Implementation status of the financial services program.....	3
Payment system modification	4
International financial scenario.....	4
Foreign regulation management.....	4
Economic and monetary scenario.....	4
Monetary policy agenda.....	4
Monetary and financial measures	4
Abbreviations used:	4

Background

The half yearly review of the Monetary Policy for FY 2076/77 issued on Shrawan 8, 2076 (i.e. 24 July 2019) was made public on 19 Falgun, 2076 (i.e. 2 March 2020) by the NRB. The major highlights of the review have been summarized below:

Status of financial targets

- The paddy production of 5.551 million metric ton decreased by 1% as compared to last year. Production of seasonal crops is expected to increase due to favorable rainfall.
- Additional 123MW of electricity was connected in national grid during this period.
- Utilization capacity of industries has decreased.
- 6.61 lakh tourists visited Nepal from August 2018 to January 2019 and this number decreased to 6.32 lakhs from August 2019 to January 2020.
- Annualized average customer inflation rate was 6.4% for the first 6 months compared to targeted 6%.

Inflation rate

Particulars	Annual average		Annual point	
	2074/75	2075/76	Poush 2075	Poush 2076
Overall	4.2%	4.6%	4.6%	6.8%
Food	2.7%	3.1%	2.7%	10.2%
Non- Food	5.3%	5.9%	6.1%	4.3%

- Exports increased by 26.1% and imports decreased by 4% correspondingly, trade deficit decreased by 6.1%.
- The present foreign exchange reserve can sustain import of goods and services for 8.4 months compared to targeted 7 months.
- Current account deficit is Rs 84.71 billion and BOP is Rs 26.65 billion in surplus. This surplus is due to decrease in imports, improvements in tourism expenses, operational external loans and increase in foreign direct investment.

Status of monetary targets

Increment Rate	Annual Points	
	Actuals of Poush 2076	Estimates of F.Y 2076/77
Broad Money Supply	14.5	18.0
Domestic Debt	14.1	24.0
Private sector credit	14.9	21.0

- Nepalese currency vis-à-vis US dollar depreciated by 3.3% in mid-January 2020 compared to 2.8% a year ago.

Monetary policy operating target and instrument

- SLF rate has been set to 6%, repo rate as the policy rate to 4.5% and the deposit collection rate as the lower bound to 3%.
- Interbank transaction rate of Class 'A' FIs is 1.76% during mid-January 2020 whereas the average interbank rate for Class 'A', 'B' & 'C' FIs is 1.87%.

- The CRR and SLR has been maintained at 4% and 10%, respectively by Class 'A' FIs. The SLR for Class 'B' & 'C' is 8% & 7%, respectively.

Liquidity management (Flow and Mop Up)

(Rs in billion)

Descriptions	6 Months	
	2075/76	2076/77
A. Liquidity Mopped Up	100.35	58.00
Deposit Collection	79.65	30.00
Reverse Repo	20.70	28.00
Outright Sales Auction	-	-
Deposit collection (IRC)	-	-
B. Liquidity Flow	6.72	92.07
Outright Purchase Auction	-	-
Repo	-	38.55
Repo (IRC)	-	0.97
Permanent Liquidity Facility	6.72	52.55

Credit and resource management

- BFIs can raise loans from foreign banks, pension fund, hedge fund, etc. at interest rate of 6-month LIBOR plus 4% and mobilize 100% of foreign currency fixed deposits with at least 2-year maturity for extending loan in NPR.
- Commercial banks shall issue debentures of at least 25% of their paid-up capital by Asadh 2077 and can utilize 100% of such amount. Directive is issued for refinancing facilities provided by NRB. The minimum concessional loan disbursement to be made by BFIs upto the end of Asadh 2076 has been determined.

Interest rates

Particulars	Poush 2075	Poush 2076
Weighted Avg. interest rate of 91-days Treasury Bills	0.86%	3.17%
Weighted Avg. deposit rate of Commercial Banks	6.72%	6.79%
Weighted Avg. lending rate of Commercial Banks	12.29%	11.94%
Base rate for Commercial Banks	9.8%	9.45%

Implementation status of the financial services program

- 185 BFIs have been involved in the merger and acquisition process.
- NRB's 'Grievances Hearing Unit' has been upgraded to 'Financial Consumer Protection Unit' to better manage depositors, debtor's grievances and to build public trust in the financial sector.
- Banks can increase local level access by setting up a branch in wards and do not need NRB's permission for it.

- A software (goAML) is implemented from 15 January 2020. Class 'B' FIs and the finance companies shall install this system till 15 July 2020.
- Microfinance entities shall be permitted to open a branch in a sub-metropolitan city or headquarters only after opening branches in VDC and municipality of a district and allocating 1/3rd of their total debts to the agricultural sector.

Payment system modification

- 9 operators & 10 service providers are permitted for e-payment. RTGS has been implemented, mobile and e-payment services in remote areas has been encouraged.
- No extra fees shall be charged to customers when processing payments through POS machine.
- Arrangements is made to deposit 10% of VAT in the invoice to the payer's bank account while processing payments through card and electronic means.

International financial scenario

Economic growth	2019	2020 projection
Global economy	2.9%	3.3%
Developed countries	1.7%	1.6%
Developing and emerging economies	3.7%	4.4%
Consumer inflation rate	2019	2020 projection
Developed Countries	1.4%	1.7%
Developing and emerging economies	5.1%	4.6%

Foreign regulation management

- The sale of foreign employment bond is opened for whole year to steer remittance inflow. Attracting and withdrawing foreign investment has been simplified by making NRB's foreign exchange unit effective as a One Stop Service Center.

Economic and monetary scenario

- Prompt completion of national pride projects and expansion of construction activity both at local and state level is expected to help sustain the pattern of high economic growth and to mitigate the negative impact.
- The world (FPI) averaged 182.5 points in January 2020 as per FAO. Due to increasing inflation in global market, same is expected in Nepal also.

Monetary policy agenda

- The stimulation of credit flow is expected to improve the domestic supply system due to economic scenario and inflation. Financial instruments have to be mobilized in the areas of export promotion and import management, entrepreneurship development and job creation while effectively managing the liquidity of the banking sector. Necessary adjustments are made in the monetary and

financial measures to maintain economic stability.

Monetary and financial measures

- The interest rate stability will be maintained through liquidity management of the banking system by making open market transactions and IRC effective.
- Maximum DTI of 60% has to be maintained while providing loan to first buyers for residential purposes.
- Loan and loan renewal will be provided on the basis of tax returns for the first home buyers and agriculture, tourism and small/ medium enterprises ranging from Rs 5 to 200 million.
- Projects run by registered real estate companies shall maintain LTV ratio at maximum of 50% for municipalities, sub municipalities and Kathmandu Metropolitan city and 60% for others.
- The microfinance entities offering dividends of more than 20% of the annual profits should deposit 25% of the proposed dividend of profit above 20% threshold to the Consumer Protection Fund and 25% to the Corporate Social Responsibility Fund.
- Nepali citizens, firms or organizations after approval from NRB can apply for low rate loans or interest free loans from foreign banks limited upto Rs 100 million from Indian banks and up to US\$ 1 million from other countries for a minimum period of 3 years.
- System audit of payment process, regular monitoring & supervision will be made to guarantee the security of sensitive information.

Abbreviations used:

NRB	: Nepal Rastra Bank
BOP	: Balance of Payment
CRR	: Cash Reserve Ratio
SLR	: Statutory Liquidity Ratio
SLF	: Standing Liquidity Facility
RTGS	: Real Time Information System
POS	: Point of Sale
FPI	: Food Price Index
FAO	: Food & Agricultural Organization
IRC	: Interest Rate Corridor
DTI	: Debt to Income ratio
LTV	: Loan to Value ratio

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