

# Monetary Policy 2018/19

## HIGHLIGHTS





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# MONETARY POLICY 2018/19



# Monetary Policy Highlights 2018/19

The Governor of the Central Bank (Nepal Rastra Bank) presented the Monetary Policy on 11 July 2018 for the fiscal year 2018/19 (FY 2075/76) and the key highlights are summarized in this document.

## OVERALL ECONOMIC SITUATION

Fiscal Year: 2017/18 2016/17

A	Economic Growth Rate	5.9%	7.4%
	-Agriculture Sector	2.8%	5.3%
	-Industrial Sector	8.8%	-
	-Service Sector	6.6%	-

B	Average Annual Inflation based on Consumer Price Index (as of mid-June 2018)	4.1%	4.5%
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C	Total government expenditure (% of Budgeted Amount)	76.2%	-
	Current Expenditure	84.29%	69.7%
	Capital Expenditure	60.55%	38.73%
	Revenue Collection	93.15%	96.27%

D	Overall BOP-Surplus (NPR in billion)	(4.34)	82.11
	Foreign Exchange Reserve (as of mid-June 2018) (Sufficient for merchandise and service import)	9.6 Months	11.5 Months
	Weighted Average 91-day Treasury Bills Rate (as of mid-June 2018)	4.38%	1.03%
	Weighted Average Inter Bank Rate among commercial banks (as of mid-June 2018)	4.18%	2.46%

E	Branch Networks as of mid-June 2018	6418	4894
	- Commercial Banks	2919	2116
	- Development Banks	951	805
	- Financial Companies	183	148
	- MFIs	2635	1825
	- Average Population to Branch Ratio	4490	5809

F	Valuation of Nepali Rupee vis-à-vis United States Dollar	(6.2%)	3.8%
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## MONETARY POLICY STANCE

- Monetary policy has been prepared in alignment with current economic scenario, and policies, activities and priorities stated in the budget of fiscal year 2075/76 of Nepal Government (GoN).
- Aggregate demand is expected to expand due to local, provincial and federal government's expenditure and inflation could be under stress due to rise in petroleum price in the international market.
- GoN has aimed economic growth rate of 8% approximately for fiscal year 2018/19. Monetary Policy has focused on implementing financial instrument for employment promotion and entrepreneurship development to achieve the target.
- To ensure easy access of financial service to all citizens, financial incorporation and financial literacy program have been given high priority and encouraging use of technology for payment procedures.

## MONETARY MANAGEMENT

- The objective of the monetary policy 2075-76 is to maintain inflation within the limit of 6.5% in line with the budget for fiscal year 2075-76.

- For stability of external sector in the FY 2075-76, the foreign exchange reserve shall be maintained for at least 8 months of merchandise and service import.
  - Necessary monetary management would be undertaken to achieve 8% economic growth envisioned by the GoN.
  - Broad Money Growth rate to be maintained at 18%.
  - Domestic loans have been prospected to grow by 22.5% and increment in private sector lending is limited to 20%.
  - The upper bound of Interest Rate Corridor (IRC) to be reduced from 7% to 6.5% and the lower bound of IRC in terms of two weeks deposit collection to be increased from 3% to 3.5%.
  - Two weeks repo rate to be maintained at 5%.
  - Cash Reserve Ratio (CRR) for Class A, B and C Banks and Financial Institution (BFI) shall be maintained at 4%. Due to decrease in CRR ratio, additional NPR 48 billion will flow into the market and will reduce the base rate eventually.
  - Statutory Liquidity Ratio (SLR) is reduced to 10%, 8% and 7% to Class A, B and C BFIs, from 12%, 9% and 8% respectively.
  - Standing Liquidity Facility (SLF) is reduced to 6.5% from 7%.
  - The general and special refinance interest rate is maintained at 4% and 1% respectively. Further, the BFIs shall not charge more than 9% and 4.5% on general and special refinance respectively.
  - Refinance interest rate to encourage export done in foreign currency is maintained at LIBOR+0.25%.
- projects include big hydropower projects, electricity transmission lines, road and other infrastructure projects. Appropriate modality shall be prepared in due course.
- The maximum limit of personal overdraft loan including revolving credit has been decreased from existing NPR 7.5 million to NPR 5 million.
  - Minimum lending to priority sectors by commercial banks is changed from existing generalized 25% to specific 10% in agriculture sector and 15% in energy & tourism sector. In case of development bank and financial institution, lending to priority sector remains unchanged at 15% and 10%, respectively. Commercial banks shall be encouraged to lend in priority sector in all province.
  - Increment in refinance reserve to NPR 35 billion for the provision of subsidized credit to priority sectors.
  - Credit extended for the purchase of public vehicle using renewable energy shall also be considered as priority sector.
  - Minimum deprived sector lending has been changed to 5% uniformly for all commercial banks, development banks and financial institutions.
  - Loan to students of impoverished and excluded community including targeted group for higher or technical or professional education, loan against academic certificate and loan to *dalit* community against group guarantee shall be considered as deprived sector lending. GoN to provide 5% interest subsidy on such loans.
  - Loan up to NPR 1.5 million provided to women under group guarantee shall be considered as deprived sector loan. GoN shall provide subsidy of 6% on these loans.

## CREDIT MANAGEMENT

- Extension of facility to Commercial Banks to avail loan in Indian Currency to the extent of 25% of its core capital in addition to existing facility to avail loan in exchangeable foreign currency to same extent as above.
- Foreign investment in infrastructure development projects will be collected in a separate fund in Nepal Rastra Bank (NRB) with hedging facility provided by NRB itself. Such

## LONG TERM INTEREST RATE MANAGEMENT

- The institutional deposit of Class A, B and C BFIs shall not exceed 45% of the total deposit. Similarly, the total deposit from an institution shall not exceed 15% of the total deposit.
- In case of institutional fixed deposit by bidding, interest rate can be fixed to the extent of 1% above the published rate.

- For the calculation of CCD, long term debentures issued by BFIs shall be considered.
- Interest rate spread shall be maintained at 4.5% till mid-July 2019. Spread to be gradually reduced.

## **FINANCIAL SECTOR REFORM**

- The procedure for necessary amendment in Nepal Rastra Bank Act, 2002 and Bank and Financial Institutions Act, 2017 shall be taken forward.
- Necessary policies with respect to regulation, inspection and supervision for establishment and operation of Infrastructure banks to be made.
- To make easy and simplified access to banking service, Commercial banks will not need prior approval from NRB to open new branches outside metropolitan or sub metropolitan territories.
- To inform situation of financial inclusion, E-mapping created by collecting various indicators to be improvised as Financial Inclusion Portal, accessible to everyone.
- Continually upgrading quality and security features of Nepali paper currencies. Packaging and bundling of currencies from paper, plastic or rubber laces only shall be effectively implemented from FY 2018-19.
- Necessary coordination will be done to increase the existing deposit insurance limit of NPR 0.2 million to NPR 0.3 million for saving and fixed account of natural person.
- The representative offices of foreign banks have to submit financial details on periodic basis.
- The provision of banking related training has been made mandatory for assistant to officer level employees of BFIs. For new employees, such training must be undertaken within 2 years of joining.
- To prevent unhealthy competition between commercial banks and to enhance financial sector stability, the procedure of merger and acquisition between commercial banks shall be encouraged.

- Survey shall be conducted to prepare real estate price indicator to present fluctuations in real estate price.
- Establishment of Real Time Gross Settlement (RTGS) is already in process and necessary measures to be taken for the establishment of National Payment Gateway.
- Commercial banks can request NRB for broker license to trade in shares and securities by establishing separate subsidiary company.
- Except national level BFIs, other BFIs shall coordinate its work area in alignment with provincial structure for effective implementation of federalism.
- Payment Service Provider (PSP) and Payment System Operator (PSO) shall obtain prior approval from NRB for publishing its annual financial report from FY 2018-19.
- Microfinance Institutions (MFIs) shall be provided with PSP approval on the analysis of institutional capacity, number of customers, network of branches, capital and physical infrastructure.

## **REGULATION**

- Identification, regulation and supervision of systematically important banks to be done.
- Financial stability index of Financial System to be developed and published periodically.
- Introduction of branch audit of commercial banks which will be implemented for big branches, which shall be identified on the basis of deposit, credit and assets.
- Margin call will not be necessary on reduction in value of pledged shares up to 20%.
- Margin lending capped to 25% instead of previous 40% of core capital of BFIs.
- Rating of commercial banks to be done from FY 2018-19 from national or international credit rating agency. On disbursement or renewal of credit to borrowers having credit facility of NPR 500 million or more, credit rating of such banks to be considered as the basis of evaluation of credit.
- Financial statements of development banks and finance companies to be prepared as per NFRS.

- Continuance of MOU between regulatory authority of other nations for supervision of representative office of foreign banks in Nepal and representative office of Nepalese banks in foreign country.
- Necessary coordination to be done to make GoN's system of collection of revenue and payment of expenses through electronic medium effective.
- Exchange of information between BFIs and Tax Administration with respect to submission of financial report to be made more effective for financial transparency.
- Submission of tax clearance certificate to be made mandatory during sanction or renewal of loan.
- In case of deduction in amount on failed transaction from ATM or POS machine, same shall be refunded within fixed time and with interest in case of failure to refund within the scheduled time.
- Compulsory audit of information system of commercial banks to minimize cybercrime.
- Cooperatives licensed for limited banking transaction to be separated from regulatory and supervisory ambit of NRB from 16 July 2018.
- Collateral valuation guidelines to be issued for loan against collateral of immovable assets and real estate for uniformity in valuation.
- Annual action plan including deposit and loan estimates for the fiscal year approved by the board of directors to be submitted within the month of *Shrawan* to the supervision department of NRB and same shall be taken as the basis of monitoring while supervising.
- Current assets and Current liabilities details to be certified by the third party in case of sanction and renewal of commercial overdraft loan exceeding NPR 250 million.
- Exemption in maintenance of CCR and SLR ratio for branches opened in local levels as per direction of NRB for next 3 years.
- Representative from respective bank to be present in hearing of grievance by grievance redressal unit of NRB.

- Inclusion of NFRS based financial statements in the proposed Supervisory Information System.

## REGULATION OF MFIS

- MFIs need to affiliate in the network of Credit Information Bureau (CIB) mandatorily. In case MFIs do not provide information about any loan to CIB regularly, additional 2% Loan Loss Provision (LLP) has to be created on such loans.
- Necessary measures shall be taken to abate repetition of availing credit facility among borrowers under Poverty Alleviation Fund, Rural Dignity Fund and Youth Self-employment Fund.
- Borrower availing credit without any security under group guarantee, can obtain credit from multiple MFIs within the single obligor limit.
- Continuance of suspension of licensing new MFI.
- Necessary provisions will be made to promote the merger or acquisition MFIs among same class.
- MFIs based on rural municipality shall provide loan up to NPR 1 million for operation of micro business to everyone offering acceptable security.
- In case of subsidiary MFIs, any transaction between holding company and such MFIs shall have to be disclosed as related party transaction.
- MFIs can add up to 6% to the cost of fund while lending.

## FOREIGN EXCHANGE MANAGEMENT

- Import exceeding USD 40 thousand from third countries and INR 50 million from India shall be through Letter of Credit (LC) mandatorily.
- On the basis of travel document issued by GoN foreign exchange facility up to USD 1000 will be made available.
- Government bodies operating development projects of GoN are exempted from obtaining approval from NRB for opening LC on procurement of approved services.
- Period of foreign currency loan provided by commercial banks for import of industrial raw materials will be extended from 90 days to 180 days.



- Commercial banks can provide agency service for recovery of loans and auction recovery from defaulters on loan provided by foreign investors to projects in Nepal, in addition to management of Escrow account and custodian service.
- Loan in Nepali currency can be provided against collateral of deposits made on convertible foreign currency in commercial banks by foreign investors investing in prescribed industries and projects.
- On the basis of receipt of advance payment, goods of third countries can be exported to country other than Nepal on the basis of LC.
- For the import of gold for jewelers, import can be made in one lot or at any time during the month within the daily limit of quantity as prescribed.
- Sale of gold jewelries to Foreigners, Non-Resident Nepalese and Diplomats in FCY to be deemed as export sales.
- Direct exchange facility to be provided to the projects of national importance identified by Investment Board, Nepal and specified by NRB for making payment to constructors and consultants on the basis of work completion certificate from relevant authority.



right people  
right size  
right solutions

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