

Monetary Policy
2019/20
HIGHLIGHTS





Table of Contents

Overall Economic Situation	5
Monetary Policy Stance	5
Monetary Management	5
Credit Management	6
Long term Interest Rate Management	6
Financial Sector Reform	7
Regulation	7
Regulation of MFIs	8
Foreign Exchange Management	8

MONETARY POLICY 2019/20



Monetary Policy Highlights 2019/20

The Governor of the Central Bank (Nepal Rastra Bank) presented the Monetary Policy on 24 July 2019 for the fiscal year 2019/20 (FY 2076/77) and the key highlights are summarized in this document.

OVERALL ECONOMIC SITUATION

Fiscal Year: 2018/19 2017/18

A	Economic Growth Rate	6.8%	6.3%
	Agriculture Sector	5%	2.8%
	Industrial Sector	8.1%	9.6%
	Service Sector	7.3%	7.2%

B	Average Annual Inflation Rate	4.5%	4.2%
---	-------------------------------	------	------

C	Branch Networks as of mid-June 2019	8564	6418
	Commercial Banks	3539	2919
	Development Banks	1250	951
	Financial Companies	205	183
	MFIs	3570	2365
	Average Population to Branch Ratio	3411	4493

D	Overall BOP - Surplus (NPR in billion)	(90.83)	(4.34)
	Foreign Exchange Reserve - Sufficient for merchandise and service import	7 months	9.6 months
	Weighted Average 91 day Treasury Bills Rate (as of mid-July 2019)	4.97%	3.74%
	Weighted Average Inter Bank Rate among commercial banks (as of mid-July 2019)	4.52%	2.96%

D	Overall BOP - Surplus (NPR in billion)	(90.83)	(4.34)
	Average interest rate for deposits of the commercial banks (as of mid-June 2019)	6.64%	6.61%
	Average interest rate for loan of the commercial banks (as of mid-June 2019)	12.20%	12.42%

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 2076/77 of GoN to achieve the economic growth of 8.5% envisioned by GON.
- Aggregate demand is expected to expand due to increase in investment by government and private sectors.

Monetary Management

The objective of the monetary policy 2076-77 is to maintain inflation within the limit of 6% as per budget forecasts for which the Central Bank has proposed the following:

- Broad Money Growth rate to be maintained at 18%.
- Domestic loans have been prospected to grow by 25.1% and increment in private sector lending is limited to 20.6%.
- The upper band of Interest Rate Corridor (IRC) to be reduced from 6.5% to 6% and the lower band of IRC in terms of two weeks deposit collection to be decreased from 3.5% to 3%.
- Repo rate to be maintained at 4.5%.
- Cash Reserve Ratio (CRR) for Class A, B and C Banks and Financial Institution (BFI) shall be maintained at 4%.



- Statutory Liquidity Ratio (SLR) to be maintained at 10%, 8% and 7% by Class A, B and C BFIs, respectively.
- Standing Liquidity Facility (SLF) is reduced to 6% from 6.5%.
- The general and special refinance interest rate to be maintained at 3% and 1%, respectively. Further, the BFIs shall not charge more than 7% and 3% on general and special refinance, respectively.
- The bank rate, applied for the purpose of Lender of Last Resort (LOLR) facility has been reduced to 6% from 6.5%.

Credit Management

- The Central Bank has introduced the following measures to ease raising resources from abroad and address the credit crunch faced by the BFI:
 - Borrow money from foreign pension and hedge funds.
 - Revision of Interest rate on loans in foreign currency from 6 months LIBOR +3% to 6 months LIBOR +4%.
 - Collection foreign currency term deposits from Foreign Institutional Depositors and

Non-Resident Nepalese (NRN) for a minimum period of 2 years and extend loans in NPR up to 100% against such deposits.

- Restriction in collecting the deposits in LCY from 1 institution up to 10% of its Gross LCY deposits and share of institutional deposit in total deposit not to exceed 50%.
- Issue bonds and debentures equivalent to at least 25% paid up capital by Ashad end 2077 mandatorily to raise funds and extend loans there against.

Other credit management measures introduced are:

- The personal loans (housing, vehicle etc.) shall now be linked to the repayment capacity of the borrowers based on their income (Debt Service to Gross Income Ratio - DTI)
- Borrowers availing loans of Rs 5 million or more shall be required to have a PAN.
- Interest recovery from the borrower availing concessional loan shall only be done after deducting the portion of interest subsidy facilitated to them.
- Spread rate (between loan and deposit) to be

reduced to 4.4% by all commercial banks by Ashad End 2077.

- Service charge, prepayment charges shall not be levied on loans extended to agricultural, entrepreneurship and business promotion loans up to NPR 1.5 million after a 2% is added to the base rate for interest. Approval of such loans shall be granted within 7 days from the date of application else, provide clarification for delay to the customer.
- Infrastructure Development Bank's cannot extend loans in infrastructure projects lower than NPR 300 million.

Financial Sector Strengthening

- The commercial banks opting for merger and acquisition and starting combined transaction by Ashad end, 2077 are provided with the following incentives:
 - 1 year extension granted till Ashad end, 2078 to meet the prescribed limit of financing in agricultural, energy and tourism sector.
 - 1 year extension granted till Ashad end, 2078 for maintaining interest rate spread of 4.4%.
 - NRB approval not required for branch extension.
 - Cooling off period of 6 months not applicable for Directors, CEO and Deputy CEO in joining another post in other licensed institutions.
 - 1 year extension granted for issue of debentures of 25% of the paid up capital till Ashad end, 2078.
- The Central Bank proposes to make appropriate provisions for the M&A of BFIs with common shareholding above a fixed percentage on a priority basis.
- Separate regulation and supervision of 'Systemically Important Banks' proposed.
- Drafting of laws relating to lease financing for the development of the financial sector has been proposed.
- Development Banks and Financial Institutions should upload the information directly to 'goAML' Software from their Core Banking Software for controlling money laundering.

- BFIs shall share information on the transactions related to MFIs to Credit Information Center.

Regulations

The Central Bank is gearing towards implementing the Basel III in Class 'A' FIs through effective implementation of provisions related to 'Countercyclical Buffer' and issue of criteria for 'Liquidity Coverage Ratio' and 'Net Stable Funding Ratio'.

The Central Bank has proposed to develop policies for opening branch offices by Nepalese BFIs abroad and the opening of Representative/Branch offices of foreign banks in Nepal.

BFIs shall insure the property mortgaged for credit facility only with the insurance company selected by the borrower and shall not cross sell any other insurance policy except those directly related to credit facility.

The Development Banks and Finance Companies should be prepare to implement Basel II and mechanism for 'Stress Testing' shall be proposed in these institutions.

Micro Finance Institutions

To consolidate and strengthen the operations and management of the micro-finance institutions the Central bank has proposed the following incentives for the M&A activities:

- Extension of time for compliance with Single Obligor Limit requirements.
- Extension of time for maintaining the required CAR.
- Non applicability of cooling off period of 6 months for Directors, CEO and Deputy CEO for accepting new job offers.
- Increase in limit of micro credit to be provided against collateral from existing NPR 1 million to NPR 1.5 million.

The following additional policy statements have been made:

- MFIs can establish branch in sub-metropolitan and metropolitan city only after establishing

branch in municipality and rural municipality.

- MFIs should compulsorily disburse 1/3rd of total credit to agricultural sector.
- Salary, allowances and other payments to employees can be accepted as deposit and mobilized for lending.

Payment System Strengthening

- The Central Bank has proposed to strengthen the payment systems by:
- Introduction of operation of the RTGS payment system.
- Issue of Co-Brand Card/ National Card for promotion of payment through card in NPR.
- Developing procedures for online reporting for electronic transactions by the institutions involved in payment transactions.
- Developing procedures for installing the Cash Deposit Machine (CDM) for depositing the cash in BFs.
- Developing procedures for providing refund of 10% VAT (if payment for goods and service is

made through card) directly to bank account of customers.

Foreign Exchange Management

The following has been proposed to facilitate Foreign Exchange management:

- Issue of hedging directive for effective implementation of Hedging Rules, 2075.
- Recommendation of concern regulatory body would be made mandatory for making foreign exchange payment for procurement of software in foreign currency.
- Prescription of necessary procedures for payments against online advertisements.
- Introduction of necessary provisions for regulating the foreign exchange expenses relating to foreign tours and education.
- Prescription of necessary policies and procedures for encouraging remittance through formal banking channel.

ABOUT PKF NEPAL

PKF T R Upadhya & CO. ('PKF Nepal') is a member of PKF International Limited, a network of legally independent firms. PKF Nepal was established in 1971 as a partnership firm established under the laws of Nepal and today it has over 90 professional as well as many other experienced professionals working on a contractual basis within the firm.

We are a leading provider of audit, tax, business and financial advisory services in Nepal. The firm's approach to service delivery helps us respond efficiently and comprehensively to any client's complex business challenges. Our clients include a large number of local, regional and international clients.

PKF Nepal provides its clients with full access to the resources and the infrastructure of a major firm and our team is uniquely positioned to integrate in-depth expertise in international accounting and business practices with local know how.

Our objective is to provide services of the highest possible standard to companies in Nepal and also bring an international perspective to the management of their business.

IMPORTANT DISCLAIMER

This publication has been distributed on the express terms and understanding that the authors are not responsible for the result of any actions which are undertaken on the basis of the information which is contained within this publication, nor for any error in, or omission from, this publication. The publishers and the authors expressly disclaim all and any liability and responsibility to any person, entity or corporation whose acts or fails to act as a consequence of any reliance upon the whole or any part of the contents of this publication.

Accordingly, no person, entity or corporation should act or rely upon any matter or information as contained or implied within this publication without first obtaining advice from an appropriately qualified professional person or firm of advisers and ensuring that such advise specifically relates to their particular circumstances.

PKF TR Upadhya & Co. is a member firm of the PKF International Limited family of legally independent member firms and does not accept any responsibility and liability for the actions or inactions on the part of any individual member or correspondent firm or firms.

© PKF T R Upadhya & Co.

All rights reserved. Use Approved With Attribution.

right people
right size
right solutions

CONTACT US IN NEPAL

PKF T R Upadhy & Co.
Kathmandu Office

📍 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

🌐 Visit us at www.pkf.trunco.com.np