


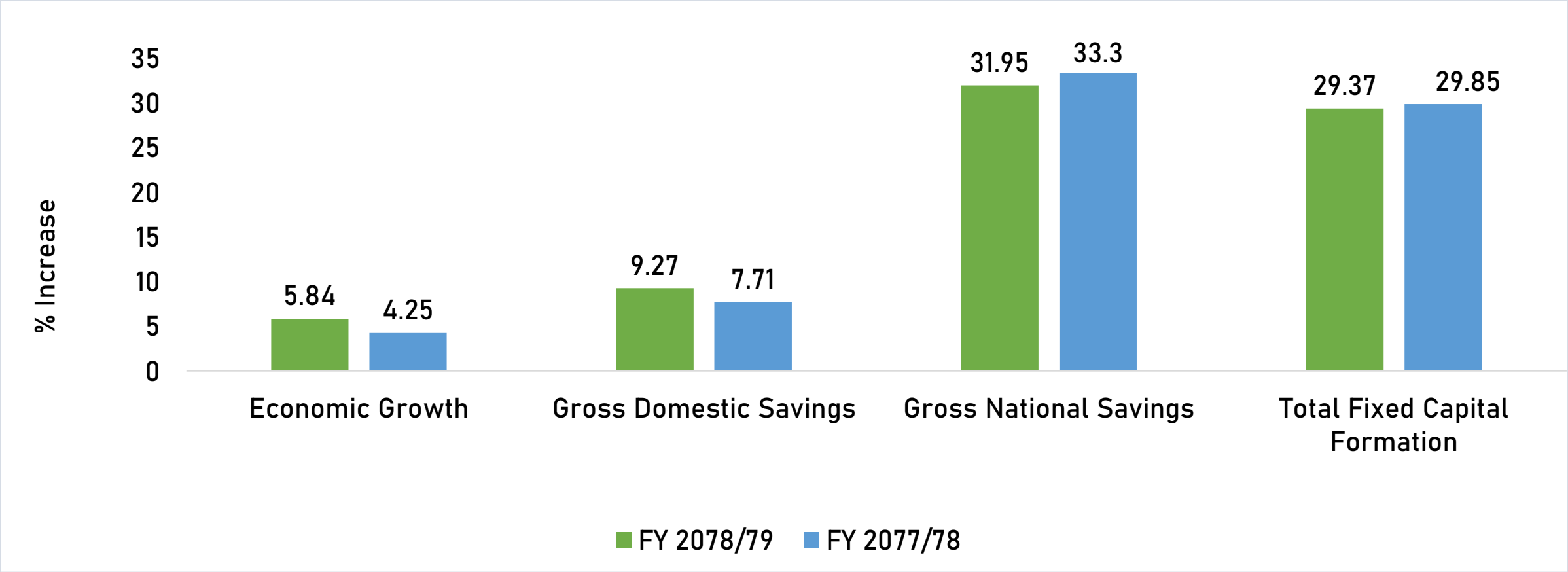


**Highlights of Monetary Policy
FY 2022/23**



Current Scenario

Current Scenario: Economic Growth and Inflation



Consumer Inflation Rate-8.56% in Jestha 2079 (Average consumer inflation rate in average for 11 months of FY 2078/79-6.09%)

Current Scenario: Balance of Payment and Forex Reserve

Export: Total export of goods increased to NPR 185.84 Billion till Jestha 2079 of FY 2078/79 *(Increased by 53.3%)*

Import: Total import of goods increased to NPR 1,763.33 Billion till Jestha 2079 of FY 2078/79 *(Increased by 27.5%)*

Trade Deficit: Trade deficit of goods increased to NPR 1,577.39 Billion till Jestha 2079 of FY 2078/79 *(Increased by 25%)*

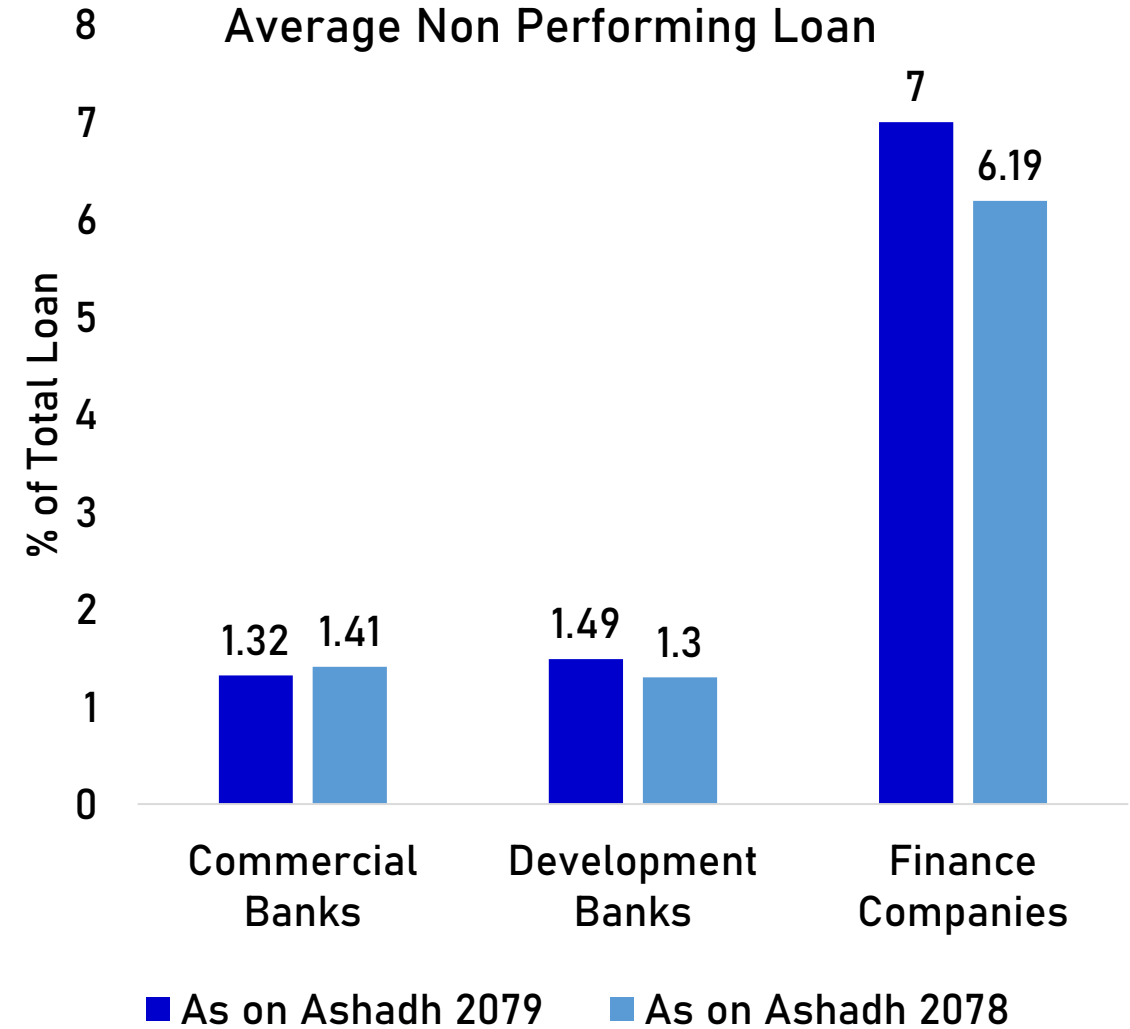
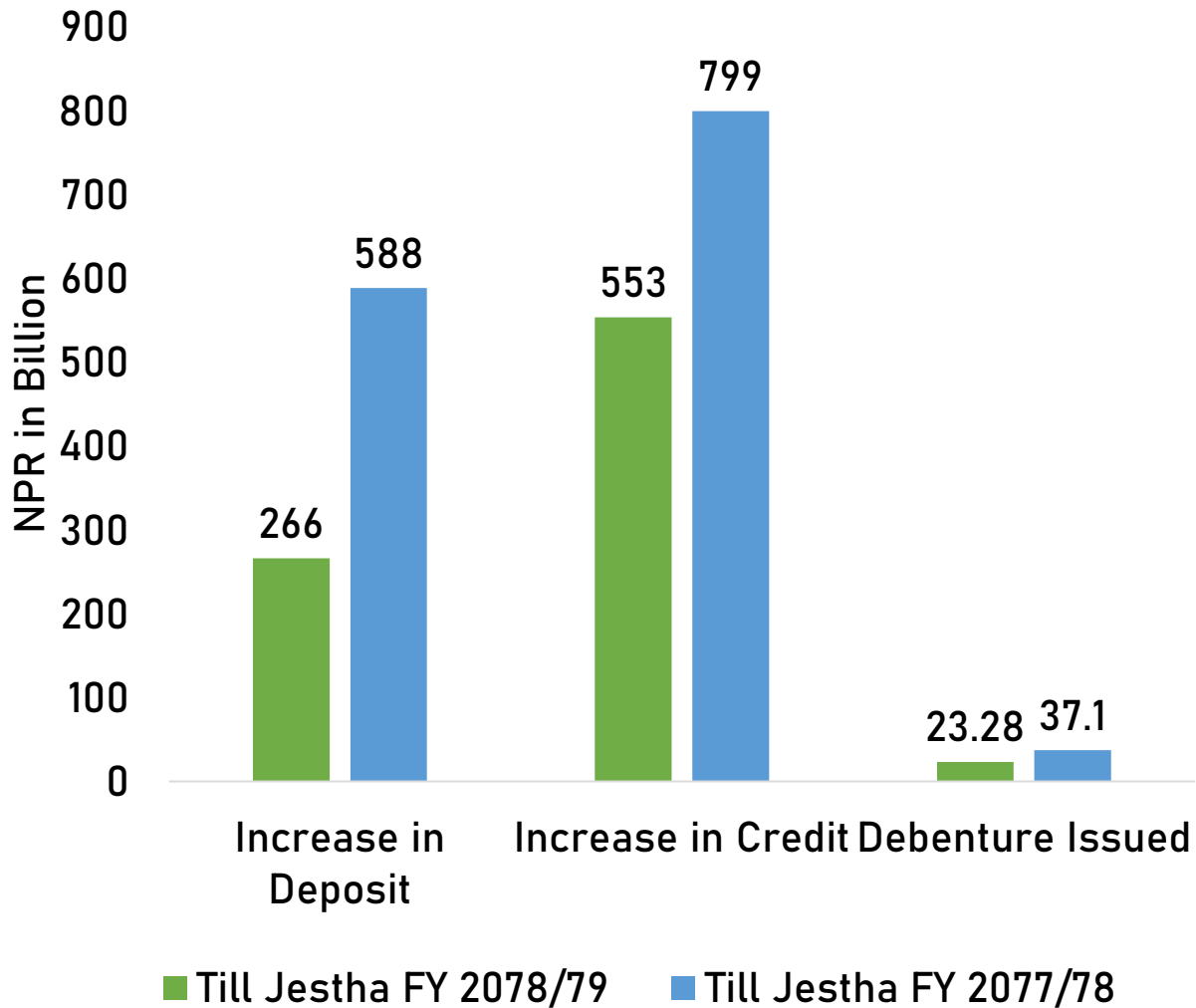
Remittance Inflow : Increased by 12.6% till Jestha 2079 of FY 2078/79 compared to same period of last FY and reached NPR 904.8 Billion.

Current Account Deficit : NPR 595.73 Billion till Jestha 2079 (NPR 298.11 Billion in same review period of FY 2078/79)

Balance of Payment : Deficit of NPR 269.81 Billion till Jestha 2079 (Deficit of NPR 15.15 Billion in same review period of FY 2078/79)

FCY Reserve: USD 9.45 Billion till Jestha 2079 (Decreased by USD 2.30 Billion) and enough to import Goods and Services for 6.73 months.

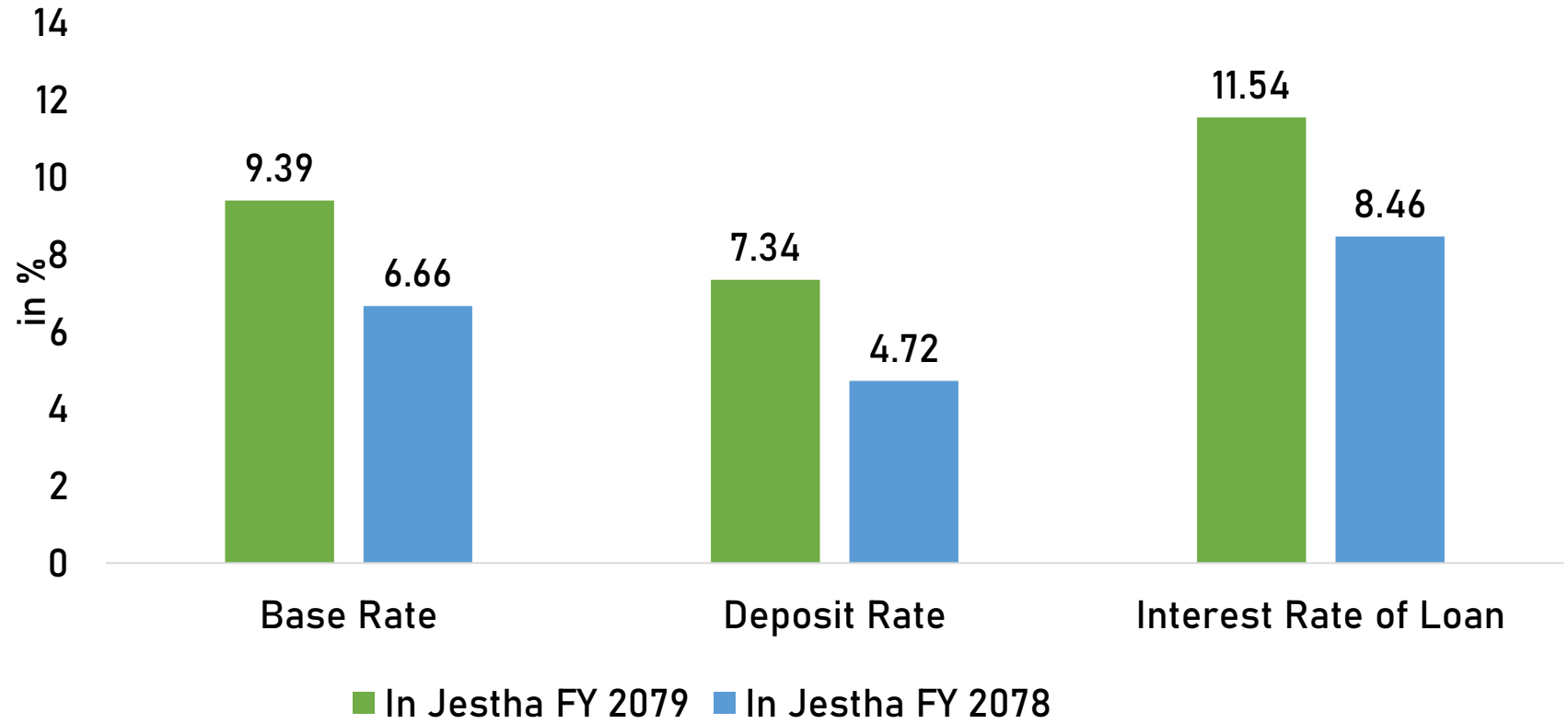
Current Scenario: Financial Sector



Number of branches of BFI's: 11,528 as on Ashad end 2079 (*10,683 as on Ashad end 2078*)

Number of branches of Commercial Banks in Local Level: 752

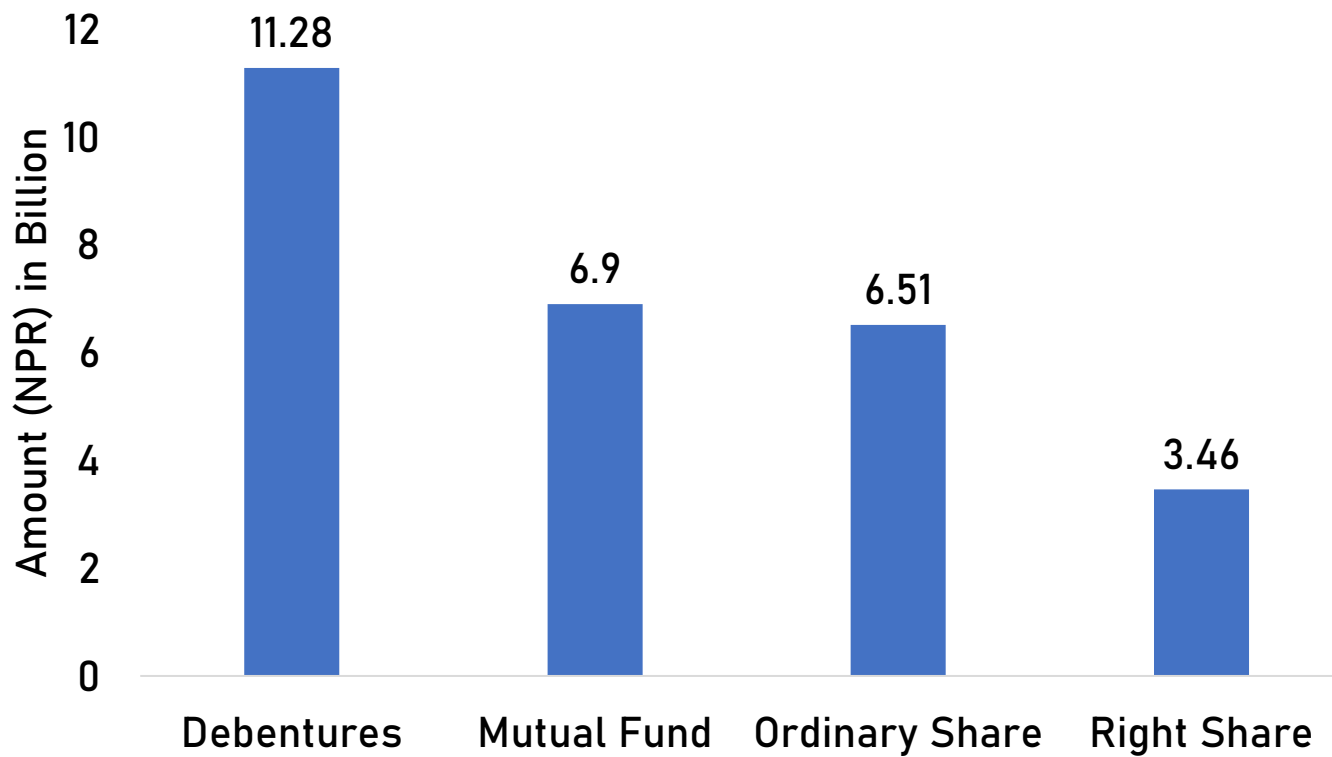
Current Scenario: Level of Interest Rate



Treasury Bills: Weighted Average interest rate of 91 days Treasury bills is 10.66 % in Ashad 2079. *(It was 4.55% in Ashad 2078.)*

Current Scenario: Capital Market

Public Issue of Securities in FY 2078/79



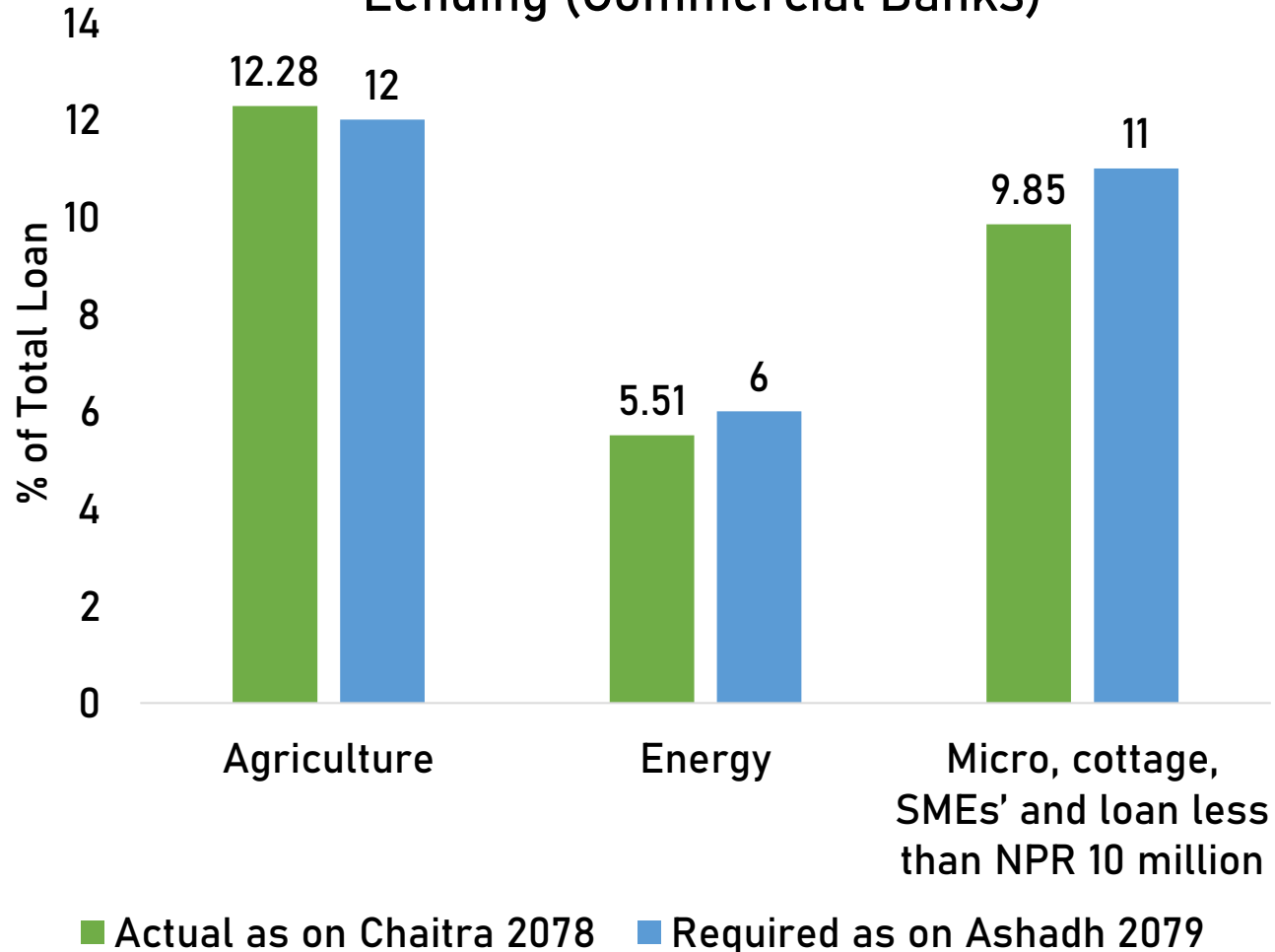
NEPSE Index: 2,009.46 in Ashad end 2079. *(2,883.41 in Ashad end 2078)*

Market Capitalization: Decreased to NPR 2,869.34 Billion *(Ashad end 2079)* from NPR 4,010.96 Billion *(Ashad end 2078)*

In the 11 months of FY 2078/79; 7 commercial banks and 1 development bank got approval to issue debentures worth NPR 10.88 billion and NPR 0.40 billion respectively from SEBON.

Current Scenario: Directed Lending and CD Ratio

Target Vs Achievement of Directed Lending (Commercial Banks)



Development Banks

Agriculture, Micro, cottage, SMEs', Energy and Tourism: Average 26.62% (NPR 111.92 Billion) as on 2078 Chaitra end.

(Requirement 17% by Ashad end 2079)

Finance Companies

Agriculture, Micro, cottage, SMEs', Energy and Tourism: Average 21.92% (NPR 16.15 Billion) as on 2078 Chaitra end.

(Requirement 12% by Ashad end 2079)

CD Ratio: Average 86.22% as on Ashad end 2079
(Requirement 90%)

The background of the slide features a dense arrangement of stacks of money, likely Euro banknotes, viewed from an elevated perspective. The entire image is overlaid with a semi-transparent teal color. The text is centered in the middle of the frame.

Proposed Monetary Tools

Proposed Tools: Financial Sector Reform & Supervision

- CRR has been increased by 1% to become 4%. *(Effective from Bhadra 2079)*
- SLR has been increased to reach 12% & 10% for Commercial Banks and other FIS respectively. *(To be maintained by Poush 2079)*
- Standing Liquidity Facility SLF will be made available to BFIs' for Maximum 5 Days at bank rate. *(The limit of SLF is limited to 1% of Average Deposit of Previous Week of respective BFIs.)*
- Bank Rate, Policy Rate & Deposit Collection Rates increased by 1.5% to make 8.5%, 7% & 5.5% respectively.
- If Average Inter Bank Interest Rate varies by more than 2% with Policy Rate; provision of bidding Repo / Reverse Repo will be made open. Also, if the above interest rate varies by more than 3%, provision of bidding deposit will be made open.
- To Manage Liquidity, Open Market Stabilization Fund will be implemented.
- Intraday Liquidity Facility shall be converted as Overnight Liquidity Facility as per need to make payment system simple and reliable.
- Lender of Last Report Facility will be provided to BFIs having difficulty in managing Liquidity by adding 2% Penal in Bank Rate.

Proposed Tools: Financial Sector Reform & Supervision

- The existing Interest rate determination provision of BFIs' will be reviewed for effective Implementation of Monetary Policy.
- The Interest rate determination of banks will be reviewed to make Effective Implementation of Monetary Policy.
- Counter Cyclical Buffer will be made effective from 2080 Shrawan.
- Merger related benefits will be available only for Banks and Microfinance concluding merger/acquisition within Poush 2079
- Difference in interest rate of business loan and productive sector loan will be made. Arrangement to provide Credit to Productive Sector Loan as defined up to NPR 20 Million will be made with Interest Rate Maximum up to Base Rate Plus 2%
- Risk Weight of Loan Against Share will be kept at 100% for loan up to NPR 2.5 Million and 150% for Loan above NPR 2.5 Million.
- Limit of Loan Against Share will be kept at NPR 120 Million from one or all BFIs'. This limit will be removed after t the loan is regular and systematized from brokers.

Proposed Tools: Financial Sector Reform & Supervision

- For Loan without specific purpose against real estate collateral, Loan To Value shall be 30% and 40% for Inside Kathmandu Valley and Outside Kathmandu Valley respectively.
- Debentures will be allowed to be considered as resource in CD ratio calculation till Ashadh end 2080.
- A Large Exposure Framework will be prepared to identify the borrowers availing large loans from BFIs'. In addition, the monitoring of loans enjoyed by big borrowers from the banking system will be made more effective. The existing single obligor limit will be reviewed.
- Macro Stress Testing Framework will be prepared and implemented to test the stress in the banking sector due to fluctuations in macroeconomic variables.
- It will be arranged that the enterprise businesses that have availed a maximum loan of NPR 50 million from banks and financial institutions will not be charged penal interest if principal and interest due till end of Ashadh 2079 is paid by the end of Aswin 2079 .
- In order to increase the investment capacity of the Nepal Infrastructure Development Bank established to invest in the infrastructure sector, it will be encouraged to increase its paid-up capital through mergers and acquisitions with other financial institutions established and operating in order to invest in the infrastructure sector.

Proposed Tools: Financial Sector Reform & Supervision

- The existing regulations issued by NRB regarding the suspension of securities transactions at the time of merger and acquisition of banks and financial institutions will be repealed and same will be aligned with the regulations of the Securities Board.
- As stipulated in the budget statement of the financial year 2079/80, the necessary facilitation will be done regarding the establishment of the second level regulatory body for the effective regulation, inspection and supervision of savings and loan cooperatives and non-governmental organizations that are outside the supervisory scope of NRB.
- Necessary support will be provided for Regulation, inspection and supervision of savings and credit cooperatives.
- Drafting of Green Taxonomy including issues such as issuing green bonds, reporting climate risks, identifying capital requirements, etc. in order to encourage Green Financing.
- In relation to money laundering and prevention of financial investment in terrorist activities, the international coordination mechanism will be developed and coordinated with the relevant agencies as needed.

Proposed Tools: Foreign Exchange Management

- In order to make the flow of foreign investment more automated (Automatic Route), support for foreign investment, repatriation of profits of branch offices and repatriation to other countries, necessary amendments will be made in the Foreign Investment and Foreign Loan Management Bylaws, 2078.
- The existing policy arrangements related to derivatives will be reviewed for the purpose of managing foreign exchange risk in order to facilitate the mobilization of loans in foreign currency by BFIs'
- In order to widen the scope of remittance inflow in Nepal; for receiving remittance from Nepali citizens, foreign citizens and foreign associations/organizations etc. by Nepali citizens and association/ organizations easily, the existing arrangements related to remittance will be reviewed.
- Necessary coordination will be done with the related departments of Nepal government for providing services and facilities to Nepalese going for foreign employment by way of arrangement of compulsory bank account to receive foreign exchange by Nepalese going for foreign employment and on the proof that remittance is made by formal route in Nepal.
- Necessary policy arrangements will be made so that holders of various electronic and digital cards existing in banking payment devices can receive remittances from similar cards issued by foreign banks to cards (Card to Card) issued by Nepali banks and financial institutions.

Proposed Tools: Foreign Exchange Management

- Necessary policy arrangements will be made to encourage service export along with information technology service to generate convertible foreign currency.
- The existing system of keeping cash margin while opening LC for the import of certain items will be reviewed gradually.
- Provision will be made requiring banks and FIs to compare the international market price of the relevant item with price in proforma invoice while issuing draft, T. T, letter of the credit for import of goods; p
- Arrangements requiring regular training will be made for the employees directly involved in trade finance and credit disbursement work in BFIs' for handling issues related to goods and services import-export methods, payment methods used in it, and domestic goods movement and credit analysis.
- Necessary study will be done regarding USD/NPR swap by Nepal Rastra Bank with commercial banks to manage the risk in the foreign exchange market.

Proposed Tools: Refinancing and Subsidized Loan

- Refinancing facility will be continued to productive sectors, micro credit, export and sectors yet to recovered from Covid pandemic (highly affected).
- Programs related to subsidized loans mentioned in the budget statement of the financial year 2079-80 will be implemented according to the procedures approved by the Government of Nepal.
- With the aim of increasing credit in the productive sectors, study will be conducted regarding the proper utilization and effectiveness of the programs existent for providing subsidized, deprived and refinancing loans.
- Alternative forms of finance such as Peer-to-Peer Lending, Crowdfunding will be studied to increase access to credit in start-up businesses.

Proposed Tools: About Micro Finance Institutions

- As required by budget statement of the financial year 2079/80, microfinance will be encouraged to provide financial services to remote and backward areas according to the social banking concept.
- Arrangement will be made requiring BFIs' providing wholesale loans to the microfinance under deprived sector to provide loan at interest rate of Base rate plus premium up to 2%.
- Possible arrangement will be made to microfinance to mobilize resources by issuing bonds equal to their capital fund.
- Required facilitation will be provided for enhancing capital structure and institutional capacity of Rural Development MF as per the budget statement of FY 2079/80.
- For the microfinance fund established with the aim of providing easy access to agricultural credit as per budget statement of FY 2079/80; facilitation will be provided for implementation according to the legal, institutional and operating framework.

Proposed Tools: Payment Systems

- Steps to encourage electronic payment transactions has been continued. Necessary institutional coordination will be done to celebrate the financial year 2079/80 as the year of promotion of electronic payment transactions.
- A study will be conducted regarding the establishment of Innovation Center/Regulatory Sandbox.
- Necessary actions will be taken regarding amendment of Nepal Rastra Bank Act 2058, Banks and Financial Institutions Act 2073 and the preparation of other special laws and institutional structures to establish a fully digital bank.
- The existing policy arrangements related to the merger and acquisition of payment-related institutions, including foreign investment up to the specified limit, will be reviewed.
- Arrangements will be made for settlement of transactions in Nepal through various payment cards issued by licensed banks and financial institutions and for this purpose, security bonds issued in foreign currency by banks and financial institutions will be required to be issued in Nepali currency.
- Security guidance on cyber and information technology will be issued for the organizations that have permission to perform payment-related work.

For Further Consultation, Please Contact:

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