

Monetary Policy Highlights

Financial Year 2075-76 (2018-19)



Economic Backdrop

Foreword	The Monetary Policy for the FY 2075-76 has been announced by the Governor of Nepal Rastra Bank(NRB) Dr. Chiranjibi Nepal on July 11,2018.
Gross Domestic Product	Economic growth has gained momentum since 2016/17. The economy is estimated to have grown by 5.9 percent in 2017/18 while such growth was 7.4 percent in 2016/17.
	Despite a sluggish agricultural growth of 2.8 percent due to the flood in Terai region at the beginning of the fiscal year, the economy achieved an encouraging growth in 2017/18.
	This level of growth was attained on account of industrial output growth of 8.8 percent and service sector's growth of 6.6 percent. With the improvement in the growth trajectory, the size of the economy has reached Rs. 3 trillion.
Inflation	In the last two years, inflation has remained contained. Average consumer price inflation that stood at 4.5 percent in 2016/17 declined to 4.1 percent in eleven months of 2017/18.
Balance of Payments	Current account deficit amounted to Rs. 209.21 billion, 7.0 percent of GDP, in eleven months of 2017/18. An escalation in import compared to export raised the trade deficit to Rs. 1033.04 billion, which is 34.4 percent of GDP. In the review period, workers' remittances increased 7.3 percent. A modest growth in remittance inflow coupled with mounting trade deficit has resulted in an upsurge of current account deficit. The overall balance of payments that had remained in surplus in 2016/17 by Rs. 82.11 billion turned negative by Rs. 4.34 billion in eleven months of 2017/18.



Monetary Management

- Cash Reserve Ratio(CRR) has to be maintained in the following ratio.

Sectors	CY	PY
Commercial Bank	4%	6%
Development Bank	4%	5%
Finance Company	4%	4%

- Statutory Liquidity Ratio(SLR) has to be maintained in the following ratio.

Sectors	CY	PY
Commercial Bank	10%	12%
Development Bank	8%	9%
Finance Company	7%	8%

- Lender of Last Resort Rate has been revised as under.

Particulars	CY	PY
LOLR	6.5%	7%



Credit Management

Credit in Indian Currency	Commercial Banks can now borrow in Indian Currency from Foreign Banks.
Hedging Facility	A provision will be made for providing hedging facility for the foreign investment in infrastructure projects pooling the investment amount in a separate fund. The fund will help to manage the foreign exchange risk to be borne by foreign investors. This facility is expected to attract foreign investment in large hydropower projects, transmission lines, roads and other infrastructure projects. A separate provision will be made in this regard.
Overdraft Loan	The ceiling of personal overdraft loan and revolving type loans extended by the BFIs will be reduced from the existing Rs. 7.5 million to Rs. 5.0 million. Additional policy provision will be introduced to control personal as well as overall overdraft lending of the BFIs.
Priority Sector Funding	A provision will be made for the commercial banks to extend at least 10 percent of their total credit to agriculture sector and at least 15 percent to energy and tourism sector, making a total of at least 25 percent in the priority sector. Such provision for the development banks and finance companies to extend at least 15 percent and 10 percent respectively of their total credit to priority sector is kept unchanged. Commercial banks will be encouraged to extend credit in the priority sectors in all seven provinces.
Education & Women	Nepal Government will provide 5% interest loans against academic certificate for higher, technical and professional education and also to lower caste citizens for business and 6% interest subsidy for loans provided for Women entrepreneurship Development up to Rs. 1.5 millions.



Financial Sector Reforms



Opening Branches	<ul style="list-style-type: none">To make accessibility of the banking service more simple and easy, BFIs now no need to get prior approval from NRB to open new branches outside Metropolitan and Sub-Metropolitan cities.
Regional Head Office	<ul style="list-style-type: none">Each commercial bank to open Regional Head Office in all provinces. Due to this, banking services flow in all Provinces is believed to be simple and effective.
Reach of Banking Facilities	<ul style="list-style-type: none">Campaign to open bank account of every Nepali citizens will be coordinated with every government authorities and also financial literacy campaign will be introduced to encourage students of secondary level and above.
Regulation for Payment Service Provider	<ul style="list-style-type: none">From FY 2075/76 onwards, Payment service provider and Payment system operator mandatorily need to get prior permission of NRB to publish its Annual Financial Statements.
Securities Business	<ul style="list-style-type: none">If Commercial bank request NRB to do securities business, permission will be given to do so by establishing and operating through its separate subsidiary company.
Mergers & Acquisitions	<ul style="list-style-type: none">To stop unhealthy competition between commercial banks and to further strengthen the financial sector stability, merger and acquisition will be highly encouraged.

Regulations

Margin Call	<ul style="list-style-type: none"> If the Stock prices plunge by more than 20% of Collateral Value then only margin call will be possible.
Collateral	<ul style="list-style-type: none"> 25% of Stock Value can be taken as Collateral for Margin Lending
Credit Rating	<ul style="list-style-type: none"> Credit Rating is mandatory for the borrowers exceeding 50 Cr.
NFRS Applicable	<ul style="list-style-type: none"> Financial Statements of Development Banks & Finance Companies should publish as per NFRS Standards.
Tax Clearance	<ul style="list-style-type: none"> Tax Clearance Certificate must be required to apply/renew loans by Firms & Companies
IT System Audit	<ul style="list-style-type: none"> In order to control Cyber Crime there is compulsory requirement of Information Technology System Audit by commercial Bank.

Regulations of Micro-finance

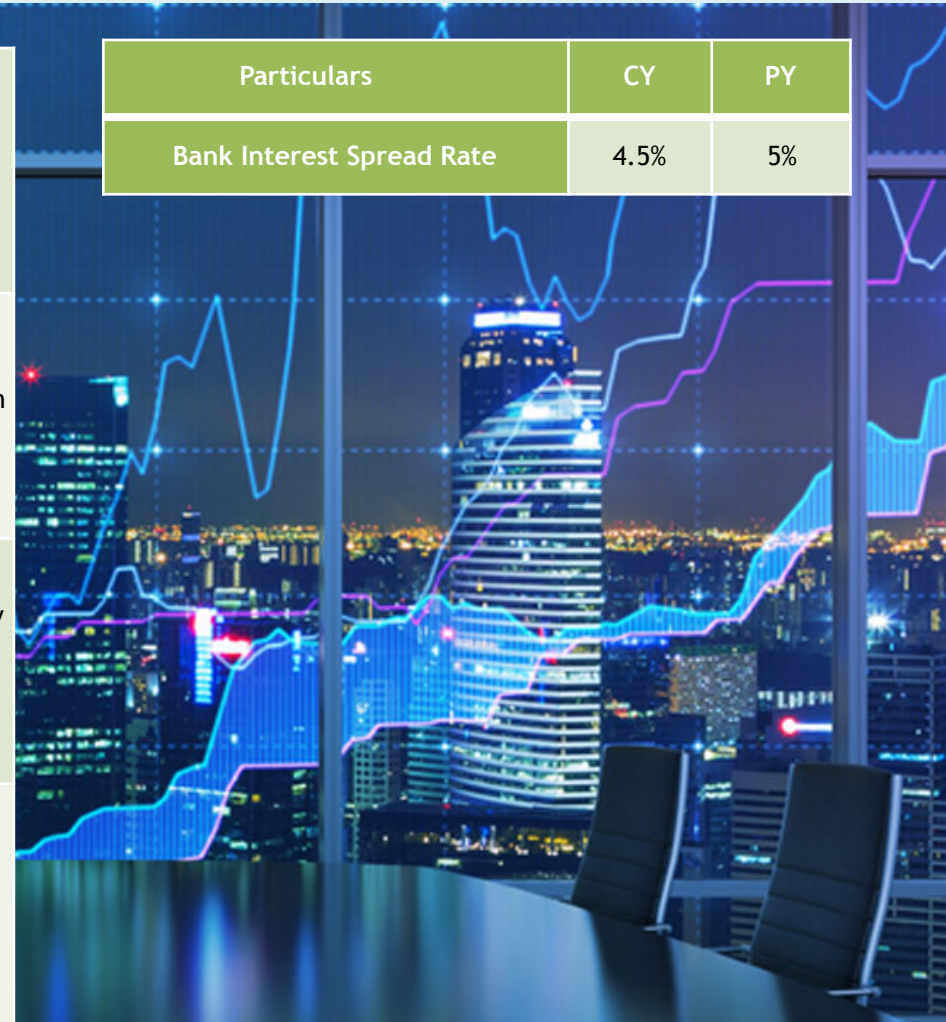
Credit Information Bureau	<ul style="list-style-type: none"> Microfinance need to be abide by Credit Information Bureau (CIB).
Related Party Transactions	<ul style="list-style-type: none"> Micro finance companies, as a subsidiary company to disclose transactions between holding and subsidiary company under “Related Parties Transactions”.
Certificate to MFI's	<ul style="list-style-type: none"> Policy arrangements will be made to provide “Payment Service Provider” certificate to Micro financial institutions based on the analysis of institutional capacity, customer number, branch network, capital and physical infrastructure

Forex Management

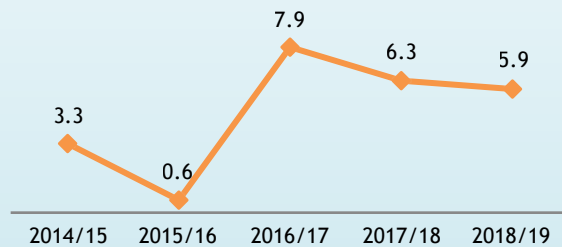
Letter of Credit	<ul style="list-style-type: none"> If the import value is USD 40 thousand & IC 5 Crore from third country & India respectively, then it should be routed through Letter of Credit Only.
Forex for Travellers	<ul style="list-style-type: none"> Foreign exchange facility up to USD 1000 will be provided to travellers traveling abroad based on travel document issued by the GoN in line with the exchange facility provided to passport holders travelling abroad through the land route.
Extension for Forex Loans	<ul style="list-style-type: none"> The term of foreign currency loan extended by commercial banks to import industrial raw materials will be extended from 90 days to 180 days.
Bank	<ul style="list-style-type: none"> Arrangement will be done to appoint Nepali commercial Banks as an agent for collecting interest and principal on loans provided by foreign investors. And also Nepali Banks can provide service for trilateral agreement, Escrow Account Management and as a custodian.

Long Term Interest Rate Management

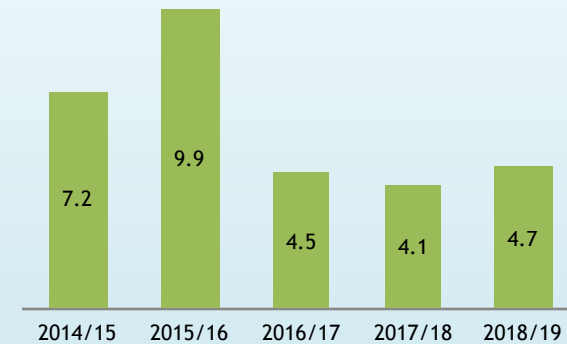
Particulars	CY	PY
Bank Interest Spread Rate	4.5%	5%



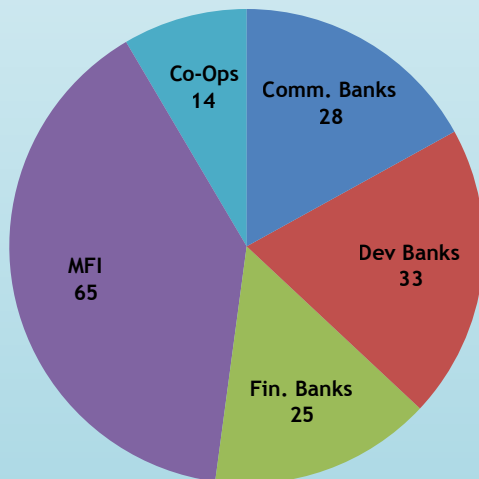
Financial & Economical Outlook of Nepal



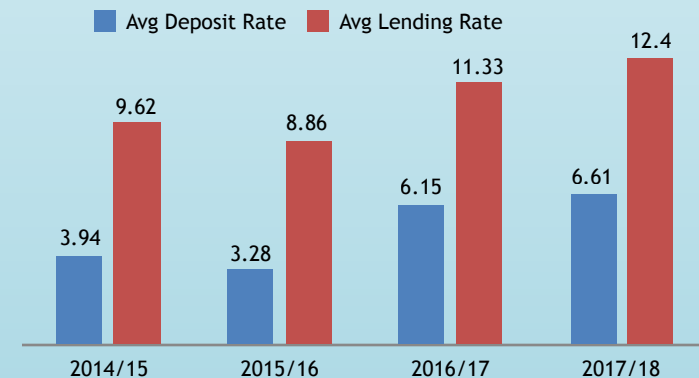
GDP Growth Rate



Inflation Rate



Financial Institutions in Nepal



Commercial Bank Rates

Conclusion

National macroeconomic indicators such as economic growth and inflation are in expected direction. However, increasing imports pose a challenge to external sector stability. In this context, implementation of this monetary policy in line with the budget of the GoN is expected to safeguard macroeconomic and financial stability, widen financial inclusion and achieve targeted economic growth.



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