

Monetary Policy 2017/18

Highlights

The Governor of the Central Bank (Nepal Rastra Bank-) presented the Monetary Policy on 9 July 2017 for the fiscal year 2017/18 (FY 2074/75) and the key highlights are summarized in this document.

Overall Economic Situation

Fiscal Year: 2016/17 2015/16

A	Real GDP growth at basic price as per Preliminary Estimates	6.9%	0.6%
	- Agriculture Sector	5.3%	1.3%
	- Non- Agriculture Sector	7.7%	0.6%

B	Average Annual Inflation based on Consumer Price index	4.6%	9.9%
	- Inflation (as of mid-June 2016)	2.8%	9.9%

C	Total government expenditure (Current and Capital) (Rs in Billion)	551.41	384.47
	Cash Balance with NRB (Rs in Billion)	239.3	197.11

D	Overall BOP (Surplus) – (Rs in billion)	74.26	171.15
	Foreign Exchange Reserve (as of mid-June 2017) (Sufficient for 13.3 months of merchandise import and 11.5 months of merchandise and service import) – (Rs in billion)	1070.26	1021.74
	Weighted Average 91-day Treasury Bills Rate (as of mid-June 2017)	1.03%	0.12%
	Weighted Average Inter Bank Rate among commercial Banks (as of mid-June 2017)	2.46%	0.36%

E	Branch Networks as of mid-April 2017	4750	4134
	- Commercial Banks	2040	1810
	- Development Banks	832	856
	- Financial Companies	151	205
	- MFIs	1727	1263
	- Average Population to Branch Ratio	5986	6784

Monetary Policy Stance

- ❑ Monetary policy has been prepared in alignment with internal and external economic scenario, fourteenth planning, strategic planning of NRB and the policies, activities and priorities stated in the budget of Nepal Government.
- ❑ Monetary Policy has been prepared in order to achieve targeted economic growth rate of 7.2% and to limit monetary indicators within acceptable standard to prevent pressure in the inflation.

- ❑ Monetary Policy focuses to maintain the appropriate interest rate and to minimize the fluctuation in the interest rates.

Economic & Monetary Targets for Fiscal year 2017/18 (FY 2074/75)

- ❑ Inflation rate is targeted at 7% or below and foreign exchange reserves to be maintained sufficient to cover the imports of goods and services at least for 8 months.
- ❑ Required liquidity will be maintained to facilitate the economic growth rate at 7.2%.
- ❑ Foreign exchange rate between Indian currency and Nepali currency to be continued at the existing rate.
- ❑ Broad Money Growth Rate to be maintained at 18%.
- ❑ Internal loans have been prospecting to grow by 27.8%.
- ❑ Increment in Private Sector lending limited to 20%.

Instruments of Monetary Policy Operation

- ❑ The Interest Rate Corridor (IRC) Scheme has been relevantly amended.
- ❑ Interbank interest rate and 2 weeks' repo interest rate shall remain within Interest Rate Corridor (IRC). The upper bound of IRC will be determined by rate of permanent liquidity facility and lower bound by rate of deposit collection of two weeks.
- ❑ Cash Reserve Ratio (CRR) & Statutory Liquidity Reserve (SLR) requirements by Banks and Financial Institutions (BFI) remain unchanged.
- ❑ The period of permanent liquidity facility extended to BFIs against mortgage of security certificate is increased to 7 days. Further Loan to Value (LTV) ratio is to be maintained at 90% for availing such facility.
- ❑ Refinance reserve of Rs 200 million to be maintained which will facilitate the lending towards the hydropower and strategically important sector.
- ❑ Hydropower, Agriculture, Tourism, Export, Small & Medium Enterprises (SME), Pharmaceutical, Cement, Garment and other productive sector to be defined as the priority sector.
- ❑ Minimum lending to productive sector by Class 'A', 'B' & 'C' FIs has been kept at 25%, 15% and 10%, respectively. Out of 25% productive sector lending requirement, commercial banks are required to maintain its lending to agriculture, energy and tourism at 10%, 5% and 5%, respectively by end of Ashad 2075.
- ❑ Minimum deprived sector lending by Class 'A', 'B', & 'C' fixed at 5%, 4.5% and 4%, respectively of total credit has been continued from previous year. The provision requiring 2% minimum direct lending by the commercial banks to the deprived sector has now been made optional.

Financial Sector Reform, Regulation & Supervision

- ❑ To implement programs of "Financial Sector Growth Strategy"
- ❑ Relevant policies, regulations, license and supervision required for the establishment of Infrastructure development bank will be made accordingly.

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- ❑ Divestment of shares of various organizations/ institutions owned by the NRB.
- ❑ Till the full implementation of federalism, Biratnagar, Janakpur, Birgunj, Pokhara, Siddharthanagar, Nepalgunj and Dhangadi Offices of NRB shall undertake central banking activities in the respective district of the proposed state.
- ❑ Nepalese Currency Reserve will be maintained at NRB offices in all states to facilitate easier supply to all local level.

Overall Prudential Regulations

- ❑ Prudential regulations concerning Capital and Liquidity ratio of BFIs remain unchanged.
- ❑ National Level development banks and financial institutions to implement BASEL III gradually.
- ❑ Commercial Banks shall maintain Institutional Deposits at 45% of total deposits by Ashadh 2075 (mid July 2018).
- ❑ Mid-term review of monetary policy of FY 2073-74 facilitating reduction of advance issued in the defined sector, up to 50%, has now been removed. However, BFIs exceeding CCD ratio should improve such ratio and reduce within defined threshold by Ashoj 2074 (mid October 2017).
- ❑ Total margin lending by BFIs against the collateral of shares is restricted up to 40% of its core capital. Also, maximum lending to any listed company against collateral of shares is capped at 10% of such BFI's core capital.
- ❑ The personal residential loan limit facility provided by the BFIs has been extended to Rs 15 million from previous limit of Rs 10 million.
- ❑ Loan to Collateral value ratio for real estate loan inside Kathmandu valley has been reduced to 40% from previous year ratio of 50%. The 50% limit has been continued for areas outside Kathmandu valley.
- ❑ The vehicle loan limit has been increased to 65% from previous year 50% for personal vehicles and such limit is set at 80% for electric vehicle.
- ❑ The existing limit for co-financing will not be applicable in case of loan disbursed to the Micro Finance Institutions (MFIs).

Regulation & Supervision

- ❑ BFIs to clearly disclose status of fulfillment of minimum paid-up capital requirement in its published audited financial statements for FY 2016/17. In case of failure to maintain minimum paid up capital requirement, there shall be prohibition in payment of cash dividend, issuance of bonus shares and expansion of branch offices as per the existing regulations. Further, there shall be restriction in Deposit collection and Loan outflow and proceedings shall be started for compulsory merger.
- ❑ BFIs opening new bank accounts of Nepalese citizens having no previous bank accounts residing in rural municipalities having no BFIs shall be granted interest free loan of Rs 10 Million for one-year tenure per each 2,500 such new bank accounts if such bank accounts are opened by 2017/18.
- ❑ Direction for opening of branch offices in all 744 local authorities will be given, failure shall trigger prosecution as

per NRB Act. Interest free loan of Rs 10 Million per branch, opened in local authority shall be granted for one-year tenure.

- ❑ Environmental and Social Risk Management Directives to be issued.
- ❑ Separate directives for overdraft and working capital loans to be issued.
- ❑ 'B' and 'C' category BFIs work area to be assigned as per Federal Structure wise instead of existing district wise.
- ❑ Facilitate public to deposit cash in their bank account in any BFIs.
- ❑ Permit national level development banks complying with decided NRB criteria to transact the business through opening domestic letter of credit.
- ❑ Any transaction of payment of Rs 1 million or above to be executed through account payee cheque only.
- ❑ Provide information to CIC of every loan irrespective of loan amount. Information of loan less than Rs 1 million to be shared free of cost.
- ❑ Action to be taken against those BFIs not submitting regular information of credit to CIC.
- ❑ Prepare draft of Payment and Settlement Act to modernize existing payment system of Nepal. Process establishment of National Payment Switch/ Gateway and develop appropriate RegTech mechanism to monitor FinTech business.
- ❑ Facilitate interest spread rate to be within threshold envisioned in the Financial Sector Growth Strategy

Micro Finance & Financial Consumer Protection

- ❑ MFIs shall integrate various consumer related reserves and prepare work procedure for the utilization of fund in such reserves.
- ❑ The application obtaining procedures for license of establishment of new micro finance institution has been halted.
- ❑ Re-observation of guidelines issued by NRB regulating service fee.
- ❑ BFIs to establish special counter to facilitate senior citizens, differently-abled and illiterate persons. ATM service to be made differently-abled friendly.
- ❑ "Information and Grievance Redressal Desk" in the BFIs to be made more efficient.
- ❑ BFIs shall fix rate of interest prevalent at the time of opening fixed deposit (FD) for the loan against such FD. Interest cannot be charged more than such determined rate.
- ❑ Necessary criteria to be made for mortgage valuation, acceptance and auction.

Foreign Exchange Management

- ❑ Domestic transaction through electronic card provided by Foreign Service Providers to be settled in Nepal and thus net amount to be remitted only.
- ❑ Licensed entity meeting defined criteria can exchange and receive payment for their service through Point of Sale (PoS).

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- ❑ Hotels can exchange up to USD 300 per customer.
- ❑ Except for medical treatment, INR 50,000 or above for any purpose while travelling to India has to be exchanged through card or banking equipments.
- ❑ Foreign exchange facility for remittance up to maximum one year of remuneration shall be provided as per existing law to foreigners working in Nepalese Airlines Company having active work permit and agreement.
- ❑ For business or its extension, Nepalese citizens, firms or institutions, with prior approval from NRB, can receive loan up to USD 500,000 or INR 50 million (in case from India) from their relative, other individuals, non-resident Nepalese or organizations within the conditions stipulated by the NRB.
- ❑ Licensed Banks can invest its foreign currency maximum up to 2 years' period in foreign located banks and maximum up to 5 years' period in fully liquid government security certificate.
- ❑ Infrastructure development projects operating in Nepal can obtain short term advances from abroad for its operating expenditure during construction.
- ❑ Firm, companies and institutions can directly obtain foreign exchange from commercial banks by presenting necessary documents for remittance of dividend up to Rs 100 million.
- ❑ Remittance of USD 10,000 can be made within 90 days from custom clearance on submission of necessary documents for emergency procurement of parts and accessories of airplanes, telecommunication and medical equipment from abroad through authorized agent obtained in credit from vendors.

Contact for Further Consultation

T R Upadhya & Co.
Chartered Accountants

124 Lal Colony Marg, Lal
Durbar, Kathmandu
Nepal

Phone: +977 1 4410927
Fax: +977 1 4413307
www.trunco.com.np

Shashi Satyal
Managing Partner
+977 9851027150
ssatyal@trunco.com.np

Sanjeev Mishra
Partner
+977 9851039880
smishra@runco.com.np