

Monetary Policy 2016/17

Highlights

The Governor of the Central Bank (Nepal Rastra Bank) presented the Monetary Policy for the fiscal year 2016/17 and the key highlights are summarized in this document.

Overall Economic Situation Fiscal Year: 15/16 14/15

A	Real GDP growth at basic price as per Preliminary Estimates	0.6%	3%
	- Agriculture Sector	1.3%	1.9%
	- Non- Agriculture Sector	0.6%	3.6%
B	Average Annual Inflation based on Consumer Price index	9.9%	7.2%
	- Price index of Food & Beverage Group (as of mid-June 2015)	11.9%	9.5%
	- Price index of Non-Food & Service Group (as of mid-June 2015)	10.5%	5.5%
	- Inflation (as of mid-June 2015)	9.9%	7.2%
C	Total government expenditure (Current & Capital) – (Rs in billion)	384.47	357.06
	Cash Balance with NRB (Rs in billion)	197.11	72.4
D	Overall BOP (Surplus) - (Rs in billion)	171.15	127.2
	Foreign Exchange Reserve (as of mid-June 2015) (Sufficient for 16.8 months of merchandise import and 14.3 months of merchandise and service import) (Rs in billion)	1021.74	809.48
	Weighted Average 91-day Treasury Bills Rate (as of mid-July 2015)	0.12%	0.1739%
	Weighted Average Inter Bank Rate among commercial Banks (as of mid-July 2015)	0.36%	1.01%
E	Branch Networks as of mid-July 2015	4,219	3,824
	- Commercial Banks	1,851	1,669
	- Development Banks	848	803
	- Financial Companies	190	241
	- MFIs	1,330	1,111
	- Average Population to Branch Ratio	6,647	7,232

Monetary Policy Stance

- ❑ Monetary policy for this fiscal compliments targeted economic growth and the government's fiscal policy, which has focused to keep demand push inflation caused by reconstruction activities within the desirable limit.
- ❑ Monetary policy has aimed at promoting financial stability with the sustainable development of the banking and financial institutions by strengthening capital base through increment of minimum paid up capital.
- ❑ Monetary policy focuses on controlling inflation at targeted level by containing monetary and credit aggregates within desired limit.

- ❑ Monetary policy focuses on the extensions of financial tools into agriculture, energy, tourism, productive sector and deprived sector to the largest extent considering the effect on financial stability due to extended credit on real estate and margin lending.

Economic & Monetary Targets

- ❑ Inflation rate projected at 7.5% and maintaining foreign exchange reserves sufficient to cover the imports of goods and services at least for 8 months.
- ❑ Economic growth targeted at 6.5%.
- ❑ Broad money growth rate to be maintained at 17%.
- ❑ Private sector lending projected to increase by 20%.

Instruments of Monetary Policy Operation

- ❑ Cash Reserve Ratio (CRR) requirement for the Class 'A', 'B' & 'C' FIs has been unchanged at 6%, 5% and 4%, respectively. The period to maintain CRR has been changed to two weeks from one week.
- ❑ 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.
- ❑ Statutory Liquidity Reserve (SLR) requirement for Class 'A', 'B' & 'C' FIs has been unchanged at 12%, 9% and 8%, respectively. Class 'B' & 'C' FIs, which do not accept current or call deposit, shall maintain SLR at 6%.
- ❑ Interest rate as lender of last resort in unchanged at 7%.
- ❑ BFIs to lend credit to earthquake affected people at the maximum rate of 2%.
- ❑ Refinancing rate for agro, hydroelectric, livestock, poultry and fishery businesses has been static at 4%.
- ❑ Total lending to productive sector by Class 'A', 'B' & 'C' FIs has been unchanged at 20%, 15% and 10%, respectively. Lending to agriculture and energy sector has been changed to 15% from 12% by end of Ashad 2074 by commercial bank.
- ❑ Deprived sector lending to extent of 5% of total credit exposure by commercial bank has been unchanged. It has to lend 2% directly in deprived sector. For deprived sector lending calculation purpose, loan up to 1 million on security of commercial agricultural project would be considered.

Overall Rational Regulation

- ❑ The common equity tier 1 primary capital under BASEL III shall be 4.5%.
- ❑ Primary capital conservation buffer shall be maintained at 2.5% of risk weighted asset respectively.
- ❑ Counter Cyclical Buffer shall be maintained maximum 2.5% of total risk weighted assets by Ashad 2074.

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- ❑ National level Development Bank and Financial Companies to implement Basel II and capital calculation, respectively.
- ❑ Commercial bank should maintain 4% leverage ratio tri monthly from Shrawan 2073.
- ❑ Commercial bank's total deposit to institutional deposit ratio reduced from 60% to 50% of total deposit.
- ❑ Share valuation of collateral for margin lending shall be maximum 50% of the lower of average value of closing rate of last 180 days and current market rate.
- ❑ Ratio of real estate loan and its collateral (LTV Ratio) reduced from current 60% to 50%. However, in case of housing real estate loan the ratio remains at 60%
- ❑ The multi banking loans limit for Consortium Loan limit has been increased from Rs 500 million to Rs 1 billion.
- ❑ To systematize multiple banking transactions through Micro Credit Institutions, association with CIC will be arranged.
- ❑ The spread rate on lending rate has been fixed at 7% on cost of fund of MFI.
- ❑ The MFIs providing national level wholesale lending needs to maintain minimum paid up capital of Rs 600 million by the end of Ashad 2075.
- ❑ Limit of credit from Micro Credit Institution has been fixed has below:
 - a) Lending to low income individual increased to Rs 300,000 from Rs 100,000 per group member on collective/ group guarantee for purpose of establishment of micro enterprise or business operation. Increased to Rs 500,000 from Rs 300,000 to member utilizing credit since last two years and falling under pass category.
 - b) Increased to Rs 200,000 l from Rs 60,000 for solar system or bio gas under renewable energy system.
 - c) Lending to low income individual increased to Rs 500,000 from Rs 300,000 per group member on security for purpose of establishment of micro enterprise or business operation. Increased to Rs 700,000 from Rs 500,000 to member utilizing credit since last two years and falling under pass category
 - d) Lending to individual from VDSs without any BFIs increased to Rs 100,000 from Rs 700,000 on receipt of acceptable securities for operation of micro enterprise.
 - e) Increased to Rs 300,000 from Rs 60,000 to individual not associated with group on receipt of securities.

Financial Sector Reform, Regulation & Supervision

- ❑ BFIs to keep aside at least 1% of profit for corporate social responsibility and should incur 3% of total personnel expenses for training and skill development.
- ❑ Guideline for implementation of NFRS will be issued.
- ❑ RTGS (Real Time Gross Settlement) to be implemented.
- ❑ The limit of cash transaction through cheque has been reduced from Rs 5 million to Rs 3 million. The provision has been made in order to minimize the risk related to cash transaction.
- ❑ Bank and financial institution need not obtain pre-approval from NRB for opening branches in area other than metropolitans, sub-metropolitans and head quarter of municipality.
- ❑ The establishment of Infrastructure Development Bank in participation of private sector for investment in infrastructure would be proceeded with.
- ❑ Conduction of Board Education program in order to educate the BFI's member regarding corporate governance and risk management of overall banking sectors. The education program includes international best practice.
- ❑ Necessary provision will be made to make social security allowance available through bank account and every Nepalese citizen having bank account campaign.

Microfinance & Financial Literacy

- ❑ The application for license of establishment of microfinance institution & financial institution has been halted till new strategy related to microfinance is drafted. However for the establishment of microfinance having head office in predetermined districts would have current licensing policies applicable.

Foreign Exchange Management

- ❑ Limit for purchase of software from India though LC on terms of payment in convertible foreign currency has been increased to USD 15,000 from USD 10,000 at maximum at a time.
- ❑ Maximum limit of payment on convertible foreign currency on import from third countries other than India though Draft/ TT has increased from USD 40,000 to USD 50,000
- ❑ Arrangement shall be made for submission of return of foreign direct investment.

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- Entity engaged in Remittance business shall maintain following minimum paid up capital.

Particulars	Minimum paid up capital (Rs in million)
Company issuing remittance card	250
Remittance Firm, Company or entity working as principle entity	Increased to 100 from 50
Firm, Company or Entity working as agent of foreign principle	Increased to 20 from 10

- Entity engaged in money exchange business shall maintain following minimum paid up capital.

Particulars	Rs in million
Sale Purchase of Indian Currency	0.50 (Unchanged)
Engaged in purchase of convertible currency	Increased to 1.5 from 1
For entity engaged in both transactions as above	Increased to 2 from 1.5

- Arrangement shall be made for the payment up to USD 15,000 for purchase of goods and services by Nepali having foreign currency bank account.
- Foreign nationals working with the permit of Labor Department can make direct payment through bank and financial institutions by showing predetermined documents having mentioned amount while remitting the remuneration to third country.

Financial relief and concession

- Relief to earthquake victims
 - Interest rate on loan - 2%
 - Refinancing rate - 0%
- Loan restructuring and rescheduling can be done by adding 1 year
- Extension of time period for interest booking
- 1 year grace period to be provided for loan repayment by industries, business, health, tourism, & energy including consortium related projects.
- Time period for TR loan on import basis has been increased from 120 days to 180 days

Contact for further consultation

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