

The background of the slide is a photograph of a rural landscape in Nepal. It features terraced fields on a hillside, with a small village and mountains in the distance. The image is partially covered by a blue diagonal overlay on the right side.

NEPAL MONETARY POLICY 2018

Highlights

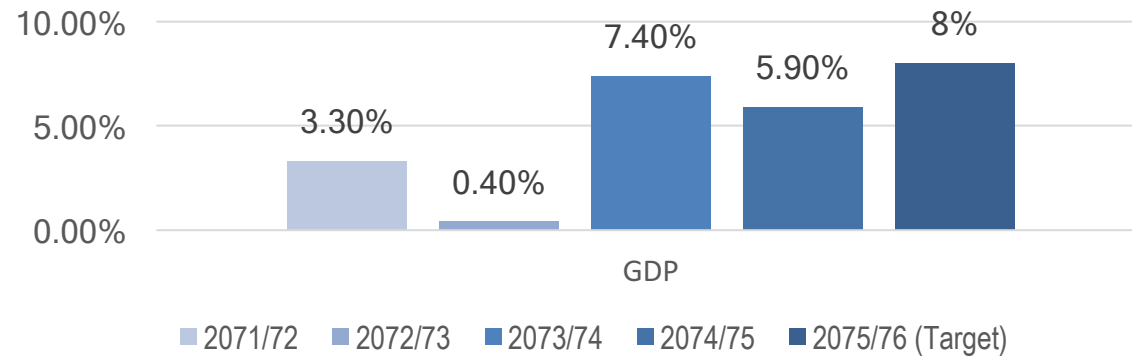


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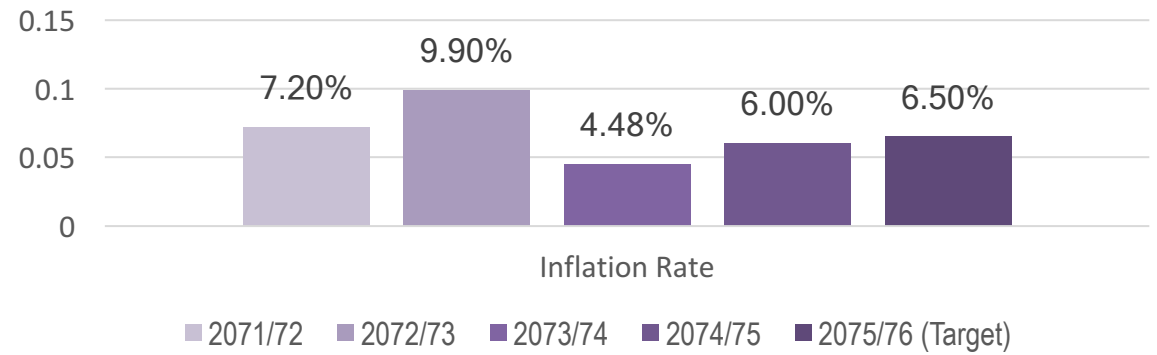
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Economic Outlook

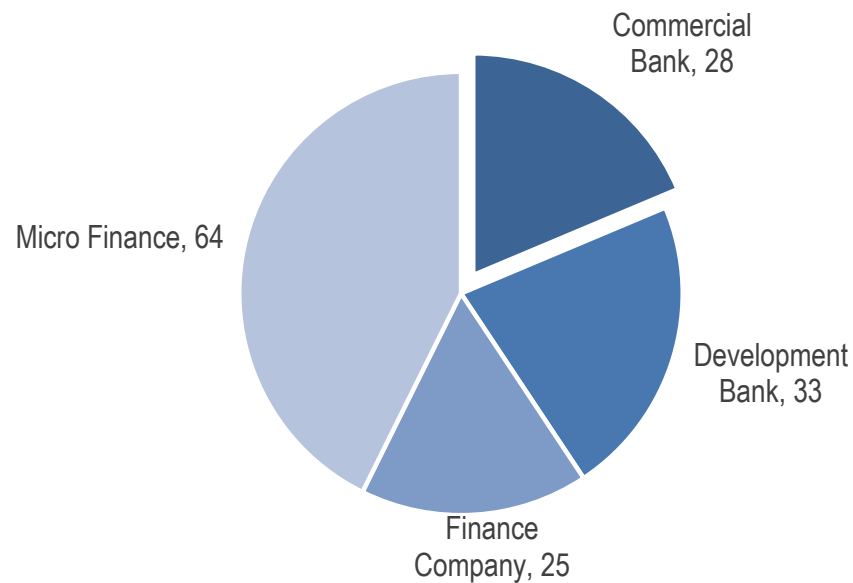
GDP Growth rate



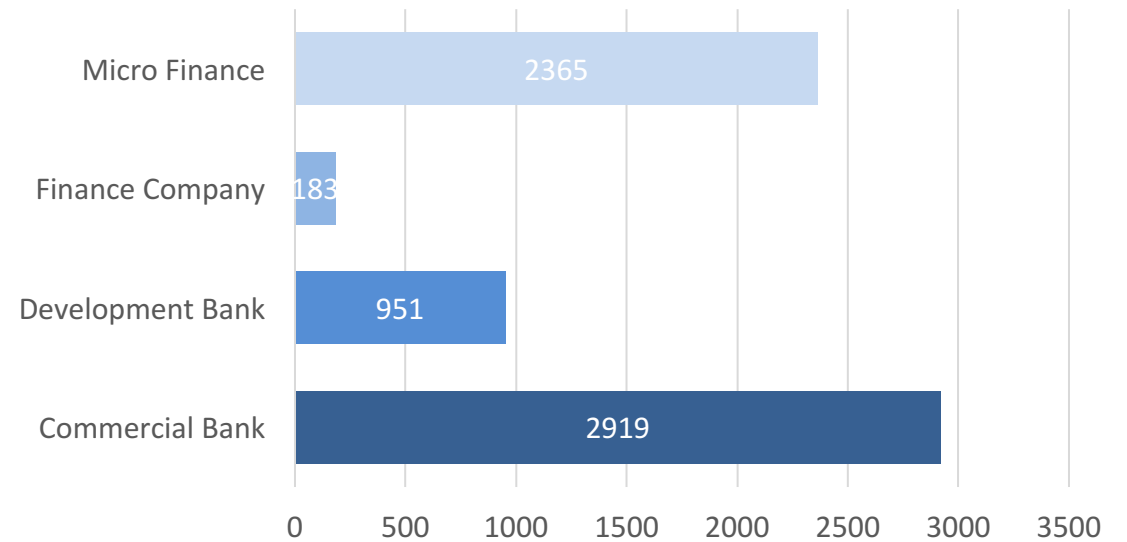
Inflation Rate



Bank & Financial Institutions in Nepal



Branches



Monetary Management

- Cash Reserve Ratio (CRR) for commercial bank, development bank and finance company will be maintained at 4% which was 6%, 5% and 4% for Commercial Bank, development bank and finance company respectively in FY 2074/75. This will create Rs. 48 Billion worth extra liquidity in banking system.
- As per the budget speech, Monetary Policy has targeted to limit inflation rate within 6.5%.
- Statutory Liquidity Ratio (SLR) for commercial bank, development bank and finance company should be maintained at 10%, 8% and 7% respectively which was 12%, 9% and 8% respectively earlier.
- Rate for Final Lender Facility has been decreased from 7% to 6.5%.
- To support equipment operation and equipment cost management, Microfinance companies are also allowed to bring foreign loan worth 25% of its core capital.
- Bank's interest spread is limited to 4.5% which was 5% earlier.
- Each commercial bank need to open its regional head office in all provinces.
- Commercial banks now will not need prior approval from NRB to open new branches outside metropolitan and sub-metropolitan cities.





Debt Management

- Arrangement will be done to manage Foreign investment in infrastructural development projects in a separate fund in NRB. And NRB will provide Hedging facility. Due to this facility, it is expected that foreign investments will be attracted towards hydropower projects, electricity transmission lines, road and transportation development projects and so on.
- The limit for overdraft including personal loans of Revolving nature will be reduced from 75 lakhs to 50 lakhs.
- For commercial banks, lending to priority sectors which was 25% earlier has been changed to minimum 10% for agricultural sector and minimum 15% for tourism sector. And lending to priority sectors will be maintained at 15% and 10% for development banks and finance companies respectively.
- BFIs will be encouraged to provide loan facility for Small and Medium Industries.
- 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.
- BFIs are allowed to go only 1% higher than the published interest rate on fixed deposits.
- BFIs allowed to include long-term credit instruments and bonds in CCD ratio calculation.

Regulations

- BFIs to provide interest on transaction amount that is unsuccessful in ATM/POS machine but deducted from account, if not returned back to account holders account on particular time.
- BFIs to include financial statements as per NFRS while publishing online data through Supervisory Information System.
- Lending of margin nature provided by BFIs on mortgage of shares has been made limited to 25% from previously 40% on primary capital.
- Borrowers to do credit rating from National or International Credit Rating Agency while borrowing above Rs 50 crore and above Rs 25 crore to get Due Diligence Audit done from Independent third party before applying.
- Firms and companies to submit Tax Clearance Certificate on compulsory basis to apply/renew for loans in BFIs.
- The representative of the foreign bank in Nepal will be regularly constituted to present financial statements to NRB.
- Arrangement will be done for Development banks and Finance companies to prepare and publish their financial statements as per Nepal Financial Reporting Standards (NFRS).
- Commercial Banks to perform Information Technology System audit mandatorily to minimize cyber crime in Banking sector.

Regulations for Microfinance

- Micro finance to compulsory abide by Credit Information Bureau (CIB). If failed to provide credit information to CIB, they need to maintain credit loss system at 2% of credit information not provided.
- Micro finance companies, as a subsidiary company to disclose transactions between holding and subsidiary company under "Related Parties Transactions".
- 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.

Financial Sector Improvement

- 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.
- 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.
- 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.
- 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.
- 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.
- To stop unhealthy competition between commercial banks and to further strengthen the financial sector stability, merger and acquisition will be highly encouraged.





Foreign Exchange Management

- Import above USD 40 thousand from third country and above IC 5 crore from India should be done through Letter of Credit.
- Based on travel document issued by Nepal Government for Nepali citizens to visit foreign country, facility for exchange upto USD 1000 will be provided.
- The duration of repayment of Trust Receipt loan to commercial bank for import of Industrial Raw materials has been increased from 90 days to 180 days.
- 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.

Disclaimer:

The information contained in this document is compiled by NBSM and is exclusively for the information of its clients and staffs. However the detail study is recommended before taking any decisions on the matters contained herein.

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