



Highlights of Monetary Policy

2020/21

Current Scenario and Target

Current Economic Situation

Economic Growth-2.28%

Consumer Inflation rate-6.28%

Remittance Growth : -3%

Export and Import growth: Export increased by 0.2 % and import decreased by 15.3%

Foreign Exchange Reserve: Sufficient to cover import of good and services of 11.7 months

Current Status- Financial Sectors

Deposit growth: 13.3%

Credit growth: 10.7%

Paid up Capital growth: 8.2%

NPL:1.81%

Number of Branches of BFI's: 9,716

Target

GDP Growth: 7%

Inflation: 7%

Highlights of Monetary Policy

Lending (Agricultural Sector)

1. Commercial Banks to provide minimum 15% of total lending in agricultural sector by Asar end 2080.
2. Loan loss provision of 0.2% and 0.6% to be provided respectively in 1st year and 2nd year for loans provided for farming prescribed fruits.
3. Relaxation in loan loss provision to be provided for loans provided for silk, jute and cotton farming.
4. Policy provision of securing lease property will be made in to facilitate loans provided in agricultural sector for commercial agriculture, industry or other business operated in land possessed by way of land unification/contract.
5. Agricultural Development Bank to be developed as lead bank for agricultural sector and provision for issuing Agricultural Bond from the said bank to be made.
6. Credit swap of agricultural loan to be simplified.
7. Provision to be made for providing Farmer Credit Card from Agricultural Development Bank
8. Required corporate and structural provision will be made for broadening agriculture training from Agricultural Development Bank's Training Centre.

Lending (Energy Sector)

1. Commercial Banks to provide minimum 10% of total lending in Energy Sector by Asar end 2081.
2. Provision to be made for issuance of Energy Bond from Commercial Banks having experience of lending in Energy sector.
3. Provision to be made for providing loans at rate 1% higher than Base rate for up to 5 years from the date of export of electricity to the electricity projects involved in construction of electricity projects and export.
4. Provision to be made for providing loans at rate 1% higher than Base rate will be made to the Reservoir Based Hydro Electricity Projects.
5. BFIs will not be required to take approval for partial capitalization of interest of the loans provided to completed Hydropower Projects not operating in full capacity due to delay in completion of transmission line. *(For the period till transmission line is constructed)*.

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Lending (Tourism, Micro Industries and SMEs')

1. Priority to be given to provide working capital loan, subsidized loan and refinance facility for revival of aviation, transportation, hotel, restaurants and tourism business.
2. For the under-construction projects of Tourism sectors which couldn't be completed due to shortage of capital, provision to be made for providing loans with ease from BFIs.
3. Commercial Banks to provide minimum 15% of total lending in Micro, SMEs' Sector by Asar end 2081. *(Credit should be less than Rs. 10 million)*

Lending (Subsidized Loan)

1. Subsidized loan will be made available at 5%.
2. For maintaining province wise balance of Subsidized loan,
 - Commercial Banks to provide subsidized loan as- Higher of minimum 500 credit or 10 credits per branch
 - Development Banks to provide subsidized loan as- Higher of minimum 300 credit or 5 credits per branch

Lending (Miscellaneous)

1. Development Banks and Finance Companies respectively to provide minimum 20% and 15% of total lending in Agriculture, Micro, Cottage and small industries, Energy and Tourism Sector by Asar end 2081.
2. Loan up to 60% of collateral value to be provided for under construction housing projects approved from government and operated by licensed real estate business person, and for construction of first residential house.
3. Provision of loan up to 40% and 50% of collateral value respectively for loans provided in Kathmandu valley and other areas in real estate sectors is unchanged.
4. Margin lending limit increased to 70% from 65%.
5. Method of valuation of share for margin lending changed to lower of last trading price of share or average of 120 days price of share from 180 days.

Highlights of Monetary Policy

Relaxation on Repayment, Refinancing and Provisioning

1. Refinancing facility can be provided up to 5 times of existing Refinancing fund .
2. To ease operation of highly affected business from Covid-19, based on borrower's requirement and feasibility of business/project; BFI's will be required to provide additional working capital loan up to 20% on the limit existing on Chaitra end 2076.
3. BFIs' can renew Demand loan, Cash credit loan and Other Working Capital loan with repayment date of Asar end 2077, up to poush end 2077 by assessing borrower's condition.
4. Loans in pass category in Poush end 2076 can be restructured/rescheduled for one time by recovering minimum 10%, on the basis of analysis of written plan submitted by the borrower.
5. Provision to extend repayment time up to 6 months will be made to repay installment to be recovered by Asar end 2077 from the borrowers availing loan from Micro Finance Institutions by analyzing need and time to operate business of borrowers.
6. Loans in Pass category in Poush end 2076 will be categorized as pass category loan in Asar end 2077. However, Loan loss provision of 5% is required to be provided in respect of loan, interest and principal of which, up to Asar end 2077, is unrecovered.

7. Arrangement to be made to extend the repayment date of installment and interest due up to Asar end 2077 as below:

Type of Businesses	Extended Repayment date
loan provided to profession/business mildly affected by Covid-19	Poush end 2077
loan provided to profession/business medium-affected by Covid-19	Chaitra end 2077
loan provided to profession/business severely medium-affected by Covid-19	Asar end 2078. On need basis, additional time may be provided to tourism sectors and other sectors severely affected by Covid-19 and need time to revive.

8. In case of severely affected industries, if restructuring/rescheduling is insufficient to revive the business, provision will be made to restructure loan through Private Equity, Venture Capital, Debt Equity Conversion, Special Purpose Vehicle etc.

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Relaxation on Repayment, Refinancing and Provisioning

9. In case of project which could not be completed due to Covid-19, provision will be made to extend the grace period as below:

Type of Businesses	Maximum grace period extension
loan provided to profession/business mildly affected by Covid-19	6 months
loan provided to profession/business medium-affected by Covid-19	9 months
loan provided to profession/business severely medium-affected by Covid-19	1years
Tourist Based Hotel	2 years

10. In case of under construction infrastructure projects which has already got approval from NRB for interest capitalization in the grade period, date of capitalization of interest will be extended up to Poush end 2077

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Restriction on Dividend Distribution

1. BFI's can distribute only 30% of distributable profit as cash dividend from profits of FY 2076/77. (*However, cash dividend percentage should not be in excess of weighted average cost of deposit cost as on Asar end 2077*)
2. BFI's with distributable profit less than 5% of paid up capital, will not be allowed to distribute cash dividend.
3. Interest received up to 90 days from end of FY 2076/77 should not be transferred to regulatory reserve.

Merger and Acquisition

1. BFI's, including micr-finance institutions, will be encouraged for merger and acquisitions.
2. Provision to be made for merger/acquisition of bank and Fis with cross holding.
3. Prescribed additional facilities up to Asar end 2079 along with existent will be provided to the BFI's starting joint operation by Asar end 2078 as per policy provisions of merger/acquisitions.

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Others (Contd.)

1. CCD ratio increased to 85%
2. Time to issue debenture amounting 25% of paid up capital by commercial banks deferred to Asar end 2079.
3. Provision will be made to assign risk weight on credit based on credit rating obtained from licensed credit rating agency
4. Stress testing guideline will be revised.
5. For national level development banks, provisions of Basel 3 will be made applicable on parallel basis.
6. Provision of issuing new license to Microfinance Institution (MFI) is suspended. Also, licensing process of MFI in process of getting license is cancelled.
7. MFI can now charge interest at maximum 15%. Further, procedure to calculate base rate of MFI will be defined.
8. MFI's providing wholesale credit and institutions getting approval to collect deposits from public will be required to publish financial reports as per NFRS.
9. Limit of foreign exchange for import underper DAP and DAA increased to USD 50,000
10. Limit of foreign exchange for import from third country by way of Draft/TT increased to USD 35,000
11. Time of Usance LC increased to 180 days from 120 days.
12. Review of salary and facilities of CEO and senior executives of BFI's will be made. Guideline will be made for BOD's allowance and facilities.
13. Provision of levying in maximum service charge on credit at the rate 0.75%, 1%,1.25% and 1.5% respectively by A, B, C and D class licensed institutions will be made.
14. Till there is impact of Covid-19, no charge to be levied on using ATM terminal of any bank.

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