



*Proceeding of an Interaction
Program on
Monetary Policy 2021*

Institute of Strategic and Socio-Economic Research (ISSR)
Nepal Economic Association



August 17, 2021



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MONETARY POLICY 2021



The policy aims at formulating monetary and foreign exchange policies, manage them in a bid to maintain price and balance of payments stability for the overall economic stability and sustainable economic development. Nepal Rastra Bank (NRB) has begun to give priority to the cottage and small industries, which contribute almost 22 percent of the country's GDP and provides employment to almost 1.8 million people.

Monetary policy is an important policy of a country that is developed by comprises of managing the money supply and interest rates in order to achieve macroeconomic goals such as regulating inflation, consumption, growth, and liquidity. The significance of monetary policy is critical at this time, as Nepal's economy is struggling to recover from the impact of Covid-19. The following are the important highlights of Nepal's 2021 Monetary Policy.

- In the current Fiscal Year 2078/79, the refinancing policies implemented to revive the pandemic-affected industries/businesses have been maintained.

- The loan-to-capital deposit ratio has been increased from 85% to 90%.
- The existing credit resource mobilization ratio clause has been removed.
- Until Ashar 2079, the Credit Deposit Ratio shall be kept at no more than 90%.
- The CCD ratio has been removed from the equation. Meanwhile, the permissible margin lending percentage has remained unchanged since the previous monetary policy.
- To avoid overexposure to capital market risks, a business or individual can only obtain margin loans from financial institutions worth a maximum of Rs. 4 crores and a total of Rs. 12 crores.

The following facilities have been added to the already-existing facilities, effective until Ashad 2079, to further facilitate merger and acquisition amongst commercial banks:

- Lending facilities for one year were added to predetermine sectors.
- A 0.5 percent reduction in the Cash Reserve Ratio (CRR) for the

first year following the start of the joint operation.

- A 1% reduction in the statutory liquidity ratio for a year following the start of the joint operation.

- A 5% increase in the maximum deposit amount that a single financial institution can accept.

- Members of the bank's Board of Directors and higher officers are exempt from having to wait six months before joining another registered institution.

ABOUT THE PROGRAM

The Institute for Strategic and Socio-Economic Research (ISSR) in collaboration with the Nepal Economic Association (NEA) organized an interaction program on “Monetary Policy 2021” at the Pavilion Hall, Durbar Marg Kathmandu on August 17, 2021. The Governor of Nepal Rastra Bank, Mr. Maha Prasad Adhikari, delivered the Keynote Speech during the event. The program was also broadcast live on the Zoom web platform, where about 25 people participated. Economists, the Chairman of the Confederation of Banks and Financial Institutions Nepal, and representatives from the private sector umbrella institutions were among the participants.

The main goal of this program was to discover more about monetary policy and its role in the economic restructuring of Nepal after Covid-19. Similarly, this initiative worked as a platform through which the business community and economists could interact directly with the governor. The program was moderated by Gopal Prasad Tiwari, General Secretary of NEA. Khabarhub and Radio Candid provided media coverage for this event.

The following are the remarks from the key participants.

OPENING REMARKS AND COMMENTS ON MONETARY POLICY

PROF. BISHWAMBHER PYAKURYAL, CHAIRMAN OF ISSR



As a Chair, Prof. Bishwambher Pyakuryal welcomed Governor Mr. Maha Prasad Adhikari and the participants representing different institutions. Prof. Pyakuryal observed that the new monetary policy is based on the current macroeconomic

situation, the coalition government’s consensus-based minimum common programs and NRB’s third Strategic Plan. He said the policy to a greater extent is the continuation of last year’s accommodative policy to match the government’s expansionary fiscal policy. For example, the permissible margin lending percentage has been retained from the last monetary policy with no changes. There is a continuation in refinancing policies to revive businesses badly affected by COVID-19. The existing provision of loan-to-capital deposit ratio of 85 percent has been raised to 90 percent and the provision of the CCD ratio has been scrapped.

Pyakuryal said, “Although some people have reservations on the restriction to the right to make investment decisions such as the policy of minimizing overexposure risks of the capital market, which says an entity or individual can only take margin loans of a maximum of Rs. 4 crores from a financial institution and Rs. 12 crores should be taken in a positive note at a time when the economy and money market, in particular, is so vulnerable.” Nepal Rastra Bank can always bring about changes in such provisions provided that the market situation demands this at a later stage. The provision of opening up at least one branch and one ATM for the handicapped is noteworthy. Also, he also reinforced the need for the provision to provide a 2 percent additional premium on the base rate to those SMEs who get less than 10 million loans. The current provision is one of the best incentives to facilitate businesses of different scales which can be expected to play important role in economic recovery. Therefore,

I would say that the monetary policy is compatible with the ruling government's fiscal policy.

KEYNOTE SPEECH

MR. MAHA PRASAD ADHIKARI, GOVERNOR OF NEPAL RASTRA BANK



Speaking as a Keynote Speaker of the program, Governor Maha Prasad Adhikari remarked that the monetary policy was prepared by collecting feedback from scholars, professionals, professors, and the stakeholders of the business and banking

sectors. According to governor Adhikari, the monetary policy has continued refinancing this year as well. He said that the monetary policy has fixed the loan repayment period of up to one year with high impact, moderate and low impact. He said, "Monetary policy has encouraged investment in national production as much as possible. We have brought the monetary policy only after studying the overall sector."

"We incorporated the feedback of the prominent thinkers and professionals and endeavored how to boost the self-confidence of industrialists and entrepreneurs," NRB Governor Adhikari said, adding, "Financial sector-related issues are also considered the key governing issues in the policy." He highlighted the affirmative changes made in the policy and said that the policy related to the moratorium--introduced last year-- has been carried on providing some more time to the pandemic affected sectors. Governor Adhikari remarked that the policy has provisioned to support the sectors which witnessed the working capital collapse and have arranged to provide loans even if they do not have enough resources for collateral. He further said that that inflation control has been the focus of the policy. "Nepal Rastra Bank's core mandate is also to contain inflation. The NRB has accepted this challenge," Adhikari said, adding, "Inflation is expected not

to go beyond 6.5 percent."

COMMENTS BY THE PARTICIPANTS

MR. KESHAV ACHARYA, ECONOMIST AND FORMER EXECUTIVE DIRECTOR AT NEPAL BANK



Economist and Former Executive Director at Nepal Bank Keshav Acharya remarked that Nepal's inflation rate is often less than India and added that NRB has a practical target in foreign trade.

Acharya also remarked that despite the fact that most of

the aspects of policy seem similar, some concerns of the policy seem a bit impractical. He expressed his concern about the price hike in petroleum products and its impact on the overall economy. "Petroleum product's price hike is a challenge as its consumption is increasing continuously," he said while criticizing the government's focus on collecting more revenue by increasing the tax. He said that to help the pandemic-struck sector revive, the government should incentivize the recovery attempts. Acharya, however, lauded the overall monetary policy. He said that the flow of subsidized loans will be easier this year than last year as the procedure of disbursing loans at a five percent interest rate has also been introduced.

PROF. GOVIND NEPAL, PH.D, VICE-CHAIRMAN OF NEPAL ECONOMIC ASSOCIATION AND DIRECTOR OF ISSR



Dr. Govind Nepal congratulated the Governor of the Central Bank for bringing an appropriate policy during the time of the prolonged pandemic. Dr. Nepal maintained that the monetary policy has made a significant departure in making it inclusive by

taking care of small and medium enterprises, providing concessional credit to self-employed, promoting digital Nepal, and at the same time introducing measures for maintaining stability in the economy. Dr. Nepal suggested that NRB should monitor the policy outcomes very seriously and also track the utilization of various kinds of loans taken under different policy support mechanisms. Despite the pandemic, banks are getting good profits, business is taking huge credits but the general public is suffering from having very low-interest rate on deposit. Dr. Nepal also appreciated the fixation of 15 % as the highest interest rate ceiling to microfinance.

DR. RAVINDRA PRASAD PANDEY, MEMBER, BOARD OF DIRECTOR OF ISSR



According to Dr. Pandey, the monetary policy announced by Nepal Rastra Bank (NRB) for the fiscal year 2078/79 is, in fact, a continuation of the previous year's policies which had laid a greater emphasis to help revive the country's economy hit severely by

COVID-19. Although termed as 'accommodative', it is indeed expansionary in a real sense.

However, the situation this year is a little different than that of the previous year especially in terms of the pandemic with the government's all-round initiative of gaining "herd immunity" by vaccinating over 60 percent of the population by mid of this year to which the monetary policy fails to realize that the economy should now slowly move towards 'new normal situation' whereby people will soon go back to their work. In such a situation as a rise in domestic demand will be only after a certain lag and because of the expansionary policy, the probability that the economy falls into an inflationary situation is high, according to Dr. Pandey. The present monetary policy instruments at hand with NRB may not suffice and as such focus should be laid on borrowing and or favorably creating new instruments to

efficiently handle such situations and contain the inflationary impact of such expansionary policy.

He added that even if the trending curve due to COVID 19 flattens fully this fiscal year, the negative effect will extend at least for the next two years, in the absence of such visualization in the announced Policy. Dr. Pandey suggested NRB considered this and take the period two years back and another two years forward as the new normal year and draw policies and plans to create a conducive environment to efficiently take forward the country's economic activities. It is, therefore, high time that the central bank prepared vigorously in moving towards an 'inflation targeting regime' shortly.

The monetary policy is seen to have concentrated mainly on the upper quartile population thereby failing to address the issues of the lower quartile. NRB may take this consideration while framing the regulations. As the transmission of the monetary policy is mainly made through the Banks and Financial Institutions, it has become imperative that NRB took the utmost initiative to draw new directives to create a homogeneous situation (draw the basic line) at least in the Commercial Banks (Class A) at the beginning, in terms of benefits, training, etc. which should remove disparity and enhance the morale of the employees thereby uplifting the quality of services in the financial system.

KAMLESH KUMAR AGRAWAL, SENIOR VICE-CHAIRMAN OF NEPAL CHAMBER OF COMMERCE



Kamlesh Agrawal, Senior Vice-Chairman of Nepal Chamber of Commerce said that despite the good qualities of monetary policy, the private sector had expected some more substantive programs. "Private sector expected to extend monetary policy;

however, the monetary policy had been a balanced one this time," he said adding, "It is also appreciable." NCC Vice Chairman Agrawal mentioned the policy has been a relief to the COVID-19 struck restaurants, party palaces, public transportation, educational institutions, and the entertainment sector in the sense that the deadline for payment of the loan and its interest has been extended for some more time.

Agrawal regarded the facilities like substituting KYC (Know Your Customer) by EKYC which encourages e-banking; the provision of providing loans up to two million to the woman entrepreneurs and categorizing the poor and underprivileged group as some of the appreciable features of the monetary policy. However, he turned skeptical about the implementation of the policy itself. According to him, there are problems in some key issues like refinancing, ensuring the facilities, share loans and infrastructures. Agrawal urged NRB to compare and contrast the white paper issued by the government with the monetary policy issued by the central bank. "The white book issued by the government best describes the pathetic condition the private sector has reached due to the pandemic whereas the financial status of the bank and financial institutions (BFIs) has been depicted in the monetary policy issued by NRB," Agrawal said, adding, "A thorough study of these two documents can make one realize the gaps underlying in the documents and implementation; it's high time for the regulatory and monitoring agencies took action in this regard as well."

MR. PAWAN GOLYAN, CHAIRMAN OF GOLYAN GROUP AND CONFEDERATION OF BANKS AND FINANCIAL INSTITUTION NEPAL



Mr Golyan appreciated the policy's provision of encouraging 'A' grade banks' mergers. However, he advised the regulatory authority to consider the fact that the 'B' and 'C' grade banks are decreasing and the 'A' grade banks might not have enough

representation in rural areas. Responding to the allegations that banks and financial institutions have been collecting undue profit, Golyan urged NRB to make public the data of the transactions of other sectors as well. "BFIs are transparent, they seem to be in profit; however, there are many sectors which are making profits, yet their transactions have not been made public," he said, adding, "This has led the public to believe that BFIs are the only sectors at profit."

CLOSING REMARKS

Prof. Dr. Pyakuryal, the Chair of the program, remarked that this year's monetary policy has announced refinancing, rescheduling and restructuring as its priority, and has adopted flexibility in its tools. He emphasized the governor's role in delivering a competent monetary policy that would aid the economy's recovery. He also expressed his hope, along with those of all the participants that NRB will continue to do remarkable work in the future.

Prof. Pyakuryal concluded the program by saying, "I would like to thank all participants, experts, and scholars, as well as all the respected participants who joined via Zoom call, for making this interaction program a success. Thank you very much!"