Monetary Policy

FY 2082/83

“Looking For Momentum”

हिमालयन क्यापिटल लिमिटेड

Himalayan Capital

A Subsidiary of Himalayan Bank Limited

A. Current Overview

1. International Outlook

- The global economy is projected to expand by 2.8% in 2025, which marks a decrease from 3.3% in 2024, mainly attributed to escalating trade tensions and stringent policies implemented by global powerhouses.
- Developed economies are projected to expand by 1.4% (down from 1.8% in 2024), and emerging and developing economies by 3.7% (down from 4.3% in 2024).
- Global inflation continues its downward trend, with projections falling to 4.3% in 2025 from 5.7% in the last fiscal year. However, the International Monetary Fund (IMF) indicates a persistent risk of price pressure due to ongoing geopolitical tensions.
- Central banks worldwide have adopted a more flexible monetary stance, leading to policy rate reductions in various countries, including those by the European Central Bank (ECB), the Reserve Bank of India, and the US Federal Reserve, due to gradually declining inflation.

Implications: Declining global growth creates a challenging external environment for Nepal, reducing export demand and foreign investment inflows. The sharper deceleration in developed economies suggests reduced demand for Nepal's exports to traditional markets. Declining global inflation provides room for an accommodative monetary policy. However, persistent geopolitical tensions pose risks to commodity prices, particularly affecting Nepal's import costs for fuel and essential goods.

2. Overall Economic Status

- Nepal's economy is estimated to grow at 4.61% in Fiscal Year (FY) 2081/82, showing an improvement from 3.67% in FY 2080/81, with all sub-sectors, including manufacturing, construction, and wholesale/retail trade, estimated to expand. The National Statistics Office estimated Q3 FY 2081/82 growth at 4.8%.
- Consumer Price Inflation (CPI) was 2.72% year-on-year for Jestha 2082, and the average for the eleven months leading up to Jestha 2082 was 4.24%, indicating a gradual decrease in inflation that falls within desired limits.
- Foreign exchange reserves as of Jestha 2082 were sufficient to cover 14.7 months of goods and services imports, significantly exceeding the seven-month target.
- Remittance inflows have increased by 25.9%, and foreign tourist arrivals have reached pre-COVID levels, contributing to the robust foreign exchange reserves.
- For FY 2082/83, the Government of Nepal targets 6.0% economic growth, supported by increased capital expenditure, sufficient liquidity, and a favorable investment environment.

Implications: The accelerated growth compared to last year demonstrates recovery momentum, but the economy remains in a structural slowdown with subdued domestic demand. Import levels still lag post-COVID benchmarks despite sustained quarterly growth, while export gains stem from soybean oil trade arbitrage rather than genuine competitiveness.

Inflation's decline and exceptional foreign exchange reserves (boosted by increased remittance inflows) provide external buffers, though balance of payments surpluses mask underlying economic weakness. The ambitious growth target faces headwinds from rising recurrent expenditure, which constrains fiscal space, and growing external debt requirements pose future servicing risks as interest rates normalize.

3. Financial Sector

- Deposits in banks and financial institutions (BFIs) increased by 12.0%, while credit to the private sector increased by 8.7%.
- The Non-Performing Loan (NPL) ratio for BFIs increased to 5.24% as of Chaitra 2081 (mid-March/mid-April 2025), up from 3.98% in the previous year, which indicates a deterioration in asset quality and pressure on the capital base and lending capacity.
- Despite the increase in NPLs, BFIs continue to maintain regulatory capital thresholds.
- Interest rates on both deposits and loans have been on a downward trend due to increased liquidity, with the weighted average interbank rate at 3.0% as of Jestha 2082, remaining close to the policy rate.
- The base rate for commercial banks dropped from 8.17% to 6.09% in a year, while weighted average deposit and credit rates went down to 4.29% and 7.99% from 6.17% and 10.15% respectively, within the same period.

Implications: The gap between deposit and credit growth indicates excess liquidity in the banking system, creating favorable conditions for monetary easing. However, the significant deterioration in NPL ratios signals potential credit risk concerns that could constrain future lending despite banks maintaining regulatory capital thresholds.

The substantial decline in lending and deposit rates reflects the continued economic slump and reduced consumption rather than effective monetary policy transmission. While base rates have fallen and interbank rates align with policy targets, this downward trend stems from weak demand conditions, suggesting underlying structural weaknesses persist despite improved liquidity conditions.

B. Review of Monetary Policy 2081/82

1. Monetary Management

- The inflation target for FY 2081/82, set at within 5.0%, was successfully achieved, with an eleven-month average consumer inflation of 4.24% and a year-on-year inflation of 2.72% in Jestha 2082.
- The foreign exchange reserve target: covering at least seven months of imports was significantly surpassed, with reserves covering 14.7 months as of Jestha 2082.
- The weighted average interbank rate was successfully maintained at 3.0% as of Jestha 2082, consistent with the interest rate corridor settings (SLF 6.5%, SDF 3.0%, Policy Rate 5.0%).
- NPR 2,134.08 billion in net liquidity was absorbed through deposit collection bids and standing deposit facility operations during the first eleven months of FY 2081/82.

- NPR 673.25 billion in liquidity was injected through the net purchase of US dollars from the foreign exchange market.
- Short-term interest rates, including the weighted average interbank rate and 91-day Treasury Bills rate, decreased to 2.99% and 2.94% respectively.
- Average deposit rates for commercial banks decreased from 6.17% to 4.29%, and average lending rates decreased from 10.15% to 7.99%, with similar decreases observed across development banks and finance companies.

Implications: The achievement of the inflation target may reflect long-term policy measures, while the exceptional foreign exchange reserve performance primarily stems from disrupted domestic demand rather than effective monetary management. The precise maintenance of interbank rates within the corridor indicates technical liquidity management capabilities.

However, the substantial net liquidity absorption and decline in both deposit and lending rates across all financial institutions reflect excess liquidity driven by weak credit demand rather than policy accommodation. Given the minimal easing measures that were introduced last year, the broad-based rate declines throughout the financial system suggest that transmission mechanisms operate primarily through demand-side constraints and economic weakness rather than deliberate monetary policy effectiveness.

2. Review of Regulatory and Supervisory Provisions

- The loan loss provision for performing loans gradually reduced from 1.2% to 1.0%.
- The Countercyclical Capital Buffer for FY 2081/82 was set at zero percent.
- Restructuring and rescheduling of loans for sectors, including construction, were facilitated until Ashar 2082 (mid-July 2025).
- The risk weight for margin-type loans was reduced from 125% to 100%.
- Non-performing loans can now be reclassified as performing after 6 months if initially micro-monitored.
- The "Guideline on Targeted Financial Sanctions for Financial Institutions" has been implemented.
- The maximum limit for loans calculated under the Regulatory Retail Portfolio was increased from NPR 2 crores to NPR 2.50 crores.
- The "Nepal Green Finance Taxonomy" was issued to encourage lending in environmentally friendly sectors.
- Limits for exchange facilities from convertible foreign currency accounts were increased.
- Provisions related to foreign investment and debt were simplified through an amendment to the Nepal Rastra Bank, Foreign Investment and Debt Management Regulations, 2078.
- The Nepal Rastra Bank Swap Transaction Regulations, 2081, were issued for foreign exchange risk mitigation.
- The non-deliverable forwards (NDF) limit was increased from 15% to 20% of primary capital for foreign exchange risk reduction.
- Limits for importing goods through Document Against Payment (D/P) and Document Against Acceptance (D/A) increased from USD 60,000 to USD 100,000.

- The limit on Draft/T.T. imports was increased from USD 35,000 to USD 50,000, with an exemption for government procurement payments.
- A Digital Finance Innovation Hub has been established.
- Infrastructure for the National Payment Switch has been prepared for full operationalization.
- The Consumer Price Index and Wage Rate Index now use FY 2080/81 as the base year.
- Various new regulatory documents were issued, including Bank Account Freeze and Release Regulations, 2081, Guidelines on Social Responsibility of Banks and Financial Institutions, 2081, and Operating Guidelines, 2081 for Microfinance Financial Institutions.
- Microfinance financial institutions are now required to publish financial statements as per Nepal Financial Reporting Standards (NFRS).

Implications: The regulatory reorientation reflects adaptive policy management, with liquidity-enhancing measures including reduced loan loss provisions and increased retail portfolio limits, freeing up capital for lending. Trade facilitation through higher transaction limits, enhanced foreign exchange risk management tools, and simplified foreign investment procedures supports economic activity. The establishment of digital finance infrastructure, green finance taxonomy, and modernized payment systems positions the financial sector for future growth while strengthening systemic resilience through updated supervisory frameworks and standardized reporting requirements.

C. Monetary Policy 2082/83

1. Economic and Monetary Goals

- The monetary policy for FY 2082/83 adopts a cautiously flexible/accommodative stance, leveraging comfortable inflation, sufficient foreign exchange reserves, and declining interest rates, aiming to stimulate overall demand, reduce borrowing costs for the private sector and government, and maintain positive real interest rates on deposits.
- The policy emphasizes directing financial resources toward productive and capital-generating sectors with strong linkages to the economy.
- It acknowledges the easing of post-COVID pressures on inflation and foreign reserves, leading to relaxed measures, but also highlights the need for continued policy coordination and prudent regulation due to lower-than-expected credit expansion.
- The interest rate corridor will be narrowed, and liquidity management mechanisms will be improved to strengthen monetary transmission.
- Regular monitoring of key economic and financial indicators is vital to mitigate external risks like geopolitical tensions and commodity price fluctuations.
- The policy targets to support the Government of Nepal's 6.0% economic growth, limit inflation to around 5.0%, and maintain foreign reserves sufficient to cover at least seven months of imports.
- Broad money supply (M2) growth is projected at 13.0%, and private sector credit growth at up to 12.0%.
- The fixed exchange rate of the Nepali Rupee with the Indian Rupee remains the intermediate target, and the weighted average interbank rate of banks and financial

institutions remains the operational target, with automatic and rule-based open market operations continuing to keep it close to the policy rate.

Implications: The cautiously accommodative stance leverages favorable conditions: below-target inflation, exceptional foreign reserves, and declining rates to support ambitious growth targets through significant monetary expansion. The targeted broad money growth and private sector credit expansion aim to stimulate demand while maintaining the rupee-rupee peg as a stability anchor. However, the emphasis on "productive sectors" and continued prudent regulation reflects concerns about credit quality and transmission effectiveness, suggesting policy success depends on structural improvements rather than just monetary policy.

2. Operating Target and Instruments

- The bank rate, which is the upper limit of the Interest Rate Corridor, has been reduced from 6.5% to 6.0%.
- The deposit collection rate, which serves as the lower limit of the corridor, has been reduced from 3.0% to 2.75%.
- The policy rate has been set at 4.5%, down from 5.0%, indicating a further easing of monetary conditions.
- The existing provision of providing a standing liquidity facility at the bank rate has been continued.
- The existing provisions related to the compulsory cash reserve ratio (CRR) and statutory liquidity ratio (SLR) have been continued.
- Nepal Rastra Bank bonds will be issued as needed to effectively manage structural liquidity.
- Interbank transactions will be systematized, made transparent, and enable real-time monitoring by the central bank to improve efficiency and oversight.

Implications: The significant monetary easing, a cut in policy rate, and a narrowed corridor, attempt to stimulate credit demand in an economy suffering from structural slowdown and weak domestic consumption. However, given the excess liquidity conditions and demand-driven decline in rates, this accommodative stance may have a limited impact on real economic activity. The enhanced interbank monitoring and flexible bond issuance tools provide better transmission mechanisms, but effectiveness remains constrained by underlying economic weakness rather than monetary policy limitations.

3. Financial Sector and Foreign Exchange Policy for Fiscal Year 2082/83

- Priorities include enhancing BFIs' lending capacity, improving loan management, strengthening the capital base, and maintaining financial stability, especially given the increase in Non-Performing Loans (NPLs) and non-banking assets (NBAs).
- The establishment of an Asset Management Company (AMC) is prioritized to manage NPLs and NBAs effectively.
- BFIs must prioritize project viability, borrower skills, and repayment capacity, with adherence to self-regulation being required in their lending practices.

- Regulatory frameworks will be liberalized gradually, aligning with international standards, while prioritizing risk-based monitoring.
- BFIs are encouraged to embrace new technologies, promote specialized services, and foster institutional diversity for more accessible and competitive financial tools.

Implications: The comprehensive financial sector reforms directly address deteriorating asset quality through the planned Asset Management Company for NPL/NBA resolution and enhanced lending standards emphasizing project viability and borrower assessment. The gradual regulatory liberalization with risk-based monitoring, combined with technology adoption and institutional diversity, aims to create a more competitive and efficient banking system. However, these supply-side improvements may require effective coordination between BFIs, regulators, and the AMC to achieve the sustainable sector development outlined in the Second Financial Sector Strategy.

a) Regulation and Supervision

- Addressing the existing opportunities and challenges in the financial system, the second financial sector strategy will be implemented after approval by the Government of Nepal for the sustainable development and expansion of the financial system.
- The loan limit for private residential house construction/purchase will be increased from NPR 200 million to NPR 300 million. For loans granted for first-time house construction/purchase, the loan-to-value ratio will be allowed up to 80%, and for others, up to 70%.
- Guidelines related to working capital loans will be revised as needed based on the nature of businesses such as agriculture, small and household industries, education, health, sports, communication, and media houses, considering their loan repayment and income cycles.
- Classification of existing loans and provisions for loan losses will be studied and revised as necessary.
- To facilitate loans in agriculture and micro, household, small, and medium enterprises to help improve the living standards of low- and middle-income families, the following arrangements will be made:
- Banks and financial institutions will be allowed to assess the value of crops, arable land, and agricultural business structures themselves as collateral and provide loans up to NPR 1 million for agricultural or business purposes.
- A minimum loan loss provision will be maintained during the grace period for loans up to NPR 1 million provided in this manner.
- Banks and financial institutions will be allowed to provide various types and terms of loans to individuals or business firms related to agricultural activities such as food grains, crops, livestock, poultry, and fish farming, in alignment with the nature of crops and production. Simplification of these arrangements will be enhanced, and effective monitoring of implementation will be carried out.
- Loans disbursed by banks and financial institutions to increase the production of agricultural products of varieties recommended by the Nepal Agricultural Research Council (NARC) will be facilitated.
- For the promotion of hotels and restaurants with food hygiene certification logos from the Food Technology and Quality Control Department, as well as industrial

businesses near the postal highway and mid-hill highway main markets, the following arrangements will be made for loans disbursed to industrialists in these areas:

- Loans up to NPR 30 million will be included under loans provided to small and medium enterprises and will be counted as loans disbursed in designated areas.
- A premium of up to 2 percentage points above the base rate will be allowed on such loans.

- For commercial loans related to projects in earthquake-affected areas such as Jajarkot and Rukum, and loans taken by residents of those areas, if they want to reschedule/restructure their loans, banks and financial institutions can reschedule/restructure after analyzing the borrower's cash flow and income, collecting at least 10% of the interest amount due, based on the borrower's need and justification.
- The arrangement related to the capitalization of interest on loans provided to the energy production sector will be reviewed.
- The existing single-customer loan limit for margin loans secured by shares will be increased from NPR 150 million to NPR 250 million.
- Policy facilitation will be made regarding the current arrangement for blacklisting due to cheque dishonor.
- To make the banking sector more competitive, disciplined, and responsible, improvements will be made in loan, interest rate, and macroprudential regulations, and a risk-based supervision system will be effectively implemented.
- The Asset Quality Review will be conducted to improve the asset quality of commercial banks.
- To reduce liquidity risk and maintain the stability of banks and financial institutions, international best practices such as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) will be effectively implemented, and the regulatory provisions related to loan-deposit ratios will be reviewed thereafter.
- Banks identified as systemically important (Domestic Systemically Important Banks, DSIB) will be subject to additional regulations and supervision under a Domestic Systemically Important Bank Framework, which will be issued and implemented.
- Guidelines for the Internal Liquidity Adequacy Assessment Process (ILAAP) will be issued to strengthen liquidity risk management in commercial banks.
- Necessary facilitation will be provided for restructuring and rescheduling loans disbursed to firms/companies registered and operating in the land development and building construction sectors approved by the Government of Nepal.
- Policy and procedural regulations for licensing hire purchase companies will be amended to include Fit and Proper Tests, interest rate calculations, service charges, and other relevant topics.
- Banks and financial institutions will be allowed to invest in debentures issued by entities established for infrastructure projects as specified by the Government of Nepal.
- Considering that class "B" development banks and class "C" finance companies have long implemented Basel II and III minimum capital adequacy ratios and other regulatory standards, the limit on deposits mobilized by national-level class "C" finance companies up to 15 times their primary capital will be removed.
- Banks and financial institutions will be allowed to count regulatory reserves created from non-banking assets held for up to two years as supplementary capital.

- To facilitate capital growth of banks and financial institutions, arrangements will be made to increase capital as needed, with the approval of the central bank.
- Effective implementation of concessional loans mentioned in the Government of Nepal's budget speech for FY 2082/83 will be facilitated.
- Arrangements will be made to encourage inflows of remittance income through the formal financial system and investment in productive sectors, and to incorporate all payments made by public agencies into the electronic payment system as mentioned in the Government of Nepal's FY 2082/83 budget speech.
- Draft laws and regulations for the establishment of asset management companies will be prepared and submitted to the Government of Nepal to assist in the management of non-performing loans and non-banking assets of banks and financial institutions.
- Regulations related to prompt corrective action for identifying and taking corrective measures in troubled banks and financial institutions will be amended.
- The method of calculating the base rate for banks and financial institutions will be improved to be more realistic.
- Legal and procedural arrangements will be advanced for the establishment of 'Neo Banks' to expand financial access, as stated in the Government of Nepal's FY 2082/83 budget speech.
- Considering the strengthening of the electronic payment system, the existing branch expansion policy of banks and financial institutions will be reviewed.
- Since the scope of some institutions established in the past to address different needs and challenges requires review, and resources have not been effectively mobilized in the state's priority sectors, a detailed study will be conducted to review the classification and scope of banks and financial institutions.
- Banks and financial institutions will also adopt the policy of providing loans based on the customer's credit score.

Implications: The reforms seek to stabilize the financial sector amid economic slowdown by addressing rising NPLs through the planned AMC, tightening credit assessment, and encouraging lending to productive sectors like MSMEs and agriculture. Regulatory easing on capital, provisioning, and lending aims to revive credit flow, while risk-based supervision, digital banking, and diversification push for long-term sector resilience. However, effectiveness will depend on synchronized efforts between regulators, BFIs, and the government, ensuring reforms translate into real sector growth and financial stability as envisioned in the Second Financial Sector Strategy.

b) Foreign Exchange Management

- Arrangements will be made to manage foreign exchange risk through commercial banks to attract foreign investment.
- The "Foreign Investment and Foreign Loan Management Regulations, 2078" of Nepal Rastra Bank will be amended to facilitate improvements in the economic and business environment and to promote investment.
- Facilitation will be provided for the repatriation of principal, interest, dividends, and other payments by foreign investors, industries/companies with foreign investment, and branches/contact offices/permanent establishments of foreign companies established in Nepal. The threshold for cash foreign currency required for customs

declaration will be reviewed. Likewise, arrangements will be facilitated for the submission of details regarding foreign exchange held abroad in the name of Nepali individuals or entities.

- Based on the recommendations of the study report on gold import, sale, and distribution, the existing system related to gold import and distribution will be reviewed in coordination with the Government of Nepal.
- The limit for non-deliverable forward (NDF) transactions of banks and financial institutions, currently capped at 20% of core capital, will be increased to 25%.
- The foreign exchange facility provided to Nepali citizens traveling to countries other than India, presently set at USD 2,500 per trip, will be increased to USD 3,000.
- Considering the increasing contribution of remittance companies to the economy, a study will be conducted regarding the classification of such companies based on capital and transactions.
- Currencies of countries like Bangladesh and Sri Lanka, where foreign currency transactions have been increasing, will be gradually added to the list of convertible foreign currencies.
- The exchange rate used in remittance transactions (FEDAN rate) will be reviewed as necessary.
- Policy arrangements will be made regarding interbank transactions in convertible foreign currencies.

Implications: Building on Nepal's stable foreign reserves, these foreign exchange reforms aim to attract investment and facilitate trade by improving risk management, easing repatriation, and increasing transaction limits. Expanded travel allowances and additional convertible currencies respond to rising demand. While these steps support smoother forex flows, their impact on the overall balance of payments may be moderate due to structural trade imbalances and dependence on imports, highlighting the need for broader economic diversification. Nonetheless, being able to leverage the large Forex Reserves to spur economic activities has not been addressed here.

4. Microfinance Sector

- Regulatory arrangements for microfinance financial institutions will be strengthened to ensure their sustainable development, with their capital adequacy, loan loss provisioning, and risk management being reviewed.
- The provision allowing MFIs to distribute more than 15% annual dividends will be reviewed.
- Loans up to NPR 300,000 (collateralized or not) for foreign employment-bound youths, and up to NPR 500,000 for women, will be counted as deprived sector loans to enhance financial access.
- MFIs will revise target group definition, loan eligibility criteria, and borrower qualifications to ensure loans reach intended groups, and directed credit schemes and deprived sector lending thresholds will be reviewed.
- Client protection frameworks and financial literacy will be promoted for responsible lending, and monitoring of loan use and guidance to borrowers will be implemented.
- Corporate governance will be strengthened through a review of Board composition and internal control effectiveness.

- Mergers and acquisitions among MFIs will be encouraged to achieve economies of scale and enhance efficiency.

Implications: The microfinance reforms attempt to address sector-wide asset quality deterioration and structural governance issues through enhanced capital adequacy requirements and corporate governance measures. However, the easing of dividend distribution limits and expanded loan eligibility may signal regulatory forbearance rather than genuine strengthening, potentially exacerbating existing delinquency problems. The emphasis on mergers and client protection frameworks suggests recognition of systemic vulnerabilities, but these supply-side reforms may prove insufficient without addressing underlying borrower capacity constraints in the current economic environment.

5. Payment Systems

- A strong and secure payment system will be developed to enhance transactions through electronic means and expand financial access.
- The existing National Payments System Development Strategy will be reviewed, and a new strategy will be formulated to strengthen the payment system in the current context.
- The Digital Lending Guidelines will be amended to facilitate loans provided to micro, small, and medium enterprises (MSMEs) based on electronic transactions.
- A Regulatory Sandbox will be implemented to promote innovation and new practices in the payment system, making it stronger, more efficient, and secure.
- The inspection and supervision of payment-related institutions will be risk-based.
- A Framework for Identifying Systemically Important Payment Systems (SIPS) will be issued to identify critical payment systems and ensure effective monitoring.

Implications: The National Payment Switch operationalization and digital payment fee waivers aim to reduce transaction costs and promote financial inclusion. The regulatory sandbox and enhanced security measures support fintech innovation while building system trust, creating a modern payment ecosystem that balances innovation with stability.

6. Financial Literacy and Financial Inclusion

- Facilitation will be provided to enable banks, financial institutions, and other financial service providers to obtain Know Your Customer (KYC) information through the national identity card system. Arrangements will also be made to develop infrastructure that allows required institutions to access updated customer information electronically once a customer updates it with any one bank.
- The "Nepal Rastra Bank with Borrowers" program will be launched to maintain continuous engagement with borrowers in rural areas.
- Coordination with relevant government agencies will be ensured to mitigate risks arising from undesirable activities encountered during loan regularization, recovery, and other processes carried out by banks and financial institutions under the existing legal framework.

- Considering the significant number of dormant accounts in banks and financial institutions, and the risks posed by the operation of such accounts by unauthorized persons (Money Mule practices), an action plan will be prepared and implemented to reduce dormant accounts.
- A "Financial Consumer Protection Guideline" and directives on financial market conduct will be issued to protect financial consumers.

Implications: Digital KYC and the "With the Borrower" program address rural financial access barriers and information asymmetries that constrain credit flow. Consumer protection guidelines and dormant account action plans strengthen system integrity and build trust in the financial system.

7. AML/CFT

- Effective coordination among concerned agencies will be ensured to complete the tasks outlined in Nepal's Action Plan for removal from the Financial Action Task Force (FATF) Grey List. Supervision, investigation, and enforcement mechanisms will be further strengthened for the full implementation of related national strategies and action plans of this bank.
- The priority actions and recommended actions concerning regulatory bodies, as highlighted in Nepal's Third Mutual Evaluation Report published by the Asia/Pacific Group (APG), will be implemented with priority.
- The dissemination of financial intelligence from the Financial Information Unit (FIU) to the concerned agencies will be automated to facilitate the effectiveness of investigation processes.

Implications: Efforts to exit the FATF Grey List through strengthened monitoring and automated intelligence sharing aim to improve Nepal's international financial standing and reduce correspondent banking risks. Enhanced compliance frameworks could facilitate foreign investment and trade finance, though these serve more as prerequisite conditions for growth rather than immediate economic drivers.

D. Overall

The Monetary Policy for FY 2082/83 represents a strategic pivot away from the restrictive stance of recent years, signaling a more accommodative and growth-oriented approach in response to Nepal's ongoing economic slowdown. This shift acknowledges that past policies, while successful in preserving macroeconomic stability, particularly external sector balance and inflation control, have inadvertently dampened economic momentum. The current policy focuses on leveraging the real estate and stock markets to reignite growth, while simultaneously undertaking structural reforms to build long-term resilience within the financial system by boosting the capital adequacy of BFIs, which has taken a hit in the last few years.

A central feature of this new direction is the revitalization of the real estate sector, recognized as a key channel through which economic recovery is expected to take root. The policy has increased the loan limit for private residential house construction and purchase from NPR 20 million to NPR 30 million, with the loan-to-value ratio for first-time homebuyers being raised to 80%, with 70% allowed for others. Furthermore, the policy provides avenues for restructuring and rescheduling loans extended to firms involved in land development and building construction. These measures are expected to stimulate domestic demand, revive construction-related industries, and generate employment. However, given the already sky-high real estate prices in Nepal, revitalization of the stagnant real estate market will depend on whether buyers can get good discounts on current prices, as rental returns are negligible compared to the investment required in real estate currently. Similarly, the resolution of the ongoing crisis in the cooperative sector will also be important for revitalizing the real estate sector, as the cooperative sector has played an important role in inducing demand and absorbing the supply of real estate in the market. Nonetheless, the overreliance of policymakers on real estate as a catalyst for growth, driven by past experiences, shows a reversion to traditional anecdotes rather than the charting of a new path for prosperity.

Parallel to this, the stock market is also being positioned as a possible driver of financial dynamism. The single-customer loan limit for margin lending backed by shares has increased from NPR 150 million to NPR 250 million, marking another departure from previous policies that had placed stringent limits on the same. This move aims to inject liquidity into the capital markets, stimulate trading activity, and increase investor confidence. However, given the already sky-high price-to-earnings ratios for most stocks, this might be more of a starter than a long-term cure unless policy mechanisms are in place to ensure a sustained rise for the capital market. Nonetheless, the real estate sector and the stock market are being positioned as dual engines of recovery, with their revival anticipated to initiate economic momentum in earnest. A cut in policy rates as per the policy will also help reduce the cost of borrowing and support the stimulation of demand even further, but can also affect vulnerable populations such as the elderly who may rely on the interest on their savings and time deposits to sustain their livelihoods while other savers will also be affected by this deduction in rates.

The policy also provides support for micro, small, and medium enterprises, MSMEs, which have been identified as among the most adversely impacted by the economic slump. Working capital loan guidelines are being revised to reflect the diverse nature of businesses such as agriculture, education, healthcare, media, and hospitality. Loans of up to NPR 30 million to businesses located near the mid-hill and postal highways are now categorized under SME lending and will benefit from preferential terms, including interest premiums up to 2% above the base rate while banks can now provide loans up to NPR 1 million for agricultural and microenterprise purposes using self-assessed agricultural land, crops, and structures as collateral. Additionally, minimum provisioning will need to be maintained during the grace period for such loans, helping reduce costs and encouraging greater financial inclusion.

On the institutional side, the policy has focused on reforms aimed at strengthening the banking and financial system. Recognizing the challenges posed by deteriorating asset quality, the policy has announced plans to facilitate the establishment of an Asset Management Company to help banks manage non-performing loans (NPLs) and non-banking assets (NBAs). However, it must be noted that an AMC can only shift the burden of non-performing assets from BFIs to itself and might not resolve it fully unless there are proper legal mechanisms allowing for the swift recovery of debt.

Similarly, to ensure that rising NPA levels do not affect capital adequacy levels. Banks will also be allowed to count regulatory reserves held against NBAs (for up to two years) as part of their supplementary capital. Furthermore, regulatory concessions are being planned for NPL provisioning, and banks will be differentiated within the same category based on their risk profile and performance metrics—an effort to promote discipline and reward prudent management. Banks might also be allowed to raise their capital using the right offerings, providing another avenue for strengthening their capital base on top of recent provisions allowing for the issuance of non-redeemable preference shares. This, combined with a proposed rethink of the need for physical branches and a distinct possibility for retrenchment in this area, could help BFIs reduce their operational overheads. However, we must also remain aware that while planned revisions possibly easing provisioning norms can lead to short-term benefits, they may also create long-term setbacks in a volatile and unstructured economy such as ours.

To ensure long-term stability, the policy also signals a gradual shift away from the traditional Credit-to-Deposit (CD) ratio toward internationally recognized metrics such as the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Guidelines for Internal Liquidity Adequacy Assessment Processes (ILAAP) will be introduced to bolster liquidity risk management, while the base rate calculation methodology will be revised to make it more realistic. The establishment of a supervisory framework for Domestic Systemically Important Banks (DSIBs) is another forward-looking initiative designed to safeguard systemic stability.

Recognizing the importance of digital transformation, legal and procedural groundwork is proposed to be laid for establishing ‘Neo Banks' to expand financial access. This complements broader initiatives to strengthen Nepal’s electronic payment system and reevaluate branch expansion policies, an effort to modernize financial service delivery while reducing operational costs for BFIs. Furthermore, the policy includes support for modernizing AML/CFT compliance, strengthening consumer protection, and enhancing the security and reliability of the payment system infrastructure.

However, despite these progressive measures, the macroeconomic context remains challenging. The structural slowdown persists, with weak domestic demand continuing to constrain growth. Import levels, though recovering, have not yet returned to pre-COVID benchmarks, while export gains remain largely tied to volatile trade arbitrage opportunities rather than improvements in competitiveness. The decline in both lending and deposit rates reflects tepid economic activity rather than the success of monetary accommodation. Excess liquidity in the banking system is driven more by weak credit demand than by proactive monetary transmission, underscoring the need for demand-side revival strategies alongside financial reforms. Similarly, the inability to leverage the nation’s vast Forex Reserves to stimulate economic growth through government spending remains an issue whose resolution can provide another spark to the country’s economy.

In conclusion, the Monetary Policy for FY 2082/83 is ambitious, aiming to restore economic vitality through targeted stimulus to real estate and stock markets, institutional strengthening of the banking system, and better alignment with international regulatory practices. However, for this policy to achieve its intended outcomes, structural constraints, particularly those holding back domestic demand, must be addressed in parallel. This is because without complementary fiscal stimulus, investment in productivity-enhancing sectors, and sustained improvements in business confidence, the effectiveness of monetary tools alone may remain limited. The policy is a necessary step forward, but its success hinges on broader, coordinated efforts to stimulate and sustain real economic recovery and hit at the cause and not the symptoms that are plaguing the Nepali economy.