Monetary Policy Analysis

Monetary policy is set by the central bank of a country to regulate economic transactions through the management of monetary tools and policy measures. This is done through various methods such as increasing and decreasing the interest rate and making new policies. To maintain macroeconomic stability in the economy, the choice of monetary policies may differ depending on the situation of the economy, either contractionary, expansionary or combined both are normally been practiced for macroeconomic policy management.

1. Background for 2023/24 Monetary Policy

The merchandise import was estimated to reach about 40% of GDP in 2021/22 and the current account deficit was mainly due to weak domestic production capacity and rising consumption trend. The current account deficit was expected to reach 13% of the GDP in 2021/22. Therefore, Nepal Rastra Bank (NRB) thought it was essential to maintain balance in monetary expansion in a country that had adopted an exchange rate (with India) peg as a policy anchor and was facing external sector pressure. Currently the BoP is in surplus. The upcoming monetary policy NRB has focused towards controlling inflation till 6.5% to ensure the economic growth along with dollar reserve that can cover for imports up to 7 months. The policy is also focus towards achieve the target growth rate of 6%.

1.1 Budget Summary

The total expenditure of the government in 2021/22 was Rs.1296.24 billion. Out of this, recurrent expenditure was Rs.961.47 billion, capital expenditure was Rs. 216.37 billion and financial management expenditure was Rs. 118.40 billion. Revenue collection was Rs. 1067.96 billion.

For the fiscal year 2022/23, the budget summary indicates that the total revised expenditure reached approximately 154 billion, accounting for around 84% of the allocated budget. Current expenditure amounted to about 1.04 trillion, representing 88% of the allocated expenditure. Revised Capital expenditure stood at around 258 billion, which was approximately 68% of the allocated expenditure, while financial expenditure reached about 203 billion, making up about 88% of the allocated expenditure. Meanwhile, the revenue collected amounted to about 1.17 billion, and other expenditures were fulfilled through aid and loans.

1.2 IMF Projection for 2022 and 2023

The world economy expanded by 6.1% in 2021 and is expected to expand by 3.6% in 2022. The advanced economies will be limited to 3.3% in 2022 compared to 5.2% in 2021. The growth rate of emerging economies will be limited to 3.8% in 2022 compared to 6.8% the previous year.

IMF had projected inflation of 5.7% in advanced economies in 2022. The average inflation in such economies was 1.5% in such economies. Similarly, inflation in emerging and developing economies is projected to reach 8.7% in 2022 compared to 5.1% in the last decade.

According to the International Monetary Fund's April 2023 forecast, the world economy has expanded by 3.4 % in 2022 and will expand by 2.8 % in 2023 and 3.0% in 2024.

Developed economies expanded by 2.7% in 2022, and are projected to expand by 1.3% in 2023 and by 1.4% in 2024. The economy of emerging and developing countries expanded by 4.0% in 2022, and is projected to expand by 3.9% in 2023 and by 4.2% in 2024.

2. Macroeconomic Situation of Nepal

The macroeconomic situation of the country is presented in the current monetary and fiscal policies. The government has set targets over the years to attain stability and achieve economic growth. The government has also set many macroeconomic goals.

2.1 Inflation and Growth Rate of the Country

From table 1 we can see that government has managed to meet its target inflation goal for the last few years.

Table 1: Inflation Rate Target and Outcome Over the Years (in Percentage)

Year	2020/21	2021/22	2022/23	2023/24
Target Inflation	7.0	6.5	7	6.5
Actual Inflation	3.6	6.3	7.8	-

Source: Economic Survey

Now we look into another major macroeconomic indicator i.e. GDP target and outcome in Table 2.

Table 2: Target and Actual Growth Rate

Year	2020/21	2021/22	2022/23	2023/24
Target Growth Rate	7.0	6.5	8	6
Actual Growth Rate	4.35	5.61	2.16	-

Source: Economic Survey

It is observed that there is large gap between the target and actual GDP growth rates. The gap is even bigger in the year 2022/23. The government's failure to achieve its target growth rate can be attributed to various factors, including the central bank's imposition of high-interest rates especially in the loan of capital investment. It is evident that the flow of fund in year 2022/23, loan to private sector was minimal and far below the target.

2.2 National Consumption, Demand, Savings and Debt

The average consumption of the country is above 90% of the country GDP over the last years. During this period the gross capital formation is estimated to 30.4% of GDP in 2019/20, 37.4% in 2021/22 but it has declined to 32.6 % for FY 2022/23. This has resulted in our total domestic demand being 124.6-126.2 % of our GDP for the last three years as a result investment in capital formation is same over the years. There has been no encouraging increase in capital formation over the years as seen in figure 1 below.

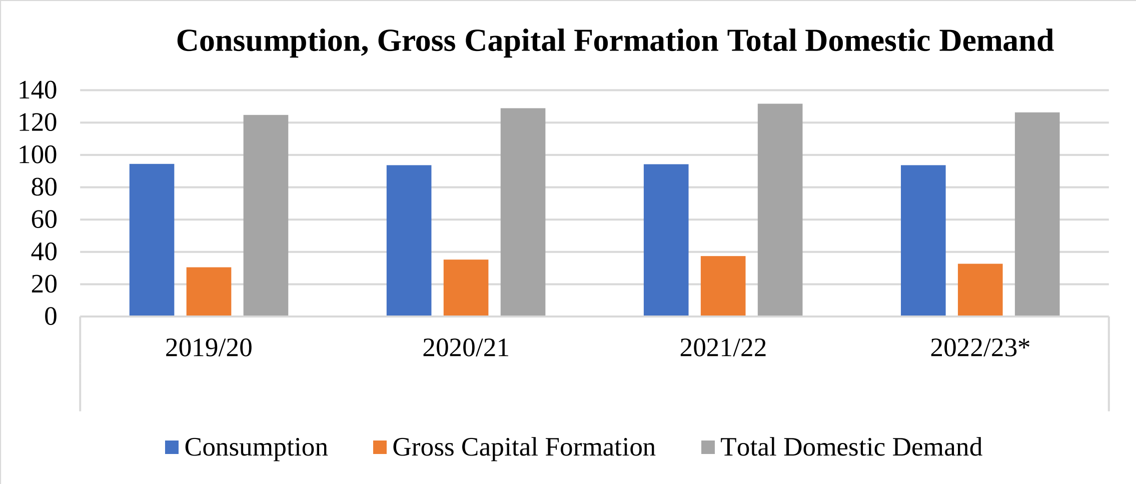

Figure 1: Macroeconomic indicator as a percentage of GDP

The disparity between GDS and GNS suggests that while the domestic economy may not be saving a significant proportion of its income, the country, as a whole, is saving a substantial amount due to the inclusion of transfer income. This could indicate a robust overall economic position with potential positive impacts on investments and economic stability. However, further analysis of the specific factors contributing to the difference is necessary to fully understand the economic dynamics at play.

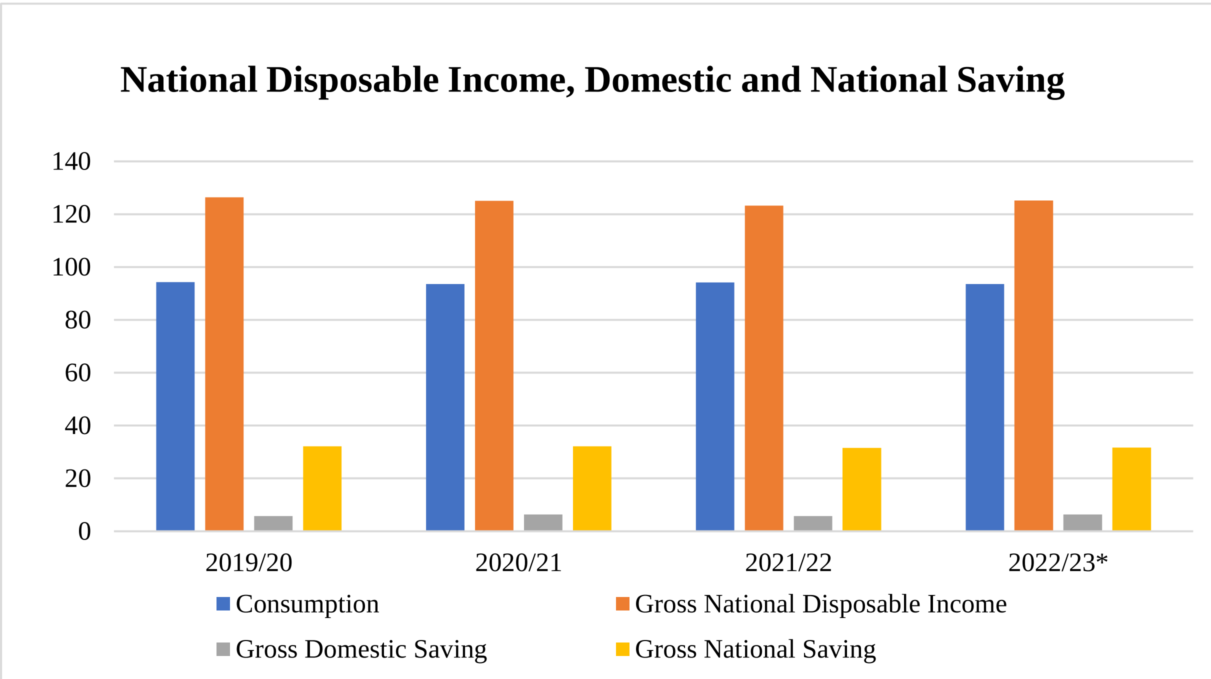

Figure 2: Gross National Disposable Income and Savings

The domestic debt of Nepal is also gradually increasing. From table 3 below we can see that outstanding domestic debt has increased from 15.8% in mid-July 2020 to 20.9% in mid-July 2023.

Table 3: Net and Domestic Debt of the Country

	Percentage of GDP			
	2020 (Mid-July)	2021 (Mid-July)	2022 (Mid-July)	2023 (Mid-July)
Outstanding Domestic debt of the Government of Nepal	15.8	18.4	20.0	20.9
Net Domestic Borrowing of the Government of Nepal	4.1	4.3	3.7	2.6

3. Concessional Loan

The monetary policy of 2021/22 has mentioned that to expand the productive economy through enhancing production, generating employment, and developing entrepreneurship, the concessional loan program will be implemented effectively as per the unified procedure of the Government of Nepal related to interest subsidies on concessional loans. The details of the concession loan provided by various financial institutions as of mid-June are given in Table 4.

Table 4: Details on the concessional loans provided (Amount in Rs.)

	Mid-June (2021)	Mid-June (2022)	Mid-June (2023)
Concessional Loan	150.96 (Billion)	215.91(Billion)	203.2 (Billion)
BFI Total Loan	4109 (Billion)	4750 (Billion)	4858 (Billion)
Ratio	3.67%	4.54%	4.18%

As we see the proportion of concessional loans is low compared proportion of loans distributed by BFI over the years. The NRB must focus on increasing these loans substantially if we are to see a positive change in domestic production.

4. International Trade, Remittance, and Balance of Payment Position

Over the last decade Nepal has become an import-based country and the share of domestic revenue from the tax on imports i.e, import duty is high (20 %). The trade imbalance is quite high (import is ten times higher than that of exports). The composition of total trade volume and its share is shown in Table 5 below:

Table 5: Import and Export for the First 11 Months of the Year

Eleven Months	2019/20	2020/21	2021/22	2022/23*
Export	7.4	8.1	9.5	8.8
Import	92.6	91.9	90.5	91.2

Remittance plays a major role in contributing to the economy through the supply of foreign currency reserve and meeting huge gap of merchandise trade imbalance. Till mid-July 2023 the remittance has increased 22.7% in NPR and 13% in USD. The aggregate transfer of income in terms of GDP can be represented as follows in Table 6.

Table 6:Transfer of Money into the Country (Numbers as a percentage of GDP)

Percent of GDP	2019/20	2020/21	2021/22	2022/23*
Net Income Factor	1.2	0.5	0.6	0.8
Net Transfer	25.3	24.6	22.7	24.4

A substantial increase in imports had led to a significant deficit in the current account balance. In the eleven months of 2021/22, the BoP deficit stood at Rs.269.81 billion compared to Rs.15.15 billion during the same period of the previous year. Foreign currency reserves decreased by $ 2.3 billion to $9.45 billion. This was enough for imports of goods and services for 6.73 months. The monetary policy of 2022/23 targeted a foreign currency level that can cover imports of goods and services for up to 7 months. The details of BoP in the first eleven months of the year can be stated below in table 7.

Table 7: Trade Imbalance of the Last Few Years (Amount in Million)

Eleven Months	2019/20	2020/21	2021/22	2022/23*
Current Account	-62591.3	-298107.2	-592140.	-69398.0
Capital Account	13051	14152.0	9492	7351
Financial Account	200257.6	183402.2	264021.9	216016
Changes in Reserve Net (- increase)	-179372.2	15147.4	269806.8	-228977

As a result of a tight monetary policy BoP is in surplus of 228.98 billion at the end of FY 2022/23 and foreign currency reserve that can cover import for up to 9.6 months. However, current account is still negative and the trade imbalance remains about the same before tight monetary policy as imports amount to more than 90% of total volume of trade. The government must focus on import substitution to reduce the trade deficit.

International Economic Situation for 2023/24 Monetary Policy

The inflationary pressures and challenges faced by the world economy due to geopolitical events like the Russia-Ukraine war, coupled with rising oil prices and supply disruptions. The prediction of a low growth rate for 2023 and anticipated improvement in 2024 indicates a period of economic uncertainty and caution as predicted by IMF. Central banks' adoption of tight monetary policies globally, including the US Federal Reserve's interest rate hikes, reflects their efforts to address inflation and maintain economic stability. The proactive stance taken by emerging countries in adopting similar policies demonstrates their commitment to managing inflation expectations and safeguarding their financial markets from external shocks. Overall, these measures show the importance of coordinated efforts to tackle inflation and stabilize the global economy in a challenging economic environment.

5. Monetary Policy Stance (2022/23-2023/24)

The stance of monetary policy was kept tight for 2022/23 to maintain macroeconomic stability and support economic growth and channel financial resources to the productive sector.

Given that the credit-to-GDP ratio is high, the priority of the monetary policy of 2022/23 is to reallocate credit to the productive sector rather than focus on credit growth.

In the fiscal year 2022/23, Nepal's economic and monetary targets had a mixed outcome. The year-to-year inflation rate was maintained at 6.83%. There was a positive achievement in foreign exchange reserves, which covered imports for about 9.6 months, exceeding the goal of 7 months. However, the government's decision to restrict imports to maintain the foreign reserves resulted in reduced import revenue, which significantly affected the revenue target. The weighted average interbank interest rate remained at 7.13%, within the desired range of 5.5% to 8.5.

The monetary policy of 2023/24 is focused on keeping the economy moving while maintaining price and external stability a flexible monetary policy has been adopted. The priority of the 2023/24 monetary policy is to increase the internal production capacity by channeling the financial resources to the productive sector.

6. Money Flow in the Market 2021/22- 2022/23 and Projection for 2023/24

The growth of broad money till mid-June 2022 stood at 9 percent. The supply of broad money was expected to increase by 12% till mid-June 2023 and credit to the private sector was expected to grow by 12%. However, the broad money increased by 10.9%, and credit to the private sector only increased by 4%.

The growth rate of credit to the private sector from the monetary sector stood at 16 percent in mid-June 2022 on a y-o-y basis compared to the projection of 19 percent for 2021/22.

7. Monetary Policy Framework and Targets (2022/23-2023/24)

The existing strategic framework and the pegged exchange rate of the Nepalese Rupee with the Indian Rupee as the nominal anchor of monetary policy has been kept unchanged. This has remained unchanged for the monetary policy of 2023/24.

In 2022/23, the growth rate of the broad money supply is projected to be 12 percent, and the growth rate of credit to the private sector is projected to be 12.6 percent. For the monetary policy of 2023/24, the supply of broad money is projected to be 12.5% and credit to the private sector to be 11.5%. Monetary policy has also focused on maintaining an inflation rate of under 6.5%.

To maintain a foreign exchange reserve at a level that can cover the imports of goods and services for up to 7 months and control the demand side pressure on inflation. This target has remained unchanged for the monetary policy of 2023/24.

8. Monetary Policy Measures for 2022/23 and 2023/24

Banks and financial institutions were required to maintain a credit-to-deposit ratio of 90% by mid-July 2022. Such a ratio stood at 86.22 % in mid-July 2022. The banks that were unable to manage liquidity through the interbank market, daily liquidity facility, open market operations, and standing liquidity facility were given Lender of Last Resort Facility at a penalty rate of 2% points above the bank rate if requested by the respective institution.

Considering the pressure on prices and macroeconomic stability the NRB increased the rates under the interest rate corridor by 1.5%.

Table 8: Interest Rates at the Monetary Policy and Current Interest Rates

	2022 (July)	2023 (May)	2023 (July)
Bank rate	8.5	7.5	7.5
Policy rate	7.0	7.0	6.5
Deposit collection rate	5.5	5.5	4.5

The only change during the year was in the bank rate as it was reduced to 7.5% on 14th May 2023.

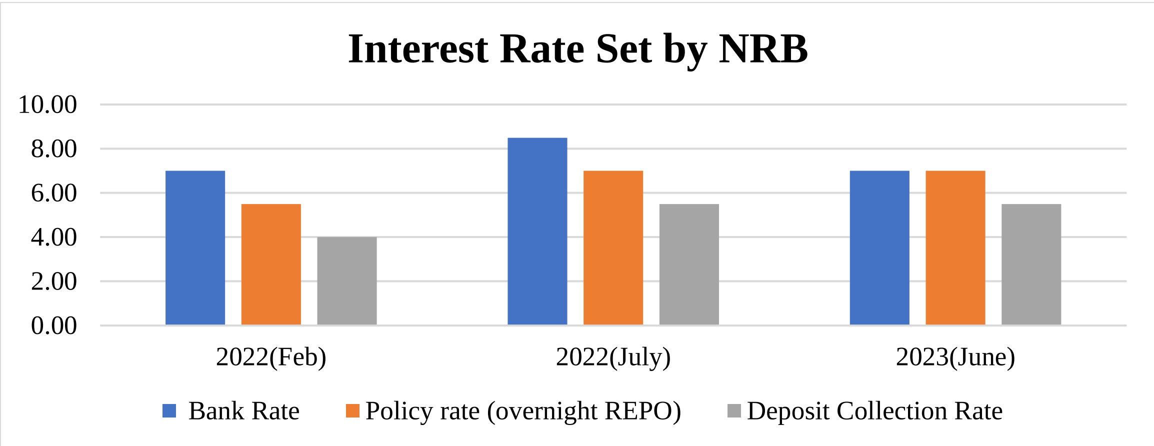

Figure 3: Changes in Interest Rates before and after the Monetary Policy

The focus of the central bank was to keep the interest rate in the same corridor and increase the cost of money. NRB develop a mechanism to open a repo/reverse repo auction if the inter-bank rate deviates from the policy rate by more than 2 percentage points. Likewise, a provision will be made to open the deposit collection auction if the interbank rate decreases by more than 3 percentage points from the policy rate.

The standing liquid facility (SLF) was provided at the bank rate for 5 days. The outstanding SLF will be no more than 1 percent of the total local currency deposits held by the bank in the previous week.

A few other measures were taken by the NRB to tighten the money supply such as the cash reserve ratio to be maintained by the BFIs will be increased by 1 percentage point to 4 percent with effect from 17 August 2022. The statutory liquidity ratio (SLR) of 12 percent and development banks, as well as finance companies, need to maintain 10 percent from mid-January 2023.

As of **mid-July 2023**, the total loan allocated to the private sector was Rs. 4822 billion which is about 90.7% of our GDP. However, the CD ratio stood at 81. 62 by mid-July 2023. This means the banks still had a lot of liquidity and there was a problem regarding loan disbursement from banks.

Considering these factors, the NRB made some changes to the interest rates for the monetary policy of **2023/24**. The policy rate is decreased to 6.5% but the bank rate has remained at 7.5%. The deposit collection rate has been reduced from 5.5% to 4.5%. Details can be seen in table 9.

NRB has also stated that if the average interbank rate of India is more than the bank rate (7.5%) and lower than the deposit collection rate (4.5%) NRB will open a secondary market or deposit collection auction if it falls below deposit collection rate to make liquidity stable in the market. This will ensure that the interest rate will remain within the target corridor.

NRB will also provide liquidity at the bank rate and overnight liquidity at the policy rate. The cash reserve ratio and SLR have remained the same for the monetary policy of 2023/24.

9. The outcome in Capital Market and Real Estate

- Market capitalization stood at Rs. 4010.96 billion when NEPSE was 2883.41 in mid-July 2021.
- Market capitalization stood at Rs. 2869.34 billion when NEPSE was 2009.46 in mid-July 2022.
- Market capitalization stood at Rs. 2700.49 billion when NEPSE was 1812.63 in mid-May 2023.

In the monetary policy of 2022/23, the rule to limit margin loans against collateral of shares from financial institutions or all institutions was fixed at Rs.120 million per borrower. The NRB also mentioned that the Risk weight for loans against the collateral of shares up to Rs.2.5 million has been reduced to 100% while the risk weight for loans above this limit has been kept unchanged at 150%.

The central bank also mentioned that when the margin lending facility becomes regular and orderly through the stockbrokers this type of margin lending from banks will be removed.

This rule heavily affected the stock market as many borrowers that had loans above 120 million were forced to sell their stocks. This caused a panic in the market and many investors sold their stocks. This selling pressure resulted in NEPSE plunging below 2000 with many investors losing a large portion of their investment.

This year there have been no changes to the margin loans against collateral from shares. The NRB seems very rigid in this position and expects this facility to be made available through stockbrokers. However, the NRB made changes in risk-weight loans against collateral. Now the collateral shares up to Rs. 5 million have been reduced to 100% while the risk weight for loans above this is 150%.

In the monetary policy of 2022/23, NRB also made changes to the loans that banks can allocate a provision was made whereby the BFIs must maintain a loan to value ratio at a maximum of 30 percent inside Kathmandu valley and a maximum of 40 percent outside Kathmandu valley while providing loans with no specific purpose against the collateral of land and house such as overdraft loans, mortgage loans, property loan, and personal term loan.

NRB sought to curb the bank's credit supply in this sector. Their objective was to redirect the flow of credit toward the productive sectors while reducing the emphasis on land loans. As a consequence, there has been a significant slowdown in the escalation of land prices and a decrease in land transactions.

There are no changes to this law in monetary policy of 2023/24. However, the NRB has increased the limit on loans on houses from Rs. 15 million to Rs. 20 million. This could potentially yield a favorable effect on the overall consumption of various domestic products, such as cement, and concurrently lead to increased labor utilization within the country.

10. The Outcome in Interest Rate

In mid-July 2021, the weighted average interest rate of 91-day treasury bills was 4.55 percent, which reached 10.66 percent in mid-July 2022. NRB made changes to interest rates and with these changes, commercial banks had to increase their interest rates. The average base rate of commercial banks was 8.53% in Feb 2022 and 10.18% in June 2023. In Feb 2022, the weighted average interest rate of deposits was 6.49%, which reached 7.99% percent in mid- June 2023.

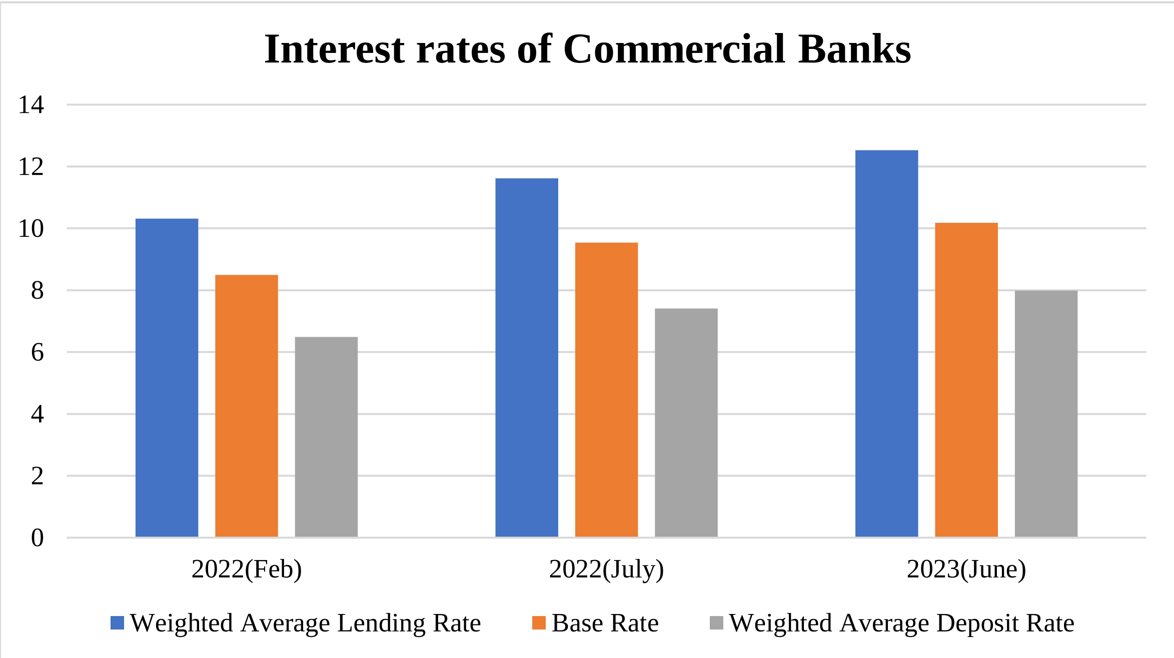

Figure 4: Interest Rate of Commercial Bank Before and After Monetary Policy

In Feb 2022, the weighted average lending rate was 10.31% percent, which reached 12.53% in mid-June 2023.

If we look closer at the changes in interest rates before and after the monetary policy, we can see huge hikes after the monetary policy of FY 2022/23. The data in table 10 to table 13 is from Feb 12, 2022, to June 15, 2023. It shows the highest and lowest interest rates charged by commercial banks.

Table 9: Highest and Lowest Base of Commercial Banks from 12th Feb till 14th June

Base Rate	Interest	Date
Lowest	8.53	12th Feb 2022
Highest	10.91	14th Jan 2023

Table 10:Highest and lowest Weighted Average Deposit Rate from 12th Feb till 14th June

WADR	Interest	Date
Lowest	6.49	12th Feb 2022
Highest	8.5	14th Jan 2023

Table 11: Highest and Lowest Weighted Average Lending Rate from 12th Feb till 14th June

WALR	Interest	Date
Lowest	10.31	12th Feb 2022
Highest	13.03	12th Feb to 12th March 2023

Table 12:Highest and Lowest Weighted Average Interbank Rate from 12th Feb till 14th June

WAIR	Interest	Date
Lowest	4.78	12th Feb 2022
Highest	8.5	16th Sept – 16th Nov 2022

Based on the analysis of the four tables, it becomes evident that before the implementation of the monetary policy in FY 2022/23, commercial banks offered lower interest rates. However, the subsequent increase in interest rates has negatively impacted the nation's growth, as people became reluctant to borrow at higher rates. The weighted average lending rates skyrocketed to 13.03%, causing businesses to struggle due to increases in production costs and low rates of return in a competitive market. Consequently, this caused a business slowdown in various sectors. As a result, the credit extended to the private sector has only increased by 3% but the monetary policy targeted a growth rate of credit to the private sector to be 12.6 percent.

While this contractionary monetary policy successfully controlled inflation and bolstered the dollar reserve, it failed to fulfill its crucial role of achieving the growth target of 8% set for FY 2021/22. The adverse effects of high-interest rates led to a significant slowdown in growth, resulting in a meager 2.16% growth rate.

11. Discussion

After looking at major macroeconomic indicators and monetary policy we have some points for discussion.

- **Did the previous monetary policy succeed in achieving its target?**

The previous monetary policy successfully controlled inflation and maintained a sufficient foreign exchange reserve for up to 7 months. However, it fell short of achieving the targeted growth rate of 8%, resulting in a growth rate of only 2.16%. There was also a focus on reducing the imports and increasing domestic production and NRB introduced several restrictions on imports. Despite all these provisions, it did not have the intended effect as the trade imbalance is similar to previous years and imports amount to more than 90% of our trade.

- **Can we achieve the growth target (6.0 %) set by the government for the fiscal year 2023/24 with the upcoming monetary policy?**

Budget has emphasized that we must focus on domestic production. An increase in domestic production will increase revenue and enhance the growth rate. To increase domestic production in import-based countries it is essential that we maintain a low interest rate (single digit). However, the focus has mostly been on controlling inflation at a cost of high-interest rates that makes production unsustainable and costly. This has forced investors to focus on import rather than domestic production as the rate of return does not compensate for the risk involved in production (taking loans at high-interest rates). Therefore, monetary policy should focus on sacrificing short-term instability rather focus on growth of the economy since the higher growth is the first priority of the government.

To foster a thriving production sector, the NRB should prioritize prioritizing long-term production growth over short-term inflation stability. Nevertheless, the policy rate of interest has only seen a marginal reduction of 0.5% to 6.5%, indicating that banks' total interest rates are likely to remain in the double digits. This will discourage businesses from taking loans, as the returns on investment may not offset the high borrowing costs. Consequently, the cost of production for businesses will remain high, making it challenging for them to compete with foreign products.

In the previous year, despite a policy rate of 7.0%, credit expansion to the private sector was a mere 4%, and a small decrease in the policy rate might not lead to the expected 11.5% increase in credit expansion set by the NRB. This could jeopardize the attainment of the targeted growth rate of 6% for the current fiscal year. In the past FY 2022/23, when the projected targeted credit supply to the private sector was 12%, businesses were reluctant to borrow at such high rates, resulting in a meager growth rate of 2.16%.

- **What kind of monetary policy is necessary for the upcoming year considering the current economic situation? (Contractionary or Expansionary)**

To foster the development of Nepal's young economy running in very low level of equilibrium (low production, consumption, saving investment, employment), promoting domestic production capable of competing with foreign goods is crucial. Achieving this objective requires the implementation of an expansionary monetary policy. Notably, by the end of FY 2021/22, credit to the private sector experienced a substantial increase of approximately 16% by mid-June 2021/22. This growth occurred despite the interbank rate remaining within the corridor of 4.0% to 7.0%. Encouragingly, the economy achieved a commendable growth rate of 5.61%, almost reaching the targeted rate of 6.5%. These figures clearly demonstrate the possibility of achieving growth while effectively managing interest rates.

Despite claims of adopting an expansionary monetary policy for FY2023/24, the actual policy rate suggests otherwise. The expected credit supply increase of just 11.5% falls short of the previous year's 12%, during which the NRB implemented a contractionary monetary policy.

These factors strongly indicate that, in reality, a contractionary monetary policy is still in place for FY2023/24. The NRB's primary focus has been on controlling macroeconomic indicators and inflation rates. However, this strict approach has resulted in interest rates reaching unsustainable levels for accelerating domestic production i.e., economic growth of the country.

While ensuring long-term macroeconomic stability is important, it should not come at the expense of hindering the country's economic growth. As a consequence of the high interest rates, the NRB has indeed managed to control inflation rates but at the cost of hampering the country's growth rate. This is evident from the failure to reach the target growth rate for the past three years, despite successful inflation control. Hence, credit expansion in productive sectors through efficient management of concessional loans might be the proper way of channeling investment requirements.

- **What effect will the policy rate, bank rate, and deposit collection rate have on the economy?**

The policy rate has seen a slight decrease of only 0.5%, moving from 7.0% to 6.5%. Meanwhile, the bank rate has remained unchanged at 7.5%, and the deposit collection rate has experienced a 1. percentage point decrease, going from 5.5% to 4.5%. The NRB has indicated that it will intervene in the secondary market to manage cash flow if the interbank rate of India falls between the bank rate and deposit collection rate, aiming to keep the currency flow within this specific corridor.

In the previous monetary policy, the target was to maintain the interbank exchange rate between 5.5% and 8.5%, and the average interbank exchange rate for FY 2022/23 stood at 7.13%. This had a significant impact on the base rates of banks, as lending rates remained in the double digits throughout the last fiscal year. Such high borrowing rates rendered many businesses unsustainable, making it difficult for them to compete with foreign companies that benefit from lower interest rates.

Given that the current policy rate is similar to the previous one, it is likely that we might encounter similar circumstances in the coming months. To address this situation, the government should consider increasing concessional loans to bolster the competitiveness of the productive sector in the market. Additionally, the NRB should conduct a comprehensive study to understand the long-term impact of such loans on the GDP. This analysis will help in making informed decisions regarding policies and their implications on the overall economy.

- **Is the target credit supply of 11.5% to the private sector of this monetary policy achievable?**

  In the previous monetary policy, both the bank rate stood at 8.5% and policy rate stood at 7.0%, which had adverse effects on the credit supply. The high policy rate resulted in elevated base rates and lending rates for commercial banks, discouraging investors and businessmen from borrowing at such costly terms. As a consequence, the credit flow to the private sector did not meet the target set by the NRB.

  However, there is hope that the upcoming monetary policy review could bring positive changes. If the policy rates could be reduced lower, we can anticipate that lending rates from commercial banks could decrease and potentially enter into the single-digit range. This favorable scenario is likely to encourage credit flow in the production of goods and services, aligning it more closely with the growth projection of 6 %.

- **Will NRB make any changes to the rules regarding the capital market? And how it might affect the capital market.**

  The NRB has made no changes to the credit limit on the collateral of shares, but it has reduced the credit risk for loans up to Rs. 5 million to 100%. Previously, the NRB expressed its intention to limit credit for shares, emphasizing a focus on productive sectors.

  This statement has generated controversy because it overlooks the productive contributions of numerous companies listed on the capital market. For example, the hydro sector has successfully increased its capitalization through capital markets and invested in electricity production, significantly contributing to the country's GDP. Banks have also capitalized and utilized funds to expand their businesses, enhancing business efficiency nationwide. Similarly, manufacturing companies, like cement producers, have utilized capitalization to expand their operations. Hence, the capital market has indirectly played a vital role in the country's growth and productivity. The NRB's narrow view of the capital market seems to discount these positive effects.

  If the NRB intended to impose limits on credit to shares, it could have been implemented after providing sufficient time for investors to adjust after such lending facilities were available through brokers. The sudden decision caused panic in the market and led to losses for many investors. Such decisions are discouraging local investors and since we are not able to protect domestic investors attracting foreign investors through FDI seems quite far-fetched.

- **Will the NRB make any changes to the rules regarding margins of loans on land? And how it might affect the real estate market.**

  The NRB has maintained the same margin loan requirements for land, but it has taken a step by increasing the loans on houses from Rs. 15 million to Rs. 20 million. This decision appears encouraging as it can have a significant impact on promoting land development as part of production. Similarly, the consumption of various domestic products, such as cement, and fostering the utilization of the local labor force will have positive impact in the economy. With higher loan limits on houses, people may be more inclined to invest in real estate, leading to increased demand for construction materials and labor services, thus benefiting the domestic economy.

Moreover, this change in loan limits can also benefit the banking sector. By allowing banks to disburse larger loans for housing, the overall credit supply in the market is likely to increase. This, in turn, can further stimulate economic activity and support businesses, as more funds become available for investment and expansion.