

Monthly Bulletin



RIGHTS Nepal

Digital Transformation | Human Security |
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Monthly Bulletin

RIGHTS Nepal is a think tank founded in 2020, based in Kathmandu with the mission of focusing on nationwide policies, decisions, plans, actions and their justified need, development and outcome.



This publication has been specifically designed to assess the important events of the past month on the basis of four major pillars: **Strategic Engagements, Good Governance, Digital Transformation and Human Security.**

The content of this report is validated as accurate news extracted and summarized at the time of publishing. The report in itself is to be viewed and treated as an unbiased and impartial source of information.

For further inquiries, contact: info@rightsnepal.org

Digital Transformation

Central Bank Digital Currency

The prospect of issuing digital currency through Nepal's Central Bank is currently being investigated. Nepal Rastra Bank (NRB), the nation's central bank, has proposed an amendment to the law governing its authority and duties that would permit it to investigate the possibility of a Central Bank Digital Currency. In accordance with Nepal Rastra Bank Act 2002, the central bank is not authorized to issue digital currency. The provision only grants the central bank authority to print money in the form of coins and banknotes. Hence, Nepal Rastra Bank has started an initiative to revise the Nepal Rastra Bank Act to allow the central bank to issue digital versions of the national currency.

Central Bank Digital Currency (CBDC) are government-issued digital currencies that will operate similarly to traditional fiat money while also existing on a blockchain, much like cryptocurrencies. The central bank announced through the Monetary Policy 2021-22 that a feasibility study for CBDC in Nepal would be conducted in the context of ongoing worldwide studies regarding the usage and feasibility of digital currency. In a survey conducted by the Bank for International Settlements in 2021, it was found that 86 percent of central banks were looking into the potential of CBDCs, 60 percent were testing the technology, and 14 percent were in the initial stage of implementing pilot projects.

The issuance of such currency is suggested to be feasible by a study team led by Revati Nepal, the head of the currency management division of Nepal Rastra Bank. However, before doing so, the team advises the central bank to enact legislation granting itself the authority to create and administer digital currency. Prior to the issuance of digital currency, NRB will create a separate digital wallet to facilitate digital banking transactions and additional steps will be taken to investigate interoperability with digital payment services providers. According to central bank officials, in addition to the technical committee led by the director, the central bank has also established a steering committee led by deputy governor Bam Bahadur Mishra to make necessary recommendations regarding digital currency following the discussion of the concept note.

However, Revati Nepal states that it would require at least two-to-three years before the country introduces digital currency while witnessing how the South Asian neighbours, including China and India proceed with implementing digital currency. T. Rabi Sankar, the deputy governor of the Reserve Bank of India, stated that the CBDC, which was announced in the Union Budget for the current fiscal, will be implemented in India during the current fiscal in a gradual manner so as to prevent disruptions to the financial and banking system. Likewise, China has also begun testing its digital currency in Shenzhen, Suzhou, Chengdu, and Xiong'an. A digital yuan known as e-CNY was launched by China's central bank for Olympians and visitors during the Winter Games in February of this year.

The significance of digital currency is becoming more widely recognized as the world moves toward complete digitalization. Digital payment methods have been used far more frequently recently in Nepal as well. In the current fiscal year 2021–2022, which began on July 16 and ran through mid–December 2021, Nepalese conducted banking transactions worth 88.53 billion rupees (\$740 million). This is an increase from 30.28 billion rupees in mid–December 2020. According to the central bank, payments totalling Rs. 1.04 trillion were made through mobile banking during the first 11 months of the most recent fiscal year 2021–22, while payments totalling Rs. 143.85 billion were made through internet banking. Through the use of QR codes, payments totalling Rs79.98 billion have been made. According to data, internet banking usage remained consistent for the first eleven months of the previous fiscal year, whereas mobile banking and QR code payments saw an increase.

Digital Service Tax

In its budget speech for FY 079/80, the government of Nepal formally introduced the digital tax for the first time. The bill mandates that any company providing electronic services in Nepal submit information about its business and taxes in order to continue operating, according to Finance Minister Janardhan Sharma. He also said that transactions with annual revenue of up to Rs. 200 million will not be taxed.

The Digital Service Tax (DST) introduced by the Finance Act, 2079, has been simplified and effectively implemented by the Inland Revenue Department. Digital Service Tax will be in effect starting on Shrawan 1, 2079. (17 July 2022) whereby digital service providers like YouTube, Facebook, Twitter, Netflix, and others will have to register. In accordance with the new guidelines, digital services include advertising, over-the-top (OTT) media services for movies, music, and television, gaming, mobile application-related services, data and photo download services, education, consultancy, skill development, and training services, as well as e-books, e-libraries, and e-paper services, among others.

A non-resident must register for the digital service tax if they provided digital services in Nepal for more than NPR 2 million in the previous year. "Nonresident Person" refers to a person residing outside of Nepal who lacks a local business address, representative, or authorized representative. On the transaction value, (excluding the indirect taxes attracted in Nepal) of the digital service provided to consumers in Nepal by non-residents, a two per cent (2%) digital service tax will be imposed. According to Section 7 of the VAT Act of 2052, VAT must be charged at a rate of 13% on digital service transactions made by registered non-residents (1996). Within three months of the end of the fiscal year, the digital service tax must be paid online. The regulations state that a 15% fine will be applied if the tax is not paid by the due date.

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Human Security

Multidimensional Poverty Index

According to a joint report by the Oxford Poverty and Human Development Initiative and Nepal's Central Bureau of Statistics, Nepal reduced its Multidimensional Poverty Index from 30.1 per cent in 2014 to 17.4 per cent in 2019. The effects of the post-COVID-19 pandemic followed by the Russia-Ukraine war have significantly reduced the quality of life of low-income group people as daily expenditure has increased for consumption of the same goods and services, which would be consumed at less prices before.

According to Economist Keshav Acharya, lower-income people spend about 70 per cent of their income on food items. The current inflation is pushed by supply chain disruptions caused by the Russia-Ukraine war which had a major impact on the rise in prices of petroleum products. Rise in transportation costs due to increased price of petroleum products, increased taxes on import of raw materials and finished goods, low production levels of food items in the local market, distribution of low-quality seeds to farmers, and unfavourable weather conditions are some of the contributing factors for the increase in prices of food products. As the majority of the income of people is consumed on food products on a daily basis, life has been difficult to sustain for people falling under the poverty line.

Inflation Impacts

Nepal's inflation reached a 70-month high in June. According to the Nepal Rastra Bank's macroeconomics report published in July, the year-on-year inflation reached 8.56 per cent at the end of the fiscal year 2078/79 compared to 4.19 per cent at the start of the fiscal year 2078/79. The price of petrol has reached Rs181 per litre following an increase of 40 per cent within a year. Diesel and kerosene prices have reached Rs172 per litre each, rising by 54 per cent as compared to the prices a year earlier.

The hike in petrol and diesel prices has caused an increase in the production cost of factories and agricultural goods. The freight cost of basic goods and services has increased which has affected the lives of lower-income people. The freight cost, which was \$2,000 per container, has reached \$25,000 within 4-5 months, according to traders.

As per Nepal Rastra Bank's macroeconomic report, under the food and beverage category, inflation stood at 7.43 per cent. The prices of ghee and oil increased by 22.60 per cent, milk products, meat and eggs prices by 11.22 per cent and pulses and legumes by 9.13 per cent. Under the non-food and service category, inflation stood at 9.44 per cent. The prices of transportation increased by 26 per cent, education by 12 per cent, and furnishing and household equipment by 8.5 per cent.

Inflation has caused the standard of living of Nepalese people to decrease. Nepal Government's initiative to ban the import of ten luxury items has some effects on high-income group people but will have more than tenfold effects on people living below the poverty line. Low-income group people will have a hard time planning their monthly budget as their income has remained constant over the years, despite facing many natural disasters and economic problems. Large-scale unemployment problems including seasonal, and structural unemployment have also affected their lifestyle. The closing down of various domestic industries over the years has led most low-income group people to seek employment opportunities in foreign lands.

Re-establishment of old closed down industries and opening of new ones would somewhat increase the lifestyle of those people. According to the 11th National Industrial Survey, 2076 conducted by Central Statistics Office, the number of industries in Nepal has reached more than 60,000 and around 4.9 lakhs people are currently involved in four major types of industries. Of these, 6500 were involved in mining and quarrying, 4,45,000 in industrial production, 21,500 in electricity, gas, steam and air-conditioned services and around 27,000 in water supply and around 18,000 in water supply, sewerage, waste management and treatment services. The number of people associated with employment is 3.9 lakhs. According to the survey, 63 per cent of industries were completely closed due to the corona pandemic, 17 per cent lost their jobs permanently, and 60 per cent of workers lost their jobs temporarily.

Government should act quickly to prioritize local production by increasing the number of different types of goods and service industries, increasing subsidy facilities to farmers and providing high-quality seeds and fertilizers to increase both the quality and quantity of production of agricultural products. This will limit the import of such products and increased focus on local products will provide employment opportunities to local people. Privatization, liberalization and less import will help local commodities to increase their quality of life and the Government will get opportunities to decrease tax rates on various heads which will ultimately give room for development opportunities and decrease poverty in long term. UNDP's Sustainable Development Goal's plan to reduce poverty to 8 per cent by 2030 will be hard to achieve given the current inflation and practices adopted by Government to reduce poverty.

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Good Governance

Governance Challenge to Improve Economic Condition of Nepal

In mid July 2022, Nepal Rastra Bank (NRB) Governor Maha Prasad Adhikari announced the monetary policy for fiscal year 2022/23. The monetary policy was expected to reduce the financial problems faced by the country, especially external sector stability and liquidity problems. According to NRB, the Government will not be affected in achieving its targeted economic growth due to the tightened monetary policy but will affect the mechanism of loans which are provided to the unproductive sectors like excessive imports.

Major Highlights of Monetary Policy 2022/23

- To reduce bank's credit supply in the economy, NRB has raised the mandatory limit of Cash Reserve Ratio(CRR) and Statutory Reserve Ratio(SRR) to increase the minimum requirement of liquid assets that Banks and Financial Institutions must hold. CRR has been increased from 3 percent to 4 percent of total deposit base of a bank while SRR has been increased to 12 percent for Commercial Banks and 10 percent for Development Banks and Financial Institutions from earlier 8 percent and 7 percent respectively. Banks and Financial Institutions will be limiting loanable funds, thereby limiting liquidity in the economy.
- NRB has reduced the threshold limit of private sector loans to 12.6 percent at maximum, which was 19 percent previously to control the increasing rate of inflation to place it within budgeted target. According to NRB, Nepal's economy might face inflation upto 14 percent in coming days. Limiting the loans which are provided to unproductive private sectors will help in curtailing increasing inflation within the set target.
- Banks and Financial Institutions extending credit upto Nrs 20 million to productive sectors (sectors who utilize more than 7 percent of raw materials obtained from within Nepal) can charge a maximum of 2% above the base rate. Micro and Small Medium Enterprises who have to repay loans upto Nrs 5 Crore will not be charged any extra penal interest rate upon repayment of such due loans upto mid October, 2022. Through this relief provided by NRB, producers may be benefited to some extent.
- NRB has removed the lower limit of Nrs 4 Crore on loans against shares. Margin lending, which was limited to 4/12 rule has now been relaxed and has been changed to 12/12 rule. The upper limit of Nrs 12 crore is still in place. As per the new monetary policy, an individual can get credit upto Nrs 12 Crore as share based loan from one or more financial institutions. Previously, an individual or a company could take Nrs 4 Crore as a share based loan from banks and financial institutions with no more than Nrs 12 Crore in total. As a result, share market was affected badly. Now, small investors are projected to benefit more than large investors.
- The monetary policy has reduced the margin rate on land as collateral to upto 30 percent. Previously, real estate investors could place their land as collateral for a margin rate of 50 percent. This will affect real estate business as the land prices are not going higher in the past few years.

Government's decision to ban the import of 10 luxury or non-essential goods

On April 2022, Government of Nepal officially banned the import of 10 luxury or non-essential goods upto end of August 2022 as a measure to control the increasing rate of depletion of foreign currency reserve in Nepal. In the third quarter of F.Y. 2077/78, the gross foreign exchange reserve decreased by 16.3%. Such decline can cause shortage of essential goods and inflation. To control such challenges, Nepal Government officially banned the import of non-essential items such as mobile phones priced over US \$ 300, motorbikes above engine capacity of 150 c.c, tobacco products, liquor, color TV sets larger than 32 inches, diamond, jeeps cars and vans, dolls, snacks and playing cards. According to deputy governor of NRB Bam Bahadur Mishra, the government has only enough foreign currency to import essential goods for seven months because of growing import of food and petroleum products, declining tourism activities and decline in inflow of remittances in recent times, rising prices of petroleum products due to Russia-Ukraine war. According to governor of NRB Maha Prasad Adhikari, Nepal's economic situation was starting to improve with the significant reduction in COVID-19 cases in the country and also added that the import ban will be lifted as soon as forex reserves in the country start to improve.

Who benefited from the new Monetary Policy 2078/79 ?

According to NRB's Executive Director Prakash Shrestha, "A lesson was learned in last year that the excess credit expansion may not help achieve economic growth." and that NRB adopted measures to support the government to achieve its targeted economic growth. He added that NRB will be imposing differentiated rates for trading and production sector to give more importance on production of domestic products while giving less importance to import oriented business. As the monetary policy has targeted to reduce imports, import businesses will be affected adversely. Producers, on the other hand, will be benefited due to differentiated interest rates for production sectors. The attempt of NRB to reduce money supply in a large scale will affect consumers in many ways. Rise in inflation will make investments costlier for private sector and goods, which as a result will affect consumers who will find goods and services costlier than before. Share market investors will be benefited due to the introduction of 12/12 rule of share against loan and collapse of previous 4/12 rule. Real estate investors will be affected as monetary policy has reduced the margin rate on land as collateral to upto 30 percent which was 50 percent earlier. To promote foreign direct investments, NRB is introducing an 'automatic route' channel for foreign investors.

Good Governance

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Strategic Engagements

First State Visit to China

Hon. Dr. Narayan Khadka, the minister of foreign affairs for Nepal led an 11-person delegation to China on August 9th for a two-day bilateral visit with State Councilor and Foreign Minister Wang Yi. This is the first high-level official trip from Nepal to the neighboring nation since the Sher Bahadur Deuba government was established in July of last year. China has made two high-profile visits back-to-back in March and July, led by Liu Jianchao, the head of the Chinese Communist Party's international department, and foreign minister Wang Yi.

The two foreign ministers discussed the overall state of relations and cooperation between China and Nepal and decided to encourage further collaboration in a number of areas, including trade, connectivity, investment, health, tourism, alleviation of poverty, agriculture, disaster management, education, culture, and inter-ethnic relations, among others. Hon. Dr. Khadka reaffirmed Nepal's unwavering commitment to the One China Policy and gave the assurance that no activity against China would be permitted on Nepali territory.

The Kathmandu Ring Road Improvement Project (Phase II) will be accelerated and electrical power interconnection projects will move forward. The Trans-Himalayan Multi-Dimensional Connectivity Network and the Electric Power Cooperation Plan will both be strengthened by the two parties. For the year 2022, Nepal will receive 800 million RMB, according to State Councilor Wang Yi.

The two foreign ministers decided to create a joint system for border port pandemic control. Additionally, they agreed to allow two-way trade through the ports of Rasuwa-Kyerung and Tatopani-Jangmu, as well as one-way trade through the port of Hilsa-Pulang, once the latest COVID-19 pandemic wave in Tibet Autonomous Region of China has been contained. State Councilor Wang Yi pledged to give Nepal 3 million RMB in disaster relief supplies at Nepal's request in support of those impacted by disasters and natural calamities in various parts of the country. Nepal will also receive additional medical supplies and logistics valued at 2 million RMB from China.

Wang Yi stated that China would send experts to Nepal to conduct the survey work this year and would use aid funds for Nepal to support the feasibility study of the China-Nepal cross-border railway. China supports Nepal in making the most of this policy dividend to increase its export to China, noting that 98 percent of Nepali products will now be subject to zero tariffs as of September 1.

Nepal withdraws from State Partnership Program

Following months of speculation surrounding Nepal's participation in the State Partnership Program (SPP), the Foreign Ministry of Nepal wrote to the US Government on July 25th regarding its decision to withdraw from the transnational agreement. Nepal requested to join SPP twice in 2015 and in 2017, and the United States granted its request in 2019.

A cabinet meeting held on June 20th had previously decided against moving forward with the SPP. The government, though, came under fire for failing to address a formal letter to the US. Foreign Minister, Hon. Dr. Narayan Khadka informed the parliament that after internal consultation, an official letter to the US has been sent through diplomatic channels. The US Embassy in Kathmandu reaffirmed that the letter sent by the Ministry of Foreign Affairs was received and the decision was accepted.

Garrett Wilkerson, the US embassy's public affairs chief communicated "Yes, we received official written communication from the Government of Nepal regarding the State Partnership Program (SPP), accepting the decision made by the Nepali government regarding the SPP.

The SPP controversy surfaced just as PM Deuba was getting ready to travel to the US, the first official trip by a sitting prime minister of Nepal in two decades. He was initially scheduled to fly to Washington in mid-July. During the period, Donald Lu, US assistant secretary for South and Central Asia at the State Department visited Nepal on July 28th to discuss matters on economic growth, food security, and shared interest in preserving human rights and advancing democracy.

Shanghai Cooperation Organization: Nepal Promoted to the Role of Observer

Nepal's relationship with the Shanghai Cooperation Organization(SCO) officially started as a dialogue partner. The Memorandum of Understanding (MoU) was signed by then-prime minister KP Sharma Oli during his official visit to China in March 2016. According to the Ministry of Foreign Affairs, the MoU specifies the areas of engagement between Nepal and the SCO in the field of trade, transit and investment, energy, agriculture, small and medium-sized businesses, security concerns, legal and customs matters, transportation and communications, science and technology, education, health, culture, and tourism, and disasters.

Nepal is expected to advance from the role of 'dialogue partner' to 'observer'. The decision was made on July 28th in Samarkand, Uzbekistan, at the meeting of the SCO foreign ministers.

Strategic Engagements

The SCO has primarily concentrated on regional security issues, and its fight against regional terrorism, ethnic secession, and religious extremism since its founding in 2001. Regional development is another priority for the SCO at the moment. After the United Nations and the Non-Aligned Movement, the SCO is one of the largest regional organizations regarding geography, population, and economy.

According to Leela Mani Paudyal, SCO leads direct access to the leaders of the most influential countries at yearly summits or conferences. There, we have the chance to communicate with them and voice our complaints. Secondly, it allows small nations like Nepal to engage in international economic activity within the bloc and benefitting from the energy reserves of the SCO members.

Article 14 of the SCO charter specifies that the status of the observer does not grant the right to participate in the preparation and signing of documents of the Organization. Observers also do not participate in the development of decisions of bodies of SCO and do not bear responsibility for such decisions.' A senior Nepali diplomat advised Nepal to exercise caution before joining a bloc that includes military and security elements, particularly when geopolitical tensions are rising.

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