Unofficial Translation

Monetary Policy

For Fiscal Year 2005/06

Nepal Rastra Bank
Central Office
Baluwatar, Kathmandu
Nepal

2005

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For
Fiscal Year 2005/06

Delivered by Governor Mr. Bijaya Nath Bhattarai
on July 22, 2005

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Website: www.nrb.org.np

Acronyms

AD	Aggregate Demand
ADB/N	Agriculture Development Bank of Nepal
AIG	Accord Implementation Group
AMC	Assets Management Corporation
BCBS	Basel Committee on Banking Supervision
BFCA	Banking Fraud Control Act
BFIO	Bank and Financial Institutions Ordinance
BFIs	Bank and Financial Institutions
BIS	Bank for International Settlement
BOP	Balance of Payments
CAD	Cash Against Document
CAR	Capital Adequacy Ratio
CBOs	Community based Organizations
CPI	Consumer Price Index
CRR	Compulsory Reserve Ratio
CSCs	Citizen Saving Certificates
DRT	Debt Recovery Tribunal
ERDB	Eastern Rural Development Bank
FDI	Foreign Direct Investment
FIPA	Foreign Investment Prohibition Act
FWRDB	Far-Western Rural Development Bank
FY	Fiscal Year
GDP	Gross Domestic Product
GHC	Grievance Hearing Cell
HMG	His Majesty's Government
KYC	Know Your Customer
L/C	Letter of Credit
LMFF	Liquidity Monitoring and Forecasting Framework
M1	Narrow Money
M2	Broad Money
NBFI	Non-bank Financial Institution
NBL	Nepal Bank Limited
NDA	Net Domestic Assets
NEPSE	Nepal Stock Exchange
NFA	Net Foreign Assets

NIA	Negotiable Instrument Act
NIDC	Nepal Industrial Development Corporation
NLSS	Nepal Living Standards Survey
NMF	National Microfinance Fund
NMFP	National Microfinance Policy
NNML	Net Non-monetary Liabilities
NOC	Nepal Oil Corporation
NPA	Non-performing Assets
NPC	National Planning Commission
NPL	Non-performing Loan
NRB	Nepal Rastra Bank
NSCs	National Saving Certificates
OMOs	Open Market Operations
RBB	Rastriya Banijya Bank
RDB	Rural Development Banks
REER	Real Effective Exchange Rate
RETs	Renewable Energy Technologies
RM	Reserve Money
RMDC	Rural Microfinance Development Centre
RNAC	Royal Nepal Airline Corporation
RSRF	Rural Self-Reliance Fund
RWA	Risk Weighted Assets
SLF	Standing Liquidity Facility
STI	Second-tier Institution
VAT	Value Added Tax
VRS	Voluntary Retirement Scheme
WRDB	Western Rural Development Bank
WTO	World Trade Organization

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for
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Brief Review of Economic and Monetary Situation

1. Fiscal Year (FY) 2005/06 is the fourth year of the Tenth Five Year Plan (2002/03–2006/07). The targeted average economic growth rate in the Tenth Plan is between normal 4.3 percent to expected 6.2 percent. Gross Domestic Product (GDP) at producers' price increased on average by 3.1 percent during the first three years of the Tenth Plan. The average GDP growth rate at factor cost remained at 2.7 percent during this period. To achieve the minimum targeted economic growth of the Tenth Plan; the GDP at producers price should increase by 6.0 percent on average in the remaining two years. Likewise, to attain the expected target of economic growth in the remaining two years of the Tenth Plan, the GDP should grow by two digits (10.8 percent) on average.

2. The economic growth in FY 2004/05 remained not only below the targeted growth in the Tenth Plan, the growth rate of GDP rather decelerated compared to that of previous years. The decline in agriculture production due mainly to unfavorable weather conditions and significant slowdown in non-agriculture production caused such a deceleration in the overall growth rate. For example, the growth rate of non-agriculture sector declined from 3.5 percent in FY 2002/03 to 2.9 percent in FY 2003/04 and further down to 1.6 percent in FY 2004/05.

3. Among the various factors, the existing difficult law and order situation has been the principle cause of lower economic growth in the country. The difficult security situation has adversely affected the capital spending of His Majesty's Government (HMG). Consequently, the value added of the construction sub sector, which had increased marginally in the last few years, registered a negative growth of 2.4 percent in FY 2004/05.

4. The exports of goods and services remained unsatisfactory due to internal as well as external factors. Merchandise exports increased marginally in FY 2004/05. The rate of growth of merchandise exports remained lower due to a significant decline in export to the third countries. Among the major goods exported to the third countries, the export of woolen carpet decreased marginally by 0.3 percent in the first eleven months of FY 2004/05 while the export of readymade garments declined substantially.

5. Likewise, the situation of tourism sector has not remained satisfactory either. FY 2004/05 witnessed a significant decline in the net foreign exchange inflows generated by tourism and services sector. Despite the gloomy situation in export

of goods and services, remittance inflows have emerged as a backbone of the Nepali economy. In the current difficult situation facing the country, remittance earnings have been playing a pivotal role in maintaining the external and internal stability of the economy.

6. Therefore, it is pertinent to improve the exports of goods and services so as to achieve a sustainable development of external sector. However, the significant decline in merchandise imports in FY 2004/05 particularly the import of raw materials and intermediate goods necessary for exportable goods is also a cause of concern. This does not bode well for the Nepali exports in the near future.

7. Nepal obtained the membership of World Trade Organization (WTO) on April 23, 2004. It was a right step for a small and open economy like Nepal to get itself integrated with the global community through the membership of WTO. However, the abolition of quota system for garment export since January 1, 2005 under the provision of WTO has adversely affected Nepal's export of readymade garments. In addition, for an open economy like Nepal to be strong, the production and exports of goods and services should be competitive. The sustainable way of making export of goods and services more competitive is undoubtedly to increase their productivity. The crucial element, which help increase productivity of goods and services on a sustainable way are structural reform, legal reform, institutional reform, reform in the process of production and distribution, technological advancement and infrastructural development.

8. Monetary policy in itself cannot directly influence export and productivity of goods and services. Nevertheless, the monetary policy can, to some extent, help improve the competitiveness of exports of domestic goods and services in the short run. In the light of this, Nepal Rastra Bank (NRB) through the annual monetary policy statement has been making provision of refinance facility to the exporters both in domestic and foreign currencies and refinancing the sick industries at the concessional interest rate. Likewise, another instrument of making domestic goods and services more competitive through monetary policy is to maintain real effective exchange rate (REER) at an appropriate level, for which it is necessary to maintain the monetary stability. In an attempt to achieve monetary stability, the focus on inflation (commodity prices) alone may, at times, jeopardize the external and financial sector stability. The countries, which suffered financial crises in 1990s, had maintained price stability. But in those economies, an adequate attention was not paid to misalignments in asset prices. If the prices of assets such as foreign exchange, real estate and shares deviate from their fundamental levels, it may result in both the external and financial sector crises. Therefore, such prices should be also at their realistic levels. Besides, it is important to develop a mechanism directed at influencing these prices through direct and indirect tools of monetary policy tools.

9. In an open economy like Nepal, the effects of external sector are directly transmitted to domestic industries and businesses. The situation of Nepali industries has not been satisfactory due to many reasons including the adverse external sector. The distress of the domestic industrial sector has a direct bearing

on banking and financial sector. Undoubtedly, the pursuance of liberal economic policy has resulted in the remarkable development of the financial sector in the last two decades. However, banking sector, a dominant component of the financial sector, has not witnessed a qualitative development to the desired extent. The financial health of some banks and financial institutions has been rather weak and financial discipline has not yet been completely restored. The financial intermediation has not been efficient and effective. As a result, the general people have not benefited from the financial sector to the desirable extent. In this context, following the placement of foreign management teams in Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB), the continuous deterioration of financial health of these banks has been reversed. In the process, these two banks have started earning operating profits. However, the situation has not yet returned to the normal hence, satisfactory level. Compliance of international prudential norms, effective regulation and supervision, corporate governance, financial sector legal reforms and financial transparency are taken as pillars of financial stability in the long run. Besides this, the loan recovery of some banks and financial institutions having government's involvement has been difficult and complex. To over come such a problem, an active cooperation and support of all the organs of the state is extremely important.

10. The major indicator of financial sector's efficiency is the level of financial intermediation cost. The difference between deposit rate and lending rate is generally taken as financial intermediation cost. Noneconomic factors have largely contributed to the persistent higher level of interest rate spread in Nepal. It is likely that persistence of higher level of interest spread may weaken the financial intermediation. In the light of this fact, the monetary policy instruments such as gradual phasing out of priority sector credit program, the cut in compulsory reserve ratio (CRR) and the bank rate, provision of concessional refinance facility and conduct of transparent open market operations (OMOs) have been initiated for the last couple of years. A system of allowing banks and financial institutions to determine interest rate freely has been put in place since the last two decades. The system of fixation of interest rate spread has also been already done away with. In this context, the only option available to the NRB in helping narrow down the interest rate spread is through the operation of various monetary policy instruments. The NRB is aware of the need to bring down the interest rate spread to the desired level. In this regard, the Bank will continue to take necessary measures in FY 2005/06. The Bank expects that operations of these measures will relieve the economy from the burden of higher interest rate spread.

11. The rate of inflation was low and stable during the past couple of years. Recently, a pressure on inflation is building up. Significant increase in oil prices in the international market, a rise in price of construction materials until some months ago and an upward revision in the rate of value added tax (VAT) are some of the contributing factors to the upsurge in prices in recent period. In this regard, monetary policy faces a daunting challenge of attaining monetary stability, necessary for achieving macroeconomic stability.

Monetary Policy Framework for FY 2005/06

Monetary Policy Stance

12. The economic and monetary situation of FY 2004/05, the prevailing situation in financial sector, necessity for a gradual relaxation in external sector and expected performance of domestic and external economies in FY 2005/06 are the bases for the formulation of monetary policy for FY 2005/06. Like in the past, the pegged exchange rate regime of Nepali Rupee vis-à-vis Indian Rupee is taken as a nominal anchor.

13. Transparency is one of the pillars of effective conduct of monetary policy. As per article 94 of the NRB Act, 2002, the NRB has been making monetary policy public at the beginning of fiscal year. The report includes the evaluation of the implementation of previous year's monetary policy and justification of policy measures for the current fiscal year. This report is the fourth of this kind. The annual monetary policy statements including its semi-annual evaluation are published with a view of ensuring the transparent implementation of monetary policy. Both of these reports include implementation situation of monetary policy, measures undertaken with respect to foreign exchange reserve management, reforms in external sector; and the status of the regulation, inspection and supervision of the financial sector. This year's monetary policy stance is thus a reflection of the situation of these sectors and the stated objectives of monetary policy.

14. As the objectives of monetary policy of Nepal are multiple rather than single, the determination of the stance of monetary policy for FY 2005/06 is a daunting task. In the past, there was no pressure on the general level of prices and the inflation was in check. Hence, the formulation of the monetary policy was rather easy. But the rise in prices in Nepal owing to the global increase in prices of petroleum products, an increase in the price of gas after HMG allowed the sale and distribution of liquefied petroleum gas to the private sector and the rise in VAT to 13 percent from 10 percent have all generated a pressure on the general level of prices. This development calls for a tighter monetary policy stance so as to contain inflationary expectations. As the current pressure on general price level is not the result of pressure from demand side; rather, it is because of the pressure on supply side, a tighter monetary stance may adversely affect the national output.

15. External sector stability is also vulnerable. The export of Nepali goods and services has not been satisfactory due to protracted internal conflict, sluggish improvement in infrastructures and the abolition of quota system of Nepali garments under the provision of WTO. In the context of the likely danger in the stability of the external sector, monetary policy is required to play a promotional role. Although the import compression has neutralized the negative impact of the slowdown in export on balance of payments (BOP), the declining trend in the import of industrial raw materials as well as capital and intermediate goods does not augur well for export in the near future. However, this problem cannot be

overcome through monetary policy alone. To solve this problem, fiscal policy and exchange rate policy are also equally important. Monetary policy can only play a supportive role in reducing the cost of production and simplification of export procedures.

16. GDP at producers' prices is estimated to grow by 2.5 percent in FY 2004/05 compared to 3.4 percent in FY 2003/04. It clearly shows a slackness in economic activities. The economic growth rate in FY 2005/06 is not out of risk due to internal conflict, slowdown in world production, increasing prices of petroleum products, increment in the existing rate of VAT, and increase in the rate of interest in the international money market. These developments would call for a flexible stance of monetary policy.

17. In this context, for the past couple of years, the NRB had been pursuing an accommodative stance of monetary policy. During this period, policy arrangements were made to help augment the availability of credit in the economy by way of reducing CRR, lowering down of the bank rate and the refinance rates, and reducing the cost of credit through adequate provision of refinance facility for sick industries and exports. The NRB has achieved some success in this regard. In the process, the lending rates of commercial banks have decreased, albeit not sufficient as compared to the past. The credit off-take to the private sector has picked up. The excess liquidity with the commercial banks has declined. As a consequence, the profit of the banks has increased. The possible risk to economic growth also requires the continuation of the current soft monetary policy stance.

18. Nepal is experiencing a steadily growing trade concentration with India in the past few years. The share of Nepal's total trade with India increased to 65.0 percent in FY 2004/05 from 54.7 percent in FY 2002/03. In the past, Nepal used to pay for the imports of petroleum product in US dollars. In the last few years, such payments are made through the Indian currency. Likewise, the remittance earnings of overseas Nepali workers were repatriated through Hundi in Indian currency, but it is now taking place in convertible foreign currency due to policy changes and concerted institutional efforts. All these factors have jointly put a pressure on the reserves of Indian currency. In order to manage the reserves of Indian currency and at the same time to enhance the competitiveness of Nepali industries, the number of goods to be imported from India against the payment of US dollars will be increased (Appendix 5). This on the one hand, will ease the pressure on the Indian currency reserve, while, on the other, it will also reduce the import cost of industrial raw materials.

19. Higher level of aggregate demand (AD) emanating from high economic growth in India explains the relatively higher level of the interest rate in India compared to that in Nepal. It is natural that interest rates differ due to the divergent performance of these two economics. However, it would not be desirable to keep high interest differential for a long time for the open economy like Nepal (although at present there is no high interest rate differential between Nepal and India). This situation makes Indian currency reserves management more

complicated. Viewed from these contexts, it is difficult to follow a soft interest rate policy as before. This situation obviously warrants a tighter monetary policy stance.

20. As explained above, there is clearly a trade-off between monetary policy goals for FY 2005/06. While the present situation of sluggish economic activities and some problems faced by the financial sector call for a softer monetary policy stance, prevailing situation of the pressure on prices and weak external sector on the other hand, warrant a tighter monetary policy stance. Therefore, in the context of existing paradoxical situation, a cautious monetary policy stance has been followed to strike a balance between the conflicting policy goals.

Objectives of Monetary Policy for FY 2005/06

21. The primary objective of monetary policy for FY 2005/06 is to maintain price stability. Notwithstanding the pressure on prices resulting from the increase in oil prices and supply constraint, inflation is implicitly targeted at around five percent. This rate of inflation will not adversely affect the economic decisions and also does not seem to bring any disturbances to the normal functioning of the economy.

22. The second priority of monetary policy for FY 2005/06 is to maintain a reasonable level of surplus in the BOP. The BOP surplus is projected at Rs. 4.5 billion for FY 2005/06. This level of surplus of BOP will help maintain the foreign exchange reserve at the comfortable level.

23. In the context of projected Indian inflation at 5.0 to 5.5 percent, the projected Nepali inflation at five percent will not make the REER of Nepali rupee overvalued. Likewise, in view of the interest rate differential in Nepal and India, which carries the potential to create pressure on Nepal's external sector, the current monetary policy stance is aimed at hardening deposit rates. The objective of this policy is also to help lessen pressure on prices.

24. The slackness in economic activities has continued to persist. Against this backdrop, the objective of monetary and credit policy is also to facilitate the economic activities without exerting any unfavourable impact on primary objective. In the light of this, monetary policy aims to facilitate the economic growth of 4.0-4.5 percent in FY 2005/06 by channelising most of the incremental credit to the private sector with only a small portion (10.6 percent) to the government.

25. The role of monetary policy supportive to a high and sustainable economic growth is through the promotion of the private sector. The strong and efficient financial sector development is a pre-condition to the development of private sector. Taking this fact into consideration, the financial sector stability and it's consolidation have remained the objectives of monetary policy over the past few years. Monetary policy for FY 2005/06 is also directed at maintaining the financial sector stability. To achieve this objective, the existing refinance facility and open market operations will be effectively pursued.

Intermediate Targets of Monetary Policy/Projection of Monetary Aggregates

26. The pegged exchange rate regime continues to remain as the strategic pillar of monetary policy. With a view to avoid the overvaluation and unnecessary undervaluation of the Nepali rupee in real term, monetary policy for FY 2004/05 has taken price control under its functional domain. Inflation targeting, as an alternative monetary policy strategy, is not a viable and feasible option in the present context of more or less unchanged structure of Nepali economy, existing macro economic policies and fragile financial sector. Therefore, the pegged exchange rate regime has been maintained as a strategy of monetary policy.

27. Implicit targets are set for monetary aggregates in consistence with the framework of current pegged exchange rate regime. Of the monetary aggregates, broad money (M_2) is projected to increase by 13.0 percent for FY 2005/06 compared to an increase of 12.0 percent in FY 2004/05 (Appendix 4). Despite higher economic growth rate targeted relative to the previous year level, the growth rate of M_2 is targeted at the rate which is slightly above its previous year growth rate so as to avoid the pressure on price level. In FY 2005/06, the growth of narrow money (M_1) is projected at 12.0 percent compared to the 11.2 percent growth in FY 2004/05.

28. Of the above two monetary aggregates, M_2 is chosen as an indicator of monetary policy. The M_2 is adopted as an indicator of monetary policy because the share of saving deposit in total deposit has remained high, reflecting a change in the deposit structure of commercial banks.

29. While analyzing from the demand side, monetary expansion is expected to be more influenced by money multiplier rather than by the quantum of reserve money (RM) in the current fiscal year. The growth of money multiplier is expected to increase due to the improvement in cash management of commercial banks by way of their lower excess reserves, and expected dynamism in the open market operations.

30. While analyzing from the sources side, monetary sector's net foreign assets (NFA after adjusting foreign exchange valuation) is projected to increase by Rs. 4.5 billion in FY 2005/06 compared to Rs. 6.0 billion in FY 2004/05. Slower export growth, lower level of foreign loan inflows and increase in imports are the bases for the lower level of projection of NFA than that of FY 2004/05.

31. The total domestic credit of monetary sector is projected to increase by 15.4 percent in FY 2005/06 compared to a rise of 14.2 percent in FY 2004/05. Of the total domestic credit, net claims on the government is projected to increase by Rs. 4.8 billion in FY 2005/06 compared to Rs. 3.5 billion in FY 2004/05. Based on the assumption that the capital expenditure of the government will not increase significantly, the monetary sector's claims on government is projected to increase marginally over the previous year.

32. The banks' credit to private sector is projected to rise by 18.0 percent in FY 2005/06 compared to an increase of 17.5 percent in FY 2004/05. Increased import credit as well as credit to private sector for infrastructure and consumption purposes provide the basis for the projected growth of claims on private sector in FY 2005/06.

33. The time deposits of commercial banks are expected to increase by 13.5 percent in FY 2005/06 compared to a growth of 12.5 percent in FY 2004/05. Based on the assumptions of marginal improvement in GDP growth, increased deposit mobilization of other banks and financial institutions, time deposits of commercial banks is projected to increase only marginally in FY 2005/06 compared to that of last year.

Operating Target and Operating Procedures of Monetary Policy

34. The choice of operating target is crucial for efficient monetary management. As the pegged exchange rate system has been taken as the nominal anchor of monetary policy in Nepal, interest rate does not stand as a feasible candidate for an operating target of monetary policy. The excess liquidity of commercial banks will continue to remain as operating target of monetary policy for FY 2005/06. As direct effect of the cost of monetary management is reflected on the balance sheet of the NRB, the excess liquidity of commercial banks is chosen as operating target of monetary policy.

35. The management of excess liquidity of commercial banks is considered to be an important operating procedure of monetary policy. First, it helps to achieve the monetary policy objective of maintaining monetary stability through the necessary adjustment in the availability of credit. Second, in turn, the change in credit availability can contribute to achieve the financial sector stability. Hence, the excess liquidity of commercial bank is taken as an operating target of monetary policy.

36. This year too, the liquidity monitoring and forecasting framework (LMFF) will be continued to monitor the excess liquidity of the banking system as an operating target of monetary policy. This framework, which has been in operation since last year, will be continued in the current year, for it has helped to maintain financial as well as monetary stability through the management of commercial banks' liquidity.

Adjustment and Reform in Monetary Policy Instruments

37. For the last few years, no single transaction has taken place at the bank rate. The interest rates on secondary market operation including short-term repo rates are market based. Therefore, this year too the bank rate will be continued to convey the ex-ante stance of monetary policy. Currently, as there is pressure on prices and there is a need for caution in maintaining the external sector stability, the existing bank rate of 5.5 percent is revised upward to 6.0 percent. With an objective of addressing the inflationary pressure, the bank rate has been marginally increased even in the face of slow-down in economic growth. In

Nepal, the process of determination of interest rates on deposits and lendings has been left to market forces since 1989. Under such a circumstance, with an objective of making a proper co-ordination between market interest rate and the bank rate, the bank rate will be determined at 0.5 percentage points over the repo rate, in case the repo rate gets higher than the bank rate. Pre-determined bank rate will be effective in case the repo rate is lower than the bank rate. If liquidity need of any commercial banks cannot be fulfilled through OMOs and standing liquidity facilities (SLF), the last resort liquidity facility will be provided to the commercial banks at the bank rate.

38. As there is an upward revision of the bank rate, refinance rates are also revised accordingly. In this context, refinance rate for export credit (domestic currency) and agricultural credit has been revised from existing 3.0 percent to 3.5 percent. The refinance rate for export credit in foreign currency was revised to 3.25 percent on May 31, 2005. This rate will be continued this year too. However, the refinance rate for sick industries has been kept unchanged at 1.5 percent. When commercial banks and development banks avail this facility, the maximum interest rate charged to borrowers will be retained at the existing rate of 4.5 percent.

39. Over the past few years, the Bank has steadily pursued the policy of gradually reducing the CRR. The objective has been to assist the process of increasing financial intermediation in the economy by way of lowering the cost of commercial banks' funds. But this year, due to the pressures on prices and external sector front, the policy of not reducing the CRR and maintaining at the current level of 5 percent has been continued. The procedure of calculating the CRR has already been revised to help assist the LMFF. However, should the situation in price and external sector eases and commercial banks also make efforts to reduce the interest rate spread between lending and deposit rates, CRR could be cut to some extent at the time of mid-term review of monetary policy.

40. Industrial and tourism sectors in Nepal are in distress due to uneasy internal security situation and external shocks. The provision of refinancing for sick industries was initiated to help these two sectors since FY 2001/02. In the past four years, such refinance facility amounting to Rs. 2.62 billion has been disbursed step by step to 127 hotels and 37 industries. In view of existing distress in industries and tourism sector, such sick industry refinance facility will be continued in FY 2005/06. For this year, sick industry refinancing facility has been increased to Rs. 2.0 billion. The provision of granting the refinance facility under the conditions determined by Sick Industries Revival Committee will remain unchanged this year. However, concerted efforts will be made to reform the procedure for fuller utilization of such facility.

41. In the monetary policy of FY 2004/05, a change was made in the implementation strategy of OMOs. In this context, a system of OMOs on the basis of auction was initiated by the Bank in pursuance of the objectives of monetary policy and as suggested by LMFF. According to this provision, open market instruments such as outright sale auction, outright purchase auction, repo auction and reverse repo

auction are put in operation. Main objectives of outright sale auction and outright purchase auction are to respectively absorb and inject liquidity of secular nature. Repo auction and reverse repo auctions are used to respectively inject and absorb the short term (1-7 days) liquidity. In the context of implementing such open market instruments in FY 2004/05, medium-term liquidity amounting to Rs. 10.50 billion was mopped up through sale auction and Rs. 1.31 billion was injected through purchase auction (Tables 7 and 8). Similarly, in FY 2004/05, short-term liquidity amounting to Rs. 6.68 billion was injected through repo auction and Rs. 5.27 billion was mopped up through reverse repo auction (Tables 9 and 10). In the light of their successful implementation last year, these open market instruments will be implemented in FY 2005/06 as well with a view to achieve monetary policy objectives. As in last year, the LMFF will continue to guide these operations.

42. Under OMOs, repo auction is used to inject short-term liquidity to the commercial banks and reverse repo auction used to withdraw short-term liquidity from the commercial banks. To ensure timely payment and also maintaining financial discipline, as per the international practice fully secured HMG's treasury bills is taken as collateral for the repo and reverse repo transactions. Currently, there is a provision of injecting and mopping liquidity to and from the commercial banks through repo and reverse repo respectively on the basis of price auction. Through repo and reverse repo transactions, only collateralized loans are provided and taken respectively by the NRB to and from the commercial banks. Actual purchase and sale of these securities do not take place. Therefore, for ensuring interest rate determination on the basis of liquidity, a system of repo and reverse repo auction will be initiated on the basis of yield (interest rate). For both transactions, the provision of taking HMG's treasury bills as full collateral will remain intact.

43. The system of OMOs has been changed with the intention of achieving the monetary policy objectives on the basis of LMFF. According to new provision, primary issue of HMG's securities will be undertaken every Monday and secondary market operation will generally be performed every Wednesday.

44. Currently, a paper certificate of certain standard is being issued at the time of issuance of treasury bills. Selling through auction of 28-day, 91-day, 182-day and 364-day treasury bills involves high paper and administrative work and cost. Most of the central banks have started to issue scripless securities based on book entry. Transaction through this process reduces costs and avoids the risk of loss and damage of certificate and also lowers administrative hassles. Necessary infrastructure will be developed to facilitate treasury bills transactions through such book entry system in FY 2005/06.

45. Currently, to achieve the objectives of monetary policy, secondary market operations of treasury bills such as sale auction, purchase auction, repo and reverse repo auctions are undertaken at the initiative of the NRB. To develop secondary market of treasury bills even outside the NRB, a system of buying and selling of these bills based on endorsement has been started since October 1,

2004. In case of primary issuance of scripless treasury bills, secondary market operation will be done on the basis of book entry ledger maintained at the NRB.

46. With an objective of making internal liquidity injection/absorption more effective in the process of implementing monetary policy, OMOs in domestic bills will be coordinated with foreign exchange intervention of the Bank. Such OMO will be intensified to modulate the effects of intervention on money supply.

47. Currently, treasury bills, development bonds, and national saving certificates (NSCs) and citizen saving certificates (CSCs) of the government are being issued targeting commercial banks, banks and financial institutions and general public (household) respectively as the intended clientele. Further, in the context of collecting tax, special bonds are being issued to reconcile the liabilities of HMG with the private sector. With a view to streamline the number of securities issued in mobilizing public debt, a system of issuing only treasury bills, development bonds and CSCs will be introduced. Moreover, the CSCs will be made eligible as collateral in obtaining loans from banks and financial institutions. HMG will be requested to issue temporary special bonds instead of currently being issued special bonds and to make prompt payment by shortening administrative processes. In case, the prompt payment becomes difficult, the temporary special bonds should be liquidated by issuing treasury bills, development bonds or national saving certificates.

48. According to the provision made in the monetary policy of FY 2004/05, the development bonds amounting to Rs. 3.0 billion was issued through auction. Such development bonds with 5.5 percent coupon rates and having a maturity period of five years were over subscribed and sold at premium in all auctions. Such bonds have already been listed in Nepal Stock Exchange (NEPSE) Limited for secondary market transactions. Taking the situation of money and capital market into account, in the current fiscal year too, as in the last year, some portion of domestic borrowing proposed in the budget will be issued through the auction of development bonds.

49. In Nepal, a system of issuing long-term debt instruments by agencies other than HMG has not yet evolved as a means of mobilizing capital to expand investment in the economy. On the other hand, investment opportunities for the general public with small savings are confined to the deposits in the commercial banks and financial institutions. There is a need for attracting financial institutions specialised in undertaking debt related mutual fund transactions. This is needed to ensure an alternative instrument for investment for small savers and also to develop a system of mobilizing resources through the issuance of long-term debt instruments.

50. The NRB undertakes OMOs to achieve monetary policy objective at its own initiative. With an objective of ensuring a smooth functioning of internal payment and settlement system in the face of liquidity crunch among commercial banks, the NRB has introduced SLF since the last fiscal year. This was a fully collateralized and automatic provision to provide liquidity for a period of 5 days.

At first, liquidity facility of up to 90 percent of the face value of government treasury bills and development bonds taken as collateral was made available to the commercial banks. With an objective of eliminating adverse effects on OMOs and inter-bank transactions and controlling the misutilization of SLF, the interest rate on such facility is determined by OMO committee adding certain percentage points on the latest auction average discount rate of 91-day treasury bills. This is the short-term liquidity facility provided to commercial banks. However, commercial banks having frequent liquidity problem seemed to use this facility excessively instead of exploring the alternative measures of resource mobilization. With a view to discourage the excessive reliance of commercial banks on SLF, the limit of such facility has been revised downward to 50 percent from existing 90 percent since December 22, 2004. During FY 2004/05, commercial banks utilized the SLF amounting to Rs. 49.3 billion. To avoid the misutilization of this facility, the time limit has been reduced to 3 days from 5 days, keeping the existing interest rate determination procedure and the limit of the facility (50 percent) unchanged. Though international tradition is to determine the limit of such facility on the basis of total capital fund, clearing balances, and deposits of commercial banks; due to the negative capital fund, unavailability of reliable data of clearing balances and deposits of some commercial banks, the basis (HMG's treasury bills, development bonds) of determining the limit of such automatic credit has been kept unchanged.

51. Necessary process will be initiated to start online system among the Public Debt Management Department, Banking Office of the NRB and its district level offices to make public debt and open market transactions prompt, simple and accessible.

52. So far, all the repayment of principal of HMG bonds is being carried out solely by the NRB. From this fiscal year on, market makers and commercial banks will also be making principal repayment of HMG's domestic debt instruments. Until the reimbursement of such amount from the government, the amount of repayment will be counted as CRR. An arrangement will be made for appropriate commission to commercial banks for making payment of interest on HMG bonds and pension to retired government employees.

Rural Credit

53. With an objective of increasing the availability of credit to the priority sectors as specified by HMG, this bank in the past had implemented the directed credit programs through the commercial banks. The directed credit programmes are not consistent with the financial sector liberalization policy. As directed credit programmes constrain the portfolio choice of commercial banks, hence their profitability, this bank has taken a policy of gradually phasing out and ultimately giving complete freedom to the commercial banks in regard to the composition and structure of their loan portfolio. However, the deprived sector lending programme will continue to remain for some more years to come. The micro-finance organizations operating in the country include five Rural Development Banks (RDBs) which came into existence under the initiation of the NRB and HMG; Rural Self Reliance Fund (RSRF) and Rural Micro Finance Development

Centre (RMDC) both of which provide wholesale credit to microfinance institutions; and other microfinance organizations operating in the private sector. As the modus operandi, scale of operation and the types of problems faced by the microfinance institutions are quite distinct from other financial institutions, it is strongly felt that the former need different kind of treatment. This calls for a separate, independent and comprehensive policy set. This exercise will be undertaken in the current fiscal year.

54. Rural sector is suffering from a huge magnitude of excess demand for credit. The services being provided by the existing institutions are inadequate and un-uniform. As mentioned in the Income and Expenditure Statement of HMG for FY 2005/06, in order to increase the access of institutional credit to the deprived group, the National Microfinance Policy (NMFP)-2005 will be formulated and implemented from the beginning of the current fiscal year. The policy will be implemented on a temporal basis of short term, medium term and long-term action plan.

55. With an objective of homogenizing the range and scope of services of various community based organizations (CBOs) operating in the sphere of micro saving and credit programmes and to bring all microfinance institutions and CBOs under a single legal framework, a Microfinance Act will be formulated and implemented by amalgamating all the scattered acts into a single one. In this regard, HMG has already expressed commitment to this in the recently published income and expenditure statement for FY 2005/06.

56. The experience gained so far suggest that there is no alternative to rural and microfinancing in intensifying and dispersing economic activities which is considered to be the most essential factor to boost up the economy and alleviate widespread poverty by means of generating income as well as the employment opportunities. In this regard, HMG has already announced to immediately come out with a "NMFP- 2005", which will be followed by the enactment of a separate 'Microfinance Act'. HMG's income and expenditure statement, 2005/06 also commits to set up a Second-tier Institution (STI) which will be responsible to issue and enforce prudential regulation, inspection and supervision for all the microfinancing institutions.

57. As mentioned in the budget speech for FY 2005/06, RSRF currently operating under the NRB management will be converted into an independent and autonomous "National Microfinance Fund (NMF)". After maturing of various microfinancing projects currently being handled by the NRB, all of the assets and liabilities of each matured individual projects will automatically be handed over to the RSRF.

58. The outreach of microfinancing, a powerful and effective tool for poverty reduction, will be extended to the door steps of the marginal and ultra poor with a view to enhance employment opportunities for the poor. For sustainable development and effective coordination of diverse range of microcredit sector, HMG has already stated to constitute a "High Level National Microcredit

Development Council". The NRB will make necessary efforts to set up the Council's secretariat at the Bank itself.

59. As mentioned in the FY 2005/06 budget speech, this Bank shall continue to restructure the RDBs. As a result of the past restructuring efforts, Eastern Rural Development Bank (ERDB) is under the process of its second phase of privatization, while others will be privatized after restoring them in profit. Similarly, after the implementation of second phase of privatization of Western Rural Development Bank (WRDB), the NRB has brought down its equity participation from 61 percent down to 10 percent. In the process of the NRB handing over its shares to group members and other microfinance institutions, the offer got over-subscribed and sold at attractive premium. As per the 2005/06 budget speech, the government has announced to off load its share from WRDB.

60. A three-member taskforce formed by High Level Coordination and Direction Committee will submit a report on reforming and suggesting alternative approaches for the management of a financially weak Far-Western Rural Development Bank (FWRDB).

61. With an objective of encouraging the investment in microfinance development banks, the provision will be made to increase the current ceiling on buying of shares from the existing 15 percent of paid up capital per person/organization to 25 percent. The public statement of income and expenditure for FY 2005/06, has made the provision to exempt the income tax on the interest income earned from the deposits amount of upto ten thousands rupees held in the rural microfinance institutions. As this step of HMG will be very helpful for the small depositors and microfinance institutions, the NRB has taken this endeavour very positively.

Financial Sector Reform Programmes

62. The main objectives of the financial sector reforms are to create a competitive banking and financial environment, developing a dynamic and a robust financial sector and ensure a secure and risk-free internal payments system. Moreover, developing financial sector to facilitate private sector led high growth trajectory by way of meeting the ever-growing credit needs of various socio-economic sectors also constitutes as an important policy goal of this Bank.

63. Nepal is gradually turning into a liberal and market friendly economy. In the context of obtaining the membership of the WTO, Nepal has committed to allow the operation of branches of foreign banks from 2010. In this context, so as to make the existing institutions capable of absorbing the external shocks, this Bank wants to strengthen the capacity of banks and financial institutions. To achieve these objectives, the NRB in FY 2005/06 is undertaking various financial sector reforms programmes.

64. The primary responsibility of this Bank is to maintain financial sector stability. Monetary Policy instruments and monetary easing alone do not guarantee financial sector stability. Therefore, this Bank will strive to improve the licensing policy of financial institutions, inspection and supervision based on basic

prudential Bank for International Settlement (BIS) principles, compliance of corporate good governance, legal reforms in the financial sector, liberalization and structural reforms to the international standards. The Bank considers that these components are the basic pillars of financial sector stability. In this context, steps will be initiated to draft the Banking Fraud Control Act (BFCA) so as to pre-empt possible frauds that could infect the financial sector.

65. With a view to develop the NRB into a modern central bank, capable in maintaining financial sector stability, the second phase of financial sector reform will focus on updating the information technology, supervisory capability and human resource management. Moreover, the accounting system of the NRB will be updated to comply with the requirements of international accounting standard and Nepal accounting standard.

66. The Bank will formulate and bring into implementation from this fiscal year a medium term strategic planning (2005/06-2009/10). This planning will include the road-map in attaining the objectives of the Bank as laid down by the NRB Act 2002; and the mission and vision as determined by the Bank. The proposed strategies, activities and its work-plan will also deal with the human and other resources that will be required to achieve the vision and mission statements.

67. There is no argument that the development of industrial and trade sector is a necessary condition for the overall economic development of the country. The development of industries and commerce requires increased production and productivity by means of investment friendly environment. At the same time, increased industrial and commercial productivity pre-supposes the existence of a healthy, capable and active role of banks and financial institutions. In this context, Nepali banks are experiencing growing complexities in credit recovery and payments settlement for the last few years. If non-performing loan (NPL) problem is not timely solved, there will be no prospect for getting expected results from the financial sector reform programme. There is also a danger of this HMG programme, which incurs a very huge cost, of not being beneficial to the extent of expectation. In this background, the Committee, constituted by the cabinet and, chaired by the vice chairperson of the National Planning Commission (NPC) has suggested to group all the defaulters into willful defaulters and nonwillful (circumstantial) defaulters and ascertain the conditions and reasons behind not repaying the loan. The Committee has also suggested short term and long-term measures. In this regard, appropriate directive relating to credit information and blacklist has already been issued and being implemented. The Income and Expenditure Statement for FY 2005/06 has expressed the commitment to implement the recommendations of the Committee.

68. Following the policy of financial sector liberalization in the past two decades or so, a large number of financial institutions have come into operation. Qualitative development of banking and financial services require appropriate management of their numerical growth. Merging of a bank and non-bank financial institution (NBFI) with another one, or a bank and NBFI acquiring others into itself, is a natural and an inevitable consequence of a soundly functioning financial system.

The Bank and Financial Institutions Ordinance (BFIO) and the Company Act contain the provision of merger and acquisition. Based on these, a finance company got successfully merged with a commercial bank recently. A few number of similar institutions are in the process of acquiring and merging within the provision of existing legal framework. The NRB strongly feels the need to streamline and simplify the existing process of merger and acquisition such that Nepal's banks and NBFIs get transformed into vibrant and resilient intermediaries by means of mergers and acquisition. In this direction, this bank will initiate the review of existing legal framework.

69. Similarly, to lower down the magnitude of non-performing assets (NPA), and to effect necessary reform in the debt recovery front, the bank will initiate steps on establishing Assets Management Corporation (AMC) and on strengthening the capacity of Debt Recovery Tribunal (DRT).

70. To redress and settle the grievances that result from the misunderstandings between banks, financial institutions and customers, a grievance-hearing cell (GHC) has already been constituted in the central office of this Bank under the chair of the Deputy Governor.

71. Notwithstanding less than satisfactory performance in recovering the non-performing loans, after the management contract of NBL and RBB, which capture a dominant part in the overall banking sector, the restructuring process of these banks has been improving. This process will be continued in the current fiscal year. In this context of providing such continuity, the participation of the bank employees and domestic experts will be expanded and measures will be adopted for minimizing the expenditures of management team.

72. In the context of promulgation of the BFIO 2005, the existing regulations and directions, which were separately issued for banks and financial institutions, have already been revised and integrated into a single directive. This has already come into implementation from the day one of FY 2005/06.

73. To minimize the risk involved in financial sector, risk management culture will be developed in the licensed institutions. Efforts to create a healthy, secure and capable financial system through corporate good governance will keep apace. To monitor such system by this Bank, the policy of implementing risk-based supervision will be pursued. To develop risk management system, private sector will be encouraged to establish credit rating agency. Budget Speech 2005/06 has assured the creation of legal infrastructure for this.

74. To enhance the reliability and credibility of various negotiable instruments such as cheque, draft, bill etc., Negotiable Instrument Act (NIA) needs to be refined and amended. In this context, this Bank will draft such amendment and submit to the HMG.

75. There is a need for promulgating a separate law with regard to anti-money laundering to control illegal transactions that may take place through the banking system. In the absence of such a law, the above-mentioned objective can be achieved to some extent by banks and financial institutions following the practice

of KYC (know your customer). For this reason, the bank will draft, finalize and issue KYC policy for the implementation of all the stakeholders within FY 2005/06.

76. A study will be conducted about the likely effects of the implementation of Basel II accord from 2007 on the commercial banks' capital structure. Based on the findings of this study, necessary adjustments will be made in their capital structure.

77. In the context of implementing International Convergence of Capital Measurement and Capital Standard (Basel II) ratified by Basel Committee on Banking Supervision (BCBS) in Nepal, an Accord Implementation Group (AIG) with the participation of commercial banks' representatives has already been formed. This group will prepare the draft on the modalities of the implementation of the accord in Nepal. This group is expected to submit the final draft of such regulation by the end of FY 2005/06. In this context, the proposed study will focus on the effects of implementation of Basel II Accord on the capital structure of Nepali commercial banks. Commercial banks' capital structure will be gradually made healthy and efficient on the basis of findings of the proposed study. All the financial institutions will be made aware of the context of implementing New Capital Accord Basel II. They will also be asked to initiate necessary homeworks.

78. The capital adequacy ratio (CAR) to be maintained by bank and financial institutions (BFIs) was set at 12 percent of their total risk weighted assets from FY 2003/04. But, taking into consideration the difficult situation of the country, such rate had been fixed at 11 percent for both FY 2003/04 and FY 2004/05. Now, taking into account the present capital fund position of BFIs, such ratio has been raised to 12 percent, with core capital requirement set at a minimum of 6 percent for FY 2005/06. From this provision, capital structure of banks and financial institutions is expected to be sound and robust. Accordingly, for FY 2005/06, the CAR to be maintained by the financial institutions belonging to 'D' category has been fixed at eight percent of risk-weighted assets (RWA), of which core capital should comprise a minimum of 4 percent.

79. With an objective of strengthening the supervisory capacity of NRB, the Inspection and Supervision By-Law, and On-site Inspection Manual both of which are in implementation since FY 2004/05, will be reviewed and updated. Moreover, off-site supervision manual will be drafted, finalised and brought into implementation. This is expected to enhance the efficiency of off-site supervisory role. In this context, as per the provision set out in the financial sector reform programme, the Bank has already initiated the process of hiring international supervision consultants.

80. In the context of large borrowers undertaking credit transactions with more than one BFIs (multiple banking), a detailed study will be undertaken which will assess the impacts of such credit concentration on the total loan outstanding of

such BFIs. Existing prudential regulations issued by this Bank will be amended appropriately based on the findings of the proposed study.

Foreign Exchange Sector Reform Programme

81. Nepal has adopted a policy of gradually opening up its external sector. Though there is capital account convertibility for non-resident investors as per the provisions contained in Industrial Policy 1992, and Foreign Investment and One-Window Policy 1992, it still remains closed for the residents. In the context of less than expected pace of development of the private sector and not a happy state of financial sector stability, and also taking into consideration the possibility of economic crisis originating from the external shocks on the weak Nepali economy, the policy of opening capital account gradually has been adopted in a cautious manner. The proposed foreign exchange sector reforms for FY 2005/06 are a reflection of such situation.

82. Currently, there is a provision of providing forex facility of up to US$ 1,000 to individual and institutions by commercial banks for settling petty international transactions for various purposes. In the context of small payment system being simplified and general public rejoicing its benefits, such limit has been revised upward to US$ 1,500 from the existing US$ 1,000. This measure is expected to further simplify this provision and impart convenience to the needy.

83. Currently, there is a provision of providing foreign exchange facility of up to US$ 5,000 once per family as settlement expenditure while migrating to developed countries like USA, Canada, Australia, New Zealand and UK. Users of such facility have been complaining on the inadequacy of this amount. For this reason, from FY 2005/06, a provision of providing US$ 5,000 for an individual and US$ 10,000 for a family has been made for Nepali citizen permanently migrating to these destinations.

84. The firms/institutions/companies having the source of foreign exchange earnings have been refrained from the requirements of taking permission from the NRB while making payments for the purpose of stall booking charge, registration fee, service charge in foreign currency while taking part in exhibition in the countries other than India to promote their business. They can use their foreign currency account held with commercial banks in Nepal. This measure is expected to promote tourism and export.

85. In the context of liberal policy framework, not to allow foreign currency account holders to grant permission to her/his family member to operate the account seems stringent. Therefore, effective from FY 2005/06, a provision has been made whereby the spouse and the parents of foreign exchange account holders will be allowed to operate his/her forex deposit account held with banks in Nepal after obtaining the prior permission from such account holders.

86. The provision of exporting goods and services based on bank guarantee under the Cash Against Document (CAD) mechanism is being simplified and relaxed over time. Currently, under this provision, the NRB can grant permission for exporting

goods amounting to US dollar 100,000 at a time with a bank guarantee of 5 percent of this amount. In the context of growing popularity of this provision among exporters, effective from 2005/06, the limit of US dollar 100,000 has been revised upward to US dollar 200,000. In addition, based on the collateral acceptable to the commercial banks, the banks can themselves make payment. However, in case of exporting the goods through bank guarantee, the existing provision of requiring the NRB's permission will remain in force.

87. If the third country exporter to Nepal fails to make the shipment of goods and wants to refund the advance payments made for import under Draft/TT facility, a provision has been made whereby the commercial banks can themselves cancel the cheque that they had issued in favour of the customs office. This provision is expected to relieve the business community from the burden of making unnecessary visits to the NRB for the very simple reason of canceling the cheques.

88. In a situation of receiving the document in excess of the amount than stated in import L/C denominated in convertible currency, a provision is made under which commercial banks can accept a document up to 2 percent of the L/C amount or US dollar 1,000 whichever is lower.

89. In case of failure to make use of cheque issued in favour of concerned customs office while releasing the document or sending advance payment under draft/T.T. or import L/C denominated in convertible currency, a provision has been made for extending the validity of such cheques by concerned commercial banks themselves under the condition that the concerned party apply to the bank within 90 days of the issuing of the cheque with sufficient supporting evidences.

90. Commercial banks are now free to swap the interest rate while hedging the interest rate of the loan borrowed by any party in foreign currency, for which the NRB will not bear any obligation, what-so-ever.

91. Under the existing provision, private importers of chemical fertilizer are required to deposit 10 percent of import value in commercial banks or they have to produce bank guarantee while releasing the document to import chemical fertilizer in Nepal. In order to provide additional incentive to private sector to import chemical fertilizer, and lower the cost to farmers, this margin is reduced from 10 percent to two percent.

92. International agencies located in Nepal that hold foreign currency deposit account with the Nepali commercial banks, if required to make payment in convertible currency in India, can make such payments by debiting their forex deposit accounts held at the Nepali commercial banks.

93. The existing provision allows the individuals to exchange foreign currency under passport facility only once in a fiscal year. The provision of restricting this facility to not more than once in a year in any circumstances (for medical treatment of his/her own and family members) has created difficulty to the needy people. As this provision is contradictory to the present liberal framework, only once in a fiscal year restriction on forex facility for passports has been terminated.

As per the existing provision, endorsement has to be made in the passport after providing the foreign exchange. This provision has been terminated effective from the current fiscal year. Recently passport is issued in Nepal for a validity of ten years period, there will not be enough space left in the passport. Furthermore, it may also make passport rough and untidy. Considering all these factors, and maintaining all other provisions in this regard intact, the forex facility endorsement in the passport gets terminated from today.

94. Currently, private sector industries, companies, and firms operating in Nepal are required to get approval from the NRB to borrow from abroad. In the present context, such provision on the one hand is creating encumbrance to the entrepreneurs while, on the other, it signals a wrong message to the outside world on Nepal's foreign exchange policy. Therefore, under the revised provision anybody who intends to borrow from abroad, for a period of one year and above, without pledging any domestic asset as collateral, instead of taking prior permission they will be required to just notify the NRB.

95. In order to make the Nepali entrepreneurship competitive in the international market, it is imperative that Nepali entrepreneurs be allowed to invest in foreign countries. This would, on the one hand, help attract foreign direct investment (FDI), and on the other, this would also bring modern technological know-how and managerial skills inside the country. In this direction, the NRB will request HMG either to repeal or amend the existing Foreign Investment Prohibition Act (FIPA), 1964.

96. Presently, the NRB is providing silver bullion to exporters of jewellery and utensils made from silver, by importing from overseas. Between 1987 to 2003, the NRB made available a total of 58.42 metric tons of silver valued at US dollar 9.7 million to the Nepali exporters of silver ornaments and utensils. This bank is holding 140 metric tonnes of silver in its stock, which does not yield any return. Looking at the trend of annual consumption of silver for the last 17 years at about 3.4 metric tonnes a year, silver stock with the Bank can accommodate the domestic demand for a period of next 40 years; whereas, the Bank has been annually importing silver against the payments of precious foreign exchange, which generates return. Domestic sale of silver at international market price will reduce the cost and hassles to the local jewellers. This will enhance the export competitiveness of Nepali ornaments and utensils made from silver. This will also relieve the NRB from the burden of holding dead asset like silver, while at the same time it will conserve foreign exchange which has a higher opportunity cost. Similarly, the bank also stands to gain from the unnecessary burden of inventory management and prospect of loss during its physical transfers within the vault. Furthermore, the investment of foreign exchange thus saved adds to the bank's profitability. Therefore, beginning from FY 2005/06, the Bank will sell silver to local exporters of ornaments and utensils from its own stock at the prevailing international market prices.

97. With a view to make Nepal's exports further competitive, there will be further addition in the number of industrial raw materials and intermediate as well as

capital goods that will be eligible for imports from India against the payments of US dollars.

Finally,

98. Overall economic and monetary developments of FY 2004/05, review of FY 2004/05 monetary policy, annual progress matrix of the policy parameters of monetary policy as outlined in FY 2004/05 monetary policy statement, and the statistical tables used in the preparation of this report are all attached in the annex of this report for public knowledge.

99. The analysis of the available economic information/data shows that although macroeconomic indictors are in right shape and size, they are not out of risk. Despite slower growth in AD, the economy experienced inflationary pressures due primarily to upward revision in the administered prices of petroleum products, and in the rate of VAT. The level of overall imports has gone down. As a manifestation of adverse non-economic factors, industries and enterprises are faring poorly. Thus, on the one hand, economic stability is facing vulnerability, while on the other, growth performance is at risk. This year's monetary policy is formulated to strike a balance between these contradictory and conflicting policy goals. We expect that implementation of this monetary policy will help to attain monetary stability which is essential in generating a favourable macroeconomic balance which, in-turn, is very essential for sustainable economic development. We in the Bank hope that financial sector reform programme will ensure financial stability through increasing competitiveness in the country's financial system. Similarly, reforms and simplification of procedures in the external sectors are expected to enhance country's international trade and attract foreign investment. I would like to extend my sincere thanks to HMG, donor agencies, banking and financial community, civil society and media for their support in the conduct of monetary policy in the past. I expect to receive similar support from all of you in the implementation of monetary policy in the days to come.

Thank you!

Appendix 1

Macroeconomic and Monetary Situation of FY 2004/05

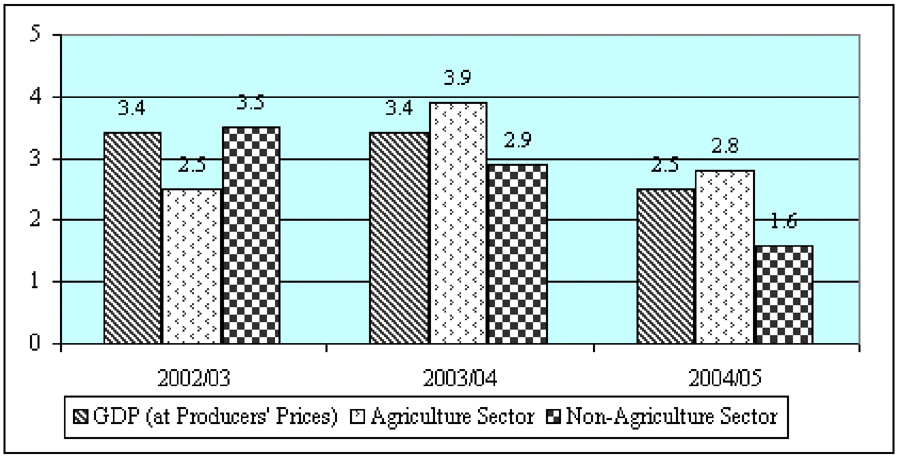
Overall Situation

1. In FY 2004/05, among macroeconomic fundamentals of the economy, GDP growth rate declined and some pressure was observed on the price front. Despite a surplus in overall BOP, performance of external sector of the economy was not encouraging. During the review period, the growth rate of export decelerated. Due to the heavy fall in exports of readymade garments, export to third countries declined sharply. Heavy decline in import of industrial raw material led to a decline in total imports. Despite an expansion in domestic credit, the growth rate of M_2 decelerated. Bank credit to private sector and non-financial government enterprises increased. As a consequence, excess liquidity of the commercial banks declined. Some signals of improvement in the interest rate structure were noticed. Budget deficit of the government declined significantly. The growth rate of resource mobilization was lower than that of the previous year. Despite a surge in the recurrent expenditure, the growth rate of the total government expenditure was slightly lower than that of the previous year.

Production

2. Performance of the Nepali economy was not satisfactory in FY 2004/05. The growth rate of GDP at producers' price decelerated to 2.5 percent in FY 2004/05 compared to a growth of 3.4 percent in FY 2003/04 (Table 1, Fig. 1). Agricultural production grew by 2.8 percent due to unfavorable weather condition while non-agricultural production rose by only 1.6 percent owing to weak performance of industrial and external sector. Negative growth of construction (2.4 percent); and trade, restaurant and hotel (3.0 percent) sub-sectors constituting 20 percent of GDP contributed to a slowdown in GDP growth.

Fig. 1: Economic Growth (percent)

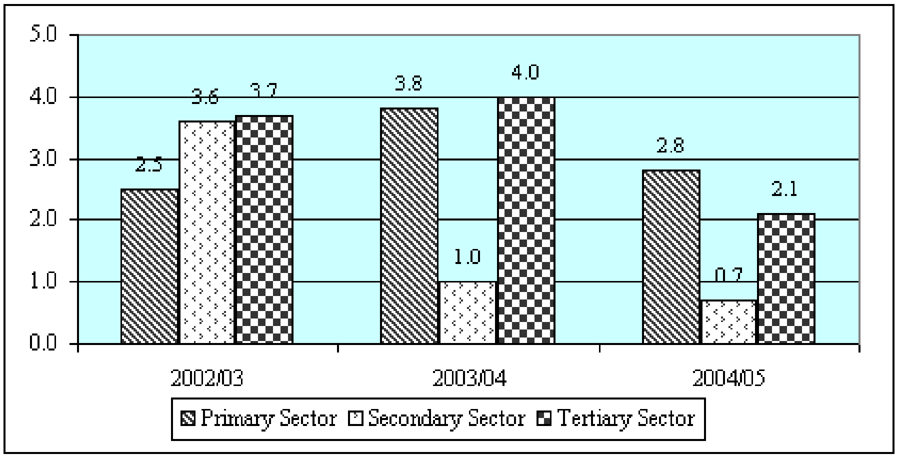


3. Analysing GDP by combining its nine groups into three broad sectors, the growth rate of primary sector, which constituted 39.8 percent of GDP, was 2.8 percent in FY 2004/05 compared to a growth of 3.8 percent in the previous year (Box 1, Fig. 1). Slowdown in agricultural production due to unfavorable weather condition led to a lower growth of primary sector compared to that of the previous year. Secondary sector, which constituted 21.6 percent of GDP, grew by 0.7 percent in FY 2004/05 compared to a growth of 1.0 percent in FY 2003/04. Negative growth in construction (2.4 percent), the main sub sector of the secondary sector, contributed to a lower growth in this sector. Tertiary sector, which constituted 38.6 percent of GDP, grew by 2.1 percent in FY 2004/05 compared to 4.0 percent in FY 2003/04. Negative growth in trade, restaurant and hotel (3.0 percent) sub sector led to a deceleration in the growth rate of this sector.

Box 1: Share and Growth Rate of Major Sectors of GDP (percent)

	Share in GDP	Growth Rates		
	(FY 2004/05)	FY 2002/03	FY 2003/04	FY 2004/05
Primary Sector	39.8	2.5	3.8	2.8
Secondary Sector	21.6	3.6	1.0	0.7
Tertiary Sector	38.6	3.7	4.0	2.1

Fig. 2: Growth Rate of Major Sectors of GDP (percent)



4. Growth rate of AD for domestic goods and services decelerated in FY 2004/05. Domestic demand increased by 5.8 percent in FY 2004/05 compared to a growth of 9.3 percent in FY 2003/04. External demand for Nepali goods and services increased by 3.7 percent in FY 2004/05 compared to a rise of 14.2 percent in FY 2003/04. Of the total domestic demand, the rate of expansion of government demand declined significantly. Capital expenditure could not increase to an expected level due to uneasy security situation of the country. Similarly, private sector demand remained subdued due to weakening business confidence resulting from internal and external shocks. Slowdown in tourism activities and sharp decline in export of readymade garments due to a complete phase out of quota system in the export of readymade garments as per WTO provision led to the compression of external demand for Nepali goods and services.

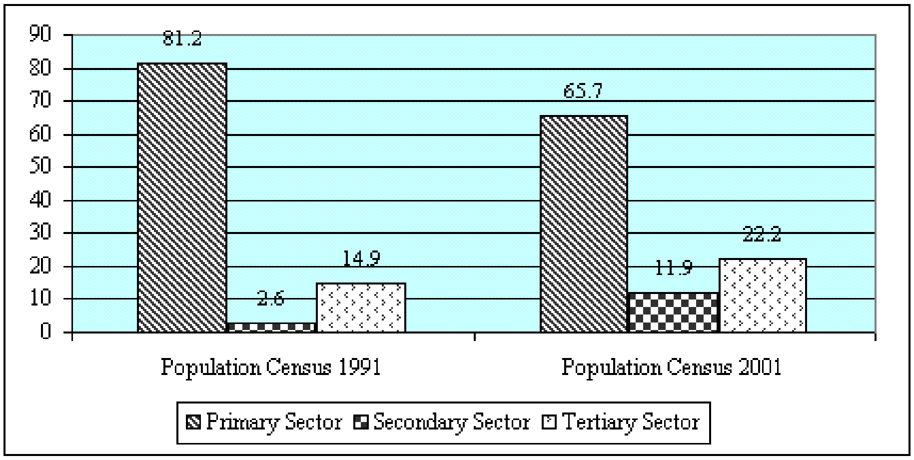
5. Demographic structure of the country has also undergone some changes in recent years. According to population census of 1991, the ratio of urban population to total population was 9.2 percent while it increased to 14.2 percent in population census of 2001. The ratio of urban to total population is continuing to increase due to difficult security situation prevailing in the country. Similarly, the ratio of dependent population is on the declining trend. There has also been a change in sectoral distribution of economically active population. According to population census of 1991, the ratio of economically active population engaged in primary sector was 81.2 percent while it declined to 65.7 percent in 2001 (Box 2, Fig. 3). The ratio of economically active population engaged in secondary sector increased by 4.6 folds to 11.9 percent in 2001 from 2.6 percent in 1991. Similarly, the ratio of population engaged in tertiary sector increased by 4.5 folds to 22.2 percent in 2001 from 4.9 percent in 1991. Nepal Living Standards Survey (NLSS) conducted in FY 2003/04 has also justified the change in demographic structure of the country. The change in demographic structure has implication for the formulation of economic and monetary policies.

Box 2: Sectoral Distribution of Economically Active Population (percent)

	Population Census 1991*	Population Census 2001**
Primary Sector	81.2	65.7
Secondary Sector	2.6	11.9
Tertiary Sector	14.9	22.2

* Unspecified (1.3 percent).
** Unspecified (0.2 percent).

Fig. 3: Sectoral Distribution of Economically Active Population (percent)



Inflation

6. During the first eleven months of FY 2004/05, point-to-point inflation based on national consumer price index (CPI) remained at 6.2 percent compared to 1.8 percent in the corresponding period of the previous year (Table 3). Sharp increase in oil prices in international market and an increase in VAT rate from 10.0 percent to 13.0 percent exerted pressure on prices in this period.

7. During the first eleven months of FY 2004/05, price index (on a point-to-point basis) of food and beverage group increased at a higher pace of 5.3 percent compared to a rise of 1.6 percent in the preceding year (Table 3). Such a higher increase in the price of this group in comparison to that of the previous year is attributed to the higher increase in prices of its sub-groups such as rice, sugar and related products; restaurant meals; meat, fish and eggs; and grains and cereal products.

8. Increase in the prices of fuel; and transport and communication sub-groups led to a higher increase (7.0 percent) in the price index of non-food group compared to a rise of 2.1 percent in the previous year.

9. NEPSE index increased by 64.63 point (29.1 percent) to 286.67 at mid-July 2005 from 222.04 at mid-July 2004. Due to the increase in the number of listed

companies from 114 to 125, paid up capital increased by 39.6 percent (Rs. 4.76 billion) to Rs. 16.77 billion in the review period. The market capitalization of listed companies rose by 48.1 percent (Rs. 19.94 billion) to Rs. 61.37 billion at mid-July 2005 from the level of mid-July 2004.

External Sector

10. Performance of the external sector of the economy remained less than satisfactory in FY 2004/05. Despite a surplus of Rs. 7.65 billion in overall BOP in the first eleven months of FY 2004/05, some signals indicating the weakening situation of this sector has begun to surface.

11. Total merchandise trade flows declined by 0.6 percent (Table 19) in the first eleven months of FY 2004/05 as against an increase by 8.2 percent in the corresponding period of the pervious year. As a consequence, the share of trade in GDP has declined compared to that of the pervious years. During the first eleven months, trade with India increased by 14.9 percent while with other countries declined by 21.1 percent. As a result, the share of India in total trade reached 65.8 percent. Due to a negative growth in total import, which has a larger volume compared to export, total trade growth remained negative in FY 2004/05.

12. Total merchandise export, which constituted 30.9 percent in total merchandise trade, increased by 6.4 percent[1] during the first eleven months of FY 2004/05 compared to a rise of 7.9 percent in the corresponding period in FY 2003/04 (Table 19). Of the total, export to India increased significantly by 26.8 percent compared to a growth of 15.7 percent in the previous year. However, exports to other countries declined sharply by 20.7 percent compared to a decline of 0.9 percent in the previous year.

13. Total merchandise import, which constituted 69.1 percent in total merchandise trade, declined by 3.4 percent[2] in the first eleven months of FY 2004/05 as against an increase by 8.3 percent in the corresponding period of the previous year (Table 19, Fig. 4). Import from India, which constituted 64.9 percent in total merchandise import, increased by 10.0 percent during the first eleven months of FY 2004/05. Import from India had increased by 8.2 percent in the same period in FY 2003/04. Import from other countries, which constituted 35.1 percent in total import, declined heavily by 21.3 percent during the first eleven months of FY 2004/05. Import from other countries had increased by 8.5 percent during the first eleven months of FY 2003/04. Slow down in the import of industrial raw materials, intermediate goods and machineries led to a decline in import from third countries in FY 2004/05.

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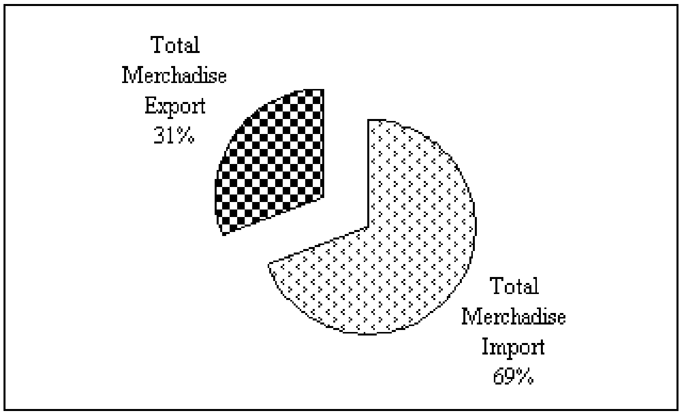
1 In terms of US dollar, total exports increased by 8.7 percent during the first eleven months of FY 2004/05 compared to a rise of 14.1 percent in the previous year.

2 In terms of US dollar, total imports declined by1.4 percent during the first eleven months of FY 2004/05 as against an increase of 14.5 percent in the previous year.

Fig. 4: Share of Export and Import in Total Trade (Percent)



14. Based on BOP statistics, foreign exchange receipts from tourism declined sharply by 33.0 percent during the first ten months of FY 2004/05 (Table 20), as against an increase of 53.3 percent in the same period of the previous year. Decline in tourist arrival due to the negative publicity in foreign media about Nepal's current state of security situation led to a sharp decline in foreign exchange receipts from tourism in FY 2004/05.

15. During the first ten months of FY 2004/05, workers' remittance increased by 7.9 percent compared to a rise of 3.0 percent in the same period of the previous year (Table 20). The trend of Nepali people going abroad for employment slowed down during the first half of FY 2004/05 due to violent demonstration in Kathmandu and destruction of offices of manpower companies after the brutal murder of 12 Nepalis in Iraq; and postponement of issuing visa to Nepali workers for some time by Malaysia to provide job opportunities to tsunami affected people of Indonesia. However, Nepali people going abroad for work are exhibiting an increasing trend after the first half of FY 2004/05 and the workers' remittances resumed to its increasing tendency.

16. Overall BOP remained favorable in FY 2004/05 due mainly to a decline in imports and an increase in inflow of remittances. Due to a surplus in BOP, foreign exchange reserve of the banking sector increased by 6.2 percent to Rs. 133.97 billion as at mid-June 2005 (Table 22). Of the total reserves, the share of convertible currencies was 95.0 percent and that of inconvertible currency was 5.0 percent. An increase in the share of import from India in total trade, import of petroleum products on payment of US dollars and the decline in remittance inflow from India due to an increasing tendency of Nepali working in India to take along their family members have put pressure on Indian currency reserve.

17. Despite pressure observed in Indian currency reserve, total foreign exchange reserve was sufficient to finance 12.5 months' equivalent of goods imports and 10.5 months' equivalent of goods and services imports.

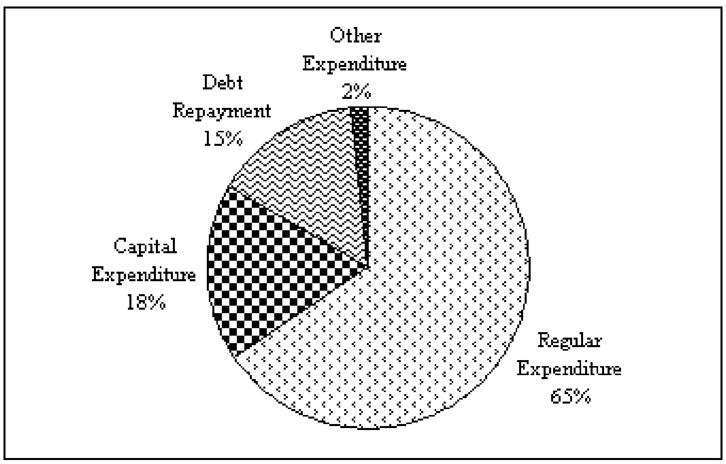
18. Nepali rupee (buying rate) appreciated by 5.4 percent vis-à-vis US dollar between mid-July 2004 to mid-July 2005 compared to the 0.8 percent appreciation in the previous year.

Government Finance

19. The budget deficit of HMG, on cash basis, declined by 12.9 percent to Rs. 11.2 billion (Table 17) in FY 2004/05 than a level of Rs. 12.62 billion in the same period of the previous year. Decline in budget deficit of HMG is a manifestation of the lower growth in expenditure relative to resource mobilization in FY 2004/05.

20. Government expenditure, on cash basis, increased by 7.3 percent in FY 2004/05. Government expenditure had increased by 11.1 percent in the same period of the previous year. Of the total expenditure of Rs. 87.08 billion, the shares of regular expenditure, capital expenditure, debt repayment and other expenditure were respectively 65.3 percent, 17.6 percent, 15.5 percent, and 1.6 percent (Fig. 5).

Fig. 5: Composition of Government Expenditure (percent)



21. Non-debt resource mobilization of government increased by 11.0 percent in FY 2004/05 compared to an increase of 13.3 percent during the same period last year.

22. Revenue mobilization of government increased by 12.1 percent in FY 2004/05. An increase in VAT rate from 10.0 percent to 13.0 percent and reform in revenue administration contributed to a higher growth in revenue mobilization compared to that of the previous year. Foreign cash grant, another source of resource, also increased by 1.9 percent in FY 2004/05. Foreign cash grant had increased by 106.2 percent in the same period of the previous year.

23. HMG resorted to overdraft borrowing of Rs. 104.7 million in FY 2004/05. HMG had maintained cash balance of Rs. 753.0 million in FY 2003/04.

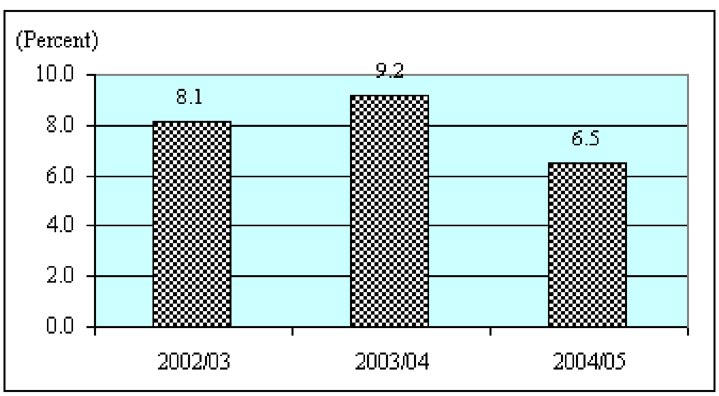
Money Supply

24. During the first eleven months of FY 2004/05, M_2 expanded by 6.5 percent (Table 5, Fig. 6). M_2 had increased by 9.2 percent in the same period of the previous year. Relatively lower growth of NFA accounted for a slower growth of M_2 in FY 2004/05 compared to that of FY 2003/04.

25. NFA (adjusting the foreign exchange valuation) of the banking system, an expansionary factor of money supply, increased by 7.0 percent (Rs. 7.65 billion) during the first eleven months of FY 2004/05, compared to a much higher growth of 14.5 percent in the same period of the previous year. Slowdown in foreign loans led to a lower growth in NFA in the review period compared to that of the previous year.

26. Domestic credit of the banking sector increased by 9.7 percent in the first eleven months of FY 2004/05. Domestic credit had increased by 6.6 percent in the same period of the previous year. Among the components of domestic credit, the rate of decline of credit flow to government slowed down in FY 2004/05. Credit to private sector increased by 14.8 percent in FY 2004/05 compared to a rise of 12.6 percent in FY 2003/04. Credit expansion in infrastructure such as hydroelectricity, school and hospital; and consumer financing by private sector banks contributed to an increase in bank credit to private sector. Similarly, expansion of credit to non-financial enterprises such as Nepal Oil Corporation (NOC), Royal Nepal Airline Corporation (RNAC) and National Trading Ltd. by the commercial banks contributed to a higher expansion of domestic credit in FY 2004/05.

Fig. 6: Growth Rate of Broad Money (First Eleven Months)



27. Net non-monetary liability (NNML) (adjusting the foreign exchange valuation), a contractionary factor of money supply, increased by 16.9 percent during the first eleven months of FY 2004/05. NNML had increased by 7.8 percent in FY 2003/04. An increase in paid-up capital of some commercial banks, a rise in loan loss provisioning and an improvement in profit of commercial banks contributed to a higher growth in NNML in FY 2004/05.

28. During the first eleven months of FY 2004/05, time deposit with commercial banks increased by 7.1 percent. Time deposit in commercial banks had increased by 11.1 percent in FY 2003/04. Slower GDP growth contributed to a deceleration in time deposit growth to some extent in FY 2004/05.

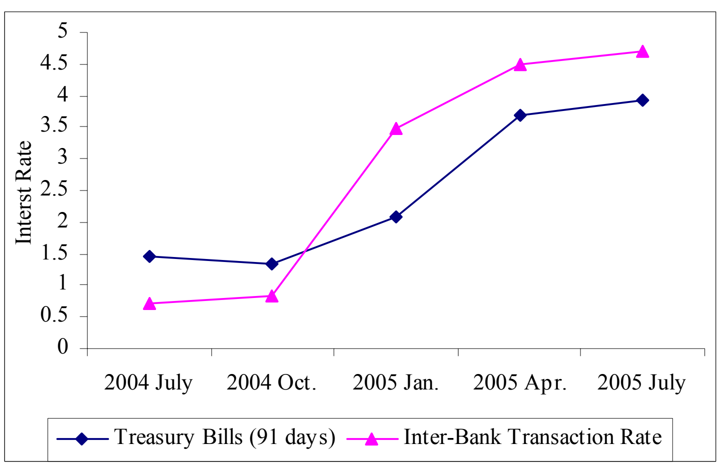
29. Of the two proximate determinants of money supply, the value of money multiplier increased while RM decreased by 5.6 percent during the first eleven months of FY 2004/05. RM had increased by 10.2 percent in FY 2003/04. A decline in growth rate of NFA (adjusting the foreign exchange valuation) of NRB and a continuing negative growth in net domestic assets (NDA) led to a decrease in RM.

30. Reduction in CRR; and the provision of collateral based transparent and automatically available SLF led to a rise in credit off-take, resulting in a lower level of the excess liquidity of commercial banks, which in turn, contributed to an increase in the value of money multiplier.

Interest Rate

31. Some changes were observed in interest rate structure towards the second-half of FY 2004/05 (Table 13). Interest rate on Treasury Bills issued on the basis of auction increased. Similarly, inter-bank transaction rate was also on the rise. Interest rate on deposit declined to some extent. Though, some banks reduced lending rate, the overall spread rate remained at a higher level. To avoid the possible risk of financial disintermediation, commercial banks were also requested to lower down interest rate spread in mid-term review of monetary policy, 2004/05 (point no. 30). As commercial banks did not lower the spread as per the spirit of mid-term review of monetary policy, NRB applied moral suasion on May 5, 2005. After this moral suasion, some commercial banks increased the rate of interest on deposit. NRB has taken this very positively.

Fig. 7: 91 Days Treasury Bills Rate and Inter-bank Transaction Rate (percent)



Appendix 2

Review of Monetary Policy of FY 2004/05

1. The mid-term review of monetary policy of FY 2004/05 was made public on February 16, 2005. Likewise, this report includes the annual progress matrix of policy provisions as stated in FY 2004/05 monetary policy in Appendix 3. Therefore, only a brief review of monetary policy of FY 2004/05 is presented in this appendix.

Status of the Economic Objectives of Monetary Policy

2. Monetary policy of FY 2004/05 was directed at achieving economic growth of 4.5 percent through the adequate provision of liquidity. Despite the adequate provision of credit for private sector investment by cutting CRR by hundred basis points, allocating Rs. 1 billion for refinancing the sick industries together with OMO of purchase and repo auction and providing SLF, the targeted economic growth could not be achieved in FY 2004/5. The construction sub-sector of GDP witnessed a negative growth of 2.4 percent basically due to the unanticipated low growth of government capital expenditure. Uneasy security conditions prevailing in the country together with the expiry of quota system for readymade garments under the provisions of WTO, and a negative growth of trade and tourism sub-sector resulted in the 1.6 percent growth in non-agriculture sector as against the target of 4.6 percent. Similarly, unfavorable weather caused agriculture production to grow only by 2.8 percent instead of targeted 3.7 percent. Consequently, the economic growth rate in terms of GDP in FY 2004/05 at producers' prices remained significantly below (2.5 percent) than that of targeted 4.5 percent.
3. The monetary policy of FY 2004/05 aimed at containing CPI based annual average inflation at 4.0 percent. However, some pressure in price level was observed due to a substantial hike in the price of petroleum products as well as an increase in VAT rate from 10 percent to 13 percent. Slackening AD along with the decelerating M_2 growth helped limit average inflation at 4.5 percent, slightly higher than that of target in FY 2004/05.
4. With an aim to avoid adverse impact on the competitiveness of the Nepali exportable goods and services and the dampening effect of external sector demand on domestic exports of goods and services, the monetary policy of FY 2004/05 had aimed at keeping the real exchange rate of NC at an appropriate level. However, continued depreciation of US dollar in international market together with the increase in convertible reserves and substantial increase in price

on a point to point basis resulted in some real appreciation of NC vis-à-vis US dollar in FY 2004/05.

5. The monetary policy of FY 2004/05 had targeted a BOP surplus at Rs. 5.5 billion. Despite a whopping decline in the third country export, falling tourist income and foreign loan inflows, a decrease in imports, with a large volume relative to export and continuation of remittance inflows in FY 2004/05 showed that the BOP target would be achievable.

Status of Intermediate Targets

6. Of the intermediate monetary targets of FY 2004/05, the growth of M_2 remained close to the target of 12.5 percent while M_1 was estimated to grow by 11.2 percent, seventy basis points higher than that of targeted growth of 10.5 percent. The time deposit, having a large share in M_2, witnessed a lower growth (12.5 percent) than that of targeted growth of 13.5 percent. This resulted in M_1 to grow by a higher rate than that of target.

7. The LMFF came into operation since FY 2004/05 as the basis for monetary management. Due to mopping-up of the liquidity through OMOs based on the above-mentioned framework, the growth of RM declined in FY 2004/05. Despite the increase in money multiplier due to the expansion of private sector credit, a decrease in RM helped maintain the monetary aggregates close to the target level.

Status of implementation of Monetary Policy Instruments

8. With an aim to reduce the cost of funds of commercial banks, CRR was cut in FY 2004/05. At the beginning of fiscal year, commercial banks had had a situation of excess liquidity due to the reduction of CRR by hundred basis points. However, after the second quarter of the fiscal year, commercial banks, in the process of managing the excess liquidity and competing with the finance companies significantly brought down the interest rates on consumer loans. The provision of transparent and automatic SLF helped reduce the overhang of excess liquidity of years as the facility instilled a sense of confidence in commercial banks in managing their excess resources properly. This, in the process, enhanced competition among financial institutions resulting in a reduction of consumer loan rates. This benefited borrowers. Along with this, the financial intermediation of the bank also increased. The proper management of cash has made commercial banks to be fully loaned up. This has helped balance the balance sheet of commercial banks and created a background for a smooth and relatively quick transmission of any changes in monetary policy measures to the real sector.

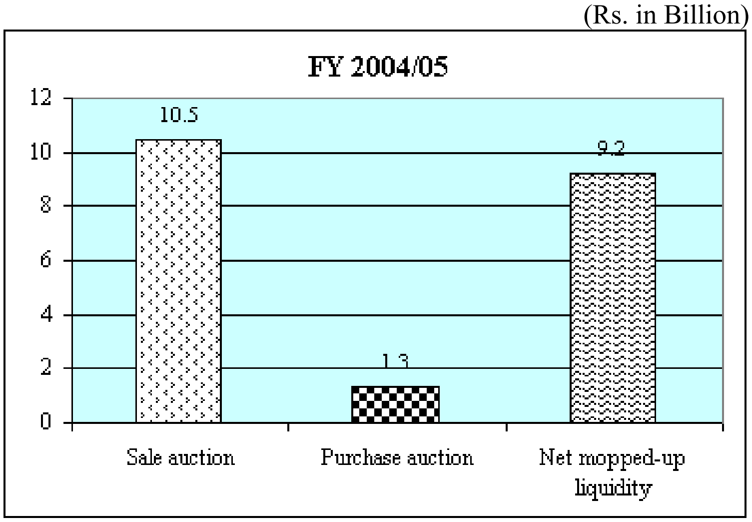
9. In view of helping reduce the distress observed in industry and tourism sectors, an arrangement of refinancing has been continued for the sick industries since FY 2001/02. Refinancing of one billion rupees was earmarked for sick industries in FY 2004/05. Similarly, the refinance rate for the sick industry was also reduced to 1.5 percent from 2.0 percent, while the interest rate that the bank charge to the creditors/customers was 4.5 percent. An amount of Rs. 379.1 million was

sanctioned for the refinance for a total of 18 industries including 13 hotels and 5 industries in FY 2004/05. However, the entire sanctioned amount was not fully utilised because of the inability of concerned hotel and industries to comply with all the conditions set by the High-level Sick Industries Revival Committee.

10. As stated in monetary policy, the primary issuance of development bonds through the auction system was undertaken in FY 2004/05. In order to accomplish the monetary policy objectives based on the LMFF, liquidity amounting to Rs. 10.5 billion was mopped-up through the sale auction (Table 7) while Rs. 1.3 billion was injected through the purchase auction (Table 8) in FY 2004/05. Hence, net liquidity of Rs. 9.2 billion was mopped-up in FY 2004/05.

Fig. 8: Sale and Purchase Auction in FY 2004/05

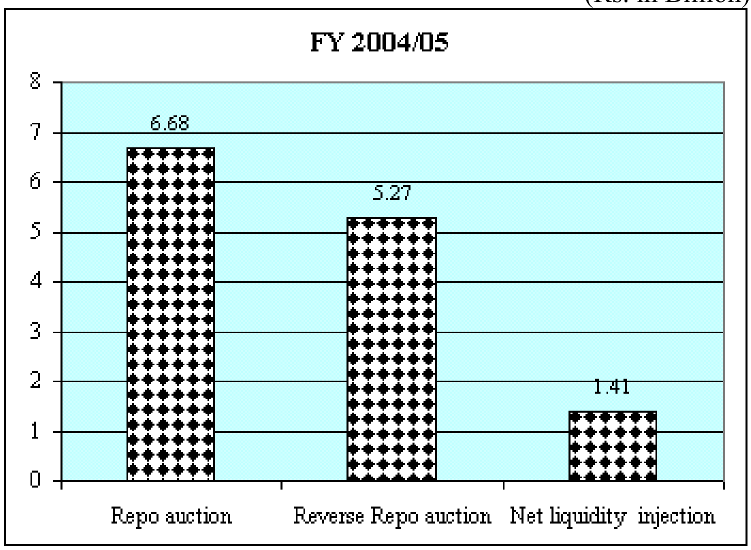
(Rs. in Billion)



11. In FY 2004/05, a system of repo and reverse repo auctions was put in place with a view of injecting and mopping-up of the liquidity respectively for short-term period (from 1 day to 7 days). Liquidity amounting to Rs. 6.68 billion was injected through repo auction while liquidity amounting to Rs. 5.27 billion was mopped-up through the reverse repo auction (Table 9 and 10, Fig. 9). Hence, net liquidity of Rs. 1.41 billion was injected through these systems.

Fig. 9: Repo and Reverse Repo Auction

(Rs. in Billion)



12. As per the monetary policy of FY 2004/05, a transparent and automatic system of making SLF available to the commercial banks on a fully collaterized basis for a maximum period of 5 days as a lender of last resort facility was developed. As OMOs at the initiative of this Bank has been conducted only for the purpose of monetary objective, the SLF, at the beginning, was made available to each commercial bank up to a limit of 90 percent of the face value of treasury bills and development bonds of HMG. The objective of SLF has been also to provide liquidity. Likewise, this facility was put in place with an aim to avoid payment problems in the economy. Instead of adopting alternative measures for resource mobilization even in the situation of liquidity crunch for a medium term, commercial banks showed their dependency on this facility. With a view to discourage them in doing so, the limits of this facility have been reduced to 50 percent from 90 percent since December 22, 2004. As per the provision for fixing the rates on such facility by adding up certain percentage point penal rate on the average discount rate of 91 days latest treasury bills auction, the penal rate, later on was gradually increased from 0.5 percent at the beginning to 2.0 percent. However, a gradual reduction in liquidity resulted in an increase of short-term interest rate. Thus, the penal rate applied for such facility was brought down to 1.5 percent from 2.0 percent.

13. During FY 2004/05, commercial banks have utilized SLF totaling Rs. 49.3 billion (Table 11, Fig. 10). Of the total, the highest amount of Rs. 13.4 billion (27.2 percent) was utilized by Nepal Arab Bank (Nabil) followed by Nepal Bangladesh Bank (NBB) Rs. 11.6 billion (23.4 percent), Standard Chartered Bank Nepal Ltd. (SCB) Rs. 7.20 billion (14.6 percent), Bank of Kathmandu Ltd. (BOK) Rs. 3.4

billion (6.9 percent), Nepal Industrial and commercial Bank Ltd. (NIC) Rs. 2.5 billion (5.1 percent), Kumari Bank Ltd. (KBL) Rs. 2.2 billion (4.5 percent), Nepal Credit and Commerce Bank Ltd. (NCC) Rs. 2.1 billion (4.3 percent), Himalayan Bank Ltd. (HBL) Rs. 1.7 billion (3.4 percent), Everest Bank Ltd. (EBL) Rs. 1.4 billion (2.8 percent), Nepal SBI Bank Ltd. (SBI) Rs. 1.1 billion (2.2 percent) and other commercial banks Rs. 2.7 billion (5.6 percent) (Tables 11, 12, Fig. 10, 11).

Fig. 10: Bankwise Standing Liquidity Facility made available in FY 2004/05

(Rs. in Billion)

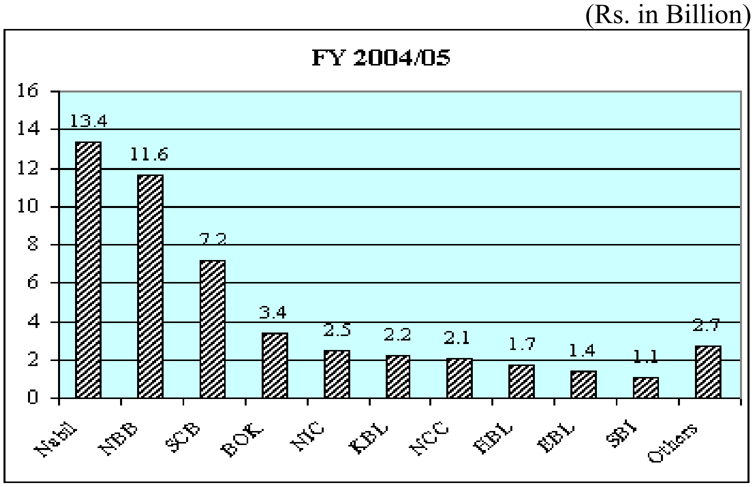
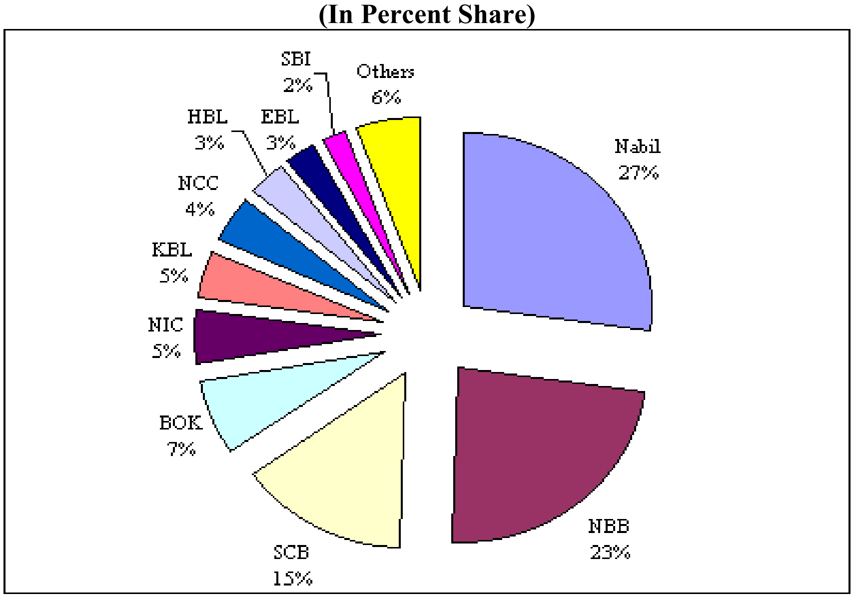


Fig. 11: Bankwise Standing Liquidity Facility made available in FY 2004/05 (In Percent Share)



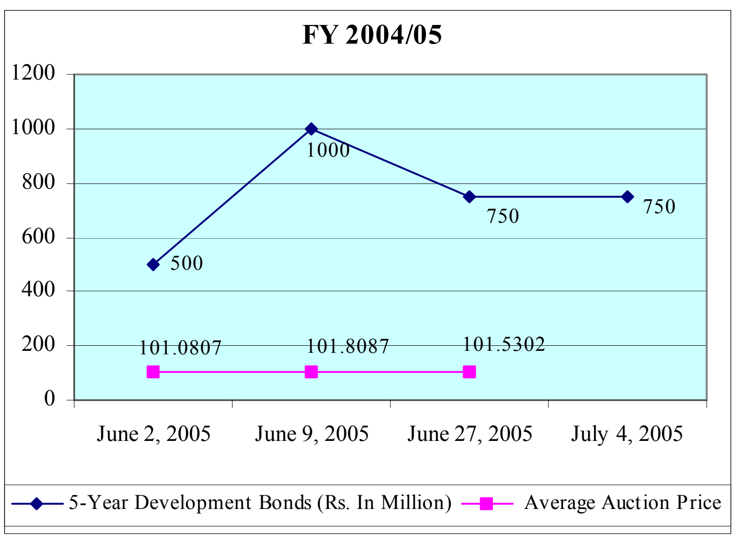
14. As spelt out in monetary policy in FY 2004/05 for converting HMG's special bond owned by this Bank into marketable treasury bills, special bond worth Rs. 555.2 million was converted into 364 days treasury bills on March 9, 2005. As a consequence, additional treasury bills have been available for OMOs for accomplishing monetary policy objectives.

15. Although the primary issuance of treasury bills through auctions was started since 1988, the sale and purchase of other government securities was done at coupon rate. As stated in monetary policy statement of FY 2004/05, primary issuance of development bonds was started through auction. Development bonds amounting to Rs. 3.0 billion was issued in four times through primary auction at premium (Box 3, Fig. 12). The secondary market transaction of development bonds has also been registered in Nepal Stock Exchange Ltd.

Box 3: Primary Issuance of Development Bonds through Auction

Issue date	5-Year Development Bonds (Rs. in Million)	Coupon Interest Rate	Average Auction Price
June 2, 2005	500	5.5	101.0807
June 9, 2005	1000	5.5	101.8087
June 27, 2005	750	5.5	101.5302
July 4, 2005	750	5.5	102.0259

Fig. 12: Primary Issuance of Development Bonds: Amount (Rs. in Million) and Auction Price



16. Of the total HMG's budgeted domestic borrowing of Rs. 9.6 billion, domestic borrowing amounting to Rs. 9.3 billion was mobilised as per the issue calendar in FY 2004/05. The arrangement of posting the issue calendar of domestic borrowing of HMG has also been made available in the web site of this Bank. In

FY 2004/05 domestic debt had been mobilized under the approved issue calendar. However, some problems were observed in the past year in implementing the issue calendar.

17. With an aim to avail institutional credit to the rural areas together with the fulfillment of long-term capital requirements to the sectors of national priority, the NRB has been embarking 5 percent of its profit to the RSRF. In FY 2004/05, the NRB deposited an amount of Rs. 78.6 million to the Fund. During the past three years, a total of Rs. 253.4 million was deposited in this Fund.

Status of Financial Sector Reform Programs

18. Under the financial sector reform program, restructuring of problematic NBL and RBB, re-engineering of the NRB and capacity building of the overall financial system were mentioned in the monetary policy of FY 2004/05. The focus of NRB is to make a prudent use of the financial assistance obtained for these two banks. The NRB is also of the view that the successful completion of restructuring of the problematic banks and bringing these banks back to the normal position requires a medium term period of 4-5 years. In the light of this fact, while extending the management contracts of NBL, the cost of management contract was reduced by 20 percent from the proposed US $ 3.5 million to US $ 2.78 million. This was mentioned in the mid-term review of monetary policy of FY 2004/05, which was made public on February 16, 2005. Similarly, with regard to RBB, the cost of contract for 4 foreign consultants and 18 Nepali consultants has been reduced to US $ 0.727 million and Rs. 60 million respectively while extending the contract period for one year. The average per year cost for the contract was US $ 1.76 million for the first two years.

19. Priority has been given for the re-engineering of the NRB in order to boost the process of the financial sector reforms for the last few years. As mentioned in the monetary policy of FY 2004/05, for the purpose of making the organizational structure more scientific, downsizing the existing manpower at the appropriate level and thereby increasing productivity of the Bank, voluntarily retirement scheme (VRS) was announced for the third time and 88 employees took the voluntary retirement. At the same time the existing by laws have been amended and compulsory retirement scheme (on completion of 30 years of service) has been introduced along with the existing retirement age of 58 years.

20. The registration process of transforming the Agricultural Development Bank of Nepal (ADB/N) into Agricultural Development Bank Limited as the ‘A’ grade financial institution under the Company Act, 1998 and BFIO, 2004 has been started at company registrar office. Likewise, other restructuring programs are also underway in the bank. Regarding Nepal Industrial Development Corporation (NIDC), in order to take the appropriate decision based on the report submitted by Price Waterhouse Cooper, discussions with the concerned authority is going on.

21. As per the commitment of proceeding ahead with the financial sector reform programme firmly on priority basis, BFIO, 2004 was promulgated and implemented on February 4, 2004 to maintain legal uniformity among the deposit

taking banks and financial institutions. In order to address the weaknesses further, the BFIO 2004 has been brought out with necessary amendments in the previous Ordinance.

22. As mentioned in the monetary policy of FY 2004/05, the directives have been issued to all the commercial banks regarding the cent percent provisioning against failure of selling their share investments in other banks and financial institutions within the given time frame. However, the share investment of Nepal Credit and Commerce Bank in NBL could not be sold out due to the delisting of the latter bank. As such, NRB, in coordination with Securities Board, Nepal Stock Exchange Limited and Office of the Company Registrar, has started the discussion on the process of offloading the shares of such delisted institutions.

23. A special task force under the high level main committee has been formed which has started working on making adjustments to the recommendations made by the BIS, in the revised new Capital Accord–Basel-II in the Nepali perspective.

24. With reference to carrying out the inspection and supervision work of all the banks and financial institutions licensed by the NRB, the preparation of off-site supervision report of all financial institutions has been started on quarterly basis. On the other hand, on-site inspections of Siddhartha Bank Limited, Laxmi Bank Limited, Standard Chartered Bank Nepal Limited, Bank of Kathmandu Limited, Himalyan Bank Limited, Everest Bank Limited, Nepal Industrial and Commercial Bank Limited, Nepal Arab Bank Limited, Kumari Bank Limited, Nepal SBI Bank Limited, and Lumbini Bank Limited have been completed as per the annual work plan.

25. In view of making the inspection and supervision work at par with the international standard, the preparation is underway in implementing the Basel-II, working paper on minimum capital fund, which is going to be implemented from 2007 by the Basel Committee on Banking Supervision, an international supervisory agency. A working group has been formed after completing the discussion with all commercial banks to prepare a concept paper on the effectiveness of the standards mentioned in the Basel-II in the Nepali perspective.

26. With regard to decentralizing the supervisory work of NRB, the provision of setting up a supervision office at Bharatpur of Chitawan district was mentioned in the monetary policy of FY 2004/05. Currently, priority has been given to corporate level inspection of banks and financial institutions at the central level with due importance on on-site supervision. In this context, opening up of the supervision office at Bharatpur has been cancelled on February 10, 2005.

27. In the process of modernizing the payment system, a report has been prepared after the field visits of banking office, Kathmandu, along with the NRB Biratnagar, Pokhara, Nepalgunj and Dhangadhi offices. Likewise, the study on charging fee for the Clearing House members has been completed. Banking Office, Kathmandu has marginally increased its fee for handling the clearing-house transactions of the member commercial banks.

28. As mentioned in the monetary policy of FY 2004/05, under the coordination of Joint-Secretary representing the RSRF on behalf of Finance Ministry, a task force comprising four members, has been formed in order to transform the NRB managed RSRF into wholesale micro credit financial institution so as to keep the Fund within the inspection and supervisory framework of this Bank.

29. In a bid to formulate a national microfinance policy, a one-day interaction programme was organized with the participation of micro finance experts and the head of the microfinance institutions. The Microfinance Policy Executing Committee formed under the chairmanship of the Deputy Governor of this Bank has finalized the draft of National Microfinance Policy 2005 after the discussion on the suggestions provided by the interaction. Likewise, the draft policy is about to be submitted to the Ministry of Finance.

30. Under the Renewable Energy Technologies (RETs) of alternative energy program, credit limit for Solar and Biogas through the micro credit institutions has been increased to Rs 50,000 per head per scheme from Rs 30,000. Also, the provision of counting such credit as deprived sector credit has been made.

31. Out of 61 percent share of WRDB owned by this Bank, the sale and transfer of 51 percent to the private sector has been completed. Hence, the Bank's holding is only 10 percent share as per the provision of the NRB Act 2002.

32. Out of 66.75 percent share of ERDB owned by this Bank, a notice for the sale of 56.75 percent share to the private sector was issued; the last date to submit the application was March 13, 2005. In this connection, the application for the purchase of 34.29 percent was received which was sold and handed over in FY 2004/05. The remaining of 22.46 percent will be handed over in FY 2005/06 in the second phase.

33. After the special voluntary retirement scheme in FWRDB, other necessary actions have been taken to make the Bank self-sustained. In response to the weak financial position of the bank, as per the decision of High Level Coordination and Direction Committee on Rural Development Bank, a three-member task force has been formed on April 22, 2005 to study and recommend alternative measures to be taken in the future.

34. Regarding the RMDC's request to review the interest rate spread, a discussion was held in the presence of the representatives from this Bank, the Center and the Ministry of Finance. Main suggestions of such discussion was to reduce the interest rate charged to RMDC by HMG by some percentage points; to provide loan by RMDC at such reduced interest rate and also to reduce the interest rate on loan provided to microfinance institutions. As per the suggestions, HMG has reduced the interest rate by 2 percentage points from existing 4 percent on loan provided to RMDC. Accordingly, the interest rate charged to microfinance institutions by RMDC has been fixed at 5 percent.

Status of External Sector Reforms

35. Most of the external sector reform programs, as stipulated in the monetary policy for FY 2004/05, were implemented in the first half of the fiscal year, which has already been published in the mid-term review of the monetary policy, that was made public on February 16, 2005. Only the programmes, which were executed after the mid-term review, are mentioned here.

36. The foreign currency account holders are allowed to make payment in foreign currency in Nepal by debiting their own account, if the payments are to be made to the government agencies.

37. Commercial banks, with the permission of this Bank, are allowed to open their account in non-banking institutions abroad for the payment of E-commerce and E-payment transactions under the existing provision.

38. The number of goods to be imported from India paying convertible currency has been increased by 25 to 66 (Appendix 5). Additional 21 goods, out of those 25 were mentioned in the mid-term review of monetary policy for FY 2004/05. The remaining 4 goods added to the list are spare parts for TV receiver, heterocyclic compounds, nucleic acids and antibiotics.

39. For the purpose of easy transmission by the foreign employment abroad and receipt of the hard earned foreign currency by their family members in Nepal, the establishment of money transfer agencies has continuously been encouraged since past few years. During this period, the number of such license holding agency has increased to 40 from 29 and the companies are expanding their services in local areas through sub-agents. In relation to granting such licenses, the letter of intent has been issued to additional 55 companies during the year alone.

40. The prevailing provision of credit card is kept intact. Under this very provision of credit card, debit cards can also be included and the cardholder can use these cards for their forex transaction under the provision of foreign exchange facility instead of using hard currency or Travelers' Cheque.

Appendix 3
Annual Progress Matrix of the Policy Measures as Outlined in Monetary Policy of FY 2004/05

S.N.	Point	Objectives/Programmes	Work Description	Responsible Dept.	Implementation Status
1.	9	Inflation projected at 4.0 percent	Monitoring and analysing the policy measures	Research Dept.	Revised inflation projection is at 4.5 percent, which exceeds the target due to a rise in oil prices and VAT rate.
2.	9	Facilitate economic growth rate of 4.5 percent through the provision of adequate level of liquidity	Monitoring and analysing the policy measures	Research Dept.	HMG's revised estimate of economic growth (at producer's price) is at 2.5 percent.
3.	9	BOP surplus targeted at Rs. 5.5 billion	Monitoring and analysing the policy measures	Research Dept.	The target is met.
4.	9	Maintaining the real exchange rate at appropriate level	Monitoring whether real exchange rate of Nepalese Rupee is overvalued or under valued	Research/Foreign Exchange Dept.	Real effective exchange rate is at the neutral level.
5.	10	M_2 targeted at 12.5 percent	Monitoring and analysing the policy measures	Research Dept.	Target is fulfilled. The growth of M_2 is within the target.
6.	11	M_1 targeted was at 10.5 percent	Monitoring and analysing the policy measures	Research Dept.	The growth of M_1 slightly exceeded the target.
7.	14	Excess liquidity of commercial banks taken as the operating target of monetary policy	Monitoring by putting Liquidity Monitoring and Forecasting Framework (LMFF) in place	Research Dept.	The process of monitoring liquidity on weekly basis started from the beginning of the current fiscal year.
8.	16	The refinance rates for the credit to commercial banks and rural development banks revised downward to 3.0 percent from the existing 4.5 percent	Submitting the related developments as soon as possible	Bank and Financial Institutions Dept./Micro Finance Dept./Banking Office, Kathmandu	A circular to this effect issued on July 22, 2004.
9.	17	CRR revised downward to 5 percent from 6 percent	Monitoring commercial banks' liquidity	Bank and Financial Institutions Regulation Dept./Research Dept.	The circular to this effect issued on July 22, 2004.
10.	18	Preparing third monetary aggregate (M3)	Preparing M3 by including foreign currency deposits	Research Dept.	M_3 brought in use since July 2004.

11.	19	Fixing the quantity of secondary market operation such as outright purchase, outright sale and repo transactions and starting the system of determining interest rates on the basis of auction	(a) Arranging the determination of quantity for secondary market auction (b) Such quantity of secondary market auction should be done on the basis of study and analysis of open market operation committee at Public Debt Management Dept. based on Liquidity Monitoring and Forecasting Framework	Research/Public Debt Management Dept.	The system of conducting OMOs on the basis of LMFF started since September 22, 2005.
12.	20	OMOs will be conducted through treasury bills of different maturities and emphasis will be given on the short-term treasury bills issuance with view to influencing OMO and over-night interbank transactions rate	Short-term treasury bills should be issued as per the decision of OMO committee in Public Debt Management Dept. and information of such issuance should be submitted to Research Dept.	Public Debt Management Dept.	The issuance of 28 days and 182 days treasury bills started since October 7, 2005.
13.	22	A separate liquidity facility will be provided to commercial banks only	Such facility will be provided through banking office on the basis of HMG's securities owned by commercial banks according to the quota determined by OMO committee	Public Debt Management Dept./Banking Office	At the beginning, the limit for such facility was fixed upto 90 percent of the treasury bills and development bonds and since December 7, 2005, the limit for such facility has been revised downward to 50 percent of HMG's treasury bills and development bonds.
14.	24	Secondary market outright sale interest rate will function as minimum rate and SLF rate will work as maximum rate in short-term money market	Statement of each auction should be sent to Research Department	Public Debt Management Dept.	Monitoring on regular basis initiated.
15.	25	Requesting HMG to mobilize internal debt as per issue calendar	Coordination and initiation will be taken and the OMO Committee will made the statement available	Public Debt Management Dept.	Of the budgeted domestic borrowing of Rs. 9.06 billion, a total of Rs. 9.03 billion raised as per issue calendar.

16.	26	Requesting HMG for permission to convert non marketable securities held by this Bank to marketable securities	Data of such conversion will be made available	Public Debt Management Dept.	Special bond of Rs. 555 million has been converted into 364 days treasury bills on March 9, 2005 bearing 3.7273 percent interest rate.
17.	27	In the past, bank loans to public enterprises on HMG's guarantee could not be repaid and the trend of increasing total interest expenditures is continuing. Therefore, HMG will be requested to issue adhoc treasury bills equivalent to such guarantee	Data of such adhoc treasury bills will be made available	Public Debt Management Dept.	HMG was requested but no conversion took place.
18.	28	HMG's development bonds will be issued on primary market by auction and secondary market operation will be conducted through Nepal Stock Exchange Ltd.	Auction of such development bonds will be done according to the process determined by OMO Committee in Public Debt Management Dept. and statement of such auction will be made available to Research Dept.	Public Debt. Management Dept.	"Primary Issuance and Secondary Market Management By-law - 2005" has been issued and development bonds of Rs. 3.0 billion has been issued through auction and registered in Nepal Stock Exchange Ltd. for secondary market transaction of such bonds.
19.	29	Five percent of NRB's profit will be made available to RSHF	Related developments will be made available	Financial Management/Micro Finance Dept.	Five percent of the profit amounting to Rs. 74.6 million has been made available in March 2005.
20.	30	Refinance of Rs. 1.0 billion will be provided to sick industries	Refinance facilities should be monitored. Data of refinance facilities to different banks will be provided	Bank & financial Institutions Regulation Dept./Financial Management Dept./Banking Office, Kathmandu	Refinance of Rs. 379.1 million was sanctioned.
21.	32	Financial assistance received from DFID and World Bank for restructuring of problem banks will be properly utilised	The progress on this front will be monitored	Bank and Financial Institution Regulation Dept.	Annual costs of US$ 5.8 million was reduced while extending management contract of Nepal Bank Ltd. and the annual costs of Rastriya Banijya Bank was also reduced.

22.	33	Commercial banks are asked to make efforts to cut operating expenditures	Monitoring such efforts of commercial banks aimed at reducing operating expenditures	Bank and Financial Institution Regulation Dept.	Efforts are being made.
23.	34	If banks and financial institutions are unable to divest the investment made in shares of other banks and financial institutions by mid-July 2004, cent percent provisioning will have to be made for such investment	Implementation status will be monitored, information will be made available	Banks & Financial Institution Dept./Bank Supervision Dept.	Circular to this effect has been issued on July 23, 2004.
24.	35	Motivating commercial banks' in making investment in economic and social infrastructure development projects such as hydropower, education and health	Progress reports on this front will be made available	Banks & Financial Institutions Regulation Dept.	
25.	36	In the context of issuing banks and financial institutions ordinance, existing regulations and directions will be ammended and implemented in an integrated manner	Progress reports on such matter will be made available	Banks & Financial Institutions Regulation Dept.	Integrating process is completed.
26.	37	Establishing Credit Information Bureau as a company	Making arrangement in this regard	Bank & Financial Institution Dept.	Registered in Company Registrar's Office.
27.	38	Reminding of the legal provision with regard to Assets Management, Anti-money Launderings Secured Transaction Insolvency Act, Nepal Rastra Bank and Bank and Financial Institution Ordinance	Progress report will be made available	Bank & Financial Institution Regulation Dept./Legal Dept.	Nepal Rastra Bank (First Amendment) 2005, Bank & Financial Institution Ordinance 2005 are issued and drafts of Assets Management, Anti-Money Laundering, Secured Transaction and Insolvency Ordinance are submitted to HMG.
28.	39	Capital adequacy ratio based on Risk Weighted Assets	Analysing the effects of this system	Bank & Financial Institution Regulation Dept./Bank Supervision/Financial Institution Supervision Dept.	Circular has been issued to this effect.

29.	40	With regard to inspection and supervision of cooperatives and financial NGOs licensed from Nepal Rastra Bank	Taking initiation to established a separate second tier institution	Bank and Financial Institution Regulation/Financial Institution Supervision Dept.	STI committee has been formed to establish such institution and a workgroup has been formed to prepare the report.
30.	41	Converting RSRF to financial institutions providing wholesale micro credit	Progress report will be made available	Micro Finance Dept.	Workgroup has been formed to implement.
31.	42(a) 42(b)	Preparing 'National Micro Credit Policy' Increasing investment in alternative energy	Progress reports will be made available	Micro Credit Dept.	(a) The decision to formulate such policy is announced by the government in 2005/06 budget. (b) Limit of loan to Solar Home System & Biogas purpose has been revised upward to Rs. 50,000 from Rs. 30,000 as per the decision on Feb. 4, 2005.
32.	43	Relating to the concept paper on effectiveness of New Capital Accord - Basel II in the context of Nepal	Will be prepared by adjusting according to the ammendment by BIS	Bank Supervision and Financial Institution Supervision Dept.	Concept paper is in the process and a core group has been formed.
33.	44	Establishment of Bank & Financial Institutions Supervision Office in Chitwan	Supervision process will be started after the establishment of such office	Bank Supervision/Policy Planning/Financial Institutions Supervision Dept.	The decision of establishing such office in Chitwan has been cancelled.
34.	45	The effectiveness of 25 point principles of Basel Committee relating to Bank and Financial Institutions in Nepal will be studied	Study report will be made available	Bank Supervision Dept./Financial Institution Supervision Dept.	Concept paper is being prepared.
35.	46	Relating to onsite and off-site inspection and supervision of all banks and financial institutions licensed by this Bank	Progress reports will be submitted after effective implementation	Bank Supervision/Financial Institution Supervision Dept.	Work in progress as per the annual work plan.
36.	47	Implementing accounting system of international standard; amending the existing accounting system of Nepal Rastra Bank	Progress report will be made available.	Financial Management Dept./Internal Audit Dept.	Work is in progress.

37.	48	Restructuring of ADB/N and NIDC	Works as per the restructuring plan submitted by the consultants will be done	Bank & Financial Institution Regulation Dept./Financial Institution Supervision Dept.	Restructuring of ADB/N has been started and with regard to NIDC, discussion is underway on the report of Price Water House Cooper.
38.	49	Transferring 56.75 percent share of Eastern Rural Development Bank out of 66.75 percent share owned by this Bank to private sector and strengthening of Western Rural Development Bank by evaluating the Special Voluntary Retirement Scheme	Progress report will be made available.	Bank & Financial Institution Regulation Dept./Micro Credit Dept.	Out of 66.75 percent share of Eastern RDB, application forms received for 34.29 percent share and remaining will be sold next year. Far-western RDB is attempting to be self-reliant after voluntary retirement scheme and a committee is formed as per the 2005/4/22 decision.
39.	50	Reforming Payment System of banking offices of the NRB clearing house system and reconciliation process	Progress reports will be made available after field visits	Banking Office, Policy Planning Dept.	One window Policy has been implemented for payment and transfer system Settlement process has been made effective by posting through clearing house. Physical Infrastructure of Clearing House has been started to expand. Study with regard to membership fees on the study of clearing house has been accomplished.
40.	51	With regard to the exchange of soiled notes	Making arrangement of handing over such work to private sector	Currency Management Dept.	
41.	52	Providing exchange facility directly by commercial banks upto US$ 1,000 to individuals and institutions	Report on implementation will be made available	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
42.	53	Making arrangement of automatically receiving the repatriation of air ticket purchased on foreign visit by Nepali citizen	Progress report will be made available by issuing circular to travel agencies and airlines	Foreign Exchange Dept.	In the process of implementation.
43.	54	Nepali citizens going abroad will be allowed to travel on business class air ticket	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.

44.	55	Commercial banks themselves can cancel the cheque drawn on L/C margin in the name of customs office	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
45.	56	In the context of export through CAD (Cash Against Documents) commercial banks will be allowed to renew the maturity period of such payment certificates up to three years, without permission of this Bank.	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
46.	57	If the amount collected in the foreign agency accounts of commercial banks could not be paid by any reason, the provision of sending such money exceeding US$ 2,000 could be made by commercial banks themselves	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
47.	58	Commercial banks themselves can make arrangement to issue bank guarantee in foreign currency in the name of buyer from the Nepali seller	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
48.	59	Commercial banks can directly provide exchange facility required for various government enterprises, council and other institutions	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on August 11, 2004.
49.	60	Individuals and institutions having foreign currency account can make payments in convertible foreign currency in Nepal if the recipient is HMG	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
50.	61	Exporters can export through CAD up to US$ 100,000 once; and the limit of bank guarantee has been revised downward to 5 percent from 10 percent	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Implemented after the announcement of monetary policy of FY 2004/05.
51.	62	Permitting commercial banks to make an arrangement on E-payment without using credit card	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
52.	63	The time limit of one year given to the commercial banks to invest their foreign currency deposit earnings in convertible foreign currency has been removed	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
53.	64	With regard to US$ and other convertible foreign currency received from commercial banks	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
54.	65	with regard to issuing credit card/debit card by commercial banks up to US$ 5000	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.

55.	66	Separate exchange facility will be provided to FOB importers for transportation purpose	Progress reports will be made available by making necessary arrangements	Foreign Exchange Dept.	In the process of implementation.
56.	67	If bank guarantee needed by foreign money transfer company's agent in Nepal in order to receive advance payment, commercial banks, within fixed limit, are allowed to make the payment	Providing directions to commercial banks	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
57.	68	The number of goods imported from India paying foreign currency will be added	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	The number of items has been increased up to 66.
58.	69	Searching the alternatives to invest gold as foreign currency by testing purity and size as per international standard	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued.
59.	70	Contract which was signed two years ago between Nepal and Peoples' Republic of China to provide limited convertibility to Chinese currency Yuan will be renewed for two more years	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Renewed on Nov. 2, 2004.
60.	71	Making arrangement for opening Liaison (Representative) office in foreign countries by Nepali institutions	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
61.	72	Policy provision of allowing commercial banks to perform interbank transactions in Indian currency will be made	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	Circular has been issued on July 23, 2004.
62.	73	Study with regard to effects of spread between existing buying and selling exchange rate will be done	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	In the process of implementation.
63.	74	Proper management of foreign exchange reserve	Progress report will be made available by making necessary arrangements	Foreign Exchange Dept.	In the process of implementation.

Appendix 4
Projection of Monetary Survey

Rs. in million

Monetary Aggregates	2003 Jul	2004 Jul	2005 July*	2006 July*	2003/04 Amount	2003/04 Percent	2004/05 Amount	2004/05 Percent	2005/06 Amount	2005/06 Percent
1. Foreign Assets, Net	**91407.0**	**108804.7**	**108373.7**	**112873.7**	**16005.2**[1]	**17.5**	**6000.0**[2]	**5.5**	**4500.0**	**4.2**
1.1 Foreign Assets	109306.3	131366.0	134592.0	144147.4	22059.7	20.2	3226.0	2.5	9555.4	7.1
1.2 Foreign Currency Deposits	17388.4	21174.6	24082.7	28123.7	3786.2	21.8	2908.1	13.7	4041.0	16.8
1.3 Other Foreign Liabilities	510.9	1386.7	2135.6	3150.0	875.8	171.4	748.9	54.0	1014.4	47.5
2. Net Domestic Assets	**154504.0**	**168501.4**	**202295.6**	**238151.6**	**15389.8**[1]	**10.0**	**27363.3**[2]	**16.2**	**35856.0**	**17.7**
2.1 Domestic Credit	228443.8	251089.0	286754.1	330994.6	22645.2	9.9	35665.1	14.2	44240.5	15.4
a. Net Claims on Govt.	62825.0	62313.7	65813.7	70613.7	-511.3	-0.8	3500.0	5.6	4800.0	7.3
- Claims on Govt.	63286.7	63066.7	65813.7	70613.7	-220.0	-0.3	2747.0	4.4	4800.0	7.3
- Govt. Deposits	461.7	753.0	-	-	-	-	-	-	-	-
b. Claims on Govt. Ent.	14661.9	16258.8	18317.0	21226.0	1596.9	10.9	2058.2	12.7	2909.0	15.9
- Financial	11828.7	13343.9	13808.5	14917.5	1515.2	12.8	464.6	3.5	1109.0	8.0
- Non-Financial	2833.2	2914.9	4508.5	6308.5	81.7	2.9	1593.6	54.7	1800.0	39.9
c. Claims on Private Sector	150956.9	172516.5	202623.4	239154.9	21559.6	14.3	30106.9	17.5	36531.5	18.0
2.2 Net Non-monetary Liabilities	73939.8	82587.7	84458.5	92843.0	7255.4[1]	9.8	8301.8[2]	10.1	8384.5	9.9
3. Broad Money (M_2)	**245911.0**	**277306.0**	**310669.2**	351025.3	**31395.0**	**12.8**	**33363.2**	**12.0**	**40356.1**	**13.0**
3.1 Money Supply (M_1)	83753.9	93969.6	104494.2	117033.5	10215.7	12.2	10524.6	11.2	12539.3	12.0
- Currency	56885.7	63218.9	70000.0	78262.8	6333.2	11.1	6781.1	10.7	8262.8	11.8
- Demand Deposits	26868.2	30750.7	34494.2	38770.7	3882.5	14.5	3743.5	12.2	4276.5	12.4
3.2 Time Deposits	162157.2	183336.4	206175.1	233991.8	21179.2	13.1	22838.7	12.5	27816.7	13.5
4. Broad Money Liquidity (M_3)	**263299.4**	**298480.7**	**334752.0**	**379149.0**	**35181.3**	**13.4**	**36271.3**	**12.2**	**44397.0**	**13.3**

* Projection.
1 Adjusting the exchange valuation gain of Rs. 1,392.5 million.
2 Adjusting the exchange valuation loss of Rs 6,431.0 million.

Appendix 5

List of Goods Allowed to Import from India Paying Convertible Foreign Currency

	Goods
1.	Extract
2.	Soft Drink Concentrate
3.	Bitumen
4.	Industrial Chemicals (Except chemicals used for the production of medicine for human being)
5.	Carbon Black
6.	L.L.P. (Light Liquid Paraffin)
7.	Benzene
8.	Toluene
9.	Methanol
10.	Ethylene Glycol
11.	Methylene Salicylate
12.	Vinyl Acetate Monomer
13.	Buty Acraylate Monomer
14.	2Etyl Hexyl Acrylate
15.	Dibutyl Phthalate
16.	Phthalic Anhydride
17.	Terephthalic Acid
18.	Heterocyclic compound
19.	Nucleic Acids
20.	Antibiotics
21.	Flavour (Raw material used in toothpaste)
22.	Odoriferous Substances
23.	Perfume
24.	LABSA (Raw material used in detergent)
25.	Mixed Alkylbenzenes
26.	Palm Steearin DFA / Palm Karnel DFA
27.	Poethylene
28.	Polypropylene
29.	Polyvinyl Alcohal
30.	PVC Resin
31.	Printed Laminated Web
32.	Natural Rubber
33.	Synthetic Rubber
34.	Papers
35.	Silk Yarn
36.	Woolen Yarn (Except hosiery)
37.	Cotton
38.	Cotton Yarn
39.	Polyster Partially Oriented Yarn
40.	Synthetic Filament Yarn
41.	Artificial Yarn (Except hosiery)
42.	Artificial Fiber

43.	Polyster Fiber
44.	Viscose Rayon (Fiber)
45.	Tyre Cord Fabric
46.	Sponge Iron
47.	M. S. Scrap
48.	Iron (Ingot)
49.	Mild Steel Bilet
50.	Hot Roll Sheet in Coil Hot Roll Sheet not in Coil
51.	Cold Roll Sheet in Coil
52.	Tin Plate
53.	M.S. Wire Rod in Coil
54.	Bead Wire (Copper quoted)
55.	Steel Byume
56.	Steel Plate
57.	Silicon Steel
58.	Almunium Ingot Billet
59.	Almunium Rod in Coil
60.	Zinc Alloy
61.	All Mechinary Equipments (Except Parts)
62.	Electric Motor, Generating Set
63.	Amorphous Matalcores
64.	TV PictureTube
65.	Spare Parts for TV Receiver
66.	Fabrics imported as raw materials by readymade garment exporting industries (under the provision of spending foreign exchange upto 50 percent of their export earnings)

List of Statistical Tables

Table 1

Real Gross Domestic Product
(At 1994/95 Prices)

Sectors	Rs. in Million					Percent Change				
	2000/01	2001/02	2002/03	2003/04	2004/05[e]	00/01	01/02	02/03	03/04	04/05
Agriculture, Forestry and Fishery	**106380**	**108752**	**111471**	**115774**	**119016**	**5.5**	**2.2**	**2.5**	**3.9**	**2.8**
Non Agriculture	173727	170417	176386	181457	184282	4.5	-1.9	3.5	2.9	1.6
Mining and Quarrying	1547	1571	1601	1610	1621	4.5	1.6	1.9	0.6	0.7
Manufacturing	27649	24892	25384	25822	26533	3.8	-10.0	2.0	1.7	2.8
Electricity, Gas and Water	4727.0	5200	6402	6563	7087	17.4	10.0	23.1	2.5	8.0
Construction	31823	32180	32757	32818	32020	0.9	1.1	1.8	0.2	-2.4
Trade, Restaurant and Hotel	31507	28329	29267	31031	30095	1.5	-10.1	3.3	6.0	-3.0
Transport, Communication and Storage	20860	21201	22113	23277	24527	6.2	1.6	4.3	5.3	5.4
Finance and Real estate	27491	28402	29333	29959	30834	1.7	3.3	3.3	2.1	2.9
Community and Social Services	28123	28642	29529	30377	31565	13.2	1.8	3.1	2.9	3.9
GDP at Factor cost before deduction of bank service charges	**280107**	**279169**	**287857**	**297231**	**303298**	**4.9**	**-0.3**	**3.1**	**3.3**	**2.0**
Less imputed value of bank service charges	7831	8064	8499	8950	9121	8.3	3.0	5.4	5.3	1.9
Total GDP at Factor cost	272276	271105	279358	288281	294177	4.8	-0.4	3.0	3.2	2.0
Plus Indirect Taxes, net	20710	20135	21737	22941	24880	18.3	-2.8	8.0	5.5	8.5
GDP at producers prices	**292986**	**291240**	**301095**	**311222**	**319057**	**5.6**	**-0.6**	**3.4**	**3.4**	**2.5**

e = Estimates.

Source: Central Bureau of Statistics

Table 2

Nominal Gross Domestic Product
(At Current Prices)

Sectors	Rs. in Million					Percent Change				
	2000/01	2001/02	2002/03	2003/04	2004/05[e]	00/01	01/02	02/03	03/04	04/05
Agriculture, Forestry and Fishery	**151059**	**160144**	**171104**	**183357**	**193291**	**4.1**	**6.0**	**6.8**	**7.2**	**5.4**
Non Agriculture	242993	245994	266442	290772	310810	9.9	1.2	8.3	9.1	6.9
Mining and Quarrying	1924	2056	2188	2377	2615	6.0	6.9	6.4	8.6	10.0
Manufacturing	35495	32805	34337	36634	39494	5.8	-7.6	4.7	6.7	7.8
Electricity, Gas and Water	7432	8635	10905	11340	12258	25.1	16.2	26.3	4.0	8.1
Construction	39584	42290	45068	49033	52729	5.9	6.8	6.6	8.8	7.5
Trade, Restaurant and Hotel	44572	40772	43978	49320	49478	3.9	-8.5	7.9	12.1	0.3
Transport, Communication and Storage	33297	34652	38286	43664	47558	13.5	4.1	10.5	14.0	8.9
Finance and Real Estate	41634	43882	47719	51411	56088	12.8	5.4	8.7	7.7	9.1
Community and Social Services	39055	40902	43961	46993	50590	17.3	4.7	7.5	6.9	7.7
GDP at Factor cost before deduction of bank service charges	**394052**	**406138**	**437546**	**474129**	**504101**	**7.6**	**3.1**	**7.7**	**8.4**	**6.3**
Less imputed value of bank service charges	11912	12624	13911	15135	16367	11.2	6.0	10.2	8.8	8.1
Total GDP at Factor Cost	382140	393514	423635	458994	487734	7.5	3.0	7.7	8.3	6.3
Plus Indirect Taxes, net	29135	29293	33040	36595	41269	21.7	0.5	12.8	10.8	12.8
GDP at Producers Prices	**411275**	**422807**	**456675**	**495589**	**529003**	**8.4**	**2.8**	**8.0**	**8.5**	**6.7**

e = Estimates.

Source: Central Bureau of Statistics

Table 3

National Urban Consumer Price Index

(Base Year 1995/1996 = 100)

Mid-Month	2001/02 Index	2001/02 % Change	2002/03 Index	2002/03 % Change	2003/04 Index	2003/04 % Change	2004/05 Index	2004/05 % Change
August	141.5	2.9	147.5	4.2	155.4	5.4	159.1	2.4
September	143.7	3.8	148.4	3.3	156.1	5.2	160.2	2.6
October	144.4	2.0	148.7	3.0	157.1	5.6	161.2	2.6
November	144.8	2.5	148.0	2.2	156.6	5.8	160.8	2.7
December	143.1	2.7	147.0	2.7	154.2	4.9	159.0	3.1
January	140.7	2.9	145.3	3.3	152.5	5.0	159.5	4.6
February	139.4	3.2	145.8	4.6	152.7	4.7	161.4	5.7
March	139.4	3.3	146.7	5.2	153.1	4.4	161.9	5.7
April	140.1	2.4	151.5	8.1	154.1	1.7	163.1	5.8
May	141.2	2.5	152.1	7.7	154.1	1.3	164.0	6.4
Jun	142.8	3.0	152.2	6.6	155.0	1.8	164.6	6.2
July	144.5	3.5	153.3	6.1	156.4	2.0	165.8	6.0*
Annual Average	**142.1**	**2.9**	**148.9**	**4.8**	**154.8**	**4.0**	**161.6**	**4.5***

* Projected

Table 4

National Wholesale Price Index

(Base Year 1999/2000 = 100)

Mid-Month	2001/02		2002/03		2003/04		2004/05	
	Index	% Change	Index	% Change	Index	% Change	Index	% Change
August	108.0	7.2	110.9	2.7	114.4	3.2	122.1	6.8
September	109.0	7.7	112.4	3.1	116.0	3.2	123.1	6.1
October	110.6	6.7	112.5	1.7	116.4	3.5	123.4	6.0
November	112.3	8.3	112.6	0.3	117.2	4.1	122.6	4.6
December	106.7	5.9	107.5	0.7	113.9	6.0	119.0	4.4
January	105.6	5.8	104.6	-0.9	112.0	7.1	119.7	6.9
February	103.7	5.3	107.3	3.5	112.9	5.2	121.0	7.2
March	103.5	4.0	109.6	5.9	113.5	3.6	123.2	8.5
April	102.2	2.2	111.3	8.9	114.2	2.6	123.7	8.4
May	104.0	2.7	112.3	8.0	114.3	1.8	125.2	9.5
Jun	105.2	1.6	111.2	5.7	116.2	4.5	126.5	8.9
July	106.3	1.6	112.7	6.0	118.1	4.8	128.3	8.6*
Annual Average	**106.4**	**4.9**	**110.4**	**3.7**	**114.9**	**4.1**	**123.9**	**7.2***

* Projected.

Table 5

Monetary Survey

(First Eleven Months of FY)

(Rs. in Million)

Monetary aggregates	2003 Jul	2004 Jun	2004 Jul	2005 Jun (e)	Changes during the first eleven months of FY 2003/04 Amount	2003/04 Percent	2004/05 Amount	2004/05 Percent
1. Foreign Assets, Net	**91407.0**	**103716.6**	**108804.6**	**110019.3**	**13237.5[1]**	**14.5**	**7645.6[2]**	**7.0**
1.1 Foreign Assets	109306.3	127253.0	131366.0	134989.0	17946.8	16.4	3623.0	2.8
1.2 Foreign Currency Deposits	17388.4	20131.0	21174.6	20340.0	2742.6	15.8	-834.6	-3.9
1.3 Other Foreign Liabilities	510.9	3405.4	1386.8	4629.7	2894.5	566.6	3243.0	233.9
2. Net Domestic Assets	**154504.1**	**164863.5**	**168501.3**	**185398.3**	**9431.5[1]**	**6.1**	**10466.1[2]**	**6.2**
2.1 Domestic Credit	228443.8	243627.1	251088.9	275526.7	15183.2	6.6	24437.8	9.7
a. Net Claims on Govt.	62825.0	57123.8	62313.7	59884.3	-5701.2	-9.1	-2429.4	-3.9
i. Claims on Govt.	63286.7	62154.8	63066.7	66485.6	-1131.9	-1.8	3418.9	5.4
ii. Govt. Deposits	461.7	5031.0	753.0	6601.4	4569.3	989.7	5848.3	776.7
b. Claims on Non-Financial Govt. Ent.	2833.2	3403.0	2914.9	5298.4	569.8	20.1	2383.4	81.8
c. Claims on Financial Institutions	11828.7	13191.0	13343.9	12358.2	1362.3	11.5	-985.7	-7.4
i. Government	11739.0	13050.4	13203.3	12326.2	1311.4	11.2	-877.1	-6.6
ii. Non-government	89.7	140.6	140.6	32.0	50.9	56.7	-108.6	-77.2
d. Claims on Private Sector	150956.9	169909.3	172516.5	197985.9	18952.4	12.6	25469.5	14.8
2.2 Net Non-monetary Liabilities	73939.8	78763.6	82587.7	90128.4	5751.8[1]	7.8	13971.7[2]	16.9
3. Broad Money (M_2)	**245911.1**	**268580.1**	**277305.9**	**295417.6**	**22669.0**	**9.2**	**18111.7**	**6.5**
3.1 Money Supply (M_1)	83753.9	88385.9	93969.5	98532.5	4632.0	5.5	4563.1	4.9
a. Currency	56885.7	61674.0	63218.9	68352.2	4788.3	8.4	5133.3	8.1
b. Demand Deposits	26868.2	26711.9	30750.7	30180.4	-156.3	-0.6	-570.3	-1.9
3.2 Time Deposits	162157.2	180194.2	183336.4	196885.1	18037.0	11.1	13548.6	7.4
4. Broad Money Liquidity (M_3)	**263299.5**	**288711.1**	**298480.5**	**315757.6**	**25411.6**	**9.7**	**17277.1**	**5.8**

1/ Adjusting the exchange valuation loss of Rs. 927.9 million.
2/ Adjusting the exchange valuation loss of Rs. 6431.0 million.
e = Estimates.

Table 6

Monetary Survey

(Year-on-Year Change)

(Rs. in Million)

Monetary aggregates	2003 Jun	2003 Jul	2004 Jun	2004 Jul	2005 Jun[e]	Year-on-Year Change 2003/04 Amount	Percent	2004/05 Amount	Percent
1. Foreign Assets, Net	**91606.1**	**91407.0**	**103716.6**	**108804.6**	**110019.3**	**12110.6**	**13.2**	**6302.6**	**6.1**
1.1 Foreign Assets	111356.7	109306.3	127253.0	131366.0	134989.0	15896.4	14.3	7736.0	6.1
1.2 Foreign Currency Deposits	17904.9	17388.4	20131.0	21174.6	20340.0	2226.1	12.4	209.0	1.0
1.3 Other Foreign Liabilities	1845.7	510.9	3405.4	1386.8	4629.7	1559.7	84.5	1224.3	36.0
2. Net Domestic Assets	**149039.0**	**154504.1**	**164863.5**	**168501.3**	**185398.3**	**15824.5**	**10.6**	**20534.9**	**12.5**
2.1 Domestic Credit	227257.6	228443.8	243627.1	251088.9	275526.7	16369.5	7.2	31899.6	13.1
a. Net Claims on Govt.	64342.9	62825.0	57123.8	62313.7	59884.3	-7219.1	-11.2	2760.5	4.8
i. Claims on Govt.	64342.9	63286.7	62154.8	63066.7	66485.6	-2188.1	-3.4	4330.8	7.0
ii. Govt. Deposits	--	461.7	5031.0	753.0	6601.4	5031.0	--	1570.4	31.2
b. Claims on Non-Financial Govt.Ent.	2857.8	2833.2	3403.0	2914.9	5298.4	545.2	19.1	1895.3	55.7
c. Claims on Financial Institutions	11790.0	11828.7	13191.0	13343.9	12358.2	1401.0	11.9	-832.8	-6.3
i. Government	11758.0	11739.0	13050.4	13203.3	12326.2	1292.4	11.0	-724.2	-5.5
ii. Non-government	32.0	89.7	140.6	140.6	32.0	108.6	339.4	-108.6	-77.2
d. Claims on Private Sector	148266.9	150956.9	169909.3	172516.5	197985.9	21642.4	14.6	28076.7	16.5
2.2 Net Non-monetary Liabilities	78218.6	73939.8	78763.6	82587.7	90128.4	545.0	0.7	11364.8	14.4
3. Broad Money (M_2)	**240645.1**	**245911.1**	**268580.1**	**277305.9**	**295417.6**	**27935.0**	**11.6**	**26837.5**	**10.0**
3.1 Money Supply (M_1)	80696.2	83753.9	88385.9	93969.5	98532.5	7689.7	9.5	10146.7	11.5
a. Currency	57613.6	56885.7	61674.0	63218.9	68352.2	4060.4	7.0	6678.2	10.8
b. Demand Deposits	23082.5	26868.2	26711.9	30750.7	30180.4	3629.4	15.7	3468.5	13.0
3.2 Time Deposits	159948.9	162157.2	180194.2	183336.4	196885.1	20245.3	12.7	16690.8	9.3
4. Broad Money Liquidity (M_3)	**258550.0**	**263299.5**	**288711.1**	**298480.5**	**315757.6**	**30161.2**	**11.7**	**27046.5**	**9.4**

e = Estimates.

Table 7

Treasury Bills Sale Auction

FY 2004/05

(Rs. in Million)

Auction Date		Maturity Date		Auction Amount	Bid Amount	Accepted Amount	Average Weighted Disc. Rate (%)
2061.06.14	2004.09.30	2062.03.28	2005.07.12	1,000.0	3,100.0	1,000.0	3.5639
2061.06.14	2004.09.30	2062.06.04	2005.09.20	2,000.0	5,730.0	2,000.0	4.0260
2061.06.19	2004.10.05	2062.06.11	2005.09.27	5,449.0	10,500.0	1,050.0	4.2398
2061.06.26	2004.10.12	2062.03.28	2005.07.12	2,000.0	6,090.0	2,000.0	3.1217
2061.06.28	2004.10.14	2062.06.11	2005.09.27	2,500.0	2,950.0	2,500.0	3.7304
2061.06.28	2004.10.14	2062.03.28	2005.07.12	1,000.0	2,200.0	1,000.0	3.1711
2061.09.21	2005.01.05	2061.11.18	2005.03.01	600.0	750.0	350.0	2.0320
2061.09.23	2005.01.07	2061.11.18	2005.03.01	600.0	1,050.0	600.0	2.3508
2061.09.26	2005.01.10	2061.11.18	2005.03.01	850.0	100.0	-	-
2062.03.29	2005.07.13	2062.11.16	2006.02.28	3,980.3	1,430.0	-	-
2062.03.29	2005.07.13	2062.11.23	2006.03.07	555.2	310.0	-	-
2062.03.30	2005.07.14	2062.11.16	2006.02.28	3,980.3	1,610.0	-	-
2062.03.30	2005.07.14	2062.11.23	2006.02.07	555.2	400.0	-	-
Total				**25,070.1**	**36,220.0**	**10,500.0**	

Table 8

Treasury Bills Purchase Auction

FY 2004/05

(Rs. in Million)

Auction Date		Maturity Date		Holding Period	Auction Amount	Bid Amount	Accepted Amount	Average Weighted Disc. Rate (%)
2061.07.20	2004.11.05	2061.09.06	2004.12.21	46 days	1,000.0	25.0	25.0	2.4118
2061.07.20	2004.11.05	2061.09.13	2004.12.28	53 days	1,000.0	24.6	24.6	2.4518
2061.10.14	2005.01.27	2061.11.18	2005.03.01	34 days	750.0	310.0	310.0	2.7016
2061.10.15	2005.01.28	2061.11.18	2005.03.01	33 days	750.0	262.2	262.2	1.7429
2061.10.21	2005.02.03	2061.11.25	2005.03.08	33 days	250.0	50.0	50.0	1.8031
2061.10.22	2005.02.04	2061.11.18	2005.03.01	25 days	250.0	460.0	160.0	2.4538
2061.10.22	2005.02.04	2061.11.25	2005.03.08	32 days			90.0	2.3519
2061.10.27	2005.02.09	2061.11.18	2005.03.01	20 days	200.0	200.0	200.0	2.3249
2061.11.27	2005.03.10	2061.12.02	2005.03.15	5 days	500.0	190.0	100.0	2.0281
2061.11.27	2005.03.10	2061.12.09	2005.03.22	12 days			60.0	2.1683
2061.11.27	2005.03.10	2061.12.09	2005.03.22	12 days			30.0	2.2803
Total					**4,700.0**	**1,521.8**	**1,311.8**	

Table 9

Repo Auction

FY 2004/05

(Rs. in Million)

Auction Date		Maturity Date		Auction Amount	Bid Amount	Accepted Amount	Average Weighted Disc. Rate (%)
2061.07.12	2004.10.28	2061.07.19	2004.11.04	2,000.0	1,050.0	1,050.0	2.9769
2061.08.10	2004.11.25	2061.08.17	2004.12.02	2,000.0	1,610.0	1,610.0	3.1379
2061.10.14	2005.01.27	2061.10.21	2005.01.28	500.0	1,330.0	500.0	3.3076
2061.10.15	2005.01.28	2061.10.22	2005.02.04	500.0	1,150.0	500.0	3.0355
2061.10.20	2005.02.02	2061.10.27	2005.02.09	500.0	1,300.0	500.0	3.5697
2061.10.21	2005.02.03	2061.10.28	2005.02.10	500.0	800.0	500.0	2.9527
2061.10.22	2005.02.04	2061.10.29	2005.02.11	500.0	760.0	300.0	2.8702
2061.10.27	2005.02.09	2061.11.05	2005.02.16	500.0	558.0	500.0	2.9847
2061.11.28	2005.03.11	2061.12.05	2005.03.18	500.0	300.0	300.0	2.5345
2062.01.16	2005.04.29	2062.01.23	2005.05.06	1,000.0	800.0	600.0	2.4070
2062.03.16	2005.06.30	2062.03.22	2005.07.06	1,000.0	1,840.0	320.0	4.0638
Total				**9,500.0**	**11,498.0**	**6,680.0**	

Table 10

Reverse Repo Auction

FY 2004/05

(Rs. in Million)

Auction Date		Maturity Date		Offered Amount	Bid Amount	Accepted Amount	Average Weighted Disc. Rate (%)
2061.06.07	2004.09.23	2061.06.14	2004.09.30	500.0	1,810.0	500.0	0.1680
2061.06.14	2004.09.30	2061.06.21	2004.10.07	1,000.0	1,250.0	1,000.0	1.1289
2061.09.28	2005.01.12	2061.10.01	2005.01.14	2,990.0	2,570.0	2,570.0	2.2908
2061.12.26	2005.04.08	2062.01.12	2005.04.15	1,500.0	450.0	450.0	3.4342
2061.12.31	2005.04.13	2062.01.02	2005.04.15	3,000.0	750.0	750.0	3.5720
Total				**8,990.0**	**6,830.0**	**5,270.0**	

Table 11

Standing Liquidity Facility (SLF)

FY 2004/05

(Rs. in Million)

Auction Date		Maturity Date		Granted Amount	SLF Rate: 91 day T-Bill Rate	SLF Rate: Penal Rate	SLF Rate: Total Interest Rate
2061.04.32	2004.08.16	2061.05.04	2004.08.20	585.0	0.3975	0.5000	0.8975
2061.05.18	2004.09.03	2061.05.22	2004.09.07	189.0	0.3691	0.5000	0.8691
2061.06.18	2004.10.04	2061.06.22	2004.10.08	2095.5	0.2671	1.0000	1.2671
2061.06.25	2004.10.11	2061.06.28	2004.10.14	525.8	2.7240	2.0000	4.7240
2061.06.27	2004.10.13	2061.07.02	2004.10.18	207.00	2.3096	2.0000	4.3096
2061.06.28	2004.10.14	2061.07.03	2004.10.19	539.00	2.3096	2.0000	4.3096
2061.07.02	2004.10.18	2061.07.03	2004.10.19	6452.50	2.3095	2.0000	4.3095
2061.07.02	2004.10.18	2061.07.10	2004.10.26	1045.78	2.3095	2.0000	4.3095
2061.07.03	2004.10.18	2061.07.11	2004.10.27	1825.50	2.3095	2.0000	4.3095
2061.07.10	2004.10.26	2061.07.13	2004.10.29	2338.97	2.3095	2.0000	4.3095
2061.07.11	2004.10.27	2061.07.16	2004.11.01	147.78	2.3095	2.0000	4.3095
2061.07.12	2004.10.28	2061.07.19	2004.11.04	792.00	2.3095	2.0000	4.3095
2061.07.16	2004.11.01	2061.07.19	2004.11.04	470.00	2.3095	2.0000	4.3095
2061.07.16	2004.11.01	2061.07.18	2004.11.03	207.00	2.3095	2.0000	4.3095
2061.07.16	2004.11.01	2061.07.17	2004.11.02	67.50	2.3095	2.0000	4.3095
2061.07.17	2004.11.02	2061.07.19	2004.11.04	90.00	1.7498	2.0000	3.7498
2061.07.17	2004.11.02	2061.07.18	2004.11.03	171.00	1.7498	2.0000	3.7498
2061.07.19	2004.11.04	2061.07.20	2004.11.05	90.00	1.7498	2.0000	3.7498
2061.07.19	2004.11.04	2061.07.23	2004.11.08	147.78	1.7498	2.0000	3.7498
2061.07.24	2004.11.09	2061.07.26	2004.11.11	357.00	1.8072	2.0000	3.8072
2061.07.25	2004.11.10	2061.07.29	2004.11.14	351.00	1.8072	2.0000	3.8072
2061.07.26	2004.11.11	2061.07.29	2004.11.14	959.00	1.8072	2.0000	3.8072
2061.07.30	2004.11.15	2061.08.03	2004.11.18	324.00	1.8072	2.0000	3.8072
2061.08.01	2004.11.16	2061.08.01	2004.11.16	802.00	2.6757	2.0000	4.6757
2061.08.01	2004.11.16	2061.08.03	2004.11.18	181.00	2.6757	2.0000	4.6757
2061.08.02	2004.11.17	2061.08.02	2004.11.17	904.50	2.6757	2.0000	4.6757
2061.08.03	2004.11.18	2061.08.08	2004.11.23	180.00	2.6757	2.0000	4.6757
2061.08.07	2004.11.22	2061.08.10	2004.11.25	70.00	2.3533	2.0000	4.3533
2061.08.17	2004.12.02	2061.08.22	2004.12.07	225.00	2.4360	2.0000	4.4360
2061.09.28	2005.01.12	2061.10.01	2005.01.14	200.00	2.0171	2.0000	4.0171
2061.10.04	2005.01.17	2061.10.07	2005.01.20	150.00	2.0171	2.0000	4.0171
2061.10.07	2005.01.20	2061.10.08	2005.01.21	845.00	2.2342	2.0000	4.2342
2061.10.07	2005.01.20	2061.10.12	2005.01.25	842.50	2.2342	2.0000	4.2342
2061.10.11	2005.01.24	2061.10.12	2005.01.25	100.00	2.2342	2.0000	4.2342
2061.10.11	2005.01.24	2061.10.14	2005.01.27	987.30	2.2342	2.0000	4.2342
2061.10.12	2005.01.25	2061.10.14	2005.01.27	240.00	1.9999	2.0000	3.9999
2061.10.12	2005.01.25	2061.10.15	2005.01.28	300.00	1.9999	2.0000	3.9999
2061.10.14	2005.01.27	2061.10.15	2005.01.28	1220.00	1.9999	2.0000	3.9999
2061.10.18	2005.10.31	2061.10.21	2005.02.03	500.00	1.9999	2.0000	3.9999
2061.10.20	2005.02.02	2061.10.22	2005.02.04	465.00	2.2751	2.0000	4.2751
2061.10.20	2005.02.02	2061.10.25	2005.02.07	125.00	2.2751	2.0000	4.2751
2061.10.21	2005.02.03	2061.10.22	2005.02.04	200.00	2.2751	2.0000	4.2751
2061.10.25	2005.02.07	2061.10.26	2005.02.08	50.00	2.2751	2.0000	4.2751
2061.10.25	2005.02.07	2061.10.29	2005.02.11	200.00	2.2751	2.0000	4.2751
2061.11.03	2005.02.14	2061.11.04	2005.02.15	400.00	2.4821	2.0000	4.4821
2061.11.03	2005.02.14	2061.11.05	2005.02.16	125.00	2.4821	2.0000	4.4821
2061.11.03	2005.02.14	2061.11.06	2005.02.17	570.00	2.4821	2.0000	4.4821
2061.11.04	2005.02.15	2061.11.06	2005.02.17	230.00	2.7988	2.0000	4.7988
2061.11.05	2005.02.16	2061.11.06	2005.02.17	1680.00	2.7988	2.0000	4.7988
2061.11.05	2005.02.16	2061.11.10	2005.02.21	500.00	2.7988	2.0000	4.7988
2061.11.06	2005.02.17	2061.11.10	2005.02.21	240.00	2.7988	2.0000	4.7988
2061.11.10	2005.02.21	2061.11.11	2005.02.22	670.00	2.7988	2.0000	4.7988
2061.11.10	2005.02.21	2061.11.14	2005.02.25	1000.00	2.7988	2.0000	4.7988

contd...

Auction Date		Maturity Date		Granted Amount	SLF Rate		
					91 day T-Bill Rate	Penal Rate	Total Interest Rate
2061.11.11	2005.02.22	2061.11.12	2005.02.23	180.00	3.1018	2.0000	5.1018
2061.11.11	2005.02.22	2061.11.14	2005.02.25	835.00	3.1018	2.0000	5.1018
2061.11.12	2005.02.23	2061.11.13	2005.02.24	490.00	3.1018	2.0000	5.1018
2061.11.12	2005.02.23	2061.11.14	2005.02.25	1189.50	3.1018	2.0000	5.1018
2061.11.13	2005.02.24	2061.11.14	2005.02.25	1197.50	3.1018	2.0000	5.1018
2061.11.14	2005.02.25	2061.11.17	2005.02.28	30.00	3.1018	2.0000	5.1018
2061.11.17	2005.02.28	2061.11.18	2005.03.01	270.00	3.1018	2.0000	5.1018
2061.11.17	2005.02.28	2061.11.21	2005.03.04	350.00	3.1018	2.0000	5.1018
2061.11.18	2005.03.01	2061.11.21	2005.03.04	675.00	3.1361	2.0000	5.1361
2061.11.19	2005.03.02	2061.11.20	2005.03.03	170.00	3.1361	2.0000	5.1361
2061.11.24	2005.03.07	2061.11.28	2005.03.11	100.00	3.1361	2.0000	5.1361
2061.11.26	2005.03.09	2061.11.28	2005.03.11	500.00	2.9753	2.0000	4.9753
2061.12.01	2005.03.14	2061.12.05	2005.03.18	75.00	2.9753	2.0000	4.9753
2061.12.10	2005.03.23	2061.12.11	2005.03.24	1274.30	2.8576	2.0000	4.8576
2061.12.15	2005.03.28	2061.12.19	2005.04.01	413.60	2.8576	2.0000	4.8576
2061.12.17	2005.03.30	2061.12.18	2005.03.31	30.00	3.1641	2.0000	5.1641
2061.12.17	2005.03.30	2061.12.19	2005.04.01	325.00	3.1641	2.0000	5.1641
2061.12.22	2005.04.04	2061.12.26	2005.04.08	150.00	3.1641	2.0000	5.1641
2061.12.30	2005.04.12	2062.01.01	2005.04.14	170.00	3.1663	2.0000	5.1663
2061.12.31	2005.04.13	2062.01.01	2005.04.14	1590.00	3.5797	2.0000	5.5797
2062.01.02	2005.04.15	2062.01.05	2005.04.18	60.00	3.5797	2.0000	5.5797
2062.01.05	2005.04.18	2062.01.06	2005.04.19	160.00	3.5797	2.0000	5.5797
2062.01.08	2005.04.21	2062.01.09	2005.04.22	470.00	3.6383	2.0000	5.6383
2062.01.09	2005.04.22	2062.01.11	2005.04.24	50.00	3.6383	2.0000	5.6383
2062.01.14	2005.04.27	2062.01.16	2005.04.29	300.00	3.6368	2.0000	5.6368
2062.02.01	2005.05.15	2062.02.06	2005.05.20	300.00	3.7595	2.0000	5.7595
2062.02.11	2005.05.25	2062.02.13	2005.05.27	300.00	3.8381	1.5000	5.3381
2062.03.01	2005.06.15	2062.03.03	2005.06.17	520.00	3.9324	1.5000	5.4324
2062.03.01	2005.06.15	2062.03.05	2005.06.19	200.00	3.9324	1.5000	5.4324
2062.03.03	2005.06.17	2062.03.05	2005.06.19	150.00	3.9324	1.5000	5.4324
2062.03.05	2005.06.19	2062.03.08	2005.06.22	100.00	3.9324	1.5000	5.4324
2062.03.06	2005.06.20	2062.03.10	2005.06.24	135.00	3.9324	1.5000	5.4324
2062.03.10	2005.06.24	2062.03.12	2005.06.26	420.00	4.0266	1.5000	5.5266
2062.03.12	2005.06.26	2062.03.17	2005.07.01	100.00	4.0266	1.5000	5.5266
2062.03.13	2005.06.27	2062.03.17	2005.07.01	155.00	4.0266	1.5000	5.5266
2062.03.17	2005.07.01	2062.03.19	2005.07.03	100.00	3.9324	1.5000	5.4324
2062.03.24	2005.07.08	2062.03.26	2005.07.10	90.00	3.9188	1.5000	5.4188
2062.03.29	2005.07.13	2062.04.02	2005.07.17	1100.00	3.7330	1.5000	5.2330
2062.03.29	2005.07.13	2062.04.03	2005.07.18	402.05	3.7330	1.5000	5.2330
Total				**49,307.3**			

Table 12

Standing Liquidity Facility (SLF) by Banks

FY 2004/05

(Rs. in Billion)

Commercial Banks	SLF	
	Amount	**Percent**
Nepal Arab Bank Limited (Nabil)	13.4	27.2
Nepal Bangladesh Bank Limited (NBB)	11.6	23.4
Standard Chartered Bank Nepal Limited (SCB)	7.2	14.6
Bank of Kathmandu (BOK)	3.4	6.9
Nepal Industrial and Commercial Bank Limited (NIC)	2.5	5.1
Kumari Bank Limited (KBL)	2.2	4.5
Nepal Credit and Commerce Bank Limited (NCC)	2.1	4.3
Himalayan Bank Limited (HBL)	1.7	3.4
Everest Bank Limited (EBL)	1.4	2.8
Nepal SBI Bank Limited (SBI)	1.1	2.2
Others	2.7	5.6
Total	**49.3**	**100.0**

Table 13

Structure of Interest Rates

(Percent per annum)

Year Mid-month	2003 Jul#	2004 Jul#	2003 Oct.	2004 Jan.	2004 Apr.	2004 May	2004 Jun	2004 Jul	2004 Oct.	2005 Jan	2005 Apr	2005 May	2005 Jun	2005 Jul
A. Government Securities														
Treasury Bills* (28 days)#	-	1.82	3.27	3.26	0.30	0.22	0.66	1.82	1.23	1.74	2.28	-	-	-
Treasury Bills* (91 days)#	3.48	2.93	3.70	3.95	1.70	0.70	0.82	1.47	1.34	2.08	3.11	3.70	3.82	3.94
Treasury Bills* (182 days)#	-	3.44	4.67	4.76	1.70	1.76	2.18	-	2.03	2.51	3.72	-	3.98	4.42
Treasury Bills* (364 days)#	4.71	4.15	5.30	4.95	3.02	2.65	2.57	3.81	3.53	2.49	3.98	4.84	4.87	4.79
National Savings Certificates	7.0-13.0	6.5-13.0	7.0-13.0	7.0-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0
Development Bonds	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0
B. Nepal Rastra Bank														
CRR	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0
Bank and Refinance Rates	2.0-5.5	2.0-5.5	2.0-5.5	2.0-5.5	2.0-5.5	2.0-5.5	2.0-5.5	2.0-5.5	1.5-5.5	1.5-5.5	1.5-5.5	1.5-5.5	1.5-5.5	1.5-5.5
C. Interbank Rate #	**3.61**	**3.03**	**3.60**	**4.68**	**0.83**	**1.01**	**0.99**	**0.71**	**0.83**	**3.49**	**4.50**	**4.28**	**4.13**	**4.71**
D. Commercial Banks														
1. Deposit Rates														
Savings Deposits	2.5-6.0	2.0-5.0	2.5-5.50	2.5-5.50	2.25-5.0	2.25-5.0	2.25-5.0	2.0-5.0	2.0-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-5.0
Time Deposits														
1 Month		2.0-3.5	2.0-4.0	2.0-3.5	2.0-3.5	2.0-3.5	2.0-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.75-3.5	1.75-3.5	1.75-3.5
3 Months	2.0-5.0	2.0-4.0	2.0-5.0	2.0-5.0	2.0-4.5	2.0-4.5	2.0-4.0	2.0-4.0	1.5-4.0	1.5-4.0	1.5-4.0	1.5-4.0	1.5-4.0	1.5-4.0
6 Months	2.5-6.0	2.0-4.5	2.5-6.0	2.5-6.0	2.5-5.5	2.5-5.5	2.5-4.5	2.0-4.5	1.75-4.5	1.75-4.5	1.75-4.5	2.5-4.5	2.5-4.5	2.5-4.5
1 Year	3.0-7.0	2.75-5.75	3.0-7.0	3.0-7.0	2.75-6.0	2.75-6.0	2.75-6.0	2.75-5.75	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0
2 Years and Above	3.25-7.50	3.0-6.00	3.25-7.50	3.25-7.50	3.0-6.50	3.0-6.50	3.0-6.50	3.0-6.00	2.5-5.25	2.5-6.25	2.5-6.25	2.5-6.05	2.5-6.05	2.5-6.05

contd...

Year Mid-month	2003 Jul#	2004 Jul#	2003 Oct.	2004 Jan.	2004 Apr.	2004 May	2004 Jun	2004 Jul	2004 Oct.	2005 Jan	2005 Apr	2005 May	2005 Jun	2005 Jul
2. Lending Rates														
Industry	8.50-14.0	8.5-13.5	8.5-14.0	8.5-14.0	8.5-14.0	8.5-13.5	8.5-13.5	8.5-13.5	8.5-13.5	8.25-13.5	8.25-13.5	8.25-13.5	8.25-13.5	8.25-13.5
Agriculture	10.5-14.5	10.5-13	10.5-14.5	10.5-14.5	10.5-13	10.5-13	10.5-13	10.5-13	9.5-13	9.5-13	10.5-13	10-13	10-13	10-13
Export Bills	4.0-12.5	4.0-11.5	4.0-12.5	4.0-12.5	4.0-11.5	4.0-11.5	4.0-11.5	4.0-11.5	4.0-11.0	4.0-11.0	4.0-12.0	4.0-12.0	4.0-12.0	4.0-12.0
Commercial Loans	7.50-16.0	9-14.5	7.50-16	7.50-16	9-15.5	9-14.5	9-14.5	9-14.5	9-14.0	8.25-14.5	8.25-14.5	8.25-14	8.25-14	8.0-14
Overdrafts	10.0-17.0	10.0-16.0	10.0-17.0	10.0-17.0	10.0-16.0	10.0-16.0	10.0-16.0	10.0-16.0	9.5-15.5	6.5-14.5	6.5-14.5	5-14.5	5-14.5	5-14.5
CPI Inflation (annual average)	**4.8**	**4.0**						**4.0**						**4.5**

Annual average weighted rate at the end of fiscal year (mid-July).
* Weighted average discount rate.

Table 14

Weighted Average Treasury Bills Rate (91-day)

(Percent)

FY	Mid-Month Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Annual Average
1989/90	5.08	5.09	6.06	6.60	5.56	6.12	7.42	5.12	-	6.12	7.05	6.55	6.20
1990/91	7.51	7.67	-	7.96	8.07	-	8.37	8.24	8.71	8.54	8.65	8.74	8.18
1991/92	8.43	8.78	8.84	8.70	8.82	8.93	9.33	9.56	9.60	9.64	9.59	9.64	9.24
1992/93	10.17	10.45	12.17	11.68	12.03	12.36	12.57	12.43	11.30	9.56	11.28	11.92	11.34
1993/94	8.49	5.94	7.24	8.74	6.05	3.93	7.57	7.56	6.38	4.93	5.31	6.01	6.50
1994/95	6.36	6.26	6.54	7.02	6.91	6.99	7.38	7.97	8.12	7.94	7.89	8.33	7.35
1995/96	8.34	8.61	8.78	9.14	9.69	11.83	12.68	12.21	10.93	12.70	12.88	12.66	10.93
1996/97	12.18	11.75	11.43	11.63	11.51	11.47	11.62	10.99	9.77	8.51	6.03	5.62	10.22
1997/98	4.87	3.36	3.81	3.36	2.63	2.71	3.90	4.00	4.17	3.44	3.24	2.87	3.52
1998/99	1.61	0.90	0.85	2.88	3.24	3.29	1.61	1.21	2.16	3.09	3.35	3.32	2.33
1999/00	3.40	2.90	3.41	4.09	3.99	4.44	5.16	5.60	5.46	5.73	5.46	5.36	4.66
2000/01	5.43	5.22	4.87	5.24	5.30	5.26	5.17	4.55	3.87	4.67	4.94	4.95	4.96
2001/02	4.78	3.78	4.66	4.96	4.95	4.85	5.19	5.39	5.05	4.86	4.52	3.78	4.71
2002/03	3.42	3.49	3.60	4.03	3.75	4.10	4.01	3.91	4.06	2.91	1.67	2.98	3.48
2003/04	4.03	3.66	3.70	3.68	3.85	3.95	3.94	3.81	1.70	0.70	0.82	1.47	2.93
2004/05	0.62	0.63	1.34	1.97	2.40	2.08	2.38	2.94	3.11	3.70	3.82	3.94	2.46

Table 15

Weighted Average Treasury Bills Rate (364-day)

(Percent)

FY	Mid-Month												Annual
	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Average
1996/97	-	-	-	-	-	11.96	-	-	10.53	-	8.98	-	10.34
1997/98	-	-	-	-	-	6.30	-	-	7.25	-	6.99	-	6.86
1998/99	-	-	-	-	-	-	-	-	4.91	5.42	5.31	-	5.13
1999/00	-	-	-	-	5.67	5.57	6.08	7.28	6.14	-	-	-	6.16
2000/01	-	-	-	-	5.73	5.44	5.46	5.11	4.92	5.27	5.52	5.62	5.26
2001/02	-	-	-	-	5.51	5.15	5.66	5.56	5.14	5.04	4.99	4.43	5.20
2002/03	-	-	-	-	4.08	4.46	4.22	4.94	5.13	4.63	3.31	4.93	4.71
2003/04	5.31	5.18	5.30	5.15	5.12	4.95	4.70	4.04	3.02	2.65	2.57	3.81	4.15
2004/05	-	-	3.53	-	3.06	2.49	2.78	3.54	3.98	4.84	4.87	4.79	4.32

Table 16

Weighted Average Interbank Transaction Rate

(Percent)

	Fiscal Year						
Mid-Month	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**
August	1.37	2.67	4.83	3.06	2.98	4.15	1.02
September	1.39	1.72	4.85	2.62	2.50	2.67	0.39
October	1.38	3.32	4.01	4.02	3.31	3.60	0.83
November	1.68	4.10	4.82	4.50	4.05	4.21	2.24
December	2.12	3.82	4.70	4.41	3.62	4.63	3.54
January	2.10	3.95	5.06	4.03	3.83	4.68	3.49
February	1.54	4.52	4.05	6.31	3.61	4.82	3.95
March	0.73	4.96	4.29	5.51	3.67	3.67	4.33
April	0.89	4.93	3.39	4.48	3.58	0.83	4.50
May	1.87	4.08	4.36	4.75	4.06	1.01	4.28
Jun	2.09	4.77	3.91	3.67	3.59	0.99	4.11
July	2.57	4.92	4.73	1.96	4.50	0.71	4.71
Annual Average	**1.75**	**4.16**	**4.50**	**4.22**	**3.62**	**3.03**	**3.39**

Table 17

Government Budgetary Operation[1]

(On cash basis)

During the Fiscal Year

(Rs. in Million)

Heads	2002/03	2003/04	2004/05P	Percent Change 2003/04	Percent Change 2004/05
Sanctioned Expenditure	**74716.0**	**82604.3**	**91127.1**	**10.6**	**10.3**
Recurrent	*	*	58842.0	-	-
Capital	*	*	17358.5	-	-
a.Domestic Resources & Loans	*	*	15822.0	-	-
b.Foreign Grants	*	*	1536.5	-	-
Principal Repayment	*	*	13536.3	-	-
Others (Freeze Account)	1370.9	1621.3	1390.3	18.3	-14.2
Unspent Government Balance	**1663.6**	**1441.8**	**4051.0**	**-13.3**	**181.0**
Recurrent	*	*	1991.9	-	-
Capital	*	*	2056.1	-	-
Principal Repayment	*	*	3.0	-	-
Actual Expenditure	**73052.4**	**81162.5**	**87076.1**	**11.1**	**7.3**
Recurrent	*	*	56850.1	-	-
Capital	*	*	15302.4	-	-
Principal Repayment	*	*	13533.3	-	-
Others (Freeze Account)	1370.9	1621.3	1390.3	18.3	-14.2
Resources	**60475.4**	**68499.7**	**76052.0**	**13.3**	**11.0**
Revenue	56229.8	62331.0	69878.8	10.9	12.1
From Foreign Grants	2499.7	5153.6	5250.6	106.2	1.9
Non-Budgetary Receipts, net	1605.9	855.9	806.8	-46.7	-5.7
Others #	135.9	164.5	164.0	21.0	-0.3
V.A.T.	4.1	-5.3	-48.2	-229.3	809.4
Deficit (-) Surplus (+)	**-12577.0**	**-12662.8**	**-11024.1**	**0.7**	**-12.9**
Sources of Financing	**12577.0**	**12662.8**	**11024.1**	**0.7**	**-12.9**
Internal Loans	8274.6	4971.0	8814.4	-39.9	77.3
a. Treasury Bills	*1768.5*	*2460.0*	*5471.2*	*39.1*	*122.4*
b. Development Bonds	*6408.5*	*2000.0*	*3000.0*	*-68.8*	*50.0*
c. National Savings Certificates	*400.0*	*900.0*	*216.9*	*125.0*	*-75.9*
d. Citizen Saving Certificates	*303.0*	*247.8*	*250.0*	*-18.2*	*0.9*
e. Overdrafts+	*-461.7*	*-753.0*	*104.7*	*63.1*	*-113.9*
f. Others@	*-143.7*	*116.2*	*-228.4*	*-180.9*	*-296.6*
Foreign Loans	4302.4	7691.8	2209.7	78.8	-71.3

1 = As per NRB records.
P = Provisional
# = Change in outstanding amount disbursed to VDC/DDC remaining unspent.
+ = Minus (-) indicates surplus.
@ = Interest from government treasury transactions and others.
* = Data of this period is not available because of reclassification of the government account from the current fiscal year.

Table 18
Outstanding Domestic Debt of HMG
During FY 2004/05

(Rs. in Million)

Name of Bonds/Ownership	2003/04 Mid-Jul	2004/05 Mid-Aug	Mid-Sep	Mid-Oct	Mid-Nov	Mid-Dec.	Mid-Jan	Mid-Feb.	Mid-Mar.	Mid-Apr.	Mid-May.	Mid-Jun	Change Jun 05 - Jul. 04
1. Treasury Bills	**49429.6**	**49429.6**	**49429.6**	**49929.6**	**48999.6**	**49541.6**	**50391.6**	**50391.6**	**51088.1**	**52388.1**	**52888.1**	**53623.1**	**4193.5**
a. Banking Sector	45958.7	45958.7	46076.2	47131.0	46370.4	46946.1	48026.1	48001.1	48686.4	50069.4	50481.9	51427.4	5468.7
i. Nepal Rastra Bank	9804.4	9854.4	9594.4	5741.7	6340.7	7440.7	4271.1	8463.3	11786.4	10646.4	11596.4	11246.4	1442.0
ii. Commercial Banks	36154.3	36104.3	36481.8	41389.3	40029.7	39505.4	43755.0	39537.8	36900.0	39423.0	38885.5	40181.0	4026.7
b. Non-Banking Sector	3470.9	3470.9	3353.4	2798.6	2629.2	2595.5	2365.5	2390.5	2401.7	2318.7	2406.2	2195.7	-1275.2
(of which ADB/N)	*690.0*	*690.0*	*640.0*	*500.0*	*500.0*	*450.0*	*510.0*	*610.0*	*550.0*	*430.0*	*480.0*	*240.0*	*-450.0*
2. Development Bonds	**17549.2**	**17549.2**	**17549.2**	**17549.2**	**17549.2**	**17549.2**	**17549.2**	**16999.2**	**16999.2**	**16999.2**	**16999.2**	**18499.2**	**950.0**
a. Banking Sector	9885.7	9729.8	9729.8	9660.1	9546.1	9117.2	9021.2	8263.1	8147.6	8106.1	8106.1	8913.2	-972.5
*i. Nepal Rastra Bank **	3298.3	3142.4	3142.4	3072.7	2958.7	2529.8	2433.8	1675.7	1560.2	1518.7	1518.7	1518.7	-1779.6
ii. Commercial Banks	6587.4	6587.4	6587.4	6587.4	6587.4	6587.4	6587.4	6587.4	6587.4	6587.4	6587.4	7394.5	807.1
b. Non-Banking Sector **	7663.5	7819.4	7819.4	7889.1	8003.1	8432.0	8528.0	8736.1	8851.6	8893.1	8893.1	9586.0	1922.5
3. National Saving Certificates	**9029.8**	**9029.8**	**9029.8**	**9029.8**	**9029.8**	**9029.8**	**9029.8**	**9029.8**	**8559.8**	**8776.7**	**8076.8**	**7376.8**	**-1653.0**
a. Banking Sector	450.8	422.9	275.5	274.8	267.7	301.6	253.5	198.5	98.4	250.4	241.7	233.9	-216.9
i. Nepal Rastra Bank	340.8	312.9	165.5	164.8	157.7	191.6	143.5	88.5	98.4	250.4	241.7	233.9	-106.9
ii. Commercial Banks	110.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	0.0	0.0	0.0	0.0	-110.0
b. Non-Banking Sector +	8579.0	8606.9	8754.3	8755.0	8762.1	8728.2	8776.3	8831.3	8461.4	8526.3	7835.1	7142.9	-1436.1
4. Citizen Saving Bonds	**1178.9**	**1178.9**	**1178.9**	**1178.9**	**1178.9**	**1178.9**	**1178.9**	**1178.9**	**1178.9**	**1178.9**	**1178.9**	**1178.9**	**0.0**
a. Banking Sector	45.8	46.8	47.2	47.2	47.6	47.6	47.6	47.6	47.6	47.6	48.6	48.6	2.8
i. Nepal Rastra Bank	45.8	46.8	47.2	47.2	47.6	47.6	47.6	47.6	47.6	47.6	48.6	48.6	2.8
b. Non-Banking Sector	1133.1	1132.1	1131.7	1131.7	1131.3	1131.3	1131.3	1131.3	1131.3	1131.3	1130.3	1130.3	-2.8

contd...

Name of Bonds/Ownership	2003/04 Mid-Jul	2004/05 Mid-Aug	Mid-Sep	Mid-Oct	Mid-Nov	Mid-Dec.	Mid-Jan	Mid-Feb.	Mid-Mar.	Mid-Apr.	Mid-May.	Mid-Jun	Change Jun 05 - Jul. 04
5. Special Bonds	**8946.2**	**8962.2**	**8962.2**	**8970.2**	**8970.2**	**8978.9**	**8984.2**	**8862.0**	**8306.7**	**8330.7**	**8170.5**	**8176.3**	**-769.9**
a. Banking Sector	6530.9	6530.9	6530.9	6530.9	6530.9	6530.9	6530.9	6407.2	5851.9	5851.9	5666.9	5666.9	-864.0
i. Nepal Rastra Bank ++	*5586.3*	*5586.3*	*5586.3*	*5586.3*	*5586.3*	*5586.3*	*5586.3*	*5462.6*	*4907.3*	*4907.3*	*4722.3*	*4722.3*	*-864.0*
ii. Commercial Banks	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	0.0
b .Non-Banking Sector	2415.3	2431.3	2431.3	2439.3	2439.3	2448.0	2453.3	2454.8	2454.8	2478.8	2503.6	2509.4	94.1
(Of which duty drawback)	941.7	941.7	957.8	973.8	965.7	974.5	974.5	981.3	981.3	1005.3	1030.1	1035.9	94.2
6. Short Term Loan &Advances	**-753.0**	**-4383.8**	**-4594.4**	**-2346.1**	**-2158.1**	**-2557.3**	**-4599.1**	**-4503.4**	**-2777.4**	**-4769.3**	**-4122.1**	**-6600.5**	**-5847.5**
Nepal Rastra Bank	-753.0	-4383.8	-4594.4	-2346.1	-2158.1	-2557.3	-4599.1	-4503.4	-2777.4	-4769.3	-4122.1	-6600.5	-5847.5
7. Grand Total	85380.7	81765.9	81555.3	84311.6	83569.6	83721.1	82534.6	81958.1	83355.3	82904.3	83191.4	82253.8	-3126.9
a. Banking Sector	62118.9	58305.3	58065.2	61297.9	60604.6	60386.1	59280.2	58414.1	60054.5	59556.1	60423.1	59689.5	-2429.4
i. Nepal Rastra Bank	*18322.6*	*14559.0*	*13941.4*	*12266.6*	*12932.9*	*13238.7*	*7883.2*	*11234.3*	*15622.5*	*12601.1*	*14005.6*	*11169.4*	*-7153.2*
ii. Commercial Banks	*43796.3*	*43746.3*	*44123.8*	*49031.3*	*47671.7*	*47147.4*	*51397.0*	*47179.8*	*44432.0*	*46955.0*	*46417.5*	*48520.1*	*4723.8*
b. Non-Banking Sector	23261.8	23460.6	23490.1	23013.7	22965.0	23335.0	23254.4	23544.0	23300.8	23348.2	22768.3	22564.3	-697.5
(of which ADB/N)	*690.0*	*690.0*	*640.0*	*500.0*	*500.0*	*450.0*	*510.0*	*610.0*	*550.0*	*430.0*	*480.0*	*240.0*	*-450.0*

* Includes NRB CSI Project Rs 8.9 million.

** Includes Rs. 1945.5 million of various funds of NRB.

\+ Includes Rs. 11.6 million of various funds of NRB.

++ Includes Special Bonds, IMF Promissory Note, and 10 Years Bonds.

Source : Nepal Rastra Bank.

Table 19

Direction of Foreign Trade*

(During the First Eleven Months of Fiscal Year)

(Rs. in Million)

	2001/02	2002/03	2003/04[R]	2004/05[E]	Percent Change 2002/03	2003/04	2004/05
Total Exports (f.o.b.)	**43636.0**	**46095.1**	**49750.7**	**52910.7**	**5.6**	**7.9**	**6.4**
To India	26293.7	24449.6	28298.3	35892.4	-7.0	15.7	26.8
To Other Countries	17342.3	21645.5	21452.4	17018.3	24.8	-0.9	-20.7
Total Imports (c.i.f.)	**97649.8**	**113019.2**	**122413.9**	**118201.6**	**15.7**	**8.3**	**-3.4**
From India	51002.4	64448.0	69716.8	76711.0	26.4	8.2	10.0
From Other Countries	46647.4	48571.2	52697.1	41490.6	4.1	8.5	-21.3
Trade Balance	**-54013.8**	**-66924.1**	**-72663.2**	**-65290.9**	**23.9**	**8.6**	**-10.1**
With India	-24708.7	-39998.4	-41418.5	-40818.6	61.9	3.6	-1.4
With Other Countries	-29305.1	-26925.7	-31244.7	-24472.3	-8.1	16.0	-21.7
Total Trade	**141285.8**	**159114.3**	**172164.6**	**171112.3**	**12.6**	**8.2**	**-0.6**
With India	77296.1	88897.6	98015.1	112603.4	15.0	10.3	14.9
With Other Countries	63989.7	70216.7	74149.5	58508.9	9.7	5.6	-21.1

contd...

	2001/02	2002/03	2003/04[R]	2004/05[E]
1. Export / Import Ratio	**44.7**	**40.8**	**40.6**	**44.8**
India	51.6	37.9	40.6	46.8
Other Countries	37.2	44.6	40.7	41.0
2. Share in Total Export				
India	60.3	53.0	56.9	67.8
Other Countries	39.7	47.0	43.1	32.2
3. Share in Total Import				
India	52.2	57.0	57.0	64.9
Other Countries	47.8	43.0	43.0	35.1
4. Share in Trade Balance				
India	45.7	59.8	57.0	62.5
Other Countries	54.3	40.2	43.0	37.5
5. Share in Total Trade				
India	54.7	55.9	56.9	65.8
Other Countries	45.3	44.1	43.1	34.2
6. Share of Exports and Import in Total Trade				
Exports	30.9	29.0	28.9	30.9
Imports	69.1	71.0	71.1	69.1

R = Revised
E = Estimate
* = Customs based data

Table 20

Balance of Payments Situation

(Rs in Million)

Particulars	2002/03 Ten months	2002/03 Annual	2003/04 Ten months	2003/04 Annual	2004/05 Ten months	% Change During 10 months 2003/04	% Change During 10 months 2004/05
A. Current Account	**12904.9**	**11614.7**	**14495.1**	**14598.0**	**25884.3**	**12.3**	**78.6**
Goods: Exports f.o.b.	42800.9	50760.7	46268.8	55228.3	48662.5	8.1	5.2
Oil	0.0	0.0	0.0	0.0	0.0	-	-
Other	42800.9	50760.7	46268.8	55228.3	48662.5	8.1	5.2
Goods: Imports f.o.b.	-99753.1	-121053.0	-107626.5	-132909.9	-104480.7	7.9	-2.9
Oil	-15648.2	-18811.6	-15994.4	-20167.3	-21299.2	2.2	33.2
Other	-84104.9	-102241.4	-91632.1	-112742.6	-83181.5	8.9	-9.2
Balance on Goods	-56952.2	-70292.3	-61357.7	-77681.6	-55818.2	7.7	-9.0
Services: Net	5752.0	7049.7	8736.1	9074.9	1671.9	51.9	-80.9
Services: credit	21552.0	26518.9	27186.8	34315.9	21870.8	26.1	-19.6
Travel	9484.2	11747.7	14539.3	18147.4	9738.5	53.3	-33.0
Government n.i.e.	5513.0	6624.0	5449.3	7143.9	5493.0	-1.2	0.8
Other	6554.8	8147.2	7198.2	9024.6	6639.3	9.8	-7.8
Services: debit	-15800.0	-19469.2	-18450.7	-25241.0	-20198.9	16.8	9.5
Transportation	-7145.5	-8618.4	-7758.1	-9382.1	-7479.4	8.6	-3.6
Travel	-5033.2	-6171.5	-6124.0	-10021.5	-7199.8	21.7	17.6
Other	-3621.3	-4679.3	-4568.6	-5837.4	-5519.7	26.2	20.8
Balance on Goods and Services	-51200.2	-63242.6	-52621.6	-68606.7	-54146.3	2.8	2.9
Income: Net	-428.5	-675.7	-1760.9	-1683.9	-391.4	310.9	-77.8
Income: credit	3637.8	4487.0	2659.9	3841.5	4605.4	-26.9	73.1
Income: debit	-4066.3	-5162.7	-4420.8	-5525.4	-4996.8	8.7	13.0
Balance on Goods, Services and Income	-51628.7	-63918.3	-54382.5	-70290.6	-54537.7	5.3	0.3
Transfers: Net	64533.6	75533.0	68877.6	84888.6	80422.0	6.7	16.8
Current transfers: credit	66530.1	77765.1	72121.2	89161.8	83222.3	8.4	15.4
Grants	10980.8	13842.2	15020.2	19557.8	18003.5	36.8	19.9
Workers' remittances	47718.2	54203.3	49145.2	58587.6	53011.0	3.0	7.9
Pensions	6278.9	7327.3	6105.5	7906.2	10489.9	-2.8	71.8
Other	1552.2	2392.3	1850.3	3110.2	1717.9	19.2	-7.2
Current transfers: debit	-1996.5	-2232.1	-3243.6	-4273.2	-2800.3	62.5	-13.7
B. Capital Account (Capital Transfer)	**5025.2**	**5393.9**	**1222.4**	**1452.2**	**866.5**	**-75.7**	**-29.1**
Total, Group A plus B	**17930.1**	**17008.6**	**15717.5**	**16050.2**	**26750.8**	**-12.3**	**70.2**
C. Financial Account (Excluding Group E)	**-17716.1**	**-17198.9**	**-20515.2**	**-21540.1**	**-25320.0**	**15.8**	**23.4**
Direct investment in Nepal	-139.9	961.4	0.0	0.0	26.4	-	-
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	-	-
-	-38670.6	-34629.5	-31338.4	-32591.2	-22205.1	-19.0	-29.1
Trade credits	-1008.3	1041.0	-5695.3	-2247.6	-2494.9	464.8	-56.2
Other	-37662.3	-35670.5	-25643.1	-30343.6	-19710.2	-31.9	-23.1
Other investment: liabilities	21094.4	16469.2	10823.2	11051.1	-3141.3	-48.7	-129.0
Trade credits	18040.9	16899.3	2082.9	3629.8	-4037.7	-88.5	-293.8
Loans	189.9	-52.4	4553.7	3325.2	76.5	2297.9	-98.3
General Government	272.9	-432.8	4598.0	3479.1	564.1	1584.9	-87.7
Drawings	4436.9	5236.0	8482.8	9244.7	5591.9	91.2	-34.1
Repayments	-4164.0	-5668.8	-3884.8	-5765.6	-5027.8	-6.7	29.4
Other sectors	-83.0	380.4	-44.3	-153.9	-487.6	-46.6	1000.7
Currency and deposits	2863.6	-377.7	4186.6	4096.1	819.9	46.2	-80.4
Nepal Rastra Bank	-134.6	-23.4	-52.3	-77.4	46.1	-61.1	-188.1
Deposit money banks	2998.2	-354.3	4238.9	4173.5	773.8	41.4	-81.7
Other liabilities	0.0	0.0	0.0	0.0	0.0	-	-
Total, Group A through C	**214.0**	**-190.3**	**-4797.7**	**-5489.9**	**1430.8**	**-2341.9**	**-129.8**
D. Net Errors and Omissions	**4839.0**	**4176.1**	**22654.9**	**25591.2**	**4959.4**	**368.2**	**-78.1**
Total, Group A through D	**5053.0**	**3985.8**	**17857.2**	**20101.3**	**6390.2**	**253.4**	**-64.2**
E. Reserves and Related Items	**-5053.0**	**-3985.8**	**-17857.2**	**-20101.3**	**-6390.2**	**253.4**	**-64.2**
Reserve assets	-4752.3	-3685.2	-18413.8	-20658.0	-7175.3	287.5	-61.0
Nepal Rastra Bank	-4121.2	-7809.9	-16658.8	-19507.8	-5099.8	304.2	-69.4
Deposit money banks	-631.1	4124.7	-1755.0	-1150.2	-2075.5	178.1	18.3
Use of Fund Credit and Loans	-300.7	-300.6	556.6	556.7	785.1	-285.1	41.1
Changes in reserve net (- increase)	**-2189.4**	**-4363.5**	**-13670.6**	**-16005.2**	**-5570.3**	**524.4**	**-59.3**

Table 21

Foreign Exchange Intervention : 2004/05

(Rs. in Million)

Mid-Month	Month	Dates	Purchased			Sold			Net Injection (+) / Withdrawal (-) (NRs)
			Rate (Rs./ $)	Amount (US Dollar)	Amount (NRs)	Rate (Rs./ $)	Amount (US Dollar)	Amount (NRs)	
August '04	**Shravan**				**1,357.49**	**-**	**-**	**-**	**1,357.49**
		Shrawan 8	74.66	8.50	634.61				
		Shrawan 15	74.91	3.15	235.97				
		Shrawan 25	74.91	6.50	486.92				
September	**Bhadra**				**2,067.52**				**2,067.52**
		Bhadra 1	74.91	11.10	831.50				
		Bhadra 3	74.91	4.10	307.13				
		Bhadra 9	74.91	12.40	928.88				
October	**Aswin**				**3,687.79**				**3,687.79**
		Aswin 20	74.76	15.80	1,181.21				
		Aswin 22	74.76	8.10	605.56				
		Aswin 28	74.55	25.50	1,901.03				
November	**Kartik**				**2,435.07**			**1,088.43**	**1,346.64**
		Kartik 2				74.55	12.20	909.51	
		Kartik 3	74.5	8.60	640.87	74.55	2.40	178.92	
		Kartik 17	74.02	15.50	1,147.31				
		Kartik 25	73.51	8.80	646.89				
December	**Mangsir**				**3,233.32**			**-**	**3,233.32**
		Marga 4	73.26	14.20	1,040.29			-	
		Marga 14	73.26	13.30	974.36	-	-	-	
		Marga 22	71.71	16.20	1,161.70	-	-	-	
		Marga 25	71.21	0.80	56.97	-	-	-	
January '05	**Paush**				**4,718.09**			**-**	**4,718.09**
		Paush 5	71.26	12.00	855.12	-	-	-	
		Paush 9	71.26	8.50	605.71	-	-	-	
		Paush 22	70.53	8.70	613.61	-	-	-	
		Paush 28	71.45	37.00	2,643.65	-	-	-	

contd...

Mid-Month	Month	Dates	Purchased			Sold			Net Injection (+) / Withdrawal (-) (NRs)
			Rate (Rs./ $)	Amount (US Dollar)	Amount (NRs)	Rate (Rs./ $)	Amount (US Dollar)	Amount (NRs)	
February '05	**Magh**				**2,090.36**			**1,750.53**	**339.84**
		Magh 1			-	71.45	24.50	1,750.53	
		Magh 18	70.91	8.30	588.55	-	-	-	
		Magh 27	70.84	21.20	1,501.81	-	-	-	
March	**Falgun**				**2,120.21**			**-**	**2,120.21**
		Falgun 14	70.91	15.40	1,092.01	-	-	-	
		Falgun 21	70.91	7.00	496.37	-	-	-	
		Falgun 26	70.91	7.50	531.83	-	-	-	
April	**Chaitra**				**6,237.81**			**-**	**6,237.81**
		Chaitra 3	70.76	22.40	1,585.02	-	-	-	
		Chaitra 19	70.91	16.70	1,184.20	-	-	-	
		Chaitra 24	70.91	12.50	886.38	-	-	-	
		Chaitra 31	70.94	36.40	2,582.22	-	-	-	
May	**Baisakh**				**3,808.95**			**780.34**	**3,028.61**
		Baisakh 02			-	70.94	11.00	780.34	
		Baisakh 8	70.91	10.70	758.74			-	
		Baisakh 14	70.91	12.20	865.10	-	-	-	
		Baisakh 19	70.91	7.50	531.83	-	-	-	
		Baisakh 20	70.67	1.50	106.01	-	-	-	
		Baisakh 26	70.41	10.40	732.26	-	-	-	
		Baisakh 30	70.26	11.60	815.02	-	-	-	
June	**Jestha**				**2,288.94**			**-**	**2,288.94**
		Jestha 25	70.65	29.50	2,084.18	-	-	-	
		Jestha 27	70.61	2.90	204.77	-	-	-	
July	**Ashadh**				**3,849.10**			**-**	**3,849.10**
		Ashadh 7	70.61	9.50	670.80			-	
		Ashadh 14	70.61	11.00	776.71	-	-	-	
		Ashadh 15	70.61	5.50	388.36	-	-	-	
		Ashadh 29	70.64	28.50	2,013.24	-	-	-	
TOTAL					**37,894.65**			**3,619.30**	**34,275.36**

Table 22

Gross Foreign Exchange Holding of the Banking Sector

(Rs in Million)

	Mid-Jul. 2002	Mid-Jun. 2003	Mid-Jul. 2003	Mid-Jun. 2004	Mid-Jul. 2004	Mid-Jun. 2005	Percent Change Mid-Jun. 2004	Percent Change Mid-Jun. 2005
Nepal Rastra Bank	**80699.5**	**86450.7**	**86966.1**	**105745.2**	**107915.9**	**105809.8**	**22.3**	**0.1**
Convertible	56699.5	74324.9	76752.0	93098.0	96235.9	99282.5	25.3	6.6
Inconvertible	24000.0	12125.8	10214.1	12647.2	11680.0	6527.3	4.3	-48.4
Commercial Bank	**25201.7**	**23791.7**	**21263.3**	**20370.7**	**22289.2**	**28156.0**	**-14.4**	**38.2**
Convertible	23609.7	21996.0	20249.2	18578.2	20734.8	28027.7	-15.5	50.9
Inconvertible	1592.0	1795.7	1014.1	1792.5	1554.4	128.3	-0.2	-92.8
Total Reserve	**105901.2**	**110242.4**	**108229.4**	**126115.9**	**130205.1**	**133965.8**	**14.4**	**6.2**
Convertible	80309.2	96320.9	97001.2	111676.2	116970.7	127310.2	15.9	14.0
Share in total (in percent)	75.8	87.4	89.6	88.6	89.8	95.0		
Inconvertible	25592.0	13921.5	11228.2	14439.7	13234.4	6655.6	3.7	-53.9
Share in total (in percent)	24.2	12.6	10.4	11.4	10.2	5.0		
Import Capacity (Equivalent Months)								
Merchandise	11.8	10.7	10.4	11.3	11.5	12.5	-	-
Merchandise and Services	9.9	9.2	9.0	9.7	9.7	10.5	-	-
1. Gross Foreign Exchange Reserve	105901.2	110242.4	108229.4	126115.9	130205.1	133965.8	14.4	6.2
2. Gold,SDR,IMF Gold Tranche	1095.1	1114.3	1076.9	1137.1	1160.9	1023.4	2.0	-10.0
3. Gross Foreign Assets(1+2)	106996.3	111356.7	109306.3	127253.0	131366.0	134989.2	14.3	6.1
4. Foreign Liabilities	18577.1	19750.6	17899.3	23536.5	22561.4	24969.9	19.2	6.1
5. Net Foreign Assets(3-4)	88419.2	91606.1	91407.0	103716.5	108804.6	110019.3	13.2	6.1
6. Change in NFA (before adjusting exchange valuation)*	544.9	-3186.9	-2987.8	-12309.5	-17397.6	-1214.7	-	-
7. Exchange Valuation (- loss)	3963.8	699.7	-1375.6	-927.9	1392.5	-6431.0	-	-
8. Change in NFA (- increase) (6+7)**	4508.7	-2487.2	-4363.4	-13237.4	-16005.1	-7645.7	-	-

*= Change in NFA is derived by taking mid-July as base.

* * = After adjusting exchange valuation gain/loss

Sources: Nepal Rastra Bank and Commercial Banks; Estimated.

Table 23

Import from India Against US Dollar Payment

(Rs. in Million)

Mid-Month	2003/04	2004/05
August	728.7	726.1
September	980.1	1117.4
October	1114.2	1316.8
November	1019.2	1186.5
December	1354.5	1205.8
January	996.9	1394.9
February	1503.6	1154.4
March	1717.9	1107.8
April	2060.5	1567.2
May	1309.9	1830.8
Jun	1455.4	1825.2
July	1016.0	
Total	**15256.9**	**14432.9**

Table 24

Indian Currency Purchase

(Amount in Million)

Mid-Month	2003/04		2004/05	
	IC Purchase	US$ Sale	IC Purchase	US$ Sale
August	461.9	10.0	1,847.4	40.0
September	-	-	-	-
October	453.4	10.0	-	-
November	906.2	20.0	-	-
December	228.1	5.0	1,340.7	30.0
January	228.2	5.0	437.3	10.0
February	2,265.6	50.0	2,183.2	50.0
March	2,263.1	50.0	2,624.2	60.0
April	904.8	20.0	436.3	10.0
May	1,325.6	30.0	3,052.2	70.0
Jun	-	-	2,177.6	50.0
July	452.6	10.0	1,306.9	30.0
Total	9,489.3	210.0	15,405.8	350.0