MID-TERM REVIEW

OF THE

MONETARY POLICY FOR 2005/06

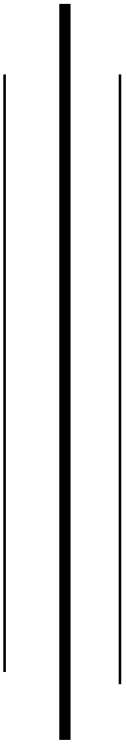
Nepal Rastra Bank
Central Office
Research Department
Baluwatar, Kathmandu

NEPAL

Mid-term Review of the Monetary Policy

for

2005/06



Nepal Rastra Bank

Central Office
Research Department
Baluwatar, Kathmandu
NEPAL

February 16, 2006

Acronyms Used

BOP	Balance of Payments
CAD	Cash Against Document
CAR	Capital Adequacy Ratio
CBS	Central Bureau of Statistics
CRR	Cash Reserve Ratio
GDP	Gross Domestic Product
GHC	Grievance Hearing Cell
HMG	His Majesty's Government
IMF	International Monetary Fund
IT	Information Technology
KYC	Know Your Customer
L/C	Letter of Credit
LMFF	Liquidity Monetary and Forecasting Framework
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NOC	Nepal Oil Corporations
NRB	Nepal Rastra Bank
NRs	Nepalese Rupees
OMOs	Open Market Operations
RBB	Rastriya Banijya Bank
RM	Reserve Money
SLF	Standing Liquidity Facility
STT	Second Tier Institution
US	United States
VAT	Value Added Tax

Table of Contents

	Page
Acronyms Used	(i)
Background	**1**
Economic Analysis	**1**
Gross Domestic Product	1
Goods and Asset Prices	3
External Sector Situation	7
Government Finance Situation	8
Monetary Analysis and Monetary Management	**9**
Monetary and Credit Aggregates, Reserve Money, Liquidity and Time Deposit	9
Interest Rate Situation	11
Monetary Management	12
Mid-term Review of Financial and External Sector Policy Measures as Specified in Annual Monetary Policy	**16**
Financial Sector	16
External Sector	19
Economic and Monetary Outlook	**20**
Monetary	

Savings	2.5-5.5	1.75-4.5	2.0-5.0
Commercial loans	7.5-16.0	8.25-14.5	8.0-14.0
Exchange rate*			
NRs/US Dollar	73.74	70.91	71.00
NRs/Euro	93.96	92.84	86.24
NRs/Pound Sterling	135.95	132.69	125.46
NRs/Japanese Yen	0.698	0.686	0.623
Price of Gold and Sliver			
Gold (NRs per 10 gram)	9945	9990	12580
Silver (NRs per 10 gram)	159.5	167	218

* Buying rate

External Sector Situation

21. Based on the available data, the external sector of the economy produced mixed results in the first six months of 2005/06. Overall balance of payments remained in surplus because of the increased inflow of workers' remittances. However, trade deficit widened resulting from the higher growth of imports. Despite the increase in trade deficit, there was no pressure in the exchange rate of the Nepalese rupee due to the surge in workers' remittances. Foreign exchange reserves remained at the comfortable level due to the increase in workers' remittances. The current level of foreign exchange reserves is sufficient enough to finance the imports of goods and service required for the nation as well as to pay the foreign loan liabilities. In overall, the external sector of the economy remained consolidated.

22. Based on the monetary statistics, the overall BOP posted a surplus of Rs. 5.3 billion in the five months of 2005/06 compared to a surplus of Rs. 1.8 billion in the corresponding period of 2004/05. A substantial rise in the BOP surplus is attributed mainly to the controlled level of budget deficit and domestic credit. In addition, the increased inflow of workers' remittances also helped boost the BOP surplus.

23. As per the statistics of the first six months of 2005/06, trade deficit widened by 24.1 percent. The trade deficit had risen by 10.0 percent in the corresponding period of the previous year. Of the total trade deficit, trade deficit with India and other countries increased by 25.4 percent and 22.4 percent, respectively.

24. The increase in the overall imports by 18.6 percent relative to the growth of total exports by 10.5 percent led to a substantial widening of trade deficit during the first six months of 2005/06.

25. Of the total exports, export to India rose by 19.4 percent during the review period compared to a growth of 24.1 percent in the corresponding period last year. Likewise, exports to the third countries declined by 5.3 percent compared to a fall of 14.0 percent in the corresponding period of the previous year. Exports to third countries witnessed a continuous trend of declining, primarily due to the fall in the export of readymade garments.

26. In comparison to the lower increase in total imports by 8.8 percent in the first six months of 2004/05, the increase in imports by 22.8 percent and 12.4 percent from India and third countries respectively during the same period of 2005/06 resulted in a total import growth of 18.6 percent. The responsible factors for the increase in import included the rise in import of raw materials, intermediate goods and oil. This is in contrast to the low import of the raw materials in the previous period, which had created pressure on the inventories.

27. According to the BOP statistics of the first four months of 2005/06, the workers' remittance increased by 30.3 percent and reached Rs. 27 billion by mid-November, 2005. Such remittances in the corresponding period of the previous year had gone down by 7.4 percent. The high growth of remittances is due to an increase in number of Nepalese workers going abroad to seek employment because of internal insurgency. During the past few years, remittances have become a major source of foreign currency earner in the country. The private sector's remittances stood at 12.3 percent of GDP in 2004/05. Hence, remittances have played a crucial role in maintaining the economic stability in the present conflict situation. For example, remittances resulted in a total surplus in the BOP, stabilized the exchange rate and increased the economic activities by creating the domestic demand in the economy. Similarly, remittances have also contributed to poverty alleviation. Keeping this in

mind, the NRB has initiated policy-related and institutional measures[3] to bring the workers' remittance through the formal banking channel. As a result, the ratio of remittance coming through formal channel to the total remittance stood at 87.6 percent.

28. During the review period, the overall surplus in the BOP added to foreign exchange reserves of the country. For example, the foreign exchange reserves during the first five months of 2005/06 stood at Rs. 140 billion. The current reserve is sufficient to finance merchandise imports of 10.4 months, and merchandise and service imports of 8.8 months. This level of foreign exchange reserves is equivalent to 63 percent of the HMG's total foreign debt of Rs. 220.7 billion as at mid-July 2005.

Government Finance Situation

29. An analysis of the impact of fiscal policy on aggregate demand, aggregate supply and internal/external balance reveals that fiscal policy seems to have minimal role in raising the aggregate demand and supply as well as the production capacity. However, fiscal policy has a positive role in maintaining the internal and external balance even under the conflict situation.

30. During the first six months of 2005/06, revenue mobilization of HMG increased minimally and growth in total government expenditure remained significant. Consequently, analysing the usable government resources, the fiscal policy during the first six months remained expansionary.

31. Excluding the deposits of the local bodies with the commercial banks, the budget deficit of HMG, based on cash flow basis, stood at Rs. 2.5 billion during the first six months of 2005/06. During the same period of the previous fiscal year, budget surplus had amounted to Rs. 551.5 million. The deficit went up mainly due to the low growth in usable resources compared to the total expenditure. Of the sources of the budget deficit financing, the mobilization of external loan in cash amounted to Rs. 2.1 billion. This limited the total domestic borrowing to Rs. 380.6 million. Though the bank issued fresh treasury bills worth Rs. 3.1 billion, the net internal borrowing remained minimum due to the cash reserves of HMG with the NRB.

32. Despite the internal insurgency, the budget deficit remained within the manageable level. In spite of the present uneasy situation, the budget deficit remained low relative to other South Asian countries. This also helped in maintaining the overall economic stability.

33. The total expenditure of the government during the first six months of 2005/06 increased by 17.7 percent. The government expenditure had increased by 6.3 percent in the corresponding period of the previous year. The higher growth of total government expenditure was due to the pressure on current expenditure emanating from internal insurgency and the government loan assistance to Nepal Oil Corporation (NOC) amounting to Rs. 1.0 billion.

34. The revenue of HMG increased by 5.9 percent in the first six months of 2005/06 and aggregated Rs. 31.6 billion. Revenue had increased by 12.2 percent in the corresponding period of the previous year. Even though imports have increased, revenue of the government

[3] The NRB initiated the process of providing 15 paisa per US dollar as commission to money transfer companies in addition to the prevailing buying rate when these companies exchanged foreign currency based on remittances. Moreover, the process of obtaining approval for companies to conduct money transfer business with foreign companies or by the companies themselves has been simplified.

rose only marginally owing to the increased import of industrial raw materials and intermediate goods with low custom duties and the dues remaining from the Indian excise duty re-fund during this period. Among the other revenue sources of the government, foreign cash grant in the first six months of 2005/06 stood at Rs. 5.6 billion in comparison to Rs. 3.7 billion in the same period of the previous year.

35. The following concerns emerge based on the analysis of the fiscal situation of the first six months of 2005/06. The first concern is to increase revenue. The revenue mobilization should be raised in accordance to the spirit of the Budget Ordinance of January 14, 2006 in which HMG lowered the customs duty. Second, the capital expenditure has not increased adequately during the last decade because of the insurgency. The quality and prioritisation of the government expenditure should be improved as is evident from the transfer of Rs. 1.0 billion to the NOC for helping it from financial distress in the wake of increased oil prices. Third, as the domestic borrowing of the government has a significant role in maintaining internal and external balance, keeping it under the control in the fall of low rate of revenue mobilization is a daunting task.

Monetary Analysis and Monetary Management

Monetary and Credit Aggregates, Reserve Money, Liquidity and Time Deposit

36. During the first five months of 2005/06, monetary aggregates expanded while credit aggregates posted the growth rates of the preceding year. However, the growth of reserve money remained negative during the review period. Excess liquidity situation with the commercial banks remained under control. The market interest rate, which usually reflects the monetary situation, and the current exchange rate of Nepalese Rupee vis-à-vis US dollars remained stable during the review period. Remittance inflows-induced growth of the net foreign assets of banks expanded monetary aggregates. The growth of time deposit also reflected the rise in remittances.

37. Broad money (M_2) expanded by 4.8 percent in the first five months of 2005/06. In the same period of 2004/05, M2 had increased by 2.5 percent. The responsible factor for the expansion of M2 was the inflow of private sector's remittances that resulted in the increase in net foreign assets in the review period.

38. With respect to the credit aggregates, during the first five months in 2005/06, total domestic credit rose by 4.0 percent compared to about the same growth in 2004/05. Excluding the deposits of local bodies with the commercial banks from HMG's resources, bank credit to HMG increased slightly in the first five months of 2005/06 as against the negative growth in 2004/05.

39. Of the total domestic credit, the banking sector's claim on private sector rose by 6.1 percent in the first five months of 2005/06 in comparison to a rise by 6.4 percent in the corresponding period of 2004/05. The slackness in the economic activities was the main cause for such slow growth during the review period. The banking sector's claims on the private sector did not increase as expected during the review year due to the decelerating trend of exports of readymade garments particularly to the third counties, sluggishness on the export of carpet and slowdown in the tourism-related business despite the increase in tourist arrivals during the last six months. Reforms in Nepal bank Limited (NBL) and Rastriya Banijaya Bank (RBB), which have the dominant share in banking transactions, are taking place. The growth of credit off-take remained muted as these two banks emphasized on loan recovery. Moreover, banks remained cautious in credit extension in the face of insurgency and sluggish aggregate absorption. As a result, credit expansion remained slow.

40. Of the credit off-take, loans to cement industry, iron and steel industry, construction of resident and non-resident houses, and purchase of telecommunication equipments, and gold & silver were the major areas during the review period. In the present context where the price of real estate, and gold and silver has been rising significantly, banks need to be cautious of the quality of loans to such sectors.

41. Reserve money (RM) declined by 0.5 percent during the first six months of 2005/06. During the corresponding period of the preceding year, RM had declined by 8.8 percent. On the one hand, increase in the monetary authority's net foreign assets brought down the rate of decline in RM. On the other hand, the negative growth rate of the net domestic assets of monetary authority caused the growth rate of RM to remain negative.

42. Since the monetary policy of 2004/05, excess reserves in excess of compulsory cash reserve requirement (CRR) has been taken as an operating target of monetary policy. In reviewing the reserves maintained by the commercial banks with this Bank, the excess liquidity situation is under control. For example, in mid-July 2005, the total deposits of commercial banks at the NRB stood at Rs. 20.0 billion. This fell to Rs. 16.0 billion by mid-December 2005. Because of the increase in the commercial banks' balances held abroad and the mopping up of the liquidity through open market operations such as sales and reverse repo auction, excess liquidity has fallen to the minimum level.

43. The commercial banks' time deposits increased by 5.8 percent during the first five months of 2005/06 compared to a lower growth of 4.2 percent in the corresponding period of the previous year. The major factors responsible for the growth of time deposits of commercial banks in the review year were the rising inflow of remittances and the different saving schemes launched by commercial banks with varied deposit rates.

Interest Rate Situation

44. In recent years, interest rate structure witnessed a falling trend. The interest rate structure was the reflective of monetary conditions. The falling trend in interest rate structure was also due to the adoption of accommodative monetary policy stance in the past. In the face of anticipated pressure on inflation, the accommodative monetary policy stance has been reversed to the cautious monetary policy stance in annual monetary policy for 2005/06. In accordance with this, the bank rate was raised to 6.0 percent from 5.5 percent in the annual monetary policy of 2005/06. The hike in the bank rate was intended for anchoring inflationary expectation.

45. Despite the expansion in the money supply, short-term interest rate remained stable due to the hike in the bank rate and effective conduct of open market operations in the first six months of 2005/06. For example, the average weighted 91-day treasury bills rate had remained below 1.0 percent in August and September 2004, and had increased to 2.0 percent only in December 2004 and January 2005. But in the review year, the average weighted 91-day treasury bills rate stood above 2.0 percent in August, September, October and November of 2005. However, this rate was at about 1.0 percent for December 2005 and January 2006. It is indicative of sluggish economic activities. On top of that the continued growth of remittance has contributed to the liquidity in the money market. This year, inflation rate is higher relative to that of last year, albeit, the pressure on prices has somewhat eased lately. In this context, the foremost challenge for monetary management is curbing higher inflation rate through the effective management of liquidity and stabilizing short-term interest rate in the economy.

Table 5: Short Term Interest Rate

(In Percent)

Mid-month	Treasury Bills		Inter Bank Transaction Rate	
	2004/05	2005/06	2004/05	2005/06
August	0.618	2.259	1.016	2.468
September	0.630	3.385	0.387	3.868
October	1.340	3.102	0.826	3.177
November	1.972	2.686	2.241	2.359
December	2.401	2.200	3.545	0.961
January	2.080	2.465	3.493	1.220

46. Short-term real interest rate remained negative during the review period mainly due to lower growth of nominal interest rate as compared to the rate of inflation, which remained slightly higher than in previous years. Such a negative interest rate is not considered beneficial in terms of savings mobilization and proper utilization of resources. While analysing the reasons for negative interest rate, one should go by the methods of calculating real interest rate. There are two methods of calculating real interest rates: (a) ex-post method and (b) ex-ante method. In the ex-post method, real interest rate is calculated by substracting actual rate of inflation from nominal interest rate.[5] In the ex-ante method, real interest rate is calculated by subtracting the anticipated rate of inflation from nominal interest rate.[6] In general discussion, the real rate of interest is calculated from the actual inflation. However, market (nominal) interest rate is determined on the basis of expected inflation. Ex-ante nominal interest rate is calculated by adding expected inflation on the real interest rate.[7] Expected inflation and prevailing rate of interest depend on economic activities and expected growth of national income (economic growth rate). The increase in national income, other things remaining the same, increases the demand for money, which raises the rate of interest. Since the national income is growing at a lower rate and the economic activities are also sluggish, expected inflation rate should be at a lower level. In the short run, the determination of short-term interest is influenced by liquidity position. Hence, the short-term interest rates are expectedly lower.

Monetary Management

47. The major objectives of the monetary policy for 2005/06 are to help spur the potential economic output growth through the adequate provision of liquidity and to contain inflation at the desired level. The bank rate in the monetary policy 2005/06 was hiked in the anticipation of likely pressure on prices emanating from the elevated level of international prices and the increase in indirect tax rate. With a view to widening the financial

---

[5] Method of calculating ex-post real interest rate: $r = i - \phi$ where r = real interest rate, i = nominal interest rate and ϕ = actual rate of inflation

[6] Method of calculating ex-ante real interest rate: $r = i - \phi^e$ where ϕ^e = expected rate of inflation

[7] Nominal market determined interest rate: $i = r + \phi^e$. In economic literature, this is known as the Fisher's equation.

intermediation by way of removing financial repression and financial sector reforms, CRR was left untouched at 5.0 percent.

48 With reference to monetary management, as a monetary policy strategy, the fixed exchange rate regime taken as a nominal anchor. The monitoring of real exchange rate and real effective exchange rate is very important for monetary management in a fixed exchange rate regime like Nepal. Because of the pressure on general price level in 2005/06, the real and real effective exchange rates appear to be marginally overvalued. However, it is more likely that the real exchange rate and real effective exchange rates will converge to a neutral position soon because the inflation rate in Nepal is decelerating and the pressure on price in trading partners' countries also exists.

49 Open market operations (OMOs) has been used as a monetary instrument to manage excess liquidity of the commercial banks which is being used as operating target of monetary policy. There are two types of open market operations; (a) intervention in the foreign exchange market, and (b) purchase and sales of treasury bills of HMG. Due to an increase in demand for money resulting from a significant rise in remittance inflow from abroad, the NRB intervened in the foreign exchange market and injected net liquidity of Rs. 22.5 billion into the commercial banks during the first six months of the current fiscal year. In the corresponding period of the last fiscal year, the NRB had injected Rs 16.4 billion. The intervention in the foreign currency market was aimed at preventing the Nepalese currency from nominal appreciation (more likely because of an increase in supply of foreign currency primarily due to the significant rise in remittance inflow) and to ensure export competitiveness of the Nepalese goods and services. The intervention has prevented likely adverse effect on economic growth arising from the possible appreciation of Nepalese currency emanating from the increase in workers' remittances.

Table 6: Intervention in Foreign Exchange Market

Rs. in million

Mid-Month	2004/05	2005/06
August	1357.5	1177.1
September	2067.5	2160.8
October	3687.8	3783.9
November	1346.7	6195.5
December	3233.3	4826.3
January	4718.1	4355.4
Total	**16410.9**	**22499.0**

50. The NRB proactively used its open market transactions of sales auction and reverse repo auction to mop up liquidity of commercial banks injected through the intervention in foreign exchange market. In the first six months of 2005/06, the NRB taken together with Rs. 4.7 billion from sales auction and Rs. 4.0 billion from reverse repo auction, mopped up a sum of Rs. 8.7 billion. As the Bank injected liquidity of Rs. 830 million in the market through purchase auction, the net liquidity withdrawn amounted to Rs. 7.9 billion. In the same period of the last fiscal year, the net absorption of liquidity was Rs. 11.8 billion.

Table 7: Liquidity Withdrawal and Injection through Treasury Bills in Open Market Operation

(Rs. in million)

Mid-Month	2004-05			2005-06		
	Sale Auction	Reverse Repo Auction	Total Liquidity withdrawal	Sale Auction	Reverse Repo Auction	Total Liquidity withdrawal
August	-	-	-	1440	-	1440
September	-	-	-	170	-	170
October	9550	1500	11050	2000	-	2000
November	-	-	-	300	500	800
December	-	-	-	830	1500	2330
January	950	2570	3520	-	2000	2000
Total	10500	4070	14570	4740	4000	8740
	Purchase Auction	**Repo Auction**	**Total Liquidity Injection**	**Purchase Auction**	**Repo Auction**	**Total Liquidity Injection**
August	-	-	-	-	-	-
September	-	-	-	-	-	-
October	-	-	-	-	-	-
November	-	-	-	530.0	-	530.0
December	49.6	1050.0	1099.6	300.0	-	300.0
January	-	1610.0	1610.0	-	-	-
	49.6	2660.0	2709.6	830.0		830.0
Net Liquidity withdrawal			11860.4			7910.0

51. There are a number of reasons as to why lower amount of liquidity is withdrawn by way of monetary instrument like open market operations in treasury bills in comparison to liquidity injection through the intervention in foreign exchange market during the first six months of 2005/06. Firstly, liquidity of commercial banks amounting to Rs. 3.1 billion was mopped up through the fresh issuance of treasury bills in the first six months of 2005/06 compared to Rs. 2.2 billion in the corresponding period of 2004/05. Secondly, the balance held abroad by commercial banks went up significantly due to an increase in short-term interest rates in the international financial market. For instance, during the first five months of 2005/06, balanced held abroad by commercial banks increased by Rs. 4.2 billion. Such balance held abroad was Rs. 1.6 billion during the corresponding period of 2004/05.

52. Besides, total standing liquidity facility (SLF), which has been introduced for commercial banks since the 2004/05 monetary policy with a view to preventing any disruption in domestic payments system, availed amounted to Rs. 1.9 billion in the first six months of 2005/06 compared to excessive use of Rs. 22.5 trillion in the corresponding period of 2004/05. Since the excessive use of such facility adversely affects the financial deepening and inter bank transactions, the NRB through its monetary policy for 2005/06 reduced the maximum maturity period of such facility to 3 days from 5 days. Apart from this, the policy of conducting monetary policy in a transparent manner also discouraged commercial banks from the excessive use of SLF this year compared to that of the previous year.

Table 8: Standing Liquidity Facility (SLF)

(Rs. in million)

Mid-Month	2004/05	2005/06
August	585.0	400.0
September	189.0	550.0
October	3367.3	220.0
November	15836.8	--
December	2362.5	--
January	200.0	753.5
Total	22540.6	1923.5

53. The liquidity monitoring and forecasting framework (LMFF), which is based on the weekly balance sheet of the NRB, introduced since 2004/05, has been refined further. On the one hand, the system of rolling forecast has been introduced; on the other, the NRB has begun monitoring the liquidity position of the commercial banks on daily basis.

54. An important achievement of the monetary management during the first six months of 2005/06 is the increased deepening of inter bank transactions. For instance, the turnover of inter bank transaction stood at Rs 94.4 billion during the first six months of 2005/06. In the same period last year, such transactions had amounted to Rs. 60.7 billion. The inter bank transactions deepened primarily due to transparency in the implementation of monetary policy.

Table 9: Inter Bank Transactions

(Rs. in million)

	Fiscal Year	
Mid-Month	**2004/05**	**2005/06**
August	4309.0	20554.2
September	13165.0	24670.5
October	12145.0	12021.0
November	9056.0	10369.0
December	11018.0	15533.0
January	11030.0	11255.5
Total	**60723.0**	**94403.2**

55. With a view to help reduce the distress in manufacturing and tourism related enterprises, NRB has been providing concessional sick industry refinancing facility since 2001/02. The sick industry refinancing of Rs. 2.0 billion was earmarked in monetary policy for 2005/06. During the first six months of 2005/06, NRB has approved sick industry refinancing a sum total of Rs. 222.9 million including Rs 171.9 million to 14 hotels and Rs 51 million to two large and middle industries. As per the policy arrangement, NRB provides loan at the refinance rate of 1.5 percent to the banks and financial institutions, and the banks and financial institutions provide loans to the concerned industry at 4.5 percent rate of interest.

Mid-term Review of Financial and External Sector Policy Measures as Specified in Annual Monetary Policy

Financial Sector

56. To assist the achievement of objectives as laid down by the NRB Act, 2002, and Mission/Vision as determined by the Bank, the preliminary draft of a medium term strategic planning (2005/06-2009/10) of the Bank has been prepared and is in the process of finalization.

57. The IT consultant is working to develop the NRB's information technology aimed at assisting the bank in maintaining the financial sector stability. On the consultant's recommendation, for developing the IT system in the bank, an IT trainer has been appointed; and with his involvement, a three-month long computer training has been imparted to 36 officers of different departments of the bank. Similarly, the task of building a suitable prototype[8] for the bank by appointing two prototype developers has already been completed. To develop the bank's supervision capacity, the process of appointing seven international consultants for implementing the recommendations put forward by IOS Partners has reached the final stage.

58. For implementing the human resource management policy of the bank, by making further refinement, an international human resource advisor has been appointed who has already begun his work. In addition, a team of Chartered Accountants has been formed as per the recommendations of IOS Partners' to upgrade the bank's accounting system according to the internationally accepted practice and accounting standard. The team has already started the work.

59. As per the HMG's decision dated March 9, 2005, a report along with recommendations regarding the action against defaulters of bank and financial institutions, and maintenance of financial discipline has been submitted to the Prime Minister's office and the office of Council of Ministers. In that report, defaulters have been classified mainly into two groups: wilful defaulters and circumstantial defaulters, and separate courses of legal actions have been identified against each. The directives issued by the NRB on July 13, 2005 have included these provisions in the directive related to credit information and blacklisting procedures (Licensed Directive No. 12\61\62). On the request from the concerned bank for seizing the passport of wilful defaulters, the NRB has been forwarding such a request to the concerned authorities. To caution the banks and financial institutions while advancing loans, several other provisions regarding collateral assessment, auditor, inspection by credit information bureau, notification before blacklisting, case where defaulters will not be blacklisted by mistake are included so as to make blacklisting procedures more reliable and credible. In addition, the NRB has notified banks and financial institutions about HMG's decisions on May 17, 2005 pertaining to the wilful defaulters of banks and financial institutions.

60. With the objective of making transactions in bank and financial sector healthy, secure and robust by making legal framework related to financial institutions timely and effective, Secured Transactions Ordinance, Securities Ordinance, Company Ordinance and Insolvency Ordinance have already been issued, while the draft of Anti-Money Laundering Act has been submitted to HMG. A Legal Draft Committee under the chair of the Deputy Governor and with representatives from Ministry of Finance and Ministry of Law has been working to finalize the draft of Fraud Control Act, Negotiable Instrument Act and Assets Management Company Act.

---

[8] The prototype of Nepal Integrated Financial and Management Information System (NFMIS) has been prepared.

61. The task of restructuring of the NBL and the RBB, two large banks occupying the dominant share of the overall banking sector, has been continued in the current fiscal year too as their financial condition and operational procedure have been improving gradually. After the restructuring of these banks, progress has been seen basically in their profitability and capital fund situation while the volume of their non-performing assets has also been declining. Besides this, progress has been noticed in auditing, human resource mobilization and operational procedures of the bank as well. Hence, for giving continuity to the work of restructuring of these two banks, the contract period of these banks' consultants (management team) has been extended. In this context, the contract period of the NBL has been extended for the next two years effective July 22, 2005 while the contract period of the management team of the RBB, which expired on January 15, 2006, has been extended for additional two years.

62. In the context of issuance of Bank and Financial Institutions Ordinance, the different regulations and directives issued in the past for banks and financial institutions have been appropriately revised and issued in the unified form since 2005/06.

63. In the context of following the market oriented and liberal economic policy, Nepal has agreed, at the time of her accession to WTO, to allow the foreign banks to open their branches in Nepal from 2010 onward. As such, to make necessary arrangement complying with WTO, Bank and Financial Institutions Department of this bank formed a team to study the existing provisions related to this in other countries and to make the necessary rules, regulations and other arrangements in Nepal. The team has already finalized its report. This will be released soon.

64. A grievance-hearing cell (GHC) under the chair of Deputy Governor has been working to readdress and settle the grievances resulting from the misunderstandings between banks, financial institutions and customers. To make this cell more effective, a committee by appointing two advisors has been formed. A total of 126 grievances were registered in this cell as of mid-January 2006, of which 103 grievances were settled.

65. With a view to discouraging individuals /organizations for carrying out illegal activities through banking channel, banks and financial institutions need to know their customer for which the issuance of Know Your Customer (KYC) policy and directives within the 2005/06 was committed in the monetary policy for 2005/06. As such, the draft of the proposed directive for KYC has been prepared and is in process of implementation after consultation with the stakeholders.

66. The Bank Supervision Department has completed the Quantitative Impact Study (QIS) pertaining to the impact of the implementation of the Basel II Accord from 2007 onwards on the capital structure of commercial banks. The report of this study will be released soon.

67. The circular regarding the capital adequacy ratio (CAR) has already been issued. As per this circular, the CAR is to be 12 percent of total risk weighted assets, of which core capital should be at least 6 percent, and in case of financial institutions having category 'D' license, such ratio is to be maintained at 8 percent of which core capital should be 4 percent.

68. With an objective of further strengthening the supervisory role of NRB and making it more effective, the process of reviewing and updating the Inspection and Supervision Bylaws, 2003 and On-site Inspection Manual has been continued.

69. In the context of multiple banking by large borrowers, regular monitoring has been carried out to assess the concentration of loan portfolio. Regulations related to large borrowers have been amended in the unified directives issued on July 13, 2005.

70. A draft of National Micro Finance Policy was submitted to HMG last year. It will be implemented after the ratification by HMG. The Micro Finance Act will be drafted in consonance with the National Micro Finance Policy.

71. In connection to the establishment of Second Tier Institution (STI) in order to regulate, monitor and supervise the institutions involved in micro finance, a bill has already been drafted and forwarded to the concerned stakeholders for their suggestions. STI will be established after the enactment of the STI Ordinance.

72. With an objective of developing the Rural Self-Reliance Fund as an autonomous financial institution for wholesale lending, a bill has been drafted and a letter has been sent to the Ministry of Finance on November 20, 2005 seeking approval of HMG for transferring all the assets and liabilities of those micro-finance projects implemented by the NRB whose operations have already ended.

73. In order to promote micro finance as the key instrument for poverty alleviation by extending its services to deprived sector, the existing ceiling of 15 percent of paid up capital per person/organization on buying shares of micro finance development banks has been increased to 25 percent to encourage investment in micro finance sector.

External Sector

74. A circular has been issued to commercial banks in order to provide the foreign exchange facility of US $ 1500, increased from the existing limit of US$1000, to individuals and organizations for various purposes since 2005/06

75. A circular has been issued for providing the foreign exchange facility of US$ 5000 for individuals and US$10000 for a family as settlement expenses for Nepalese citizens migrating on immigrant visa to developed countries like USA, Canada, Australia, New Zealand and UK.

76. A provision has been made for commercial banks to provide the foreign currency facility directly to those firms/organizations/ companies which have convertible foreign currency accounts with them to make expenses on stall booking, registration, and service charges for participating in trade fairs and exhibitions abroad except India.

77. A provision has been made to allow spouse and/or parents of the holder of convertible currency account to operate such accounts on the authorization of the account holder.

78. Under the provision of exporting goods and services based on bank guarantee under the Cash Against Documents (CAD) mechanism, the prevailing system of granting permission for exporting goods amounting to US dollar 100,000 at one time with a bank guarantee of 5 percent of this amount has been revised upward to US dollar 200,000 effective 2005/06. Furthermore, the provision has been made for payment through commercial banks up to the prescribed limit based on the securities like cash, saving certificates, development bonds or any securities accepted by the bank.

79. A circular has been issued whereby if a third country exporter fails to make the shipment of goods for some reason and wants to refund the advance payments made for import under Draft/TT facility, the commercial banks can themselves cancel the cheque that they had issued in favour of the customs office.

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

81. In case of failure to make use of cheque issued in favour of the concerned customs office while releasing the document or sending advance payment under draft/TT or import L/C denominated in convertible currency, an arrangement has been made for extending the validity of such cheques by the concerned commercial bank provided that the concerned party apply to the bank within 90 days of the issuing of the cheque with adequate supporting documents.

82. Commercial banks are allowed 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, whatsoever.

83. The earlier provision whereby private importers of chemical fertilizer need to deposit 10 percent of import value or provide bank guarantee while releasing the document to import chemical fertilizer in Nepal has been amended; the margin has been reduced to 2 percent to encourage the importers to supply chemical fertilizers timely.

84. An arrangement has been made whereby the international agencies with foreign currency deposit account with Nepalese commercial banks, if required to make payment in convertible currency in India, can do so directly through commercial banks.

85. A provision of endorsement in the passport has been terminated and a provision has been made to provide foreign currency exchange facility more than once within a fiscal year.

86. A provision has been made whereby any private industry, company or firm that wishes to borrow from abroad, for a period of one year and above, without pledging any domestic asset as collateral were required to take prior approval from NRB. The system of requiring prior approval has been done away with notification of this to NRB suffices.

87. The number of raw materials and intermediate goods, which can be imported from India against US dollar payment, has been increased to 69 from 66 as of mid-January 2006.

Economic and Monetary Outlook

88. The bank has been formulating and implementing its monetary policy on forward-looking basis in recent years. The basic parameters of the operational framework of monetary policy in Nepal are the expected economic growth and projected inflation and balance of payments. The Monetary Policy for 2005/06 was also formulated on the basis of outlook of these economic parameters.

89. In the Monetary Policy for 2005/06, economic growth was projected at the range of 4.0-4.5 percent for this year. The potential output growth of the economy, as analysed above, was the basis for the projected economic growth of the economy. The Nepalese economy was expected to grow at a potential rate mainly due to the expected positive impact of the higher economic growth outlook in neighbouring countries and trading partners' countries, world output growth projected at 4.3 percent and expected increase in the volume of world trade by 7.4 percent compared to the previous year. However, a decade long internal insurgency and political tension have not improved as expected. Despite the rise in world economic growth and the expansion in the volume of world's trade, Nepal's exports of goods and services toward the third countries could not improve as expected. Growth in agricultural sector has been expected to be lower because of unexpectedly unfavourable weather conditions. Private investment remained subdued due to a lower growth of bank credit to the private sector. As a result of these factors, economic growth is estimated to remain modest, less than the projected in the monetary policy for 2005/06.

Table 10: Outlook of World Production

	2002/03	2003/04	2004/05	2005/06
World Output	4.0	5.1	4.3	4.3
United States	2.7	4.2	3.5	3.3
Euro area	0.7	2.0	1.2	1.8
United Kingdom	2.5	3.3	1.9	2.2
Japan	1.4	2.7	2.0	2.0
India	7.4	7.3	7.1	6.3
China	9.5	9.5	9.0	8.2
Pakistan	5.7	7.1	7.4	6.5
Bangladesh	5.8	5.8	5.7	6.0

Source: *World Economic Outlook*, IMF, September 2005.

90. Annual average inflation, based on the consumer price index, was projected at 5.0 percent in the monetary policy for 2005/06. Unexpectedly, inflation remained higher in the first six months of 2005/06. Although the prices of the imported goods in the international market and Indian inflation, which are some of the factors affecting Nepal's inflation, remained contained, the hike in VAT rate last year and the increase in government administered price of petroleum products in September 2005 generated pressure on the general level of prices. These factors affecting inflation were expected at the time of monetary policy formulation. However, the price of rice and rice products witnessed an unanticipated rise during the first six months of 2005/06. The oil prices at the global level are continuously rising. The system of adjustment in domestic oil prices accordingly is not yet developed in Nepal. This created inflationary expectation generating pressure on overall prices in Nepal. From the very first month of 2005/06, inflation began to rise, but the growing trend of inflation came to a halt in the sixth month of 2005/06. Based on the inflationary trend so far, the average annual inflation for 2005/06 is revised up at 7 percent, which is higher by 2 percentage points than the target set in the annual monetary policy.

Table 11: World Consumer Inflation Outlook

	2002/03	2003/04	2004/05	2005/06
United States	2.3	2.7	3.1	2.8
Euro area	2.1	2.1	2.1	1.8
United Kingdom	1.4	1.3	2.0	1.9
Japan	-0.2	-	-0.4	-0.1
India*	3.5	5.4	6.4	5.0-5.5
China	1.2	3.9	3.0	3.8
Pakistan	2.9	7.4	9.9	9.8
Bangladesh	5.4	6.1	6.2	5.8

**Based on Wholesale Price Index*

Source: World Economic Outlook, IMF, September 2005 and A Handbook of Statistics on Indian Economy, http://www.rbi.org.in

91. The target for the BOP surplus was set at Rs 4.5 billion in the annual monetary policy for 2005/06. As per the trade statistics of the first six months of 2005/06, the growth rate of imports remained higher than the growth of exports, as a consequent the pressure on trade balance built up. However, the growth rate of workers' remittance inflow has been quite a high. As a result, the BOP surplus is estimated to be Rs. 5.5 billion, one billion higher than the earlier target set in the annual monetary policy.

92. The growth of M2 was projected at 13 percent in the annual monetary policy for 2004/05. The target of M2 growth rate was set on the basis of GDP growth of 4.0-4.5 percent, average inflation of 5.0 percent and BOP surplus of Rs. 4.5 billion. However, these assumptions of monetary projections have changed now. Economic growth is expected to be less than the target, but inflation and BOP surplus are expected to exceed the targets.

93. In a situation in which inflation is higher than initially projected, but GDP growth rate is lower than the initial target, it is necessary to have M2 growth rate lower than the target set in the annual monetary policy. However, remittance inflows aggregated Rs. 65 billion in 2004/05 and it has been continuously growing. As per the international norms, such a remittance inflow[9] is considered as a transfer and is not included in the calculation of gross national product/income. Remittance inflow from abroad increases the domestic money demand. In this context, the setting of desired limit of money supply on the basis of domestic output growth and conducting monetary policy accordingly may help control inflation. However, this may create shortages of liquidity and in the process nominal appreciation of Nepalese currency may take place adversely affecting the economic activities. As such, it is necessary to set a desirable limit[10] to money supply growth based on

[9] Persons living abroad for less than a year are considered as residents and income earned by them is included in gross national income but persons living abroad for more than a year are considered non-residents and income sent by them is considered as a transfer.

[10] To fix the desirable limit of money supply, currently the GDP growth rate is taken into account. Symbolically, GDP is based on the following equation: GDP= C+I+G+(X-M) where C= private sector consumption expenditure, I= private sector investment expenditure, G= total government expenditure, X= export of goods and non-factor services and M=imports of goods and non-factor

remittance inflows as well. Taking these factors into account, the growth of M2 has been kept at the same rate of 13.0 percent for 2005/06.

Monetary Policy Stance

94. Monetary management by striking a balance between economic growth and inflation is a challenge in the current situation. Albeit, prices at the global level are somewhat in control, the elevated level of international oil prices has generated a pressure on the overall prices. Most of the world's central banks consider the current pressure on price level as the risk to output growth and financial sector stability. In this context, central banks have started adopting a tighter monetary policy stance. For example, the Federal Reserve Bank increased the bank rate to 4.25 percent. Similarly, the Bank of England increased the repo rate to 4.50 percent. India, although the bank rate is constant at 6.0 percent, has hiked the repo rate gradually up to 6.5 percent.

95. In Nepal also there is a pressure on price comparatively. The supply side factors, especially price rise of food items as well as inflationary expectations contributed to such a pressure on the general level of prices. As the asset price is also increasing, there is a need to be cautious on financial sector stability. Monetary policy should be proactive, since it takes longer time period to affect the economy. Therefore, to maintain monetary and financial sector stability, the bank has the following policy response:

a) The cautious monetary policy stance as taken in the annual monetary policy has been continued.

b) The bank has been taking the bank rate, albeit in disuse, as a policy rate to reflect the policy stance. As such, the bank rate has been increased to 6.25 percent from 6.0 percent as a policy signal to anchor inflationary expectation and to align it with the open market operations, which has been used to achieve the monetary policy objectives.

c) The refinance rates and cash reserve ratio have been remained unchanged.

d) The bank is cautious on inflation. As a main monetary policy instrument, open market operations will be conducted to mop up the liquidity. The bank will sell the government securities under its ownership through outright sale auctions to manage the excess liquidity. The bank will even start alternative ways to manage liquidity if the outright sale auction is found inadequate to manage liquidity.

e) Currently there is a provision of conducting OMOs of treasury bills every Wednesday at the initiative of this bank. Now onwards, keeping this provision intact, the new provision of conducting OMOs of treasury bills every day on the basis of evolving monetary situation and the result of liquidity monetary and forecasting framework (LMFF) will be started.

---

services. GNP=GDP+YF where YF =net factor income from abroad. Income from Nepalese working abroad for less than one year is also included here. Taking into consideration the rising private sector's remittances (the amount sent by workers residing abroad for more than one year), it is important to calculate GDI (gross disposable income) for economic analysis purposes. GDI=GNP + TRF, where TRF=net transfers from abroad.

Conclusion

96. The bank has taken the policy stand to keep the communication channels open to the stakeholders of monetary policy. Likewise, the bank has taken the conduct of monetary policy in a transparent manner as an important component of monetary management strategy. On the basis of data available in the first six months of 2005/06, the situation of the ultimate goals, strategic targets and the implementation status of the monetary policy instruments have been analysed and made public. The bank always welcomes any further suggestions and comments with regard to formulation, implementation and analysis of monetary policy. The half yearly progress matrix of monetary, financial sector and external sector policy parameters as outlined in monetary policy statement for 2005/06 as well as the statistical tables used directly or indirectly in the preparation of this mid-term review report are all attached in the annexes of this report.

111

Appendix I
Mid-term Progress Matrix of Measures as outlined in Annual Monetary Policy for 2005/06

S.N.	Point	Objectives/Programmes	Work Description	Responsible Dept.	Implementation Status
1	21	Inflation is projected at 5.0 percent	Monitoring and analysing the policy measures	Research Department	Inflation is likely to exceed the initial target. The rise in oil price and subsequent increase in price of transport and communication sector along with the upsurge in price of rice and rice related products are the factors responsible for inflation exceeding the initial target. The annual average inflation is revised at 7 percent.
2	22	The BOP Surplus targeted at Rs. 4.5 billion	Monitoring and analysing the policy measures	Research Department	As per revised estimates, the BOP surplus would be higher by Rs. 1 billion over the initial target to Rs. 5.5 billion.
3	23	Maintain stability in real exchange rate	Monitoring whether or not the real exchange rate of Nepalese rupee is being overvalued or undervalued	Research/Foreign Exchange Management Department	Real effective exchange rate has, more or less, remained stable.
4	24	Facilitate economic growth of 4.0-4.5 percent	Monitoring and analysing the policy measures.	Research Department	Economic growth rate would remain modest.
5	27	M_2 growth is targeted at 13.0 percent	Monitoring and analysing the policy measures	Research Department	M_2 to grow as per the target.
6	27	M_1 growth is targeted to be at 12.0 percent	Monitoring and analysing the policy measures	Research Department	M_1 to grow as per the target.
7	28	M_2 to be taken as monetary indicator	Monitoring and analysing the policy measures	Research Department	M_2 has been taken as monetary indicator.
8	34	Maintaining excess liquidity of commercial banks as operating target of monetary policy	Monitoring liquidity through Liquidity Monitoring and Forecasting Framework (LMFF) and undertaking liquidity forecasting more effectively.	Research Department	Excess liquidity of commercial banks is taken as operating target and LMFF is being used as a guide to open market operations.
9	36	Liquidity Monitoring and Forecasting Framework to be taken as main basis of managing excess liquidity	Operating the secondary market transaction by focussing on the outcome attained from LMFF.	Research/Public Debt Management Department	Work is progressing accordingly.
10	37	Bank rate is raised to 6.0 percent from 5.5 percent.	Related developments to be submitted as soon as possible.	Research Department	Implemented immediately after the announcement of monetary policy.
12	38	Refinance rate for export credit (domestic currency) and agricultural credit raised to 3.5 percent from 3.0 percent with refinance rate for sick industries remaining unchanged.	Related developments to be submitted as soon as possible.	Bank and Financial Institutions Regulations/Micro Finance Dept./Banking Office, Kathmandu	Implemented immediately after the announcement of monetary policy.
13	39	Cash reserve ratio to be maintained by	The required reserve position of	Bank Supervision Department	As per the shortened time interval for the

		commercial banks with the NRB has been kept unchanged at 5.0 percent but the time interval has been shortened to two weeks for its computation purpose.	commercial banks to be monitored.		computation of CRR to be maintained by commercial banks with the NRB, monitoring is being done by Bank Supervision Department accordingly.
14	40	Refinance for sick industries has been increased to Rs. 2 billion	Details of sanctioned as well as disbursed refinance for sick industries to be submitted.	Bank and Financial Institutions Regulation Department /Micro Credit Department/Banking Office, Kathmandu	The bank sanctioned the sick industry refinancing a sum total of Rs 222.9 million to the tourism and other industrial sectors during the first 6 months of the current fiscal year.
15	41	The purchase auction, sale auction, repo auction and reverse repo auction open market operations will be continued.	(a) An arrangement to be made for determining the quantity for the transaction of the secondary market auction. (b) Based on the results obtained from LMFF, the OMO committee is to conduct open market operations. (c) The Public Debt Management Department is required to provide the above-mentioned statements to the Research Department on a regular basis.	Research/Public Debt Management Departments	Every Monday on a weekly basis the liquidity related report based on LMFF is being submitted to Public Debt Management Department. Public Debt Management Department is also regularly submitting the related information to Research Department.
16	42	A system of repo and reverse repo auction on the basis of yield will be initiated		Public Debt Management Department	Being executed accordingly.
17	43	The primary auction will be undertaken on Monday and the secondary market transaction will be carried on Wednesday of each week.	Necessary arrangements to be made in this regard.	Public Debt Management Department	Being implemented accordingly.
18	44	The transaction would be made through ledger posting	Necessary arrangements to be made in this regard.	Public Debt Management Department	Yet to be implemented.
19	46	Both the open market transactions and foreign exchange intervention transaction will be undertaken in a coordinated manner.	Necessary arrangements to be made in this regard.	Foreign Exchange Management/Public Debt Management Departments	Being implemented accordingly.
20	47	For simplifying the government securities, only the treasury bills, development bonds and citizen saving certificates will be issued	Necessary arrangements to be made in this regard	Public Debt Management Department	Being implemented accordingly.
21	48	Issue the development bonds on auction basis	Necessary arrangements to be made in this regard	Research Department/ Public Debt Management Department	Development bonds yet to be issued for this fiscal year.
22	49	Encourage the financial institutions to undertake transactions in mutual funds	Measures of encouragement to be adopted after analysis	Banks and Financial Institutions Regulation Department	Necessary support to the Everest Bank, which showed interest in conducting transaction in mutual funds has been provided.The bank is ready to give necessary support to other banks and financial

					institutions if they show interest in this regard
23	50	A separate liquidity facility is arranged for the commercial banks	The standing liquidity facilities up to 50 percent of the treasury bills and bonds of HMG held by the commercial banks' will be provided to them for maximum of 3 days	Public Debt Management Department/Banking Office, Kathmandu	Implemented accordingly.
24	51	Implement the online system to manage the public debt and open market operations	Details of work to be submitted	Public Debt Management Department/ Information and Technology Department	Issue calendar is being placed in the website. Also, the treasury bills rate and inter-bank transaction rate has been posted in the official website.
25	52	Attract the market makers and commercial banks for the payment of principal and interest of the government bonds.	Necessary arrangements to be made	Public debt Management Department/ Banking Office	Some banks are paying the principal and interest

26	54, 55	Promulgate and implement National Micro Finance Policy/Act	Necessary arrangements to be made	Micro Finance Department	The draft of the National Micro Finance Policy had been already submitted to HMG in the previous fiscal year and will be implemented after the government makes it public. Then, Micro Finance Act consistent with the national micro finance policy will be formulated.
27	56	Establish a second tier institution to regulate, inspect and supervise the micro credit institutions	Progress report to be made available.	Banks and Financial Institutions Regulation Department/ Micro Finance Department	The draft of the related Act has been already circulated among the stakeholders for their comments and STI would be established after the announcement of the related Ordinance.
28	57	By converting the Rural Self Reliance Fund into an autonomous wholesale credit institution, it will be developed as a National Micro Finance Fund within 2005/06. Subsequently, the assets and liabilities of the various micro credit programs operated by this bank to be gradually handed over to the Rural Self Reliance Fund.	Progress report to be made available.	Micro Finance Department	The draft of the Act has been prepared to convert Rural Self Reliance Fund into an autonomous wholesale credit institution, and the letter has been issued on 2005/11/20 to the Ministry of Finance to hand over the assets and liabilities of micro credit programs operated by the bank to the Rural Self Reliance Fund
29	58	After the formation of "High Level National Micro Finance Development Council", its secretariat will be established in Nepal Rastra Bank.	To develop micro-finance as a major instrument for sustainable development by generating income as well as creating self-employment opportunities to marginal and deprived people and to bring out policy coordination in the development and expansion of micro-finance services.	Micro Finance Department	This shall be done only after the declaration of micro finance policy by HMG/N.
30	59	As the second phase of the privatisation of Eastern Rural Development Bank (ERDB), which is now operating in profit after its structural reform, is still underway, the other RDBs making profit will be privatised gradually. In the course of reducing NRB's share in Western Rural Development Bank from 61 percent to 10 percent, 51 percent of the Bank's share has already been privatised along with premium. In this context, HMG/N's share will also be privatised within 2005/06.	Make available all the progress reports in this regard.	Banks and Financial Institutions Regulation Department/Micro Finance Department	The second phase of the privatisation process of ERDB is underway and the remaining three RDBs are still not operating at profit. A proposal for the privatisation of HMG/N's share in WRDB has already been submitted to the cabinet by Ministry of Finance.
31	60	A three-member task force formed in	Make available all the progress reports	Micro Finance	Active consideration is being given to the

		accordance with the decision of "Rural Development Bank High Level Co-ordination and Direction Committee" to provide a report on financially unsound Far Western Rural Development Bank. On the basis of the report, an appropriate action such as the reform of the bank or selection of other alternative measures shall be initiated.	in this regard.	Department/Banks and Financial Institutions Regulation Department.	alternative courses of actions.
32	61	Developing micro finance as a major tool for poverty alleviation and extending its service to the rural and the deprived sections; the present individual/institutional share limitation of 15 percent will be increased to 25 percent so as to encourage the interested investors to invest in the micro finance development bank.	Make available all the progress reports in this regard.	Micro Finance Department/Banks and Financial Institutions Regulation Department.	The maximum ceiling for investment in shares of D class financial institutions has already been revised from 15 percent to 25 percent with effect from August 21, 2005 as per the circular issued by Micro Finance Department.
33	63	Make necessary arrangement to fulfill the commitment made by Nepal at the time of accession to WTO, for foreign banks to open their branches in Nepal from 2010.	Provide the report by studying this matter	Banks and Financial Institutions Regulation Department	A team has been formed to study the necessary rules, regulations and other arrangement as well as the existing provisions in other countries. The team has already submitted its report that will be made public soon.

34	64	Initiatives will be taken to formulate Banking Fraud Control Act to discourage the possible cheating and fraud in the financial sector.	Make available the report on its status of implementation.	Banks and Financial Institutions Regulation Department/ Bank Supervision Department/Financial Institutions Supervision Department/Legal Division	For drafting the said Acts and Rules, a Law-drafting Committee consisting of the representatives from Ministry of Finance and Ministry of Law has been formed under the chair of Deputy Governor. The Committee has already initiated its work.
35	65	Revise and upgrade the human resource management policy and develop supervisory skills, information technology and upgrade accounting system, making it compatible with international practice and Nepal Accounting Standard	Make information available of the work related to this.	Banks and Financial Institutions Regulation/ Bank Supervision/ Financial Institution Supervision/ Information Technology/ Financial Management/ Corporate Planning Dept.	IT consultant is working to develop information technology system. As per the recommendation, IT trainer was hired and under his presence 36 officials from several departments of the NRB was provided 3-month computer training. Two prototype developers, who were also hired, have already completed their assignment of developing suitable prototype for NRB. As per the recommendation of IOS partners, the process of recruiting seven international consultants to enhance the supervisory skills of NRB, is in the verge of completion. An international HR Advisor has been hired to revise human resource management policy of the Bank. Furthermore, as per the recommendations of IOS partners, a team of Chartered Accountants has been formed to revise existing accounting policy and make it compatible with international standard and Nepal Accounting Standard.
36	66	A mid-term Strategic Planning (2005/06 - 2009-10) will be formulated and implemented gradually to achieve the objectives as specified in NRB Act 2002 and to fulfil vision/mission of the Bank	Submit progress report of the works carried out to meet these objectives	Corporate Planning Department	Preliminary draft of the Bank's Strategic Planning (2005/06 - 2009/10), aimed at facilitating the Bank to achieve the set objectives of the Act and vision/mission, has been prepared and is in the process of finalization

37	67	Execution of the report submitted by the Committee headed by Vice Chairman of National Planning Commission (NPC), constituted by the council of ministers, regarding the short-term and long-term actions and steps to be taken against the wilful and non-wilful defaulters as per the classification of defaulters	Making the necessary arrangements in this regard	Banks and Financial Institutions Regulation Department	Regarding action against loan defaulters of banks and financial institutions and maintenance of financial discipline, His Majesty's Government of Nepal, Council of Ministers had made decision on submission of a report with recommendations on March 9, 2005. The report has been submitted to the Prime Minister's Office and the office of Council of Ministers. The report has classified defaulters into two main groups, wilful defaulters and non-wilful defaulters, and has identified separate procedures of action against them under the prevailing law. For implementing the above provisions, the directive issued by the Nepal Rastra Bank on July 13, 2005 has also included the directives related to credit information and blacklisting (licensed Directive no. 12|04\05). Nepal Rastra Bank, by sending the letters to concerned authorities, has positively responded to the request of concerned banks and financial institutions to seize the passport of loan defaulters. Furthermore, to caution the banks and financial institutions while advancing loans, several new provisions regarding collateral assessment, auditor, inspection by Credit Information Bureau, notification before blacklisting, cases where defaulter will not be blacklisted, correction if blacklisted by mistake were made to make the provisions regarding blacklisting more reliable and trustworthy. Nepal Rastra Bank has also informed concerned banks about the decision of Council of Ministers on May 17, 2005 regarding the wilful defaulters.
38	68	The NRB will initiate the review of legal provisions regarding the merger and acquisition.		Banks and Financial Institutions Regulation Department / Legal Division	The preparation of draft of the Act and regulations has been initiated with the formation of a Drafting Committee under the chair of Deputy Governor including the representatives from Ministry of Finance and Ministry of Law.

39	69	Necessary steps will be taken on strengthening the capacity of Debt Recovery Tribunal (DRT) and on establishing Assets Management Corporation (AMC) with a view to lowing down the higher ratio of non-performing assets (NPA) and to bring effective improvement in debt recovery	The progress of work to be made available	Bank and Financial Institutions Regulation Department/ Legal Division	To lower down the magnitude of non-performing assets (NPA) and to bring effective improvement in debt recovery, a training course has been initiated to develop the human resource of the Debt Recovery Tribunal. Similarly, to strengthen the physical facility of the tribunal by providing computer accessories as per its demand from the side of project, the process of procurement of those equipments has been initiated. Besides this, the process of establishing the AMC in Nepal will be initiated after conducting the study of AMC in different countries by the team comprising officials from His Majesty's Government-Ministry of Finance, Ministry of Law and Nepal Rastra Bank. Similarly the draft of ordinance regarding the Asset Management Regulation has already been submitted to HMG.
40	70	Grievance Hearing Cell (GHC), constituted under the chairmanship of deputy governor to settle the grievances resulting from the misunderstanding and dispute between customers, financial institutions and banks, will be made more effective.	Settling the grievances	GHC / Bank and Financial Institutions Regulation Department	To settle the grievances effectively, one committee, by appointing two advisors, has been set up, which has already began its work. Till mid-January 2006, a total of 126 grievances were registered, out of them 103 grievances have been settled.
41	71	Notwithstanding the less than satisfactory performance in recovery of 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 to some extent. In view of this, the restructuring process will be continued.	The progress of work to be made available	Banks and Financial Institutions Regulation/ Bank Supervision Department	Since the restructuring process of NBL and RBB, which together with account for a significant part of the overall banking sector, has been improving, this process has been continued in the current fiscal year also. In this connection, the contract period of NBL has been extended for the next two years effective July 22, 2005 whereas the contract period of RBB, which was to expire on January 15, 2006, has been extended for additional two years.
42	73	Risk-based supervision system will be implemented and private sector will be encouraged to establish Credit Rating Agency for developing the risk management system	The progress of work to be made available	Bank Supervision Department/ Financial Institutions Supervision Department	The policy of encouraging private sector to establish Credit Rating Agency (CRA) has been pursued. The policy of providing assistance to private investors after they come forward to establish such institution has been adopted.
43	74	To manage the financial system and to enhance the reliability of negotiable instruments such as cheque, draft, bill etc., the draft will be submitted to HMG/N for amending and refining the Negotiable Instrument Act (NIA)	The progress of work to be made available	Banks and Financial Institutions Regulation Department/ Legal Division	To prepare a draft of act and rules, a Legal Drafting Committee has been constituted under the convenorship of Deputy Governor and comprising the representatives of Ministry of Finance and Ministry of Law. The committee has begun its work.

44	75	The policy and directives regarding KYC will be issued and implemented within 2005/06 with a view to help banks and financial institutions to know your customer – KYC.	Progress after the implementation of policy and directives to be made available	Banks and Financial Institutions Regulation/ Bank Supervision/ Financial Institution Supervision Department	The draft of proposed directives regarding KYC has already been prepared. The proposed directive is in the stage of implementation after discussing with the stakeholders.
45	76	A study will be conducted about the likely impacts of the implementation of Basel II Accord from 2007 on the capital structure of commercial banks	The progress of work to be made available	Bank Supervision/ Financial Institutions Supervision Department	Quantitative Impact Study (QIC) regarding the likely impacts of the implementation of Basel II Accord on the Nepalese banking sector, which was being conducted at the initiation of Bank Supervision Department has already been completed.
46	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, a study team of an Accord Implementation Group (AIG) with the participation of commercial Bank's representatives has already been formed. Commercial banks' capital structure will be gradually made healthy and efficient on the basis of findings of the study conducted by this group.	The report of the study to be made available	Bank Supervision/ Financial Institutions Supervision Department	The situation is same as that of point No. 76.
47	78	Capital adequacy ratio to be maintained at 12 percent of the total risk weighted assets, out of which minimum core capital should be 6 percent. Capital adequacy ratio for financial institutions belonging to category 'D' is 8 percent out of which minimum core capital should be 4 percent.		Bank Supervision/Financial Institutions Supervision Department	Bank Supervision Department and Financial Institutions Supervision Department are regularly monitoring whether the commercial banks and other financial institutions have maintained the required capital adequacy ratio or not.
48	79	Necessary revisions will be made in the Inspection and Supervision By-Laws and On-site Inspection Manual of Nepal Rastra Bank.	Details of the progress to be made available	Bank Supervision/Financial Institutions Supervision Department.	Necessary revision in Inspection and Supervision By-Laws 2003 and On-site Inspection Manual is continued.
49	80	In the context of large borrowers doing multiple banking with various financial institutions, prudential regulations will be revised on the basis of the recommendations made by the study report on Concentration of Loan Portfolio.	Details of the progress to be made available.	Banks and Financial Institutions Regulation/ Bank Supervision Department.	Recommendations incorporated in the Unified Directives that came into effect from July 2005 and further revisions are also made with additional provisions.
50	82	Foreign exchange facility provided to	Details of the progress to be made	Foreign Exchange Management	Already implemented

		individuals and organizations directly by commercial banks for various purposes has been increased from US$ 1000 to US$ 1500 in 2005/06.	available.	Department.	
51	83	A foreign exchange facility of US$ 5000 for individuals and US$ 10,000 for family provided for settlement expenses for Nepalese citizens migrating on immigrant visa to the developed countries like USA, Canada, Australia, New Zealand and UK.	Details to be made available after conducting study.	Foreign Exchange Management Department	Already implemented

52	84	For a firm/organization/company having a convertible foreign currency account with a commercial bank, while participating in trade fairs and exhibitions in the countries other than India for trade promotion, payments for stall booking, registration fees, service charges, etc. in convertible currencies directly from its account held with commercial bank to be allowed	Details to be made available after conducting study.	Foreign Exchange Management Department	Already implemented
53	85	Provision of allowing the foreign currency account holder's wife/husband and parents to operate such accounts after obtaining the prior permission from the account holder to be implemented	Progress report to be submitted after conducting study.	Foreign Exchange Management Department	Already implemented
54	86	Under the provision of Cash Against Document (CAD) mechanism, the existing practice of providing permission by the NRB for exporting goods amounting to 100000 US dollar at a time with a bank guarantee of 5 percent will be revised upward to the limit of US $ 200,000 from 2005/06. In addition, commercial banks can themselves make payment of exports up to that limit based on the collateral like cash, saving certificates and development bonds and the others securities acceptable to them.	Provide the progress report by making necessary arrangements	Foreign Exchange Management Department	Already implemented

55	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 will be made whereby the commercial banks can themselves cancel the cheque that had been issued as a guarantee in favour of the customs office.	Progress report to be submitted by making necessary arrangements	Foreign Exchange Management Department	Already implemented
56	88	In a situation of receiving the document in excess of the amount stated in import L/C denominated in convertible currency, commercial banks will be allowed to accept a document up to 2 percent of the L/C amount or US dollar 1000, whichever is lower.	Provide the progress report by making necessary arrangements	Foreign Exchange Management Department	Already implemented
57	89	In case of failure to make use of cheque issued in favour of concerned customs office while releasing the document or sending advance payments under draft/TT or import L/C denominated in convertible currency, a provision will be 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 evidence.	Provide the progress report by making necessary arrangements	Foreign Exchange Management Department	Already implemented
58	90	Commercial banks will be free, for which the NRB will not bear any obligation, to swap the interest rate while hedging the interest rate of the loan borrowed by any party in foreign currency	Provide the progress report by making necessary arrangements	Foreign Exchange Management Department	Already implemented
59	91	A provision of maintaining 10 percent of imported value as a bank guarantee by the private sector importers to import chemical fertilizer in Nepal will be reduced to 2 percent in order to facilitate the import of chemical fertilizer.	Provide the progress report by making necessary arrangements	Foreign Exchange Management Department	Already implemented
60	92	Commercial banks will be allowed to send directly any payment to India in foreign currency made by the international organisations having foreign currency account in the commercial banks.	Provide the progress report by making necessary arrangements	Foreign Exchange Management Department	Already implemented

61	93	A provision of endorsement to be made in the passport will be abolished and foreign exchange facility will be provided more than once under the passport facility.	Provide the progress report by making necessary arrangements	Foreign Exchange Management Department	Already implemented
62	94	The provision of requirement of approval from the NRB to borrow from abroad will be changed so that one who intends to borrow from abroad, for a period of one year or more, without pledging any domestic asset as collateral, can borrow by just notifying the NRB instead of taking prior approval.	Provide the progress report by making necessary arrangements	Foreign Exchange Management Department	Already implemented
63	96	Beginning from 2005/06, the NRB will sell silver to local exporters of ornaments and utensil made of silver from its own stock at the prevailing international market prices.	Provide the progress report by making necessary arrangements	Foreign Exchange Management Department	Under Implementation
64	97	There will be further addition in the number of industrial raw materials and intermediate goods that will be eligible for imports from India against the payment of US dollars.	Provide the progress report by making necessary arrangements	Foreign Exchange Management Department	Already implemented

List of Statistical Tables

Table 1	Real Gross Domestic Product
Table 2	Nominal Gross Domestic Product
Table 3	National Urban Consumer Price Index
Table 4	National Wholesale Price Index
Table 5	Monetary Survey
Table 6	Sale Auction
Table 7	Purchase Auction
Table 8	Repo Auction
Table 9	Reverse Repo Auction
Table 10	Foreign Exchange Intervention
Table 11	Standing Liquidity Facility (SLF)
Table 12	Interbank Transaction Amount
Table 13	Fresh Treasury Bills Auction
Table 14	Structure of Interest Rates
Table 15	Weighted Average Treasury Bills Rate (91-day)
Table 16	Weighted Average Treasury Bills Rate (364-day)
Table 17	Weighted Average Interbank Transaction Rate
Table 18	Government Budgetary Operation
Table 19	Outstanding Domestic Debt of HMG
Table 20	Direction of Foreign Trade
Table 21	Balance of Payments Situation
Table 22	Gross Foreign Exchange Holding of the Banking Sector
Table 23	Import from India Against US Dollar Payment
Table 24	Indian Currency Purchase

Table 1

Real Gross Domestic Product

(At 1994/95 Prices)

Sectors	Rs. in Million				Percent Change			
	2001/02	**2002/03**	**2003/04**	**2004/05[E]**	**01/02**	**02/03**	**03/04**	**04/05[E]**
Agriculture, Forestry and Fishery	**108752**	**111471**	**115774**	**119212**	**2.2**	**2.5**	**3.9**	**3.0**
Non Agriculture	**170417**	**176218**	**182249**	**186020**	**-1.9**	**3.4**	**3.4**	**2.1**
Mining and Quarrying	1571	1601	1610	1650	1.6	1.9	0.6	2.5
Manufacturing	24892	25384	25822	26494	-10.0	2.0	1.7	2.6
Electricity, Gas and Water	5200	6234	6437	6827	10.0	19.9	3.3	6.1
Construction	32180	32757	32816	32678	1.1	1.8	0.2	-0.4
Trade, Restaurant and Hotel	28329	29267	31613	30801	-10.1	3.3	8.0	-2.6
Transport, Communication and Storage	21201	22113	23273	24497	1.6	4.3	5.2	5.3
Finance and Real estate	28402	29333	30275	31570	3.3	3.3	3.2	4.3
Community and Social Services	28642	29529	30403	31503	1.8	3.1	3.0	3.6
GDP at Factor cost before deduction of bank service charges	**279169**	**287689**	**298023**	**305232**	**-0.3**	**3.1**	**3.6**	**2.4**
Less imputed value of bank service charges	8064	8499	8950	9435	3.0	5.4	5.3	5.4
Total GDP at Factor cost	271105	279190	289073	295797	-0.4	3.0	3.5	2.3
Plus Indirect Taxes, net	20135	21724	23194	24920	-2.8	7.9	6.8	7.4
GDP at producers prices	**291240**	**300914**	**312267**	**320717**	**-0.6**	**3.3**	**3.8**	**2.7**

Source: Central Bureau of Statistics

E- Estimate

Table 2

Nominal Gross Domestic Product

(At Current Market Prices)

Sectors	Rs. in Million				Percent change			
	2001/02	**2002/03**	**2003/04**	**2004/05[E]**	**01/02**	**02/03**	**03/04**	**04/05[E]**
Agriculture, Forestry and Fishery	**160144**	**171104**	**183117**	**194363**	**6.0**	**6.8**	**7.0**	**6.1**
Non Agriculture	**245994**	**266442**	**291802**	**314328**	**1.3**	**8.3**	**9.5**	**7.7**
Mining and Quarrying	2056	2188	2377	2530	6.9	6.4	8.6	6.4
Manufacturing	32805	34337	36634	39286	-7.6	4.7	6.7	7.2
Electricity, Gass and Water	8635	10905	11355	12032	16.2	26.3	4.1	6.0
Construction	42290	45068	49029	52728	6.8	6.6	8.8	7.5
Trade, Restaurant and Hotel	40772	43978	49718	50080	-8.5	7.9	13.1	0.7
Transport, Communication and Storage	34652	38286	43668	48656	4.1	10.5	14.1	11.4
Finance and Real estate	43882	47719	51940	58138	5.4	8.7	8.8	11.9
Community and Social Services	40902	43961	47081	50878	4.9	7.5	7.1	8.1
GDP at Factor cost before deduction of bank service charges	**406138**	**437546**	**474919**	**508691**	**3.1**	**7.7**	**8.5**	**7.1**
Less imputed value of bank service charges	12624	13911	15135	17027	6.0	10.2	8.8	12.5
Total GDP at Factor cost	393514	423635	459784	491664	3.0	7.7	8.5	6.9
Plus Indirect Taxes, net	29293	33040	36961	41914	0.5	12.8	11.9	13.4
GDP at producers prices	**422807**	**456675**	**496745**	**533578**	**2.8**	**8.0**	**8.8**	**7.4**

Source: Central Bureau of Statistics

E- Estimate

Table 3

National Urban Consumer Price Index

(Base Year 1995/1996 = 100)

	2003/04		2004/05		2005/06		
Mid-Month	**Index**	**% Change**	**Index**	**% Change**	**Index**	**% Change**	
August	155.4	5.4	159.1	2.4	170.7	7.3	
September	156.1	5.2	160.2	2.6	173.3	8.2	
October	157.1	5.6	161.2	2.6	173.8	7.8	
November	156.6	5.8	160.8	2.7	174.5	8.5	
December	154.2	4.9	159.0	3.1	173.0	8.8	
January	152.5	5.0	159.5	4.6	170.7	7.0	
February	152.7	4.7	161.4	5.7	171.3	6.1	*
March	153.1	4.4	161.9	5.7	172.0	6.2	*
April	154.1	1.7	163.1	5.8	173.3	6.3	*
May	154.1	1.3	164.0	6.4	174.1	6.1	*
June	155.0	1.8	164.6	6.2	174.6	6.1	*
July	156.4	2.0	166.8	6.6	176.4	5.7	*
Annual Average	**154.8**	**4.0**	**161.8**	**4.5**	**173.1**	**7.0**	*

* Projected

Table 4

National Wholesale Price Index

(Base Year 1999/2000 = 100)

	2003/04		2004/05		2005/06		
Mid-Month	**Index**	**% Change**	**Index**	**% Change**	**Index**	**% Change**	
August	114.4	3.2	122.1	6.8	133.5	9.3	
September	116.0	3.2	123.1	6.1	134.8	9.5	
October	116.4	3.5	123.4	6.0	135	9.4	
November	117.2	4.1	122.6	4.6	136.4	11.3	
December	113.9	6.0	119	4.4	134.3	12.9	
January	112.0	7.1	119.7	6.9	129.5	8.2	
February	112.9	5.2	121	7.2	131.6	8.8	*
March	113.5	3.6	123.2	8.5	133.7	8.5	*
April	114.2	2.6	123.7	8.4	134	8.3	*
May	114.3	1.8	125.2	9.5	135.7	8.4	*
June	116.2	4.5	126.5	8.9	137.5	8.7	*
July	118.1	4.8	129.9	9.9	141.4	8.9	*
Annual Average	**114.9**	**4.1**	**123.3**	**7.3**	**134.78**	**9.3**	*

* Projected

Table 5

Monetary Survey

(First Five Months)

(Rs. in Million)

Monetary aggregates	2004 Jul	2004 Dec	2005 Jul (p)	2005 Dec (e)	Changes during the first five months			
					2004/05		2005/06	
					Amount	Percent	Amount	Percent
1. Foreign Assets, Net	**108,804.6**	**106,734.4**	**107,744.4**	**117,620.1**	**1,798.8** [1/]	**1.7**	**5,325.2** [2/]	**4.9**
1.1. Foreign Assets	131,366.0	129,472.4	130,919.1	141,124.3	-1,893.6	-1.4	10,205.2	7.8
1.2 Foreign Currency Deposits	21,174.6	20,827.9	21,557.2	21,888.5	-346.8	-1.6	331.3	1.5
1.3 Other Foreign Liabilities	1,386.7	1,910.2	1,617.6	1,615.7	523.4	37.7	-1.9	-0.1
2. Net Domestic Assets	**168,501.2**	**177,441.9**	**192,695.6**	**197,094.0**	**5,071.5** [1/]	**3.0**	**8,948.9** [2/]	**4.6**
2.1. Domestic Credit	246,171.8	256,222.0	280,243.2	290,206.4	10,050.2	4.1	9,963.2	3.6
a. Net Claims on Govt.	57,396.6	55,663.8	63,897.2	62,923.2	-1,732.7	-3.0	-974.0	-1.5
i. Claims on Govt.	58,149.6	58,221.2	63,897.2	62,923.2	71.6	0.1	-974.0	-1.5
ii. Govt. Deposits	753.0	2,557.3	0.0	0.0	1,804.3	239.6	0.0	0.0
b. Claims on Non-Financial Govt. Ent.	2,914.9	4,076.2	6,566.2	5,674.1	1,161.3	39.8	-892.1	-13.6
c. Claims on Financial Institutions	13,343.9	12,991.4	12,762.8	12,565.8	-352.5	-2.6	-197.0	-1.5
i. Government	13,203.3	12,959.4	12,730.8	12,533.8	-243.9	-1.8	-197.0	-1.5
ii. Non-government	140.6	32.0	32.0	32.0	-108.6	-77.2	0.0	0.0
d. Claims on Private Sector	172,516.5	183,490.6	197,017.0	209,043.3	10,974.1	6.4	12,026.2	6.1
2.2. Net Non-monetary Liabilities	77,670.6	78,780.1	87,547.6	93,112.4	4,978.7 [1/]	6.4	1,014.3 [2/]	1.2
3. Broad Money (M2)	**277,305.9**	**284,176.2**	**300,440.0**	**314,714.1**	**6,870.3**	**2.5**	**14,274.1**	**4.8**
3.1. Money Supply (M1)	93,969.5	93,079.6	100,205.8	102,803.7	-889.9	-0.9	2,597.9	2.6
a. Currency	63,218.9	65,585.4	68,784.1	71,611.6	2,366.6	3.7	2,827.5	4.1
b. Demand Deposits	30,750.7	27,494.1	31,421.6	31,192.1	-3,256.6	-10.6	-229.6	-0.7
3.2. Time Deposits	183,336.4	191,096.7	200,234.2	211,910.5	7,760.2	4.2	11,676.2	5.8
4. Broad Money Liquidity (M3)	**298,480.5**	**305,004.1**	**321,997.2**	**336,602.6**	**6,523.6**	**2.2**	**14,605.4**	**4.5**
Reserve Money	94,415.2	87,813.6	96,539.3	95,922.0	-6,601.7	-7.0	-617.3	-0.6

1/ Adjusting the exchange valuation loss of Rs. 3869.1 million.

2/ Adjusting the exchange valuation gain of Rs 4550.5 million.

p = Provisional

e = Estimates.

Table 6

Sale Auction

(First Six Months)

(Rs. in Million)

Mid-Month	2004/05		2005/06	
	Amount	**Wtd. Int. Rate**	**Amount**	**Wtd. Int. Rate**
August	-		1,440.00	3.4685
September	-		170.00	3.8912
October	9,550.00	3.6448	2,000.00	3.8467
November	-		300.00	3.0207
December	-		830.00	1.9046
January	950.00	2.2333	-	-
February	-	-		
March	-	-		
April	-	-		
May	-	-		
June	-	-		
July	-	-		
Total	**10,500.00**		**4,740.00**	

Table 7

Purchase Auction

(First Six Months)

(Rs. in Million)

Mid-Month	2004/05		2005/06	
	Amount	**Wtd. Int. Rate**	**Amount**	**Wtd. Int. Rate**
August	-	-	-	-
September	-	-	-	-
October	-	-	530.00	4.9897
November	49.60	2.4316	300.00	3.5160
December	-	-	-	-
January	-	-	-	-
February	1,072.20	2.2887		
March	190.00	2.1122		
April	-	-		
May	-	-		
June	-	-		
July	-	-		
Total	**1,311.80**		**830.00**	

Table 8

Repo Auction

(First Six Months)

(Rs. in Million)

Mid-Month	2004/05	2005/06
August	-	-
September	-	-
October	-	-
November	1,050.00	-
December	1,610.00	-
January	-	-
February	2,800.00	
March	300.00	
April	-	
May	600.00	
June	-	
July	320.00	
Total	**6,680.00**	**-**

Table 9

Reverse Repo Auction

(First Six Months)

(Rs. in Million)

Mid-Month	2004/05	2005/06
August	-	-
September	-	-
October	1,500.00	-
November	-	500.00
December	-	1,500.00
January	2,570.00	2,000.00
February	-	
March	-	
April	1,200.00	
May	-	
June	-	
July	-	
Total	**5,270.00**	**4,000.00**

Table 10

Foreign Exchange Intervention

(First Six Months)

(Rs. in Million)

Mid-Month	2003/04			2004/05			2005/06		
	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection
August	735.39	-	735.39	1,357.50	-	1,357.50	1,699.80	522.74	1,177.06
September	1,337.10	-	1,337.10	2,067.50	-	2,067.50	2,160.80	-	2,160.80
October	3,529.54	-	3,529.54	3,687.80	-	3,687.80	3,783.90	-	3,783.90
November	2,685.96	-	2,685.96	2,435.10	1,088.40	1,346.70	6,195.49	-	6,195.49
December	2,257.50	496.34	1,761.16	3,233.30	-	3,233.30	4,826.32	-	4,826.32
January	2,901.58	-	2,901.58	4,718.10	-	4,718.10	4,487.17	131.74	4,355.43
February	1,893.90	-	1,893.90	2,090.40	1,750.50	339.90			
March	1,962.72	-	1,962.72	2,120.20	-	2,120.20			
April	2,955.37	-	2,955.37	6,237.80	-	6,237.80			
May	1,971.17	408.86	1,562.31	3,808.90	780.30	3,028.60			
June	4,584.48	-	4,584.48	2,288.90	-	2,288.90			
July	3,337.29	1,132.25	2,205.04	3,849.10	-	3,849.10			
Total	**30,152.00**	**2,037.45**	**28,114.55**	**37,894.70**	**3,619.20**	**34,275.40**	**23,153.48**	**654.48**	**22,499.00**

Table 11

Standing Liquidity Facility (SLF)

(First Six Months)

(Rs. in Million)

Mid-Month	2004/05	2005/06
August	585.00	400.00
September	189.00	550.00
October	3,367.28	220.00
November	15,836.81	-
December	2,362.50	-
January	200.00	753.50
February	6,224.80	
March	11,402.00	
April	4,027.90	
May	1,040.00	
June	600.00	
July	3,472.05	
Total	**49,307.34**	**1,923.50**

Table 12

Interbank Transaction Amount

(First Six Months)

(Rs. in Million)

Mid-Month	2003/04	2004/05	2005/06
August	4,870.00	4,309.00	20,554.20
September	13,805.00	13,165.00	24,670.50
October	12,575.00	12,145.00	12,021.00
November	14,759.00	9,056.00	10,369.00
December	7,900.00	11,018.00	15,533.00
January	13,460.00	11,030.00	11,255.50
February	8,080.00	12,710.00	-
March	2,800.00	9,500.00	-
April	5,860.00	18,162.00	-
May	9,070.00	13,050.00	-
June	5,650.00	18,334.25	-
July	14,359.00	20,358.50	-
Total	**113,188.00**	**152,837.75**	**94,403.20**

Table 13

Fresh Treasury Bills

(First Six Months)

(Rs. in Million)

Mid-Month	2004/05	2005/06
August	-	-
September	-	-
October	500.00	1,185.00
November	850.00	-
December	-	-
January	850.00	1,950.00
February	-	
March	141.20	
April	1,300.00	
May	500.00	
June	1,000.00	
July	330.00	
Total	**5,471.20**	**3,135.00**

Table 14

Structure of Interest Rates

(Percent per Annum)

Year	2003	2004	2005	2004	2005	2005	2005	2005	2006
Mid-months	July#	July#	July#	Oct.	Jan.	Apr.	July	Oct.	Jan.
A. Government Securities									
Treasury Bills* (28 days)#	-	1.82	1.57	1.23	1.74	2.29	-	2.75	1.59
Treasury Bills* (91 days)#	3.48	2.93	2.46	1.34	2.08	3.11	3.14	3.10	2.46
Treasury Bills* (182 days)#	-	3.44	3.14	2.03	2.51	3.72	4.42	3.70	2.57
Treasury Bills* (364 days)#	4.71	4.15	4.32	3.53	2.49	3.98	4.79	3.87	3.42
National Savings Certificates	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
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	5.0-8.0
B. Nepal Rastra Bank									
CRR	6.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Bank and Refinance Rates	2.0-5.5	2.0-5.5	1.5-5.5	2.0-5.5	1.5-5.5	1.5-5.5	1.5-5.5	1.5-6.0	1.5-6.0
NRB Bonds Rate									
C. Interbank Rate #	3.619	3.030	3.388	0.826	3.493	4.503	4.712	3.177	1.220
D. Commercial Banks									
1. Deposit Rates									
Savings Deposits	2.5-6.0	2.0-5.0	1.75-5.0	2.0-4.5	1.75-4.5	1.75-4.5	1.75-5.0	2.0-5.0	2.0-5.0
Time Deposits									
1 Month		2.0-3.5	1.75-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.75-3.5	1.5-3.5	1.5-3.5
3 Months	2.0-5.0	2.0-4.0	1.5-4.0	1.5-4.0	1.5-4.0	1.5-4.0	1.5-4.0	1.5-3.5	1.5-4.0
6 Months	2.5-6.0	2.0-4.5	2.5-4.5	1.75-4.5	1.75-4.5	1.75-4.5	2.5-4.5	1.75-4.5	1.75-4.5
1 Year	3.0-7.0	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	2.25-5.0
2 Years and Above	3.25-7.50	3.0-6.00	2.5-6.05	2.5-5.25	2.5-6.25	2.5-6.25	2.5-6.05	2.5-6.05	2.5-5.5
2 Lending Rates									
Industry	8.50-14.0	8.5-13.5	8.25-13.5	8.5-13.5	8.25-13.5	8.25-13.5	8.25-13.5	8.0-13.5	8.0-13.5
Agriculture	10.5-14.5	10.5-13	10-13	9.5-13	9.5-13	10.5-13	10-13	9.5-13	10-13
Export Bills	4.0-12.5	4.0-11.5	4.0-12.0	4.0-11.0	4.0-11.0	4.0-12.0	4.0-12.0	4.0-12.0	4.0-11.5
Commercial Loans	7.50-16.0	9-14.5	8.0-14	9-14.0	8.25-14.5	8.25-14.5	8.0-14	8.0-14	8.0-14
Overdrafts	10.0-17.0	10.0-16.0	5-14.5	9.5-15.5	6.5-14.5	6.5-14.5	5-14.5	6.5-14.5	6.5-14.5
CPI Inflation (annual average)	**4.8**	**4.0**	**4.5**						

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

* Weighted average discount rate.

Table 15

Weighted Average Treasury Bills Rate (91-day)

FY		Mid-Month												Annual
		Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Average
2046/47	(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**
2047/48	(1990/91)	7.51	7.67	-	7.96	8.07	-	8.37	8.24	8.71	8.54	8.65	8.74	**8.18**
2048/49	(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**
2049/50	(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**
2050/51	(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**
2051/52	(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**
2052/53	(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**
2053/54	(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**
2054/55	(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**
2055/56	(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**
2056/57	(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**
2057/58	(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**
2058/59	(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**
2059/60	(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**
2060/61	(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**
2061/62	(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**
2062/63	(2005/06)	2.26	3.38	3.10	2.69	2.20	2.46							

Table 16

Weighted Average Treasury Bills Rate (364-day)

FY		Mid-Month												Annual
		Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Average
2053/54	(1996/97)	-	-	-	-	-	11.9631	-	-	10.5283	-	8.9766	-	10.3440
2054/55	(1997/98)	-	-	-	-	-	6.3049	-	-	7.2517	-	6.9928	-	6.8624
2055/56	(1998/99)	-	-	-	-	-	-	-	-	4.9129	5.4240	5.3116	-	5.1282
2056/57	(1999/00)	-	-	-	-	5.6721	5.5712	6.0824	7.2849	6.1420	-	-	-	6.1565
2057/58	(2000/01)	-	-	-	-	5.7310	5.4412	5.4568	5.1130	4.9210	5.2675	5.5204	5.6215	5.2623
2058/59	(2001/02)	-	-	-	-	5.5134	5.1547	5.6571	5.5606	5.1416	5.0400	4.9911	4.4332	5.2011
2059/60	(2002/03)	-	-	-	-	4.0799	4.4582	4.2217	4.9408	5.1251	4.6283	3.3139	4.9281	4.7107
2060/61	(2003/04)	5.3138	5.1816	5.2973	5.1521	5.1208	4.9545	4.7035	4.0420	3.0187	2.6520	2.5699	3.8124	4.1463
2061/62	(2004/05)	-	-	3.5281	-	3.0617	2.4942	2.7779	3.5366	3.9792	4.8411	4.8657	4.7854	4.3222
2062/63	(2005/06)	-	-	3.8746	3.9333	3.0897	3.4187							

Table 17

Weighted Average Interbank Transaction Rate

Mid-Month\Year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
August	4.827	3.057	2.976	4.152	1.016	2.468
September	4.853	2.624	2.496	2.665	0.387	3.868
October	4.009	4.020	3.314	3.598	0.826	3.177
November	4.823	4.499	4.050	4.208	2.241	2.359
December	4.699	4.406	3.625	4.630	3.545	0.961
January	5.058	4.034	3.832	4.681	3.493	1.222
February	4.051	6.309	3.615	4.820	3.955	
March	4.286	5.513	3.672	3.666	4.332	
April	3.392	4.476	3.583	0.829	4.503	
May	4.358	4.745	4.060	1.011	4.283	
Jun	3.906	3.671	3.590	0.990	4.113	
July	4.726	1.958	4.500	0.711	4.712	
Annual Average	**4.503**	**4.220**	**3.619**	**3.030**	**3.388**	

Table 18

Government Budgetary Operation^

(On cash basis)

(First *Six Months)*

(Rs. in Million)

Heads	Amount			Percent Change		
	2003/04	2004/05P	2005/06P	2003/04	2004/05	2005/06
Sanctioned Expenditure	**39285.9**	**41810.4**	**48234.3**	**7.9**	**6.4**	**15.4**
Recurrent	*	29949.7	34500.4	-	-	15.2
Capital	*	5094.5	6770.1	-	-	32.9
a.Domestic Resources & Loans	*	4947.8	6666.7	-	-	34.7
b.Foreign Grants	*	146.7	103.4	-	-	-29.5
Principal Repayment	*	5376	4657.1	-	-	-13.4
Others (Freeze Account)	1583.4	1390.2	2306.7	22.1	-12.2	65.9
Unspent Government Balance	**7312.9**	**7825.7**	**8236.8**	**21.9**	**7.0**	**5.3**
Recurrent	*	5121.9	5957.9	-	-	16.3
Capital	*	1710.4	1860.2	-	-	8.8
Principal Repayment	*	993.4	418.7	-	-	-57.9
Actual Expenditure	**31973**	**33984.7**	**39997.5**	**5.2**	**6.3**	**17.7**
Recurrent	*	24827.8	28542.5	-	-	15.0
Capital	*	3384.1	4909.9	-	-	45.1
Principal Repayment	*	4382.6	4238.4	-	-	-3.3
Others (Freeze Account)	1583.4	1390.2	2306.7	22.1	-12.2	65.9
Resources	**30027.6**	**34539.8**	**40680.9**	**14.7**	**15.0**	**17.8**
Revenue	26602.3	29834.8	31584.9	13.6	12.2	5.9
From Foreign Grants	2067.9	3659.9	5056.2	176.5	77.0	38.2
Non-Budgetary Receipts,net	1014.8	878.6	1297.8	-34.5	-13.4	47.7
Others #	279.7	78.9	-570.5	-15.5	-71.8	-823.1
V.A.T.	62.9	87.6	133.3	-53.3	39.3	52.2
Local Authority Account	0	0	3179.2			
Deficit (-) Surplus (+)	**-1945.4**	**555.1**	**683.4**	**-53.8**	**-128.5**	**23.1**
Sources of Financing	**1945.4**	**-555.1**	**-683.4**	**-53.8**	**-128.5**	**23.1**
Internal Loans	-4740.8	-1637.6	-2793.1	-280.9	-65.5	70.6
a.Treasury Bills	*1100*	*2200*	*3135*	-	-	42.5
b.Development Bonds	0	0	0	-100.0	-	
c.National Savings Certificates	*0*	0	0	-	-	
d. Citizen Saving Certificates	*247.8*	0	0	*-18.2*	*-100.0*	
e.Overdrafts +	*-4941.8*	*-3846.1*	*-5830.9*	-	-	51.6
f. Others @	*-1146.8*	*8.5*	*-97.2*	-	-	-1,243.5
Foreign Loans	6686.2	1082.5	2109.7	319.7	-83.8	94.9

^ = As per NRB records.

= Change in outstanding amount disbursed to VDC/DDC remaining unspent.

+ indicates Minus and (-) 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 FY.

P = Provisional

Table 19

Outstanding Domestic Debt of HMG

(Rs. in Million)

No.	Name of Bonds/Ownership	2004/05	2005/06						Change
		Mid-Jul	Mid-Aug	Mid-Sep	Mid-Oct	Mid-Nov	Mid-Dec.	Mid-Jan	Jan. 06 - Jul. 05
1	**Treasury Bills**	**51383.1**	**51383.1**	**51383.1**	**52768.1**	**52568.1**	**52568.1**	**54518.1**	**3135.0**
	a. Banking Sector	**50425.4**	**50575.4**	**50420.4**	**51725.4**	**51585.4**	**51722.9**	**53510.0**	**3084.6**
	i. Nepal Rastra Bank	10923.8	9143.8	9333.8	13523.8	12953.8	12763.8	12563.8	1640.0
	ii. Commercial Banks	39501.6	41431.6	41086.6	38201.6	38631.6	38959.1	40946.2	1444.6
	b. Non-Banking Sector	957.7	807.7	962.7	1042.7	982.7	845.2	1008.0	50.3
	(of which ADB/N)	*200.0*	*50.0*	*200.0*	*150.0*	*150.0*	*0.0*	*97.8*	*-102.2*
2	**Development Bonds**	**19999.2**	**19999.2**	**19999.2**	**19999.2**	**19999.2**	**19999.2**	**19999.2**	**0.0**
	a. Banking Sector	9623.2	9623.2	9623.2	9623.2	9623.2	9623.2	9623.2	0.0
	i. Nepal Rastra Bank *	1518.7	1518.7	1518.7	1518.7	1518.7	1518.7	1518.7	0.0
	ii. Commercial Banks	8104.5	8104.5	8104.5	8104.5	8104.5	8104.5	8104.5	0.0
	b. Non-Banking Sector **	10376.0	10376.0	10376.0	10376.0	10376.0	10376.0	10376.0	0.0
3	**National Saving Certificates**	**6576.8**	**6576.8**	**6576.8**	**6576.8**	**6576.8**	**6576.8**	**5576.8**	**-1000.0**
	a. Banking Sector	231.4	231.4	234.0	234.0	234.5	234.5	234.5	3.1
	i. Nepal Rastra Bank	231.4	231.4	234.0	234.0	234.5	234.5	234.5	3.1
	ii. Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	b. Non-Banking Sector +	6345.4	6345.4	6342.8	6342.8	6342.3	6342.3	5342.3	-1003.1
4	**Citizen Saving Bonds**	**1428.9**	**1428.9**	**1428.9**	**1428.9**	**1428.9**	**1428.9**	**1428.9**	**0.0**
	a. Banking Sector	49.6	49.6	50.1	50.1	50.2	50.2	50.2	0.6
	i. Nepal Rastra Bank	49.6	49.6	50.1	50.1	50.2	50.2	50.2	0.6
	b. Non-Banking Sector	1379.3	1379.3	1378.8	1378.8	1378.7	1378.7	1378.7	-0.6
5	**Special Bonds**	**8176.3**	**8176.3**	**8176.3**	**8176.3**	**8176.3**	**8176.3**	**8187.9**	**11.6**
	a. Banking Sector	5666.9	5666.9	5666.9	5666.9	5666.9	5666.9	5666.9	0.0
	i. Nepal Rastra Bank ++	*4722.3*	*4722.3*	*4722.3*	*4722.3*	*4722.3*	*4722.3*	*4722.3*	*0*
	ii. Commercial Banks	944.6	944.6	944.6	944.6	944.6	944.6	944.6	0.0
	b.Non-Banking Sector	2509.4	2509.4	2509.4	2509.4	2509.4	2509.4	2521.0	11.6
	(Of which duty drawback)	1035.9	1035.9	1035.9	1035.9	1035.9	1035.9	1047.5	11.6
6	**Short Term Loan & Advances**	**2623**	**-1006.3**	**-2049.4**	**317.5**	**1425.6**	**347.9**	**-3207.9**	**-5830.9**
	Nepal Rastra Bank	2623.0	-1006.3	-2049.4	317.5	1425.6	347.9	-3207.9	-5830.9
7	**Grand Total**	**90187.3**	**86558.0**	**85514.9**	**89266.8**	**90174.9**	**89097.2**	**86502.0**	**-3684.3**
	a. Banking Sector	68619.5	65140.2	63945.2	67617.1	68585.8	67645.6	65876.9	-2742.6
	i. Nepal Rastra Bank	*20068.8*	*14659.5*	*13809.5*	*20366.4*	*20905.1*	*19637.4*	*15881.6*	*-4187.2*
	ii. Commercial Banks	*48550.7*	*50480.7*	*50135.7*	*47250.7*	*47680.7*	*48008.2*	*49995.3*	*1444.6*
	b. Non-Banking Sector	21567.8	21417.8	21569.7	21649.7	21589.1	21451.6	20626.0	-941.8
	(of which ADB/N)	*200.0*	*50.0*	*200.0*	*150.0*	*150.0*	*0.0*	*97.8*	*-102.2*

* 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.

++ IMF Promissory Note.

Source : Nepal Rastra Bank.

Table 20

Direction of Foreign Trade*

(First Six Months)

(Rs. in Million)

	2002/03(R)	2003/04(R)	2004/05(P)	2005/06(P)	Percent Change		
					2003/04	2004/05	2005/06
Total Exports (f.o.b.)	**23763.5**	**26234.5**	**28079.0**	**31034.6**	**10.4**	**7.0**	**10.5**
To India	12699.6	14487.1	17977.3	21472.8	14.1	24.1	19.4
To Other Countries	11063.9	11747.4	10101.7	9561.8	6.2	-14.0	-5.3
Total Imports (c.I.f.)	**57808.0**	**63692.9**	**69277.4**	**82146.8**	**10.2**	**8.8**	**18.6**
From India	32190.4	35583.8	41269.8	50671.6	10.5	16.0	22.8
From Other Countries	25617.6	28109.1	28007.6	31475.2	9.7	-0.4	12.4
Trade Balance	**-34044.5**	**-37458.4**	**-41198.4**	**-51112.2**	**10.0**	**10.0**	**24.1**
With India	-19490.8	-21096.7	-23292.5	-29198.8	8.2	10.4	25.4
With Other Countries	-14553.7	-16361.7	-17905.9	-21913.4	12.4	9.4	22.4
Total Trade	**81571.5**	**89927.4**	**97356.4**	**113181.4**	**10.2**	**8.3**	**16.3**
With India	44890.0	50070.9	59247.1	72144.4	11.5	18.3	21.8
With Other Countries	36681.5	39856.5	38109.3	41037.0	8.7	-4.4	7.7

1. Export / Import Ratio	**41.1**	**41.2**	**40.5**	**37.8**
India	39.5	40.7	43.6	42.4
Other Countries	43.2	41.8	36.1	30.4
2. Share in Total Export				
India	53.4	55.2	64.0	69.2
Other Countries	46.6	44.8	36.0	30.8
3. Share in Total Import				
India	55.7	55.9	59.6	61.7
Other Countries	44.3	44.1	40.4	38.3
4. Share in Trade Balance				
India	57.3	56.3	56.5	57.1
Other Countries	42.7	43.7	43.5	42.9
5. Share in Total Trade				
India	55.0	55.7	60.9	63.7
Other Countries	45.0	44.3	39.1	36.3
6. Share of Exports and Import in Total Trade				
India	29.1	29.2	28.8	27.4
Other Countries	70.9	70.8	71.2	72.6

R = Revised
P = Provisional
* = Customs based data

Table 21

Balance of Payments Situation

(Rs in Million)

Particulars	2003/04		2004/05		2005/06	% Change During 4 months	
	4 months	Annual	4 months	Annual	4 months	2004/05	2005/06
A. Current Account	**8,254.8**	**14,598.0**	**8,581.1**	**29,243.3**	**-2,388.4**	**4.0**	**-127.8**
Goods: Exports f.o.b.	16,327.7	55,228.3	18,062.2	59,543.9	21,265.1	10.6	17.7
Oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	16,327.7	55,228.3	18,062.2	59,543.9	21,265.1	10.6	17.7
Goods: Imports f.o.b.	-40,588.6	-132,909.9	-40,353.6	-130,154.0	-55,519.0	-0.6	37.6
Oil	-5,472.7	-20,167.3	-7,249.0	-26,652.2	-10,379.5	32.5	43.2
Other	-35,115.9	-112,742.6	-33,104.6	-103,501.8	-45,139.5	-5.7	36.4
Balance on Goods	**-24,260.9**	**-77,681.6**	**-22,291.4**	**-70,610.1**	**-34,253.9**	**-8.1**	**53.7**
Services: Net	**1,929.5**	**9,074.9**	**1,267.4**	**466.6**	**-1,093.0**	**-34.3**	**-186.2**
Services: credit	8,634.9	34,315.9	8,198.8	25,815.5	8,988.9	-5.1	9.6
Travel	4,516.8	18,147.4	3,714.1	10,396.7	2,768.1	-17.8	-25.5
Government n.I.e.	1,666.5	7,143.9	2,208.4	6,804.9	3,171.7	32.5	43.6
Other	2,451.6	9,024.6	2,276.3	8,613.9	3,049.1	-7.2	33.9
Services: debit	-6,705.4	-25,241.0	-6,931.4	-25,348.9	-10,081.9	3.4	45.5
Transportation	-3,078.5	-9,382.1	-2,883.0	-9,089.3	-3,969.9	-6.4	37.7
Travel	-1,912.8	-10,021.5	-2,391.7	-9,088.5	-3,973.5	25.0	66.1
Other	-1,714.1	-5,837.4	-1,656.7	-7,171.1	-2,138.5	-3.3	29.1
Balance on Goods and Services	**-22,331.4**	**-68,606.7**	**-21,024.0**	**-70,143.5**	**-35,346.9**	**-5.9**	**68.1**
Income: Net	**-694.4**	**-1,683.9**	**-724.3**	**1,797.3**	**566.4**	**4.3**	**-178.2**
Income: credit	817.5	3,841.5	1,078.5	7,708.4	2,462.9	31.9	128.4
Income: debit	-1,511.9	-5,525.4	-1,802.8	-5,911.1	-1,896.5	19.2	5.2
Balance on Goods,Services and Income	**-23,025.8**	**-70,290.6**	**-21,748.3**	**-68,346.2**	**-34,780.5**	**-5.5**	**59.9**
Transfers: Net	**31,280.6**	**84,888.6**	**30,329.4**	**97,589.5**	**32,392.1**	**-3.0**	**6.8**
Current transfers: credit	32,145.9	89,161.8	31,449.4	101,084.4	33,732.8	-2.2	7.3
Grants	7,168.6	19,557.8	6,087.6	21,067.2	3,493.5	-15.1	-42.6
Workers' remittances	22,433.0	58,587.6	20,776.4	65,416.0	27,062.9	-7.4	30.3
Pensions	2,007.1	7,906.2	3,911.3	12,496.4	3,176.4	94.9	-18.8
Other	537.2	3,110.2	674.1	2,104.8	0.0	25.5	-100.0
Current transfers: debit	-865.3	-4,273.2	-1,120.0	-3,494.9	-1,340.7	29.4	19.7
B Capital Account (Capital Transfer)	**718.6**	**1,452.2**	**471.9**	**1,573.6**	**1,179.1**	**-34.3**	**149.9**
Total, Groups A plus B	**8,973.4**	**16,050.2**	**9,053.0**	**30,816.9**	**-1,209.3**	**0.9**	**-113.4**
C Financial Account (Excluding Group E)	**-9,624.9**	**-21,540.1**	**-11,056.1**	**-28,309.6**	**-2,583.6**	**14.9**	-76.6
Direct investment in Nepal	0.0	0.0	0.0	136.0	0.0	0.0	0.0
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment: assets	-15,913.1	-32,591.2	-10,039.9	-23,241.6	-6,128.0	-36.9	-39.0
Trade credits	-2,073.2	-2,247.6	-1,306.4	-1,703.7	-2,833.9	-37.0	116.9
Other	-13,839.9	-30,343.6	-8,733.5	-21,537.9	-3,294.1	-36.9	-62.3
Other investment: liabilities	6,288.2	11,051.1	-1,016.2	-5,204.0	3,544.4	-116.2	-448.8
Trade credits	5,910.6	3,629.8	-672.7	-5,903.4	2,427.3	-111.4	-460.8
Loans	-377.2	3,325.2	-1,481.0	764.5	-648.6	292.6	-56.2
General Government	-381.1	3,479.1	-1,446.4	1,300.4	-565.3	279.5	-60.9
Drawings	1,096.9	9,244.7	820.5	7,253.7	1,220.7	-25.2	48.8
Repayments	-1,478.0	-5,765.6	-2,266.9	-5,953.3	-1,786.0	53.4	-21.2
Other sectors	3.9	-153.9	-34.6	-535.9	-83.3	-987.2	140.8
Currency and deposits	754.8	4,096.1	1,137.5	-65.1	1,765.7	50.7	55.2
Nepal Rastra Bank	-108.8	-77.4	-49.4	46.2	127.8	-54.6	-358.7
Deposit money banks	863.6	4,173.5	1,186.9	-111.3	1,637.9	37.4	38.0
Other liabalities	0.0	0.0	0.0	0.0	0.0		
Total, Group A through C	**-651.5**	**-5,489.9**	**-2,003.1**	**2,507.3**	**-3,792.9**	**207.5**	**89.4**
D. Net Errors and Omissions	**821.3**	**25,591.2**	**4,333.7**	**3,172.1**	**9,685.1**	**427.7**	**123.5**
Total, Group A through D	**169.8**	**20,101.3**	**2,330.6**	**5,679.4**	**5,892.2**	**1,272.6**	**152.8**
E. Reserves and Related Items	**-169.8**	**-20,101.3**	**-2,330.6**	**-5,679.4**	**-5,892.2**	**1,272.6**	**152.8**
Reserve assets	-8.8	-20,658.0	-3,115.7	-6,464.6	-5,892.2	35,305.7	89.1
Nepal Rastra Bank	-1,541.9	-19,507.8	-1,447.1	-3,253.7	-1,589.0	-6.1	9.8
Deposit money banks	1,533.1	-1,150.2	-1,668.6	-3,210.9	-4,303.2	-208.8	157.9
Use of Fund Credit and Loans	-161.0	556.7	785.1	785.2	0.0	-587.6	-100.0
Changes in reserve net (- increase)	**585.0**	**-16,005.2**	**-1,193.1**	**-5,744.5**	**-4,126.5**	**-303.9**	**245.9**

Table 22

Gross Foreign Exchange Holding of the Banking Sector

(First Five Months)

(Rs in million)

	Mid-Jul. 2003	Mid-Dec 2003	Mid-Jul. 2004	Mid-Dec 2004	Mid-Jul. 2005	Mid-Dec 2005	Percent Change Mid-Dec 2004	Percent Change Mid-Dec 2005
Nepal Rastra Bank	**86966.1**	**89820.7**	**107911.9**	**104289.9**	**104426.0**	**110347.5**	**-3.4**	**5.7**
Convertible	76752.0	84155.4	96231.9	101838.2	100825.9	106650.3	5.8	5.8
Inconvertible	10214.1	5665.3	11680	2451.7	3600.1	3697.2	-79.0	2.7
Commercial Bank	**21263.3**	**20685.3**	**22289.2**	**24033.4**	**25472.7**	**29713.1**	**7.8**	**16.6**
Convertible	20249.2	18947.9	20734.8	23149.6	23154.9	27166.1	11.6	17.3
Inconvertible	1014.1	1737.4	1554.4	883.8	2317.8	2547	-43.1	9.9
Total Reserve	**108229.4**	**110506.0**	**130201.1**	**128323.3**	**129898.7**	**140060.6**	**-1.4**	**7.8**
Convertible	97001.2	103103.3	116966.7	124987.8	123980.8	133816.4	6.9	7.9
Share in total (in percent)	89.6	93.3	89.8	97.4	95.4	95.5		
Inconvertible	11228.2	7402.7	13234.4	3335.5	5917.9	6244.2	-74.8	5.5
Share in total (in percent)	10.4	6.7	10.2	2.6	4.6	4.5		
Import Capacity (Equivalent Months)								
Merchandise	10.4	10.4	11.5	11.0	11.8	10.4	-	-
Merchandise and Services	9.0	9.0	9.7	9.5	10.0	8.8	-	-
1.Gross Foreign Exchange Reserve	108229.4	110506	130201.1	128323.3	129898.7	140060.6	-1.4	7.8
2.Gold,SDR,IMF Gold Tranche	1076.9	1154.7	1160.9	1149.1	1020.5	1063.8	-1.0	4.2
3.Gross Foreign Assets(1+2)	109306.3	111660.7	131362	129472.4	130919.2	141124.4	-1.4	7.8
4.Foreign Liabilities	17899.3	19855.4	22561.4	22738	23174.8	23504.2	0.8	1.4
5.Net Foreign Assets(3-4)	91407	91805.3	108800.6	106734.4	107744.4	117620.2	-1.9	9.2
6.Change in NFA (before adj. ex. val.)*	-2987.8	-398.3	-17397.6	2070.2	1060.2	-9875.8	-	-
7.Exchange Valuation (- loss)	-1375.6	528.8	1392.5	-3869.1	-6804.9	4550.5	-	-
8.Change in NFA (- increase) (6+7)**	**-4363.4**	**130.5**	**-16005.1**	**-1798.9**	**-5744.7**	**-5325.3**	-	-
Period end buying rate :	**74.75**	**73.83**	**74.14**	**71.49**	**70.35**	**73.75**		

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

* * = After adjusting exchange valuation gain/loss

Table 23

Import from India Against US Dollar Payment

(First Five Months)

(Rs. in million)

Mid-Month	2003/04	2004/05	2005/06
August	728.7	726.1	980.1
September	980.1	1117.4	2355.4
October	1114.2	1316.8	2944.5
November	1019.2	1186.5	2885.3
December	1354.5	1205.8	3663.4
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	
June	1455.4	1825.2	
July	1016.0	1900.2	
Total	**15256.9**	**16333.1**	**12828.8**

Table 24

Indian Currency Purchase

(First Six Months)

(In million)

	2003/04		2004/05		2005/06	
	IC Purchase	**US$ Sale**	**IC Purchase**	**US$ Sale**	**IC Purchase**	**US$ Sale**
Jul/Aug	461.85	10.00	1847.36	40.00	2,611.31	60.00
Aug/Sep	0.00	0.00	0.00	0.00	2,191.90	50.00
Sep/Oct	453.35	10.00	0.00	0.00	2,652.09	60.00
Oct/Nov	906.18	20.00	0.00	0.00	1,810.73	40.00
Nov/Dec	228.08	5.00	1340.73	30.00	2,290.13	50.00
Dec/Jan	228.16	5.00	437.30	10.00	1,348.15	30.00
Jan/Feb	2,265.55	50.00	2183.23	50.00		
Feb/Mar	2,263.11	50.00	2624.23	60.00		
Mar/Apr	904.81	20.00	436.25	10.00		
Apr/May	1,325.62	30.00	3052.16	70.00		
May/Jun	0.00	0.00	2177.63	50.00		
Jun/Jul	452.58	10.00	1306.88	30.00		
Total	**9,489.28**	**210.00**	**15,405.75**	**350.00**	**12,904.31**	**290.00**