

**Monetary Policy
for
Fiscal Year 2006/07**



Nepal Rastra Bank
Central Office
Baluwatar, Kathmandu
Nepal

2006

**Monetary Policy
for
Fiscal Year 2006/07**

*Delivered by Governor Mr. Bijaya Nath Bhattarai
on
July 23, 2006*

Nepal Rastra Bank
Central Office
Baluwatar, Kathmandu
Nepal

Website: www.nrb.org.np

Table of Contents

Background	1
Review of Economic objective of Monetary Policy of 2005/06	1
Review of Intermediate Targets of Monetary Policy of 2005/06	4
World Economic Outlook	5
Domestic Economic Outlook	6
Monetary Policy Framework for 2006/07	7
Monetary Policy Stance	7
Economic Objectives of Monetary Policy	7
Monetary Targets and the Projection of Monetary aggregates	8
Operating Targets of Monetary Policy	8
Monetary Instruments and Implementation Procedure	9
Micro-finance Related Programs	11
Financial Sector Reform Programs	12
Foreign Exchange Reform Measures	16
Lastly	17
Appendix 1	Annual progress matrix of measures as outlined in Monetary Policy of 2005/06
Appendix 2	Projection of Monetary Survey
Appendix 3	List of goods allowed to be import from India against the payment of convertible foreign currencies
Statistical Tables	

Monetary Policy

for

2006/07

Background

1. The Nepal Rastra Bank (NRB) has been formulating annual monetary policy every year since 2002/03. The major objectives of monetary policy have been maintaining price stability, external sector stability, financial sector stability, and thereby facilitating a high and sustainable economic growth. The NRB Act 2002 has granted autonomy to this bank and has also made it accountable to the general public for its policy actions. Against this backdrop, the main objectives of formulating annual monetary policy are to:
 - (a) present perception of this bank on macroeconomic situation by analysing the monetary, financial and economic sectors,
 - (b) explain to the public about monetary policy measures implemented in the previous year and policy measures initiated for the current year, and
 - (c) to undertake monetary management based on the projection of economic and monetary situation.
2. The annual monetary policy for 2005/06 was made public on July 22, 2005. The mid-term review of this monetary policy was published on February 16, 2006. The analysis of the monetary policy implemented by the bank in the previous year shows that the fiscal year 2005/06 remained difficult, eventful and decisive. The year 2005/06 also continued to suffer from a decade long armed internal conflict and political crisis. On top of that, the year bore the brunt of bad weather and increased oil prices. Consequently, additional capital formation could not take place in the country. The economy continued to slow down. There was pressure on prices.
3. The review year 2005/06 remained not only adverse economically but also momentous politically. The 19-day long second people's historic movement from April 6 to April 24, 2006 seems to have ended the political tension of the past few years. Further, the dialogue initiated and agreement reached between the major political forces is expected to resolve the decade long armed internal conflict. All these developments have provided a new direction to the country.
4. The monetary policy for 2006/07 has been formulated on the basis of emerging economic possibilities and the likely positive impacts of all these recent developments on the economy. The focus of the presentation structure of the monetary policy for 2006/07 is on the analysis of the basis of formulating monetary policy, and fulfilment of its accountability to the general public by informing them about the activities of the bank and enhancing transparency in the conduct of monetary policy. The main components of the presentation format of the monetary policy for 2006/07 are the analysis of the economic and strategic goals of monetary policy, a brief overview of the world economic outlook, an analysis of domestic economic outlook, monetary policy framework for 2006/07, financial sector and external sector reform program, and the conclusion. The annual evaluation matrix of monetary policy measures undertaken in the previous year as well as the statistical tables used for formulating this year's monetary policy are presented in the form of annexes.

Review of Economic Objectives of Monetary Policy for 2005/06

5. In the Budget Speech of 2005/06, the overall economic growth rate for that year was targeted at 4.5 percent. Ensuring overall consistency with the budget statement of the Government, it has been the tradition of the bank to formulate the monetary policy independently. Against this

background, with a view to facilitate the economic growth as targeted by the fiscal policy of the Government, in the annual monetary policy statement, the economic growth was projected in the range of 4 to 4.5 percent for 2005/06. Such an estimate of economic growth was based on the expectation of normal weather condition leading to good harvest and settlement of political issues resulting in resumption of peace in the country would generate positive impact on the non-agricultural sector. The Nepalese economy was also expected to benefit from the high economic growth in the world as well as in the neighbouring countries.

6. The Central Bureau of Statistics (CBS) has recently published the preliminary estimate of growth of gross domestic product (GDP) at factor cost to be 2.3 percent in 2005/06. The CBS's estimate of GDP growth rate at producers' price for 2005/06 is at 1.9 percent. Except for a negative growth rate in 2001/02, the growth rate in 2005/06 is the lowest in the last 10 years. The weather condition for 2005/06 did not remain as expected. The growth of overall food grains production remained negative due to the fall in production of the major food crops such as rice, wheat and barley. As a result, the overall agricultural production grew just by 1.7 percent. This was the lowest agricultural growth rate in the last eight years. The growth rate of the non-agricultural sector, too, remained unsatisfactory in 2005/06 due to unfavourable investment environment in the economy. Despite the four months long ceasefire declared by the rebels, peace talks remained elusive, political stalemate also continued. This scenario deteriorated investment climate. Consequently, this sector grew by just 2.8 percent.
7. The analysis of the national output from demand side shows that aggregate domestic absorption increased in 2005/06 compared to the previous year. Of the aggregate domestic demand, total consumption expenditure increased, while the growth of total fixed capital expenditure remained low. A rise in private sector consumption resulting from a remarkable increase in remittance inflows as well as higher recurrent expenditure of the government accounted for such an increase in aggregate consumption expenditure. Private sector investment could not increase due to the ongoing political conflict. Similarly, the increased security expenses crowded out the growth of the public sector capital expenditure.
8. The trend of the negative growth of net external demand for Nepalese goods and services continued in the review year. A higher growth rate of imports relative to the exports, negative net services income since the last two years and consequently increase in the magnitude of net negative inflows were the factors responsible for such a high negative growth of net demand for Nepalese goods and services. From this analysis, two aspects emerge as important factors in accelerating the economic growth rate. First, a higher increase in domestic demand alone is not sufficient to push up the growth rate. The composition of domestic demand is equally important. Therefore, in order to generate the positive impact on national output through domestic demand, rebalancing of domestic demand in favour of capital expenditure is also necessary. Second, in a small and open economy like Nepal, the domestic demand may spill over into increased demand for import rather than on national output. Because of this, external demand for Nepalese goods and services plays a crucial role in stimulating economic growth. Therefore, a strategy of structural change in the composition of domestic absorption and high export of goods and services should be pursued to attain high economic growth in the country.
9. In 2005/06, inflationary pressure remained higher than projected in the annual monetary policy. While formulating the monetary policy for 2005/06, the possible effect of rise in petroleum products on inflation was also considered. As a pre-emptive measure, the bank rate was revised upward from 5.5 percent to 6.0 percent in the annual monetary policy. Moreover, it was assumed that global inflation would remain low due to the tight monetary policy stance adopted by the central banks at the global level. Besides, it was also expected that the world inflation would remain low due to the increased globalisation, productivity gains and stiff competitive environment. Considering the openness of Nepalese economy and lower level of world inflation, inflation in Nepal was projected to remain at the medium level of 5 percent in 2005/06.

10. Contrary to the expectation that the price of petroleum products at the international market would show a declining trend from the elevated level, such prices continued to go up in 2005/06. Against this backdrop, the price of petroleum products in Nepal was hiked on an average by 11.3 percent on August 19, 2005 and further up by 14.1 percent on February 17, 2006. Subsequently, the transportation fare was also adjusted upward by 25.0 to 28.0 percent in February 2006. All these adjustments fuelled the overall price level. In addition, contrary to declining tendency of price of food items in the first half of the fiscal year in the past, prices of such commodities continued to remain high in 2005/06. Adverse weather conditions coupled with conflict-generated supply shocks reinforced pressure on the prices of agricultural products. As a result of these factors, a persistent pressure on prices was witnessed in 2005/06. In the first eleven months of 2005/06, the year-on-year (y-o-y) consumer inflation remained at 9.1 percent. The average annual rate of inflation is estimated at 8.0 percent in 2005/06.
11. Monetary policy has a lesser role in controlling inflation when its sources are oil price rise and increasing food prices rather than the expansion in aggregate demand. In the mid-term review of the monetary policy for 2005/06, which was published on February 18, 2006, the bank rate was revised further up by 25 basis points to 6.25 percent with a view to prevent the second round effects on overall price as well as to anchor the inflationary expectation. In the mid-term review, this bank has expressed its commitment to mop up the excess liquidity of the banking sector through open market operations (OMOs) as per the spirit of change in the bank rate.
12. In the short-term horizon, monetary policy alone cannot control inflation. Theoretically, monetary policy can be used to bring price stability only in the medium to long-term horizon. Against this backdrop, with regard to monetary management, the concept of core inflation has received greater attention in recent years. Once the concept of core inflation and the lag effect of monetary policy on inflation is accepted, employing monetary policy to address the issue of rise in oil & food prices and administered prices of goods and services becomes implausible. Based on this fact, the bank has been publishing the core inflation computed from the headline consumer inflation since mid-November 2005. After observing the relationship of core inflation with the money supply for the next few years, the system of targeting core inflation for monetary management purposes will be initiated.
13. The balance of payment (BOP) surplus in 2005/06 is likely to considerably exceed the target set in the annual monetary policy. For 2005/06, BOP surplus was estimated to be at the satisfactory level of Rs.4.5 billion on the expectation of higher growth of imports relative to exports, low inflow of official aid and normal growth in workers' remittances.
14. As per the expectation of annual monetary policy, the growth rate of imports remained high relative to that of exports in 2005/06. Net services income inflows remained negative. Similarly, the level of government foreign borrowing also remained lower than that expected initially. However, due to the substantial increase in remittance inflows emanating from an increasing trend of rural people going abroad for foreign employment, the BOP surplus remained at a much higher level than was expected. In the first ten months of 2005/06, the BOP surplus stood at Rs.20 billion, and there is no possibility of this level of surplus to decline by the end of the fiscal year as well.
15. Since the last few years, strengthening of the financial sector stability has been one of the important objectives of this bank. To achieve this objective, various financial sector reform programs have been implemented. In this context, programs such as strengthening inspection and supervisory capacity of this bank, adopting prudential norms as per international standards, establishing the Debt Recovery Tribunal (DRT) and bringing it into operation, strengthening the Credit Information Centre (CIC), refining the provisions regarding the black listing procedures of wilful defaulters as per the suggestion of Shankar Sharma Study Committee, forming a Grievance Hearing Cell (GHC) and transferring the management of two problem banks, namely Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) to the foreign management teams, are under implementation.

16. As a result of these various financial sector reform programs, there have been some improvements in the financial health of these banks. For example, the ratio of non-performing loan (NPL) to total loan outstanding of the commercial banks declined to 18 percent in mid-April 2006 from 30.4 percent in mid-July 2002. The NBL and the RBB, that were incurring huge losses in the past, have turned into operating profit since 2003/04.
17. The financial sector of Nepal, however, is not yet free of risk. The NPL of commercial banks as mentioned above still stands at 18 percent. In terms of absolute amount, the amount of non-performing loan stood at Rs.29.0 billion as of mid- April 2006. Thus, maintaining financial sector stability is still a daunting task for Nepal. The mounting level of NPL of problem banks, RBB at 50.9 percent and NBL at 43.4 percent, has resulted in a higher aggregate NPL level in Nepal's banking system. This bank has also taken serious note of the high growth of NPL in some private sector commercial banks.
18. Despite various measures undertaken to reduce the NPL of NBL and RBB, the NPL ratio in these two banks could not improve effectively due to the reluctance of some large borrowers to pay back the loan. Debt recovery is not the big problem from small and medium borrowers. The large wilful defaulters cite the unsatisfactory macroeconomic situation of the country as the cause for their inability to repay bank loans. Following the amendment of the blacklisting provision, the large borrowers have been creating obstacles in debt recovery citing the limited liability concept. A group of large borrowers in government-owned commercial banks have been obdurate in repaying their loans for several years. A fast recovery of these banks' loans is not possible only through the preventive financial sector reform programs and strengthening of the inspection and supervision capacity of this bank. As done in the other countries encountering similar problems, there is an urgent need in Nepal, too, to compel the large borrowers to make their business transactions transparent, to publicly disclose their property, to take the legal actions on false declaration of the property and to impose harsh punishment on these defaulters after providing certain cut-off time period. Moreover, the curative measures as well as one time settlement for such loan needs to be introduced. For this, the bank seeks the support and cooperation from all stakeholders including the Government of Nepal.

Review of Intermediate Targets of Monetary Policy of 2005/06

19. This bank has been adopting the practice of following multiple monetary indicators approach in connection with the attainment of economic targets of monetary policy. Against the background of the pegged exchange rate regime adopted as a nominal anchor, the bank monitors the real effective exchange rate (REER) of Nepali currency (NC). As the Nepali rupee depreciated by 5.1 percent against the US Dollar between mid-July 2005 and mid-July 2006, the REER of the NC remained marginally overvalued because of higher domestic inflation in this period. This level of overvaluation alone, however, is unlikely to adversely affect the competitiveness of Nepalese export of goods and services.
20. Monetary aggregates are expected to expand at a higher rate than the projections made in the annual monetary policy of 2005/06. In the first ten months of 2005/06, broad money supply increased by 10.8 percent and is estimated to expand by 16.3 percent by the end of 2005/06 as against the projected growth of 13.0 percent, due mainly to the higher than estimated growth of workers' remittances.
21. In 2005/06, lack of investment friendly environment and cautious approach taken by commercial banks in lending have resulted in a lower growth of bank credit extension to the private sector than initially estimated. The bank credit to the government has increased on account of higher government expenditure vis-à-vis revenue mobilisation. However, the total domestic credit expansion remained lower than the projection due mainly to the sluggish growth of bank credit to the private sector.
22. The excess liquidity with commercial banks has been taken as the operating target of monetary policy for the last two years. After assessing the excess liquidity situation of commercial banks

based on the Liquidity Monitoring and Forecasting Framework (LMFF), the bank has been undertaking monetary (open market) operations.

23. Monetary liquidity expanded in 2005/06. The commercial banks also had a significant level of excess liquidity. A part of the excess cash liquidity of commercial banks was mopped up through the fresh issue of government securities amounting to Rs.11.9 billion as stated in the budget speech for 2005/06. In addition to this, the NRB sold treasury bills worth Rs.13.5 billion through outright sales auctions mopping up further excess cash liquidity from the banking sector. For mopping up short-term excess liquidity, the bank also undertook the reverse repo auction of Rs.6.5 billion.
24. The economy witnessed excess liquidity owing mainly to the significant growth in private sector's remittances. Such an excess liquidity emerged due to a higher growth of time deposits relative to a growth of the private sector credit off-take in the economy.
25. Commercial banks have expanded short-term investment abroad because of the increase in interest rate in the international money market compared to the domestic money market. This has helped partly sterilize the expansion of excess liquidity in domestic currency. The commercial banks increased their short-term investment abroad by Rs.9 billion in the first ten months of 2005/06 compared to Rs.4 billion in the corresponding period of the preceding year.
26. A cautious but tight ex ante stance of the monetary policy was adopted considering the potential inflationary pressure in 2005/06. As stated earlier, due to the significant increase in workers' remittances, it was challenging to maintain the ex post stance of monetary policy as predicted. Monetary aggregates expanded at a rate higher than projected. There was excess liquidity with commercial banks even after mopping up Rs.13.5 billion through outright sales auctions. In contrast to the international trend, the short-term interest rates remained lower than that in the previous year. In this context, the bank realizes that it is challenging to explore additional measure in addition to OMOs for absorbing excess liquidity from the commercial banks.

World Economic Outlook in Brief

27. The International Monetary Fund (IMF), in its *World Economic Outlook* released in April 2006, has stated that the world output has increased significantly since 2004. The IMF has projected the world output to grow by 4.9 percent in 2006 and 4.7 percent in 2007. According to the report, the United States of America, China, India and Russia are the engines of the world's high economic growth. After remaining in recession for more than one and a half decades, Japan has also witnessed an expansion in economic growth. For the last three years, Africa and its Sub-Saharan region are growing by over 5 percent. This is the highest growth rate of the African Continent in the last 30 years. While the South American region is growing at 4 percent, the growth of the Euro Zone is sluggish. The IMF has pointed out the instrumental role of globalisation as a major reason for pushing up the world output growth in recent years. It is a matter of concern that Nepal virtually remains deprived of the benefits of high and broad-based global expansion in output.
28. According to the IMF's estimates, inflation will remain at 2.3 percent in the developed countries, 3.8 percent in developing Asia, and 4.8 percent and 2 percent in neighbouring India and China respectively in 2006. The study of IMF has shown that globalisation has contributed significantly to keep inflation in check despite the rise in world output growth and continuous rise in the price of petroleum products in the international market. The IMF's study has stated that inflation remained in check because of global excess production capacity after the Asian crisis of 1997/98, control on wages and prices emanating from an increase in competition in international level due to globalisation and increase in productivity. World inflation remained in check on account of reversal of accommodative stance of monetary policy and adoption of the policy of hiking interest rates in the wake of narrowing of world output gap and increasing inflationary expectations at the backdrop of persistent rise in oil prices.
29. Since Nepal is a small and open economy, the impact of world economic development has been felt on the economy, both directly and indirectly. Nepal could not benefit from high growth of

global output in terms of growth of GDP because of internal conflict and political stalemate. However, consequent to higher growth in global output, the demand for Nepalese labour in the regional labour market is increasing. As a result of this, the inflow of workers' remittances has increased significantly. This has helped in maintaining external sector stability even in the conflict situation. The domestic demand is also increasing. Despite the inflationary pressure in Nepal, the lower level of global inflation has played a major role in keeping inflation in check.

30. The current account deficit of the United States of America has made a major contribution to the expansion of global output. The current account deficit of the United States is expected to increase to 6.5 percent of the GDP in 2006 from 6.4 percent in 2005. The Asian countries, on the other hand, are experiencing current account surpluses and their foreign currency reserves have increased significantly. Such an imbalance in world payments system has raised concerns at the international level. The growth in world output will be at risk if such an imbalance is not resolved properly. This could ultimately affect and put at risk the demand for Nepalese labourers in the international labour market, export of goods and services from Nepal, and foreign assistance that Nepal expects to receive from the world community in the present context.
31. For the second time since 1997, India has constituted a Commission to make a study and offer recommendations on capital account convertibility. The Commission has been given time to submit the report by July-end 2006. It is necessary to study the possible impact on Nepalese economy from the policy decision taken by India on this issue. This bank is closely monitoring the policy measures that the Indian Government is likely to take on the issue of capital account convertibility. Although, the pre-requisites for capital account convertibility do not exist in Nepal currently, it is necessary to open up this account gradually.

Domestic Economic Outlook

32. As against the upswing cycle in world output growth, Nepal's GDP growth has not been able to break away from the downswing. As mentioned above, the primary reason for this is the decade long internal conflict in Nepal. As a result of the successful completion of the historic peoples' movement in April 2006 and possibility of improvement in the situation, Nepal's low economic growth is expected to witness a turn around. In addition to this, increased inflow of workers' remittance due to heavy surge in the demand for Nepalese labour owing to a higher output growth in the world as well as in the Asian countries likely to have positive impact on GDP by increasing domestic demand, maintaining macroeconomic stability and providing adequate liquidity.
33. In spite of such positive outlook, the growth of national output is not risk-free. The country is currently in the transition phase. In the coming days, the inflow of domestic and foreign investment in the economy will depend on the improvements during the transitional phase. Similarly, the investment climate will also depend on the state of industrial relation in the industrial sectors. The bank is of the view that the Government of Nepal has to take initiative to resolve occasional incidents, as and when they happen, in the industrial sector to uplift the confidence of investors.
34. Adequate liquidity is expected to remain in the economy for a higher economic growth. As the growth of private sector's remittances is likely to continue, monetary liquidity will continue to grow. In this regard, a healthy banking system is the prerequisite to increase private sector investment through bank credit. Because of the high level of NPL in the past, the two large commercial banks of Nepal and other banks are more cautious in expanding bank credit; despite the existing excess liquidity position, the bank credit is unlikely to increase.
35. The White Paper on the current situation of the economy that was announced on May 15, 2006 by the Government of Nepal has revealed that the magnitude of loss of the state owned enterprises is increasing. Amongst the government entities, Nepal Oil Corporation (NOC) and Nepal Electricity Corporation (NEC) incurred a loss of Rs. 4.5 billion and Rs.1.4 billion, respectively. The White Paper has further stated that the cumulative loss of NOC has reached

around Rs. 11 billion. In such a situation, the government cannot make adequate investment in infrastructure development. Furthermore, since the government has to allocate funds for rehabilitation of those affected by conflict and for political management, it is unlikely that the Government of Nepal can spend adequately for capital expenditure.

36. Nepal's inflation outlook for 2006/07 would rest on the level of increase in international oil price and the policy level decisions that would be taken to address the accumulated loss of NOC which stands at Rs. 11.0 billion. The spare capacity of world output has recently decreased. As the high economic growth rate in India, China and Russia has exerted pressure on the price of construction materials, world inflation is likely to rise. As the central banks of the world have adopted tight stance of monetary policy, the impact of such a stance on world inflation will also affect inflation in Nepal.
37. In 2006/07, the external sector will remain stable since the private sector's remittances and foreign assistance are both likely to increase. Although this will have a positive impact on national output, the task of liquidity management would become more challenging.

Monetary Policy Framework for 2006/07

38. The monetary policy framework for 2005/06 is designed on the basis of the status of economic goals of monetary policy, liquidity position and the experience gained during the implementation of monetary policy in the previous years. Besides taking the past experiences as guide, the monetary policy framework is forward looking as it is focussed on evolving situation in days ahead. Since Nepal is a small and open economy, the world economic scenario and the direction of monetary policies of the central banks of the world have also been considered as a basis for the formulation of monetary policy for 2006/07.

Stance of Monetary Policy

39. While economic growth in Nepal has remained low for the past few years, an inflationary pressure has emerged since 2005/06. BOP has remained surplus due to substantial increase in the private sector remittances. As a result, adequate liquidity exists in the economy. The direct impact of such excessive liquidity has been on the short-term interest and deposit rates. Hence, contrary to the increasing trend of interest rate in international level, the interest rate in Nepal has remained subdued. Against this background, the stance of monetary policy is primarily focussed in curbing acceleration in the pace of inflation. However, due to the excessive liquidity in the economy and the overriding role of non-economic factors influencing the economic growth, the stance of monetary policy for 2006/07 has been kept tight by considering the inflationary situation.

Economic Objectives of Monetary Policy

40. After the second popular mass movement, business confidence is expected to rebound in the days to come. This may result in positive impact on economic growth in 2006/07. The investment climate, however, may not be expected to be encouraging as the country is in the transitional phase. However, the economy may grow by 5 percent as estimated by the Budget for 2006/07 if the weather remains favourable. The existing liquidity position is adequate to facilitate such a growth and the monetary policy will be used to manage this liquidity appropriately.
41. Since price stability, the primary objective of the monetary policy is at risk, the monetary policy for 2006/07 will be geared toward controlling inflation. Currently, there is inflationary pressure primarily due to the rise in international petroleum price, frequent adjustment in domestic petroleum price and significant rise in food price. In the context of close monitoring of price rise in the international level and subsequent adoption of tight monetary policy stance by the central banks as well as the presumption of favourable weather condition which will keep food prices under control, the average inflation based on consumer price index is estimated to be 6.0 percent in 2006/07 from 8.0 percent in 2005/06. Moreover, if the domestic

oil price is adjusted to accommodate one-third of the accumulated loss of NOC, inflation will increase by additional 3.0 percentage points.

42. The BOP surplus is estimated to be Rs. 16.0 billion on the assumption of continuation of current trend of remittance inflows and the increase in the bilateral as well as multilateral foreign aid. Assuming a significant rise in imports due to the increase in investment by both the private sector and the Government of Nepal, the BOP surplus, which is estimated to remain at Rs. 26.0 billion in 2005/06, has been projected to remain at Rs.16.0 billion in 2006/07.
43. It has been well recognized that the financial sector, via the private sector, plays a crucial role for increasing investment in the economy. In this context, the objective of the monetary policy will be to maintain the financial sector stability and to increase the financial intermediation. The monetary policy will address the fluctuation in short- term interest rates and the risks in internal payment through the conduct of OMOs.

Monetary Targets and the Projection of the Monetary Aggregates

44. In 2006/07, the monetary management will be conducted in tandem with attaining the above-mentioned economic objectives and maintaining the existing fixed exchange rate regime. The broad money supply is projected to increase by 16.1 percent in 2006/07 based on the economic growth of 5 percent, inflation of 6.0 percent and BOP surplus of Rs. 16.0 billion. The broad money supply is projected at a higher level than demanded by the targeted economic growth and targeted inflation due to increase in the demand for domestic currency arising from the higher inflow of remittances.
45. On the sources of money supply, the growth in the net foreign assets (NFA) of the banking sector is expected to remain high. However, the net credit to the Government of Nepal from the banking sector is projected to be Rs.8.30 billion only in 2006/07 compared to Rs.9.10 billion in 2005/06. Net claim on the government in 2006/07 is projected to be lower than the previous year as foreign aid is expected to increase and domestic borrowing would remain minimum for facilitating the maintenance of macroeconomic stability. In addition, as per the budget speech for 2006/07 in which domestic debt amounting to Rs.17.9 billion is to be raised, treasury bills, development bonds and citizen saving certificates will be issued according to issue calendar. Moreover, as a sum of Rs.7.7 billion including developments bonds, national saving certificates and citizen saving certificates is due to be repaid in 2006/07, this is also taken into account to estimate net claims on government from the banking sector.
46. Though the credit to the private sector is not expected to expand rapidly, this bank is of the view that the private sector should use the maximum possible amount of financial resources. In this context, the credit to the private sector is projected to grow by 18.0 percent in 2006/07.
47. Time deposits of the commercial banks are projected to increase by 16.5 percent on the basis of the increasing trend of the inflow of remittances. This projection is made on the assumption of deposit mobilization by other financial institutions and no major revision in deposit interest rates.

Operating Target of Monetary Policy

48. Of the two major operating targets of monetary policy, the liquidity rule and the interest rule, the bank has adopted the liquidity rule as the main operating target of monetary policy. Under the liquidity rule, the bank has been taking the excess liquidity of the commercial banks as the operating target of the monetary policy for the last two years. To attain the targets of monetary policy, the LMFF, based on the weekly balance sheet of the bank, has been used as a guideline to conduct the open market operations. The excess liquidity of the commercial banks will be continue to remain as the operating target of the monetary policy in 2006/07 as well. Though the commercial banks influenced by the developments in the foreign exchange markets and the long term strategic perspective, have sometimes bid contrary to the amount indicated by the

LMFF, they have shown consistent behaviour in general in the open market operations indicated by the framework.

49. Commercial banks will be considered as the counterparties in the conduct of monetary policy in consonance with the excess liquidity of these banks taken as the operating target.

Monetary Instruments and Implementation Procedure

50. Refinance rate for export credit in Nepalese currency has been kept unchanged at the prevailing level of 3.5 percent. Similarly, refinance rate to the sick industries has also remained unchanged at 1.5 percent. The existing provision of maximum interest rate of 4.5 percent to be charged by the banks to the borrowers has been kept unchanged.
51. To revive the small and medium enterprises (SMEs) from their crisis-stricken situation, a provision has been made to provide refinance to such industries also at 3.5 percent through the bank and financial institutions.
52. The bank stands committed to provide refinance facility for the rehabilitation of sick industries since 2001/02. During the last five years a sum of Rs.3.0 billion has been disbursed to 151 hotels and 41 industries under this facility. The amount disbursed to such sick industries during 2005/06 remained at Rs.461.0 million. Even though the sanctioned amount was not fully utilized, the refinance facility of Rs.2 billion has been continued in 2006/07 as well since there have been no improvements in Nepal's industry and tourism business. Similar to sick industry refinancing, a refinance of Rs.500 million will be provided on the loans, used by the dalits, indigenous and marginalized people and women as defined by the Government of Nepal for foreign employment with the objective of providing relief to these sections of society and promoting foreign employment.
53. Since the past few years, the bank had adopted the medium term policy to gradually reduce the Cash Reserve Ratio (CRR), as an instrument to reduce the operating cost and narrow the interest rate differentials, to 3 percent. However, considering the inflationary pressure in the economy, the CRR has been kept unchanged at 5.0 percent that will be revised downwards given the favourable situation.
54. Secondary open market operations have been an important short-term instruments of monetary policy for the last two years. In secondary open market operation, the sale auction, purchase auction, repo auction and reverse repo auction on the treasury bills of the Government of Nepal have been used to mop-up and inject liquidity. The liquidity has been mopped through sale auction and reverse repo auction, and injected through purchase auction and repo auction. The provision of sale auction and purchase auction, respectively, for medium term liquidity absorption and injection has been continued. Likewise, repo auction and reverse repo auction have been continued for short-term liquidity injection and absorption respectively. The existing systems based on 'multiple price' auction for purchase and sale auction have remained unchanged; and 'multiple interest rates' for repo and reverse repo auctions will be continued in 2006/07 as well. These instruments of open market operations will be used based on the outcome of LMFF and the attainment of the stated objectives of the monetary policy as well as on the active participation of the NRB.
55. The practice of conducting secondary market transactions on treasury bills on every Wednesday will continue in 2006/07, too. In the mid-term review of monetary policy 2005/06, made public on February 16, 2006; it was stated that if the liquidity situation warranted and LMFF indicate, secondary market operation would be conducted not only on Wednesday, but on any day of the week. This practice will be continued in 2006/07 as well.
56. As mentioned above, the bank will continue to conduct sale auction and reverse repo auction on the treasury bills held by it for liquidity management if, due to higher inflow of remittances, commercial banks have the excess liquidity and distortions emerge in the economy. If the treasury bills of the government of Nepal held by the bank are not sufficient to mop up the excess liquidity from the commercial banks, such liquidity will be mopped even

by issuing NRB bills. Based on the condition of the objectives of monetary policy and liquidity indicated by LMFF, Open Market Operation Committee of the bank will mop up the liquidity as required by issuing the short-term (less than 91 days) NRB bills.

57. Bonds are issued to mobilize the resources as well as to determine the market interest rates. Auction of the treasury bills of the Government of Nepal have been used to determine the short-term interest rates since 1988. Similarly, with a view to determine the mid-term interest rate, the NRB issued the five-year development bond worth Rs.3.0 billion in 2004/05 and 10-year development bond of Rs.750.0 million in 2005/06 through auction in the primary market. These bonds are also listed in the Nepal Stock Exchange Limited (NEPSE) in order to provide the necessary liquidity through the secondary market transactions. In order to provide the required liquidity, the bank will request the Government of Nepal to issue the necessary direction to the Nepal Security Board to expedite the process of the sale and purchase of the development bonds in the secondary market.
58. Out of Rs.11.85 billion of domestic debt to be mobilized in 2005/06 as stipulated by the budget, treasury bills were issued to raise Rs. 8.3 billion. Out of the remaining amount, citizen savings certificates worth Rs.250 million and development bonds worth Rs.750 million were issued. In order to determine the long-term market interest rate for a period exceeding ten years and to reflect long-term liquidity, investment and inflation perceived by the economic agents, a long-term 12-year development bond will be issued in 2006/07. To provide the alternative investment opportunities to the institutions involved in mobilizing the long-term contractual saving such as Employee Provident Fund (EPF), Citizen Investment Trust (CIT) and insurance companies and to influence liquidity of the commercial banks from longer term perspective and thereby the short term interest rate, development bonds will be issued in the primary market through the auction process as before. After determination of interest rate on 12-year bonds from the auction, citizen saving certificates will be issued with coupon rate taking into consideration the auction determined rate.
59. To date, the bank has been involved in the primary issue of citizen savings certificates. As there is a significant presence of the capable market makers in the Kathmandu Valley, an arrangement will be made whereby the market makers, instead of the NRB itself, will carry out the primary sale of citizen savings certificates in the Kathmandu valley from 2006/07 onwards.
60. To prevent the possible financial instability arising from the immediate problems occurring in the internal payment system, the bank has been providing automatic standing liquidity facility (SLF) since 2004/05. The existing collateral-based provision of SLF allowing loan up to 50 percent of the face value of the treasury bills and development bonds of the Government of Nepal held by the commercial banks will be continued this year, too. Due to the insufficiency of physical and other infrastructure, the present provision of 3-days maturity period of SLF has been found impractical. Thus, the maturity period of SLF has been extended to 5 days. If the commercial banks use this facility excessively instead of managing the liquidity from the inter-bank money market, necessary adjustment will be made in the penal interest rate to control its excessive use.
61. To expand, facilitate and ease the principal and interest payments of the bonds of the Government of Nepal, besides the market makers, the NRB-licensed institutions of categories "A", "B" and "C" will be allowed to make payments of interest and principal of government bonds and seek reimbursement from the NRB. For making the task of principal and interest payment of government securities more attractive to market makers and commercial banks, the monetary policy of 2005/06 made a provision of including the principal amount paid by such institutions in the calculation of CRR until its reimbursement. This provision will be extended to other financial institutions as well. Moreover, the commission for the interest payments will also be provided to such financial institutions as per the rules.
62. Presently, four types of forms are in use for outright sale, outright purchase, repo and reverse-repo auction. To facilitate, simplify and ease the OMOs, the two different forms used for each

sales and purchase auction, and repo and reverse repo auction will be integrated into one for each category. These forms are available on the official website of the bank from today. Any interested person or institution wishing to participate in the OMOs can download and submit these forms to the concerned department of the bank. This provision is expected to simplify the paperwork and the administrative processes, and increase participation in the OMOs.

63. Since price stability has been taken as an important objective of the monetary policy, the role of the price index becomes vital. The bank has been periodically conducting household budget surveys in order to make the price index more reliable and up-to-date. In this regard, the ongoing comprehensive household budget survey will be completed in 2006/07. Presently, the price index of only the urban region is available; this survey will provide the national level price index including the rural areas. This will provide information on price situation of not only the urban sector, but also the rural sector.

Micro-finance Related Programs

64. After the introduction of financial liberalization policies, there has been a rapid expansion of financial institutions in the urban areas. Thus, there is no dearth of credit in the urban areas. However, there is the problem of misuse of credit in the urban areas and the inadequate access to credit in the rural areas as mentioned in the 'Policy and Program' for 2006/07 of the Government of Nepal. To expand the micro credit market and enhance its efficiency, there is a need of legal and institutional reforms. The bank has already submitted the draft of "National Micro-finance Policy" to the Government of Nepal, and the budget speech of 2006/07 has also mentioned the formulation of related laws and its implementation. The bank has developed a program to effectively implement the various provisions mentioned in the policy after its announcement by making short-term, medium-term and long-term work plan.
65. As per the above-mentioned 'National Micro-finance Policy', an umbrella act, related to micro-finance activities, i.e. Micro-Finance and Cooperative Bill 2006 is under preparation. The draft of this act will be submitted to Government of Nepal in 2006/07.
66. This bank has been operating the " Rural Self-Reliance Fund", which was established to promote rural employment and help to reduce poverty through providing credit in rural areas. Initially, the fund was established with the seed capital worth Rs.40.0 million, provided by the Government of Nepal. The bank has provided a total amount of Rs.253.4 million in the fund from its profit between 2002/03 and 2004/05. Similarly, as mentioned in the budget speech of 2006/07, the government will provide additional Rs 100.0 million to this fund. Thus, a sum total of Rs.393.4 million is available in the fund to expand the rural credit. In addition to it, a program has been made to transfer the assets and liabilities of various terminated micro finance projects, to the fund from this bank with view to expanding micro-credit in the rural areas.
67. As stated in the monetary policy 2005/06, the ongoing process of transforming the rural self-reliance fund managed by the bank into the wholesale lending financial institution will be continued in 2006/07. Accordingly, the fund will be transformed into the self-governed and organized 'Micro-finance and Cooperative Institution' by 2006/07.
68. After the introduction of micro-finance umbrella act governing micro-finance development banks, saving and credit co-operative societies, and non-governmental organizations undertaking limited banking activities, a second tier institution (STI) will be established under this act in order to regulate, inspect and supervise the micro- finance institutions.
69. The bank has accorded high priority for the institutional reforms of the regional rural development banks by increasing the participation of the private sector. In this process, the bank has sold its 51 percent of its share ownership in the Western Rural Development Bank (WRDB) by offloading shares to the private sector competitively. Now, the bank has only 10 percent share in WRDB. In addition, the bank has also handed over the management of WRDB to the elected board from shareholders through the competitive election procedure.

Similarly, initiative will be taken to hand over 16.5 percent shares of the government of Nepal in WRDB to the private sector.

70. Out of 66.75 percent share ownership in the Eastern Rural Development Bank (ERDB), NRB has already divested 31.80 percent in the first phase. The second phase of privatisation process will be begun in order to divest 24.95 percent share ownership in ERDB, out of the remaining 34.95 percent share. Then, only 10 percent share will remain in NRB's ownership. Likewise, the privatisation process of other rural development banks will be initiated once they begin to operate in profits. Besides, out of Rs.190 million accumulated loss of these development banks, NRB has directed to set aside Rs. 150 million as loan loss provisioning. Nepal Government will be requested to bear the accumulated loss of these development banks in order to improve their financial health.
71. NRB has share investment in all rural development banks. However, as per the provision in the NRB Act 2002, NRB should not invest more than 10 percent of the total capital of any company. International auditor has also placed a remark in this regard. Moreover, to transform NRB into a competent regulatory authority, the bank will request the government to hand over all of its equity ownership in rural development banks.
72. Credit advanced to the workers going abroad for employment under the Nepal Government's "Youth self-employment and Employment Training Programs" either through commercial banks or the licensed financial institutions by taking loans from the commercial banks will be treated as the deprived sector loans of the respective banks.
73. The remote hilly area of the country is suffering from the widespread incidence of acute poverty but people in these areas have low outreach to credit. Most of the micro-finance development banks have been operating mostly in Terai region. Expanding rural credit gradually in hilly areas is thus very necessary. As of now micro-finance development banks are permitted to conduct their operation in four to ten districts with the capital of Rs.20.0 million. In 2006/07, these micro-finance development banks will be allowed to expand their coverage to 5 additional hilly districts with the same capital base.
74. Micro finance institutions operating in rural areas should be strengthened. One of the measures of strengthening is to make equity participation in these situations. Both public and private sector can make equity investment in these institutions. In this context, it has been felt necessary to establish a separate fund to inject share capital in micro-finance institutions. Hence, a provision will be made so that intended national and international institutions can provide resources to the proposed fund. Amount invested by commercial banks in this fund will be considered as a deprived sector lending and foreign companies will get the facility to repatriate the return from such investment.

Financial Sector Reform Program

75. Under the financial sector reform initiated in the recent past, re-engineering of NRB, restructuring of NBL and RBB, and the capacity building of the financial sector will continue to be effectively implemented in 2006/07.
76. The bank has prepared the first five-year strategic plan so as to effectively implement the functions assigned in the NRB Act 2002. These plans will be gradually implemented from the beginning of 2006/07. Accordingly, a necessary monitoring and evaluation framework will be introduced in order to carry out the activities of the bank as specified by the strategic plan.
77. In the context of Nepal's WTO membership, for allowing foreign banks' branches to enter in wholesale lending, a preliminary report has been prepared. Necessary work will be done to implement this report.
78. The huge amount of non-performing assets (NPA) has been the main challenge for financial sector development and its stability. As a measure to reduce NPA level, the bank will coordinate with the government in strengthening the capacity of Debt Recovery Tribunal and establishing 'Asset Management Company (AMC). The budget speech 2006/07 has announced

- 16 august, 2006 as cut off date for restructuring the loans taken from the banks and financial institutions' by willful defaulters. The bank, in co-ordination with the government of Nepal, will initiate stringent measures against these willful loan defaulters if they fail to repay their loan within the stipulated time frame.
79. Unless otherwise stated in the NRB act 2002, the share investment of NRB in various commercial banks, financial institutions or any other institutions will be gradually sold to transform the role of NRB as an effective regulatory authority of the financial system and to encourage private sector involvement in the financial transactions.
 80. Negotiable Instrument Bill will be drafted and submitted to the government of Nepal in order to enhance the credibility and trustworthiness of negotiable instruments like cheque, draft and bills etc.
 81. The following provisions have been made to control the practice of cheque bouncing in absence of sufficient balance in bank account.
 - a. When the cheque bounces back for the first time, the receiver shall provide a maximum of 7 days to issuer. After that, the receiver shall re-submit the cheque for encashment in the concerned bank and financial institutions.
 - b. If the receiver is unable to get payment after the above-mentioned time, he/she shall notify in writing, to the bank and financial institutions responsible for making payment.
 - c. After getting the written notice, the concerned bank and financial institutions shall give a notice to the issuer to settle the payment within 7 days. If the payment is not received within the said time, the concerned bank and financial institutions should notify the Credit Information Center (CIC) Limited to put the cheque issuer on the black list as per the current rule.
 - d. If any person issues cheque which can not be encashed to the bank and financial institutions, such person will be blacklisted as per the unified directives No 12, section 10, sub-section 1.
 - e. Bank and financial institutions not doing as per (b) and (c) above are also penalized as per the directives No. 12, section 17.
 82. To discourage the possible fraud and crimes in financial system, the draft on Banking Fraud and Punishment bill has already been submitted to the government of Nepal. The draft on Anti-Money laundering Bill has also been submitted for enactment. Similarly, the budget speech 2006/07 has mentioned the issuing of various acts governing financial system. Further, the bank will also try to formulate Acquisition and Merger Act in order to consolidate the financial system
 83. As per the 'Know Your Customer' (KYC) guideline, to deposit the amount greater than one million rupees on their account, the customers should evidence the source of income. In the context of a cumbersome process of disclosing documentary evidence, a provision has been made so that 'self-declaration' by the customer will also be acceptable.
 84. The wholesale credit provided by the commercial banks through financial institutions or cooperatives licensed by NRB for the generation of income and employment to the people living below the poverty line, will be counted as deprived sector credit, if such credit has been provided for the projects prepared by the participation of the commercial banks themselves.
 85. The monetary policy of 2005/06 had mentioned that financial institutions interested in mutual fund transaction would be encouraged. Some commercial banks have expressed interest in this matter. And, NRB has been providing necessary support. Realizing the importance of long-term resource mobilization, a policy of supporting financial institutions for mutual fund operation will be continued in co-operation with Nepal Security Board.

86. Infrastructure development is necessary for sustainable economic development. But, it requires a huge amount of capital. Although there has been some infrastructure development through foreign aid, domestic resource has not been mobilized effectively on this front. In the context of substantial inflow of remittances in the country, there is a possibility of mobilizing the domestic financial resources in the infrastructure development. However, existing commercial banks and financial institutions, by their nature are not willing to involve in infrastructure development. In this context, it has been felt necessary to set up a separate specialized institution for investing in infrastructure. Hence, *Infrastructure Development Bank (IDB)*, in joint investment of commercial banks, finance companies, other financial institutions and private investors to finance infrastructure development such as hydropower, electricity transmission, transportation and others is necessary to be established. The proposed bank will be encouraged to concentrate on the mobilization of the long-term resources by issuing *infrastructure bond*, rather than getting involved in retail-banking transactions. Initially, the IDB will be required to have the paid-up capital of Rs.2/3 billion, which would be gradually increased up to Rs.10 billion. Since the proposed *Nepal Infrastructure Development Bank* is to invest in the long-term projects, NRB will develop separate prudential measures on its capital, loan loss provisioning and on other regulatory aspects.
87. Many rural branches of commercial banks and financial institutions were closed due to the difficult situation in the past. An initiative will be taken to restore such closed rural branches of banks and financial institutions.
88. The profile of all commercial banks and financial institutions along with their major financial indicators will be prepared and posted on the web site of NRB to provide adequate information on financial conditions of commercial banks and financial institutions to the public. In addition, the directives issued to the licensed financial institutions by this bank on the basis of on-site and off-site supervision will also be placed on the website from 2006/07 for the use of the general public. Further, a system of separate audit of big branches of the commercial banks will also be initiated.
89. For facilitating the development and expansion of modern education system and bring the modern education within the reach of large number of students, the existing requirement of imposing additional 20 percent loan loss provisioning on education loan provided by the commercial banks has been withdrawn.
90. The provision of black listing has been made with view to reduce the existing level of NPA in the financial system. In this regard, a concept of limited liability has come into discussion following the provisions of the black listing directives. In 2006/07, the issue of limited liability in the blacklisting guidelines will be clarified, making consistent with the existing laws in Nepal.
91. Under the financial sector reform program, the reform programs of NBL and RBB will be continued in 2006/07. To improve the negative net-worth of NBL and RBB, a plan for improving capital fund will be submitted to the Government of Nepal and accordingly, the action will be taken. A 'due diligence audit' will be initiated after recruiting the privatization advisor in pursuit of privatizing these two banks.
92. Timely inspection and supervision of Employees Provident Fund (EPF) and Citizen Investment Trust (CIT), which are engaged in mobilizing long-term fund is necessary in order to maintain stability in the financial system. Therefore, the government of Nepal will be requested to appoint a regulator for the regulation of these institutions.
93. To develop the risk management system and achieve private sector-led economic growth through the institutional loan flow, establishment of Credit Rating Agency (CRA) in the private sector will be encouraged.
94. In reference to the building up of appropriate infrastructure for the implementation of BASEL II accord since 2007, necessary directives, policies and provisions for the banks and financial institutions will be formulated in compliance with the accord. Further, as per BASEL II

accord, regulatory provision will be prepared complying with the Simplified Standardized Approach (SSA) for capital base and Basic Indicator Approach (BIA) for operational risk.

95. For the good governance in banks and financial institutions, the timely amendment and refinement will be made in the directives relating to corporate governance. Moreover operational directives for e-banking and ATM will also be formulated.
96. The budget speech of 2006/07 has stated that *Industrial Rehabilitation Fund* will be established for the rehabilitation of the conflict-generated sick industries. Such fund is planned to be established in the participation of the government, central bank, financial institutions and the sick industries willing to rehabilitate their business. NRB will make necessary endeavors to co-ordinate the commercial banks and entrepreneurs so as to raise the capital fund of the Fund up to Rs.2.0 billion. Similarly, for establishing the Fund, NRB will formulate the necessary process and provisions.
97. If loans advanced to small and medium enterprises (SMEs) are insured in any insurance companies, a provision will be made to consider such loans as priority sectors loan on which a loan loss provision of one-quarter is sufficient.
98. The government of Nepal will be requested for the appropriate institutional structure and capital requirement for Deposit Insurance and Credit Guarantee Corporation (DICGC) to protect small savers from risk.
99. With a view to increase the paid-up capital of banks and financial institutions the existing regulation requires that for the new commercial banks of national level (licensed as class 'A') need to have Rs.1.0 billion paid-up capital at the beginning and the already established commercial banks need to increase their paid-up capital to the same level by mid-July 2009. For this purpose, the existing commercial banks have already been allocating a certain portion of their profit into capital adjustment fund. This provision has been amended as follows:
 - a. National level commercial banks can either increase their paid-up capital itself to Rs.1.0 billion by mid-July 2009 or they can raise their capital to Rs.1.0 billion by the said date by combining paid-up capital and capital adjustment fund.
 - b. If the capital adjustment fund is taken into account, paid-up capital must be at least Rs.500 million.
 - c. If the commercial banks fail to fulfill the above-mentioned requirement by mid-July 2009, one or all of the following actions will be taken against them.
 - i. Preventing them from distributing dividend including the bonus share.
 - ii. Preventing them in opening new branches.
 - iii. Imposing a ceiling on deposit mobilization.
 - iv. Lowering the single obligor limit applicable to person and group.
 - v. Any other necessary actions.

As a result of this provision, it is expected that commercial banks would increase their capital or start merger and acquisition.

100. NRB is in the process of implementing BASEL II from 2007. Accordingly, required capital adequacy ratio (CAR) will be decided according to BASEL II provision. In this context and the difficult situation through which banks and financial institutions had to pass through in the previous years, the capital adequacy ratio has been set at 11 percent (to be accounted from 2005/06) until new capital adequacy ratio is set based on BASEL II. Up to 2004/05, bank and financial institutions were required to maintain a CAR of 11.0 percent. They were required to raise it to 12.0 percent from 2005/06.
101. Existing provision of publishing financial statement by banks and financial institutions on the approval of NRB has been changed. From 2006/07, applicable to 2005/06 financial statement,

all the banks and financial institutions of class 'A', 'B', 'C' and 'D' of national level have to submit their annual financial statement after the management's response to the preliminary audit by the external auditor on the all kind of financial statements such as balance sheet, profit /loss account, cash flow account, annexes as per the directives of NRB and loan loss provisioning for NRB's approval. Adjustment, if any, needs to be made on these financial statements based on the on-site inspection from this bank. Thus, the adjusted financial statements, final audit report, long form report need to be submitted within fifteen days from the date of clarifications sought by this bank .

Foreign Exchange Sector Reform

102. Currently, there is a provision of providing forex facility of up to USD 1500 to individuals and institutions by commercial banks for settling petty international transactions for various purposes. Considering the benefits received by the general public from this facility, the existing limit of exchange facility has been raised upward from USD 1500 to USD 2500. Moreover, existing system of making payment through telex/wire/draft, has been expanded to include credit card and debit card as well.
103. People migrating to the developed countries like USA, Canada, Australia, New Zealand and UK under immigration visa have been receiving the foreign exchange facility up to USD 5000 for individual migrant, and USD 10000 for the family migrant on the NRB's approval. Effective from 2006/07, the exchange facility to such people will be made available directly from the commercial banks by endorsing the amount in the passport.
104. Commercial banks are free to open Usance LC for the payment duration of less than a year. To issue such a LC for the payment duration of more than a year under 'Deferred Payment' or 'Suppliers Credit' from the countries other than India, the banks need to take NRB's approval. From now onward, commercial banks are allowed to directly open such an LC even for payment period of more than a year.
105. In order to enhance the competitive capacity of the industries in Nepal, currently, there is a list of 91 numbers of raw materials and intermediate products eligible for import from India by paying US dollar. The existing practice of gradually increasing the number of items importable against the payment of US dollar from India will be continued.
106. In many countries, entrepot trading is in practice. This type of trading has been a main source of foreign exchange earnings in those countries. This bank will bring necessary measures for allowing entrepot trade in consistence with the global practices. Nepali importers importing goods through L/C will be allowed to export such goods to any other countries, without entering Nepal, at the prices which is higher than the import prices.
107. Currently, there is a provision of providing exchange facility of up to USD 300 at a time to individuals having visa for private visit by surface route to autonomous region of China, Tibet (except rule based visitors) as well as SAARC countries other than India. Viewing that the existing facility is inadequate, the limit under this exchange facility has been increased from USD 300 to USD 1000.
108. In a situation of receiving the document in excess of the amount than is stated in import L/C in convertible currency, the existing provision allows commercial banks to accept such a document up to the extent of 2 percent of the L/C amount or US \$ 1000 whichever is lower, has been simplified. From 2006/07, commercial banks have been allowed to accept such a document in excess of any amount stated in import L/C.
109. There is a provision of opening an import LC to import the goods of more than USD 30,000. In addition, there is restriction on payments for goods imported without LC or on imports when actual imports differs from the initial LC and no amendment is made on this LC. This restriction has been withdrawn from 2006/07. From this fiscal year, commercial banks are allowed to amend the LC based on Already Shipped Documents. But, in imports entering from places other than Kolkata port of India before amending Already Shipped Documents,

commercial banks must receive the authorized letter from concerned offices clearly indicating the details of goods.

110. The existing provision requires the licensed money changer firm/company to exchange the convertible currencies they have purchased with the commercial banks. From 2006/07, following measures have been introduced in this regard:
 - a. The money changer firms/companies can sell their convertible currencies to the commercial banks,
 - b. Money changer firm/company can open foreign currency account in the bank and financial institutions under the existing rules, and
 - c. These companies are allowed to provide foreign exchange for passport facility as per the existing rule.
111. Nepalese are increasingly attracted day by day towards the foreign employment. Manpower companies are contributing more for the development of this sector. In the process of expansion of these businesses, if manpower companies want to legally operate their branches/representative offices/ contact offices abroad, NRB will provide the necessary exchange facility to run their offices on the recommendation of the concerned departments of the Government of Nepal.
112. In the market economy, there is always exchange rate risk emanating from the fluctuation in the exchange rates. The use of derivative instruments has been extended in these days as a measure to hedge such risks. In this context, the commercial banks are not required to take approval of NRB while trading in derivative instruments like forward, option, swaps and futures provided such trading takes place as per the criteria set by the Board of Directors of the respective commercial banks. This provision is expected to increase the involvement of commercial banks in risk management.

Lastly,

113. As stipulated in the NRB Act 2002, NRB has begun to publicly announce the monetary policy since 2002/03. It is my pleasure to present this fifth monetary policy statement focusing on the existing challenges faced by the monetary policy as well as financial and external sector reform programs.
114. On behalf of NRB and on my own, I would like to thank, to all the agencies of government of Nepal, banks and financial institutions, business community, scholars and international institutions for their kind and valuable cooperation in formulating this monetary policy.
115. I hope that we will continue to receive cooperation from all of you, as in the previous years, while implementing the policies and programs embodied in this monetary policy. NRB believes that the implementation of the policies and programs of this monetary policy will help ensure the macroeconomic stability, facilitate the targeted economic growth and stabilize the financial sector.

THANK YOU.

Appendix I
Annual Progress Matrix of Measures as outlined in Monetary Policy of 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 exceeded 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 were the factors responsible for inflation exceeding the initial target. The annual average inflation is revised up to 8.0 percent.
2	22	The BOP Surplus targeted at Rs. 4.5 billion	Monitoring and analysing the policy measures	Research Department	BOP surplus is estimated at Rs. 26 billion due to significant inflow of remittances.
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 on average has remained stable.
4	24	Facilitate economic growth of 4.0-4.5 percent	Monitoring and analysing the policy measures.	Research Department	Economic growth rate is estimated to remain lower due to political uncertainties and unfavourable weather condition.
5	27	M ₂ growth is targeted at 13.0 percent	Monitoring and analysing the policy measures	Research Department	M ₂ is estimated to grow by 16.3 percent due to the higher inflow of remittances.
6	27	M ₁ growth is targeted to be at 12.0 percent	Monitoring and analysing the policy measures	Research Department	M ₁ is estimated to grow by 14.9 percent
7	28	M ₂ to be taken as monetary indicator	Monitoring and analysing the	Research Department	M ₂ has been taken as monetary

26 NEPAL RASTRA BANK

			policy measures		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 has been taken as operating target and LMFF is being used as a guide to open market operations. Excess liquidity of commercial banks has been monitored on a daily basis.
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	Implemented 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 annual monetary policy. The rate was further revised upward to 6.25 percent in the mid-term review.
11	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 already.
12	39	Cash reserve ratio to be maintained by 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.	The required reserve position of commercial banks to be monitored.	Bank Supervision Department	As per the shortened time interval for the calculation of CRR to be maintained by the commercial banks with the NRB, monitoring has been done by Bank Supervision Department.
13	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	A sum of Rs. 460.9 million was disbursed to sick industries.

				Office, Kathmandu	
14	41	The purchase auction, sale auction, repo auction and reverse repo auction open market operations will be continued.	<p>(a) An arrangement to be made for determining the quantity for the transaction of the secondary market auction.</p> <p>(b) Based on the results obtained from LMFF, the OMO committee is to conduct open market operations.</p> <p>(c) The Public Debt Management Department is required to provide the above-mentioned statements to the Research Department on a regular basis.</p>	Research/Public Debt Management Departments	These instruments are being used.
15	42	A system of repo and reverse repo auction on the basis of yield will be initiated		Public Debt Management Department	Being executed accordingly.
16	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 implemental accordingly.
17	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.
18	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	Due attention has been paid to foreign exchange intervention while forecasting liquidity.
19	47	For simplifying the government securities, only the treasury bills, development bonds and citizen	Necessary arrangements to be made in this regard	Public Debt Management Department	Government securities are being issued accordingly.

28 NEPAL RASTRA BANK

		saving certificates will be issued			
20	48	Issue the development bonds on auction basis	Necessary arrangements to be made in this regard	Research Department/ Public Debt Management Department	Rs. 750.0 million worth of development bonds was issued through auction system in 2005/06.
21	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	Some banks have shown interest in mutual fund transactions. The necessary support will be made available to banks and financial institutions if they shown interest in this transactions.
22	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	Being implemented accordingly.
23	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	Yet to be done but in the progress
24	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	A circular has been issued so that principal paid by them is taken into CRR calculation till the reimbursement made from this bank. Hence, some of the banks and market makers have already started paying the principal based on it.
25	54, 55	Promulgate and implement National Micro Finance Policy/Act	Necessary arrangements to be made	Micro Finance Department	Yet to be issued.

26	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	Yet to be issued.
27	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	Ministry of finance (MoF) has been requested for the approval of transferring the assets and liabilities of micro-credit projects into the Fund. The board of directors of NRB will decide about it after the approval from MoF.
28	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	"A high level National Micro-Credit Development Council" could not be formed because the drafting of the Act of National Micro-credit Policy and rules governing it is still in progress.
29	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	Make available all the progress reports in this regard.	Banks and Financial Institutions Regulation Department/Micro Finance Department	NRB's structural reform programs (SRP) in Rural Development Banks are continued. The second phase of the privatisation process of ERDB is underway and the remaining RDBs are still not operating at profit. Further, the Government of Nepal has initiated the process of divesting its 16.5 percent share ownership from the Western

30 NEPAL RASTRA BANK

		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.			Rural Development Bank.
30	60	A three-member task force formed in 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.	Make available all the progress reports in this regard.	Micro Finance Department/Banks and Financial Institutions Regulation Department.	Yet to be done.
31	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 Micro-Credit Development Banks has been increased to 25 percent from 15 percent of paid-up capital effective August 18, 2005 as per the circular issued by Micro Finance Department.
32	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 completed its work.

33	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 Drafting Committee consisting the representatives from Ministry of Finance and Ministry of Law has been formed under the convensorship of the Deputy Governor. The Committee has already initiated its work.
34	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.	
35	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	The NRB's Strategic Planning (2005/06 - 2009/10) has been prepared and is in the process of implementation.
36	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	As per the classification of defaulters into two main groups, willful and non-wilful defaulters, separate procedures for taking action against them under the prevailing law has been identified. Accordingly, for the implementation of the aforesaid provision, the directive number 12/61/62 issued by the NRB on July 13, 2005 has included the directives related to credit information and blacklisting. On this

					directive, a number of provisions and decisions have been made by the NRB regarding collateral assessment, auditing, inspection by Credit Information Centre, notification before blacklisting, cases where defaulter should not be blacklisted, correction if blacklisted by mistake in order to make the banks and financial institutions cautious while advancing loans and make these provisions for blacklisting more reliable and trustworthy.
37	68	The NRB will initiate the review of legal provisions regarding the merger and acquisition.		Banks and Financial Institutions Regulation Department / Legal Division	A Drafting Committee has been formed to prepare the draft Act in regard to merger and acquisition of banks and financial institutions.
38	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 lowering 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	A training course has been initiated to develop the human resource of the Debt Recovery Tribunal. The process of procuring of computer accessories and providing those equipments has been initiated. The draft ordinance regarding the Asset Management Company has already been submitted to the Ministry of Finance.
39	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, a Committee, having two advisors, has been set up, which has already started its work. In 2005/06, a total of 220 grievances were registered, out of them 172 grievances were settled.

40	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	Continuity has been given to the structural reform programs in two large commercial banks - NBL and RBB, in the current fiscal year as well. The contract period has been extended for further two years in both NBL and RBB effective from July 22, 2005 and January 16, 2006 respectively.
41	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	CRA is yet to be established.
42	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	A Legal Drafting Committee has been constituted which has begun its work.
43	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 guidelines relating to the KYC has been issued to banks and financial institutions effective April 14, 2006.
44	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	Basel Implementation Core Group has been formed to prepare the foundations for the implementation of Basel II Accord. AIG has been formed from within the Group and primary statistics

34 NEPAL RASTRA BANK

					have been collected in order to pursue the study concerning the likely impacts in the banking sector. Study report has been prepared and submitted to the top management.
45	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	Same as point 76.
46	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	The concerned Departments are regularly monitoring the required capital adequacy ratio of the commercial banks and other financial institutions.
47	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 being continued.

48	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 were also made with additional provision.
49	82	Foreign exchange facility provided to individuals and organizations directly by commercial banks for various purposes has been increased from US\$ 1000 to US\$ 1500 in 2005/06.	Details of the progress to be made available.	Foreign Exchange Management Department.	Implemented as per the circular issued on July 24, 2005.
50	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	Implemented as per the circular issued on July 24, 2005.
51	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	Implemented as per the circular issued on July 24, 2005.

36 NEPAL RASTRA BANK

52	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	Implemented as per the circular issued on July 24, 2005.
53	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	Implemented as per the circular issued on July 31, 2005.
54	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	Implemented as per the circular issued on July 24, 2005.

55	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	Implemented as per the circular issued on July 24, 2005.
56	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	Implemented as per the circular issued on July 24, 2005.
57	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	Implemented as per the circular issued on July 24, 2005.
58	91	A provision of maintaining 10 percent of imported value as a bank guarantee by the private sector importers to import chemical	Provide the progress report by making necessary arrangements	Foreign Exchange Management Department	Implemented as per the circular issued on July 31, 2005.

		fertilizer in Nepal will be reduced to 2 percent in order to facilitate the import of chemical fertilizer.			
59	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	Implemented as per the circular issued on July 24, 2005.
60	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	Implemented as per the circular issued on July 31, 2005.
61	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
62	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	Is being Implemented
63	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	Altogether 91 goods are eligible for import from India against US dollar payment.

Appendix 2
Projection of Monetary Survey

(Rs. in Million)

Monetary aggregates	2004	2005	2006	2007	2004/05		2005/06		2006/07	
	Jul	Jul	Jul (e)	Jul (proj)	Amount	Percent	Amount	Percent	Amount	Percent
1. Foreign Assets, Net	108,804.7	107,742.1	137,828.6	153,828.6	5,742.2 ^{1/}	5.3	26,002.6 ^{2/}	24.1	16,000.0	11.6
1.1. Foreign Assets	131,366.0	130,916.9	165,901.7	183,631.3	-449.1	-0.3	34,984.8	26.7	17,729.6	10.7
1.2. Foreign Currency Deposits	21,174.6	21,557.2	26,475.0	27,846.7	382.6	1.8	4,917.8	22.8	1,371.7	5.2
1.3. Other Foreign Liabilities	1,386.7	1,617.6	1,598.1	1,956.0	230.9	16.7	-19.5	-1.2	357.9	22.4
2. Net Domestic Assets	168,501.4	192,698.0	211,590.6	251,922.7	17,391.8 ^{1/}	10.3	22,976.5 ^{2/}	11.9	40,332.1	19.1
2.1. Domestic Credit	246,171.9	280,240.7	321,602.0	372,416.5	34,068.8	13.8	41,361.3	14.8	50,814.5	15.8
a. Net Claims on Govt.	57,396.6	63,894.6	72,996.7	81,296.7	6,498.0	11.3	9,102.1	14.2	8,300.0	11.4
i. Claims on Govt.	58,149.6	63,894.6	72,996.7	81,296.7	5,745.0	9.9	9,102.1	14.2	8,300.0	11.4
ii. Govt. Deposits	753.0	-	-	-	-753.0	-	-	-	-	-
b. Claims on Govt. Enterprises	16,258.8	19,329.1	19,080.5	20,280.5	3,070.3	18.9	-248.6	-1.3	1,200.0	6.3
i. Financial	13,343.9	12,762.9	12,672.0	13,672.0	-581.0	-4.4	-90.9	-0.7	1,000.0	7.9
ii. Non-financial	2,914.9	6,566.2	6,408.5	6,608.5	3,651.3	125.3	-157.7	-2.4	200.0	3.1
c. Claims on Private Sector	172,516.5	197,017.0	229,524.8	270,839.3	24,500.5	14.2	32,507.8	16.5	41,314.5	18.0
2.2. Net Non-monetary Liabilities	77,670.5	87,542.7	110,011.4	120,493.8	16,677.01/	21.5	18,384.82/	21.0	10,482.4	9.5
3. Broad Money (M2)	277,306.1	300,440.1	349,419.2	405,751.3	23,134.0	8.3	48,979.1	16.3	56,332.1	16.1
3.1. Money Supply (M1)	93,969.6	100,205.8	115,145.1	132,822.0	6,236.2	6.6	14,939.3	14.9	17,676.9	15.4
a. Currency	63,218.9	68,784.1	78,500.0	90,378.5	5,565.2	8.8	9,715.9	14.1	11,878.5	15.1
b. Demand Deposits	30,750.7	31,421.6	36,645.1	42,443.5	670.9	2.2	5,223.5	16.6	5,798.4	15.8
3.2. Time Deposits	183,336.4	200,234.3	234,274.1	272,929.3	16,897.9	9.2	34,039.8	17.0	38,655.2	16.5
4. Broad Money Liquidity (M3)	298,480.7	321,997.3	375,894.2	433,598.0	23,516.6	7.9	53,896.9	16.7	57,703.8	15.4

1/ Adjusting the exchange valuation loss of Rs. 6804.8 million.

2/ Adjusting the exchange valuation gain of Rs 4083.9 million.

e = Estimate.

p = Projection.

Appendix 3
List of Goods Allowed to be Import from India
Against the Payment of Convertible Foreign Currencies

S. No.	Harmonic Code Number	Goods
1	As per section 13.01.02	Extracts
2	As per section 21.06.90.40	Soft Drink Concentrate
3	As per section 27.10.19.11	Furnace Oil
4	As per section 27.13.20	Bitumen
5	As per section 28	All industrial chemicals mentioned in this section (except chemicals used for the production of medicine for human being)
6	As per section 28.03	Carbon Black
7	As per section 29.01.10	L.L.P. (Light Liquid Paraffin)
8	As per section 29.02.20	Benzene / Toluene
9	As per section 29.05.11	Methanol
10	As per section 29.05.16.00	2-Ethyl Hexanol
11	As per section 29.05.31	Ethylene Glycol
12	As per section 29.05.44.00	Sorbitol
13	As per section 29.15.00	Methylene Salicylate
14	As per section 29.15.21.00	Acetic Acid
15	As per section 29.15.32	Vinyl Acetate Monomer
16	As per section 29.16.12	Buty Acrylate Monomer / 2 Etyl Hexyls Acrylate
17	As per section 29.17.34	Dibutyl Phthalate
18	As per section 29.17.35	Phthalic Anhydride
19	As per section 29.17.36	Terephthalic Acid
20	As per section 29.22	Oxygen Function Amino-Compounds
21	As per section 29.24	Carboxamide-Function Compounds
22	As per section 29.33	Heterocyclic compound
23	As per section 29.34	Nucleic Acids
24	As per section 29.41	Antibiotics
25	As per section 32.15	Printing Ink
26	As per section 33.02.90	Flavour (raw material used in toothpaste), Odoriferous Substances and Perfume
27	As per section 34.02.90.10	LABSA (raw material used in detergent)
28	As per section 38.17.10	Mixed Alkyl benzenes
29	As per section 38.23.11.00	Stearic Acid
30	As per section 38.23.19	Palm Stearin DFA / Palm Karmel DFA
31	As per 10 and 20 of section 39.01	Polyethylene
32	As per section 39.02.10	Polypropylene
33	As per section 39.03.19.00	Polysterence
34	As per section 39.05.30	Polyvinyl Alcohol

S. No.	Harmonic Code Number	Goods
35	As per section 39.07.60.00	Plastic Pet Chips / Pet Resin
36	As per section 39.11.90	PVC Resin
37	As per section 39.20	Poethelyne
38	As per section 39.20.20	Polypropylene Films/Noodle Strapper
39	As per section 39.20.59	Printed Laminated Web
40	As per section 39.20.59.00	Seasoning Wrapper
41	As per section 40.01	Natural Rubber
42	As per section 40.02	Synthetic Rubber
43	As per section 48.01.00.00	News Print Paper
44	As per section 48.02.00	Papers
45	As per section 48.06.00	Papers
46	As per section 48.10	Paper
47	As per section 50.04	Silk Yarn
48	As per section 50.05	Silk Yarn
49	As per section 51.06	Woolen yarn (yarn of carded wool, except hosiery)
50	As per section 51.07	Woolen yarn (yarn of Combed wool, except hosiery)
51	As per section 51.08	Woolen yarn (yarn of fine animal hair, except hosiery)
52	As per section 52.01	Cotton
53	As per section 52.05.11 to 52.05.14 and 52.06.11 to 52.06.14	Cotton yarn
54	As per section 54.02.42	Partially oriented Polyester yarn (except Partially Oriented Polyester Yarn as per section 54.02.42.00 and Synthetic Filament Yarn as per section 54.02.49)
55	As per section 54.02.49	Synthetic Filament Yarn
56	As per section 54.03, 55.9 and 55.10	Artificial yarn (except hosiery)
57	As per section 55.01, 55.02, 55.03, 55.04, 55.06 and 55.07	Artificial fiber (human made)
58	As per section 55.03.20	Polyester fiber
59	As per section 55.04.10	Viscose Rayon (fiber)
60	As per section 59.02	Tyre cord fabric
61	As per section 70.10.90.00	Carboys, Bottles, Plasks, Jar, Pots.
62	As per section 72.03.90.00	Sponge Iron
63	As per section 72.04.49	M. S. Scrap
64	As per section 72.06	Iron Ingots
65	As per section 72.07	Mild steel billet
66	As per 27.00, 36.00, 37.00, 38.00, 39.00, 51.00 and 52.00 of section 72.08, section 72.08.51 and 72.08.52	Hot roll sheet in coil and not in coil
67	As per 15.00, 16.00, 17.00 and 18.00 of section 72.09	Cold roll sheet in coil
68	As per section 72.10.12	Tin plate

S. No.	Harmonic Code Number	Goods
69	As per section 72.11.14.00	Hot rolled sheet in coil
70	As per section 72.11.19.00	Hot rolled sheet in coil
71	As per section 72.13.91.10	M.S. wire rod in coil
72	As per 72.17.20, 72.17.30 and 72.17.90 of section 72	Bead Wire (copper coated)
73	As per section 72.18.99	Steel byume
74	As per section 72.19	Steel plate
75	As per section 72.26.11	Silicon Steel
76	As per section 74.04	Aluminum Copper/Brass Scraps Re-Melted Ingots (as per the notice of ministry of Environment, and Science and Technology)
77	As per section 74.07.10.00	Copper Rods
78	As per section 74.08.11.00	Copper Wire
79	As per section 76.01	Aluminum ingot billet
80	As per section 76.04 and 76.05	Aluminum rod in coil
81	As per section 76.12.10.00	Tubes
82	As per section 79.01.11.00	Zinc
83	As per section 79.01.20	Zinc Alloy
84	As per section 83.09.10.00	Metal Crown Corks
85	As per section 84	All machinery equipment (except parts)
86	As per section 85.01 and 85.02	Electric motor, generating set
87	As per section 85.04.90	Amorphous Matalcores
88	As per section 85.07.90.00	PP Battery Container & Battery Separator
89	As per section 85.29.90	TV Picture Tube
90	As per section 85.40.11	Spare Parts for TV Receiver
91	Others, section not specified	Fabrics imported as raw materials by industries exporting readymade garment (under the provision of spending foreign exchange up to 50 percent of their export earnings)

List of Statistical Tables

Table 1	Real Gross Domestic Product
Table 2	Nominal Gross Domestic Product
Table 3	Gross National Disposable Income
Table 4	National Urban Consumer Price Index
Table 5	National Wholesale Price Index
Table 6	Monetary Survey
Table 7	Monetary Survey (twelve months)
Table 8	Sale Auction
Table 9	Purchase Auction
Table 10	Repo Auction
Table 11	Reverse Repo Auction
Table 12	Foreign Exchange Intervention
Table 13	Standing Liquidity Facility (SLF)
Table 14	Interbank Transaction Amount
Table 15	Fresh Treasury Bills
Table 16	Structure of Interest Rates
Table 17	Weighted Average Treasury Bills Rate (91-day)
Table 18	Weighted Average Treasury Bills Rate (364-day)
Table 19	Weighted Average Interbank Transaction Rate
Table 20	Government Budgetary Operation
Table 21	Outstanding Domestic Debt of Nepal Government
Table 22	Direction of Foreign Trade
Table 23	Balance of Payments Situation
Table 24	Gross Foreign Exchange Holding of the Banking Sector
Table 25	Import from India Against US Dollar Payment
Table 26	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 ^R	2005/06 ^P	01/02	02/03	03/04	04/05 ^R	05/06 ^P
Agriculture, Forestry and Fishery	108752	111471	115774	119212	121227	2.2	2.5	3.9	3.0	1.7
Non Agriculture	170417	176218	182249	186032	191273	-1.9	3.4	3.4	2.1	2.8
Mining and Quarrying	1571	1601	1610	1650	1686	1.6	1.9	0.6	2.5	2.2
Manufacturing	24892	25384	25822	26494	27064	-10.0	2.0	1.7	2.6	2.2
Electricity, Gas and Water	5200	6234	6437	6748	7124	10.0	19.9	3.3	4.8	5.6
Construction	32180	32757	32816	32801	34192	1.1	1.8	0.2	0.0	4.2
Trade, Restaurant and Hotel	28329	29267	31613	30965	32170	-10.1	3.3	8.0	-2.0	3.9
Transport, Communication and Storage	21201	22113	23273	24457	25006	1.6	4.3	5.2	5.1	2.2
Finance and Real estate	28402	29333	30275	31677	32372	3.3	3.3	3.2	4.6	2.2
Community and Social Services	28642	29529	30403	31240	31659	1.8	3.1	3.0	2.8	1.3
GDP at Factor cost before deduction of bank service charges	279169	287689	298023	305244	312500	-0.3	3.1	3.6	2.4	2.4
Less imputed value of bank service charges	8064	8499	8950	9435	9890	3.0	5.4	5.3	5.4	4.8
Total GDP at Factor cost	271105	279190	289073	295809	302610	-0.4	3.0	3.5	2.3	2.3
Plus Indirect Taxes, net	20135	21724	23194	24920	24133	-2.8	7.9	6.8	7.4	-3.2
GDP at producers prices	291240	300914	312267	320729	326743	-0.6	3.3	3.8	2.7	1.9

R- Revised estimate

P- Preliminary estimate

Source: Central Bureau of Statistics

Table 2
Nominal Gross Domestic Product
(At Current Market Prices)

Sectors	Rs. in Million					Percent change				
	2001/02	2002/03	2003/04	2004/05 ^R	2005/06 ^P	01/02	02/03	03/04	04/05 ^R	05/06 ^P
Agriculture, Forestry and Fishery	160144	171104	183117	194363	212827	6.0	6.8	7.0	6.1	9.5
Non Agriculture	245994	266442	291802	314288	345042	1.2	8.3	9.5	7.7	9.8
Mining and Quarrying	2056	2188	2377	2530	2669	6.9	6.4	8.6	6.5	5.5
Manufacturing	32805	34337	36634	39286	41768	-7.6	4.7	6.7	7.2	6.3
Electricity, Gas and Water	8635	10905	11355	11892	12508	16.2	26.3	4.1	4.7	5.2
Construction	42290	45068	49029	52922	56558	6.8	6.6	8.8	7.9	6.9
Trade, Restaurant and Hotel	40772	43978	49718	50168	56139	-8.5	7.9	13.1	0.9	11.9
Transport, Communication and Storage	34652	38286	43668	48724	55919	4.1	10.5	14.1	11.6	14.8
Finance and Real estate	43882	47719	51940	58335	64937	5.4	8.7	8.8	12.3	11.3
Community and Social Services	40902	43961	47081	50431	54544	4.7	7.5	7.1	7.1	8.2
GDP at Factor cost before deduction of bank service charges	406138	437546	474919	508651	557870	3.1	7.7	8.5	7.1	9.7
Less imputed value of bank service charges	12624	13911	15135	17027	18764	6.0	10.2	8.8	12.5	10.2
Total GDP at Factor cost	393514	423635	459784	491624	539106	3.0	7.7	8.5	6.9	9.7
Plus Indirect Taxes, net	29293	33040	36961	41914	43842	0.5	12.8	11.9	13.4	4.6
GDP at producers prices	422807	456675	496745	533538	582948	2.8	8.0	8.8	7.4	9.3

R- Revised estimate

P- Preliminary estimate

Source: Central Bureau of Statistics

Table 3
Gross National Disposable Income (GNDI)[@] at Current Prices

(Rs in million)

	2001/02	2002/03	2003/04	2004/05 ^R	2005/06 ^P	2002/03	2003/04	2004/05	2005/06
Consumption	371526	401897	434359	467202	518236	8.2	8.1	7.6	10.9
Private	329199	355535	383978	412776	458991	8.0	8.0	7.5	11.2
Public	42327	46362	50381	54426	59245	9.5	8.7	8.0	8.9
Investment	102174	118020	130993	154132	176483	15.5	11.0	17.7	14.5
Gross Fixed Capital Formation	81613	87024	95124	101094	107624	6.6	9.3	6.3	6.5
Private	49569	55796	63861	70271	74798	12.6	14.5	10.0	6.4
Public	32044	31228	31263	30823	32826	-2.5	0.1	-1.4	6.5
Change in Stock	20562	30996	35869	53038	68859	50.7	15.7	47.9	29.8
Domestic Demand	473700	519917	565352	621335	694720	9.8	8.7	9.9	11.8
Exports of goods and services	77068	77280	89543	85957	108142	0.3	15.9	-4.0	25.8
Imports of goods and services	127961	140522	158150	173753	219914	9.8	12.5	9.9	26.6
Net Export	-50893	-63242	-68607	-87796	-111772	24.3	8.5	28.0	27.3
Gross Domestic Product	422807	456675	496745	533538	582948	8.0	8.8	7.4	9.3
Net factor income (BoP)	-605	-676	-1684	1637	3012	11.7	149.2	-197.2	84.1
Net transfers (BoP)	68186	75533	84889	97704	124657	10.8	12.4	15.1	27.6
<i>o/w Workers Remittances</i>	47536	54203	58588	65541	95060	14.0	8.1	11.9	45.0
Gross National Disposable Income (GNDI)	490389	531532	579950	632879	710617	8.4	9.1	9.1	12.3

@ Based on SNA concept.

R Revised estimate

P Preliminary estimate

Source: Nepal Rastra Bank and Central Bureau of Statistics

Table 4
National Urban Consumer Price Index
(Base Year 1995/1996 = 100)

Mid-Month	2003/04		2004/05		2005/06 ^P	
	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	170.6	7.0
February	152.7	4.7	161.4	5.7	170.8	5.8
March	153.1	4.4	161.9	5.7	174.3	7.7
April	154.1	1.7	163.1	5.8	176.0	7.9
May	154.1	1.3	164.0	6.4	179.0	9.1
June	155.0	1.8	164.6	6.2	179.6	9.1
July	156.4	2.0	166.8	6.6	181.5	8.8 *
Annual Average	154.8	4.0	161.8	4.5	174.8	8.0 *

P= Provisional

*= Estimate

Table 5
National Wholesale Price Index
(Base Year 1999/2000 = 100)

Mid-Month	2003/04		2004/05		2005/06 ^P	
	Index	% Change	Index	% Change	Index	% Change
August	114.4	3.1	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	135.0	9.4
November	117.2	4.1	122.6	4.6	136.4	11.3
December	113.9	5.9	119.0	4.4	134.3	12.9
January	112.0	7.0	119.7	6.9	129.5	8.2
February	112.9	5.2	121.0	7.2	128.9	6.5
March	113.5	3.6	123.2	8.5	130.8	6.2
April	114.2	2.6	123.7	8.4	133.1	7.6
May	114.3	1.7	125.2	9.5	136.9	9.3
June	116.2	4.5	126.5	8.9	138.2	9.2
July	118.1	4.8	129.9	9.9	141.7	9.1 *
Annual Average	114.9	4.1	123.3	7.3	134.4	9.0 *

P= Provisional

*= Estimate

Table 6
Monetary Survey
(First Ten Months)

(Rs. in Million)

Monetary aggregates	2004 Jul	2005 May	2005 Jul	2006 May (e)	Changes during the first ten months			
					2004/05		2005/06	
					Amount	Percent	Amount	Percent
1. Foreign Assets, Net	108,804.6	108,784.1	107,742.1	132,319.7	5,747.1 ^{1/}	5.3	20,493.7 ^{2/}	19.0
1.1 Foreign Assets	131,366.0	134,506.9	130,916.9	157,690.3	3,140.9	2.4	26,773.4	20.5
1.2 Foreign Currency Deposits	21,174.6	21,595.4	21,557.2	23,822.5	420.7	2.0	2,265.3	10.5
1.3 Other Foreign Liabilities	1,386.7	4,127.5	1,617.6	1,548.2	2,740.7	197.6	-69.4	-4.3
2. Net Domestic Assets	168,501.2	184,505.0	192,698.0	200,425.0	10,236.1 ^{1/}	6.1	11,810.9 ^{2/}	6.1
2.1. Domestic Credit	246,171.8	267,652.4	280,240.7	305,782.3	21,480.6	8.7	25,541.6	9.1
a. Net Claims on Govt.	57,396.6	55,700.9	63,894.6	62,906.5	-1,695.7	-3.0	-988.1	-1.5
i. Claims on Govt.	58,149.6	59,823.8	63,894.6	67,711.1	1,674.2	2.9	3,816.5	6.0
ii. Govt. Deposits	753.0	4,123.0	0.0	4,804.5	3,369.9	447.5	4,804.5	-
b. Claims on Non-Financial Govt. Ent.	2,914.9	6,815.2	6,566.2	6,039.8	3,900.3	133.8	-526.3	-8.0
c. Claims on Financial Institutions	13,343.9	12,861.4	12,762.9	12,595.8	-482.5	-3.6	-167.0	-1.3
i. Government	13,203.3	12,829.4	12,730.8	12,543.6	-373.9	-2.8	-187.3	-1.5
ii. Non-government	140.6	32.0	32.0	52.3	-108.6	-77.2	20.3	63.3
d. Claims on Private Sector	172,516.5	192,275.0	197,017.0	224,240.1	19,758.5	11.5	27,223.0	13.8
2.2 Net Non-monetary Liabilities	77,670.6	83,147.4	87,542.7	105,357.3	11,244.61/	14.5	13,730.72/	15.7
3. Broad Money (M2)	277,305.9	293,289.1	300,440.1	332,744.7	15,983.2	5.8	32,304.6	10.8
3.1 Money Supply (M1)	93,969.5	98,103.4	100,205.8	110,127.7	4,134.0	4.4	9,921.9	9.9
a. Currency	63,218.9	69,246.5	68,784.1	77,540.3	6,027.7	9.5	8,756.2	12.7
b. Demand Deposits	30,750.7	28,856.9	31,421.6	32,587.4	-1,893.8	-6.2	1,165.7	3.7
3.2 Time Deposits	183,336.4	195,185.7	200,234.3	222,617.0	11,849.2	6.5	22,382.8	11.2
4. Broad Money Liquidity (M3)	298,480.5	314,884.5	321,997.3	356,567.1	16,403.9	5.5	34,570.0	10.7

1/ Adjusting the exchange valuation loss of Rs. 5767.7 million.

2/ Adjusting the exchange valuation gain of Rs 4083.9 million.

e = Estimates.

Table 7
Monetary Survey
(Twelve Months)

(Rs. in Million)

Monetary aggregates	2004 May	2004 Jul	2005 May	2005 Jul	2006 May (e)	Point to Point Change (May to May)			
						2004/05		2005/06	
						Amount	Percent	Amount	Percent
1. Foreign Assets, Net	103627.6	108,804.6	108,784.1	107,742.1	132,319.7	5,156.5	5.0	23,535.6	21.6
1.1 Foreign Assets	126249.7	131,366.0	134,506.9	130,916.9	157,690.3	8,257.2	6.5	23,183.4	17.2
1.2 Foreign Currency Deposits	19678.8	21,174.6	21,595.4	21,557.2	23,822.5	1,916.6	9.7	2,227.1	10.3
1.3 Other Foreign Liabilities	2943.2	1,386.7	4,127.5	1,617.6	1,548.2	1,184.3	40.2	-2,579.3	-62.5
2. Net Domestic Assets	162952.8	168,501.2	184,505.0	192,698.0	200,425.0	21,552.2	13.2	15,920.0	8.6
2.1. Domestic Credit	235712.5	246,171.8	267,652.4	280,240.7	305,782.3	31,939.9	13.6	38,129.9	14.2
a. Net Claims on Govt.	51432.6	57,396.6	55,700.9	63,894.6	62,906.5	4,268.3	8.3	7,205.6	12.9
i. Claims on Govt.	57783.7	58,149.6	59,823.8	63,894.6	67,711.1	2,040.1	3.5	7,887.3	13.2
ii. Govt. Deposits	6351.1	753.0	4,123.0	0.0	4,804.5	-2,228.1	-35.1	681.5	16.5
b. Claims on Non-Financial Govt. Ent.	3154.2	2,914.9	6,815.2	6,566.2	6,039.8	3,661.0	116.1	-775.4	-11.4
c. Claims on Financial Institutions	13139.9	13,343.9	12,861.4	12,762.9	12,595.8	-278.5	-2.1	-265.6	-2.1
i. Government	13030.6	13,203.3	12,829.4	12,730.8	12,543.6	-201.2	-1.5	-285.8	-2.2
ii. Non-government	109.3	140.6	32.0	32.0	52.3	-77.3	-70.7	20.3	63.4
d. Claims on Private Sector	167985.8	172,516.5	192,275.0	197,017.0	224,240.1	24,289.2	14.5	31,965.1	16.6
2.2 Net Non-monetary Liabilities	72759.7	77,670.6	83,147.4	87,542.7	105,357.3	10,387.7	14.3	22,209.9	26.7
3. Broad Money (M2)	266580.4	277,305.9	293,289.1	300,440.1	332,744.7	26,708.7	10.0	39,455.6	13.5
3.1 Money Supply (M1)	87856.8	93,969.5	98,103.4	100,205.8	110,127.7	10,246.6	11.7	12,024.3	12.3
a. Currency	61806.1	63,218.9	69,246.5	68,784.1	77,540.3	7,440.4	12.0	8,293.8	12.0
b. Demand Deposits	26050.6	30,750.7	28,856.9	31,421.6	32,587.4	2,806.3	10.8	3,730.5	12.9
3.2 Time Deposits	178723.6	183,336.4	195,185.7	200,234.3	222,617.0	16,462.1	9.2	27,431.3	14.1
4. Broad Money Liquidity (M3)	286259.2	298,480.5	314,884.5	321,997.3	356,567.1	28,625.3	10.0	41,682.6	13.2

p = Provisional

e = Estimates.

Table 8
Sale Auction

(Rs. in Million)

Mid-Month	2004/05		2005/06	
	Amount	Wtd. Int. Rate	Amount	Wtd. Int. Rate
August	-		1,440.00	3.4685
September	-		-	-
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	-	-	470.00	3.7437
April	-	-	930.00	4.0060
May	-	-	-	-
June	-	-	3,390.00	3.5012
July	-	-	4,150.00	3.6783
Total	10,500.00		13,510.00	

Table 9
Purchase Auction

(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 10
Repo Auction

(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	450.00
March	300.00	-
April	-	-
May	600.00	-
June	-	-
July	320.00	-
Total	6,680.00	450.00

Table 11
Reverse Repo Auction

(Rs. in Million)

Mid-Month	2004/05	2005/06
August	-	-
September	-	-
October	1,500.0	-
November	-	500.0
December	-	1,500.0
January	2,570.0	2,000.0
February	-	1,000.0
March	-	0.0
April	1,200.0	1,500.0
May	-	0.0
June	-	0.0
July	-	0.0
Total	5,270.0	6,500.0

Table 12
Foreign Exchange Intervention

(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	1,699.84	522.74	1,177.10
September	1,337.10	-	1,337.10	2,067.50	-	2,067.50	2,160.84	-	2,160.84
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	2,934.97	-	2,934.97
March	1,962.72	-	1,962.72	2,120.20	-	2,120.20	5,263.02	-	5,263.02
April	2,955.37	-	2,955.37	6,237.80	-	6,237.80	3,635.16	-	3,635.16
May	1,971.17	408.86	1,562.31	3,808.90	780.30	3,028.60	5,023.75	-	5,023.75
June	4,584.48	-	4,584.48	2,288.90	-	2,288.90	9,752.21	-	9,752.21
July	3,337.29	1,132.25	2,205.04	3,849.10	-	3,849.10	5,827.24	-	5,827.24
Total	30,152.00	2,037.45	28,114.55	37,894.70	3,619.20	34,275.40	55,589.91	654.48	54,935.43

Table 13
Standing Liquidity Facility (SLF)

(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	200.00
March	11,402.00	160.00
April	4,027.90	950.00
May	1,040.00	4,800.00
June	600.00	-
July	3,472.05	1,850.00
Total	49,307.34	9,883.50

Table 14
Interbank Transaction Amount

(Rs. in Million)

Mid-Month	2003/04	2004/05	2005/06
August	4,870.0	4,309.0	20,554.2
September	13,805.0	13,165.0	24,670.5
October	12,575.0	12,145.0	12,021.0
November	14,759.0	9,056.0	10,369.0
December	7,900.0	11,018.0	15,533.0
January	13,460.0	11,030.0	11,255.5
February	8,080.0	12,710.0	14,541.0
March	2,800.0	9,500.0	20,075.0
April	5,860.0	18,162.0	15,654.0
May	9,070.0	13,050.0	7,970.0
June	5,650.0	18,334.3	10,245.0
July	14,359.0	20,358.5	12,862.0
Total	113,188.0	152,837.8	175,750.2

Table 15
Fresh Treasury Bills

(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	2,962.50
May	500.00	-
June	1,000.00	2,000.00
July	330.00	2,736.70
Total	5,471.20	10,834.20

Table 16
Structure of Interest Rates
(Percent per Annum)

Year	2004	2005	2004	2005	2005	2005	2005	2006	2006	2006
Mid-months	July	July	Oct.	Jan.	Apr.	July	Oct.	Jan.	Apr.	July
A. Government Securities										
Treasury Bills (28 days)	1.82#	1.57#	1.23	1.74	2.29	-	2.62	1.59	2.54	2.40
Treasury Bills (91 days)	2.93#	2.46#	1.34	2.08	3.11	3.14	3.10	2.46	2.89	3.25
Treasury Bills (182 days)	3.44#	3.14#	2.03	2.51	3.72	4.42	3.70	2.57	3.77	3.86
Treasury Bills (364 days)	4.15#	4.32#	3.53	2.49	3.98	4.79	3.87	3.42	4.31	4.04
National Savings Certificates	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-8.5
Development Bonds	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0
B. Nepal Rastra Bank										
CRR	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Bank and Refinance Rates	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	1.5-6.25	1.5-6.25
NRB Bonds Rate										
C. Interbank Rate										
	3.03#	3.39#	0.83	3.49	4.50	4.71	3.18	1.22	1.97	2.13
D. Commercial Banks										
1. Deposit Rates										
Savings Deposits	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	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	1.5-3.5	1.5-3.5
3 Months	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	1.5-4.0	1.5-4.0
6 Months	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	1.75-4.5	1.75-4.5
1 Year	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	2.25-5.0	2.25-5.0
2 Years and Above	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	2.5-6.4	2.5-6.4	2.5-6.4
2 Lending Rates										
Industry	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	8.0-13.5	8.0-13.5
Agriculture	10.5-13	10-13	9.5-13	9.5-13	10.5-13	10-13	9.5-13	9.5-13	9.5-13	9.5-13
Export Bills	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	5.0-11.5	5.0-11.5	5.0-11.5
Commercial Loans	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	8.0-14	8.0-14
Overdrafts	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	6.5-14.5	6.5-14.5
CPI Inflation (annual average)	4.0	4.5								8.0+

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

+ Estimate.

Table 17
Weighted Average Treasury Bills Rate (91-day)

FY	Mid-Month												Annual Average
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	
1989/90	5.08	5.09	6.06	6.60	5.56	6.12	7.42	5.12	-	6.12	7.05	6.55	6.20
1990/91	7.51	7.67	-	7.96	8.07	-	8.37	8.24	8.71	8.54	8.65	8.74	8.18
1991/92	8.43	8.78	8.84	8.70	8.82	8.93	9.33	9.56	9.60	9.64	9.59	9.64	9.24
1992/93	10.17	10.45	12.17	11.68	12.03	12.36	12.57	12.43	11.30	9.56	11.28	11.92	11.34
1993/94	8.49	5.94	7.24	8.74	6.05	3.93	7.57	7.56	6.38	4.93	5.31	6.01	6.50
1994/95	6.36	6.26	6.54	7.02	6.91	6.99	7.38	7.97	8.12	7.94	7.89	8.33	7.35
1995/96	8.34	8.61	8.78	9.14	9.69	11.83	12.68	12.21	10.93	12.70	12.88	12.66	10.93
1996/97	12.18	11.75	11.43	11.63	11.51	11.47	11.62	10.99	9.77	8.51	6.03	5.62	10.22
1997/98	4.87	3.36	3.81	3.36	2.63	2.71	3.90	4.00	4.17	3.44	3.24	2.87	3.52
1998/99	1.61	0.90	0.85	2.88	3.24	3.29	1.61	1.21	2.16	3.09	3.35	3.32	2.33
1999/00	3.40	2.90	3.41	4.09	3.99	4.44	5.16	5.60	5.46	5.73	5.46	5.36	4.66
2000/01	5.43	5.22	4.87	5.24	5.30	5.26	5.17	4.55	3.87	4.67	4.94	4.95	4.96
2001/02	4.78	3.78	4.66	4.96	4.95	4.85	5.19	5.39	5.05	4.86	4.52	3.78	4.71
2002/03	3.42	3.49	3.60	4.03	3.75	4.10	4.01	3.91	4.06	2.91	1.67	2.98	3.48
2003/04	4.03	3.66	3.70	3.68	3.85	3.95	3.94	3.81	1.70	0.70	0.82	1.47	2.93
2004/05	0.62	0.63	1.34	1.97	2.40	2.08	2.38	2.94	3.11	3.70	3.82	3.94	2.46
2005/06	2.26	3.38	3.10	2.69	2.20	2.46	2.20	2.65	2.89	3.63	3.31	3.25	2.84

Table 18
Weighted Average Treasury Bills Rate (364-day)

FY	Mid-Month												Annual Average
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	
1996/97	-	-	-	-	-	11.96	-	-	10.53	-	8.98	-	10.34
1997/98	-	-	-	-	-	6.30	-	-	7.25	-	6.99	-	6.86
1998/99	-	-	-	-	-	-	-	-	4.91	5.42	5.31	-	5.13
1999/00	-	-	-	-	5.67	5.57	6.08	7.28	6.14	-	-	-	6.16
2000/01	-	-	-	-	5.73	5.44	5.46	5.11	4.92	5.27	5.52	5.62	5.26
2001/02	-	-	-	-	5.51	5.15	5.66	5.56	5.14	5.04	4.99	4.43	5.20
2002/03	-	-	-	-	4.08	4.46	4.22	4.94	5.13	4.63	3.31	4.93	4.71
2003/04	5.31	5.18	5.30	5.15	5.12	4.95	4.70	4.04	3.02	2.65	2.57	3.81	4.15
2004/05	-	-	3.53	-	3.06	2.49	2.78	3.54	3.98	4.84	4.87	4.79	4.32
2005/06	-	-	3.87	3.93	3.09	3.42	3.50	3.80	4.31	4.20	3.74	4.04	3.95

Table 19
Weighted Average Interbank Transaction Rate

Mid-Month\Year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
August	4.83	3.06	2.98	4.15	1.02	2.47
September	4.85	2.62	2.50	2.67	0.39	3.87
October	4.01	4.02	3.31	3.60	0.83	3.18
November	4.82	4.50	4.05	4.21	2.24	2.36
December	4.70	4.41	3.62	4.63	3.54	0.96
January	5.06	4.03	3.83	4.68	3.49	1.22
February	4.05	6.31	3.61	4.82	3.95	2.48
March	4.29	5.51	3.67	3.67	4.33	2.84
April	3.39	4.48	3.58	0.83	4.50	1.97
May	4.36	4.75	4.06	1.01	4.28	3.52
Jun	3.91	3.67	3.59	0.99	4.11	1.77
July	4.73	1.96	4.50	0.71	4.71	2.13
Annual Average	4.50	4.22	3.62	3.03	3.39	2.47

Table 20
Government Budgetary Operation[^]
(On cash basis)
(During the fiscal year)

(Rs. in Million)

Heads	Amount			Percent Change		
	2003/04	2004/05 ^P	2005/06 ^P	2003/04	2004/05	2005/06
Sanctioned Expenditure	82604.3	92801.3	102001.9	10.6	12.3	9.9
Recurrent	*	59983.5	64365.9	-	-	7.3
Capital	*	17891.2	21061.5	-	-	17.7
<i>a.Domestic Resources & Loans</i>	*	16370.8	18279.8	-	-	11.7
<i>b.Foreign Grants</i>	*	1520.4	2781.7	-	-	83.0
Principal Repayment	*	13536.3	14267.8	-	-	5.4
Others (Freeze Account)	1621.3	1390.3	2306.7	18.3	-14.2	65.9
Unspent Government Balance	1441.8	2420.3	3592.1	-13.3	67.9	48.4
Recurrent	*	965.8	1669.7	-	-	72.9
Capital	*	1451.5	1919.3	-	-	32.2
Principal Repayment	*	3.0	3.1	-	-	3.3
Actual Expenditure	81162.5	90381	98409.8	11.1	11.4	8.9
Recurrent	*	59017.7	62696.2	-	-	6.2
Capital	*	16439.7	19142.2	-	-	16.4
Principal Repayment	*	13533.3	14264.7	-	-	5.4
Others (Freeze Account)	1621.3	1390.3	2306.7	18.3	-14.2	65.9
Resources	68499.7	76085.6	85416.7	13.3	11.1	12.3
Revenue	62331	70122.7	72105.2	10.9	12.5	2.8
From Foreign Grants	5153.6	5246.4	8883.3	106.2	1.8	69.3
Non-Budgetary Receipts, net	855.9	753.8	1282.6	-89.8	-11.9	70.2
Others #	164.5	9.5	-613.3	529.8	-94.2	-6,555.8
V.A.T.	-5.3	-46.8	171.1	-229.3	783.0	-465.6
Local Authority Account	-	-	3587.8	-	-	-
Deficit (-) Surplus (+)	-12662.8	-14295.4	-12993.1	0.7	12.9	-9.1
Sources of Financing	12662.8	14295.4	12993.1	0.7	12.9	-9.1
Internal Loans	4971.0	12085.7	9147.3	-39.9	143.1	-24.3
<i>a. Treasury Bills</i>	2460.0	5471.2	10834.2	39.1	122.4	98.0
<i>b. Development Bonds</i>	2,000.00	3,000.0	750.0	-68.8	-	-75.0
<i>c. National Savings Certificates</i>	900.0	216.9	250.0	125.0	-75.9	15.3
<i>d. Citizen Savings Certificates</i>	247.8	250	-	-18.2	0.9	-100.0
<i>e. Overdrafts⁺</i>	-753.0	2623	-2363.7	63.1	-448.3	-190.1
<i>f. Others[@]</i>	116.2	524.6	-323.2	-180.9	351.5	-161.6
Foreign Loans	7691.8	2209.7	3845.8	78.8	-71.3	74.0

[^] = 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, upto July 14

Table 21
Outstanding Domestic Debt of Nepal Government

(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	Mid-Feb.	Mid-Mar.	Mid-Apr.	Mid-May	Mid-Jun	Mid-Jul.	Jul 06 - Jul. 05
1	Treasury Bills	51383.1	51383.1	51383.1	52768.1	52568.1	52568.1	54518.0	57141.1	57141.1	60103.6	60103.5	61253.6	62970.3	11587.2
	a. Banking Sector	50425.4	50575.4	50420.4	51725.4	51585.4	51722.9	53510.0	56133.1	56033.1	58718.4	58665.9	59727.9	60455.1	10029.7
	<i>i. Nepal Rastra Bank</i>	10923.8	9143.8	9333.8	13523.8	12953.8	12763.8	12563.8	15726.8	15786.8	17754.3	17754.3	14164.3	9209.3	-1714.5
	<i>ii. Commercial Banks</i>	39501.6	41431.6	41086.6	38201.6	38631.6	38959.1	40946.2	40406.3	40246.3	40964.1	40911.6	45563.6	51245.8	11744.2
	b. Non-Banking Sector	957.7	807.7	962.7	1042.7	982.7	845.2	1008.0	1008.0	1108.0	1385.2	1437.6	1525.7	2515.2	1557.5
	<i>(of which ADB/N)</i>	200.0	50.0	200.0	150.0	150.0	-	97.8	97.8	197.8	250.0	250.0	250.0	400.0	200.0
2	Development Bonds	19999.2	19999.2	19999.2	19999.2	19999.2	19999.2	19999.2	19999.2	20720.6	19499.2	17959.2	17959.2	17959.2	-2040.0
	a. Banking Sector	9623.2	9623.2	9623.2	9623.2	9623.2	9623.2	9623.2	9623.2	10233.2	9082.2	7789.7	7789.7	7789.6	-1833.6
	<i>i. Nepal Rastra Bank *</i>	1518.7	1518.7	1518.7	1518.7	1518.7	1518.7	1518.7	1518.7	1518.7	1518.7	1518.7	1518.7	1518.6	(0.10)
	<i>ii. Commercial Banks</i>	8104.5	8104.5	8104.5	8104.5	8104.5	8104.5	8104.5	8104.5	8714.5	7563.5	6271.0	6271.0	6271.0	-1833.5
	b. Non-Banking Sector **	10376.0	10376.0	10376.0	10376.0	10376.0	10376.0	10376.0	10376.0	10487.4	10417.0	10169.5	10169.5	10169.6	-206.4
3	National Savings Certificates	6576.8	6576.8	6576.8	6576.8	6576.8	6576.8	5576.8	5189.3	5189.3	4089.3	4089.3	3876.8	3876.8	-2700.0
	a. Banking Sector	231.4	231.4	234.0	234.0	234.5	234.5	234.5	234.5	235.0	233.5	254.4	254.4	254.4	23.0
	<i>i. Nepal Rastra Bank</i>	231.4	231.4	234.0	234.0	234.5	234.5	234.5	234.5	235.0	233.5	254.4	254.4	254.4	23.0
	<i>ii. Commercial Banks</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	b. Non-Banking Sector +	6345.4	6345.4	6342.8	6342.8	6342.3	6342.3	5342.3	4954.8	4954.3	3855.8	3834.9	3622.4	3622.4	-2723.0
4	Citizen Saving Bonds	1428.9	1428.9	1428.9	1428.9	1428.9	1428.9	1428.9	1428.9	1678.9	1678.9	1678.9	1678.9	1678.9	250.0
	a. Banking Sector	49.6	49.6	50.1	50.1	50.2	50.2	50.2	50.2	50.2	54.8	54.8	55.3	55.3	5.7
	<i>i. Nepal Rastra Bank</i>	49.6	49.6	50.1	50.1	50.2	50.2	50.2	50.2	50.2	54.8	54.8	55.3	55.3	5.7
	b. Non-Banking Sector	1379.3	1379.3	1378.8	1378.8	1378.7	1378.7	1378.7	1378.7	1628.7	1624.1	1624.1	1623.6	1623.6	244.3
5	Special Bonds	3454.0	3454.0	3454.0	3454.0	3454.0	3454.0	3465.6	3465.6	3465.6	3465.6	3465.6	3469.8	3469.8	15.8
	a. Banking Sector	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	-
	<i>i. Nepal Rastra Bank ++</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<i>ii. Commercial Banks</i>	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	-
	b. Non-Banking Sector	2509.4	2509.4	2509.4	2509.4	2509.4	2509.4	2521.0	2521.0	2521.0	2521.0	2521.0	2525.2	2525.2	15.8
	<i>(Of which duty drawback)</i>	1035.9	1035.9	1035.9	1035.9	1035.9	1035.9	1047.5	1047.5	1047.5	1047.5	1047.5	1051.7	1051.7	15.8
6	Short Term Loan & Advances	2623.0	-1006.3	-2049.4	317.5	1425.6	347.9	-3207.9	-5630.7	-5522.6	-7017.7	-4802.8	-3392.4	3500.2\$	877.2
	Nepal Rastra Bank	2623.0	-1006.3	-2049.4	317.5	1425.6	347.9	-3207.9	-5630.7	-5522.6	-7017.7	-4802.8	-3392.4	3500.2\$	877.2
7	Grand Total	85465.0	81835.7	80792.6	84544.5	85452.6	84374.9	81780.6	81593.4	82672.9	81818.9	82493.7	84845.9	93455.1	7990.1
	a. Banking Sector	63897.2	60417.9	59222.9	62894.8	63863.5	62923.3	61154.6	61354.9	61973.5	62015.8	62906.6	65379.5	72999.3	9102.1
	<i>i. Nepal Rastra Bank</i>	15346.5	9937.2	9087.2	15644.1	16182.8	14915.1	11159.3	11899.5	12068.1	12543.6	14779.4	12600.3	14537.8	-808.7
	<i>ii. Commercial Banks</i>	48550.7	50480.7	50135.7	47250.7	47680.7	48008.2	49995.3	49455.4	49905.4	49472.2	48127.2	52779.2	58461.4	9910.7
	b. Non-Banking Sector	21567.8	21417.8	21569.7	21649.7	21589.1	21451.6	20626.0	20238.5	20699.4	19803.1	19587.1	19466.4	20455.8	-112.0
	<i>(of which ADB/N)</i>	200.0	50.0	200.0	150.0	150.0	-	97.8	97.8	197.8	250.0	250.0	250.0	400.0	200.0

* Includes NRB CSI Project Rs 8.9 million.

** Includes Rs. 1923.2 million of various funds of NRB.

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

++ IMF Promissory Note is not included.

\$ A though the tentative statement shows that the government has cash balance with NRB in Government Budgetary Operation (in Table 21), government transactions carried out by commercial banks yet to be settled therefore it is assumed that there will be the overdraft once such transactions done by commercial banks are settled.

Source : Nepal Rastra Bank.

Table 22
Direction of Foreign Trade*
(First Ten Months)

(Rs. in Million)

	2002/03	2003/04	2004/05 ^(R)	2005/06 ^(P)	Percent Change		
					2003/04	2004/05	2005/06
Total Exports (f.o.b.)	42124.4	45139.5	48195.4	50410.8	7.2	6.8	4.6
To India	22365.4	25483.0	31574.9	34337.2	13.9	23.9	8.7
To Other Countries	19759.0	19656.5	16620.5	16073.6	-0.5	-15.4	-3.3
Total Imports (c.l.f.)	102530.7	110507.9	119999.2	140388.3	7.8	8.6	17.0
From India	57875.8	62533.3	70769.7	86839.3	8.0	13.2	22.7
From Other Countries	44654.9	47974.6	49229.5	53549.0	7.4	2.6	8.8
Trade Balance	-60406.3	-65368.4	-71803.8	-89977.5	8.2	9.8	25.3
With India	-35510.4	-37050.3	-39194.8	-52502.1	4.3	5.8	34.0
With Other Countries	-24895.9	-28318.1	-32609.0	-37475.4	13.7	15.2	14.9
Total Trade	144655.1	155647.4	168194.6	190799.1	7.6	8.1	13.4
With India	80241.2	88016.3	102344.6	121176.5	9.7	16.3	18.4
With Other Countries	64413.9	67631.1	65850.0	69622.6	5.0	-2.6	5.7

1. Export / Import Ratio	41.1	40.8	40.2	35.9
India	38.6	40.8	44.6	39.5
Other Countries	44.2	41.0	33.8	30.0
2. Share in Total Export				
India	53.1	56.5	65.5	68.1
Other Countries	46.9	43.5	34.5	31.9
3. Share in Total Import				
India	56.4	56.6	59.0	61.9
Other Countries	43.6	43.4	41.0	38.1
4. Share in Trade Balance				
India	58.8	56.7	54.6	58.4
Other Countries	41.2	43.3	45.4	41.6
5. Share in Total Trade				
India	55.5	56.5	60.8	63.5
Other Countries	44.5	43.5	39.2	36.5
6. Share of Exports and Import in Total Trade				
India	29.1	29.0	28.7	26.4
Other Countries	70.9	71.0	71.3	73.6

R = Revised

P = Provisional

* = Customs based data

Table 23
Balance of Payments Situation

(Rs in Million)

Particulars	2003/04		2004/05		2005/06	% Change	
	10 months	Annual	10 months	Annual	10 months	During 10 months	
						2004/05	2005/06
A. Current Account	14,495.1	14,598.0	12,478.8	11,544.6	12,901.7	-13.9	3.4
Goods: Exports f.o.b.	46,268.8	55,228.3	49,197.7	59,956.1	51,559.6	6.3	4.8
Oil	-	-	-	-	-	-	-
Other	46,268.8	55,228.3	49,197.7	59,956.1	51,559.6	6.3	4.8
Goods: Imports f.o.b.	-107,626.5	-132,909.9	-117,072.0	-145,718.2	-138,632.2	8.8	18.4
Oil	-15,994.4	-20,167.3	-21,300.6	-26,653.6	-26,100.7	33.2	22.5
Other	-91,632.1	-112,742.6	-95,771.4	-119,064.6	-112,531.5	4.5	17.5
<i>Balance on Goods</i>	-61,357.7	-77,681.6	-67,874.3	-85,762.1	-87,072.6	10.6	28.3
<i>Services: Net</i>	8,736.1	9,074.9	232.5	-2,034.2	-3,771.0	-97.3	-1,721.9
Services: credit	27,186.8	34,315.9	21,870.8	26,001.9	22,495.1	-19.6	2.9
Travel	14,539.3	18,147.4	9,738.5	10,463.8	8,009.3	-33.0	-17.8
Government n.I.e.	5,449.3	7,143.9	5,493.0	6,804.9	6,396.3	0.8	16.4
Other	7,198.2	9,024.6	6,639.3	8,733.2	8,089.5	-7.8	21.8
Services: debit	-18,450.7	-25,241.0	-21,638.3	-28,036.1	-26,266.1	17.3	21.4
Transportation	-7,758.1	-9,382.1	-8,686.0	-10,602.2	-10,257.1	12.0	18.1
Travel	-6,124.0	-10,021.5	-7,199.8	-9,691.9	-9,660.4	17.6	34.2
Other	-4,568.6	-5,837.4	-5,752.5	-7,742.0	-6,348.6	25.9	10.4
<i>Balance on Goods and Services</i>	-52,621.6	-68,606.7	-67,641.8	-87,796.3	-90,843.6	28.5	34.3
<i>Income: Net</i>	-1,760.9	-1,683.9	-391.4	1,636.5	2,839.9	-77.8	-825.6
Income: credit	2,659.9	3,841.5	4,605.4	7,751.6	8,173.2	73.1	77.5
Income: debit	-4,420.8	-5,525.4	-4,996.8	-6,115.1	-5,333.3	13.0	6.7
<i>Balance on Goods, Services and Income</i>	-54,382.5	-70,290.6	-68,033.2	-86,159.8	-88,003.7	25.1	29.4
<i>Transfers: Net</i>	68,877.6	84,888.6	80,512.0	97,704.4	100,905.4	16.9	25.3
Current transfers: credit	72,121.2	89,161.8	83,312.3	101,310.1	104,686.0	15.5	25.7
Grants	15,020.2	19,557.8	18,003.5	21,071.9	16,118.5	19.9	-10.5
Workers' remittances	49,145.2	58,587.6	53,011.0	65,541.2	77,874.2	7.9	46.9
Pensions	6,105.5	7,906.2	10,489.9	12,502.2	9,475.4	71.8	-9.7
Other	1,850.3	3,110.2	1,807.9	2,194.8	1,217.90	-2.3	-32.6
Current transfers: debit	-3,243.6	-4,273.2	-2,800.3	-3,605.7	-3,780.6	-13.7	35.0
B. Capital Account (Capital Transfer)	1,222.4	1,452.2	866.5	1,573.6	2,690.0	-29.1	210.4
Total, Groups A plus B	15,177.5	16,050.2	13,345.3	13,118.2	15,591.7	-15.1	16.8
C. Financial Account (Excluding Group E)	-20,515.2	-21,540.1	-21,063.4	-25,536.9	-952.5	2.7	-95.5
Direct investment in Nepal	-	-	26.4	136.0	-434.7	-	-1,746.6
Portfolio Investment	-	-	-	-	-	-	-
Other investment: assets	-31,338.4	-32,591.2	-21,821.5	-21,863.2	-12,665.7	-30.4	-42.0
Trade credits	-5,695.3	-2,247.6	-2,111.3	-323.8	-2,633.9	-62.9	24.8
Other	-25,643.1	-30,343.6	-19,710.2	-21,539.4	-10,031.8	-23.1	-49.1
Other investment: liabilities	10,823.2	11,051.1	731.7	-3,809.7	12,147.9	-93.2	1,560.2
Trade credits	2,082.9	3,629.8	-1,793.9	-4,489.0	10,430.3	-186.1	-681.4
Loans	4,553.7	3,325.2	76.5	744.4	-397.8	-98.3	-620.0
General Government	4,598.0	3,479.1	564.1	1,300.4	-900.8	-87.7	-259.7
Drawings	8,482.8	9,244.7	5,591.9	7,253.7	4,618.5	-34.1	-17.4
Repayments	-3,884.8	-5,765.6	-5,027.8	-5,953.3	-5,519.3	29.4	9.8
Other sectors	-44.3	-153.9	-487.6	-556.0	503.0	1,000.7	-203.2
Currency and deposits	4,186.6	4,096.1	2,449.1	-65.1	2,115.4	-41.5	-13.6
Nepal Rastra Bank	-52.3	-77.4	46.1	46.2	-122.3	-188.1	-365.3
Deposit money banks	4,238.9	4,173.5	2,403.0	-111.3	2,237.7	-43.3	-6.9
Other liabilities	-	-	-	-	-	-	-
Total, Group A through C	-4,797.7	-5,489.9	-7,718.1	-12,418.7	14,639.2	60.9	-289.7
D. Miscellaneous Items, Net	22,654.9	25,591.2	15,914.3	18,095.8	7,970.0	-29.8	-49.9
Total, Group A through D	17,857.2	20,101.3	8,196.2	5,677.1	22,609.2	-54.1	175.8
E. Reserves and Related Items	-17,857.2	-20,101.3	-8,196.2	825.7	-22,609.2	-54.1	175.8
Reserve assets	-18,413.8	-20,658.0	-8,981.3	40.5	-22,609.2	-51.2	151.7
Nepal Rastra Bank	-16,658.8	-19,507.8	-5,099.8	3,251.4	-12,805.3	-69.4	151.1
Deposit money banks	-1,755.0	-1,150.2	-3,881.5	-3,210.9	-9,803.9	121.2	152.6
Use of Fund Credit and Loans	556.6	556.7	785.1	785.2	-	41.1	-100.0
Changes in reserve, net (- increase)	-13,670.6	-16,005.2	-5,747.1	-5,742.2	-20,493.8	-58.0	256.6

Table 24
Gross Foreign Exchange Holding of the Banking Sector
(First Ten Months)

(Rs in million)

	Mid-Jul. 2003	Mid-May 2004	Mid-Jul. 2004	Mid-May 2005	Mid-Jul. 2005	Mid-May 2006	Percent Change	
							Mid-Jul to 2005	Mid-May 2006
Nepal Rastra Bank	86966.1	102230.5	107915.9	107279.7	104423.7	121525.0	-0.6	16.4
Convertible	76752.0	88385.3	96235.9	101225.4	100823.6	114795.9	5.2	13.9
Inconvertible	10214.1	13845.2	11680.0	6054.3	3600.1	6729.1	-48.2	86.9
Commercial Bank	21263.3	22888.5	22289.2	26193.3	25472.7	35109.9	17.5	37.8
Convertible	20249.2	20964.5	20734.8	24966.6	23154.9	32623.8	20.4	40.9
Inconvertible	1014.1	1924	1554.4	1226.7	2317.8	2486.1	-21.1	7.3
Total Reserve	108229.4	125119.0	130205.1	133473.0	129896.4	156634.9	2.5	20.6
Convertible	97001.2	109349.8	116970.7	126192.0	123978.5	147419.7	7.9	18.9
Share in total (in percent)	89.6	87.4	89.8	94.5	95.4	94.1		
Inconvertible	11228.2	15769.2	13234.4	7281.0	5917.9	9215.2	-45.0	55.7
Share in total (in percent)	10.4	12.6	10.2	5.5	4.6	5.9		
Import Capacity (Equivalent Months)								
Merchandise	10.4	11.3	11.5	11.1	10.4	11.2	-	-
Merchandise and Services	9.0	9.7	9.7	9.4	8.8	9.4	-	-
1.Gross Foreign Exchange Reserve	108229.4	125119.0	130205.1	133473.0	129896.4	156634.9	2.5	20.6
2.Gold,SDR,IMF Gold Tranche	1076.9	1130.6	1160.9	1033.9	1020.5	1055.5	-10.9	3.4
3.Gross Foreign Assets(1+2)	109306.3	126249.6	131366.0	134506.9	130916.9	157690.4	2.4	20.5
4.Foreign Liabilities	17899.3	22622.0	22561.4	25722.9	23174.8	25370.7	14.0	9.5
5.Net Foreign Assets(3-4)	91407.0	103627.6	108804.6	108784.0	107742.1	132319.7	0.0	22.8
6.Change in NFA (before adj. ex. val.)*	0	-12220.6	-17397.6	20.6	1062.5	-24577.6	-	-
7.Exchange Valuation (- loss)	0	-1440	1392.5	-5767.7	-6804.8	4084.0	-	-
8.Change in NFA (- increase) (6+7)**	0	-13660.6	-16005.1	-5747.1	-5742.3	-20493.6	-	-
Period end buying rate (Rs/US\$)	74.75	73.14	74.14	70.11	70.35	72.19		

*= Change in NFA is derived by taking mid-july as base and minus (-) sign indicates increase..

** = After adjusting exchange valuation gain/loss

Table 25
Import from India Against US Dollar Payment

(Rs. in million)

Mid-Month	2003/04	2004/05	2005/06
August	728.7	726.1	980.1
September	980.1	1117.4	977.6
October	1114.2	1316.8	907.9
November	1019.2	1186.5	1103.2
December	1354.5	1205.8	1583.7
January	996.9	1394.9	1156.2
February	1503.6	1154.4	603.8
March	1717.9	1107.8	603.0
April	2060.5	1567.2	1398.6
May	1309.9	1830.8	916.4
June	1455.4	1825.2	1181.5
July	1016.0	1900.2	n.a.
Total	15256.9	16333.1	11411.9

Table 26
Indian Currency Purchase

(In million)

Mid-Month	2003/04		2004/05		2005/06	
	IC Purchase	US\$ Sale	IC Purchase	US\$ Sale	IC Purchase	US\$ Sale
August	461.85	10.00	1,847.36	40.00	2,611.31	60.00
September	-	-	-	-	2,191.90	50.00
October	453.35	10.00	-	-	2,652.09	50.00
November	906.18	20.00	-	-	1,810.73	40.00
December	228.08	5.00	1,340.73	30.00	2,290.13	50.00
January	228.16	5.00	437.30	10.00	1,348.15	40.00
February	2,265.55	50.00	2,183.23	50.00	2,213.55	50.00
March	2,263.11	50.00	2,624.23	60.00	3,106.10	70.00
April	904.81	20.00	436.25	10.00	3,124.50	70.00
May	1,325.62	30.00	3,052.16	70.00	452.95	10.00
June	-	-	2,177.63	50.00	2,742.23	60.00
July	452.58	10.00	1,306.88	30.00	2,304.98	50.00
Total	9,489.28	210.00	15,405.75	350.00	26,848.61	600.00