

**Monetary Policy
for
Fiscal Year 2007/08**

Delivered by Acting Governor Mr. Krishna Bahadur Manandhar
on July 23, 2007

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ACRONYMS

BCP	=	BASEL Core Principles
BOP	=	Balance of Payments
CAR	=	Capital Adequacy Ratio
CBS	=	Central Bureau of Statistics
CRR	=	Cash Reserve Ratio
FISIM	=	Financial Intermediation Services Indirectly Measured
GDP	=	Gross Domestic Product
GON	=	Government of Nepal
GVA	=	Gross Valued Added
IC	=	Indian Currency
INGOs	=	International Non-government Organizations
L/C	=	Letter of Credit
LMFF	=	Liquidity Monitoring and Forecasting Framework
M ₂	=	Broad Money
NBBL	=	Nepal Bangladesh Bank Limited
NBL	=	Nepal Bank Limited
NC	=	Nepali Currency
NEA	=	Nepal Electricity Authority
NEPSE	=	Nepal Stock Exchange
NFA	=	Net Foreign Assets
NGOs	=	Non-government Organizations
NOC	=	Nepal Oil Corporation
NPL	=	Non-Performing Loan
NRB	=	Nepal Rastra Bank
OMOC	=	Open Market Operations Committee
OMOs	=	Open Market Operations
RBB	=	Rastriya Banijya Bank
RSRF	=	Rural Self Reliance Fund
SLF	=	Standing Liquidity Facility
SSSS	=	Scripless Securities Settlement System
TT	=	Telegraph Transfer
WTO	=	World Trade Organization
y-o-y	=	Year-on-Year

Table of Contents

Background	1
Current Economic and Financial Situation	5
Monetary and Liquidity Situation	9
Monetary Policy Framework for 2007/08	10
Monetary Policy Stance	10
Economic, Monetary and Operating Target	11
Monetary Measures	13
Micro Finance Program	14
Financial Sector Reform Program	16
Foreign Exchange Sector Reform	19
Lastly	21
Appendix 1: Annual Progress Matrix of Measures Outlined in Monetary Policy of 2006/07	
Appendix 2: Projection of Monetary Survey	
Appendix 3: List of goods allowed to be imported from India against the US Dollar Payment	
Appendix 4: Total Cost of Financial Sector Reform Programme (Up to March 14, 2007)	
Statistical Tables	

Monetary Policy for 2007/08

Background

1. Following the provision in Nepal Rastra Bank (NRB) Act 2002, the NRB has formulated and implemented five annual monetary policies so far. The focus of the monetary policies has been to ensure price, external and financial sector stability so as to create the environment supportive for high and sustainable economic growth.
2. The bank has been formulating annual monetary policy to enhance its accountability and transparency by designing the various programs related to the above-mentioned objectives.
3. A review of the monetary policies of the last five years shows that consumer price based average annual inflation, which is the primary objective of the monetary policy, remained at 5.5 percent. Although the international oil price and the prices of the domestic food items increased, inflation was contained in the last five years on account of the pegged exchange rate regime with Indian currency, low budget deficit and liquidity management through open market operations (OMOs).
4. External sector also remained stable in the last five years. The year before the bank started announcing annual monetary policy, the balance of payments (BOP) was in deficit. However, the BOP remained at surplus of about Rs 12 billion on an average in the last five years. Although the performance of the exports of goods and services remained less than satisfactory, the inward remittances of the Nepalese workers working abroad contributed to the stability of the external sector.
5. Economic growth did not remain satisfactory in the last five years, however. Real gross domestic product (GDP) at factor cost grew by 3.3 percent on an average during that period. This five year's period also coincided with the Tenth Plan period. The Tenth Plan had targeted the average economic growth of 4.3 percent under normal condition and 6.2 percent under improved scenario during the plan period. The low economic growth was due to the low investment on account of internal conflict and political instability. A weak external demand of goods and services also contributed to lower economic growth.
6. The last five years was also the period of financial sector reform and restructuring. Various programs related to strengthening of the NRB, the restructuring of the Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) and enhancing the capacity of the whole financial sector were implemented during this period. Under the financial sector reform program, human resource development and institutional restructuring of this bank were also carried out to make the regulation and supervision system effective. In addition, the policy of gradually phasing out the non-core activities of the bank has been adopted.

2 Nepal Rastra Bank

7. To improve the financial situation of the two government owned banks, NBL and RBB, by restructuring them, the management of these banks was handed over to the foreign consultants. The cost incurred under financial sector reform amounted to Rs 2.44 billion for NBL including Rs 813.2 million for the consultants' fees and Rs 1.62 billion for the voluntary retirement scheme till mid-March 2007. Similarly, for the RBB, the total expenditure stood at Rs 2.69 billion including consultants' fee of Rs 428.7 million and voluntary retirement cost of Rs 2.27 billion. The cost for the mechanization in the NBL and RBB stood at Rs 141.3 million, and the cost of reengineering of the NRB was Rs 253.5 million. In this way, a total of Rs 5.53 billion was spent for financial sector reform till mid-March 2007.
8. After the foreign consultants took over the management, from 2003/04 to mid-April 2007, RBB and NBL earned net profit of Rs 4.93 billion and Rs 4 billion respectively. In this period, RBB and NBL recovered Rs 10.64 billion and Rs 8.03 billion of their non-performing loan (NPL) in cash respectively. As a result, NPL, which is taken as an indicator of the financial health of the commercial banks, declined from 30.4 percent in mid-July 2002 to 14.1 percent. The NPL ratios of NBL and RBB, though improving, are still high.
9. A number of measures aimed at improving the efficiency of the overall financial sector have been implemented. They included the revision of the prudential norms of international standard, strengthening of the Credit Information Centre, establishment of Debt Recovery Tribunal, and revision of the licensing policy for the bank and financial institutions, among others.
10. A number of banks and financial institutions licensed by the bank went up significantly during the last five years, from 151 in mid-July 2002 to 208 in mid-July 2007. Of the financial institutions, the number of development banks (excluding micro finance) went up from 10 to 38 and finance companies from 54 to 74 during the period.
11. The bank has taken the initiative of the private sector for opening the bank and the financial institutions positively. However, the bank is cautious on the potential risk to financial sector stability emanating from the increased number of financial institutions. To make the financial institutions capable of taking possible risks and competitive as Nepal has made commitment for the operation of the international wholesale financial service providers in Nepal after 2010, the bank has recently doubled the required paid up capital for establishing the commercial banks, development banks (excluding micro finance) and finance companies. The bank views that the provision of increased paid up capital without barring the entry will help maintain financial sector stability. It is believed that this provision will encourage the merger of banks and financial institutions, and ensure the consolidation of the financial sector through the market process.
12. In this context, the Government of Nepal (GON) has also taken a decision to seize the passport from willful defaulters and prohibit the issuance of new passport to them; bar the sale of their fixed/movable assets except for loan repayment; and restrict the withdrawal of both of their domestic and foreign deposits.

13. The above legal provisions, if successful in inculcating a feeling that everybody should pay bank loans and nobody can escape from loans repayment, will be helpful to maintain financial sector stability. The financial system has not been risk free yet on account of high ratio of NPL, the negative net worth of the overall banking sector and less than satisfactory level of loan repayment. Realizing these facts, the GON in its Budget Speech for 2007/08 has stated that actions against the wilful defaulters will continue. As it is impossible to foster the private sector development without healthy and effective development of financial sector, this bank is committed to the financial sector reform program. Nonetheless, the financial sector reform process is not the responsibility of a single entity only; it is, indeed, a national program and a continuous process as well. As the success or failure of the nation's financial sector hinges crucially on the success or failure of the present financial sector reform program, the bank solicits the cooperation from all the state organs for its successful conclusion.
14. The bank has removed the provision of maintaining average interest rate spread below 5 percent since 2002/03. In the context of the beginning of institutional reform programme of the government owned commercial banks, the provision of interest rate spread was phased out in order to let the market forces determine it competitively. However, the spread rate has not come down as expected despite the competition among the commercial banks.
15. Necessary reforms in the conduct and instruments of monetary policy were also initiated in the last five years. In the early years of making monetary policy public, the bank had adopted an accommodative stance to monetary policy without prejudice to the objective of price stability. In 2002/03, the bank rate was maintained at 5.5 percent while the refinance rate to sick industries was lowered by one percentage point to 2.0 percent. The refinance rate for rural development banks and export in local currency was maintained at 4.5 percent. In mid-July 2004, the sick industry refinance rate was reduced to 1.5 percent. However, the bank rate was increased initially to 6 percent and later in the mid-term review of Monetary Policy of 2005/06 to 6.25 percent to anchor inflationary expectation.
16. The refinance facility to sick industries has been continued over the last five years with a view to providing some relief to the sick industries affected by the internal conflict. In the Monetary Policy of 2002/03 and 2003/04, the bank had provisioned the sick industry refinance facility amounting to Rs. 1.5 billion. The facility was continued in 2004/05 with Rs. 1 billion, and in 2005/06 and 2006/ 2007 with Rs. 2 billion. The bank views that this provision has provided some relief to sick industries, although there was no full utilization of this facility as per the provision in the Monetary Policies.
17. Cash reserve ratio (CRR) was slashed by 1 percentage point and maintained at 8.0 percent in 2002/03. This ratio was further lowered to 6 percent in 2003/04 and to 5.0 percent in 2004/05 with a view to lowering intermediation cost of commercial banks, increasing their loanable funds and helping them to lower the interest rate spread. This ratio was kept at 5 percent level in 2006/07. This policy has increased the loanable fund of the commercial banks. However, the quality of loan has not yet

improved as expected on account of the lack of investment friendly environment. Hence, the management of monetary liquidity has still been a challenging task.

18. A significant reform in the conduct of OMO took place over the last five years. Since 2004/05, the bank has been conducting OMO on the basis of auction. Liquidity Monitoring and Forecasting Framework (LMFF), compiled from the weekly balance sheet of the bank, has been the basis of such operations. Since the same year, the bank has introduced outright sale auction, outright purchase auction, repo auction and reverse repo auction as instruments of OMO. The adoption of these market-based instruments has made the implementation process of monetary policy more easy, transparent and flexible.
19. As the priority sector-lending program was inconsistent with the liberal financial system and it interfered commercial banks in making the loan portfolio of their choice, the policy of gradually phasing it out within the five years was initiated in the Monetary Policy of 2002/03. The Monetary Policy of that year had set the priority sector-lending ratio at 2 percent for 2006/07 and planned to phase it out completely from 2007/08. This decision was taken based on the policy of expanding the rural credit by the expansion of development banks and micro-credit institutions. However, the deprived sector-lending program has been continued in view of the existing poverty situation of the nation.
20. Following the phasing out of priority sector lending program, the bank provided Rs. 253.4 million to the "Rural Self-reliance Fund" (RSRF) from its profit since the beginning of its formulation of annual monetary policy to avoid the dearth in micro-credit facility in rural areas. The Fund has been providing wholesale micro-credit to financial institutions involving in the micro-credit programs in rural areas. Further, the GON, as per the suggestion of the bank, also contributed Rs. 90 million to the Fund so far. In this way, the Fund has Rs. 343.4 million for providing wholesale micro-credit in rural areas.
21. To make regulatory work more effective along with the initiation of formulating annual monetary policy, the bank has taken the policy of withdrawing its member from the board of directors of the financial institutions under its supervision. In the period of mid-July 2002 to mid-July 2007, the bank has withdrawn its staff member from the board of directors of nine financial institutions viz. Nabil Bank Limited, Nepal Bangladesh Bank Limited, Bank of Kathmandu Limited, Agriculture Development Bank, Nepal Development Bank Limited, Nepal Industrial Development Corporation, NIDC Capital Markets, Nepal Housing Development Financial Company, and Eastern Rural Development Bank, Biratnagar.
22. Likewise, the bank has initiated a policy of transferring its share ownership of other financial institutions gradually to the private sector. From mid-July 2002 to mid-July 2007, the bank withdrew its share from five financial institutions viz. Nepal Industrial Development Corporation, Agriculture Development Bank, Eastern Rural Development Bank, Citizen Investment Trust, and Rastriya Beema Sansthan (partially). This policy of transferring its share of financial institutions to private

sector will be continued in the future. The bank believes that the regulatory and supervisory role of this bank is gradually becoming more effective from this policy.

23. The bank is of the view that even in the context of internal conflict and political instability, the steps undertaken in monetary and financial sector through annual monetary policy have been helpful in maintaining the overall macroeconomic stability in the last five years. Based on the experiences of the reform programs on monetary, fiscal and external sectors in the past years and by continuing the reform programs to address the emerging financial and economic problems, the bank has formulated its sixth annual Monetary Policy for 2007/08. Along with this background, the present Monetary Policy has been divided into six sections as current economic and financial situation; monetary and liquidity situation; monetary policy stance for 2007/08, and financial and external sector reform. The annual progress matrix of measures outlined in the Monetary Policy of 2006/07 is provided in Annex 1. The statistics, used for the formulation of this monetary policy, are included in the list of statistical tables.

Current Economic and Financial Situation

24. In the Monetary Policy and the government's Budget Speech of 2006/07, the economic growth of 5.0 percent was estimated for that year. The end of internal conflict, improvement in political situation and favourable monsoon were the key bases for that growth projection. As per the recent statistics released by Central Bureau of Statistics (CBS), the real GDP is estimated to have grown by 2.5 percent at producers' prices in 2006/07 compared to a growth of 2.8 percent in 2005/06. Monsoon did not remain favourable as expected in the review year. The production of paddy, which contributes 20 percent to total agricultural GDP, declined by 12.6 percent due to insufficient rainfall, resulting in a fall in food grain production by 4.3 percent in 2006/07. This pushed down the growth of agriculture production to 0.7 percent in the review year, compared to a growth of 1.1 percent in the previous year.
25. The secondary sector grew by 2.2 percent in 2006/07 compared to a growth of 4.2 percent in 2005/06 on account of unsatisfactory performance of manufacturing and construction sectors. The services sector grew by 4.1 percent in 2006/07 compared to a growth of 4.7 percent in the previous year. Among the services sectors, the wholesale and retail trade sector declined by 2.6 percent whereas transport, communications and storage sector witnessed some improvements in the review year. Likewise, some improvements were also observed in the performance of real estate and business services in the review year.
26. Average consumer inflation was estimated at 6.0 percent for 2006/07. Non food inflation decelerated on account of elapse of the base effect of price hike of petroleum products and transport fares in the latter part of 2006/07. However, the price of agriculture items could not remain as expected, resulting in some pressure on the overall consumer prices. Hence, the average annual inflation has been revised at 6.4 percent for 2006/07. Such inflation was 8.0 percent in 2005/06.

27. The year-on-year (y-o-y) core inflation remained at 5.0 percent in the first eleven months of 2006/07, whereas the headline inflation remained at 4.5 percent. The core and the headline inflation were 5.3 percent and 9.1 percent respectively in the corresponding period of the previous year. The core inflation remained slightly higher than the headline inflation due mainly to the higher inflationary expectation.
28. Total expenditure of the GON, on a cash basis, grew by 22.4 percent in 2006/07, compared to a growth of 12.5 percent in the same period of 2005/06. The growth rate of current expenditures remained at 14.3 percent in the review year compared to a growth of 9.4 percent in the previous year. The rise in security expenses contributed to the increased growth of current expenditures in 2006/07.
29. The capital expenditure of the government amounted to Rs. 31.71 billion in 2006/07. However, it could not grow in line with budget estimate due mainly to the absence of representatives in local bodies, and the frequent strikes and blockades in the Terai region.
30. Revenue mobilization of the government grew by 20.6 percent in 2006/07 compared to a growth of 3.1 percent in 2005/06. The remarkably higher growth in revenue mobilization in the review year relative to that in the previous year was on account of increase in the rate of customs duty in some commodities and expanded based of excise duty. The small revenue base of the previous year also led to the higher growth of revenue mobilization in 2006/07. Similarly, the rate of growth of foreign cash grant also remained high in 2006/07.
31. Fiscal deficit of the government remained under control because of higher government revenue and foreign cash grant. In the most of the months of 2006/07, the GON maintained cash balance with the NRB, which eased the monetary liquidity management.
32. In 2006/07, net domestic borrowing of the government stood at Rs. 8.28 billion (excluding cash balance with/overdraft from the NRB). The GON resorted to domestic borrowing of Rs. 17.89 billion and repaid Rs. 9.61 billion in 2006/07. The ratio of net domestic borrowing to GDP remained at 1.2 percent. In 2005/06, net domestic borrowing of Rs. 4.47 billion was mobilized with gross borrowing of Rs. 11.83 billion and repayment of Rs. 7.36 billion.
33. On the external front, a BOP surplus of Rs. 6.87 billion was recorded in the first 10 months of 2006/07 compared to the BOP surplus of Rs. 20.50 billion in the same period of the previous year. Only marginal growth in merchandise export coupled with decelerated growth of private sector's remittance contributed to the remarkably lower level of BOP surplus compared to the previous year.
34. Total export of goods increased marginally by 0.8 percent in the first 11 months of 2006/07 compared to an increase of 2.9 percent in the same period of 2005/06. Export to India grew by 2.1 percent while export to other countries continued to decline. The overall export growth remained marginal on account of the decline of export of woollen carpet, readymade garment, polyester yarn, and plastic goods.

35. Total imports of goods increased by 11.0 percent in the first 11 months of 2006/07. In the same period of 2005/06, such imports had increased by 16.6 percent. The review period also observed lower growth in imports from India compared to the previous year. Slackness in industrial and exports activities resulted in slowing the growth of total imports.
36. Private sector remittance inflow, which has become a major source of foreign currency earnings in recent years, increased by 3.9 percent in the first 11 months of 2006/07 to Rs. 91.10 billion. In the corresponding period of the previous year, workers' remittance had gone up by 48.4 percent. The strikingly lower growth in remittance inflow was on account of slowdown in the growth of Nepalese workers going abroad for employment relative to the past years and low wage rate for Nepalese workers abroad.
37. In the first ten months of 2006/07, total foreign currency reserves of the country remained at Rs. 165 billion. This level of reserves is sufficient to cover the merchandise import of 10.7 months, and goods and services imports of 8.8 months. Total foreign currency reserves in mid-May 2007 remained at the level of mid-July 2006 on account of the appreciation of Nepalese currency.
38. In comparison to the imports from India, growth of exports to India has been declining recently. As a result, the export-import ratio with India has declined from 43.7 percent in 2001/02 to 36.0 percent in 2006/07. The Indian currency (IC) reserves have been under pressure due to the declining trend of exports to India on the one hand and the payment for import of petroleum products in IC on the other. Import of petroleum products occupies a share of 18.3 percent in total imports and 29.0 percent in imports from India.
39. For managing the IC reserve, the bank has made provision to import 121 industrial machinery and raw materials against US dollar payment from India. Under this provision, in the first 11 months of 2006/07, out of total imports from India, the import against the US dollar payment accounted for 15.2 percent compared to 12.0 percent in the same period of 2005/06. To finance the increasing trade deficit with India, the bank purchased IC by selling the US dollar 920 million (about Rs. 63.88 billion). In 2005/06, the US dollar 600 million was sold to purchase IC. In 2006/07, the bank made a net purchase of US dollar 915.8 million from commercial banks, while it sold US dollar 920 million to purchase IC.
40. Between July 15, 2006 and July 15, 2007, the Nepalese rupee appreciated by 14.3 percent against the US dollar. The fixed exchange rate regime of Nepalese rupee with Indian rupee and the rise in the value of Indian rupee due to the significant amount of capital inflow into India contributed to the nominal appreciation of Nepalese rupee against the US dollar. As stated above, currently, Indian economy is in the state of overheating. Besides, India has also been successful in attracting high level of foreign capital inflow. Both of these conditions do not exist in Nepal. Hence, the emergence of the state of asymmetric shock between Nepalese and Indian economy has been a matter of concern in the context of pegged exchange rate system.

41. The nominal appreciation of Nepalese rupee has affected exports to third countries (which constitute 31.2 percent of total exports) to some extent. Since the raw materials of almost all exportable commodities are imported against the payment of the US dollar, exporters to third countries have not been affected to the extent of nominal appreciation of Nepalese rupee vis-à-vis the US dollar. The cost of production of exportable goods declines to the extent of import contents in it on account of the appreciation of the Nepalese rupee. However, in terms of export price in local currency there is a loss to the exporter to the extent of the currency appreciation. It would be an important step in support of a long-term development of Nepalese export if the difference between these two could be bridged by means of increased productivity through the improvement in infrastructure and structural reforms.
42. The export to India is 69.0 percent in total exports of Nepal. The slowdown observed in the export to India has not been due to the appreciation of Nepalese rupee against the US dollar. However, remittance income of Nepalese workers' working abroad has been affected by the currency appreciation.
43. Currency appreciation has helped contain inflation. However, the price of consumer goods has not come down to the extent of the currency appreciation. Nepal Oil Corporation (NOC) (because of appreciation of IC) and Nepal Electricity Authority (NEA) (to the extent of purchasing electricity in the US dollar) have been benefited from the currency appreciation.
44. In the context of low economic growth, currency appreciation has created a psychologically uncomfortable situation. Addressing the currency appreciation in the present context of political transition and disturbance in oil supply may not be helpful in maintaining macroeconomic stability.
45. The share market has expanded in 2006/07. The NEPSE (Nepal Stock Exchange) index increased by 76.8 percent in 2006/07 to 684.0 compared to an increase of 35.0 percent in 2005/06. The market capitalization (Rs. 186 billion) to GDP ratio went up to 25.9 percent in 2006/07 from 15.0 percent in 2005/06. Improvement in the health of financial institutions, expansion in monetary liquidity, low interest rate and lack of alternative investment opportunity were the factors responsible for the expansion of share market. An excessive increase in share price, not supported by overall economic activities, can hinder the share market in the future. If the share price takes the form of bubble and bursts, adverse consequences will emerge in the economy. The bank has taken a cautious note of the rise in asset price, besides the prices of goods and services.
46. Inter bank transactions, an important money market activity, amounted to Rs. 170 billion in 2006/07 compared to Rs. 176 billion in the previous year. Although inter-bank transactions remained at a lower level compared to that of the previous year, the use of standing liquidity facility (SLF) by commercial banks from the NRB increased. For example, commercial banks availed SLF amounting to Rs. 46.98 billion in 2006/07 compared to Rs. 9.88 billion in 2005/06. Such an increase in the use of SLF by commercial banks despite excess monetary liquidity situation in

financial market is a matter of concern. The NRB will adopt the monetary measures to arrest this trend.

Monetary and Liquidity Situation

47. The broad money (M_2) was estimated to grow by 16.1 percent in the Monetary Policy of 2006/07. Expected economic growth rate of 5.0 percent, income elasticity of M_2 at 1.5, average inflation of 6.0 percent and an increase in money demand due to inflow of private remittances from abroad were the bases of the estimation.
48. In view of y-o-y growth of M_2 by 14.6 percent in the first ten months of 2006/07, the growth of M_2 for 2006/07 has been revised at 15.0 percent. The M_2 had increased by 15.6 percent in 2005/06.
49. Of the sources of M_2 , net foreign assets (NFA) of the banking sector (adjusting exchange valuation gain/loss) is estimated to grow by Rs 7 billion compared to the initial projection of Rs 16 billion in the Monetary Policy of 2006/07. The NFA had increased by Rs 25.70 billion in 2005/06. The slowdown in the growth of merchandise exports, deceleration in the growth of private remittance from abroad and the increase in payment of NOC to the Indian Oil Corporation were the major reasons for the deceleration in NFA in 2006/07 compared to that of the previous year.
50. Compared to the initial projection of 15.8 percent, domestic credit of the banking sector is estimated to grow by 16.6 percent in 2006/07. The growth of private sector credit is revised downward to 17.5 percent from the initial projection of 18.0 percent. Net claims on the GON are estimated to remain within the initial projection. However, the expansion of bank credit to the financial and the non-financial government corporations contributed to a higher growth of domestic credit than the initial projection.
51. Composition of domestic credit of the banking sector has registered some changes in 2006/07. The share of net claims on the GON in domestic credit decreased to 21.2 percent in 2006/07 from 22.0 percent in the previous year. The share of bank credit to the private sector has, however, increased to 76.1 percent of domestic credit in 2006/07 from 75.5 percent in the previous year. This can be taken as a positive signal in terms of utilization of bank credit.
52. From the perspective of components of M_2 and liquidity, the narrow money is estimated to grow by 12.9 percent in 2006/07 compared to a growth of 14.0 percent in 2005/06. Time deposit with the commercial banks, another component of M_2 , is estimated to grow by 16.0 percent in 2006/07 compared to a growth of 16.4 percent in the previous year. The deceleration in time deposit was due to low economic growth, low interest rates and slow down in remittance inflows.
53. In 2006/07, the bank absorbed a total liquidity of Rs 32.74 billion from the commercial banks. Of this, Rs 18.40 billion was mopped up through sale auction and Rs 14.34 billion through reverse repo auction. In 2005/06, the bank had absorbed a total of Rs 20.01 billion from the commercial banks, Rs 13.51 billion through sale auction and Rs 6.5 billion through reverse repo auction.

Monetary Policy Framework for 2007/08

54. The monetary policy framework for 2007/08 follows the forward looking approach as it encompasses monetary stance, economic, monetary and operating targets and measures on the basis of economic, financial and monetary outlook and evolving issues. As a supplementary to the monetary policy, annual programs relating to the financial and the external sector reform have also been made public by incorporating them in the monetary policy statement. The Monetary Policy has been formulated by making it consistent with the Budget of the government for 2007/08.

Monetary Policy Stance

55. An analysis of likely situation of economic and intermediate targets of monetary policy has revealed some matters of concern in these areas. As mentioned above, economic growth has not remained as expected in 2006/07. A high growth cannot be expected in 2007/08 as well. The Budget of the government for 2007/08 has allocated Rs. 5.82 billion for agriculture and Rs. 3.99 billion for irrigation. Investment in agriculture has not been sufficient to reduce the dependency on weather. The situation is such that a good agricultural harvest is contingent upon favourable weather condition.
56. On the non-agriculture front, capital expenditure of the GON, favourable investment climate for private sector and external demand for Nepalese goods and services play the important role. Capital expenditure of the government cannot be expected to increase much on account of peace and security related issue and the election of constituent assembly slated for November 2007. The conducive investment climate for the private sector has not yet emerged as the country is passing through the political transition and frequent strikes in industrial sectors, most importantly in Terai region. External demand for Nepalese goods and services has been weak owing to the high cost of production and low quality, among others.
57. Without improvement of these determinants of growth, Nepal cannot hope to benefit from the higher growth of neighbouring countries, China and India, and higher global growth. If the past experience is any guide, monetary and liquidity easing alone can not guarantee a higher economic growth.
58. Inflation is still a matter of concern for monetary policy although price situation has improved in 2006/07 compared to 2005/06. Monetary policy has to consider the possible pressure on general prices on account of likely oil crisis and potential increase in unproductive expenses in the constituent assembly election. As it is indicated in the Budget Speech of 2007/08, the monetary policy should address the possible pressure on the general level of prices arising from the relatively bigger size of the Budget and its implementation. Thus, the objective of monetary policy, including exchange rate policy, is geared towards the price stability.
59. External sector stability has also emerged as a matter of concern for the monetary policy. Merchandise exports have not been satisfactory as mentioned above. Inflow of workers' remittance has also decelerated. In addition, the bank had to sell US

dollar of 920 million to purchase Indian currency compared to the purchase of US dollar 915.8 million from the commercial banks. Continuation of this trend will lower the foreign exchange reserve and will pose risk to external sector stability. The bank has taken it as an additional matter of concern. Hence, the bank has to be cautious enough to maintain the external sector stability by consolidating the international trade and balance of payments as mentioned in the Budget for 2007/08. To attain this objective, monetary policy should concentrate on credit quality and management of liquidity and interest rate.

60. With the objective of financial sector stability, financial sector reform program, which includes the strengthening of regulatory and supervisory capacity of this bank, has been continued. While the financial situation of the government owned NBL and RBB have been gradually improving, the financial situation of some private commercial banks and development banks has been also a matter of concern.
61. In 2006/07, this bank had to intervene and take over, for a brief period of time, the management of the Nepal Bangladesh Bank Limited (NBBL). To avert the financial crisis of that bank, credit of Rs. 2.47 billion immediately and Rs. 3.12 billion for a whole year under SLF against the collateral of treasury bills and development bond of the GON was provided to that bank. In addition, this bank as the lender of last resort provided an exceptional refinancing of Rs. 1.27 billion against the good loans of that bank. Such an intervention and monetary accommodation would create moral hazard problem. To avoid moral hazard like problem, this bank will not provide any monetary accommodation to any bank and financial institution. However, monetary accommodation will be granted only to address the problem of systemic risk, emanating from the failure of a particular bank and financial institution.
62. An analysis of monetary outlook shows that excess liquidity will continue to prevail. Short-term interest rates remained low even after the cumulative absorption of Rs. 32.74 billion excess liquidity in 2006/07. On the other hand, growth of consumer credit has been higher than the growth of credit to the productive sector. An expansion of bank credit towards real estate and stock market has resulted in a rise in asset price substantially. High level of excess monetary liquidity can pose a risk to both domestic (i.e. the price) and external sector stability. In addition, monetary accommodation is warranted to address the risk to financial sector stability emanating from less than expected improvement in loan quality of banks.
63. In the existing situation of Nepal, economic growth depends mostly on the above-mentioned non-economic factors rather than on monetary factor. In the context of high liquidity and risk to inflation outlook, the stance of the Monetary Policy for 2007/08 is focused on liquidity management and maintenance of macroeconomic stability as before.

Economic, Monetary and Operating Target

64. The primary objective of monetary policy for 2007/08 is to maintain price stability. Any pressure from money supply and aggregate demand on inflation will be

avoided. The average inflation is estimated to be 5.5 percent in 2007/08 compared to 6.4 percent in 2006/07; this is based on the assumption of prices of petroleum products remaining constant and no disruption in aggregate supply situation.

65. A surplus in BOP will be taken as an indicator of external sector stability. Monetary Policy will be implemented with a view to maintaining BOP surplus of Rs. 8 billion in 2007/08. The BOP surplus has been estimated to be Rs. 7 billion in 2006/07. Such a level of BOP surplus will be sufficient to import goods and services necessary for the development of the country. In addition, that level of BOP surplus will help maintain exchange rate stability as well.
66. The Budget for 2007/08 has set the target of economic growth at 5.0 percent. The targeted economic growth is possible if the growth of non-agriculture sector remains moderate and monsoon becomes favourable. However, this year also, rainfall has not remained as expected at the peak time of cultivation of staple crop, paddy. In this context, the bank views that achieving economic growth rate even up to 4.5 percent will remain a daunting task. Nonetheless, the bank will make concerted effort to facilitate the economic growth as targeted in the Budget through the provision of necessary liquidity.
67. At present, interest rates are low in Nepal on account of excess liquidity. As a result, the mobilization of financial resources stands discouraged on the one hand and efficient allocation of resources has not been achieved on the other hand. Therefore, possible adverse effects arising from lower interest rates that can emerge on financial sector owing to the credit flow to the unproductive sector including stock market will be taken into consideration in monetary management.
68. The desired growth of M_2 for 2007/08 is projected at 15.6 percent. The M_2 has been estimated to grow by 15.0 percent in 2006/07. This projection is based on the economic growth of 4.5 to 5 percent, income elasticity of M_2 at 1.5, inflation of 5.5 percent and BOP surplus of Rs. 8 billion.
69. Domestic credit of banking sector is projected to grow by 17.1 percent in 2007/08 compared to a growth 16.6 percent in 2006/07. Of the domestic credit, the credit to the private sector is projected to grow by 18.5 percent compared to a growth of 17.5 percent in 2006/07. Private sector credit is not estimated to grow at a higher rate considering the ongoing political transition.
70. The system of taking the excess liquidity of commercial banks as operating target of monetary policy will be continued. This bank will continue the preparation of LMFF based on its weekly balance sheet. The liquidity of the commercial banks indicated by this framework will be regularly monitored and OMO as a monetary measure will be conducted accordingly.
71. The existing system of taking commercial banks as counterparties for the monetary operation will be continued. It is in line with the chosen strategy of taking excess liquidity of commercial banks as the operating target of monetary policy. As they are counterparties, secondary market operation is carried out only with commercial banks and SLF is provided only to them.

72. Having provided the counterparties status in the conduct of monetary policy and SLF solely to commercial banks, it is expected that they realize their responsibilities on monetary policy operation. Moreover, it is believed that commercial banks will assist this bank to implement the moral suasion, as an instrument of monetary policy, to achieve the economic goals.

Monetary Measures

73. The bank rate will be used for signalling monetary policy stance and for providing lender of last resort facility from this bank in case of systemic risk. This rate has also been used to impose penalty on the amount of shortfall if any commercial bank fails to maintain the CRR. The bank rate has been kept unchanged at 6.25 percent.
74. Considering the problems faced by the exporters, the refinance rate on export credit in Nepalese currency has been lowered by 1 percentage point to 2.5 percent from 3.5 percent. For this purpose, commercial banks will have to provide credit to the exporters at the interest rate not exceeding of 5.5 percent. The refinance rate to rural development banks, however, has been kept unchanged at 3.5 percent.
75. Considering the difficult situation that the industrial sector is facing, the sick industries refinance rate has been kept unchanged at 1.5 percent. Commercial banks and development banks which are getting sick industries refinance are not allowed to charge interest rate of more than 4.5 percent from the concerned borrowers.
76. Since there is no perceivable improvement in Nepalese industries and tourism businesses, the sick industry refinance facility of Rs. 2.0 billion has been continued for 2007/08 as well. The sick industry refinance facility has been put in place since 2002/03. The facility will be provided in line with the existing terms and conditions. The amount sanctioned for it will be channelized through the proposed Industrial Rehabilitation Fund.
77. This bank will provide refinance facility to commercial banks and development banks at 2.5 percent on the loans to small and cottage industries, considering problems they are passing through. The commercial banks and the development banks will have to provide credit to the concerned parties at the interest rate of 5.5 percent. This bank believes that this facility will provide some relief to these industries.
78. This bank will continue the refinance facility of Rs. 500 million, similar to sick industry refinance, on the loans used by dalits, indigenous, backward, madeshi, and marginalized group as defined by the GON and on the loans used for foreign employment with the objective of providing relief to these sections of society and promoting foreign employment.
79. CRR has been kept unchanged at minimum of 5.0 percent on account of risk to inflation, high monetary liquidity and necessary to anchor inflationary expectations. This ratio can be revised if the inflation and liquidity condition warrant so.
80. The process of injecting and absorbing liquidity at the initiation of this bank will be continued on the basis of LMFF through the instruments of open market operations like sale auction, purchase auction, repo auction and reverse repo auction with

commercial banks on the government's treasury bills. A maximum period of 28 days for the repo and reverse repo auction has been kept unchanged.

81. The provision of carrying out the sale and the purchase auction on the multiple prices, and the repo and the reverse repo auction on multiple interest rates, has been continued. The existing system of secondary market operations on every Wednesday, under the initiation of this bank, will be continued. The provision of carrying out open market operation on any other day of week depending upon the development of monetary situation has also been maintained.
82. SLF will be provided to the commercial banks as usual, on the collateral of the treasury bills and the developments bonds of the GON. This facility, that is to be provided under the initiation of commercial banks, has been used substantially, amounting to Rs. 46.98 billion in 2006/07 compared to Rs. 9.88 billion in the preceding year. In the context of commercial banks providing substantial amount of short-term credit to the development banks and finance companies, the penal rate has been increased from 1.5 percent to 2.0 percent to check the misuse of SLF. Open Market Operations Committee (OMOC) will revise the rate depending upon the situation. The existing provision of granting this facility for a maximum period of five days has been kept unchanged.

Micro-Finance Program

83. Till now, commercial banks are required to disburse credit to the deprived sector up to 3 percent of their total outstanding credit. A mandatory provision will be made requiring all commercial banks to disburse 3 percent of their outstanding credit to the deprived sector from 2007/08. Moreover, a directive will be issued to the development banks and the finance companies to disburse credit gradually to the deprived sector. In this regard, development banks, in the first phase, will be asked to adhere to this provision.
84. The unified directives issued by this bank in 2005 have set the single borrower limit of Rs. 40,000 for an individual and Rs. 100,000 for micro-enterprises for the microfinance institutions. With a view to expanding economic activities effectively from these credits, these limits will be increased to Rs. 60,000 and Rs. 150,000 respectively. A refinance facility will also be provided for such credits from this bank.
85. With the objective of providing necessary financial resources from banks and financial institution for foreign employment in the approved countries, loans granted by commercial banks themselves and/or by other financial institutions licensed by the bank by borrowing from the commercial banks under the Youth Self-Employment and Employment Training Program, will be continued to count such credit as the deprived sector credit of the concerned commercial banks.
86. The requirement to maintain an additional 20 percent loan loss provision will be waived for those loans disbursed to the deprived sector directly or indirectly under the group/individual/institutional guarantee in order to encourage credit disbursement in the deprived sector.

87. The Budget Speech of the GON for 2007/08 has mentioned that a micro credit policy will be introduced in order to widen the credit access to the poor and deprived sector. In this regard, necessary amendment on the draft "National Micro Credit Policy 2007" will be made and submitted to the GON after the detailed survey of the existing status and capacity of the financial institutions, Non-government Organizations (NGOs) and International Non-government Organizations (INGOs) involving in micro credit activities. The micro credit policy, thus devised, will pave the way to establish a responsible central level institution so as to strengthen and supervise the micro credit institutions.
88. The draft "Rural Self Reliance Fund Act 2007" designed to convert the NRB operated RSRF into a wholesale lending financial institution will be amended and submitted to the GON for enactment.
89. Micro credit development banks will be allowed to expand their areas by one more additional adjoining district with an incremental paid up capital of Rs. 2.5 million, over and above the paid up capital as of mid-July 2007. This provision is intended to expand the financial services in rural areas.
90. The NRB has always been committed to expand the financial services in the rural and backward areas of the country. In this regard, a provision has already been there in the licensing policy of this bank to allow opening a financial institution in those areas with a paid up capital of Rs. 10 million. Also considering the fact that rural people are deprived of financial services due to the closure of bank branches in rural areas in the recent past, the provision has been made so that opening up of such branches do not require any formal approval from this bank. The NRB has the policy of encouraging the re-establishment of such branches. In addition, some exemption in the CRR will be provided to the bank and financial institutions opening branches in the rural areas. With regard to this, this bank will issue necessary circular in this fiscal year.
91. Small and marginal tea farmers are deprived of reasonable price because of the absence of a green tea processing centre. As most of the productions of the farmers have been wasted, a provision will be made to provide loan from the RSRF to the cooperatives owned by these farmers to establish a green tea processing centre.
92. A "Credit plus Approach" will be followed to uplift the life of economically deprived small and marginal individuals and families. Under this, a production credit arrangement will also be made to those farmers obtaining renewable energy (solar energy, bio gas, and micro-hydro unit etc.) credit from RSRF through cooperatives.
93. A line of credit facility will be made available to those cooperatives that have been borrowing from RSRF with an objective of extending micro credit facility to deprived and poor families living in the far-remote areas of the country.
94. Community Ground Water Irrigation Sector Project (CGISP) is going to be phased out on July 31, 2007. Since this program has been highly effective, credit disbursement will be made through RSRF to install shallow tube-wells.

95. Although there are some institutions involved in providing wholesale lending to micro credit sector, they lack resources. A separate fund to make share investment in micro finance institutions is necessary to be established to avail fund to these institutions. Necessary provisions will be made whereby interested national and international organizations and companies can contribute money to that fund. This is in line with the Budget Speech of the GON for 2007/08, which has also underscored the need to establish such fund so as to provide self-employment to trained manpower with the help of micro credit programs.
96. Necessary arrangements will be made to involve Self-help Groups formed by NGO and INGOs and those formed by them in providing financial services by establishing a link with bank and financial institutions.
97. The NRB Act 2002 has categorically mentioned that this bank cannot invest in the share of any bank and financial institution more than 10 percent of the paid up capital of such institutions. Accordingly, the shares in the Western, and the Eastern Rural Development Banks have already been sold. The share ownership of this bank in the Central Rural Development Bank will be divested to the private sector in 2007/08. Further, due diligence audit (DDA) of other rural development banks will be carried out in the process of their privatization.

Financial Sector Reform Program

98. The Budget Speech for 2007/08 has stated the approval of the working procedure for establishing an Industrial Rehabilitation Fund for the rehabilitation of sick industries from internal conflict. The GON has allocated Rs. 500 million for the Fund. The bank will contribute to the Fund in accordance with the NRB Act, 2002. The bank will make necessary procedural arrangements for establishing the Fund in coordination with commercial banks and entrepreneurs so as to raise the total capital of the Fund to the tune of Rs. 2 billion.
99. The bank has taken the policy of adopting capital adequacy structure as per the international standard, based on the new standard of BASEL II. Keeping both the existing and new provisions on parallel run basis for 2007/08, the latter will be implemented compulsorily from the next fiscal year. Such arrangements will help further strengthen the financial condition of overall banks and financial institutions, and enhance public confidence over the banks and financial institutions. In addition, capital adequacy ratio (CAR) to be maintained by banks and financial institutions of class 'A', 'B' and 'C' has been kept unchanged at 11 percent of risk weighted assets and the primary capital ratio at 5.5 percent until the new CAR is entirely implemented based on BASEL II.
100. The Budget Speech for 2007/08 has mentioned that the current provision of single borrower limit has not been sufficient enough to provide a huge amount of long-term loans for the commercial production of hydropower and infrastructure industries of long gestation period. As such, necessary changes will be made on single borrower limit to ease the loan disbursement for infrastructure development. As per the new provisions, the existing single borrower limit of a maximum of 25.0 percent of the primary capital of commercial banks deemed inadequate for the

loans to the projects, like hydro-power, that require huge amount of investment, will be increased. The bank views that this provision will contribute to the infrastructural development.

101. In order to reduce the concentration of risk originating from the loan disbursement and to ease the availability of loans on the different sectors of the economy, the existing fund based limit of 25 percent of primary capital and non-fund based limit of 50 percent of the primary capital will be changed as per the international practice for inspection and supervision as well as the BASEL Core Principles (BCP) adopted by the NRB. Accordingly, a policy of gradually lowering the single borrower limit including the non-fund based to 25 percent of the primary capital by 2010 has been adopted.
102. The Budget Speech for 2007/08 has stated that actions against the willful defaulters of banks and financial institutions will be continued. In coordination with the GON, necessary actions, as per the existing rules, will be taken against the big willful defaulters of more than Rs. 10 million.
103. The private sector banks and financial institutions will be encouraged to set up and operate the proposed Nepal Infrastructure Development Bank for the long term project investment. For this, separate regulations relating to capital, investment, loan loss provisioning and other regulatory norms will be issued.
104. In order to make the existing arrangements of payments system and clearing house transactions of the banks and financial institutions automatic and modern, necessary processes are underway to establish an institution of this kind by the commercial banks with the involvement of this bank.
105. With the objective of making internal debt transaction prompt and easy, in place of the existing long and cumbersome process of paperwork transaction of treasury bills, development bond and other government securities, the bank has started providing computer receipt to the commercial banks in treasury bills transactions effective from 17 July, 2007 on experimental basis for the implementation of Scrip less Securities Settlement System (SSSS). Through that receipt, the commercial banks are allowed to sell and purchase the treasury bills and securities, accept it as collateral and receive payments including inter-bank transactions. Based on the experience, such provision will be expanded to other banks and financial institutions in the future.
106. E-banking directives will be issued in 2007/08 in the context of expanding electronic banking in Nepal.
107. As per the commitment made at the time of taking WTO membership, Nepal has to grant approval for opening up the foreign bank branches in Nepal from 2010. Considering the beginning of banking transactions by foreign banks in Nepal and opening of branches by the Nepalese banks abroad, the bank has prepared a draft of 'Banks and Financial Institutions Act, 2007 as per international standard and submitted to the Ministry of Finance/GON. After the enactment of this Act that incorporates the Merger and Acquisitions provision as well, the directives relating to this Act will be issued. For the operation of foreign banks in Nepal from 2010,

prudential regulations will be issued for the wholesale banking branches of foreign banks and financial institutions.

108. In order to make the NRB an effective regulatory body and to let the financial institutions operate completely in private sector, the process of divestment of shares of various financial institutions owned by the NRB will be continued as per the provisions of the NRB Act, 2002.
109. The accounting system of the NRB will gradually be upgraded as per the international accounting standard.
110. The bank has initiated the prompt corrective action for strengthening its supervisory capacity. Accordingly, actions will be taken immediately to those banks whose capital adequacy ratio falls short of the stipulated limit. Actions including restrictions on branch expansion and dividend payments; loan disbursement and saving mobilization; and increase in salary and allowances will be taken on the basis of the level of shortfalls from the mandatory capital adequacy ratio as per clause 42 of the 'Banks and Financial Institutions Act 2006'.
111. The bank has completed the task of self-evaluation of the BCP in 2006/07. In order to address the shortcomings observed in self-evaluation process within the given time frame, the target-based BCP Action Plan has been prepared. Accordingly, necessary amendments will be made in the related legal provisions.
112. The provision for taking 'Annual Clearance' by banks and financial institutions, other than microfinance institutions, prior to making its financial statements public will be continued in order to make financial statement realistic and informative. As per the provision, they are required to make public their financial statement submitted to the Annual General Meeting only after receiving the approval from this bank.
113. The existing 'Early Warning' system under the off-site supervision system will be implemented effectively as per the policy of strengthening the off-site supervisory capacity. If any shortcoming is observed in the process of off-site supervision with regard to capital, assets, income and liquidity, the concerned banks will immediately be notified to make the necessary corrections.
114. Traditional methods of inspection and supervision may not be equally appropriate for all banks and financial institutions. Thus, the risk-based supervision approach will be implemented for each bank and financial institution separately in a planned way in the coming years.
115. The process of issuing guarantee from one bank or financial institution to another is a regular and common practice. The increased tendency of issuing financial guarantee for the purpose of loan flow, however, has led to various malpractices. In order to eliminate such malpractices, policies will be adopted to discourage the loan advancement from the banks and financial institutions on the basis of financial guarantee.
116. The NRB has been implementing various policies for making the regulatory and supervisory process effective. In this regard, the audit report and other information

submitted by the external auditors associated with banks and financial institutions to this bank helped make the regulatory and supervisory process effective. The structure of the long form audit report received from the external auditors will be revised as per the requirement to make it more clear and informative.

117. The Budget Speech for 2007/08 has mentioned the establishment of the Insolvency Administration Office and Secured Transaction Registrar's Office. In addition, the Speech has made commitment to promulgate Anti Money Laundering Act as well as Banking Fraud Control Act to control financial crimes. Likewise, the Speech spelled out to establish a separate Commercial Bench in six different Courts to expedite the hearing and decision of the cases related to the financial sector. The NRB will extend necessary support for the implementation of these works.
118. The Budget Speech for 2007/08 states that the small savers are not attracted towards capital market due to lack of the mutual fund. As mentioned in the Budget Speech, with the operations of the fund, the task of managing monetary liquidity will also become easy. The bank will determine the required criterion under the Trust Law to be formulated by the GON allowing the commercial banks with certain standard to manage the mutual fund.
119. It is essential to build the public confidence on the transactions of financial payment instruments such as check, draft, bills, etc. for the proper management of financial system. In this regard, as mentioned in the Monetary Policy of 2006/07, a draft of 'Negotiable Instrument Bill 2007' has been prepared. After having necessary interactions with the concerned banks, financial institutions and other agencies, the draft will be submitted to the GON for enactment.
120. The scope of investment and capital market is expected to expand by restructuring the assets such as loans and other assets held by financial and other institutional sectors, and issuing appropriate securities against them. However, no legal arrangements have been made so far for the management, operation and regulation of this kind. So, a draft of 'Financial Property/Assets Securitization Act' will be prepared and submitted to the GON in 2007/08.

Foreign Exchange Sector Reform

121. Till now, the provision of issuing import Letter of Credit (L/C) on the basis of C.I.F (Cost, Insurance and Freight) and C & F (Cost and Freight) has existed. As there is a possibility of reduction in the cost pertaining to freight and insurance when a importer himself makes the arrangements related to freight and insurance, a provision will be made so that the L/C can be issued on the basis of F.O.B (Free on Board) also.
122. While the existing provision is such that it is possible to import only through the L/C or through Draft/TT for goods whose value do not exceed US\$ 30,000, an arrangement will be made whereby it will be possible to import through the mechanism of Documents against Payment.
123. In order to enhance the competitive capacity of the industries in Nepal, a provision exists for the import of raw materials and intermediate products from India against

the payment of US dollar. While the number of such raw materials and intermediate products is 121, for attaining the above objective, the existing policy of increasing the number of items will continue.

124. The existing arrangement is such that a foreign exchange facility of US\$ 5,000 for individuals and US\$ 10,000 for family has been provided one time for settlement expenses to Nepalese citizens migrating on immigrant visa to the developed countries like USA, Canada, Australia, New Zealand and UK. From now onwards, an arrangement will be made whereby the exchange facility of US\$ 5,000 per individual can be provided by the licensed banks or financial institutions by endorsing such a facility in the passport.
125. As against the existing practice of obtaining approval for the required exchange facility from the bank by the registered insurance companies in Nepal for paying reinsurance fee to foreign-based reinsurance company, an arrangement will be made whereby such exchange facility can be provided directly by the licensed bank and financial institutions on the recommendation of the Insurance Board together with the necessary documents.
126. The existing rule of the requirement of this bank's approval on foreign currency refund in case of it already being credited into the beneficiary's account has been abolished. From now onwards, a provision will be made so that the related commercial banks and financial institutions can make the refund on the basis of the necessary documents.
127. Under the list of individuals or institutions that have sources of foreign currency and are entitled to open foreign currency deposit accounts, the name of Nepalese companies that are receiving foreign currency under Global Tender will be added.
128. Confirmed air tickets have been defined as only those where air travel originates in Nepal and foreign currency exchange under passport facility is being provided. Beginning this year, tickets issued in Nepal for those who start their travel from different cities of India to different countries will also be defined as confirmed tickets and the foreign currency exchange under passport facility will be provided to them from the banks and financial institutions.
129. The existing provision of 2 percent service charge on the sale of foreign currency in cash by the banks and financial institutions to the NRB has been reduced to one percent considering the existing condition of the market. By this provision, the commission rate of banks and financial institution on the purchase of the foreign currency from the public will decline at the same proportion.
130. In the context of exchange rate fluctuations occurring in foreign currency exchange market and creating exchange rate risk to parties involved in foreign exchange transactions thus leading to loss in certain circumstances, limiting the forward exchange transactions to L/C only does not seem logical. Hence, the forward exchange transactions will be opened under the condition that the related bank shall bear the cover and risk of profit/loss arising from such transactions as per the policy given by the board of directors of the concerned commercial banks.

131. Nepal has so far the policy of attracting foreign investment but there exists no policy for Nepalese to make investment abroad. Banning Investment Abroad Act, 2021 is the obstacle for this. To legalize the investment abroad, the draft of 'Regularizing the Foreign Investment Abroad Bill, 2006', prepared by this bank, has been submitted to the Ministry of Finance. Since the Budget for 2007/08 of the GON has also expressed the concern on the investment abroad, it is believed that this bill will be enacted soon. Subsequently, the NRB will prepare the other operational guidelines pertaining to it.

Lastly,

132. This Monetary Policy has been formulated based on the analysis of existing and emerging economic and financial situation. I believe that the information and analysis presented in this Monetary Policy will help the general public better understand the existing situation of the economy.
133. The bank views that the implementation of the policies and programs embodied in this Monetary Policy will facilitate the expansion of economic activities and help maintain macroeconomic stability including the general level of prices.
134. I would like to thank the various agencies of the GON, financial institutions, various professional institutions, experts and donor agencies for their valuable support in the process of formulating this Monetary Policy. I believe that as in the past the bank will continue to receive cooperation from you all, in the implementation of policies and programs provisioned in this Monetary Policy.

Thank you!

Appendix I
Annual Progress Matrix of Measures as Outlined in Monetary Policy of 2006/07

S.N.	Point	Objectives/Programmes	Work Description	Responsible Dept.	Implementation Status
1	41	Inflation projected at 6.0 percent.	Monitoring and analysing the policy measures	Research Department	CPI inflation is revised up to 6.4 percent on account of rising prices of food items.
2	42	The BOP surplus targeted at Rs 16 billion.	Monitoring and analysing the policy measures	Research Department	BOP surplus is revised downwards to Rs.7 billion due to marginal growth in exports.
3	44	Facilitate 5.0 percent economic growth	Monitoring and analysing the policy measures	Research Department	Economic growth rate is estimated at 2.5 percent.
4	44	Broad money is projected at 16.1 percent.	Monitoring and analysing the policy measures	Research Department	M ₂ is estimated to grow by 15.0 percent.
5	45	The net loan flow from banking sector to government is expected to remain at Rs. 8.3 billion.	Monitoring and analysing the policy measures	Research Department	The government of Nepal has borrowed Rs. 8.29 billion from the banking sector.
6	45	As per budget statement of 2006/07, the total internal borrowing will be Rs.17.90 billion.	Issue the domestic debt as mentioned in the budget	Public Debt Management Department	Issued all amount stated in the budget as per issue calendar.
7	48	The excess reserves of commercial banks will continue to remain as the operating target of monetary policy.	Excess liquidity shown by Liquidity Monitoring and Forecasting Framework (LMFF) will be taken as an operating target of monetary policy.	Research Department	Continued. Accordingly, outright sale of Rs 18.40 billion, reverse repo of Rs 14.34 billion and repo of Rs 2.0 billion were carried out.
8	48	LMFF will be taken as a guide for the management of excess liquidity.	Operate secondary market transactions by focusing on the outcome from LMFF.	Research Department / Public Debt Management Department	Implemented accordingly.
9	50	Refinancing rate for exports in local currency is maintained at the prevailing rate of 3.5 percent. Refinancing rate for sick industry loans also kept unchanged at 1.5 percent.	Related development to be submitted as soon as possible	Bank and Financial Institutions Regulation Department/ Micro-Finance Department / Banking Office, Kathmandu	Sick industries refinance rate has been kept at 1.5 percent as in the previous year. Bank and financial institutions are not to charge more than 4.5 percent for such credit to the concerned borrowers. The refinance is for six months, and additional 0.5 percent penal rate is imposed in case the refinance loan is not repaid within the stipulated time.

10	51	Refinancing to small and cottage industries will be made available at 3.5 percent	Necessary arrangements to be made in this regard and subsequent development to be submitted as soon as possible.	Bank and Financial Institutions Regulation Department / Banking Office, Kathmandu	Refinance facility of Rs 250 million for small and cottage industries and maximum Rs 5 million for sick small and cottage industries was provisioned.
11	52	Refinancing amounting to Rs. 2 billion has been earmarked for sick industries for 2006/07. Refinancing amounting to Rs. 500 million has also been allocated for loans provided to indigenous, ethnic, oppressed people (as defined by the government) and Nepalese women workers going abroad for employment.	Necessary arrangements to be made in this regard and subsequent development to be submitted as soon as possible.	Bank and Financial Institutions Regulation Department / Banking Office, Kathmandu	Rs 211.99 million for hotel industries and Rs 30.0 million for other industries was approved under refinance facility in 2006/07. In this way, a refinance facility of Rs 248.9 million was approved for 8 hotels and one industry.
12	56	Short-term NRB bonds of less than 91-day maturity period are to be issued through auction to absorb the short-term liquidity .	In case of treasury bills holding of NRB become inadequate, NRB bond will be issued.	Public Debt Management Department	The issuance of short-term NRB bonds was not warranted.
13	57	A 12-year development bond is to be issued for determining the long-term interest rate and secondary market transaction of these development bonds will be initiated.	A 12-year development bond is to be issued through auctions and subsequently the GON will be requested to provide directions to the Securities Board of Nepal for necessary arrangements.	Public Debt Management Department	A 12-year Development Bond worth Rs 5.50 billion was issued on auction basis. Secondary market transaction has also begun through Nepal Stock Exchange.
14	58	After the determination of interest rate of development bond in primary market, a 12-year Citizen Saving Certificate will be issued on coupon rate.	Necessary arrangements to be made in this regard.	Public Debt Management Department	A 12-Year National Saving Certificate with coupon rate of 6.0 percent worth Rs 340.0 million was issued.
15	59	For primary sale of Citizen Saving Certificate in Kathmandu valley, a provision will be made to sell them by market markers instead of the NRB.	Necessary arrangements to be made in this regard.	Public Debt Management Department	Implemented accordingly.

24 Nepal Rastra Bank

16	60	The maturity period of SLF has been extended to 5 days from existing 3 days. If commercial banks are found misused, adjustment will be made in the penal interest rate to control the misuse.	Avoid internal payment crisis through SLF and adjust penal rate for controlling misuse of it.	Public Debt Management Department	The maturity period of SLF has been extended to five days and accordingly, commercial banks were provided this facility
17	61	For the principal and interest payments of the bonds of the GON, besides the market makers, the NRB-licensed institutions of categories "A", "B" and "C" will be allowed. For making the task of principal and interest payment of government securities more attractive to market makers and commercial banks, the principal amount paid by such institutions will be calculated in CRR until it is reimbursed. This provision will be extended to other financial institutions as well.	To be implemented accordingly	Public Debt Management Department/Bank Supervision Department/Financial Institutions Supervision Department	Such provision has been in implementation
18	62	Currently 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 sale and purchase auction, and repo and reverse repo auction will be integrated into one for each category.	(a) Continue outright sale and purchase auction as usual on multiple pricing auction system. (b) Continue repo and reverse repo auction as usual on multiple-interest auction system. (c) Auction secondary market operation as per the study and analysis of Open Market Operation Committee based on the outcome of LMFF. (d) All above information is to be regularly sent to Research Department by Public Debt Management Department. (e) Integrate the different forms.	Public Debt Management Department	Forms have been posted in the NRB website and has been used by all, downloading from the site. Other (b), (c), (d) and (e) are being carried out accordingly.

19	63	Comprehensive household budget survey will be completed in 2006/07	Accomplish the task	Household Budget Survey Project	Report is under preparation.
20	64	After the issuance of 'National Micro-Finance Policy' programmes and policies mentioned in it are to be implemented by making short-term, medium-term and long-term work plan.	Necessary arrangements are to be made.	Micro Finance Department	Although the NRB submitted National Micro Finance Policy-2006, the GON returned the policy to re-submit later after the completion of World Bank's detail survey of micro finance institutions.
21	65	Based on the above-mentioned 'National Micro-finance Policy', the draft of the umbrella law governing micro-finance activities, Micro-finance and Cooperative Transaction Act 2007, is in the process of preparation. The bank has planned to submit the draft to the GON in 2006/07.	Necessary actions are to be taken.	Micro Finance Department and Legal Division	In view to the need of legal and institutional reform for expanding micro-finance and its efficiency, the bank has submitted a draft on National Micro Finance Policy to the GON. After the announcement of the policy by the government, a task force with its secretariat in Micro-Finance Department was planned to form to draft "Micro Finance and Cooperative transaction act-2007 as an umbrella act based on the guidelines of the Micro Finance Policy.
22	66	With view to expanding micro-credit in the rural areas, it is planned to transfer assets and liabilities of various micro-finance projects from the NRB to the Rural Self Reliance Fund in 2006/07.	Necessary arrangements are to be made.	Micro Finance Department	A consensus has been made by the board of directors of Rural Self-Reliance Fund to initiate transfer process based on the completion of auditing by external auditor.
23	67	RSRF will be transformed into the self-governed and organized 'Micro-finance and Cooperative Fund' within 2006/07.	Necessary actions are to be taken for this.	Micro Finance Department and Legal Division	Can be undertaken after the implementation of Micro Finance Policy.
24	68	Micro financing Regulatory and Supervisory Authority' will be established for regulation, inspection and supervision of the micro-finance institutions after the issuance of micro-finance umbrella act.	Necessary arrangements are to be made.	Micro Finance Department and Legal Division	Can be initiated after the implementation of Micro-finance Policy.
25	69	In order to expedite the structural reforms of Rural Development Banks	Necessary arrangements are to be made.	Micro Finance Department	Share of the NRB in Eastern Rural Development Bank has already been

26 Nepal Rastra Bank

		through increased participation of private sector, the share ownership of the NRB in these development banks will be transferred to the government and their management will be handed over to the private sector through open competition			divested and the share in Central Rural Development Bank is in the process of divestment.
26	70	Out of 34.95 percent share ownership in the Eastern Rural Development Bank (ERDB), the second phase of the privatisation process will be initiated to divest 24.95 percent share ownership, limiting the NRB's ownership in the ERDB to 10 percent. Likewise, the privatisation process of other Rural Development Banks will be initiated once they begin to operate in profit. Besides, out of Rs. 190 million of accumulated loss of these development banks till mid-January 2006, Rs. 150 million has been set aside for loan loss provisioning as per the NRB's directive. The concerned office of the GON will be requested to bear the accumulated loss of these development banks in order to improve their financial health.	Necessary steps are to be put in place.	Micro Finance Department and Legal Division	Share of the NRB in Eastern Rural Development Bank has already been divested and the share in Central Rural Development Bank is in the process of divestment.
27	71	With a view to developing the NRB exclusively as a regulatory agency, the share ownership in Rural Development Banks will be gradually handed over to the GON.	Necessary provisions are to be made.	Micro Finance Department	Request has been made to the GON.
28	72	Commercial banks' credit to the workers going abroad for employment under the GON's 'Youth Self-employment and Employment Training Program' and any flow of credit from	Monitoring this arrangement.	Bank and Financial Institutions Regulation Department/Bank Supervision Department	Circular issued on 29 August 2006.

		the commercial banks to foreign employment through the NRB-licensed financial institutions will also be treated as the deprived sector lending of the respective commercial banks.			
29	73	Realizing the increasing need for micro-credit in hilly areas, a policy provision has been made allowing the micro-finance development banks, with the same paid-up capital of Rs.20 million, to conduct micro-finance activities in 15 districts including the already approved 10 districts and additional 5 hilly districts.	Necessary arrangements are to be made.	Micro Finance Department/ Bank and Financial Institutions Supervision Department	Bank and Financial Institutions Regulation Department has issued directives to the concerned institutions.
30	74	Realizing a necessity to establish a separate fund for making share investment in the micro-finance institutions, an arrangement will be made whereby interested domestic and foreign organizations, institutions and companies can provide the amount to this fund.	Arrange policy provisions accordingly	Micro Finance Department	It is in preliminary stage and will be continued in 2007/08
31	75	The financial sector reform programs initiated in the recent past incorporating re-engineering of NRB, restructuring of NBL and RBB and the capacity building of the financial sector will also be effectively continued in 2006/07.	Make available the progress report	Bank and Financial Institutions Regulation Department / Bank Supervision Department	Profit and capital fund have improved. Auditing function has been completed. Improvement has been seen at human resource management, operating system and internal management. Computer technology has been expanded. Re-engineering of NRB and capacity building of financial sector have also witnessed some progress.
32	76	The necessary monitoring and evaluation framework will be introduced in order to perform the overall activities of the NRB as stipulated by the strategic plan.	Necessary arrangements are to be made.	Corporate Planning Department	Each department has been asked to submit the annual plan according to strategic plan

28 Nepal Rastra Bank

33	77	In the context of Nepal's WTO membership, a preliminary report has been prepared regarding the entry of foreign banks' branches for wholesale banking transactions. Necessary work will be done to implement the recommendations of the report.	Necessary steps are to be taken.	Bank and Financial Institutions Regulation Department	The task force formed to look into this function has prepared preliminary study report. And accordingly, necessary steps have been taken to implement the report
34	78	Debt Recovery Tribunal will be reformed and Asset Management Company will be established in order to reduce the NPL of the banking system and expedite debt recovery. Stringent actions will be taken against the wilful defaulters through coordination with the GON.	Necessary arrangements are to be made.	Bank and Financial Institutions Regulation Department and Legal Division	National and international training and necessary physical materials like computer were provided to Debt Recovery Tribunal to strengthen it. A three-member committee has been formed in order to carryout actions against wilful defaulters and a letter has been sent to the Ministry of Finance (MOF) to take necessary actions against them. On October 11, 2006, a report with a list of defaulters failing to reschedule their debt till mid-September 2006 was submitted to the MoF along with the stipulation of necessary actions to be taken against them and accordingly, as per the decision of Council of Ministers made on October 15, 2006 for taking actions against the defaulters, this bank has directed the bank and financial Institutions to take necessary actions. Subsequently, a circular has been made to seize the passport of those defaulters who are out of the contact of the respective banks and financial institutions to resettle the debt and accordingly, passports of such defaulters have been seized.

35	79	Unless otherwise stated in the NRB Act 2002, the share investment of NRB in various banks and financial institutions or any other institutions will be gradually offloaded so that the NRB can act as an effective regulatory agency of the financial system and financial institutions.	Take necessary steps in this regard	Financial Management Department	The share of the NRB in National Insurance Company has been partially sold.
36	80	For making the financial system more organized and for increasing the credibility of negotiable instruments like cheque, draft and bill, a draft of "Negotiable Instrument Act" with necessary amendment and revision will be prepared and submitted to the GON.	Make available the progress report	Bank and Financial Institutions Regulation Department and Legal Division	For making the financial system organized in order to increase the credibility of negotiable instruments like cheque, draft and bill, a draft committee prepared a preliminary draft with necessary amendment and revision on "Negotiable Instrument Act"
37	81	Provisions have been made to tightly control the tendency of issuing cheques without adequate balance in account and that, which is difficult to en-cash due to various reasons.	Monitor the implementation of such provisions	Bank and Financial Institutions Regulation Department	For the implementation of this provision, a circular has been issued on July 30, 2006 to put the issuers of non-payable cheque in the blacklist. And various concerned agencies have been requested for their suggestions to incorporate this provision in the draft of "Negotiable Instrument Act".
38	82	Acquisition and Merger Act will be formulated.	Proceed necessary steps in this regard	Bank and Financial Institutions Regulation Department and Legal Division	Existing legal procedures on Merger and Acquisition of bank and financial institutions have been reviewed and accordingly, for a guideline, a draft has been submitted to the bank management team. A draft on "Anti-Money Laundering Bill-2007" and "Banking Fraud and Control Bill-2007" has been submitted to the GON.
39	83	'Know Your Customer' (KYC) guideline has been made effective to disclose the source of income by the customers who deposit the amount	Proceed necessary steps in this regard	Bank and Financial Institutions Regulation Department and Bank Supervision Department	A circular has been issued for this on 30 July 2006.

30 Nepal Rastra Bank

		exceeding Rs. 1 million into their account. As the paperwork for showing the source is cumbersome, a provision has been made so that the 'self-declaration' by the customer will also be acceptable.			
40	84	While providing credit to the deprived sector by the commercial banks or cooperatives licensed by the NRB for the generation of income and employment to the people living under the poverty line, the wholesale credit provided to the projects prepared by the participation of the commercial banks themselves, under their own supervision, will be counted as deprived sector credit.	Necessary steps are to be put in place.	Bank and Financial Institutions Regulation Department and Bank Supervision Department	A circular has been issued for this on 30 July 2006.
41	85	Encourage financial institutions to initiate Mutual Fund transactions through necessary coordination with the Securities Board of Nepal.	Necessary steps are to be put in place.	Bank and Financial Institutions Regulation Department	Required assistance has been given to the banks and financial institutions interested in mutual fund transactions and this bank is of the view of availing assistance for other banks and financial institutions willing to undertake such transactions.
42	86	<i>Proposed Nepal Infrastructure Development Bank</i> is intended to invest in the long-term projects, the NRB will assist in its establishment and operations through the separate prudential measures on its capital, loan loss provisioning and on other regulatory aspects.	Necessary steps are to be put in place.	Bank and Financial Institutions Regulation Department	No application has been received for the establishment of such a bank from the private sector despite the objective of encouraging private sector to establish this type of bank. Necessary regulatory procedures will be prepared as and when the application is registered for the establishment of this type of bank.
43	87	Initiatives will be taken to restore the bank branches closed due to the difficult situation in the past.	Necessary steps are to be put in place.	Bank and Financial Institutions Regulation Department	A directive was issued at the time of closing the branches to the banks to restore their branches once the conditions become favourable. In addition, to operate the branches closed in the past due to

					security reason, permission from this bank is not required; information of reopening within a week is sufficient.
44	88	The profile of all commercial banks and financial institutions along with their major financial indicators will be prepared and posted in the web site of the NRB in order to provide more information on financial conditions of commercial banks and financial institutions to the public. In addition, the directives issued to the licensed institutions by this bank and the additional directives made on the basis of on-sight inspection will also be put in the web site in 2006/07 for the use of the general public	Necessary arrangements are to be made.	IT Department/Bank and Financial Institutions Regulation Department/Bank Supervision Department/Financial Institutions Supervision Department	Already started.
45	89	The existing rule of additional 20 percent loan loss provisioning on education loans provided by the commercial banks on personal guarantee is eliminated.	Necessary steps are to be put in place.	Bank Supervision Department/ Financial Institutions Supervision Department	A circular has been issued for this on July 30, 2006.
46	90	In 2006/07, the issue of limited liability in the blacklisting guidelines will be clarified, making it consistent with the existing law of Nepal.	Necessary steps are to be put in place.	Bank and Financial Institutions Regulation Department	Initiatives have been taken to revise the directives and requests have been made for suggestions from the association of banks and finance companies.
47	91	To improve the negative net-worth of NBL and RBB, a plan for improving their negative capital fund will be submitted to the GON and action will be initiated accordingly. A 'due diligence audit' will be initiated after recruiting the Privatisation Advisor in pursuit of privatising these two banks.	Necessary steps are to be put in place.	Bank and Financial Institutions Regulation Department	Expression of Interest (EOI) and ToR have been published in order to appoint Bank Restructuring Advisor in NBL and RBB, the two large banks in restructuring process under financial sector reform programme. Evaluations of EOI and shortlisting have been done and the World Bank has already approved it. Request for Proposal (RFP) has been prepared and the World Bank and the Board of Directors of the NRB have agreed upon it.

32 Nepal Rastra Bank

48	93	Establishment of Credit Rating Agency in the private sector will be encouraged with a view to developing the risk management system for fostering private sector-led economic growth through the institutional loan flow	Necessary arrangements are to be made	Bank and Financial Institutions Regulation Department	A policy of encouraging private sector has been adopted in order to establish Credit Rating Agency (CRA). This bank is ready to help those private investors as and when they take initiatives to establish such agency.
49	94	In the process of preparing background 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 the BASEL II accord, a regulatory provision will be made in compliance with the Simplified Standardized Approach (SSA) and Basic Indicator Approach (BIA) with regard to the capital base and operational risk respectively.	Necessary actions are to be taken for this	Bank Supervision Department	Formulation of regulatory measure is underway and preparation to issue it is in final stage.
50	95	The timely amendment and refinement will be made in the directives relating to corporate governance and operational directives for e-banking and ATM will be formulated.	Make available reports on the accomplished tasks	Bank and Financial Institutions Regulation Department	Formulation of directives has been initiated.
51	96	The Income and Expenditure Statement of the GON for 2006/07 has mentioned the establishment of Industrial Rehabilitation Fund for the rehabilitation of the industries that have become sick due to the conflict. Such Fund is planned to be set up by the participation of the Government, central bank, financial institutions and the sick industries seeking to rehabilitate their business. The NRB will make necessary endeavor to co-ordinate with the	Initiate necessary steps in this regard	Bank and Financial Institutions Regulation Department	An effort has been made to establish the fund of Rs 1 billion. The GON has contributed Rs 500 million. In addition, the NRB and the commercial banks (through the coordination of Bankers' Association) are preparing to contribute Rs 100 million and Rs 400 million respectively. A preliminary effort of determining the amount of contribution by banks based on NPA, credit and profitability has been completed and further effort has been made to finalize it.

		commercial banks and entrepreneurs so as to raise capital fund to Rs. 2.0 billion. Similarly, for establishing the Fund, the NRB will formulate the necessary process and provisions.			
52	97	If loans flowed to small and medium enterprises are insured by any insurance company, a provision similar to priority sector credit will be made so that the loan loss provision of only one-quarter is adequate.	Necessary arrangements are to be made	Bank Supervision Department	Circular has been issued and accordingly, supervisions have been pursued.
53	98	To protect small depositors from risk, the Government of Nepal will be requested for the appropriate institutional structure and capital of Deposit Insurance and Credit Guarantee Corporation.	Initiate necessary steps in this regard	Bank and Financial Institutions Regulation Department	
54	100	Capital Adequacy Ratio has been fixed at 11 percent till the effective date of BASEL II accord.	Initiate necessary steps in this regard	Bank and Financial Institutions Regulation Department/Bank Supervision Department	Circular has been issued and implemented accordingly.
55	101	From 2006/07, applicable to 2005/06, 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 for NRB's approval. Adjustment, if any, needs to be made on these financial statements based on the on-site inspection from this bank. The adjusted financial statements, final audit report, long form report need to be submitted within 15 days from the date of clarifications sought by this bank.	Make available implementation reports	Bank Supervision Department / Non-Bank Supervision Department.	Circular has been issued accordingly.

34 Nepal Rastra Bank

56	102	Exchange facility on petty transactions for various purposes has been increased from USD 1500 to USD 2500 effective from 2006/07. Currently, in addition to payment through telex/wire/draft; commercial bank can make payment through credit card and debit card as required by the customer.	Make available the necessary report after implementation	Foreign Exchange Management Department	Circular has been issued in this regard.
57	103	People migrating to the developed countries such as USA, Canada, Australia, New Zealand and UK under immigration visa have been receiving the foreign exchange facility up to USD 5000 for individual and USD 10000 for the family on the basis of approval from the NRB. 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.	Make available the necessary report after implementation	Foreign Exchange Management Department	The provision could not be implemented due to the possibility of double payment of foreign currency under such facility when the payment is made without endorsing on the passport of the concerned individual.
58	104	Under the existing provision, commercial banks are allowed to issue Usance L/C for the payment duration of less than one year under 'Deferred Payment' or 'Suppliers Credit' for countries other than India, but they require the approval of the NRB to open such L/C for payment period of more than one year. From now onwards, the commercial banks are allowed to directly open such an L/C even for payment period exceeding one year.	Make available the necessary report after implementation	Foreign Exchange Management Department	Implemented as per the circular issued on July 25, 2006
59	105	In order to enhance the competitive capacity of the industries in Nepal, currently the number of raw materials	Necessary arrangements to be made	Foreign Exchange Management Department	As per the demand of entrepreneurs and pursuant to the policy of gradually increasing the number of goods to be

		and intermediate products which can be imported from India by paying US dollar has reached 91. The policy of gradually increasing the number of items for import against the payment of US dollar from India will be continued.			imported against the payment of the US dollar, thirty more goods of various harmonic code have been added in the list due to which the number of items in the list has increased to 121.
60	106	The NRB will bring necessary measures for allowing entrepot trade in consistence with the global practices and 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.	Make available the necessary report after implementation		Nobody asked for this facility for a long time. Recently, concerned stakeholders have asked for the implementation of the facility and as such it is deemed more practical to have a discussion among the concerned stakeholders before bringing the facility into effect.
61	107	A provision of providing exchange facility up to USD 300 at a time to individuals having visa for private visit by surface route to SAARC countries except Tibet, autonomous region of China, (except regular visitors based on regulations) and India is amended to provide exchange facility up to USD 1000.	Make available the necessary report after implementation	Foreign Exchange Management Department	Implemented as per the circular issued on July 25, 2006
62	108	Commercial banks are allowed to amend the L/C exceeding by any amount.	Make available the necessary report after implementation	Foreign Exchange Management Department	Implemented as per the circular issued on July 25, 2006
63	109	Commercial banks are allowed to amend the L/C based on Already Shipped Documents. But, before amending the Already Shipped Documents, the commercial banks must receive the letter from the concerned offices clearly indicating the list of goods entered through customs.	Make available the necessary report after implementation	Foreign Exchange Management Department	Implemented as per the circular issued on July 25, 2006

36 Nepal Rastra Bank

64	110	There is a provision for the licensed moneychanger firm/company to exchange the convertible currencies they have purchased at the commercial banks. From now onwards, the following provisions are made with regard to such convertible currencies: a. the convertible currencies can be sold 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 exchange facility against the passport as per the existing rule.	Continue monitoring this provision.	Foreign Exchange Management Department	Implemented as per the circular issued on July 25, 2006
65	111	In the process of expansion of business, if manpower companies wish to, as per the regulations, operate their branches/representative offices/ contact offices abroad, the NRB will provide the necessary exchange facility for the operation of their offices, provided they submit their demand together with the recommendation from the Labor and Employment Promotion Department.	Monitor the use of this facility	Foreign Exchange Management Department	Ministry of Labor has been informed in this regard. However, no agency contacted this bank for the availability of this facility in 2006/07.
66	112	Provision has been made whereby the commercial banks do not need to take approval from the NRB while making transactions in derivative instruments provided that these instruments are under the criteria set by Board of Directors of the respective commercial bank.	Monitor the use of these instruments	Foreign Exchange Management Department	Implemented as per the circular issued on July 25, 2006

Appendix 2 Projection of Monetary Survey

(Rs. in million)

Monetary Aggregates	2004 Jul	2005 Jul	2006 Jul	2006 Jul ^e	2007 Jul ^p	2008 Jul-	Change, 2005/06		Change, 2006/07		Change, 2007/08	
							Amount	Percent	Amount	Percent	Amount	Percent
1. Foreign Assets, Net	108,804.6	107,742.1	139,532.9	139,532.9	133,383.2	141,383.2	25,698.8¹	23.9	7,000.03²	5.0	8,000.0	6.0
1.1. Foreign Assets	131,366.0	130,916.8	166,195.4	166,195.4	166,127.5	177,227.8	35,278.6	26.9	-67.9	-	11,100.3	6.7
1.2. Foreign Currency Deposits	21,174.6	21,557.2	25,088.1	25,088.1	28,514.8	30,611.8	3,530.9	16.4	3,426.7	13.7	2,097.0	7.4
1.3. Other Foreign Liabilities	1,386.7	1,617.6	1,574.4	1,574.4	4,229.5	5,232.8	-43.2	-2.7	2,655.1	168.7	1,003.3	23.7
2. Net Domestic Assets	168,501.2	192,697.9	207,733.4	207,135.7	265,285.7	319,611.1	21,127.5¹	11.0	45,000.2²	21.7	54,325.4	20.5
2.1. Domestic Credit	246,171.8	280,240.4	302,069.4	322,683.3	360,310.2	421,771.5	21,829.0	7.8	37,626.9	11.7	61,461.3	17.1
<i>Domestic Credit*</i>		<i>280,240.4</i>	<i>313,115.9</i>	<i>322,683.3</i>	<i>376,334.0</i>		<i>32,875.5</i>	<i>11.7</i>	<i>53,650.7</i>	<i>16.6</i>		
a. Net Claims on Govt.	57,396.6	63,894.5	70,567.4	70,970.1	79,253.1	89,753.1	6,672.9	10.4	8,283.0	11.7	10,500.0	13.2
i. Claims on Govt.	58,149.6	63,894.5	70,567.4	70,970.1	79,253.1	89,753.1	6,672.9	10.4	8,283.0	11.7	10,500.0	13.2
ii. Govt. Deposits	753.03	-	-	-	-	-	0.0	-	-	-	-	-
b. Claims on Govt. Enterprises	16,258.8	19,329.0	17,180.7	8,142.8	10,868.7	11,868.7	-2,148.3	-11.1	2,725.9	33.5	1,000.0	9.2
i. Financial	13,343.9	12,762.8	12,719.8	3,581.9	5,360.2	5,860.2	-43.0	-0.3	1,778.3	49.6	500.0	9.3
ii. Non-financial	2,914.9	6,566.2	4,460.9	4,560.9	5,508.5	6,008.5	-2,105.3	-32.1	947.6	20.8	500.0	9.1
c. Claims on Private Sector	172,516.5	197,016.9	214,321.3	243,570.4	270,188.4	320,149.7	17,304.4	8.8	26,618.0	10.9	49,961.3	18.5
<i>Claims on Private Sector*</i>		<i>197,016.9</i>	<i>225,367.9</i>	<i>243,570.4</i>	<i>286,212.1</i>		<i>28,351.0</i>	<i>14.4</i>	<i>42,641.7</i>	<i>17.5</i>		
2.2. Net Non-monetary Liabilities	77,670.6	87,542.5	94,336.0	115,547.6	95,024.5	102,160.4	701.5 ¹	0.8	-7,373.4 ²	-6.4	7,135.9	7.5
<i>Net Non-monetary Liabilities*</i>		<i>87,542.5</i>	<i>105,382.6</i>	<i>115,547.6</i>	<i>111,048.3</i>		<i>11,748.1¹</i>	<i>13.4</i>	<i>8,650.4²</i>	<i>7.5</i>		
3. Broad Money (M₂)	277,305.9	300,439.9	347,266.1	346,668.6	398,668.9	460,994.3	46,826.2	15.6	52,000.3	15.0	62,325.4	15.6
3.1. Money Supply (M ₁)	93,969.5	100,205.7	114,233.1	112,905.3	127,451.3	145,317.1	14,027.4	14.0	14,546.0	12.9	17,865.8	14.0
a. Currency	63,218.9	68,784.1	77,771.3	77,625.4	86,223.8	96,910.7	8,987.2	13.1	8,598.4	11.1	10,686.9	12.4
b. Demand Deposits	30,750.7	31,421.6	36,461.9	35,279.9	41,227.6	48,406.5	5,040.3	16.0	5,947.7	16.9	7,178.9	17.4
3.2. Time Deposits	183,336.4	200,234.2	233,033.0	233,763.3	271,217.6	315,677.2	32,798.8	16.4	37,454.3	16.0	44,459.6	16.4
4. Broad Money Liquidity (M₃)	298,480.5	321,997.1	372,354.4	371,756.8	427,183.7	491,606.1	50,357.3	15.6	55,426.9	14.9	64,422.4	15.1

1/ Adjusting the exchange valuation gain of Rs. 6092.0 million.

2/ Adjusting the exchange valuation loss of Rs 13149.74 million.

Consolidated balance sheet of ADB/N included.

* Adjusting credit write off (Rs. 3629.2 million principal and Rs. 7417.4 million interest) by NBL as in mid-July 2006. Further, as in mid-Oct 2006, NBL wrote off a total of Rs. 2869.3 million (Rs. 821.7 million principal and Rs. 2047.6 million accrued interest) and as in mid-Dec 2006, RBB wrote off Rs. 13154.5 million bad loans (Rs. 4055.2 million principal and Rs. 9099.3 million accrued interest). Accordingly, interest suspense account and loan loss provisioning account of these banks declined.

e = Estimate.

p = Projection.

Appendix 3
List of Goods Allowed to 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 Kernal 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

40 Nepal Rastra Bank

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)
	<u>List of goods added effective April 17, 2007</u>	
92	As per section 17.02.30	Dextrose Anhydrous I.P.
93	As per section 25.23.10.00	Clinker
94	As per section 27.10.19.16	M.T.O. (Mineral Turpentile Oil)
95	As per section 27.10.19.90	Petrosole
96	As per section 29.16	Unsaturated Acycline Monocarboxylic Acid
97	As per section 29.35.00	Sulphonamides: Sulphamethoxazole, Sulphafurazole, Sulphadiazine, Sulphadimidine, Sulphacetamide
98	As per section 29.35.11	Sulphamethoxazole
99	As per section 29.35.12	Sulphafurazole
100	As per section 29.35.13	Sulphadiazine
101	As per section 29.35.14	Sulphadimidine

S. No.	Harmonic Code Number	Goods
102	As per section 29.35.15	Sulphacetamide Sulphamethoxy, Pyridarine, Sulphamethiazole, Sulphamoxole, Sulphamide
103	As per section 29.35.21	Sulphamethoxy, Pyridarine
104	As per section 29.35.22	Sulphamethiazole
105	As per section 29.35.23	Sulphamoxole
106	As per section 29.35.24	Sulphamide
107	As per section 29.42	Other Organic Compounds
108	As per section 32.12.90.00	Ziline, Light Solvent Neptha
109	As per section 33.02.10	Essence Flavor
110	As per section 35.03	Geltain Capsules
111	As per section 39.05.42.00	Penta Aerithritole
112	As per section 39.20	Film of Polyester, Polythelyne, BOPP, Pvc, OPP, CPP
113	As per section 39.21.19	Printed Wrapper
114	As per section 39.23.90	Plastic Lollypop Stick
115	As per section 48.23.90 (76.07.20)	Chewing gum Wrapper
116	As per section 70.10.20	Stoppers, Lids and Other Closures
117	As per section 72.01.10.00	Pig Iron
118	As per section 72.11.23	CRCA Strips (76.20 MM)
119	As per section 76.07	Aluminum foils
120	As per section 79.01.12.00	Zinc
121	As per section 85.04.22.00	3000 KVA Transformer

Appendix 4
Total Cost of Financial Sector Reform Programme
(Up to March 14, 2007)

Particulars		(Rs. in million)
1	NRB Reengineering (1.1+1.2)	253.50
1.1	<i>Financial Sector Technical Assistance Project- Phase 1</i>	230.67
1.1.1	Consultants' services	192.67
1.1.2	Training and study tours	25.13
1.1.3	Goods	10.41
1.1.4	Incremental operating cost	2.14
1.1.5	Ineligible	0.31
1.2	<i>Financial Sector Restructuring Project- Phase 2</i>	22.83
1.2.1	Consultants' services	22.83
2	Management Cost (2.1+2.2)	1,241.92
2.1	<i>Rastriya Banijya Bank</i>	428.67
2.1.1	Financial Sector Technical Assistance Project- Phase 1	343.33
2.1.2	Financial Sector Restructuring Project- Phase 2	85.34
2.2	<i>Nepal Bank Limited</i>	813.25
2.2.1	Financial Sector Technical Assistance Project- Phase 1	643.79
2.2.2	Financial Sector Restructuring Project- Phase 2	169.46
3	Voluntary Retirement Scheme (VRS, under Phase 2)	3,889.29
3.1	Rastriya Banijya Bank	2,267.45
3.2	Nepal Bank Limited	1,621.84
4	Automation (Under Phase 1)	141.30
4.1	Rastriya Banijya Bank	53.22
4.2	Nepal Bank Limited	88.08
5	Total Cost (1+2+3+4)	5,526.00
5.1	Under Phase 1	1,359.09
5.2	Under Phase 2	4,166.91

List of Statistical Tables

Table 1	Real Gross Domestic Product
Table 2	Nominal Gross Domestic Product
Table 3	Gross National Disposable Income (GNDI)
Table 4	National Urban Consumer Price Index
Table 5	Monetary Survey
Table 6	Outright Sale Auction
Table 7	Outright Purchase Auction
Table 8	Repo Auction
Table 9	Reverse Repo Auction
Table 10	Foreign Exchange Intervention
Table 11	Foreign Exchange Intervention (in US Dollars)
Table 12	Standing Liquidity Facility (SLF)
Table 13	Interbank Transaction (Amount)
Table 14	Fresh Treasury Bills Auction
Table 15	Structure of Interest Rates
Table 16	Weighted Average Treasury Bills Rate (91-day)
Table 17	Weighted Average Treasury Bills Rate (364-day)
Table 18	Weighted Average Interbank Transaction Rate
Table 19	Government Budgetary Operation
Table 20	Outstanding Domestic Debt of Government of Nepal
Table 21	Direction of Foreign Trade
Table 22	Balance of Payments Situation
Table 23	Gross Foreign Exchange Holding of the Banking Sector
Table 24	Import from India Against the US Dollar Payment
Table 25	Indian Currency Purchase by Selling the US Dollar

Table 1
Real Gross Domestic Product
(At 2000/01 Prices)

Sectors	Rs. in million							Percent Change					
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06 ^R	2006/07 ^P	01/02	02/03	03/04	04/05	05/06 ^R	06/07 ^P
Agriculture	155,625	160,422	165,761	173,734	179,811	181,811	183,001	3.1	3.3	4.8	3.5	1.1	0.7
Agriculture and Forestry	153,781	158,417	163,676	171,394	177,304	179,056	180,163	3.0	3.3	4.7	3.4	1.0	0.6
Fishery	1,844	2,005	2,085	2,340	2,507	2,755	2,838	8.7	4.0	12.2	7.1	9.9	3.0
Non-Agriculture	269,829	266,980	276,365	291,093	298,822	312,573	323,754	-1.1	3.5	5.3	2.7	4.6	3.6
Industry	73,561	74,197	76,492	77,588	79,925	83,337	85,146	0.9	3.1	1.4	3.0	4.3	2.2
Mining and Quarrying	1,817	1,977	2,040	2,031	2,169	2,334	2,474	8.8	3.2	-0.4	6.8	7.6	6.0
Manufacturing	38,409	36,364	36,380	37,163	38,136	38,898	39,737	-5.3	0.0	2.2	2.6	2.0	2.2
Electricity, Gas and Water	7,750	8,631	10,274	10,693	11,117	11,522	11,893	11.4	19.0	4.1	4.0	3.6	3.2
Construction	25,585	27,225	27,798	27,701	28,503	30,583	31,042	6.4	2.1	-0.3	2.9	7.3	1.5
Services	196,268	192,783	199,873	213,505	218,897	229,236	238,608	-1.8	3.7	6.8	2.5	4.7	4.1
Wholesale and Retail Trade	69,928	61,837	63,233	70,066	65,694	68,099	66,326	-11.6	2.3	10.8	-6.2	3.7	-2.6
Hotels and Restaurant	8,459	6,917	7,056	7,955	7,525	7,976	8,200	-18.2	2.0	12.7	-5.4	6.0	2.8
Transport, Storage and Communications	31,425	34,055	35,825	38,509	39,272	40,982	44,305	8.4	5.2	7.5	2.0	4.4	8.1
Financial Intermediation	11,455	11,892	12,090	12,838	15,957	18,594	20,186	3.8	1.7	6.2	24.3	16.5	8.6
Real Estate, Renting and Business	35,267	33,543	32,212	31,538	34,700	35,071	38,104	-4.9	-4.0	-2.1	10.0	1.1	8.6
Public Administration and Defence	5,288	7,237	8,070	8,019	8,551	9,140	9,469	36.9	11.5	-0.6	6.6	6.9	3.6
Education	17,372	21,030	23,913	25,138	27,606	28,345	29,929	21.1	13.7	5.1	9.8	2.7	5.6
Health and Social Work	4,178	4,487	5,171	5,487	6,109	6,539	6,876	7.4	15.2	6.1	11.3	7.0	5.2
Other Community, Social and Personal Service	12,896	11,785	12,303	13,955	13,483	14,490	15,213	-8.6	4.4	13.4	-3.4	7.5	5.0
Total GVA including FISIM	425,454	427,402	442,126	464,827	478,633	494,384	506,755	0.5	3.4	5.1	3.0	3.3	2.5
Financial intermediation indirectly measured	12,026	13,309	12,428	16,173	17,180	18,431	19,912	10.7	-6.6	30.1	6.2	7.3	8.0
GDP at basic prices	413,428	414,093	429,698	448,654	461,453	475,953	486,843	0.2	3.8	4.4	2.9	3.1	2.3
Taxes less subsidies on products	28,090	27,957	29,789	32,350	34,574	33,958	35,824	-0.5	6.6	8.6	6.9	-1.8	5.5
GDP at producers price	441,518	442,050	459,487	481,004	496,027	509,911	522,667	0.1	3.9	4.7	3.1	2.8	2.5

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					
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06 ^R	2006/07 ^P	01/02	02/03	03/04	04/05	05/06 ^R	06/07 ^P
Agriculture	155,625	166,090	172,802	186,125	199,368	211,010	228,677	6.7	4.0	7.7	7.1	5.8	8.4
Agriculture and Forestry	153,781	163,925	170,634	183,621	196,686	207,897	225,246	6.6	4.1	7.6	7.1	5.7	8.3
Fishery	1,844	2,165	2,168	2,504	2,682	3,113	3,431	17.4	0.1	15.5	7.1	16.1	10.2
Non-Agriculture	269,829	277,962	300,743	331,868	367,211	412,073	462,882	3.0	8.2	10.3	10.6	12.2	12.3
Industry	73,561	77,861	83,538	89,408	97,059	104,841	112,909	5.8	7.3	7.0	8.6	8.0	7.7
Mining and Quarrying	1,817	2,149	2,310	2,507	2,748	3,060	3,306	18.3	7.5	8.5	9.6	11.4	8.0
Manufacturing	38,409	37,736	38,826	41,673	44,885	47,840	51,887	-1.8	2.9	7.3	7.7	6.6	8.5
Electricity, Gas and Water	7,750	9,138	11,447	11,974	12,782	13,130	13,530	17.9	25.3	4.6	6.7	2.7	3.0
Construction	25,585	28,838	30,955	33,254	36,644	40,811	44,186	12.7	7.3	7.4	10.2	11.4	8.3
Services	196,268	200,101	217,205	242,460	270,152	307,232	349,973	2.0	8.5	11.6	11.4	13.7	13.9
Wholesale and Retail Trade	69,928	64,778	68,695	79,219	79,839	90,214	96,284	-7.4	6.0	15.3	0.8	13.0	6.7
Hotels and Restaurant	8,459	7,143	7,540	8,942	8,895	9,257	9,802	-15.6	5.6	18.6	-0.5	4.1	5.9
Transport, Storage and Communications	31,425	34,959	39,362	46,283	51,336	64,711	81,341	11.2	12.6	17.6	10.9	26.1	25.7
Financial Intermediation	11,455	12,202	12,861	13,728	17,342	20,633	22,686	6.5	5.4	6.7	26.3	19.0	10.0
Real Estate, Renting and Business	35,267	36,525	38,251	39,991	49,242	51,387	58,546	3.6	4.7	4.5	23.1	4.4	13.9
Public Administration and Defence	5,288	7,237	8,070	8,019	9,548	10,967	12,500	36.9	11.5	-0.6	19.1	14.9	14.0
Education	17,372	20,823	24,582	26,313	31,671	34,623	39,661	19.9	18.1	7.0	20.4	9.3	14.6
Health and Social Work	4,178	4,626	5,408	5,825	7,017	7,925	8,890	10.7	16.9	7.7	20.5	12.9	12.2
Other Community, Social and Personal Service	12,896	11,808	12,436	14,140	15,262	17,515	20,263	-8.4	5.3	13.7	7.9	14.8	15.7
Total GVA including FISIM	425,454	444,052	473,545	517,993	566,579	623,083	691,559	4.4	6.6	9.4	9.4	10.0	11.0
Financial intermediation indirectly measured	12,026	13,655	13,221	17,294	18,094	19,412	20,971	13.5	-3.2	30.8	4.6	7.3	8.0
GDP at basic prices	413,428	430,397	460,324	500,699	548,485	603,671	670,588	4.1	7.0	8.8	9.5	10.1	11.1
Taxes less subsidies on products	28,090	29,046	31,906	36,050	40,927	42,798	48,888	3.4	9.8	13.0	13.5	4.6	14.2
GDP at producers price	441,518	459,443	492,230	536,749	589,412	646,469	719,476	4.1	7.1	9.0	9.8	9.7	11.3

R= Revised estimate.

P= Preliminary estimate.

Source: Central Bureau of Statistics.

Table 3
Gross National Disposable Income (GNDI)
(At Current Market Prices)

Sectors	Rs. in million							Percent change					
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06 ^R	2006/07 ^P	01/02	02/03	03/04	04/05	05/06	06/07
Consumption	390,017	415,843	450,090	473,685	521,302	595,355	652,170	6.6	8.2	5.2	10.1	14.2	9.5
Government consumption	35,785	38,586	42,652	46,397	52,453	56,822	62,793	7.8	10.5	8.8	13.1	8.3	10.5
Private consumption	348,989	371,402	400,468	419,290	459,530	527,814	576,914	6.4	7.8	4.7	9.6	14.9	9.3
Non-profit institutions	5,243	5,855	6,970	7,998	9,319	10,719	12,463	11.7	19.0	14.7	16.5	15.0	16.3
Total Investment	98,649	93,019	105,384	131,670	155,907	167,991	182,384	-5.7	13.3	24.9	18.4	7.8	8.6
Gross fixed capital formation	84,750	89,889	98,073	109,181	117,539	135,375	146,198	6.1	9.1	11.3	7.7	15.2	8.0
<i>Public</i>	18,063	17,439	14,719	14,955	17,213	17,904	19,039	-3.5	-15.6	1.6	15.1	4.0	6.3
<i>Private consumption</i>	66,687	72,450	83,354	94,226	100,326	117,471	127,159	8.6	15.1	13.0	6.5	17.1	8.2
Change in stock	13,899	3,130	7,311	22,489	38,368	32,616	36,186	-77.5	133.6	207.6	70.6	-15.0	10.9
Total Domestic Demand	488,666	508,862	555,474	605,355	677,209	763,346	834,554	4.1	9.2	9.0	11.9	12.7	9.3
Export of goods and services	99,610	81,492	77,280	89,544	85,958	87,952	89,825	-18.2	-5.2	15.9	-4.0	2.3	2.1
Imports of goods and services	146,757	130,912	140,522	158,151	173,754	204,828	204,903	-10.8	7.3	12.5	9.9	17.9	0.0
<i>Net export of goods and services</i>	(47,147)	(49,420)	(63,242)	(68,607)	(87,796)	(116,876)	(115,078)	4.8	28.0	8.5	28.0	33.1	-1.5
Gross Domestic Product	441,519	459,442	492,232	536,748	589,413	646,470	719,476	4.1	7.1	9.0	9.8	9.7	11.3
Net Factor Income	1,701	(605)	(676)	(1,684)	1,634	4,956	4,444	-135.6	11.7	149.1	-197.0	203.3	-10.3
Gross National Income	443,220	458,837	491,556	535,064	591,047	651,426	723,920	3.5	7.1	8.9	10.5	10.2	11.1
Net Transfer	65,595	68,168	75,533	84,889	97,704	126,146	133,698	3.9	10.8	12.4	15.1	29.1	6.0
Gross National Disposable Income (GNDI)	508,815	527,005	567,089	619,953	688,751	777,572	857,618	3.6	7.6	9.3	11.1	12.9	10.3

R= Revised estimate.

P= Preliminary estimate.

Source: Central Bureau of Statistics.

Table 4
National Urban Consumer Price Index
(Base Year 1995/96 = 100)

Mid-Month	2001/02	2002/03		2003/04		2004/05		2005/06		2006/07 ^P	
	Index	Index	% Change	Index	% Change	Index	% Change	Index	% Change	Index	% Change
August	141.5	147.5	4.2	155.4	5.4	159.1	2.4	170.7	7.3	183.1	7.3
September	143.7	148.4	3.3	156.1	5.2	160.2	2.6	173.3	8.2	184.8	6.6
October	144.4	148.7	3.0	157.1	5.6	161.2	2.6	173.8	7.8	186.9	7.5
November	144.8	148.0	2.2	156.6	5.8	160.8	2.7	174.5	8.5	186.9	7.1
December	143.1	147.0	2.7	154.2	4.9	159.0	3.1	173.0	8.8	185.6	7.3
January	140.7	145.3	3.3	152.5	5.0	159.5	4.6	170.6	7.0	183.6	7.6
February	139.4	145.8	4.6	152.7	4.7	161.4	5.7	170.8	5.8	184.5	8.0
March	139.4	146.7	5.2	153.1	4.4	161.9	5.7	174.3	7.7	185.1	6.2
April	140.1	151.5	8.1	154.1	1.7	163.1	5.8	176.0	7.9	185.9	5.6
May	141.2	152.1	7.7	154.1	1.3	164.0	6.4	179.0	9.1	187.3	4.6
June	142.8	152.2	6.6	155.0	1.8	164.6	6.2	179.6	9.1	187.6	4.5
July	144.5	153.3	6.1	156.4	2.0	166.8	6.6	180.6	8.3	188.9	4.6 *
Annual Average	142.1	148.9	4.8	154.8	4.0	161.8	4.5	174.7	8.0	185.9	6.4 *

P= Provisional

*= Estimate

Table 5
Monetary Survey
(First Ten Months)

(Rs. in million)

Monetary Aggregates	2005 Jul	2006 May	2006 Jul [#]	2007 May ^E	Changes during the first ten months			
					2005/06		2006/07	
					Amount	Percent	Amount	Percent
1. Foreign Assets, Net	107,742.1	132,319.7	139,532.9	133,255.4	20,496.8 ^{1/}	19.0	6,872.3 ^{2/}	4.9
1.1. Foreign Assets	130,916.8	157,690.3	166,195.4	165,147.7	26,773.5	20.5	-1,047.7	-0.6
1.2. Foreign Currency Deposits	21,557.2	23,822.5	25,088.1	27,408.3	2,265.3	10.5	2,320.1	9.2
1.3. Other Foreign Liabilities	1,617.6	1,548.2	1,574.4	4,484.1	-69.4	-4.3	2,909.7	184.8
2. Net Domestic Assets	192,697.9	200,425.0	207,135.7	248,224.2	11,807.9 ^{1/}	6.1	27,938.8 ^{2/}	13.5
2.1. Domestic Credit	280,240.4	305,782.3	322,683.3	342,717.5	25,541.9	9.1	20,034.2	6.2
<i>Domestic Credit*</i>	<i>280,240.4</i>	<i>305,782.3</i>	<i>322,683.3</i>	<i>358,741.3</i>	<i>25,541.9</i>	<i>9.1</i>	<i>36,058.0</i>	<i>11.2</i>
a. Net Claims on Govt.	63,894.5	62,906.5	70,970.1	61,473.3	-988.0	-1.5	-9,496.8	-13.4
i. Claims on Govt.	63,894.5	67,711.1	70,970.1	77,190.2	3,816.6	6.0	6,220.2	8.8
ii. Govt. Deposits	-	4,804.5	-	15,716.9	4,804.5	-	15,716.9	-
b. Claims on Non-financial Govt. Ent.	6,566.2	6,039.8	4,560.9	7,033.5	-526.3	-8.0	2,472.6	54.2
c. Claims on Financial Institutions	12,762.8	12,595.8	3,581.9	5,909.1	-167.0	-1.3	2,327.2	65.0
i. Government	12,730.8	12,543.6	1,808.3	1,737.9	-187.3	-1.5	-70.3	-3.9
ii. Non-government	32.0	52.3	1,773.6	4,171.2	20.3	63.3	2,397.5	135.2
d. Claims on Private Sector	197,016.9	224,240.1	243,570.4	268,301.5	27,223.2	13.8	24,731.1	10.2
<i>Claims on Private Sector*</i>	<i>197,016.9</i>	<i>224,240.1</i>	<i>243,570.4</i>	<i>284,325.3</i>	<i>27,223.2</i>	<i>13.8</i>	<i>40,754.9</i>	<i>16.7</i>
2.2. Net Non-monetary Liabilities	87,542.5	105,357.3	115,547.6	94,493.2	13,734.0 ^{1/}	15.7	-7,904.6 ^{2/}	-6.8
<i>Net Non-monetary Liabilities*</i>	<i>87,542.5</i>	<i>105,357.3</i>	<i>115,547.6</i>	<i>110,517.0</i>	<i>13,734.0</i> ^{1/}	<i>15.7</i>	<i>8,119.2</i> ^{2/}	<i>7.0</i>
3. Broad Money (M₂)	300,439.9	332,744.7	346,668.6	381,479.6	32,304.7	10.8	34,811.0	10.0
3.1. Money Supply (M ₁)	100,205.7	110,127.7	112,905.3	120,118.0	9,921.9	9.9	7,212.6	6.4
a. Currency	68,784.1	77,540.2	77,625.4	81,863.6	8,756.1	12.7	4,238.3	5.5
b. Demand Deposits	31,421.6	32,587.4	35,279.9	38,254.3	1,165.7	3.7	2,974.3	8.4
3.2. Time Deposits	200,234.2	222,617.0	233,763.3	261,361.7	22,382.8	11.2	27,598.4	11.8
4. Broad Money Liquidity (M₃)	321,997.1	356,567.1	371,756.8	408,887.9	34,570.0	10.7	37,131.1	10.0

1/ Adjusting the exchange valuation gain of Rs. 4080.78 million.

2/ Adjusting the exchange valuation loss of Rs 13149.74 million.

Consolidated balance sheet of ADB/N included.

* Adjusting credit write off of Rs. 2869.3 million (Rs. 821.7 million principal and Rs. 2047.6 million interest) by NBL and Rs. 13154.5 million (Rs. 4055.2 million principal and Rs. 9099.3 million interest) by RBB in mid-October 2006.

E = Estimates.

Table 6
Outright Sale Auction*

(Rs. in million)

Mid-Month	2004/05		2005/06		2006/07	
	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)
August	-		1,440.0	3.47	1,000.0	2.51
September	-		-	-	1,250.0	3.06
October	9,550.0	3.64	2,000.0	3.85	1,020.0	3.38
November	-		300.0	3.02	-	-
December	-		830.0	1.90	2,620.0	1.59
January	950.0	2.23	-	-	-	-
February	-	-	-	-	-	-
March	-	-	470.0	3.74	2,000.0	2.94
April	-	-	930.0	4.01	1,010.0	2.54
May	-	-	-	-	1,300.0	3.37
June	-	-	3,390.0	3.50	6,050.0	2.80
July	-	-	4,150.0	3.68	2,150.0	4.51
Total	10,500.0		13,510.0		18,400.0	

Wtd. Int. Rate = Weighted interest rate.

* Since 2004/05, the outright sale auction of treasury bills has been used as a monetary instrument at the initiative of NRB.

Table 7
Outright Purchase Auction*

(Rs. in million)

Mid-Month	2004/05		2005/06		2006/07	
	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)
August	-	-	-	-	-	-
September	-	-	-	-	-	-
October	-	-	530.0	4.99	-	-
November	49.6	2.43	300.0	3.52	-	-
December	-	-	-	-	-	-
January	-	-	-	-	-	-
February	1,072.2	2.29	-	-	-	-
March	190.0	2.11	-	-	-	-
April	-	-	-	-	-	-
May	-	-	-	-	-	-
June	-	-	-	-	-	-
July	-	-	-	-	-	-
Total	1,311.8		830.0		-	-

Wtd. Int. Rate = Weighted interest rate.

* Since 2004/05, the outright purchase auction of treasury bills has been used as a monetary instrument at the initiative of NRB.

Table 8
Repo Auction*

(Rs. in million)

Mid-Month	2004/05	2005/06	2006/07
August	-	-	-
September	-	-	-
October	-	-	-
November	1,050.0	-	-
December	1,610.0	-	-
January	-	-	-
February	2,800.0	450.0	-
March	300.0	-	-
April	-	-	-
May	600.0	-	2,000.0
June	-	-	-
July	320.0	-	-
Total	6,680.0	450.0	2,000.0

* Since 2004/05, the repo auction of treasury bills has been used as a monetary instrument at the initiative of NRB.

Table 9
Reverse Repo Auction*

(Rs. in million)

Mid-Month	2004/05	2005/06	2006/07
August	-	-	2,590.0
September	-	-	1,500.0
October	1,500.0	-	1,500.0
November	-	500.0	6,150.0
December	-	1,500.0	750.0
January	2,570.0	2,000.0	1,070.0
February	-	1,000.0	-
March	-	-	500.0
April	1,200.0	1,500.0	-
May	-	-	-
June	-	-	-
July	-	-	280.0
Total	5,270.0	6,500.0	14,340.0

* Since 2004/05, the reverse repo auction of treasury bills has been used as a monetary instrument at the initiative of NRB.

Table 10
Foreign Exchange Intervention*

(Rs. in million)

Mid-Month	2003/04			2004/05			2005/06			2006/07		
	Purchase	Sale	Net Injection	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	1,177.11	6,548.66	-	6,548.66
September	1,337.10	-	1,337.10	2,067.50	-	2,067.50	2,160.84	-	2,160.84	4,746.41	-	4,746.41
October	3,529.54	-	3,529.54	3,687.80	-	3,687.80	3,783.86	-	3,783.86	5,593.18	-	5,593.18
November	2,685.96	-	2,685.96	2,435.07	1,088.43	1,346.64	6,195.49	-	6,195.49	5,134.50	-	5,134.50
December	2,257.50	496.34	1,761.16	3,233.32	-	3,233.32	4,826.32	-	4,826.32	6,876.10	-	6,876.10
January	2,901.58	-	2,901.58	4,718.09	-	4,718.09	4,487.17	131.74	4,355.43	5,420.58	-	5,420.58
February	1,893.90	-	1,893.90	2,090.36	1,750.53	339.83	2,934.97	-	2,934.97	3,363.40	511.49	2,851.92
March	1,962.72	-	1,962.72	2,120.21	-	2,120.21	5,263.02	-	5,263.02	7,260.27	-	7,260.27
April	2,955.37	-	2,955.37	6,237.81	-	6,237.81	3,922.80	-	3,922.80	3,531.87	-	3,531.87
May	1,971.17	408.86	1,562.31	3,808.95	780.34	3,028.61	5,023.75	-	5,023.75	4,500.14	-	4,500.14
June	4,584.48	-	4,584.48	2,288.94	-	2,288.94	9,752.21	-	9,752.21	5,395.53	-	5,395.53
July	3,337.29	1,132.25	2,205.04	3,849.10	-	3,849.10	5,827.24	-	5,827.24	6,596.01	-	6,596.01
Total	30,152.00	2,037.45	28,114.55	37,894.65	3,619.30	34,275.35	55,877.51	654.48	55,223.03	64,966.65	511.49	64,455.16

* The purchase and sale of foreign exchange takes place at the request (initiative) of commercial banks.

Table 11
Foreign Exchange Intervention*

(US\$ in million)

Mid-Month	2003/04			2004/05			2005/06			2006/07		
	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection
August	9.80	-	9.80	18.20	-	18.20	24.10	7.40	16.70	87.50	-	87.50
September	17.90	-	17.90	27.60	-	27.60	30.50	-	30.50	63.85	-	63.85
October	47.60	-	47.60	49.40	-	49.40	53.00	-	53.00	76.25	-	76.25
November	36.40	-	36.40	32.90	14.60	18.30	84.35	-	84.35	71.05	-	71.05
December	30.40	6.70	23.70	44.50	-	44.50	65.00	-	65.00	95.85	-	95.85
January	39.20	-	39.20	66.20	-	66.20	62.30	1.80	60.50	75.95	-	75.95
February	25.70	-	25.70	29.50	24.50	5.00	41.20	-	41.20	47.55	7.20	40.35
March	26.70	-	26.70	29.90	-	29.90	73.60	-	73.60	102.50	-	102.50
April	40.60	-	40.60	88.00	-	88.00	54.70	-	54.70	50.90	-	50.90
May	17.30	5.70	11.60	53.90	11.00	42.90	69.25	-	69.25	67.50	-	67.50
June	62.35	-	62.35	32.40	-	32.40	133.00	-	133.00	82.75	-	82.75
July	44.85	15.20	29.65	54.50	-	54.50	78.80	-	78.80	101.30	-	101.30
Total	398.80	27.60	371.20	527.00	50.10	476.90	769.80	9.20	760.60	922.95	7.20	915.75

* The purchase and sale of foreign exchange takes place at the request (initiative) of commercial banks.

Table 12
Standing Liquidity Facility (SLF)*

(Rs. in million)

Mid-Month	2004/05	2005/06	2006/07
August	585.00	400.00	-
September	189.00	550.00	370.00
October	3,367.28	220.00	1,575.00
November	15,836.81	-	2,101.50
December	2,362.50	-	1,074.70
January	200.00	753.50	3,070.00
February	6,224.80	200.00	-
March	11,402.00	160.00	300.00
April	4,027.90	950.00	8,630.00
May	1,040.00	4,800.00	13,821.00
June	600.00	-	350.00
July	3,472.05	1,850.00	15,687.00
Total	49,307.34	9,883.50	46,979.20

* Introduced as a safety valve for domestic payments system since 2004/05.

This fully collateralised lending facility takes place at the initiative of commercial banks.

Table 13
Interbank Transaction (Amount)

(Rs. in million)

Mid-Month	2002/03	2003/04	2004/05	2005/06	2006/07
August	5,095.0	4,870.0	4,309.0	20,554.2	13,397.0
September	4,230.0	13,805.0	13,165.0	24,670.5	18,830.0
October	4,240.0	12,575.0	12,145.0	12,021.0	15,855.0
November	3,610.0	14,759.0	9,056.0	10,369.0	14,880.0
December	3,000.0	7,900.0	11,018.0	15,533.0	14,180.0
January	4,225.0	13,460.0	11,030.0	11,255.5	17,395.0
February	5,009.0	8,080.0	12,710.0	14,541.0	8,962.0
March	4,330.0	2,800.0	9,500.0	20,075.0	7,713.0
April	3,550.0	5,860.0	18,162.0	15,654.0	7,295.0
May	5,180.0	9,070.0	13,050.0	7,970.0	20,300.0
June	4,060.0	5,650.0	18,334.3	10,245.0	17,397.0
July	5,200.0	14,359.0	20,358.5	12,862.0	13,980.0
Total	51,729.0	113,188.0	152,837.8	175,750.2	170,184.0

Table 14
Fresh Treasury Bills

(Rs. in million)

Mid-Month	2004/05	2005/06	2006/07
August	-	-	-
September	-	-	-
October	500.0	1,185.0	-
November	850.0	-	2,480.0
December	-	-	-
January	850.0	1,950.0	-
February	-	-	1,000.0
March	141.2	-	2,180.0
April	1,300.0	2,962.5	730.0
May	500.0	-	-
June	1,000.0	2,000.0	-
July	330.0	2,736.7	5,661.6
Total	5,471.2	10,834.2	12,051.6

Table 15
Structure of Interest Rates
(Percent per Annum)

Year Mid-month	2003 Jul	2004 Jul	2005 Jul	2005 Oct	2006 Jan	2006 Apr	2006 Jul	2006 Oct	2007 Jan	2007 Apr	2007 Jul
A. Policy Rates											
CRR	6.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Bank Rate	5.5	5.5	5.5	6.0	6.0	6.25	6.25	6.25	6.25	6.25	6.25
Refinance Rates Against Loans to:											
Sick Industries	3.0	2.0	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Export Credit in Domestic Currency and RDBs	4.5	4.5	3.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Export Credit in Foreign Currency	2.0	2.0	2.0	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
SLF Penal Rate [#]	-	-	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
B. Government Securities											
T-bills* (28 days)	-	1.82	-	2.62	1.59	2.54	2.40	2.01	2.37	1.50	2.13
T-bills* (91 days)	2.98	1.47	3.94	3.10	2.46	2.89	3.25	2.54	2.67	1.85	2.77
T-bills* (182 days)	-	-	4.42	3.70	2.57	3.77	3.86	2.78	3.25	2.67	3.51
T-bills* (364 days)	4.93	3.81	4.79	3.87	3.42	4.31	4.04	3.78	3.14	3.09	4.00
Development Bonds	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-6.75	3.0-6.75	3.0-6.75	3.0-6.75	3.0-6.75	3.0-6.75
National/Citizen SCs	7.0-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.0-13.0	6.0-8.5	6.0-8.5	6.0-8.5	6.0-8.5	6.0-8.5
C. Interbank Rate											
	4.50	0.71	4.71	3.18	1.22	1.97	2.13	2.11	3.03	1.69	3.03
D. Commercial Banks											
1. Deposit Rates											
Savings Deposits	2.5-6.0	2.0-5.0	1.75-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-5.0	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	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.5
3 Months	2.0-5.0	2.0-4.0	1.5-4.0	1.5-3.5	1.5-4.0	1.5-4.0	1.5-4.0	1.5-4.0	1.50-4.0	1.50-4.0	1.50-4.0
6 Months	2.5-6.0	2.0-4.5	2.5-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5
1 Year	3.0-7.0	2.75-5.75	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0
2 Years and Above	3.25-7.5	3.0-6.0	2.5-6.05	2.5-6.05	2.5-6.4	2.5-6.4	2.5-6.4	2.5-6.4	2.5-5.5	2.5-5.5	2.5-5.5
2 Lending Rates											
Industry	8.50-14.0	8.5-13.5	8.25-13.5	8.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5
Agriculture	10.5-14.5	10.5-13	10-13	9.5-13	9.5-13	9.5-13	9.5-13	9.5-13	9.5-13	9.5-13	9.5-13
Export Bills	4.0-12.5	4.0-11.5	4.0-12.0	4.0-12.0	5.0-11.5	5.0-11.5	5.0-11.5	5.0-11.5	5.0-11.5	5.0-11.5	5.0-11.5
Commercial Loans	7.50-16.0	9-14.5	8.0-14	8.0-14	8.0-14	8.0-14	8.0-14	8.0-14	8.0-14.0	8.0-14.0	8.0-14.0
Overdrafts	10.0-17.0	10.0-16.0	5-14.5	6.5-14.5	6.5-14.5	6.5-14.5	6.5-14.5	6.5-14.5	6.0-14.5	6.0-14.5	6.0-14.5
CPI Inflation (annual average)	4.8	4.0	4.5				8.0				6.4

* Weighted average discount rate.

SLF= Standing liquidity facility.

The SLF rate is determined at the penal rate added to the weighted average discount rate of 91-day Treasury Bills of the preceding week.

RDBs= Rural Development Banks

Table 16
Weighted Average Treasury Bills Rate (91-day)

FY	Mid-Month												(Percent)
	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Annual Average
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
2006/07	2.99	2.78	2.54	2.11	1.98	2.67	2.60	2.36	1.85	2.43	2.17	2.77	2.42

Table 17
Weighted Average Treasury Bills Rate (364-day)

(Percent)

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
2006/07	-	-	3.78	3.33	3.04	3.14	3.21	3.01	3.09	3.55	3.19	4.00	3.50

Table 18
Weighted Average
Interbank Transaction Rate

Mid-Month\Year	(Percent)				
	2002/03	2003/04	2004/05	2005/06	2006/07
August	2.98	4.15	1.02	2.47	2.07
September	2.50	2.67	0.39	3.87	1.83
October	3.31	3.60	0.83	3.18	2.11
November	4.05	4.21	2.24	2.36	1.20
December	3.62	4.63	3.54	0.96	1.34
January	3.83	4.68	3.49	1.22	3.03
February	3.61	4.82	3.95	2.48	2.01
March	3.67	3.67	4.33	2.84	1.39
April	3.58	0.83	4.50	1.97	1.69
May	4.06	1.01	4.28	3.52	3.35
June	3.59	0.99	4.11	1.77	2.72
July	4.50	0.71	4.71	2.13	3.03
Annual Average	3.62	3.03	3.39	2.47	2.26

Table 19
Government Budgetary Operation*
(On cash basis)
(During the Fiscal Year)

(Rs. in million)

Heads	Amount			Percent Change	
	2004/05	2005/06	2006/07 ^P	2005/06	2006/07 ^P
Sanctioned Expenditure	92,801.4	104,022.6	127,733.1	12.1	22.8
Recurrent	59,983.5	65,415.2	74,838.6	9.1	14.4
Capital	17,891.3	22,032.9	34,013.4	23.1	54.4
<i>a. Domestic Resources & Loans</i>	17,617.4	19,083.3	28,247.9	8.3	48.0
<i>b. Foreign Grants</i>	273.9	2,949.6	5,765.5	976.9	95.5
Principal Repayment	13,536.3	14,267.8	16,761.7	5.4	17.5
Others (Freeze Account)	1,390.3	2,306.7	2,119.4	65.9	-8.1
Unspent Government Balance	2,420.3	2,385.9	3,356.3	-1.4	40.7
Recurrent	965.8	834.5	1,049.9	-13.6	25.8
Capital	1,451.5	1,548.3	2,301.9	6.7	48.7
Principal Repayment	3.0	3.1	4.5	3.3	45.2
Actual Expenditure	90,381.1	101,636.7	124,376.8	12.5	22.4
Recurrent	59,017.7	64,580.7	73,788.7	9.4	14.3
Capital	16,439.8	20,484.6	31,711.5	24.6	54.8
Principal Repayment	13,533.3	14,264.7	16,757.2	5.4	17.5
Others (Freeze Account)	1,390.3	2,306.7	2,119.4	65.9	-8.1
Resources	76,085.7	85,208.9	106,366.7	12.0	24.8
Revenue	70,122.8	72,282.1	87,199.7	3.1	20.6
From Foreign Grants	5,246.4	8,884.9	12,749.0	69.4	43.5
Non-Budgetary Receipts, net	753.8	1,304.5	4,992.8	73.1	282.7
Others #	9.5	-602.1	3.4	-6,437.9	-100.6
V.A.T.	-46.8	171.1	-131.1	-465.6	-176.6
Local Authorities' Account (LAA)	-	3,168.4	1,552.9	-	-51.0
Deficit (-) Surplus (+)	-14,295.4	-16,427.8	-18,010.1	14.9	9.6
Sources of Financing	14,295.4	16,427.8	18,010.1	14.9	9.6
Internal Loans	12,085.7	12,582.0	13,585.8	4.1	8.0
Domestic Borrowings	8,938.1	11,834.2	17,892.3	32.4	51.2
<i>a. Treasury Bills</i>	5,471.2	10,834.2	12,051.5	98.0	11.2
<i>b. Development Bonds</i>	3,000.0	750.0	5,500.0	-75.0	633.3
<i>c. National Savings Certificates</i>	216.9	-	-	-100.0	-
<i>d. Citizen Savings Certificates</i>	250.0	250.0	340.8	-	36.3
Overdrafts ⁺⁺	2,623.0	1,071.0	-4,201.0	-59.2	-492.3
Others@	524.6	-323.2	-105.5	-161.6	-67.4
Foreign Loans	2,209.7	3,845.8	4,424.3	74.0	15.0

P = Provisional.

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

+ = Minus (-) indicates surplus.

@ = Interest from Government Treasury transactions and others.

* = As per NRB records.

Table 20
Outstanding Domestic Debt of Government of Nepal

(Rs. in million)

No.	Name of Bonds/Ownership	2003	2004	2005	2006	2006/07											Change		
		Mid-Jul	Mid-Jul	Mid-Jul	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 ^P	Jul. 07 - Jul. 06	
1	Treasury Bills	48860.7	49429.6	51383.1	62970.3	62970.3	62970.3	62970.3	65450.3	65450.3	65450.3	66450.3	69701.3	70431.3	70374.2	66639.8	74445.3	11475.1	
	a. Banking Sector	46990.7	45958.7	50425.4	60855.1	60845.1	60845.1	60768.6	63108.6	63098.6	62855.1	63795.1	67239.3	67685.3	67708.2	63865.3	72380.3	11525.2	
	i. Nepal Rastra Bank	15816.9	9804.4	10923.8	9209.3	7869.3	6619.3	13889.3	13889.3	11269.3	13759.3	13659.3	18330.3	17857.8	18670.7	18263.3	13768.8	4559.5	
	ii. Commercial Banks	31173.8	36154.3	39501.6	51645.8	52975.8	54225.8	46879.3	49219.3	51829.3	49095.8	50135.8	48909.0	49827.5	49037.5	45602.0	58611.5	6965.7	
	b. Non-Banking Sector	1870.0	3470.9	957.7	2115.2	2125.2	2125.2	2201.7	2341.7	2351.7	2595.2	2655.2	2462.0	2746.0	2666.0	2774.5	2065.0	-50.2	
2	Development Bonds	16059.2	17549.2	19999.2	17959.2	17959.2	17959.2	17959.2	19159.2	18077.1	18077.1	19177.1	19177.1	19177.1	19177.1	18477.1	19177.1	1217.9	
	a. Banking Sector	9036.9	9885.7	9623.2	7789.6	7789.6	7789.6	7789.6	7789.6	8109.6	8109.6	8109.6	7209.7	7209.7	8209.6	8209.6	7798.9	9.3	
	i. Nepal Rastra Bank	1796.0	3298.3	1518.7	1518.6	1518.6	1518.6	1518.6	1518.6	1518.6	1518.6	1518.6	518.6	518.6	1518.6	1518.6	1518.6	-	
	ii. Commercial Banks	7240.9	6587.4	8104.5	6271.0	6271.0	6271.0	6271.0	6271.0	6591.0	6591.0	6591.0	6691.0	6691.0	6691.0	6691.0	6280.3	9.3	
	b. Non-Banking Sector **	7022.3	7663.5	10376.0	10169.6	10169.6	10169.6	10169.6	10169.6	11049.6	9967.5	9967.5	11967.5	11967.5	10967.5	10267.5	11378.2	1208.6	
3	National/Citizen Savings Certificates	9629.8	9029.8	6576.8	3876.8	3876.8	3876.8	3876.8	3876.8	3876.8	3876.8	3876.8	3876.8	3876.8	3876.8	3876.8	3876.8	1516.9	-2359.9
	a. Banking Sector	110.0	450.8	231.4	254.4	254.4	254.4	254.4	254.4	254.4	254.4	254.4	254.4	254.4	275.2	275.2	275.2	279.5	25.1
	i. Nepal Rastra Bank	-	340.8	231.4	254.4	254.4	254.4	254.4	254.4	254.4	254.4	254.4	254.4	275.2	275.2	275.2	279.5	25.1	
	ii. Commercial Banks	110.00	110.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	b. Non-Banking Sector +	9519.8	8579.0	6345.4	3622.4	3622.4	3622.4	3622.4	3622.4	3622.4	3622.4	3622.4	3622.4	3601.6	3601.6	3601.6	1237.4	-2385.0	
4	Citizen Savings Certificates	931.1	1178.9	1428.9	1678.9	1678.9	1678.9	1678.9	1678.9	1678.9	1261.0	1601.2	1601.2	1391.0	1391.0	1391.0	1391.0	1391.0	-287.9
	a. Banking Sector	-	45.8	49.6	55.3	55.3	55.3	55.3	55.3	55.3	52.4	52.4	52.4	52.7	52.7	53.0	53.0	-2.3	
	i. Nepal Rastra Bank	-	45.8	49.6	55.3	55.3	55.3	55.3	55.3	55.3	52.4	52.4	52.4	52.7	52.7	53.0	53.0	-2.3	
	b. Non-Banking Sector	931.1	1133.1	1379.3	1623.6	1623.6	1623.6	1623.6	1623.6	1208.6	1548.8	1548.8	1338.3	1338.3	1338.3	1338.3	1338.3	-285.6	
5	Special Bonds	4992.8	4223.9	3454.0	3469.8	3469.8	3469.8	3469.8	3469.8	3470.3	3470.3	3277.6	3277.6	3150.4	3150.4	3150.4	2773.5	-696.3	
	a. Banking Sector	2782.6	1808.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	-	
	i. Nepal Rastra Bank ++	1,837.98	864.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	ii. Commercial Banks	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	-	
	b. Non-Banking Sector	2210.2	2415.3	2509.4	2525.2	2525.2	2525.2	2525.2	2525.2	2525.7	2525.7	2333.0	2333.0	2205.8	2205.8	2205.8	1828.9	-696.3	
	(Of which duty drawback)	-	941.7	1035.9	1051.8	1051.7	1051.7	1051.7	1051.7	1051.7	1051.7	1051.7	1051.7	1051.7	1051.7	1051.7	1051.7	-0.1	
6	Short Term Loan & Advances	-461.7	-753.0	2623.0	1071.0	-2753.2	-2894.3	83.0	-4238.5	-9334.4	-8454.9	-7727.3	-12933.7	-16781.3	-15716.9	-6172.3	-4201.0	-5272.0	
	Nepal Rastra Bank	-461.7	-753.0	2623.0	1071.0	-2753.2	-2894.3	83.0	-4238.5	-9334.4	-8454.9	-7727.3	-12933.7	-16781.3	-15716.9	-6172.3	-4201.0	-5272.0	
7	Grand Total	84183.6	80658.4	85465.1	91025.9	87201.7	87060.6	90037.9	88196.4	84301.1	83680.6	85555.6	84700.2	81245.3	82252.7	87362.8	95102.8	4076.9	
	a. Banking Sector	62630.2	57396.6	63897.3	70970.1	67135.9	66994.8	69895.6	67914.1	63128.2	63761.2	65428.8	62766.6	59386.0	61473.4	67175.4	77255.3	6285.3	
	i. Nepal Rastra Bank	23160.9	13600.3	15346.5	12108.6	6944.4	5553.3	15800.6	11479.1	3763.2	7129.8	7757.4	6221.9	1922.9	4800.3	13937.8	11418.9	-689.7	
	ii. Commercial Banks	39469.3	43796.3	48550.7	58861.4	60191.4	61441.4	54094.9	56434.9	59364.9	56631.4	57671.4	56544.6	57463.1	56673.1	53237.6	65836.4	6975.0	
	b. Non-Banking Sector	21553.4	23261.8	21567.8	20055.8	20065.8	20065.8	20142.3	20282.3	21172.9	19919.4	20126.8	21933.7	21859.3	20779.3	20187.5	17847.5	-2208.4	

** Includes Rs. 28.67 million of various funds of NRB.

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

++ IMF Promissory Note is not included.

P Provisional

Source : Nepal Rastra Bank.

Table 21
Direction of Foreign Trade*
(First Eleven Months)

(Rs. in million)

	2002/03	2003/04	2004/05	2004/05	2005/06 ^R	2005/06	2006/07 ^E	Percent Change	
	Annual	Annual	11 Months	Annual	11 Months	Annual	11 Months	2005/06	2006/07
Total Exports	49930.6	53910.7	53462.2	58705.7	55027.2	60234.1	55459.9	2.9	0.8
To India	26430.0	30777.1	35415.9	38916.9	37363.5	40714.7	38158.1	5.5	2.1
To Other Countries	23500.6	23133.6	18046.3	19788.8	17663.7	19519.4	17301.8	-2.1	-2.0
Total Imports	124352.1	136277.1	133589.2	149473.6	155706.5	173780.3	172869.8	16.6	11.0
From India	70924.2	78739.5	79167.2	88675.5	95602.3	107143.1	105966.1	20.8	10.8
From Other Countries	53427.9	57537.6	54422.0	60798.1	60104.2	66637.2	66903.7	10.4	11.3
Total Trade Balance	-74421.5	-82366.4	-80127.0	-90767.9	-100679.3	-113546.2	-117409.9	25.6	16.6
With India	-44494.2	-47962.4	-43751.3	-49758.6	-58238.8	-66428.4	-67808.0	33.1	16.4
With Other Countries	-29927.3	-34404.0	-36375.7	-41009.3	-42440.5	-47117.8	-49601.9	16.7	16.9
Total Foreign Trade	174282.7	190187.8	187051.4	208179.3	210733.7	234014.4	228329.7	12.7	8.3
With India	97354.2	109516.6	114583.1	127592.4	132965.8	147857.8	144124.2	16.0	8.4
With Other Countries	76928.5	80671.2	72468.3	80586.9	77767.9	86156.6	84205.5	7.3	8.3
1. Export / Import Ratio	40.2	39.6	40.0	39.3	35.3	34.7	32.1		
India	37.3	39.1	44.7	43.9	39.1	38.0	36.0		
Other Countries	44.0	40.2	33.2	32.5	29.4	29.3	25.9		
2. Share in Total Export									
India	52.9	57.1	66.2	66.3	67.9	67.6	68.8		
Other Countries	47.1	42.9	33.8	33.7	32.1	32.4	31.2		
3. Share in Total Import									
India	57.0	57.8	59.3	59.3	61.4	61.7	61.3		
Other Countries	43.0	42.2	40.7	40.7	38.6	38.3	38.7		
4. Share in Trade Balance									
India	59.8	58.2	54.6	54.8	57.8	58.5	57.8		
Other Countries	40.2	41.8	45.4	45.2	42.2	41.5	42.2		
5. Share in Total Trade									
India	55.9	57.6	61.3	61.3	63.1	63.2	63.1		
Other Countries	44.1	42.4	38.7	38.7	36.9	36.8	36.9		
6. Share of Export and Import in Total Trade									
Export	28.6	28.3	28.6	28.2	26.1	25.7	24.3		
Import	71.4	71.7	71.4	71.8	73.9	74.3	75.7		

* = On customs data basis.

R = Revised

E = Estimates

Table 22
Balance of Payments Situation

Particulars	(Rs in million)									
	2002/03	2003/04	2004/05		2005/06 ^R		2006/07 ^P	Percent Change During 10 months		
	Annual	Annual	10 months	Annual	10 months	Annual	10 months	2005/06	2006/07	
A. Current Account	11614.7	14598.0	12478.8	11544.6	13411.8	14224.5	4723.9	7.5	-64.8	
Goods: Exports f.o.b.	50760.7	55228.3	49197.7	59956.1	50839.8	61482.4	51493.5	3.3	1.3	
Oil	-	-	-	-	-	-	-	-	-	
Other	50760.7	55228.3	49197.7	59956.1	50839.8	61482.4	51493.5	3.3	1.3	
Goods: Imports f.o.b.	-121053.0	-132909.9	-117072.0	-145718.2	-137495.8	-171540.8	-150075.2	17.4	9.1	
Oil	-18811.6	-20167.3	-21300.6	-26653.6	-26101.1	-33657.2	-27390.3	22.5	4.9	
Other	-102241.4	-112742.6	-95771.4	-119064.6	-111394.7	-137883.6	-122684.9	16.3	10.1	
Balance on Goods	-70292.3	-77681.6	-67874.3	-85762.1	-86656.0	-110058.4	-98581.7	27.7	13.8	
Services: Net	7049.7	9074.9	232.5	-2034.2	-3677.5	-6818.3	-6179.1	-1681.7	68.0	
Services: credit	26518.9	34315.9	21870.8	26001.9	22495.1	26469.7	27042.7	2.9	20.2	
Travel	11747.7	18147.4	9738.5	10463.8	8009.3	9555.8	8301.4	-17.8	3.6	
Government n.i.e.	6624.0	7143.9	5493.0	6804.9	6396.3	7441.5	10821.7	16.4	69.2	
Other	8147.2	9024.6	6639.3	8733.2	8089.5	9472.4	7919.6	21.8	-2.1	
Services: debit	-19469.2	-25241.0	-21638.3	-28036.1	-26172.6	-33288.0	-33221.8	21.0	26.9	
Transportation	-8618.4	-9382.1	-8686.0	-10602.2	-10177.6	-12592.3	-11989.0	17.2	17.8	
Travel	-6171.5	-10021.5	-7199.8	-9691.9	-9660.4	-11960.8	-13091.3	34.2	35.5	
Other	-4679.3	-5837.4	-5752.5	-7742.0	-6334.6	-8734.9	-8141.5	10.1	28.5	
Balance on Goods and Services	-63242.6	-68606.7	-67641.8	-87796.3	-90333.5	-116876.7	-104760.8	33.5	16.0	
Income: Net	-675.7	-1683.9	-391.4	1636.5	2839.9	4955.5	5238.0	-825.6	84.4	
Income: credit	4487.0	3841.5	4605.4	7751.6	8173.2	11432.3	11282.0	77.5	38.0	
Income: debit	-5162.7	-5525.4	-4996.8	-6115.1	-5333.3	-6476.8	-6044.0	6.7	13.3	
Balance on Goods, Services and Income	-63918.3	-70290.6	-68033.2	-86159.8	-87493.6	-119212.2	-99522.8	28.6	13.7	
Transfers: Net	75533.0	84888.6	80512.0	97704.4	100905.4	126145.7	104246.7	25.3	3.3	
Current transfers: credit	77765.1	89161.8	83312.3	101310.1	104686.0	130861.7	107930.9	25.7	3.1	
Grants	13842.2	19557.8	18003.5	21071.9	16118.5	18851.1	16103.8	-10.5	-0.1	
Workers' remittances	54203.3	58587.6	53011.0	65541.2	77874.2	97688.5	80278.9	46.9	3.1	
Pensions	7327.3	7906.2	10489.9	12502.2	9475.4	12007.6	10374.7	-9.7	9.5	
Other (Indian Excise Refund)	2392.3	3110.2	1807.9	2194.8	1217.9	2314.5	1173.5	-32.6	-3.6	
Current transfers: debit	-2232.1	-4273.2	-2800.3	-3605.7	-3780.6	-4716.0	-3684.2	35.0	-2.5	
B. Capital Account (Capital Transfer)	5393.9	1452.2	866.5	1573.6	2690.0	3107.0	3642.5	210.4	35.4	
Total, Groups A plus B	17008.6	16050.2	13345.3	13118.2	16101.8	17331.5	8366.4	20.7	-48.0	
C. Financial Account (Excluding Group E)	-17198.9	-21540.1	-21063.4	-25536.9	-2798.2	-1324.4	-3069.7	-86.7	9.7	
Direct investment in Nepal	961.4	-	26.4	136.0	-434.7	-469.7	195.1	-1746.6	-144.9	
Portfolio Investment	-	-	-	-	-	-	-	-	-	
Other investment: assets	-34629.5	-32591.2	-21821.5	-21863.2	-12425.4	-14008.8	-9866.0	-43.1	-20.6	
Trade credits	1041.0	-2247.6	-2111.3	-323.8	-2393.6	-1629.5	-5130.6	13.4	114.3	
Other	-35670.5	-30343.6	-19710.2	-21539.4	-10031.8	-12379.3	-4735.4	-49.1	-52.8	
Other investment: liabilities	16469.2	11051.1	731.7	-3809.7	10061.9	13154.1	6601.2	1275.1	-34.4	
Trade credits	16899.3	3629.8	-1793.9	-4489.0	8657.6	9232.5	2196.0	-582.6	-74.6	
Loans	-52.4	3325.2	76.5	744.4	-711.1	526.9	478.8	-1029.5	-167.3	
General Government	-432.8	3479.1	564.1	1300.4	-900.8	703.7	1042.5	-259.7	-215.7	
Drawings	5236.0	9244.7	5591.9	7253.7	4618.5	7691.0	7055.7	-17.4	52.8	
Repayments	-5668.8	-5765.6	-5027.8	-5953.3	-5519.3	-6987.3	-6013.2	9.8	8.9	
Other sectors	380.4	-153.9	-487.6	-556.0	189.7	-176.8	-563.7	-138.9	-397.2	
Currency and deposits	-377.7	4096.1	2449.1	-65.1	2115.4	3394.7	3926.4	-13.6	85.6	
Nepal Rastra Bank	-23.4	-77.4	46.1	46.2	-122.3	-116.5	2.9	-365.3	-102.4	
Deposit money banks	-354.3	4173.5	2403.0	-111.3	2237.7	3511.2	3923.5	-6.9	75.3	
Other liabilities	-	-	-	-	-	-	-	-	-	
Total, Group A through C	-190.3	-5489.9	-7718.1	-12418.7	13303.6	16007.1	5296.7	-272.4	-60.2	
D. Miscellaneous Items, Net	4176.1	25591.2	15914.3	18095.7	9308.7	13086.2	5501.9	-41.5	-40.9	
Total, Group A through D	3985.8	20101.3	8196.2	5677.0	22612.3	29093.3	10798.6	175.9	-52.2	
E. Reserves and Related Items	-3985.8	-20101.3	-8196.2	-5677.0	-22612.3	-29093.3	-10798.6	175.9	-52.2	
Reserve assets	-3685.2	-20658.0	-8981.3	-6462.2	-22612.3	-29093.3	-12355.4	151.8	-45.4	
Nepal Rastra Bank	-7809.9	-19507.8	-5099.8	-3251.3	-12805.3	-21398.1	-10602.0	151.1	-17.2	
Deposit money banks	4124.7	-1150.2	-3881.5	-3210.9	-9807.0	-7695.2	-1753.4	152.7	-82.1	
Use of Fund Credit and Loans	-300.6	556.7	785.1	785.2	-	-	1556.8	-100.0	-	
Changes in reserve, net (- increase)	-4363.5	-16005.2	-5747.1	-5742.1	-20496.9	-25698.6	-6872.2	256.6	-66.5	

R: Revised

P: Provisional

Table 23
Gross Foreign Exchange Holding of the Banking Sector

(Rs in million)

	Mid-Jul. 2003	Mid-Jul. 2004	Mid-May 2005	Mid-Jul. 2005	Mid-May 2006	Mid-Jul. 2006	Mid-May 2007 ^E	Percent Change	
								Mid-Jul to Mid-May	
								2006	2007
Nepal Rastra Bank	86966.1	107915.9	107279.7	104423.7	121525.0	132061.3	129729.4	16.4	-1.8
Convertible	76752.0	96235.9	101225.4	100823.6	114795.9	124240.9	125436.1	13.9	1.0
Inconvertible	10214.1	11680.0	6054.3	3600.1	6729.1	7820.4	4293.3	86.9	-45.1
Commercial Bank	21263.3	22289.2	26193.3	25472.7	35109.9	33065.4	34821.3	37.8	5.3
Convertible	20249.2	20709.1	24966.6	23154.9	32623.8	31790.7	32621.3	40.9	2.6
Inconvertible	1014.1	1580.1	1226.7	2317.8	2486.1	1274.7	2200.0	7.3	72.6
Total Reserve	108229.4	130205.1	133473.0	129896.4	156634.9	165126.7	164550.7	20.6	-0.3
Convertible	97001.2	116945.0	126192.0	123978.5	147419.7	156031.6	158057.4	18.9	1.3
Share in total (in percent)	89.6	89.8	94.5	95.4	94.1	94.5	96.1		
Inconvertible	11228.2	13260.1	7281.0	5917.9	9215.2	9095.1	6493.3	55.7	-28.6
Share in total (in percent)	10.4	10.2	5.5	4.6	5.9	5.5	3.9		
Import Capacity (Equivalent Months)									
Merchandise	10.4	11.5	11.1	10.4	11.3	11.4	10.7	-	-
Merchandise and Services	9.0	9.7	9.4	8.8	9.5	9.6	8.8	-	-
1.Gross Foreign Exchange Reserve	108229.4	130205.1	133473.0	129896.4	156634.9	165126.7	164550.7	20.6	-0.3
2.Gold, SDR, IMF Gold Tranche	1076.9	1160.9	1033.9	1020.5	1055.5	1068.7	597.1	3.4	-44.1
3.Gross Foreign Assets(1+2)	109306.3	131366.0	134506.9	130916.9	157690.4	166195.4	165147.8	20.5	-0.6
4.Foreign Liabilities	17899.3	22561.4	25722.9	23174.8	25370.7	26662.5	31892.4	9.5	19.6
5.Net Foreign Assets(3-4)	91407.0	108804.6	108784.0	107742.1	132319.7	139532.9	133255.4	22.8	-4.5
6.Change in NFA (before adj. ex. val.)*	-2987.8	-17397.6	20.6	1062.5	-24577.6	-31790.8	6277.5	-	-
7.Exchange Valuation (- loss)	-1375.6	1392.5	-5767.7	-6804.8	4080.8	6092.3	-13149.7	-	-
8.Change in NFA (- increase) (6+7)**	-4363.4	-16005.1	-5747.1	-5742.3	-20496.8	-25698.5	-6872.2	-	-
Period end buying rate (Rs/US\$):	74.75	74.14	70.02	70.35	72.19	74.10	65.70		

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

** = After adjusting exchange valuation gain/loss.

E = Estimated.

Table 24
Import from India
Against US Dollar Payment

(Rs. in million)

Mid-Month	2003/04	2004/05	2005/06	2006/07
August	728.7	726.1	980.1	957.5
September	980.1	1117.4	977.6	1208.0
October	1114.2	1316.8	907.9	865.7
November	1019.2	1186.5	1103.2	1188.3
December	1354.5	1205.8	1583.7	1661.4
January	996.9	1394.9	1156.2	1644.0
February	1503.6	1154.4	603.8	717.0
March	1717.9	1107.8	603.0	1428.5
April	2060.5	1567.2	1398.6	2052.9
May	1309.9	1830.8	916.4	2714.8
June	1455.4	1825.2	1181.5	1711.2
July	1016.0	1900.2	1394.0
Total	15256.9	16333.1	12805.9	16149.1

Table 25
Indian Currency Purchase
(by Selling the US Dollar)

(In million)

Mid-Month	2003/04		2004/05		2005/06		2006/07	
	IC Purchase	US\$ Sale	IC Purchase	US\$ Sale	IC Purchase	US\$ Sale	IC Purchase	US\$ Sale
August	461.85	10.00	1847.36	40.00	2611.31	60.00	2334.58	50.00
September	-	-	-	-	2191.90	50.00	2786.48	60.00
October	453.35	10.00	-	-	2652.09	50.00	3205.30	70.00
November	906.18	20.00	-	-	1810.73	40.00	3602.15	80.00
December	228.08	5.00	1340.73	30.00	2290.13	50.00	2689.33	60.00
January	228.16	5.00	437.30	10.00	1348.15	40.00	3112.01	70.00
February	2,265.55	50.00	2183.23	50.00	2213.55	50.00	1326.74	30.00
March	2,263.11	50.00	2624.23	60.00	3106.10	70.00	3093.78	70.00
April	904.81	20.00	436.25	10.00	3124.50	70.00	3457.58	80.00
May	1,325.62	30.00	3052.16	70.00	452.95	10.00	4950.64	120.00
June	-	-	2177.63	50.00	2742.23	60.00	5293.27	130.00
July	452.58	10.00	1306.88	30.00	2304.98	50.00	4072.14	100.00
Total	9,489.28	210.00	15405.75	350.00	26848.61	600.00	39923.96	920.00