



NEPAL RASTRA BANK

ECONOMIC REPORT

2005/06

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Acronyms Used

ACU	Asian Clearing Union
ADB/M	Asian Development Bank, Manila
ADB/N	Agricultural Development Bank of Nepal
AIC	Agriculture Input Company Limited
ASEAN	Association of South East Asian Nations
BAFIA	Banks and Financial Institutions Act
BOK	Bank of Kathmandu Limited
BOP	Balance of Payments
CAD	Cash Against Document
CEO	Chief Executive Officer
CIT	Citizen Investment Trust
CME	Census of Manufacturing Establishments
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CRRDB	Central Region Rural Development Bank
DFID	Department for International Development (UK)
DICGC	Deposit Insurance and Credit Guarantee Corporation
EBL	Everest Bank Limited
EPF	Employees Provident Fund
ERRDB	Eastern Region Rural Development Bank
EU	European Union
FDR	Fixed Deposit Receipt
FINCOOPs	Financial Cooperatives
FINGOs	Financial Non-governmental Organization
FSRP	Financial Sector Reform Program
FWRDB	Far-western Region Rural Development Bank
FY	Fiscal Year
GDP	Gross Domestic Product
GHC	Grievance Hearing Cell
GNDI	Gross National Disposable Income
GON	Government of Nepal
GWH	Giga Watt Hours
HBL	Himalayan Bank Limited
HR	Human Resource
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IT	Information Technology
KBL	Kumari Bank Limited
L/C	Letter of Credit
LDCs	Least-developed Countries
L ₁	Liquidity Liabilities
LMFF	Liquidity Monitoring and Forecasting Framework

LPG	Liquefied Petroleum Gas
Ltd.	Limited
LUBL	Lumbini Bank Limited
LXBL	Laxmi Bank Limited
M ₁	Narrow Money Supply
M ₂	Broad Money Supply
MBL	Machhapuchchhre Bank Limited
MCPW	Micro Credit Project for Women
MOF	Ministry of Finance
MT	Metric Tons
MWRRDB	Mid-western Region Rural Development Bank
NBBL	Nepal Bangladesh Bank Limited
NBL	Nepal Bank Limited
NCCB	Nepal Credit and Commerce Bank Limited
NDA	Net Domestic Assets
NEPSE	Nepal Stock Exchange
NFA	Net Foreign Assets
NGOs	Non-governmental Organizations
NIB	Nepal Investment Bank Limited
NICB	Nepal Industrial and Commercial Bank Limited
NIDC	Nepal Industrial Development Corporation
NOC	Nepal Oil Corporation
NPL	Non-performing Loans
NRB	Nepal Rastra Bank
NSBI	Nepal SBI Bank Limited
OBIs	Other Banking Institutions
ODBs	Other Development Banks
OPEC	Organization of Petroleum Exporting Countries
PCRW	Production Credit for Rural Women
PRGF	Poverty Reduction and Growth Facility
RBB	Rastriya Banijya Bank
RDBs	Rural Development Banks
Repo.	Repurchase
RMDC	Rural Microfinance Development Centre
Rs	Rupees
RSRF	Rural Self Reliance Fund
SAFTA	South Asian Free Trade Area
SBL	Siddhartha Bank Limited
SCBNL	Standard Chartered Bank Nepal Limited
SDRs	Special Drawing Rights
SFCL	Small Farmers' Cooperative Limited
SFDB	Small Farmers' Development Bank
SITC	Standard International Trade Classification
SLF	Standing Liquidity Facility
TBs	Treasury Bills
TOR	Terms of Reference

TT	Telegraphic Transfer
UK	United Kingdom
UNDP	United Nations Development Program
US\$	US Dollar
USA	United States of America
VAT	Value Added Tax
VDCs	Village Development Committees
VRS	Voluntary Retirement Scheme
WRRDB	Western Region Rural Development Bank
WTO	World Trade Organization
y-o-y	year-on-year

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1

World Economic Developments

1.1 The world economy witnessed a growth of 4.9 percent in 2005 and is projected to grow by 5.1 percent in 2006 and 4.9 percent in 2007. The strong growth of the US economy together with the expansion in the Euro area and continuous expansion in the Japanese economy, the impressive growth of other emerging economies, particularly the robust growth of China and other low-income countries provided an impetus to a buoyant growth of the world economy in 2006. However, increased inflationary concern, high and volatile petroleum prices, slow down in the US housing markets, and continuous large global imbalances are the major sources of uncertainties and challenges for the world economy.

1.2 Following the strong growth in early 2006 in the US economy, the growth is projected at 3.4 percent in 2006, before slowing to 2.9 percent in 2007. Private consumption growth weakened against the background of higher interest rates, a cooling housing market, high gasoline prices, and lackluster employment gains.

1.3 Growth in the Euro Area is projected at 2.4 percent in 2006, before moderating to 2 percent in 2007. Stronger corporate balance sheets have paved the way for higher investment, rising employment, and a better-balanced expansion. The Japanese economy would grow by 2.7 percent in 2006, based on solid domestic demand, before easing to 2.1 percent in 2007.

1.4 The economic growth rate of developing Asia remained at 9 percent while the South Asian economies grew by 8.2 percent in 2005. The growth projections for these regions in 2006 are 8.7 percent and 7.9 percent respectively. India and China have achieved an encouraging economic growth of 8.5 percent and 10.2 percent respectively in 2005 and these economies are projected to grow by 8.3 percent and 10 percent respectively in 2006.

1.5 The higher level of petroleum prices has created inflationary pressure in most of the advanced countries. The prices of petroleum and metal products reached at a new high. Limited spare capacity in the world market on one hand and encouraging growth performance of the world economy, geopolitical conflicts in the Middle East, and risks to production in some large producers like Nigeria resulted in an increased pressure on the prices of petroleum products on the other. Likewise, robust demand, capacity shortages and labor problems in the emerging economies caused an upsurge in the metal prices.

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Prices of food and other agricultural products also rose in relative terms in the first half of 2006. In response to the increased inflationary pressure, central banks of the major advanced countries raised short-term interest rate while the long-term interest rate remained stagnant.

1.6 The World trade volume increased by 7.4 percent in 2005 and is projected to expand by 8.9 percent in 2006. Imports registered a growth of 6 percent in advanced countries and 11.9 percent in the emerging markets and developing economies in 2005. Likewise, exports went up by 5.5 percent in advanced economies and 11.8 percent in the emerging markets and developing economies in the same period. Imports are projected to increase by 7.5 percent in advanced countries and 13 percent in the emerging markets and developing economies in 2006. And exports are projected to increase by 8 percent and 10.7 percent respectively in these economies in 2006.

1.7 Consumer price index (CPI) increased by 2.3 percent in advanced economies and 5.3 percent in other emerging market and developing countries in 2005. In response to the higher oil prices, the CPI is projected to grow by 2.6 percent in advanced economies in 2006. However, inflation pressures would generally be contained in emerging market and developing countries at 5.2 percent in 2006. The consumer inflation in South Asia also remained at 4.8 percent in 2005 and is projected to go up to 6 percent in 2006.

1.8 Net private capital flows to emerging market and developing countries is expected to slowdown from US\$ 238.5 billion in 2005 to US\$ 211.4 billion in 2006.

1.9 Unemployment remained high in advanced economies including the United States and the Euro area compared to the newly industrialized Asian economies in 2005. The unemployment rate stood at 5.1 percent in the United States and 8.6 percent in the Euro area, while the rate remained at 4 percent in newly industrialized Asian economies in 2005. The unemployment rate is projected at 5.6 percent in advanced economic, and 3.7 percent in newly industrialized Asian economies in 2006.

1.10 In Japan, fiscal imbalance remained at 5.6 percent of GDP in 2005. The net debt as percentage of GDP stood at 105.4 percent in Italy followed by Japan (86.8 percent), Germany (62.5 percent) and the Euro area (61 percent) in 2005.

Table 1.1 : Overview of the World Economic Outlook Projections
(Annual percent change unless otherwise noted)

	2004	2005	Current Projections	
			2006	2007
1. World Output	5.3	4.9	5.1	4.9
Advanced economies	3.2	2.6	3.1	2.7
United States	3.9	3.2	3.4	2.9
Euro area	2.1	1.3	2.4	2.0
Japan	2.3	2.6	2.7	2.1
Newly industrialized Asian economies	5.9	4.5	4.9	4.4
Other emerging market and developing countries	7.7	7.4	7.3	7.2
Developing Asia	8.8	9.0	8.7	8.6
China	10.1	10.2	10.0	10.0
India	8.0	8.5	8.3	7.3
ASEAN-4 (Indonesia, Malaysia, Philippines and Thailand)	5.8	5.1	5.0	5.6
South Asia	7.8	8.2	7.9	7.2
2. World trade volume (goods and services)	10.6	7.4	8.9	7.6
Imports				
Advanced economies	9.1	6.0	7.5	6.0
Other emerging market and developing countries	16.4	11.9	13.0	12.1
Exports				
Advanced economies	8.8	5.5	8.0	6.0
Other emerging market and developing countries	14.6	11.8	10.7	10.6
3. Commodity Price (US dollar)				
Oil	30.7	41.3	29.7	9.1
Non-fuel (average based on world commodity export weights)	18.5	10.3	22.1	-4.8
4. Consumer Prices				
Advanced economies	2.0	2.3	2.6	2.3
Other emerging market and developing countries	5.6	5.3	5.2	5.0
South Asia	4.2	4.8	6.0	5.6
5. Six-month London inter-bank offered rate (LIBOR, percent)				
On U.S. dollar deposits	1.8	3.8	5.4	5.5
On Euro deposits	2.1	2.2	3.1	3.7
On Japanese yen deposits	0.1	0.1	0.5	1.1

Source: World Economic Outlook, September 2006, International Monetary Fund, p.2, 12,21,42 and 50

2

An Overview of Macroeconomic Situations

2.1 The year 2005/06 was momentous politically. The 19-day long second peoples' historic movement from April 6 to April 24, 2006 ended the political tensions of the past few years and paved the way to resolve the decade long internal insurgency. The year saw the dialogue and agreement between the major political parties, indicating the political will to find solutions to the problems infesting the country. These developments augured well for the growth of the economy in the future. However, the performance of the Nepalese economy remained less-than satisfactory owing to unfavourable weather condition and political tensions, which continued up to the third quarter of 2005/06. The growth of GDP at producer prices slowed to 1.9 percent in 2005/06 from 2.7 percent in 2004/05.

2.2 During the review year, inflationary pressure heightened. As the prices of petroleum products were hiked twice, it exerted an upward pressure on price level. The hike in oil prices contributed to the increase in transportation costs of public and private vehicles. In addition, food and beverages group, particularly rice and rice products also played a significant role in raising the general price level.

2.3 The growth of monetary aggregates remained higher than the target on account of the elevated level of remittances resulting in substantial growth of net foreign assets. In addition, excess liquidity with the commercial banks existed in the review period.

2.4 Government budget remained expansionary. The budget deficit remained high owing to a marginal rate of revenue growth and a higher level of government expenditure.

2.5 Total exports decelerated owing to the deceleration in exports to India. Total imports increased significantly as a result of the upsurge in imports both from India and other countries. As a result, trade deficit increased significantly. Despite the increase in trade deficit and a decline in net services, a surplus was registered in the current account primarily due to the higher inflow of private remittances. Consequently, the balance of payments posted a significant surplus.

2.6 The Stock market witnessed a significant growth in 2005/06. It was reflected in an upsurge in the stock market indicators viz. NEPSE index, the number of companies listed, the market capitalization and the total number of listed shares.

2.7 Overall, the year 2005/06 recorded a mixed economic performance. The economic growth remained marginal owing to adverse weather and disturbed security situation. Lower economic growth accompanied by a higher rate of inflation, showing a situation of stagflation. However, country's BOP showed a significant surplus emanating from increased remittances.

3

Overall Economic Growth

3.1 The real GDP (at producers' prices) witnessed a low growth of 1.9 percent in 2005/06 compared to 2.7 percent in the previous year. However, in terms of factor cost, it remained at 2.3 percent in both the years. The first four years of the tenth plan (2002-2007) recorded an average growth of 2.8 percent, which is below the minimum growth target of the Plan (Table 3.1). A decelerated growth in the agriculture sector, which remained the lowest over the last eight years, contributed to such a low growth in GDP in the review year. A decade-long political instability, the deteriorating law and order situation, the prevalence of various transportation blockade, unfavourable weather condition particularly during the plantation season and negative growth of tourism earnings contributed to such a lower growth of GDP in the review year.

Table 3.1: Real GDP Growth Rates

Sector	In percent			
	Avg. Growth Rate (2002/03 - 2005/06)	Tenth Plan's Minimum Target	2004/05 ^R	2005/06 ^P
Agriculture	2.8	2.8	3.0	1.7
Non-agriculture	2.9	5.2	2.1	2.8
Industry	2.4		1.5	3.5
<i>Mining and Quarrying</i>	<i>1.8</i>		<i>2.5</i>	<i>2.2</i>
<i>Manufacturing</i>	<i>2.1</i>		<i>2.6</i>	<i>2.2</i>
<i>Electricity, Gas and Water</i>	<i>8.4</i>		<i>4.8</i>	<i>5.6</i>
<i>Construction</i>	<i>1.5</i>		<i>-0.1</i>	<i>4.2</i>
Services	3.3		2.4	2.4
<i>Trade Restaurant and Hotel</i>	<i>3.3</i>		<i>-2.1</i>	<i>3.9</i>
<i>Transport, Communication and Storage</i>	<i>4.2</i>		<i>5.1</i>	<i>2.2</i>
<i>Finance and Real Estate</i>	<i>3.3</i>		<i>4.6</i>	<i>2.2</i>
<i>Community and Social Services</i>	<i>2.5</i>		<i>2.8</i>	<i>1.3</i>
GDP at Factor Cost	2.8	4.3	2.3	2.3
GDP at Producers' Price	2.9		2.7	1.9

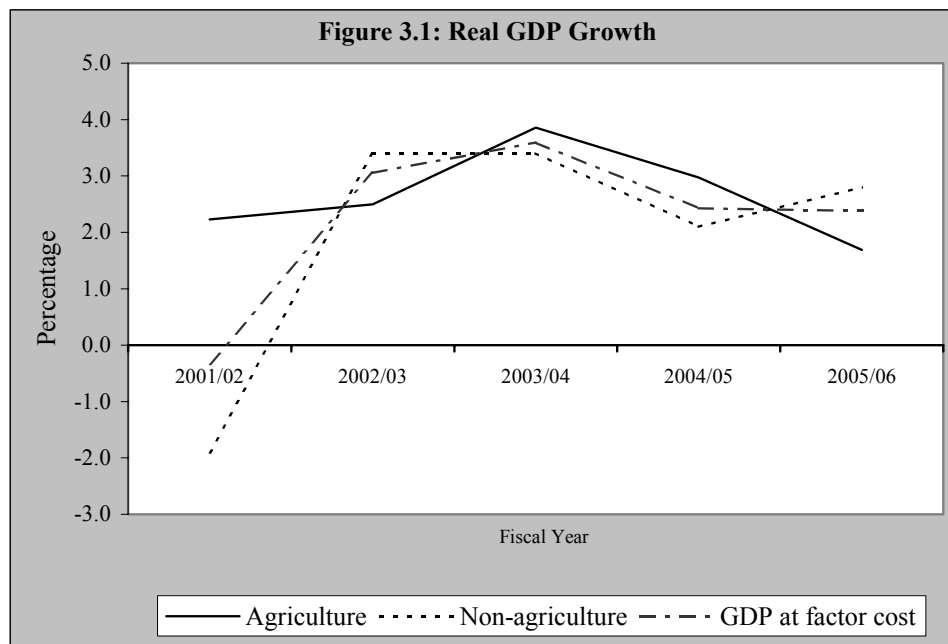
R = Revised estimate, P = Preliminary estimate

Source: Central Bureau of Statistics and National Planning Commission

3.2 The nominal GDP at producers' prices increased by 9.3 percent to Rs. 582.95 billion and at factor cost by 9.7 percent to Rs. 539.11 billion in the review year. The corresponding growth rates in the previous year were 7.4 percent and 6.9 percent respectively. The higher growth of nominal GDP was mainly driven by the inflationary pressures (Appendix table 2).

Sectoral Performance

3.3 The sectoral performance of the economy remained less than satisfactory in the review year. Insufficient rainfall adversely affected the agriculture sector. It grew by 1.7 percent in the review year, which is nearly half to that of the previous year. The industrial sector expanded by 3.5 percent, recording more than two-fold growth over the previous year. The services sector, on the other hand, grew at the same pace (2.4 percent) as in the previous year (Table 3.2). Despite the transportation blockade and difficulties in the operation of industry and trading activities, the sectors such as construction, electricity, gas and water as well as trade and restaurants grew moderately.



3.4 The shares of agriculture, industry and services in the GDP remained at 38.8 percent, 22.4 percent and 38.8 percent respectively in the review year compared to 39.1 percent, 22.2 percent and 38.8 percent respectively in the previous year (Table 3.2).

Table 3.2: Sectoral Performance

In percent

Sector	Share in Real GDP		Growth Rate		Relative Contribution	
	2004/05	2005/06	2004/05 ^R	2005/06 ^P	2004/05	2005/06
Agriculture	39.1	38.8	3.0	1.7	47.8	27.6
Non-agriculture	60.9	61.2	2.1	2.8	52.2	72.4
Industry	22.2	22.4	1.5	3.5	13.8	33.0
Services	38.8	38.8	2.4	2.4	38.4	39.4
GDP at Factor Cost*	100.0	100.0	2.4	2.4	100.0	100.0

* before deduction of bank service charges

R = Revised estimate

P = Preliminary estimate

Source: Central Bureau of Statistics and Nepal Rastra Bank

3.5 Despite the considerable share of 38.8 percent in overall GDP, the contribution of the agriculture sector in real GDP growth rate declined substantially from 47.8 percent in the previous year to 27.6 percent in the review year. The contribution of industrial sector in real GDP growth accelerated substantially to 33.0 percent in the review year from that of 13.8 percent in the previous year. The contribution of the services sector to the real GDP growth remained higher at 39.4 percent in the review year compared to 38.4 percent in the previous year (Table 3.2).

Agriculture

3.6 In the review year, the growth rate of agricultural sector remained the lowest in last eight years. Despite some increments in cash crops and fisheries production, the growth rate of agriculture production in the review year remained at 1.7 percent, notably lower than the average growth of 2.8 percent for the last four years. The negative growth of food grains, which accounts for one third of the total agricultural production, contributed to a lower growth in overall agricultural production. Less than average rainfall during summer coupled with dry winter season accounted for the decline in the principal food grains viz. paddy and wheat (Appendix table 4).

Rainfall

3.7 Monsoon has always been playing an important role in agriculture production in the country. According to the statistics on monsoon rain analysis released by the Department of Hydrology and Meteorology, only 7 out of 42 stations recorded more than average precipitation while remaining 35 stations recorded below the average in 2005/06. Poor monsoon in 19 districts (mainly in Eastern Region) during the paddy plantation season (July/August) mainly accounted for the decline in paddy production. Siraha, Saptari, Sunsari, Morang, Jhapa, Ilam Therathum and Okhaldhunga districts were severely affected by drought.

3.8 Similarly, the winter season of the review year remained the driest in last 25 years. According to the Department of Hydrology and Meteorology, 6 out of 42 stations

including Kathmandu received no rainfall at all from December to February, 5 stations recorded only 5 percent of the normal and the rest received 30 percent of the normal rainfall. Hence, the production of paddy and wheat declined due to the insufficient rainfall, resulting a deceleration in the agriculture production.

Irrigation

3.9 The irrigation facility to the cultivated land increased by 18.4 thousand hectares in the review year compared to an expansion of 11.3 thousand hectares in the previous year. According to statistics released by Ministry of Agriculture and Cooperatives, the total area of irrigated land reached 1031.1 thousand hectares in the review year from 1012.7 thousand hectares in the previous year. The total area of irrigated land reached 39.0 percent of cultivated land in the review year compared to 38.3 percent in the previous year (Appendix table 9).

Improved Seeds

3.10 The supply of improved seeds increased substantially by 100.8 percent to 3,551 metric tons in the review year as against a fall of 19.8 percent in the previous year due to the rise in the demand from farmers (Appendix table 9).

Chemical Fertilizers

3.11 During the review year, the use of chemical fertilizer declined substantially by 25.4 percent to 91,553 metric tons in the review year, compared to a decline of 11.6 percent in the previous year. The drought like conditions during the monsoon period was the reason for the fall in the demand for chemical fertilizer.

3.12 Despite the fall in demand, the average market prices of chemical fertilizers such as urea and DAP increased by 2.8 percent to Rs. 16000 per metric ton and 15.1 percent to Rs. 24,000 per metric ton respectively in the review year. However, the price of potash declined by 5.1 percent to Rs. 13,600 per metric ton (Appendix table 11).

Wage Rate

3.13 The wage rate of agriculture labour measured by wage index rose by 10 percent in the review year. Political instability in the country coupled with an attraction of foreign job particularly among the economically active population created a pressure on wage rate.

Box 3.1: Labour and Employment Policy, 2006

Labour is the cornerstone of development of human life, personality and civilization. The creation of income-generating employment opportunities is necessary for proper human living and for the poverty alleviation. Not only this, the right to work is considered one of the fundamental rights of the person.

Labour and Employment Policy, 2006 has been promulgated in response to the changes in the labour market and technology as well as for the poverty alleviation through the creation of income generating employment. It is intended to face the challenges by exploring and tapping the new opportunities and potentials of the labour and employment sectors; to promote production-oriented employment by eliminating forced labour practices, including bonded labour; and to make the just, healthy and cordial labour-related development.

The long-term goal of the Labour and Employment Policy, 2006 is to provide productive, non-discriminatory, exploitation-free, decent, safe and healthy work opportunities for citizens of the working ages by building an investment friendly environment. In addition, it is expected to manage a labour market, to contribute the national economy and to compete at the global level.

The objectives of the policy are:

- *To pave the path of sustainable economic development by offering opportunities of productive and full employment for the entire workforce available in the country and by creating an investment-friendly environment.*
- *To augment productivity by eliminating forced labour practices, including bonded labour, as well as by establishing congenial labour relations through gradual introduction of international labour standards at the workplace in both formal and informal sectors.*
- *To make the labour market safe, healthy, competitive and open by developing a social security system that also encompasses the informal sector, as well as by promoting and developing occupational safety and health.*
- *To enhance the prospects of employment and self -employment by developing high quality multi-skilled human resources.*
- *To ensure equal access of women, dalits, indigenous nationalities and the displaced to employment.*
- *To eliminate child labour.*
- *To make labour and employment administration smart, up-to-date, efficient and effective.*

Source: Ministry of Labour and Transport Management

Agriculture Credit

3.14 The disbursement of agriculture credit by the Agricultural Development Bank of Nepal (ADB/N) increased by 7.5 percent to Rs. 12.68 billion in the review year compared to an increase of 16.2 percent of the previous year. The disbursed credit by the ADB/N to the farm mechanization and irrigation further dropped by 27.4 percent in the review year. Similarly, the credit disbursed for agriculture production also declined by 6.7 percent as against an increase of 5.0 percent in the previous year (Appendix table 10).

3.15 However, the credit disbursed for agro-industry, housing construction and warehouses construction increased by 15.3 percent in the review year compared to a

growth of 18.3 percent in the previous year. Likewise, the credit disbursed for agro business increased by 2.8 percent in the review year compared to a growth of 13.8 percent in the previous year. The credit disbursed for other purposes showed an increase of 13.0 percent in the review year compared to a growth of 40.9 percent in the previous year (Appendix table 10).

Agricultural Production

Food Grains

3.16 The production of principal food grains in the review year as measured by agriculture production index declined by 1.4 percent compared to a growth of 0.3 percent in the previous year. A decline in the food grains production was due mainly to the negative growth in the production of paddy, wheat and barley. They together accounted for 24.6 percent share in agricultural production. Despite a marginal increase in the cultivated area from 3353 thousand hectares in the previous year to 3360 thousand hectares in the review year, the total production of principal food grains declined to 7,656.5 thousand metric tons in the review year from 7,767.3 thousand metric tons of the previous year. The yield of food grains, however, remained stable at 2.3 metric tons per hectare over three years (Appendix table 4, 5, 6 and 7).

3.17 The production of paddy continued to decline for the two successive years. It decreased further by 1.9 percent in the review year compared to a decline of 3.7 percent in the previous year. Despite a marginal increase in area coverage, the production of paddy declined to 4209.3 thousand metric tons in the review year from 4289.8 thousand metric tons in the previous year. The yield of paddy dropped marginally to 2.7 metric tons per hectare in the review year from 2.8 metric tons per hectare in the previous year. Reflecting a marginal increase in area coverage and slight improvement in yield, the total production of maize increased to 1734.4 thousand metric tons in the review year, 1.1 percent higher than the previous year.

3.18 The production of wheat decreased by 3.3 percent in the review year as against a growth of 4.0 percent in the previous year. With a decline of 0.6 percent in the cultivated areas, the production of wheat dropped to 1394.1 thousand metric tons in the review year from 1442.4 thousand metric tons in the previous year. Consequently, the yield of wheat fell to 2.07 in the review year from 2.13 metric tons per hectare in the previous year. The production of millet in the review year posted a marginal growth of 0.4 percent while that of barley recorded a decline of 4.5 percent.

Cash Crops

3.19 The production of the principal cash crops viz. sugarcane, oil seeds, tobacco, jute and potato went up by 7.5 percent in the review year compared to a growth of 4.3 percent in the previous year. With an increase of 1.9 percent in the area coverage, the total production of cash crops increased to 4598.0 thousand metric tons in the review year from 4277.6 thousand metric tons in the previous year. However, the yield of cash crops remained stable at 10.46 metric tons per hectare for two years. Among cash crops, the production of potato showed a remarkable growth along with jute and sugarcane. However, the production of tobacco continued to decline in the review year (Appendix table 4, 5, 6 and 7).

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3.20 The production of sugarcane registered a growth of 3.6 percent to 2462.6 thousand metric tons in the review year compared to a growth of 3.1 percent in the previous year. The total area under sugarcane cultivation increased by 5 percent to 62.0 thousand hectares over the previous year. The yield of sugarcane, however, declined to 39.7 metric tons in the review year from 40.2 metric tons per hectare in the previous year.

3.21 The production of tobacco declined by 9.9 percent to 2.7 thousand metric tons in the review year. The cultivated area under tobacco also decreased by 9.0 percent. The production of oil seeds posted a decline of 1.9 percent against a growth of 6.9 percent in the previous year. The yield of oil seeds remained at 0.7 metric tons per hectare in the review year compared to 0.8 metric tons per hectare in the previous year. The production of jute increased by 5.7 percent in the review year compared to a growth of 4.6 percent in the previous year. The production of potato reported a substantial growth of 13.6 percent to 1974.8 thousand metric tons in the review year compared to an increase of 5.8 percent in the previous year. The rise in the potato production was due to an increase in area coverage as well as yield.

Other Crops

3.22 The production of other agricultural crops viz. pulses, fruits and vegetables increased by 2.9 percent in the review year compared to a growth of 8.8 percent in the previous year. The decline in the production of pulses and fruits with the share of around sixty percent in other crops production accounted for such a lower growth (Appendix table 4, 5, 6 and 7).

3.23 The production of pulses declined by 1.4 percent to 267.4 thousand metric tons in the review year as against a growth of 2.2 percent in the previous year. Similarly, the production of fruits registered a decline of 2.4 percent to 534.9 thousand metric tons in the review year as against a higher growth of 7.2 percent in the previous year. The production of vegetables increased by 4.9 percent in the review year compared to an increase of 10.1 percent in the previous year.

Livestock

3.24 The livestock sub-sector with 27.7 percent share in the agricultural production index witnessed a growth of 2.5 percent in the review year compared to a growth of 3.1 percent in the previous year (Appendix table 4 and 5).

3.25 The production of milk and meat increased by 3.0 percent to 1312.1 thousand metric tons and 2.0 percent to 219.2 thousand metric tons respectively in the review year. Milk and meat had registered a growth of 3.4 percent and 3.1 percent respectively in the previous year. In addition, the production of eggs grew by 1.3 percent in the review year from 2.5 percent in the previous year.

3.26 The population of cattle and buffaloes increased by 0.1 percent to 7 million and 3.0 percent to 4.2 million respectively in the review year compared to a rise of 0.4 percent and 3.3 percent respectively in the previous year. The growth rate of the population of goat accelerated to 3.7 percent to 7.4 million in the review year from 2.5 percent in the previous year. Likewise, the population of pigs increased by 1.4 percent to 1.0 million in

the review year from 0.9 million in the previous year. However, the population of sheep declined marginally by 0.6 percent to 0.8 million in the review year (Appendix table 8).

3.27 The population of chicken registered a growth of 1.9 percent to 23.2 million in the review year as against a decline of 1.0 percent in the previous year. Likewise, the population of ducks increased marginally by 0.3 percent in the review year as against a decline of 3.3 percent in the previous year.

Fishery and Forestry

3.28 The production of fishery increased by 7.7 percent to 45.8 thousand metric tons in the review year compared to a growth of 6.3 percent in the previous year. Likewise, the forestry sub-sector witnessed a growth of 2.3 percent in the review year compared to a growth of 3.4 percent in the previous year (Appendix table 4 and 5).

Market Price of Food Grains

3.29 The price of some principal food grains showed an upward trend in the review year. The price of paddy (coarse) increased by 41.0 percent in the review year due mainly to a fall in the paddy production. The price of paddy had increased by 0.3 percent in the previous year. Similarly, the price of wheat increased substantially by 17.7 percent in the review year compared to a growth of 3.9 percent in the previous year. Despite a marginal increase in production of maize, its price increased by 40.4 percent in the review year compared to a growth of 16.2 percent in the previous year (Appendix table 11).

Industry

3.30 Industrial sector grew by 3.5 percent in the review year compared to an increase of 1.5 percent in the previous year. The industrial sector growth was basically driven by the expansion in electricity, gas and water, and construction sectors. The industrial sector recorded an average growth of 2.4 percent during the last four years (Table 3.1, Appendix table 1).

3.31 The growth of manufacturing sector as measured by annual industrial production index grew by 2.0 percent compared to a growth of 2.6 percent in the previous year. A significant decline of 15.3 percent in the production of ready-made garments caused the slow growth of industrial production in the review year (Appendix table 12).

3.32 The production of iron rod and billets; medicine and soap; textiles; brick and cement; electric wire and cable; processed leather subgroups witnessed a growth of 8.4 percent, 6.3 percent, 5.6 percent, 5.0 percent, 4.8 percent and 4.7 percent respectively in the review year compared to a growth of 1.3 percent, 5.0 percent, 5.9 percent, 2.6 percent, 3.6 percent and 6.0 percent respectively in the previous year. The growth of vegetable ghee and oil (having 15.8 percent weight in manufacturing production index) accelerated by 1.6 percent compared to a growth of 7.0 percent in the previous year. Likewise, the production of grain mills and animal feeds; other food products; beverages; other textiles; paper and paper products; newspapers; and plastic goods increased in the review year. However, the production of readymade garment, *pashmina*, sawn wood, tobacco, domestic metal recorded negative growth in the review year.

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3.33 Electricity, gas and water sector recorded a growth of 5.6 percent in the review year on top of growth of 4.8 percent in the previous year. The growth in this sector was on account of the improvement in the transmission and distribution of electricity.

3.34 The hydro-power generation increased by 4.6 percent to 2511.2 GWH in the review year compared to a growth of 9.4 percent in the previous year. In the review year, Nepal imported 266.2 GWH electricity from India while it was 241.4 GWH in the previous year. Nepal exported 101.0 GWH electricity to India compared to the export of 112.5 GWH in the previous year (Appendix table 15).

3.35 Construction sector recorded a growth of 4.2 percent in the review year. This was reflected in the rise of import and production of construction materials. Construction works picked up in the urban and sub urban areas largely due to the increase in the remittance income.

3.36 Similarly, the mining and quarrying sector increased by 2.2 percent compared to a growth of 2.5 percent in the previous year.

Services

3.37 The growth rate of services sector remained similar at 2.4 percent in the review year as in the previous year. The average growth during the last four years remained at 3.3 percent. A significant growth in trade, hotels and restaurants sector was offset by the sluggish growth in transportation, communication and storage; finance and real estate; and community and social services sectors.

3.38 The performance of tourism sector in terms of tourist arrivals and per capita expenditure remained poor in the review year. The number of tourists visiting Nepal during the review year stood at 375.4 thousand, witnessing a decline of 2.6 percent over the previous year. A total of 385.3 thousand tourists had visited Nepal during the previous year. Regarding the composition of tourists, the Indian tourists increased by 6.9 percent to 96.4 thousand compared to a growth of 4.5 percent to 90.2 thousand in the previous year. However, the number of tourists arrivals from third countries declined by 5.5 percent to 279.0 thousand in the review year as against a growth of 17.2 percent to 295.1 thousand in the previous year. The share of Indian and third country tourists in total tourist arrivals was 25.7 percent and 74.3 percent respectively in the review year compared to 23.4 percent and 76.6 percent respectively in the previous year (Appendix table 13).

3.39 In the review year, per capita tourist expenditure decreased by 6.5 percent to Rs. 25,390 from Rs. 27,158 in the previous year. The number of hotel beds rose marginally by 0.7 percent in the review year compared to a growth of 2.2 percent in the previous year. The average duration of stay of the tourists in the review year declined to 9.1 days compared to 13.5 days in the previous year.

3.40 The transport, communication and storage sector showed a growth of 2.2 percent in the review year compared to a growth of 5.1 percent in the previous year. The hard censorship, closure and destruction of media instruments largely accounted for the low growth of this sector.

3.41 According to statistics released by Nepal Oil Corporation (NOC), the sale of petrol and LP gas increased by 6.6 percent to 81.0 thousand kiloliters and 4.4 percent to 81.0

thousand metric tons respectively in the review year compared to a respective growth of 12.4 percent and 17.3 percent in the previous year. However, the sale of diesel declined by 6.7 percent to 294.3 thousand kiloliters in the review year as against a growth of 5.2 percent in the previous year. Likewise, the sale of kerosene further declined by 5.3 percent to 226.3 thousand kiloliters in the review year compared to a decline of 23.0 percent in the previous year. Nepal imported 81.8 thousand kiloliters of petrol, 292.4 thousand kiloliters of diesel, 225.0 thousand kiloliters of kerosene and 81.0 thousand metric tons of LP gas in the review year, representing a growth of 7.5 percent in petrol and a decline of 5.1 percent in diesel and 2.1 percent in kerosene (Appendix table 14).

3.42 The finance and real estate, and community and social services sectors grew by 2.2 percent and 1.3 percent respectively in the review year. The growth rates of these sectors were 4.6 percent and 2.8 percent respectively in the previous year. The slackness in the financial market and the decreased local government activities due to the political instability largely accounted for the low growth.

Aggregate Demand

Domestic Demand

3.43 Gross domestic demand at current market price witnessed a growth of 11.8 percent in 2005/06 compared to a growth of 9.9 percent in the previous year. A significant growth in total consumption especially in private sector consumption accounted for the rise in gross domestic demand (Table 3.3).

3.44 The total consumption increased by 10.9 percent and stood at 88.9 percent of GDP in 2005/06 compared to 87.6 percent in the previous year. The consumption of private sector and public sector grew by 11.2 percent and 8.9 percent respectively in 2005/06 compared to 7.5 percent and 8.0 percent growth recorded in the previous year. The consumption of private sector increased on account of a greater inflow of workers' remittances and improved consumption loans as a result of lower interest rates. Consequently, the total domestic saving in the review year declined to 11.1 percent of GDP from 12.4 percent of the previous year.

3.45 The total investment grew by 14.5 percent compared to a growth of 17.7 percent in the previous year. The share of total investment in GDP remained at 30.3 percent in the review year compared to 28.9 percent of GDP in the previous year. A growth of the change in stock was the major factor causing an increment in the investment. The ratio of fixed capital formation to GDP marginally declined by 0.8 percentage points to 15.5 percent in the review year from 16.3 percent of GDP in the previous year. Political instability aggravated both private and public sector investment climate leading to a decline in gross fixed capital formation.

Net External Demand

3.46 The external demand for the Nepalese goods and services grew by 25.8 percent in the review year as against a decline of 4.0 percent in the previous year. Likewise, the internal demand for foreign goods and services increased by 26.6 percent in the review year compared to a growth of 9.9 percent in the previous year. Despite some improvement in the external demand for Nepalese goods and services, the net external

demand further decreased by 27.3 percent and stood at a negative balance of 111.8 billion rupees in the review year.

Gross National Disposable Income (GNDI)

3.47 Gross national disposable income at current prices witnessed a growth of 12.8 percent in 2005/06 compared to a growth of 9.1 percent in the previous year. The GNDI accounted for 122.5 percent of GDP compared to 118.6 percent of GDP in the previous year. The workers' remittances continued to be a substantial part in net transfer registering a growth of 48.8 percent in the review year. The workers' remittances as percent of GDP stood at 16.7 percent. Similarly, the growth rate of GNDI at 1994/95 prices increased by 5.3 percent compared to a growth of 4.4 percent in the previous year (Table 3.3).

**Table 3.3: Gross National Disposable Income (GNDI)
(At Current Market Prices)**

Particulars	2003/04	2004/05	2005/06	2004/05	2005/06
	<i>Rs. in million</i>			<i>% Change</i>	
Total consumption	434,359	467,202	518,236	7.6	10.9
Total investment	130,993	154,132	176,483	17.7	14.5
Domestic demand	565,352	621,335	694,719	9.9	11.8
Net export	-68,607	-87,796	-111,772	28.0	27.3
Gross domestic product	496,745	533,538	582,947	7.4	9.3
Net factor income	-1,684	1,637	4,943	-197.2	-202.0
Net transfers	84,889	97,704	125,988	15.1	28.9
Workers' remittances	58,588	65,541	97,536	11.9	48.8
GNDI	579,955	632,879	713,879	9.1	12.8
GNDI (1994/95 prices)	363,932	379,794	399,892	4.4	5.3

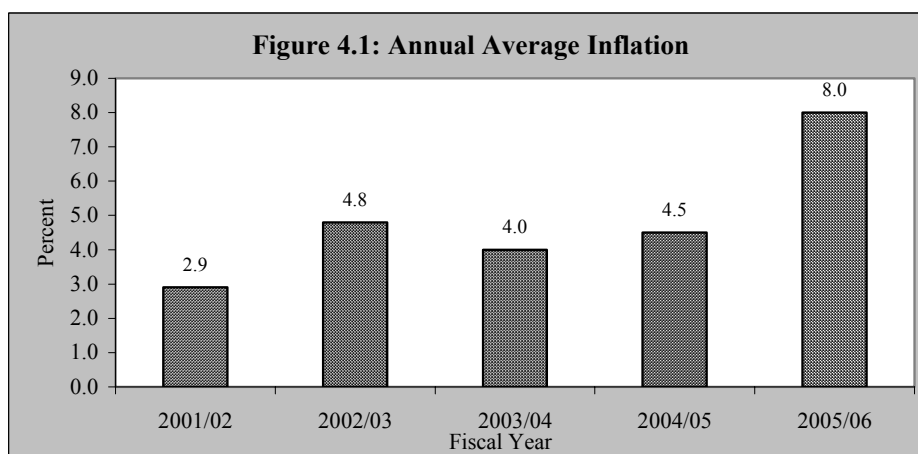
Source: Central Bureau of Statistics and Nepal Rastra Bank

4

Inflation

Consumer Price Inflation

4.1 The annual average inflation, as measured by National Urban Consumers Price Index (1995/96 = 100), rose by 8.0 percent in 2005/06 compared to an increase of 4.5 percent in 2004/05. The prices of the rice and rice products, restaurant meals, pulses, and vegetables and fruits contributed to rise the inflation in the review period. In addition, the hike in the prices of petroleum products two times together with the rise in transportation cost in the FY 2005/06 exerted an upward pressure on the general level of price.



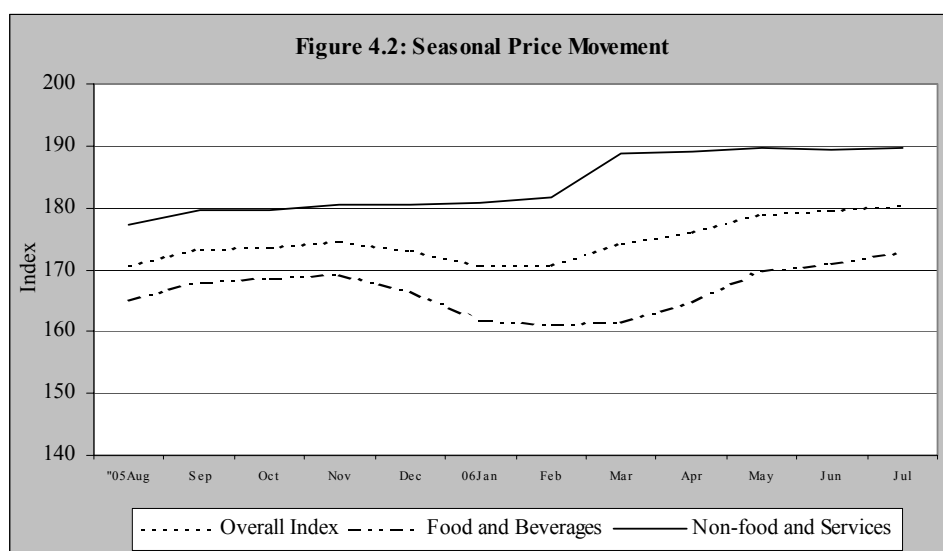
4.2 The year-on-year (y-o-y) overall price index rose by 8.3 percent in mid-July 2006 compared to an increase of 6.6 percent in the previous year. The indices of food and beverages group and non-food and services group increased by 7.9 percent and 8.7 percent respectively compared to the respective increases of 6.0 percent and 7.3 percent in the previous year.

4.3 The y-o-y index of food and beverages group moved up by 7.8 percent in 2005/06 compared to an increase of 4.0 percent in 2004/05, and that for non-food and services group rose by 8.1 percent in 2005/06 compared to a rise of 5.1 percent in the preceding year.

4.4 Region-wise, the inflation in Kathmandu Valley stood lowest than that of Hills and Terai during the review period. Inflation in Kathmandu registered at 6.5 percent which is almost similar at the level of the previous year. The inflation in Hills and Terai both increased by 8.6 percent in 2005/06. Using the indices by regions from 2003/04 to 2005/06 (36 monthly observations) and from 2004/05 to 2005/06 (12 monthly observations), it showed that Hills region registered a wide fluctuation in prices (standard deviation = 9.2 and 4.1 percent respectively during the periods), whereas Terai and Kathmandu valley fluctuated in almost similar fashion.

Seasonal Price Movement

4.5 The seasonal price fluctuations showed a higher variation in the review year compared to that of 2004/05. The price index was at the peak of 180.6 points in mid-July and the lowest at 170.6 points in mid-January. Figure 4.2 depicts the overall and group indices of the monthly price movement in 2005/06.



4.6 As depicted in the figure 4.2, the growth of overall index remains almost constant up to mid-February and then jumped up by 2.04 percent, and then remained stable up to remaining period of the fiscal year.

4.7 In addition, the figure shows that the index of food and beverages group increased in the first four months (mid-August to mid-November) from 165.0 points to 169.3 points and decreased from 166.6 points in mid-December 2005 to 161.3 points in mid-February 2006. The index witnessed a gradual increase again from 161.7 points in mid-March 2006 to 172.9 points in mid-July 2006. On the other hand, the index of non-food and services group increased gradually every month from 177.2 points to 189.7 points except a marginal decrease in mid-June to 189.5 point. Further, the index moved up to 189.6 points in July 2006.

Price Movement of Sub-groups of Commodities

4.8 The index of the food and beverages group increased to 169.5 in the review year. The index of grains and cereals products registered a considerable increase of 13.4 percent, whereas spices recorded a lower increase of 1.8 percent. Pulses (14.3 percent), beverages (9.5 percent), restaurant meals and sugar & sugar related products (5.9 percent each), vegetables, fruits and nuts (4.7 percent), milk and milk products (4.6 percent) and meat, fish and eggs (3.7 percent) increased in the review year. Basically, the index of grains and cereal products with (14.2 percent weight), surged up unpredictably in the review year and contributed to the growth of the group by 7.8 percent. Such growth was 4.0 percent in the preceding year.

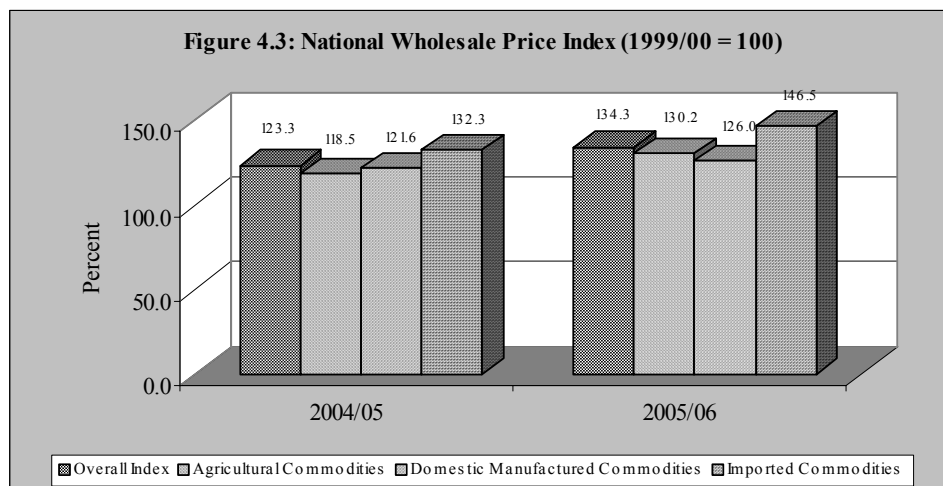
4.9 In the review year, a notable rise was observed in the price of pulses. The index of this sub-group surged by 14.3 percent on account of unfavourable weather. Such index was increased by 4.4 percent in the preceding year.

4.10 The index of non-food and services group rose by 8.1 percent compared to the 5.1 percent rise in the preceding year. A higher price rise was observed in housing goods and services (12.8 percent) and transport and communication (17.5 percent). The sub-group index of fuel, light and water rose significantly by 20.5 percent. Similarly, the indices for education, reading and recreation (5.2 percent), tobacco and related products (4.4 percent), footwear (2.9 percent), cloth, clothing and sewing services (2.8 percent) and medical and personal care (2.6 percent) increased in the review year.

4.11 A continuous increase in the prices of transport and communication, fuel, light and water, reading materials, education fee and tobacco items accounted for an increase in the index of non-food and services group. In the review year, the increase in the prices of petroleum products in the international market forced the government to revise the prices of petroleum products. The upward revision in prices of petroleum products twice in the review period further hiked the index up.

National Wholesale Price Inflation

4.12 The annual average National Wholesale Price Index (1999/00 = 100) increased by 8.9 percent in 2005/06 compared to 7.3 percent rise in the previous year. The surge in the prices of food grains, cash crops, construction materials, pulses, chemical fertilizer and chemical goods coupled with a significant rise in the prices of petroleum products and coal accounted for the higher growth in the price index in the review year.



4.13 On a y-o-y basis, all the sub-group indices under the agricultural commodities group increased within the range of 5.2 percent (fruits and vegetables) to 16.2 percent (foodgrains) in the review year. The indices for cash crops (8.2 percent), livestock production (6.7 percent), pulses (14.9 percent), and spices (6.4 percent) increased significantly in the review year. The prices of all the sub-group items under domestic manufactured commodities increased with lower rate in the review year. The index of construction materials increased by 2.2 percent, beverage and tobacco by 4.9 percent, food related products by 3.9 percent and others by 3.1 percent. Under the imported commodities group, the indices of petroleum products and coal as well as chemical fertilizer and chemical goods surged at a higher rate of 24.6 percent and 13.2 percent respectively, whereas, the indices of transport vehicles and machinery goods, others and drugs and medicine increased by 6.8 percent, 6.7 percent and 3.2 percent respectively. However, the indices of textile related products and electric and electronic goods declined by 1.6 percent and 0.6 percent respectively.

4.14 Of the sub-groups of national wholesale price index, the index of foodgrains increased by 16.2 percent in 2005/06 compared to a rise of 9.3 percent in the previous year. The decline in production of rice due to an inadequate monsoon, occasional disruption in supply situation as well as the higher cost of imported rice drove up the price index of foodgrains subgroup. The index of wheat and maize also registered a higher increase of 17.3 percent and 20.6 percent respectively.

4.15 The annual average index of cash crops increased by lower rate of 8.2 percent in the review year compared to 22.2 percent in the preceding year. The increase in the index emanated from the rise in prices of jute (24.9 percent) and potato (13.3 percent) despite the decline in the prices of sugarcane (43.3 percent) and oil seeds (6.3 percent).

4.16 The index of pulses sub-group surged by 14.9 percent compared to a rise of 2.9 percent in the previous year. The erratic weather affected the production of pulses. Consequently, shortage in the market pressured on prices of these commodities.

4.17 The two times upward revision of prices of petroleum products in the review period accounted for the rise of this sub-group index by 24.6 percent. The index was increased by 23.9 percent in the previous year.

Salary and Wage Rate

4.18 The annual average National Salary and Wage Rate Index (2004/05=100) increased by 3.9 percent in 2005/06 compared to a rise of 9.8 percent in the previous year. The government and other organizations adjusted the allowances in basic salary of their employees. This pushed up salary index by 0.3 percent. The significant increase in the wage rate of manual workers and agricultural workers as well as the wage rate revision by the different industries pushed up the wage rate index by 5.3 percent.

4.19 The wage rate in selected market centres i.e. Kathmandu, Biratnagar, Birgunj and Bhairahawa showed an increasing trend in the review period. The average growth in the wages of agricultural labourer for male ranged between 0.12 percent (Birgunj) to 15.85 percent (Kathmandu) whereas that for the female ranged from zero percent (Birgunj) to 17.43 percent (Kathmandu).

4.20 The average growth rate in the wages of construction skilled labourer in Birgunj remained at preceding year's level, whereas, for other centers it ranged from 2.56 percent (Birgunj) to 21.83 percent (Biratnagar). However, the wage rate of skilled and unskilled masson declined in the same period. The wage rate for unskilled masson increased by 1.92 percent in Birgunj and 10.08 percent in Biratnagar, whereas it remained at the same level of the previous year in Bhairahawa.

4.21 Against a decline in the wage rates for skilled and unskilled carpenter by 4.60 percent and 6.91 percent respectively in Kathmandu, the wage rate for skilled carpenters in Bhairahawa and Biratnagar increased by 2.56 percent and 21.13 percent respectively.

4.22 In case of wages of (general) labour, the wages for both male and female increased significantly in all the centers. The rise in wages recorded between 0.18 percent in Kathmandu, 3.47 percent in Bhairahawa and 25.39 percent in Biratnagar, whereas, the wage rate of female workers in Kathmandu stood at previous year's level.

5

Fiscal Sector Developments

5.1 The year 2005/06 remained historical in the direction of restoring democracy; however, it experienced several fluctuations and political movements in Nepal. The sluggishness of the economy continued in this year also. Economic activities including the development works were affected. Local level investment could not increase due to the absence of elected bodies and rural sector was adversely affected. Increasing number of youths continued to drain abroad in search of foreign employment. Petroleum price hike affected almost all sectors of the economy. Under these circumstances, economic growth remained low compared to the target set in the Tenth Plan.

5.2 The aforesaid factors affected the government budgetary position. Revenue collection was severely affected and remained way below the budget target. The foreign aid also remained less than the target. The growth rate of government expenditure, however, showed an increasing trend. The increasing gap between expenditure and resources led to an increase in fiscal deficit. Recurrent expenditure increased heavily due to a significant increase in security expenditure, a rise in non-budgetary expenditures such as, payment to Nepal Oil Corporation, and expensive municipality election. Treatment of injured people in people's movement as well as rehabilitation of the victims of conflict also contributed to the increase in the recurrent expenditures.

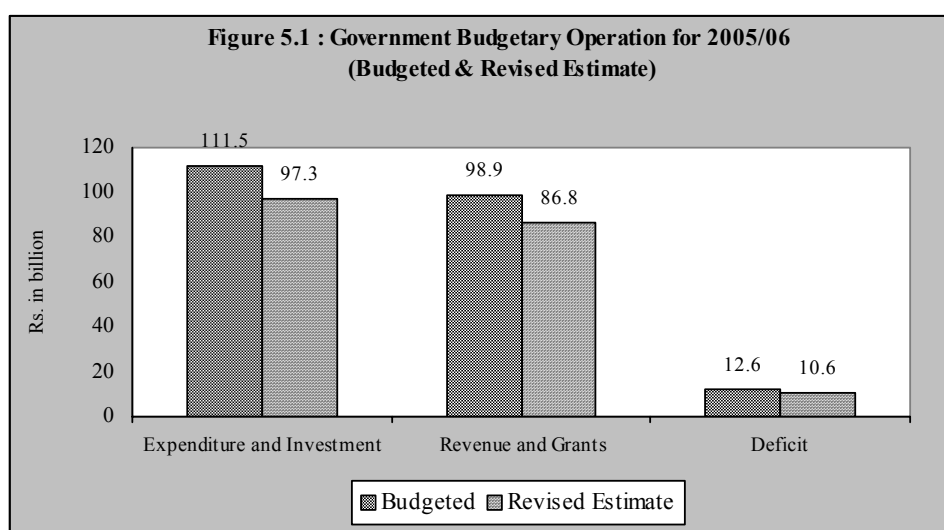
5.3 As Nepal is a member of WTO, there is no possibility of increasing revenue by increasing customs rates. Rather there is a need of broadening tax base and strengthening the VAT administration. VAT became the principal source of revenue, but it was due to the increase in tax rate rather than the expansion of tax net.

5.4 Public enterprise did not show satisfactory performance. In 2005/06, of the 36 state owned enterprises, 19 enterprises registered an operating profit, whereas 17 incurred losses. Even amongst the profit making enterprises, majority of them had unsatisfactory financial position, low capacity utilization and employee's productivity.

Fiscal Performance (On the basis of revised estimates)

Budget Deficit

5.5 The government budget remained expansionary in 2005/06. The budget deficits showed a significant growth of 134.0 percent to Rs. 10.6 billion in contrast to a decline of 10.3 percent in the previous year. The budget deficit increased at a higher rate due to sluggish growth of government revenue relative to government expenditure. The ratio of budget deficit to GDP increased to 1.8 percent in 2005/06, from 0.8 percent in the previous year.



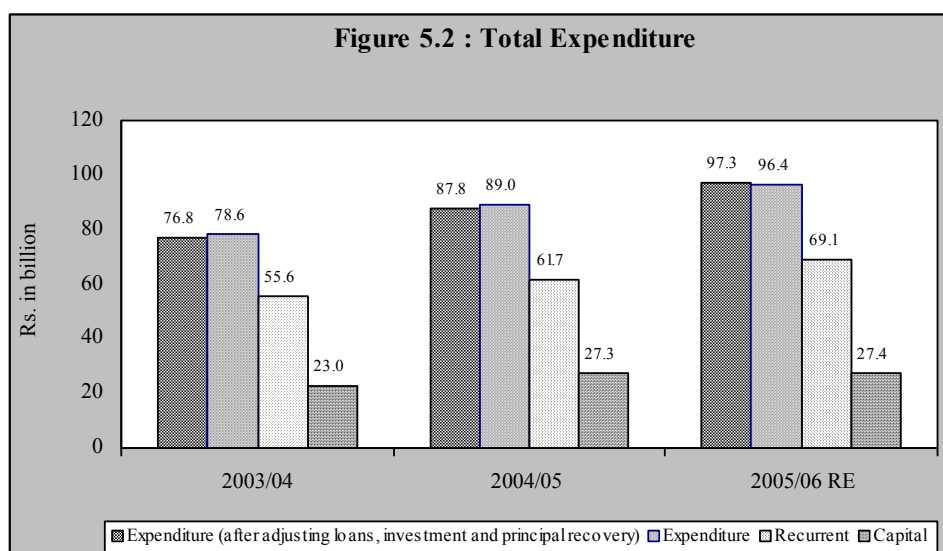
5.6 Of the total budget deficit in 2005/06, the government mobilized Rs. 4.6 billion through internal borrowing (net) and Rs. 2.5 billion through external borrowing (net). Such figures for the previous year were Rs 1.4 billion and Rs. 3.3 billion respectively.

5.7 In 2005/06, the gross external loan went up by 1.6 percent to Rs. 9.4 billion compared to a growth of 21.5 percent in the previous year. The gross external loan was Rs. 9.3 billion in 2004/05. Since the principal repayments on foreign loan increased at a higher rate of 16.9 percent, the inflow of net external loan declined by 25.8 percent in the review year. The gross internal borrowing (excluding overdraft) showed a growth of 32.6 percent to Rs. 11.9 billion in the review year compared to a growth of 59.4 percent in the previous year. The gross internal borrowing was Rs. 8.9 billion in the previous year. The ratio of gross internal and external borrowing to GDP stood at 2.0 percent and 1.6 percent respectively in the review year. Such ratios had stood at 1.7 percent each in the previous year.

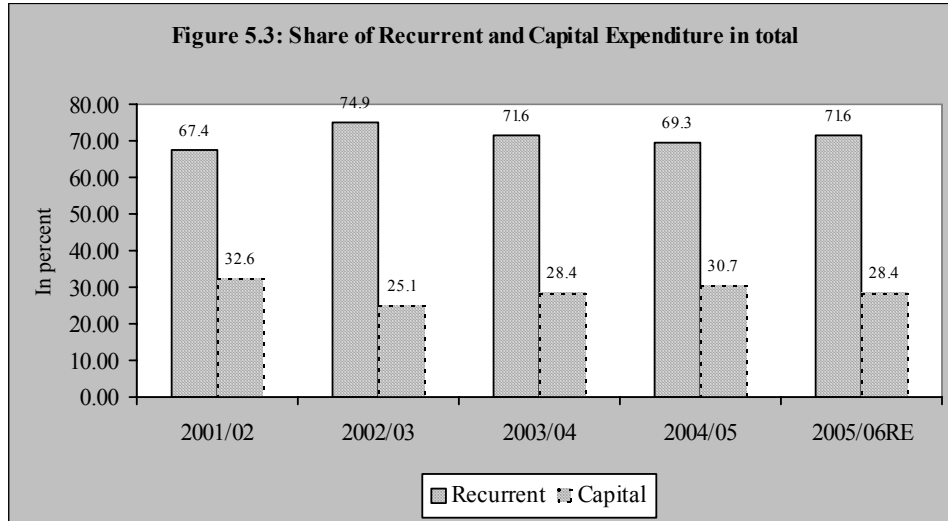
Government Expenditures

5.8 Total government expenditures including loans and investments rose by 10.9 percent to Rs 97.3 billion in 2005/06 compared to a growth of 14.3 percent in the previous year. Very low growth of capital expenditure (0.1 percent) accounted for

relatively lower growth of government expenditures relative to that of the preceding year. The revised estimate for government expenditure was lower by 12.7 percent than the budget estimate. The ratio of government expenditure to GDP was marginally higher at 16.7 percent in 2005/06 compared to 16.5 percent of the previous year.

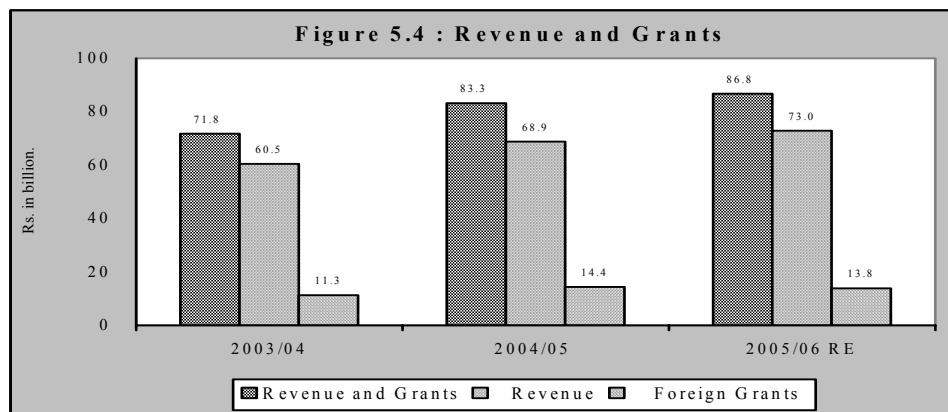


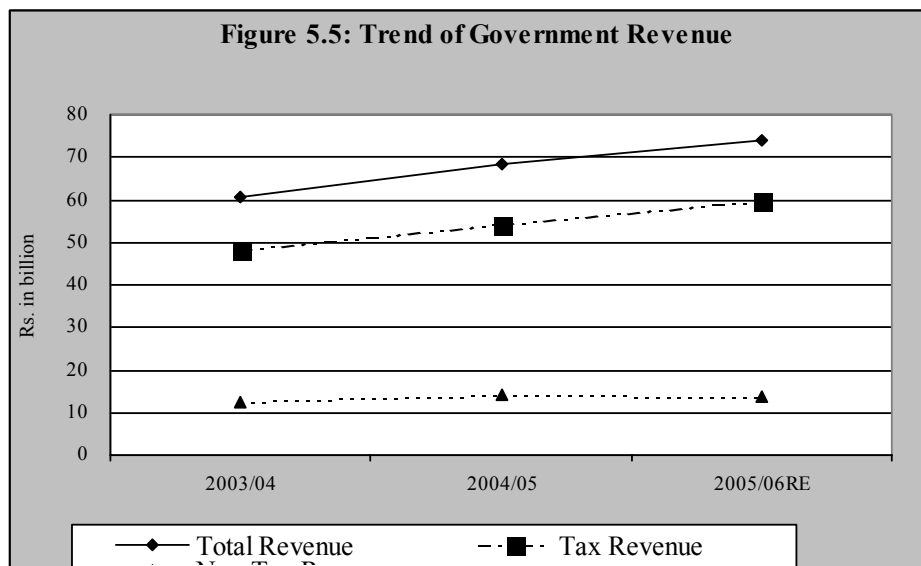
5.9 Of the total government expenditures, recurrent expenditure grew by 12.0 percent to Rs. 69.1 billion in the review year compared to a growth of 11.0 percent in the preceding year. Such an increase in recurrent expenditure was mainly attributed to the increase in security expenses. The revised estimate of the recurrent expenditure was 8.9 percent lower than the budget estimate of 2005/06. The ratio of recurrent expenditure to GDP stood at 11.8 percent in 2005/06 compared to 11.6 percent in 2004/05. Capital expenditure marginally increased by 0.1 percent to Rs. 27.4 billion in the review year compared to a higher rise of 18.7 percent in the preceding year. The political instability and deteriorating peace and security situation in the country accounted for the abysmally lower growth of capital expenditure in 2005/06. The revised estimate of capital expenditure was 25.3 percent lower than the budget estimate. The ratio of capital expenditure to GDP remained at 4.7 percent in 2005/06, compared to that of 5.1 percent of the previous year. The ratio of recurrent and capital expenditures in total expenditures remained at 71.6 percent and 28.4 percent respectively in 2005/06 compared to 69.3 percent and 30.7 percent respectively in 2004/05.



Revenue

5.10 Revenue mobilization, excluding the principal repayment showed an increase of 6.0 percent to Rs 73.0 billion in 2005/06 compared to a growth of 13.9 percent in 2004/05. The reduction of customs duty in half-yearly budget announcement, the decline in dividends from the government enterprises, adverse situation of peace and security, low consumer confidence and revenue waiver at the time of people's movement were the factors responsible for the lower growth of revenue. The revised estimate of revenue was 9.1 percent lower than the budget estimate. The revenue to GDP ratio decreased to 12.5 percent in 2005/06 from 12.9 percent in 2004/05. Of the total revenue, the composition of tax revenue and non-tax revenue stood at 82.2 percent and 17.8 percent respectively. Such ratios were 78.6 percent and 21.4 percent respectively in the previous year.





Tax Revenue

5.11 Tax revenue increased by a lower rate of 10.8 percent in 2005/06 compared to 12.3 percent in the previous year. The revised estimate of tax revenue was 6.1 percent lower than the budget estimate. Tax revenue stood at 10.3 percent of the GDP in 2005/06 compared to 10.1 percent in 2004/05. Of the total tax revenue, VAT occupied the largest share, followed by the customs duty. In the review year, the share of direct and indirect tax in total tax revenue stood at 24.0 percent and 76.0 percent respectively. Such shares were 24.2 percent and 75.8 percent respectively in 2004/05. The major components of direct tax are corporate income tax, house and land registration tax, property tax and remuneration tax whereas those of indirect tax are VAT, customs duties, and the excise duties.

5.12 Of the total tax revenue, VAT recorded the highest share (38.1 percent) followed by customs (26.2 percent) and corporate income tax (13.0 percent) in the review year. The ratios were 34.9 percent, 29.0 percent and 13.6 percent in 2004/05. The revised estimate of VAT revenue registered a growth of 20.9 percent compared to an increase of 30.4 percent in the previous year and remained lower than the budget estimate by 3.5 percent. Customs duties showed a growth of 0.2 percent compared to a growth of 0.9 percent in the preceding year. The reduction of customs duty in half-yearly budget announcement accounted for such a deceleration in customs revenue. The revised estimate of customs duties was lower than the budget estimate by 7.7 percent.

5.13 Income and property transfer tax observed a growth of 10.2 percent in 2005/06, compared to an increase of 9.7 percent in 2004/05. An increase in corporate income tax contributed to such an increase in income and property transfer tax. The revised estimate of such tax was lower than the budget estimate by 5.3 percent. Corporate income tax increased by 5.9 percent compared to 7.7 percent in the preceding year. The revised

estimate of such tax was lower than the budget estimate by 6.8 percent. Of the total income and property transfer tax, tax from government corporations depicted a growth of 2.9 percent compared to that of the previous year but remained below the budget target by 6.8 percent. Remuneration tax increased by 0.1 percent and remained lower than the budget target by 6.8 percent. Taxes from non-government corporations went up by 6.5 percent from the level of the previous year but remained below the budget estimate by 6.8 percent. House and land registration tax recorded a substantial growth of 39.0 percent from the level of preceding year and remained equal to the budget estimate. Investment and other taxes depicted a growth of 7.0 percent from the level of the preceding year, but remained lower by 6.7 percent of the budget estimate.

Non-tax Revenue

5.14 The non-tax revenue observed a decline of 11.9 percent in 2005/06 in contrast to a growth of 20.0 percent in 2004/05 and remained below the budget estimate by 20.7 percent. The decline in dividends from the government enterprises was the main factor responsible for such a decline in the non tax revenue. The non-tax revenue to GDP ratio came down to 2.2 percent in 2005/06 from 2.8 percent in 2004/05. Of the total non-tax revenue, revenue from forest, interest, dividend and miscellaneous sectors decreased, whereas the revenue from departmental receipts and civil administration increased. Revenue from departmental receipts and civil administration remained higher than the budget target whereas other headings of non-tax revenue remained below the budget estimate.

Box 5.1: Tax Elasticity and Buoyancy

A time series analysis (sample period from 1975-2005) of tax elasticity and buoyancy reveals that the tax system in Nepal is inelastic (less than unity) with a more than unitary buoyancy coefficients reflecting a significant revenue collection coming from the discretionary changes in the tax policy. Total tax revenue, which occupies approximately 80 percent of the total revenue mobilization in Nepal, has elasticity coefficient of 0.51 which is less than half of the buoyancy coefficient of 1.12. From these results, it can be easily observed that there is very low automatic growth of the tax revenue reflecting a very inelastic tax structure.

Foreign Grants

5.15 In 2005/06, foreign grants showed a decline of 4.1 percent to Rs. 13.8 billion in contrast to a growth of 27.5 percent in the preceding year. The revised estimate of foreign grants remained lower by 26.1 percent than the budget estimate. The ratio of foreign grants to GDP remained at 2.4 percent in 2005/06 compared to 2.7 percent in the preceding year.

Public Debt

5.16 The outstanding public debt (both internal and external) amounted to Rs. 321.2 billion as at mid-July 2006, which was higher by 6.2 percent compared to that of the previous year. The share of total external debt and internal debt in total outstanding debt remained at 72.0 percent and 28.0 percent respectively in the review year. Such composition was 72.6 percent and 27.4 percent respectively in 2004/05. Of the total

outstanding debt, internal debt increased by 8.6 percent to Rs. 90.0 billion compared to an increase of 1.8 percent in the preceding year. The ratio of internal debt, external debt and the total outstanding debt to GDP remained at 15.4 percent, 39.7 percent and 55.1 percent respectively in 2005/06. Such ratios were 15.5 percent, 41.2 percent and 56.7 percent respectively in 2004/05.

Ownership Pattern of Government Domestic Debt

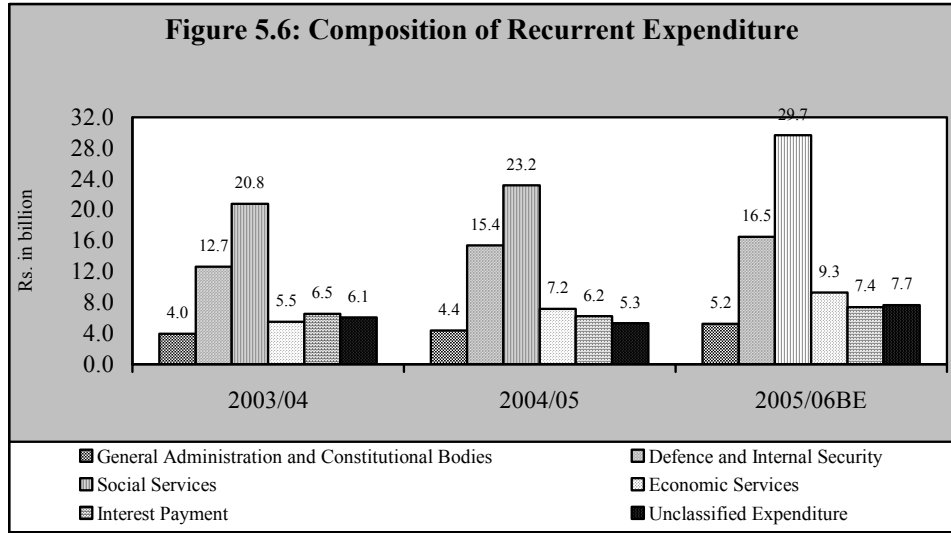
5.17 In 2005/06, NRB's holding of the government bonds (excluding TBs) stood at 6.8 percent of the total bonds which was higher by 1.1 percentage points from the previous year's level. The government bonds held by commercial banks came down from 28.8 percent to 26.7 percent, Employees' Provident Fund Corporation from 16.2 percent to 15.7 percent, government enterprises from 1.0 percent to 0.9 percent, and non-profit organization from 1.5 percent to 0.9 percent. Conversely, the holdings of government bonds by the financial institutions (other than Employees' Provident Fund Corporation) increased from 15.9 percent to 17.3 percent, private business enterprises from 1.1 percent to 1.6 percent and individuals from 29.8 percent to 30.2 percent.

5.18 In 2005/06, total outstanding amount of TBs rose by 22.6 percent to Rs. 63.0 billion compared to an increase of 4.0 percent in the previous year. The share of NRB holdings in total TBs declined to 14.6 percent in the review year compared to that of 21.3 percent in 2004/05. However, commercial banks recorded a surge in the ratio from 76.9 percent in 2004/05 to 81.4 percent in 2005/06. Financial institutions' share also depicted an increase from 0.4 percent to 0.6 percent. Others' share increased from 1.5 percent to 3.4 percent.

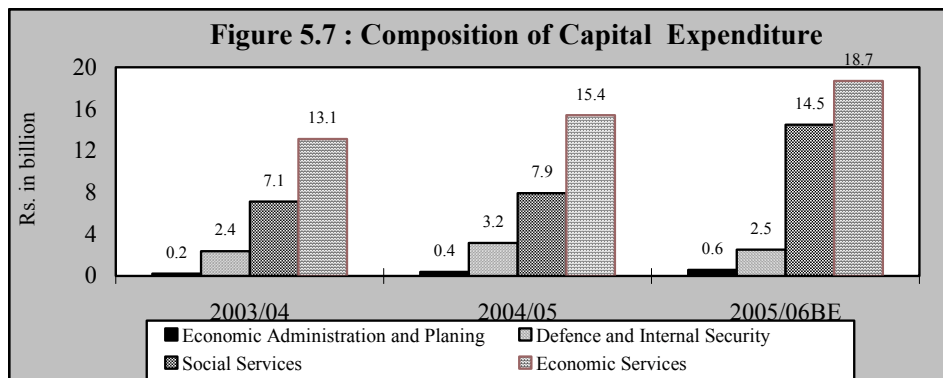
Budget Estimate 2005/06

5.19 The budget estimate of government expenditures including net loans and investment stood at Rs 111.5 billion, which was 27.1 percent higher than that of the previous year. Total government expenditure excluding net loan and investment increased by 26.3 percent to Rs. 112.5 billion in 2005/06 compared to the level of the previous year. Of the total expenditure, Rs 75.9 billion (67.4 percent) and Rs. 36.6 billion (32.6 percent) was allocated for the recurrent and the capital expenditure respectively. Both the recurrent and the capital expenditure were expected to increase by 23.0 percent and 34.0 percent respectively in 2005/06 compared to that of the previous year. A rise in social services, especially in education sector followed by the expenditure in defense and internal security, economic services and miscellaneous items contributed to such an increase in recurrent expenditure.

5.20 Of the total recurrent expenditure, Rs. 29.7 billion (39.1 percent) was allocated for social services, Rs. 16.5 billion (21.8 percent) for defense and security, Rs. 9.3 billion (12.3 percent) for economic services, Rs. 5.2 billion (6.9 percent) for constitutional bodies and general administration, and Rs. 15.1 billion (19.9 percent) for miscellaneous expenditures. Miscellaneous expenditures cover interest payments and unclassified expenditures.



5.21 Of the capital expenditure, Rs. 18.7 billion (51.0 percent) was allocated for economic services, Rs 14.5 billion (39.6 percent) for social services, Rs. 2.5 billion (6.9 percent) for defense and internal security and the rest was allocated for economic administration and planning and unclassified expenditures.



5.22 On the revenue front, revenue mobilization was estimated at Rs. 80.3 billion. Of this, Rs. 63.9 billion (79.6 percent) was estimated to be mobilized from tax revenue and the remaining Rs 16.4 billion (20.4 percent) from non-tax revenue. Of the total tax revenue, Rs. 31.6 billion (49.5 percent) was targeted to be mobilized from commodity and services tax comprising VAT (37.0 percent) and excise duty (12.5percent) of the total tax revenue. Revenue mobilization from external trade was estimated at Rs. 17.1 billion (26.7 percent), and tax on income and property transfer was at Rs 15.2 billion (23.8 percent).

5.23 Of the total non-tax revenue, miscellaneous sources, which include royalty, sales of government property, donation and miscellaneous income, was estimated to constitute a major portion of Rs. 4.8 billion (29.3 percent). This was followed by dividend Rs. 4.3 billion (26.3 percent) and civil administration Rs. 4.3 billion (26.1 percent).

Tax Policy Provisions

5.24 In order to mobilize the targeted revenue, the budget for 2005/06 had proposed to ensure simple and transparent tax procedures, enhanced and taxpayers' friendly tax administration, expanded tax-net and appropriate tax-rate. The budget had also focused on continuation of existing revenue administration reform policies and programmes, promotion of the exports, creation of additional employment opportunities and implementation of recommendations of the Revenue Advisory Committee.

5.25 In the budget, the tax exemption limit for a natural person was increased by 25.0 percent to Rs. 1,00,000 for an individual and Rs. 125,000 for family. Through the budget announcement, the government removed the special duty of 0.5 percent. The budget had estimated to mobilize revenue amounting to Rs. 4.6 billion through the improvement in revenue policy, changes in tax rates and administrative reforms.

5.26 Financial Ordinance of January 15, 2006 revised the customs rate of 130 goods. It also reduced the customs rate of major domestic consumer goods by 10 to 25 percent. Moreover the ordinance removed VAT of 13 percent on health services and instead imposed excise duty of 5 percent. However, the customs rates on gray cement, petrol and air fuel were slightly increased.

Tax Rates

5.27 Income of Rs 75,000 above the exemption limit was subject to income taxation of 15 percent and thereafter the rate is 25 percent i.e. the highest marginal rate of 25 percent plus 1.5 percent introduced in 2004/05, remained constant also in 2005/06. On the excise front, excise slabs increased to five (2, 4, 5, 15 and 32 percent) in 2005/06 from three (4, 15 and 32 percent) in 2004/05. In 2005/06 customs rates on import remained at 5, 10, 15, 25, 35, 40 and 80 percent, as in the previous year. In 2005/06, customs rates on export remained at 0.5, 1, 8, 70 and 200 percent, which were 0.5,1,2,10,70 and 200 in the previous year.

Box 5.2: Tax Rates			
		2004/05	2005/06
1.	Import Duties (Percent)	5,10,15,25, 35,40,80	5,10,15,25, 35,40,80
2.	Export Duties(Percent)	0.5,1,2,10, 70,200	0.5, 1, 8, 70, 200
3.	Excise (Percent)	4, 15, 32	2, 4, 5, 15, 32
4.	VAT (Percent)	13	13
5.	Income Tax		
	a) Limit of exemption		
	i) Individual	Rs 80,000	Rs 100,000
	ii) Family	Rs 1,00,000	Rs 125,000
	b) Rate of Tax (percent)		
	i) First Rs 75,000 after exemption	15 percent	15 percent
	ii) After that	25+1.5 percent	25+1.5 percent
6.	Corporate Tax (Flat rate)		
	a) Corporate net income	30 percent	30 percent
	b) Bank and financial institutions	25 percent	25percent
	c) Others	25 percent	25 percent

5.28 The government committed to review the present organizational structure and the formation of revenue group in order to make revenue administration more efficient, modern, dynamic and effective. A three-year customs reforms and modernization programs was announced to implement effectively in the coming days. In this regards, the government announced to observe the year 2005/06 as "Customs Modernization Year" with a slogan "Customs Service–Support to Trade Facilitation."

6

External Sector Developments

Review of Developments

6.1 During 2005/06, Nepal signed two important agreements with its immediate neighbors, China and India. The first agreement was the renewal of the Nepal-India Transit Treaty for another seven years. The agreement was signed on March 30, 2006 and is valid from January 6, 2006 to January 5, 2013.

6.2 With the renewal of the treaty, Nepal will continue to have the right to use 15 border points for transit purposes. However, Nepal can now use only seven border points for trade in 'sensitive' goods. India has the right to declare any commodity 'sensitive' only by notifying Nepal about its decision. So in a sense India has acquired the right to limit the number of transit points to seven. As a lion's share of Nepal's third country trade passes through these seven points, this new provision is not expected to result in significant changes in the trade routes of Nepal. The other important provision added to the treaty is the decision to allow India to use the Nepali territory for transport of goods from one location to another location in India. Till now only Nepal was using Indian Territory for intra Nepal cargo. This is a significant development as Nepal has for the first time been regarded not merely as a transit using but also a transit providing country.

6.3 The other important agreement which is expected to have a long term impact on the trade and economy of Nepal is the agreement signed on March 19, 2006 with China. As per this agreement, China will provide Nepali products duty free access to the Chinese market. With this new facility accorded by the Chinese government on a non-reciprocal basis, Nepal hopes to reduce the increasing trade deficit in the Sino-Nepali trade. However, many issues in this agreement have not yet been finalized. The detailed text of the agreement is not yet available to the public. It is not yet clear how many products will qualify for such duty free entry. There is also an issue whether such a list will be limited to the products which are being exported by Nepal at present or will also include potential future exportables.

6.4 The South Asian Free Trade Area (SAFTA) which brings together India, Pakistan, Sri Lanka, Bangladesh, Bhutan, Nepal and the Maldives, was planned to be implemented from 1 January 2006 but actual tariff liberalization was delayed for six months to give member countries time for adjustment. Nepal was given an additional month to usher in the new regime. SAFTA is being implemented in two phases. In the first phase, the

existing tariff rates shall be reduced to 20% (or below) and 30% (or below) by the Non-Least Developed Countries (Non-LDCs) and Least Developed Countries (LDCs), respectively within a time frame of 2 years. In the second phase, subsequent tariff reduction to 0-5% shall be made within the time frame of next five years by Non-LDCs and within next eight years by LDCs. However, the period of subsequent tariff reduction by Sri Lanka shall be six years. Thus, the full impact of SAFTA will be felt only by 2016 when tariffs in the region come down between 0-5% percent.

Foreign Exchange Sector Reforms

6.5 Foreign exchange facility to be provided to individuals and organizations directly by commercial banks for various purposes has been increased from US\$ 1,000 to US\$ 1,500 in 2005/06.

6.6 Nepalese citizens migrating on immigrant visa to the developed countries like USA, Canada, Australia, New Zealand and UK are entitled to get a foreign exchange facility of US\$ 5,000 (individuals) and US\$ 10,000 (family) for settlement expenses.

6.7 For a firm/organization/company having a convertible foreign currency account with a commercial bank, while participating in trade fairs and exhibitions in the countries other than India for trade promotion, payments for stall booking, registration fees, service charges, etc. in convertible currencies directly from its account held with commercial bank have been allowed.

6.8 Provision has been made of permitting the foreign currency account holder's wife/husband and parents to operate such accounts after obtaining the prior permission from the account holder.

6.9 Under the provision of Cash Against Document (CAD) mechanism, the existing practice of providing permission by the NRB for exporting goods amounting to US dollar at a time with a bank guarantee of 5 percent has been revised upward to the limit of US \$ 200,000 from US\$ 100,000 effective 2005/06. In addition, commercial banks can themselves make payment of exports up to that limit based on the collateral like cash, saving certificates and development bonds and the others acceptable to them.

6.10 If a third country exporter to Nepal fails to make the shipment of goods and wants to refund the advance payments made for import under Draft /TT facility, a provision has been made whereby the commercial banks can themselves cancel the cheque that had been issued as a guarantee in favor of the customs office.

6.11 In a situation of receiving the document in excess of the amount stated in import L/C denominated in convertible currency, commercial banks have been allowed to accept a document up to 2 percent of the L/C amount or US dollar 1000, whichever is lower.

6.12 Commercial banks are free, for which the NRB will not bear any obligation, to swap the interest rate while hedging the interest rate of the loan borrowed by any party in foreign currency

6.13 A provision of requiring 10 percent of import value as a bank guarantee by the private sector importers to import chemical fertilizer in Nepal has been reduced to 2 percent in order to facilitate the import of chemical fertilizer.

6.14 Commercial banks have been permitted directly to send any payment to India in foreign currency made by the international organizations having foreign currency account in the commercial banks.

6.15 The provision of endorsement to be made in the passport for the foreign exchange provided under passport facilities has been abandoned and foreign exchange facility can be provided more than once.

6.16 The provision of requirement of approval from the NRB to borrow from abroad has been changed so that one who intends to borrow from abroad, for a period of one year or more, without pledging any domestic asset as collateral, can borrow by just notifying the NRB instead of taking prior approval.

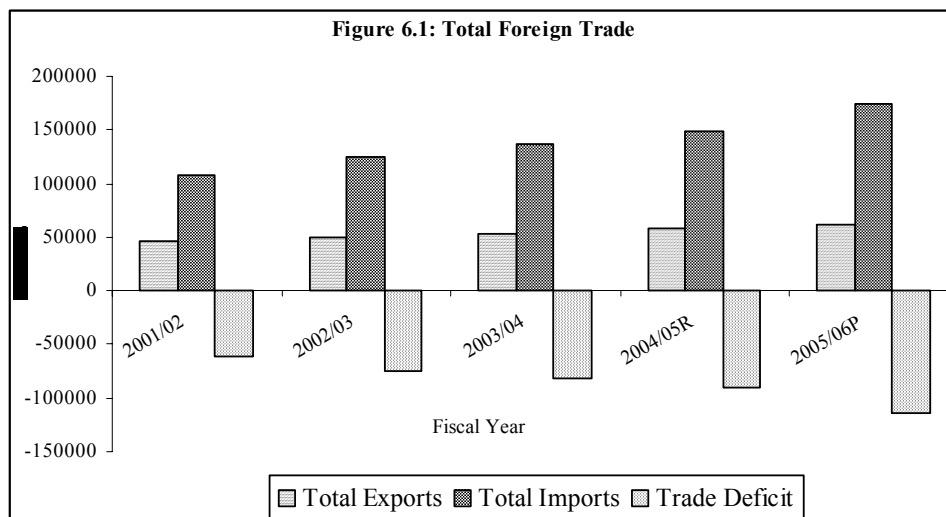
6.17 Additional items have been included in the list that can be imported from India through the payment of convertible currency. The provision of importing certain items from India through the payment of convertible currency has been raised to 91 items as of mid-July 2006.

6.18 Overall, the foreign trade sector depicted a mixed picture in 2005/06. Total exports decelerated owing to the deceleration in exports to India. Total imports increased significantly as a result of the upsurge in imports both from India and overseas. The additional 4 percent duty imposed by India in March 2006 adversely affected exports to that country. The higher rate of growth of imports relative to exports led to a significant expansion in trade deficit. Despite the increase in trade deficit and a decline in net services, a surplus was registered in the current account primarily due to the higher inflow of remittances. Consequently, the balance of payments also posted a significant surplus.

6.19 Regarding intervention in the foreign exchange market, the NRB intervened 64 times, purchasing a total of US\$ 769.9 million and selling a total of US\$ 9.20 million in 2 times from and to the commercial banks during the review year.

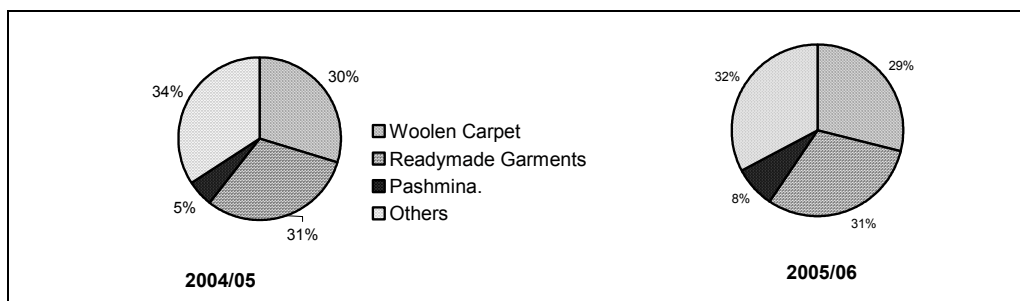
Merchandise Trade

6.20 Based on customs data, trade in nominal value expanded by 13.5 percent to Rs. 236.28 billion in the review year in comparison to a growth of 9.5 percent in the preceding year. In proportion to GDP, total trade this year stood at 40.5 percent compared to 39.0 percent in the previous year. Similarly, on the basis of US dollars, total trade posted a growth of 13.1 compared to the previous year's growth of 12.1 percent. The composition of total trade revealed that trade with India and other countries constituted 63.6 percent and 36.4 percent, respectively during the review year. The respective shares in the previous year were 61.3 percent and 38.7 percent. During the review year, the import sustainability of exports went down to 34.9 percent from 39.3 percent in the previous year. While import sustainability of export to India went down from 43.9 percent in the previous year to 37.5 percent in the review year, import sustainability of export to other countries dropped from 32.5 percent in the previous year to 30.6 percent in the review year.



6.21 During 2005/06, the growth rate of total exports decelerated to 4.2 percent and aggregated Rs. 61.17 billion. In the previous year, total exports had risen by 8.9 percent to Rs. 53.91 billion. As percent of GDP, exports accounted for 10.5 percent during the review year in comparison to 11.0 percent in the previous year. Destination-wise, exports to India saw a growth of just 5.4 percent in the review year compared to a significant growth of 26.4 percent in the previous year. Exports to other countries, on the other hand, witnessed a growth of 1.8 percent in contrast to a decline of 14.5 percent in the previous year. The major commodities that were responsible for the increase in exports to India comprised polyester yarn, readymade garments, zinc sheet, wire and ginger. However, exports of textiles, vegetable ghee, plastic utensils, toothpaste and chemicals to India declined during the review period. The major factor that led to the slight increase in the exports to other countries was the rise in the exports of pashmina, pulses, tanned skin, readymade garments, paper & paper products and nigerseed. Exports of handicraft, silverware and jewelleryes, woolen carpets, herbs and readymade leather goods, however, declined.

Figure 6.2: Major Exports to Other Countries



6.22 In dollar terms, total exports went up by 3.8 percent to US\$ 845.78 million in 2005/06 in comparison to the significant growth of 11.5 percent in the previous year. On the basis of US dollar, exports to India rose by 5.0 percent in comparison to a significant growth of 29.5 percent in the previous year. Likewise, exports to other countries registered a growth of 1.5 percent in the review year in contrast to a decline of 12.4 percent in the previous year. Of the total exports, exports to India and other countries comprised 67.1 percent and 32.9 percent respectively in the review year while their respective shares were 66.3 percent and 33.7 percent last year.

6.23 With respect to the composition of exports based on the Standard International Trade Classification (SITC), the first position was held by manufactured goods classified chiefly by materials comprising 47.4 percent of total exports. The miscellaneous manufactured articles also maintained its second position with a share of 23.1 percent. In the previous year, manufactured goods classified chiefly by materials and miscellaneous manufactured articles constituted 48.7 percent and 22.6 percent, respectively, of total exports. Exports of food and live animals comprised 12.2 percent of total exports in comparison to 11.9 percent and remained in third position as before. The share of animal and vegetable oil and fats in total exports declined to 7.0 percent in the review year from 8.6 percent last year. Chemicals and drugs comprised 6.2 percent of total exports compared to the share of 6.3 percent in the previous year. Overall, while primary goods formed 21.3 percent of the total exports in the review year, manufactured and capital goods constituted 78.7 percent. The respective shares of the primary and the manufactured goods in the previous year were 22.1 percent and 77.9 percent.

6.24 During the review year, total imports rose by 17.1 percent to Rs. 175.11 billion in comparison to a growth of 9.7 percent in the previous year. Imports from India expanded by 23.3 percent to Rs. 109.31 billion in the review year compared to a growth of 12.6 percent in the previous year. Imports from other countries also increased by 8.2 percent to Rs. 65.80 billion in comparison to a growth of 5.7 percent in the previous year. In dollar terms, total imports recorded a growth of 16.7 percent in the review year compared to an increase of 12.3 percent in the previous year. Imports from India in dollar terms soared by 22.8 percent in comparison to the previous year's growth of 15.3 percent. Likewise, in dollar terms, imports from other countries rose by 7.8 percent in the review year in comparison to an increase of 8.2 percent in the previous year.

6.25 The value of total imports in relation to GDP rose to 30.0 percent in the review year from 28.0 percent in the previous year. The relative share of imports from India in total imports rose to 62.4 percent in the review year from 59.3 percent in the previous year. Likewise, the relative share of imports from other countries moved down to 37.6 percent from 40.7 percent.

6.26 With regard to the composition of imports on the basis of SITC, the major groups were manufactured goods classified chiefly by materials; mineral, fuels & lubricants; and machinery & transport equipment whose respective shares were 24.8 percent, 20.0 percent and 15.0 percent in total imports. In the preceding year, manufactured goods classified chiefly by materials; mineral, fuels & lubricants; and machinery & transport equipment formed 24.8 percent, 20.0 percent and 17.6 percent of total imports respectively. While the share of chemicals and drugs rose to 14.2 percent from 12.8

percent in the previous year, the share of food and live animals went up to 7.7 percent from 6.6 percent. The share of crude materials, inedibles except fuels declined to 6.4 percent from 7.5 percent in the previous year. While the share of animal and vegetable oils and fats went up to 5.8 percent in the review year from 4.0 percent in the previous year, the corresponding share of miscellaneous manufactured articles declined to 4.9 percent from 5.1 percent. All in all, while the share of imports of primary commodities in total imports increased to 41.5 percent from 38.8 percent in the previous year, the share of imports of manufactured and capital goods declined to 58.5 percent in the review year from 61.2 percent in the previous year.

6.27 Commodity-wise, the major imports from India that experienced an increase during 2005/06 included agricultural equipment and parts, chemical fertilizer, chemicals, electrical equipment, hot rolled sheet in coil, M.S. billet, medicine and petroleum products. Likewise, the following comprises some of the major imports from India that declined: cement, coal, cold rolled sheet in coil, M.S. wire rod, other machinery & parts, thread and vehicles & spare parts. With respect to imports from third countries, the principal items that registered an upsurge included computer parts, copper wire rod, scrapes & sheets, crude palm oil, electrical goods, M.S. billet, medicine, polythene granules, textile dyes, and zinc ingot. The major imports that declined from third countries were crude soybean oil, palm oil, raw wool, readymade garments, shoes & sandals, telecommunication equipment & parts, textiles, threads and video, television & parts.

6.28 As a result of the higher increase of import from, and export to India relative to other countries, India's share in total trade went up to 63.6 percent from 61.3 percent last year; the share of other countries went down correspondingly to 36.4 percent from 38.7 percent in the previous year.

6.29 Because of the higher rate of growth of imports relative to exports, the total trade deficit expanded by 25.5 percent to Rs. 113.94 billion. In the previous year, trade deficit had gone up by 10.2 percent. In dollar terms, trade deficit rose by 25.1 percent to US\$ 1.58 billion compared to its growth of 12.8 percent in the previous year.

6.30 While trade deficit with India expanded by 37.2 percent compared to a growth of 3.7 percent in the previous year, trade deficit with other countries rose by 11.3 percent compared to a growth of 19.2 percent in the previous year. Trade deficit with India and other countries constituted 59.9 percent and 40.1 percent, respectively, of the total trade deficit in the review year. In the preceding year, the corresponding shares were 59.9 percent and 40.1 percent.

Balance of Payments

6.31 The overall BOP position of the country remained at a surplus of Rs. 25.70 billion in 2005/06 compared to a lower surplus of Rs. 5.74 billion in the previous year. The higher surplus in the BOP was on account of an upsurge in remittances.

6.32 With respect to the current account, total exports (at f.o.b. value) increased by 4.4 percent to Rs. 62.57 billion compared to a growth of 8.6 percent in the preceding year. Total imports increased by 18.6 percent to Rs. 172.89 billion in comparison to a lower

growth of 9.6 percent in the previous year. As a result, the trade deficit expanded by 28.6 percent to Rs. 110.32 billion in the review year. In the previous year, the trade deficit had risen by 10.5 percent.

6.33 On the services front, gross receipts rose by 1.7 percent to Rs. 26.44 billion in contrast to a decline by 24.2 percent in the previous year. The increase in such receipts is attributed to the increase in income under the two sub-heads— government n.i.e. by 9.3 percent and other services by 8.5 percent. Income under travel, on the other hand, declined by 8.9 percent. On the payments side, there was an increase in the payments on transportation, travel and other services by 19.3 percent, 23.1 percent and 11.5 percent respectively. Consequently, total payments increased by 18.5 percent to Rs. 33.22 billion compared to a lower growth of 11.1 percent in the previous year. Ultimately, net services income registered a deficit of Rs. 6.78 billion in the review year. There was a deficit in the balance of goods and services account amounting to Rs. 117.10 billion in comparison to the deficit of Rs. 87.80 billion in the previous year.

6.34 In the review year, receipts under income account rose by 47.4 percent to Rs. 11.42 billion while payment rose by 6.0 percent to Rs. 6.48 billion. Consequently, there was a deficit on balance on goods, services and income amounting to Rs. 112.16 billion in the review year compared to a deficit of Rs. 86.16 billion last year.

6.35 With respect to current transfers, in the review year net receipts rose by 28.9 percent and aggregated Rs. 125.99 billion in comparison to a rise of 15.1 percent in the previous year. Grants declined by 10.6 percent in the review year in contrast to a rise of 7.7 percent in the preceding year. Workers' remittances, on the other hand, soared by 48.8 percent in the review year in comparison to a lower growth of 11.9 percent in the previous year. Pensions declined by 4.0 percent as against a rise of 58.1 percent in the previous year. Other transfers (that is, Indian excise duty refund) increased by 5.5 percent in the review year in contrast to a decline by 29.4 percent in the previous year. Consequently, the current account posted a surplus of Rs. 13.83 billion in the review year compared to a lower surplus of Rs. 11.54 billion in the previous year. The current account surplus in the review year stood at 2.3 percent of GDP from 2.2 percent of the preceding year.

6.36 With regard to the capital account, capital transfer of Rs. 3.11 billion was received during the review year in comparison to an inflow of Rs. 1.57 billion in the previous year. Under the financial account, trade credit assets increased by Rs. 2.19 billion whereas other assets increased by Rs. 10.98 billion. On the liability side, trade credit rose by Rs. 12.91 billion. Government drawing amounted to Rs. 7.69 billion while amortization was recorded at Rs. 6.99 billion. In the previous year, such drawing and amortization were recorded at Rs. 7.25 billion and Rs. 5.95 billion, respectively. Currency and deposit liability went up by Rs. 3.39 billion in comparison to a decline of Rs. 65.1 million in the previous year. Likewise, miscellaneous capital inflow aggregated Rs. 8.96 billion in the review year in comparison to an inflow of Rs. 18.10 billion in the preceding year. Reserve assets and related items recorded an increase of Rs. 29.09 billion in the review year in comparison to an increase of Rs. 5.68 billion in the previous year. Consequently, in the review year the change in net foreign assets was favorable by Rs. 25.70 billion in comparison to Rs. 5.74 billion last year.

Income and Expenditure of Convertible Foreign Exchange

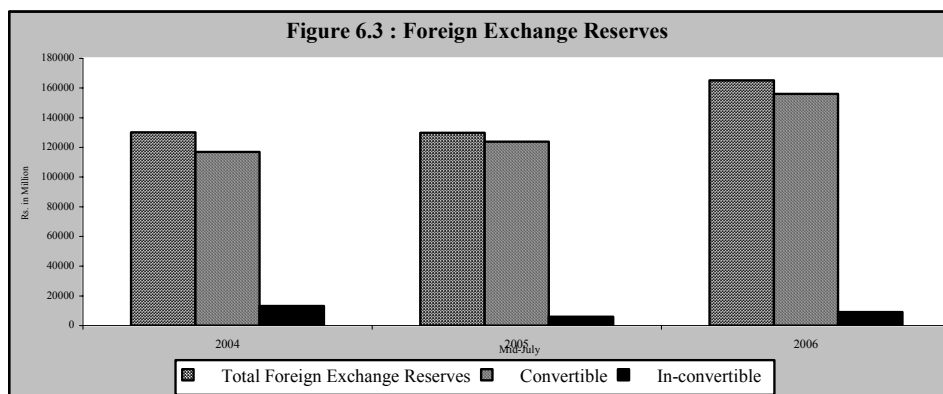
6.37 On the income front, total income rose by 27.6 percent to Rs. 157.30 billion in 2005/06 that was mainly attributed to the increased income under remittances, interest receipts and diplomatic mission. On the expenditure front, total expenditure rose by 24.1 percent to Rs. 135.18 billion primarily due to the increase in expenditure under services and merchandize imports. Consequently, a surplus of Rs. 22.11 billion emanated from the transaction on convertible foreign exchange in 2005/06 that was higher by 54.2 percent in comparison to that of the previous year. In 2004/05, total income had risen by 2.2 percent to Rs. 123.27 billion and total expenditure had increased by 10.4 percent to Rs. 108.93 billion, resulting in a surplus of Rs. 14.34 billion.

Foreign Assets and Liabilities of the Banking Sector

6.38 In the review year, net foreign assets (NFA) of the banking sector registered a significant increase of 29.5 percent (Rs. 31.79 billion) to Rs. 139.53 billion in contrast to a decline of 1.0 percent (Rs. 1.08 billion) in the previous year. In US dollar terms, such assets rose by 23.0 percent (US\$ 351.52 million) to US\$ 1.88 billion in comparison to a marginal increase of 4.4 percent (US\$ 63.96 million) in the previous year. Similarly, gross foreign assets rose by 26.9 percent (Rs. 35.28 billion) to Rs. 166.20 billion in the review year in contrast to a decline of 0.3 percent (Rs. 449.10 million) last year. In dollar terms, gross foreign assets soared by 20.5 percent (US\$ 381.92 million) to US\$ 2.24 billion in comparison to a rise of 5.0 percent (US\$ 89.07 million) in the previous year.

6.39 The total foreign liabilities of the banking sector increased by 15.0 percent (Rs. 3.49 billion) to Rs. 26.67 billion in the review year in comparison to a meagre growth of 2.7 percent (Rs. 613.4 million) in the preceding year. Total foreign liabilities, in dollar terms, rose by 9.2 percent (US\$ 30.40 million) to US\$ 359.82 million in comparison to a growth of 8.3 percent (US\$ 25.11 million) in the preceding year.

6.40 As at mid-July 2006, the foreign exchange holding of the banking system amounted to Rs. 165.13 billion, constituting 94.5 percent of convertible currency and 5.5 percent inconvertible currency. In the previous year, such foreign exchange holding was recorded at Rs. 129.90 billion of which convertible and inconvertible currency formed 95.4 percent and 4.6 percent, respectively.



6.41 Agency-wise, the NFA of the monetary authorities soared by 26.7 percent (Rs. 27.71 billion) in the review year in contrast to a decline of 4.0 percent (Rs. 4.36 billion) in the preceding year. Likewise, gross foreign assets of the monetary authorities rose by 26.3 percent (Rs. 27.69 billion) to Rs. 133.13 billion in contrast to a decline of 3.3 percent (Rs. 3.63 billion) in the previous year.

6.42 In US dollar terms, the gross foreign assets of the monetary authorities was equivalent to US\$ 1.80 billion, which implied a growth of 19.9 percent (US\$ 297.77 million) in the review year compared to a growth of 1.9 percent (US\$ 27.62 million) in the previous year. The gross foreign assets of the monetary authorities comprised 80.2 percent of total gross foreign assets of the banking sector in the review year compared to 80.5 percent in the previous year. On a monthly average basis, the gross official foreign assets of the monetary authorities aggregated Rs. 114.92 billion demonstrating a growth of 7.3 percent (Rs. 7.82 billion) in comparison to the 9.8 percent (Rs. 9.60 billion) growth in the previous year.

6.43 Convertible and inconvertible currency holding of the NRB rose by 23.2 percent (Rs. 23.42 billion) and 117.2 percent (Rs. 4.22 billion) in the review period. In the previous year, while convertible currency holding of the NRB had risen by 4.8 percent (Rs. 4.59 billion), inconvertible currency holding had declined by 69.2 percent (Rs. 8.08 billion). Gold registered an increase of 5.6 percent (Rs. 21.6 million) in comparison to a decline of 19.8 percent (Rs. 94.9 million) in the review year. SDRs, on the other hand, increased by Rs. 26.6 million in comparison to the rise by Rs. 582.1 million in the previous year. With respect to liabilities, foreign liabilities of the NRB fell by 1.5 percent (Rs. 23.4 million) in the review year in comparison to the rise by 83.8 percent (Rs. 724.7 million) in the previous year.

6.44 As at mid-July 2006, foreign assets held by commercial banks increased to Rs. 33.07 billion, a growth of 29.8 percent (Rs. 7.59 billion) compared to a rise of 14.3 percent (Rs. 3.18 billion) in the previous year. The total liabilities of commercial banks rose by 16.3 percent (Rs. 3.51 billion) to Rs. 25.10 billion in the review year in contrast to a decline by 0.5 percent (Rs. 111.3 million) in the previous year.

Foreign Aid Agreements

6.45 Three loan agreements totaling Rs. 2.66 billion were signed with the donors in 2005/06. Among these, two loan agreements were signed with the Asian Development Bank (AsDB) and one with the OPEC Fund.

6.46 Foreign grant agreements aggregating Rs. 18.26 billion were signed with six countries and three donor agencies under bilateral and multilateral basis respectively in 2005/06. With regard to amount, India was ranked at the top providing Rs. 7.68 billion (41.5 percent) followed by Germany at Rs. 2.79 billion (15.3 percent). USA followed next by agreeing to provide Rs. 1.50 billion (8.2 percent). While Japan and China agreed to provide Rs. 1.24 billion (6.8 percent) and Rs. 1.04 billion (5.7 percent), Switzerland and Finland agreed to provide Rs. 450.6 million (2.5 percent) and Rs. 160.4 million (0.9 percent), respectively.

6.47 Multilateral agreements were signed with three different agencies. Among these agencies, the World Bank was the largest donor agreeing to provide Rs. 2.46 billion (13.5 percent of the total grant) followed by the United Nations Development Program (UNDP) with Rs. 918.8 million (5.0 percent) and the AsDB with Rs. 130.6 million (0.7 percent).

Transaction with the International Monetary Fund (IMF) and IMF Liabilities

6.48 Transaction with the IMF resulted into a net balance of SDR 127,657 implying a net outflow with the total receipts of SDR 180,682 and payments of SDR 308,339 in 2005/06. The total receipts of SDR 180,682 was a sum of burden sharing refund of SDR 14, total interest amounting to SDR 180,338 and remuneration amounting to SDR 330. Likewise, Nepal paid a total of SDR 308,339 consisting of allocation charges amounting to SDR 236,781, assessment charge of SDR 454 and interest on PRGF amounting to SDR 71,104.

6.49 At the end of 2005/06, the total liabilities to the IMF stood at Rs. 1.56 billion (SDR 14.3 million). This figure, the liability on the PRGF, was greater by Rs. 97.6 million (SDR 6.5 million) than the total liabilities at the end of the preceding year.

Transaction under Asian Clearing Union

6.50 During the calendar year 2006 (January–December), the total transactions settled through the ACU aggregated Rs. 1.17 billion (ACU dollar 16.06 million). This was higher by Rs. 178.4 million (ACU dollar 2.2 million) compared to the previous year. The total exports of goods settled under the ACU posted an increase of Rs. 102.8 million (ACU dollar 1.32 million) to Rs. 467.1 million (ACU dollar 6.42 million). Likewise, total imports rose by Rs. 75.6 million (ACU dollar 0.88 million) to Rs. 701.3 million (ACU dollar 9.64 million). The overall balance revealed a negative figure of Rs. 234.2 million (ACU dollar 3.22 million).

7

Monetary Developments

Monetary Policy of 2005/06

7.1 The monetary policy of 2005/06 was formulated, considering economic, monetary and financial situation of the previous fiscal year as well as likely developments in domestic and external economies in 2005/06. The pegged exchange rate regime with Indian currency was taken as a nominal anchor.

Objectives

7.2 As in the previous years, monetary policy of 2005/06 was also geared towards the twin objectives of price stability and balance of payments consolidation, as stipulated by the NRB Act 2002. Initially, average inflation rate was projected at 5 percent for 2005/06. But, initial inflation estimation was revised upward to 7 percent in the mid-term review of the monetary policy, following the frequent upward changes in petroleum prices. In 2005/06, prices of petroleum products were hiked twice (on August 19, 2005 and February 17, 2006) by 35.7 percent on an average. Subsequently, transportation fares were revised upwards by 25 to 28 percent in February 2006. As a consequence, average inflation stood at 8 percent in the review year. However, due to the increased inflow of remittance, BOP in 2005/06 remained higher than the initially estimated, leading to a significant accumulation of foreign exchange reserve by the NRB.

Monetary Policy Stance

7.3 Ex-ante monetary policy stance for 2005/06 was cautious on account of sluggish economic activities and pressure on inflation. For example, economic growth was 2.5 percent in 2004/05; and due to the rise in petroleum price and increase in VAT rate from 10 to 13 percent, there was also a pressure on inflation. To signal the monetary policy stance, the bank rate was increased from 5.5 percent to 6.0 percent. The hike in the bank rate was aimed at anchoring inflationary expectations.

7.4 However, *ex post* monetary situation remained expansionary owing to substantial inflow of remittances. Hence, the actual growth of monetary aggregates in 2005/06 remained higher than the initial projections.

7.5 Broad money (M_2) was taken as intermediate target of monetary policy. It was projected to grow by 13.0 percent in 2005/06 compared to a growth of 8.3 percent in 2004/05. Compared to a growth of 6.6 percent in 2004/05, narrow money (M_1) was

estimated to grow by 12.0 percent in 2005/06. Economic growth was expected to be 4.0 to 4.5 percent, but the actual growth remained just at 1.9 percent.

Operating Target

7.6 The excess liquidity of the commercial banks was chosen as an operating target of monetary policy. This system has been introduced since 2004/05. Liquidity Monitoring and Forecasting Framework (LMFF) has been used to monitor the liquidity situation. The year 2005/06 witnessed an excess liquidity with the commercial banks in most of times, reflecting a lower level private sector credit off take relative to the growth in deposits.

Monetary Instruments

Bank Rate

7.7 The monetary policy of 2005/06 continued the practice of signaling ex-ante monetary policy stance through the bank rate. The bank rate was increased from 5.5 percent to 6.0 percent in order to contain inflationary expectation. The bank rate was further increased by 0.25 percentage points to 6.25 percent in the mid-term review of the monetary policy, considering the rising trend of inflation.

Cash Reserve Ratio

7.8 Over the years, a policy of reducing CRR was taken with a view to helping commercial banks lower the financial intermediation cost. However, CRR remained unchanged at 5.0 percent (of total deposits in domestic currency) in 2005/06 owing to a pressure on price front.

Open Market Operations

7.9 Liquidity absorption in cumulative terms amounted to Rs. 13.51 billion through outright sale auctions. Liquidity injection in cumulative terms amounted to a Rs. 830 million through outright purchase auctions in 2005/06. Likewise, repo auctions injected liquidity of Rs. 450 million and reverse repo auctions mopped the liquidity of Rs. 6.50 billion. Table 7.1 shows the liquidity injection and absorption through open market instruments.

Table 7.1: Secondary Market Operations

	Rs in million	
	2004/05	2005/06
Outright purchase auction	1311.8	830.0
Outright sale auction	10500.0	13510.0
Repo auction	6680.0	450.0
Reverse repo auction	5270.0	6500.0

Use of Standing Liquidity Facility

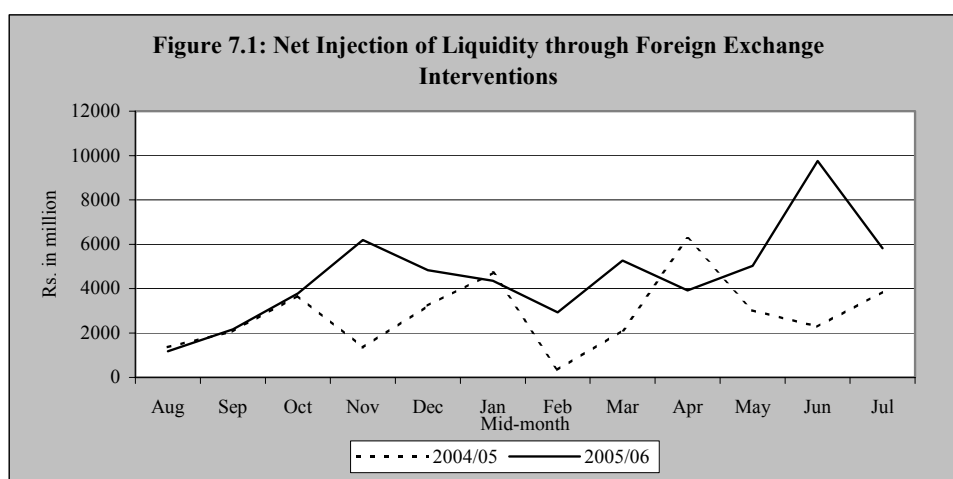
7.10 The borrowing by commercial banks under standing liquidity facility (SLF) declined to Rs. 9.88 billion in 2005/06 from Rs. 49.31 billion in 2004/05. In the review year, the maturity period of this facility was lowered from 5 days to 3 days with an objective of reducing chances of misuse of this facility by commercial banks. Such a reduction in maturity period and the increase in inter bank transactions lowered the use of SLF in the review year. The maximum limit for SLF facility was determined as usual as 50 percent of the face value of treasury bills and development bonds of the government of Nepal held by the commercial banks.

Sick Industry Refinancing

7.11 The NRB has been providing sick industry refinance facility in order to revitalize the sick industries since 2001/02. In the last five years, 151 hotels and 41 industries, on turnover basis, used a total of Rs. 3.0 billion sick industry refinance facility. In 2005/06, Rs 461.0 million was provided as a sick industry refinance to 24 hotels and resorts, 3 large and medium size industries, and one cottage and small-scale industry.

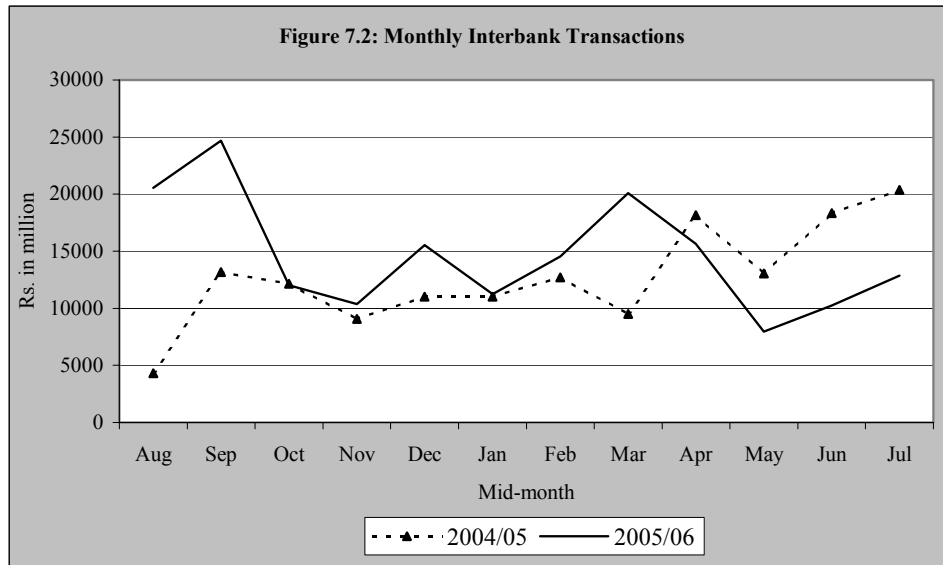
Liquidity Injection through Foreign Exchange Interventions

7.12 On account of increasing remittances, the NRB made frequent purchase interventions in the foreign exchange market in the review year. Out of 64 interventions, 62 interventions were for purchase of US dollar and the remaining two were for sale of US dollar. In 2005/06, NRB purchased US dollar equivalent to Rs. 55.88 billion while it sold US dollar equivalent to Rs. 654.5 million. As a result, net injection of liquidity through foreign exchange interventions stood at Rs. 55.22 billion. In the previous year, net injection of liquidity through foreign exchange interventions had remained at Rs. 34.28 billion. The figure 7.1 shows the monthly net injection of liquidity through foreign exchange interventions in 2004/05 and 2005/06.



Inter bank Transactions

7.13 The year 2005/06 witnessed a substantial growth of inter bank transactions, reflecting the evolution of this market. Compared to a total of Rs. 152.84 billion in 2004/05, inter bank transactions in the review year increased by 15.0 percent and stood at Rs. 175.75 billion in 2005/06. The figure 7.2 shows the monthly inter bank transactions in 2004/05 and 2005/06.



Monetary Aggregates

7.14 M₂ expanded significantly by 15.6 percent in 2005/06 compared to a growth of 8.3 percent in 2004/05. Of the components of M₂, the growth of M₁ also remained higher compared to that of the previous year. Compared to a growth of 6.6 percent in the previous year, M₁ increased by 14.0 percent in 2005/06. Similarly, another component of M₂, time deposit showed a growth of 16.4 percent in 2005/06 compared to a growth of 9.2 percent in 2004/05. A significant growth of remittances contributed to the growth in time deposits in the review year.

Sources of Monetary Growth

7.15 Net Foreign Assets (NFA), the principle factor of monetary expansion, after adjusting foreign exchange valuation gain/loss, increased by Rs 25.70 billion (23.9 percent) in the review year compared to a growth of Rs 5.74 billion (5.3 percent) in the previous year. The surge in NFA was due to an encouraging inflow of remittances in the review year. Another principle factor, net domestic assets (NDA) adjusting the exchange valuation gain/loss, derived by deducting the net non-monetary liabilities from domestic credit increased by 11.0 percent in the review year. Such assets had increased by 10.3 percent in the preceding year.

Structure of Domestic Credit

7.16 Domestic credit grew at a lower rate in the review year. Compared to a growth of 13.8 percent last year, domestic credit increased by 7.8 percent in the review year. Slackness in the industrial activities due to the internal conflict and focus on loan recovery by Nepal Bank Ltd (NBL) and Rastriya Banijya Bank (RBB), including cautious loan flow by the whole banking sector contributed to the lower level of expansion in domestic credit in the review year. Credit write off by NBL also lowered the growth of domestic credit.

7.17 Of the domestic credit aggregates, net claims on government grew at a lower rate of 10.4 percent in the review year. Such claims had grown by 11.3 percent in 2004/05. Compared to Rs. 2.62 billion overdrawn in the previous year, the government resorted to overdraft borrowing of Rs. 1.07 billion (including Local Authorities' deposit in banks) in the review year. However, excluding the bank deposit of local authorities, overdraft borrowing of the government amounted to Rs. 4.26 billion.

7.18 The growth of private sector credit, one of the major components of domestic credit remained lower in the review year compared to that of the preceding year. Private sector credit increased by 8.8 percent only compared to an increase of 14.2 percent last year. Internal conflict, political instability and increased risk in investment led to such a lower expansion of private sector credit. Apart from this, the emphasis given in loan recovery by NBL and RBB, and writing off of some portion of bad loans by NBL (Rs. 11.0 billion) at the end of the fiscal year, also contributed to the lower growth in the private sector credit in the review year. However, the growth of private sector credit would thus be 14.4 percent if the credit written off of NBL were adjusted.

7.19 In the review year, monetary sector's claims on non-financial government enterprises declined by 32.1 percent compared to an increase of 125.3 percent last year. Such a decline was mainly due to the loan repayment by the National Trading Ltd., Nepal Food Corporation, Nepal Oil Corporation and Janak Education Material Centre along with the cautious approach taken in credit disbursement to these enterprises.

7.20 Compared to a decade ago, the composition of the domestic credit has undergone a change. The share of the private sector in the domestic credit increased from 59.0 percent in 1995/96 to 72 percent in 2005/06, and the conversely the share of net claims on government declined.

Figure 7.3: Structure of Domestic Credit in 2005/06

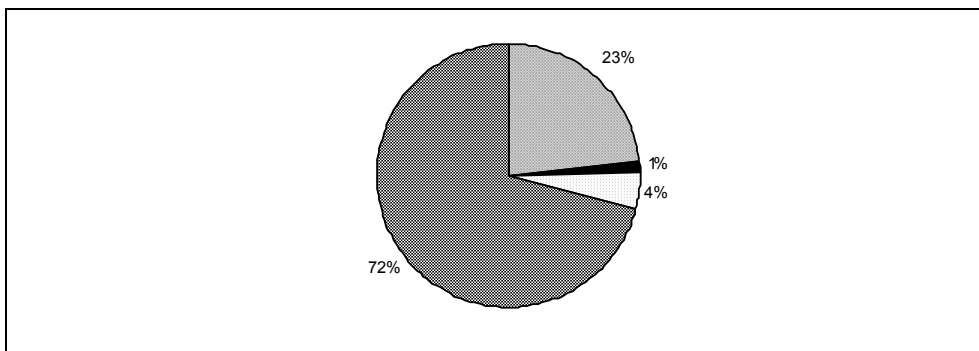
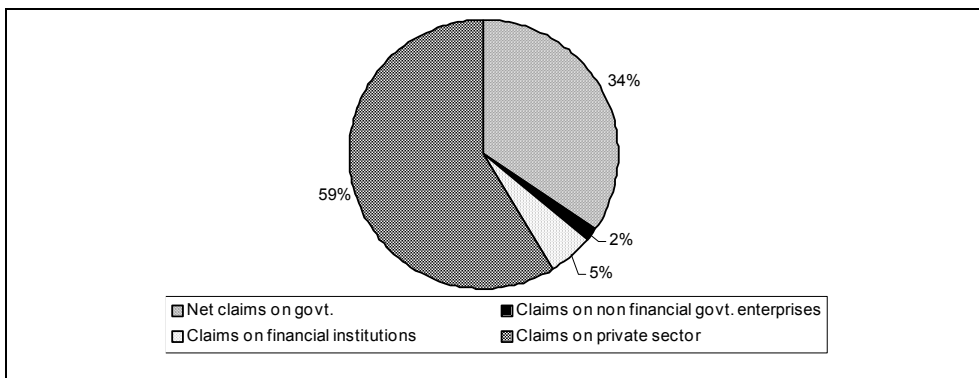


Figure 7.4: Structure of Domestic Credit in 1994/95



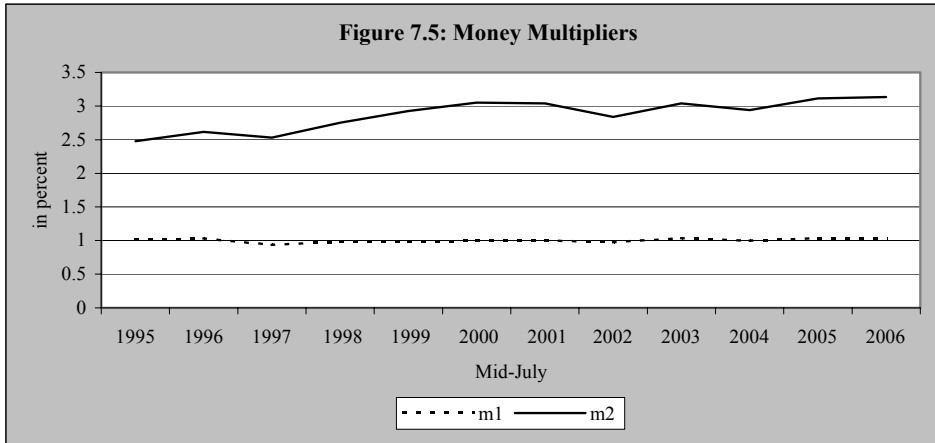
Reserve Money

7.21 In the review year, on account of substantial expansion in foreign assets of the monetary authorities, reserve money witnessed a higher growth. Reserve money increased by 14.7 percent in 2005/06 compared to an increase of 2.2 percent in the preceding year. Of the components of reserve money, a growth of currency in circulation increased from 8.8 percent in the preceding year to 13.1 percent in the review year, whereas currency held by commercial banks increased by 23.8 percent compared to an increase of 11.4 percent in the preceding year. Likewise, in contrast to a decline by 16.5 percent in the preceding year, commercial banks' balances with the NRB increased by 13.2 percent in the review year.

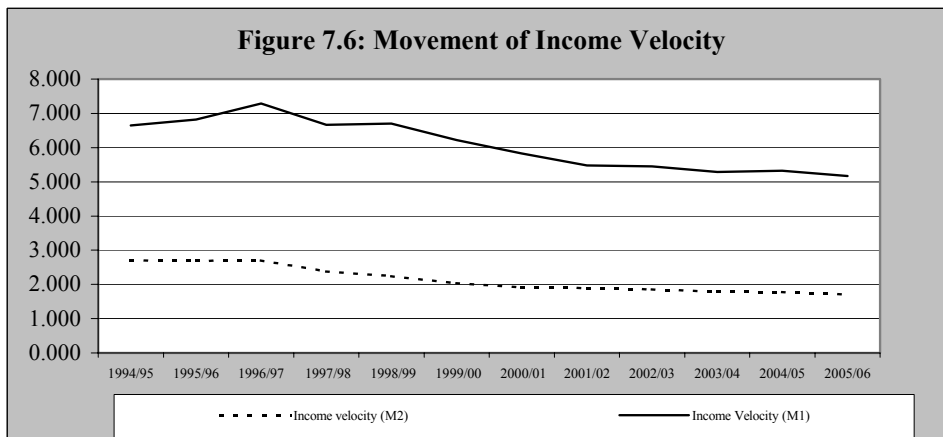
Money Multiplier and Income Velocity

7.22 Narrow money multiplier has hovered around unity for the last 12 years reflecting no substantial change. Compared to 1.038 in the previous year, narrow money multiplier declined to 1.032 in 2005/06. However, broad money multiplier showed the rising trend due mainly to substantial rise in time deposit in the review period (Figure 7.5). Compared

to 3.112 in the previous year, the broad money multiplier increased to 3.136 in the review year.



7.23 Income velocity, which implies the number of times an individual unit of money turns over in a specific period of time, witnessed a declining trend for both narrow and broad money (Figure 7.6). It shows the rising demands for local currency emanating from the significant increase of remittances.



Banking Survey

7.24 The banking survey includes the sectoral balance sheets of development banks and finance companies including monetary survey. The broad measure of liquidity (L_1), derived from the banking survey, which had increased by 8.6 percent in 2004/05 witnessed a rise of 16.5 percent in 2005/06. A substantial growth of NFA of monetary sector in the review year contributed to such a rise in L_1 . NFA of monetary sector after adjusting foreign exchange valuation gain/loss grew by 23.9 percent in the review year compared to a 5.3 percent growth last year. Against the excessive rise in foreign liabilities

of other banking institutions in the previous year, it declined by 72.6 percent in the review year. As a result, NFA of banking system registered a growth of 26.5 percent in the review year compared to a growth of 3.4 percent last year.

7.25 Total domestic credit grew by 11 percent in the review year compared to a growth of 14.5 percent in the previous year. The lower growth in private sector credit, primarily due to negative growth in claims of Other Banking Institutions (OBI) on private sector contributed to lower the growth of domestic credit in the review year. Credit write off by NBL also lowered the claims on private sector. Compared to a growth of 8.4 percent last year, the claims on government increased by 11.7 percent in the review year. Likewise, the claims on non-bank financial institutions increased by 26 percent in the review year in contrast to a decline by 8.8 percent in the preceding year.

7.26 The claims on non-financial government enterprises declined by 32.1 percent as against a rise of 125.3 percent in the preceding year due mainly to the bank loan repayment by National Trading Limited, Nepal Oil Corporation, Hetauda Textile Limited and Janak Educational Material Centre and the emphasis by two banks namely NBL and RBB on loan recovery. The share of OBI in domestic credit declined to 11.5 percent as at mid-July 2006 from 17.7 percent a year ago, due to the exclusion of ADB/N from OBI.

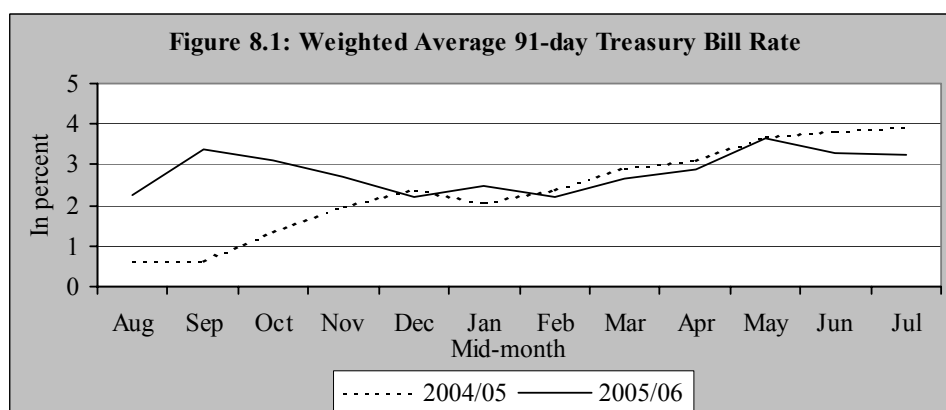
7.27 Capital and other items net, the contractionary factor of broad measure of liquidity, registered a lower growth in the review year compared to that of the preceding year. Such items registered a growth of 9.2 percent in the review year compared to significant rise of 20.8 percent in the preceding year. In contrast to a growth of 1.8 percent in the preceding year, capital and other items net of OBI's declined by 90.8 percent in the review year due mainly to exclusion of ADB/N from the other banking institutions.

8

Financial Market

Money Market Indicators

8.1 In 2005/06, short-term interest rates remained stable compared to that of the previous year. For example, weighted average monthly 91-day Treasury bill rate ranged between 2.20 percent and 3.63 percent in 2005/06. In the previous fiscal year, it had declined below 1 percent (Figure 8.1). Weighted annual average 91-day treasury bill rate remained at 2.84 percent in the 2005/06, slightly higher than the 2.46 percent of the previous year.



Stock Market

Primary Issue of Securities

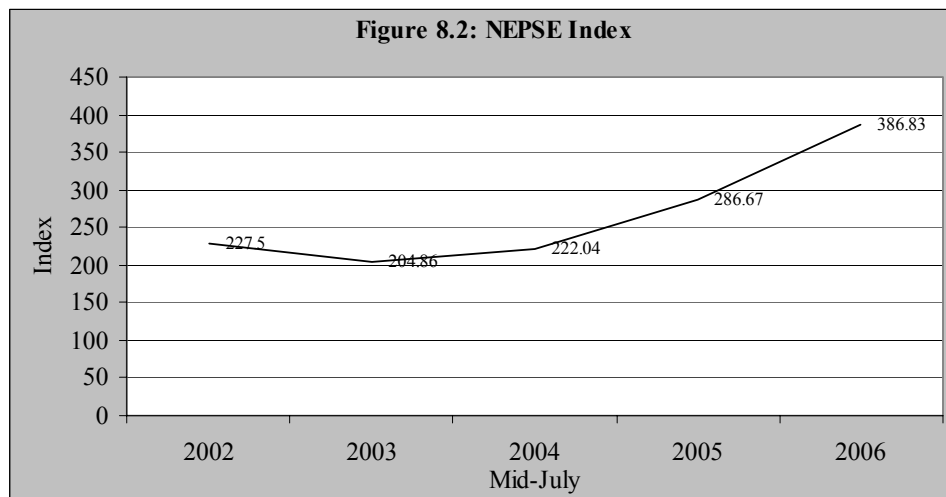
8.2 Altogether 18 companies— 5 commercial banks, 4 development banks, 7 finance companies, 1 insurance company and 1 hydropower company— made the public offerings of securities amounting to Rs. 1.43 billion in 2005/06. Of this, debentures were of Rs. 850 million and ordinary shares were of Rs. 580 million. Ordinary shares issued by financial institutions were oversubscribed ranging from 1.13 times to 43.76 times of the issued amount. Similarly, altogether 11 companies—2 commercial banks, 1 development bank, 7 finance companies, and 1 hotel—made the right issue of shares of Rs. 1.01 billion.

8.3 A total of 44 companies listed their securities in the Nepal Stock Exchange Limited (NEPSE) amounting to Rs. 3.79 billion in 2005/06. These additionally listed securities consisted of ordinary shares, right shares, bonus shares and debentures.

Secondary Market Development

8.4 Stock market witnessed a significant growth in 2005/06. This was reflected in the NEPSE index, the number of companies listed, market capitalization and the total number of listed shares.

8.5 The closing NEPSE Index increased by 100.1 points (34.9 percent) to 386.8 in mid-July 2006 from 286.7 a year ago (Appendix table 60). A significant increase in workers' remittances, lack of alternative investment opportunities, low level of real interest rates, and increased profitability of banks and financial institutions contributed to the expansion of the stock market in the review period (Figure: 8.2).



8.6 The number of companies listed in the NEPSE increased to 135 in mid-July 2006 from 125 a year ago. However, the annual turnover of shares decreased by 23.4 percent to Rs. 3.45 billion. The annual turnover of shares in the review year decreased primarily due to the higher base of the preceding year when substantial shares of Standard Chartered Bank owned by Nepal Bank Limited were sold following the NRB directives on cross holdings. The paid up value of the listed shares went up by 19.0 percent to Rs. 19.95 billion in 2005/06.

8.7 Market capitalization of listed shares increased by 57.7 percent to Rs. 96.76 billion in mid-July 2006 compared to Rs. 61.36 billion a year ago. Market capitalization to GDP ratio increased to 16.6 percent in mid-July 2006 compared to 11.6 percent a year ago. Likewise, total annual turnover to paid-up value of the listed shares stood at 17.3 percent and total turnover to market capitalization remained at 3.6 percent in the review period. These figures were 26.9 percent and 7.3 percent respectively in the preceding year.

Financial Institutions

8.8 In mid-July 2006, total number of financial institutions was 218, including 18 commercial banks ('A' class financial institutions), 29 development banks ('B' class financial institutions), 70 finance companies ('C' class financial institutions), 11 micro-credit development banks ('D' class financial institutions), and 19 financial cooperatives and 47 Non Governmental Organizations licensed by NRB to undertake limited financial transactions. Other financial intermediaries are Employees' Provident Fund (EPF), Citizens Investment Trust (CIT), Postal Savings Bank, and 21 insurance companies.

Table 8.1: Number of Financial Institutions

	2005 (Mid-July)	2006 (Mid-July)
Commercial Banks (A class)	17	18*
Development Banks (B class)	26	29
Finance Companies (C class)	60	70
Micro-credit Financial Institutions (D class)**	11	11
NRB licensed Financial Cooperatives***	20	19
NRB licensed NGOs***	47	47
Insurance Companies	19	21
Employees Provident Fund	1	1
Citizens Investment Trust	1	1
Postal Savings Bank	1	1

* Including Agricultural Development Bank

** Including 5 Rural Development Banks

*** Licensed by NRB to conduct limited banking transactions.

Financial Structure

8.9 In the year 2005/06, NRB's share in total assets and liabilities of financial system increased due to the rise in the NRB's foreign exchange reserve resulting from the large surplus in the balance of payments. Similar to the previous year, the share of commercial banks remained the highest. A significant decline was observed in the share of development banks due to the conversion of the Agriculture Development Bank into commercial bank. However, no change was recorded in the share of cooperatives and micro-credit institutions. Further, the share of contractual savings institutions increased in the total assets/liabilities of financial system because of the increase in resource mobilization of Employees' Provident Fund and insurance companies.

8.10 The ratio of total assets/liabilities of financial institutions and contractual savings institutions to GDP stood at 119.4 percent in mid-July 2006. Including the market capitalization of shares listed in the Nepal Stock Exchange Ltd, the ratio reached 136 percent.

8.11 The share of commercial banks in the total assets/liabilities of the financial system stood at 55.7 percent, the highest among all. The shares of NRB, EPF, finance companies,

development banks and insurance companies were 24.0 percent, 7.3 percent, 5.6 percent, 1.5 percent, and 3.3 percent respectively (Table 8.2).

Table 8.2: Financial Structure

Rs. in million

	Mid-July 2005			Mid-July 2006		
	Total Assets/Liabilities	Share in Total (%)	Ratio of Total Assets to GDP (%)	Total Assets/Liabilities	Share in Total (%)	Ratio of Total Assets to GDP (%)
Financial institutions	580498	89.3	108.8	615761.4	88.4	105.6
Nepal Rastra Bank	142824	22.0	26.8	167606.8	24.1	28.8
Commercial banks	340633	52.4	63.8	387678.3	55.7	66.5
Finance companies	30515	4.7	5.7	38841.0	5.6	6.7
Development Banks*	57815	8.9	10.8	10611.0	1.5	1.8
Financial Cooperatives	2411	0.4	0.5	2834.0	0.4	0.5
Micro credit financial institutions	6300.0	1.0	1.2	8190.4	1.2	1.4
Contractual Savings institutions	69210	10.7	13.0	80533.0	11.6	13.8
Employees' Provident Fund	45130	6.9	8.5	51060.0	7.3	8.8
Citizen Investment Trust	5830	0.9	1.1	6750.0	1.0	1.2
Insurance companies	18250	2.8	3.4	22688.0	3.3	3.9
Total	649708	100.0	121.8	696294.4	100.0	119.4
Nominal GDP	533538			582948		
Ratio of stock Market capitalization to GDP (in %)	11.6			16.6		

* Excluding Agriculture Development Bank and Nepal Industrial Development Corporation in 2006.

Other Banking and Non-Bank Financial Institutions

8.12 Other Banking Institutions (OBIs) include all deposit taking financial institutions other than commercial banks. These include 29 development banks, 70 finance companies, 11 micro credit institutions, 19 financial cooperatives (FINCOOPs) undertaking limited banking activities, and 47 financial non-governmental organizations (FINGOs).

8.13 The non-bank financial institutions (NBFIs) do not accept public deposits but have an important role in channeling financial resources from surplus units to deficit units in the economy. NBFIs comprise 21 insurance companies, Deposit Insurance and Credit Guarantee Corporation (DICGC), EPF and CIT in 2005/06. These financial institutions collect contractual savings in different forms such as insurance premiums by insurance companies, employees' provident fund by EPF and voluntary savings by CIT. In addition to these, NEPSE has been facilitating long-term investors in buying and selling securities such as shares, debentures, and private bonds that have been previously issued in the primary markets. Moreover, some OBIs act as issue managers providing underwriting services. As private bond market activities are virtually non-existent, secondary market activities are mainly dominated by share transactions at the NEPSE.

8.14 Considering the need of a unified directive for all banks and financial institutions, NRB issued such directive in July 2005.

Sources and Uses of Funds of OBIs

8.15 Total sources of funds of OBIs increased by 21 percent (Appendix table 61). Deposits went up by 16.8 percent. Of the deposits, ADB/N held the largest share of 43.4 percent including deposits from commercial banking activities. Finance companies, other development banks, and co-operative societies held 40.1 percent, 12.1 percent and 2.9 percent respectively. In the review year, aggregate borrowing of these institutions decreased by 8.6 percent. While domestic borrowing increased by 8.7 percent, foreign borrowing declined by 48.3 percent. And other liabilities increased by 9.6 percent in the review year.

8.16 On the uses side, loans and advances of OBIs increased by 19.7 percent and other assets by 12.4 percent. Cash and bank balance increased by 47.8 percent and investment by 13.3 percent. Of the total investment as at mid-July 2006, government securities accounted for 24.8 percent, fixed deposit and others 74.4 percent, and shares 0.7 percent .

Agricultural Development Bank

8.17 The ADB/N was established in 1968 under the Agricultural Development Bank Act, 1967. In 1968, this bank assumed the assets and liabilities of Cooperatives Bank and in 1973 absorbed the Land Reform Savings Corporation. This Bank was established with an objective of providing agriculture credit to farmers and cooperatives for the overall development of agriculture sector, and this was the largest institution among OBIs in terms of total assets, deposits, and loans and advances. With the establishment of this Bank, small farmers also have easy access to bank loans to finance their small projects, which has helped to increase agriculture productivity. The Bank has been lending to individual farmers and cooperative societies for financing agriculture production, farm improvement, irrigation and other supplementary purposes such as agro-business and industrial projects. The Bank is the largest institution granting agricultural credits and has a wider branch network all over the country. It collects public deposits through its commercial banking branches located in urban areas and also invests in rural areas in targeted sectors. Share capital, public deposits, and domestic and foreign borrowings are the main financial resources of the ADB/N.

8.18 Despite the wider network and large share of this Bank in financial intermediation, it is in difficult position due to its high non-performing loan (NPL), which was 22 percent in mid-July 2006. However, the Bank has adopted stringent measures to speed up its loan recovery process for the last couple of years. Restructuring measures have been initiated in the ADB/N under the Financial Sector Reform Program (FSRP). As a part of this initiative, a financial and operational review of ADB/N was undertaken in 2003 under the Asian Development Bank technical assistance project. The study considered three strategic options to restructure this Bank: status quo, privatization and commercialization (conversion into the commercial bank), and found commercialization as the most suitable option. Following this recommendation, ADB/N is in the process of being restructured. Accordingly, the Bank was converted into "A" class Financial Institution as a commercial

bank on March 16, 2006. It obtained operational license from NRB and has been renamed as Agricultural Development Bank Limited.

8.19 Total loan disbursement of ADB/N increased by 9.2 percent (Appendix table 62). Similarly, total loan recovery went up by 16.1 percent. Total loan outstanding, after subtracting loan loss provisions, increased by 3.7 percent to Rs. 21.85 billion in mid-July 2006.

8.20 Of the total outstanding loan, agro-industry, marketing and warehouse construction accounted for 42 percent, agro-business 19.3 percent, agriculture production 17.8 percent, farm improvement and irrigation 1 percent and others 19.9 percent (Appendix Table 64).

8.21 With respect to the maturity-wise classification, medium term loan occupied the highest share of 47.8 percent, followed by short-term 47.2 percent, and long-term loan 5 percent (Appendix table 65).

Sources and Uses of Funds of ADB/N

8.22 Total sources of funds of ADB/N increased by 12.5 percent to Rs. 43.54 billion (Appendix table 66). The paid up capital of ADB/N increased by 286.1 percent to Rs. 6.47 billion in the review year. However, total borrowing decreased by 85.4 percent.

8.23 Overall deposit of ADB/N increased by 8.9 percent. Of the total deposits, savings deposit consisted of 54.7 percent, fixed 38.6 percent, current 4.3 percent, and other deposits 2.4 percent.

8.24 Of the total assets, loans and advances consisted of 57.4 percent. The share of other assets, cash balance, bank balance and investment was 28.2 percent, 10.9 percent, and 3.5 percent respectively. Total loan and advances to agriculture went up by 4.2 percent and that of the commercial activities increased by 11.7 percent.

8.25 Total investment of ADB/N increased by 11.5 percent. Of the components of total investment, government securities, shares, and fixed deposits consisted of 26.3 percent, 2.4 percent and 0.4 percent respectively. Other investment with a major share of 70.9 percent in total investment increased by 5.4 percent. Other investment mainly consists of the investment in government's treasury bills and the investment in Staff Retirement Fund.

Nepal Industrial Development Corporation

8.26 Nepal Industrial Development Corporation (NIDC), one of the oldest development banks in Nepal has been facing liquidity problem for the last few years because of the large amount of distressed assets. It has almost curtailed its disbursements because of the paucity of funds. Since it is in the process of restructuring, it has completely stopped loan disbursement and deposit mobilization. Rather, according to the instruction of the government, stringent efforts have been made to recover the outstanding loans. Similarly, staff downsizing has been made offering VRS to its employees. And the overall financial and operational restructuring of NIDC is underway under the financial sector reform program.

Other Development Banks

8.27 Other Development Banks (ODBs) comprise all development banks except ADB/N, which has recently been converted into commercial bank. ODBs are categorized as "B" class financial institutions according to the Banks and Financial Institutions Act (BAFIA, 2006). The major objective of establishing ODBs is to mobilize more financial resources and avail technology needed for the establishment, development, and expansion of the private sector enterprises. ODBs are allowed to collect deposits and disburse loans and advances for fixed and working capital subject to the compliance with NRB directives. Currently, a development bank, i.e. a B class financial institution, can collect deposits up to 20 times of its core capital.

Sources and Uses of Funds of ODBs

8.28 Total sources of funds of ODBs increased by 29.4 percent (Appendix table 67). The sources of funds consisted of capital funds 11.5 percent, deposit 77.9, borrowing 2.7 percent, and other liabilities 7.9 percent.

8.29 On the uses side, liquid funds consisted of 20.4 percent, investments 5.2 percent, loans and advances 62.1 percent, and other assets 12.3 percent. Of the total investment, government securities accounted for 19.7 percent, share and debenture 1.8 percent, and other investment 78.5 percent. Loans and advances, which accounted for a large chunk in the uses side, went up by 25.6 percent.

Finance Companies

8.30 Finance companies are operating under BAFIA, 2006 and are also registered as public limited companies at the Office of the Company Registrar. These companies are classified as "C" class financial institutions under BAFIA 2006. Currently, a finance company can accept total deposits up to 15 times of its core capital.

Sources and Uses of Funds of Finance Companies

8.31 Total assets/liabilities of finance companies recorded a growth of 27.3 percent to Rs. 38.84 billion in mid-July 2006 (Appendix table 68).

8.32 Public deposit, the major source of funds of finance companies, consisted of 70.3 percent of their total resources in 2005/06. In the review year, capital funds of these companies went up by 30.7 percent. Similarly, total deposit liability increased by 22.3 percent. Total borrowing of finance companies increased by 16.6 percent.

8.33 The liquid funds of these companies increased by 38.1 percent and aggregate investment by 13.8 percent.

8.34 Loans and advances consisted of 69.6 percent of the total uses of funds of these companies. In the review year, loans and advances of these companies recorded a growth of 27.5 percent.

Micro-credit Institutions

8.35 On the micro-credit front, there are altogether 11 financial institutions. Of these, five Rural Development Banks (RDBs) are established by the Government of Nepal and

four other micro-credit development banks are established by the private sector. Other two of the micro credit institutions namely Rural Micro-finance Development Center (RMDC) and Small Farmers' Development Bank (SFDB) are wholesale lending institutions. While the RMDC provides wholesale loan to the retail micro financing institutions, the SFDB makes such lending to the Small Farmers' Cooperatives Limited (SFCL).

Rural Development Banks

8.36 Rural Development Banks (RDBs) were established with an objective of catering to the micro-credit needs of the rural poor women. Thus, the distinct feature of these banks from the traditional banking is to provide micro credit under group guarantee without any collateral. RDBs are established one in each development region of the country. The total number of RDB is 5 in Nepal. As of mid-July 2006, RDBs loan disbursements amounted to Rs. 14.09 billion to 1,67,886 members. Of the total loan disbursed, Rs. 12.45 billion was collected and Rs. 1.63 billion remained outstanding. RDBs provided services through 5046 centres in 47 districts of the country.

Sources and Uses of Funds of RDBs

8.37 Total assets of RDBs increased by 27.2 percent to Rs. 3.61 billion (Appendix table 69). In the review year, total capital funds of five RDBs increased by 4.1 percent, deposits by 13.6 percent and borrowing by 37.5 percent.

8.38 In the review year, liquid funds of these banks increased by 2 percent, investment by 73.9 percent and loans and advances by 10.3 percent. Of the total uses of funds of RDBs, loans and advances accounted for 44.7 percent, investment 31.7 percent, liquid fund 8.3 percent, and others 15.3 percent.

8.39 Eastern Region Rural Development Bank (ERRDB) has been operating in 9 districts of the eastern region with its head office in Biratnagar. As of mid-July 2006, the Bank disbursed a total loan of Rs. 5.64 billion to 41,753 borrowers. It has altogether 1398 centers and 45194 members, comprising 11,489 groups in 259 Village Development Committees (VDCs). Of the total loan disbursed, Rs. 5.04 billion was collected and Rs. 594.1 million remained outstanding as at mid-July, 2006.

8.40 Central Region Rural Development Bank (CRRDB) has been operating in 14 districts of the region with its head office in Janakpur. As of mid-July 2006, the Bank disbursed a total loan of Rs. 2.63 billion to 42,058 borrowers. It has altogether 1,361 centers and 42,602 members, comprising 9,226 groups formed in 300 VDCs. Of the total loan disbursed, Rs. 2.32 billion was collected and Rs. 317.6 million remained outstanding as at mid-July, 2006.

8.41 Western Region Rural Development Bank (WRRDB) has been operating in 12 districts of the region with its head office in Butwal. As of mid-July 2006, the Bank disbursed loan amounting to Rs. 3.58 billion to 41,097 borrowers. It has altogether 1,170 centers and 42,451 members, comprising 8,414 groups formed in 278 VDCs. Of the total loan disbursed, Rs. 3.15 billion was collected and Rs. 317.6 million remained outstanding as at mid-July, 2006.

8.42 Mid-Western Region Rural Development Bank (MWRRDB) has been operating in 5 districts of the region with its head office in Nepalgunj. As of mid-July 2006, the Bank disbursed total loan of Rs. 1.20 billion to 12492 borrowers. It has altogether 590 centers and 18072 members, comprising 3736 groups formed in 108 VDCs. Of the total loan disbursed, Rs. 1.03 billion was collected and Rs. 166.4 million remained outstanding as at mid-July, 2006.

8.43 Far-western Region Rural Development Bank (FWRRDB) has been operating in 7 districts of the region with its head office in Dhangadhi. As of mid-July 2006, the Bank has disbursed a total loan of Rs. 1.02 billion to 11855 borrowers. It has altogether 527 centers and 19567 members, comprising 3538 groups formed in 93 VDCs. Of the total loan disbursed, Rs. 898.1 million was recovered and Rs. 127.1 million remained outstanding as at mid-July, 2006.

Other Micro-credit Institutions

8.44 In addition to RDBs, six other micro credit institutions, classified as D class financial institutions are operating. These include Nirdhan, Deprosc, Chhimek, RMDC, Small Farmers Development Bank (SFDB), and Swabalamban Bikas Bank. While RMDC and SFDB are wholesale lending institutions, others are retailers providing micro credit to consumers. Total sources/uses of these banks increased by 32.5 percent in mid-July 2006 to Rs. 4.57 billion almost the similar rate of increase to that of the preceding year (Appendix table 70). On the sources side, capital funds, deposits and borrowings of these institutions increased by 18 percent, 40 percent, and 75 percent respectively. On the uses side, liquid funds, and loans and advances increased by 188.6 and 29.7 percent respectively, while investments decreased by 38.7 percent.

8.45 Of the two wholesale lending institutions, RMDC lends to micro credit institutions and SFDB lends to Small Farmers' Cooperatives Limited (SFCL). As of mid-July 2006, RMDC has built its coverage in 24 districts with an outstanding loan of Rs. 500 million. And SFDB has extended credit to 139 SFCLs with an outstanding loan of Rs. 1.43 billion in the same period.

8.46 Nirdhan, Swabalamban, Deprosc, and Chhimek are Grameen replicates. As at mid-July 2006, these institutions have covered 1,163 VDCs of 40 districts. These institutions have been providing micro finance service through their 120 branches and 7,054 centers. There are altogether 36,717 groups comprising 185,833 members. By mid-July 2006, these institutions disbursed Rs. 6.64 billion and collected Rs. 5.49 billion. As of mid-July 2006, total outstanding loan of these institutions was Rs. 1.14 billion.

Financial Cooperatives

8.47 Financial Cooperatives (FINCOOPs) are established under the Cooperative Act, 1992 and allowed to collect deposits from and advance loans to their members only. They are authorized to carry out limited banking activities within their members subject to the prior approval of NRB.

Sources and Uses of Funds of FINCOOPs

8.48 Total assets and liabilities of cooperative societies (with limited banking activities) increased by 19.3 percent to Rs. 2.87 billion (Appendix table 71). Of the total liabilities, capital funds of these cooperatives increased by 17 percent, deposit by 16.6 percent, and aggregate borrowing by 53 percent.

8.49 On the uses side, aggregate liquid funds increased by 16.2 percent. Total investment increased by 13.7 percent.

Financial Non-Governmental Organizations

8.50 Financial Non-profit governmental Organizations (FINGOs) are licensed by NRB for the purpose of financial intermediation. FINGOs borrow funds from various sources, collect fees from their members and function as financial intermediaries by providing micro credit services to rural households. Most of these entities are providing their services in rural areas following the Grameen Bank model.

Sources and Uses of Funds of FINGOs

8.51 Membership fees, grants, accumulated profit and borrowings are the major sources of funds of FINGOs. In mid-July 2006, sources of funds of FINGOs increased by 39.4 percent to Rs. 894.3 million (Appendix table 72).

8.52 On the uses side, FINGOs maintained 14.8 percent of their total sources in liquid fund, such as cash in hand and balance with domestic banks. The major share was of micro credit, which accounted for 49.2 percent in mid-July 2006.

Non-bank Financial Institutions

Non-bank financial institutions consist of insurance companies, DICGC, EPF, and CIT.

Insurance Companies

8.53 Altogether 21 insurance companies were operating in Nepal as at mid-July 2006. The Insurance Board is the apex regulatory authority for insurance companies. And most of the insurance companies were listed in the NEPSE.

Table 8.3: Market Structure of Insurance Companies at a Glance

Ownership	Nature of the Company			Total
	General	Life	Composite	Number
Government Owned	-	-	1	1
Private Sector	12	1	-	13
Foreign	2	1	-	3
Joint Venture	2	2	-	4
Total number	16	4	1	21

Sources and Uses of Funds of Insurance Companies

8.54 Total assets and liabilities of insurance companies increased by 24.3 percent to Rs. 22.68 billion in 2005/06 (Appendix table 73).

8.55 Of the total sources of funds, insurance premium accounted for 80.2 percent, paid-up capital 7.4 percent, and other liabilities 12.4 percent. The cumulative premium collected by insurance companies increased by 34.7 percent to Rs. 18.19 billion as of mid-July 2006. Of the total premium, 76 percent accounted for life insurance and the remaining 24 percent for non-life insurance.

8.56 On the uses side, investment occupied the highest share with 73.6 percent. Similarly, cash and bank balance was 9.4 percent, fixed assets 6.2 percent, and other assets 10.9 percent.

Deposit Insurance and Credit Guarantee Corporation

8.57 The DICGC was established in 1974 as a private limited company. The main objective of the corporation was to guarantee compensation on loss incurred by banks and financial institutions on their lending under the priority sectors viz., agriculture, industry and services. The main sources of income of the corporation were guarantee fees, interest on fixed deposit and return on investment on government securities.

8.58 The credit guaranteed by the DICGC to the priority sector loans decreased by 48.4 percent in 2005/06 (Appendix table 74).

8.59 Regarding the purpose-wise categorization, industrial sector accounted for the largest share of 59.9 percent followed by services sector 23.5 percent, and agriculture sector 16.7 percent. Region-wise, 88.5 percent was accounted for the Central Development Region, 6.7 percent for the Eastern Development Region, 4.1 percent for the Western Development Region and the remaining 0.6 percent for mid-Western Development Region. And the Far-western Development region had a negligible share.

Employees' Provident Fund

8.60 EPF is an autonomous entity incorporated under the EPF Act, 1962 after the merger of the earlier Army Provident Fund and Civil Servants' Provident Fund. EPF mobilizes savings collected through compulsory provident fund contributions on the part of employers and employees.

8.61 In the review year, the total loan disbursement decreased by 21.6 percent. However, the loan recovery went up by 24.2 percent (Appendix table 75). The total outstanding loan increased by 15.6 percent to Rs. 26.39 billion as of mid-July 2006.

8.62 Total sources/uses of funds recorded a growth of 13 percent to Rs. 51.05 billion as of mid-July 2006. The growth rate was almost similar to that of the preceding year (Appendix table 76). On the sources side, provident fund collection went up by 16.8 percent to Rs. 48.17 billion.

8.63 On the uses side, total loan outstanding increased by 14.7 percent to Rs. 26.80 billion. Of the total outstanding loan, the share of employees, and institutions accounted for 81.4 percent and 18.6 percent respectively. Similarly, total investment increased by 10

percent. Of the total outstanding investment, fixed deposit accounted for 80 percent, Government securities 18.3 percent and share investment 1.7 percent.

Citizen Investment Trust

8.64 CIT was established under the Citizen Investment Trust Act, 1991 with a view of investing civil and private sector employees' funds in productive sectors that have high returns and minimum risks. CIT accepts voluntary contributions of 10 percent of the salary of the employees of civil service and other organizations. It generally invests in Government securities, company's shares and fixed deposit in banks and financial institutions. It also advances term loans to firms and institutions against adequate securities.

Sources and Uses of Funds of CIT

8.65 Total sources of fund of CIT increased by 14.8 percent to Rs. 6.78 billion (Appendix table 77). Sources of funds of CIT include paid up capital, reserve fund, funds from voluntary contributions, and other liabilities. Funds from employees' voluntary contributions alone accounted for 94 percent of the total sources. Paid up capital accounted for 0.6 percent, reserve fund 0.7 percent, and other liabilities 4.7 percent.

8.66 On the uses side, 76.5 percent was in investment, which mainly includes fixed deposits and Government securities. Other uses consisted of cash and bank balances accounting 8.5 percent, loans and advances 9.3 percent, fixed assets 0.8 percent, and other assets 4.9 percent.

9

Commercial Banking

Number of Banks

9.1 The growth of commercial banks in the last two decades remained phenomenal; particularly after the 1990 when financial sector reform process was followed aggressively. There were only 2 commercial banks operating in the country till mid-July 1980, which increased to 5 by 1990 and 18 by mid-July 2006, including Agriculture Development Bank.¹

9.2 The number of commercial bank branches reached 481 in 1998/99 but declined to 375 as at mid-July 2005 due mainly to closure and merger of bank branches owing to security reasons, following the intensification of internal conflict. However, the year 2005/06 witnessed a rise in bank branches to 390 as at mid-July 2006. In addition, there were 44 branches of Agriculture Development Bank performing commercial banking transactions. However, the financial facilities provided by commercial banks were largely been concentrated in the Central Development Region of the country, where 168 bank branches operated their business followed by the Eastern Development Region with 81 branches in mid-July 2006. The number of bank branches, however, in Far Western Development Region was just 25.

Asset and Liabilities of Commercial Banks

9.3 The growth of assets/liabilities of commercial banks remained marginally higher in 2005/06 compared to that of the previous year. The balance sheet of commercial banks grew by 10.9 percent in 2005/06 compared to an increase of 10.2 percent in 2004/05. The ratio of asset/liabilities of commercial banks to GDP increased to 64.8 percent at mid-July 2006 from 63.8 percent a year ago.

9.4 On the liability side, total deposit increased by 16.0 percent in the review year compared to a growth of 7.7 percent in the previous year. However, borrowing from NRB, foreign liabilities and other liabilities witnessed a negative growth. On the assets side, liquid funds grew by 22.8 percent in the review year as against a decline by 0.3 percent in the previous year. The growth of loans and advances decelerated to 10 percent in the review year from 14.3 percent in the previous year. As in the previous year, other assets registered a fall in the review year as well.

¹ It was licensed as 'A' class financial institution, commercial bank in 2006.

9.5 Of the total liability of the commercial banks, deposit occupied the major chunk of 76.9 percent, followed by other liabilities 23.0 percent in the review year. The respective proportions in 2004/05 were at 73.5 and 26 percents. On the structure of assets, loans and advances occupied 76 percent of the total assets followed by liquid funds 16.3 percent and other assets 7.7 percent in the review year. In the previous year, in total assets, 76.6 percent was loans and advances; 14.7 percent was liquid funds and 8.7 percent was other assets.

Deposit Growth

9.6 Because of higher growth of deposit as mentioned above, the ratio of total deposit to GDP increased to 49.8 percent in the review year from 46.9 percent a year ago. The higher inflow of remittances contributed to the growth of deposit and its ratio to GDP in the review year.

9.7 Of the components of total deposit, saving deposit constituted the highest share (52.2 percent) followed by fixed deposits (34.3 percent) as at mid-July 2006 compared to the respective share of 52.9 percent and 32.6 percent a year ago. However, at the same time, the share of demand deposits in total deposits declined from 13.6 percent to 12.7 percent. The slowdown in economic activities caused the share of demand deposits to fall. On the other hand, remittance inflows contributed to rise in share of saving deposits.

Paid-up Capital and General Reserve

9.8 The share of paid-up capital and general reserves of commercial banks in total sources of fund declined due to a lower growth of paid-up capital and negative growth of general reserve. The paid-up capital increased by 8.7 percent to Rs 10.57 billion as at mid-July 2006 compared to a growth of 16.4 percent in the previous year. In contrast to an increase by 7.5 percent in the previous year, general reserve declined by 35.9 percent in the review year. The share of paid-up capital in GDP remained at 1.8 percent in 2005/06, the same as in the preceding year.

Loans and Advances

9.9 The growth rate of loans and advances remained lower at 10.0 percent in 2005/06 compared to a growth of 14.3 percent in 2004/05. The lower growth in private sector credit and negative growth in claims on non-financial government enterprises lowered the growth of loans and advances in the review year. Of the credit aggregates of the commercial banks, claims on non-financial government enterprises declined by 32.1 percent in 2005/06 as against a sharp rise of 125.5 percent in 2004/05. The decline was attributed to some loan payment made by Nepal Food Corporation, National Trading Ltd, Nepal Oil Corporation and Janak Education Material Center Ltd in the review year.

9.10 Claims on financial institutions increased by 2.1 percent in 2005/06 as against a fall of 2.9 percent in 2004/05. Claims on private sector registered a growth of 9.2 percent in 2005/06 compared to a growth 14.6 percent in 2004/05. Internal conflict, political instability including credit write off by NBL (Rs. 11.0 billion) led to such a lower expansion of private sector credit. NBL wrote off Rs. 3.6 billion principal and Rs. 7.4 billion accrued interest at the last month of the fiscal year. The growth of private sector credit would be 14.9 percent if the credit write off of NBL were adjusted

Non-performing Loans

9.11 The NPL of commercial banks was at 13.8 percent of the loans and advances amounting to Rs. 25.91 billion as at mid-July 2006. In terms of GDP, NPL ratio stood at 4.4 percent. The NPL was Rs. 27.88 billion (excluding ADB/N's) in the previous year. Table 9.1 shows the NPL of the banking system for the last five years. As at mid-July 2006, NPL of RBB and NBL stood at 45.3 and 25.1 percent respectively. The NPL of NBL declined substantially from 49.6 percent in mid-July 2005 to 25.1 percent in mid-July 2006 largely due to credit write off of Rs. 11 billion.

9.12 Even some private sector banks had a high level of NPL. For instance, Lumbini Bank had 32.0 percent NPL followed by Nepal Bangladesh Bank 12.3 percent and Nepal Credit and Commerce Bank 11.1 percent as at mid-July 2006. The NPL in two other commercial banks, namely Himalayan Bank and Nepal SBI Bank was also more than 5 percent.

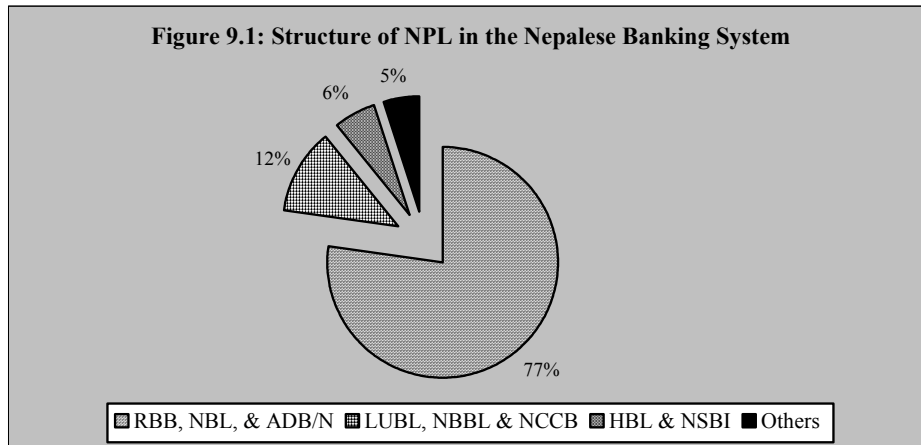
**Table 9.1 : Non-performing Loans of the Commercial Banks
(in percent of total loans and advances as at mid-July)**

	2002	2003	2004	2005	2006 ^P
1. Nepal Bank Limited	56.3	60.5	53.7	49.6	25.1
2. Rastriya Banijya Bank	55.1	60.2	57.6	53.0	45.3
3. NABIL Bank Limited	7.1	5.5	3.4	1.3	1.3
4. Nepal Investment Bank Limited	4.8	2.0	2.5	2.7	2.3
5. Standard Chartered Bank Nepal Limited.	4.8	4.1	3.8	2.7	2.1
6. Himalayan Bank Limited	8.3	10.1	8.9	7.4	6.1
7. Nepal SBI Bank Limited	6.3	11.7	6.3	6.5	6.3
8. Nepal Bangladesh Bank Limited	15.8	12.7	10.8	19.0	12.3
9. Everest Bank Limited	1.0	2.2	1.7	1.6	1.2
10. Bank of Kathmandu Limited	8.1	8.7	6.7	5.0	2.5
11. Nepal Credit and Commerce Bank Limited	40.1	20.6	12.7	8.6	11.1
12. Lumbini Bank Limited	19.3	11.6	7.4	15.2	32.0
13. Nepal Industrial & Commercial Bank Limited	8.2	6.7	3.9	3.8	2.6
14. Machhapuchhre Bank Limited	10.5	2.1	1.0	0.4	0.3
15. Kumari Bank Limited	1.3	1.7	0.8	1.0	0.9
16. Laxmi Bank Limited	0.0	0.0	0.0	1.6	0.7
17. Siddhartha Bank Limited		0.0	1.6	2.6	1.3
18. Agriculture Development Bank					18.3
Total	30.4	28.8	22.8	18.9	13.8

P = Provisional.

9.13 NPL of RBB, NBL and ADB/N, taken together, constituted 77.2 percent of the total NPL in the banking system as at mid-July 2006, followed by 12.0 percent of Lumbini Bank, Nepal Bangladesh Bank, and Nepal Credit and Commerce Bank taken

together, 5.8 percent NPL of Himalayan Bank and Nepal SBI bank, and the rest 5 percent was of the remaining 10 commercial banks.



Profitability

9.14 The banking system earned Rs.6.6 billion (1.8 percent of the total assets) in 2005/06 as per the Quarterly Financial Highlights of commercial banks for the fourth quarter of 2005/06. Except Lumbini Bank, all other banks earned net operating profit in the review year. Even NBL, RBB and ADB/N earned net profit of Rs. 728.0 million, Rs. 1687.6 million and Rs.504.4 million respectively in the review year. Net interest income contributed 76.9 of the total operating income of the banking system.

Sectorwise and Securitywise Credit Flows

9.15 Sector wise credit distribution in 2005/06 showed a mixed result. Some sectors such as construction; transportation, communications and public services; finance, insurance and fixed assets; and consumable loan sectors showed a substantial growth of credit in the review year (Table 9.2). Of the total outstanding loans, one-third credit was in production sector followed by one-fifth in wholesaler and retailers.

Table 9.2 : Sector wise Outstanding Credit of Commercial Banks

Sectors	Outstanding Credit (Rs.in million)			Growth		Share in %		
	2004	2005	2006	2005	2006	2004	2005	2006
Agriculture	4901.8	4415.5	4572.0	-9.9	3.5	3.6	2.8	2.6
Mines	336.6	520.3	477.7	54.6	-8.2	0.2	0.3	0.3
Productions	47181.5	53744.2	56432.2	13.9	5.0	34.4	33.7	32.0
Construction	4986.7	8722.9	13398.0	74.9	53.6	3.6	5.5	7.6
Metal Productions, Machinery & Electrical Tools & fitting	1450.7	1797.5	1590.9	23.9	-11.5	1.1	1.1	0.9
Transportation Equipment Production & Fitting	2776.7	3156.3	2658.7	13.7	-15.8	2.0	2.0	1.5
Transportation, Communications & Public Services	7963.6	8997.2	11697.5	13.0	30.0	5.8	5.6	6.6
Wholesaler & Retailers	31728.9	34412.7	35073.6	8.5	1.9	23.1	21.6	19.9
Finance, Insurance & Fixed Assets	4857.0	6391.0	10024.0	31.6	56.8	3.5	4.0	5.7
Service Industries	14216.9	14984.8	14062.6	5.4	-6.2	10.4	9.4	8.0
Consumable Loan	4400.0	3588.0	5839.4	-18.5	62.8	3.2	2.3	3.3
Local Government	2.3	0.0	0.0			0.0	0.0	0.0
Others	12278.1	18592.6	20542.9	51.4	10.5	9.0	11.7	11.6
Total	137080.9	159323.1	176369.6	16.2	10.7	100.0	100.0	100.0

9.16 As regards the security wise credit, most of credit outstanding (48.7 percent) was against the security of house and land, followed by security of miscellaneous and other goods in the review year (Table 9.3). However, credit extended against the collateral of gold and silver increased by 26.8 percent in 2005/06 compared to a growth of 11.6 percent in the previous year. Similarly, credit outstanding against non-government securities increased by 31.5 percent, machinery by 13.0 percent and other goods by 11.1 percent. In contrast to a decline of 45.9 percent in the previous fiscal year, credit extended against Jute and Hessians increased by 11.6 percent. Loans against domestic bill purchased, and overdraft and guarantee also increased by 19.2 percent and 25.1 percent respectively. The outstanding credit against rice and paddy; other agriculture products, clothes and yarn, export bills, and foreign bills declined.

Table 9.3: Security wise Outstanding Credit of Commercial banks

Types of Security	Outstanding Credit (Rs.in million)			Growth		Share in %		
	2004	2005	2006	2005	2006	2004	2005	2006
Gold & Silver	1286.5	1435.4	1820.8	11.6	26.8	0.9	0.9	1.0
Government Securities	4274.7	3077.4	3118.2	-28.0	1.3	3.1	1.9	1.8
Non-Govt. Securities	905.8	1007.0	1324.4	11.2	31.5	0.7	0.6	0.8
Jute and Hessians	140.0	75.8	84.5	-45.9	11.6	0.1	0.0	0.0
Rice and Paddy	1436.4	1150.9	1088.0	-19.9	-5.5	1.0	0.7	0.6
Other Agricultural Products	1122.1	1297.9	1091.2	15.7	-15.9	0.8	0.8	0.6
Cloth and Yarn	1111.3	1231.1	793.7	10.8	-35.5	0.8	0.8	0.5
Machinery	3121.2	4167.0	4708.1	33.5	13.0	2.3	2.6	2.7
Other Goods	19549.5	23884.8	26536.2	22.2	11.1	14.3	15.0	15.0
Export Bills Purchased	969.1	1111.6	938.9	14.7	-15.5	0.7	0.7	0.5
Loans Against Export Bills	531.8	329.6	249.4	-38.0	-24.4	0.4	0.2	0.1
Import Bills and L/C	6990.8	7351.3	7480.5	5.2	1.8	5.1	4.6	4.2
Other Foreign Bills Purchased	186.0	458.9	155.3	146.7	-66.2	0.1	0.3	0.1
Domestic Bills Purchased	412.0	151.6	180.8	-63.2	19.2	0.3	0.1	0.1
Loan Against Domestic Bills	0.0	0.0	0.0			0.0	0.0	0.0
Overdrafts and Guarantee	5661.4	6819.6	8533.7	20.5	25.1	4.1	4.3	4.8
House and Land	66691.8	78325.8	85937.7	17.4	9.7	48.7	49.2	48.7
Miscellaneous	22690.6	27447.4	32328.1	21.0	17.8	16.6	17.2	18.3
Total	137080.9	159323.1	176369.6	16.2	10.7	100.0	100.0	100.0

Priority Sector and Deprived Sector Lending of Commercial Banks

9.17 With a view to giving freedom to commercial banks in the selection of their loan portfolio, the NRB has taken a decision to gradually phase out the priority sector-lending program. The priority sector-lending ratio was reduced to 2 percent for 2005/06. It will not be compulsory for commercial banks to provide loans to the priority sectors from 2007/08 onwards. Compared to Rs 14.70 billion in 2004/05, priority sector credit remained at 13.00 billion in 2005/06.

9.18 The NRB has continued deprived sector lending program in order to extend credit access to the marginalized and deprived people. Compared to Rs 4.50 billion in 2004/05, deprived sector lending of commercial banks stood at Rs 5.37 billion in 2005/06.

10

Financial Sector Reform, Regulatory Measures and Supervisory Action

Financial Sector Reform

10.1 With financial assistance, both grants and loans of the World Bank and the Department for International Development (DFID), the second phase of the financial sector reform is currently being implemented. The reform programme includes: (a) reengineering of NRB, (b) restructuring of NBL and RBB, and (c) capacity building of the financial sector.

Reengineering of Nepal Rastra Bank

10.2 Reengineering of NRB includes the programmes of developing human resource, strengthening the regulatory and supervisory capacity, restructuring of organizational structure based on the functions, standardizing auditing and accounting system of the Bank as per international standard and simplifying as well as mechanizing the Bank's functions.

10.3 Human resource development plan has been implemented in order to right size the level of manpower, enhance their capacity and efficiency, and recruit, promote and train professional manpower in the organization. Organizational set-up of the Bank has been restructured based on the nature of the work, and new Employees Service By-Laws has been introduced. Further, an international expert from Sri Lanka has been appointed as an international HR advisor to the Bank.

10.4 Experienced and capable supervisors have been appointed in the process of improving supervisory capacity. Existing manpower has been trained on 'risk analysis of financial institutions'. Seven international consultants have been appointed out of whom four have been placed as bank examiners, two as non-bank examiners and one as off-site supervisors at the Supervision Department. Out of seven, five consultants have taken up their duty and have submitted inspection report after one month of their job assignment. The Bank has accepted their inspection report. In place of the two absentees, the bank has interviewed two new proposed consultants.

10.5 A separate directive has been issued for improving and maintaining transparency in the accounting system of the banks and financial institutions. A list of appropriate and skilled auditors has been prepared and at arrangement has been made to accomplish auditing in a timely manner. Likewise, a provision has been made for auditing the NRB's

accounts by the office of the Auditor General as well as international auditors. As suggested by the World Bank, a group of seven auditors working within the Bank has been formed in order to improve auditing standard of the Bank. The group has been undertaking its job since February 1, 2006. The group has submitted inspection report, preliminary draft of proposal, budget chart, chart of accounts and general observation report as per the Terms of Reference (TOR).

10.6 The Bank has started IT system for collection, compilation and dissemination of the information. In this process, an IT expert has been appointed as an IT advisor to the Bank. As advised by the IT advisor, staffs of the Bank working as domain expert have been trained on 'pre-procurement' by IT trainer. Contract with them has been made on slot basis. As per the first slot of the contract, the IT advisor has submitted a 'Bid Specification Document' in the Bank and necessary steps have been taken to finalize it.

10.7 In order to retain appropriate level of staff in the Bank and enhance their efficiency and capacity, staffs at different departments, as per the nature of the departmental functions, have been sent for foreign training with financial assistance of the World Bank. As of mid-July 2006, 82 personnel including both officer and non-officer level have received foreign training under this program.

10.8 As per the provision of sub-article (2) of article 110 of NRB Act 2002, 'NRB Employees Service By-Laws' has been made effective from 16 July 2005 by replacing the NRB Employees Rules 1992 enacted as per the then NRB Act, 1955.

Restructuring of Nepal Bank Ltd.

10.9 Under the Financial Sector Reform Programme of the Government of Nepal, the management team of ICC Consulting group from the Bank of Scotland (Ireland) started functioning in NBL since 22 July 2002. The contract period of the management team, which expired on 21 July 2004 was renewed initially for one more year. Later, the contract period has been extended up to July 21, 2007.

10.10 The management team has completed the audit of the Bank up to 2004/05. In 2004/05, the Bank earned a net profit of Rs 1.31 billion and as per the un-audited financial report of the Bank, profit stood at Rs 728.0 million in 2005/06. In order to mechanize its functions, the Bank has installed LIVE NEWTON system in its 44 branches till mid July 2006.

10.11 The management team has implemented HR development plan, management plan and skill enhancement plan. The purchase of necessary computer hardware and software has been completed to carry out 80 percent transactions of the Bank through the mechanized process. Credit policy, credit guidelines and asset/liability management guidelines of international standard have been formulated and implemented. The review of loan portfolio has been accomplished, and the loan recovery and restructuring process has been continuing. Credit manuals, credit recovery guidelines and problematic loan guidelines have been formulated in order to follow modern system of credit management. Accordingly, various departments and units have been formed to serve this purpose.

10.12 Within the period of four years, the management team has recovered around Rs 7.49 billion of non-performing loans. Though the recovery status is not yet satisfactory,

the management has been making concerted efforts. Likewise, the process of Bank rationalization has been put in place and voluntary retirement scheme (VRS) has been introduced. Through this process, the total number of staff of the Bank has been reduced to 2,960 from 6,322.

Restructuring of Rastriya Banijaya Bank

10.13 A foreign consultant appointed as the CEO for restructuring of RBB has been working since January 16, 2003. The team for restructuring was formed from domestic and foreign consultants under the leadership of the CEO, whose term of contract has been extended for further two years effective from January 16, 2006.

10.14 The team has formulated and implemented the management plan, budget plan, accounting and auditing manuals, and new credit policy. The team has completed the auditing of the Bank up to 2004/05 and submitted the report. The financial status of the Bank has been improving. According to the audited financial report of 2004/05, the Bank earned a net profit of Rs 1.32 billion, whereas un-audited financial report for 2005/06 showed a net profit of Rs 1.69 billion. The management team has been able to recover the non-performing loan worth Rs 8.50 billion. The Bank also succeeded in downsizing the staff to 3301 from 5422 by introducing the voluntary retirement scheme. The mechanization of the banking transactions has been completed in 15 branches and necessary equipments have been sent to many other branches as well.

10.15 As one of the components of Financial Sector Restructuring Programme is to restructure two big banks (NBL and RBB) and privatize them, a process has been initiated to appoint a 'Bank Restructuring Advisor' for their privatization.

Capacity Enhancement of Financial Sector

10.16 Registration of Credit Information Bureau as a company and its mechanization has been completed for enhancing the capacity of overall financial sector. A draft Act relating to the establishment of 'Asset Management Company' has been submitted to the Government of Nepal. A process of establishing a training centre for enhancing the capacity of employees of banks and financial institutions has been initiated.

10.17 The umbrella act 'Bank and Financial Institution Ordinance' of 2005 has been made effective by scraping all the then acts governing these bank and financial institutions. This ordinance has been converted into 'Bank and Financial Institution Act 2006' in 2006 with necessary amendment. Likewise, a draft for Anti-money Laundering Act has been submitted to the government by incorporating the suggestions of the evaluation team of 'Asia Pacific Group of Money Laundering'.

Regulatory Measures

10.18 With a view to maintaining financial stability, a number of regulatory measures were adopted in 2005/06. Some of the important measures undertaken in the review year were:

10.19 Integrated directive for commercial banks, development banks, finance companies and micro credit development banks was issued on 13 July 2005. The umbrella directive incorporates 16 directives relating to capital adequacy, classification of

loan and advances and loan loss provisioning, sectoral credit limit, accounting policy and structure of financial statement, risk minimization arrangement, corporate good governance, work schedule for directives implementation, investment, statistical returns to be submitted, sale of promoters shares, consortium lending, credit information and black listing arrangement, cash reserve ratio, branch office opening, interest rates and financial resources collection.

10.20 A Grievance Hearing Cell (GHC), constituted under the chairmanship of deputy governor on April 24, 2005, to settle the grievances resulting from the misunderstanding and dispute between customers and financial institutions was continued in 2005/06. Two advisors were also appointed in 2005/06. A total of 221 grievances were registered in 2005/06, of which 183 were settled.

10.21 The 'Know Your Customers' guidelines were issued with a view to helping banks and financial institutions to know their customers.

10.22 A provision has been made for 'C' class financial institutions to sell and purchase government bonds by obtaining permission from Public Debt Management Department of NRB as per the Bank and Financial Institutions Act 2006.

10.23 Foreign exchange transactions were further liberalized in 2005/06. In addition to commercial banks, other categories (B, C and D) of financial institutions are also now allowed to conduct remittance transaction. Moreover, 'B' and 'C' class financial institutions have been allowed to purchase and sell Indian currency. National level 'B' class institutions are even allowed to deal in convertible currencies and accept foreign currency deposits. They can even sell and purchase foreign currency, provide foreign currency for passport facility and open nostro account. 'B' and 'C' class financial institutions can now issue debit and credit card in Nepali and Indian currency as a sub-agent of 'A' class financial institutions.

10.24 Some conditions have been set for issuing loans against the promoter's share. Loans should not be more than 50 percent of market value of the share. If the market value of share declines, an arrangement of securing additional collateral should be made. To provide loans above 50 percent of market value, an approval from a higher-level authority (up to the board of directors) is needed. Promoter's shares taken as collateral are not allowed to be treated as non-banking assets and such shares should be sold if the maturity period of the loans crosses the six-month period. Maturity period for this type of loans should not be more than a year. If the borrowers fail to repay loans taken against such share within the 21 days after the maturity, such promoters/directors should be compulsorily recommended for their blacklisting.

10.25 Banks and financial institutions licensed by the NRB are not allowed to deposit as well as undertake loan transactions with other financial institutions operating under other Nepal's acts other than Bank and Financial Institution Act, 2006. Accordingly, any transaction done in the past should be rationalised after maturity or by mid-July 2008, whichever is earlier.

10.26 Cooperative Institutions are not allowed to buy the promoter's share of banks and financial institutions licensed by the NRB or of those that are in the pipeline of getting license from the NRB. Likewise NRB licensed banks/financial institutions are not

allowed to invest in shares of cooperative institutions. Prior investment, if any, should be sold by July 2008.

10.27 Certain conditions have been set when any bank or financial institution purchases/repurchases/takeovers credits sanctioned by the other banks and financial institutions. At the time of credit purchase, a right to recover the loans needs to be purchased on the consent of borrowers. Such purchased credits should be shown under the heading of loans and advance. Banks and financial institutions which take the credit purchase should take conditions of credit, detail information of borrowers such as date of loan issue, type of loans, maturity time, past credit transaction record, loan classification status, etc. Only those banks and financial institutions that have credit purchase provision in the credit policy can, further, involve in credit purchase transactions. If there is the condition that the seller will repurchase if the purchaser cannot recover the purchased loans, seller should place such sold credits under the contingent liability in the balance sheet until its repurchase. Capital fund on such contingent liability should be calculated based on fifty percent risk weight on such liability.

Supervisory Actions

10.28 Macro level on-site inspection was completed for 17 commercial banks in 2005/06. In addition, 76 branches of commercial banks were also inspected. The following table shows the number of branches of different banks, which were inspected in 2005/06.

Table10.1: Number of Branches Inspected

S.N	Bank's Name	Number of Branches
1	Nepal Bank Limited	7
2	Rastriya Banijya Bank	4
3	Nabil Bank Limited	4
4	Nepal Investment Bank Limited	4
5	Standard Chartered Bank Nepal Limited	5
6	Himalayan Bank Limited	5
7	Nepal SBI Bank Limited	5
8	Nepal Bangladesh Bank Limited	6
9	Everest Bank Limited	8
10	Bank of Kathmandu Limited	2
11	Nepal Credit and Commerce Bank Ltd.	3
12	Lumbini Bank Limited	3
13	Nepal Industrial and Commercial Bank Limited	6
14	Machapuchhre Bank Limited	4
15	Kumari Bank Limited	4
16	Laxmi Bank Limited	4
17	Siddhartha Bank Limited	2
	Total	76

10.29 In addition to macro level inspection of 17 commercial banks, special on-site inspection was made for 20 branches. Of this, 5 branches were of NBBL, 4 of NCCB, 2 of NICB, and one each of RBB, NBL, MBL, SCBNL, LUBL, BOK, KBL and SBL.

10.30 Special inspection has been continued for NBBL, NCCB and LUBL since March 2006, especially by monitoring loan transactions. These banks need to get permission to sanction loans of Rs. 5.0 million or more to a borrower for which one committee under the Bank Supervision Department has been formed to provide consent. As of mid-July 2006, the numbers of permission provided was 28 for NBBL, 24 for NCCB, and 67 for LUBL.

10.31 Various instructions were given to different banks after their inspection in 2005/06. NBL was given instruction to record the credit purchase from HBL, related to Arihant Apparels, under the private sector credit and make enough loan loss provision for that credit. NBL was also asked to clarify the reasons for providing loans to Golcha Group by exceeding the single borrower limit. Moreover, NBL was suggested to improve its credit management, record of fixed asset and other shortcomings identified by the auditors.

10.32 Nabil Bank was instructed to conduct board meeting regularly as per Bank and Financial Institution Act, 2006 and correct the shortcomings identified by the auditor.

10.33 NIB was notified to adjust capital fund for which loan loss provisioning for good loans could only be included in stead of loan loss provisioning of scheduled or restructured loans, which could be considered as good loans only when principal and interest of the loans are paid for two years continuously. Moreover, the Bank was asked to inform after correcting the shortcomings indicated by the auditors and modify the Annex 10(a) of financial statement as per the statutory format of the NRB.

10.34 SCBNL was also asked to modify the Annex 10(a) of financial statement as per the statutory format of the NRB and compute the non-performing loans according to loans classification.

10.35 HBL was instructed to correct the shortcomings shown in auditor's report and classify the loan properly.

10.36 The Board of Directors of NBBL was warned for ignoring the directives of the NRB. The Bank was asked to revise the loan loss provisioning so that cumulative loss would increase by Rs. 832.4 million. A number of serious shortcomings were found in the Bank such as drawbacks in the credit flow and management and violations of the NRB directives in regards to priority and deprived sector credit. Moreover, half yearly internal audit of L/C transaction was not done; required capital fund was not maintained as per the NRB's directive; the Bank has been suffering from a huge loss and lacks good corporate governance. The Bank was also asked to publish revised financial statement by revising the loan loss provisioning. The NRB has directed the Bank not to distribute dividend until capital fund becomes adequate and imposed the credit limit. The Bank has been restrained to open new branch and ordered to increase capital fund within three years and lower the loan loss provisioning and non-banking assets.

10.37 NSBI Bank was instructed to provide adequate manpower in its internal audit department, and increase the loan loss provisioning by Rs. 11.0 million and correct the shortcomings identified by auditor.

10.38 The NRB instructed EBL to conduct regular board meeting, implement credit write off policy, publish the records of unclaimed dividends exceeding five years and financial statement by showing proposed bonus shares, and adjust net worth by excluding loan loss provisioning.

10.39 Attention of the management of BOK was drawn to correct shortcomings on credit as revealed by auditors and instructed to assign adequate manpower for internal audit, and NRB's data reporting.

10.40 A number of shortcomings and weaknesses were found in NCCB. The Board of Directors of that Bank was warned for not obeying the directives regarding the loan classifications and not maintaining the adequate risk weighted fund. There were many faults on credit flow and its management. The Bank was found not following the directive on priority and deprived sector lending, not maintaining adequate capital fund, violating single obligor limit and corporate governance directives. This Bank was asked to publish the revised financial statement by making adjustment on loan classification and loan loss provisioning. In addition, the Bank has been restricted for distributing dividend until adequate capital fund is maintained. Credit limit of Rs. 30 million for fund based and Rs. 60 million for non-fund based has been imposed. This Bank was also instructed not to open new branches and be fully committed to recover bad loans. The Bank has been instructed not to issue bond for increasing capital fund until the level of primary capital specified by the NRB is met. It has also been instructed to meet the capital fund requirement within two years either by lowering loan loss provisioning or non-banking assets or by other alternative appropriate measures.

10.41 LUBL was instructed to revise the financial statement by adjusting loan loss provisioning, interest suspense account and core capital. The NRB is concerned with the lack of various manuals like banking operation, treasury, credit, security documentation and information technology in this Bank. In addition, the management of this Bank was found weak in risk management, and corporate governance. The Bank was also asked to inform the NRB after improving the shortcomings identified by the auditor.

10.42 NICB was instructed to strengthen and improve the internal auditing system and shortcomings indicated by the auditor.

10.43 KBL was asked to introduce the system of collecting information of net worth from borrowers and from those who provide guarantee to the borrowers before providing loans. Credit policy of this Bank lacks the loan recovery procedure. The Bank was also asked to revise the annex 10(a) of the financial statement as per the statutory format of the NRB and to adjust loan loss provisioning and accounting supplementary capital fund also addressing the shortcomings shown in auditing.

10.44 Instruction was given to LXBL to change the title deed of house and land registered in the name of HISEF finance to its name. In addition, the Bank was asked to revise the calculation of capital fund and risk weighted asset table; and net worth by

excluding expenses to be written off and improve the weaknesses indicated by the auditor.

10.45 SBL was instructed to inform the NRB after amending credit policy and financial rules as per the suggestions of the auditor and to regularize the Board Meeting as per the Bank and Financial Institution Ordinance 2005.

APPENDIX TABLE

Note

The following months of the Gregorian calendar year are the approximate equivalents of the months of the Nepalese Calendar Year:

<u>Gregorian Months</u>	<u>Nepalese Months</u>
Mid-Apr/Mid-May	Baishakh
Mid-May/Mid-June	Jestha
Mid-June/Mid-July	Ashadh
Mid-July/Mid-Aug	Shrawan
Mid-Aug/Mid-Sept	Bhadra
Mid-Sept/Mid-Oct	Ashwin
Mid-Oct/Mid-Nov	Kartik
Mid-Nov/Mid-Dec	Marg
Mid-Dec/Mid-Jan	Paush
Mid-Jan/Mid-Feb	Magh
Mid-Feb/Mid-Mar	Falgun
Mid-Mar/Mid-Apr	Chaitra

The fiscal year in Nepal generally begins on July 16 and ends on July 15.

Symbols Used

e = estimate

p = provisional

r = revised

- = nil or negligible

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Table 1
GROSS DOMESTIC PRODUCT
(At 1994-95 Prices)

	2003/04	2004/05 ^R	2005/06 ^P	2004/05	2005/06
	Rs. in million			% Change	
Agriculture	115,774	119,212	121,227	3.0	1.7
Industry	66,685	67,693	70,066	1.5	3.5
Mining and Quarrying	1,610	1,650	1,686	2.5	2.2
Manufacturing	25,822	26,494	27,064	2.6	2.2
Electricity, Gas and Water	6,437	6,748	7,124	4.8	5.6
Construction	32,816	32,801	34,192	0.0	4.2
Service	115,564	118,339	121,207	2.4	2.4
Trade Restaurant and Hotel	31,613	30,965	32,170	-2.0	3.9
Transport, Communication and Storage	23,273	24,457	25,006	5.1	2.2
Finance and Real Estate	30,275	31,677	32,372	4.6	2.2
Community and Social Services	30,403	31,240	31,659	2.8	1.3
GDP at Factor Cost before Deduction of Bank Service Charges	298,023	305,244	312,500	2.4	2.4
GDP at Factor Cost	289,073	295,809	302,610	2.3	2.3
GDP at Producers' Prices	312,267	320,729	326,743	2.7	1.9
Share in GDP (%)					
Agriculture	38.8	39.1	38.8	0.5	-0.7
Industry	22.4	22.2	22.4	-0.9	1.1
Service	38.8	38.8	38.8	0.0	0.0
GDP Deflator	159.4	166.6	178.5	4.5	7.1
Per Capita GDP (in Rs.)	12,599	12,657	12,626	0.5	-0.2

R = Revised estimate

P = Preliminary estimate

Source: Central Bureau of Statistics

Table 2
GROSS DOMESTIC PRODUCT
(At Current Prices)

	2003/04	2004/05 ^R	2005/06 ^E	2004/05	2005/06
	Rs. in million			% Change	
Agriculture	183,117	194,363	212,827	6.1	9.5
Industry	99,395	106,630	113,503	7.3	6.4
Mining and Quarrying	2,377	2,530	2,669	6.4	5.5
Manufacturing	36,634	39,286	41,768	7.2	6.3
Electricity, Gas and Water	11,355	11,892	12,508	4.7	5.2
Construction	49,029	52,922	56,558	7.9	6.9
Service	192,407	207,658	231,539	7.9	11.5
Trade Restaurant and Hotel	49,718	50,168	56,139	0.9	11.9
Transport, Communication and Storage	43,668	48,724	55,919	11.6	14.8
Finance and Real Estate	51,940	58,335	64,937	12.3	11.3
Community and Social Services	47,081	50,431	54,544	7.1	8.2
GDP at Factor Cost before Deduction of bank service charges	474,919	508,651	557,869	7.1	9.7
GDP at Factor Cost	459,784	491,624	539,106	6.9	9.7
GDP at Producers' Prices	496,745	533,538	582,948	7.4	9.3
Share in GDP (%)					
Agriculture	38.6	38.2	38.1	-0.9	-0.2
Industry	20.9	21.0	20.3	0.2	-2.9
Service	40.5	40.8	41.5	0.8	1.7
Per Capita GDP (in Rs.)	20,077	21,091	22,540	5.1	6.9

R = Revised estimate

E = Preliminary estimate

Source: Central Bureau of Statistics

Table 3
AGGREGATE DEMAND AND SAVINGS
At Current Prices

Description	2003/04	2004/05 ^R	2005/06 ^P	2004/05	2005/06	2004/05	2005/06
	Rs. in million			% Change		Percent of GDP	
Nominal GDP at Producers' Prices	496,745	533,538	582,947	7.4	9.3	100.0	100.0
Domestic Demand	565,352	621,334	694,719	9.9	11.8	116.5	119.2
Consumption	434,359	467,202	518,236	7.6	10.9	87.6	88.9
Private	383,978	412,776	458,991	7.5	11.2	77.4	78.7
Public	50,381	54,426	59,245	8.0	8.9	10.2	10.2
Total Investment	130,993	154,132	176,483	17.7	14.5	28.9	30.3
Gross Fixed Capital Formation	95,124	101,094	107,624	6.3	6.5	16.3	15.5
Private	63,861	70,271	74,798	10.0	6.4	13.2	12.8
Public	31,263	30,823	32,826	-1.4	6.5	5.8	5.6
Change in Stock	35,869	53,038	68,859	47.9	29.8	9.9	11.8
Net External Demand	(68,607)	(87,796)	(111,772)	28.0	27.3	-14.1	-16.1
Export of goods & non factor services	89,543	85,957	108,142	-4.0	25.8	16.1	18.6
Import of goods & non factor services	158,150	173,753	219,914	9.9	26.6	32.6	37.7
Gross Domestic Savings	62,386	66,336	64,711	6.3	-2.4	12.4	11.1
Gross National Savings	75,341	76,700	77,438	1.8	1.0	14.4	13.3

R = Revised estimate

P = Preliminary estimate

Source: Central Bureau of Statistics

Table 4
PRODUCTION INDEX OF AGRICULTURE AND
ALLIED SECTOR
(Base Year 1994/95 = 100)

Agricultural Commodities	Sub-weight	2003/04	2004/05	2005/06	2004/05	2005/06
		Index			%Change	
Foodgrains	33.7	143.1	143.5	141.5	0.3	-1.4
Paddy	19.8	152.2	146.5	143.8	-3.7	-1.9
Maize	6.9	124.9	134.8	136.2	7.9	1.1
Wheat	4.6	151.8	157.9	152.6	4.0	-3.3
Millet (Kodo)	2.2	105.9	108.3	108.8	2.3	0.4
Barley	0.2	101.5	99.4	94.1	-2.9	-4.5
Cash Crops	6.9	166.7	173.8	186.9	4.3	7.5
Sugarcane	1.4	153.6	158.4	164.1	3.1	3.6
Oil Seeds	1.5	130.2	139.1	136.5	6.9	-1.9
Tobacco	0.2	49.8	45.4	40.9	-8.9	-9.9
Jute	0.1	148.8	155.6	164.5	4.6	5.7
Potato	3.7	195.6	207.0	235.1	5.8	13.6
Other Crops	21.6	115.9	124.3	127.0	7.2	2.2
Pulses	2.7	131.5	134.5	132.5	2.2	-1.4
Fruits	10.1	90.5	97.0	94.7	7.2	-2.4
Vegetables	5.7	150.4	165.6	173.7	10.1	4.9
Others	3.1	121.2	127.5	141.2	5.2	10.7
Livestocks	27.7	133.6	137.8	141.3	3.1	2.5
Milk	15.8	136.3	141.0	145.2	3.4	3.0
Meat	10.3	128.5	131.9	134.6	2.6	2.0
Buffalo meat	4.5	135.1	140.5	143.6	4.0	2.2
Mutton	3.99	115.1	118.0	121.0	2.6	2.5
Pig meat	0.75	125.4	128.1	128.6	2.2	0.3
Poultry meat	1.014	154.9	150.9	152.4	-2.5	0.9
Eggs	1.554	139.7	143.2	145.1	2.5	1.3
Fishery	0.99	227.3	241.6	260.3	6.3	7.7
Forestry	9.24	128.1	132.5	135.6	3.4	2.3
Overall Index	100.0	135.8	139.8	142.2	2.9	1.7

Source: Central Bureau of Statistics

Table 5
PRODUCTION VOLUME OF AGRICULTURE AND
ALLIED SECTOR

Agricultural Commodities	2003/04	2004/05	2005/06	2004/05	2005/06
	In thousand tonnes			% Change	
Foodgrains	7,746.4	7,767.3	7,656.5	0.3	-1.4
Paddy	4455.7	4289.8	4209.3	-3.7	-1.9
Maize	1590.1	1716.0	1734.4	7.9	1.1
Wheat	1387.2	1442.4	1394.1	4.0	-3.3
Millet (Kodo)	283.4	289.8	290.9	2.3	0.4
Barley	30.0	29.1	27.8	-2.9	-4.5
Cash Crops	4101.7	4277.6	4598.0	4.3	7.5
Sugarcane	2305.3	2376.1	2462.6	3.1	3.6
Oil Seeds	132.9	142.0	139.3	6.9	-1.9
Tobacco	3.3	3.0	2.7	-8.9	-9.9
Jute	16.9	17.7	18.7	4.6	5.7
Potato	1643.4	1738.8	1974.8	5.8	13.6
Other Crops	2666.9	2901.1	2985.3	8.8	2.9
Pulses	265.4	271.3	267.4	2.2	-1.4
Fruits	511.4	548.0	534.9	7.2	-2.4
Vegetables	1890.1	2081.8	2183.0	10.1	4.9
Livestocks					
Milk	1231.9	1274.2	1312.1	3.4	3.0
Meat	208.4	214.8	219.2	3.1	2.0
Buffalo meat	133.6	139.0	142.0	4.0	2.2
Mutton	43.3	44.4	45.5	2.6	2.5
Pig meat	15.4	15.7	15.8	2.2	0.3
Poultry meat	16.1	15.7	15.8	-2.5	0.9
Eggs (in million no)	575.6	590.1	597.9	2.5	1.3
Fishery	39.9	42.5	45.8	6.3	7.7

Source : Ministry of Agriculture and Cooperatives

Table 6
AREA UNDER PRINCIPAL FOODGRAINS
AND CASH CROPS

Agricultural Commodities	2003/04	2004/05	2005/06	2004/05	2005/06
	In thousand hectares			% Change	
Foodgrains	3344	3353	3360	0.2	0.2
Paddy	1559	1542	1549	-1.1	0.5
Maize	834	850	851	1.9	0.1
Wheat	665	676	672	1.7	-0.6
Millet (Kodo)	259	259	262	0.1	1.1
Barley	27	26	26	-3.8	-0.8
Cash Crops	404	408	416	1.0	1.9
Sugarcane	59	59	62	-0.6	5.0
Oil Seeds	187	188	188	0.6	0.1
Tobacco	3	3	3	-11.6	-9.0
Jute	12	12	12	0.1	5.5
Potato	143	147	151	2.6	2.8
Total	3749	3761	3776	0.3	0.4

Source : Ministry of Agriculture and Cooperatives

Table 7
YIELD OF PRINCIPAL FOODGRAINS AND
CASH CROPS

Agricultural Commodities	2003/04	2004/05	2005/06	2004/05	2005/06
	Per hectare production in MT			% Change	
Foodgrains	2.3	2.3	2.3	0.0	0.0
Paddy	2.9	2.8	2.7	-2.6	-2.4
Maize	1.9	2.0	2.0	5.9	0.9
Wheat	2.1	2.1	2.1	2.3	-2.8
Millet (Kodo)	1.1	1.1	1.1	2.2	-0.7
Barley	1.1	1.1	1.1	1.8	-4.6
Cash Crops	10.1	10.5	10.5	3.1	0.0
Sugarcane	38.8	40.2	39.7	3.7	-1.3
Oil Seeds	0.7	0.8	0.7	6.3	-2.0
Tobacco	1.0	1.0	1.0	3.1	-0.9
Jute	1.4	1.5	1.5	1.2	3.4
Potato	11.5	11.8	13.1	3.1	10.5

Source : Ministry of Agriculture and Cooperatives

Table 8
LIVESTOCK POPULATION

	2003/04	2004/05	2005/06	2004/05	2005/06
	In thousand number			<u>% Change</u>	
Cattle	6,966	6,994	7,003	0.4	0.1
Buffaloes	3,953	4,081	4,205	3.3	3.0
Sheep	824	817	812	-0.9	-0.6
Goat	6,980	7,154	7,422	2.5	3.7
Pigs	935	948	961	1.4	1.4
Chicken	23,024	22,790	23,221	-1.0	1.9
Ducks	405	392	393	-3.3	0.3

Source : Ministry of Agriculture and Cooperatives

Table 9
IRRIGATION AND SUPPLY OF AGRICULTURAL INPUTS

	Unit	2003/04	2004/05	2005/06	2004/05	2005/06	2005/06
							% Change
Total Irrigated Land*	Thousand Hect.	1,001.4	1,012.7	1,031.1			1.1
Chemical Fertilizers	MT	138,758.0	122,706.0	91,553.0			-11.6
Chemical Fertilizers (AICL)	MT	20,493.0	31,811.0	13,295.0			55.2
DAP	"	11,377.0	19,436.0	10,857.0			70.8
Potash	"	1,688.0	2,332.0	478.0			38.2
Urea	"	7,428.0	10,043.0	1,960.0			35.2
Chemical Fertilizers (Private)	"	118,265.0	90,895.0	78,258.0			-23.1
Improved Seeds	MT	2,205.1	1,768.4	3,551.1			-19.8
Paddy	"	503.7	546.0	643.7			8.4
Maize	"	19.9	2.1	10.7			-89.4
Wheat	"	1,665.8	1,205.0	2,859.2			-27.7
Others	"	15.7	15.3	37.4			-2.6
Agriculture Credit	Rs. in million	10,148.6	11,795.1	12,681.4			16.2
							7.5

* Includes areas covered by both Department of Irrigation and ADB/N.

Source: Ministry of Agriculture & Co-operatives and Department of Irrigation

Table 10
PURPOSEWISE CLASSIFICATION OF
AGRICULTURAL CREDIT*

	2003/04 ^R	2004/05 ^R	2005/06 ^P	2004/05	2005/06
	Rs. in million			<u>% Change</u>	
Total Agricultural Credit	10148.6	11795.1	12681.4	16.2	7.5
Agricultural Production	1,845.6	1,938.2	1,809.0	5.0	-6.7
Farm Mechanisation and Irrigation	594.7	537.5	390.3	-9.6	-27.4
Agro -business	1,594.6	1,814.7	1,865.9	13.8	2.8
Agro-Industry, Housing Construction					
Warehouse Construction	4,900.1	5,795.3	6,684.6	18.3	15.3
Others	1,213.5	1,709.5	1,931.7	40.9	13.0

R = Revised

P = Provisional

* Disbursed by Agricultural Development Bank only.

Source : *Agricultural Development Bank/Nepal*

Table 11
MARKET PRICE OF FOODGRAINS AND CHEMICAL
FERTILIZER

	Unit	2003/04	2004/05	2005/06	2004/05	2005/06
					% Change	
Foodgrains (Wholesale Prices)						
Paddy (Coarse)	Rs./Qtl.	826	828	1,167	0.3	41.0
Wheat	Rs./Qtl.	1,099	1,142	1,344	3.9	17.7
Maize	Rs./Qtl.	921	1,071	1,503	16.2	40.4
Chemical Fertilizer						
Urea	Rs./M. Ton	14,200	15,560	16,000	9.6	2.8
Potash	Rs./M. Ton	13,600	14,330	13,600	5.4	-5.1
DAP	Rs./M. Ton	19,500	20,860	24,000	7.0	15.1

*Source: Agriculture Marketing Information Bulletin 2004, 2005 and 2006 - A Special Issue,
Ministry of Agriculture and Cooperatives*

Table 12
ANNUAL PRODUCTION INDEX OF MANUFACTURING INDUSTRIES

Major Industrial Groups	Weight*	2004/05	2005/06	2004/05	2005/06
		Index		% Change	
Overall Index of Manufacturing Production	100.00	102.6	104.7	2.6	2.0
Manufacture of Vegetable,Oils & Fats	15.78	107.0	108.7	7.0	1.6
Vegetable ghee	10.08	108.8	111.9	8.8	2.9
Mustard oil	1.95	97.7	93.0	-2.3	-4.8
Soyabean oil	3.74	107.3	108.6	7.3	1.2
Manufacture of dairy products	2.77	103.4	105.0	3.4	1.6
Processed Milk	2.77	103.4	105.0	3.4	1.6
Manufacture of grain mill products, Prepared animal feeds	8.16	105.2	106.5	5.2	1.2
Rice	4.33	106.2	104.8	6.2	-1.3
Wheat flour	2.19	106.0	108.4	6.0	2.3
Animal feed	1.63	102.1	108.8	2.1	6.5
Manufacture of other food products	7.93	105.4	110.2	5.4	4.6
Biscuit	1.04	108.1	112.3	8.1	3.8
Sugar	2.92	103.9	106.2	3.9	2.2
Noodles	2.72	105.4	112.4	5.4	6.7
Processed tea	1.25	106.5	113.0	6.5	6.1
Manufacture of beverages	6.59	102.5	106.9	2.5	4.3
Liquor rectified	2.39	99.6	105.2	-0.4	5.6
Beer	2.92	104.7	108.2	4.7	3.3
Soft drink	1.28	102.9	107.2	2.9	4.2
Manufacture of tobacco products	6.53	100.5	99.7	0.5	-0.8
Cigarette	6.53	100.5	99.7	0.5	-0.8
Manufacture of textiles	5.2	105.9	111.8	5.9	5.6
Yarn	3.18	108.3	118.1	8.3	9.1
Cotton clothes	1.27	103.7	103.4	3.7	-0.3
Synthetic clothes	0.75	99.5	99.6	-0.5	0.1
Manufacture of other Textiles	6.59	106.3	108.7	6.3	2.3
Woolen carpet	4.32	105.7	106.9	5.7	1.2
Jute goods	2.27	107.6	112.2	7.6	4.3
Manufacture of knitted and crocheted fabrics	1.18	100.7	97.1	0.7	-3.6
Pashmina	1.18	100.7	97.1	0.7	-3.6
Manufacture of wearing apparel	7.14	80.4	68.1	-19.6	-15.3
Garment	7.14	80.4	68.1	-19.6	-15.3
Manufacture of tanning and dressing of leather	0.92	106.0	111.0	6.0	4.7
Processed leather	0.92	106.0	111.0	6.0	4.7
Manufacture of saw milling and planning of wood	0.95	102.5	99.0	2.5	-3.4
Wood sawn	0.95	102.5	99.0	2.5	-3.4
Manufacture of paper & paper products	1.42	105.4	105.9	5.4	0.4
Paper excluding newsprint	1.42	105.4	105.9	5.4	0.4
Publishing Printing and reproducing of recorded Media	1.58	103.3	105.7	3.3	2.4

Major Industrial Groups	Weight*	2004/05	2005/06	2004/05	2005/06
		<u>Index</u>		<u>% Change</u>	
Newspaper	1.58	103.3	105.7	3.3	2.4
<i>Manufacture of other chemical products</i>	10.34	105.0	111.7	5.0	6.3
Medicine	7.01	104.4	108.9	4.4	4.3
Soap	3.33	106.3	117.5	6.3	10.6
<i>Manufacture of plastic product</i>	4.75	101.2	103.3	1.2	2.1
Plastic product	4.75	101.2	103.3	1.2	2.1
<i>Manufacture of non Metallic mineral products n.e.c</i>	5.34	102.6	107.7	2.6	5.0
Bricks	2.42	104.2	107.5	4.2	3.1
Cement	2.92	101.3	107.9	1.3	6.5
<i>Manufacture of other fabricated metal product</i>	3.7	101.3	109.8	1.3	8.4
Iron rod & billets	3.7	101.3	109.8	1.3	8.4
<i>Manufacture of casting of metal</i>	1.45	102.3	101.6	2.3	-0.7
Domestic metal product	1.45	102.3	101.6	2.3	-0.7
<i>Manufacture of electric machinery apparatus</i>					
<i>Manufacture of wire & cable</i>	1.68	103.6	108.6	3.6	4.8
Electrical wire & cable	1.68	103.6	108.6	3.6	4.8

* Weights are based on Census of Manufacturing Establishments(CME), 2001/02.

Source: Central Bureau of Statistics

Table 13
TOURISM INDICATORS

	2003/04	2004/05	2005/06	2004/05	2005/06
				% Change	
Tourist Arrivals (in no. of persons)	338,132	385,297	375,398	13.9	-2.6
India	86,363	90,222	96,434	4.5	6.9
Third Country	251,769	295,075	278,964	17.2	-5.5
Tourism Earnings (Rs. in million)	18,147.4	10,463.8	9,531.3	-42.3	-8.9
Average Duration of stay (in days)	9.6	13.5	9.1	40.7	-32.6
Per Capita Expenditure (in rupees)	53,669.6	27,157.8	25,389.9	-49.4	-6.5
Number of Hotel Beds*	38,270	39,107	39,384	2.2	0.7

From August to July each year as proxied for FY.

*As of mid- January

Source : *Economic Survey, MOF and Current Macro Economic Situation, Nepal Rastra Bank.*

Table 14
IMPORTS AND SALES OF PETROLEUM PRODUCTS

	Petrol	%	Diesel	%	Kerosene	%	LP Gas	%
	Kilo-liters	Change	Kilo-liters	Change	Kilo-liters	Change	MT	Change
IMPORTS								
2002/03	68,482	7.7	301,672	4.9	351,696	-9.8	56,079	15.0
2003/04	67,965	-0.8	302,644	0.3	313,127	-11.0	66,142	17.9
2004/05	76,097	12.0	308,076	1.8	231,463	-26.1	77,594	17.3
2005/06	81,817	7.5	292,381	-5.1	225,007	-2.8	81,005	4.4
SALES								
2002/03	67,457	6.6	299,973	4.8	348,620	-9.8	56,079	15.0
2003/04	67,586	0.2	299,730	-0.1	310,826	-10.8	66,142	17.9
2004/05	75,989	12.4	315,368	5.2	239,328	-23.0	77,594	17.3
2005/06	80,989	6.6	294,329	-6.7	226,637	-5.3	81,005	4.4

Source: Nepal Oil Corporation.

Table 15
ELECTRICITY GENERATION, IMPORTS AND EXPORTS(GWH)

	Hydropower Generation	% Change	Imports	% Change	Exports	% Change
2003/04	2,194.2	3.9	186.7	24.5	141.2	-26.5
2004/05	2,401.4	9.4	241.4	29.3	112.5	-20.3
2005/06	2,511.2	4.6	266.2	10.3	101.0	-10.2

Source: Nepal Electricity Authority

Table 16
NATIONAL URBAN CONSUMER PRICE INDEX
(y-o-y Change)
(Base Year : 1995/96 = 100)

Months	Food & Beverages		Non-food & Services		Overall Index	
	Index	% Changes	Index	% Changes	Index	% Changes
Jul/Aug	165.0	6.6	177.2	8.0	170.7	7.3
Aug/Sep	168.0	7.1	179.5	9.3	173.3	8.2
Sep/Oct	168.8	7.5	179.7	8.3	173.8	7.8
Oct/Nov	169.3	8.6	180.5	8.3	174.5	8.5
Nov/Dec	166.6	9.3	180.5	8.3	173.0	8.8
Dec/Jan	162.0	8.2	180.7	5.8	170.6	7.0
Jan/Feb	161.3	7.1	181.8	4.4	170.8	5.8
Feb/Mar	161.7	6.2	188.9	9.1	174.3	7.7
Mar/Apr	164.9	6.9	189.0	9.0	176.0	7.9
Apr/May	169.8	9.1	189.7	9.1	179.0	9.1
May/June	170.9	9.1	189.5	9.0	179.6	9.1
June/July	172.9	7.9	189.6	8.7	180.6	8.3
Annual	166.8	7.8	183.9	8.1	174.7	8.0

Source: Nepal Rastra Bank.

Table 17
NATIONAL URBAN CONSUMER PRICE INDEX
(By Groups and Sub-groups of Commodities)
Base:1995/96=100

Groups & Sub-groups of the Commodities	Weight %					% Change				
	1	2	3	4	5	1 over 2	2 over 3	3 over 4	4 over 5	5 over 4
Overall Index		100.00	154.8	161.8	174.7		4.5	4.0	4.5	8.0
Food and Beverages		53.20	148.8	154.7	166.8		4.0	3.8	3.2	7.8
Grains and Cereal Products		18.00	139.8	145.1	164.6		3.8	3.2	4.4	13.4
Rice and Rice Products		(14.16)	138.0	142.4	163.6		3.2	4.4	4.7	14.9
Pulses		2.73	126.1	131.6	150.4		4.4	4.7	4.7	14.3
Vegetables, Fruits and Nuts		7.89	140.3	146.9	153.8		4.7	-1.0	6.4	4.7
Spices		1.85	148.0	146.5	149.1		-1.0	6.4	0.5	1.8
Meat, Fish and Eggs		5.21	158.3	168.5	174.8		6.4	0.5	-1.9	3.7
Milk and Milk Products		4.05	150.4	151.1	158.1		0.5	-1.9	24.8	4.6
Oil and Ghee		3.07	153.7	150.8	147.4		-1.9	24.8	1.8	-2.3
Sugar and Related Products		1.21	123.9	154.6	163.7		24.8	1.8	5.1	5.9
Beverages		2.28	162.1	165.0	180.7		1.8	5.1	5.1	9.5
Restaurant Meals		6.91	183.2	192.6	204.0		5.1	5.1	8.1	5.9
Other Goods and Services		46.80	161.8	170.1	183.9		5.1	2.5	3.5	8.1
Cloth, Clothing & Sewing Services		8.92	138.1	141.5	145.4		2.5	3.5	1.7	2.8
Cloths		(2.28)	126.3	130.7	133.7		3.5	1.7	0.5	2.3
Clothings		(5.75)	138.1	140.5	144.6		1.7	0.5	9.2	2.9
Footwear		2.20	133.3	133.9	137.8		0.5	9.2	14.7	2.9
Housing Goods and services		14.87	163.1	178.1	200.9		9.2	14.7	7.0	12.8
Fuel, Light and Water		(5.92)	200.8	230.3	277.6		14.7	7.0	1.7	20.5
Transport and Communication		4.03	185.2	198.2	232.8		7.0	1.7	4.4	17.5
Medical and Personal Care		8.03	169.3	172.1	176.5		1.7	4.4	2.0	2.6
Education, Reading and Recreation		7.09	182.1	190.1	200.0		4.4	2.0	4.4	5.2
Tobacco and Related Products		1.66	153.2	156.2	163.1		2.0	4.4	4.4	4.4

Table 18
URBAN CONSUMER PRICE INDEX: KATHMANDU VALLEY
(Base : 1995/96 = 100)

Groups & Sub-groups of the Commodities	Weight %					% Change				
	1	2	3	4	5	4 over 3	5 over 4	5 over 3	5 over 4	
Overall Index		100.00	150.1	157.6	167.8	5.0	6.5	5.0	6.5	
Food and Beverages		51.53	145.6	151.8	159.5	4.3	5.1	4.3	5.1	
Grains and Cereal Products		16.37	146.9	151.7	162.9	3.3	7.4	3.3	7.4	
Rice and Rice Products		(13.05)	150.6	155.1	167.4	3.0	7.9	3.0	7.9	
Pulses		2.14	114.2	119.6	145.6	4.7	21.7	4.7	21.7	
Vegetables, Fruits and Nuts		8.27	133.7	135.7	140.2	1.5	3.3	1.5	3.3	
Spices		1.57	141.8	143.6	140.4	1.3	-2.2	1.3	-2.2	
Meat, Fish and Eggs		5.28	153.4	169.1	174.2	10.2	3.0	10.2	3.0	
Milk and Milk Products		4.18	134.5	137.2	145.0	2.0	5.7	2.0	5.7	
Oil and Ghee		2.62	149.8	146.6	143.0	-2.1	-2.5	-2.1	-2.5	
Sugar and Related Products		1.36	127.9	164.3	170.9	28.5	4.0	28.5	4.0	
Beverages		2.39	136.6	142.0	147.3	4.0	3.7	4.0	3.7	
Restaurant Meals		7.35	171.2	179.7	187.1	5.0	4.1	5.0	4.1	
Other Goods and Services		48.47	155.0	163.8	176.7	5.7	7.9	5.7	7.9	
Cloth, Clothing & Sewing Services		8.67	139.0	145.5	148.3	4.7	1.9	4.7	1.9	
Cloths		(1.83)	130.8	140.5	146.1	7.4	4.0	7.4	4.0	
Clothings		(6.14)	135.5	140.4	142.3	3.6	1.4	3.6	1.4	
Footwear		2.41	133.9	135.1	136.6	0.9	1.1	0.9	1.1	
Housing Goods and services		15.14	158.4	172.6	192.0	9.0	11.2	9.0	11.2	
Fuel, Light and Water		(4.95)	208.9	241.8	291.1	15.7	20.4	15.7	20.4	
Transport and Communication		4.21	172.7	190.4	227.6	10.2	19.5	10.2	19.5	
Medical and Personal Care		7.86	172.4	174.1	175.3	1.0	0.7	1.0	0.7	
Education, Reading and Recreation		8.33	150.0	157.4	172.7	4.9	9.7	4.9	9.7	
Tobacco and Related Products		1.85	136.5	138.6	144.4	1.5	4.2	1.5	4.2	

Table 19
URBAN CONSUMER PRICE INDEX : HILLS
(Base : 1995/96 = 100)

Groups & Sub-groups of the Commodities	Weight %					% Change				
	1	2	3	4	5	1 over 2	2 over 3	3 over 4	4 over 5	5 over 4
Overall Index		100.00	156.6	163.5	177.5	4.4	4.4	4.4	4.4	8.6
Food and Beverages		53.04	153.0	158.8	171.5	3.8	3.8	3.8	3.8	8.0
Grains and Cereal Products		17.76	134.1	139.6	158.6	4.1	4.1	4.1	4.1	13.6
Rice and Rice Products		(13.86)	130.3	133.7	154.9	2.6	2.6	2.6	2.6	15.9
Pulses		2.66	127.7	133.4	158.9	4.5	4.5	4.5	4.5	19.1
Vegetables, Fruits and Nuts		7.61	146.7	152.8	160.0	4.2	4.2	4.2	4.2	4.7
Spices		2.01	153.2	155.4	160.0	1.4	1.4	1.4	1.4	3.0
Meat, Fish and Eggs		5.48	161.9	169.6	176.0	4.8	4.8	4.8	4.8	3.8
Milk and Milk Products		3.94	163.3	164.2	171.5	0.6	0.6	0.6	0.6	4.4
Oil and Ghee		3.77	150.0	152.5	150.2	1.7	1.7	1.7	1.7	-1.5
Sugar and Related Products		1.15	124.0	157.0	166.5	26.6	26.6	26.6	26.6	6.1
Beverages		2.65	185.1	187.2	213.2	1.1	1.1	1.1	1.1	13.9
Restaurant Meals		6.01	206.2	213.9	225.2	3.7	3.7	3.7	3.7	5.3
Other Goods and Services		46.96	160.8	168.8	184.2	5.0	5.0	5.0	5.0	9.1
Cloth, Clothing & Sewing Services		8.94	126.8	129.9	136.4	2.4	2.4	2.4	2.4	5.0
Cloths		(2.54)	107.0	110.2	109.4	3.0	3.0	3.0	3.0	-0.7
Clothings		(5.51)	128.3	130.4	140.7	1.6	1.6	1.6	1.6	7.9
Footwear		2.63	129.7	133.4	142.9	2.9	2.9	2.9	2.9	7.1
Housing Goods and services		14.40	162.4	176.9	199.2	8.9	8.9	8.9	8.9	12.6
Fuel, Light and Water		(5.92)	195.6	223.8	268.8	14.4	14.4	14.4	14.4	20.1
Transport and Communication		3.31	206.4	221.6	266.2	7.4	7.4	7.4	7.4	20.1
Medical and Personal Care		8.39	163.8	165.9	175.0	1.3	1.3	1.3	1.3	5.5
Education, Reading and Recreation		7.78	185.6	192.2	203.1	3.6	3.6	3.6	3.6	5.7
Tobacco and Related Products		1.51	155.0	162.0	171.5	4.5	4.5	4.5	4.5	5.9

Table 20

URBAN CONSUMER PRICE INDEX : TERAI
(Base:1995/96=100)

Groups & Sub-groups of the Commodities	Weight %					% Change				
	1	2	3	4	5	4 over 3	5 over 4	5 over 3	5 over 4	
Overall Index		100.00	156.9	163.8	177.9	4.4	8.6	4.4	8.6	
Food and Beverages		54.98	149.2	155.0	169.5	3.9	9.4	3.9	9.4	
Grains and Cereal Products		19.76	137.7	143.1	168.0	3.9	17.4	3.9	17.4	
Rice and Rice Products		(15.42)	133.1	137.9	164.5	3.6	19.3	3.6	19.3	
Pulses		3.35	132.7	138.3	150.1	4.2	8.5	4.2	8.5	
Vegetables, Fruits and Nuts		7.63	141.9	151.6	159.8	6.8	5.4	6.8	5.4	
Spices		2.06	149.7	145.0	150.5	-3.1	3.8	-3.1	3.8	
Meat, Fish and Eggs		5.02	159.9	167.7	174.7	4.9	4.2	4.9	4.2	
Milk and Milk Products		3.98	155.3	154.7	161.1	-0.4	4.1	-0.4	4.1	
Oil and Ghee		3.23	157.3	152.7	149.0	-2.9	-2.4	-2.9	-2.4	
Sugar and Related Products		1.09	121.4	147.8	158.2	21.7	7.0	21.7	7.0	
Beverages		2.00	169.2	170.8	189.0	0.9	10.7	0.9	10.7	
Restaurant Meals		6.86	181.9	192.5	206.5	5.8	7.3	5.8	7.3	
Other Goods and Services		45.02	166.4	174.5	188.1	4.9	7.8	4.9	7.8	
Cloth, Clothing & Sewing Services		9.16	141.7	143.3	147.0	1.1	2.6	1.1	2.6	
Cloths		(2.63)	130.8	132.4	135.0	1.2	2.0	1.2	2.0	
Clothings		(5.45)	143.4	144.3	147.5	0.6	2.2	0.6	2.2	
Footwear		1.78	134.2	133.3	136.7	-0.7	2.6	-0.7	2.6	
Housing Goods and Services		14.80	166.1	182.0	206.9	9.6	13.7	9.6	13.7	
Fuel, Light and Water		(6.91)	197.7	225.7	272.6	14.2	20.8	14.2	20.8	
Transport and Communication		4.16	185.0	194.3	223.6	5.0	15.1	5.0	15.1	
Medical and Personal Care		8.04	169.5	173.1	177.8	2.1	2.7	2.1	2.7	
Education, Reading and Recreation		5.54	200.5	209.3	215.5	4.4	3.0	4.4	3.0	
Tobacco and Related Products		1.54	162.7	164.8	171.4	1.3	4.0	1.3	4.0	

Table 21
NATIONAL WHOLESELE PRICE INDEX
(By Groups and Sub-groups of Commodities)
(Base : 1999/2000 = 100)

Groups and Sub-groups 1	Weight % 2	2003/04 3	2004/05 4	2005/06 5	% Change	
					4/3	5/4
Overall Index	100.0	114.9	123.3	134.3	7.3	8.9
Agricultural Commodities	49.6	111.9	118.5	130.2	5.9	9.9
Foodgrains	16.6	93.7	102.4	119.0	9.3	16.2
Cash Crops	6.1	120.5	147.3	159.4	22.2	8.2
Pulses	3.8	115.3	118.7	136.4	2.9	14.9
Fruits and Vegetables	11.2	121.3	114.7	120.7	-5.4	5.2
Spices	1.9	106.1	102.0	108.5	-3.9	6.4
Livestock Production	10.0	126.2	134.8	143.8	6.8	6.7
Domestic Manufactured Commodities	20.4	114.5	121.6	126.0	6.2	3.6
Food Related Products	6.1	109.0	112.0	116.4	2.8	3.9
Beverages and Tobacco	5.7	116.3	122.2	128.2	5.1	4.9
Construction Materials	4.5	126.4	145.9	149.1	15.4	2.2
Others	4.1	107.3	108.5	111.9	1.1	3.1
Imported Commodities	30.0	120.1	132.3	146.5	10.2	10.7
Petroleum Products and Coal	5.4	158.3	196.2	244.5	23.9	24.6
Chemical Fertilizers and Chemical Goods	2.5	127.6	143.1	162.1	12.1	13.2
Transport Vehicles and Machinery Goods	7.0	108.3	117.3	125.3	8.3	6.8
Electric and electronic Goods	1.9	96.1	96.7	96.2	0.6	-0.6
Drugs and Medicine	2.7	107.0	108.3	111.7	1.2	3.2
Textile related Products	3.1	110.8	113.2	111.4	2.2	-1.6
Others	7.4	115.9	122.2	130.4	5.4	6.7

Table 22
NATIONAL WHOLESALE PRICE INDEX BY MONTH
 (y-o-y Changes)
 (Base : 1999/00 = 100)

Months	Overall Index		Agricultural Commodities		Domestic Manufactured Commodities		Imported Commodities	
	Index	% Change	Index	% Change	Index	% Change	Index	% Change
Mid-Aug	133.5	9.3	134.2	9.9	123.7	4.0	138.9	11.7
Mid-Sep	134.8	9.5	133.8	8.6	124.0	4.3	143.7	14.3
Mid-Oct	135.0	9.4	134.0	10.0	124.6	4.3	143.7	11.8
Mid-Nov	136.4	11.3	136.3	13.4	124.9	4.6	144.3	12.2
Mid-Dec	134.3	12.9	132.1	16.8	124.7	4.4	144.4	12.5
Mid-Jan	129.5	8.2	122.5	9.4	124.5	3.9	144.3	9.0
Mid-Feb	128.9	6.5	120.9	8.7	124.9	2.6	144.8	6.0
Mid-Mar	130.8	6.2	120.9	4.7	126.7	3.5	150.0	10.1
Mid-Apr	133.1	7.6	125.0	7.9	126.7	2.8	150.7	10.1
Mid-May	136.9	9.3	131.8	11.6	128.7	2.6	150.9	10.5
Mid-June	138.2	9.2	133.9	10.9	129.4	2.7	151.2	10.7
Mid-July	139.9	7.7	137.4	7.6	129.3	3.5	151.1	10.5
Average	134.3	8.9	130.2	9.9	126.0	3.6	146.5	10.7

Table 23
TOWNWISE AVERAGE WAGE RATE

S. No.	Groups/Sub-groups	Unit	2004/05				2005/06				%Change			
			KTM	BRT	BRJ	BHR	KTM	BRT	BRJ	BHR	KTM	BRT	BRJ	BHR
1 Agricultural Labourer														
	Male	Daily	152.50	90.28	116.67	72.50	176.67	94.58	116.81	80.00	15.85	4.77	0.12	10.34
	Female	Daily	90.83	70.00	116.67	72.50	106.67	72.92	116.67	80.00	17.43	4.17	0.00	10.34
2 Construction Labourer														
Mason														
	Skilled	Daily	331.94	192.78	175.00	216.67	316.67	234.86	175.00	222.22	-4.60	21.83	0.00	2.56
	Unskilled	Daily	241.70	170.83	130.00	175.00	225.00	188.06	132.50	175.00	-6.91	10.08	1.92	0.00
Carpenter														
	Skilled	Daily	331.94	193.89	200.00	216.67	316.67	234.86	200.00	222.22	-4.60	21.13	0.00	2.56
	Unskilled	Daily	241.70	160.00	150.00	175.00	225.00	189.44	150.00	175.00	-6.91	18.40	0.00	0.00
3 Labour														
	Male	Daily	153.06	106.11	100.00	104.44	153.33	133.06	107.50	105.42	0.18	25.39	7.50	0.93
	Female	Daily	133.33	91.67	100.00	96.11	133.33	112.78	107.50	99.44	0.00	23.03	7.50	3.47

KTM = Kathmandu BRT = Biratnagar BRJ = Birgunj BHR = Bhairahawa

Table 24
GOVERNMENT BUDGETARY OPERATION

	Rs. in million			
	2003/04	2004/05	2005/06	
			Budget Estimate	Revised Estimate
Revenue and Grants	71,763.9	83,266.2	98,947.5	86,785.7
<i>Revenue</i>	60,480.5	68,875.1	80,260.6	72,977.8*
Tax Revenue	48,173.0	54,104.8	63,850.0	59,963.4
Non-Tax Revenue ¹	12,307.5	14,770.3	16,410.6	13,014.4
<i>Foreign Grants</i>	11,283.4	14,391.2	18,686.9	13,807.9
Expenditure and Investment	76,797.2	87,779.4	111,527.9	97,346.9
<i>Expenditure</i>	78,592.7	89,027.1	112,473.9	96,438.1
Recurrent	55,552.1	61,686.4	75,850.0	69,067.0
Capital	23,040.6	27,340.7	36,623.9	27,371.2
<i>Loans and Investment, Net</i>	-1,795.5	-1,247.7	-946.0	908.8
Loans and Investment	55.0	0.0	610.0	1,431.0
Principal Recovery	1,850.5	1,247.7	1,556.0	522.2
Surplus (+) Deficit (-)	-5,033.3	-4,513.2	-12,580.4	-10,561.2
Source of Financing Deficits	5,033.3	4,513.2	12,580.4	10,561.2
<i>Internal Loans, Net</i>	578.8	1,358.0	4,586.5	4,604.0
Loans Received	5,607.8	8,938.1	11,850.0	11,850.0
Principal Repayments	5,029.0	7,580.1	7,263.5	7,246.0
<i>External Loans, Net</i>	1,863.2	3,312.9	7,993.9	2,457.0
Loans Received	7,629.0	9,266.1	14,531.6	9,416.6
Principal Repayments	5,765.8	5,953.2	6,537.7	6,959.6
Cash Balance (- Increase)	2,591.4	-157.7	0.0	3,500.2

1 Revenue receipts from principal repayment is not included.

* Actual revenue stood at Rs 72,282.1 million.

Source: Budget Speeches, Economic Survey and Expenditure Estimate (Red Book), Ministry of Finance, GON.

Table 25
REVENUE *

	2003/04	2004/05	Rs. in million	
			2005/06	
			Budget Estimate	Revised Estimate
Tax Revenue	48173.0	54104.8	63850.0	59963.4
Tax on External Trade	15554.8	15701.6	17050.0	15739.0
Import Duty ¹	14954.4	14888.3	16470.0	15073.0
Export Duty	527.1	697.9	500.0	597.0
Others	73.3	115.3	80.0	69.0
Commodity and Services Tax	20705.6	25331.3	31600.0	29824.8
VAT	14478.9	18885.4	23650.0	22824.8
Excise Duties	6226.7	6445.9	7950.0	7000.0
Income and property Transfer Tax	11912.6	13071.9	15200.0	14399.6
Corporate Income Tax	6816.9	7345.0	8341.9	7775.7
Government Corporation	2056.6	1332.4	1471.9	1371.6
Non-Government Corporation	4760.2	6012.6	6870.0	6404.1
Remuneration Tax	1391.2	1675.9	1800.0	1677.5
Investment and other Tax	1306.4	1445.4	1658.1	1546.4
House and Land Registration Tax	1697.5	1799.2	2500.0	2500.0
House Land and other Property Tax	0.0	0.0	0.0	0.0
Vehicle Tax	700.6	806.5	900.0	900.0
Non-Tax Revenue	12307.5	14770.3	16410.6	13014.4
Forest	674.1	553.7	550.0	421.0
Interest	1656.5	1466.6	1560.0	1324.7
Dividend	2661.1	4589.9	4321.0	3596.5
Departmental Receipts ²	648.1	712.8	890.0	923.6
Civil Administration ³	3377.4	3943.2	4284.3	4686.8
Miscellaneous ⁴	3290.3	3504.0	4805.3	2061.9
Total Revenue	60480.5	68875.1	80260.6	72977.8

* Amount of Principal recovery is not included.

1 Includes Imports Duties, Indian Excise Refund and Agriculture Improvement Duties.

2 Includes drinking water, irrigation, electricity, postal services, food and agriculture, education, transport and others.

3 Includes duties and fees and penalty, fines and forfeitures.

4 Includes royalty and sales of government property and donation and miscellaneous income.

Source: Budget Speeches, Ministry of Finance, GON.

Table 26
RECURRENT EXPENDITURE*

	Rs. in million			
	2002/03	2003/04	2004/05	2005/06
				Budget Estimate
General Administration and Constitutional Bodies	4,118.9	3,958.1	4,359.4	5,231.2
Constitutional Bodies	819.2	737.2	813.9	1,861.8
General Administration	3,299.7	3,220.9	3,545.5	3,369.4
Defence and Internal Security	12,058.0	12,659.4	15,429.4	16,523.6
Defence	6,168.3	6,629.6	8,580.3	9,007.1
Police & Jail	5,889.7	6,029.8	6,849.1	7,516.5
Social Services	18,886.9	20,808.5	23,208.8	29,690.3
Education	12,300.9	13,379.5	15,960.2	18,942.8
Health	3,492.7	3,826.4	4,273.0	6,061.8
Drinking Water	354.6	351.5	396.1	545.5
Local Development	1,286.8	1,687.2	1,509.1	1,958.1
Other Social Services	1,451.9	1,563.9	1,070.4	2,182.2
Economic Services	5,078.5	5,512.8	7,167.8	9,312.6
Agriculture	1,784.0	1,856.0	2,117.2	2,915.4
Irrigation	503.7	401.1	410.9	500.3
Land Reform & Cadastral Survey	315.0	336.9	354.9	689.0
Forest	1,271.4	1,323.7	1,582.1	1,721.3
Industry & Mining	364.9	498.0	491.8	537.9
Communication	69.7	86.7	1,060.2	1,094.1
Transport	303.3	297.1	316.9	405.2
Electricity	31.4	34.3	85.2	123.9
Other Economic Services	435.1	679.0	748.6	1,325.5
Miscellaneous	11,948.2	12,613.3	11,521.0	15,092.3
Interest Payments	6,621.8	6,543.9	6,218.0	7,415.9
Unclassified Expenditures	5,326.4	6,069.4	5,303.0	7,676.4
Total Recurrent Expenditures	52,090.5	55,552.1	61,686.4	75,850.0

* Loans and Investment as well as Principal repayment on external and internal loans is not included.

Source: Budget Speeches, Economic Survey, Ministry of Finance, GON.

Table 27
CAPITAL EXPENDITURE

	Rs. in million			
	2002/03	2003/04	2004/05	2005/06
				Budget
				Estimate
Economic Administration and Planning	148.8	210.4	389.4	594.1
Planning and Statistics	3.7	8.9	24.2	5.1
Constitutional Organs	16.8	36.9	38.0	346.0
General Administration	128.3	164.6	327.2	243.0
Defence and Internal Security	1,717.8	2,394.0	3,180.7	2,512.6
Defence	1,213.2	1,890.4	2,412.6	1,892.9
Police & Jail	504.6	503.6	768.1	619.7
Social Services	7,050.9	7,135.2	7,940.7	14,504.2
Education	940.7	1,003.4	1,260.4	2,106.3
Health	159.3	142.2	409.3	1,617.3
Drinking Water	1,669.9	2,065.8	1,440.0	4,608.3
Local Development	4,009.4	3,538.8	4,468.6	5,000.2
Other Social Services	271.6	385.0	362.4	1,172.0
Economic Services	12,561.0	13,129.0	15,394.9	18,689.9
Agriculture	187.0	160.2	217.5	892.6
Irrigation	1,840.9	2,070.9	1,921.5	3,147.2
Land Reform & Cadastral Survey	32.1	51.8	88.6	101.9
Forest	373.7	459.8	410.7	194.1
Industry & Mining	425.1	40.5	23.5	60.6
Communication	1,680.1	356.5	536.8	573.7
Transport	3,664.9	3,958.0	4,149.6	5,199.6
Electricity	3,881.6	4,746.2	7,219.1	6,956.2
Other Economic Services	475.6	1,285.1	827.6	1,564.0
Unclassified Expenditures	875.6	172.0	435.0	323.1
Capital Expenditure	22,354.1	23,040.6	27,340.7	36,623.9

Source: Budget Speech and Economic Survey, Ministry of Finance, GON.

Table 28
FOREIGN AID AND DEBT SERVICING

	Rs. in million			
	2003/04	2004/05	2005/06	
			Budget Estimate	Revised Estimate
Foreign Grants	11,283.4	14,391.2	18,686.9	13,807.9
Bilateral	8,947.2	9,104.3	12,660.3	8,087.4
Multilateral	2,336.2	5,286.9	6,026.6	5,720.5
Foreign Loans, net	1,863.2	3,312.9	7,064.1	2,457.0
<i>Foreign Loans</i>	<i>7,629.0</i>	<i>9,266.1</i>	<i>14,531.6</i>	<i>9,416.6</i>
Bilateral	66.0	126.5	289.8	65.2
Multilateral	7,563.0	9,139.7	14,241.9	9,351.4
<i>Principal Repayments</i>	<i>5,765.8</i>	<i>5,953.2</i>	<i>7,467.6</i>	<i>6,959.6</i>
Total Foreign Aid, net	13,146.6	17,704.1	25,750.9	16,264.9
Interest Payment	2,141.7	2,146.7	3,165.3	2,150.4

Source: Budget Speeches and Economic Survey, Ministry of Finance, GON.

Table 29
OUTSTANDING INTERNAL AND EXTERNAL
DEBT OF GON

	Rs. in million		
	2004	2005	2006 Revised Estimated
Internal Debts*	81,411.4	82,842.0	89,954.9
Central Bank	14,353.3	12,723.4	11,037.6
Commercial Banks	43,796.3	48,550.7	58,461.4
Financial Institutions ¹	9,677.8	10,287.5	9,301.1
Others	13,583.9	11,280.3	11,154.8
External Debts	232,779.3	219,641.9	231,220.0
Direct	232,777.5	219,641.4	231,220.0
Indirect	1.8	0.5	0.0
Total Debt	314,190.7	302,483.9	321,174.9

* Includes Treasury Bills, Development Bonds, National Savings Certificates, Special Bonds and Citizen Savings Certificates.

¹ Includes Agriculture Development Bank, Employees' Provident Funds, Citizen Investment Trust, Insurance Companies, Rural Development Banks, Nepal Development Bank and Financial Companies.

Source: Nepal Rastra Bank, Ministry of Finance and Financial Comptroller General Office (FCGO)

Table 30
OWNERSHIP PATTERNS OF GOVERNMENT BONDS*

	Rs. in million					
	Outstanding as at mid July					
	2004		2005		2006	
	Amount	Percent	Amount	Percent	Amount	Percent
Nepal Rastra Bank	4,548.9	14.2	1,799.6	5.7	1,828.3	6.8
Commercial Banks	7,642.0	23.9	9,049.1	28.8	7,215.6	26.7
Financial Institutions ¹	4,653.6	14.6	4,998.9	15.9	4,672.5	17.3
Provident Fund Corporation	4,334.2	13.6	5,088.6	16.2	4,228.6	15.7
Government Business Enterprises	380.8	1.2	300.3	1.0	230.0	0.9
Private Business Enterprises	444.1	1.4	358.4	1.1	418.5	1.6
Individuals	9,460.6	29.6	9,376.8	29.8	8,148.2	30.2
Non-profit Organisations	517.6	1.6	487.1	1.5	242.9	0.9
Total Debt	31,981.8	100.0	31,458.9	100.0	26,984.6	100.0

* Includes Development Bonds, National Savings Certificates and Special Bonds.

¹ Includes Financial Corporations, Insurance Companies, Nepal Development Bank, Rural Development Banks, Agricultural Development Bank, Citizen Investment Trust and Nepal Telecommunication Corporation.

Table 31
OWNERSHIP PATTERNS OF TREASURY BILLS

	Rs. in million					
	Outsanding as at mid-July					
	2004		2005		2006	
	Amount	Percent	Amount	Percent	Amount	Percent
Nepal Rastra Bank	9,804.4	19.8	10,923.8	21.3	9,209.3	14.6
Commercial Banks	36,154.3	73.1	39,501.6	76.9	51,245.8	81.4
Financial Institutions	690.0	1.4	200.0	0.4	400.0	0.6
Others	2,780.9	5.6	757.7	1.5	2,115.2	3.4
Total Debt	49,429.6	100.0	51,383.1	100.0	62,970.3	100.0

Table 32
FOREIGN ASSISTANCE

	Rs. in million				
	2003/04	2004/05	2005/06*	<u>Percent Change</u>	
				2004/05	2005/06
A. Foreign Grants	11,283.4	14,391.2	13,807.9	27.5	-4.1
Bilateral	8,947.2	9,104.3	8,087.4	1.8	-11.2
Multilateral	2,336.2	5,286.9	5,720.5	126.3	8.2
B. Foreign Loans	7,629.0	9,266.1	9,416.6	21.5	1.6
Bilateral	66.0	126.5	65.2	91.6	-48.5
Multilateral	7,563.0	9,139.7	9,351.4	20.8	2.3
Total (A+B)	18,912.4	23,657.3	23,224.5	25.1	-1.8

* Revised Estimate.

Source: Budget Speeches, Ministry of Finance, GON.

Table 33
DIRECTION OF FOREIGN TRADE*

	2003/04	2004/05 ^R	2005/06 ^P	Rs. in million	
				% Change	
				2004/05	2005/06
Total Exports	53,910.7	58,705.7	61,167.1	8.9	4.2
To India	30,777.1	38,916.9	41,012.6	26.4	5.4
To Other Countries	23,133.6	19,788.8	20,154.5	-14.5	1.8
Total Imports	136,277.1	149,473.6	175,108.0	9.7	17.1
From India	78,739.5	88,675.5	109,305.9	12.6	23.3
From Other Countries	57,537.6	60,798.1	65,802.1	5.7	8.2
Trade Balance	-82,366.4	-90,767.9	-113,940.9	10.2	25.5
With India	-47,962.4	-49,758.6	-68,293.3	3.7	37.2
With Other Countries	-34,404.0	-41,009.3	-45,647.6	19.2	11.3
Total Foreign Trade	190,187.8	208,179.3	236,275.1	9.5	13.5
With India	109,516.6	127,592.4	150,318.5	16.5	17.8
With Other Countries	80,671.2	80,586.9	85,956.6	-0.1	6.7

* On customs data basis

Table 34
FOREIGN TRADE*
(Monthly)

Months	2003/04			2004/05 ^R			2005/06 ^P		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
Jul/Aug	3,647.0	9,463.8	-5,816.8	4,558.5	11,124.2	-6,565.7	5,159.3	13,765.6	-8,606.3
Aug/Sep	4,715.9	11,650.4	-6,934.5	4,421.6	11,311.0	-6,889.4	5,334.2	14,202.2	-8,868.0
Sep/Oct	3,667.6	10,412.3	-6,744.7	4,744.2	12,680.7	-7,936.5	5,306.9	13,939.2	-8,632.3
Sep/Nov	3,973.3	10,275.7	-6,302.4	4,496.7	11,550.5	-7,053.8	5,066.7	14,592.4	-9,525.7
Nov/Dec	4,981.6	11,280.1	-6,298.5	5,691.2	12,846.2	-7,155.0	5,964.9	16,603.5	-10,638.6
Dec/Jan	5,249.1	10,610.6	-5,361.5	4,322.2	12,265.9	-7,943.7	5,674.3	14,814.6	-9,140.3
Jan/Feb	5,157.2	11,484.0	-6,326.8	4,870.5	10,187.3	-4,343.5	4,621.6	14,604.6	-9,983.0
Feb/Mar	4,727.8	11,329.1	-6,601.3	4,663.4	9,909.6	-3,935.0	6,186.5	14,960.0	-8,773.5
Mar/Apr	4,360.7	12,154.8	-7,794.1	4,895.8	13,102.9	-6,482.4	3,803.6	10,784.2	-6,980.6
Apr/May	4,659.3	11,847.1	-7,187.8	5,531.3	15,020.9	-7,483.3	3,292.8	12,122.0	-8,829.2
May/June	4,611.2	11,906.0	-7,294.8	5,266.8	13,590.0	-6,725.6	5,401.7	16,715.6	-11,313.9
June/July	4,160.0	13,863.2	-9,703.2	5,243.5	15,884.4	-10,640.9	5,354.6	18,004.1	-12,649.5
Annual	53,910.7	136,277.1	-82,366.4	58,705.7	149,473.6	-90,767.9	61,167.1	175,108.0	-113,940.9

* On customs data basis

Table 35
COMMODITYWISE CLASSIFICATION OF FOREIGN TRADE*

Standard International Trade Classification Description	Rs. in million					
	Exports			Imports		
	2003/04	2004/05 ^R	2005/06 ^P	2003/04	2004/05 ^R	2005/06 ^P
1. Food and Live Animals	6,276.9	6,993.5	7,463.2	8,554.0	9,820.7	13,548.7
2. Tobacco and Beverages	55.2	31.6	28.7	1,026.8	1,015.6	1,261.0
3. Crude Materials, Inedibles Except Fuels	714.3	881.6	1,289.6	10,550.6	11,207.0	11,180.0
4. Mineral Fuels and Lubricants	14.5	4.2	3.2	21,904.1	29,927.3	36,457.0
5. Animal and Vegetable Oils and Fats	3,375.7	5,070.3	4,254.9	8,634.4	6,016.3	10,205.1
6. Chemicals and Drugs	3,865.9	3,677.6	3,809.5	16,544.9	19,179.7	24,849.9
7. Manufactured Goods Classified Chiefly by Materials	23,601.7	28,590.6	28,997.2	36,510.5	37,047.4	42,573.8
8. Machinery and Transport Equipments	619.5	207.6	1,206.0	25,694.2	26,262.1	26,271.0
9. Miscellaneous Manufactured Articles	15,380.1	13,239.6	14,104.4	5,103.8	7,551.8	8,602.0
10. Commodity and Transactions not Classified According to Kind	6.9	9.1	10.4	1,753.8	1,445.7	159.5
Total	53,910.7	58,705.7	61,167.1	136,277.1	149,473.6	175,108.0

* On customs data basis.

Table 36

**COMMODITYWISE CLASSIFICATION OF FOREIGN TRADE
WITH INDIA***

Standard International Trade Classification Description	Exports			Imports			Rs. in million
	2003/04	2004/05 ^R	2005/06 ^P	2003/04	2004/04 ^R	2005/06 ^P	
1 Food and Live Animals	4,595.5	5,389.3	6,525.6	6,357.9	6,750.1	10,409.6	
2 Tobacco and Beverages	42.3	26.5	13.9	737.9	687.5	823.7	
3 Crude Materials, Inedibles Except Fuels	576.5	736.6	1,213.0	4,628.4	4,670.4	6,005.6	
4 Mineral Fuels and Lubricants	14.5	3.9	0.5	21,593.6	29,551.3	35,676.2	
5 Animals & Vegetable Oils & Fats	3,206.4	4,858.8	4,148.7	107.9	64.4	161.1	
6 Chemicals & Drugs	3,624.5	3,577.7	3,578.5	8,083.8	10,479.4	13,615.8	
7 Manufactured Goods Classified Chiefly by Materials	16,228.9	21,353.1	21,926.1	22,807.5	22,652.0	26,206.4	
8 Machinery & Transport Equipments	219.1	85.7	111.0	11,923.8	11,073.8	12,157.4	
9 Miscellaneous Manufactured Articles	2,262.5	2,876.2	3,484.9	2,156.3	2,714.8	4,241.4	
10 Commodity & Transaction not Classified According to Kind	6.9	9.1	10.4	342.4	31.8	8.7	
Total	30,777.1	38,916.9	41,012.6	78,739.5	88,675.5	109,305.9	

* On customs data basis.

Table 37

**COMMODITYWISE CLASSIFICATION OF FOREIGN TRADE
WITH OTHER COUNTRIES***

Standard International Trade Classification Description	Rs. in million					
	Exports			Imports		
	2003/04	2004/05 ^R	2004/06 ^P	2003/04	2004/05 ^R	2005/06 ^P
1 Food and Live Animals	1,681.4	1,604.2	937.6	2,196.1	3,070.6	3,139.1
2 Tobacco and Beverages	12.9	5.1	14.8	288.9	328.1	437.3
3 Crude Materials, Inedibles Except Fuels	137.8	145.0	76.6	5,922.2	6,536.6	5,174.4
4 Mineral Fuels and Lubricants	0.0	0.3	2.7	310.5	376.0	780.8
5 Animals & Vegetable Oils & Fats	169.3	211.5	106.2	8,526.5	5,951.9	10,044.0
6 Chemicals & Drugs	241.4	99.9	231.0	8,461.1	8,700.3	11,234.1
7 Manufactured Goods Classified Chiefly by Materials	7,372.8	7,237.5	7,071.1	13,703.0	14,395.4	16,367.4
8 Machinery & Transport Equipments	400.4	121.9	1,095.0	13,770.4	15,188.3	14,113.6
9 Miscellaneous Manufactured Articles	13,117.6	10,363.4	10,619.5	2,947.5	4,837.0	4,360.6
10 Commodity & Transaction not Classified According to Kind	0.0	0.0	0.0	1,411.4	1,413.9	150.8
Total	23,133.6	19,788.8	20,154.5	57,537.6	60,798.1	65,802.1

* On customs data basis.

Table 38
EXPORT OF MAJOR COMMODITIES TO INDIA*

		Rs. in million		
		2003/04	2004/05 ^R	2005/06 ^P
Total		25,221.5	31,112.0	30,441.3
1	Aluminium Section	381.1	879.2	893.7
2	Brans	40.5	57.1	100.9
3	Cardamom	451.0	607.0	608.1
4	Catechue	162.5	438.7	376.3
5	Cattlefeed	550.9	547.4	447.2
6	Chemicals	610.0	1,407.5	1,057.5
7	Copper Wire Rod	200.8	530.1	305.8
8	G.I. pipe	556.3	424.0	519.2
9	Ghee (Vegetable)	2,959.0	4,635.9	3,861.7
10	Ghee(Clarified)	76.5	83.1	80.9
11	Ginger	287.1	161.0	260.7
12	Herbs	91.5	132.4	132.9
13	Juice	786.8	1,091.3	1,139.6
14	Jute Goods	1,882.6	2,693.5	2,636.8
15	M.S. Pipe	851.8	316.6	105.7
16	Medicine (Ayurvedic)	289.9	205.6	291.6
17	Noodles	259.7	369.3	414.7
18	Oil Cakes	324.1	317.1	268.1
19	Paper	266.3	169.7	95.4
20	Particle Board	283.5	335.3	227.5
21	Pashmina	427.7	341.5	210.7
25	Plastic Utensils	1,192.4	1,361.6	808.1
26	Polyester Yarn	1,114.5	1,896.3	3,475.1
27	Pulses	579.1	667.1	637.0
28	Readymade Garment	626.7	365.9	1,137.3
29	Ricebran Oil	194.7	199.0	112.6
30	Rosin	173.6	256.6	346.5
31	Shoes and Sandles	107.7	235.9	237.8
32	Skin	332.3	338.6	333.9
33	Soap	539.6	368.0	363.0
34	Stone and Sand	209.1	249.1	158.5
35	Tarpentine	19.3	52.7	100.3
36	Textiles*	1,780.5	2,996.6	2,154.6
37	Thread	1,637.4	2,213.7	1,897.7
38	Tooth Paste	1,478.8	1,283.0	730.8
39	Wire	710.9	1,221.4	1,504.1
40	Zinc sheet	2,785.3	1,663.2	2,409.0

* On customs data basis.

Table 39
EXPORT OF MAJOR COMMODITIES TO
OTHER COUNTRIES*

		Rs. in million		
		2003/04	2004/05 ^R	2005/06 ^P
Total		18,357.2	14,824.2	15,059.6
1	Handicraft (Metal and Wooden)	626.4	644.2	332.7
2	Herbs	48.3	54.7	12.7
3	Nepalese Paper & Paper Products	279.6	239.8	256.3
4	Nigerseed	8.5	0.0	7.0
5	Pashmina	1,064.2	1,049.8	1,576.1
6	Pulses	280.7	106.5	191.0
7	Readymade Garments	9,550.0	6,124.6	6,170.0
8	Readymade Leather Goods	30.6	30.2	14.4
9	Silverware and Jewelleries	368.7	363.2	282.0
10	Tanned Skin	309.0	235.8	285.8
11	Tea	113.7	106.7	106.7
12	Woolen Carpet	5,677.5	5,868.7	5,824.9

* On customs data basis.

Table 40
IMPORT OF MAJOR COMMODITIES FROM INDIA*

		Rs. in million		
		2003/04	2004/05 ^R	2005/06 ^P
Total		62,668.8	71,494.7	79,343.0
1	Agri. Equip.& Parts	497.5	431.3	663.3
2	Aluminium Ingot, Billet & Rod	539.9	443.2	259.9
3	Baby Food & Milk Products	428.3	492.7	566.6
4	Books and Magazines	331.3	338.3	315.8
5	Cement	2,318.9	2,457.4	1,856.6
6	Chemical Fertilizer	563.0	778.1	1,052.1
7	Chemicals	2,563.6	2,395.2	3,239.3
8	Coal	782.7	1,401.8	1,185.6
9	Coldrolled Sheet in Coil	3,332.9	4,084.5	797.7
10	Cosmetics	422.6	512.2	869.2
11	Cuminseeds and Peppers	225.0	207.4	310.8
12	Electrical Equipment	1,106.3	1,237.1	1,561.3
13	Enamel & Other Paints	124.6	242.4	210.5
14	Fruits	336.8	380.0	606.4
15	Glass Sheet and G.Wares	449.6	617.0	474.8
16	Hotrolled Sheet in Coil	2,059.9	568.6	1,144.8
17	Insecticides	144.6	149.0	267.1
18	Live Animals	403.4	346.0	237.3
19	M.S. Billet	4,201.5	3,393.8	3,883.4
20	M.S. Wire Rod	1,339.3	1,536.9	1,065.2
21	Medicine	3,340.9	3,435.8	4,388.0
22	Other Machinery & Parts	3,295.3	3,955.6	3,471.5
23	Other Stationary Goods	90.0	163.7	374.7
24	Paper	410.1	741.6	600.3
25	Petroleum Products	20,169.5	26,053.5	33,655.9
26	Pipe and Pipe Fittings	129.8	367.6	260.4
27	Plastic Utensils	187.1	495.7	264.9
28	Radio, TV, Deck & Parts	92.1	144.2	498.0
29	Readymade Garments	489.4	809.3	1,026.7
30	Rice	555.5	655.0	2,157.0
31	Salt	607.3	113.0	238.1
32	Sanitaryware	128.4	296.9	219.8
33	Sugar	12.8	60.4	222.8
34	Textiles	3,275.6	2,094.7	1,965.5
35	Thread	1,003.9	2,820.8	2,158.5
36	Tobacco	659.9	569.7	504.0
37	Tyre Tubes,Flapes	246.1	374.2	303.3
38	Vegetables	738.4	899.7	968.2
39	Vehicles & Spare Parts	4,948.2	5,357.1	5,203.8
40	Wire Products	116.8	73.3	293.9

* On customs data basis.

Table 41
IMPORT OF MAJOR COMMODITIES FROM
OTHER COUNTRIES*

		Rs. in million		
		2003/04	2004/05 ^R	2005/06 ^P
Total		40,427.1	44,288.4	45,172.6
1	Aircraft Spareparts	2,301.1	1,204.9	1,071.3
2	Betelnut	768.0	551.1	806.7
3	Chemical Fertilizer	1,281.9	169.1	389.1
4	Computer Parts	1,274.1	1,122.1	1,320.4
5	Copper Wire Rod, Scrapes & Sheets	968.8	1,249.2	2,088.8
6	Cosmetic Goods	290.2	238.6	289.2
7	Crude Palm Oil	5,277.0	3,581.9	4,051.1
8	Crude Soyabean Oil	2,079.1	1,925.4	1,572.9
9	Edible Oil	416.6	719.3	456.2
10	Electrical Goods	1,616.3	1,299.7	2,580.3
11	M.S. Billet	68.2	499.1	916.7
12	M.S. Wire Rod	0.0	367.1	545.8
13	Medical Equip. & Tools	612.2	976.2	703.1
14	Medicine	583.1	702.4	1,107.0
15	Office Equip. & Stationary	209.8	214.4	169.1
16	Other Machinery & Parts	2,460.1	2,777.5	2,798.8
17	Other Stationaries	113.1	131.3	315.5
18	P.V.C. Compound	303.2	242.8	279.1
19	Palm Oil	308.5	3,035.0	2,788.4
20	Parafin Wax	61.8	39.7	147.0
21	Petroleum Products *	291.1	241.0	547.9
22	Pipe & Pipe Fittings	11.2	4.2	226.2
23	Polythene Granules	2,834.3	2,206.7	3,696.7
24	Raw Wool	2,017.8	1,841.1	1,155.6
25	Readymade Garments	493.5	1,797.2	609.7
26	Shoes and Sandals	615.9	1,188.5	171.8
27	Small Cardamom	421.2	229.9	209.5
28	Steel Rod & Sheet	522.0	10.3	158.0
29	Storage Battery	94.8	181.9	130.2
30	Synthetic Carpet	135.0	155.3	141.6
31	Telecommunication Equip. Parts	2,483.9	2,509.5	1,685.9
32	Tello	135.7	207.4	316.0
33	Textile Dyes	11.4	1,328.9	2,095.9
34	Textiles	2,752.1	3,070.8	2,264.4
35	Threads	1,977.5	3,090.5	1,274.8
36	Transport Equip. & Parts	1,625.6	1,907.5	2,124.4
37	Tyre, Tube & Flaps	194.9	135.4	158.3
38	Video Television & Parts	1,099.4	1,481.1	651.0
39	Writing & Printing Paper	452.7	419.3	831.1
40	Zinc Ingot	1,264.0	1,235.1	2,327.1

* On customs data basis.

Table 42
ITEMS IMPORTABLE FROM INDIA ON PAYMENT OF
CONVERTIBLE FOREIGN EXCHANGE
(As at Mid-July 2006)

S.N.	Harmonized Section	Harmonized Code No.	Name of Items
1	13.01	13.01.02.00	Extracts
2	21.06	21.06.90.40	Soft Drink Concentrate
3	27.10	27.10.19.11	Furnace Oil
4	27.13	27.13.20.00	Bitumen
5	28.00	28.00.00.00	All industrial chemicals mentioned in this section (except chemicals used for the production of medicine for human being)
6	28.03	28.03.00.00	Carbon Black
7	29.01	29.01.10.00	L.L.P. (Light Liquid Paraffin)
8	29.02	29.02.20.00	Benzene / Toluene
9	29.05	29.05.11.00	Methanol
10	29.05	29.05.16.00	2-Ethyl Hexanol
11	29.05	29.05.31.00	Ethylene Glycol
12	29.05	29.05.44.00	Sorbitol
13	29.15	29.15.00.00	Methylene Salicylate
14	29.15	29.15.21.00	Acetic Acid
15	29.15	29.15.32.00	Vinyl Acetate Monomer
16	29.16	29.16.12.00	Buty Acrylate Monomer / 2 Ethyl Hexyls Acrylate
17	29.17	29.17.34.00	Dibutyl Phthalate
18	29.17	29.17.35.00	Phthalic Anhydride
19	29.17	29.17.36.00	Terephthalic Acid
20	29.22	29.22.00.00	Oxygen Function Amino-Compounds
21	29.24	29.24.00.00	Carboxamide-Function Compounds
22	29.33	29.33.00.00	Heterocyclic compound
23	29.34	29.34.00.00	Nucleic Acids
24	29.41	29.41.00.00	Antibiotics
25	32.15	32.15.00.00	Printing Ink
26	33.02	33.02.90.00	Flavour (raw material used in toothpaste), Odoriferous Substances/Perfume
27	34.02	34.02.90.10	LABSA (raw material used in detergent)
28	38.17	38.17.10.00	Mixed Alkyl benzenes
29	38.23	38.23.11.00	Stearic Acid
30	38.23	38.23.19.00	Palm Stearin DFA / Palm Kernal DFA
31	39.01	39.01.10.00, 39.01.20.00	Polyethylene
32	39.02	39.02.10.00	Polypropylene
33	39.03	39.03.19.00	Polystyrene
34	39.05	39.05.30.00	Polyvinyl Alcohol
35	39.07	39.07.60.00	Plastic Pet Chips / Pet Resin
36	39.11	39.11.90.00	PVC Resin
37	39.20	39.20.00.00	Polethylene
38	39.20	39.20.20.00	Polypropylene Films/Noodle Strapper
39	39.20	39.20.59.00	Printed Laminated Web
40	39.20	39.20.59.00	Seasoning Wrapper
41	40.01	40.01.00.00	Natural Rubber

S.N.	Harmonized Section	Harmonized Code No.	Name of Items
42	40.02	40.02.00.00	Synthetic Rubber
43	48.01	48.01.00.00	News Print Paper
44	48.02	48.02.00.00	Papers
45	48.06	48.06.00.00	Papers
46	48.10	48.10.00.00	Paper
47	50.04	50.04.00.00	Silk Yarn
48	50.05	50.05.00.00	Silk Yarn
49	51.06	51.06.00.00	Woolen yarn (yarn of carded wool, except hosiery)
50	51.07	51.07.00.00	Woolen yarn (yarn of Combed wool, except hosiery)
51	51.08	51.08.00.00	Woolen yarn (yarn of fine animal hair, except hosiery)
52	52.01	52.01.00.00	Cotton
53	52.05 and 52.06	52.05.11.00 to 52.05.14.00 and 52.06.11.00 to 52.06.14.00	Cotton yarn
54	54.02	54.02.42.00	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	54.02	54.02.49.00	Synthetic Filament Yarn
56	54.03, 55.9, 55.10	54.03.00.00, 55.9.00.00 and 55.10.00.00	Artificial yarn (except hosiery)
57	55.01, 55.02, 55.03, 55.04, 55.06 and 55.07	55.01.00.00, 55.02.00.00, 55.03.00.00, 55.04.00.00, 55.06.00.00 and 55.07.00.00	Artificial fiber (human made)
58	55.03	55.03.20.00	Polyster fiber
59	55.04	55.04.10.00	Viscose Rayon (fiber)
60	59.02	59.02.00.00	Tyre cord fabric
61	70.10	70.10.90.00	Carboys, Bottles, Plasks, Jar, Pots.
62	72.03	72.03.90.00	Sponge Iron
63	72.04	72.04.49.00	M. S. Scrap
64	72.06	72.06.00.00	Iron Ingots
65	72.07	72.07.00.00	Mild steel billet
66	36.00, 37.00, 38.00, 39.00, 51.00 and 72.08	36.00.00.00, 37.00.00.00, 38.00.00.00, 39.00.00.00, 51.00.00.00, 72.08.52.00, 72.08.51.00 and 72.08.52.00	Hot rolled sheet in coil and not in coil

Table 43
SUMMARY OF BALANCE OF PAYMENTS

Particulars	Rs. in million		
	2003/04	2004/05 ^R	2005/06 ^P
A. Current Account	14,598.0	11,544.6	13,832.8
Goods: Exports f.o.b.	55,228.3	59,956.1	62,569.5
Oil	0.0	0.0	0.0
Other	55,228.3	59,956.1	62,569.5
Goods: Imports f.o.b.	-132,909.9	-145,718.2	-172,891.1
Oil	-20,167.3	-26,653.6	-33,655.9
Other	-112,742.6	-119,064.6	-139,235.2
<i>Balance on Goods</i>	-77,681.6	-85,762.1	-110,321.6
<i>Services: Net</i>	9,074.9	-2,034.2	-6,777.0
Services: credit	34,315.9	26,001.9	26,438.8
Travel	18,147.4	10,463.8	9,531.3
Government n.I.e.	7,143.9	6,804.9	7,435.5
Other	9,024.6	8,733.2	9,472.0
Services: debit	-25,241.0	-28,036.1	-33,215.8
Transportation	-9,382.1	-10,602.2	-12,650.5
Travel	-10,021.5	-9,691.9	-11,929.9
Other	-5,837.4	-7,742.0	-8,635.4
<i>Balance on Goods and Services</i>	-68,606.7	-87,796.3	-117,098.6
<i>Income: Net</i>	-1,683.9	1,636.5	4,943.4
Income: credit	3,841.5	7,751.6	11,422.9
Income: debit	-5,525.4	-6,115.1	-6,479.5
<i>Balance on Goods, Services and Income</i>	-70,290.6	-86,159.8	-112,155.2
<i>Transfers: Net</i>	84,888.6	97,704.4	125,988.0
Current transfers: credit	89,161.8	101,310.1	130,703.4
Grants	19,557.8	21,071.9	18,845.4
Workers' remittances	58,587.6	65,541.2	97,536.2
Pensions	7,906.2	12,502.2	12,007.3
Other	3,110.2	2,194.8	2,314.5
Current transfers: debit	-4,273.2	-3,605.7	-4,715.4
B. Capital Account (Capital Transfer)	1,452.2	1,573.6	3,107.0
<i>Total, Groups A plus B</i>	16,050.2	13,118.2	16,939.8
C. Financial Account (Excluding Group E)	-21,540.1	-25,536.9	3,189.2
Direct investment in Nepal	0.0	136.0	-469.7
Portfolio Investment	0.0	0.0	0.0
Other investment: assets	-32,591.2	-21,863.2	-13,175.3
Trade credits	-2,247.6	-323.8	-2,194.3
Other	-30,343.6	-21,539.4	-10,981.0
Other investment: liabilities	11,051.1	-3,809.7	16,834.2
Trade credits	3,629.8	-4,489.0	12,906.2
Loans	3,325.2	744.4	533.3
General Government	3,479.1	1,300.4	703.7

Particulars	2003/04	2004/05 ^R	2005/06 ^P
Drawings	9,244.7	7,253.7	7,691.0
Repayments	-5,765.6	-5,953.3	-6,987.3
Other sectors	-153.9	-556.0	-170.4
Currency and deposits	4,096.1	-65.1	3,394.7
Nepal Rastra Bank	-77.4	46.2	-116.5
Deposit money banks	4,173.5	-111.3	3,511.2
Other liabilities	0.0	0.0	0.0
Total, Group A through C	-5,489.9	-12,418.7	20,129.0
D. Miscellaneous Items, Net	25,591.2	18,095.7	8,964.3
Total, Group A through D	20,101.3	5,677.0	29,093.3
E. Reserves and Related Items	-20,101.3	-5,677.0	-29,093.3
Reserve assets	-20,658.0	-6,462.2	-29,093.3
Nepal Rastra Bank	-19,507.8	-3,251.3	-21,398.1
Deposit money banks	-1,150.2	-3,210.9	-7,695.2
Use of Fund Credit and Loans	556.7	785.2	0.0
Changes in reserve net (- increase)	-16,005.2	-5,742.1	-25,698.6

Table 44
RECEIPT AND EXPENDITURE OF CONVERTIBLE
FOREIGN EXCHANGE*

	Rs. in million		
	2003/04	2004/05	2005/06
Income	120,643.0	123,268.4	157,297.3
Services	71,594.7	77,493.8	109,764.3
Remittances	56,629.7	61,784.7	92,748.7
Gorkha Remittances	4,464.7	5,012.8	5,231.2
Tourist Expenditure	12,337.4	11,814.9	11,710.9
Interest Receipts	2,245.3	3,284.2	4,814.9
Others	382.3	610.1	489.8
Merchandise Exports	22,489.6	20,851.9	21,738.5
Diplomatic Mission	4,241.8	3,505.2	5,281.5
Foreign Aid	19,823.0	20,397.5	16,713.5
Loan	9,101.5	6,020.5	7,351.8
Miscellaneous	2,493.9	1,020.0	3,799.5
Expenditure	98,677.1	108,931.7	135,184.9
Services	10,025.4	14,449.7	16,544.5
Interest Payments	2,035.2	2,089.3	1,879.8
Others	7,990.2	12,360.3	14,664.7
Amortization	4,812.1	5,285.3	5,244.5
Merchandise Imports	71,494.9	63,086.7	67,684.3
Diplomatic Mission	716.5	621.5	649.8
Miscellaneous	11,628.2	25,488.5	45,061.9
Surplus (+) Deficit (-)	21,965.9	14,336.7	22,112.3

* Data based on foreign exchange record of Nepal Rastra Bank

Note: Figures of some heads, sub-heads may not tally with the published figures in previous year due to some changes made in composition of respective heads and sub-heads

Table 45
FOREIGN ASSETS AND LIABILITIES OF
THE BANKING SYSTEM

	Rs. in million		
	2004	Mid-July 2005	2006
A. Monetary Authorities			
A.1. Foreign Assets	109,076.8	105,444.2	133,130.0
Gold	478.3	383.4	405.0
IMF Gold Tranche	627.6	0.0	0.0
SDRs	55.0	637.1	663.7
Foreign Exchange	107,915.9	104,423.7	132,061.3
Convertible	96,235.9	100,823.6	124,240.9
Inconvertible	11,680.0	3,600.1	7,820.4
A.2. Foreign Liabilities	865.3	1,590.0	1,566.6
A.3. Net Foreign Assets (A1-A2)	108,211.5	103,854.2	131,563.4
B. Commercial Banks			
B.1. Foreign Exchange	22,289.2	25,472.7	33,065.4
Convertible	20,709.1	23,154.9	31,790.7
Inconvertible	1,580.1	2,317.8	1,274.7
B.2. Total Liabilities	21,696.1	21,584.8	25,096.0
B.3. Net Foreign Assets	593.1	3,887.9	7,969.4
C. Banking System (A + B)			
C.1. Foreign Assets	131,366.0	130,916.9	166,195.4
Gold, IMF Gold Tranche, SDRs	1,160.9	1,020.5	1,068.7
Foreign Exchange	130,205.1	129,896.4	165,126.7
Convertible	116,945.0	123,978.5	156,031.6
Inconvertible	13,260.1	5,917.9	9,095.1
C.2. Foreign Liabilities	22,561.4	23,174.8	26,662.6
C.3. Net Foreign Assets	108,804.6	107,742.1	139,532.8

Table 46
GROSS OFFICIAL FOREIGN ASSETS*
(Monthly)

Mid-month	Rs. in million		
	2003/04	2004/05	2005/06
August	86,510.8	105,877.5	105,729.1
September	85,653.9	106,012.6	104,725.4
October	87,496.8	108,573.5	104,920.1
November	89,009.8	108,293.3	110,477.2
December	90,975.4	105,439.0	111,411.3
January	102,248.4	108,861.0	112,848.9
February	102,798.9	105,652.5	113,640.6
March	103,309.9	106,974.2	114,444.1
April	102,741.8	108,930.9	116,116.1
May	103,361.1	108,313.6	122,580.5
June	106,882.3	106,833.2	129,056.9
July	109,072.8	105,444.2	133,130.0

* Include gold bullion and coins, IMF Reserve Tranche, SDRs and foreign exchange of Monetary Authority.

Table 47
INTERVENTION IN THE FOREIGN EXCHANGE MARKET

US \$ in million						
Purchased			Sold			
Date	Rate (Rs.)	Amount	Date	Rate (Rs.)	Amount	
Jul 20, 2005	70.61	3.8	Jul 18, 2005	70.64	7.4	
Jul 29, 2005	70.53	8.6	Dec 29, 2005	73.19	1.8	
Aug 4, 2005	70.51	6.1				
Aug 8, 2005	70.51	5.6				
Aug 22, 2005	70.51	10.1				
Aug 30, 2005	70.98	3.1				
Sep 6, 2005	71.02	17.3				
Sep 19, 2005	71.16	14.0				
Sep 22, 2005	71.16	7.1				
Sep 30, 2005	71.41	14.3				
Oct 7, 2005	71.66	17.6				
Oct 24, 2005	73.10	28.0				
Oct 28, 2005	72.81	13.3				
Nov 10, 2005	73.89	18.0				
Nov 14, 2005	73.91	20.1				
Nov 15, 2005	73.68	5.0				
Nov 22, 2005	73.81	6.9				
Nov 25, 2005	73.81	12.6				
Dec 6, 2005	74.51	1.0				
Dec 8, 2005	74.51	12.3				
Dec 13, 2005	74.69	19.0				
Dec 15, 2005	74.01	13.2				
Dec 20, 2005	73.06	17.5				
Jan 6, 2006	72.01	15.3				
Jan 10, 2006	71.51	18.8				
Jan 13, 2006	71.26	10.7				
Jan 24, 2006	71.12	6.4				
Jan 27, 2006	71.35	9.8				
Jan 31, 2006	71.16	7.9				
Feb 7, 2006	71.25	14.0				
Feb 10, 2006	71.26	3.1				
Feb 14, 2006	71.26	2.7				

Purchased			Sold		
Date	Rate (Rs.)	Amount	Date	Rate (Rs.)	Amount
Feb 16, 2006	71.26	9.1			
Feb 21, 2006	71.51	10.9			
Feb 27, 2006	71.66	19.0			
Mar 1, 2006	71.66	5.2			
Mar 3, 2006	71.41	9.9			
Mar 8, 2006	71.41	9.3			
Mar 13, 2006	71.66	7.5			
Mar 16, 2006	71.54	18.6			
Mar 22, 2006	71.51	9.5			
Mar 30, 2006	71.91	5.5			
Apr 4, 2006	71.91	17.10			
Apr 7, 2006	71.91	4.00			
Apr 17, 2006	72.79	22.95			
Apr 28, 2006	72.51	11.5			
May 3, 2006	72.42	30.7			
May 10, 2006	72.21	4.1			
May 15, 2006	72.44	21.9			
May 18, 2006	73.01	25.3			
May 25, 2006	73.32	18.2			
May 30, 2006	73.56	2.4			
Jun 1, 2006	74.31	16.5			
Jun 6, 2006	73.41	13.7			
Jun 8, 2006	73.56	17.5			
Jun 13, 2006	73.63	17.5			
Jun 16, 2006	73.61	11.6			
Jun 20, 2006	73.6	9.9			
Jun 26, 2006	73.96	5.8			
Jun 27, 2006	74.21	2.7			
Jun 29, 2006	74.21	0.1			
Jun 30, 2006	74.29	21.3			
Jul 12, 2006	73.81	11.3			
Jul 13, 2006	74.01	16.2			

769.9

9.2

Table 48
FOREIGN LOAN AGREEMENTS
(Date and Purpose/Projectwise)

Rs. in million				
S.N.	Date of Agreement Signed	Donor	Amount	Name of the Project/Purpose
		Agency/ Govt.		
1	December 21, 2005	OPEC Fund	506.1	Community - Managed Irrigated Agriculture Sector Project
2	December 23, 2005	ADB	1419.3	Community - Managed Irrigated Agriculture Sector Project
3	June 9, 2006	ADB	734.5	Gender Equality and Empowerment of Women Project
Total Amount			2659.9	

Source: Ministry of Finance, GON.

Table 49
FOREIGN GRANT AGREEMENTS
(Date and Purpose / Projectwise)

				Rs. in million
S. N.	Date of Agreement Signed	Donor Agency/ Govt.	Amount	Name of Project / Purpose
1	July 29, 2005	Switzerland	286.2	Nepal Swiss Community Forestry Project Phase V
2	July 29, 2005	USA	103.3	Increased Private Sector Participation in Environmentally and Socially Sustainable Hydropower Development
3	July 29, 2005	USA	279.7	Strengthened Governance of Natural Resources and Selected Institutions
4	July 29, 2005	USA	65.4	Increased Sustainable Production and Sales of Forest and High-value Agricultural Products
5	July 29, 2005	USA	201.7	Promoting Peace through Improved Governance and Incomes in Targeted Areas
6	July 29, 2005	USA	846.1	Reduced Fertility and Protected Health of Nepalese Families
7	August 1, 2005	World Bank	2248.6	Rural Access Improvement and Decentralization Project
8	August 1, 2005	World Bank	210.8	Economic Reform Technical Assistance Project (ERTA)
9	August 3, 2005	India	5060.0	Development of Infrastructures at Four Border Check Points along Nepal-India Border
	August 15, 2005	China	864.1	Budgetary Support
10	August 16, 2005	Japan	372.4	Construction of Primary Schools
11	August 31, 2005	UNDP	918.8	Western Terai Landscape Complex Project
12	August 31, 2005	ADB	48.6	Reaching the Most Disadvantaged Groups in Mainstream Rural Development
13	October 31, 2005	Finland	160.4	Strengthening Environmental Administration & Management at Local Level
14	November 7, 2005	ADB	28.0	Operationalization of Managing for Development Results in Nepal
15	November 18, 2005	Switzerland	48.9	Vertical Shaft Brick Kiln Technology Transfer Project Phase III
16	December 7, 2005	Japan	691.3	Improvement of Water Supply Facilities in Urban and Semi-urban Centers
17	January 31, 2006	ADB	54.0	Regional Development Strategy
18	January 31, 2006	Germany	1083.98	Middle Marsyangdi Hydroelectric Project
19	January 31, 2006	Germany	258.1	Basic Health Program
20	January 31, 2006	Germany	43.0	Neighborhood Support Program
17	February 2, 2006	Germany	167.5	Rural Finance Nepal
18	March 16, 2006	China	180.0	Economic and Technical Cooperation
19	March 23, 2006	Switzerland	115.5	Rural Health Development Project (RHDP)
20	May 23, 2006	India	116.0	Control of Goitre and Iodine Deficiency Disorders in Nepal for the year 2006-07
21	May 31, 2006	Japan	178.5	Food Aid
22	June 15, 2006	Germany	771.5	Poverty Alleviation Program in Selected Rural Areas
23	June 15, 2006	Germany	462.0	Urban Development through Local Efforts
24	June 29, 2006	India	2400	Small Scale Projects
Total Amount			18264.3	

Table 50
COMMITMENT OF FOREIGN AID
(Donorwise Classification)

		Rs. in million		
S.No.	Sector	Grant	Loan	Total
A. Bilateral				
1	China	1,044.1	0.0	1,044.1
2	Finland	160.4	0.0	160.4
2	Germany	2,786.1	0.0	2,786.1
3	India	7,576.0	0.0	7,576.0
4	Japan	1,242.2	0.0	1,242.2
5	Switzerland	450.6	0.0	450.6
6	USA	1,496.0	0.0	1,496.0
Sub Total (A)		14,755.5	0.0	14,755.5
B. Mulilateral				
1	ADB	130.6	2,153.8	2,284.5
2	OPEC Fund	0.0	506.1	506.1
3	UNDP	918.8	0.0	918.8
4	World Bank	2,459.4	0.0	2,459.4
Sub Total (B)		3,508.9	2,659.9	6,168.8
Grand Total (A+B)		18,264.3	2,659.9	20,924.2

Source: Ministry of Finance, GON.

Table 51
SDR HOLDING TRANSACTIONS WITH IMF
(As at Mid-July, 2006)

Date	Description	Debit	In SDRs
			Credit
Aug 4, 2005	Burden Share Refund	14.0	-
Aug 9, 2005	Interest	39,361.0	-
Aug 9, 2005	Allocation Charges	-	51,395.0
Nov 13, 2005	Interest	42,445.0	-
Nov 13, 2005	Allocation Charges	-	55,530.0
Jan 2, 2006	Interest on PRGF	-	35,552.0
Feb 9, 2006	Interest	47,412.0	-
Feb 9, 2006	Allocation Charges	-	62,288.0
Feb 20, 2006	Remuneration	188.0	-
May 4, 2006	Assesment charge	-	454.0
May 8, 2006	Interest	51,120.0	-
May 8, 2006	Allocation Charges	-	67,568.0
May 23, 2006	Remuneration	142.0	-
Jul 3, 2006	Interest on PRGF	-	35,552.0
Total		180,682.0	308,339.0

Table 52
LIABILITY TO IMF

Rs. in million
(SDR in million)

	Mid July		
	2004	2005	2006
1. Standby Credit	Nil	Nil	Nil
2. IMF Trust Fund	Nil	Nil	Nil
3. SAF	Nil	Nil	Nil
4. ESAF	Nil	Nil	Nil
5. PRGF	784.39	1463.6	1561.17
	(7.13)	(14.3)	(14.3)
Total	784.39	1463.6	1561.17
	(7.13)	(14.3)	(14.3)

Table 53
TRANSACTION UNDER ASIAN
CLEARING UNION*

	Rs. in million (US Dollar in million)		
	2004#	2005##	2006###
Total Exports	400.4 (5.44)	364.3 (5.10)	467.1 (6.42)
Total Imports	817.1 (11.10)	625.7 (8.76)	701.3 (9.64)
Balance	-416.7 (-5.66)	-261.4 (-3.66)	-234.2 (-3.22)

* Data based on calendar year (January-December)

At the annual average middle rate of Rs 73.61 per US dollar

At the annual average middle rate of Rs 71.43 per US dollar

At the annual average middle rate of Rs 72.77 per US dollar

Table 54

MONETARY SURVEY

Monetary aggregates	Rs. in million									
	2004		2005		2006		2004/05		2005/06	
	Jul	Jul	Jul	Jul ^P	Amount	Percent	Amount	Percent		
1. Foreign Assets, Net	108,804.6	107,742.1	139,532.8	5,742.2 ^{1/}	5.3	25,698.5 ^{2/}	23.9			
1.1. Foreign Assets	131,366.0	130,916.8	166,195.4	-49.2	-0.3	35,278.6	26.9			
1.2 Foreign Liabilities	21,174.6	21,557.2	25,088.2	382.5	1.8	3,531.0	16.4			
1.3 Other Foreign Liabilities	1,386.7	1,617.6	1,574.4	230.8	16.6	-43.2	-2.7			
2. Net Domestic Assets	168,501.2	192,697.9	207,733.3	17,391.8 ^{1/}	10.3	21,127.7 ^{2/}	11.0			
2.1. Domestic Credit	246,171.8	280,240.4	302,069.3	34,068.6	13.8	21,828.9	7.8			
<i>Domestic Credit*</i>	246,171.8	280,240.4	313,115.9	34,068.6	13.8	32,875.3	11.7			
a. Net Claims on Govt.	57,396.6	63,894.5	70,567.4	6,497.9	11.3	6,672.9	10.4			
i. Claims on Govt.	58,149.6	63,894.5	70,567.4	5,744.9	9.9	6,672.9	10.4			
ii. Govt. Deposits	753.0	0.0	0.0	-753.0	-100.0	0.0	0.0			
b. Claims on Non-Financial Govt. Ent.	2,914.9	6,566.2	4,460.9	3,651.3	125.3	-2,105.3	-32.1			
c. Claims on Financial Institutions	13,343.9	12,762.8	12,719.8	-581.0	-4.4	-43.1	-0.3			
i. Government	13,203.3	12,730.8	12,660.5	-472.4	-3.6	-70.3	-0.6			
ii. Non-government	140.6	32.0	59.3	-108.6	-77.2	27.3	85.2			
d. Claims on Private Sector	172,516.5	197,016.9	214,321.3	24,500.4	14.2	17,304.4	8.8			
<i>Claims on Private Sector*</i>	172,516.5	197,016.9	225,367.9	24,500.4	14.2	28,351.0	14.4			
2.2. Net Non-monetary Liabilities	77,670.6	87,542.5	94,336.0	16,676.7 ^{1/}	21.5	701.2 ^{2/}	0.8			
<i>Net Non-monetary Liabilities*</i>	77,670.6	87,542.5	105,382.6	16,676.7	21.5	11,747.8	13.4			
3. Broad Money (M ₂)	277,305.9	300,439.9	347,266.1	23,134.1	8.3	46,826.1	15.6			
3.1. Money Supply (M ₁)	93,969.5	100,205.7	114,233.1	6,236.3	6.6	14,027.4	14.0			
a. Currency	63,218.9	68,784.1	77,771.3	5,565.3	8.8	8,987.1	13.1			
b. Demand Deposits	30,750.7	31,421.6	36,461.9	670.9	2.2	5,040.3	16.0			
3.2. Time Deposits	183,336.4	200,234.2	233,033.0	16,897.8	9.2	32,798.8	16.4			
4. Board Money Liquidity (M ₃)	298,480.5	321,997.1	372,354.3	23,516.6	7.9	50,357.2	15.6			

1/ Adjusting the exchange valuation loss of Rs. 6,804.8 million.

2/ Adjusting the exchange valuation gain of Rs 6,092.3 million.

* Adjusting credit write off (Rs. 3,629.2 million principal and Rs. 7,417.4 million interest) by NBL as in mid-July 2006.

Table 55
MONETARY AUTHORITIES ACCOUNT

	Rs in million					
	Changes during the first twelve months of FY					
	2004 July	2005 July	2006 Jul ¹	2004/05 Amount	2005/06 Amount	Percent
1. Foreign Assets	109,076.8	105,444.2	133,130.0	-3,632.7	27,685.8	26.3
1.1 Gold	478.3	383.4	405.0	-94.9	21.6	5.6
1.2 SDR Holdings	55.0	637.1	663.7	582.1	26.6	4.2
1.3 Reserve Position in the Fund	627.6	0.0	0.0	-627.6	0.0	0.0
1.4 Foreign Exchange	107,915.9	104,423.7	132,061.3	-3,492.2	27,637.6	26.5
2. Claims on Government	14,353.3	15,343.8	12,108.7	990.5	-3,235.1	-21.1
2.1 Treasury Bills	9,804.4	10,921.2	9,209.3	1,116.7	-1,711.8	-15.7
2.2 Development Bonds	3,298.3	1,518.7	1,518.6	-1,779.6	-0.1	0.0
2.3 Other Govt. Papers	1,250.6	280.9	309.7	-969.6	28.8	10.2
2.4 Loans and Advances	0.0	2,623.0	1,071.0	2,623.0	-1,552.0	-59.2
3. Claims on Non-Financial Govt. Ent.	7.5	8.5	8.5	1.0	0.0	0.0
4. Claims on Financial Institutions	1,560.6	1,326.7	1,038.5	-233.9	-288.2	-21.7
4.1 Government	1,420.0	1,294.7	979.2	-125.3	-315.5	-24.4
4.2 Non-government	140.6	32.0	59.3	-108.6	27.3	85.2
5. Claims on Banks	477.9	1,724.0	329.2	1,246.1	-1,394.8	-80.9
5.1 Refinance	417.9	222.9	329.2	-195.1	106.3	47.7
5.2 Repo Lending/SLF	60.0	1,501.1	0.0	1,441.1	-1,501.1	-100.0
6. Claims on Private Sector	3,823.7	3,746.9	3,208.5	-76.8	-538.3	-14.4
7. Other Assets	14,861.3	15,230.5	17,753.7	369.3	2,523.1	16.6
Assets = Liabilities	144,161.1	142,824.5	167,577.0	-1,336.5	24,752.5	17.3
8. Reserve Money	94,415.2	96,539.2	110,743.2	2,124.0	14,203.9	14.7
8.1 Currency Outside Banks	63,218.9	68,784.1	77,771.3	5,565.3	8,987.1	13.1
8.2 Currency Held by Commercial Banks	4,283.8	4,773.0	5,908.6	489.2	1,135.6	23.8
8.3 Deposits of Commercial Banks	24,227.0	20,234.0	22,907.9	-3,993.0	2,673.8	13.2
8.4 Other Deposits	2,685.5	2,748.1	4,155.5	62.6	1,407.4	51.2
9. Govt. Deposits	753.0	0.0	0.0	-753.0	0.0	0.0
10. Foreign Liabilities	865.3	1,590.0	1,566.6	724.6	-23.3	-1.5
10.1 Foreign Deposits	80.2	126.4	9.9	46.2	-116.5	-92.2
10.2 PRGF	785.1	1,463.6	1,556.7	678.5	93.2	6.4
11. Capital and Reserve	32,398.2	28,004.1	34,286.0	-4,394.0	6,281.8	22.4
12. Other Liabilities	15,729.4	16,691.2	20,981.3	961.8	4,290.1	25.7
NFA	108,211.5	103,854.2	131,563.4	2,420.1 /	21,514.4 2/	20.7
NDA	-13,796.4	-7,315.0	-20,820.3	-296.0 1/	-7,310.5 2/	99.9
Other Items, net	33,266.3	29,464.8	37,513.6	2,975.9 1/	1,854.0 2/	6.3

1/ Adjusting the exchange valuation loss of Rs. 6777.4 million.

2/ Adjusting the exchange valuation gain of Rs. 6194.5 million.

Table 56

CONDENSED ASSETS AND LIABILITIES OF COMMERCIAL BANKS

	Rs. in million											
	2004		2005		2006		2004/05		2005/06		Changes	
	Jul	Aug	Jul	Aug	Jul	Aug	Amount	Percent	Amount	Percent	Amount	Percent
1. Total Deposits	232,576.3	250,464.9	290,427.6	17,888.6	7.7	39,962.7	16.0					
1.1. Demand Deposits	33,038.7	34,120.0	36,898.2	1,081.3	3.3	2,778.2	8.1					
a. Domestic Deposits	28,065.2	28,673.5	32,306.4	608.3	2.2	3,632.9	12.7					
b. Foreign Deposits	4,973.5	5,446.5	4,591.8	473.0	9.5	-854.7	-15.7					
1.2. Saving Deposits	114,106.3	130,013.6	151,573.2	15,907.3	13.9	21,559.6	16.6					
a. Domestic Deposits	107,497.2	123,917.8	145,639.2	16,420.6	15.3	21,721.4	17.5					
b. Foreign Deposits	6,609.1	6,095.8	5,934.0	-513.3	-7.8	-161.8	-2.7					
1.3. Fixed Deposits	83,268.2	84,137.4	99,475.4	869.1	1.0	15,338.0	18.2					
a. Domestic Deposits	73,676.2	74,122.5	84,912.9	446.3	0.6	10,790.4	14.6					
b. Foreign Deposits	9,592.1	10,014.9	14,562.5	422.8	4.4	4,547.6	45.4					
1.4. Margin Deposits	2,163.1	2,194.0	2,480.9	309	1.4	286.9	13.1					
2. Borrowings from Rastra Bank	477.9	1,724.0	329.2	1,246.1	260.7	-1,394.8	-80.9					
3. Foreign Liabilities	521.4	27.6	7.7	-493.8	-94.7	-19.9	-72.1					
4. Other Liabilities	75,655.4	88,416.0	86,951.8	12,760.7	16.9	-1,464.3	-1.7					
4.1 Paid-up Capital	8,350.6	9,723.9	10,571.7	1,373.2	16.4	847.9	8.7					
4.2 General Reserves	13,747.1	14,777.4	9,466.6	1,030.3	7.5	-5,310.8	-35.9					
4.3 Other Liabilities	53,557.6	63,914.7	66,913.4	10,357.1	19.3	2,998.6	4.7					
Assets = Liabilities	309,230.9	340,632.5	377,716.3	31,401.6	10.2	37,083.7	10.9					
6. Liquid Funds	50,385.0	50,222.8	61,672.0	-162.2	-0.3	1,149.2	22.8					
6.1. Cash in Hand	4,283.8	4,773.0	5,908.6	489.2	11.4	1,135.6	23.8					
6.2. Balance with Rastra Bank	24,227.0	20,234.1	22,907.9	-3,992.9	-16.5	2,673.8	13.2					
6.3. Foreign Currency in Hand	435.5	374.8	399.2	-60.7	-13.9	24.4	6.5					
6.4. Balance Held Abroad	20,798.6	24,045.1	31,401.9	3,246.5	15.6	7,356.8	30.6					
6.5. Cash in Transit	640.1	795.9	1,054.5	155.8	24.3	258.6	32.5					
7. Loans and Advances*	228,234.9	260,867.3	286,969.5	32,632.4	14.3	26,102.1	10.0					
7.1. Claims on Government	43,796.3	48,550.7	58,458.7	4,754.4	10.9	9,908.0	20.4					
7.2. Claims on Non-Financial Govt. Ent.	2,907.4	6,557.7	4,452.4	3,650.3	125.6	-2,105.3	-32.1					
7.3. Claims on Financial Ent.	11,783.3	11,436.2	1,681.3	-347.1	-2.9	245.2	2.1					
7.4. Claims on Private Sector	168,692.8	193,270.0	211,112.7	24,577.2	14.6	17,842.7	9.2					
a. Principal	135,081.2	154,803.4	175,021.4	19,722.2	14.6	20,218.0	13.1					
b. Interest Accrued	33,611.6	38,466.6	36,091.3	4,855.0	14.4	-2,375.3	-6.2					
Claims on Private Sector*	168,692.8	193,270.0	222,159.3	24,577.2	14.6	28,889.3	14.9					
7.5. Foreign Bills Purchased & Discounted	1,055.1	1,052.8	1,264.3	-2.4	-0.2	211.6	20.1					
8. Other Assets	30,611.0	29,542.4	29,074.8	-1,068.6	-3.5	-467.6	-1.6					

Table 57
BANKING SURVEY

Rs. in million

Particulars	2004	2005	2006	Change			
				2004/05		2005/06	
				Jul	Jul	Jul	Amount
1. Foreign Assets, Net	107,965.0	104,825.1	138,734.2	3,665.0	3.4	27,816.8	26.5
Net Foreign Assets(MS)	108,804.6	107,742.1	139,532.8	5,742.4 1/	5.3	25,698.4 2/	23.9
Foreign Assets	131,366.0	130,916.9	166,195.4	-449.1	-0.3	35,278.5	26.9
Foreign Liabilities	22,561.4	23,174.8	26,662.6	613.4	2.7	3,487.8	15.0
Net Foreign Assets(OBI)	-839.6	-2,917.0	-798.6	-2,077.4	247.4	2,118.4	-72.6
Foreign Assets	0.0	0.0	0.0				
Foreign Liabilities	839.6	2,917.0	798.6	2,077.4	247.4	-2,118.4	-72.6
2. Net Domestic Assets	193,238.2	222,344.9	242,415.1	22,301.8 1/	11.5	26,162.5 2/	11.8
A. Domestic Credit	284,086.7	325,327.7	360,960.8	41,241.0	14.5	35,633.1	11.0
i. Claims on Government	59,733.9	64,770.7	72,333.4	5,036.8	8.4	7,562.7	11.7
Claims on Govt(net)(MS)	57,396.6	63,894.6	70,967.4	6,498.0	11.3	7,072.8	11.1
Claims on Govt(MS)	58,149.6	63,894.6	70,967.4	5,745.0	9.9	7,072.8	11.1
Govt Deposits (MS)	753.0	0.0	0.0				
Claims on Govt (OBI)	2,337.3	876.1	1,366.0	-1,461.2	-62.5	489.9	55.9
ii. Claims on NBFi	11,879.2	10,829.1	13,644.3	-1,050.1	-8.8	2,815.2	26.0
Claims on NBFi(MS)	11,879.2	10,829.1	13,644.3	-1,050.1	-8.8	2,815.2	26.0
Claims on NBFi(OBI)							
iii. Claims on Nonfinancial Govt. Enter.	2,914.9	6,566.2	4,460.9	3,651.3	125.3	-2,105.3	-32.1
Claims on Non-Fin. Govt. Ent.(MS)	2,914.9	6,566.2	4,460.9	3,651.3	125.3	-2,105.3	-32.1
Claims on Non-Fin. Govt. Ent.(OBI)							
iv. Claims on Private Sector	209,558.7	243,161.7	270,522.2	33,603.0	16.0	27,360.5	11.3
Claims on Private Sector(MS)	161,239.6	186,556.7	230,445.1	25,317.1	15.7	43,888.4	23.5
Claims on Private Sector(OBI)	48,319.1	56,605.0	40,077.1	8,285.9	17.1	-16,527.9	-29.2
B. Capital and Other Items(net)	90,848.5	102,982.8	118,545.7	18,939.2 1/	20.8	9,470.6 2/	9.2
Capital and Other Items(net)(MS)	78,191.0	87,840.0	115,653.3	9,649.0	12.3	27,813.3	31.7
Less Claims on OBI (MS)	-13,262.2	-12,691.5	-3,510.6	570.7	-4.3	9,180.9	-72.3
Time and Saving Deposits of OBI at MS	3,435.1	4,943.4	4,295.6	1,508.3	43.9	-647.8	-13.1
Capital and Other Items(net)(OBI)	22,484.6	22,890.9	2,107.4	406.3	1.8	-20,783.5	-90.8
3. Liquid Liabilities (L1)	301,203.2	327,169.8	381,149.5	25,966.6	8.6	53,979.7	16.5
A. Broad Money (M2)	277,306.1	300,440.0	346,908.3	23,133.9	8.3	46,468.3	15.5
Money Supply (M1)	93,969.6	100,205.7	113,144.9	6,236.1	6.6	12,939.2	12.9
- Currency	63,218.9	68,784.1	77,771.3	5,565.2	8.8	8,987.2	13.1
- Demand Deposits	30,750.7	31,421.6	35,373.6	670.9	2.2	3,952.0	12.6
Time Deposits (MS)	183,336.5	200,234.3	233,763.4	16,897.8	9.2	33,529.1	16.7
B. Less Time and Saving Deposits of OBI (at MS)	3,435.1	4,943.4	4,295.6	1,508.3	43.9	-647.8	-13.1
C. Time and Saving Deposits (OBI)	27,332.2	31,673.2	38,536.8	4,341.0	15.9	6,863.6	21.7

Note: In this table, MS refers to those items that are derived from the Monetary Survey.
and NBFi to Non-bank Financial Institutions.

Since mid-July 2006, MS includes the consolidated balance sheet of ADB/N and OBI excludes it.

1/ Adjusting the exchange valuation loss of Rs. 6804.9 million

2/ Adjusting the exchange valuation gain of Rs. 6092.3 million

Table 58
CREDIT-DEPOSIT AND LIQUIDITY-DEPOSIT RATIOS OF
COMMERCIAL BANKS
(Monthly)

	Rs. in million				
	Total Deposit ¹	Total Credit ²	Liquidity ³	Credit- Deposit Ratio (Percent)	Liquidity- Deposit Ratio (Percent)
2004/05					
August	231,790.6	188,989.4	91,348.1	81.5	39.4
September	233,711.3	191,602.6	92,451.6	82.0	39.6
October	232,189.6	197,811.3	88,938.4	85.2	38.3
November	234,170.1	199,255.9	89,858.5	85.1	38.4
December	236,103.2	198,600.2	89,813.4	84.1	38.0
January	239,875.6	202,970.8	93,751.5	84.6	39.1
February	238,265.2	203,062.8	91,881.4	85.2	38.6
March	238,230.0	205,834.7	91,390.4	86.4	38.4
April	240,155.7	209,136.7	94,206.6	87.1	39.2
May	242,464.5	209,072.5	93,228.8	86.2	38.5
June	243,886.5	212,728.9	94,164.2	87.2	38.6
July	250,464.9	212,316.6	98,773.6	84.8	39.4
2005/06					
August	251,180.2	213,208.6	99,452.2	84.9	39.6
September	253,523.3	216,155.1	98,561.8	85.3	38.9
October	254,490.8	221,390.7	96,254.4	87.0	37.8
November	259,434.1	223,575.2	99,730.1	86.2	38.4
December	260,664.4	224,814.9	97,916.2	86.2	37.6
January	265,275.3	227,740.6	99,860.2	85.9	37.6
February	268,877.6	229,890.7	102,441.9	85.5	38.1
March	269,610.8	231,991.2	100,987.8	86.0	37.5
April	273,069.6	236,310.4	104,659.6	86.5	38.3
May	275,552.5	237,350.7	107,156.4	86.1	38.9
June	282,920.4	237,642.2	112,900.7	84.0	39.9
July	290,427.6	228,510.7	120,130.7	78.7	41.4

1. Excludes inter-bank deposits and government deposits, but includes foreign deposits
2. Excludes investment in government securities and includes foreign bills purchased and discounted.
3. Includes cash in hand, balance with Nepal Rastra Bank, foreign currency in hand, balance held abroad, cash in transit and government securities.

Table 59
INTEREST RATE STRUCTURE OF COMMERCIAL BANKS*

Particulars	Percent per annum		
	2004	2005	2006
1. Deposits Rates			
Saving Deposits	2.0-5.0	1.75-5.0	2.0-5.0
One Year Fixed Deposits	2.75-5.75	2.25-5.0	2.25-5.0
2. Lending Rates			
Industrial	8.5-13.5	8.25-13.5	8.0-13.5
Commercial	9.0-14.5	8.0-14.0	8.0-14.0
Priority Sector	10.5-13.0	10.0-13.0	9.5-13.0
Export	4.0-11.5	4.0-12.0	5.0-11.0
Overdraft	10.0-16.0	5.0-14.5	6.5-14.5

* Unweighted.

Table 60
STOCK MARKET INDICATORS

	Mid - July		Amount Change			Percentage Change	
	2004	2005	2006	2004/05	2005/06	2004/05	2005/06
1. Number of Listed Companies	114.0	125.0	135.0	11.0	10.0	9.6	8.0
2. Paid - Up value of Listed Share <i>(Rs. in million)</i>	12,016.0	16,776.0	19,958.0	4,760.0	3,182.0	39.6	19.0
3. Market Capitalization <i>(Rs. in million)</i>	41,424.8	61,365.9	96,763.8	19,941.1	35,397.9	48.1	57.7
4. Annual Turnover <i>(Rs. in million)</i>	2,144.3	4,507.7	3,452.0	2,363.4	-1,055.7	110.2	-23.4
5. Market day	243.0	236.0	228.0	-7.0	-8.0	-2.9	-3.4
6. Average daily turnover <i>(Rs. in million)</i>	8.8	19.1	15.1	10.3	-4.0	117.0	-20.9
7. Average Monthly Turnover <i>(Rs. in million)</i>	178.7	375.6	287.7	196.9	-87.9	110.2	-23.4
8. NEPSE Index (Closing)*	222.0	286.7	386.8	64.6	100.1	29.1	34.9

Source: Nepal Stock Exchange Ltd.

* Base Year: 12th February, 1994

Table 61
SOURCES AND USES OF FUNDS OF OTHER BANKING
INSTITUTIONS *

	Rs. in million						
	Mid-July			Amount Change		Percentage Change	
	2004	2005	2006	2004/05	2005/06	2004/05	2005/06
Sources of Funds							
1. Paid-up Capital	5,394.3	5,983.8	11,769.3	589.5	5,785.5	10.9	96.7
2. Reserve/Surplus	-7,555.7	-5,494.4	-4,022.7	2,061.3	1,471.7	-27.3	-26.8
3. Deposits **	53,576.4	58,366.5	68,199.6	4,790.1	9,833.1	8.9	16.8
4. Borrowing	9,579.4	8,641.9	7,898.7	-937.5	-743.2	-9.8	-8.6
a. Domestic	8,739.8	6,019.7	6,544.3	-2,720.1	524.6	-31.1	8.7
b. Foreign	839.6	2,622.2	1,354.4	1,782.6	-1,267.8	212.3	-48.3
5. Other Liabilities	19,318.6	19,264.5	21,119.7	-54.1	1,855.2	-0.3	9.6
Sources = Uses	80,313.0	86,762.3	104,964.6	6,449.3	18,202.3	8.0	21.0
Uses of Funds							
1. Cash & Bank Balance	10,312.0	9,657.0	14,273.7	-655.0	4,616.7	-6.4	47.8
2. Investment	6,470.8	5,906.1	6,691.7	-564.7	785.6	-8.7	13.3
a. Share	698.4	140.3	45.8	-558.1	-94.5	-79.9	-67.4
b. Govt. Securities	2,337.3	1,030.4	1,664.4	-1,306.9	634.0	-55.9	61.5
c. Fixed Deposits & Others	3,435.1	4,735.4	4,981.5	1,300.3	246.1	37.9	5.2
3. Loans and Advances	48,319.1	54,339.1	65,041.7	6,020.0	10,702.6	12.5	19.7
a. Agriculture	21,309.2	21,173.0	-	-136.2	-	-0.6	-
b. Industry	2,082.4	-	-	-	-	-	-
c. Housing	5,967.6	-	-	-	-	-	-
d. Others	18,959.9	33,166.1	-	14,206.2	-	74.9	-
4. Other Assets	15,211.1	16,860.1	18,957.5	1,649.0	2,097.4	10.8	12.4

* Include ADB/N, NIDC, ODBs -28, Micro Credit Development Banks -6 RDBs -5, Finance Companies -70, Cooperative Societies (with limited banking transactions) -19, and NGOs -47.

** Include deposits of ADB/N commercial banking transactions.

Table 62
CREDIT OPERATION OF AGRICULTURAL DEVELOPMENT BANK

		Rs. in million						
		Mid-July			Amount Change		Percentage Change	
		2003/04	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06
1	Loans Disbursed	10,148.9	11,654.1	12,729.8	1,505.2	1,075.7	14.8	9.2
2	Loans Repaid	9,050.3	10,292.2	11,950.4	1,241.9	1,658.2	13.7	16.1
3	Net Loans Disbursed	1,098.6	1,361.9	779.4	263.3	-582.5	24.0	-42.8
4	Loans Outstanding	19,714.3	21,076.2	21,855.6	1,361.9	779.4	6.9	3.7

Source: Agricultural Development Bank.

Table 63
AGRICULTURAL DEVELOPMENT BANK
OUTSTANDING LOAN
(By Type of Borrowers)

	Rs. in million						
	Mid - July			Amount Change		Percentage Change	
	2004	2005	2006	2004/05	2005/06	2004/05	2005/06
1. Institutions							
(Cooperative)	903.1	961.7	-	58.6	-	6.5	-
2. Individuals	18811.2	20114.5	-	1,303.3	-	6.9	-
3. Total	19,714.3	21,076.2	21,855.6	1,361.9	779.4	6.9	3.7

Source : Agricultural Development Bank

Table 64
OUTSTANDING LOANS OF
AGRICULTURAL DEVELOPMENT BANK (BY PURPOSE)

	Rs. in million						
	Mid - July			Amount Change		Percentage Change	
	2004	2005	2006	2004/05	2005/06	2004/05	2005/06
1. Agricultural							
Production	3,850.3	3,955.9	3,891.5	105.6	-64.4	2.7	-1.6
2. Farm Improvement							
and Irrigation	2,749.1	2,670.0	222.5	-79.1	-2,447.5	-2.9	-91.7
3. Agro-business	3,968.5	4,124.9	4,215.5	156.4	90.6	3.9	2.2
4. Agro-Industry, Marketing and and Warehouse Construction	7,655.1	8,426.9	9,184.6	771.8	757.7	10.1	9.0
5. Miscellaneous	1,491.2	1,898.5	4,341.5	407.3	2,443.0	27.3	128.7
6. Total	19,714.2	21,076.2	21,855.6	1,362.0	779.4	6.9	3.7

Source: Agricultural Development Bank

Table 65
AGRICULTURAL DEVELOPMENT BANK
OUTSTANDING LOAN
(By Term)

	Rs. in million						
	Mid - July			Amount Change		Percentage Change	
	2004	2005	2006	2004/05	2005/06	2004/05	2005/06
1. Short Term	7,878.6	9,989.9	10,315.8	2,111.3	325.9	26.8	3.3
2. Medium Term	9,966.6	10,003.4	10,447.0	36.8	443.6	0.4	4.4
3. Long Term	1,868.9	1,082.9	1,092.8	-786.0	9.9	-42.1	0.9
4. Total	19,714.1	21,076.2	21,855.6	1,362.1	779.4	6.9	3.7

Source : Agricultural Development Bank

Table 66
SOURCES AND USES OF FUNDS OF
AGRICULTURAL DEVELOPMENT BANK

	Rs. in million						
	2004	Mid-July 2005	2006	2004/05	2005/06	2004/05	2005/06
				Amount Change	Amount Change	Percentage Change	Percentage Change
Sources of Funds							
1. Paid-up Capital	1,574.6	1,677.6	6,478.0	103.0	4,800.4	6.5	286.1
2. Reserve Fund	-7,437.2	-7,666.9	-6,763.9	-229.7	903.0	3.1	-11.8
3. Borrowing	3,664.9	3,589.3	522.4	-75.6	-3,066.9	-2.1	-85.4
a. Nepal Rastra bank	277.5	314.1	229.5	36.6	-84.6	13.2	-26.9
b. Commercial Bank and Others	742.8	665.6	282.3	-77.2	-383.3	-10.4	-57.6
c. Foreign borrowing	2,644.6	2,609.6	10.6	-35.0	-2,599.0	-1.3	-99.6
4. Deposits	26,236.1	27,215.8	29,625.4	979.7	2,409.6	3.7	8.9
a. Current	896.9	1,235.9	1,279.5	339.0	43.6	37.8	3.5
b. Saving	14,682.8	15,189.5	16,225.4	506.7	1,035.9	3.5	6.8
c. Fixed	9,856.6	10,088.5	11,426.2	231.9	1,337.7	2.4	13.3
d. Other	799.8	701.9	694.3	-97.9	-7.6	-12.2	-1.1
5. Compulsory Saving	8.1	7.2	6.4	-0.9	-0.8	-11.1	-11.1
6. Other Liabilities	13,776.9	13,871.4	13,675.2	94.5	-196.2	0.7	-1.4
Sources = Uses	37,823.4	38,694.4	43,543.5	871.0	4,849.1	2.3	12.5
Uses of Funds	37,823.4	38,694.4	43,543.5	871.0	4,849.1	2.3	12.5
1. Cash and Bank Balance	2,910.8	3,035.0	4,768.9	124.2	1,733.9	4.3	57.1
a. Cash Balance	546.7	680.8	746.8	134.1	66.0	24.5	9.7
b. Bank Balance	2,364.1	2,354.2	4,022.1	-9.9	1,667.9	-0.4	70.8
2. Loan	20,921.8	22,638.2	24,983.2	1,716.4	2,345.0	8.2	10.4
a. Agricultural	19,686.8	21,173.0	22,071.6	1,486.2	898.6	7.5	4.2
b. Commercial	9,656.5	10,136.0	11,321.7	479.5	1,185.7	5.0	11.7
c. Loan loss provision	-8,421.5	-8,670.8	-8,410.1	-249.3	260.7	3.0	-3.0
3. Investment	2,735.4	1,355.8	1,511.6	-1,379.6	155.8	-50.4	11.5
a. Share	137.0	35.7	36.0	-101.3	0.3	-73.9	0.8
b. Government Securities	669.8	198.2	397.0	-471.6	198.8	-70.4	100.3
c. Fixed Deposits	7.0	104.2	6.0	97.2	292.8	1,388.6	281.0
d. Other Investment	1,921.6	1,017.7	1,072.6	-903.9	54.9	-47.0	5.4
4. Other Assets	11,255.4	11,665.4	12,279.8	410.0	614.4	3.6	5.3

Sources: Agricultural Development Bank

Table 67

SOURCES AND USES OF FUNDS OF OTHER DEVELOPMENT BANKS

	Rs. in million						
	2004#	Mid-July 2005*	2006**	2004/05	2005/06	2004/05	2005/06
Sources of Funds							
1. Capital Funds	556.0	1,180.6	1,223.6	624.6	43.0	112.3	3.6
a. Paid-up Capital	542.7	1,144.0	1,142.9	601.3	-1.1	110.8	-0.1
b. General Reserve	10.1	19.4	76.5	9.3	57.1	92.1	294.3
c. Other Reserve	3.2	17.2	4.2	14.0	-13.0	437.5	-75.6
2. Deposits	4,954.7	6,311.8	8,268.3	1,357.1	1,956.5	27.4	31.0
a. Term Deposit	3,997.7	5,807.9	7,638.1	1,810.2	1,830.2	45.3	31.5
b. Other Deposit	957.0	503.9	630.2	-453.1	126.3	-47.3	25.1
3. Borrowings	158.7	175.7	284.2	17.0	108.5	10.7	61.8
a. NRB	146.8	33.1	49.4	-113.7	16.3	-77.5	49.2
b. Commercial Banks	9.9	141.0	216.3	131.1	75.3	1,324.2	53.4
c. Others	2.0	1.6	18.5	-0.4	16.9	-20.0	1,056.3
4. Others	467.2	529.2	834.9	62.0	305.7	13.3	57.8
Sources = Uses	6,136.6	8,197.3	10,611.0	2,060.7	2,413.7	33.6	29.4
Uses of Funds	6,136.6	8,197.3	10,611.0	2,060.7	2,413.7	33.6	29.4
1. Liquid Funds	1,067.3	1,475.9	2,164.1	408.6	688.2	38.3	46.6
a. Cash in Hand	50.9	95.2	128.4	44.3	33.2	87.0	34.9
b. Bal. with NRB	97.0	111.8	270.4	14.8	158.6	15.3	141.9
c. Bal. with Dom. Bank	919.4	1,268.9	1,765.3	349.5	496.4	38.0	39.1
2. Investments	318.2	424.5	552.5	106.3	128.0	33.4	30.2
a. Share and Debiture	92.7	98.0	9.8	5.3	-88.2	5.7	-90.0
b. Govt. Securities	147.1	69.5	109.0	-77.6	39.5	-52.8	56.8
c. Others	78.4	257.0	433.7	178.6	176.7	227.8	68.8
3. Loans and Advances	4,236.6	5,249.1	6,593.7	1,012.5	1,344.6	23.9	25.6
a. Staff	0.0	0.0	0.0	0.0	0.0	-	-
b. Others	4,236.6	5,249.1	6,593.7	1,012.5	1,344.6	23.9	25.6
4. Others	514.5	1,047.8	1,300.7	533.3	252.9	103.7	24.1

Number of Development Banks 8

* Number of Development Banks 24

** Number of Development Banks 28

Table 68
SOURCES AND USES OF FUNDS OF FINANCE COMPANIES

	Rs. in million					
	Mid - July		Amount Change		Percentage Change	
	2004*	2005**	2006***	2004/05	2005/06	2005/06
Sources of Funds						
1. Capital Funds	3,653.8	4,250.0	5,554.5	596.2	1,304.5	16.3
a. Paid-up Capital	2,155.8	2,411.5	3,349.1	255.7	937.6	11.9
b. General Reserve	405.5	481.1	889.6	75.6	408.5	18.6
c. Other Reserve	99.9	129.6	71.8	29.7	-57.8	29.7
d. Loan Loss Prov.	992.6	1,227.8	1,244.0	235.2	16.2	23.7
2. Deposits	19,391.7	22,338.1	27,316.2	2,946.4	4,978.1	15.2
3. Borrowings	1,306.5	990.8	1,154.8	-315.7	164.0	-24.2
a. NRB	0.0	0.0	0.0	0.0	0.0	-
b. Commercial Banks	1,306.5	990.8	995.0	-315.7	4.2	-24.2
c. Others	0.0	0.0	159.8	0.0	159.8	0.0
4. P/L Account	615.5	990.4	568.2	374.9	-422.2	60.9
5. Others	2,231.2	1,949.1	4,247.5	-282.1	2,298.4	-12.6
Sources = Uses	27,198.7	30,518.4	38,841.2	3,319.7	8,322.8	12.2
Uses of Funds	27,198.7	30,518.4	38,841.2	3,319.7	8,322.8	12.2
5. Liquid of Funds	4,469.8	3,904.9	5,394.1	-564.9	1,489.2	-12.6
a. Cash in Hand	132.6	125.9	199.5	-6.7	73.6	-5.1
b. Bal. with NRB	428.3	440.9	783.4	12.6	342.5	2.9
c. Bal. with Dom. Bank	3,908.9	3,338.1	4,411.2	-570.8	1,073.1	-14.6
6. Investments	2,510.5	2,411.2	2,745.0	-99.3	333.8	-4.0
a. Govt. Securities	1,270.0	567.5	963.2	-702.5	395.7	-55.3
c. Others	1,240.5	1,843.7	1,781.7	603.2	-62.0	48.6
7. Loans and Advances	17,540.8	21,223.3	27,056.6	3,682.5	5,833.3	21.0
a. Hire Purchases	3,049.9	3,591.0	541.1	541.1	17.7	17.7
b. Housing	5,286.5	6,807.5	1,521.0	1,521.0	28.8	28.8
c. Term Loan	7,954.8	9,448.9	1,494.1	1,494.1	18.8	18.8
d. Leasing	138.2	247.2	109.0	109.0	78.9	78.9
e. Others	1,111.4	1,128.7	17.3	17.3	1.6	1.6
8. Others	2,677.6	2,979.0	3,645.5	301.4	666.5	11.3

* Number of Finance Companies 57

** Number of Finance Companies 59

*** Number of Finance Companies 70

Table 69
SOURCES AND USES OF FUNDS OF REGIONAL RURAL DEVELOPMENT BANKS*

	Mid-July			Amount Change			Rs. in million	
	2004	2005	2006	2004/05	2005/06	2004/05	2005/06	
Sources of Funds								
1. Capital Funds								
a. Paid-up Capital	317.2	303.9	316.3	-13.3	12.4	-4.2	4.1	
b. General Reserve	298.5	298.5	298.5	0.0	0.0	0.0	0.0	
c. Other Reserve	1.8	3.0	17.1	1.2	14.1	66.7	470.0	
2. Deposits								
a. Personal Savings	16.9	2.4	0.7	-14.5	-1.7	-85.8	-70.8	
b. Other Savings	473.6	439.8	499.8	-33.8	60.0	-7.1	13.6	
3. Borrowings								
a. Domestic Institution	4.4	8.6	478.8	4.2	470.2	95.5	5,467.4	
b. NRB	469.2	431.2	21.0	-38.0	-410.2	-8.1	-95.1	
c. Others	1,471.9	1,675.8	2,303.7	203.9	627.9	13.9	37.5	
4. Others								
a. Cash in Hand	713.9	939.6	28.0	-713.9	939.6			
b. Bal. with NRB	115.7	28.0	1,336.1	-115.7	1,336.1			
c. Bal. with Dom. Bank	642.3	425.6	499.5	-642.3	73.9	325.2	17.4	
5. Liquid of Funds								
a. Cash in Hand	100.1	2,845.1	3,619.3	325.5	774.2	20.4	27.2	
b. Bal. with NRB	2,362.8	2,845.1	3,619.3	482.3	774.2	20.4	27.2	
c. Bal. with Dom. Bank	257.1	294.3	300.2	37.2	5.9	14.5	2.0	
6. Investments								
a. Govt. Bond	11.2	10.8	16.7	-0.4	5.9	-3.6	54.6	
b. Fixed Deposits	6.6	83.5	10.9	76.9	-72.6	1,165.2	-86.9	
c. Others	239.3	200.0	272.6	-39.3	72.6	-16.4	36.3	
7. Loans and Advances								
a. Group Lending	579.9	660.6	1,148.6	80.7	488.0	13.9	73.9	
b. Personal Loan	3.2			-3.2	0.0	-100.0	-	
c. Staff Loan	573.5			-573.5	0.0	-100.0	-	
d. Others	3.2			-3.2	0.0	-100.0	-	
8. Others								
a. Group Lending	1,358.4	1,466.0	1,616.5	107.6	150.5	7.9	10.3	
b. Personal Loan	0.0	0.0	0.0	0.0	0.0	-	-	
c. Staff Loan	0.0	0.0	0.0	0.0	0.0	-	-	
d. Others	1,358.4	0.0	1,616.5	-1,358.4	1,616.5	-100.0	-	
Others	167.4	424.2	554.0	256.8	129.8	153.4	30.6	

* Number of RDBs- 5

Table 70
SOURCES AND USES OF FUNDS OF MICRO CREDIT DEVELOPMENT BANKS*

	Mid - July			Amount Change			Percentage Change	
	2004	2005	2006	2004/05	2005/06	2004/05	2005/06	
Sources of Funds								
1. Capital Funds	370.9	435.8	514.1	64.9	78.3	17.5	18.0	
a. Paid-up Capital	222.3	249.7	272.4	27.4	22.7	12.3	9.1	
b. General Reserve	11.0	100.1	151.7	89.1	51.6	810.0	51.5	
c. Other Reserve	137.6	86.0	90.0	-51.6	4.0	-37.5	4.7	
2. Deposits	225.8	309.0	432.7	83.2	123.7	36.8	40.0	
a. Term Deposit	0.0	14.1	0.0	14.1	-14.1	-	-	
b. Other Deposit	225.8	294.9	432.7	69.1	137.8	30.6	46.7	
3. Borrowings	1,360.8	1,726.6	3,021.2	365.8	1,294.6	26.9	75.0	
a. NRB	19.9	10.3	9.7	-9.6	-0.6	-48.2	-5.8	
b. Commercial Banks	606.9	671.4	1,149.6	64.5	478.2	10.6	71.2	
c. Others	734.0	1,044.9	1,861.9	310.9	817.0	42.4	78.2	
4. P/L Account	38.2	68.1	76.6	29.9	8.5	78.3	12.5	
5. Others	605.0	915.3	533.5	310.3	-381.8	51.3	-41.7	
Sources = Uses	2,600.7	3,454.8	4,578.1	854.1	1,123.3	32.8	32.5	
Uses of Funds	2,600.7	3,454.8	4,578.1	854.1	1,123.3	32.8	32.5	
1. Liquid Funds	364.3	353.8	1,021.2	-10.5	667.4	-2.9	188.6	
a. Cash in Hand	3.5	3.1	3.0	-0.4	-0.1	-11.4	-3.2	
b. Bal. with NRB	52.6	106.9	125.2	54.3	18.3	103.2	17.1	
c. Bal. with Dom. Bank	308.2	243.8	893.0	-64.4	649.2	-20.9	266.3	
2. Investments	650.9	855.5	524.0	204.6	-331.5	31.4	-38.7	
a. Share and Debenture	0.0	6.6	0.0	6.6	-6.6	0.0	0.0	
b. Govt. Securities	162.5	162.5	162.5	0.0	0.0	0.0	0.0	
c. Others	488.4	686.4	361.5	198.0	-324.9	40.5	-47.3	
3. Loans and Advances	1,463.7	2,071.6	2,686.5	607.9	614.9	41.5	29.7	
a. Staff	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
b. Others	1,463.7	2,071.6	2,686.5	607.9	614.9	41.5	29.7	
4. Others	121.8	173.9	346.4	52.1	172.5	42.8	99.2	

* There are 6 micro-credit development banks other than 5 rural development banks.

Table 71

**SOURCES AND USES OF FUNDS OF FINANCIAL COOPERATIVE SOCIETIES
(With Limited Banking Transaction)**

	Mid - July		Amount Change		Percentage Change		Rs. in million
	2004#	2005*	2004/05	2005/06	2004/05	2005/06	
Sources of Funds							
1. Capital Funds							
a. Paid-up Capital	247.2	277.6	324.8	47.2	12.3	17.0	12.8
b. General Reserve	191.7	202.4	228.4	10.7	5.6	20.1	8.7
c. Other Reserve	31.1	33.8	40.6	2.7	8.7	34.8	69.7
	24.4	41.4	55.8	17.0	14.4	16.6	2.7
2. Deposits	1,679.8	1,724.5	2,011.6	44.7	287.1	29.3	16.6
a. Saving	865.3	932.9	1,206.5	67.6	273.6	7.8	29.3
b. Fixed	626.8	574.7	569.5	-52.1	-8.3	-0.9	-8.3
c. Others	187.7	216.9	235.6	29.2	18.7	8.6	15.6
3. Borrowings	41.1	46.2	70.7	5.1	24.5	12.4	53.0
a. NRB	0.0	0.0	0.0	0.0	-	-	-
b. Commercial Banks	36.4	36.2	45.6	-0.2	9.4	26.0	-0.5
c. Other Financial Institution	4.7	10.0	25.1	5.3	15.1	112.8	151.0
4. P/L Account	-47.8	-4.5	62.8	43.3	67.3	-90.6	-1,495.6
5. Others	432.2	367.2	407.3	-65.0	40.1	10.9	19.3
Sources = Uses	2,352.5	2,411.0	2,877.2	58.5	466.2	2.5	19.3
Uses of Funds	2,352.5	2,411.0	2,877.2	58.5	466.2	2.5	19.3
5. Liquid of Funds	413.1	424.3	493.2	11.2	68.9	2.7	16.2
a. Cash in Hand	34.0	35.7	43.6	1.7	7.9	5.0	22.0
b. Bal. with NRB	20.1	20.2	12.8	0.1	-7.4	0.5	-36.6
c. Bal. with Dom. Bank	359.0	368.4	436.8	9.4	68.4	2.6	18.6
6. Investments	181.5	142.1	161.5	-39.4	19.4	-21.7	13.7
a. Govt. Securities	40.9	32.7	32.7	-8.2	0.0	-20.0	-0.1
b. Fixed Deposits	86.8	87.3	50.0	0.5	-37.3	0.6	-42.7
c. Others	53.8	22.1	78.9	-31.7	56.8	-58.9	256.9
7. Loans and Advances	1,310.6	1,431.5	1,665.4	120.9	233.9	9.2	16.3
a. Commercial Loan	547.6	640.1	741.2	92.5	101.1	16.9	15.8
b. Production Loan	40.1	73.0	32.8	32.9	-40.2	82.0	-55.1
c. Loan on FDR and Securities	70.4	72.4	85.0	2.0	12.6	2.8	17.4
d. Others	652.5	646.0	806.4	-6.5	160.4	-1.0	24.8
8. Others	447.3	413.1	557.2	-34.2	144.1	-7.6	34.9
9. P/L Account	0.0	0.0	0.0	-	-	-	-
# No. of Cooperatives	34						
* No. of Cooperatives	21						
** No. of Cooperatives	19						

Table 72
SOURCES AND USES OF FUNDS OF FINANCIAL NGOs
(Licensed by NRB)

	Rs. In thousand					
	2004#	Mid - July 2005*	2006**	Amount Change		Percentage Change 2005/06
				2004/05	2005/06	
Sources of Funds						
1. Funds	14,512.0	27,526.0	45,561.0	13,014.0	18,035.0	89.7
2. Staff Welfare Fund	9,465.0	18,899.0	26,209.0	9,434.0	7,310.0	38.7
a. Staff Welfare Fund	199.0	748.0	1,876.0	549.0	1,128.0	275.9
b. Staff Provident Fund	696.0	5,128.0	4,251.0	4,432.0	-877.0	636.8
c. Others	8,570.0	13,023.0	20,082.0	4,453.0	7,059.0	52.0
3. Risk Bearing Fund	15,041.0	30,874.0	13,068.0	15,833.0	-17,806.0	105.3
4. P/L Account (Net)	2,451.0	9,710.0	59,861.0	7,259.0	50,151.0	296.2
5. Borrowings	219,685.0	437,474.0	541,756.0	217,789.0	104,282.0	99.1
a. Domestic Institution	207,137.0	424,912.0	534,045.0	217,775.0	109,133.0	105.1
b. Foreign Institution	12,548.0	12,562.0	7,711.0	14.0	-4,851.0	0.1
6. Others	33,891.0	116,862.0	207,813.0	82,971.0	90,951.0	244.8
Sources = Uses	295,045.0	641,345.0	894,268.0	346,300.0	252,923.0	117.4
Uses of Funds	295,045.0	641,345.0	894,268.0	346,300.0	252,923.0	117.4
1. Liquid of Funds	106,309.0	168,767.0	131,980.0	62,458.0	-36,787.0	58.8
a. Cash in Hand	1,480.0	12,298.0	10,652.0	10,818.0	-1,646.0	730.9
c. Bal.with Dom. Bank	104,829.0	156,469.0	121,328.0	51,640.0	-35,141.0	49.3
2. Investment	10,179.0	56,423.0	48,563.0	46,244.0	-7,860.0	454.3
3. Micro Credit	114,824.0	259,395.0	439,819.0	144,571.0	180,424.0	125.9
4. Others	63,733.0	156,760.0	273,906.0	93,027.0	117,146.0	146.0

Number of NGO^s 24

* Number of NGO^s 44

** Number of NGO^s 47

Table 73

AGGREGATE SOURCES AND USES OF FUNDS OF INSURANCE COMPANIES

	Rs. in million									
	Mid - July									
	2004*		2005#		2006#					
Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Total
Sources of Funds										
1.	509.3	790.7	1,300.0	509.3	900	1,409.3	620.0	1060.0	1,680.0	
2.	54.0	846.0	900.0	54.0	1000.0	1,054.0	0.0	0.0	-	
3.	9185.0	1515.0	10,700.0	11000.0	2500.0	13,500.0	13817.5	4375.0	18,192.5	
4.	450.0	1250.0	1,700.0	1287.0	1000.0	2,287.0	1625.4	1189.7	2,815.1	
Sources = Uses	10,198.3	4,401.7	14,600.0	12,850.3	5,400.0	18,250.3	16062.9	6,624.7	22,687.6	
Uses of Fund	10,198.3	4,401.7	14,600.0	12,850.3	5,400.0	18,250.3	16062.9	6,624.7	22,687.6	
1.	200.0	300.0	500.0	250.0	650.0	900.0	975.0	1150.00	2,125.0	
2.	9779.1	2675.0	12,454.1	12000	3000.0	15,000.0	13034.0	3670.00	16,704.0	
3.	50.0	200.0	250.0	400.0	300.0	700.0	550.0	850.00	1,400.0	
4.	169.2	1226.7	1,395.9	200.3	1450	1,650.3	1503.8	954.71	2,458.5	

* Number of Companies - 19

Number of Companies - 21

Source: Insurance Board

Table 74

**DETAILS OF CREDIT GUARANTEED BY DEPOSIT INSURANCE AND
CREDIT GUARANTEE CORPORATION**

	2004		Mid-July		2005		2006		Amount Change		Percentage Change	
	Share %	2005	Share %	2006	Share %	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	
By Member Organisations												
1. Nepal Bank Limited	276.2	13.8	178.9	10.2	134.0	14.9	134.0	14.9	-97.3	-44.9	-35.2	-25.1
2. Rastriya Baniya Bank	475.9	23.8	315.5	18.1	72.1	8.0	72.1	8.0	-160.4	-243.5	-33.7	-77.2
3. Nabil Bank Ltd.	101.5	5.1	76.9	4.4	51.4	5.7	51.4	5.7	-24.6	-25.5	-24.2	-33.2
4. Nepal Indosuez Bank .	171.2	8.6	156.8	9.0	141.9	15.7	141.9	15.7	-14.4	-15.0	-8.4	-9.5
5. Himalayan Bank Ltd.	95.1	4.8	93.5	5.4	43.5	4.8	43.5	4.8	-1.6	-50.0	-1.7	-53.5
6. Lumbini Bank Ltd.	113.6	5.7	127.3	7.3	102.7	11.4	102.7	11.4	13.7	-24.7	12.1	-19.4
7. Bank of Kathmandu	-	-	69.9	-	59.9	6.6	59.9	6.6	-	-	-	-
8. Agri. Development Bank	50.2	2.5	0.0	0.0	0.0	0.0	0.0	0.0	-50.2	0.0	-100.0	0.0
9. Nepal Credit & Comm. Bank	76.1	3.8	72.0	4.1	55.6	6.2	55.6	6.2	-4.1	-16.4	-5.4	-22.8
10. Nepal S. B. I. Bank	635.9	31.9	655.6	37.5	239.8	26.6	239.8	26.6	19.7	-415.8	3.1	-63.4
Total	1,995.7	100.0	1,746.4	96.0	900.6	100.0	900.6	100.0	-249.3	-845.8	-12.5	-48.4
By Purpose												
1. Agricultural	408.6	20.5	378.2	21.7	150.2	16.7	150.2	16.7	-30.4	-228.1	-7.4	-60.3
2. Industry	632.2	31.7	544.5	31.2	539.2	59.9	539.2	59.9	-87.7	-5.3	-13.9	-1.0
3. Service	954.9	47.8	823.7	47.2	211.2	23.5	211.2	23.5	-131.2	-612.5	-13.7	-74.4
Total	1,995.7	100.0	1,746.4	100.0	900.6	100.0	900.6	100.0	-249.3	-845.8	-12.5	-48.4
By Development Region												
1. Eastern	144.2	7.2	89.6	5.1	60.5	6.7	60.5	6.7	-54.6	-29.1	-37.9	-32.5
2. Central	1,627.8	81.6	1,500.0	85.9	797.5	88.5	797.5	88.5	-127.8	-702.5	-7.9	-46.8
3. Western	106.7	5.3	72.6	4.2	37.2	4.1	37.2	4.1	-34.1	-35.4	-32.0	-48.7
4. Mid-Western	25.9	4.3	10.4	0.6	5.2	0.6	5.2	0.6	-15.5	-5.2	-59.8	-49.9
5. Far-Western	91.1	4.6	73.8	4.2	0.2	0.0	0.2	0.0	-17.3	-73.6	-19.0	-99.7
Total	1,995.7	100.0	1,746.4	100.0	900.6	100.0	900.6	100.0	-249.3	-845.8	-12.5	-48.4

Source: Deposit Insurance and Credit Guarantee Corporation (Pvt.) Ltd.

Table 75
CREDIT OPERATION OF EMPLOYEES'
PROVIDENT FUND

	Rs. in million						
	Mid-July			Amount Change		Percentage Change	
	2004	2005	2006 ^P	2004/05	2005/06	2004/05	2005/06
1. Loans Disbursed	4,854.9	7,211.6	5,655.4	2,356.7	-1,556.2	48.5	-21.6
2. Loans Repaid	1,569.0	1,692.9	2,103.1	123.9	410.2	7.9	24.2
3. Net Loans Disbursed	3,285.9	5,518.7	3,552.3	2,232.8	-1,966.4	68.0	-35.6
4. Loans Outstanding	17,321.9	22,840.6	26,392.9	5,518.7	3,552.3	31.9	15.6

Source: Employees' Provident Fund

Table 76
SOURCES AND USES OF FUNDS OF EMPLOYEES' PROVIDENT FUND

	Rs. in million					
	Mid - July			Amount Change		Percentage Change
	2004	2005	2006 ^p	2004/05	2005/06	2004/05
Sources of Funds						
1. Provident Funds	36,837.0	41,256.0	48,176.7	4,419.0	6,920.7	12.0
2. Reserve Fund	2,494.0	2,481.1	2,880.0	-12.9	398.9	-0.5
3. Other Provisions	552.1	1,445.3	0.0	893.2	-1,445.3	161.8
Sources = Uses	39,883.1	45,182.4	51,056.7	5,299.3	5,874.3	13.3
Uses of Funds	39,883.1	45,182.4	51,056.7	5,299.3	5,874.3	13.3
1. <i>Loan</i>	17,653.8	23,372.5	26,803.3	5,718.7	3,430.8	32.4
a. Employee's	14,281.5	18,093.2	21,817.5	3,811.7	3,724.3	26.7
b. Institutional	3,372.3	5,279.3	4,985.8	1,907.0	-293.5	56.5
2. <i>Investment</i>	21,549.7	21,029.2	23,139.4	-520.5	2,110.2	-2.4
a. Share	255.1	310.6	390.8	55.5	80.2	21.8
b. HMG Securities	5,198.6	5,088.6	4,228.6	-110.0	-860.0	-2.1
c. Fixed deposits	16,096.0	15,630.0	18,520.0	-466.0	2,890.0	-2.9
4. Cash and Bank Balance	914.5	915.5	1,252.2	1.0	336.7	0.1
5. Fixed Assets	467.6	813.2	845.5	345.6	32.3	73.9
6. Other Assets	-702.5	-948.0	-983.7	-245.5	-35.7	34.9
						3.8

Source: Employees' Provident Fund

Table 77

SOURCES AND USES OF FUNDS OF CITIZEN INVESTMENT TRUST

	Mid - July			Amount Change			Rs. in million	
	2004	2005	2006 ^P	2004/05	2005/06	2004/05	2005/06	
Sources of Funds								
1. Paidup Capital	40.0	40.0	40.0	0.0	0.0	0.0	0.0	
2. Reserve Fund	40.5	40.5	45.8	0.0	5.3	0.0	13.1	
3. Fund Collection	4,039.2	5,665.0	6,376.0	1,625.8	711.0	40.3	12.6	
4. Other Liabilities	692.7	162.1	322.8	-530.6	160.7	-76.6	99.1	
Sources = Uses	4,812.4	5,907.6	6,784.6	1,095.2	877.0	22.8	14.8	
Uses of Fund								
1. Cash and Bank Balance	1,166.2	744.5	574.0	-421.7	-170.5	-36.2	-22.9	
2. Investment	2,865.7	3,834.5	5,189.5	968.8	1,355.0	33.8	35.3	
3. Loans & Advances	488.3	934.5	628.6	446.2	-306.0	91.4	-32.7	
4. Fixed Assets	2.9	3.4	55.2	0.5	51.8	17.2	1,523.2	
5. Other Assets	289.3	390.7	337.4	101.4	-53.3	35.1	-13.6	

Source: Citizen Investment Fund