

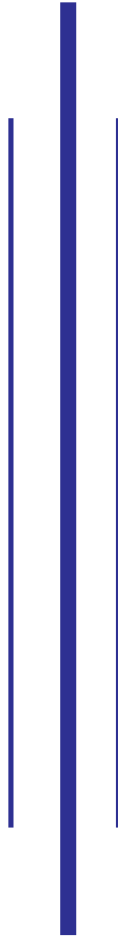
**Report
of
Fiscal Year 2004/05**



Nepal Rastra Bank



Report of Fiscal Year 2004/05



Nepal Rastra Bank

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Nepal Rastra Bank

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Date: November 15, 2005

Hon'ble Finance Minister
His Majesty's Government
Ministry of Finance
Singha Durbar, Kathmandu

Dear Sir,

I hereby submit, with this letter, the report of fiscal year 2004/05 in accordance with Clause 91 and 93 (1) of the Nepal Rastra Bank Act, 2002.

Yours faithfully,

(Bijaya Nath Bhattarai)

c.c.
Secretary
His Majesty's Government
Ministry of Finance
Singha Durbar, Kathmandu

Acronyms Used

ACU	Asian Clearing Union	MBL	Machhapuchhre Bank Limited
ADB	Asian Development Bank	MDGs	Millennium Development Goals
ADB/N	Agricultural Development Bank (Nepal)	MT	Metric Ton
AGM	Annual General Meeting	MW	Mega Watt
APRACA	Asia Pacific Rural and Agricultural Credit Cooperative Association	n.i.e.	not included elsewhere
BAFIO	Bank and Financial Institutions Ordinance	NaBL	Nabil Bank Limited
BIS	Bank for International Settlement	NBBL	Nepal Bangladesh Bank Limited
BOKL	Bank of Kathmandu Limited	NBL	Nepal Bank Limited
BOP	Balance of Payments	NCCBL	Nepal Credit and Commerce Bank Limited
BTC	Bankers' Training Centre	NDA	Net Domestic Assets
CAD	Cash Against Document	NEA	Nepal Electricity Authority
CBS	Central Bureau of Statistics	NEPSE	Nepal Stock Exchange
CIB	Credit Information Bureau	NFA	Net Foreign Assets
CIT	Citizen Investment Trust	NGOs	Non Governmental Organizations
CMD	Currency Management Department	NIB	Nepal Investment Bank
COCG	Computer Operation Core Group	NICBL	Nepal Industrial and Commercial Bank Limited
CPI	Consumer Price Index	NIDC	Nepal Industrial Development Corporation
CRR	Cash Reserve Ratio	NPL	Non-performing Loan
CRRDBL	Central Region Rural Development Bank Limited	NRB	Nepal Rastra Bank
CSCs	Citizen Savings Certificates	NSBIBL	Nepal SBI Bank Limited
DBs	Development Bonds	NSCs	National Saving Certificates
DFID	Department for International Development	OMOs	Open Market Operations
DICGC	Deposits Insurance and Credit Guarantee Corporation	OP	Old Print
EBL	Everest Bank Limited	PAN	Permanent Account Number
EPF	Employees' Provident Fund	PCRW	Production Credit for Rural Women
ERRDBL	Eastern Region Rural Development Bank Limited	PRGF	Poverty Reduction and Growth Facility
FRSP	Financial Sector Reform Project	RBB	Rastriya Banijya Bank
GDP	Gross Domestic Product	RBI	Reserve Bank of India
GHC	Grievance Hearing Cell	RDBs	Rural Development Banks
GNDI	Gross National Disposable Income	RM	Reserve Money
GNI	Gross National Income	RMDC	Rural Microfinance Development Centre
HBL	Himalayan Bank Limited	RSRF	Rural Self Reliance Fund
HMG/N	His Majesty's Government of Nepal	SBL	Siddhartha Bank Limited
HR	Human Resource	SBs	Special Bonds
IAS	International Accounting Standard	SCBNL	Standard Chartered Bank Nepal Limited
IFAD	International Fund for Agricultural Development	SDR	Special Drawing Rights
IMF	International Monetary Fund	SEBON	Securities Board of Nepal
IT	Information Technology	SFDB	Small Farmers' Development Bank
KBL	Kumari Bank Limited	SLF	Standing Liquidity Facility
KYC	Know Your Customer	STI	Second Tier Institution
L/C	Letter of Credit	TBs	Treasury Bills
LaBL	Laxmi Bank Limited	TOR	Terms of Reference
LMFF	Liquidity Monitoring and Forecasting Framework	TT	Telegraphic Transfer
LuBL	Lumbini Bank Limited	UK	The United Kingdom
M1	Narrow Money Supply	US	The United States
M2	Broad Money Supply	VAT	Value Added Tax
		VRS	Voluntary Retirement Scheme
		WB	World Bank
		WPI	Wholesale Price Index
		WRRDB	Western Region Rural Development Bank
		WTPAP	Western Terai Poverty Alleviation Project

Contents

1 Overall Macroeconomic Situation

World Output, Trade and Inflation	1	Debenture Issued by Commercial Banks and NIDC	
Macro Economic Situation of Nepal	1	Capital Market	12
Gross Domestic Products	1	Share Market	12
Agricultural Sector	2	Financial Institutions	13
Industrial Sector	3	Number of Financial Institutions	13
Services Sector	3	Commercial Banks	13
Consumption, Investment and Savings	3	Sources of Funds	13
Gross National Disposable Income	4	Uses of Funds	13
Price Situation	4	Ratio of Non-performing Loans of	
Consumer Price Index	4	Commercial Banks	13
Wholesale Price Index	5	Agricultural Development Bank	14
Monetary Situation	5	Finance Companies	14
Monetary Aggregates	5	Financial Cooperatives	14
Factors Affecting Monetary Aggregates	5	Insurance Companies	14
Reserve Money	6	Employees' Provident Fund	14
Money Multiplier	6	Citizen Investment Trust	14
Government Finance	6	Postal Savings Bank	14
Government Budget Deficit	6	An Outlook of the Overall Economic Situation	
Expenditure	6	for 2005/06	15
Resources	7	World Output and Inflation	15
Outstanding Domestic Debt	7	Overall Situation of the Nepalese Economy	15
External Sector	7	Economic Growth	15
Overall Trade Situation	7	Price Situation	15
Export and Import of Goods	7	Money, Supply and Interest Rate	15
Trade Deficit	7	Foreign Trade, Balance of Payments and	
Exports to India	7	Interest Rate	15
Exports to Other Countries	7	Chart	
Imports from India	8	Chart 1.1 Productivity of Major Food Grains	2
Imports from Other Countries	8	Chart 1.2 Productivity of Major Cash Crops	2
Total Import and Export based on Balance of		Chart 1.3 Monsoon Rain Analysis of 2004/05	3
Payments Statistics	8	Chart 1.4 GNDI and GDP (At 1994/95 prices)	4
Travel Income	8	Chart 1.5 Inflation	4
Income Receipts	8	Chart 1.6 Growth Rate of M1	
Grant and Private Sector's Remittances	8	(Annual Percentage Change)	5
Current Account	8	Chart 1.7 Growth Rate of M2	
Capital and Financial Account	9	(Annual Percentage Change)	5
Balance of Payments	9	Chart 1.8 Growth Rate of Domestic Credit	
Gross Foreign Exchange Reserve	9	(Annual Percentage Change)	5
External Debt	9	Chart 1.9 Growth Rate of Private Sector Credit	
Financial Market and Financial Institutions	9	(Annual Percentage Change)	6
Financial Structure	9	Chart 1.10 Government Expenditure, Resources and	
Money Market and Financial Market	10	Budget Deficit	7
Liquidity in Money Market	10	Chart 1.11 Foreign Trade	7
Primary Market Transaction in Treasury Bills	10	Chart 1.12 NEPSE Index	12
Secondary Market Transactions in Treasury Bills	10	Chart 1.13 Growth Rate of Total Deposits with	
Inter-bank Transactions	11	Commercial Banks (Annual Percentage	
Refinance Facilities to Commercial Banks and		Change)	13
Financial Institutions	11	Text Tables	
Interest Rate Structure	11	Table 1(A) Growth Rate of GDP at Factor Cost	
Foreign Exchange Market	11	(At 1994/95 prices)	2
Exchange Rate	12		
Development Bonds of the Government	12		

Table 1(B)	Relative Contribution to GDP (At 1994/95 Prices)	3	Table 1.6	National Urban Consumer Price Index (Base Year: 1995/96=100)	20
Table 1(C)	Gross National Disposable Income	4	Table 1.7	National Wholesale Price Index (Base Year: 1999/2000=100)	21
Table 1(D)	Reserve Adequacy Indicators	9	Table 1.8	Monetary Survey	22
Table 1(E)	Financial Structure	10	Table 1.9	Government Budgetary Operation (On Cash Basis)	23
Table 1(F)	Inter bank Transactions	11	Table 1.10	Outstanding Domestic Debt of the Government of Nepal	24
Table 1(G)	Structure of Interest Rate	11	Table 1.11	Direction of Foreign Trade	25
Table 1(H)	Foreign Exchange Interventions	11	Table 1.12	Exports of Selected Commodities to Other Countries	25
Table 1(I)	Exchange Rate	12	Table 1.13	Balance of Payments	26
Table 1(J)	Primary Issue of 5 years Development Bonds of Government of Nepal	12	Table 1.14	Gross Foreign Exchange Holding of the Banking System	27
Table 1(K)	Debentures Issued by Commercial Banks and NIDC Capital Market	12	Table 1.15	Stock Market Indicators	27
Table 1(L)	Ratio of Non-Performing Loans of Commercial Banks	14	Table 1.16	Condensed Assets and Liabilities of Commercial Banks	28
Appendix Tables					
Table 1.1	Growth of the World Economy	16	Table 1.17	Credit Operations of ADB/N and NIDC	29
Table 1.2	World Trade (Annual Percentage Change)	17	Table 1.18	Sources and Uses of Funds of Finance Companies	29
Table 1.3	World Price Situation (Annual Percentage Change)	17	Table 1.19	Sources and Uses of Funds of Co-operative Societies	30
Table 1.4	Macroeconomic Indicators	18	Table 1.20	List of Licensed Banks and Financial Institutions	31
Table 1.5	Sectoral Growth Rates of GDP (At 1994/95 Prices)	19			

2 Activities of Nepal Rastra Bank

Monetary Policy of 2004/05	37	Inspection and Supervision of Banks and Financial Institutions	42
Objectives	37	Commercial Banks	42
Monetary Policy Strategies	37	Financial institutions other than Commercial Banks	44
Operating Target of Monetary Policy	37	Finance Companies	45
Monetary Policy Stance and Instruments	37	Co-operatives/NGOs	50
Bank rate and Refinance rate	37	Micro-finance Programs	50
Cash Reserve Ratio	38	Production Credit for Rural Women	50
Open Market Operation	38	Micro Credit Program for Women	51
Standing Liquidity Facility	38	Western Terai Poverty Alleviation Project	51
Issue of Development Bonds Through Auction	38	Rural Self Reliance Fund	51
Refinance Facility for Sick Industries	39	Third Livestock Development Project	52
Rural Self-Reliance Fund	39	Rural Development Banks	52
Priority Sector and Deprived Sector		Foreign Exchange Management	52
Lending Program	39	Currency Management	53
Moral Suasion	39	Miscellaneous Activities of NRB	54
Financial Sector Reform	39	Corporate and Payment Systems Reform	54
Re-engineering of NRB	39	Legal Reforms	54
Restructuring of RBB and NBL	40	Internal Auditing	54
Regulation, Inspection and Supervision of Banks and Financial Institutions	40	Fourth Family Budget Survey Project	54
Regulation of Banks and Financial Institutions	40	Human Resource Management	55
Unified Directives	40	Information Technology	55
Additional Provisions Regarding Blacklisting	41	Training, Workshop, Seminar and Interaction	56
Agricultural Development Bank Registered as a Company	42	Publication and Broadcasting	57
License to New Finance Companies	42	Other Works	57
Micro Finance Institutions	42	Activities of the offices	57
		Nepal Rastra Bank, Biratnagar	57

Nepal Rastra Bank, Janakpur	58	Table 2 (H)	Inspection of Development Banks and Implementation Status of the Remarks Made in Inspection Reports	44	
Nepal Rastra Bank, Birgunj	58				
Nepal Rastra Bank, Pokhara	58				
Nepal Rastra Bank, Siddharthanagar	58	Table 2 (I)	Status of Implementation of the Remarks Made in Inspection Report of Finance Companies	46	
Nepal Rastra Bank, Nepalgunj	59				
Nepal Rastra Bank, Dhangadhi	59				
Board of Directors Meetings	59	Table 2(J)	Inspection of Cooperatives and Status of Inspection Remarks	50	
		Table 2(K)	Inspection of NGOs and Status of Inspection Remarks	50	
			Appendix Tables		
Chart					
Chart 2.1	Human Resources of NRB	55			
			Text Tables		
Table 2 (A)	Inflation and BOP Surplus in 2004/05	37	Table 2.1	Outstanding Refinance to Banks and Financial Institutions	60
Table 2 (B)	Growth of Broad and Narrow Money (in percent)	37	Table 2.2	Notes in Circulation	60
Table 2 (C)	Bank Rate and Refinance Rates	38	Table 2.3	Security against Note Issued	61
Table 2 (D)	Open Market Operation in Treasury Bills	38	Table 2.4	Established Posts and Employees by Class	61
Table 2 (E)	Status of Standing Liquidity Facility in 2004/05	38	Table 2.5	Seminars and Trainings Conducted by BTC	62
Table 2 (F)	Commercial Banks using Refinance Facilities in 2004/05	39	Table 2.6	Foreign Trainings, Seminars, Meetings and Workshops	63
Table 2 (G)	Amount Deposited in Rural Self-Reliance Fund by NRB	39	Table 2.7	Domestic Trainings, Seminars and Workshops	67
			Table 2.8	Higher Studies	67

3 Annual Financial Statements of NRB

Assets & Liabilities	71		Charts	
Income Statement	72	Chart 3.1	Asset Structure of Nepal Rastra Bank	71
Cash flow Analysis	73	Chart 3.2	Liabilities Structure of Nepal Rastra Bank	72
		Chart 3.3	Operating Income Structure of Nepal Rastra Bank	72
		Chart 3.4	Expenses Structure of Nepal Rastra Bank	73

Appendix

Appendix (A)	NRB Organization Chart	107
Appendix (B)	Board of Directors	108
Appendix (C)	Principal Officers	109

PART

I



● World Output, Trade and Inflation	1
● Macro Economic Situation of Nepal	1
● Price Situation	4
● Monetary Situation	5
● Government Finance	6
● External Sector	7
● Financial Market and Financial Institutions	9
● Money Market and Financial Market	10
● Financial Institutions	13
● An Outlook of the Overall Economic Situation for 2005/06	15

Overall Macroeconomic Situation

World Output, Trade and Inflation

1.1 The International Monetary Fund (IMF) in its World Economic Outlook (WEO) showed the world output growth at 5.1 percent in 2004. This growth rate was higher than that of 2003 by 1.1 percentage points (Table 1.1). Likewise, the Asian economy grew by 6.8 percent, with China and India registering growth rates of 9.6 percent and 7.2 percent respectively. The IMF projected the economic growth rate at 4.3 percent for both 2005 and 2006. Despite the sluggishness in growth rates of construction and trade, world economy sustained robust growth in 2005 with an expansion in services sector. However, high and volatile petroleum prices together with the widening world current account deficit and regional disparities in the world are considered as the major challenges of the world economy in the future.

1.2 The world trade volume increased by 10.3 percent in 2004, nearly double to that of 2003 (Table 1.2). Imports of the advanced economies grew by 8.8 percent while imports of the developing nations surged by 16.4 percent. Similarly, the exports increased by 8.3 percent in advanced economies and 14.5 percent in developing countries in the review year.

1.3 The world headline inflation increased marginally in 2005. On the other hand, core inflation remained stagnant (Table 1.3). Despite the increasing trend in the short-term interest rate, long-term interest rate remained unexpectedly low in the world financial market. World capital market remained flexible with strong business profit and the robust balance sheets of companies

Macro Economic Situation of Nepal

1.4 In 2004/05, economic growth rate of Nepal remained lower than that of previous year. Unfavorable monsoon caused a decline in the yield of paddy. As a consequence, agricultural output is estimated to grow by a modest rate of 3.0 percent. Growth rate of construction and trade, restaurant and hotel sub-sectors remained negative. The sharp fall in the imports of construction materials as well as the marginal increase in the domestic production together with sharp fall in tourist arrival resulted in a negative growth in the said sub-sector. Consequently, the non-agricultural sector

is estimated to grow by 2.1 percent in 2004/05. Due to the above mentioned reasons, the gross domestic product (GDP) is estimated to grow by 2.7 percent at producers' price and 2.3 percent at factor cost in 2004/05.

1.5 In the review year, both the monetary aggregates registered a slower expansion. Broad money (M2) increased by 8.3 percent while the narrow money (M1) rose by 6.6 percent. The net foreign assets and the total domestic credit, the expansionary factors of money supply, increased by 5.3 percent and 13.8 percent respectively. The time deposit, an important factor of M2, increased by 9.2 percent. Net non-monetary liabilities surged by 21.5 percent.

1.6 The annual inflation rate, based on the national urban consumer price index (CPI), averaged at 4.5 percent. The increase in the prices of petroleum products, the hike in the value added tax rate and the unexpected rise in the prices of rice accounted for the marginally higher inflation rate in the review year. Likewise, the National Wholesale Price Index (WPI) also increased at a higher rate of 7.3 percent, on an average.

1.7 In the review year, the NEPSE index increased by 64.6 points to 286.6. Similarly, the number of listed companies, paid up capital, market capitalization and turnover also increased.

1.8 The budget deficit of the government based on the cash flow statement increased by 12.9 percent in the review year compared to the increase of 0.7 percent last year. The growth rate of budget deficit remained high on account of a decelerated growth of non-debt resources. However, the growth rate of total government expenditure remained similar to that of last year.

1.9 In the review year, the overall balance of payments (BOP) surplus remained at Rs. 5.74 billion compared to a surplus of Rs. 16.00 billion in the previous year. Despite the increase in remittance inflow, the overall BOP surplus declined in the review year due to the remarkable decrease of foreign exchange earning from tourism and the fall in foreign aid and loan assistance as well as the miscellaneous capital inflow.

Gross Domestic Product

1.10 GDP increased by 2.3 percent at factor cost and 2.7 percent at producers' price (Table 1.5) in 2004/05. These

growth rates were 3.5 percent and 3.8 percent respectively in the previous year. In the review year, the production of paddy, the principal food grain declined by 3.7 percent due to flood and drought in different parts of the country, lowering the growth of agricultural production. It increased by 3.0 percent compared to a growth of 3.9 percent in the previous year. Despite the marginal increase in internal production, the production of construction sub-sector declined by 0.1 percent. Likewise, the production of trade, restaurant and hotel sub-sector declined by 2.1 percent owing to a substantial decline in tourist arrivals. Because of the above reasons, aggregate production of non-agriculture sector is estimated to grow by 2.1 percent in the review year, compared to a growth of 3.4 percent in the previous year.

Table 1(A)
Growth Rate of GDP at Factor Cost
(At 1994/95 prices)

Sub-sector	2002/03	2003/04	2004/05	(Percent)	
				Average of 3 years	Minimum target of the 10th Plan
Agriculture	2.5	3.9	3.0	3.1	2.8
Non-Agriculture	3.4	3.4	2.1	3.0	5.2
Industries	3.3	1.1	1.5	2.0	
Services	3.4	4.8	2.4	3.6	
Total	3.3	3.5	2.3	2.9	4.3

Source: Central Bureau of Statistics and National Planning Commission.

Agricultural Sector

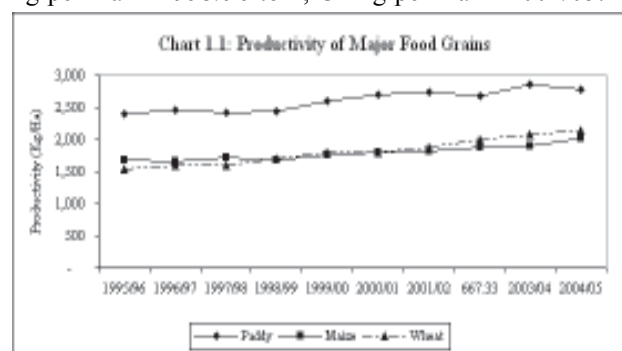
1.11 Analyzing the GDP components after grouping them into three broad headings as Agricultural, Industrial and Services, the growth rate of agricultural sector is estimated to decelerate in the review year compared to that of the previous year.

1.12 The production of maize, oilseeds, potato, fruits and vegetables rose substantially whereas the production of other crops as well as milk, fish and meat increased marginally in the review year. Overall agricultural production grew by 3.0 percent in the review year compared to a growth of 3.9 percent last year. The production of paddy, constituting about 20 percent weight in the overall agricultural production index, decreased by 3.7 percent as against a growth of 7.8 percent in the previous year.

1.13 Among the food grains, the production of maize, wheat and millet increased by 7.9 percent, 4.0 percent and 2.3 percent respectively whereas the production of barley decreased by 2.9 percent in the review year. Among cash crops, the production of oilseeds, potato, jute and sugar increased by 6.9 percent, 5.8 percent, 4.6 percent and 3.1 percent respectively whereas the production of tobacco decreased by 8.9 percent. Regarding other crops, the

production of vegetables, fruits and oilseeds grew by 10.1 percent, 7.2 percent and 2.2 percent respectively. Likewise, the production of fishery, milk, meat and eggs grew by 6.3 percent, 3.4 percent, 2.6 percent and 2.5 percent respectively whereas the production of forestry grew by 3.4 percent in the review year.

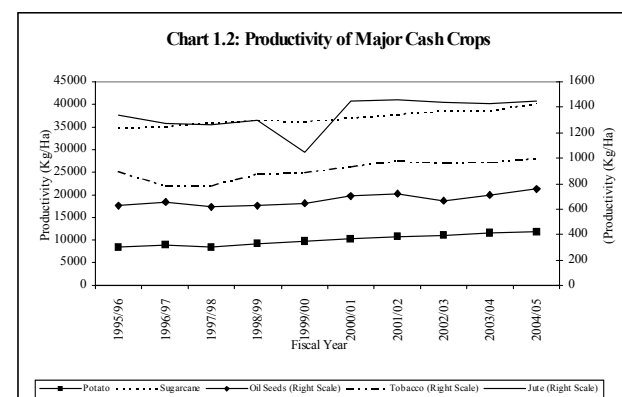
1.14 Analyzing the productivity of major food grains during the last ten years, the productivity of paddy remained the lowest at 2,391 kg per hectare (Ha) in 1995/96 and the maximum at 2,857 kg per Ha in 2003/04. This remained at 2782 kg per Ha in the review year. The productivity of paddy increased rather gradually in recent years except in 2002/03 and 2004/05. In the review year, the productivity of paddy declined due mainly to unfavorable monsoon. Likewise, the productivity of maize—another major food grain increased gradually from 1,681 kg per Ha in 1995/96 to 2,019 kg per Ha in 2004/05. Similarly, the productivity of wheat increased gradually from 1,550 kg per Ha in 1995/96 to 2,134 kg per Ha in 2004/05. In



aggregate, the productivity of food grains increased rather gradually (Chart 1.1).

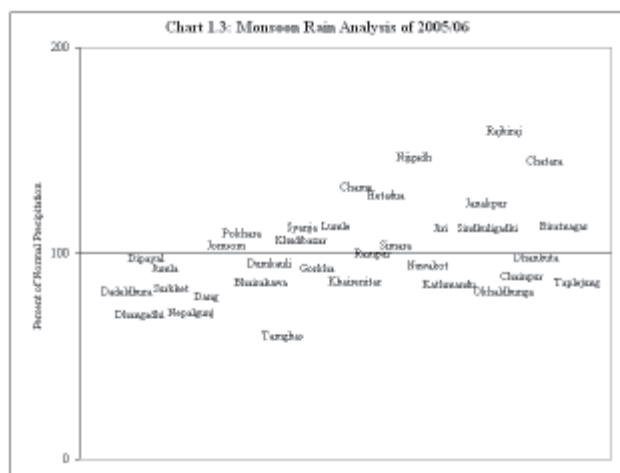
1.15 Analyzing the productivity of major cash crops during the last ten years, the productivity of oilseeds gradually increased from 627 kg per Ha in 1995/96 to the maximum of 756 kg per Ha in 2004/05. But the productivity had declined marginally in 1997/98 and 2002/03. Likewise, the productivity of other cash crops viz. sugar increased gradually from the lowest of 35,000 kg per Ha in 1995/96 to 40,217 kg per Ha in 2004/05. The productivity of potato increased from 8,475 kg per Ha in 1995/96 to 11,845 kg per Ha in 2004/05.

1.16 Out of 38 stations used for monsoon rain analysis, only 16 stations received more than normal precipitation while



Overall Macroeconomic Situation

remaining 22 stations recorded below the normal (Chart 3). Similarly, out of 41 stations used for winter rainfall analysis, 29 stations recorded more than normal and 12 stations recorded less than normal rainfall in the review year.¹



1.17 The industrial sector grew by 1.5 percent in 2004/05 compared to a growth of 1.1 percent in the previous year. Despite the marginal increase of domestic production, construction sub-sector declined by 0.1 percent. An increase in consumption goods due to internal migration together with the increment of export to India accounted for 2.6 percent growth in manufacturing sector. In the review year, electricity, gas and water sub-sector registered a growth of 4.8 percent due mainly to the commencement of new small hydro projects like Rairang Khola and Sunkoshi, the increase in urban population and the increase in the demand of electricity in industrial sector. Similarly, the mining and quarrying sub-sector witnessed a growth of 2.5 percent in the review year.

1.18 Despite the mixed performance in the production of different industrial goods, aggregate industrial production remained higher in the review year compared to that of the previous year. The annual production index (base year 2003/04 = 100) of 34 industrial goods recorded a growth of 2.6 percent. Among 20 industrial groups, the growth rate of production of tobacco remained lowest at 0.5 percent while that of vegetable ghee and oil witnessed the highest growth of 7.0 percent. However, the production of readymade garments declined by 19.6 percent.

1.19 Based on commodity wise analysis, the production of vegetable ghee, noodles, biscuits, sugar, soybean oil, processed milk, rice, wheat flour, animal feed, yarn, cotton clothes, woollen carpet, pashmina, sawn wood, newspaper, medicine, soap, iron road, domestic metal products, electrical

wires and cables, soft drink, beer, jute goods, processed leather, newspaper, plastic goods, bricks and tiles and cement increased. However, the production of readymade garments, mustard oil, rectified liquor, and synthetic clothes declined.

Table 1(B)
Relative Contribution to GDP
(At 1994/95 Prices)

Sub Sectors	(In percent)			
	Share in GDP		Relative Contribution to Growth Rate	
	2003/04	2004/05	2003/04	2004/05
Agriculture	38.8	39.1	41.5	47.8
Industries	22.4	22.2	6.7	13.8
Services	38.8	38.8	51.8	38.4
Total	100.00	100.0	100.0	100.0

Source: Central Bureau of Statistics and NRB.

Services Sector

1.20 The services sector recorded a growth of 2.4 percent in the review year compared to a growth of 4.8 percent in the previous year. Transport, communication and storage sub-sector grew by 5.1 percent due to the increase in the import of vehicles and expansion of communication services. The expansion of loan and advances to the private sector by financial institutions and the increment in the real estate transactions in the urban areas including the Kathmandu Valley helped the finance and real estate sub-sector to grow by 4.6 percent in the review year compared to a growth of 3.2 percent in the previous year. The growth of community and social services sub-sector declined marginally and remained at 2.8 percent in the review year compared to a growth of 3.0 percent in the previous year. A negative growth of 2.1 percent was recorded in trade, restaurant and hotel sub-sector in the review year. A substantial decline in tourist arrival and the lower growth in agricultural production accounted for the deceleration in trade, restaurant and hotel and for the lower growth in the services sector.

1.21 The number of foreign tourists visiting Nepal by air declined by 17.8 percent to 251 thousands in 2004/05. Tourists arrival from India declined by 18.3 percent to 77 thousands while that from other countries declined by 17.6 percent to 174 thousands.

Consumption, Investment and Savings

1.22 The share of total consumption in GDP marginally increased by 0.2 percentage points to 87.6 percent in the review year from 87.4 percent in the previous year. In the review year, private and public sector consumption remained at the same ratio as in the previous year and stood at 88.4 percent and 11.6 percent respectively. The ratio of investment to GDP increased by 2.5 percentage points to 28.9 percent in the review year from the 26.4 percent of the previous year. Similarly, the ratio of gross domestic saving to GDP marginally declined by 0.2 percentage points to 12.4 percent in the review year from 12.6 percent in the previous

¹ Department of Hydrology and Meteorology has defined 100 percent rainfall as normal rainfall, more than 100 percent rainfall as excess rainfall and less than 100 percent rainfall as deficit rainfall.

year. The ratio of fixed capital formation to GDP marginally declined by 0.2 percentage points to 18.9 percent in the review year from 19.1 percent in the previous year.

1.23 Gross domestic demand² at current prices grew by 9.9 percent compared to a growth of 8.7 percent in the previous year. In the review year, despite marginal decline in the growth of total consumption, gross domestic demand increased due mainly to the increase in capital expenditure of the government by 18.4 percent compared to that of the previous year. Private demand accounting for the 77.7 percent share in total domestic demand grew by 7.9 percent in 2004/05 compared to a growth of 8.9 percent in the previous year. Public consumption expenditure increased by 8.0 percent in the review year compared to a growth of 8.7 percent last year. In the review year, the external demand of Nepalese goods increased by 4.0 percent compared to a growth of 15.9 percent in the previous year.

Gross National Disposable Income

Gross National Disposable Income³

GNDI is the total income received by residents for either consumption or saving. It is the main basis for expenditure consumption decision and tendency and to analyze the flow of fund into the country.

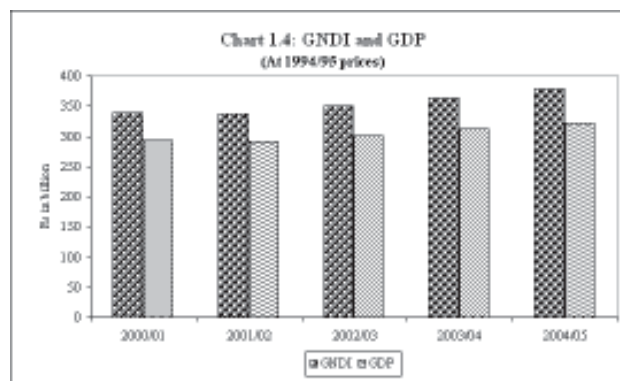
GDP measures the income from domestic production only. It doesn't include the income from abroad. GNDI is the sum of Gross National Income (GNI) and Net Transfer payment from abroad. Factor income includes (a) Income/ return/ interest from capital investment (b) Wages from seasonal laborers residing and working less than one year outside the country (c) Service income from land, buildings etc. Net transfer payment is the difference between the income received from non-residents and income earned in Nepal and sent by the foreigners in their country.

The calculation of GNDI and its comparison with other indicators is relevant and important since the remittance received from Nepalese workers from foreign employment plays a decisive role in internal consumption decisions and such expenditure affects the aggregate economic activities.

1.24 In 2004/05, the growth rate of gross national disposable income (GNDI) at market prices remained at 9.1 percent i.e. at the same rate of 2003/04. The growth rates of GDP at market prices remained at 7.4 percent in the review year compared to a growth of 8.8 percent of last year. Likewise, the ratio of GNDI to GDP remained at 118.6 percent in the review year compared to 116.8 percent in the previous year.

² Domestic demand comprises consumption, investment and change in stock of public and private sector.

³ GNDI is also a part of national account. the SNA 1993 has redefined Gross National Income (GNI) and GNDI and these aggregates are estimated in other countries. Since Central Bureau of Statistics has not started to estimate these indicators, considering the importance of these aggregates Nepal Rastra Bank has estimated the GNDI to explain the economic activities based on the theoretical concept of SNA 1993.



The contribution of remittance in net transfer payment remained substantial. Remittance income increased by 11.9 percent and the ratio of remittance to GDP remained at 12.3 percent in the review year. Likewise, GNDI at 1994/95 prices increased by 4.4 percent in the review year (Table 1. C). The comparative explanation of GDP and GNDI has been given in Chart 1.4.

Table 1 (C)
Gross National Disposable Income

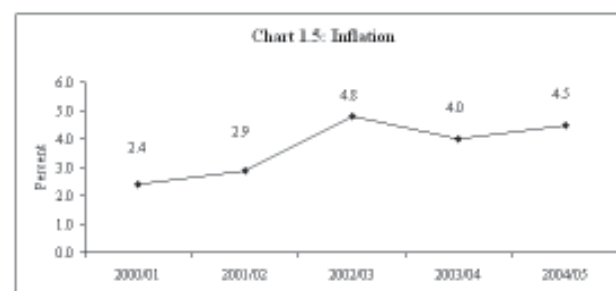
Particular	(At current prices)				
	2002/03	2003/04	2004/05	2003/04	2004/05
	Rs. in million			Percentage change	
Total Consumption	401897	434359	467202	8.1	7.6
Total Investment	118020	130993	154132	11.0	17.7
Internal Demand	519917	565352	621335	8.7	9.9
Net Export	(63242)	(68607)	(87796)	8.5	28.0
Gross Domestic Product	456675	496745	533538	8.8	7.4
Net Factor Income	(676)	(1684)	1637	149.2	(197.2)
Net Transfers	75533	84889	97704	12.4	15.1
Workers Remittances ⁴	54203	58588	65541	8.1	11.9
Gross National Disposable Income	531532	579955	632879	9.1	9.1

Source: Central Bureau of Statistics & Nepal Rastra Bank.

Price Situation

Consumer Price Index

1.25 In 2004/05, the annual average inflation measured by the National Urban CPI (1995/96 = 100) rose to 4.5 percent compared to an increase of 4.0 percent in the previous year (Table 1.6). Frequent upward revisions in prices of the petroleum products, the hike in the existing VAT rate and an unexpected rise in the price of rice were the factors exerting an upward pressure on the CPI.



Overall Macroeconomic Situation

1.26 On an annual basis, the index of food and beverages grew by 4.0 percent compared to an increase of 3.3 percent in the previous year. The rise in the prices of grains and cereals products, vegetables and fruits, restaurant meals, meat, fish and eggs as well as sugar and related products pushed up the price index of this group. The indices of sugar and related products, meat, fish and eggs, restaurant meals, vegetables and fruits, pulses, grains and cereal products, beverages and milk and milk products increased in the review year. However, the indices of oil and ghee as well as spices declined.

1.27 The index of non-food and services group increased by 5.1 percent compared to an increase of 4.7 percent in the previous year. The increase in the price index of this group was mainly attributable to the rise in the prices of petroleum products, which exerted an upward pressure on the prices of housing goods and services as well as transport and communication. The indices of housing goods and services, transport and communication, education, reading materials and recreation, cloth, clothing and sewing services, tobacco and related products, medical and personal care and footwear all increased in the review year.

1.28 Inflation rates were different for different regions. Region wise, the price index of the Kathmandu Valley increased by 5.0 percent and the indices of Terai and Hills increased by the same rate of 4.4 percent in the review year. Last year, the indices of the Kathmandu Valley, Terai and Hills had increased by 5.9 percent, 3.1 percent and 3.2 percent respectively.

Wholesale Price Index

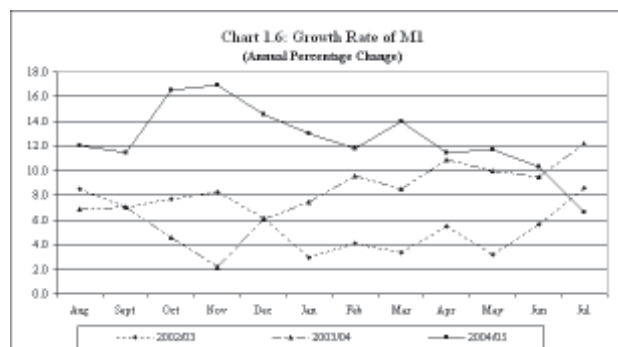
1.29 The National Wholesale Price Index (WPI) (1995/96 = 100), on an annual basis increased by 7.3 percent in 2004/05 compared to a rise of 4.1 percent last year. The higher growth in the price index was mainly attributable to the rise in the prices of food grains, cash crops, chemical fertilizer and chemical goods together with sharp rise in the prices of petroleum products. Group wise indices for the imported, the agricultural and the domestic manufactured commodities moved up by 10.1 percent, 7.3 percent and 6.2 percent respectively. The indices of petroleum products and coal, cash crops as well as construction materials increased by 23.9 percent, 22.2 percent and 15.4 percent respectively in the review year. The indices of spices and fruits and vegetables declined by 8.9 percent and 5.4 percent respectively.

Monetary Situation

Monetary Aggregates

1.30 Both monetary aggregates witnessed a decelerating growth in 2004/05. M2 increased by 8.3 percent to Rs 300.44 billion as at mid-July 2005 compared to a growth of 12.8 percent last year. Similarly, M1 registered a growth of 6.6 percent compared to a growth 12.2 percent last year and stood at Rs 100.21 billion as at mid-July 2005. A lower growth of workers' remittances on sources side

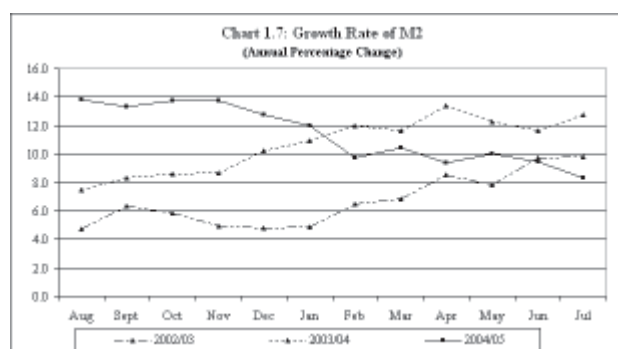
and a slowdown in economic growth on demand side slowed the growth of monetary aggregates in the review year.



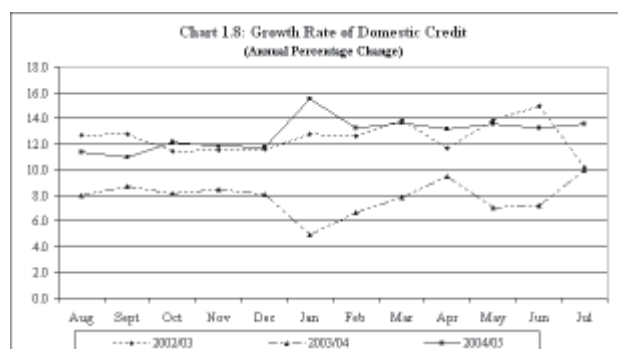
Factor Affecting Monetary Aggregates

1.31 Net foreign assets (NFA), after adjusting foreign exchange valuation gain/loss, one of the expansionary factors of monetary aggregates, remained subdued in the review year. It grew by 5.3 percent (Rs 5.74 billion) in the review year compared to a rise of 17.5 percent (Rs 16 billion) last year, and stood at Rs 107.74 billion as at mid-July 2005. The lower inflow of foreign aid suppressed the growth of NFA in the review year.

1.32 Domestic credit of monetary sector, another principal factor of monetary expansion, grew by a higher rate of 13.8



percent to Rs 280.24 billion as at mid-July 2005 compared to a growth of 9.9 percent in the previous year. Notwithstanding the decline in the claims on financial institutions, the rise in claims on non-financial institutions and net claims on government contributed to the growth of domestic credit in the review year.



1.33 Of the domestic credit, net claims on government increased by 11.3 percent in the review year and reached Rs 63.89 billion as at mid-July 2005. Last year, it had declined by 1.8 percent. Net claims on government in the review year increased on account of fall in foreign loan inflow, which necessitated the use of overdraft from Nepal Rastra Bank (NRB) on the top of mobilization of internal borrowing as stipulated in the government budget.

1.34 Monetary sector's claims on non-financial government institutions grew by 125.3 percent in the review year and amounted to Rs 6.57 billion. Last year, such claims had grown by a lower rate of 2.9 percent. The higher credit disbursed by commercial banks to Nepal Electricity Authority, Nepal Oil Corporation, National Trading Limited and Janak Education Material Center Limited increased the claims on non-financial government institutions in 2004/05.

1.35 In the review year, the claims on financial institutions declined by 4.4 percent and stood at Rs 12.76 billion as at mid-July 2005 as against an increase of 12.8 percent in the previous year. It declined due to the payment of refinance loans by Nepal Development Bank Limited and Development Credit Bank Limited to NRB together with lower cash balance maintained at the central office by branches of Agricultural Development Bank (ADB/N) undertaking commercial banking transactions in the review year.

1.36 Monetary sector's claims on private sector increased by 14.2 percent to Rs 197.02 billion as at mid-July 2005. It had increased by 14.3 percent last year. The new provision of black listing improved the recovery of bad loans in the last month of the review year.

1.37 In the review year, time deposits increased by 9.2 percent and reached Rs 200.23 billion as at mid-July 2005. Such deposits had increased by 13.1 percent in the previous year. A lower economic growth and a decreasing real interest rate lowered the growth of time deposits.

1.38 Net non-monetary liabilities, one of the contractionary factors of money supply, after adjusting foreign exchange valuation gain/loss, increased by 21.5 percent in the review year compared to a growth of 9.6 percent last year. In mid-July 2005, such liability stood at Rs 87.05 billion. A rise in paid-up capital and earning of commercial banks accounted for the growth in net non-monetary liabilities in the review year.

1.39 Net domestic assets (NDA) derived by deducting the net non-monetary liabilities from total domestic credit and after adjusting the foreign exchange valuation gain/loss, increased by 10.3 percent to reach Rs 192.70 billion as at mid-July 2005. It had increased by 10 percent in the preceding year.

Reserve Money

1.40 In the review year, reserve money grew by 2.2 percent and stood at Rs 96.54 billion as at mid-July 2005. Last year, it had increased by 16.6 percent. The decline in the deposits of commercial banks in NRB accounted for the lower growth of reserve money.

Money Multiplier

1.41 Both money multipliers expanded in the review year. Narrow money multiplier grew to 1.039 from 0.995 a year earlier whereas broad money multiplier grew to 3.112 from 2.937 last year. A deceleration in deposit of commercial banks with NRB increased the money multipliers in the review year.

Government Finance

Government Budget Deficit

1.42 In 2004/05, the government budgetary situation on a cash basis remained expansionary. The budget deficit of the government increased by 12.9 percent to Rs. 14.30 billion (Table 1.9). In 2003/04, it had increased by 0.7 percent. Though the growth of total government expenditure remained at previous year's level, low growth of non-debt resources contributed for such an expansion in budget deficit.

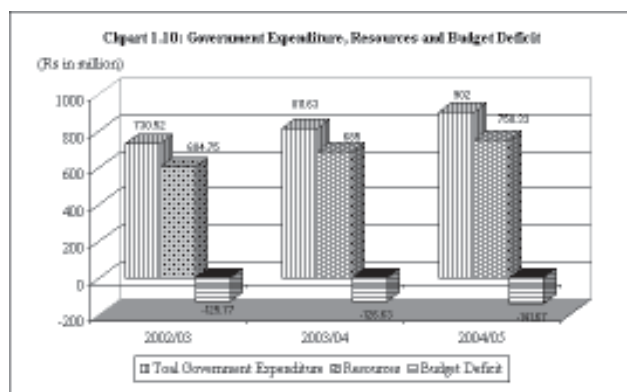
1.43 The government mobilized Rs. 14.30 billion as loan to finance the budget deficit. Of the sources of deficit financing, the government mobilized Rs. 12.09 billion through internal loan and remaining Rs. 2.21 billion through foreign loan. Of the components of internal loans, Rs. 5.47 billion was mobilized through the issuance of treasury bills (TBs), Rs. 3.00 billion through development bonds (DBs), Rs. 217.0 million through national saving certificates (NSCs) and Rs. 250.0 million through citizen saving certificates (CSCs). In addition to this, Rs. 525.0 million was utilized under other heading of government funds and the remaining short-fall amount of Rs. 2.62 billion was utilized as overdrafts. In 2003/04, government had a cash surplus of Rs. 753.0 million.

Expenditure

1.44 In the review year, total government expenditure, on a cash basis, grew by 11.4 percent to Rs. 90.38 billion compared to an increase of 11.1 percent in the previous year. Of the total expenditure, recurrent expenditure amounted to Rs. 59.02 billion, capital expenditure amounted to Rs. 16.44 billion and principal repayment amounted to Rs. 13.53 billion. Freeze expenditure declined by 14.2 percent to Rs. 1.39 billion. The continued growth of security expenditure as well as an increase in

Overall Macroeconomic Situation

employees' allowances accounted for such a high recurrent expenditure.



Resources

1.45 In the review year, total non-debt resources (revenue, non-budgetary and other and foreign grants) rose by 11.1 percent to Rs. 76.09 billion, compared to an increase of 13.3 percent last year. Revenue, a crucial component of non-debt resources went up by 12.5 percent to Rs. 70.12 billion in the review year, compared to an increase of 10.9 percent previous year. Of the other sources of non-debt resources, foreign cash grants increased by a marginal rate of 1.8 percent to Rs. 5.25 billion compared to an increase of 106.2 percent previous year. However, non-budgetary receipts (net) and other income declined compared to the previous year.

Outstanding Domestic Debt

1.46 Government mobilized internal loans of Rs. 12.09 billion and repaid some matured domestic debt in the review year. Consequently, the outstanding domestic debt of the government increased by 5.6 percent to Rs. 90.19 billion as of mid-July 2005 (Table 1.10). Such outstanding domestic debt had increased by 1.4 percent in the previous year. Of the total outstanding debt as at mid July 2005, TBs was as high as Rs. 51.38 billion followed by DBs Rs 20.00 billion, NSCs Rs. 6.58 billion, CSCs Rs. 1.43 billion and SBs Rs. 8.18 billion. Government mobilized Rs. 2.62 billion overdrafts from NRB. The ratio of outstanding domestic debt to GDP remained at 17.7 percent.

External Sector

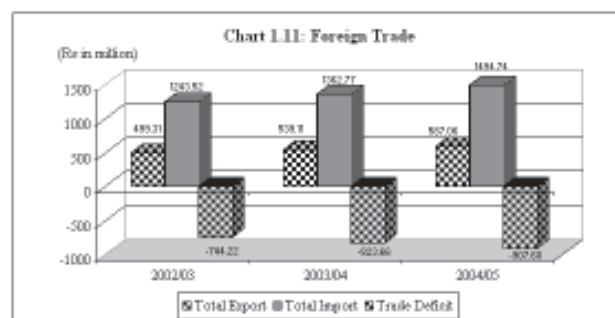
Overall Trade Situation

1.47 The external sector showed a mixed performance in 2004/05. Trade deficit increased because of the higher growth of imports compared to exports. Because of a decline in inflow of foreign loan and miscellaneous capital, balance of payments (BOP) posted a lower surplus compared to that of 2003/04.

Export and Import of Goods

1.48 Based on customs data, total exports increased by 8.9 percent (Rs.4.79 billion) to Rs. 58.71 billion compared to an increase of 8.0 percent in the previous year (Table 1.11).

Although exports to overseas countries declined considerably, total exports increased due to the expansion in exports to India. The ratio of total exports to GDP increased to 11.0 percent from 10.9 percent of the previous year. Likewise, total imports which had increased by 9.6 percent last year rose by 9.7 percent in the review year. Total imports amounted to Rs. 149.47 billion with the ratio of total imports to GDP at 28.0 percent. Last year, total imports aggregated Rs. 136.28 billion with the ratio of total imports to GDP at 27.4 percent. Total trade rose by 9.5 percent in the review year compared to a rise of 9.1 percent in the previous year.



Trade Deficit

1.49 In the review year, trade deficit expanded by 10.2 percent to Rs. 90.77 billion as compared to a growth of 10.7 percent in the previous year. Consequently, the ratio of trade deficit to GDP rose to 17.0 percent from 16.6 percent in the previous year (Table 1.11).

Exports to India

1.50 The review year witnessed a significant expansion of exports to India. Exports to India rose by 26.4 percent (Rs. 8.14 billion) to Rs. 38.92 billion in the review year compared to an increase of 16.4 percent in the previous year (Table 1.11). As a result, the share of exports to India in total exports increased to 66.3 percent from 57.1 percent of the previous year. In the review year, the exports of cardamom, vegetable ghee, catechu, jute goods, bag, plastic goods, juice, polyester yarn, copper wire rod, chemical and textiles, among others, increased, while that of tooth paste, ginger, soap, M.S. pipe, Readymade garment and pashmina goods, among others, decreased.

Exports to Other Countries

1.51 Exports to countries other than India decreased by 14.5 percent (Rs.3.34 billion) to Rs.19.79 billion as compared to a decline of 1.6 percent in 2003/04. In the review year, among the major goods exported to overseas, exports of readymade garments declined by 35.9 percent (Rs. 3.43 billion) to Rs. 6.12 billion, due to the abolition of the Multi-fiber Arrangement on January 1, 2005. In the previous year also exports of readymade garments had declined by 19.7 percent. In the review year, excluding woollen carpets, all the major goods export to overseas countries such as pashmina, pulses, silverware & jewelleryes and tanned skin

declined. The export of woollen carpets increased by 3.4 percent (Rs. 191.0 million) to Rs. 5.87 billion compared to a growth of 6.7 percent a year earlier (Table 1.12). Similarly, exports of pashmina to other countries, which had declined by 8.1 percent in the preceding year, fell further by 1.4 percent to Rs. 1.05 billion in the review year.

Imports from India

1.52 In the review year, imports from India rose by 12.6 percent (Rs. 9.94 billion) to Rs 88.68 billion compared to a growth of 11.0 percent last year (Table 1.11). In the review year, especially, the import of goods such as chemicals, petroleum products, medicine, cold-rolled sheet, polythene granular, polyester yarn and readymade garments increased, while the import of goods such as wheat, rice, hot-rolled sheet, M.S. billet, textiles, chemical fertilizer and cement declined. Of the total imports from India, goods worth Rs.16.33 billion (18.4 percent of total imports from India) were imported on payment of convertible currency. Last year, such imports had amounted to Rs.15.26 billion (19.4 percent of the total imports from India). As per this provision, the major goods that have been imported included M.S. billet, M.S. wire rod, industrial chemicals, polyester fiber, thread, hot rolled sheet, cold rolled sheet, nylon yarn, caustic soda and polythene granular. Trade deficit with India that had expanded by 7.8 percent last year went up by 3.7 percent in the review year. Consequently, the share of trade deficit with India in total trade deficit declined to 54.8 percent in the review year from 58.2 percent of the last year. Similarly, the share of imports from India in total imports increased to 59.3 percent from 57.8 percent in the previous year.

Imports from Other Countries

1.53 In the review year, imports from countries other than India increased by 5.7 percent and amounted to Rs. 60.80 billion compared to a rise of 7.7 percent last year. Imports of gold that had declined by 33.2 percent last year declined further by 90.2 percent in the review year. In the review year, the import of transport equipment & parts, M.S. billet, M.S. wire rod, copper wire rod, scrapes & sheet, medicine, medical equipments & tools and crude coconut oil, among others, from other countries increased while the import of threads, textiles, crude soybean oil, crude palm oil, chemical fertilizer, polythene granules, telecommunication equipment & parts, aircraft spare parts and electrical goods, among others, came down. Trade deficit with other countries increased by 19.2 percent compared to a rise of 15.0 percent last year. Similarly, the share of imports from other countries in total imports came down to 40.7 percent from 42.2 percent in the previous year.

Total Import and Export based on Balance of Payments Statistics

1.54 In the review year, after adjusting the transactions that were not entered from customs points, total exports, on f.o.b. basis, increased by 8.6 percent to Rs. 59.96 billion. Last year, such exports had increased by 8.8 percent. Total imports rose by 9.6 percent to Rs. 145.72 billion (Table 1.13).

While imports of petroleum products increased by 32.2 percent to Rs. 26.65 billion, imports of other merchandise goods went up by 5.6 percent. Last year, imports of petroleum products and other merchandise goods had increased by 7.2 percent and 10.3 percent respectively. As a result, total imports had increased by 9.8 percent in the previous year. Consequently, trade deficit increased by 10.4 percent to Rs.85.76 billion in the review year compared to a growth of 10.5 percent in the previous year.

Travel Income

1.55 On the services front, the receipts from travel declined by 42.3 percent to Rs. 10.46 billion compared to a growth of 54.5 percent last year whereas the receipts from government n.i.e. fell by 4.7 percent to Rs 6.80 billion compared to a rise of 7.8 percent in the previous year. Other service receipts dropped by 3.2 percent to Rs. 8.73 billion. Consequently, total service receipts declined by 24.2 percent to Rs. 26.00 billion in the review year in contrast to the increase of 29.4 percent last year. Similarly, on the payment side, transportation and other services expenses increased by 13.0 percent and 32.6 percent respectively while travel expenses decreased by 3.3 percent. As a result, total service expenses rose by 11.1 percent to Rs. 28.04 billion. This led to a net services payment of Rs. 2.03 billion compared to Rs. 9.0 billion last year. Consequently, the balance on goods and services posted a deficit of Rs. 87.80 billion, which is higher by 28.0 percent than that of last year.

Income Receipts

1.56 On the income front, income receipts increased by 101.8 percent to Rs. 7.75 billion in the review year while payment under this heading increased by 10.7 percent to Rs. 6.12 billion. The overall deficit in goods & services and income thus increased by 22.6 percent to Rs. 86.16 billion. Last year, such deficit had gone up by 10.0 percent to Rs.70.29 billion.

Grant and Private Sector's Remittances

1.57 On the transfer front, grant increased by 7.7 percent to Rs. 21.07 billion in the review year compared to a growth of 41.3 percent in the previous year. In the review year, workers' remittances increased by 11.9 percent to Rs. 65.54 billion. Pension receipts rose by 58.1 percent to Rs. 12.50 billion whereas other transfer receipts (Indian excise refund) declined by 29.4 percent to Rs. 2.19 billion. In the review year, transfer payment decreased by 15.6 percent in contrast to an increase by 91.4 percent last year. As a result, net transfer income increased by 15.1 percent to Rs. 97.70 billion compared to a growth of 12.4 percent in the previous year.

Current Account

1.58 In the review year, there was a surplus in the current account equivalent to Rs. 11.54 billion (2.2 percent of GDP). Last year, the surplus was Rs.14.60 billion (2.9 percent of GDP). Although there was a decline in net services income and net income, the rise in workers' remittances led to such a surplus in the current account.

Capital and Financial Account

1.59 In the review year, the capital transfers increased by 8.4 percent to Rs. 1.57 billion in contrast to a decline of 73.1 percent last year.

1.60 In the review year, other investment assets under the financial account rose by Rs. 21.86 billion including the trade credit of Rs. 324.0 million. Last year, other investment assets had increased by Rs. 32.59 billion. Likewise, under the other investment liabilities, trade credit came down to Rs 4.49 billion. In the review year, the inflow of the government loan was Rs.7.25 billion while repayment amounted to Rs. 5.95 billion. Consequently, net government loan amounted to Rs 1.30 billion. In the review year, currency and deposit liabilities came down by Rs 65.0 million. As a result, the financial account became negative by Rs. 25.54 billion.

Balance of Payments

1.61 Although the financial account was negative, reserves and related items increased by Rs.5.68 billion in the review year due to the significant surplus in current account and inflow of miscellaneous capital amounting to Rs. 18.10 billion. As a result, the overall BOP remained in surplus by Rs 5.74 billion. In the previous year, the BOP had recorded a surplus of Rs. 16.00 billion.

Gross Foreign Exchange Reserve

1.62 As at mid-July 2005, the gross foreign exchange holdings of the banking system amounted to Rs. 129.90 billion, of which the NRB's share comprised 80.4 percent (Table 1.14). Last year, the gross foreign exchange holdings of the banking system had aggregated Rs. 130.21 billion out of which the NRB's share was 82.9 percent.

1.63 The convertible foreign exchange reserve increased by 6.0 percent while the inconvertible foreign exchange reserve decreased by 55.4 percent during the year compared to that of the previous year. Such a decline in inconvertible reserve can be attributable to the rise in imports from India and fall in the earnings from Indian tourists. In the previous year, the convertible and inconvertible currency reserve had increased by 20.6 percent and 18.1 percent respectively. At mid-July 2005, the shares of the convertible and the inconvertible reserves in total foreign exchange reserve were 95.4 percent and 4.6 percent respectively. The share of the convertible currency was 89.8 percent and that of the inconvertible currency was 10.2 percent a year ago. At mid-July 2005, convertible currency reserve aggregated Rs. 123.98 billion.

1.64 On the basis of import of the review year, the foreign exchange reserve as at mid-July 2005 was enough to cover goods import of 10.4 months and goods and services import of 8.8 months. The ratio of gross foreign exchange to outstanding external debt stood at 58.8 percent at mid-July 2005. Likewise, gross foreign exchange to broad money supply ratio remained at 43.2 percent whereas gross foreign exchange to GDP ratio was 24.3 percent.

Table 1 (D)
Reserve Adequacy Indicators

	2002/03	2003/04	2004/05
Trade-related indicators (in months)			
Import Coverage (goods only)	10.4	11.5	10.4
Import Coverage (goods and services)	9.0	9.7	8.8
Debt- related indicator (in percent)			
Gross Foreign Exchange Reserve/ External Debt	48.4	55.9	58.8
Money-based indicators (in percent)			
Gross Foreign Exchange Reserve/ Broad Money	44.0	47.0	43.2
Gross Foreign Exchange Reserve/ Reserve Money	133.7	137.9	134.6
Macro-economic indicator (in percent)			
Gross Foreign Exchange Reserve/ GDP	23.7	26.3	24.3

External Debt

1.65 The total outstanding external debt declined by 5.2 percent to Rs 220.75 billion at mid-July 2005 compared to Rs 232.88 billion in the previous year. The decline in total outstanding external debt was attributable to the appreciation of Nepalese rupee vis-à-vis major foreign currencies (US dollar, pound sterling, euro and Japanese yen). The total external debt/GDP ratio and gross foreign exchange reserve/total external debt ratio stood at 41.7 percent and 58.8 percent, respectively, at mid-July 2005 compared to the corresponding ratios of 47.0 percent and 55.9 percent, respectively, a year ago.

Financial Market and Financial Institutions

Financial Structure

1.66 The ratio of total assets/liabilities of banking sectors and contractual saving institutions to GDP remained at 116.5 percent as at mid-July 2005. Such ratio was at 113.1 percent last year. The total assets/liabilities including share market capitalization stood at 128.1 percent.

1.67 In assets/liabilities composition of financial institutions, the share of commercial banks remained the highest at 55.3 percent as at mid-July 2005 followed by NRB 23.3 percent, provident fund 7.3 percent, finance companies 5.0 percent, development banks 4.4 percent and insurance companies 3.0 percent.

1.68 In financial structure, the market share of commercial banks increased while that of central bank decreased. The market share of other financial institutions was low, albeit growing. Looking at the position of commercial banks in financial structure, healthy financial status of commercial banks was desired for financial sector stability.

Report of Fiscal Year 2004/05

Table 1 (E)
Financial Structure

(Rs. in million)

	2003/04			2004/05		
	Total assets/ Liabilities	Percent	Ratio of total assets to GDP	Total assets/ Liabilities	Percent	Ratio of Total assets to GDP
Financial Institutions	501007.0	89.4	101.1	546797.0	88.7	103.4
Nepal Rastra Bank	144161.0	25.7	29.1	143552.0	23.3	27.1
Commercial Banks	309231.0	55.2	62.4	340633.0	55.3	64.4
Finance Companies	27199.0	4.9	5.5	30515.0	5.0	5.8
Development Banks	15701.0	2.8	3.2	26841.0	4.4	5.1
Cooperatives	2353.0	0.4	0.5	2411.0	0.4	0.5
Rural Development Bank	2363.0	0.4	0.5	284.5	0.4	0.5
Contractual Saving Institutions	59296.0	10.6	12.0	69340.0	11.3	13.1
Provident Fund	39883.0	7.1	8.0	45182.0	7.3	8.5
Citizen Investment Trust	4813.0	0.9	1.0	5908.0	1.0	1.1
Insurance Companies	14600.0	2.6	2.9	18250.0	3.0	3.4
Total	560303.0	100.0	113.1	616137.0	100.0	116.5
Ratio of Security Market Capitalization to GDP			8.4			11.6

1.69 At the end of the review year, altogether 423 branches including 375 branches of 17 commercial banks and 48 branches of ADB/N were providing banking services.

Money Market and Financial Market

Liquidity in Money Market

1.70 In the review year, excess liquidity of commercial banks fluctuated substantially. Commercial banks had excess liquidity of Rs 12.15 billion as at mid-July 2004, which fell down to Rs 9.07 billion as at mid-July 2005. As a consequence of a decline in excess liquidity, the weighted average 91-day TBs rate increased to 3.94 percent as at mid-July 2005 from 1.47 percent a year earlier. Likewise, weighted average inter-bank rate increased from 0.711 percent as at mid-July 2004 to 4.712 percent as at mid-July 2005.

1.71 To stabilize interest rate, NRB regularly absorbed and injected liquidity from/ to commercial banks through open market operations. Under this, NRB mopped up total liquidity of Rs 10.50 billion from commercial banks through outright sale auctions and injected Rs 1.31 billion through outright purchase auctions on turnover basis. Moreover, NRB injected liquidity of Rs 6.68 billion through repo auctions and mopped up Rs 5.27 billion through reverse repo auctions. Thus, in the review year, total liquidity mopped up and injected in the economy stood at Rs 15.77 billion and Rs 8.00 billion respectively. Consequently, open market operations (OMOs) absorbed net liquidity of Rs 7.77 billion from the money market. In the review year, commercial banks used Rs 49.31 billion loans under standing liquidity facility (SLF).

Primary Market Transaction in Treasury Bills

1.72 In the review year, TBs of Rs 63.65 billion were auctioned in primary market. Of the total amount of TBs auctioned, Rs 3.50 billion was 28-day TBs, Rs 30.50 billion was 91-day, Rs 4.30 billion was 182-day and Rs 25.34 billion was 364-day TBs. In the review year, TBs of 28-day were auctioned 21 times, 91-day 52 times, 182-day 13 times and 364-day 29 times.

1.73 In mid-July 2005, the outstanding amount of TBs of the government stood at Rs 51.38 billion. Out of which, TBs of 28-day were Rs 300 million (0.58 percent), 91-day were Rs 7.62 billion (14.83 percent), 182-day were Rs 2.13 billion (4.15 percent) and 364-day were Rs 41.38 billion (80.4 percent).

1.74 The weighted average discount rate of 28-day TBs stood at 1.7988 percent ranging from 0.2769 percent to 2.5217 percent. The weighted average discount rate of 91-day TBs stood at 2.4215 percent ranging between 0.2002 percent and 4.1519 percent. Likewise, the average discount rate for 182-day TBs stood at 2.9590 with 0.7500 percent minimum and 4.8500 percent maximum. Similarly, the average discount rate for 364-day TBs stood at 3.9018 percent with 2.3850 percent minimum to 5.0000 percent maximum.

Secondary Market Transactions in Treasury Bills

1.75 In the recent past, outright sale and outright purchase auctions in the OMOs were undertaken under the initiatives of commercial banks as guided by the yield curve, whereas repo rate was determined by adding some percentage points to the simple average rate derived from latest four weighted average discount rates of 91-day TBs. Likewise, secondary market transaction was conducted on the basis of tap sale.

Overall Macroeconomic Situation

In the review year, such provisions for open market operation were replaced by the provisions of outright sale auction, outright purchase auction, repo auction and reverse repo auction conducted on the basis of Liquidity Monitoring and Forecasting Framework (LMFF) and the situation of monetary aggregates. By deciding quantity for secondary market operations in TBs, it has been taken as an important monetary tool.

1.76 Contrary to the initiatives taken by commercial banks in the past, NRB has started to take initiative to conduct secondary market operation based on the liquidity situation of the economy. The LMFF has been put in place in Research Department of the NRB for proper management of secondary market operations. In 2004/05, under the open market operations of TBs, eleven repo auctions of Rs 6.68 billion, twelve outright sale auctions of Rs 11.80 billion, eight purchase auctions of Rs 1.50 billion and five reverse repo auctions of Rs 5.27 billion were undertaken.

Inter-bank Transactions

1.77 Compared to Rs 113.19 billion in 2003/04, inter-bank transactions increased by 35.1 percent to Rs 152.14 billion in 2004/05. Annual weighted average inter bank rate remained at 3.39 percent in 2004/05 compared to 3.03 percent in the previous year.

Table 1 (F)
Inter bank Transactions

	Rs in million			
	2003/04		2004/05	
	Average Interest Amount	Average Interest Rate	Average Interest Amount	Average Interest Rate
August	4870.0	4.15	4309.0	1.02
September	13805.0	2.67	13165.0	0.39
October	12575.0	3.60	12145.0	0.83
November	14759.0	4.21	9056.0	2.24
December	7900.0	4.63	11018.0	3.54
January	13400.0	4.68	11030.0	3.49
February	8080.0	4.82	12710.0	3.95
March	2800.0	3.67	9500.0	4.33
April	5860.0	0.83	18162.0	4.50
May	9070.0	1.01	13050.0	4.28
June	6560.0	0.99	18334.0	4.11
July	14359.0	0.71	20359.0	4.71
Total	113188.0	3.03	152838.0	3.39

Refinance Facilities to Commercial Banks and Financial Institutions

1.78 As at mid-July 2005, the outstanding refinance facilities of the NRB to commercial banks and financial institutions stood at Rs 1.23 billion (Table 2.1). This is lower than that of mid-July 2004 by 21.1 percent. Of the total outstanding, Rs 222.9 million was disbursed to commercial banks, Rs 224.0 million to ADB/N, Rs 773.3 million to Nepal Industrial Development Corporation and Rs 10.0 million to Rural Development Banks (RDBs).

Interest Rate Structure

1.79 Compared to the previous year, some changes took place in the structure of interest rates in 2004/05. Commercial

banks, rather than lowering lending rates, reduced deposit rates. For instance, some of the commercial banks lowered the saving rate from 2.0 percent to 1.75 percent. Lending rates for various loans and advances ranged between 4.0 percent and 14.5 percent. Thus, by lowering deposit rate more than the lending rate, commercial banks maintained a higher interest rate spread for which NRB put pressure through moral suasion on them to lower the interest rate spread in May 2005. Thereafter, the declining trend of deposit rate has stopped. Some of the banks increased the deposit rate, though marginally. For example, deposit rate for saving increased to 5.0 percent as at mid-July 2005 from 4.5 percent as at mid-April 2005.

Table 1(G)
Structure of Interest Rate

Interest Rate	(percent)			
	July 2003	July 2004	April 2004	July 2005
Saving Deposit	2.5-5.5	2-5	1.75-4.5	1.75-5
Time Deposit				
6 months	2.5-6	2-4.5	1.75-4.5	2.5-2.5
1 Year	3-7	2.75-5.75	2.25-5	2.25-5
1 Years and above	3.25-7.5	3-6	2.5-6.25	2.5-6.25
Lending Rate				
Industrial	7-14	8.5-13.5	8.25-13.5	8.25-13.5
Agriculture	10.5-14.5	10.5-13	10.5-13	10-13
Export	4-12.5	4-11.5	4-12	4-12
Business	7.5-16	9-14.5	8.25-14.5	8-14
Overdraft	10-17	10-16	6.5-14.5	5-14.5

Foreign Exchange Market

1.80 In 2004/05, NRB intervened 44 times in the foreign exchange market and injected net liquidity of Rs 34.28 billion compared to Rs 28.12 billion in the previous year (Table 1.H). Through these interventions, a total purchase of US dollar of Rs 37.90 billion and the sale of the US dollar of Rs 3.62 billion were undertaken in the review year.

Table 1(H)
Foreign Exchange Interventions

Mid-month	Rs in million			
	2003/04		2004/05	
	Purchase	Sale	Purchase	Sale
August	735.0		1358.0	
September	1337.0		2068.0	
October	3530.0		3688.0	
November	2686.0		2435.0	1088.0
December	2258.0	496.0	3233.0	
January	2902.0		4718.0	
February	1894.0		2090.0	1751.0
March	1963.0		2120.0	
April	2955.0		6238.0	
May	1971.0	409.0	3809.0	780.0
June	4585.0		2289.0	
July	3337.0	1132.0	3849.0	
Total	30152.0	2037.0	37895.0	3619.0
Net Liquidity Injection		28115.0		34275.0

Exchange Rate

1.81 The exchange rate of Nepalese Currency vis-à-vis Indian Currency remained fixed in 2004/05, too. Compared to mid-July 2004, Nepalese currency appreciated by 5.4 percent against the US dollar in mid-July 2005. Likewise, Nepalese currency appreciated against the Euro by 7.8 percent, Sterling Pound by 10.9 percent and Japanese Yen by 7.8 percent.

Table I
Exchange Rate

Foreign Currency	Buying Rate in NC			Appreciation(+)/ Depreciation(-) (In Percent)	
	Mid-July			2004	2005
	2003	2004	2005		
US Dollar	74.75	74.14	70.35	0.8	5.4
Pound Sterling	120.29	137.57	124.0	-12.6	10.9
Euro	84.30	91.64	84.89	-8.0	7.8
Japanese Yen	6.35	6.78	6.29	-6.3	7.8

Development Bonds of the Government

1.82 "Regulations for primary issue and management of secondary market transaction, 2004" as a legal infrastructure for the sale of the development bonds through primary market on auction basis was enacted on 30 April 2004 by the government. With this the transaction of DBs of the government through auction has been started since May 2004 and DBs worth Rs 3 billion were issued in the primary market. These bonds were sold on premium in the primary market. These bonds have been listed at the Nepal Stock Exchange for their secondary market transaction. The outstanding DBs of the government including the DBs issued through auction stood at Rs 20.00 billion as at mid-July 2005.

Table J
Primary Issue of 5 years Development Bonds of the Government

Issue Date	Amount (Rs in Million)	Coupon Rate	Average Auction Value
June 2, 2005	50	5.5	101.0807
June 9, 2005	100	5.5	101.8087
June 27, 2005	75	5.5	101.5302
July 4, 2005	75	5.5	102.0259

Debenture Issued by Commercial Banks and NIDC Capital Market

1.83 Since the past few years, commercial banks have started to issue debenture. A total of Rs. 1.16 billion debentures have been issued, consisting of Rs. 360 million by Himalayan Bank Limited, Rs. 300 million by Nepal Investment Bank Limited, Rs. 300 million by Everest Bank Limited and Rs. 200 million by Bank of Kathmandu Limited. The maturity period of these debentures ranged between 5 and 7 years whereas interest rate for these bonds ranged

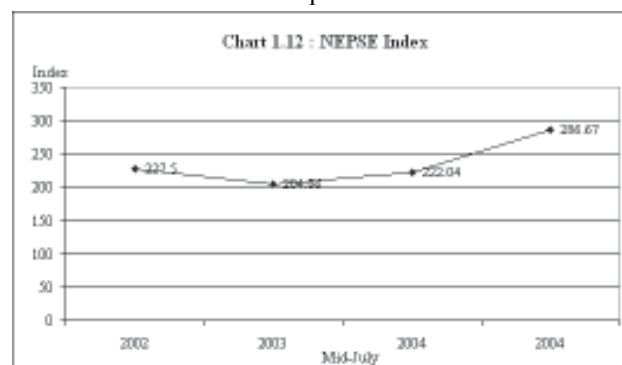
from 6.0 to 8.5 percent. There is also a 10-year debenture in the market issued by NIDC Capital Market in 2002. The interest rate of this debenture is 5.0 percent.

Table 1(K)
Debentures Issued by Commercial Banks and NIDC Capital Market

Banks	Date	Amount	Period	Interest Rate
Bank of Kathmandu Limited	7 September 2005	200	7 Years	6.0 percent
Everest Bank Limited	29 November 2004	300	7 Years	6.0 percent
Nepal Investment Bank Limited	26 March 2003	300	7 Years	8.5 percent
NIDC Capital Market Limited	25 November 2002	100	10 Years	5.0 percent
Himalayan Bank Limited	25 March 2002	360	5 Years	8.5 percent
Total		1260		

Share Market

1.84 NEPSE index increased by 64.6 points to 286.7 in mid-July 2005 compared to 222.04 in the previous year (Table 1.15). An increase in the share prices of commercial banks, finance companies, insurance companies and development banks accounted for this expansion.



1.85 The number of listed companies reached 125 compared to 114 a year ago. Paid up capital of these companies recorded a growth of 39.6 percent to Rs. 16.77 billion from Rs. 12.02 billion in the previous year. In the review year, annual turnover increased to Rs. 4.51 billion from Rs. 2.14 billion of the preceding year.

1.86 Market capitalization increased by 48.1 percent to Rs. 61.37 billion from Rs. 41.43 billion of mid-July 2004. In the review year, the ratio of turnover to paid-up value declined whereas the ratio of turnover to market capitalization increased. The ratio of turnover to paid-up value and the ratio of turnover to market capitalization remained at 12.7 percent and 7.3 percent from 17.8 percent and 5.2 percent of the preceding year. The ratio of market capitalization to GDP increased to 11.7 percent compared to 8.4 percent a year ago. Paid up capital of listed companies climbed up to 5.5 percent of GDP in mid-July 2005 from 2.4 percent in the previous year.

Financial Institutions

Number of Financial Institutions

1.87 The number of development banks licensed by NRB reached 32 (including 6 micro-credit banks) from that of 20 a year ago (Table 1.20). Likewise, the number of finance companies, NRB licensed cooperatives and non-governmental organizations (NGOs) remained 60, 20, and 47 respectively as at mid-July 2005. These numbers were 58, 21 and 44 respectively a year ago. The number of deposit collecting offices of Postal Savings Bank was 117 in mid-July 2005. Total number of financial institutions, including 19 insurance companies, Employees Provident Fund, Citizens Investment Trust stood at 202 in mid-July 2005.

Commercial Banks

1.88 Total asset/liabilities of commercial banks increased by 10.2 percent to Rs 340.63 billion in the review year compared to a growth of 5.9 percent in the previous year. The growth in other liabilities on the sources side and loans and advances on the uses side contributed to the increase in assets/ liabilities of commercial banks in the review year.

Sources of Fund

1.89 Total deposit, the major source of commercial banks' fund, increased by 7.7 percent to Rs 250.46 billion in the review year. It had increased by 14.7 percent in the previous year. Of the components of total deposit, current deposit increased by 2.3 percent to Rs 34.12 billion as at mid-July 2005 compared to a growth of 16.7 percent last year. Saving deposit grew by 13.9 percent to Rs 130.01 billion in the review year compared to a growth of 17.3 percent in 2003/04. Another component, fixed deposit increased by 1.0 percent to Rs 84.14 billion in the review year. It had increased by 10.5 percent in the previous year. Slowdown in economic activities and decreasing real interest rate contributed for the lower growth of deposits in the review year. Margin deposit increased by 1.4 percent to Rs 2.19 billion in the review year compared to a rise of 16.9 percent last year. The reason behind the lower growth of margin deposit was the decline in import in the review year.

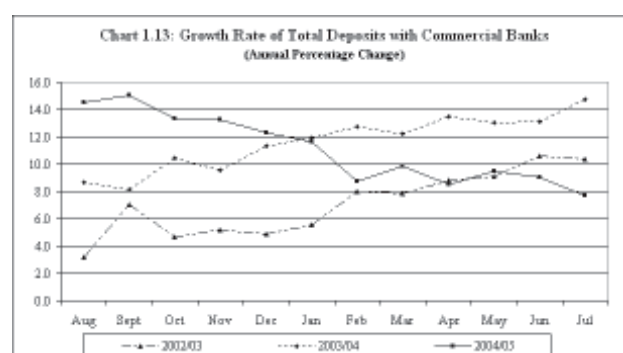
1.90 In the review year commercial bank borrowing from NRB increased by 26.7 percent to Rs 1.0 billion as at mid-July 2005 in contrast to a decline of 49.6 percent last year. A substantial use of SLF and refinance facility by commercial banks from the NRB contributed for the increase in the borrowing in the review year.

1.91 Foreign liabilities of commercial banks declined by 94.7 percent in the review year and stood at Rs 27.6 million. It had increased by 288.5 percent in the previous year. In the review year, other liabilities of commercial banks rose by 16.9 percent as against the decline of 14.3 percent in the previous year. Other liabilities increased due to a rise in paid-up capital and profit of some of the commercial banks.

Uses of Fund

1.92 On the uses front, liquid fund declined by 0.6 percent to Rs 50.09 billion in the review year as against a growth of

21.9 percent in the previous year. Of the components of liquid fund, cash balance and cash in transit increased by 11.4 percent and 24.3 percent respectively. In the previous year, cash balance and cash in transit had declined by 9.3 percent and 22.8 percent respectively. However, deposits of commercial banks at NRB declined by 17 percent to Rs 20.11 billion as at mid-July, 2005. Last year, it had increased by 54.4 percent. The main reasons for the decline are the rise in loans and advances compared to deposit, reduction in CRR and the decline in excess liquidity of commercial banks. In the review year, foreign currency in hand, too, declined by 13.9 percent and stood at Rs 374.8 million as at mid-July 2005, which had declined by 39.6 percent last year. However, balance held abroad increased by 15.6 percent in the review year and stood at Rs 24.05 billion compared to a growth of 7.4 percent last year.



1.93 Loans and advances, the main component of uses of commercial banks' fund, increased by 14.3 percent and reached Rs 260.87 billion at mid-July 2005. Last year, it had increased by 13.1 percent. Of the components of loans and advances, claims on government increased by 10.9 percent to Rs 48.55 billion. It had increased by 11.0 percent in the previous year. Claims on non-financial government institutions increased by 125.6 percent compared to a subdued growth of 2.9 percent last year. A remarkable increase in the disbursement of loans to non-financial government enterprises such as Nepal Oil Corporation, Nepal Electricity Authority, National Trading Ltd and Janak Education Material Center from commercial banks contributed to the growth of such claims. However, claims on financial institution decreased by 2.9 percent to Rs 11.44 billion as at mid-July 2005 as against the increase of 14.6 percent in the previous year.

1.94 Claims on private sector increased by 14.6 percent to Rs 193.27 billion as at mid-July 2005. Last year, it had increased by 13.9 percent. The expansion in consumer credit by commercial banks contributed to the increase in the private sector credit in the review year.

Ratio of Non-performing Loans of Commercial Banks

1.95 The ratio of non-performing loans (NPL) of commercial banks showed a decline in the review year. The NPL ratio stood at 18.7 percent as at mid-July 2005 compared to 22.7

percent a year ago. Notwithstanding the decline in overall NPL of commercial banks, the NPL of Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) remained higher.

Table 1 (L)

Ratio of Non-Performing Loans of Commercial Banks

	(% of total loans and advances)	
	2004 July	2005 July
Commercial Banks		
Nepal Bank Limited	53.1	49.0
Rastriya Banijya Bank	57.6	50.7
Nabil Bank Limited	3.4	1.3
Nepal Investment Bank Limited	2.5	1.6
Nepal Investment Bank Limited	3.8	2.7
Himalayan Bank Limited	8.9	11.3
Nepal SBI Bank Limited	6.3	7.1
Nepal Bangladesh Bank Limited	10.8	12.3
Everest Bank Limited	1.7	1.6
Bank of Kathmandu Limited	6.7	7.4
Nepal Credit and Commerce Bank Limited	13.3	8.6
Lumbini Bank Limited	7.4	14.7
Nepal Industrial and Commercial Bank Limited	3.9	3.8
Machhapuchhre Bank Limited	1.0	0.4
Kumari Bank Limited	0.8	1.1
Laxmi Bank Limited	0.0	1.6
Siddhartha Bank Limited	1.6	2.5
Total	22.7	18.7

Agricultural Development Bank

1.96 Loan disbursement of ADB/N increased by 29.2 percent (Rs. 2.96 billion) to Rs. 13.11 billion (Table 1.17). It had increased by 0.3 percent in the previous year. In the review year, the loan recovery remained more than three folds to Rs. 10.32 billion as compared to only Rs. 3.05 billion in the previous year. The outstanding loans of the ADB/N stood at Rs. 21.08 billion in mid-July 2005 compared to Rs. 19.71 billion in the previous year.

Finance Companies

1.97 Total sources of finance companies increased by 12.2 percent (Rs. 3.32 billion) to Rs. 30.52 billion in the review year (Table 1.18). It had increased by 23.0 percent (Rs. 5.08 billion) in the previous year. Total deposits, the principal source of finance companies' resources increased by 15.2 percent (Rs. 2.95 billion) to Rs. 22.34 billion in mid-July 2005. This had increased by 17.5 percent in the previous year. Capital fund increased by 16.3 percent to Rs. 4.25 billion in mid-July 2005. However, the borrowings of finance companies decreased by 24.2 percent to Rs. 991.0 million in mid-July 2005 compared to that of Rs. 1.31 billion in the previous year.

1.98 On the uses side, loans and advances increased by 21.0 percent (Rs. 3.68 billion) to Rs. 21.22 billion. However,

investments decreased by 4.0 percent (Rs. 100 million) to Rs. 2.41 billion compared to an increase of 5.0 percent in the previous year. Liquid funds have also witnessed a decelerated growth of 12.6 percent to Rs. 3.91 billion.

Financial Cooperatives

1.99 In the review year, there has been a general increase in the financial transactions of Cooperative Societies conducting limited banking transactions. Capital fund of the NRB licensed cooperatives increased by 12.6 percent to Rs. 278.0 million in mid-July 2005 (Table 1.19). It was Rs. 247.0 million a year ago. Deposit mobilization of these cooperatives increased by 2.6 percent (Rs 44.0 million) to Rs. 1.72 billion and borrowing increased by 12.2 percent (5.0 million) to Rs. 46 million. In the review year, loans and advances increased by 9.2 percent (Rs. 120.0 million) to Rs. 1.43 billion. These cooperatives have invested altogether Rs. 142 million in government securities, fixed deposits and other sectors which is lower by 21.5 percent than that of the previous year.

Insurance Companies

1.100 Number of insurance companies increased to 19 in mid-July 2005 from that of 18 a year ago. Annual premium of these companies was Rs. 5.85 billion compared to Rs. 4.75 billion a year ago. Investment of these companies remained at Rs. 15.00 billion compared to Rs. 12.45 billion a year ago. Total assets/liabilities of these companies increased by 25.0 percent to Rs. 18.55 billion in mid-July 2005.

Employees' Provident Fund

1.101 Total assets/liabilities of Employees' Provident Fund, the institution mobilizing the provident fund of the employees of civil service, army, police, teachers, corporations and some private companies, increased by 5.9 percent to Rs. 42.53 billion in mid-July 2005 compared to Rs. 40.85 billion in the previous year. Provident fund, the main item on the liabilities side, increased by 15.5 percent to Rs. 42.53 billion in mid-July 2005 compared to Rs. 36.84 billion in the previous year.

Citizen Investment Trust

1.102 Total assets/liabilities of Citizen Investment Trust increased by 22.8 percent to Rs. 5.91 billion in mid-July 2005 compared to Rs. 4.81 billion in the previous year. Fund collection, which occupies a large share in the liabilities of the Trust increased by 40.2 percent to Rs. 5.67 billion from that of Rs. 4.04 billion a year ago. Investment that holds the largest share in the assets side increased by 33.8 percent to Rs. 3.83 billion compared to Rs. 2.87 billion in the previous year.

Postal Savings Bank

1.103 The number of deposit collecting offices of Postal Savings Bank increased to 117 in the review year from that of 116 a year ago. Total deposit of this bank was Rs. 200 million in mid-July 2005 compared to Rs. 37 million in the previous year.

An Outlook of the Overall Economic Situation for 2005/06

World Output and Inflation

1.104 The world economic growth rate is estimated to be lower in 2005 compared to that in 2004. There are challenges ahead maintaining the high growth rate due mainly to the increased prices of petroleum products, upward trend of interest rate and increasing world current account deficit.

1.105 In 2005, the growth rate of oil prices seems to remain high in the world market. Consequently, the world inflation is expected to remain high compared to that of the preceding year.

Overall Economic Situation of Nepalese Economy

Economic Growth

1.106 The agricultural sector is expected to witness some improvements compared to the previous year. Likewise, the non-agriculture sector is also expected to have some improvements. The favorable impact on the non-agricultural sector is expected based on the assumptions of the increase in capital expenditure, earnings from the tourism sector, and maintaining the growth rate of manufacturing sector in the previous year's level, the increase in imports and the expansion of communication services. In addition, the effective implementation of government's 21-Points Programme, the starting of the construction works of north-south link highway, gradual improvement in peace and security situation would also contribute to accelerate the growth in non-agricultural sector. Besides, undergoing construction works of 5 hydro-projects including middle-Marshyandi, B. P. Koirala highway, Karnali highway and the irrigation projects, like Babai, Sikta and Sunsari-Morang (third) will have positive impact on the overall growth of non-agriculture sector. Consequently, the GDP is estimated to grow from 3 to 3.5 percent in 2005/06.

Price Situation

1.107 An upward pressure is expected on price in 2005/06 on account of the rising trend in the prices of government controlled goods and services such as electricity and petroleum products, the possibility of the price hike in the imported goods caused by the natural calamities in the world in the past, together with the opinion of Indian officials about the pressure in the prices on India as well an upward pressure on the overall price situation of the country.

Money Supply and Interest Rate

1.108 Compared to the preceding year, monetary expansion is expected in 2005/06. BOP would be in the surplus as in the previous year's level. However, the increase in claims on government and rise in the private sector credit would contribute for the monetary expansion. The NRB will manage liquidity as per the requirement of the economy. Interest rate in Nepal seems to increase in line with the increasing trend of interest rate in the global market as well as in India.

Foreign Trade, Balance of Payments and Interest Rate

1.109 In 2005/06, the total export is estimated to rise by 8.5 percent due mainly to some improvements in the third country exports. Likewise, the total import is also estimated to expand due to an increase in the imports of industrial raw materials for accelerating development as well as domestic economic activities. Higher level of imports volume together with the bigger import growth rate than that of the exports would result in increased trade deficit in 2005/06.

1.110 The expected improvements in law and order situation would result in the growth of tourist arrivals, and earnings from tourism are also estimated to improve. Viewing the current tendency of people going for foreign employment, the increasing trend of private sector remittances is estimated to continue in 2005/06. Consequently, despite the increase in the trade deficit, current account surplus is expected to be at the same level as in 2004/05 due to the increase in transfer and services income.

1.111 The inflow of foreign direct investment has not been satisfactory for the past few years, due to the unfavorable internal peace and security condition. The inflow of such investments is estimated to go up along-with the improvements in peace and security situation. There is also a possibility of the inflow of investment from non-resident Nepalese.

1.112 As a consequence of the above-mentioned developments in the external sector, the BOP surplus is expected to remain at the level of 2003/04.

1.113 While considering the increasing trend of interest rate in the advanced countries, the Nepalese currency is expected to depreciate marginally in nominal terms particularly with the US dollar. It will have a positive impact on the Nepalese exports.

Table 1.1
Growth of the World Economy

(In Percent)

	2003	2004	Projection	
			2005	2006
World Output	4.0	5.1	4.3	4.3
Advanced Economies	1.9	3.3	2.5	2.7
Major Advanced Economies	1.8	3.2	2.5	2.6
USA	2.7	4.2	3.5	3.3
Germany	-0.2	1.6	0.8	1.2
France	0.9	2.0	1.5	1.8
Japan	1.4	2.7	2.0	2.0
UK	2.5	3.2	1.9	2.2
Canada	2.0	2.9	2.9	3.2
Other Advanced Economies	2.5	4.4	3.2	3.9
Developing Countries	6.5	7.3	6.4	6.1
Emerging Asia	8.1	8.2	7.8	7.2
ASEAN - 4 *	5.4	5.8	4.9	5.4
China	9.5	9.5	9.0	8.2
South Asia**	7.1	7.1	7.0	6.3
Bangladesh	5.8	5.8	5.7	6.0
India	7.4	7.3	7.1	6.3
Pakistan	5.7	7.1	7.4	6.5

* Indonesia, Malaysia, Philippines, Thailand.

** Bangladesh, India, Maldives, Nepal, Pakistan, Sri Lanka,

Source: *World Economic Outlook, IMF, Washington D.C., September 2005.*

Table 1.2
World Trade
(Annual Percentage Change)

	2003	2004	Projection	
			2005	2006
World Trade Volume (goods and services)	5.4	10.3	7.0	-
Import				
Developed Countries	4.1	8.8	5.4	5.8
Developing Countries	11.1	16.4	13.5	11.9
Export				
Developed Countries	3.1	8.3	5.5	6.
Developing Countries	10.8	14.5	10.4	10.3

Source: World Economic Outlook, IMF, Washington D.C., September 2005.

Table 1.3
World Price Situation
(Annual Percentage Change)

	2003	2004	Projection	
			2005	2006
Oil*	15.8	30.7	43.6	13.9
Non-fuel Goods	6.9	18.5	8.6	-2.1
Consumer Price				
Advanced Economies	1.8	2.0	2.2	2.0
Developing Countries	6.0	5.8	5.9	5.7
Developing Asia	2.4	4.0	3.9	4.4
ASEAN-4**	4.1	4.0	6.4	5.1
China	1.2	3.9	3.0	5.8
South Asia***	3.9	4.3	4.7	5.6
Bangladesh	5.4	6.1	6.2	5.8
India	3.8	3.8	3.9	5.1
Pakistan	2.9	7.4	9.9	9.8

* Average Crude Oil price of Brent (UK), Dubai and West Texas

** Indonesia, Malaysia, Philippines, Thailand.

*** Bangladesh, India, Maldives, Nepal, Pakistan, Sri Lanka,

Source: World Economic Outlook, IMF, Washington D.C., September 2005.

Table 1.4
Macroeconomic Indicators

S.No.	Description	2002/03	2003/04	2004/05
(Percentage change over previous year)				
1.	In Producer's Price			
	a) GDP at 1994/95 Prices	3.3	3.8	2.7
	b) GDP at Current Prices	8.0	8.8	7.4
2.	Gross National Product (at current price)	7.2	7.8	6.7
3.	Total Consumption	8.2	8.1	7.6
4.	Total Investment	15.5	11.0	17.7
5.	Gross National Savings	1.9	6.2	1.8
6.	Gross Fixed Capital Formation	6.6	9.3	6.3
7.	Gross Domestic Savings	6.8	13.9	6.3
8.	Narrow Money Supply (M1)	8.6	12.2	6.6
9.	Broad Money Supply (M2)	9.8	12.8	8.3
10.	Domestic Credit	10.2	9.9	13.8
11.	Fixed Deposits	10.4	13.1	9.2
12.	Total Exports	6.4	8.0	8.9
13.	Total Imports	15.8	9.6	9.7
14.	Gross Foreign Exchange Reserves	2.2	20.3	-0.2
15.	Government Revenue	11.5	10.9	14.4
16.	Government Expenditure	4.9	6.5	12.9
17.	Revenue Surplus	11.7	-25.9	10.8
18.	Government Budget Deficit	48.6	12.9	17.2
19.	Internal Borrowings [#]	-61.5	-48.6	181.4
20.	National Urban Consumer Price Index	4.8	4.0	4.5
21.	Wholesale Price Index	3.8	4.1	7.3
As Percentage of GDP (Nominal GDP at Producers' Prices)				
1.	Total Consumption	88.0	87.4	87.6
2.	Total Investment	25.8	26.4	28.9
3.	Gross National Savings	15.5	15.2	14.4
4.	Gross Fixed Capital Formation	19.1	19.1	18.9
5.	Gross Domestic Savings	12.0	12.6	12.4
6.	Narrow Money Supply (M1)	18.4	19.0	18.9*
7.	Broad Money Supply (M2)	54.1	56.0	56.8*
8.	Domestic Credit	50.2	50.7	53.9*
9.	Fixed Deposits	35.6	37.0	37.9*
10.	Total Exports	10.9	10.9	11.0
11.	Total Imports	27.2	27.5	28.0
12.	Total Foreign Exchange Reserves	23.7	26.3	24.3
13.	Government Revenue	12.3	12.6	13.5
14.	Government Expenditure	18.4	18.0	19.1
15.	Revenue Surplus	-1.2	-0.8	-0.8
16.	Government Budget Deficit	2.1	2.2	2.4
17.	Internal Borrowings [#]	1.3	0.6	1.6
18.	Trade Balance	-16.3	-16.6	-17.0
19.	Current Account Balance	2.5	2.9	2.2
20.	Total Outstanding External Debt	48.9	47.0	41.4

Including change in cash balance

Table 1.5
Sectoral Growth Rates of GDP
(At 1994/95 Prices)

(Percent)

Particulars	Growth Rate			Sectoral Contribution		
	2002/03	2003/04	2004/05*	2002/03	2003/04	2004/05*
(A) Agricultural Sector	2.5	3.9	3.0	38.7	38.8	39.1
Food Grains	1.8	5.5	-0.2			
Cash Crops	5.1	5.2	5.3			
Other Crops	3.1	2.2	7.2			
Livestock	4.4	2.8	3.1			
Fishery	1.0	9.4	6.3			
Forestry	1.9	3.5	3.4			
(B) Industrial Sector	3.3	1.1	1.5	22.9	22.4	22.2
Mining and Quarrying	1.9	0.5	2.5			
Manufacturing	2.0	1.7	2.6			
Electricity, Gas and Water	19.9	3.3	4.8			
Construction	1.8	0.2	-0.1			
(C) Services Sector	3.4	4.8	2.4	38.3	38.8	38.8
Trade, Restaurant and Hotel	3.3	8.0	-2.1			
Transport, Communication and Storage	4.3	5.3	5.1			
Finance and Real Estate	3.3	3.2	4.6			
Community and Social Services	3.1	3.0	2.8			
Gross Domestic Product	3.3	3.8	2.7	100.0	100.0	100.0

* Revised Estimates

Source: Central Bureau of Statistics & NRB

Table 1.6
National Urban Consumer Price Index
 (Base Year: 1995/96=100)

Groups/Sub-groups	Weight %	2002/03	2003/04	2004/05	Percentage Change	
					2003/04	2004/05
Overall Index	100.0	148.9	154.8	161.8	4.0	4.5
Food and Beverages	53.2	144.0	148.8	154.7	3.3	4.0
Grains and Cereal Products	18.0	138.2	139.8	145.1	1.2	3.8
Rice and Rice Products	(14.16)	136.6	138.0	142.4	1.0	3.2
Pulses	2.7	125.3	126.1	131.6	0.6	4.4
Vegetables and Fruits	7.9	135.7	140.3	146.9	3.4	4.7
Spices	1.9	142.3	148.0	146.5	4.0	-1.0
Meat, Fish and Eggs	5.2	148.2	158.3	168.5	6.8	6.4
Milk and Milk Products	4.1	147.8	150.4	151.1	1.8	0.5
Oil and Ghee	3.1	136.9	153.7	150.8	12.3	-1.9
Sugar and Related Products	1.2	124.4	123.9	154.6	-0.4	24.8
Beverages	2.3	161.6	162.1	165.0	0.3	1.8
Restaurant Meals	6.9	174.1	183.2	192.6	5.2	5.1
Non-food and Services	46.8	154.6	161.8	170.1	4.7	5.1
Cloths, Clothing and Sewing Services	8.9	135.7	138.1	141.5	1.8	2.5
Cloths	(2.28)	124.6	126.3	130.7	1.4	3.5
Clothing	(5.75)	136.6	138.1	140.5	1.1	1.7
Footwear	2.2	132.7	133.3	133.9	0.5	0.5
Housing Goods and Services	14.9	153.0	163.1	178.1	6.6	9.2
Fuel, Light & Water	(5.92)	182.6	200.8	230.3	10.0	14.7
Transport and Communication	4.0	172.2	185.2	198.2	7.5	7.0
Medical and Personal Care	8.0	163.2	169.3	172.1	3.7	1.7
Education, Reading Materials & Recreation	7.1	174.1	182.1	190.1	4.6	4.4
Tobacco & Related Products	1.7	150.5	153.2	156.2	1.8	2.0
Urban Consumer Price Index- Kathmandu Valley						
Overall Index	100.0	141.7	150.1	157.6	5.9	5.0
Food and Beverages	51.5	137.5	145.6	151.8	5.9	4.3
Non-food and Services	48.5	146.3	155.0	163.8	6.0	5.7
Urban Consumer Price Index- Terai						
Overall Index	100.0	152.2	156.9	163.8	3.1	4.4
Food and Beverages	55.0	146.3	149.2	155.0	2.0	3.9
Non-food and Services	45.0	159.3	166.4	174.5	4.5	4.9
Urban Consumer Price Index- Hills						
Overall Index	100.0	151.8	156.6	163.5	3.2	4.4
Food and Beverages	53.0	148.5	153.0	158.8	3.0	3.8
Non-food and Services	47.0	155.5	160.8	168.8	7.2	5.0

Overall Macroeconomic Situation

Table 1.7
National Wholesale Price Index
 (Base Year: 1999/2000=100)

Groups/Sub-groups	Weight %	2002/03	2003/04	2004/05	Percentage Change	
Overall Index	100.0	110.4	114.9	123.3	4.1	7.3
Agricultural Commodities	49.6	109.6	111.9	118.5	2.1	5.9
Food Grains	16.6	95.3	93.7	102.4	-1.7	9.3
Cash Crops	6.1	131.7	120.5	147.3	-8.5	22.2
Pulses	3.8	114.5	115.3	118.7	0.7	2.9
Fruits and Vegetables	11.2	112.3	121.3	114.7	8.0	-5.4
Spices	1.9	97.8	106.1	102.0	8.4	-3.9
Livestock Production	10.0	117.2	126.2	134.8	7.7	6.8
Domestic Manufactured Commodities	20.4	108.4	114.5	121.6	5.6	6.2
Food Related Products	6.1	107.2	109.0	112.0	1.7	2.8
Beverages and Tobacco	5.7	112.1	116.3	122.2	3.7	5.0
Construction Materials	4.5	109.5	126.4	145.9	15.5	15.4
Other	4.1	104.0	107.3	108.5	3.2	1.1
Imported Goods	30.0	113.1	120.1	132.3	6.2	10.1
Petroleum Products and Coal	5.4	141.0	158.3	196.2	12.3	23.9
Chemical Fertilizers and Chemical Goods	2.5	122.9	127.6	143.1	3.8	12.1
Transport Vehicles and Machinery Goods	7.0	102.9	108.3	117.3	5.3	8.4
Electric and Electronic Goods	1.9	97.6	96.1	96.7	-1.6	0.7
Drugs and Medicine	2.7	103.2	107.0	108.3	3.6	1.2
Textile Related Products	3.1	105.8	110.8	113.2	4.8	2.1
Others	7.4	109.9	115.9	122.2	5.5	5.5

Table 1.8
Monetary Survey
(Mid- July)

(Rs. in million)

	2003	2004	2005	Amount Change		Percentage Change	
				2003/04	2004/05	2003/04	2004/05
1.Foreign Assets, net	91407.0	108804.6	107742.1	16005.1 ¹	5744.6 ²	17.5	5.3
1.1 Foreign Assets	109306.3	131366.0	130916.8	220059.7	-446.9	20.2	-0.3
1.2 Foreign Currency Deposits	17388.4	21174.6	21557.2	3786.2	382.5	21.8	1.8
1.3 Other Foreign Liabilities	510.9	1386.7	1617.6	875.9	230.8	171.4	16.6
2. Net Domestic Assets	154504.1	168501.2	192695.6	15389.7 ¹	17389.5 ²	10.0	10.3
2.1 Domestic Credit	224077.3	246171.8	280243.2	22094.5	34071.4	9.9	13.8
(a) Net Claims on Govt*	58458.5	57396.6	63897.2	-1062.0	6500.6	-1.8	11.3
Claims on Govt	58920.2	58149.6	63897.2	-770.6	5747.6	-1.3	9.9
Govt Deposits	461.7	753.0	0.0	291.3	-753.0	63.1	-100.0
(b) Claims on Non-Financial Govt Enterprises	2833.2	2914.9	6566.2	81.7	3651.3	2.9	125.3
(c) Claims on Financial Enterprises	11828.7	13343.9	12762.8	1515.2	-581.0	12.8	-4.4
Government	11739.0	13203.3	12730.8	1464.3	-472.4	12.5	-3.6
Non-Govt.	89.7	140.6	32.0	50.9	-108.6	56.7	-77.2
(D) Claims on Private Sector	150956.9	172516.5	197017.0	21559.6	24500.6	14.3	14.2
2.2 Net Non-Monetary Liabilities	69573.2	77670.6	87547.6	6704.8 ¹	16681.9	9.6	21.5
3. Broad Money Supply (M2)	245911.1	277305.9	300440.0	31394.8	23134.1	12.8	8.3
3.1 Money Supply (M1)	83753.9	93969.5	100205.8	10215.6	6236.3	12.2	6.6
Currency	56885.7	63218.9	68784.1	6333.1	5565.3	11.1	8.8
Demand Deposits	26868.2	30750.7	31421.6	3882.5	670.9	14.5	2.2
3.2 Time Deposits	162157.2	183336.4	200234.2	21179.2	16897.8	13.1	9.2
4. Reserve Money	80979.3	94415.2	96539.2	13435.9	2124.0	199.6	2.2
5. Narrow Money Multiplier	1.034	0.995	1.039				
6. Broad Money Multiplier	3037	2.937	3.116				

E Estimated

1. Adjusting exchange valuation gain of Rs. 1,392.5 million.

2. Adjusting exchange valuation loss of Rs. 6,804.9 million.

* IMF promissory notes and government issued coins are excluded.

Overall Macroeconomic Situation

Table 1.9
Government Budgetary Operation*
(On Cash Basis)

(Rs. in million)

Heads	Amount			Percent Change	
	2002/03	2003/04	2004/05	2003/04	2004/05
Sanctioned Expenditure	7,4716.0	8,2604.3	9,2801.4	10.6	12.3
Recurrent	■	■	5,9983.5	-	-
Capital	■	■	1,7891.3	-	-
(a) Domestic Resources and Loans	■	■	1,7617.4	-	-
(b) Foreign Grants	■	■	273.9	-	-
Principal Repayment	■	■	1,3536.3	-	-
Others (Freeze Account)	1370.9	1621.3	1390.3	18.3	-14.2
Unspent Government Balance	1663.6	1441.8	2420.3	-13.3	67.9
Recurrent	■	■	965.8	-	-
Capital	■	■	1451.5	-	-
Principal Repayment	■	■	3.0	-	-
Actual Expenditure	7,3052.4	8,1162.5	9,0381.1	11.1	11.4
Recurrent	■	■	5,9017.7	-	-
Capital	■	■	1,6439.8	-	-
Principal Repayment	9,559.5	10,794.9	1,3533.3	-	-
Others (Freeze Account)	1370.9	1621.3	1390.3	18.3	-14.2
Resources	6,0475.0	6,85499.7	7,6085.7	13.3	11.1
Revenue	5,6229.8	6,2331.0	7,0122.8	10.9	12.5
Foreign Grants	2,499.7	5153.6	5246.4	106.2	1.8
Non-budgetary Receipts, net	1,605.9	855.9	753.8	-46.7	-11.9
Others #	135.9	164.5	9.5	21.0	-94.2
VAT	4.1	-5.3	-46.8	-229.3	783.0
Deficit (-) Surplus(+)	-1,2577.0	-1,2662.8	-1,4295.4	0.7	12.9
Sources of Deficit Financing	1,2577.0	1,2662.8	1,4295.4	0.7	12.9
Internal Loans	8274.6	4971.0	1,2085.7	-39.9	143.1
(a) Treasury Bills	1768.5	2460.0	5471.2	39.1	122.4
(b) Development Bonds	6408.5	2000.0	3000.0	-68.8	50.0
(c) National Saving Certificates	400.0	900.0	216.9	125.0	-75.9
(d) Citizen Saving Certificates	303.0	247.8	250.0	-18.2	0.9
(e) Overdraft+	-461.7	-753.0	2623.0	63.1	-448.3
(f) Other @	-143.7	116.2	524.6	-180.9	351.5
Foreign Loans	4302.4	7691.8	2209.7	78.8	-71.3

* = As per NRB Records

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

+ = Minus sign indicates surplus.

@ = Interest from government treasury transactions and others.

■ = Data of this period is not available because the government account is reclassified in the fiscal year 2004/05.

Table 1.10
Outstanding Domestic Debt of the Government of Nepal

(Rs. in million)

		2002/03	2003/04	2004/05	Percent Change	
					2003/04	2004/05
1.	Treasury Bills	48,860.7	49,429.6	51,383.1	1.2	4.0
	(a) Banking Sector	46,990.7	45,958.7	50,425.4	-2.2	9.7
	NRB	15,816.9	9,804.4	10,923.8	-38.0	11.4
	Commercial Banks	31,173.8	36,154.3	39,501.6	16.0	9.3
	(b) Non-banking Sector	1,870.0	3,470.9	957.7	85.6	-72.4
2.	Development Bond	16,059.2	17,549.2	19,999.2	9.3	14.0
	(a) Banking Sector	9,036.9	9,885.7	9,623.2	9.4	-2.7
	NRB	1,796.0	3,298.3	1,518.7	83.6	-54.0
	Commercial Banks	7,240.9	6,587.4	8,104.5	-9.0	23.0
	(b) Non-banking Sector	7,022.3	7,663.5	10,376.0	9.1	35.4
3.	National Saving certificate	9,29.8	9,029.8	6,576.8	-6.2	-27.2
	(a) Banking Sector	110.0	450.8	231.4	309.8	-48.7
	NRB	0.0	340.8	231.4	0.0	-32.1
	Commercial Banks	110.0	110.0	0.0	0.0	-100.0
	(b) Non-banking Sector	9,519.8	8,579.0	6,345.4	-9.9	-26.0
4.	Citizen Saving Certificates	931.1	1,178.9	1,428.9	26.6	21.2
	(a) Banking Sector	0.0	45.8	49.6	0.0	8.3
	NRB	0.0	45.8	49.6	0.0	8.3
	(b) Non-banking Sector	931.1	1,133.1	1,379.3	21.7	21.7
5.	Special Bonds	9,164.5	8,946.2	8,176.3	-2.4	-8.6
	(a) Banking Sector	6,954.3	6,530.9	5,666.9	-6.1	-13.2
	NRB	6,009.7	5,586.3	4,722.3	-7.0	-15.5
	Commercial Banks	944.6	944.6	944.6	0.0	0.0
	(b) Non-banking Sector	2,210.2	2,415.3	2,509.4	9.3	3.9
6.	Short term Loans and Advances	-461.7	-753.0	2623.0	63.1	-448.3
	NRB	-461.7	-753.0	2623.0	63.1	-448.3
7.	Total	84,183.6	85,380.7	90,187.3	1.4	5.6
	(a) Banking Sector	62,630.2	62,118.9	68,619.5	-0.8	10.5
	NRB	23,160.9	18,322.6	20,068.8	-20.9	9.5
	Commercial Banks	39,469.3	43,796.3	48,550.7	11.0	10.9
	(b) Non-banking Sector	21,553.4	23,261.8	21,567.8	7.9	-7.3

Table 1.11
Direction of Foreign Trade*

(Rs. in million)

	2002/03	2003/04	2004/05 ^R	Percent Change	
				2003/04	2004/05 ^R
Total Export	4,9930.6	5,3910.7	5,8705.7	8.0	8.9
To India	2,6430.0	3,0777.1	3,8916.9	16.4	26.4
To Other Countries	2,3500.6	2,3133.6	1,9788.8	-1.6	-14.5
Total Import	12,4352.1	13,6277.1	14,9473.6	9.6	9.7
From India	7,0924.2	7,8739.5	8,8675.5	11.0	12.6
From Other Countries	5,3427.9	5,7537.6	6,0798.1	7.7	5.7
Trade Balance	-7,4421.5	-8,2366.4	-9,0767.9	10.7	10.2
With India	-4,4494.2	-4,7962.4	-4,9758.6	7.8	3.7
With Other Countries	-2,9927.3	-3,4404.0	-4,1009.3	15.0	19.2
Total Trade	17,4282.7	19,0187.8	20,8179.3	9.1	9.5
With India	9,7354.2	10,9516.6	12,7592.4	12.5	16.5
With Other Countries	7,6928.5	8,0671.2	8,0586.9	4.9	-0.1

* Based on customs data.

R Revised

Table 1.12
Exports of Selected Commodities to Other Countries

(Rs. in million)

		2002/03	2003/04	2004/05	Percent Change	
					2003/04	2004/05
	Commodities	1,9893.2	1,8357.2	1,4824.2	-7.7	-19.2
1	Woollen Carpet	5320.0	5677.5	5868.7	6.7	3.4
2	Handicraft (Metal and Wooden)	352.1	626.4	644.2	77.9	2.8
3	Tanned Skin	227.3	309.0	235.8	35.9	-23.7
4	Readymade Garments	1,1890.1	9550.0	6124.6	-19.7	-35.9
5	Pulses	214.9	280.7	106.5	30.6	-62.1
6	Tea	44.5	113.7	106.7	155.5	-6.2
7	Niger Seed	10.6	08.5	0.0	-19.8	-100.0
8	Herbs	33.3	48.3	54.7	45.0	13.3
9	Silverware and Jewelleries	347.7	368.7	363.2	6.0	-1.5
10	Readymade Leather Goods	33.1	30.6	30.2	-7.6	-1.3
11	Nepalese Paper & Paper Products	262.0	2796	239.8	6.7	-14.2
12	Pashmina	1157.6	1064.2	1049.8	-8.1	-1.4

Report of Fiscal Year 2004/05

Table 1.13
Balance of Payments

(Rs. in million)

		2002/03	2003/04	2004/05R	Percent Change	
					2003/04	2004/05R
(A)	Current Account	1,1614.7	1,4598.0	1,1544.6	25.7	-20.9
	Exports f.o.b.	5,0760.7	5,5228.3	5,9956.1	8.8	8.6
	Oil	0.0	0.0	0.0	0.0	0.0
	Others	5,0760.7	5,5228.3	5,9956.1	8.8	8.6
	Imports f.o.b.	-12,1053.0	-13,2909.9	-14,5718.2	9.8	9.6
	Oil	-1,8811.6	-2,0167.3	-2,6653.6	7.2	32.2
	Others	-10,2241.4	-11,2742.6	-11,9064.6	10.3	5.6
	Balance on Goods	-7,0292.3	-7,7681.6	-8,5762.1	10.5	10.4
	Services Net	7049.7	9074.9	-2034.2	28.7	-122.4
	Services: Credit	2,6518.9	3,4315.9	2,6001.9	29.4	-24.2
	Travel	1,1747.7	1,8147.4	1,0463.8	54.5	-42.3
	Government n.i.e.	6624.0	7143.9	6804.9	7.8	-4.7
	Other	8147.2	9024.6	8733.2	10.8	-3.2
	Services: Debit	-1,9469.2	-2,5241.0	-2,8036.1	29.6	11.1
	Transportation	-8618.4	-9382.1	-1,0602.2	8.9	13.0
	Travel	-6171.5	-1,0021.5	-9691.9	62.4	-3.3
	Other	-4679.3	-5837.4	-7742.0	24.7	32.6
	Balance of Goods and Services	-6,3242.6	-6,8606.7	-8,7796.3	8.5	28.0
	Income Net	-675.7	-1683.9	1636.5	149.2	-197.2
	Income: Credit	4487.0	3841.5	7751.6	-14.4	101.8
	Income: Debit	-5162.7	-5525.4	-6115.1	7.0	10.7
	Balance of Goods, Services and Income	-6,3918.3	-7,0290.6	-8,6159.8	10.0	22.6
	Current transfers Net	7,5533.0	8,4888.6	9,7704.4	12.4	15.1
	Current Transfers: Credit	7,7765.1	8,9161.8	10,1310.1	14.7	13.6
	Grants	1,3842.2	1,9557.8	2,1071.9	41.3	7.7
	Workers' Remittances	5,4203.3	5,8587.6	6,5541.2	8.1	11.9
	Pensions	7327.3	7906.2	1,2502.2	7.9	58.1
	Other	2392.3	3110.2	2194.8	30.0	-29.4
	Current Transfers: Debit	-2232.1	-4273.2	-3605.7	91.4	-15.6
(B)	Capital Account	5393.9	1452.2	1573.6	-73.1	8.4
	Total, Groups A plus B	1,7008.6	1,6050.2	1,3118.2	-5.6	-18.3
(C)	Financial Account (excluding group e)	-1,7198.9	-2,1540.1	-2,5536.9	25.2	18.6
	Direct Investment in Nepal	961.4	0.0	136.0	-100.0	0.0
	Other Investment: Assets	-3,4629.5	-3,2591.2	-2,1863.2	-5.9	-99.0
	Trade Credits	1041.0	-2247.6	-323.8	-315.9	858.3
	Other	-3,5670.5	-3,0343.6	-2,1539.4	-14.9	-87.4
	Other Investment: Liabilities	1,6469.2	1,1051.1	-3809.7	-32.9	-140.6
	Trade Credits	1,6899.3	3629.8	-4489.0	-78.5	-79.5
	Loans	-52.4	3325.2	744.4	-	-60.9
	General Government	-432.8	3479.1	1300.4	-903.9	108.5
	Drawings	5236.0	9244.7	7253.7	76.6	-164.4
	Repayments	-5668.8	-5765.6	-5953.3	1.7	-90.4
	Other Sectors	380.4	-153.9	-556.0	-140.5	-57.7
	Currency and Deposits	-377.7	4096.1	-65.1	-	-98.9
	NRB	-23.4	-77.4	46.2	230.8	43.8
	Deposit Money Banks	-354.3	4173.5	-111.3	-	-100.0
	Other Liabilities	0.0	0.0	0.0	0.0	0.0
	Total, Groups A through C	-190.3	-5489.0	-1,2418.7	-	-429.6
(D)	Net Errors and Omissions	4176.1	2,5591.2	1,8098.1	512.8	-77.8
	Total, Groups A through D	3985.8	2,0101.3	5679.4	404.3	-128.2
(E)	Reserves and Related Items	-3985.8	-2,0101.3	-5679.4	404.3	-67.9
	Reserve Assets	-3685.2	-2,0658.0	-6464.6	460.6	-84.3
	NRB	-7809.9	-1,9507.8	-3253.7	149.8	-83.5
	Deposit Money Banks	4124.7	-1150.2	-3210.9	-127.9	-168.3
	Use of Fund Credit and Loans	-300.6	556.7	785.2	-285.2	-1,131.5
	Change in Net Foreign Assets (-increase)	-4363.5	-1,6005.2	-5744.5	266.8	-64.1

R= Revised

Table 1.14
Gross Foreign Exchange Holding of the Banking System

(Rs. in million)

	2003	2004	2005	Percent Change	
				2003/04	2004/05
Nepal Rastra Bank	8,696.61	10,791.59	10,442.37	24.1	-3.2
Convertible	7,675.20	9,623.59	10,082.36	25.4	4.8
Non Convertible	1,021.41	1,168.00	360.01	14.4	-69.2
Commercial Banks	2,126.33	2,228.92	2,547.27	4.8	14.3
Convertible	2,024.92	2070.91	2,315.49	2.3	11.8
Non Convertible	101.41	158.01	231.78	55.8	46.7
Total Reserve	10,822.94	13,020.51	12,989.64	20.3	-0.2
Convertible	9,700.12	11,694.50	12,397.85	20.6	6.0
Non Convertible	1,122.82	1,326.01	591.79	18.1	-55.4

Table 1.15
Stock Market Indicators

S. N.	Particulars	2002/03	2003/04	2004/05
1.	No. of Listed Companies	108	114	125
2.	Paid-up Capital of Listed Share (Rs. in million)	111,898.0	12,016.8	16,771.0
3.	Market Capitalization (Rs. in million)	35,240.4	41424.8	61,365.9
4.	Annual Turnover (Rs. in million)	576.0	2,144.3	4,507.7
5.	Market Day	238	243	236
6.	No. of Companies Traded	80	92	102
7.	No. of Transactions	69,163	85,533	106,246
8.	No. of Listed Shares (in '000)	159,958	161,141	194,673
9.	The Ratio of Paid-up Capital to GDP (%)	2.6	2.4	5.5
10.	The Ratio of Turnover to Paid-up Capital (%)	4.8	17.8	12.7
11.	The Ratio of Turnover to Market Capitalization (%)	1.6	5.2	7.3
12.	The Ratio of Market Capitalization to GDP (%)	7.7	8.4	11.6
13.	NEPSE Index (closing)	204.9	222.0	286.6

Source: Nepal Stock Exchange Ltd.

Table 1.16
Condensed Assets and Liabilities of Commercial Banks
(Mid-July)

(Rs. in million)

	2003	2004	2005	Amount Change		Percent Change	
				2003/04	2004/05	2003/04	2004/05
1. Total Deposits	202733.8	232576.3	250464.9	29,842.5	17,888.6	14.7	7.7
1.1 Demand Deposits	28299.4	33038.7	34120.0	4,739.3	1,081.3	16.7	3.3
(a) Domestic Deposits	23188.2	28065.2	28673.5	4,877.0	608.3	21.0	2.2
(b) Foreign Deposits	5111.2	4973.5	5446.5	(137.7)	473.0	(2.7)	9.5
1.2 Saving Deposits	97236.4	114106.3	130013.6	16,869.9	15,907.3	17.3	13.9
(a) Domestic Deposits	92889.4	107497.2	123917.8	14,607.8	16,420.6	15.7	15.3
(b) Foreign Deposits	4347.0	6609.1	6095.8	2,262.1	(513.3)	52.0	(7.8)
1.3 Fixed Deposits	75348.4	83268.2	84137.4	7,919.8	869.2	10.5	1.0
(a) Domestic Deposits	67418.2	73676.2	74122.4	6,258.0	446.2	9.3	0.6
(b) Foreign Deposits	7930.2	9592.1	10014.9	1,661.9	422.8	21.0	4.4
1.4 Margin Deposits	1849.6	2163.1	2194.0	313.5	30.9	16.9	1.4
2. Borrowings from NRB	947.4	477.9	1724.0	(469.5)	1,246.1	(49.6)	260.7
3. Foreign Liabilities	134.2	521.4	27.6	387.2	(493.8)	288.5	(94.7)
4. Other Liabilities	88234.2	75655.4	88416.0	(12,578.8)	12,760.6	(14.3)	16.9
Assets=Liabilities	292049.6	309230.9	340632.5	17,181.3	31,401.6	5.9	10.2
5. Liquid Funds	41330.0	50385.0	50222.8	9,055.0	(162.2)	21.9	(0.3)
5.1 Cash in Hand	4723.3	4283.8	4773.0	(439.5)	489.2	(9.3)	11.4
5.2 Balance with NRB	15690.3	24227.0	20234.0	8,536.7	(3,993.0)	54.4	(16.5)
5.3 Foreign Currency in Hand	721.6	435.5	374.8	(286.1)	(60.7)	(39.6)	(13.9)
5.4 Balance Held Abroad	19366.1	20798.6	24045.1	1,432.5	3,246.5	7.4	15.6
5.5 Cash in Transit	828.7	640.1	795.9	(188.6)	155.8	(22.8)	24.3
6. Loans and Advances	201822.5	228234.9	260867.3	26,412.4	32,632.4	13.1	14.3
6.1 Claims on Government	39469.3	43796.3	48550.7	4,327.0	4,754.4	11.0	10.9
6.2 Claims on Non-financial Government Enterprises	2825.7	2907.4	6557.7	81.7	3,650.3	2.9	125.6
6.3 Claims on Financial Enterprises	10278.7	11783.3	11436.2	1,504.6	(347.1)	14.6	(2.9)
6.4 Claims on Private Sector	148073.2	168692.8	193270.0	20,619.6	24,577.2	13.9	14.6
6.5 Foreign Bills Purchased & Discounted	1175.6	1055.1	1052.8	(120.5)	(2.3)	(10.3)	(0.2)
7. Other Assets	48897.0	30611	29542.4	(18,286.0)	(1,068.6)	(37.4)	(3.5)

Overall Macroeconomic Situation

**Table 1.17
Credit Operations of ADB/N and NIDC**

(Rs. in million)

	Mid-July			Amount Change		Percent Change	
	2003	2004	2005 ^P	2003/04	2004/05	2003/04	2004/05
ADB/N							
Loan Disbursed	10115.3	1,0148.9	1,3110.0	33.6	2961.1	0.3	29.2
Loan Repaid	8173.3	3050.3	1,0324.0	-5123	7273.7	-62.7	238.5
Loan Outstanding	1,8615.7	1,9714.3	21076.2	1098.6	1361.9	5.9	6.9
NIDC							
Loan Disbursed	37.0	71.0	NA	34	-	91.9	-
Loan Repaid	98.0	133.0	NA	35	-	35.7	-
Loan Outstanding	2052.0	1990.0	NA	-62	-	-3.0	-

P Provisional

**Table 1.18
Sources and Uses of Funds of Finance Companies**

(Rs. in million)

	Mid-July			Amount Change		Percent Change	
	2003	2004	2005 ^P	2003/04	2004/05	2003/04	2004/05
Sources							
Capital Funds	3205.2	3653.8	4250.0	448.6	596.2	14.0	16.3
Deposits	16510.3	19391.7	22338.1	2881.4	2946.1	17.5	15.2
Borrowings	134.3	1306.5	990.8	1172.2	-315.7	875.4	-24.2
Others	1788.5	2231.2	1949.1	442.7	-282.1	24.7	-12.6
P/L Account	478.2	615.5	990.4	138.3	374.9	28.9	60.7
Sources=Uses	22116.5	27198.7	30518.4	5083.2	3319.4	23.0	12.2
Uses							
Liquid Funds	2674.0	4469.8	3905.0	1795.8	-564.8	67.2	-12.6
Investment	2392.4	2510.5	2411.0	118.1	-99.8	5.0	-4.0
Loans and Advances	14473.7	17540.8	21223.0	3067.1	3682.2	21.2	21.0
Others	2576.3	2677.6	2897.0	101.3	220	4.0	8.2
P/L Account	0.0	0.0	82.0	0.0	8.2	-	-

P Provisional

Table 1.19
Sources and Uses of Funds of Co-operative Societies

(Rs. in million)

	Mid-July			Amount Change		Percent Change	
	2003	2004	2005 ^P	2003/04	2004/05	2003/04	2004/05
Sources							
Capital Funds	273.0	247.2	277.6	-25.8	30.4	-9.5	12.6
Deposits	1924.5	1679.8	1724.5	-244.7	44.7	-12.7	2.6
Borrowings	66.4	41.1	46.2	-25.3	5.1	-37.9	12.2
Others	394.6	432.2	367.2	37.6	-65	9.4	-15.0
P/L Account	-8.1	-47.8	-4.5	-39.7	-4.3	500.0	-89.6
Sources=Uses	2650.4	2352.5	2411.0	-297.9	58.5	-11.3	2.5
Uses							
Liquid Funds	389.1	413.1	424.3	24.0	11.2	6.2	2.7
Investment	251.9	181.5	142.1	-70.4	-39.4	-28.2	-21.5
Loans and Advances	1463.2	1310.6	1431.5	-152.6	120.9	-10.4	9.2
Others	532.1	447.3	413.1	-84.8	-34.2	-16.0	-7.6
P/L Account	14.1	0.0	0.0	-14.0	0.0	-100.0	-

P Provisional

No. of cooperative societies in 2003 = 34, in 2004 =21 and in 2005= 20.

Overall Macroeconomic Situation

Table 1.20
List of Licensed Banks and Financial Institutions
(Mid-July 2005)

Commercial Banks					
S. No		Head Office	S. No		Head Office
1.	Nepal Bank Limited [@]	Kathmandu	2.	Rastriya Banijya Bank	Kathmandu
3.	Nabil Bank Limited [@]	Kathmandu	4.	Nepal Investment Bank Limited [@]	Kathmandu
5.	Standard Chartered Bank Nepal Limited [@]	Kathmandu	6.	Himalayan Bank Limited [@]	Kathmandu
7.	Nepal SBI Bank Limited [@]	Kathmandu	8.	Nepal Bangladesh Bank Limited [@]	Kathmandu
9.	Everest Bank Limited [@]	Kathmandu	10.	Bank of Kathmandu Limited [@]	Kathmandu
11.	Nepal Credit and Commerce Bank Limited	Siddharthanagar	12.	Nepal Industrial and Commercial Bank Limited [@]	Biratnagar
13.	Lumbini Bank Limited	Narayangadh	14.	Machhapuchchhre Bank Limited	Pokhara
15.	Kumari Bank Limited	Kathmandu	16.	Laxmi Bank Limited	Birgunj
17.	Siddhartha Bank Limited	Kathmandu			
Development Banks					
1.	Agricultural Development Bank	Kathmandu	2.	Nepal Industrial Development Corporation	Kathmandu
3.	Nepal Development Bank Limited [@]	Kathmandu	4.	Uddyam Development Bank Limited	Chitwan
5.	Nirdhan Utthan Bank Limited	Siddharthanagar	6.	Malika Development Bank Limited	Dhangadhi
7.	Rural Microfinance Development Centre	Kathmandu	8.	Siddhartha Development Bank Limited	Butwal
9.	Development Credit Bank Limited [@]	Kathmandu	10.	United Development Bank Limited	Bara
11.	Nepal Cottage and Small Industries Development Bank Limited	Kathmandu	12.	Deprosc Development Bank Limited	Chitwan
13.	Narayani Industrial Development Bank Limited	Chitwan	14.	Chhimek Development Bank Limited	Hetauda
15.	Swawalamban Development Bank Limited	Janakpur	16.	Small Farmers' Development Bank Limited	Kathmandu
17.	Paschimanchal Development Bank Limited	Rupandehi	18.	Sahayogi Development Bank Limited	Janakpur
19.	Pashupati Development Bank Limited	Banepa	20.	Karnali Development Bank Limited	Nepalgunj
21.	Triveni Development Bank Limited	Narayangadh	22.	Annapurna Development Bank Limited	Banepa
23.	Bhrikuti Development Bank Limited	Rupandehi	24.	Subhechchha Development Bank Limited	Chitwan
25.	Bageshwori Development Bank Limited	Nepalganj	26.	Sanima Development Financial Institution Limited	Kathmandu
27.	Gaurishankar Development Financial Institution Limited	Nawalparasi	28.	Gorkha Development Bank Limited	Kathmandu
29.	Mount Everest Development Financial Institution Limited	Pokhara	30.	Infrastructure Development Financial Institution Limited	Banepa
31.	Business Development Financial Institution Limited	Pokhara	32.	Birat Laxmi Financial Institution Limited	Biratnagar
Rural Development Banks					
1.	Eastern Region Rural Development Bank Limited	Biratnagar	2.	Far Western Region Rural Development Bank Limited	Dhangadhi
3.	Western Region Rural Development Bank Limited	Butwal	4.	Mid Western Region Rural Development Bank Limited	Nepalgunj
5.	Central Region Rural Development Bank Limited	Janakpur			
Finance Companies					
1.	Nepal Housing Development Finance Company Limited [@]	Kathmandu	2.	Nepal Finance and Savings Company Limited [@]	Kathmandu
3.	NIDC Capital Markets Limited [@]	Kathmandu	4.	National Finance Company Limited [@]	Kathmandu

Report of Fiscal Year 2004/05

S. No		Head Office	S. No		Head Office
5.	Annapurna Finance Company Limited [@]	Pokhara	6.	Nepal Share Market and Finance Company Limited [@]	Kathmandu
7.	Peoples Finance Limited [@]	Kathmandu	8.	Mercantile Finance Company Limited	Birgunj
9.	Kathmandu Finance Limited [@]	Kathmandu	10.	Himalaya Finance and Savings Company Limited	Kathmandu
11.	Union Finance and Leasing Company Limited [@]	Kathmandu	12.	Narayani Finance Limited [@]	Bharatpur
13.	Gorkha Finance Company Limited [@]	Birgunj	14.	Paschimanchal Finance Company Limited [@]	Butwal
15.	Nepal Housing and Leasing Finance Company Limited [@]	Kathmandu	16.	Universal Finance and Capital Market Limited [@]	Kathmandu
17.	Samjhana Finance Company Limited [@]	Banepa	18.	Goodwill Finance and Investment Limited [@]	Kathmandu
19.	Shree Investment & Finance Company Limited [@]	Kathmandu	20.	Siddhartha Finance Limited [@]	Siddharthanagar
21.	Lumbini Finance and Leasing Company Limited [@]	Kathmandu	22.	Investa Finance Limited	Birgunj
23.	Yeti Finance Company Limited [@]	Hetauda	24.	Standard Finance Limited	Kathmandu
25.	Ace Finance Company Limited [@]	Kathmandu	26.	International Leasing and Finance Company Limited [@]	Kathmandu
27.	Mahalaxmi Finance Company Limited [@]	Birgunj	28.	Lalitpur Finance Company Limited [@]	Lalitpur
29.	United Finance Company Limited	Kathmandu	30.	Merchant Finance Company Limited	Kathmandu
31.	Bhajuratra Finance and Saving Company Limited	Kathmandu	32.	General Finance Limited [@]	Kathmandu
33.	Nepal Sri Lanka Merchant Bank Limited [@]	Kathmandu	34.	Alpic Everest Finance Limited [@]	Kathmandu
35.	Nepal Merchant Banking and Finance Limited [@]	Kathmandu	36.	Nava Durga Finance Company Limited	Bhaktapur
37.	Pokhara Finance Limited [@]	Pokhara	38.	Janaki Finance Company Ltd [@]	Janakpur
39.	Central Finance Company Limited	Lalitpur	40.	Premier Finance Company Limited	Lalitpur
41.	Arun Finance and Saving Company Limited	Dharan	42.	Multipurpose Saving and Investment Company Ltd	Rajbiraj
43.	Butwal Finance Limited	Butwal	44.	Nepal Bangladesh Finance and Leasing Company Limited [@]	Biratnagar
45.	Shrijana Finance Limited	Lahan	46.	Om Finance Limited	Pokhara
47.	Cosmic Merchant Banking and Finance Limited	Kathmandu	48.	World Merchant Banking and Finance Company Limited	Hetauda
49.	Capital Merchant Banking and Finance Limited	Kathmandu	50.	Crystal Finance Limited	Kathmandu
51.	Royal Merchant Banking and Finance Limited	Kathmandu	52.	Guheshwori Merchant Banking and Finance Limited	Lalitpur
53.	Patan Finance Company Limited	Lalitpur	54.	Kist Merchant Banking and Finance Limited	Kathmandu
55.	Fewa Finance Company Limited	Pokhara	56.	Everest Finance Company Limited	Siddharthanagar
57.	Birgunj Finance Limited	Birgunj	58.	Prudential Merchant Banking & Finance Limited	Kathmandu
59.	Investment Credit & Finance Company Limited	Kathmandu	60.	IME Financial Institution Limited	Kathmandu

Overall Macroeconomic Situation

Co-operative Societies (With Limited Banking Transaction)					
S. No		Head Office	S. No		Head Office
1.	Nabajivan Co-operative Society Limited	Dhangadi	2.	Sagun Co-operative Society Limited	Kathmandu
3.	Nepal Co-operative Society Limited	Kathmandu	4.	Makalu Transport Co-operative Society Limited	Biratnagar
5.	The Sahara Loan, Savings and Investment Co-operative Society Limited	Sarlahi	6.	Bindabasini Saving and Fund Co-operative Society Limited	Kabrepalanchok
7.	Mahila Co-operative Society Limited	Kathmandu	8.	Nepal Bahoouddesiyi Co-operative Society Limited	Jhapa
9.	Rajshree Saving and Investment Cooperative Society Ltd	Sarlahi	10.	Sahakari Financial Co-operative Society Limited	Nepalgunj
11.	Manakamana Co-operative Society Limited	Banepa	12.	Bheri Co-operative Society Limited	Nepalgunj
13.	Biku Saving and Loan Co-operative Society Limited	Nawalparasi	14.	Amarawati Bahoouddesiyi Co-operative Society Limited	Kathmandu
15.	Kisan Bahoouddesiyi Co-operative Society Limited	Kailali	16.	United Saving and Credit Co-operative Society Limited	Kathmandu
17.	Himalayan Co-operative Society Limited	Kathmandu	18.	Star Bahoouddesiyi Saving and Loan Co-operative Society Limited	Kathmandu
19.	Yeti Saving & Loan Co-operative Society Limited	Kathmandu	20.	Upakar Saving Fund & Loan Co-operative Society Limited	Syangja
Non Governmental Organizations (Micro Credit Transaction)					
1.	Nepal Grameen Bikas Samaj Kendra	Biratnagar	2.	Nepal Grameen Bikas Sanstha	Kathmandu
3.	Nepal Sikara Grameen Bikas Karyakram	Chitwan	4.	Chartare Yuba Club	Baglung
5.	Mahuli Samudyik Bijkas Kendra	Saptari	6.	Samudayik Yuba Club	Bardiya
7.	Samudayik Mahila Bikas Kendra	Saptari	8.	Grameen Samudayako Lagi Yojana Pratyabhuti Samuha, Nepal	Dhankuta
9.	Grameen Jagaran Manch (Programme Co-ordination Office)	Baglung	10.	Sarbodaya Grameen Bikas Sangh	Saptari
11.	Jan Jagaran Manch	Rasuwa	12.	Rastriya Shaichik Tatha Samajik Bikas Sanstha	Parbat
13.	Dhaulagiri Community Research Dev. Centre	Baglung	14.	Nepal Environment and Pollution Eradication UNESCO Nepal	Gangabu
15.	Society of Local Volunteers Efforts Nepal (SOLVE)	Dhankuta	16.	Women Enterprises Association of Nepal	Kathmandu
17.	Center for Women's Right and Development	Kathmandu	18.	MANUSHI	Kathmandu
19.	Life Development Society	Morang	20.	Women Development and Child Care Foundation	Saptari
21.	Mahila Adarsha Sewa Kendra	Kathmandu	22.	Patan Business and Professional Women	Lalitpur
23.	Women Development Centre	Chitwan	24.	Women's Self -Reliant Society	Chitwan
25.	Women Development Centre of Nepal	Lalitpur	26.	Bhagawan Yuva Club	Kathmandu
27.	Srijanatmak Mahila Batabaran Bikas Sanstha	Kathmandu	28.	Srijana Samudayik Bikas Kendra	Siraha
29.	Srijana Development Centre	Pokhara	30.	Sigana Yuva Club	Baglung
31.	Cottage and Small Industry Association	Kathmandu	32.	Rural Sector Development and Research Programme	Parbat
33.	Adarsha Yuva Club	Bhaktapur	34.	Society Welfare Action Nepal (SWAN)	Dang
35.	Social Upgrade in Progress of Education Region	Dang	36.	Nepal Mahila Samudayik Sewa Kendra	Dang
37.	Grameen Mahila Utsukata Bikas Manch	Sunsari	38.	Grameen Mahila Bikas Sanstha	Dang
39.	Ama Samaj Sangh	Chitwan	40.	Grameen Mahila Utthan Kendra	Dang
41.	Khurkot Yuva Club	Parbat	42.	Tharu Tatha Raji Mahila Samaj	Kailali
43.	Nari Abhudaya Kendra	Chitwan	44.	Mahila Upakar Manch	Banke
45.	Chhimek Samaj Sewa Sanstha	Kathmandu	46.	Swawalamban Bikas Kendra	Kathmandu
47.	Bikas Ayojana Sewa Kendra (DEPROSC Nepal)	Kathmandu			

No. of Postal Savings Bank Offices (as at mid-July 2005): 117

@ Bank and Financial Institutions, which issued public shares

PART

II



● Monetary Policy of 2004/05	37
● Financial Sector Reform	39
● Regulation, Inspection and Supervision of Banks and Financial Institutions	40
● Micro-finance Programs	50
● Foreign Exchange Management	52
● Currency Management	53
● Miscellaneous Activities of the NRB	54

Activities of Nepal Rastra Bank

Monetary Policy of 2004/05

2.1 As per the provision of Nepal Rastra Bank Act 2002, the NRB announced annual monetary policy of 2004/05 on 19 July 2004. The policy was announced in consistent with the statement of income-expenditure of government of 2004/05. It included objectives of monetary policy, strategies, monetary instruments, operating strategies and financial and external sector reform programs

2.2 The monetary policy for 2004/05 was formulated on the basis of existing economic and monetary situation, status of financial sector and likely changes in internal and external economy in 2004/05. Similarly, the pegged exchange rate system of Nepalese currency vis-à-vis Indian currency was taken as nominal anchor.

Objectives

2.3 The major objectives of the monetary policy of 2004/05 were to ensure price stability and consolidate the BOP position. The targets for inflation and BOP were set at 4.0 percent and Rs 5.50 billion respectively. Monetary aggregates were projected to facilitate the growth rate of 4.5 percent. At the end of 2004/05, inflation averaged at 4.5 percent, while BOP surplus remained at Rs 5.74 billion. Despite the low growth rates of monetary aggregates and weak internal demand, the inflation remained higher than the target. Upward revisions in petroleum price and the increase in VAT rate contributed to such a higher level of inflation. However, ex-post BOP remained as targeted on account of satisfactory inflow of remittances.

Table 2 (A)
Inflation and BOP Surplus in 2004/05

	Targets	Actual
Inflation	4.0 percent	4.5 percent
BOP Surplus	Rs 5.5 billion	Rs 5.74 billion

Monetary Policy Strategies

2.4 In consonance with the above-mentioned objectives of monetary policy, M2 and M1 were projected to rise by 12.5 percent and 10.5 percent respectively in 2004/05. However, due to the slowdown in economic activities, M2 and M1 grew by 8.3 and 6.6 percent respectively.

Table 2 (B)

Growth of Broad and Narrow Money (in percent)

	Target	Actual
Broad Money	12.5	8.3
Narrow Money	10.5	6.6
Domestic Credit	13.3	13.5

2.5 Growth of domestic credit was taken as an intermediate target of monetary policy. It was projected to increase by 13.3 percent in 2004/05. At the end of the review year, it stood at 13.5 percent, near to the projected level. The rise in net claims on government and the remarkable growth of claims on non-financial government enterprises contributed to such a growth of domestic credit in the review year.

Operating Target of Monetary Policy

2.6 In place of reserve money (RM) and NDA of monetary authority excess liquidity of commercial banks was taken as an operating target of monetary policy in 2004/05. Accordingly, liquidity monitoring and forecasting framework (LMFF) was introduced with effect from 15 July 2004 in order to monitor and forecast the short-term liquidity situation. Weekly balance sheet of the NRB has been used for liquidity monitoring. Liquidity projections are made based on expected foreign exchange intervention in foreign exchange market, inter bank transactions, redemption of government securities, expected expenditure and revenue status of the government in upcoming week. Subsequently, short-term interest rates have been used as monetary indicators. The experience of 2004/05 showed that LMFF rightly reflected excess liquidity position and assisted for short-term monetary management.

Monetary Policy Stance and Instruments

Bank Rate and Refinance Rate

2.7 The bank rate, as an indicator of monetary policy stance, was kept unchanged at 5.5 percent. However, refinance rate for RDBs and export credit in domestic currency including agricultural credit was cut to 3.0 percent from the existing rate of 4.0 percent. Refinance rate for export credit in foreign currency was kept at 2.0 percent with a provision of charging borrowers not exceeding 4.5 percent. The refinance rate for sick industries was lowered to 1.5 percent from existing 2.0 percent.

Report of Fiscal Year 2004/05

Table 2 (C)
Bank Rate and Refinance Rates

	In percent	
	Before	After
	Change	Change in 2004/05
Bank Rate	5.5	5.5
Refinance rate for sick industries	2.0	1.5
Refinance rate for RDBs and for export credit in domestic currency	4.5	3.0
Refinance rate for export credit in foreign currency	2.0	2.0
Refinance rate for all other credits	5.5	5.5

Cash Reserve Ratio

2.8 The cash reserve ratio (CRR), a compulsory cash balance to be maintained by commercial banks at the NRB, was slashed down to 5.0 percent from 6.0 percent. This released additional Rs. 2.0 billion loanable funds to commercial banks. The effect of reduction in CRR at the outset of the fiscal year transmitted into short-term interest rates. As a result, short-term interest rates declined significantly. However, the reduction in CRR contributed to bring down the cost of fund of commercial banks. The reduction in CRR and the provision of SLF provided commercial banks with confidence in liquidity management. These phenomena have developed the base for effective transmission of monetary measures.

Open Market Operation

2.9 Open market operations as flexible short-term monetary instruments were revamped in the monetary policy statement of 2004/05. In the past, rather than a monetary measure, OMOs were conducted in order to facilitate commercial banks to manage their liquidity under their own initiatives. This system was changed in monetary policy of 2004/05. Three changes were important in this regard. First, the auction system was introduced to conduct OMOs as monetary measures. This would reflect true liquidity position. Market forces would determine interest rates. Second, open market operations would take place at the initiatives of the NRB instead of commercial banks. As such, likely anomalies in OMOs have ended. Third, a system of monetary rule has been begun while conducting OMOs. The newly introduced monetary rule is based on the quantity rule. For conducting OMOs, a system of offering quantity for liquidity injection and absorption by the NRB has been initiated. The LMFF has been taken as a scientific base for determining the quantity for auction. Weekly balance sheet of the NRB has been used as a base for LMFF. Thus, monetary rule has replaced discretionary measures adopted for monetary management in the past. As a consequence, likely distortions in secondary market operation have ended. In this process, a policy has been introduced for outright sale and purchase of TBs of 28-day, 91-day, 182-day and 364-day in secondary market. Of these monetary instruments, outright sale auction absorbed Rs

10.50 billion and purchase auction injected liquidity of Rs 1.31 billion in 2004/05. Likewise, repo auctions injected short-term liquidity of Rs. 6.68 billion and reverse repo auctions absorbed Rs 5.27 billion liquidity. The use of these monetary instruments pushed up the interest rates at the end of the fiscal year that had heavily fallen in the beginning. For example, compared to weighted average 91-day TBs rates of 0.62 in the first month and 0.63 percent in the second month of the fiscal year, the weighted average rate increased to 3.94 percent at the end of the year.

Table 2 (D)
Open Market Operation in Treasury Bills

Instruments	(Rs in billion)
	Amount
Outright sale auctions	10.50
Outright purchase auctions	1.31
Repo auction	6.68
Reverse repo auction	5.27

Standing Liquidity Facility

2.10 In place of repo credit facility, a separate provision of standing liquidity facility (SLF), a completely collateral based but automatic credit facility was introduced in the monetary policy of 2004/05. A provision of taking TBs and DBs of government as a collateral was made. The penal rate for the use of SLF was determined by adding 1.5 percent more on the latest weighted average discount rate of 91-day TBs. Commercial banks used Rs 49.31 billion SLF facility in 2004/05. The liquidity management by commercial banks improved following the introduction of SLF facility.

Table 2 (E)
Status of Standing Liquidity Facility in 2004/05

Commercial Banks	(Rs in billion)
	Amount
Nabil Bank Limited	13.40
Nepal Bangladesh Bank Limited	11.56
Standard Chartered Bank Nepal Limited	7.18
Bank of Kathmandu Limited	3.36
Nepal Industrial and Commercial Bank Limited	2.51
Kumari Bank Limited	2.17
Nepal Credit and Commerce Bank Limited	2.09
Himalayan Bank Limited	1.70
Everest Bank Limited	1.39
Nepal SBI Bank Limited	1.07
Others	2.88
Total	49.31

Issue of Development Bonds Through Auction

2.11 As stated in the monetary policy of 2004/05, the primary issue of development bonds (DBs) of the government through auction system and its secondary market operation

Activities of Nepal Rastra Bank

through Nepal Stock Exchange Limited has been introduced. Accordingly, DBs worth Rs. 3.00 billion were issued for four times through auction system. All these four issues of DBs were sold on premium.

Refinance Facility for Sick Industries

2.12 In 2004/05, a provision of Rs 1.00 billion refinance facility to commercial banks was made available in order for rehabilitating the sick industries. The rate for such refinance facility had been lowered to 1.5 percent from existing 2.0 percent and the provision was made to charge interest rate for the borrower not exceeding 4.5 percent. In 2004/05, Rs 380.0 million was sanctioned as refinance facility for 13 hotels and 5 industries.

Table 2 (F)
Commercial Banks using Refinance Facilities
in 2004/05

Banks	(Rs in million)
Banks	Amount
Rastriya Banijaya Bank	64.0
Himalayan Bank Limited	31.0
Machhapuchchhre Bank Limited	102.0
Nepal SBI Bank Limited	75.0
Nepal Investment Bank Limited	58.0
Kumari Bank Limited	25.0
Nepal Credit and Commerce Bank Limited	14.0
Bank of Kathmandu Limited	11.0
Total	380.0

Rural Self-Reliance Fund

2.13 In order to help expand institutional credit in rural areas and mobilize long-term loanable funds for national priority sectors, the NRB appropriated 5 percent from its profit to Rural Self-Reliance Fund (RSRF). In 2004/05, NRB appropriated Rs 78.6 million.

Table 2 (G)
Amount Deposited in Rural Self-Reliance Fund by NRB

Fiscal Year	(Rs. in million)
Fiscal Year	Amount
2002/03	75.0
2003/04	100.0
2004/05	78.6
Total	253.6

Priority Sector and Deprived Sector Lending Program

2.14 With the financial liberalization, a policy of phasing out the priority sector lending program has been initiated. However, it has been equally challenging to meet credit demand in rural areas. The priority sector lending program has gradually been phased out since 2002/03. In 2004/05, commercial banks were required to disburse only 2.0 percent of total loans and advances to the priority sectors. However,

the deprived sector lending program has been kept unchanged. Newly established commercial banks are required to disburse 0.25 percent and the existing commercial banks are required to disburse 3.0 percent of their loans and advances to deprived sectors. Individual credit up to Rs. 40,000 and credit for micro enterprises up to Rs. 100,000 has been defined as deprived sector credit.

Moral Suasion

2.15 The NRB has been using moral suasion as an important monetary policy instrument. In the context of high interest rate spread maintained by commercial banks by lowering deposit rates, the NRB applied moral suasion on commercial banks to increase deposit rate and ensure efficient financial intermediation on May 6, 2005. As a result, some commercial banks raised the deposit rate, albeit marginally.

Financial Sector Reform

2.16 The Financial Sector Reform Program (FSRP) has been in operation with the loan assistance of the World Bank (WB) and grant assistance of the Department for International Development (DFID) of the UK Government. The FSRP encompasses the re-engineering of the NRB, restructuring of NBL and RBB and the capacity building of financial sector.

Re-engineering of the NRB

2.17 In connection with the re-engineering of the NRB, the following tasks were carried out in 2004/05:

- a. Total number of employees was brought down to 1,639 (Table 2.4). Employees by-laws was finalized to implement it by mid-July 2005. In this new by-regulation, a provision of compulsory retirement for the employees completing 30 years of service period was introduced.
- b. Inspection and supervision procedure was improved whereas new directives were formulated and implemented.
- c. Unified directive for all banks and financial institutions was issued to be effective from mid-July 2005.
- d. Internal audit guidelines were implemented.
- e. Public relation officer, information technology specialist including consultants for Banker's Training Centre and Credit Information Centre were hired to enhance the capacity of related Departments. However actions against the latter two was initiated as they vacated their jobs.
- f. In the second phase of FSRP, proposals were called for four bank inspectors, two non bank inspectors and one off-site inspector in order to hire consultants through global competition. After evaluating the proposals, agreement with selected consultants was initiated with the consent of the World Bank.
- g. Agreement with the consulting firm was underway in order to appoint six chartered accountants for the reform of accounting and audit system.

- h. A foreign consultant was appointed for 24 months with a view to strengthening the human resources.
- i. Trainings were conducted on software and information technology to help develop the office automation and information technology system after the recruitment of IT Trainer and Software Prototype Developer.

Restructuring of NBL and RBB

2.18 A management team of ICC Consulting Firm from Bank of Scotland (Ireland) has been working for the structural reform of NBL since July 22, 2002. As per the audited financial statements, NBL had earned a net profit of Rs.710.0 million in 2003/04 as on the provisional financial statements. In 2004/05, it earned a net profit of Rs.1.4 billion.

2.19 As a result of automation process initiated from Lalitpur Branch in April 2004, 22 branches of NBL were operating through Live NEWTON system in June 2005. The management team of NBL has formulated and implemented various plans like extensive human resource development plan, management plan and skill development plan. Purchasing of computer hardware and software was accomplished with a view to computerize up to 80 percent of the banking transactions.

2.20 The new management team succeeded in recovering bad loans worth Rs. 5.36 billion in cash in the past three years by making regular contacts with big borrowers. NBL introduced a voluntary retirement scheme (VRS) by which the number of employees dropped to 2,874 from 5,322. The process of organizational reforms including automation was in progress.

2.21 The agreement signed with consulting firm for NBL restructuring expired on 21 July 2005. The process for the renewal of contract was underway.

2.22 Mr. Bruce F. Henderson-an American citizen, was appointed as the Chief Executive Officer of RBB. Mr. Henderson joined his office from 16 January 2003. The bank had submitted its financial statements up to 2003/04 after completing the audit. Statements had shown improvements in the financial health of RBB. According to the audited financial statement of 2003/04, RBB had earned a net profit of Rs. 1.04 billion. It earned a net profit of Rs.1.27 billion in 2004/05, as per the provisional financial statement. The new management team recovered bad loans worth Rs. 6.46 billion in cash.

2.23 A VRS was introduced in RBB to reduce the number of employees. The bank reduced its employees from 5,422 to 3,566. Office automation was accomplished in 3 branches and it was ongoing in other branches. RBB had planned to complete the work of office automation by January 2006. After the completion of the work, 80 percent of the total transaction related to deposits and credit would be mechanized.

2.24 The agreement with the management team for restructuring of RBB came to an end with effect from 15

January 2005. The contract period has been extended for one year effective 16 January 2005.

Regulation, Inspection and Supervision of Banks and Financial Institutions

Regulation of Banks and Financial Institutions

Unified Directives

2.25 In course of timely rectification of the existing directives, the NRB has been clarifying, nullifying or modifying the unclear clauses in addition to enforcing new directives. The following directives were enforced in 2004/05:

- a. Banks and financial institutions were required to make a loan loss provision of one percent in case of good loans, only if the loan was restructured or rescheduled with hundred percent interest collection. Distribution of dividend to shareholders is not allowed out of profit earned from the use of this facility.
- b. Banks and financial institutions should maintain a minimum capital fund of 11.0 percent (of which, 5.5 percent should be primary capital) of risk weighted assets, instead of 12.0 percent as directed earlier. The downward revision was made in view of the prevailing adverse situation.
- c. Banks and financial institutions should sell their shares in other banks and financial institutions by mid-July 2004, unless the sale was prohibited by law. Otherwise a hundred percent loan loss provision should be made for 2003/04 for the amount of unsold shares.
- d. Banks and financial institutions could operate their counters for additional time to serve their customers in special occasions like Dashain and Tihar festivals, without prior approval of the NRB. However, prior notice to the NRB was made mandatory.
- e. Clause 1 of the directive issued on 4th June, 2004 relating to credit information and black listing was amended accordingly as Credit Information Centre (CIC) was moved out of the management of the Bankers' Association and registered in the Office of the Company Registrar as a public limited company.
- f. If a borrower was blacklisted on the request of a bank or financial institution other than the lead bank or financial institution or majority of the consortium members, a directive was issued to remove the blacklisted borrower from blacklist on request of the bank or financial institution only, which had requested for the blacklisting the borrower. In the directive related to blacklisting, defaulters were divided into two categories as willful defaulters and non willful defaulters.

Willful Defaulters

- Borrowers, who have not initiated the restructuring or rescheduling process of the loan, not committed

to repay the loan or made no contact with the bank for one year from the due date,

- Borrowers, who are not prompted to sell the collateral to repay the outstanding loan or who have obstructed the auction of such collateral,
- Borrowers, who are not willing to dispose other property or earnings from other industry or business, to repay the outstanding loan,
- Borrowers, who are engaged in the activities like diversion of fund, siphoning off resources from the business, misusing the earning of business elsewhere instead of repaying the loan, creating non-business assets, using short-term resources in long-term consumptions, contrary to the agreement or investing from company to subsidiaries or other companies,
- Borrowers, who have borrowed in the name of other person or third party such as servant or staff, with the intention of not disclosing their involvement in their own project or business.
- Borrowers, who have denied rendering additional collateral or personal guarantee as demanded by the bank for the overdue loans,
- Borrowers, who have rendered poor, inadequate or bad collateral to the bank in order to get the loan or who presented false value or over value of the collateral,
- Borrowers, who have been found to have misused the collateral of loan,
- Borrowers, who received loan making unfair contact with the employees of the bank or financial institution, harassing them or making illegal deal with them or who have imposed unnecessary pressure or offer not to repay the loan,
- Borrowers, who vanished without repaying the loan, and,
- Borrowers, who invested in abnormally overcapitalized projects, by making false analysis of financial, managerial and technical aspects of the project and demand and supply factors of the market.

Non-wilful Defaulters

- Borrowers, who are unable to repay the loan despite their willingness to repay, because of the losses or problem incurred in businesses due to factors out of their control such as difficult economic, business or industrial situation or adverse external situation,
- Borrowers, who are unable to repay the loan in due date, but are in contact with the bank or financial institution and have made satisfactory commitment to repay the loan after restructuring or rescheduling it.

Additional Provisions Regarding Blacklisting

- a. If a bank or financial institution provides loans or advances to a blacklisted person, firm, company or an institution, such a bank or financial institution would be penalized as per clause 99 (1) of the NRB Act, 2002.
- b. If a bank or financial institution is found to be refusing for the blacklisting of a person, firm, company or an institution as per the directive of the NRB, the respective bank or financial institution would be penalized as per clause 99(1) of the NRB Act, 2002.
- c. A hundred per cent loan loss provisioning should be made for the loan to be recovered from a blacklisted person, firm, company or institution. Otherwise, the responsible Executive Director shall be fined up to Rs. 500 thousand as per clause 100(2) (c) of the NRB Act, 2002.
- d. While blacklisting or removing the name of a borrower, CIC should clearly indicate which clause of the act or directive was applied to do so.
- e. CIC should provide credit information demanded by banks and financial institutions within three working days after receiving the request letter.
- f. CIC should publish, in website too, the updated list of the blacklisted borrowers in every three months.

2.26 A guideline was issued as per clause 79 of the NRB Act, 2002 and clause 49(1) of Banks and Financial Institutions Ordinance (BAFIO) to elucidate how banks and financial institutions should make bylaws to write off loans.

2.27 A note of clause 13.3 of directive number 2 related to classification of loans and advances and loan loss provisioning was amended for the purpose of restructuring or rescheduling loans of the industries recommended by Sick Industries Preliminary Investigation and Recommendation Committee working under Ministry of Industry, Commerce and Supply.

2.28 A circular was issued to allow all banks and financial institutions to decide themselves to remain open in public holidays. However they should remain open on working days of the NRB.

2.29 Eligibility criteria to be a director of banks and financial institutions licensed by the NRB was set as follows:

- a. Director of a deposit taking financial institution established as per clause 18 (e) of BAFIO shall be deemed disqualified for the post of director of a bank or financial institution licensed by the NRB.
- b. A director of existing cooperative society, if working as a director of a bank or financial institution licensed by the NRB, should confined himself as the director of only one financial institution within six months.

2.30 If a bank or financial institution needs to pledge as security or sell its promoter shares as per the clause (9) of BAFIO, the same bank or financial institution should apply to the NRB in order to get permission.

2.31 The procedure for calculation of CRR was specified as follows:

- a. CRR shall be calculated on weekly (Sunday to Saturday) basis.
- b. CRR calculation shall not be done if there is a week-long holiday.
- c. Calculation of CRR shall be done on the basis of weekly average deposit liabilities of preceding four weeks. If there is a week-long holiday, average deposit of earlier week shall be taken as the average deposit of that week.
- d. For the purpose of calculating CRR, weekly average shall be determined by dividing the sum of total deposit liabilities and daily balance (Sunday to Saturday) with the NRB by 7. Reserve of the prior day shall be taken as the balance of any holiday within the week.
- e. Form number 9, duly filled up with the balance from Sunday to Friday, shall be sent to Bank Supervision Department of the NRB, within 15 days from the end of every week. This amendment is applicable effective from 15 May 2005. All other procedures related to this matter shall be guided by the previous directives.

2.32 A directive was issued as per clause 80 of the NRB Act, 2002 to disclose the PAN number on the application when a person registered in VAT applies for a loan of more than Rs 100 thousand for industrial or business purpose.

2.33 Effective 31 May 2005, refinance rate for loans in foreign currency has been fixed at 3.25 percent. All existing procedures and provisions regarding bank rate and refinance were kept unchanged.

2.34 Effective 16 July 2005, unified directives were issued to all commercial banks, development banks, finance companies and microfinance development banks. The unified directives contained 16 different directives related to capital, classification of loan & advances and provisioning, sectoral limit, accounting policy, structure to financial statements, risk minimization provision, corporate governance, schedule to implements the directives, investment etc.

Agricultural Development Bank Registered as a Company

2.35 As per provision of Bank and Financial Institution Ordinance 2004 and on the recommendation of this Bank, Office of Company Registrar registered ADB/N as a Public Limited Company (Agricultural Development Bank Limited) with authorized capital of Rs. 12.00 billion and issued capital of Rs. 11.20 billion.

License to New Finance Companies

2.36 License was issued to IME Financial Institution Limited on 28 June 2005. This Kathmandu based institution has authorized capital of Rs. 100.0 million and issued capital of Rs. 50.0 million.

2.37 A letter of intent was given to Shikhar Bittiya Sanstha Limited on 10 May 2005 and to Civil Merchant Bittiya Sanstha Limited on 24 April 2005. Both the financial institutions will be established in Kathmandu with authorized capital of Rs. 100.0 million and issued capital of Rs. 50.0 million.

Micro Finance Institutions

2.38 Eleven development banks working in the field of micro finance including five regional Rural Development Banks, four private sector development banks, Rural Microfinance Development Center and Small Farmers' Development Bank have been engaged in financial transactions.

2.39 The NRB has adopted a policy not to issue license to cooperative societies for financial transactions.

2.40 For the effective regulation, inspection and supervision of microfinance institutions, a need for a separate Second Tier Institution is felt and work toward its establishment has been initiated.

Inspection and Supervision of Banks and Financial Institutions

2.41 The NRB has been supervising banks and financial institutions to maintain financial discipline, contribute to the economic development, and mitigate the risk inherent in the financial system. The following inspection and supervision related activities were conducted during 2004/05:

Commercial Banks

2.42 A corporate level inspection of each commercial bank on annual basis has been introduced since 2004/05. Earlier, this type of inspection used to be conducted once in a period of two years. In this regard, the corporate level on-site inspection of 15 commercial banks was completed during 2004/05. A special inspection was also carried out in case of Nepal Bangladesh Bank Limited and Nepal Credit and Commerce Bank Ltd.

2.43 A task force was formed to monitor the operational efficiency in Nepal Bangladesh Bank Limited, Nepal Credit and Commerce Bank Limited, N.B. Leasing and Finance Ltd and Nepal Sri Lanka Merchant Bank Limited. The core capital and capital adequacy of these institutions was found lower than the standard fixed by the NRB. In addition, there were cases of lending to promoters and their family members. The task force was aimed at monitoring these deficiencies.

2.44 The following instructions were given to RBB based on the remarks found during its on-site inspection:

- a. To submit capital plan according to the instruction of the NRB.
- b. To strictly adhere to the directives regarding the loan classification, loan loss provisions and to reclassify the loans that were not classified according to the NRB directives and maintain additional provisions for such loans.

- c. To initiate the function of new management team as scheduled in the management plan.
- d. To formulate policies relating to investment, deposit mobilization, and information technology as well as to prepare bank operation manual, accounting directives, IT architecture and security guidelines.
- e. To undertake IT and management system related activities, and computerization of branches at a faster pace.
- f. To rectify the remarks indicated by the internal audit, final audit and NRB in a timely manner and develop a system not to repeat the errors and to immediately inform the NRB regarding the loan recovery and actions taken against the various units of Mangatu Ram Group, as disbursement was made above the limit and beyond the value of the collateral.
- g. To speed up the functioning by removing the practices in which similar types of activities are carried out by a number of departments.
- h. To settle the accounts by speeding up the recovery of the loans disbursed to RBB's own employees.
- i. To prepare a maturity-wise statement of all deposits and credits and to develop an effective mechanism for assets/liabilities management.
- j. To inform the NRB after taking actions against those employees who were involved in lending and overdrawing practices by violating the rules and those involved in abusing the authorities.
- k. To create an environment whereby prevailing acts, rules and the directives issued by the NRB can be followed from central to branch level and initiate action against those employees responsible for creating a loss to the bank, as mentioned in various reports prepared in the past.
- l. To form an audit committee under the convenership of a non-executive director, as per clause (5) of directive number 6 of the NRB.
- m. To develop a policy regarding the interest rebates to be provided for the recovery of the previous loans.
- n. To settle down the expired letters of credit and guarantees that were shown as contingent liabilities.
- o. To take action against the employees involved in L/C transactions who had issued Bi.Bi.Ni. form number 4 without asking for a 2 percent deposit from the customers.

2.45 Instructions were given to NBL on a number of issues. These include preparing a capital fund plan, successor's plan to facilitate management of the bank after the end of tenure of current management, to formulate appraisal process and regulations, new employees byelaws and financial administration regulation, loan write-off procedures, branch policy for the effective management of branches, IT system operation manual suitable to the bank, policy regarding the identification and management of non-

banking assets, initiate special attention on loan management, and to assign duties for the employees involved in trade unions like other employees. As the officer level employees were found to be involved in unions, a clarification was sought on the issue for not abiding the Supreme Court's verdict and its own staff byelaws which prohibits officer level employees to take part in unions.

2.46 Kumari Bank Limited was instructed to update its lending policy, to allocate an amount out of the profit equivalent to 10 percent of the paid up capital to capital adjustment fund, and to recover Rs. 15,031,705 in cash from the directors for charging that amount as preliminary expenses without submitting bill/receipts.

2.47 Lumbini Bank Limited was instructed to start the legal procedures to recover loan disbursed to promoters and the entities having promoters' interest. In addition, instructions were also issued to bring loans within single borrower limits by mid-January 2005 and to recover loan extended to Sumi Enterprises by mid-November 2005, and if not recovered, to create a 100 percent loan loss provision for that loan.

2.48 According to clause 82 (3) of the BAFIO, Standard Chartered Bank Nepal Limited and Nabil Bank Limited were asked to publish the statement of dividend that was not distributed over the last five years. Also, Nabil Bank Limited was asked to submit the quarterly statement regarding the recovery of written off loans.

2.49 Everest Bank Limited was instructed to follow the single borrower limit in its lending practices and to bring all the loans under the single borrower limit by mid-January 2005. Further, it was asked to maintain 100 percent provision for the loan extended to Supreme Pipe and Allied Industries since that was found to be unsecured. Further, the bank was penalized Rs. 13,875 for not extending loan to the priority and deprived sector in the last quarter of 2003/04.

2.50 Nepal Credit and Commerce Bank Limited was instructed to bring down the loans that were above the single borrower limit, to maintain 100 percent provision for the loan extended to NECON Air since the company was not in operation, and to be vigilant in its overall loan management.

2.51 Nepal SBI Bank Limited was instructed to submit the capital plan within 35 days as per clause 42(2) of BAFIO since its capital adequacy was found to be lower than the requirement. In addition, it was instructed to bring down all the loans under the single borrower limit and to pay special attention for loan management.

2.52 Nepal Bangladesh Bank and Siddhartha Bank Limited were penalized Rs. 66,07,965 and Rs. 1770 respectively for not disbursing loan to the priority sector. NBL and RBB were penalized Rs. 67,605.57 and Rs. 156,519.43 respectively for maintaining insufficient CRR as per the directives. Similarly, Kumari Bank Limited was charged Rs. 796.44 for not maintaining CRR in the first quarter of 2004/05.

2.53 In 2004/05, on-site inspection of Dhulabari, Malangawa, Narayangadh, Nepalgunj city office, Tansen, and Duhabi

Report of Fiscal Year 2004/05

branches of NBL, and Damak, Jaleswor, Bharatpur and Tansen branches of RBB was completed.

Financial Institutions other than Commercial Banks

2.54 In 2004/05, the NRB prepared an inspection report after completing on site inspection of 9 branches of ADB/N, 8 development banks, 27 finance companies, 9 co-operatives and 11 NGOs.

2.55 A number of directives relating to enforcements and follow ups were issued regarding the remarks indicated by the on-site and off-site inspection reports undertaken during 2003/04 and 2004/05. Likewise some remarks were indicated in the special inspection report, and while approving the financial statements for the annual general meeting purposes. In case of not receiving the satisfactory response, further follow-ups and enforcement were made.

Table 2 (H)
Inspection of Development Banks and Implementation Status of the Remarks Made in Inspection Reports

S.No.	Name of Development Bank	Date of Inspection	Inspection Report Sent on	Reply Received on	Latest Status
1.	Nepal Cottage and Small Industries Development Bank Limited	28 July 2004	25 February 2005	1 July 2005 (Second reply)	Tabulation work undergoing
2.	Development Credit Bank Limited	31 August 2004	10 June 2005	8 June 2005	Report under study
3.	Karnali Development Bank Limited	3 December 2004	22 April 2005	6 June 2005	Reminder sent again on June 13, 2005 and August 16, 2005.
4.	Narayani Audhyogik Bikas Bank Limited	18, January 2005	22 April 2005	13 June 2005	Tabulation work accomplished
5.	Annapurna Development Bank Limited.	6 March 2004	13 July 2005	Yet to receive	-
6.	Nepal Development Bank Limited	7 March 2005	Yet to send	-	Continuation of the bank imposed on July 8, 2004 on deposit collection
7.	Pashupati Development Bank Limited	27 March 2005	5 May 2005	1 July 2005	Tabulation work undergoing
8.	United Development Bank Limited	19 March 2005	Yet to send	-	Continuation of deposit ceiling of Rs. 80.0 million imposed on March 9, 2004.
9.	Sahayogi Bikas Bank Limited	29 April 2004	31 August 2005	Yet to receive	-
10.	Agricultural Development Bank, Kalimati Main Branch	27 December 2005	28 April 2005	Yet to receive	-
11.	Agricultural Development Bank, Birtamod Branch	18 January 2004	9 April 2005	12 June 2005	File closed on August 10, 2005 after receiving satisfactory reply
12.	Agricultural Development Bank, Kalanki Branch	27 December 2004	28 April 2005	2 June 2005	File closed on June 9, 2005 after receiving satisfactory reply
13.	Agricultural Development Bank, Itahari Branch	26 October 2004	4 April 2005	29 May 2005	File closed on June 24, 2005 after receiving satisfactory reply
14.	Agricultural Development Bank, Narayangadh Branch	18 January 2005	15 May 2005	Yet to receive	-
15.	Agricultural Development Bank, New Road Branch	1 April 2005	1 June 2005	Yet to receive	-
16.	Agricultural Development Bank, Chabahil Branch	11 June 2005	29 July 2005	Yet to receive	-
17.	Agricultural Development Bank, Maitidivi Branch	31 May 2005	6 September 2005	Yet to receive	-

Finance Companies

2.56 The implementation status of the remarks and the directives forwarded to the concerned finance companies to execute the remarks stipulated in the report prepared by the NRB after the on-site inspection and off-site supervision of the companies during various time frame are as follows:

- a. Reports of three companies are still in implementation phase based on the on-site inspection report of 2003/04, till mid-July 2005.
- b. The number of reports of the finance companies under implementation reached 23 whose on-site inspection was completed in 2004/05. This includes special inspection of two companies and follow-up inspection of one company.
- c. Based on the off-site supervision reports of 2004/05, the reports of 60 finance companies were under implementation. After the implementation, files of 14 finance companies were closed and five finance companies were asked to produce statements within the time frame given in the reports.
- d. The implementation schedule of the directives given to the finance companies after on-site, off-site, special and follow up inspection is given in [Table 2(I)].

2.57 The following actions were taken against finance companies not complying with the directives of the Bank :

- a. The NRB fined all seven directors of Siddhartha Finance Limited Rs. 10,000 each, who were directly involved in decision making to distribute dividend without prior permission of the NRB as per section 100 and sub-section 2(c) of the NRB Act, 2002. The bank voucher of the deposited amount was received on December 22, 2004 from all the directors.
- b. The NRB fined the directors of Standard Finance Limited Rs. 15,000 each who were directly involved in decision making to distribute dividend of Rs 5.76 million without prior approval of the NRB. The NRB directive was complied with as the amount was deposited in the company account on November 1, 2004 and the penalty in the NRB account on December 9, 2004.
- c. The NRB has directed the employees of Goodwill Finance Company Limited working in executive level, who held more than one percent promoter share, to comply with the directives of corporate governance by December 27, 2004.

- d. The NRB undertook the on-site inspection of Investa Finance Company Limited as per the request of the borrowers, but no actions could be taken as the case was under court consideration. The implementation of the report would be pursued as per the verdict of the court in the days to come.
- e. The NRB asked clarification from Narayani Finance Limited for producing the different financial statements in AGM instead of the approved statements on November 10, 2004. As the clarification given by the Company was not satisfactory, the NRB warned the directors of the Company on December 22, 2004 as per the NRB Act 2002.
- f. The NRB prohibited Janaki Finance Company Limited from accepting additional deposit as the Company failed to comply with the directives given for the publication of annual report as collected higher amount than stipulated in the directives and non compliance of the directive of depositing the excess amount with the NRB by opening a separate account. These actions were taken against the Company as per clause 100 of the NRB Act 2002 [Table 2 (I)].
- g. Off-site supervision based on the audit report and financial statements of 2003/04 found the Central Finance Company Limited mobilizing financial resources of 10.83 times of core capital i.e. more than the limit of 10 times stipulated in the directives. The company was notified to deposit the amount of Rs. 1.1 million at NRB exceeding 10 times of core capital i.e. Rs. 29.6 million computed on the basis of deposits amounting to Rs. 297.1 million in September 2004 and proposed bonus share of Rs. 4 million, and directed further on 21 December 2004 not to withdraw the amount without prior permission of the bank.
- h. Nepal Bangladesh Finance Company Limited was directed on 6 December 2004 to mobilize deposit within the limit of Rs. 250 million.
- i. Nepal Sri Lanka Merchant Bank Limited was directed on 7 December 2004 to mobilize deposits within the limit of Rs. 700 million.

2.58 In 2004/05, Auditor of Premier Finance Company Limited and Nepal Bangladesh Finance Company Limited Mr. Gyanendra Bhari, Auditors Mr. Shyam Karki of Janaki Finance Company Limited and Mr. Nemlal Amatya of Alpica Everest Finance Company Limited were asked for clarification.

Report of Fiscal Year 2004/05

Table 2 (I)
Implementation Status of the Remarks Made in Inspection Report of Finance Companies

S.No.	Name of the Finance Companies	Implementation Status of On-site Report	Implementation Status of Off-site Report
1	Nepal Housing Development Finance Company Limited	The file was pending since the reply received on 12 July 2004 was satisfactory for the inspection of 2003/04, no on-site inspection onwards.	Satisfactory replies of the directives were received till 14 March 2005
2	Nepal Finance and Saving Company Limited	Inspection Team for on-site inspection was sent on 19 June 2005.	Approval granted for the AGM on 5 April 2005 and the reply received on 19 May 2005 was satisfactory
3	NIDC Capital Markets Limited	After the reminder on 1 December 2004, the reply received on 13 December 2004 was satisfactory. Further, inspection team was sent on 18 August 2005	Approval was granted for AGM on 30 March 2005 and the reply received on 22 May 2005 was under study.
4	National Finance Company Limited	Satisfactory position in the inspection of 2002/03, no further on-site inspection onwards.	Permission granted on 3 November 2004 for the AGM and reply received on 20 December 2004 was satisfactory
5	Annapurna Finance Company Limited	A team was sent on 25 March 2006 for on-site inspection and the report was dispatched to the company on 14 July 2005	Permission granted on 7 December 2004 for the AGM and reply received on 17 February 2005 was satisfactory
6	Nepal share Markets and Finance Limited	On-site inspection team sent on 9 March 2006 was under the process of preparing report	Permission granted on 9 March 2005 for the AGM and reply received on 31 March 2005 was satisfactory
7	Peoples Finance Limited	Inspection completed in 2004/05 and the report not received yet.	Statements received on 31 March 2005 was satisfactory as per the follow up on 26 January 2005
8	Himalaya Finance and Savings Company Limited	Report dispatched to the company as the inspection completed in 2004/05.	Permission granted for the AGM on 13 July 2005
9	United Finance Company Limited	Inspection was completed in 2002/03 and remaining replies found satisfactory. No on-site inspection thereafter.	Reminder to fulfil the rest of the directives given on 13 July 2005, while granting permission for the AGM on March 2005
10	Union Finance Company Limited	Report of Inspection of 2004/05 dispatched on 30 March 2006 and reply received was under action.	Permission for AGM given on March 14, 2005 and reply received on 21 March 2005 was satisfactory
11	Mercantile Finance Company Limited	No on-site inspection since 2002/03.	Permission for AGM was given on 2 March 2005 and reply received on 7 April 2005 was satisfactory
12	Kathmandu Finance Limited	The report of the inspection carried out on 25 November 2004 was dispatched to the company on 20 April 2005 and reply received was under study.	Among the conditions imposed while granting permission for the AGM were followed up on 26 January 2005 and the reply received was satisfactory
13	Investa Finance Limited	Among the replies of Inspection report of 2004/05, received on 25 January 2004, latest reminders on unsatisfactory points were followed up on 10 July 2005.	Permission granted for AGM on 3 March 2005. Replies received were followed up on 17 May 2005 and reminded on 10 July 2005
14	Narayani Finance Limited	No on-site inspection since 2002/03.	Replies received were satisfactory
15	Gorkha Finance Company Limited	No on-site inspection since 2003/04.	Replies received were satisfactory
16	Nepal Housing and Merchant Finance Limited	No on-site inspection since 2002/03.	Replies received were satisfactory
17	Paschimanchal Finance Company Limited	No on-site inspection since 2002/03.	Replies received were satisfactory
18	Universal Finance Limited	Replies of correspondence dated 29 December 2004 were received on 19 January 2005 and additional follow up was under way.	Replies were followed up on 30 May 2005 and reminded on 13 July 2005 with regard to the permission of AGM on 6 January 2005

Activities of Nepal Rastra Bank

19	Samjhana Finance Company Limited	No further inspection since 2003/04	Replies were followed up on 28 June 2005 and reminded on 5 July 2005 with regard to the permission of AGM on 29 May 2005
20	Goodwill Finance Company Limited	No further inspection since 2003/04	Replies were followed up on 13 July 2005 with regard to the permission of AGM on 30 May 2005
21	Shree Investment and Finance Company Limited	Inspection report of 2004/05 was sent to the company for implementation on 15 June 2005	Directed to act as per prior directives, and replies were satisfactory.
22	Siddhartha Finance Limited	No further inspection since 2002/03	Satisfactory replies received on 7 January 2005.
23	Lumbini Finance and Leasing Company Limited	No further inspection since 2002/03	Permission granted for AGM on 22 March 2005, and replies received on 29 May 2005 were satisfactory
24	Yeti Finance Company Limited	Inspection of 2003/04 showed satisfactory position, no further inspection since then	The reply of follow up inspection on 17 May 2005 and its reminder on 13 July 2005 was satisfactory
25	Standard Finance Limited	Inspection report of 2004/05 was dispatched to the company for implementation and reply received was under study	Permission granted for AGM on 22 March 2005 and replies received on 22 April 2005 was satisfactory
26	Ace Finance Company Limited	Other than the investment on Ace Investment, the replies of the remarks pointed in the inspection report of 2003/04 were satisfactory. No further on-site inspection since then	Permission granted for AGM on 16 November 2004, and replies received on 23 November 2004 was satisfactory
27	International Leasing and Finance Company Limited	No inspection in 2002/03, 2003/04 and 2004/05	Replies of the remainder dated 26 January 2005 received on 31 January 2005 were satisfactory
28	Mahalaxmi Finance Limited	Inspection of 2002/03 showed satisfactory position, no further inspection since then	Permission for AGM was granted on 8 December 2004 and position was satisfactory
29	Lalitpur Finance Company Limited	Inspection report of 2004/05 was under the process for dispatch	Permission granted for the AGM on 18 May 2004, replies received on 4 April 2005, followed up on 15 May 2005 and reminded on 13 July 2005
30	Merchant Finance Company Limited	No further on-site inspection since 2003/04	Permission was granted for AGM on 10 May 2004 and reply of the reminder dated 20 June 2005 was yet to be received
31	Bhajuratna Finance and Saving Company Limited	Reply of the inspection report for 2003/04 received. Report of the special inspection undertaken on 18 August 2004 dispatched on 1 October 2004. Latest reply submitted on 23 December 2004 was not found satisfactory and clear directions were extended in addition. File was closed as replies were received	Replies regarding the conditions and directives to publish financial statements while permitting for the AGM on 15 March 2005 were received on 30 March 2005 and further directed for clarifications on 11 July 2005
32	General Finance Limited	The on-site inspection report of 1 January, 2005 was dispatched on 14 May 2005 which was under implementation	Replies regarding the terms and conditions to publish financial statements while permitting for the AGM on 30 March 2005 were received on 30 March 2005 and direction was given for further clarifications on 8 June 2005.
33	Nepal Sri Lanka Merchant Bank Limited	Inspection report dispatched on 9 May 2004 was under implementation and being closely monitored by the NB group follow up team	The conditions and directions to publish financial statements while permitting for the AGM on 30 March 2005 were being implemented by the follow up team.
34	Alpic Everest Finance Limited	File closed and no further inspection	Asked for further clarity regarding the conditions and guidelines to publish financial statements while permitting for the AGM on 6 April 2005.

Report of Fiscal Year 2004/05

35	Nepal Merchant Banking and Finance Limited	The report of the on-site inspection dated 12 August 2004 has been implemented and the file has been closed on the basis of reply received on 4 October 2004.	Asked for further clarity on 7 March 2005 and 4 April 2005 regarding the conditions and directions to publish financial statements while permitting for the AGM on 6 April 2005. The file is closed on the basis of reply received.
36	Shree Nawadurga Finance Company Limited	The report of the on-site inspection dated 9 November 2003 has been implemented and the file has been closed on the basis of the reply received on 5 October 2004.	Follow up was done again on 11 May 2005 with regard to the conditions and guidelines to publish financial statements while granting permission for AGM on 7 March 2005.
37	Pokhara Finance Limited	On-site inspection was conducted on 1 May 2004, report dispatched on 1 June 2005 and the report was under the process of implementation	Conditions and guidelines to publish financial statements for AGM issued in October 2004 were under the process of implementation.
38	Janaki Finance Company Limited	On-site inspection was conducted on 31 October 2004, report dispatched on 24 February 2005 and the report was under the process of implementation	Conditions and guidelines issued to publish financial statements while permitting for the AGM on 6 January 2005 was under the process of implementation.
39	Central Finance Company Limited	File was closed and no further inspection done.	Asked for further clarity on 25 January 2005 and 1 February 2005 regarding the conditions and guidelines to publish financial statements while permitting for the AGM on 23 December 2004. Latest reply received on 26 February 2005 was satisfactory.
40	Premier Finance Company Limited	File was closed and no further inspection done.	Conditions and guidelines issued to publish financial statements while permitting for the AGM on 6 January 2005 was under the process of implementation. Latest reply received on 5 February 2005 was satisfactory.
41	Arun Finance Company Limited	Report of special inspection dispatched on 7 December 2004 and a letter written to maintain understanding	Audited report not submitted and no off-site supervision
42	Multi-purpose Saving and Investment Company Limited	File closed and no further inspection	Direction was issued to further clarify on the conditions and directive issued at the time of granting the permission for the AGM on 27 February 2005
43	Butwal Finance Limited	File closed and no further inspection	The file closed after the reply of 11 March 2005 regarding conditions and guidelines issued to publish financial statements while permitting for the AGM on 7 March 2005
44	Nepal Bangladesh Finance and Leasing Company Limited	On-site inspection report dispatched on 14 January 2004 under implementation and being closely monitored by the NB Group monitoring team	Conditions and guidelines issued to publish financial statements while permitting for the AGM on 7 March 2005 was under the process of implementation
45	Srijana Finance Limited	File closed and no further inspection	The conditions set forth and directions given at the time of issuing the permission to publish the financial statements in the AGM on 3 January 2005 are under the process of implementation. Reply received on 9 February 2005 and follow up on 3 March 2005.
46	Om Finance Limited	File closed and no further inspection	Conditions and guidelines issued to allow publishing financial statements for the AGM on 22 November 2004 were implemented. Satisfactory reply received on 12 January 2005.

Activities of Nepal Rastra Bank

47	Cosmic Merchant Banking and Finance Limited	On-site inspection report dispatched on 16 September, 2004 and reply received on 8 June 2005 under implementation	Conditions and guidelines issued to allow publishing financial statements for the AGM on 30 December 2004 were implemented. Satisfactory reply received on 18 March 2005 and file closed
48	World Merchant Banking and Finance Limited	File closed and no further inspection	Conditions and guidelines issued to allow publishing financial statements for the AGM on 22 November 2004 were implemented.
49	Capital Merchant Banking and Finance Company Limited	File closed and no further inspection	Conditions and guidelines issued to allow publishing financial statements for the AGM on 23 February 2005 were implemented. Satisfactory reply received on 16 March 2005 and file closed.
50	Crystal Finance Limited	File closed and no further inspection	Follow up continuing on the reply dated 18 March 2005 regarding the conditions and guidelines to publish financial statements for the AGM on 23 February 2005
51	Royal Merchant Banking and Finance Limited	Inspection report delivered on 9 February 2005 and the report under implementation.	Conditions and guidelines issued to allow publishing financial statements for the AGM on 4 March 2005 were implemented. Satisfactory reply received on 16 March 2005 and file closed.
52	Guheshwari Merchant Banking and Finance Limited	File closed and no further inspection	Conditions and guidelines issued to allow publishing financial statements for the AGM on 30 December 2004 were implemented. Reply was received on 18 March 2005 after the follow up on the same day and further reminded on 30 March 2005.
53	Patan Finance Company Limited	On-site report of 18 November 2003 implemented and the file closed on the basis of the reply received on 21 November 2004	Further directed for clarity of the reply on 6 April 2005 in connection with the conditions and guidelines issued to allow publishing financial statements for the AGM on 23 March 2005.
54	KIST Merchant Banking and Finance Limited	On-site report dated 11 March 2004 implemented and the file closed on the basis of the reply received on 17 August 2004	Conditions and guidelines issued to allow publishing financial statements for the AGM on 25 November 2004 being implemented.
55	Fewa Finance Company Limited	Reply of the inspection report for 2003/04 received on 9 September 2004 and directed for additional clarity. As the reply was satisfactory, the file was closed.	Satisfactory reply received on 4 January 2005 while implementing the conditions and guidelines issued to allow publishing financial statements for the AGM on 26 November 2004.
56	Everest Finance Limited	Inspection report sent on 13 January 2005 and the reply received on 10 March 2005 under implementation.	Satisfactory reply received on 29 December 2004 while implementing the conditions and guidelines issued to allow publishing financial statements for the AGM on 26 November 2004.
57	Birgunj Finance Limited	Inspection report sent on 20 January 2005, the reply received on 10 March 2005 and directed for further clarity on 11 July 2005.	Satisfactory reply received on 11 July 2005 on the conditions and guidelines issued to publish financial statements for the AGM on 26 October 2004 and additional directions on 10 February 2005.
58	Prudential Merchant Banking and Finance Limited	Inspection report sent on 14 September 2004, the reply received on 10 October 2004 and directed for further clarity on 2 December 2004. File closed after receiving the satisfactory reply on 20 December 2004	Satisfactory reply received on 7 February 2005 on the conditions and guidelines issued to publish financial statements for the AGM on 6 December 2004.
59	Invest Credit and Finance Company Limited	No on-site inspection performed	Satisfactory reply received on 17 November 2004 on the conditions and guidelines issued to publish financial statements for the AGM on 26 November 2004.

Report of Fiscal Year 2004/05

Co-operatives/NGOs

2.59 On-site inspection of 6 co-operatives licensed by the NRB for carrying out limited banking transactions was done in 2004/05. Status of implementation of directives given in

course of on-site, off-site, special and follow-up inspection [Table 2(j)].

2.60 Status of implementation of directives given in course of inspection of NGOs in 2004/05 [Table 2 (K)].

Table 2 (J)
Inspection of Cooperatives and Status of Inspection Remarks

S. No.	Name	Inspection Date	Reporting Date	Reply Date	Status
1	Himalayan Co-operative Society Limited	20 September 2004	18 April 2005	1 June 2005	Replies under study
2	Nepal Bahoouddesiyiya Co-operative Society Limited	7 July 2004	11 February 2005	27 April 2005	Directive issued again on 1 June 2005 following the remainder of 24 April 2005
3	Sahakari Financial Co-operative Society Limited	27 October 2004	25 April 2005	14 June 2005	
4	Bheri Co-operative Society Limited	27 October 2004	25 May 2005	Reply not received	
5	Manakamana Cooperative Institution Limited	27 March 2005	1 June 2005	Reply not received	
6	Sagun Co-operative Society Limited	22 June 2005	Report yet to dispatch		

Table 2 (K)
Inspection of NGOs and Status of Inspection Remarks

S. No.	Name	Inspection Date	Reporting Date	Reply Date	Status
1	Jeevan Bikas Samaj	27 October 2004	27 December 2004	28 February 2005	File closed on 1 March 2005
2	Nepal Mahila Utthan Kendra	27 December 2004	22 April 2005	12 July 2005	File closed on 13 July 2005
3	Manushi	27 December 2004	4 April 2005	Reply not received	
4	Nepal Mahila Adarsha Sewa Kendra	27 December 2004	4 April 2005	5 May 2005	Directive issued again on 9 May 2005
5	Nepal Batabaran tatha Pradushan Unmulan Kendra	27 December 2004	31 March 2005	Reply not received	Reminder was issued on 2 June 2005
6	Srijana Bikas Kendra	28 April 2004	Report yet to dispatch		
7	Srijanatmak Mahila Bikas Sanstha	26 June 2005	Report yet to dispatch		
8	Mahila Adhikar tatha Bikas Kendra	26 June 2005	Report yet to dispatch		

Micro-finance Programs

2.61 Several income generating projects are in operations in Nepal to uplift the living standards of highly populated rural deprived by providing the financial services such as micro-credit, saving and insurance. In this context, the NRB has been providing such programs especially to rural and targeted groups through various government and non-government organizations by establishing organizations and through a co-ordination with the Government of Nepal and international donor agencies. The progress of such projects up to mid-July 2005 is as follows:

Production Credit for Rural Women

2.62 Production Credit for Rural Women (PCRW) was initiated in 1981/82 with an aim to uplift the social and economic status of rural women by enhancing the access of institutional credit and thereby generating income and employment for deprived rural women. As per the loan agreement of Nepalese government with the International Fund for Agricultural Development (IFAD) in 1988/89 to fund such PCRW program, a credit of Rs. 234.6 million was disbursed to participating financial institutions namely,

NBL, RBB and ADB/N in various phases till mid-July 1998. As the project period has already been over the loan recovery process from the participating financial institutions is in process. In this regard, the NRB repaid the principal amount of Rs. 82.1 million and the interest amount of Rs. 37.0 million to the Government till mid-July 2005. Of the total loan disbursed under this programme, Rs. 105.8 million remained outstanding with two participating banks.

Micro Credit Program for Women

2.63 Micro Credit Program for Women was commenced as a supplementary project for PCRW program with the loan assistance of ADB. The loan agreement between the government of Nepal and ADB was signed on 16 September 1993. The implementation period was over in 2002. Under the program, the entire loan amount disbursed to two participating banks was already repaid, while the NRB paid the principal of Rs. 30.0 million and the interest of Rs. 26.8 million to the Government of Nepal by mid-July 2005.

Western Terai Poverty Alleviation Project

2.64 Western Terai Poverty Alleviation Project (WTPAP) came into implementation in eight districts namely Kailali, Kanchanpur, Banke, Bardia, Dang, Kapilvastu, Rupandehi and Navalparasi since 1988/89 with the main objectives of uplifting the economic and social status of the deprived women of the eight districts in western terai of Nepal and to strengthen the financial position of the participating financial institutions with the loan assistance of IFAD in February 1998. The Western Region RDB, Far Western Region RDB, Nirdhan Utthan Bank and Self-reliance Development Centre are the participating financial institutions. The NRB has received Rs. 131.4 million loan from the Government of Nepal for the implementation of the projects and has provided the same to the participating banks as loan.

2.65 The implementation period of the WTPAP phased out on 31st December 2004. Of the total loan disbursed amounting to Rs. 136.8 million, Rs. 54.3 million was recovered and Rs. 82.4 million remained outstanding. Approximately 22 thousand borrower families have benefited.

2.66 With a view to enhancing the income level of small and marginal farmers by increasing agricultural production under the 20-year long-term agricultural perspective plan of the Government, Community Ground Water Irrigation Sector Project came into implementation in 12 districts of eastern and central terai with the loan assistance of ADB since November 17, 1988. Of the total SDR 21.9 million acquired for the implementation of the project a loan of SDR 9.9 million was to be made available to farmers for the installation of shallow tube-wells and crops production. Such loan was made available to participating financial institutions through RSRF and to farmers through participating financial institutions. During the project period, loan for installation of 15 thousand shallow tube-wells was targeted and 60 thousand hectare land is expected to have irrigation facility. Accordingly, 65.7 million people of 1.1

million marginal families are approximately expected to be benefited.

2.67 NBL, Eastern Region RDB, Central Region RDB, Sahara Nepal Saving and Credit Co-operative Limited, DEPROSC Development Bank Limited, Chhimek Development Bank Limited, Arunodaya Savings and Credit Co-operatives and Krishak Upakar Savings and Co-operatives were selected as participating financial institutions under this project as of mid-July 2005. From July 2004, any financial institution interested to participate in could apply any time. The new provision, replaced the existing policy that limited the participating financial institutions to disburse loans at the particular sectors determined by the project itself. The participating financial institutions, under the reviewed policy effective from July 2004, are allowed to disburse loans to any sector that falls within their respective working areas. This has been done to enhance the loans facility to the farmers more competitively.

2.68 As of mid-July 2005, participating financial institutions working under this project, invested Rs. 97.5 million in 3,430 shallow tube-wells including 3,421 for groups and 9 for individuals. As a result, 13,976 marginal farmer families benefited directly through the expansion of irrigation facility in an area of around 15,777 bighas.

2.69 As the implementation period of this project was up to 31st July 2005 at first, ADB/N again renewed this period up to 31st July 2006. Moreover, there is also a proposal for the extension of the project for additional one year on the basis of the implementation progress in this period. A separate unit regarding this project was formed in Biratnagar, Birgunj and Janakpur branches of the NRB with an aim of smoothening this project work. Further, in this regard, ADB/N has opened a separate 'Imprest Account' in the name of the NRB.

Rural Self Reliance Fund

2.70 The Rural Self Reliance Fund (RSRF) was established in 1990 with a view to provide wholesale credit to NGOs/cooperatives working in rural areas. The aim was to help uplift the economic status of rural deprived people through the provision of microfinance. The objective was also to help generate employment and income by way of utilizing local skills and resources through this. It was aimed to help improve the economic and social status of the targeted group of people. For this, a total of Rs. 40.0 million has been received from the Government.

2.71 The RSRF provided Rs. 82.5 million to 50 NGOs and 169 co-operatives till mid-July 2005. Of the total credit, Rs. 57.9 million was recovered and the remaining Rs 24.6 million was outstanding. Loan recovery rate was 91.0 percent as of mid-July 2005. Of the credit available from RSRF, NGOs and co-operatives extended their services to 26 districts and 47 districts respectively thus benefiting nine thousand five hundred ninety four families of 47 districts.

2.72 The NRB has also contributed to the expansion of rural credit by way of the provision of Rs. 100.0 million from

the profit of 2002/03, Rs. 74.8 million of 2003/04 and Rs. 78.6 million of 2004/05 to the RSRF. The RSRF invested Rs. 57.0 million in 2003/04 and Rs. 52.2 million in 2004/05. Further RSRF started to run on its own income since 2004/05.

Third Livestock Development Project

2.73 This project came into operation under a loan agreement between ADB/M and the government of Nepal. The project aims to provide credit and necessary services to the farmers and businessmen operating or planning to operate livestock business by encouraging them to use the modern technology available within the country. Under the project, there are altogether 19 participating financial institutions including two commercial banks, three development banks, four rural bank replicates, eight co-operatives and two NGOs. By mid-July 2005, 17 financial institutions received a reimbursement amounting to Rs. 183.5 million from the NRB.

2.74 Participating financial institutions under the third Livestock Development Project are required to repay the loan to the NRB during the period of January 2002 to July 2011 and the NRB is required to repay the same to the Government of Nepal during the period of January 2004 to July 2034. Accordingly, of the invested amount, Rs. 123.4 million was recovered from various financial institutions remaining Rs. 6.0 million as outstanding as of mid-July 2005.

Rural Development Banks

2.75 The total loan disbursed by all five RDBs amounted to Rs 12.46 billion to about 146 thousand rural women members. Of which Rs. 1.45 billion remained outstanding after the collection of Rs. 11.01 billion. These banks have provided microfinance services to one thousand five District Development Committees (DDCs) through five thousand thirty four centres located in forty five districts by the end of July 2005.

2.76 With a view to privatise profit making RDBs under the structural reform program, 51 percent out of 61 percent share of the NRB in Western Region RDB was sold to the private sector. Similarly, the application to purchase 34.3 percent share was received in the case of Eastern Region RDB.

2.77 Rural Microfinance Development Centre (RMDC), established for providing microfinance project credit showed reluctance to provide loans to Rural Development Banks (RDBs) thus affecting thousands of deprived-class families. Realizing this and also to give continuity to the structural reform program with a view to prevent from deteriorating of the financial position of RDBs, the NRB, under the refinance/ revolving line of credit, has been providing the facility to withdraw or deposit the amount not exceeding the specified limit. Under this facility, a total of Rs 90.0 million refinance has been provided comprising of Rs 20.0 million, Rs 10.0 million, Rs 50.0 million and Rs 10.0 million to Eastern Rural Development Bank Limited, Mid-Western Rural Development Bank Limited, Western Rural Development and Far Western Rural Development Bank. Of this amount, Rs 10.0 million remained to be recovered from Far Western Rural Development Bank Limited as of mid-July 2005.

Foreign Exchange Management

2.78 In 2004/05, the NRB adopted the following measures in relation to the foreign exchange management.

- a. If a firm/company related to export or tourism services and registered in Nepal intends to open a branch/contact office in third countries including India for its business promotion, a policy provision has been made to provide the necessary exchange facility required for such purpose.
- b. An agreement was signed between the NRB and People's Bank of China two years ago for providing a limited convertibility to the Chinese Yuan. This was aimed at facilitating the trade transactions between Nepal and People's Republic of China to some extent and to encourage the Chinese nationals visiting Nepal without carrying convertible foreign currencies. As the above agreement was found beneficial for both the countries, it has been renewed for additional two years.
- c. In the context of evolving open, flexible and liberal stance of the foreign exchange management policy, the existing provision of allowing only specified Nepalese officials visiting abroad to purchase business class air tickets and providing repatriation only for such tickets has been changed to provide such facility to any Nepalese citizen wishing to travel on the business class air ticket.
- d. The procedure involved in repatriation of air tickets purchased by Nepalese citizens visiting abroad has been simplified by making an arrangement whereby such repatriation can be made by checking the details submitted by the concerned airlines/travel agency.
- e. The existing provision requiring approval of the NRB for the refund of remittance received from foreign banks and upon the collection in the agency account of the commercial banks but payment has not been made to the beneficiary for some reason has been changed permitting the concerned commercial bank to remit the amount.
- f. The number of commodities permitted to be imported by registered Nepalese manufacturing firm from Indian manufacturing firm in India on payment of convertible foreign currency increased to 66 from 39 with the addition of 27 more commodities in this fiscal year.
- g. A provision has been made allowing commercial banks to conduct inter-bank lending/borrowing transactions in Indian currency, if they wish, for meeting their needs.
- h. While investing the sum received from the convertible foreign currency deposits by commercial banks, the restriction enforcing the maturity period of such investment to be one year or less has been lifted.
- i. For the payment provision of E-commerce and E-payment, an arrangement has been made whereby the commercial bank, if it wishes, can open an account in foreign-based non-banking institution after taking an approval from the NRB.

- j. The restriction prohibiting the convertible foreign currency account holders from making payment in foreign currency in Nepal lifted if the recipient is a government body.
- k. Regarding the exchange of convertible foreign currency required by the students going for or pursuing higher education abroad, a provision has been made whereby commercial banks can directly provide such facility by making such exchange amount payable in the name of foreign-based educational institution using draft/TT/SWIFT transfer as means.
- l. A provision has been made whereby exchange facility required by the various government institutions, councils and other entities would be provided directly by the commercial banks after completing the procedures specified by the NRB.
- m. In accordance with the prevailing arrangements regarding the extension of time period of the advance payment certificate issued by the commercial banks to Nepalese exporter, in case the exporter is not able to export within the specified time period, a provision has been made allowing the concerned commercial bank itself to extend the maturity period (for six months at a time) if the period does not exceed three years from the date of issue of the certificate.
- n. While opening L/C in convertible foreign exchange to import from countries other than India, the L/C opening bank needs to issue a cheque of 10 percent of L/C amount in the name of concerned customs offices. If the cheque has to be cancelled, prior approval of the NRB was required. This requirement has been removed whereby the commercial banks could themselves cancel such cheques by following the prescribed procedures.
- o. In 2004/05, the Foreign Exchange Management Department intervened forty times in foreign exchange market purchasing US\$ 529.5 million from the commercial banks and sold US\$ 57.5 million in four times.
- p. The onsite inspection of 74 money changer firms/companies of the Kathmandu Valley has been completed in the review year.
- q. In the review year, licenses were provided to 14 new money changers within the Kathmandu Valley. Consequently, the total number of such firms/companies reached 225 throughout the country and 90 within the Kathmandu Valley only.
- r. In 2004/05, 10 more firms/companies/institutions were provided the licenses to conduct money transfer operations. As a result, the total number of such money transfer firms/companies has reached 25 by the end of the fiscal year. Likewise, 25 more firms/companies have been provided the letter of intent. The number of firms/companies receiving such letter of intent has reached 68 by the end of the fiscal year.

Currency Management

2.79 The amount of notes in circulation, reached Rs. 74.5 billion in mid-July 2005. The figure surpassed the last year's level by 9.4 percent. In mid-July 2004, the volume of notes in circulation was Rs. 68.1 billion- 10 percent higher than the previous year's level.

2.80 The amount of notes of Rupee1, Rs. 2, Rs.25 and Rs.250 was decreased in mid-July 2005 compared to their respective amount a year ago. The amount of notes of Rs.10 was maintained at the same level as in the previous year. The amount of notes of other denominations increased compared to that of the previous year.

2.81 In mid-July 2005, the share of notes of Rs.1000, Rs. 500, Rs. 100, Rs 50 in the total amount of notes issued was 64.5 percent, 23.2 percent, 6.1 percent and 2.0 percent respectively. Similarly, the shares of Rs. 250, Rs. 25, Rs. 20, Rs. 10, Rs. 5, Rs. 2 and Re. 1 notes was 0.1 percent, 0.2 percent, 1.2 percent, 1.2 percent, 0.8 percent 2.3 percent and 0.2 percent respectively.

2.82 Out of total assets held as security against the issue of notes, the share of gold, foreign currency, foreign securities and securities of government was 0.9 percent, 59.1 percent, 34.4 percent and 5.6 percent respectively in mid-July 2005.

2.83 A sum total of Rs.14.2 billion was transferred to different offices of the NRB while Rs.35.6 billion was transferred from those offices under fund transfer transaction in 2004/05. In the same year, the NRB transferred Rs.16.6 billion to different branches of RBB and Rs.1.5 billion was transferred to the NRB from RBB. Similarly, the NRB transferred Rs.7.9 billion to different branches of NBL and Rs. 342.0 million was transferred to the NRB from NBL. Thus in 2004/05 total fund of Rs. 24.5 billion was transferred from the NRB to different branches of RBB and NBL while total fund of Rs. 1.8 billion was transferred from those branches of RBB and NBL to the NRB.

2.84 In the review year, note-chest transactions were conducted by the Currency Management Department (CMD) and 7 offices of the NRB, as well as from 43 branches of RBB and 20 branches of NBL.

2.85 Soiled notes amounting to Rs. 106.98 billion were destroyed by burning at CMD and other offices of the NRB.

2.86 In the review year, 12,950 pieces of coins of Rs. 5 denomination, 110 million pieces of coins of Re. 1 and Rs. 2 each, 5,913,687 pieces of 50 paisa coins, 413, 894 pieces of 25 paisa coins and 162,910 pieces of 10 paisa coins were minted.

2.87 In the same way, 3,488 pieces of gold coins of 10 gram, 3,145 pieces of 5 gram and 7,922 pieces of 2.5 gram gold coins were produced.

2.88 Commemorative silver coins including 5,412 pieces of 1,000-rupee coins and 10,000 pieces of 250-rupee coins were produced. Similarly, 2,000 pieces of commemorative gold coins of 10 gram, 5 gram, and 2.5 gram were produced.

2.89 In the review year, a total of 1,838 kg 877.5 gram silver was sold from the silver chest, established to provide silver to exporters. In the same period, 108 kg 424.9 gram silver and 860 kg 50 gram gold were sold to different organizations.

Miscellaneous Activities of the NRB

Corporate and Payments System Reform

2.90 In order to implement the strategic plan, a strategic plan subcommittee was formed and the work of formulating the strategic plan was in progress.

2.91 After the study, the modernization of the payments system was under way for implementation. The operation of the canteen was transferred to the private sector based on the implementation of the report on outsourcing of subsidiary services. The work of merging Mint Department with Currency Management Department as a division was completed as per the restructuring report of the bank. Under the restructuring of Human Resource Management Department and in the process of implementing the report, the Pension and the Facility Section was merged with Financial Management Department and Dispensary Section was merged with General Services Department

2.92 As per the detailed study report on cash management, the reform process is under implementation. The Bankers' Club has already been taken out from the organizational structure of the bank. The restructuring of the Bankers' Training Centre has been underway following the formulation of a high-level committee based on the report prepared for this purpose. Similarly, the modernization function of the Library has been in progress under the study report. A study for the restructuring of the Public Relations Division has also been initiated. Improvements in the forms relating to formulation and evaluation of the budget has been implemented in accordance with Budget Directives of 2004.

Legal Reforms

2.93 In the context of updating existing laws with amendment and unification, BAFIO, 2004 was promulgated in January 2004 as an umbrella act. It was amended twice on 5 August 2004 and 31 January 2005 and issued in the same dates.

2.94 The Nepal Rastra Bank Act, 2002 particularly the article 86 has been amended on 15 September 2004 and 11 March 2005.

2.95 Drafts for the Ordinances on the Asset Management Company, the Anti-Money Laundering, The Secured Transaction and The Insolvency were submitted to the government for necessary action.

2.96 Nepal Rastra Bank Employees By-regulation, 2004 was formulated as per the provision of Nepal Rastra Bank Act, 2002 article 110 (2) and implemented from 16 July, 2004 in place of Nepal Rastra Bank Employees Rules, 1992 formulated under the existing act.

2.97 The drafting process of 'Nepal Rastra Bank Paper Destruction Bylaws and Nepal Rastra Bank Operation By-regulation were in progress.

2.98 The case file against the provision of the first amendment in the NRB Act, 2002 by the ordinance claiming it as contrary to the constitutions is dismissed by the court thus the effort to empower the bank was successful. Another case filed against the directive issued to Central Region Rural Development Bank barring to implement the decision of upgrading the employees, increasing salary and creating the burden to the bank, was also dismissed by the court.

Internal Auditing

2.99 To strengthen the Internal Auditing, expert service was received two times from the IMF under the technical assistance. Necessary steps have been taken to make the internal audit timely, systematic and practical by developing a concept of giving special attention to the matters relating the Audit Committee, probable risk, rules, regulations and promoting good governance.

2.100 From 2004/05, off- site auditing was started.

2.101 Internal Auditing of offices within and outside the valley was performed as per the annual plan approved by the Audit Committee.

2.102 In 2004/05, special audits were conducted on Bank and Financial Institution Regulation Department, General Services Department (Transport vehicles and Fixed Assets) and Banking Office (relating to swift operation) in addition to the normal routine. Likewise, special audit has been conducted for the budgeting of Corporate Planning Department. After the completion of auditing; Audit Reports of Foreign Exchange Management Department, Public Debt Management Department, Bankers Club and Micro Credit Department have been prepared for the respective departments with suggestions.

2.103 The basic framework to adopt the Risk Based Audit Approach has been completed. Accordingly, the formulation of annual work plan has commenced rating the risk of different departments of the bank.

2.104 A report related to the problems while spending the disbursed amount in capital expenditure (construction) was prepared for the fiscal year 2004/05 by various departments and offices of the bank.

2.105 Preparation work has been completed for financial and compliance audit framework, audit programme, procedure and audit working paper. The compilation of the circulars issued from various departments is updated and distributed. The finalization work was in progress for the Audit Charter as per the suggestions of IMF and IOS Partners.

Fourth Family Budget Survey Project

2.106 The existing basket of goods and services as well as the corresponding weight for the urban consumer price index was fixed based on the Third Family Budget Survey of 1995/96. During 10 years from the survey, there have been

substantial changes in the consumer habits and expenditure pattern. There is usual tendencies of emergence of new products and vanishing of old ones in the market. As the price index is a sensitive matter, its formation and the base should be consistent with the country's economy and consumption habits and pattern.

Human Resource Management

2.107 In the context of reforming organizational structure, Dhangadhi Office was down graded to second class In-charge level from the first class.

2.108 In the context of right sizing the employees working in the bank, a voluntary retirement scheme was adopted. Accordingly, various level employees including Officer Special to Assistant Fourth have taken voluntary retirement. Of those taking voluntary retirement, officer level employees consisted of Officer Special 1, First Class 3, Second Class 20 and Third Class 25. Similarly, the assistant level employees consisted of Assistant First 23, Second 4, Third 2 and Fourth 7.

2.109 To motivate the employees, various provisions were made, such as tiffin allowance, increment in annual grade (at the rate of 5 percent on starting scale), increase in uniform facility and introduction of settlement allowance (to be provided during the transfer). Personal accidental insurance for the employees in security group on contract basis was introduced and in case of death of such employees, funeral expenses are to be provided. The provision of providing credit facility and the purchase of the cell phone and refunding of 85 percent of the bonus received from the insurance to the employees have also been initiated. In addition, on the auspicious occasion of golden jubilee of the bank, the employees of the bank were provided one month's salary of starting scale.

2.110 Majority of the activities related to the promotion of the employees on the basis of vacant positions at mid-April 2004 have been completed. In the year, 236 posts were fulfilled. Similarly, 12 positions out of 29 were fulfilled from external competition. Written examination was also conducted for the remaining 17 posts.

2.111 In 2004/05, 222 officers participated in observation, training, seminar and workshops organized in overseas.

2.112 In the 2004/05, the opportunity of higher level education was provided to three officer-level and two assistant-level employees.

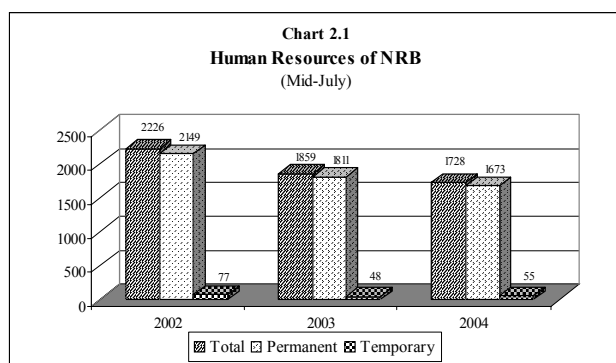
Information Technology

2.113 In order to mechanize the various departments of the banks, development of new soft-wares and improvements in the existing ones were as follows:

- Necessary software has been designed for the mechanization of the Mint Department. In addition, necessary software were developed and brought into operation in order to record the stock of metals in the Department.
- Necessary software was designed and used for the stock and vault of Currency Management Department.
- Necessary software for maintaining record of the Legal Division related to repair and maintenance of house as well as credit facility to purchase the land and house of the employees was designed.
- Necessary improvements were made on the existing soft-wares used in Public Debt Management Department and Banking Office as per the requirement.
- Improvements were made on the existing Banking software and weekly Balance Sheet software used for the Liquidity Monitoring and Forecasting Framework.
- Software was designed and operated for the pension fund of Nepal Rastra Bank.
- Software was designed and operated for the accounting and information system of Rural Self Reliance Fund of Micro Finance Department
- Software was designed and is in trial for the banking cash entries.
- To process the various statements received in Financial Institutions Supervision Department through the computers, necessary software was under the designing process after the study of the system. It was to be revised considering the circulation of the integrated directive.

2.114 Feasibility study was conducted for the use of V-SAT for the internet in central office of the bank. To extend the computer network to foreign Exchange Management Department, General Services Department, Corporate Planning Department, Legal Division and Price Division of the bank and to enhance the capacity of Back-bone installed from new building to old building, the installation work of the Fiber Optics Cable was in final stage. Likewise, a system document was prepared for the Banking Software used in districts level offices.

2.115 In 2004/05, inspection of the physical infrastructure related to Information Technology was performed on 17 Financial Institutions comprising Butwal Finance Ltd., Rupandehi; Bhrikuti Development Bank Ltd., Butwal; Subhechha Development Bank Ltd. Chitwan; Gaurishankar Financial Institution Ltd., Nawalparashi; Bageswori Development Bank Ltd., Nepalgunj; Sanima Development Bank Ltd., Kathmandu; Mount Everest Development Financial Institution Ltd., Pokhara; Business Development Financial Institution, Pokhara; Infrastructure Development Financial Institution Ltd., Banepa; Biratlaxmi Financial



Institution Ltd., Morang; Excel Credit and Commerce Financial Ltd., Jhapa; Gorkha Development Bank Ltd., Kathmandu; Merchant Development Financial Institution Ltd., Dang; Annapurna Development Bank Ltd., Banepa; IME Financial Institution Ltd., Kathmandu; Tribeni Development Bank Ltd., Chitwan and Investment and Credit Finance Company Ltd., Kathmandu.

2.116 IT consulting Project was in operation from 9 August 2004 based on 'Reengineering of the Nepal Rastra Bank IT capacity' under Financial Sector Reforms Project with the funding of World Bank. Under this project, appropriate, International Standard Software "NIFMIS" is to be provided for the bank. In addition, extra hardware to operate aforesaid software (NIFMIS), better broad band access to establish the network infrastructure linkage between central office, banking office and offices at districts level as well as to install Disaster Recovery Site were also scheduled. To operate the new technology in the bank, a training program is scheduled to provide for the respective employees.

Training, Workshop, Seminar and Interaction

2.117 In order to enhance skill, promote efficiency and thus achieving national development, Bankers' Training Center (BTC) conducted a total of 21 trainings and workshops for the employees of the NRB and other financial institutions in 2004/05. Among these programs, one special program was conducted in Kathmandu, two in Biratnagar, one in Pokhara and the rest (18 programs) were conducted in Bankers' Training Centre Kathmandu (Table 2.5).

2.118 Among the 21 programs conducted, 1 was for higher level officers, 8 were for officers level and 12 were for non-officers level. A total of 421 employees from the NRB, the Government of Nepal and other financial institutions took part in the programs. A special one-day program entitled "Salary increment of civil servants and its impact on economy" was also conducted.

2.119 An interaction program for the chief managers of district level offices of the bank was conducted to create uniformity and cooperation in the central banking function; to operate the functions of the bank in a smooth and effective manner; to help in identifying the problems and their solution to enhance the mutual cooperation between the various departments and offices of the bank; and to make functioning of the bank fast, clear and dynamic and in creating the transparency in the policy formulation and implementation. The program aimed at promoting cooperation among departments and district level offices. The program was held during 3-4 March 2005.

2.120 A discussion program was held on 28 March 2005 among the department heads of the bank to promote cooperation and help overcome the problems confronting daily operation.

2.121 A management interaction program was held in order to enhance operation skill and efficiency of the departments and district level offices on 15 June 2006. On the occasion, comprehensive evaluation of last years' work performance

of departments and district level offices were held. Likewise, comprehensive discussion was also held regarding the planning for the next year. The interaction has finalized the work plan and sent to the concerned offices.

2.122 Commercial banks and other financial institutions are main sources of statistics of balance of payments. One-day officer level statistics workshop was organized in Kathmandu to enlighten and to equip them with importance of new directives of balance of payments on 29 December 2004.

2.123 All together, 6 workshops were held for officers and employees of commercial banks and other financial institutions directly involved in the statistics to be sent to the NRB. Under this, one "six day workshop on commercial bank statistics", three "three days workshop on statistics of finance companies" and two "two-day workshop on development bank statistics" were held during the review year.

2.124 During the review year, seven training programs were conducted for 100 employees of different organizations on various subjects related to SWIFT operation.

2.125 A workshop was organized to evaluate Western Terai Poverty Alleviation Project in Siddharthanagar on 28 June 2005. Three trainings and two evaluation workshops were conducted for the NRB employees and related parties under community ground water irrigation sector project till mid-July 2005.

2.126 Regarding the implementation of BASLE II from July 2007, a workshop for the officers and employees of various departments of the bank was organized. Likewise, an interaction program on Basle II was organized for the chief executive officers of the commercial banks.

2.127 One-day interaction program was organized for the chief of internal audit committee of the commercial banks and the executive director of the internal audit department of the NRB.

2.128 A seminar was conducted related to foreign exchange management in Biratnagar with the participation of local entrepreneurs and businessmen involved in export and import including representatives of commercial banks and money changers.

2.129 A one day workshop on money transfer was conducted in Kathmandu with the participation of money transfer companies and other institutions including the representatives of foreign companies involved in inward remittance.

2.130 A computer refresher training program was organized for the executive directors and the first class officers (27 participants in 2 groups) of the bank. A training program on "banking system operation" was conducted for 70 employees to strengthen their capacity in COCG (computer operation core group) formed at district level offices of the bank. Likewise, a training was conducted for the 14 employees of price division and 12 employees of BOP

division on respective software operation. Similarly, a training was organized for 12 employees of currency management department on currency management system software. In addition, a training program on 'NRB accounting system software operation' was conducted for 8 employees of Currency Management Department and Mint Department.

2.131 A training was organized on 'Banking System Operation' for 10 officers/staffs of Internal Audit Department in order to familiarize them with the software used in various departments of the bank. Similarly, trainings were organized for 2 officers from the same department on each Currency Management System Software and the NRB Accounting System Software.

2.132 In the context of enhancing the skill of the employees of IT department, 20-day training entitled Visual Studio Net was conducted for 8 computer Engineers from IT Department under ADB project on "Institutional Strengthening of the NRB for Regulation & Supervision of Rural Finance."

2.133 In order to facilitate the operation of the NIFMIS, 35 employees from different departments including the IT Department were involved in a training program on Business System Analysis, Business Process Mapping/Project Management.

2.134 In the context of the fast development of information technology and to strengthen the automation of the bank, an interaction program on "Role of Information Technology in the Modernization of Nepal Rastra Bank" was conducted on June 16, 2005 for the senior officers of the bank.

2.135 Regarding public debt management and transaction of government bonds, interaction programs were conducted in Kathmandu, Birgunj, and Pokhara in order to provide necessary information to general people, associations, institutions and market makers in 2004/05. A special interaction program for the executives of financial institutions about the auction of long term government securities and process of secondary market was also conducted in Kathmandu.

Publication and Broadcasting

2.136 Regular publications of the different departments of the bank such as Main Economic Indicators, Macroeconomic Indicators of Nepal, Quarterly Economic Bulletin, Economic Report, Economic Review, Banking and Financial Statistics, Public Debt Newsletter, Nepal Rastra Bank Samachar, Prashikshan, Mirmire were published in the review year. On the special occasion of the NRB's golden jubilee, the NRB published different publications such as (a) Economic Integration in South Asia, (b) Nepal Rastra Bank in Fifty Years, (c) Milestone (Golden Jubilee Souvenir), (d) Collection of Research Works by Research Department and (e) Samjhanaka Kshanaharu (in Nepali).

2.137 In the review year, two issues of "Banking Prabardhan" - half yearly publication of Banking Promotion Committee and 11 issues of "Banking Khabar Patra" were published. Banking Promotion Committee produced and

broadcasted 52 radio banking programs (on weekly basis). Likewise, eight TV programs related to banking activities and awareness were transmitted from December 2004 through July 2005. In order to integrate the information of the member banks, the hosting of Banking Promotion Committee website was continued.

2.138 Live telecast through Nepal Television was also arranged to unveil the monetary policy for the 2005/06.

Other Works

2.139 To prepare guidelines for the BASLE II, Capital Accord Implementation Group was formed including representatives from commercial banks. Necessary changes were made in reporting formats that were required to be submitted to this bank by the commercial banks and financial institutions.

2.140 The NRB licensed 46 banks and financial institutions as market maker to deal in the transaction of government bonds in 2004/05. In the review year, the NRB conducted onsite inspection and supervised 10 market makers including Ace Finance Company Limited, Kathmandu; Malika Bikas Bank, Dhangadi; Fewa Finance Company Limited, Pokhara; Butwal Finance Company Limited, Butwal; Kist Merchant Banking and Finance Company Limited, Kathmandu; Development Credit Bank Limited, Kathmandu; Annapurna Finance Company Limited, Pokhara; Paschimanchal Bikas Bank Limited, Butwal and Nepal Sharemarkets and Finance Company Limited Kathmandu.

2.141 Considering the necessity of updating the guidelines for compilation of Balance of Payments statistics, the guidelines were updated and revised to fulfill the present needs.

2.142 Onsite supervision of commercial banks sending balance of payments statistics was continued. This was to monitor whether the statistics has been prepared according to format and other new entries are included in the format or not.

2.143 While updating the list of main exportable goods in trade statistics, 22 commodities to India and 23 commodities to third countries were added. This added list contributed to a significant increase in export.

2.144 In order to make the monitoring of commercial banks more effective, an international level offsite supervision manual has been prepared and enforced from 2004/05.

Activities of the Offices

Nepal Rastra Bank, Biratnagar

2.145 Among the co-operatives and NGOs willing to receive loan from RSRE, the pre-loan inspection of Nepal Dugdha Utpadak Cooperative Limited Jhapa, Nari Uthan Tatha Balabalika Samrakshan Shangh, Saptari; Navapratibha Saving and Credit Cooperative Limited, Morang; Ramailo Saving and Credit Cooperative Limited, Morang and Global Multipurpose Cooperative Limited, Saptari was completed. Similarly loan utilization inspection was carried out in Nepal Dugdha Utpadak Cooperative Limited, Jhapa; Navapratibha

Saving and Credit Cooperative Limited, Morang; Ramailo Saving and Credit Cooperative Limited, Morang; Sagarmatha Multipurpose Cooperative Limited, Saptari; Karnali Saving and Credit Cooperative Limited, Jhapa; and Dana Rural Saving and Credit Cooperative Limited, Sunsari. Maharanijhoda Saving and Credit Cooperative Limited was given the administrative subsidies from RSRF.

2.146 Seminar on banking statistics, clearing house, BAFIO and regulation, fake note and foreign currency identification, interaction program with CEO of bank and financial institutions and pre-budget and economic statistics were conducted in the review year.

2.147 On fund transfer side, Nepalese rupee was transferred 66 times and Indian rupee was transferred 27 times to different branches of RBB and NBL in the review year.

2.148 This office issued 204 drafts worth Rs. 22.5 million whereas payment was made of 201 drafts worth Rs. 145.7 million, drawn against this office. Like-wise this office issued 1162 TT and 12 mail transfers to different offices worth Rs. 13 billion and Rs. 3.1 million respectively. Similarly, payment of 832 pieces of TT worth Rs.9.9 billion was made in the review year. On clearing house transaction debit transactions of Rs. 15.7 billion from 48,494 pieces of cheques and credit transactions of 1.63 billion from 47,967 pieces of vouchers and advices worth Rs.15.7 billion and 16.3 billion respectively were conducted in the review year.

2.149 A total of 1,345,913 bundles of soiled notes were destroyed by burning in the review year.

Nepal Rastra Bank, Janakpur

2.150 As per the direction of Rural SelfReliance Fund (RSRF), on-site feasibility inspections for second instalment were conducted for Shree Sagarmatha Women Saving and Credit Cooperative Limited, Siraha; Devi Women Saving and Credit Cooperative Limited, Siraha; Himalaya Saving and Credit Cooperative Limited, Siraha; and Women Awareness Saving and Credit Cooperative Limited, Dhanusa for first instalment.

2.151 On site inspection of Deep Money Changer; Swastic Money Changer; Shah Money Changer; Janakpur Money Changer; Subhalaxmi Money Changer; Raj Money Changer situated in Siraha - Umesh Money Changer and Manakamana Money Changer were accomplished.

2.152 An introductory seminar on price was organised in Lahan and Janakpur. Like-wise, seminars on fake note identification, BAFIO and industrial statistics were organized in the review year.

2.153 A sum total of Rs. 580 million was transferred 29 times to RBB Jaleswar. Similarly, inspection of five commercial bank branches having note chest was conducted for 8 times in the review year.

2.154 In the review year, 358 pieces of drafts worth Rs. 900 million were issued and payment of 174 pieces of drafts worth Rs. 807 million was made. Like-wise 506 pieces of TT worth Rs. 2.5 billion were issued and payment of 133 pieces of TT worth Rs. 4.5 million was made. Similarly, Rs.802.5 million was sent through 45 mail transfer.

2.155 On clearing house transaction, debit transactions worth Rs. 762.1 million through 3885 pieces of cheques and credit transaction worth Rs. 716.4 million from 1746 pieces of cheques were done. Similarly, Rs. 1.2 billion was settled through 4604 pieces of cheques among different member banks.

Nepal Rastra Bank, Birgunj

2.156 One day interaction program on bank inspection was organized for the heads of the bank and financial institutions of Birgunj area. Similarly, seminars on banking statistics in Birgunj and price statistics in Birgunj, Hetaunda and Narayangadh were conducted.

2.157 On-site inspection of ADB/N Birgunj branch, on-site loan utilization inspection of Shree Janakalyan Multi Purposive Cooperative Limited Bara and Indragram Punarmilan Saving and Credit Cooperative Society were accomplished.

2.158 In the review year, 211 pieces of drafts worth Rs.808.9 million and 367 pieces of TT worth Rs.181.9 million were drawn. Similarly, payment of Rs.17.27 billion through 633 pieces of TT was made.

2.159 In the review year, 85 pieces of Rs.1000 note; 8 pieces of Rs.500 note and 6 pieces of Rs. 100 fake notes were seized. Likewise, 18230000 pieces notes of various denominations worth Rs. 2.0 billion were destroyed.

Nepal Rastra Bank, Pokhara

2.160 In the review year, 977 pieces of TT worth Rs.7.0 billion and 577 pieces of draft worth Rs.49.7 million were issued whereas payment were made of 288 pieces of TT worth Rs.7.1 billion and 186 pieces of draft worth Rs. 218.7 million. On clearing-house transaction settlement was done through debit transactions of 558 pieces of cheques of the NRB and 20938 pieces of cheques and drafts of commercial banks and credit transactions of 4685 pieces of cheques and drafts of the NRB and 20938 pieces of cheques and drafts of commercial banks. Various denominations notes of Rs.563 million were destroyed by burning in the review year.

2.161 Seminars were conducted on BAFIO and regulation, price statistics, Indian currency, convertible currency and fake notes. Likewise, a study on potential dairy business in Kaski District was completed.

2.162 On site inspections were completed of Kaligandaki Rural Saving and Credit Cooperative Limited, Parbat; Galkot Saving and Credit Cooperative Limited, Baglung; Janata Milk Producer Cooperative Limited, Lamjung; and Kalika Income Generation Saving and Credit Cooperative limited, Lamjung in the review year.

Nepal Rastra Bank, Siddharthanagar

2.163 In the review year, on fund transfer side, Nepalese Rupee 345 million notes, Rs. 0.25 million coins and Indian Rupees 75 million were transferred to RBB Parasi, Rs.185 million, Indian rupees 115 million and coins Rs 0.6 million to RBB, Taulihawa and Rs 1.8 bilion, Indian rupees 115 million

Activities of Nepal Rastra Bank

to the NRB Nepalgunj and Rs 4.6 billion to the NRB, Kathmandu.

2.164 On site inspection of 32 Money Changers operating within the domain of this office was completed.

2.165 This office issued 205 pieces of draft worth Rs.104.8 million, 884 pieces of TT worth Rs.7.2 billion and 24 pieces of mail transfer worth Rs.139.9 million in the review year. Similarly, payment was made of 185 pieces of draft worth Rs.905.2 million and 614 pieces of TT worth Rs.4.9 billion in the review year.

2.166 606 pieces of soiled notes worth Rs.104 billion were destroyed in the review year.

2.167 Debit transaction of Rs. 2.6 billion by 5027 pieces of cheques and credit transaction of Rs. 949.2 million from 3068 pieces of cheques were settled through clearing house. Likewise, 7072 cheque transactions amounting to Rs. 2.6 billion were carried out among the member banks.

2.168 Seminar on price statistics and interaction program among chief of bank and financial institutions were conducted in the review year. Likewise, a field study of all six districts of Lumbini Zone was completed for the special study on Current Status and Possibility of Tourism.

Nepal Rastra Bank, Nepalgunj

2.169 This office issued 299 pieces of draft worth Rs.47.6 million and payment made for 239 pieces of draft worth Rs.184.9 million in the review year. Likewise, on TT side, 591 pieces of TT worth Rs 2.5 billion was drawn and payment of 210 pieces of TT worth Rs.1.3 billion was made.

2.170 Debit transaction of Rs 2.2 billion from 4,678 pieces of cheques and drafts and credit transaction of Rs 2.2 billion from 4,554 pieces of cheques and drafts were settled through clearing house.

2.171 On site inspection of 6 Money Changers was completed in the review year.

2.172 On fund-transfer side, total amount of Rs. 6.3 billion was transferred in 190 times to different commercial bank branches holding note-chest and Rs. 1.5 billion was received in 39 times including Nepalese notes, coins and Indian rupee.

2.173 Soiled notes of various denominations worth Rs. 291.6 million were destroyed in the review year.

2.174 Pre-loan disbursement or loan utilization inspection were completed in Puspanjali Women Saving and Credit Cooperative Limited, Banke; Women Social Service Saving and Credit Cooperative Limited, Banke; Bishwashilo Saving and Credit Cooperative Limited, Bardiya; and Janamukhi Saving and Credit Cooperative Limited, Bardiya in the review year.

2.175 One-day seminar on price statistics was organized at Nepalgunj and Surkhet. Likewise, one-day seminar was conducted on statistics in Surkhet and Dang whereas one-day discussion program was organized on bank and financial activities in Nepalgunj.

Nepal Rastra Bank, Dhangadhi

2.176 Rs. 1.9 billion and foreign currency of Rs. 3.4 million was transferred to different banks. Similarly, Rs. 4.5 million coins and Indian Rupees 110.0 million were transferred in the review year.

2.177 The inspection was completed in 5 branches of RBB. Notes of various denomination worth Rs.243.1 million were destroyed in the review year.

2.178 Under clearing house transaction, a total of 7045 pieces of checks and drafts worth Rs.1.5 billion were presented by 8 member banks and 6878 pieces of checks and drafts worth Rs.2.8 billion presented to them. Similarly, payment of Rs. 96 million for 181 pieces of drafts and Rs.780 million for 244 pieces of TT was done.

2.179 One- day seminar on price statistics in Dhangadi market center and an interaction program on financial and monetary activities with the chief of financial institutions were completed in the review year. Inspection of exchange counter and money changers was completed. The license of Nirmal Money Changer was revoked. The pre-feasibility study of Muna Saving and Credit Cooperative limited, Kailali, and Raji and Tharu women society, Kailali were completed. Similarly, the loan demand documents of Tarakot Saving and Credit Cooperative limited, Darchula was forwarded to RSRF.

Board of Directors Meetings

2.180 The meetings of board of directors were held 33 times in 2004/05. Last year, such meetings were held 27 times.

Table 2.1
Outstanding Refinance to Banks and Financial Institutions

(Rs. in million)

S.No.	Financial Institutions	2003/04	2004/05
1.	Commercial Banks	418.0	222.9
2.	ADB/N	237.9	224.0
3.	NIDC	773.4	773.4
4.	RDBs	21.7	10.0
5.	Other Development Banks	108.6	0.0
	Total	1559.6	123.3

Table 2.2
Notes in Circulation

(Rs. in million)

Denominations	Mid July					
	2003		2004		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
1	177.8	0.3	177.8	0.3	176.6	0.2
2	213.5	0.3	211.0	0.3	208.4	0.3
5	460.6	0.7	518.3	0.8	586.6	0.8
10	847.4	1.4	921.7	1.4	922.1	1.2
20	764.9	1.2	765.4	1.1	914.1	1.2
25	308.6	0.5	214.6	0.3	153.5	0.2
50	1,399.6	2.1	1,343.9	2.0	1,503.0	2.0
100	4,234.0	6.8	4,301.3	6.3	4,576.0	6.1
250	91.8	0.2	89.9	0.1	86.7	0.1
500	16,162.5	26.1	16,759.0	24.6	17,309.5	23.2
1000	37,420.1	60.4	42,846.9	62.9	48,083.2	64.5
Total	61,980.0	100	68,150.0	100	74,520.0	100

Table 2.3
Security against Note Issued

(Rs. in million)

Mid-July	Gold	Silver	Foreign Currency and Securities	Total	Government Securities	Security against Currency Issue	Share of Foreign Currency, Gold and Silver in Total Security
				(1+2+3)			(4+6)/100
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2003	831.7	459.3	5,6517.0	5,7808.0	4171.7	6,1979.7	93.3
2004	831.7	459.3	6,2687.2	6,3978.2	4171.7	6,8149.9	93.9
2005	702.5	-	6,9645.7	7,0348.2	4171.7	7,4519.9	94.4

Table 2.4
Established Posts and Employees by Class

	Permanent				Temporary/Contract				Total			
	Mid-July 2004		Mid-July 2005		Mid-July 2004		Mid-July 2005		Mid-July 2004		Mid-July 2005	
	EP	FP	EP	FP	EP	FP	EP	FP	EP	FP	EP	FP
Officer-Special	17	13	17	10	0	0	0		17	13	17	10
Officer-First	47	41	47	35	0	2	0	1	47	43	47	36
Officer-Second	135	110	133	95	1	2	1	2	136	112	134	97
Officer-Third	333	247	303	279	1	1	1	1	334	248	304	280
Assistant- First	727	590	700	587	0	1	0	1	727	591	700	588
Assistant-Second	251	220	206	124	2	2	2	2	253	222	208	126
Assistant-Third	90	88	92	90	1	1	1	1	91	89	93	91
Assistant-Fourth and Fifth	385	364	358	351	73	60	73	60	454	410	431	411
Total	1,985	1,673	1,856	1,571	78	69	78	68	2,059	1,728	1,934	1,639

E= Established Posts

F= Filled up Posts

Table 2.5
Seminars and Trainings Conducted by BTC

S.No	Topics	Level	Frequency	Participants
୧	Increment in Government Salary and its Impact on the Economy	Senior Officer	1	35
୨	NRB Accounting System	Officer	1	20
୩	Research Methodology and Report Writing	Officer	1	20
୪	Monetary and Fiscal Management	Officer	1	20
୫	Central Banking Orientation	Officer	1	18
୬	Computer Exposure	Officer	1	14
୭	Management Development Programme	Officer	1	20
୮	Central Banking	Officer	1	20
୯	Risk Based Supervision	Officer	1	20
୧୦	Computer Operation	Assistant	2	26
୧୧	Government Account Transaction	Assistant	1	20
୧୨	Forex Operation	Assistant	1	19
୧୩	NRB Accounting System	Assistant	1	20
୧୪	Central Banking	Assistant	3	63
୧୫	Cash Operation	Assistant	1	25
୧୬	L/C Operation	Assistant	1	20
୧୭	Inspection and Supervision	Assistant	1	20
୧୮	BOP Statistics & Analysis	Assistant	1	16
	Total		21	421

Table 2.6
Foreign Trainings, Seminars, Meetings and Workshops

S.No	Details	Participants	Organizer	Venue
1	3rd SEACEN/Asean Business Council study visit to USA Public-Private Sector Partnership in Domestic Financial Policy Formation & Implementation.	1	SEACEN/US/ASEAN Business Council	New York, USA
2	Course on Macroeconomic Management & Financial Sector Issues.	1	IMF	Singapore
3	Central Bank of Norway: Financial Stability & Payment System.	2	Central Bank of Norway	Norway
4	Foreign Exchange Management	1	Deutsche Bundesbank	Germany
5	Workshop on Compilation & Utilization of International Investment Position.	3	SEACEN Centre	Mongolia
6	Interaction Program	1	American Express Bank New York	New York
7	6 th SEACEN Conference of Directors of Supervision of Asia-Pacific Economies	3	SEACEN	Malaysia
8	Global Markets Opportunities for Banks	2	Citigroup	Hong Kong
9	SAFA Conference	1	SAFA	New Delhi
10	APEC Financial Regulators Training Initiative Regional Seminar on Risk Focused Supervision & Risk Assessment	3	ADB	Bangkok
11	Course on Financial Markets & New Financial Instruments	3	SEACEN	Bangkok
12	GSAM Global Central Bank & Official Institutions Conference	1	GSAM	Beijing
13	Seminar on Internal Audit of Central Banks	3	SEACEN	Taipei
14	Financial Programming & Policies	1	IMF	Washington D.C.
15	3 rd Meeting of SEACEN Directors of Payments & Settlement Systems	3	SEACEN	Brunei
16	Study Visit on Focus on Macro/Medium Enterprises	3	APRACA	Bangkok
17	Thirteenth International Conference of Banking Supervisors (ICBS)	1	Banco De Espana	Spain
18	The Fourth Meeting of SAARC Finance Co-ordinators	1	State Bank of Pakistan	Pakistan
19	Banking Supervision Under the Basel II Accord	1	Bundesbank	Germany
20	IMF/WB Annual Meeting	2	IMF/WB	Washington D.C.
21	Study Visit Program on Promotion of Small & Micro-Enterprises	2	APRACA	Indonesia
22	Workshop on Monetary & Foreign Exchange Operations	1	IMF	Singapore
23	Research Workshop on Role of Central Bank in Promoting Small & Medium Scale Enterprises	1	SEACEN	Malaysia
24	Advance Seminar on International Accounting & Auditing for Banks	1	BIS	Switzerland
25	APG Typologies Workshop	2	APG	Brunei
26	Note Destruction of Rs. 100/-	2	De La Rue	Malta
27	Capital Market Observation Tour	2	Nepal Stock Exchange Limited	Bangkok, Sri Lanka
28	48 th APRACA Executive Committee Meeting	2	APRACA	Iran
29	Cash Processing & Combating Counterfeit Money	1	Deutsche Bundesbank	Germany
30	26 th Meeting of SEACEN Directors of Research & Training	1	SEACEN	Bangkok

Report of Fiscal Year 2004/05

S.No	Details	Participants	Organizer	Venue
31	4 th SEACEN-Toronto Centre Leadership Seminar for Senior Management of Central Banks on Financial System Oversight	2	SEACEN	Philippines
32	Course on Consolidated Supervision of Banks	1	IMF	Singapore
33	Central Banking Seminar	1	Federal Reserve Bank	New York
34	Program on Developing Consultancy Skills for Improving the Management of Agricultural Cooperatives & Rural Financing Institutions	4	CICTAB	Gurgaon
35	3 rd Central Banking Study Program	2	Bank of Korea	Seoul
36	Seminar on Structural Adjustment & Poverty Alleviation	1	IMF	Singapore
37	Training Seminar for New & Emerging Financial Intelligence Units	1	Egmont Group/	Bangkok
38	Observation Tour Hyundai Motor Company	2	Hyundai Motor Company	Seoul
39	The US Monetary Policy Implementation	1	Federal Reserve Bank	New York
40	Course on Macroeconomic Management & Financial Sector Issues	1	IMF	Singapore
41	Study on Internal Audit System	2	Deutsche Bundesbank	Germany
42	CS-DRM 2000	1	ADB/TA NEP-4017	Mumbai
43	Study Visit Program on Credit-Production-Marketing: Focus on Micro Enterprises	3	APRACA	Bangkok
44	Study Visit Program on Rural Banking	4	APRACA	Philippines
45	BIS Advance Research Management Workshop	3	FSI/BIS	Bangkok
46	Conference on Applied Management & Supervision	1	FSI/BIS	Switzerland
47	25th SEANZA Central Banking Course	1	Bangko Sentral ng Philipinas	Philippines
48	Middle East Financial Technology Exhibition & Conference	2	Baharain Monetary Agency	Baharain
49	South Asian Management Forum 2004	1	AMDISA	Pakistan
50	Workshop on Vulnerability Assessment of the External Sector: Framework, Issues & Policies	4	SEACEN	Malaysia
51	Seminar on Corporate Governance	1	FSI/BIS	Switzerland
52	Regional Seminar for Bank Supervisors Regulators: International Accounting for Banks	3	SEACEN/FSI	Indonesia
53	Seminar on Practical Techniques for the Management & Measurement of Operation Risk	1	FSI/BIS	Switzerland
54	Banking Disintermediation & Its Implication to Monetary Policy: A theoretical view & country experiences	1	Bank Indonesia	Indonesia
55	International Seminar on Financial Sector Assessment Program (FSAP): Country Experiences & Implementation Challenges	2	Bank Indonesia	Indonesia
56	Study visit of Philippines & Vietnam Central Banks	3	ADB	Vietnam, Philippines
57	Financial Technical Forum	1	Marcus Evans	India
58	Supervision of EBL in Delhi	2	NRB	India
59	Remittance	3	IMF	Dubai
60	Research Workshop for the SEACEN Project on Domestic Bond Market Development & Implications to Central Banks	1	SEACEN	Malaysia
61	Course on Financial Programming and Policies	1	IMF	Singapore

Activities of Nepal Rastra Bank

S.No	Details	Participants	Organizer	Venue
62	8th Meeting of Nepal-China Non-government Cooperation Forum	1	FNCCI	China
63	Second Research Workshop on Role of Central Bank in Promoting Small and Medium Scale Enterprises	1	SEACEN	Malaysia
64	Banking Supervision Under the Basel II Accord Basic Seminar	1	Deutsche Bundesbank	Germany
65	Seminar on Market & Liquidity Risk	1	BIS/FSI	Switzerland
66	2nd Asia-Pacific Fixed Income Investor Conference	1	Citigroup	Hong Kong
67	Bank Note Printing, Coin Minting, Security Printing & Security Production Facilities	1	Perum Peruri	Indonesia
68	Goodwill visit to RBI, India	3	RBI, Calcutta	India
69	To know about Standard of RBI on Counting, Sorting & Verification of Indian Currency	2	RBI, Mumbai	India
70	Macroeconomic Forecasting	1	IMF	Singapore
71	Sovereign Assets Management Symposium	2	Citigroup	Hong Kong
72	SEANZA Governor's Meeting & Symposium	2	SEANZA	Philippines
73	9th SEACEN-FSI Regional Seminar for Bank Supervision & Regulators Base II & Internal Rating Based System	4	SEACEN	Malaysia
74	Payments & Settlement System	2	RBI Staff College	India
75	36th International Central Banking	1	State Bank of Pakistan	Pakistan
76	Program on Linkages of Self-help Groups with Banks & Rural Financing Institutions	4	CICTAB	India
77	An International Visitor Leadership Program Entitled "Combating Truism Financing Networks & Money Laundering	1	U.S. Government	U.S.A.
78	Seminar on Financial Stability & Development	1	IMF	Singapore
79	Coin Destruction Process	2	Mincovna Kremnica	Slovakia
80	Seminar on Monetary & Financial Statistics-Compilation & Reporting Issues	1	IMF/Singapore Govt.	Singapore
81	Regional Conference on Microfinance and Asian Regional Multi-stockholder Consultation Meeting on Building Inclusive Financial Sectors for Development	1	ADB	Philippines
82	Workshop on Designing Disaster-Related Rural Finance Strategies	3	APRACA	Thailand
83	5th Meeting of SEACEN Expert Group (SEG) on Capital Flows	1	SEACEN	Malaysia
84	Seminar on HRM in Organizational Change	3	SEACEN	Korea
85	IMF/UNESCAP Special Data Dissemination Standard (SDDS) outreach seminar for Asia & Pacific Region	1	IMF/UNESCAP	Thailand
86	Course on Macroeconomic Impact of the Budget	1	IMF	Singapore
87	Orientation Visit for Nepal Financial Information Management Systems (IT)	5	U.S. Trade & Development Agency	USA
88	Study Visit Program on Credit Plus Approach	3	APRACA	Philippines
89	4th Central Banking Study Program	1	The Bank of Korea	Korea
90	Controlling at Central Banks	1	Deutsche Bundesbank	Germany
91	SEACEN Conference & Meeting of Directors of Currency	2	SEACEN	Malaysia
92	Blue Book on Building Inclusive Financial Sectors Global Meeting	1	UNCDF	Switzerland
93	What Banking Supervisors Needs to Know about the Securities Industry & Securities Regulation	2	BIS	Hong Kong

Report of Fiscal Year 2004/05

S.No	Details	Participants	Organizer	Venue
94	Inaugural MAS Regional Banking Supervisor Training Program	2	Monetary Authority of Singapore	Singapore
95	2nd SEACEN/Federal Reserve System Course on Electronic Banking & Technology Risk Supervision	4	SEACEN Centre	Thailand
96	Seminar on Anti-Money Laundering & Combating the Financing Terrorism for Financial Sector Supervisors	1	IMF	Singapore
97	Witness Tour in China Banknote Printing & Minting Corporation	2	China Bank Note Printing & Minting Corporation	China
98	34th Meeting of Board of Directors	2	ACU	Pakistan
99	SEANZA-FSI Seminar on Risk Modelling & Basel II	2	SEANZA-FSI	Philippines
100	APRACA Technical Fare-Info-Market: Rural Finance in the Asia-Pacific Region	1	APRACA	Thailand
101	15th APRACA General Assembly Meeting, 49th APRACA Executive Committee Meeting & the Interfacing Conference on Innovations in Rural Design Technologies & Methodologies	2	APRACA	Thailand / Myanmar
102	WB/IMF/US Federal Reserve Board 5th Annual Seminar on Policy Challenges for the Financial Sector: International Financial Conglomerates-Issues & Challenges	1	Federal Reserve Bank	USA
103	40th SEACEN Governors Conference and 24th SEACEN Board of Governors Meeting	2	Reserve Bank of Fiji	Fiji
104	SAARC FINANCE Seminar on Combating Pyramid Schemes	2	Central Bank of Sri Lanka	Sri Lanka
105	Joint FATE/APG Plenary Session/Meeting	2	APG	Singapore
106	Program on Training Techniques for Trainers of Co-operative & Rural Financing Institutions	5	CICTAB	India
107	Seminar on Macroeconomic Management for Senior Officials	1	IMF	Singapore
108	Course on New Challenges to Central Bank Monetary & Financial Stability Policies	1	IMF	Washington
109	Delhi Technology Trends Orientation Meeting	4	BEA Systems India Limited.	India
110	Program on Micro Finance & Women's Development	3	CICTAB	India
111	Workshop on Central Bank Accounting: Strengthening Central Bank Independence Through Transparency & Efficiency	1	IMF	Singapore
112	Study Visit Program on Micro-Finance Policy & Directions	3	APRACA	Philippines
113	APG Annual Meeting 2005	3	APG	Australia
114	SEACEN Project on Adequacy of the existing levels of Capital Implied by the Basel Standards Relative to the Credit Risk Exposures of Banks in the SEACEN Region	1	SEACEN	Malaysia
115	Program on Development of Cooperatives & Rural Financing Institutions & Agencies	2	CICTAB	Sri Lanka
116	Final Proof of Rs.5.00 Denomination	2	Perum Peruri	Indonesia
117	APEC Financial Regulators Training Initiative to Regional Seminar on Market Risk Analysis	1	ADB	Malaysia
118	Workshop on The Fifth Quantitative Study Impact	1	BIS/FSI	Switzerland
119	6th SEACEN/Federal Reserve System / World Bank Seminar for Senior Bank Supervisors from Asia Pacific Economies	2	SEACEN	Malaysia
120	Workshop on Uncertainties in the Global Economy & Financial Crisis Management	2	Bank of Korea	Korea
	Total	119		

Table 2.7
Domestic Trainings, Seminars and Workshops*

S.No.	Topics	Participants
1.	MAN–Conference	2
2.	Time Management	2
3.	MAN	4
4.	WTO : Challenges & Opportunities	1
5.	Performance Management	2
6.	Training for Trainers	1
7.	Effective Communication Skills	1
8.	Visual Basic Net	8
9.	The 4P's of the Nepalese Software Industry	1
10.	Executive Development Program for Cooperative and Rural Financing Institutions	1
11.	South Asian Federation of Accountants Seminar	2
12.	Computer Trainings	32
	Total	57

* Excluding programs conducted by BTC.

Table 2.8
Higher Studies

S.No.	Description	No.	Institute/Country
1	Corporate Governance in Financial Sector in India & Nepal	1	University of Delhi , India
2	Theme of Balance of Payment Problems Between India & Nepal, M. Phil. (Ph.D.)	1	Jawaharlal Nehru University, New Delhi, India
3	Advanced Macroeconomic Theory	1	Eastern Illinois University
4	M. Sc. in Economic Policy for Developing & Transitional Economies	2	University of Bradford, UK



PART

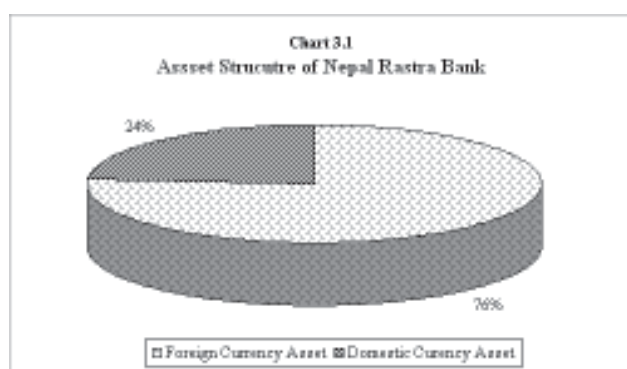
III

● Assets & Liabilities	71
● Income Statement	72
● Cash flow Analysis	73
● Changes in Equity	73

Annual Financial Statements of NRB

Assets & Liabilities

3.1 Assets and liabilities of the NRB decreased by 0.5 percent to Rs. 141.3 billion as at mid-July 2005. Foreign currency assets and local currency assets held 75.7 percent and 24.3 percent share respectively in total assets. The respective shares of these assets were 76.4 percent and 23.6 percent respectively in the previous year. In the review year, local currency liabilities, equity and foreign currency liabilities held 78.7 percent, 19.2 percent and 2.1 percent shares respectively in total liabilities and equity, whereas the respective shares were 76.0 percent, 22.5 percent, and 1.5 percent respectively in the preceding year.



3.2 As at mid-July 2005, the share of cash and bank balance in foreign currency financial assets was 61.9 percent and the shares of investments in TBs, other receivables and SDR holdings with IMF were 37.0 percent, 0.5 percent and 0.6 percent respectively. Cash and bank balances declined by 11.5 percent whereas the investments in TBs went up by 14.9 percent from the last year's level. The amount of other receivables increased by 69.5 percent compared to that of the previous year. SDR holdings with IMF increased to Rs. 637.0 million from Rs. 54.9 million of the previous year. On the other assets, gold increased to Rs. 1.39 billion from Rs. 254.8 million in the previous year. Total foreign currency assets decreased by 1.4 percent to Rs. 16.93 billion as at mid-July 2005.

3.3 In local currency financial assets, the shares of investment in government securities, refinance and loans and other receivables stood at 54.1 percent, 11.3 percent

and 10.7 percent respectively in the review year. Likewise, the shares of other investments, government overdraft and cash balance were 9.0 percent, 8.1 percent and 5.3 percent respectively. Investment in financial and other institutions remained at last year's level i.e. 1.5 percent. In other assets, gold and silver, other inventories and property plant and equipment held 50.1 percent, 25.8 percent and 24.1 percent share respectively. Refinance and loans increased by 43.0 percent whereas, cash in hand and investment in financial and other institutions rose by 42.1 percent and 4.7 percent respectively compared to those of the previous year. Other receivables, other investments and investment in government securities decreased by 12.8 percent, 6.1 percent, and 7.7 percent respectively from that of the previous year. However, the amount of property, plant and equipment; gold and silver inventory; and other inventories declined by 6.8 percent, 7.6 percent and 14.8 percent respectively. In aggregate, total local currency assets increased by 2.5 percent to Rs. 34.38 billion as at mid-July 2005 compared to that of mid-July 2004.

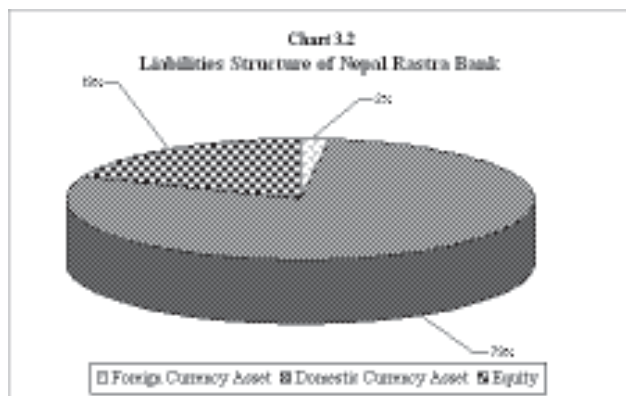
3.4 Currency in circulation held 97.1 percent share in other liabilities, the largest component of local currency financial liabilities. The share of sundry liabilities in other liabilities was 0.8 percent. The amount of currency in circulation increased by 9.3 percent to Rs. 74.52 billion as at mid-July 2005. Sundry liabilities increased by 26.4 percent compared to that of the previous year. Other liabilities increased by 9.9 percent to Rs. 76.72 billion as at mid-July 2005 compared to that of a year ago.

3.5 The shares of IMF related liabilities, deposits and other liabilities in foreign currency financial liabilities were 78.5 percent, 21.3 percent and 0.2 percent respectively. The IMF related liabilities and deposits increased by 36.9 percent and 97.6 percent respectively whereas other liabilities decreased by 93.9 percent compared to that in the previous year. Foreign currency financial liabilities increased by 41.3 percent to Rs. 2.92 billion as at mid-July 2005 compared to that of mid-July 2004.

3.6 In local currency financial liabilities, the share of deposit and other balances was 85.7 percent while the shares of bills payable, staff liabilities and other payables were 7.5 percent, 6.4 percent and 0.4 percent respectively. Compared

to mid-July 2004, deposit and other payables decreased by 11.6 percent and 14.8 percent respectively whereas staff liabilities and bills payable increased by 10.5 percent and 2.2 percent respectively in mid-July 2005.

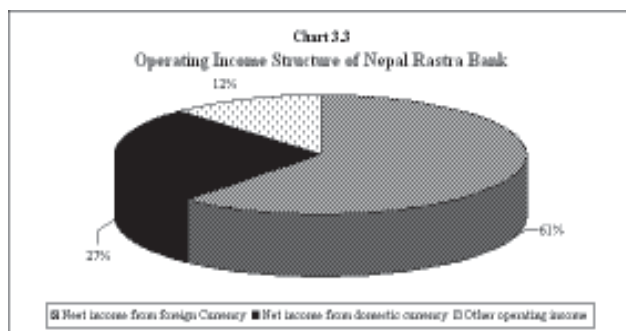
3.7 In equity, the share of reserves stood at 89.0 percent whereas the rest 11.0 percent was that of the share capital. The reserve has decreased by 16.6 percent. Equity decreased by 15.1 percent and stood at Rs. 27.17 billion at mid-July 2005. In aggregate, local currency liabilities increased by 3.0 percent to Rs. 11.23 billion as compared to mid-July 2004.



Income Statement

3.8 As per income statement for the period from mid-July 2004 to mid-July 2005, total net operating income of the NRB amounted to Rs. 5.12 billion in 2004/05.

3.9 Like in the previous year this year too, the income from foreign currency financial assets was higher than the income from local currency financial assets. As usual the interest income has predominant position in the total income.



3.10 In the total income from foreign currency financial assets, the share of interest income and commission income were 91.9 percent and 8.1 percent respectively in the review year. Last year, the shares of interest income and commission were 87.0 percent and 13.0 percent respectively. Interest income and commission income increased by 71.8 percent and 1.4 percent respectively compared to that of the previous year.

3.11 In the review year, interest income and commission income shared 96.3 percent and 3.7 percent respectively of income from local currency financial assets. The shares

of such income were 97.5 percent and 2.5 percent respectively in the preceding year. Interest income and commission income decreased by 40.9 percent and 11.5 percent respectively compared to that of the previous year.

3.12 In the expenses on foreign currency financial liabilities, interest expenses shared 46.6 percent whereas agency and service charges accounted for 53.4 percent in the review year. Last year, the shares of interest expenses and agency and service charge were 47.8 and 52.2 percent respectively. Compared to the previous year, interest expenses rose by 53.9 percent and agency and service charge rose by 61.4 percent in 2004/05.

3.13 In the expenses on local currency financial liabilities, the share of interest expenses was 54.3 percent and the share of agency and service charge was 45.7 percent in the review year. Last year, such shares were 70.1 percent and 29.9 percent respectively. In the review year, interest expenses and agency and service charge decreased by 51.2 percent and 3.6 percent respectively compared to that of the previous year.

3.14 The income from foreign currency financial assets increased by 62.6 percent to Rs. 3.17 billion whereas the expenses in foreign currency financial liabilities decreased by 57.8 percent to Rs. 56.8 million compared to that of last year. Consequently, net income from foreign currency increased by 62.7 percent to Rs. 3.12 billion.

3.15 On the other hand, the income from local currency financial assets decreased by 40.2 percent to Rs. 1.18 billion and total expenses in local currency financial liabilities decreased by 36.9 percent to Rs. 578.7 million compared to that of last year. As a result, the net income from local currency decreased by 43.0 percent to Rs 601.5 million compared to that of the previous year.

3.16 In the review year, other operating income increased from last year's level to Rs. 1.40 billion. Consequently, total net operating income increased by 50.8 percent to Rs. 5.12 billion. General, administrative expenses and provisions increased by 14.5 percent to Rs. 2.49 billion compared to that of last year.

3.17 In 2004/05, the net income for the year before the adjustment of foreign exchange valuation gain/loss, gold and silver revaluation gain/loss and previous years adjustment stood at Rs. 2.62 billion. However, after the adjustment of net foreign exchange valuation loss of Rs 6.00 billion, net gold and silver revaluation gain of Rs. 1.14 billion and previous years adjustment of Rs 6.34 million, it remained at a loss of Rs 2.24 billion. The net profit for the distribution stood at Rs. 2.01 billion after the transfer of Rs. 1.14 billion to gold and silver equalization fund and Rs. 600.7 million to gold replacement fund. The said amount of net profit was largely on account of transfer of Rs. 6.00 billion from foreign exchange equalization fund.

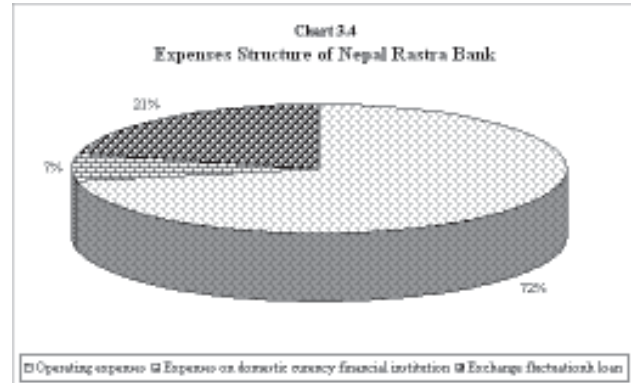
3.18 Of the profits available for distribution, 10.4 percent was appropriated to general reserves, 5.0 percent to monetary liability reserve, 4.1 percent to development fund, 0.4 percent to development finance projects mobilization fund and remaining 80.0 percent (Rs. 1.61 billion) was transferred to the government. This amount was 34.3 percent higher than that of the previous year.

Cash Flow Analysis

3.19 As per the cash flow statement for the year from 17 July 2004 to 16 July 2005, cash-flow from operating activities remained negative at Rs. 9.88 billion whereas cash flow from investment activities stood at Rs. 14.37 billion and cash flow from financing activities stood at Rs. 5.77 billion resulting in net cash flow of Rs. 10.26 billion. Cash and cash equivalents which were equal to Rs. 85.87 billion at the beginning of the year stood at Rs. 96.13 billion at the end of the year.

Changes in Equity

3.20 As per the statement of changes in equity, the balance decreased by 15.1 percent to Rs. 27.17 billion as at mid-July 2005 compared to mid-July 2004. There was no change in the figures of capital, staff welfare fund and Rural Self Reliance Fund in mid July 2005 compared to the figures in the previous year.



Report of Fiscal Year 2004/05

**NEPAL RASTRA BANK
BALANCE SHEET AS ON 15th July 2005**

Particulars	Note	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
ASSETS			
Foreign Currency Financial Assets			
Cash and Bank Balances	3	65,368,732,919	73,907,876,371
SDR holdings - with IMF		637,064,325	54,919,040
Investments in Treasury Bills	3a	39,050,699,638	34,000,210,159
Other receivables		483,457,699	285,486,597
Sub-Total		105,539,954,581	108,248,492,167
Other Assets			
Gold		1,397,192,652	254,781,505
Sub-Total		1,397,192,652	254,781,505
Total Foreign Currency Assets		106,937,147,233	108,503,273,672
Local Currency Financial Assets			
Cash in hand		1,711,915,589	1,204,743,854
Investments in Government Securities	4	17,443,097,129	18,889,172,249
HMG Overdraft		2,623,009,090	-
Investments in Financial and Other Institutions	5	471,217,500	449,967,500
Other Investments	6	2,914,133,000	3,101,630,000
Refinance & Loans	7	3,636,698,871	2,543,280,327
Other Receivables	8	3,433,174,028	3,935,810,911
Sub-Total		32,233,245,207	30,124,604,841
Other Assets			
Gold & Silver		-	1,036,285,276
Gold & Silver - Inventory	9	1,078,880,573	1,167,998,050
Other Inventories	10	555,859,603	653,221,770
Property, Plant & Equipment	11	519,786,242	557,541,028
Sub-Total		2,154,526,418	3,415,046,124
Total Local Currency Assets		34,387,771,625	33,539,650,965
Total Assets		141,324,918,858	142,042,924,637

The above statement is to be read in conjunction with the notes 1 to 29.

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
BALANCE SHEET AS ON 15th July 2005**

Particulars	Note	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
LIABILITIES			
Foreign Currency Financial Liabilities			
Deposit from banks and other agencies	12	621,971,508	314,783,159
IMF Related Liabilities	13	2,295,388,883	1,676,026,052
Other Liabilities	14	4,715,439	77,371,728
Total Foreign Currency Liabilities		2,922,075,830	2,068,180,939
Local Currency Financial Liabilities			
Deposit and other balances	15	29,582,995,176	33,480,267,888
Bills Payable		2,601,706,049	2,545,881,682
Staff Liabilities	16	2,198,419,723	1,989,712,077
Other Payables	17	127,425,271	148,738,474
Sub-Total		34,510,546,219	38,164,600,121
Other Liabilities			
Currency in Circulation	18	74,520,000,000	68,150,000,000
Surplus payable to HMG/N		1,611,281,788	1,200,027,745
Sundry Liabilities	19	588,699,428	466,147,587
Sub-Total		76,719,981,216	69,816,175,332
Total Local Currency Liabilities		111,230,527,435	107,980,775,453
EQUITY			
Share Capital		3,000,000,000	3,000,000,000
Reserves	20	24,172,315,593	28,993,968,245
Total Equity		27,172,315,593	31,993,968,245
Total Liabilities and Equity		141,324,918,858	142,042,924,637
Contingent Liabilities		21	

The above statement is to be read in conjunction with the notes 1 to 29.

Report of Fiscal Year 2004/05

NEPAL RASTRA BANK
INCOME STATEMENT
FOR THE YEAR ENDED 15th July 2005

Particulars	Note	2005 NRs.	2004 NRs.
Operating Income:			
Income from Foreign Currency Financial Assets			
Interest Income	22	2,915,659,576	1,697,575,277
Commission Income	23	256,197,615	252,614,111
		3,171,857,191	1,950,189,388
Expenses on Foreign Currency Financial Liabilities			
Interest Expenses	24	26,477,609	17,202,137
Agency and Service Charge	25	30,329,518	18,790,588
		56,807,127	35,992,725
Net Income from Foreign Currency		3,115,050,064	1,914,196,663
Income from Local Currency Financial Assets			
Interest Income	22	1,135,918,736	1,923,251,179
Commission Income	23	44,239,748	49,977,057
		1,180,158,484	1,973,228,236
Expenses on Local Currency Financial Liabilities			
Interest Expenses	24	314,054,355	643,141,499
Agency and Service Charge	25	264,596,828	274,579,436
		578,651,183	917,720,935
Net Income from Local Currency Financial assets		601,507,301	1,055,507,301
Other Operating Income	26	1,398,470,765	422,077,048
Total Net Operating Income		5,115,028,130	3,391,781,012
General, administrative expenses & Provisions	27	2,493,887,969	2,178,549,296
Profit for the year before Foreign Exchange, Gold and Silver Revaluation Gain/(Loss) and prior year adjustment		2,621,140,161	1,213,231,716
Foreign exchange gain/(loss) (Net)		(6,001,760,899)	1,378,643,749
Gold and Silver revaluation gain/(loss) (Net)			
- Adjustment on transfer of Gold and Silver to Inventory	29(XV)(a)	(868,564,516)	-
- Amount Transferred from Gold & Silver Equalisation Reserve	29(XV)(a)	868,564,516	-
- Other	29(XIV)(iv)	1,142,411,147	-
Prior year Adjustment		(6,337,565)	358,668,884
Net Profit/(Loss) for the year		(2,244,547,157)	2,950,544,349
Net Profit/(Loss) for Appropriation			
Net Profit/(Loss) for the year		(2,244,547,157)	2,950,544,349
Amount Transferred (to)/from Exchange Equalisation Fund (EEF)		6,001,760,899	(1,378,643,749)
Amount Transferred (to) Gold & Silver Equalisation Reserve	29(XIV)(iv)	(1,142,411,147)	-
Amount Transferred to Gold Replacement Fund	29(XV)(c)	(600,700,361)	-
Profit available for distribution		2,014,102,235	1,571,900,600
General Reserve		209,900,000	178,400,000
Monetary Liability Reserve		100,800,000	78,600,000
Development Fund		83,244,062	27,100,000
Dev. Fin. Projects Mob. Fund		8,876,385	9,172,855
Gramin Swabalamban Kosh		-	78,600,000
Surplus transferred to HMG/N		1,611,281,788	1,200,027,745
Total		2,014,102,235	1,571,900,600

The above statement is to be read in conjunction with the notes 1 to 29.

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
CASH FLOW STATEMENT
FOR THE YEAR ENDED 15th July 2005**

Particulars	2005 (NRs.)	2004 (NRs.)
Cash flow from operating activities:		
Profit for the Year	(2,244,547,157)	2,950,544,349
Adjustments		
Gold and Silver revaluation gain/(loss) (Net)		
- Other	(1,142,411,147)	-
- Revaluation adjustment for gold / silver reserves sold during	(97,259,193)	-
Depreciation	63,625,807	62,779,851
Prior period adjustment	6,337,565	(358,668,884)
Note printing expenses	263,633,877	262,381,913
Dividend Income	(27,136,250)	(4,590,263)
Profit from sale of share investment	(827,441)	(1,840,879)
Sundry balances written off	784,999	2,857,256
Interest paid on PRGF Loan & ACU	6,955,289	3,135,668
Provision for :		
Loan and advances	(47,492,197)	565,020,323
Diminution in value of investment	(31,139,000)	(40,003,000)
Doubtful of recovery on sundry accrued	70,600,000	31,051,451
Provision for inventory & spare parts	34,009,801	-
Cash flow from operation before inc / dec in operating assets	(3,144,865,046)	3,472,667,785
(Increase)/Decrease in operating assets	(3,375,642,261)	(1,959,613,385)
HMG overdraft	(2,623,009,090)	-
Refinance & loans	(1,045,926,347)	(257,264,960)
Other receivable	236,736,448	(1,723,611,405)
Gold & silver	256,838,239	182,169,440
Inventories	(200,281,511)	(160,906,460)
Increase/(Decrease) in operating liabilities	(3,356,775,318)	8,481,064,051
SDR Allocation	(59,805,319)	21,638,772
Deposit liabilities	(3,590,084,364)	8,325,775,317
Bills payable	55,824,367	761,253,217
Deferred staff liabilities	208,707,646	(182,166,642)
Other liabilities	(93,969,491)	(115,682,058)
Sundry liabilities	122,551,843	(329,754,555)
Operating cash flow before prior period adjustment	(9,877,282,626)	9,994,118,451
Prior period adjustment	(4,301,553)	358,668,884
Cash flow from operating activities	(9,881,584,179)	10,352,787,335
Cash flow from investing activities:		
Net Decrease in Government Securities and Bank Deposits	14,364,014,386	(18,007,970,593)
Sale of Investment in Financial Institutions	90,316,441	22,951,879
Purchase of Investment in Financial Institutions	(79,600,000)	(81,200,000)
Fixed assets including WIP	(31,362,700)	(31,379,111)
Dividend income	27,136,250	4,590,263
Total (B)	14,370,504,377	(18,093,007,562)
Cash flow from financing activities:		
Bank note issued	6,370,000,000	6,170,000,000
Increase in PRGF Loan & ACU	609,933,232	669,781,667
Interest paid on PRGF Loan & ACU	(6,955,289)	(3,135,668)
Surplus transferred to HMG/N	(1,200,027,745)	(1,100,000,142)
Total (C)	5,772,950,198	5,736,645,857
Net cash flow for the year (A+B+C)	10,261,870,397	(2,003,574,370)
Cash and cash equivalent at the beginning of the year	85,866,692,251	87,870,266,621
Cash and cash equivalent at the end of the year (Note - 28)	96,128,562,647	85,866,692,251

The above statement is to be read in conjunction with the notes 1 to 29.

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Report of Fiscal Year 2004/05

**NEPAL RASTRA BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 15th JULY 2005**

Particulars	Balance as at 16th July 2004	Amt.transferred from/(to) profit	Inter fund transfer	Balance as at 15th July 2005
Capital	3,000,000,000	-	-	3,000,000,000
General Reserve	10,277,500,000	209,900,000	-	10,487,400,000
Monetary Liability Reserve	463,500,000	100,800,000	-	564,300,000
Exchange Equilisation Fund	11,352,166,581	(6,001,760,899)	-	5,350,405,682
Gold & Silver Equilisation Reserve	1,198,550,974	1,142,411,147	-	2,340,962,121
		(965,823,709)	-	1,375,138,412
Employees Welfare Fund	234,027,004	-	-	234,027,004
Grameen Swabalamban Kosh	253,400,000	-	-	253,400,000
Other Reserve Funds	5,214,823,686	692,820,808	-	5,907,644,494
Total	31,993,968,245	(4,821,652,653)	-	27,172,315,592

Notes to be read as part of the Financial Statements

1. General information

These are the financial statements of Nepal Rastra Bank, the central bank of Nepal, incorporated under the NRB Act, 2058 (2002 AD). In these financial statements Nepal Rastra Bank has been referred as “NRB” or the “Bank”.

The central office of the NRB is located at Baluwatar, Kathmandu, Nepal and the Bank’s jurisdiction is spread through out the kingdom of Nepal.

The main activities of the Bank include:

- Formulating necessary monetary and foreign exchange policies.
- Issuing of currency.
- Promoting stability and liquidity required in banking and financial sector.
- Developing a secure, healthy and efficient system of payment.
- Regulating, inspecting, supervising and monitoring the banking and financial system.
- Promoting entire banking and financial system of the kingdom of Nepal.

These financial statements apply to the financial year ended 31st Ashadh, 2062 (15th July, 2005).

The Board of Directors of the Bank has approved these financial statements on....

2. Summary of significant Accounting Policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with the Nepal Accounting Standards (NAS) as well as International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS), with the exception of following:

- Standard which has not been practical for the Bank to comply:

IAS 27: Consolidated and Separate Financial Statements

- Standards partly complied (pending certain improvements and refinements given hereinafter under respective paras):

IAS 7: Cash Flow Statements

IAS 19: Employee Benefits

IAS 24: Related Party Disclosures – partly complied as practicable

IAS 32: Financial Instruments: Disclosure and Presentation

IAS 39: Financial Instruments: Recognition and Measurement

2.2 Accounting Convention

These financial statements have been prepared under historical cost except for certain items e.g. gold (other than inventory), certain investments shown hereunder specifically, which have been carried at revalued/fair value.

2.3 Currency in circulation

Currency notes issued by the Bank are legal tender under the NRB Act 2058. This represents the liability of the Bank towards the holder of the currency at its face value. These liabilities are backed by the assets stated in Note 18 of these financial statements.

The Bank also issues coins of different denomination for circulation. These coins are recorded at cost.

2.4 Financial assets / Instruments

Financial assets / instruments are segregated between foreign currency and local currency items to reflect more objective presentation of the bank’s financial position and performance.

2.4.1 Classification

Held for trading

A financial instrument is considered as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or if it is part of a portfolio of identified instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Trading assets include debt and equity securities and loans and receivables acquired by the Bank with the intention of making a short-term profit.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They typically arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable or making short-term profit and comprise loans and advances including bonds purchased at original issuance.

Held-to-maturity investments

Held-to-maturity asset are financial assets with fixed or determinable payments and fixed maturity (e.g., debt securities) that the Bank has the positive intent and ability to hold till maturity. These include certain purchased loans and advances, certain debt instruments.

Available-for-sale financial assets

All financial assets that are not classified in another category are classified as available-for-sale. These include investment in foreign treasury bills, certain saving certificates, and investment in financial and other institutions.

2.4.2 Recognition

The Bank recognizes financial assets held for trading and available-for-sale assets on the date the asset is transferred to the Bank. From this date, any gains and losses arising from changes in fair value of the assets are recognized.

Held-to-maturity assets and originated loans and receivables are recognized on the day the asset is acquired.

2.4.3 Measurement

All financial assets are initially recognized at cost, being the fair value of the consideration given and including acquisition charges. After initial recognition, subsequent measurement bases are described below.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that instruments that do not have a quoted market price in an active market or fair value cannot be reliably measured are stated at cost, including transaction costs, less impairment losses. Gains and losses arising from a change in the fair value of available for sale assets are recognized directly in equity and when the financial assets are sold / disposed off the cumulative gain or loss recognized in equity is transferred to the profit & loss account. Gains and losses arising from a change in the fair value of trading instruments are recognized in the income statement. Investments in subsidiaries, associates and other entities made under the specific directives or policies of the government and other relevant statutes are also valued at cost less impairment loss.

All non-trading financial liabilities, loans and receivables including those originated by the Bank and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the original effective interest method.

2.4.4 Fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Quoted market values represent fair value when a financial instrument is traded in an organized and liquid market. Where quoted market values are not available, the fair values are estimated by other techniques such as discounted cash flows etc.

2.4.5 De-recognition

A financial asset is de-recognized when the Bank loses control over the contractual rights that comprise the asset. This occurs when the rights are realized, expired or surrendered. Financial liabilities are de-recognized when extinguished.

Available-for-sale assets and assets held for trading are de-recognized when sold and corresponding receivables from the buyer for the payment are recognized when the asset is transferred to the buyer.

Held-to-maturity instruments and originated loans and receivables are de-recognized on receipt of money or money's worth there against.

2.5 Transactions on repurchase obligations (Repo) and reverse Repo

The Bank enters into transaction of repurchase (Repo) and reverse Repo of securities at agreed rates for specified periods of time. These are recorded as follows:

- i) Securities sold under arrangements to repurchase continue to be recorded as investment in government securities. The obligation to repurchase is shown as liabilities for securities sold under agreement to repurchase and the difference between the sale and repurchase value is accrued on a pro rata basis and recorded as expense.
- ii) In case of purchase under resale obligations, the securities are recorded as loans at the purchase price and the difference between the purchase and resale price is accrued over the period and recorded as income.

2.6 Foreign Currency Transactions

Income and expenditure denominated in foreign currency are translated into Nepalese Rupees on the basis of exchange rates prevailing on the value date. Assets and liabilities in foreign currency as at the year-end are converted into Nepalese Rupees on exchange rate prevailing on the balance sheet date. Exchange differences are taken to the income statement. An amount equivalent to the net exchange gain /loss during the year is transferred to/from 'Exchange Equalization Fund' through income statement.

2.7 Gold and Silver (other than inventory)

Gold and Silver held other than as inventory is stated at market value and any appreciation or depreciation with respect to the cost is taken to/from "Gold and Silver Equalization Reserve" through Income statement.

2.8 Gold and silver stock and other inventories

Gold and silver stock and other inventories are carried at cost or net realizable value whichever is less. Cost for Gold and Silver is determined on specific basis where as for other inventories is determined under the First In First Out (FIFO) method.

2.9 Property, Plant & Equipment

Fixed assets are stated at cost less accumulated depreciation wherever applicable.

Depreciation is calculated using the straight-line method so as to "write off" these assets over their expected useful life.

Depreciation on additions is charged for the whole year, if the asset is put to use within first nine months of the accounting year. No depreciation is charged on the assets purchased and/or put to use in the later three months of the year. Similarly, no depreciation is charged in the year in which assets are deleted.

Fixed assets having value of NRs. one thousand or less are charged directly to Profit and Loss account.

2.10 Assets received in grant

Grants or donation received on account of capital expenditure are recorded as "grant assets" with corresponding credit to "grant assets reserve" under the head Capital Reserve. These are amortized over the useful life of the relevant assets.

2.11 Employee benefits

Contributory Retirement Fund

All permanent employees are entitled for participation in employee's provident fund (now Retirement Fund) wherein the employees contribute at various rates of their current drawn salaries. The bank contributes 10% of salary to this fund, which is separately administered as a defined contribution plan. The Bank's obligations for contributions to the above Fund are recognized as an expense in the income statement as incurred.

Gratuity and Pension Scheme

Employees who have worked for five years or more but less than twenty years are eligible for gratuity, which is based on last drawn salary and completed years of service. Similarly employees having service period of twenty years or more are eligible for pension, which is based on last drawn salary and completed years of service.

Upto 15th July 2005 the bank has calculated Pension and Gratuity liability on reasonable estimates basis and recognized expense based on the same. Effective from that date the bank has actuarially valued its pension and gratuity liability for the first time. The defined benefit liability arising from such actuarial valuation after adjusting the liability charged under the existing system is recognized as an expense. This however has been amortised on a straight-line basis over five years commencing from the current financial year in accordance with the transitional provisions.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

Welfare Provident Fund

Certain amounts as prescribed by the Board are transferred to this fund, which is meant to be a defined benefit scheme for the welfare of the employees. Contributions by the Bank are expensed on actual incurrence.

Staff Medical Fund

Employees are eligible for medical benefits based on the specified slabs as per medical rules, last drawn salary and completed years of service. Contributions by the Bank are expensed on actual incurrence.

Staff Life Insurance Plan

Staff life insurance plan is a defined benefit plan and accounted for based on reasonable estimates.

Leave encashment

The Bank makes annual provision in respect of liability for employee's leave based on reasonable estimates.

2.12 Revenue recognition

Incomes and expenses are recognized on accrual basis.

2.13 Taxation

Income of the NRB is exempted from taxes under section 8 of the NRB Act, 2058 as well as Income Tax Act, 2058 and as such no provision in this respect has been made.

2.14 Cash and cash equivalents

Cash includes cash at vault and agency bank account balances. Similarly cash equivalents include short-term, highly liquid investments that are readily convertible to cash, and are subject to an insignificant risk of changes in value.

2.15 Impairment

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. An impairment loss is recognised whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount. Provisions for possible losses on loans and advances have been provided on the basis of financials of borrower and appropriate estimation made by the management. Receivables considered as bad and irrecoverable are written off from the books of account and directly charged to the profit and loss account. Provisions against impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognised as income / expense in the profit and loss account.

2.16 Segment reporting

The Bank presents assets and liabilities, and their associated income and expense streams, by distinguishing between foreign currency and local currency. The Bank considers that this reporting approach provide appropriate segmental reporting of the Bank's activities which are more fully described in Note 1.

2.17 Directors' responsibility statement

The Board of Directors of the Bank are responsible for preparation of the annual financial statements and for the estimates and judgments used in them.

Annual Financial Statements of NRB

NEPAL RASTRA BANK NOTES FORMING PART OF THE BALANCE SHEET

NOTE - 3: CASH AND BANK BALANCES

	As on 15 July 2005 NRs.	As on 15th July 2004 NRs.
Cash in Hand	2,106,547,934	3,816,348,354
Balance with Banks in Demand Deposits	10,441,315,981	10,294,824,946
Balance with Banks in Time Deposits	52,820,869,004	59,796,703,071
Total	65,368,732,919	73,907,876,371

Interest on time deposit and demand deposit (where ever applicable) were earned at various rates ranging from 1.05% to 8.11% per annum (P.Y. 0.95% to 9.50% per annum).

NOTE - 3 a: INVESTMENTS IN TREASURY BILLS

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
US Government Treasury Bills	37,429,343,513	26,340,408,340
GOI Treasury Bills	1,621,356,125	7,659,801,819
Total	39,050,699,638	34,000,210,159

Investments in US Treasury Bill and Government Of India Treasury Bill have been recognised and classified as "Available for Sa

NOTE - 4: INVESTMENTS IN GOVERNMENT SECURITIES

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
Government Treasury Bills	10,921,156,522	9,617,927,833
Saving Certificates	280,937,700	386,573,000
IMF Bonds	4,722,320,536	4,722,320,536
Other Bonds and securities	1,518,682,371	4,162,350,880
Total	17,443,097,129	18,889,172,249

Above investments are classified as follows:

Originated Loans	12,439,838,893	13,780,278,713
Held-to-maturity	4,722,320,536	4,722,320,536
Available-for-sale	280,937,700	386,573,000
Total	17,443,097,129	18,889,172,249

1. IMF Bonds represent the bonds issued by HMG/N in favour of Nepal Rastra Bank for the discharge of HMG/N obligation to the IMF, which has been recognised by the Bank. These bonds are non- interest bearing.

2. According to NRB Act 2058, NRB is not eligible to hold investment in HMG/N securities more than 10% of Government's previous years revenue. Steps are being taken to bring the above investments, within the limit prescribed by NRB Act 2058.

Report of Fiscal Year 2004/05

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET**

NOTE - 5: INVESTMENTS IN FINANCIAL AND OTHER INSTITUTIONS

	% of holding
(a) Investment in shares of Subsidiaries	
Madhyamanchal GBB	74.00
Sudur Pashchimanchal GBB	68.46
Purwanchal GBB	66.75
Madhya Pashchimanchal GBB	63.17
Agricultural Project Services Center	62.50
Rastriya Beema Sansthan - Life Insurance	55.56
Sub-Total	

As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
44,400,000	44,400,000
40,050,000	40,050,000
40,050,000	40,050,000
37,900,000	37,900,000
5,000,000	5,000,000
1,000,000	1,000,000
168,400,000	168,400,000

(b) Investment in shares of Associates

Deposit Insurance & Credit Guarantee Corporation	47.13
Citizen Investment Trust	40.00
Rastriya Beema Sansthan-Non-Life Insurance	29.30
Nepal Stock Exchange Ltd.	34.61
National Productivity and Economic Development	31.65
Rural Microfinance Development Centre	26.31
Pashchimanchal GBB	25.82
Sub-Total	

20,500,000	20,500,000
16,000,000	16,000,000
800,000	800,000
12,080,500	12,080,500
2,500,000	2,500,000
21,045,000	21,045,000
-	15,489,000
72,925,500	88,414,500

(c) Other Investments

Shares:

Pashchimanchal GBB	10.00
CSI Development Bank	14.29
NIDC	11.40
Nepal Development Bank	10.00
Credit Information Bureau	10.00
Agricultural Development Bank	1.98
Rural Self Reliance Fund (Seed Capital)	

Debentures:

NIDC Debenture

Sub-Total

6,000,000	-
16,000,000	16,000,000
47,445,000	47,445,000
16,000,000	16,000,000
1,000,000	-
-	30,000,000
253,400,000	174,800,000
-	50,000,000
339,845,000	334,245,000

Total

Less: Provision for diminution in the value

581,170,500	591,059,500
109,953,000	141,092,000
471,217,500	449,967,500

Investment in shares of all the above institutions have been recognised as "Available-for-sale".

1. According to NRB Act 2058, NRB is not eligible to hold investment in share in excess of 10 percent of their share capital.
2. The Bank is in the process to disinvest/ offload, all those investments/ loans that are in excess of limit prescribed by section 7(2)(a) of NRB Act 2058.
3. The investment in Grameen Bikas Banks (GBB) were initially made for the development of rural banking and now the bank is in the process of off loading the holding in these institutions.
4. Investment in Rastriya Beema Sansthan (Life-Insurance): NRB has received 41,667 Bonus Shares of Rs. 100 each in this investment which makes total shareholding of NRB 51,667 shares.
5. The details of the quoted investment and the market values prevailing as on the date of the balance sheet are as follows:

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
Citizen Investment Trust @ Rs. 200/- per share (P.Y. Rs. 165)	32,000,000	26,400,000
Rastriya Beema Sansthan-Non-Life Insurance total 242494 shares @ Rs. 1,561/- per share (including 234,494 Bonus Shares of Rs. 100/- each) (P.Y. Rs. 1200)	378,533,134	242,493,600
Nepal Development Bank @ Rs. 88/- per share (P.Y. Rs. 102)	14,080,000	16,320,000
NIDC	N.A.	N.A.

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET**

NOTE - 6: OTHER INVESTMENTS

Investment of funds

Saving Certificates
Other Bonds and securities
Fixed deposits with commercial banks

Total

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
	7,805,000	63,105,000
	1,456,507,000	645,482,000
	1,449,821,000	2,393,043,000
	2,914,133,000	3,101,630,000

The above investments have been recognised and valued as "Held-to-maturity".

The above investements are earmarked against employees funds, development related and other funds of the bank. Interest earned on investments related to the employees funds (other than gratuity, pension and life insurance fund) are credited to the respective funds.

NOTE - 7: REFINANCE AND LOANS

Refinance to Commercial Banks
Securities purchased under resale agreement
Refinance to Financial Institutions
Loans to Employees

Less: Provision for doubtful Loans

Total

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
	222,850,000	413,319,000
	1,501,128,828	60,017,574
	1,007,397,510	1,141,516,977
	1,643,598,293	1,714,194,733
	4,374,974,631	3,329,048,284
	738,275,760	785,767,957
	3,636,698,871	2,543,280,327

Interest on refinance and loans were earned at various rates ranging from 1.50% to 9% per annum (P.Y. 2% to 9% per annum).

Report of Fiscal Year 2004/05

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET**

NOTE - 8: OTHER RECEIVABLE

		As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
Interest Accrued	689,993,383		
Less: Provision for doubtful amounts	87,352,369	602,641,014	905,097,568
Deposits		1,832,324	1,848,274
Advances Recoverable	773,262,386		790,470,485
Less: Provision for doubtful amounts	70,600,000	702,662,386	
Recoverable from NIDC Mutual Fund		-	10,300,000
Other recoverable		8,842,138	9,138,608
Bills Purchased		2,117,196,166	2,218,955,976
Total		3,433,174,028	3,935,810,911

NOTE - 9: GOLD & SILVER STOCK

		As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
Gold held in Stock		1,028,985,300	1,147,976,417
Silver held in Stock		49,895,273	20,021,633
Total Gold and silver stock		1,078,880,573	1,167,998,050

NOTE - 10: OTHER INVENTORIES

		As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
Security Note Stock		291,706,196	435,488,449
Coin Stock		225,786,915	131,004,330
Numismatic and Medallion coins	36,147,047		37,351,083
Less: Provision for non-moving coins	22,465,540	13,681,507	
Other Metal Stock	27,455,672		39,062,380
Less: Provision for non-moving stock	8,716,000	18,739,672	
Stationary and other sundry items	8,773,575		10,315,528
Less: Provision for non-moving items	2,828,262	5,945,313	
Total Inventories		555,859,603	653,221,770

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET**

NOTE - 11 STATEMENT OF PROPERTY, PLANT & EQUIPMENT

(NRs.)

Particulars	Rate	Cost					Depreciation					Net Block	
		As at 15th July 2004	Transfer from other Office	Addition during the year	Adjustment / Transfer	As at 15th July 2005	Upto 15th July 2004	Transfer from other Office	Current Year Depreciation	Adjustment / Transfer	Upto 15th July 2005	As at 15th July 2005	As at 15th July 2004
Land		13,291,197	-	-	-	13,291,197	-	-	-	-	-	13,291,197	13,291,197
Building	3	444,537,915	-	29,989,492	-	474,527,407	79,814,711	-	13,667,219	-	93,481,930	381,045,477	364,723,204
Furniture and Fixture	10	93,718,490	20,566	2,615,402	11,076,928	85,277,530	60,126,287	-	6,441,882	8,505,928	58,062,241	27,215,289	33,592,203
Office Equipment	20	76,974,707	-	4,264,792	2,993,137	78,246,362	48,050,334	6,000	10,836,916	(2,040,215)	60,933,465	17,312,897	28,924,374
Vehicles	20	151,780,714	32,914,079	2,969,744	51,999,098	135,665,439	108,457,983	23,675,616	14,353,343	42,009,420	104,477,522	31,187,917	43,322,731
Machinery Equipment	15	59,606,033	409,081	75,069	30,837	60,059,346	45,675,788	586,936	4,343,293	30,560	50,575,457	9,483,889	13,930,245
Computer Equipments	20	92,832,167	3,324,056	5,524,130	893,376	100,786,977	61,728,799	2,517,128	13,640,780	270,379	77,616,328	23,170,649	31,103,368
Miscellaneous	15	5,698,707	56,464	239,448	292,039	5,702,580	4,333,024	-	342,374	313,430	4,361,968	1,340,612	1,365,682
Total		938,439,930	36,724,246	45,678,077	67,285,415	953,556,838	408,186,926	26,785,680	63,625,807	49,089,502	449,508,911	504,047,927	530,253,004
Capital Work-in-Progress		27,288,030	-	12,839,085	24,388,801	15,738,314	-	-	-	-	-	15,738,314	27,288,024
Grand Total		965,727,960	36,724,246	58,517,161	91,674,216	969,295,152	408,186,926	26,785,680	63,625,807	49,089,502	449,508,911	519,786,241	557,541,028
Previous Year		939,528,655	-	73,133,962	46,934,664	965,727,953	355,848,936	-	62,779,851	10,441,862	408,186,925	557,541,028	

Report of Fiscal Year 2004/05

NEPAL RASTRA BANK NOTES FORMING PART OF THE BALANCE SHEET

NOTE - 12: DEPOSIT FROM BANKS AND OTHER AGENCIES

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
Deposit from Banks	495,567,302	234,605,708
Foreign Diplomatic Missions and other agencies	126,404,206	80,177,451
Total	621,971,508	314,783,159

NOTE - 13: IMF RELATED LIABILITIES

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
SDR Allocation	831,828,043	891,633,362
Loan under Poverty Reduction and Growth Facility (PRGF)	1,463,560,840	784,392,690
Total	2,295,388,883	1,676,026,052

The Bank transacts with IMF as an agent of the government in respect of quota where in case of SDRs, Loans etc from them it transacts in its own right. The IMF revalues quota at the end of April every year and gains or losses arising from such revaluation relating to quota are borne by government. In case of other transactions such gain/losses are borne by NRB. The Basic policies followed by the NRB on such accounts are as follows:

(1) country's quota with the IMF is recorded by the NRB as depository of the Government and exchange gain/loss arising on quota are borne by government.

(2) exchange gains or losses in respect of borrowings under PRGF and other facilities of the IMF, allocation of SDRs and holding of SDRs are recognized in the Profit and Loss account.

The Position of the IMF assets and liabilities are as follows:

SUMMARY STATEMENT OF POSITION AS ON 30th April 2005

Particlars	Local Currency	SDR Equivalents
<u>Currency Holding</u>		
Securities (Quota subscription by HMG/N)	2,318,061,941.12	21,541,726
No. 1 Account	5,320,890,397.03	49,446,982
No. 2 Account	1,229,317.22	11,424
Valuation adjustments:		
Securities and No. 1 Account	33,483,282.77	311,160
No. 2 Account	(44,881.23)	(417)
Total Currency Holdings	7,673,620,056.91	71,310,875
<u>Other Information</u>		
Quota	Per cent of Quota 100	71,300,000
Currency Holding	100.02	71,310,875
Reserve Tranche Position	0	0

1. Converted into SDR at the rate of SDR .00929299 per currency unit as on April 30, 2005

SUMMARY STATEMENT OF POSITION AS ON 15th July 2005

Particlars	Local Currency	SDR Equivalents
<u>Currency Holding</u>		
Securities (Quota subscription by HMG/N)	2,318,061,941.12	22,585,712
No. 1 Account	5,320,890,397.03	51,843,351
No. 2 Account	1,229,317.22	11,978
Valuation adjustments:		
Securities and No. 1 Account	(321,161,804.40)	(3,129,195)
No. 2 Account	(99,580.69)	(970)
Total Currency Holdings	7,318,920,270.28	71,310,875
<u>Other Information</u>		
Quota	Per cent of Quota 100	71,300,000
Currency Holding	100.02	71,310,875
Reserve Tranche Position	0	0

1. Converted into SDR at the rate of SDR .00974336 per currency unit as on July 15, 2005

Annual Financial Statements of NRB

NEPAL RASTRA BANK NOTES FORMING PART OF THE BALANCE SHEET

NOTE - 14: OTHER LIABILITIES

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
KFW Accounts	-	73,893,143
Accrued Interest	4,715,439	3,478,585
Total	4,715,439	77,371,728

HMG/N under the economic assistance agreement with German government, has undertaken to maintain the above account in the name of KFW which was lying non-operative since long. This amount has been transferred to unclaimed account because no claim has so far been received.

NOTE - 15: DEPOSIT AND OTHER BALANCES

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
Balances of HMG/N	-	753,035,630
Deposits from Banks and Financial Institutions	20,846,154,455	25,020,261,574
Balances of Other Institutions	1,567,309,499	1,657,678,837
IMF Account No 1	5,320,890,397	4,715,646,608
IMF Account No 2	1,229,317	1,229,317
Earnest Money	1,595,106	4,017,538
Money Changer	4,720,000	3,980,000
Margin against LCs	1,841,096,402	1,279,070,492
Pensioner Retention Money	-	45,347,892
Total	29,582,995,176	33,480,267,888

Balances of Banks and Financial institutions also include the Cash Reserve Ratio (CRR) required to be maintained by commercial banks and ADB/N. Balances of Other Institutions include deposit of government corporations, companies and local authorities etc.

NOTE - 16: STAFF LIABILITIES

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
Medical Fund	470,564,272	328,131,954
Retirement Fund	-	394,343,511
Welfare Provident Fund	242,430,335	254,680,013
Gratuity and Pension Fund	1,087,586,342	801,193,851
Life Insurance Fund	206,908,501	211,362,748
Liability for Staff Leave Encashment	67,675,811	-
Liability for Retired staff insurance premium	123,254,462	-
Total	2,198,419,723	1,989,712,077

NOTE - 17: OTHER PAYABLES

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
Insurance Premium collected from Staff	856,439,467	837,184,798
Less: Advance Insurance Premium paid on behalf of Staff	(729,014,196)	(688,697,854)
Net Payable	127,425,271	148,486,944
CSI Loan Securites Fund	-	251,530
Total	127,425,271	148,738,474

Report of Fiscal Year 2004/05

NEPAL RASTRA BANK NOTES FORMING PART OF THE BALANCE SHEET

NOTE -18: CURRENCY IN CIRCULATION

Currency in Circulation

As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
74,520,000,000	68,150,000,000

Currency in circulation represents notes issued by NRB, as a sole currency issuing authority in Nepal, which includes cash in hand NRs. 1,711,915,589 (P.Y. NRs. 1,204,743,854).

The liability for notes in circulation is recorded at face value in the balance sheet. These liabilities are supported by assets including gold and silver, foreign currency, foreign securities and government securities as follows :

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
Gold	-	831,727,192
Silver	-	459,339,588
Foreign currency balance held abroad	44,740,568,000	37,079,501,220
Foreign Securities	25,607,732,000	25,607,732,000
Government Securities	4,171,700,000	4,171,700,000
	74,520,000,000	68,150,000,000

The amount of currency issued by the bank and in circulation at the balance sheet date are as follows:

Denomination Notes	As on 15th July 2005 Face Value (NRs.)	As on 15th July 2004 Face Value (NRs.)
1	176,637,607	177,807,262
2	208,445,808	211,039,808
5	586,645,385	518,294,150
10	922,070,330	921,670,320
20	914,077,120	765,395,060
25	153,500,675	214,627,025
50	1,503,068,300	1,343,882,800
100	4,576,040,400	4,301,265,200
250	86,716,625	89,945,625
500	17,309,534,750	16,759,085,750
1000	48,083,263,000	42,846,987,000
	74,520,000,000	68,150,000,000

Annual Financial Statements of NRB

NEPAL RASTRA BANK NOTES FORMING PART OF THE BALANCE SHEET

NOTE - 19: SUNDRY LIABILITIES		As on 15th July 2005	As on 15th July 2004
		NRs.	NRs.
Projects run by Micro Finance Department - Liabilities	19a	645,387,494	680,399,565
Less: - Assets		<u>(645,387,494)</u>	<u>(680,399,565)</u>
Sundry creditors		299,946,345	186,133,222
Unclaimed		91,235,508	16,503,451
Bills Collection		47,935,880	60,283,119
Less: Bills Lodged		<u>(47,935,880)</u>	<u>(60,283,119)</u>
Pension Payable to NRB Ex-Staff		9,515,353	7,899,306
General Account	19b	188,002,222	155,611,608
Note Chest balance	19c	-	100,000,000
Total		<u>588,699,428</u>	<u>466,147,587</u>

19a. Financial Statements of various Projects run by Micro Finance Department as at 15th July 2005 are as follows *

	(Amount in NRs.)					
Assets	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Current account	139,680	16,636,192	3,379,560	13,636,409	3,500	33,795,341
	(974)	(24,940,633)	(6,189,978)	(4,684,121)	(1,088,695)	(36,904,401)
Imprest Account	-	-	-	-	-	-
Investment in fixed deposit	168,008,000	51,807,200	-	13,634,000	-	233,449,200
	(186,308,000)	-	(7,500,000)	(13,634,000)	-	(207,442,000)
Investment in HMG/N bonds	6,100,000	26,858,000	47,500,000	20,317,000	-	100,775,000
	-	(55,840,200)	(40,000,000)	(20,317,000)	-	(116,157,200)
Loans to Banks, FIs, and NGOs	800,000	60,075,400	105,855,815	82,422,992	-	249,154,207
	(1,000,000)	(91,025,800)	(113,998,570)	(91,482,432)	-	(297,506,802)
Fixed assets	-	-	-	-	1,097,678	1,097,678
	-	-	-	-	(2,089,657)	(2,089,657)
Interest receivables	4,210,068	2,831,296	10,472,653	738,052	-	18,252,069
	(3,782,008)	(1,446,797)	(2,779,339)	(703,412)	-	(8,711,556)
Principal (Instalment) receivables	-	6,744,000	-	2,120,000	-	8,864,000
	-	(1,970,000)	-	-	-	(1,970,000)
Other receivables	-	-	-	-	-	-
	-	-	(7,497,949)	(2,120,000)	-	(9,617,949)
Current Year Total	179,257,748	164,952,088	167,208,028	132,868,453	1,101,178	645,387,495
Previous Year Total	(191,090,982)	(175,223,430)	(177,965,836)	(132,940,965)	(3,178,352)	(680,399,565)

	(Amount in NRs.)					
Liabilities	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Loans from IFAD/ADB	164,707,726	163,850,000	152,485,414	131,409,000	-	612,452,140
	(176,908,299)	(168,847,864)	(164,215,060)	(131,409,000)	-	(641,380,223)
ADB grants	-	-	-	-	1,097,678	1,097,678
	-	-	-	-	(3,174,852)	(3,174,852)
Exchange fluctuation account	-	-	-	-	-	-
	-	(708,846)	-	-	-	(708,846)
Split interest reserve	-	-	11,018,435	-	-	11,018,435
	-	-	(11,060,324)	-	-	(11,060,324)
Sundry Payables	10,900,488	3,800	1,025,569	9,500	3,500	11,942,857
	(10,506,990)	(3,288,207)	(1,099,267)	(4,500)	(3,500)	(14,902,464)
Profit transferred to NRB	3,649,534	1,098,288	2,678,610	1,449,953	-	8,876,385
	(3,675,693)	(2,378,513)	(1,591,185)	(1,527,465)	-	(9,172,856)
Current Year Total	179,257,748	164,952,088	167,208,028	132,868,453	1,101,178	645,387,495
Previous Year Total	(191,090,982)	(175,223,430)	(177,965,836)	(132,940,965)	(3,178,352)	(680,399,565)

* These figures have been taken from financial statements of the projects. These projects are run by NRB under separate subsidiary loan agreements signed by the NRB with HMG/N.

Figures in brackets represent the corresponding figures of the previous year.

MCPW = Micro Credit Project for Women

TLDP = Third Livestock Development Project

PCRW = Production Credit for Rural Women

PAPWT = Poverty Alleviation Project for Western Tarai

RMP - Rural Microcredit Project

19b. NRB general account represents NRB inter-office transactions, and the year end balances are under reconciliation. No material adjustments, in this respect, are expected to arise.

19c. This represent cash withdrawn from note chest, the securities of which has not been earmarked.

Report of Fiscal Year 2004/05

NEPAL RASTRA BANK NOTES FORMING PART OF THE BALANCE SHEET

NOTE - 20: RESERVES

	As on 15th July 2005 NRs.	As on 15th July 2004 NRs.
Capital Reserve		
Gold and Silver Equalization Reserve	1,375,138,413	1,198,550,974
Statutory Reserve		
General Reserve	10,487,400,000	10,277,500,000
Monetary Liabilites Reserve	564,300,000	463,500,000
Exchange Equalization Fund	5,350,405,683	11,352,166,582
Other Reserves and Funds		
Development Fund	4,006,887,062	3,923,643,000
Banking Development Fund	527,087,319	527,087,319
Development Finance Project Mob. Fund	72,345,890	63,469,505
Mechanisation Fund	91,316,414	91,316,414
Scholarship Fund	61,594,504	61,594,504
Mint Development Fund	547,712,943	547,712,943
Employees Welfare Fund	234,027,004	234,027,004
Gold Replacement Fund	600,700,361	-
Rural Self Reliance Fund (GS Kosh)	253,400,000	253,400,000
Total Reserves and Funds	24,172,315,593	28,993,968,245

- 1 Reserves/ Funds other than capital reserve (gold and silver equilization reserve) represent appropriation out of the profits, which are statutory or specific in nature. All the specific funds / reserve are created with the approval of the Board.
- 2 **Gold and Silver Equalization Reserve**
This represents the gain or loss on the revaluation of gold and silver. Any appreciatiion or depreciaton on revaluation of gold and silver is taken to/from this reserve through income statement.
- 3 **Exchange Equilization Fund**
Represents net exchange gains on various foreign currency assets and liabilities. An amount equivalent to net exchange gain/loss is appropriated from/to Profit and Loss Account and adjusted in the opening balance of such reserve.
- 4 **General reserve**
Under Section 41 (kha) of the NRB Act, 2058, the NRB has to transfer to the general reserve fund not less than 10 percent of the net profit every year. Accordingly, 10 percent of the net profit is transferred to this reserve.
- 5 **Monetary Liabilites Reserve**
Under Section 41 (ka) of the NRB Act, 2058, the Bank is required to maintain a monetary liability reserve to meet its financial liability. Accordingly, five percent of the net profit is transferred to this reserve.
- 6 **Development Fund**
Specific fund created in order to provide support for loans and refinances to banks and FIs as well as to make investment in the shares and debentures of these Institutions.
- 7 **Banking Development Fund:**
This fund was created to meet the expenses relating to feasibility survey to open new banks in the priority area, to provide interest free loans to such banks, to compensate the losses incurred by those banks for specified period and expenses relating to banking promotion, work-shops and seminars.
- 8 **Development Finance Project Mobilization Fund**
This fund was created as a cushion to meet the probable loss on project loan. An amount equivalent to the projects' profits are appropriated and transferred to this fund.
- 9 **Mechanization Fund**
This fund was created to meet the amount required to develop and install modern software, hardware and allied mechanization system.
- 10 **Scholarship Fund**
This fund was created to meet the amount required for the development of skilled manpower by way of providing training and higher studies to the employees of the Bank.
- 11 **Mint Development Fund**
This fund was created to meet the heavy capital expenditure required for construction of factory building and installation of machinery for minting activities.
- 12 **Employees welfare fund**
This fund was created on FY 2015/16 for the welfare of the employees who have suffered financial and other losses due to unprecedented events and any other reasons.
- 13 **Gold Replacement Fund**
This fund has been created for replacing the gold / silver (earlier held as reserves) sold during the year.
- 14 **Rural Self Reliance Fund (GS Kosh)**
This fund was created as per the NRB Monetary Policy to meet the fund required for long term refinancing in tea, cardamom plantation and production as well as construction of cold storage etc.

Annual Financial Statements of NRB

NEPAL RASTRA BANK NOTES FORMING PART OF THE BALANCE SHEET

NOTE - 21: Contingent Liabilities

	As on 15th July 2005	As on 15th July 2004
	NRs.	NRs.
Letters of Credit	-	307,165,141
Guarantees Issued	112,930,587	394,448,245
Claims not acknowledged as debt	-	11,872,310
Total	112,930,587	713,485,696

- 1 Contingent liabilities in respect of Letter of Credit (L/C) are determined on the basis of LCs remaining unexpired at the Balance sheet date after adjusting therefrom the margin retained by the bank.
- 2 Claims not acknowledged as debt consist of legal and other claims pending against the Bank as at 31st Ashadh, 2062. No provision on such claims have been made, as the Bank is of the opinion that it is unlikely that any significant liabilities with respect to these will arise.
- 3 Guarantees issued are backed by counter guarantees from corresponding banks.

Report of Fiscal Year 2004/05

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE INCOME STATEMENT**

NOTE - 22: INTEREST INCOME

	2005 NRs.	2004 NRs.
Foreign Currency Financial Assets		
Treasury bills & Deposits	2,902,362,991	1,692,605,330
SDR Holding	13,296,585	4,969,947
Interest income from Foreign Currency Financial Assets	2,915,659,576	1,697,575,277
Local Currency Financial Assets		
Government Securities	906,895,912	1,625,414,851
Investment in financial and other institutions	166,022,922	229,641,298
Overdraft to Government	5,394,524	18,390,180
Loans and Refinance	57,605,378	49,804,850
Interest income from Local Currency Financial Assets	1,135,918,736	1,923,251,179
Total interest income from financial assets	4,051,578,312	3,620,826,456

NOTE - 23: COMMISSION INCOME

	2005 NRs.	2004 NRs.
Foreign Currency Financial Assets		
On Currency exchange	256,197,615	252,614,111
Local Currency Financial Assets		
Government transaction & Other services	44,239,748	49,977,057
Total Commission income from financial assets	300,437,363	302,591,168

NOTE - 24: INTEREST EXPENSES

	2005 NRs.	2004 NRs.
Foreign Currency Financial Liabilities		
SDR Allocation & PRGF Loan	25,933,157	16,951,239
Others	544,452	250,898
Sub Total	26,477,609	17,202,137
Local Currency Financial Liabilities		
Government Securities	314,054,355	642,465,654
Others	-	675,845
Sub Total	314,054,355	643,141,499
Total Interest Expense on Financial Liabilities	340,531,964	660,343,636

NOTE - 25: AGENCY AND SERVICE CHARGE

	2005 NRs.	2004 NRs.
Foreign Currency Liabilities		
Service Charge	23,264,688	10,250,035
Commission	7,064,830	8,540,553
Sub Total	30,329,518	18,790,588
Local Currency Liabilities		
Agency Expenses	264,596,828	274,579,436
Sub Total	264,596,828	274,579,436
Total Agency and Service Charge	294,926,346	293,370,024

Agency Expenses includes agency commission paid to the following banks for operating government accounts.

	2005 NRs.	2004 NRs.
Nepal Bank Ltd.	100,418,315	138,570,175
Rastriya Banijya Bank	159,755,512	131,824,649
Nepal Bangladesh Bank	3,395,198	2,928,072
Total	263,569,025	273,322,896

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE INCOME STATEMENT**

NOTE - 26: OTHER OPERATING INCOME

	2005	2004
	NRs.	NRs.
Income from Mint (Sale of coin)	208,215,460	120,060,899
Gain from sale of precious metals and coins	966,429,530	177,939,587
Fine/Penalty charge	8,433,747	5,697,543
Profit from sale of investments	827,441	1,840,879
Dividend Income	27,136,250	4,590,263
Provision on Investment written back (Net)	31,139,000	40,003,000
Provision on Loans & Advances written back (Net)	47,492,197	-
Profit from Projects 26 a	8,876,385	9,172,855
Liabilities no longer required written back	835,853	30,236,176
Miscellaneous	99,084,902	32,535,846
Total	1,398,470,765	422,077,048

26 a Profit from Projects account run by Micro Finance Department are as follows:

	(Amount in NRs.)					
Income	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Interest income	9,190,408	8,158,533	5,834,586	5,590,502	-	28,774,029
	(9,723,812)	(9,121,865)	(4,979,233)	(5,978,486)	-	(29,803,396)
Current Year Total	9,190,408	8,158,533	5,834,586	5,590,502	-	28,774,029
Previous Year Total	(9,723,812)	(9,121,865)	(4,979,233)	(5,978,486)	-	(29,803,396)

	(Amount in NRs.)					
Expenses	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Interest IFAD	-	-	3,147,455	3,942,270	-	7,089,725
	-	-	(3,382,048)	(3,942,270)	-	(7,324,318)
Interest ADB	5,154,742	6,724,634	-	-	-	11,879,376
	(5,520,759)	(6,317,506)	-	-	-	(11,838,265)
Audit Fee	3,500	-	3,500	3,500	3,500	14,000
	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(17,500)
Meeting, training and others	382,632	335,611	5,020	194,780	-	918,043
	(523,860)	(422,347)	(2,500)	(505,251)	-	(1,453,958)
Depreciation	-	-	-	-	1,097,678	1,097,678
	-	-	-	-	(991,978)	(991,978)
Profit transferred to NRB Central Office	3,649,534	1,098,288	2,678,610	1,449,953	-	8,876,385
	(3,675,693)	(2,378,512)	(1,591,185)	(1,527,465)	-	(9,172,855)
(Loss transferred to ADB grants)	-	-	-	-	(1,101,178)	(1,101,178)
	-	-	-	-	995,478	995,478
Current Year Total	9,190,408	8,158,533	5,834,586	5,590,502	-	28,774,029
Previous Year Total	(9,723,812)	(9,121,865)	(4,979,233)	(5,978,486)	-	(29,803,396)

Figures in brackets represent the corresponding figures of the previous year.

Report of Fiscal Year 2004/05

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE INCOME STATEMENT**

NOTE - 27: GENERAL, ADMINISTRATIVE EXPENSES & PROVISIONS		2005	2004
		NRs.	NRs.
Staff Costs	27a	1,367,133,076	838,526,559
Depreciation		63,625,807	62,779,851
Directors Fees and Expenses		1,065,592	1,059,662
Note Printing charges	27b	263,633,877	262,381,913
Mint Expenses		261,815,208	81,546,697
Security charges		18,503,842	11,811,442
Remittance charges		79,588,404	84,080,016
Travelling expenses		45,768,783	61,186,130
Insurance charges		25,768,545	20,002,896
Repair & Maintenance		7,483,819	9,140,154
Provisions on loans & advances, Investments, etc.	27c	227,864,263	596,071,774
Miscellaneous	27d	131,636,753	149,962,202
Total		2,493,887,969	2,178,549,296

27a Staff Costs		2005	2004
		NRs.	NRs.
Salary		179,552,053	174,649,782
Allowances		264,840,153	141,528,593
VRS Incentive		66,101,918	68,414,135
Providend Fund Contribution		15,289,981	15,081,280
Staff Welfare (Including Medical fund contribution)		220,441,754	133,791,640
Staff Welfare Provident Fund		100,000,000	82,731,610
Pension & Gratuity Fund		421,654,677	142,711,931
Staff Life Insurance Fund		59,369,238	38,769,483
Others		39,883,302	40,848,105
Total		1,367,133,076	838,526,559

All leave compensations are included in the allowances.

27b Unissued currency stocks are recorded as inventory at the cost of acquisition and expensed when issued.

27c Provision on loans & advances, Investments, etc.		2005	2004
		NRs.	NRs.
Provision for doubtful Loans & Advances		-	565,020,323
Provision for Diminution in the value of Investments		-	-
Provision for Looted Notes		70,600,000	-
Provision for retired Staff Insurance Premium		123,254,462	-
Provision for Inventory & Spare Parts		34,009,801	-
Provision for sundry Accrued		-	31,051,451
Total		227,864,263	596,071,774

27d Miscellaneous Expenses		2005	2004
		NRs.	NRs.
Banking Promotion		9,674,604	13,315,693
Audit Fees and Expenses		6,102,299	12,283,178
Sundry balances written off		784,999	2,857,226
Others		115,074,851	121,506,105
Total		131,636,753	149,962,202

NOTE - 28: CASH AND CASH EQUIVALENT		2005	2004
		NRs.	NRs.
Foreign currency cash and bank balance		54,728,883,095	42,401,348,722
Investment in Treasury Bills		39,050,699,638	42,205,680,635
SDR holdings		637,064,325	54,919,040
Local currency in hand		1,711,915,589	1,204,743,854
Total		96,128,562,647	85,866,692,251

Annual Financial Statements of NRB

NOTE - 29: OTHER NOTES

I. Financial Year

The financial statements relate to the financial year Bikram Sambat 2061-62 corresponding to Gregorian calendar Mid July 2004-05. The previous year was 2060-61 (mid-July 2003-04).

The corresponding information presented in the financial statements for the previous year has been rearranged and reclassified, wherever necessary, in order to facilitate comparison.

II. Currency of Presentation

All amounts in Nepalese Rupees (NRs.) are rounded to nearest rupees, unless otherwise stated.

III. Capital

Capital includes NRs. 2,990 million transferred from General Reserve.

IV. Bills payable and Bills Receivable

The Bank carries out the function of repayment of government securities and interest thereon on behalf of the HMG/N. Bills Payable primarily represents the year end un-disbursed or unadjusted amount of payments received from HMG/N in respect of interest / repayment liabilities of such securities. The year-end balance of Bills Purchased represents the amounts paid by the Bank to the security holders but the corresponding claim adjustment with Bills Payable is pending.

V. Quantity and market value of gold and silver

The quantity and market value of gold and silver including those held as inventory are as follows (market value based on closing rate prevailing on last working day of the bank's financial year in London Market):

Particulars	Weight (kg, gm, mg)	Market Price (NRs.) Per Grams.	Total Market Value (NRs.)
Gold	1455. 894. 310 (4,752. 726. 807)	959.680 (962.520)	1,397,192,651 (4,574,594,606)
Silver	N.A. (139,193. 814. 682)	15.787 (15.565)	N.A. (2,166,607,403)
Gold held in Stock	4,641. 477. 757 (2,462. 555. 832)	959.680 (962.520)	4,454,333,374 (2,370,259,239)
Silver held in Stock	137,513. 428. 365 (3,006. 607. 618)	15.787 (15.565)	2,170,993,250 (46,799,050)
Current Year Total			8,022,519,275
Previous Year Total			(9,158,260,298)

Figures in bracket represent the corresponding figures of the previous year.

VI. Year end exchange rates

The year-end exchange rates for major currencies considered for realignment of foreign currency assets and liabilities were as follows:

(Amount in NRs.)

S.No.	Currency	15th July 2005	15th July 2004
1	US Dollar	70.35	74.14
2	Sterling Pound	124.00	137.75
3	Euro	84.98	91.64
4	Swiss Frank	54.56	60.08
5	Australian Dollar	52.96	53.8
6	SDR	102.634	110.013

VII. NRB general account

NRB general account represents NRB inter-office transactions and balances under reconciliation of the entries in progress.

VIII. Consolidation of Subsidiaries

The Bank's investments in six entities as mentioned in Note 5 (a) are in excess of 50% of the capital of those entities.

These investments have been made under the specific directives or policies of the Government and other relevant statutes. The management of the Bank as such does not exercise significant influence or control over these entities except for any regulatory purposes. In view of the Bank's management, consolidation of these subsidiaries will not reflect the true nature and substance of the central banking operations and objectives.

IX. Related Parties

In the normal course of its operations, the Bank enters into transactions with related parties. Related Parties include the HMG/N; as ultimate owner of the Bank, various Government Departments and state controlled enterprises / entities.

Transactions entered into with HMG/N include:

- (a) Acting as the fiscal agent and financial advisor of the government;
- (b) Acting as the agent of government or its agencies and institutions, provides guarantees, participates in loans to government and related institutions;
- (c) Acting as agent of government, the Bank issues securities of government, purchases unsubsribe portion of any issue and amounts set aside for the Bank;
- (d) Acting as the agent of government, the Bank manages public debt and foreign reserves.

The Bank doesn't ordinarily collect any commission, fees or other charges for services, which it renders, to the government or related entities except where agreement has stated otherwise;

The Bank does not exercise significant influence or control over its subsidiaries and other entities except for any regulatory purposes where substantial investments have been made.

These investments have been made under the specific directives or policies of the Government and other relevant statutes. Investments made in these entities along with percentage of holdings have been disclosed in Note 5.

The bank has contributed NRs. 15,289,981 on account of employees provident Fund to the retirement fund where it has significant influence, as the key management personnel are the trustees of the said Fund.

Name of the Key Management Personnel:

S. No.	Name of the Key Management Personnel	Designation
1.	Mr. Bijaya Nath Bhattarai	Governor
2.	Mr. Lekh Nath Bhusal	Deputy Governor
3.	Mr. Krishna Bahadur Manandhar	Deputy Governor
4.	Mr. Madhav Prasad Bhatta	Executive Director
5.	Mr. Krishna Kumar Pradhan	Executive Director
6.	Mr. Keshav Prasad Acharya	Executive Director
7.	Mr. Tula Raj Basyal	Executive Director
8.	Mr. Ganesh Kumar Shrestha	Executive Director
9.	Mr. Rajan Singh Bhandari	Executive Director
10.	Mr. Surendra Man Pradhan	Executive Director
11.	Mr. Bir Bikram Raymajhi	Executive Director
12.	Dr. Yub Raj Khatiwada	Executive Director
13.	Mrs. Rita Pant	Executive Director
14.	Mr. Dipendra Bahadur Kshyatri	Executive Director

Salary and related expenses to key management personnel are NRs. 10,757,069 (previous year – NRs. 9,207,560). As at 15th July 2005 an amount of NRs. 8,877,674 (Previous year – NRs. 9,327,415) was receivable from key managerial personnel as approved advances made by the Bank at the same standard rate of interest with that of other loans provided to employees.

There were no other related-party transactions with Board members and Key Management Personnel; transactions, if any, with director-related or key management personnel –related entities which occurred in the normal course of NRB's operations were conducted on terms no more favorable than similar transactions with other customers.

The above information has been compiled to the extent ascertainable and available from the records of the Bank.

X. Prior Year Adjustment

This includes adjustments relating to depreciation short charged in previous years, adjustment for provision wrongly made in NIDC loan, refund of interest excess charged to HMG/N and other revenue expenses not booked in previous years.

XI. Risk Management

The Bank is primarily subject to interest rate risk, credit risk, foreign currency risk and liquidity risk. Nepal Rastra Bank, being the central bank of the country, is largely instrumental in policy related matters, and accordingly the risk management framework differs from the risk management framework for most other financial institutions. The key risk from the Bank's prospective includes risk on foreign currency assets and interest rate risk on the foreign and local currency assets.

Interest Rate Risk: Interest rate risk is the risk that the value of financial assets will fluctuate due to change in market interest rate. The Bank's exposure to interest rate risks and the maturities of assets and liabilities are provided in **Table 1** annexed. The Bank has kept substantial investments on short-term loans thereby controlling the interest rate risk to significant extent.

Credit Risk: Credit risks in relation to a financial instrument is the risk that one party fails to discharge an obligation in accordance with agreed terms and cause the other party to incur a financial loss. The credit risk in the bank's foreign exchange reserve is monitored and reviewed by using credit limits based on credit ratings by international rating agency viz. Standard & Poor credit ratings. Under Standard & Poor credit ratings, AAA is the highest quality rating possible and indicates that the entity has an extremely strong capacity to pay interest and principal; AA is the high grade rating, indicating a strong capacity, and A is an upper medium grade indicating a strong capacity; BBB is the lowest investment grade, indicating a medium capacity to pay interest and principal. Ratings lower than AAA can be modified by + or – signs to indicate relative standing within the major categories. NR indicates the entity/issuer has not been rated. The concentration of credit risk of the Bank's foreign exchange reserve is provided in **Table 2** annexed.

Foreign Currency Risk: Currency risk is the risk, where the value of financial instruments will fluctuate due to changes in foreign exchange rates. Foreign currency activities result mainly from the Bank's holding of foreign currency assets under its foreign exchange reserves management function. The investment committee reviews the currency composition of the reserve and monitors the Bank's compliance with the limits established for foreign currency positions by the board.

Liquidity Risk: Liquidity risks are the risks that the Bank will encounter difficulty in raising funds to meet commitments associated with the financial instruments. In order to control liquidity risk, the bank has maintained sufficient balance in the current account with the other central banks and investment in very high liquid securities.

XII. Concentration of funding

The details of year-end concentration of funding are provided in **Table 3** annexed.

XIII. Fair values

The carrying value of agency bank balances, investments in foreign currency Treasury bills, other held for trading / available for sale investments, Deposits and other balances are considered to approximate their fair value.

XIV. Effects of changes in accounting policies

In order to align with the requirements of International Accounting Standards and other generally accepted accounting practices, the following changes in accounting policy have been carried out during the year. In accordance with the allowed alternative treatment specified in International Accounting Standard 8 "Net Profit or Loss for the period, Fundamental Errors and Changes in Accounting Policies", the effect of these changes in accounting policies has been recognized in the current year and the comparative information have not been restated. Comparative "pro-forma" information has not been provided in view of impracticalities in compilation of relevant information / data for past periods.

- i) Coins stock lying at Mint and other branches has been recognized as inventory and have been measured at lower of cost or net realizable value. Previously, these were recognized as cash and valued at face value. Due to such change in accounting policy, the value of inventory is lower and loss is higher to the extent of NRs. 823.55 lacs.
- ii) Till previous year all investments were recognized at cost. In order to comply with the provisions of IAS 32 from this year these have been measured as per the policy given in Note 2.4. The impact of such change in accounting policy is not material.
- iii) Till previous year pension and gratuity liabilities were provided for as estimated by the management. During the year these liabilities have been determined and accounted for based on actuarial determination.

The differential with respect to the said actuarial valuation (based on 5.50% discount rate, and salary escalation rate of 5% p.a.) has been expensed on straight-line basis over the period of 5 years as follows:

Report of Fiscal Year 2004/05

(Amount in NRs.)

Present value of liability as on 15 th July 2005	Liability as per books as on 15 th July 2005	Total Deficit	Recognized during the year	Balance to be recognized in future years
2,269,949,049	791,995,665	1,477,953,384	295,590,676.	1,182,362,707

Due to such change in accounting policy liability on account of pension and gratuity and loss is higher to the extent of NRs. 2955.91 lacs.

- iv) Gold (other than inventory) till previous year was valued at a price revalued in Year 2043. During the year the said gold has been valued at price prevailing in London Gold Market at the close of the year. Increase in value thereof amounting to NRs. 11424.11 lacs has been credited to profit and Loss account and appropriated there from to “Gold and Silver Equalization Reserve”. Due to such change in accounting policy, value of gold is higher and loss is lower to the extent of NRs. 11424.11 lacs.
- a. Staff insurance premium in respect of retired staff till previous year was accounted for on cash basis. During the year this has been accounted for on accrual basis. Due to such change in accounting policy liability on account of staff insurance premium and loss is higher to the extent of NRs. 1232.54 lacs.
- v) Leave encashment in respect of employees till previous year was accounted for on cash basis. During the year this has been accounted for on accrual basis. Due to such change in accounting policy liability on account of leave encashment and loss is higher to the extent of NRs. 676.77 lacs.

XV. Gold & Silver

- a. In terms of board resolution dated 2062/09/18 Gold and Silver hitherto held as reserve and valued at revalued value have been transferred at the year-end to the inventory at cost. The differential in the valuation with respect to the cost, amounting to NR 8685.64 lacs, has been shown as “adjustment on transfer of gold and silver to inventory” in the Profit & Loss account and corresponding Gold and Silver Equalization Reserve being no longer required has been transferred to Profit & Loss account.
- b. The profit on sale of gold / silver has been accounted for as gain from sale of precious metal and have been shown under Other operating Income. This includes sale of reserve gold and silver and accordingly a sum of NR 972.59 lacs, credited to Gold and Silver Equalisation Reserve in earlier years being no longer required, has been written back and included therein.
- c. An amount of NR 6007 lacs has been appropriated from the Profit & Loss account and kept in “Gold Replacement Fund” for replacing the gold / silver sold during the year (out of reserves).

XVI. Number of employees

<u>2062 Ashadh</u>	<u>2061 Ashadh</u>
1570	1663

XVII. Events occurring after Balance Sheet Date

There were no material events occurring subsequent to the balance sheet date that required adjustments or disclosure in the financial statements.

Annual Financial Statements of NRB

NEPAL RASTRA BANK

Table 1 : Interest Rate Risk and Maturity Profile (Foreign Currency)

Particulars	Weighted Average Interest Rate %	2004-05 Total NRs.	Upto 6 Months NRs.	6 to 12 Months NRs.	Above 12 Months NRs.
Interest Sensitive Foreign Currency Financial Assets					
Cash and Bank Balance	3.32	65,368,732,919	58,248,875,186	7,119,857,733	-
Investment in Treasury Bills	2.87	39,050,699,638	39,050,699,638	-	-
IMF Related Assets	2.50	637,064,325	637,064,325	-	-
Total Interest Sensitive Foreign Currency Financial Assets	A	105,056,496,882	97,936,639,149	7,119,857,733	-
Non Interest Sensitive Foreign Currency Financial Assets					
Other Receivable		483,457,699	379,528,171	103,671,064	258,464
Total Non Interest Sensitive Foreign Currency Financial Assets		483,457,699	379,528,171	103,671,064	258,464
Total Foreign Currency Financial Assets	B	105,539,954,581	98,316,167,320	7,223,528,797	258,464
Interest Sensitive Foreign Currency Financial Liabilities					
IMF Related Liabilities	1.22	2,295,388,883	831,828,043	-	1,463,560,840
Asian Clearing Union		-	-	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities	C	2,295,388,883	831,828,043	-	1,463,560,840
Non Interest Sensitive Foreign Currency Financial Liabilities					
Deposit from banks and other agencies		621,971,508	621,971,508	-	-
IMF Related Liabilities		-	-	-	-
Other Liabilities		4,715,439	4,715,439	-	-
Total Non Interest Sensitive Foreign Currency Financial Liabilities		626,686,947	626,686,947	-	-
Total Foreign Currency Financial Liabilities	D	2,922,075,830	1,458,514,990	-	1,463,560,840
Foreign Currency Interest Rate Sensitivity Gap (A-C)		102,761,107,999	97,104,811,106	7,119,857,733	(1,463,560,840)
Total Gap (B-D)		102,617,878,751	96,857,652,330	7,223,528,797	(1,463,302,376)

Table 1: Interest Rate Risk and Maturity Profile (Local Currency)

Particulars	Weighted Average Interest Rate %	2004-05 Total NRs.	Upto 6 Months NRs.	6 to 12 Months NRs.	Above 12 Months NRs.
Interest Sensitive Local Currency Financial Assets					
Investment in Government Securities	3.31	12,720,776,593	4,161,531,076	6,764,445,446	1,794,800,071
HMG Overdraft	2.42	2,623,009,090	2,623,009,090	-	-
Other Investments	5.55	2,914,133,000	63,300,000	497,886,000	2,352,947,000
Refinance & Loans	5.50	1,993,100,578	1,771,612,828	-	221,487,750
Total Interest Sensitive Local Currency Financial Assets	E	20,251,019,261	8,619,452,994	7,262,331,446	4,369,234,821
Non Interest Sensitive Local Currency Financial Assets					
Cash in Hand		1,711,915,589	1,711,915,589	-	-
Investment in Government Securities		4,722,320,536	-	296,256,497	4,426,064,039
Investment in Financial & Other Institutions		471,217,500	-	-	471,217,500
Refinance & Loans (Loans to employees)		1,643,598,293	-	-	1,643,598,293
Other Receivables		3,433,174,028	3,433,174,028	-	-
Total Non Interest Sensitive Local Currency Financial Assets		11,982,225,946	5,145,089,617	296,256,497	6,540,879,832
Total Local Currency Financial Assets	F	32,233,245,207	13,764,542,611	7,558,587,943	10,910,114,653
Interest Sensitive Local Currency Financial Liabilities					
Total Interest Sensitive Local Currency Financial Liabilities	G	-	-	-	-
Non Interest Sensitive Local Currency Financial Liabilities					
Deposit and Other Balances		29,582,995,176	29,582,995,176	-	-
Bills Payable		2,601,706,049	2,601,706,049	-	-
Staff Liabilities		2,198,419,723	-	-	2,234,159,853
Other Payables		127,425,271	127,425,271	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		34,510,546,219	32,312,126,496	-	2,234,159,853
Total Local Currency Financial Liabilities	H	34,510,546,219	32,312,126,496	-	2,234,159,853
Local Currency Interest Rate Sensitivity Gap (E-G)		20,251,019,261	8,619,452,994	7,262,331,446	4,369,234,821
Total Gap (F-H)		(2,277,301,012)	(18,547,583,885)	7,558,587,943	8,675,954,800

Report of Fiscal Year 2004/05

NEPAL RASTRA BANK
Table 2 : Credit Exposure by Credit Rating

Particulars	Credit Rating	2004/05		2003/04	
		NRs.	% Financial Assets	NRs.	% Financial Assets
Foreign Currency Financial Assets	A-	7,468,145,015	5.42%	7,631,705,059	5.52%
	A+	3,841,813,489	2.79%	6,495,366,465	4.69%
	A	38,950,599	0.03%	94,257,174	0.07%
	AA	4,910,771,564	3.56%	7,933,109,814	5.73%
	AA+	60,251,809	0.04%	92,877,282	0.07%
	AA-	10,350,071,460	7.51%	11,426,872,223	8.26%
	AAA	74,648,909,705	54.18%	62,372,042,033	45.08%
	BB	1,621,356,125	1.18%	7,659,801,819	5.54%
	BBB	47,366,773	0.03%	19,009,248	0.01%
	NR *	2,552,318,041	1.85%	4,523,451,051	3.27%
Total Foreign Currency Financial Assets		105,539,954,581	76.60%	108,248,492,168	78.23%
Local Currency Financial Assets	NR *	32,233,245,207	23.40%	30,124,604,841	21.77%
Total Local Currency Financial Assets		32,233,245,207	23.40%	30,124,604,841	21.77%
Total Financial Assets		137,773,199,788	100.00%	138,373,097,009	100.00%

* NR represents not rated.

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
Table 3a : Concentrations of Funding**

The Bank's significant end-of-year concentrations of funding as at 15th July 2005 were as follows:

	Total NRs.	HMG/N NRs.	Domestic Bills NRs.	Employees NRs.	Banks & F.I. NRs.	Foreign Bank NRs.	Foreign Govt. NRs.	Supernational F.I. NRs.	Others NRs.
Foreign Currency									
Financial Assets									
Cash and Bank Balances	65,368,732,919	-	-	-	-	63,262,184,983	-	-	2,106,547,936
SDR holdings - with IMF	637,064,325	-	-	-	-	-	-	637,064,325	-
Investments in Treasury Bills	39,050,699,638	-	-	-	-	-	39,050,699,638	-	-
Other receivables	483,457,699	-	-	-	-	-	-	-	483,457,699
Sub-Total	105,539,954,581	-	-	-	-	63,262,184,983	39,050,699,638	637,064,325	2,590,005,635
Other Assets									
Gold	1,397,192,652	-	-	-	-	1,397,192,652	-	-	-
Sub-Total	1,397,192,652	-	-	-	-	1,397,192,652	-	-	-
Total Foreign Currency Assets	106,937,147,233	-	-	-	-	64,659,377,635	39,050,699,638	637,064,325	2,590,005,635
Local Currency									
Financial Assets									
Cash in hand	1,711,915,589	-	-	-	-	-	-	-	1,711,915,589
Investments in Government Securit	17,443,097,129	17,443,097,129	-	-	-	-	-	-	-
HMG Overdraft	2,623,009,090	2,623,009,090	-	-	-	-	-	-	-
Investments in Financial and Other	471,217,500	-	-	-	471,217,500	-	-	-	-
Other Investments	2,914,133,000	1,464,312,000	-	-	1,449,821,000	-	-	-	-
Refinance & Loans	3,636,698,871	-	-	1,643,598,293	1,993,100,578	-	-	-	-
Other Receivables	3,433,174,028	-	2,117,196,166	-	-	-	-	-	1,315,977,862
Sub-Total	32,233,245,207	21,530,418,219	2,117,196,166	1,643,598,293	3,914,139,078	-	-	-	3,027,893,451
Other Assets									
Gold & Silver Reserve	-	-	-	-	-	-	-	-	-
Gold & Silver Inventory	1,078,880,573	-	-	-	-	-	-	-	1,078,880,573
Other Inventories	555,859,603	-	-	-	-	-	-	-	555,859,603
Property, Plant & Equipment	519,786,242	-	-	-	-	-	-	-	519,786,242
Sub-Total	2,154,526,418	-	-	-	-	-	-	-	2,154,526,418
Total Local Currency Assets	34,387,771,625	21,530,418,219	2,117,196,166	1,643,598,293	3,914,139,078	-	-	-	5,182,419,869
Total Assets	141,324,918,858	21,530,418,219	2,117,196,166	1,643,598,293	3,914,139,078	64,659,377,635	39,050,699,638	637,064,325	7,772,425,504

Comparative figures as at 15th July 2004 for significant end-of-year concentration of funding were as follows:

	Total NRs.	HMG/N NRs.	Domestic Bills NRs.	Employees NRs.	Banks & F.I. NRs.	Foreign Bank NRs.	Foreign Govt. NRs.	Supernational F.I. NRs.	Others NRs.
Foreign Currency									
Financial Assets									
Cash in hand	73,907,876,371	-	-	-	70,091,528,017	-	-	-	3,816,348,354
SDR holdings - with IMF	54,919,040	-	-	-	-	-	-	54,919,040	-
Investments in Treasury Bills	34,000,210,159	-	-	-	-	-	34,000,210,159	-	-
Other receivables	285,486,597	-	-	-	-	-	-	-	285,486,597
Sub-Total	108,248,492,167	-	-	-	70,091,528,017	-	34,000,210,159	54,919,040	4,101,834,951
Other Assets									
Gold	254,781,505	-	-	-	-	254,781,505	-	-	-
Sub-Total	254,781,505	-	-	-	-	254,781,505	-	-	-
Total Foreign Currency Assets	108,503,273,672	-	-	-	70,091,528,017	254,781,505	34,000,210,159	54,919,040	4,101,834,951
Local Currency									
Financial Assets									
Cash in hand	1,204,743,854	-	-	-	-	-	-	-	1,204,743,854
Investments in Government Securit	18,889,172,249	18,889,172,249	-	-	-	-	-	-	-
HMG Overdraft	-	-	-	-	-	-	-	-	-
Investments in Financial and Other	449,967,500	-	-	-	449,967,500	-	-	-	-
Other Investments	3,101,630,000	708,587,000	-	-	2,393,043,000	-	-	-	-
Refinance & Loans	2,543,280,327	-	-	1,714,194,733	829,085,594	-	-	-	-
Other Receivables	3,935,810,911	-	2,218,955,976	-	-	-	-	-	1,716,854,935
Sub-Total	30,124,604,841	19,597,759,249	2,218,955,976	1,714,194,733	3,672,096,094	-	-	-	2,921,598,789
Other Assets									
Gold & Silver Reserve	1,036,285,276	-	-	-	-	-	-	-	1,036,285,276
Gold & Silver Inventory	1,167,998,050	-	-	-	-	-	-	-	1,167,998,050
Other Inventories	653,221,770	-	-	-	-	-	-	-	653,221,770
Property, Plant & Equipment	557,541,028	-	-	-	-	-	-	-	557,541,028
Sub-Total	3,415,046,124	-	-	-	-	-	-	-	3,415,046,124
Total Local Currency Assets	33,539,650,965	19,597,759,249	2,218,955,976	1,714,194,733	3,672,096,094	-	-	-	6,336,644,913
Total Assets	142,042,924,637	19,597,759,249	2,218,955,976	1,714,194,733	73,763,624,111	254,781,505	34,000,210,159	54,919,040	10,438,479,864

Report of Fiscal Year 2004/05

**NEPAL RASTRA BANK
Table 3b : Concentrations of Funding**

The Bank's significant end-of-year concentrations of funding as at 15th July 2005 were as follows:

	Total NRs.	HMG/N NRs.	Public NRs.	Com. Banks & F.I. NRs.	Supernational F.I. NRs.	Others NRs.
Foreign currency						
Financial Liabilities						
Deposit from banks and other agencies	621,971,508	-	-	495,567,302	-	126,404,206
IMF Related Liabilities	2,295,388,883	-	-	-	2,295,388,883	-
Others	4,715,439	-	-	-	4,715,439	-
Total Foreign Currency Financial Liabilities	2,922,075,830	-	-	495,567,302	2,300,104,322	126,404,206
Local Currency Financial Liabilities						
Deposit and other balances	29,582,995,175	-	-	20,846,154,455	5,322,119,714	3,414,721,007
Bills payables	2,601,706,049	-	2,601,706,049	-	-	-
Staff liabilities	2,198,419,723	-	-	-	-	2,198,419,723
Other payables	127,425,271	-	-	-	-	127,425,271
Total Local Currency Financial Liabilities	34,510,546,218	-	2,601,706,049	20,846,154,455	5,322,119,714	5,740,566,001
Total Financial Liabilities	37,432,622,048	-	2,601,706,049	21,341,721,757	7,622,224,036	5,866,970,207
Other Liabilities						
Currency in circulation	74,520,000,000	-	72,808,084,411	-	-	1,711,915,589
Surplus payable to HMG/N	1,611,281,788	1,611,281,788	-	-	-	-
Sundry liabilities	588,699,428	-	-	-	-	588,699,428
Total Other Liabilities	76,719,981,216	1,611,281,788	72,808,084,411	-	-	2,300,615,017
Total Liabilities	114,152,603,264	1,611,281,788	75,409,790,460	21,341,721,757	7,622,224,036	8,167,585,224

Comparative figures as at 15th July 2004 for significant end-of-year concentration of funding were as follows:

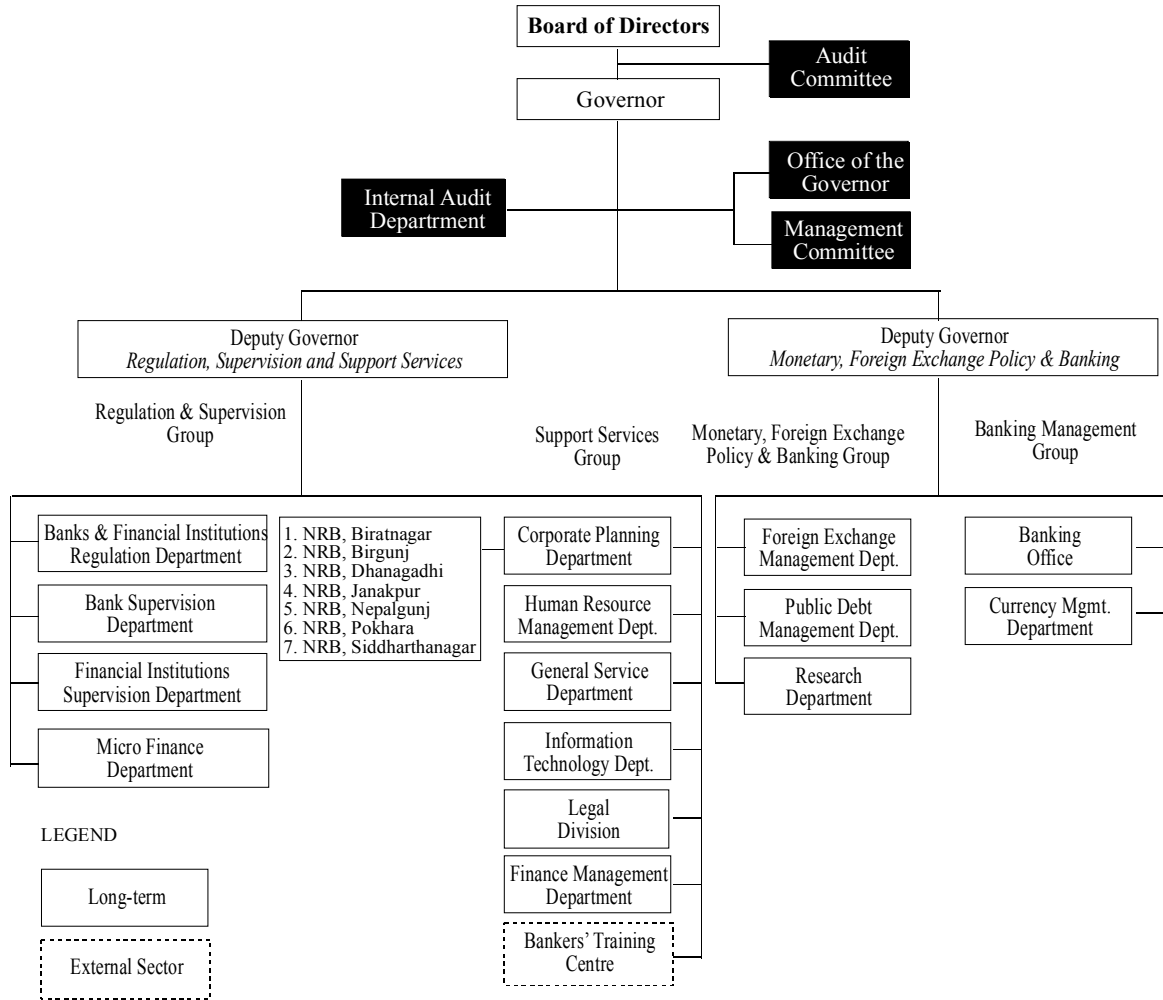
	Total NRs.	HMG/N NRs.	Public NRs.	Comm.Banks & FI NRs.	Supernational F.I. NRs.	Others NRs.
Foreign currency						
Financial Liabilities						
Deposit from banks and other agencies	314,783,159	-	-	234,605,708	-	80,177,451
IMF Related Liabilities	1,676,026,052	-	-	-	1,676,026,052	-
Others	77,371,728	-	-	-	77,371,728	-
Total Foreign Currency Financial Liabilities	2,068,180,939	-	-	234,605,708	1,753,397,780	80,177,451
Local Currency Financial Liabilities						
Deposit and other balances	33,480,267,888	753,035,630	-	25,020,261,574	4,716,875,925	2,990,094,759
Bills payables	2,545,881,682	-	2,545,881,682	-	-	-
Staff Liabilities	1,989,712,077	-	-	-	-	1,989,712,077
Other payables	148,738,474	-	-	-	-	148,738,474
Total Local Currency Financial Liabilities	38,164,600,121	753,035,630	2,545,881,682	25,020,261,574	4,716,875,925	5,128,545,310
Total Financial Liabilities	40,232,781,060	753,035,630	2,545,881,682	25,254,867,282	6,470,273,705	5,208,722,761
Other Liabilities						
Currency in circulation	68,150,000,000	-	66,945,256,146	-	-	1,204,743,854
Surplus payable to HMG/N	1,200,027,745	1,200,027,745	-	-	-	-
Sundry Liabilities	1,666,175,332	-	-	-	-	1,666,175,332
Total Other Liabilities	71,016,203,077	1,200,027,745	66,945,256,146	-	-	2,870,919,186
Total Liabilities	111,248,984,137	1,953,063,375	69,491,137,828	25,254,867,282	6,470,273,705	8,079,641,947



APPENDIX

- Appendix (A)
NRB Organization Chart 107
- Appendix (B)
Board of Directors 108
- Appendix (C)
Principal Officers 109

Appendix (A)
NRB Organization Chart



Appendix (B)
Board of Directors
(July 2004)

Mr. Bijaya N. Bhattarai, Governor	Chairman
Mr. Bhanu P. Acharya, Secretary, Ministry of Finance, HMG	Member
Mr. Lekh N. Bhusal, Deputy Governor	Member
Mr. Krishna B. Manandhar, Deputy Governor	Member
Dr. Parashar Koirala, Dean, Faculty of Management, T.U.	Member
Mr. Pradeep K. Shrestha	Member
Dr. Bishwa K. Maskay, Professor, Tribhuvan University	Member

Appendix

Appendix (C) Principal Officers

1	Mr. Madhav P. Bhatta	Executive Director, Internal Audit Department
2	Mr. Krishna K. Pradhan	Executive Director, Micro-finance Department
3	Mr. Keshav P. Acharya	Executive Director, Research Department
4	Mr. Tul R. Basyal	Executive Director, Public Debt Management Department
5	Mr. Ganesh K. Shrestha	Executive Director, Corporate Planning Department
6	Mr. Rajan S. Bhandari	Executive Director, Bank Supervision Department
7	Mr. Surendra M. Pradhan	Executive Director, Banks and Financial Institutions Regulation Dept.
8	Mr. Bir B. Rayamajhi	Executive Director, Financial Institutions Supervision Department
9	Dr. Yub R. Khatiwada	Executive Director, Office of the Governor
10	Mr. Deependra B. Kshetry	Executive Director, Currency Management Department
11	Mr. Sushil R. Mathema	Act. Executive Director, Human Resource Management Department
12	Mr. Ram P. Adhikary	Act. Executive Director, Foreign Exchange Management Department
13	Mr. Gopal P. Kafle	Act. Executive Director, Bankers' Training Centre
14	Mr. Bhola R. Shrestha	Act. Executive Director, Financial Management Department
15	Dr. Govinda B. Thapa	Act. Executive Director, Banking Office, Kathmandu
16	Mr. Ravindra P. Pandey	Director, Research Department
17	Mr. Rewat B. Karki	Director, Research Department
18	Mr. Ashwini K. Thakur	Director, Banks and Financial Institutions Regulation Department
19	Mr. Vishnu Nepal	Director, Financial Management Department
20	Mr. Lila P. Sitaula	Director, Banks and Financial Institutions Regulation Department
21	Mr. Gokul R. Thapa	Director, Public Debt Mgmt. Department
22	Mr. Ramjee Regmi	Director, Internal Audit Department
23	Mr. Bhaskar M. Gnawali	Director, Legal Division
24	Mr. Manmohan K. Shrestha	Director, Bank Supervision Department
25	Mr. Rishi R. Gautam	Director, Micro-finance Department
26	Mr. Surendra K. Kshetry	Director, Banking Office, Kathmandu
27	Mr. Lok B. Khadka	Chief Manager, Nepal Rastra Bank, Nepalgunj
28	Mr. Pradeep R. Pandey	Director, Corporate Planning Department
29	Mr. Hari P. Kafle	Chief Manager, Nepal Rastra Bank, Janakpur
30	Mr. Siddhi K. Joshi	Director, Public Debt Mgmt. Department
31	Mr. Maha P. Adhikary	Director, Bank Supervision Department
32	Mrs. Sadhana Upadhyay	Director, Office of the Governor
33	Mr. Mahesh Bhattarai	Director, Banking Office, Kathmandu
34	Mr. Shambhu Thapa	Director, Human Resource Management Department
35	Mrs. Rameswori Pant	Director, Research Department
36	Mr. Shiva R. Shrestha	Chief Manager, Nepal Rastra Bank, Biratnagar
37	Mr. Naresh Dhakal	Director, Currency Management Department
38	Mr. Narayan P. Poudel	Chief Manager, Nepal Rastra Bank, Pokhara
39	Mr. Nara B. Thapa	Director, Research Department
40	Mr. Binod Atreya	Chief Manager, Nepal Rastra Bank, Siddharthanagar
41	Mr. Janak B. Adhikari	Director, Financial Institutions Supervision Department
42	Mr. Purna B. Khatri	Director, General Services Department
43	Mr. Radheshyam Shrestha	Director, Financial Management Department

On Leave

1	Director, Mr. Trilochan Pangen	Study Leave
2	Director, Min B. Shrestha	Study Leave