

**Report  
of  
Fiscal Year 2006/07**



**Nepal Rastra Bank**



# Report of Fiscal Year 2006/07



**Nepal Rastra Bank**

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**Nepal Rastra Bank**

Research Department

Statistics Division

Baluwatar, Kathmandu, Nepal

Email: [statistics@nrb.org.np](mailto:statistics@nrb.org.np)

Website: [www.nrb.org.np](http://www.nrb.org.np)



*Act. Governor*

**NEPAL RASTRA BANK**  
Central office  
**Kathmandu, Nepal**  
**Fax No. 977-1-414553**

March 30, 2008

Honourable Minister for Finance  
Government of Nepal  
Ministry of Finance  
Singha Durbar, Kathmandu.

Dear Sir,

I hereby submit, with this letter, the report of fiscal year 2006/07 in accordance with Clause 91 and 93 (1) of the Nepal Rastra Bank Act, 2002.

Yours faithfully,

(Krishna Bahadur Manandhar)

c.c.

Secretary  
Government of Nepal  
Ministry of Finance  
Singh Durbar, Kathmandu

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## Acronyms Used

ACU	Asian Clearing Union
ADB	Asian Development Bank
ADB/N	Agricultural Development Bank (Nepal)
APRACA	Asia Pacific Rural and Agricultural Credit Cooperative Association
BAFIO	Bank and Financial Institutions Ordinance
BIS	Bank for International Settlement
BOKL	Bank of Kathmandu Limited
BOP	Balance of Payments
CAD	Cash Against Document
CBS	Central Bureau of Statistics
CGISP	Community Ground-Water Irrigation Sector Project
CIB	Credit Information Bureau
CIT	Citizen Investment Trust
CMD	Currency Management Department
COCG	Computer Operation Core Group
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CRRDBL	Central Region Rural Development Bank Limited
CSCs	Citizen Savings Certificates
DBs	Development Bonds
DFID	Department for International Development
DICGC	Deposits Insurance and Credit Guarantee Corporation
EBL	Everest Bank Limited
EPF	Employees' Provident Fund
ERRDBL	Eastern Region Rural Development Bank Limited
FSRP	Financial Sector Reform Program
GDF	Gross Domestic Financing
GDP	Gross Domestic Product
GHC	Grievance Hearing Cell
GNDI	Gross National Disposable Income
GON	Government of Nepal
HBL	Himalayan Bank Limited
HR	Human Resource
IAS	International Accounting Standard
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IPO	Initial Public Offerings

IT	Information Technology
KBL	Kumari Bank Limited
KYC	Know Your Customer
L/C	Letter of Credit
LaBL	Laxmi Bank Limited
LMFF	Liquidity Monitoring and Forecasting Framework
LuBL	Lumbini Bank Limited
M <sub>1</sub>	Narrow Money Supply
M <sub>2</sub>	Broad Money Supply
MBL	Machhapuchchhre Bank Limited
MCPW	Micro Credit Programme for Women
MDGs	Millenium Development Goals
MRA	Master Repurchase Agreement
MT	Metric Ton
MW	Mega Watt
n.i.e.	not included elsewhere
NaBL	Nabil Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NBL	Nepal Bank Limited
NCCBL	Nepal Credit and Commerce Bank Limited
NDA	Net Domestic Assets
NEA	Nepal Electricity Authority
NEPSE	Nepal Stock Exchange
NFA	Net Foreign Assets
NGOs	Non Governmental Organizations
NICBL	Nepal Industrial and Commercial Bank Limited
NIDC	Nepal Industrial Development Corporation
NRB	Nepal Rastra Bank
NSBIBL	Nepal SBI Bank Limited
NSCs	National Savings Certificates
OMOs	Open Market Operations
OP	Old Print
PCRW	Production Credit for Rural Women
PRGF	Poverty Reduction and Growth Facility
PSB	Postal Savings Bank
RBB	Rastriya Banijya Bank
RDBs	Rural Development Banks
RMDC	Rural Microfinance Development Centre
RSRF	Rural Self-Reliance Fund
SBL	Siddhartha Bank Limited
SBs	Special Bonds
SCBNL	Standard Chartered Bank Nepal Limited
SDR	Special Drawing Rights
SEBON	Securities Board of Nepal
SFCB	Small Farmers' Cooperative Bank

SLF	Standing Liquidity Facility
STI	Second Tier Institute
SWRI	Salary and Wages Rate Index
TBs	Treasury Bills
TLDP	Third Livestock Development Project
TOR	Terms of Reference
TT	Telegraphic Transfer
UK	The United Kingdom
US	The United States
VAT	Value Added Tax
VRS	Voluntary Retirement Scheme
WPI	Wholesale Price Index
WRRDB	Western Region Rural Development Bank
WTPAP	Western Terai Poverty Alleviation Project

## PART

# 1

## Macroeconomic Situation and Financial Overview



- World Production, Trade and Inflation 1
- Macroeconomic and Financial Overview of Nepal 2
- Inflation and Wage Rate 7
- External Sector 9
- Fiscal Situation 12
- Monetary Situation 15
- Money and Financial Market 17
- Financial Institutions 19

**PART**

**I**

**Macroeconomic Situation and Financial Overview**

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**World Production, Trade and Inflation**

**World Production**

- 1.1 The International Monetary Fund (IMF) in its World Economic Outlook of October 2007 estimated the world output growth at 5.4 percent for 2006. It is projected that the world economy will grow by 5.2 percent in 2007 and 4.8 percent in 2008 (Table 1). The Fund's projection of 5.2 percent growth of the world economy in 2007 was on account of the robust growth of Chinese economy along with the buoyant economic expansion in India, Russia and other emerging economies.
- 1.2 Despite the significant expansion in the world economy during the first six months of 2007, the financial turmoil of August and September has clouded prospect of further expansion of world output reflecting an uncertainty and potentially difficult period ahead. The financial market strains and its adverse effects on global economic growth, potential inflationary pressure, volatile oil markets, impact of the strong inflows of foreign exchange on developing countries, and persistent global imbalances are the major challenges for the world economy. The growth in the US is expected to remain subdued in 2008 due mainly to the continued downturn in the housing market. The disruption in the credit markets will have further adverse impact on the expansion of the US economy. Moreover, the growth rates of Japan and Euro area are also projected to remain low in 2008 compared to that of the preceding year.
- 1.3 The Fund has projected that Emerging Asia and South Asia will grow by 9.2 percent and 8.4 percent respectively in 2007 compared to 9.3 percent and 9.1 percent respectively in 2006. The neighboring countries-India and China-witnessed a growth of 9.7 percent and 11.1 percent respectively in 2006 and the Fund has projected that these countries will achieve the economic growth of 8.9 percent and 11.5 percent respectively in 2007.

**World Trade**

- 1.4 The world trade volume increased by 9.2 percent in 2006 and is projected to expand by 6.6 percent in 2007 and 6.7 percent in 2008. The imports registered a growth of 7.4 percent in advanced economies and 14.9 percent in developing economies in 2006. Likewise, exports went up by 8.2 percent in advanced and 11.0 percent in developing economies in 2006. Imports are projected to increase by 4.3 percent in advanced and 12.5 percent in developing economies and exports by 5.4 percent and 9.2 percent in the respective economies in 2007 (Table 2).

**World Inflation**

- 1.5 Inflation in the advanced economies is projected to remain at 2.1 percent in 2007 compared to that of 2.3 percent in 2006. On account of high food and energy prices and strong growth in developing economies, inflation is expected to remain higher at 5.9 percent in 2007 compared to 5.1 percent in 2006. As per the Fund's projection, inflation in the advanced and developing economies will remain at

2.0 percent, and 5.3 percent respectively in 2008. In the US, the core inflation has eased to below 2.0 percent and inflation has generally remained below 2.0 percent in the Euro Area in 2007. Inflation in South Asia is estimated at 6.6 percent in 2007, which was 6.4 percent in 2006 (Table 3).

## Macroeconomic and Financial Overview of Nepal

### Gross Domestic Product

#### *Economic Growth*

- 1.6 Following the end of the decade long conflict and restoration of peace in the country, it was expected that the economic activities would improve in 2006/07. But, it did not happen as expected. Terai region of the country witnessed unrest. Industrial security worsened and occasional strains between labour and management continued; the situation further aggravated due to frequent strikes and lockouts. In addition, disturbance in electricity supply mainly due to load shedding and scarcity of petroleum products hindered the investment climate. Consequently, non-agricultural activities were adversely affected in the review year. Also the agriculture sector did not perform satisfactorily due to unfavorable weather. On account of these factors, the actual economic growth remained lower than the targeted growth in the review year.
- 1.7 In 2006/07, the real GDP at producer's price grew by 3.2 percent compared to a growth of 3.7 percent in 2005/06. The production of paddy declined substantially in the review year because of adverse weather. Also, the production of principal food grains, with nearly fifty percent share in overall agricultural production, witnessed a decline. Hence, the growth rate of agriculture sector remained at the lowest level of the last eight years.
- 1.8 The performance of non-agriculture sector also remained less than satisfactory in the review year. The industrial sector grew by 3.9 percent. A bit of deceleration was observed in the services sector, too. The less than satisfactory performance of all sectors— agriculture, industrial and services—resulted in the decline of overall economic growth in the review year.
- 1.9 The review year, the final year of the Tenth Plan (2002/03 - 2006/07), witnessed the lowest growth rate in the Tenth Plan period. Though the growth of agriculture sector during the Tenth Plan was near to the minimum target, the growth rate of non-agriculture sector remained far below. As a result, the minimum growth target of the Tenth Plan could not be achieved. (Table 1.1).

**Table 1.1**  
**GDP Growth Rate (at 2000/01 prices)**

Sub Sectors	2002/03	2003/04	2004/05	2005/06	2006/07	Average (2002/03-2006/07)	Tenth Plan's Minimum Target
Agriculture	3.3	4.8	3.5	1.8	1.0	2.9	2.8
Non Agriculture	3.5	5.3	2.7	5.9	4.1	4.3	5.2
Industries	3.1	1.4	3.0	4.5	3.9	3.2	-
Services	3.7	6.8	2.5	6.4	4.2	4.7	-
<b>Total*</b>	<b>3.8</b>	<b>4.4</b>	<b>2.9</b>	<b>4.1</b>	<b>2.6</b>	<b>3.6</b>	<b>4.3</b>

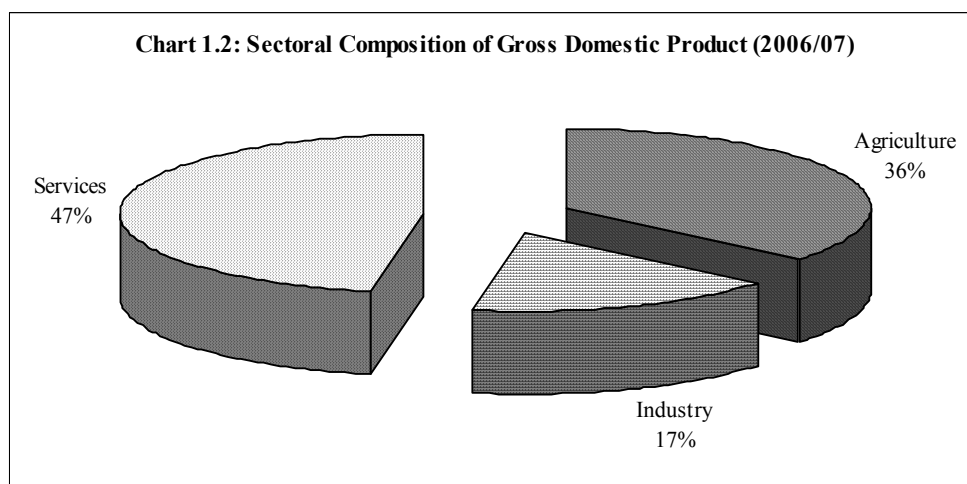
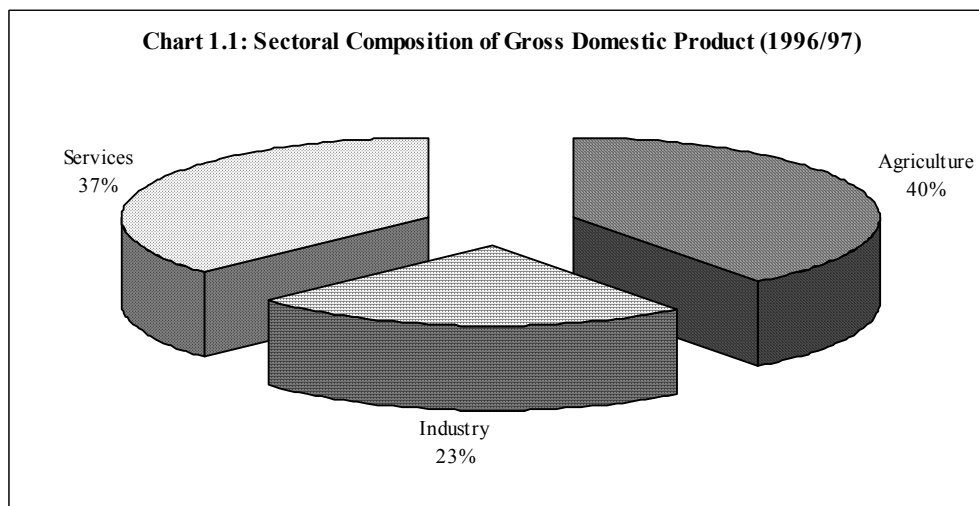
Source: Central Bureau of Statistics, National Planning Commission and NRB's calculations.

\* At basic price.

#### *Sectoral Composition of Gross Domestic Product*

- 1.10 The economy witnessed several structural changes in the last decade. The contribution of agriculture sector and industries sector declined while the contribution of services sector expanded gradually. The contribution of agriculture, industrial and services sectors to real GDP remained at 35.9 percent, 16.9 percent and 47.2 percent respectively in 2006/07. These were 39.8 percent, 23.2 percent and 37.0 percent in 1996/97 (Chart 1.2 and Chart 1.3).





1.11 The contribution of agriculture to real GDP reduced to 35.9 percent in the review year from the previous year's level of 36.6 percent. The sector's relative contribution to the overall growth declined from previous year's 15.0 percent to 12.0 percent in the review year due mainly to the fall in the growth of the sector. Despite insignificant change in absolute contribution, the relative contribution of industrial sector increased from 17.0 percent of the previous year to 22.0 percent in the review year. The services sector witnessed the highest relative contribution in the overall growth. However, this sector's relative contribution to overall growth declined from 68.0 percent in the previous year to 66.0 percent in the review year.

**Table 1.2**  
**Sectoral Contribution to GDP and Relative Contribution to Growth**  
**(At 2000/01 Prices)**

Sectors	In percent					
	Share in real GDP		Growth Rate		Relative Contribution to Growth Rate	
	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07
Agriculture	36.6	35.9	1.8	1.0	15.0	12.0
Non-agriculture	63.4	64.1	5.9	4.1	85.0	88.0
<i>Industries</i>	16.7	16.9	4.5	3.9	17.0	22.0
<i>Services</i>	46.6	47.2	6.4	4.2	68.0	66.0
<b>Total*</b>	<b>100.0</b>	<b>100.0</b>	<b>4.4</b>	<b>3.0</b>	<b>100.0</b>	<b>100.0</b>

\* Basic price prior to deduction of bank service charges.

Source: Central Bureau of Statistics and NRB's calculations.

**Agriculture**

- 1.12 The agriculture sector grew at lower pace by 1.0 percent in the review year compared to a growth of 1.8 percent previous year. This was the lowest growth rate in last eight years. Despite a rise in the production of vegetables and nursery as well as fruits and spices crops, the decline in the production of cereals and other crops occupying nearly fifty percent share in overall agriculture production caused the agriculture sector to grow at a lower rate in the review year.
- 1.13 Growth of production index of cereal and other crops came down by 2.7 percent in the review year due mainly to a fall in paddy production. However, in the previous year no change was observed in the index. The paddy production, which contributes 21 percent to overall agricultural production, declined further by 12.6 percent in the review year compared to a decline of 1.9 percent in the previous year. This was the third consecutive year reporting a decrease in paddy production. The production of wheat, maize and sugarcane reported a growth of 8.7 percent, 4.9 percent and 5.6 percent respectively in the review year (Table 6). In the review year, the production yield of paddy declined while that of maize and wheat showed some improvements. The production yield of paddy showed fluctuations in the past while that of maize and wheat showed gradual improvements (Table 1.3).

**Table 1.3  
Production Yield of Major Cereal Crops (Per Hectare)**

Fiscal Years	Paddy	Maize	Wheat
1997/98	2417	1711	1564
1998/99	2450	1678	1695
1999/00	2598	1765	1793
2000/01	2703	1800	1806
2001/02	2745	1829	1886
2002/03	2675	1877	2009
2003/04	2857	1906	2087
2004/05	2782	2019	2134
2005/06	2717	2038	2074
2006/07	2557	2091	2156

Source: Ministry of Agriculture and Cooperatives.

- 1.14 The production of potatoes, which had increased significantly in the previous year, declined by 1.6 percent in the review year. Likewise, the production of tobacco, jute, millet and other cereal crops reported a decline while the production of soyabean, pulses and barley increased in the review year.
- 1.15 The production index of vegetables and horticulture witnessed a growth of 6.3 percent in the review year. In the previous year, such index went up by 6.0 percent. The vegetable crops with substantial share in its group grew by 6.3 percent compared to a growth of 6.0 percent in the previous year.
- 1.16 The production index of fruits and spice crops witnessed an improvement in the review year. The index grew by 5.8 percent compared to a decline of 0.8 percent in the previous year. The production of fruits showed some improvements in the review year, which had declined in the previous year. Likewise, the production of spice, tea and coffee increased in the review year.
- 1.17 The production index of domestic animals and dairy products, which occupies nearly a quarter share in overall agricultural production, grew by 3.1 percent in the review year. The index had gone up by 2.5 percent in the previous year. The production of milk with 12.4 percent share in overall agricultural production grew by 2.9 percent i.e. at the same pace as in the previous year. Similarly, the production of buffalo, goat and sheep meat witnessed an improvement in the review year.
- 1.18 The production index of other livestock and animal products grew by 7.8 percent in the review year compared to a marginal growth of 0.5 percent in the previous year. The growth recorded in the review year was the highest in the last five year's period. The production of all items in this group showed an improvement in the review year. The production of pig meat, chicken and eggs increased. The production of hides and skin grew by 44.3 percent in the review year compared to a decline of 3.7 percent in the previous year.

- 1.19 The production index of forestry products showed some improvements in the review year. The production of this group expanded by 1.7 percent compared to a decline of 2.5 percent in the previous year. The production of firewood reported a decline of 0.2 percent while the production of timber showed an improvement. The production of medicinal herbs grew by 1.8 percent compared to a decline of 2.4 percent in the previous year.
- 1.20 In the review year, the monsoon did not remain favourable for paddy plantation. As per the statistics released by the Department of Hydrology and Meteorology, out of 37 stations, 29 stations received below normal precipitation. Though above normal rainfall was recorded in some small pocket areas, most places in Nepal witnessed only 80 percent of normal precipitation. Likewise, the Terai region witnessed only 40 percent of normal precipitation. The poor rainfall in the pioneer areas for paddy severely affected the paddy plantation and consequently the paddy production. The severely affected districts for the paddy plantation were Jhapa, Mahotari, Sarlahi, Dhanusha, Siraha, Saptari, Rautahat, Bara and Chitwan.
- 1.21 The ratio of irrigation facility to cultivated land increased by 28,246 hectares and reached 1,194,628 hectares i.e. 45.2 percent of total agricultural land by the end of the review year. Similarly, among other agricultural inputs, the supply of chemical fertilizers increased by 89.5 percent from 13.3 thousand MT in previous year to 25.2 thousand MT in the review year. The supply of improved seeds from National Seeds Company Limited increased by 11.1 percent from 3.6 MT in the previous year to 3.2 percent in the review year.

### **Industries**

- 1.22 The industrial sector grew by 3.9 percent in the review year compared to a growth of 4.5 percent in the previous year. This was mainly on account of the deceleration of construction sector.
- 1.23 In 2006/07, electricity, gas and water sector recorded a growth of 13.0 percent compared to a growth of 4.0 percent in the previous year.
- 1.24 Though the imports of construction materials increased, their minimal contribution to domestic production made the construction sector grow by a low rate of 2.5 percent compared to 7.7 percent growth in the previous year. The mining and quarrying sector grew by 1.5 percent compared to a growth of 8.3 percent in the previous year.
- 1.25 The manufacturing sector went up by 2.4 percent in the review year compared to a growth of 2.0 percent in the previous year. The production of woollen carpet, *pashmina*, readymade garments, plastic goods, bricks, metal products and electric wires registered a decline whereas the production of other commodities increased in the review year. The production of readymade garments, bricks and woollen carpet declined by 12.3 percent, 11.7 percent and 10.1 percent respectively. Likewise, the production of *pashmina*, plastic goods and vegetable ghee also declined by 9.1 percent, 7.2 percent and 5.9 percent respectively in the review year. However, the production of animal feeds, medicine and yarn increased by 18.3 percent, 11.9 percent, and 11.3 percent whereas the production of sugar, beer, liquor rectified and soyabean oil increased by 11.3 percent, 11.2 percent, 10.8 percent and 10.0 percent respectively (Table 7).
- 1.26 The Department of Industry granted license to 188 foreign joint venture industries with total project cost worth Rs. 3.4 billion in the review year compared to 116 joint venture industries worth Rs. 4.1 billion in the previous year. The share of foreign investment in total project cost remained at 94.1 percent in the review year. Among the total 188 foreign joint venture industries, 88 were service related industries. Likewise, 55 industries were related to tourism, 40 were manufacturing, 2 were construction and the rest were related to agriculture, energy and mineral sector. The manufacturing sector occupied more than fifty percent share of total foreign investment. It was expected that more than seven thousand people would get employment in these industries. Country-wise, India occupied the top position in foreign investment in the review year. Likewise, China, America, Canada, South Korea, United Kingdom etc were other major countries with respect to foreign investment.

**Services**

- 1.27 The services sector grew by 4.2 percent compared to a growth of 6.4 percent in the previous year. The lower growth was mainly due to the deceleration in the production of wholesale and retail trade and the low growth of hotel and restaurant sector. The wholesale and retail trade sector declined by 4.5 percent in the review year compared to a growth of 3.7 percent in the previous year because of the low production of tradable domestic goods. Despite an upsurge in the tourist arrival, the hotel and restaurant sector grew by 3.5 percent compared to a growth of 6.0 percent in the previous year.
- 1.28 The number of foreign tourists visiting Nepal by air increased by 15.3 percent and reached 331,640 in 2006/07. Altogether 287,719 tourists had visited Nepal by air in the previous year. The number of Indian tourists visiting by air increased by 0.6 percent to 101,862 in 2006/07 compared to a higher growth of 31.7 percent in the previous year. Similarly, the number of tourists arrival from third countries by air increased significantly by 23.2 percent to 229,779 in the review year compared to a growth of 6.9 percent in the previous year. The improved law and order situation in the country helped to increase the third country tourist in the review year. The share of Indian and third country tourists was 30.7 percent and 69.3 percent respectively in the review year. In the previous year, such shares were 35.2 percent and 64.8 percent respectively.

**Table 1.4  
Tourist Arrival by Air**

Description	Tourist arrivals			Percentage change		Contribution	
	2004/05	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07
India	76,850	1,01,231	1,01,862	31.7	0.6	35.2	30.7
Third Country	1,74,480	1,86,408	2,29,779	6.9	23.2	64.8	69.3
<b>Total</b>	<b>2,51,329</b>	<b>2,87,719</b>	<b>3,31,640</b>	<b>14.5</b>	<b>15.3</b>	<b>100.0</b>	<b>100.0</b>

Source: Ministry of Tourism and Civil Aviation.

- 1.29 Transport, storage and communication; financial intermediation and real estate, renting and business activities grew by 4.4 percent, 11.4 percent and 11.8 percent respectively in the review year. The growth rates of these sectors were 6.9 percent, 24.4 percent and 6.3 percent respectively in the previous year. Likewise, public administration and defense; education; health and social work; and other community, social and individual services grew by 1.3 percent, 6.2 percent, 6.7 percent and 11.8 percent respectively in the review year. The growth rates of these sectors were 6.9 percent, 3.7 percent, 5.9 percent and 3.3 percent respectively in the previous year.

**Consumption, Investment and Saving**

- 1.30 The share of total consumption in GDP is estimated to decline to 90.3 percent in the review year from 91.0 percent in the previous year. The private sector and public sector consumption grew by 9.3 percent and 17.7 percent respectively in 2006/07 compared to a growth of 14.9 percent and 8.3 percent in the previous year. The total investment as a percentage of GDP grew by 1.2 percentage point to 28.0 percent of GDP in 2006/07 from 26.8 percent in the previous year. Likewise, the total domestic saving increased to 9.7 percent of GDP from 9.0 percent of the previous year. The ratio of gross fixed capital formation to GDP declined marginally to 20.4 percent in the review year compared to 20.7 percent of the previous year.
- 1.31 Gross domestic demand, at current market prices, witnessed a growth of 11.6 percent in 2006/07 compared to a growth of 13.8 percent in the previous year. The decline in the growth rate of total consumption especially in the private sector consumption accounted for the lower rate of growth in gross domestic demand.

**Gross National Disposable Income**

- 1.32 Gross national disposable income (GNDI) is the total income received by residents for the purpose of consumption and savings. It is the main basis to explain consumption decision, consumption tendency and flow of fund within the country. GDP measures the income only from the domestic production. It does not include the income from external sources. Gross national income (GNI) is the summation of GDP and net factor income. GNDI is received by summing net transfer in GNI. The remittance income

is decisive in domestic expenditure procedure and it influences the economic activities of the country. So the calculation of GNDI and its comparison with other variables is very much relevant and vital.

- 1.33 GNDI at current market prices witnessed a growth of 10.0 percent in 2006/07 compared to a growth of 14.0 percent in the previous year. The growth rates of GDP at current market prices were 11.2 percent and 11.0 percent respectively in those years. Likewise, the GNDI accounted for 118.8 percent of GDP in 2006/07 compared to 120.0 percent in the previous year (Table 4). The workers' remittances continued to be a substantial part in net transfer. The workers' remittances increased by 2.5 percent and stood at 13.9 percent of GDP in the review year (Table 1.5).

**Table 1.5**  
**Gross National Disposable Income**  
**(At current market prices)**

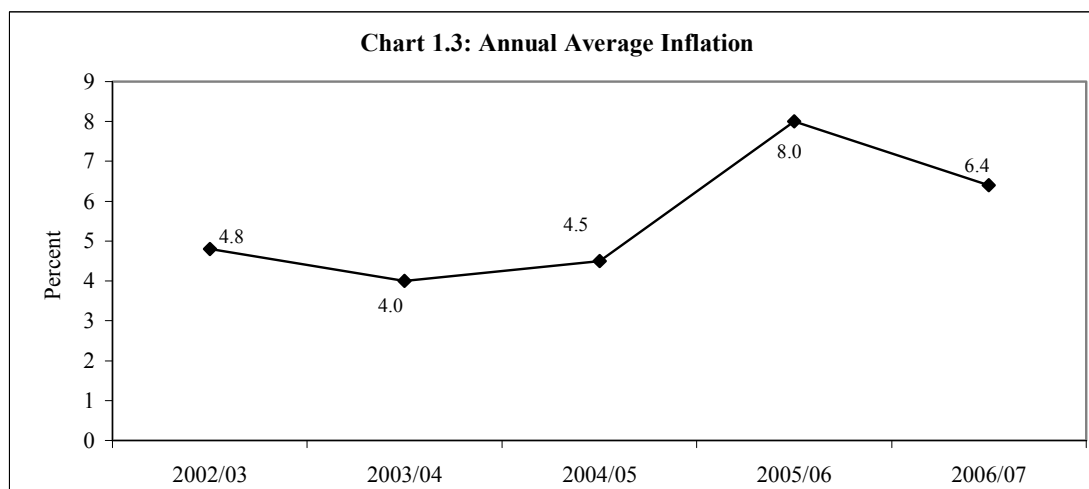
Particulars	Rs. in million			Percentage Change	
	2004/05	2005/06	2006/07	2005/06	2006/07
Total Consumption	521301	595327	656276	14.2	10.2
Total Investment	155907	175603	203741	12.6	16.0
Domestic Demand	677208	770930	860017	13.8	11.6
Net Export	-87796	-116876	-132928	33.1	13.7
Gross Domestic Product	589412	654055	727089	11.0	11.2
Net Factor Income	1637	4956	7432	202.8	50.0
Net Transfers	97704	126146	128992	29.1	2.3
<i>Workers Remittances</i>	65541	97689	10014.5	49.0	2.5
Gross National Disposable Income	688752	785156	863513	14.0	10.0

Source: Central Bureau of Statistics & Nepal Rastra Bank.

## Inflation and Wage Rate

### Consumer Inflation

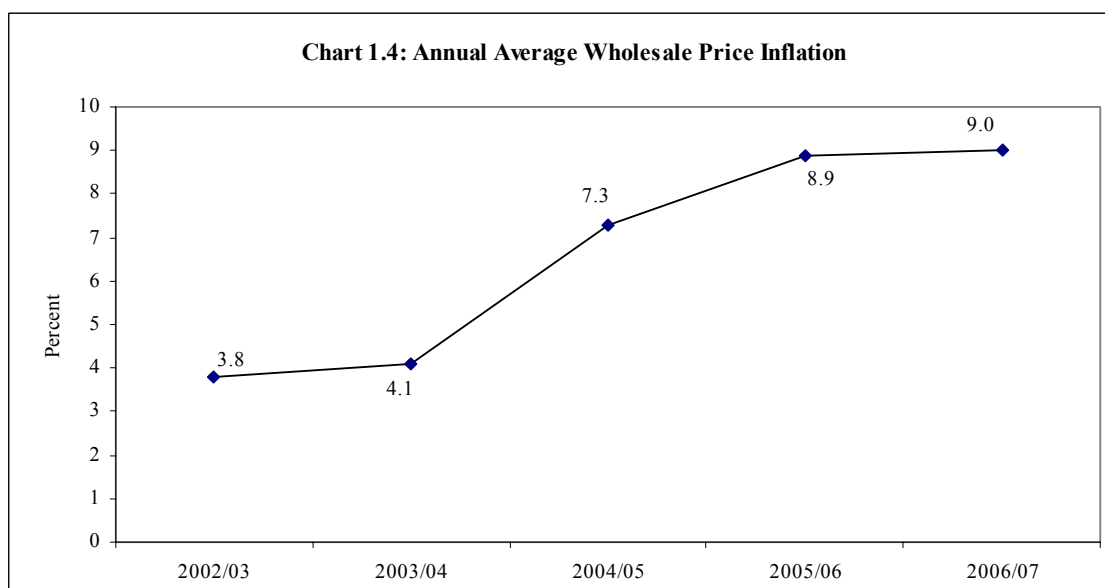
- 1.34 The average annual consumer inflation moderated to 6.4 percent in 2006/07 from the level of 8.0 percent in 2005/06. The deceleration in the growth of nonfood and services group index was largely on account of the base effect of the hike in prices of petroleum products in March 2006. The significant appreciation of the Nepalese currency against the US dollar also contributed to dampen the prices of imported goods. Both of these factors accounted for the deceleration in the rate of inflation in the review year.



- 1.35 The y-o-y food and beverages index rose by 7.2 percent in the review year compared to an increase of 7.8 percent in the preceding year. The price of sugar and related products showed a significant decline of 7.1 percent in the review period. Likewise, the prices of grains and cereal products decelerated to 6.4 percent on account of the decline in the prices of rice and rice products. These helped to contain the price index of this group. However, the prices of some commodities of this group namely spices, pulses, and vegetables and fruits showed an acceleration of 22.5 percent, 17.0 percent and 11.1 percent respectively in the review year. On the other hand, the index of non-food and services group increased by 5.5 percent in 2006/07 compared to 8.1 percent in the preceding year. This moderation was mainly on account of the base effect of the preceding year's hike in petroleum prices.
- 1.36 Region-wise, the y-o-y price level in Kathmandu Valley, Terai and the Hills rose by 6.1 percent, 6.7 percent and 6.0 percent respectively in the review year. The respective rates were 6.5 percent, 8.6 percent and 8.6 percent in the preceding year. A relatively higher price level was observed in the Terai region due mainly to the effect of continuous unrest in the Terai region in the second half of the review year.
- 1.37 The average core inflation increased by 6.0 percent in 2006/07 from the level of 4.5 percent in the preceding year. This indicates the rise in inflationary expectations in the review year.

### Wholesale Price Inflation

- 1.38 The annual average National Wholesale Price Index (NWPI) increased by 9.0 percent in 2006/07 compared to a rise of 8.9 percent in the preceding year. Such higher level of inflation was mainly due to the increase in the prices of agricultural commodities as well as domestic manufactured commodities. The base effect of the hike in the prices of petroleum products in March 2006 largely accounted for the increasedment of y-o-y wholesale price inflation.
- 1.39 Group-wise, the wholesale price of agricultural commodities rose by 11.6 percent in mid-July 2007 compared to an increase of 9.9 percent in mid July 2006. This rise was mainly attributed to the surge in the prices of spices by 22.1 percent, pulses 20.4 percent, cash crops 14.8 percent, food-grains 10.8 percent and fruits and vegetables by 9.1 percent. The price of domestically manufactured commodities also recorded a higher annual growth of 8.5 percent compared to that of 3.6 percent in the preceding year. This was mainly due to the significant rise in the prices of construction material by 15.6 percent and the food-related products by 8.2 percent. The group of imported commodities observed a significant deceleration in the prices to 5.6 percent in the review year from 10.7 percent in the preceding year. This deceleration was on account of the base effect of previous year's hike in the petroleum prices on the one hand and the positive impact (on imported commodities) of the significant appreciation (of about 14 percent) of Nepalese currency against the US dollar on the other.



## National Salary and Wage Rate Index

- 1.40 The annual average national salary and wage rate index increased by 9.8 percent in 2006/07. It had increased by 3.9 percent in the preceding year. Such an increase was on account of 10 percent increase in the allowances of civil servants in mid-July 2006; a rise in the wages of industrial laborers mostly in the second half of the review year; and labor supply constraints due mainly to the migration of youths from rural areas along with the increasing trend of Nepalese youths seeking employment abroad. In the review year, both salary and wage rate indices rose by 6.3 percent and 10.9 percent respectively compared to the respective increases of 0.3 percent and 5.3 percent in the preceding year. Within the wage rate index, the index of industrial labor increased by a higher rate of 13.0 percent, followed by 10.3 percent of agriculture labor and 7.7 percent of construction labor in the review year.

## External Sector

### Overall Trade Situation

- 1.41 In 2006/07, the foreign trade sector did not perform well. Total exports growth decelerated owing to the decline in exports to India and the contribution of the declining trend of exports to other countries. Though imports from India increased at a slower rate compared to that of previous year, the rise in imports from other countries and the higher growth rate of overall imports relative to overall exports widened trade deficit. Exports increased marginally by 0.9 percent (Rs. 561.7 million) to Rs. 60.80 billion in 2006/07 compared to an increase of 2.6 percent in the preceding year (Table 13). The decline in export growth is attributed to factors such as poor security situation, frequent *bandhs*, power shortages and appreciation of Nepalese rupee vis-à-vis US dollar. As percent of GDP, exports accounted for 8.4 percent compared to 9.3 percent a year earlier. Compared to the previous year, total imports rose by 10.3 percent (Rs. 17.93 billion) to Rs. 191.71 billion. However, the ratio of total imports to GDP decreased to 25.8 percent from 26.9 percent in the previous year. In the review year, total trade deficit increased by 15.3 percent to Rs. 130.91 billion. In the preceding year, trade deficit had expanded by 25.1 percent to Rs. 113.55 billion. The ratio of total trade deficit to GDP declined slightly to 17.5 percent in 2006/07 from 17.6 percent a year earlier. Likewise, total trade grew by 7.9 percent in the review year compared to a growth of 12.4 percent in the preceding year.
- 1.42 Exports to India decelerated by 2.8 percent (Rs. 1.16 billion) to Rs. 41.87 billion in 2006/07 compared to a growth of 4.6 percent a year earlier (Table 13). The imposition of the additional 4.0 percent duty by India (despite its removal in August 2006) in some of the exportable commodities has been one of the major factors behind the slowdown of exports to India. Though the growth rate of exports to India has been nearly half of what it was in the previous year, the significant decline in the exports to other countries led to the increase in the share of India in total exports to 68.9 percent from 67.6 percent in the preceding year. In the review year, the exports of thread, zinc sheet, textiles, M.S. pipe and juice to India increased while that of polyester yarn, plastic utensils, G.I. pipe, cattle feeds and readymade garments declined.
- 1.43 Exports to overseas had declined by 1.4 percent in the previous year had further decreased in the review year by 3.1 percent (Rs. 598.4 million) to Rs. 18.92 billion (Table 13). Among the major goods exported to third countries, exports of readymade garments declined by 16.1 percent to Rs. 5.21 billion in the review year as against a rise of 1.3 percent in the previous year. The exports of *pashmina* decreased by 41.0 percent to Rs. 931.0 million. Likewise, poor manufacturing condition along with the competition posed by Chinese and Vietnamese carpets lowered the demand for Nepalese carpets; as a result of which the exports of Nepalese carpets declined by 4.1 percent to Rs. 5.60 billion. In the review year exports of silverware and jewelries, readymade leather goods and pulses increased (Table 14).
- 1.44 Imports from India rose by 9.9 percent (Rs. 10.60 billion) to Rs. 117.74 billion in the review year compared to a growth of 20.8 percent in the previous year. In the review year, the imports of vehicle and spare parts, cold rolled sheet in coil, thread, hot rolled sheet in coil and electrical equipment increased from India while imports of rice, chemicals, chemical fertilizer, cosmetics and readymade

garments declined. Of the total imports from India, goods worth Rs.17.72 billion (15.1 percent of total imports from India) were imported on payment of convertible currency. In the previous year, such imports had amounted to Rs.12.01 billion (11.2 percent of the total imports from India). Trade deficit with India that had gone up by 33.5 percent in the previous year, expanded by 14.2 percent in the review year. As a result, the share of trade deficit with India in total trade deficit decreased to 58.0 percent from 58.5 percent in the preceding year. The share of imports from India in total imports decreased to 61.4 percent from 61.7 percent a year ago.

- 1.45 In the review year, imports from countries other than India increased by 11.0 percent (Rs. 7.33 billion) and amounted to Rs. 73.97 billion compared to a rise of 9.6 percent in the previous year (Table 13). Among others, the major imports that witnessed an increase comprised of gold, crude palm oil, computer parts, telecommunication equipment & parts and betel nut. Similarly, there was a decline in the imports of palm oil, readymade garments, textiles, polythene granules and shoes & sandals. As a result, the share of trade deficit with other countries in total trade deficit increased to 42.0 percent from 41.5 percent in the previous year. In the review year, trade deficit with other countries rose by 16.8 percent compared to a growth of 14.9 percent in the previous year. The share of imports from other countries in total imports increased to 38.6 percent in the review year from 38.3 percent in the previous year. Likewise, the share of exports to other countries in total exports decreased to 31.1 percent from 32.4 percent.

### **Balance of Payments**

- 1.46 After adjusting border trade, total exports under f.o.b valuation, rose by 2.3 percent to Rs. 62.90 billion in 2006/07. In the previous year, such exports had increased by 2.5 percent. Despite the decrease in the import of petroleum products by 0.3 percent to Rs. 33.55 billion, increase in the import of other merchandise goods by 11.6 percent led to the rise of total imports by 9.3 percent to Rs. 187.45 billion. In the previous year, import of petroleum products and other merchandise goods had risen by 26.3 percent and 15.8 percent, respectively, leading to an upsurge in total imports by 17.7 percent. As a result, trade deficit increased by 13.2 percent to Rs. 124.55 billion compared to an increase of 28.3 percent in the previous year.
- 1.47 Travel income increased by 6.0 percent to Rs. 10.13 billion in the review year as against the decline of 8.7 percent in the preceding year, whereas receipts under government n.i.e increased by 65.8 percent to Rs. 12.34 billion in the review year compared to a rise of 9.4 percent in the previous year. Likewise, receipts from other services increased by 1.5 percent to Rs. 9.62 billion compared to a rise of 8.5 percent in the previous year. As a result, total service receipts increased by 21.2 percent to Rs. 32.08 billion in the review year compared to an increase of 1.8 percent a year ago. Similarly, on the payment side, the increase in transportation, travel and other service expenses by 15.6 percent, 32.0 percent and 15.8 percent respectively, led to the increase in total service expenses by 21.5 percent to Rs. 40.46 billion. Because of the increase in total service expenses relative to receipts, net services income was negative by Rs. 8.38 billion in the review year. Net services income was negative by Rs. 6.82 billion in the previous year. Consequently, the balance on goods and services posted a deficit of Rs. 132.93 billion, which was higher than that of the preceding year by 13.7 percent.
- 1.48 On the income front, income receipts increased by 26.8 percent to Rs. 14.50 billion in the review year while payment under this heading increased by 9.1 percent to Rs.7.07 billion. Consequently, the overall deficit in goods, services and income increased by 12.1 percent to Rs. 125.50 billion. In the previous year, such deficit had increased by 29.9 percent to Rs. 111.92 billion.
- 1.49 Grants declined by 3.4 percent to Rs. 18.22 billion compared to a decrease of 10.5 percent in the preceding year (Table 15). Workers' remittances, on the other hand, went up by 2.5 percent to Rs. 100.14 billion in the review year compared to a significant rise of 49.0 percent in the previous year. Pension receipts increased by 7.7 percent to Rs. 12.94 billion whereas other transfer receipts (Indian excise refund) decreased by 18.0 percent to Rs. 1.90 billion. In the review year, transfer payment declined by 10.8 percent to Rs. 4.20 billion in contrast to the increase by 30.8 percent in the preceding year. As a result, net transfer income increased by 2.3 percent to Rs. 128.99 billion compared to a growth of 29.1 percent in the preceding year.



## Macroeconomic and Financial Overview

- 1.50 In the review year, there was a surplus of Rs.3.50 billion (0.5 percent of GDP) in the current account (Table 15). Although there was a decline in net services income and an expansion in trade deficit, the significant rise in workers' remittances led to such a surplus in the current account. Previous year, such surplus was Rs.14.22 billion (2.2 percent of GDP).
- 1.51 In the review year, the capital account transfers increased by 43.2 percent to Rs. 4.45 billion compared to an increase of 97.4 percent previous year (Table 15).
- 1.52 Under the financial account, other investment assets rose by Rs. 10.69 billion of which trade credit comprised Rs. 5.13 billion. In the previous year, other investment assets had increased by Rs. 14.01 billion. Likewise, under other investment liabilities, trade credit increased by Rs. 1.73 billion. In the review year, the inflow of government loan was Rs. 9.69 billion while repayment amounted to Rs. 7.54 billion. Consequently, net government loan amounted to Rs. 2.15 billion. In the review year, currency and deposit liabilities rose by Rs. 4.78 billion.
- 1.53 As the current account was in surplus and miscellaneous capital inflow amounted to Rs. 5.58 billion, reserves and related items increased by Rs.10.67 billion in the review year. As a result, the overall BOP remained in surplus by Rs. 5.88 billion. In the previous year, the BOP had recorded a surplus of Rs. 25.60 billion.

### Gross Foreign Exchange Reserve

- 1.54 Gross foreign exchange reserves aggregated Rs. 165.11 billion as at mid-July 2007, almost at the same level of mid-July 2006. Of this, the NRB's share comprised 78.5 percent (Table 16). In the previous year, the gross foreign exchange holdings of the banking system had aggregated Rs. 165.03 billion out of which the NRB's share was 80.0 percent. The level of reserves was adequate for financing merchandise imports of 10.3 months and merchandise and service imports of 8.5 months.
- 1.55 The gross foreign exchange reserves to broad money supply ratio and gross foreign exchange reserves to reserve money ratio that remained at 47.6 percent and 148.8 percent respectively as at mid-July 2006 declined to 41.8 percent and 138.3 percent respectively in mid-July 2007.

**Table 1.6**  
**Reserve Adequacy Indicators**

S.N.	Indicators	2004/05	2005/06	2006/07 <sup>P</sup>
1	<i>Trade-related indicators (in months)</i>			
	Import Coverage (goods only)	10.4	11.4	10.3
	Import Coverage (goods and services)	8.8	9.6	8.5
2	<i>Debt-related indicator (in percent)</i>			
	Gross Foreign Exchange Reserve/ External Debt	59.1	70.5	76.2
3	<i>Money-based indicators (in percent)</i>			
	Gross Foreign Exchange Reserve/ Broad Money (M2)	43.2	47.6	41.8
	Gross Foreign Exchange Reserve/ Reserve Money	134.6	148.8	138.3
4	<i>Macro-economic indicator (in percent)</i>			
	Gross Foreign Exchange Reserve/ GDP	22.0	25.5	22.9

P: Provisional

### External Debt

- 1.56 The total outstanding external debt of Nepal decreased by 7.4 percent to Rs. 216.63 billion in mid-July 2007. It was Rs. 233.97 billion a year ago.

### Foreign Exchange Trend

- 1.57 As in the preceding years, the exchange rate of the Nepalese rupee vis-à-vis the Indian rupee remained constant in 2006/07. However, with respect to other major currencies, the nominal exchange rate of the rupee appreciated in 2006/07. The Nepalese rupee appreciated by 14.26 percent against the US dollar in mid-July 2007 compared to mid-July 2006. Similarly, it appreciated by 3.61 percent against the British pound, 5.10 percent against the Euro and 20.57 percent against the Japanese yen.

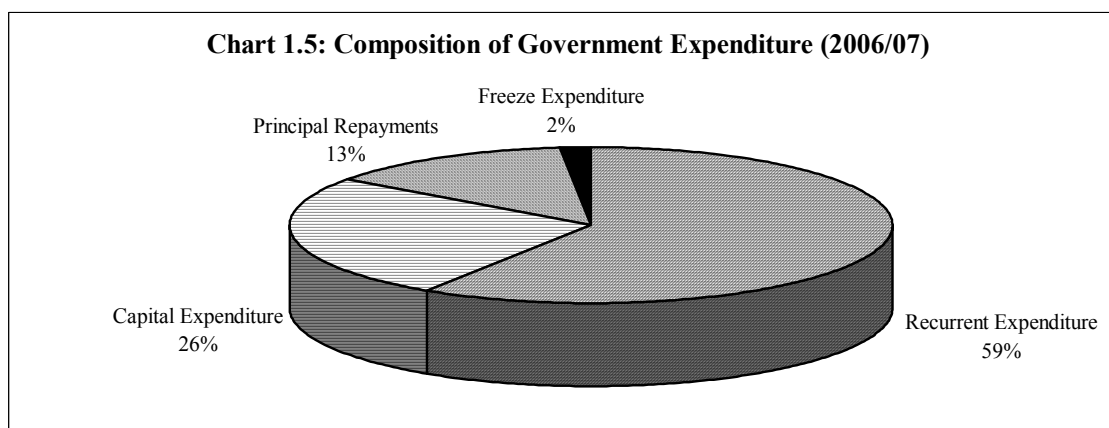
**Table 1.7  
Foreign Exchange Trend**

<i>Foreign Currency</i>	Buying Rate (Nepalese Rupee) mid-July			Appreciation (+)/Depreciation (-) (in percent)	
	2005	2006	2007	2005/06	2006/07
1 US Dollar	70.35	74.10	64.85	-5.06	14.26
1 Pound Sterling	124.00	136.17	131.43	-8.94	3.61
1 Euro	84.98	93.82	89.27	-9.42	5.10
10 Japanese Yen	6.29	6.39	5.30	-1.56	20.57

## Fiscal Situation

### Government Expenditure

- 1.58 Total government expenditure, on a cash basis, increased by 23.3 percent to Rs.125.32 billion in 2006/07 compared to a rise of 12.5 percent in 2005/06. A higher level of growth in both recurrent as well as capital expenditure contributed to such an acceleration in total expenditure.
- 1.59 The recurrent expenditure of the GON rose by 14.8 percent to Rs. 74.14 billion in 2006/07 compared to an increase of 9.4 percent in the preceding year. Increased spending on financial support compensation to conflict-hit people, payment of liabilities of public enterprises, a rise in allowances to civil servants, reestablishment of police posts, management of Maoist cantonment and additional measures to maintain peace and security exerted a pressure on recurrent expenditure.
- 1.60 Capital expenditure increased by 57.7 percent to Rs. 32.31 billion in 2006/07 compared to a rise of 24.6 percent in the preceding year. The GON provided loan of Rs. 1.50 billion to NOC and released a significant amount to local authorities at the end of the fiscal year that pushed up the growth rate of capital expenditure.
- 1.61 In the review year, of the total government expenditure, the ratios of recurrent expenditure, capital expenditure, principal repayment and freeze expenditure stood at 59.2 percent, 25.8 percent, 13.4 percent and 1.7 percent respectively. Such ratios were 63.5 percent, 20.1 percent, 14.1 percent and 2.3 percent respectively in the preceding year.

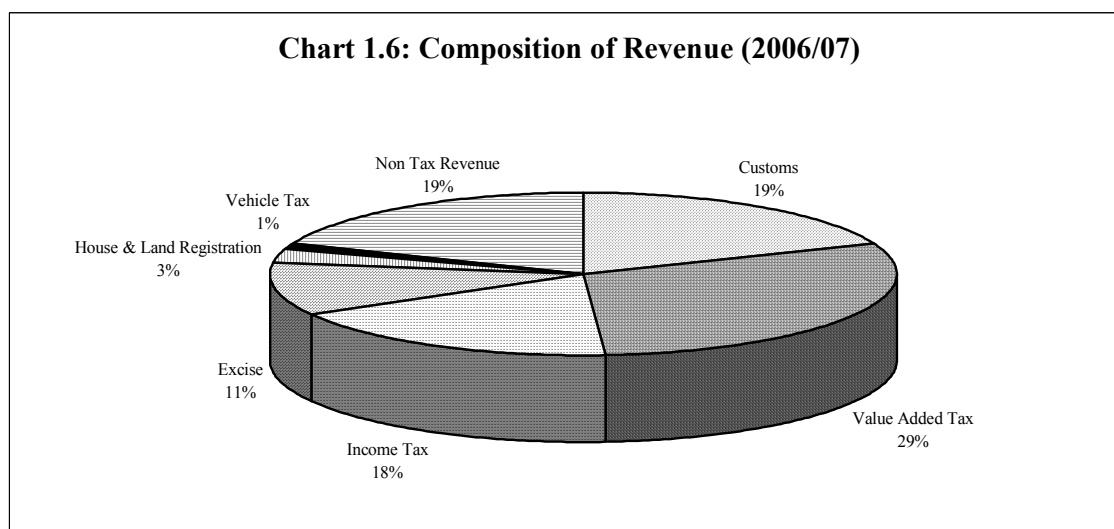


### Government Revenue

- 1.62 Total revenue of the GON grew by 20.9 percent to Rs. 87.39 billion in 2006/07 compared to a low growth of 3.1 percent in the preceding year. Reforms in revenue administration contributed to higher revenue growth. In addition, the smaller revenue base derived on account of the lower rates of customs duties in the preceding year accounted for such a growth rate.
- 1.63 Of the components of revenue, the Value Added Tax (VAT) increased by 20.9 percent to Rs. 26.13 billion in the review period compared to a rise of 14.4 percent in 2005/06. The establishment of Large

Taxpayers Unit (LTU), strengthening of billing system and management of non-filers, suspended return and outstanding contributed to the VAT collection.

- 1.64 The revenue generation from customs increased by 8.7 percent to Rs. 16.67 billion in 2006/07 as against the decline of 2.3 percent in the preceding year. Likewise, excise revenue increased by 43.6 percent to Rs. 9.34 billion from a marginal increment of 0.9 percent in the preceding year. The reforms in customs administration, expansion of Automated Systems of Customs Data (ASYCUDA), adjustments in customs and excise duties and increase in the imports of high tax yielding vehicles/spare parts and the inclusion of additional commodities under excise duty-net helped increase revenue from customs and excise duties in the review period.
- 1.65 The income tax revenue increased by 44.0 percent to Rs. 15.75 billion in the review year as against a growth of 4.6 percent in the preceding year. A significant amount of income tax paid by Nepal Telecom, Rastriya Beema Sansthan, Surya Nepal, Nepal Arab Bank Limited and Agricultural Development Bank of Nepal (ADB/N) helped increase the income tax revenue at such higher rate.
- 1.66 VAT remained the largest source of revenue collection with a contribution of 29.9 percent to total revenue in 2006/07, similar to that of the previous year. With the largest share in revenue generation, VAT has remained the backbone of Nepalese revenue as envisaged by the GON while introducing this. In terms of contribution, VAT was followed by customs with 19.1 percent, income tax with 18.0 percent and excise duty with 10.7 percent share in total revenue mobilization. In the preceding year, the contribution of customs duty was 21.2 percent, income tax was 15.3 percent and excise duty was 9.0 percent.



- 1.67 The non-tax revenue increased by 9.3 percent to Rs. 16.24 billion in 2006/07. In the preceding year, non-tax revenue had decreased by 7.3 percent. The increase in non-tax revenue was mainly on account of a rise in dividends from some public enterprises including Nepal Rastra Bank.

### Tax Policy Provision

- 1.68 Regarding income tax, the exemption limit for personal income taxation remained unchanged as Rs. 100,000 for individual and Rs. 125,000 for couple family in 2006/07.
- 1.69 The GON had increased the customs rates of more than 40 goods including vehicle parts and air conditioning machines through 2006/07 budget to minimize the negative impact arising from the revision of customs rates in February 2005.

### Tax Rates

- 1.70 Income of Rs. 75,000 above the tax exemption limit is subject to income taxation of 15 percent and thereafter the rate was 25 percent i.e. the highest marginal rate of 25 percent plus 1.5 percent that was

applied in 2005/06, remained constant in 2006/07 also. On the excise front, excise rates of 4, 5, 15, 32, 53 percent were prevalent in 2006/07. Such rates were 2, 4, 5, 15 and 32 percent in 2005/06. In 2006/07, customs rates on imports remained 5, 10, 15, 20, 25, 30, 40, 55 and 80 percent which were 5, 10, 15, 25, 35, 40 and 80 percent in 2005/06. In 2006/07, customs rates on exports remained unchanged at 0.5, 1, 8, 70 and 200 percent.

**Table 1.8**  
**Tax Rates**

S.N.	Tax	2005/06	2006/07
1.	Import Duties (Percent)	5,10,15,25,35,40,80	5,10,15,20,25,30,40,55,80
2.	Export Duties (Percent)	0.5, 1, 8, 70, 200	0.5, 1, 8, 70, 200
3.	Excise (Percent)	2, 4, 5, 15, 32	4, 5, 15, 32,53
4.	VAT (Percent)	13	13
5.	<b>Income Tax</b>		
(a)	Limit of Exemption		
(i)	Individual	Rs. 100,000	Rs. 100,000
(ii)	Family	Rs. 125,000	Rs. 125,000
(b)	Rate of Tax (Percent)		
(i)	First Rs. 75,000 after exemption	15 percent	15 percent
(ii)	After that	25+1.5 percent	25+1.5 percent
	<b>Corporate Tax</b>		
(a)	Flat rate at corporate net income		
(i)	Banks & Financial Institutions	30 percent	30 percent
(ii)	Others	25 percent	25 percent
(b)	Partnership Firm	25 percent	25 percent

### Foreign Cash Grants

1.71 Foreign cash grants recorded a significant growth of 43.5 percent to Rs.12.75 billion in 2006/07. In the preceding year, the government had received Rs. 8.88 billion in foreign cash grants. In the review period, major assistance included supports provided by Asian Development Bank for Road Connectivity Sector Project, India for Leprosy Control, local-based projects and budgetary supports, Japan for food support, expansion of radio transmission and non-project supports, Finland for drinking water management project and American assistance for good governance, stability and security enhancement.

### Budget Deficit/Surplus

1.72 In 2006/07, the GON's budget on a cash basis remained at a deficit of Rs. 19.05 billion compared to a deficit of Rs. 16.43 billion in 2005/06. The ratio of budget deficit to GDP remained at 2.6 percent in the review period. Compared to 2.5 percent in 2005/06. The higher growth of government expenditure relative to resources accounted for such an increase in fiscal deficit in the review period.

### Deficit Financing

1.73 The gross domestic financing (GDF) of the budget stood at Rs. 17.89 billion of which, Rs. 12.05 billion was mobilized through treasury bills, Rs. 5.50 billion through development bonds, Rs. 340.8 million through citizen saving bonds.

1.74 The ratio of GDF to GDP remained at 2.5 percent in 2006/07. However, the net domestic financing (NDF) of the budget remained only at Rs. 5.11 billion in the review period. In terms of GDP, the NDF was only 0.71 percent. Total outstanding domestic debt (adjusting the government balance with the NRB) increased to Rs. 96.14 billion in 2006/07.

1.75 The foreign cash (loans) financing of the budget rose by 15.0 percent to Rs. 4.42 billion in 2006/07. Foreign cash loan of Rs. 3.85 billion was received in the preceding year. The increase in foreign cash loan is due to the loan assistance of Rs. 4 billion provided by Asian Development Bank for Micro Finance Sector Development Program.

1.76 The government maintained cash surplus of Rs. 3.16 billion with Nepal Rastra Bank in 2006/07.

### Status of the Public Enterprises

- 1.77 Of the 36 state owned (fully owned /partially owned) enterprises, 17 enterprises had earned profit and 19 enterprises had incurred losses in 2005/06. However, the progress is estimated to be satisfactory for 2006/07. In the review year, 21 enterprises were estimated to earn net profit and only 15 enterprises were estimated to operate at losses. Even of the profit earning enterprises, the economic condition, capacity utilization and employee's productivity did not seem satisfactory.
- 1.78 Up to 2005/06, the government had share investment of Rs. 65.68 billion and loan investment of Rs. 62.72 billion in these 36 enterprises. The return on investment in the form of dividends in 2005/06 was, however, only Rs. 2.08 billion which is 3.16 percent. Despite of majority of the enterprises operating at losses and remarkable amount of accumulated losses, they earned net profit of Rs. 2.54 billion in 2005/06. In 2006/07, the net profit earned by these enterprises was estimated at Rs. 6.91 billion. The profit of Nepal Telecom, Rastriya Banijya Bank, Civil Aviation Authority of Nepal contributed positively to such profit. To the contrary, net loss of Nepal Oil Corporation and Udayapur Cement Industries brought down the overall profit level of the public enterprises. In 2005/06, the net worth of all enterprises increased to Rs. 39.57 billion from 32.48 billion in 2004/05. The additional capital injection by the GON in Agricultural Development Bank and net profit of Nepal Telecom has mainly contributed to the increment of total networth.
- 1.79 The corporate income tax received by the GON increased to Rs. 1.02 billion in 2006/07 compared to that of Rs. 195.8 million in the preceding year. The more than five fold increase was on account of improvement in performance and resulting increase in net profit of the enterprises.
- 1.80 A very low rate of return on government investment in the enterprises, lack of regular and updated audit, severe human resource pressure, majority of enterprises operating at losses, some enterprises having negative networth, lack of funds for the provisions to meet employee related facilities, political interference, compulsion of Nepal Oil Corporation to sell the petroleum product at price lower than purchase price are the main challenges facing the Nepalese public enterprises.

### Privatization and Dissolution of Public Enterprises

- 1.81 The GON has privatized 28 public enterprises and dissolved one by mid-march 2007. Of the privatized enterprises, 11 entities were liquidated, 6 enterprises were privatized through the sale of assets and business method. For the nine enterprises, the sale of shares and equity method was applied. The initiation of disinvestments of share of public enterprises to the private sector was in line with the government's policy to open market economy. The objective of this policy measure was to increase private sector participation in the economy and improve services being provided by the public enterprises.

## Monetary Situation

### Monetary Aggregates

- 1.82 The broad money (M2) increased by 14.0 percent amounting to Rs. 395.32 billion in the review year compared to 15.6 percent in 2005/06. The ratio of M2 to GDP increased marginally to 54.9 percent compared to 53.6 percent in the preceding year. The narrow money (M1), which had increased by 14.2 percent in the preceding year increased by 12.1 percent in the review year. Another component of M2, time deposit, which grew by 16.4 percent in the preceding year, recorded a growth of 14.9 percent in the review year. The expansion of monetary aggregates remained subdued in the review year on account of a substantial slowdown in the growth of net foreign assets (NFA) after adjusting foreign exchange valuation gain/loss.
- 1.83 Of the components of M<sub>1</sub>, currency in circulation increased by 7.4 percent to Rs. 83.52 billion in the review year compared to a growth of 13.3 percent in the preceding year. Sluggish economic activities and a lower level of remittance inflow were attributed to slowdown in growth of currency in circulation in the review year. However, demand deposits increased by 22.4 percent in the review year

compared to a growth of 16.0 percent previous year. Expansion in consumer loan and rising margin lending against share increased the demand deposits in the review year.

- 1.84 The demand side perspective reveals that the nominal demand for money remained lower on account of low economic growth and inflation in the review year.

### **Factors Affecting Money Supply**

- 1.85 NFA (after adjusting foreign exchange valuation gain/loss) increased by 4.2 percent (Rs. 5.88 billion) in the review year compared to a growth of 23.8 percent (Rs. 25.6 billion) in the preceding year. Such a deceleration in NFA was due to a lower growth of remittance inflow and exports in the review year compared to that of the preceding year.
- 1.86 Domestic credit of monetary sector grew by 16.7 percent compared to a growth of 11.7 percent in the preceding year. Such acceleration in domestic credit was attributed to substantial growth in claims on non-financial government enterprises, operation of additional two commercial banks and expansion of consumer credit as well as credit to construction sector by the commercial banks.
- 1.87 Of the components of domestic credit, net claims on government increased by 10.5 percent in the review year compared to a growth of 10.4 percent in the preceding year. A rise in government expenditure along with resource mobilization accounted for the growth of net claim on government almost at the same rate of the preceding year.
- 1.88 Credit flow to private sector increased by 18.9 percent in 2006/07 compared to an increase of 14.4 percent in 2005/06. As a result, a ratio of private sector credit to domestic credit reached 40.2 percent in the review year from 37.7 percent a year ago. Credit to private sector expanded at a higher rate on account of diversifying loan portfolio by increasing credit to various sectors such as construction, service, wholesale and retail business by commercial banks in the review year. Further, the operation of additional two commercial banks also contributed to expand credit to the private sector in the review year.
- 1.89 Claims on non-financial government enterprises increased by 12.1 percent in the review year as against a decline of 32.1 percent in the preceding year. Additional loans utilized by Nepal Oil Corporation, National Trading Ltd., Janak Education Material Center Ltd. and Nepal Food Corporation from the banking sector increased the claims on the non-financial government enterprises in the review year.
- 1.90 Against a decline of 0.3 percent in the preceding year, claims on financial institutions increased by 1.1 percent in the review year. Besides the decline in claims on government financial institutions, a growth of claims on non-government financial institutions contributed to the increase in claims on financial institutions in the review year. An increase in short-term placement at finance companies and other financial institutions by commercial banks contributed to the rise in claims on non-government financial institutions.
- 1.91 Net non-monetary liabilities grew by 9.9 percent in the review year compared to a growth of 13.1 percent in the preceding year. A slowdown in the growth of retained earnings and other liabilities of commercial banks contributed to a lower growth of net non-monetary liabilities in the review year. Net domestic assets obtained after deducting net-non-monetary liabilities from the domestic credit expanded by 20.5 percent in the review year. Such assets had grown by 11.1 percent in the preceding year.

### **Reserve Money**

- 1.92 Compared to a growth of 14.9 percent in the preceding year, reserve money increased by 7.6 percent in the review year. A slowdown in growth of NFA of monetary authority on account of a lower growth of remittance inflow contributed to such a slowdown in the growth of reserve money in the review year. Of the components of reserve money, currency in circulation increased by 7.4 percent in the review year compared to a growth of 13.3 percent previous year. Similarly, the growth of cash in hand of commercial banks decelerated to 21.6 percent in the review year from 23.8 percent in the preceding year. Likewise, against the growth of 13.2 percent in the preceding year, deposits of commercial banks with NRB declined by 0.2 percent in the review year.

## Money and Financial Market

### Interest Rate Structure

1.93 Interest rate on deposits in commercial banks did not change much in 2006/07. As in the preceding year, interest rate for saving deposits ranged from 2.0 to 5.0 percent. Likewise, one-year time deposit rate remained between 2.5 and 5.0 percent in the review year. However, minimum interest rate against overdraft came down to 6.0 percent in mid-July 2007 from that of 6.5 percent in mid-July 2006. Weighted average interest rate for government securities and inter bank rate slightly declined. Compared to 2.84 and 3.95 percent in the preceding year, weighted average 91-day and 364-day treasury bill rate came down to 2.42 and 3.5 percent respectively in the review year. Likewise, inter-bank rate came down to 2.26 percent in the review year compared to 2.47 percent previous year.

### Standing Liquidity Facility and Inter Bank Transactions

1.94 Commercial banks borrowed a total of Rs. 46.98 billion in 2006/07 compared to Rs. 9.88 billion in 2005/06 under standing liquidity facility. Use of such facility increased on account of increasing short-term placement by commercial banks, finance companies and other financial institutions. A shortage of liquidity with commercial banks in the eleventh and twelfth months of the review year contributed further to the increase in SLF borrowing. However, inter-bank transactions slightly declined in the review year. Compared to Rs. 175.75 billion in the preceding year, such transactions declined by 3.2 percent to Rs. 170.18 billion in the review year.

**Table 1.9**  
**Inter Bank Transaction and Weighted Average Inter Bank Rate**

Mid-Month	2005/06		2006/07	
	Amount (Rs. Million)	Interest Rate (Percentage)	Amount (Rs. Million)	Interest Rate (Percentage)
August	20,554.2	2.47	13,397.0	2.07
September	24,670.5	3.87	18,830.0	1.83
October	12,021.0	3.18	15,855.0	2.11
November	10,369.0	2.36	14,880.0	1.2
December	15,533.0	0.96	14,180.0	1.34
January	11,255.5	1.22	17,395.0	3.03
February	14,541.0	2.48	8,962.0	2.01
March	20,075.0	2.84	7,713.0	1.39
April	15,654.0	1.97	7,295.0	1.69
May	7,970.0	3.52	20,300.0	3.35
June	10,245.0	1.77	17,397.0	2.72
July	12,862.0	2.13	13,980.0	3.03
<b>Total</b>	<b>175,750.2</b>	<b>2.47</b>	<b>170,184.0</b>	<b>2.26</b>

### Refinance Facilities used by Commercial Banks and Other Financial Institutions from the NRB

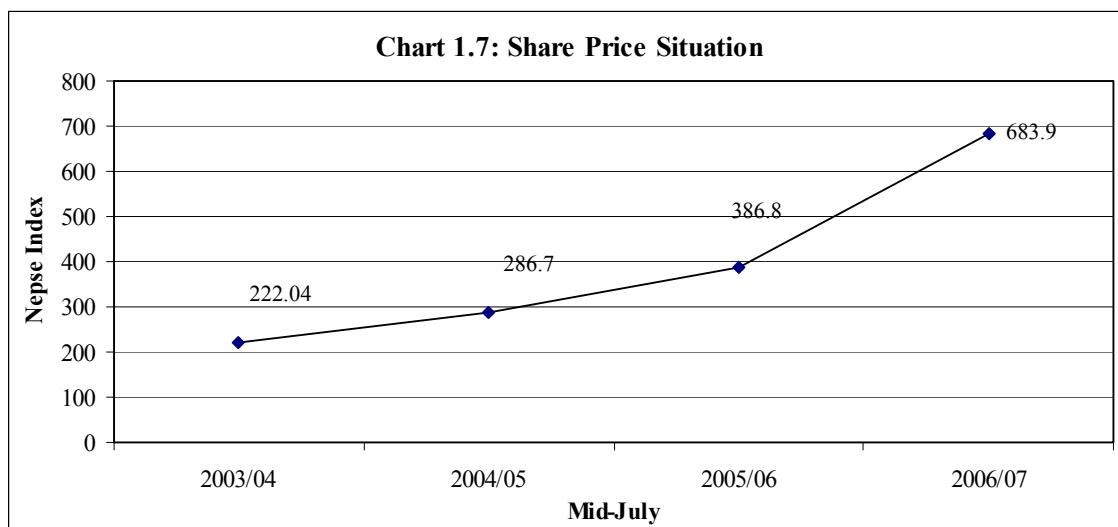
1.95 Outstanding refinance facilities to commercial banks and other financial institutions from the NRB declined to Rs. 562.0 million in the review year from Rs. 1.10 billion in the preceding year. Outstanding loans under this facility to commercial banks remained at Rs. 81.0 million in the review year compared to Rs. 329.0 million in the preceding year. Outstanding refinance facility used by the government financial institutions came down to Rs. 481.0 million in the review year from Rs. 767.0 million in the preceding year. Of the total outstanding refinance facility, the amount used by Agriculture Development Bank, Nepal Industrial Development Corporation, Rural Development Banks and Nepal Development Bank was Rs. 0.1 million, Rs. 464.0 million, Rs. 10.0 million and Rs. 7.0 million respectively in the review year compared to Rs. 111.0 million, Rs. 619.0 million, Rs. 10.0 million and Rs. 27.0 million in the preceding year.

## Foreign Exchange Market

1.96 Compared to the net liquidity injection of Rs. 55.22 billion through the net purchase of 760.6 million US dollar in 2005/06, the NRB injected net liquidity of Rs. 64.46 billion through foreign exchange interventions by way of a net purchase of 915.8 million US dollar in 2006/07. The higher volume of remittance inflow despite its declining trend of growth, the decline in import growth and the appreciation of Nepalese currency vis-à-vis the US dollar discouraged the banks to hold reserves in the review year. The liquidity injected through the foreign exchange intervention was largely moderated through the management of Indian currency (IC) reserve and its demand, whereas the remaining liquidity was mopped up through open market operations. For managing IC reserve, Rs. 64.52 billion equivalent IC was purchased through the sale of 930.0 million US dollar in Indian money market in the review year compared to a purchase of Rs. 42.96 billion through the sale of 600 million US dollar in 2005/06. The purchase of IC by selling the US dollar increased in the review year in order to finance trade deficit and imports from India.

## Securities Market

1.97 Securities market remained buoyant in 2006/07. The NEPSE Index, showing a bullish trend throughout the review year, reached 683.95 point as in mid-July 2007 increasing by 76.8 percent on a y-o-y basis. This is a record growth of the NEPSE Index ever since the establishment of Nepal Stock Exchange Ltd on May 26, 1993, which was opened for secondary market transactions of securities under open out cry system. Secondary market operations in securities have been conducted since January 13, 1994. The substantial growth of the NEPSE Index was due to rising expectation of investors following the gradual improvement in country's peace and security situation along with public disclosure of financial indicators by banks and financial institutions. Further, the high volume of remittance inflow, lack of alternative investment opportunities and low interest rate were also equally important factors for attracting investors in securities market thereby increasing the NEPSE Index.



- 1.98 The number of listed companies remained at 135 in mid-July 2007 the same as in mid-July 2006. However, Nepal Stock Exchange Ltd delisted 12 companies in the review year. The paid-up capital of the listed companies increased by 9.0 percent to Rs. 21.74 billion in the review year from Rs. 19.95 billion a year ago.
- 1.99 Market capitalization reached Rs. 186.3 billion as at mid-July 2007 from Rs. 96.76 billion in mid-July 2006 growing at a rate of 92.5 percent. The ratio of market capitalization to GDP increased to 25.9 percent in the review year, from 15 percent in the preceding year.
- 1.100 The Securities Board of Nepal (SEBON) which was established on June 7, 1993 as a regulatory agency of securities market, granted permission to various banks and financial institutions in 2006/07 for issuing ordinary shares of Rs. 290.3 million, right share of Rs. 1817.2 million, debenture of Rs. 250.0 million and preference share of Rs. 400.0 million.



## Auction of Development Bond

- 1.101 Development bonds of 12-year maturity worth Rs. 5.50 billion was issued through auctions in the review year. These development bonds issued for 12 years with coupon rate of 6.5 percent were sold in premium and listed in Nepal Stock Exchange Ltd for secondary transaction. Subsequently, the secondary market transactions in development bonds commenced from the review year.

**Table 1.10**  
**Auction of 12-Year Development Bonds**

Date	Issued Amount (Rs. in billion)	Coupon Rate	Average Auction price	Effective Interest Rate (percentage)
28/12/2006	1.2	6.5	113.29	5.39
13/03/2006	2.1	6.5	115.52	5.21
05/07/2007	2.2	6.5	114.84	5.26

- 1.102 Secondary market transactions in government securities began on December 15, 2006. For this, Nepal Stock Exchange gave license to 7 security brokers and 3 market makers. Government securities worth Rs. 7.05 billion were listed in the Stock Exchange as of mid-July 2007. A total of Rs. 366.8 million worth of securities were traded in the secondary market in the review year.
- 1.103 Securities worth Rs. 2.06 billion (with face value of Rs. 100 per unit securities) issued by commercial banks and mutual fund units worth Rs. 100 million (with face value of Rs. 10 per unit) managed by NIDC capital market Ltd. and issued under the trusteeship of Nepal Industrial Development Corporation were listed in the secondary market as of mid-July 2007.

**Table 1.11**  
**Listed Securities and Mutual Fund Units**

Institutions	Date	Amount (Rs. million)	Interest Rate (in %)	Maturity Period (in year)
<b>Nepal Investment Bank Ltd</b>	2002/3/25	300	8.5	7
Himalayan Bank Ltd	2002/3/25	360	8.5	5
Everest Bank Ltd	2004/11/29	300	6.0	7
Bank of Kathmandu Ltd	2005/09/07	200	6.0	7
Nepal Investment Bank Ltd	2006/05/30	250	6.0	7
NIC Bank Ltd	2006/05/31	200	6.0	7
Nepal SBI Bank Ltd	2006/06/11	200	6.0	7
Nepal Investment Bank Ltd#	2007/06/12	250	6.25	7
NCM Mutual Fund	2059/02/23	100	5.0*	10
<b>Total</b>		<b>2160</b>		

\* dividend rate.

# Yet to be listed.

## Activities of Financial Institutions

### Number of Financial Institutions

- 1.104 There has been a significant growth in the number of banks and financial institutions in the review period. Total number of commercial banks reached 20 at the end of 2006/07. Similarly, the number of development banks, finance companies and micro-finance institutions reached 38, 74, and 12 respectively. While the number of cooperatives licensed by the NRB to undertake limited financial transactions decreased, the number of Non-Government Organizations (NGOs) licensed by the NRB to undertake micro-finance transactions remained the same (Table 1.12). In total, the number of financial institutions stood at 232 including 21 insurance companies, Employees Provident Fund, Citizen Investment Trust and Postal Savings Bank in mid-July 2007.

**Table 1.12**  
**Number of Banks and Financial Institutions**

Banks and Financial Institutions	2006 (Mid-July)	2007 (Mid-July)
Commercial Banks	18	20
Development Banks	29	38
Finance Companies	70	74
Micro-Finance Institutions	11	12
Cooperatives (licensed by the NRB to undertake limited financial transactions)	19	17
Non-Governmental Organizations (NGOs) (licensed by the NRB to undertake micro-finance transactions)	47	47
Insurance Companies	21	21
Employees Provident Fund	1	1
Citizen Investment Trust	1	1
Postal Savings Bank (Deposit Collection Offices 117)	117	117

### Financial Structure

1.105 The ratio of total assets/liabilities of financial institutions including that of contractual saving institutions to GDP was 112.2 percent in mid-July 2007. Including the market capitalization of the shares listed in the Nepal Stock Exchange, the ratio stood at 138.1 percent (Table 1.13).

1.106 The share of commercial banks in the total assets/liabilities of the financial institutions was 54.5 percent in mid-July 2007. Such shares of the NRB, Employees Provident Fund, Finance Companies, Development Banks and Insurance Companies were 21.6 percent, 7.4 percent, 6.6 percent, 3.1 percent and 4 percent respectively.

**Table 1.13**  
**Structure of the Nepalese Financial System**

(Rs. in million)

Description	2006 Mid-July			2007 Mid-July		
	Total assets/ liabilities	Percentage share in total	Ratio of total assets to nominal GDP (in %)	Total assets/ liabilities (Provisional)	Percentage share in total	Ratio of total assets to nominal GDP (in %)
<b>Financial Institutions</b>	<b>608681</b>	<b>87.6</b>	<b>94.2</b>	<b>706421</b>	<b>87.5</b>	<b>98.2</b>
Nepal Rastra Bank	167974	24.1	26	174209	21.6	24.2
Commercial banks	377716	54.3	58.4	439735	54.5	61.1
Finance Companies	38841	5.6	6.0	53035	6.6	7.4
Development Banks	14036	1.9	2	25293	3.1	3.5
Micro-finance Institutions	8197	1.2	1.3	10559	1.3	1.5
Cooperatives	2877	0.4	0.4	3590	0.4	0.5
<b>Contractual Saving Institutions</b>	<b>86096</b>	<b>12.4</b>	<b>13.3</b>	<b>100377</b>	<b>12.4</b>	<b>14.0</b>
Employees Provident Fund	53630	7.7	8.3	59970	7.4	8.3
Citizen Investment Trust	7248	1.0	1.1	8425	1.0	1.2
Insurance companies	25218	3.6	3.9	31982	4.0	4.4
<b>Postal Savings Banks</b>	<b>447</b>	<b>0.1</b>	<b>0.1</b>	<b>690</b>	<b>0.1</b>	<b>0.1</b>
<b>Total</b>	<b>696183</b>	<b>100.0</b>	<b>107.5</b>	<b>807488</b>	<b>100.0</b>	<b>112.2</b>
Gross Domestic Product (Rs. in million)	646469			719476		
Market Capitalization of Stock Exchange Market (Rs. in million)	96763			186301		
Ratio of Market Capitalization to GDP (in percentage)	15.0			25.9		

## Activities of Commercial Banks

### *Sources of Fund*

- 1.107 Commercial banks' assets/liabilities increased by 11.1 percent in the review year amounting to Rs. 439.74 billion as in mid-July 2007 compared to a growth of 10.9 percent in the preceding year. Entry of two new commercial banks and credit expansion by some commercial banks increased the assets and liabilities of commercial banks in the review year.
- 1.108 Compared to a growth of 16.0 percent in 2005/06, total deposit of commercial banks increased by 15.3 percent to Rs. 334.45 billion as of mid-July 2007. However, the total deposit to GDP ratio of commercial banks increased from 44.9 percent in the preceding year to 46.5 percent in the review year. Of the total deposits, current deposits increased by 19.5 percent compared to a growth of 8.1 percent in the preceding year. Current deposit in domestic currency, which had increased by 12.7 percent in the previous year, went up by 20.7 percent in the review year. Likewise, compared to a growth of 16.6 percent in the preceding year, saving deposit grew by 15.1 percent in the review year. Saving deposit in domestic currency recorded a growth of 15.5 percent over a growth of 17.5 percent in the preceding year. Fixed deposit grew by 14.0 percent to Rs. 114.03 billion, which had increased by 18.2 percent in the preceding year. Fixed deposits in domestic currency expanded by 13.7 percent in the review year compared to 14.6 percent growth in the preceding year. Fixed deposits in foreign currency increased by 15.5 percent in the review year compared to a growth of 45.4 percent in the preceding year.
- 1.109 Regarding the composition of deposits, it did not change much as the share of current, saving and fixed deposits in total deposits remained at 12.8 percent, 52.2 percent and 34.1 percent respectively, compared to 12.3, 52.3, and 34.5 percent in the preceding year.
- 1.110 The borrowing of commercial banks from NRB amounted to Rs. 1.87 billion in the review year. Such borrowing in the preceding year was only Rs. 330 million. The expansion in credit demand contributed to the increase in the borrowing from the NRB in the review year compared to that of the preceding year.
- 1.111 Other liabilities of commercial banks further decelerated in the review year by 3.7 percent from 1.7 percent in the preceding year. Nepal Bank Ltd (NBL) and Rastriya Banijya Bank (RBB) wrote off a total of Rs. 16.02 billion bad loan including principal and interest in the review year, which accounted for such a decrease in other liabilities of commercial banks. Other liabilities should have increased by 11.5 percent in the review year, had the amount of credit written off been adjusted.

### *Uses of fund*

- 1.112 Compared to an expansion of 10.0 percent in the previous year, loans and advances of commercial banks increased by 15.9 percent to Rs. 356.38 billion as at mid-July 2007. Of the components of loans and advances, credit to private sector, with 84.1 percent of total deposits, 64.0 percent of total assets and liabilities of commercial banks and 39.1 percent of GDP, occupies the large share. Private sector credit grew by 17.1 percent to Rs. 281.38 billion in the review year compared to a rise of 14.9 percent in the preceding year.
- 1.113 Total investment of commercial banks in the government securities reached Rs. 65.85 billion as in mid-July 2007 by increasing at a rate of 11.9 percent in the review year compared to a growth of 20.4 percent in the preceding year. Investment in government securities was 15.0 percent of total assets of commercial banks in the review year compared to 14.9 percent in the preceding year. Similarly, commercial banks' claims on non-financial government enterprises increased by 12.2 percent in contrast to a decline of 32.1 percent in the previous year. Additional loan utilized by Nepal Oil Corporation, National Trading Ltd, Janak Education Material Center Ltd and Nepal Food Corporation from the banking sector accounted for such a rise in claims on non-financial government enterprises.
- 1.114 Compared to a growth of 22.8 percent in the preceding year, liquid funds of commercial banks increased by a lower rate of 5.5 percent in the review year. A decline in foreign assets of commercial banks on account of decelerating remittance inflow and an increase in private sector credit demand, combined together, lowered the growth of liquid funds of commercial banks in the review year. Liquid funds shared 14.8 percent in total assets of commercial banks in the review year compared to 15.6

percent in the preceding year. Of the components of liquid funds, balance held abroad grew by a lower rate of 8.1 percent compared to a growth of 30.6 percent in the preceding year. Commercial banks' cash in hand expanded by 21.6 percent in the review year compared to a growth of 23.8 percent in the preceding year. Contrary to a growth of 13.2 percent in the previous year, deposits of commercial banks with NRB declined by 0.2 percent in the review year. A deceleration in remittance inflow and rising demand for consumer loan contributed to such a decline in deposits of commercial banks with NRB.

### ***Status of Non-Performing Loans***

- 1.115 Non-performing loan (NPL) as percentage of total loans declined to 9.7 percent as at mid-July 2007 compared to 13.8 percent a year ago. The NPL of Nepal Bank Ltd (NBL) came down to 14.6 percent as at mid-July 2007 from 25.1 percent a year ago. Similarly, NPL of Rastriya Banijya Bank Ltd (RBB) declined to 26.4 percent as in mid-July 2007 from 45.3 percent as at mid-July 2006. Efforts of these banks to recover the bad loans and a substantial credit written off by them helped lower the NPL of these banks. NBL wrote off Rs. 2.87 billion outstanding bad loans, including Rs. 821.7 million principal and Rs. 2.05 billion accrued interest in the review year. Similarly, RBB wrote off Rs. 13.2 billion bad loan including Rs. 4.06 billion principal and Rs. 9.3 billion accrued interest. Excluding the state owned commercial banks like NBL, RBB and ADB/N, the NPL of the remaining private sector commercial banks stood at 4.9 percent. However, the NPL of Nepal Bangladesh Bank Ltd and Nepal Credit and Commerce Bank Ltd increased in the review year.

**Table 1.14**  
**Non Performing Loans of Commercial Banks**

Commercial Banks	In percent		
	2004/05	2005/06	2006/07
Nepal Bank Ltd	49.0	25.1	14.6
Rastriya Banijya Bank	50.7	45.3	26.4
Nabil Bank Ltd	1.3	1.3	1.1
Nepal Investment Bank Ltd	1.6	2.3	2.1
Standard Chartered Bank Nepal Ltd	2.7	2.1	1.8
Himalayan Bank Ltd	11.3	6.1	3.5
Nepal SBI Bank Ltd	7.1	6.3	0.5
Nepal Bangladesh Bank Ltd	12.3	12.3	35.1
Everest Bank Ltd	1.6	1.2	0.8
Bank of Kathmandu Ltd	7.4	2.5	2.2
Nepal Credit and Commerce Bank Ltd	8.6	11.1	30.6
Lumbini Bank Ltd	14.7	31.9	19.9
Nepal Industrial and Commercial Bank Ltd	3.8	2.6	1.1
Machhapuchchhre Bank Ltd	0.4	0.3	1.1
Kumari Bank Ltd	1.1	0.9	0.7
Laxmi Bank Ltd	1.6	0.7	0.4
Siddhartha Bank Ltd	2.5	1.3	0.3
Agricultural Development Bank Ltd	-	18.3	16.5
<b>Total</b>	<b>18.7</b>	<b>13.8</b>	<b>9.7</b>

### **Development Banks**

- 1.116 A number of development banks came into operation in the private sector following the introduction of the Development Bank Act in 1996. Prior to this act, there were only two development banks namely Agricultural Development Bank (it has been converted into commercial bank) and Nepal Industrial Development Corporation, both owned by the government. At present, development banks are operating under Bank and Financial Institutions Act, 2006 as "B" class financial institutions licensed by the NRB. The NRB issues necessary directives on a regular basis for the effective regulation of these banks. During the review year, total assets/liabilities of these banks increased by 80.2 percent to Rs.25.29 billion (Table 19). Total deposit mobilization, the major source of fund for these banks, increased by 77.7 percent to Rs. 15.61 billion. Similarly, capital fund and borrowing increased by 49.5

and 39 percent respectively. On the uses side of the fund, the share of loan and advance, the major component, increased by 85.9 percent to Rs.16 billion.

### **Finance Companies**

- 1.117 The establishment of finance companies speeded up after the first amendment of the Finance Companies Act 1985 in 1992. At present, these companies operate under Bank and Financial Institutions Act 2006 as "C" class financial institutions. Total sources/uses of these companies increased by 36.5 percent to Rs. 53 billion in 2006/07 (Table 20). Such increase was 27.6 percent in the preceding year. Total deposit increased by 25.9 percent to Rs. 34.40 billion. Capital fund and borrowing reached Rs. 5.29 billion and Rs. 3.85 billion respectively in mid-July 2007.
- 1.118 On the uses side, loan and advances increased by 30.5 percent to Rs. 35.30 billion. Investment of these companies increased by 65.4 percent to Rs. 4.54 billion. The liquid asset of finance companies was Rs. 7.84 billion as of mid-July 2007.

### **Micro Finance Institutions**

- 1.119 Micro-finance institutions consist of five rural development banks, five rural bank replicates and two wholesale lending institutions.
- 1.120 Rural development banks have been established in each of the five development regions of the country with an objective of providing micro-finance to the rural poor women under group guarantee without collateral. Mainly established under the capital contribution of the Government of Nepal (GON) and the NRB, the NRB has divested its ownership from two of these banks namely Eastern, and Central Rural Development Banks. Similarly, majority of the NRB's share ownership from Western Rural Development Bank has been handed over to the private sector. But, the NRB still holds 63.17 percent and 68.46 percent shares in Mid-Western and Far Western Rural Development Banks respectively. However, the holding of the GON in Eastern (8.25 percent), Western (16.5 percent), Central (16.5 percent) and Far Western (8.46 percent) since the establishment of these banks remains intact.
- 1.121 Five of the grameen bank replicates are: Nirdhan, Chhimek, Swabalamban, Deprosc, and Nerude, all established by the private sector.
- 1.122 In addition to five rural development banks and five grameen bank replicates, two of the micro-finance institutions namely Rural Micro-finance Development Center (RMDC) and Small Farmers Development Bank (SFDB) have been providing wholesale banking services to the micro finance institutions operating in the rural areas. The RMDC was established on October 30, 1998 and has been providing wholesale lending to development banks, micro finance development banks, cooperatives, non-governmental organization etc. And the SFDB, established on July 6, 2001, lends to Small Farmers Cooperatives Limited (SFCLs). The paid up capital of RMDC, established under the share ownership of the NRB, commercial banks, micro finance development banks and Credit Guarantee Corporation, was Rs. 250 million in mid-July 2007. By then, total borrowings and loan investment of this Center were Rs. 1.53 billion and Rs. 1.13 billion respectively.

Established under the share ownership of Agricultural Development Bank, the GON, Nepal Bank Limited, Nabil Bank and Small Farmers Cooperative Limited (SFCLs), the paid up capital of SFDB was Rs. 119.9 million as of mid-July 2007. The outstanding loan of the SFDB granted to 219 SFCLs was Rs.1.33 billion. And the SFDB's borrowing from commercial banks, mainly from Agricultural Development Bank, was Rs. 1.13 billion.

- 1.123 Total assets/liabilities of the above mentioned micro finance institutions recorded a growth of 28.8 percent to Rs.10.56 billion as of mid-July 2007 (Table 21). Total deposit mobilization of these institutions stood at Rs. 1 billion and total borrowing Rs. 7.19 billion. Similarly, total loan and investment were Rs. 5.58 billion and Rs. 2.35 billion respectively.

### **Rural Self Reliance Fund**

- 1.124 Established by the GON on March 1, 1991 and promoted by this Bank, Rural Self Reliance Fund (RSRF) has been providing wholesale lending to assist the micro finance activities of the cooperatives

and NGOs. As of mid-July 2007, the Fund has disbursed Rs.132.6 million and collected principal amount of Rs. 81.2 million.

**Table 1.15**  
**Financial Activities of the Rural Self Reliance Fund**

Description	(Rs. in Million)	
	Mid-July 2006	Mid-July 2007
Loan Disbursement:		
Number of Districts	47	48
Number of Institutions	250	277
Number of benefited families	9949	12228
Loan Disbursed	Rs. 101.3	Rs. 132.6
Recollected Loan	Rs. 68.5	Rs. 81.2
Outstanding Loan	Rs. 32.8	Rs. 51.4
Overdue loan (as percentage of the total outstanding loan)	8.4 percent	8.5 percent
Loan Recovery	91.7 percent	91.6 percent

### Renewed

1.125 Cooperatives are established under Cooperatives Act 1992. This Bank has licensed a small number of these cooperatives to undertake limited financial transactions. In mid-July 2007, there were 17 cooperatives licenses were renewed by this Bank. These cooperatives operate under the directives issued by this Bank in 2002 (revised in 2003). Total capital fund of these cooperatives was Rs. 355 million in mid-July 2007 compared to Rs. 324 million a year ago. Total deposit mobilized by these cooperatives from group members stood at Rs. 2.54 billion and total loans and advances at Rs. 2.23 billion. There was Rs. 178 million investments of these cooperatives in government securities, fixed deposits and others (Table 22).

1.126 There are altogether 47 NGOs licenses were renewed by this Bank to undertake limited financial transactions. These are registered under Institutions Registration Act 1977 and undertake limited banking transactions in accordance with the provision of the Financial Intermediation Related Institutions Act, 1999. The outstanding micro-credit lending of these NGOs was Rs. 775.6 million as at mid-July 2007.

### Insurance Companies

1.127 In mid-July 2007, there were altogether 21 insurance companies established under Insurance Act 1992. On these, 4 were life insurance, 16 were non-life insurance, and 1 was composite (both life and non-life). From the ownership perspective, 1 was government owned, 13 were owned by the private sector, 4 were foreign joint ventures, and 3 were foreign branches. According to the Insurance Board, the regulator of the insurance companies, total assets of these companies increased by 26.8 percent from the preceding year and reached Rs. 31.98 billion in mid-July 2007 (Table 23). Likewise, total premium collection of these companies was Rs. 7.99 billion in mid-July 2007 and such collection was Rs. 6.58 billion a year ago.

### Employees Provident Fund

1.128 The Employees Provident Fund (EPF) was established on September 16, 1962 under the Employees Provident Fund Act, 1962. The EPF manages the provident fund of government employees, army, police, teachers, government corporations, and some private companies. Total assets/liabilities of the EPF increased by 11.8 percent to Rs. 59.97 billion in mid-July 2007 (Table 24). It was Rs. 53.63 billion in the preceding year. Provident fund collection, the major item in the liabilities side, increased by 13 percent to Rs. 54.38 billion in mid-July 2007 from Rs. 48.14 billion in the preceding year.

### Citizen Investment Trust

1.129 The Citizen Investment Trust (CIT) was established on March 18, 1991 under CIT Act 1991. This Trust mobilizes the private and institutional savings, extends loans and advances, and works as an issue manager. The GON, Ministry of Finance regulates the CIT. Total assets/liabilities of the CIT increased by 16.2 percent in one year to Rs. 8.42 billion in mid-July 2007 (Table 25). Total

assets/liabilities was Rs. 7.24 billion a year ago. Fund collection, the major constituent in the liabilities side, increased by 14.8 percent to Rs. 7.71 billion in mid-July 2007 from Rs. 6.72 billion in the preceding year. Investments, the major item in the assets side, increased by 7.3 percent to Rs. 5.51 billion in mid-July 2007 from Rs. 5.14 billion in the preceding year.

### **Postal Savings Bank**

1.130 Postal Savings Bank was established under the Postal Services Department, GON and came into operation in 1976. In mid-July 2007, there were altogether 117 offices of the Postal Savings Bank engaged in collecting deposits. Total deposit collected by these offices was Rs. 700 million in mid-July 2007. One year ago, it was Rs. 425 million. Total accounts numbers were 34280 in mid-July 2007 from 25925 a year ago. There was Rs. 270 million outstanding loan extended by 49 offices of this Bank.

### **Deposit Insurance and Credit Guarantee Corporation (DICGC)**

1.131 The Deposit Insurance and Credit Guarantee Corporation (DICGC) was established on September 20, 1974 to encourage commercial banks to extend loan to priority sector so as to serve remote areas and poor families. The DICGC guarantees a number of loans including priority sector loans, livestock loan, vegetable farming loan, foreign employment loan, micro and deprived sector credit, and credit for small and medium industries. Total loan guaranteed by DICGC was Rs. 920 million as at mid-July 2007.

### **Credit Information Bureau Limited**

1.132 The Credit Information Bureau (CIB) was established in 1989 under the initiation of the NRB. It was registered as a company in September 2004 and started its operation as a company from March 2005. The CIB is the prime organization in the country acting as the repository of credit information of the consumer and commercial borrowers of all the banks and financial institutions. It collects and collates the credit information from the banks and financial institutions and disseminates them on demand. The NRB, and banks and financial institutions own the CIB. While NRB holds 10 percent share, commercial banks, development banks and finance companies hold 60 percent, 15 percent and 15 percent share respectively. As of mid-July 2007, there were 2235 borrowers blacklisted by the CIB. Though the number of total borrowers blacklisted by that time was 3339, 1104 borrowers were removed from the list.

**Table 1**  
**Growth of the World Economy**

(In Percent)

	2005	2006	Projection	
			2007	2008
World Output	4.8	5.4	5.2	4.8
Advanced Economies	2.5	2.9	2.5	2.2
Major Advanced Economies	2.3	2.6	2.1	1.9
USA	3.1	2.9	1.9	1.9
Germany	0.8	2.9	2.4	2.0
France	1.7	2.0	1.9	2.0
Japan	1.9	2.2	2.0	1.7
UK	1.8	2.8	3.1	2.3
Canada	3.1	2.8	2.5	2.3
Other Advanced Economies	3.9	4.4	4.3	3.8
Developing Countries	7.5	8.1	8.1	7.4
Emerging Asia	9.2	9.8	9.8	8.8
ASEAN - 4 *	5.1	5.4	5.6	5.6
China	10.4	11.1	11.5	10.0
South Asia**	8.6	9.1	8.4	8.0
Bangladesh	6.3	6.4	5.8	6.0
India	9.0	9.7	8.9	8.4
Pakistan	7.7	6.9	6.4	6.5

\* Indonesia, Malaysia, Philippines, Thailand.

\*\* Bangladesh, India, Maldives, Nepal, Pakistan & Sri Lanka.

Source: World Economic Outlook, IMF, Washington D.C., October 2007.

**Table 2**  
**World Trade**  
(Annual Percentage Change)

	2005	2006	Projection	
			2007	2008
World Trade Volume (goods and services)	7.5	9.2	6.6	6.7
Import				
Developed Countries	6.1	7.4	4.3	5.0
Developing Countries	12.1	14.9	12.5	11.3
Export				
Developed Countries	5.8	8.2	5.4	5.3
Developing Countries	11.1	11.0	9.2	9.0

Source: World Economic Outlook, IMF, Washington D.C., October 2007.

**Table 3**  
**World Price Situation**  
(Annual Percentage Change)

	2005	2006	Projection	
			2007	2008
Oil*	41.3	20.5	6.6	9.5
Non-fuel Goods	10.3	28.4	12.2	-6.7
Consumer Price				
Advanced Economies	2.3	2.3	2.1	2.0
Developing Countries	5.2	5.1	5.9	5.3
Developing Asia	3.6	4.0	5.3	4.4
ASEAN-4	7.3	8.2	4.0	4.2
China	1.8	1.5	4.5	3.9
South Asia	5.0	6.4	6.6	4.9
Bangladesh	7.0	6.5	7.2	6.3
India	4.2	6.1	6.2	4.4
Pakistan	9.3	7.9	7.8	7.0

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

Source: World Economic Outlook, IMF, Washington D.C., October 2007.



**Macroeconomic and Financial Overview**

**Table 4  
Macroeconomic Indicators**

S.No.	Description	2004/05	2005/06	2006/07
(Percentage change over preceding year)				
1.	<b>In Producers' Price</b>			
	(a) GDP at 2000/01 Prices	3.1	3.7	3.2
	(b) GDP at Current Prices	9.8	11.0	11.2
2.	Gross National Product (at current price)	10.5	11.5	11.5
3.	Total Consumption	10.1	14.2	10.2
4.	Total Investment (Gross Capital Formation)	18.4	12.6	16.0
5.	Gross National Savings	14.5	13.4	9.2
6.	Gross Fixed Capital Formation	7.7	15.3	9.5
7.	Gross Domestic Savings	8.0	-13.8	20.6
8.	M1	11.1	12.9	10.3
9.	M2	6.6	14.2	12.1
10.	Domestic Credit	8.3	15.6	14.0
11.	Fixed Deposits	13.8	11.7	16.7
12.	Total Exports	9.2	16.4	14.9
13.	Total Imports	8.9	2.6	0.9
14.	Gross Foreign Exchange Reserves	9.7	16.3	10.3
15.	Government Revenue	-0.2	27.0	0.0
16.	Government Expenditure	12.5	3.1	20.9
17.	Revenue Surplus	11.4	12.5	23.3
18.	Government Budget Deficit	12.9	14.9	15.9
19.	Internal Borrowings <sup>#</sup>	143.1	4.1	16.2
20.	National Urban Consumer Price Index	4.5	8.0	6.4
21.	Wholesale Price Index	7.3	8.9	9.0
As Percentage of GDP (Nominal GDP at Producers' Prices)				
1.	Total Consumption	88.4	91.0	90.3
2.	Total Investment (Gross Capital Formation)	26.5	26.8	28.0
3.	Gross National Savings	28.4	29.0	28.5
4.	Gross Fixed Capital Formation	19.9	20.7	20.4
5.	Gross Domestic Savings	11.6	9.0	9.7
6.	Gross National Disposable Income	116.9	120.0	118.8
7.	M1	17.0	17.5	17.6
8.	M2	51.0	53.6	54.9
9.	Domestic Credit	33.4	49.9*	50.1*
10.	Fixed Deposits	34.0	36.2	37.3
11.	Total Exports	10.0	9.3	8.4
12.	Total Imports	25.4	26.9	25.8
13.	Foreign Exchange Reserves	22.0	25.5	22.9
14.	Government Revenue	11.9	11.2	12.1
15.	Government Expenditure	15.3	15.7	17.4
16.	Revenue Surplus	-0.4	-1.0	-0.5
17.	Government Budget Deficit	-2.4	-2.5	-2.6
18.	Internal Borrowings <sup>#</sup>	1.9	2.0	2.1
19.	Trade Balance	-15.4	-17.6	-17.5
20.	Current Account Balance	2.0	2.2	0.5
21.	Total Outstanding External Debt	37.3	26.2	30.0

# Including change in cash balance.

\* Including the figures based on aggregate balance sheet of Agricultural Development Bank.

**Table 5**  
**Sectoral Growth of GDP**  
**(At 2000/01 Prices)**

(Percent Change)

Particulars	Growth Rate		
	2004/05	2005/06	2006/07
<b>Agricultural Sector</b>	<b>3.5</b>	<b>1.8</b>	<b>1.0</b>
Agriculture and Forestry	3.4	1.7	0.9
Fishery	7.1	9.9	3.0
<b>Non-Agricultural Sector</b>	<b>2.7</b>	<b>5.9</b>	<b>4.1</b>
<i>Industrial Sector</i>	<i>3.0</i>	<i>4.5</i>	<i>3.9</i>
Mining and Quarrying	6.8	8.3	1.5
Manufacturing	2.6	2.0	2.6
Electricity, Gas and Water	4.0	4.0	13.0
Construction	2.9	7.7	2.5
<i>Services Sector</i>	<i>2.5</i>	<i>6.4</i>	<i>4.2</i>
Wholesale and Retail Trade	-6.2	3.7	-4.5
Hotel and Restaurant	-5.4	6.0	3.5
Transport, Storage and Communication	2.0	6.9	4.4
Financial Intermediation	24.3	24.4	11.4
Real Estate, House rent and Business Activities	10.0	6.3	11.8
General Administration and Defense	6.6	6.9	1.3
Education	9.8	3.7	6.2
Health and Social Services	11.3	5.9	6.7
Other Communities, Social and Personal Services	-3.4	3.3	11.8
<b>Gross Domestic Product (at Producers' Prices)</b>	<b>3.1</b>	<b>3.7</b>	<b>3.2</b>

Source: Central Bureau of Statistics.

**Table 6**  
**Growth Rate of Agricultural Production Index**

Agriculture Product	Weight %	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
		Percentage Change					
<b>Cereals and Other Crops</b>	<b>49.41</b>	<b>2.3</b>	<b>2.0</b>	<b>3.4</b>	<b>1.5</b>	<b>1.4</b>	<b>-2.7</b>
Paddy	20.75	-1.2	-0.8	7.8	-3.7	-1.9	-12.6
Maize	6.88	1.8	3.9	1.3	7.9	1.1	4.9
Wheat	7.14	8.7	6.8	3.2	4.0	-3.3	8.7
Millet	1.37	-0.1	0.1	0.2	2.3	0.4	-2.1
Barley/naked barley	0.22	1.0	3.0	-11.2	4.2	-5.3	1.8
Potato	4.67	12.1	4.0	7.3	5.8	13.6	-1.6
Sugarcane	1.24	1.6	4.2	-1.6	3.1	3.6	5.6
Jute	0.17	-2.4	6.5	-0.9	-4.0	15.2	-10.1
Tobacco	0.06	-5.3	-8.1	-4.3	-8.9	-9.9	-2.6
Soyabean	0.19	3.2	3.7	3.7	2.4	-1.4	1.1
Pulses	4.42	1.0	3.0	-11.2	4.2	13.6	2.6
Others	2.29	1.4	-2.8	-2.0	5.7	-3.4	-2.7
<b>Vegetables and Nursery Products</b>	<b>9.71</b>	<b>5.1</b>	<b>3.6</b>	<b>5.0</b>	<b>9.3</b>	<b>6.0</b>	<b>6.3</b>
Vegetables	9.70	5.1	3.6	5.0	9.3	6.0	6.3
Others	0.01	-1.9	7.7	7.6	8.5	-2.5	-1.9
<b>Fruits and Spices</b>	<b>7.04</b>	<b>-1.0</b>	<b>21.6</b>	<b>2.8</b>	<b>6.6</b>	<b>-0.8</b>	<b>5.8</b>
Orange	0.97	7.8	6.3	6.3	7.0	-2.4	14.9
Mango	1.56	-21.8	36.1	-18.7	27.7	-2.4	5.4
Banana	0.40	0.6	1.6	1.8	1.4	-2.4	5.8
Apple	0.42	1.6	2.3	3.0	2.8	-2.4	1.2
Spice Crops	1.79	7.1	48.7	13.3	1.5	1.6	3.9
Tea	0.05	13.3	9.0	42.1	8.2	10.0	8.2
Coffee	0.004	56.2	35.3	16.0	14.6	20.1	19.3
Others	1.85	2.8	2.2	2.5	2.1	-2.4	4.8
<b>Farming of Domestic Animal and Dairy</b>	<b>23.25</b>	<b>2.5</b>	<b>3.2</b>	<b>3.4</b>	<b>2.1</b>	<b>2.5</b>	<b>3.1</b>
Buffalo Meat	4.42	2.1	2.6	2.1	4.0	2.2	3.5
Mutton	3.24	1.9	2.5	2.0	2.6	2.5	4.7
Milk	12.36	3.1	3.2	3.0	3.4	2.9	2.9
Others	3.23	1.5	5.0	8.0	-5.4	1.3	1.9
<b>Other Animals Farming</b>	<b>2.43</b>	<b>7.0</b>	<b>0.6</b>	<b>0.9</b>	<b>1.7</b>	<b>0.5</b>	<b>7.8</b>
Pig's Meat	0.50	2.3	0.2	-1.5	2.2	0.3	1.7
Poultry Meat	0.67	6.3	4.4	7.2	-2.5	0.9	3.3
Eggs	0.81	6.1	3.5	3.3	1.8	2.3	2.8
Hides and Skin	0.35	18.6	-10.3	-10.0	8.3	-3.7	44.3
Others	0.10	1.4	-3.3	-12.9	4.0	0.6	0.2
<b>Forestry, Logging and related Services</b>	<b>8.07</b>	<b>1.9</b>	<b>1.9</b>	<b>1.0</b>	<b>0.2</b>	<b>-2.5</b>	<b>1.7</b>
Timber	1.09	5.8	4.4	-3.3	-2.3	-1.4	2.7
Firewood	4.94	1.8	2.0	2.2	-0.7	-4.3	-0.2
Medicinal/Herbal Products	0.02	3.4	3.5	3.0	4.4	-2.4	1.8
Other	2.03	0.1	0.1	0.5	3.9	1.4	5.7
<b>Overall Index</b>	<b>100.00</b>	<b>2.4</b>	<b>3.7</b>	<b>3.3</b>	<b>2.8</b>	<b>1.7</b>	<b>0.9</b>

Source: Central Bureau of Statistics.

**Table 7**  
**Annual Manufacturing Production Index**

S. N.	Group of Industrial Product	2003/04=100					
		Weight* %	2004/05	2005/06	2006/07 <sup>1</sup>	2005/06	2006/07
			Index			Percentage Change	
<b>1.</b>	<b>Vegetable Oils and Fats</b>	<b>15.78</b>	<b>107.02</b>	<b>108.73</b>	<b>108.24</b>	<b>1.6</b>	<b>-0.5</b>
	Vegetable Ghee	10.08	108.82	111.94	105.36	2.9	-5.9
	Mustard Oil	1.95	97.71	93.04	102.18	-4.8	9.8
	Soyabean Oil	3.74	107.29	108.57	119.47	1.2	10.0
<b>2.</b>	<b>Dairy Products</b>	<b>2.77</b>	<b>103.43</b>	<b>105.04</b>	<b>106.92</b>	<b>1.6</b>	<b>1.8</b>
	Processed Milk	2.77	103.43	105.04	106.92	1.6	1.8
<b>3.</b>	<b>Grain Mill Products and Animal Feeds</b>	<b>8.16</b>	<b>105.22</b>	<b>106.46</b>	<b>115.78</b>	<b>1.2</b>	<b>8.8</b>
	Rice	4.33	106.23	104.83	112.80	-1.3	7.6
	Wheat Flour	2.19	106.01	108.44	112.61	2.3	3.8
	Animal Feed	1.63	102.10	108.77	128.67	6.5	18.3
<b>4.</b>	<b>Other Food Products</b>	<b>7.93</b>	<b>105.38</b>	<b>110.21</b>	<b>117.73</b>	<b>4.6</b>	<b>6.8</b>
	Biscuit	1.04	108.11	112.25	115.68	3.8	3.1
	Sugar	2.92	103.93	106.21	118.26	2.2	11.3
	Noodles	2.72	105.36	112.43	116.72	6.7	3.8
	Processed Tea	1.25	106.54	113.04	120.39	6.1	6.5
<b>5.</b>	<b>Beverages</b>	<b>6.59</b>	<b>102.49</b>	<b>106.91</b>	<b>117.41</b>	<b>4.3</b>	<b>9.8</b>
	Liquor Rectified	2.39	99.62	105.18	116.53	5.6	10.8
	Beer	2.92	104.68	108.18	120.25	3.3	11.2
	Soft Drink	1.28	102.86	107.23	112.60	4.2	5.0
<b>6.</b>	<b>Tobacco Products</b>	<b>6.53</b>	<b>100.46</b>	<b>99.68</b>	<b>102.69</b>	<b>-0.8</b>	<b>3.0</b>
	Cigarette	6.53	100.46	99.68	102.69	-0.8	3.0
<b>7.</b>	<b>Textiles</b>	<b>5.2</b>	<b>105.89</b>	<b>111.82</b>	<b>121.55</b>	<b>5.6</b>	<b>8.7</b>
	Yarn	3.18	108.27	118.08	131.47	9.1	11.3
	Cotton Cloths	1.27	103.70	103.40	108.08	-0.3	4.5
	Synthetic Cloths	0.75	99.49	99.55	102.30	0.1	2.8
<b>8.</b>	<b>Other Textiles</b>	<b>6.59</b>	<b>106.34</b>	<b>108.74</b>	<b>101.34</b>	<b>2.3</b>	<b>-6.8</b>
	Woolen Carpet	4.32	105.67	106.89	96.07	1.2	-10.1
	Jute Goods	2.27	107.62	112.25	111.36	4.3	-0.8
<b>9.</b>	<b>Knitted and Crocheted Fabrics</b>	<b>1.18</b>	<b>100.72</b>	<b>97.13</b>	<b>88.25</b>	<b>-3.6</b>	<b>-9.1</b>
	Pashmina	1.18	100.72	97.13	88.25	-3.6	-9.1
<b>10.</b>	<b>Wearing Apparel</b>	<b>7.14</b>	<b>80.42</b>	<b>68.13</b>	<b>59.36</b>	<b>-15.3</b>	<b>-12.9</b>
	Garment	7.14	80.42	68.13	59.36	-15.3	-12.9
<b>11.</b>	<b>Tanning and Dressing of Leather</b>	<b>0.92</b>	<b>106.04</b>	<b>110.99</b>	<b>121.37</b>	<b>4.7</b>	<b>9.4</b>
	Processed Leather	0.92	106.04	110.99	121.37	4.7	9.4
<b>12.</b>	<b>Saw Milling and Planning of Wood</b>	<b>0.95</b>	<b>102.49</b>	<b>98.99</b>	<b>100.62</b>	<b>-3.4</b>	<b>1.6</b>
	Wood Sawn	0.95	102.49	98.99	100.62	-3.4	1.6
<b>13.</b>	<b>Paper and Paper Products</b>	<b>1.42</b>	<b>105.44</b>	<b>105.88</b>	<b>110.57</b>	<b>0.4</b>	<b>4.4</b>
	Paper excluding Newsprint	1.42	105.44	105.88	110.57	0.4	4.4
<b>14.</b>	<b>Publishing, Printing and Reproducing of Recorded</b>	<b>1.58</b>	<b>103.29</b>	<b>105.74</b>	<b>106.27</b>	<b>2.4</b>	<b>0.5</b>
	Newspaper	1.58	103.29	105.74	106.27	2.4	0.5
<b>15.</b>	<b>Other Chemical Products</b>	<b>10.34</b>	<b>105.02</b>	<b>111.68</b>	<b>123.53</b>	<b>6.3</b>	<b>10.6</b>
	Medicine	7.01	104.43	108.90	121.87	4.3	11.9
	Soap	3.33	106.26	117.53	127.03	10.6	8.1
<b>16.</b>	<b>Plastic Product</b>	<b>4.75</b>	<b>101.23</b>	<b>103.32</b>	<b>95.91</b>	<b>2.1</b>	<b>-7.2</b>
	Plastic Product	4.75	101.23	103.32	95.91	2.1	-7.2
<b>17.</b>	<b>Non-metallic Mineral Products n.e.c.</b>	<b>5.34</b>	<b>102.58</b>	<b>107.68</b>	<b>103.70</b>	<b>5.0</b>	<b>-3.7</b>
	Bricks	2.42	104.18	107.46	94.92	3.1	-11.7
	Cement	2.92	101.26	107.87	110.97	6.5	2.9
<b>18.</b>	<b>Other Fabricated Metal Products</b>	<b>3.7</b>	<b>101.29</b>	<b>109.81</b>	<b>117.36</b>	<b>8.4</b>	<b>6.9</b>
	Iron Rod and billets	3.7	101.29	109.81	117.36	8.4	6.9
<b>19.</b>	<b>Casting of Metal</b>	<b>1.45</b>	<b>102.30</b>	<b>101.61</b>	<b>96.91</b>	<b>-0.7</b>	<b>-4.6</b>
	Domestic Metal Product	1.45	102.30	101.61	96.91	-0.7	-4.6
<b>20.</b>	<b>Electric Machinery Apparatus, Wire and Cable</b>	<b>1.68</b>	<b>103.62</b>	<b>108.56</b>	<b>108.14</b>	<b>4.8</b>	<b>-0.4</b>
	Electrical Wire and Cable	1.68	103.62	108.56	108.14	4.8	-3.0
	<b>Overall Index</b>	<b>100</b>	<b>102.65</b>	<b>104.74</b>	<b>107.30</b>	<b>2.0</b>	<b>2.4</b>

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

P = Preliminary Estimate.

Source: GON, Central Bureau of Statistics.

**Table 8**  
**National Urban Consumer Price Index**  
**(Annual Average)**  
 (Base Year: 1995/96=100)

Groups/Sub-groups	Weight %	2004/05	2005/06	2006/07	Percentage Change	
					2005/06	2006/07
<b>Overall Index</b>	<b>100.00</b>	<b>161.8</b>	<b>174.7</b>	<b>185.9</b>	<b>8.0</b>	<b>6.4</b>
<b>Food and Beverages</b>	<b>53.20</b>	<b>154.7</b>	<b>166.8</b>	<b>178.8</b>	<b>7.8</b>	<b>7.2</b>
Grains and Cereal Products	18.00	145.1	164.6	175.1	13.4	6.4
Rice	(14.16)	142.4	163.6	168.1	14.9	2.8
Pulses	2.73	131.6	150.4	175.9	14.3	17.0
Vegetables and Fruits	7.89	146.9	153.8	170.8	4.7	11.1
Spices	1.85	146.5	149.1	182.6	1.8	22.5
Meat, Fish and Eggs	5.21	168.5	174.8	186.3	3.7	6.6
Milk and Milk Products	4.05	151.1	158.1	169.9	4.6	7.5
Oil and Ghee	3.07	150.8	147.4	157.3	-2.3	6.7
Sugar and Related Products	1.21	154.6	163.7	152.0	5.9	-7.1
Beverages	2.28	165.0	180.7	188.1	9.5	4.1
Restaurant Meals	6.91	192.6	204.0	210.7	5.9	3.3
<b>Non-food and Services</b>	<b>46.8</b>	<b>170.1</b>	<b>183.9</b>	<b>194.1</b>	<b>8.1</b>	<b>5.5</b>
Cloths and Clothing	8.92	141.5	145.4	148.6	2.8	2.2
Cloths	(2.28)	130.7	133.7	135.6	2.3	1.4
Clothing	(5.75)	140.5	144.6	147.9	2.9	2.3
Footwear	2.2	133.9	137.8	143.5	2.9	4.1
Housing Goods and Services	14.87	178.1	200.9	215.4	12.8	7.2
House Furnishing and Household Goods	3.5	135.9	141.4	148.7	4.0	5.2
House Rent	4.19	151.6	158.4	165.2	4.5	4.3
Cleaning	1.26	141.8	144.6	159.2	2.0	10.1
Fuel, Light & Water	(5.92)	230.3	277.6	301.5	20.5	8.6
Transport and Communication	4.03	198.2	232.8	254.8	17.5	9.5
Medical and Personal Care	8.03	172.1	176.5	181.0	2.6	2.5
Education, Reading Materials & Recreation	7.09	190.1	200.0	211.8	5.2	5.9
Tobacco & Related Products	1.66	156.2	163.1	173.1	4.4	6.1
Petroleum Product	2.71	309.8	404.4	449.0	30.5	11.0
Non-petroleum Product	97.29	157.8	168.5	178.8	6.8	6.1
<b>Urban Consumer Price Index- Kathmandu Valley</b>						
Overall Index	100.0	157.6	167.8	178.0	6.5	6.1
Food and Beverages	51.5	151.8	159.5	169.4	5.1	6.2
Non-food and Services	48.5	163.8	176.7	187.2	7.9	5.9
Petroleum Product	3.04	296.9	381.4	418.3	28.5	9.7
Non-petroleum Product	96.96	153.2	161.1	170.5	5.2	5.8
<b>Urban Consumer Price Index- Terai</b>						
Overall Index	100.0	163.8	177.9	189.9	8.6	6.7
Food and Beverages	55.0	155.0	169.5	182.8	9.4	7.8
Non-food and Services	45.0	174.5	188.1	198.6	7.8	5.6
Petroleum Product	2.54	311.4	406.9	451.5	30.7	11.0
Non-petroleum Product	97.46	159.9	171.9	183.1	7.5	6.5
<b>Urban Consumer Price Index- Hills</b>						
Overall Index	100.0	163.5	177.5	188.2	8.6	6.0
Food and Beverages	100.0	158.8	171.5	183.4	8.0	6.9
Non-food and Services	100.0	168.8	184.2	193.7	9.1	5.2
Petroleum Product	100.0	327.1	435.7	492.7	33.2	13.1
Non-petroleum Product	100.0	159.6	171.3	180.9	7.3	5.6

**Table 9**  
**National Wholesale Price Index**  
**(Annual Average)**  
 (Base Year: 1999/2000=100)

Groups/Sub-groups	Weight %	2004/05	2005/06	2006/07	Percentage Change	
		1	2	3	2/1	3/2
<b>Overall Index</b>	<b>100.0</b>	<b>123.3</b>	<b>134.3</b>	<b>146.4</b>	<b>8.9</b>	<b>9.0</b>
<b>Agricultural Commodities</b>	<b>49.6</b>	<b>118.5</b>	<b>130.2</b>	<b>145.3</b>	<b>9.9</b>	<b>11.6</b>
Food Grains	16.6	102.4	119.0	131.9	16.2	10.8
Cash Crops	6.1	147.3	159.4	183.0	8.2	14.8
Pulses	3.8	118.7	136.4	164.2	14.9	20.4
Fruits and Vegetables	11.2	114.7	120.7	131.7	5.2	9.1
Spices	1.9	102.0	108.5	132.5	6.4	22.1
Livestock Production	10.0	134.8	143.8	155.0	6.7	7.8
<b>Domestic Manufactured Commodities</b>	<b>20.4</b>	<b>121.6</b>	<b>126.0</b>	<b>136.7</b>	<b>3.6</b>	<b>8.5</b>
Food Related Products	6.1	112.0	116.4	125.9	3.9	8.2
Beverages and Tobacco	5.7	122.2	128.2	135.2	4.9	5.5
Construction Materials	4.5	145.9	149.1	172.3	2.2	15.6
Other	4.1	108.5	111.9	115.9	3.1	3.6
<b>Imported Goods</b>	<b>30.0</b>	<b>132.3</b>	<b>146.5</b>	<b>154.7</b>	<b>10.7</b>	<b>5.6</b>
Petroleum Products and Coal	5.4	196.2	244.5	267.3	24.6	9.3
Chemical Fertilizers and Chemical Goods	2.5	143.1	162.1	169.5	13.3	4.6
Transport Vehicles and Machinery Goods	7.0	117.3	125.3	128.2	6.8	2.3
Electric and Electronic Goods	1.9	96.7	96.2	95.6	-0.5	-0.6
Medicine	2.7	108.3	111.7	113.5	3.1	1.6
Textile Related Products	3.1	113.2	111.2	110.7	-1.8	-0.4
Others	7.4	122.2	130.4	141.5	6.7	8.5

**Macroeconomic and Financial Overview**

**Table 10  
Monetary Survey  
(Mid- July)**

(Rs. in million)

	2005	2006	006 <sub>(ADB)</sub>	2007 <sup>E</sup>	Amount Change		Percentage Change	
					2005/06	2006/07	2005/06	2006/07
<b>1. Foreign Assets, net</b>	<b>107742.1</b>	<b>139439.1</b>	<b>139439.2</b>	<b>131889.1</b>	<b>25597.6<sup>1</sup></b>	<b>5883.9<sup>2</sup></b>	<b>23.8</b>	<b>4.2</b>
1.1 Foreign Assets	130916.8	166101.6	166101.7	165693.1	35184.8	-408.6	26.9	-0.2
1.2 Foreign Currency Deposits	21557.2	25088.2	25088.1	28247.2	3531.0	3159.1	16.4	12.6
1.3 Other Foreign Liabilities	1617.6	1574.4	1574.4	5556.8	-43.2	3982.5	-2.7	253.0
<b>2. Net Domestic Assets</b>	<b>192697.9</b>	<b>207982.5</b>	<b>207384.8</b>	<b>263431.5</b>	<b>21384.0<sup>1</sup></b>	<b>42612.7<sup>2</sup></b>	<b>11.1</b>	<b>20.5</b>
2.1 <i>Domestic Credit</i>	280240.4	302069.9	322683.8	360558.1	21829.5	37874.4	7.8	11.7
Domestic Credit*	280240.4	313116.5	322683.8	376581.9	32876.1	53898.2	11.7	16.7
(a) Net Claims on Govt*	63894.5	70568.0	70970.6	78343.6	6673.5	7373.1	10.4	10.4
Claims on Govt	63894.5	70568.0	70970.6	81466.2	6673.5	10495.6	10.4	14.8
Govt Deposits	0.0	0.0	0.0	3122.5	0.0	3122.5	-	-
(b) Claims on Non-Financial Govt Enterprises	6566.2	4460.9	4560.9	5114.9	-2105.3	554.0	-32.1	12.1
(c) Claims on Financial Enterprises	12762.8	12719.8	3581.9	3622.2	-43.1	40.3	0.3	1.1
Government	12730.8	12660.5	1808.3	1713.0	-70.3	-95.3	-0.6	-5.3
Non-Govt.	32.0	59.3	1773.6	1909.2	27.3	135.6	85.2	7.6
(D) Claims on Private Sector	197016.9	214321.3	243570.4	273477.4	17304.4	29907.0	8.8	12.3
Claims on Private Sector*	197016.9	225367.9	243570.4	289501.2	28351.0	45930.8	14.4	18.9
2.2 <i>Net Non-Monetary Liabilities</i>	87542.5	94087.3	115298.9	97126.6	445.5 <sup>1</sup>	-4738.3 <sup>2</sup>	0.5	-4.1
Net Non-Monetary Liabilities*	87542.5	105133.9	115298.9	113150.4	11492.1	11285.5	13.1	9.8
<b>3. Broad Money Supply (M2)</b>	<b>300439.9</b>	<b>347421.6</b>	<b>346824.0</b>	<b>395320.5</b>	<b>46981.7</b>	<b>48496.5</b>	<b>15.6</b>	<b>14.0</b>
3.1 <i>Money Supply (M1)</i>	100205.7	114388.6	113060.7	126690.3	14182.9	13629.6	14.2	12.1
Currency	68784.1	77926.3	77780.4	83515.8	9142.2	5735.4	13.3	7.4
Demand Deposits	31421.6	36462.3	35280.3	43174.3	5040.7	7894.0	16.0	22.4
3.2 <i>Time Deposits</i>	200234.2	233033.0	233763.3	268630.2	32798.8	34866.9	16.4	14.9
<b>4. Reserve Money</b>	<b>96539.2</b>	<b>110898.1</b>	<b>110898.1</b>	<b>119342.4</b>	<b>14358.8</b>	<b>8444.4</b>	<b>14.9</b>	<b>7.6</b>
<b>5. Narrow Money Multiplier</b>	<b>1.038</b>	<b>1.031</b>	<b>1.020</b>	<b>1.062</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.6</b>	<b>4.1</b>
<b>6. Broad Money Multiplier</b>	<b>3.112</b>	<b>3.133</b>	<b>3.127</b>	<b>3.312</b>	<b>0.0</b>	<b>0.2</b>	<b>0.7</b>	<b>5.9</b>

E Estimates.

1 Adjusting exchange valuation gain of Rs. 6099.38 million.

2 Adjusting exchange valuation loss of Rs. 13433.95 million.

\* Adjusting credit write off Rs. 11.05 billion (Rs. 3629.2 million in principal and Rs. 7417.4 in interest) by NBL at mid-July 2006 in the series of July 2006 and Rs. 2869.3 million (Rs. 821.7 million in principal and Rs. 2047.6 million in interest) by NBL at mid-October 2006 and Rs. 13154.5 million (Rs. 4055.2 million in principal and Rs. 9099.3 million in interest) by RBB at mid-December 2006.

**Table 11**  
**Government Budgetary Operation\***  
(On Cash Basis)

(Rs. in million)

Heads	Amount			Percent Change	
	2004/05	2005/06	2006/07	2005/06	2006/07
<b>Sanctioned Expenditure</b>	<b>92801.4</b>	<b>104022.6</b>	<b>127768.8</b>	<b>12.1</b>	<b>22.8</b>
Recurrent	59983.5	65415.2	74625.6	9.1	14.1
Capital	17891.3	22032.9	34262.1	23.1	55.5
(a) Domestic Resources and Loans	17617.4	19083.3	28124.8	8.3	47.4
(b) Foreign Grants	273.9	2949.6	6137.3	976.9	108.1
Principal Repayment	13536.3	14267.8	16761.7	5.4	17.5
Others (Freeze Account)	1390.3	2306.7	2119.4	65.9	-8.1
<b>Unspent Government Balance</b>	<b>2420.3</b>	<b>2385.9</b>	<b>2445.2</b>	<b>-1.4</b>	<b>2.5</b>
Recurrent	965.8	834.5	485.8	-13.6	-41.8
Capital	1451.5	1548.3	1954.9	6.7	26.3
Principal Repayment	3.0	3.1	4.5	3.3	45.2
<b>Actual Expenditure</b>	<b>90381.1</b>	<b>101636.7</b>	<b>125323.6</b>	<b>12.5</b>	<b>23.3</b>
Recurrent	59017.7	64580.7	74139.8	9.4	14.8
Capital	16439.8	20484.6	32307.2	24.6	57.7
Principal Repayment	13533.3	14264.7	16757.2	5.4	17.5
Others (Freeze Account)	1390.3	2306.7	2119.4	65.9	-8.1
<b>Resources excluding Local Authorities' Account</b>	<b>76085.7</b>	<b>85208.9</b>	<b>106560.8</b>	<b>12.0</b>	<b>25.1</b>
Revenue	70122.8	72282.1	87712.1	3.1	21.3
Foreign Grants	5246.4	8884.9	12749.8	69.4	43.5
Non-budgetary Receipts, net	753.8	1304.5	4974.0	73.1	281.3
Others #	9.5	-602.1	22.3	-6437.9	-103.7
VAT	-46.8	171.1	-138.8	-465.6	-181.1
Local Authorities' Account (LAA)	-	3168.4	1241.4	-	-60.8
<b>Deficit (-) Surplus(+)</b>	<b>-14295.4</b>	<b>-16427.8</b>	<b>-18762.8</b>	<b>14.9</b>	<b>14.2</b>
<b>Sources of Deficit Financing</b>	<b>14295.4</b>	<b>16427.8</b>	<b>18762.8</b>	<b>14.9</b>	<b>14.2</b>
<b>Internal Loans</b>	<b>12085.7</b>	<b>12582.0</b>	<b>14338.5</b>	<b>4.1</b>	<b>14.0</b>
Domestic Borrowings (Except overdraft & others)	8938.1	11834.2	17892.3	32.4	51.2
(a) Treasury Bills	5471.2	10834.2	12051.5	98.0	11.2
(b) Development Bonds	3000.0	750.0	5500.0	-75.0	633.3
(c) National Saving Certificates	216.9	0.0	0.0	-100.0	-
(d) Citizen Saving Certificates	250.0	250.0	340.8	0.0	36.3
Overdraft+	2623.0	1071.0	-3122.5	-59.2	-391.5
Other @	524.6	-323.2	-431.3	-161.6	-33.4
<b>Foreign Loans</b>	<b>2209.7</b>	<b>3845.8</b>	<b>4424.3</b>	<b>74.0</b>	<b>15.0</b>

\* = As per NRB records.

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

+ = Minus sign indicates surplus.

@ = Interest from government treasury transactions and others.



**Table 12**  
**Outstanding Domestic Debt of the Government of Nepal**

(Rs. in million)

S. N.	Bonds & Ownership	Amount			Amount Change		Percentage Change	
		2004/05	2005/06	2006/07 <sup>E</sup>	2005/06	2006/07	2005/06	2006/07
1.	<b>Treasury Bills</b>	<b>51383.1</b>	<b>62970.3</b>	<b>74445.3</b>	<b>11587.2</b>	<b>11475.1</b>	<b>22.6</b>	<b>18.2</b>
	(a) Banking Sector	50425.4	60855.1	72380.3	10429.7	11525.2	20.7	18.9
	<i>Nepal Rastra Bank</i>	10923.8	9209.3	13768.8	-1714.5	4559.6	-15.7	49.5
	<i>Commercial Banks</i>	39501.6	51645.8	58611.5	12144.2	6965.7	30.7	13.5
	(b) Non-banking Sector	957.7	2115.2	2065.0	1157.5	-50.2	120.9	-2.4
2.	<b>Development Bond</b>	<b>19999.2</b>	<b>17959.2</b>	<b>19177.1</b>	<b>-2040.0</b>	<b>1217.9</b>	<b>-10.2</b>	<b>6.8</b>
	(a) Banking Sector	9623.2	7789.6	7798.9	-1833.6	9.3	-19.1	0.1
	<i>Nepal Rastra Bank</i>	1518.7	1518.6	1518.6	-0.1	0.0	0.0	0.0
	<i>Commercial Banks</i>	8104.5	6271.0	6280.3	-1833.5	9.3	-22.6	0.1
	(b) Non-banking Sector	10376.0	10169.6	11378.2	-206.4	1208.6	-2.0	11.9
3.	<b>National Saving certificate</b>	<b>6576.8</b>	<b>3876.8</b>	<b>1516.9</b>	<b>-2700.0</b>	<b>-2359.8</b>	<b>-41.1</b>	<b>-60.9</b>
	(a) Banking Sector	231.4	254.4	279.5	23.0	25.1	9.9	9.9
	<i>Nepal Rastra Bank</i>	231.4	254.4	279.5	23.0	25.1	9.9	9.9
	<i>Commercial Banks</i>	0.0	0.0	0.0	0.0	0.0	-	-
	(b) Non-banking Sector	6345.4	3622.4	1237.4	-2723.0	-2385.0	-42.9	-65.8
4.	<b>Citizen Saving Certificates</b>	<b>1428.9</b>	<b>1678.9</b>	<b>1391.0</b>	<b>250.0</b>	<b>-287.9</b>	<b>17.5</b>	<b>-17.1</b>
	(a) Banking Sector	49.6	55.3	62.7	5.7	7.4	11.5	13.3
	<i>Nepal Rastra Bank</i>	49.6	55.3	62.7	5.7	7.4	11.5	13.3
	(b) Non-banking Sector	1379.3	1623.6	1328.3	244.3	-295.3	17.7	-18.2
5.	<b>Special Bonds</b>	<b>3454.0</b>	<b>3469.8</b>	<b>2773.5</b>	<b>15.8</b>	<b>-696.3</b>	<b>0.5</b>	<b>-20.1</b>
	(a) Banking Sector	944.6	944.6	944.6	0.0	0.0	0.0	0.0
	<i>Commercial Banks</i>	944.6	944.6	944.6	0.0	0.0	0.0	0.0
	(b) Non-banking Sector	2509.4	2525.2	1828.9	15.8	-696.3	0.6	-27.6
	Of which duty drawback	1035.9	1051.8	355.4	15.9	-696.4	1.5	-66.2
6.	<b>Short term Loans and Advances</b>	<b>2623.0</b>	<b>1071.0</b>	<b>-3122.5</b>	<b>-1552.0</b>	<b>-4193.5</b>	<b>-59.2</b>	<b>-391.5</b>
	Nepal Rastra Bank	2623.0	1071.0	-3122.5	-1552.0	-4193.5	-59.2	-391.5
7.	<b>Grand Total</b>	<b>85465.0</b>	<b>91025.9</b>	<b>96181.4</b>	<b>5560.9</b>	<b>5155.5</b>	<b>6.5</b>	<b>5.7</b>
	(a) Banking Sector	63897.2	70970.1	78343.6	7072.9	7373.5	11.1	10.4
	<i>Nepal Rastra Bank</i>	15346.5	12108.6	12507.2	-3237.9	398.6	-21.1	3.3
	<i>Commercial Banks</i>	48550.7	58861.4	65836.4	10310.7	6975.0	21.2	11.8
	(b) Non-banking Sector	21567.8	20055.8	17837.8	-1512.0	-2218.0	-7.0	-11.1

E = Estimate.

**Table 13**  
**Direction of Foreign Trade\***

(Rs. in million)

	2004/05	2005/06	2006/07 <sup>P</sup>	Percent Change	
				2005/06	2006/07
<b>Total Export</b>	<b>58705.7</b>	<b>60234.1</b>	<b>60795.8</b>	<b>2.6</b>	<b>0.9</b>
To India	38916.9	40714.7	41874.8	4.6	2.8
To Other Countries	19788.8	19519.4	18921.0	-1.4	-3.1
<b>Total Import</b>	<b>149473.6</b>	<b>173780.3</b>	<b>191708.8</b>	<b>16.3</b>	<b>10.3</b>
From India	88675.5	107143.1	117740.4	20.8	9.9
From Other Countries	60798.1	66637.2	73968.4	9.6	11.0
<b>Total Trade Balance</b>	<b>-90767.9</b>	<b>-113546.2</b>	<b>-130913.0</b>	<b>25.1</b>	<b>15.3</b>
With India	-49758.6	-66428.4	-75865.6	33.5	14.2
With Other Countries	-41009.3	-47117.8	-55047.4	14.9	16.8
<b>Total Foreign Trade</b>	<b>208179.3</b>	<b>234014.4</b>	<b>252504.6</b>	<b>12.4</b>	<b>7.9</b>
With India	127592.4	147857.8	159615.2	15.9	8.0
With Other Countries	80586.9	86156.6	92889.4	6.9	7.8

\* Based on customs data.

P = Provisional.

**Table 14**  
**Exports of Selected Commodities to Other Countries**

(Rs. in million)

		2004/05	2005/06	2006/07 <sup>P</sup>	Percent Change	
					2005/06	2006/07
	<b>Major Items</b>	<b>14824.2</b>	<b>15241.0</b>	<b>13486.5</b>	<b>2.8</b>	<b>-11.5</b>
1	Handicraft (Metal and Wooden)	644.2	430.9	196.1	-33.1	-54.5
2	Herbs	54.7	19.0	39.5	-65.3	107.9
3	Nepalese Paper & Paper Products	239.8	257.0	190.6	7.2	-25.8
4	Nigerseed	0.0	7.0	8.8	#DIV/0!	25.7
5	Pashmina	1049.8	1577.8	931.0	50.3	-41.0
6	Pulses	106.5	191.7	488.1	80.0	154.6
7	Readymade Garments	6124.6	6204.1	5205.5	1.3	-16.1
8	Readymade Leather Goods	30.2	14.4	111.1	-52.3	671.5
9	Silverware and Jewelleries	363.2	282.4	325.4	-22.2	15.2
10	Tanned Skin	235.8	310.4	275.5	31.6	-11.2
11	Tea	106.7	107.6	114.7	0.8	6.6
12	Woolen Carpet	5868.7	5838.7	5600.2	-0.5	-4.1
	<b>Others</b>	<b>4964.6</b>	<b>4278.4</b>	<b>5434.5</b>	<b>-13.8</b>	<b>27.0</b>
	<b>Total (A+B)</b>	<b>19788.8</b>	<b>19519.4</b>	<b>18921.0</b>	<b>-1.4</b>	<b>-3.1</b>

P = Provisional.

Macroeconomic and Financial Overview

**Table 15**  
**Balance of Payments**

(Rs. in million)

	Particulars	2004/05	2005/06	2006/07P	Percent Change	
					2005/06	2006/07
<b>(A)</b>	<b>Current Account</b>	<b>11544.6</b>	<b>14224.5</b>	<b>3496.0</b>	<b>23.2</b>	<b>-75.4</b>
	Exports f.o.b.	59956.1	61482.4	62900.8	2.5	2.3
	<i>Oil</i>	0.0	0.0	0.0	-	-
	<i>Others</i>	59956.1	61482.4	62900.8	2.5	2.3
	Imports f.o.b.	-145718.2	-171540.8	-187451.3	17.7	9.3
	<i>Oil</i>	-26653.6	-33657.2	-33548.7	26.3	-0.3
	<i>Others</i>	-119064.6	-137883.6	-153902.6	15.8	11.6
	Balance on Goods	<b>-85762.1</b>	<b>-110058.4</b>	<b>-124550.5</b>	<b>28.3</b>	<b>13.2</b>
	<b>Services Net</b>	<b>-2034.2</b>	<b>-6818.3</b>	<b>-8377.3</b>	<b>235.2</b>	<b>22.9</b>
	Services: Credit	26001.9	26469.7	32078.9	1.8	21.2
	<i>Travel</i>	10463.8	9555.8	10125.3	-8.7	6.0
	<i>Government n.i.e.</i>	6804.9	7441.5	12336.4	9.4	65.8
	<i>Other</i>	8733.2	9472.4	9617.2	8.5	1.5
	Services: Debit	-28036.1	-33288.0	-40456.2	18.7	21.5
	<i>Transportation</i>	-10602.2	-12592.3	-14557.4	18.8	15.6
	<i>Travel</i>	-9691.9	-11960.8	-15785.0	23.4	32.0
	<i>Other</i>	-7742.0	-8734.9	-10113.8	12.8	15.8
	Balance of Goods and Services	<b>-87796.3</b>	<b>-116876.7</b>	<b>-132927.8</b>	<b>33.1</b>	<b>13.7</b>
	<b>Income Net</b>	<b>1636.5</b>	<b>4955.5</b>	<b>7431.8</b>	<b>202.8</b>	<b>50.0</b>
	Income: Credit	7751.6	11432.3	14500.8	47.5	26.8
	Income: Debit	-6115.1	-6476.8	-7069.0	5.9	9.1
	Balance of Goods, Services and Income	<b>-86159.8</b>	<b>-111921.2</b>	<b>-125496.0</b>	<b>29.9</b>	<b>12.1</b>
	<b>Current transfers Net</b>	<b>97704.4</b>	<b>126145.7</b>	<b>128992.0</b>	<b>29.1</b>	<b>2.3</b>
	Current Transfers: Credit	101310.1	130861.7	133196.8	29.2	1.8
	<i>Grants</i>	21071.9	18851.1	18218.2	-10.5	-3.4
	<b>Workers' Remittances</b>	<b>65541.2</b>	<b>97688.5</b>	<b>100144.8</b>	<b>49.0</b>	<b>2.5</b>
	<i>Pensions</i>	12502.2	12007.6	12937.0	-4.0	7.7
	<i>Other</i>	2194.8	2314.5	1896.8	5.5	-18.0
	Current Transfers: Debit	-3605.7	-4716.0	-4204.8	30.8	-10.8
<b>(B)</b>	<b>Capital Account</b>	<b>1573.6</b>	<b>3107.0</b>	<b>4449.9</b>	<b>97.4</b>	<b>43.2</b>
	Total, Groups A plus B	<b>13118.2</b>	<b>17331.5</b>	<b>7945.9</b>	<b>32.1</b>	<b>-54.2</b>
<b>(C)</b>	<b>Financial Account (excluding group e)</b>	<b>-25536.9</b>	<b>-1324.5</b>	<b>-2362.1</b>	<b>-94.8</b>	<b>78.3</b>
	Direct Investment Abroad	136.0	-469.7	362.3	-445.4	-177.1
	Portfolio Investment	0.0	0.0	0.0	0.0	0.0
	Other Investment: Assets	-21863.2	-14008.8	-10690.0	-35.9	-23.7
	<i>Trade Credits</i>	-323.8	-1629.5	-5127.6	403.2	214.7
	<i>Other</i>	-21539.4	-12379.3	-5562.4	-42.5	-55.1
	Other Investment: Liabilities	-3809.7	13154.0	7965.6	-445.3	-39.4
	<i>Trade Credits</i>	-4489.0	9232.5	1727.8	-305.7	-81.3
	<i>Loans</i>	744.4	526.9	1455.6	-29.2	176.3
	General Government	1300.4	703.7	2150.7	-45.9	205.6
	<i>Drawings</i>	7253.7	7691.0	9689.7	6.0	26.0
	<i>Repayments</i>	-5953.3	-6987.3	-7539.0	17.4	7.9
	Other Sectors	-556.0	-176.8	-695.1	-68.2	293.2
	<i>Currency and Deposits</i>	-65.1	3394.6	4782.2	-5314.4	40.9
	NRB	46.2	-116.5	2.4	-352.2	-102.1
	Deposit Money Banks	-111.3	3511.1	4779.8	-3254.6	36.1
	<i>Other Liabilities</i>	0.0	0.0	0.0	0.0	0.0
	Total, Groups A through C	<b>-12418.7</b>	<b>16007.0</b>	<b>5583.8</b>	<b>-228.9</b>	<b>-65.1</b>
<b>(D)</b>	<b>Net Errors and Omissions</b>	<b>18095.7</b>	<b>12985.4</b>	<b>5082.3</b>	<b>-28.2</b>	<b>-60.9</b>
	Total, Groups A through D	<b>5677.0</b>	<b>28992.4</b>	<b>10666.1</b>	<b>410.7</b>	<b>-63.2</b>
<b>(E)</b>	<b>Reserves and Related Items</b>	<b>-5677.0</b>	<b>-28992.4</b>	<b>-10666.1</b>	<b>410.7</b>	<b>-63.2</b>
	Reserve Assets	-6462.2	-28992.3	-13389.8	348.6	-53.8
	<i>NRB</i>	-3251.3	-21297.1	-10942.8	555.0	-48.6
	<i>Deposit Money Banks</i>	-3210.9	-7695.2	-2447.0	139.7	-68.2
	Use of Fund Credit and Loans	785.2	-0.1	2723.7	-100.0	-
	<b>Change in Net Foreign Assets (-increase)</b>	<b>-5742.1</b>	<b>-25597.8</b>	<b>-5883.9</b>	<b>345.8</b>	<b>-77.0</b>

P = Provisional.

**Table 16**  
**Gross Foreign Exchange Holding of the Banking System**

(Rs. in million)

	2005	2006	2007P	Percent Change	
				2003/04	2004/05
<b>Nepal Rastra Bank</b>	<b>104423.7</b>	<b>131967.6</b>	<b>129606.0</b>	<b>26.4</b>	<b>-1.8</b>
Convertible	100823.6	124147.2	123734.9	23.1	-0.3
Non Convertible	3600.1	7820.4	5871.1	117.2	-24.9
<b>Commercial Banks</b>	<b>25472.7</b>	<b>33065.4</b>	<b>35499.6</b>	<b>29.8</b>	<b>7.4</b>
Convertible	23154.9	31790.7	31681.0	37.3	-0.3
Non Convertible	2317.8	1274.7	3818.6	-45.0	199.6
<b>Total Reserve</b>	<b>129896.4</b>	<b>165033.0</b>	<b>165105.6</b>	<b>27.0</b>	<b>0.0</b>
Convertible	123978.5	155937.9	155415.9	25.8	-0.3
Non Convertible	5917.9	9095.1	9689.7	53.7	6.5

P = Provisional.

**Table 17**  
**Stock Market Indicators**

S. No.	Particulars	2002/03	2003/04	2004/05
1.	No. of listed companies	125	135	135
2.	Paid-up capital of the listed companies (Rs. in million)	16671	19958	21746
3.	Total Market capitalization (Rs. in million)	61366	96763	186300
4.	Annual turnover (Rs. in million)	4508	3452	8360
5.	Market days	236	228	232
6.	No. of companies traded	102	110	116
7.	No. of transactions	106246	97374	120510
8.	No. of listed shares (in '000)	194673	226540	243504
9.	No. of shares traded (in '000)	18433.5	12221.9	18147
10.	Ratio of paid-up capital to GDP (%)	3.8	3.1	3.0
11.	Ratio of turnover to paid-up capital (%)	26.9	17.3	38.4
12.	Ratio of turnover to market capitalization (%)	7.3	3.56	4.49
13.	Ratio of market capitalization to GDP (%)	10.4	15.0	25.9
14.	NEPSE Index (closing)	286.6	386.8	683.95

Source: Nepal Stock Exchange Ltd.

**Table 18**  
**Condensed Assets and Liabilities of Commercial Banks**  
**(Mid-July)**

(Rs. in million)

	2005	2006	2006**	2007 <sup>P</sup>	Amount Change		Percent Change	
					2005/06	2006/07	2005/06	2006/07
<b>1. Total Deposits</b>	250464.9	290427.6	289975.9	334453.3	39962.7	44477.4	16.0	15.3
1.1 Demand Deposits	34120.0	36898.2	35716.1	42692.2	2778.2	6976.1	8.1	19.5
(a) Domestic Deposits	28673.5	32306.4	31124.4	37575.8	3632.9	6451.4	12.7	20.7
(b) Foreign Deposits	5446.5	4591.8	4591.7	5116.4	-854.7	524.7	-15.7	11.4
1.2 Saving Deposits	130013.6	151573.2	151710.7	174633.9	21559.6	22923.1	16.6	15.1
(a) Domestic Deposits	123917.8	145639.2	145776.8	168320.4	21721.4	22543.6	17.5	15.5
(b) Foreign Deposits	6095.8	5934.0	5934.0	6313.5	-161.8	379.5	-2.7	6.4
1.3 Fixed Deposits	84137.4	99475.4	100068.2	114032.5	15338.0	13964.3	18.2	14.0
(a) Domestic Deposits	74122.5	84912.9	85505.7	97215.1	10790.4	11709.4	14.6	13.7
(b) Foreign Deposits	10014.9	14562.5	14562.5	16817.3	4547.6	2254.9	45.4	15.5
1.4 Margin Deposits	2194.0	2480.9	2480.9	3094.7	286.9	613.9	13.1	24.7
<b>2. Borrowings from NRB</b>	1724.0	329.2	329.2	1870.8	-1394.8	1541.6	-80.9	468.4
<b>3. Foreign Liabilities</b>	27.6	7.7	7.7	1628.5	-19.9	1620.8	-72.1	21035.2
<b>4. Other Liabilities</b>	88416.0	86951.8	105652.3	101782.9	-1464.3	-3869.4	-1.7	-3.7
4.1 Paid-up Capital	9723.9	10571.7	17049.7	20017.1	847.9	2967.3	8.7	17.4
4.2 General Reserves	14777.4	9466.6	9746.2	4330.7	-5310.8	-5415.6	-35.9	-55.6
4.3 Other Liabilities	63914.7	66913.4	78856.3	77435.1	2998.6	-1421.2	4.7	-1.8
Other Liabilities*	88416.0	95621.3	105652.2	117806.7	7205.2	12154.4	8.1	11.5
<b>Assets=Liabilities</b>	340632.5	377716.3	395965.1	439735.4	37083.7	43770.4	10.9	11.1
<b>5. Liquid Funds</b>	50222.8	61671.4	61817.3	65200.9	11448.6	3383.6	22.8	5.5
5.1 Cash in Hand	4773.0	5908.6	6054.4	7359.8	1135.6	1305.3	23.8	21.6
5.2 Balance with NRB	20234.0	22907.3	22907.3	22868.3	2673.3	-39.0	13.2	-0.2
5.3 Foreign Currency in Hand	374.8	399.2	399.2	454.0	24.4	54.8	6.5	13.7
5.4 Balance Held Abroad	24045.1	31401.9	31401.9	33933.0	7356.8	2531.1	30.6	8.1
5.5 Cash in Transit	795.9	1054.5	1054.5	585.8	258.6	-468.7	32.5	-44.4
<b>6. Loans and Advances</b>	260867.3	286970.1	307583.9	340354.9	26102.7	32771.0	10.0	10.7
Loans and Advances*	260867.3	286970.1	307583.9	356378.7	26102.7	48794.8	10.0	15.9
6.1 Claims on Government	48550.7	58459.3	58861.9	65850.0	9908.6	6988.1	20.4	11.9
6.2 Claims on Non-financial Government Enterprises	6557.7	4452.4	4552.4	5106.4	-2105.3	554.0	-32.1	12.2
6.3 Claims on Financial Enterprises	11436.2	11681.3	2543.5	2925.3	245.2	381.8	2.1	15.0
Government	11436.2	11681.3	829.1	1055.1	245.2	225.9	0	27.3
Non-government	0.0	0.0	1714.4	1870.2	0.0	155.9	-	9.1
6.4 Claims on Private Sector	193270.0	211112.7	240361.9	265360.6	17842.7	24998.8	9.2	10.4
Claims on Private Sector*	193270.0	222159.3	240361.9	281384.4	28889.3	41022.6	14.9	17.1
(a) Principal	154803.4	175021.4	198215.2	231949.1	20218.0	33733.9	13.1	17.0
Principal*	154803.4	178650.6	198215.2	236826.0	23847.2	38610.8	15.4	19.5
(b) Interest Accrued	38466.6	36091.3	42146.6	33411.5	-2375.3	-8735.1	-6.2	-20.7
Interest Accrued*	38466.6	43508.7	42146.6	44558.4	5042.1	2411.8	13.1	5.7
6.5 Foreign Bills Purchased & Discounted	1052.8	1264.3	1264.3	1112.6	211.6	-151.7	20.1	-12.0
<b>7. Other Assets</b>	29542.4	29074.8	26563.8	34179.7	-467.6	7615.9	-1.6	28.7

P = Provisional.

\* Adjusting credit write off Rs. 11.05 billion (Rs. 3629.2 million in principal and Rs. 7417.4 in interest) by NBL at mid-July 2006 in the series of July 2006 and Rs. 2869.3 million (Rs. 821.7 million in principal and Rs. 2047.6 million in interest) by NBL at mid-October 2006 and Rs. 13154.5 million (Rs. 4055.2 million in principal and Rs. 9099.3 million in interest) by RBB at mid-December 2006.

\*\* Including commercial part of ADB/N.

**Table 19**  
**Sources and Uses of Fund of Development Banks**

(Rs. in million)

Particulars	Mid-July			Percent Change**
	2005	2006*	2007P	2006/07
<b>Sources</b>				
Capital Funds	4754.9	2795.0	4178.0	49.5
Deposits	33957.8	8791.0	15619.0	77.7
Borrowings	5117.8	1634.0	2272.0	39.0
Others	15065.6	701.0	2956.0	321.7
P/L Account	-1081.1	115.0	268.0	133.0
<b>Sources=Uses</b>	<b>57815.0</b>	<b>14036.0</b>	<b>25293.0</b>	<b>80.2</b>
<b>Uses</b>				
Liquid Funds	4565.0	2385.0	3783.0	58.6
Investment	1991.0	685.0	1571.0	129.3
Loans and Advances	29893.7	8659.0	16095.0	85.9
Others	21334.8	1015.0	1536.0	51.3
P/L Account	30.4	1292.0	2308.0	78.6

\* Excluding ADB/N since Mid-July 2006.

\*\* Including one year's percent change because of ADB/N.

P = Provisional

**Table 20**  
**Sources and Uses of Fund of Finance Companies**

(Rs. in million)

Particulars	Mid-July			Percent Change	
	2005	2006	2007P	2005/06	2006/07
<b>Sources</b>					
Capital Funds	3022.0	4310.0	5294.0	42.6	22.8
Deposits	22341.0	27316.0	34402.0	22.3	25.9
Borrowings	991.0	1155.0	3848.0	16.5	233.2
Others	3173.0	5492.0	8277.0	73.1	50.7
P/L Account	910.0	568.0	1215.0	-37.6	113.9
<b>Sources=Uses</b>	<b>30437.0</b>	<b>38841.0</b>	<b>53036.0</b>	<b>27.6</b>	<b>36.5</b>
<b>Uses</b>					
Liquid Funds	3905.0	5394.0	7845.0	38.1	45.4
Investment	2411.0	2745.0	4539.0	13.9	65.4
Loans and Advances	21220.0	27057.0	35304.0	27.5	30.5
Others	2898.0	3544.0	4743.0	22.3	33.8
P/L Account	0.0	101.0	605.0	0	499.0

P = Provisional

**Table 21**  
**Sources and Uses of Fund of Micro Finance Institutions**

(Rs. in million)

Particulars	Mid-July			Percent Change	
	2005	2006	2007P	2005/06	2006/07
<b>Sources</b>					
Capital Funds	740.0	830.0	1060.0	12.2	27.7
Deposits	749.0	933.0	1014.0	24.6	8.7
Borrowings	3403.0	5325.0	7187.0	56.5	35.0
Others	1319.0	989.0	1213.0	-25.0	22.6
P/L Account	91.0	120.0	85.0	31.9	-29.2
<b>Sources=Uses</b>	<b>6302.0</b>	<b>8197.0</b>	<b>10559.0</b>	<b>30.1</b>	<b>28.8</b>
<b>Uses</b>					
Liquid Funds	648.0	1325.0	1746.0	104.5	31.8
Investment	1516.0	1672.0	2351.0	10.3	40.6
Loans and Advances	3538.0	4302.0	5579.0	21.6	29.7
Others	389.0	675.0	707.0	73.5	4.7
P/L Account	209.0	221.0	177.0	5.7	-19.9

P = Provisional

**Table 22**  
**Sources and Uses of Fund of NRB Licensed Co-operatives**

(Rs. in million)

Particulars	Mid-July			Percent Change	
	2005	2006	2007P	2005/06	2006/07
<b>Sources</b>					
Capital Funds	278.0	324.0	355.0	16.5	9.6
Deposits	1724.0	2012.0	2545.0	16.7	26.5
Borrowings	46.0	71.0	140.0	54.3	97.2
Others	367.0	407.0	481.0	10.9	18.2
P/L Account	-5.0	63.0	69.0	-1360.0	9.5
<b>Sources=Uses</b>	<b>2410.0</b>	<b>2877.0</b>	<b>3590.0</b>	<b>19.4</b>	<b>24.8</b>
<b>Uses</b>					
Liquid Funds	424.0	493.0	490.0	16.3	-0.6
Investment	142.0	162.0	178.0	14.1	9.9
Loans and Advances	1431.0	1646.0	2230.0	15.0	35.5
Others	413.0	576.0	693.0	39.5	20.3

P = Provisional

**Table 23**  
**Sources and Uses of Fund of Insurance Companies**

(Rs. in million)

Particulars	Mid-July		Amount Change	Percent Change
	2006P	2007P	2006/07	2006/07
<b>Sources</b>				
Capital Funds	1680.00	1680.00	0.0	0.0
Reserve Funds	19,192.0	24690.00	5498.0	28.6
Other Liabilities	4,346.0	5,612.0	1266.0	29.1
<b>Sources=Uses</b>	<b>25,218.0</b>	<b>31,982.0</b>	<b>6764.0</b>	<b>26.8</b>
<b>Uses</b>				
Bank and Cash Balances	2,125.0	2,256.0	131.0	6.2
Investment	19,318.0	24,629.0	5311.0	27.5
Fixed Assets	1,400.0	1,864.0	464.0	33.1
Other Assets	2,375.0	3,233.0	858.0	36.1

P = Provisional

Source: Insurance Board.

**Table 24**  
**Sources and Uses of Fund of Employees Provident Fund**

(Rs. in million)

Particulars	Mid-July		Amount Change	Percent Change
	2006P	2007 <sup>P</sup>	2006/07	2006/07
<b>Sources</b>				
Provident Fund	48140.0	54380.0	6240.0	13.0
Reserve Fund	2940.0	3160.0	220.0	7.5
Other Liabilities	2550.0	2430.0	-120.0	-4.7
<b>Sources=Uses</b>	<b>53630.0</b>	<b>59970.0</b>	<b>6340.0</b>	<b>11.8</b>
<b>Uses</b>				
Employees' Borrowings	21420.0	24920.0	3500.0	16.3
Fixed Deposits	18520.0	20636.0	2116.0	11.4
GON Securities	4231.0	5443.0	1212.0	28.6
Project Loans	4979.0	4575.0	-404.0	-8.1
Share Investment	391.0	426.0	35.0	9.0
Other Assets	4090.0	3970.0	-120.0	-2.9

P = Provisional

Source: Employees' Provident Fund.



**Table 25**  
**Sources and Uses of Fund of Citizen Investment Trust**

(Rs. in million)

Particulars	Mid-July			Percent Change	
	2005	2006 <sup>P</sup>	2007*	2005/06	2006/07
<b>Sources</b>					
Paid-up Capital and Reserve Fund	86.0	115.0	115.0	33.7	0.0
Fund Collection	5269.0	6716.0	7710.0	27.5	14.8
Borrowings	0.0	0.0	0.0		
Other Liabilities	477.0	417.0	600.0	-12.6	43.9
<b>Sources=Uses</b>	<b>5832.0</b>	<b>7248.0</b>	<b>8425.0</b>	<b>24.3</b>	<b>16.2</b>
<b>Uses</b>					
Liquid Assets	692.0	864.0	1330.0	24.9	53.9
Investments	3616.0	5136.0	5510.0	42.0	7.3
Loans and Advances	1014.0	734.0	990.0	-27.6	34.9
Other Assets	510.0	514.0	595.0	0.8	15.8

P = Provisional

\* = Projected.

Source: Citizen Investment Trust.

**Appendix 1.1****List of Licensed Banks and Non-bank Financial Institutions  
(Mid-July 2007)****Class A: Commercial Banks**

S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Million)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2	Rastriya Banijya Bank <sup>@</sup>	1966/01/23	Kathmandu	1172.3
3	NABIL Bank Limited	1984/07/16	Kathmandu	491.7
4	Nepal Investment Bank Limited	1986/02/27	Kathmandu	801.4
5	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu	413.3
6	Himalayan Bank Limited	1993/01/18	Kathmandu	810.8
7	Nepal SBI Bank Limited	1993/07/07	Kathmandu	647.8
8	Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu	719.9
9	Everest Bank Limited	1994/10/18	Kathmandu	518.0
10	Bank of Kathmandu Limited	1995/03/12	Kathmandu	603.1
11	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar	699.1
12	Lumbini Bank Limited	1998/07/17	Narayangadh	600.0
13	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biratnagar	660.0
14	Machhapuchhre Bank Limited	2000/10/03	Pokhara	821.7
15	Kumari Bank Limited	2001/04/03	Kathmandu	750.0
16	Laxmi Bank Limited	2002/04/03	Birgunj	729.7
17	Siddhartha Bank Limited	2002/12/24	Kathmandu	600.0
18	Agriculture Development Bank Ltd. <sup>@</sup>	2006/03/16	Kathmandu	7528.0
19	Global Bank Ltd. <sup>@</sup>	2007/01/02	Birgunj	510.0
20	Citizens Bank International Ltd. <sup>@</sup>	2007/6/21	Kathmandu	560.0

**Class B: Development Banks**

S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Million)
1	Nepal Industrial Development Corporation	1959/06/15	Durbar Marg, Kathmandu	415.8
2	Nepal Development Bank Ltd.	1999/01/31	Kamaladi, Kathmandu	160.0
3	Uddyam Development Bank Ltd. <sup>@</sup>	1999/02/22	Tandi, Chitwan	15.0
4	Malika Development Bank Ltd. <sup>@</sup>	1998/12/27	Dhangadhi, Kailali	35.0
5	Siddhartha Development Bank Ltd.	1998/08/20	Butwal-11, Rupandehi	50.0
6	Development Credit Bank Ltd.	2001/01/23	Kamaladi, Kathmandu	268.8
7	United Development Bank Ltd. <sup>@</sup>	2002/03/16	Jeetpur, Bara	35.0
8	Nepal Cottage and Small Ind. Dev. Bank Ltd. <sup>@</sup>	2001/06/19	Heritage Plaza, Kathmandu	112.0
9	Narayani Ind. Development Bank Ltd.	2001/10/17	Ratna Nagar-1, Chitwan	20.0
10	Pashimanchal Bikas Bank Ltd.	2003/3/2	Butwal-8, Rupandehi	52.5
11	Sahayogi Bikas Bank Ltd.	2003/10/21	Murali chowk-4, Janakpurdham	20.0
12	Pashupati Bikash Bank Ltd. <sup>@</sup>	2004/01/01	Banepa, Kavre	29.0
13	Karnali Bikash Bank Ltd. <sup>@</sup>	2004/02/14	Nepalgunj, Banke	20.4
14	Triveni Development Bank Limited <sup>@</sup>	2004/07/26	Bharatpur, Chitwan	35.0
15	Annapurna Development Bank Limited	2004/08/23	Banepa, Kavre	60.0
16	Bhrikuti Bikas Bank Limited <sup>@</sup>	2004/08/19	Shankar Nagar, Butwal	24.0
17	Shubhechhha Bikas Bank Limited	2004/09/14	Narayangadh, Chitwan	23.9
18	Bageshowri Bikas Bank Limited	2004/10/19	Dhambojhi Chowk, Nepalgunj	30.0
19	Sanima Bikas Bank Limited	2004/11/26	Nagpokhari, Kathmandu	320.0
20	Gaurishankar Bikas Bittiya Sanstha Ltd.	2004/11/29	Kawasoti, Nawalparasi	18.3
21	Gorkha Bikas Bank Limited	2004/12/01	Putalisadak, Kathmandu	320.0
22	Gandaki Development Financial Institute Ltd.	2005/01/19	New Road, Pokhara	50.0
23	Infrastructure Development Financial Institute Ltd. <sup>@</sup>	2005/04/29	Banepa, Kavre	56.0
24	Business Development Financial Institute Ltd.	2005/05/10	New Road, Pokhara	60.0
25	Biratlaxmi Financial Institute Limited <sup>@</sup>	2005/05/11	Biratnagar, Morang	30.0
26	Excel Development Bank Limited. <sup>@</sup>	2005/07/21	Anarmani, Birtamod, Jhapa	14.0
27	Western Development Bank Ltd. <sup>@</sup>	2005/09/15	Tribhuvannagar, Dang	10.8
28	Himchuli Bikas Bittiya Sanstha Ltd.	2005/11/07	Mahendrapool, Pokhara	30.0
29	Arniko Bikas Bittiya Sanstha Ltd. <sup>@</sup>	2006/07/06	Dhulikhel, Kavrepalanchwok	15.4
30	Nepal Dev. and Employment Promotion Bank Ltd. <sup>@</sup>	2006/07/17	Kamaladi, Kathmandu	192.0
31	Clean Energy Development Bank Ltd. <sup>@</sup>	2006/09/06	Sitapaila, Kathmandu	163.2
32	Mitery Bikas Bittiya Sanstha Ltd. <sup>@</sup>	2006/10/13	Mahendrapath-5, Dharan	15.8
33	Tinau Bikas Bittiya Sanstha Ltd. <sup>@</sup>	2006/10/13	Sangampath, Butwal	21.0
34	Gaundakot Bikas Bittiya Sanstha Ltd. <sup>@</sup>	2006/12/18	Nawalparasi, Gaundakot	14.0
35	Muktinath Bikas Bank Ltd. <sup>@</sup>	2006/12/18	Putalibazar, Syanja	13.0
36	Sewa Bikas Bank Ltd. <sup>@</sup>	2007/2/25	Butwal	12.0
37	Kankai Bikas Bank Ltd. <sup>@</sup>	2007/5/4	Damak, Jhapa	14.0
38	Public Development Financial Institution Ltd. <sup>@</sup>	2007/6/7	Birgunj, Parsa	30.0

## Macroeconomic and Financial Overview

### Class C: Finance Companies

S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Million)
1	Nepal Housing Development Finance Co.Ltd.	8/3/1992	Naya Baneshwor, Kathmandu	63.8
2	Nepal Finance and Savings Co.Ltd.	1993/01/06	Kamaladi, Kathmandu	30.0
3	NIDC Capital Markets Ltd.	1993/03/11	Kamaladi, Kathmandu	74.9
4	National Finance Co.Ltd.	1993/05/07	Pako Newroad, Kathmandu	104.6
5	Annapurna Finance Co.Ltd.	1993/09/30	Chipledhunga, Pokhara	168.0
6	Nepal Share Markets and Finance Ltd.	1993/10/19	Ramshahpath, Kathmandu	160.0
7	Peoples Finance Ltd.	1993/04/15	Tripureshwor, Kathmadu	66.4
8	Himalaya Finance & Savings Co.Ltd. <sup>@</sup>	1993/11/11	Sundhara, Kathmandu	48.0
9	Mercentile Finance Co. Ltd.	1994/11/10	Adarshnagar, Birgunj	18.0
10	Kathmandu Finance Ltd.	1994/11/10	Putalisadak, Kathmandu	33.0
11	Inbesta Finance Ltd. <sup>@</sup>	1995/07/17	Adarshnagar, Birgunj	24.0
12	Narayani Finance Ltd.	1995/03/08	Narayangadh, Chitwan	50.1
13	Gorkha Finance Ltd.	1995/03/12	Kantipath, Kathmandu	30.0
14	Nepal Housing & Merchant Finance Co.Ltd.	1995/04/11	Dillibazar, Kathmandu	65.3
15	Paschimanchal Finance Co.Ltd.	1995/04/09	P.B.No.11, Butwal	55.7
16	Universal Finance Co.Ltd.	1995/04/27	Kantipath, Kathmandu	50.0
17	Samjhana Finance Co. Ltd.	1995/05/03	Banepa, Kavre	22.2
18	Goodwill Finance Ltd.	1995/05/16	Dillibazar, Kathmandu	50.0
19	Shree Investment & Finance Co. Ltd.	1995/06/01	Dillibazar, Kathmandu	56.0
20	Siddhartha Finance Co. Ltd.	1995/05/25	Siddharthanagar, Bhairahawa	52.0
21	Lumbini Finance & Leasing Co. Ltd.	1995/06/26	Thamel, Kathmandu	60.0
22	Yeti Finance Co. Ltd.	1995/07/23	Bank Road, Hetauda	31.3
23	Standard Finance Ltd.	1995/07/23	Putalisadak, Kathmandu	66.0
24	Ace Finance Co. Ltd.	1995/08/15	Kantipath, Kathmandu	320.0
25	International Leasing & Finance Co. Ltd.	1995/10/31	Naya Baneshwor, Kathmandu	120.0
26	Mahalaxmi Finance Co. Ltd.	1995/11/26	Birgunj	66.0
27	Union Finance Co. Ltd.	1995/12/12	Durbarmarg, Kathmandu	72.5
28	Lalitpur Finance Co. Ltd.	1995/12/12	Lalitpur	50.6
29	Merchant Finance Co. Ltd. <sup>@</sup>	1996/01/02	Kathmandu	21.3
30	Bhauratna Finance & Saving Co. Ltd.	1996/01/09	Kantipath, Kathmandu	35.0
31	United Finance Ltd.	1996/1/25	Kamaladi, Kathmandu	60.0
32	General Finance Ltd.	1996/02/02	Chabahil, Kathmandu	24.2
33	Nepal Sri Lanka Merchant Bank Ltd.	1996/02/04	Kamaladi, Kathmandu	130.0
34	Alpic Everest Finance Ltd.	1996/07/16	Baghbazar, Kathmandu	78.0
35	Nepal Merchant Banking & Finance Ltd.	1996/11/26	Durbarmarg, Kathmandu	199.5
36	Nava Durga Finance Co.Ltd.	1997/02/09	Itachhe, Bhaktapur	39.6
37	Pokhara Finance Ltd.	1997/03/16	Gairapatan, Pokhara	60.0
38	Janaki Finance Ltd.	1997/03/07	Janakpurdham, Dhanusha	40.0
39	Central Finance Co. Ltd.	1997/04/14	Kopundole, Lalitpur	48.0
40	Premier Finance Co. Ltd.	1997/05/08	Manbhawan, Lalitpur	28.8
41	Arun Finance & Saving Co. Ltd. <sup>@</sup>	1997/08/17	Putalibazar, Dharan	11.0
42	Multipurpose Saving & Investment Finance Co. Ltd. <sup>@</sup>	1998/3/25	Saptari, RajbiRaj	3.0
43	Butwal Finance Co. Ltd.	1998/06/21	Butwal, Rupandehi	63.3
44	Nepal Bangladesh Finance & Leasing Co. Ltd.	1999/04/18	Main Road, Biratnagar	50.0
45	Shrijana Finance Ltd.	1999/12/14	Siraha, Lahan	10.5
46	Om Finance Ltd.	2000/09/17	New Road, Pokhara-9	70.0
47	Cosmic Merchant Banking & Finance Ltd.	2000/11/20	Lal Durbar Marg, Kathmandu	75.1
48	World Merchant Banking & Finance Ltd.	2001/08/10	Main Road, Hetauda	60.0
49	Capital Merchant Banking & Finance Ltd.	2002/02/01	Battisputali, Kathmandu	161.0
50	Crystal Finance Ltd. <sup>@</sup>	2002/02/13	Bag Durbar, Kathmandu	35.0
51	Royal Merchant Banking & Finance Ltd.	2002/02/14	Durbarmarg, Kathmandu	55.0
52	Guheshworil Merchant Banking & Finance Ltd.	2002/06/13	Jawalakhel, Lalitpur	55.0
53	Patan Finance Ltd.	6/23/2002	Manbhawan, Lalitpur	50.0
54	Kist Merchant Banking & Finance Ltd.	2003/02/21	Kamalpokhari, Kathmandu	200.0
55	Fewa Finance Ltd.	2003/04/30	Pokhara, Chipledhunga	50.0
56	Everest Finance Co. Ltd.	2003/07/02	Siddharthanagar, Bhairahawa	20.0
57	Birgunj Finance Ltd.	9/28/2003	Adarshnagar, Birgunj	66.0
58	Prudential Bittiya Sanstha Ltd	2003/06/06	Dillibazar, Kathmandu	50.0
59	Investment Credit and Finance Co. Ltd.	2003/06/15	Bhatbhateni, Kathmandu	50.6
60	IME Financial Institution	2005/08/01	Kantipath, Kathmandu	82.5
61	Sagarmatha Merchant Banking and Finance Co. Ltd. <sup>@</sup>	2005/08/29	Lalitpur, Manbhawan	30.0
62	Shikhar Bittiya Sanstha Ltd. <sup>@</sup>	2005/09/15	Kathmandu, Thapathali	30.0
63	Civil Merchant Bittiya Sanstha Ltd.	2005/09/18	Kathmandu, Kuleshwor	50.0
64	Prabhut Bittiya Sanstha Ltd. <sup>@</sup>	2006/02/16	Kathmandu, Kantipath	85.0
65	Imperial Bittiya Sanstha Ltd.	2006/03/08	Kathmandu, Putalisadak	50.0
66	Kuber Bittiya Sanstha Ltd. <sup>@</sup>	2006/03/24	Kathmandu, Putalisadak	27.5
67	Nepal Express Finance Ltd.	2006/05/04	Rupandehi, Butwal	50.0

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S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Million)
68	Valley Finance Ltd. <sup>@</sup>	2006/05/11	Kathmandu, Maharajgunj	27.5
69	Seti Bittiya Sanstha Ltd. <sup>@</sup>	2006/06/07	Kailali, Tikapur	5.1
70	Hama Bittiya Sanstha Ltd. <sup>@</sup>	2006/06/16	Kathmandu, Tripureshwor	31.5
71	Reliable Investment Bittiya Sanstha Ltd. <sup>@</sup>	2006/09/06	Kathmandu, Sundhara	57.8
72	Loard Buddha Financial Institutions Ltd. <sup>@</sup>	2006/11/19	Kathmandu, Newroad	35.0
73	Api Financial Institution <sup>@</sup>	2007/4/25	Lekhnath Chowk, Kaski	14.0
74	Nameste Bitiya Sanstha Limited. <sup>@</sup>	2007/7/7	Ghorai, Dang	5.1

### Class D: Micro-finance Institutions

S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Million)
1	Purbanchal Grameen Bikas Bank <sup>@</sup>	1993/03/28	Biratnagar, Morang	60.0
2	Sudur Pashimanchal Grameen Bikas Bank <sup>@</sup>	1993/03/28	Dhangadhi, Kailali	58.5
3	Pashimanchal Grameen Bikas Bank <sup>@</sup>	1995/04/01	Butawal-8, Rupandehi	60.0
4	Madhya Pashimanchal Grameen Bikas Bank <sup>@</sup>	1995/04/01	Nepalgunj, Banke	60.0
5	Madhymanchall Grameen Bikas Bank <sup>@</sup>	1996/07/08	Janakpur, Dhanusha	60.0
6	Nirdhan Utthan Bank	1999/04/13	Rupandehi, Bhairahawa	32.9
7	Rural Microfinance Development Centre <sup>@</sup>	1996/12/06	Putalisadak, Kathmandu	250.0
8	Deprose Development Bank	2001/07/03	Narayanghat, Chitwan	17.4
9	Chhimek Development Bank	2001/12/10	Makawanpur, Hetauda -4	30.0
10	Shawalamban Development Bank Ltd.	2002/02/22	Janakpur, Dhanusha	20.0
11	Sana Kisan Vikas Bank <sup>@</sup>	2002/03/11	Bijulibazar, Kathmandu	119.8
12	Nerude Bitiya Sanstha Limited <sup>@</sup>	2007/06/07	Biratnagar, Morang	10.0

### NRB Licensed Savings and Credit Co-operatives (Limited Banking)

S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Million)
1	Nabajivan Co-operative Society Ltd.	1993/12/15	Dhangadi	17.0
2	Sagun Co-operative Society Ltd.	1994/10/9	Kathmandu	11.8
3	Nepal Co-operative Society Ltd.	1994/12/30	Kathmandu	20.0
4	The Sahara Loan, Savings & Investment Co-op.Soc. Ltd.	1995/04/15	Sarlahi	29.2
5	Bindabasini Saving Fund Co-operative Society Ltd.	1995/06/21	Khopasi, Kavre	133.8
6	Mahila Co-operative Society Ltd.	1995/09/27	Kathmandu	12.6
7	Bahooddeshya Saving & Loan Co-op.Society Ltd.	1995/12/25	Jhapa	19.0
8	Rajshree Saving & Invest.Co-op Society Ltd	1996/02/19	Sarlahi	22.8
9	Sahakari Bittiya Sanstha Ltd.	1696/6/16	Nepalgunj	8.0
10	Manakamana Sahakari Sanstha Ltd.	1997/02/18	Banepa	8.0
11	Very Co-operative Sanstha Ltd.	1997/12/25	Kathmandu	6.3
12	Viccu Saving & Loan Co-operative Sanstha	1997/02/18	Banepa	4.4
13	Amarawati Bahoo-uddesiyi Co-op. Sanstha Ltd.	1997/03/05	New Baneshowar, Ktm	7.5
14	Kisan Bahoo-uddesiyi Co-op. Sanstha Ltd.	1997/08/11	Lamki, Kailali	4.0
15	Himalaya Co-operative Ltd.	1998/12/29	Old Baneshowar, Ktm	44.3
16	Star Bahoo-Uddesiyi Saving & Credit Co-op Ltd.	1998/02/13	Biratnagar	3.8
17	Upakar Savings Fund & Credit Co-operative So. Ltd.	1998/04/14	Walling, Syangja	7.9

### NRB Licensed Non-Government Organizations (NGOs)

S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Thousand)
1	Nepal Grameen Bikas Samaj Kendra	2000/06/05	Biratnagar	17353
2	Nepal Grameen Bikas Sanstha	2000/06/05	Kathmandu	
3	Nepal Sikara Grameen Bikas Karyakram	2000/06/05	Chitwan	496
4	Chartare Yuba Club	2000/06/05	Baglung	110
5	Mahuli Samudyik Bijkas Kendra	2000/06/12	Saptari	1574
6	United Youth Community (UNYC NEPAL)	2000/06/29	Bardiya	54
7	Samudayik Mahila Bikas Kendra	2000/07/14	Saptari	
8	Grameen Samudayako Lagi Yojana Pratyavuti, Nepal	2000/08/23	Dhankuta	
9	Grameen Jagaran Manch (Programm Co-ordination Office)	2000/09/11	Baglung	100
10	Sarbodaya Grameen Bikas Sangh	2000/09/26	Saptari	
11	Jan Jagaran Manch	2000/10/26	Rasuwa	111
12	Rastriya Shaichik Tatha Samajik Bikas Sanstha	2000/10/01	Parbat	865
13	Dhaulagiri Community Researh Dev. Centre	2000/10/21	Baglung	
14	Nepal Enviroment & Pollution Eradication UNESCO Nepal	2001/07/05	Gongabu	127
15	Society of Local Volunteers Efforts Nepal (Solve)	2001/07/10	Dhankuta	276
16	Women Enterprises Association of Nepal	2001/09/24	Kathmandu	1146
17	Center for Women's Right and Development	2002/04/30	Kathmandu	
18	MANUSHI	2002/05/03	Kathmandu	837

## Macroeconomic and Financial Overview

S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Million)
19	Life Development Society	2002/06/18	Morang	2167
20	Women Development and Child Care Foundation	2002/07/02	Saptari	
21	Mahila Adarsha Sewa Kendra	2002/07/02	Kathmandu	620
22	Patan Buisiness and Professional Women	2002/07/02	Lalitpur	1543
23	Women Development Centre	2002/07/02	Chitwan	
24	Womens Self -Reliant Society	2002/07/14	Chitwan	19933
25	Women Development Centre of Nepal	2002/07/12	Lalitpur	650
26	Bhagawan Youth Club, Alapot, Ktm.	2002/07/23	Kathmandu	35
27	Creative Women Environment Development Association	2002/07/24	Kathmandu	695
28	Srijana Community Development Center, Siraha	2002/07/25	Siraha	
29	Shreejana Development Center,Kaski	2002/08/22	Kaski	2090
30	Cottage & Small Industries Organization, Kathmandu	2002/09/02	Kathmandu	
31	Rural Area Dev. & Research Programme,Parbat	2002/09/03	Parbat	
32	Adarsha Yuba Club, Bhaktapur	2002/09/06	Bhaktapur	
33	Society Welfare Action Nepal (SWAN),Dang	2002/10/25	Dang	
34	Social Upgrade in Progress of Education Region (SUPER)	2002/10/29	Dang	
35	Nepal Women Community Service Center,Dang	2002/10/30	Dang	
36	Forum for Rural Women Ardency Development, Sunsari	2002/12/30	Sunsari	299
37	Grameen Mahila Bikash Sanstha	2003/04/23	Dang	
38	Ama Samaj Shangh, Chitawan	2003/04/29	Chitwan	15
39	Gramin Mahila Utthan Kendra,Dang	2003/06/18	Dang	
40	Khurkot Yuba Club, Parbat	2003/09/14	Parbat	
41	Tharu Tatha Raji Mahila Samaj,Kailali.	2003/09/18	Kailali	211
42	Nari Avudya Kendra	2003/10/24	Chitwan	
43	Mahila Upakar Manch	2003/10/29	Banke	2131
44	Chhimek Samaj Sewa Sanstha	2004/09/29	Kathmandu	8886
45	Sawabalamban Bikash Kendra	2004/11/01	Kathmandu	
46	Bikash Aayojana Sewa Kendra	2004/11/01	Kathmandu	33000
47	Grameen Swayam Sewak Samaj	2005/11/20	Hariwon, Sarlahi	1955

@ Banks and financial institutions, which issued public shares.



**PART**

**2**

**Activities of Nepal Rastra Bank**



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# II

## Activities of Nepal Rastra Bank

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### Monetary Policy for 2006/07

- 2.1 The NRB announced annual monetary policy for 2006/07 on July 23, 2007. Monetary policy was formulated with a view to maintaining balance between economic growth and inflation in the context of low economic growth and pressure on prices amidst favorable balance of payments (BOP). Given the adequate liquidity available for achieving targeted economic growth of 5.0 percent as mentioned in the budget speech of 2006/07, the monetary policy was geared towards containing inflation.

#### Objectives of Monetary Policy

- 2.2 The monetary policy of 2006/07 was focused on maintaining internal and external sector stability through managing liquidity for achieving targeted economic growth of 5.0 percent mentioned in the budget statement. Considering external sector situation, remittance inflow and trend of foreign aid, BOP was projected to remain at a surplus of Rs 16.0 billion. Annual inflation was projected to be 6.0 percent based on the assumption of low pressure on food prices having favourable monsoon and moderate inflationary expectation.
- 2.3 The base effect of hike in petroleum prices in mid-March 2006 continued until mid-Feb 2007 and the prices of some of food items such as pulse, fruits, vegetables and spices rose. This put pressure on overall price situation. Hence, the mid-term review of the monetary policy revised the projection of inflation upward than that of in the annual monetary policy statement. In 2006/07, annual inflation finally stood at 6.4 percent.
- 2.4 The BOP surplus, an objective of monetary policy, was initially projected at Rs 16.0 billion for 2006/07\*. However, the level of BOP surplus was revised downward to Rs 10.0 billion in the mid-term review of monetary policy on account of declining trend of exports and workers' remittance inflow compared to that of the previous year. Finally, the BOP surplus stood at Rs 5.88 billion as in mid-July 2007 as a result of marginal growth of private sector's remittance and exports.

#### Monetary Policy Framework

- 2.5 The framework of monetary policy for 2006/07, being forward looking was formulated by considering the existing macroeconomic situation and likely economic outlook. The growth of broad money was projected considering 5.0 percent economic growth and 6.0 percent annual inflation in consonance with the pegged exchange rate of Nepalese currency vis-à-vis Indian currency as a nominal anchor. Broad money ( $M_2$ ) was estimated to grow by 16.0 percent in 2006/07 compared to a growth of 15.6 percent in 2005/06. To avoid additional pressure on price level,  $M_2$  was projected only at a marginally higher level than that of the previous year. Because of lower than expected level of BOP surplus and low economic growth,  $M_2$  grew by 14.0 percent in 2006/07. Such a lower growth of  $M_2$  was also due to higher liquidity absorption through open market operations in line with monetary policy stance.

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\* The BOP surplus of that level was projected based on the BOP surplus of Rs 25.6 billion in 2005/06.

- 2.6 Domestic credit was projected to grow by 15.8 percent in 2006/07 compared to a growth of 11.7 percent in 2005/06. The growth of domestic credit for 2006/07 was estimated at a higher level than that of the previous year on the assumption of likely increase in economic activities and private sector credit off-take in view of political stability following the peace restoration process in the country

### **Operating Target**

- 2.7 The policy of adopting excess liquidity of commercial banks as an operating target of monetary policy since 2005/06, continued in 2006/07 as well.
- 2.8 The process of monitoring excess liquidity of commercial banks and forecasting of liquidity on the basis of factors affecting it based on the Liquidity Monitoring and Forecasting Framework (LMFF) was continued. Open market operation was conducted based on the outcome of LMFF prepared on the basis of weekly balance sheet of NRB.

### **Monetary Instruments**

#### ***Bank rate and Refinance rate***

- 2.9 Bank rate was unchanged at 6.25 percent in the monetary policy of 2006/07. Following the provision of providing liquidity to commercial banks at the bank rate in case of liquidity crisis, not fulfilled from open market operations and standing liquidity facility (SLF), the NRB, as a lender of the last resort, provided Nepal Bangladesh Bank Ltd with an exceptional refinance facility of Rs 1.27 billion in 2006/07 to resolve the liquidity crisis faced by the latter.
- 2.10 Refinance rates were unchanged in the monetary policy of 2006/07. Refinance rate for exports and agriculture credit in domestic currency and exports credit in foreign currency was continued at 3.5 and 3.25 percent respectively. Likewise, the refinance rate for sick industries also remained unchanged at 1.5 percent.

#### ***Cash Reserve Ratio***

- 2.11 Despite reducing cash reserve ratio (CRR) in the past years, the monetary policy of 2006/07 kept it unchanged at 5.0 percent considering a pressure on prices and adequate liquidity available with commercial banks.

#### ***Sick Industries Refinancing***

- 2.12 The NRB has been providing refinancing facility to sick industries since 2001/02. Since the beginning, the NRB has allocated a total of Rs 9.00 billion to this facility so far. Despite a provision of Rs 2.0 billion under this facility, only eight hotels and one industry used Rs 242.00 million in 2006/07.

#### ***Open Market Operations***

- 2.13 Open market operation was simplified in the review year. The then existing four separate forms for outright purchase auction, outright sale auction, repo auction and reverse repo auction were unified into two forms - one for purchase and sale auctions, and another for repo and reverse repo auction. Likewise, Master Repurchase Agreement (MRA) was finalized with commercial banks to provide legal back up and increase credibility of repo and reverse repo transactions.
- 2.14 Although the monetary policy of 2006/07 mentioned that the NRB could issue NRB bond to mop up liquidity if government treasury bills fell short for liquidity absorption, the NRB bond was not issued since government treasury bills remained sufficient for liquidity absorption. However, the overdraft of Rs. 1.07 billion taken by the government was converted into treasury bills in the review year.

#### ***Standing Liquidity Facility***

- 2.15 The provision of standing liquidity facility (SLF), started since 2004/05 was continued in the review year. The maximum maturity period of the facility was increased from existing 3 days to 5 days. Compared to Rs 9.88 billion in the previous year, commercial banks borrowed Rs 46.97 billion under SLF in the review year. The interest rate for such a facility was determined at 1.5 percent penal rate added to the latest average 91-day treasury bills rate.

## Microfinance

### ***More Room for Operation of Microfinance Institutions***

- 2.16 With an objective of extending microfinance services in the hilly regions as well, the policy that allows development banks established with Rs. 200.0 million paid up capital to expand their activities to 5 more hilly districts in addition to the existing 10 districts totaling 15 districts has been introduced since March 2007. Earlier, microfinance development banks established with Rs. 200.0 million paid up capital were allowed to conduct their activities in 4 to 10 districts.

### ***Additional Provision for Lending to Deprived Sector Projects by Commercial Banks***

- 2.17 The wholesale lending of commercial banks to any licensed financial institution or co-operatives licensed by the NRB for income and employment generation purpose on the projects prepared and supervised by the banks themselves is also considered as the deprived sector lending.

### ***Rural Self-Reliance Fund***

- 2.18 The Rural Self-Reliance Fund (RSRF) was established in 1991. The prime objective of the Fund is to lend wholesale credit to the deprived group having no access to the institutional credit and residing in rural areas with the aim to conduct income and self-employment generating enterprises through non-government organizations (NGOs)/cooperatives working in rural areas. For the upliftment of the deprived people, micro credit amounting to Rs. 40,000, Rs. 45,000 and Rs. 50,000 for the first, second and third time per person respectively can be provided through the co-operatives/NGOs. For this purpose, the Government of Nepal (GON) contributed a total of Rs. 900.0 million as the seed capital. Of the total, Rs. 100.0 million was received on March 17, 1991, Rs. 100.0 million on July 7, 1992, Rs. 200.0 million in December 2005 and Rs. 500.0 million on April 29, 2007. The NRB has contributed a total of Rs. 343.4 million as the capital to the Fund, of which Rs. 100.0 million was received in 2002/03, Rs. 74.8 million in 2003/04 and Rs. 78.6 million in 2004/05. The Fund has been providing the participatory institutions, based on their primary capital (share capital, general reserve and profits), a wholesale credit of up to Rs. 1.5 million for the first time, Rs. 2.0 million for the second time and Rs. 2.5 million for the third and last time (the amount not exceeding 20 times of primary capital for the first loan and 15 times for the second and third loan) on installment basis.
- 2.19 The Fund can provide a maximum of 3 years credit to the registered institutions involved in saving and credit transactions at least for one year and collecting regular savings from a minimum of 70 percent of their members. The people living in village with land up to 15 *ropanies* in Mountain region and 1 *bigah* in Terai under the ownership of single family, facing hand to mouth problem with no regular sources of income of the members of the single family and having no outstanding credit for the loan taken under the income generating programs run by the government agencies or bank and financial institutions are included as the target groups and granted loan from the Fund through NGOs/co-operatives to carry out income generating activities.
- 2.20 Wholesale credit is being made available to NGOs/co-operatives from the Fund at an annual interest rate of 8.0 percent. In case the interest along with the principal amount is repaid at a stipulated time, a sum equal to 75 percent of interest payment is refunded for the development of concerned institution. As a result, the annual net interest income of the Fund remains at 2.0 percent only. Of the approved credit, while distributing the first installment, the interest free loan is disbursed for a maximum period of six months.
- 2.21 Until mid-July 2007, the Fund has disbursed a total of Rs. 132.6 million through 52 NGOs and 225 co-operatives. Of the total credit disbursed, Rs. 81.2 million was recovered leaving Rs. 51.4 million as outstanding. Until mid-July 2007, the loan recovery rate remained at 91.6 percent. NGOs in 26 districts and co-operatives in 44 districts altogether in 48 districts have provided microfinance services from the credit made available from the Fund. Until mid-July 2007, a total of 12,228 households from 48 districts benefited directly from the Fund.
- 2.22 Likewise, with the aim to provide capital for the businesses requiring long-term capital such as tea, cardamom and cold storage, the Fund has been providing wholesale credit, out of the NRB's capital contribution since 2002/03, to ADB/N and development banks working on microfinance. Of the total

amount of Rs. 40.0 million loans with Rs. 10.0 million each disbursed to Eastern, Central, Mid-Western Region Rural Development Banks and Small Farmer Development Bank, the Eastern and Central Region Rural Development Banks have repaid their respective amounts, while Rs. 4.5 million from Mid-Western Region Rural Development Bank and Rs. 6.7 million from Small Farmers Development Bank remained outstanding until mid-July 2007. Likewise, a sum of Rs. 119.2 million was made available to ADB/N under long-term loan.

#### **Rural Development Banks and Structural Reform Program**

- 2.23 With a view to enhancing the economic condition of deprived rural women, one rural development bank has been set up in each of five development regions. Of the total credit of Rs. 16.18 billion disbursed by the rural development banks to 1,59,834 rural women, Rs. 14.34 billion have been recovered until mid-July 2007 leaving Rs. 1.84 billion as outstanding. Until mid-July 2007, these banks have provided microfinance services through 5,223 centers of 1,047 Village Development Committee covering 45 districts. These banks have helped in reducing widespread poverty in the rural areas by providing income-generating opportunities through micro enterprises and businesses.
- 2.24 With an aim to gradually privatize rural development banks, the process of disinvestment of the 51 percent share out of 61 percent of Western Region Rural Development Bank and 34.95 percent share of Eastern Region Rural Development Bank owned by the NRB has been completed. Likewise, the process of disinvestment of the 74 percent share of Central Region Rural Development Bank owned by the NRB is at the final stage.

#### **Community Groundwater Irrigation Sector Project**

- 2.25 With a view to enhancing the income level of marginal farmers by increasing agricultural production under the 20-Year Agriculture Perspective Plan of the GON, Community Groundwater Irrigation Sector Project (CGISP) came into operation in 12 districts of Eastern and Central Terai in accordance with a loan agreement between the GON and Asian Development Bank (ADB/M) signed on November 17, 1998. The term of this project was completed on July 31, 2007 after one year extension. Of the SDR 21.9 million received for the project, SDR 9.929 million was made available to the farmers as a loan for installation of shallow tube wells as well as for the crop production.
- 2.26 Nepal Bank Limited, Eastern Region Rural Development Bank Limited, Central Region Rural Development Bank Limited, Sahara Nepal Credit and Cooperatives Limited, Deprosc Development Bank Limited, Chhimek Development Bank Limited, Arunodaya Savings and Credit Cooperative, Krishak Upakar Savings and Credit Cooperative, Small Farmers Development Bank Limited and Chhimek Samaj Sewa Sanstha worked as the participatory financial institutions under this project.
- 2.27 By mid-July 2007, participating financial institutions working under this project invested Rs. 217.7 million to install 7,020 shallow tube-wells including 6,886 for groups and 134 for individuals that had commenced since 2000/01. Consequently, 27,322 marginal farmers benefited directly from the expansion of irrigation facility in an area of around 32,194 *bigahs*.

#### **Western Terai Poverty Alleviation Project**

- 2.28 With a view to uplifting the socio-economic condition of deprived women residing in eight districts of the Western Terai, a loan agreement of the Western Terai Poverty Alleviation Project between the GON and IFAD was made on February 9, 1998. The project that came into operation since 1998/99 was terminated on December 31, 2004. The project was in operation in eight districts of Terai, namely: Kailali, Kanchanpur, Banke, Bardia, Dang, Kapilvastu, Rupandehi and Nawalparasi. The participatory financial institutions of this project were Western Region Rural Development Bank, Mid-Western Region Rural Development Bank, Far-Western Region Rural Development Bank, Nirdhan Utthan Bank and Self-Reliance Development Centre. For the implementation of the project, the NRB has received Rs. 131.5 million from the GON and the entire amount was disbursed to the participatory financial institutions.
- 2.29 Of the loan amount of Rs. 136.7 million disbursed to the participatory financial institutions under the project (Rs. 131.5 million acquired from the GON and Rs. 5.3 million from Revolving Fund), Rs. 72.4 million was recovered while Rs. 64.3 million remained outstanding as at mid-July 2007. During the project period 22,000 borrowing households benefited from the project. Until mid-July 2007, the

NRB had already paid the GON a sum of Rs. 27.4 million as interest. As per the loan agreements of the principal amount payable to the GON in 36 installments beginning January 2006, a sum of Rs. 14.6 million has been paid in four installments till mid-July, 2007. The outstanding loan to be paid to the GON remained at Rs. 116.8 million as at mid-July 2007.

### **Third Livestock Development Project**

- 2.30 The Third Livestock Development Project (TLDP) came into operation as per the loan agreement between the GON and ADB/M entered on December 23, 1996. With the extension of one year, the duration of the project completed on July 31, 2004. The aim of the project was to encourage the farmers and entrepreneurs engaged or willing to engage in livestock enterprises to use locally available technology and thereby to provide necessary services and credit.
- 2.31 The participating financial institutions under this project were altogether 19 including two commercial banks, three development banks, four rural bank replicators, eight co-operatives and two NGOs. Until mid-July 2005, 17 financial institutions received a reimbursement amounting to Rs. 183.5 million under this project.
- 2.32 The participatory financial institutions should refund the loan amount provided under the project within the period of January 2001 to July 2011 while the NRB should refund the amount to the GON within the period of January 2004 to July 2034. Of the credit disbursed, a total of Rs. 165.2 million was recovered from participatory financial institutions while Rs. 18.27 million remained outstanding as at mid-July 2007.

### ***Micro Credit Programme for Women***

- 2.33 Micro Credit Programme for Women (MCPW) was initiated as a supplementary project for Production Credit for Rural Women Programme in accordance with the loan agreement between the GON and ADB/M on September 16, 1993. The implementation period of the project had expired on June 30, 2002. The NRB has already paid a sum of Rs. 48.8 million till mid-July 2007. Of the total loan disbursed to two participating banks under this programme, the entire outstanding amount has been recovered.

### ***Production Credit for Rural Women***

- 2.34 Production Credit for Rural Women (PCRW) programme initiated in 1981/82 was terminated on December 31, 1997. Presently, the loan recovery process from the participating financial institutions is underway. Until mid-July 2007, the NRB has paid the principal amount of Rs. 99.7 million to the GON and Rs. 129.0 million has remained outstanding. Of the loan disbursed under the programme, a total of Rs. 86.5 million remained outstanding from two participating banks as of mid-July 2007. And Nepal Bank Limited (NBL) has repaid the entire amount.

## **Foreign Exchange Management**

- 2.35 The Bank has been introducing foreign exchange policy reform measures with the aim of making current account transactions easy and more open so as to enhance international trade. In this process, following provisions were introduced by the Bank in 2006/07:
- (1) The limit of directly payable amount in US dollar to the individual or organization by the licensed bank and financial institutions for different purposes has been raised to US\$ 2,500 from US\$ 1,500.
  - (2) The existing provision of issuing usance L/C for imports by paying convertible foreign currency from countries other than India for the maximum period of one year has been extended for the unlimited time period.
  - (3) The existing passport facility of US dollar to any Nepali citizen visiting Tibet, autonomous region of China by land (except to those persons traveling regularly to and from in the border area) and SAARC countries (other than India) including those countries where visa can be received at the port of entry has been raised to US\$ 1,000 from US\$ 300 upon the submission of necessary visa document.

- (4) There was a provision that if the document, under the L/C issued in convertible foreign currency, was received with the amount more than mentioned in L/C, the concerned bank itself could accept it with the amount up to 2 percent of the mentioned amount or US\$ 1,000, whichever was higher. Now onward, the concerned bank can accept such document of any amount without violating the terms and condition of L/C issued.
- (5) Being under the rules and regulations approved by the board, the concerned banks and financial institutions are allowed to invest their stock of convertible foreign currencies in various instruments of different periods and are also allowed for the transactions of derivative instruments such as forward option, swap and future etc in order to help them manage risks arising exchange rate fluctuations.
- (6) The existing provision was that the concerned bank did not have the authority to make a L/C payment and other related L/C transactions with the proof of freight document that was issued prior to the L/C. This provision has been changed in such a way that the concerned banks are now allowed to make a change in L/C if one of the following criterion is met:
  - (a) If there is a proof that the specified goods have not arrived at Nepalese customs points, being under the UCPDC 600; or
  - (b) If the detail of goods mentioned in LC is matched with the detail of goods mentioned in the letter which is issued by the customs office.
- (7) Previously, the import of refined oil in consumer pack for the purpose of direct market sale was limited to 20 Kg and was also restricted for its import having consumer pack of more than that weight and the import of non packed refined oil. Now onward, as per the decision of the Ministry of Industry, Commerce and Supply of the GON, the industries can import these as an industrial raw material after taking the approval from Food, Technology and Quality Control Department of the GON.
- (8) The provision has been made to allow the money changer firms/companies, that are licensed by this Bank for the purchase of convertible foreign currency, to open up an account in convertible foreign currency; sale it to the banks and financial institutions; or to provide exchange facility for the passport purpose, all under the prescribed rules and regulations.
- (9) In order to make easy import of gold, the existing provision of importing of gold and silver (including raw silver and gold) by the registered firm/company and commercial banks through Letter of Credit or Draft/T.T., has been changed so that the gold can be imported through the stand by letter of credit bank guarantee/hand carry.
- (10) The number of goods that can be imported from India through L/C paying convertible foreign currency by the registered production oriented industrial firm/company and the energy based industry up to 5 mega watt in Nepal is 121. In case of *generator set*, the provision of such import facility has also been granted to school, college, university, hospital, nursing home including other organized agency (other than to individual) for their personal use (other than for business use).
- (11) The exchange facility of convertible foreign currency, which was being provided by this Bank, for the purpose of living expenses to the students planning to go for higher studies in foreign countries (other than India), now onward can be obtained directly from banks and financial institutions upon the approval from the Ministry of Education and Culture.
- (12) If manpower companies open branch/representative/contact office in foreign countries to expand their business for foreign exchange facility along with the recommendation from the concerned department of the GON, a provision has been made to provide such facility as required.
- (13) Additional six firms/companies were granted license for carrying out money transfer operations and five companies were shutdown in the review year. Subsequently, the total number of such companies stood at 33 at mid-July 2007. Also, a policy of providing letter of intent intially to firm/company that is interested in money transfer operations has been changed whereby a license will be granted directly to any firm/company that submits application after fulfilling all the necessary process.

- (14) In 2006/07, license was granted to additional 40 moneychanger firms/companies for carrying out transaction while some firms/companies were shutdown in the Kathmandu Valley. Consequently, the total number of such firms/companies stood at 129 in the Kathmandu Valley and 315 throughout the country.
- (15) By the end of 2005/06, the number of hotel, domestic as well as international airlines, travel, trekking, cargo and courier agencies other than bank and financial institutions; and money transfer and money changer firms/companies was 2014. In this fiscal year, additional 303 firms/companies got such approval and the total number of such firms/companies reached 2317.

### **Financial Sector Reform Program**

- 2.36 Financial Sector Reform Program (FSRP), an important component of economic reform program, is under implementation as specified in the Financial Sector Reform Strategy Paper issued by the GON on October 23, 2000. The aim of the FSRP is to develop the efficiency, health, competition and professionalism of the sector in order to contribute to economic development of the nation. The FSRP is a joint program of the GON, the World Bank, and the Department for International Development (DFID) of the British Government. The FSRP has prioritized three major areas: NRB reengineering, restructuring of the two state-owned commercial banks namely, Rastriya Banijya Bank (RBB), and Nepal Bank Limited (NBL), and strengthening the overall capacity of the financial sector.

#### **Reengineering of Nepal Rastra Bank**

- 2.37 The objective of NRB reengineering is to develop the Bank as a sound and efficient institution. In view of this, a number of activities have been undertaken. These include effective human resource management, consolidation of regulation and supervision, restructuring the organizational structure, computerization, adoption of international standard of accounting, and further simplification of the activities of the Bank.
- 2.38 The term of the Human Resource (HR) Consultant, appointed to evaluate the right level of manpower required for the Bank and to facilitate in enhancing the work efficiency of the Bank staff, has been extended up to June 26, 2008. Earlier, his tenure was until June 26, 2007. The HR consultant has been performing satisfactorily as per the contract and has also been furnishing the monthly report in a timely manner.
- 2.39 Earlier, an agreement was made with the M/SIEF in Association with KPMG, Sri Lanka to enhance the supervisory capacity of this Bank and accordingly seven consultants were appointed. However, the agreement was breached on February 1, 2007, with consent from the World Bank, since the M/SIEF did not perform in accordance with the agreement. Additionally, no further action has been taken on appointing any other consultants since the meeting of the Board of Directors of the Bank has decided that there is no further need of such consultants for the Supervision Department.
- 2.40 The team of the seven Chartered Accountants appointed under the recommendation of the World Bank Mission to improve the accounting system of the Bank has been performing well in accordance with its Terms of Reference.
- 2.41 The process of collecting, processing and disseminating information through computers that the Bank has already started is in the process of further expansion. The international IT consultant appointed for such purpose has already submitted the bid specification at this Bank. And necessary action has been taken to further revise that document as per the requirement.
- 2.42 The term of the Public Relations Officer who was appointed under contract and whose tenure was extended earlier up to June 30, 2007 has been further extended for one year until June 30, 2008.
- 2.43 Altogether 245 employees, both officers and non-officers of the Bank, were sent abroad for training under the grant assistance of the World Bank. This is expected to further enhance the efficiency of the bank employees.

## **Restructuring of Nepal Bank Limited and Rastriya Banijya Bank**

- 2.44 Expression of Interest (EOI) was issued to appoint restructuring advisor for NBL and RBB. Six firms have been short listed after evaluating the EOI and a document to issue Request for Proposal to such firms has been prepared.

### ***Rastriya Banijya Bank***

- 2.45 Currently, a management team headed by an American consultant manages the RBB in the process of its restructuring. The management team initially took over the charge on January 16, 2003 for the period of two years. Later the term was extended for the period of one year until January 15, 2006 and again, it was extended for the period of another two years up to January 15, 2008.
- 2.46 The RBB has experienced better outcomes after the management team took over its charge. The RBB was experiencing loss before handing it over to the new management team. Such loss was Rs. 7.06 billion in 2001/02 and Rs. 4.83 billion in 2002/03. However, in the subsequent years as the new management team took over the charge, the RBB has earned profit. The RBB registered net profit of Rs. 1.68 billion in 2006/07. However, this is lower than the targeted profit of Rs. 2.21 billion.
- 2.47 There has also been improvement in the negative capital fund of the RBB. While such fund was negative Rs. 22.39 billion in mid-July 2003, it has come down to Rs. 17.21 billion in mid-July 2007, albeit higher than the target of Rs. 15.58 billion.
- 2.48 The level of the Non-Performing Loans (NPL) has also come down, even though the pace of recovery is below the expectation. The level of NPL that was 60.15 percent in mid-July 2003 has come down to 29.16 percent in mid-July 2007. Even though the present management team was assigned to contain the level of NPL below 28 percent in mid-July 2007, the team could not achieve the targeted level of NPL.
- 2.49 There has also been improvement on the external audit front of the RBB. The audit that was in pending for some years has been completed upto 2005/06. Also the documents relating to audit are updated and quarterly financial statements have been published regularly. The internal audit related function has been executed regularly as assigned to the management team.
- 2.50 Human Resource Development Plan and Human Resource Information System have been introduced at the RBB. Likewise, the RBB has submitted employees succession plan to this Bank and has also introduced performance based reinforcement system. The RBB introduced Voluntary Retirement Scheme (VRS) for the fourth time in order to bring employees number at the optimum level. As a result of the various efforts put forth on the human resource development front, the number of the staff has come down to 3127 in mid-July 2007 from that of 5583 in mid-July 2002. However, the targeted number of the employees as of mid-July 2007 was 2854.
- 2.51 The management team has introduced a number of manuals and by-laws. These include anti-money laundering policy, Investment and Treasury Operations Manual, revision in Internal Audit Manual, Trade Credit Manual, Credit Directives and Credit Guidelines and Credit Write-off by-law.
- 2.52 PUMORI Plus software has been installed in two departments at the head office and in 40 branches. In other 31 branches outside the Kathmandu Valley, RBBSYS has been installed. And Integrated Banking Information System (IBIS) is fully in operation. In addition, 83 percent of the total deposit and credit has been computerized. This is more than the target of 61 percent for deposit and 65 percent for credit.
- 2.53 There has been continuous growth in deposit mobilization after the new management team took over the charge of the RBB. Total deposit mobilized by the Bank reached Rs. 50.34 billion as of mid-July 2007, higher than the target of Rs. 42.40 billion.
- 2.54 The performing loan portfolio of the Bank has witnessed an improvement. Such portfolio has increased to Rs. 18 billion in mid-July 2007 from a level of Rs. 10.6 billion in mid-July 2003. This is higher than the target of Rs. 16.24 billion. There has also been significant improvement in the amount of non-performing loan. Such loan has come down to Rs 7.4 billion in mid-July 2007 from Rs. 16 billion in mid-July 2003.
- 2.55 Despite some positive outcomes on various fronts owing to the presence of the new management team at the RBB, it is likely to face additional challenges in the days to come. Particularly, the Bank



requires reducing the level of NPLs, and limit it in the defined level. The excess liquidity situation in the Bank should duly be managed and the quantum of quality lending should be increased. In addition, on the IT front, the process of computerization should be continued and accelerated. At the same time, new policies and programs pertaining to human resource management should be framed. In order to let the Bank run by the private sector, it needs to prepare itself and immediately take action with an appropriate plan.

### ***Nepal Bank Limited***

- 2.56 In accordance with the FSRP, the management of the NBL was taken over by the ICC Consulting, Bank of Scotland (Ireland) group on June 17, 2002 under a contract between the NRB and the group. The first contract lasted for 2 years. Once the contract expired on July 21, 2004 it was extended until July 21, 2005. For the second time, the contract was extended from July 22, 2005 to July 21, 2007. After the expiry of the contract, a management team comprising employees of this Bank has taken over the charge of NBL since July 27, 2007.
- 2.57 Though there has not been a significant improvement in collecting the overdue loans, some achievements have been attained on other fronts. For the first time, the reduction in net loss took place in 2002/03. The Bank was experiencing huge annual loss since 1999 and the new management team brought down it to Rs. 250 million in 2003. In the subsequent years, NBL has registered a profit. The net profit of the Bank was Rs. 420 million in 2006/07.
- 2.58 There has also been improvement in the capital fund of the Bank. The Bank's total capital fund was Rs. 9.80 billion negative in 2003 which has come down to Rs. 6.06 billion negative in mid-July 2007.
- 2.59 Even though the NPL of the NBL has not come down to a satisfactory level, it has fallen significantly from the previous level. The Bank's total NPL has come down to 15.16 percent in mid-July 2007 from 60.47 percent in mid-July 2003. However this reduction was largely attributed to credit write-off, and, thus, the recovery of such written-off loans is a challenging task ahead.
- 2.60 The audit of the Bank has been completed for the year 1999/00 to 2005/06. The audit statements have been updated and the quarterly statements have been published regularly.
- 2.61 The NBL has introduced Management Plan, Human Resource Development Plan, and Skill Development Plan for the planned development of the human resource. In this regard, the Bank has completed assessment of the required staff. The NBL has also submitted capital plan and successor plan. The VRSs introduced by NBL on various occasions have helped bring down the number of staff from 6030 in mid-July 2001 to 2937 in mid-July 2007.
- 2.62 The Bank has introduced credit guidelines and directives, anti-money laundering directive and formed an Asset Liability Management Committee. Moreover, it has also introduced new accounting directive, internal audit directive, accounts head classification directive, portfolio status and budget plan and strategic plan. The NBL has also introduced credit write-off manual and has started to write-off credit accordingly.
- 2.63 The Bank adopted the information technology plan to speed up the computerization of its activities. The Bank has already computerized 44 of its branches and has identified 38 additional branches for the same. It has also introduced any branch banking system (ABBS) in 27 of its branches. Of the total deposit and credit, 76 percent and 88 percent have been computerized respectively.

### **Capacity Building of the Overall Financial System**

- 2.64 In order to strengthen the Debt Recovery Tribunal of Nepal programs does in process of implementation to enhance the overall capacity of the financial sector. Such programs have been introduced pertaining to skills development and developing the physical infrastructure.
- 2.65 In order to enhance the skills of financial journalists, seven of them have been sent to participate in a training organized by the REUTERS Foundation, London. Similarly, a number of interactions/workshops have been organized in coordination with financial journalists to enhance the efficiency of financial journalism.
- 2.66 A documentary on the ongoing financial reform in Nepal has been developed which is about to be telecasted soon.

- 2.67 The Bank and Financial Institutions Act 2006 that replaces a number of fragmented Acts in the financial sector, was enacted on November 5, 2006.
- 2.68 The NRB Act 2002 (first amendment) has come into effect since November 9, 2006. New clauses from 86 (a) to 86 (n) have been incorporated in the Act. These provisions will allow the NRB to declare bank and financial institutions problematic, take over their control and take necessary initiatives to increase or decrease their capital. This would help correct the problem of banks and financial institutions having weak management and vulnerable financial position.
- 2.69 The Secured Transactions Act that works as a unified legal document to identify the liabilities relating to movable properties was enacted on November 16, 2006. This Bank also contributed in the development of this Act. With the enactment of this Act, movable properties can also be used as collateral in financial transactions like the fixed ones and this will also simplify the identification of liabilities relating to movable and intangible assets.
- 2.70 The Insolvency Act specifies the management provision, insolvency procedures and necessary restructuring of the companies that are already insolvent or on the brink of insolvency, came into effect on November 20, 2006. The Act was developed with the participation of this Bank. The Act is expected to expedite the timely resolution of the problems faced by banks and financial institutions as well as other companies.

## Banks and Financial Institutions' Regulation

### New Policy and Procedural Aspects for Establishing Banks and Financial Institutions

- 2.71 The NRB issued new licensing policy relating to the establishment of bank and financial institutions on March 27, 2007. The policy change aims at minimizing the risk in the financial system that could arise due to the growing number of financial institutions, and also to consolidate the financial sector from market mechanism through merger and acquisition.
- 2.72 The main feature of the licensing policy is to double the paid up capital of the banks and financial institutions. Accordingly, the paid up capital required to establish a commercial bank has been increased to Rs. 2 billion from Rs.1 billion earlier. And the concept of regional commercial bank has been eliminated. Similarly, the paid up capital required to set up a development bank according to its geographical coverage is given below:

National level	Rs. 640 million
4-10 districts	Rs. 200 million
1-3 districts	Rs. 100 million
Development banks that conduct leasing transaction (excluding national level development bank)	Rs. 300 million

The paid up capital required to establish a national level finance company increased to Rs. 300 million and paid up capital for those companies with operational area of 1-3 districts required Rs.100 million. Except in some special cases, the provision for establishment of finance company covering one district has been taken out. No changes have been made in paid up capital requirements for the micro-credit financial institutions.

**Table 2.1**  
**Minimum Capital Requirement for Establishment of Banks and Financial Institutions**

Class	National Level	Regional Level*	4-10 districts*	1-3 districts*
"A"	Rs.2000 million	-	-	-
"B"	Rs.640 million	-	Rs.300 million <sup>a</sup> Rs.200 million	Rs.300 million <sup>a</sup> Rs.100 million
"C"	Rs.300 million <sup>a</sup> Rs.200 million	-	-	Rs.300 million <sup>a</sup> Rs.100 million
"D" <sup>b</sup>	Rs.100 million	Rs.60 million <sup>#</sup>	Rs.20 million <sup>c</sup>	Rs. 10 million

\* Except Kathmandu valley. The operational area of such financial institutions will be limited within stipulated districts.

a It will be applicable for the financial institutions which deal with leasing transactions.

b Financial institutions dealing only with micro credit.

c Including 5 additional districts of hill area.

# Operating within development region.

- 2.73 The process of licensing those institutions applying for establishment but did not obtain the letter of intent will be forwarded only after the commitment to comply with the capital plan by mid-July 2010 as per the new capital requirement provision.
- 2.74 It is provisioned that the banks and financial institutions having foreign investment can allot only 15 percent shares to the public.
- 2.75 Moreover, a provision has also been made to obtain tax related information from the tax office.
- 2.76 The provision has also been incorporated to reject the proposal submitted with the intention of opening banks/financial institutions for transfer of the personal/institutional risk to the banking sector. In addition, the policy pertaining to get the information regarding the financial discipline of the promoters through the public notice has been continued.
- 2.77 The information regarding the black listing/defaulters is obtained from Credit Information Bureau and also from banks and financial institutions. Any amendment in the proposed list of promoters can be made only with the consent of this Bank.
- 2.78 The new licensing policy has mentioned that a single person, family or firm can invest maximum of 15 percent in one institution and one percent in others. There is no provision of cross holdings among the companies by promoters. The individuals, family, firms, companies, or corporate bodies, or single group of companies holding more than 25 percent shares of development banks conducting micro-finance business should bring down such shareholding to 25 percent by mid-July 2011. But, this provision will not be applied to the "D" class financial institutions operating as micro credit development banks. The provision of enclosing audited statements of company groups in individual details for the latest two consecutive fiscal years has been continued.
- 2.79 Promoters are restricted to invest in the shares of bank and financial institutions by borrowings from other banks and financial institutions. Further, promoters should disclose the status of their borrowing from other banks and financial institutions and the name of the tax office they normally deal with. In addition, the proposed promoter should not be the broker or market maker in the stock exchange.
- 2.80 The banks and financial institutions currently in operation should fulfill the new paid up capital requirement proportionally each year up to mid July 2013. For this purpose, mid-July 2007 shall be taken as the base year to increase the required paid up capital proportionately and banks and financial institutions should submit their business plan/capital plan to fulfill this requirement from 2007/08 onwards. In order to raise the capital, banks and financial institutions are required to increase at least 80 percent of their paid up capital and remaining 20 percent can be fulfilled from other sources included in core capital.
- 2.81 Banks and financial institutions will be penalized as mentioned below if they fail to comply with the provisions of minimum paid up capital requirement on yearly basis by mid-July 2013. For this provision, the year of non-compliance will be taken as the base year.
- (a) The distribution of dividends will be restricted, if they fail to fulfill the paid up capital requirement for 2007/08.
  - (b) Collection of deposits will be restricted, if they fail to comply with the paid up capital requirement for 2008/09.
  - (c) Credit disbursement will be restricted, if they fail to comply with the minimum capital requirement for 2009/10
  - (d) All transactions except collection of loans and disbursement of deposits will be restricted, if they fail to comply with the minimum capital requirement for 2010/11. The process of revoking the license will also take place then after.
  - (e) If two or more banks and financial institutions fail to comply with the minimum paid up capital requirement within the period and propose to merge with each other, the paid up capital for the merged institution will be computed by adding up the paid up capital of those individual institutions.

***Self Declaration by the Customers for KYC Policy***

- 2.82 According to the guidelines relating to Know Your Customer (KYC) policy, deposits more than Rs. 1 million requires disclosure of the income source. Due to the complexity in documentation for such disclosure, self-declaration of the source is acceptable.

### **Some Changes in Loan Loss Provisioning**

- 2.83 The provision of additional 20 percent loan loss provisioning has been withdrawn for the educational loans extended against personal guarantee to develop and expand the modern education system as well as to increase the number of students obtaining such education.
- 2.84 The loan loss provision for the insured credits extended to small and medium enterprises would be one fourth of the normal provisioning rate as mentioned in priority sector credit provisioning if the credits are insured in any insurance companies.

### **Capital Adequacy Ratio**

- 2.85 The capital adequacy for banks and financial institutions fixed at 11 percent for 2005/06 will be continued until the New Basel-II capital accord implemented.

### **Submission of the Financial Statements for Approval**

- 2.86 Amendment has been made in the existing provision of publishing the annual financial statements by banks and financial institutions only after obtaining approval from this Bank. According to the new provision, banks and financial institutions should submit the annual financial statements (balance sheet, income statement, cash flow statement, all the schedules as per the directives of this bank and statement of loan loss provisioning) based on the preliminary audit report audited by external auditors along with management response to this Bank. This Bank will conduct off-site supervision on the basis of the submitted statements. And the banks and financial institutions should adjust the financial statements in case of any discrepancy found by this Bank and then only publish the statements.

### **Procedures to be Followed in Case of Issuance of Bounced Check**

- 2.87 The following procedure shall be followed if an individual, firm, company or corporate entity issued check without having sufficient amount in their accounts or issued check which is not payable by any other reason even if there is sufficient amount in the account:
- (a) For the checks bounced back at the first time, the payee should re-submit the check in the banks or financial institutions providing a maximum of seven days' time limit for payment to the drawer.
  - (b) If the check is not paid within the above time limit, the payee can inform the paying bank or financial institutions in written form.
  - (c) The banks or financial institutions will provide maximum of seven days to the drawer to make necessary arrangement for payment. In case the bounced check is not paid within specified time, banks or financial institutions will compulsorily blacklist the drawer.
  - (d) The banks and financial institutions should blacklist anyone who issued such bounced check to these institutions as well.

The individual, firm, company or corporate entities are not allowed to do any type of banking transaction except depositing money in their account until they remain blacklisted.

### **Provision Relating to the Blacklisted Shareholders of Banks and Financial Institutions**

- 2.88 The following provisions will be applicable to the blacklisted shareholders of the licensed banks and financial institutions regarding the right share, preference share, debentures and dividends:
- (a) The blacklisted promoters will not be eligible to buy the right share, preference share and debentures of their promoting bank and financial institutions.
  - (b) In case banks and financial institutions provide loan detail of the blacklisted borrowers and ask for payment from other banks and financial institutions where such borrowers are promoters or shareholders, the requested banks and financial institutions have to pay to the former category of

banks and financial institutions from the dividend to be received by such blacklisted promoters and shareholders. The banks and financial institutions where such borrowers are promoters or shareholders should also apply the same provision in order to recover their own outstanding debt.

### **Relating to Willful Defaulters/Blacklisted Borrowers**

2.89 As mentioned in the Budget Speech for 2006/07, the default borrowers of the banks and financial institutions were given deadline to reschedule their loans by mid-September, 2007. The following directives were issued to the concerned banks and financial institutions as per the decision of the Government of Nepal on December 15, 2006 with regard to borrowers who reflected the repeated opportunities given by the bank to repay their loans and those considered fit for initiating legal action by the commercial banks.

- (a) The actions against the borrowers with highest outstanding principal will be taken in priority basis among the borrowers of more than Rs. 50 million as principal. The concerned Banks should take the action against those borrowers in accordance with the prevailing law of land or recommend to this Bank for further actions to be taken against those borrowers.
- (b) The facilities like debit card, credit card and the similar ones issued in favor of those borrowers by the banks and financial institutions should be suspended.
- (c) The concerned Bank should request this Bank to take the following one or more actions against the willful defaulters and the individuals, firms or companies or corporate entities and those who provide guarantees to such borrowers within the limit of subsection 2.89 (a) and after considering the nature of loan, use of the loan, possibility of loan recovery, attitude and willingness of the borrower to pay the loan and any others.
  - i) To seize the passport of willful defaulters and to inform the Ministry of Foreign Affairs and Ministry of Home not to issue new passport to those borrowers along with to release the public notice.
  - ii) Not to appoint such willful defaulters in government or corporate public entities as an expert/consultant or in any of the political appointments and remove them from the posts of such entities if they are already there.
  - iii) To refrain them from medals, decorations, recognitions or any other facilities from the state.
  - iv) To ban from being the director of the company registered under the Company Act.
  - v) To prevent to register the new industry, firm or company and bid the government contract and to stop the moveable/immovable property of the defaulter except in the case of granting approval from the Bank to repay the loan and issue direction to the concerned authorities (custom office, transport management office, municipality etc.) for this purpose.
  - vi) To forfeit and auction the government securities held by the defaulter and utilize the realized amount to pay back loan.
- (d) To drop all the actions taken against the defaulters previously once they repay/restructure/reschedule the loan

2.90 According to the decision of the GON on April 12, 2007, action has been taken against 80 borrowers and their related ones who had been taken the principal amount of more than Rs. 50 million.

2.91 As per the decision of the GON, the licensed banks and financial institutions have been given the following instructions for necessary arrangement to suspend the transaction of immovable property of the defaulter:

- (a) To stop the withdrawal of deposits (domestic as well as foreign) for the defaulters and their related ones.
- (b) To keep hold on all the properties kept in locker by defaulters and their related ones.

### **Joint Credit Investment and Credit Limit**

2.92 Credit and other facilities can be provided against the guarantee and counter guarantee of joint venture partners of the Nepalese joint-venture banks and financial institutions. However, the provision of single obligor limit is applicable to these types of loans as well.

### **Purchase of Fixed Asset by Bank and Financial Institution**

2.93 As per the provision made by this Bank, no bank and financial institutions operating under the Bank and Financial Institution Act 2006 are allowed to purchase/invest in fixed asset (land and building) for their own use without fulfilling the following procedures:

- (a) Total pre operating expenses of the organization must have been written off.
- (b) The Annual General Meeting that is to be convened only after issuing the public share as per the provision incorporated in Memorandum and Article of Association must have been conducted.
- (c) The organization must have earned profit.
- (d) The capital fund should be as per the directives issued by this Bank.

2.94 The amount equal to the fixed asset purchased/invested without complying with the referred clause will be deducted from the primary capital of the concerned institutions.

### **Restriction on Deposit and Credit Transaction**

2.95 A new provision has been made to restrict the banks and financial institutions licensed by this Bank from borrowing and depositing with other financial institutions operating under other prevailing laws. The deposit and credit transactions carried on earlier should be settled within July 16, 2008 or on the maturity date whichever is earlier. However, there is no restriction to lend against fixed deposit, government bond and the NRB bond to the cooperatives licensed under this Bank or operating under other prevailing laws for limited banking transactions.

### **Lending Restriction to Finance Initial Public Offerings (IPO)**

2.96 The following provisions have been made with respect to lending by banks and financial institutions to finance primary subscriptions:

- (a) No bank and financial institutions can lend to general public in the first seven days of initial public offering. If the total issued shares are not subscribed within first seven working days of the issuance, the following provisions will be applicable to extend loan from the eighth working day:
  - (i) If the issue manager appointed for the primary share issuance is licensed institution of this Bank, the institution will not lend to any person/firm/company for IPO.
  - (ii) Bank and financial institutions should keep at least 50 percent cash margin of total loan amount to invest in IPO.
  - (iii) The maximum period of this loan should not exceed the period fixed for the allotment of share according to the Security Act, and other related laws and no restructuring and rescheduling facility on this category of loan.
  - (iv) Credit appraisal procedures should be applied on this loan as well.
  - (v) 100 percent provision should be made on this loan if it does not fall in good loan category.

### **Provision Regarding the Cross Holding Shares to be Sold by Bank and Financial Institutions**

2.97 Despite the clear provision prohibiting investment in shares of the A, B and C class institutions licensed by this Bank as per Clause 48(1) (VII) of Bank and Financial Institutions Act 2006, some of the bank and financial institutions do still have such investment. These institutions have been asked to divest such investment.

### **Grievance Hearing Cell**

2.98 A Grievance Hearing Cell (GHC) was formed under the convenorship of the senior deputy governor of this Bank on April 24, 2005 to hear the grievances of banks and borrowers in course of their business.

A grievance hearing sub-committee was formed at the central level on October 18, 2005 comprising following members to make the function of cell more effective:

- |     |   |             |
|-----|---|-------------|
| (a) | Executive Director ((Bank and Financial Institutions Regulation Department) | Coordinator |
| (b) | Representative from concerned bank or financial institution                 | Member      |
| (c) | Representative from Ministry of Finance                                     | Member      |
| (d) | Representative from FNCCI   | Observer    |

On the same day, the district level grievance hearing sub-committees were also formed under the coordination of chief manager of concerned office of this Bank including the representative from concerned Bank and financial institution as member, representative from FNCCI of concerned district as observer. It seemed appropriate to expand and reform the existing grievance hearing cell closing the grievance hearing sub-committee formed earlier at the central level. So, the grievance management committee was restructured on January 04, 2007 under the convenorship of the Deputy Governor of this Bank comprising the representative from Ministry of Finance and Chairman of Bankers' Association as members and representative from FNCCI as observer following decision of the Government of Nepal on December 15, 2006.

- 2.99 Since the provision of grievance hearing was introduced, 338 complaints were filed till mid-July 2007. Out of these, 263 complaints have already been settled whereas remaining 75 complaints are under consideration.

### Approval for Operation and Letter of Intent to New Commercial Banks

- 2.100 On January 2, 2007, the license for banking transaction was granted to Global Bank Limited as a commercial bank whose central office was to be located in Birgunj sub-municipality of Parsa district. The authorized capital and issued capital of the Bank is Rs 2 billion and 1 billion respectively. The share ownership of promoter group is 51 percent.
- 2.101 On April 18, 2007, the license for banking transaction was issued to Citizens Bank International Limited whose central office is to be located in Kathmandu Metropolitan City. The authorized capital and issued capital of the Bank is Rs 2 billion and Rs 1 billion respectively. The share ownership of promoter group is 56 percent.
- 2.102 On July 15, 2007, the letter of intent was provided to Prime Commercial Bank Limited whose central office is to be located in Kathmandu Metropolitan City. The authorized capital and issued capital of the Bank is Rs 1.5 billion and Rs 1 billion respectively. The share ownership of promoter group is 70 percent.

### License to New Development Banks

- 2.103 Eight development banks obtained license for financial transactions during the review year. Out of these Banks, one is national level Bank; another operates in 10 districts and the remaining 6 in 3 districts only. The central office of the national bank is situated in Kathmandu, whereas other development banks are located in Dharan (1), Butwal (2), Gaidakot (1), Putali Bazar (1), Damak (1) and Birgunj (1). The total number of development banks including these reached 38 in mid-July 2007.

**Table 2.2**  
**Development Banks Established During 2006/07**

S.N.	Name of Development Banks	Address	Operational Area
1	Clean Energy Development Bank Limited	Sitapaila, Kathmandu	National Level
2	Miteri Development Bank Limited	Dharan, Sunsari	3 Districts
3	Tinau Development Bank Limited	Butwal, Rupandehi	3 Districts
4	Gaidakot Development Bank Limited	Gaidakot Nawalparasi	3 Districts
5	Muktinath Development Bank Limited	Putalibazar, Syangja	3 Districts
6	Sewa Development Bank Limited	Butwal, Rupandehi	3 Districts
7	Kankai Development Bank Limited	Damak, Jhapa	3 Districts
8	Public Development Bank Limited	Birgunj, Parsa	10 Districts

### License to New Finance Companies

2.104 The approval for financial transaction was provided to additional four finance companies during 2006/07. Thus, the total number of finance companies reached 74 in mid-July 2007. During this period, one company was upgraded to B class and another one merged into “A” class Bank. Likewise, the letter of intent was provided to additional 7 companies. Out of the existing 74 finance companies, 50 are located in Kathmandu Valley and 24 are outside the Valley.

**Table 2.3**  
**Finance Companies Established During 2006/07**

S.N.	Name of Finance Companies	Address	Operational Area
1	Reliable Investment Bittiya Sanstha Ltd.	Sundhara, Kathamandu	National Level
2	Lord Buddha Financial Institution Ltd.	Newroad, Kathmandu	National Level
3	AP Financial Institution Ltd.	Lekhnath, Kaski	3 Districts
4	Namaste Bittya Sanstha Ltd.	Dang.	3 Districts

### New Provision for Branch Expansion

2.105 The existing provision regarding branch office of banks and financial institutions has been cancelled and new directives was issued on October 11, 2006. A provision of opening extension counter is also incorporated in new directives.

2.106 The unified directives regarding branch expansion of finance companies introduced in July 2005 was amended and a new one was issued on October 12, 2006. According to new directive, finance companies opening branch office in Kathmandu Valley and outside the Valley should increase the paid-up capital at least by Rs. 20 million and Rs. 5 million, respectively. For the purpose of branch expansion, the amount, which is to be added to capital adjustment fund, will not be included, the added amount will be calculated for branch expansion use only after maintaining the minimum paid-up capital of Rs. 50 million, the statement concerning information technology must be included and the ratio of non-performing loan must be less than 5 percent.

### No New License to NGO to Act as Financial Intermediary

2.107 The provision of granting permission to interested non-governmental organizations (NGOs) by this Bank to conduct limited banking transaction has been suspended until the establishment of second-tier institution. The cooperatives licensed by this Bank will not be permitted to open any branch or office until a separate second-tier institution is established as per the laws to be framed on the basis of the micro credit policy. Similarly, the provision of opening branch or office by non-governmental organizations outside the district where the organizations were registered is also suspended.

### Calculation of the Amount of Principal and Interest of Government Bond in CRR until the Reimbursement

2.108 It has been arranged that any of the “A”, “B” and “C” class institutions licensed by this Bank in addition to the market maker can ask for reimbursement at this Bank after redeeming principal and interest of government bonds to the holders of such bonds. This is intended to make the principal and interest payment wider, easier and comfortable. The provision of computing the amount, which is paid as the principal and interest of government bond, in CRR until reimbursement is received from this Bank, has also been extended to the market maker and commercial banks. Furthermore, the principal amount, which could not be paid due to the public holiday, is also computed in CRR that should be kept in this Bank. In addition to this, it is arranged that the commission, which is provided on account of interest payment is also extended to the above mentioned institutions.

### Provision Regarding the Wholesale Credit to be Invested on Deprived Sector

2.109 It has been arranged that banks and financial institutions can extend wholesale credit to the saving and loan cooperatives licensed by this Bank in order to invest in deprived sector. And the concerned banks are required to submit the statement of confirmation to this Bank monitoring on half yearly basis whether the credit is invested in deprived sector. Additionally, if the wholesale credit amount provided



for the above purpose is found misused in the course of supervision, the amount equal to misused loan should not be computed under deprived sector loan disbursed by the Bank.

### Loan Borrowed by Development Banks from Commercial Banks under Deprived Sector Credit Program

2.110 The development banks engaged in micro finance business under the deprived sector credit program of commercial banks are required to lend at least 10 percent in the first year or in 2006/07, at least 40 percent in the second year or in 2007/08, at least 60 percent in the third year or in 2008/09, at least 70 percent in the fourth year or in 2009/10 and 100 percent in the fifth year or in 2010/11 and onward of the total borrowed amount of 2006/07 and the previous years. And, if the loan extended by commercial banks to development banks conducting the micro finance business is not used for the purpose mentioned above, it should not be computed under deprived sector loan.

## Inspection and Supervision of Banks and Financial Institutions

### Commercial Banks' Overall Branch Office and Special Inspection

2.111 This Bank has been carrying out corporate level on-site inspection of commercial banks every year. Corporate level on-site inspection of 18 commercial banks including Agriculture Development Bank was completed in 2006/07. In this course, inspection of 106 branch-offices and projects of the inspected commercial banks was also carried out.

**Table 2.4**  
**Inspected Branches of Commercial Banks**

S. N.	Name of Commercial Bank	Number of Branches inspected
	Nepal Bank Limited	5
	Prasthya Baniya Bank	7
	Agricultural Development Bank Limited	29
	Oil Bank Limited	9
	Nepal Investment Bank Limited	5
	Standard Chartered Bank Nepal Limited	-
	Malayan Bank Limited	8
	Nepal SBI Bank Limited	5
	Nepal Bangladesh Bank limited	3
	Forest Bank Limited	3
	Bank of Kathmandu Limited	4
	Nepal Credit and Commerce Bank Limited	6
	Lumbini Bank Limited	2
	Nepal Industrial and Commerce Bank Limited	7
	Chhapuchhre Bank Limited	6
	Laxmi Bank Limited	4
	Laxmi Bank limited	-
	Dhartha Bank Limited	3
	<b>Total</b>	<b>106</b>

2.112 Special on-site inspection of 20 branches of nine commercial banks including Lumbini Bank Limited, Nepal Credit and Commerce Bank limited, Nepal Investment Bank Limited, Nepal Bank Limited, Bank of Kathmandu Limited, Nepal Bangladesh Bank Limited and Laxmi Bank Limited was also completed in the review year.

2.113 The special supervision of Nepal Bangladesh Bank Limited, Nepal Credit and Commerce Bank Limited, and Lumbini Bank Limited which began in February 2005, keeping them under close observation, continued even in the review year. These Banks are required to take consent from NRB while lending Rs. 5 million or more amount of credit. "Credit Agreement Implementation Committee" has been established within the NRB for this purpose.

2.114 In order to manage the database of large borrowers borrowing from commercial banks and for producing reports as per the requirement, software pertaining to these borrowers has been developed.

### **Control Over Nepal Bangladesh Bank**

- 2.115 This Bank took over the management of Nepal Bangladesh Bank Limited on November 12, 2006. This was essential since the directions given to improve the anomalies found in course of supervision were overlooked time and again. The Bank management had failed to ensure corporate governance. Large amount of loan disbursed to the principal promoter of NB Group and its associate firms, companies and individuals was misused and the Bank management could not recover such loans. Also it failed to implement capital planning due to inadequate capital fund, did not maintain adequate loan loss provisions by defying NRB directives regarding loan classification and did not try to bring lending limits and facilities to single borrower as per the provision for single-borrower limit. The four-member management team under the convenorship of the Director of NRB was formed to take control of the management of the Bank. The management team worked there since November 12, 2006 to March 9, 2007.
- 2.116 In nearly four months, the management team had recovered Rs.1 billion 875 million from the loan recovery and the sale of properties. A sum of Rs. 327.9 million was recovered from borrowers related to NB Group, Rs.710 million from other borrowers and Rs. 49.5 million from the sale of properties.
- 2.117 During the period of management take over; the management team used a credit of Rs.1.27 billion from NRB for credit management. The Bank has already repaid this to the NRB.

### **Handover of NBBL Management**

- 2.118 With an aim to manage and operate Nepal Bangladesh Bank Ltd. from individuals, firms, companies and consultants from the private sector selected through bidding process, the management was handed over to a group led by Mr. Basudev Ram Joshi on March 9, 2007.

### **Initiation of Early Warning System**

- 2.119 The preparation of off-site inspection report on a trimester basis as per the financial statements sent by commercial banks to the NRB has begun. The CAELS rating of the report will be used for continuing the supervision of Banks as per the need and use of available data for Early Warning Signal (EWS) system which has been initiated in the review year.

### **Regarding Banking Supervision Principles Endorsed by BASEL**

- 2.120 Self Assessment of Banking Supervision Principles (core principles) that was approved by BASEL Committee in September 1997 and revised in October 2006 was completed on January 15, 2007 with the assistance from the IMF consultant.
- 2.121 Regarding the implementation of BASEL-2, Capital Adequacy Framework 2007 has been prepared by revising Capital Adequacy Framework 2006. The Framework requires commercial banks to maintain risk based capital adequacy.

### **Inspection of Development Banks, Finance Companies and Micro Finance**

- 2.122 In 2006/07, overall on-site inspection of 14 financial institutions of Class B, 25 of Class C, 2 of Class D and 9 others (see Annex 2.2) and targeted inspection of 19 financial institutions was completed.

#### ***Follow-up Inspection***

- 2.123 Follow-up inspection of 11 financial institutions was carried out to evaluate the improvement in the implementation of directives issued by the NRB (Table 3).
- 2.124 Special inspection has been carried out to evaluate the facts related to grievances of individuals, firms and institutions against 11 financial institutions (Table 4).

#### ***Special Actions***

- 2.125 A number of financial institutions were penalized for discrepancies found during on-site inspection and supervision (Annex 2.4).
- 2.126 Six financial institutions that failed to maintain required CRR as per the directives of this Bank were penalized.

- 2.127 In 2006/07, altogether 51 banks and financial institutions were authorized to work as market makers for carrying out transactions of Government Securities. On-site inspection of 15 market makers, based on the transaction of government securities, was carried out in the review year.

## **Currency Management**

### **Issuance of Notes**

- 2.128 Notes in circulation of various denominations reached Rs. 91.30 billion as of mid-July 2007 compared to such circulations of Rs. 84.60 billion a year ago.
- 2.129 Given the approval of the GON, the picture of Mt. Everest will be printed on the left side of the new notes of all denominations, while on the right side of such notes, the national flower rhododendron will be printed in watermark.
- 2.130 As per the information from annual printing and the stock record of 2006/07, 100 million pieces of Rs. 5/-, 27.8 million pieces of Rs. 10/-, 50 million pieces of Rs. 20/-, and 20 million pieces of Rs. 50/- were printed in July, September and October 2006.

### **Note Chests/ Fund Transfer**

- 2.131 To increase the circulation of Nepalese notes inside the country and to make the Nepalese currency easily available in necessary amount for the smooth operation of nationwide banking services, note chests facility is provided in 43 branches/sub-branches of Rastriya Banijya Bank; 23 branches/sub-branches of Nepal Bank Limited; and 7 different district offices of the NRB. During 2006/07, the total funds amounting to Rs. 4411.5 million was transferred to the note chests of Rastriya Banijya Bank and Rs. 13,985 million to that of Nepal Bank Limited.

### **Destruction of Notes**

- 2.132 As per the provision of destroying the soiled and non-usable notes held at the possession of public and commercial banks, a total of Rs. 6.67 billion in 2005/06 and Rs. 121.5 billion of different denominations were burnt in 2006/07.

### **Sale/Purchase of Gold and Silver**

- 2.133 In 2006/07, a total of 6 kilograms 706 grams and 700 milligrams of gold and 66 kilograms 594 grams of silver were bought. In the same period, 4 kilograms 485 grams and 600 milligrams of gold and 976 kilogram 713 gram of silver were sold. Similarly, 2500 kg of other metals were transacted during that period.
- 2.134 In 2006/07, a total of 15,000 pieces of Rs. 25/- Smarika coin, 5,000 pieces of 15 gram Laxmi Medaliyan, and 1,302 pieces of medal were produced with their distribution of 14,610 pieces, 3,059 pieces and 1,302 pieces respectively.

## **Miscellaneous**

### **Institutional Reforms**

- 2.135 High priority has been given to the institutional reform by restructuring and modernizing the activities of this Bank.
- 2.136 The Bank has prepared and implemented “The Strategic Plan (2006-2010)” with the objective of making the bank’s activities more scientific, managed, effective, transparent and accountable. The strategic plan contains the vision, mission, objective, strategic action and working performance indicators of this Bank for the next five years. The annual work plans have also been developed in tandem with the strategic plan.
- 2.137 The “Budget Review Committee” coordinated by the board member, Prof. Dr. Bishwombhar Pyakurel has been established. The committee reviews the implementation of the budget every quarter, prepares the report and forwards it to the Board of Directors.

- 2.138 Twelve on-sight inspections were carried out including those of different departments, Household Budget Survey Project, Financial Sector Reform Project and the different offices outside the valley. Similarly, off-sight inspections of three offices and performance based internal audit of four offices were carried out. Also, the internal audit was conducted for the Foreign Exchange Management Department (investment related issues), Public Debt Management Department (OMO related issues), General Administration Department (purchase related issues) and Bank Supervision Department (off-site inspection related issues), which were in the list of risk-based departments.
- 2.139 To make the internal audit system more effective, the *Letter of Engagement* has been made available to the concerned department/offices and to the audit team members as well. *The Letter of Engagement* incorporates the main duties and functions of the department/offices to be audited; the objective of audit; scope of audit; the name list of audit staff; and the duration of audit.

### **Information Technology**

- 2.140 The process of developing new software to computerize the works of the various departments of the Bank, banking and accounting software including BANKSYS, KBOSYS, ACMTSYS, etc. have been refined. The refinement of the software was made in accordance with the feasibility study of the additional improvements in banking software accommodating the new provisions of the GON on revenues and government transactions, double entry system both on debit and credit in general accounts and the number of gold and commemorative coins in their respective accounts. The clearinghouse software has been brought into operation by updating the Stand Alone mode into Network Version. In order to simplify the public debt accounting transactions, necessary improvement has been made in banking software by establishing computer network between the Banking Office and Public Debt Management Department. The Pension Management Information System has been set up. Likewise, additional refinement has been made in housing-loan information system. In the process of making bank's website more informative, the concerned departments can upload the related information by designing their new webpage. For this purpose, training will be given to the officials of the concerned departments. Necessary arrangements have been made for the implementation of the software developed and further refined as per the suggestions by the Microfinance Department for the accounting system of Rural Self-reliance Fund operating under the Microfinance Department. In order to introduce the scripless system in treasury bills transactions, appropriate software has been developed and used.
- 2.141 The intranet system has been introduced to share the documents such as circulars, notices, rules and regulations, statistics, publications and other documents and foreign training materials.
- 2.142 The existing separate networking system of the Banking Office and Public Debt Department has been integrated.
- 2.143 Data communication system has been developed by establishing the Data Communication Line (Optical Fiber) between the Central Office and Banking Office, Thapathali.
- 2.144 The Internet and e-mail facility extended to the Central Office has been expanded to Banking Office, Public Debt Management Department and Bankers' Training Centre.
- 2.145 The SWIFT Terminal has been installed and operationlized in the Foreign Exchange Management Department.
- 2.146 The dial-up internet facility has been made available to the top level officials of the Bank engaged in research and study from their residence by installing E1 Line in Information Technology Department.
- 2.147 Technical assistance has been provided to operationalize the Internet and e-mail services installing the leased line in Pokhara and Nepalgunj Offices in line with the aim of facilitating the Internet and e-mail services in district offices of the Bank.
- 2.148 Necessary change has been made in banking software for the purpose of making payments system modern in the NRB district offices. In this regard, assistance in network restructuring was provided to the NRB Janakpur Office.
- 2.149 The Following documentations have been prepared for the software used in the Bank in the review year:

- Documentation of Balance of Payments software
- Documentation of Banking Operation System software
- Documentation of Banking Cash Entry Program and User Manual

### Human Resource Management

- 2.150 With a view to give continuity to the inflow of human resource possessing modern skill, knowledge and capability, four Chartered Accountants and one Master of Law degree holder were recruited in the post of “C” class officer through the open competitive examination. In addition, written examination to recruit 14 more officers was also held in the review year.
- 2.151 The number of employees getting compulsory retirement after the age of 58 or 30 years' service period as per the provision of NRB Employees' By-laws, 2005, including the number of employees terminating the NRB-service because of resignation, death, dismissal along with the number of newly recruited employees in the NRB service is given in Table 2.5. The number of current employees till mid July 2007 is given in Table 2.6.

**Table 2.5**  
**Recruitment in and Termination of NRB-service**  
**(Mid July 2006 - mid July 2007)**

Level	Compulsory Retirement	Resignation	Dismissal	Death	New Recruitment
<b>Officer level</b>	<b>15</b>	<b>5</b>		<b>2</b>	<b>5</b>
Officer- Special	2	1			
Officer- First	1			1	
Officer- Second	6				
Officer- Third	6	4		1	5
<b>Assistant Level</b>	<b>5</b>	<b>1</b>	<b>1</b>		
Assistant- First	1	1			
Assistant -Second	1				
Assistant -Third	2				
Assistant -Fourth	1		1		
Assistant- Fifth	0				
<b>Total</b>	<b>20</b>	<b>6</b>	<b>1</b>	<b>2</b>	<b>5</b>

**Table 2.6**  
**The Number of Current Employees (Mid July 2007) and**  
**the Number of Employees Proposed by IOS Partner**

Level	Current Employees up to mid July 2007*	No of employees proposed by IOS Partner
Officer- Special	11	17
Officer- First	36	47
Officer- Second	98	111
Officer- Third	317	270
<b>Total (Officer)</b>	<b>462</b>	<b>445</b>
<i>Assistant- First</i>	602	472
Assistant -Second	54	264
Assistant -Third	93	49
Assistant -Fourth	315	123
Assistant- Fifth	5	133
<b>Total (Assistant)</b>	<b>1069</b>	<b>1041</b>
<b>Total</b>	<b>1531</b>	<b>1486</b>

- Permanent staff only.

- 2.152 In the number of 1,486 employees proposed by the IOS Partners, the proportion of officer to assistant was 1:2.34 with 445 officers and 1,041 assistants. The actual number of officers and assistants working at mid July 2007 was 462 and 1,069 respectively with the officer to assistant ratio of 1:2.31.
- 2.153 Likewise, the details of established posts, fulfilled posts and vacant posts in case of security group working in the NRB under contract are given in Table 2.7.

**Table 2.7  
Structure of Security Group ( Contract)**

S.N.	Level	Designation	Established Posts	Fulfilled Posts	Vacant Posts
1.	Officer- Second	Security Officer	1	1	0
2.	Officer- Third	Assistant Security Officer	1	1	0
3.	Assistant -Second	Assistant Security Guard	2	1	1
4.	Assistant -Third	Security Assistant.	1	1	0
5.	Assistant -Fourth	Head Guard	2	2	0
6.	Assistant- Fifth	Guard, Deputy Guard, Patrol and Helper	67	63	4
	<b>Total</b>		<b>74</b>	<b>69</b>	<b>5</b>

- 2.154 Moreover, three temporary Head Guards (temporary employees who worked under the Wireless Group) were also working in security group.
- 2.155 A revised transfer policy was introduced in order to make the human resource management of all Departments and Offices at the NRB transparent and equitable.
- 2.156 Fifty-six employees working as Head Cash Assistant were adjusted to the post of Head Assistant following a special procedure. This is in order to adjust the employees working under Cash Service to the similar post of Administrative Service of NRB.
- 2.157 The NRB Higher Studies Procedure, 2006 was prepared and implemented with a view to execute the provisions relating to prior approval for study travel and study leave as per clause 44,92 and 166 of NRB Employees' Service by-laws, 2005.
- 2.158 The '25-year Service Souvenir' was converted into '20-year Service Souvenir' by reducing the required permanent service period from 25 years to 20 years to be eligible for the souvenir as per the decision taken by the Board of Directors on June 7, 2007.
- 2.159 The meeting of the Board of Directors held on June 7, 2007 introduced a policy provision to provide annual medical facility to pension holders of any level or his/her beneficiary as well as additional treatment expenses, at request, for the treatment of severe diseases.
- 2.160 The meeting of Board of Directors held on April 9, 2007 made second amendment to by-law 9 of the NRB Employees' Service By-laws, 2005 inserting paragraph (C) and (D) after paragraph (B). The amendment introduced provision to establish required posts, with necessary conditions, in the assistant third level by the Governor if additional posts deemed necessary. A provision of self-nullification of post of assistant fourth was also made if such assistant third level posts were fulfilled by promotion from assistant fourth level.
- 2.161 The NRB Employees' Service By-laws, 2005 was amended for the third time keeping in view the welfare and interest of employees. In addition to other provisions, the amendment included the provision of compulsory travel (domestic) leave.
- 2.162 With a view to make the human resource management of the NRB capable, competitive and creditworthy necessary amendment was made and timely improvements were done in the NRB Employees' Service By-laws, 2005 to facilitate career development. The newly amended provisions were related to promotion, leave and trade union right up to third class officers.
- 2.163 The NRB Cash By-laws 2006, the NRB Board of Director's Meeting and Seal By-laws 2006, the NRB Paper Destruction By-laws 2006 were formulated and implemented. The first by-law was expected to help regulate the cash transaction through automation of cash service and utilize the excess manpower

in other services. Similarly, the second by-law was expected to be lawful and facilitate the Board of Director's meetings as well as its seal. The Implementation of the NRB Paper Destruction By-laws, 2007 will guide Department/Offices in proper management of documents including record keeping and destruction of expired documents.

- 2.164 Compulsory travel (domestic) leave procedure 2007 was enforced for the implementation of the provision of compulsory travel (domestic) leave introduced by the third amendment of the NRB Employees' Service By-laws, 2005.
- 2.165 The interest rate of uninsured house loan and house maintenance loan was brought down from 3 percent to 1 percent effective July 17, 2006.
- 2.166 The provision to reserve a bed and a meal per day in Nepal Eye Hospital, Tripureshwor for free treatment of eye problems of the employees and their family members was introduced.
- 2.167 The meeting allowance for the chairman and members of the Board of Directors as well as coordinator and members of sub-committees formed under the coordination of members of the Board was hiked with effect from November 30, 2006. Similarly, the meeting allowance for the employees facilitating the meeting of the Board of Directors was also increased.
- 2.168 62 posts, out of the vacant post as of mid April 2005, were fulfilled through internal promotion in 2006/07.

**Table 2.8**  
**Description of the Recruited Post in 2006/07**

S.N.	Post	Service	File Promotion	Remarks
1.	Officer- Special	Administration	3	completed
2.	Officer- First	Administration	5	completed
3.	Officer- Second	Administration	13	completed
4.	Officer- Third	Administration	22	completed
5.	Assistant cashier (Officer Third)	Cash	1	completed
6.	Assistant (second)	Administration	8	completed
7.	Deputy Assistant		10	completed
	<b>Total</b>		<b>62</b>	

- 2.169 Following the trend of sending employees for higher studies, study leave was granted to 3 officers to study abroad in 2006/2007.

### **Training, Symposium, Seminars and Interaction Programmes**

- 2.170 In 2006/07, altogether 1,118 employees were sent for trainings, observations or study visits among which 451 persons were sent overseas while 661 employees were trained domestically.
- 2.171 In 2006/07, Bankers' Training Centre conducted 26 training programmes including 8 officer level, 14 non-officer level regular trainings and 4 workshops. In total, 542 persons- 260 officers and 282 non-officers benefited from these programmes. In addition, 119 employees including officers and non-officers took part in various workshops and other programmes organized by different Departments of the NRB as well as other institutions.
- 2.172 In addition to their regular works, various Departments of the NRB conducted the following interaction programmes, trainings, seminars and workshops in the review year:
- An interaction programme in Kathmandu with commercial banks on implementation of Basel II in Nepal.
  - Two-day seminar in Kathmandu for the employees of the NRB on On-site Inspection Manual.

- Two-day seminar in Dhulikhel for the concerned employees on Legal Compliance (NRB Act, 2002, BAFIO, Company Ordinance, Inspection and Supervision By-regulations and Unified Directives for Banks and Financial institutions).
  - One-day seminar in Kathmandu on Core Principles for Effective Banking Supervision.
  - Three-day seminar on banking supervision on the technical assistance of OSFI Canada for nearly 40 officers in April 2007.
- 2.173 Nepal has been participating and assisting physically as well as economically in programmes organized by Asia Pacific Rural and Agricultural Credit Association (APRACA) as a founder and an executive member of the organization. In this reference, a CICTAB related training programme was conducted by ADB/N in Nepal on September 18-22, 2006.
- 2.174 An officer level interaction programme and an Department/Division head and Chief of offices out of Valley level seminar entitled 'Risk Management in the NRB' were organized on June 5, 2007 and July 19, 2007 respectively after preparing a Risk Management Directive in order to assist the process of risk analysis, measurement and its prioritization.
- 2.175 A two-day training was conducted by the financial adviser of the IMF for the employees of the concerned departments with a view to strengthen the work of newly started risk based and off-site audit in addition to the regular audit.
- 2.176 In order to strengthen the Computer Operation Core Group (COCG) established in offices of the NRB at various districts, computer trainings on topics like ICT Infrastructure in the NRB, Operating Systems, Banking System, Hardware and Troubleshooting, Utility S/W, Network, Client Server Concepts and Internet and Email were conducted in all such offices. A total of 70 employees benefited from the training.
- 2.177 With a view to enhance the computer operating skill of employees working in Central Office, Banking Office and Offices at various districts, a similar type of computer training was conducted in the Central Office too, where a total of 12 employees took part.
- 2.178 In the review year, the following seminars and interaction programmes were conducted as per the approved annual work plan:
- (a) One-day workshop on the role of auditors in financial institutions,
  - (b) One-day workshop on the role of directors in financial institutions with the participation of the directors of financial institutions,
  - (c) One-day workshop on corporate governance with the participation of the chairman/chief executive of the finance companies/development banks,
  - (d) Two one-day workshops on Supervision Manual with the participation of supervisors of the NRB,
  - (e) Interaction programme on public debt management and government bond transaction in Pokhara and Birgunj,
  - (f) One-day seminar on doubtful Indian currency and foreign currency identification,
  - (g) Two-day practical workshop on counterfeit note identification was conducted with the help of a counterfeit note expert from HSBC Singapore in presence of representatives from various bank and financial institutions and money changers.
  - (h) Three-day regional training and two-day regional seminar on government transaction were conducted four times and one time respectively.

### **Household Budget Survey, Special Studies/Research, Publication and Broadcasting**

- 2.179 With an aim to construct a national consumer price index to represent the overall price situation of the country, to collect and analyze the income-expenditure data of Nepalese households and to identify socio-economic indicators the NRB has been conducting a family budget survey since November 16, 2005. On the basis of the data collected, the preparation of socioeconomic indicators is underway.



- 2.180 The aim of the fourth household budget survey is to build a consumer price index for urban as well as rural areas. For this, the work of data and information collection from 28 rural and 24 urban market centers was carried out. The study and analysis of socioeconomic information collected from 5,095 households is in the final stage. To publish the results of the survey as per international standards, the work of report writing has been in progress.
- 2.181 Various research-based and statistical publications like Macroeconomic Indicators of Nepal, Quarterly Economic Bulletin, Economic Report, Economic Review, Banking and Financial Statistics, Rastrarin Khabarpatra (Public Debt Newsletter), Banking Khabarpatra (Banking Newsletter), Banking Prawardhan (Banking Promotion), Nepal Rastra Bank Samachar (NRB News), Prashikshan(Training), Mirmire and Bankeshwar were published regularly from different Departments and Offices in the review year. The NRB has been making public each month 'Current Macroeconomic Situation' in Nepali and English. In addition, the NRB has been publishing monetary policy and its half yearly review. The NRB has also been conducting special studies on the contemporary matters necessary for policy formulation. The NRB has completed a study on the flow of remittance from India to Nepal. In addition, books entitled 'Inflation in Nepal' and 'A Policy Research Report on Optimal Number Determination or Regulatory Reform' were published in the review year.
- 2.182 In the review year, 52 radio programmes on banking were produced and broadcasted by Banking Promotion Committee. In order to disseminate banking activities and information, 12 programmes from Nepal Television and 24 programmes from Channel Nepal were aired in the review year. Similarly, programmes for one month in Arthasansar, Radio, FM were sponsored by the Committee. In addition, an interaction programme on the sale and handover of promoter share was also organized. Web site of the Committee, which was designed to unify the information of the member banks, is in operation.

### **Meeting of the Board of Directors**

- 2.183 The Board of Directors assembled 39 times in 2006/07. Last year, such meetings were held 38 times.

**Table 1**  
**Outstanding Refinance to Banks and Financial Institutions**

(Rs. in million)

S.No.	Financial Institutions	2005/06	2006/07
1.	Commercial Banks	329	81
2.	ADB/N	111	0.1
3.	NIDC	619	464
4.	RDBs	10	10
5.	Other Development Banks	27	7
	<b>Total</b>	<b>1096</b>	<b>562</b>

**Table 2**  
**Notes in Circulation**

(Rs. in million)

Denominations	Mid July					
	2005		2006		2007	
	Amount	Percent	Amount	Percent	Amount	Percent
1	177	0.2	173	0.2	169	0.2
2	208	0.3	203	0.2	193	0.2
5	587	0.8	654	0.8	719	0.8
10	922	1.2	935	1.1	1112	1.2
20	914	1.2	1064	1.3	1026	1.1
25	154	0.2	129	0.2	113	0.1
50	1503	2.0	1717	2.0	2109	2.3
100	4576	6.1	4866	5.7	5631	6.2
250	87	0.1	84	0.1	84	0.1
500	17310	23.2	20094	23.7	21852	23.9
1000	48083	64.5	54711	64.6	58302	63.9
<b>Total</b>	<b>74520</b>	<b>100</b>	<b>84630</b>	<b>100.0</b>	<b>91310</b>	<b>100.0</b>

**Table 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)		(1+2+3)			(4+6)/100
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2004	832	459	62687	63978	4172	68150	93.9
2005	703	-	69646	70349	4172	74520	94.4
2006	-	-	80458	80458	4172	84630	95.1
2007	-	-	87148	87148	4172	91310	95.4

**Table 4**  
**Established Posts and Employees by Class**

	Permanent				Temporary/Contract				Total			
	Mid-July 2006		Mid-July 2007		Mid-July 2006		Mid-July 2007		Mid-July 2006		Mid-July 2007	
	EP	FP	EP	FP	EP	FP	EP	FP	EP	FP	EP	FP
Officer-Special	16	11	16	11	0	0	0		16	11	16	11
Officer-First	37	33	38	36	0	1	0	2	37	34	38	38
Officer-Second	106	93	109	98	1	2	1	3	107	96	110	101
Officer-Third	307	292	341	117	1	1	1	1	308	293	342	318
Assistant- First	665	600	603	602	0	0	0	0	665	600	603	603
Assistant-Second	119	101	142	54	2	1	2	1	121	102	145	55
Assistant-Third	91	79	80	93	1	1	1	1	92	80	81	94
Assistant-Fourth and Fifth	350	347	352	320	69	68	69	68	419	415	421	388
<b>Total</b>	<b>1,691</b>	<b>1,556</b>	<b>1,681</b>	<b>1,531</b>	<b>74</b>	<b>74</b>	<b>74</b>	<b>76</b>	<b>1,765</b>	<b>1,631</b>	<b>1,755</b>	<b>1,607</b>

EP= Established Posts  
FP= Filled up Posts

**Table 5**  
**Domestic Trainings, Seminars and Workshops**

S.No	Topics	Level	Participants
1.	National Income Account	Officer	25
2.	Bank Supervision Workshop (Office of the Superintendent of Financial Institutions)	"	32
3.	Inspection & Supervision - Basel-II	"	20
4.	Monetary & Fiscal Management	"	16*
5.	Risk Based Supervision	"	20
6.	Research Methodology & Report Writing	"	15*
7.	Management Development Program	"	10*
8.	Information Security	"	25
9.	Computer Exposure	"	14
10.	Central Banking	"	20
11.	Mind Management	"	43
12.	Computer Exposure	Non Officer	14
13.	Central Banking	"	25
14.	Government Transaction	"	2*
15.	Cash Operation	"	25
16.	Inspection & Supervision	"	20
17.	Computer Operation (Advanced Level)	"	14
18.	Computer Skills Upgrade	"	12
19.	Public Debt Management	"	7*
20.	L/C Operation	"	4*
21.	Forex Operation	"	3*
22.	Micro Finance	"	2*
23.	BOP Statistics	"	10*
24.	Payment & Settlement System	"	2*
25.	Customer Service	"	1*
26.	Workshop on Financial Reporting & News Writing	"	19
27.	Price Data Collection: Economic & Behavioural Challenges	"	25
28.	Signature Verification	"	29
	<b>Total</b>		<b>454</b>

\* Including other participants from banks and financial institutions.

**Table 6**  
**Foreign Trainings, Seminars, Meetings and Workshops**

S.No	Details	Participants	Organizer	Venue
1	ACU Technical Committee Meeting	1	ACU	Bangladesh
2	Program on Development of Co-operatives and Rural Financing Institutions & Agencies.	2	CICTAB	Sri Lanka
3	12th SEACEN FSI Regional Seminar for Bank Supervisors & Regulators: The Role of Market Discipline (Pillar 3) in the Basel II Framework and Issues in the International Auditing of Banks	2	SEACEN Centre	Malaysia
4	Credit Risk Analysis School	2	FRTC	Washington D.C.
5	Familiarization Visit on Regulatory Framework & Licensing Policy of Financial System of CBSL	7	CBSL	Sri Lanka
6	Joint India- IMF Training Program (ITP) Financial Programing & Policies	2	IMF / RBI	Pune, India
7	Macroeconomic Management & Financial Sector Issues (MMF) ST 06.11	1	IMF	Singapore
8	Visit to Internal Audit Department / Finance Department of Bank	8	Bank Negara Malaysia	Malaysia
9	Secretarial Training of NRB Officers Under SAARC Finance Staff Exchange Program	3	State Bank of Pakistan	Pakistan
10	Market Risk Analysis Seminar	1	FRB, U.S.A.	Washington D.C.
11	Oracle 9i Developer Track	4	DMS Training Centre	Sri Lanka
12	8th SEACEN Conference of Directors of Supervision of Asia Pacific Economics and 2nd SEACEN/ABA/PECC Public-Private Dialogue for Asia Pacific Region	2	SEACEN Centre	Malaysia
13	Study Visit Program on Rural Banking	2	APRACA-CENTRAB	Philippines
14	Management of Rural Financing Institutions & Cooperatives for Rural Development	3	CICTAB	Hyderabad, India
15	SEACEN Seminar on Strategic Planning for Corporate Planners	3	SEACEN Centre	Malaysia
16	Designing Effective Legal Frameworks for Problem Banks and Resolving Banking Crisis	1	IMF	Singapore
17	Bank Management School	2	Federal Reserve Board, USA	Washington D.C.
18	Familiarization Tour to American Express Bank Tokyo Branch	1	American Express Bank	Japan
19	SAARCFINANCE Staff Exchange Program	3	CBSL	Sri Lanka
20	SEACEN-BIS Advance Seminar on Risk Management in Central Banks.	2	ADB	Bangkok, Thailand
21	APEC-Financial Regulator's Training Initiatives Invitation to Regional Seminar on Operational Risk.	3	ADB	Malaysia
22	Destruction of Rs.100/- Denomination Wastage Banknote.	2	Francois Charies Oberthur Fiduciaire	France
23	Central Banking Governance.	1	DEUTSCHE Bundesbank	Germany
24	Observation Tour on Internal Audit and Accounting System	6	Reserve Bank of Australia	Australia
25	Observation Visit and Interview with the Proposed Consultant of KPMG	4	CBSL	Sri-Lanka
26	Seminar on New Models and Tools for Up-Scaling SME Credit.	1	The World Bank, SIDBI/DFID	New Delhi
27	Issues in Exchange Rate Policy (ST06.15)	1	IMF	Singapore
28	X-12-ARIMA Seasonal Adjustment of Economic Data	1	DEUTSCHE Bundesbank	Germany
29	Asia-Pacific Microfinance Course-Sydney Sponsored by the Omidyar Network.	1	IDLO	Australia
30	Wastages Destruction of the Printing of Rs. 1000	2	Joh Enschede Security Print, The Netherlands	Netherland
31	Observation Tour of IME (Malaysia) and IMF/World Bank Annual Meeting, 2006	2	IMF / IME	Singapore, Malaysia

### Activities of Nepal Rastra Bank

S.No	Details	Participants	Organizer	Venue
32	45th SEACEN-Federal Reserve System Course on Banking Supervision: Asset Securitization.	3	SEACEN Centre	Kuala Lumpur, Malaysia
33	Discussion on Rural Finance Sector Development Project	1	ADB	Manila, Philippine
34	Financial Programming & Policies	1	IMF	Washington DC
35	Instruments of Financial Markets	1	Study Centre Gerzensee	Switzerland
36	Seminar on Internal Audit	1	Deutsche Bundesbank	Frankfurt, Germany
37	Workshop on International and Inter-Sectoral Flow of Funds	2	SEACEN-BIS	Malaysia
38	Course on Consolidated Supervision of Banks	1	IMF	Singapore
39	Seminar on Role of Non-Bank Financial Intermediation: Challenges for Central Banks	2	SEACEN-BIS	Hanoi, Vietnam
40	Macroeconomic Management and Fiscal Issues	1	IMF/India	Pune, India
41	Observation Visit of Reserve Bank of India	7	RBI	Mumbai, India
42	Program on Development of Managerial Skills for Agricultural Cooperatives & Rural Financing Institutions	3	CICTAB	Gurgaon, India
43	Overview of Financial Sector Issues & Analysis Workshop	4	The World Bank	Washington DC
44	Seminar on Central Banking	1	Federal Reserve Bank of New York	New York
45	Observation Visit of Reserve Bank of India	7	RBI	Mumbai, India
46	Regional Seminar on Payment & Settlement	2	RBI	Hyderabad, India
47	6th SEACEN-Toronto Centre Leadership Seminar for Senior Bank Management of Central Banks on Financial System Oversight	3	SEACEN Centre	Taipei, Taiwan
48	MCSE with Security Specialization and CCNA	2	GATES IT Training and Certification	Mumbai, India
49	Macroeconomic Management and Financial Sector Issues	1	IMF/India	Pune, India
50	Financial Programming and Policies	1	IMF	Singapore
51	Workshop on Inflation Targeting and Macro Modeling	3	IMF	Chiang Mai, Thailand
52	Course on Financial Markets and New Financial Instruments	1	IMF	Singapore
53	28th Meeting of SEACEN Directors of Research and Training, and Observation of AIT	2	SEACEN Centre	Siem Reap, Cambodia, and Thailand
54	Global Micro Credit Summit, 2006	2	Micro Credit Summit Campaign	Halifax, Nova Scotia, Canada
55	IS Audit & IT Risk Management	2	NIBM	Pune, India
56	Polymer Banknote Destruction and, Study of Note Counting and Sorting Mechanization at Bank of Thailand	2	Note Printing Australia, Bank of Thailand	Australia & Thailand
57	Study Visit Program on Promotion of Micro & Small Enterprises	3	APRACA CENTRAB	Manila, Philippines
58	Procurement of Goods and Services	1	SETYM	Tanzania
59	2nd International Conference on Migrant Remittances, Remittances and Access of Finance	1	The World Bank/DFID	London, England
60	Strategic HR Issues	1	Bank of England, CCBS	London, England
61	Small & Medium Enterprise (SME) Finance	3	State bank of Pakistan	Islamabad, Pakistan
62	26th SEANZA Central Banking Course	1	SEANZA	Langkawi, Malaysia
63	4th MAS Regional Banking Supervisors Training Program	2	MAS	Singapore
64	FSI Seminar on using the core principles as a Road Map to Basel II Implementation	1	FSI	Basel, Switzerland
65	Programme on Restructuring and Strengthening Agricultural/Rural Financing Institutions	3	CICTAB	Pune, India
66	Citigroup Seminar 2006 on Credit & Structured Finance Opportunities for Financial Institutions	1	Citigroup	Phuket, Thailand

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S.No	Details	Participants	Organizer	Venue
67	International Programme in Banking and Finance: Risk Management	1	NIBM	Pune, India
68	Bank Note Destruction	2	Giesecke & Devrient GMBH	Germany
69	Observation visit of NRB officials to RBI to Foreign Exchange Management	2	RBI	Mumbai, India
70	2006 SEANZA Governor's Symposium and Meeting	1	SEANZA	Langkawi, Malaysia
71	SEACEN-CPSS Advanced Course on Payment and Settlement System for Emerging & 5th Meeting of Directors of Payment and Settlement Systems of Asia Pacific Central Banks	2	SEACEN Centre	Bangkok, Thailand
72	SEACEN-FSI Seminar on The Role of Banking Supervision in Financial Stability	2	SEACEN-FSI	Malaysia
73	51st APRACA EXCOM Meeting APRACA CEO Policy Forum and the APRACA Exhibition/ Technical Fair	2	APRACA	Jakarta, Bali, Indonesia
74	Course on Financial Fragility and Banking Crises	1	IMF	Singapore
75	Workshop on International Cooperation Related to AML/CFT	1	IMF	Singapore
76	5th Meeting of Directors of Payment and Settlement Systems of Asia Pacific Central Banks	1	SEACEN Center	Bangkok, Thailand
77	Seminar on Safeguards Assessment of Central Banks	1	IMF	Washington, USA
78	Observation Visit of RBNZ on Financial & Accounting System	5	Reserve Bank of New Zealand	New Zealand
79	Non-Performing Advances and Banking System Failure	6	CBS, Central Bank of Sri Lanka	Colombo Sri Lanka
80	Meeting on the Implementation of Basel II in Asia & Other regional supervisory Priorities	1	FSI-EMEAP	Hong Kong
81	MCSE with Security Specialization and CCNA	3	GATES IT Training and Certification	Mumbai, India
82	1st SEACEN Advanced Leadership course on Central Bank Management Policy	2	SEACEN Centre	Kuala Lumpur, Malaysia
83	Financial Programming and Policies	1	IMF	Washington DC, America
84	Program on Integrated Management Approach in the Development of Co-operatives & Rural Financing Institutions	3	CICTAB	Pune, India
85	Observation Visit to State Bank of Pakistan (SBP)	3	SBP	Karachi, Pakistan
86	Workshop on the Techniques of Stress Testing	1	IMF	Singapore
87	Fisibility Study to bring Coin from Birgunj Dry Port (Nepal Rastra Bank)	3	NRB	India
88	International Seminar on Basel II	2	RBI	Chennai, India
89	Seminar on "On-Site Banking Supervision"	1	DEUTSCHE Bundesbank	Germany
90	Human Resource Management	20	AIT	Bangkok, Thailand
91	Joint DNB & BSP Balance of Payments Seminar on Challenges to BOP Compilers	2	BSP	Manila, Philippines
92	Joint MAS-CCBS Regional Course on Financial Stability & Financial Markets: Issues & Challenges	1	MAS	Singapore
93	Observation Tour of "Formal Inauguration of the ITP Facility and International Seminar on Capacity Building in Central Banks and NABARD	2	IMF/RBI	Pune, Mumbai
94	SEACEN Advanced Seminar on Comparative Experience in Confronting Banking Sector Problems in the Asia-Pacific Countries	6	SEACEN Centre	Kathmandu, Nepal
95	Financial Programing & Policies (FPP) Joint India-IMF Training Program	1	IMF / RBI	Pune, India
96	5th SEACEN EXCO Meeting	1	SEACEN Centre	Brunai
97	Special Study on Remittance earned from India	2	NRB	Delhi, India
98	2nd IMF-SEACEN Course on Financial Markets and New Financial Instruments	2	SEACEN Centre	Kuala Lumpur, Malaysia

**Activities of Nepal Rastra Bank**

S.No	Details	Participants	Organizer	Venue
99	Expert Panel "Risk Management at Central Banks"	1	DEUTSCHE Bundesbank	Germany
100	Advanced Topics in Empirical Finance	1	Study Centre Gerzensee (Swiss National Bank)	Switzerland
101	D&B South Asia Credit Bureau Summit	1	Dun & Bradstreet SME Ltd.	Chennai, India
102	Inspection of Waste Note Destruction of the Rs. 5	2	De la Rue Co.	New Castle, London
103	Inspection of Waste Note Destruction of the Rs. 20	2	De la Rue Co.	New Castle, London
104	Inspection of Waste Material Destruction of the Rs. 500	2	Joh Enschede' Security Print, The Netherlands	Netherlands
105	Banking Supervision Under Basel II	1	DEUTSCHE, Bundesbank	Germany
106	SAARCFINANCE Staff Exchange Programme under Finance/Accountancy, Budget and Management Audit	3	NRB / CBSL	Colombo Sri Lanka
107	Observation Tour of TATA Motors Factory (Pune) and Mumbai Office	2	Sipradi Traders	Pune, Mumbai
108	Second Research Workshop on Impact & Policy Responses to Volatile Oil Prices in The SEACEN Countries	1	SEACEN Center	Kuala Lumpur, Malaysia
109	6th Meeting of SEACEN Expert Group (SEG) on Capital Flows	1	SEACEN Center	Kuala Lumpur, Malaysia
110	Proof-Reading of the Printing of Government Securities Certificate and Interest Certificate	2	NRB	New Delhi, India
111	Regulatory and Supervisory Framework	20	AIT	Bangkok, Thailand
112	Course on Monetary Policy at Central Banks	1	DEUTSCHE Bundesbank	Germany
113	Program on Financing Linkages of Self Help Groups	1	CICTAB	Lucknow, India
114	13th SEACEN-FSI Regional Seminar for Bank Supervisors & Regulators: Supervisory Review Process of Pillar 2 with Special Focus on Interest Rate Risk in Banking Book & 4th SEACEN Seminar on Preparations for Implementation of Basel II	2	SEACEN Centre	Manila, Philippines
115	Observation Tour of Waste Destruction Witnessing Purpose of Rs. 1 Coin	2	China Bank Note Printing & Minting Corporation	China
116	Training Course on CCNA & RHCE	5	GATES	Mumbai, India
117	7th SAARCFINANCE Coordinators' Meeting	1	Bangladesh Bank	Dhaka, Bangladesh
118	SWIFT Training	1	SWIFT	La Hulpe, Belgium
119	Financial Management and Accounting	20	AIT	Bangkok, Thailand
120	Program on Financing & Development of Co-operative Agro-Processing Projects	2	CICTAB	Pune, India
121	38th International Central Banking Course	1	National Institute of Banking & Finance, State Bank of Pakistan	Pakistan
122	Cash Management and Combating Counterfeit Money	1	Deutsche Bundesbank	Frankfurt, Germany
123	Third Central Banks and Supranational Seminar	2	Dexia Bank	Paris, France
124	Visit of HSBC Office and Its Cash Processing Centre in Hong Kong	3	HSBC, Bank USA N.A. Singapore Branch	Hong Kong
125	Regional Seminar on Risk-Focused Supervision	3	ADB Manila	Bali, Indonesia
126	The Training Course in Procurement of Goods & Services	1	SETYM International	Kuala Lumpur, Malaysia
127	Trade in Services in South Asia: Opportunities & Risks in Liberalization	1	Institute of Policy Studies of Sri Lanka/Fredrich Ebert Foundation	Colombo, Sri Lanka



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S.No	Details	Participants	Organizer	Venue
128	APRACA ECO Regional Policy Dialogue Forum on Creating Conducive Rural Finance Policy Environment and Regulatory Framework	1	APRACA	Kunming Li Jiang, China
129	Printing of Rs. 500 and Rs. 1000	2	NRB	Perum Peruri Co., Indonesia
130	SEACEN-World Bank Regional Advance Workshop for Banking Supervisors on Anti-Money Laundering & Counter Financing of Terrorism	2	SEACEN Centre	Kuala Lumpur, Malaysia
131	Procurement of Information System in World Bank-Funded Projects	2	ILO, International Training Centre	Italy, Turin
132	Payment Systems: Sound and Efficient National Payment & Settlement Infrastructure	1	IMF	Singapore
133	The Centre for Pacific Basin Monetary and Economic Studies of the Federal Reserve Bank of San Francisco, The Global Senior Policy Seminar on Capital Flow, Financial Integration & Stability held on joint collaboration of Bank of England and the Banque de France.	1	WB Institute	Paris, France
134	Financial Market Analysis	1	IMF	Singapore
135	2nd SEACEN-CeMcoA/BOJ-B1 Intermediate Course on Payment & Settlement Systems for Emerging Economies	2	SEACEN Centre	Cambodia
136	Course on Macroeconomic Forecasting	1	IMF	Singapore
137	Bank Management School	2	Board of Governors of the FRS	Atlanta, Georgia
138	Financial Journalism	2	Reuters Foundation	London, England
139	Capacity Enhance Program on Anti-Money Laundering & Combating the Financing of Terrorism: "Train The Trainers: Workshop	2	The World Bank	Colombo, Sri Lanka
140	SAARCFINANCE Staff Exchange Programme on HRM Related Policies	4	CBSL	Colombo, Sri Lanka
141	Balance of Payments Statistics	1	IMF	Washington D.C., America
142	Seminar on Safeguards Assessments of Central Bank	2	IMF	Singapore
143	5th MAS Regional Banking Supervisors Training Program	2	MAS	Singapore
144	RH133 Red Hat Linus System Administration and RH233 Red Hat Linux Networking & Security Administration	3	"Q" Linux Solutions Inc	Manila, Philippines
145	Banking Regulation & Supervision	1	Study Centre Gerzensee	Gerzensee, Switzerland
146	36th Meeting of the Board of Directors, Asian Clearing Union	1	Bangladesh Bank	Dhaka, Bangladesh
147	RETA 6333: Statistical Capacity Building (SCB) in the Asia and Pacific Region	1	Asian Development Bank	Manila, Philippines
148	6th Central Banking Study Program	1	Bank of Korea	Seoul, Korea
149	Office Management	20	AIT	Bangkok, Thailand
150	Macroeconomic Management for Senior Officials	1	IMF	Singapore
151	International Course on Central Banking	3	CBSL	Colombo, Sri-Lanka
152	Proposal for Developing a System for Workers' Remittances Between India & Nepal	2	RBI	Mumbai, India
153	SEACEN Train-the-Trainers Workshop for Facilitators	1	SEACEN Centre	Kuala Lumpur, Malaysia
154	Study Tour of Bank of Thailand and Bank of Cambodia.	6	The World Bank	Thailand and Cambodia
155	Macroeconomics Diagnostics	1	IMF	Washington DC, America
156	Bank Analysis & Examination School	2	Federal Reserve System	San Francisco, USA
157	14th SEACEN-FSI Regional Seminar for Bank Supervisors & Regulators: The Revised Core Principles for Effective Banking Supervision	2	SEACEN centre	Kuala Lumpur, Malaysia
158	General Banking in Central Bank	20	AIT	Bangkok, Thailand
159	Programme on "Integrated Treasure Management"	2	RBI	Mumbai, India

**Activities of Nepal Rastra Bank**

S.No	Details	Participants	Organizer	Venue
160	Support Service Management	20	AIT	Bangkok, Thailand
161	2007 Financial Inclusion Conference	1	DFID	London, England
162	77th Annual General Meeting of the BIS	1	BIS	Basel, Switzerland
163	1st SEACEN Research Workshop on Comparison of Problem Bank Identification, Intervention and Resolution in the SEACEN Countries	1	SEACEN Centre	Kuala Lumpur, Malaysia
164	SEACEN -Irving Fisher Committee-RBI Workshop on use of surveys by Central Bank	2	SEACEN Centre	Pune, India
165	Implementing a Balance Sheet Approach to Macroeconomic Surveillance	1	SEACEN Centre	Ulanbatar, Mongolia
166	ACU Technical Committee Meeting on Moving Towards a Multi Currency Settlement System	1	CBSL	Colombo, Sri Lanka
167	SAARC Finance Conference: Towards a Regional Payments Group	1	SAARC Finance	Colombo, Sri Lanka
168	Seminar on Central Bank Accounting: Strengthening Central Bank Independence Through Transparency and Efficiency (ST07.11)	2	IMF	Singapore
169	9th SEACEN Conference of Directors of Supervision /20th Meeting of SEACEN Directors of Supervision / 3rd SEACEN /ABAC / ABA / PECC	1	SEACEN Centre	Singapore
170	SEACEN Research Project on Understanding and Addressing the Pro-Cyclicality Impact of Basell II in the SEACEN Countries	1	SEACEN Centre	Kuala Lumpur, Malaysia
171	Study Visit Program on Credit Plus Approach	1	APRACA	Manila, Philippines
172	The Boulder Microfinance Training Programme	1	The International Training Centre of The ILO	Turin, Italy
173	Program on Development of Co-operatives and Rural Financing Institutions & Agencies	3	CICTAB / NCCSL	Colombo, Sri Lanka
	<b>Total</b>	<b>451</b>		

**Table 7  
Higher Studies**

S.No.	Description	No.	Institute/Country
1	Masters Degree in Business Administration (MBA)	1	University of Wales, Halborn College, UK
2	MS Computer Science	1	Keio University, Japan
3	ME Computer Science	1	South Dakota State University, USA

## **Appendix 2.1**

### **Instructions Given to Commercial Banks while giving Clearance to Publicize their Financial Statement of 2006/07**

#### **Nepal Credit and Commerce Bank Limited**

1. The bank was instructed to maintain additional loan loss provisioning of Rs. 393.6 million against the non-compliance of loan classification until 2006/07. The instruction was given through the letter dated March 27, 2006 for such additional loan loss provisioning for the various loans disbursed while granting approval for publishing the financial statement of 2004/05.
2. To reduce the investment of Rs. 375.0 million made on the securities of the companies having financial interest with the bank as per the integrated Directive No. 8 concerning the share investment while computing the core capital.
3. To maintain additional provision of Rs. 17.0 million as the market price of the share pledged against the loan remained shortfall by Rs. 37.3 million in outstanding loan as at mid-July 2007. According to the preliminary audit report of the bank for 2006/07, the bank had disbursed loans against the share collateral of NB Bank Limited, National Hydropower, NB Insurance, etc. which have financial interest with the bank.
4. In view of the weak corporate governance and poor management of the bank, the bank was directed to improve the corporate governance and speed up the recovery of the loans from the promoter group since such recovery was found to be unsatisfactory.
5. To take necessary action for the recovery of non-performing loans that remained as high as Rs. 1.29 billion (21.87 percent) along with the necessary improvements in credit management system.
6. To immediately take necessary action to maintain adequate capital fund since the bank's core capital and capital fund of risk-weighted assets was found to be 5.05 percent negative.
7. To follow the instructions made through the letter dated April 17, 2007.

#### **Bank of Kathmandu Limited**

8. The bank is instructed to maintain capital fund after deducting the remaining 90 percent amount from the core capital in view of the unsold shares guaranteed by the Himalayan Distillery Private Limited, which are still in investment. The bank had maintained only 10 percent amount as loan loss provisioning as against the NRB directive to deduct the entire investment equivalent amount from the core capital while computing the capital fund. The bank has been given instruction to deduct the equivalent amount.
9. The amount of the cheques drawn as 'good for payment' has been found credited in 'good for payment account' under other liabilities instead of posting the amount under deposit account. The NRB has instructed to include such amount under the deposit and reconcile accordingly.
10. To improve the structural lapses observed in the financial statements.

#### **Everest Bank Limited**

11. The weighted risk of 20 percent was given to the investment amount of Rs. 372.0 million for the investment in UTI Bank Limited treating as the investment made in the internationally standardized bank. However, as per the July 2005 issue of 'The Bankers' magazine, the said bank is not among the 'top thousand banks'. The bank has been instructed to maintain the risk weighted assets giving cent percent risk weights.
12. To maintain capital fund by deducting net investment of Rs. 12.6 million from the core capital. The investment made on the guaranteed but unsold share of Himalayan Distillery Pvt. Ltd. was purchased by the bank.
13. To maintain additional amount of Rs. 2.494 million as loan loss provision against the non-banking assets of N.B. Garments accepted by the bank. The bank, instead of maintaining 75 percent loan loss provision in such assets, was found maintaining only 50 percent provision.

14. To improve structural lapses observed in the financial statements.

**Laxmi Bank Limited**

15. To maintain additional loan loss provision of Rs. 2.4 million accounted as earnings from the rescheduled loans of Rs. 8.8 million. The bank had accounted Rs. 2.4 million as earnings by adjusting loan loss provisioning as against the instruction of the NRB.

16. To improve structural lapses observed in the financial statements submitted by the bank.

**Machhapuchhre Bank Limited**

17. To maintain additional loan loss provision of Rs. 588.0 thousand as per the NRB Directive No. 3 against the loans disbursed beyond the single borrower limit.

18. To submit the various forms making them consistent with the structure including headings and sub-headings as per the specification of the NRB Directives.

**NABIL Bank Limited**

19. To classify the loan amount of Rs. 15.8 million disbursed to the project, which is not currently in operation, as bad loan. The loan was classified as a good loan against the NRB Directive No. 2.

20. To improve structural lapses observed in the financial statements.

**Himalayan Bank Limited**

21. To improve structural lapses observed in the financial statements.

22. To adjust the accounting statements by maintaining additional loan loss provisioning of Rs. 21.5 million as of mid-April 2006. The bank had maintained only 12.5 percent loan loss provisioning of the entire restructured and rescheduled loans as against the NRB directives.

23. To correct the discrepancies remarked by the auditor.

**Nepal Investment Bank limited**

24. To increase the shortfall found in loan loss provision by Rs. 27.3 million, as per NRB Directive No. 2.

25. To improve structural lapses observed in the financial statements.

**Nepal Industrial and Commercial Bank Limited**

26. To improve structural errors observed in the financial statements.

**Standard Chartered Bank Nepal Limited**

27. To improve structural errors observed in the financial statements.

**Siddhartha Bank Limited**

28. To maintain additional loan loss provision of Rs. 4.4 million treated as income after adjustment in loan loss provisioning from the rescheduled loan of Rs. 11.8 million as against the NRB directive.

29. To improve some structural lapses observed in the financial statements submitted to this Bank.

**Nepal Bank Limited**

30. The bank, in its group-wise loan statement, has shown 8 parties affiliated to Golchha Organization as separate group and mentioned all those parties as legally separate entities. However, as per the available information and evidences, loans disbursed to these parties have been found indirectly related to each other reflecting high concentration of risk. The bank, therefore, is instructed to inform the NRB about the process and progress of recovery of these loans on quarterly basis. The bank is also instructed not to disburse additional loans beyond the principal amount that remained outstanding as of mid-July 2006.

**Nepal S.B.I. Bank Limited**

31. To improve structural lapses observed in the financial statements.

32. To correct other discrepancies remarked by the auditor.

### **Lumbini Bank Limited**

33. To maintain additional loan loss provision of Rs. 1.7 million treated as income after adjustment in loan loss provision as against the NRB directive.
34. To immediately repay the loans disbursed to the promoters and subsidiary firms (as mentioned in appendix 4.29 of the financial statement) as per the NRB directives. As per the provision of section 3 (Gha), sub-clause (1) of clause 48 of BAFIA, 2006, the bank is prohibited to disburse loans to the promoters and subsidiary firms.
35. To take action in accordance with the NRB Act, 2002 and BAFIA, 2006 against both loan sanctioning officer and the promoter borrowing from the bank. The said loan was disbursed to the promoter Mr. Nirmal Prasad Shrestha against the provision of BAFIA, 2006 (the then BAFIA, 2003).
36. To correct discrepancies remarked by the auditor.

### **Kumari Bank Limited**

37. To restrict, for the time being, the proposed distribution of cash dividend and issuance of bonus share in accordance with the section (Na), sub-clause (1) of clause 100 of the NRB Act, 2002 and section (3), sub-clause (1) of clause 74 of BAFIA, 2006. Such restriction is made against the disbursement of loans to the firm, company and organization having voting rights with more than 15 percent share owned by the shareholders of promoter group who are prohibited to extend loan and non-fund based facilities as per the NRB directives.
38. An approval has been granted for the distribution of proposed cash dividend and announcement and distribution of bonus share within April 13, 2007 provided that the commitment is made to repay the outstanding loan and facility of Rs. 309.5 million. The bank has also maintained the minimum capital fund and allocated the required amount for loan loss provisioning and general reserve. In reference to the bank's proposal of distributing 1.05 percent cash dividend and 20.0 percent bonus share to the shareholders through accounts for 2005/06, based on the annual accounts of 2005/06, the bank's pre-operating expenses and losses till previous year did not remain accounted in the financial statement. Such facility will be provided only after ratification by the bank's Annual General Meeting after receiving notice about the repayment of total outstanding loan and facility of Rs. 309.5 million including fund based Rs. 287.4 million and non-fund based Rs. 22.0 million as at mid-July 2006. The amount of such loan and facility, as mentioned in appendix 4.29 of the financial statement as of April 13, 2007, was disbursed to Reliance Spinning Mills, Mr. Balaram Neupane, Comfort Housing Pvt. Ltd., Mr. Bhaskar Nath Regmi, Sabitri Agarbatti Udhdyog, Mr. Kamal Kishor Rathi, Mr. Jeevan Nepal and Maruti Cement Limited.

### **Nepal Bangladesh Bank Limited**

39. To report the necessary improvement and the status of correction of the discrepancies in line with the conditions mentioned in the TOR of the management team. The bank was unable to maintain the required minimum capital fund, failed to do regular audit on L/C related transactions, non-compliance of investment related directives, loans disbursed exceeding single borrower limit. In addition, the bank had outstanding amount of Rs. 1416.3 million (principal) and Rs. 302.3 million (interest) under fund based loans and Rs. 79.0 million under non-fund based facility as at mid-July 2006 extended to individuals, firms and companies affiliated to NB Group as against the principle of corporate governance.

### **Agriculture Development Bank Limited**

40. To take necessary action in maintaining capital fund as specified by the NRB with regard to non-compliance of directives concerning sectoral credit, single borrower limit, investment limit, net foreign assets related arrangements, etc. incorporated in integrated directives issued by this Bank. The bank was unable to comply with the above provisions due mainly to the negative core capital of Rs. 836.0 million while the bank was required to maintain 5.5 percent core capital and 11 percent total capital fund for 2005/06 as per the directive of this Bank.
41. As per the integrated directive issued by this Bank, the bank is refrained from investing in the shares and debentures issued by other banks and financial institutions licensed by this Bank. In addition, the bank had to divest such investment by mid-July 2004 prior to the issuance of integrated directives. Despite

this, the bank was yet to sell investment of Rs. 196.8 million made in Nepal SBI Bank Limited and Rs. 12.7 million made in Nepal Housing Finance Company as of mid-July 2006. The bank is instructed to immediately bring such investment in line with the directive of this Bank.

42. To make public the non-banking assets of Rs. 1005.1 million accounted in 2005/06 along with the loan loss provision against the assets in appendix 15 of the balance sheet. The bank had brought into notice the practical difficulties of submitting the details of non-banking assets of Rs. 1005.1 million as per the form no. 4.15.
43. To monitor the bank's assets and liabilities regularly after classifying them in various time intervals based on payment period. In addition, the bank is instructed to regularly submit the required statistics in specified format together with form no. 5.1 concerning liquidity monitoring and form no. 5.3 concerning the monitoring of foreign exchange risk to be submitted to this Bank on quarterly basis.

**Appendix 2.2**

**Overall On-site Inspection of Financial Institutions  
2006/07**

**1. Development Banks**

Sahayogi Development Bank	Biratlaxmi Development Bank
Chhimek Development Bank	Development Credit Bank
United Development Bank	Infrastructure Development Bank
Suvechha Development Bank	Narayani Industrial Development Bank
Malika Development Bank	Annapurna Development Bank
Nepal Development Bank Ltd.	Karnali Development Bank
Nepal Industrial Development Corporation	Pashupati Development Bank

**2. Finance Companies**

Pokhara Finance	Standard Finance Ltd
Mercantile Finance Ltd.	Nepal Share Markets Ltd
Himalaya Finance Ltd.	General Finance Ltd.
Rajshree Finance Ltd.	Alpic Everest Finance Company
Butwal Finance Ltd.	Kathmandu Finance Ltd.
Multipurpose Finance Ltd.	Capital Merchant Banking Ltd.
Merchant Finance Ltd.	Prudential Financial Institution Ltd
Nepal Housing and Merchant Finance Ltd.	Siddhartha Finance
Peoples Finance Ltd.	Narayani Finance Ltd.
Premiere Finance Ltd.	Everest Finance Limited
Investa Finance Company Ltd.	Royal Merchant Finance
Birgunj Finance Limited	Union Finance Ltd.
Lalitpur Finance Limited	

**3. Micro-Finance Development Banks**

Far Western Rural Development Bank ltd	Deprox Development Bank
--	-------------------------

**4. Non-Government Institutions**

Dhaulagiri Community Resource Development Centre
Development Project Service Centre
Nepal Sikira Rural Development Centre
Unique Nepal

**5. Cooperatives**

Women Cooperatives	Seti Financial Institution
Biku Savings and Cooperatives	Amarawati Multipurpose Cooperatives
Farmer Multipurpose Cooperatives	

**Targeted Inspection**

**(a) Development Bank**

Himchuli Financial Development Bank	Nepal Development Bank
Aruniko Development Financial Inst.	Tinau Development Financial Institution
Merchant Development Financial Inst.	Clean Energy Development Bank
Miteri Development Bank	Gaidakot Development Fin. Inst.

**(b) Finance Companies**

IME Financial Institution	Prabhu Finance Company Ltd.
Nepal Express Ltd.	kuber Merchant Finance Institution
Civil Merchant Financial Institution	Valley Financial Institution
Sikhar Financial institution	Emperior Finance Company Ltd
Sagarmatha Merchant Banking Fin. Inst.	Hama Financial Institution

**Appendix 2.3**

**Follow-up and Special Inspection of Financial Institutions  
2006/07**

**(1) Follow-up inspection**

**(a) Development banks**

Gorkha Development Bank  
Uddham Development Bank  
Nepal CSI Development Bank  
Western Rural Development Bank

**(b) Finance Companies**

Merchant Finance Ltd.  
Arun Finance Company Ltd.  
Cosmic Merchant Finance  
Lumbini Finance Company  
IME Financial Institution  
Arun Finance and Savings Ltd.

**(2) Special Inspection**

**(a) Development Bank**

(i) Infrastructure Development Bank  
(ii) Pashupati Development Bank  
(iii) Gorkha Development Bank

**(b) Finance Companies**

(i) Pokhara Finance Company Ltd.  
(ii) Himalaya Finance Company Ltd.  
(iii) Prudential Finance Ltd.  
(iv) Nepal Finance Ltd.  
(v) Samjhana Finance Ltd.  
(vi) Nepal Share Markets Ltd.

**(c) Cooperatives**

(i) Upkar Savings and loan Cooperatives  
(ii) United Savings and Loan Cooperatives



## Appendix 2.4

### Actions Taken Against Financial Institutions In Course of Implementation of Inspection and Supervision Remarks

#### United Development Bank

1. According to the supervisory analysis of the onsite inspection based on the financial statement as of mid-October, 2007, it was found that the primary capital fund and capital fund were negative by 32.1 percent and 31.7 percent respectively; this led to a situation of non-compliance on the directives related to the mobilization of financial resources and single obligor limit; the proportion of the insecure and bad loans was 60.3 percent of the total loans; deposit concentration risk was excessive and as the institution was in loss equivalent to Rs. 54.1 million, the financial position was found to be deteriorating and the management was found to be controversial; and there was lack of professionalism in the high level management as well as weak corporate governance and internal control mechanism. Hence, as there was unsatisfactory performance by the development bank according to the existing laws and the directives of the NRB, the bank was declared 'problematic' in order to protect the interests of the general-public depositors as per the NRB Act, 2002, section 86 (b) on December 18, 2006.

#### Nepal Cottage and Small Industries Development Bank

2. Serious remarks were found pertaining to the financial, managerial and corporate governance as per the onsite inspection conducted according to the financial statement of mid-April, 2006. Since it was felt that the financial position of the bank will further deteriorate and the interest of the depositors would not be served if the bank was allowed to continue in the present condition, the bank was declared 'problematic' as per the NRB Act 2002, section 86 (b) on December 18, 2006.

#### Nepal Development Bank

3. Chairman of the bank, Mr Uttam Bahadur Pun was fined Rs. 500,000 on May 24, 2007 as per the Bank and Financial Institutions Act 2006, section 74, sub-section 4(c) since the bank could not provide the required documents during the onsite inspection conducted from August 13, 2006 to August 31, 2006. According to the same Act's section 74, sub-section 4(e), the board was directed to remove the chairman from his post on May 24, 2007.

#### Fine and Punishment

4. In the year 2006/07, the following financial institutions were fined and penalized.
  - (a) Out of total pre-operating expenditure of Rs. 14.4 million, Gorkha Development Bank was fined about Rs. 4.4 million as it was considered irregular. Also, the board was given a warning on September 3, 2006 to prevent such irregularities in the future.
  - (b) According to the letter of April 22, 2007, each of the board members of Biratlaxmi Development Bank were fined Rs. 5,000 as per the NRB Act 2002, section 100, sub-section (c) as the bank did not allocate the 20 percent of the net profit to the general reserve fund as per the provision of Financial Institution Act 2007, section 44. Likewise, it was recommended that the auditor Ashwini Kumar and Bansal Associates be removed from the list of the auditors according to the Bank and Financial Institutions Act 2007, section 60, sub-section 4 as it certified the financial statement without the provision to allocate the required amount in the general reserve fund.
  - (c) The Merchant Finance Limited deposited the fined amount Rs. 122,400 on November 14, 2006 as the company had distributed the monthly salary to the board members against the Bank and Financial Institutions Ordinance 2006, section 21, sub-sections 1 and 2.
  - (d) As the executive board member of the Pokhara Finance Company Mr Dinesh Shankar Palikhe was found to be guilty of misappropriating the deposits, he was asked to pay Rs. 1.2 million as per the letter of December 5, 2006. Also, he resigned from the post.

**Appendix 2.5****Financial Institutions Penalized for not Maintaining CRR**

<b>S. No</b>	<b>Name of the Financial Institution</b>	<b>Penalty (Rs.)</b>
1.	Nepal Industrial Development Corporation	370341.25
2.	Nepal Development and Employment Promotion Bank Ltd	87650.00
3.	Siddhartha Finance Limited	158.75
4.	Patan Finance Company Limited	307.00
5.	Emperial Finance Limited	41.73
6.	Valley Finance Limited	1682.08

**Appendix 2.6**

**Board of Directors**

**(July 2007)**

Mr. Krishna Bahadur Manandhar, Act. Governor	Chairman
Mr. Vidyadhar Mallik, Secretary, Ministry of Finance	Member
Mr. Bir Bikram Rayamajhi, Deputy Governor	Member
Dr. Parthibeshwar P. Timilsina, Prof., Economics, T.U.	Member
Prof. Dr. Bishwambher Pyakuryal, Prof., Economics, T.U.	Member

**Appendix 2.7**

**Principal Officers**

(July 2007)

<b>Principal Officers</b>		
1.	Mr. Ganesh K. Shrestha	Executive Director, Banking Office, Kathmandu
2.	Mr. Sushil R. Mathema	Executive Director, Micro-finance Department
3.	Mr. Ram P. Adhikary	Executive Director, Research Department
4.	Mr. Bholu R. Shrestha	Executive Director, Financial Institutions Supervision Department
5.	Mr. Gopal P. Kafle	Executive Director, Public Debt Management Department
6.	Mr. Ravindra P. Pandey	Executive Director, Bank Supervision Department
7.	Mr. Lila P. Sitaula	Executive Director, Human Resource Management Department
8.	Mr. Ashwini K. Thakur	Act. Executive Director, Financial Management Department
9.	Mr. Vishnu Nepal	Act. Executive Director, Internal Audit Department
10.	Mr. Gokul R. Thapa	Act. Executive Director, Corporate Planning Department
11.	Mr. Ramjee Regmi	Act. Executive Director, Foreign Exchange Management Department
12.	Mr. Bhaskar M Gyanwali	Act. Executive Director, General Services Department
13.	Mr. Manmohan K. Shrestha	Act. Executive Director, Currency Management Department
<b>First Class Officers</b>		
1.	Mr. Trilochan Pangen	Director, Research Department
2.	Mr. Lok B. Thapa	Director, Financial Institutions Supervision Department
3.	Mr. Pradeep R. Pandey	Director, Human Resource Management Department
4.	Mr. Hari P. Kafle	Director, Internal Audit Department
5.	Mr. Siddhi K. Joshi	Director, Internal Audit Department
6.	Mr. Maha P. Adhikari	Director, Bank Supervision Department
7.	Mrs. Sadhana Upadhyay	Director, Office of the Governor
8.	Mr. Mahesh Bhattarai	Chief Manager, Nepal Rastra Bank, Biratnagar
9.	Mr. Shambhu Thapa	Director, Human Resource Management Department
10.	Mrs. Rameshwori Pant	Director, Research Department
11.	Mr. Shiva R. Shrestha	Director, Financial Institutions Supervision Department
12.	Mr. Naresh Dhakal	Director, Currency Management Department
13.	Mr. Narayan P. Poudel	Director, Banks & Fin. Institutions Regulation Department
14.	Mr. Nara B. Thapa	Director, Research Department
15.	Dr. Binod Atreya	Director, Corporate Planning Department
16.	Mr. Janak B. Adhikari	Director, Financial Management Department
17.	Mr. Purna B. Khatri	Director, Financial Institutions Supervision Department
18.	Mr. Radheshyam Shrestha	Director, Financial Sector Reform Program
19.	Mr. Bhishma R. Dhungana	Director, Bank Supervision Department
20.	Mr. Chintamani Siwakoti	Director, Public Debt Management Department

**Activities of Nepal Rastra Bank**

21.	Mrs. Shiva D. Kafle	Director, Research Department
22.	Mr. Laxmiprapanna Niraula	Chief Manager, Nepal Rastra Bank, Birgunj
23.	Mr. Shankar P. Acharya	Director, Foreign Exchange Management Department
24.	Mr. Keshav R. Acharya	Director, Banks & Fin. Institutions Regulation Department
25.	Mr. Krishna B. Thapa	Chief Manager, Nepal Rastra Bank, Nepalgunj
26.	Mr. Dharma R. Sapkota	Director, Legal Department
27.	Mr. Rajan B. Shah	Director, Banking Office, Kathmandu
28.	Mr. Gyanendra P. Dhungana	Director, Micro-finance Department
29.	Mr. Jagadishwar P. Adhikari	Director, Household Budget Survey Project
30.	Mr. Dipak B. Thapa	Act. Chief Manager, Nepal Rastra Bank, Janakpur
31.	Mr. Shiva N. Pandey	Act. Director, Financial Management Department
32.	Mr. Mittha Parajuli	Act. Director, Banking Office, Kathmandu
33.	Mr. Pradyumna K. Bhattarai	Act. Director, General Services Department
34.	Mr. Basudev Acharya	Act. Chief Manager, Nepal Rastra Bank, Pokhara
35.	Mr. Arjun B. Adhikari	Act. Director, Bankers' Training Centre
36.	Mr. Khyam N. Dhakal	Act. Chief Manager, Nepal Rastra Bank, Siddharthanagar
37.	Mr. Narayan Dhamala	Act. Director, Mint Department
38.	Mr. Parbat K. Karki	Act. Director, Information & Technology Department
<b>On Leave and Deputation</b>		
1.	E.D. Mr. Keshav P. Acharya	I.M.F.
2.	E.D. Mr. Tula R. Basyal	Ministry of Finance
3.	E.D. Dr. Yuba R. Khatiwada	Leave
4.	D. Dr. Min B. Shrestha	SEACEN



**PART**

**3**

**Annual Financial Statements  
of NRB**



- Balance Sheet Analysis 99
- Income Statement Analysis 100





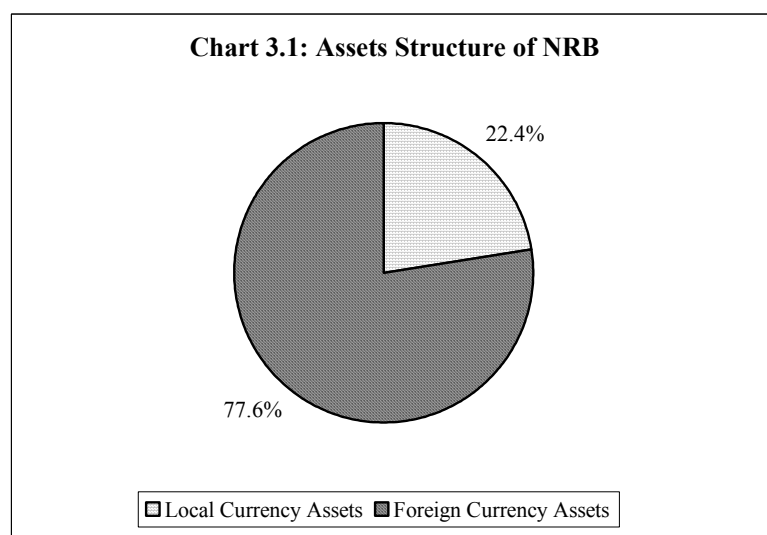
## PART

## III

## Annual Financial Statements of NRB

## Balance Sheet Analysis

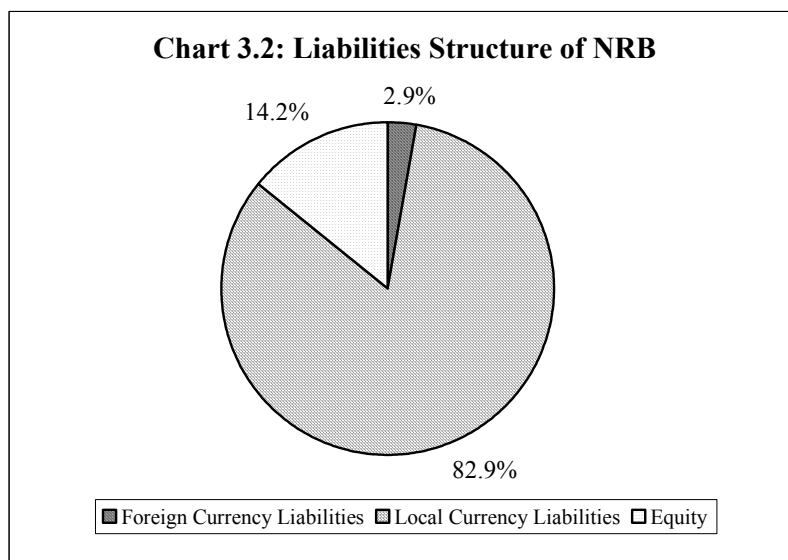
- 3.1 As at mid-July 2007, total assets/total liabilities of NRB reached Rs. 171.55 billion with an increment of 3.1 percent over the last year's amount. Foreign currency assets (including gold) and local currency assets held 77.6 percent and 22.4 percent share respectively in total assets. In total liabilities and equity, the share of local currency liabilities was 82.9 percent, equity 14.2 percent and foreign currency liabilities 2.9 percent.



- 3.2 In foreign currency assets, foreign currency cash and bank balance occupied 50.7 percent share whereas the investment in foreign currencies, other receivables, and SDR holdings accounted for 46.3 percent, 0.6 percent and 0.4 percent respectively. In the review year, foreign cash and bank balance has declined by 29.2 percent; however the investment in foreign currencies has increased by 67.6 percent compared to last year. Total foreign currency receivable amount increased by 1.9 percent as well. On the other hand, SDR holdings with IMF decreased by 11.7 percent in the review period. Gold, the only component of other assets under foreign currency assets, declined by 9.9 percent in the review year. Total foreign currency assets declined by 1.9 percent to Rs. 133.69 billion in the review year from the level of last year.
- 3.3 In local currency financial assets, the shares of investment in government securities, refinance and loans and other receivables were 52.2 percent, 10.7 percent and 18.8 percent respectively. Likewise, the shares of other investment, cash in hand, and investment in financial and other institutions were 8.6 percent, 3.4 percent and 0.9 percent respectively. Loans and refinance and other investments increased by 13.3 percent and 4.1 percent respectively compared to that of preceding year. While investment in

financial and other institutions and cash in hand declined by 12.4 percent and 19.8 percent respectively, investment in other receivables and government securities increased by 119.5 percent and 27.5 percent respectively. Among other assets, component of local currency assets, the share of gold and silver, other inventories, and property, plant and equipments is 17.4 percent, 28.1 percent and 27.5 percent respectively. Property, plant and equipments increased by 9.7 percent while other inventories & gold and silver declined by 28.5 percent and 15.3 percent respectively compared to that of the previous year. In aggregate, total local currency assets increased by 25.2 percent to Rs. 38.48 billion in the review year.

- 3.4 In foreign currency financial liabilities, IMF related liabilities, deposit and other liabilities held the share of 94.8 percent, 4.3 percent, and 0.9 percent respectively. IMF related liabilities and other liabilities increased by 93.0 percent and 493.4 percent (increased nearly by five times) respectively from the level of previous year, whereas deposit from banks and other agencies declined by 23.6 percent. In aggregate, foreign currency liabilities increased by 82.0 percent and stood at Rs. 4.98 billion.
- 3.5 The other liabilities, which has a largest share among domestic currency liabilities 95.1 percent and miscellaneous liabilities held 0.7 percent share. The currency in circulation rose by 7.9 percent to Rs. 91.31 billion, whereas miscellaneous liabilities declined by 35.6 percent. Compared to last year, other liabilities increased by 7.7 percent to Rs. 95.98 billion.
- 3.6 In local currency financial liabilities, deposits and other balances shared 81.4 percent, bills payable 12.7 percent, staff liabilities 5.4 percent, and other payables 0.5 percent. Compared to the last year, deposits and other balances, staff related liabilities and others payable increased by 7.3 percent, 2.7 percent and 59.5 percent respectively. On the other hand, bills payables significantly increased by 266.1 percent to Rs 5.87 billion. In aggregate, total local currency liabilities increased by 10.8 percent to Rs. 142.15 billion in mid July 2007 from the level of the previous year.

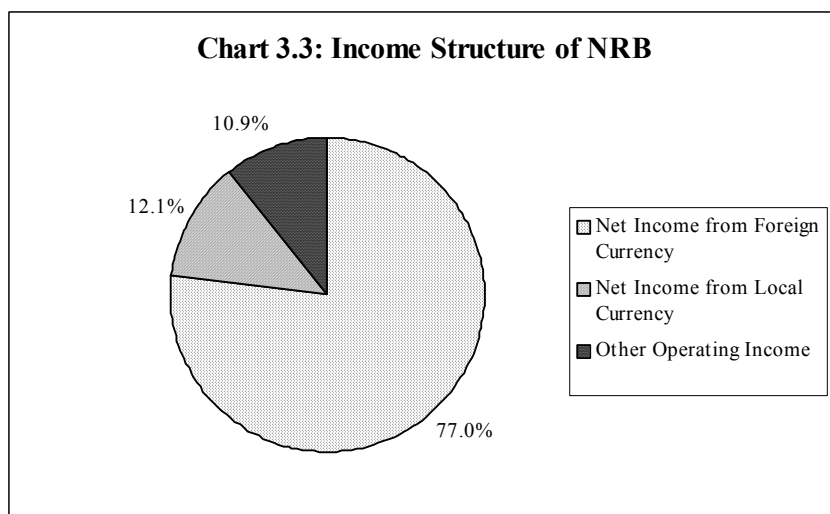


- 3.7 In total equity, reserves occupied the largest share of 87.7 percent, whereas share capital accounted for the remaining share of 12.3 percent. Equity declined by 33.8 percent to Rs. 24.42 billion compared to the last year.

### Income Statement Analysis

- 3.8 As per the income statement of NRB, total net operating income for the year ended mid-July 2007, stood at Rs. 7.97 billion.
- 3.9 In the review year, as in the previous year, income from foreign currency financial assets was higher than the income from local currency financial assets. Similar to the last year, interest income contributed more to the total income in 2006/07.

- 3.10 In total income from foreign currency financial assets, the share of interest income was 96.9 percent and commission income has the remaining share of 3.1 percent. Last year, the contributions of interest income and commission income were 95.1 percent and 4.9 percent respectively. In the review year, interest income increased by 43.9 percent, whereas commission income declined by 8.9 percent compared to that of the preceding year.



- 3.11 In the total income from local currency financial assets, interest income and commission income shared 95.0 percent and 5.0 percent respectively. Last year, contributions of interest income and commission income to the total income were 95.8 percent and 4.2 percent respectively. Compared to that of the previous year, interest income declined by 8.0 percent, whereas commission income increased by 9.5 percent.
- 3.12 Interest expenses shared 90.5 percent in expenses in foreign currency financial liabilities, whereas agency and service charges accounted for the remaining 9.5 percent. Last year, the shares of interest expenses and agency and service charges were 86.9 percent and 13.1 percent respectively. Interest expenses and agency and service charges rose by 43.7 percent and 0.3 percent in the review year.
- 3.13 In 2005/06, the share of interest expenses remained at 53.3 percent while that of agency and services charge was 46.7 percent. Last year, such shares were 41.7 percent and 58.3 percent respectively. In the review year, interest expenses increased by 58.6 percent, whereas agency and services charge declined by 0.5 percent compared to that of the previous year.
- 3.14 The income from foreign currency financial assets increased by 41.4 percent to Rs. 6.64 billion and the expenses in foreign currency financial liabilities also increased by 38.0 percent to Rs. 58.5 million. Consequently, net income from foreign currency increased by 41.4 percent and stood at Rs. 6.58 billion as at mid-July 2007.
- 3.15 The income from local currency financial assets decreased by 7.6 percent to Rs. 1.04 billion whereas the expenses in local currency financial liabilities increased by 24.2 percent to Rs. 596.5 million. As a result, the net income from local currency marked a fall of 30.8 percent and stood at Rs. 444.4 million as at mid-July 2006 compared to that of the previous year.
- 3.16 In 2006/07, other operating income declined by 25.1 percent and remained at Rs. 943.9 million. Total net operating income stood at Rs. 7.97 billion with an increment of 21.1 percent. General administrative expenses and provisions increased by 13.6 percent to Rs. 2.29 billion. Thus, profit for the year 2006/07 increased by 25.1 percent and amounted to Rs. 5.68 billion before the adjustment of foreign exchange gain/loss, gold and silver revaluation gain/loss and prior year's adjustment.

**NEPAL RASTRA BANK**  
**BALANCE SHEET AS ON 32nd ASHADH, 2064 (16th JULY, 2007)**

Particulars	Note	As on 32-3-2064 NRs.	As on 32-3-2063 NRs.
<b>ASSETS</b>			
<b>Foreign Currency Financial Assets</b>			
Cash and Bank Balances	3	67,404,058,408	95,226,572,227
SDR Holdings - with IMF		587,487,220	665,576,486
Investments	3a	61,562,954,145	36,739,045,175
Loan	3b	687,410,000	-
Other Receivables		804,463,349	789,314,112
<b>Sub-Total</b>		<b>131,046,373,122</b>	<b>133,420,508,000</b>
<b>Other Assets</b>			
Gold		2,023,389,329	2,245,176,837
<b>Sub-Total</b>		<b>2,023,389,329</b>	<b>2,245,176,837</b>
<b>Total Foreign Currency Assets</b>		<b>133,069,762,451</b>	<b>135,665,684,837</b>
<b>Local Currency Financial Assets</b>			
Cash in Hand		1,307,083,855	1,629,233,535
Investments in Government Securities	4	20,088,315,734	15,752,023,688
GON Overdraft		-	1,071,000,511
Investments in Financial and Other Institutions	5	357,349,555	407,772,500
Other Investments	6	3,296,886,000	3,166,536,000
Refinance & Loans	7	4,129,888,300	3,643,526,596
Other Receivables	8	7,218,402,607	3,288,542,716
<b>Sub-Total</b>		<b>36,397,926,051</b>	<b>28,958,635,546</b>
<b>Other Assets</b>			
Gold and Silver	9	362,758,019	428,324,429
Other Inventories	10	587,801,686	822,264,298
Property, Plant & Equipment	11	573,403,406	522,758,748
Project Assets	12	564,220,288	-
<b>Sub-Total</b>		<b>2,088,183,399</b>	<b>1,773,347,474</b>
<b>Total Local Currency Assets</b>		<b>38,486,109,450</b>	<b>30,731,983,020</b>
<b>Total Assets</b>		<b>171,555,871,901</b>	<b>166,397,667,857</b>

The above statement is to be read in conjunction with the notes 1 to 31.

.....  
(Ashwini Kumar Thakur)  
Executive Director

.....  
(Krishna Bahadur Manandhar)  
Acting Governor

.....  
(.....)  
Auditor General

**Board of Directors :-**

As per our report of the even date

Vidhyadhar Mallik

Dr. Parthibeshwar Prasad Timilsina

.....  
(Sundar Man Shrestha)  
Chartered Accountant  
Kathmandu

.....  
(Pradeep Kumar Shrestha )  
Chartered Accountant  
Kathmandu

Dr. Bishwambher Pyakuryal

Shambu Sharan Prasad Kayastha

Bir Bikram Rayamajhi (Dy. Governor)

Date : 2064.09.13  
Place : Kathmandu

**NEPAL RASTRA BANK**  
**BALANCE SHEET AS ON 32nd ASHADH, 2064 (16th JULY, 2007)**

Particulars	Note	As on 32-3-2064 NRs.	As on 32-3-2063 NRs.
<b>LIABILITIES</b>			
<b>Foreign Currency Financial Liabilities</b>			
Deposit from Banks and Other Agencies	13	216,050,629	282,826,937
IMF Related Liabilities	14	4,725,480,484	2,448,475,939
Other Liabilities	15	42,463,655	7,155,707
<b>Total Foreign Currency Liabilities</b>		<b>4,983,994,768</b>	<b>2,738,458,583</b>
<b>Local Currency Financial Liabilities</b>			
Deposit and Other Balances	16	37,577,863,043	35,027,226,789
Bills Payable		5,875,198,391	1,604,799,616
Staff Liabilities	17	2,498,048,656	2,432,269,401
Other Payables	18	216,616,002	135,805,825
<b>Sub-Total</b>		<b>46,167,726,092</b>	<b>39,200,101,631</b>
<b>Other Liabilities</b>			
Currency in Circulation	19	91,310,000,000	84,630,000,000
Surplus Payable to GON		3,437,999,825	3,419,267,177
Sundry Liabilities	20	667,082,022	1,035,768,673
Project Liability	21	564,220,288	-
<b>Sub-Total</b>		<b>95,979,302,135</b>	<b>89,085,035,850</b>
<b>Total Local Currency Liabilities</b>		<b>142,147,028,227</b>	<b>128,285,137,481</b>
<b>EQUITY</b>			
Share Capital		3,000,000,000	3,000,000,000
Reserves	22	21,424,848,906	32,374,071,792
<b>Total Equity</b>		<b>24,424,848,906</b>	<b>35,374,071,792</b>
<b>Total Liabilities and Equity</b>		<b>171,555,871,901</b>	<b>166,397,667,857</b>

**Contingent Liabilities**

23

The above statement is to be read in conjunction with the notes 1 to 31.

.....  
(Ashwini Kumar Thakur)  
Executive Director

.....  
(Krishna Bahadur Manandhar)  
Acting Governor

.....  
(.....)  
Auditor General

**Board of Directors :-**

As per our report of the even date

Vidhyadhar Mallik

Dr. Parthibeshwar Prasad Timilsina

.....  
(Sundar Man Shrestha)  
Chartered Accountant  
Kathmandu

.....  
(Pradeep Kumar Shrestha )  
Chartered Accountant  
Kathmandu

Dr. Bishwambher Pyakuryal

Shambu Sharan Prasad Kayastha

Bir Bikram Rayamajhi (Dy. Governor)

Date : 2064.09.13  
Place : Kathmandu

**NEPAL RASTRA BANK**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 32nd ASHADH, 2064 (16th JULY, 2007)**

Particulars	Note	2063-64 NRs.	2062-63 NRs.
<b>Operating Income:</b>			
<b>Income from Foreign Currency Financial Assets</b>			
Interest Income	24	6,429,637,268	4,466,725,818
Commission Income	25	208,576,375	228,951,042
		<b>6,638,213,643</b>	<b>4,695,676,860</b>
<b>Expenses on Foreign Currency Financial Liabilities</b>			
Interest Expenses	26	52,893,347	36,801,802
Agency and Service Charge	27	5,564,485	5,547,468
		<b>58,457,832</b>	<b>42,349,270</b>
<b>Net Income from Foreign Currency</b>		<b>6,579,755,811</b>	<b>4,653,327,590</b>
<b>Income from Local Currency Financial Assets</b>			
Interest Income	24	989,232,040	1,075,744,890
Commission Income	25	51,700,209	47,193,429
		<b>1,040,932,249</b>	<b>1,122,938,319</b>
<b>Expenses on Local Currency Financial Liabilities</b>			
Interest Expenses	26	317,923,891	200,468,290
Agency and Service Charge	27	278,590,393	279,949,225
		<b>596,514,284</b>	<b>480,417,515</b>
<b>Net Income from Local Currency Financial assets</b>		<b>444,417,965</b>	<b>642,520,804</b>
Other Operating Income	28	943,934,208	1,259,772,123
<b>Total Net Operating Income</b>		<b>7,968,107,984</b>	<b>6,555,620,517</b>
General, Administrative Expenses & Provisions	29	2,292,458,493	2,018,435,718
<b>Profit for the year before Foreign Exchange, Gold and Silver Revaluation Gain/(Loss) and prior year adjustment</b>		<b>5,675,649,491</b>	<b>4,537,184,800</b>
Foreign Exchange Gain/(Loss) (Net)		(12,960,007,190)	6,233,648,145
Gold and Silver Revaluation Gain/(Loss) (Net)			
- Adjustment on Transfer of Gold and Silver to Inventory		-	-
- Amount Transferred from Gold & Silver Equalisation Reserve		-	-
- Other	31(XV)(i)	(221,787,508)	847,984,185
Securities Revaluation		21,231,168	-
Prior Year Adjustment		(26,309,022)	2,206,247
<b>Net Profit/(Loss) for the year</b>		<b>(7,511,223,061)</b>	<b>11,621,023,376</b>
<b>Net Profit/(Loss) for Appropriation</b>			
Net Profit/(Loss) for the year		(7,511,223,061)	11,621,023,376
Amount Transferred (to)/from Exchange Equalisation Fund (EEF)		11,584,053,828	(6,233,648,145)
Amount Transferred (to)/from Gold & Silver Equalisation Reserve 31(XV)(i)		221,787,508	(847,984,185)
Amount Transferred to Gold Replacement Fund 31(XV)(ii)		(64,651,980)	(265,307,075)
Securities Revaluation Fund		(21,231,168)	-
<b>Profit available for distribution</b>		<b>4,208,735,127</b>	<b>4,274,083,972</b>
General Reserve		423,400,000	432,900,000
Monetary Liability Reserve		210,500,000	213,800,000
Development Fund		130,000,000	200,010,744
Dev. Fin. Projects Mob. Fund		6,835,302	8,106,050
Surplus transferred to GON		3,437,999,825	3,419,267,177
<b>Total</b>		<b>4,208,735,127</b>	<b>4,274,083,972</b>

The above statement is to be read in conjunction with the notes 1 to 31.

.....  
(Ashwini Kumar Thakur)  
Executive Director

.....  
(Krishna Bahadur Manandhar)  
Acting Governor

.....  
(.....)  
Auditor General

**Board of Directors :-**

As per our report of the even date

Vidhyadhar Mallik

Dr. Parthibeshwar Prasad Timilsina

.....  
(Sundar Man Shrestha) (Pradeep Kumar Shrestha )  
Chartered Accountant Chartered Accountant  
Kathmandu Kathmandu

Dr. Bishwambher Pyakuryal

Shambu Sharan Prasad Kayastha

Bir Bikram Rayamajhi (Dy. Governor)

Date : 2064.09.13  
Place : Kathmandu

**NEPAL RASTRA BANK**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 32nd ASHADH, 2064 (16th JULY, 2007)**

Particulars	2063-64 (NRs.)	2062-63 (NRs.)
<b>Cash flow from operating activities:</b>		
Profit for the Year	(7,511,223,061)	11,621,023,376
<b>Adjustments</b>		
Gold and Silver revaluation gain/(loss) (Net)	-	
- Other	221,787,508	(847,984,185)
- Revaluation adjustment for gold / silver reserves sold during the year	-	-
Securities Revaluation	(21,231,168)	-
Depreciation	62,002,523	66,749,204
Prior period adjustment	(26,309,022)	(2,206,247)
Note printing expenses	396,629,897	385,832,965
Dividend Income	(3,083,995)	(4,445,900)
Profit from sale of share investment	(174,474,298)	-
Sundry balances written off	-	14,976
Interest paid on PRGF Loan & ACU	51,665,037	32,888,593
Provision for :		
Loan and advances	(175,641,069)	(88,609,180)
Diminution in value of investment	(5,815,000)	16,000,000
Doubtful of recovery on sundry accrued	(36,413,210)	-
Provision for inventory & spare parts	17,010	-
<b>Cash flow from operation before inc / dec in operating assets</b>	<b>(7,222,088,848)</b>	<b>11,179,263,602</b>
<b>(Increase)/Decrease in operating assets</b>	<b>(3,932,343,929)</b>	<b>1,470,868,443</b>
GON overdraft	1,071,000,511	1,552,008,579
Refinance & loans	(998,130,634)	81,781,455
Other receivable	(3,908,595,917)	(161,240,076)
Gold & silver	65,566,410	650,556,144
Inventories	(162,184,299)	(652,237,660)
<b>Increase/(Decrease) in operating liabilities</b>	<b>6,455,536,726</b>	<b>4,855,397,709</b>
SDR Allocation	(77,853,087)	55,477,356
Deposit liabilities	2,483,859,946	5,105,087,042
Bills payable	4,270,398,775	(996,906,433)
Deferred staff liabilities	65,779,255	233,849,678
Other liabilities	82,038,488	10,820,822
Sundry liabilities	(368,686,651)	447,069,245
<b>Operating cash flow before prior period adjustment</b>	<b>(4,698,896,051)</b>	<b>17,505,529,754</b>
Prior period adjustment	26,309,022	2,206,247
<b>Cash flow from operating activities</b>	<b>(4,672,587,029)</b>	<b>17,507,736,001</b>
<b>Cash flow from investing activities:</b>		
Net Decrease in Government Securities and Bank Deposits	(4,211,860,541)	11,821,246,669
Sale of Investment in Financial Institutions	230,712,243	47,445,000
Purchase of Investments-other	(6,480,592,227)	-
Fixed assets including WIP	(112,647,181)	(69,721,710)
Dividend income	3,083,995	4,445,900
<b>Total (B)</b>	<b>(10,571,303,711)</b>	<b>11,803,415,860</b>
<b>Cash flow from financing activities:</b>		
Bank note issued	6,680,000,000	10,110,000,000
Increase in PRGF Loan & ACU	2,394,511,058	94,528,002
Interest paid on PRGF Loan & ACU	(51,665,037)	(32,888,593)
Surplus transferred to GON	(3,419,267,177)	(1,611,281,788)
<b>Total (C)</b>	<b>5,603,578,844</b>	<b>8,560,357,620</b>
<b>Net cash flow for the year (A+B+C)</b>	<b>(9,640,311,896)</b>	<b>37,871,509,481</b>
Cash and cash equivalent at the beginning of the year	134,000,072,129	96,128,562,648
<b>Cash and cash equivalent at the end of the year (Note - 30)</b>	<b>124,359,760,233</b>	<b>134,000,072,129</b>

The above statement is to be read in conjunction with the notes 1 to 31

.....  
(Ashwini Kumar Thakur)  
Executive Director

.....  
(Krishna Bahadur Manandhar)  
Acting Governor

.....  
(.....)  
Auditor General

**Board of Directors :-**

As per our report of the even date

Vidhyadhar Mallik

Dr. Parthibeshwar Prasad Timilsina

.....  
(Sundar Man Shrestha)  
Chartered Accountant  
Kathmandu

.....  
(Pradeep Kumar Shrestha)  
Chartered Accountant  
Kathmandu

Dr. Bishwambher Pyakuryal

Shambu Sharan Prasad Kayastha

Bir Bikram Rayamajhi (Dy. Governor)

Date : 2064.09.13  
Place : Kathmandu

**NEPAL RASTRA BANK**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 32nd ASHADH, 2064 (16th JULY, 2007)**

(Amount in NRs.)

Particulars	Balance as at 32.03.2063	Amt.transferred from/(to) profit	Inter fund transfer	Balance as at 32.03.2064
Capital	3,000,000,000	-	-	3,000,000,000
General Reserve	10,920,300,000	423,400,000	-	11,343,700,000
Monetary Liability Reserve	778,100,000	210,500,000	-	988,600,000
Exchange Equilisation Fund	11,584,053,828	(11,584,053,828)	-	-
Gold & Silver Equilisation Reserve	2,223,122,598	(221,787,508)	-	2,001,335,090
Employees Welfare Fund	234,027,004	-	-	234,027,004
Grameen Swabalamban Kosh	253,400,000	-	-	253,400,000
Other Reserve Funds	6,381,068,362	201,487,282	-	6,582,555,644
Secutiry Revaluation Fund	-	21,231,168	-	21,231,168
<b>Total</b>	<b>35,374,071,792</b>	<b>(10,949,222,886)</b>	<b>-</b>	<b>24,424,848,906</b>

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 32nd ASHADH, 2063 (16th JULY, 2006)**

(Amount in NRs.)

Particulars	Balance as at 01.04.2062	Amt.transferred from/(to) profit	Inter fund transfer	Balance as at 32.03.2063
Capital	3,000,000,000	-	-	3,000,000,000
General Reserve	10,487,400,000	432,900,000	-	10,920,300,000
Monetary Liability Reserve	564,300,000	213,800,000	-	778,100,000
Exchange Equilisation Fund	5,350,405,683	6,233,648,145	-	11,584,053,828
Gold & Silver Equilisation Reserve	1,375,138,413	847,984,185	-	2,223,122,598
Employees Welfare Fund	234,027,004	-	-	234,027,004
Grameen Swabalamban Kosh	253,400,000	-	-	253,400,000
Other Reserve Funds	5,907,644,493	473,423,869	-	6,381,068,362
<b>Total</b>	<b>27,172,315,593</b>	<b>8,201,756,199</b>	<b>-</b>	<b>35,374,071,792</b>

The above statement is to be read in conjunction with the notes 1 to 31 .

.....  
(Ashwini Kumar Thakur)  
Executive Director

.....  
(Krishna Bahadur Manandhar)  
Acting Governor

.....  
(.....)  
Auditor General

**Board of Directors :-**

As per our report of the even date

Vidhyadhar Mallik

Dr. Parthibeshwar Prasad Timilsina

.....  
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Dr. Bishwambher Pyakuryal

Shambu Sharan Prasad Kayastha

Bir Bikram Rayamajhi (Dy. Governor)

Date : 2064.09.13  
Place : Kathmandu



## 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, 2012 repealed by 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 throughout 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 32<sup>nd</sup> Ashadh, 2064 (16<sup>th</sup> July, 2007).

The Board of Directors of the Bank has approved these financial statements on 13<sup>th</sup> Poush 2064 (28th December 2007).

### 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:

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. The assets stated in Note 19 of these financial statements back these liabilities.

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, and foreign treasury bills.

#### *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 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 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 at 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, expire 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 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 other than those held 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.

Up to 15<sup>th</sup> July 2005 the bank had 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 had been recognized as expense. This however has been amortised on a straight-line basis over five years commencing from financial year 2004/2005 in accordance with the transitional provisions. This year a third installment has been charged to the income Statement.

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 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 Security Fund**

Staff security fund 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 recognized 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 recognized 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 is responsible for preparation of the annual financial statements and for the estimates and judgments used in them.

## NEPAL RASTRA BANK

### Notes forming part of the Balance Sheet.

#### NOTE - 3: CASH AND BANK BALANCES

Cash in Hand
Balance with Banks in Demand Deposits
Balance with Banks in Time Deposits
<b>Total</b>

As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
2,819,993,731	3,661,184,023
12,921,391,085	38,891,126,422
51,662,673,592	52,674,261,782
<b>67,404,058,408</b>	<b>95,226,572,227</b>

Interest on time deposit and demand deposit (where ever applicable) were earned at various rates ranging from 0.50% to 6.31% per annum (P.Y. 0.222% to 5.75% per annum).

#### NOTE - 3 a: INVESTMENTS

##### i. Treasury Bills

US Government Treasury Bills
GOI Treasury Bills

##### Sub -Total

##### ii. Other

BIS investment pool series 'C'
US Government Treasury Notes/Bond

##### Sub -Total

##### Total

As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
52,289,830,227	32,363,794,991
2,771,300,523	4,375,250,184
-	-
<b>55,061,130,750</b>	<b>36,739,045,175</b>
3,263,731,168	-
3,238,092,227	-
<b>6,501,823,395</b>	-
<b>61,562,954,145</b>	<b>36,739,045,175</b>

Investments in US Treasury Bill and Government Of India Treasury Bill have been recognised and classified as "Held to maturity".

#### NOTE - 3 b: LOAN

Repurchase Agreement
----------------------

##### Total

As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
687,410,000	-
<b>687,410,000</b>	-

#### NOTE - 4: INVESTMENTS IN GOVERNMENT SECURITIES

Government Treasury Bills
Saving Certificates
IMF Bonds
Other Bonds and securities

##### Total

As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
13,749,485,669	9,167,936,680
348,058,400	309,706,700
4,472,150,294	4,755,758,937
1,518,621,371	1,518,621,371
<b>20,088,315,734</b>	<b>15,752,023,688</b>

#### Above investments are classified as follows:

Originated Loans	15,268,107,040	10,686,558,051
Held-to-maturity	4,472,150,294	4,755,758,937
Available-for-sale	348,058,400	309,706,700
<b>Total</b>	<b>20,088,315,734</b>	<b>15,752,023,688</b>

1. IMF Bonds represent the bonds issued by GON in favour of Nepal Rastra Bank for the discharge of GON 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 GON 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.

## NEPAL RASTRA BANK

### Notes forming part of the Balance Sheet.

#### NOTE - 5: INVESTMENTS IN FINANCIAL AND OTHER INSTITUTIONS

% of holding	As on 32.3.2064 NRs.	As on 31.3.2063 NRs.
<b>(a) Investment in shares of Subsidiaries</b>		
Madhyamanchal GBB	44,400,000	44,400,000
Sudur Pashchimanchal GBB	40,050,000	40,050,000
Madhya Pashchimanchal GBB	37,900,000	37,900,000
Agricultural Project Services Center	5,000,000	5,000,000
Rastriya Beema Sansthan - Life Insurance	1,000,000	1,000,000
Purwanchal GBB	-	40,050,000
<b>Sub-Total</b>	<b>128,350,000</b>	<b>168,400,000</b>
<b>(b) Investment in shares of Associates</b>		
Deposit & Credit Guarantee Corporation	20,500,000	20,500,000
Rastriya Beema Sansthan-Non-Life Insurance	602,055	800,000
Nepal Stock Exchange Ltd.	12,080,500	12,080,500
National Productivity and Economic Development	2,500,000	2,500,000
<b>Sub-Total</b>	<b>35,682,555</b>	<b>35,880,500</b>
<b>(c) Other Investments</b>		
<b>Shares:</b>		
CSI Development Bank	14.29	16,000,000
Rural Microfinance Development Centre	8.42	21,045,000
Pashchimanchal GBB	10.00	6,000,000
Nepal Development Bank	6.50	16,000,000
Credit Information Bureau	10.00	1,000,000
Citizen Investment Trust	0.03	10,000
Rural Self Reliance Fund (Seed Capital)		253,400,000
<b>Sub-Total</b>		<b>329,445,000</b>
<b>Total</b>		<b>477,487,555</b>
Less: Provision for diminution in the value		120,138,000
		<b>357,349,555</b>
		<b>533,725,500</b>

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

- According to NRB Act 2058, NRB is not eligible to hold investment in share in excess of 10 percent of their share capital.
- The Bank has already offloaded the investments in Rastriya Beema Sansthan-Non-Life Insurance, Citizen Investment Trust, Madhyamanchal Gramin Bikas Bank (GBB) and Purwanchal GBB and is still offloading all those investments/ loans that are in excess of limit prescribed by section 7(2)(a) of NRB
- The investment in Grameen Bikas Banks (GBB) were initially made for the development of rural banking and now the bank has off loaded the holding in these institutions except in Sudur Pashchimanchal GBB and Madhya Pashchimanchal GBB.
- 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.
- The details of the quoted investment and the market values prevailing as on the date of the balance sheet are as follows:

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
Citizen Investment Trust @ Rs. 352 per share (P.Y. Rs. 266)	35,200	42,560,000
Rastriya Beema Sansthan-Non-Life Insurance total 219013 shares @ Rs. 2150 per share (including 282,993 Bonus Shares of Rs. 100/- each less 71,980 shares sold in F.Y. 2063/64 (P.Y. Rs. 1750))	470,877,950	424,364,500
Nepal Development Bank @ Rs. 153 per share (P.Y. Rs. 102)	24,480,000	16,320,000

## 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 32.3.2064 NRs.	As on 32.3.2063 NRs.
-	7,805,000
-	1,418,407,000
3,296,886,000	1,740,324,000
<b>3,296,886,000</b>	<b>3,166,536,000</b>

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 staff security 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 32.3.2064 NRs.	As on 32.3.2063 NRs.
80,810,000	329,165,000
1,790,000,000	1,570,000,000
481,124,510	766,627,510
2,251,979,300	1,627,400,666
<b>4,603,913,810</b>	<b>4,293,193,176</b>
474,025,510	649,666,580
<b>4,129,888,300</b>	<b>3,643,526,596</b>

Interest on refinance and loans were earned at various rates ranging from 1.5% to 6.5% per annum (P.Y. 1.50% to 9% per annum).



## NEPAL RASTRA BANK

### Notes forming part of the Balance Sheet.

#### NOTE - 8: OTHER RECEIVABLE

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
Interest Accrued	532,972,044	
Less: Provision for doubtful amounts	<u>50,939,158</u>	482,032,886
Deposits		1,886,650
Advances Recoverable	919,384,394	1,899,824
Less: Provision for doubtful amounts	<u>70,600,000</u>	848,784,394
Other recoverable		14,910,605
Bills Purchased		5,870,788,072
<b>Total</b>	<b>7,218,402,607</b>	<b>3,288,542,716</b>

#### NOTE - 9: GOLD & SILVER STOCK

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
Gold held in Stock	305,145,536	394,504,948
Silver held in Stock	57,612,483	33,819,481
<b>Total Gold and silver stock</b>	<b>362,758,019</b>	<b>428,324,429</b>

#### NOTE - 10: OTHER INVENTORIES

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
Security Note Stock	258,095,988	646,810,463
Coin Stock	281,571,462	122,135,794
Numismatic and Medallion coins	62,306,218	
Less: Provision for non-moving coins	<u>22,465,540</u>	39,840,678
Other Metal Stock	11,757,157	42,813,435
Less: Provision for non-moving stock	<u>8,716,000</u>	3,041,157
Stationary and other sundry items	8,097,673	3,256,243
Less: Provision for non-moving items	<u>2,845,272</u>	5,252,401
<b>Total Inventories</b>	<b>587,801,686</b>	<b>822,264,298</b>

**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 31 Ashadh 2063	Transfer from other Office	Addition during the year	Adjustment / Transfer	As at 32 Ashadh 2064	Upto 31 Ashadh 2063	Transfer from other Office	Current Year Depreciation	Adjustment / Transfer	Upto 32 Ashadh 2064	As at 32 Ashadh 2064	As at 31 Ashadh 2063
Land		13,291,197	-	18,068,201	-	31,359,398	-	-	-	-	-	31,359,398	13,291,197
Building	3	480,693,427	-	22,012,176	32,149	502,673,454	108,145,396	-	14,847,412	-	122,992,808	379,680,646	376,451,744
Furniture and Fixture	10	89,468,486	7,807	4,700,622	597,170	93,579,745	61,649,013	6,686	6,071,059	566,857	67,159,901	26,419,844	29,224,130
Office Equipment	20	82,486,471	273,072	5,344,096	406,280	87,697,359	64,257,115	273,070	7,569,028	359,584	71,739,629	15,957,730	17,810,285
Vehicles	20	139,695,807	-	42,084,012	8,583,484	173,196,335	119,279,693	-	19,777,889	8,494,115	130,563,467	42,632,868	20,416,114
Machinery Equipment	15	59,458,821	-	5,093,902	-	64,552,723	53,460,524	-	3,216,167	-	56,676,691	7,876,032	6,053,537
Computer Equipments	20	99,239,353	59,345	8,402,145	839,371	106,861,472	77,269,264	59,344	9,939,862	803,521	86,464,949	20,396,523	22,006,290
Miscellaneous	15	7,774,026	-	1,741,775	107,790	9,408,011	6,333,548	-	581,106	107,771	6,806,883	2,601,128	1,385,454
<b>Total</b>		<b>972,107,588</b>	<b>340,224</b>	<b>107,446,929</b>	<b>10,566,244</b>	<b>1,069,328,497</b>	<b>490,394,553</b>	<b>339,100</b>	<b>62,002,523</b>	<b>10,331,848</b>	<b>542,404,328</b>	<b>526,924,169</b>	<b>486,638,750</b>
Capital Work-in-Progress		36,119,998	-	30,361,750	20,002,511	46,479,237	-	-	-	-	-	46,479,237	36,119,998
<b>Grand Total</b>		<b>1,008,227,586</b>	<b>340,224</b>	<b>137,808,679</b>	<b>30,568,754</b>	<b>1,115,807,734</b>	<b>490,394,553</b>	<b>339,100</b>	<b>62,002,523</b>	<b>10,331,848</b>	<b>542,404,328</b>	<b>573,403,406</b>	<b>522,758,748</b>
<b>Previous Year</b>		<b>969,280,100</b>	<b>2,769,881</b>	<b>68,183,944</b>	<b>30,524,844</b>	<b>1,009,709,080</b>	<b>444,314,823</b>	<b>151,506</b>	<b>66,749,204</b>	<b>24,265,200</b>	<b>486,950,332</b>	<b>522,758,748</b>	

**NOTE - 12: PROJECTS ASSETS: \***

(Amount in NRs.)

<b>Assets</b>	<b>MCPW</b>	<b>TLDP</b>	<b>PCRW</b>	<b>PAPWT</b>	<b>RMP</b>	<b>TOTAL</b>
Current account	6,788,736	43,417,247	19,489,355	8,937,211	-	78,632,550
Imprest Account	-	-	-	-	-	-
Investment in fixed deposit	144,534,918	91,307,200	30,000,000	45,776,000	-	311,618,118
Investment in GON bonds						-
Loans to Banks, FIs, and NGOs	425,000	18,274,080	86,585,251	64,350,712	-	169,635,043
Fixed assets	-	-	-	-	42,280	42,280
Interest receivables	801,854	2,187,854	447,917	854,672	-	4,292,297
Principal (Instalment) receivables	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
<b>Current Year Total</b>	<b>152,550,508</b>	<b>155,186,381</b>	<b>136,522,523</b>	<b>119,918,596</b>	<b>42,280</b>	<b>564,220,288</b>
<b>Previous Year Total</b>	<b>(156,102,833)</b>	<b>(159,387,481)</b>	<b>(155,103,351)</b>	<b>(125,647,066)</b>	<b>(105,700)</b>	<b>(596,346,431)</b>

\*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 GON.

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

## NEPAL RASTRA BANK

### Notes forming part of the Balance Sheet

**NOTE - 13: DEPOSIT FROM BANKS AND OTHER AGENCIES**

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
Deposit from Banks	203,736,713	272,916,772
Foreign Diplomatic Missions and other agencies	12,313,916	9,910,165
<b>Total</b>	<b>216,050,629</b>	<b>282,826,937</b>

**NOTE - 14: IMF RELATED LIABILITIES**

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
SDR Allocation	809,452,312	887,305,399
Loan under Poverty Reduction and Growth Facility (PRGF)	3,916,028,172	1,561,170,540
<b>Total</b>	<b>4,725,480,484</b>	<b>2,448,475,939</b>

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 IMFASSETS AND LIABILITIES

SUMMARY STATEMENT OF POSITION AS ON APRIL 30, 2007

Particlars	Local Currency	SDR Equivalents
<b>Currency Holding</b>		
Securities (Quota subscription by GON)	2,318,061,941.12	23,150,230
No. 1 Account	5,354,387,929.80	53,473,683
No. 2 Account	1,170,185.99	11,687
Valuation adjustments:		
Securities and No. 1 Account	(533,090,231.35)	(5,323,913)
No. 2 Account	(81,292.69)	(812)
<b>Total Currency Holdings</b>	<b>7,140,448,532.87</b>	<b>71,310,875</b>
	Per cent	Per cent
	of Quota	of Quota
Quota	100.00	71,300,000
Currency Holding	100.02	71,310,875
Reserve Tranche Position	-	-
1. Converted into SDR at the rate of SDR .00998689 per currency unit as on April 30, 2007		

COMPARATIVE FIGURE AS ON APRIL 30, 2006

Particlars	Local Currency	SDR Equivalents
<b>Currency Holding</b>		
Securities (Quota subscription by GON)	2,318,061,941.12	21,719,846
No. 1 Account	5,354,387,929.80	50,169,705
No. 2 Account	1,170,185.99	10,964
Valuation adjustments:		
Securities and No. 1 Account	(62,920,138.36)	(589,551)
No. 2 Account	(9,498.57)	(89)
<b>Total Currency Holdings</b>	<b>7,610,690,419.98</b>	<b>71,310,875</b>
	Per cent	Per cent
	of Quota	of Quota
Quota	100.00	71,300,000
Currency Holding	100.02	71,310,875
Reserve Tranche Position	-	-
1. Converted into SDR at the rate of SDR .00936983 per currency unit as on April 30, 2005		

SUMMARY STATEMENT OF POSITION AS ON JULY 16, 2007

Particlars	Local Currency	SDR Equivalents
<b>Currency Holding</b>		
Securities (Quota subscription by GON)	2,318,061,941.12	23,150,230
No. 1 Account	4,821,297,698.45	48,149,770
No. 2 Account	1,088,893.30	10,875
Valuation adjustments:		
Securities and No. 1 Account	-	-
No. 2 Account	-	-
<b>Total Currency Holdings</b>	<b>7,140,448,532.87</b>	<b>71,310,875</b>
	Per cent	Per cent
	of Quota	of Quota
Quota	100.00	71,300,000
Currency Holding	100.02	71,310,875
Reserve Tranche Position	-	-
1. Converted into SDR at the rate of SDR 0.0100127 per currency unit as on July 16, 2007		

COMPARATIVE FIGURE AS ON JULY 16, 2006

Particlars	Local Currency	SDR Equivalents
<b>Currency Holding</b>		
Securities (Quota subscription by GON)	2,318,061,941.12	21,719,846
No. 1 Account	5,354,387,929.80	50,169,705
No. 2 Account	1,170,185.99	10,964
Valuation adjustments:		
Securities and No. 1 Account	(62,920,138.36)	(589,551)
No. 2 Account	(9,498.57)	(89)
<b>Total Currency Holdings</b>	<b>7,610,690,419.98</b>	<b>71,310,875</b>
	Per cent	Per cent
	of Quota	of Quota
Quota	100.00	71,300,000
Currency Holding	100.02	71,310,875
Reserve Tranche Position	-	-
1. Converted into SDR at the rate of SDR .00936983 per currency unit as on July 16, 2006		

## NEPAL RASTRA BANK

### Notes forming part of the Balance Sheet

#### NOTE - 15: OTHER LIABILITIES

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
Accrued Interest	8,384,017	7,155,707
Asian Clearing Union	34,079,638	-
<b>Total</b>	<b>42,463,655</b>	<b>7,155,707</b>

#### NOTE -16: DEPOSIT AND OTHER BALANCES

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
Balances of GON	3,122,531,203	-
Deposits from Banks and Financial Institutions	25,478,831,833	24,717,629,047
Balances of Other Institutions	2,673,684,664	2,072,669,477
IMF Account No 1	4,821,283,448	5,354,373,680
IMF Account No 2	1,103,143	1,184,436
Earnest Money	5,250,214	3,300,369
Money Changer	6,060,000	5,000,000
Margin against LCs	1,469,118,538	2,873,069,779
<b>Total</b>	<b>37,577,863,043</b>	<b>35,027,226,789</b>

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

#### NOTE - 17: STAFF LIABILITIES

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
Medical Fund	249,533,456	532,687,803
Welfare Provident Fund	214,698,271	161,676,250
Gratuity and Pension Fund	1,402,101,436	1,244,832,747
Staff Security Fund	322,197,131	251,739,091
Liability for Staff Leave Encashment	202,143,825	124,418,704
Liability for Retired staff insurance premium	107,374,537	116,914,806
<b>Total</b>	<b>2,498,048,656</b>	<b>2,432,269,401</b>

#### NOTE - 18: OTHER PAYABLES

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
Insurance Premium collected from Staff	1,060,206,163	888,097,967
Less: Advance Insurance Premium paid on behalf of Staff	(843,590,161)	(752,292,142)
<b>Total</b>	<b>216,616,002</b>	<b>135,805,825</b>

## NEPAL RASTRA BANK

### Notes forming part of the Balance Sheet

#### NOTE -19: CURRENCY IN CIRCULATION

Currency in Circulation

As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
91,310,000,000	84,630,000,000

Currency in circulation represents notes issued by NRB, as a sole currency issuing authority in Nepal, which includes cash in hand NRs. 1,307,083,855 (P.Y. NRs. 1,629,233,535).

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

Foreign currency balance held abroad  
Foreign Securities  
Government Securities

As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
61,530,568,000	54,850,568,000
25,607,732,000	25,607,732,000
4,171,700,000	4,171,700,000
<b>91,310,000,000</b>	<b>84,630,000,000</b>

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

#### Denomination Notes

1  
2  
5  
10  
20  
25  
50  
100  
250  
500  
1000

As on 32.3.2064 Face Value (NRs.)	As on 32.3.2063 Face Value (NRs.)
169,094,574	173,110,553
193,482,176	202,419,892
719,268,340	654,095,410
1,111,836,260	935,244,140
1,026,139,200	1,064,349,780
112,977,825	129,354,350
2,109,080,700	1,716,629,000
5,630,752,800	4,865,519,000
82,559,375	83,859,625
21,852,115,750	20,094,193,250
58,302,693,000	54,711,225,000
<b>91,310,000,000</b>	<b>84,630,000,000</b>

# NEPAL RASTRA BANK

## Notes forming part of the Balance Sheet

### NOTE - 20: SUNDRY LIABILITIES

	As on 32.3.2064	As on 32.3.2063
	NRs.	NRs.
Projects run by Micro Finance Department - Liabilities	-	596,346,431
Less: - Assets	-	(596,346,431)
Sundry creditors	681,188,167	245,550,608
Unclaimed	77,455,625	88,139,131
Bills Collection	90,040,713	26,527,628
Less: Bills Lodged	(90,040,713)	-
Pension Payable to NRB Ex-Staff	16,510,633	15,292,185
General Account	(108,072,403)	686,786,749
<b>Total</b>	<b>667,082,022</b>	<b>1,035,768,673</b>

### NOTE - 21: PROJECTS LIABILITIES: \*

(Amount in NRs.)

Liabilities	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Loans from IFAD/ADB	146,406,868	152,550,000	129,026,118	116,800,000	-	544,782,986
ADB grants	-	-	-	-	42,280	42,280
Exchange fluctuation account	-	-	-	-	-	-
Split interest reserve	-	-	4,233,489	-	-	4,233,489
Sundry Payables	740,534	7,000	868,674	7,000	-	1,623,208
Profit transferred to NRB	5,403,105	2,629,381	2,394,242	3,111,596	-	13,538,324
<b>Current Year Total</b>	<b>152,550,508</b>	<b>155,186,381</b>	<b>136,522,523</b>	<b>119,918,596</b>	<b>42,280</b>	<b>564,220,288</b>
<b>Previous Year Total</b>	<b>(156,102,833)</b>	<b>(159,387,481)</b>	<b>(155,103,351)</b>	<b>(125,647,066)</b>	<b>(105,700)</b>	<b>(596,346,431)</b>

\*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 GON.

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.



## NEPAL RASTRA BANK

### Notes forming part of the Balance Sheet

#### NOTE - 22: RESERVES

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
<b>Capital Reserve</b>		
Gold and Silver Equalization Reserve	2,001,335,090	2,223,122,598
<b>Statutory Reserve</b>		
General Reserve	11,343,700,000	10,920,300,000
Monetary Liabilites Reserve	988,600,000	778,100,000
<b>Exchange Equalization Fund</b>	-	11,584,053,828
<b>Other Reserves and Funds</b>		
Development Fund	4,336,897,806	4,206,897,806
Banking Development Fund	527,087,319	527,087,319
Development Finance Project Mob. Fund	87,287,242	80,451,940
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	930,659,416	866,007,436
Rural Self Reliance Fund (GS Kosh)	253,400,000	253,400,000
Securities Revaluation Fund	21,231,168	-
<b>Total Reserves and Funds</b>	<b>21,424,848,906</b>	<b>32,374,071,792</b>

- 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.

**15 Securities Revaluation Fund**

This fund was created on FY 2063/64. It represents unrealized gain on fair valuation of investment in securities. Any gain/loss on fair valuation of investment in securities is taken to/from this fund through profit and loss account.

**NEPAL RASTRA BANK**

**Notes forming part of the Balance Sheet**

**NOTE - 23: Contingent Liabilities**

	As on 32.3.2064 NRs.	As on 32.3.2063 NRs.
Letters of Credit	186,570,309	-
Guarantees Issued	-	649,663
Claims not acknowledged as debt	729,750	-
Other	14,132,339	-
<b>Total</b>	<b>201,432,398</b>	<b>649,663</b>

- 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 32nd Ashadh, 2064. 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.

## NEPAL RASTRA BANK

### Notes forming part of the Income Statement

#### NOTE - 24: INTEREST INCOME

	2063-64 NRs.	2062-63 NRs.
<b>Foreign Currency Financial Assets</b>		
Treasury bills & Deposits	6,403,900,797	4,446,092,020
SDR Holding	25,736,471	20,633,798
<b>Interest income from Foreign Currency Financial Assets</b>	<b>6,429,637,268</b>	<b>4,466,725,818</b>
<b>Local Currency Financial Assets</b>		
Government Securities	753,991,639	769,621,312
Investment in financial and other institutions	171,201,207	194,957,934
Overdraft to Government	3,161,388	55,032,249
Loans and Refinance	60,877,806	56,133,395
<b>Interest income from Local Currency Financial Assets</b>	<b>989,232,040</b>	<b>1,075,744,890</b>
<b>Total interest income from financial assets</b>	<b>7,418,869,308</b>	<b>5,542,470,708</b>

#### NOTE - 25: COMMISSION INCOME

	2063-64 NRs.	2062-63 NRs.
<b>Foreign Currency Financial Assets</b>		
On Currency exchange	208,576,375	228,951,042
<b>Local Currency Financial Assets</b>		
Government transaction & Other services	51,700,209	47,193,429
<b>Total Commission income from financial assets</b>	<b>260,276,584</b>	<b>276,144,471</b>

#### NOTE - 26: INTEREST EXPENSES

	2063-64 NRs.	2062-63 NRs.
<b>Foreign Currency Financial Liabilities</b>		
SDR Allocation & PRGF Loan	51,719,807	35,120,426
Others	1,173,540	1,681,376
<b>Sub Total</b>	<b>52,893,347</b>	<b>36,801,802</b>
<b>Local Currency Financial Liabilities</b>		
Government Securities	317,923,891	200,468,290
<b>Sub Total</b>	<b>317,923,891</b>	<b>200,468,290</b>
<b>Total Interest Expense on Financial Liabilities</b>	<b>370,817,238</b>	<b>237,270,092</b>

#### NOTE - 27: AGENCY AND SERVICE CHARGE

	2063-64 NRs.	2062-63 NRs.
<b>Foreign Currency Liabilities</b>		
Service Charge	-	-
Commission	5,564,485	5,547,468
<b>Sub Total</b>	<b>5,564,485</b>	<b>5,547,468</b>
<b>Local Currency Liabilities</b>		
Agency Expenses	278,590,393	279,949,225
<b>Sub Total</b>	<b>278,590,393</b>	<b>279,949,225</b>
<b>Total Agency and Service Charge</b>	<b>284,154,878</b>	<b>285,496,693</b>

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

	2063-64 NRs.	2062-63 NRs.
Nepal Bank Ltd.	64,979,245	92,216,637
Rastriya Banijya Bank	108,661,338	148,843,525
Nepal Bangladesh Bank	3,193,134	3,842,006
Everest Bank Ltd	2,505,970	
<b>Total</b>	<b>179,339,687</b>	<b>244,902,168</b>

**NEPAL RASTRA BANK**

**Notes forming part of the Income Instatement**

**NOTE - 28: OTHER OPERATING INCOME**

	<b>2063-64</b>	<b>2062-63</b>
	<b>NRs.</b>	<b>NRs.</b>
Income from Mint (Sale of coin)	169,397,121	31,408,920
Gain from sale of precious metals and coins	283,059,155	1,048,863,694
Fine/Penalty charge	2,472,259	5,404,027
Profit from sale of investments	174,474,298	4,445,900
Dividend Income	3,083,995	4,445,900
Provision on Investment written back (Net)	5,815,000	-
Provision on Loans & Advances written back (Net)	175,641,069	88,609,180
Doubtful on sundry accrued written back (Net)	36,413,210	-
Profit from Projects	-	8,106,050
Project income	21,923,732	-
Liabilities no longer required written back	-	724,309
Miscellaneous	71,654,369	67,764,142
<b>Total</b>	<b>943,934,208</b>	<b>1,259,772,123</b>

**28 a. Income from Projects account run by Micro Finance Department are as follows:**

**(Amount in NRs.)**

<b>Income</b>	<b>MCPW</b>	<b>TLDP</b>	<b>PCRW</b>	<b>PAPWT</b>	<b>RMP</b>	<b>TOTAL</b>
Interest income	4,796,465	7,757,760	4,039,717	5,266,369	-	21,860,312
Other income					63,420	63,420
<b>Current Year Total</b>	<b>4,796,465</b>	<b>7,757,760</b>	<b>4,039,717</b>	<b>5,266,369</b>	<b>63,420</b>	<b>21,923,732</b>
<b>Previous Year Total</b>	<b>(8,021,178)</b>	<b>(8,061,038)</b>	<b>(5,492,303)</b>	<b>(5,434,501)</b>	<b>(991,978)</b>	<b>(28,000,998)</b>

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

**NEPAL RASTRA BANK**  
**Notes forming part of the Income Statement**

<b>NOTE - 29: GENERAL, ADMINISTRATIVE EXPENSES &amp; PROVISIONS</b>		<b>2063-64</b>	<b>2062-63</b>
		<b>NRs.</b>	<b>NRs.</b>
Staff Costs	<b>29a</b>	1,298,309,650	1,192,105,329
Depreciation		62,002,523	66,749,204
Directors Fees and Expenses		1,424,389	1,179,256
Note Printing charges	<b>29b</b>	396,629,900	385,832,965
Mint Expenses		161,154,222	22,553,767
Security charges		18,503,842	18,503,842
Remittance charges		74,406,289	87,968,355
Travelling expenses		48,235,576	43,456,150
Insurance charges		41,146,169	28,807,686
Repair & Maintenance		9,904,000	8,522,096
Provisions on loans & advances, Investments, etc.	<b>29c</b>	17,010	16,000,000
Project expenses	<b>29e</b>	15,088,430	-
Miscellaneous	<b>29d</b>	165,636,493	146,757,069
<b>Total</b>		<b>2,292,458,493</b>	<b>2,018,435,718</b>

<b>29a Staff Costs</b>		<b>2063-64</b>	<b>2062-63</b>
		<b>NRs.</b>	<b>NRs.</b>
Salary		238,510,616	282,924,260
Allowances		305,449,628	179,522,782
VRS Incentive		-	-
Provident Fund Contribution		19,217,480	19,384,814
Staff Welfare (Including Medical fund contribution)		81,905,622	111,754,019
Staff Welfare Provident Fund		190,000,000	161,200,000
Pension & Gratuity Fund		320,803,476	320,803,476
Staff Security Fund		89,203,004	60,364,202
Others		53,219,824	56,151,775
<b>Total</b>		<b>1,298,309,650</b>	<b>1,192,105,329</b>

All leave compensations are included in the allowances.

29b Unissued currency stocks are recorded as inventory at the cost of acquisition and expensed when issued.

<b>29c Provision on loans &amp; advances, Investments, etc.</b>		<b>2063-64</b>	<b>2062-63</b>
		<b>NRs.</b>	<b>NRs.</b>
Provision for doubtful Loans & Advances		-	-
Provision for Diminution in the value of Investments		-	16,000,000
Provision for Looted Notes		-	-
Provision for retired Staff Insurance Premium		-	-
Provision for Inventory & Spare Parts		17,010	-
Provision for sundry Accrued		-	-
<b>Total</b>		<b>17,010</b>	<b>16,000,000</b>

<b>29d Miscellaneous Expenses</b>		<b>2063-64</b>	<b>2062-63</b>
		<b>NRs.</b>	<b>NRs.</b>
Banking Promotion		42,661,834	38,735,274
Audit Fees and Expenses		6,151,613	783,368
Sundry balances written off		-	14,976
Others		116,823,046	107,223,450
<b>Total</b>		<b>165,636,493</b>	<b>146,757,069</b>

29e Expenses from Projects account run by Micro Finance Department are as follows:

(Amount in NRs.)

Expenses	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Interest IFAD	-	-	2,678,269	3,668,250	-	6,346,519
Interest ADB	2,257,106	6,271,500	-	-	-	8,528,606
Audit Fee	3,955	3,955	3,955	1,500	-	13,365
Meeting, training and others	22,875	30,755	60,300	22,590	63,420	199,940
Depreciation	-	-	-	-	-	-
Profit transferred to NRB Central Office	2,512,529	1,451,550	1,297,193	1,574,029	-	6,835,302
(Loss transferred to ADB grants)	-	-	-	-	-	-
<b>Current Year Total</b>	<b>4,796,465</b>	<b>7,757,760</b>	<b>4,039,717</b>	<b>5,266,369</b>	<b>63,420</b>	<b>21,923,731</b>
<b>Previous Year Total</b>	<b>(8,021,178)</b>	<b>(8,061,038)</b>	<b>(5,492,303)</b>	<b>(5,434,501)</b>	<b>(991,978)</b>	<b>(28,000,998)</b>

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

NOTE - 30: CASH AND CASH EQUIVALENT

	2063-64 NRs.	2062-63 NRs.
Foreign currency cash and bank balance	67,404,058,408	94,966,216,933
Investment in Treasury Bills	55,061,130,750	36,739,045,175
SDR holdings	587,487,220	665,576,486
Local currency in hand	1,307,083,855	1,629,233,535
<b>Total</b>	<b>124,359,760,233</b>	<b>134,000,072,129</b>

**NOTE - 31: OTHER NOTES**

**I. Financial Year**

The financial statements relate to the financial year Bikram Sambat 2063-64 corresponding to Gregorian calendar Mid July 2006-07. The previous year was 2062-63 (Mid July 2005-06).

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 GON. Bills Payable primarily represents the year-end un-disbursed or unadjusted amount of payments received from GON 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):

<b>Particulars</b>	<b>Weight (kg, gm, mg)</b>	<b>Market Price (NRs.) Per Grams.</b>	<b>Total Market Value (NRs.)</b>
Gold	1,456.057.075 (1,455.894.310)	1,389.636 (1,542.129)	2,023,389,329 (2,245,176,836)
Gold held in Stock	3,002.994.346 (3,282.098.640)	1,389.636 (1,542.129)	4,173,069,051 (5,061,419,494)
Silver held in Stock	137,489.628.300 (138,509.285.900)	27.271 (27.542)	3,749,479,653 (3,814,822,752)
<b>Current Year Total</b>			<b>9,945,592,196</b>
<b>Previous Year Total</b>			<b>(11,121,419,082)</b>

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.)			
<b>S.No.</b>	<b>Currency</b>	<b>32<sup>nd</sup> Ashadh 2064</b>	<b>32<sup>nd</sup> Ashadh 2063</b>
1	US Dollar	64.85	74.10
2	Sterling Pound	131.43	136.17
3	Euro	89.27	93.82
4	Swiss Frank	53.80	60.09
5	Australian Dollar	56.26	55.57
6	SDR	99.413	109.479

**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 five 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 GON; as ultimate owner of the Bank, various Government Departments and state controlled enterprises/entities.

Transactions entered into with GON 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, provide guarantees, participate in loans to government and related institutions;
- (c) Acting as agent of government, the Bank issues securities of government, purchases unsubscribed 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. 19,221,834.16 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:**

<b>S.No.</b>	<b>Name of the Key Management Personnel</b>	<b>Designation</b>
1.	Mr. Krishna Bahadur Manandhar	Acting Governor
2.	Mr. Bir Bikram Rayamajhi	Deputy Governor
3.	Mr. Keshav Prasad Acharya	Executive Director
4.	Mr. Tul Raj Basyal	Executive Director
5.	Mr. Ganesh Kumar Shrestha	Executive Director
6.	Mr. Surendra Man Pradhan	Executive Director
7.	Dr. Yub Raj Khatiwada	Executive Director
8.	Mr. Sushil Ram Mathema	Executive Director
9.	Mr. Ram Prasad Adhikari	Executive Director
10.	Mr. Bholu Ram Shrestha	Executive Director
11.	Mr. Gopal Prasad Kafle	Executive Director
12.	Mr. Rabindra Prasad Pandey	Executive Director
13.	Mr. Lila Prakash Sitaula	Executive Director
14.	Mr. Ashwini Kumar Thakur	Executive Director
15.	Mr. Bishnu Nepal	Executive Director
16.	Mr. Gokul Ram Thapa	Executive Director
17.	Mr. Ramjee Regmi	Executive Director

Salary and related expenses to key management personnel are NRs. 15,105,300 (previous year – NRs. 7,340,694). As at 16th July 2007 an amount of NRs. 17,474,169 (Previous year – NRs. 6,908,000) was receivable from key managerial personnel as approved loan and advances made by the Bank at the same standard rate of interest with that of other loan and advances 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 complied to the extent ascertainable and available from the records of the Bank.

**X. Prior Year Adjustment**

This includes adjustments relating to amount reversed from liabilities towards some ex-employees 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. BIS investment pool series 'C' has been measured in fair value at balance sheet date thereby transferring unrealized gain of Rs 212.31 lacs to securities revaluation fund through profit and loss account. The cost of investment in US Government Treasury Notes/Bonds and US Treasury Bills along with its' fair value as on 32 Ashad 2064 are given below.

(Amount in NRs.)		
Name of Instruments	Cost of Investment	Fair Value
US Government Treasury Notes/Bond	3,238,092,227	3,285,789,861
US Government Treasury Bills	52,289,830,227	52,587,694,114

Investments in Government Treasury Notes/Bonds were treated as cash and cash equivalent in previous year. However, this year, the same has been presented under investing activities of cash flow statement.

**XIV. Disclosure of obligation under pension and gratuity**

Before 2004/05, liability under pension and gratuity of employees would be provided for on the basis of best estimation made by management. During the financial year 2004/05 the liability was determined on the basis of actuarial valuation. The differential amount of obligation in respect of actuarial valuation and management best estimation is being provided for on straight-line basis over the period of 5 years commencing from fiscal year 2004/05. The status is reflected from under mentioned table.

(Amount in NRs.)

Present value of liability as on 15th July 2005	Liability as per books as on 15th July 2005	Total Deficit	Recognized up to 16th July 2007	Balance to be recognized in future years
2,269,949,049	791,995,665	1,477,953,384	937,197,628	540,755,756

**XV. Gold and Silver**

- i. Gold (other than inventory) till the financial year 2060/61 was valued at a price revalued in year 2043. In terms of the board resolution dated 2062/09/18 the said gold has been valued at price prevailing in London Gold Market at the close of the year. Decrease in value thereof amounting to Rs. 2217.87 lacs has been taken to "Gold and Silver Equalizations Reserve" through profit and loss account.
- ii. An amount of Rs 646 lacs has been appropriated from the profit and loss account and kept in Gold Replacement Fund" for replacing the Gold/Silver sold during the year (out of reserves).

**XVI. Projects' Asset and Liability**

The total Asset and Liability of projects run by Nepal Rastra Bank (NRB) under separate subsidiary loan agreement signed by the NRB with Nepal Government would be netted off under Note.20 Sundry Liabilities. Likewise, income and expenses of projects would be incorporated in financial statement on net basis. During this year, the asset, liability, income and expenses of projects are incorporated in financial statement without netting it off. However, the corresponding previous year figure has not been presented retrospectively. Separate disclosure of individual asset, liability, income and expenses of projects are made in notes to the account.

**Number of employees**

<u>2064 Ashadh</u>	<u>2063 Ashadh</u>
1531	1555

**XVIII. Events occurring after Balance Sheet Date**

- i. Entire share investment in Madhyamanchal Gramin Bikas Bank (GMB) and Rastriya Beema Sansthan - Non-Life Insurance has been disposed of at the rate of Rs 61 and Rs 1450 per share respectively after balance sheet date. The provision for diminution in value of share for GMB has been provided for.
- ii. There was no other material events occurred subsequent to the balance sheet date that required adjustments or disclosure in the financial statements.

**NEPAL RASTRA BANK**

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

Particulars	Weighted Average Interest Rate %	2006-07 Total NRs.	Upto 6 Months NRs.	6 to 12 Months NRs.	Above 12 Months NRs.
<b>Interest Sensitive Foreign Currency Financial Assets</b>					
Cash and Bank Balance	4.80	67,404,058,408	67,404,058,408	-	-
Investment in Foreign Currency	4.79	58,299,222,977	56,354,052,251	646,929,414	1,298,241,312
IMF Related Assets	4.25	587,487,220	587,487,220	-	-
<b>Total Interest Sensitive Foreign Currency Financial Assets</b>	<b>A</b>	<b>126,290,768,605</b>	<b>124,345,597,879</b>	<b>646,929,414</b>	<b>1,298,241,312</b>
<b>Non Interest Sensitive Foreign Currency Financial Assets</b>					
Other Receivable		804,463,349	804,463,349	-	-
Other Securities		3,951,141,168	687,410,000	-	3,263,731,168
<b>Total Non Interest Sensitive Foreign Currency Financial Assets</b>		<b>4,755,604,517</b>	<b>1,491,873,349</b>	<b>-</b>	<b>3,263,731,168</b>
<b>Total Foreign Currency Financial Assets</b>	<b>B</b>	<b>131,046,373,122</b>	<b>125,837,471,228</b>	<b>646,929,414</b>	<b>4,561,972,480</b>
<b>Interest Sensitive Foreign Currency Financial Liabilities</b>					
IMF Related Liabilities	1.14	4,725,480,484	809,452,312	-	3,916,028,172
Asian Clearing Union		34,079,638	34,079,638	-	-
<b>Total Interest Sensitive Foreign Currency Financial Liabilities</b>	<b>C</b>	<b>4,759,560,122</b>	<b>843,531,950</b>	<b>-</b>	<b>3,916,028,172</b>
<b>Non Interest Sensitive Foreign Currency Financial Liabilities</b>					
Deposit from banks and other agencies		216,050,629	216,050,629	-	-
IMF Related Liabilities		-	-	-	-
Other Liabilities		8,384,017	8,384,017	-	-
<b>Total Non Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>224,434,646</b>	<b>224,434,646</b>	<b>-</b>	<b>-</b>
<b>Total Foreign Currency Financial Liabilities</b>	<b>D</b>	<b>4,983,994,768</b>	<b>1,067,966,596</b>	<b>-</b>	<b>3,916,028,172</b>
<b>Foreign Currency Interest Rate Sensitivity Gap (A-C)</b>		<b>121,531,208,483</b>	<b>123,502,065,929</b>	<b>646,929,414</b>	<b>(2,617,786,860)</b>
<b>Total Gap (B-D)</b>		<b>126,062,378,354</b>	<b>124,769,504,632</b>	<b>646,929,414</b>	<b>645,944,308</b>

Comparative Figure as on 16 July 2006 of Table 1 : Interest Rate Risk and Maturity Profile (Foreign Currency)

Particulars	Weighted Average Interest Rate %	2005-06 Total NRs.	Upto 6 Months NRs.	6 to 12 Months NRs.	Above 12 Months NRs.
<b>Interest Sensitive Foreign Currency Financial Assets</b>					
Cash and Bank Balance	4.62	95,226,572,227	95,226,572,227	-	-
Investment in Treasury Bills	4.81	36,739,045,175	34,522,499,979	2,216,545,195.69	-
IMF Related Assets	3.64	665,576,486	665,576,486	-	-
<b>Total Interest Sensitive Foreign Currency Financial Assets</b>	<b>A</b>	<b>132,631,193,888</b>	<b>130,414,648,692</b>	<b>2,216,545,195.69</b>	<b>-</b>
<b>Non Interest Sensitive Foreign Currency Financial Assets</b>					
Other Receivable		789,314,112	763,647,053	253,466	25,413,594
<b>Total Non Interest Sensitive Foreign Currency Financial Assets</b>		<b>789,314,112</b>	<b>763,647,053</b>	<b>253,466</b>	<b>25,413,594</b>
<b>Total Foreign Currency Financial Assets</b>	<b>B</b>	<b>133,420,508,000</b>	<b>131,178,295,745</b>	<b>2,216,798,661</b>	<b>25,413,594</b>
<b>Interest Sensitive Foreign Currency Financial Liabilities</b>					
IMF Related Liabilities	1.64	2,448,475,939	887,305,399	-	1,561,170,540
Asian Clearing Union		-	-	-	-
<b>Total Interest Sensitive Foreign Currency Financial Liabilities</b>	<b>C</b>	<b>2,448,475,939</b>	<b>887,305,399</b>	<b>-</b>	<b>1,561,170,540</b>
<b>Non Interest Sensitive Foreign Currency Financial Liabilities</b>					
Deposit from banks and other agencies		282,826,937	282,826,937	-	-
IMF Related Liabilities		-	-	-	-
Other Liabilities		7,155,707	7,155,707	-	-
<b>Total Non Interest Sensitive Foreign Currency Financial Liabilities</b>		<b>289,982,644</b>	<b>289,982,644</b>	<b>-</b>	<b>-</b>
<b>Total Foreign Currency Financial Liabilities</b>	<b>D</b>	<b>2,738,458,583</b>	<b>1,177,288,043</b>	<b>-</b>	<b>1,561,170,540</b>
<b>Foreign Currency Interest Rate Sensitivity Gap (A-C)</b>		<b>130,182,717,949</b>	<b>129,527,343,293</b>	<b>2,216,545,196</b>	<b>(1,561,170,540)</b>
<b>Total Gap (B-D)</b>		<b>130,682,049,417</b>	<b>130,001,007,702</b>	<b>2,216,798,661</b>	<b>(1,535,756,946)</b>

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

Particulars	Weighted Average Interest Rate %	2006-07 Total NRs.	Upto 6 Months NRs.	6 to 12 Months NRs.	Above 12 Months NRs.
<b>Interest Sensitive Local Currency Financial Assets</b>					
Investment in Government Securities	3.49	15,616,165,440	11,479,621,206	3,760,396,025	376,148,209
GON Overdraft		-	-	-	-
Other Investments	4.80	3,296,886,000	143,932,000	3,131,952,000	21,002,000
Refinance & Loans	6.47	1,877,909,000	1,877,909,000	-	-
<b>Total Interest Sensitive Local Currency Financial Assets</b>	<b>E</b>	<b>20,790,960,440</b>	<b>13,501,462,206</b>	<b>6,892,348,025</b>	<b>397,150,209</b>
<b>Non Interest Sensitive Local Currency Financial Assets</b>					
Cash in Hand		1,307,083,855	1,307,083,855	-	-
Investment in Government Securities		4,472,150,294	-	-	4,472,150,294
Investment in Financial & Other Institutions		357,349,555	-	-	357,349,555
Refinance & Loans (Loans to employees)		2,251,979,300	-	-	2,251,979,300
Other Receivables		7,218,402,607	7,218,402,607	-	-
<b>Total Non Interest Sensitive Local Currency Financial Assets</b>		<b>15,606,965,611</b>	<b>8,525,486,462</b>	<b>-</b>	<b>7,081,479,149</b>
<b>Total Local Currency Financial Assets</b>	<b>F</b>	<b>36,397,926,051</b>	<b>22,026,948,668</b>	<b>6,892,348,025</b>	<b>7,478,629,358</b>
<b>Interest Sensitive Local Currency Financial Liabilities</b>					
<b>Total Interest Sensitive Local Currency Financial Liabilities</b>	<b>G</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non Interest Sensitive Local Currency Financial Liabilities</b>					
Deposit and Other Balances		37,577,863,043	37,577,863,043	-	-
Bills Payable		5,875,198,391	5,875,198,391	-	-
Staff Liabilities		2,498,048,656	-	-	2,498,048,656
Other Payables		216,616,002	216,616,002	-	-
<b>Total Non Interest Sensitive Local Currency Financial Liabilities</b>		<b>46,167,726,092</b>	<b>43,669,677,436</b>	<b>-</b>	<b>2,498,048,656</b>
<b>Total Local Currency Financial Liabilities</b>	<b>H</b>	<b>46,167,726,092</b>	<b>43,669,677,436</b>	<b>-</b>	<b>2,498,048,656</b>
<b>Local Currency Interest Rate Sensitivity Gap (E-G)</b>		<b>20,790,960,440</b>	<b>13,501,462,206</b>	<b>6,892,348,025</b>	<b>397,150,209</b>
<b>Total Gap (F-H)</b>		<b>(9,769,800,041)</b>	<b>(21,642,728,768)</b>	<b>6,892,348,025</b>	<b>4,980,580,702</b>

Comparative Figure as on 16 July 2006 of Table 1: Interest Rate Risk and Maturity Profile (Local Currency)

Particulars	Weighted Average Interest Rate %	2005-06 Total NRs.	Upto 6 Months NRs.	6 to 12 Months NRs.	Above 12 Months NRs.
<b>Interest Sensitive Local Currency Financial Assets</b>					
Investment in Government Securities	3.70	10,996,264,751	3,861,127,000	5,351,828,000	1,783,309,751
GON Overdraft	2.86	1,071,000,511	1,071,000,511	-	-
Other Investments	5.49	3,166,536,000	100,418,000	3,066,118,000	-
Refinance & Loans	4.21	2,016,125,930	2,016,125,930	-	-
<b>Total Interest Sensitive Local Currency Financial Assets</b>	<b>E</b>	<b>17,249,927,192</b>	<b>7,048,671,441</b>	<b>8,417,946,000</b>	<b>1,783,309,751</b>
<b>Non Interest Sensitive Local Currency Financial Assets</b>					
Cash in Hand		1,629,233,535	1,629,233,535	-	-
Investment in Government Securities		4,755,758,937	-	-	4,755,758,937
Investment in Financial & Other Institutions		407,772,500	-	-	407,772,500
Refinance & Loans (Loans to employees)		1,627,400,666	-	-	1,627,400,666
Other Receivables		3,288,542,716	3,288,542,716	-	-
<b>Total Non Interest Sensitive Local Currency Financial Assets</b>		<b>11,708,708,354</b>	<b>4,917,776,251</b>	<b>-</b>	<b>6,790,932,103</b>
<b>Total Local Currency Financial Assets</b>	<b>F</b>	<b>28,958,635,546</b>	<b>11,966,447,692</b>	<b>8,417,946,000</b>	<b>8,574,241,854</b>
<b>Interest Sensitive Local Currency Financial Liabilities</b>					
<b>Total Interest Sensitive Local Currency Financial Liabilities</b>	<b>G</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non Interest Sensitive Local Currency Financial Liabilities</b>					
Deposit and Other Balances		35,027,226,789	35,027,226,789	-	-
Bills Payable		1,604,799,616	1,604,799,616	-	-
Staff Liabilities		2,432,269,401	-	-	2,432,269,401
Other Payables		135,805,825	135,805,825	-	-
<b>Total Non Interest Sensitive Local Currency Financial Liabilities</b>		<b>39,200,101,631</b>	<b>36,767,832,230</b>	<b>-</b>	<b>2,432,269,401</b>
<b>Total Local Currency Financial Liabilities</b>	<b>H</b>	<b>39,200,101,631</b>	<b>36,767,832,230</b>	<b>-</b>	<b>2,432,269,401</b>
<b>Local Currency Interest Rate Sensitivity Gap (E-G)</b>		<b>20,251,019,261</b>	<b>8,619,452,994</b>	<b>7,262,331,446</b>	<b>4,369,234,821</b>
<b>Total Gap (F-H)</b>		<b>(10,241,466,085)</b>	<b>(24,801,384,538)</b>	<b>8,417,946,000</b>	<b>6,141,972,453</b>

**NEPAL RASTRA BANK**

**Table 2 : Credit Exposure by Credit Rating**

Particulars	Credit Rating	2006/07		2005/06	
		NRs.	% Financial Assets	NRs.	% Financial Assets
<b>Foreign Currency Financial Assets</b>					
	A-	2,380,552,775	1.42%	1,982,369,861	1.22%
	A+	2,051,294,880	1.23%	656,761,984	0.40%
	A	3,255,195,210	1.94%	6,925,852,184	4.27%
	AA	1,980,491,730	1.18%	4,474,337,603	2.76%
	AA+	2,711,891,118	1.62%	92,201,514	0.06%
	AA-	11,893,613,938	7.10%	14,654,384,129	9.02%
	AAA	97,214,210,389	58.06%	95,927,226,249	59.08%
	BB	2,771,300,523	1.66%	4,375,250,184	2.69%
	BBB	26,889,734	0.02%	57,987,145	0.04%
	NR *	6,760,932,825	4.04%	4,274,137,147	2.63%
<b>Total Foreign Currency Financial Assets</b>		<b>131,046,373,122</b>	<b>78.26%</b>	<b>133,420,508,000</b>	<b>82.17%</b>
<b>Local Currency Financial Assets</b>	NR *	36,397,926,051	21.74%	28,958,635,546	17.83%
<b>Total Local Currency Financial Assets</b>		<b>36,397,926,051</b>	<b>21.74%</b>	<b>28,958,635,546</b>	<b>17.83%</b>
<b>Total Financial Assets</b>		<b>167,444,299,173</b>	<b>100.00%</b>	<b>162,379,143,546</b>	<b>100.00%</b>

\* NR represents not rated.

# NEPAL RASTRA BANK

## Table 3a : Concentrations of Funding

The Bank's significant end-of-year concentrations of funding as at 16th July, 2007 were as follows:

	Total NRs.	GON NRs.	Domestic Bills NRs.	Employees NRs.	Banks & F.I. NRs.	Foreign Bank NRs.	Foreign Govt. NRs.	Supernational F.I. NRs.	Others NRs.
<b>Foreign Currency</b>									
<b>Financial Assets</b>									
Cash and Bank Balances	67,404,058,408	-	-	-	64,584,064,677	-	-	-	2,819,993,731
SDR holdings - with IMF	587,487,220	-	-	-	-	-	587,487,220	-	-
Investments in Foreign Currency	62,250,364,145	-	-	-	-	3,951,141,168	58,299,222,977	-	-
Other receivables	804,463,349	-	-	-	-	-	-	-	804,463,349
<b>Sub-Total</b>	<b>131,046,373,122</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>64,584,064,677</b>	<b>3,951,141,168</b>	<b>58,299,222,977</b>	<b>587,487,220</b>	<b>3,624,457,080</b>
<b>Other Assets</b>									
Gold	2,023,389,329	-	-	-	-	2,023,389,329	-	-	-
<b>Sub-Total</b>	<b>2,023,389,329</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,023,389,329</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Foreign Currency Assets</b>	<b>133,069,762,451</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>64,584,064,677</b>	<b>5,974,530,497</b>	<b>58,299,222,977</b>	<b>587,487,220</b>	<b>3,624,457,080</b>
<b>Local Currency</b>									
<b>Financial Assets</b>									
Cash in hand	1,307,083,855	-	-	-	-	-	-	-	1,307,083,855
Investments in Government Securities	20,088,315,734	20,088,315,734	-	-	-	-	-	-	-
GON Overdraft	-	-	-	-	-	-	-	-	-
Investments in Financial and Other Ins.	357,349,555	-	-	-	357,349,555	-	-	-	-
Other Investments	3,296,886,000	-	-	-	3,296,886,000	-	-	-	-
Refinance & Loans	4,129,888,300	-	-	2,251,979,300	1,877,909,000	-	-	-	-
Other Receivables	7,218,402,607	-	5,870,788,072	-	-	-	-	-	1,347,614,535
<b>Sub-Total</b>	<b>36,397,926,051</b>	<b>20,088,315,734</b>	<b>5,870,788,072</b>	<b>2,251,979,300</b>	<b>5,532,144,555</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,654,698,390</b>
<b>Other Assets</b>									
Gold & Silver	362,758,019	-	-	-	-	-	-	-	362,758,019
Other Inventories	587,801,686	-	-	-	-	-	-	-	587,801,686
Property, Plant & Equipment	573,403,406	-	-	-	-	-	-	-	573,403,406
Project Asset	564,220,288	-	-	-	-	-	-	-	564,220,288
<b>Sub-Total</b>	<b>2,088,183,399</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,088,183,399</b>
<b>Total Local Currency Assets</b>	<b>38,486,109,450</b>	<b>20,088,315,734</b>	<b>5,870,788,072</b>	<b>2,251,979,300</b>	<b>5,532,144,555</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,742,881,789</b>
<b>Total Assets</b>	<b>171,555,871,901</b>	<b>20,088,315,734</b>	<b>5,870,788,072</b>	<b>2,251,979,300</b>	<b>70,116,209,232</b>	<b>5,974,530,497</b>	<b>58,299,222,977</b>	<b>587,487,220</b>	<b>8,367,338,869</b>

Comparative figures as at 16th July, 2006 for significant end-of-year concentration of funding were as follows:

	Total NRs.	GON NRs.	Domestic Bills NRs.	Employees NRs.	Banks & F.I. NRs.	Foreign Bank NRs.	Foreign Govt. NRs.	Supernational F.I. NRs.	Others NRs.
<b>Foreign Currency</b>									
<b>Financial Assets</b>									
Cash and Bank Balances	95,226,572,227	-	-	-	91,565,388,204	-	-	-	3,661,184,023
SDR holdings - with IMF	665,576,486	-	-	-	-	-	-	665,576,486	-
Investments in Treasury Bills	36,739,045,175	-	-	-	-	-	36,739,045,175	-	-
Other receivables	789,314,112	-	-	-	-	-	-	-	789,314,112
<b>Sub-Total</b>	<b>133,420,508,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>91,565,388,204</b>	<b>-</b>	<b>36,739,045,175</b>	<b>665,576,486</b>	<b>4,450,498,135</b>
<b>Other Assets</b>									
Gold	2,245,176,837	-	-	-	-	2,245,176,837	-	-	-
<b>Sub-Total</b>	<b>2,245,176,837</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,245,176,837</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Foreign Currency Assets</b>	<b>135,665,684,837</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>91,565,388,204</b>	<b>2,245,176,837</b>	<b>36,739,045,175</b>	<b>665,576,486</b>	<b>4,450,498,135</b>
<b>Local Currency</b>									
<b>Financial Assets</b>									
Cash in hand	1,629,233,535	-	-	-	-	-	-	-	1,629,233,535
Investments in Government Securities	15,752,023,688	15,752,023,688	-	-	-	-	-	-	-
GON Overdraft	1,071,000,511	1,071,000,511	-	-	-	-	-	-	-
Investments in Financial and Other Ins.	407,772,500	-	-	-	407,772,500	-	-	-	-
Other Investments	3,166,536,000	1,426,212,000	-	-	1,740,324,000	-	-	-	-
Refinance & Loans	3,643,526,596	-	-	1,627,400,666	2,016,125,930	-	-	-	-
Other Receivables	3,288,542,716	-	1,594,680,232	-	-	-	-	-	1,693,862,484
<b>Sub-Total</b>	<b>28,958,635,546</b>	<b>18,249,236,199</b>	<b>1,594,680,232</b>	<b>1,627,400,666</b>	<b>4,164,222,430</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,323,096,019</b>
<b>Other Assets</b>									
Gold & Silver	428,324,429	-	-	-	-	-	-	-	428,324,429
Other Inventories	822,264,298	-	-	-	-	-	-	-	822,264,298
Property, Plant & Equipment	522,758,748	-	-	-	-	-	-	-	522,758,748
<b>Sub-Total</b>	<b>1,773,347,475</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,773,347,475</b>
<b>Total Local Currency Assets</b>	<b>30,731,983,021</b>	<b>18,249,236,199</b>	<b>1,594,680,232</b>	<b>1,627,400,666</b>	<b>4,164,222,430</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,096,443,494</b>
<b>Total Assets</b>	<b>166,397,667,858</b>	<b>18,249,236,199</b>	<b>1,594,680,232</b>	<b>1,627,400,666</b>	<b>95,729,610,634</b>	<b>2,245,176,837</b>	<b>36,739,045,175</b>	<b>665,576,486</b>	<b>9,546,941,629</b>

## NEPAL RASTRA BANK

### Table 3b : Concentrations of Funding

The Bank's significant end-of-year concentrations of funding as at 16th July 2007 were as follows:

	Total NRs.	GON NRs.	Public NRs.	Comm.Banks & FI NRs.	Supernational F.I. NRs.	Others NRs.
<b>Foreign currency</b>						
<b>Financial Liabilities</b>						
Deposit from banks and other agencies	216,050,629	-	-	203,736,713	-	12,313,916
IMF Related Liabilities	4,725,480,484	-	-	-	4,725,480,484	-
Others	42,463,655	-	-	-	42,463,655	-
<b>Total Foreign Currency Financial Liabilities</b>	<b>4,983,994,768</b>	<b>-</b>	<b>-</b>	<b>203,736,713</b>	<b>4,767,944,139</b>	<b>12,313,916</b>
<b>Local Currency Financial Liabilities</b>						
Deposit and other balances	37,577,863,043	-	-	25,478,831,833	4,822,386,591	7,276,644,619
Bills payables	5,875,198,391	-	5,875,198,391	-	-	-
Staff Liabilities	2,498,048,656	-	-	-	-	2,498,048,656
Other payables	216,616,002	-	-	-	-	216,616,002
<b>Total Local Currency Financial Liabilities</b>	<b>46,167,726,092</b>	<b>-</b>	<b>5,875,198,391</b>	<b>25,478,831,833</b>	<b>4,822,386,591</b>	<b>9,991,309,277</b>
<b>Total Financial Liabilities</b>	<b>51,151,720,860</b>	<b>-</b>	<b>5,875,198,391</b>	<b>25,682,568,546</b>	<b>9,590,330,730</b>	<b>10,003,623,193</b>
<b>Other Liabilities</b>						
Currency in circulation	91,310,000,000	-	90,002,916,145	-	-	1,307,083,855
Surplus payable to GON	3,437,999,825	3,437,999,825	-	-	-	-
Sundry Liabilities	667,082,022	-	-	-	-	667,082,022
Project liability	564,220,288	-	-	-	-	564,220,288
<b>Total Other Liabilities</b>	<b>95,979,302,135</b>	<b>3,437,999,825</b>	<b>90,002,916,145</b>	<b>-</b>	<b>-</b>	<b>2,538,386,165</b>
<b>Total Liabilities</b>	<b>147,131,022,995</b>	<b>3,437,999,825</b>	<b>95,878,114,536</b>	<b>25,682,568,546</b>	<b>9,590,330,730</b>	<b>12,542,009,358</b>

Comparative figures as at 16th July 2006 for significant end-of-year concentration of funding were as follows:

	Total NRs.	GON NRs.	Public NRs.	Com. Banks & F.I. NRs.	Supernational F.I. NRs.	Others NRs.
<b>Foreign currency</b>						
<b>Financial Liabilities</b>						
Deposit from banks and other agencies	282,826,937	-	-	272,916,772	-	9,910,165
IMF Related Liabilities	2,448,475,939	-	-	-	2,448,475,939	-
Others	7,155,707	-	-	-	7,155,707	-
<b>Total Foreign Currency Financial Liabilities</b>	<b>2,738,458,583</b>	<b>-</b>	<b>-</b>	<b>272,916,772</b>	<b>2,455,631,646</b>	<b>9,910,165</b>
<b>Local Currency Financial Liabilities</b>						
Deposit and other balances	35,027,226,789	-	-	24,717,629,047	5,355,558,116	4,954,039,626
Bills payables	1,604,799,616	-	1,604,799,616	-	-	-
Staff Liabilities	2,432,269,401	-	-	-	-	2,432,269,401
Other payables	135,805,825	-	-	-	-	135,805,825
<b>Total Local Currency Financial Liabilities</b>	<b>39,200,101,631</b>	<b>-</b>	<b>1,604,799,616</b>	<b>24,717,629,047</b>	<b>5,355,558,116</b>	<b>7,522,114,852</b>
<b>Total Financial Liabilities</b>	<b>41,938,560,214</b>	<b>-</b>	<b>1,604,799,616</b>	<b>24,990,545,819</b>	<b>7,811,189,762</b>	<b>7,532,025,017</b>
<b>Other Liabilities</b>						
Currency in circulation	84,630,000,000	-	83,000,766,465	-	-	1,629,233,535
Surplus payable to GON	3,419,267,176	3,419,267,176	-	-	-	-
Sundry Liabilities	1,035,768,674	-	-	-	-	1,035,768,674
Project liabilities	-	-	-	-	-	-
<b>Total Other Liabilities</b>	<b>89,085,035,850</b>	<b>3,419,267,176</b>	<b>83,000,766,465</b>	<b>-</b>	<b>-</b>	<b>2,665,002,209</b>
<b>Total Liabilities</b>	<b>131,023,596,064</b>	<b>3,419,267,176</b>	<b>84,605,566,081</b>	<b>24,990,545,819</b>	<b>7,811,189,762</b>	<b>10,197,027,226</b>