

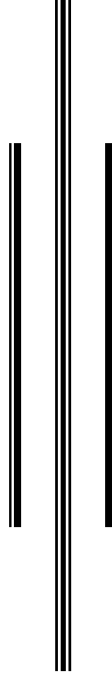
**Report
of
Fiscal Year 2007/08**



Nepal Rastra Bank



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Nepal Rastra Bank

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CONTENTS

Part I

MACROECONOMIC SITUATION AND FINANCIAL OVERVIEW

World Production, Trade and Inflation	1
World Output	1
World Trade	1
World Inflation	2
Macroeconomic and Financial Overview of Nepal	2
Gross Domestic Product	2
Sectoral Composition of Gross Domestic Product	3
Agricultural Sector	4
Industrial Sector	5
Services Sector	6
Consumption, Investment and Saving.....	7
Gross National Disposable Income	7
Inflation and Wage Rate	8
Consumer Inflation	8
Wholesale Price Inflation	9
National Salary and Wage Rate Index	9
External Sector	10
Overall Trade Situation	10
Exports and Imports	10
Balance of Payments	11
Gross Foreign Exchange Reserve	12
External Debt	12
Foreign Exchange Trend	12
Fiscal Situation	13
Government Expenditure	13
Government Revenue	14
Tax Policy Provisions	15
Tax Rates	16
Foreign Cash Grants	16
Budget Deficit/Surplus	16
Status of the Public Enterprises	16
Privatization and Dissolution of Public Enterprises	17

Monetary Situation	17
Monetary Aggregates	17
Factors Affecting Monetary Expansion	17
Reserve Money	18
Money and Financial Market	18
Sources of Fund of Commercial Banks	18
Uses of Fund of Commercial Banks	19
Refinance Facilities to Commercial Banks and Other Financial Institutions from the NRB	19
Standing Liquidity Facility and Inter Bank Transactions	20
Interest Rate Structures	21
Foreign Exchange Intervention	21
Capital Market	21
Financial Institutions	23
Number of Financial Institutions	23
Financial Structure	24
Development Banks	24
Finance Companies	24
Micro Finance Institutions	25
Rural Self Reliance Fund	25
NRB Licensed Financial Cooperatives	26
NRB licensed Non-Government Organizations	26
Insurance Companies	26
Employees Provident Fund	26
Citizen Investment Trust	26
Postal Savings Bank	27
Deposit Insurance and Credit Guarantee Corporation (DICGC)	27
Credit Information Bureau (CIB) Limited	27

Charts

Chart 1.1 Economic Growth Rate	2
Chart 1.2 Sectoral Composition of Gross Domestic Product	4
Chart 1.3 Production Yield of Major Food Crops	4
Chart 1.4 Consumer Price Inflation	8
Chart 1.5 Wholesale Price Inflation	9
Chart 1.6 Structure of Government Expenditure on Cash Basis	13
Chart 1.7 Structure of Revenue Mobilization in 2007/08	14
Chart 1.8 NEPSE Index	22
Chart 1.9 Percentage Share in Financial System	24

Text Tables

Table 1.1 Actual and Targeted Sectoral Growth Rate of GDP (at 2000/01 prices)	3
Table 1.2 Sectoral Shares in GDP and Relative Contribution to Growth	3
Table 1.3 Inflow of Tourists via Air	7
Table 1.4 gross National Disposable Income	8

Table 1.5	Reserve Adequacy Indicators	12
Table 1.6	Exchange Rate Trend	12
Table 1.7	Tax Rates	15
Table 1.8	Status of Non-performing Assets of Commercial Banks	20
Table 1.9	Inter Bank Transaction and Weighted Average Inter Bank Rate	21
Table 1.10	Listed Corporate Bond, Debenture and Mutual Fund	23
Table 1.11	Number of Bank and Financial Institutions	23
Table 1.12	Financial Activities of the Rural Self Reliance Fund	24

Tables

Table 1	Growth of the World Economy	28
Table 2	World Trade (Annual Percentage Change)	28
Table 3	World Inflation Rate (Annual Percentage Change)	28
Table 4	Macroeconomic Indicators	29
Table 5	Sectoral Growth of GDP (At 2000/01 Prices)	30
Table 6	Agricultural Production Index	31
Table 7	Annual Manufacturing Production Index	32
Table 8	National Urban Consumer Price Index (Annual Average)	33
Table 9	National Wholesale Price Index (Annual Average)	34
Table 10	Direction of Foreign Trade	35
Table 11	Exports of Selected Commodities to Other Countries	35
Table 12	Balance of Payments	36
Table 13	Gross Foreign Exchange Holding of the Banking System	37
Table 14	Government Budgetary Operation (On Cash Basis)	38
Table 15	Outstanding Domestic Debt of the Government of Nepal	39
Table 16	Monetary Survey	40
Table 17	Condensed Assets and Liabilities of Commercial Banks	41
Table 18	Stock Market Indicators	42
Table 19	Sources and Uses of Fund of Development Banks	42
Table 20	Sources and Uses of Fund of Finance Companies	43
Table 21	Sources and Uses of Fund of Micro Finance Institutions	43
Table 22	Sources and Uses of Fund of NRB Licensed Co-operatives	44
Table 23	Sources and Uses of Fund of Insurance Companies	44
Table 24	Sources and Uses of Fund of Employees Provident Fund	45
Table 25	Sources and Uses of Fund of Citizen Investment Trust	45
Table 26	Structure of Nepalese Financial System	45

Appendix

Appendix 1.1	List of Licensed Banks and Non-bank Financial Institutions (Mid-July 2008)	47–50
Appendix 1.2	Micro Finance Programme Implemented with Donor Support	51–52

Part II

ACTIVITIES OF NEPAL RASTRA BANK

Monetary Policy of 2007/08	55
Objectives	55
Strategy and Operating Target of Monetary Policy	56
Operating Target of Monetary Policy	56
Monetary Policy Instruments	57
Bank Rate and Refinance Rate	57
Cash Reserve Ratio (CRR)	57
Open Market Operations	57
Development Bond Auction	58
Sick Industries Refinancing	58
Standing Liquidity Facility (SLF)	58
Microfinance	59
Rural Self-Reliance Fund	59
Activities of Rural Development Banks and their Share Transfer	60
Foreign Exchange Management	60
Financial Sector Reform Program	62
Reengineering of Nepal Rastra Bank	63
Restructuring of Nepal Bank Limited and Rastriya Banijya Bank	63
Capacity Enhancement of Overall Financial Sector	65
Banks and Financial Institutions Regulation	65
Regulatory Measures and Directives Issued to Banks and Financial Institutions	65
Commercial Banks	65
Development Banks	65
Finance Companies	66
Micro-Credit Development Banks	66
Grievance Management Committee (GMC)	67
Refinance to the Banks and Financial Institutions	67
Deprived Sector Lending	67
Provision on Sale and Purchase of Promoters Share	69
Gifts, Prizes or Other Programs Aimed to Attract the Deposits	70
Actions against the Willful Defaulters with Bank Loan of more than Rs. 50 Million	70
Provisions Relating to the Margin Lending	71
Provisions Related to Promoter Share	72
Transaction of Promoter Share	73
Trust Receipt Loans/Loans against a Certificate of Fixed Deposits and Other Securities	74
Provisions Relating to the Use of Standing Liquidity Facility	74
List of Professional Expert	77
Bank and Financial Institution Supervision	78
Bank Supervision	78
Development Bank, Finance Companies and Micro-Finance Institutions Supervision	79

Special Actions Taken	79
Currency Management	79
Note Issue	80
Notes in Circulation	80
Note Chest	80
Notes Destroyed	80
Fund Transfer	80
Miscellaneous	80
Corporate Reforms	80
Information Technology	81
Human Resource Management	82
Training, Symposium, Seminars and Interaction Programmes	85
Meeting of the Board of Directors	86

Text Tables

Table 2.1 Inflation and Surplus	56
Table 2.2 Money Supply and Domestic Credit	56
Table 2.3 Changes in Existing Bank Rate and Refinance Rate	57
Table 2.4 Secondary Market Transactions	58
Table 2.5 Development Bond Auction	58
Table 2.6 Loan Disbursed by the Rural Self Reliance Fund	60
Table 2.7 Onsite Inspection of Commercial Banks and their Branches	78
Table 2.8 Printing Status of Notes	79
Table 2.9 Recruitment in and Termination of NRB-service	82
Table 2.10 The Number of Existing Employees (Mid-July 2008)	83
Table 2.11 Structure of Security Group (Contract)	83
Table 2.12 Description of the Recruited Post in 2007/08	84
Table 2.13 Details of Service Change	85

Tables

Table 1 Outstanding Refinance to Banks and Financial Institutions	87
Table 2 Notes in Circulation	87
Table 3 Security against Note Issued	88
Table 4 Established Posts and Employees by Class	88
Table 5 Domestic Trainings, Seminars and Workshops	89
Table 6 Foreign Trainings, Seminars, Meetings and Workshops	91
Table 7 Higher Studies	95

Appendices

2.1 Financial Institutions Inspected at Macro Level in 2007/08	96
2.2 Off-Site Supervision	98
2.3 Board of Directors	99
2.4 Principal Officers	100

Part III

ANNUAL FINANCIAL STATEMENTS OF NRB

Assets and Liabilities 105
Income Statement 106

Charts

Chart 3.1: Assets Structure of NRB 105
Chart 3.2: Liabilities Structure of NRB 106
Chart 3.3: Income Structure of NRB 107

Annual Financial Statements of NRB 108–

Acronyms Used

ABBS	Any Branch Banking System
ADB	Asian Development Bank
ADB/N	Agricultural Development Bank (Nepal)
ATS	Automated Trading System
BIS	Bank for International Settlement
BOD	Board of Directors
BOP	Balance of Payments
BTC	Banker's Training Centre
CA	Constituent Assembly
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
CSCs	Citizen Savings Certificates
DAP	Document Against Payments
DBs	Development Bonds
DFID	Department for International Development
DICGC	Deposits Insurance and Credit Guarantee Corporation
EPF	Employees' Provident Fund
FDI	Foreign Direct Investment
FIs	Financial Institutions
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
F/Y	Fiscal Year
FSRP	Financial Sector Reform Program
GDP	Gross Domestic Product
GHC	Grievance Hearing Cell
GMC	Grievance Management Committee
GNDI	Gross National Disposable Income
GON	Government of Nepal
HR	Human Resource
HRM	Human Resource Management
IAS	International Accounting Standard
IC	Indian Currency
ICO	Indian Oil Corporation
IMF	International Monetary Fund
IPO	Initial Public Offerings
IT	Information Technology
L/C	Letter of Credit
LFAR	Long Form Audit Report
LMFF	Liquidity Monitoring and Forecasting Framework

M ₁	Narrow Money Supply
M ₂	Broad Money Supply
MCPW	Micro Credit Program for Women
MT	Metric Ton
MW	Mega Watt
n.i.e.	not included elsewhere
NBL	Nepal Bank Limited
NDA	Net Domestic Assets
NEA	Nepal Electricity Authority
NEPSE	Nepal Stock Exchange
NFA	Net Foreign Assets
NGOs	Non Governmental Organizations
NIDC	Nepal Industrial Development Corporation
NOC	Nepal Oil Corporation
NRB	Nepal Rastra Bank
NSCs	National Savings Certificates
NWPI	National Wholesale Price Index
OMOs	Open Market Operations
PAF	Poverty Alleviation Fund
PAN	Permanent Account Number
PCA	Prompt Corrective Action
PAPWT	Poverty Alleviation Project in Western Terai
PCRW	Production Credit for Rural Women
PPA	Power Purchase Agreement
PRGF	Poverty Reduction and Growth Facility
PSB	Postal Savings Bank
RBB	Rastriya Banijya Bank
RMDC	Rural Microfinance Development Centre
RRSDP	Reconstruction and Rehabilitation Sector Development Programme
RSRF	Rural Self-Reliance Fund
SDR	Special Drawing Rights
SEBON	Securities Board of Nepal
SFCB	Small Farmers' Cooperative Bank
SLF	Standing Liquidity Facility
STI	Second Tier Institution
SWRI	Salary and Wages Rate Index
TBs	Treasury Bills
TLDP	Third Livestock Development Project
TOR	Terms of Reference
UAE	United Arab Emirates
UK	The United Kingdom
US	The United States
VAT	Value Added Tax
VRS	Voluntary Retirement Scheme
WAN	Wide Area Network
WEO	World Economic Outlook
WPI	Wholesale Price Index

PART

1

Macroeconomic Situation and Financial Overview



• World Production, Trade and Inflation	1
• Macroeconomic and Financial Overview of Nepal	2
• Inflation and Wage Rate	8
• External Sector	10
• Fiscal Situation	13
• Monetary Situation	17
• Money and Financial Market	18
• Financial Institutions	23

PART

I

Macroeconomic Situation and Financial Overview

World Production, Trade and Inflation

World Output

- 1.1 The International Monetary Fund (IMF) in its World Economic Outlook (WEO) of October, 2008 showed the world output growth at 5.0 percent in 2007 which is less than 0.1 percent of 2006. Similarly, IMF projected the world output growth of 2008 will be 3.9 percent and 3.0 percent in 2009 (Table 1). Dominating role-playing economies in the world output growth, like the United States (US) and euro area are facing recession and financial turmoil, which indicated lower economic growth during 2008 and 2009 as compared to 2007.
- 1.2 The IMF has a projection of lower economic growth of our neighboring economies China and India during 2008 compared to the previous year. Such economies, India and China have achieved their economic growth of 9.3 percent and 11.9 percent respectively in 2007, but IMF projected 7.9 percent and 9.7 percent respectively in the year 2008.
- 1.3 Due to the increasing inflationary pressure, volatile situation of financial market, fluctuation in petroleum prices, slackness in the US economy; the world economy is experiencing slower economic activities and this trend will continue in the coming year. Feckless situation in the real-estate transactions in the US from the last year; caused a suffering of the bank and financial institutions investment in the sub-prime mortgages. Since 2008 mid onward, larger US banks were experiencing financial crisis, which affected the US economy and led to massive influence in the share market and a decline in the price of the petroleum products. This effect was spilled over to many European and Asian economies. IMF had projected that the global economic growth will remain low during 2008 compared to 2007. The reasons for low economic growth as projected by the IMF are Feckless US economy, problematic financial institutions due to bad debts, disturbance in debt market, bear trend in world stock market and volatility in the price of the petroleum products.
- 1.4 The economic growth of the emerging and developing countries remained 8.0 percent in 2007, and the IMF has made a projection that it will remain 6.9 percent in 2008 and 6.1 percent for 2009.

World Trade

- 1.5 The World trade volume increased by 7.2 percent in 2007 and is projected to increase by 4.9 percent in 2008 and 4.1 percent in 2009. Imports increased by 4.5 percent in advanced countries in 2007 while it grew by 14.2 percent in the emerging and developing economies. Likewise, during 2007 exports went up by 5.9 percent in advanced economies and 9.5 percent in the emerging and developing economies. Projected growth rate of imports for 2008 are 1.9 percent in advanced countries and 11.7 percent in the emerging and developing economies while that of exports are 4.3 percent and 6.3 percent in the respective economies (Table 2).

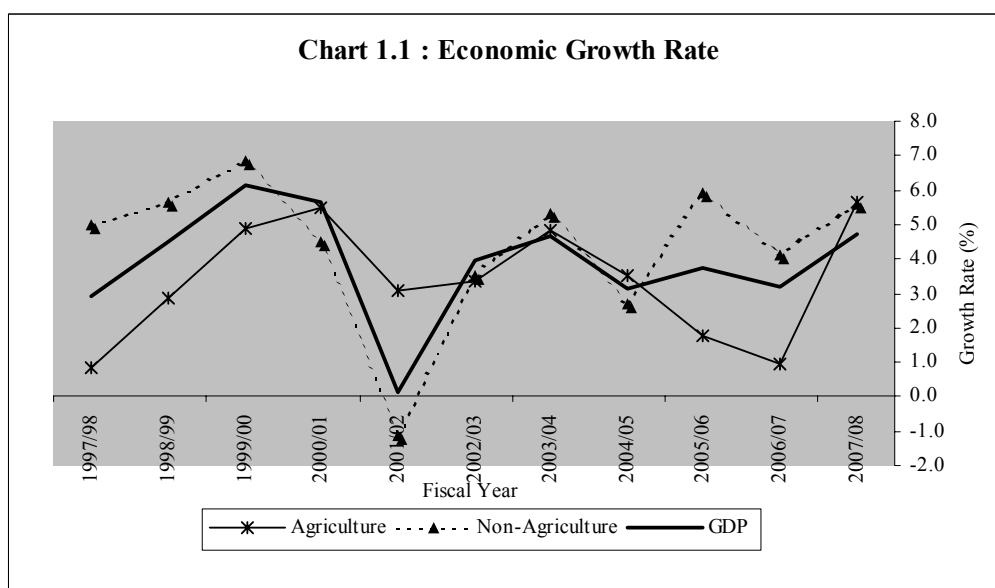
World Inflation

- 1.6 World inflation of the advanced economies has remained 2.2 percent in 2007. This inflation rate is projected 3.6 percent in 2008 and 2.0 percent in 2009. Due to the rise in food and energy price, inflation in the advanced economies has increased during 2008. Likewise, inflation went up by 6.4 percent in emerging and developing economies in 2007. Projected growth rate of inflation for 2008 are 9.4 percent and 7.8 percent for 2009 in the emerging and developing economies (Table 3). The headline inflation in most of the advance economies is higher than the central bank targeted comfortable inflation level. Increased prices of petroleum products and overall consumer goods have created inflationary pressure (Table 3).

Macroeconomic and Financial Situation of Nepal

Gross Domestic Product

- 1.7 The growth of Gross Domestic Product (GDP) remained satisfactory in 2007/08. The momentous upsurge in agriculture underpinned by favourable monsoon and the robust performance of services sectors, placed the economic growth at a four-year's peak. The real GDP at producers' price grew by 4.7 percent in the review year compared to 3.2 percent the previous year. The real GDP at basic price grew by 5.6 percent in the review year.
- 1.8 The agriculture sector grew at a whopping 5.7 percent in the review year. The growth in the previous year was a meager 1.0 percent. The acceleration in the growth of agriculture sector is attributed to the significant rise in paddy production and the satisfactory performance of other agriculture crops.



- 1.9 The non-agriculture sector reported a growth of 5.6 percent in the review year compared to 4.1 percent in the previous year. Despite a sluggish industrial growth, the expansion of services sector improved the overall performance of non-agriculture sector. The industrial growth slowed at 1.8 percent in 2007/08 i.e., nearly half of previous year's growth rate. The slowdown in industrial sector is attributed to the weak growth performance of the manufacturing sector.
- 1.10 The services sector witnessed an encouraging growth of 6.9 percent in the review year compared to 4.2 percent in the previous year. The impressive growth in wholesale and retail trade; hotel and restaurant; transport, storage and communication; public administration and defense sectors played an important role to the high growth of this sector.
- 1.11 The review year is also the first year of the GON's 'Three-Year Interim Plan.' The plan has targeted an annual growth of 5.5 percent with 3.6 percent growth in agriculture and 6.5 percent

in non-agriculture. The targeted growth seems to be attainable provided that the law and order situation in the country remain conducive for additional investment and also the monsoon remains quite favourable. In 2007/08, except in industrial sector, the overall growth including agriculture and services surpassed the Plan's targeted growth (Table 1.1).

Table 1.1
Actual and Targeted Sectoral Growth Rates of GDP (at 2000/01 prices)*

Sectors	2006/07	2007/08	Plan's Target
Agriculture	1.0	5.7	3.6
Non Agriculture	4.1	5.6	6.5
Industries	3.9	1.8	6.8
Services	4.2	6.9	6.4
GDP at basic price	3.0	5.6	5.5

Source: National Planning Commission and Central Bureau of Statistics.

* before deduction of financial intermediation services indirectly measured (FISIM)

Sectoral Composition of Gross Domestic Product

- 1.12 The economy has undergone significant structural changes during the period of last two decades. The share of agriculture in GDP has registered a steady decline while the services sector has taken a greater chunk in GDP. The industrial sector's share has, however, stagnated. The share of agriculture, industry and services to the real GDP in 2007/08 stood at 36.0 percent, 16.3 percent and 47.7 percent respectively. The corresponding shares in 1987/88 were 48.7 percent, 16.3 percent and 35.0 percent.
- 1.13 The contribution of the agriculture sector to real GDP increased marginally to 36.0 in the review year from 35.9 percent in the previous year. This sector's contribution to the overall growth surged to 36.4 percent in the review year from 12.0 percent in the previous year. The high growth of the sector can be attributed to the whopping rise of its share to overall growth. A decline in the growth of industrial sector dragged down this sector's relative contribution from 22.0 percent in the previous year to 5.2 percent in the review year. Despite a robust growth of services sector, this sector's contribution to overall growth dropped to 59.0 percent from 66.0 percent in the previous year (Table 1.2).

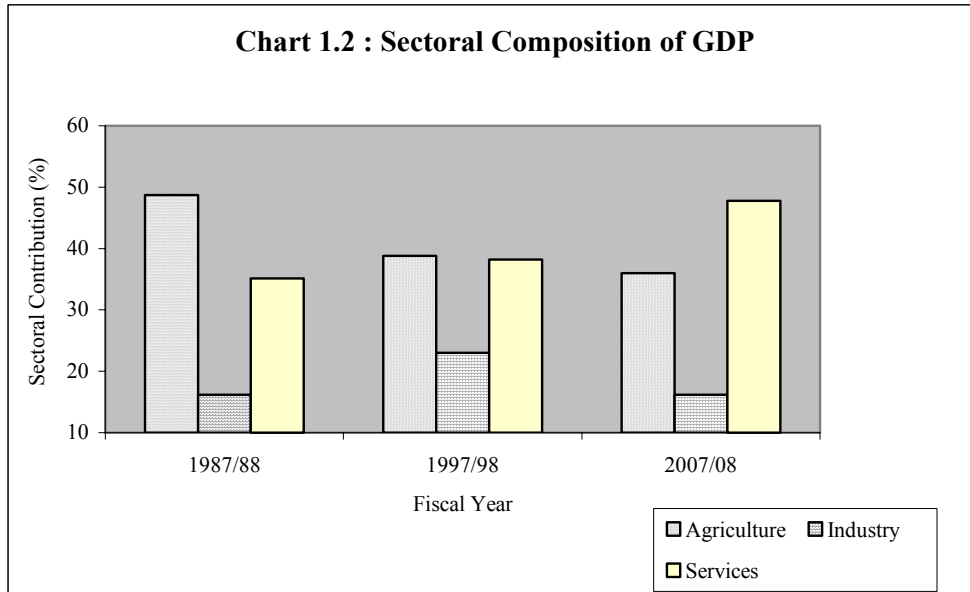
Table 1.2
Sectoral Shares in GDP and Relative Contribution to Growth*
(at 2000/01 Prices)

In percent

Sectors	Share in real GDP		Growth Rate		Contribution to Growth Rate	
	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08
Agriculture	35.9	36.0	1.0	5.7	12.0	36.4
Non-agriculture	64.1	64.0	4.1	5.6	88.0	63.6
Industry	16.9	16.3	3.9	1.8	22.0	5.2
Services	47.2	47.7	4.2	6.9	66.0	58.4
Total*	100.0	100.0	3.0	5.6	100.0	100.0

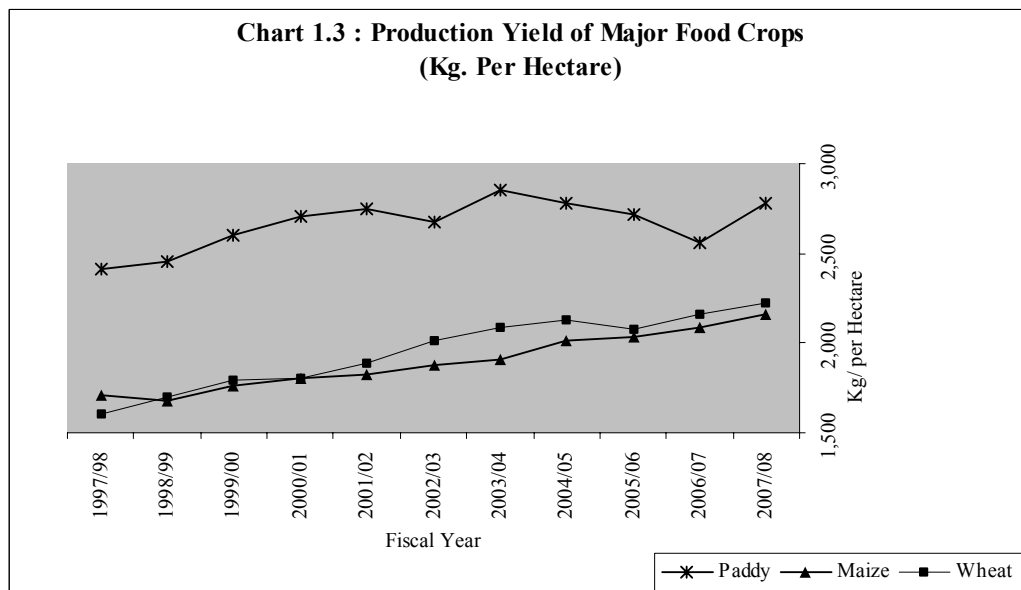
* basic price prior to deduction of FISIM.

Source: Central Bureau of Statistics and NRB's calculations



Agriculture Sector

- 1.14 The agriculture sector grew by an encouraging rate of 5.7 percent in the review year, the highest so far in last fourteen years. The growth in the previous year was a meager 1.0 percent. A sharp rise in paddy production along with a satisfactory performance of other agriculture crops and livestock, played an important role in the robust performance of agriculture sector.
- 1.15 The production index of food grains and other crops increased by 7.3 percent in the review year compared to a contraction of 2.7 percent in the previous year. The rise in the index was largely due to a sharp increase in the production of paddy that occupies almost 21.0 percent share in agricultural production. The paddy production, after a continuous decline over last three years, reported a significant growth of 16.8 percent in the review year. It had declined by 12.6 percent in the previous year. Likewise, the production of wheat, maize and potato increased by 3.8 percent, 3.2 percent and 5.7 percent respectively. During the last decade, a gradual improvement in the production yield can be observed in major principal crops - paddy, maize and millet. The paddy, however, reported some fluctuations in later years (Chart 1.3).



- 1.16 The barley, sugarcane, soybean, pulses and other food grains reported a drop in production while the production of millet reported a rise in the review year. The production index of vegetables and nursery group grew by 9.6 percent in the review year compared to a 6.3 percent growth in the previous year. The vegetables that occupy a significant share in the group grew by 9.6 percent compared to a growth of 6.3 percent in the previous year.
- 1.17 The production index of fruits and spice group surged by 5.4 percent in the review year compared to a growth of 5.8 percent in the previous year. Among the fruits sub-groups, the production of oranges, banana and apples increased while the production of mango declined in the review year. Likewise, the production of spice, tea and coffee sub-groups witnessed growths in the review year.
- 1.18 The production index of livestock and milk group, which occupies almost a quarter share in agriculture production grew by 2.6 percent in the review year. The corresponding growth of the group was 3.1 percent in the previous year. The milk sub-group that makes up a 12.4 percent share in agriculture production grew by 2.7 percent in the review year. Likewise, the meat sub-group also reported a rise in the production in the review year.
- 1.19 The production index of other livestock group grew by 3.1 percent in the review year compared to a growth of 7.8 percent in the previous year. The production of meat of pigs, mutton and chicken and eggs sub-group grew in the review year.
- 1.20 The production index of forestry group increased marginally by 0.2 percent in the review year. The corresponding growth of the group was 1.7 percent in the previous year. The low growth of the group can be attributed to a drop in the production of firewood and a slow growth in medicinal/herbal production. The production of firewood that takes up a remarkable share in the group declined by 1.2 percent in the review year. The medicinal/herbals products grew at a slow pace in the review year. The production of wood grew by 2.2 percent in the review year.
- 1.21 Contrary to earlier years, the monsoon remained quite favourable for paddy plantation in the review year. In July, most places in Terai received above normal precipitation. According to statistics released by the Department of Hydrology and Meteorology, out of the 45 precipitation stations, 30 stations received above normal precipitation and 15 stations received below normal precipitation during July. In August, out of 44 stations, 13 stations received above normal precipitation and 31 stations received below normal precipitation. The Central, Western and Far-Western Regions received heavy rainfall during August.
- 1.22 Irrigation facility increased by 7.1 thousand hectares to 1201.7 thousand hectares in the review year. The total irrigated land as a percentage of cultivated land reached 45.5 percent by the end of 2007/08. The supply of chemical fertilizer from Agriculture Inputs Company Ltd. declined dramatically by 73.5 percent to 6.7 thousand metric tons from 25.2 thousand metric tones in the previous year. The supply of improved seeds from National Seeds Company Ltd. surged by 20.1 percent to 3.8 thousand metric tones from 3.1 thousand metric tones in the previous year.

Industrial Sector

- 1.23 Industrial sector registered a growth of 1.8 percent in the review year compared to a growth of 3.9 percent in the previous year. The low growth of the sector was due mainly to a sluggish performance of manufacturing sector. The turmoil in Terai, weak industrial security, worker-management conflict, frequent lockout and strike, load shedding and scarcity of petroleum products severely affected the performance of manufacturing sector.
- 1.24 The electricity, gas and water sector grew by 3.4 percent compared to a growth of 13.0 percent in the previous year. The low pace in the growth of the sector in the review year was mainly because of the non-commencement of additional hydropower projects.
- 1.25 The construction sector expanded by 3.1 percent in the review year due mainly to a surge in domestic production of construction materials. Such growth rate was 2.5 percent in the previous year. Likewise, the mining and quarrying sector grew by 2.8 percent in the review year compared to a growth of 1.5 percent in the previous year.

- 1.26 The manufacturing sector grew by 0.2 percent in the review year compared to a growth of 2.6 percent in the previous year. According to statistics released by Central Bureau of Statistics, the production index of manufacturing sector declined by 1.4 percent in the review year as against a growth of 2.6 percent in the previous year. The deceleration in the production index was on account of a substantial decline in the production of vegetable ghee, ready-made garments and plastic products.
- 1.27 Analysis based on commodity class exhibits that the production of vegetable oil and ghee; textiles; other textiles; garment; plastic products; non-metallic mineral product and domestic metal product declined in the review year. However, the production of processed milk; grain mill products and animal feeds; other food products; beverage; tobacco product; pashmina; paper products; wood sawn; newspaper; other chemical products; iron rod and billets; and electrical wires and cable increased in the review year.
- 1.28 The commitment of foreign direct investment rose substantially in the review year compared to previous year due to gradual improvement in the law and order situation in the country. The Department of Industry approved 212 joint foreign investment projects with total costs of Rs. 20.4 billion in the review year. The Department had approved 188 projects with total costs of Rs. 3.4 billion in the previous year. The share of foreign direct investment in total project cost stood at 48.1 percent in the review year. Out of 212 projects approved in the review year, the number of projects in tourism; services; manufacturing; construction; agriculture; energy and mineral sectors were 67, 55, 51, 13, 11, 8 and 7 respectively. Of the total FDI commitment, the share of FDI in energy, mineral and construction sectors remained 29.2 percent, 22.7 percent and 18.4 percent respectively. The FDI projects registered in the review year are estimated to create employment opportunities for 10.7 thousand people. Nepal received FDI commitment from 39 countries in the review year. Of the countries committing FDI to Nepal, Indian investors are on top in the list followed by South Korea, China, UAE and UK. The foreign direct investment commitment will increase in the days to come if the political and law and order situation remain satisfactory in the country.

Services Sector

- 1.29 The services sector recorded an encouraging growth of 6.9 percent in the review year compared to a growth of 4.2 percent in the previous year. The high growth in the service sector was mainly due to impressive growths in wholesale and retail trade; hotel and restaurant; transport, storage and communication; financial intermediation; public administration and defense; and other community, social and personal services sectors. The wholesale and retail trade sector grew significantly at the rate of 6.4 percent in the review year contrary to a 4.5 percent decline in the previous year. This was mainly because of the rise in the production of tradable agriculture commodities and a surge in imports. The hotel and restaurant sector grew by 7.5 percent in the review year due to increase in the inflow of tourist. This sector had grown by 3.5 percent in the previous year.
- 1.30 The inflow of tourist via-air surged by 10.9 percent to 367.9 thousand in 2007/08 from 331.6 thousand in the previous year. The inflow of Indian tourists via-air declined by 11.6 percent to 90.2 thousand contrary to a marginal rise of 0.6 percent in the previous year. Likewise, the inflow of third country tourists via air surged by 21.0 percent to 277.9 thousand in the review year compared to a growth of 23.2 percent in the previous year. Despite the rise in the inflow of third country tourist in the first nine month of the review year due to improving law and order situation in the country, it declined in the last three months due to insecurity and unfavorable situation in Terai. However, the inflow of Indian tourist declined in all months of the review year. The share of Indian and third country tourists remained at 24.5 percent and 75.5 percent respectively in 2007/08. The respective shares were 30.7 percent and 69.3 percent in the previous year (Table 1.3).

Table 1.3
Inflow of Tourists via Air

Description	Numbers			Percent change		Percent share	
	2005/06	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08
India	1,01,231	1,01,862	90,016	0.6	-11.6	30.7	24.5
Third country	1,86,488	2,29,779	2,77,927	23.2	21.0	69.3	75.5
Total	2,87,719	3,31,640	3,67,943	15.3	10.9	100.0	100.0

Source: Ministry of Tourism and Civil Aviation

- 1.31 Transport, storage and communication sector registered a growth of 6.6 percent in the review year compared to a growth of 4.4 percent in the previous year. This was mainly on account of an encouraging growth in communication sub-sector. The financial intermediation sector expanded by 13.8 percent in the review year due mainly to entry of new financial institutions in financial system. The growth of this sector was 11.4 percent in the previous year. The real estate, renting and business activities sector grew by 4.4 percent compared to a higher growth of 11.8 percent in the previous year. The slow growth of the sector can be attributed to a decline in the transactions of rural housing companies and no improvement in the transactions of business activities. Likewise, public administration and defense; education; health and social services; and other community, social and personal services sectors grew by 5.6 percent, 4.6 percent, 7.4 percent and 11.1 percent respectively in the review year. The respective growth rates were 1.3 percent, 6.2 percent, 6.7 percent and 11.8 percent in the previous year.

Consumption, Investment and Savings

- 1.32 The share of total consumption in GDP dropped to 88.5 percent in the review year from 90.3 percent in the previous year. The private and public sector consumption increased by 9.4 percent and 21.9 percent respectively in the review year compared to a growth of 9.3 percent and 17.7 percent respectively in the previous year. The ratio of investment to GDP increased by 4.0 percentage points to 32.0 percent in the review year from 28.0 percent in the previous year. Similarly, the ratio of gross domestic saving to GDP increased marginally to 11.5 percent in the review year from 9.7 percent in the previous year. The ratio of fixed capital formation to GDP increased marginally by 0.6 percentage points to 21.0 percent in the review year from 20.4 percent in the previous year.
- 1.33 The total domestic demand at current prices grew by 26.7 percent in the review year compared to a growth of 13.7 percent in the previous year. The significant growth in total domestic demand was due mainly to the rise in consumption and investment. The net external demand could not improve in the review year due to high growth of import relative to export.

Gross National Disposable Income

- 1.34 The gross national disposable income (GNDI) at current prices registered a growth of 14.6 percent in the review year compared to a growth of 10.0 percent in the previous year. An encouraging upsurge in net transfer played a crucial role in the growth of GNDI. The GDP at current prices accelerated by 12.9 percent in the review year compared to a 11.2 percent growth in the previous year. The GNDI as a percentage of GDP stood at 120.5 percent in the review year. This ratio in the previous year was 118.8 percent. The workers' remittances continued to have a significant share in net transfers. It registered a growth of 42.5 percent in the review year. The contribution of remittance on GDP remained at 17.4 percent in the review year (Table 1.4).

Table 1.4
Gross National Disposable Income
(At current prices)

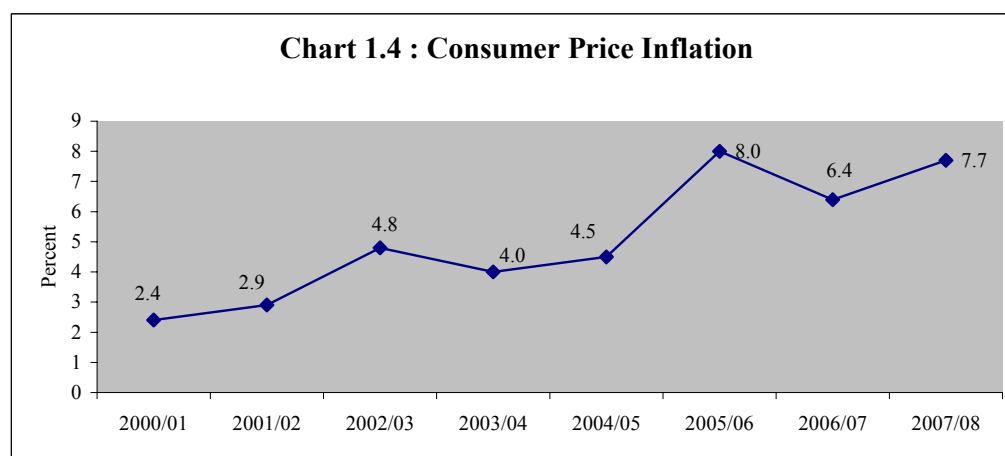
Particulars	2005/06	2006/07	2007/08	2006/07	2007/08
	Rs. in million			Percentage change	
Total Consumption	595327	656276	726685	10.2	10.7
Total Investment	175603	203741	262582	16.0	28.9
Domestic Demand	770930	860017	989268	11.6	15.0
Net Export	-116876	-132928	-168454	13.7	26.7
Gross Domestic Product	654055	727089	820814	11.2	12.9
Net Factor Income	4956	7432	10187	50.0	37.1
Net Transfers	126146	128992	158381	2.3	22.8
Gross National Disposable Income	785156	863513	989382	10.0	14.6

Source: Central Bureau of Statistics

Inflation and Wage Rate

Consumer Inflation

- 1.35 The average annual consumer inflation increased to 7.7 percent in 2007/08 from the level of 6.4 percent in 2006/07. The acceleration in the growth of overall price level was largely on account of the price hike in the petroleum products in June 2008 and price rise on food items.



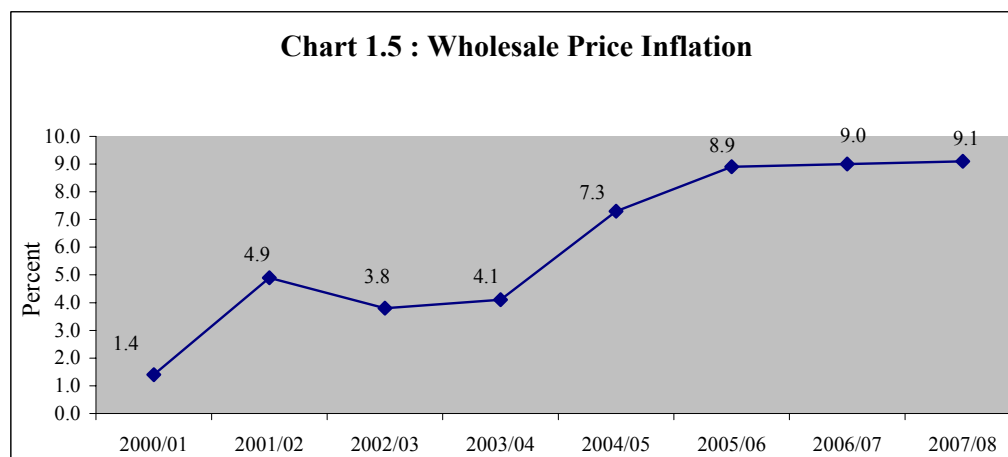
- 1.36 The annual average price index of food and beverages group rose by 10.1 percent in the review year compared to an increase of 7.2 percent in the previous year. Of the items under food and beverages group, price indices of oil & ghee, grains & cereal products and pulses witnessed 20.9 percent, 14.6 percent and 14.2 percent respectively in the review year compared to an increase of 6.7 percent, 6.4 percent and 17.0 percent in the previous year. Price indices of other items such as meat, fish & eggs, milk & milk products, restaurant meals and fruits & vegetables showed an acceleration of 7.7 percent, 7.6 percent, 7.1 percent and 6.4 percent respectively in the review year. Indices of these items had increased by 6.6 percent, 7.5 percent, 3.3 percent and 11.1 percent respectively in the previous year. But the prices of sugar and related products showed a significant decline of 10.1 percent in the review year as compared to 7.1 percent decline in the previous period.
- 1.37 Similarly, the annual average price index of non-food and services group revealed an increment of 5.1 percent in the previous year as compared to the rise of 5.5 percent in preceding year.

Within the group of non-food and service, the index of tobacco and related products as well as housing goods rose by 7.4 percent and 7.0 percent respectively in the review year as compared to a rise of 6.1 percent and 7.2 percent respectively in the previous year.

- 1.38 Region-wise, average yearly price level in the Kathmandu Valley, the Hills and the Terai rose by 7.2 percent, 7.4 percent and 8.1 percent respectively in the review year. The respective rates were 6.1 percent, 6.0 percent and 6.7 percent in the previous 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 review year.
- 1.39 The average core inflation rose by 6.1 percent in 2007/08 from the level of 6.0 percent in the previous year.

Wholesale Price Inflation

- 1.40 The annual average National Wholesale Price Index (NWPI) increased by 9.1 percent in 2007/08 compared to a rise of 9.0 percent in the previous year. However, the price increment rate of agriculture commodities slowed down, the level of annual average wholesale price inflation accelerated due mainly to the increment in the prices of imported commodities.



- 1.41 Group-wise, the wholesale price of agricultural commodities rose by 9.5 percent in the review year compared to an increase of 11.6 percent in the previous year. This rise was mainly attributed to the rise in the prices of pulses by 13.3 percent, food grains 12.9 percent, fruits & vegetables 11.4 percent and livestock production 7.0 percent. The price of domestically manufactured commodities recorded a higher annual growth of 8.8 percent in the review period compared to that of 8.5 percent in the previous year. This was mainly due to the significant rise in the prices of construction material by 13.8 percent and the food-related products by 9.6 percent. The prices of imported commodities grouped observed a significant acceleration by 8.6 percent in the review year compared to a growth of 5.6 percent in the previous year. The acceleration was on account of the price rise of chemical fertilizers & chemical goods by 14.8 percent and petroleum products & coal by 11.8 percent.

National Salary and Wage Rate Index

- 1.42 The annual average National Salary and Wage Rate Index increased by 9.7 percent in 2007/08. It had increased by 9.8 percent in the previous year. Both salary and wage rate indices rose by 10.9 percent and 9.4 percent respectively in the review year compared to the growth of 6.3 percent and 10.9 percent respectively in the preceding year. The increase in the annual average National Salary and Wage Rate index was on account of about 17.0 percent increase in the salary of civil servants in mid-July 2007. Within the wage rate index, the index of industrial labor increased by a higher rate of 11.6 percent in the review period, followed by 10.2 percent of construction labor and 7.7 percent of agriculture labor.

External Sector

Overall Trade Situation

- 1.43 In 2007/08, the external sector displayed a mixed performance. While the export growth rate decreased only marginally, the rate of growth of import was significant leading to a considerable expansion in the trade deficit. Although there was improvement in travel receipts, there was an increase in services trade deficit arising from a significant rise in transportation and travel expenses. Yet, there was a significant surplus in both the current account as well as the overall balance of payments due to the upsurge in remittances as the trend of Nepalis going abroad for foreign employment was maintained. Consequently, there was a rise in foreign exchange reserves that facilitated in the maintenance of exchange rate and external stability.

Exports and Imports

- 1.44 In 2007/08, total exports decreased by 0.2 percent (Rs. 116.6 million) to Rs. 59.27 billion. In the previous year, it had declined by 1.4 percent. Total imports, on the other hand, rose by 14.0 percent (Rs. 27.24 billion) to Rs. 221.94 billion compared to a growth of 12.0 percent in the previous year. As a result, in the review year, total trade deficit expanded by 20.2 percent to Rs. 162.67 billion. In the previous year, total trade deficit had gone up by 19.2 percent to Rs. 135.31 billion. Likewise, total trade increased by 10.7 percent to Rs. 281.20 billion in comparison to its growth of 8.6 percent in the previous year. While total exports to GDP ratio declined to 7.2 percent in the review year from 8.2 percent in the previous year, total imports to GDP ratio increased to 27.1 percent from 26.7 percent correspondingly. As a result, trade deficit to GDP ratio went up to 19.9 percent in the review year from 18.6 percent in the previous year.
- 1.45 Exports to India declined by 7.6 percent (Rs. 3.17 billion) to Rs. 38.56 billion in contrast to the growth of 2.5 percent in the previous year. In the review year, while exports of zinc sheet, copper wire rod, polyester yarn, noodles and juice to India increased, exports of vegetable ghee, textiles, chemicals, rosin and readymade garments declined considerably. Insecurity in the Terai, frequent *bandhs* and load-shedding were the factors that adversely affected exports to India.
- 1.46 In contrast to a decline by 9.6 percent in the previous year, exports to overseas soared by 17.3 percent (Rs. 3.06 billion) in the review year. Although there was a decline in the three major exports, i.e. readymade garments, pashmina and woolen carpets, to overseas, there was a significant rise in the growth rate of exports owing to the significant increase in the exports of wheat to Bangladesh. Moreover, excluding pulses, there was an increase in the exports of Nepalese paper & paper products and herbs.
- 1.47 In the review year, imports from India rose by 22.9 percent (Rs. 26.50 billion) to Rs. 142.38 billion in comparison to a rise of 8.1 percent in the previous year. While imports of petroleum products, M.S. billet, transport equipment & parts, cold rolled sheet in coil, hot rolled sheet in coil and electric equipment, among others, from India increased, imports of rice, cement, chemical fertilizer, bitumen and live animals declined. Under the provision of imports from India by payment of convertible currency, goods worth Rs. 32.02 billion (22.5 percent of total imports from India) were imported. In the previous year, such imports had amounted to Rs.17.72 billion (15.3 percent of the total imports from India). Trade deficit with India that had gone up by 11.6 percent in the previous year expanded by 40.0 percent in the review year.
- 1.48 In the review year, imports from countries other than India increased by 0.9 percent (Rs.738.9 million) and amounted to Rs. 79.56 billion compared to a rise of 18.3 percent in the previous year. Among others, the major imports that witnessed an upward trend comprised of telecommunication equipment & parts, other machinery & parts, transport equipment & parts, video television & parts and polythene granules while imports of zinc ingot, crude palm oil, readymade garment, textiles and raw wool declined.
- 1.49 The share of India in total exports went down to 65.1 percent in the review year from 70.3 percent in the previous year, while the share of India in total imports went up to 64.2 percent

from 59.5 percent correspondingly. Consequently, the share of India in total trade deficit rose to 63.8 percent from 54.8 percent a year earlier. Likewise, the share of other countries in total trade deficit went down to 36.2 percent in the review year from 45.2 percent in the previous year.

Balance of Payments

- 1.50 After adjusting border trade, total exports, under f.o.b. valuation, increased by 0.8 percent to Rs. 61.97 billion. In the previous year, such exports had remained at the same level as that of 2005/06. Because of the increase in the import of petroleum products by 21.6 percent to Rs. 40.82 billion and the increase in import of other merchandize goods by 12.9 percent, total imports soared by 14.5 percent to Rs. 217.96 billion in the review year. In the previous year, despite the decline in the import of petroleum products by 0.3 percent, total imports rose by 11.0 percent due mainly to the rise in the import of other merchandize goods by 13.8 percent. As a result, trade deficit increased by 21.0 percent to Rs. 155.99 billion in the review year compared to the rise of 17.2 percent in the previous year.
- 1.51 Travel income increased significantly by 84.2 percent to Rs. 18.65 billion owing to the expansion in tourism activities emanating from the improvement in the security conditions. As a result, total receipts from services increased by 31.7 percent to Rs. 42.24 billion in the review year in comparison to an increase of 21.2 percent in the previous year. Together with the expansion in imports, increase in freight charges and the rising trend in the number of Nepalese going abroad both for education and employment led to the upsurge in transportation and travel expenses by 55.8 percent and 32.2 percent respectively. Consequently, total services payments increased by additional 31.8 percent to Rs. 53.33 billion in comparison to an increase of 21.5 percent in the previous year. Hence, because of the increase in total service expenses relative to receipts, net services income was negative by Rs. 11.09 billion in the review year. In the previous year, such income was negative by Rs. 8.38 billion.
- 1.52 On the income front, because of the decline in interest rate in the international market and the subsequent fall in the interest income of the banking sector, income receipts declined by 7.3 percent to Rs. 13.45 billion. Likewise, because of the decline in the bonus and profit repatriated by foreign investors, the income payments also declined by 22.2 percent to Rs. 5.50 billion. Consequently, in comparison to the previous year, net income increased by 6.9 percent to Rs. 7.95 billion in the review year.
- 1.53 Grants increased by 15.2 percent to Rs. 20.99 billion in the review year as compared to a decline by 3.4 percent in the previous year. In comparison to the previous year's growth of 2.5 percent, private sector's remittances soared by 42.5 percent in the review year to Rs. 142.68 billion. In this period, pension receipts surged by 45.2 percent to Rs. 18.79 billion. In this way, transfer receipts rose by 39.2 percent to Rs. 185.46 billion. As a result, though there was a significant increase in the deficit in the balance on goods and services, the current account posted a surplus of Rs. 23.68 billion in the review year arising from the significant rise in transfer receipts. Such surplus was 2.9 percent of GDP. In the previous year, the current account posted a deficit of Rs. 902.2 million.
- 1.54 The transfers under the capital account rose to Rs. 7.91 billion in the review year from Rs. 4.45 billion a year earlier because of the significant increase in capital grants.
- 1.55 Under the financial account, other investment assets rose by Rs. 11.40 billion. In the previous year, such assets had risen by Rs. 10.69 billion. Under other investment liabilities, trade credit increased by Rs. 12.48 billion in the review year. In 2007/08, the inflow of government loan was Rs. 11.33 billion while repayment amounted to Rs. 7.87 billion. In the review year, currency and deposit liabilities rose by Rs. 6.26 billion. As a result, the overall balance of payments remained in surplus by Rs. 29.67 billion in the review year. In the previous year, the balance of payments had registered a surplus of Rs. 5.90 billion.

Gross Foreign Exchange Reserve

- 1.56 In comparison to mid-July 2007, gross foreign exchange reserves rose by 28.8 percent aggregating Rs. 212.62 billion at mid-July 2008. Of this, the NRB's share comprised 79.8 percent. In the corresponding period of the previous year, such reserves had gone up by just 0.1 percent and stood at Rs. 165.13 billion out of which the NRB's share was 78.5 percent. In US dollar terms, between mid-July 2007 to mid-July 2008, total reserves increased by 21.9 percent and stood at US\$ 3.10 billion. In the corresponding period of the previous year, such reserves had risen by 14.3 percent. The current level of reserves was adequate for financing merchandise imports of 11.5 months and merchandise and service imports of 9.3 months.
- 1.57 The gross foreign exchange reserves to broad money supply ratio and gross foreign exchange reserves to reserve money ratio that remained at 41.7 percent and 138.4 percent, respectively, at mid-July 2007 stood at 42.9 percent and 147.1 percent, respectively, at mid-July 2008.

External Debt

- 1.58 The total outstanding external debt of Nepal increased by 0.4 percent to Rs. 245.62 billion as at mid-July 2008 as compared to mid-July 2007. As at mid-July 2007, such debt was Rs. 216.63 billion. While the external debt/GDP ratio was 30.0 percent and the gross foreign exchange reserve/external debt ratio was 86.6 percent as at mid-July 2008, such ratios were 29.8 percent and 76.2 percent, respectively, as at mid-July 2007.

Table 1.5
Reserve Adequacy Indicators

S.N.	Indicators	2004/05	2005/06	2006/07	2007/08 ^P
1	Trade-related indicators (in months)				
	Import Coverage (goods only)	10.4	11.4	10.2	11.5
	Import Coverage (goods and services)	8.8	9.6	8.4	9.3
2	Debt-related indicator (in percent)				
	Gross Foreign Exchange Reserve/ External Debt	59.1	70.5	76.2	86.6
3	Money-based indicators (in percent)				
	Gross Foreign Exchange Reserve/ Broad Money (M2)	43.2	47.6	41.7	42.9
	Gross Foreign Exchange Reserve/ Reserve Money	134.6	148.8	138.4	147.1
4	Macro-economic indicator (in percent)				
	Gross Foreign Exchange Reserve/ GDP	22.0	25.5	22.9	26.0

P: Provisional

Foreign Exchange Trend

- 1.59 The exchange rate of the Nepalese rupee vis-à-vis the Indian rupee remained constant also in 2007/08. However, with respect to the other major currencies, the nominal exchange rate of the rupee depreciated in 2007/08. In comparison to mid-July 2007, the rupee depreciated by 5.33 percent against US dollar at mid-July 2008. Similarly, the Nepalese rupee depreciated by 3.28 percent against the British pound, 17.89 percent against the Euro and 17.45 percent against the Japanese yen.

Table 1.6
Exchange Rate Trend

Foreign Currency	Buying Rate (Nepalese Rupee)			Appreciation (+)/Depreciation (-)	
	mid-July			(in percent)	
	2006	2007	2008	2006/07	2007/08
1 US Dollar	74.10	64.85	68.50	14.26	-5.33
1 Pound Sterling	136.17	131.43	135.89	3.61	-3.28
1 Euro	93.82	89.27	108.72	5.10	-17.89
10 Japanese Yen	6.39	5.30	6.42	20.57	-17.45

Fiscal Situation

1.60 Fiscal situation of the Government of Nepal (GON) remained expansionary in 2007/08. A significant amount spent on historical Constitution Assembly election, implementation of 23-pointed political agreement, a rise in the salary of government employees, peace related expenditure, a significant amount spent to clear Nepal Oil Corporation's arrears as well as the non-budgetary expenses on different items and exerted the pressure on expenditure in the review year. In spite of this, revenue mobilization at a higher growth rate remained a major characteristic of 2007/08. In 2007/08, revenue soared by a remarkable growth rate of 22.7 percent compared to a growth of 21.3 percent and 3.1 percent in 2006/07 and 2005/06 respectively mainly on account of expansion in economic activities, improvement in tax system, increase in taxpayers' compliance and strengthening of revenue administration. Thus, government budgetary situation on cash basis limited within the boundary of 2.6 percent of the GDP despite the increase in government expenditure.

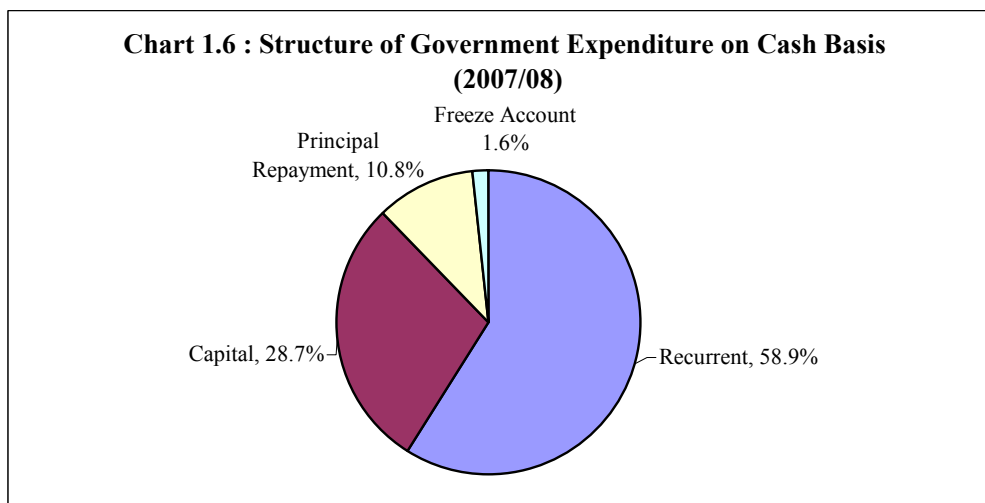
Government Expenditure

1.61 Total government expenditure on a cash basis increased by 19.7 percent to Rs.150.0 billion in 2007/08 compared to a rise of 23.3 percent in 2006/07. A higher level of growth in both recurrent as well as capital expenditure contributed to such an acceleration in total expenditure.

1.62 The recurrent expenditure of the GON rose by 19.2 percent to Rs. 88.3 billion in 2007/08 compared to an increase of 14.8 percent in 2006/07. The rise in the salary of government employees, peace related expenditure, non-budgetary expenses on different items and expenditure on CA elections exerted the pressure on recurrent expenditure in the review year.

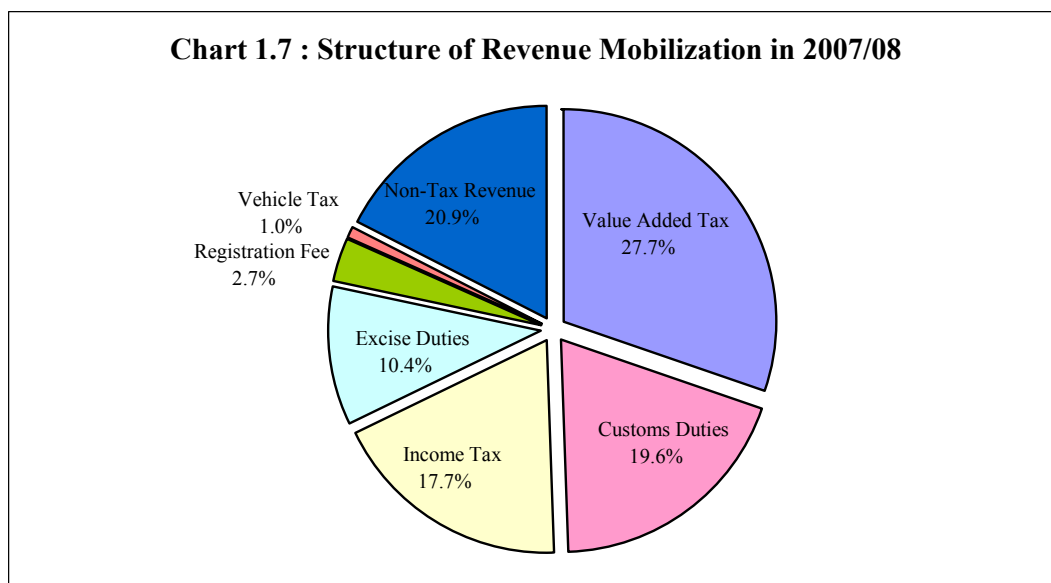
1.63 Capital expenditure increased by 33.9 percent to Rs.43.3 billion in 2007/08 compared to a rise of 57.7 percent in the previous year. A pick up in capital spending was on account of the investment in public enterprises amounting to Rs 8.9 billion including the loan investment of Rs 6.7 billion in Nepal Oil Corporation for the clearance of arrears, the share investment of Rs 2.8 billion in Agriculture Development Bank and Rs 2.2 billion in the Nepal Electricity Authority and the release of funds of Rs.1.9 billion to Poverty Alleviation Fund (PAF). Moreover, the disbursement of funds to local authorities for rural infrastructure development (such as expansion of transformer line, small hydroelectricity project, alternative energy development) also contributed to such an increase of capital expenditure in the review year.

1.64 In the review period, of the total government expenditure, the ratios of recurrent expenditure, capital expenditure, principal repayment and freeze expenditure stood at 58.9 percent, 28.7percent, 10.8 percent and 1.6 percent respectively. Such ratios were 59.2 percent, 25.8 percent, 13.4 percent and 1.7 percent respectively in the previous year.



Government Revenue

- 1.65 Total revenue of the GON grew by 22.7 percent to Rs 107.62 billion in 2007/08 compared to a growth of 21.3 percent in the previous year. Consequently, revenue/GDP ratio increased to 13.1 percent in the review year from 12.1 percent in the previous year. Such an impressive growth of revenue was on account of substantial increase in the import of merchandise goods and the resulting increase in customs duties, VAT revenue and excise duties, the increase in income tax mainly due to increase in tax payers' compliance as well as an increase in non tax revenue.
- 1.66 Amongst the components of revenue, the Value Added Tax (VAT) collection increased by 13.9 percent to Rs 29.8 billion in the review period compared to a rise of 21.0 percent in 2006/07. The growth in VAT revenue was on account of growing imports and consumption induced by the rise in remittances and reforms in VAT administration in the forms of establishment of Large Taxpayers Unit, strengthening of billing system and non-filers management.
- 1.67 The revenue generation from customs increased by 26.1 percent to Rs. 21.1 billion in 2007/08 compared to an increase of 8.8 percent in the previous year. Reforms in customs administration, the increase in imports of high tax yielding vehicles and spare parts as well as a rise in the amount of Indian excise refund contributed to such a high growth of customs revenue.
- 1.68 In the review year excise revenue increased by 20.2 percent to Rs 11.2 billion compared to an increase of 43.6 percent. Reforms in excise administration, identification of new excisable goods, and increase in the imports of high tax yielding vehicles and spare parts accounted for such an increase in excise revenue.



- 1.69 The income tax revenue increased by 21.2 percent to Rs 19.1 billion in the review year. Income tax had increased by 43.9 percent in the previous year. A significant amount of income tax paid by the large taxpayer companies like Nepal Telecom, Surya Nepal, Spice Nepal, Gorkha Brewery, Standard Chartered Bank contributed to such a growth of income tax collection in the review year.
- 1.70 VAT remained the largest source of revenue collection with a contribution of 27.67 percent to total revenue in 2007/08. In the previous year, the contribution was also 29.8 percent. In terms of contribution, VAT was followed by Customs with a contribution of 19.6 percent, income tax with 17.7 percent and excise duty with 10.4 percent in total revenue mobilization. In the previous year, the contribution of customs duty was 19.0 percent, income tax was 17.9 percent and excise duty was 10.7 percent.

- 1.71 The non-tax revenue increased by 35.9 percent to Rs 22.5 billion in 2007/08. In the previous year, non-tax revenue had decreased by 11.4 percent. Such an increase in non-tax revenue was on account of the increase in dividend paid by some public enterprises including the NRB as well as the amount received by the government in the form of principal repayment from Nepal Telecom, Nepal Electricity Authority and Civil Aviation Authority

Tax Policy Provisions

- 1.72 With regard to income tax, the exemption limit for personal income taxation of Rs 100,000 for individual and Rs 125,000 for family in 2006/07 increased to Rs 115,000 and 140,000 respectively in 2007/08.
- 1.73 Tax on interest income plummeted to 5 percent in 2007/08 from 6 percent in the past.
- 1.74 On the excise front, excise duties on cigarette, liquor and cement increased. Excise duties on vehicles import soared from 32 percent to 35 percent.
- 1.75 Custom duties on vehicle parts increased to 80 percent from 55 percent.

Tax Rates

- 1.76 Personal income tax and corporate income tax rates were not changed in the review year. However, the existing provision of Rs 75,000 above the tax exemption limit subject to income taxation of 15 percent was expanded to Rs 85,000 in 2007/08. Thereafter the rate is 25 percent i.e. the highest marginal rate of 25 percent plus 1.5 percent that applied in 2006/07, has also remained constant in 2007/08.
- 1.77 In the excise front, excise rates of 4, 5, 15, 32, 35 and 53 percent are prevalent in 2007/08. Such rates were 2, 4, 5, 15, 32 and 53 percent in 2006/07. In 2007/08, customs rates on imports remained at 5, 10, 15, 20, 25, 30, 40, 55 and 80 percent which were the same in 2006/07. In 2007/08, customs rates on exports remained at 0.5, 1, 4, 8, 70 and 200 percent which were only 0.5, 1, 8, 70 and 200 percent in the previous year.

Table 1.7
Tax Rates

S.N.	Tax	2006/07	2007/08
1.	Import Duties (Percent)	5,10,15,20,25,30,40,55,80	5,10,15,20,25,30,40,55,80
2.	Export Duties (Percent)	0.5, 1, 8, 70, 200	0.5, 1, 4,8, 70, 200
3.	Excise (Percent)	4, 5, 15, 32,53	4, 5, 15, 32,35,53
4.	VAT (Percent)	13	13
5.	Income Tax		
	(a) Limit of Exemption		
	(i) Individual	Rs. 100,000	Rs. 115,000
	(ii) Family	Rs. 125,000	Rs. 140,000
	(b) Rate of Tax (Percent)		
	(i) First Rs. 75,000 after exemption	15 percent (First Rs. 75,000)	15 percent (First Rs. 85,000)
	(ii) After that	25+1.5 percent	25+1.5 percent
6.	Corporate Tax		
	(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
7.	Interest Rax	6 percent	5 percent
8.	Provident Fund and Pension	6 percent	5 percent
9.	Government Bond	6 percent	5 percent

Foreign Cash Grants

- 1.78 Foreign cash grants recorded a significant increment of 37.5 percent to Rs.17.5 billion in 2007/08. In the previous year, the government had received Rs 12.8 billion in foreign cash grants. In the review year, the major assistance included supports provided by the Asian Development Bank for the Rural Reconstruction and Rehabilitation Sector Development Program (RRRSDP), Germany for Middle Marsyangdi Hydroelectric Project, the World Bank for Poverty Alleviation Fund, Road Sector Development Project, Irrigation and Water Resources Management Project and Education For All Project, the UNICEF for Decentralized Action for Children and Women, Health and Nutrition, and HIV/AIDs program and Finland for Rural Water Supply and Sanitation Project.

Budget Deficit/Surplus

- 1.79 In 2007/08, the GON's budget deficit on a cash basis increased by 13.0 percent to Rs 21.2 billion compared to a deficit of Rs.18.8 billion in the previous year. The ratio of budget deficit to GDP remained at 2.6 percent in the review period. Such ratio was the same in 2006/07.
- 1.80 In 2007/08, the domestic financing of the budget deficit through the issuance of securities amounted to Rs 20.5 billion which was 2.5 percent of GDP.
- 1.81 After deducting the principal repayment of Rs.8.6 billion from gross domestic borrowing, net domestic borrowing (including the GON balance of Rs 2.1 billion with NRB) stood at Rs 9.8 billion. The ratio of net domestic borrowing to GDP stood at 1.2 percent in the review year. Consequently, the GON's total outstanding domestic debt (including GON's balance with NRB) increased to Rs.106.0 billion from Rs. 96.2 billion in the previous year.
- 1.82 The foreign loan (cash) mobilization declined by 12.7 percent to Rs. 3.9 billion in the review year. It was Rs. 4.4 billion in the previous year.

Status of the Public Enterprises

- 1.83 Of the 36 state owned (fully owned /partially owned) enterprises, 22 enterprises had earned profit and 14 enterprises had incurred the losses in 2006/07.
- 1.84 Public Enterprises earned net profit of Rs 8.0 billion in 2006/07. They had earned net profit of Rs 2.5 billion in the previous year. Net profit of Rs 6.0 billion earned by Nepal Telecom and net profit of Rs 1.1billion earned by ADB/N contributed to such an increase in overall net profit in 2006/07. Similarly, a decline in net loss of Nepal Oil Corporation from Rs 3.7 billion in 2005/06 to Rs 1.9 billion in 2006/07 contributed to such an increase in net profit of the public enterprises. However inability to adjust the local price of petroleum products with an increase in international price was expected to increase the overall net profit of the enterprises to Rs 7.2 billion. Likewise, net profit of enterprises was expected to remain Rs 3.5 billion in 2007/08.
- 1.85 Total shareholders' fund of all public enterprises remained Rs 39 billion in 2006/07 which was the same in the previous year. In 2006/07, share investment of the GON was 75.8 billion. However, 49 percent of the capital has been eroded. The GON earned a dividend of Rs 1.5 billion which was 2.0 percent of total share investment in 2006/07. Similarly, total outstanding loan investment to the enterprises remained Rs 65.1 billion in 2006/07. Of this, internal loan was of Rs 6.3 billion and external loan was of Rs 58.8 billion.
- 1.86 Even, of the profit earning enterprises, the economic condition, capacity utilization and employee productivity of the most of the enterprises did not seem satisfactory. A very low rate of return on government investment in the enterprises, lack of regular and updated audit, severe human resources pressure, majority of enterprises operating at loss, some enterprises having negative net worth, lack of funds for the provisions to meet employee related facilities, political interference, lack of freedom to the enterprise to determine the price of their product as per the change in market price, lack of appropriate and new technology, lack of clear policy and mechanism for the monitoring and inspection of the enterprises are the main challenges of public enterprises in Nepal.

Privatization and Dissolution of Public Enterprises

- 1.87 With the objective of minimizing the administrative and budgetary burden of the GON, strengthening productivity by increasing business skill of the industries and business enterprises, minimizing the possibility of crowding out private investment by the unproductive investment in government enterprises, increasing private sector participation in economic development, the GON had started privatization process since 1994. Up to mid-April, 2008, 30 public enterprises were privatized through liquidation, assets and business sales, share and equity sales, management contract and equity sales and lease. However privatization is not free of problem. Problems in getting receivables easily by the GON through privatization, problems in settlement of enterprises' obligation and GON's compulsion to pay for such obligation, problems in sale of assets, mis-utilization of land given on rent in the process of privatization are the major challenges of privatization.

Monetary Situation

Monetary Aggregates

- 1.88 Broad money (M_2) expanded by 25.2 percent amounting to Rs 495.4 billion as in mid-July 2008 compared to an expansion of 14.0 percent in the previous year. The ratio of M_2 to gross domestic product (GDP) increased to 60.4 percent as in mid-July 2008 from 54.4 percent as in mid-July 2007. Narrow money (M_1) registered a high growth of 21.6 percent in the review year compared to a growth of 12.2 percent in the previous year. Time deposits, another component of M_2 , grew by 27.0 percent in the review year compared to a growth of 14.9 percent in the previous year. A substantial growth in net foreign assets (after adjusting foreign exchange valuation gain/loss) contributed to a significant expansion in monetary aggregates in the review year.
- 1.89 Of the components of narrow money (M_1), currency in circulation increased by 19.9 percent amounting to Rs 100.2 billion as in mid-July 2008 compared to an increase of 7.4 percent in the previous year. Relief and rehabilitation expenses for conflict affected people, constitution assembly election and elevated level of remittance inflow in the review year contributed significantly to increase the currency in circulation. Likewise, demand deposits increased by 25.0 percent in the review year compared to an increase of 22.8 percent in the previous year. Demand deposits increased on account of a higher credit flow to real estate and consumption credit and margin lending for purchase of shares.
- 1.90 Analysis from the demand side reveals that increase in money demand was on account of increase in growth of gross domestic product and rise in prices in the review year.

Factors Affecting Monetary Expansion

- 1.91 Of the expansionary factors of money supply, net foreign assets (NFA) after adjusting foreign exchange valuation gain/loss increased by Rs 29.7 billion (22.5 percent) compared to an increase of Rs 5.9 billion (4.2 percent) in the previous year. Encouraging inflow of remittances, foreign assistance and expansion in tourism sector are attributed for such a substantial rise in NFA in the review year.
- 1.92 Domestic credit of the monetary sector grew by 20.4 percent compared to a growth of 16.7 percent in the previous year. Domestic credit increased in the review year on account of a rise in claims on non-government financial institutions, establishment of five new commercial banks and a substantial increase in private sector credit towards real estate, consumption and construction sectors.
- 1.93 Of the credit aggregates, net claims on government witnessed a growth of 11.2 percent in the review year compared to a growth of 10.4 percent in the previous year. An increase in revenue mobilization relative to the expenditure is attributed to a lower level of growth in claims on government in the review year compared to that of the previous year. Cash balance of the GON increased by Rs 2.1 billion in the review year to Rs 5.2 billion as in mid-July 2008.

- 1.94 Credit to the private sector grew by 22.9 percent in 2007/08 compared to a growth of 18.9 percent in the previous year. The ratio of private sector credit to GDP increased to 43.4 percent as in mid-July 2008 from 39.8 percent as in mid-July 2007. A slight improvement in investment environment on the ground of a beginning of peace process and a higher credit flow towards real estate, construction, retail and wholesale business by existing banks as well as establishments of five new commercial banks are accounted for expansion in private sector credit in the review year.
- 1.95 Claims on non-financial government enterprises rose by 10.4 percent in the review year compared to a growth of 12.1 percent in the previous year. Some part of loan repayment by Nepal Oil Corporation, National Trading Limited and Nepal Airlines Corporation lowered the growth of such claims in the review year.
- 1.96 Claims on financial institutions increased by 30.0 percent in the review year compared to a growth of 1.1 percent in the previous year. A short-term investment by commercial banks in finance companies and other financial institutions increased such a claim in the review year.

Reserve Money

- 1.97 Reserve money grew by 21.2 percent in the review year compared to a growth of 7.5 percent in the previous year. On the sources side, a higher inflow of private sector remittances accounted for such a growth in reserve money in the review year. On the demand side, among the components of reserve money, currency in circulation grew by 19.9 percent in the review year compared to an increase of 7.4 percent in the previous year and cash balance of the commercial banks grew by 5.9 billion (71.9 percent) in the review year compared to an increase of Rs 1.3 billion (21.6 percent) in the previous year. Likewise, commercial banks deposits with the NRB increased by 5.6 percent in the review year against a decline of 1.4 percent in the previous year.

Money and Financial Market

Sources of Fund of Commercial Banks

- 1.98 Commercial banks' assets/liabilities increased by 24.9 percent amounting to Rs 549.0 billion as in mid-July 2008 compared to a growth of 11.1 percent in the previous year. Establishments of five new commercial banks, increase in deposit mobilization on account of an encouraging inflow of remittances and expansion in private sector credit attributed to a rise in assets/liabilities of the commercial banks in the review year.
- 1.99 Total deposit mobilization of commercial banks expanded by 26.0 percent amounting to Rs 421.5 billion in the review year. Such deposit was Rs 334.5 billion as in mid-July 2007. The ratio of total deposit to GDP increased to 51.4 percent in the review year from 45.9 percent in the previous year. In an addition to establishment of five new commercial banks, increase in bank branches by existing banks and a substantial inflow of remittances contributed to an expansion in deposit mobilization in the review year.
- 1.100 Of the structures of total deposits, demand deposits increased by 26.8 percent compared to an increase of 19.5 percent in the previous year. Domestic demand deposits grew by 23.1 percent compared to a growth of 20.7 percent in the previous year. Likewise, saving deposits increased by 21.1 percent in the review year compared to an increase of 15.1 percent in the previous year. Of the components of saving deposits, domestic saving deposits increased by 21.1 percent in the review year. Such deposits had increased by 15.5 percent in the previous year. Fixed deposits, which had increased by 14.0 percent in the previous year, increased by 33.6 percent amounting to Rs 152.4 billion in 2007/08. Domestic fixed deposits increased by 37.5 percent in the review year compared to a growth of 13.7 percent in the previous year. However, foreign fixed deposits increased at a lower rate than to that of the previous year. Such deposits increased by 11.4 percent in the review year compared to a rise of 15.5 percent in the previous year.

- 1.101 Borrowings from the NRB by commercial banks declined by Rs 1.2 billion in the review year. Such borrowings had increased by 1.5 billion in the previous year. Borrowings from the NRB declined on account of additional resource mobilization through capital expansion besides mobilizing higher deposits and managing short-term funds through inter bank borrowings.
- 1.102 Other liabilities of commercial banks expanded by 22.8 percent in the review year as against a decline of 3.7 percent in the previous year. Establishment of five new commercial banks and issuance of primary as well as right and bonus shares by existing commercial banks in order to raise the capital at a level stipulated by the NRB within the specified time period contributed to raise other liabilities substantially in the review year.

Use of fund of Commercial Banks

- 1.103 Loans and advances of commercial banks increased by 23.5 percent in the review year amounting to Rs 420.2 billion compared to a growth of 10.7 percent in the previous year. Of the components of loans and advances, the share of private sector credit has remained high. The ratio of such credit to GDP and total deposits stood at 41.0 percent and 79.9 percent respectively. The private sector credit expanded by 26.9 percent amounting to Rs 336.8 billion as in mid-July 2008 compared to a growth of 17.1 percent in the previous year.
- 1.104 Commercial banks have invested 13.3 percent of total assets on government securities. Investment on such securities expanded by 9.5 percent amounting to Rs 72.1 billion as in mid-July 2008 compared to an expansion of 11.9 percent in the previous year. Likewise, commercial banks' claims on non-financial government enterprises registered a growth of 10.2 percent in the review year, a lower than a growth of 12.2 percent in the previous year. A partly repayment of loans used by Nepal Oil Corporation, National Trading Limited and Nepal Airlines Corporation contributed to lower the growth of such claims in the review year.
- 1.105 Liquid funds of commercial banks increased by 21.7 percent in the review year compared to a growth of 5.0 percent in the previous year. An elevated inflow of remittances and a higher expansion of capital and reserves of commercial banks through capital injections attributed to such an increase in liquid funds in the review year. Of the components of liquid funds, balance held abroad by commercial banks increased by 21.1 percent in the review year compared to an increase of 8.1 percent in the previous year. Likewise, deposits of commercial banks with the NRB increased by 5.6 percent in the review year against a decline of 1.4 percent in the previous year.

Refinance Facilities to Commercial Banks and Other Financial Institutions from the NRB

- 1.106 Outstanding refinance facilities to commercial banks and other financial institutions from the NRB came down to Rs 309.8 million in the review year compared to Rs 561.9 million in the previous year. Such outstanding facilities to commercial banks alone remained at Rs 60.7 million in the review year compared to Rs 80.8 million in the previous year. Outstanding refinance facilities to government financial institutions came down to Rs 249.1 million in the review year from that of Rs 481.0 million in the previous year. The outstanding claim of the NRB under refinance facilities availed to Nepal Agriculture Development Bank, Nepal Industrial Development Corporation and Rural Development Banks amounted to Rs 0.1 million, Rs 232.0 million, Rs 10.0 million respectively in the review year compared to Rs 0.1 million, Rs 464.0 million, and Rs 10.0 million in the previous year. Likewise, such outstanding refinance facility to Western Development Bank remained at Rs 7.0 million as in mid-July 2008.
- 1.107 As per unaudited balance sheet of the commercial banks, the ratio of non-performing assets (NPA) to total assets declined to 6.7 percent as in mid-July 2008 compared to 10.3 percent in the previous year. The amount of NPA of Nepal Bank Limited (NBL) and Rastriya Banijaya Bank (RBB) came down respectively to 8.05 percent and 21.6 percent of total loan as in mid-July 2008 from 13.5 percent and 27.6 percent as in mid-July 2007. The NPA of these banks improved on account of the stern measures taken to recover bad loan along with the credit

write-off of Rs 27.1 billion while undergoing the restructuring process. Likewise, the NPA of Agriculture Development Bank of Nepal (ADB/N) is also in a process of gradually declining. The ratio of NPA to total loan of this bank declined to 10.4 percent as in mid-July 2008 from 18.0 percent in the previous year. Besides these banks such as NBL, RBB and ADB/N under government ownership, some commercial banks like Nepal Bangladesh Bank Limited and Lumbini Bank Limited established in the private sector have high NPA ratio.

Table 1.8
Status of Non-performing Assets of Commercial Banks

Commercial Banks	2004/05	2005/06	2006/07	2007/08*
Nepal Bank Ltd	49.6	25.1	13.5	8.1
Rastriya Banijaya Bank	53.0	45.3	27.6	21.6
Nabil Bank Ltd	1.3	1.3	1.1	0.8
Nepal Investment Bank Ltd	2.7	2.3	2.4	1.1
Standard Chartered Bank Nepal Ltd	2.7	2.1	1.8	0.9
Himalayan Bank Ltd	7.4	6.1	3.6	2.4
Nepal SBI Bank Ltd	6.5	6.3	4.6	3.7
Nepal Bangladesh Bank Ltd	19.0	12.3	39.8	31.1
Everest Bank Ltd	1.6	1.2	0.8	0.6
Bank of Kathmandu Ltd	5.0	2.5	2.5	1.8
Nepal Credit and Commerce Bank Ltd	8.6	11.1	31.4	16.4
Lumbini Bank Ltd	15.2	31.9	20.4	14.87
Nepal Industrial and Commercial Bank Ltd	3.8	2.6	1.1	0.9
Machhapuchhre Bank Ltd	0.4	0.3	1.2	1.0
Kumari Bank Ltd	1.0	0.9	0.7	1.4
Laxmi Bank Ltd	1.6	0.7	0.4	0.1
Siddhartha Bank Ltd	2.6	1.3	0.3	0.6
Agriculture Development Bank Ltd		21.2	18.0	10.4
Development Credit Bank Limited		0		1.3
Nepal Merchant Bank				1.5
Total	18.9	14.2	10.3	6.7

* Based on unaudited balance sheet of mid-July 2008

Standing Liquidity Facility and Inter Bank Transactions

1.108 In 2007/08, commercial banks used Rs 103.8 billion under standing liquidity facility (SLF) compared to Rs 47.0 billion in the previous year. The use of SLF witnessed a substantial rise in the review year on account of a higher credit flow to the private sector and short-term investment in finance companies and other financial institutions. A shortfall of liquidity in the sixth and seventh month of the review year also helped to increase the use of SLF in the review year. The commercial banks also used a high level of SLF and inter bank borrowing in order to manage the likely demand for liquidity emerging on account of an initial public offering of Agriculture Development Bank/Nepal for its borrower, an issue of electricity bond by Nepal Electricity Authority at a rate of 7.75 percent and offering of shares in the primary market by Nepal Telecom and other financial institutions for general public. Commercial banks undertook inter bank transactions of Rs 258.3 billion in the review year, which was Rs 170.2 billion in the previous year.

Table 1.9
Inter Bank Transactions and Weighted Average Inter Bank Rate

Month	2006/07		2007/08	
	Amount (Million)	Interest (Percent)	Amount (Million)	Interest (Percent)
Aug	1339.7	2.07	3545.5	4.09
Sep	1883.0	1.83	3135.3	2.18
Oct	1585.5	2.11	3506.2	3.35
Nov	1488.0	1.20	2147.1	3.73
Dec	1418.0	1.34	2041.8	4.73
Jan	1739.5	3.03	2437.9	4.93
Feb	896.2	2.01	1223.6	7.55
Mar	771.3	1.39	1044.3	5.07
Apr	729.5	1.69	1258.4	2.69
May	2030.0	3.35	2157.0	6.48
Jun	1739.7	2.72	1741.3	4.65
Jul	1398.0	3.03	1593.4	3.61
Total	17018.4	2.26	25831.9	4.20

Interest Rate Structures

1.109 There have been changes in short-term as well as medium-term interest rates in the review year. The weighted annual average rate of 91-day Treasury bill increased to 4.21 percent in the review year from 2.44 percent a year ago. Likewise, annual weighted average inter-bank rate remained at 4.42 percent in the review year compared to 2.26 percent in the previous year. The interest rate on saving deposits increased to a maximum of 6.0 percent in the review year from a maximum of 5.5 percent in the previous year. Similarly, the interest rate on one-year fixed deposit also increased to a maximum of 6.75 percent in the review year from a maximum of 5.5 percent in the previous year. On the other hand, the interest rate of industrial credit moderated from a maximum of 13.5 percent in the previous year to 13.0 percent in the review year. Similarly, the interest rate of agriculture credit came down to 12.0 percent in the review year from a high of 13.0 percent in the previous year. The increased competition in the financial market helped to bring about changes in interest rate structures in the review year.

Foreign Exchange Intervention

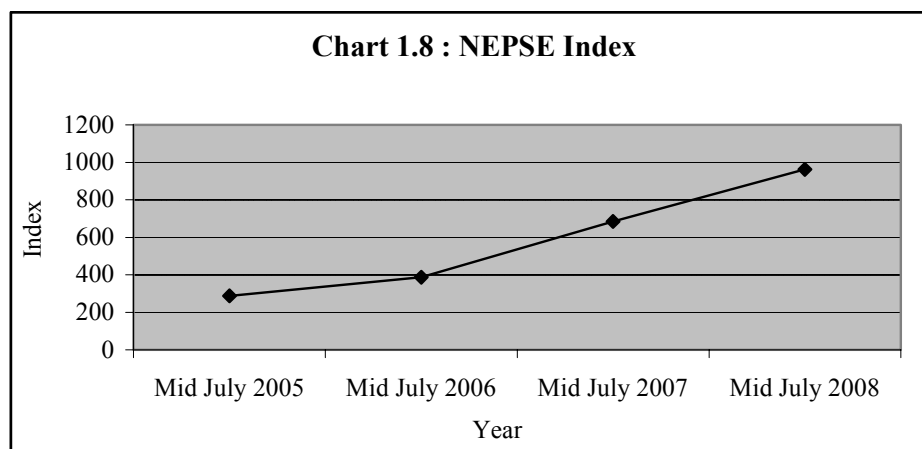
1.110 In 2007/08, the NRB injected net liquidity of Rs. 102.4 billion by net purchase of 1.6 billion US dollar through foreign exchange intervention. In the previous year, the NRB had injected net liquidity of Rs. 64.5 billion by net purchase of 915.7 million US dollar. Such a higher foreign exchange intervention was on account of elevated level of remittance inflows in the review period. Likewise, the NRB purchased Indian Currency (IC) 70.6 billion by selling the US dollar 1.7 billion in 2007/08 compared to a purchase of IC 40.3 billion by selling the US dollar 930 million in the previous year. A widening current account deficit with India and higher amount of payments made to Indian Oil Corporation (IOC) by Nepal Oil Corporation (NOC) contributed to such an increase in IC purchase in the review period. A purchase of IC through selling the US dollar for managing IC reserves helped partly to mop up liquidity injected through the foreign exchange intervention. Remaining liquidity was mopped up through open market operation.

Capital Market

1.111 The capital market remained impressive in 2007/08. The NEPSE has changed its name to "Nepal Stock Exchange Limited". The previous name was Nepal Stock Exchange in English & Nepal Dhitopatra Binimaya Bazar in Nepali. The NEPSE also has turned itself into a profit seeking company. The NEPSE adopted the Automated Trading System (ATS) instead of open out cry trading system from August 15, 2007. Nepal Stock Exchange Limited has started on-line trading through Wide Area Network (WAN). Now, all the brokers can trade from their

own office via WAN. The NEPSE has started providing real time information (live trading activity) to investors and any one can check share price by online from anywhere during the trading hours since Nov. 22, 2007. As NEPSE became more systematic, it has also introduced a new measuring instrument called "Market Halt System" (if the NEPSE index fluctuates 25 points in a day) to stabilize the volatility of the stock market.

- 1.112 The Nepalese stock market has expanded as bullish trend during the review year, the NEPSE increased annually by 40.85 percent and remained at 963.36 points as in mid-July 2008. The NEPSE has made it's peak record since it's establishment and remained at 1064.09 points on Dec. 17, 2007. The progress in law and order increase in the moral of investors, transparency in stock market, increasing profit of banks and financial institutions, distribution of right and bonus share. Similarly, continuous expansion of remittance inflow, lack of alternate investment and low interest rate has created the attraction of the investor's toward the share market.



- 1.113 Total number of companies listed at the NEPSE reached 142 in mid-July 2008 from 135 in mid-July 2007. Among the listed companies, 112 were bank and financial institutions. Production and processing industries, hotels, business entities, hydro- power and companies in other groups were 18, 4, 4, 3 and 1 respectively. Nepal Stock Exchange Ltd. has delisted five companies from its list and two companies have merged. Total paid up capital of the listed companies increased by 35.51 percent and stood at Rs.29.46 billion in mid-July 2008 from Rs. 21.74 billion in the previous year.
- 1.114 The market capitalization increased by 96.59 percent to Rs.366.25 billion in mid-July 2008 from the level of Rs. 186.3 billion in the previous year. Market capitalization to GDP ratio stood at 44.62 percent from 25.9 percent last year. Likewise, paid up capital to GDP ratio increased marginally by 0.59 percent and stood at 3.59 percent from 3.0 percent last year.
- 1.115 Nepal Securities Board (SEBON), granted permission for new issuance of shares and debendutes worth Rs. 11.57 billion in the fiscal year 2007/08. These consist ordinary shares of Rs.1012.65 million of 18 companies, right shares of Rs.7605.21 million of 49 companies, and debentures of Rs.2950 million of five companies including Nepal Electricity Authority. Likewise the Nepal stock exchange listed the bonus share of Rs.2108.98 million of 50 companies during the fiscal year.
- 1.116 The NEPSE started the secondary market transaction of Government securities since 15 Dec 2006. As in mid-July 2008, worth, Rs.6100 million Government bond were listed in the NEPSE. However, there was no transaction of such Government bonds during the review period.
- 1.117 A total amount of Rs.3550 million of bonds issued by commercial banks and Rs. 100 million of mutual fund managed by NIDC Capital Market under the trust ship of Nepal Industrial and Development Corporation were listed in the NEPSE until Mid July 2008. (Table 1.10)

Table 1.10
Listed Corporate Bond, Debenture and Mutual Fund

SN	Issuer	Listing Date	Issue Amount (Rs. in Million)	Maturity	Coupon Rate
1	Nepal Investment Bank Ltd.	March 25,2002	300.00	7 years (Nov 23,2010)	8.5%
2	Everest Bank Ltd.	Nov. 29, 2004	300.00	7 years (May 7,2012)	6%
3	Bank of Kathmandu Ltd.	Sep. 7, 2005	200.00	7 years (Nov 3,2012)	6%
4	Nepal Investment Bank Ltd.	Mar. 30, 2006	250.00	7 years (Jun 25,2013)	6%
5	Nepal Industrial and Commercial Bank Ltd.	May 31, 2006	200.00	7 years (Jun 26,2013)	6%
6	Nepal SBI Bank Ltd.	June 25, 2006	200.00	7 years (July 5,2013)	6%
7	Nepal Investment Bank Ltd.	June 12, 2007	250.00	7 years (May 31,2014)	6.25%
8	NCM Mutual fund	June 6, 2002	100	10 years	5%
9	Nepal Investment Bank Ltd.	Sep. 3, 2007	250	7 years	6.2
10	Nepal Electricity Authority	June 5, 2008	1500.00	5 years (2012)	7.75%
	Total		3550.00		

Source: Nepal Stock Exchange Ltd.

Financial Institutions

Number of Financial Institutions

1.118 There has been significant growth in the number of bank and financial institutions in the review period. Total number of commercial banks ('A' class financial institutions) reached 25 in mid-July 2008. Similarly, the number of development banks ('B' class financial institutions), finance companies ('C' class financial institutions) and micro-finance institutions ('D' class financial institutions including Rural Development Banks) reached 58, 78, and 12 respectively. While the number of cooperatives and Non-Government Organization (NGOs) licensed by the NRB to undertake limited financial transactions decreased to 16 and 46 respectively compared to 17 and 47 respectively in the previous year. In total, the number of financial institutions in mid-July 2008 stood at 263 including 25 insurance companies, Employees Provident Fund, Citizen Investment Trust and Postal Savings Banks. (Table 1.11)

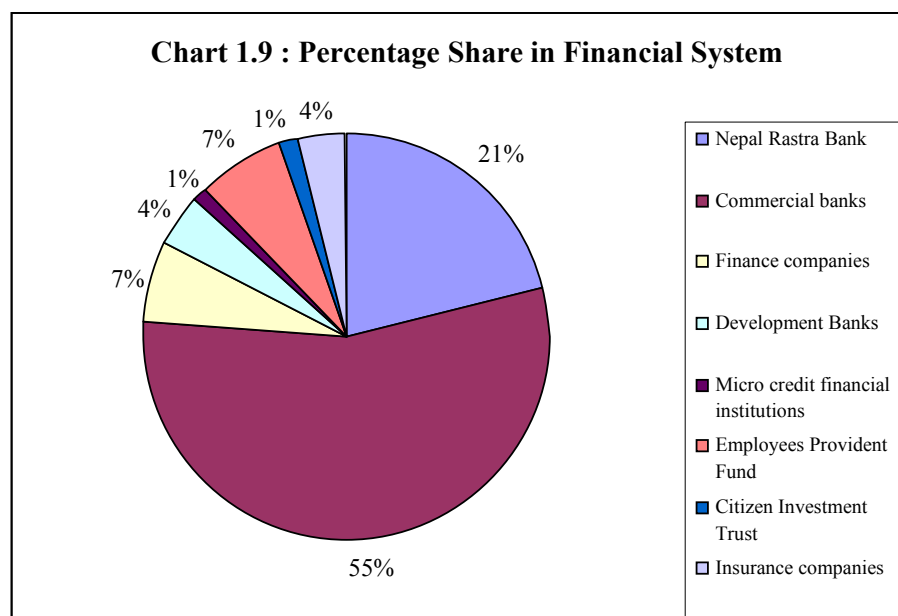
Table 1.11
Number of Bank and Financial Institutions

Banks and Financial Institutions	2007 (Mid-July)	2008 (Mid-July)
Commercial Banks	20	25
Development Banks	38	58
Finance Companies	74	78
Micro-Finance Institutions	12	12
Cooperatives (licensed by the NRB to undertake limited financial transactions)	17	16
Non-Governmental Organizations (NGOs) (licensed by the NRB to undertake micro-finance transactions)	47	46
Insurance Companies	21	25
Employees Provident Fund	1	1
Citizen Investment Trust	1	1
Postal Savings Bank*	1	1
Total	232	263

* Branches of Postal Savings Bank – 117.

Financial Structure

- 1.119 The ratio of total assets/liabilities of financial institutions including that of contractual saving institutions to GDP reached to 122.4 percent in mid-July 2008. Including the market capitalization of the shares listed in the Nepal Stock Exchange, the ratio stood at 167.11 percent.
- 1.120 The share of commercial banks in the total assets/liabilities of the financial system remained at 54.6 percent. Likewise, the share of Nepal Rastra Bank, Employees Provident Fund, Finance Companies, Development Banks and Insurance Companies were 21.1 percent, 6.8 percent, 6.5 percent, 4.0 percent and 4 percent respectively.



Development Banks

- 1.121 The development banks were established with an active participation of private sector once the Development Bank Act, 1996 came into implementation. The objective of the act is to enhance financial services for the development of agriculture, industry and commerce. 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 Bank Limited, 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. NRB issues necessary directives on a regular basis for the effective regulation of these banks. Total financial resources of these banks increased by 76.6 percent to Rs.40.1 billion in mid-July 2008. Total deposit mobilizations, the major source of fund for these banks, increased by 67.5 percent to Rs. 25.75 billion in the review period. Similarly, capital fund and borrowing increased by 60.7 and 17.3 percent respectively. On the uses side of the fund, the share of loan and advance increased by 54.2 percent to Rs.23.7 billion. (Table 19)

Finance Companies

- 1.122 Finance companies operate under Bank and Financial Institutions Act 2006 as "C" class financial institutions. Total sources/uses of finance companies increased by 21.6 percent to Rs 65.3 billion in mid-July 2008. The total resources had increased by 37.7 percent in the previous year. Total deposit increased by 24.10 percent to Rs. 42.82 billion in the review year compared to a growth of 26.4 percent in the previous year. Likewise, the capital fund and borrowing reached Rs 8.41 billion and Rs. 3.94 billion respectively in the review period. (Table 20)

- 1.123 On the uses side, loan and advances increased by 21.8 percent to Rs. 43.37 billion in mid July 2008. Investment of these companies decreased by 3.1 percent to Rs 4.49 billion. The liquid assets of finance companies remained Rs. 12.98 billion as of mid-July 2008. Such amount was Rs. 7.51 billion in the previous year.

Micro Finance Institutions

- 1.124 Micro-finance institutions consist of five Rural Development Banks, five rural bank replicates and two wholesale lending institutions.
- 1.125 Rural Development Banks have been established in each of the five development regions of the country with an objective of providing micro-finance access under group guarantee to uplift the economic situation of rural poor women. They were established under the capital investment of the Government of Nepal (GON) and the NRB. Out of them, Eastern, Central and Western Rural Development Banks were already privatized.
- 1.126 Five grameen bank replicates established by the private sector are: Nirdhan, Chhimek, Swabalamban, Deprosc, and Nerude.
- 1.127 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 transactions in the area of micro finance. RMDC which was established on October 30, 1998, has been providing wholesale lending to development banks, micro finance development banks, cooperatives, non-governmental organization etc. And the SFDB, established on 6 July 2001, has been lending Small Farmers Cooperatives Limited (SFCL). 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. 320million in mid-July 2008. Total borrowings and loan investment of this Center stood at Rs. 1.82 billion and Rs. 1.25 billion respectively in mid-July 2008.
- 1.128 Total assets/liabilities of the micro finance institutions as of mid-Jan 2007 recorded a growth of 13.6 percent to Rs.11.99 billion. Total deposit mobilization as of mid Jan 2008 of these institutions stood at Rs. 1.32 billion and total borrowings remained Rs. 7.56 billion. Similarly, total loan and investment remained Rs. 6.44 billion and Rs. 3.20 billion respectively. (Table 21)

Rural Self Reliance Fund

- 1.129 Rural Self Reliance Fund (RSRF) was established by GON on 1990 and promoted by NRB. It has been providing wholesale lending to the cooperatives and NGOs for micro finance transactions. As of mid-July 2008, the Fund has disbursed Rs.193.4 million and collected principal amount of Rs. 102.3 million. (Table 1.12)

Table 1.12
Financial Activities of the Rural Self Reliance Fund

Description	Mid-July 2007	Mid-July 2008
Loan Disbursement:		
Number of Districts	48	50
No of Institutions	277	334
No of benefited families	12228	14862
Loan Disbursed (Rs.in million)	132.6	193.4
Recollected Loan (Rs.in million)	81.2	102.3
Outstanding Loan (Rs.in million)	51.4	91.1
Overdue loan (as percentage of the total outstanding loan)	8.5	9.0
Loan Recovery (in percent)	91.6	91.0

NRB Licensed Financial Cooperatives

1.130 Cooperatives which undertake limited financial transactions are established under Cooperatives Act 1992. Now, these cooperatives are operating financial activities under the directives issued by this bank in 2002 (revised in 2003). In mid-July 2008, there were 16 cooperatives licensed by NRB. Total capital fund of these cooperatives was Rs. 395.7 million in mid-July 2008 compared to Rs. 350 million in the previous year. Total deposit and total loans and advances mobilized by these cooperatives from group members stood at Rs. 2.91 billion Rs. 2.62 billion respectively in the review period. Similarly, the total investment on government securities, fixed deposits and others remained Rs. 220.3 million in mid-July 2008.

NRB licensed Non-Government Organizations

1.131 There are altogether 46 NGOs licensed 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 institutions stood at Rs. 961.2 million in mid-July 2008.

Insurance Companies

1.132 In mid-July 2008, there were altogether 25 insurance companies established under Insurance Act, 1992. Of these, 8 were life insurance, 16 were non-life insurance, and one was composite (both life and non-life). According to the ownership structure, 1 was government owned, 18 were owned by the private sector, 3 were foreign joint ventures, and 3 were foreign branches. According to the data released by Insurance Board, the regulator of the insurance companies, total assets liabilities of these companies increased by 27.8 percent to Rs. 40.07 billion in mid-July 2008. Likewise, Total premium collection of these companies remained at Rs. 9.45 billion in mid-July 2008. Such amount was Rs. 7.99 billion in the previous year. (Table 23)

Employees Provident Fund

1.133 Employees Provident Fund (EPF) was established on 16 September 1962 under the Employees Provident Fund Act, 1962. EPF mobilizes the provident fund of government employees, army, police, teachers, government corporations, and some of private companies. In the review year, total assets/liabilities of the EPF increased by 14.7 percent to Rs. 67.94 billion compared to Rs. 59.22 billion in the previous year. The fund collected by EPF increased by 14.6 percent and stood at Rs. 62.48 billion in mid-July 2008 compared to Rs. 54.50 billion in the previous year. (Table 24)

Citizen Investment Trust

1.134 Citizen Investment Trust (CIT) was established on 18 March 1991 under CIT Act 1991. It mobilizes the private and institutional savings, extends loans and advances, and facilities as an issue manager. It is under the Ministry of Finance of GON. Total assets/liabilities of the CIT increased by 43.3 percent to Rs. 13.67 billion in mid-July 2008, compared to Rs. 9.54 billion in the previous year. Fund collection, the major component in the liabilities side, increased by 44.2 percent to Rs. 12.36 billion in mid-July 2008. It was Rs. 8.57 billion in the previous year. Investments of CIT increased by 45.2 percent to Rs. 9.58 billion in the review year from Rs. 6.60 billion in the previous year. (Table 25)

Postal Savings Bank

1.135 The Postal Savings Banks are managed under the Postal Service Department, Government of Nepal and came into operation since 1976. In mid-July 2008, deposit-collecting offices of Postal Savings Bank remained same at 117 in the review year. Total deposit collected by these offices stood Rs. 820.7million in mid-July 2008, from Rs. 700 million in the previous year. Total accounts numbers reached to 33762 in mid-July 2008. From 34280 in the previous year. The total investment (which is distributed from the 57 local postal offices) of the bank was Rs 784.7 million in mid-July 2008.

Deposit Insurance and Credit Guarantee Corporation (DICGC)

1.136 DICGC was established in 20 September 1974 to encourage commercial banks to extend loan to priority sector and provide banking serves to remote areas and poor families. The DICGC has been guaranteeing 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 remained Rs. 421.9 million as at mid-July 2008.

Credit Information Bureau (CIB) Limited

1.137 Credit Information Bureau was established in 1989 under the initiation of Nepal Rastra Bank. It was registered as a company in September 2004 and started its operation as a company since March 2005. It collects the credit information from the Banks and Financial Institutions and disseminates them on demand. NRB and other bank and financial institutions have invested the capital in CIB. NRB holds 10 percent share. Similarly, commercial banks, development banks and finance companies hold 60 percent, 15 percent and 15 percent share respectively. As of mid-July 2008, there were 3423 borrowers blacklisted by the CIB and 1295 borrowers were removed from the list.

Table 1
Growth of the World Economy

(In Percent)

	2006	2007	Projection	
			2008	2009
World Output	5.1	5.0	3.9	3.0
Advanced Economies	3.0	2.6	1.5	0.5
Major Advanced Economies	2.7	2.2	1.2	0.1
USA	2.8	2.0	1.6	0.1
Germany	3.0	2.5	1.8	-
France	2.2	2.2	0.8	0.2
Japan	2.4	2.1	0.7	0.5
UK	2.8	3.0	1.0	-0.1
Canada	3.1	2.7	0.7	1.2
Other Advanced Economies	4.5	4.7	3.1	2.5
Developing Countries	7.9	8.0	6.9	6.1
Emerging Asia	9.9	10.0	8.4	7.7
ASEAN - 4 *	5.7	6.3	5.5	4.9
China	11.6	11.9	9.7	9.3
South Asia**	9.2	8.7	7.6	6.4
Bangladesh	6.5	6.3	7.0	5.6
India	9.8	9.3	7.9	6.9
Pakistan	6.9	6.4	5.8	3.5

* Indonesia, Malaysia, Philippines, Thailand & Vietnam.

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

Source: World Economic Outlook, IMF, Washington D.C., October 2008 (Page 2, 65, 265).

Table 2
World Trade
(Annual Percentage Change)

	2006	2007	Projection	
			2008	2009
World Trade Volume (goods and services)	9.3	7.2	4.9	4.1
Import				
Developed Countries	7.5	4.5	1.9	1.1
Developing Countries	14.7	14.2	11.7	10.5
Export				
Developed Countries	8.4	5.9	4.3	2.5
Developing Countries	11.0	9.5	6.3	7.4

Source: World Economic Outlook, IMF, Washington D.C., October 2008 (Page 2).

Table 3
World Inflation Rate
(Annual Percentage Change)

	2006	2007	Projection	
			2008	2009
Oil*	20.5	10.7	50.8	-6.3
Non-fuel Goods	23.2	14.1	13.3	-6.2
Consumer Price				
Advanced Economies	2.4	2.2	3.6	2.0
Developing Countries	5.4	6.4	9.4	7.8
Developing Asia	4.2	5.4	7.8	6.2
ASEAN-5	8.1	4.4	9.6	7.2
China	1.5	4.8	6.4	4.3
South Asia	6.5	6.9	8.8	8.8
Bangladesh	7.1	9.1	10.1	10.0
India	6.2	6.4	7.9	6.7
Pakistan	7.9	7.8	12.0	23.0

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

Source: World Economic Outlook, IMF, Washington D.C., October 2008 (Page 2, 65, 271).

Table 4
Macroeconomic Indicators

S.No.	Description	2005/06	2006/07	2007/08
(Percentage change over preceding year)				
1.	In Producers' Prices			
	(a) GDP at 2000/01 Prices	3.7	3.2	4.7
	(b) GDP at Current Prices	11.0	11.2	12.9
2.	In Basic Prices			
	(a) GDP at 2000/01 Prices	4.1	2.6	5.6
3.	Gross National Product (at current price)	11.5	11.5	13.1
4.	Total Consumption	14.2	10.2	10.7
5.	Total Investment	12.6	16.0	28.9
6.	Gross National Savings	13.4	9.2	26.8
7.	Gross Fixed Capital Formation	15.3	9.5	16.4
8.	Gross Domestic Savings	-13.8	20.6	32.9
9.	Gross National Disposable Income	14.0	10.0	14.6
10.	M1	14.2	12.2	21.6
11.	M2	15.6	14.0	25.2
12.	Domestic Credit	11.7	16.7	20.9
13.	Fixed Deposits	16.4	14.9	27.0
14.	Total Exports	2.6	-1.4	2.4
15.	Total Imports	16.3	12.0	16.1
16.	Gross Foreign Exchange Reserves	27.0	0.1	29.9
17.	Government Revenue	3.1	20.9	22.7
18.	Government Expenditure	12.5	23.3	22.2
19.	Government Budget Deficit	14.9	15.9	9.8
20.	Internal Borrowings [#]	4.1	16.2	14.6
21.	National Urban Consumer Price Index	8.0	6.4	7.7
22.	Wholesale Price Index	8.9	9.0	9.1
As Percentage of GDP (Nominal GDP at Producers' Prices)				
1.	Total Consumption	91.0	90.3	88.5
2.	Total Investment	26.8	28.0	32.0
3.	Gross National Savings	29.0	28.5	32.0
4.	Gross Fixed Capital Formation	20.7	20.4	21.0
5.	Gross Domestic Savings	9.0	9.7	11.5
6.	Gross National Disposable Income	120.0	118.8	120.5
7.	GDP at Current Prices	11.4	10.5	13.8
8.	M1	17.5	17.6	18.8
9.	M2	53.6	54.4	60.4
10.	Domestic Credit	49.3	51.7	53.1
11.	Fixed Deposits	36.2	36.9	41.5
12.	Total Exports	9.2	8.2	7.4
13.	Total Imports	26.6	26.8	27.5
14.	Foreign Exchange Reserves	25.5	22.7	25.9
15.	Government Revenue	11.2	12.1	13.1
16.	Government Expenditure	15.7	17.4	19.9
17.	Revenue Surplus	-1.0	-0.5	1.5
18.	Government Budget Surplus/Deficit	-2.5	-2.6	-4.0
19.	Internal Borrowings [#]	2.0	2.1	2.5
20.	Trade Balance	-17.4	-18.6	-20.1
21.	Current Account Balance	2.2	-0.1	2.6
22.	Total Outstanding External Debt	26.2	29.8	29.9

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		
	2005/06	2006/07	2007/08
Agricultural Sector	1.8	1.0	5.7
Agriculture and Forestry	1.7	0.9	5.7
Fishery	9.9	3.0	7.1
Non-Agricultural Sector	5.9	4.1	5.6
<i>Industrial Sector</i>	<i>4.5</i>	<i>3.9</i>	<i>1.8</i>
Mining and Quarrying	8.3	1.5	2.8
Manufacturing	2.0	2.6	0.2
Electricity, Gas and Water	4.0	13.0	3.4
Construction	7.7	2.5	3.1
<i>Services Sector</i>	<i>6.4</i>	<i>4.2</i>	<i>6.9</i>
Wholesale and Retail Trade	3.7	-4.5	6.4
Hotel and Restaurant	6.0	3.5	7.5
Transport, Storage and Communication	6.9	4.4	6.6
Financial Intermediation	24.4	11.4	13.8
Real Estate, House rent and Business Activities	6.3	11.8	4.4
General Administration and Defense	6.9	1.3	5.6
Education	3.7	6.2	4.6
Health and Social Services	5.9	6.7	7.4
Other Communities, Social and Personal Services	3.3	11.8	11.0
Gross Domestic Product (at Producers' Prices)	3.7	3.2	4.7

Source: Central Bureau of Statistics.

Table 6
Agricultural Production Index

Agriculture Product	Weight %	2005/06	2006/07	2007/08	2006/07	2007/08
		Index			Percentage Change	
Cereals and Other Crops	49.41	111.1	108.1	116.0	-2.7	7.3
Paddy	20.75	99.8	87.3	102.0	-12.6	16.8
Maize	6.88	116.9	122.6	126.6	4.9	3.2
Wheat	7.14	120.4	130.9	135.8	8.7	3.8
Millet	1.37	102.9	100.7	102.9	-2.1	2.2
Barley/naked barley	0.22	91.1	92.8	92.1	1.8	-0.7
Potato	4.67	150.3	147.9	156.4	-1.6	5.7
Sugarcane	1.24	111.3	117.5	112.4	5.6	-4.4
Jute	0.17	104.3	93.7	96.3	-10.1	2.7
Tobacco	0.06	68.4	66.6	65.8	-2.6	-1.3
Soyabean	0.19	111.8	120.0	118.0	7.3	-1.7
Pulses	4.42	109.3	112.2	110.3	2.6	-1.7
Others	2.29	98.7	96.0	93.6	-2.7	-2.5
Vegetables and Nursery Products	9.71	132.5	140.9	154.4	6.3	9.6
Vegetables	9.70	132.5	140.9	154.4	6.3	9.6
Others	0.01	120.3	118.0	115.8	-1.9	-1.9
Fruits and Spices	7.04	130.8	138.4	145.9	5.8	5.4
Orange	0.97	127.2	146.1	157.6	14.9	7.9
Mango	1.56	107.7	113.5	110.8	5.4	-2.4
Banana	0.40	102.9	108.9	117.5	5.8	7.9
Apple	0.42	107.4	108.6	117.2	1.2	7.9
Spice Crops	1.79	186.1	193.4	211.9	3.9	9.6
Tea	0.05	208.9	226.0	243.5	8.2	7.7
Coffee	0.004	337.1	402.2	561.8	19.3	39.7
Others	1.85	107.3	112.4	114.6	4.8	2.0
Livestock and Milk	23.25	114.6	118.1	121.2	3.1	2.6
Buffalo Meat	4.42	113.8	117.8	121.5	3.5	3.2
Mutton	3.24	112.1	117.4	120.4	4.7	2.6
Milk	12.36	116.6	120.0	123.2	2.9	2.7
Others	3.23	110.3	112.4	113.8	1.9	1.3
Other Livestock	2.43	111.0	119.7	123.4	7.8	3.1
Pig's Meat	0.50	103.5	105.2	107.8	1.7	2.4
Poultry Meat	0.67	116.9	120.8	124.5	3.3	3.1
Eggs	0.81	118.4	121.2	124.4	2.3	2.7
Hides and Skin	0.35	99.8	144.0	151.6	44.3	5.2
Others	0.10	89.3	89.5	89.5	0.2	0.0
Forestry	8.07	102.5	104.2	104.5	1.7	0.2
Timber	1.09	102.8	105.5	107.8	2.7	2.2
Firewood	4.94	100.9	100.6	99.4	-0.2	-1.2
Medicinal Herbal Products	0.02	112.2	114.3	112.5	1.8	-1.5
Other	2.03	106.1	112.2	114.8	5.7	2.3
Overall Index	100.00	114.6	115.7	122.3	0.9	5.7

Source: Central Bureau of Statistics.

Table 7
Annual Manufacturing Production Index

S. N.	Group of Industrial Product	2003/04=100					
		Weight %	2005/06	2006/07	2007/08 ^p	2006/07	2007/08
			Index			Percentage Change	
1.	Vegetable Oils and Fats	15.78	108.7	108.4	94.2	-0.3	-13.1
	Vegetable Ghee	10.08	111.9	104.7	84.2	-6.5	-19.6
	Mustard Oil	1.95	93.0	104.0	100.8	11.7	-3.0
	Soyabean Oil	3.74	108.6	121.1	118.2	11.5	-2.4
2.	Dairy Products	2.77	105.0	107.4	108.5	2.3	1.0
	Processed Milk	2.77	105.0	107.4	108.5	2.3	1.0
3.	Grain Mill Products and Animal Feeds	8.16	106.5	115.0	118.2	8.0	2.8
	Rice	4.33	104.8	111.8	116.0	6.6	3.8
	Wheat Flour	2.19	108.4	111.5	113.2	2.8	1.5
	Animal Feed	1.63	108.8	129.0	131.6	18.6	2.0
4.	Other Food Products	7.93	110.2	118.2	125.3	7.2	6.0
	Biscuit	1.04	112.3	116.5	123.4	3.8	5.9
	Sugar	2.92	106.2	118.3	124.1	11.3	4.9
	Noodles	2.72	112.4	117.7	123.9	4.7	5.2
	Processed Tea	1.25	113.0	120.3	132.7	6.4	10.3
5.	Beverages	6.59	106.9	118.6	119.6	11.0	0.8
	Liquor Rectified	2.39	105.2	117.2	109.3	11.4	-6.8
	Beer	2.92	108.2	122.0	128.5	12.8	5.3
	Soft Drink	1.28	107.2	113.4	118.6	5.8	4.6
6.	Tobacco Products	6.53	99.7	102.7	105.5	3.1	2.7
	Cigarette	6.53	99.7	102.7	105.5	3.1	2.7
7.	Textiles	5.2	111.8	121.1	120.0	8.3	-0.8
	Yarn	3.18	118.1	130.9	129.7	10.8	-0.9
	Cotton Cloths	1.27	103.4	107.6	105.8	4.1	-1.6
	Synthetic Cloths	0.75	99.6	102.3	103.1	2.8	0.8
8.	Other Textiles	6.59	108.7	101.9	100.6	-6.3	-1.3
	Woolen Carpet	4.32	106.9	96.6	91.6	-9.6	-5.2
	Jute Goods	2.27	112.2	111.9	117.8	-0.3	5.3
9.	Knitted and Crocheted Fabrics	1.18	97.1	88.2	90.5	-9.2	2.5
	Pashmina	1.18	97.1	88.2	90.5	-9.2	2.5
10.	Wearing Apparel	7.14	68.1	59.4	49.7	-12.8	-16.3
	Garment	7.14	68.1	59.4	49.7	-12.8	-16.3
11.	Tanning and Dressing of Leather	0.92	111.0	121.0	121.6	9.0	0.5
	Processed Leather	0.92	111.0	121.0	121.6	9.0	0.5
12.	Saw Milling and Planning of Wood	0.95	99.0	101.9	103.3	2.9	1.4
	Wood Sawn	0.95	99.0	101.9	103.3	2.9	1.4
13.	Paper and Paper Products	1.42	105.9	110.6	110.9	4.5	0.3
	Paper excluding Newsprint	1.42	105.9	110.6	110.9	4.5	0.3
14.	Publishing, Printing and Reproducing of Recorded	1.58	105.7	106.1	109.0	0.3	2.7
	Newspaper	1.58	105.7	106.1	109.0	0.3	2.7
15.	Other Chemical Products	10.34	111.7	122.5	125.0	9.7	2.0
	Medicine	7.01	108.9	120.3	123.1	10.5	2.3
	Soap	3.33	117.5	127.2	128.9	8.2	1.3
16.	Plastic Product	4.75	103.3	96.2	87.9	-6.9	-8.6
	Plastic Product	4.75	103.3	96.2	87.9	-6.9	-8.6
17.	Non-metallic Mineral Products	5.34	107.7	104.1	103.2	-3.3	-0.9
	Bricks	2.42	107.5	95.6	102.0	-11.1	6.7
	Cement	2.92	107.9	111.1	104.2	3.0	-6.3
18.	Other Fabricated Metal Products	3.7	109.8	118.5	135.9	7.9	14.7
	Iron Rod and billets	3.7	109.8	118.5	135.9	7.9	14.7
19.	Casting of Metal	1.45	101.6	99.5	95.0	-2.0	-4.5
	Domestic Metal Product	1.45	101.6	99.5	95.0	-2.0	-4.5
20.	Electric Machinery Apparatus, Wire and Cable	1.68	108.6	108.5	108.5	-0.05	0.02
	Electrical Wire and Cable	1.68	108.6	108.5	108.5	-0.05	0.02
	Overall Index	100.00	104.7	107.4	105.9	2.6	-1.4

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

P = Preliminary Estimate.

Source: Central Bureau of Statistics.

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

Groups/Sub-groups	Weight %	2005/06	2006/07	2007/08	Percentage Change	
					2006/07	2007/08
Overall Index	100.00	174.7	185.9	200.2	6.4	7.7
Food and Beverages	53.20	166.8	178.8	196.9	7.2	10.1
Grains and Cereal Products	18.00	164.6	175.1	200.7	6.4	14.6
Rice	(14.16)	163.6	168.1	197.2	2.8	17.3
Pulses	2.73	150.4	175.9	200.8	17.0	14.2
Vegetables and Fruits	7.89	153.8	170.8	181.7	11.1	6.4
Spices	1.85	149.1	182.6	189.2	22.5	3.6
Meat, Fish and Eggs	5.21	174.8	186.3	200.7	6.6	7.7
Milk and Milk Products	4.05	158.1	169.9	182.8	7.5	7.6
Oil and Ghee	3.07	147.4	157.3	190.1	6.7	20.9
Sugar and Related Products	1.21	163.7	152.0	136.7	-7.1	-10.1
Beverages	2.28	180.7	188.1	192.5	4.1	2.3
Restaurant Meals	6.91	204.0	210.7	225.7	3.3	7.1
Non-food and Services	46.80	183.9	194.1	204.0	5.5	5.1
Cloths and Clothing	8.92	145.4	148.6	152.2	2.2	2.4
Cloths	(2.28)	133.7	135.6	136.0	1.4	0.3
Clothing	(5.75)	144.6	147.9	151.8	2.3	2.6
Footwear	2.20	137.8	143.5	151.9	4.1	5.9
Housing Goods and Services	14.87	200.9	215.4	230.4	7.2	7.0
House Furnishing and Household Goods	3.50	141.4	148.7	155.8	5.2	4.8
House Rent	4.19	158.4	165.2	172.7	4.3	4.5
Cleaning	1.26	144.6	159.2	172.1	10.1	8.1
Fuel, Light & Water	(5.92)	277.6	301.5	326.9	8.6	8.4
Transport and Communication	4.03	232.8	254.8	260.6	9.5	2.3
Medical and Personal Care	8.03	176.5	181.0	190.0	2.5	5.0
Education, Reading Materials & Recreation	7.09	200.0	211.8	222.0	5.9	4.8
Tobacco & Related Products	1.66	163.1	173.1	185.9	6.1	7.4
Petroleum Product	2.71	404.4	449.0	499.5	11.0	11.2
Non-petroleum Product	97.29	168.5	178.8	192.1	6.1	7.4
Urban Consumer Price Index - Kathmandu Valley						
Overall Index	100.00	167.8	178.0	190.9	6.1	7.2
Food and Beverages	51.53	159.5	169.4	185.9	6.2	9.7
Non-food and Services	48.47	176.7	187.2	196.1	5.9	4.8
Domestic Goods	81.26	163.3	172.6	184.7	5.7	7.0
Imported Goods	18.74	187.5	201.6	217.4	7.5	7.8
Tradable Goods	68.86	163.7	174.3	189.4	6.5	8.7
Non-Tradable Goods	31.14	177.0	186.3	194.1	5.3	4.2
Government Control Goods	17.03	205.2	221.9	237.6	8.1	7.1
Non-government Control Goods	82.97	160.1	169.0	181.2	5.6	7.2
Petroleum Product	3.04	381.4	418.3	468.8	9.7	12.1
Non-petroleum Product	96.96	161.1	170.5	182.1	5.8	6.8
Urban Consumer Price Index - Terai						
Overall Index	100.00	177.9	189.9	205.2	6.7	8.1
Food and Beverages	54.98	169.5	182.8	201.9	7.8	10.4
Non-food and Services	45.02	188.1	198.6	209.3	5.6	5.4
Petroleum Product	2.54	406.9	451.5	502.5	11.0	11.3
Non-petroleum Product	97.46	171.9	183.1	197.5	6.5	7.9
Urban Consumer Price Index - Hills						
Overall Index	100.00	177.5	188.2	202.2	6.0	7.4
Food and Beverages	53.04	171.5	183.4	201.7	6.9	10.0
Non-food and Services	46.96	184.2	193.7	202.9	5.2	4.7
Petroleum Product	2.33	435.7	492.7	542.0	13.1	10.0
Non-petroleum Product	97.67	171.3	180.9	194.1	5.6	7.3

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

Groups/Sub-groups	Weight %	2005/06	2006/07	2007/08	Percentage Change	
		1	2	3	2/1	3/2
Overall Index	100.00	134.3	146.4	159.7	9.0	9.1
Agricultural Commodities	49.59	130.2	145.3	159.1	11.6	9.5
Food Grains	16.58	119.0	131.9	148.9	10.8	12.9
Cash Crops	6.09	159.4	183.0	191.8	14.8	4.8
Pulses	3.77	136.4	164.2	186.1	20.4	13.3
Fruits and Vegetables	11.18	120.7	131.7	146.7	9.1	11.4
Spices	1.95	108.5	132.5	129.2	22.1	-2.5
Livestock Production	10.02	143.8	155.0	165.9	7.8	7.0
Domestic Manufactured Commodities	20.37	126.0	136.7	148.7	8.5	8.8
Food Related Products	6.12	116.4	125.9	138.0	8.2	9.6
Beverages and Tobacco	5.68	128.2	135.2	143.3	5.5	6.0
Construction Materials	4.50	149.1	172.3	196.1	15.6	13.8
Other	4.07	111.9	115.9	120.2	3.6	3.7
Imported Goods	30.04	146.5	154.7	168.0	5.6	8.6
Petroleum Products and Coal	5.40	244.5	267.3	298.9	9.3	11.8
Chemical Fertilizers and Chemical Goods	2.46	162.1	169.5	194.6	4.6	14.8
Transport Vehicles and Machinery Goods	6.97	125.3	128.2	138.1	2.3	7.7
Electric and Electronic Goods	1.87	96.2	95.6	95.2	-0.6	-0.4
Medicine	2.73	111.7	113.5	116.2	1.6	2.4
Textile Related Products	3.10	111.2	110.7	108.1	-0.4	-2.3
Others	7.51	130.4	141.5	154.6	8.5	9.3

Table 10
Direction of Foreign Trade*

(Rs. in million)

	2005/06	2006/07	2007/08	Percent Change	
				2006/07	2007/08
Total Export	60234.1	59383.1	59266.5	-1.4	-0.2
To India	40714.7	41728.8	38555.7	2.5	-7.6
To Other Countries	19519.4	17654.3	20710.8	-9.6	17.3
Total Import	173780.3	194694.6	221937.7	12.0	14.0
From India	107143.1	115872.3	142376.5	8.1	22.9
From Other Countries	66637.2	78822.3	79561.2	18.3	0.9
Total Trade Balance	-113546.2	-135311.5	-162671.2	19.2	20.2
With India	-66428.4	-74143.5	-103820.8	11.6	40.0
With Other Countries	-47117.8	-61168.0	-58850.4	29.8	-3.8
Total Foreign Trade	234014.4	254077.7	281204.2	8.6	10.7
With India	147857.8	157601.1	180932.2	6.6	14.8
With Other Countries	86156.6	96476.6	100272.0	12.0	3.9

* Based on customs data.

Table 11
Exports of Selected Commodities to Other Countries

(Rs. in million)

(A)	Major Items	2005/06	2006/07	2007/08 ^P	Percent Change	
					2006/07	2007/08
		15241.0	13563.8	13144.0	-11.0	-3.1
1	Handicraft (Metal and Wooden)	430.9	250.2	194.0	-41.9	-22.5
2	Herbs	19.0	43.5	97.9	128.9	125.1
3	Nepalese Paper & Paper Products	257.0	190.6	347.1	-25.8	82.1
4	Nigerseed	7.0	8.8	1.2	25.7	-86.4
5	Pashmina	1577.8	931.0	643.4	-41.0	-30.9
6	Pulses	191.7	488.5	1458.4	154.8	198.5
7	Readymade Garments	6204.1	5212.9	4755.8	-16.0	-8.8
8	Readymade Leather Goods	14.4	111.1	22.9	671.5	-79.4
9	Silverware and Jewelleryes	282.4	325.4	269.4	15.2	-17.2
10	Tanned Skin	310.4	279.1	248.7	-10.1	-10.9
11	Tea	107.6	122.5	57.0	13.8	-53.5
12	Woolen Carpet	5838.7	5600.2	5048.2	-4.1	-9.9
(B)	Others	4278.4	4090.5	7566.8	-4.4	85.0
	Total (A+B)	19519.4	17654.3	20710.8	-9.6	17.3

P = Provisional.

Table 12
Balance of Payments

		(Rs. in million)				
Particulars	2005/06	2006/07	2007/08P	Percent Change		
				2006/07	2007/08	
(A) Current Account	14224.5	-902.2	23679.6	-106.3	-2724.7	
Exports f.o.b.	61482.4	61488.4	61971.1	0.0	0.8	
<i>Oil</i>	0.0	0.0	0.0	-	-	
<i>Others</i>	61482.4	61488.4	61971.1	0.0	0.8	
Imports f.o.b.	-171540.8	-190437.1	-217962.8	11.0	14.5	
<i>Oil</i>	-33657.2	-33567.6	-40815.7	-0.3	21.6	
<i>Others</i>	-137883.6	-156869.5	-177147.1	13.8	12.9	
Balance on Goods	-110058.4	-128948.7	-155991.7	17.2	21.0	
Services Net	-6818.3	-8377.3	-11092.0	22.9	32.4	
Services: Credit	26469.7	32078.9	42236.1	21.2	31.7	
<i>Travel</i>	9555.8	10125.3	18653.1	6.0	84.2	
<i>Government n.i.e.</i>	7441.5	12336.4	13301.8	65.8	7.8	
<i>Other</i>	9472.4	9617.2	10281.2	1.5	6.9	
Services: Debit	-33288.0	-40456.2	-53328.1	21.5	31.8	
<i>Transportation</i>	-12592.3	-14557.4	-22675.9	15.6	55.8	
<i>Travel</i>	-11960.8	-13785.0	-20862.0	32.0	32.2	
<i>Other</i>	-8734.9	-10113.8	-9790.2	15.8	-3.2	
Balance of Goods and Services	-116876.7	-137326.0	-167083.7	17.5	21.7	
Income Net	4955.5	7431.8	7946.8	50.0	6.9	
Income: Credit	11432.3	14500.8	13447.7	26.8	-7.3	
Income: Debit	-6476.8	-7069.0	-5500.9	9.1	-22.2	
Balance of Goods, Services and Income	-111921.2	-129894.2	-159136.9	16.1	22.5	
Current transfers Net	126145.7	128992.0	182816.5	2.3	41.7	
Current Transfers: Credit	130861.7	133196.8	185462.9	1.8	39.2	
<i>Grants</i>	18851.1	18218.2	20993.2	-3.4	15.2	
<i>Workers' Remittances</i>	97688.5	100144.8	142682.7	2.5	42.5	
<i>Pensions</i>	12007.6	12937.0	18789.9	7.7	45.2	
<i>Other</i>	2314.5	1896.8	2997.1	-18.0	58.0	
Current Transfers: Debit	-4716.0	-4204.8	-2646.4	-10.8	-37.1	
(B) Capital Account	3107.0	4449.9	7912.5	43.2	77.8	
Total, Groups A plus B	17331.5	3547.7	31592.1	-79.5	790.5	
(C) Financial Account (excluding group e)	-1324.5	-2362.1	11032.6	78.3	-567.1	
Direct Investment Abroad	-469.7	362.3	293.9	-177.1	-18.9	
Portfolio Investment	0.0	0.0	0.0	-	-	
Other Investment: Assets	-14008.8	-10690.0	-11396.1	-23.7	6.6	
<i>Trade Credits</i>	-1629.5	-5127.6	853.2	214.7	-116.6	
<i>Other</i>	-12379.3	-5562.4	-12249.3	-55.1	120.2	
Other Investment: Liabilities	13154.0	7965.6	22134.8	-39.4	177.9	
<i>Trade Credits</i>	9232.5	1727.8	12483.6	-81.3	622.5	
<i>Loans</i>	526.9	1455.6	3391.5	176.3	133.0	
General Government	703.7	2150.7	3455.9	205.6	60.7	
<i>Drawings</i>	7691.0	9689.7	11325.5	26.0	16.9	
<i>Repayments</i>	-6987.3	-7539.0	-7869.6	7.9	4.4	
Other Sectors	-176.8	-695.1	-64.4	293.2	-90.7	
<i>Currency and Deposits</i>	3394.6	4782.2	6259.7	40.9	30.9	
NRB	-116.5	2.4	-5.6	-102.1	-333.3	
Deposit Money Banks	3511.1	4779.8	6265.3	36.1	31.1	
<i>Other Liabilities</i>	0.0	0.0	0.0	-	-	
Total, Groups A through C	16007.0	1185.6	42624.7	-92.6	3495.2	
(D) Net Errors and Omissions	12985.4	9500.9	-6690.3	-26.8	-170.4	
Total, Groups A through D	28992.4	10686.5	35934.4	-63.1	236.3	
(E) Reserves and Related Items	-28992.4	-10686.5	-35934.4	-63.1	236.3	
Reserve Assets	-28992.3	-13410.2	-37002.0	-53.7	175.9	
<i>NRB</i>	-21297.1	-10963.2	-29636.8	-48.5	170.3	
<i>Deposit Money Banks</i>	-7695.2	-2447.0	-7365.2	-68.2	201.0	
Use of Fund Credit and Loans	-0.1	2723.7	1067.6	-	-	
Change in Net Foreign Assets (-increase)	-25597.8	-5904.3	29674.7	-76.9	402.6	

P = Provisional.

Table 13
Gross Foreign Exchange Holding of the Banking System

(Rs. in million)

	2006	2007	2008P	Percent Change	
				2006/07	2007/08
Nepal Rastra Bank	131967.6	129626.4	169683.6	-1.8	30.9
Convertible	124147.2	123755.3	142848.8	-0.3	15.4
Non Convertible	7820.4	5871.1	26834.8	-24.9	357.1
Commercial Banks	33065.4	35499.6	42939.9	7.4	21.0
Convertible	31790.7	31681.0	38827.1	-0.3	22.6
Non Convertible	1274.7	3818.6	4112.8	199.6	7.7
Total Reserve	165033.0	165126.0	212623.5	0.1	28.8
Convertible	155937.9	155436.3	181675.9	-0.3	16.9
Non Convertible	9095.1	9689.7	30947.6	6.5	219.4

P = Provisional.

Table 14
Government Budgetary Operation*
(On Cash Basis)
During the Fiscal Year

(Rs. in million)

Heads	Amount			Percent Change	
	2005/06	2006/07	2007/08 ^P	2006/07	2007/08 ^P
Sanctioned Expenditure	104022.6	127768.8	155771.2	22.8	21.9
Recurrent	65415.2	74625.6	89634.5	14.1	20.1
Capital	22032.9	34262.1	47371.9	55.5	38.3
(a) Domestic Resources and Loans	19083.3	28124.8	39844.1	47.4	41.7
(b) Foreign Grants	2949.6	6137.3	7527.8	108.1	22.7
Principal Repayment	14267.8	16761.7	16386.9	17.5	-2.2
Others (Freeze Account)	2306.7	2119.4	2377.9	-8.1	12.2
Unspent Government Balance	2385.9	2445.2	5807.7	2.5	137.5
Recurrent	834.5	485.8	1294.7	-41.8	166.5
Capital	1548.3	1954.9	4121.7	26.3	110.8
Principal Repayment	3.1	4.5	391.3	45.2	8595.6
Actual Expenditure	101636.7	125323.6	149963.5	23.3	19.7
Recurrent	64580.7	74139.8	88339.8	14.8	19.2
Capital	20484.6	32307.2	43250.2	57.7	33.9
Principal Repayment	14264.7	16757.2	15995.6	17.5	-4.5
Others (Freeze Account)	2306.7	2119.4	2377.9	-8.1	12.2
Resources excluding Local Authorities' Account	85208.9	106560.8	127470.5	25.1	19.6
Revenue	72282.1	87712.1	107622.7	21.3	22.7
Foreign Grants	8884.9	12749.8	17530.6	43.5	37.5
Non-budgetary Receipts, net	1304.5	4970.0	1558.6	281.3	-68.7
Others #	-602.1	22.3	-21.1	-103.7	-194.6
VAT	171.1	-138.8	46.3	-181.1	-133.4
Local Authorities' Account (LAA)	3168.4	1241.4	733.4	-60.8	-40.9
Deficit (-) Surplus(+)	-16427.8	-18762.8	-22493.0	14.2	19.9
Sources of Deficit Financing	16427.8	18762.8	22493.0	14.2	19.9
Internal Loans	12582.0	14338.5	18620.7	14.0	29.9
Domestic Borrowings (Except overdraft & others)	11834.2	17892.3	20496.4	51.2	14.6
(a) Treasury Bills	10834.2	12051.5	12500.0	11.2	3.7
(b) Development Bonds	750.0	5500.0	6070.0	633.3	10.4
(c) National Saving Certificates	0.0	0.0	0.0	-	-
(d) Citizen Saving Certificates	250.0	340.8	1926.4	36.3	465.3
Overdraft+	1071.0	-3122.5	-806.7	-391.5	-74.2
Other @	-323.2	-431.3	-1069.0	33.4	147.9
Foreign Loans	3845.8	4424.3	3872.3	15.0	-12.5

* = 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.

P = Provisional.

Table 15
Outstanding Domestic Debt of the Government of Nepal

(Rs. in million)

S. N.	Bonds & Ownership	Amount			Amount Change		Percentage Change	
		2005/06	2006/07	2007/08 ^P	2006/07	20007/08	2006/07	2007/08
1.	Treasury Bills	62970.3	74445.3	85033.0	11475.1	10587.7	18.2	14.2
	(a) Banking Sector	60455.1	72380.3	82545.4	11925.2	10165.0	19.7	14.0
	<i>Nepal Rastra Bank</i>	9209.3	13768.8	17579.0	4559.6	3810.2	49.5	27.7
	<i>Commercial Banks</i>	51245.8	58611.5	64966.3	7365.7	6354.8	14.4	10.8
	(b) Non-banking Sector	2515.2	2065.0	2487.7	-450.2	422.7	-17.9	20.5
	<i>(of which ADB/N)</i>	400.0	0.0		-400.0	0.0	-100.0	-
2.	Development Bonds	17959.2	19177.1	21735.4	1217.9	2558.3	6.8	13.3
	(a) Banking Sector	7789.6	7798.9	7313.2	9.3	-485.7	0.1	-6.2
	<i>Nepal Rastra Bank</i>	1518.6	1518.6	296.5	0.0	-1222.1	-	-80.5
	<i>Commercial Banks</i>	6271.0	6280.3	7016.7	9.3	736.4	0.1	11.7
	(b) Non-banking Sector	10169.6	11378.2	14422.3	1208.6	3044.1	11.9	26.8
3.	National Saving certificates	3876.8	1516.9	1116.9	-2359.8	-400.0	-60.9	-26.4
	(a) Banking Sector	254.4	279.5	447.2	25.1	167.7	9.9	60.0
	<i>Nepal Rastra Bank</i>	254.4	279.5	447.2	25.1	167.7	9.9	60.0
	<i>Commercial Banks</i>	0.0	0.0	0.0	0.0	0.0	-	-
	(b) Non-banking Sector	3622.4	1237.4	669.8	-2385.0	-567.7	-65.8	-45.9
4.	Citizen Saving Certificates	1678.9	1391.0	3014.4	-287.9	1623.4	-17.1	116.7
	(a) Banking Sector	55.3	62.7	562.7	7.4	500.0	13.3	797.5
	<i>Nepal Rastra Bank</i>	55.3	62.7	562.7	7.4	500.0	13.3	797.5
	(b) Non-banking Sector	1623.6	1328.3	2451.6	-295.3	1123.3	-18.2	84.6
5.	Special Bonds	3469.8	2773.5	339.4	-696.3	-2434.1	-20.1	-87.8
	(a) Banking Sector	944.6	944.6	157.6	0.0	-787.0	0.0	-83.3
	<i>Commercial Banks</i>	944.6	944.6	157.6	0.0	-787.0	0.0	-83.3
	(b) Non-banking Sector	2525.2	1828.9	181.8	-696.3	-1647.1	-27.6	-90.1
	<i>(Of which duty drawback)</i>	1051.8	355.4	181.8	-696.4	-173.6	-66.2	-48.8
6.	Short term Loans and Advances	1071.0	-3122.5	-3929.2	2051.5	-806.7	-391.5	25.8
	Nepal Rastra Bank	1071.0	-3122.5	-3929.2	2051.5	-806.7	-391.5	25.8
7.	Grand Total	91025.9	96181.4	107309.9	5155.5	11128.5	5.7	11.6
	(a) Banking Sector	70570.1	78343.6	87096.8	7773.5	8753.2	11.0	11.2
	<i>Nepal Rastra Bank</i>	12108.6	12507.2	14956.2	398.6	2449.0	3.3	19.6
	<i>Commercial Banks</i>	58461.4	65836.4	72140.6	7375.0	6304.2	12.6	9.6
	(b) Non-banking Sector	20455.8	17837.8	20213.1	-2618.0	2375.3	-12.8	13.3

P = Provisional.

Table 16
Monetary Survey
(Mid- July)

(Rs. in million)

	2006	2007	2008 (e)	Amount Change		Percentage Change	
				2006/07	2007/08	2006/07	2007/08
1. Foreign Assets, net	139439.2	131909.5	171455.5	5904.2 ¹	29674.7 ²	4.2	22.5
1.1 Foreign Assets	166101.7	165713.5	213254.1	-388.2	47540.6	-0.2	28.7
1.2 Foreign Currency Deposits	25088.1	28247.2	34229.1	3159.1	5981.8	12.6	21.2
1.3 Other Foreign Liabilities	1574.4	5556.8	7569.6	3982.5	2012.7	253.0	36.2
2. Net Domestic Assets	207384.8	263608.7	323921.6	42789.9 ¹	70184.3 ²	20.6	26.6
2.1 Domestic Credit	322683.8	360558.1	437269.8	37874.3	76711.7	11.7	21.3
Domestic Credit*	322683.8	376581.9	453293.6	53898.1	76711.7	16.7	20.4
(a) Net Claims on Govt*	70970.6	78343.6	87079.6	7373.0	8736.0	10.4	11.2
Claims on Govt	70970.6	81466.1	91026.0	10495.6	9559.9	14.8	11.7
Govt Deposits	0.0	3122.5	3946.4	3122.5	823.9	0.0	26.4
(b) Claims on Non-Financial Govt Enterprises	4560.9	5114.9	5646.5	554.0	531.6	12.1	10.4
(c) Claims on Financial Enterprises	3581.9	3622.2	4709.5	40.3	1087.3	1.1	30.0
Government	1808.3	1713.0	1670.5	-95.3	-42.5	-5.3	-2.5
Non-Govt.	1773.6	1909.2	3039.1	135.6	1129.8	7.6	59.2
(D) Claims on Private Sector	243570.4	273477.4	339834.2	29907.0	66356.8	12.3	24.3
Claims on Private Sector*	243570.4	289501.2	355858.0	45930.8	66356.8	18.9	22.9
2.2 Net Non-Monetary Liabilities	115298.9	96949.4	113348.2	-4915.6 ¹	6527.4 ²	-4.3	6.7
Net Non-Monetary Liabilities*	115298.9	112973.2	129372.0	11108.2 ¹	6527.4 ²	9.6	5.8
3. Broad Money Supply (M2)	346824.0	395518.2	495377.1	48694.1	99859.0	14.0	25.2
3.1 Money Supply (M1)	113060.7	126887.9	154343.9	13827.2	27456.0	12.2	21.6
Currency	77780.4	83553.3	100175.2	5772.8	16622.0	7.4	19.9
Demand Deposits	35280.3	43334.4	54168.7	8054.0	10834.4	22.8	25.0
3.2 Time Deposits	233763.3	268630.2	341033.2	34866.9	72403.0	14.9	27.0
4. Broad Money Liquidity (M3)	371912.2	423765.4	529606.2	51853.2	105840.8	13.9	25.0
5. Reserve Money	110898.1	119269.3	144591.6	8371.2	25322.3	7.5	21.2
6. Narrow Money Multiplier	1.020	1.064	1.067	0.0	0.004	4.353	0.336
7. Broad Money Multiplier	3.127	3.316	3.426	0.2	0.110	6.036	3.313

E Estimates.

1 Adjusting exchange valuation loss of Rs. 13433.95 million.

2 Adjusting exchange valuation gain of Rs. 9871.37 million.

* Adjusting credit write-off of Rs. 2869.3 million (Rs. 821.7 million principal and Rs. 2047.6 million interest) as at mid-Oct. 2006 by Nepal Bank Ltd. and Rs. 13.2 billion (Rs. 4055.2 million principal and Rs. 9099.3 million interest) by RBB as at mid-Dec. 2006.

Table 17
Condensed Assets and Liabilities of Commercial Banks
(Mid-July)

(Rs. in million)

	2006	2007	2008 (e)	Amount Change		Percent Change	
				2006/07	2007/08	2006/07	2007/08
1. Total Deposits	289975.9	334453.3	421523.7	44477.4	87070.4	15.34	26.03
1.1 Demand Deposits	35716.1	42692.2	54124.4	6976.1	11432.1	19.53	26.78
(a) Domestic Deposits	31124.4	37575.8	46261.5	6451.4	8685.6	20.73	23.11
(b) Foreign Deposits	4591.7	5116.4	7862.9	524.7	2746.5	11.43	53.68
1.2 Saving Deposits	151710.7	174633.9	211406.4	22923.1	36772.6	15.11	21.06
(a) Domestic Deposits	145776.8	168320.4	203771.0	22543.6	35450.6	15.46	21.06
(b) Foreign Deposits	5934.0	6313.5	7635.5	379.5	1322.0	6.40	20.94
1.3 Fixed Deposits	100068.2	114032.5	152364.3	13964.3	38331.8	13.95	33.61
(a) Domestic Deposits	85505.7	97215.1	133633.6	11709.4	36418.5	13.69	37.46
(b) Foreign Deposits	14562.5	16817.3	18730.7	2254.9	1913.4	15.48	11.38
1.4 Margin Deposits	2480.9	3094.7	3628.6	613.9	533.9	24.75	17.25
2. Borrowings from NRB	329.2	1870.8	660.7	1541.6	-1210.2	468.35	-64.69
3. Foreign Liabilities	7.7	1628.5	1912.0	1620.8	283.5	21035.17	17.41
4. Other Liabilities	105652.3	101782.9	124993.9	-3869.4	23211.0	-3.66	22.80
4.1 Paid-up Capital	17049.7	20017.1	31750.3	2967.3	11733.2	17.40	58.62
4.2 General Reserves	9746.2	4330.7	3529.9	-5415.6	-800.7	-55.57	-18.49
4.3 Other Liabilities	78856.3	77435.1	89713.7	-1421.2	12278.6	-1.80	15.86
Assets=Liabilities	395965.1	439735.4	549090.2	43770.4	109354.8	11.05	24.87
5. Liquid Funds	61817.3	64930.3	79010.5	3113.0	14080.2	5.04	21.69
5.1 Cash in Hand	6054.4	7359.8	12651.9	1305.3	5292.1	21.56	71.91
5.2 Balance with NRB	22907.3	22597.7	23857.3	-309.6	1259.5	-1.35	5.57
5.3 Foreign Currency in Hand	399.2	454.0	358.8	54.8	-95.2	13.74	-20.97
5.4 Balance Held Abroad	31401.9	33933.0	41100.6	2531.1	7167.6	8.06	21.12
5.5 Cash in Transit	1054.5	585.8	1042.0	-468.7	456.1	-44.45	77.87
6. Loans and Advances	307583.9	340354.9	420242.6	32771.0	79887.7	10.65	23.47
<i>Loans and Advances*</i>	<i>307583.9</i>	<i>356378.7</i>	<i>436266.4</i>	<i>48794.8</i>	<i>79887.7</i>	<i>15.86</i>	<i>22.42</i>
6.1 Claims on Government	58861.9	65850.0	72100.2	6988.1	6250.2	11.87	9.49
6.2 Claims on Non-financial Government Enterprises	4552.4	5106.4	5635.5	554.0	529.1	12.17	10.36
6.3 Claims on Financial Enterprises	2543.5	2925.3	4245.4	381.8	1320.1	15.01	45.13
Government	829.1	1055.1	1238.4	225.9	183.3	27.25	17.37
Non-government	1714.4	1870.2	3007.1	155.9	1136.8	9.09	60.78
6.4 Claims on Private Sector	240361.9	265360.6	336781.0	24998.8	71420.4	10.40	26.91
<i>Claims on Private Sector*</i>	<i>240361.9</i>	<i>281384.4</i>	<i>352804.8</i>	<i>41022.6</i>	<i>71420.4</i>	<i>17.07</i>	<i>25.38</i>
(a) Principal	198215.2	231949.1	307272.1	33733.9	75323.0	17.02	32.47
<i>Principal*</i>	<i>198215.2</i>	<i>236826.0</i>	<i>312149.0</i>	<i>38610.8</i>	<i>75323.0</i>	<i>19.48</i>	<i>31.81</i>
(b) Interest Accrued	42146.6	33411.5	29508.9	-8735.1	-3902.6	-20.73	-11.68
<i>Interest Accrued*</i>	<i>42146.6</i>	<i>44558.4</i>	<i>40655.8</i>	<i>2411.8</i>	<i>-3902.6</i>	<i>5.72</i>	<i>-8.76</i>
6.5 Foreign Bills Purchased & Discounted	1264.3	1112.6	1480.5	-151.7	367.8	-12.00	33.06
7. Other Assets	26563.8	34450.3	49837.1	7886.5	15386.8	29.69	44.66

e = Estimated.

* Adjusting credit write-off of Rs 2869.3 million (Rs. 821.7 million principal and Rs. 2047.6 million interest) as at mid-Oct. 2006 by Nepal Bank Ltd. and Rs. 13.2 billion (Rs. 4055.2 million principal and Rs. 9099.3 million interest) by RBB as at mid-Dec. 2006.

Table 18
Stock Market Indicators

S. N	Particulars	2004/05	2005/06	2006/07	2007/08
1.	No. of listed companies	125	135	135	142
2.	Paid-up capital of the listed companies (Rs. in million)	16671	19958	21746	29465
3.	Total Market capitalization (Rs. in million)	61366	96763	186301	366248
4.	Annual turnover (Rs. in million)	4508	3452	8360	22821
5.	Market days	236	228	232	235
6.	No. of companies traded	102	110	116	136
7.	No. of transactions	106246	97374	120510	150800
8.	No. of listed shares (in '000)	194673	226540	243504	321131
9.	No. of shares traded (in '000)	18433	12221.9	18147	28600
10.	Ratio of paid-up capital to GDP (%)	3.3	3.1	3.0	3.6
11.	Ratio of turnover to paid-up capital (%)	10.4	17.3	38.4	77.5
12.	Ratio of turnover to market capitalization (%)	26.9	3.6	4.5	6.2
13.	Ratio of market capitalization to GDP (%)	7.3	15.0	25.9	44.6
14.	NEPSE Index (closing) *	286.6	386.8	684.0	963.4

* Base: February 12, 1994.

Source: Nepal Stock Exchange Ltd.

Table 19
Sources and Uses of Fund of Development Banks

(Rs. in million)

Particulars	Mid-July				Percentage Change		
	2005	2006*	2007	2008**	2006	2007	2008
Sources							
Capital Funds	4755.0	2795.0	4060.0	6524.0	-41.2	45.3	60.7
Deposits	33958.0	8791.0	15370.0	25751.0	-74.1	74.8	67.5
Borrowings	5118.0	1634.0	2232.0	2619.0	-68.1	36.6	17.3
Others	15066.0	701.0	1666.0	5656.0	-95.3	137.7	239.5
P/L Account	-1081.0	115.0	-670.0	-535.0	-110.6	-682.6	-20.1
Sources=Uses	57816.0	14036.0	22658.0	40015.0	-75.7	61.4	76.6
Uses							
Liquid Funds	4565.0	2385.0	3731.0	9929.0	-47.8	56.4	166.1
Investment	1991.0	685.0	1537.0	3385.0	-65.6	124.4	120.2
Loans and Advances	29894.0	8659.0	15374.0	23700.0	-71.0	77.5	54.2
Others	21334.0	1015.0	1260.0	2184.0	-95.2	24.1	73.3
P/L Account	30.0	1292.0	756.0	817.0	4206.7	-41.5	8.1

* Excluding ADB/N since Mid-July 2006.

** Unaudited.

Table 20
Sources and Uses of Fund of Finance Companies

(Rs. in million)

Particulars	Mid-July				Percentage Change		
	2005	2006	2007*	2008*	2006	2007	2008
Sources							
Capital Funds	3022	4310	5379.8	8417.0	42.6	24.8	56.5
Deposits	22341	27316	34514.7	42819.0	22.3	26.4	24.1
Borrowings	991	1155	3469.5	3941.0	16.5	200.4	13.6
Others	3173	5492	8763.0	9857.0	73.1	59.6	12.5
P/L Account	910	568	1339.0		-37.6	135.7	-100.0
Sources=Uses	30437	38841	53466	65035	27.6	37.7	21.6
Uses							
Liquid Funds	3905	5394	7513.0	12986.0	38.1	39.3	72.8
Investment	2411	2745	4636.0	4490.0	13.9	68.9	-3.1
Loans and Advances	21223	27057	35617.0	43371.0	27.5	31.6	21.8
Others	2898	3544	4845.0	4188.0	22.3	36.7	-13.6
P/L Account	0	101	855.0			746.5	-100.0

* Unaudited.

Table 21
Sources and Uses of Fund of Micro Finance Institutions

(Rs. in million)

Particulars	Mid-July			Mid-Jan.	Percentage Change		
	2005	2006	2007*	2008*	2006	2007	2008
Sources							
Capital Funds	740.0	830.4	1060	1114.1	12.2	27.6	5.1
Deposits	748.8	932.5	1014.2	1320.6	24.5	8.8	30.2
Borrowings	3402.5	5324.9	7186.9	7563.1	56.5	35.0	5.2
Others	1318.5	988.9	1213.4	1920.2	-25.0	22.7	58.2
P/L Account	90.5	119.7	85.1	80.9	32.3	-28.9	-4.9
Sources=Uses	6300.3	8196.4	10559.6	11998.9	30.1	28.8	13.6
Uses							
Liquid Funds	648.3	1325.1	1746.5	875.7	104.4	31.8	-49.9
Investment	1516.1	1672.4	2350.6	3203.3	10.3	40.6	36.3
Loans and Advances	3537.6	4302.0	5578.7	6447.6	21.6	29.7	15.6
Others	389.1	675.0	706.6	1285.6	73.5	4.7	81.9
P/L Account	208.9	221.0	177.5	186.7	5.8	-19.7	5.2

* Unaudited.

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

(Rs. in million)

Particulars	Mid-July				Percentage Change		
	2005	2006	2007*	2008*	2006	2007	2008
Sources							
Capital Funds	278	324	355	396.0	16.5	9.6	11.5
Deposits	1724	2012	2545	2914.0	16.7	26.5	14.5
Borrowings	46	71	140	206.0	54.3	97.2	47.1
Others	367	407	481	669.0	10.9	18.2	39.1
P/L Account	-5	63	69	57.0	-1360.0	9.5	-17.4
Sources=Uses	2410	2877	3590	4242	19.4	24.8	18.2
Uses							
Liquid Funds	424	493	490	686.0	16.3	-0.6	40.0
Investment	142	162	178	223	14.1	9.9	25.3
Loans and Advances	1431	1646	2230	2621.0	15.0	35.5	17.5
Others	413	554	6930	712	34.1	1150.9	-89.7
P/L Account	0	0	0				

* Unaudited.

Table 23
Sources and Uses of Fund of Insurance Companies

(Rs. in million)

Particulars	Mid-July			2006/07		2007/08	
	2006	2007	2008*	Amount Change	Percent Change	Amount Change	Percent Change
Sources							
Paidup Capital	1680	1680	3680	0	0	2000	119.0
Reserve Funds	19192	24122	29330	4930	25.7	5208	21.6
Other Liabilities	4346	5562	7060	1216	28.0	1498	26.9
Total Sources	25218	31364	40070	6146	24.4	8706	27.8
Uses							
Bank and Cash Balances	2125	3035	3850	910	42.8	815	26.9
Investment	19318	23956	30670	4638	24.0	6714	28.0
Fixed Assets	1400	1922	2610	522	37.3	688	35.8
Other Assets	2375	2451	2940	76	3.2	489	20.0
Total Uses	25218	31364	40070	6146	24.4	8706	27.8

* Unaudited.

Source: Insurance Board Nepal.

Table 24
Sources and Uses of Fund of Employees Provident Fund

(Rs. in million)

Particulars	Mid-July			2006/07		2007/08	
	2006	2007	2008*	Amount Change	Percent Change	Amount Change	Percent Change
Sources							
Provident Fund	48145.0	54501.0	62485.0	6356.0	13.2	7984.0	14.6
Reserve Fund	2941.0	3194.0	3573.0	253.0	8.6	379.0	11.9
Other Liabilities	1244.0	1531.0	1883.0	287.0	23.1	351.0	22.9
Total Sources	52330.0	59226.0	67940.0	6896.0	13.2	8714.0	14.7
Uses							
Bank & Cash Balance	1631.0	1380.0	3019.0	-251.0	-15.4	1639.0	118.8
Loan & Investment	48237.0	54801.0	62091.0	6564.0	13.6	7291.0	13.3
<i>Employees' Borrowings</i>	<i>21421.0</i>	<i>25178.0</i>	<i>29387.0</i>	<i>3757.0</i>	<i>17.5</i>	<i>4209.0</i>	<i>16.7</i>
<i>Fixed Deposits</i>	<i>18518.0</i>	<i>20895.0</i>	<i>23894.0</i>	<i>2377.0</i>	<i>12.8</i>	<i>2999.0</i>	<i>14.4</i>
<i>GON Securities</i>	<i>4229.0</i>	<i>5510.0</i>	<i>4639.0</i>	<i>1281.0</i>	<i>30.3</i>	<i>-871.0</i>	<i>-15.8</i>
<i>Project Loans</i>	<i>3678.0</i>	<i>2784.0</i>	<i>3286.0</i>	<i>-894.0</i>	<i>-24.3</i>	<i>502.0</i>	<i>18.0</i>
<i>Share Investment</i>	<i>391.0</i>	<i>434.0</i>	<i>885.0</i>	<i>43.0</i>	<i>11.0</i>	<i>451.0</i>	<i>103.9</i>
Other Assets	2464.0	3045.0	2830.0	581.0	23.6	-216.0	-7.1
Total Uses	52332.0	59226.0	67940.0	6894.0	13.2	8714.0	14.7

* Unaudited.

Source: Employees' Provident Fund.

Table 25
Sources and Uses of Fund of Citizen Investment Trust

(Rs. in million)

Particulars	Mid-July				Percentage Change		
	2005	2006	2007	2008*	2005/06	2006/07	2007/08
Sources							
Paid-up Capital and Reserve Fund	86.0	109.0	136.0	160.0	26.7	24.8	17.6
Deposit	5269.0	6716.0	8574.0	12366.0	27.5	27.7	44.2
Borrowings	0.0	0.0	0.0	0.0			
Other Liabilities	477.0	433.0	832.0	1149.0	-9.2	92.1	38.1
Sources=Uses	5832.0	7258.0	9542.0	13675.0	24.5	31.5	43.3
Uses							
Liquid Assets	692.0	866.0	1043.0	457.0	25.1	20.4	-56.2
Investments	3616.0	5136.0	6601.0	9586.0	42.0	28.5	45.2
Loans and Advances	1014.0	743.0	1016.0	2592.0	-26.7	36.7	155.1
Other Assets	510.0	513.0	882.0	1040.0	0.6	71.9	17.9

P = Provisional

* = Projected.

Source: Citizen Investment Trust.

Table 26
Structure of Nepalese Financial System

(Rs. in million)

	Mid-July 2007			Mid-July 2008		
	Total assets/ liabilities	Percentage share in total	Ratio of total assets to nominal GDP (%)	Total assets/ liabilities	Percentage share in total	Ratio of total assets to nominal GDP (%)
Financial institutions	706421.0	87.6	97.2	882830.3	87.9	107.6
Nepal Rastra Bank	174209.0	21.6	24.0	212449.8	21.1	25.9
Commercial banks	439735.0	54.5	60.5	549090.2	54.7	66.9
Finance companies	53035.0	6.6	7.3	65034.8	6.5	7.9
Development Banks*	25293.0	3.1	3.5	40014.7	4.0	4.9
Cooperatives	3590.0	0.4	0.5	4241.9	0.4	0.5
Micro credit financial institutions	10559.0	1.3	1.5	11998.9	1.2	1.5
<i>Micro credit non-governmental Organizations</i>	<i>1842.2</i>	<i>0.2</i>	<i>0.3</i>	<i>2325.9</i>	<i>0.2</i>	<i>0.3</i>
Contractual Savings institutions	100131.2	12.4	13.8	121685.8	12.1	14.8
Employees Provident Fund	59225.9	7.3	8.1	67940.3	6.8	8.3
Citizen Investment Trust	9541.2	1.2	1.3	13675.5	1.4	1.7
Insurance companies	31364.0	3.9	4.3	40070.0	4.0	4.9
<i>Postal Saving Bank</i>	<i>700.0</i>	<i>0.1</i>	<i>0.1</i>	<i>827.0</i>	<i>0.1</i>	<i>0.1</i>
Total	806552.2	100.0	110.9	1004516.1	100.0	122.5
Nominal GDP (Rs Million)	728178			818401		
Market capitalization of Stock Exchange (Rs mill.	186301.28			366247.56		
Ratio of stock Market capitalization to GDP(%)	25.8			44.6		

Appendix 1.1

**List of Licensed Banks and Non-bank Financial Institutions
(Mid-July 2008)**

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 Baniya Bank [@]	1966/01/23	Kathmandu	1172.3
3	NABIL Bank Limited	1984/07/16	Kathmandu	689.2
4	Nepal Investment Bank Limited	1986/02/27	Kathmandu	1203.9
5	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu	620.8
6	Himalayan Bank Limited	1993/01/18	Kathmandu	1013.5
7	Nepal SBI Bank Limited	1993/07/07	Kathmandu	874.5
8	Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu	744.1
9	Everest Bank Limited	1994/10/18	Kathmandu	831.4
10	Bank of Kathmandu Limited	1995/03/12	Kathmandu	603.1
11	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar	1399.5
12	Lumbini Bank Limited	1998/07/17	Narayangadh	995.7
13	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biratnagar	943.9
14	Machhapuchhre Bank Limited	2000/10/03	Pokhara	901.3
15	Kumari Bank Limited	2001/04/03	Kathmandu	1070.0
16	Laxmi Bank Limited	2002/04/03	Birgunj	913.2
17	Siddhartha Bank Limited	2002/12/24	Kathmandu	828.0
18	Agriculture Development Bank Ltd. [@]	2006/03/16	Kathmandu	10777.5
19	Global Bank Ltd. [@]	2007/01/02	Birgunj	700.0
20	Citizens Bank International Ltd. [@]	2007/6/21	Kathmandu	560.0
21	Prime Bank Ltd. [@]	2007/9/24	Kathmandu	700.0
22	Sunrise Bank Ltd. [@]	2007/10/12	Kathmandu	700.0
23	Bank of Asia Ltd. [@]	2007/10/12	Kathmandu	700.0
24	Development Credit Bank Ltd.	2001/01/23	Kathmandu	1107.5
25	NMB Bank Ltd.	1996/11/26	Kathmandu	1000.0

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	320.0
3	Uddyam Development Bank Ltd. [@]	1999/02/22	Tandi, Chitwan	17.5
4	Malika Development Bank Ltd. [@]	1998/12/27	Dhangadhi, Kailali	50.0
5	Siddhartha Development Bank Ltd.	1998/08/20	Butwal-11, Rupandehi	107.6
6	United Development Bank Ltd. [@]	2002/03/16	Jeetpur, Bara	14.0
7	Nepal Cottage and Small Ind. Dev. Bank Ltd. [@]	2001/06/19	Heritage Plaza, Kathmandu	112.0
8	Narayani Ind. Development Bank Ltd.	2001/10/17	Ratna Nagar-1, Chitwan	30.5
9	Pashimanchal Bikas Bank Ltd.	2003/3/2	Butwal-8, Rupandehi	100.0
10	Sahayogi Bikas Bank Ltd.	2003/10/21	Murali chowk-4, Janakpurdham	20.0
11	Pashupati Bikash Bank Ltd. [@]	2004/01/01	Banepa, Kavre	120.0
12	Karnali Bikash Bank Ltd. [@]	2004/02/14	Nepalgunj, Banke	25.1
13	Triveni Development Bank Limited [@]	2004/07/26	Bharatpur, Chitwan	35.0
14	Annapurna Development Bank Limited	2004/08/23	Banepa, Kavre	60.0
15	Bhrikuti Bikas Bank Limited [@]	2004/08/19	Shankar Nagar, Butwal	58.8
16	Shubhechhha Bikas Bank Limited	2004/09/14	Narayangadh, Chitwan	23.9
17	Bageshowri Bikas Bank Limited	2004/10/19	Dhambojhi Chowk, Nepalgunj	30.0
18	Sanima Bikas Bank Limited	2004/11/26	Nagpokhari, Kathmandu	384.0
19	Gaurishankar Development Bank Limited	2004/11/29	Kawasoti, Nawalparasi	18.3
20	Gorkha Bikas Bank Limited	2004/12/01	Putalisadak, Kathmandu	480.0
21	Gandaki Development Financial Institute Ltd.	2005/01/19	New Road, Pokhara	50.0
22	Infrastructure Development Financial Institute Ltd. [@]	2005/04/29	Banepa, Kavre	80.0
23	Business Development Financial Institute Ltd.	2005/05/10	New Road, Pokhara	210.0
24	Biratlaxmi Financial Institute Limited [@]	2005/05/11	Biratnagar, Morang	50.0
25	Excel Credit and Commercial Bittiya Sanstha Ltd. [@]	2005/07/21	Anarmani, Birtamod, Jhapa	20.0
26	Western Development Bank Ltd. [@]	2005/09/15	Tribhuvannagar, Dang	16.2
27	Himchuli Bikas Bittiya Sanstha Ltd.	2005/11/07	Mahendrapool, Pokhara	90.0
28	Arniko Bikas Bittiya Sanstha Ltd. [@]	2006/07/06	Dhulikhel, Kavrepalanchwok	27.1
29	Nepal Dev. and Employment Promotion Bank Ltd. [@]	2006/07/17	Kamaladi, Kathmandu	320.0
30	Clean Energy Development Bank Ltd. [@]	2006/09/06	Sitapaila, Kathmandu	224.0
31	Mitery Bikas Bittiya Sanstha Ltd. [@]	2006/10/13	Mahendrapath-5, Dharan	15.8
32	Tinau Bikas Bittiya Sanstha Ltd. [@]	2006/10/13	Sangampath, Butwal	42.0
33	Gaindakot Bikas Bittiya Sanstha Ltd. [@]	2006/12/18	Nawalparasi, Gaindakot	14.0

Report of 2007/08

S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Million)
34	Muktinath Bikas Bank Ltd. [®]	2006/12/18	Putalibazar, Syanja	26.0
35	Sewa Bikas Bank Ltd. [®]	2007/2/25	Butwal	30.0
36	Kankai Bikas Bank Ltd. [®]	2007/5/4	Damak, Jhapa	28.0
37	Public Development Financial Institution Ltd. [®]	2007/6/7	Birgunj, Parsa	60.0
38.	Mahakali Bikas Bank Ltd.	2007/6/7	Mahendranagar, Kahchanpur	11.8
39.	Ace Development Bank Ltd.	1995/08/15	Narayanchaur, Kathmandu	416.0
40.	Sangrila Bikas Bank Ltd.	2007/08/26	Pokhara, Kaski	39.9
41.	Bhargab Bikas Bank Ltd.	2007/08/30	Nepalgunj, Banke	12.0
42.	Vibor Bikas Bank Ltd.	2007/10/04	Tripureshwor, Kathmandu	403.3
43.	Resunga Bikas Bank Ltd.	2007/09/26	Tamghas, Gulmi	10.1
44.	Rara Bikas Bank Ltd.	2007/09/26	Birendranagar, Surkhet	10.0
45.	Diyalo Bikas Bank Ltd.	2007/10/01	Banepa, Kavre	37.6
46.	Country Development Bank Ltd.	2007/10/04	Banepa, Kavre	51.0
47.	Kasthamandap Development Bank Ltd.	2007/10/25	New Road, Kathmandu	224.0
48.	Alpine Development Bank Ltd.	2007/10/05	Hetauda, Makawanpur	33.5
49.	Nilgiri Bikas Bank Ltd.	2007/10/25	Beni, Myagdi	10.5
50.	Corporate Development Bank Ltd.	2007/10/25	Birgunj, Parsa	35.0
51.	Kamana Bikas Bank Ltd.	2007/09/29	Lekhath, Kaski	26.0
52.	City Development Bank Ltd.	2007/10/19	Pokhara, Kaski	35.0
53.	Garima Bikas Bank Ltd.	2007/11/23	Syangja	26.5
54.	Biswo Bikas Bank Ltd.	2007/11/21	Pokhara, Kaski	73.2
55.	Pathibhara Bikas Bank Ltd.	2007/11/21	Urlabari, Morang	25.5
56.	Professional Bikas Bank Ltd.	2007/10/17	Banepa, Kavre	35.0
57.	Kabeli Bikas Bank Ltd.	2007/11/15	Dhankuta	10.1
58.	Purnima Bikas Bank Ltd.	2008/05/20	Sidharthanagar, Rupandehi	26.9

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.	1992/03/08	Naya Baneshwor, Kathmandu	70.5
2	Nepal Finance and Savings Co.Ltd.	1993/01/06	Kamaladi, Kathmandu	45.0
3	NIDC Capital Markets Ltd.	1993/03/11	Kamaladi, Kathmandu	101.2
4	National Finance Co.Ltd.	1993/05/07	Pako Newroad, Kathmandu	156.9
5	Annapurna Finance Co.Ltd.	1993/09/30	Chipledhunga, Pokhara	201.6
6	Nepal Share Markets and Finance Ltd.	1993/10/19	Ramshahpath, Kathmandu	432.0
7	Peoples Finance Ltd.	1993/04/15	Tripureshwor, Kathmandu	84.0
8	Himalaya Finance & Savings Co.Ltd. [®]	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	38.0
11	Inbesta Finance Ltd. [®]	1995/07/17	Adarshnagar, Birgunj	24.0
12	Narayani Finance Ltd.	1995/03/08	Narayangadh, Chitwan	66.7
13	Gorkha Finance Ltd.	1995/03/12	Kantipath, Kathmandu	30.0
14	Nepal Housing & Merchant Finance Co.Ltd.	1995/04/11	Dillibazar, Kathmandu	80.4
15	Paschhimanchal Finance Co.Ltd.	1995/04/09	P.B.No.11, Butwal	7.22
16	Universal Finance Co.Ltd.	1995/04/27	Kantipath, Kathmandu	60.2
17	Samjhana Finance Co. Ltd.	1995/05/03	Banepa, Kavre	22.2
18	Goodwill Finance Ltd.	1995/05/16	Dillibazar, Kathmandu	105.0
19	Shree Investment & Finance Co. Ltd.	1995/06/01	Dillibazar, Kathmandu	84.0
20	Siddhartha Finance Co. Ltd.	1995/05/25	Siddharthanagar, Bhairahawa	67.7
21	Lumbini Finance & Leasing Co. Ltd.	1995/06/26	Thamel, Kathmandu	90.0
22	Yeti Finance Co. Ltd.	1995/07/23	Bank Road, Hetauda	31.3
23	Standard Finance Ltd.	1995/07/23	Putalisadak, Kathmandu	72.6
24	International Leasing & Finance Co. Ltd.	1995/10/31	Naya Baneshwor, Kathmandu	144.0
25	Mahalaxmi Finance Co. Ltd.	1995/11/26	Birgunj	80.0
26	Union Finance Co. Ltd.	1995/12/12	Durbarmarg, Kathmandu	72.5
27	Lalitpur Finance Co. Ltd.	1995/12/12	Lalitpur	75.9
28	Merchant Finance Co. Ltd. [®]	1996/01/02	Kathmandu	30.0
29	Bhajuratna Finance & Saving Co. Ltd.	1996/01/09	Kantipath, Kathmandu	38.5
30	United Finance Ltd.	1996/1/25	Kamaladi, Kathmandu	145.0
31	General Finance Ltd.	1996/02/02	Chabahil, Kathmandu	24.2
32	Nepal Sri Lanka Merchant Bank Ltd.	1996/02/04	Kamaladi, Kathmandu	100.0
33	Alpic Everest Finance Ltd.	1996/07/16	Baghbazar, Kathmandu	78.0
34	Nava Durga Finance Co.Ltd.	1997/02/09	Itachhe, Bhaktapur	45.6
35	Pokhara Finance Ltd.	1997/03/16	Gairapatan, Pokhara	60.0
36	Janaki Finance Ltd.	1997/03/07	Janakpurdharm, Dhanusha	40.0
37	Central Finance Co. Ltd.	1997/04/14	Kopundole, Lalitpur	89.7
38	Premier Finance Co. Ltd.	1997/05/08	Manbhawan, Lalitpur	47.5
39	Arun Finance & Saving Co. Ltd. [®]	1997/08/17	Putalibazar, Dharan	11.0
40	Multipurpose Saving & Investment Finance Co. Ltd. [®]	1998/3/25	Saptari, RajbiRaj	3.0

Macroeconomic Situation and Financial Overview

S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Million)
41	Butwal Finance Co. Ltd.	1998/06/21	Butwal, Rupandehi	69.7
42	Shrijana Finance Ltd.	1999/12/14	Siraha, Lahan	14.0
43	Om Finance Ltd.	2000/09/17	New Road, Pokhara-9	70.0
44	Cosmic Merchant Banking & Finance Ltd.	2000/11/20	Lal Durbar Marg, Kathmandu	75.1
45	World Merchant Banking & Finance Ltd.	2001/08/10	Main Road, Hetauda	72.0
46	Capital Merchant Banking & Finance Ltd.	2002/02/01	Battisputali, Kathmandu	346.2
47	Crystal Finance Ltd. @	2002/02/13	Bag Durbar, Kathmandu	49.0
48	Royal Merchant Banking & Finance Ltd.	2002/02/14	Durbarmarg, Kathmandu	121.5
49	Guheshworil Merchant Banking & Finance Ltd.	2002/06/13	Jawalakhel, Lalitpur	61.7
50	Patan Finance Ltd.	6/23/2002	Manbhawan, Lalitpur	50.0
51	Kist Merchant Banking & Finance Ltd.	2003/02/21	Kamalpokhari, Kathmandu	800.0
52	Fewa Finance Ltd.	2003/04/30	Pokhara, Chipledhunga	70.0
53	Everest Finance Co. Ltd.	2003/07/02	Siddharthanagar, Bhairahawa	20.0
54	Birgunj Finance Ltd.	9/28/2003	Adarshnagar, Birgunj	72.6
55	Prudential Bittiya Sanstha Ltd	2003/06/06	Dillibazar, Kathmandu	100.0
56	Investment Credit and Finance Co. Ltd.	2003/06/15	Bhatbhateni, Kathmandu	74.9
57	IME Financial Institution	2005/08/01	Kantipath, Kathmandu	100.0
58	Sagarmatha Merchant Banking and Finance Co. Ltd. @	2005/08/29	Lalitpur, Manbhawan	30.0
59	Shikhar Bittiya Sanstha Ltd. @	2005/09/15	Kathmandu, Thapathali	30.0
60	Civil Merchant Bittiya Sanstha Ltd.	2005/09/18	Kathmandu, Kuleshwor	50.0
61	Prabhut Bittiya Sanstha Ltd. @	2006/02/16	Kathmandu, Kantipath	160.0
62	Imperial Bittiya Sanstha Ltd.	2006/03/08	Kathmandu, Putalisadak	50.0
63	Kuber Merchant Bittiya Sanstha Ltd. @	2006/03/24	Kathmandu, Putalisadak	50.0
64	Nepal Express Finance Ltd.	2006/05/04	Rupandehi, Butwal	80.0
65	Valley Finance Ltd. @	2006/05/11	Kathmandu, Maharajgunj	27.5
66	Seti Bittiya Sanstha Ltd. @	2006/06/07	Kailali, Tikapur	5.2
67	Hama Bittiya Sanstha Ltd. @	2006/06/16	Kathmandu, Tripureshwor	44.5
68	Reliable Investment Bittiya Sanstha Ltd. @	2006/09/06	Kathmandu, Sundhara	57.8
69	Lord Buddha Financial Institutions Ltd. @	2006/11/19	Kathmandu, Newroad	52.5
70	Api Financial Institution @	2007/4/25	Lekhath Chowk, Kaski	42.0
71	Nameste Bittiya Sanstha Limited. @	2007/7/7	Ghorai, Dang	10.1
72	Kaski Finance Limited	2007/7/30	Pokhara, Kaski	30.0
73	suryadarshan Financial Institution Ltd.	2007/7/30	Baneshor, Kathmandu	30.0
74	Zenith Merchant Financial Institution Ltd.	2007/10/08	Newroad, Kathmandu	57.0
75	Unique Financial Institution Ltd.	2007/10/12	Putalisadak, Kathmandu	30.0
76	Manjushree Financial Institution Ltd.	2007/10/15	New Baneshor, Kathmandu	70.0
77	Swostik Merchant Finance Company Ltd.	2007/10/16	Kichapokhari, Kathmandu	31.8
78	Subhalaxmi Finance Ltd.	2007/11/11	Naxal, Kathmandu	70.0

Class D: Micro-finance Development Banks

S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Million)
1	Purbanchal Grameen Bikas Bank @	1993/03/28	Biratnagar, Morang	60.0
2	Sudur Pashimanchal Grameen Bikas Bank @	1993/03/28	Dhangadhi, Kailali	58.5
3	Pashimanchal Grameen Bikas Bank @	1995/04/01	Butawal-8, Rupandehi	60.0
4	Madhya Pashimanchal Grameen Bikas Bank @	1995/04/01	Nepalgunj, Banke	60.0
5	Madhymanchall Grameen Bikas Bank @	1996/07/08	Janakpur, Dhanusha	60.0
6	Nirdhan Utthan Bank	1999/04/13	Rupandehi, Bhairahawa	79.1
7	Rural Microfinance Development Centre @	1996/12/06	Putalisadak, Kathmandu	320.0
8	Deproc Development Bank	2001/07/03	Narayanghat, Chitwan	17.4
9	Chhimek Development Bank	2001/12/10	Makawanpur, Hetauda -4	51.0
10	Shawalamban Microfinance Development Banks Ltd	2002/02/22	Janakpur, Dhanusha	25.0
11	Sana Kisan Vikas Bank @	2002/03/11	Bijulibazar, Kathmandu	119.8
12	Nerude Microfinance Development Bank Limited @	2007/06/07	Biratnagar, Morang	7.0

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	18.6
2	Sagun Co-operative Society Ltd.	1994/10/9	Kathmandu	12.1
3	Nepal Co-operative Society Ltd.	1994/12/30	Kathmandu	8.8
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	20.2

Report of 2007/08

S. No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Million)
6	Mahila Co-operative Society Ltd.	1995/09/27	Kathmandu	12.6
7	Nepal 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	29.4
9	Sahakari Bittiya Sanstha Ltd.	1696/6/16	Nepalgunj	8.3
10	Manakamana Sahakari Sanstha Ltd.	1997/02/18	Banepa	11.5
11	Very Co-operative Sanstha Ltd.	1997/12/25	Kathmandu	6.6
12	Viccu Saving & Loan Co-operative Sanstha	1997/02/18	Banepa	4.6
13	Kisan Bahoo-uddesiyi Co-op. Sanstha Ltd.	1997/08/11	Lamki, Kailali	5.5
14	Himalaya Co-operative Ltd.	1998/12/29	Old Baneshwar, Ktm	46.1
15	Star Bahoo-Uddesiyi Saving & Credit Co-op Ltd.	1998/02/13	Biratnagar	5.5
16	Upakar Savings Fund & Credit Co-operative So. Ltd.	1998/04/14	Walling, Syangja	11.6

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 Sanstha	2000/06/05	Kathmandu	-
2	Nepal Sikara Grameen Bikas Karyakram	2000/06/05	Chitwan	662
3	Chartare Yuba Club	2000/06/05	Baglung	110
4	Mahuli Samudyik Bijkas Kendra	2000/06/12	Saptari	2881
5	United Youth Community (UNYC NEPAL)	2000/06/29	Bardiya	-
6	Samudayik Mahila Bikas Kendra	2000/07/14	Saptari	-
7	Grameen Samudayako Lagi Yojana Pratyavuti, Nepal	2000/08/23	Dhankuta	-
8	Grameen Jagaran Manch (Programm Co-ordination Office)	2000/09/11	Baglung	156
9	Sarbodaya Grameen Bikas Sangh	2000/09/26	Saptari	-
10	Jan Jagaran Manch	2000/10/26	Rasuwa	111
11	Rastriya Shaichik Tatha Samajik Bikas Sanstha	2000/10/01	Parbat	-
12	Dhaulagiri Community Researh Dev. Centre	2000/10/21	Baglung	-
13	Nepal Enviroment & Pollution Eradication UNESCO Nepal	2001/07/05	Kathmandu	127
14	Society of Local Volunteers Efforts Nepal (Solve)	2001/07/10	Dhankuta	519
15	Women Enterprises Association of Nepal	2001/09/24	Kathmandu	1146
16	Center for Women's Right and Development	2002/04/30	Kathmandu	-
17	MANUSHI	2002/05/03	Kathmandu	1462
18	Life Development Society	2002/06/18	Morang	-
19	Women Development and Child Care Foundation	2002/07/02	Saptari	-
20	Mahila Adarsha Sewa Kendra	2002/07/02	Kathmandu	620
21	Patan Business and Professional Women	2002/07/02	Lalitpur	-
22	Women Development Centre	2002/07/02	Chitwan	-
23	Womens Self -Relient Society	2002/07/14	Chitwan	-
24	Women Development Centre of Nepal	2002/07/12	Lalitpur	650
25	Bhagawan Youth Club, Alapot, Ktm.	2002/07/23	Kathmandu	35
26	Creative Women Environment Development Association	2002/07/24	Kathmandu	730
27	Srijana Community Development Center, Siraha	2002/07/25	Siraha	-
28	Shreejana Development Center, Kaski	2002/08/22	Kaski	2090
29	Cottage & Small Industries Organization, Kathmandu	2002/09/02	Kathmandu	-
30	Rural Area Dev. & Research Programme,Parbat	2002/09/03	Parbat	-
31	Adarsha Yuba Club, Bhaktapur	2002/09/06	Bhaktapur	-
32	Society Welfare Action Nepal (SWAN),Dang	2002/10/25	Dang	-
33	Social Upgrade in Progress of Education Region (SUPER)	2002/10/29	Dang	-
34	Nepal Women Community Service Center, Dang	2002/10/30	Dang	-
35	Forum for Rural Women Ardency Development, Sunsari	2002/12/30	Sunsari	-
36	Grameen Mahila Bikash Sanstha	2003/04/23	Dang	-
37	Ama Samaj Shangh, Chitawan	2003/04/29	Chitwan	15
38	Gramin Mahila Utthan Kendra, Dang	2003/06/18	Dang	-
39	Khurkot Yuba Club ,Parbat	2003/09/14	Parbat	-
40	Grameen Sewa Nepal, Bhajani, Kailali	2003/09/18	Kailali	234
41	Nari Avudya Kendra	2003/10/24	Chitwan	-
42	Mahila Upakar Manch	2003/10/29	Banke	2131
43	Chhimek Samaj Sewa Sanstha	2004/09/29	Kathmandu	8886
44	Sawabalamban Bikash Kendra	2004/11/01	Kathmandu	57390
45	Bikash Aayojana Sewa Kendra, Diprox, Nepal	2004/11/01	Kathmandu	54519
46	Grameen Swayam Sewak Samaj	2005/11/20	Hariwon, Sarlahi	1955

@ Bank and Financial Institutions, which issued public shares.

Appendix 1.2

Micro Finance Programme Implemented with Donor Support

With the aim of supporting rural poor communities, Nepal Rastra Bank is conducting various programmes in coordination with Government of Nepal and international donor agencies through several banks and financial institutions, cooperatives and NGOs. In this context, NRB has invested in different micro-credit activities. Following are the details of loan outstanding of the investment as of mid July 2008 under Micro Finance Programme.

MICRO FINANCE PROGRAMME IMPLEMENTED WITH DONER SUPPORT

S/N	Programme	Objectives	Agreement date	District of implementation	Participating FI and other authorities	Investment period	As per mid-July, 2008 (Rs. In million)			Donor agency	Beneficiaries:	Last date of principal payback	
							Total investment (Rs. In million)	Total outstanding	Principal paid back to Gov. of Nepal				
1	Community Ground Water Irrigation Sector Project (CGISP)	To raise the income of marginal farmers through the increase in agriculture production	17 Nov. 1997	Jhapa, Morang, Sunsari, Saptari, Siraha, Dhanusha, Mahottari, Sarlahi, Rauthat, Bara, Parsa and Chitawan	Nepal Bank Ltd., Small Farmer Development Bank, Eastern and Central Rural Development Bank, Deprosc Dev. Bank, Sahara Nepal, Arunodaya Saving and Credit Cooperative Institution, Krishak Upakar Sahakari Sanstha and Chhimek Vikas Sanstha	2000 - 2007	217.7	211.6	Payback not started	217.7	Asian Development Bank (ADB)	7020 Shallow tubewell, 27322 Marginal farmer families, 32194 Bigha land	Dec.2037
2	Poverty Alleviation Project in Western Terai (PAPWT)	To uplift the socio-economic status of deprived women of Western Terai districts.	12 Dec.1997	Nawalparasi, Dang, Rupandehi, Bardiya, Kapilvastu, Banke, Kailali and Kanchanpur.	Western, Mid-Western and Far-Western Rural Development Bank, Nirdhan Utthan Bank and Swabalamban Vikas Kendra.	1988 - 2004	136.7	56.2	21.9	109.5	International Fund for Agriculture Development (IFAD)	22000 Deprived families	Jul.2033
3	Third Livestock Development Project (TLDP)	To facilitate the farmers and entrepreneurs who are involved or wants to involve in Livestock business by providing new technology, services and credit facility as well.	23 Dec.1996	Shyanjha, Rupandehi, Palpa, Kaski, Tanahu, Lamjung, Nawalparasi, Kapilvastu, Parbat, Arghakhachi, Gulmi, Baglung, Kailali, Kanchanpur, Banke, Bardiya, Dadheldura, Surkhet, Doti and Chitwan.	Rastriya Baniya Bank, Siddhartha Development Bank, Malika B. Bank, Western, Mid-Western and Far-Western Rural Dev. Bank, Nirdhan Utthan Bank, Biku B. and Rhin, Udayadev B. Sahakari Sanstha, Everest, Machhapuchre, Sewar Dhugda Utpadak, Nawachetana Bachat Tatha Rhin, Gramin Jagaran B. tatha Rhin S.S., Dev Adarsha Yuba Club and Grameen Jagaran Manch.	1997 - 2004	169.5	2.2	22.6	146.9	Asian Development Bank (ADB)	9773 families	Jul.2034

S N	Programme	Objectives	Agreement date	District of implementation	Participating FI and other authorities	Investment period	As per mid-July, 2008 (Rs. In million)			Donor agency	Beneficiaries:	Last date of principal payback	
							Total investment (Rs. In million)	Total outstanding	Principal paid back to Gov. of Nepal				Principal due to Gov. of Nepal
4	Micro Credit Project for Women (MCPW)	To help as a complimentary programme of PCRW by providing the credit facility for women against the group guarantee (without any fixed collateral) to manage their agriculture and micro credit business	16 Sept. 1993	Puthan, Salyan, Dang, Banke, Kaski, Baglung, Parbat, Chitwan, Kathmandu, Lalitpur, Bhaktapur, Siraha, Saptari, Dhanakuta and Tanahun.	Nepal Bank Ltd., and Rastriya Baniya Bank.	1993 - 2000	195.2	22.5	67.1	128.1	Asian Development Bank (ADB)	6512 women's group out of 41634 women members	Nov. 2018
5	Production Credit for Rural Women (PCRW)	To uplift the socio-economic status of deprived women of rural areas through the income generating activities by providing the institutional credit facility.	2 Oct. 1988	67 district except Jumla, Dolpa, Mugu, Kalikot, Jajarkot, Rasuwa, Nuwakot and Manang	Nepal Bank Ltd., Rastriya Baniya Bank and Agriculture Dev. Bank Ltd.	1988 - 1997	234.5	78.4	117.2	117.2	International Fund for Agriculture Development (IFAD)	-	May 2019

PART

2

Activities of Nepal Rastra Bank



• Monetary Policy of 2007/08	55
• Microfinance	59
• Foreign Exchange Management	60
• Financial Sector Reform Program	62
• Banks and Financial Institutions Regulation	65
• Bank and Financial Institution Supervision	78
• Currency Management	79
• Miscellaneous	80



II

Activities of Nepal Rastra Bank

Monetary Policy of 2007/08

- 2.1 The NRB has been formulating and implementing annual monetary policy since 2002/03 as per the provision stipulated in the NRB Act, 2002 with the prime objectives of maintaining price stability and financial as well as external sector stability through managing appropriate level of liquidity for achieving the national objective of maintaining overall economic stability and attaining higher and sustained economic growth.
- 2.2 The monetary policy of 2007/08 was formulated under the background of low economic growth, higher pressure in the price level, deceleration in the growth of remittance inflows of the private sector and widening trade deficit. Despite the initiation of peace process, the investment environment was not desirably conducive and there was a situation of excess liquidity in the economy. In the situation of significant expansion of consumer credit due to low interest rate, likely shortage of petroleum products and less possibility of expansion in the capital expenditure of the GON; the larger size of budget had the potential to exert higher pressure in the price level. There was risk in the price and external sector stability due mainly to the situation of boom in the stock market and real estate sector accompanied by the excess liquidity situation owing to the lack of alternative investment opportunities. Thus, the monetary policy stance of 2007/08 had concentrated on availing the required liquidity to facilitate the economic growth rate of 5.0 percent as stated in budget statement of the GON and to maintain overall macroeconomic management through appropriate liquidity adjustment for containing inflation rate at 5.5 percent.

Objectives

- 2.3 The monetary policy of 2007/08 focused on facilitating the targeted economic growth of 5.0 percent along with achieving the objective of maintaining internal as well as external sector stability and financial sector consolidation. Based on the assessment of external sector situation, trend of workers' remittance inflows as well as the inflows of foreign assistance, the policy had projected the surplus of Rs. 8.0 billion in 2007/08. Elevated remittance inflows and a significant increase in the foreign grant assistance at the end of the year resulted into a higher than projected surplus of Rs. 29.7 billion (after adjusting foreign exchange gain/loss) in 2007/08.
- 2.4 In 2007/08, the inflation was projected to remain at 5.5 percent. Internal factors such as adverse impact of load shedding on industrial production, high price pressures on construction materials, disruptions in internal supply caused by frequent strikes, constituent assembly (CA) election and ban on the export of some food products by India along with the worldwide pressure on the food and fuel prices had been taken into account while making inflation projection. However, the projection had not incorporated the likely adjustment of petroleum products. Due to the above-

mentioned factors and three times upward adjustment in the petroleum prices, the inflation remained at 7.7 percent in the review period.

Table 2.1
Inflation and Surplus

	Target	Actual
Inflation (percent)	5.5	7.7
Balance of Payments (Rs. in billion)	8.0	29.7

Strategy and Operating Target of Monetary Policy

- 2.5 In 2007/08, the monetary policy strategy was adopted keeping in view with the risk observed in the existing price as well as external sector stability and the possible adverse impact of banks' exposure in unproductive sectors such as in stock market fueled by low interest rate. Taking into account the fixed exchange rate of Nepalese currency with that of India as a nominal anchor, the desired money supply targets were set on the basis of projected economic growth rate of 5.0 percent and inflation rate of 5.5 percent. Of the monetary aggregates, the broad money (M_2) increased by 25.2 percent in 2007/08, which was projected to grow by 15.6 percent. M_2 had grown by 14.0 percent in the previous year. In the context of existing pressure on prices accompanied by non-monetary factors, the growth rate of M_2 was set marginally upward such that monetary factors would not cause further pressure on the prices. The narrow money (M_1) grew by 21.6 percent in 2007/08, higher than the projection of 14.0 percent. It had increased by 12.2 percent in 2006/07. A higher than projected growth rate of monetary aggregates was on account of a significant amount of surplus.

Table 2.2
Money Supply and Domestic Credit
(Percentage Change)

	2005/06	2006/07	2007/08
Broad Money (M_2)	14.0	15.6	25.2
Narrow Money (M_1)	12.2	14.0	21.6
Domestic Credit	18.9	18.5	24.3

- 2.6 The total domestic credit of the monetary sector was projected to increase by 17.1 percent in 2007/08, which had grown by 16.6 percent a year ago. In 2007/08, the projection of domestic credit growth was marginally high compared to that of the previous year given the fact that the political transition was still ongoing. The private sector credit growth was projected at 18.5 percent. However, the private sector credit increased by 24.3 percent on account of the credit expansion on real estates, services, retail and wholesale trade, margin lending and trust credit. Consequently, the domestic credit grew by 20.9 percent in the review year.
- 2.7 Of the total domestic credit of the monetary sector, the net claims on government was projected to increase by 13.3 percent (Rs. 10.5 billion) in 2007/08. However, the net claims on government increased only by 9.5 percent on account of a significant growth of revenue mobilization of the government as well as higher inflows of foreign assistance in the review year.

Operating Target of Monetary Policy

- 2.8 As there is time lag for monetary policy instruments to affect the strategic policy objectives, there is a need for the selection of appropriate operating targets so as to monitor the immediate impact of monetary policy instruments and to efficiently conduct the monetary management. Under the liquidity rule of monetary transmission mechanism, the NRB has been taking the excess liquidity of commercial banks as an operating target of monetary policy since 2004/05. The excess liquidity of commercial bank was taken as the operating target of monetary policy in 2007/08 as well.

- 2.9 In the review year, the Liquidity Monitoring and Forecasting Framework (LMFF) which is designed on the basis of weekly balance sheet of the NRB, was used, to measure, monitor and forecast the excess liquidity of commercial banks. The open market operations have been conducted on the basis of liquidity position indicated by the LMFF and the objectives set in the monetary policy statement.

Monetary Policy Instruments

Bank Rate and Refinance Rate

- 2.10 The bank rate and cash reserve ratio (CRR) were kept unchanged at 6.25 and 5.0 percent respectively in the monetary policy of 2007/08. Although there has not been transactions in the bank rate significantly, it is mainly used as an indicative of monetary policy stance as well as a rate for charging penalty when the banks fail to maintain CRR.
- 2.11 In 2007/08, some changes have been made in the refinance facility rates as set in the previous monetary policies. Keeping in view with the problems faced by the Nepalese exporters, the refinance rate for exports credit in local currency was reduced to 2.5 percent from the existing 3.5 percent. The refinance rates for agriculture credit, export credit in foreign currency and credit to sick industries were kept unchanged at 3.5 percent, 3.25 percent and 1.5 percent respectively. Since 2007/08, new provisions were made to extend refinance facility to the commercial banks and development banks at the rate of 2.5 percent against the collateral of the credit extended to small and cottage industries. This provision had been made taking into account the critical situation faced by these industries provided that the banks could not charge an interest rate of more than 5.5 percent on such credit to the related borrowers.

Table 2.3
Changes in Existing Bank Rate and Refinance Rate

	2006/07	2007/08
Bank rate	6.25	6.25
Refinance rate for export credit in local currency	3.5	2.5
Refinance rate for agriculture credit	3.5	3.5
Refinance rate for export credit in foreign currency	3.25	3.25
Refinance rate for sick industries	1.5	1.5
Refinance rate for credit to small and cottage industries	-	2.5

Cash Reserve Ratio

- 2.12 With a view to maintain appropriate level of interest rate on deposits and credit by reducing the intermediation costs of commercial banks, the NRB has been reducing the cash reserve ratio (CRR). Despite the target of maintaining CRR at 3.0 percent, it was kept constant at 5.0 percent in 2007/08 keeping view of the internal as well as external sector developments.

Open Market Operations

- 2.13 Of the indirect instruments of monetary policy, the open market operations (OMOs) have been more effective in monetary management. The existing provision of outright sale and purchase auctions on multiple pricing auction system and repo and reverse repo auction on multiple-interest auction system was continued in 2007/08 too. The existing provision of conducting OMOs at the initiatives of the NRB on every Wednesday and/or based on the monetary liquidity situation at any working day was continued.
- 2.14 The NRB has been conducting the OMOs based on the liquidity situation indicated by the LMFF. The real stance of monetary policy is indicated by the amount of monetary liquidity mopped up/injected through the OMOs. In this respect, the monetary policy stance of 2007/08 remained more accommodative compared to that of the previous year and its effect has been reflected in the growth rate of money supply. In the review year, net liquidity of Rs. 12.4 billion was mopped up through the OMOs compared to that of Rs. 30.8 billion in the previous year. Total liquidity amounting to Rs. 21.4 billion (Rs. 14.9 billion through outright sale auction and

Rs. 6.6 through reverse repo auction) was mopped up in 2007/08 while a liquidity of Rs. 9.0 billion was injected through the repo auction. In the review year, transactions did not take place through outright purchase auction.

Table 2.4
Secondary Market Transactions

	Rs. in million	
	2006/07	2007/08
Purchase Auction	0.0	0.0
Sale Auction	18,400.0	14,850.0
Repo Auction	2,000.0	9,000.0
Reverse Repo Auction	14,340.0	6,570.0
Net Liquidity Mopped Up	30,740.0	12,420.0

Development Bond Auction

2.15 The primary issue of development bond under auction system was initiated from 2004/05 with the issuance of 5-year development bond of Rs. 3.0 billion. Likewise, a 10-year development bond of Rs. 750.0 million and a 12-year development bond of Rs. 5.5 billion (totaling three times issue) were issued in 2006/07 and 2007/08 respectively. In addition, the development bond of Rs. 6.7 billion was issued (including 5 times issue) in 2007/08. Of the total bond issued, the amount of Rs. 2.4 billion was of 12-year maturity and remaining amount of Rs. 3.7 billion was of 8-year maturity. The coupon rate on the development bond of 12-year maturity period was 6.5 percent. Of the total development bonds of 8-year maturity period, the amount of Rs. 1.5 billion was issued at coupon rate of 7.5 percent and the remaining amount of Rs. 2.2 billion was issued at the coupon rate of 8.0 percent. All development bonds were sold at premium.

Table 2.5
Development Bond Auction

Date	Period (year)	Issued Amount (Rs. in million)	Coupon Rate (%)	Average Auction Price (Rs)	Interest Rate (%)
Nov. 15, 2007	12	900	6.5	114.55	5.67
Dec. 17, 2007	12	1040	6.5	107.08	6.07
Jan. 7, 2008	12	460	6.5	101.18	6.42
Apr. 1, 2008	8	1500	7.5	104.13	7.20
Jul. 14, 2008	8	2170	8.0	100.88	7.93

Sick Industries Refinancing

2.16 The NRB has been providing refinancing facility to sick industries since 2001/02. From the beginning to 2007/08, the NRB allotted a total of Rs 11.0 billion to this facility. The sick industries refinance rate had been fixed at 1.5 percent provided that the banks and financial institutions were not allowed to charge more than 4.5 percent interest rate to the related borrowers. In 2007/08, total refinance loan of Rs. 67.6 million was extended to 3 hotels. Under such facility, 8 hotels and one industry used Rs 241.9 million in 2006/07. Till now, 162 hotels and 42 industries have utilized the total refinance facility of Rs. 3.3 billion.

Standing Liquidity Facility

2.17 With a view to make the internal payment system of the commercial banks credible, well managed, easy and risk less, the NRB has been providing standing liquidity facility (SLF) to the commercial banks against the collateral of treasury bills and development bonds. The provision of SLF facility which has been providing only to the commercial banks as the counterparty to conduct the monetary policy against the collateral of GON treasury bills and development bonds was continued in 2007/08 as well. Keeping in view with the inadequacy of GON securities with some newly established commercial banks, the cap on SLF loan had been increased from the

existing 50.0 percent to 75.0 percent in the review year. Moreover, with a view to discourage commercial banks from the use of excessive loan under this facility, the SLF penal rate had been increased from 1.5 percent to 2.0 percent. The commercial banks utilized a total of Rs. 103.8 billion under SLF facility in the review year compared to Rs. 47.0 billion in the previous year. A significant expansion in the private sector credit along with the short-term liquidity crunch faced by the commercial banks during the first six-seven months of fiscal year 2007/08 contributed to such a higher use of SLF in the review year compared to that of the previous year.

Microfinance

Rural Self-reliance Fund

- 2.18 Rural Self-reliance Fund came into operation in 1990 with an aim to uplift the deprived people living in rural areas with no access to institutional credit through wholesale credit facility to carry out income and self-employment generating businesses. Government of Nepal has already been provided a sum total amount of Rs. 90 million (Rs.10 million each on 17 March 1991 and 7 July 1992 and 20 million in 2005 and 50 million in 2007) as a seed capital (money). Likewise, a sum total amount of Rs.253.4 million (Rs.100 million in 2002/03, Rs.74.8 million in 2003/04 and Rs. 78.6 million in 2004/05) from the NRB has been received so far as capital in the Fund. Now the Fund has altogether total amount of Rs. 343.4 million capital fund. The Fund distributes these amount as wholesale installment lending to its affiliated institutions on the basis of their core capital (share capital, general reserves and profit) up to 20 times for first time loan, 15 times for second and third time loan not exceeding Rs. 1.5 million for first time Rs.2.0 million and Rs.2.5 million for the second and third time respectively. The Fund has the provision to finance as micro credit for deprived sector amounted to Rs. 40 thousand per person for the first time, Rs. 50 thousand for the second time and Rs.60 thousand for the third time and can be refinanced up to Rs. 60 thousand through various cooperatives and NGOs.
- 2.19 The credit can be provided from the Fund to the registered institutions carrying out saving and credit transactions since 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 Hilly region and 1 *bigha* in Terai region under the ownership of single family; having 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 programmes run by government agencies or bank or financial institutions are included as the target groups and are given the credit from the Fund through NGOs/co-operatives to carry out income generating activities.
- 2.20 A wholesale credit is being made available to NGOs/co-operatives from the Fund at an annual interest rate of 8 percent. In case the interest along with the principal amount was 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 2 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 Likewise, since 2002/03, with an aim to provide capital for the businesses requesting long-term capital such as tea, coffee, cardamom, cold storage, the Fund has been providing wholesale credit out of its total capital contribution to ADB/N and development banks working on micro-finance. Under this project, a sum total of Rs.50 million with Rs. 10 million each was made available to Eastern, Central and Mid Western Regional Rural Development Banks and Rs. 2 million for Small Farmer Development Bank was made available during the review period Mid July 2008. Of them, Eastern, and Central Regional Development Bank have already cleared their loan outstanding while Mid-Western Development Bank and Small Farmer Development Bank has Rs. 3.3million and Rs. 13.3 million loan outstanding respectively. Similarly, loan available to ADB/N of Rs.119.2 million is still to be recovered.
- 2.22 Following table 2.6 shows total loan outstanding of 50 districts provided by the Fund until Mid-July 2008:

Table 2.6
Loan Disbursed by the Rural Self Reliance Fund

Description	NGOs	Co-operatives	Total
<u>Loan disbursement</u>			
a. No. of institutions	53	281	334
b. Loan amount (Rs. in million)	211196	172268	193464
c. No of beneficiary family	3958	10904	14862
<u>Loan Recovery</u>			
a. No of institutions	47	220	267
b. Principle amount (Rs. in thousand)	17366	85001	102367
c. Interest amount (Rs. in thousand)	2270	11314	13584
<u>Investment amount</u>			
a. No. of institution	19	186	205
b. Principle amount (Rs. in thousand)	3830	87267	91097
<u>Overdue loan</u>			
a. No. of institution	17	59	76
b. Principle amount (Rs. in thousand)	2509	7640	10149

Activities of Rural Development Banks and their Share Transfer

- 2.23 With a view to uplift the socio-economic situation of deprived rural people specially the women, the Rural Development Banks of five developments Region have disbursed the total loan amount of Rs. 17.3 billion among the 169998 rural women members during the review period. Out of this amount, Rs. 15.1 billion amount is already been recovered and Rs. 1.8 billion is yet to be recovered. During the review period, the Banks launched its micro-credit facilities programme through its 4749 centers to the 1092 Village Development Committee of 50 districts. Thus the Banks has played a vital role to reduce the poverty especially in rural areas through the medium of micro-credit facility.
- 2.24 According to the policy of making these Rural Development Banks into privatization, 51 percent share out of 61 percent share of Western Rural Development Bank, 34.95 percent share of Eastern Rural Development Bank and 74 percent of Central Rural Development Bank share has already transferred to private sector.

Foreign Exchange Management

- 2.25 Adhering to the concept of limiting the NRB in policy related tasks only in line with its strategic planning and policy of economic liberalization, the NRB has been conducting its foreign exchange management with a policy of gradual loosening of convertible currency and capital account transactions. In this regard, the following provisions and reform measures pertaining to foreign exchange management have been adopted in FY 2007/08.
- (1) A provision has been made whereby foreign exchange facility for living expenses to students going abroad for study, which used to be granted by the NRB on recommendation from the Ministry of Education and Sports, could be directly granted by commercial banks on recommendation of the said Ministry from now onwards.
 - (2) The number of items that could be imported from India on payment of convertible currency has been raised from existing 91 to 124 and the policy of increasing the number of such items as per the necessity and demand has been continued.
 - (3) Some changes have been made in the policy provision of import from India on payment of convertible currency allowing exporters that are legally registered in Nepal also to import items on the list that are necessary to them. Also invoice forms like AR-4/AR-4 A/Nepal will not be necessary while importing from entities within special economic zone of India.

- (4) A provision has been made allowing the import of silver under the same circular that govern gold import.
- (5) While the existing provision is such that it is possible to import from other countries excluding India only through L/C and Draft/TT, an arrangement has been made whereby it is now possible to import also through the mechanism of Documents against Payments (DAP).
- (6) The exchange facility of US\$ 5000 per individual as settlement expenses for Nepalese citizens migrating on immigrant visa to developed countries like USA, Canada, Australia, New Zealand and UK can be acquired directly from the banks and financial institutions.
- (7) The exchange facility for reinsurance premium to insurance companies operating after being legally registered in Nepal could be directly provided by banks and financial institutions on recommendation of the Insurance Board.
- (8) A provision has been made whereby Nepalese companies working under Global Tender and receiving payment in foreign currency are allowed to open foreign currency deposit account.
- (9) Confirmed air tickets have been redefined simplifying the provision that provide foreign currency under passport facility even on the basis of e-tickets.
- (10) The existing provision of 2 percent service charge on sale of foreign currency in cash by banks and financial institutions to the NRB has been reduced to one percent.
- (11) In order to manage the risk emanating from fluctuation in exchange rate of convertible currencies, a provision has been made whereby banks and financial institutions can themselves provide a facility of forward exchange transaction working under the policy directive approved by its Board of Directors.
- (12) Timely revision has been made on license to be provided for carrying out foreign exchange transactions, its renewal process and fee structure. Hotel, bank and financial institution, and travel and trekking agency could be provided with a license for a maximum of five years at a time.
- (13) As per the decision of the Industrial Promotion Board, the existing provision of importing edible oil for direct sale in market and as a raw material for industrial use has been revised.
- (14) The provision requiring cash deposit for issuance of B.B.N.F.N 4 under the import provision has been simplified allowing the deposit to be maintained through the marking of the approved limit of L/C, overdraft and other credit or through the security of various banking instruments or even through the marking of deposit in various accounts.
- (15) With a view of managing Indian Currency (IC) transactions and reducing IC cash transactions, banks and financial institutions and money changers along the border regions of Nepal have been allowed to open NOSTRO account in Indian banks.
- (16) If a student or his guardian, father or mother has a foreign currency deposit account, foreign currency up to the limit covered by such deposit could be provided for study in Indian Universities after completion of the prevailing procedures.
- (17) As per the decision dated April 30, 2008 of Nepal Government, the necessary directive for banning the export of paddy, rice and wheat from Nepal has been issued.
- (18) A provision has been made allowing agencies involved in remittance of income earned by Nepalese people working in India in Indian rupees through banking channel to open account in Indian rupees on condition that they could maintain the remitted Indian rupees in their account for up to seven days.
- (19) If airlines, GSA and PSA and travel agents operating in Nepal ask for exchange of Nepalese rupees collected from the sale of international flight tickets, a provision has been

made whereby exchange facility can be provided at prevailing exchange rate with requirement that repatriation be made from the same amount.

- (20) The provision that required commercial banks dealing in L/C transactions to open a separate L/C deposit account in the NRB has been abolished requiring the concerned bank to deal in L/C deposit transactions through its main account.
- (21) The number of companies and firms dealing in remittance transactions that aggregated 35 last year went up to 37 by the end of FY 2007/08 with the addition of four new companies and closure of two companies. Likewise, in the context of income earned by Nepalese people working in India being normally remitted through non-banking channel, a mechanism was formed for routing such remittances through banking channel in the joint initiative of the NRB and the Reserve Bank of India. Through this mechanism, which was started in September 2007 in test form and formalized in April 2008, total remittances amounting to Rs. 205.6 million has flowed in FY 2007/08 and it is expected that remittance from India will continue to rise in the coming days.
- (22) In FY 2006/07, 16 additional money changer firm companies were granted license for carrying out transactions within the Kathmandu Valley and 6 such firms were shut down. The number of firms doing such business all over Nepal reached 350 while those operating within Kathmandu Valley only reached 156.
- (23) Excepting banks and financial institution, money transfer and money changer firm/company, the number of hotel, local and foreign airlines, travel, trekking, cargo and courier agencies that have been given approval by this department for dealing foreign currency (purchase only) stood at 2,317 in FY 2006/07. With 230 more firms getting approval in this fiscal year, the number of firms carrying out such transactions has reached 2,547.
- (24) Total remittance inflow that aggregated Rs 100.14 billion in FY 2006/07 increased by 20.1 percent to Rs 142.68 billion in FY 2007/08.
- (25) In FY 2006/07, the market was intervened for a total of 78 times purchasing US\$ 922.95 million in 77 interventions and selling US\$ 7.2 million in one intervention thereby resulting into a net purchase of US\$ 915.75 million. In FY 2007/08, the market was intervened 93 times, in accordance to the request of FEDAN, purchasing US\$ 1.59 billion and selling US\$ 17.7 million with a net purchase of US\$ 1.57 billion.
- (26) The balance of Exchange Equalization Fund that had declined to a low of Rs 1.75 billion in FY 2006/07 with exchange loss of Rs 13.33 billion due to the exchange rate fluctuation has improved with exchange gain of Rs 10.86 billion in FY 2007/08.
- (27) The gross foreign exchange reserve stood at Rs 139.14 billion in FY 2007/08 with a share of US dollar standing at 62.37 percent. Last year the gross foreign exchange reserve stood at Rs 121.74 billion with US dollar's share standing at 66.41 percent.
- (28) As mentioned in Foreign Exchange (Regulation) Act, 1962 (Amended), the process of publishing public notice in national level Nepali daily newspapers about the provisions and transactions relating to foreign exchange has been continued.

Financial Sector Reform Program

- 2.26 The financial sector reform program has remained as one of the major components of economic reform program of the Government of Nepal (GON). The financial sector reform program has been guided through a financial sector reform strategy paper issued by the GON on October 23, 2000. The NRB has been acting as an implementing agency of the reform program.

- 2.27 The reform program aims at making the financial system sound, efficient, competitive, professional and capable for contributing economic development. The ongoing reform program, which is operating under the financial assistance and loan from the World Bank, Department for International Development (DFID) and the GON includes: (a) Reengineering of Nepal Rastra Bank (b) Restructuring of Nepal Bank Ltd and Rastriya Banijya Bank, and (c) Capacity building of overall financial sector.

Reengineering of Nepal Rastra Bank

- 2.28 Reengineering program of the NRB has been continued with the objective of developing it as an efficient central bank in pace with the financial sector development and its changing context. For this purpose, the program is mainly directed towards developing human resource, strengthening its regulatory and supervisory capacity, restructuring its organizational structure based on its functions, standardizing auditing and accounting system as per international standard and simplifying as well as mechanizing its functions. The second phase of the financial sector reform programs is, now, being implemented after the completion of the reengineering programs of the NRB underlined in the first phase.
- (a) As envisaged by the program to make bank's service delivery faster and effective, voluntary retirement schemes have been conducted for three times besides a regular retirement process in order to retain the manpower at an appropriate level, enhance their productivity and provide the quality service by less number of the personnel.
 - (b) New staff bylaws "The NRB personnel bylaws 2002" has been implemented and necessary changes have been made in it as per the requirement of time.
 - (c) An international human resource advisor has been working on designing bank's manpower plan, devising required training needs and recognizing appropriate level of manpower in the organization in order to implement the policies recommended by IOS partners to attain appropriate manpower level in the bank.
 - (d) Till now, 425 staffs have been sent for training abroad under financial sector reform program in order to develop the bank's human resource.
 - (e) The bank, in its own initiation, formed a task force of the seven-chartered accountants of the Bank following the recommendation of the World Bank to appoint six local chartered accountants for implementing the reengineering programs in the second phase. The report submitted by the task force has been put under implementation.
 - (f) IT consultants appointed for enhancing IT capacity of the NRB under financial sector reform program in the financial support of the World Bank had been informed to incorporate necessary revisions on the bid specification documents relating to the software and hardware, and communication and disaster recovery system submitted separately to this bank. Since the consultants did not respond to submit the revised documents as per the requirements of this bank by a deadline of March 20, 2008, a process has been begun to cancel the agreement between the consultants and the bank in the consent of the World Bank.
 - (g) A process has been begun to appoint a new public relation advisor in the bank after ending a period of agreement with the existing consultant working in the post of public relation advisor as in mid-July 2008.

Restructuring of Nepal Bank Ltd and Rastriya Banijaya Bank

- 2.29 For the purpose of restructuring Nepal Bank Limited (NBL) as outlined in the financial sector reform program, the management of the NBL has been taken under the control of Nepal Rastra Bank until mid-March 2009 which will remain following the sub article 1 (O) of article 86 (C) of the NRB Act 2002. The NRB has sent its staff to take the management of the bank after a contract with the consulting firm ICC consulting of 'Bank of Scotland' (Ireland) ended on 21 July 2007.

- 2.30 Likewise, the tenure of consulting team of Rastriya Banijaya Bank was extended, time and again, till February 13, 2008 from initial contract on February 14, 2003. After the end of contract, the period was extended further six months to July 15, 2008 and further 3 months to October 15, 2008. Again, the contract with the consulting team has been extended to January 15, 2010.
- 2.31 Review of the progress attained by these banks has shown the positive impacts of the restructuring programs in these banks. After restructuring process, these banks have been able to earn operating profits regularly since 2003/04. Likewise, the negative level of the capital fund of the banks has improved and the management team has introduced the guidelines, directives, laws and policies of the international standard so as to strengthen the banks internally. However, progress in the recovery of the banks' bad loan has remained less than satisfactory.

Profitability

- 2.32 Contrary to a loss of Rs 252.0 million of the NBL in 2003, the bank has started earning net profit since 2003/04 and such profit of the bank stood at Rs 529.0 million in 2007/08. Likewise, from a loss of Rs 4.9 billion in 2002/03, the RBB has also started realizing net profits since 2003/04 and such net profit of the bank stood at Rs 1.8 billion in 2007/08.

Capital Fund

- 2.33 The capital fund of both banks has been gradually improving. The negative level of the capital fund of the NBL came down to Rs 5.72 billion in 2007/08 from a level of Rs 6.3 billion as in mid-July 2007 and Rs 9.8 billion as in mid-July 2003. Likewise, the capital fund of the RBB lowered down from Rs 22.4 billion as in mid-July 2003 to Rs 17.2 billion as in mid-July 2007 and further to Rs 15.5 billion as in mid-July 2008.

Non-Performing Loans

- 2.34 Though not a desired level, the level of NPA in these two banks has been improving gradually. The level of NPA of the NBL remarkably fell down to 8.05 percent in 2007/08 from 13.49 percent in mid-July 2007 and 60.5 percent in mid-July 2003. The substantial decline in the NPA level of the NBL owed particularly to the credit write-off by the bank in 2005/06 and 2006/07. Recovering of the credit under write off has been a big challenge to the bank. Similarly, the ratio of bad loan to total loan of the RBB came down to 21.6 percent as in mid-July 2008 from 28.6 percent as in mid-July 2007 and 60.2 percent as in mid-July 2003.

Auditing

- 2.35 The auditing of both banks was in pending for the past few years. The new management team in the NBL completed auditing of the bank from 1999/2000 to 2006/07. Likewise, the new management team in the RBB completed auditing of the bank up to 2006/07. Both banks have updated their financial statements and published in a regular quarterly basis. Internal audit of the banks has been regularly undertaken as per the target assigned to the team.

Human Resource Management and Development

- 2.36 Both banks have introduced and implemented management plan, human resource development plan, skill enhancement plan in order to bring the banks' manpower level at an appropriate level. The function relating to staff need assessment has been completed. Likewise, both banks submitted capital and successor plans to the NRB. The NBL reduced the manpower level to 2885 as in mid-July 2008 from 5250 as in mid-July 2003 through introduction of voluntary retirement schemes (VRS) in various phases. Likewise, the RBB introduced performance based rewarding system in order to motivate and enhance the productivity of its employee. As in the NBL, the RBB introduced voluntary retirement scheme to its staff in order to right size its manpower level at an optimum level. Through the scheme, the RBB is able to bring down the number of its staff to 3002 as in mid-July 2008 from 5402 as in mid-July 2003. However, this level of manpower in the bank is a little higher than that a performance target given to the management team.

Operating System and Internal Management

- 2.37 The management team of the banks introduced and implemented various policies, plans and guidelines for making it internally strong and efficient. The NBL introduced and implemented credit policy and credit guidelines for improving the credit management along with the introduction of LLM guidelines of international standard for asset/liability management of the bank. Asset liability committee has been formed. New credit manuals, internal audit manuals, credit recovery guidelines, HR plan, skill enhancement plan, portfolio status and plan, budget plan, strategic plan, problematic loan guidelines, successor plan, capital plan etc have been formulated and implemented in order to follow modern system of credit and human resource management. The bank has introduced credit write-off bylaws and necessary actions have been taken to write-off bad loans accordingly. The RBB has also introduced anti-money laundering policy, investment and treasury operation policy, revision of internal audit manual, trade finance manual in addition to credit guidelines, credit manuals and credit write-off bylaws formulated for improving the credit management of the bank.

Enhancement in Computer Technology Services

- 2.38 The NBL has formulated IT plan for undertaking the banking transactions timely and effectively through computer system. It has already computerized its 44 branches and additional 38 branches have been identified for computerization. Similarly, the bank has introduced 'Any Branch Banking System' (ABBS) in 27 branches. The bank has brought 73 and 86 percent of its deposits and credits transactions respectively under computer system. Likewise, the RBB introduced IT plan and accordingly its two departments in the central office as well as 40 branches have been furnished with Pumori Plus software for accelerating banking transactions. A total of 37 branches outside Kathmandu Valley have been operating with RBBSYS software. The tasks relating to IBIS have been completely brought under implementation. More than 94 percent of deposits and 84 percent of credits of the bank have been computerized.

Capacity Enhancement of Overall Financial Sector

- 2.39 Under the financial sector reform programs, emphasis has been laid down to consolidate and simplify the existing acts and laws governing banks and financial institutions in order to make the regulatory and supervisory functions of the NRB more effective and compatible to the modern-day environment, simplify operating procedures of all financial institutions of similar nature and improve the legal structure of the financial sector along with formulating necessary acts and laws requiring for the strong central bank.

Banks and Financial Institutions' Regulation

Regulatory Measures and Directives Issued to Banks and Financial Institutions

Commercial Banks

- 2.40 In 2007/08, 5 banks and financial institutions including 2 upgraded as per banks and financial institution act, have been granted operating licence to conduct financial transaction as an 'A' class bank. The total number of "A" class banks stood at 25 at the end of 2007/08. The total number of A class banks was 20 a year ago.

Development Banks

- 2.41 Total number of 'B' class development banks increased from 38 to 59 in 2007/08. A total of 21 new development banks including ACE development bank-promoted to "B" class development bank from "C" class finance companies- have been allowed to carry out financial transactions. Likewise, Development Credit Bank was upgraded to 'A' class bank. Out of 21 development banks added, 2 are of national level and 19 are of regional level. The newly opened development banks are Mahakali Development Bank Ltd (Kanchanpur), ACE Development Bank Ltd (Kathmandu), Sangrila Development Bank (Kaski), Bhargav Development Bank (Banke), Vibor

Development Bank Ltd (Kathmandu), Resunga Development Bank (Gulmi), Rara Development Bank Ltd (Surkhet), Diyalo Development Bank Ltd (Kavre), Country Development Bank Ltd (Kavre), Kastamandap Development Bank Ltd (Kathmandu), Alpine Development Bank Ltd (Hetauda), Nilgiri Development Bank Ltd (Myagdi), Corporate Development Bank Ltd (Parsa), Kamana Development Bank Ltd (Kaski), City Development Bank Ltd (Kaski), Garima Development Bank Ltd (Syangha), Bishwa Development Bank Ltd (Kaski), Pathivara Development Bank Ltd (Morong) Kabeli Development Bank Ltd (Dhankuta), Professional Development Bank Ltd (Kavre), Purnima Development Bank Ltd (Rupandehi) and Jyoti Development Bank Ltd (Kathmandu).

Finance Companies

2.42 In 2007/08, a total of 6 new finance companies have been permitted to conduct financial transactions. In this period, one finance company was upgraded and another one was merged to 'A' class bank and thus the total number of 'C' class finance companies stood at 78 in mid July 2008. Likewise, Everest Finance Limited, licensed for national level financial transactions on 25 June 2003 is limited to operate for three districts. Out of total finance companies in the country, 49 are operated in Kathmandu valley and 29 are operated in outside the valley. The newly opened finance companies are AP Financial Institution Limited (Kaski), Namaste Bittyta Sanstha Limited (Tribhuvannagar, Dang), Kaski Finance Limited (Pokhara), Suryadarshan Financial Institution Limited (Kathmandu), Jeneith Marchant Financial Institution Limited (Kathmandu), Unique Financial Institution Limited (Kathmandu), Manjushree Financial Institution Limited (Kathmandu), Swastik Merchant Finance Company Limited (Kathmandu) and Suvalaxmi Finance (Kathmandu).

Micro-Credit Development Banks

- 2.43 There has not been any addition of 'D' class micro finance development bank in 2007/08 thereby the number of such banks remained 12 as before.
- 2.44 The number of Cooperatives registered under the Cooperative Act and license granted by the NRB to carry out limited-banking activities is limited to 16 at mid July 2008. During this period. The number of such cooperatives reduced due to the cancellation of operating licence of Amaravati Multiple Cooperative. Likewise, the license of Nepal Rural Development Society Centre was withdrawn and permitted to merge with Nerude Micro finance Development Bank, therefore, the number of licensed Non-government organisation is confined to 46 in 2007/08.
- 2.45 The number of licensed bank and financial institutions (including cooperatives and non governmental micro finance organization carrying out limited banking transactions) increased by 27 to 235 in 2007/08, compared to 208 in the previous year.

Citizen Bank International Limited

2.46 Citizen Bank International Limited with its head office in Kathmandu Metropolitan city has been permitted to transfer 14 percent public share to the promoters group. The bank has authorised capital of Rs 2.0 billion and issued capital of Rs 1.0 billion. After this permission, the promoter's group owns 70 percent and public owns 30 percent of the share from earlier ownership of 56 percent and 44 percent respectively.

Permission to forward the merger process of five financial institutions

2.47 As Mahalaxmi Finance Limited, Butwal Finance Limited, Siddhartha Finance Limited, Birjung Finance Limited and Himchuli Development Bank had jointly applied for merger, the bank informed to these financial institutions that the merger process would be proceeded after receiving the application with meeting the capital requirement.

Sunrise Bank Limited and Bank of Asia received license as 'A' class institution

2.48 Kathmandu Metropolitan based Sunrise Bank Limited and Bank of Asia have started banking transaction as an 'A' class commercial bank from October 12, 2007. The authorised and issued capital of these both banks is Rs 2.0 billion and Rs 1.0 billion respectively. Out of issued capital,

70 percent is allotted to the promoters and 30 percent to the public. With the addition of these two banks and upgradation of other two banks (NMB Bank and Development Credit Bank), the number of commercial banks reached 25 in mid-July 2008.

NMB Bank Limited received license to promote 'A' class bank

- 2.49 NMB Bank Limited with the head office in Kathmandu Municipality has been permitted to upgrade to 'A' class bank from 'D' class financial institution on May 6, 2008. The bank has authorised capital of Rs 2.0 billion and issued capital of Rs 1.07 billion. Currently, the share ownership of promoters group and public is 75 percent and 25 percent respectively.

Revision of policies and procedure for the establishment of banks and financial institution

- 2.50 Considering the implementation of tax related provisions required by 'Policies and procedure of the operations of Bank and financial institution-2007' impractical, the provisions have been revised in such a way that the proposed promoters should provide the source of amount to be invested by themselves and the accountability of such source should be borne by concerned individual and institution.

Grievance Management Committee (GMC)

- 2.51 A Grievance Hearing Cell (GHC), was established on April 24, 2005 under the chairmanship of deputy governor of the NRB to settle the grievances resulting from misunderstanding and disputes between customers and financial institutions. For making GHC more effective to handle the grievances, a sub-committee has been formed on October 18, 2006 at a central level under the leadership of executive director from Bank and Financial Institution Regulation Department of this bank comprising representatives from concerned banks and financial institutions, and ministry of finance as members of the sub-committee along with a representative from Federation of Nepalese Chambers and Commerce (FNCCI) as an observer. Similarly, sub-committees were formed at district level in the district offices of this bank under the leadership of the chief manager/ manager of the offices including the representatives from banks and financial institutions concerned with grievances as members and a representative from FNCCI of the related district as an observer. Following the decision of Dec 15, 2006 made by the minister of council, the GMC formed at central level under the leadership of the Deputy Governor was revised and extended on January 4, 2007 by including representatives from Ministry of Finance and Banker's association as members and representative from FNCCI as an observer.
- 2.52 Out of 364 total cases filed till mid-July 2008, 289 cases have been settled and circular has been issued to concerned banks and financial institution to look into remaining 75 cases.
- 2.53 The activities of the Cell have helped resolve the problems arising between banks and borrower. Further, the activities of the Cell have helped to reduce the problems of bank loan recovery and their restructuring.

Refinance to the Banks and Financial Institutions

- 2.54 Considering the adverse impacts faced by the industrial and manufacturing sector during the period of conflict, refinance facilities to the sick industries introduced since 2001/02 has been continued at the concessional rate to relieve the industrial sector. The refinance rate of such facility has been kept unchanged at 1.5 percent for banks and financial institutions requiring them not to charge more than 4.5 percent from the borrowers. As at mid July 2008, a total refinance facility of Rs 67.65 million has been disbursed to the various industries and hotels.

Deprived Sector Lending

- 2.55 In a situation when the priority sector lending is not compulsory after 2007/08, unified directives have been issued by incorporating all previous circulars and directives relating to the deprived sector lending.
- (a) From 2007/08, the portfolio of deprived sector lending of licensed 'A' and 'B' class banks and financial institution has to be at least 3 percent and one percent respectively of their

total outstanding loan and advances (including bills purchase and discount). For this purpose, deprived class has been defined as those people having low income, mainly socially backward women, scheduled cast, dalit, blind, deaf and handicapped, marginal and small farmer, artisan, labour and landless family. The loan provided up to the limit set by the NRB to self-employment generating micro enterprises established to uplift the economic and social condition of the deprived people is also accounted as "deprived sector lending".

- (b) The 'A' and 'B' class banks and financial institutions licensed in 2006/07 and newly opened or upgraded institutions should provide the credit to the deprived sector on the basis of six month previous outstanding loan and advances from the quarter after one year of their operation.
- (c) The following loans are counted as deprived sector lending; a maximum micro credit of Rs 60 thousands per member/person in collective/personal guarantee provided to the deprived or low income individual to run micro business; not exceeding Rs 60 thousands credit per family for solar home system or bio gas purpose under the renewal energy technology; micro credit not exceeding Rs 150 thousands per business against acceptable collateral/collective guarantee to the deprived or low income people for running micro enterprise; a maximum loan of Rs 150 thousands per person provided after the trilateral loan agreement between manpower which is able to present the letter from foreign employer that assures the employment and recovery of instalments and person going for employment; a maximum credit of Rs 150 thousands per person going for foreign employment against collateral or without collateral and foreign employment credit provided by the 'A' class banks under the youth self employment and employment training programme of the government of Nepal.
- (d) The following loans provided indirectly by 'A' and 'B' class licensed financial institutions are also counted as deprived sector lending:
 - (i) Wholesale credit provided to the 'D' class licensed institutions and financial intermediaries established to carry out micro finance activities against their institutional capacity and institutional guarantee.
 - (ii) Wholesale credit provided to the cooperatives licensed by the NRB and those cooperatives identified by the concerned 'A' and 'B' class financial institutions - working in the rural area for improving income and employment of people below the poverty line or low-income people for lending to the deprived sector as per clause (a). The concerned bank should monitor whether or not such loan is being invested to the deprived sector.
 - (iii) Wholesale credit provided to the 'D' class micro finance development bank, which are established to offer wholesale credit to small farmer cooperatives and micro finance institutions.
 - (iv) A maximum of Rs 150 thousands loan, which is initially taken from 'A' and 'B' class financial institutions and further provided to the person going for foreign employment. Such loan will only be counted to the deprived sector credit for 'A' and 'B' class licensed banks.

Also, banks and development banks should maintain progress report of the wholesale credit provided to the institution that is to be counted as deprived sector lending in every six months. The misused loan found in the NRB inspection will not be counted in the deprived sector lending.

- (e) The wholesale credit provided to the 'B' class development banks for lending to the deprived sector, which is indirectly counted to deprived sector lending of commercial banks, will not be counted as deprived sector lending of the 'B' class development bank.

- (f) The equity investment to Rural Development Banks, Rural Micro Finance Development Centre and other micro finance development banks by the 'A' class bank will also be counted as indirect lending to the deprived sector.
- (g) Out of the amount received as at mid July 2007 from 'A' class licensed banks, 10 percent in the first year (2007/08), 40 percent in the second year (2008/09), 60 percent in the third year (2009/10), 70 percent in the fourth year (2010/11) and 100 percent in the fifth year (2010/12) should compulsory be delivered to the deprived sector by the micro finance development banks. Such wholesale credit provided by the commercial banks, which is not invested in the deprived sector, will not be counted in the deprived sector.
- (h) The deprived sector lending is calculated in every quarter (mid-October, mid-December, mid-April and mid-July) on the basis of six-month previous total outstanding loan and advances (including bills purchase and discount).
- (i) The details of the deprived sector lending should be submitted to the Bank Supervision Department of this bank as per the NRB format form no 9.5 within the 15 days after the completion of each quarter.
- (j) Policies and procedures of deprived sector lending should clearly be mentioned in its credit policy by the licensed financial institutions.
- (k) As otherwise stated in other directives, additional 20 percent provision will not be required for indirect deprived sector lending provided against collective/personal/institutional guarantee.
- (l) As per the clause 81 of the NRB Act, 2002 if the licensed 'A' and 'B' class financial institutions are unable to extend the credit to the deprived sector as per the directives, the penalty will be charged on the deficit amount at the maximum interest rate of that quarter charged on credit by the concerned institutions.

Provision on Sale and Purchase of Promoters Share

2.56 The provision of clause 1 and 2 (section b) of the unified directives no 10/061/62 issued to the licensed banks and financial institutions on sale and purchase of promoters share has been amended as follows:

(a) Section 1

"After the death or sharing of property after family separation of the promoter share holder or shareholder of promoter group, the ownership of such share should be transferred to the legal inheritor or to the person intended by the share holder as per the existing laws and such information should be provided to the NRB within 15 days of such action"

(b) Section 2

"Except the rights transferred on account of the death or sharing of property as per the existing laws after family separation of the promoter share holder, the promoters are required to transfer or sell his share within his own promoter group."

2.57 Following the non-banking assets writing policy as per the article no 2.5 of section (b) of unified directives no 4/061/62 issued to the banks and financial institutions licensed by the NRB, the licensed banks and financial institutions have rights to sell the collateral kept under the security of loan to recover the outstanding loan and interests if such loan turns out a bad loan. If the collateral could not be sold in the process of recovering the loan, the financial institution itself can own the collateral. In this process, the collateral should be valued either in the market price or equal to the total due amount to be recovered the day before the collateral is accepted; whichever is lower. If the market price of collateral is less than the total claim, the amount should be charged in profit and loss account to the extent of a shortfall and should be mentioned in the account policy. However, while valuing the collateral, the interest amount should be

shown in interest suspense account; not as an income in profit and loss account until non-banking assets is completely reconciled.

- 2.58 With the amendment of the existing credit purchase/repurchase provision, banks and financial institutions with capital fund less than stipulated by the NRB are not allowed to purchase any debts, loans, discount loan, swap, purchase/repurchase credit and takeover the loan of other banks and financial institutions.

Gifts, Prizes or Other Programs Aimed to Attract the Deposits

- 2.59 Banks and financial institutions are not allowed to give any gifts or prizes on deposits. However, this provision will not be applicable if the concerned banks and financial institutions award the gifts and prizes equally and without any discrimination to the depositors, who satisfy the certain measures specified by concerned banks and financial institutions.
- 2.60 Banks and financial institutions are not allowed to conduct lottery-based prize programs for attracting deposits beyond mid-July 2008. Thus, those banks, conducting such programs are required to end the programs by mid-July 2008 and are required to include only those in the program who were depositors before the issue of the directives.

Actions Against the Willful Defaulters with Bank Loan of More than Rs 50 Million

- 2.61 Following the decision of the council of ministers of the Government of Nepal dated on 24 July 2007, following actions have been taken against the willful defaulters.
- (a) Seize the passport of willful defaulters and prohibit issuing new passport to them.
 - (b) Forbid such defaulters to be/from the board of directors in any company listed as per the company act.
 - (c) Disallow the sale of all movable/unmovable assets under their ownership except for the purpose of settling the bank loan.
 - (d) Cease share transactions (purchase & sale) except for the purpose of loan repayment.
 - (e) Seize and sell the investment made in the government securities; and use that amount for loan repayment.
 - (f) Cease the payments of all types of deposits (domestic and foreign) of defaulter and his/her associates except for the purpose of loan repayment.
 - (g) Cease assets kept in the lockers operated by the defaulter and his/her associates.
- 2.62 As per the decision of ministry of council of Government of Nepal on 15 December 2006, the defaulters having more than Rs. 50 million of outstanding loan could be brought into legal action by the respective banks themselves in priority basis. In this connection, many banks and financial institutions had submitted their recommendation to the NRB for taking legal action against the defaulters as per section 57 (12) of Bank and Financial Institutions Act, 2006. Accordingly, 112 defaulters have been brought under legal action by the GON as per the recommendation of the NRB.
- 2.63 In the context of adopting the provision of new capital adequacy framework in line with BASEL-II as mentioned in the monetary policy of 2006/07, the existing provision will be made applicable for one year from 2007/08 and only the commercial banks are required to follow the new capital adequacy framework in parallel-run basis. The new capital adequacy framework will be made compulsory from 2008/09.
- 2.64 Banks and financial institutions are required to abide by the following provisions;
- (a) While recovering loans from the concerned borrower, banks and financial institutions are required to recover the full amount of interest first and then only remaining amount can be adjusted in the principal amount. However, this provision will not be applicable in case of recovering bad loan.

- (b) In addition to borrowing and other facilities provided to the staff under the staff bylaws, banks and financial institutions can provide loan to them against the collateral of certificate of deposits issued by itself or other banks and financial institutions, gold/silver, government securities and securities issued by the NRB.
- 2.65 Following the decision of the council of ministers of the GON to compile information from the NRB, banks and financial institutions are required to furnish the information on whether the bank account and locker were opened or not in the name of the late King Birendera and late Queen Aishwarya, furnish the record of detail transactions in these accounts along with deposits and withdrawals of valuable assets such as jewelry and gold from the locker and finally forbid to withdraw the cash and assets from the account and locker respectively.
- 2.66 The existing Long Form Audit Report (LFAR) have been revised and reviewed in order to make it timely and effective and accordingly, the revised LFAR has been put into implementation from a date of the decision taken by the NRB on 17 Sep, 2007. The Report has been posted under the Bank and Financial Institution Regulation Department in the NRB website: www.nrb.org.np and the bank and financial institutions are required to send the final audit report prepared by the external auditor as per the LFAR.

Provisions Relating to the Margin Lending

- 2.67 Banks and financial institutions while providing margin lending to the concerned borrowers on the security of shares of the listed companies in the Nepal Stock Exchange Limited are required to abide by the following provisions;
- (a) The amount of margin lending to be provided on the security of shares must be within the limit of the fifty percent of the average price of closing share price of last 180 working days or fifty percent of the current market price, whichever is the lower. The amount of margin lending once accepted to the borrower cannot be further extended through revaluation of the shares under securities. If the amount of the margin lending accepted in the past exceeds the stipulated limit of 50 percent, the lending should be regulated to the limit of 50 percent by mid-July 2008 or the maturity period whichever is the earlier;
 - (b) The maturity period of the margin lending should not be more than a year and such lending is not allowed to renewal, reschedule and restructure;
 - (c) Banks and financial institutions cannot accept margin lending to the shares of those banks and financial institutions, which have a capital fund below that fixed by the NRB, which have negative net worth, which are delisted by Nepal Stock Exchange Ltd, and which are unable to complete final audit even after one year from the end of the fiscal year;
 - (d) Banks and financial institutions should clearly mention about the margin lending in their credit policy and guidelines;
 - (e) Banks and financial institutions must comply the usual procedures for the margin lending like other lending;
 - (f) The concerned banks and financial institutions need to maintain cent percent loan loss provisions for such lending, except otherwise the lending is in a status of good loan.
 - (g) The margin lending accepted before the issuance of this directive must be rescheduled as per the above provisions by mid-July 2008 along with ensuring the limit fixed by the directive.
 - (h) Margin lending can be provided to the limit of the core capital of banks and financial institutions. However, margin lending on the security of listed shares of a single institution should not exceed the limit of 25 percent of the core capital.
 - (i) Banks and financial institutions, which provide margin lending more than their core capital are not allowed to provide additional margin lending until the limit of the previous margin lending comes within the stipulated limit.

- (j) While providing the margin lending, banks and financial institutions need to keep the original certificate of shares as a collateral. If margin lending has been provided against the securities relating to shares other than original certificate, the concerned banks and financial institutions are required to keep the original certificate for such lending by mid-February 2007.

Provisions Related to Promoter Share

2.68 For implementing the section (g) of sub article 1 of article 48 of "Banks and Financial Institutions Act, 2006" and for the purpose of article 9 (2) of the same act, the following provisions have been made for the sale and purchase of the cross-holding of the promoters' shares by banks and financial institutions through Nepal Stock Exchange Ltd.

- (a) The banks and financial institutions licensed by the NRB are allowed to sell the promoter/promoter group share of other licensed banks and financial institutions through the Nepal Stock Exchange Limited.
- (b) While selling or transferring the ownership of the promoter share, the provision of granting priority to other member of the promoter shareholder as stated by the unified directive number 10 will not be applicable for this purpose.
- (c) The individual/organizations purchasing the promoter share from Nepal Stock Exchange Ltd. will remain as the promoter of the concerned institutions.
- (d) However, the purchaser of the promoter share should not be blacklisted in the credit information bureau and is required to submit the self-declaration at a time of purchasing the share that s/he is not ineligible to purchase such shares as per the prevailing laws and the directives issued by the NRB.
- (e) The banks and financial institutions have to compulsorily sell out promoter shares invested in other banks and financial institutions by mid-July 2008.
- (f) The other provisions and procedures related to the sale and purchase of share will be as per the prevailing laws.
- (g) The promoter share once traded through the stock exchange can be re-traded among other person/institutions through the secondary market. However, such buyer-individual/organization- will remain in the respective promoter group.

2.69 The banks and financial institutions are not allowed to extend loans against financial guarantee issued by domestically established and operated banks and financial institutions.

2.70 The following provisions have been made for banks and financial institutions' investment on the hydropower project, electricity transmission line and cable car construction project:

- (a) The single obligor limit of the loans to the hydro power related projects has been relaxed from existing limit of 25 percent to 50 percent of core capital including fund based loans and non-fund based facility.
- (b) Power purchase agreement (PPA) must be done with the concerned agency while investing in hydropower projects. Banks and financial institutions can provide loans to the hydropower related projects to the limit of 25 percent of their core capital as per their own credit manual/policy. However, PPA is a must in the conditions of the loans exceeding 25 percent but below/to 50 percent of core capital.
- (c) The payment schedule of such projects should be prepared on the basis of cash flow and other related documents, which verify it.
- (d) If any instalments of the loans to be recovered after the gestation period of the hydro project determined by banks and financial institutions through their project appraisal or after the actual time of the generation of the electricity, whichever is earlier is defaulted, such loans will be counted as good loans up to 90 days from the date of default and the banks and financial institutions are required to make only one percent loan loss provisions

for such loans. However, when it crosses more than 90 days from the date of default, the loan should be counted as bad loan and hundred percent loan loss provisioning is required.

- (e) Banks and financial institutions investing in the share/debentures of public limited company not listed in the stock exchange have to create an equity adjustment fund and allocate the entire amount of such investment in the fund, if the share and debentures of such companies are not listed in the stock exchange within 3 years of such investment. Further, the amount of investment allocated in such fund is not allowed to use for any purpose until the share and debentures are listed in the stock exchange.

Transaction of Promoter Shares

2.71 Following the article 9 (2) of "Banks and Financial Institutions Act-2006", the promoter share holders of banks and financial institutions, holding more than 51 percent such shares can sell the remaining share through Nepal Stock Exchange Ltd like ordinary share based on the following conditions.

- (a) Banks and financial institutions must complete five years of financial transactions;
- (b) The holding of promoter shares must be at least 51 percent after transferring the share into ordinary shares;
- (c) For purchase/sale/transfer of promoter shares through Nepal Stock Exchange Ltd. (NEPSE), promoters could transfer over and above 51 percent promoter shares into the ordinary shares on the pro-rata basis of the holding of promoter shares and such shares could be sold/purchased through NEPSE as per prevailing laws. While transferring promoter shares into ordinary shares for the purpose of this provision by banks and financial institutions of more than 5 years of financial operation, the promoters are allowed to sell only 50 percent of their holding of promoters shares that are eligible to transfer into ordinary shares by mid-July 2008, and remaining shares could be sold at a time or gradually.

However, in a condition when any shareholder of any promoter/ promoter group expresses self-declaration that shows his/her unwillingness to transfer the status of promoter share into ordinary share, remaining members can use the ratio of such shares to transfer their promoter shares into ordinary shares but the holding of promoter shares must not be less than 51 percent even after the transfer.

- (d) This provision requires an approval of the NRB with the recommendation of the board of directors of the concerned banks and financial institutions. After the approval, the memorandum of agreement and laws should be amended through the forthcoming general meeting and the composition of the structures of shares should be arranged accordingly. The sale and purchase of such shares carried out without amending the memorandum of agreement and laws will be assumed as promoters' group.
- (e) The memorandum and laws should be amended only after including the representatives in the board as per the ownership of shares;
- (f) Promoter shares once transferred into ordinary shares cannot be again transferred back to promoter/promoter group shares;
- (g) If an individual/group, who offers sale of shares after transferring the promoter shares into ordinary shares is in a blacklist, such shares are allowed to sell only for the purpose of repaying the loans of banks and financial institutions. The concerned banks and financial institutions should themselves determine whether a seller is in blacklist or not.
- (h) Following these provisions, the sale/transfer of these shares are allowed only for a single time;
- (i) The member of board of directors will also be eligible to transfer their holdings of promoter shares into ordinary shares. However, the sale and purchase actions should be done as per the prevailing laws.

Trust Receipt Loans/ Loans Against a Certificate of Fixed Deposits and Other Securities

- 2.72 The financial institutions licensed by the NRB are required to fulfil the following provisions while providing trust receipt loans, loans against the collateral of fixed deposits and other securities;
- (a) Banks can provide trust receipt loan or other import loan of such nature only for the maximum period of 90 days.
 - (b) Banks cannot provide loans against the certificate of fixed deposits and other securities at a lower rate than that a coupon rate offered on such securities. However, financial institutions other than licensed by the NRB needs not abide such provisions.
- 2.73 Similar to the concession granted for the priority sector loans of banks and financial institutions licensed by the NRB, the banks and financial institutions are also granted a concession of 75 percent or are required to maintain a loan loss provision of only 25 percent of the total loan provided to the deprived sector if such loans are insured in deposit and credit guarantee corporation.
- 2.74 Following the section (*sha*) of sub-article 2 of article 47 of Banks and Financial Institution Act 2006, the financial institutions of class "B" and following the section (U) of sub-article 3 of article 47 of the same act, the financial institution of class "C" are not allowed to invest more than 25 percent of the core capital on real estate, purchase of land for residential construction, housing development projects and any functions directly or indirectly carried out relating to real estate activities.
- 2.75 Banks and financial institutions are not allowed to provide loans against the receipt of application submitted for the purchase of shares through initial public offering (IPO). If any banks and financial institutions have provided loans of such nature prior to this provision, such loans are to be recovered within a month from the effective date of this provision. Otherwise, loans are to be rescheduled with enough securities and in case, the loans are not fully backed up by the securities, banks and financial institutions are required to make provisions for such loans by a full amount of the loan.

Provisions Relating to the Use of Standing Liquidity Facility

- 2.76 Commercial banks are required to fulfil the following provisions while using the standing liquidity facility;
- (a) The existing 50 percent limit of the liquidity facility to the commercial banks to be availed against their holding of treasury bills and development bonds of the government of Nepal has been revised upward to 75 percent.
 - (b) The interest rate on SLF to be determined by adding 2 percent penal rate on weighted average 91-day Treasury Bill rate or the latest repo rate, whichever is the higher. Likewise, the latest repo rate signifies the rate prevailed within 30 days and other provisions relating to SLF are kept unchanged
- 2.77 It is not necessary to take permissions from the NRB while purchasing or selling promoter share equal to one percent or less than one percent of the paid-up capital held by the promoters of the banks and financial institutions licensed by the NRB from/to the existing promoters or other individuals and institutions as per the existing laws, rules and following terms and conditions. However, promoters holding a shares of more than one percent are not allowed to enjoy such facility by means of appropriation of such shares in one percent or less than one percent. The existing provisions of requiring permissions from the NRB for the purchase and sell of such shares have been kept unchanged.
- (a) The promoter share can be transferred to the concerned inheritor in case of a death of the promoter or in case of a split of family as per the prevailing laws or in case of a decree made by the court.

- (b) While transferring the right of promoter shares, the first priority is to be given to the existing promoters except circumscribed by the death of a promoter or transfer of the rights through family split. Banks and financial institutions can sell such shares to other groups and individuals only if existing promoters are unwilling to purchase such shares and inform their unwillingness to the bank in written form. In a situation when a written approval is not possible on an individual basis, the concerned banks and financial institutions are required to disseminate such information through national daily newspaper by specifying a deadline of 35 days for the purchase of such shares and, if the existing promoters do not subscribe of these shares within a stipulated time, banks and financial institutions can sell such shares to other groups and individuals under the prevailing laws.
- (c) The groups or individuals purchasing the promoter shares are to be included into the promoters group. The banks and financial institutions of "A", "B", and "C" class licensed by the NRB as well as cooperatives are not allowed to purchase the shares of any banks and financial institutions.
- (d) Any groups or individuals are not allowed to purchase the promoter shares of banks and financial institutions if (a) the terms and conditions specified in the articles 9 and 11 of the Banks and Financial Institution Act 2006 are not satisfied, (b) the subscriber of the promoter shares has not paid to the shares subscribed for purchase, (c) the court has declared the subscriber of the promoter shares to have been involved in financial crime, fraud and forgery, (d) the Credit Information Bureau (CIB) has blacklisted the subscriber or omission from the blacklist has not been more than three years, (e) the subscriber has been working as an auditor, legal or other advisor in the respective banks and financial institutions, (f) the subscriber has been working as a contractor or has attached financial interests or involved in financial transactions with the concerned banks and financial institutions, (g) the tax has not been paid or the permanent account number (PAN) has not been updated, (h) the subscriber has been a broker in the stock exchange or a market maker, (i) the number of graduate degree holders in the promoter group turn to be less than one-third of the total promoters after the purchase/selling of the promoter shares, (j) the forms are not applied as per the designated format and (k) the subscribers are ineligible to purchase the shares as per the existing laws.
- (e) In case of the shares to be purchased by corporate organizations, banks and financial institutions are required to assess the institutions' objectives as whether the objectives permit to purchase such shares or not along with assuring whether the organization has earned operating profit for the two consecutive years. Further, the promoters of such organizations must not be in blacklist of the credit information bureau.
- (f) While selling or purchasing the promoter shares, the banks and financial institutions must consider the existing provision of maximum 15 percent investment that an individual, a firm, a company and a household can hold in a single banks and financial institutions licensed by the NRB and in case of banks and financial institutions other than licensed by the NRB, investment must not exceed one percent of their paid-up capital.
- (g) The above conditions from I to VI are to be examined by the board of directors of the concerned banks and financial institutions themselves and, are, accordingly, required to adjust the promoters' logbook. The board of the directors of the banks and financial institutions can itself decide the purchase and sell of the promoter shares.
- (h) The prices of the promoter shares to be purchased and sold by the promoters and taxes, commissions and charges on their transactions in concerned agencies are to be effective as per the prevailing laws.
- (i) Banks and financial institutions are required to take permissions from the NRB while selling or transferring the ownership of the promoter shares by means of either appropriation of shares or in a lump sum basis in case the group or individuals hold promoter shares more than a one percent of the paid-up capital.

- (j) In a situation when banks and financial institutions are required to seize the promoter shares on account of the lack of adequate resources to recover the loans provided under the collateral of such shares or in case of binding circumstances that banks and financial institutions are required to sell such shares as per existing laws and policies, the banks and financial institutions are obliged to undergo the following procedures while selling the seized/excess shares to any individuals or groups;
- A public notice need be announced for existing promoters including other individuals and organization in order to sell such shares on auction basis through secret sealed tender in compatible to the prevailing laws and guidelines of the NRB.
 - The notice should clearly indicate the status of the owner of the promoter shares after purchasing such shares through the prevailing laws and guidelines. After recognition of a purchaser of the promoter shares, the procedures explained in (a) are to be followed while selling or transferring the right of the promoter shares of a promoter who holds less than one percent of the paid-up capital. However, in case of the promoter shares of more than one percent of the paid-up capital held by the promoter, procedures of selling or transferring the rights of such shares are to be made effective only after obtaining an approval from the NRB.
- (k) If the holder of the promoter shares has been in the blacklist of the CIB, the amount received from the selling of such shares must be used to repay the loan.
- (l) The updated records of existing as well as the new promoters are to be submitted to the NRB within the fifteen days of the purchase and sale of the promoter shares.
- (m) Following the article 100 of the NRB Act 2002, banks and financial institutions will be warned and other necessary actions will be taken if promoter shares are purchased or sold without complying the outlined process. In case of the breaching of the process, the respective banks and financial institutions can seize such shares from the sellers, while the purchaser will not be allowed to purchase the promoter shares of new banks and financial institutions as well as to work as a board of directors in the licensed institutions of the NRB for five years from the date of the purchase of such shares.
- (n) The above mentioned provisions will be assumed to have been changed as per the revisions in the prevailing act and laws in addition to guidelines revised by the NRB in time to time.
- 2.78 The unified directives no 14 issued by the NRB to the banks and financial institutions concerning the provisions of opening up of new branch and offices have been amended. Unlike the previous provisions of requiring banks and financial institutions to take the permission from the NRB to open their branch and offices, banks and financial institutions are, now, required only to inform the opening up of their new branches and offices and avail their financial transactions timely to the NRB as per the sub article 14.1 (Financial statements to be submitted in the NRB by the banks opening new branches).
- 2.79 Provisions relating to minimum capital fund as per the clause 6 under the provision of minimum capital fund of the directive no. 1/061/62 of the NRB unified directives, the banks and financial institutions were required to submit their audited financial statements related to capital fund in accordance with the form no. 1.1 and 1.2 to Bank and Financial Institutions Regulation Department and related Supervision Department within one month after the completion of each quarter. This provision has been revised/amended as follows:
- (a) Banks and financial institutions licensed by the NRB have to maintain stipulated level of capital adequacy ratio at all times. In addition, banks and financial institutions are required to submit their audited financial statements in accordance with the form no. 1.1 and 1.2 to Bank and Financial Institutions Regulation Department and related Supervision Department within one month after the completion of each month. The banks and

financial institutions unable to maintain the stipulated capital adequacy ratio by the end of each month are not allowed to distribute dividend and bonus share.

- (b) The following provisions will be applicable in case the licensed banks and financial institutions of class "B" and "C" have borrowed or mobilized financial resources exceeding the limit specified by the NRB directives.
 - (1) If banks and financial institutions are found mobilizing the financial resources beyond the specified limit as set by the NRB directives, they will be charged a penalty by applying the bank rate to the amount exceeding the statutory limit. In addition, the executive director of such institutions may be charged up to Rs. 0.1 million as a penalty provided that he/she has to borne this amount personally.
 - (2) For this purpose, the calculation will be made on the basis of primary capital maintained as per the latest available and audited financial statements.
 - (3) The statement regarding the daily borrowings should be mentioned in a separate heading with the amount of total borrowing and submitted to the NRB along with the weekly statement of CRR (directive 13.1).
- (c) As per the section (ka) of the NRB circular no. 35/64/65, dated 15 April, 2008, the minimum capital adequacy ratio should be maintained by the licensed banks and financial institutions as specified by the NRB all the time. Each bank and financial institution has to submit its audited financial statement related to capital fund prepared on the basis of month-end financial transaction as per the form no. 1.1 and 1.2 to Banks and Financial Institutions Regulation Department and related Supervision Department within one month after the completion of each month. In addition, the banks and financial institutions unable to maintain the stipulated capital adequacy ratio by the end of each month are not allowed to distribute dividend and bonus share. In order to make the implementation date of above mentioned provision consistent with that of the promulgation of the Prompt Corrective Action (PCA) By-law, 2007, the arrangement has been made to implement the provision mentioned in the section 'ka' of the above mentioned circular from 17 October, 2008.

2.80 As per the NRB circular issued on 18 June, 2006, the cooperatives established in according with the prevailing legal procedures were not allowed to invest in the share of licensed banks and financial institutions already licensed or in the process of getting license from the NRB in the capacity of promoter or promoter group and were required to offload it as per the prevailing legal procedures by mid-July 2008 if they had previously made investment in such share. This provision has been revised as follows:

"Cooperatives established in accordance with the prevailing legal procedure are not allowed to invest in the share of banks and financial institutions already licensed or in the process of getting license from the NRB in the capacity of promoter or promoter group and are required to offload it as per the prevailing legal procedure by mid-July 2008, had they been previously made investment in such share. But, this provision will not be applicable for the micro credit development bank of class 'D'."

2.81. In the context of long public holiday due to historic constituent assembly election, the period for the repayment of principle and interest to be paid by the entrepreneurs to banks and financial institutions has been extended to mid-June 2008 from the earlier scheduled period of mid-April 2008.

List of Professional Expert

2.82 As per the provision mentioned in Article 13 of the Bank and Financial Institutions Act, 2006 regarding the publication of the list of professional experts, a total of 67 professional experts meeting the required qualification and necessary criteria have been included in the list of professional experts published by the NRB. Of the total, 5 new professional experts have been included in the review year. In addition, a list of 185 auditors, including 150 chartered

accountants (individual/firm) and 35 registered auditor group (individual/firm), meeting the required qualification and necessary criteria has been published in the review year.

Bank and Financial Institution Supervision

Bank Supervision

2.83 The task of Onsite Inspection of the commercial banks has given as continue task during the review period. During the review period, Onsite Inspection of 23 commercial banks, including Agriculture Development Bank, Nepal was completed. Similarly, 149 commercial bank branches and their various projects were also covered by the Onsite Inspection of the said period.

Table 2.7
Onsite Inspection of Commercial Banks and their Branches

S.No.	Banks	Branches
1.	Nepal Bank Ltd	17
2.	Rastriya Banijya Bank Ltd.	14
3.	Agriculture Development Bank	25
4.	Nabil Bank Ltd	9
5.	Nepal Investment Bank Ltd.	9
6.	Standard Chartered Bank Nepal Ltd.	3
7.	Himalayan Bank Ltd.	7
8.	Nepal S.B.I.Bank Ltd.	6
9.	Nepal Bangladesh Bank Ltd.	1
10.	Everest Bank Ltd.	12
11.	Bank of Kathmandu Ltd.	6
12.	Nepal Credit and Commerce Ltd.	1
13.	Lumbini Bank Ltd.	3
14.	Nepal Industrial and Commercial Bank Ltd.	5
15.	Machhapuchhre Bank Ltd.	10
16.	Kumari Bank Ltd.	6
17.	Laxmi Bank Ltd.	3
18.	Siddhartha Bank Ltd.	7
19.	Global Bank Ltd.	1
20.	Citizen Bank Ltd.	1
21.	Bank of Asia	1
22.	Sunrise bank Ltd.	1
23.	Prime Bank Ltd.	1
	Total	149

2.84 The Onsite Inspection of 23 commercial banks and 17 special inspections of 12 commercial banks were done during the review period. The special inspection of Lumbini Bank Ltd., Nepal Credit and Commerce Bank Ltd., Rastriya Banijya Bank Ltd., Kumari Bank Ltd., Machhapuchhre Bank Ltd., Nepal Bank Ltd., Bank of Kathmandu Nepal Ltd., Nepal Bangladesh Bank Ltd., Citizen Bank Ltd., Sunrise Bank Ltd. and Bank of Asia Ltd. was done during the review period.

2.85 Banks were urged to improve their conditions, which were found-out during the Onsite Inspection report, special inspection report and targeted inspection report as well.

2.86 The close monitoring imposed to Nepal Bangladesh Bank Ltd., Nepal Credit and Commerce Bank Ltd. and Lumbini Bank were lifted out from the end of the review year since the banks were able to improve on their management aspect.

- 2.87 The Offsite Supervision Report, based on the financial statement of banks prescribed by the related banks, was prepared on quarterly basis during the review period. Based on the report, CAELS rating and Early Warning System is implemented as regular follow-up programme in the review period.
- 2.88 Regular follow-up on balance sheet and financial statements submitted by banks and direction to ascertain and to improve the shortcoming regarding the implementation of the directives issued to the commercial banks.

Development Bank, Finance Companies and Micro-Finance Institutions Supervision

- 2.89 All together 210 financial institutions Onsite Inspection was done in FY 2007/08. Out of them, 14 Development Banks, 42 Finance Companies, 6 Micro Finance Development Banks, 6 Cooperatives and 4 NGOs Onsite Inspection was done during the review period. Similarly, targeted inspection for 16 Development Banks, 10 Finance Companies and Follow-up Inspection for United Development Bank and Pokhara Finance Ltd. was done during the review year. As per the request from various people and institutions, special Inspection for 8 Development Banks, 14 Finance Companies and 1 Micro Finance Development Bank was done during the year.

Special Action Taken

- 2.90 Some of development banks were taken into action due to noncomplied of NRB regulation during the review period. Nepal Development bank was declared as problematic bank and restricted on deposit collection and loan sanction. Nepal Development Bank and Nepal Cottage and Small Industries Development Bank was urged to inject capital and limited to flow the loan and deposit collection on the basis of bad loan recovery during the review period. Likewise Sanima Development Bank, Shuveschha Development Bank and Bageswori Development Bank were penalized due to non-compliance of cash reserve ratio part.
- 2.91 Swastik Merchant Finance Co., Api Financial institution Ltd., Kaski Finance Ltd., Lord Buddha Financial Institution Ltd. and Seti Bittiya Sanstha Ltd. were penalized for not complying the cash reserve ratio as per the NRB mandatory. Action was taken to Cosmic Merchant Banking and Finance Ltd. by limiting on its loan and deposit ceiling.

Currency Management

- 2.92 Currency Management Department, with the responsibility of smooth supply of currency notes across the nation, used to manage the printing of notes of different denominations that was sufficient for two and half years. However, the department has initiated to manage printing of currency notes sufficient for three and a quarter years, as per the revised provision effective from 2007/08. In FY 2007/08, notes with denomination: Rs. 5, 10, 20, 50, 100, 500, and 1000 have been printed or in the process of printing in the following quantities.

Table 2.8
Printing Status of Notes

S.N	Denominatioi	Quantity (in Million)	Status of Note Printing
1.	1000	30	28.2 million has already come in circulation
2.	500	20	All have come in circulation
3.	100	50	Printing in process with some portion in circulation
4.	50	50	Printing in process with some portion in circulation
5.	20	70	Printing in process
6.	10	50	Printing in process with some portion in circulation
7.	5	150	Printing in process

In FY 2007/08, newly designed notes of Rs. 500 denomination with the picture of Mt. Everest in the left side and rhododendron flower in water mark in the right have been brought into circulation. Similarly, a blind recognized feature is also included in the newly design notes of Rs. 500 and 1000 to facilitate the blind.

Note Issue

- 2.93 In 2007/2008, notes of different denominations equivalent to Rs. 21.64 billion have been issued from the stock. The issue ratio from stock is much higher during the months of Dashain and Tihar. Of the total notes issued from the stock in the review year, about 72 percent (102,599,999) piece) of notes were issued during these festival periods. During the months of Dashain and Tihar, notes of denomination of Rs. 1, 2, 5, 10, and 20 as well as Rs. 50 are seems to be issued heavily form the stock.

Notes in Circulation

- 2.94 As at mid-July 2007, notes of different denominations equivalent to a sum of Rs. 91.30 billion were in circulation. Additional notes equivalent to a sum of Rs. 21.64 billion were issued during the review year. Consequently, total notes in circulation reached to Rs. 112.94 billion as at mid-July 2008.

Note Chest

- 2.95 To widen the use of Nepalese currency and continue smooth banking services across the nation, NRB has established note chest in 43 branches of Rastriya Banijya Bank, 24 branches of Nepal Bank Limited, and seven NRB offices located in different districts. To allow note chest operation to private bank branches, related study on few such bank branches were conducted in the review year. Now, this issue is in the stage of decision point. There has been the provision of regular inspection and monitoring of all note chests across the nation, to overcome the problems associated with note chest operation and make such services effective by widening the banking services across the nation.

Notes Destroyed

- 2.96 There has been the provision of destroying spoiled and non-issuable notes held by public and commercial banks, so as to bring fresh and clean notes in circulation. In this regard, Currency Management Department and district-based NRB offices together had destroyed a total of Rs. 122617733521 up to mid-July 2007. The additional notes equivalent to a sum of Rs. 308435000 were destroyed during the period of mid-July 2007 to mid-July 2008. Therefore, the sum of total notes destroyed has reached to Rs. 122 926168891 by the end of FY 2007/08.

Fund Transfer

- 2.97 Banking sector has a direct effect in the economic activities of a nation. To ensure availability of necessary fund for smooth functioning of the banking sector and development activities, note chests are established throughout the nation in the branches/sub-branches of Rastriya Banijya Bank and Nepal Bank Limited, and district-based NRB offices. NRB has been transferring fund from and to the note chest in its own cost depending on the surplus and shortage of fund in the respective note chest. In 2007/08, a sum of Rs. 17.72 billion was transferred to note chests in 138 attempts whereas Rs. 5.2 billion was pulled back in 20 attempts from note chest.

Miscellaneous

Corporate Reforms

- 2.98 The board of director's meeting issued 18 points directives to make that budget systems effective, economy, real and managed in terms of approved budget of FY 2008/09.
- 2.99 "Budget Review Committee" under the coordinatorship of Board of Director Dr. Bishwambher Pyakurel has reviewed the budget of fiscal year 2006/07; first month, half

yearly and nine months of the fiscal year 2007/08. From the budget review, capital expenditure is under the allocated budget, interest income is less than projected ones and the current expenditure is under the allocated budget. Board of Directors instructed the bank management regarding the budget and expenditure system after studying the reviewed budget.

- 2.100 To make the effective implementation of the annual budget and the action plan, necessary onsite and off-site follow up tasks were continued.
- 2.101 Board of Directors approved the 'Risk Management Directives' on 2007/11/22 . According to the Directives Risk management tasks were operationalized. With an objective to conduct risk management and its follow-up effective BOD constructed a "Risk Management Committee" under the chairmanship of BOD Member Mr. Shambhusharan Prasad Kayastha. Corporate Planning Department is the secretariat of this committee. "Risk Management Committee" prepared its working procedure 2065 and made effective from 2065-02-01.

Information Technology

- 2.102 With a view to mechanize different departments; the works of developing new software and updating the existing software were completed as follow:
- a) As per the recommendation made by the Accounting Cell and other respective departments of the bank, the banking software has further been enhanced.
 - b) Arrangements were made for updates on the previous exchange rate statistics published by the Foreign Exchange Management Department.
 - c) The software for treasury bills' scrip-less system was launched by the Public Debt Management Department.
 - d) Payroll system of the Financial Management Department has been refined and payroll of all offices has also been prepared by the central office.
 - e) Inventory Management System for Inventory and Distribution Section of General Service Department has been identified and related software has also been procured.
 - f) Necessary actions are done for updating the yellow-card records of existing employee's in the existing PRS and also scanned the retired employee's yellow-cards for preparation of the database.
 - g) Application software constructed and implemented to record the foreign exchange records of different business firms at Foreign Exchange Management Department.
 - h) Software for the Investment Division of the Foreign Exchange Management Department was developed and enacted.
 - i) Necessary reports are added and refined in the trade and current account software.
 - j) Additional refinement was done in the home loan information system.
 - k) To make more informative of the Bank website; new webpage has been designed and to upload information into the website employees of the respective departments were trained.
 - l) Software for the Investment Division of the Foreign Exchange Management Department was developed and executed.
 - m) Necessary improvements were made in the accounting and employee facility software of the Financial Management Department.
 - n) Telegraphic Transfer code generating software was made and enacted at banking office and other offices outside Kathmandu Valley.
 - o) Dispensary Software was refined with adding the demand module.

- p) Internet site of the bank has been refined for making more informative and systematized.

Expansion of Network/Internet/E-mail Service

- 2.103 To enhance network security, Latest Antivirus Software procured and installed in the networked computers.
- 2.104 Novel Netlyer Operating System of Biratnagar Office is replaced by the Windows Server 2003 to operate banking software.
- 2.105 Necessary actions were taken for migration of SWIFT Phase-2.
- 2.106 To establish communication link between Central Office and Siddharthanagar Office, **Vertal** Private Network was established which is under testing.
- 2.107 Network of Currency Management Department (CMD) is restructured; Network between CMD and BO was integrated.
- 2.108 Internet facility of the central office was also expanded to the offices situated at Thapathali, Kathmandu.
- 2.109 SWIFT Server of Banking Office Thapathali was transferred to IT Department of the Central Office.
- 2.110 Branch terminal of SWIFT was installed at the Foreign Exchange Management Department and operationalized.

Human Resource Management

- 2.111 With a view to prepare human resource of NRB to accept existing and forthcoming challenges, 14 young fresh individuals were recruited as third class officers.
- 2.112 As per the provision of the employee's by-rule 2005, staffs would get retirement after the age of 58 or after 30 years' service period. Accordingly, in mid-July 2008, 42 staffs of different levels retired. The number of staffs who terminated from the NRB-service because of compulsory retirement, resignation, death and dismissal is as follows:

Table 2.9
Recruitment in and Termination of NRB-Service
(Mid-July 2007 – Mid-July 2008)

Level	Compulsory Retirement	Resignation	Dismissal	Death	Entrance
Office Level	10	4	1	0	14
Officer-Special	4	0	0	0	0
Officer-First	0	0	0	0	0
Officer-Second	1	1	0	0	0
Officer-Third	5	3	1	0	14
Assistant Level	6	2	1	4	0
Assistant-First	2	2	0	0	0
Assistant-Second	1	0	0	1	0
Assistant-Third	3	0	0	0	0
Assistant-Fourth	0	0	1	3	0
Assistant-Fifth	0	0	0	0	0
Total	16	6	2	4	14

- 2.113 After the new recruitment to and exit from the service of NRB as stipulated earlier, the total number of employees stood at 1,517 as at mid-July 2008.

Table 2.10
The Number of Existing Employees (Mid-July 2008)

S.N.	Level	Current Manpower as of 2008 mid-July
1	Officer-Special	11
2	Officer-First	40
3	Officer-Second	109
4	Officer-Third	379
Total in Officer Level		539
5	Assistant-First	534
6	Assistant-Second	75
7	Assistant-Third	73
8	Assistant-Fourth	291
9	Assistant-Fifth	5
Total in Assistant Level		978
Total		1517

- 2.114 Among the working employees, 539 are officers and 978 are non-officers as at mid-July 2008. Likewise, the ratio of officer/assistant remained at 1:1.81.
- 2.115 Likewise, 64 people are working in the Security Group as contract employees in the bank as of mid-July 2008.

Table 2.11
Structure of Security Group (Contract)

S.N	Level	Post	Current Manpower
1.	Officer Second	Security Officer	1
2.	Officer Third	Assistant Security Officer	1
3.	Assistant-Second	Assistant Security	0
4.	Assistant-Third	Security Assistant	1
5.	Assistant-Forth	Managing security	2
6.	Assistant-Fifth	security	11
7.	Assistant-Fifth	Deputy security	4
8.	Assistant-Fifth	Sipahi	40
9.	Assistant-Fifth	Pipa	4
Total			64

- 2.116 There are three temporary employees in the security group (previously working Telegraphic Employee group as a temporary employee).
- 2.117 To enhance the welfare and benefits of employees, the NRB adopted the following policy provisions:

Provisions related to financial welfare

- Contextual review on existing salary and central bank allowance of existing employees (including Governor & Deputy Governors) was done and made effective from July 17, 2007.
- Outstation allowance provided from the decision of June 14, 2007 was simplified on Sept. 26, 2007.
- Remuneration of the daily wages workers was increased to Rs.225.00 per day and also implemented for the monthly wages worker accordingly.
- As per the decision of Oct. 31, 2007, meeting allowance and Tiffin expenses of the Open Market Operation Committee was revised.
- The feast amount Rs.4725.00 has been provided to the daily/monthly wages workers including security group staff in Bank annual day 2065. Likewise, dress allowance provided to daily/monthly worker amounting Rs.7500/person except the security group staff.

- f) As per the decision of May 25, 2008, the meeting allowance of the BTC Faculty Board Chairman, members and employees involved in the meeting was reviewed.
- g) Special Class Officers of the Bank can take a vehicle used by them at the time of retirement either paying book value or the 20 percent of purchased value whichever is more under the contract made between the bank and the employee. The bank will provide fixed fuel, tyre, general repair/maintenance expenses, lubricant and expenses to the driver as per the contract. This provision was made effective to those Special Class Officer who are retiring July 17, 2007 onwards.

Other Provisions

- a) The validity of employee identity card was increased from existing two years to five years period.
 - b) As per the decision of dated July 6, 2008 long term service souvenir was reduced to 20 years from 25 years of permanent service period. This type of reward is replaced as metallic plate instead of paper written certificate.
 - c) Existing "employee life insurance policy 1993" is converted to "employee security fund 2007" having the same provision and working procedure.
 - d) NRB 'Higher Education Study Working Procedure-2006' approved from the decision made on Feb. 25, 2007 has been revised as a first amendment on August 13, 2008.
 - e) Door key holding job at the central office was handed over to the security group contract employee as per the provision no. 9 of the contract has also been extended to the offices at Kathmandu Valley with effect from May 14, 2008.
 - f) With close coordination of the HR Consultant; HR demand was collected from all department and offices. On the basis of demand situation analyzed with comparing HR supply situation; the HRM Department prepared a midterm HR Plan distributed to all departments and unions for suggestions. Suggestions are in the process of receiving.
 - g) The NRB Employees' Service By-laws, 2005 was amended for the ninth time keeping in view the welfare and interest of employees.
- 2.118 To enhance the promotion of employees, among the vacant posts as of mid April 2008, 178 posts were fulfilled through internal competition. Similarly, to fulfill some of the vacant posts by internal competition, written examinations for 20 posts were taken.

Table 2.12
Description of the Recruited Post in 2007/08

S.N.	Post	Service	File Promotion	Internal Competition	Open Competition	Total
1	Officer-Special	Administration	4	-	-	4
2	Officer-First	Administration	6	2	-	8
3	Officer-Second	Administration	13	6	-	19
4	Officer-Second	Technical	1	-	-	1
5	Officer-Third	Administration	60	-	-	60
6	Officer-Third	Technical	17	-	-	17
7	Assistant-First	Administration	1	-	-	1
8	Assistant-First	Technical	13	-	-	13
9	Assistant-Second	Administration	5	12	-	17
10	Assistant-Second	Technical	20	-	-	20
11	Assistant-Third	Administration	5	-	-	5
12	Assistant-Third	Technical	12	-	-	12
13	Assistant-Fourth	Technical	1	-	-	1
Total			158	20	-	178

- 2.119 As per the provision of the Employees By-rule 2005, different levels of employee's changes of their service are as follows:

Table 2.13
Detail of Service Change

S.N	Level	Administration to Technical	Technical to Administration	Cash to Administration
1	Assistant -First	-	2	56
2	Assistant-Second	-	1	-
3	Assistant-Third	-	-	-
4	Assistant-Fourth	16	-	-
Total		16	3	56

- 2.120 As per the employee's by-regulation, 102 employee's salary scale was adjusted to near by senior post's initial scale since July 2007.

Training, Symposium, Seminars and Interaction Programmes

- 2.121 NRB organized a workshop on Statistics for the NRB reporting desk's employee of licensed bank and financial institutions in view with the Unified Directives (2005) issued for the banks and financial institution.
- 2.122 Bank Supervision Department of the Bank organized the following seminar and trainings:
- (a) One day interaction program was organized for the department's employees focusing Basel Core Principle Self Assessment Implementation in Nepal.
 - (b) Risk based supervision and relevant topics interactions were organized in quarterly basis for the department's employees.
 - (c) Two day seminar was organized at Dhulikhel on "Legal Compliance" for concerned department employees of the bank
 - (d) One day interaction program was organized for internal audit head of the Bank and Financial Institutions on effectiveness of internal audit and other pertinent issues.
 - (e) One day interaction program was organized for external auditors of all commercial banks on "Long Form Audit Report (LFAR)".
 - (f) Four days international seminar was conducted in collaboration with the SEACEN Centre, Toronto on "Leadership Seminar for Senior Bank Management of Central Bank on Financial System Oversight".
 - (g) Regarding the implementation of BASEL II in Nepal, NRB revised risk based capital adequacy provision and prepared "Capital Adequacy Framework, 2007" and this framework fully made effective from the fiscal year 2007/08.
 - (h) To obtain information on big borrowers from the commercial banks; NRB prepared "Big Borrowers Software" and also trained the manpower of the commercial banks about the software.
 - (i) Two days training program was conducted for the staff of the department on Letter of Credit (L/C).
- 2.123 Financial Institution Supervision Department conducted the following seminar and interaction program as per the approved annual work plan.
- (a) One day interaction program conducted for the staff of the department about off-site supervision manual.
 - (b) One day interaction program conducted for internal audit committee's member of financial institution to make effective of audit committee of FIs.

- (c) One day interaction program conducted for financial institutions' executive chief about contemporary issues.
- 2.124 Currency Management Department conducts a workshop program every year to aware the concerns person, Bank and financial institutions' employee and Government authority about the counterfeit note of Rs1000 and Rs. 500. In the review period, Currency Management Department conducted the seven seminar program in Kathmandu, Siddarthanagar, Dhulikhel, Janakpur, Biratnagar and Nepalgunj in the review period on doubtful Indian currency and foreign currency identification.
- 2.125 One day "Management Views Seminar-2065" was conducted on June 9, 2008 to make effective and efficient of Bank's work culture. All the Departments and Offices participated in this seminar. Departments and offices submitted the work plan for next fiscal year 2008/09 which were reviewed in the seminar.
- 2.126 Two days "Management seminar for chief managers" was conducted in Pokhara in 2065/01/27. The corporate planning department's director presented a paper about the work plan and its problem to implementation.
- 2.127 To strengthening the Computer Operation Core Group (COCG) which were formed in district offices of NRB, a training program was conducted in Nepalganj, Biratnagar, Birgung and Siddarthanagar for 50 employess. The training program contained the subject matter of ICT infrastructure in NRB, Operating system, Banking System, Hardware and Troubleshooting, Utility S/W, Network, Client server concepts and Internet and email.
- 2.128 A training program was conducted for 12 employees of Micro Finance Department about the Rural Self-reliance fund information system software.
- 2.129 A training program was conducted for 12 employees of Public Debt Management Department above Saving bond and Treasury bills (Public Debt System) system software.
- 2.130 A training program was conducted for 12 employees of Research Department about Balance of payment (Trade System) system software.
- 2.131 A training program was conducted to concern department/offices of its role to decrease of the legal problems.
- 2.132 NRB has prepared a draft of "Negotiable instrument bill 2007" which has been forwarded to Bank and Financial Institutions Department of NRB for discussion with financial sector's concerns.
- 2.133 Two days workshop program was conducted for officer and non-officer about risk, risk analysis and risk record in Kathmandu, Biratnagar, Pokhara and Nepalganj.
- 2.134 In the review period, altogether 1,074 employees were sent for trainings, observations or study visits among which 303 persons were sent overseas training and study visit while 532 employees were trained domestically. Likewise, 239 employees of Bank and Financial Institutions were trained domestically.

Meeting of the Board of Directors

- 2.135 The Board of Directors assembled 30 times in 2007/08. Last year, such meetings were held 39 times.

Table 1
Outstanding Refinance to Banks and Financial Institutions

(Rs. in million)

S.No.	Financial Institutions	2006/07	2007/08
1.	Commercial Banks	81.0	60.7
2.	ADB/N	0.1	0.1
3.	NIDC	464.0	232.0
4.	RDBs	10.0	10.0
5.	Other Development Banks	7.0	6.0
	Total	562.0	308.8

Table 2
Notes in Circulation

(Rs. in million)

Denominations	Mid July					
	2006		2007		2008	
	Amount	Percent	Amount	Percent	Amount	Percent
1	173	0.2	169	0.2	164	0.2
2	203	0.2	193	0.2	187	0.2
5	654	0.8	719	0.8	874	0.7
10	935	1.1	1112	1.2	1101	1.0
20	1064	1.3	1026	1.1	1396	1.2
25	129	0.2	113	0.1	100	0.1
50	1717	2.0	2109	2.3	1935	1.7
100	4866	5.7	5631	6.2	6286	5.5
250	84	0.1	84	0.1	82	0.1
500	20094	23.7	21852	23.9	33135	29.3
1000	54711	64.6	58302	63.9	67690	60.0
Total	84630	100.0	91310	100.0	112950	100.0

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)	(3)	(4)			(5)	(6)	(7)
	(1+2+3)						(4+6)/100		
2005	703	-	69646	70349	4172	74520	94.4		
2006	-	-	80458	80458	4172	84630	95.1		
2007	-	-	87148	87148	4172	91310	95.4		
2008	-	-	108778	108778	4172	112940	96.3		

Table 4
Established Posts and Employees by Class

	Permanent				Temporary/Contract				Total			
	Mid-July 2007		Mid-July 2008		Mid-July 2007		Mid-July 2008		Mid-July 2007		Mid-July 2008	
	EP	FP	EP	FP	EP	FP	EP	FP	EP	FP	EP	FP
Officer-Special	16	11	0	0	0	0	16	11	16	11	16	11
Officer-First	38	36	0	1	0	2	37	38	38	38	40	40
Officer-Second	109	98	1	2	1	3	107	96	110	101	111	109
Officer-Third	341	117	1	1	1	1	308	293	342	318	467	378
Assistant- First	603	602	0	0	0	0	665	600	603	603	605	535
Assistant-Second	142	54	2	1	2	1	121	102	145	55	86	75
Assistant-Third	80	93	1	1	1	1	92	80	81	94	158	73
Assistant-Fourth and Fifth	352	320	69	68	69	68	419	415	421	388	322	296
Total	1,681	1,531	74	74	74	76	1,765	1,631	1,755	1,607	1,805	1,517

EP= Established Posts
FP= Filled up Posts

Table 5
Domestic Trainings, Seminars and Workshops**

S.No	Topics	Level	Participants
1	Inspection & Supervision	Officer/Non-office	20
2	Risk Management & Risk Based Auditing	„	20
3	Public Key Infrastructure for S Net Security Officers (PK), Release Seminar SWIFT Net 6.0 (RSS6), From BKE to RMA (RMA)	„	2
4	Professional Writing Course	„	3
5	Rural Self Reliance Fund Loan Directive, 2060	„	21
6	Half-day Seminar on "UCPDC 500 AND UCPDC 600 - Compared"	„	19
7	Income From Remuneration & TDS With Changes Brought by Budget 2007/08	„	2
8	Research Directive, 2064	„	14
9	Price Statistics Workshop 2064	„	20
10	Workshop on Doubtful Foreign Currency Identification	„	8
11	Financial and Economic News Reporting	„	20
12	Transaction of RSRF and Investment Evaluation	„	20
13	Risk, Risk Analysis and Risk Record	„	7
14	Skill Development Training on Financial and Economic News Reporting	„	21
15	Computer Training	„	7
16	Problem Banks and Corporate Governance	Officer	7
17	Monetary & Fiscal Management	„	15
18	Pre-Service Training Programme	„	18
19	Strategic Planning & Budgeting	„	20
20	Risk Based Supervision	„	20
21	Computer Exposure	„	20
22	Management Development Programme	„	11
23	Research Methodology and Report Writing	„	10
24	Central Banking	„	20
25	Stress Management	„	25
26	Internal Audit in Nepal Rastra Bank	„	20
27	Off-site Supervision	„	20
28	Implementation Issues on Basel-II	„	20
29	Public Key Infrastructure for S Net Security Officers (PK)	„	2
30	Release Seminar SWIFT Net 6.0 (RSS6)	„	2
31	Training cum Workshop on Merger and Acquisition (M & A) in Financial Sector: In the context of Nepal and South Asia	„	4
32	Understanding Derivatives	„	20
33	Management of Workers' Remittances in SAARC Countries	„	11
34	Library and Information Science	„	1
35	Grameen Generalise System (GII)	„	1
36	Training of Trainers	„	1
37	Regional Workshop	„	2
38	Regulation and Supervision of Microfinance Institutions	„	3
39	Mind Management Workshop	„	4
40	Workshop on Trend & Issue of Capital Market	„	1
41	Seminar on Role of Development Banks Financing Microfinance Sector: Impact of New Credit Policy for Development Banks	„	2
42	Role of Concern Department/Offices to Collect Evidence	„	2
43	Interaction on Indian Rupee Exchange Management	„	4
44	Workshop on Risk Management	„	1
45	Seminar on Role of Finance Companies in Financing Microfinance Sector: A New Market Prospect for Finance Companies	„	1
46	ICT - Conference - 2008	„	1

Report of 2007/08

S.No	Topics	Level	Participants
47	Conference on Microfinance	„	3
48	Fundamentals in Basic Econometrics: Theory and Applications in Environmental Economics	„	1
49	Software Audit Management Training	„	4
50	Development of Managerial Skills: Preparing Managers with Emotional and Moral Competencies	„	1
51	Stress Management	„	6
52	Management Capacity Building of Women for Gender and Co-operative Development	„	1
53	CAPA-ICAN International Conference Integrating Nepalese Profession with the Outside World	„	11
54	Risk Management and Basel II	„	14
55	Risk Management and Basel II	„	16
56	Stress Management	„	6
57	Management Capacity Building of Women for Gender and Co-operative Development	„	1
58	CAPA-ICAN International Conference Integrating Nepalese Profession with the Outside World	„	11
59	Risk Management and Basel II	„	14
60	Risk Management and Basel II	„	16
61	Mind Management Workshop	„	2
62	Training of Trainers	„	2
63	Practical Issues in Implementation of Tax Act"	„	2
64	Seminar on "New Capital Adequacy Framework under Basel II and Long Form Audit Report"	„	10
65	Quality Enhancement in Support Staffs	Non-Officer	20
66	Public Debt Management	„	8
67	Computer Operation	„	14
68	Government Account Transaction	„	9
69	Central Banking	„	25
70	Statistics	„	3
71	Cash Operation	„	20
72	Accounting Procedure in NRB	„	20
73	Central Banking (Refresher)	„	20
74	Computer Exposure	„	14
75	From BKE to RMA (RMA)	„	1
76	Government Transaction	„	6
77	Post Budget Seminar on Income Tax and Value Added Tax	„	2
78	Second LED Sensitization Training & Provisional Log Frame for the Projecct Districts	„	1
79	Regional Training on Government Transaction	„	6
80	Second LED Sensitization Training & Provisional Log Frame for the Projecct Districts	„	1
81	Regional Training on Government Transaction	„	6
	Total		810

* Including other Participants from Banks and Financial Institutions.

** Training, Seminar provided by Bankers' Training Center.

Table 6
Foreign Trainings, Seminars, Meetings and Workshops

S.No	Details	Participants	Organizer	Venue
1	APG Annual Meeting and Annual Forum on Technical Assistance 2007 and SEACEN Governors' Conference and 26th Meeting of the SEACEN Board of Governors	1	APG and SEACEN	Perth, Australia and Bangkok
2	APG Annual Meeting and Annual Forum on Technical Assistance 2007	1	APG	Perth, Australia
3	Course in Public Debt Management: New Approaches to Developing an Operational Framework	1	IMF	Singapore
4	42th SEACEN Governors' Conference and 26th Meeting of the SEACEN Board of Governors'	1	SEACEN	Bangkok
5	APG AML / CFT Mutual Evaluation Training Workshop	2	APG Secretariat / IMF	Singapore
6	Macroeconomic Management and Financial Sector Issue	1	IMF	Singapore
7	47th SEACEN-FRS Intermediate Course on Banking Supervision: Risk Focused Supervision	2	SEACEN	Manila, Philippines
8	1st SEACEN Intermediate Leadership Course on Central Bank Management and Policy	1	SEACEN	Jakarta, Indonesia
9	21st General Conference & 22nd General Assembly of International Council Museum (ICOM)	1	ICOM Austria National Committee	Vienna, Austria
10	Macroeconomic Diagnostics (MDS)	1	RBI / IMF	Pune, India
11	SEACEN Research Project on Development of E-Payment and Challenge for Central Banks	1	The SEACEN Centre	Kuala Lumpur, Malaysia
12	Program for IT Heads Informed Decision-Making Using Business Intelligence and Data Warehousing	1	NIBM	Pune, India
13	2nd SEACEN-OCC Advanced Seminar on Quantitative Techniques for Micro Surveillance and Determining Resilience of The Bankings Sector	1	The SEACEN Centre	Bangkok, Thailand
14	Course on Financial Fragility & Banking Crises	1	IMF	Singapore
15	2nd SEACEN-IMF Course on Balance of Payments Management	9	SEACEN Centre / IMF	Kathmandu, Nepal
16	14th Meeting of The General Council of CICTAB	1	CICTAB	Pune, India
17	8th SAARCFINANCE Coordinators Meeting	1	SAARCFINANCE	Mumbai, India
18	Global Conference Explores Impact of Technology on Access to Finance: Microfinance, Credit Scoring	1	IFC/CGAP/VISA International	Washington D.C.
19	Monetary and Exchange Rate Policy	1	IMF	Singapore
20	15th Central Banking Seminar on Increasing Capital Flows Among Countries & Monetary Policy	1	The Bank of Korea	Seoul, Korea
21	Aid for Trade	1	ADB	Manila, Philippines
22	Printing Cheque book	2	NRB	Mumbai, India
23	Training Workshop on New Trends in Library & Information Services	1	Delnet, New Delhi	New Delhi, India
24	Ministerial Conference on Public-Private Partnerships for Infrastructure Development Asia and the Pacific	1	Government of Korea	South, Korea
25	2007 Annual Meeting of the Boards of Governors of World Bank/IMF	1	IMF/World Bank	Washington, America
26	To go to Participate in 2007 Annual Meeting of the Boards of Governors of World Bank/IMF	1	IMF/World Bank	Washington, America
27	2nd World Congress on Agricultural & Rural Finance	2	APRACA	Bangkok, Thailand
28	To participate in 20 th Meeting and Conference	1	Asian Credit Supplementation Institution Confederation	Bali, Indonesia

Report of 2007/08

S.No	Details	Participants	Organizer	Venue
29	SEACEN Seminar on Financial Stability Analysis and Reports	2	The SEACEN Centre	Taipei, Taiwan
30	29th Meeting of SEACEN Directors of Research and Training	2	The SEACEN Centre	Bali, Indonesia
31	Annual Meeting of SEANZA Forum of Banking Supervisors 2007	1	Bank Negara Malaysia	Kuala Lumpur, Malaysia
32	Regional Seminar on Operational Risk Assessment	1	ADB	Hong Kong
33	Financial Soundness Indicators	1	IMF, STI	Singapore
34	Study Visit Program on Cooperative Movement in Korea	1	APRACA CENTRAB	Seoul, Korea
35	4th Seminar on Information Technology Solutions for Central Banking's Business Process in Emerging Economics	1	Bank Indonesia	Yogyakarta, Indonesia
36	Program on Financing Self Help Groups	2	CICTAB	Lakhanau, India
37	Field Visit Program on Financing Small and Medium, Enterprises	2	APRACA	Bangkok, Thailand
38	Financial Globalisation and Financial Sector Development in South and Central Asia.	2	ICRIER	New Delhi, India
39	6th SEACEN CPSS Advanced Cours on Payment & Settlement Systems	2	The SEACEN Centre	Yogyakarta, Indonesia
40	SEANZA Advisors Meeting	1	Bank of Thailand	Bangkok, Thailand
41	SWIFT Regional Conference	2	Cambridge Solutions Ltd.	Mumbai, India
42	6th Meeting of Directors of Payment & Settlement Systems of Asia Pacific Central Banks	1	The SEACEN Centre	Yogyakarta, Indonesia
43	BOK-CCBS Joint Seminat on Measuring Financial System Performance: Strategies and Methods	2	Bank of Korea	Seoul, Korea
44	SEACEN-World Bank Treasury Workshop on International Reserve Management	2	The SEACEN Centre	Siem Reap, Cambodia
45	Study Visit Program on Rural Banking	2	APRACA CENTRAB	Manila, Philippines
46	6th MAS Regional Banking Supervisors Training Programme	1	Monetary Authority of Singapore	Singapore
47	Macroeconomic Diagnostics	1	IMF	Singapore
48	Macroeconomic Management and Financial Sector Issues	1	IMF / ITP	Pune, India
49	Program on Development of Co-operatives and Rural Financing Institutions	3	CICTAB	Galle, Sri Lanka
50	2nd SEACEN Research Workshop on Understanding and Addressing the Pro-Cyclicality Impact of Basel II in the SEACEN Countries	1	The SEACEN Centre	Kuala Lumpur, Malaysia
51	FSI-SEANZA Regional Seminar on Market Risk with a Focus on Interest Rate Risk in Banking Book	2	FSI-SEANZA	Mumbai, India
52	2nd SEACEN Research Workshop on Development of E-Payment and Challenge for Central Banks in the SEACEN Countries	1	The SEACEN Centre	Kuala Lumpur, Malaysia
53	2nd SEACEN Research Workshop on Comparision of Problem Bank Indentification, Intervention and Resolution in the SEACEN Countries	1	SEACEN-Centre	Kuala Lumpur, Malaysia
54	Seminar on "Risk Management in Central Banks"	1	RBI	Pune, India
55	Program on Financing Women's Development	2	CICTAB	Pune, India
56	Train-the-Trainers Workshop for Banking Supervisors & Regulators	2	SEACEN-Centre	Hanoi, Vietnam
57	E-Payment System	1	RBI	Mumbai, India
58	6th SEACEN Exco Meeting and Seminar on Building Credibility for Effective Monetary Policy	1	The SEACEN Centre	Phuket, Thailand

Activities of Nepal Rastra Bank

S.No	Details	Participants	Organizer	Venue
59	9th Annual Global Development Conference on "Security for Development: Confronting Threats to Survival and Safety" & Fragile States Post Conference Workshop	1	Global Development Network	Brisbane, Australia
60	Regional Seminar on Bank Analysis and Examination School	1	ADB	Jakarta, Indonesia
61	Second South Asian Capital Market Conference/SAFE	1	SAFE	Dhaka, Bangladesh
62	Interactive Workshop for Media Persons from Nepal	2	RBI	Pune, India
63	9th SAARC Finance Coordinators' Meeting	1	RBI	Mumbai, India
64	1th SEACEN-CeMCoA/BOJ-CCBS Advanced Course on Macroeconomic and Monetary Policy Management	1	The SEACEN Centre	Bali, Indonesia
65	Study Visit Program: Management and Operations of Micro Finance Institutions	2	APRACA CENTRAB	Manila, Philippines
66	To observe Waste Destruction Witnessing Purpose of Rs. 2 Coin	2	China BankNote & Minting Corporation	China
67	2nd Meeting of the Technical Committee of ACU	1	RBI	Mumbai, India
68	Central Bankers Courses 2008: Monetary Policy, Exchange Rates and Capital Flows	1	Study Centre Gerzensee	Gerzensee, Switzerland
69	Seminar on the New Balance of Payments and International Investment Position Manual	1	IMF	Singapore
70	Interactive Workshop on offsite Surveillance System	2	RBI	Pune, India
71	Financial Programming and Policies	1	Joint IMF/ITP	Pune, India
72	15th SEACEN-FSI Regional Seminar for Banking Supervisors & 5th SEACEN Seminar on Preparations for Implementation of Basel II	2	The SEACEN Centre	Bali, Indonesia
73	Study Visit Program on Women Empowerment	2	APRACA CENTRAB	Manila, Philippines
74	43th SEACEN Governors' Conference and 27th Meeting of the Board of Governors	1	The SEACEN Centre	Jakarta, Indonesia
75	To participate in 43th SEACEN Governors' Conference and 27th Meeting of the Board of Governors	1	The SEACEN Centre	Jakarta, Indonesia
76	16th APRACA General Assembly and 54th EXCOM Meeting and Interaction on AIT Institute	1	APRACA CENTRAB	Vietnam and Bangkok
77	16th APRACA General Assembly and 54th EXCOM Meeting	1	APRACA CENTRAB	Vietnam
78	Derivative Market Development: Improving Efficiency While Safeguarding Financial Stability	2	IMF / RBI	Pune, India
79	Inaugural Meeting of the SAARC Payments Council	1	The Central Bank of Sri Lanka	Colombo, Sri Lanka
80	Study Visit on Cash Processing Facility in Singapore	4	HSBC, Singapore	Singapore
81	Macroeconomics Diagnostics	1	IMF	Washington D.C., America
82	APG Implementation Issues Working Group (IIWH): Strategic Implementation Planning (SIP) Framework for Pilot Workshop	4	APG / World Bank	Kuala Lumpur, Malaysia
83	International Seminar on Core Principles for Effective Banking Supervision	2	RBI	Chennai, India
84	Macroeconomic Management and Fiscal Policy	1	IMF / STI	Singapore
85	SEACEN-BIS Seminar on Financial Stability and Local Currency Bond Market	2	The SEACEN Centre	Kuala Lumpur, Malaysia
86	Seminar on Internal Audit	1	Deutsche Bundesbank	Frankfurt, Germany
87	7th Central Banking Study Program	1	The Bank of Korea	South Korea

S.No	Details	Participants	Organizer	Venue
88	FSI-SEANZA Seminar on Corporate Governance for Banks in Asia	2	BIS	Macao
89	General Data Dissemination System (GDDS) Workshop	1	IMF	Bangkok, Thailand
90	Regulators Roundtable-Microfinance Cracking the Capital Markets South Asia	1	Standard Chartered Bank/ACCION	Delhi
91	3rd SEACEN-OSFI Seminar on Consolidated Supervision	2	The SEACEN Centre	Danang, Vietnam
92	Study Visit Program on Cooperative Banking	2	APRACA CENTRAB	Manila, Philippines
93	Financial Market Analysis (ST08.05)	1	IMF	Singapore
94	Central Bankers Courses 2008: Monetary Policy and Financial Stability in Countries with Opening-up Capital Accounts	1	Study Centre Gerzensee/Joint Vienna Institute	Gerzensee, Switzerland and Vienna, Austria
95	The Course on Balance of Payments Statistics HQ 08.08	1	IMF	Washington D.C., America
96	3rd SEACEN-CeMCoA/BOJ-BI Intermediate Course on Payment & Settlement Systems for Emerging Economies	2	The SEACEN Centre	Taipei, Taiwan
97	Setting Up a Remittance System Between Nepal and India-Inauguration	1	RBI	Mumbai, India
98	Anti-Money-Laundering and Combating the Financing of Terrorism Workshop for Financial Supervisors on Practical Aspect of AML/CFT Compliance	1	IMF/RBI	Pune, India
99	Macroeconomic Diagnostics (MDS) ST08.07	1	IMF	Singapore
100	Study Visit Program on Village Banking	2	APRACA CENTRAB	Bali, Indonesia
101	48th SEACEN-FRS Intermediate Course on Risk Management and Internal Controls	2	The SEACEN Centre	Siem Reap, Cambodia
102	7th MAS Regional Banking Supervisors Training Program	1	Monetary Authority of Singapore (MAS)	Singapore
103	Central Bank Regulation and Supervision	30	AIT Extension	Bangkok, Thailand
104	Seminar on Macroeconomic Management for Senior Officials	1	IMF/STI	Singapore
105	Seminar on Fundamentals of Reserve Management.	1	FSI / BIS	Lucerne, Switzerland
106	16Th SEACEN-FSI Regional Seminar for Bank Supervisors and Regulators: Practical Techniques for the Management and Measurement of Operational Risk.	2	The SEACEN Centre	Bandar Seri Begawan, Brunei
107	Tribute Presentation and Caucus in Thailand	1	APRACA CENTRAB	Bangkok, Thailand
108	2nd SEACEN-CEMCoA/BOJ Intermediate Course on Macro-economic and Monetary Policy Management	2	The SEACEN Centre	Seoul, Korea
109	Bank Analysis & Examination School	2	Federal Reserve System	Washington D.C., America
110	General Banking and Management of Central Bank	30	AIT Extension	Bangkok, Thailand
111	Program on Management of Rural Financing Institutions and Co-operatives for Rural Development	2	CICTAB	Hyderabad, India
112	37th Meeting of the Board of Directors of the Asian Clearing Union (ACU)	2	Central Bank of Myanmar	Yangon, Myanmar
113	SWIFT Training	2	Cambridge Solutions Ltd.	Mumbai, India
114	SAARCFINANCE Seminar on BASEL-II Implementation in South Asia	3	State Bank of Pakistan	Islamabad, Pakistan

Activities of Nepal Rastra Bank

S.No	Details	Participants	Organizer	Venue
115	Course on Microsoft Windows Server 2003	1	karROX Technologies Ltd.	Mumbai, India
116	Second SAARC Payments Council (SPC) Meeting	1	RBI	Hyderabad, India
117	Human Resource Management	30	AIT Extension	Bangkok, Thailand
118	SEACEN Research Project on Investment in the SEACEN Countries in the Post-Crisis ERA: Issues and Challenges	1	The SEACEN Centre	Kuala Lumpur, Malaysia
119	2008 APG Annual Meeting and Technical Assistance Forum	3	APG	Bali, Indonesia
120	Course on Monetary and Exchange Rate Policy	2	SEACEN-IMF/STI	Langkawi, Malaysia
121	Seminar on the Coordinated Direct Investment Survey (CDIS) for Countries from the Asia Pacific Region	1	IMF	Putrajaya, Malaysia
122	Financial Management, Auditing and Accounting in Central Banks	30	AIT Extension	Bangkok, Thailand
123	Observation of Destruction of Dies and Waste Notes of Rs.500/=	2	Perum Peruri Indonesia	Jakarta, Indonesia
124	Research Project on Capital Flows and Their Implication for Central Bank Policies in The SEACEN Countries	1	The SEACEN Centre	Kuala Lumpur, Malaysia
125	Research Workshop on "The Supervisory Impact of Technology on SEACEN Financial Institutions: Issues and Challenges"	1	The SEACEN Centre	Kuala Lumpur, Malaysia
126	Study Visit Program on Management and Operation of Micro Finance Institution	2	APRACA CENTRAB	Manila, Philippines
	Total	303		

**Table 7
Higher Studies**

S.No.	Description	No.	Institute/Country
1	MBA in Account and Finance	2	Maastricht School of Management, the Netherlands
2	Master in Applied Finance	1	Monash University, Australia
3	Master in Financial Analysis	1	University of New South Wales, Sydney

Appendix 2.1

Financial Institutions Inspected at Macro Level in 2007/08

A) On-site Inspection

i) Development Banks

Gorkha Development Bank Ltd., Kathmandu	Bageshwori Development Bank Ltd., Nepalgunj
Sanima Development Bank Ltd., Kathmandu	Excel Development Bank Ltd., Birtamod
Gaurishankar Development Bank Ltd., Nawalparasi	Uddam Development Bank Ltd., Narayangadh
Business Development Bank Ltd., Pokhara	Paschimanchal Development Bank Ltd., Rupandehi
Triveni Development Bank Ltd., Narayangadh	Siddhartha Development Bank Ltd., Butwal
Gandaki Development Bank Ltd., Pokhara	Sewa Development Bank Ltd., Butwal
Bhrikuti Development Bank Ltd., Rupandehi	Araniko Development Bank Ltd., Dhulikhel

ii) Finance Companies

Ace Finance Ltd., Kathmandu	NIDC Capital Markets Ltd., Kathmandu
Kist Merchants Banking & Finance Ltd., Kathmandu	Nepal Merchant Banking and Finance, Kathmandu
National Finance Ltd., Kathmandu., Kathmandu	I.C.F.C. Finance Co. Ltd., Kathmandu
Shree Investment Finance Ltd., Kathmandu	International Leasing and Finance Ltd., Kathmandu
Fewa Finance Ltd., Pokhara	Samjhana Finance Ltd., Banepa
Nepal Housing Development Finance, Kathmandu	Nava Durga Finance Ltd., Bhaktapur
Gorkha Finance Ltd., Kathmandu	United Finance Ltd., Kathmandu
Bhajuratna Finance Ltd., Kathmandu	Cosmic Merchant Banking and Finance, Kathmandu
World Merchant Banking and Finance, Makawanpur	Guheshwori Merchant Banking and Finance, Lalitpur
Lumbini Finance Leasing Co. Ltd., Kathmandu	Goodwill Finance Ltd., Kathmandu
Crystal Finance Ltd., Kathmandu	Merchant Finance Co. Ltd., Kathmandu
Nepal Finance and Savings Ltd., Kathmandu	Nepal Sri Lanka Merchant Banking and Finance, Kathmandu
Universal Finance Ltd., Kathmandu	Patan Finance Ltd., Lalitpur
Annapurna Finance Ltd., Pokhara	Central Finance Ltd., Lalitpur
Nepal Housing and Merchant Finance Ltd., Kathmandu	Himalaya Finance and Savings Co. Ltd., Kathmandu
Shikher Bittiya Sastha Ltd., Kathmandu	Janaki Finance Co. Ltd., Janakpur
Arun Finance and Savings Co. Ltd., Sunsari	Yati Finance Ltd., Hetauda
Mahalaxmi Finance Ltd., Birgunj	Paschimanchal Finance Ltd., Butwal
Om Finance Co. Ltd., Pokhara	Butwal Finance Ltd., Butwal
Sagarmatha Merchant Banking and Finance, Lalitpur	Civil Merchant Bittiya Sastha Ltd., Kathmandu
Pravhu Finance Co. Ltd., Kathmandu	Imperial Finance Ltd., Kathmandu

iii) Microfinance Development Banks

Eastern Region Rural Development Bank, Biratnagar	Mid Western Region Rural Development Bank, Nepalgunj
Central Region Rural Development Bank, Janakpur	Nirdhan Utthan Bank Ltd., Siddhathanagar
Small Farmers' Development Bank, Kathmandu	Western Region Rural Development Bank, Butwal

iv) Co-operative Societies

Himalayan Co-operative Society Ltd., Kathmandu	Star Bahoouddesyia Savings and Loan Co-operative Society., Biratnagar
Sagun Co-operative Society Ltd., Kathmandu	Bindabasini Savings and Credit Co-operative Society Ltd., Bindabasini
Nabajivan Co-operative Society Ltd., Dhangadi	Manakamana Co-operative Society Ltd., Banepa

v) Non-Governmental Organizations

MANUSHI, Kathmandu	Nepal Grameen Bikas Sanstha, Kathmandu
Mahila Adarsha Sewa Kendra, Kathmandu	Patan Business and Professional Women, Lalitpur

B) Targeted Inspection

i) Development Banks

Muktinath Development Bank Ltd., Sanjha	Sewa Development Bank, Butwal
Kankai Development Bank, Jhapa	Public Development Bank, Birgunj
Sangrila Development Bank, Pokhara	Bhargab Development Bank, Nepalgunj
Mahakali Development Bank, Mahendranagar	Resunga Development Bank, Gulmi
Rara Development Bank, Surkhet	Diyalo Development Bank, Banepa
Country Development Bank, Banepa	Kasthamandap Development Bank, Kathmandu
Alpine Development Bank, Hetauda	Garima Development Bank, Sanjha
Kabeli Development Bank, Dhankutta	Professional Development Bank, Banepa
Bibhor Development Bank, Kathmandu	

- ii) Finance Companies**
Reliable Investment Bittiya Sanstha Ltd., Kathmandu
Api Financial Institution Ltd., Kaski
Swastic Merchant Finance Co. Ltd., Kathmandu
Unique Financial Institution Ltd., Kathmandu
Subalaxmi Finance Ltd., Kathmandu
Lord Buddha Financial Institution Ltd., Kathmandu
Surya Darshan Financial Institution Ltd., Kathmandu
Manjushree Financial Institution Ltd., Kathmandu
Jenith Merchant Financial Institution, Kathmandu
Kaski Finance Ltd., Pokhara
- C) Monetaring Inspection**
- i) Development Bank**
United Development Bank Ltd., Bara
- ii) Finance Company**
Pokhara Finance Ltd., Pokhara
- D) Special Inspection**
- i) Development Bank**
Nepal Cottage and Small Industries Development Bank, Kathmandu
Gorkha Development Bank Ltd., Kathmandu
Nepal Development Bank Ltd. Kathmandu
Siddhartha Development Bank Ltd., Butwal
Araniko Development Bank Ltd., Dhulikhel
Ace Development Bank Ltd., Kathmandu
Karnali Development Bank Ltd., Nepalgunj
Clean Energy Development Bank Ltd., Kathmandu
- ii) Finance Companies**
Nepal Bangladesh Leasing and Finance , Biratnagar
Kuwar Merchant Bittiya Sastha, Kathmandu
Reliable Investment Ltd., Kathmandu
Standard Finance Ltd., Kathmandu
Nepal Merchant Banking and Finance, Kathmandu
Kathmandu Finance Ltd., Kathmandu
Kist Merchant Banking and Finance, Kathmandu
Cristle Finance Ltd., Kathmandu
NIDC Capital Market, Kathmandu
Union Finance Co. Ltd., Kathmandu
ICFC Bittiya Sastha, Kathmandu
Sagarmatha Merchant Banking and Finance, Lalitpur
World Merchant Banking and Finance Ltd., Hetauda
Nepal Sri Lanka Merchant Banking and Finance Ltd., Kathmandu
- iii) Microfinance Development Banks**
Nerude Microfinance Development Bank, Biratnagar

Appendix 2.2

Off-Site Supervision

Detail off-site supervision was carried out on the basis of financial statements such as audited balance sheets, loss and profit accounts of financial institutions for FY 2007/08 and necessary directions were issued. Similarly, related division has been continually monitoring the implementation of the directions issued over the remarks pointed out in on-site and off-site inspection and supervision. However, detail annual off-site supervision of the following financial institutions could not be carried out due to unavailability of audited financial statement of FY 2007/08.

- (1) Samjhana Finance Company Ltd.
- (2) Himalaya Finance and Savings Company Ltd.
- (3) Arun Finance and Savings Company Ltd.
- (4) General Finance Ltd.
- (5) Cosmic Merchant Banking and Finance Ltd.
- (6) Seti Bittiya Sanstha Ltd.

Special Action

The following actions were taken to the following financial institutions in the process of implementation of the remarks pointed out in on-site and off-site supervision by the department.

(1) Development Banks

- Lending and deposit collection activities of Nepal Development Bank were banned by declaring it as a troubled bank at Oct. 11, 2007.
- Nepal Development Bank Ltd. and Nepal Cottage and Small Industries Development Bank Ltd. increased their capital and they were allowed for limited lending and deposit collection on the basis of progress of bad debt recovery through a letter dated May 11, 2008.
- Penalties were imposed to Sanima Development Bank, Subhechchha Development Bank and Bageshwori Development Bank for the short fall of CRR.

(2) Finance Companies

- Swostik Merchant Finance Company Ltd., Api Financial Institution Ltd., Kaski Finance Ltd., Lord Buddha Financial Institution Ltd., and Seti Bittiya Sanstha Ltd. were penalized for the short fall of CRR.
- Cosmic Merchant Banking and Finance Ltd. was imposed ceiling on deposit and lending transactions in Jan. 27, 2008.

Appendix 2.3

Board of Directors

(Mid-July 2008)

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

Appendix 2.4

Principal Officers

(July 2008)

Principal Officers		
1	Mr. Bhola R. Shrestha	Executive Director, Financial Institutions Supervision Department.
2	Mr. Gopal P. Kafle	Executive Director, Micro-Finance Department.
3	Mr. Ravindra P. Pandey	Executive Director, Bank Supervision Department.
4	Mr. Lila P. Sitaula	Executive Director, Human Resource Management Department.
5	Mr. Ashwini K. Thakur	Executive Director, Financial Management Department.
6	Mr. Vishnu Nepal	Executive Director, Internal Audit Department.
7	Mr. Gokul R. Thapa	Executive Director, Banking Office.
8	Mr. Ramjee Regmi	Executive Director, Foreign Exchange Management Department.
9	Mr. Bhaskar M. Gnawali	Act. Executive Director, General Services Department.
10	Mr. Manmohan K. Shrestha	Act. Executive Director, Currency Management Department.
11	Mr. Trilochan Pangen	Act. Executive Director, Research Department.
12	Mr. Lok B. Khadka	Act. Executive Director, Public Debt Management Department.
13	Mr. Pradeep R. Pandey	Act. Executive Director, Bankers' Training Centre.
14	Mr. Hari P. Kafle	Act. Executive Director, Corporate Planning Department.
First Class Officers		
1	Mr. Siddhi K. Joshi	Director, Banking Office.
2	Mr. Maha P. Adhikary	Director, Bank Supervision Department.
3	Mr. Sadhana Upadhyay	Director, Human Resource Management Department.
4	Mr. Mahesh Bhattarai	Chief Manager, Mint Division.
5	Mr. Shambhu Thapa	Director, Human Resource Management Department.
6	Mr. Rameswori Pant	Director, Micro-Finance Department.
7	Mr. Shiva R. Shrestha	Director, Financial Institutions Supervision Department.
8	Mr. Naresh Dhakal	Director, Currency Management Department.
9	Mr. Narayan P. Poudel	Director, Bank and Financial Institutions Regulation Department.
10	Mr. Nara B. Thapa	Director, Research Department.
11	Mr. Janak B. Adhikari	Director, Financial Management Department.
12	Mr. Purna B. Khatri	Director, Financial Institutions Supervision Department.
13	Mr. Radheshyam Shrestha	Director, Financial Management Department.
14	Mr. Bhishma R. Dhungana	Director, Bank Supervision Department.
15	Mr. Chintamani Siwakoti	Director, Public Debt Management Department.
16	Mr. Shiva D. Kafle	Director, Research Department.
17	Mr. Shankar P. Acharya	Director, Foreign Exchange Management Department.
18	Mr. Keshav R. Acharya	Director, Bank and Financial Institutions Regulation Department.
19	Mr. Krishna B. Thapa	Chief Manager, Nepal Rastra Bank, Nepalgunj.
20	Mr. Dharma R. Sapkota	Director, Legal Department.
21	Mr. Rajan B. Shah	Director, Internal Audit Department.

Activities of Nepal Rastra Bank

22	Mr. Jagdishwor P. Adhikary	Chief Manager, Nepal Rastra Bank, Biratnagar.
23	Mr. Parbat K. Karki	Director, Information Technology Department.
24	Mr. Shiva N. Pandey	Chief Manager, Nepal Rastra Bank, Pokhara.
25	Mr. Maheswor L. Shrestha	Director, Financial Management Department.
26	Mr. Basu D. Acharya	Director, Corporate Planning Department.
27	Mr. Narayan Dhamala	Director, Foreign Exchange Management Department.
28	Mr. Khyam N. Dhakal	Chief Manager, Nepal Rastra Bank, Siddharthanagar.
29	Mr. Bhuvan Kandel	Director, Financial Institutions Supervision Department.
30	Mr. Ramesh K. Pokharel	Chief Manager, Nepal Rastra Bank, Birgunj.
31	Mr. Deepak B. Thapa	Act. Director, Banking Office.
32	Mr. Mittha Parajuli	Act. Director, Banking Office.
33	Mr. Pradhumna K. Bhattarai	Act. Director, General Services Department
34	Mr. Arjun B. Adhikari	Act. Director, Bankers' Training Centre.
35	Mr. Upendra K. Poudel	Act. Director, Office of the Governor.
36	Mr. Jhalak S. Acharya	Act. Chief Manager, Nepal Rastra Bank, Janakpur.
On Leave and Deputation		
1	Executive Director, Dr. Yuba R. Khatiwada	Office of the Governor (Leave)
2	Executive Director, Mr. Sushil R. Mathema	IMF
3	Director, Dr. Min B. Shrestha	SEACEN
4	Director, Dr. Binod Atreya	Nepal Bank Ltd.
5	Director, Mr. Laxmi P. Niraula	Nepal Bank Ltd.
6	Director, Mr. Ganendra P. Dhungana	Study Leave.

PART

3

**Annual Financial Statements
of NRB**



- Assets and Liabilities 105
- Income Statement 106

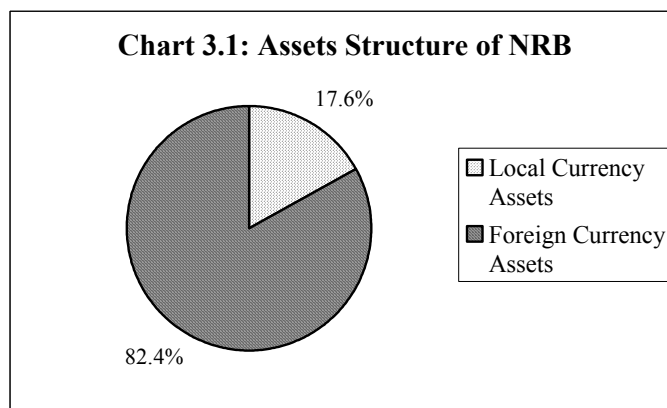
PART

III

Annual Financial Statements of NRB

Assets and Liabilities

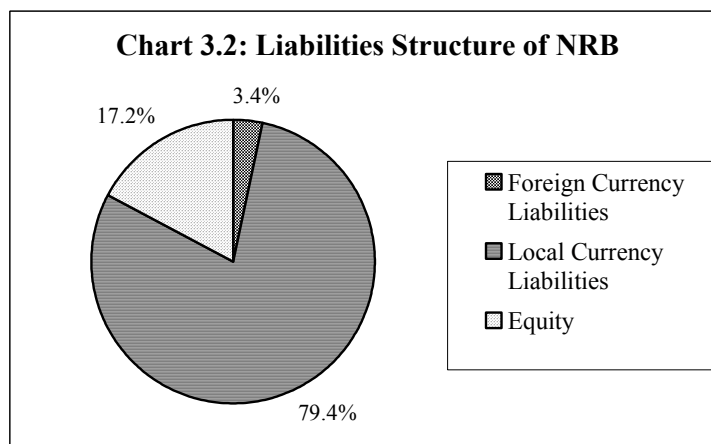
- 3.1 As per the un-audited balance sheet of mid-July 2008, assets and liabilities of the NRB increased by 23.2 percent to Rs. 211.4 billion as compared to mid-July 2007. Out of total assets, the share of foreign assets (including gold, reserves) and domestic assets remained at 82.4 percent and 17.6 percent respectively. Of the total liability and equity, the shares of local currency liability, equity and foreign currency liabilities remained at 79.4 percent, 17.2 percent and 3.4 percent respectively.



- 3.2 As at mid-July 2008, the share of cash and bank balance in foreign assets remained at 46 percent whereas the shares of foreign currency investments, other receivables and SDR holdings with IMF remained at 51.5 percent, 0.3 percent and 0.4 percent respectively. Foreign currency and bank balances increased by 19.0 percent whereas the investments in foreign currency went up by 44.1 percent at mid-July 2008 compared to mid-July 2007. Under the foreign currency financial assets, other receivables declined by 27.7 percent whereas SDR holdings with IMF increased by 7.4 percent. Under other foreign assets, gold increased by 53.4 percent in the review year compared to the previous year. Total foreign assets increased by 30.9 percent to Rs.174.2 billion as at mid-July 2008 compared mid-July 2007.
- 3.3 In the total local currency financial assets, the shares of investment in government securities; loan and refinance; and other receivables stood at 63.9 percent, 7.9 percent and 7.0 percent respectively in the review year. Likewise, the shares of other investments, cash balance and investments in financial and other institutions remained at 11.9 percent, 4.0 percent and 0.9 percent respectively. Loans and refinance decreased by 29.2 percent while other investments increased by 33.5 percent in the review year. Investment in financial and other institutions

declined by 5.2 percent; cash balance increased by 12 percent; other receivables decreased by 63.9 percent and investment in government securities increased by 18.1 percent in the review year. On the other assets, the shares of gold and silver; other reserves; and property, machinery and equipment remained at 20.6 percent, 15.8 percent and 32.6 percent respectively. Property, machinery and equipment; other reserves; and gold and silver declined by 4.8 percent, 55.0 percent and 4.9 percent respectively in the previous year. As a result, total local currency assets declined by 3.5 percent to Rs. 37.1 billion as at mid-July 2008 compared to mid-July 2007.

- 3.4 In foreign currency financial liabilities, the shares of IMF related liabilities; deposits of banks and other institutions; and other liabilities stood at 91.6 percent, 8.3 percent and 0.1 percent respectively. The IMF related liabilities and deposit liabilities increased by 39.0 percent and 174.7 percent respectively in mid-July 2008 compared to mid-July 2007. The other liabilities decreased by 80.0 percent in the review year. Consequently, foreign currency liabilities increased by 43.9 percent to Rs 7.2 billion as at mid-July 2008 compared to mid-July 2007.
- 3.5 Other liabilities occupy highest share in local currency financial liabilities. In the total other liabilities, the share of currency in circulation remained at 95.3 percent and that of miscellaneous liabilities stood at 0.5 percent. Currency in circulation increased by 23.7 percent to Rs. 113.0 billion in mid-July 2008 compared to mid-July 2007. Likewise, miscellaneous liabilities increased by 96.3 percent in the review year. Consequently, other liabilities increased by 23.5 percent to Rs. 118.5 billion as at mid-July 2008 compared to mid-July 2007.
- 3.6 In local currency financial liabilities, the share of deposit and other liabilities was 91.6 percent while the shares of bills payable, staff liabilities and other payables were 1.4 percent, 6.5 percent and 0.5 percent respectively. Deposit and other liabilities, staff liabilities and other payables increased by 20.2 percent, 28.3 percent and 8.3 percent respectively as in mid-July 2008 compared to mid-July 2007. During the review year, bills payables declined by 88.4 percent to Rs. 679.9 million as at mid-July 2008. As a result, the local currency financial liabilities increased by 18.0 percent to Rs. 167.8 billion as at mid-July 2008 compared to mid-July 2007.

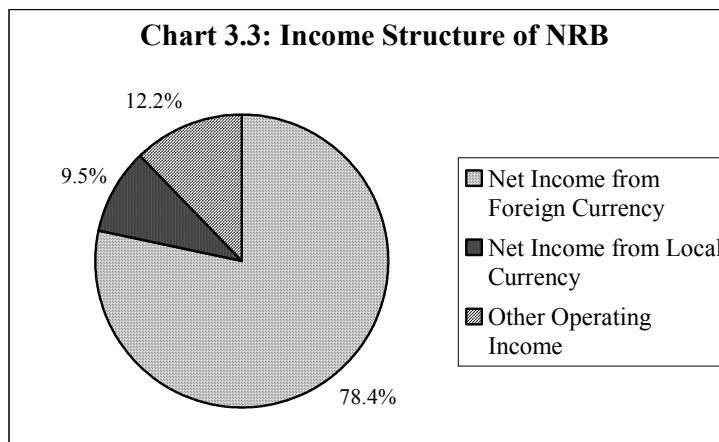


- 3.7 In equity, the share of reserves stood at 91.8 percent whereas the rest 8.2 percent was that of the share capital. Although there was no change in share capital in mid-July 2008 compared to mid-July 2007, the reserves fund increased by 56.0 percent and thereby total equity stood at Rs. 36.4 billion as at mid-July 2008.

Income Statement

- 3.8 As per the provisional income statement of the period from 17 July 2007 to 16 July 2008, total net operating income of NRB in FY 2007/08 stood at Rs. 7.2 billion.
- 3.9 As in the FY 2006/07, the income from foreign currency financial assets is higher as compared to the income from domestic currency financial assets in FY 2007/08. As usual, interest income has prime contribution in total income of FY 2007/08.

- 3.10 In the total income from foreign currency financial assets, the share of interest and commission income stood at 96.0 percent and 4.0 percent respectively in FY 2007/08. In the preceding year, the shares of interest income and commission income were 96.9 percent and 3.1 percent respectively. Interest income declined by 15.2 percent while income from commission increased by 8.7 percent in the review year compared to the previous year.



- 3.11 In the review year's total income from domestic currency financial assets, the share of interest income and commission income stood at 97.8 and 2.2 percent respectively. The corresponding shares were 95.0 percent and 5.0 percent respectively in the previous year. Interest income has increased by 33.1 percent while income from commission declined by 42.2 percent in the review year compared to the previous year.
- 3.12 In the expenses front under the foreign currency financial liabilities, the share of interest expenses and agency and service charge remained at 93.2 percent and 6.8 percent respectively in the review year. The share of interest expenses and agency and service charges stood at 90.5 percent and 9.5 percent respectively in the previous year. Interest expenses increased by 2.6 percent whereas agency and service charges declined by 29.2 percent in the review year.
- 3.13 In the review year's expenses under the domestic currency financial liabilities, the share of interest expenses was 36.9 percent and that of agency and service charge was 63.1 percent. The share of interest expenses was 53.3 percent and that of agency and service charges was 46.7 percent in the previous year. Interest expenses declined by 22.9 percent whereas agency and service charges rose by 50.6 percent in the review year.
- 3.14 Income from foreign currency financial assets declined by 14.8 percent to Rs. 5.7 billion and expenses under foreign currency financial liabilities declined by 0.4 percent to Rs. 58.2 million in the review year compared to the previous year. Consequently, net income from foreign currency declined by 14.5 percent to Rs. 5.6 billion in the review year.
- 3.15 Income from domestic currency financial assets increased by 29.4 percent to Rs. 1.3 billion and expenses under domestic currency financial liabilities increased by 11.6 percent to Rs. 664.8 million in the review year compared to the previous year. Consequently, net income from domestic currency increased by 53.4 percent to Rs. 681.7 million in the review year compared to the previous year.
- 3.16 The other operating income declined by 7.6 percent to Rs. 872.2 million in the review year. Likewise, total net operating income declined by 9.9 percent to Rs. 7.2 billion. General administrative expenses and provisioning increased by 9.6 percent to Rs. 2.5 billion in the review year compared to the previous year. Consequently, net profit before foreign currency revaluation gain/loss, gold and silver revaluation gain/loss and pervious year's adjustment declined by 17.8 percent to Rs. 4.7 billion in the review year.

NEPAL RASTRA BANK
BALANCE SHEET AS ON JULY 15, 2008

Particulars	Note	As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
ASSETS			
Foreign Currency Financial Assets			
Cash and Bank Balances	3	80,208,220,260	67,404,058,408
SDR Holdings - with IMF		630,644,378	587,487,220
Investments	3a	89,713,416,527	62,250,364,145
Other Receivables		581,825,029	804,463,349
Sub-Total		171,134,106,193	131,046,373,122
Other Assets			
Gold		3,104,097,755	2,023,389,329
Sub-Total		3,104,097,755	2,023,389,329
Total Foreign Currency Assets		174,238,203,948	133,069,762,451
Local Currency Financial Assets			
Cash in Hand		1,464,511,943	1,307,083,855
Investments in Government Securities	4	23,726,135,607	20,088,315,734
GON Overdraft		-	-
Investments in Financial and Other Institutions	5	338,716,500	357,349,555
Other Investments	6	4,401,393,000	3,296,886,000
Refinance & Loans	7	2,923,185,167	4,129,888,300
Other Receivables	8	2,608,780,329	7,218,402,607
Sub-Total		35,462,722,546	36,397,926,051
Other Assets			
Gold and Silver	9	345,142,904	362,758,019
Other Inventories	10	264,370,284	587,801,686
Property, Plant & Equipment	11a	545,470,972	572,851,320
Intangible Assets	11b	921,888	552,086
Project Assets	12	519,785,869	564,220,288
Sub-Total		1,675,691,917	2,088,183,399
Total Local Currency Assets		37,138,414,463	38,486,109,450
Total Assets		211,376,618,412	171,555,871,901

Contingent Assets

23c

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

Rameshwor Khanal

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 :
Place : Kathmandu

NEPAL RASTRA BANK
BALANCE SHEET AS ON JULY 15, 2008

Particulars	Note	As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
LIABILITIES			
Foreign Currency Financial Liabilities			
Deposit from Banks and Other Agencies	13	593,501,492	216,050,629
IMF Related Liabilities	14	6,568,637,566	4,725,480,484
Other Liabilities	15	8,488,994	42,463,655
Total Foreign Currency Liabilities		7,170,628,052	4,983,994,768
Local Currency Financial Liabilities			
Deposit and Other Balances	16	45,177,872,241	37,577,863,043
Bills Payable		679,983,024	5,875,198,391
Staff Liabilities	17	3,205,327,427	2,498,048,656
Other Payables	18	234,645,611	216,616,002
Sub-Total		49,297,828,303	46,167,726,092
Other Liabilities			
Currency in Circulation	19	112,950,000,000	91,310,000,000
Surplus Payable to GON		3,702,670,477	3,437,999,825
Sundry Liabilities	20	1,309,276,491	667,082,022
Project Liability	21	519,785,869	564,220,288
Sub-Total		118,481,732,837	95,979,302,135
Total Local Currency Liabilities		167,779,561,141	142,147,028,227
EQUITY			
Share Capital		3,000,000,000	3,000,000,000
Reserves	22	33,426,429,219	21,424,848,906
Total Equity		36,426,429,219	24,424,848,906
Total Liabilities and Equity		211,376,618,412	171,555,871,901

Contingent Liabilities and Commitments 23b

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

Rameshwor Khanal

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 :
Place : Kathmandu

NEPAL RASTRA BANK
INCOME STATEMENT
FOR THE YEAR ENDED JULY 15, 2008

Particulars	Note	2007/08 NRs.	2006/07 NRs.
Operating Income:			
Income from Foreign Currency Financial Assets			
Interest Income	24	5,455,501,890	6,429,637,268
Commission Income	25	226,669,758	208,576,375
		5,682,171,649	6,638,213,643
Expenses on Foreign Currency Financial Liabilities			
Interest Expenses	26	54,263,805	52,893,347
Agency and Service Charge	27	3,941,481	5,564,485
		58,205,287	58,457,832
Net Income from Foreign Currency		5,623,966,362	6,579,755,811
Income from Local Currency Financial Assets			
Interest Income	24	1,316,625,728	989,232,040
Commission Income	25	29,889,600	51,700,209
		1,346,515,329	1,040,932,249
Expenses on Local Currency Financial Liabilities			
Interest Expenses	26	245,122,682	317,923,891
Agency and Service Charge	27	419,680,610	278,590,393
		664,803,292	596,514,284
Net Income from Local Currency Financial assets		681,712,037	444,417,965
Other Operating Income	28	872,256,711	943,934,208
Total Net Operating Income		7,177,935,111	7,968,107,984
General, Administrative Expenses & Provisions	29	2,512,280,716	2,292,458,493
Profit for the year before Foreign Exchange, Gold and Silver Revaluation Gain/(Loss) and prior year adjustment		4,665,654,395	5,675,649,491
Foreign Exchange Gain/(Loss) (Net)		9,735,433,407	(12,960,007,190)
Gold and Silver Revaluation Gain/(Loss) (Net)			
- Amount Transferred from Gold & Silver Equalisation Reserve	31(XV)(i)	1,080,708,426	(221,787,508)
- Securities Revaluation		247,025,108	21,231,168
- other			
Prior Year Adjustment		(23,570,546)	(26,309,022)
Net Profit/(Loss) for the year		15,705,250,790	(7,511,223,061)
Net Profit/(Loss) for Appropriation			
Net Profit/(Loss) for the year		15,705,250,790	(7,511,223,061)
Amount Transferred (to)/from Exchange Equalisation Fund (EEF)		(9,735,433,407)	11,584,053,828
Amount Transferred (to)/from Gold & Silver Equalisation Reserve	31(XV)(i)	(1,080,708,426)	221,787,508
Amount Transferred to Gold Replacement Fund	31(XV)(ii)	(9,903,899)	(64,651,980)
Securities Revaluation Fund		(247,025,108)	(21,231,168)
Profit available for distribution		4,632,179,950	4,208,735,127
General Reserve		465,300,000	423,400,000
Monetary Liability Reserve		235,000,000	210,500,000
Development Fund		218,800,000	130,000,000
Dev. Fin. Projects Mob. Fund		10,409,473	6,835,302
Surplus to be transferred to GON		3,702,670,477	3,437,999,825
Total		4,632,179,950	4,208,735,127

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

Rameshwor Khanal

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 :
Place : Kathmandu

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
CASH FLOW STATEMENT
FOR THE YEAR ENDED JULY 15, 2008**

Particulars	2007/08 (NRs.)	2006/07 (NRs.)
Cash flow from operating activities:		
Profit for the Year	15,705,250,790	(7,511,223,061)
Adjustments		
Gold and Silver revaluation gain/(loss) (Net)	(1,080,708,426)	221,787,508
- Other	-	-
- Revaluation gain or loss on foreign exchange	(9,735,433,407)	12,960,007,190
Securities revaluation	(247,025,108)	(21,231,168)
Depreciation	46,039,452	62,002,523
Prior period adjustment	23,570,546	26,309,022
Note printing expenses	229,960,250	396,629,897
Dividend Income	(9,640,880)	(3,083,995)
Profit from sale of assets	(318,929,668)	(174,474,298)
Sundry balances written off	1,795,488	-
Interest paid on PRGF Loan & ACU	54,175,635	51,665,037
Provision for :		
Loan and advances	(231,912,000)	(175,641,069)
Diminution in value of investment	(23,869,000)	(5,815,000)
Doubtful of recovery on sundry accrued	(47,641,290)	(36,413,210)
Provision for inventory & spare parts	-	17,010
Cash flow from operation before inc / dec in operating assets	4,365,632,383	5,790,536,386
(Increase)/Decrease in operating assets	6,427,807,801	(3,244,933,929)
GON overdraft	-	1,071,000,511
Refinance & loans	1,438,615,134	(310,720,634)
Other receivable	4,878,106,400	(3,908,595,917)
Gold & silver	17,615,115	65,566,410
Inventories	93,471,152	(162,184,299)
Increase/(Decrease) in operating liabilities	4,257,212,074	6,455,536,726
SDR Allocation	108,359,554	(77,853,087)
Deposit liabilities	7,977,460,060	2,483,859,946
Bills payable	(5,195,215,367)	4,270,398,775
Deferred staff liabilities	706,278,771	65,779,255
Other liabilities	18,134,587	82,038,488
Sundry liabilities	642,194,469	(368,686,651)
Operating cash flow before prior period adjustment	15,050,652,258	9,001,139,184
Prior period adjustment	(23,570,546)	(26,309,022)
Cash flow from operating activities	15,027,081,711	8,974,830,160
Cash flow from investing activities:		
Net Decrease in Government Securities and Bank Deposits	5,393,801,079	(4,211,860,541)
Sale of Investment in Financial Institutions	361,431,724	230,712,243
Purchase of Investments-other	(351,771,487)	(6,480,592,227)
Fixed assets including WIP	(19,028,906)	(112,647,181)
Dividend income	9,640,880	3,083,995
Total (B)	5,394,073,290	(10,571,303,711)
Cash flow from financing activities:		
Bank note issued	21,640,000,000	6,680,000,000
Increase in PRGF Loan & ACU	1,700,717,888	2,394,511,058
Interest paid on PRGF Loan & ACU	(54,175,635)	(51,665,037)
Surplus transferred to GON	(3,437,999,825)	(3,419,267,177)
Total (C)	19,848,542,428	5,603,578,844
Net cash flow for the year (A+B+C)	40,269,697,430	4,007,105,293
Revaluation gain or loss on foreign exchange	9,735,433,407	(12,960,007,190)
Cash and cash equivalent at the beginning of the year	125,047,170,233	134,000,072,129
Cash and cash equivalent at the end of the year (Note - 30)	175,052,301,070	125,047,170,233

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

Rameshwar Khanal

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 :
Place : Kathmandu

NEPAL RASTRA BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JULY 15, 2008

Particulars	NRs.			
	Balance as at July 16, 2007	Amt.transferred from/(to) profit	Inter fund transfer	Balance as at July 15, 2008
Capital	3,000,000,000	-	-	3,000,000,000
General Reserve	11,343,700,000	698,327,005	-	12,042,027,005
Monetary Liability Reserve	988,600,000	235,000,000	-	1,223,600,000
Exchange Equilisation Fund	-	9,735,433,407	-	9,735,433,407
Gold & Silver Equilisation Reserve	2,001,335,090	1,080,708,426	-	3,082,043,516
Employees Welfare Fund	234,027,004	-	(234,027,004)	-
Grameen Swabalamban Kosh	253,400,000	-	-	253,400,000
Other Reserve Funds	6,582,555,644	239,113,371	-	6,821,669,015
Secutiry Revaluation Fund	21,231,168	247,025,108	-	268,256,276
Total	24,424,848,906	12,235,607,317	(234,027,004)	36,426,429,219

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JULY 16, 2007

Particulars	NRs.			
	Balance as at July 16, 2006	Amt.transferred from/(to) profit	Inter fund transfer	Balance as at July 16, 2007
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
Security Revaluation Fund	-	21,231,168	-	21,231,168
Total	35,374,071,792	(10,949,222,886)	-	24,424,848,906

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

Rameshwor Khanal

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 :
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, 1955 repealed by NRB Act 2002. 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 Nepal.

These financial statements apply to the financial year ended July 15, 2008.

The Board of Directors of the Bank has approved these financial statements on November 9, 2008.

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 1	: Presentation of Financial Statements
IAS 8	: Accounting Policies, Changes in Accounting Estimates and Errors.
IAS 16	: Property, Plant and Equipments
IAS 19	: Employee Benefits
IAS 20	: Accounting for Government Grants and Disclosure of Government Assistance
IAS 36	: Impairment of Assets
IAS 37	: Provisions, Contingent Liabilities and Contingent Assets
IAS 38	: Intangible Assets
IAS 39	: Financial Instrument; Recognition and measurements
IFRS 5	: Non-current Assets held for sale and discontinued operation

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 and amortized cost.

2.3 Currency in circulation

Currency notes issued by the Bank are legal tender under the NRB Act 2002. This represents the liability of the Bank towards the holder of the currency note 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 but such coins are not included in currency circulation liability of the bank. Since coins issued by NRB have not been treated, as liability the bank has not been kept records of coins issue so far. Therefore, total coins circulation up to the current F/Y is not quantified.

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 loans; investment in debt instruments and deposits held in other banks with no intention of trading 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. Any gains and losses arising from changes in fair value of the assets such as BIS investment Pool Series 'C' and gold 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, gold in investment and all available-for-sale assets (BISIP Pool Series "C") are measured at fair value, and the 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 (BISIP Pool Series 'C') are recognized in equity through income statement. 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 except BIS mid term instrument (MTI) and US Government Treasury Notes/Bonds, are measured at cost less impairment losses. BIS mid term instrument (MTI) and US Government Treasury Notes/Bonds are subsequently measured at amortized cost. 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 their 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 buying 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 the basis of specific identification of their individual cost (As per Para 23 of IAS 2) where as for other inventories is determined under the First In First Out (FIFO) method. Other assets (store items) except dispensary stock, various coin/metal stocks as well as printed notes are charged directly to income statement from FY 2007/08. Entire purchase of Items with non-durable nature as well as durable items costing per unit cost of NRs. Twenty five thousand or less are expensed through income statement at the time of purchase from FY 2007/08.

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 original expected useful life but life of these assets has not been reviewed in subsequent years.

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. Twenty five thousand or less (previously Rs. 1000 or less) are charged directly to expenses account of income statement from FY 2007/08.

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. The grant received from GON under Financial Sector Technical Assistance Project (Phase I) and Financial Sector Restructuring Project (Phase II) will be accounted on the completion of these Projects.

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 July 15, 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 fourth 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. Since the actuarial valuation regarding this scheme has not been done in this year additional provision has not been provided.

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 obligation dischargeable to employees at balance sheet date.

Leave encashment

The Bank makes annual provision in respect of liability for employee's leave based on obligation dischargeable to employees at balance sheet date considering it as short-term employee benefit.

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, 2002 as well as Income Tax Act, 2002 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 maturing within 3 months from the balance sheet date and are readily convertible to cash, and are subject to an insignificant risk of changes in value.

2.15 Impairment

Provision for the assets such as Numismatic and Medallion coins and Non-moving metals are made on as per the indication of impairment. An impairment loss is recognized in income statement 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 financial position 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 income statement. 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 income statement.

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.

2.18 Change in accounting policy

Fixed assets costing per unit price of NRs. Twenty five thousand or less are charged directly to expenses account of income statement from FY 2007/08. In previous year, such cost that is charged to income statement was NRs. one thousand or less.

Likewise, other assets (store items) and items with non-durable nature are charged to expenses account of income statement at the time of purchase from FY 2007/08. In previous year, such items were treated as stock or stationery items (assets) and were charged to the expenses account of income statement when used or consumed. The change in accounting policy has resulted in decrease in assets and increases in expenses by about Rs. 198 lacs, as it is not being material, it is not disclosed separately.

Report of 2007/08

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
Asian Clearing Union
Total

As on July 15, 2008	As on July 16, 2007
NRs.	NRs.
3,833,170,983	2,819,993,731
19,785,747,784	12,921,391,085
56,243,055,391	51,662,673,592
346,246,103	-
80,208,220,260	67,404,058,408

Interest on time deposit and demand deposit (where ever applicable) were earned at various rates ranging from 0.50% to 7.65% per annum (P.Y. 0.50% to 6.31% 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
Investment in Mid Term Instrument
Investment in Fixbis
Investment in Repurchase Agreement (Repo)
Sub -Total
Total

As on July 15, 2008	As on July 16, 2007
NRs.	NRs.
44,331,891,318	52,289,830,227
18,599,777,074	2,771,300,523
62,931,668,392	55,061,130,750
3,694,451,246	3,263,731,168
1,370,076,158	3,238,092,227
3,406,168,745	-
13,568,776,253	-
4,742,275,734	687,410,000
26,781,748,135	7,189,233,395
89,713,416,527	62,250,364,145

Investments in US Treasury Bill and Government Of India Treasury Bill have been recognised and classified as "Held to maturity" but not valued at fair value.

NOTE - 4: INVESTMENTS IN GOVERNMENT SECURITIES

Government Treasury Bills
Saving Certificates
Government Bond
Other Bonds and securities
Total

As on July 15, 2008	As on July 16, 2007
NRs.	NRs.
17,555,932,257	13,749,485,669
1,362,913,000	348,058,400
4,800,357,504	4,472,150,294
6,932,846	1,518,621,371
23,726,135,607	20,088,315,734

Above investments are classified as follows:

Originated Loans	17,562,865,103	15,268,107,040
Held-to-maturity	4,800,357,504	4,472,150,294
Available-for-sale	1,362,913,000	348,058,400
Total	23,726,135,607	20,088,315,734

1. Government Bond 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 2002, 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 2001.

NEPAL RASTRA BANK

Notes forming part of the Balance Sheet.

NOTE - 5: INVESTMENTS IN FINANCIAL AND OTHER INSTITUTIONS

	% of holding	As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
(a) Investment in shares of Subsidiaries			
Madhyamanchal GBB		-	44,400,000
Sudur Pashchimanchal GBB	68.46	40,050,000	40,050,000
Madhya Pashchimanchal GBB	63.17	37,900,000	37,900,000
Agricultural Project Services Center	62.50	5,000,000	5,000,000
Rastriya Beema Sansthan - Life Insurance	55.56	1,000,000	1,000,000
		-	-
Sub-Total		83,950,000	128,350,000
(b) Investment in shares of Associates			
Deposit & Credit Guarantee Corporation	29.29	20,500,000	20,500,000
Rastriya Beema Sansthan-Non-Life Insurance		-	602,055
Nepal Stock Exchange Ltd.	34.60	12,080,500	12,080,500
National Productivity and Economic Development	31.65	2,500,000	2,500,000
Sub-Total		35,080,500	35,682,555
(c) Other Investments			
Shares:			
CSI Development Bank	14.29	16,000,000	16,000,000
Rural Microfinance Development Centre	6.58	21,045,000	21,045,000
Pashchimanchal GBB	10.00	6,000,000	6,000,000
Nepal Development Bank	5.00	16,000,000	16,000,000
Credit Information Bureau	10.25	3,500,000	1,000,000
Citizen Investment Trust	13.35	10,000	10,000
Rural Self Reliance Fund (Seed Capital)		253,400,000	253,400,000
Sub-Total		315,955,000	313,455,000
Total		434,985,500	477,487,555
Less: Provision for diminution in the value		96,269,000	120,138,000
		338,716,500	357,349,555

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

1. According to NRB Act 2002, NRB is not eligible to hold investment in share in excess of 10 percent of their share capital.
2. The Bank has already offloaded the investments in Rastriya Beema Sansthan-Non-Life Insurance and Madhyamanchal Gramin Bikas Bank (GBB) and is still offloading all those investments/ loans that are in excess of limit prescribed by section 7(2)(a) of NRB Act 2002.
3. 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.
4. Investment in Rastriya Beema Sansthan (Life-Insurance): NRB has received 41,667 Bonus Shares of Rs. 100 each in this investment which makes total shareholding of NRB 51,667 shares.
5. The details of the investment quoted and the market values prevailing as on the date of the balance sheet are as follows:

	As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
Citizen Investment Trust total 80100 shares @ Rs. 422 per share (P.Y. Rs. 352) (Including 80,000 bonus share received this year), cost of investment Rs.10,000 (Previous Year's Rs. 10,000)	33,802,200	35,200
Rastriya Beema Sansthan-Non-Life Insurance total 147033 shares (entire holding by NRB) of Rs. 100/- is sold at the rate of Rs.1450 per share.	-	470,877,950
Nepal Development Bank @ Rs. 302 per share (P.Y. Rs. 153), cost of investment Rs.16,000,000 (Previous Year's cost of investment 16,000,000)	48,320,000	24,480,000

Report of 2007/08

NEPAL RASTRA BANK

Notes forming part of the Balance Sheet.

NOTE - 6: OTHER INVESTMENTS

Investment of funds

Fixed deposits with commercial banks

Total

As on July 15, 2008	As on July 16, 2007
NRs.	NRs.
4,401,393,000	3,296,886,000
4,401,393,000	3,296,886,000

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

The above investments 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 July 15, 2008	As on July 16, 2007
NRs.	NRs.
60,655,000	80,810,000
600,000,000	1,790,000,000
249,113,510	481,124,510
2,255,530,167	2,251,979,300
3,165,298,677	4,603,913,810
242,113,510	474,025,510
2,923,185,167	4,129,888,300

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

NEPAL RASTRA BANK

Notes forming part of the Balance Sheet.

NOTE - 8: OTHER RECEIVABLE

		As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
Interest Accrued	487,528,993		
Less: Provision for doubtful amounts	3,297,869	484,231,124	482,032,886
Deposits		1,916,080	1,886,650
Advances Recoverable	1,297,117,267		
Less: Provision for doubtful amounts	-	1,297,117,267	848,784,394
Other recoverable		10,409,473	14,910,605
Bills Purchased		815,106,385	5,870,788,072
Total		2,608,780,329	7,218,402,607

NOTE - 9: GOLD & SILVER STOCK

	As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
Gold held in Stock	287,421,762	305,145,536
Silver held in Stock	57,721,142	57,612,483
Total Gold and silver stock	345,142,904	362,758,019

NOTE - 10: OTHER INVENTORIES

		As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
Security Note Stock		70,782,777	258,095,988
Coin Stock		177,294,498	281,571,462
Numismatic and Medallion coins	35,370,659		
Less: Provision for non-moving coins	22,465,540	12,905,119	39,840,678
Other Metal Stock	11,755,213		
Less: Provision for non-moving stock	8,716,000	3,039,213	3,041,157
Stationary and other sundry items	348,677		
Less: Provision for non-moving items		348,677	5,252,401
Total Inventories		264,370,284	587,801,686

Report of 2007/08

NEPAL RASTRA BANK
Notes forming part of the Balance Sheet

NOTE - 11a.: STATEMENT OF PROPERTY, PLANT & EQUIPMENT

(NRs.)

Particulars	Rate	Cost					Depreciation					Net Block	
		As at July 16, 2007	Transfer from other Office	Addition during the year	Adjustment / Transfer	As at July 15, 2008	As at July 16, 2007	Transfer from other Office	Current Year Depreciation	Adjustment / Transfer	As at July 15, 2008	As at July 15, 2008	As at July 16, 2007
Land		31,359,398	-	-	24,845	31,334,553	-	-	-	-	-	31,334,553	31,359,398
Building	3	501,713,126	-	6,486,914	2,586,133	505,613,907	120,809,255	-	15,013,209	35,870	135,786,594	369,827,313	379,680,646
Furniture and Fixture	10	93,579,745	-	2,864,052	38,668,397	57,775,400	67,159,901	-	3,439,403	27,061,594	43,537,710	14,237,690	26,419,844
Office Equipment	20	87,697,359	-	2,553,788	11,055,592	79,195,555	71,739,628	-	5,362,963	9,630,625	67,471,966	11,723,589	15,957,730
Vehicles	20	173,196,334	-	5,566,372	11,912,782	166,849,924	130,563,466	-	11,612,388	11,385,393	130,790,461	36,059,463	42,632,868
Machinery Equipment	15	64,552,723	-	717,606	2,365,629	62,904,700	56,621,456	-	2,771,789	1,829,223	57,564,022	5,340,678	7,876,032
Computer Equipments	20	107,426,291	52,800	14,309,914	13,428,039	108,360,966	85,699,103	-	7,452,197	9,717,400	83,433,900	24,927,066	19,844,437
Miscellaneous	15	9,436,261	-	168,262	4,287,802	5,316,721	6,862,118	-	259,499	3,126,827	3,994,790	1,321,931	2,601,128
Total		-	-	-	-	-	-	-	-	-	-	-	-
Capital Work-in-Progress		46,479,237	-	17,702,858	13,483,406	50,698,689	-	-	-	-	-	50,698,689	46,479,237
Grand Total		1,115,440,476	52,800	50,369,766	97,812,625	1,068,050,416	539,454,927	-	45,911,447	62,786,932	522,579,443	545,470,972	572,851,320
Previous Year		1,008,227,586	340,224	137,808,679	30,568,754	1,115,807,734	490,394,553	339,100	62,002,523	10,331,848	542,404,328	573,403,406	

NOTE - 11b.: INTANGIBLE ASSETS (COMPUTER SOFTWARE)

(NRs.)

Particulars	Rate	Cost					Amortization					Net Block	
		As at July 16, 2007	Transfer from other Office	Addition during the year	Adjustment / Transfer	As at July 15, 2008	Upto July 16, 2007	Transfer from other Office	Current Year Amortization	Adjustment / Transfer	Upto 31 July 15, 2008	As at July 15, 2008	As at July 16, 2007
Computer Software (old)	20	1,317,933				1,317,933	765,847		128,005	39,102	854,750	463,183	552,086
Kaspersky Enterprine Space Security (100 User)				245,926		245,926	-	-	-	-	-	245,926	-
Nk Window 2003 Server R2 Standard M/S Window 2003 Server Licence 2003 Setrver Licence M/S Window 2003 Clint Accer for 25				105,542		105,542						105,542	-
Symetive AV Endpoint Antivirus Software				107,237		107,237						107,237	-
Grand Total		1,317,933	-	458,705		1,776,638	765,847	-	128,005	39,102	854,750	921,888	552,086
Previous Year		-	-	-		-	-	-	-	-	-	-	-

Annual Financial Statements of NRB

NEPAL RASTRA BANK

Notes forming part of the Balance Sheet.

NOTE - 12: PROJECTS ASSTES: *

(Amount in NRs.)

Assets	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Current account	2,028,296	5,064,876	15,317,336	7,569,736	-	29,980,244
	(6,788,736)	(43,417,247)	(19,489,355)	(8,937,211)		(78,632,550)
Imprest Account	-	-	-	-	-	-
	-	-	-	-	-	-
Investment in fixed deposit	128,034,918	138,138,775	30,481,370	45,776,000	-	342,431,062
	(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	225,000	3,511,180	80,315,330	56,255,081	-	140,306,591
	(425,000)	(18,274,080)	(86,585,251)	(64,350,712)		(169,635,043)
Fixed assets	-	-	-	-	-	-
	-	-	-	-	(42,280)	(42,280)
Interest receivables	2,361,827	2,341,572	887,747	1,476,826	-	7,067,972
	(801,854)	(2,187,854)	(447,917)	(854,672)		(4,292,297)
Principal (Instalment) receivables	-	-	-	-	-	-
	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
	-	-	-	-	-	-
Current Year Total	132,650,041	149,056,403	127,001,783	111,077,643	-	519,785,869
Previous Year Total	(152,550,508)	(155,186,381)	(136,522,523)	(119,918,596)	(42,280)	(564,220,288)

*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 July 15, 2008	As on July 16, 2007
	NRs.	NRs.
Deposit from Banks	586,797,671	203,736,713
Foreign Diplomatic Missions and other agencies	6,703,821	12,313,916
Total	593,501,492	216,050,629

NOTE - 14: IMF RELATED LIABILITIES

	As on July 15, 2008	As on July 16, 2007
	NRs.	NRs.
SDR Allocation	917,811,866	809,452,312
Loan under Poverty Reduction and Growth Facility (PRGF)	5,650,825,700	3,916,028,172
Total	6,568,637,566	4,725,480,484

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 Income Statement.

Annual Financial Statements of NRB

THE POSITION OF THE IMFASSETS AND LIABILITIES

SUMMARY STATEMENT OF POSITION AS ON APRIL 30, 2008

Particlars	Local Currency	SDR Equivalents
Currency Holding		
Securities (Quota subscription by GON)	2,318,061,941	22,132,902
No. 1 Account	4,821,297,698	46,033,847
No. 2 Account	1,088,893	10,397
Valuation adjustments:		
Securities and No. 1 Account	328,157,147	3,133,251.0
No. 2 Account	50,063	478
Total Currency Holdings	7,468,655,742	71,310,875
	Per cent	
	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 .00954802 per currency unit as on April 30, 2008		

SUMMARY STATEMENT OF POSITION AS ON APRIL 30, 2007

Particlars	Local Currency	SDR Equivalents
Currency Holding		
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)
Total Currency Holdings	7,140,448,532.87	71,310,875
	Per cent	
	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		

SUMMARY STATEMENT OF POSITION AS ON JULY 15, 2008

Particlars	Local Currency	SDR Equivalents
Currency Holding		
Securities (Quota subscription by GON)	2,318,061,941.12	22,132,902
No. 1 Account	5,149,454,845.17	49,167,098
No. 2 Account	1138956.04	10,875
Valuation adjustments:		
Securities and No. 1 Account	-	-
No. 2 Account	-	-
Total Currency Holdings	7,468,655,742	71,310,875
	Per cent	
	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 0.00883058 per currency unit as on July 15, 2008		

SUMMARY STATEMENT OF POSITION AS ON JULY 16, 2007

Particlars	Local Currency	SDR Equivalents
Currency Holding		
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	-	-
Total Currency Holdings	7,140,448,532.87	71,310,875
	Per cent	
	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		

Report of 2007/08

NEPAL RASTRA BANK

Notes forming part of the Balance Sheet

NOTE - 15: OTHER LIABILITIES

Accrued Interest
Asian Clearing Union
Total

As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
8,488,994	8,384,017
-	34,079,638
8,488,994	42,463,655

NOTE -16: DEPOSIT AND OTHER BALANCES

Balances of GON
Deposits from Banks and Financial Institutions
Balances of Other Institutions
IMF Account No 1
IMF Account No 2
Earnest Money
Money Changer
Margin against LCs
Total

As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
3,929,183,838	3122531203
31,475,752,853	25,478,831,833
2,595,679,133	2,673,684,664
5,149,440,595	4,821,283,448
1,153,206	1,103,143
2,593,977	5,250,214
6,879,500	6,060,000
2,017,189,139	1,469,118,538
45,177,872,241	37,577,863,043

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

Medical Fund
Welfare Provident Fund
Gratuity and Pension Fund
Staff Security Fund
Liability for Staff Leave Encashment
Liability for Retired staff insurance premium
Total

As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
529,313,995	249,533,456
251,892,491	214,698,271
1,519,742,601	1,402,101,436
444,646,826	322,197,131
346,143,299	202,143,825
113,588,215	107,374,537
3,205,327,427	2,498,048,656

NOTE - 18: OTHER PAYABLES

Insurance Premium collected from Staff
Less: Advance Insurance Premium paid on behalf of Staff
Total

As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
1,164,702,087	1,060,206,163
(930,056,476)	(843,590,161)
234,645,611	216,616,002

Annual Financial Statements of NRB

NEPAL RASTRA BANK

Notes forming part of the Balance Sheet

NOTE -19: CURRENCY IN CIRCULATION

Currency in Circulation

As on July 15, 2008 NRs.	As on July 16, 2007 NRs.
112,950,000,000	91,310,000,000

Currency in circulation represents notes issued by NRB, as a sole currency issuing authority in Nepal, which includes cash in hand NRs. 1,464,511,943 (P.Y. NRs. 1,307,083,855).

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 July 15, 2008 NRs.	As on July 16, 2007 NRs.
83,170,568,000	61,530,568,000
25,607,732,000	25,607,732,000
4,171,700,000	4,171,700,000
112,950,000,000	91,310,000,000

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

Denomination Notes	As on July 15, 2008 Face Value (NRs.)	As on July 16, 2007 Face Value (NRs.)
1	166,491,984	169,094,574
2	187,343,996	193,482,176
5	874,276,785	719,268,340
10	1,101,376,670	1,111,836,260
20	1,396,268,240	1,026,139,200
25	95,029,750	112,977,825
50	1,935,578,550	2,109,080,700
100	6,286,308,400	5,630,752,800
250	81,844,375	82,559,375
500	33,135,277,250	21,852,115,750
to maintain a monetary liability reserve to meet its financial liability. Accordingly, five per	67,690,204,000	58,302,693,000
	112,950,000,000	91,310,000,000

Report of 2007/08

NEPAL RASTRA BANK

Notes forming part of the Balance Sheet

NOTE - 20: SUNDRY LIABILITIES	As on July 15, 2008	As on July 16, 2007
	NRs.	NRs.
Sundry creditors	786,532,358	681,188,167
Unclaimed	4,404,993	77,455,625
Bills Collection	79,558,806	90,040,713
Less: Bills Lodged	(79,558,806)	(90,040,713)
Pension Payable to NRB Ex-Staff	16,995,578	16,510,633
General Account	501,343,562	(108,072,403)
Total	1,309,276,491	667,082,022

NOTE - 21: PROJECTS LIABILITIES: * (Amount in NRs.)

Liabilities	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Loans from IFAD/ADB	128,106,010	146,900,000	117,296,471	109,500,000	-	501,802,481
	(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
	-	-	(4,233,489)	-	-	(4,233,489)
Sundry Payables	650,780	9,226	792,226	15,360	-	1,467,592
	(740,534)	(7,000)	(868,674)	(7,000)	-	(1,623,208)
Provisions	-	-	1,872,834	-	-	1,872,834
	-	-	-	-	-	-
Profit transferred to NRB	3,893,251	2,147,176	2,806,763	1,562,283	-	10,409,473
	Under Section 41 (ka) of th	(2,629,381)	(2,394,242)	(3,111,596)	-	(13,538,324)
Current Year Total	132,650,041	149,056,403	127,001,783	111,077,643	-	519,785,869
Previous Year Total	(152,550,508)	(155,186,381)	(136,522,523)	(119,918,596)	(42,280)	(564,220,288)

*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 15 July 2008 NRs.	As on July 16, 2007 NRs.
Capital Reserve:		
Gold and Silver Equalization Reserve	3,082,043,516	2,001,335,090
Statutory Reserve:		
General Reserve	12,042,027,004	11,343,700,000
Monetary Liabilities Reserve	1,223,600,000	988,600,000
Exchange Equalization Fund	9,735,433,407	-
Other Reserves and Funds:		
Development Fund	4,555,697,806	4,336,897,806
Banking Development Fund	527,087,319	527,087,319
Development Finance Project Mob. Fund	97,696,715	87,287,242
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
Gold Replacement Fund	940,563,315	930,659,416
Rural Self Reliance Fund (GS Kosh)	253,400,000	253,400,000
Securities Revaluation Fund	268,256,276	21,231,168
Total Reserves and Funds	33,426,429,219	21,424,848,906

- 1 Reserves/ Funds other than capital reserve (gold and silver equalization 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 appreciation or depreciation on revaluation of gold and silver is taken to/from this reserve through income statement.
- 3 **Exchange Equalization Fund**
Represents net exchange gains on various foreign currency assets and liabilities. An amount equivalent to net exchange gain/loss is appropriated from/to income statement and adjusted in the opening balance of such reserve.
- 4 **General reserve**
Under Section 41 (kha) of the NRB Act, 2002, 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 Liabilities Reserve**
Under Section 41 (ka) of the NRB Act, 2002, 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 Financial Institutions 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.

Report of 2007/08

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 in FY 1958/59 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 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 in FY 2006/07. 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 income statement.

NEPAL RASTRA BANK

Notes forming part of the Balance Sheet

NOTE - 23a : Movement of Provisions.

Particulars	As on July 16, 2007 NRs (1)	Addition (2)	Adjustments (3)	Payment/ Writeback (4)	As on July 15, 2008 NRs. (5=1+2+3-4)
Leave encashment	202,143,825	203,913,024	7,205,800	67,119,350	346,143,299
Gratuity and Pension Fund	1,402,101,436	320,803,476	2,282,404	205,444,716	1,519,742,600
Staff Security Fund	322,197,131	143,373,808	-	20,924,111	444,646,827
Medical Fund	249,531,975	290,013,198	-	19,046,677	520,498,496
Diminution in value of investment	120,138,000	-	-	23,869,000	96,269,000
Provision for doubtful loans	474,025,510	-	-	231,921,000	242,113,510
Nuismatic and Medallion Coins	22,465,540	-	-	-	22,465,540
Provision for non moving metal stock	8,716,000	-	-	-	8,716,000
Provison for non moving stationary and other sundry items	2,845,272	-	-	2,845,272	-
Total	2,804,164,688	958,103,506	9,488,204	571,170,126	3,200,595,272

Report of 2007/08

NEPAL RASTRA BANK

Notes forming part of the Balance Sheet

NOTE - 23b: Contingent Liabilities and Commitments

	As on July 15, 2008	As on July 16, 2007
	NRs.	NRs.
Letters of Credit	130,961,980	186,570,309
Guarantees Issued	9,358,676	-
Claims not acknowledged as debt	82,355	729,750
Other	15,528,129	14,132,339
Total	155,931,140	201,432,398

- 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 July 16, 2007. 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.
- 4 Contingent liability in respect of possible payment of Rs. 14,371,094 to obtain ownership on 50 % land having total area of 1-15-7-2 bigha where janakpur office is situated is included in the head 'other' .

NOTE - 23c: Contingent Assets

	As on July 15, 2008	As on July 16, 2007
	NRs.	NRs.
Land where Janakpur office is situated.	14,371,094	-
Total	14,371,094	-

- 1 This contingent asset is in respect of possible ownership of 50 % of land where janakpur office is situated. The land has total area of 1-15-7-2 . bigha and Nepal Rastra Bank may require to pay Rs.14,371,094 to obtain remaining 50% ownership of the land.

NEPAL RASTRA BANK

Notes forming part of the Income Statement

NOTE - 24: INTEREST INCOME

	2007/08 NRs.	2006/07 NRs.
Foreign Currency Financial Assets		
Treasury bills & Deposits	5,428,999,258	6,403,900,797
SDR Holding	26,502,632	25,736,471
Interest income from Foreign Currency Financial Assets	5,455,501,890	6,429,637,268
Local Currency Financial Assets		
Government Securities	250,963,118	753,991,639
Investment in financial and other institutions	1,050,495,672	171,201,207
Overdraft to Government	-	3,161,388
Loans and Refinance	15,166,938	60,877,806
Interest income from Local Currency Financial Assets	1,316,625,728	989,232,040
Total interest income from financial assets	6,772,127,618	7,418,869,308

NOTE - 25: COMMISSION INCOME

	2007/08 NRs.	2006/07 NRs.
Foreign Currency Financial Assets		
On Currency exchange	226,669,758	208,576,375
Local Currency Financial Assets		
Government transaction & Other services	29,889,600	51,700,209
Total Commission income from financial assets	256,559,358	260,276,584

NOTE - 26: INTEREST EXPENSES

	2007/08 NRs.	2006/07 NRs.
Foreign Currency Financial Liabilities		
SDR Allocation & PRGF Loan	54,175,635	51,719,807
Others	88,170	1,173,540
Sub Total	54,263,805	52,893,347
Local Currency Financial Liabilities		
Government Securities	245,122,682	317,923,891
Sub Total	245,122,682	317,923,891
Total Interest Expense on Financial Liabilities	299,386,487	370,817,238

NOTE - 27: AGENCY AND SERVICE CHARGE

	2007/08 NRs.	2006/07 NRs.
Foreign Currency Liabilities		
Service Charge	-	-
Commission	3,941,481	5,564,485
Sub Total	3,941,481	5,564,485
Local Currency Liabilities		
Agency Expenses	419,680,610	278,590,393
Sub Total	419,680,610	278,590,393
Total Agency and Service Charge	423,622,091	284,154,878

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

	2007/08 NRs.	2006/07 NRs.
Nepal Bank Ltd.	156,620,430	64,979,245
Rastriya Banijya Bank	233,934,816	108,661,338
Nepal Bangladesh Bank	2,997,640	3,193,134
Everest Bank Ltd	4,064,498	2,505,970
Total	397,617,384	179,339,687

Report of 2007/08

NEPAL RASTRA BANK

Notes forming part of the Income Instatement

NOTE - 28: OTHER OPERATING INCOME

	2007/08	2006/07
	NRs.	NRs.
Income from Mint (Sale of coin)	59,265,461	169,397,121
Gain from sale of precious metals and coins	50,570,630	283,059,155
Fine/Penalty charge	1,890,122	2,472,259
Profit from sale of investments	318,929,668	174,474,298
Dividend Income	9,640,880	3,083,995
Provision on Investment witten back (Net)	23,869,000	5,815,000
Provision on Loans & Advances witten back (Net)	231,912,000	175,641,069
Doubtful on sundry accrued written back (Net)	47,641,290	36,413,210
Project income	28,635,270	21,923,732
Miscellaneous	99,902,391	71,654,369
Total	872,256,711	943,934,208

28a

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

(Amount in NRs.)

Income	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Interest income	10,121,518	8,197,676	5,256,303	5,017,493	-	28,592,990
	(4,796,465)	(7,757,760)	(4,039,717)	(5,266,369)	-	(21,860,312)
Other income	-	-	-	-	42,280	42,280
	-	-	-	-	(63,420)	(63,420)
Current Year Total	10,121,518	8,197,676	5,256,303	5,017,493	42,280	28,635,270
Previous Year Total	(4,796,465)	(7,757,760)	(4,039,717)	(5,266,369)	(63,420)	(21,923,732)

Figures in brackets represent the corresponding figures of the previous year

NEPAL RASTRA BANK
Notes forming part of the Income Statement

NOTE - 29: GENERAL, ADMINISTRATIVE EXPENSES & PROVISIONS

		2007/08 NRs.	2006/07 NRs.
Staff Costs	29a	1,817,621,514	1,298,309,650
Depreciation and amortization		46,039,452	62,002,523
Directors Fees and Expenses		1,506,205	1,424,389
Note Printing charges	29b	229,960,250	396,629,900
Mint Expenses		15,762,708	161,154,222
Security charges		18,503,842	18,503,842
Remittance charges		58,797,779	74,406,289
Travelling expenses		53,021,092	48,235,576
Insurance charges		41,538,999	41,146,169
Repair & Maintenance		13,048,149	9,904,000
Provisions on loans & advances, Investments, etc.	29c	8,029,311	17,010
Project expenses	29e	18,225,797	15,088,430
Miscellaneous	29d	190,225,617	165,636,493
Total		2,512,280,716	2,292,458,493

29a Staff Costs

	2007/08 NRs.	2006/07 NRs.
Salary	269,103,411	238,510,616
Allowances	444,463,748	305,449,628
Provident Fund Contribution	23,883,180	19,217,480
Staff Welfare (Including Medical fund contribution)	328,200,321	81,905,622
Staff Welfare Provident Fund	220,000,000	190,000,000
Pension & Gratuity Fund	320,803,476	320,803,476
Staff Security Fund	143,373,808	89,203,004
Others	67,793,570	53,219,824
Total	1,817,621,514	1,298,309,650

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.

29c Provision on loans & advances, Investments, etc.

	2007/08 NRs.	2006/07 NRs.
Provision for retired Staff Insurance Premium	8,029,311	-
Provision for Inventory & Spare Parts	-	17,010
Total	8,029,311	17,010

29d Miscellaneous Expenses

	2007/08 NRs.	2006/07 NRs.
Banking Promotion	11,463,968	42,661,834
Audit Fees and Expenses	1,008,113	6,151,613
Sundry balances written off	1,795,488	-
Others	175,958,048	116,823,046
Total	190,225,617	165,636,493

Report of 2007/08

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	-	-	2,443,676	3,449,250	-	5,892,926
	-	-	(2,678,269)	(3,668,250)	-	(6,346,519)
Interest ADB	6,222,292	6,045,500	-	-	-	12,267,792
	(2,257,106)	(6,271,500)	-	-	-	(8,528,606)
Audit Fee	3,500	3,500	3,500	3,500	-	14,000
	(3,955)	(3,955)	(3,955)	(1,500)	-	(13,365)
Meeting, training and others	2,475	1,500	2,364	2,460	42,280	51,079
	(22,875)	(30,755)	(60,300)	(22,590)	(63,420)	(199,940)
Depreciation	-	-	-	-	-	-
	-	-	-	-	-	-
Profit transferred to NRB Central Office	3,893,251	2,147,176	2,806,763	1,562,283	-	10,409,473
	(2,512,529)	(1,451,550)	(1,297,193)	(1,574,029)	-	(6,835,302)
(Loss transferred to ADB grants)	-	-	-	-	-	-
	-	-	-	-	-	-
Current Year Total	10,121,518	8,197,676	5,256,303	5,017,493	42,280	28,635,270
Previous Year Total	(4,796,465)	(7,757,760)	(4,039,717)	(5,266,369)	(63,420)	(21,923,731)

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

NOTE - 30: CASH AND CASH EQUIVALENT

	2007/08	2006/07
	NRs.	NRs.
Foreign currency cash and bank balance	80,781,526,260	67,404,058,408
Local currency in hand	1,464,511,943	1,307,083,855
SDR holdings	630,644,378	587,487,220
Investment in Treasury Bills/Notes	73,864,566,502	55,061,130,750
Investment in Fixbis	13,568,776,253	-
Investment in repurchase agreement (Repo)	4,742,275,734	687,410,000
Total	175,052,301,070	125,047,170,233

NOTE - 31: OTHER NOTES

I. Financial Year

The financial statements relate to the financial year i.e. July 17, 2007 to July 15, 2008. The previous year was 17th July 17, 2006 to July 16, 2007. 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):

Particulars	Weight (Kg, gm, mg)	Market Price (NRs.) Per Grams.	Total Market Value (NRs.)
Gold	1,456.057.075 (1,456.057.075)	2131.851 (1,389.636)	3,104,097,756 (2,023,389,329)
Gold held in Stock	2,967.999.100 (3,002.994.346)	2131.851 (1,389.636)	6,327,331,849 (4,173,069,051)
Silver held in Stock	137,730.086.124 (137,489.628.300)	42.240 (27.271)	5,817,718,838 (3,749,479,653)
Current Year Total			13,398,882,466
Previous Year Total			(9,945,938,033)

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:

		NRs.	
S.No.	Currency	July 15, 2008	July 16, 2007
1	US Dollar	68.50	64.85
2	Sterling Pound	135.89	131.43
3	Euro	108.72	89.27
4	Swiss Frank	66.97	53.80
5	Australian Dollar	66.29	56.26
6	SDR	113.24	99.41

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 four 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.

With regard to consolidation of accounts, International Accounting Standard (IAS) 27 para 10 states that a parent need not present consolidated financial statements if and only if:

- (a) the parent is itself a wholly-owned subsidiary, or is a partially- owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to the parent not presenting consolidated financial statements,
- (b) the parent's debt or equity instruments are not traded in public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets,
- (c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instrument in a public market, and
- (d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

Keeping in view above facts Nepal Rastra Bank has not prepared consolidated accounts as for these subsidiaries.

IX. Related Parties

i. Government:

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 unsubscribe 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.

ii. Financial and other institutions:

The Bank does not exercise significant influence or control over its subsidiaries, associates and other entities except for any regulatory purposes where substantial investments have been made. These subsidiaries, associates and other entities are incorporated under relevant act of Government of Nepal and are carrying out the business activities in domestic market only. 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. There are no any transactions of bank with its subsidiaries, associates and other entities. Banks investment in its subsidiaries, associates and other entities along with respective provision for diminution in value of such investment are as under.

Annual Financial Statements of NRB

S. No.	Financial and Other Institutions	NRB's Investment At Cost Rs.	Provision Made up to FY 063.64 Rs.	Provision/ (Write Back) FY 064.65 Rs.	Provision Up to FY 064.65 Rs.
a. Investment in share of Subsidiaries					
1	Sudur Pashchimanchal GBB	40,050,000.00	40,050,000.00	-	40,050,000.00
2	Madhya Pashchimanchal GBB	37,900,000.00	25,772,000.00	(6,553,000.00)	19,219,000.00
3	Agriculture Project Service Centre	5,000,000.00	5,000,000.00	-	5,000,000.00
4	Rastriya Bima Sansthan-Life insurance	1,000,000.00	-		
b. Investment in share of Associates					
1	Deposit & Credit Guarantee Corporation	20,500,000.00	-		
2	Nepal Stock Exchange Ltd.	12,080,500.00	-		
3	National Productivity and Economic Development	2,500,000.00	-		
c. Other Investments:					
1	CSI Development Bank	16,000,000.00	16,000,000.00	-	16,000,000.00
2	Rural Microfinance Development Centre	21,045,000.00	-	-	-
3	Pashchimanchal GBB	6,000,000.00	-		
4	Nepal Bikash Bank	16,000,000.00	16,000,000.00	-	16,000,000.00
5	Credit Information Bureau	3,500,000.00	-		
6	Citizen Investment Trust	10,000.00	-		
7	Rural Self Reliance Fund (Seed Capital)	253,400,000.00	-		
	Total	434,985,500.00	102,822,000.00	(6,553,000.00)	96,269,000.00

iii. Key Management Personnel:

S.No.	Name of the Key Management Personnel	Designation
1.	Krishana Bahadur Manandhar	Acting Governor
2.	Bir Bikram Rayamajhi	Deputy Governor
3.	Surendra Man Pradhan	Executive Director
4.	Dr. Yubaraj Khatiwada	Executive Director
5.	Sushil Ram Mathema	Executive Director
6.	Bhola Ram Shrestha	Executive Director
7.	Gopal Prasad Kafle	Executive Director
8.	Ravindra Prasad Pandey	Executive Director
9.	Lila Prakash Sitaula	Executive Director
10.	Ashwini Kumar Thakur	Executive Director
11.	Bishnu Nepal	Executive Director
12.	Gokul Ram Thapa	Executive Director
13.	Ramjee Regmi	Executive Director

Salary and related expenses to key management personnel are NRs. 12,698,752 (previous year – NRs. 15,105,300). As at July 15, 2008 an amount of NRs.13, 189,728 (Previous year – NRs. 17,474,169) 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 Key Management Personnel; transactions, if any, with director-related or key management personnel –related entities which occurred in the normal course of NRB's operations were conducted on terms no more favorable than similar transactions with other customers.

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

X. Prior Year Adjustment

This includes adjustments relating to 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.247, 025,108 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 are as under.

NRs.		
Name of Instruments	Cost of Investment As on July 15, 2008	Fair Value As on July 15, 2008
US Government Treasury Notes/Bonds	1,370,076,158	1,373,572,138
US Government Treasury Bills	44,331,891,318	44,451,176,865
NRs.		
Name of Instruments	Cost of Investment As on July 16, 2007	Fair Value As on July 16, 2007
US Government Treasury Notes/Bonds	3,238,092,227	3,285,789,861
US Government Treasury Bills	52,289,830,227	52,587,694,114

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.

NRs.				
Present value of liability as on July 15, 2005	Liability as per books as on July 15, 2005	Total Deficit	Recognized up to July 16, 2008	Balance to be recognized in future years
2,269,949,049	791,995,665	1,477,953,384	1,258,001,104	219,952,280

XV. Gold and Silver

- i. Gold (other than inventory) till the financial year 2003/04 was valued at a price revalued in year 1986. In terms of the board resolution dated Jan. 2, 2006 the said gold has been valued at price prevailing in London Bullion Market at the close of the year. Increase in value thereof amounting to Rs. Rs. 1,080,708,426 has been taken to "Gold and Silver Equalizations Reserve" through Income Statement.
- ii. An amount of Rs 9,903,899 has been appropriated from the Income Statement 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 used to be incorporated in financial statement on net basis until FY 2005/06. From FY 2006/07, the asset, liability, income and expenses of projects are incorporated in financial statement without netting it off. Separate disclosure of individual asset, liability, income and expenses of projects are made in notes to the account.

XVII. Restatement of previous year's presentation.

- i. In, FY 2006/07 repurchases agreement (Repo) for NRs. 687,410,000 was presented as loan assets on the face of balance sheet. Its effect was shown in operating activities of cash flow statement. This year such repurchase agreement has been presented as investment and corresponding presentation of balance sheet has also been restated. In cash flow statement this year it has been treated as cash and cash equivalent restating corresponding year's cash flow statement. This effects increasing cash and cash equivalent NRs.124,359,760,233 of previous year by NRs. 687,410,000 to NRs. 125,047,170,233.
- ii. Intangible asset has been separately presented on the face of the balance sheet. Last year it was included in property plant and equipment. However, the same has been restated in corresponding year's presentation of this year's balance sheet.
- iii. Revaluation gain on foreign exchange treating it as unrealized gain has been deducted from profit for the year in cash flow statement. The effect of rate changes is reported in cash flow statement in order to reconcile cash and cash equivalent at the beginning and end of the period with restatement of corresponding year's presentation.
- iv. Local treasury bills, developments bonds, fixed deposit investment, US government treasury bills and treasury notes maturing within three months from the balance sheet date and which, are subject to insignificant change in value at maturity are presented in cash and cash equivalent of cash flow statement.

XVIII. Number of employees

Mid-July 2008	Mid-July 2007
1517	1531

XVIV. Events occurred after Balance Sheet Date

- i. The exchange rate of Nepalese currency vis-à-vis some of the foreign currencies has largely changed after the balance sheet date. The change in exchange rate of NRs. vis-à-vis major other currencies are depicted hereunder:

NRs.

S.No.	Currency	Nov. 9, 2008	July 15, 2008	Increase / (Decrease)	Estimated Financial Statements Impact
1	US Dollar	76.15	68.50	7.65	9,893,773,248
2	Sterling Pound	119.17	135.89	(16.72)	(2,325,689,525)
3	Euro	97.27	108.72	(11.45)	(2,120,236,262)
4	Swiss Frank	65.00	66.97	(1.97)	(5,589,179)
5	Australian Dollar	50.78	66.29	(15.51)	(2,719,092,527)
5	Canadian Dollar	63.46	67.76	(4.3)	(177,286,021)
6	JPY	0.78	0.642	0.138	290,337,834
7	SDR	113.47	113.24	0.23	(12,077,807)
				Total	2,824,139,761

This change in exchange rate results in increase in net foreign currency assets, exchange equalization fund and Net profit/(loss) for the period of the bank. The increase is estimated to be around NRs. 2,824,139,761 in each head.

- ii. Gold and silver prices have also largely changed after the balance sheet date. The change price of the gold and silver with its estimated financial impact are shown below:

NRs.

S.No.	Particular	Nov. 9, 2008	July 15, 2008	Increase / (Decrease)	Estimated Financial Statements Impact
1	Gold per gram	1847.220	2131.851	(284.631)	(414,438,981)
2	Silver per gram	25.045	42.240	(17.195)	

The change in price results in decrease in foreign currency financial assets (Gold investment), Reserve (Gold and Silver equalization Reserve) and Net profit/(loss) for the period of the bank. The financial statements impact is estimated to be around NRs. 414,438,981 in each head.

Gold and silver stock is carried at cost or net realizable value whichever is less. The market price of these items is still higher than cost hence it's estimated impact on financial statements has not been quantified.

- iii. In addition to above, there was no material event occurred subsequent to the balance sheet date that requires adjustments or disclosure in the financial statements.

Annual Financial Statements of NRB

NEPAL RASTRA BANK

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

Particulars	Weighted Average Interest Rate %	2007-08 Total NRs.	Upto 6 Months NRs.	6 to 12 Months NRs.	Above 12 Months NRs.
Interest Sensitive Foreign Currency Financial Assets					
Cash and Bank Balance	4.64	80,208,220,260	80,208,220,260	-	-
Investment in Foreign Currency	2.04	86,018,965,282	82,612,796,537	-	3,406,168,745
IMF Related Assets	2.97	630,644,378	630,644,378	-	-
Total Interest Sensitive Foreign Currency Financial Assets	A	166,857,829,920	163,451,661,176	0	3,406,168,745
Non Interest Sensitive Foreign Currency Financial Assets					
Other Receivable		581,825,029	581,825,029	-	-
Other Securities		3,694,451,245	-	-	3,694,451,245
Total Non Interest Sensitive Foreign Currency Financial Assets		4,276,276,274	581,825,029	-	3,694,451,245
Total Foreign Currency Financial Assets	B	171,134,106,194	164,033,486,205	0	7,100,619,990
Interest Sensitive Foreign Currency Financial Liabilities					
IMF Related Liabilities	0.11	6,568,637,566	917,811,866	-	5,650,825,700
Asian Clearing Union		0	-	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities	C	6,568,637,566	917,811,866	-	5,650,825,700
Non Interest Sensitive Foreign Currency Financial Liabilities					
Deposit from banks and other agencies		593,501,492	593,501,492	-	-
IMF Related Liabilities		-	-	-	-
Other Liabilities		8,488,994	8,488,994	-	-
Total Non Interest Sensitive Foreign Currency Financial Liabilities		601,990,486	601,990,485	-	-
Total Foreign Currency Financial Liabilities	D	7,170,628,052	1,519,802,352	-	5,650,825,700
Foreign Currency Interest Rate Sensitivity Gap (A-C)		160,289,192,354	162,533,849,310	0	(2,244,656,955)
Total Gap (B-D)		163,963,478,142	162,513,683,853	0	1,449,794,290

Comparative Figure as on July 16, 2007 of 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.
Interest Sensitive Foreign Currency Financial Assets					
Cash and Bank Balance	4.80	67,404,058,408	67,404,058,408	-	-
Investment in Foreign Currency	4.79	58,986,632,977	57,041,462,251	646,929,414.06	1,298,241,311.86
IMF Related Assets	4.25	587,487,220	587,487,220	-	-
Total Interest Sensitive Foreign Currency Financial Assets	A	126,978,178,605	124,345,597,879	646,929,414	1,298,241,312
Non Interest Sensitive Foreign Currency Financial Assets					
Other Receivable		804,463,349	804,463,349	-	-
Other Securities		3,263,731,168	-	-	3,263,731,168
Total Non Interest Sensitive Foreign Currency Financial Assets		4,068,194,517	804,463,349	-	3,263,731,168
Total Foreign Currency Financial Assets	B	131,046,373,122	125,150,061,228	646,929,414	4,561,972,480
Interest Sensitive Foreign Currency Financial Liabilities					
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	-	-
Total Interest Sensitive Foreign Currency Financial Liabilities	C	4,759,560,122	843,531,950	-	3,916,028,172
Non Interest Sensitive Foreign Currency Financial Liabilities					
Deposit from banks and other agencies		216,050,629	216,050,629	-	-
IMF Related Liabilities		-	-	-	-
Other Liabilities		8,384,017	8,384,017	-	-
Total Non Interest Sensitive Foreign Currency Financial Liabilities		224,434,646	224,434,646	-	-
Total Foreign Currency Financial Liabilities	D	4,983,994,768	1,067,966,596	-	3,916,028,172
Foreign Currency Interest Rate Sensitivity Gap (A-C)		122,218,618,483	123,502,065,929	646,929,414	(2,617,786,860)
Total Gap (B-D)		126,062,378,354	124,082,094,632	646,929,414	645,944,308

Report of 2007/08

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

Particulars	Weighted Average Interest Rate %	2007/08 Total NRs.	Upto 6 Months NRs.	6 to 12 Months NRs.	Above 12 Months NRs.
Interest Sensitive Local Currency Financial Assets					
Investment in Government Securities	3.89	18,925,778,103	9,969,470,133	7,669,903,970	1,286,404,000
GON Overdraft		-	-	-	-
Other Investments	6.88	4,401,393,000	881,218,000	3,520,175,000	-
Refinance & Loans	5.26	667,655,000	667,655,000	-	-
Total Interest Sensitive Local Currency Financial Assets	E	23,994,826,103	11,518,343,133	11,190,078,970	1,286,404,000
Non Interest Sensitive Local Currency Financial Assets					
Cash in Hand		1,464,511,943	1,464,511,943	-	-
Investment in Government Securities		4,800,357,504	2,276,829,103	1,417,940,490	1105587911
Investment in Financial & Other Institutions		338,716,500	-	-	338,716,500
Refinance & Loans (Loans to employees)		2,255,530,167	-	-	2,255,530,167
Other Receivables		2,608,780,329	2,608,780,329	-	-
Total Non Interest Sensitive Local Currency Financial Assets		11,467,896,443	6,350,121,375	1,417,940,490	3,699,834,577
Total Local Currency Financial Assets	F	35,462,722,546	17,868,464,508	12,608,019,460	4,986,238,577
Interest Sensitive Local Currency Financial Liabilities					
Total Interest Sensitive Local Currency Financial Liabilities	G	-	-	-	-
Non Interest Sensitive Local Currency Financial Liabilities					
Deposit and Other Balances		45,177,872,241	45,177,872,241	-	-
Bills Payable		679,983,024	679,983,024	-	-
Staff Liabilities		3,205,327,427	-	-	3,205,327,427
Other Payables		234,645,611	234,645,611	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		49,297,828,303	46,092,500,877	-	3,205,327,427
Total Local Currency Financial Liabilities	H	49,297,828,303	46,092,500,877	-	3,205,327,427
Local Currency Interest Rate Sensitivity Gap (E-G)		23,994,826,103	11,518,343,133	11,190,078,970	1,286,404,000
Total Gap (F-H)		(13,835,105,757)	(28,224,036,369)	12,608,019,460	1,780,911,151

Comparative Figure as on July 16, 2007 of 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.
Interest Sensitive Local Currency Financial Assets					
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	-	-
Total Interest Sensitive Local Currency Financial Assets	E	20,790,960,440	13,501,462,206	6,892,348,025	397,150,209
Non Interest Sensitive Local Currency Financial Assets					
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	-	-
Total Non Interest Sensitive Local Currency Financial Assets		15,606,965,611	8,525,486,462	-	7,081,479,149
Total Local Currency Financial Assets	F	36,397,926,051	22,026,948,668	6,892,348,025	7,478,629,358
Interest Sensitive Local Currency Financial Liabilities					
Total Interest Sensitive Local Currency Financial Liabilities	G	-	-	-	-
Non Interest Sensitive Local Currency Financial Liabilities					
Deposit and Other Balances		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	-	-
Total Non Interest Sensitive Local Currency Financial Liabilities		46,167,726,092	43,669,677,436	-	2,498,048,656
Total Local Currency Financial Liabilities	H	46,167,726,092	43,669,677,436	-	2,498,048,656
Local Currency Interest Rate Sensitivity Gap (E-G)		20,790,960,440	13,501,462,206	6,892,348,025	397,150,209
Total Gap (F-H)		(9,769,800,041)	(21,642,728,768)	6,892,348,025	4,980,580,702

Annual Financial Statements of NRB

NEPAL RASTRA BANK

Table 2 : Credit Exposure by Credit Rating

Particulars	Credit Rating	2007/08		2006/07	
		NRs.	% Financial Assets	NRs.	% Financial Assets
Foreign Currency Financial Assets					
	A-	8,048,484,806	3.90%	2,380,552,775	1.42%
	A+	15,222,439,029	7.37%	2,051,294,880	1.23%
	A	13,618,453,846	6.59%	3,255,195,210	1.94%
	AA	9,047,765,558	4.38%	1,980,491,730	1.18%
	AA+	5,539,797,025	2.68%	2,711,891,118	1.62%
	AA-	7,008,655,226	3.39%	11,893,613,938	7.10%
	AAA	81,368,296,636	39.39%	97,214,210,389	58.06%
	BB		0.00%	2,771,300,523	1.66%
	BBB	28,445,904	0.01%	26,889,734	0.02%
	NR *	31,251,768,164	15.13%	6,760,932,825	4.04%
Total Foreign Currency Financial Assets		171,134,106,194	82.83%	131,046,373,122	78.26%
Local Currency Financial Assets	NR *	35,462,722,546	17.17%	36,397,926,051	21.74%
Total Local Currency Financial Assets		35,462,722,546	17.17%	36,397,926,051	21.74%
Total Financial Assets		206,596,828,740	100.00%	167,444,299,173	100.00%

* NR represents not rated.

Report of 2007/08

NEPAL RASTRA BANK

Table 3a : Concentrations of Funding

The Bank's significant end-of-year concentrations of funding as at July 15, 2008 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.
Foreign Currency									
Financial Assets									
Cash and Bank Balances	80,208,220,260	-	-	-	76,375,049,278	-	-	-	3,833,170,982
SDR holdings - with IMF	630,644,378	-	-	-	-	-	-	630,644,378	-
Investments in Foreign Currency	89,713,416,527	-	-	-	-	25,411,671,977	64,301,744,550	-	-
Other receivables	581,825,029	-	-	-	-	-	-	-	581,825,029
Sub-Total	171,134,106,194	-	-	-	76,375,049,278	25,411,671,977	64,301,744,550	630,644,378	4,414,996,011
Other Assets									
Gold	3,104,097,755	-	-	-	-	3,104,097,755	-	-	-
Sub-Total	3,104,097,755	-	-	-	-	3,104,097,755	-	-	-
Total Foreign Currency Assets	174,238,203,949	-	-	-	76,375,049,278	28,515,769,731	64,301,744,550	630,644,378	4,414,996,011
Local Currency									
Financial Assets									
Cash in hand	1,464,511,943	-	-	-	-	-	-	-	1,464,511,943
Investments in Government Securities	23,726,135,607	23,726,135,607	-	-	-	-	-	-	-
GON Overdraft	-	-	-	-	-	-	-	-	-
Investments in Financial and Other Ins.	338,716,500	-	-	-	338,716,500	-	-	-	-
Other Investments	4,401,393,000	-	-	-	4,401,393,000	-	-	-	-
Refinance & Loans	2,923,185,167	-	-	2,255,530,167	667,655,000	-	-	-	-
Other Receivables	2,608,780,329	-	815,106,385	-	-	-	-	-	1,793,673,944
Sub-Total	35,462,722,546	23,726,135,607	815,106,385	2,255,530,167	5,407,764,500	-	-	-	3,258,185,887
Other Assets									
Gold & Silver	345,142,904	-	-	-	-	-	-	-	345,142,904
Other Inventories	264,370,284	-	-	-	-	-	-	-	264,370,284
Property, Plant & Equipment	545,470,972	-	-	-	-	-	-	-	545,470,972
Intangible Assets	921,888	-	-	-	-	-	-	-	921,888
Project Asset	519,785,869	-	-	-	-	-	-	-	519,785,869
Sub-Total	1,675,691,917	-	-	-	-	-	-	-	1,675,691,918
Total Local Currency Assets	37,138,414,463	23,726,135,607	815,106,385	2,255,530,167	5,407,764,500	-	-	-	4,933,877,805
Total Assets	211,376,618,412	23,726,135,607	815,106,385	2,255,530,167	81,782,813,778	28,515,769,731	64,301,744,550	630,644,378	9,348,873,816

Comparative figures as at July 16, 2007 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.
Foreign Currency									
Financial Assets									
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
Sub-Total	131,046,373,122	-	-	-	64,584,064,677	3,951,141,168	58,299,222,977	587,487,220	3,624,457,079
Other Assets									
Gold	2,023,389,329	-	-	-	-	2,023,389,329	-	-	-
Sub-Total	2,023,389,329	-	-	-	-	2,023,389,329	-	-	-
Total Foreign Currency Assets	133,069,762,451	-	-	-	64,584,064,677	5,974,530,498	58,299,222,977	587,487,220	3,624,457,079
Local Currency									
Financial Assets									
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
Sub-Total	36,397,926,051	20,088,315,734	5,870,788,072	2,251,979,300	5,532,144,555	-	-	-	2,654,698,390
Other Assets									
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
Intangible Assets	-	-	-	-	-	-	-	-	-
Project Asset	564,220,288	-	-	-	-	-	-	-	564,220,288
Sub-Total	2,088,183,399	-	-	-	-	-	-	-	2,088,183,399
Total Local Currency Assets	38,486,109,450	20,088,315,734	5,870,788,072	2,251,979,300	5,532,144,555	-	-	-	4,742,881,789
Total Assets	171,555,871,901	20,088,315,734	5,870,788,072	2,251,979,300	70,116,209,232	5,974,530,498	58,299,222,977	587,487,220	8,367,338,868

Annual Financial Statements of NRB

NEPAL RASTRA BANK

Table 3b : Concentrations of Funding

The Bank's significant end-of-year concentrations of funding as at 15th July 2008 were as follows:

	Total NRs.	GON NRs.	Public NRs.	Comm.Banks & FI NRs.	Supernational F.I. NRs.	Others NRs.
Foreign currency						
Financial Liabilities						
Deposit from banks and other agencies	593,501,492	-	-	586,797,671	-	6,703,821
IMF Related Liabilities	6,568,637,566	-	-	-	6,568,637,566	-
Others	8,488,994	-	-	-	8,488,994	-
Total Foreign Currency Financial Liabilities	7,170,628,052	-	-	586,797,671	6,577,126,560	6,703,821
Local Currency Financial Liabilities						
Deposit and other balances	45,177,872,241	-	-	31,475,752,853	5,150,593,800	8,551,525,587
Bills payables	679,983,024	-	679,983,024	-	-	-
Staff Liabilities	3,205,327,427	-	-	-	-	3,205,327,427
Other payables	234,645,611	-	-	-	-	234,645,611
Total Local Currency Financial Liabilities	49,297,828,303	-	679,983,024	31,475,752,853	5,150,593,800	11,991,498,625
Total Financial Liabilities	56,468,456,355	-	679,983,024	32,062,550,525	11,727,720,360	11,998,202,447
Other Liabilities						
Currency in circulation	112,950,000,000	-	111,485,488,057	-	-	1,464,511,943
Surplus payable to GON						
Sundry Liabilities	1,309,276,491	-	-	-	-	1,309,276,491
Project liability	519,785,869	-	-	-	-	519,785,869
Total Other Liabilities	114,779,062,360	-	111,485,488,057	-	-	3,293,574,303
Total Liabilities	171,247,518,715	-	112,165,471,082	32,062,550,525	11,727,720,360	15,291,776,750

Comparative figures as at 16th July 2007 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.
Foreign currency						
Financial Liabilities						
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	-
Total Foreign Currency Financial Liabilities	4,983,994,768	-	-	203,736,713	4,767,944,140	12,313,916
Local Currency Financial Liabilities						
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
Total Local Currency Financial Liabilities	46,167,726,092	-	5,875,198,391	25,478,831,833	4,822,386,591	9,991,309,277
Total Financial Liabilities	51,151,720,860	-	5,875,198,391	25,682,568,546	9,590,330,730	10,003,623,193
Other Liabilities						
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
Total Other Liabilities	95,979,302,135	-	90,002,916,145	-	-	2,538,386,165
Total Liabilities	147,131,022,995	-	95,878,114,536	25,682,568,546	9,590,330,730	12,542,009,358