



# **Monetary Policy for Fiscal Year 2008/09**



**Nepal Rastra Bank**  
Central Office  
Baluwatar, Kathmandu  
Nepal

**Monetary Policy  
for  
Fiscal Year 2008/09**

Delivered by Acting Governor Mr. Krishna Bahadur Manandhar  
on September 29, 2008

**Nepal Rastra Bank**  
Central Office  
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[www.nrb.org.np](http://www.nrb.org.np)

## ACRONYMS

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

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# Monetary Policy for 2008/09

## Background

1. Following the Nepal Rastra Bank (NRB) Act, 2002, the NRB has been formulating the annual monetary policy and making it public since 2002/03. The bank had released the monetary policy statement of 2007/08 on July 23, 2007 and its mid-term review on March 14, 2008.
2. As per the NRB Act 2002, the bank has been releasing the monetary policy statement consisting of brief review of economic and financial situation, appraisal of the monetary policy adopted in the previous year followed by the relevance and assessment of current year's monetary policy and financial sector programs. It is the seventh monetary policy in the series of the annual monetary policy announced by the NRB.

## Review of Economic and Financial Situation in 2007/08

3. The circumstances developed within the domestic economy and at the international level since the announcement of monetary policy for 2007/08 in July 23, 2007 have brought about some positive changes as well as challenges in the Nepalese economy. The analysis pertaining to some important developments in the global and Nepalese context had already been done in the mid-term review of monetary policy for 2007/08.
4. In the first quarter of 2007/08, the US economy suffered from housing credit crisis which led to credit and liquidity crisis. The United States and Western European countries encountered sharp fluctuation in their stock and currency market. According to the *World Economic Outlook* released by the International Monetary Fund on July 17, 2008, the world economy continues to grow at a sluggish rate with high inflationary pressure due to the financial crisis that emerged in developed economies. The Fund has projected that the world economic growth will decelerate to 4.1 percent in 2008 from the growth of 5.0 percent in 2007. According to the Fund, the developed economies will register a lower growth rate of 1.7 percent in 2008 compared to a growth of 2.7 percent in the previous year. Likewise, the growth rate of emerging and developing economies will drop to 6.9 percent in 2008 from 8.0 percent in the previous year. In the advanced economies, the consumer inflation is projected to remain at 3.4 percent in 2008 from 2.2 percent in 2007. Likewise, the Fund has projected the consumer inflation in emerging and developing economies to remain at 9.1 percent in 2008 from 6.4 percent in the previous year.
5. The impact of sluggish economic performance in developed economies has been reflected, to some extent, in the export of Nepalese commodities to these countries. However, there has been an improvement in the growth rate of gross domestic product in 2007/08 on account of the expansion in internal demand. According to Central Bureau of Statistics (CBS), the gross domestic product (GDP) at producer's prices is estimated to grow by 4.7 percent in 2007/08 compared to a growth of 3.2

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percent in the previous year. The GDP at basic price is estimated to increase by 5.6 percent in 2007/08 compared to a growth of 2.6 percent in 2006/07.

6. The improvement in economic growth in 2007/08 is largely due to the expansion in the agriculture sector, which accounts for 36 percent share in real GDP. The agriculture sector is estimated to grow by 5.7 percent in 2007/08 compared to a growth of 0.9 percent in 2006/07. The paddy production, regardless of the continuous decline in three years in a row, witnessed a high growth of 16.8 percent in 2007/08 on account of favorable weather condition, which, in turn, contributed to the satisfactory performance of overall agriculture sector.
7. On the non-agriculture front, the growth rate of the industry sector declined in 2007/08. However, the growth rate of services sector improved. The financial intermediation sector expanded by 13.8 percent in 2007/08 compared to a growth of 11.4 percent in the previous year. The community, social and personal services, health and social work, hotel and restaurant and wholesale and retail trade sectors also expanded in 2007/08.
8. In 2007/08, there had been mixed consequences of both favorable as well as adverse forces influencing the economic activities. Among the positive forces, the favorable weather helped increase agriculture production. The improved law and order situation helped expand the tourism sector. The expansion in financial intermediation sector helped boost up the real estate and business activities and construction of residential and non-residential sectors. The remarkable inflows of workers' remittances contributed to drive the Nepalese economy.
9. The load shedding adversely affected the performance of Nepalese economy in 2007/08. Effective from January 4, 2007, the Nepal Electricity Authority (NEA) increased the load shedding hours to fifteen hours a week from an ongoing schedule of six hours. The NEA increased load shedding even to thirty-six hours a week from January 10, 2007 and further to forty-eight hours a week from February 1, 2008. The NEA decreased the load shedding hours to five hours a week from June 4, 2008 with the improvement in water level in rivers on account of summer season and the repair of Kulekhani-II and Khimti Hydro Power Project. Since August 27, 2008 the load shedding hours have again been raised. The increased cost of production due to long-hours of load shedding adversely affected the industrial activities in 2007/08. The statistics released by CBS showed a decline of manufacturing production by 1.4 percent in 2007/08 owing primarily to the decline in the production of plastic products by 8.6 percent, vegetable ghee by 19.6 percent, readymade garments by 16.3 percent and woolen carpets by 5.2 percent. The overall manufacturing index had gone up by 2.6 percent in the previous year. The production of domestic consumable items such as iron rods and billets, beer, bricks, biscuit, noodles and processed tea expanded satisfactorily in 2007/08.
10. The sluggish export of Nepalese commodities also had an adverse impact on the Nepalese economy. The sluggish export badly affected industrial production and employment. The supply of petroleum products had not been smooth primarily due to the lack of adjustment of domestic oil prices as per the international crude oil

price. In addition, obstruction in the highway, strike and *bandhs* also adversely affected the Nepalese economy in 2007/08.

11. On the price front, the average consumer price inflation stood at 7.7 percent in 2007/08 compared to 6.4 percent in the previous year. The year-on-year (y-o-y) consumer inflation was 12.1 percent in mid-July 2008 compared to 5.1 percent a year ago. The y-o-y inflation remained at 13.1 percent in mid-August 2008. Such inflation was 6.3 percent in mid-August 2007. High inflation is not a problem only in Nepal, but it has emerged as a major economic challenge throughout the world. The emergence of worldwide inflationary pressure is due mainly to a sharp rise in food prices and prices of construction materials and petroleum products. Nepal also witnessed an inflationary pressure on account of the rise in prices of petroleum products, food grains and construction materials. Inflation in Nepal remained higher in 2007/08 compared to that of the previous year; however, this level of inflation is lower than that of other South Asian and developing economies.
12. In 2007/08, the external sector of Nepal exhibited mixed trends. Despite the widening trade deficit, Balance of Payments (BOP) registered a substantial surplus. Acceleration in trade deficit was on account of significant increase in imports compared to the rise in exports. Significant inflows of private sector's remittances and foreign grants contributed to a higher surplus in the overall BOP in 2007/08.
13. In 2007/08, total exports increased by 2.4 percent. In the previous year, total exports had declined by 1.4 percent. The marginal growth of overall exports was on account of significant decline in the exports to India. As against expectation, the growth of exports remained low owing to the decline in exports of readymade garments, woolen carpets, pashmina, vegetable ghee, chemicals, plastic goods, wire and jute goods. Nepalese exports could not improve because of the weak export competitiveness of Nepalese goods that was attributed primarily to the irregular supply of petroleum products, load shedding and poor infrastructure.
14. In 2007/08, total imports increased by 16.1 percent compared to a growth of 12.0 percent in the previous year. Imports from India increased substantially. Total imports expanded due to the rise in imports of vehicles and spare parts, petroleum products, electronic goods, telecommunication equipments, gold and iron-based goods. In 2007/08, the imports of petroleum products surged by 21.5 percent to Rs. 40.79 billion. In 2006/07, petroleum imports had dropped by 0.3 percent to Rs. 33.57 billion. Higher inflows of remittances and priority accorded to consumer credit by banks and financial institutions led to increase in total imports. The facility of making payments against the US dollar for the imports of industrial raw materials from India increased the import of iron-based goods from India. In 2007/08, imports from India against the US dollar payment stood at Rs. 32.02 billion, accounting for 22.2 percent of the total imports from India. The share of such imports was only 15.3 percent in 2006/07.
15. In 2007/08, foreign exchange earnings from the tourism sector rose by 84.2 percent compared to a marginal growth of 0.6 percent a year ago. Statistics revealed that with the improvement in the law and order situation, more than 0.5 million tourists have visited Nepal in 2007. In 2007/08, three hundred and sixty-eight thousand

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tourists have arrived in Nepal by air. In the previous year, three hundred and thirty-two thousand tourists had visited Nepal. The number of tourist arrivals in Nepal by air declined because of a fall in the arrival of Indian tourists during mid-April to mid-July, 2008. The tourist arrivals from India also fell due to a substantial rise in airfare of Kathmandu–Delhi sector in comparison to other destinations and the failure of Nepal Airlines Corporation to make scheduled flights for passengers because of paucity of aircraft. Taking into account the instrumental role of the tourism sector in generating employment, increasing foreign exchange earning and maintaining external sector stability, it is necessary to develop tourism-related infrastructure.

16. In 2007/08, the inflow of remittances from Nepalese workers working abroad increased significantly by 42.5 percent to Rs. 142.68 billion. In the previous year, the inflow of remittances had increased by just 2.5 percent. Inflow of remittances increased significantly as a result of increase in the number of workers going abroad for employment arising from the labor agreements concluded by Nepal with Qatar, South Korea, United Arab Emirates and Bahrain. It is crucial for the government of Nepal (GON) to conclude labor agreements with Malaysia, Kuwait and Israel, the major destination countries of Nepalese labor, as soon as possible. In the existing situation where merchandize exports have slackened, it is important to maintain the inflow of remittances as a sustainable and major source of foreign exchange earning through the skill development of Nepalese workers going abroad for employment.
17. In 2007/08, foreign grants remained the next major source of surplus in the BOP. Total foreign grants of Rs.34.06 billion was received in 2007/08 compared to Rs. 27.85 billion in the previous year. Foreign grants inflow was significant in 2007/08 on account of substantial level of assistance released for rural reconstruction and rehabilitation, poverty alleviation fund (PAF), 'education for all' program, rural water supply and sanitation program and Middle Marsyangdi Hydro Project.
18. In 2007/08, the gross foreign exchange reserves stood at Rs. 212.62 billion owing to the significant surplus in the BOP. This level of reserves is adequate to finance merchandize imports of 11.3 months and merchandize and service imports of 9.1 months.
19. On the fiscal front, the revenue mobilization of GON increased by 22.6 percent to Rs.107.55 billion compared to a growth of 21.3 percent in the previous year. The revenue target of the GON for 2007/08 was Rs.104 billion. The significant increase in revenue collection was attributed mainly to the increase in overall imports especially of those items attracting high import duties, increase in base and rate of the excise duties, rise in domestic retail and wholesale trade emanating from the upsurge in remittances from abroad and owing to the improvement of the corporate culture along with the increase in the number of banks and financial institutions.
20. The total expenditure of the GON increased by 22.2 percent to Rs.163.3 billion in 2007/08. In the previous year, the total expenditure of the GON had gone up by 20.5 percent. Out of the total expenditure, the current expenditure rose by 18.5 percent to Rs. 91.41 billion while the capital expenditure increased by 39.7 percent



to Rs. 55.52 billion. Out of the total capital expenditure, Nepal Oil Corporation, Agriculture Development Bank and Nepal Electricity Authority were allotted Rs. 6.67 billion, Rs. 2.83 billion and Rs. 2.23 billion, respectively. Likewise, Rs. 1.87 billion was allotted to the PAF. The remaining capital expenditures comprised the amount released to local authority and the direct capital expenditure of the GON.

21. The budget deficit of the GON in 2007/08 stood at Rs. 33.03 billion. The budget deficit in the previous year was Rs. 30.09 billion. In 2007/08, the GON raised Rs. 20.50 billion through internal debt and Rs. 11.33 billion through external debt.
22. In 2007/08, Nepal's financial sector expanded both in terms of the number and volume of transactions. The number of commercial banks increased to 25 with the addition of 5 banks in 2007/08. The number of commercial banks' branches increased by 106 to 558. The number of development banks also increased by 20 and reached 58. Likewise, the number of finance companies increased by 7 and reached 78. The number of micro finance companies, financial cooperatives and financial non-governmental organizations (NGOs) licensed by the NRB reached 12, 16 and 46 respectively. The total number of financial institutions under the regulatory purview of the NRB reached 235. This number was 208 in the previous year. Similarly, the number of insurance companies increased by 4 to reach 25.
23. On the financial transaction front, the deposit mobilization by the commercial banks increased by 26 percent (Rs. 87.07 billion) to Rs. 421.52 billion. Besides the additional deposit mobilization, the paid up capital of the commercial banks increased by Rs. 11.73 billion. The paid up capital has increased significantly due to the operation of the 5 new banks and the issuance of the bonus and right shares by the existing commercial banks. This demonstrates that there has been enough resource mobilization from commercial banks for the loan investment.
24. Deposit mobilization by finance companies expanded by 27.43 percent (Rs. 9.21 billion) to Rs. 42.82 billion in 2007/08. Likewise, deposit mobilization by development banks increased by 58.7 percent (Rs. 9.22 billion) to Rs. 24.94 billion. Total fund collection of Employees Provident Fund stood at Rs. 62.48 billion while total fund collection of Citizen Investment Trust increased to Rs. 12.36 billion. Total premium amount collected by insurance companies is estimated to be about Rs. 29.33 billion.
25. On the financial market front, the NEPSE index grew by 40.9 percent to 963.39 points at mid-July 2008 compared to mid-July 2007. In the same period, market capitalization increased by 96.6 percent reaching Rs. 366.25 billion (44.6 percent of GDP). The NEPSE index had risen to 1,064 points and market capitalization had stood at Rs. 335 billion on December 17, 2007 owing to a significant expansion in secondary market transactions of shares in the first six months of 2007/08. In order to avoid large volatilities in share market, the NRB has already issued directive regarding margin lending that requires loan amount not to exceed fifty percent of the value of shares based on the average closing price of the last 180 working days. Following this provision, the share market has been more stable and expanding gradually.

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26. Regarding primary issue of financial instruments, in 2007/08 the Securities Board of Nepal (SEBON) granted permission to issue total shares worth Rs 10.71 billion comprising ordinary shares worth Rs. 1.01 billion, preference shares worth Rs. 7.60 billion and bonus shares worth Rs. 2.10 billion. Likewise, total debentures worth Rs. 2.59 billion has been issued in 2007/08 including Nepal Electricity Authority's debentures worth Rs. 1.50 billion. As a result, the increased supply of shares and debentures helped maintain stability in the secondary market of securities.
27. The expansion in number of banks and financial institutions and share market in 2007/08 has increased the coverage as well as density of Nepalese financial sector. Also, it has increased resource mobilization for investment in the economy and has provided support to the development of formal sector. On the other hand, expansion of financial sector helped to lower educational unemployment. In this process, revenue mobilization of the GON increased and helped strengthen the national economy.
28. The institutional development of industrial and trade sector could not move in pace with the financial sector. The stock market expanded due to the development of banks and financial institutions. The industrial and trade sector is unable to mobilize financial resources through the stock market. The presence of the NRB as a regulatory institution, investors' and public trust on the supervisory function of the NRB over the banks and financial institutions, corporate culture and transparency in transactions of financial institutions are the major causes for the expansion of this sector. The establishment of a regulatory body for regulation, promotion as well as development of 'corporate' culture and enhancement of transparency could rise the institutional development of industrial and trade sector. The institutional development of industrial and trade sector could increase the investors' confidence, enabling this sector to mobilize resources from the financial market, which, in turn, would help further in the expansion of financial sector.
29. In 2007/08, on the Government securities front, additional treasury bills worth Rs. 12.50 billion was issued. Including this, the outstanding treasury bills of GON till date stands at Rs. 85 billion. The outstanding amount of development bonds of GON, including development bonds worth Rs. 6.07 billion issued through auction in 2007/08, stands at Rs. 21.74 billion. Including citizens saving certificate worth Rs. 1.93 billion issued in 2007/08, the total national saving certificate and citizen saving certificate of GON aggregates to Rs. 4.13 billion. The securities issued by GON have helped in the expansion of money market and capital market.
30. The total interbank transactions in 2007/08 amounted to Rs. 258 billion. In 2006/07, such transactions had amounted to Rs. 170 billion. The rise in the number of banks, improvement in cash management and expansion of securities market were responsible for the increase in interbank transactions. The increase in interbank transactions is viewed as a positive signal for monetary management.

### **Monetary Policy and Financial Management in 2007/08**

31. Among other economic objectives, the monetary policy for 2007/08 reassured to provide necessary liquidity to achieve the targeted economic growth of 5.0 percent

as mentioned in the budget speech. Accordingly, liquidity availability remained comfortable in the previous year. As stated before, improvement in agricultural production, expansion in number of banks and financial institutions and credit to the private sector attributed to achieve the economic growth of 5.6 percent in 2007/08. Such economic growth was 2.6 percent in 2006/07.

32. Annual average consumer price inflation was projected at 5.5 percent in the monetary policy for 2007/08. This projection had not accommodated the likely adjustment of petroleum products. In 2007/08, the annual average inflation stood at 7.7 percent owing to the rise in the price of food and construction materials as well as the three-time upward price adjustment of the petroleum products. The annual average inflation was 6.4 percent in 2006/07. Recently, inflation has emerged as a global challenge. Monetary expansion is not a major cause for the recent inflation in Nepal.
33. The BOP posted a surplus of Rs. 29.67 billion, higher than the targeted surplus of Rs. 8 billion set by the monetary policy for 2007/08. A higher than targeted BOP surplus was due to the increase in inflow of private sector's remittances and the rise in foreign grants. Due to the sources mentioned above, the BOP surplus exceeded the target thereby obviating the need to adopt the monetary measures in this regard.
34. The objective of the monetary policy has been to stabilize the real exchange rate of the Nepalese rupee for maintaining the external sector stability. Based on the figures of mid-July 2007, the trade weighted real effective exchange rate remained almost stable as in mid-July, 2008. Though the inflation in Nepal remained high compared to the previous year, there was also a pressure in price level in the major trading partners and the exchange rate of the Nepalese rupee depreciated against the US dollar by 5.3 percent from Rs. 64.85 to Rs. 68.50 at mid-July 2008. As a result, the real effective exchange rate remained largely stable.
35. Among the monetary aggregates, broad money increased by 25.2 percent in 2007/08 against the projected increase of 15.6 percent. The monetary expansion was higher than projected owing to the higher than expected increase in the net foreign assets.
36. In 2007/08, the domestic credit expanded by 20.9 percent, higher than the projected growth of 17.1 percent. Such a higher than expected expansion of the domestic credit was due to the increase in the private sector credit by 24.3 percent against the projected increase of 18.5 percent.
37. In order to prevent the excessive expansion of money supply and credit, emphasis was given to conduct open market operations as the major instrument of monetary management in 2007/08. Total liquidity amounting to Rs. 14.85 billion was mopped up in 2007/08 through the outright sales auction. Likewise, a liquidity of Rs. 6.57 billion was mopped up through the reverse repo auction.
38. Some of the commercial banks faced liquidity problems during the months of mid-December 2007 to mid-February 2008 because of the issuance of the primary shares. The use of SLF increased substantially to Rs. 103.8 billion in 2007/08 compared to Rs. 47 billion in the previous year. To avoid the possible systemic

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crisis emanating from the liquidity problem, the NRB injected liquidity amounting to Rs. 9 billion to the commercial banks through repo auction in 2007/08.

39. The NRB employed two additional monetary measures in 2007/08 to keep the private sector credit within a desirable level. First, it increased the penal rate for using the SLF from 1.5 percent to 2.0 percent to discourage the commercial banks from using the excessive credit from the NRB. Second, the margin lending limit was fixed at 50 percent to control the excessive expansion of credit against the collateral of shares. As already mentioned above, the share market transaction has become more stable after the adoption of this second measure.
40. To address the issue of financial inclusion, all commercial banks have already been mandated to extend 3.0 percent of their total loans to the deprived sector. The NRB for the first time issued the regulation in 2007/08, which required the development banks to lend 1.0 percent of the total loan portfolio to the deprived sector. The NRB believes that this provision has addressed the issue of financial inclusion to some extent thereby leading to a credit expansion to the deprived sector.
41. The details on the implementation status of the policy measures related to financial and external sectors mentioned in the monetary policy of 2007/08 have been given in Appendix 1.

### **Monetary Policy and Financial Sector Programs for 2008/09**

42. The stance, priority of economic objectives and instruments of the monetary policy of 2008/09 have been chosen based on the analysis of the domestic economic outlook, international economic and financial developments and their likely impacts on the Nepalese economy. With a view to enhance transparency, the inclusions of annual financial as well as external sector reform programs have also been continued in the monetary policy of 2008/09. The monetary policy of 2008/09 has been designed in a way to ensure consistency with the budget speech of the GON announced on September 19, 2008.

#### **Monetary Policy Stance**

43. Soaring inflation has remained a major challenge for macroeconomic management. As mentioned above, inflation has been a major economic problem not only in Nepal but throughout the world. Containing inflation through the monetary policy measures has become a matter of public concern.
44. As stated before, escalation in the prices of food grains and fuel is the main reason for inflation in Nepal. In such a situation, controlling inflation through monetary policy measures has become a debatable issue. In addition, price movement in Nepal, to some extent, is transmitted from India due to the fixed exchange rate of Nepalese rupee with Indian rupee. Both tradable and non-tradable goods and services are included in the consumer price index. Since the price of tradable goods is influenced by international prices, some argue that the efficacy of monetary policy in Nepal is limited only to the non-tradable goods and services. Against this background, it is also necessary to examine the rationale for determining the monetary policy stance for controlling inflation.

45. In a situation where pressure on prices still exists and excessive monetary expansion could raise the prices of non-tradable goods and services, it is necessary to adopt a cautious monetary policy stance. This implies that there should not be the case of monetary easing in the face of rising prices.
46. It has been a debatable issue whether the monetary policy stance should be based only on consumer price inflation or should assets price be taken into account, including the prices of share, real estate and value of money. In a small open economy with fixed exchange rate regime like that of Nepal, domestic prices tend to be influenced by international prices. However, excessive growth in money supply has the potential to influence the prices of shares, real estate and money as an asset at least in the short run.
47. Volatility in equity prices on account of excessive monetary expansion adversely affects the banking sector in particular and the economy in general. Excessive exposure of banks and financial institutions to the share market leads to a bubble. When the bubble busts, the non-performing loan (NPL) rises, leading to a banking crisis. Under such circumstances, the NRB's objective of maintaining the banking sector's soundness and stability is thwarted. Moreover, volatility in equity price does not help for sustainable development of the stock market. In this situation, there will not be the environment for investors to mobilize resources through the stock market. For this reason, the NRB slashed the ceiling for margin lending from August 2007. Therefore, the financial market situation has also been taken into account while choosing the stance of monetary policy for 2008/09.
48. In recent years, there has been a rapid expansion of urbanization. The increased exposure of banks and financial institutions and elevated level of remittances have contributed to a surge in real estate prices. As the banks and financial institutions provide loans against the market value of land and building as collateral, a bubble in the real estate market directly affects the banking sector. Monetary policy stance for 2008/09 has taken note of this development in the real estate market driven by substantial flow of banking credit to this sector.
49. Public hold their cash assets in banks and financial institutions under different deposit schemes. Market interest rate reflects the domestic value of money. As stated above, the prices of goods and services, shares and real estate have been rising. However, interest rates on bank deposits have not increased in tandem to the inflation. As a result, real interest rate has remained negative for a long time. Interest rates could not increase on account of excess liquidity position. People holding their assets in the form of goods, shares and real estate have gained whereas people holding their assets in banks and financial institutions have borne loss in real term. This encouraged people to invest on goods, share and real estate which in turn raised the prices of these assets. This also adversely affected the efficient allocation and mobilization of financial resources. Though the significant rise in remittances and investors investing on goods, shares and real estate facilitated banks and financial institutions to have ample deposits for their transactions, financial resources have not been mobilized efficiently. In order to

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correct this situation, there is a need to adopt a tight monetary policy stance for 2008/09.

50. The size of the budget for 2008/09 has been enlarged in comparison to the previous years. The ratio of net domestic borrowing (excluding overdraft/ cash balance with the NRB) of the GON with GDP is projected at 1.98 percent in 2008/09 compared to 1.45 percent in 2007/08. In such a situation, monetary policy has to focus on maintaining macroeconomic stability. In addition, imports of petroleum products (in value) increased substantially owing to a high price in the international market. Low interest rate also contributed to increase the imports for consumption. Therefore, inflow of remittances alone may not be adequate to maintain external sector stability if the present situation of rising imports and slackness in exports persists. Hence, the monetary policy stance of 2008/09 needs to be tight in order to address the financial imbalances likely to occur on account of above-mentioned factors and for maintaining overall economic stability.

### **Economic and Monetary Targets**

51. The primary objective of monetary policy for 2008/09 is to anchor the inflationary expectations. The first-round effect of petroleum price adjustment of June 9, 2008 seems to last until the first ten months of the fiscal year 2008/09. The second-round effect of the hike in prices of petroleum products has already been reflected into the increase in the fare of the public transportation. Due to both of these reasons, inflation, would cross a single-digit level in the first four-five months of 2008/09, however, it is expected that the inflation would remain single digit level with the improvement in food prices after the harvest of summer crops. Assuming that no further adjustment in petroleum prices will take place, the annual average consumer inflation is projected to moderate at 7.5 percent in 2008/09.
52. The second primary objective of monetary policy for 2008/09 has been to maintain adequate level of foreign exchange reserves. The import capacity of goods and services for a particular period will be taken as an indicator of the adequacy of foreign exchange reserves position. Based on the existing and likely sources of foreign exchange earnings, the foreign exchange reserve in 2008/09 has been targeted to cover the imports of goods and services for at least 6 months. Looking at the current trend of imports and sources of foreign exchange earnings, the BOP surplus of Rs. 12 billion is estimated to meet the target of foreign exchange reserves in 2008/09.
53. In 2008/09, the growth rate of agriculture output is estimated to remain satisfactory. Though there is no immediate possibility to improve the export related industries, however, industrial production based on internal demand is expected to expand. Likewise, the performance of services sector is also estimated to remain satisfactory. Against this backdrop and in the context of economic growth maintained at 5.6 percent in 2007/08, there is a possibility of achieving the economic growth of 7.0 percent as stated in the budget speech for 2008/09. The NRB will be effortful to manage the required liquidity for the achievement of economic growth rate targeted at 7.0 percent.

54. On the monetary front, broad money is projected to grow by 18.5 percent in 2008/09. The M2 expanded by 25.2 percent in 2007/08. The projection of broad money growth has been kept lower than that of the previous year on account of the expected economic growth rate of 7.0 percent and the inflation to be maintained at a single-digit rate of 7.5 percent in 2008/09. Liquidity overhang of the previous year is also expected to meet the requirement for high economic growth of this year. Of the sources of broad money, the domestic credit is estimated to expand. However, monetary expansion is projected to remain within the desired level on account of offsetting the effect of domestic credit expansion on net foreign assets.
55. In 2008/09, domestic credit is projected to expand by 23.3 percent. As mentioned in the budget speech for 2008/09, the GON will mobilize Rs. 25 billion from domestic borrowings in 2008/09. The GON had mobilized Rs. 20.50 billion from domestic borrowing in 2007/08. Of the domestic credit, the growth rate of credit to private sector is projected to expand by 25 percent compared to a growth of 24.3 percent in the previous year.

#### **Monetary Policy Operation and Instruments**

56. The range of the counterparties for the conduct of monetary policy has been broadened to include development banks and finance companies from 2008/09. Earlier, the counter party is limited to commercial banks only. The two special facilities provided to banks and financial institutions as the counterparties of the monetary policy operations will be continued. First, the NRB will conduct its secondary market operations with commercial banks, development banks and finance companies as the counterparties. Second, the short-term standing liquidity facility (SLF) against the collateral of GON treasury bills and development bonds will be provided only to commercial banks, development banks and finance companies. These facilities are entitled only to commercial banks, development banks and finance companies with a view to achieve their cooperation and accountability in the conduct of monetary policy as the counterparties. Previously, these facilities (secondary open market operations and SLF) were provided exclusively to the commercial banks. In order to get these facilities, the counterparties should regularly submit their financial statements in formats stipulated in the NRB directives on a regular basis. This new provision is expected to enhance the effectiveness of the implementation of monetary policy in the days ahead.
57. Excess reserve of the commercial banks has been continued as an operating target of monetary policy in 2008/09. The use of liquidity monitoring and forecasting framework (LMFF) will be continued to forecast the excess liquidity position of the commercial banks. In addition, the existing provision of monitoring liquidity positions of the commercial banks based on their deposits, loans and cash balance will be continued in this year, too.
58. The Open Market Operations (OMOs) will be taken as a major instrument of monetary policy. The monetary management will be conducted through outright purchase auction, repo auction, outright sale auction and reverse repo auction as the main instruments of monetary policy as and when necessary.

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59. Of the instruments of OMOs, the existing auction system of outright sale and purchase on multiple pricing auction system and repo and reverse repo auction on multiple-interest rate will be continued. The OMOs will be conducted on the treasury bills of the GON at any working day as and when required. The maximum maturity period for repo and reverse repo auctions has been kept unchanged at 28 days.
60. The OMOs will not be conducted as a lender of the last resort facility and for the cash management of commercial banks. Thus, the OMOs will be conducted at the initiatives of the NRB, not the commercial banks. The NRB will primarily consider the status of monetary policy objectives and the liquidity position as indicated by the LMFF as a guide while taking initiatives for conducting the OMOs.
61. In order to correct the situation of the macroeconomic imbalances likely to emerge from inflation, high pressure on the different asset prices and expansion in budget deficit, the CRR on domestic deposits has been increased from 5 percent to 5.5 percent as a signal of monetary tightening. This policy change will help manage an additional liquidity of Rs. 1.92 billion.
62. As mentioned in the NRB Act, 2002, the bank can provide discount facility and loans & refinance facilities for the maximum period of six months to the commercial banks and finance companies having their accounts with the NRB against the collateral of the securities mentioned in the Act. The lender of the last resort facility can be provided for a maximum period of one year to commercial banks and financial institution in critical situation upon the request of the GON. According to the Act, the terms and conditions for such facility will be determined by the NRB. The lender of the last resort facility for the maximum period of six months will be provided to the banks and financial institutions maintaining their accounts with the NRB in case the liquidity adjustment through interbank market, OMOs and SLF remains inadequate. This facility will be provided against the collateral of cash balances held at the NRB for the purpose of CRR, treasury bills of the GON and good loans. The beneficiary of this facility should strictly follow the terms and conditions set by the NRB for maintaining the required liquidity position within six months. With a view to circumvent the misuse of this facility and as a signal of tightening monetary policy stance, the existing bank rate of 6.25 has been increased marginally to 6.5 percent.
63. In the context of the weakening Nepalese export sector and with a view to enhance the competitiveness of this sector, the refinance rate on exports in Nepalese currency has been reduced to 2 percent from the existing rate of 2.5 percent. The commercial banks using such facility are not allowed to charge more than 5 percent interest rate while extending such loans to respective borrowers. The refinance rate for the exports in foreign currency will be fixed by adding 0.25 percentage point on the existing LIBOR rate.
64. The refinance facility for sick industries initiated in 2001/02 has been continued in 2008/09 as well. As earlier, refinance facility of Rs. 2 billion to sick industries, as per the existing conditions, has been continued for 2008/09 as well. The refinance rate under this facility has been fixed at 1.5 percent. The commercial banks and



financial institutions are not allowed to charge interest rate of more than 4.5 percent from the borrowers on such facility.

65. The SLF, initiated in 2004/05 to commercial banks against the collateral of GON treasury bills and development bonds, has been continued in 2008/09 as well. This facility initiated with a view to addressing the risks likely to emerge on internal payments system rather than for achieving monetary policy objectives will be provided at the initiatives of the commercial banks. The maturity period for the SLF has been kept unchanged for a maximum period of five days. As mentioned above, the commercial banks have utilized the SLF amounting to Rs. 103.83 billion in 2007/08 which was Rs. 47 billion in 2006/07. Commercial banks have been using the SLF substantially on account of the lack of effective development of secondary market in treasury bills and development bonds.
66. Instead of utilizing the SLF as an final safeguarding tools, it has rather been used as the first shield of security (liquidity facility). The existing penal rate for SLF has been increased from 2 to 3 percent in order to prevent the likely adverse effects of excessive utilization of such facility on the economy. The existing provision for calculating interest rate of SLF by adding penal rate on average interest rate of 91-day treasury bills or the latest repo auction rate of the past one month, whichever is higher, has been kept unchanged.
67. Considering the inadequacy of GON treasury bills and development bonds with the newly established commercial banks, the cap on SLF has been raised from 75 percent to 90 percent.

#### **Credit and Microfinance Management**

68. The NRB views that the corporate credit management in Nepal has three aspects. The first one is related to the management of traditional industrial, trade and consumption credit sectors. While the second aspect relates to managing the credit of long-term nature directed towards infrastructure sector, the third aspect is to address the issue of financial inclusiveness and microfinance management.
69. Traditionally increasing number of commercial banks, development banks and finance companies have been extending the credit to the industrial, trades and consumption sectors. Commercial banks, development banks and finance companies have been providing credit to these sectors through the mobilization of deposits and borrowings. The NRB will continue the existing practice of using monetary measures and single obligor limit to manage the credit flow to these sectors.
70. The management of the credit required for the development of infrastructure has remained a challenging task. The mobilization of short-term financial resources by commercial banks and the small capital-base of development banks have posed challenges for mobilizing the long-term credit required for the development of infrastructure. In order to address this challenge to some extent, the single obligor limit of 25 percent was revised upward to 50 percent in 2007/08 in an attempt to ease commercial banks and financial institutions' investment in hydro projects, which will be continued in 2008/09 as well. The credit flow of commercial banks

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and financial institutions to the micro hydro projects will be counted as loans under the deprived sector. The bank is of the view that this provision will encourage banks and financial institutions to increase investment in hydro projects.

71. The GON has allocated Rs 250 million in the budget of 2008/09 for establishing an "Infrastructure Development Bank" with a view to collect resources within the country to develop infrastructure industries. According to the budget statement, the Bank will be established in 2008/09 in joint participation of the private sector and the GON. In order to encourage the private sector to participate in the establishment of this bank, the NRB will arrange separate regulatory measures related to capital, investment and loan loss provision for establishing the bank of such nature.
72. The NRB will encourage the existing banks and financial institutions for merger and acquisition to increase expanding the capital base in order to finance the infrastructure sector which requires a huge amount of financial resources. The bank feels elated with the willingness shown by some banks and financial institutions for merger and acquisition. Before this, HICEF Finance Company merged with Laxmi Bank Limited on July 26, 2004 followed by the merger of Nepal Bangladesh Leasing and Finance Ltd with Nepal Bangladesh Bank Ltd on Sep 18, 2007. Considering financial strengthening as a major focus of the financial sector reform, the NRB is hopeful that the process of merger and acquisition among the line entities of commercial banks, development banks and finance companies and among each other will take a swift tempo in the days to come.
73. Of the various policy measures adopted for enhancing financial inclusiveness and expanding micro credit, the NRB will continue the existing provisions of refinance facilities to Rural Development Banks (RDBs). The refinance rate for such facility has been kept unchanged at 3.5 percent for 2008/09 as well.
74. The refinance facility to commercial banks and development banks against the securities of credit provided to small and cottage industries have been continued at existing refinance rate of 2.5 percent. Considering the high inflationary situation, the refinance rate has been kept unchanged in order to facilitate the small and cottage industries. Commercial banks and development banks are not allowed to charge interest rate of more than 5.5 percent to the concerned borrower under such facility.
75. With a view to address the issue of financial inclusiveness and expand the micro credit, the deprived sector credit requirement for development banks has been increased to 1.5 percent from 1 percent of their total credit. From now onwards, finance companies are also required to provide 1 percent of their total credit to the deprived sector. The deprived sector credit requirement of 3 percent for commercial banks has been continued.
76. Recently, commercial banks have come up with a proposal of establishing a "subsidiary company" under their ownership for arranging credit flow to the deprived sectors. The NRB has viewed positively on this proposal. Therefore, commercial banks intended to establish such company will be given permission if they fulfill the required arrangements. Considering the existing maximum limit of

25 percent equity investment of total paid-up capital that a household, firm, company or corporate can own in financial institutions of "D" category involved in micro credit transactions, the NRB will relax this limit for establishing a subsidiary company from commercial banks at their request.

77. Nepal government has endorsed "National Microfinance Policy, 2008". For the implementation of this policy, a draft of "Microfinance Act" will be prepared and submitted to the government within this year.
78. "National Microfinance Policy, 2008" has envisaged to form a separate "Second Tier Institution" for inspection and supervision of microfinance development banks, financial co-operatives and non-government organizations undertaking limited banking transactions. The NRB will be effortful to provide necessary assistance to establish such institution. The proposed "Second Tier Institution" will be regulated and supervised by the NRB.
79. The budget statement for 2008/09 has proposed to establish a national level "Microfinance Fund" through the integration of existing wholesale microfinance institutions. Likewise, the budget statement has mentioned that the government will provide Rs 100 million in Rural Self-Reliance Fund (RSRF). The NRB will provide necessary support to establish such a proposed fund.
80. The increasing international demand for organic coffee has encouraged the farmers to engage in its production in some districts. In order to promote organic coffee production, the wholesale credit will be made available through the RSRF to the financial institutions working in rural areas for promoting and expanding its production.
81. As before, the refinance facility of Rs 500 million to commercial banks and development banks against the collateral of loan provided by them to *dalit*, women, indigenous, downtrodden, *Madhesi*, minorities and people of backward region for foreign employment has been continued in 2008/09 as well. The refinance rate for such facility will be at 1.5 percent. The commercial banks and development banks are not allowed to charge the interest rate of more than 4.5 percent for such loan to the concerned borrower. The eligible people for such loan will be as per the definition given by the GON.
82. Loans provided under "Youth Self-Employment Program" of the GON by commercial banks or provided by other financial institutions licensed by the NRB through borrowing from the commercial banks have been counted under deprived sector credit of the respective commercial banks. Such existing provision will be continued in 2008/09 too.
83. The requirement of maintaining additional 20 percent loan loss provision has been released for the loans provided directly or indirectly to the deprived sector on group/personal/ institutional guarantee. Such provision has been continued this year also for promoting deprived sector loans.
84. Of the changed monetary measures; bank rate, refinance rates and SLF penal rate will be effective immediately, while the CRR and other monetary measures will be

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implemented from November 17, 2008. The system of calculating CRR on the basis of two weeks lagged deposits will be continued.

### **Financial Sector Reform, Regulation and Supervision**

85. The NRB has been continuing the financial sector reform program for the purpose of improving, stabilizing and strengthening the financial sector and relevant changes have been timely incorporated in the regulatory and supervisory process of the banks and financial institutions. In this process, the reform program initiated under the financial assistance of the World Bank since 2002/03 will be continued in 2008/09 as well.
86. Among the three components of the financial sector reform program, the restructuring programs of Nepal Bank Ltd. (NBL) and Rastriya Banijya Bank (RBB) have remained important. After the arrangement of foreign management, improvement has been witnessed in the operational procedures in these banks and both of them are able to earn operating profit. However, due to a less-than-expected recovery of bad loans of these banks, total negative net worth of these two banks has remained at Rs 23.0 billion. Since the GON holds partial ownership in NBL and full ownership in RBB, there is no immediate possibility to bring these banks at a stipulated level of capital adequacy ratio through the injection of capital. Therefore, the provision of foreign management for these banks will be continued in 2008/09 as well.
87. The second component of financial sector reform program or the reengineering of the NRB comprising improvement of human resource management, strengthening of the regulatory and supervisory functions, improvement in public relations and programs in information technology will be given continuity in 2008/09, too.
88. The third component of the financial sector reform program relates to the capacity building of the overall financial sector. The functions such as strengthening the debt recovery tribunal (DRT) and credit information bureau (CIB), establishment of national level bankers' training center and development of financial journalism will be continued in 2008/09 as well. The bank believes that the non-performing loans of the NBL, RBB and other financial institutions will further decline in the current year due to the more stringent actions taken against the willful defaulters compared to the previous year together with action against the borrowers with principal borrowing amount of even less than Rs. 50 million and establishment of additional benches in the DRT as asserted by the government in the budget.
89. If loan is provided based on the credit rating of the borrowers, banks and financial institution would be benefited in credit management including determination of credit conditions there by reducing the NPL ratio. This will bring the competition among the lenders and borrowers to obtain the certificate of higher credit rating, which will help institutional development of the private sector and enhance transparency in their transactions. Therefore, the NRB will encourage the private sector to establish the credit rating agency. As banks are themselves rated, this provision will help monitor the market strength of the banks and help the depositors to choose the sound and healthy banks.

90. Under the “Asset (Money) Laundering Prevention Act, 2008”, Financial Intelligence Unit (FIU) has been formed in the NRB for the purpose of collection, analysis and investigation of the financial information. The GON is in the process of establishing the "Asset (Money) Laundering Prevention Investigation Department" for investigation and settlement of the crimes under the Act. In this context, the FIUs will be provided all necessary physical infrastructures for capacity building of the staff for its effectiveness. To implement the "Asset (Money) Laundering Prevention Act, 2008", "Asset (Money) Laundering Prevention Rules" will be drafted and submitted to the GON.
91. As an international consensus and effort to combat money laundering and terrorist financing, "Egmont Group" has been formed consisting of the financial intelligence units of various countries in which one hundred and six countries have already joined. In this context, a process will be initiated for Nepal's FIU to join the group. Consequently, steps will be initiated to proceed and receive assistance and information through developing the memorandum of agreement between the countries. Considering the "Mutual Cooperation Laws" that are formulated and implemented by various countries in the world, the NRB will draft the "Mutual Cooperation Laws" and submit to the GON.
92. It has been noticed that the financial institutions are resorting more to borrowing rather than to deposit mobilization for financial resource mobilization. With a view to mitigate risks arising from such practice, more emphasis laid on deposit collection as a source for financial resource mobilization and generate the improvement in liquidity management, the provision will be made whereby the financial resource mobilization from borrowings will be no more than one-third of the deposits. However, financial institutions of "D" category are exempted to abide by such provision.
93. The owners of promoter share, while purchasing share under promoter/promoter group of banks and financial institutions for increasing the capital of these institutions for whatever purpose, are required to submit the source of income for the amount to be invested in the prescribed format. Concerned banks and financial institutions are required to update records and submit the copies to the NRB as well.
94. The GON has decided a policy on the use of and payments through debit/credit cards for the revenue collection from the taxpayers based on some agreed principles. This provision will be brought into implementation in the current year after consultations with commercial banks.
95. The right shares issued by banks and financial institutions for raising the capital to the level stipulated by the NRB are sometimes unsubscribed or even the right is not transferred to others by the shareholder. Under such circumstances, the board of directors can have arbitrary power to sell such unsubscribe shares. There is a possibility that this provision sometimes brings anomalies. Considering this, a provision has been made that the right shares issued by banks and financial institutions with already at a level of capital adequacy ratio stipulated by the NRB be automatically forfeited in case they are not subscribed. The value of such shares

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can be adjusted in the proportion increment of paid-up capital that should be maintained by banks and financial institution as per the NRB directives.

96. The NRB has been adopting 25-point supervisory guidelines of the BASEL as the basis of regulation, inspection and supervision of banks and financial institutions. As per the recommendation of Accord Implementation Group formed to implement BASEL II in Nepal, the directives related to capital adequacy as per the BASEL II has been implemented for the financial institutions of category "A" from 2008/09. It is believed that such capital adequacy will be based on the real risk of the banks. The NRB is of the view that this new provision will induce banks to be more careful in managing their risk. In the process of implementing the BASEL II in Nepal, the choice has been made to adopt the options suitable for the financial market in Nepal and, at the same time, it has been implemented using the three basic pillars indicated by the BASEL Committee. Advanced options of BASEL II will be gradually implemented as per the development of our financial system. For development banks, finance companies and micro finance development banks, the existing provision for maintaining capital adequacy ratio has been kept unchanged until the implementation of BASEL II.
97. The bank has already prepared the Implementation plan of BASEL core principle including the self-evaluation along with the plan to correct the weaknesses indicated by the self-evaluation within stipulated time frame. In the process of implementation of this plan as per its time-table, emphasis will be given to home-host relations, cross border banking and corporate governance from this year onwards.
98. In the current situation of significant expansion in the number of banks and financial institutions, maintaining financial stability has been a great challenge. The bank has taken effective regulation, inspection and supervision as the main measures for maintaining financial stability. In order to address the supervisory challenges brought about by the increasing number of banks and financial institutions, the bank has been preparing for the implementation of new supervisory instruments, given the fact that the traditional supervisory mechanism may not be effective with the existing manpower. For the banks and financial institutions unable to maintain the minimum capital adequacy ratio as per BASEL II, prompt corrective action (PCA) will be strictly implemented from 2008/09. In order to minimize the weaknesses observed in banks and financial institutions in time and following the international practice of taking prompt actions by classifying them in compatible with the level of weaknesses, the bank has prepared a prompt corrective action bylaw and decided to implement it from October 17, 2008. Adopting the principle of 'wait and see' while improving the weakness observed in banks and financial institutions, the depositors may have to bear great loss due to unrecoverable financial health of banks and financial institutions. The bank is of the view that the provision of PCA will help avoid such situation.
99. As the second instrument of banking supervision, the process of evaluating banks as per the indicators given by CAMELS rating conducted on the basis of compulsory annual on-site supervision at the corporate level has been continued.

100. As the third instrument of banking supervision, those banks and financial institutions having found poor financial health based on certain financial indicators will be kept under close surveillance and a provision of special onsite supervision will be made for them as per the requirement.
101. As a fourth instrument of banking supervision, the implementation of Early Warning Signal (EWS) based on the CAMELS rating prepared from the analysis of off-site supervision of the banks and financial institutions will be continued.
102. As a fifth instrument of the supervisory functions, the auditing of the big branches of large banks by external auditors will begin from 2008/09. The necessary standards relating to this provision will be fixed by the NRB.
103. Following the audit by external auditors, the Long Form Audit Report submitted to the NRB as per its format will be timely revised and will be taken as the sixth instrument of banking supervision.
104. From 2008/09, the risk based supervision method will be implemented in a planned way for each banks and financial institutions. Likewise, to mitigate the likely risks in time, provision will be made that requires banks and financial institutions to formulate and from implement a "Risk Management Manual".
105. As mentioned in the budget statement of 2008/09, provision will be made to supervise the financial position of the contractual savings organizations such as Employees Provident Fund (EPF) and Citizen Investment Trust (CIT) by the NRB until a separate regulatory institution comes into existence for their supervision. The NRB will issue prudential norms of international standard for the regulation of these institutions. The inspection and supervision of these financial institutions on the basis of these norms will commence from mid-November, 2008.
106. With a view to make payments system simple and more effective, a provision has been made whereby finance companies are also allowed to collect deposits, make payments and disburse credit through automated teller machine and dispensing machine. Along with this, development banks and finance companies will also be allowed to bring the use of debit cards and deal in domestic money transfer transactions.
107. Private sector banks will also be provided note chest facility in order to make easy supply of currency throughout the country and reduce the fund transfer cost of the NRB and commercial banks.
108. Necessary action has already been put forward in order to establish a separate institution with the majority share to be owned by the NRB and banks and financial institutions for carrying out the task of an automated clearing house. The institution will be operationalized within 2008/09 after meeting necessary administrative and legal requirements.
109. Since 2007/08, with the initiation of script-less system for the treasury bills, only computer receipts have been issued against their transactions. This system has reduced cost, time and labor thereby eliminating the cumbersome documentary process. Considering this fact, computer receipts will also be issued against

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development bonds for the banks and financial institutions eligible for opening account at the NRB. The receipts will be acceptable for inter bank transactions, purchase and sale of securities, accepting and pledging as collateral and use as a medium of payment.

### **Foreign Exchange Management**

110. The existing provision is that the NRB's prior approval for repatriation is required while making payments of the air tickets sold in foreign currency to the concerned airlines by the international airlines, their GSA/PSA, and travel and tour agencies operating in Nepal. From now onwards, arrangements will be made to provide such repatriation facility from banks of category "A" on the basis of the necessary documents. It is believed that such arrangement will make the repatriation process and related works prompt and easy.
111. As per the agreement made to receive payments in foreign currency under global tender, supply order of foreign agency or international organization and bilateral or multilateral cooperation, the provisions will be made to provide FOB exchange facility from this bank to import necessary construction materials, machines and instruments from India. It is expected that the concerned people will benefit from this arrangement.
112. The limit for making advance payments while importing goods from third countries other than India through Draft/TT will be increased to US\$ 50,000 from the existing limit of US\$ 30,000. It is expected that the importers will be benefited from this provision.
113. There has been a significant increase in remittance inflows in recent years partly due to the efforts made by the remittance companies licensed by the NRB. In the context of frequent requests made by such companies to participate in the foreign exchange intervention market conducted by the NRB, provisions will be made to allow licensed remittance companies including the national level financial institutions of category "B" to participate in foreign exchange intervention market.
114. The existing provision of the time frame for the remittance companies to keep the convertible currencies received from remittance in their own account up to seven days has been extended to fifteen days. It is expected that such provision will encourage such companies to attract remittances.
115. The existing provision of foreign exchange facility up to US\$ 2,500 to individual, organizations/institutions and banks & financial institutions directly receivable from the banks of category "A" and national level financial institutions of category "B" for various purposes on the basis of necessary documents has been increased up to US\$ 4,000. It is expected that such provision will provide more convenience to the service holders.
116. The existing provision of granting the NRB's approval for releasing the amount of 10 percent guarantee while making advance payments in foreign currency through the L/C and other modes has been amended. From now onwards, provisions will be made to release such amount from the banks of category "A" and the national level



financial institutions of category "B" on the basis of the documents showing the completion of the transactions. It is believed that this provision will save the time of releasing the amount and benefit the concerned banks and financial institutions as well as the entrepreneurs.

117. Currently, the number of goods permitted to import from India by paying the US dollar is 124. The existing policy of increasing the number of such goods has been continued.
118. The existing provision is such that this bank has been providing foreign exchange facility to the hydroelectricity companies/projects selling electricity in foreign currency as per the power purchase agreement (PPA) with Nepal Electricity Authority. Necessary arrangement will be made whereby such foreign exchange facility will be provided by the banks of category "A" on the basis of PPA and on the recommendations of Nepal Electricity Authority. It is believed that such provision will ease the exchange facility to hydroelectricity companies/projects.
119. A provision has been made to provide foreign exchange facilities to the foreign embassies located in Nepal for the repatriation of their visa fees to their respective countries by the banks of category "A" and national level financial institutions of category "B". Prior to this, the NRB had been providing such facility to the foreign embassies located in Nepal.

### **Conclusion**

120. The bank believes that implementation of the policies and programs envisaged in this monetary policy will contribute to the prudent macroeconomic management, the consolidation of financial as well as external sectors, and secured internal payments system, thereby creating a conducive economic environment necessary for a high level of economic growth.
121. I believe that the Government of Nepal, financial community, civil society and donor agencies will continue to assist us, as always, for the implementation of the monetary policy of 2008/09.
122. I, on behalf of the NRB, would like thank all stakeholders for their cooperation in implementing the monetary policy of 2007/08.

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### Appendix I Annual Progress Matrix of Measures as Outlined in Monetary Policy of 2007/08

S.N.	Point	Objectives/Programmes	Work Description	Responsible Dept.	Implementation Status
1	64	Inflation is projected at 5.5 percent.	Monitoring and analysing the policy measures	Research Department	CPI inflation remained at 7.7 percent on account of rising petroleum and food prices.
2	65	The BOP surplus is targeted at Rs 8.0 billion.	Monitoring and analysing the policy measures	Research Department	BOP registered a surplus of Rs. 29.67 billion.
3	66	Manage liquidity to facilitate a targeted economic growth of 5.0 percent.	Monitoring and analysing the policy measures	Research Department	Economic growth rate estimated at 5.6 percent.
4	68	Broad money is projected at 15.6 percent.	Monitoring and analysing the policy measures	Research Department	M2 grew by 25.2 percent.
5	69	The total domestic credit of the banking sector is projected to increase by 17.1 percent.	Monitoring and analysing the policy measures	Research Department	Domestic credit grew by 20.9 percent on account of significant growth of credit to private sector.
6	70	The excess reserves of commercial banks will continue to remain as the operating target of monetary policy.	Open market operations as a monetary measure to be conducted based on the liquidity position indicated by the Liquidity Monitoring and Forecasting Framework (LMFF).	Research Department/Public Debt Management Department	The open market operations are being conducted based on the liquidity position as indicated by the LMFF.
7	73	The prevailing bank rate of 6.25 percent to be continued.	Monitoring and analyzing the policy measures.	Bank and Financial Institutions Regulation Department	Bank rate remained unchanged.
8	74	Refinancing rate for exports in local currency has been reduced to 2.5 percent from the prevailing rate of 3.5 percent. Refinancing rate for rural development banks is kept unchanged at 3.5 percent.	Issuing circular as per the policy measures.	Bank and Financial Institutions Regulation Department/ Banking Office	Implemented accordingly, as per the circular issued on July 29, 2007.

9	75	Refinancing rate for sick industries has been kept unchanged at 1.5 percent.	Policy measures to be implemented and the subsequent developments to be submitted.	Bank and Financial Institutions Regulation Department/Banking Office	No change in refinance rate for sick industries.
10	76	The refinance facility of Rs. 2.0 billion for the sick industries has been continued in 2007/08 as well.	Policy measures to be implemented and subsequent developments to be submitted.	Bank and Financial Institutions Regulation Department / Banking Office, Kathmandu	A refinance loan of Rs. 67.6 million was provided.
11	77	Refinancing facility to commercial banks and development banks against the collateral of the credit extended to small and cottage industries will be made available at 2.5 percent.	Policy measures to be implemented and the subsequent developments to be submitted	Banks and Financial Institutions Regulation Department/Microfinance department	Circular issued on July 29, 2007. Collection of subsequent development reports has been initiated.
12	78	Refinance facility targeted to ethnic, indigenous, oppressed, <i>Madheshi</i> , minority and backward people (as defined by the government) and enhancement of foreign employment opportunities will be treated same as the refinance to sick industry and the amount up to Rs. 500.0 million will be provided for such purpose in 2007/08 as well.	Policy measures to be implemented and the subsequent developments to be submitted.	Bank and Financial Institutions Regulation Department/Microfinance Department	Under implementation.
13	79	Maintain Cash Reserve Ratio (CRR) at 5.0 percent.	Monitoring and analyzing the policy measures	Research Department/Bank Supervision Department/Financial Institutions Supervision Department	Kept unchanged.
14	81	Continue outright sale and purchase auction as usual on multiple pricing auction system and, repo and reverse repo auction on multiple-interest auction system.	Monetary instruments to be used based on the outcome from LMFF.	Public Debt Management Department	The secondary market operations of the Treasury Bills are being conducted on the basis of existing liquidity situation in the market.

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15	82	The SLF facility against the collateral of GON treasury bills and development bonds will be provided to the commercial banks as usual. The penal rate for SLF will be increased to 2.0 percent from the prevailing rate of 1.5 percent.	To be implemented accordingly.	Public Debt Management Department	After the mid-term review of monetary policy, commercial banks avail credit up to 75.0 percent of treasury bills and development bond under SLF facility. Interest rate on SLF is determined by adding 2.0 percent penal rate on the latest weighted average 91-day treasury bills rate or the last repo rate auctioned within a month, whichever is higher.
16	83	Since 2007/08, all commercial banks have been instructed to extend 3.0 percent of their total credit to the deprived sector. This provision will gradually be applied to development banks and finance companies as well. Accordingly, the development banks will be directed to extend credit to deprived sector in the first phase.	To be implemented and monitored accordingly.	Banks and Financial Institutions Regulation Department/Microfinance Department	As per the circular issued on July 26, 2007, directives have been issued for the development banks to extend 1.0 percent of their total credit to the deprived sector.
17	84	Single obligor limit for microfinance institutions will be increased to Rs. 60,000 for person and Rs. 150,000 for micro enterprises. Refinance facility will also be provided by the NRB to such credit.	Necessary arrangements to be made for the policy measures.	Banks and Financial Institutions Regulation Department/ Bank Supervision Department/ Microfinance Department	Circular issued on July 26, 2007.
18	85	Continue the provision of treating the commercial banks' credit to the workers going abroad for employment under the GON's 'Youth Self-employment and Employment Training Program' and any flow of credit from the commercial banks to foreign employment through the NRB-licensed financial institutions as the deprived sector lending of the respective commercial banks.	To be monitored accordingly	Bank Supervision Department/ Bank and Financial Institutions Regulation Department	Circular issued on July 26, 2007.

19	86	The existing rule of maintaining additional 20.0 percent loan loss provisioning on deprived sector loans will be eliminated.	Necessary actions to be proceeded.	Bank Supervision Department/ Bank and Financial Institutions Regulation Department	Policy arrangement has been made as per the circular issued on July 26, 2007.
20	87	A revision on the draft of "National Micro Finance Policy, 2007" will be made based on the comprehensive survey on the position and efficiency of financial institutions, cooperatives and NGOs engaged in microfinance activities in 2007/08 and the draft policy will be submitted to the government for its approval.	Necessary actions to be proceeded in this regard.	Microfinance Department/Legal Division	"National Microfinance Policy, 2007" has been issued on May 4, 2008.
21	88	The draft of 'Rural Self Reliance Fund Act, 2007' prepared for transforming the NRB promoted Rural Self Reliance Fund into a financial institution to provide wholesale lending will be revised and submitted to the government.	Necessary actions to be proceeded in this regard.	Microfinance Department/Legal Division	In this regard, preparations are being made to form a task force to formulate necessary acts and laws on the basis of National Micro Finance Policy, 2008.
22	89	With the addition of Rs.2.5 million on the existing paid-up capital as of mid-July 2007, micro finance institutions will be allowed to extend their coverage in one additional district adjacent to the existing area.	Necessary actions to be forwarded to implement the policy provisions.	Microfinance Department/Bank and Financial Institutions Regulation Department	Policy arrangement has been made as per the circular issued on July 29, 2007.
23	90	With a view to expanding the financial services in the rural areas, the banks and financial institutions opening branches in such areas will be partly waived from maintaining statutory cash reserve ratio.	Necessary actions to be taken to implement the policy measure.	Bank Supervision Department/Bank and Financial Institutions Regulation Department	
24	91	Provisions will be made to extend loans from Rural Self Reliance Fund to the cooperative of tea farmers for establishing tea processing centre.	Necessary arrangements to be made in this regard.	Microfinance Department	Necessary arrangement has been made to provide loans through Rural Self Reliance Fund for establishing Orthodox Tea Processing Centre.

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25	92	More productive credits will be provided to the farmers getting credit from Rural Self Reliance Fund through cooperatives extended to renewal energy (solar energy, bio-gas and micro hydro unit) as per the 'credit plus approach'.	Necessary arrangements to be made in this regard.	Microfinance Department	Arrangements have been made to extend credit on renewal energy.
26	93	With a view to expanding the micro credits, the cooperatives getting loans from Rural Self Reliance Fund will be provided the 'Line of Credit Facility' as well.	Necessary arrangements to be made in this regard.	Microfinance Department	Provisions have been made to provide 'Line of Credit' facility through the Rural Self Reliance Fund to the cooperatives which have obtained loans from the Fund 3 times and are working in the far and remote areas.
27	94	The arrangements will be made to provide loans from Rural Self Reliance Fund to install shallow tube-wells.	Necessary arrangements to be made in this regard.	Microfinance Department	With a view to provide irrigation facility to the farmers, arrangements have been made to provide them loans from Rural Self Reliance Fund to install shallow tube-wells.
28	95	Necessary arrangements will be made to establish a separate Fund for making share investment in the micro-finance institutions, whereby interested domestic and foreign organizations, institutions and companies can provide the amount to this Fund.	Necessary policy arrangements to be made in this regard	Microfinance Department	In the context of promulgation of National Micro Finance Policy, 2008 with the plan to form a 'Microfinance Development Fund', establishment of such Fund (for making share investment in microfinance) is not necessary.
29	96	Necessary arrangements will be made to provide financial services through Self-help Groups by establishing their link with banks and financial institutions.	Necessary policy arrangements to be made in this regard	Microfinance Department/Bank and Financial Institutions Regulation Department	
30	97	The NRB's share ownership in Central Rural Development Bank will be divested to private sector. Likewise, the Due Diligence Audit (DDA) of other rural development banks will be made in the process of their privatization.	Necessary arrangements to be made in this regard	Bank and Financial Institutions Regulation Department/ Microfinance Department/Financial Management Department	The NRB's share ownership in Central Rural Development Bank has been completely divested to the private sector.

31	98	In the context of Rs. 500.0 million already released by the GON to the Industrial Rehabilitation Fund, the NRB, as per the limit stipulated by the NRB Act 2002, will also contribute to the Fund. Necessary initiatives will be taken to raise the capital of the Fund to Rs. 2.0 billion.	Necessary arrangements to be made in this regard.	Bank and Financial Institutions Regulation Department /Financial Management Department	The NRB has not proceeded with the additional arrangements in this regard, since it needs to be initiated by the Government.
32	99	The existing provision and the new provision as per BASEL II will be implemented in parallel run basis in 2007/08. From the coming fiscal year, the new provision based on BASEL II will be made compulsory.	This provision to be monitored and necessary actions to be forwarded.	Bank Supervision Department/Financial Institutions Supervision Department	Necessary policy arrangements have been made as per the circular issued on August 16, 2007. In addition, all banks have been informed that BASEL II have been implemented from July 16, 2008.
33	100	The existing single obligor limit at 25.0 percent of the primary capital of the commercial banks, which is deemed insufficient for financing projects like hydro-power requiring huge amount of capital, will be raised.	Necessary policy measures to be made in this regard.	Bank Supervision Department/Financial Institutions Supervision Department	Necessary policy arrangements have been made as per the circulars issued on August 16, 2007 and October 7, 2007.
34	101	The existing single obligor limit including non-fund base limit will be gradually reduced to 25.0 percent of the primary capital by 2010. This provision is compatible with the international practice of inspection & supervision and Basel Core Principle.	Policy measures to be implemented.	Bank Supervision Department/Financial Institutions Supervision Department/Bank and Financial Institutions Regulation Department	
35	102	In coordination with the GON, the wilful defaulters with more than Rs. 10.0 million in arrears will be brought into necessary legal action.	Necessary actions to be forwarded.	Bank and Financial Institutions Regulation Department	The process of taking legal actions to the wilful defaulters of more than Rs. 10.0 million has not been effective as desired.

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36	103	The private sector banks and financial institutions will be encouraged to establish and operate the proposed Nepal Infrastructure Development Bank by making separate prudential measures on capital, investment, loan loss provisioning and other regulatory aspects.	Necessary arrangements to be made in this regard.	Bank and Financial Institutions Regulation Department	Necessary arrangements are in progress.
37	105	Scriptless Securities Settlement System will be introduced in treasury bills, development bonds and other securities transactions.	Necessary actions to be forwarded.	Public Debt Management Department	The prevailing treasury bills certificates have been replaced by computer generated receipts since July 17, 2007.
38	106	Necessary directives related to E-banking will be issued.	Directives to be issued with necessary arrangements.	Bank and Financial Institutions Regulation Department/Information Technology Department	
39	107	Necessary directives related to merger and acquisition will be issued following the approval of 'Bank and Financial Institutions Legislation, 2007' which contains the provisions related to merger & acquisition as well. Necessary regulations will be issued for wholesale banking to foreign banks and financial institutions.	Necessary actions to be forwarded.	Bank and Financial Institutions Regulation Department/Legal Division	The draft of the directives related to merger and acquisition has been prepared and submitted to the Government of Nepal.
40	108	As per the NRB Act, 2002, the divestment of the NRB's share ownership in various financial institutions will be continued.	Necessary actions to be proceeded.	Financial Management Department.	Continued accordingly.
41	109	Improvements in the NRB's accounting system as per international standard will be continued.	Necessary arrangements to be made in this regard.	Financial Management Department	Continued accordingly



42	110	In order to enhance the supervisory capability, prompt corrective action (PCA) will be taken.	Necessary arrangements to be made in this regard.	Bank Supervision Department/Financial Institutions Supervision Department	The bylaw relating to PCA has been approved and the decision has been made to implement it from 17 October, 2008.
43	111	Necessary legal provisions to be revised/amended as per the Basel Core Principle (BCP).	Necessary process to be forwarded.	Bank Supervision Department	Revisions on the legal provisions as per the BCP have been initiated and the BCP action plan has been prepared and implemented accordingly.
44	112	The Banks and Financial Institutions, except microfinance institutions, should take annual clearance from the NRB before making their financial statements public.	Necessary arrangements to be made in this regard.	Bank and Financial Institutions Regulation	Directives are issued accordingly.
45	113	The prevailing 'Early Warning Singal' under the off-site Supervision will continue to be made effective.	Necessary arrangements to be made by monitoring and analysis	Bank Supervision Department	The prevailing 'Early Warning Singal' under the off-site Supervision has been implemented after formulation.
46	114	The existing Risk Based Supervision approach will be implemented in each bank and financial institution in a planned way.	Necessary arrangements to be made in this regard	Bank Supervision Department	The existing Risk Based Supervision approach will be implemented in each bank and financial institution in a planned way for which Risk Management Guidelines are under preparation.
47	115	Necessary policy measures will be undertaken to discourage the granting of loans by banks and financial institutions on the basis of financial guarantee.	To be monitored and necessary actions to be taken in this regard.	Bank Supervision Department/Bank and Financial Institutions Regulation Department	As per the circular issued on October, 7, 2007, the banks and financial institutions are instructed not to extend credit on the basis of financial guarantee.
48	116	With a view to making the Long Form Audit Report submitted by the external auditors more realistic and informative, necessary modifications will be made on the format of the form.	Necessary actions to be taken in this regard.	Bank Supervision Department/ Bank and Financial Institutions Regulation Department	Circular was issued on September 27, 2007 following the necessary modification on the format of the report form.

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49	117	The NRB will provide necessary assistance to establish Insolvency Administration Office, Secured Transaction Registrar's Office, Commercial Bench in 6 different courts and in the promulgation of Money Laundering Prevention Act as well as Banking Fraud Control Act, as mentioned in the budget statement of the government for 2007/08.	Necessary arrangements to be made in this regard,	Bank and Financial Institutions Regulation Department/Legal Division	As mentioned in the budget speech of 2007/08, responsibility of establishing Insolvency Administration Office and Secured Transaction Registrar's Office has been given to Company Registrar's Office. Likewise, Money Laundering Prevention Act and Banking Fraud Control Act have been enacted after the approval from the parliament.
50	118	Necessary criterion will be formulated to manage the Mutual Fund under the Trust Law to be formed by the government.	Necessary actions to be proceeded.	Bank Supervision Department/Bank and Financial Institution Regulation Department	The NRB has already sent its suggestions to Securities Board in this regard
51	119	Following the necessary interactions with stakeholder banks, financial institutions and other related agencies; the draft of 'Negotiable Instrument Bill, 2007' will be submitted to the government.	Necessary process to be forwarded in this regard.	Bank and Financial Institutions Regulation Department/Legal Division	Following the necessary interactions with stakeholder banks, financial institutions and other related agencies; 'Negotiable Instrument Bill, 2007' has been drafted.
52	120	The draft of Financial Property/Assets Securitization Act will be prepared and submitted to the government.	Necessary process to be forwarded in this regard.	Bank and Financial Institutions Regulation Department/Legal Division	Having studied the related legal provisions, the preparation of the draft is in progress.
53	121	With the foreign exchange facility on freight to be obtained by the commercial banks, provisions will be made to issue L/C on the basis of F.O.B (Free on Board) as well.	Information to be made available by making necessary arrangement in this regard.	Foreign Exchange Management Department	Under implementation.

54	122	The provision will be made to allow imports also through the Documents against Payment. While importing through D.P, all documents need to be received through bank and guarantee to be made as per the existing rule and Bi.Bi.Ni.Form No. 4 to be issued.	Information to be made available by making necessary arrangement in this regard.	Foreign Exchange Management Department	Implemented as per the circular issued on July 28, 2007.
55	123	The policy of increasing the number of goods like machine, raw materials and intermediate goods can be imported from India by paying US dollar will be continued.	Necessary actions to be forwarded in this regard.	Foreign Exchange Management Department	The number has been increased as necessary. The number of such goods at present is 124.
56	124	The foreign exchange facility up to USD 5,000 per person will be made available to Nepalese people going abroad under immigration visa for the first time directly from the licensed banks and financial institutions by endorsing the amount in the passport.	To be implemented and information to be made available after necessary arrangement.	Foreign Exchange Management Department	Implemented as per the circular issued on July 28, 2007.
57	125	Arrangements will be made to provide exchange facilities directly by the licensed banks and financial institutions for the payments of reinsurance fees to foreign-based reinsurance companies on the recommendation of the Insurance Board along with the necessary documents.	Necessary report to be made after implementation.	Foreign Exchange Management Department	Implemented as per the circular issued on July 28, 2007.
58	126	With regard to the foreign currency refund to be made in case of already being credited in the beneficiary's account, the provisions will be made to refund such an amount by the concerned commercial banks and financial institutions on the basis of necessary documents.	Necessary report after implementation in this regard.	Foreign Exchange Management Department	

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59	127	The Nepalese companies receiving payment on foreign currencies by procuring the contract under global tender will be included in the list of individuals or institutions eligible for opening foreign currency account.	Necessary report to be made after implementation in this regard.	Foreign Exchange Management Department	Implemented as per the circular issued on July 28, 2007.
60	128	By assuming air ticket issued in Nepal for those who start their travel from India to third countries as confirmed tickets, the foreign currency exchange under passport facility will be provided to them from the banks and financial institutions.	Necessary process to be forwarded in this regard.	Foreign Exchange Management Department	Implemented as per the circular issued on July 28, 2007.
61	129	The existing provision of 2.0 percent service charge on selling foreign currency in cash by the banks and financial institutions to the NRB has been reduced to 1.0 percent considering the prevailing market condition.	Necessary actions to be taken in this regard.	Foreign Exchange Management Department	Implemented as per the circular issued on July 28, 2007.
62	130	Forward exchange transactions will be opened under the condition that the concerned banks shall bear the cover and risk of profit/loss arising from such transactions as per the guidelines given by the board of directors of the concerned commercial banks.	Necessary arrangements to be made in this regard.	Foreign Exchange Management Department	Implemented as per the circular issued on July 28, 2007.
63	131	The draft of "Regularizing the Foreign Investment Abroad Bill, 2007" prepared by the NRB has been submitted to the GON, Ministry of Finance. Following the enactment of this bill, the NRB will prepare the other operational guidelines pertaining to it.	Necessary arrangements to be forwarded in this regard.	Foreign Exchange Management Department	Operational guidelines will be prepared after the enactment of Act.

## Appendix 2 Projection of Monetary Survey

(Rs. in million)

Monetary Aggregates	2005 Jul	2006 Jul	2006 Jul <sup>#</sup>	2007 Jul	2008 Jul	2009 Jul (proj)	Change, 2006/07		Change, 2007/08		Change, 2008/09	
							Amount	Percent	Amount	Percent	Amount	Percent
<b>1. Foreign Assets, Net</b>	<b>107,742.1</b>	<b>139,439.1</b>	<b>139,439.2</b>	<b>131,909.5</b>	<b>171,455.5</b>	<b>183,455.9</b>	<b>5,904.2<sup>1</sup></b>	<b>4.2</b>	<b>29,674.7<sup>2</sup></b>	<b>22.5</b>	<b>12,000.4</b>	<b>7.0</b>
1.1. Foreign Assets	130,916.8	166,101.6	166,101.7	165,713.5	213,254.1	234,285.9	-388.2	-0.2	47,540.6	28.7	21,031.8	9.9
1.2. Foreign Currency Deposits	21,557.2	25,088.2	25,088.1	28,247.2	34,229.1	40,150.0	3,159.1	12.6	5,981.9	21.2	5,920.9	17.3
1.3. Other Foreign Liabilities	1,617.6	1,574.4	1,574.4	5,556.8	7,569.5	10,680.0	3,982.5	253.0	2,012.7	36.2	3,110.5	41.1
<b>2. Net Domestic Assets</b>	<b>192,697.9</b>	<b>207,982.5</b>	<b>207,384.8</b>	<b>263,608.8</b>	<b>323,921.6</b>	<b>403,565.9</b>	<b>42,790.0<sup>1</sup></b>	<b>20.6</b>	<b>70,184.2<sup>2</sup></b>	<b>26.6</b>	<b>79,644.3</b>	<b>24.6</b>
2.1. Domestic Credit	280,240.4	302,069.9	322,683.8	360,558.2	435,989.3	537,652.6	37,874.5	11.7	75,431.1	20.9	101,663.3	23.3
<i>Domestic Credit*</i>	<i>280,240.4</i>	<i>313,116.5</i>	<i>322,683.8</i>	<i>376,582.0</i>			<i>53,898.3</i>	<i>16.7</i>			-	-
a. Net Claims on Govt.	63,894.5	70,568.0	70,970.6	78,343.6	85,799.0	101,548.6	7,373.1	10.4	7,455.4	9.5	15,749.6	18.4
i. Claims on Govt.	63,894.5	70,568.0	70,970.6	81,466.1	91,025.9	103,275.5	10,495.5	14.8	9,559.8	11.7	12,249.6	13.5
ii. Govt. Deposits	-	-	-	3,122.5	5226.9	1,726.9	3,122.5	-	2,104.4	67.4	-3,500.0	-
b. Claims on Govt. Enterprises	19,329.0	17,180.7	8,142.8	8,737.1	10,356.1	11,311.0	594.3	7.3	1,619.0	18.5	954.9	9.2
i. Financial	12,762.8	12,719.8	3,581.9	3,622.2	4,709.6	5,100.0	40.3	1.1	1,087.4	30.0	390.4	8.3
ii. Non-financial	6,566.2	4,460.9	4,560.9	5,114.9	5,646.5	6,211.0	554.0	12.1	531.6	10.4	564.5	10.0
c. Claims on Private Sector	197,016.9	214,321.3	243,570.4	273,477.4	339,834.2	424,793.0	29,907.0	12.3	66,356.8	24.3	84,958.8	25.0
<i>Claims on Private Sector*</i>	<i>197,016.9</i>	<i>225,367.9</i>	<i>243,570.4</i>	<i>289,501.2</i>			<i>45,930.8</i>	<i>18.9</i>			-	-
2.2. Net Non-monetary Liabilities	87,542.5	94,087.3	115,298.9	96,949.4	112,067.7	134,086.7	-4,915.6 <sup>1</sup>	-4.3	5,246.9 <sup>2</sup>	5.4	22,019.0	19.6
<i>Net Non-monetary Liabilities*</i>	<i>87,542.5</i>	<i>105,133.9</i>	<i>115,298.9</i>	<i>112,973.2</i>			<i>11,108.4<sup>1</sup></i>	<i>9.6</i>			-	-
<b>3. Broad Money (M<sub>2</sub>)</b>	<b>300,439.9</b>	<b>347,421.6</b>	<b>346,824.0</b>	<b>395,518.1</b>	<b>495,377.2</b>	<b>587,021.8</b>	<b>48,694.1</b>	<b>14.0</b>	<b>99,859.0</b>	<b>25.2</b>	<b>91,644.6</b>	<b>18.5</b>
3.1. Money Supply (M <sub>1</sub> )	100,205.7	114,388.6	113,060.7	126,887.9	154,344.0	179,038.7	13,827.2	12.2	27,456.1	21.6	24,694.7	16.0
a. Currency	68,784.1	77,926.3	77,780.4	83,553.3	100,175.2	115,960.3	5,772.9	7.4	16,621.9	19.9	15,785.1	15.8
b. Demand Deposits	31,421.6	36,462.3	35,280.3	43,334.4	54,168.8	63,078.4	8,054.1	22.8	10,834.4	25.0	8,909.6	16.4
3.2. Time Deposits	200,234.2	233,033.0	233,763.3	268,630.2	341,033.2	407,983.1	34,866.9	14.9	72,403.0	27.0	66,949.9	19.6
<b>4. Broad Money Liquidity (M<sub>2</sub>)</b>	<b>321,997.1</b>	<b>372,509.8</b>	<b>371,912.2</b>	<b>423,765.5</b>	<b>529,606.3</b>	<b>627,171.8</b>	<b>51,853.3</b>	<b>13.9</b>	<b>105,840.8</b>	<b>25.0</b>	<b>97,565.5</b>	<b>18.4</b>

1/ Adjusting the exchange valuation loss of Rs 13433.95 million.

2/ Adjusting the exchange valuation gain of Rs. 9871.37 million.

# Consolidated balance sheet of ADB/N included.

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

proj = Projection.

**Appendix 3**  
**List of Goods Allowed to Import from India Against the Payment of**  
**Convertible Foreign Currencies**

S.N.	Harmonic Code Number	Goods
1	As per section 13.01.02	Extracts
2	As per section 21.06.90.40	Soft Drink Concentrate
3	As per section 27.10.19.11	Furnace Oil
4	As per section 27.13.20	Bitumen
5	As per section 28	All industrial chemicals mentioned in this section (except chemicals used for the production of medicine for human being)
6	As per section 28.03	Carbon Black
7	As per section 29.01.10	L.L.P. (Light Liquid Paraffin)
8	As per section 29.02.20	Benzene / Toluene
9	As per section 29.05.11	Methanol
10	As per section 29.05.16.00	2-Ethyl Hexanol
11	As per section 29.05.31	Ethylene Glycol
12	As per section 29.05.44.00	Sorbitol
13	As per section 29.15.00	Methylene Salicylate
14	As per section 29.15.21.00	Acetic Acid
15	As per section 29.15.32	Vinyl Acetate Monomer
16	As per section 29.16.12	Buty Acrylate Monomer / 2 Ethyl Hexyls Acrylate
17	As per section 29.17.34	Dibutyl Phthalate
18	As per section 29.17.35	Phthalic Anhydride
19	As per section 29.17.36	Terephthalic Acid
20	As per section 29.22	Oxygen Function Amino-Compounds
21	As per section 29.24	Carboxamide-Function Compounds
22	As per section 29.33	Heterocyclic compound
23	As per section 29.34	Nucleic Acids
24	As per section 29.41	Antibiotics
25	As per section 32.15	Printing Ink
26	As per section 33.02.90	Flavour (raw material used in toothpaste), Odoriferous Substances and Perfume
27	As per section 34.02.90.10	LABSA (raw material used in detergent)
28	As per section 38.17.10	Mixed Alkyl benzenes
29	As per section 38.23.11.00	Stearic Acid
30	As per section 38.23.19	Palm Stearin DFA / Palm Kernel DFA
31	As per 10 and 20 of section 39.01	Polyethylene
32	As per section 39.02.10	Polypropylene
33	As per section 39.03.19.00	Polystyrene
34	As per section 39.05.30	Polyvinyl Alcohol
35	As per section 39.07.60.00	Plastic Pet Chips / Pet Resin
36	As per section 39.11.90	PVC Resin
37	As per section 39.20	Polyethylene
38	As per section 39.20.20	Polypropylene Films/Noodle Strapper
39	As per section 39.20.59	Printed Laminated Web

S.N.	Harmonic Code Number	Goods
40	As per section 39.20.59.00	Seasoning Wrapper
41	As per section 40.01	Natural Rubber
42	As per section 40.02	Synthetic Rubber
43	As per section 48.01.00.00	News Print Paper
44	As per section 48.02.00	Papers
45	As per section 48.06.00	Papers
46	As per section 48.10	Paper
47	As per section 50.04	Silk Yarn
48	As per section 50.05	Silk Yarn
49	As per section 51.06	Woolen yarn (yarn of carded wool, except hosiery)
50	As per section 51.07	Woolen yarn (yarn of Combed wool, except hosiery)
51	As per section 51.08	Woolen yarn (yarn of fine animal hair, except hosiery)
52	As per section 52.01	Cotton
53	As per section 52.05.11 to 52.05.14 and 52.06.11 to 52.06.14	Cotton yarn
54	As per section 54.02.42	Partially oriented Polyester yarn (except Partially Oriented Polyester Yarn as per section 54.02.42.00 and Synthetic Filament Yarn as per section 54.02.49)
55	As per section 54.02.49	Synthetic Filament Yarn
56	As per section 54.03, 55.9 and 55.10	Artificial yarn (except hosiery)
57	As per section 55.01, 55.02, 55.03, 55.04, 55.06 and 55.07	Artificial fiber (human made)
58	As per section 55.03.20	Polyester fiber
59	As per section 55.04.10	Viscose Rayon (fiber)
60	As per section 59.02	Tyre cord fabric
61	As per section 70.10.90.00	Carboys, Bottles, Plasks, Jar, Pots.
62	As per section 72.03.90.00	Sponge Iron
63	As per section 72.04.49	M. S. Scrap
64	As per section 72.06	Iron Ingots
65	As per section 72.07	Mild steel billet
66	As per 27.00, 36.00, 37.00, 38.00, 39.00, 51.00 and 52.00 of section 72.08, section 72.08.51 and 72.08.52	Hot roll sheet in coil and not in coil
67	As per 15.00, 16.00, 17.00 and 18.00 of section 72.09	Cold roll sheet in coil
68	As per section 72.10.12	Tin plate
69	As per section 72.11.14.00	Hot rolled sheet in coil
70	As per section 72.11.19.00	Hot rolled sheet in coil
71	As per section 72.13.91.10	M.S. wire rod in coil
72	As per 72.17.20, 72.17.30 and 72.17.90 of section 72	Bead Wire (copper coated)
73	As per section 72.18.99	Steel byume
74	As per section 72.19	Steel plate
75	As per section 72.26.11	Silicon Steel
76	As per section 74.04	Aluminum Copper/Brass Scraps Re-Melted Ingots (as per the notice of ministry of Environment, and Science and Technology)

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S.N.	Harmonic Code Number	Goods
77	As per section 74.07.10.00	Copper Rods
78	As per section 74.08.11.00	Copper Wire
79	As per section 76.01	Aluminum ingot billet
80	As per section 76.02.00.00	Aluminum Waste and (as per the notice of ministry of Environment, and Science and Technology, as mentioned on August 14, 2007).
81	As per section 76.04 and 76.05	Aluminum rod in coil
82	As per section 76.12.10.00	Tubes
83	As per section 79.01.11.00	Zinc
84	As per section 79.01.20	Zinc Alloy
85	As per section 83.09.10.00	Metal Crown Corks
86	As per section 84	All machinery equipment (except parts)
87	As per section 85.01 and 85.02	Electric motor, generating set
88	As per section 85.04.90	Amorphous Matalcores
89	As per section 85.07.90.00	PP Battery Container & Battery Separator
90	As per section 85.29.90	TV Picture Tube
91	As per section 85.40.11	Spare Parts for TV Receiver
92	Others, section not specified	Fabrics imported as raw materials by industries exporting readymade garment (under the provision of spending foreign exchange up to 50 percent of their export earnings)
	<b><u>List of goods added effective April 17, 2007</u></b>	
93	As per section 17.02.30	Dextrose Anhydrous I.P.
94	As per section 25.23.10.00	Clinker
95	As per section 27.10.19.16	M.T.O. (Mineral Turpentile Oil)
96	As per section 27.10.19.90	Petrosole
97	As per section 29.16	Unsaturated Acycline Monocarboxylic Acid
98	As per section 29.35.00	Sulphonamides: Sulphamethoxazole, Sulphafurazole, Sulphadiazine, Sulphadimidine, Sulphacetamide
99	As per section 29.35.11	Sulphamethoxazole
100	As per section 29.35.12	Sulphafurazole
101	As per section 29.35.13	Sulphadiazine
102	As per section 29.35.14	Sulphadimidine
103	As per section 29.35.15	Sulphacetamide Sulphamethoxy, Pyridarine, Sulphamethiazole, Sulphamoxole, Sulphamide
104	As per section 29.35.21	Sulphamethoxy, Pyridarine
105	As per section 29.35.22	Sulphamethiazole
106	As per section 29.35.23	Sulphamoxole
107	As per section 29.35.24	Sulphamide
108	As per section 29.42	Other Organic Compounds
109	As per section 32.12.90.00	Ziline, Light Solvent Neptha
110	As per section 33.02.10	Essence Flavor
111	As per section 35.03	Geltain Capsules
112	As per section 39.05.42.00	Penta Aerithritole
113	As per section 39.20	Film of Polyester, Polythelyne, BOPP, Pvc, OPP, CPP
114	As per section 39.21.19	Printed Wrapper
115	As per section 39.23.90	Plastic Lolypop Stick



<b>S.N.</b>	<b>Harmonic Code Number</b>	<b>Goods</b>
116	As per section 48.23.90 (76.07.20)	Chewing gum Wrapper
117	As per section 70.10.20	Stoppers, Lids and Other Closures
118	As per section 72.01.10.00	Pig Iron
119	As per section 72.11.23	CRCA Strips (76.20 MM)
120	As per section 76.07	Aluminum foils
121	As per section 79.01.12.00	Zinc
122	As per section 85.04.22.00	3000 KVA Transformer
	<b><u>List of goods added effective November, 13, 2007</u></b>	
123	As per section 78.01.10.00	Pure/Refined Lead
124	As per section 78.01.91.00	Antimony Lead Alloy

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

Sectors	Rs. in million								Percent Change						
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07R	2007/08P	01/02	02/03	03/04	04/05	05/06	06/07R	07/08P
<b>Agriculture</b>	<b>155,625</b>	<b>160,421</b>	<b>165,761</b>	<b>173,734</b>	<b>179,810</b>	<b>183,015</b>	<b>184,795</b>	<b>195,280</b>	<b>3.1</b>	<b>3.3</b>	<b>4.8</b>	<b>3.5</b>	<b>1.8</b>	<b>1.0</b>	<b>5.7</b>
Agriculture and Forestry	153,781	158,417	163,676	171,394	177,304	180,260	181,958	192,241	3.0	3.3	4.7	3.4	1.7	0.9	5.7
Fishery	1,844	2,005	2,085	2,340	2,507	2,755	2,838	3,039	8.7	4.0	12.2	7.1	9.9	3.0	7.1
<b>Non-Agriculture</b>	<b>269,830</b>	<b>266,979</b>	<b>276,366</b>	<b>291,092</b>	<b>298,822</b>	<b>316,499</b>	<b>329,493</b>	<b>347,799</b>	<b>-1.1</b>	<b>3.5</b>	<b>5.3</b>	<b>2.7</b>	<b>5.9</b>	<b>4.1</b>	<b>5.6</b>
<b>Industry</b>	<b>73,561</b>	<b>74,197</b>	<b>76,492</b>	<b>77,588</b>	<b>79,925</b>	<b>83,499</b>	<b>86,792</b>	<b>88,360</b>	<b>0.9</b>	<b>3.1</b>	<b>1.4</b>	<b>3.0</b>	<b>4.5</b>	<b>3.9</b>	<b>1.8</b>
Mining and Quarrying	1,817	1,977	2,040	2,031	2,169	2,348	2,383	2,451	8.8	3.2	-0.4	6.8	8.3	1.5	2.8
Manufacturing	38,409	36,364	36,380	37,163	38,136	38,898	39,891	39,963	-5.3	0.0	2.2	2.6	2.0	2.6	0.2
Electricity, Gas and Water	7,750	8,631	10,274	10,693	11,117	11,562	13,065	13,514	11.4	19.0	4.1	4.0	4.0	13.0	3.4
Construction	25,585	27,225	27,798	27,701	28,503	30,690	31,453	32,432	6.4	2.1	-0.3	2.9	7.7	2.5	3.1
<b>Services</b>	<b>196,269</b>	<b>192,782</b>	<b>199,874</b>	<b>213,504</b>	<b>218,896</b>	<b>233,000</b>	<b>242,701</b>	<b>259,439</b>	<b>-1.8</b>	<b>3.7</b>	<b>6.8</b>	<b>2.5</b>	<b>6.4</b>	<b>4.2</b>	<b>6.9</b>
Wholesale and Retail Trade	69,928	61,837	63,233	70,066	65,694	68,099	65,066	69,247	-11.6	2.3	10.8	-6.2	3.7	-4.5	6.4
Hotels and Restaurant	8,459	6,917	7,056	7,955	7,525	7,976	8,258	8,881	-18.2	2.0	12.7	-5.4	6.0	3.5	7.5
Transport, Storage and Communications	31,425	34,055	35,825	38,509	39,272	42,001	43,868	46,764	8.4	5.2	7.5	2.0	6.9	4.4	6.6
Financial Intermediation	11,455	11,892	12,090	12,838	15,957	19,843	22,103	25,155	3.8	1.7	6.2	24.3	24.4	11.4	13.8
Real Estate, Renting and Business	35,267	33,543	32,212	31,538	34,700	36,900	41,240	43,064	-4.9	-4.0	-2.1	10.0	6.3	11.8	4.4
Public Administration and Defence	5,288	7,237	8,070	8,019	8,551	9,139	9,262	9,785	36.8	11.5	-0.6	6.6	6.9	1.3	5.6
Education	17,372	21,030	23,913	25,138	27,606	28,640	30,426	31,831	21.1	13.7	5.1	9.8	3.7	6.2	4.6
Health and Social Work	4,178	4,487	5,171	5,487	6,109	6,470	6,904	7,414	7.4	15.3	6.1	11.3	5.9	6.7	7.4
Other Community, Social and Personal Service	12,896	11,785	12,303	13,955	13,483	13,933	15,574	17,298	-8.6	4.4	13.4	-3.4	3.3	11.8	11.1
<b>Total GVA including FISIM</b>	<b>425,454</b>	<b>427,400</b>	<b>442,127</b>	<b>464,826</b>	<b>478,632</b>	<b>499,514</b>	<b>514,288</b>	<b>543,079</b>	<b>0.5</b>	<b>3.4</b>	<b>5.1</b>	<b>3.0</b>	<b>4.4</b>	<b>3.0</b>	<b>5.6</b>
Financial intermediation indirectly measured	12,026	13,308	12,428	16,172	17,180	19,105	21,476	22,867	10.7	-6.6	30.1	6.2	11.2	12.4	6.5
<b>GDP at basic prices</b>	<b>413,428</b>	<b>414,092</b>	<b>429,699</b>	<b>448,654</b>	<b>461,452</b>	<b>480,409</b>	<b>492,812</b>	<b>520,212</b>	<b>0.2</b>	<b>3.8</b>	<b>4.4</b>	<b>2.9</b>	<b>4.1</b>	<b>2.6</b>	<b>5.6</b>
Taxes less subsidies on products	28,090	27,957	29,789	32,350	34,574	34,051	38,078	35,639	-0.5	6.6	8.6	6.9	-1.5	11.8	-6.4
<b>GDP at producers price</b>	<b>441,519</b>	<b>442,048</b>	<b>459,488</b>	<b>481,004</b>	<b>496,026</b>	<b>514,460</b>	<b>530,890</b>	<b>555,850</b>	<b>0.1</b>	<b>3.9</b>	<b>4.7</b>	<b>3.1</b>	<b>3.7</b>	<b>3.2</b>	<b>4.7</b>

R= Revised estimate.

P= Preliminary estimate.

Source: Central Bureau of Statistics.

**Table 2**  
**Nominal Gross Domestic Product**  
**(At Current Market Prices)**

Sectors	Rs. in million								Percent change						
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07R	2007/08P	01/02	02/03	03/04	04/05	05/06	06/07R	07/08P
<b>Agriculture</b>	<b>155,625</b>	<b>166,090</b>	<b>172,803</b>	<b>186,125</b>	<b>199,368</b>	<b>211,704</b>	<b>226,822</b>	<b>258,282</b>	<b>6.7</b>	<b>4.0</b>	<b>7.7</b>	<b>7.1</b>	<b>6.2</b>	<b>7.1</b>	<b>13.9</b>
Agriculture and Forestry	153,781	163,925	170,634	183,621	196,686	208,591	223,535	254,453	6.6	4.1	7.6	7.1	6.1	7.2	13.8
Fishery	1,844	2,165	2,168	2,504	2,682	3,113	3,287	3,829	17.4	0.2	15.5	7.1	16.1	5.6	16.5
<b>Non-Agriculture</b>	<b>269,829</b>	<b>277,962</b>	<b>300,743</b>	<b>331,869</b>	<b>367,211</b>	<b>418,596</b>	<b>470,167</b>	<b>533,848</b>	<b>3.0</b>	<b>8.2</b>	<b>10.3</b>	<b>10.6</b>	<b>14.0</b>	<b>12.3</b>	<b>13.5</b>
<b>Industry</b>	<b>73,561</b>	<b>77,860</b>	<b>83,538</b>	<b>89,409</b>	<b>97,059</b>	<b>105,098</b>	<b>115,529</b>	<b>126,356</b>	<b>5.8</b>	<b>7.3</b>	<b>7.0</b>	<b>8.6</b>	<b>8.3</b>	<b>9.9</b>	<b>9.4</b>
Mining and Quarrying	1,817	2,149	2,310	2,507	2,748	3,134	3,417	3,857	18.3	7.5	8.5	9.6	14.0	9.0	12.9
Manufacturing	38,409	37,736	38,826	41,673	44,885	47,840	52,172	55,900	-1.8	2.9	7.3	7.7	6.6	9.1	7.1
Electricity, Gas and Water	7,750	9,138	11,447	11,974	12,782	13,172	14,841	15,556	17.9	25.3	4.6	6.7	3.1	12.7	4.8
Construction	25,585	28,838	30,955	33,254	36,644	40,952	45,099	51,044	12.7	7.3	7.4	10.2	11.8	10.1	13.2
<b>Services</b>	<b>196,268</b>	<b>200,102</b>	<b>217,205</b>	<b>242,460</b>	<b>270,152</b>	<b>313,498</b>	<b>354,638</b>	<b>407,492</b>	<b>2.0</b>	<b>8.5</b>	<b>11.6</b>	<b>11.4</b>	<b>16.0</b>	<b>13.1</b>	<b>14.9</b>
Wholesale and Retail Trade	69,928	64,778	68,695	79,219	79,839	90,214	93,749	107,731	-7.4	6.0	15.3	0.8	13.0	3.9	14.9
Hotels and Restaurant	8,459	7,143	7,540	8,942	8,895	9,368	10,018	11,378	-15.6	5.6	18.6	-0.5	5.3	6.9	13.6
Transport, Storage and Communications	31,425	34,959	39,362	46,283	51,336	61,250	69,364	73,697	11.2	12.6	17.6	10.9	19.3	13.2	6.2
Financial Intermediation	11,455	12,202	12,861	13,728	17,342	21,979	28,539	37,666	6.5	5.4	6.7	26.3	26.7	29.8	32.0
Real Estate, Renting and Business	35,267	36,525	38,251	39,991	49,242	60,042	70,791	78,524	3.6	4.7	4.5	23.1	21.9	17.9	10.9
Public Administration and Defence	5,288	7,237	8,070	8,019	9,548	10,967	12,227	15,069	36.8	11.5	-0.6	19.1	14.9	11.5	23.2
Education	17,372	20,823	24,582	26,313	31,671	34,996	40,517	47,455	19.9	18.0	7.0	20.4	10.5	15.8	17.1
Health and Social Work	4,178	4,626	5,408	5,825	7,017	7,842	8,956	10,786	10.7	16.9	7.7	20.5	11.8	14.2	20.4
Other Community, Social and Personal Service	12,896	11,808	12,436	14,140	15,262	16,840	20,476	25,186	-8.4	5.3	13.7	7.9	10.3	21.6	23.0
<b>Total GVA including FISIM</b>	<b>425,454</b>	<b>444,052</b>	<b>473,545</b>	<b>517,994</b>	<b>566,579</b>	<b>630,301</b>	<b>696,989</b>	<b>792,130</b>	<b>4.4</b>	<b>6.6</b>	<b>9.4</b>	<b>9.4</b>	<b>11.2</b>	<b>10.6</b>	<b>13.7</b>
Financial intermediation indirectly measured	12,026	13,655	13,221	17,294	18,094	19,212	21,505	23,298	13.6	-3.2	30.8	4.6	6.2	11.9	8.3
<b>GDP at basic prices</b>	<b>413,428</b>	<b>430,397</b>	<b>460,325</b>	<b>500,699</b>	<b>548,485</b>	<b>611,089</b>	<b>675,484</b>	<b>768,832</b>	<b>4.1</b>	<b>7.0</b>	<b>8.8</b>	<b>9.5</b>	<b>11.4</b>	<b>10.5</b>	<b>13.8</b>
Taxes less subsidies on products	28,090	29,046	31,906	36,050	40,927	42,966	51,605	51,982	3.4	9.8	13.0	13.5	5.0	20.1	0.7
<b>GDP at producers price</b>	<b>441,519</b>	<b>459,443</b>	<b>492,231</b>	<b>536,749</b>	<b>589,412</b>	<b>654,055</b>	<b>727,089</b>	<b>820,814</b>	<b>4.1</b>	<b>7.1</b>	<b>9.0</b>	<b>9.8</b>	<b>11.0</b>	<b>11.2</b>	<b>12.9</b>

R= Revised estimate.

P= Preliminary estimate.

Source: Central Bureau of Statistics.

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

Sectors	Rs. in million								Percent change						
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07R	2007/08P	01/02	02/03	03/04	04/05	05/06	06/07R	07/08P
<b>Consumption</b>	<b>390,017</b>	<b>415,843</b>	<b>450,090</b>	<b>473,685</b>	<b>521,301</b>	<b>595,327</b>	<b>656,276</b>	<b>726,685</b>	<b>6.6</b>	<b>8.2</b>	<b>5.2</b>	<b>10.1</b>	<b>14.2</b>	<b>10.2</b>	<b>10.7</b>
Government consumption	35,785	38,586	42,652	46,397	52,453	56,794	66,847	81,482	7.8	10.5	8.8	13.1	8.3	17.7	21.9
Private consumption	348,989	371,402	400,468	419,290	459,530	527,814	576,914	631,231	6.4	7.8	4.7	9.6	14.9	9.3	9.4
Non-profit institutions	5,243	5,855	6,970	7,998	9,319	10,719	12,515	13,972	11.7	19.0	14.7	16.5	15.0	16.8	11.6
<b>Gross Capital Formation</b>	<b>98,649</b>	<b>93,020</b>	<b>105,383</b>	<b>131,671</b>	<b>155,907</b>	<b>175,603</b>	<b>203,741</b>	<b>262,582</b>	<b>-5.7</b>	<b>13.3</b>	<b>24.9</b>	<b>18.4</b>	<b>12.6</b>	<b>16.0</b>	<b>28.9</b>
Gross fixed capital formation	84,751	89,889	98,073	109,181	117,539	135,532	148,421	172,746	6.1	9.1	11.3	7.7	15.3	9.5	16.4
<i>Government</i>	<i>18,063</i>	<i>17,439</i>	<i>14,719</i>	<i>14,955</i>	<i>17,213</i>	<i>17,509</i>	<i>20,843</i>	<i>25,521</i>	<i>-3.5</i>	<i>-15.6</i>	<i>1.6</i>	<i>15.1</i>	<i>1.7</i>	<i>19.0</i>	<i>22.4</i>
<i>Private</i>	<i>66,687</i>	<i>72,450</i>	<i>83,354</i>	<i>94,226</i>	<i>100,326</i>	<i>118,023</i>	<i>127,578</i>	<i>147,225</i>	<i>8.6</i>	<i>15.1</i>	<i>13.0</i>	<i>6.5</i>	<i>17.6</i>	<i>8.1</i>	<i>15.4</i>
Change in stock	13,898	3,131	7,310	22,489	38,368	40,071	55,320	89,836	-77.5	133.5	207.6	70.6	4.4	38.1	62.4
<b>Total Domestic Demand</b>	<b>488,666</b>	<b>508,863</b>	<b>555,473</b>	<b>605,356</b>	<b>677,208</b>	<b>770,930</b>	<b>860,017</b>	<b>989,268</b>	<b>4.1</b>	<b>9.2</b>	<b>9.0</b>	<b>11.9</b>	<b>13.8</b>	<b>11.6</b>	<b>15.0</b>
Export of goods and services	99,610	81,492	77,280	89,544	85,958	87,952	94,979	98,836	-18.2	-5.2	15.9	-4.0	2.3	8.0	4.1
Imports of goods and services	146,757	130,912	140,522	158,151	173,754	204,828	227,907	267,290	-10.8	7.3	12.5	9.9	17.9	11.3	17.3
<i>Net export of goods and services</i>	<i>-47,147</i>	<i>-49,420</i>	<i>-63,243</i>	<i>-68,607</i>	<i>-87,796</i>	<i>-116,876</i>	<i>-132,928</i>	<i>-168,454</i>	<i>4.8</i>	<i>28.0</i>	<i>8.5</i>	<i>28.0</i>	<i>33.1</i>	<i>13.7</i>	<i>26.7</i>
<b>Gross Domestic Product</b>	<b>441,519</b>	<b>459,443</b>	<b>492,231</b>	<b>536,749</b>	<b>589,412</b>	<b>654,055</b>	<b>727,089</b>	<b>820,814</b>	<b>4.1</b>	<b>7.1</b>	<b>9.0</b>	<b>9.8</b>	<b>11.0</b>	<b>11.2</b>	<b>12.9</b>
Net Factor Income	1,701	(605)	(676)	(1,684)	1,637	4,956	7,432	10,187	-135.6	11.7	149.2	-197.2	202.8	50.0	37.1
Gross National Income	<b>443,220</b>	<b>458,838</b>	<b>491,555</b>	<b>535,065</b>	<b>591,048</b>	<b>659,010</b>	<b>734,521</b>	<b>831,001</b>	<b>3.5</b>	<b>7.1</b>	<b>8.9</b>	<b>10.5</b>	<b>11.5</b>	<b>11.5</b>	<b>13.1</b>
Net Transfer	65,595	68,186	75,533	84,889	97,704	126,146	128,992	158,381	4.0	10.8	12.4	15.1	29.1	2.3	22.8
<b>Gross National Disposable Income (GNDI)</b>	<b>508,815</b>	<b>527,024</b>	<b>567,088</b>	<b>619,954</b>	<b>688,752</b>	<b>785,156</b>	<b>863,513</b>	<b>989,382</b>	<b>3.6</b>	<b>7.6</b>	<b>9.3</b>	<b>11.1</b>	<b>14.0</b>	<b>10.0</b>	<b>14.6</b>

R= Revised estimate.

P= Preliminary estimate.

Source: Central Bureau of Statistics.

**Table 4**  
**National Urban Consumer Price Index**  
**(1995/1996 = 100)**

Mid-Month	2003/04		2004/05		2005/06		2006/07		2007/08	
	Index	% Change	Index	% Change	Index	% Change	Index	% Change	Index	% Change
August	155.4	5.4	159.1	2.4	170.7	7.3	183.1	7.3	194.7	6.3
September	156.1	5.2	160.2	2.6	173.3	8.2	184.8	6.6	197.8	7.0
October	157.1	5.6	161.2	2.6	173.8	7.8	186.9	7.5	198.7	6.3
November	156.6	5.8	160.8	2.7	174.5	8.5	186.9	7.1	198.7	6.3
December	154.2	4.9	159.0	3.1	173.0	8.8	185.6	7.3	196.1	5.7
January	152.5	5.0	159.5	4.6	170.6	7.0	183.6	7.6	194.2	5.8
February	152.7	4.7	161.4	5.7	170.8	5.8	184.5	8.0	196.3	6.4
March	153.1	4.4	161.9	5.7	174.3	7.7	185.1	6.2	198.4	7.2
April	154.1	1.7	163.1	5.8	176.0	7.9	185.9	5.6	202.4	8.9
May	154.1	1.3	164.0	6.4	179.0	9.1	187.3	4.6	204.6	9.2
June	155.0	1.8	164.6	6.2	179.6	9.1	187.6	4.5	208.3	11.0
July	156.4	2.0	166.8	6.6	180.6	8.3	189.8	5.1	212.7	12.1
<b>Annual Average</b>	<b>154.8</b>	<b>4.0</b>	<b>161.8</b>	<b>4.5</b>	<b>174.7</b>	<b>8.0</b>	<b>185.9</b>	<b>6.4</b>	<b>200.2</b>	<b>7.7</b>

**Table 5**  
**Monetary Survey**

(Rs. in million)

Monetary Aggregates	2006 Jul	2007 Jul	2008 Jul	Annual Changes			
				2006/07		2007/08	
				Amount	Percent	Amount	Percent
<b>1. Foreign Assets, Net</b>	<b>139,439.2</b>	<b>131,909.5</b>	<b>171,455.4</b>	<b>5,904.2</b> <sup>1/</sup>	<b>4.2</b>	<b>29,674.6</b> <sup>2/</sup>	<b>22.5</b>
1.1. Foreign Assets	166,101.7	165,713.5	213,254.1	-388.2	-0.2	47,540.6	28.7
1.2. Foreign Currency Deposits	25,088.1	28,247.2	34,229.1	3,159.1	12.6	5,981.9	21.2
1.3. Other Foreign Liabilities	1,574.4	5,556.8	7,569.6	2,800.5	177.9	2,012.8	36.2
<b>2. Net Domestic Assets</b>	<b>207,384.8</b>	<b>263,608.8</b>	<b>323,921.7</b>	<b>42,790.0</b> <sup>1/</sup>	<b>20.6</b>	<b>70,184.3</b> <sup>2/</sup>	<b>26.6</b>
2.1. Domestic Credit	322,683.8	360,558.2	435,989.4	37,874.4	11.7	75,431.2	20.9
<i>Domestic Credit*</i>	322,683.8	376,582.0	452,013.1	53,898.2	16.7	75,431.1	20.0
a. Net Claims on Govt.	70,970.6	78,343.6	85,799.1	7,373.0	10.4	7,455.4	9.5
i. Claims on Govt.	70,970.6	81,466.1	91,026.0	10,495.5	14.8	9,559.9	11.7
ii. Govt. Deposits	-	3,122.5	5,226.9	3,122.5	-	2,104.4	67.4
b. Claims on Non-financial Govt. Ent.	4,560.9	5,114.9	5,646.5	554.0	12.1	531.6	10.4
c. Claims on Financial Institutions	3,581.9	3,622.2	4,709.6	40.3	1.1	1,087.4	30.0
i. Government	1,808.3	1,713.0	1,670.5	-95.3	-5.3	-42.5	-2.5
ii. Non-government	1,773.6	1,909.2	3,039.1	135.6	7.6	1,129.9	59.2
d. Claims on Private Sector	243,570.4	273,477.4	339,834.2	29,907.0	12.3	66,356.8	24.3
<i>Claims on Private Sector*</i>	243,570.4	289,501.2	355,858.0	45,930.8	18.9	66,356.8	22.9
2.2. Net Non-monetary Liabilities	115,298.9	96,949.4	112,067.7	-4,915.61/	-4.3	5,246.92/	5.4
<i>Net Non-monetary Liabilities*</i>	115,298.9	112,973.2	128,091.5	11,108.21/	9.6	5,246.92/	4.6
<b>3. Broad Money (M<sub>2</sub>)</b>	<b>346,824.0</b>	<b>395,518.1</b>	<b>495,377.1</b>	<b>48,694.1</b>	<b>14.0</b>	<b>99,859.0</b>	<b>25.2</b>
3.1. Money Supply (M <sub>1</sub> )	113,060.7	126,887.9	154,343.9	13,827.2	12.2	27,456.0	21.6
a. Currency	77,780.4	83,553.3	100,175.2	5,772.9	7.4	16,621.9	19.9
b. Demand Deposits	35,280.3	43,334.4	54,168.7	8,054.1	22.8	10,834.3	25.0
3.2. Time Deposits	233,763.3	268,630.2	341,033.2	34,866.9	14.9	72,403.0	27.0
<b>4. Broad Money Liquidity (M<sub>3</sub>)</b>	<b>371,912.2</b>	<b>423,765.5</b>	<b>529,606.2</b>	<b>51,853.3</b>	<b>13.9</b>	<b>105,840.7</b>	<b>25.0</b>

1/ Adjusting the exchange valuation loss of Rs. 13433.95 million.

2/ Adjusting the exchange valuation gain of Rs 9871.37 million.

\* Adjusting credit write off of Rs. 2869.3 million (Rs. 821.7 million in principal and Rs. 2047.6 million in interest) as at mid-October 2007 by NBL and Rs. 13154.5 million (Rs. 4055.2 million in principal and Rs. 9099.3 million in interest) by RBB in mid-December 2006.

**Table 6**  
**Outright Sale Auction\***

(Rs. in million)

Mid-Month	2005/06		2006/07		2007/08	
	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)
August	1,440.0	3.47	1,000.0	2.51	-	-
September	-	-	1,250.0	3.06	-	-
October	2,000.0	3.85	1,020.0	3.38	-	-
November	300.0	3.02	-	-	500.0	3.44
December	830.0	1.90	2,620.0	1.59	740.0	4.33
January	-	-	-	-	-	-
February	-	-	-	-	-	-
March	470.0	3.74	2,000.0	2.94	2,460.0	4.87
April	930.0	4.01	1,010.0	2.54	770.0	4.05
May	-	-	1,300.0	3.37	2,000.0	5.38
June	3,390.0	3.50	6,050.0	2.80	3,430.0	5.98
July	4,150.0	3.68	2,150.0	4.51	4,950.0	5.65
<b>Total</b>	<b>13,510.0</b>		<b>18,400.0</b>		<b>14,850.0</b>	<b>4.81</b>

Wtd. Int. Rate = Weighted interest rate.

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



**Table 7**  
**Outright Purchase Auction\***

(Rs. in million)

Mid-Month	2005/06		2006/07		2007/08	
	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)
August	-	-	-	-	-	-
September	-	-	-	-	-	-
October	530.0	4.99	-	-	-	-
November	300.0	3.52	-	-	-	-
December	-	-	-	-	-	-
January	-	-	-	-	-	-
February	-	-	-	-	-	-
March	-	-	-	-	-	-
April	-	-	-	-	-	-
May	-	-	-	-	-	-
June	-	-	-	-	-	-
July	-	-	-	-	-	-
<b>Total</b>	<b>830.0</b>		-		-	

Wtd. Int. Rate = Weighted interest rate.

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

**Table 8**  
**Repo Auction\***

(Rs. in million)

<b>Mid-Month</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
August	-	-	-
September	-	-	-
October	-	-	-
November	-	-	-
December	-	-	-
January	-	-	2,000.0
February	450.0	-	5,000.0
March	-	-	2,000.0
April	-	-	-
May	-	2,000.0	-
June	-	-	-
July	-	-	-
<b>Total</b>	<b>450.0</b>	<b>2,000.0</b>	<b>9,000.0</b>

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

**Table 9**  
**Reverse Repo Auction\***

(Rs. in million)

<b>Mid-Month</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
August	-	2,590.0	-
September	-	1,500.0	1,000.0
October	-	1,500.0	4,570.0
November	500.0	6,150.0	-
December	1,500.0	750.0	-
January	2,000.0	1,070.0	-
February	1,000.0	-	-
March	-	500.0	-
April	1,500.0	-	1,000.0
May	-	-	-
June	-	-	-
July	-	280.0	-
<b>Total</b>	<b>6,500.0</b>	<b>14,340.0</b>	<b>6,570.0</b>

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

**Table 10 (a)**  
**Foreign Exchange Intervention\***

(Rs. in million)

Mid-Month	2005/06			2006/07			2007/08		
	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection
August	1,699.84	522.74	1,177.11	6,548.66	-	6,548.66	2,250.71	-	2,250.71
September	2,160.84	-	2,160.84	4,746.41	-	4,746.41	4,792.01	400.38	4,391.63
October	3,783.86	-	3,783.86	5,593.18	-	5,593.18	7,387.13	-	7,387.13
November	6,195.49	-	6,195.49	5,134.50	-	5,134.50	6,602.39	-	6,602.39
December	4,826.32	-	4,826.32	6,876.10	-	6,876.10	9,124.41	-	9,124.41
January	4,487.17	131.74	4,355.43	5,420.58	-	5,420.58	5,915.13	-	5,915.13
February	2,934.97	-	2,934.97	3,363.40	511.49	2,851.92	7,033.12	548.94	6,484.18
March	5,263.02	-	5,263.02	7,260.27	-	7,260.27	12,834.02	-	12,834.02
April	3,922.80	-	3,922.80	3,531.87	-	3,531.87	10,993.26	-	10,993.26
May	5,023.75	-	5,023.75	4,500.14	-	4,500.14	10,622.39	-	10,622.39
June	9,752.21	-	9,752.21	5,395.53	-	5,395.53	12,503.12	-	12,503.12
July	5,827.24	-	5,827.24	6,596.01	-	6,596.01	13,516.69	215.42	13,301.27
<b>Total</b>	<b>55,877.51</b>	<b>654.48</b>	<b>55,223.03</b>	<b>64,966.65</b>	<b>511.49</b>	<b>64,455.16</b>	<b>103,574.38</b>	<b>1,164.74</b>	<b>102,409.64</b>

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

**Table 10 (b)**  
**Foreign Exchange Intervention (in US Dollar)\***

(US\$ in million)

Mid-Month	2005/06			2006/07			2007/08		
	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection
August	24.10	7.40	16.70	87.50	-	87.50	34.55	-	34.55
September	30.50	-	30.50	63.85	-	63.85	72.90	6.00	66.90
October	53.00	-	53.00	76.25	-	76.25	115.90	-	115.90
November	84.35	-	84.35	71.05	-	71.05	104.10	-	104.10
December	65.00	-	65.00	95.85	-	95.85	143.40	-	143.40
January	62.30	1.80	60.50	75.95	-	75.95	93.30	-	93.30
February	41.20	-	41.20	47.55	7.20	40.35	111.05	8.60	102.45
March	73.60	-	73.60	102.50	-	102.50	199.60	-	199.60
April	54.70	-	54.70	50.90	-	50.90	170.25	-	170.25
May	69.25	-	69.25	67.50	-	67.50	164.30	-	164.30
June	133.00	-	133.00	82.75	-	82.75	183.45	-	183.45
July	78.80	-	78.80	101.30	-	101.30	196.35	3.10	193.25
<b>Total</b>	<b>769.80</b>	<b>9.20</b>	<b>760.60</b>	<b>922.95</b>	<b>7.20</b>	<b>915.75</b>	<b>1,589.15</b>	<b>17.70</b>	<b>1,571.45</b>

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

**Table 11**  
**Standing Liquidity Facility (SLF)\***

(Rs. in million)

<b>Mid-Month</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
August	400.0	-	-
September	550.0	370.0	4,080.0
October	220.0	1,575.0	9,665.0
November	-	2,101.5	13,135.0
December	-	1,074.7	9,310.0
January	753.5	3,070.0	10,780.0
February	200.0	-	25,532.0
March	160.0	300.0	-
April	950.0	8,630.0	3,850.0
May	4,800.0	13,821.0	21,250.0
June	-	350.0	4,500.0
July	1,850.0	15,687.0	1,730.0
<b>Total</b>	<b>9,883.5</b>	<b>46,979.2</b>	<b>103,832.0</b>

\* Introduced as a safety valve for domestic payments system since 2004/05. This fully collateralised lending facility takes place at the initiative of commercial banks.

**Table 12**  
**Interbank Transactions**

(Rs. in million)

<b>Mid-Month</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
August	4,870.0	4,309.0	20,554.2	13,397.0	35,455.0
September	13,805.0	13,165.0	24,670.5	18,830.0	31,353.0
October	12,575.0	12,145.0	12,021.0	15,855.0	35,062.0
November	14,759.0	9,056.0	10,369.0	14,880.0	21,472.0
December	7,900.0	11,018.0	15,533.0	14,180.0	20,418.0
January	13,460.0	11,030.0	11,255.5	17,395.0	24,379.0
February	8,080.0	12,710.0	14,541.0	8,962.0	12,236.0
March	2,800.0	9,500.0	20,075.0	7,713.0	10,443.0
April	5,860.0	18,162.0	15,654.0	7,295.0	12,583.9
May	9,070.0	13,050.0	7,970.0	20,300.0	21,570.0
June	5,650.0	18,334.3	10,245.0	17,397.0	17,413.0
July	14,359.0	20,358.5	12,862.0	13,980.0	15,934.2
<b>Total</b>	<b>113,188.0</b>	<b>152,837.8</b>	<b>175,750.2</b>	<b>170,184.0</b>	<b>258,319.1</b>

**Table 13**  
**Net Domestic Borrowing of the Government of Nepal**

(Rs in million)

		2003/04	2004/05	2005/06	2006/07	2007/08
<b>A</b>	<b>Gross Borrowings</b>	<b>7052.8</b>	<b>9026.4</b>	<b>11849.9</b>	<b>17892.3</b>	<b>20496.4</b>
	Treasury Bills	3700.0	5471.2	10834.2	12051.6	12500
	Development Bonds	2000.0	3000.0	750.0	5500.0	6070
	National Saving Certificates	900.0	216.9	0.0	0.0	0
	Citizen Saving Bonds	247.8	250.0	250.0	340.2	1926.4
	Special Bonds	205.0	88.3	15.7	0.5	0
<b>B</b>	<b>Payments</b>	<b>5414.9</b>	<b>6135.5</b>	<b>7360.0</b>	<b>9614.3</b>	<b>8561.4</b>
	Treasury Bills	2431.0	1264.5	1870.0	1647.5	1912.3
	Development Bonds	510.0	550.0	2790.0	4282.1	3511.9
	National Saving Certificates	1500.0	2670.0	2700.0	2359.8	400.0
	Citizen Saving Bonds	0.0	0.0	0.0	628.1	303.0
	Special Bonds	973.9	1651.0	0.0	696.8	2434.1
<b>C</b>	<b>Net Domestic Borrowings (NDB) (A-B)</b>	<b>1637.8</b>	<b>2891.0</b>	<b>4489.9</b>	<b>8278.0</b>	<b>11935.0</b>
	Treasury Bills	1269.0	4206.7	8964.2	10404.1	10587.7
	Development Bonds	1490.0	2450.0	-2040.0	1217.9	2558.1
	National Saving Certificates	-600.0	-2453.1	-2700.0	-2359.8	-400.0
	Citizen Saving Bonds	247.8	250.0	250.0	-287.9	1623.4
	Special Bonds	-768.9	-1562.7	15.7	-696.3	-2434.1
<b>D</b>	<b>Overdraft</b>	<b>-753.0</b>	<b>2623.0</b>	<b>1071.0</b>	<b>-3122.5</b>	<b>-2104.4</b>
<b>E</b>	<b>NDB net off Overdraft borrowings (C+D)</b>	<b>884.8</b>	<b>5514.0</b>	<b>5560.9</b>	<b>5155.5</b>	<b>9830.6</b>
<b>F</b>	<b>GDP (at producers price)</b>	<b>536749</b>	<b>589412</b>	<b>654055</b>	<b>727089</b>	<b>820814</b>
<b>G</b>	<b>NDB/GDP (C/F) in %</b>	<b>0.31</b>	<b>0.49</b>	<b>0.69</b>	<b>1.14</b>	<b>1.45</b>
<b>H</b>	<b>NDB net off Overdraft /GDP (E/F) in %</b>	<b>0.16</b>	<b>0.94</b>	<b>0.85</b>	<b>0.71</b>	<b>1.20</b>



**Table 14**  
**Structure of Interest Rates**  
**(Percent per Annum)**

Year Mid-month	2004 Jul	2005 Jul	2005 Oct	2006 Jan	2006 Apr	2006 Jul	2006 Oct	2007 Jan	2007 Apr	2007 Jul	2007 Oct	2008 Jan	2008 Apr	2008 July
<b>A. Policy Rates</b>														
CRR	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Bank Rate	5.5	5.5	6.0	6.0	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Refinance Rates Against Loans to:														
Sick Industries	2.0	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Rural Development Banks (RDBs)	4.5	3.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Export Credit in Domestic Currency	4.5	3.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	2.5	2.5	2.5	2.5
Export Credit in Foreign Currency	2.0	2.0	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Standing Liquidity Facility (SLF) Penal Rate <sup>#</sup>	-	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	2.0	2.0	2.0	2.0
<b>B. Government Securities</b>														
T-bills* (28 days)	1.82	-	2.62	1.59	2.54	2.40	2.01	2.37	1.50	2.13	2.97	4.35	3.17	5.16
T-bills* (91 days)	1.47	3.94	3.10	2.46	2.89	3.25	2.54	2.67	1.85	2.77	2.35	3.86	4.07	5.13
T-bills* (182 days)	-	4.42	3.70	2.57	3.77	3.86	2.78	3.25	2.67	3.51	2.66	4.33	4.39	5.16
T-bills* (364 days)	3.81	4.79	3.87	3.42	4.31	4.04	3.78	3.14	3.09	4.00	3.04	4.67	4.82	6.47
Development Bonds	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-6.75	3.0-6.75	3.0-6.75	3.0-6.75	3.0-6.75	3.0-6.75	3.0-6.75	5.0-6.75	5.0-7.5	5.0-8.0
National/Citizen SCs	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.0-13.0	6.0-8.5	6.0-8.5	6.0-8.5	6.0-8.5	6.0-8.5	6.0-8.0	6.0-7.0	6.0-7.5	6.0-7.75
<b>C. Interbank Rate</b>														
	0.71	4.71	3.18	1.22	1.97	2.13	2.11	3.03	1.69	3.03	3.35	4.93	2.69	3.61
<b>D. Commercial Banks</b>														
<b>1. Deposit Rates</b>														
Savings Deposits	2.0-5.0	1.75-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-6.5	2.0-6.5
Time Deposits														
1 Month	2.0-3.5	1.75-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.75	1.5-3.75
3 Months	2.0-4.0	1.5-4.0	1.5-3.5	1.5-4.0	1.5-4.0	1.5-4.0	1.5-4.0	1.50-4.0	1.50-4.0	1.50-4.0	1.50-4.0	1.50-4.0	1.50-6.75	1.50-6.75
6 Months	2.0-4.5	2.5-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-6.75	1.75-6.75
1 Year	2.75-5.75	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.5-5.75	2.5-6.0
2 Years and Above	3.0-6.0	2.5-6.05	2.5-6.05	2.5-6.4	2.5-6.4	2.5-6.4	2.5-6.4	2.5-5.5	2.5-5.5	2.5-5.5	2.5-5.5	2.5-5.5	2.75-6.75	2.75-6.75
<b>2 Lending Rates</b>														
Industry	8.5-13.5	8.25-13.5	8.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5	7.0-13.5	7.0-13.0	7.0-13.0
Agriculture	10.5-13	10-13	9.5-13	9.5-13	9.5-13	9.5-13	9.5-13	9.5-13	9.5-13	9.5-13	9.5-13	9.5-13	9.5-12	9.5-12.0
Export Bills	4.0-11.5	4.0-12.0	4.0-12.0	5.0-11.5	5.0-11.5	5.0-11.5	5.0-11.5	5.0-11.5	5.0-11.5	5.0-11.5	4.0-11.5	4.0-11.5	5.0-11.5	5.0-11.5
Commercial Loans	9-14.5	8.0-14	8.0-14	8.0-14	8.0-14	8.0-14	8.0-14	8.0-14.0	8.0-14.0	8.0-14.0	8.0-14.0	8.0-14.0	8.0-13.5	8.0-13.5
Overdrafts	10.0-16.0	5-14.5	6.5-14.5	6.5-14.5	6.5-14.5	6.5-14.5	6.5-14.5	6.0-14.5	6.0-14.5	6.0-14.5	6.0-14.5	6.0-14.5	6.5-13.5	6.5-13.5
<b>E. CPI Inflation (annual average)</b>														
	4.0	4.5				8.0				6.4				7.7

\* Weighted average discount rate.

# The SLF rate is determined at the penal rate added to the weighted average discount rate of 91-day Treasury Bills of the preceding week or the repo rate of the last 30 days, whichever is higher.

**Table 15**  
**Weighted Average Treasury Bills Rate (91-day)**

(Percent)

FY	Mid-Month												Annual Average
	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
1991/92	8.43	8.78	8.84	8.70	8.82	8.93	9.33	9.56	9.60	9.64	9.59	9.64	9.24
1992/93	10.17	10.45	12.17	11.68	12.03	12.36	12.57	12.43	11.30	9.56	11.28	11.92	11.34
1993/94	8.49	5.94	7.24	8.74	6.05	3.93	7.57	7.56	6.38	4.93	5.31	6.01	6.50
1994/95	6.36	6.26	6.54	7.02	6.91	6.99	7.38	7.97	8.12	7.94	7.89	8.33	7.35
1995/96	8.34	8.61	8.78	9.14	9.69	11.83	12.68	12.21	10.93	12.70	12.88	12.66	10.93
1996/97	12.18	11.75	11.43	11.63	11.51	11.47	11.62	10.99	9.77	8.51	6.03	5.62	10.22
1997/98	4.87	3.36	3.81	3.36	2.63	2.71	3.90	4.00	4.17	3.44	3.24	2.87	3.52
1998/99	1.61	0.90	0.85	2.88	3.24	3.29	1.61	1.21	2.16	3.09	3.35	3.32	2.33
1999/00	3.40	2.90	3.41	4.09	3.99	4.44	5.16	5.60	5.46	5.73	5.46	5.36	4.66
2000/01	5.43	5.22	4.87	5.24	5.30	5.26	5.17	4.55	3.87	4.67	4.94	4.95	4.96
2001/02	4.78	3.78	4.66	4.96	4.95	4.85	5.19	5.39	5.05	4.86	4.52	3.78	4.71
2002/03	3.42	3.49	3.60	4.03	3.75	4.10	4.01	3.91	4.06	2.91	1.67	2.98	3.48
2003/04	4.03	3.66	3.70	3.68	3.85	3.95	3.94	3.81	1.70	0.70	0.82	1.47	2.93
2004/05	0.62	0.63	1.34	1.97	2.40	2.08	2.38	2.94	3.11	3.70	3.82	3.94	2.46
2005/06	2.26	3.38	3.10	2.69	2.20	2.46	2.20	2.65	2.89	3.63	3.31	3.25	2.84
2006/07	2.99	2.78	2.54	2.11	1.98	2.67	2.60	2.36	1.85	2.43	2.17	2.77	2.44
2007/08	4.25	2.14	2.35	3.03	3.59	3.86	5.79	5.54	4.07	5.32	5.41	5.13	4.21

**Table 16**  
**Weighted Average Treasury Bills Rate (364-day)**

(Percent)

FY	Mid-Month												Annual Average
	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
1996/97	-	-	-	-	-	11.96	-	-	10.53	-	8.98	-	<b>10.34</b>
1997/98	-	-	-	-	-	6.30	-	-	7.25	-	6.99	-	<b>6.86</b>
1998/99	-	-	-	-	-	-	-	-	4.91	5.42	5.31	-	<b>5.13</b>
1999/00	-	-	-	-	5.67	5.57	6.08	7.28	6.14	-	-	-	<b>6.16</b>
2000/01	-	-	-	-	5.73	5.44	5.46	5.11	4.92	5.27	5.52	5.62	<b>5.26</b>
2001/02	-	-	-	-	5.51	5.15	5.66	5.56	5.14	5.04	4.99	4.43	<b>5.20</b>
2002/03	-	-	-	-	4.08	4.46	4.22	4.94	5.13	4.63	3.31	4.93	<b>4.71</b>
2003/04	5.31	5.18	5.30	5.15	5.12	4.95	4.70	4.04	3.02	2.65	2.57	3.81	<b>4.15</b>
2004/05	-	-	3.53	-	3.06	2.49	2.78	3.54	3.98	4.84	4.87	4.79	<b>4.32</b>
2005/06	-	-	3.87	3.93	3.09	3.42	3.50	3.80	4.31	4.20	3.74	4.04	<b>3.95</b>
2006/07	-	-	3.78	3.33	3.04	3.14	3.21	3.01	3.09	3.55	3.19	4.00	<b>3.50</b>
2007/08	-	3.04	3.04	3.28	3.40	4.67	6.45	5.95	4.82	5.30	5.66	6.47	<b>5.49</b>

**Table 17**  
**Weighted Average**  
**Interbank Transaction Rate**

(Percent)

<b>Mid-Month\Year</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
August	4.15	1.02	2.47	2.07	4.10
September	2.67	0.39	3.87	1.83	2.18
October	3.60	0.83	3.18	2.11	3.35
November	4.21	2.24	2.36	1.20	3.73
December	4.63	3.54	0.96	1.34	4.73
January	4.68	3.49	1.22	3.03	4.93
February	4.82	3.95	2.48	2.01	7.55
March	3.67	4.33	2.84	1.39	5.07
April	0.83	4.50	1.97	1.69	2.69
May	1.01	4.28	3.52	3.35	6.48
June	0.99	4.11	1.77	2.72	4.65
July	0.71	4.71	2.13	3.03	3.61
<b>Annual Average</b>	<b>3.03</b>	<b>3.39</b>	<b>2.47</b>	<b>2.26</b>	<b>4.20</b>

**Table 18**  
**Government Budgetary Operation**  
(Based on annual data)

(Rs. in million)

Heads	2006/07	2007/08 <sup>R</sup>	2008/09 <sup>E</sup>	Change		
				2007/08	2008/09	
				Percent	Amount	Percent
<b>Total Expenditure</b>	<b>133604</b>	<b>163313</b>	<b>236016</b>	<b>22.2</b>	<b>72703</b>	<b>44.5</b>
Recurrent	77122	91410	128517	18.5	37107	40.6
Capital	39730	55516	91310	39.7	35794	64.5
Principal repayment	16752	16387	16189	-2.2	-198	-1.2
<b>Revenue</b>	<b>87712</b>	<b>107546</b>	<b>141722</b>	<b>22.6</b>	<b>34176</b>	<b>31.8</b>
Tax Revenue	71122	85025	116560	19.5	31535	37.09
Non-tax revenue	15559	19840	23905	27.5	4065	20.49
Principal refund	1026	2681	1257	161.3	-1424	-53.11
<b>Surplus/deficit (before foreign grants)</b>	<b>-45892</b>	<b>-55767</b>	<b>-94294</b>	<b>21.5</b>	<b>-38527</b>	<b>69.1</b>
Foreign Loan	15801	22735	47093	43.9	24358	107.1
Bilateral	8399	10727	19130	27.7	8403	78.3
Multilateral	7402	12008	27964	62.2	15956	132.9
<b>Surplus/deficit (after foreign grants)</b>	<b>-30091</b>	<b>-33032</b>	<b>-47201</b>	<b>9.8</b>	<b>-14169</b>	<b>42.9</b>
Sources of deficit financing						
Foreign Loan	<b>10053</b>	<b>11325</b>	<b>18701</b>	<b>12.7</b>	<b>7376</b>	<b>65.1</b>
Bilateral	1049	1054	4805	0.5	3751	355.9
Multilateral	9005	10271	13896	14.1	3625	35.3
<b>Internal Loan</b>	<b>17892</b>	<b>20500</b>	<b>25000</b>	<b>14.6</b>	<b>4500</b>	<b>22.0</b>
<b>Change in cash balance, surplus (+), deficit (-)</b>	<b>-2146</b>	<b>-1207</b>	<b>-3500</b>	<b>-43.8</b>	<b>-2293</b>	<b>190.0</b>

R= Revised

E = Estimate

**Table 19**  
**Outstanding Domestic Debt of Government of Nepal**

(Rs. in million)

No.	Name of Bonds/Ownership	2005	2006	2007	2007/08												Amount Change Jul. 08 - Jul. 07
		Mid-Jul	Mid-Jul	Mid-Jul	Mid-Aug	Mid-Sep	Mid-Oct	Mid-Nov	Mid-Dec	Mid-Jan	Mid-Feb	Mid-Mar	Mid-Apr	Mid-May	Mid-Jun	Mid-Jul <sup>P</sup>	
<b>1</b>	<b>Treasury Bills</b>	<b>51383.1</b>	<b>62970.3</b>	<b>74445.3</b>	<b>74445.3</b>	<b>75445.3</b>	<b>76320.3</b>	<b>78318.0</b>	<b>78318.0</b>	<b>79443.0</b>	<b>80443.0</b>	<b>80443.0</b>	<b>82568.0</b>	<b>82568.0</b>	<b>80658.0</b>	<b>85033.0</b>	<b>10587.7</b>
	a. Banking Sector	50425.4	60855.1	72380.3	72380.3	73380.3	74170.3	76198.0	76198.0	77633.0	78435.5	78257.3	80672.3	80312.4	78485.4	82545.3	10165.0
	i. Nepal Rastra Bank	10923.8	9209.3	13768.8	15918.8	15918.8	20218.8	19766.5	19056.5	20686.5	21836.5	24956.5	26239.0	25379.0	21499.0	17579.0	3810.2
	ii. Commercial Banks	39501.6	51645.8	58611.5	56461.5	57461.5	53951.5	56431.5	57141.5	56946.5	56599.0	53300.8	54433.3	54933.4	56986.4	64966.3	6354.8
	b. Non-Banking Sector	957.7	2115.2	2065.0	2065.0	2065.0	2150.0	2120.0	2120.0	1810.0	2007.5	2185.7	1895.7	2255.6	2172.6	2487.7	422.7
<b>2</b>	<b>Development Bonds</b>	<b>19999.2</b>	<b>17959.2</b>	<b>19177.1</b>	<b>19177.1</b>	<b>19177.1</b>	<b>17177.1</b>	<b>18077.1</b>	<b>16565.4</b>	<b>18065.4</b>	<b>18065.4</b>	<b>18065.4</b>	<b>19565.4</b>	<b>19565.3</b>	<b>19565.3</b>	<b>21735.4</b>	<b>2558.3</b>
	a. Banking Sector	9623.2	7789.6	7798.9	7798.9	7798.9	6232.0	6618.7	5100.1	5521.1	5521.1	5516.6	6251.3	6252.1	6254.2	7313.2	-485.7
	i. Nepal Rastra Bank	1518.7	1518.6	1518.6	1518.6	1518.6	1518.7	1518.7	0.0	0.0	0.0	0.0	4.6	5.4	7.5	296.5	-1222.1
	ii. Commercial Banks	8104.5	6271.0	6280.3	6280.3	6280.3	4713.3	5100.1	5100.1	5521.1	5521.1	5516.6	6246.7	6246.7	6246.7	7016.7	736.4
	b. Non-Banking Sector**	10376.0	10169.6	11378.2	11378.2	11378.2	10945.1	11458.4	11465.4	12544.3	12544.3	12548.9	13314.2	13313.3	13311.2	14422.3	3044.1
<b>3</b>	<b>National/Citizen Savings Certificates</b>	<b>6576.8</b>	<b>3876.8</b>	<b>1516.9</b>	<b>1517.0</b>	<b>1517.0</b>	<b>1517.0</b>	<b>1516.9</b>	<b>1516.9</b>	<b>1516.9</b>	<b>1516.9</b>	<b>1516.9</b>	<b>1516.9</b>	<b>1516.9</b>	<b>1516.9</b>	<b>1117.0</b>	<b>-399.9</b>
	a. Banking Sector	231.4	254.4	279.5	280.6	280.7	280.7	287.3	292.1	301.1	320.6	336.8	386.0	393.1	424.4	447.2	167.7
	i. Nepal Rastra Bank	231.4	254.4	279.5	280.6	280.7	280.7	287.3	292.1	301.1	320.6	336.8	386.0	393.1	424.4	447.2	167.7
	ii. Commercial Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	b. Non-Banking Sector +	6345.4	3622.4	1237.4	1236.4	1236.3	1236.3	1229.6	1224.8	1215.9	1196.3	1180.1	1130.9	1123.8	1092.5	669.8	-567.6
<b>4</b>	<b>Citizen Savings Certificates</b>	<b>1428.9</b>	<b>1678.9</b>	<b>1391.0</b>	<b>1391.0</b>	<b>1391.0</b>	<b>1391.0</b>	<b>1691.0</b>	<b>1691.0</b>	<b>1888.0</b>	<b>1888.0</b>	<b>1888.0</b>	<b>2388.0</b>	<b>2388.0</b>	<b>2387.9</b>	<b>3014.3</b>	<b>1623.3</b>
	a. Banking Sector	49.6	55.3	62.7	62.8	63.3	63.3	71.7	76.2	88.1	133.5	216.2	332.4	355.6	395.9	562.7	500.0
	i. Nepal Rastra Bank	49.6	55.3	62.7	62.8	63.3	63.3	71.7	76.2	88.1	133.5	216.2	332.4	355.6	395.9	562.7	500.0
	ii. Commercial Banks	1379.3	1623.6	1328.3	1328.2	1327.7	1327.7	1619.3	1614.7	1799.9	1754.5	1671.7	2055.6	2032.4	1992.0	2451.6	1123.3
	b. Non-Banking Sector																
<b>5</b>	<b>Special Bonds</b>	<b>3454.0</b>	<b>3469.8</b>	<b>2773.5</b>	<b>2773.5</b>	<b>2773.5</b>	<b>2773.5</b>	<b>2773.5</b>	<b>2773.5</b>	<b>2773.5</b>	<b>2773.5</b>	<b>1300.0</b>	<b>1191.2</b>	<b>1191.2</b>	<b>1191.2</b>	<b>339.4</b>	<b>-2434.1</b>
	a. Banking Sector	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	157.6	-787.0
	i. Nepal Rastra Bank ++	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	ii. Commercial Banks	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	944.6	157.6	-787.0
	b. Non-Banking Sector	2509.4	2525.2	1828.9	1828.9	1828.9	1828.9	1828.9	1828.9	1828.9	1828.9	355.4	246.6	246.6	246.6	181.8	-1647.1
	(Of which duty drawback)	1035.9	1051.8	355.4	355.4	355.4	355.4	355.4	355.4	355.4	355.4	355.4	355.4	355.4	357.4	2.0	
<b>6</b>	<b>Short Term Loan &amp; Advances</b>	<b>2623.0</b>	<b>1071.0</b>	<b>-3122.5</b>	<b>-6828.2</b>	<b>-7061.8</b>	<b>3603.6</b>	<b>-2100.5</b>	<b>-548.0</b>	<b>-10195.9</b>	<b>-8293.4</b>	<b>-7465.1</b>	<b>-13426.0</b>	<b>-12990.7</b>	<b>-9771.3</b>	<b>-5526.9</b>	<b>-2404.4</b>
	Nepal Rastra Bank	2623.0	1071.0	-3122.5	-6828.2	-7061.8	3603.6	-2100.5	-548.0	-10195.9	-8293.4	-7465.1	-13426.0	-12990.7	-9771.3	-5526.9	-2404.4
<b>7</b>	<b>Grand Total</b>	<b>85465.1</b>	<b>91025.9</b>	<b>96181.4</b>	<b>92475.7</b>	<b>93242.0</b>	<b>102782.5</b>	<b>100276.0</b>	<b>100316.9</b>	<b>93490.9</b>	<b>96393.4</b>	<b>95748.2</b>	<b>93803.5</b>	<b>94238.7</b>	<b>95548.0</b>	<b>106012.1</b>	<b>9830.7</b>
	a. Banking Sector	63897.3	70970.1	78343.6	74639.1	75406.0	85294.5	82019.9	82063.0	74291.9	77061.9	77806.4	75160.6	75267.1	76733.2	85799.1	7455.5
	i. Nepal Rastra Bank	15346.5	12108.6	12507.2	10952.6	10719.6	25685.1	19543.7	18876.8	10879.7	13997.2	18044.4	13536.0	13142.4	12555.5	13658.5	1151.3
	ii. Commercial Banks	48550.7	58861.4	65836.4	63686.4	64686.4	59609.4	62476.2	63186.2	63412.2	63064.7	59762.0	61624.6	62124.7	64177.7	72140.6	6304.2
	b. Non-Banking Sector	21567.8	20055.8	17837.8	17836.6	17836.0	17488.0	18256.2	18253.8	19199.0	19331.5	17941.8	18643.0	18971.7	18814.9	20213.1	2375.3

\*\* Includes Rs. 35.61 million of various funds of NRB.

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

++ IMF Promissory Note is not included.

P Provisional

Source : Nepal Rastra Bank.

**Table 20**  
**Direction of Foreign Trade\***

Annual

(Rs in million)

	2003/04	2004/05	2005/06	2006/07	2007/08P	% Change	
						2006/07	2007/08
<b>TOTAL EXPORTS</b>	<b>53910.7</b>	<b>58705.7</b>	<b>60234.1</b>	<b>59383.1</b>	<b>60787.5</b>	<b>-1.4</b>	<b>2.4</b>
To India	30777.1	38916.9	40714.7	41728.8	38626.4	2.5	-7.4
To Other Countries	23133.6	19788.8	19519.4	17654.3	22161.1	-9.6	25.5
<b>TOTAL IMPORTS</b>	<b>136277.1</b>	<b>149473.6</b>	<b>173780.3</b>	<b>194694.6</b>	<b>226116.0</b>	<b>12.0</b>	<b>16.1</b>
From India	78739.5	88675.5	107143.1	115872.3	144524.1	8.1	24.7
From Other Countries	57537.6	60798.1	66637.2	78822.3	81591.9	18.3	3.5
<b>TOTAL TRADE BALANCE</b>	<b>-82366.4</b>	<b>-90767.9</b>	<b>-113546.2</b>	<b>-135311.5</b>	<b>-165328.5</b>	<b>19.2</b>	<b>22.2</b>
With India	-47962.4	-49758.6	-66428.4	-74143.5	-105897.7	11.6	42.8
With Other Countries	-34404.0	-41009.3	-47117.8	-61168.0	-59430.8	29.8	-2.8
<b>TOTAL FOREIGN TRADE</b>	<b>190187.8</b>	<b>208179.3</b>	<b>234014.4</b>	<b>254077.7</b>	<b>286903.5</b>	<b>8.6</b>	<b>12.9</b>
With India	109516.6	127592.4	147857.8	157601.1	183150.5	6.6	16.2
With Other Countries	80671.2	80586.9	86156.6	96476.6	103753.0	12.0	7.5

<b>1. Ratio of Export to Import</b>	<b>39.6</b>	<b>39.3</b>	<b>34.7</b>	<b>30.5</b>	<b>26.9</b>
India	39.1	43.9	38.0	36.0	26.7
Other Countries	40.2	32.5	29.3	22.4	27.2
<b>2. Share in Total Export</b>					
India	57.1	66.3	67.6	70.3	63.5
Other Countries	42.9	33.7	32.4	29.7	36.5
<b>3. Share in Total Import</b>					
India	57.8	59.3	61.7	59.5	63.9
Other Countries	42.2	40.7	38.3	40.5	36.1
<b>4. Share in Trade Balance</b>					
India	58.2	54.8	58.5	54.8	64.1
Other Countries	41.8	45.2	41.5	45.2	35.9
<b>5. Share in Total Trade</b>					
India	57.6	61.3	63.2	62.0	63.8
Other Countries	42.4	38.7	36.8	38.0	36.2
<b>6. Share of Export and Import in Total Trade</b>					
Export	28.3	28.2	25.7	23.4	21.2
Import	71.7	71.8	74.3	76.6	78.8

\* On customs data basis

E = Estimated

**Table 21**  
**Balance of Payments Situation**

(Rs in million)

Particulars	2005/06	2006/07	2007/08P	% Change	
				Annual	
				2006/07	2007/08
<b>A. Current Account</b>	<b>14224.5</b>	<b>-902.2</b>	<b>21658.9</b>	<b>-106.3</b>	<b>-2500.7</b>
Goods: Exports f.o.b.	61482.4	61488.4	63939.2	0.0	4.0
Oil	0.0	0.0	0.0	-	-
Other	61482.4	61488.4	63939.2	0.0	4.0
Goods: Imports f.o.b.	-171540.8	-190437.1	-221650.2	11.0	16.4
Oil	-33657.2	-33567.6	-39879.5	-0.3	18.8
Other	-137883.6	-156869.5	-181770.7	13.8	15.9
<b>Balance on Goods</b>	<b>-110058.4</b>	<b>-128948.7</b>	<b>-157711.0</b>	<b>17.2</b>	<b>22.3</b>
<b>Services: Net</b>	<b>-6818.3</b>	<b>-8377.3</b>	<b>-11393.4</b>	<b>22.9</b>	<b>36.0</b>
Services: Credit	26469.7	32078.9	42236.1	21.2	31.7
Travel	9555.8	10125.3	18653.1	6.0	84.2
Government n.i.e.	7441.5	12336.4	13301.8	65.8	7.8
Other	9472.4	9617.2	10281.2	1.5	6.9
Services: Debit	-33288.0	-40456.2	-53629.5	21.5	32.6
Transportation	-12592.3	-14557.4	-22969.2	15.6	57.8
Travel	-11960.8	-15785.0	-20862.0	32.0	32.2
o/w Education	-3445.6	-6336.6	-7373.0	83.9	16.4
Government services: debit	-698.2	-189.4	-635.7	-72.9	235.6
Other	-8734.9	-10113.8	-9798.3	15.8	-3.1
<b>Balance on Goods and Services</b>	<b>-116876.7</b>	<b>-137326.0</b>	<b>-169104.4</b>	<b>17.5</b>	<b>23.1</b>
<b>Income: Net</b>	<b>4955.5</b>	<b>7431.8</b>	<b>7946.8</b>	<b>50.0</b>	<b>6.9</b>
Income: Credit	11432.3	14500.8	13447.7	26.8	-7.3
Income: Debit	-6476.8	-7069.0	-5500.9	9.1	-22.2
<b>Balance on Goods, Services and Income</b>	<b>-111921.2</b>	<b>-129894.2</b>	<b>-161157.6</b>	<b>16.1</b>	<b>24.1</b>
<b>Transfers: Net</b>	<b>126145.7</b>	<b>128992.0</b>	<b>182816.5</b>	<b>2.3</b>	<b>41.7</b>
Current Transfers: Credit	130861.7	133196.8	185462.9	1.8	39.2
Grants	18851.1	18218.2	20993.2	-3.4	15.2
Workers' Remittances	97688.5	100144.8	142682.7	2.5	42.5
Pensions	12007.6	12937.0	18789.9	7.7	45.2
Other (Indian Excise Refund)	2314.5	1896.8	2997.1	-18.0	58.0
Current Transfers: Debit	-4716.0	-4204.8	-2646.4	-10.8	-37.1
<b>B Capital Account (Capital Transfer)</b>	<b>3107.0</b>	<b>4449.9</b>	<b>7912.5</b>	<b>43.2</b>	<b>77.8</b>
<b>Total, Groups A plus B</b>	<b>17331.5</b>	<b>3547.7</b>	<b>29571.4</b>	<b>-79.5</b>	<b>733.5</b>
<b>C Financial Account (Excluding Group E)</b>	<b>-1324.5</b>	<b>-2362.1</b>	<b>12831.7</b>	<b>78.3</b>	<b>-643.2</b>
Direct investment in Nepal	-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	-12354.6	-23.7	15.6
Trade Credits	-1629.5	-5127.6	-105.3	214.7	-97.9
Other	-12379.3	-5562.4	-12249.3	-55.1	120.2
Other Investment: Liabilities	13154.0	7965.6	24892.4	-39.4	212.5
Trade Credits	9232.5	1727.8	15241.2	-81.3	782.1
Loans	526.9	1455.6	3391.5	176.3	133.0
General Government	703.7	2150.7	3455.9	205.6	60.7
Drawings	7691.0	9689.7	11325.5	26.0	16.9
Repayments	-6987.3	-7539.0	-7869.6	7.9	4.4
Other Sectors	-176.8	-695.1	-64.4	293.2	-90.7
Currency and Deposits	3394.6	4782.2	6259.7	40.9	30.9
Nepal Rastra Bank	-116.5	2.4	-5.6	-102.1	-333.3
Deposit Money Banks	3511.1	4779.8	6265.3	36.1	31.1
Other Liabilities	0.0	0.0	0.0	-	-
<b>Total, Group A through C</b>	<b>16007.0</b>	<b>1185.6</b>	<b>42403.1</b>	<b>-92.6</b>	<b>3,476.5</b>
<b>D. Miscellaneous Items, Net</b>	<b>12985.4</b>	<b>9500.9</b>	<b>-6468.7</b>	<b>-26.8</b>	<b>-168.2</b>
<b>Total, Group A through D</b>	<b>28992.4</b>	<b>10686.5</b>	<b>35934.4</b>	<b>-63.1</b>	<b>236.3</b>
<b>E. Reserves and Related Items</b>	<b>-28992.4</b>	<b>-10686.5</b>	<b>-35934.4</b>	<b>-63.1</b>	<b>236.3</b>
Reserve Assets	-28992.3	-13410.2	-37002.0	-53.7	175.9
Nepal Rastra Bank	-21297.1	-10963.2	-29636.8	-48.5	170.3
Deposit Money Banks	-7695.2	-2447.0	-7365.2	-68.2	201.0
Use of Fund Credit and Loans	-0.1	2723.7	1067.6	-	-60.8
<b>Changes in Reserve Net (- increase)</b>	<b>-25597.8</b>	<b>-5904.3</b>	<b>-29674.7</b>	<b>-76.9</b>	<b>402.5</b>

P= Provisional



**Table 22**  
**Gross Foreign Exchange Holding of the Banking Sector**

(Rs in million)

							Percent Change	
	Mid-Jul.	Mid-Jul.	Mid-Jul.	Mid-Jul.	Mid-Jul.	Mid-Jul.	Annual	
	2003	2004	2005	2006	2007	2008	2007	2008
<b>Nepal Rastra Bank</b>	<b>86966.1</b>	<b>107915.9</b>	<b>104423.7</b>	<b>131967.6</b>	<b>129626.4</b>	<b>169683.6</b>	<b>-1.8</b>	<b>30.9</b>
Convertible	76752.0	96235.9	100823.6	124147.2	123755.3	142848.8	-0.3	15.4
Inconvertible	10214.1	11680.0	3600.1	7820.4	5871.1	26834.8	-24.9	357.1
<b>Commercial Bank</b>	<b>21263.3</b>	<b>22289.2</b>	<b>25472.7</b>	<b>33065.4</b>	<b>35499.6</b>	<b>42939.9</b>	<b>7.4</b>	<b>21.0</b>
Convertible	20249.2	20709.1	23154.9	31790.7	31681.0	38827.1	-0.3	22.6
Inconvertible	1014.1	1580.1	2317.8	1274.7	3818.6	4112.8	199.6	7.7
<b>Total Reserve</b>	<b>108229.4</b>	<b>130205.1</b>	<b>129896.4</b>	<b>165033.0</b>	<b>165126.0</b>	<b>212623.5</b>	<b>0.1</b>	<b>28.8</b>
Convertible	97001.2	116945.0	123978.5	155937.9	155436.3	181675.9	-0.3	16.9
Share in total (in percent)	89.6	89.8	95.4	94.5	94.1	85.4		
Inconvertible	11228.2	13260.1	5917.9	9095.1	9689.7	30947.6	6.5	219.4
Share in total (in percent)	10.4	10.2	4.6	5.5	5.9	14.6		
<b>Import Capacity (Equivalent Months)</b>								
Merchandise	10.4	11.5	10.4	11.4	10.3	11.3	-	-
Merchandise and Services	9.0	9.7	8.8	9.6	8.5	9.1	-	-
1.Gross Foreign Exchange Reserve	108229.4	130205.1	129896.4	165033.0	165126.0	212623.5	0.1	28.8
2.Gold, SDR, IMF Gold Tranche	1076.9	1160.9	1020.5	1068.7	587.5	630.6	-45.0	7.3
3.Gross Foreign Assets(1+2)	109306.3	131366.0	130916.9	166101.7	165713.5	213254.1	-0.2	28.7
4.Foreign Liabilities	17899.3	22561.4	23174.8	26662.5	33804.0	41805.7	26.8	23.7
5.Net Foreign Assets(3-4)	91407.0	108804.6	107742.1	139439.2	131909.5	171448.4	-5.4	30.0
6.Change in NFA (before adj. ex. val.)*	-2987.8	-17397.6	1062.5	-31697.1	7529.7	-39538.9	-	-
7.Exchange Valuation (- loss)	-1375.6	1392.5	-6804.8	6099.4	-13434.0	9871.4	-	-
<b>8.Change in NFA (- increase) (6+7)**</b>	<b>-4363.4</b>	<b>-16005.1</b>	<b>-5742.3</b>	<b>-25597.7</b>	<b>-5904.3</b>	<b>-29674.7</b>	<b>-</b>	<b>-</b>
<b>Period end buying rate (Rs/US\$):</b>	<b>74.75</b>	<b>74.14</b>	<b>70.35</b>	<b>74.10</b>	<b>64.85</b>	<b>68.50</b>		

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

\*\* = After adjusting exchange valuation gain/loss.

E = Estimated.

**Table 23**  
**Import from India**  
**Against US Dollar Payment**

(Rs. in million)

<b>Mid-Month</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
August	726.1	980.1	957.5	2133.8
September	1117.4	977.6	1208.0	1655.2
October	1316.8	907.9	865.7	2411.6
November	1186.5	1103.2	1188.3	2065.7
December	1205.8	1583.7	1661.4	2859.9
January	1394.9	1156.2	1644.0	3805.5
February	1154.4	603.8	717.0	2962.1
March	1107.8	603.0	1428.5	1963.1
April	1567.2	1398.6	2052.9	3442.1
May	1830.8	916.4	2714.8	3420.2
June	1825.2	1181.5	1711.2	2205.7
July	1900.2	1394.0	1571.8	3091.4
<b>Total</b>	<b>16333.1</b>	<b>12805.9</b>	<b>17720.9</b>	<b>32016.4</b>

**Table 24**  
**Indian Currency Purchase**

(Rs. in million)

Mid-Month	2004/05		2005/06		2006/07		2007/08	
	IC Purchase	US\$ Sale	IC Purchase	US\$ Sale	IC Purchase	US\$ Sale	IC Purchase	US\$ Sale
August	1,847.36	40.0	2,611.31	60.0	2,334.58	50.0	3,641.63	90.0
September	-	0.0	2,191.90	50.0	2,786.48	60.0	3,675.43	90.0
October	-	0.0	2,652.09	50.0	3,205.30	70.0	5,542.73	140.0
November	-	0.0	1,810.73	40.0	3,602.15	80.0	3,932.35	100.0
December	1,340.73	30.0	2,290.13	50.0	2,689.33	60.0	5,531.60	140.0
January	437.30	10.0	1,348.15	40.0	3,112.01	70.0	3,943.45	100.0
February	2,183.23	50.0	2,213.55	50.0	1,326.74	30.0	5,125.83	130.0
March	2,624.23	60.0	3,106.10	70.0	3,093.78	70.0	4,799.95	120.0
April	436.25	10.0	3,124.50	70.0	3,457.58	80.0	5,624.83	140.0
May	3,052.16	70.0	452.95	10.0	4,950.64	120.0	6,474.78	160.0
June	2,177.63	50.0	2,742.23	60.0	5,293.27	130.0	7,678.38	180.0
July	1,306.88	30.0	2,304.98	50.0	4,475.85	110.0	14,631.58	340.0
<b>Total</b>	<b>15,405.75</b>	<b>350.0</b>	<b>26,848.61</b>	<b>600.0</b>	<b>40,327.67</b>	<b>930.0</b>	<b>70,602.50</b>	<b>1730.0</b>