



# Nepal Rastra Bank

## Press News

The Central Bank announced the mid-term assessment of the Monetary Policy on Friday saying that the policy has begun to steer the economy towards stability.

Both the difficult Balance of Payments situation, and the pressure on prices witnessed during the past two fiscal years have begun to improve in accordance with the goals of the monetary policy announced by the Nepal Rastra Bank (NRB) in July 2011.

The Central Bank has reported a general improvement in the economic situation, including a BOP surplus, while the pressure on food prices have eased.



“Public confidence in the financial system has improved and depositors are back to the banks,” said Yuba Raj Khatiwada, Governor. “This has helped the financial system to overcome the liquidity crunch.”

He added, “The performance of the economy has vindicated the monetary policy stance that will be continued, focusing on improving the BOP, controlling prices and guiding investments to the productive sectors while ensuring financial stability.”

In the Monetary Policy review the Bank said, an unanticipated increase in imports and a decline in remittances could strain the BOP again and that there is also the likelihood that rising non-food prices could offset the gains resulting from the lower food prices.

The Bank said that favorable weather last year would make it possible to attain a 4.75 percent growth in the agricultural GDP, while the non-agriculture sector would grow by 4.25 percent in fiscal year 2011/12, bolstered by continued expansion of the services sector.

The bank estimated an overall GDP growth of 4.5 percent in basic prices and a 5 percent

growth in producer price terms in fiscal year 2011/12. The bank has estimated that average inflation would remain at around 8 percent in fiscal year 2011/12.

The bank estimated that the BOP surplus would remain around Rs 40 billion, even in the event of an increase in imports alongside an increase in end-year government spending, and a slowdown in remittances.

The central bank said industrial output remained largely unchanged owing to the ongoing political transition, slow improvement in the law and order and power shortages.

The NRB has revised its estimate for Broad Money Growth by 15 percent against the earlier projection of 12.5 percent. It has retained its earlier estimate of growth of private sector credit at 14 percent.

As a policy stance, the NRB has kept the option of outright sale of government bonds held by it as a measure for ensuring stable monetary management. It has also adopted a policy to direct investment in the productive sectors through a selective credit approach, and to continuously monitor the interest rate spread on credit and deposits.

The Bank said that the financial institutions still have a high direct and indirect exposure to housing and real estate credit that has to be corrected in order to prevent their balance sheets from worsening.

The main objectives of the Monetary Policy 2011/12 were controlling inflation, maintaining a favorable Balance of Payments (BOP) situation and facilitating economic growth by maintaining financial stability. The NRB had expected the average annual inflation rate to be around 7 percent.

Another Monetary Policy goal was to focus on improving the BOP situation for maintaining foreign exchange reserves sufficient to cover at least six months of goods and service imports. It had targeted a BOP surplus of about Rs. 5 billion.

10 February 2012

Office of the Governor