MONETARY AND FINANCIAL REFORM IN NEPAL: IMPLICATION FOR ADJUSTMENT AND GROWTH

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The monetary and financial sector plays a crucial role in the process of economic development. It is not only a means for financial intermediation but also a medium to invest available economic resources for optimum social uses. Although Nepal has adopted a planned development strategy since the implementation of its first Five Year Plan in 1956, the financial sector has not been responsive enough to meet the growing resource need as aspired by the Plan which is reflected in the increasing resource gap (Table 1). Therefore, considerable attention has been given to monetary and financial sector reform in recent years.

The process of monetary and financial sector reform can be broadly subdivided into two periods: (1) before the implementation of Structural Adjustment Programme, and (2) after the implementation of Structural Adjustment Programme in 1987.

Before the implementation of Structural Adjustment Programme, very few reforms in monetary and financial sector could be noticed. They can be categorized under four major headings: (a) interest rate reform, (b) exchange rate reform, (c) entry of joint venture banks, and (d) permission to Agricultural Development Bank branches to conduct commercial banking functions.

During 1975, a major revision took place in the deposit and loan rates of banks and financial institutions. This revision assured depositors a positive real rates of return on their savings. The effect of this revision led time deposits to be the most significant instrument on the sources side of the

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commercial bank's balance sheet. Similarly, with a view to rationalizing the interest rate structure of banks and financial institutions and to make it more market related the deposit and loan rates of commercial banks were partially liberalized in May 1986 wherein only minimum interest rate on deposits was fixed by the monetary authorities without any ceiling on the maximum rate. Similarly, on the lending side, maximum interest rate on priority sector lending was fixed by the monetary authorities whereas all other lending rates were left at the discretion of commercial banks. The partial liberalization of interest rates had a positive impact on savings mobilization as some commercial banks offered savings rate as high as 9.5 per cent (1.5 per cent higher than the minimum ceiling). Regarding fixed deposits, a uniform rate of 8.5 per cent prevailed in all commercial banks for deposits with a maturity period of three months. These rates, however, varied between 8.75 per cent and 12.0 per cent regarding 6 month , 9 month and less than one year deposits. Similarly, all the banks were unanimous in fixing 12.5 per cent for one year fixed deposits. However, the interest rates varied between 13.5 per cent and 14.0 per cent for deposits with a maturity period of two years and above. This interest rate revision has assured, on most cases, a positive real rate of return to depositors particularly of fixed deposits (Table 2).

Prior to the introduction of the basket system in June 1986, when the Nepalese rupee was pegged to a basket of currencies of its major trading partners, the exchange rate of Nepalese rupee vis-a-vis the convertible currencies was quoted daily with the US dollar as the intervention currency. As the regulated exchange rate system could not effectively adjust itself against a sharp depreciatio of the Nepalese rupee in terms of real effective exchange rate, the exchange rate was made more realistic when the rupee was devalued by 14.7 per cent effective Nov. 30, 1985. Similarly, in June 1986, the Nepalese rupee was pegged to a basket of curencies of its major trading partners. This measure and monitoring of real effective exchange rate movement based on this currency basket system has provided a built-in flexibility in the exchange rate system.

With the need to promote competition among various financial institutions, the monetary authorities allowed the entry of commercial banks with foreign bank collaboration (joint venture banks) for the first time when Nepal Arab Bank Ltd. was established in 1984 which was later followed by the establishment of Nepal Indosuez Bank Ltd. and Nepal Grindlays Bank Ltd. Another measure towards monetary sector reform was taken in July 1984 when Agricultural Development Bank branches were permitted to collect deposits from the public. This was a significant milestone in financial development as a development bank was allowed to conduct commercial banking business. This measure had a profound impact on the sources side of the ADB/N. It not only reduced the excessive dependence of ADB/N on central bank resources for its lending operations but also savings from the urban areas was invested to improve living conditions of the rural agrarian community, thereby promoting income distribution in favour of the poor class of society. This measure also had a positive impact on curbing monetary expansion.

The monetary and financial sector reform under the structural adjustment programme was initiated with a view to consolidate the gains from devaluation with the following main objectives: (a) to increase the mobilisation of domestic resources, (b) to improve the utilization of foreign aid, and (c) to promote a more efficient allocation of resources, thereby contributing to an acceleration of the pace of economic development while making progress towards the achievement of a viable balance of payments position. This programme includes, among other things, a comprehensive set of monetary and financial reforms in coordination with other macro-economic policieis. Under the structural adjustment programme a series of measures for monetary and financial sector reform have been implemented to maintain external and internal stability of the economy and to correct structural constraints for improving allocative efficiency of the economy. Some of the major financial sector reforms could be outlined as below:

1. Credit Ceiling

The Seventh Plan (1985-1990) has fixed the target for monetary expansion at 13 per cent to maintain the price and balance of payments stability. However, the actual average monetary expansion during the first four year period of the Plan has come closer to 21.6 per cent. In order to insulate the economy from the excess liquidity position, Nepal Rastra Bank had imposed credit ceiling on net bank credit to the government, credit to the non-financial public enterprises, and net domestic assets of the banking system since the fiscal year 1986/87. The effect of this imposition of credit ceiling had been positive till the fiscal year 1987/88. However, during the fiscal year 1988/89, domestic credit exerted a significant impact on rapid monetary expansion due to large increase in net bank credit to the government following the trade and transit stalemate with India in March 1989, after which the public revenue declined sharply while public expenditure, particularly development expenditure, could not be restrained. Increase in the landed costs for imports further aggravated this situation. Among the external factors, net foreign assets have played a significant role in moentary expansion particularly after the imposition of structural adjustment programme. For the fiscal year 1989/90, sectoral credit ceilings have been fixed for net bank credit to the government, credit to non-financial public sector and net domestic assets of the banking system in line with the projected change in gross domestic product, inflationary expectation and balance of payments forecasts.

2. Interest Rate Reform

The interest rate reform measure which was initiated in 1975 and partially deregulated in May 1986 was further consolidated. In this process Nepal Rastra Bank completely liberalized the interest rate structure of banks and financial institutions, effective August 31, 1989. Accordingly, commercial banks and other financial institutions were let free to determine their own deposit and lending rates. This measure was initiated with a view to provide more option to commercial banks in the mobilization of savings and portfolio management through market determined interest and lending rates.

After the liberalisation of the interest rate structure of banks and financial institutions, commercial banks have adjusted their borrowing and lending rates accordingly. Major commercial banks have maintainted the savings deposits rate at 8.5 per cent while some banks have lowered the rate between 0.5 and 1.0 per cent. Interest rates on fixed deposits, particularly of 1 year, 2 year and higher maturity, have been normally lowered between the range of 0.5 per cent and 1.25 percentage points (Table 3). However, a similar reduction in lending rates has not been observed till now. Although it is quite premature to evaluate the actual impact of these measures in such short span of time, its likely impact in the longer run could be as follows: (a) creation of a competitive environment among the commercial banks and financial institutions, (b) banks may have wider spread so as to manage the existing high liquidity position and to ensure profitability, (c) banks are likely to lower their lending rates as they can lower their deposit rates, (d) it will help the open market operation to be more active as the present difference in interest rates on bank deposits and government bonds is likely to be narrowed, and finally, (e) lending rates will help bring about optimum utilization of available economic resources.

3. Modification in the procedure for auction of Treasury Bills and Development Bonds

In order to introduce greater flexibility in the interest rate structure and strengthen monetary and government domestic debt management, Nepal Rastra Bank, since the fiscal year 1988/89, has initiated regular auctions of Treasury Bills (even of 182 days' maturity) and development bonds (with a maturity period of 3 years, 5 years and 7 years). In line with this development, Nepal Rastra Bank has already published a time table for auctioning of treasury bills and development bonds. As per the notice, auctioning of treasury bills and development bonds will be held as follows: 91 days' treasury bills, on the 27th day of every Nepalese month, 182 days' treasury bills on the 12th day of every Nepalese month, and development bonds at mid-December 1989, mid-March and mid-June, 1990. These sales of government securities are now being conducted in the context of a comprehensive short-term monetary programming framework.

With the introduction of these measures, interest rates on treasury bills and development bonds have been market determined and could be effectively used as a potential tool of monetary management.

4. Redesigning of Nepal Rastra Bank Refinance Facility

In order to strengthen monetary and government domestic debt management, NRB redesigned its rediscounting facilities in the form of three windows effective August 31, 1989. These windows are: (a) basic window, (b) selective window, and (c) lender of the last resort window. The basic window has been envisaged for rediscounting of government securities with a view to aid the open market operations. The basic rate has been fixed at 11 per cent which is applicable for rediscounting the government securities with a maturity period of one month or less. The selective window rate has been kept at the same rate as that of the basic rate. The lender of the last resort rate will be equal to that of the maximum lending rate of banks. This system of refinance has discouraged automatic refinance on government securities and has forced the commercial banks to follow a prudent cash management policy.

5. Call Money Market

In order to reduce the dependence of commercial banks and other financial institutions with the Nepal Rastra Bank for the use of short term funds, a call money market was established during the fiscal year 1988/89. From this market commercial banks can borrow short term funds for a maximum period of six months. As each commercial bank will nominate its own dealer, the interest rate on such transaction will be decided on a mutually agreed term. This market has already started to function and the interest rate on such borrowing has risen to as high as 14 per cent. With the introduction of this market, financial institutions and commercial banks have been able to lessen their excessive depedence on central bank funds for short period.

6. Capital Adequacy Ratio

Nepal Rastra Bank has directed the commercial banks to increase their capital base (paid up capital, general reserve fund, and undistributed profit) to 2.5 per cent to their total deposits by mid-July 1989, 3.5 per cent by mid-July 1990, 5.5 per cent by mid-July 1991 and thereafter. For this purpose deposit of the preceding mid-July has been regarded as the base for computational purposes. Similarly, the bank has also directed the commercial banks to meet any shortfall in capital adequacy ratio by transferring part of profit to general reserve a/c or by increasing their capital base. For this purpose total deposit is inclusive of current, fixed and savings deposit but exclusive of importers' margin deposit. This measure has been initiated to enable the commercial banks to undertake more risk in view of expansion of areas of operation.

7. Single Borrower Limit

In order to restrict the over exposure of bank credit to a single borrower of same group of companies, Nepal Rastra Bank issued a directive to commercial banks on March 1, 1989 to limit loans and advances to a single borrower, firm, company or same group of companies to a maximum of 50 per cent of capital base. Similarly, single borrower limit for credit under L/C, guarantee, acceptances and commitments have been fixed at 100 per cent of capital base. There is also a provision to lower this ratio to 25 and 50 per cent respectively by mid-July 1992. Accordingly, single borrower limit on loans and advances will be limited to 25 per cent of capital base, and credit under L/C, guarantee, and acceptances and commitments, etc., will be lowered to 50 per cent of capital base. This measure was initiated with a view to lower the concentration of bank lending in a particular group of companies and thereby lower the risk element.

8. Credit Information Bureau

On May 14, 1989, a Credit Information Bureau (CIB) was established under the aegis of Nepal Bankers' Association. The Bureau has been supplying necessary credit information to all member banks regarding credit defaulters. For this purpose every member bank is required to submit the list of borrowers and overdue credit to the Bureau in specified formats. This measure is expected to prevent the misuse of bank funds.

9. Classification of Outstanding Credit

On March 2, 1989, Nepal Rastra Bank has directed the commercial banks to classify the outstanding loans and advances on the basis of maturity into four categories, e.g., good, substandard, doubtful and bad. For purposes of classification, good credit rating is given to those borrowers whose credit (including principal and interest) is not overdue at all or overdue only by six months; substandard loan with an overdue period exceeding six months but less than one year, doubtful loan with an overdue credit exceeding one year but less than five years, and bad loan for overdue credit exceeding five years' period or where there is no collateral or the creditor is missing or where a case has been registered in the court for loan recovery. Nepal Rastra Bank has also directed the commercial banks to create reserves for bad and doubtful debts by transferring out of profit to meet any contigency. For good loans, banks need not make any provisioning, while they are obliged to make provisioning for other groups of loans.

10. Productive Sector Credit

As the commercial banks' credit and investment was concentrated in highly profitable but less risky economic activities, the penetration of bank resources in such areas alone left a credit gap in other sectors of the economy, particularly agricultural and industrial sectors. To overcome this situation and to divert commercial bank resources in such sectors, Nepal Rastra Bank has directed the commercial banks to invest at least 25 per cent of their outstanding loans and advances in productive sector lending (inclusive of a minimum of 8 per cent on priority sector). If the flow of credit to these sectors is below the prescribed level, commercial banks have been directed to deposit this shortfall amount in special non-interest bearing account with the Nepal Rastra Bank. Effective mid-July 1990, commercial banks' outstanding credit to the priority sector would be raised to 12 per cent while productive sector lending has been stipulated at 40 per cent of total outstanding loans. This measure has been initiated not only with a view to diversify the portfolio of commercial bank funds but also with a view to meet credit gap in these sectors.

11. <u>Implementation of short term Monetary Programming</u>

Nepal Rastra Bank, since August 1989, has started to set a comprehensive short term monetary programming framework. In this exercise, Nepal Rastra Bank has been regularly monitoring the level of reserve money and has co-ordinated the reserve money management with the public debt operation. Open market operation of treasury bill and other government securities has been used as a potent tool in the pursuance of monetary policy objectives. Similarly, use of other indirect instruments of monetary control has been made as and when necessary. In this regard, Nepal Rastra Bank has already taken strong action to mop up excess liquidity, including an increase in cash reserve requirement of commercial bank from 9 per cent of deposit liabilities to 12 per cent (effective as of September 1989) and sizeable open market sales of government securities out of Nepal Rastra Bank's portfolio.

12. <u>Upward adjustment of the interest rate on government overdraft facilities</u>

The interest rate on government overdraft facilities with the Nepal Rastra Bank was 3 per cent which was revised in November 1988 per cent. But this interest rate did not reflect in any way the prevailin et condition. Under the financial sector reform programme it was decided that Nepal Rastra Bank will not only give interest to government deposits with the bank but also simultaneously charge interest to the government on the use of overdraft facilities. The interest rate for the use of such facilities was set at the 91 days' treasury bill auction rate which reflected the prevailing market condition. This arrangement has, however, not been put to actual practice. The implementation of this measure will help in creating awareness to the government on the use of central bank funds.

13. Repayment of Government Guaranteed Loans

In order to maintain fiscal discipline and improve the performance of public enterprises, His Majesty's Government, under the financial sector reform programme, implemented a scheme to eliminate all government guaranteed public enterprise arrears to the banking system within 1991/92. In this connection, His Majesty's Government has already paid to Nepal Bank Ltd. and Rastriya Banijya Bank a sum equivalent to 400 million Nepalese rupees in October 1989. These arrears constituting 40 per cent of total government arrears to the banking system, were paid in development bond carrying an interest rate of eight per cent per annum. With this measure His Majesty's Government has restrained itself in providing guarantee loans and has rather encouraged the use of commercial bank funds for conducting their economic activities.

14. Issue of new National Saving Certificate and changes in tax exemption status

In order to enhance the effectiveness of government securities as a potent tool for monetary management and mop up the excess liquidity in the economy, Nepal Rastra Bank, during the current fiscal year, issued new series of National Saving Certificate, equivalent to NRs 450 million with interest rate ranging between 15-15.5 per cent depending upon the period of maturity, which was fully subscribed by the non-banking financial institutions and the private sector.

15. Change in the tax exemption status for new issues of government securities with maturity period exceeding 182 days

Under the fiscal sector reform programme, Nepal Rastra Bank, since July 1989, has eliminated the tax exemption status for all new issues of government securities exceeding 182 days' maturity. Under this new provision, government bonds with a maturity period of 3 years, 5 years, and 7 years were also auctioned.

16. Measures to strengthen the financial performance of Public Enterprises

His Majesty's Government has initiated certain measures to reverse the deterioration in the financial performance of public enterprises and to reduce their reliance on budgetary support, thereby enhancing their contribution to economic development. In this context, HMG has pursued a realistic pricing policy based on actual cost recovery.

In line with this policy, HMG revised upwards the prices of petroleum products significantly to reflect the increased cost of procuring POL products. In addition, import of petroleum products has been placed under the open general licence system. Similarly, the prices of sugar and chemical fertilizers have also been revised upwards to make the price more market-related.

17. Reform of free exchange system with Indian Currency

After the trade and transit stalemate with India, Nepal Rastra Bank effective July 10, 1989, ended the free convertiblity of Indian rupee vis-a-vis the Nepalese rupee and introduced a limited convertibility system. Under the present system users are required to submit the purpose for demanding Indian currency. For the trading community, however, Indian currency has been made available on the basis of letter of credit or import document for collection. For general public, cash up to IRs.5000 is exchanged. Any amount beyond this has to be met with satisfactory explanation This measure is geared towards preventing capital flight.

Economic and Monetary Developments in Nepal after the Implementation of Structural Adjustment Programme

The stabilisation and structural adjustment measures that have been implemented since the fiscal year 1985/86 have contributed positively towards reducing the financial disequilibrium and towards enhancing the growth performance of the economy. The real gross domestic product which rose by 2.7 per cent in 1986/87 registered a record growth rate of 9.7 per cent in 1987/88. The index of industrial output rose significantly by 29.2 per cent in 1986/87 reflecting a strong recovery from a decline of 1.5 per cent in 1984/85. This has been made possible due to liberal import policy adopted by the government in the procurement of raw materials by the industries with the introduction of the passbook system and inclusion of several important industrial raw materials under the open general licence system. The annual average rate of inflation which was 13.3 per cent during the fiscal year 1986/87 abated to 11.0 per cent in 1987/88 and to 8.1 per cent in 1988/89. Deceleration in domestic inflation not only reflected the completion of the lagged price effect of the devaluation the Nepalese rupee in November 1985 but also reflected an improvement in the supply situation following bumper crops, import liberalization measures and prudent financial policies adopted by the government. The overall blalance of payments position strengthened considerably recording a surplus of Rs 2273 million from Rs 376.5 million in 1986/87. The level of foreign exchange at mid-July 1988 supported the equivalent of about 5.4 months' imports of goods and services. External debt and debt service ratio was at a manageable level. The domestic financing of the budget as percentage of GDP which remained at 2.9 per cent in 1985/86 abated gradually to 1.2 per cent in 1987/88 due to substantial improvement in revenue realization together with higher inflow of foreign assistance. Consequently, the net borrowing of the government from the banking system to finance the budgetary deficit declined from 1.8 per cent of GDP in 1985/86 to 0.7 per cent in 1987/88. The money supply which rose by 28.3 per cent in 1986 abated to 18.2 per cent in 1988 mainly due to restraint in credit to the government and non-financial public enterprises. As the net domestic assets of the banking system were contained at a lower level, it helped in regulating the excess liquidity in the economy. Another important feature of financial sector reform is that as public sector expenditure was restrained it freed more resources to finance activities in the private sector. As a result, the share of public sector in total domestic credit declined from 48.9 per cent at mid-July 1986 to 43.5 per cent by mid-March 1989.

These broad macro-economic trends which were moving in the right direction till the first eight months of fiscal year 1988/89 turned for the worse in March 1989, when the economy suffered a setback, following the termination of trade and transit treaties with India and the termination of supply arrangements of coal and petroleum products by Indian corporations. This sudden disruption in the supply of energy sources severely damaged and disrupted industrial production, export, tourism and the services sector. This also resulted in considerable delay in project implementation and reduced economic activity in other sectors. As the uncertainty about future trade and transit relations with India continued, a weakening in the private sector investment was observed.

To mitigate these hardships to the population and improve the economic performance of the economy, several steps were initiated by the government such as (a) measures to conserve the use of energy products, (b) importation of fuel and other essential products from countries other than India, (c) restructuring the important tariffs accompanied by a substantial easing of restrictions on imports from countries other than India, (d) a provision of cash incentives to encourage market diversification for exports that previously went to India, (e) placement of a nubmer of items under the open general license, and (f) streamlining the procedure for import licence auctioning. The implementation of these measures alone could not arrest the setback to the economy during the last four months of the fiscal year 1988/89.

For 1988/89 as a whole, real GDP grew only by 1.5 per cent (considerably below the estimated population growth) as against the growth rate of 5.3 per cent estimated just before the trade stalemate. During the last quarter of the fiscal year upward pressure on the price level was felt due to higher landed costs for imports. But the annual average rate of change in CPI was contained within 8.1 per cent from about 11 per cent in 1987/88. The public finances worsened dramatically mainly due to significant slowdown in revenue realisation, decline in the inflow of official capital and grants due to delays in project implementation, but public expenditure could not be restrained mainly due to higher costs. As the bank financing of the domestic budget deficit was the main reason for sharp acceleration in domestic credit expansion, money supply increased appreciably by 22.7 per cent which contributed in turn to the emergence of pressures on the external position. The current a/c deficit as percentage of GDP increased to 8.5 per cent mainly due to slowdown in export earnings while imports rose significantly. Although income under services (net) rose during the fiscal year, a decline in workers' remittances was observed. Higher inflow of official capital (net), however, helped to improve the balance of payments. Although the overall balance of payments showed a surplus situation, albeit at a much reduced level than last year, the international reserves at year-end remained comfortable at the equivalent of about five months' imports of goods and services.

Programme for 1989/90

With a view to correcting the structural constraints to development, several broad ranging macro-economic policies with the following objectives have been initiated by the government: (a) establishment of an appropriate financial condition conducive to external position, (b) limiting the rate of inflation to about 9 per cent, (c) continued structural reform to facilitate adjustment to the present external trade situation, and (d) strengthening the financial system and rationalizing the structure of protection.

In pursuance of these objectives, the authorities aim to reduce the overall budget deficit (before grants) to 9.5 per cent of GDP from 10.35 per cent in 1988/89 through increased efforts on revenue realisation and restraint on public expenditures. Steps have already been taken to restrain public expenditures in the form of (a) curtailed outlays for nonessential public expenditure, (b) freeze on wage bill for civil servants and employees of public corporations, and (c) scaledown of development projects through deferment of low priority projects. In order to contain the rate of inflation, the rate of growth in net domestic assets is projected to be sharply reduced to 9.5 per cent. Similarly, the rate of growth of broad money is expected to decelerate to around 6 per cent from 24.2 per cent in 1988/89. The export competitiveness of Nepalese product is expected to increase not only due to prudent financial policy but also due to the continuation of the flexible exchange rate policy. To consolidate the trade liberalization measures taken last year, trade policy for 1989/90 has focused on rationalizing the structure of protection to minimize incentives for trade deflection. In pursuance of these objectives, the role of import licence auctioning system has been enhanced and coverage extended. The frequency and amount offered for auctions have been increased significantly. These measures are further supported by the continuation of financial sector reform programme. The implementation of these specific policy measures has helped in strengthening Nepal's financial institutions and recording improvement in bank supervision and modalities of monetary control.

Table 1: **GDP Savings and Resource Gap**

Rs in Million

Fiscal Year	Nominal GDP	Savings Amount	Savings As % of GDP	Investment Amount	Investment As % of GDP	Resource Gap
1974/75	16571	1662	10.03	2402	14.50	740
1975/76	17394	2040	11.73	2632	15.13	592
1976/77	17280	2332	13.50	2768	16.02	436
1977/78	19732	2540	12.87	3607	18.28	1067
1978/79	22215	2585	11.64	3514	15.82	929
1979/90	23351	2591	11.10	4170	18.29	1679
1980/81	27307	2974	10.89	4808	17.61	1834
1981/82	30988	3088	9.97	5314	17.15	2226
1982/83	33761	2887	8.55	6628	19.63	3741
1983/84	39390	3886	9.87	7351	18.66	3465
1984/85	44417	6239	14.05	10184	22.93	3945
1985/86	50428	5703	11.31	10415	20.65	4712
1986/87	57828	5761	9.96	11346	19.62	5585
1987/88	67835	6677	9.84	13392	19.74	6714

Source : Economic Survey 1989, Ministry of Finance, HMG.

Table 2: **Real Interest Rate on Savings and Time Deposits**

Fiscal Year	CPI	ds	dt	ds- CPI	dt- CPI
1975/76	-0.7	8	15	8.07	15.07
1976/77	2.7	8	14-12	5.30	11.3-9.3
1977/78	11.2	8	12	-3.20	0.80
1978/79	3.5	8	12	4.50	8.50
1979/80	9.8	8	12	-1.80	4.00
1080/81	13.4	8	12	-5.40	-1.40
1981/82	10.4	8.5	12.5	-1.90	2.10
1982/83	14.2	8.5	12.5	-5.70	-1.70
1983/84	6.2	8.5	12.5	2.30	4.00
1984/85	4.1	8.5-10.0	12.5-13.5	4.4-5.9	8.4-9.4
1985/86	15.9	8.5	12.5	-7.40	-3.40
1986/87	13.3	8.5	12.5	-4.80	-0.80
1987/88	11.0	8.5-10.0+	12.5-13.5	-2.5- -1.0	1.50
1988/89	8.1	8.5-9.5*	13.5	0.4-1.4	5.40

\+ As of July 15, 1988

* As of March 26, 1989

CPI (Change in Consumer Price Index 1972/73 = 100)

ds (Deposit rate on Savings Deposit)

dt (Deposit rate on 1 year time deposits).

Source: Nepal Rastra Bank

Table 3: Interest Rate on Commercial Bank Deposits

Types of Deposit	N B L		R B B		NABIL		N I B L		N G B L		ADB/N	
	up to 30 July 89	from 1 Oct 1989	up to 4 Oct 1989	from 5 Oct 1989	up to 16 Oct 1989	from 17 Oct 1989	up to 30 July 1989	from 1 Oct 1989	up to 15 Oct 1989	from 16 Oct 1989	up to 11 Feb 1990	from 12 Feb 1990
1. Saving	8.5	8.5	8.5	8.5	8.5	8.5	9.5	8.5-9.5	8.5	8.5	9.5	9.00
2. <u>Fixed</u>												
a. 7 days	-	-	-	-	5.0	3.0	-	3.0	5.0	3.0	-	-
b. 15 days	-	-	-	-	6.0	4.0	-	4.0	6.0	4.0	-	-
c. 1 month	-	-	-	-	7.0	5.0	7.0	5.0	7.0	5.0	-	5.00
d. 2 months	-	-	-	-	8.0	6.0	-	6.0	8.0	6.0	-	6.00
e. 3 months	8.5	8.5	8.5	8.5	8.5	8,5	8.5	8.5	8.5	8.5	8.5	8.50
f. 6 months	8.75	8.75	8.75	9.0	8.75	9.5	8.75	9.5	9.0	9.5	9.5	9.50
g. 9 months	9.0	9.0	9.0	10.0	9.0	10.0	9.0	10.0	9.5	10.0	-	10.00
h. 1 year	12.5	11.5	12.5	12.0	12.5	12.0	12.5	11.5-12.0	12.5	11.5	12.5	12.00
i. 2 years	13.5	12.5	13.5	12.75	13.5	13.0	13.0	12.5-13.0	13.5	12.5	13.5	12.75
j. 3 years	13.65	-	13.65	12.75	-	-	-	-	-	-	13.75	13.00*
k. 4 years	13.75	-	13.75	12.75	-	-	-	-	-	-	-	-
l. 5 years	14.0	-	14.0	12.75	-	-	-	-	-	-	-	-

* 3 years and above.

Table 4: Selected Economic Indicators

Rs in Million

		Fiscal year			
		1985/86	1986/87	1987/88	1988/89
1.	Nominal GDP	50428	57828	67835	74575
2.	Real GDP (at 1984/85 prices)	24645	25299	27765	28189
3.	Index of Industrial Output (1986/87 = 100)	77.4	100.00+	108.86	103.48
4.	Annual Average Rate of Inflation	15.9	13.3	11.0	8.1
5.	Foreign Assets of the Banking System (gross)	3743.3	4477.2	7395.4	8691.0
6.	Current Account Deficit	-2470.9	-2904.4	-4622.8	-6320.2
7.	Overall Balance of Payments (- Surplus)	-561.0	-376.5	-2273.0	-75.9
8.	Domestic Financing of the Budgetary Deficit	1478.6	1547.2	807.1	1732.7
9.	Net Borrowing of the Government from the Banking System	7495.7	8712.3	9259.0	12345.1
10.	Money Supply	7029.3	8120.2	9596.6	11775.4
11.	Net Domestic Assets	12559.0	14438.3	15849.0	20401.6

\+ Base year.