Monetary Policy
for
Fiscal Year 2010/11

Nepal Rastra Bank
Central Office
Baluwatar, Kathmandu
Nepal

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Delivered by Governor Dr. Yuba Raj Khatiwada
on July 28, 2010

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ACRONYMS

BCP	=	BASEL Core Principles
BOP	=	Balance of Payments
CAD	=	Cash Against Document
CAR	=	Capital Adequacy Ratio
CBS	=	Central Bureau of Statistics
CICL	=	Credit Information Centre Limited
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
IMF	=	International Monetary Fund
INGOs	=	International Non-government Organizations
IT	=	Information Technology
KYC	=	Know Your Customer
L/C	=	Letter of Credit
LIBOR	=	London Iner-bank Offer Rate
LMFF	=	Liquidity Monitoring and Forecasting Framework
M_2	=	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
PAN	=	Permanent Account Number
RBB	=	Rastriya Banijya Bank
REER	=	Real Effective Exchange Rate
RSRF	=	Rural Self Reliance Fund
SEBON	=	Security Exchange Board of Nepal
SLF	=	Standing Liquidity Facility
SLR	=	Statutory Liquidity Ratio
SSSS	=	Scripless Securities Settlement System
STI	=	Second Tier Institution
TT	=	Telegraph Transfer
WTO	=	World Trade Organization

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Monetary Policy for 2010/11

Background

1. As per the Nepal Rastra Bank (NRB) Act, 2002, the NRB has been formulating and publicly announcing annual monetary policy since 2001/02 with the objectives of maintaining price stability; and external and financial sector stability to facilitate high and sustainable economic growth. Accordingly, the monetary policy for 2009/10 was published on July 24, 2009 and its mid-term review on April 3, 2010.

2. Monetary management remained challenging in 2009/10. Decline in export and massive surge in import led to deficit in balance of payments (BOP). Likewise, the inflation rate stood at double digit owing mainly to continuing high food prices. The banking sector faced liquidity shortage due to slowdown in deposit mobilization and the contraction in foreign exchange reserve. In addition, the massive flow of bank credit to real estate led to the shortage of financial resources available to provide credit to other productive sector of the economy. To address such emerging problems of the economy, various policy measures related to monetary and credit management and foreign exchange were adopted towards the middle of 2009/10 and through the mid-term review of monetary policy. As a result, macroeconomic stability has been strengthening together with the gradual improvement in BOP and liquidity position in the financial system.

3. Formulating a balanced monetary policy is a daunting task in the context of low economic growth on one hand and the double-digit inflation on the other hand; high BOP deficit; liquidity overhang of the previous years and possible monetary contraction due to the measures adopted in the later period. The issues like stability of the financial system, productive use of credit, promotion of financial access, safety of deposits are also inevitable to be addressed by the central bank. There is no doubt that the current polices and programs of the NRB should be directed to such issues.

4. The monetary policy for 2010/11 is made public together with the review of current economic and financial situation of the country and implementation status of previous monetary policy. The policy stance and the management programs of the present monetary policy are set on the basis of the analysis of the domestic and external economic outlook. With a view to make the activities of this bank more transparent, programs related to financial sector reform; regulation and supervision; foreign exchange and microfinance to be implemented in 2010/11 are also included in this monetary policy document.

5. The present monetary policy, as far as possible, has tried to incorporate the suggestions came from the interaction with different stakeholders: Nepal Bankers' Association, Development Bankers' Association, Nepal Financial Institutions Association, Nepal Microfinance Bankers' Association, commerce and

industries associations, Credit Consumers' Association, entrepreneurs and businessmen.

International Economic Outlook

6. The global economy is moving towards recovery from the state of economic recession. Because of coordinated efforts of central banks, governments and international financial organizations, consumers' and investors' confidence has been strengthened and it has stimulated internal as well as external demand. According to the latest analysis of the International Monetary Fund (IMF), the global economy will expand by 4.6 percent in 2010 and 4.3 percent in 2011. The global economy had contracted by 0.6 percent in 2009. World's largest economy, the US, contracted by 2.4 percent in 2009. However, the US economy is projected to grow by 3.3 percent and 2.9 percent in 2010 and 2011 respectively. Similarly, Euro zone production, which had contracted by 4.1 percent in 2009, is projected to grow by 1 percent and 1.3 percent in 2010 and 2011 respectively. The economic growth of emerging and developing economies was 2.5 percent in 2009 and such growth is projected to be 6.8 percent and 6.4 percent for 2010 and 2011 respectively.

7. Among Nepal's neighboring countries, India's economic growth stood at 5.7 percent in 2009. The Indian economy is estimated to grow by 9.4 percent in 2010 and 8.4 percent in 2011. Similarly, China's economic growth for 2010 and 2011 is projected to be at 10.5 percent and 9.6 percent respectively. In 2009, China had achieved 9.1 percent economic growth. Increase in domestic demand and improvement in export are the basis of such growth forecasts.

8. Though the economic growth of emerging and developing economies has played a vital role in global economic recovery, high unemployment rate and fiscal deficit in advanced economies have still been the major risks and challenges in the economic recovery process. The European debt crisis, which emerged from high fiscal deficit in some European countries, has created additional uncertainty not only in Euro zone but also in the global recovery process.

9. The inflation rate, which had reached to a lower level in most of the world economies at the time of global economic slowdown, is now in increasing trend together with economic recovery. In developed countries consumer price inflation was 0.1 percent in 2009. For 2010 and 2011 such inflation is projected to be at 1.4 percent and 1.3 percent respectively. Similarly, the emerging and developing countries' inflation for 2010 and 2011 is projected to be at 6.3 and 5.0 percent respectively. In 2009, inflation rate in such countries had stood at 5.2 percent. The effect of the liberal monetary and fiscal policies that were adopted in the process of economic recovery and the increasing trend in fuel price are taken as the basis for the estimation of higher inflation rate for 2010. In neighboring country India, the y-o-y inflation rate based on wholesale price index which had remained negative by 1 percent in June 2009 stood at 10.6 percent in June 2010 and prices of food group rose by 14.6 percent at that period.

10. Realizing the coordinated role of fiscal and monetary policy to address the global financial crisis, the central banks had reduced policy rates massively. Though the

world economy is moving towards recovery from the recession phase, there still exist risks and challenges. Therefore, most of the world economies are adopting safe exit strategy. Federal Reserve Bank of America has maintained Fed Fund Rate target from zero to 0.25 percent since long time. The central banks of China and India also reduced the policy rates to stimulate consumption and investment spending. The Reserve Bank of India had reduced repo rate from 9.00 percent to 4.75 percent and cash reserve ratio from 9.00 percent to 5.00 percent. However, the Reserve Bank of India has increased the repo rate to 5.5 percent and cash reserve ratio to 6.0 percent as a signal of tightening monetary policy stance to control inflation. Similarly, the central bank of China has also recently increased cash reserve ratio by 50 basis points to signal tightening stance of monetary policy.

Domestic Economic Outlook

Domestic Product

11. The budget speech of 2009/10 had targeted economic growth of 5.5 percent. According to the preliminary estimate of the Central Bureau of Statistics, the gross domestic product (GDP) is estimated to grow by 3.5 percent at basic prices and 4.6 percent at producer's prices in 2009/10. The GDP growth rates in basic and producer's prices in 2008/09 were 4.0 and 4.9 percent respectively.

12. The growth target for 2009/10 was based on the assumption that the production of agriculture sector will increase as a result of favorable monsoon; the industrial, tourism and services sectors will expand as a result of investment friendly environment, and there will have a positive impact of improvement in the capital expenditure of the government on growth performance of the economy. However, the overall economic growth remained less than the expected as a result of deceleration in the growth of the agriculture sector led mainly by a sharp fall in the production of food-grains owing to unfavorable monsoon conditions. The achievement of the economic growth target also became difficult due to some prime non-economic factors like frequent *bandh*, strikes, anemic labour relation and inadequate power supply.

13. The production of the agriculture sector depends on the monsoon conditions to large extent. The growth in the production of agriculture sector is estimated to remain at 1.1 percent in 2009/10. Such a low growth is due to the adverse effect in the production of food-grains led mainly by belated and poor monsoon accompanied by destruction in crops in some districts by flood and river erosion. According to the preliminary estimate of the Ministry of Agriculture and Cooperatives, Government of Nepal (GoN), on April/May 2010, the production of paddy and maize is expected to decline by 11.1 and 3.9 percent respectively in 2009/10. However, because of satisfactory winter rainfall, the production of wheat and barley is expected to increase by 15.8 and 18.8 percent respectively. Likewise, in a preliminary estimate of 2009/10, the production of fruits and vegetable is also expected to increase.

14. In 2009/10, the production of the industrial sector is expected to increase by 3.9 percent. Under industrial sector, the production of manufacturing; construction;

mining and quarrying; and electricity, gas and water sub-sectors are expected to increase by 2.6 percent, 6.6 percent, 4.2 percent and 0.5 percent respectively. As a result of massive shortfall in the supply of electricity in comparison to its demand and ever-growing gap between its demand and installed capacity, the productivity of the industrial and services sectors as well as the entire economic and daily activities have been adversely affected to a large extent.

15. The production of the manufacturing sub-sector, which has major contribution in generation of income and employment in the industrial sector, witnessed a less satisfactory growth despite of its increment in comparison to the previous year. According to the preliminary estimate of manufacturing production index of third quarter of 2009/10, the manufacturing production has increased by 3.7 percent. Under the manufacturing production group, while the production of mustard oil, dairy products, medicine, soap, plastic, aluminum goods, bricks, cement, iron rod and plate, G.I. pipe, and electric cables etc. experienced some increments, the production of vegetable ghee, sugar, readymade garments and furniture witnessed reduction.

16. Though the growth of service sector is expected to be lower in comparison to the previous year, the growth of this sector is yet much higher compared to the growth of the other sectors. Compared to a growth of 6.3 percent in the previous year, the service sector is estimated to grow by 5.5 percent in 2009/10. Under the service sector, hotel and restaurant; transport, storage and communication; education; wholesale and retail trade; health and social service activities; and other social services sub-sectors are estimated to grow by 8.5 percent, 6.5 percent, 6.5 percent, 5.6 percent, 5.6 percent and 6.1 percent respectively.

17. While the number of tourist arrivals in 2008/09 was declined by 0.9 percent, it is increased by 12.3 percent during the eleven months of 2009/10. From January to June of 2010, the number of tourist arrival by air increased by 18.1 percent compared to the same period of the previous year. During this period, the number of tourists from India and other countries increased by 11.3 percent and 20.6 percent respectively. The increase in the number of tourist arrivals attributed to the recovery of the world economy from the financial crisis accompanied with the increase in the number of international airlines and the frequency of flights as well.

18. The assessment of the national economic activities from the demand side shows that domestic demand has decisive role in the growth of GDP in 2009/10 because of the contraction of net external demand. Under the domestic demand, the total consumption (at 2000/01 price) is estimated to have increased by 8.4 percent and reached 91.5 percent of the GDP. Of the gross consumption, private consumption and the government consumption grew by 7.8 and 13.1 percent respectively. The growth of non-food and service outpaced the growth of food consumption in private consumption. The gross fixed capital formation, which is also one of the major components of domestic demand, is estimated to have increased by 5.3 percent and reached to 18.6 percent of GDP. Because of a weak private sector investment relative to government sector, the ratio of the private investment to GDP is estimated to stand at 14.6 percent. In 2009/10, net external demand is

contracted as a result of decline in export of goods and services by 14.6 percent against a sharp increase in imports of goods and services by 26.9 percent.

19. Due to a moderation in the impact of global financial crisis in major foreign employment destinations of Nepal, the demand for labor has begun to increase. The number of people taken approval for foreign employment increased by 35.4 percent in 2009/10 against a decline of 12.8 percent in 2008/09. Of the total, the number of people taken approval for Malaysia, Saudi Arabia and United Arab Emirates increased by 240.8 percent, 37.7 percent and 37.4 percent respectively. High growth in employment approval for Malaysia can be attributed to the increase in demand for Nepalese workers due to a ban to Bangladeshi labors by Malaysia.

Price

20. Despite some moderation in inflation rate in 2009/10 compared to the previous year, the average annual inflation is still expected to stand at double-digit. More specifically, the increase in the price of the agricultural commodities due to slash in the production caused by unfavorable weather condition and poor supply condition, power crisis, increase in the salary and wages, and a higher rise in the price of food-grains in India are attributed to exert pressure on inflation in Nepal. However, the price level in the later months has shown some improvements. In May/June of 2010, the y-o-y consumer price index grew by 9.6 percent, which had grown by 12.3 percent in May/June 2009. The y-o-y price index of food and beverage group increased by 11.3 percent and that of non-food and service group grew by 7.3 percent. In the same period of the previous year, the prices of these two groups had increased by 19 percent and 5.1 percent respectively. The price of food and beverage group is witnessing a declining trend as against an increasing trend in prices of non-food and service group.

21. The wholesale price has, however, witnessed some improvement. In May/June 2010, the y-o-y national wholesale price index grew by 6.3 percent, as against its 17.0 percent growth in the same period of the previous year. Under wholesale price, the growth of price of agro-based commodities, domestically manufactured goods and imported goods rose by 6 percent, 8.5 percent and 5.7 percent respectively. During the same period of the previous year, prices of the respective groups had risen by 33.4 percent, 6 percent, and 0.2 percent. A fall in the growth of price index in the review period can be attributed to the slash in the prices of cash crops; fruits and vegetables; and chemical fertilizers.

22. In May/June 2010, the y-o-y national salary and wage index increased by 13.4 percent. It had increased by 21.5 percent in the same period of the previous year. Under this heading, the salary index and wage rate index increased by 13.8 and 13.3 percent respectively. Under the salary index, the education index witnessed a substantial increment of 22.4 percent. Under the wage rate index, the wage rate index of agricultural labor, industrial labor and construction labor increased by 18.8 percent, 4.4 percent and 11.5 percent respectively. An upward revision in the salaries of government employees, security forces, teachers and employees of the state owned enterprises are mainly attributed to such a rise in the index.

Government Finance

23. The total government expenditure on cash basis increased by 20.2 percent to Rs. 248.37 billion in 2009/10 compared to an increase of 37.8 percent in the previous year. Of the total expenditure, recurrent expenditure rose by 20.7 percent and capital expenditure by 20.2 percent. In the previous year, such expenditures had increased by 35.4 percent and 45 percent respectively. An upward revision in the salary and allowances of the civil servants and teachers by the Government of Nepal (GoN), increase in the expenditure on special security plan and an increase in the amount of subsidies to public schools accounted for such a rise in the recurrent expenditure. Capital expenditure on cash basis stood at 71.0 percent of the annual budget estimate in 2009/10. However, according to the Ministry of Finance, capital expenditure including the assistance in kind and direct payments has reached to about 82 percent of the budget estimate in 2009/10.

24. The revenue mobilization of the government increased by 25.4 percent to Rs. 179.95 billion in 2009/10 compared to a growth of 33.3 percent in the previous year. Growth in imports and the positive impact of "Tax Compliance Year 2009/10", increase in permanent account number (PAN) holders, mobilization of tax volunteers, and control in revenue leakages under structural and administrative reforms mainly contributed to such an increase in the revenue mobilization. In addition to the revenue mobilization, foreign grants assistance to the GoN increased by 1.9 percent and foreign loan rose by 14.5 percent.

25. The budget deficit of the GoN on cash basis stood at Rs.39.08 billion in 2009/10. Such deficit was Rs. 34.36 billion in the previous year. In 2009/10, the GoN raised total domestic debt amounting to Rs.36.07 billion including Rs. 6.16 billion overdraft from the NRB. After adjusting the principal repayment of domestic debt amounting to Rs. 7.93 billion and the overdraft from the NRB, net domestic borrowings of the GoN remained at Rs. 21.99 billion in 2009/10.

External Sector

26. The performance of the external sector of the Nepalese economy, which had remained satisfactory even in the period of global financial crisis originated in 2008, remained weak in 2009/10. In the eleven months of 2009/10, the overall BOP deficit stood at Rs.15.07 billion due the higher current account deficit of Rs.34.59 billion. Such deficits are on account of the slowdown in exports and acceleration in imports during the period. The BOP registered a surplus of Rs. 39.06 billion in the same period of the previous year. The BOP deficit is estimated to remain at Rs. 5.0 billion on account of the gradual improvement in BOP situation due mainly to the monetary measures adopted in the later months of 2009/10.

27. In the eleven months of 2009/10, workers remittance inflow rose by 11.8 percent to Rs. 211.17 billion. Such remittance inflow was recorded to Rs. 188.88 billion in the corresponding period of the previous year. In dollar terms, remittance rose by 15.2 percent to US$ 2.83 billion in the review period as compared to US$ 2.46 billion in the corresponding period of the previous year. Though the growth rate of private sector remittance decelerated due to the decline in the number of people going

abroad for foreign employment in consequence of the global financial crisis for some months, the foreign employment and the inflow of remittance both are improving in recent months on account of increasing demand of labor in world labor market.

28. On the foreign trade front, total exports of goods decreased by 9.8 percent in the eleven months of 2009/10. Of the total, exports to India decreased by 4.5 percent, while exports to other countries decreased by 18.5 percent. In the corresponding period of the previous year, merchandise exports had increased by 15.8 percent due to increase in exports to India by 8.5 percent and exports to other countries by 29.7 percent. The exports of readymade garments, zinc sheet, GI pipe, toothpaste, noodles and juice to India and the exports of pashmina, woolen carpet, readymade garments and pulses to other countries declined in the review period.

29. In the eleven months of 2009/10, total merchandise imports went up by 35.2 percent. In the corresponding period of the previous year, such imports had risen by 26.4 percent. Imports from India rose by 35.7 percent and that from other countries increased by 34.6 percent in the review period. In the corresponding period of the previous year, imports from India and other countries had risen by 11.9 percent and 52.4 percent respectively. The growth in the imports of vehicles and spare parts, hot-rolled sheet in coil, agricultural equipment, chemical fertilizer, MS billet and medicine from India and gold, polythene granules, telecommunication equipment and parts, steel rod and sheet, computer and parts and other machinery & parts from other countries resulted to such a rise in import in the review period.

30. The ratio of export to import dropped to 16.1 percent in the eleven months of 2009/10 from that of 24.2 percent a year ago. In the review period, the share of export in total merchandise trade dropped to 13.9 percent, whereas the share of import rose to 86.1 percent. The respective shares of export and import in total trade were 19.5 percent and 80.5 percent in the corresponding period of the previous year.

31. In order to finance the huge trade deficit with India, Indian Rupee amounting to Rs.102.09 billion was purchased from the Indian money market by selling out US $2.19 billion in 2009/10. In the previous year, Indian Rupee equivalent to Rs.73.40 billion had been purchased by selling out US$1.52 billion. The purchase of Indian Currency (IC) had begun to increase with the initiation of import of petroleum products from India.

32. Imports from India on payments of US dollar has also increased remarkably in 2009/10. In the eleven months of 2009/10, such imports from India witnessed sharp increase to Rs. 45.59 billion from Rs. 28.87 billion in the corresponding period of the previous year. A higher growth of manufacturing production relative to previous year and an appreciation of Indian currency *vis-à-vis* US dollar to some extent contributed for such an escalation in import from India against the US dollar payment.

33. The gross foreign exchange reserves declined by 6.9 percent from the level of mid-July 2009 and stood at Rs.259.92 billion as at 2 June, 2010. However the level of

foreign exchange reserve is expected to have improved remarkably and stood at Rs. 267 billion by mid-July 2010. Accordingly, the decline in foreign exchange holding in the whole year 2009/10 is estimated to be 4.0 percent. The gross foreign reserves had registered a growth of 27.8 percent in the eleven months of 2008/09. A high trade deficit and subsequent deficit in current account attributed to such a decline in the foreign exchange reserve. In US dollar terms, the gross foreign exchange reserve reduced by 7.6 percent to USD 3.31 billion as at mid-June 2010 compared to the level as at mid-July 2009. Such reserves had registered a growth of 15.8 percent in the corresponding period of the previous year. Based on the trend of import during the eleven months of 2009/10, the current level of foreign exchange reserves is sufficient for financing merchandise imports of 8 months and merchandise and service imports of 7 months.

Financial Market

34. The number of banks and financial institutions licensed by the NRB has also increased in 2009/10. At mid-July 2010, the total number of class "A" to class "D" bank and financial institutions reached to 203 comprising 27 commercial banks, 79 development banks, 79 finance companies and 18 micro finance development banks. As of mid-July 2009, the total number of such banks and financial institutions was 181 comprising 26 commercial banks, 63 development banks, 77 finance companies and 15 micro finance development banks. Similarly, the number of commercial banks' branches reached 966 at mid-July 2010 from 752 at mid-July 2009. On the basis of ecological distribution, of the total bank branches 334 are located in Kathmandu valley, 242 in Mountain and 390 in Terai.

35. The quality of loan portfolio is also seen to be improving together with the increment of number of banks and financial institutions. The non-performing loan (NPL) ratio decreased to 3.1 percent in mid-April 2010 from 3.6 percent at mid-July 2009. The NPL ratios of Nepal Bank Limited and Rastrya Banijya Bank Limited, which are of special concern under Financial Sector Reforms Program, stood at 4.9 percent and 12.1 percent respectively. The NPL ratios of these two banks were respectively 5.4 and 15.7 percent as at mid- July 2009.

36. The deposit mobilization by class "A" commercial banks is estimated to increase by 12.2 percent to Rs.617 billion during 2009/10. The deposit mobilization is remarkable in the latter months. The banks' credit to private sector is estimated to increase by 17.6 percent to Rs. 592 billion during 2009/10. During the eleven months of 2009/10, the deposit mobilization of class "B" development banks increased by 41.1 percent to Rs 68.34 billion. Likewise, loans and advances increased by 53.2 percent to Rs 63.18 billion in mid-June 2010 compared to Rs. 41.24 billion in mid-July 2009. During the eleven months of 2009/10, the deposit mobilization of the class "C" finance companies increased by 24.8 percent to Rs 71.23 billion compared to Rs 57.8 billion at mid-July 2009. Similarly, loans and advances of the finance companies also increased by 27.4 percent and stood at Rs 76.39 billion at mid-June 2010 compared to Rs 59.94 billion at mid-July 2009.

37. For assuring payments to depositors on their demand by maintaining balance between demand and supply of currency notes, the NRB will maintain stock of

currency notes with different denominations sufficient to meet three years need on the basis of denomination-wise projection.

38. Though the growth in the number of banks and financial institutions has created competition in a limited geographical areas and business sectors, some geographical regions and productive sectors are still beyond the outreach of financial services. Based on the data on purpose-wise outstanding credit of commercial banks, the shares of agriculture, tourism, and energy in outstanding credit have been 3 percent, 2 percent and 1 percent respectively on the average as at mid-June 2010. Moreover, the share of credit to agriculture sector in outstanding credit of all commercial banks excluding Agriculture Development Bank Limited is only 1.1 percent. Similarly, the presence of bank and financial institutions is limited to 3 or less in 24 districts. There is only one bank or financial institution in 16 backward districts while some district even outside the Kathmandu valley has up to 103 financial institutions. This indicates the urgent need for restructuring the current financial system so as to extend the financial services to those sectors that contribute remarkably in economic growth and the geographical areas requiring additional consideration for socio-economic development.

39. The number of the saving and credit cooperatives established under the Cooperative Act, 1992, increased enormously to about 18 thousands. Of the total, the cooperative established with single objective of mobilizing savings and credit reached about 8 thousand. A study of 136 big and medium size cooperatives from 15 different districts revealed that they have mobilized Rs 24 billion saving and disbursed Rs 21 billion loan till mid-April 2010. On the basis of this fact, it is estimated that all the saving and credit cooperatives operating in the country might have mobilized Rs 60 billion as savings and disbursed loan amounting to Rs. 56 billion. The estimate of such savings mobilized by these cooperatives accounts for about 10 percent of the total deposit mobilized by commercial banks within the same period. The increasing presence and transactions of this type of institutions based on cooperative principles have also contributed in financial outreach and competition in financial intermediation services.

40. The short term and long term interest rates remained at higher level in 2009/10 relative to previous year. The weighted average 91-day Treasury bill rate stood at 6.5 percent in 2009/10 compared to 5.83 percent in the previous year. The weighted average inter bank rate stood at 7.74 percent in 2009/10 compared to 5.07 percent in the previous year. Due to some stress in liquidity, interest rate remained relatively higher in December/January, January/February, May/June and June/July of 2009/10. The weighted average 91-day Treasury bill rate had stood at 9.01 percent in January/February and the weighted average inter bank rate had stood at 12.87 percent in December/January of 2009/10. In addition to the market interest rate, the deposit interest rates of commercial banks have also increased. The maximum interest rate on two or more-years fixed deposit has increased to 13.0 percent in mid-June 2010 from 9.5 percent in mid-July 2009. The lending rate has also increased by up to 5-percentage point together with the increase in interest on deposits.

41. As a part of the capital market, the issuance of development bond of the GoN has been started on auction basis since 2004/05. Development bond amounting Rs 9.04 billion was sold on auction in 2009/10. Out of the total, development bond worth Rs 1.5 billion with 3-year maturity was sold in January/February, the bond worth Rs 2.55 billion with 5-year maturity was sold in May/June and the bond worth Rs 4.99 billion with 5-year maturity period was sold in June/July of 2009/10. The coupon rate of all these bonds is 9 percent. The sell of Foreign Employment Bond has also been initiated from 2009/10. Due to the delay in issuing procedural process, the sell of this instrument was not as expected.

42. Security market remained sluggish in 2009/10. The NEPSE index plummeted by 36.2 percent in 2009/10 to 477.7 points. The index was 749.1 points at mid-July 2009. Such a decline in the NEPSE index can be attributed to weakening investors confidence, increase in investment in real estate, increase in supply of shares through the issuance of right and bonus share to meet the specified level of paid up capital, tightening in margin lending and the decreasing possibility of capital gain.

43. The market capitalization on y-o-y basis decreased by 17.2 percent to Rs.373.52 billion in mid-June 2010. The volume of market capitalization accounts for 34.5 percent of GDP. Of the total, the market capitalization of bank and financial institutions accounted for 73.1 percent; manufacturing and processing sectors 2.0 percent; hotels 1.4 percent; business entities 0.4 percent; hydropower 4.3 percent; and other sectors 18.6 percent.

44. Fluctuations in share prices weakens investors' confidence and also adversely affects overall financial stability. Therefore, for a sustainability and stability of security market, the NRB introduced a new provision regarding margin lending in 2007/08. According to this provision loan against share can be disbursed only up to 50 percent of the average share price of 180 days or latest market price whichever is the lower. An additional provision of margin call was also introduced in 2008/09. Considering the sluggish performance of share market, the NRB had taken relatively liberal policy regarding loan renewal and margin call in 2009/10.

Monetary and Financial Management

45. The monetary policy of 2009/10 had an objective of managing liquidity to facilitate for the achievement of targeted economic growth rate of 5.5 percent as stated in the budget speech of 2009/10. Economic growth in basic prices, as stated earlier, is estimated to remain at 3.5 percent in 2009/10 on account of sluggish performance of agriculture and industrial sector. Though banking liquidity contracted, the pass-through effect of contraction in banking liquidity on economic growth is expected not to be so critically prominent as liquidity need for targeted economic growth is supplemented partly by liquidity overhang of the previous year and partly by an injection of liquidity through open market operation.

46. Annual average inflation rate has been estimated to remain at 10.5 percent compared to an estimate of 7 percent in the monetary policy of 2009/10. Though demand side pressure on prices slowed down on account of contraction in liquidity, substantial upsurge of prices of food and food products contributed to overall

inflation to remain higher than estimated. Pressure on food prices sustained on account of combined effect of poor supply channel, substantial rise in price of sugar and sugar products as well as consumable goods in international market accompanied by a deceleration in growth of domestic agro products. Change in purchasing power due to an unexpected rise in real estate and housing prices has also stimulated to drive up the prices. As an effect of transitional political state, poor labor relation, energy shortage and other structural problems, domestic industries have been operating below their capacity leading to a widening of internal disequilibrium between aggregate demand and supply.

47. The BOP surplus was estimated to remain at Rs 18 billion in the monetary policy of 2009/10. However, by considering a situation of a substantial BOP deficit in the first six months of 2009/10, BOP estimate for 2009/10 was revised to remain in deficit by Rs 8.88 billion in the mid-term review of the monetary policy. Substantial import of gold and silver as well as vehicle and vehicle parts, decline in exports accompanied by deceleration in growth of workers' remittance contributed to an elevated level of BOP deficit. In a response to correct BOP deficit by monetary measure, open market operation was conducted in a balanced way with a strategy of raising interest rates for preventing excessive growth of credit in conjunction with a revision of existing procedures of determining interest rates on standing liquidity facility. On the other hand, import of gold and silver was tightened, which also continued after the mid-term review of the policy along with a cut down in passport facility and amount of payment through draft/TT for foreign trade. As a result of these measures, BOP improved gradually and came down to a deficit of Rs 15.07 billion as at mid-June 2010 from a level of Rs 23.5 billion as at mid-March 2010 and is estimated to remain at around Rs 5 billion by the end of 2009/10.

48. Broad money, one of the monetary targets, has been estimated to grow by 14 percent in 2009/10 compared to a projection of 17 percent. Broad money grew by 8.2 percent in the eleven months of 2009/10. A substantial decline in net foreign assets against the target owed to a deceleration of broad money. Though growth of monetary aggregates decelerated, the growth of private sector credit remained at the desired level.

49. The growth of domestic credit has been revised to 19 percent in 2009/10 compared to a projection of 19.3 percent. The credit grew by 12.9 percent in the eleven months of 2009/10. An increase in net claim on government contributed to increase domestic credit to a projected level. The claim on government has been estimated to have grown by 25.3 percent in 2009/10. Likewise, private sector credit has been estimated to record a growth of 17.6 percent in 2009/10 compared to a projection of 20.7 percent. The growth of private sector credit remained marginally lower than that of the projection due to contraction in liquidity of the banking system. The credit grew by 17.4 percent in the eleven months of 2009/10.

50. Growth of deposits of commercial banks remained muted in 2009/10. Deposits, loans and advances, and private sector credit of commercial banks grew by 6.3 percent, 14.1 percent, and 17.2 percent respectively in the eleven months of

2009/10. Commercial banks witnessed a growth of deposits at higher rates at later months of 2009/10 on account of a gradual increase in interest rates of deposits. However, growth of deposits of commercial banks has been lower than a growth witnessed by development banks finance companies.

51. Considering a situation of inadequate credit flow to productive sectors and contraction of liquidity, the NRB made a provision in the mid-term review of the monetary policy of 2009/10 to provide refinance facilities to banks and financial institutions for specified productive sectors in order to increase the credit flow to these sectors. The facility, by means of enhanced credit to the productive sector, is believed to contribute to increase production and maintaining price, external and financial sector stability. Under this facility, the NRB approved a sum of Rs 3.53 billion to 12 banks, out of which 9 banks availed Rs 2.85 billion by mid-July 2010. Likewise, 3 development banks and one finance company availed Rs 584 million under this facility by mid-July 2010.

52. Though credit to the private sector has been in a trend of gradual growth for some past years, the share of credit of the agriculture and industrial sector in total credit has been in a downward trend. The share of agriculture sector credit in total credit was 6 percent in 2006/07, which came down to 4.5 percent in 2007/08 and to 3 percent as at mid-June 2010. By volume, of the total credit of Rs. 476.03 billion extended to the private sector by commercial banks, the share of credit disbursed to the agriculture sector was only 3 percent or Rs 14.34 billion of which the Agriculture Development Bank Limited alone disbursed Rs. 9.35 billion at mid-June 2010. Likewise, credit to the production sector has also been in declining trend. The share of credit of the production sector came down to 20.7 percent as at mid-June 2010 from a share of 26.9 percent of total credit as at mid-July 2007. On the contrary, credit to the real estate has been in a rising trend. The share of credit of this sector came up to 9 percent in mid-June 2010 from 1.1 percent in mid-July 2007. The trend of credit flow like this has warranted initiating selective credit policy to direct credit towards productive sectors such as agriculture, energy, manufacturing industries and tourism.

53. Liquid assets of commercial banks' declined by 5.1 percent to Rs 178.5 billion as at mid-June 2010 on account of a substantial BOP deficit and excess credit flow in relation to that of deposit mobilization rate. Of the liquid assets, commercial banks have Rs 49.33 billion as balances in foreign banks and Rs 71.95 billion as investment in government securities. The ratio of such liquid assets to total deposits stood at 30.5 percent as at mid-June 2010 compared to a ratio of 34.2 percent as at mid-July 2009. Though liquidity-deposit ratio decelerated, a situation of a higher than prescribed limit of such assets in total asset portfolio indicates an existence of comfortable level of liquidity in the banking system.

54. Commercial banks faced a liquidity pressure for a time being while they could not adjust their portfolio along with a slowdown in their deposit growth and sources of fund on account of BOP deficit. Banks also used their foreign bank balances to some extent to relieve the liquidity pressure. The NRB emphasized on open market operation as a monetary measure to avert the systemic risk likely to emanate from

such liquidity pressure. In response to a situation of liquidity contraction, the NRB extended the maturity period of repo and reverse repo auction from the existing period of 28 days to 45 days.

55. The NRB injected total amount of Rs 135.06 billion comprising Rs 3.38 billion through outright purchase auction and Rs 131.68 billion through repo auction, while Rs 8.44 billion was mopped up through outright sale auction of Rs 7.44 billion and reverse repo auction of Rs 1 billion in 2009/10. Out of total repo auction, the outstanding amount was Rs 2.03 billion as at mid-July 2010. An effective conduct of open market operation has helped ensure the stability of the financial market.

56. The NRB injected liquidity amounting to Rs 118.66 billion through purchase of US$ 1.6 billion in foreign exchange market in 2009/10, compared to liquidity injection of Rs 142.5 billion through purchase of US$ 1.84 billion in the previous year.

57. Banks and financial institutions, for which standing liquidity facility (SLF) has been introduced as a window to meet very short-term liquidity requirement, used an amount of Rs. 95.94 billion under this facility in 2009/10 compared to Rs. 107.78 billion in the previous year. Development banks and finance companies also availed Rs. 697 million and Rs. 27 million respectively under this facility in 2009/10. Similarly, commercial banks managed liquidity of Rs. 268.85 billion through inter-bank transaction in 2009/10 compared to Rs. 293.42 billion in 2008/09.

58. In 2009/10, open market operation was carried in a balanced way so as to guide the banks' credit to private sector at desired level. In addition, the bank rate was also included as a basis for determining SLF rate with a view that banks will give high priority on liquidity management rather than on credit expansion in their portfolio management. With this arrangement the minimum SLF rate could not fall below 9.5 percent. Likewise, to minimize the risk of excessive credit expansion on financial stability, a provision was introduced under which the banks and financial institutions required to gradually lower down their credit-deposit ratio and maintain to 80 percent by mid-January, 2013.

59. To avoid systemic risk in financial system and strengthen financial stability, different provisions such as SLR, net liquidity ratio and credit-deposit ratios were introduced in 2009/10. Similarly, to minimize the credit concentration risk, a provision has been introduced in 2009/10 under which banks and financial institutions are required to bring down their real state exposure to a specified level within the stipulated time span.

Monetary Policy and Financial Sector Program of 2010/11

60. The stance, programs and instruments of the present monetary policy have been determined by analyzing domestic economic outlook as well as the likely impact of possible global economic developments on national economy. The main strategy of

the present monetary policy is to consolidate macroeconomic stability and contribute towards the attainment of growth target set in the three-year plan

Monetary Policy Stance

61. Since the BOP, an indicator of external sector stability, is in deficit, maintaining external sector stability has become the prime concern of monetary policy at present. Though the stock of foreign exchange reserve is satisfactory, there are still challenges regarding external sector stability. Although the BOP deficit is improving, the possibility of additional pressure in the foreign exchange reserve cannot be ruled out in case of credit expansion in unproductive sector due to lack of improvement in investment climate. These issues have been considered while formulating monetary policy.

62. Inflation has stood as a key challenge in monetary and macroeconomic management since the last couple of years. Besides Nepal, increase in food prices has been the issue of major concern for India as well as other developing countries. Similarly, the use of monetary policy in controlling inflation originating from supply shock and structural rigidities has become a subject of open debate. Although there are limitations of monetary policy in controlling inflation in Nepal – being small open economy with fixed exchange rate system, the effect of monetary expansion on prices of non-tradable items cannot be denied. The monetary policy is formulated by giving due attention towards this issue.

63. The trade-weighted real effective exchange rate (REER) of Nepalese Rupee may change in case of inflation differential between Nepal vis-a-vis India and developed countries. Such variation in exchange rate might produce adverse impact on external trade competitiveness. Therefore, the NRB will closely monitor the REER and keep it neutral through appropriate monetary management.

64. Maintaining financial sector stability has become an issue of prime policy concern for the central banks worldwide, especially after the emergence of the global financial crisis. Accordingly, the NRB has also adopted 'financial sector stability' as one of the objectives of monetary policy. The NRB has already introduced some measures such as early warning system, prompt corrective action, know your customer policy, and risk-based supervision system so as to act promptly on the weakness of the financial system. For further strengthening the financial sector stability, it has been felt necessary to introduce stress testing of the banks and financial institutions based on selected indicators and preparing contingency plan. Furthermore, the monetary policy has to play a vital role for the effective implementation of directives such as maintaining capital adequacy ratio, required reserve ratio, statutory liquidity ratio, net liquidity ratio, credit-deposit ratio and sectoral credit limits to enhance financial strengths of banks and financial institutions.

65. At present, the sectoral distribution of the banks' credit is not satisfactory although the total credit expansion is at desired level. Contraction in credit flow to productive sector and excessive credit flow to unproductive sector increases risk of financial as well as overall macroeconomic stability. Therefore, the strategy,

instruments and operation of monetary policy have to be set so as to discourage excessive flow of banks' credit to the unproductive sectors and to ensure the extension of adequate credit to productive sectors. Therefore, there is a need to focus more on sectoral credit instruments rather than on general monetary policy instruments. Accordingly, the NRB has adopted a policy to ensure adequate credit flow towards specified productive sectors through the extension of refinance facility and the moral suasion.

66. It has been strongly felt that monetary policy needs to be focused on interest rate management as well. Low interest rate might induce excessive credit demand in unproductive and risky sectors, which in turn, might lead to deterioration in quality of loans and distortion in economic and financial equilibrium. A substantially low interest rate on fixed deposits relative to inflation rate may divert the financial resources to informal sector and may promote its use in unproductive sectors. Therefore, real interest rate (inflation adjusted) on deposit needs to be positive to attract the scattered financial resources held by general public into banking system and to discourage investment in unproductive sector and consumption. Similarly, it is necessary to maintain domestic interest rate competitive to neighboring countries' interest rate so as to discourage possible capital flight. This aspect has also been considered while formulating monetary policy.

67. The establishment of banks and financial institutions from private sectors was accelerated after the adoption of economic liberalization policy. The deepening of financial market mechanism due to rapid growth in the presence of bank and financial institutions has created competitive environment for mobilization of financial resource and expansion of financial services. However, the interest rate spread between deposit and credit has not yet been reduced as expected. Commercial banks' average interest rate spread of the first three quarters of fiscal year 2009/10 seems to be 4.3 percent. To reduce the interest rate spread by enhancing efficiency in mobilization of financial resource, the NRB will regularly monitor it and motivate bank and financial institutions with above the average spread to reduce gradually. The spread rate, among others, of the respective bank and financial institution, will also be taken into account while providing refinance facility. This provision is believed to reduce spread rate and benefit both the depositors and investors.

Economic and Monetary Objectives

68. In the present context of continuing pressure in foreign exchange reserve due to BOP deficit, the primary objective of monetary policy of 2010/11 is to maintain comfortable level of foreign exchange reserve by achieving BOP surplus. On the basis of sources of foreign exchange receipts, the foreign exchange reserve target is set to maintain at least six months coverage of import of goods and services in 2010/11. In view of the present trend of import and sources of foreign exchange reserve, a BOP surplus of about Rs. 9 billion is targeted for the fiscal year 2010/11 so as to meet the foreign exchange reserve target.

69. In the context of continuing pressure in foreign exchange reserve, there is also a need to focus on the mobilization of foreign assistance as a source of foreign

exchange in addition to remittance. Both monetary and fiscal policies have important role in this regard. The increase in foreign exchange earnings and stock of foreign exchange reserve is also inevitable to create conducive climate for foreign direct investment.

70. Anchoring inflationary expectation is another primary objective of monetary policy of 2010/11. The role of food prices is dominant in the current inflation and hence it is very much challenging to keep inflation within single digit level if agriculture production remain unsatisfactory, petroleum prices continues to hike, and prices in border areas remain high. However, the annual average inflation rate is expected to come down to 7 percent in 2010/11, if industrial activities expand with the improvement in internal distribution system and labor relation. While projecting this inflation, the impact of possible adjustment in prices of goods and services of government enterprises has not been considered. The monetary and credit aggregates will be kept at optimum level so as to prevent the expansionary effects of those aggregates in inflation.

71. The achievement of economic growth target of 5.5 percent mentioned in current three-year plan would basically depend on contribution of agriculture sector, the growth in private sector investment, and the capital expenditure of the GoN. The production of paddy, the main crop, might be adversely affected due to the late start of monsoon this year. Therefore, the achievement of economic growth target is possible only if sanctioned development expenditure of the GoN and expected growth in private sector economic activities are realized. The liquidity and credit management necessary to support the achievement of targeted growth will be the inherent objective of monetary policy.

72. Broad money supply, the interim target of monetary policy, is projected to grow by 15 percent in fiscal year 2010/11. The projection is based on the economic growth target of 5.5 percent, inflation target of 7 percent and BOP surplus of Rs. 9 billion for the year 2010/11. However, while managing necessary monetary liquidity to support economic growth, the NRB is cautious about the likely stress in net foreign assets from the expansion in domestic credit.

73. The domestic credit is projected to grow by 15 percent in fiscal year 2010/11. The commercial banks' credit to private sector, a component of domestic credit, is projected to grow by 16.4 percent in fiscal year 2010/11 compared to its estimated growth of 17.8 percent pervious year. Similarly, the growth in the claims on government is projected to be lower than that in the fiscal year 2009/10. The estimate of such a lower growth in banking sectors' claims on government is based on the remarkable increase in commitments for foreign assistance and the possibility of raising large amount of internal loan from non-banking sectors in fiscal year 2010/11. The credit expansion attained through the motivation to divert it from unproductive imports and consumption to productive sectors is believed to be sufficient to support the targeted economic growth.

74. On the basis of targeted economic growth, BOP surplus, and the positive impact of raising trend in interest rate, the deposit mobilization of commercial banks is expected to grow by 15 percent (or Rs. 92 billion) to Rs. 709 billion in the fiscal

year 2010/11. On the other hand, the credit-deposit ratio is expected to remain within the specified limit (85 percent) in spite of 16.4 percent growth of commercial banks' credit to private sector.

Monetary Policy Operation and Instruments

75. Open market operation will be taken as the principal instrument of monetary policy. Monetary management will be carried out by injecting and mopping up liquidity through the use of appropriate open market operation instruments such as outright purchase auction, outright sale auction, repo auction and revese repo auction. In monetary management, commercial banks as well as class "B" and class "C" financial institutions will be taken as counter parties of monetary policy operation. The maximum maturity period of 45 days for repo and reverse repo auction is kept unaltered.

76. Open market operation can be executed at the initiation of the NRB on any working day. Open market operation, however, will not be carried out for the purpose of lender of the last resort and cash management of the commercial banks. The state of the objectives of monetary policy and the results from the Liquidity Monitoring and Forecasting Framework (LMFF) will be taken as the main base while taking initiation for open market operation.

77. The liquidity in excess of the cash reserve ratio of commercial banks will continued to be taken as operating target of monetary policy in fiscal year 2010/11. The LMFF will be continued to use for the projection of excess liquidity of the commercial banks. In addition, the liquidity monitoring by collecting data on deposit, credit and cash balance of commercial banks on daily basis will also be continued in the current fiscal year.

78. The existing 5.5 percent cash reserve ratio to be maintained on the basis of total domestic deposit is kept unchanged, considering the inflation, BOP deficit and financial stability. Considering the present interest rate structure, the bank rate, one of the indicators of monetary policy stance, is increased to 7 percent from 6.5 percent .The bank rate and general refinance rate are unified to a single rate.

79. The existing provision of statutory liquidity ratio (SLR), which was introduced in 2009/10 with a view to strengthen financial stability and liquidity management, is revised. As per the new provision, commercial banks, development banks, finance companies and finance companies not authorized for operating current account deposits are required to maintain 15 percent, 11 percent, 10 percent and 6 percent SLR respectively. In the context of permission granted to class "D" financial institutions for deposit mobilization, those who have already started deposit mobilization from general public are also required to maintain the 4 percent SLR. The investment on government security, cash in vault; deposit held with the NRB including cash reserve ratio of bank and financial institutions will be eligible for counting SLR. However, commercial banks, development banks and finance companies must maintain 5.5 percent cash reserve ratio whereas finance companies not accredited to operate current account must maintain 2 percent cash reserve

ratio. Likewise, class "D" financial institutions that mobilize public deposits must also maintain 2 percent cash reserve ratio.

80. The existing provision of determining the interest rate on SLF, which is automatically available to bank and financial institutions from this bank, has been revised. According to the new provision, SLF rate shall be computed by adding 3 percent penal rate on the latest weighted average 91-day treasury bills rate or prevailing bank rate whichever is higher. Other procedural provisions of this facility remain unchanged.

81. For maintaining economic and financial stability, it is imperative to channel credit to productive sector by reducing its flow to unproductive sector. In this regard, the bank has already launched a refinance facility to avoid shortfall of credit in specified productive sectors. To avoid any shortfall of credit in export oriented and import substituting industries; energy and tourism sector, the bank has been providing refinance facility at 7.5 percent interest rate to banks and financial institutions against the good loan of the respective sector. The refinance rate has been reduced to 7 percent (prevailing bank rate) from 7.5 percent. The banks and financial institutions cannot charge more than 10 percent interest to the borrowers on such loan. In addition, the procedure regarding this refinance facility is further simplified.

82. A policy will be adopted for assurance of credit flow to productive sectors especially export oriented and import substituting industries; energy and tourism sector by motivating banks and financial institutions to lend in these sectors. For this purpose, banks will be required to submit three-year action plan to double credit flow to these sectors. Regular monitoring and necessary directives will be issued in this regard. For its implementation, commercial banks with less than average outstanding credit in these sectors will be asked to prepare action plan for additional lending.

83. If credit-deposit ratio appears as a constraint to banks and financial institutions for additional lending to productive sector, current definition of productive sector will be reviewed by studying sectoral distribution of credit in order to increase credit flow to the productive sector.

84. The existing refinance rates of 1.5 percent, 1.5 percent, 2.5 percent and 1.5 on export, sick industry, small and cottage industry and foreign employment respectively are unified to a single special refinance rate of 1.5. While using this facility, the banks and financial institutions cannot charge more than 4.5 percent interest to their clients. However, the refinance rate on export credit made available to the banks and financial institutions in foreign currency will be determined by adding 25 basis points to prevailing LIBOR rate as earlier.

85. The sick industry refinance facility commenced from fiscal year 2002/03 is continued in fiscal year 2010/11 as per the existing stipulation.

86. To promote export of floriculture, an agricultural product, the refinance facility will be provided to the cottage and small-scale industries producing and exporting such products.

Financial Sector Reform, Regulation and Supervision

87. Financial sector reform program, which is being implemented since last few years, will also be continued in 2010/11. Under this reform program, restructuring of Nepal Bank Limited and Rastriya Banijya Bank Limited, reengineering of Nepal Rastra Bank and capacity enhancement of financial sector will be continually implemented.

88. In the context of applying international supervisory norms which are renowned in the banking sector, a new capital standard based on BASEL-II has been prepared and implemented in full fledge for class "A" licensed banks since 2008/09. As per the new standard, class "A" banks have to maintain the capital fund and core capital at the ratio of 10.0 percent and 6.0 percent of their risk weighted assets respectively; and financial institutions have to maintain the respective ratios at the level of 11.0 percent and 5.5 percent. The simplified standardized approach under the new capital adequacy framework has already been applied to class "A" commercial banks. It is felt necessary to extend it to other financial institutions to measure adequacy of capital and other aspects on the basis of risk. Therefore, the simplified standardized approach will be applied to national level development banks in order to measure the capital adequacy from 2010/11 on parallel basis.

89. Traditional inspection and supervision technique may not be effective in the context of growing competition in financial sector, and rapid expansion of new instruments and financial services. Therefore, risk-based supervision technique will be applied to the banks in a planned way from coming years. Moreover, a risk management manual will be prepared and implemented in order to identify, measure and manage various risks inherent in the banking sector. This will provide a benchmark to banks for management of risk.

90. In order to make risk based supervision system more effective, the existing module of onsite and offsite supervision will be reviewed and refined. With the objective of strengthening offsite supervisory capacity, the existing early warning system will be made more effective. To help the supervision of big branches of the banks, branch audit concept paper has already been prepared. The services of external experts will also be used for ensuring effective supervision through implementing the concept paper.

91. The NRB will remain proactive towards the possible effects on the financial health of the banks that might arise due to fluctuations in the economy. For this purpose, the process of developing stress-testing system will be encouraged. A permanent task force has already been set up for the development and implementation of stress testing system. In this context, a necessary mechanism will be introduced to banks by 2010/11 so that they can carry out stress testing on their own. Moreover, the preparation of contingency plan to study and analyze the problems and the actions to be immediately taken to resolve the problems in banks and financial institutions will be completed. This will help address sudden crisis in the financial system immediately by developing risk identification and management system for banks. Likewise, establishment of a credit rating agency will be encouraged with an

objective of enhancing disclosure mechanism on risk identification, financial competitiveness and financial health.

92. The implementation and monitoring process of Prompt Corrective Action by-law, 2008, introduced in 2008/09 will be made further effective in order to maintain public confidence continually towards the financial system through prompt rectification of weaknesses identified during the course of inspection and supervision. In addition, to enhance the supervisory skill and capacity of the NRB, the existing structure of Bank Supervision Department and Financial Institution Supervision Department, system of delegating authority and bearing responsibility will be further simplified and made measurable through the review of the existing system.

93. Corporate governance, compliance of directives and monitoring activities will be made more effective to promote financial discipline. Similarly, provisions will be made to check and ensure transparency and economy in the capital and miscellaneous expenditures of banks and financial institutions through reporting mechanism of such expenditures in the log-form audit report by the external auditor. Necessary provisions will be introduced to make compensation (pay plus fringe benefits) of promoters, chief executive officers and other high-class officials of banks and financial institutions compatible and acceptable to the capacity of the financial system of the country and for their complete transparency.

94. With the expansion in the number of banks and financial institutions, multiple-banking activities (especially in loans) are also increasing. Despite a provision of self-declaration on multiple banking under Know Your Customer (KYC), there is still problem of its effective implementation due to increased competition. As these practices increase the systemic risk in the financial system, monitoring mechanism will be made more effective so as to manage such kind of multiple-banking activities.

95. Considering the protection of customers' interest of the banks and financial institutions, the provision of providing clear, simple and understandable information and notification regarding interest on deposits and loans, penal interest, management fee, service charge and other charges will be made further effective. It is believed that such provision will end the situation for the concerned borrowers from bearing any hidden costs. Moreover, the banks and financial institutions will be made more active through the provision that they should transparently state various terms, conditions and restrictions to be followed by concerned borrowers and the party giving collateral/security in a clear and easily understandable way.

96. As fixed and call deposit accounts maintained by class "A" banks in other banks would weaken their intermediary role in the financial system and increases the risk for overstatement of liquidity in the system, to avoid such risks class "A" banks are restricted to open any interest earning accounts with domestic banks and financial institutions.

97. Considering the facts that banks and financial institutions not conforming the existing provision on sectoral credit of extending credit to different sectors of the

economy based on their core capital and the possibility of increase in concentration risk due to excess credit flow to unproductive sector, a new provision will be made under which banks and financial institutions can extend credit up to 40 percent to any one of the sectors other than those specified (except the financial institutions licensed to provide credit to one single sector of the economy). However, the existing provision for the sectors where credits ceilings are less than 40 percent of total credit remains unchanged.

98. A credit ceiling has already been introduced on real estates and housing loans to reduce credit concentration risk. However, in view of the relatively higher value addition of housing sector, the credit ceiling on the housing sector will be moderately eased while the credit ceiling on land purchase and plotting will be continuously tightened. For this purpose, in 2010/11 the credit ceiling for land purchase and sale has been fixed to 10 percent of total credit. The institutions that have credit flow on land purchase and sale in excess of the specified limit should bring down such exposure to 10 percent of the total credit within two years time.

99. A provision will be made to restrict promoters/ shareholders of promoter group of licensed banks and financial institutions holding more than 1 percent promoter share for pledging more than 50 percent of their total share holdings as collateral to get loan. Such practice will be further discouraged gradually.

100. The existing provision that margin lending can be made only up to 50 percent of last 180-days average price or latest market price of share, whichever is lower; is revised upward to 60 percent by considering the present share market and credit conditions.

101. As per the request from the industrial and business sectors to increase the period of trust receipt loan, the existing 90 days period has been increased to 120 days.

102. Under the capacity enhancement program of financial sector, the program for strengthening competence of Debt Recovery Tribunal (DRT) and Credit Information Centre Limited (CICL) will be continued in this fiscal year as well. Necessary provisions will be made for the participation of development bankers' association in the CICL. In addition, to improve non-performing loan situation of banks and financial institutions, a policy provision will be made to encourage private sector participation to establish an asset management company.

103. The Secured Transaction Act, 2006 has already been enacted to have the provision of fulfilling liabilities towards current and fixed assets. In this context, it is necessary to establish a permanent Secured Transaction Registry Office to materialize the sprit of the act and necessary assistance will be provided to the GoN to establish such a separate office.

104. Any possibility of discharging borrowers from repaying their debt poses difficulties in maintaining financial sector stability and weakens the effectiveness of monitoring and supervision activities as well. Hence, an action plan will be prepared regarding the actions to be taken to the willful defaulters. Moreover, seize of passports and other legal actions will be made more effective against those

willful defaulters taking more than Rs. 10 million loans from banks and financial institutions.

105. Application to establish new commercial bank has been postponed until another policy provision is announced. However, this restriction is not applicable to banks and financial institutions to be established as foreign joint-ventures with high standard technology and large capital base, which would be helpful to infrastructure development. The existing policy and procedure on licensing bank and financial institutions will be replaced by new one to make necessary and timely revision on policy issues such as paid-up capital; experience and business involvement of promoters; credit limit to be used by promoters and board of directors; nomination/election of board directors; limit on promoters share investment, fit and proper test and access of general people to financial services.

106. In addition to the capital adequacy requirement, a policy provision will be made for up-gradation of financial intuitions based on commercial viability, institutional capacity, competitiveness, market conditions etc. Furthermore, the extension of geographical coverage and up-gradation from regional bank to national bank will be based on certain criteria.

107. The banks and financial institutions fulfilling certain specified conditions and criteria were allowed to establish branches just by notifying the NRB since April 2008. This policy has been revised so that banks and financial institutions require permission of the NRB to expand their branches. This policy is introduced to encourage establishment of banks' branches in the areas with limited access to financial services, to maintain the institutional viability, and to ensure healthy competition. Permission given to open branch offices in the proposed location will be based on its business activities, access to financial services as well as the possibility of credit flow in agriculture, energy, tourism, and micro-enterprises sectors.

108. The NRB will introduce separate criteria on capital base, investment, loan loss provisions and other regulatory measures to encourage the establishment and operation of financial institutions establishing with the objective of providing long-term financing to infrastructure development. In addition, necessary steps and policy provision will be made to establish infrastructure development bank.

109. The merger and acquisition of banks and financial institutions will be encouraged because their qualitative strength rather than the number counts more for efficiency in financial services and financial stability. For merger and acquisition purpose, a provision will be made to provide certain exemptions and incentives from the monetary sector (single obligor limit, deprived sector lending requirement, loan loss provision, minimum capital requirement etc.) to banks and financial institutions.

110. It has been realized that for sustainable development of capital market and for the support of resource mobilization, there is a need to establish an institution for mutual fund business and diversify financial instruments as well. Therefore, in

coordination with the Security Exchange Board of Nepal (SEBON), private sector banks and financial institutions will be encouraged to operate mutual fund business.

111. Stock of currency notes sufficient to meet three year's demand will be maintained by considering the increase in demand for notes with an expansion of economic activities and an increase in exchange demand for notes in festival occasions and clean note policy will be gradually implemented by replacing soiled notes form the circulation. Under this policy note sorting machine will be used to identify and separate soiled notes, soiled notes in circulation will be brought into banking channel and will be disposed, note stitching activities will be discouraged and different measures will be adopted for public awareness about clean note policy.

112. In the context of the use of information technology (IT) based financial instruments by banks and financial institutions in the country, an IT manual will be prepared and necessary directives will be issued to regulate banks and financial institutions with the objective of facilitating supervision of such transactions. To manage the use of IT to lessen lags in information collection, monetary data processing and dissemination, IT policy will be prepared and executed in Nepal Rastra Bank.

Foreign Exchange Management

113. A provision will be made to provide foreign exchange facility and the opening of bank account abroad to exporters upto the limit of 5 percent of their export earnings under specified procedure and conditions, if they want to open their office such as branch, liaison office or exhibition cell in foreign countries for promoting exports of goods and services.

114. The existing provision of placing security deposit or bank guarantee of 5 percent of the total export value for exporting goods on cash against document (CAD), and the export value to the extent of USD 0.2 million in a single transaction under CAD will be reviewed and an arrangement will be made to reduce the security or bank guarantee requirement to one percent and to increase the export ceiling to USD 0.5 million.

115. The existing provision that allow bank for pre shipment/ post shipment credit in foreign currency only on the basis of letter of credit (LC) receipts will be revised so that banks can provide such credit for export through other prevailing methods as well.

116. With a view to promote exports, reduce production cost and contribute in controlling inflation, 137 items of industrial raw materials are allowed to import from India against the payments of US dollar. Such items will be added /removed in/from the existing list after studying the rationality and necessity of such import.

117. In the context of increasing pressure on cash demand of Indian currency, the existing procedures of Indian currency cash exchange facility based on the document of necessity will be further simplified and made transparent so as to ensure cash exchange and to avoid misuse of the facility.

118. Finance companies licensed for Indian currency transaction will be allowed to open Nostro Account in Indian banks upon their request on the basis of its rationality.

119. The foreign exchange facility to the foreign employment agencies will be provided through a simplified mechanism for business promotion, payment of visa fee and commission. Necessary arrangement will be made for ensuring easy, cheap, safe inflow of the workers' remittance from foreign countries to Nepal and to utilize the same in productive sector by simplifying and enhancing transparency in the remittance transactions. Likewise, necessary arrangement will be made to promote the inflow of workers' remittance through banking channel from India.

120. A study has been ongoing to make the moneychanger business more safe, transparent and simple. The existing moneychanger policy and the related transactions will be reformed on the basis of the study report and considering the total number of moneychanger operating in the country, their regional presence, and consumers' need,

121. The existing provision on gold import will be revised to allow concerned businessmen to import specified amount of gold upon the recommendation of Nepal Gold and Silver Dealers Association. Likewise, the existing arrangement of providing silver to the exporters of silver ornaments and handicrafts will also be revised.

122. With a view to make foreign exchange transactions more organized and systematic, cooperation with stakeholders; grievance hearing on foreign exchange related issues; and on-site and off-site inspection and supervision will be strengthened.

Micro Finance and Access to Finance

123. A policy will be initiated to provide license immediately to financial institutions providing micro finance services to increase the access to financial services in backward regions, classes, gender and communities. In the context of growing challenges regarding regulation and supervision from the expansion of these institutions, a second tier institution (STI) will be established as a micro finance authority to regulate these institutions.

124. All necessary works will be put forward to establish Micro-finance Development Fund which will replace RSRF established for providing credit to weaker groups in the society. Bank and financial institutions will be encouraged to establish a separate desk in order to monitor growth, access and effectiveness of credit to micro, small and medium scale industries. There has already been a separate department in the NRB for effective regulation and supervision of micro-finance institutions.

125. With a view to increase the access to the financial services, the mandatory provision of the deprive sector lending ratio for development banks and finance companies has been increased to 2.5 percent and 2.0 percent of the total loans respectively from the exiting provision of 2 percent and 1.5 percent respectively. However, the deprived-sector lending requirement for commercial banks has been

kept unchanged at the present level of 3 percent. In order to ensure credit flow to the targeted group, banks and financial institutions are not allowed to deposit the amount specified for deprived sector lending purpose into other banks and financial institutions to earn interest.

126. With a view to encourage deprived sector lending, the provision that does not require additional 20 percent loan loss provision for the loans provided directly or indirectly to the deprived sector on group/ personal/ institutional guarantee has also been continued this fiscal year for promoting deprived sector lending. Credit to housing, electricity; hospitals that fulfill the requirement of deprived sector credit will be reviewed and accordingly limit on such credit will be fixed.

127. In order to promote women empowerment through their increased participation in economic and professional activities, loan up to Rs. 300 thousands provided by bank and financial institutions for micro enterprises run by women will be counted in deprived sector credit. A refinance facility will be provided for such loans by the NRB.

128. A provision will be introduced to include the credit up to Rs. 10 million provided by bank and financial institutions in hydropower project of upto 500 kw capacity with at least 50 percent investment participation by community user committee or private sector into the deprived sector lending.

129. The ceiling of deprived sector loan provided against the guarantee of group member or person and classified as a pass loan for last two year has been increased to Rs 90 thousands from the existing limit of Rs 60 thousands. Similarly the credit limit for micro enterprises has been increased from Rs. 150 thousands to Rs. 200 thousands. However, while lending such credit of up to Rs. 200 thousands, the existing provision that it should not exceed 25 percent of deprived sector lending requirement has been revised to one-third of total loans and advances to deprived sector. This provision is equally applicable to all micro finance institutions.

130. Loans provided through consumer committee or cooperative for community irrigation in rural area and credit for buying tractor, thresher and other agricultural equipments will be counted under the deprived sector credit.

131. Loans up to Rs. 150 thousands per household provided to establish cold storage in collective ownership for preserving food grains will be counted as deprived sector credit. Similarly, loans up to Rs. 250 thousands per household for animal husbandry, fishery, bee keeping and so forth will also be counted under the deprived sector credit.

132. Loans up to Rs 200 thousands provided by the banks and financial institutions without collateral to youths from deprived families for studying secondary and higher secondary level technical and vocational education will be counted as deprived sector credit.

133. A separate fund will be established to support financial access program in the rural areas from the amount collected through the penalty to the banks and financial institutions for not complying with deprived sector lending requirement. Additional

measures will be brought into effect for facilitating bank and financial institutions to meet deprived sector lending requirement.

134. With a view to provide relief to targeted people, a refinance facility at special refinance rate will be provided for the loan provided to foreign employment to *dalit*, *janajatis* marginalized and women as defined by the GoN.

135. With a view to mobilize a certain portion of the resources of banks and financial institutions in the promotion of small and medium scale hydropower projects, an initiative will be undertaken to set up a separate hydropower development fund/institution in coordination and discussion with the concerned stakeholders.

136. Considering the presence of banks and financial institutions and access to financial services, the establishment of class 'D' financial institutions will be encouraged. An arrangement will be made to open license for class 'C' financial institutions with geographical coverage of 1 to 3 districts in 30 districts with limited financial access and for class 'D' development banks with geographical coverage of 3 to 10 districts having limited financial access. An arrangement will be put in place for granting immediate approval to financial institutions wishing to expand geographical coverage in districts having limited banking services.

137. With a view to expand banking services in areas with limited access to financial services, the existing provision of additional paid up capital of Rs. 20 million to open a branch in Kathmandu Valley and Rs. 5 million to open a branch outside Kathmandu valley respectively will be waived for class 'C' financial institutions extending branches in municipalities or village development committees having two or less banks and financial institutions or their branches.

138. With a view to enhance financial inclusion through expansion of financial services in lacking areas, the NRB shall provide an interest free loan upto Rs. 5 million and Rs. 10 million respectively to those banks and financial institutions opening branch in district head quarter and outside of district head quarter of 22 remote districts, specified by the GoN. Likewise, banks and financial institutions will be allowed to open a branch in Kathmandu Valley only after having the operation of one branch among the 30 specified districts with limited presense of bank and financial institutions and one more branch anywhere outside Kathmandu valley come.

139. An arrangement will be made to allow banks and financial institutions to extend banking services in rural areas with minimum capital and other expenditures through setting up limited banking services office or branchless/electronic medium. The NRB will try to avoid the possibility of reverse flow of financial resources collected in rural areas to urban areas.

140. As announced in the Budget Speech of 2009/10, an arrangement has already been made regarding deposit guarantee of up to Rs. 200 thousands of savings and fixed deposit of class 'D' financial institutions by natural persons. This program will be extended gradually to other banks and financial institutions from the begining of 2010/11.

141. A preliminary work will be carried out to conduct a rural credit survey which will cover the state of the presence of banks and financial institutions, institutional credit, informal financial transactions, rural financial access, credit and interest rate.

Lastly,

142. In the backdrop of BOP deficit in 2009/10, persistent high inflation rate, stress on liquidity in the banks, slackness in the credit expansion to the private sector, excessive credit exposure of banks to real estate sector and the situation of large portion of public being beyond the outreach of the formal financial services, the implementation of the current monetary policy is believed to contribute to resolve these challenges to some extent. Since sustainable poverty alleviation is not possible without employment centric high economic growth, the current monetary policy is also intended to create conducive environment to this direction.

143. The implementation of this monetary policy is believed to help improve BOP, reduce inflation to single digit, achieve financial stability, extend the financial access to the general public and achieve the targeted economic growth. The NRB would like to appreciate all sections of the community including different agencies of the GoN, financial institutions, professional and business associations, academicians and donor community for their cooperation in the process of formulation of the monetary policy. The NRB also expects continued cooperation from all the stakeholders in successful implementation of the provisions and programs of this monetary policy.

Appendix I
Annual Progress Matrix of Policy Measures as Outlined in Monetary Policy of 2009/10

SN	Point	Objectives/Programs	Work Description	Responsible Dept.	Implementation Status
1	73	Prepare and publish the export import price index (XMPI) based on the unit value.	Carry on necessary actions	Research Department	Data collection process is ongoing.
2	74	Initiate the measurement of new consumer price index with base year 2005/06.	Carry on necessary actions	Research Department	Preparation is in the final stage.
3	75	Initiate macroeconomic modeling from 2009/10 to support projection of macroeconomic indicators.	Carry out necessary actions	Research Department	The work is ongoing with the technical assistance from Asian Development Bank.
4	82	Annual average inflation rate for 2009/10 projected to be 7.0 percent.	Monitoring and analyzing the policy measures	Research Department	Revised estimate of inflation rate is revised to 10.5 percent due to high food prices and other supply factors.
5	83	To meet the foreign exchange target of maintaining at least 6 months coverage of import of goods and services, the BOP surplus is projected to be 18 billion for 2009/10.	Monitoring and analyzing the policy measures	Research Department	The estimate of the BOP is revised to Rs. 5 billion deficit.
6	84	Monetary liquidity will be managed to facilitate the attainment of 5.5 percent economic growth rate mentioned in budget speech of 2009/10.	Monitoring and analyzing the policy measures	Research Department	The liquidity is managed as per the revised estimate of 3.5 percent economic growth.
7	85	The desired growth of broad money supply is projected at 17.0 percent for 2009/10.	Monitoring and analyzing the policy measures	Research Department	The estimate of broad money supply growth is revised to 14 percent.
8	86	Commercial banks' credit to private sector projected to grow by 20.7 percent in 2009/10.	Monitoring and analyzing the policy measures	Research Department	The estimate of credit growth is revised to 17.8 percent.
9	88	The excess liquidity of banks and financial institutions (From class "A" to class "C") over the cash reserve ratio to be taken as operating target of monetary policy from 2009/10.	Monitoring and implementation of the policy provisions	Research Department / Bank Supervision Department	A study is ongoing for necessary arrangement.
10	89	The "Broad Money Survey" based on the balance sheets of Nepal Rastra Bank, commercial banks, development banks and finance companies will be prepared and published in 2009/10	Carry on necessary actions.	Research Department / Bank and Financial Institution Regulation Department	Collection and processing of data of development banks and finance companies are going on.

SN	Point	Objectives/Programs	Work Description	Responsible Dept.	Implementation Status
11	97	The working procedure regarding the Statutory Liquidity Ratio (SLR) to be maintained by the banks and financial institutions from 2009/10 will be issued within mid-August 2009.	Necessary actions to be taken to implement policy provision.	Bank and Financial Institution Regulation Department	Implemented from mid- January 2010 by issuing circular on 10 August 2009.
12	101	Under financial sector reform program, the ongoing programs like reforms on regulatory and supervisory functions of banks and financial institutions and making the Debt Recovery Tribunal (DRT) more effective will be continued.	Necessary analysis and implementation of policy measures.	Bank and Financial Institution Regulation Department / Legal Division	Second amendment in Debt Recovery Act, 2002 has been effective from 27 January 2010. The mechanization of DRT and training to its staff is ongoing.
13	102	The reform process of Nepal Bank Limited (NBL) and Rastraya Banayja Bank Limited (RBBL) will be continued and the program ensuring capital adequacy of these two banks within upcoming two years will be effectively implemented.	Analyzing and taking necessary action to implement the policy measure	Bank and Financial Institution Regulation Department	The preparation of capital plan of NBL and RBBL is ongoing.
14	104	To increase the access of banking facilities in the rural areas, banks and financial institutions will be encouraged to operate branchless banking services by using smart card through the Point of Transaction (POT) with the help of commercial representatives.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department	Circular has already been issued and some of the banks have started to provide such facility.
15	105	For extending the mobilization of financial resources, a concept paper on financial assets restructuring and securitization will be prepared and related draft Act will be submitted to the GoN in 2009/10.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department / Legal Division	Draft has already been prepared and the discussion with stakeholders is ongoing.
16	106	The actions have been taken to the willful defaulters having loan amount of Rs 10 million or above from 2008/09. Such actions against willful defaulters will be effectively intensified in upcoming days.	Monitoring and Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department	The provision is in implementation. Among the 355 penalized defaulters, 32 persons repaid their loan and action against them relaxed.
17	107	Necessary assistance will be provided to the GoN to establish a separate office to carry out the works on secured transactions.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department / Legal Division	The GoN has not formally asked for such assistance.

SN	Point	Objectives/Programs	Work Description	Responsible Dept.	Implementation Status
18	108	Initiation will be taken to coordinate among all stakeholders in order to establish a separate commercial bench for the companies established under the Company Act 2006.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department / Legal Division	Separate commercial benches are established in four Appellant Courts with the advice from the Supreme Court.
19	109	The credit extended on foreign employment to dalit, minorities, suppressed as defined by the GoN including women for relieving them and promoting the foreign employment will be counted as equivalent to the credit under sick industries refinancing facility and Rs 500 million has been earmarked for such purpose for 2009/10.	Monitoring and Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department / Banking Office	The arrangement is in effect but no one applied for this facility yet.
20	111	Necessary directives and policies will be formulated for development of required infrastructure and the implementation of the preliminary report on permitting foreign banks for wholesale branch banking in Nepal.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department	Necessary policy has been formulated and brought into effect.
21	112	Necessary provisions will be made to allow the commercial banks to open branches outside Nepal.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department	The policy provision was introduced by issuing circular on 7 April 2010.
22	114	To increase the outreach of micro finance to deprived classes, the existing provision of providing 3.0 percent of total outstanding loans of commercial banks to deprived sector has been continued in 2009/10. The deprived sector credit requirement for development banks has been increased to 2.0 percent and finance companies to 1.5 percent for 2009/10.	Monitoring and Necessary actions to be proceeded to implement the policy provision	Bank Supervision Department / Financial Institutions Department / Bank and Financial Institution Regulation Department	The compliance of the provision has begun to monitor from the second quarter of 2009/10.
23	116	In coordination with Nepal Security Board, Banks and financial institutions will be encouraged for mutual fund transactions.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department	The preparation process in ongoing.
24	117	Private sector will be encouraged to establish a credit rating agency and additional programs will be introduced to modernize and equip the credit information system.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department	The tender on the mechanization of Credit Information Centre is in the stage of evaluation.

SN	Point	Objectives/Programs	Work Description	Responsible Dept.	Implementation Status
25	118	Necessary directives relating to the electronic banking transactions will be issued within this year for the smooth operation of banks and financial institutions.	Necessary actions to be proceed to implement the policy provision	Bank and Financial Institution Regulation Department	Circular on electronic payments has already been issued and the initial draft on electronic banking has been prepared and is on discussion.
26	119	In order to help achieve the objectives of "Asset (Money) Laundering Prevention Act", 2007, a provision will be made whereby banks and financial institutions will be required to settle the deposits and withdrawal transactions of Rs 5 million or above only through cheque. To systematize the financial system and discourage money laundering and its investigation process more effective, the NRB will prepare a necessary institutional arrangement equipped with specialized manpower.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department / Legal Division	It is implemented through the circular issued on 14 August 2009. Human resource is added in Financial Information Unit and will also be added as required.
27	120	Determining the threshold limit and a necessary margin to reporting institutions, a provision will be made in 2009/10 whereby the reporting institutions will be required to report all the transactions beyond the stipulated limit to the Financial Information Unit (FIU).	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department / Legal Division	Determining the ceiling amount, separate directives have been issued to banks and financial institutions, casinos, remittance agencies, moneychangers and cooperatives.
28	121	A draft act on preventing financing against illegal and terrorist activities will be submitted to the GoN.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department / Legal Division	The first amendment draft of 'Asset (Money) Laundering Prevention Act', 2008 has been prepared and submitted to the GoN to address this issue.
29	122	As mentioned in the budget speech of 2009/10, necessary policy and institutional arrangements will be made to protect the interest of small individual depositors by means of compulsory insurance of saving and fixed deposits of up to two hundred thousands.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department	After completing data collection it will be submitted to the Ministry of Finance for advice.

SN	Point	Objectives/Programs	Work Description	Responsible Dept.	Implementation Status
30	123	If class "A", "B" and "C" bank and financial institutions wish to provide credit to the deprived sector through the establishment of a subsidiary company and fulfill the required procedures for the same, they will be permitted for such transactions.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department	A circular in this regard has already been issued on 20 September 2009.
31	124	The existing single obligor limit of 50 percent of core capital including the funded facility to the extent of 25 percent of core capital will remain unchanged for this year so as to mitigate concentration risk on credit and extend credit to different sectors of the economy. As accorded by Basel Core Principles (BCP), the existing limit has been slashed to 25.0 percent of core capital including that of non-fund based effective from July 17, 2010.	Necessary actions to be proceeded to implement the policy provision	Bank and Financial Institution Regulation Department	The circular has already been issued in 23 November 2009 with effective date of 15 January 2011.
32	125	Banks and financial institutions will be encouraged to consolidate their financial position through merger and acquisition, which will also contribute to strengthen the financial sector by expanding the capital base.	Necessary actions to be taken for implementation of this policy measure	Bank and Financial Institution Regulation Department	The policy on merger and acquisition has been continued. Two finance companies merged together in this year.
33	127	For the development of infrastructure of national importance, strategy to manage high concentration risk will be adopted and necessary policy measures will be made to avert the shortfall of resources in infrastructure-related projects.	Necessary actions to be taken for implementation of this policy measures	Bank and Financial Institution Regulation Department	Process of policy formulation is ongoing.
34	128	Share divestment of various financial institutions held by the NRB will be continued as per provision of the NRB act, 2002.	Take necessary actions	Bank and Financial Institution Regulation Department	The process has been continued.
35	129	A clearing-house has been established in a majority share of the NRB and banks and financial institutions. Necessary legal, administrative and technical provisions will be accomplished to run the house.	Take necessary actions to accomplish	Banking Office	Required action has been continued.
36	130	Initiate the modernization of information system by replacing existing KBOSYS software by another software feasible to operate ABSS of the central bank.	Take necessary actions	Information Technology Department/Banking Office	Required work has been continued.

SN	Point	Objectives/Programs	Work Description	Responsible Dept.	Implementation Status
37	131	Non-governmental organizations licensed by the NRB for limited banking transactions are, at present, required to confine their intermediary services within the district where they are registered. Now onwards, upon the fulfillment of the requirements stipulated by the NRB, they will be allowed to expand financial intermediary services in other districts in addition to the district they were registered.	Implement the policy provision and analyze its impact	Bank and Financial Institution Regulation Department	The provision came into effect with the issuance of circular on November 9, 2009.
38	133	In the context of implementation of the BCP, the existing structure of on-site supervision report will be reviewed and amended so as to improve its quality.	Analyze and take necessary actions to implement the provision	Bank Supervision Department/Financial Institutions Supervision Department	The reporting format has been accordingly changed and brought into execution.
39	134	The Prompt Corrective Actions bylaw, 2008 has been effective from 2008/09. Since it has helped to recognize as well as address the problems emerged in banks and financial institutions in time, the implementation as well as monitoring of the PCA will be made more effective.	Analyze and take necessary actions to implement the provision.	Bank Supervision Department	It has been monitored monthly.
40	135	The NRB completed the self-evaluation of Basel Core principles (BCP) in 2006/07 and a BCP plan with targets of improving weaknesses highlighted during self-evaluation process has already been put into action. In this context, the NRB will review the timetable and procedures described in the BCP plan so as to accomplish the tasks of the plan in a phase-wise manner.	Execute necessary actions as per provision	Bank Supervision Department	The BCP work plan has been reviewed and it will be implemented phase wise.
41	136	In the context of the possibility of the establishment of foreign bank branches and offices for wholesale credit transaction in Nepal beginning 2010, the memorandum of understanding will be prepared for home-host supervisory relation within this year. Likewise, emphasis will be given on cross-border banking and corporate culture.	Execute necessary actions as per provision	Bank Supervision Department	A draft has been prepared governing a home-host supervisory relation.
42	138	The implementation of Early Warning Signal (EWS) to banks and financial institutions will be further strengthened so as to enhance the efficiency of off-site supervision. In the process, "Stress Testing" of commercial banks will be carried out.	Execute necessary actions as per provision	Bank Supervision Department /Financial Institution Supervision Department	The work is initiated with the formation of a taskforce for stress testing.

SN	Point	Objectives/Programs	Work Description	Responsible Dept.	Implementation Status
43	139	Realizing the inadequacy of compliance-based supervision in the context of growing competition, evolving new instruments and products in the financial sector, a risk-based supervision will be implemented in a planned way in addition to compliance-based supervision. Risk management guidelines will be prepared to identity and reduce the potential sources of risks in the banking sector.	Monitor and implement the policy measures	Bank Supervision Department	A draft on risk-based supervision is being prepared.
44	140	In order to increase the outreach of the institutional credit to deprived classes, the NRB will continue to monitor the credit flow to ensure whether banks and financial institutions have fulfilled the requirements of disbursing the stipulated amount of credit to the deprived sector. Accordingly, the bank will impose penalty to the banks and financial institutions failing to fulfill this requirement.	Policy measures to be implemented	Bank Supervision Department/Financial Institutions Supervision Department/Bank and Financial Institutions Regulation Department	Such credit flow has been regularly monitored. Those banks and financial institutions unable to comply have been penalized.
45	141	The daily liquidity monitoring function will be made effective so as to measure the liquidity position of the banking sector for timely identifying inherent risks and support the conduct of open market operations.	Analyze the Policy measures and take necessary actions to implement it	Research Department/Bank Supervision Department	Liquidity has been continually monitored on daily basis.
46	142	Integrated information of the big borrowers and the banking facilities used by them will be prepared to help monitor the compliance of single obligor limit as well.	Policy measures to be implemented	Financial Institutions Supervision Department /Bank Supervision Department	Software has been prepared and availed to commercial banks to monitor this issue.
47	144	The Government of Nepal has already issued the "National Micro Finance Policy, 2008". In order to implement this policy effectively and to regulate, supervise and inspect the financial intermediaries such as micro finance development banks and other co-operatives and NGOs, establishment of a Second Tier Institution (STI) is essential. A draft of micro finance act comprising of the procedures to mobilize the micro finance development fund will be submitted to the GoN within the first six-month of 2009/10.	Policy measures to be implemented	Financial Institutions Supervision Department /Micro Finance Department	A draft of micro credit act has been prepared and submitted to the board of Rural Self Reliance Fund to finalize it.
48	145	Private sector will be encouraged to establish micro finance security institutions for insurance of credit against failure of micro project and borrowers.	Policy measures to be implemented	Micro Finance Department	Necessary preparations have been ongoing to implement this provision.

SN	Point	Objectives/Programs	Work Description	Responsible Dept.	Implementation Status
49	147	In the context of lack of data on the activity, legal, policy and procedural aspects of micro finance, an effort will be introduced to organize and make public all the relevant information and statistics relating to micro finance.	Necessary actions to be taken to implement.	Micro Finance Department	A desk has been established under Micro Finance Department to manage the data relating to micro credit. After completing the data processing, it will be made public.
50	148	In view of the operation of regional offices of multinational companies in India to trade with Nepal and other countries in the region, a provision will be made to allow importers to import goods manufactured in third countries through shipment via India or third countries against the payment of convertible currencies through L/C in favor of such regional offices in India.	Monitor and take necessary actions for implementation	Foreign Exchange Management Department	The policy is effective from the circular issued on Aug 2, 2009.
51	149	The existing provision requiring approval from the NRB to issue bank guarantee (Bid Bond, Performance Bond) for the release of foreign currency (including Indian currency) to conduct various businesses including export of goods and services from Nepal to entities located abroad other than borrowing loan from abroad will be replaced by a new arrangement under which "A" class banks can issue such bank guarantees.	Monitor and take necessary steps to implement the policy measures	Foreign Exchange Management Department	A circular has been issued on Aug 2, 2009 for the implementation of this provision.
52	150	The existing provision of requiring Foreign Exchange Encashment Receipt (FEER) from foreign visitors at the time of their departure from Nepal to exchange unspent Nepalese rupees has be simplified so that no FEER will be required for exchange up to USD 100 or equivalent foreign currencies.	Arrange necessary policy provisions	Foreign Exchange Management Department	A circular has been issued on Aug 2, 2009 for the implementation of this provision.
53	151	In addition to an existing provision of importing through only Documents Against Payment (DAP) under documentary collection, now onwards as per the provision of Uniform Rules for Collection (URC), ICC Publication No. 522 of International Chamber of Commerce, an arrangement will be made to import through Documents Against Acceptance (DA), on the condition that such transactions take place through "A" class banks and "B" class national level financial institution.	Monitor and take necessary steps to implement the policy measures	Foreign Exchange Management Department	A circular has been issued on Aug 2, 2009 for the implementation of this provision.

SN	Point	Objectives/Programs	Work Description	Responsible Dept.	Implementation Status
54	152	A provision will be made whereby import can be made at FOB prices through draft, TT and documentary collection in the same procedure that is followed under L/C transactions.	Arrange necessary policy provisions	Foreign Exchange Management Department	A circular has been issued on Aug 2, 2009 for the implementation of this provision.
55	153	The existing policy of increasing the number of goods in the list of goods that can be imported from India against US dollar payments will be continued.	Arrange necessary policy provisions	Foreign Exchange Management Department	The policy provision is continued and the number of such goods reached 137.
56	154	In order to facilitate the export of Nepalese goods and services through internet, a provision will be made to accept payments through internet from international debit and credit card.	Monitor and take necessary steps to implement the policy measures	Foreign Exchange Management Department	A circular has been issued on Aug 2, 2009 for the implementation of this provision.
57	155	The existing provision of foreign exchange facility of up to US$ 4,000 to individual, organizations/institutions and banks & financial institutions directly available from the banks of category "A" and national level financial institutions of category "B" for various purposes on the basis of required documents has been increased to US$ 6,000.	Arrange necessary policy provisions	Foreign Exchange Management Department	A circular has been issued on Aug 2, 2009 for the implementation of this provision.

Appendix 2

Projection of Monetary Survey

(Rs. in million)

Monetary Aggregates	2007 Jul	2008 Jul	2009 Jul	2010 Jul [e]	2011 Jul [p]	Changes During the Fiscal Year 2008/09 Amount	2008/09 Percent	2009/10 Amount	2009/10 Percent	2010/11 Amount	2010/11 Percent
1. Foreign Assets, Net	**131,910.0**	**171,455.0**	**221,083.7**	**207,118.7**	**216,118.7**	**41,280.2** [1/]	**24.08**	**-5,000.0** [2/]	**-2.26**	**9,000.0**	**4.35**
1.1. Foreign Assets	165,714.0	213,254.0	280,540.9	265,191.7	282,441.7	67,286.9	31.55	-15,349.2	-5.47	17,250.0	6.50
1.2. Foreign Currency Deposits	28,247.0	34,229.0	51,794.7	49,762.0	55,112.0	17,565.7	51.32	-2,032.7	-3.92	5,350.0	10.75
1.3. Other Foreign Liabilities	5,557.0	7,570.0	7,662.5	8,311.0	11,211.0	92.5	1.22	648.5	8.46	2,900.0	34.89
2. Net Domestic Assets	**263,608.6**	**323,921.6**	**411,661.7**	**514,131.3**	**613,621.4**	**96,088.4** [1/]	**29.66**	**93,504.6** [2/]	**22.71**	**99,490.1**	**19.35**
2.1. Domestic Credit	**360,557.6**	**437,269.6**	**553,632.5**	**658,662.2**	**757,749.8**	**116,362.9**	**26.61**	**105,029.7**	**18.97**	**99,087.6**	**15.04**
Domestic Credit*	376,582.0	453,294.0									
a. Net Claims on Govt.	78,343.6	87,079.6	104,867.7	131,417.3	149,953.5	17,788.1	20.43	26,549.6	25.32	18,536.2	14.10
i. Claims on Govt.	81,466.0	91,026.0	104,867.7	131,417.3	149,953.5	13,841.7	15.21	26,549.6	25.32	18,536.2	14.10
ii. Govt. Deposits	3,123.0	3,946.0	0.0	0.0	0.0	-3,946.0	-100.00	0.0	-	0.0	-
b. Claims on Govt. Enterprises	8,737.0	10,356.0	12,651.6	14,466.9	15,539.1	2,295.6	22.17	1,815.3	14.35	1,072.2	7.41
i. Financial	3,622.0	4,710.0	7,559.2	8,758.4	9,630.6	2,849.2	60.49	1,199.2	15.86	872.2	9.96
ii. Non-financial	5,115.0	5,646.0	5,092.4	5,708.5	5,908.5	-553.6	-9.81	616.1	12.10	200.0	3.50
c. Claims on Private Sector	273,477.0	339,834.0	436,113.2	512,778.0	592,257.2	96,279.2	28.33	76,664.8	17.58	79,479.2	15.50
*Claims on Private Sector**	289,501.0	355,858.0									
2.2. Net Non-monetary Liabilities	96,949.0	113,348.0	141,970.8	144,530.9	144,128.4	20,274.4 [1/]	17.89	11,525.1 [2/]	8.12	-402.5	-0.28
*Net Non-monetary Liabilities**	112,973.0	128,092.0									
3. Broad Money (M_2)	**395,518.6**	**495,376.6**	**632,745.3**	**721,250.0**	**829,740.1**	**137,368.7**	**27.73**	**88,504.7**	**13.99**	**108,490.1**	**15.04**
3.1. Money Supply (M_1)	**126,888.6**	**154,343.6**	**196,460.8**	**216,150.0**	**245,115.6**	**42,117.2**	**27.29**	**19,689.2**	**10.02**	**28,965.6**	**13.40**
a. Currency	83,553.0	100,175.0	125,760.0	144,400.0	164,959.6	25,585.0	25.54	18,640.0	14.82	20,559.6	14.24
b. Demand Deposits	43,334.0	54,169.0	70,700.8	71,750.0	80,156.0	16,531.8	30.52	1,049.2	1.48	8,406.0	11.72
3.2. Time Deposits	268,630.0	341,033.0	436,284.5	505,100.0	584,624.5	95,251.5	27.93	68,815.5	15.77	79,524.5	15.74
4. Broad Money Liquidity (M_3)	**423,765.6**	**529,605.6**	**684,540.1**	**771,012.0**	**884,852.1**	**154,934.4**	**29.25**	**86,471.9**	**12.63**	**113,840.1**	**14.77**

e = Estimate.

p = Projection.

1/ Adjusting the exchange valuation gain of Rs. 8348.41 million.

2/ Adjusting the exchange valuation loss of Rs 8965 million.

* *A justing credit write off made by NBL and RBB. NBL wrote off a Rs. 11 billion in July 2006 and Rs. 2.87 billion in October 2006. Similarly RBB wrote off Rs. 13.15 billion in December 2006*

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 Acraylate Monomer / 2 Etyl 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 Steearin DFA / Palm Karnel DFA
31	As per section 10 and 20 of 39.01	Polyethylene
32	As per section 39.02.10	Polypropylene
33	As per section 39.03.19.00	Polysterence
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	Polethelyne
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	arn of Carded wool
50	As per section 51.07	Yarn of Combed wool
51	As per section 51.08	Yarn of fine animal hair
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 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 / Viscose Staple 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 72.03.10.00	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 section 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 section 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 section 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)

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	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 PictureTube
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)
	List of goods added, effective from April 17, 2007	
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 Turpentine Oil)
96	As per section 27.10.19.90	Petrosole
97	As per section 29.16	Unsaturated acyclin Monocarboxylic Acid
98	As per section 29.35	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 96.02.00.00	Geltain Capsules
112	As per section 39.05.42.00	Penta Aerithritole
113	As per section 39.20	Polyester, Polythelyne, BOPP, Pvc, OPP, CPP sf Film
114	As per section 39.21.19	Printed Wrapper
115	As per section 39.23.90	Plastic Lolypop Stick

S.N.	Harmonic Code Number	Goods
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
	List of goods added, effective from November 13, 2007	
123	As per section 78.01.10.00	Pure/Refined Lead
124	As per section 78.01.91.00	Antimony Lead Alloy
	List of goods added, effective from April 3, 2009	
125	As per section 29.05.13.00	N. Butanol
126	As per section 29.05.14.00	ISO Butanol
127	As per section 72.16.22.00	Angle
128	As per section 72.16.40.00	Angle
129	As per section 72.16.50.00	Angle
130	As per section 72.06.91.00	Aluminium Circle
131	As per section 29.12.60.00	Parafarmaldehyde
132	As per section 29.33.61.00	Melamin
133	As per section 38.24.90.00	Alkyl Ester (Bio-Fuel)
134	As per section 15.20.00.00	Glycerol (Glycerin)
135		LP Gas (consumable energy)
	List of goods added, effective from 23 August 2009	
136	As per section 7403.11.00	Cathodes and Section of Cathodes
137	As per section 7601.10.40	Aluminum Wire Rod

List of Statistical Tables

Table 1

Real Gross Domestic Product

(At 2000/01 Prices)

Sectors	Rs. in million						Percent Change					
	2004/05	2005/06	2006/07	2007/08	2008/09[R]	2009/10[P]	04/05	05/06	06/07	07/08	08/09[R]	09/10[P]
Agriculture	**179,810.3**	**183,014.9**	**184,796.0**	**195,559.0**	**201,500.0**	**203,752.9**	**3.5**	**1.8**	**1.0**	**5.8**	**3.0**	**1.1**
Agriculture and Forestry	177,303.6	180,259.7	181,958.0	192,514.0	198,282.0	200,364.0	3.4	1.7	0.9	5.8	3.0	1.0
Fishery	2,506.7	2,755.2	2,838.0	3,045.0	3,218.0	3,388.9	7.1	9.9	3.0	7.3	5.7	5.3
Non-Agriculture	**300,534.7**	**316,524.8**	**330,330.6**	**349,743.4**	**366,109.6**	**384,781.5**	**3.2**	**5.3**	**4.4**	**5.9**	**4.7**	**5.1**
Industry	**79,925.2**	**83,498.8**	**86,792.0**	**88,305.0**	**88,088.0**	**91,508.2**	**3.0**	**4.5**	**3.9**	**1.7**	**-0.2**	**3.9**
Mining and Quarrying	2,169.2	2,348.3	2,383.0	2,513.0	2,531.0	2,638.0	6.8	8.3	1.5	5.5	0.7	4.2
Manufacturing	38,135.9	38,898.3	39,891.0	39,545.0	39,132.0	40,167.8	2.6	2.0	2.6	-0.9	-1.0	2.6
Electricity, Gas and Water	11,116.7	11,562.2	13,065.0	13,204.0	13,084.0	13,153.4	4.0	4.0	13.0	1.1	-0.9	0.5
Construction	28,503.4	30,690.0	31,453.0	33,043.0	33,341.0	35,549.0	2.9	7.7	2.5	5.1	0.9	6.6
Services	**220,609.5**	**233,026.0**	**243,538.6**	**261,438.4**	**278,021.6**	**293,273.3**	**3.3**	**5.6**	**4.5**	**7.3**	**6.3**	**5.5**
Wholesale and Retail Trade	65,693.6	68,099.0	64,292.2	66,962.2	70,905.4	74,894.6	-6.2	3.7	-5.6	4.2	5.9	5.6
Hotels and Restaurant	7,524.7	8,001.0	8,278.1	8,851.1	9,112.9	9,891.3	-5.4	6.3	3.5	6.9	3.0	8.5
Transport, Storage and Communications	40,985.0	42,001.0	44,094.3	48,225.8	51,882.7	55,231.7	6.4	2.5	5.0	9.4	7.6	6.5
Financial Intermediation	15,957.0	19,843.0	22,103.0	24,142.3	24,502.1	24,886.8	24.3	24.4	11.4	9.2	1.5	1.6
Real Estate, Renting and Business	34,700.2	36,900.0	41,240.0	45,544.0	46,342.5	48,597.9	10.0	6.3	11.8	10.4	1.8	4.9
Public Administration and Defence	8,551.0	9,139.0	9,262.0	9,319.0	9,999.0	10,419.0	6.6	6.9	1.3	0.6	7.3	4.2
Education	27,606.0	28,640.0	30,738.0	32,716.0	36,399.0	38,761.0	9.8	3.7	7.3	6.4	11.3	6.5
Health and Social Work	6,109.0	6,470.0	6,888.0	7,474.0	8,308.0	8,774.0	11.3	5.9	6.5	8.5	11.2	5.6
Other Community, Social and Personal Service	13,483.0	13,933.0	16,643.0	18,204.0	20,570.0	21,817.0	-3.4	3.3	19.5	9.4	13.0	6.1
Total GVA including FISIM	**480,345.0**	**499,539.6**	**515,126.6**	**545,302.4**	**567,609.6**	**588,534.4**	**3.3**	**4.0**	**3.1**	**5.9**	**4.1**	**3.7**
Financial intermediation indirectly measured	17,180.0	19,105.0	21,476.0	23,042.9	24,706.2	26,490.0	6.2	11.2	12.4	7.3	7.2	7.2
GDP at basic prices	**463,165.0**	**480,434.6**	**493,650.6**	**522,259.6**	**542,903.4**	**562,044.4**	**3.2**	**3.7**	**2.8**	**5.8**	**4.0**	**3.5**
Taxes less subsidies on products	34,574.0	34,051.0	38,387.6	42,257.0	49,030.0	56,985.3	6.9	-1.5	12.7	10.1	16.0	16.2
GDP at producers price	**497,739.0**	**514,485.6**	**532,038.1**	**564,516.5**	**591,933.4**	**619,029.7**	**3.5**	**3.4**	**3.4**	**6.1**	**4.9**	**4.6**

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					
	2004/05	2005/06	2006/07	2007/08	2008/09[R]	2009/10[P]	04/05	05/06	06/07	07/08	08/09[R]	09/10[P]
Agriculture	**199,368.0**	**211,704.4**	**226,823.0**	**247,191.0**	**306,714.0**	**372,560.6**	**7.1**	**6.2**	**7.1**	**9.0**	**24.1**	**21.5**
Agriculture and Forestry	196,686.0	208,591.1	223,536.0	243,323.0	301,567.0	366,744.2	7.1	6.1	7.2	8.9	23.9	21.6
Fishery	2,682.0	3,113.4	3,287.0	3,868.0	5,147.0	5,816.4	7.1	16.1	5.6	17.7	33.1	13.0
Non-Agriculture	**367,211.0**	**418,625.7**	**470,541.4**	**532,255.8**	**632,808.4**	**737,744.4**	**10.6**	**14.0**	**12.4**	**13.1**	**18.9**	**16.6**
Industry	**97,059.0**	**105,097.7**	**115,529.5**	**130,913.0**	**148,054.0**	**165,411.3**	**8.6**	**8.3**	**9.9**	**13.3**	**13.1**	**11.7**
Mining and Quarrying	2,748.0	3,133.6	3,417.0	4,375.0	5,084.0	5,781.7	9.6	14.0	9.0	28.0	16.2	13.7
Manufacturing	44,885.0	47,840.3	52,172.2	57,185.0	64,165.0	69,348.8	7.7	6.6	9.1	9.6	12.2	8.1
Electricity, Gas and Water	12,782.0	13,171.9	14,841.3	15,219.0	15,122.0	16,596.8	6.7	3.1	12.7	2.5	-0.6	9.8
Construction	36,644.0	40,952.0	45,099.0	54,134.0	63,683.0	73,684.0	10.2	11.8	10.1	20.0	17.6	15.7
Services	**270,152.0**	**313,528.0**	**355,011.9**	**401,342.8**	**484,754.4**	**572,333.1**	**11.4**	**16.1**	**13.2**	**13.1**	**20.8**	**18.1**
Wholesale and Retail Trade	79,839.0	90,214.5	92,648.0	105,305.7	125,885.5	155,139.2	0.8	13.0	2.7	13.7	19.5	23.2
Hotels and Restaurant	8,895.0	9,398.0	10,043.0	11,502.8	14,031.1	18,571.0	-0.5	5.7	6.9	14.5	22.0	32.4
Transport, Storage and Comm	51,336.0	61,249.5	69,554.9	76,818.3	93,261.2	108,394.4	10.9	19.3	13.6	10.4	21.4	16.2
Financial Intermediation	17,342.0	21,979.0	28,467.0	33,538.5	38,545.0	45,182.0	26.3	26.7	29.5	17.8	14.9	17.2
Real Estate, Renting and Bus	49,242.0	60,042.0	70,791.0	73,635.6	82,540.7	91,660.5	23.1	21.9	17.9	4.0	12.1	11.0
Public Administration and D	9,548.0	10,967.0	12,227.0	14,352.0	18,532.0	22,053.0	19.1	14.9	11.5	17.4	29.1	19.0
Education	31,671.0	34,996.0	40,939.0	48,722.0	62,875.0	74,055.0	20.4	10.5	17.0	19.0	29.0	17.8
Health and Social Work	7,017.0	7,842.0	8,568.0	10,963.0	13,959.0	16,250.0	20.5	11.8	9.3	28.0	27.3	16.4
Other Community, Social an	15,262.0	16,840.0	21,774.0	26,505.0	35,125.0	41,028.0	7.9	10.3	29.3	21.7	32.5	16.8
Total GVA including FISIM	**566,579.0**	**630,330.1**	**697,364.4**	**779,446.8**	**939,522.4**	**1,110,305.0**	**9.4**	**11.3**	**10.6**	**11.8**	**20.5**	**18.2**
Financial intermediation indire	18,094.0	19,212.0	21,505.0	24,185.0	29,362.0	35,156.3	4.6	6.2	11.9	12.5	21.4	19.7
GDP at basic prices	**548,485.0**	**611,118.1**	**675,859.4**	**755,261.8**	**910,160.4**	**1,075,148.7**	**9.5**	**11.4**	**10.6**	**11.7**	**20.5**	**18.1**
Taxes less subsidies on produc	40,927.0	42,966.0	51,968.0	60,401.4	81,155.7	107,531.3	13.5	5.0	21.0	16.2	34.4	32.5
GDP at producers price	**589,412.0**	**654,084.1**	**727,827.4**	**815,663.2**	**991,316.1**	**1,182,680.1**	**9.8**	**11.0**	**11.3**	**12.1**	**21.5**	**19.3**

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					
	2004/05	2005/06	2006/07	2007/08	2008/09[R]	2009/10[P]	04/05	05/06	06/07	07/08	08/09[R]	09/10[P]
Consumption	**521,301.2**	**595,327.3**	**656,374.4**	**735,469.9**	**895,018.0**	**1,071,929.3**	**10.1**	**14.2**	**10.3**	**12.1**	**21.7**	**19.8**
Government consumption	52,452.7	56,794.0	66,948.7	80,663.0	106,503.0	136,574.2	13.1	8.3	17.9	20.5	32.0	28.2
Private consumption	459,530.0	527,814.3	576,910.7	641,085.5	772,762.3	917,066.1	9.6	14.9	9.3	11.1	20.5	18.7
Non-profit institutions	**9,318.6**	**10,719.0**	**12,515.0**	**13,721.4**	**15,752.7**	**18,288.9**	16.5	15.0	16.8	9.6	14.8	16.1
Gross Capital Formation	**155,906.6**	**175,632.7**	**208,778.6**	**247,277.0**	**316,096.9**	**451,803.9**	**18.4**	**12.7**	**18.9**	**18.4**	**27.8**	**42.9**
Gross fixed capital formation	117,538.9	135,532.3	153,336.9	178,445.5	211,038.9	251,490.2	7.7	15.3	13.1	16.4	18.3	19.2
Public	*17,212.8*	*17,509.0*	*24,645.0*	*32,992.6*	*44,277.8*	*59,421.0*	*15.1*	*1.7*	*40.8*	*33.9*	*34.2*	*34.2*
Private consumption	*100,326.1*	*118,023.3*	*128,691.9*	*145,452.9*	*166,761.0*	*192,069.2*	*6.5*	*17.6*	*9.0*	*13.0*	*14.6*	*15.2*
Change in stock	38,367.7	40,100.4	55,441.7	68,831.5	105,058.0	200,313.8	70.6	4.5	38.3	24.2	52.6	90.7
Total Domestic Demand	**677,207.9**	**770,960.0**	**865,153.0**	**982,746.9**	**1,211,114.8**	**1,523,733.2**	**11.9**	**13.8**	**12.2**	**13.6**	**23.2**	**25.8**
Export of goods and services	85,958.0	87,952.1	93,567.3	104,207.2	122,736.9	109,140.0	-4.0	2.3	6.4	11.4	17.8	-11.1
Imports of goods and services	173,754.3	204,828.0	230,893.3	271,290.9	342,535.9	450,193.0	9.9	17.9	12.7	17.5	26.3	31.4
Net export of goods and services	(87,796.3)	(116,875.9)	(137,326.0)	(167,083.7)	(219,799.0)	(341,053.0)	*28.0*	*33.1*	*17.5*	*21.7*	*31.6*	*55.2*
Gross Domestic Product	**589,411.6**	**654,084.1**	**727,827.0**	**815,663.2**	**991,315.8**	**1,182,680.2**	**9.8**	**11.0**	**11.3**	**12.1**	**21.5**	**19.3**
Net Factor Income	1,636.5	4,955.5	7,431.8	7,946.8	11,749.5	12,437.9	-197.2	202.8	50.0	6.9	47.9	5.9
Gross National Income	**591,048.1**	**659,039.6**	**735,258.8**	**823,610.0**	**1,003,065.3**	**1,195,118.2**	10.5	11.5	11.6	12.0	21.8	19.1
Net Transfer	97,704.4	126,145.7	128,992.0	182,816.5	249,486.8	283,983.1	15.1	29.1	2.3	41.7	36.5	13.8
Gross National Disposable Income (GNDI)	**688,752.5**	**785,185.3**	**864,250.8**	**1,006,426.5**	**1,252,552.1**	**1,479,101.3**	**11.1**	**14.0**	**10.1**	**16.5**	**24.5**	**18.1**

R= Revised estimate.

P= Preliminary estimate.

Source: Central Bureau of Statistics.

Table 4

National Urban Consumer Price Index

(Base Year 1995/1996 = 100)

	2004/05		2005/06		2006/07		2007/08		2008/09		2009/010[P]	
Mid-Month	**Index**	**% Change**	**Index**	**% Change**	**Index**	**% Change**	**Index**	**% Change**	**Index**	**% Change**		
August	159.1	2.4	170.7	7.3	183.1	7.3	194.7	6.3	220.2	13.1	243.1	10.4
September	160.2	2.6	173.3	8.2	184.8	6.6	197.8	7.0	224.5	13.5	246.3	9.7
October	161.2	2.6	173.8	7.8	186.9	7.5	198.7	6.3	226.8	14.1	248.0	9.3
November	160.8	2.7	174.5	8.5	186.9	7.1	198.7	6.3	227.5	14.5	250.0	9.9
December	159.0	3.1	173.0	8.8	185.6	7.3	196.1	5.7	223.7	14.1	249.0	11.3
January	159.5	4.6	170.6	7.0	183.6	7.6	194.2	5.8	222.1	14.4	248.3	11.8
February	161.4	5.7	170.8	5.8	184.5	8.0	196.3	6.4	223.1	13.7	249.9	12.0
March	161.9	5.7	174.3	7.7	185.1	6.2	198.4	7.2	224.4	13.1	249.5	11.2
April	163.1	5.8	176.0	7.9	185.9	5.6	202.4	8.9	226.5	11.9	250.9	10.8
May	164.0	6.4	179.0	9.1	187.3	4.6	204.6	9.2	230.9	12.9	253.9	10.0
June	164.6	6.2	179.6	9.1	187.6	4.5	208.3	11.0	234.0	12.3	256.4	9.6
July	166.8	6.6	180.6	8.3	189.8	5.1	212.7	12.1	237.0	11.4		
Annual Average	**161.8**	**4.5**	**174.7**	**8.0**	**185.9**	**6.4**	**200.2**	**7.7**	**226.7**	**13.2**		**10.5[*]**

P= Provisional

*= Estimate

Table 5
Monetary Survey
(Based on Eleven Months Data)

(Rs. in Million)

Monetary Aggregates	2008 July	2009 June	2009 July	2010 June[E]	Changes during the eleven months 2008/09 Amount	2008/09 Percent	2009/10 Amount	2009/10 Percent
1. Foreign Assets, Net	**171,455.5**	**214,319.3**	**221,083.7**	**196,122.3**	**39,057.3** [1/]	**22.8**	**-15,071.8** [2/]	**-6.8**
1.1. Foreign Assets	213,254.1	272,225.2	280,540.9	253,562.0	58,971.0	27.7	-26,978.9	-9.6
1.2. Foreign Currency Deposits	34,229.1	49,473.9	51,794.7	46,958.0	15,244.8	44.5	-4,836.7	-9.3
1.3. Other Foreign Liabilities	7,569.6	8,432.0	7,662.5	10,481.7	862.5	11.4	2,819.2	36.8
2. Net Domestic Assets	**323,921.6**	**385,373.3**	**411,661.7**	**488,640.9**	**65,258.2** [1/]	**20.1**	**67,089.6** [2/]	**16.3**
2.1. Domestic Credit	437,269.8	511,770.8	553,632.5	625,072.9	74,501.0	17.0	71,440.4	12.9
a. Net Claims on Govt.	87,079.6	75,054.5	104,867.7	100,742.9	-12,025.1	-13.8	-4,124.8	-3.9
i. Claims on Govt.	91,026.0	92,493.6	104,867.7	101,331.6	1,467.6	1.6	-3,536.1	-3.4
ii. Govt. Deposits	3,946.4	17,439.1	0.0	588.7	13,492.7	341.9	588.7	-
b. Claims on Non-financial Govt. Ent.	5,646.5	4,902.1	5,092.4	4,964.0	-744.4	-13.2	-128.4	-2.5
c. Claims on Financial Institutions	4,709.5	5,669.7	7,559.2	7,490.0	960.2	20.4	-69.2	-0.9
i. Government	1,670.5	1,451.5	1,376.1	2,092.0	-219.0	-13.1	715.9	52.0
ii. Non-government	3,039.1	4,218.3	6,183.1	5,398.0	1,179.2	38.8	-785.1	-12.7
d. Claims on Private Sector	339,834.2	426,144.4	436,113.2	511,876.0	86,310.3	25.4	75,762.8	17.4
2.2. Net Non-monetary Liabilities	113,348.2	126,397.4	141,970.8	136,432.0	9,242.8 [1/]	8.2	4,350.8 [2/]	3.1
3. Broad Money (M_2)	**495,377.1**	**599,692.6**	**632,745.3**	**684,763.2**	**104,315.5**	**21.1**	**52,017.9**	**8.2**
3.1. Money Supply (M_1)	154,344.0	188,052.5	196,460.8	205,390.0	33,708.5	21.8	8,929.2	4.5
a. Currency	100,175.2	122,989.7	125,760.0	138,109.0	22,814.5	22.8	12,349.0	9.8
b. Demand Deposits	54,168.7	65,062.8	70,700.8	67,281.0	10,894.1	20.1	-3,419.8	-4.8
3.2. Time Deposits	341,033.2	411,640.1	436,284.5	479,373.0	70,606.9	20.7	43,088.5	9.9
4. Broad Money Liquidity (M_3)	**529,606.2**	**649,166.5**	**684,540.1**	**731,721.2**	**119,560.3**	**22.6**	**47,181.1**	**6.9**

1/ Adjusting the exchange valuation gain of Rs. 3806.5 million.
2/ Adjusting the exchange valuation loss of Rs 9889.6 million.
E = Estimates.

Table 6*

Outright Sale Auction

(Rs. in million)

Mid-Month	2005/06		2006/07		2007/08		2008/09		2009/10	
	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)
August	1,440.0	3.47	1,000.0	2.51	-	-	3,500.0	4.94	7,440.0	2.17
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	2,000.0	5.20	-	-
December	830.0	1.90	2,620.0	1.59	740.0	4.33	1,960.0	4.95	-	-
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	-	-	-	-
Total	**13,510.0**		**18,400.0**		**14,850.0**		**7,460.0**		**7,440.0**	

Table 7*

Outright Purchase Auction

(Rs. in million)

Mid-Month	2005/06		2006/07		2007/08		2008/09		2009/10	
	Amount	Wtd. Int. Rate (%)	Amount	Wtd. Int. Rate (%)	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	-	-	-	-	-	-	-	-	3,382.0	4.51
February	-	-	-	-	-	-	-	-	-	-
March	-	-	-	-	-	-	-	-	-	-
April	-	-	-	-	-	-	-	-	-	-
May	-	-	-	-	-	-	-	-	-	-
June	-	-	-	-	-	-	-	-	-	-
July	-	-	-	-	-	-	-	-	-	-
Total	**830.0**		**-**	**-**	**-**	**-**	**-**	**-**	**3,382.0**	**-**

Wtd. Int. Rate = Weighted interest rate.

* The system of outright sale/purchase auction of treasury bills as a monetary instrument introduced since 2004/05. The outright sale/purchase auction takes place at the initiative of NRB.

Table 8*
Repo Auction

(Rs. in million)

Mid-Month	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
August	-	-	-	-	-	-
September	-	-	-	-	-	-
October	-	-	-	-	-	1,000.0
November	1,050.0	-	-	-	-	2,000.0
December	1,610.0	-	-	-	-	13,000.0
January	-	-	-	2,000.0	-	23,982.0
February	2,800.0	450.0	-	5,000.0	4,000.0	18,953.0
March	300.0	-	-	2,000.0	5,000.0	15,250.3
April	-	-	-	-	-	20,929.0
May	600.0	-	2,000.0	-	-	12,000.0
June	-	-	-	-	2,000.0	11,996.5
July	320.0	-	-	-	-	12,566.0
Total	**6,680.0**	**450.0**	**2,000.0**	**9,000.0**	**11,000.0**	**131,676.8**

Table 9*
Reverse Repo Auction

(Rs. in million)

Mid-Month	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
August	-	-	2,590.0	-	2,000.0	-
September	-	-	1,500.0	1,000.0	3,520.0	1,000.0
October	1,500.0	-	1,500.0	4,570.0	-	-
November	-	500.0	6,150.0	-	-	-
December	-	1,500.0	750.0	-	3,500.0	-
January	2,570.0	2,000.0	1,070.0	-	4,240.0	-
February	-	1,000.0	-	-	-	-
March	-	-	500.0	-	-	-
April	1,200.0	1,500.0	-	1,000.0	-	-
May	-	-	-	-	-	-
June	-	-	-	-	-	-
July	-	-	280.0	-		-
Total	**5,270.0**	**6,500.0**	**14,340.0**	**6,570.0**	**13,260.0**	**1,000.0**

* The system of repo and reverse repo auction of treasury bills as a monetary instrument introduced since 2004/05.Repo and reverse repo auction takes place at the initiative of NRB.

Table 10 (A)

Foreign Exchange Intervention*

(Rs. in million)

Mid-Month	2007/08			2008/09			2009/10		
	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection
August	2,250.71	-	2,250.71	5,574.13	183.84	5,390.29	5,766.14	-	5,766.14
September	4,792.01	400.38	4,391.63	7,770.00	974.74	6,795.26	9,851.09	-	9,851.09
October	7,387.13	-	7,387.13	18,467.03	-	18,467.03	4,561.76	-	4,561.76
November	6,602.39	-	6,602.39	11,548.76	-	11,548.76	6,372.05	-	6,372.05
December	9,124.41	-	9,124.41	17,492.02	-	17,492.02	7,210.12	-	7,210.12
January	5,915.13	-	5,915.13	13,494.68	-	13,494.70	4,258.92	446.76	3,812.16
February	7,033.14	548.94	6,484.18	12,134.07	-	12,134.07	8,642.31	-	8,642.31
March	12,834.02	-	12,834.02	11,919.78	-	11,919.78	8,950.89	-	8,950.89
April	10,993.26	-	10,993.26	10,794.48	-	10,794.48	13,701.53	-	13,701.53
May	10,622.39	-	10,622.39	13,464.80		13,464.80	15,581.09	-	15,581.09
June	12,503.12	-	12,503.12	9,098.48	377.70	8,720.78	16,544.96	-	16,544.96
July	13,516.69	215.42	13,301.27	12,276.86		12,276.86	17,665.92	-	17,665.92
Total	**103,574.40**	**1,164.74**	**102,409.66**	**144,035.09**	**1,536.28**	**142,498.81**	**119,106.76**	**446.76**	**118,660.00**

Table 10(B)

Foreign Exchange Intervention (in US Dollar)*

(US$ in million)

Mid-Month	2007/08			2008/09			2009/10		
	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection	Purchase	Sale	Net Injection
August	34.55	-	34.55	81.75	2.70	79.05	74.75	-	74.75
September	72.90	6.00	66.90	109.60	13.75	95.85	126.55	-	126.55
October	115.90	-	115.90	245.20	-	245.20	59.80	-	59.80
November	104.10	-	104.10	149.53	-	149.53	85.30	-	85.30
December	143.40	-	143.40	219.45	-	219.45	96.95	-	96.95
January	93.30	-	93.30	174.50	-	174.50	57.35	6.00	51.35
February	111.05	8.60	102.45	155.15	-	155.15	116.70	-	116.70
March	199.60	-	199.60	147.65	-	147.65	121.70	-	121.70
April	170.25	-	170.25	132.60	-	132.60	190.20	-	190.20
May	164.30	-	164.30	168.90		168.90	218.90	-	218.90
June	183.45	-	183.45	119.52	5.00	114.52	222.30	-	222.30
July	196.35	3.10	193.25	159.06		159.06	237.10	-	237.10
Total	**1,589.15**	**17.70**	**1,571.45**	**1,862.91**	**21.45**	**1,841.46**	**1,607.60**	**6.00**	**1,601.60**

* 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)

Month	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
August	585.00	400.00	-	-	18,150.00	-
September	189.00	550.00	370.00	4,080.00	3,720.00	350.00
October	3367.28	220.00	1575.00	9,665.00	11,155.00	3,700.00
November	15836.81	-	2101.50	13,135.00	2,500.00	13,234.00
December	2362.50	-	1074.70	9,310.00	-	28,178.90
January	200.00	753.50	3070.00	10,780.00	6,010.00	19,784.40
February	6224.80	200.00	-	25,532.00	12,260.00	18,527.19
March	11402.00	160.00	300.00	-	29,437.50	1,394.29
April	4027.90	950.00	8630.00	3,850.00	2,150.00	6,617.50
May	1040.00	4800.00	13821.00	21,250.00	11,220.00	67.10
June	600.00	-	350.00	4,500.00	11,180.00	2.88
July	3472.05	1850.00	15687.00	1,730.00	-	4,080.00
Total	**49307.34**	**9883.50**	**46979.20**	**103832.00**	**107782.50**	**95936.26**

* 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 Transaction Amount and Weighted Average Rate

(Rs. in million)

महिना	2006/07		2007/08		2008/09		2009/10	
	Amount	**Rate (%)**	**Amount**	**Rate (%)**	**Amount**	**Rate (%)**	**Amount**	**Rate (%)**
August	13397.00	2.07	35455.00	4.10	22432.00	5.15	9527.00	1.41
September	18830.00	1.83	31353.00	2.18	21897.00	2.33	29763.00	2.00
October	15855.00	2.11	35062.00	3.35	23934.00	5.16	26239.00	5.10
November	14880.00	1.20	21472.00	3.73	36880.00	5.34	30559.50	9.22
December	14180.00	1.34	20418.00	4.73	21661.00	2.38	22845.00	9.93
January	17395.00	3.03	24379.00	4.93	19955.00	3.37	31964.00	12.83
February	8962.00	2.01	12236.00	7.55	27293.00	8.32	24596.00	11.64
March	7713.00	1.39	10443.00	5.07	18938.60	6.38	13045.00	8.85
April	7295.00	1.69	12583.90	2.69	27518.00	5.06	26999.00	7.81
May	20300.00	3.35	21570.00	6.48	27686.00	7.07	16177.00	7.13
June	17397.00	2.72	17413.00	4.65	23702.00	5.02	14110.00	5.52
July	13980.00	3.03	15934.20	3.66	21522.00	3.66	23022.00	6.57
Total	**170184.00**	**2.26**	**258319.10**	**5.07**	**293418.60**	**5.07**	**268846.50**	**7.74**

Table 13

Structure of Interest Rates

(Percent per Annum)

Year Mid-month	2004 Jul	2005 Jul	2006 Jul	2007 Jul	2008 Jul	2009 July	2009 Oct.	2010 Jan.	2010 April	2010 May	2010 June
A. Policy Rates											
CRR	6.0	5.0	5.0	5.0	5.0	5.5	5.5	5.5	5.5	5.5	5.5
Bank Rate	5.5	5.5	6.25	6.25	6.25	6.5	6.5	6.5	6.5	6.5	6.5
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
Rural Development Banks (RDBs)				3.5	3.5	2.0	2.0	2.0	2.0	2.0	2.0
Export Credit in Domestic Currency	4.5	3.0	3.5	3.5	2.5	3.5	3.5	3.5	3.5	3.5	3.5
Export Credit in Foreign Currency	2.0	2.0	3.25	3.25	3.25	LIBOR+0.25	LIBOR+0.26	LIBOR+0.27	LIBOR+0.28	LIBOR+0.29	LIBOR+0.30
SLF Penal Rate[#]	-	1.5	1.5	1.5	2.0	3.0	3.0	3.0	3.0	3.0	3.0
B. Government Securities											
T-bills* (28 days)	1.82	-	2.40	2.13	5.16	4.94	2.01	9.71	-	-	7.40
T-bills* (91 days)	1.47	3.94	3.25	2.77	5.13	6.80	2.73	8.74	7.35	7.41	6.77
T-bills* (182 days)	-	4.42	3.86	3.51	5.16	5.91	-	7.79	6.87	-	6.64
T-bills* (364 days)	3.81	4.79	4.04	4.00	6.47	6.55	-	7.39	7.60	-	6.96
Development Bonds	3.0-8.0	3.0-8.0	3.0-6.75	3.0-6.75	5.0-8.0	5.0-8.0	5.0-9.0	5.0-9.0	5.0-9.0	5.0-9.0	5.0-9.0
National/Citizen SCs	6.5-13.0	6.5-13.0	6.0-8.5	6.0-8.5	6.0-7.75	6.0-8.0	6.0-10.0	6.0-10.0	6.0-10	6.0-10	6.0-10
C. Interbank Rate	0.71	4.71	2.13	3.03	3.61	3.4	5.1	12.8	7.8	7.1	5.5
D. Commercial Banks											
1. Deposit Rates											
Savings Deposits	2.0-5.0	1.75-5.0	2.0-5.0	2.0-5.0	2.0-6.50	2.0-7.5	2.0-7.5	2.0-7.25	2.0-12.0	2.0-12.0	2.0-12.0
Time Deposits											
1 Month	2.0-3.5	1.75-3.5	1.5-3.5	1.5-3.5	1.5-3.75	1.5-5.25	1.50-5.75	1.5-7.25	1.5-7.25	1.75-7.25	1.75-7.25
3 Months	2.0-4.0	1.5-4.0	1.5-4.0	1.50-4.0	1.50-6.75	1.50-6.0	1.50-6.5	1.5-7.25	1.5-9.5	1.75-9.5	1.75-9.5
6 Months	2.0-4.5	2.5-4.5	1.75-4.5	1.75-4.5	1.75-6.75	1.75-7.0	1.75-7.0	1.75-8.75	2.75-10.0	2.75-10.0	2.75-10.0
1 Year	2.75-5.75	2.25-5.0	2.25-5.0	2.25-5.0	2.5-6.0	2.5-9.0	2.5-9.0	2.5-11.0	3.5-11.5	4.75-11.5	4.75-11.5
2 Years and Above	3.0-6.0	2.5-6.05	2.5-6.4	2.5-5.5	2.75-6.75	2.75-9.5	2.75-9.5	2.75-11.5	4.0-13.0	5.0-13.0	5.0-13.0
2 Lending Rates											
Industry	8.5-13.5	8.25-13.5	8.0-13.5	8.0-13.5	7.0-13.0	8.0-13.50	7.0-13.5	7.0-13.5	8.0-13.5	8.0-13.5	8.0-13.5
Agriculture	10.5-13	10-13	9.5-13	9.5-13	9.5-12	9.5-12.0	9.5-13.0	9.5-13.0	9.5-13.0	9.5-13.0	9.5-13.0
Export Bills	4.0-11.5	4.0-12.0	5.0-11.5	5.0-11.5	5.0-11.5	4.0-11.0	4.-12.5	4.0-18.0	4.0-18.0	4.0-18.0	4.0-18.0
Commercial Loans	9-14.5	8.0-14	8.0-14	8.0-14.0	8.0-13.5	8.0-14.0	8.0-14.0	8.0-14.0	8.0-14.0	8.0-14.0	8.0-14.0
Overdrafts	10.0-16.0	5-14.5	6.5-14.5	6.0-14.5	6.50-13.5	6.5-13.5	6.5-14.5	6.5-18.0	7.0-18.0	7.0-18.0	7.0-18.0
CPI Inflation (annual average)	**4.0**	**4.5**	**8.0**	**6.4**	**7.7**	**13.2**					

* Weighted average discount rate.
SLF Standing liquidity facility.
LIBOR London Interbank Offered Rate

Table 14

Weighted Average Treasury Bills Rate (91-day)

(Percent)

FY	FY in B.S.	Mid-Month Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Annual Average
1991/92	2048/49	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	2049/50	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	2050/51	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	2051/52	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	2052/53	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	2053/54	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	2054/55	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	2055/56	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	2056/57	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	2057/58	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	2058/59	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	2059/60	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	2060/61	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	2061/62	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	2062/63	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	2062/63	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	2064/65	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**
2008/09	2065/66	5.17	3.73	6.08	5.55	4.72	4.32	6.64	6.83	5.98	6.72	6.00	6.80	**5.83**
2009/10	2066/67	1.77	2.41	2.73	4.67	6.35	8.74	9.01	7.79	7.35	7.41	6.77	8.13	**6.50**

Table 15

Weighted Average Treasury Bills Rate (364-day)

(Percent)

FY	FY in B.S.	Mid-Month Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Annual Average
1996/97	2053/54	-	-	-	-	-	11.96	-	-	10.53	-	8.98	-	**10.34**
1997/98	2054/55	-	-	-	-	-	6.30	-	-	7.25	-	6.99	-	**6.86**
1998/99	2055/56	-	-	-	-	-	-	-	-	4.91	5.42	5.31	-	**5.13**
1999/00	2056/57	-	-	-	-	5.67	5.57	6.08	7.28	6.14	-	-	-	**6.16**
2000/01	2057/58	-	-	-	-	5.73	5.44	5.46	5.11	4.92	5.27	5.52	5.62	**5.26**
2001/02	2058/59	-	-	-	-	5.51	5.15	5.66	5.56	5.14	5.04	4.99	4.43	**5.20**
2002/03	2059/60	-	-	-	-	4.08	4.46	4.22	4.94	5.13	4.63	3.31	4.93	**4.71**
2003/04	2060/61	5.31	5.18	5.30	5.15	5.12	4.95	4.70	4.04	3.02	2.65	2.57	3.81	**4.15**
2004/05	2061/62	-	-	3.53	-	3.06	2.49	2.78	3.54	3.98	4.84	4.87	4.79	**4.32**
2005/06	2062/63	-	-	3.87	3.93	3.09	3.42	3.50	3.80	4.31	4.20	3.74	4.04	**3.95**
2006/07	2062/63	-	-	3.78	3.33	3.04	3.14	3.21	3.01	3.09	3.55	3.19	4.00	**3.50**
2007/08	2064/65	-	3.04	3.04	3.28	3.40	4.67	6.45	5.95	4.82	5.30	5.66	6.47	**5.49**
2008/09	2065/66	-	3.56	5.57	5.65	4.96	5.20	6.84	6.19	5.96	6.53	6.59	6.55	**6.06**
2009/10	2066/67	-	3.39	-	6.04	5.43	7.39	8.11	-	7.60	-	6.96	7.28	**7.85**

Table 16

Outstanding Domestic Debt of the Government of Nepal

(Rs. in million)

No.	Name of Bonds/Ownership	2009 Mid-Jul	2009/10 Mid-Aug	Mid-Sep	Mid-Oct	Mid-Nov	Mid-Dec	Mid-Jan	Mid-Feb	Mid-Mar	Mid-Apr	Mid-May	Mid-Jun	Mid-Jul[P]	Change Jul. 09 - Jul. 08
1	**Treasury Bills**	**86515.1**	**86515.1**	**86515.1**	**86515.1**	**86515.1**	**86515.1**	**86775.1**	**82373.9**	**82373.9**	**82373.9**	**82373.9**	**89793.9**	**102043.7**	**15528.7**
	a. Banking Sector	83603.4	83603.4	83952.9	84519.4	84408.4	83879.9	82310.1	78222.0	78205.0	78222.0	78381.4	86113.4	98586.9	14983.5
	i. Nepal Rastra Bank	22548.6	14968.6	14968.6	20408.6	22408.6	23439.6	29188.9	28443.2	26399.7	26400.6	26400.6	26400.6	30477.4	7928.9
	ii. Commercial Banks	61054.8	68634.8	68984.3	64110.8	61999.8	60440.3	53121.2	49778.8	51805.4	51821.4	51980.8	59712.8	68109.5	7054.7
	b. Non-Banking Sector	2911.7	2911.7	2562.2	1995.7	2106.7	2635.2	4465.0	4151.9	4168.9	4151.9	3992.5	3680.5	3456.8	545.1
2	**Development Bonds**	**29478.5**	**29478.5**	**29478.5**	**29478.5**	**29478.5**	**29478.5**	**29478.5**	**30978.5**	**30978.5**	**30978.5**	**30978.5**	**32028.5**	**35519.4**	**6040.9**
	a. Banking Sector	11038.9	11039.6	11040.5	11040.5	11040.5	11075.6	11077.3	11467.3	11467.4	11931.9	11934.0	12387.7	15037.7	3998.8
	i. Nepal Rastra Bank	302.2	302.9	303.8	303.8	303.8	303.9	305.6	305.6	305.7	305.7	307.8	309.1	309.1	6.8
	ii. Commercial Banks	10736.7	10736.7	10736.7	10736.7	10736.7	10771.7	10771.7	11161.7	11161.7	11626.3	11626.3	12078.7	14728.7	3992.0
	b. Non-Banking Sector	18439.6	18439.0	18438.1	18438.1	18438.1	18403.0	18401.3	19511.3	19511.2	19046.6	19044.5	19640.8	20481.7	2042.1
3	**National/Citizen Savings Certificates**	**216.9**	**216.9**	**216.9**	**216.9**	**216.9**	**216.9**	**216.9**	**216.9**	**216.9**	**0.0**	**0.0**	**0.0**	**0.0**	**-216.9**
	a. Banking Sector	76.9	82.3	82.8	82.8	83.2	85.1	87.9	90.2	93.5	0.0	0.0	0.0	0.0	-76.9
	i. Nepal Rastra Bank	76.9	82.3	82.8	82.8	83.2	85.1	87.9	90.2	93.5	0.0	0.0	0.0	0.0	-76.9
	ii. Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	b. Non-Banking Sector	140.0	134.6	134.1	134.1	133.7	131.8	129.0	126.7	123.3	0.0	0.0	0.0	0.0	-140.0
4	**Citizen Savings Certificates**	**4433.6**	**4433.6**	**4433.6**	**4433.6**	**4433.6**	**4433.6**	**4433.6**	**4433.6**	**5033.6**	**5033.6**	**5033.6**	**5372.9**	**5126.9**	**693.3**
	a. Banking Sector	1155.1	1342.2	1350.9	1362.8	1372.9	1445.0	1619.9	1712.6	2052.0	2159.5	2408.0	2673.1	2635.0	1479.8
	i. Nepal Rastra Bank	1155.1	1342.2	1350.9	1362.8	1372.9	1445.0	1619.9	1712.6	2052.0	2159.5	2408.0	2673.1	2635.0	1479.8
	b. Non-Banking Sector *	3278.5	3091.5	3082.7	3070.8	3060.7	2988.7	2813.8	2721.0	2981.7	2874.2	2625.6	2699.7	2491.9	-786.6
5	**Special Bonds**	**229.6**	**215.4**	**215.4**	**211.9**	**211.9**	**207.4**	**204.2**	**204.1**	**204.1**	**184.4**	**172.2**	**169.7**	**169.7**	**-59.9**
	a. Banking Sector	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	0.0
	i. Nepal Rastra Bank	-	-	-	-	-	-	-	-	-	-	-	-		
	ii. Commercial Banks	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	157.6	0.0
	b.Non-Banking Sector	72.0	57.8	57.8	54.3	54.3	49.8	46.6	46.5	46.5	26.8	14.6	12.1	12.1	-59.9
	(Of which duty drawback)	104.3	181.8	181.8	181.8	181.8	181.8	130.2	104.3	104.3	104.3	72.0	0.0	0.0	-104.3
6	**Short Term Loan & Advances +**	**8835.8**	**-2786.5**	**7205.9**	**7313.6**	**3327.9**	**-353.3**	**-3423.6**	**-3364.2**	**-823.1**	**-6984.4**	**-3926.2**	**-588.7**	**15000.0**	6164.2
	Nepal Rastra Bank	8835.8	-2786.5	7205.9	7313.6	3327.9	-353.3	-3423.6	-3364.2	-823.1	-6984.4	-3926.2	-588.7	15000.0	6164.2
7	**Grand Total**	**129709.5**	**118073.0**	**128065.4**	**128169.6**	**124183.9**	**120498.2**	**117684.7**	**114842.9**	**117983.9**	**111586.0**	**114632.1**	**126776.3**	**157859.7**	**28150.2**
	a. Banking Sector	104867.8	93438.5	103790.5	104476.6	100390.4	96289.8	91829.1	88285.4	91152.4	85486.6	88954.8	100743.2	131417.2	26549.5
	i. Nepal Rastra Bank	32918.6	13909.4	23911.9	29471.5	27496.3	24920.2	27778.7	27187.4	28027.7	21881.3	25190.2	28794.1	48421.5	15502.8
	ii. Commercial Banks	71949.1	79529.1	79878.6	75005.1	72894.1	71369.6	64050.5	61098.1	63124.7	63605.3	63764.7	71949.1	82995.8	11046.6
	b. Non-Banking Sector	**24841.8**	**24634.5**	**24274.9**	**23693.0**	**23793.5**	**24208.4**	**25855.6**	**26557.4**	**26831.5**	**26099.5**	**25677.2**	**26033.1**	**26442.5**	1600.7

* Includes RS. 4 million of foreign employment bond issued in July 2010

\+ The negative sign indicates the surplus of the government in NRB

P Provisional

Source : Nepal Rastra Bank.

Table 17

Net Domestic Borrowing of the Government of Nepal

Rs in million

		2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10[P]
A	***Gross Borrowings***	**7052.8**	**9026.4**	**11849.9**	**17892.3**	**20496.4**	**18417.1**	**29914.1**
	Treasury Bills	3700.0	5471.2	10834.2	12051.6	12500.0	9000.0	19929.9
	Development Bonds	2000.0	3000.0	750.0	5500.0	6070.0	7750.0	9040.9
	National Saving Certificates	900.0	216.9	0.0	0.0	0.0	0.0	0.0
	Citizen Saving Bonds +	247.8	250.0	250.0	340.2	1926.4	1667.1	943.3
	Special Bonds	205.0	88.3	15.7	0.5	0.0	0.0	0.0
B	***Payments***	**5414.9**	**6135.5**	**7360.0**	**9614.3**	**8561.4**	**8782.5**	**7928.0**
	Treasury Bills	2431.0	1264.5	1870.0	1647.5	1912.3	7518.0	4401.2
	Development Bonds	510.0	550.0	2790.0	4282.1	3511.9	6.9	3000.0
	National Saving Certificates	1500.0	2670.0	2700.0	2359.8	400.0	900.0	216.9
	Citizen Saving Bonds	0.0	0.0	0.0	628.1	303.0	247.8	250.0
	Special Bonds	973.9	1651.0	0.0	696.8	2434.1	109.8	59.9
C	**Net Domestic Borrowings (NDB) (A-B)**	**1637.8**	**2891.0**	**4489.9**	**8278.0**	**11935.0**	**9634.6**	**21986.1**
	Treasury Bills	1269.0	4206.7	8964.2	10404.1	10587.7	1482.0	15528.7
	Development Bonds	1490.0	2450.0	-2040.0	1217.9	2558.1	7743.1	6040.9
	National Saving Certificates	-600.0	-2453.1	-2700.0	-2359.8	-400.0	-900.0	-216.9
	Citizen Saving Bonds	247.8	250.0	250.0	-287.9	1623.4	1419.3	693.3
	Special Bonds	-768.9	-1562.7	15.7	-696.3	-2434.1	-109.8	-59.9
D	**Overdraft ***	**-753.0**	**2623.0**	**1071.0**	**-3122.5**	**-823.9**	**8835.8**	**6164.0**
E	**NDB net off Overdraft borrowings (C+D)**	**884.8**	**5514.0**	**5560.9**	**5155.5**	**9830.6**	**18470.4**	**28150.1**
F	**GDP (at producers price)**	**536749.0**	**589412.0**	**654084.1**	**727827.0**	**815663.2**	**991316.1**	**1182680.0**
G	**NDB/GDP in %**	**0.31**	**0.49**	**0.69**	**1.14**	**1.46**	**1.00**	**1.86**
H	**NDB net off Overdraft /GDP in %**	**0.16**	**0.94**	**0.85**	**0.71**	**1.21**	**1.86**	**2.38**

\+ Includes RS. 4 million of foreign employment bond issued in July 2010

* The negative sign indicates the surplus of the government in NRB

P Provisional

Table 18

Government Budgetory Operation [1]

(On Cash Basis)

Rs. in million

	2007/08	2008/09	2009/10[e]	Changes			
				2008/09		2009/10	
				Amount	Percent	Amount	Percent
Sanctioned Expenditure	**155758.3**	**218368.6**	**256258.6**	**62610.3**	**40.2**	**37890.0**	**17.4**
Recurrent	89621.7	126294.3	147249.0	36672.6	40.9	20954.7	16.6
Capital	47371.8	67304.1	80398.0	19932.3	42.1	13093.9	19.5
a.Domestic Resources & Loans	39844.0	56301.9	64538.6	16457.9	41.3	8236.7	14.6
b.Foreign Grants	7527.8	11002.2	15859.4	3474.4	46.2	4857.2	44.1
Principal Repayment	16386.9	19180.4	18432.3	2793.5	17.0	-748.1	-3.9
Others (Freeze Account)	2377.9	5589.8	10179.3	3211.9	135.1	4589.5	82.1
Unspent Government Balance	**5799.2**	**11676.2**	**7884.4**	**5877.0**	**101.3**	**-3791.8**	**-32.5**
Recurrent	1286.2	6725.3	2870.6	5439.1	422.9	-3854.7	-57.3
Capital	4121.7	4573.7	5013.8	452.0	11.0	440.1	9.6
Principal Repayment	391.3	377.2	0.0	-14.1	-3.6	-377.2	-100.0
Actual Expenditure	**149959.1**	**206692.4**	**248374.2**	**56733.3**	**37.8**	**41681.8**	**20.2**
Recurrent	88335.5	119569.0	144378.4	31233.5	35.4	24809.4	20.7
Capital	43250.1	62730.4	75384.2	19480.3	45.0	12653.8	20.2
Principal Repayment	15995.6	18803.2	18432.3	2807.6	17.6	-370.9	-2.0
Others (Freeze Account)	2377.9	5589.8	10179.3	3211.9	135.1	4589.5	82.1
Resources	**127483.3**	**172336.3**	**209290.7**	**44853.0**	**35.2**	**36954.4**	**21.4**
Revenue	107622.5	143474.5	179946.0	35852.0	33.3	36471.5	25.4
Foreign Grants	17530.6	24400.5	24854.3	6869.9	39.2	453.8	1.9
Non-Budgetary Receipts,net	1558.9	445.8	5495.5	-1113.1	-71.4	5049.7	1132.7
Others #	-21.1	-57.9	80.8	-36.8	174.4	138.7	-239.6
V.A.T.	46.3	287.2	-303.5	240.9	520.3	-590.7	-205.7
Local Authority Accounts	746.1	3786.2	-782.4	3040.1	407.5	-4568.6	-120.7
Deficit (-) Surplus (+)	**-22475.8**	**-34356.1**	**-39083.5**	**-11880.3**	**52.9**	**-4727.4**	**13.8**
Sources of Financing	**22475.8**	**34356.1**	**39083.5**	**11880.3**	**52.9**	**4727.4**	**13.8**
Internal Loans	19672.5	31198.7	36078.3	11526.2	58.6	4879.6	15.6
Foreign Loans	3872.3	3726.4	4267.2	-145.9	-3.8	540.8	14.5
Others including interest income/payment(-)	-1069.0	-569.0	-1262.0	500.0	-46.8	-693.0	121.8

1 Based on the record of Nepal Rastra Bank
e Estimated
\# Change in outstanding amount disbursed to VDC/DDC remaining unspent.

Table 19
Direction of Foreign Trade*
(Based on Eleven Months Data)

(Rs. in million)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Eleven months data			Percent change	
	Annual	Annual	Annual	Annual	Annual	Annual	2007/08	2008/09[R]	2009/10[E]	2008/09	2009/10
Total Exports	**53910.70**	**58705.70**	**60234.10**	**59383.10**	**59266.50**	**67697.50**	**53038.40**	**61401.90**	**55367.90**	**15.8**	**-9.8**
To India	30777.10	38916.90	40714.70	41728.80	38555.70	41005.90	34917.80	37902.30	36205.20	8.5	-4.5
To Other Countries	23133.60	19788.80	19519.40	17654.30	20710.80	26691.60	18120.60	23499.60	19162.70	29.7	-18.5
Total Imports	**136277.10**	**149473.60**	**173780.30**	**194694.60**	**221937.70**	**284469.60**	**200677.30**	**253597.60**	**342985.50**	**26.4**	**35.2**
From India	78739.50	88675.50	107143.10	115872.30	142376.50	162437.60	129025.10	144370.40	195969.20	11.9	35.7
From Other Countries	57537.60	60798.10	66637.20	78822.30	79561.20	122032.00	71652.20	109227.20	147016.30	52.4	34.6
Total Trade Balance	**-82366.40**	**-90767.90**	**-113546.20**	**-135311.50**	**-162671.20**	**-216772.10**	**-147638.90**	**-192195.70**	**-287617.60**	**30.2**	**49.6**
With India	-47962.40	-49758.60	-66428.40	-74143.50	-103820.80	-121431.70	-94107.30	-106468.10	-159764.00	13.1	50.1
With Other Countries	-34404.00	-41009.30	-47117.80	-61168.00	-58850.40	-95340.40	-53531.60	-85727.60	-127853.60	60.1	49.1
Total Foreign Trade	**190187.80**	**208179.30**	**234014.40**	**254077.70**	**281204.20**	**352167.10**	**253715.70**	**314999.50**	**398353.40**	**24.2**	**26.5**
With India	109516.60	127592.40	147857.80	157601.10	180932.20	203443.50	163942.90	182272.70	232174.40	11.2	27.4
With Other Countries	80671.20	80586.90	86156.60	96476.60	100272.00	148723.60	89772.80	132726.80	166179.00	47.8	25.2
	Some ratios in relation to the foreign trade										
1. Export / Import Ratio	**39.6**	**39.3**	**34.7**	**30.5**	**26.7**	**23.8**	**26.4**	**24.2**	**16.1**		
India	39.1	43.9	38.0	36.0	27.1	25.2	27.1	26.3	18.5		
Other Countries	40.2	32.5	29.3	22.4	26.0	21.9	25.3	21.5	13.0		
2. Share in Total Export											
India	57.1	66.3	67.6	70.3	65.1	60.6	65.8	61.7	65.4		
Other Countries	42.9	33.7	32.4	29.7	34.9	39.4	34.2	38.3	34.6		
3. Share in Total Import											
India	57.8	59.3	61.7	59.5	64.2	57.1	64.3	56.9	57.1		
Other Countries	42.2	40.7	38.3	40.5	35.8	42.9	35.7	43.1	42.9		
4. Share in Trade Balance											
India	58.2	54.8	58.5	54.8	63.8	56.0	63.7	55.4	55.5		
Other Countries	41.8	45.2	41.5	45.2	36.2	44.0	36.3	44.6	44.5		
5. Share in Total Trade											
India	57.6	61.3	63.2	62.0	64.3	57.8	64.6	57.9	58.3		
Other Countries	42.4	38.7	36.8	38.0	35.7	42.2	35.4	42.1	41.7		
6. Share of Export and Import in Total Trade											
Export	28.3	28.2	25.7	23.4	21.1	19.2	20.9	19.5	13.9		
Import	71.7	71.8	74.3	76.6	78.9	80.8	79.1	80.5	86.1		

* = On customs data basis.
R = Revised
E = Estimates

Table 20
Balance of Payments Situation

(Rs in million)

Particulars	2007/08		2008/09[R]		2009/010[E]	Percent Change During Eleven months	
	11 months	Annual	11 months	Annual	11 months	2008/09	2009/010
A. Current Account	**15979.1**	**23679.6**	**39581.6**	**41437.3**	**-34585.8**	**147.7**	**-187.4**
Goods: Exports f.o.b.	55693.6	61971.1	63810.2	69906.8	57515.6	14.6	-9.9
Oil	0.0	0.0	0.0	0.0	0.0		
Other	55693.6	61971.1	63810.2	69906.8	57515.6	14.6	-9.9
Goods: Imports f.o.b.	-197285.8	-217962.8	-248679.4	-279227.8	-335669.3	26.1	35.0
Oil	-37161.6	-40815.7	-37018.4	-41356.7	-45954.9	-0.4	24.1
Other	-160124.2	-177147.1	-211661.0	-237871.1	-289714.4	32.2	36.9
Balance on Goods	**-141592.2**	**-155991.7**	**-184869.2**	**-209321.0**	**-278153.7**	**30.6**	**50.5**
Services: Net	**-9414.3**	**-11092.0**	**-8264.3**	**-10478.0**	**-21262.0**	**-12.2**	**157.3**
Services: credit	38119.3	42236.1	49452.2	52830.1	41431.5	29.7	-16.2
Travel	17121.0	18653.1	26279.7	27959.8	22358.9	53.5	-14.9
Government n.i.e.	11947.9	13301.8	12127.0	12734.4	5754.7	1.5	-52.5
Other	9050.4	10281.2	11045.5	12135.9	13317.9	22.0	20.6
Services: debit	-47533.6	-53328.1	-57716.5	-63308.1	-62693.5	21.4	8.6
Transportation	-19726.0	-22675.9	-20697.5	-22116.2	-21673.7	4.9	4.7
Travel	-18991.6	-20862.0	-28484.6	-31396.3	-30157.4	50.0	5.9
O/W Education	-6817.4	-7373.0	-10975.0	-12126.0	-11562.3	61.0	5.4
Government services:debit	-8816.0	-9790.2	-8534.4	-9795.6	-10862.4	-3.2	27.3
Balance on Goods and Services	**-151006.5**	**-167083.7**	**-193133.5**	**-219799.0**	**-299415.7**	**27.9**	**55.0**
Income: Net	**6688.5**	**7946.8**	**10766.3**	**11749.5**	**6853.7**	**61.0**	**-36.3**
Income: credit	11792.4	13447.7	15258.0	16506.6	12174.4	29.4	-20.2
Income: debit	-5103.9	-5500.9	-4491.7	-4757.1	-5320.7	-12.0	18.5
Balance on Goods, Services and Income	**-144318.0**	**-159136.9**	**-182367.2**	**-208049.5**	**-292562.0**	**26.4**	**60.4**
Transfers: Net	**160297.1**	**182816.5**	**221948.8**	**249486.8**	**257976.2**	**38.5**	**16.2**
Current transfers: credit	162712.4	185462.9	229371.4	257461.3	262664.9	41.0	14.5
Grants	17866.1	20993.2	21848.1	26796.2	24720.5	22.3	13.1
Workers' remittances	125108.8	142682.7	188880.8	209698.5	211167.9	51.0	11.8
Pensions	16977.6	18789.9	15847.3	17755.4	24058.3	-6.7	51.8
Other (Indian Excise Refund)	2759.9	2997.1	2795.2	3211.2	2718.2	1.3	-2.8
Current transfers: debit	-2415.3	-2646.4	-7422.6	-7974.5	-4688.7	207.3	-36.8
B **Capital Account (Capital Transfer)**	**7528.1**	**7912.5**	**6036.1**	**6231.0**	**11508.0**	**-19.8**	**90.7**
Total, Groups A plus B	**23507.2**	**31592.1**	**45617.7**	**47668.3**	**-23077.8**	**94.1**	**-150.6**
C Financial Account (Excluding Group E)	**7985.6**	**11032.6**	**17679.0**	**18049.8**	**4803.8**	**121.4**	**-72.8**
Direct investment in Nepal	282.5	293.9	1822.6	1829.2	2414.6	545.2	32.5
Portfolio Investment	0.0	0.0	0.0	0.0	0.0		
Other investment: assets	-10167.5	-11396.1	-14438.5	-17675.1	-19256.1	42.0	33.4
Trade credits	-317.9	853.2	-3678.0	-3024.2	-2011.8	1057.0	-45.3
Other	-9849.6	-12249.3	-10760.5	-14650.9	-17244.3	9.2	60.3
Other investment: liabilities	17870.6	22134.8	30294.9	33895.7	21645.3	69.5	-28.6
Trade credits	8585.8	12483.6	16714.4	19554.6	29442.4	94.7	76.1
Loans	3085.8	3391.5	-2426.8	-2899.0	-3402.5	-178.6	40.2
General Government	3121.0	3455.9	-2370.8	-2832.4	-3371.7	-176.0	42.2
Drawings	9831.3	11325.5	6739.0	7287.9	6332.4	-31.5	-6.0
Repayments	-6710.3	-7869.6	-9109.8	-10120.3	-9704.1	35.8	6.5
Other sectors	-35.2	-64.4	-56.0	-66.6	-30.8	59.1	-45.0
Currency and deposits	6199.0	6259.7	16007.3	17240.1	-4394.6	158.2	-127.5
Nepal Rastra Bank	-6.1	-5.6	-3.3	-84.1	0.0	-45.9	-100.0
Deposit money banks	6205.1	6265.3	16010.6	17324.2	-4394.6	158.0	-127.4
Other liabalities	0.0	0.0	0.0	0.0	0.0		
Total, Group A through C	**31492.8**	**42624.7**	**63296.7**	**65718.1**	**-18274.0**	**101.0**	**-128.9**
D. **Miscellaneous Items, Net**	**-628.8**	**-6690.3**	**-8232.1**	**-7198.3**	**-1192.8**	**1209.2**	**-85.5**
Total, Group A through D	**30864.0**	**35934.4**	**55064.6**	**58519.8**	**-19466.8**	**78.4**	**-135.4**
E. Reserves and Related Items	**-30864.0**	**-35934.4**	**-55064.6**	**-58519.8**	**19466.8**	**78.4**	**-135.4**
Reserve assets	-31931.7	-37002.0	-54983.9	-58519.8	16186.4	72.2	-129.4
Nepal Rastra Bank	-22655.7	-29636.8	-42981.1	-45751.3	10870.4	89.7	-125.3
Deposit money banks	-9276.0	-7365.2	-12002.8	-12768.5	5316.0	29.4	-144.3
Use of IMF's Credit and Loans	**1067.7**	**1067.6**	**-80.7**	**0.0**	**3280.4**	**-107.6**	**-**
Changes in reserve, net (- increase)	**-24665.0**	**-29674.7**	**-39057.3**	**-41279.7**	**15072.2**	**58.4**	**-138.6**

R Revised

E Estimate

Table 21

Gross Foreign Exchange Holding of the Banking Sector

(Rs in million)

Particulars	2005	2006	2007	2008	2009	2009	2010	Percent Change Mid-Jul To Mid-June	
	Mid-Jul.	Mid-Jul.	Mid-Jul	Mid-Jul	Mid-June	Mid-Jul	Mid-June[E]	2008/09	2009/10
Nepal Rastra Bank	**104423.7**	**131967.6**	**129626.4**	**169683.6**	**216623.6**	**224190.3**	**196840.9**	**27.7**	**-12.2**
Convertible	100823.6	124147.2	123755.3	142848.8	193773.1	201756.0	160787.1	35.6	-20.3
Inconvertible	3600.1	7820.4	5871.1	26834.8	22850.5	22434.3	36053.8	-14.8	60.7
Commercial Bank	**25472.7**	**33065.4**	**35499.6**	**42939.9**	**55053.8**	**55795.3**	**50583.0**	**28.2**	**-9.3**
Convertible	23154.9	31790.7	31681.0	38827.1	50962.1	52200.4	45322.4	31.3	-13.2
Inconvertible	2317.8	1274.7	3818.6	4112.8	4091.7	3594.9	5260.6	-0.5	46.3
Total Reserve	**129896.4**	**165033.0**	**165126.0**	**212623.5**	**271677.4**	**279985.6**	**247423.9**	**27.8**	**-11.6**
Convertible	123978.5	155937.9	155436.3	181675.9	244735.2	253956.4	206109.5	34.7	-18.8
Share in total (in percent)	95.4	94.5	94.1	85.4	90.1	90.7	83.3		
Inconvertible	5917.9	9095.1	9689.7	30947.6	26942.2	26029.2	41314.4	-12.9	58.7
Share in total (in percent)	4.6	5.5	5.9	14.6	9.9	9.3	16.7		
Import Capacity (Equivalent Months)									
Merchandise	10.4	11.4	10.2	11.5	11.8	12.0	8.1		
Merchandise and Services	8.8	9.6	8.4	9.3	9.6	9.8	6.8		
1.Gross Foreign Exchange Reserve	129896.4	165033.0	165126.0	212623.5	271677.4	279985.6	247423.9	27.8	-11.6
2.Gold, SDR, IMF Gold Tranche	1020.5	1068.7	587.5	630.6	547.7	555.3	6137.6	-13.1	1005.3
3.Gross Foreign Assets(1+2)	130916.9	166101.7	165713.5	213254.1	272225.1	280540.9	253561.5	27.7	-9.6
4.Foreign Liabilities	23174.8	26662.5	33804.0	41798.7	57905.9	59457.4	57439.7	38.5	-3.4
5.Net Foreign Assets(3-4)	107742.1	139439.2	131909.5	171455.4	214319.2	221083.5	196121.9	25.0	-11.3
6.Change in NFA (before adj. ex. val.)*	1062.5	-31697.1	7529.7	-39545.9	-42863.8	-49628.1	24961.6	-	-
7.Exchange Valuation (- loss)	-6804.8	6092.3	-13434.0	9871.4	3806.5	8348.4	-9889.6	-	-
8.Change in NFA (- increase) (6+7)**	**-5742.3**	**-25604.8**	**-5904.2**	**-29674.5**	**-39057.3**	**-41279.7**	**15072.0**	-	-
Period end buying rate (Rs/US$):	**70.35**	**74.10**	**64.85**	**68.50**	**75.60**	**78.05**	**74.60**	-	-

* 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.

'Sources: Nepal Rastra Bank and Commercial Banks; Estimated.

Table 22

Import from India
Against US Dollar Payment

(Rs. in million)

Mid-Month	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
August	728.7	726.1	980.1	957.5	2133.8	3417.4	3939.5
September	980.1	1117.4	977.6	1208.0	1655.2	2820.1	4235.2
October	1114.2	1316.8	907.9	865.7	2411.6	1543.5	4145.5
November	1019.2	1186.5	1103.2	1188.3	2065.7	1571.4	3894.8
December	1354.5	1205.8	1583.7	1661.4	2859.9	2301.6	4767.4
January	996.9	1394.9	1156.2	1644.0	3805.5	2016.8	4917.8
February	1503.6	1154.4	603.8	717.0	2962.1	2007.5	5107.5
March	1717.9	1107.8	603.0	1428.5	1963.1	2480.1	3755.8
April	2060.5	1567.2	1398.6	2052.9	3442.1	3768.2	4382.1
May	1309.9	1830.8	916.4	2714.8	3420.2	3495.0	3427.2
June	1455.4	1825.2	1181.5	1711.2	2205.7	3452.1	3016.2
July	1016.0	1900.2	1394.0	1571.8	3091.4	4253.1	
Total	**15256.9**	**16333.1**	**12805.9**	**17720.9**	**32016.4**	**33126.8**	**45589.0**

Table 23

Indian Currency Purchase

(Rs. in million)

	2006/07		2007/08		2008/09		2009/10	
Mid-Month	**IC Purchase**	**US$ Sale**	**IC Purchase**	**US$ Sale**	**IC Purchase**	**US$ Sale**	**IC Purchase**	**US$ Sale**
August	2334.6	50.0	3641.6	90.0	5969.6	140.0	15930.4	330.0
September	2786.5	60.0	3675.4	90.0	2644.1	60.0	8748.6	180.0
October	3205.3	70.0	5542.7	140.0	3257.1	70.0	5630.0	120.0
November	3602.2	80.0	3932.4	100.0	10657.1	220.0	3739.2	80.0
December	2689.3	60.0	5531.6	140.0	6950.8	140.0	7453.6	160.0
January	3112.0	70.0	3943.5	100.0	4381.8	90.0	8316.9	180.0
February	1326.7	30.0	5125.8	130.0	6352.3	130.0	8302.1	180.0
March	3093.8	70.0	4800.0	120.0	7561.7	150.0	5503.2	120.0
April	3457.6	80.0	5624.8	140.0	5621.9	110.0	7246.6	160.0
May	4950.6	120.0	6474.8	160.0	6495.8	130.0	11627.9	260.0
June	5293.3	130.0	7678.4	180.0	5298.2	110.0	9332.1	200.0
July	4475.9	110.0	14631.6	340.0	8210.4	170.0	10263.0	220.0
Total	**40327.7**	**930.0**	**70602.5**	**1730.0**	**73400.6**	**1520.0**	**102093.2**	**2190.0**