Unofficial Translation

Monetary Policy
for
Fiscal Year 2013/14

Nepal Rastra Bank

Central Office

Baluwatar, Kathmandu

Monetary Policy
for
Fiscal Year 2013/14

Delivered by Governor Dr. Yuba Raj Khatiwada
on 21 July 2013

Nepal Rastra Bank
Central Office
Baluwatar, Kathmandu
www.nrb.org.np

ACRONYMS

BFIs	=	Banks and Financial Institutions
BOP	=	Balance of Payments
CBS	=	Central Bureau of Statistics
CRR	=	Cash Reserve Ratio
GDP	=	Gross Domestic Product
GoN	=	Government of Nepal
INR	=	Indian Rupee
LMFF	=	Liquidity Monitoring and Forecasting Framework
NEPSE	=	Nepal Stock Exchange
NRB	=	Nepal Rastra Bank
SLF	=	Standing Liquidity Facility
SLR	=	Statutory Liquidity Ratio
USD	=	US Dollar
y-o-y	=	year on year

Table of Contents

Monetary Policy for 2013/14

Background

1. As envisaged by the Nepal Rastra Bank (NRB) Act, 2002, monetary policy has been adopting the objectives of maintaining price and external sector stability, financial stability and facilitating high and sustainable economic growth. In addition, monetary policy has been giving top priority for increasing financial access. The monetary policy for 2013/14 is also directed to contain inflation within a desired limit, maintain external and financial sector stability, utilize credit in the productive sector and expand financial access.

2. Nepal's macroeconomic situation remained satisfactory in 2012/13. Even though the target of economic growth and inflation rate were not achieved, monetary as well as financial indicators, balance of payments (BOP) and revenue collection remained quite encouraging. A number of factors such as sluggish agriculture production due to unfavorable weather, low capital expenditure due to delay in announcement of full budget and continuation of energy crisis were reasons for failing to achieve targeted economic growth. Despite the monetary expansion remained at the expected level, inflation remained higher than the target level in the review year as a result of constraints in supply side and structural factors. However, inflation tended to improve towards the last months of review year. The performance of external sector remained satisfactory in the review year. Despite the increasing trend of trade deficit as a consequence of low growth of exports relative to imports, the satisfactory level of remittance inflows contributed in maintaining current account surplus, thereby strengthening the BOP position. As a result, foreign exchange reserves increased substantially.

3. Taking into account the timely delivered government's budget for 2013/14, capital expenditure is expected to rise along with improvement in productivity of government expenditure. Likewise, agriculture production is expected to grow because of timely monsoon. Considering the aforementioned favorable economic outlook, it is necessary that monetary policy should also assist to achieve economic growth of 5.5 percent. However, monetary management needs to be carried out cautiously to contain inflation which is near to double digit and to restrict the expansion of trade deficit.

4. This monetary policy has been formulated on the basis of the analysis of current macroeconomic situation, review of previous year's monetary policy, internal and external economic and financial outlook and priorities of government budget for 2013/14. In addition, suggestions received from Nepal Bankers' Association, Development Bankers' Association, Nepal Finance Company Association, Micro Finance Bankers' Association, and industrial and commercial associations and other stakeholders are also incorporated while formulating this monetary policy.

International Economic Outlook

5. The world economic outlook has been positive to some extent as a result of slowing down of the adverse impact of the financial crisis that originated in the United States in 2008 and some improvement in sovereign debt crisis in Euro Zone. According to the *World Economic Outlook* published by the IMF in April 2013, world's economic growth is forecasted to be 3.3 percent in 2013 and 4.0 percent in 2014. The US economy is estimated to increase by 1.9 percent in 2014 while the economy of Euro Zone is likely to contract by 0.3 percent. Similarly, the economy of emerging and developing countries is estimated to increase by 5.3 percent in 2013. Indian economy is forecasted to grow by 5.7 percent in 2013 compared to an increase of 4.0 percent in 2012. Economic growth of China is projected to be at 8.0 percent in 2013 compared to 7.8 percent growth in 2012.

6. In the context of weak global aggregate demand, it seems that there will be low pressure in overall inflation in the world. According to the IMF, the consumer inflation of developed countries is forecasted to be 1.7 percent in 2013 and 2.0 percent in 2014 compared to 2.0 percent in 2012. Similarly, consumer inflation of emerging and developing economies is estimated to be 5.9 percent in 2013 and 5.6 percent in 2014. In our neighboring country India, inflation is projected to remain at 10.8 percent in 2013 compared to 9.3 percent in 2012. Inflation in China is expected to remain at 3.0 percent in 2013 compared to 2.6 percent in 2012.

Domestic Economic Situation

7. As a result of subsistence nature of agriculture sector which contributes one-third to Gross Domestic Product (GDP) and the adverse effects of economic and non-economic constraints in industrial and service sector, economic growth of the country remained slow. According to the preliminary estimates of Central Bureau of Statistics (CBS), the real GDP grew by 3.6 percent at basic price and 3.7 percent at producer's price in 2012/13 compared to a growth of 4.5 percent and 4.9 percent respectively in the previous year. In the review year, the growth rates of agriculture and non-agriculture sector are estimated at 1.3 percent and 5.0 percent respectively compared to a growth of 5.0 percent and 4.2 percent respectively in the previous year. In the review year, industry and service sub-sectors are estimated to grow by 1.6 percent and 6.0 percent respectively. In the previous year, the growth of industry and service sub-sectors was 3.0 percent and 4.5 percent respectively. Such an improved growth of the service sector in the review year is due to the contribution of trade, tourism, transport and communication sectors.

8. Annual average inflation based on consumer price index was estimated at 9.9 percent in 2012/13 compared to 8.3 percent in the previous year. Point-to-point inflation as of mid-June 2013 came down to 8.2 percent after declining continuously for last three months. During the review period, the y-o-y price index of food and beverage group increased by 7.7 percent, whereas non-food and services group increased by 8.6 percent. These indices of both groups had increased by 9.9 percent in the corresponding period of the previous year. Additional pressure on inflation emerged as a result of a number of factors such as decline in food production due to

unfavorable weather, weak supply situation, energy crisis, devaluation of Nepalese currency with convertible foreign currencies, increase in the price of petroleum products and Indian inflation.

9. On the basis of cash flow data available up to 5 July 2013, total government expenditure increased by 2.7 percent amounting to Rs. 286.35 billion. It had increased by 15.8 percent in the previous year. Out of the total expenditure, recurrent expenditure stood at Rs. 213.12 billion, capital expenditure at Rs. 30.74 billion and financial expenditure at Rs. 42.49 billion. Resource mobilization of the government grew by 11.2 percent to Rs. 309.09 billion in the review year compared to an increase of 28.2 percent in the previous year. Out of total resources, revenue collection grew by 21.3 percent to Rs. 273.08 billion. As a result of low government expenditure relative to the resource mobilization, the government maintained cash balance of Rs. 32.72 billion with the NRB by that date.

10. The overall BOP recorded a surplus of Rs. 52.69 billion during eleven months of 2012/13 compared to a surplus of Rs. 115.76 billion during the same period of the previous year. Although there was a huge trade deficit, the current account recorded a surplus of Rs. 41.56 billion in the review period due to the surplus in service and transfer accounts. Under the current account, the net service income recorded a surplus of Rs. 7.15 billion and remittance inflow rose by 21.3 percent to Rs. 388.46 billion. In US dollar terms, remittance inflow increased by 11.8 percent to US$ 4.45 billion.

11. In the review period, exports of goods to India increased by 2.6 percent and exports of goods to other countries increased by 7.0 percent. As a result, total export of goods increased by 4.0 percent. On the other hand, import of goods from India and other countries increased by 23.3 percent and 17.3 percent respectively resulting in 21.2 percent increase in total imports. As a result of high growth rate of imports relative to exports, trade deficit reached Rs. 438.67 billion during eleven months of 2012/13, and the export-import ratio declined to 13.7 percent in review period from 16.0 percent in the corresponding period of the previous year.

12. The gross foreign exchange reserves increased by 16.4 percent to Rs.511.69 billion in mid-June 2013 from Rs. 439.46 billion as of mid-July 2012. In US dollar terms, foreign exchange reserves increased by 11.3 percent to US$ 5.52 billion in mid-June 2013 from US$ 4.96 billion as of mid-July 2012. Based on the trend of imports during the eleven months of 2012/13, the existing level of foreign exchange reserves is sufficient to cover more than 11 months of merchandise imports and about 10 months of merchandise and service imports.

13. The exchange rate of Nepalese currency with the US dollar witnessed some volatility because of a fluctuation of Indian currency with the US dollar. The exchange rate of Nepalese currency with the US dollar gradually depreciated after mid-May 2013 in contrast to the appreciation up to mid-April 2013 from mid-August 2012. In 2012/13, Nepalese currency depreciated by 6.7 percent against the US dollar.

Financial Market

14. Financial access has been increasing with the expansion of network of financial institutions. During 2012/13, ten additional financial institutions comprising three "B" class development banks and seven "D" class microfinance institutions came into operation, whereas one finance company was self-liquidated. Accordingly, as of mid-July 2013, the total number of banks and financial institutions (BFIs) stood at 207 which includes 31 commercial banks, 86 development banks, 59 finance companies and 31 microfinance institutions. The number of such BFIs was 213 in mid-July 2012. As of mid-July 2013, the branch network of commercial banks reached 1486, development banks 764, finance companies 242 and microfinance institutions 634. Such branch network of commercial banks was 1425, development banks 687, finance companies 292 and microfinance institutions 550 as of mid-July 2012. As a result, in mid-July 2013, each branch has covered approximately 8475 population on an average. The numbers of deposit accounts and borrowers in "A", "B" and "C" class financial institutions were about 11.1 million and 845,000 respectively. Depositors and borrowers in microfinance institutions numbered about 1.16 million and 849,000 respectively. These microfinance institutions have been providing services in 65 districts.

15. As per the data from the Department of Cooperatives, the number of saving and credit cooperatives reached 12,614 by mid-May 2013. They mobilized Rs. 114.96 billion savings and disbursed Rs. 97.55 billion credit. The NRB has been providing technical assistance to the Department of Cooperatives to monitor transactions of saving and credit cooperatives effectively. Of the big saving and credit cooperatives operating in Kathmandu valley and other major cities, intensive monitoring of 156 saving and credit cooperatives was completed by the end of 2012/13.

16. Deposits amounting to Rs. 230.96 billion of 187 BFIs has been guaranteed till mid-June 2013 as per the provision of insuring deposits up to Rs. 2,00,000 of small and medium size depositors.

17. During 2012/13, merger activities among BFIs further accelerated. Two commercial banks merged with each other for the first time in 2012/13. During the review period, further, two development banks merged into one commercial bank. Similarly, by merging ten development banks and twelve finance companies with each other, seven development banks and two finance companies have been formed. After the implementation of "Merger Bylaw, 2012", 43 BFIs merged into 18 institutions and 13 BFIs have received the letter of intent to merge into 5 institutions. In addition to this, the NRB has already provided the letter of intent to form one national level rural development bank by merging 5 regional rural development banks.

18. In order to strengthen the inspection and supervision functions of the NRB, off-site supervision has been made more effective by timely updating the information received from BFIs. Likewise, in the process of on-site inspection, priority has been given to examine the asset quality through conducting on-site inspection of big borrowers' collateral and projects. Diagnostic review of 20 BFIs was completed

during last fiscal year by concentrating on risk management, corporate governance, interconnectedness of transactions and credit flows to real estate.

19. Guideline on Internal Capital Adequacy Assessment Process (ICAAP) has been issued to maintain capital for risks identified at present and possible emerging risks in the banking business in addition to the risk identified by minimum capital requirement under Basel II. Some banks have already submitted their policies for ICAAP, whereas monitoring work has been going on for those who have not submitted such a policy.

20. Credit to deposit ratio (including capital fund) of commercial banks has remained as per the prescribed limit. Such credit to deposit ratio of commercial banks stood at 71.7 percent in mid-July 2013 compared to 70.1 percent in mid-July 2012. Likewise, such ratio of development banks was 72.7 percent in mid-July 2013 compared to 67.0 percent in mid-July 2012. Similarly, credit to deposit ratio (including capital fund) of finance companies remained at 82.5 percent in mid-June 2013, compared to 78.9 percent in the mid-June of the previous year.

21. Short-term interest rates remained at lower level in 2012/13 because of comfortable liquidity situation in BFIs. As in mid-July 2012, the weighted average 91-day Treasury bills rate remained at 1.2 percent in mid-July 2013. Similarly, the weighted average inter-bank rate among commercial banks remained at 0.9 percent in mid-July 2013 which was also at the same level in mid-July 2012. However, the weighted average inter-bank rate among other financial institutions declined to 5.0 percent in mid-July 2013 from 7.0 percent in mid-July 2012.

22. The concept of base rate has been implemented with the objectives of reducing the spread rate and improving the effectiveness of monetary policy by making lending rate more transparent and competitive. The base rate of commercial banks ranged between 6.7 percent to maximum of 12.8 percent in mid-June 2013, whereas average base rate remained at 9.8 percent. The weighted average interest rates of deposits and lending of commercial banks have been started to be calculated and published. The weighted average deposit rate and lending rate of commercial banks remained at 5.2 and 12.3 percent respectively in mid-June 2013, resulting in an interest rate spread of 7.1 percent.

23. In 2012/13, stock market indicators improved. The y-o-y NEPSE index increased by 33.0 percent to 518.3 points in mid-July 2013. The y-o-y stock market capitalization increased by 42.2 percent to Rs. 489.86 billion in mid-June 2013 which was 28.8 percent of GDP. Total paid up capital of the listed companies in NEPSE on y-o-y basis increased by 15.7 percent to Rs. 125.97 billion in mid-June 2013. Additional securities worth of Rs. 13.51 billion comprising ordinary share of Rs. 8.02 billion, bonus share of Rs. 3.66 billion, right share of Rs. 0.28 billion, commercial banks' debenture of Rs. 0.80 billion and mutual fund of Rs. 0.75 billion were listed during eleven months of 2012/13.

Monetary Situation

24. In 2012/13 monetary expansion remained slower compared to previous year. During eleven months of 2012/13, broad money supply increased by 10.7 percent compared to a growth of 17.9 percent during the same period last year. On a y-o-y basis, broad money grew by 15.2 percent by mid-June 2013. Accordingly, broad money expansion is expected to meet the target level by the end of 2012/13.

25. Compared to a growth 6.3 percent in the previous year, total domestic credit increased by 10.9 percent during eleven months of 2012/13. Credit flows to private sector increased by 19.4 percent compared to a growth of 11.6 percent in the corresponding period of the previous year. Such an acceleration of private sector credit was due to availability of ample liquidity in the banking sector at the beginning of fiscal year.

26. Deposits of BFIs increased by 9.8 percent (Rs. 99.01 billion) to Rs. 1,110.83 billion by mid-June 2013 compared to a growth of 18.2 percent in the corresponding period of the previous year. During the review period, deposits of commercial banks grew by 9.2 percent, development banks by 10.9 percent and finance companies by 4.5 percent. As a result of growing BOP surplus and increasing government expenditure in recent months, the growth of deposits was estimated at 16.0 percent by the end of 2012/13.

27. Credit flows from BFIs to productive sectors including agriculture and energy have been continuously increasing. During eleven months of 2012/13, credit flow to agriculture sector increased by 36.0 percent, industrial production sector by 18.3 percent, construction sector by 15.4 percent, and wholesale and retail sector by 19.9 percent. Likewise, during the review period, credit flows to transportation, communication and public services increased by 20.3 percent. Of the total loan portfolio of BFIs, credit flows to agriculture and energy sectors stood at 4.2 percent and 1.9 percent respectively.

Liquidity Management

28. Due to the existence of excess liquidity in BFIs at the beginning of 2012/13, some liquidity was mopped up by increasing cash reserve requirement (CRR). Despite short-term liquidity mismatch caused by substantial cash balance of the Government of Nepal (GoN) with the NRB, banking system did not face any liquidity problem in 2012/13 because of continuous increase in remittance inflows and injection of necessary liquidity through open market operations (OMO) and Standing Liquidity Facility (SLF).

29. The NRB has been using OMOs as a principal instrument for managing monetary liquidity. In addition to commercial banks, the Liquidity Monitoring and Forecasting Framework (LMFF) has now covered development banks and finance companies as well. Likewise, liquidity management has been done by considering credit flows, deposits and cash balances of BFIs, as well as interbank rate and primary auction of treasury bills. In 2012/13, a total liquidity of Rs. 8.5 billion was mopped up through outright sale auctions.

30. In 2012/13, BFIs utilized SLF of Rs. 54.98 billion compared to Rs. 5.57 billion in the previous year. During 2012/13, commercial banks carried out interbank transactions of Rs. 725.77 billion among themselves, and development banks and finance companies carried out interbank transactions of Rs. 184.58 billion. Such interbank transactions were Rs. 212.77 billion among commercial banks and Rs. 172.90 billion among development banks and finance companies in the previous year.

31. The NRB has been regularly performing sale and purchase of foreign exchange as necessary to bring exchange rate stability and to facilitate liquidity management. Accordingly, the NRB purchased (net) US dollar 3.22 billion from commercial banks thereby injecting net liquidity equivalent to Rs. 285.03 billion. In the previous year, net liquidity of Rs. 258.28 billion was injected through net purchase of US dollar 3.19 billion. Likewise, during the review period, Indian currency equivalent to Rs. 274.44 billion was purchased by selling US dollar 3.12 billion. In the previous year, such purchase was of Rs. 213.95 billion by selling US dollar 2.66 billion.

32. The use of refinance facility increased as a result of reducing refinance rate and simplifying the procedure for obtaining refinance. In 2012/13, refinance of Rs. 2.74 billion against the collateral of good loan was provided to BFIs, as compared to Rs. 0.87 billion in the previous year.

Monetary Policy and Financial Sector Programs for 2013/14

33. The monetary policy for 2013/14 has been formulated based on the analysis of domestic economic outlook as well as changes in international economic situation. Likewise, the selection of monetary policy stance and instruments has been made consistent with the objectives and priorities undertaken by the government budget for 2013/14. The policies and programs have been designed in order to strengthen financial sector, expand access to finance, increase credit flow to productive sector and further simplify foreign exchange transactions.

Monetary Policy Stance

34. An accommodative monetary policy is necessary to facilitate high economic growth. Therefore, a slightly flexible policy stance has been adopted with due consideration about the possible adverse impact of monetary expansion on price and external sector stability. In addition, monetary policy is also focused on strengthening financial stability, extending credit to productive sector and expanding access to finance.

35. The economic growth rate remained at 3.6 percent in 2012/13 due to poor performance of agriculture and industry sectors. Therefore, the monetary policy has paid due attention to stimulate credit to agriculture and industry sectors to help achieve targeted economic growth.

36. Since a reasonable level of interest rate is necessary to ensure necessary investment for expected economic growth, interest rate stability will be maintained by the effective use of monetary policy instruments.

37. Annual average inflation rate is estimated to be at 9.9 percent in 2012/13 compared to 8.3 percent in the previous year. In the context of high inflation, strong internal demand backed by remittance inflow and depreciation of Nepalese currency with the US dollar, the monetary policy is cautious enough to rein inflation at targeted level by containing monetary and credit aggregates within desired limit.

38. BOP surplus during last two consecutive years and the resulting accumulation of foreign exchange reserve helped to maintain external stability. In the context of possible risk to external stability emerging from rising trade deficit and volatility of remittance inflows, monetary management will be handled cautiously to control unwanted monetary expansion.

39. Although credit expansion to private sector promotes economic activities, credit flows to unproductive sectors and imports can put pressure on inflation, poses risk on financial and external sector stability and adversely affects the current account balance. Therefore, monetary policy intends to flow credit to productive sectors together with maintaining total credit expansion at a desired level.

40. The merger of BFIs has been encouraged to strengthen financial sector stability, promoting efficiency in financial services, maintaining good corporate governance and strengthening capital base of BFIs. Adequate attention has been given to consolidate the financial sector by further accelerating the merger process. Meanwhile, due attention is also given to avoid possible contraction in access to finance and concentration of business risks as a result of the merger process.

41. High priority has been given to expand inclusive access to finance by the NRB. As a result, new micro finance institutions have come into operation and BFIs have expanded their branches in rural areas, and started branchless and mobile banking services. However, considering still inadequate financial access to rural areas and low-income groups, priority is given to extending financial access to rural and remote areas. Likewise, financial literacy has also been taken as an integral part of enhancing access to finance.

Economic and Monetary Targets

42. The monetary policy for 2013/14 has been formulated to support the economic growth of 5.5 percent by making arrangement of providing adequate credit along with containing inflation at 8 percent, and maintaining foreign exchange reserves sufficient to cover the imports of goods and services at least for 8 months.

43. By maintaining the current exchange rate regime, monetary management will be carried out on the basis of changes in indicators of economic growth, price and BOP. In order to facilitate in attaining these objectives, growth of broad money, which is taken as an intermediate target, will be maintained at about 16 percent.

44. Taking into account the likely increment in aggregate demand from inflation and targeted economic growth, domestic credit growth is projected at 17.1 percent in 2013/14. Of which, credit to the government and credit to the private sector are projected to be 12.3 percent and 18 percent respectively. Private sector credit will be encouraged to flow towards productive areas as much as possible. It is expected that

such a credit expansion will help achieve expected economic growth without pressure on inflation.

Instruments of Monetary Policy Operation

45. Despite low monetary expansion and balanced budget, inflation could not be contained within desired limit. It indicates that structural factors rather than monetary factors are more dominant in driving inflation. In line with the cautious policy stance, monetary policy instruments will be used to keep monetary expansion at a desirable level and thereby to avoid adverse impact on inflation from demand side. In addition, regulatory measures will be adopted to promote the stability of BFIs which are the medium of monetary policy transmission.

46. Since it is equally important to support economic growth in addition to maintaining inflation within a certain limit, the bank rate, one of the policy rates, is kept unchanged at 8 percent.

47. In order to increase liquidity in the economy, CRR to be maintained by BFIs will be reduced to 5 percent for "A" class, 4.5 percent for "B" class and 4.0 percent for "C" class financial institutions.

48. Statutory Liquidity Ratio (SLR) to be maintained by BFIs will be revised. As per the new provision, commercial banks will be required to maintain 12 percent, development banks and finance companies authorized for operating current and call account deposits are required to maintain 9 percent and 8 percent respectively. Such a ratio has been unchanged at 4 percent for "D" class financial institutions collecting deposits from general public.

49. Considering the comfortable liquidity situation in BFIs, the maximum period of repo and reverse repo auction under OMOs will be reduced to 21 days from existing 28 days.

50. In order to make OMO more effective for short-term liquidity management, online bidding system will be introduced in the auction of treasury bills and development bonds, OMO bylaws will be formed and implemented, and necessary infrastructure will be developed to introduce primary dealer system to make secondary market of government securities more active.

51. Considering factors such as liquidity position of banks, existing market interest and availability of securities, long-term bonds will be issued after the approval of the GoN.

52. Concept of base rate, implemented in commercial banks, will gradually be implemented in other financial institutions in order to make determination of lending interest rate transparent and competitive.

53. Standing liquidity facility, which is provided to BFIs for short-term liquidity management, will be continued.

54. General refinance rate will be reduced to 5.0 percent from existing 6.0 percent for agriculture, hydropower, livestock and fishery and other specified productive

sectors. For such a refinance facility, BFIs can charge up to 9.0 percent interest from clients.

55. Special refinance rate applicable to sick industry, small and cottage industry, export oriented enterprise, enterprises operated by women, foreign employment of specified class of people and small enterprises operated by specified community will be reduced to 1.0 percent from existing rate of 1.5 percent. While utilizing this facility, BFIs can charge up to 4.5 percent interest from clients.

56. In line with the policy of increasing deprived sector lending to 5 percent, a provision will be made so that commercial banks, development banks and finance companies should increase the deprived sector lending to 4.5 percent, 4.0 percent and 3.5 percent respectively by the end of 2013/14. Demand for such lending will be increased by increasing credit limit, expanding credit base and simplifying existing procedure.

57. A provision will be made to implement action plans submitted by commercial banks to the NRB to maintain 20.0 percent of total credit to productive sector by mid-July, 2015. Under this, commercial banks will have to maintain at least 12.0 percent credit flow to agriculture and energy sector. In addition, development banks and finance companies will also be asked to submit action plan by mid-January, 2014 to maintain a certain percent of total credit to productive sector over next three years.

58. Corporate relation and information system will be developed so that "A", "B", and "C" class financial institutions can avail financial service and credit to small and medium enterprises which have used and uplifted from the domain of microfinance service and the businesses promoted by women.

Financial Sector Reform, Regulation and Supervision

59. In order to maintain financial stability, increase access to finance and help to facilitate high economic growth through development and expansion of financial sector, Financial Sector Development Strategy will be formulated in coordination with the GoN and other concerned stakeholders.

60. A moratorium on accepting application for opening new ‘A’, ‘B’ and ‘C’ class BFIs has been continued by considering the financial sector stability. While providing license to open ‘D’ class financial institutions, the situation of access to financial institutions in the proposed areas will be taken into consideration. Priority will be given to establish micro finance institutions in those districts with very limited financial access.

61. Considering the inadequacy of financial access in some remote districts, the existing provision of providing interest free loans for BFIs to open new branches has been continued. In addition, expansion of branches outside district headquarters and urban areas will be encouraged.

62. Since the financial system contributes to the sustainable development, BFIs will be encouraged to conduct activities related to environment and corporate social responsibility.

63. BFIs will be encouraged to reopen the branches displaced by the conflict or extend financial services to these areas.

64. For projects such as agriculture business activities like coffee, orange, tea and livestock and dairy products, a provision will be made to avail specified amount of loans against the project itself as a collateral based on the potentiality of the project.

65. A provision will be made to bring an average interest spread rate between credit and deposits of 'A', 'B' and 'C' class BFIs to 5 percent within a certain time period.

66. Financial service will be made consumer friendly by making provision of not to differentiate interest rate above certain percentage on similar types of credit and deposits by BFIs, and by revising guidelines set for uniformity in commission, charges, penalties and fees including service charges for loan repayments before maturities.

67. Necessary provision for consumer protection will be made to protect the right of the customers of the banking sector. Grievance hearing unit will be made more effective.

68. Necessary measures will be adopted to discourage multiple banking which have remained as a challenge for the financial system.

69. Necessary legal and regulatory provisions will be made to ensure timely refund of deposits when such a situation arises to refund the guaranteed deposits to depositors. In addition, necessary coordination will be done with concerned institutions to strengthen capital base of Deposit and Credit Guarantee Corporation, and to review the provisions for limit and fees for deposit guarantee.

70. The merger process will be simplified to encourage merger of banks and financial institutions. Likewise, an acquisition manual will be developed and implemented.

71. Provisions of BASEL-III will be gradually implemented based on necessity and rationality to maintain financial stability.

72. The capitalization of Rastriya Banijya Bank will be done according to the approved capital plan. The management of Nepal Bank Limited will be transferred to the banks' shareholders after implementing the approved capital plan of the bank.

73. For strengthening the capital of BFIs, the provision will be made for 'A", 'B' and 'C' class banks to maintain the prescribed minimum paid-up capital compulsorily by mid-July 2014. The capital base of all types of financial institutions will be increased to strengthen the financial system. For this, in addition to paid up capital, other types of instruments/measures will also be implemented.

74. Necessary provisions will be made to strengthen the internal control system including governance system to reduce the operational risks of BFIs.

75. The implementation aspect of the IT Guideline and System Audit will be monitored to reduce the risks that may arise with the widespread use of information technology and the electronic medium in transactions in the banking sector. In addition, the

implementation of the international practices to mitigate the risks originating from the use of information technology will be encouraged.

76. The prevailing provisions related to payment, settlement and clearing including modern technology implemented for this purpose will be unified.

77. In order to promote investment in the infrastructure sector with the participation of foreign investment and adequate capital base, the establishment of infrastructure development bank will be encouraged under joint venture.

78. BFIs will be encouraged to provide banking service in a simplified way to elderly and disabled people.

79. Because of policy of allowing Nepalese banks to open branches in foreign countries and foreign banks to open branches in Nepal, guidelines for cross border supervision will be prepared for Home/Host supervision.

80. With an objective to assist in evaluating the implementation status of Basel core principles and prepare strategies accordingly in coming days, working plan will be developed based on the self-assessment of the implementation status of Basel Core principles.

81. The Problem Bank Resolution Framework, prepared with an objective of managing problematic BFIs according to the nature of their problems, will be implemented gradually.

82. The system of offsite supervision will be strengthened by updating information available from BFIs on time. In addition, in the process of onsite supervision, the quality of wealth of large borrowers will be examined more effectively by making onsite inspection of collateral and project.

83. For commercial banks not maintaining prescribed liquidity ratio, a provision of Prompt Corrective Action will be made based on liquidity.

84. In order to identify and manage imminent risk, a provision of stress testing is made mandatory for national level financial companies and the result of stress testing of BFIs will be utilized to minimize risks.

85. The concept of dynamic provisioning will be gradually implemented by reviewing arrangement of loan classification and loan loss provision.

86. In order to protect loan, a provision of considering loan paying capacity such as income and cash flow as a main basis besides existing movable and immovable property will be introduced.

87. In order to manage the risk of withdrawal when the share of institutional deposits is high, a provision of maintaining institutional deposits below 60 percent within a certain period by commercial banks will be introduced.

88. A provision of investing a certain percent of deposit mobilized in rural areas in the same areas by BFIs will be gradually implemented.

89. Expert service from this bank will be provided to the Department of Cooperative for monitoring saving and credit cooperatives of annual transactions exceeding Rs. 500 million.

90. Necessary provisions will be arranged by coordinating with the related entities of GoN to clear the ownership of house/apartment on which BFIs have provided loan as collateral and customers also deposited amount on installment basis.

91. To enhance transparency and good governance in banking business by maintaining clear differences between bankers and entrepreneurs, necessary arrangement will be undertaken to avoid the conflict of interest which may arise when board member, chief executive officer or other individuals in management of banks and financial institutions take loan from other BFIs for their own company.

92. BFIs will be encouraged to provide credit to the sectors for which this bank makes available the refinance facility. A provision of lodging complains by customers who do not get such a facility will be introduced.

93. In order to enhance financial access, a provision of using note chest by development banks will be made by extending note chest facility.

94. In order to strengthen financial stability, amended drafts of Nepal Rastra Bank Act, Bank and Financial Institutions Act, Negotiable Instrument Act, Banking Offence (Prevention) Act and Foreign Exchange Regulating Act will be submitted to the GoN. Coordination will be done among various related entities of GoN to formulate and amend other acts affecting overall financial system. All stakeholders will also be coordinated for effective implementation of legal provisions related to the banking system.

95. Detailed inspection and supervision will be continued as regard to compliance of responsibilities in accordance with Anti-money Laundering Act, 2064 and the directives issued by this bank.

96. According to the declared policy of GoN, pension and social security allowance will be made available through branchless banking system of BFIs. The pension service being provided by the NRB will also be gradually shifted to the banks involved in government transactions.

Microfinance and Access to Finance

97. An arrangement will be made to provide loan up to Rs. 2.0 million at zero interest rate for a certain period to "D" class microfinance institutions to open branches in those districts where access to microfinance service is low. In addition, provision will be made that microfinance institutions are not required to take approval from the NRB to expand branches in these districts.

98. For those group members who have used deprived sector lending from BFIs for last two years and turned into good borrowers, the limit for loan will be increased to Rs. 1,50,000 from Rs. 1,00,000 for loan provided against group guarantee and from Rs. 3,00,000 to Rs. 4,00,000 for micro enterprise loan provided against collateral.

99. Project credit up to Rs. 5,00,000 provided by BFIs to micro-enterprises promoted by women will be included in deprived sector lending and provision will be made to insure such credit.

100. A provision of providing refinance at 5.0 percent from this bank will be made for those project credit up to Rs. 1 million provided to small and medium enterprises from BFIs. While utilizing this facility, BFIs shall only charge interest rate up to 10 percent from their clients.

101. "D" class financial institutions which are not lending the amount received from BFIs on deprived sector borrowing within a specified period will be penalized at the bank rate.

102. An arrangement of exchanging credit information with each other will be made for BFIs licensed from this bank while making micro-credit transactions of more than Rs. 50,000.

103. A provision will be made for non-government organizations, licensed by this bank for financial intermediation to be converted into "D" class micro-finance institution by mid-July 2015 by completing necessary process.

104. New "Rural Self Reliance Fund (RSRF) Operational Directive" has been implemented in order to expand the access of financial service in rural areas. Access and coverage areas of RSRF will be extended since the GoN has increased its resources.

105. An arrangement will be made to flow credit from the RSRF to promote productive micro-enterprises/business in coordination and joint effort with Micro-enterprise Development Program-MEDEP operated by the GoN. Likewise, a provision of providing credit will be made from the RSRP to physically disabled people to run self-employment oriented activities.

106. Dissemination of public awareness oriented programs related to financial literacy via audio-visual and press media including program like "NRB with Students" will be conducted.

107. Integration and re-structuring of rural development banks, which were established with the objective of alleviating poverty by expanding financial service in the deprived sector, will be completed.

108. Rural Credit Survey, which has been started with an objective of getting information of financial access to frame strategies for rural finance, will be completed in 2013/14.

Foreign Exchange Management

109. Additional items will be added as necessary in the list of goods that can be imported from India by paying convertible foreign currency.

110. An arrangement will be made so that industrial organizations and business firms or companies registered in Nepal can purchase necessary service through L/C up to US dollar 10,000.

111. For purchasing goods or services through global tender by any organizations/institutions/foundations where the 'Public Procurement Act' is applicable, a provision will be made to make payments for freight and insurance in convertible foreign currency while importing goods and services from India by paying convertible foreign currency.

112. A provision of issuing 'Prepaid Remittance Card' by the remittance companies will be made to deliver amount collected by remittance companies to family members of overseas workers.

113. A provision of using foreign currency from own foreign currency account or providing foreign exchange facility if there is no such accounts will be made to manpower companies engaged in sending workers for foreign employment for their necessary expenses on the basis of number of workers sent abroad.

114. A provision will be made to allow Nepalese citizens working in the international organizations who have foreign currency account to use certain prescribed amount from their accounts. In addition, a provision will be made to exchange maximum of US dollar 10,000 or equivalent convertible foreign currency per year from own foreign currency account for domestic and foreign individuals, firms and institutions including Nepalese citizens who are earning in foreign currency.

115. In order to provide exchange facility for the currencies of additional countries opened for foreign employment, a provision to purchase currencies of these countries will be made. In addition, a provision will be made so that remittance companies and moneychanger can exchange the foreign currency they collected at the NRB.

116. Existing remittance companies will be encouraged to expand their services in those countries where Nepalese workers are employed, but access to remittance companies is not available. An attempt will be made to direct the remittance inflows through formal channel by making provision of opening new remittance companies in those countries where there is no access to remittance service.

117. The scope of inspection will be widened and intensified by focusing on process, system and risk management activities of companies that obtained licenses for foreign exchange transactions.

118. A provision of obtaining loan in foreign currency from commercial banks will be made for importing machinery and equipment by infrastructure projects such as roads and cable cars run by the private sector in addition to electricity projects.

Lastly,

119. This monetary policy for 2013/14, formulated in the context of low economic growth and high pressure on prices despite having BOP surplus and comfortable foreign exchange reserves, is oriented to increase credit flow to productive sectors and contain inflation. Since supply side, structural and other factors have played an important role in driving prices in recent past, addressing those bottlenecks is equally essential to contain inflation at a desirable limit. In this context, the NRB is

confident to attain both economic growth and price stability by addressing demand side from money supply and supply side from credit utilization.

120. For maintaining economic and financial stability, this monetary policy for 2013/14 is oriented towards enhancing corporate governance in financial institutions and minimizing risks in financial system. Besides, this policy has given priority for enhancing financial access to general people, making financial services customer friendly and further simplifying foreign exchange transaction.

121. The NRB would like to thank all stakeholders including Nepal Government and its various agencies, BFIs, professional and business associations, academicians and media for their cooperation in formulating this monetary policy. The NRB expects continued cooperation from all stakeholders in implementing the policies and programs included in this monetary policy.

Appendix I

Progress Matrix of Policy Targets Outlined in Monetary Policy of 2012/13

S.N.	Point No.	Objectives/Programs	Implementation Status
1	78	Attainment of 5.5 percent economic growth.	Economic growth is estimated to remain at 3.6 percent.
2	78	Containing inflation rate at 7.5 percent.	Annual average inflation rate is estimated to remain at 9.9 percent.
3	78	Maintaining foreign exchange reserve to cover at least 8 months of goods and services import.	Foreign exchange reserve is estimated to cover 11.6 months goods import and 9.9 months goods and services import.
4	78	Maintaining growth of broad money supply at 15 percent	Broad money supply growth is estimated to be 16.0 percent.
5	82	Domestic credit, credit to private sector and credit to government increase by 16.0 percent, 16.0 percent and 15.8 percent respectively.	Domestic credit, credit to private sector and credit to government are estimated to be increased by 17.1 percent, 19.4 percent and 5.8 percent respectively.
6	83	Total deposit mobilization grows by 15.1 percent.	Deposit growth is estimated to be 16.0 percent.

Appendix II

Progress Matrix of Policies and Programs Pertaining to Financial Sector and Foreign Exchange Outlined in Monetary Policy of 2012/13

S.N.	Point No.	Programs	Implementation Status
1	78	Excess liquidity estimated by this bank and private sector credit from BFIs are taken as operating targets of monetary policy.	Brought under operation.
1	78	The intermediate target and operating target of monetary policy will be reviewed	Study is ongoing.
2	80	The fieldwork survey under 5th household budget survey will be completed.	Sample design, selection of enumerators in market centers and sample collection processes have been completed. Field level work will be started from mid-October 2013.
4	85	Open market operations (OMO) will be used as a major instrument for monetary policy.	OMO has been used as a major instrument for monetary policy. The net liquidity of Rs. 8.50 billion was mopped up through outright sale auctions.
5	86	Bank rate is redefined and set at 8.0 percent. The rate will be applicable for lender of last resort facility and SLF.	Implemented by issuing circular. During the review period, BFIs used SLF of Rs. 54.98 billion.
6	87	General refinance rate that applies to refinance facility against pass loan will be reduced at 6.0 percent and BFIs shall not charge more than 9.0 percent from clients.	General refinance rate against pass loan is reduced to 6 percent. Under this provision, 7 BFIs utilized refinance of Rs. 2.74 billion.
7	90	Provision of refinance to BFIs in foreign currency on export credit will be simplified.	The provision has been made for providing refinance to the commercial banks at the same day of granting credit for pre-shipment or post-shipment to the exporters earning convertible currency. Under this provision, refinance of Rs. 2.6 million was provided.

S.N.	Point No.	Programs	Implementation Status
8	91	Commercial banks, development banks and finance companies shall be required to maintain deprived sector lending at 4 percent, 3.5 percent and 3 percent respectively by the end of current fiscal year.	Circular issued. As per the data by the end of mid-April, 2013, commercial banks, development banks and finance companies directed 4.6 percent, 4.2 percent and 3.1 percent of their credit respectively to deprived sector.
9	92	Provision of cash reserve ratio (CRR) to be maintained by BFIs will be 6 percent for "A" class financial institutions, 5.5 percent for "B" class financial institutions and 5 percent for "C" class financial institutions.	Provision of CRR to be maintained by BFIs was made 6 percent for "A" class financial institutions, 5.5 percent for "B" class financial institutions and 5 percent for "C" class financial institutions.
10	94	In addition to commercial banks, development banks and finance companies will also be included in LMFF for monitoring and forecasting liquidity.	Implemented.
11	95	Maximum period of repo and reverse repo auction will be made of 28 days.	Maximum period of repo and reverse repo auction was reduced to 28 days from existing 45 days.
12	96	Maximum maturity period of 7 days for inter-bank transactions among commercial banks, development banks and finance companies will be made.	Implemented by issuing circular.
13	97	Online bidding system will be initiated for the auction of treasury bills and development bonds.	To implement the online bidding system, tender process has been completed and it is under the evaluation process.
14	98	The financial sector reform programs will be pushed forward for further improvement by consolidating previous achievements.	
		a. Strengthening the capital base of BFIs.	To strengthen the capital, commercial banks and other BFIs are under the merger process. In addition, a study has been completed on cross holding, promoter share, and multiple ownership in BFIs.

S.N.	Point No.	Programs	Implementation Status
		b. Promoting financial access to general public by extending financial access.	The provision of branch extension and mobile banking has been reviewed. The bank branches of BFIs reached 3126 at mid-July, 2013 compared to 2954 at mid-July, 2012. Moreover, branchless banking is expanding. A total of 11 banks are providing such services from 194 spots.
		c. Implementing risk-based supervision system.	Guideline for risk-based supervision system is prepared.
		d. An arrangement will be made for effective regulation and supervision of IT-based financial transactions.	IT Guideline has been implemented to regulate and supervise IT-based financial transactions.
		e. Coordination will be made with other regulatory authorities associated with financial sector in addition to BFIs for maintaining financial sector stability.	Necessary action has been forwarded by constituting a co-ordination committee.
		f. Enhancing corporate governance of BFIs.	Interaction programs were organized about corporate governance and internal control region-wise.
		g. Maintaining differentiation between banker and industrialists/entrepreneurs.	An arrangement has been made to restrict loans to bankers except education, hire purchase and home appliance and a study is ongoing for other provisions.
		h. Timely amendment of act, laws and licensing system relating to banking sector.	Second amendment draft of NRB Act, 2001 has been submitted to the GoN, Ministry of Finance. Draft of Negotiation Instrument Paper Act, 1978 and Banking Offense and Punishment Act, 2008 has been revised.
		i. Enhancing financial intelligence to make financial transaction transparent.	Financial Information Unit (FIU) has been established as a separate unit. Software procurement is under the process for automation of information system. In addition, strengthening of the related policy arrangements is ongoing.
		j. Strengthening financial discipline.	Focus is given to effective implementation of policy provisions.

S.N.	Point No.	Programs	Implementation Status
15	99	To create opportunity for utilizing liquidity productively in the context of adequate availability.	
		a. Necessary adjustments will be made on macro prudential regulatory measures including credit-deposit ratio.	A provision of deducting refinance loan from credit-deposit ratio has been implemented and credit limit of NBL and RBB have been revised. In addition, a study on other macro prudential regulatory measures is going on.
		b. The issuance of long-term bond in domestic currency will be simplified in coordination with the GoN, international agencies and BFIs. In addition, initiate the development of secondary market of bond.	Letter-of-intent has been provided for the issuance of long-term bond in domestic currency by international agency. To activate the secondary market for government bond, a program was organized including all stakeholders. In addition, a preliminary study has been completed to have a Primary Dealer system.
16	100	Recapitalization work of RBB and NBL will be forwarded.	Recapitalization of RBB and NBL is under process of implementation. Rs. 787 million preference share, Rs. 86.6 million of outstanding dividend to be paid for the government and Rs. 2.5 billion of SDR loan from the World Bank have been converted into capital at RBB. Likewise, NBL has received right share of Rs. 1.39 billion from GoN and Rs.1.93 billion right share was sold to ordinary share holders out of issuance of Rs. 2.22 billion.
17	103	The existing policy provisions regarding opening branches abroad by domestic banks and permitting foreign banks to open branches in Nepal will be reviewed.	A provision of opening representative/contact office has been done and a study is being undertaken by a team to help to review policies and directives related to branch opening.
18	104	A certain amount of loan at zero interest rate will be provided to expand branches in specified districts only where the presence of financial institution is low.	An arrangement has been made by issuing directive to provide loan at zero interest rate to expand branches in 17 districts with low presence of financial institutions. Under this provision, Rs. 10 million was utilized.

S.N.	Point No.	Programs	Implementation Status
19	105	A provision will be made to allow BFIs to open "D" class financial institution to provide credit to the deprived sector as a subsidiary company only at a designated geographical area with low financial access.	Implemented by issuing circular. Under this provision, two BFIs have taken permission to form this bank.
20	106	A necessary action for policy provision to motivate merger among BFIs and to facilitate acquisition of assets-liabilities of BFIs will be forwarded.	In addition to giving priority to merger among BFIs, a study is ongoing to introduce policy for acquisition of assets-liabilities. In addition, after the implementation of Merger Bylaw, 43 institutions merged each other to form 18 institutions, and 13 institutions have received letter of intent to form 5 institutions.
21	107	The merger of rural development banks will be completed.	Five rural development banks have completed Due Diligence Audit (DDA) and received a letter of intent for merger.
22	108	Non-government organizations (NGOs) licensed by this bank for financial intermediation will be given opportunity to upgrade as micro finance development bank within a stipulated time frame.	During 2012/13, two NGOs were upgraded into micro finance development banks.
23	109	An arrangement to publish base rate by BFIs on a regular basis will be made.	A circular has been issued about base rate which has been published regularly since mid-January, 2013. In addition, this bank started to publish average base-rate on a monthly basis.
24	110	By monitoring the spread rate between lending and deposits, remedial measures will be adopted if it exceeds desirable level.	Weighted average interest rate on lending and deposits, and interest rate spread have been started to be computed, published and monitored.

S.N.	Point No.	Programs	Implementation Status
25	111	To enhance financial literacy, the "National Financial Literacy Policy" will be formulated along with conducting various public awareness programs.	"National Financial Literacy Policy" has been drafted. To enhance the financial literacy among 15 to 19 years population, a booklet entitled "*Paisa ko Bot*" and to increase linkage in saving and credit program, training manual have been published. Likewise, to increase the awareness in rural and urban areas, two informative programs were broadcasted through national media.
26	112	"Financial Sector Development Strategy" will be prepared in order to develop inclusive financial system that reflects the collective vision of all stakeholders for the future direction of the financial sector.	Preparation of "Financial Sector Development Strategy" has been started by formulating Steering Committee and Task Force.
27	114	The threshold of deposit insurance will be increased to Rs. 3,00,000.	The subjects of enhancing institutional capacity and revision of premium rate are under discussion in high level financial sector coordination committee in order to make deposit insurance program more effective.
28	115	Work plans submitted by commercial banks to increase productive sector lending to 20 percent of loan will be monitored effectively.	Commercial banks have submitted their plans and monitoring activities are ongoing. In addition, until mid-January, 2013, out of total loan, 13.7 percent loan of commercial banks was in productive sector.
29	116	To encourage the credit flow of BFIs in the productive sector, the agricultural sector will be redefined by incorporating agricultural tools, fertilizers, seeds, animal feeds, irrigation and storages, and specified agriculture processing.	Implemented by issuing circular.
30	117	A provision to consider the fund borrowed from the GoN or international institutions for three or more than three years to carry out specified credit program as a source of resource mobilization will be made.	Implemented by issuing circular.

S.N.	Point No.	Programs	Implementation Status
31	118	In coordination with programs adopted by government, an arrangement for availability of credit easily to small and medium enterprises (SMEs) will be made.	This bank has made available the refinance loan and made a provision of providing 10 percent of total credit to agricultural and energy sector by BFIs. In addition, definition of SMEs has been clarified.
32	119	As per the recommendations of high-level committee for restructuring sick industries, an arrangement of regulation of loan restructuring and other facilities from the financial sector will be made.	It is in the decision level with the involvement of this bank for necessary coordination and recommendation for policy provision. A draft for working procedure related to facility given to sick industries from the financial sector has been prepared.
33	120	Necessary regulation for making effective arrangement of credit information system including paripasu to minimize risk associated with multiple banking transactions will be issued.	A draft has been prepared for more effective arrangement about it.
34	121	Necessary guidelines for Internal Capital Adequacy Assessment Process (ICAAP) will be implemented.	Guideline has been issued.
35	122	The provision of a new capital standard based on BASEL II in a parallel basis with existing directive of capital adequacy for national level development banks will be continued.	Continued.
36	123	In the process of transition form compliance based inspection and supervision system to risk-based supervision, necessary revisions in directives, bylaws and guidelines related to inspection and supervision will be made.	Bylaw is under discussion and onsite supervision manual has been prepared.

S.N.	Point No.	Programs	Implementation Status
37	124	In the process of gradually implementing risk-based inspection and supervision system, a provision of allocating more human resource and time by identifying more risky banks, sectors and instruments, and review of the time interval for supervision accordingly will be made.	Risk-based onsite supervision manual has been prepared.
38	125	Diagnostic review will be conducted by selecting 20 BFIs on the basis of risk management, corporate governance, inter-connected transactions and exposure to real estate sector.	Diagnostic review of 20 BFIs has been completed comprising 8 commercial banks, 6 development banks and 6 finance companies.
39	126	Early Warning System (EWS) will be developed and implemented in order to trace out emerging risk in BFIs and adopt corrective policy measures on time.	Preparation of risk-based offsite supervision manual is under progress.
40	127	Problem Bank Resolution Operational Manual and Toolkit prepared for improvement of problematic BFIs will be implemented by making necessary revisions.	Problem Bank Resolution Framework has been prepared and necessary framework is under preparation for its implementation.
41	128	A provision of Prompt Corrective Action (PCA) based on liquidity and non-performing assets as well will be made.	PCA framework has been revised and a draft proposal is under discussion for the implementation of this new framework.
42	129	An arrangement of submitting report of stress testing regularly by BFIs mobilizing deposits exceeding Rs. 2 billion on the basis of stress testing guidelines prepared by this bank will be made.	This provision has been made for commercial banks for stress testing and submitting results to this bank and it has been regularly monitored. Similarly, it has been implemented for development banks mobilizing more than Rs. 2 billion deposits as well, which has been monitored on a quarterly basis.

S.N.	Point No.	Programs	Implementation Status
43	129	Liquidity monitoring framework will be prepared and implemented in the process of adopting forward-looking approach in inspection and supervision.	The framework is implemented after revision.
44	130	IT guideline will be implemented and provision will be made to compel BFIs to do system audit.	IT Guideline has been implemented and a study is ongoing to implement system audit.
45	131	More priority will be given to the asset quality test by conducting on-site inspection of big borrowers' collateral and projects.	Big borrowers' collateral and projects are under on-site inspection as per the requirement.
46	132	Work of seting up a micro-finance authority as a regulatory institution for the regulation, inspection and supervision of micro finance institutions will be forwarded.	A draft law has been submitted to the Ministry of Law, Government of Nepal.
47	133	By timely revising directives issued to micro finance institutions, a provision will be made to protect right of concerned stakeholders including stability and consolidation of financial institutions.	Circular has been drafted by formulating a task force.
48	134	Supervision directives for NGOs licensed for financial intermediation will be prepared and issued. In addition, directive issued for co-operative licensed for limiting banking in 2002 will be updated.	A study is ongoing by constituting a task force. Necessary action is forwarded to issue circular.
49	135	A separate Financial Stability Unit (FSU) will be set up to carry out regular study of the status and challenges of the financial sector and provision for the publication of financial stability report will be made.	FSU has been established and first financial stability report has been published.

S.N.	Point No.	Programs	Implementation Status
50	136	For enhancing financial discipline and transparency, Financial Information Unit (FIU) will be further strengthened along with making the process of effective detection of financial crimes.	Second amendment of Money Laundering Prevention Act, 2007 has been made through ordinance. This has made financial transaction more transparent.
51	137	Provision will be made to submit Permanent Account Number (PAN) to BFIs by borrower while borrowing more than a certain amount.	A circular has been issued to submit PAN by borrowers borrowing Rs. 10 million or more.
52	138	A Currency Verification and Processing System (CVPS) and Shredding and Briquetting System (SBS) will be implemented to destroy currency notes systematically in an environment-friendly way.	Process has been forwarded to purchase necessary machinery/equipments.
53	139	Clean Note Policy will be continued and note-sorting standard will be implemented in order to make Clean Note Policy more effective.	Provision has been made for single stitch in a packet of the notes and submitting packets by labeling separately as spoiled and reusable note in this bank.
54	140	Access of financial institutions to note chest and facilities will be expanded.	Note Chest Guideline, 2012 has been implemented. Insurance limit has been increased for the note chest so as to make note chest transaction easily accessible to commercial banks from nearby areas.
55	141	A provision will be made to allow the commercial banks to invest up to 30 percent of their balance kept at the agency banks in the instruments such as call deposit, certificate of deposit or other instruments having low risks and the maturity period not exceeding 2 years.	Implemented by issuing circular and this has been monitored.

S.N.	Point No.	Programs	Implementation Status
56	142	An arrangement will be made to provide exchange facility to the firms/companies against foreign bank guarantee if they need partial or full payment in advance for importing goods and services (including lease) against the payment of the convertible currencies.	Implemented by issuing circular.
57	144	Credit will be provided to exporters in foreign currency on the basis of the documents of sale and purchase agreement between the importer and exporter.	Implemented by issuing circular.
58	145	The existing ceiling of foreign exchange facility of USD 25,000 for one-time to pay imports from third countries (excluding India) through draft/TT has been increased to USD 30,000.	Implemented by issuing circular.
59	146	The existing ceiling of providing exchange facility of USD 6,000 to individuals and organizations for various purposes on the basis of the necessary documents from the licensed BFIs has been increased to USD 10,000.	Implemented by issuing circular.
60	147	Foreign exchange facility up to INR 3 million will be made available from commercial banks to the Nepalese and foreign organizations/companies registered in Nepal having approval to do business to make payments to India based organization/ companies on the basis of agreement/understanding of receiving various services and facilities.	Implemented by issuing circular.

S.N.	Point No.	Programs	Implementation Status
61	148	Additional items will be added as necessary in the list of goods that can be imported from India by paying convertible foreign currency.	Mango Pulp has been added in the list and the number of items reached 161.
62	149	While importing industrial raw materials from Indian industries against the payment of the convertible foreign currency, a provision will be made for payment in foreign currency to the sole agents of the producers of such raw materials.	Implemented by issuing circular.
63	150	The existing provision of providing exchange facility in Indian currency for the freight charges while importing goods from India will be simplified.	Implemented by issuing circular. The provision has been made to pay freight charges in Indian currency while importing raw materials by paying convertible currency.
64	151	A provision of providing foreign exchange facility of up to USD 2500 each time will be made for private and official foreign travels (excluding India) and Nepalese citizens going abroad for trade promotion, trade fairs and trade workshops will be provided foreign exchange facility up to USD 5,000 each time based on evidence.	Implemented through a circular issued and monitoring is also ongoing.
65	152	A provision will be made to allow Nepalese citizens who have foreign currency account to use maximum of USD 5,000 in foreign currency in a year from the foreign currency deposits in their account as per their necessity.	Implemented by issuing circular.
66	153	Individuals or institutions, who receive gifts or donations in foreign currency will be allowed to open foreign currency accounts by declaring source and necessary information.	Implemented by issuing circular.

S.N.	Point No.	Programs	Implementation Status
67	154	Foreigners having account in foreign currency during their stay in Nepal will be allowed to operate this account by updating their individual information if they want to continue to operate their account.	Implemented by issuing circular.
68	155	An arrangement will be made to submit the information of foreign investment to this bank on half-yearly basis. FDI policy pertaining to investment abroad by Nepalese citizens will be forwarded as necessary.	Public notice has been issued. In addition, detailed study on the investment of Nepalese institutions abroad is ongoing along with the existing exchange rate system and capital account convertibility. The study report has been received from IMF.
69	156	Additional simplification and transparency will be made in the process of taking loan from abroad and its repayment by Nepalese companies as per the provision made in the existing acts including Foreign Exchange (Regulation) Act, 1962 and public notice issued from this bank from time to time.	Public notice has been issued with the policy provision.
70	157	After pre-approval from this bank, Nepalese citizens who want to operate or expand their business in Nepal will be allowed to borrow up to USD 200,000 from their relatives, non-resident Nepalese or institutions under the stipulated conditions.	Public notice has been issued with the policy provision.
71	158	Currently, there is a provision of foreign exchange conversion facility only at licensed BFIs to Nepalese citizens receiving gifts, tips etc. from foreign relatives and customers. Such provision of conversion up to USD 500 or equivalent other convertible currencies can also be made at licensed moneychangers for foreign exchange transactions.	Implemented by issuing circular.

S.N.	Point No.	Programs	Implementation Status
72	159	Monitoring and inspection manual will be prepared and implemented for effective monitoring and inspection of the companies licensed from this bank for conducting remittance and moneychanger transactions.	Implemented by preparing procedure.
73	160	Nepalese banks will be encouraged to open branches/representative offices in India, South Korea and other countries to channelize remittance inflow through formal channel.	A study to encourage the institutions working for remittances in India and South Korea has been completed and the implementation of the study has been initiated.
74	161	Initiation will be taken for the management of financial derivatives transactions in foreign currency.	Study is ongoing.
75	162	For the members of credit group, the provision will be made to increase the limit of loans provided by BFIs for micro enterprises up to Rs. 1,00,000 against group guarantee and up to Rs. 3,00,000 against acceptable collateral.	Implemented by issuing circular
76	163	An arrangement will be made to provide refinance facility to industries/business run by youths that returned from foreign employment and completed higher education from foreign countries.	Implemented by issuing circular
77	164	Current provision of barring micro finance institutions from using the borrowed money available for credit flow to the deprived sector in interest earning from BFIs will be monitored closely.	Monitoring has been made effective for complete implementation of this directive.
78	165	A provision of accounting a specified amount of credit extended by BFIs to community hospitals servicing rural areas and cold storages established by farmers to store food grains, etc. as deprived sector lending will be continued.	By continuing the existing provision, monitoring has been done.

S.N.	Point No.	Programs	Implementation Status
79	166	Fieldwork of rural credit survey will be completed.	Sample design and pre-test of questionnaire of the field survey has already been accomplished. The questionnaire is in the process of being printed and a plan is made to carry field work through outsourcing.
80	167	While providing loans more than Rs. 30,000 by licensed BFIs to individual/group member/group, current provision of acquiring/providing credit information from licensed micro finance development banks, cooperatives authorized for limited banking activities and non-government financial organizations within the working area of that bank branch will be effectively implemented.	The related provision has been monitored to make it more effective.
81	168	A policy provision will be made to allow "D" class financial institutions established in 9 districts with limited access to finance to collect deposits from the general public up to five times of their core capital.	Implemented by issuing circular.
82	169	Simplification will be made in lending procedure to include more cooperatives and non-government organizations operating in rural areas for maximum utilization of the RSRF.	Rural Self-Reliance Fund, Operationl Manual, 2013 has been implemented.
83	170	Autonomous micro-finance fund will be established after enactment of National Micro-finance Development Fund Act.	The draft bill has been finalized after discussion with Ministry of Law.

Appendix III
Projection of Monetary Survey

(Rs. in million)

Monetary Aggregates	2011 Jul	2012 Jul	2013 Jul^{R}	2014 Jul^{P}	Annual Change							
					2011/12			2012/13			2013/14	
					Amount		Percen	Amount		Percen	Amount	Percen
1. Foreign Assets, Net	221265.54	383772.14	469577.15	501577.17	131626.60	1/	59.5	70000.01	2/	18.2	32000.02	6.8
1.1 Foreign Assets	284110.20	455976.82	551444.93	593142.67	171866.62		60.5	95468.11		20.9	41697.74	7.6
1.2 Foreign Liabilities	62844.66	72204.68	81867.78	91565.50	9360.02		14.9	9663.10		13.4	9697.72	11.8
a. Deposits	52336.42	60465.59	70194.11	78826.84	8129.17		15.5	9728.51		16.1	8632.74	12.3
b. Other	10508.24	11739.08	11673.67	12738.66	1230.85		11.7	-65.41		-0.6	1064.98	9.1
2. Net Domestic Assets	700054.58	746530.15	841573.27	1019357.33	77355.57	1/	11.0	110848.12	2/	14.8	177784.06	21.1
2.1 Domestic Credit	910224.89	994691.47	1164458.89	1363755.81	84466.58		9.3	169767.42		17.1	199296.92	17.1
a. Net Claims on Government	163439.37	162882.05	172363.10	193573.50	-557.32		-0.3	9481.05		5.8	21210.40	12.3
Claims on Government	163439.37	165254.85	174863.10	193573.50	1815.48		1.1	9608.25		5.8	18710.40	10.7
Government Deposits	0.00	2372.80	2500.00	0.00	2372.80			127.20		5.4	-2500.00	
b. Claims on Non-Financial Government Enterprises	6376.41	10099.42	11813.60	13785.64	3723.01		58.4	1714.19		17.0	1972.04	16.7
c. Claims on Financial Institutions	13086.68	11884.15	13521.45	15758.96	-1202.53		-9.2	1637.30		13.8	2237.51	16.5
Government	2226.28	1275.98	2410.70	2500.00	-950.30		-42.7	1134.72		88.9	89.30	3.7
Non-government	10860.40	10608.17	11110.75	13258.96	-252.23		-2.3	502.58		4.7	2148.21	19.3
d. Claims on Private Sector	727322.44	809825.85	966760.73	1140637.70	82503.41		11.3	156934.88		19.4	173876.97	18.0
2.2 Net Non-Monetary Liabilities	210170.32	248161.32	322885.61	344398.48	7111.00	1/	3.4	58919.29	2/	23.7	21512.87	6.7
3. Broad Money (M2)	921320.12	1130302.29	1311150.42	1520934.49	208982.18		22.7	180848.13		16.0	209784.07	16.0
3.1 Money Supply (M1+)	622325.94	789269.29	927381.94	1085122.84	166943.35		26.8	138112.65		17.5	157740.90	17.0
a. Money Supply (M1)	222351.39	263705.70	307216.91	350227.27	41354.31		18.6	43511.20		16.5	43010.37	14.0
Currency	141931.48	170491.69	199494.21	230415.81	28560.21		20.1	29002.52		17.0	30921.60	15.5
Demand Deposits	80419.86	93214.01	107722.70	119811.46	12794.15		15.9	14508.69		15.6	12088.76	11.2
b. Saving and Call Deposits	399974.55	525563.59	620165.04	734895.57	125589.04		31.4	94601.45		18.0	114730.53	18.5
3.2 Time Deposits	298994.17	341033.00	383768.48	435811.65	42038.83		14.1	42735.48		12.5	52043.17	13.6
4. Broad Money Liquidity (M3)	973656.54	1190767.89	1381344.53	1599761.33	217111.35		22.3	190576.64		16.0	218416.80	15.8

R - Revised Estimate

P - Projection

1/ Adjusting the exchange valuation gain of Rs. 30880.00 million

2/ Adjusting the exchange valuation gain of Rs. 15805.00 million

List of Statistical Tables

Table 1

Gross Domestic Product

(at 2000/01 prices)

Sectors	Rs. in million						Percentage change				
	2007/08	2008/09	2009/10	2010/11	2011/12[R]	2012/13[P]	2008/09	2009/10	2010/11	2011/12[R]	2012/13[P]
Agriculture	**195559.00**	**201464.00**	**205517.00**	**214787.00**	**225487.00**	**228330.00**	**3.0**	**2.0**	**4.5**	**5.0**	**1.3**
Agriculture and Forestry	192514.00	198257.00	202196.00	211271.00	221706.00	224396.00	3.0	2.0	4.5	4.9	1.2
Fishery	3045.00	3207.00	3321.00	3516.00	3781.00	3934.00	5.3	3.6	5.9	7.5	4.0
Non-Agriculture	**349743.00**	**364915.00**	**384570.00**	**398569.00**	**415115.00**	**435790.00**	**4.3**	**5.4**	**3.6**	**4.2**	**5.0**
Industry	**88305.00**	**87784.00**	**91295.00**	**95250.00**	**98127.00**	**99697.00**	**-0.6**	**4.0**	**4.3**	**3.0**	**1.6**
Mining and Quarrying	2513.00	2531.00	2585.00	2637.00	2770.00	2921.00	0.7	2.1	2.0	5.0	5.5
Manufacturing	39545.00	39132.00	40291.00	41923.00	43445.00	44248.00	-0.9	3.0	4.1	3.6	1.8
Electricity, Gas and Water	13204.00	12750.00	12989.00	13564.00	14705.00	14735.00	-3.4	1.9	4.4	8.4	0.2
Construction	33043.00	33371.00	35430.00	37126.00	37207.00	37793.00	1.0	6.2	4.8	0.2	1.6
Service	**261438.00**	**277131.00**	**293275.00**	**303319.00**	**316988.00**	**336093.00**	**6.0**	**5.8**	**3.4**	**4.5**	**6.0**
Wholesale and Retail Trade	66962.00	70481.00	75237.00	76298.00	78625.00	86126.00	5.3	6.7	1.4	3.0	9.5
Hotels and Restaurant	8851.00	9056.00	9646.00	10244.00	10855.00	11597.00	2.3	6.5	6.2	6.0	6.8
Transport, Storage and Communications	48226.00	51585.00	54657.00	57504.00	60806.00	64899.00	7.0	6.0	5.2	5.7	6.7
Financial Intermediation	24142.00	24632.00	25327.00	26163.00	27071.00	28870.00	2.0	2.8	3.3	3.5	6.6
Real Estate, Renting and Business	45544.00	46421.00	47818.00	48894.00	50346.00	51172.00	1.9	3.0	2.3	3.0	1.6
Public Administration and Defence	9319.00	10012.00	10405.00	10806.00	11346.00	11721.00	7.4	3.9	3.9	5.0	3.3
Education	32716.00	36233.00	38638.00	39799.00	41797.00	43513.00	10.8	6.6	3.0	5.0	4.1
Health and Social Work	7474.00	8191.00	8581.00	9012.00	9908.00	10597.00	9.6	4.8	5.0	9.9	7.0
Other Community, Social and Personal Service	18204.00	20520.00	22966.00	24599.00	26234.00	27598.00	12.7	11.9	7.1	6.6	5.2
Total GVA including FISIM	**545302.00**	**566379.00**	**590087.00**	**613356.00**	**640602.00**	**664120.00**	**3.9**	**4.2**	**3.9**	**4.4**	**3.7**
Financial Intermediation Indirectly Measured (FISIM)	23043.00	23725.00	24327.00	25821.00	26725.00	28369.00	3.0	2.5	6.1	3.5	6.2
GDP at basic prices	**522259.00**	**542654.00**	**565760.00**	**587535.00**	**613877.00**	**635751.00**	**3.9**	**4.3**	**3.8**	**4.5**	**3.6**
Taxes less subsidies on products	42257.00	47455.00	52770.00	52160.00	56858.00	59452.00	12.3	11.2	-1.2	9.0	4.6
GDP at producers price	**564516.00**	**590109.00**	**618530.00**	**639695.00**	**670735.00**	**695203.00**	**4.5**	**4.8**	**3.4**	**4.9**	**3.7**

R - Revised Estimate of CBS
P - Preliminary Estimate of CBS
Source: Central Bureau of Statistics

Table 2

Gross Domestic Product

(at current prices)

Sectors	Rs. in million						Percentage change				
	2007/08	2008/09	2009/10	2010/11	2011/12[R]	2012/13[P]	2008/09	2009/10	2010/11	2011/12[R]	2012/13[P]
Agriculture	**247191.00**	**309553.00**	**395755.00**	**478149.00**	**516951.00**	**555585.00**	**25.2**	**27.8**	**20.8**	**8.1**	**7.5**
Agriculture and Forestry	243323.00	305477.00	391519.00	473270.00	511290.00	548968.00	25.5	28.2	20.9	8.0	7.4
Fishery	3868.00	4076.00	4236.00	4879.00	5661.00	6617.00	5.4	3.9	15.2	16.0	16.9
Non-Agriculture	**532252.00**	**629339.00**	**722815.00**	**819991.00**	**929181.00**	**1043586.00**	**18.2**	**14.9**	**13.4**	**13.3**	**12.3**
Industry	**130913.00**	**148901.00**	**169383.00**	**200844.00**	**214987.00**	**238702.00**	**13.7**	**13.8**	**18.6**	**7.0**	**11.0**
Mining and Quarrying	4375.00	5084.00	5926.00	6956.00	8166.00	9250.00	16.2	16.6	17.4	17.4	13.3
Manufacturing	57185.00	65447.00	70924.00	80531.00	90794.00	98709.00	14.4	8.4	13.5	12.7	8.7
Electricity, Gas and Water	15219.00	14629.00	15244.00	24001.00	17488.00	20287.00	-3.9	4.2	57.4	-27.1	16.0
Construction	54134.00	63741.00	77289.00	89356.00	98539.00	110456.00	17.7	21.3	15.6	10.3	12.1
Service	**401339.00**	**480438.00**	**553432.00**	**619147.00**	**714194.00**	**804884.00**	**19.7**	**15.2**	**11.9**	**15.4**	**12.7**
Wholesale and Retail Trade	105306.00	124121.00	161067.00	179306.00	197632.00	230584.00	17.9	29.8	11.3	10.2	16.7
Hotels and Restaurant	11503.00	13943.00	17347.00	21057.00	24521.00	29141.00	21.2	24.4	21.4	16.5	18.8
Transport, Storage and Communications	76818.00	92618.00	95304.00	105834.00	123990.00	147146.00	20.6	2.9	11.0	17.2	18.7
Financial Intermediation	33539.00	39100.00	46083.00	50111.00	65345.00	67207.00	16.6	17.9	8.7	30.4	2.8
Real Estate, Renting and Business	73636.00	81625.00	93747.00	106236.00	119991.00	135530.00	10.8	14.9	13.3	12.9	13.0
Public Administration and Defence	14352.00	18556.00	21695.00	24830.00	29329.00	30299.00	29.3	16.9	14.5	18.1	3.3
Education	48722.00	62642.00	61384.00	67739.00	79077.00	86195.00	28.6	-2.0	10.4	16.7	9.0
Health and Social Work	10963.00	13744.00	15382.00	17087.00	20259.00	22022.00	25.4	11.9	11.1	18.6	8.7
Other Community, Social and Personal Service	26500.00	34089.00	41423.00	46947.00	54050.00	56760.00	28.6	21.5	13.3	15.1	5.0
Total GVA including FISIM	**779443.00**	**938892.00**	**1118570.00**	**1298140.00**	**1446132.00**	**1599171.00**	**20.5**	**19.1**	**16.1**	**11.4**	**10.6**
Financial Intermediation Indirectly Measured (FISIM)	24185.00	29362.00	35156.00	41660.00	49992.00	58990.00	21.4	19.7	18.5	20.0	18.0
GDP at basic prices	**755258.00**	**909530.00**	**1083414.00**	**1256480.00**	**1396140.00**	**1540181.00**	**20.4**	**19.1**	**16.0**	**11.1**	**10.3**
Taxes less subsidies on products	60401.00	78744.00	109358.00	118472.00	139861.00	161012.00	30.4	38.9	8.3	18.1	15.1
GDP at producers price	**815659.00**	**988274.00**	**1192772.00**	**1374952.00**	**1536001.00**	**1701193.00**	**21.2**	**20.7**	**15.3**	**11.7**	**10.8**

R - Revised Estimate of CBS

P - Preliminary Estimate of CBS

Source: Central Bureau of Statistics

Table 3
Gross National Disposable Income
(at current prices)

Sectors	Rs. in million						Percentage change				
	2007/08	2008/09	2009/10	2010/11	2011/12[R]	2012/13[P]	2008/09	2009/10	2010/11	2011/12[R]	2012/13[P]
Consumption	**735469.00**	**895042.00**	**1056184.00**	**1176030.00**	**1359538.00**	**1542329.00**	**21.7**	**18.0**	**11.3**	**15.6**	**13.4**
Government consumption	***80663.00***	106527.00	119189.00	130917.00	164370.00	166343.00	32.1	11.9	9.8	25.6	1.2
Private consumption	***641085.00***	772762.00	916993.00	1022126.00	1167861.00	1346825.00	20.5	18.7	11.5	14.3	15.3
Nonprofit institutions serving households	***13721.00***	15753.00	20002.00	22987.00	27307.00	29161.00	14.8	27.0	14.9	18.8	6.8
Gross Capital Formation	**247272.00**	**313029.00**	**456490.00**	**527267.00**	**535545.00**	**642909.00**	**26.6**	**45.8**	**15.5**	**1.6**	**20.0**
Gross Fixed Capital Formation	***178446.00***	211039.00	264888.00	292730.00	307384.00	359854.00	18.3	25.5	10.5	5.0	17.1
Government	32993.00	44278.00	53665.00	63806.00	71555.00	67951.00	34.2	21.2	18.9	12.1	-5.0
Private	145453.00	166761.00	211223.00	228924.00	235829.00	291903.00	14.6	26.7	8.4	3.0	23.8
Change in Stock	***68826.00***	101990.00	191602.00	234537.00	228161.00	283055.00	48.2	87.9	22.4	-2.7	24.1
Total Domestic Demand	**982741.00**	**1208071.00**	**1512674.00**	**1703297.00**	**1895083.00**	**2185238.00**	**22.9**	**25.2**	**12.6**	**11.3**	**15.3**
Export of goods and services	*104207.20*	122737.00	114298.00	121714.00	153863.00	175876.00	17.8	-6.9	6.5	26.4	14.3
Import of goods and services	*271290.90*	342536.00	434198.00	450059.00	512948.00	659921.00	26.3	26.8	3.7	14.0	28.7
Net Exports of Goods and Services	**-167083.70**	**-219799.00**	**-319900.00**	**-328345.00**	**-359085.00**	**-484045.00**	**31.6**	**45.5**	**2.6**	**9.4**	**34.8**
Gross Domestic Product	**815659.00**	**988274.00**	**1192772.00**	**1374952.00**	**1536001.00**	**1701193.00**	**21.2**	**20.7**	**15.3**	**11.7**	**10.8**
Net Factor Income	7947.00	11750.00	9117.00	7549.00	14785.00	7796.00	47.9	-22.4	-17.2	95.9	-47.3
Gross National Income (GNI)	**823606.00**	**1000024.00**	**1201889.00**	**1382501.00**	**1550786.00**	**1708989.00**	**21.4**	**20.2**	**15.0**	**12.2**	**10.2**
Net Transfer	182817.00	249487.00	282648.00	307859.00	422772.00	486837.00	36.5	13.3	8.9	37.3	15.2
Gross National Disposable Income (GNDI)	**1006423.00**	**1249511.00**	**1484537.00**	**1690360.00**	**1973558.00**	**2195826.00**	**24.2**	**18.8**	**13.9**	**16.8**	**11.3**

R - Revised Estimate of CBS
P - Preliminary Estimate of CBS
Source: Central Bureau of Statistics

Table 4
National Consumer Price Index
(1995/96 = 100)

Mid- Months	2008/09		2009/10		2010/11		2011/12		2012/13	
	Index	% Change	Index	% Change	Index	% Change	Index	% Change	Index	% Change
August	123.5	11.8	136.0	10.1	148.9	9.5	160.3	7.7	179.3	11.9
September	125.8	12.4	137.4	9.2	149.2	8.6	161.9	8.5	180.1	11.2
October	127.2	13.2	138.1	8.6	150.2	8.9	163.6	8.9	180.8	10.5
November	127.4	13.7	139.0	9.1	150.7	8.4	163.4	8.5	180.5	10.5
December	125.5	13.4	138.5	10.3	151.6	9.6	163.0	7.5	179.9	10.4
January	124.7	13.8	138.1	10.7	153.6	11.3	164.0	6.8	180.1	9.8
February	125.2	13.2	139.0	11.0	153.0	10.2	163.8	7.0	180.3	10.1
March	126.1	12.9	138.6	10.0	153.3	10.7	164.1	7.0	180.9	10.2
April	127.2	11.6	139.6	9.8	154.4	10.6	166.0	7.5	181.7	9.5
May	129.8	12.4	141.3	8.9	154.5	9.5	168.0	8.7	182.6	8.7
June	131.6	12.0	142.4	8.2	154.8	8.8	170.2	9.9	184.2	8.2
July	132.8	11.1	144.7	9.0	158.6	9.6	176.8	11.5		
Average	**127.2**	**12.6**	**139.4**	**9.6**	**152.7**	**9.6**	**165.4**	**8.3**	* **180.9**	* **10.1**

* Average of Eleven Months

Table 5
Monetary Survey

(Rs. in million)

Monetary Aggregates	2011 Jul	2012 Jun	2012 Jul (p)	2013 Jun (e)	Changes during eleven months			
					2011/12		2012/13	
					Amount	Percent	Amount	Percent
1. Foreign Assets, Net	221265.54	370832.43	383772.14	447649.87	115758.35 1/	52.3	52686.48 2/	13.7
1.1 Foreign Assets	284110.20	442210.99	455976.82	530804.32	158100.79	55.6	74827.50	16.4
1.2 Foreign Liabilities	62844.66	71378.56	72204.68	83154.45	8533.90	13.6	10949.78	15.2
a. Deposits	52336.42	59492.00	60465.59	71665.00	7155.58	13.7	11199.41	18.5
b. Other	10508.24	11886.56	11739.08	11489.45	1378.32	13.1	-249.63	-2.1
2. Net Domestic Assets	700054.58	715620.53	746530.15	803459.12	49374.49 1/	7.1	68120.22 2/	9.1
2.1 Domestic Credit	910224.89	967551.16	994691.47	1103281.23	57326.27	6.3	108589.76	10.9
a. Net Claims on Government	163439.37	136023.86	162882.05	111010.62	-27415.51	-16.8	-51871.43	-31.8
Claims on Government	163439.37	165701.88	165254.85	155863.07	2262.51	1.4	-9391.78	-5.7
Government Deposits	0.00	29678.02	2372.80	44852.45	29678.02		42479.65	1790.3
b. Claims on Non-Financial Government Enterprises	6376.41	9233.96	10099.42	10855.86	2857.55	44.8	756.44	7.5
c. Claims on Financial Institutions	13086.68	10944.95	11884.15	14615.20	-2141.72	-16.4	2731.04	23.0
Government	2226.28	1210.18	1275.98	1191.09	-1016.10	-45.6	-84.90	-6.7
Non-government	10860.40	9734.77	10608.17	13424.11	-1125.62	-10.4	2815.94	26.5
d. Claims on Private Sector	727322.44	811348.39	809825.85	966799.55	84025.96	11.6	156973.70	19.4
2.2 Net Non-Monetary Liabilities	210170.32	251930.63	248161.32	299822.11	7951.78 1/	3.8	40469.54 2/	16.3
3. Broad Money (M2)	921320.12	1086452.96	1130302.29	1251108.99	165132.84	17.9	120806.69	10.7
3.1 Money Supply (M1+)	622325.94	747149.16	789269.29	884591.73	124823.22	20.1	95322.43	12.1
a. Money Supply (M1)	222351.39	245892.23	263705.70	293220.15	23540.84	10.6	29514.45	11.2
Currency	141931.48	166115.50	170491.69	189316.86	24184.02	17.0	18825.18	11.0
Demand Deposits	80419.86	79776.88	93214.01	103903.27	-642.98	-0.8	10689.26	11.5
b. Saving and Call Deposits	399974.55	501256.93	525563.59	591371.58	101282.39	25.3	65807.99	12.5
3.2 Time Deposits	298994.17	339303.79	341033.00	366517.26	40309.62	13.5	25484.26	7.5
4. Broad Money Liquidity (M3)	973656.54	1145944.96	1190767.89	1322773.99	172288.42	17.7	132006.10	11.1

1/ Adjusting the exchange valuation gain of Rs. 33808.5 million

2/ Adjusting the exchange valuation loss of Rs. 11191.3 million

e = estimates, p = provisional

Table 6

Structure of Interest Rates

(percent per annum)

Year Mid-month	2012 Jul	2012 Oct	2013 Jan	2013 Apr	2013 Jul
A. Policy Rates					
CRR					
Commercial Banks	5.0	6.0	6.0	6.0	6.0
Development Banks	5.0	5.5	5.5	5.5	5.5
Finance Companies	5.0	5.0	5.0	5.0	5.0
Bank Rate	7.0	8.0	8.0	8.0	8.0
Refinance Rates Against Loans to:					
Special Refinance	1.5	1.5	1.5	1.5	1.5
General Refinance	7.0	6.0	6.0	6.0	6.0
Export Credit in Foreign Currency	LIBOR+0.25	LIBOR+0.25	LIBOR+0.25	LIBOR+0.25	LIBOR+0.25
Standing Liquidity Facility (SLF) Rate ^		8.0	8.0	8.0	8.0
Standing Liquidity Facility (SLF) Penal Rate#	3.0				
B. Government Securities					
T-bills* (28 days)	0.10	0.12	0.26	4.81	0.55
T-bills* (91 days)	1.15	0.31	1.52	3.49	1.19
T-bills* (182 days)	1.96	0.53	2.12	3.73	1.60
T-bills* (364 days)	2.72	0.93	2.26	4.04	2.71
Development Bonds	5.0-9.5	5.0-9.5	5-9.5	5-9.5	5-9.5
National/Citizen SCs	6.0-10.0	6.0-10.0	6.0-10.0	6.0-10.0	6.0-10.0
C. Interbank Rate of Commercial Banks	**0.86**	**0.33**	**0.71**	**3.78**	**0.86**
D. Weighted Average Deposit Rate (Commercial Banks)	**6.17**	**4.14**	**5.23**	**5.08**	**5.2****
E. Weighted Average Lending Rate (Commercial Banks)	**12.40**	**12.94**	**12.65**	**12.05**	**12.3****
F. Base Rate (Commercial Banks)$	**-**	**-**	**9.38**	**9.58**	**9.8****

^ The SLF rate is fixed as same as bank rate effective from August 16, 2012

\# The SLF rate is determined at the penal rate added to the weighted average discount rate of 91-day Treasury Bills of the

* Weighted average interest rate.

** Mid-Jun, 2013

$ Base has been compiled since January 2013

Table 7

Government Budgetary Operation+

(On Cash Basis)

(As of 5 July, 2013)

(Rs. in million)

Heads	2010/11	2011/12	2012/13P	Percent changes	
				2011/12	2012/13
Sanctioned Expenditure	**258764.80**	**294447.90**	**288277.70**	**13.8**	**-2.1**
Recurrent		224502.20	214398.10	-	-4.5
Capital		37793.70	31387.40	-	-17.0
a.Domestic Resources & Loans		34361.50	27251.50	-	-20.7
b.Foreign Grants		3432.20	4135.90	-	20.5
Financial*		32152.00	42492.20	-	32.2
a.Domestic Resources & Loans		31579.50	42012.80	-	33.0
b.Foreign Grants		572.50	479.40	-	-16.3
Unspent Government Balance	**18105.30**	**15673.00**	**1927.60**	**-13.4**	**-87.7**
Recurrent		9660.70	1276.20	-	-86.8
Capital		4975.30	651.40	-	-86.9
Financial		1037.00	0.00	-	-
Actual Expenditure of Budget	**240659.50**	**278774.90**	**286350.10**	**15.8**	**2.7**
Recurrent		214841.50	213121.90	-	-0.8
Capital		32818.40	30736.00	-	-6.3
Financial		31115.00	42492.20	-	36.6
Expenditure from Freeze Accounts	**6557.90**	**4822.10**	**12115.60**	**-26.5**	**151.3**
Freeze-1 Recurrent		1452.50	3421.00	-	135.5
Freeze-2 Capital		3369.60	2976.80	-	-11.7
Freeze-3 Financial		**0.00**	5717.80	-	-
Total Expenditure	**247217.40**	**283597.00**	**298465.70**	**14.7**	**5.2**
Total Resources	**216827.70**	**277976.10**	**309094.90**	**28.2**	**11.2**
Revenue and Grants		267085.90	299459.40	-	12.1
Revenue		225065.00	273075.50	-	21.3
Foreign Grants		42020.90	26383.90	-	-37.2
Non-Budgetary Receipts,net		3752.20	2604.10	-	-30.6
Others		149.90	96.30	-	-35.8
V. A. T. Fund Account		1276.40	1416.70	-	845.1
Custom Fund Account		322.00	143.20		-88.8
Local Authorities' Account (LAA)#		5389.70	5375.20	-	1569.3
Deficits(-) Surplus(+)	**-30389.70**	**-5620.90**	**10629.20**	**-81.5**	**-289.1**
Sources of Financing	**30389.70**	**5620.87**	**-10629.20**	**-81.5**	**-289.1**
Internal Loans	25869.10	618.17	-20912.50	-97.6	-3483.0
Domestic Borrowings	22003.40	36409.97	12000.00	65.5	-
Treasury Bills	*10000.00*	*17283.40*	*12000.00*	72.8	-
Development Bonds	*8000.00*	*14000.00*	*0.00*	75.0	-
National Savings Certificates	*4000.00*	*5000.00*	*0.00*	25.0	-
Citizen Saving Certificates	*3.40*	*126.57*	*0.00*	-	-
Overdrafts ++	4639.10	-38655.70	-32715.80	-933.3	-15.4
Others @	-773.40	2863.90	-196.70	-470.3	-106.9
Principle Refund and Share Divestment	0.00	174.70	561.10		221.2
Foreign Loans	4520.60	4828.00	9722.20	6.8	101.4

\+ Based on data reported by 8 offices of NRB, 66 out of total 66 branches of Rastriya Banijya Bank Limited, 39 out of total 44 branches of Nepal Bank Limited, 5 branches of Everest Bank Limited and 1-1 branch each from Nepal Bangladesh Bank Limited and Global Bank Limited conducting government transactions.

* Includes internal loan, external borrowing and investment.

\# Change in outstanding amount disbursed to VDC/DDC remaining unspent.

++ Minus (-) indicates surplus.

@ Interest from Government Treasury transactions and others.

P Provisional.

Note: Government budgetary operations have been reported as per the Government Finance Statistics, 2001 from the fiscal year 2011/12 that may not be consistent with the previous reporting.

Table 8

Direction of Foreign Trade+

(Rs. in million)

	2009/10 Annual	2010/11 Annual	2011/12 Annual	2010/11	2011/12*	2012/13*	Percent change 2011/12*	Percent change 2012/13*
Total Exports	**60824.0**	**64338.50**	**74261.00**	**57778.70**	**67214.50**	**69926.56**	**16.3**	**4.0**
To India	39993.7	43360.40	49616.30	38791.30	45258.20	46434.87	16.7	2.6
To Other Countries	20830.3	20978.10	24644.70	18987.40	21956.30	23491.69	15.6	7.0
Total Imports	**374335.2**	**396175.50**	**461667.70**	**359333.30**	**419573.80**	**508600.08**	**16.8**	**21.2**
From India	217114.3	261925.20	299389.60	239688.40	272262.00	335731.21	13.6	23.3
From Other Countries	157220.9	134250.30	162278.10	119644.90	147311.80	172868.87	23.1	17.3
Total Trade Balance	**-313511.2**	**-331837.00**	**-387406.70**	**-301554.60**	**-352359.30**	**-438673.52**	**16.8**	**24.5**
With India	-177120.6	-218564.80	-249773.30	-200897.10	-227003.80	-289296.35	13.0	27.4
With Other Countries	-136390.6	-113272.20	-137633.40	-100657.50	-125355.50	-149377.18	24.5	19.2
Total Foreign Trade	**435159.2**	**460514.00**	**535928.70**	**417112.00**	**486788.30**	**578526.64**	**16.7**	**18.8**
With India	257108.0	305285.60	349005.90	278479.70	317520.20	382166.08	14.0	20.4
With Other Countries	178051.2	155228.40	186922.80	138632.30	169268.10	196360.57	22.1	16.0
1. Export / Import Ratio	**16.2**	**16.2**	**16.1**	**16.1**	**16.0**	**13.7**		
India	18.4	16.6	16.6	16.2	16.6	13.8		
Other Countries	13.2	15.6	15.2	15.9	14.9	13.6		
2. Share in Total Export								
India	65.8	67.4	66.8	67.1	67.3	66.4		
Other Countries	34.2	32.6	33.2	32.9	32.7	33.6		
3. Share in Total Import								
India	58.0	66.1	64.8	66.7	64.9	66.0		
Other Countries	42.0	33.9	35.2	33.3	35.1	34.0		
4. Share in Trade Balance								
India	56.5	65.9	64.5	66.6	64.4	65.9		
Other Countries	43.5	34.1	35.5	33.4	35.6	34.1		
5. Share in Total Trade								
India	59.1	66.3	65.1	66.8	65.2	66.1		
Other Countries	40.9	33.7	34.9	33.2	34.8	33.9		
6. Share of Export and Import in Total Trade								
Export	14.0	14.0	13.9	13.9	13.8	12.1		
Import	86.0	86.0	86.1	86.1	86.2	87.9		

\+ On customs data basis

* Eleven months

Table 9

Balance of Payments Situation

(Rs. in million)

Particulars	2010/11		2011/12		2012/13	Percent change During eleven months	
	11 months	Annual	11 months	Annual	11 months	2011/12	2012/13
A. Current Account	**-14692.10**	**-12936.40**	**61560.80**	**75979.20**	**41555.34**	**-519.0**	**-32.5**
Goods: Exports f.o.b.	61706.00	68701.50	73904.00	81511.80	78115.80	19.8	5.7
Oil	0.00	0.00	0.00	0.00	0.00	-	-
Other	61706.00	68701.50	73904.00	81511.80	78115.80	19.8	5.7
Goods: Imports f.o.b.	-352419.20	-388371.40	-413195.60	-454653.10	-499904.90	17.2	21.0
Oil	-68167.70	-75076.20	-84455.50	-92255.60	-98055.50	23.9	16.1
Other	-284251.50	-313295.20	-328740.10	-362397.50	-401849.40	15.7	22.2
Balance on Goods	**-290713.20**	**-319669.90**	**-339291.60**	**-373141.30**	**-421789.10**	**16.7**	**24.3**
Services: Net	**-8692.80**	**-8674.60**	**14231.20**	**14057.00**	**7151.60**	**-263.7**	**-49.7**
Services: credit	47412.80	53012.50	63840.40	72351.50	86708.70	34.6	35.8
Travel	22917.30	24610.70	28757.50	30703.80	31563.30	25.5	9.8
Government n.i.e.	5182.10	5534.60	8287.00	10071.40	16920.60	59.9	104.2
Other	19313.40	22867.20	26795.90	31576.30	38224.80	38.7	42.7
Services: debit	-56105.60	-61687.10	-49609.20	-58294.50	-79557.10	-11.6	60.4
Transportation	-16293.90	-18604.70	-19421.10	-22292.30	-30312.30	19.2	56.1
Travel	-25502.10	-27642.90	-21046.30	-25769.70	-36199.10	-17.5	72.0
O/W Education	-6680.10	-7166.70	-5745.70	-6371.70	-8599.50	-14.0	49.7
Government services:debit	-1113.50	-1154.60	-1403.10	-1566.40	-1062.60	26.0	-24.3
Others	-13196.10	-14284.90	-7738.70	-8666.10	-11983.10	-41.4	54.8
Balance on Goods and Services	**-299406.00**	**-328344.50**	**-325060.40**	**-359084.30**	**-414637.50**	**8.6**	**27.6**
Income: Net	**5818.50**	**7549.40**	**9565.00**	**12291.40**	**9693.94**	**64.4**	**1.3**
Income: credit	14624.00	17504.00	19142.70	22521.30	19483.24	30.9	1.8
Income: debit	-8805.50	-9954.60	-9577.70	-10229.90	-9789.30	8.8	2.2
Balance on Goods, Services and Income	**-293587.50**	**-320795.10**	**-315495.40**	**-346792.90**	**-404943.56**	**7.5**	**28.4**
Transfers: Net	**278895.40**	**307858.70**	**377056.20**	**422772.10**	**446498.90**	**35.2**	**18.4**
Current transfers: credit	281848.20	311156.70	381636.60	427805.70	453551.20	35.4	18.8
Grants	24466.20	25780.00	32293.10	36227.10	31211.00	32.0	-3.4
Workers' remittances	229524.20	253551.60	320379.80	359554.40	388462.30	39.6	21.3
Pensions	25553.20	28993.40	25774.00	28343.60	32898.60	0.9	27.6
Other (Indian Excise Refund)	2304.60	2831.70	3189.70	3680.60	979.30	38.4	-69.3
Current transfers: debit	-2952.80	-3298.00	-4580.40	-5033.60	-7052.30	55.1	54.0
B **Capital Account (Capital Transfer)**	**14395.20**	**15906.10**	**15151.70**	**18241.70**	**9238.90**	**5.3**	**-39.0**
Total, Groups A plus B	**-296.90**	**2969.70**	**76712.50**	**94220.90**	**50794.24**	**-25937.8**	**-33.8**
C Financial Account (Excluding Group E)	**970.54**	**3212.54**	**28350.70**	**28912.80**	**10100.40**	**2821.1**	**-64.4**
Direct investment in Nepal	6058.10	6437.10	8069.00	9195.40	6689.80	33.2	-17.1
Portfolio Investment	0.00	0.00	0.00	0.00	0.00	-	-
Other investment: assets	-22258.26	-25762.16	-11734.50	-15719.60	-20301.70	-47.3	73.0
Trade credits	-4824.50	-6133.40	-3991.20	-5137.40	-4560.50	-17.3	14.3
Other	-17433.76	-19628.76	-7743.30	-10582.20	-15741.20	-55.6	103.3
Other investment: liabilities	17170.70	22537.60	32016.20	35437.00	23712.30	86.5	-25.9
Trade credits	18756.00	18292.50	25197.80	26442.30	13439.70	34.3	-46.7
Loans	-2141.90	2612.00	-239.00	1036.80	-187.70	-88.8	-21.5
General Government	-2126.20	2631.60	-227.60	1047.60	-128.80	-89.3	-43.4
Drawings	8652.50	13849.20	10830.60	13445.30	13249.30	25.2	22.3
Repayments	-10778.70	-11217.60	-11058.20	-12397.70	-13378.10	2.6	21.0
Other sectors	-15.70	-19.60	-11.40	-10.80	-58.90	-27.4	416.7
Currency and deposits	155.10	1231.70	7545.70	8446.20	11510.30	4765.1	52.5
Nepal Rastra Bank	-44.50	-7.80	-37.20	37.00	-63.80	-16.4	71.5
Deposit money banks	199.60	1239.50	7582.90	8409.20	11574.10	3699.0	52.6
Other liabalities	401.50	401.40	-488.30	-488.30	-1050.00	-221.6	115.0
Total, Group A through C	**673.64**	**6182.24**	**105063.20**	**123133.70**	**60894.64**	**15496.3**	**-42.0**
D. **Miscellaneous Items, Net**	**1052.86**	**-860.84**	**18240.90**	**16939.10**	**3302.16**	**1632.5**	**-81.9**
Total, Group A through D	**1726.50**	**5321.40**	**123304.10**	**140072.80**	**64196.80**	**7041.9**	**-47.9**
E. Reserves and Related Items	**-1726.50**	**-5321.40**	**-123304.10**	**-140072.80**	**-64196.80**	**7041.9**	**-47.9**
Reserve assets	-1323.80	-4918.70	-122819.10	-139587.80	-63148.20	9177.8	-48.6
Nepal Rastra Bank	-8518.60	-9438.40	-116891.40	-134787.00	-37986.40	1272.2	-67.5
Deposit money banks	7194.80	4519.70	-5927.70	-4800.80	-25161.80	-182.4	324.5
Use of IMF's Credit and Loans	**-402.70**	**-402.70**	**-485.00**	**-485.00**	**-1048.60**	**20.4**	**116.2**
Changes in reserve, net (- increase)*	**-1571.40**	**-4089.70**	**-115758.40**	**-131626.60**	**-52686.50**	**7266.6**	**-54.5**

P - Povisional

Table 10

Gross Foreign Exchange Holding of the Banking Sector

(Rs. in million)

Particulars	2010 Mid-Jul	2011 Mid-Jun	2011 Mid-Jul	2012 Mid-Jun	2012 Mid-Jul	2013 Mid-Jun[E]	Percent Change Mid-Jul to Mid-Jun 2011/12	2012/13
Nepal Rastra Bank	**205371.33**	**213538.60**	**213095.10**	**361954.30**	**375524.50**	**422517.70**	**69.9**	**12.5**
Convertible	165992.71	172872.70	165257.55	272666.63	285681.86	314960.51	65.0	10.2
Inconvertible	39378.62	40665.90	47837.55	89287.67	89842.64	107557.19	86.6	19.7
Banks and Financial Institutions	**63517.40**	**56386.30**	**59058.00**	**65059.00**	**63932.20**	**89175.60**	**10.2**	**39.5**
Convertible	58203.80	53238.60	55503.30	56846.00	57144.00	83127.30	2.4	45.5
Inconvertible	5313.60	3147.70	3554.70	8213.00	6788.20	6048.30	131.0	-10.9
Total Reserve	**268888.73**	**269924.90**	**272153.10**	**427013.30**	**439456.70**	**511693.30**	**56.9**	**16.4**
Convertible	224196.51	226111.30	220760.85	329512.63	342825.86	398087.81	49.3	16.1
Share in total (in percent)	83.38	83.77	81.12	77.17	78.01	77.80	-	-
Inconvertible	44692.22	43813.60	51392.25	97500.67	96630.84	113605.49	89.7	17.6
Share in total (in percent)	16.62	16.23	18.88	22.83	21.99	22.20	-	-
Import Capacity (Equivalent Months)								
Merchandise	8.70	8.43	8.41	11.37	11.60	11.26	-	-
Merchandise and Services	7.35	7.27	7.26	10.15	10.28	9.71	-	-
1. Gross Foreign Exchange Reserve	268888.73	269924.90	272153.10	427013.30	439456.70	511693.30	56.9	16.4
2. Gold, SDR, IMF Gold Tranche	9634.80	12068.80	11957.00	7428.10	16520.18	19111.00	10.4	15.7
3. Gross Foreign Assets(1+2)	278523.50	281993.70	284110.10	434441.40	455976.88	530804.30	55.8	16.4
4. Foreign Liabilities	61998.40	61904.65	62844.50	71378.50	72204.60	83154.20	13.6	15.2
5. Net Foreign Assets(3-4)	216525.10	220089.10	221265.60	363062.90	383772.28	447650.10	68.1	16.6
6. Change in NFA (before adj. ex. val.)*	11002.20	-3564.00	-4740.50	-147023.70	-162506.65	-63877.82	-	-
7. Exchange Valuation (- loss)	-7891.90	1992.60	650.80	33808.50	30880.00	11191.30	-	-
8. Change in NFA (- increase) (6+7)**	**3110.30**	**-1571.40**	**-4089.70**	**-113215.20**	**-131626.65**	**-52686.52**	**-**	**-**
Period end buying rate (Rs/US$):	**74.44**	**71.49**	**70.95**	**88.60**	**88.60**	**92.72**	**-**	**-**

E - Estimated.

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

** After adjusting exchange valuation gain/loss.