NEPAL RASTRA BANK

ECONOMIC REPORT

2004/05

NEPAL RASTRA BANK

ECONOMIC REPORT

2004/05

Published By:
Nepal Rastra Bank
Central Office
Research Department
Statistics Division
Baluwatar, Kathmandu
NEPAL
Telephone: 4419804, 4419805, Ext. 357
Web Site: http://www.nrb.org.np
E-mail: **statistics@nrb.org.np**

Acronyms Used

ACU	Asian Clearing Union
ADB	Asian Development Bank
ADB/N	Agricultural Development Bank of Nepal
AIC	Agriculture Input Company
APP	Agricultural Perspective Plan
BAFIO	Banks and Financial Institution Ordinance
BIMST-EC	Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation
BOKL	Bank of Kathmandu Limited
BOP	Balance of Payments
CAD	Cash Against Document
CIT	Citizen Investment Trust
COE	Committee of Experts
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CRRDB	Central Region Rural Development Bank
DBs	Development Bonds
DFID	Department for International Development (UK)
DICGC	Deposit Insurance and Credit Guarantee Corporation
EBL	Everest Bank Limited
EPF	Employees Provident Fund
ERRDB	Eastern Region Rural Development Bank
EU	European Union
FINCOOPs	Financial Cooperatives
FINGOs	Financial Non-governmental Organization
FSRP	Financial Sector Reform Program
FTA	Free Trade Agreement
FWRRDB	Far-western Region Rural Development Bank
GDP	Gross Domestic Products
GNDI	Gross National Disposable Income
GWH	Giga Watt Hours
HBL	Himalayan Bank Limited
HMG	His Majesty's Government
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
INGO	International Non-governmental Organizations
IT	Information Technology
JEMC	Janak Education Material Centre
KBL	Kumari Bank Limited
L/C	Letter of Credit
LBL	Lumbini Bank Limited
LDCs	Least-developed Countries

Ll	Liquidity Liabilities
LMFF	Liquidity Monitoring and Forecasting Framework
LPG	Liquefied Petroleum Gas
M_1	Narrow Money Supply
M_2	Broad Money Supply
MBL	Machhapuchchhre Bank Limited
MFA	Multi-fibre Arrangement
MT	Metric Tons
MWRRDB	Mid-western Region Rural Development Bank
NABL	Nabil Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NBFIs	Non-bank Financial Institutions
NBL	Nepal Bank Limited
NCCBL	Nepal Credit and Commerce Bank Limited
NEPSE	Nepal Stock Exchange
NFA	Net Foreign Assets
NGOs	Non-governmental Organizations
NIBL	Nepal Investment Bank Limited
NICBL	Nepal Industrial and Commercial Bank Limited
NIDC	Nepal Industrial Development Corporation
NOC	Nepal Oil Corporation
NPA	Non Performing Assets
NRB	Nepal Rastra Bank
NSBIBL	Nepal SBI Bank Limited
NTL	National Trading Limited
OBIs	Other Banking Institutions
ODBs	Other Development Banks
ODIs	Other Deposit Taking Institutions
OMOs	Open Market Operations
RBB	Rastriya Banijya Bank
RDBs	Rural Development Banks
RMDC	Rural Microfinance Development Bank
RNAC	Royal Nepal Airlines Corporation
Rs	Rupees
SAFTA	South Asian Free Trade Area
SBL	Siddhartha Bank Limited
SCBNL	Standard Chartered Bank Nepal Limited
SDR	Special Drawing Rights
SFCL	Small Farmers' Cooperative Limited
SFDB	Small Farmers' Development Bank
SITC	Standard International Trade Classification
SLF	Standing Liquidity Facility
TBs	Treasury Bills
TNC	Trade Negotiating Committee
US$	US Dollar
VAT	Value Added Tax

VDC	Village Development Committee
VRS	Voluntary Retirement Scheme
WRRDB	Western Region Rural Development Bank
WTO	World Trade Organization
y-o-y	Year-on-Year

Table of Contents

		Page
1.	**World Economic and Financial Development**	**1**
2.	**An Overview of Macro Economic Situation**	**4**
3	**Real Sector Growth**	**6**
	Overall Economic Growth	6
	Agricultural Production	9
	Food Grains	9
	Cash Crops	9
	Other Crops	9
	Livestock	10
	Fishery and Forestry	10
	Area under Principal Food Grains and Cash Crops	10
	Productivity of Principal Crops	11
	Livestock Population	11
	Irrigation and Agricultural Inputs	11
	Market Prices of Chemical Fertilizers and Food Grains	12
	Manufacturing	12
	Tourism	13
	Imports and Sales of Petroleum Products	13
	Electricity	13
4.	**Inflation**	**14**
	Consumer Inflation	14
	Seasonal Price Movement	15
	Price Movement of Sub-groups of Commodities	15
	Wholesale Price Inflation	16
	Wholesale Price Indices of Some Important Commodities	17
	Food Grains	17
	Cash Crops	17
	Construction Material	17
	Petroleum Products and Coal	18
	Transport Vehicles and Machinery Goods	18
	Wages	18
5.	**Fiscal Sector Development**	**19**
	Budget 2004/05	19
	Fiscal Stance	20
	Resource Mobilization	21

Revenue 22
Tax Revenue 22
Non-tax Revenue 24
Foreign Grant 24
Expenditure and Investment 24
Outstanding Public Debt 25
Ownership Pattern of Internal Debt 26
Budget Estimates 26
6. External Sector Development 31
Developments and Policy Update in International Trade and Payments 31
Merchandise Trade 35
Balance of Payments 39
Income and Expenditure of Convertible Foreign Exchange 40
Foreign Assets and Liabilities of the Banking System 41
Foreign Aid Agreements 42
Transaction with the IMF 43
IMF Liabilities 43
Transaction under Asian Clearing Union 43
7. Monetary Policy 44
Overview 44
Objectives and Stance 44
Monetary Policy Framework 44
Monetary Measures and Liquidity Management 47
Bank Rate 47
Cash Reserve Ratio 47
Sick Industry Refinancing 48
Primary Issuance of Development Bonds 48
Conversion of Special Bonds into Treasury Bills 48
Foreign Exchange Intervention 49
Open Market Operations 49
Standing Liquidity Facility 50
Moral Suasion 50
Outcome of Monetary Policy 50
Monetary Aggregates 51
Banking Survey 51

8. Money Market and Financial Market **53**
Money Market Indicators 53
Stock Market 54
Primary Issue of Securities 54
Secondary Stock Market Development 54
Financial Structure of Nepal 55
Other Banking and Non-Bank Financial Institutions 55
Sources and Uses of Funds of OBIs 56
Agricultural Development Bank 56
Sources and Uses of Funds of ADB/N 57
Nepal Industrial Development Corporation 58
Other Development Banks 58
Sources and Uses of Funds of ODBs 58
Rural Development Banks 59
Sources and Uses of Funds of Rural Development Banks 59
Finance Companies 60
Sources and Uses of Funds of Finance Companies 60
Financial Cooperatives 61
Sources and Uses of Funds of FINCOOPs 61
Non-Governmental Organizations 62
Sources and Uses of Funds of FINGOs 62
Non-Bank Financial Institutions 62
Insurance Companies 62
Sources and Uses of Funds of Insurance Companies 63
Deposit Insurance and Credit Guarantee Corporation 63
Employees Provident Fund 64
Citizen Investment Trust 64
Sources and Uses of Funds of CIT 64
9. Performance of Commercial Banks **66**
Number of Banks 66
Deposit Mobilization 66
Paid up Capital and Reserve Fund 68
Loan and Advances 68
Sector-wise and Security-wise Outstanding Credit 69
Non-performing Assets 70
Priority Sector and Deprived Sector Lending of Commercial Banks 71

10. Financial Sector Reforms, Regulatory and Supervisory Measures **72**
Strengthening of NRB 72
Restructuring of RBB and NBL 73
Profitability 73
Recovery of NPL 73
Downsizing and Computerization 73
Issuance and Amendment of Regulations and Directives 73
Inspection and Supervision of Banks and Financial Institutions 74
11. Micro Finance **76**
Production Credit for Rural Women 76
Micro Credit Project for Women 76
Western Terai Poverty Alleviation Project 76
Community Groundwater Irrigation Sector Project 77
Rural Self-Reliance Fund 77
Third Livestock Development Project 78
Revolving Line of Credit Facility to RDBs 78

Text Tables

Table 1.1 Overview of the World Economic Outlook Projection 3
Table 3.1 Composition of GDP at Factor Cost 7
Table 5.1 Structure of Tax 30
Table 7.1 Bank Rate and Refinance Rates in 2004/05 47
Table 7.2 Bank Rate in Selected Countries 47
Table 7.3 CRR in Some Selected Countries 48
Table 7.4 Primary Issuance of 5-year Development Bonds Through Auction 48
Table 7.5 Foreign Exchange Intervention 49
Table 7.6 Open Market Operations in 2004/05 50
Table 7.7 Inflation and Balance of Payments in 2004/05 (Target Vs Actual) 51
Table 7.8 Performance of Monetary Aggregate 51
Table 9.1 Number of Commercial Bank Branches in Operations 66
Table 9.2 Share of Individual Commercial Banks in Total Deposit 68
Table 9.3 Banks which increased the paid-up capital in 2004/05 68
Table 9.4 Sector wise Outstanding Credit of Commercial Banks 69
Table 9.5 Security-wise Outstanding Credit of Commercial Banks 70
Table 9.6 Non-performing Loans in Percent of Total Loans 70

Text Boxes

Box 3.1	Potential Output	6
Box 3.2	Resource Available for Domestic Absorption	8
Box 5.1	Value Added Tax	23
Box 6.1	WTO and Nepal's Commitments	31
Box 6.2	Can South Asia Follow the EU Model ?	32
Box 6.3	Export of Readymade Garments and Carpets to Overseas	36
Box 6.4	Foreign Employment and Worker's Remittances	40
Box 7.1	Applicability of Inflation Targeting Framework in Nepal	45
Box 7.2	Liquidity Monitoring and Forecasting Framework	46

Text Chart

Chart 7.1	Monetary Policy Framework in Operation	45

Figures

Figure 3.1	Gross Domestic Saving and Investment	8
Figure 4.1	Annual Inflation	14
Figure 4.2	Seasonal Price Movement	15
Figure 4.3	National Wholesale Price Index	17
Figure 5.1	Government Budgetary Operations for 2004/05	20
Figure 5.2	Budgeted Deficit Financing for 2004/05	21
Figure 5.3	Revenue and Grants	21
Figure 5.4	Trend of Government Revenue	22
Figure 5.5	Recurrent vs. Capital Expenditures	25
Figure 5.6	Total Expenditures	25
Figure 5.7	Composition of Recurrent Expenditures	27
Figure 5.8	Composition of Capital Expenditures	28
Figure 6.1	Total Foreign Trade	35
Figure 6.2	Trade with India	35
Figure 6.3	Trade with Other Countries	35
Figure 6.4	Major Exports to Other Countries	37
Figure 6.5	Foreign Exchange Reserves	41
Figure 8.1	Money Market Interest Rates	53
Figure 9.1	Structure of Commercial Bank Deposits	67

1

World Economic and Financial Development

1.1 The world output growth was 5.1 percent in 2004 and was projected to remain at 4.3 percent for 2005. Following a temporary slow down in mid-2004, global GDP growth picked-up in the first quarter of 2005. Despite the slower growth in the manufacturing and trade sectors, robust growth registered in the services sector largely contributed to the pick–up in the world output growth. However, in the second quarter, the higher oil prices and signs of renewed "soft patch" led major indicators downward and weakened the business confidence in most major countries.

1.2 The GDP growth in the United States was 4.2 percent and was projected to remain moderate at 3.5 percent in 2005. In E*uro area*, the recovery in domestic demand in the second half of 2004 slowed considerably registering GDP growth at 2.0 percent in 2004, while the projected growth for 2005 was 1.2 percent. In contrast, Japan's economy regained with GDP growth of 2.7 percent in 2004 and was expected to average at 2.0 percent in 2005.

1.3 In emerging Asia, GDP growth in China continued to exceed expectations. Growth in India also remained robust with the continued expansion in services, including information technology, and accelerating industrial production. The GDP growth remained at 7.3 percent in 2004 and was projected to grow by 7.1 percent in 2005.

1.4 The GDP growth in South Asia remained well above 7.0 percent in 2004 and was projected to grow by almost same percent in 2005. Such an encouraging growth achieved by South Asian economies was mainly contributed by India, Pakistan and Bangladesh.

1.5 Oil prices continued to rise in the review period. Despite the increase in quota by OPEC, the short run supply uncertainties persisted primarily caused by the damage on the US oil refinery by Hurricane Katrina. The recent price pressure also reflected growing concerns about future tightness in oil markets.

1.6 The World trade volume increased substantially by 10.3 percent in 2004 and was projected to grow by 7.0 percent in 2005. Emerging markets and developing countries dominated over the advanced economies in world trade. The growth of 16.4 percent and 14.5 percent of import and export respectively in the emerging markets and developing

economies remained impressive in 2004 and were expected to lead further over the advanced economies.

1.7 Consumer price index (CPI) increased by 2.0 percent in advanced economies and 5.8 percent in other emerging market and developing countries in 2004. In response to the higher oil prices, the CPI was projected to grow by 2.2 percent and 5.9 percent respectively in advanced and other emerging and developing economies in 2005. The consumer inflation in South Asia also picked up to 4.7 percent in 2005 from 4.3 percent in 2004.

1.8 The net private capital flows in emerging and developing countries recorded US$ 232.0 billion in 2004 and was estimated to remain at US$ 132.9 billion in 2005.

1.9 Unemployment remained high in advanced economies including the United States and the Euro area compared to the newly industrialized Asian economies in 2004. The unemployment rate stood at 5.5 percent in the United States and 8.9 percent in the Euro area, while the rate remained at 4.1 percent in newly industrialized Asian economies in 2004. The unemployment rate was projected at 6.1 percent and 4.0 percent in 2005 in advanced and newly industrialized Asian economies respectively.

1.10 In Japan, fiscal imbalance remained at 7.2 percent of GDP in 2004. The net debt as percent of GDP stood at 103.0 percent in Italy followed by Japan (82.1 percent), Euro area (60.4 percent) and the Germany (61.1 percent) in 2004.

Table 1.1 : Overview of the World Economic Outlook Projections

(Annual percent change unless otherwise noted)

			Current Projections	
	2003	**2004**	**2005**	**2006**
1. World Output	**4.0**	**5.1**	**4.3**	**4.3**
Advanced economies	1.9	3.3	2.6	2.7
United States	2.7	4.2	3.5	3.3
Euro area	0.7	2.0	1.2	1.8
Japan	1.4	2.7	2.0	2.0
Newly industrialized Asian economies	3.1	5.6	4.0	4.7
Other emerging market and developing countries	6.5	7.3	6.4	6.1
Developing Asia	8.1	8.2	7.8	7.2
China	9.5	9.5	9.0	8.2
India	7.4	7.3	7.1	6.3
ASEAN-4	5.4	5.8	4.9	5.4
South Asia	7.1	7.1	7.0	6.3
2. World trade volume (goods and services)	**5.4**	**10.3**	**7.0**	**7.4**
Imports				
Advanced economics	4.1	8.8	5.4	5.8
Other emerging market and developing countries	11.1	16.4	13.5	11.9
Exports				
Advance economies	3.1	8.3	5.0	6.3
Other emerging market and developing countries	10.8	14.5	10.4	10.3
3. Commodity Price (US dollar)				
Oil	15.8	30.7	43.6	13.9
Non-fuel (average based on world commodity export weights)	6.9	18.5	8.6	-2.1
4. Consumer Prices				
Advanced economies	1.8	2.0	2.2	2.0
Other emerging market and developing countries	6.0	5.8	5.9	5.7
South Asia	3.9	4.3	4.7	5.6
5. Six-month London inter-bank offered rate (LIBOR, percent)				
On U.S. dollar deposits	1.2	1.8	3.6	4.5
On Euro deposits	2.3	2.1	2.1	2.4
On Japanese yen deposits	0.1	0.1	0.1	0.2

Source: World Economic Outlook, September 2005, International Monetary Fund, p.2, 15,32, 209 & 225

2

An Overview of Macroeconomic Situation

2.1 The performance of the Nepalese economy remained less than satisfactory in 2004/05. The actual economic growth remained below the targeted level. Unfavorable weather conditions coupled with uneasy security situation affected the economy unfavourably. As a result, GDP growth rate decelerated from the previous year's level. Tourism sector too continued to suffer because of internal as well as external disturbances.

2.2 Significant increase in oil prices in the international market, a rise in the prices of construction material and an upward revision of the VAT rate brought forth a pressure on general price level. However a sluggish aggregate demand stem staved off the inflationary pressures. As a result, consumer inflation witnessed a modest upsurge.

2.3 Monetary aggregates remained below the targeted level. The reduced growth of net foreign assets lowered the expansion of money supply.

2.4 The fiscal deficit expanded due mainly to a lower growth of resources in relation to total expenditures. The receipt of foreign grants lower than the budgeted slowered the growth of resources in relation of total expenditures.

2.5 The external sector displayed a mixed performance in 2004/05. Although there was a decline in overseas exports primarily emanating from the large decrease in readymade garments owing to the abolition of the multi-fibre arrangement (quota system) on January 1, 2005, total exports increased by 8.9 percent due to the impressive growth in exports to India. Total imports also increased by 9.7 percent due to the rise in imports from both India and overseas in comparison to the previous year. Trade deficit expanded by 10.2 percent due to the higher rate of growth of imports relative to exports. Despite the increase in workers' remittances by 11.9 percent in 2004/05, the current account recorded a lower surplus in comparison to that of 2003/04 because of the rise in trade deficit and decline in services income. Likewise, the balance of payments (BOP) also registered a lower surplus owing to the lower inflow of net government loans, among others. The total foreign exchanges reserves of the banking system stood at Rs. 129.9 billion in mid-July

2005, sufficient to cover merchandise imports of 11.8 months' and merchandise and service imports of 10.0 months.

2.6 The developments in the stock market remained satisfactory in 2004/05, during which 13 companies issued their primary shares amounting to Rs. 1.5 billion. The NEPSE index also increased significantly by 29.1 percent to 286.7 as at mid-July 2005, due to increase in workers' remittances, lack of alternative investment opportunities, low level of real interest rate and an increased profit levels of banks and financial institutions.

2.7 The number of companies listed in the NEPSE increased from 114 in 2003/04 to 125 in 2004/05. The paid up value of the listed shares rose by 39.6 percent in 2004/05. The average monthly turnover also rose by 110.2 percent to Rs. 375.6 million in 2004/05.

2.8 The market capitalization of listed share increased by 48.1 percent and stood at 11.6 percent of GDP in 2004/05.

2.9 In sum, the fiscal year 2004/05 was characterized by a decelerated rate of economic growth, pressure on prices and lower rate of monetary expansion. The expansion in fiscal deficit relating to the previous year albeit contained and a surplus in BOP also characterized the fiscal year 2005/06.

3

Real Sector

Overall Economic Growth

3.1 The performance of the Nepalese economy in terms of real GDP growth remained below the 10th plan's low case target of 4.3 percent in 2004/05 (Table 1). The real GDP increased by 2.7 percent to Rs. 320.7 billion at producers' prices and 2.3 percent to Rs. 295.8 billion at factor cost in 2004/05 compared to growths of 3.8 percent and 3.5 percent respectively in 2003/04. The actual growth rate remained below the potential output growth estimated on the basis of time tread.

Box 3.1: Potential Output

Measuring potential output provides a scope for sustainable non-inflationary growth. The level of potential output depends on the total factor productivity and the growth rates of physical capital and the potential labor force. There are some widely used methods to measure a country's potential output–statistical de-trending method and theory-based economic approach. In Nepal, potential output has not been estimated on the theoretical base such as production function approach. Using linear trend statistical method annual growth rate of 4.5 percent is estimated as the current level of potential output for Nepal. It is observed that the actual output growths in the last four years were below than the potential output. The regression result of potential output is given below:

$$y = 11.3 + 0.045\ t$$
$$(607.4)\quad (42.5)$$

Adjusted R-Squared = 0.984; D-W = 1.26; Sample period 1975–2005
The number within the parenthesis represents t-statistics
y = log of real gross domestic product at factor cost (1994/95 prices)
t = time trend

3.2 The growth rate of agricultural GDP dropped to 3.0 percent in 2004/05 from 3.9 percent in 2003/04. Likewise, the growth in non-agricultural GDP decelerated from 3.4 percent in 2003/04 to 2.1 percent in 2004/05.

3.3 Among the non-agricultural GDP components, electricity gas and water sub sector witnessed a higher growth of 6.1 percent followed by transport, communications and storage (5.3 percent); finance and real estate (4.3 percent); community and social services (3.6 percent); manufacturing (2.6 percent); and mining and quarrying (2.5 percent) in

2004/05. However, the construction and trade, restaurant and hotel sub-sectors registered a negative growth of 0.4 percent and 2.6 percent respectively in 2004/05.

3.4 Despite some improvements in manufacturing, electricity, gas and water, finance and real estate and community and social services sub-sectors, the negative growth of construction and trade, restaurant and hotel sub-sector together with the decelerated growth in agricultural sector largely contributed to the lower level of overall GDP growth rate in 2004/05. Unfavorable weather, low growth of government capital expenditure, negative growth of tourism earnings were the major underlying factors for such a lower GDP growth in 2004/05.

3.5 The contribution of agricultural sector to the real GDP remained at 39.1 percent while that of non-agriculture sector at 60.9 percent in 2004/05.

3.6 The nominal GDP increased by 7.4 percent to Rs. 533.6 billion at producers' prices and by 6.9 percent to Rs. 491.7 billion at factor cost in 2004/05. In 2003/04, such growth rates were 8.8 percent and 8.5 percent respectively. The growth of nominal agricultural and non-agricultural GDP at factor cost decelerated from 7.0 percent and 9.5 percent in 2003/04 to 6.1 percent and 7.7 percent respectively in 2004/05.

3.7 Grouping the GDP components under three broad headings, the growth rate of the primary sector with 38.7 percent share in the overall GDP declined from 3.8 percent in 2003/04 to 3.0 percent in 2004/05 (Table 3.1). Despite a marginal growth in mining and quarrying sector, slowdown in agriculture production due mainly to the unfavorable weather conditions led to a lower growth of primary sector. Likewise, the secondary sector, with 21.6 percent share in the GDP, registered a growth of 1.4 percent in 2004/05 compared to a growth of 1.0 percent in the previous year. Despite the higher growth rate attained in electricity, gas and water and manufacturing sub sectors, negative growth of construction sub-sector caused such a marginal increment in the secondary sector. The growth of tertiary sector with 38.6 percent weight in the GDP dropped to 2.4 percent in 2004/05 from 4.8 percent in 2003/04. Negative growth in trade, restaurant and hotels sub sector led to a deceleration in the growth of this sector.

Table 3.1 : Composition of GDP at Factor Cost (At 1994/95 Prices)

Sectors	% Share to GDP (2004/05)	2002/03	2003/04	2004/05[R]	2003/04	2004/05[R]
		Rs in million			Percentage Change	
Primary Sector	39.8	113072	117384	120867	3.8	3.0
Secondary Sector	21.6	64375	65075	65999	1.1	1.4
Tertiary Sector	38.6	110242	115564	118371	4.8	2.4
GDP at factor cost before deduction of bank service charges		287857	297231	303298	3.6	2.4
GDP at factor cost after deduction of bank service charges		279190	289073	295797	3.5	2.3

R = Revised estimate.
Source: Central Bureau of Statistics.

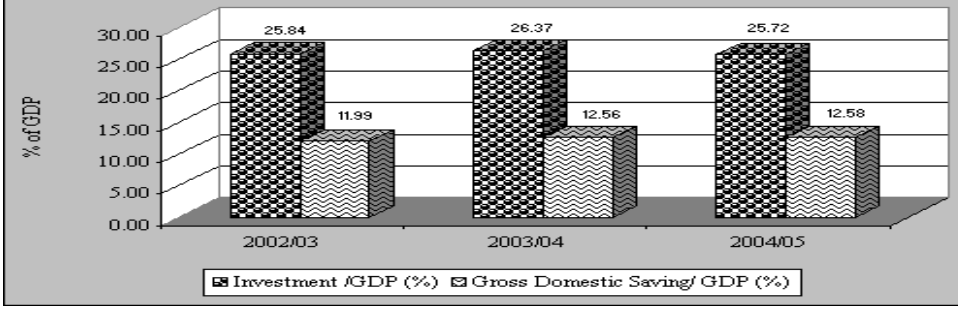
3.8 The demand side analysis of GDP reveals that the growth rate of domestic demand declined from 8.7 percent in 2003/04 to 6.8 percent in 2004/05 (Table 2). Of the total domestic demand, the growth of private sector consumption with 77.4 percent share in the total domestic demand dropped down to 7.0 percent in 2004/05 from 8.0 percent in 2003/04. Similarly, the growth rate of private sector investment dropped to 8.8 percent in 2004/05 compared to that of 13.1 percent in 2003/04. The private sector demand remained sluggish due to weakened business confidence resulting from internal and external shocks. The rate of expansion of public sector investment dropped to 0.2 percent in 2004/05 as against a rise of 2.6 percent in 2003/04. The growth rate of external demand for the Nepalese goods and services registered a negative growth of 4.7 percent in 2004/05 against a rise of 15.9 percent in 2003/04. Due to the phasing out of quota available for the export of readymade garment constituting about 30.9 percent of the total overseas exports of Nepal decreased by 35.9 percent together with the 42.3 percent decline in tourism earnings compressed the expansion of external demand for the Nepalese goods and services in 2004/05.

Box 3.2 : Resource Available for Domestic Absorption

Workers remittance has remained a major source of foreign exchange earnings and source for Nepalese household's spending. Workers remittance stood at Rs 65.4 billion, with 12.3 percent share in the GDP of 2004/05. Gross National Disposable Income (GNDI) captures the net factor income from abroad (Y_f) and net transfer from abroad (TR_f). Symbolically, it can be written as $GNDI = GDP + Y_f + TR_f$. In this context, GNDI could be an important policy variable in analyzing the behaviour of other macroeconomic variables. GNDI surged by 9.1 percent both in 2004/05 and 2003/04 compared to 8.6 percent increased in 2002/03.

3.9 The growth rate of total consumption decelerated to 7.4 percent in 2004/05 from 8.1 percent in 2003/04. The ratio of total consumption to GDP remained at 87.4 percent in 2004/05, the same level as in 2003/04. The gross domestic saving grew only by 7.6 percent to Rs. 67.1 billion in 2004/05 compared to a rise of 13.9 percent to Rs. 62.4 billion in 2003/04. Likewise, the growth rate of total investment declined substantially to 4.8 percent to Rs. 137.3 billion in 2004/05 from 15.5 percent in 2003/04. The investment to GDP ratio decreased 25.7 percent in 2004/05 from 26.4 percent in 2003/04.

Figure 3.1 : Gross Domestic Saving and Investment (as percent of GDP)



3.10 The real per capita GDP increased by 0.5 percent to Rs. 12657.0 in 2004/05 compared to a growth of 1.5 percent in 2003/04. Likewise, the nominal per capita GDP grew by 5.1 percent to Rs. 21093 compared to a growth of 0.4 percent in 2003/04.

Agricultural Production

3.11 The growth rate of agricultural production decreased from 3.9 percent in 2003/04 to 3.0 percent in 2004/05 (Table 3). The paddy with 19.8 percent weight in agricultural GDP witnessed a negative growth of 3.7 percent due mainly to the unfavourable weather conditions. Consequently, the overall production index of principal food grains posted a negative growth of 0.2 percent in 2004/05 as against a rise of 5.5 percent in 2003/04. However, the production index of cash crops registered a growth of 5.2 percent in 2004/05 the same rate as in 2003/04.

Food Grains

3.12 In the volume terms, the production of principal food grains in 2004/05 registered a growth of 0.3 percent compared to the 5.2 percent increase in 2003/04 (Table 4). The total production of principal food grains remained at 7767.5 thousand metric tons (MT) in 2004/05. The production of paddy decreased by 3.7 percent to 4289.8 thousand MT in 2004/05 compared to a rise of 7.8 percent in 2003/04. The maize production in 2004/05 increased by 7.9 percent to 1716 thousand MT compared to an increase of 1.3 percent in 2003/04. Similarly, the production of wheat increased by 4.0 percent in 2004/05 compared to an increase of 3.2 percent in 2003/04. The production of millet in 2004/05 posted a growth of 2.3 percent, while the barley production increased by 3.9 percent.

Cash Crops

3.13 The production of the principal cash crops comprising sugarcane, oil seeds, tobacco, jute and potato went up by 4.3 percent in 2004/05 compared to that of 2.0 percent in 2003/04.

3.14 In 2004/05, the production of sugarcane registered a satisfactory growth of 3.1 percent to 2376.1 thousand MT as against a negative growth of 1.6 percent in 2003/04. The production of Jute and Tobacco further decelerated by 8.9 percent and 4.1 percent in 2004/05 compared to 4.3 percent and 0.9 percent decline in 2003/04. Similarly, the production of oil seeds increased by 6.9 percent in 2004/05 compared to a growth of 6.4 percent in 2003/04. The growth rate of the production of potato decelerated from 7.3 percent in 2003/04 to 5.8 percent in 2004/05.

Other Crops

3.15 The production index of other agricultural crops like pulses, fruits and vegetables with about 21.6 percent weight in the total agricultural GDP, increased by 8.3 percent in 2004/05 compared to a growth of 3.5 percent in 2003/04. The production of fruits increased substantially by 8.1 percent to 552.9 thousand MT in 2004/05 as against a negative growth of 1.4 percent in 2003/04. Similarly, vegetables production grew by 9.3 percent to 2065.2 thousand MT in 2004/05 compared to a growth of 5.0 percent in 2003/04. However, the growth rate of the production of pulses dropped to 2.2 percent in

2004/05 compared to an increase of 3.3 percent in 2003/04. The production of pulses remained at 271.3 thousand MT in 2004/05 compared to 265.4 thousand MT in 2003/04.

Livestock

3.16 The livestock sector with 27.7 percent weight in the agricultural GDP witnessed some improvements in 2004/05 (Table 4). The production of milk and meat increased by 3.4 percent to 1274.2 thousand MT and 3.1 percent to 214.8 thousand MT in 2004/05 respectively. The growth rates of these sectors were 3.0 percent and 2.2 percent respectively in 2003/04. The growth rate of the production of eggs decelerated from 3.3 percent in 2003/04 to 2.5 percent in 2004/05.

Fishery and Forestry

3.17 The growth rate of the production of fishery decelerated to 6.3 percent to 42.5 thousand MT in 2004/05 compared to a growth of 9.4 percent to 39.9 percent in 2003/04. Likewise, the forestry sub sector witnessed a growth rate of 3.5 percent in 2004/05 compared to a growth of 2.5 percent in 2003/04.

Area under Principal Food Grains and Cash Crops

3.18 The total area cultivated under principal food grains and cash crops increased marginally by 12.4 thousand hectares to 3761.2 thousand hectares in 2004/05 from 3748.8 thousand hectares in 2003/04. Of the total cultivated area, the area under food grains increased by 8.3 thousand hectares to 3352.7 thousand hectares in 2004/05 from 3344.4 thousand hectares in 2003/04. Likewise, the cultivated area under cash crops increased by 4.1 thousands hectares to 408.5 thousand hectares in 2004/05 compared from 404.4 thousand hectares in 2003/04.

3.19 Among the food grains, the cultivated area under paddy declined by 1.1 percent in 2004/05 as against a rise of 1.0 percent in 2003/04. However, the cultivated area of maize, wheat and millet expanded by 1.9 percent, 1.7 percent and 0.1 percent respectively in 2004/05 which had posted a negative growth of 0.2 percent, 0.7 percent and 0.2 percent respectively in 2003/04. The cultivated area under barley further declined by 3.8 percent in 2004/05 compared to a decline of 0.3 percent in 2003/04. Among the principal cash crops, the cultivated area under Jute increased by 0.1 percent in 2004/05 which had decreased by 0.5 percent in 2003/04. Similarly, the area under potato and oil seeds registered a growth of 2.6 percent and 0.6 percent in 2004/05 compared to that of 2.0 percent and remained unchanged respectively in 2003/04. However, the cultivated area under tobacco and sugarcane further decreased by 11.6 percent and 0.6 percent respectively in 2004/05.

3.20 Of the total cultivated area under food grains and cash crops, about 89.0 percent area was covered by principal food grains and the rest by cash crops (Table 5). Of the total area under principal food grains, paddy occupied nearly 46.0 percent area in 2004/05.

Productivity of Principal Crops

3.21 The productivity of principal food grains remained the same while a marginal improvement was registered in the case of cash crops in 2004/05. The productivity of maize improved to 2.02 MT per hectare in 2004/05 from 1.91 MT in 2003/04. Likewise, the productivity of wheat, millet and barley went up marginally to 2.13 MT, 1.12 MT and 1.11 MT per hectare respectively in 2004/05, which were 2.09 MT, 1.10 MT and 1.09 MT per hectare respectively in 2003/04. However, the productivity of paddy dropped to 2.78 MT per hectare in 2004/05 from 2.86 MT per hectare in 2003/04.

3.22 The productivity of cash crops witnessed some improvements in 2004/05. Among the principal cash crops, productivity of sugarcane registered the highest improvements of 40.22 MT followed by potato 11.85 MT, jute 1.45 MT, tobacco 1.0 MT and oilseeds 0.76 MT in 2004/05 (Table 6). The productivity of respective crops were 38.79 MT, 11.49 MT, 1.43 MT, 0.97 MT and 0.71 MT per hectare in 2003/04.

Livestock Population

3.23 In 2004/05, the growth rate of the total livestock population went down to 0.2 percent to 43.2 million units from a growth of 2.6 percent to 43.1 million units in 2003/04. The population of cattle, buffaloes and pigs increased by 0.4 percent (to 7.0 million units), 3.3 percent (to 4.1 million units), and 1.4 percent (to 1.0 million units) compared to a rise of 0.2 percent (to 7.0 million units), 3.0 percent (to 4.0 million units) and 0.3 percent (to 1.0 million units) respectively in 2003/04. The growth rate of the population of goats decelerated to 2.5 percent to 7.2 million units in 2004/05 from 2.8 percent (to 7.0 million units) in 2003/04.

3.24 Similarly, the population of fowl registered a negative growth of 1.0 percent to 22.8 million units in 2004/05 as against a rise of 3.4 percent to 23.0 million units in 2003/04 (Table 9). However, the population of sheep and ducks further decreased by 0.91 percent and 3.3 percent in 2004/05 compared to a decline of 0.5 percent and 0.8 percent respectively in 2003/04.

Irrigation and Agricultural Inputs

3.25 The annual addition to irrigation facility to the cultivated areas decreased substantially by 33.7 percent to 10.5 thousand hectares in 2004/05 as against a rise of 34.2 percent to 15.9 thousand hectares in 2003/04 (Table 8). The total supply of chemical fertilizers made available by both Agriculture Input Corporation (AIC) and private sector further decreased by 11.6 percent to 122,706 MT in 2004/05 from a decline of 20.4 percent to 138,758 MT in 2003/04. Despite the increased supply of chemical fertilizers by AIC by 55.2 percent, a sharp decline of 23.1 percent registered in the supply of fertilizers by private sector resulted in further decline in the overall supply of chemical fertilizers. The supply of DAP, Potash and Urea from the AIC increased by 70.8 percent, 38.2 percent and 35.2 percent respectively in 2004/05 as against a substantial decline of 65.9 percent, 43.1 percent and 78.4 percent respectively in 2003/04.

3.26 The sale of improved seeds declined substantially by 19.8 percent to 1,768.4 MT in 2004/05 compared to a rise of 6.2 percent to 2,205.1 MT in 2003/04.

3.27 The disbursement of agricultural credit by the Agricultural Development Bank (ADB/N) increased by 16.2 percent to Rs. 11.8 billion in 2004/05 as against an increase of 0.3 percent to Rs. 10.1 billion in 2003/04 (Table 9). The credit disbursed by ADB/N to agro-industry, housing construction and warehouses construction increased by 19.9 percent to Rs. 5.9 billion in 2004/05 compared to a growth of 2.9 percent to Rs. 4.9 billion in 2003/04. Likewise, the credit disbursed to agro-business in 2004/05 increased by 13.6 percent as against a decline of 0.9 percent in 2003/04. Credit disbursement to farm mechanization and irrigation by ADB/N further dropped by 9.8 to 0.5 billion in 2004/05 compared to a decrease of 23.8 percent in 2003/04. Likewise, credit to agricultural production decreased by 6.0 percent in 2004/05 as against a decline of 10.4 percent in 2003/04.

Market Prices of Chemical Fertilizers and Food Grains

3.28 The market prices of chemical fertilizers such as Urea and Potash increased by 9.6 percent and 5.4 percent while the price of DAP increased by 7.0 percent in 2004/05 (Table 10). Similarly, the price of some major food grains like paddy (coarse) increased by 3.6 percent while the price of wheat decreased by 6.1 percent. The prices of these commodities had increased by 0.7 percent and 9.1 percent respectively in 2003/04. However, the price of maize further decreased by 1.3 percent in 2004/05 compared to a decline of 6.2 percent in 2003/04.

Manufacturing

3.29 On the basis of weights assigned by the Census of Manufacturing Establishment 2001/02 and based on the production level of 2003/04, the annual manufacturing production index increased by 2.6 percent in 2004/05 (Table 11). Among manufacturing groupings within this index, production of vegetables oil and fats with 15.7 percent weight recorded the highest growth of 7.0 percent, while the production of wearing apparel posted a substantial decline of 19.6 percent in 2004/05. Such reduction in wearing apparel was attributed to the decrease in garment production due mainly to phasing out of quota available for the export of readymade garment under World Trade Organization (WTO) arrangement since January 1, 2005.

3.30 The major manufacturing groups such as other textiles registered the second highest growth of 6.3 percent followed by leather and leather products (6.0 percent), textiles (5.9 percent), paper and paper products and other food products (5.4 percent), and other chemical products (5.0 percent) in 2004/05. Analyzing the product wise, 30 industrial items witnessed a positive growth while 4 items registered a negative growth in 2004/05. The production of garment, mustard oil, synthetic clothes and liquor each declined by 19.6 percent, 2.3 percent, 0.5 percent and 0.4 percent respectively in 2004/05. Among the items included in the index, based on the weight of Census of Manufacturing Establishment 2001/02, the production of vegetable ghee, with the weight of 10.1 percent increased by 8.8 percent followed by yarn (8.3 percent) biscuits (8.1 percent), Jute goods (7.6 percent) and soyabean oil (7.3 percent) in 2004/05.

Tourism

3.31 The performance of tourism sector in terms of tourist arrivals and per capita expenditure remained poor in 2004/05. The total number of tourist arrivals by air declined by 17.6 percent to 252.1 thousand in 2004/05 in contrast to a rise of 33.6 percent to 305.9 thousand persons in the same period last year (Table 12). The number of tourist arrivals both from India and from other countries by air went down by 16.8 percent and 17.9 percent respectively in 2004/05 compared to an increase of 18.5 percent and 41.6 percent respectively in 2003/04. Of the total tourist arrivals, the percentage share of Indian tourists and other country tourists remained at 30.8 percent and 69.2 percent respectively in 2004/05.

3.32 In 2004/05, per capita tourist expenditure decreased by 30.5 percent to Rs. 41,232 from Rs. 59,316 in 2003/04. Similarly, the hotels' bed capacity (number of hotel beds) rose by 2.2 percent in 2004/05. The average duration of stay of the tourists in 2004/05 increased by 40.6 percent to 13.5 days compared to a rise of 21.5 percent to 9.6 days in the same period last year.

Imports and Sales of Petroleum Products

3.33 Nepal Oil Corporation (NOC) imported 76,097 kiloliters of petrol, 308,076 kiloliters of diesel, 213,463 kiloliters of kerosene and 77,594 MT of liquefied petroleum gas (LPG) in 2004/05 while such imports were 67,965 kiloliters of petrol, 302,644 kiloliters of diesel, 313,127 kiloliters of kerosene and 66,142 MT of LPG in 2003/04 (Table 13). The imports of petrol, diesel and LPG increased by 12.0 percent, 1.8 percent and 17.3 percent respectively, while the import of kerosene declined by 31.8 percent in 2004/05. Likewise, the sales of petrol, diesel and LPG increased to 75,989 kiloliters, 315,368 kiloliters and 77,594 MT respectively in 2004/05. However, the sale of kerosene further decreased by 23.0 percent to 239,328 kiloliters in 2004/05 from 310,826 kiloliters in 2003/04.

Electricity

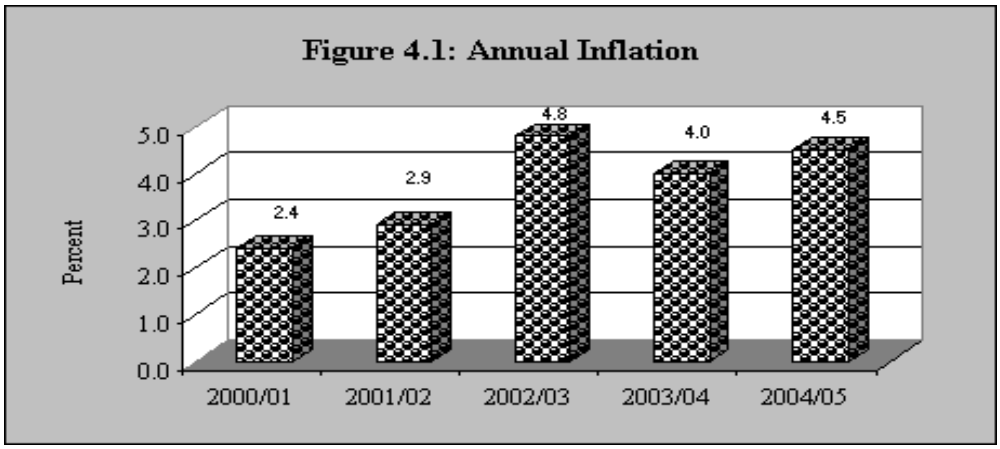
3.34 The hydro-power generation increased by 13.2 percent to 1522.9 Giga Watt hours (GWH) in 2004/05 as against a decline of 9.0 percent to 1345.5 GWH in 2003/04 (Table 14). In 2004/05, Nepal imported 241.4 GWH electricity from India while such import was 186.7 GWH in 2003/04. Likewise, Nepal exported 110.7 GWH electricity to India in 2004/05 compared to the export of 141.2 GWH in 2003/04.

4

Inflation

Consumer Inflation

4.1 In 2004/05 average annual consumer inflation registered a rise of 4.5 percent, higher than the last year's level of 4.0 percent (Table 15). The increase in price index exceeding the last year's level was mainly attributable to the repeated upward revision in the price of petroleum products, the hike in VAT rate and an unexpected rise in the price of rice.



4.2 On a year-on-year (y-o-y) basis, the overall price index depicted a rise of 6.6 percent in mid-July 2005 compared to an increase of 2.0 percent in mid-July 2004 (Table 15). Likewise, the indices of food and beverages group and non-food and services group increased by 6.0 percent and 7.3 percent respectively, as against their respective increase of 1.9 percent and 2.3 percent a year ago.

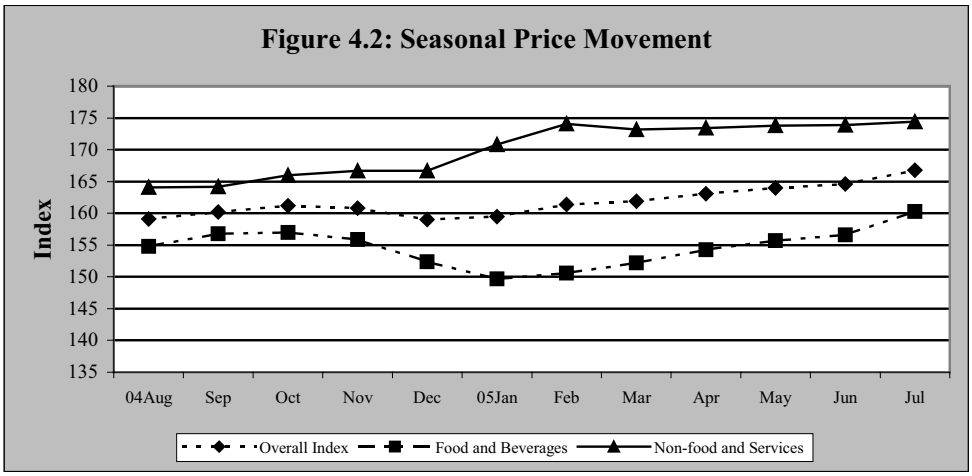
4.3 The index of food and beverages group on a y-o-y basis increased by 4.0 percent compared to an increase of 3.3 percent in 2003/04 and that for non-food and services group rose by 5.1 percent compared to a rise of 4.7 percent last year (Table 16).

4.4 Region wise, the index of Kathmandu Valley increased with a faster pace of 5.0 percent, while the indices of Terai and Hill each increased by 4.4 percent (Table 17,18 & 19). Last year, such indices had increased by 5.9 percent, 3.1 percent and 3.2 percent respectively.

Seasonal Price Movement

4.5 The seasonal price fluctuations in the review year did not show a high deviation. The highest price index of 166.8 point was depicted in mid-July 2005 and the lowest of 159.0 point in mid-December 2004. The indices can be analysed into three distinct phases as depicted by the monthly price movement.

Figure 4.2: Seasonal Price Movement



4.6 As shown in the above chart the overall index rose gradually from 159.1 points in mid-August 2004 to 161.2 points in mid-October 2004. Then it decreased slightly to 159.0 points in mid-December 2004 followed by a steady increase of 4.6 percent attaining a new height of 166.8 points in mid July 2005.

4.7 The index of food and beverages group increased gradually from 154.8 points in mid-August 2004 to 157.0 points in mid-October 2004 and decreased rapidly to 149.7 points in the next three months followed by a steady increase in the next six months to 160.3 points in mid-July 2005. On the other hand, the index of non-food and services group increased gradually from 164.1 points in mid-August 2004 to 166.7 points in mid-November 2005, remained stable for one month and increased sharply to 174.1 points in mid-February 2005. The index showed a minimal increase in the next five months and reached 174.4 points in mid-July 2005. The above scenario shows that the overall price index was influenced markedly by movements in prices of the both food and beverages group and non-food and services group.

Price Movement of Sub-groups of Commodities

4.8 All the indices except for spices and oil and ghee under the food and beverage group witnessed an increase in 2004/05. The indices increased within the range of 0.5 percent to 24.8 percent with a notable increase in the indices of sugar and related products

(24.8 percent), meat, fish and egg (6.4 percent), restaurant meals (5.1 percent), vegetables and fruits (4.7 percent), pulses (4.4 percent), grains and cereals products (3.8 percent), beverages (1.8 percent) and milk and milk products (0.5 percent) (Table 17). However, the indices of oil and ghee and spices declined by 1.9 percent and 1.0 percent respectively. The index of grains and cereal products which alone contributes one-third weight in this group moved up by 3.8 percent compared to an increase of 1.2 percent in 2003/04 and exerted an upward pressure on the index of this group.

4.9 A remarkable rise in the price of sugar and related products was observed. The index of this sub-group surged up by 24.8 percent, however such index was decreased by 0.4 percent in 2003/04. Inadequate production of sugar and increment in customs duty of imported sugar pushed up the index of this sub-group.

4.10 The index of non-food and services group rose by 5.1 percent compared to the 4.7 percent rise in 2003/04. A relatively higher price rise was observed in housing goods and services (9.2 percent) and transport and communication (7.0 percent). Under the housing goods and services sub-group the index of fuel, light and water increased significantly by 14.7 percent. Similarly, the indices for education, reading and recreation (4.4 percent), cloth, clothing and sewing services (2.5 percent), tobacco and related products (2.0 percent), medical and personal care (1.7 percent) and footwear (0.5 percent) all increased in 2004/05.

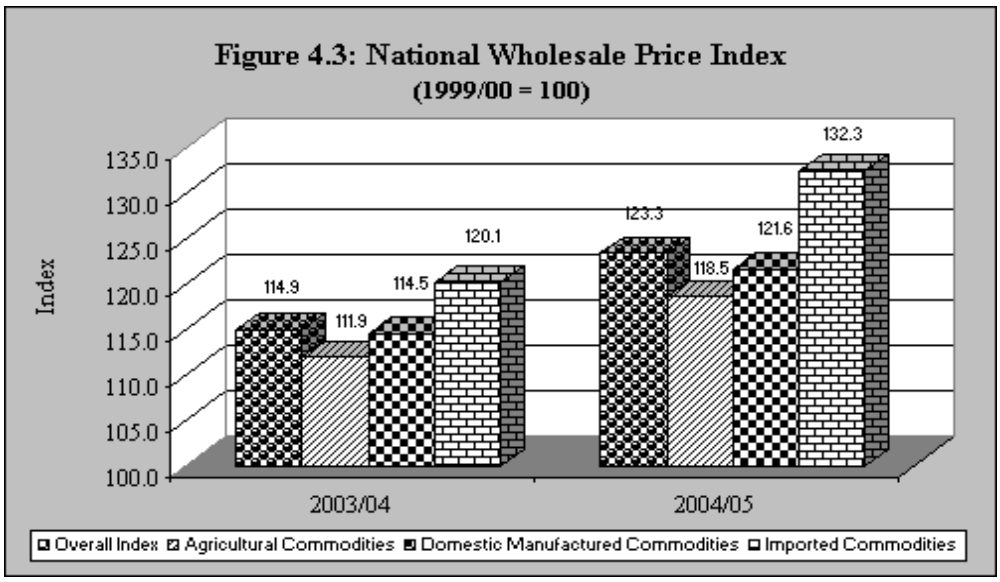
4.11 A continuous increase in the prices of transport and communication, fuel, light and water, reading materials, education fee and tobacco items were mainly attributable to an increase in the index of non-food and services group. An increase in the prices of petroleum products in the international market led to the upward revision in the prices of petroleum products in domestic market. Frequent revision in the prices of petroleum products was the major factor to increase the overall index.

Wholesale Price Inflation

4.12 The y-o-y average wholesale price inflation increased by 7.3 percent in 2004/05 compared to the 4.1 percent increase in 2003/04 (Table 20). The higher growth in the price index was mainly attributable to the surge in the prices of food grains, cash crops, construction materials, chemical fertilizer and chemical goods together with a frequent rise in the prices of petroleum products. Group wise, indices for agricultural commodities, domestic manufactured commodities and imported commodities moved up by 5.9 percent, 6.2 percent and 10.1 percent respectively, whereas such indices had increased by 2.1 percent, 5.6 percent and 6.2 percent respectively in 2003/04.

4.13 In 2004/05, on a point-to-point basis, indices of agricultural commodities sub-group depicted a mixed trend. The indices of fruits and vegetables and spices declined by 5.4 percent and 3.9 percent respectively, whereas the indices for cash crops (22.2 percent), food grains (9.3 percent) and livestock production (6.8 percent) increased significantly (Table 21). The index of pulses showed a benign increment of 2.9 percent. The prices of all the sub-group items under domestic manufactured commodities increased. The index of construction materials surged up at a faster pace of 15.4 percent, whereas the indices of beverage and tobacco (5.0 percent), food related products (2.8 percent) and others (1.1 percent) increased slowly. Under the imported commodities group, the indices of

petroleum products and coal and chemical fertilizer and chemical goods increased sharply by 23.9 percent and 12.1 percent respectively, whereas the indices of transport vehicles and machinery goods (8.4 percent), others (5.5 percent), textile related products (2.1 percent) and drugs and medicine (1.2 percent) increased relatively at a lower rate. The index of electric and electronic goods increased marginally by 0.7 percent.



Wholesale Price Indices of Some Important Commodities

Food Grains

4.14 In 2004/05, the index of food grains increased by 9.3 percent compared to a decline of 1.7 percent in 2003/04 (Table 20). Inadequate production of food grains, supply constraint as well as the higher cost of imported rice were attributable to the increase in the index of rice and wheat by 9.3 percent and 11.7 percent respectively, whereas the growth rate of the former was a negative of 1.7 percent and latter's 0.7 percent in 2003/04. The index of maize (one of the commodities under this group) declined by 4.4 percent compared to a decrease of 12.4 percent last year.

Cash Crops

4.15 On an annual average basis the index of cash crops increased by 22.2 percent in contrast to a decline of 8.5 percent last year. The index of potato increased significantly by 34.2 percent in contrast to a decline of 13.4 percent in the previous year. Likewise, the index of sugarcane increased by 11.3 percent, while such index decreased by 6.6 percent last year.

Construction Material

4.16 The index of construction materials increased by 15.4 percent compared to an increase of 15.5 percent in 2003/04. The indices of electric wires, corrugated sheets, iron rods, GI/HB wires surged up by 34.3 percent, 30.7 percent, 19.3 percent and 17.5 percent

respectively. Last year such indices had increased by 28.0 percent, 11.8 percent, 35.4 percent and 17.5 percent respectively.

Petroleum Products and Coal

4.17 The index of petroleum products increased by 23.9 percent. Such an index had increased by 12.3 percent in 2003/04. The upward pressure on the price of petroleum products and coal was mainly attributable to the upward revision in the prices of petroleum products by His Majesty's Government (of Nepal) (HMG).

Transport Vehicles and Machinery Goods

4.18 The index of transport vehicles and machinery goods increased by 8.4 percent in 2004/05 compared to an increase of 5.3 percent in 2003/04. The increase in the index of this sub-group was mainly attributable to the sharp increase in the index of other machinery and parts by 10.2 percent.

Wages

4.19 In 2004/05, the wage rate in selected market centres depicted an increasing trend. The average growth rate in the agricultural labourer for males ranged between 5.7 percent in Biratnagar to 11.5 percent in Bhairahawa whereas that for the female ranged between 2.8 percent in Kathmandu to 11.5 percent in Bhairahawa (Table 22).

4.20 The average growth rate of the wages of construction labourer in Bhairahawa had remained at par to that in 2003/04. However, that in other centres for the skilled mason labourer ranged between 1.2 percent in Birgunj and 4.8 percent in Kathmandu. For unskilled mason labourer, the average wage rate remained almost constant.

4.21 Increment in the wage rate for skilled carpenter ranged between 4.8 percent in Kathmandu to 0.7 percent in Birgunj. On the other hand, the wage rate of unskilled carpenter in Kathmandu and Bhairahawa remained unchanged. However such a rate increased by 0.6 percent in Birgunj and 2.1 percent in Biratnagar.

5

Fiscal Sector Development

Budget 2004/05

5.1 The Public Statement on Income and Expenditure (the budget) of HMG for 2004/05 was presented against the backdrop of slightly a better economic performance in the previous year compared to the preceding two years. It was a positive indication for an economy that, after dismal performances in the previous two years, capital expenditure had increased, the growth rate of resource mobilization was higher than that of expenditure, inflow of foreign assistance (both grant and loan) was impressive and budget deficit had decreased to a significant level in 2003/04. The major challenge, however, was that the economy was facing major threat from rising internal conflict and political instability in the country.

5.2 As peace is the key to economic development, the major thrust of the budget was to restore peace and attain tranquil environment in the country. The budget thus vowed to make provisions of effective rescue and compensation packages to the displaced families while speeding up reconstruction work of infrastructure destroyed in conflict affected areas. The focus was on the reconstruction and rehabilitation of school buildings, health posts, communication-towers, bridges and powerhouses damaged or destroyed due to conflict. With a view to helping resolve the social conflict, the government announced launching of participatory and targeted programs in the districts having human development empowerment and social economic indicators below the national average.

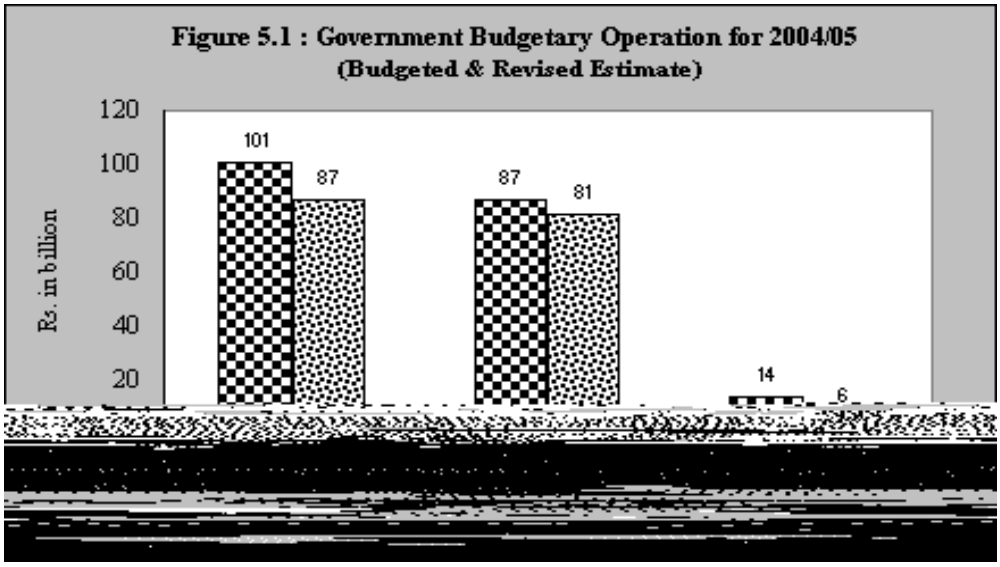
5.3 The budget also focused on providing judicious access to resources and opportunities and devolution of authority; expediting social and economic transformation and progression; and providing additional support to poverty alleviation program by enhancing economic activities and creating mass employment opportunities through economic reforms and investment promotion. Priority was given to the programs aimed at judicious access to basic services, human rights, protection and equal rights for women and eliminating social discrimination. Furthermore, the budget also expressed its commitments to strengthen decentralized development process for making services delivery reliable, quick, smooth and regular through strong local self-governance, devolution of authority, transparency and accountability.

5.4 The government through the annual budget expressed its commitment to effectively implement the Agricultural Perspective Plan (APP) aimed at increasing the productivity

of the agriculture sector that contributes nearly 40 percent to the nation's gross domestic product. The budget vowed to take necessary steps to remove structural and institutional bottlenecks in agriculture sector and carry out land reform program for the access of poor and landless to the land. To deal with the problem of unemployment, the budget promised to generate additional employment opportunities within the country, and manage and promote employment abroad. Furthermore, the budget also pledged to provide institutional reforms and concessions in the cooperative sector to implement village-to-village cooperatives and House-to-House employment campaigns with towering priority.

Fiscal Stance

5.5 The budget deficit increased by 15.0 percent, as against a substantial decline of 26.8 percent in the previous year (Table 23). The budget deficit, calculated as the difference between non-debt resources and expenditure with investment, stood at Rs 5.8 billion in 2004/05. In the review year, government expenditure and investment increased by 13.4 percent to Rs.87.1 billion and non-debt resources increased by 13.3 percent to Rs 81.3 billion. The budget deficit for the review year remained at 57.2 percent lower than the budget estimates and 1.1 percent of the GDP. The budget deficit was Rs 5.0 billion in 2003/04 and Rs 6.9 billion in 2002/03 and was 1.0 percent and 1.5 percent of GDP in 2003/04 and 2002/03 respectively.



5.6 Of the total deficit in the review year, Rs 2.3 billion was financed from net internal loan and Rs 2.9 billion from net external loan. A cash balance of Rs 571 million was recorded in the review year. In the review year, external loan increased by 15.5 percent to Rs 8.8 billion from Rs 7.6 billion in 2003/04. The external loan was Rs 4.5 billion in 2002/03. Since the principal repayments on foreign loan increased at lower rate of 1.6 percent, the inflow of net external loan increased significantly by 58.5 percent in the review period. The gross internal borrowings increased by 61.5 percent to Rs 9.1 billion in the review year from 5.6 billion in 2003/04. The internal and external loan each stood

previous year (Table 28). The share of external debt and internal debt in total outstanding debt remained at 72.0 percent and 28.0 percent respectively in the review year. The outstanding external debt as at mid-July 2005, amounting to Rs. 220.8 billion was lower by 5.2 percent compared to that of mid-July 2004. The outstanding internal debt amounted to Rs. 86.8 billion, which was marginally higher by 0.7 percent compared to that of the previous year. The outstanding debt to GDP ratio decreased to 56.7 percent in the review year from 64.2 percent in the preceding year.

Ownership Pattern of Internal Debt

5.19 NRB's holdings of government bonds (excluding TBs) stood at 18.0 percent of the total bonds, which was lower by 7.3 percentage points from the previous year's level (Table 29). In the review year the holdings of government bonds by the commercial banks increased from 20.8 percent to 25.0 percent, financial institutions from 12.7 percent to 13.8 percent, provident fund corporation from 11.8 percent to 14.1 percent. While the ownership of individuals also increased by 0.1 percentage points to 25.9 percent of the total bonds, the holdings of government business enterprises, private business enterprises and non-profit organizations decreased by 0.2 percentage points to 0.8 percent, 0.2 percentage points to 1.0 percent and 0.1 percentage points to 1.3 percent respectively.

5.20 In the review period, total outstanding amount of TBs increased by 4.0 percent to Rs 51.4 billion compared to the total outstanding amount of treasury bills in the previous year. The share of NRB in total TBs increased to 21.3 percent in the review year from 19.8 percent in the previous year (Table 30). The share of commercial banks too recorded an increment of 2.8 percentage points to 75.9 percent in the review year from 73.1 percent in the previous year. In the review year, the holdings of financial institutions remained unchanged at 1.4 percent, while the holdings of other institutions decreased from 5.6 percent to 1.5 percent.

Budget Estimates

5.21 The budget estimates of total expenditure, net of loans and investment, for 2004/05 stood at Rs. 100.8 billion which was 31.2 percent higher than that of the previous year's level. The total expenditure was estimated at Rs. 102.8 billion. Of this, Rs. 70.1 billion (68.2 percent) was allocated for recurrent expenditure and Rs. 32.7 billion (31.8 percent) for capital. The recurrent expenditure was higher by 26.2 percent than that of the previous year, while capital expenditure excluding loans and investments was higher by 41.9 percent over that of the preceding year. Increase in social service expenditure, especially in education sector followed by the expenditure in economic services, miscellaneous items and constitutional bodies pushed up the recurrent expenditure

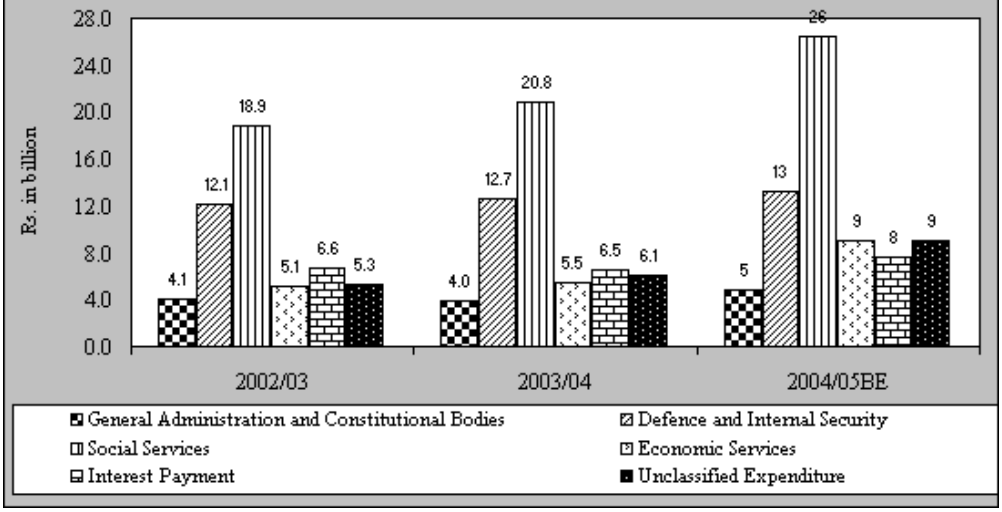
5.22 Total resource (revenue and grants), on the other hand, was projected to increase by 21.6 percent to Rs. 87.3 billion. Of this, revenue receipt was estimated at Rs. 71.9 billion, which was 18.9 percent higher than that of the previous year. Foreign grants was estimated at Rs. 15.4 billion, which was 36.0 percent higher than that of the previous year. As a result, fiscal deficit was estimated at Rs. 13.6 billion, which was 168.5 percent higher than that of the previous year's actual level. Of the total fiscal deficit, Rs. 10.0 billion (73.9 percent) was proposed to be financed through external loans and the rest Rs.

3.5 billion (26.1 percent) through internal borrowings. External financing (grants and loans of the capital expenditure, therefore, stood at 75.5 percent in the review year.

5.23 Of the total recurrent expenditure, Rs. 26.4 billion (37.7 percent) was allocated for social services, which was 26.8 percent higher than that of the previous year's level. The increasing liabilities of interest payment to both internal and external loans forced the government to increase the budget allocation for interest payment by 16.3 percent to Rs. 7.6 billion constituting 10.9 percent of the total recurrent expenditure.

5.24 Of the total amount allocated for recurrent expenditure 18.9 percent (Rs. 13.2 billion) was allocated for defense and internal security, 12.9 percent for economic services, 12.8 percent for unclassified expenditure and 7.0 percent for general administration and constitutional bodies.

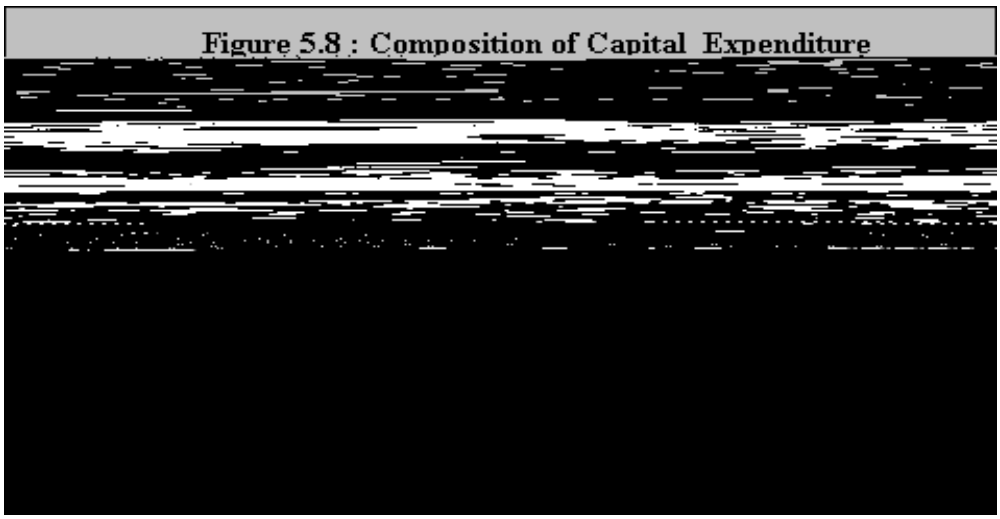
Figure 5.7: Composition of Recurrent Expenditure



5.25 On the capital side, the budget was allocated for economic services such as development of some large projects like River Control Project, Bagmati Irrigation Project, Praganna Irrigation Project, Sikta Irrigation Project and other irrigation projects. Construction of Kali Gandaki–A, Mid-Marsyangdi and other hydro-electricity projects, Karnali Highway, B. P. Highway (Banepa–Sindhuli–Bardibas), rural electrification and distribution projects. Road maintenance and development projects and programs constituted 54.7 percent of the total capital expenditure, which amounted to Rs. 17.9 billion. This amount was 36.2 percent higher than that of the previous year's level.

5.26 Likewise, of the total capital expenditure, the highest 55.9 percent (Rs. 18.3 billion) was allocated for economic services, 33.6 (Rs 11.0 billion) percent was allocated for social services, 1.5 percent (Rs. 497.8 million) for economic administration and planning, 5.2 percent (Rs 1.7 billion) for defense and internal security, and 3.7 percent for unclassified expenditure. A great deal of emphasis was given to drinking water projects such as Melamchi Drinking Water Supply Project and other drinking water projects and

basic education projects as well as community and other development programmes. As a result, the social sector development budget went up by 54.0 percent in the review year.



5.27 On the revenue side, the budget had targeted to mobilize revenue amounting to Rs. 71.9 billion. Of this, Rs. 56.0 million (77.8 percent) was estimated to be mobilized from tax revenue and the remaining Rs. 15.9 billion (22.2 percent) from non-tax services. Of the total tax revenue, the highest share of Rs. 26.1 billion (36.4 percent) was estimated to be mobilized from commodity and services taxes. This was followed by tax on external trade, which amounted to Rs. 16.5 billion (22.9 percent) and tax on income and property transfer amounted to Rs. 13.3 billion (18.5 percent). Of the total non-tax revenue, miscellaneous sources, which includes royalty, sales of government property, donation and miscellaneous income, was estimated to constitute a significant portion of 28.8 percent (Rs. 4.6 billion). This was followed by dividend Rs 4.48 billion (28.1 percent).

5.28 In order to achieve the above-maintained target of revenue mobilization, the budget for 2004/05 focused on bringing all income generating activities into the tax net and continue the revenue administration reform policies, and programs adopted in the past. The budget also proposed to promote export and to make tax system simple, hassle-free and taxpayer friendly, broaden the tax base and identify new areas of taxation, as well as initiate timely adjustment of tax rates.

5.29 Through the budget speech, the government reduced the customs duties of break-oil, waste chemicals, plastic pipes, tyre tube, batteries, furniture, furniture parts, mattresses and prefabricated house to a new slab of 35.0 percent from its present level of 40.0 percent; waived the special duty of 0.5 percent on commodities that were subject to 5.0 percent customs duty; made provisions to waive export duty on the export of copper wire, zinc, oxide and marble. The government also announced to reduce the rate of export duty slabs to 2.0 percent, 1.0 percent and 0.5 percent from the previous level of 3.0 percent, 1.5 percent and 0.73 percent respectively.

5.30 As measures to strengthen the tax administration, the budget vowed to establish a system to integrate computerized information of districts customs offices to the center;

- Effective 2004/05, an arrangement was made whereby the exchange facility required by the various government institutions, councils and other bodies would be provided directly by the commercial banks after completing the procedures specified by NRB. This arrangement was expected to be beneficial to the different bodies that need foreign exchange.
- Under the previous arrangement, the maximum period that the commercial banks could invest convertible foreign exchange received under the foreign currency deposit accounts of individuals and institutions was one year. From 2004/05 onwards, this limit was removed. Commercial banks could obtain more flexibility in mobilizing their foreign currency reserves through this provision.
- If a Nepal-based licensed agent/representative of any money transfer company situated abroad needs bank guarantee for the purpose of receiving advance payment from the principal company, a policy provision of making such facility available, within the specified limits, directly from the commercial banks was initiated in 2004/05. This provision was expected to facilitate the licensed agents in making immediate payments of the remittance to the concerned parties.
- Taking into account the foreign exchange reserves and the currency mix, among others, the number of the commodities that could be imported from India through the payment of the convertible currency was expanded in 2004/05. As of mid-July 2005, the number of groups of the commodities that can be imported from India through the payment of the convertible foreign currency reached 66 since the operationalization of this provision in 1992/93. This policy, by reducing the cost for the importers, also contributed to the industrialization process. Similarly, there has been a positive impact on the import-based export industries on account of the comparatively lower price of the raw materials used by such industries and the increase in their competitive capacity.
- The bilateral cooperation and assistance agreement made between NRB and People's Bank of China two years ago aimed at facilitating the trade transactions between Nepal and People's Republic of China and not necessitating the Chinese nationals visiting Nepal to carry convertible foreign currencies, by providing limited convertibility to the Chinese Yuan. The agreement was renewed for two more years on November 2, 2004. It was expected to attract more Chinese tourists towards Nepal.
- With a view to encouraging the transfer of remittances through the official channel, emphasis has been accorded to the setting up of money transfer agencies since the past few years. In 2004/05, the number of such license holding agencies increased to 40 from 29 and the companies are expanding their services in local areas through sub-agents. In relation to granting such licenses, the letter of intent was issued to additional 55 companies in 2004/05.

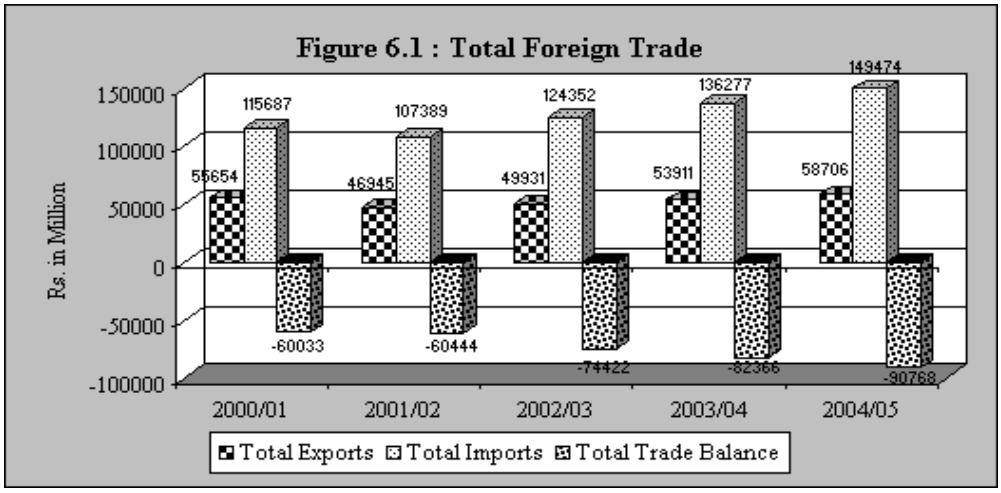
6.10 In aggregate, a mixed performance was displayed by the external sector of the economy in 2004/05. Although there was a decline in overseas exports mainly arising from the large decline in readymade garments owing to the abolition of the multi-fibre arrangement (MFA) quota system on January 1, 2005, total exports increased due to the impressive growth in exports to India. Total imports fell as a result of a significant drop

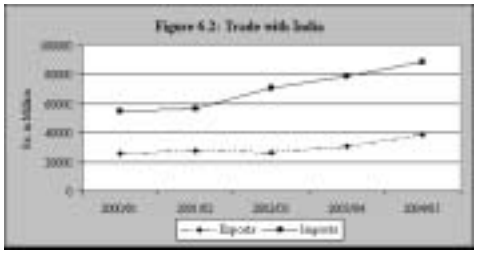
in overseas imports. Subsequently, trade deficit declined massively. Likewise, despite the increase in total exports, total trade remained, more or less, at the previous year's level as a result of the plunge in imports. Current account posted a larger surplus primarily due to the massive inflow of private remittances. However, the overall BOP posted a lower surplus due to the lower inflow of net government loans.

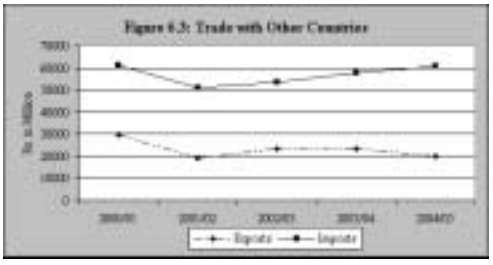
6.11 With respect to intervention in the foreign exchange market, NRB intervened 41 times, purchasing a total of US$ 527.0 million and selling a total of US$ 50.1 million in four times from and to the commercial banks.

Merchandise Trade

6.12 In 2004/05, as per the customs' record, total trade in nominal value increased by 9.5 percent to Rs. 208.2 billion compared to a growth of 9.1 percent a year earlier (Table 32). In proportion to GDP, total trade stood at 39.0 percent compared to 38.3 percent a year earlier. Likewise, on the basis of US dollars, total trade registered an increase of 12.1 percent compared to 15.0 percent in the previous year. The composition of total trade disclosed that trade with India and other countries comprised 61.3 percent and 38.7 percent, respectively, of total trade. The respective shares in the previous year were 57.6 percent and 42.4 percent. In 2004/05, the import sustainability of exports went down to 39.3 percent from 39.6 percent in the previous year. While import sustainability of export to India rose from 39.1 percent to 43.9 percent in the review year, import sustainability of export to overseas countries declined from 40.2 percent to 32.5 percent in 2004/05.







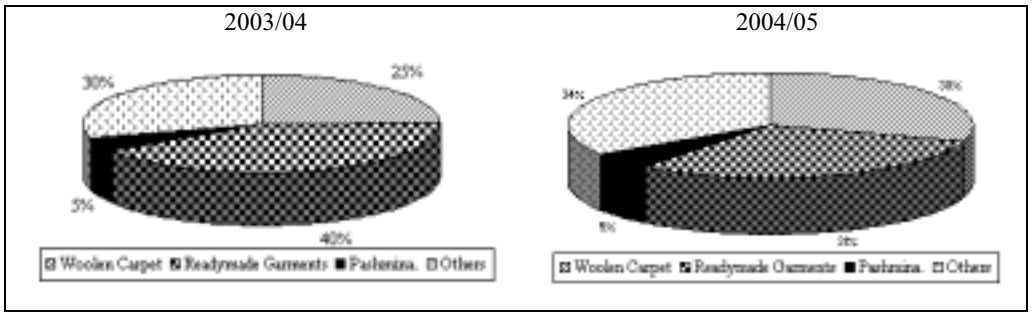
6.13 In 2004/05, total exports augmented by 8.9 percent and aggregated Rs. 58.7 billion. In the previous year, total exports had gone up by 8.0 percent to Rs. 53.9 billion. As percent of GDP, exports accounted for 11.0 percent in 2004/05 compared to 10.9 percent a year earlier. Destination-wise, exports to India saw a substantial growth of 26.4 percent in the review year as compared to a growth of 16.4 percent in the previous year. Exports to other countries, on the other hand, experienced a decline by 14.5 percent compared to a decrease of 1.6 percent last year. The major commodities that were responsible for the increase in exports to India comprised cardamom (34.6 percent), chemicals (130.7 percent), copper wire rod (164.0 percent), vegetable ghee (56.7 percent), juice (38.7 percent), plastic utensils (14.2 percent), polyster yarn (70.1 percent), thread (35.2 percent) and wire (71.8 percent). However, exports of *Batika* hair oil (55.7 percent), M.S. pipe (62.8 percent), paper (36.3 percent), *pashmina* (20.2 percent), readymade garment (41.6 percent), soap (31.8 percent) and tooth-paste (13.2 percent) to India declined. The principal commodities that were responsible for the decline in the exports to other countries included readymade garments (35.9 percent) Nepalese paper and paper products (14.2 percent), *pashmina* (1.4 percent), tanned skin (23.7 percent) and tea (6.2 percent). The decline in export of readymade garments could be attributable to the cumulative impact of subsequent erosion in competitiveness in the international market, particularly after the scrapping of quota regime in January 2005. The export of woolen carpets to other countries, however, went up by 3.4 percent in the review year.

Box 6.3: Export of Readymade Garments and Carpets to Overseas

	Amount (Rs. in Million)			*% Share in Total Exports to Overseas*	
	Total Exports to Overseas	*Readymade Garments*	*Woolen Carpet*	*Readymade Garments*	*Woolen Carpet*
1999/00	*28602.0*	*13942.4*	*9842.1*	*48.7*	*34.4*
2000/01	*29623.9*	*13124.7*	*8592.3*	*44.3*	*29.0*
2001/02	*18988.6*	*7833.0*	*6212.5*	*41.3*	*32.7*
2002/03	*23500.6*	*11890.1*	*5320.0*	*50.6*	*22.6*
2003/04	*23133.6*	*9550.0*	*5677.5*	*41.3*	*24.5*
2004/05	*19788.8*	*6124.6*	*5868.7*	*30.9*	*29.7*

Two major commodities exported by Nepal to third countries include readymade garments and woolen carpets. In 1999/00, the exports of readymade garments and carpets reached a peak of Rs. 13.9 billion and Rs. 9.8 billion, respectively. In the same year, their respective shares in total exports to overseas were 48.7 percent and 34.4 percent. Since then, however the exports of both these commodities have been declining. The phase-out of MFA had an adverse impact on the export of readymade garments as its export declined to Rs. 6.1 billion in 2004/05. Similarly, the static global demand and intense competition from machine-made carpets have led to the fall in export of woolen carpets to Rs 5.9 billion in 2004/05

Figure 6.4: Major Exports to Other Countries



6.14 In dollar terms, total exports augmented by 11.5 percent to US$ 814.7 million in 2004/05 compared to a higher increment of 13.8 percent aggregating US$ 730.6 million in the previous year. On the basis of US dollar, exports to India soared by 29.5 percent in comparison to a rise of 22.8 percent in the previous year. In contrast, exports to other countries posted a decline of 12.4 percent in 2004/05 as against an increase of 3.8 percent in 2003/04. Of the total exports, exports to India and other countries formed 66.3 percent and 33.7 percent respectively while their respective shares were 57.1 percent and 42.9 percent a year earlier.

6.15 With respect to the composition of exports based on the Standard International Trade Classification (SITC), the first position was held by manufactured goods classified chiefly by materials (SITC-6) which formed 48.7 percent of total exports and registered a growth of 21.1 percent (Table 34). Despite its decline by 13.9 percent, miscellaneous manufactured articles (SITC-8) secured second position with a share of 22.6 percent. In the previous year, manufactured goods classified chiefly by materials and miscellaneous manufactured articles constituted 43.8 percent and 28.5 percent, respectively, of total exports. Exports of food and live animals (SITC-0) comprised 11.9 percent of total exports in comparison to 11.6 percent and remained in third position. Similarly, the share of animal and vegetable oils and fats (SITC-4) in total exports rose to 8.6 percent from 6.3 percent a year earlier. Chemicals and drugs (SITC-5) accounted for 6.3 percent of total exports compared to a higher share of 7.2 percent in the previous year. Overall, while primary goods (SITC 0-4) formed 22.1 percent of the total exports in 2004/05, manufactured and capital goods (SITC 5-9) constituted 77.9 percent. The respective shares of primary and manufactured goods in the previous year were 19.4 percent and 80.6 percent.

6.16 Total imports rose by 9.7 percent to Rs. 149.5 billion in 2004/05 compared to an equal rate of growth of 9.6 percent in the previous year. Imports from India increased by 12.6 percent to Rs. 88.7 billion compared to a growth of 11.0 percent in the previous year. Imports from other countries also went up by 5.7 percent to Rs. 60.8 billion compared to a growth of 7.7 percent in the previous year. In dollar terms, total imports posted a growth of 12.3 percent in the review year compared to an increase of 15.5 percent in the previous year. Imports from India in dollar terms rose by 15.3 percent compared to a rise of 17.0 percent in the previous year. Likewise, in dollar terms, imports from other countries augmented by 8.2 percent compared to an increase of 13.5 percent last year.

6.17 The value of total imports in relation to GDP increased to 28.0 percent in the review year from 27.4 percent a year earlier. The relative share of imports from India in total imports rose to 59.3 percent from 57.8 percent last year. Likewise, the relative share of imports from other countries declined to 40.7 percent from 42.2 percent a year ago.

6.18 With regard to the composition of imports based on SITC, the principal groups were manufactured goods classified chiefly by materials (SITC-6), mineral, fuels & lubricants (SITC-3), and machinery & transport equipment (SITC-7) whose respective shares were 24.8 percent, 20.0 percent, and 17.6 percent in total imports. Last year, manufactured goods classified chiefly by materials, mineral, fuels & lubricants and machinery & transport equipment and formed 26.8 percent, 16.1 percent and 18.9 percent of total imports respectively. While the share of chemicals and drugs (SITC-5) increased slightly to 12.8 percent from 12.1 percent last year, the share of crude materials, inedibles except fuels (SITC-2) in total imports went down to 7.5 percent from 7.7 percent. The share of food and live animals (SITC-0) and miscellaneous manufactured articles (SITC-8) increased to 6.6 percent and 5.1 percent, respectively, in the review year from 6.3 percent and 3.7 percent last year. The share of animal vegetable oils and fats (SITC-4) declined to 4.0 percent from 6.3 percent a year earlier. Overall, while the share of imports of primary commodities (SITC 0-4) in total imports rose to 38.8 percent from 37.2 percent, the share of imports of manufactured and capital goods (SITC 5-9) declined to 61.2 percent in 2004/05 from 62.8 percent last year.

6.19 Commodity-wise, the major imports from India that experienced an increase in 2004/05 included agricultural equipment and parts (6.0 percent), chemicals (32.7 percent), cold rolled sheet in coil (22.6 percent), M.S. wire rod (10.5 percent), medicine (10.5 percent), petroleum products (32.1 percent), readymade garments (84.7 percent) and vehicles & spare parts (3.7 percent) (Table 39). On the other hand, the following comprise the major imports from India that declined: aluminum ingot, billet & rod (17.9 percent), cement (39.2 percent), chemical fertilizer (30.9 percent), M.S. billet (19.2 percent), other machinery & parts (8.6 percent), rice (21.3 percent), salt (35.7 percent) and textiles (33.0 percent). With respect to imports from third countries, the principal items that exhibited an increase included copper wire rod, scrapes & sheets (43.2 percent), medical equipment & tools (12.8 percent) and transport equipment & parts (7.7 percent) (Table 40). The major items that showed a decline in imports from third countries were aircraft & spare parts (57.4 percent), betel nut (16.8 percent), chemical fertilizer (86.7 percent), crude palm oil (60.5 percent), crude soya bean oil (59.9 percent), electrical goods (17.9 percent), polythene granules (30.4 percent), telecommunication equipment and parts (25.1 percent), textiles (35.8 percent), threads (49.5 percent) and video, television & parts (23.4 percent). Overall, a decline in imports from third countries could be ascribed to a host of factors such as the significant drop in import of industrial raw materials and capital goods, absence of investment-friendly climate, the possible diversion of import of some commodities (such as thread and polythene granules) from other countries towards India and the inclusion of more items in the list of items that can be imported on the payment of convertible currency from India in the review year.

6.20 As a result of the increase of import from, and export to, India and their declines with regard to other countries, India's share in total trade went up to 61.3 percent from 57.6 percent last year; the share of other countries went down correspondingly to 38.7 percent from 42.4 percent in the previous year. Thus, Nepal's foreign trade was growingly re-concentrating towards India.

6.21 Due to the significant decline in imports from overseas countries, total trade deficit increased by 10.2 percent to Rs. 90.8 billion in 2004/05. In the previous year, trade deficit had risen by 10.7 percent to Rs. 82.4 billion. In dollar terms, trade deficit rose by 12.8 percent to US$ 1.3 billion compared to a growth of 16.7 percent in the previous year. While trade deficit with India went up by 3.7 percent compared to a growth of 7.8 percent in the previous year, trade deficit with other countries accelerated by 19.2 percent compared to a growth of 15.0 percent in the previous year. Trade deficit with India and other countries constituted 54.8 percent and 45.2 percent, respectively, of the total trade deficit in the review year. In the preceding year, the corresponding shares were 58.2 percent and 41.8 percent.

Balance of Payments

6.22 The overall BOP position of the country remained at a surplus of Rs. 5.7 billion in 2004/05 compared to a higher surplus of Rs. 16.0 billion in 2003/04 (Table 42). The lower surplus in the BOP was ascribed to the lower inflow of net government loans.

6.23 With respect to the current account, total exports (at f.o.b. value) decelerated by 8.6 percent to Rs. 60.0 billion compared to a growth of 8.8 percent in the preceding year. Total imports rose by 9.6 percent to Rs. 145.7 billion compared to an almost similar growth of 9.8 percent last year. Consequently, trade deficit went up by 10.4 percent to Rs. 85.8 billion compared to an increase of 10.5 percent a year earlier.

6.24 On the services front, gross receipts fell by 24.2 percent to Rs. 26.0 billion compared to an increment of 29.4 percent in the previous year (Table 43). The decline in such receipts was attributable to the decline in income under subheads—travel by 42.3 percent, government n.i.e. by 4.7 percent and other services by 3.2 percent. On the payments side, there was an increase in the payments on transportation and other services by 13.0 percent and 3.3 percent. Consequently, total payments increased by just 11.1 percent to Rs. 28.0 billion compared to a significant growth of 29.6 percent in the previous year. Ultimately, net services income registered a decline of 122.4 percent to Rs. 2.0 billion in contrast to a growth of 28.7 percent last year. There was a deficit in the balance of goods and services account aggregating Rs. 87.8 billion in comparison to a deficit of Rs. 68.6 billion in the previous year. In the review year, receipts under income account soared by 101.8 percent to Rs. 7.8 billion while payment rose by 10.7 percent to Rs. 6.1 billion. Consequently, balance on goods, services and income remained negative by Rs. 86.2 billion in the review year compared to a lower deficit of Rs. 70.3 billion in the preceding year.

6.25 With respect to current transfers, net receipts rose by 15.1 percent and aggregated Rs. 97.7 billion compared to a rise of 12.4 percent last year. Grants rose by 7,7 percent compared to a rise of 41.3 percent last year. Similarly, workers' remittances went up by 11.9 percent in the review year as against a lower growth of 8.1 percent last year.

Pensions increased by 58.1 percent in comparison to a rise of 7.9 percent a year earlier. Other transfer (that is, excise duty refund), on the other hand, declined by 29.4 percent in contrast to a 30 percent growth of the preceding year. Due to the foregoing developments, the current account posted a surplus of Rs. 11.5 billion in the review year as compared to a lower surplus of Rs. 14.6 billion in the previous year. The current account surplus in the review year was about 2.2 percent of the nominal GDP. Such surplus was 2.9 percent of GDP last year.

Box 6.4 : Foreign Employment and Workers' Remittances

Based on data provided by the Department of Labor and Employment Promotion, the number of persons that were granted institutional permission for foreign employment increased by 14.7 percent to 139,696 in 2004/05 from 121,769 in 2003/04. Destination-wise data depict that Malaysia (47 percent) was the prime destination for foreign employment followed by Qatar (30 percent) and Saudi Arabia (10 percent).

In 2004/05 workers' remittances equivalent to Rs. 65.5 billion flowed into the country compared to Rs. 58.6 billion a year earlier. The share of remittances in GDP went up from 11.8 percent in 2003/04 to 12.3 percent in 2004/05. Moreover, the share of remittances in total current account receipts, excluding grants, increased from 36.6 percent in 2003/04 to 38.2 percent in 2004/05.

6.26 With regard to the capital account, capital transfer of Rs. 1.6 billion was received compared to an inflow of Rs. 1.5 billion a year earlier. Under the financial account, trade credit assets increased by Rs. 323.8 million whereas other assets increased by Rs. 21.5 billion. On the liability side, trade credit increased by Rs. 4.5 billion. Government drawing amounted to Rs. 7.3 billion while amortization was recorded at Rs. 6.0 billion. Last year, such drawing and amortization were recorded at Rs. 9.2 billion and Rs. 5.8 billion, respectively. Currency and deposit liabilities declined by Rs. 65.1 million compared to an increase of Rs. 4.1 billion last year. Likewise, miscellaneous capital inflow aggregated Rs. 18.1 billion compared to an inflow of Rs. 25.6 billon in the preceding year. Reserve assets and related items recorded an increase of Rs. 5.7 billion compared to an increase of Rs. 20.1 billion last year. Consequently, in 2004/05 changes in net foreign assets was favorable by Rs. 5.7 billion compared to a higher surplus of Rs. 16.0 billion a year earlier.

Income and Expenditure of Convertible Foreign Exchange

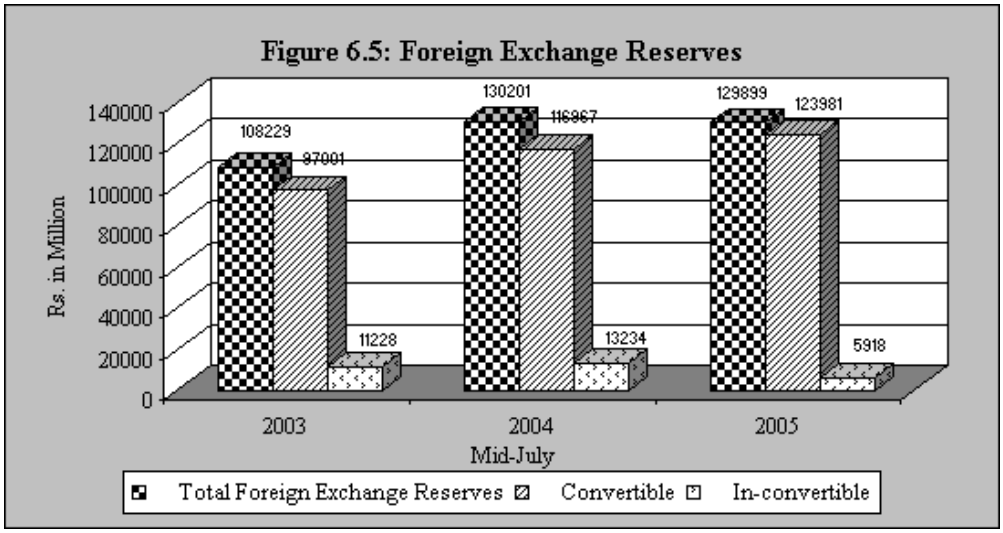
6.27 On the income side, total income rose by 2.2. percent to Rs. 123.3 billion in 2004/05, which was mainly attributable to the increased income under remittances, interest receipts and foreign aid (Table 43). On the expenditure side, total expenditure rose by 10.4 percent to Rs. 108.9 billion primarily due to an increase in expenditure under services and amortization. Consequently, a surplus of Rs. 14.3 billion emanated from the transaction in convertible foreign exchange in 2004/05, which was less by 34.7 percent compared to that of the previous year. In 2003/04, total income had risen by 22.3 percent to Rs. 120.6 billion and total expenditure had increased by 21.2 percent to Rs. 88.7 billion, resulting in a surplus of Rs. 14.3 billion.

Foreign Assets and Liabilities of the Banking System

6.28 In 2004/05, NFA of the banking system registered a marginal decline of 1.0 percent (Rs. 1.1 billion) to Rs. 107.7 billion compared to a significant increase of 19.0 percent (Rs. 17.4 billion) in the previous year (Table 44). In US dollar terms, such assets rose by 4.4 percent (US$ 64.0 million) to US$ 1.5 billion compared to an increase of 20.0 percent (US$ 244.7 million) last year. Likewise, gross foreign assets fell by 0.3 percent (Rs. 446.8 million) to Rs. 130.9 billion in contrast to an increase of 20.2 percent (Rs. 22.1 billion) a year earlier. In dollar terms, on the other hand, gross foreign assets went up by 5.0 percent (US$ 89.1 million) to US$ 1.9 billion compared to a rise of 21.2 percent (US$ 309.6 million) in the previous year.

6.29 The total foreign liabilities of the banking system went up by 2.7 percent (Rs. 613.4 million) to Rs. 23.2 billion in 2004/05 compared to a significant growth of 26.0 percent (Rs. 4.7 billion) last year. Total foreign liabilities, in dollar terms, rose by 8.3 percent (US$ 25.1 million) to US$ 329.4 million compared to a significant growth of 27.1 percent (US$ 64.9 million) last year.

6.30 As at mid-July 2005, the foreign exchange holding of the banking system amounted to Rs. 129.9 billion, constituting 95.4 percent of convertible currency and 4.6 percent of inconvertible currency. Last year, such foreign exchange holding was recorded at Rs. 130.2 billion of which convertible and inconvertible currency formed 89.8 percent and 10.2 percent, respectively.



6.31 Agency wise, the NFA (unadjusted of foreign exchange gain/loss) of the monetary authorities declined by 4.0 percent (Rs. 4.4 billion) in 2004/05 in contrast to a rise of 23.4 percent (Rs. 20.5 billion) in 2003/04. Likewise, gross foreign assets (unadjusted of foreign exchange gain/loss) of the monetary authorities fell by 3.0 percent (Rs. 3.6 billion) to Rs. 105.4 billion in contrast to an increase of 23.9 percent (Rs. 21.0 billion) a year earlier.

6.32 In US dollar terms, the gross foreign assets of the monetary authorities was equivalent to US$ 1.5 billion, which implied a growth of 1.9 percent (US$ 27.7 million) in the review year compared to a higher growth of 24.9 percent (US$ 293.4 million) in the previous year. The gross foreign assets of the monetary authorities comprised 80.5 percent of total gross foreign assets of the banking sector compared to 83.0 percent in the previous year. On a monthly basis, such official foreign assets depicted a mixed trend. On a monthly average basis, the gross official foreign assets of the monetary authorities aggregated Rs. 107.1 billion demonstrating a growth of 9.8 percent (Rs. 9.6 billion) compared to the 16.9 percent (Rs. 14.1 billion) growth in 2003/04.

6.33 In 2004/05, convertible currency holding of NRB rose by 4.8 percent (Rs. 4.6 billion) whereas inconvertible currency holding decreased by 69.2 percent (Rs. 8.1 billion). Last year, convertible currency holding and inconvertible currency holding of NRB had risen by 25.4 percent (Rs. 19.4 billion) and 14.4 percent (Rs. 1.5 billion), respectively. Gold posted a decline of 19.8 percent (Rs. 94.9 million) compared to a decline of 0.8 percent (Rs. 3.9 million) in the review year. SDRs, on the other hand, increased by Rs. 53 million compared to a rise of Rs. 1.2 million last year. With respect to liabilities, foreign liabilities of NRB surged by 83.8 percent (Rs. 724.7 million) compared to a rise by 129.7 percent (Rs. 488.6 million) last year.

6.34 As at mid-July 2005, foreign assets held by commercial banks aggregated Rs. 25.5 billion with a growth of 14.3 percent (Rs. 3.2 billion) compared to the last year. Last year such assets had risen by 4.8 percent (Rs. 1.0 billion). The total liabilities of commercial banks declined by 0.5 percent (Rs.111.3 million) to Rs. 21.6 billion in the review year in contrast to an upsurge of 23.8 percent (Rs. 4.2 billion) last year.

Foreign Aid Agreements

6.35 In 2004/05, seven loan agreements totaling Rs. 12.8 billion were signed with the donors (Table 47). All of these agreements were signed with the multilateral agencies such as the World Bank (three agreements), the ADB (three agreements) and the International Fund for Agricultural Development (IFAD) (one agreement).

6.36 Foreign grant agreements aggregating Rs. 21.2 billion were signed with eleven countries and three donor agencies under bilateral basis and multilateral basis, respectively, in 2004/05 (Table 48). The principal donor countries were the United Kingdom, Japan, Denmark and Germany. In terms of amount, the United Kingdom was ranked at the top providing Rs. 9.4 billion (37.1 percent) followed by Japan that provided Rs. 3.7 billion (14.7 percent). Denmark followed next by agreeing to provide Rs. 2.7 billion (10.5 percent). While Norway and Finland agreed to provide Rs. 2.2 billion (8.8 percent) and Rs. 913.3 million (3.6 percent), Germany and USA agreed to provide Rs. 764.6 million (3.0 percent) and Rs. 756.3 million (3.0 percent), respectively. The other donor countries included China, India, Australia and France that signed the loan agreements totaling Rs. 726.5 million (2.9 percent).

6.37 Multilateral agreements were signed with three different agencies. Among these agencies, the World Bank was the largest donor agreeing to provide Rs. 4.0 billion (15.9 percent of the total grant) followed by the IFAD with Rs. 87.1 million (0.3 percent) and the ADB with Rs. 24.8 million (0.1 percent).

Transaction with the IMF

6.38 In 2004/05, transaction with the IMF resulted into a net balance of SDR 479,954 implying a net inflow with the total receipts of SDR 608,736 and payments amounting to SDR 128,782. The total receipts of SDR 608,736 was a sum of purchase of SDR 565,000, burden sharing amounting to SDR 19, interest on SDR holding amounting to SDR 3,905 and remuneration amounting to SDR 39,812 in 2004/05. Likewise, Nepal paid a total of SDR 128,782 consisting of allocation charges amounting to SDR 128,253 and assessment charge of SDR 529.

IMF Liabilities

6.39 At the end of 2004/05, the total liabilities to the IMF stood at Rs. 1.5 billion (SDR 14.3 million) (Table 51). This amount was greater by Rs. 724.3 million (SDR 6.5 million) than the total liabilities at the end of the last year. No liabilities were accounted for on the account of Standby credit, IMF Trust Fund, SAF and ESAF account. Liability on the PRGF amounted to Rs. 784.4 million (SDR 7.1 million) in 2004/05.

Transaction under Asian Clearing Union

6.40 In the calendar year 2005 (January-December), the total transactions settled through the Asian Clearing Union (ACU) aggregated Rs. 990 million (ACU dollar 13.8 million). This amount was less by Rs. 227.1 million (ACU dollar 2.7 million) against that of the previous year. The total exports of goods settled under the ACU posted a decline of Rs. 36.1 million (ACU dollar 0.3 million) to Rs. 364.3 million (ACU dollar 5.1 million) (Table 52). Likewise, total imports fell by Rs. 191.4 million (ACU dollar 2.3 million) to Rs. 625.7 million (ACU dollar 8.8 million). The overall balance revealed a negative transaction of Rs. 261.4 million (ACU dollar 3.6 million).

7

Monetary Policy

Overview

7.1 Monetary policy for 2004/05 was designed against the background of slow economic growth, but contained inflation with a healthy BOP surplus. Inflation was contained at 4.0 percent in 2003/04 and BOP remained at a surplus of Rs. 16 billion. However, real GDP registered a growth of just 3.8 percent. Moreover, in financial sector, two large and old commercial banks were having a high level of non-performing assets for which Nepal Rastra Bank (NRB) has been implementing the Financial Sector Reform Programme since 2000.

7.2 The implementation of monetary policy remained challenging due mainly to rising trend of inflation in the latter half of 2004/05. As a result, the monetary policy stance in the latter half of 2004/05 remained slightly cautious and tighter.

Objectives and Stance

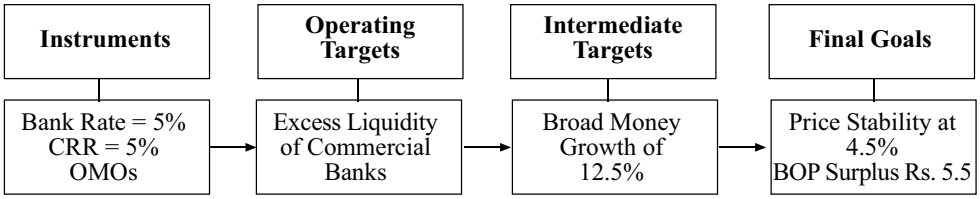
7.3 The primary objectives of monetary policy for 2004/05 were price stability and BOP consolidation as mandated by NRB Act, 2002. Accordingly the inflation was targeted at 4.0 percent while the BOP surplus was projected at Rs. 5.5 billion.

7.4 In 2004/05, NRB kept the bank rate constant at 5.5 percent. However, in the context of slower economic growth, cash reserve ratio (CRR) was lowered by one percentage point to 5 percent with a view to bringing down the cost of fund of commercial banks. Moreover, refinance rates for rural development banks and export credit in domestic currency including agricultural credit were lowered.

Monetary Policy Framework

7.5 Monetary policy for 2004/05 was formulated and implemented on the basis of implicit monetary aggregates targeting framework (Box 7.1).An indicative target of 12.5 percent was set for the growth of broad money (M_2). Chart 7.1 below provides the monetary framework used in 2004/05 for the conduct of monetary policy.

Chart 7.1: Monetary Policy Framework in Operation



7.6 The excess liquidity of commercial banks was taken as the operating target of monetary policy for 2004/05. The "Liquidity Monitoring and Forecasting Framework (LMFF)" (Box 7.2) was put in place to assess the excess liquidity situation. On the basis of the results obtained from the LMFF, the short term monetary operations were conducted.

Box 7.1: Applicability of Inflation Targeting Framework in Nepal

Inflation targeting is a new monetary policy framework adopted by some advanced as well as emerging market economies since the 1990s. About two dozens countries (e.g. Canada, the UK, Australia, New Zealand, Thailand, South Africa) have adopted this type of monetary policy framework. Due to the failure of monetary aggregate targeting regime in the developed countries owing to instability in money demand function, because of the financial innovation and the failure of fixed exchange rate regime in many emerging economies because of volatile capital flows, inflation targeting has been a new and alternative monetary policy framework. Experiences of these countries show that inflation targeting has been successful.

Inflation targeting framework has some benefits: clear and single objective, accountability, anchoring the inflation expectation, transparency and a scientific way of conducting monetary policy. Then, why should not NRB adopt this framework? However, there are some prerequisites for inflation targeting. First, NRB should make price stability as a sole objective, by clearly mentioning in NRB Act. Given the current economic structure of Nepal and the factors affecting price, price stability alone cannot be a sole objective. Second, in inflation targeting framework, the central bank should acquire instrument independence. In this case, to avoid price volatility, short-term interest rates need to be used effectively which may result in volatility in interest rate movement. Nascent private sector development in Nepal may not be able to absorb substantial changes in interest rates. Third, in inflation targeting framework, monetary policy instruments are used to bridge the gap between inflation forecast from the pre-determined inflation target. Hence, being a forward-looking approach, inflation forecast plays an important role in conducting the monetary policy. For which, central bank should have an ability to forecast inflation as accurately as possible. Since inflation in Nepal is highly influenced by supply-side factors, inflation forecasting will be a challenging task. Fourth, in inflation targeting, NRB, having a sole objective of price stability should not involve in measuring the inflation by itself to avoid the conflict of interest. In Nepal, no reliable and competent institution, except NRB, exists at present to carry out the job of inflation measurement.

Considering these prerequisites for inflation targeting, the current practice of monetary aggregate targeting appears to a available option for some times to come.

7.7 Since 2004/05, NRB has adopted the quantity (liquidity) rule for the conduct of short-term monetary operations. Based on LMFF and trends of monetary aggregates, NRB fixes the quantities for outright purchase auction, outright sale auction, repo auction and reverse repo auction, and the interest rate is determined by the market.

Box 7.2: Liquidity Monitoring and Forecasting Framework
1. NRB Foreign Exchange Transactions
a. Foreign Exchange Interventions (in hard currencies):
Purchases +
Sales -
b. Transactions in IC
Purchases +
Sales -
Change in IC Balance
c. Unexplained
Net Foreign Assets of NRB
2. Change in Government Overdraft (reduction -)/Deposits (reduction +)
a. Current Transactions
Expenditure (Change) +
Total Expenditure (cumulative)
Revenue (Change) -
Total Revenue
b. Unexplained!
3. Changes in Claims on Government
Claims on Government
a. Open Market Operations (Primary)
Purchases/Matured +
Sales (Fresh issue or renewal) -
b. Open Market Operations (Secondary)
Purchases/Matured +
Sales/Reverse Repo -
c. Unexplained
4. Changes in Claims on Financial Institutions
Claims on Government Enterprises
5. Changes in Other Private Sector Claims (net)
a. Changes in Claims (increase+)
Claims on Private sector
b. Changes in Other Deposit (increase -)
Other Deposits
6. Changes in Banks' Lending/Refinancing
a. Loans
New Loans +
Repayments -
b. Repos/SLF
New Repos / SLF+
Maturing Repos / SLF -
7. Changes in Currency in Circulation (Reduction +)
a. Public
Public (currency outside NRB)
8. Changes in Other Items Net
a. Other Assets (increase +)
Other Assets
b. Other Liabilities (Increase -)
Other Liabilities
9. SUM 1- 8
10. Changes in Banks' Deposits (Increase +)
Bank's Deposits
11. Changes in Required Reserves
*Required Reserves**
12. Changes in Excess Reserves
Excess Reserves

Monetary Measures and Liquidity Management

7.8 With a view to managing liquidity and thereby achieving the objectives of monetary policy, the following provisions in monetary measures were made in 2004/05.

Bank Rate

7.9 Although bank rate was kept constant at 5.5 percent, NRB lowered some refinance rates for special credit flows. For example, refinance rate for rural development banks (RDBs), export credit in domestic currency and agricultural credit was lowered to 3.0 percent from 4.5 percent (Table 7.1). Refinance rate for sick industry refinancing was also lowered to 1.5 percent from 2.0 percent.

Table 7.1: Bank Rate and Refinance Rates in 2004/05 (in percent)

Headings	Before Change	Changed in 2004/05
For sick industry refinancing	2.0	1.5
For Rural Development Banks	4.5	3.0
For export credit in domestic currency	4.5	3.0
For export credit in foreign currency	2.0	2.0
All other types of credits (bank rates)	5.5	5.5

7.10 A survey of the cross-country experience shows that the level of bank rate in Nepal is comparable with the other neighbouring countries (Table 7.2). However, variety of refinance rates that exist in Nepal reflects that the authorities concern for some sectors of the economy.

Table 7.2: Bank Rate in Selected Countries (As of June 2005)

Countries	Bank rate (in percent)
India	6.0
United States	4.0
Bangladesh	5.0
Pakistan	9.0
Thailand	4.0
Nepal	**5.5**

Source: International Financial Statistics, August 2005

Cash Reserve Ratio

7.11 With a view to reducing the cost of funds of commercial banks and thereby helping lower the financial intermediation cost, CRR was reduced to 5.0 percent from 6.0 in 2004/05 by which liquidity of Rs. 2.0 billion was injected in the economy. Because of slack season at the beginning of the fiscal year, high liquidity situation due to cut in CRR lowered the short-term interest rate substantially. That liquidity which was mopped up through the conduct of open market operations. A table showing CRR in some selected countries is attached below (Table 7.3).

Table 7.3: CRR in some selected countries

Countries	Required Ratio	Interest Paid on Reserve	Averaging period	
			Length	Lag from Calculation Period
China	6%	1.9%	10 days	
India	4.5%	6.0%*	2 weeks	2 weeks
Indonesia	5%	None	None	2 weeks
Korea	1-5%	None	2 weeks	1 week
Malaysia	4%	None	2 weeks	2 weeks
Singapore	3%	None	2 weeks	2 weeks
Thailand	6%	None	2 weeks	2 weeks
South Africa	2.5%	None	1 month	15 business days
Mexico	0%	None	28 days	—
Venezuela	15%	None	1 week	1 week
Nepal	**5%**	**None**	**2 weeks**	**2 weeks**

* *Linked with the bank rate.*

Source: Hawkins, J.(2005): Globalisation and Monetary Operations in Emerging Economies, BIS Papers No. 23, Bank for International Settlement.

Sick Industry Refinancing

7.12 An arrangement of sick industry refinancing was continued in 2004/05 as well. Refinancing of one billion rupees was earmarked for sick industries at a refinance rate of 1.5 percent. An amount of refinancing of Rs 379.1 million was sanctioned for a total of 18 industries including 13 hotels and 5 industries in 2004/05. Such a lower level of utilisation of refinance facility was due to non-compliance of the conditions set by the High-level Sick Industries Rehabilitation Committee by the concerned industries.

Primary Issuance of Development Bonds

7.13 As mentioned in the monetary policy statement, the primary issuance of development bonds (DBs) was undertaken through the auction system for the first time. Such bonds of Rs. 3.0 billion with a maturity period of 5 years was issued four times through primary auction at premium. The Table 7.4 shows the primary issuance of DBs at different premium rates.

Table 7.4: Primary Issuance of 5-year Development Bonds through Auction

Issue Date	Rs. in Million	Coupon Rate	Average Auction Price
June 2, 2005	500	5.5	101.0807
June 9, 2005	1,000	5.5	101.8087
June 27, 2005	750	5.5	101.5302
July 4, 2005	750	5.5	102.0259

Conversion of Special Bonds into Treasury Bills

7.14 Special Bonds worth Rs. 555.2 million were converted into 364-day Treasury Bills (TBs) on March 9, 2005 in line with the monetary policy statement of 2004/05. The objective of the inversion of special bonds into TBs was to make marketable and facilitate their use in the monetary policy.

Foreign Exchange Intervention

7.15 With a view to maintaining the external stability and liquidity management both in domestic currency and foreign currency as per the existing pegged exchange rate regime with Indian Currency, NRB intervened in the foreign exchange market 45 times in 2004/05. NRB purchased US dollar 41 times amounting to Rs. 37.9 billion and sold US dollar 4 times amounting to Rs. 3.6 billion. As a result, net liquidity of Rs. 34.3 billion was injected into the economy through foreign exchange intervention. Such an injection of liquidity was higher than that of the previous year by 21.9 percent. This reflected a significant supply of foreign currency in the economy, particularly from remittance inflows (Table 7.5).

Table 7.5: Foreign Exchange Intervention

Rs. in million

Mid-Months	2003/04		2004/05	
	Purchased	Sale	Purchased	Sale
August	735.4		1357.8	
September	1337.1		2067.5	
October	3529.5		3687.8	
November	2686.0		2435.1	1088.4
December	2257.5	496.3	3233.3	
January	2901.6		4718.1	
February	1893.9		2090.4	1750.5
March	1962.7		2120.2	
April	2955.4		6237.8	
May	1971.2	408.9	3808.9	780.3
June	4584.5		2288.9	
July	3337.3	1132.2	3849.1	
Total	30152.0	2037.4	37894.7	3619.3
Net Injection of liquidity	28114.5		34275.4	

Open Market Operations

7.16 Monetary policy for 2004/05 replaced the then existing system of open market operations (OMOs) where NRB used to fix rates and the market determined the quantity. Under the old system, initiative for the open market operations lay with the market participants. Under the new system, NRB fixes the quantities for outright purchase auction, outright sale auction, repo and reverse repo auction; the former two are for medium term liquidity management and the latter two are for short-term liquidity management. The market determines the interest rate. The outright purchase auction and repo are used for liquidity injection while the outright sale auction and reverse repo are used to mop up the excess liquidity. Since 2004/05, NRB has been taking initiative for the conduct of OMOs.

7.17 OMOs in 2004/05 were predominantly geared towards mopping up the liquidity from the market. In 2004/05, NRB conducted purchase auction 11 times and injected

liquidity of Rs. 1.3 billion while NRB conducted sale auction 13 times and mopped up the liquidity amounting to Rs. 10.5 billion thereby mopping up the net liquidity of Rs. 9.2 billion. For short-term liquidity management, NRB conducted repo and reverse repo auction. Repo auction was conducted 11 times and thereby injecting liquidity amounting to Rs. 6.7 billion while reverse repo was conducted 5 times with the absorption of liquidity amounting to Rs. 5.3 billion. As a result, net liquidity of Rs. 1.4 billion was injected through repo transactions (Table 7.6). In total, net liquidity of Rs. 7.8 billion was mopped up through OMOs in 2004/05.

Table 7.6: Open Market Operations in 2004/05

Rs. in million

Instrument	Liquidity Injected	Liquidity Mopped Up	Net Injection (+)/ Net Withdrawal (-)
Outright Sale Auction		10,500.0	
Outright Purchase Auction	1,311.8		-9,188.2
Repo Auction	6,680.0		
Reverse Repo Auction		5,270.0	1,410.0
	7,991.8	1,5770	-7,778.2

Standing Liquidity Facility

7.18 In 2004/05, a new system of standing liquidity facility (SLF) was introduced for the commercial banks. The objective of this facility is to secure a smooth domestic payments system in the country. This facility is provided to the commercial banks on an automatic basis against the collateral of government securities. Under this provision, the loan up to 50 percent of the face value of collateral is provided to the commercial banks at a panel rate (the latest 91-day TBs rate plus a mark up of 1.5 percent). In 2004/05, commercial banks utilized SLF of Rs. 49.3 billion.

Moral Suasion

7.19 In 2004/05, NRB also applied the moral suasion on commercial banks. The objective was to persuade commercial banks to bring down the interest rate spread. In May 2005, the Governor urged the commercial banks to raise deposit rates and thereby help bring down the high interest rate spreads.

Outcome of Monetary Policy

7.20 The actual annual average inflation at 4.5 percent exceeded slightly the target of 4.0 percent set for 2004/05. The slightly higher than the targeted level of inflation was attributable to the hike in petroleum prices and the increase in VAT rate from 10 percent to 13 percent in the middle of the fiscal year.

7.21 The actual level of BOP surplus was at higher level of Rs. 5.7 billion than the targeted level of Rs 5.5 billion. Increased inflow of remittance contributed to the higher than the targeted level of surplus in BOP in 2004/05.

Table 7.7: Inflation and Balance of Payments in 2004/05
(Target vs. Actual)

	Target	Actual
Inflation (in percent)	4.0	4.5
BOP	Rs. 5.5 billion	Rs.5.7 billion

Monetary Aggregates

7.22 Monetary aggregates remained lower than the targeted level. Narrow money supply (M_1) grew by just 6.6 percent while M_2 grew by 8.3 percent. However, domestic credit registered a growth of 13.5 percent outpacing the target due mainly to increase in claims to government and non-financial government enterprises (Table 7.8).

Table 7.8: Performance of Monetary Aggregates

	Target	Actual
M_1	10.5	6.6
M_2	12.5	8.3
Domestic Credits	13.3	13.5

7.23 Analysis of growth of monetary aggregate on the basis of money multiplier or from the high-powered money perspective revealed that growth in monetary aggregates was attributable to rise in money multipliers. Both, M1 multiplier and M2 multiplier increased in 2004/05 due mainly to cut in CRR at the beginning of 2004/05 and the arrangement of SLF facility. M1 multiplier increased from 0.995 in 2003/04 to 1.038 in 2004/05 and M2 multiplier increased from 2.937 to 3.112. The growth of reserve money decelerated to 2.2 percent in 2004/05 from 16.6 percent in 2003/04, due mainly to decline in commercial banks' balance with NRB.

Banking Survey

7.24 The banking survey, which includes the activities of commercial banks and other deposit taking institutions (ODIs) in addition to central bank, provides a broader measure of liquidity. As per the banking survey, total liquidity witnessed a decelerating trend in 2004/05. The total liquid liabilities (L1) of the banking sector, increased by 8.6 percent in the review year amounting to Rs.327.2 billion as at mid-July 2005 (Table 53). Such liabilities had increased by 12.7 percent last year. Such a deceleration in liquid liabilities was due to the lower growth of net foreign assets (NFA) of the banking system compared to that of last year. Of the total liabilities of the banking sector, the share of time and saving deposits of ODIs (excluding ODIs' time and saving deposits held at commercial banks) was 9.7 percent amounting to Rs.31.7 billion in mid-July 2005 compared to the 9.1 percent amounting to 27.3 billion in mid-July 2004. This shows the growing contribution of ODIs in the financial sector.

7.25 NFA of the banking sector increased by 3.4 percent (Rs.3.7 billion) in the review year after adjusting the exchange valuation gain of Rs.6.8 billion compared to a high

growth of 21.3 percent (18.7 billion) last year. Decline in inflow of foreign aid as well as service income net due to weak performance of tourism sector contributed to such a lower growth of NFA in the review year. The share of NFA of ODIs remained at a negative level.

7.26 Domestic credit increased by 14.5 percent in 2004/05 compared to a rise of 3.3 percent last year. The acceleration in domestic credit was due to the growth in the net claims on government, non-financial government enterprises and claims on private sector in the review year. The claims on government increased by 8.4 percent in the review year against a negative growth of 1.7 percent in the previous year. Similarly, claims on non-financial government enterprises increased by 125.3 percent compared to a nominal increase of 2.9 percent in the previous year. Such acceleration in claims on non-financial government enterprises was due to the extended credit facility by commercial banks to some non-financial government corporations like NOC, RNAC, National Trading Limited (NTL) and Janak Educational Material Centre (JEMC). Claims on private sector increased by 16.0 percent in the review year compared to a growth of 4.0 percent in the previous year. Claims on non-bank financial institutions (NBFIs) registered a negative increment of 8.8 percent in the review year in contrast to a significant growth of 19.7 percent in the previous year.

7.27 Capital and other items net, the contractionary factor of liquid liabilities, went up by 20.9 percent in the review year in contrast to a decline of 6.4 percent in the previous year. A rise in paid-up capital, general reserves and profit, and an increase in time and saving deposits of ODIs contributed to such a rise in capital and other items net in the review year. As a result, net domestic asset increased by 11.5 percent in the review year and stood at Rs.222.3 billion compared to an increase of 8.5 percent in the previous year.

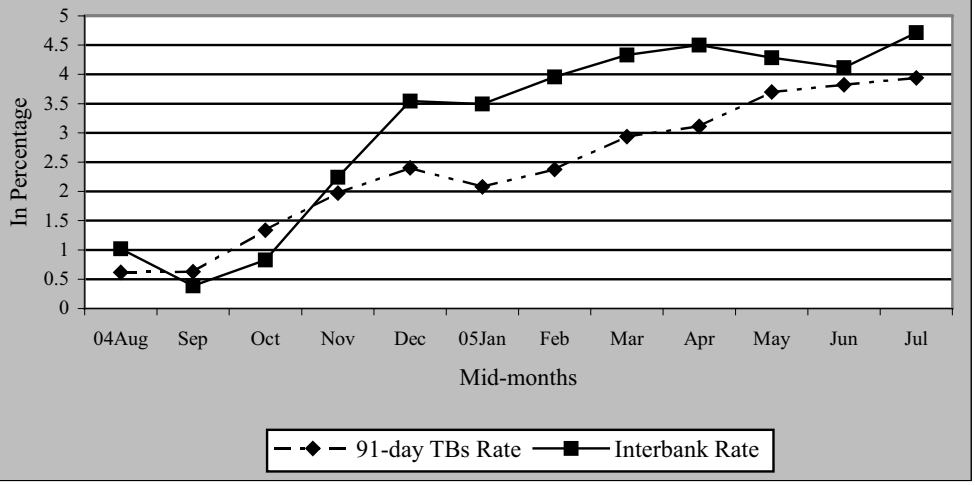
8

Money Market and Financial Market

Money Market Indicators

8.1 The following graph shows the movement of money market interest rates, particularly monthly weighted average 91-day TBs rate and weighted average inter-bank rate. The first two months of 2004/05 witnessed a heavy fall in short-term interest rates which was due to cut in CRR at the beginning of 2004/05 which released almost Rs. 2.0 billion liquidity in the economy. However, NRB successfully mopped up the excess liquidity from the banking system through effective open market operations. As a result, short-term interest rate gradually went up after the second month of 2004/05, reflecting monetary tightness.

Figure 8.1: Money Market Interest Rates



Stock Market

Primary Issue of Securities

8.2 In 2004/05, 13 companies issued their primary shares to the public worth of Rs. 1.5 billion. Of the 13 companies, 12 were financial institutions and one from hydropower companies. Total issue in the primary market comprised of ordinary shares amounting Rs. 227.5 million and issued by six companies followed by right shares of Rs. 949.3 million of six companies. In the review period, Everest Bank Limited (EBL) issued debenture worth of Rs. 300.0 million. All ordinary shares issued by financial institutions were oversubscribed from 2.0 times to 9.7 times of the issued amount. This was primarily due to a decreasing real interest rate in the banking sector, availability of more liquidity in the economy and lack of alternative investment opportunities. This was also an indication of people's increasing attraction towards investment in the shares of financial institutions.

Secondary Stock Market Development

8.3 The stock market witnessed a significant growth in the year 2004/05. This growth was reflected in the NEPSE index, the number of companies listed, market capitalization and the total number of listed shares.

8.4 The closing NEPSE Index increased by 64.7 points (29.1 percent) to 286.7 as at mid-July 2005 from 222.0 of mid-July 2004. The increase in workers' remittances, lack of investment opportunities, low level of real interest rates, and an increased profit levels of banks and financial institutions contributed to the growth of NEPSE index in 2004/05.

8.5 The number of companies listed in the NEPSE increased from 114 in 2003/04 to 125 in 2004/05 because of the additional listing of 11 new companies (Table 78). The annual turnover of shares increased substantially by 110.2 percent (Rs. 2.4 billion) to Rs. 4.5 billion. Due to an increase in the number of listed companies accompanied by a rise in share prices of commercial banks and other financial institutions as a consequence of increased return on their assets. The paid up value of the listed shares rose by 39.6 percent (Rs. 4.8 billion) to Rs. 16.8 billion in 2004/05 compared to a marginal increase of 1.0 percent in the preceding year.

8.6 The average monthly turnover surged substantially by 110.2 percent (Rs. 196.9 million) to Rs. 375.6 million in 2004/05 compared to Rs. 178.7 million in 2003/04. An average daily share turnover of Rs. 19.1 million was observed in 2004/05 compared to an average daily turnover of Rs. 8.8 million in the previous year.

8.7 The market capitalization of listed shares, which stood at Rs. 41.4 billion as at mid-July 2004, increased by 48.1 percent (Rs. 19.9 billion) to Rs. 61.4 billion as at mid-July 2005. The market capitalization to GDP ratio stood at 11.6 percent. Likewise, total annual turnover to paid up value of the listed share stood at 26.9 percent and total turnover to market capitalization in 2004/05 remained at 7.3 percent. These figures had remained at 8.4 percent, 17.8 percent and 5.2 percent respectively last year. The ratio of total turnover to the paid up value of listed companies increased substantially due mainly to the transactions of block shares of some commercial banks that hold a dominant role in the NEPSE, due to a substantial capital appreciation on those shares.

8.8 Volatility, measured as a twelve-month standard deviation of NEPSE index increased in the 2004/05 compared to that of 2003/04. The standard deviation of NEPSE index stood at 24.5 in 2004/05 compared to 5.8 in 2003/04. However, the standard deviation in the year 2004/05 remained lower than that in years 1999/00, 2000/01 and 2001/02. This clearly indicates an increasing demand for investment in stock market, primarily for the share of financial institutions. This increasing demand has been putting the pressure on the prices of stocks, consequently increasing market capitalisation and widening the standard deviation (risk) in the stock market.

Financial Structure of Nepal

8.9 For the analytical purpose, the Nepalese financial system can be segregated into three major groups. The first, banking group, comprises NRB (the central bank) and commercial banks. The second group, called financial institutions group, comprises finance companies, development banks (including rural development banks and micro-credit development banks), financial cooperatives (FINCOOPs), and the third, the contractual saving institutions group, consists of Employees Provident Fund (EPF), Insurance Companies and Citizen Investment Trust (CIT).

8.10 The banking group largely dominates the Nepalese financial system in terms of assets, deposits and credit flow. In July 2005, the total assets of financial system reached Rs. 685.0 billion. Of the total assets of the financial system, banking group witnessed the largest share (81.0 percent) followed by contractual saving institutions (10.1 percent) and other financial institutions (8.9 percent). In July 2004, the shares of these groups in the assets stood at 83.7 percent, 9.4 percent and 6.9 percent respectively. In terms of credit flow, commercial banks still envisaged the largest share of 70.9 percent, followed by financial institutions (14.7 percent) and contractual saving institutions (14.4 percent) as against the respective shares of 69.2 percent, 17.5 percent and 13.3 percent in July 2004. Likewise, commercial banks accounted for the highest share of 74.6 percent in total deposits in July 2005, followed by contractual savings institutions (16 percent) and financial institutions (9.4 percent). In July 2004, the respective shares of commercial bank, contractual saving institutions and financial institutions were 76.2 percent, 15.1 percent and 8.7 percent of the total deposit.

Other Banking and Non-Bank Financial Institutions

8.11 Other banking institutions (OBIs) include all deposit taking financial institutions (excluding commercial banks) that comprise 35 development banks, 59 finance companies, 20 FINCOOPs (authorized to carry out limited banking activities), 47 financial non-governmental organizations (FINGOs) and 117 postal saving banks (PSBs). Of the total development banks, five RBDs and four other micro-credit development banks have been providing micro finance services to rural households following the Grameen Bank model. Two other development banks namely Rural Microfinance Development Centre (RMDC) and Small Farmers' Development Bank (SFDB) have been engaged in providing wholesale credit services; the former provides services to the retail microfinancing institutions whereas, the latter to the Small Farmers' Cooperative Limited (SFCL). On the other hand, NBFIs are those entities which do not accept public deposits, but they have an important role in channelising financial resources from surplus units to

deficit units in the economy. The NBFIs comprise 19 insurance companies are Deposit Insurance and Credit Guarantee Corporation (DICGC), an EPF and a CIT. Such organisations collect public savings in different forms such as insurance premiums (by insurance companies) and voluntary savings (CIT). In addition, the NEPSE has been providing liquidity in the financial market by facilitating long-term investors through trading of securities such as shares, debentures, and bonds those previously issued in the primary markets. As private bond market activities are virtually non-existent, secondary market activities are mainly dominated by share transactions in the NEPSE.

8.12 After the commencement of BAFIO, 2004 (an umbrella act that incorporates all the acts related to the establishment and operation of all banking and financial institutions), need for a set of umbrella directives was severely felt. Accordingly, NRB issued a directive called " Unified Directives for Licensed Banks and Financial Institutions-2005".

Sources and Uses of Funds of OBIs

8.13 As at mid-July 2005, the total sources of funds of OBIs increased by 21.5 percent (Rs. 17.3 billion) to Rs. 97.6 billion as against a decrease of 1.7 percent (Rs. 1.4 billion) in the previous year (Table 58). Of the total liabilities of OBIs, deposit went up by 11.1 percent (Rs. 6.0 billion) to Rs. 59.5 billion compared to an increase of 12.0 percent (Rs. 5.7 billion) in the previous year. Of the total deposit, ADB/N including deposit from commercial banking activities held the largest share of 46.8 percent (Rs. 27.9 billion) followed by finance companies 37.5 percent (Rs. 22.3 billion), other development banks 10.6 percent (Rs. 6.3 billion), and co-operative societies 2.9 percent (Rs. 1.7 billion), In 2004/05, total borrowing of these institutions increased by 4.5 percent (Rs. 0.4 billion) to Rs. 10.0 billion compared to an increase of 18.1 percent in the previous year.

8.14 On the uses side, loans and advances of OBIs increased by 17.1 percent (Rs. 8.3 billion) to Rs. 56.6 billion whereas other assets increased by 61.6 percent (Rs. 9.4 billion) to Rs. 24.6 billion. The cash and bank balance of OBIs declined by 0.7 percent and the investment dropped by 4.6 percent in 2004/05. Of the total investment outstanding of OBIs as at mid-July 2005, Government securities accounted to 14.2 percent (Rs. 0.9 billion), fixed deposit and others to 80.1 percent (Rs. 4.9 billion) and rest 5.7 percent (Rs. 0.4 billion) went to the investment in shares.

8.15 The purpose-wise distribution of outstanding loans and advances of these institutions as at mid-July 2005 revealed that 42.9 percent (Rs. 24.3 billion) has been disbursed to agricultural sector, 13.8 percent (Rs. 7.8 billion) to housing sector, 4.1 percent (Rs. 2.3 billion) to industrial purposes and 39.2 percent (Rs. 22.2 billion) to other sectors.

Agricultural Development Bank

8.16 The ADB/N is the largest institution in Nepal among OBIs in terms of total assets, deposits, and loan and advances. In addition, the bank is the largest organisation to provide agriculture credit and has a wide branch network all over the country. It collects public deposits through its commercial banking branches located in urban areas and invests in targeted sectors of rural areas. It provides short, medium and long-term financing for agriculture inputs, product processing and marketing of agricultural

products. Share capital, public deposits, and domestic and foreign borrowings are the main financial resources of ADB/N. The bank's legal status has recently been changed from state owned development bank to a public limited company.

8.17 Financially, the bank has been in a distressed situation due to its increasing non-performing assets. However, the bank has adopted stringent measures to speed up its loan recovery for the last couple of years. Organizational restructuring process has been initiated in the bank under the Financial Sector Reform Program (FSRP). The bank has been emphasizing to loan classification and provisioning in order to comply with NRB's directives.

8.18 The total loan disbursement of ADB/N increased by 14.8 percent (Rs. 1.5 billion) to Rs. 11.7 billion in 2004/05 compared to a marginal increase of 0.3 percent (Rs. 33.6 million) in 2003/04 (Table 59). Of the total loan disbursement, 50.9 percent (Rs. 5.9 billion) was earmarked for agro-industry, marketing and warehouse construction, 14.9 percent (Rs. 1.7 billion) for agriculture production, 15.5 percent (Rs. 1.8 billion) for agro-business, 4.8 percent (Rs. 556.0 million) for farm improvement and irrigation and the remaining 13.9 percent (Rs. 1.9 billion) for miscellaneous purposes. Similarly, the total loan repayment of ADB/N went up by 13.7 percent (Rs. 1.2 billion) to Rs. 10.3 billion in the review year compared to an increase of 10.7 percent (Rs. 0.9 billion) in the previous year. The total loan outstanding of ADB/N increased by 6.9 percent (Rs. 1.4 billion) to Rs. 21.1 billion in 2004/05 compared to an increase of 5.9 percent (Rs. 1.1 billion) in 2003/04.

8.19 Maturity-wise, 50.4 percent (Rs. 10.1 billion) of the total outstanding loan consisted of medium term loan followed by 43.8 percent (Rs. 8.7 billion) of short-term and 5.8 percent (Rs. 1.2 billion) of long-term (Table 61).

Sources and Uses of Funds of ADB/N

8.20 Total sources of funds of ADB/N increased by 27.0 percent (Rs. 10.2 billion) to Rs. 48.0 billion in 2004/05 as against a decrease of 6.2 percent (Rs. 2.5 billion) in the preceding year (Table 63). The paid up capital of ADB/N increased by 6.5 percent (Rs. 103.0 million) to Rs. 1.7 billion in 2004/05. Likewise, total borrowing decreased by 1.6 percent (Rs. 58.5 million) to Rs. 3.6 billion compared to a decline of 9.6 percent (Rs. 388.8 million) in 2003/04. Of the total borrowing, foreign borrowing went down by 1.3 percent (Rs. 35.0 million) to Rs. 2.6 billion compared to a fall of 12.9 percent (Rs. 391.8 million) in 2003/04. Likewise, borrowing from commercial banks and others decreased by 10.4 percent (Rs. 77.2 million). However, borrowing from NRB increased by 19.4 percent (Rs. 53.7 million) to Rs. 331.2 million.

8.21 Overall deposit of ADB/N increased by 6.2 percent (Rs. 1.6 billion) to Rs. 27.9 billion compared to an increase of 9.6 percent (Rs. 2.3 billion) in the preceding year. Of the total deposits, saving accounted for 54.2 percent followed by fixed, (36.2 percent), current (6.5 percent) and other deposit (3.1 percent).

8.22 Of the total assets, loan and advances had a remarkable share of 49.6 percent followed by other assets (40.1 percent), cash and bank balance (7.2 percent) and investment (3.1 percent). Bank's total loan and advances to agriculture went up 7.5 percent (Rs. 1.5 billion) to Rs. 21.2 billion compared to an increase of 5.8 percent (Rs. 1.1

billion) in the previous year. Similarly, such flows to commercial activities increased by 13.8 percent (Rs. 1.3 billion) to Rs. 11.0 billion compared to an increase of 19.5 percent (Rs. 1.6 billion).

8.23 Likewise, total investment of ADB/N decreased by 45.4 percent (Rs. 1.2 billion) to Rs. 1.5 billion in 2004/05 compared to an increase of 3.3 percent (Rs. 88.5 million) in the preceding year. Of the total investment; the share of government securities, shares and fixed deposit consisted of 1.4 percent, 9.2 percent and 24.7 percent respectively. Other investment, which contributed a major share of 67.4 percent in the total investment decreased by 49.7 percent (Rs. 955.3 million) to Rs. 1.0 billion in 2004/05.

Nepal Industrial Development Corporation

8.24 Nepal Industrial Development Corporation (NIDC), one of the oldest development banks in Nepal has been facing liquidity problem for the last few years because of a large amount of non-performing assets. It has heavily curtailed its loan disbursements because of the paucity of funds. Despite NRB's approval for managing financial resources by accepting institutional deposits, its sources of fund haven't shown any improvement. Under FRSP, financial and operational restructuring has been initiated in order to improve its financial health for last couple of years.

Other Development Banks

8.25 Other Development Banks (ODBs) comprises of all development banks except RDBs and development banks those involved in micro finance activities. ODBs are incorporated as public limited companies and established under the Development Bank Act, 1997 and currently operating under BAFIO, 2004. The major objectives of establishing ODBs were to mobilize more financial resources and availing technology needed for the establishment, development, expansion, and enhancement of capacity and productivity of private sector enterprises. ODBs are allowed to collect deposits up to the limit imposed by NRB's directives and disburse loans and advances for fixed and working capital as required by the private enterprises and individuals.

Sources and Uses of Funds of ODBs

8.26 The total sources of funds of ODBs increased by 33.6 percent (Rs. 2.1 billion) to Rs. 8.2 billion as at mid-July 2005 compared to an increase of 16.5 percent (0.9 billion) in 2003/04 (Table 67). The sources of funds consisted of capital funds 14.4 percent (Rs. 1.2 billion), deposit 77.0 percent (Rs. 6.3 billion), borrowing 2.1 percent (Rs. 175.7 million) and other liabilities 6.5 percent (Rs. 529.2 million). On the uses side, liquid funds occupied 18.0 percent (Rs. 1.5 billion), investments 5.2 percent (Rs. 424.5 million), loans and advances 64.0 percent (Rs. 5.2 billion) and other assets 12.8 percent (Rs. 1.0 billion). Of the total investment, government securities accounted for 16.4 percent (Rs. 69.5 million), share and debenture 23.1 percent (Rs. 98.0 million) and other investment 60.5 percent (Rs. 257.0 million). Likewise, loans and advances went up by 23.9 percent (Rs. 1.0 billion) to Rs. 5.2 billion in 2004/05.

Rural Development Banks

8.27 With an objective of providing micro-credit services to the rural poor women under the group guarantee without collateral, RDBs have been established one in each development region of the country. As at mid-July 2005, RDBs disbursed, in aggregate, loans amounting to Rs. 12.5 billion to 163,987 members. Of the total loan disbursed, Rs. 11.0 billion was repaid and Rs. 1.5 billion remained as outstanding. RDBs have been providing services through 5,034 centres in 45 districts of the country. RDBs collected deposit of Rs. 439.8 million, of which, 98.8 percent (Rs. 434.5 million) consisted of group savings and remaining 1.2 percent (Rs. 5.3 million) from personal savings.

Sources and Uses of Funds of Rural Development Banks

8.28 Total assets of five RDBs increased by 20.4 percent (Rs. 482.3 million) to Rs. 2.8 billion in 2004/05 compared to an increase of 7.1 percent (Rs. 157.4 million) in the preceding year (Table 68). In the review year, total capital funds of five RDBs decreased by 4.2 percent (Rs. 13.3 million) to Rs. 303.9 million, deposits diminished by 7.1 percent to Rs. 439.8 million and borrowing increased by 13.9 percent (Rs. 203.9 million) to Rs. 1.7 billion..

8.29 In the review year, liquid funds of RDBs went up by 14.5 percent (Rs. 37.2 million) to Rs. 294.3 million, likewise, the investment increased by 13.9 percent (Rs. 80.7 million) to Rs. 660.6 million. Loans and advances of the RDBs went up by 7.9 percent (Rs. 107.6 million) to Rs. 1.5 billion in the review year compared to an increase of 3.8 percent (Rs. 49.3 million) in the previous year. Of the total uses of funds of RDBs, loans and advances accounted to 51.5 percent, investment 23.2 percent, liquid funds 10.3 percent and remaining 14.9 percent went to other uses.

8.30 Eastern Region Rural Development Bank (ERRDB) has been operating in 9 districts of the eastern region with its head office in Biratnagar. As at mid-July 2005, the loan disbursed by this bank amounted to Rs. 5.2 billion to 43,098 borrowers. It has altogether 1,383 centers and 45,490 members, comprising of 11,361 groups within 251 VDCs. Of the total loan disbursement, Rs. 4.7 billion was recovered and Rs. 523.5 million remained as outstanding as at mid-July 2005. In this period, total saving deposits of the bank reached Rs. 159.5 million. Of the total savings deposit, group savings shared 83.8 percent (Rs. 164.0 million) and the remaining 16.2 percent (Rs. 31.6 million) was personal savings.

8.31 Central Region Rural Development Bank (CRRDB) has been operating in 14 districts of the region with its head office in Hetauda. As at mid-July 2005, the loan disbursed by this bank amounted to Rs. 2.2 billion to 38,645 borrowers. It has altogether 1,329 centers and 40,821 members, comprising of 8,156 groups formed within 293 VDCs. Of the total disbursement, Rs. 1.9 billion was repaid and Rs. 285.5 million remained as outstanding as at mid-July 2005. In this period, total saving deposits of the bank reached Rs. 97.5 million. Of the total savings deposit, share of group savings was 93.1 percent (Rs. 76.4 million) and the remaining 6.9 percent (Rs. 5.7 million) was personal savings.

8.32 Western Region Rural Development Bank (WRRDB) has been operating in 13 districts of the region with its head office at Butwal. As at mid-July 2005, the loan disbursement of this bank amounted to Rs. 3.0 billion to 39,646 borrowers. It has altogether 1,154 centers and 40,821 members, comprising of 8,199 groups formed within 276 VDCs. Of the total loan disbursement, Rs. 2.6 billion was repaid and Rs. 385.4 million remained at outstanding as at mid-July 2005. In this period, total saving deposits of this bank reached Rs. 92.5 million. Of the total savings deposit, share of group savings was 94.4 percent (Rs. 78.2 million) and the remaining 5.6 percent (Rs. 4.6 million) was personal savings.

8.33 Mid-western Region Rural Development Bank (MWRRDB) has been operating in 4 districts of the region with its head office in Nepalgunj. As at mid-July 2005, the loan disbursed by this bank amounted to Rs. 1.1 billion to 18,190 borrowers. It has altogether 554 centers and 18,190 members, comprising 3,638 groups formed within 106 VDCs. Of the total loan disbursement, Rs. 843.0 million was recovered and Rs. 125.4 million remained at outstanding as in mid-July 2005. In this period, total saving deposits of this bank reached Rs. 48.9 million. Of the total saving deposits, group savings accounted for 94.5 percent (Rs. 48.0 million) and the remaining 5.5 percent (Rs. 2.8 million) was personal savings.

8.34 Far-western Region Rural Development Bank (FWRRDB) has been operating in 5 districts of the region with its head office at Dhangadhi. As at mid-July 2005, the loan disbursed by this bank amounted to Rs. 968.3 million to 12,142 borrowers. It has altogether 614 centers and 19,358 members, comprising of 3,499 groups formed within 79 VDCs. Of the total loan disbursement, Rs. 843.0 million was recovered and Rs. 125.4 million remained at outstanding as at mid-July 2005. In this period, total saving deposits of this bank reached Rs. 41.5 million. Of the total saving deposits, share of group savings was 96.2 percent (Rs. 42.8 million) and the remaining 3.8 percent (Rs. 1.7 million) was personal savings.

Finance Companies

8.35 Finance companies are established and operating under the BAFIO, 2004. They are registered as public limited companies at the Office of the Company Registrar. Finance companies can accept time deposit of the maturity of minimum 3 months to maximum 6 years to a limit of twelve times and saving deposits up to 2.5 times of their core capital.

Sources and Uses of Funds of Finance Companies

8.36 The total assets/liabilities of finance companies recorded a growth of 12.2 percent (Rs. 3.3 billion) to Rs. 30.5 billion in 2004/05 compared to an increase of 23.0 percent (Rs. 5.1 billion) in the previous year (Table 70). At the end of 2004/05, total number of finance companies remained unchanged at 59.

8.37 Public deposits, the major source of funds of finance companies, consisted 71.4 percent of their total resources in 2004/05. Capital funds of these companies went up by 16.3 percent (Rs. 596.2 million) to Rs. 4.3 billion compared to an increase of 14 percent (Rs. 448.6 million) a year earlier. Likewise, total deposit liability increased by 15.2 percent (Rs. 2.9 billion) to Rs. 22.3 billion compared to an increase of 17.5 percent (Rs.

2.9 billion) last year. Total borrowing of FCs decreased drastically by 24.2 percent (Rs. 0.3 billion) to Rs. 1.0 billion in 2004/05. Similarly, other liabilities also decreased by 12.6 percent (Rs. 282.1 million) to Rs. 1.9 billion in 2004/05 as against an increase of 24.8 percent (Rs. 442.7 million) in 2003/04.

8.38 The total liquid funds of finance companies recorded a decrease of 12.6 percent (Rs. 0.6 billion) to Rs. 3.9 billion in 2004/05 contrary to an increase of 67.2 percent (Rs. 1.8 billion) in the previous year. Likewise, aggregate investment decreased by 4.0 percent (Rs. 99.3 million) to Rs. 2.4 billion as against an increase of 4.9 percent (Rs. 118.1 million) in 2003/04.

8.39 Loans and advances one of the major components of uses side of financial companies accounted for 69.5 percent of the total uses of funds in 2004/05, which has recorded a growth of 21.0 percent (Rs. 3.7 billion) and reached Rs. 21.2 billion compared to an increase of 21.2 percent (Rs. 3.1 billion) in 2003/04. Of the total loans and advances, term loans accounted to 44.5 percent (Rs. 9.4 billion), followed by housing loan 32.1 percent (Rs. 6.8 billion), hire purchases 16.9 percent (Rs. 3.6 billion), leasing 1.2 percent (Rs. 247.2 million) and the remaining 5.3 percent (Rs. 1128.7 million) for other purposes. Other assets of finance companies increased by 11.3 percent (Rs. 301.4 million) to Rs. 3.0 billion compared to an increase of 3.9 percent (Rs. 101.3 million) in the preceding year.

Financial Cooperatives

8.40 FINCOOPs are the organizations established under the cooperative Act, 1992 and allowed to collect deposits from and advance loans to their members only. They are authorized to carry out this limited banking activities within their members subject to the prior approval of NRB. These cooperatives currently have been operating as group 'D' institutions under BAFIO, 2004. NRB has imposed limits on deposit and credit to single barrower for those cooperatives that are licensed by NRB.

Sources and Uses of Funds of FINCOOPs

8.41 The total assets and liabilities of cooperative societies (carrying limited banking activities) rose by 2.5 percent (Rs. 58.5 million) to Rs. 2.4 billion in 2004/05 in contrary to a decrease of 11.2 percent (Rs. 297.9 million) in 2003/04. Of the total liability, capital funds of these cooperatives increased by 12.3 percent (Rs. 30.4 million) to Rs. 277.6 million and deposit by 2.7 percent (Rs. 44.7 million) to Rs. 1.7 billion (Table 71). Likewise, the aggregate borrowing of these institutions increased by 12.4 percent (Rs. 5.1 million) to Rs. 46.2 million. The outstanding borrowing composed of borrowings from commercial banks (78.4 percent) and other financial institutions (21.6 percent). The other liabilities of these cooperative societies decreased by 15.0 percent (Rs. 65.0 million) to Rs. 367.2 million in the review year as against an increase of 9.5 percent a year ago.

8.42 Similarly, of the total assets of these cooperative societies as at mid-july 2005, the aggregate liquid funds increased by 2.7 percent (Rs. 11.2 million) to Rs. 424.3 million as against a decrease of 21.7 percent (Rs. 39.4 million). Of the total investment, fixed deposit accounted for 61.4 percent (Rs. 87.3 million), government securities 23.0 percent (Rs. 32.7 million), and other investments 15.6 percent (Rs. 22.1 million). Similarly, loans

and advances of such societies increased by 9.2 percent (Rs. 120.9 million) to Rs. 1.4 billion contrary to a fall of 10.4 percent (Rs. 152.6 million) in the previous year. Of the total loan and advances, 44.7 percent (Rs. 640.1 million) went for commercial purposes, 5.1 percent (Rs. 73.0 million) for production purposes, 5.1 percent (Rs. 72.4 million) for FDR and securities, and the remaining 45.1 percent (Rs. 646.0 million) for other purposes. The other assets of the societies also decreased by 7.6 percent (Rs. 34.2 million) to Rs. 413.1 million in 2004/05.

Non-Governmental Organizations

8.43 Non-governmental Organizations (NGOs) involved in mobilizing financial resources from prior approval of NRB fall under this category. These are non-profit making institutions acting as financial intermediaries. Due to a adverse security situation in the country, many commercial bank branches in rural areas have been either closed down or merged with other branches. FINGOs borrow funds from foreign sources and collect fees from their members and function as financial intermediaries by providing micro credit services to rural households. Most of these entities are providing their services in rural areas following Grameen Bank model. The number of FINGOs licensed by NRB reached 47 in mid-July 2005.

Sources and Uses of Funds of FINGOs

8.44 Membership fees, grants, accumulated profit and borrowings are the major sources of funds of FINGOs. The aggregate sources of funds of FINGOs increased substantially by more than double (Rs. 346.3 million) to Rs. 641.3 million in 2004/05 compared to that of the previous year (Table 72). Of the total sources, 68.2 percent (Rs. 437.5 million) share was by borrowings from domestic and foreign institutions, 4.8 percent (Rs. 30.9 million) by risk bearing funds, 4.3 percent (Rs. 27.5 million) of capital funds, 2.9 percent (Rs. 18.9 million) by staff welfare funds, 1.5 percent (Rs. 9.7 million) by accumulated profit, and 18.2 percent (Rs. 116.9 million) by other sources.

8.45 FINGOs maintained 26.3 percent (Rs. 168.8 million) of their total sources in liquid fund as cash in hand and balance with domestic banks. Of the total sources of funds of FINGOs, 40.4 percent (Rs. 259.4 million) was utilized in micro financing, 8.8 percent (Rs. 56.4 million) in investment and remaining 24.4 percent (Rs. 156.8 million) in other uses.

Non-Bank Financial Institutions

Insurance Companies

8.46 Altogether 20 insurance companies including DICGC are in operation in Nepal. They issue life, fire and marine insurance policies against various types of risks and collect a large amount of funds in the form of premiums. As insurance business is at the emerging phase of development in Nepal, some foreign insurance companies have been established with a view to capturing emerging risk areas in the country after the adoption of financial liberalization policy. The Insurance Board is the apex regulatory authority of these companies and most of such companies are listed in NEPSE.

Sources and Uses of Funds of Insurance Companies

8.47 Total assets and liabilities of insurance companies surged by 25.0 percent (Rs. 3.7 billion) to Rs. 18.3 billion in 2004/05 compared to an increase of 18.1 percent (Rs. 2.2 billion) in the preceding year (Table 73). Of the total sources of funds, insurance premium contributed 74.0 percent (Rs. 13.5 billion), capital fund 7.7 percent (Rs. 1.4 billion), reserve 5.8 percent (Rs. 1.1 billion) and other liabilities 12.5 percent (Rs. 2.3 billion). The aggregate premium collected by insurance companies in 2004/05 increased by 26.2 percent (Rs. 2.8 billion) to Rs. 13.5 billion compared to an increase of 32.9 percent (Rs. 2.6 billion) to Rs. 10.7 billion in the previous year. Of the total premium collected, 81.5 percent (Rs. 11.0 billion) was collected from life insurance and the remaining 18.5 percent (Rs. 2.5 billion) from non-life insurance.

8.48 Of the total sources, 70.4 percent (Rs. 12.9 billion) was constituted from life insurance and the remaining 29.6 percent (Rs. 5.4 billion) from non-life insurance. Other sources included paid up capital (7.7 percent /Rs. 1.4 billion), reserve funds (5.8 percent /Rs. 1.1 billion) and other liabilities (12.5 percent /Rs. 2.3 billion).

8.49 On the uses side, investment registered the largest share with 82.2 percent (Rs. 15.0 billion) of total uses. Similarly, cash and bank balances 4.9 percent (Rs. 900.0 million), fixed assets 3.8 percent (Rs.700.0 million) and other assets 9.0 percent (Rs. 1.7 billion).

Deposit Insurance and Credit Guarantee Corporation

8.50 The DICGC was established in 1974 as a private limited company under the Company Act 1964. The main objective of the corporation is to guarantee compensation on loss incurred by banks and financial institutions on their lending under the priority sector credits viz., agriculture, industry and services. The corporation envisaged a plan to implement deposit insurance scheme and the formation of the relevant law is in process. The main sources of income of the corporation are guarantee fees, interest on fixed deposit and return on investment on government securities.

8.51 The amount of credit guaranteed by the DICGC to the priority sector loans extended by commercial banks decreased by 12.5 percent (Rs. 0.2 billion) to Rs. 1.7 billion as at mid-July 2005 (Table 73). Of the total credit guaranteed, Nepal SBI Bank Limited (NSBIBL) accounted for the highest share of 37.5 percent, Rastriya Banijya Bank (RBB) 18.1 percent, Nepal Bank Limited (NBL) 10.2 percent, Nepal Investment Bank Limited (NIBL) 9.0 percent, Lumbini Bank Limited (LBL) 7.3 percent, Himalayan Bank Limited (HBL) 5.4 percent, Nabil Bank Limited (NABL) 4.4 percent, and Nepal Credit and Commerce Bank Limited (NCCBL) 4.1 percent.

8.52 Purpose-wise, services sector accounted for the largest share of 47.2 percent of the total credit guaranteed, followed by industrial sector (31.2 percent) and agricultural sector (21.7 percent). Region-wise, 85.9 percent of the total credit guarante, went to the Central Development Region, 5.1 percent to the Eastern Development Region, 4.2 percent each to the Western Development Region and the Far-Western Development Region and the remaining 0.6 percent to the Mid-Western Development Region.

Employees Provident Fund

8.53 EPF is an autonomous entity incorporated under the EPF Act, 1962 after the merger of the earlier Army Provident Fund and Civil Servants Provident Fund. EPF mobilizes savings collected through compulsory provident fund contributions on the part of employers and employees, among others, in civil, army and police services. In 2004/05, total loan disbursement of EPF went up by 52.7 percent (Rs. 2.6 billion) to Rs. 7.4 billion in contrary to a decrease of 9.5 percent (Rs. 0.5 billion) in the preceding year (Table 75). The total loan repayment of EPF went up by 7.9 percent (Rs 123.9 million) to Rs. 1.7 billion compared to an increase of 74.4 percent (Rs. 669.3 million) in the previous year. In the review year, outstanding loan of EPF increased by 33.0 percent (Rs. 5.7 billion) to Rs. 23.0 billion compared to an increase of 23.4 percent (Rs. 3.3 billion) in the previous year.

8.54 Total sources of funds of EPF recorded a growth of 13.3 percent (Rs. 5.3 billion) and stood at Rs. 45.2 billion as at mid-July 2005 compared to an increase of 11.8 percent (Rs. 4.2 billion) in the previous year (Table 76). In the review year, total provident fund collection went up by 12.0 percent (Rs. 4.4 billion) to Rs. 41.3 billion compared to an increase of 14.1 percent (Rs. 4.6 billion) in the previous year. Similarly, reserves decreased marginally by 0.5 percent (Rs. 12.9 million) to Rs. 2.5 billion and other provisions increased by 161.8 percent (Rs. 893.2 million) to Rs. 1.4 billion.

8.55 Total outstanding loan of EPF increased significantly by 32.4 percent (Rs. 5.7 billion) to Rs. 23.4 billion compared to an increase of 25.2 percent (Rs. 3.6 billion) in 2003/04. Of the total outstanding loan, the share of employees and institutions accounted for 77.4 percent (Rs. 18.1 billion) and 22.6 percent (Rs. 5.3 billion) respectively. Similarly, total investment decreased by 2.4 percent (Rs. 0.5 billion) to Rs. 21.0 billion compared to an increase of 11.1 percent (Rs.2.1 billion) in the previous year. Of the total outstanding investment, fixed deposit accounted for 74.3 percent (Rs. 15.6 billion), HMG securities accounted for 24.2 percent (Rs. 5.1 billion) and share investment accounted for 1.5 percent (Rs. 310.6 million) in mid-July 2005. In the review year, the cash and bank balances went up marginally by 0.1 percent (Rs. 1.0 million) to Rs. 915.5 million compared to a decrease of 7.5 percent last year. Fixed assets increased by 73.9 percent (Rs. 345.6 million) to Rs. 813.2 million and the other assets of EPF increased by 34.9 percent to Rs. 948.0 million.

Citizen Investment Trust

8.56 With a view to investing civil and private sector employees funds in productive sectors having high returns and minimum risks, CIT was established under the CIT Act, 1991. CIT accepts voluntary contributions of 10 percent of their salary from the employees of civil service and other organizations. It generally invests in government securities, company's shares and fixed deposit in banks and financial institutions. It also advances term loans to firms and institutions against adequate securities.

Sources and Uses of Funds of CIT

8.57 Total sources of fund of CIT increased by 22.8 percent (Rs. 1.1 billion) to Rs. 5.9 billion in 2004/05 compared to an increase of 59.0 percent (Rs. 1.8 billion) in the

preceding year (Table 76). The major sources of funds of CIT include paid-up capital, reserve fund, funds from voluntary contributions and other liabilities. Funds from employees voluntary contributions alone constituted 95.9 percent (Rs. 5.7 billion) of the total sources. Paid-up capital accounted for 0.7 percent (Rs. 40.0 million), reserve fund 0.7 percent (Rs. 40.5 million) and other liabilities 2.7 percent (Rs. 162.1 million) in 2004/05.

8.58 The CIT used 64.9 percent (Rs. 3.8 billion) of the total sources in investment. Other uses consisted of cash and bank balances (12.6 percent/Rs. 744.5 million), loans and advances (15.8 percent/Rs. 934.5 million), fixed assets (0.1 percent/Rs. 3.4 million) and other assets (6.6 percent/Rs. 390.7 million).

9

Performance of Commercial Banks

9.1 The assets/liabilities of commercial banks increased by 10.2 percent in 2004/05 compared to a growth of 5.9 percent in 2003/04. As percentage of GDP, such assets/liabilities of commercial banks increased from 62.4 percent in 2003/04 to 63.8 percent in 2004/05.

Number of Banks

9.2 Altogether 17 commercial banks were in operation in 2004/05. The number of commercial banks' branches in operation remained at the same level as in 2003/04. However, there was some shift in the number of bank branches from one geographical region to another. As shown in the following table, there was a decline in bank branches in Terai region but increase in Kathmandu valley and Hilly region.

Table 9.1: Number of Commercial Bank Branches in Operations*

Regions	Mid-July 2003	Mid-July 2004	Mid-July 2005
Kathmandu Valley	87	89	92
Hills	125	119	122
Terai	167	167	161
Total	379	375	375

* Including commercial banking branches of ADB/N

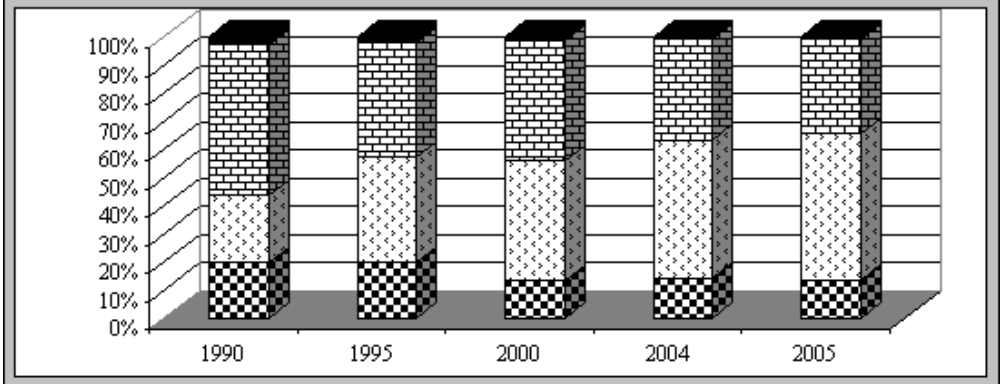
Deposit Mobilization

9.3 The deposit collection of the commercial banks remained weak in 2004/05 compared to that of 2003/04 due mainly to slow down in the economic growth and economic activities as well as lower rate of interest provided by the commercial banks. Total deposits registered a growth of 7.7 percent in 2004/05 compared to a higher growth of 14.7 percent in 2003/04.

9.4 Compared to a growth 16.7 percent a year ago, demand deposits registered a marginal growth of 3.3 percent in 2004/05. Likewise, saving deposits recorded a growth of 13.9 percent in 2004/05 compared to a growth of 17.3 percent in 2003/04. Fixed deposits also

registered a minimal growth of just one percent in 2004/05 against a growth of 10.5 percent in 2003/04.

Figure 9.1: Structure of Commercial Bank Deposits



9.5 Figure 9.1 shows the composition of commercial banks' deposits. The share of saving deposits increased substantially while the share of both demand deposits and fixed deposits declined. Such a shift in the structure of banks' deposits reflects the change in economy as well. The slow down in the economic growth was the reason behind the decline in share of demand deposit, while lowering interest rates by commercial banks on fixed deposits contributed to the decline in share of fixed deposits. On the other hand, commercial banks have made saving deposit more flexible by increasing the withdrawal limit and providing interest rate almost equivalent to the long term fixed deposits. As such, the share of saving deposits increased substantially, from less than a quarter (23.8 percent) in 1989/90 to more than half in 2004/05. In 2004/05, demand, saving, fixed and margin deposits occupied the share of 13.6 percent, 51.9 percent, 33.6 percent and 0.9 percent respectively. Total deposit mobilisation contributed 57 percent of the sources of fund in 2004/05 and in terms of GDP, it stood at 46.9 percent compared to 46.8 percent in 2003/04.

9.6 Regarding the contribution of commercial banks to deposit mobilisation, the two old commercial banks, NBL and RBB, occupied the largest share, though their share has been gradually declining. The table 9.2 shows the share of individual commercial bank in total deposits mobilization.

Table 9.2: Share of Individual Commercial Banks in Total Deposit

Commercial Banks	Mid-Jul 2004	Mid-Jul 2005
Nepal Bank Limited	15.4	13.8
Rastriya Banijya Bank	17.2	16.9
Agricultural Development Bank	11.3	10.8
Nabil Bank Limited	6.1	5.8
Nepal Investment Bank Limited	5.0	5.7
Standard Chartered Bank Nepal Limited	9.1	7.7
Himalayan Bank Limited	9.8	9.9
Nepal SBI Bank Limited	3.1	3.5
Nepal Bangladesh Bank Limited	5.4	4.8
Everest Bank Limited	3.5	4.0
Bank of Kathmandu Limited	3.3	3.5
Nepal Credit and Commerce Bank Limited	2.6	2.6
Nepal Industrial and Commercial Bank Limited	2.2	2.5
Lumbini Bank Limited	1.6	1.6
Machhapuchchhre Bank Limited	1.2	2.2
Kumari Bank Limited	2.1	2.5
Laxmi Bank Limited	0.7	1.2
Siddhartha Bank Limited	0.6	1.0
Total	**100.0**	**100.0**

Paid up Capital and Reserve Fund

9.7 In 2004/05, the commercial banks substantially increased their paid-up capital and general reserves compared to that of the previous year. Overall, a rise in capital fund contributed to 40 percent of the sources of fund in 2004/05 compared to a negative contribution a year ago. Table 9.3 shows the bank that increased the paid up capital in 2004/05.

Table 9.3: Banks which increased the paid-up capital in 2004/05

Commercial Banks	Increase in Paid up Capital (Rs. in Million)
Nepal Investment Bank Limited	292.4
Himalayan Bank Limited	107.2
Nepal SBI Bank Limited	5.0
Nepal Bangladesh Bank Limited	359.9
Everest Bank Limited	300.0
Nepal Credit and Commerce Bank Limited	98.6
Lumbini Bank Limited	150.0
Laxmi Bank Limited	60.0
Total	**1,373.2**

9.8 With regards to reserves fund, 12 commercial banks and commercial banking branches of ADB/N increased their reserves funds, but reserves fund of NBL, RBB, NIBL, NSBIBL, and Bank of Kathmandu Limited (BOKL) declined in 2004/05.

Loan and Advances

9.9 Loan and advance of the commercial banks increased by 14.3 percent in 2004/05 compared to a growth of 13.1 percent in 2003/04. Bank's intermediation function

improved significantly in 2004/05 as indicated by a rising credit-deposit ratio from 79.3 percent in 2003/04 to 84.8 percent in 2004/05. Basically, claims on non-financial government enterprises increased substantially by 125.6 percent in 2004/05 compared to a growth of 2.9 percent in 2003/04. In 2004/05, commercial banks extended credit facility to some government non-financial enterprises such as NOC, Nepal Electricity Authority, NTL and JEMC. Credit extended towards the private sector also accelerated marginally from 13.9 percent in 2003/04 to 14.6 percent in 2004/05. Loan recovery towards the end of the review year increased due to the revision in black listing procedure as per the report of commission headed by Dr. Shankar Sharma.

9.10 In 2004/05, commercial banks, which increased credit to private sector by double digits, were ADB/N, NABL, NIBL, Standard Chartered Bank Nepal Limited (SCBNL), NSBIBL, EBL, NCCBL, Nepal Industrial and Commercial Bank Limited (NICBL), Machhapuchchhre Bank Limited (MBL), Kumari Bank Limited (KBL), LBL and Siddhartha Bank Limited (SBL).

9.11 In 2004/05, the claims on financial enterprises declined by 2.9 percent compared to a growth 14.6 percent in the previous year. This was due to the repayments of loan by Nepal Development Bank Limited, and Development Credit Bank Limited to NRB, and decline in balances maintained by the branches of ADB/N undertaking commercial banking activities at their headquarter.

Sector-wise and Security-wise Outstanding Credit

9.12 With regard to sector wise credit, construction, finance, insurance and fixed assets sectors registered a healthy growth in 2004/05. Agricultural sector witnessed a fall by 9.9 percent. However, in total outstanding credit, production sector occupied the largest share of one third in 2004/05, followed by wholesaler and retailers, and service industries (Table 9.4).

Table 9.4: Sector wise Outstanding Credit of Commercial Banks

Sectors	Outstanding (Rs. in Million) Mid-July			Growth		Share (%)		
	2003	2004	2005	2004	2005	2003	2004	2005
Agriculture	3734.5	4901.8	4415.5	31.3	-9.9	3.1	3.6	2.8
Mines	399.4	336.6	520.3	-15.7	54.6	0.3	0.2	0.3
Productions	42910.5	47368.6	53744.2	10.4	13.5	35.5	34.6	33.7
Construction	2729.2	4986.7	8722.9	82.7	74.9	2.3	3.6	5.5
Metal Productions, Machinery & Electrical Tools & fitting	1430.1	1450.7	1797.5	1.4	23.9	1.2	1.1	1.1
Transportation Equipment Production & Fitting	1359.8	2776.7	3156.3	104.2	13.7	1.1	2.0	2.0
Transportation, Communications & Public Services	6523.4	7963.6	8997.2	22.1	13.0	5.4	5.8	5.6
Wholesaler & Retailers	27555.3	31659.3	34412.7	14.9	8.7	22.8	23.1	21.6
Finance, Insurance & Fixed Assets	4250.3	4857.0	6391.0	14.3	31.6	3.5	3.5	4.0
Service Industries	12212.5	14216.9	14984.8	16.4	5.4	10.1	10.4	9.4
Consumable Loan	3364.6	4282.4	3588.0	27.3	-16.2	2.8	3.1	2.3
Local Government	1.5	2.3	0.1	55.2	-95.7	0.0	0.0	0.0
Others	14283.5	12278.2	18592.6	-14.0	51.4	11.8	9.0	11.7
Total	**120754.5**	**137080.9**	**159323.1**	**13.5**	**16.2**	**100.0**	**100.0**	**100.0**

9.13 As regards the security wise extension, credit extended on foreign bills increased substantially followed by credit extended on machinery, other goods, and overdraft and guarantee. Almost half of the outstanding credit was on the collateral of house and land.

Table 9.5: Security-wise Outstanding Credit of Commercial Banks

Heads	Outstanding (Rs. in Million) Mid-Jul			Growth		Share (%)		
	2003	2004	2005	2004	2005	2003	2004	2005
Gold & Silver	1600.6	1286.5	1435.4	-19.6	11.6	1.3	0.9	0.9
Government Securities	2436.8	4274.7	3077.4	75.4	-28.0	2.0	3.1	1.9
Non-Govt. Securities	845.6	905.8	1007.0	7.1	11.2	0.7	0.7	0.6
Jute and Hessians	208.0	140.0	75.8	-32.7	-45.9	0.2	0.1	0.0
Rice and Paddy	1223.0	1436.4	1150.9	17.4	-19.9	1.0	1.0	0.7
Other Agricultural Products	1112.0	1122.1	1297.9	0.9	15.7	0.9	0.8	0.8
Cloth and Yarn	1512.0	1111.3	1231.1	-26.5	10.8	1.3	0.8	0.8
Machinery	2774.1	3121.2	4167.0	12.5	33.5	2.3	2.3	2.6
Other Goods	16802.1	19549.5	23884.8	16.4	22.2	13.9	14.3	15.0
Export Bills Purchased	1184.3	969.1	1111.6	-18.2	14.7	1.0	0.7	0.7
Loans Against Export Bills	490.9	531.8	329.6	8.3	-38.0	0.4	0.4	0.2
Import Bills and L/c	6327.7	6990.8	7351.3	10.5	5.2	5.2	5.1	4.6
Other Foreign Bills Purchased	227.0	186.0	458.9	-18.1	146.7	0.2	0.1	0.3
Domestic Bills Purchased	705.7	412.0	151.6	-41.6	-63.2	0.6	0.3	0.1
Loan Against Domestic Bills	0.0	0.0	0.0			0.0	0.0	0.0
Overdrafts and Guarantee	6119.0	5661.4	6819.6	-7.5	20.5	5.1	4.1	4.3
House and Land	57659.4	66691.8	78325.8	15.7	17.4	47.7	48.7	49.2
Miscellaneous	19526.2	22690.6	27447.4	16.2	21.0	16.2	16.6	17.2
Total	**120754.5**	**137080.9**	**159323.1**	**13.5**	**16.2**	**100.0**	**100.0**	**100.0**

Non-performing Assets

9.14 The year 2004/05 witnessed some improvement in non-performing assets of commercial banks due mainly to stringent regulation and supervision, financial sector reform and supportive monetary policy. Non-performing Assets (NPA) of the banking system declined to 18.7 percent of the total loans in 2004/05 from 22.7 percent a year ago and 28.8 percent in 2002/03 (Table 9.6). NBL and RBB both had NPA as high as 50 percent of total loans.

Table 9.6: Non-performing Loans in Percent of Total Loans

Commercial Banks	Mid-Jul 2003	Mid-Jul 2004	Mid-Jul 2005
Nepal Bank Limited	60.5	53.1	49.0
Rastriya Banijya Bank	60.2	57.6	50.7
Nabil Bank Limited	5.5	3.4	1.3
Nepal Investment Bank Limited	2.0	2.5	1.6
Standard Chartered Bank Nepal Limited	4.1	3.8	2.7
Himalayan Bank Limited	10.1	8.9	11.3
Nepal SBI Bank Limited	11.7	6.3	7.1
Nepal Bangladesh Bank Limited	12.7	10.8	12.3
Everest Bank Limited	2.2	1.7	1.6
Bank of Kathmandu Limited	8.7	6.7	7.4
Nepal Credit and Commerce Bank Limited	20.6	13.3	8.6
Nepal Industrial and Commercial Bank Limited	6.7	3.9	3.8
Lumbini Bank Limited	11.6	7.4	14.7
Machhapuchchhre Bank Limited	2.1	1.0	0.4
Kumari Bank Limited	1.7	0.8	1.1
Laxmi Bank Limited	0.0	0.0	1.6
Siddhartha Bank Limited	0.0	1.6	2.5
TOTAL	**28.8**	**22.7**	**18.7**

Priority Sector and Deprived Sector Lending of Commercial Banks

9.15 NRB has taken a policy of gradual phasing out of the priority sector-lending requirement since 2002/03. The priority sector lending requirement will not be compulsory from 2007/08 onwards. The total loan extended to the priority sector in 2004/05 amounted to Rs. 14.7 billion, which was 10.4 percent of their total outstanding loans of six months prior. Such a priority sector loans was Rs. 15.4 billion a year ago. All commercial banks fulfilled this priority sector lending requirement in 2004/05.

9.16 With regard to deprived sector-lending, commercial banks extended total loans amounting to Rs. 4.5 billion in 2004/05. Except NBL, all commercial banks fulfilled the deprived sector-lending requirement in the review year.

10

Financial Sector Reforms, Regulatory and Supervisory Measures

10.1 With the economic liberalization, the financial sector has expanded substantially in Nepal. Along with the expansion, there is obviously a growing concern for its stability. While sound and healthy financial system can contribute to the economic growth, financial instability adversely affects the pace of economic growth. Any disruption in this sector can result in huge losses in the economy as evidenced by the various episodes of financial crises in different parts of world in the past years.

10.2 The financial health of NBL and RBB, has not been satisfactory. These two banks still occupy the dominant position in the banking sector in terms of their service to a large number of people, the share in deposit collection and loan extension and wider branch network. Realizing their importance, NRB has been implementing the FSRP since 2000 to strengthen the financial sector's efficiency and stability.

10.3 The ongoing FSRP under the loan assistance of the World Bank and grant assistance of the Department For International Development (DFID) of the Government of the United Kingdom, incorporates mainly three programs: the re- engineering of NRB, restructuring and ownership reform of the RBB and NBL, and capacity building in the financial sector. The major reforms undertaken in 2004/05 are covered below.

Strengthening of NRB

10.4 Re-engineering of NRB is still under way. Some of the major progress made in NRB in 2004/05 were: (a) implementation of new organizational structure by classifying the overall functions of NRB into four categories according to the nature of work, (b) change in departmental structure by merging the various functions of one department into another, (c) downsizing of number of employees, implementation of new personnel byelaw and provision of compulsory retirement for the employees with 30 years service period, (d) preparation of job description of staff, (e) formulation and implementation of integrated directives (according to umbrella act) to all banks and financial institutions, (f) implementation of internal audit manual, (g) continuation of negotiation process to hire international consultants for reengineering of NRB, (h) continuation of negotiation process to recruit six Chartered Accountants and, (i) start of IT training program.

Restructuring of RBB and NBL

10.5 The ongoing restructuring process of RBB and NBL was continued in 2004/05. The contract period of management team of RBB was renewed on 15 January 2005 for one more year. The management team prepared and implemented the bank's Management Plan, the Budget Plan, directives, accounts heads classification statement and new credit policy. The bank completed the audit of 2003/04 and submitted audited financial statement for approval, which showed the improvement in financial position of the bank. On the other hand, the management team of ICC Consulting of the Bank of Scotland (Ireland) has been working for the improvement of financial situation of NBL. The management team in NBL has also prepared and implemented detailed Human Resource Development Plan, Management Plan and Skill Development Plan with a view to restructuring the bank.

Profitability

10.6 The loss amount of the RBB had declined to Rs 4.8 billion in 2002/03 from Rs 7.1 billion in 2001/02. In 2003/04, the bank earned net profit of Rs 1.0 billion. The unaudited financial report of 2004/05 further showed that the bank would earn net profit of about Rs 1.3 billion in 2004/05. Improvement in profitability also took place in NBL. It completed the audit of 2003/04, which showed an improvement in its profitability. The loss amount of the bank declined to Rs 250 million in 2002/03 from Rs 3.1 billion in 2001/02. The audited financial report of 2003/04 showed that the bank could earn a net profit of about Rs 710.3 million in 2003/04. Further, the unaudited financial report of 2004/05 also reported that the bank would earn net profit of Rs. 1400.0 million in 2004/05.

Recovery of NPL

10.7 During the last three years, both banks succeeded in recovering same non-performing loans. NBL recovered about Rs. 5.4 billion non-performing loans in cash while RBB also recovered almost equivalent amount. Both banks have been giving emphasis on loan restructuring of bad loan as well.

Downsizing and Computerization

10.8 RBB downsized its manpower to an appropriate level through Voluntary Retirement Scheme (VRS) program. The number of employees was maintained at 3,566 from 5,422 in 2004/05. In NBL also, the manpower was reduced to 2,874 from 5,322 through VRS. Both bank purchased computer hardware and software to computerize their transactions. The branch rationalization process in these banks was also underway.

Issuance and Amendment of Regulations and Directives

10.9 Integrated directives for all commercial banks, development banks, finance companies and micro credit development banks were issued on May 13, 2005. The new umbrella directive incorporates 16 directives relating to capital adequacy, classification of loan and advances and loan loss provisioning, sectoral credit limit, accounting policy and structure of financial statement, risk minimization, corporate good governance, time schedule for directive implementation, investment and statistical returns to be submitted. The unified directives also incorporate the provision regarding the sale of promoter

shares, consortium financing, credit information and black listing arrangements, cash reserve ratio, branch offices, interest rates and financial resources collection.

10.10 Taking into consideration the prevailing adverse situation, capital adequacy ratio to be maintained by the banks and financial institutions on the basis of risk-weighted assets was kept at 11.0 percent, with core capital of 5.5 percent for 2004/05.

10.11 An arrangement of hundred percent provisioning for 2004/05 was made for the investment done by banks and financial institutions in shares of other financial institutions that could not be sold by July 2004.

10.12 A provision was made thereby banks and financial institutions were not required to take permission from NRB to provide banking services to customers on public holidays.

10.13 New provisions were added to the directive related to blacklisted borrowers. As per these new provisions, the loan defaulters are classified into two categories of willful and non-willful defaulters. The new provision added eleven different categories to identify the willful defaulter. For willful defaulters, new provisions have been made for stringent punishment system (see directive for detail). Non-willful defaulters are defined as those who are unable to repay their loans because of the situation beyond their control. For non-willful defaulters, commercial banks can reschedule their loans and extend the repayment period to some extent.

10.14 Credit Information Bureau was registered under Company Act 2053 while it was under the Nepal Bankers' Association before. Accordingly, it was considered as a center for credit information and black listing procedure.

10.15 A new provision was made on loan loss provisioning of restructured and rescheduled loan of sick industries. Accordingly, commercial banks could make loan loss provisioning of 25 percent only for those sick industry loans from which at least 12 percent of interest accrued could be recovered. Otherwise, commercial banks are required to make a full loan loss provisioning.

10.16 Guidelines to commercial banks and financial institutions were issued with regard to write off of their credit too.

10.17 Additional provisions were made for the qualification of board of directors of banks and financial institutions.

10.18 Banks and financial institutions were required to make a provision to mention PAN number for the VAT registered borrowers on loan application form for the amount of more than one hundred thousand rupees.

Inspection and Supervision of Banks and Financial Institutions

10.19 With a view to accomplishing corporate inspection of all commercial banks each year, corporate onsite inspection of all 15 commercial banks and special inspection of Nepal Bangladesh Bank Limited and NCCBL was undertaken.

10.20 Offsite Supervision Manual of international standard was implemented from 2004/05 with a view to monitoring the performance of commercial banks effectively.

10.21 In context of implementing BASEL II from July 2007, NRB organized a workshop to inform the officers and employees of Bank Supervision Department, and Banks and Financial Institutions Regulation Department of NRB. Likewise with a view to implementing BASEL II in Nepalese banking sector, an Accord Implementation Group with a participation of commercial banks' representatives was formed to prepare necessary directives. A one-day interaction program was also organized in participation of chief executives of commercial banks.

11

Micro Finance

11.1 NRB has been implementing and coordinating different micro finance programs with a view to generating income to uplift the living standard of deprived rural people. The major activities undertaken in various micro finance projects in 2004/05 were as follows:

Production Credit for Rural Women

11.2 This project was initiated in 1981/82 on the loan assistance of IFAD. The objective of the project was to uplift the socio economic status of rural women by providing them access to institutional credit for income and employment generating activities. Though the implementation period of the project is over, the loan recovery process of the participating banks has been ongoing. NRB paid the principal and the interest amounting to Rs 82.1 million and Rs 37.0 million respectively to HMG as of mid-July 2005. The disbursed loan of Rs 105.8 million was yet to be repaid from the two participating banks RBB and ADB/N.

Micro Credit Project for Women

11.3 The implementation period of this project, which had come in to operations with the loan agreement between HMG and the ADB on September 16, 1993, ended on June 30, 2002. Under this project, women of rural and urban area were provided loan on consortium as well as on individual basis to operate their agricultural and small enterprise businesses in both rural and urban areas. NRB paid principal and interest amounting to Rs 30.5 million and 26.8 million respectively to HMG as of mid-July 2005.

Western Terai Poverty Alleviation Project

11.4 This project came into operation under the loan agreement between HMG and IFAD on December 12, 1997. The project was under implementation in 8 districts of western Terai. It provided micro credit to the deprived community through a total number of 16 branches of WRRDB, MWRRDB, FWRRDB, Nirdhan Utthan Bank and RSRF with a view to contributing in economic and social upliftment of these communities and strengthening financial position of the participating branches. NRB had received Rs 131.5 million as loans from HMG for this project and all amounts had been disbursed to participating financial institutions.

11.5 The implementation period of the project expired on 31 December 2004. Of the total loan amounting to Rs 136.8 million, Rs 54.3 million was recovered till mid-July 2005 and the rest was yet to be recovered. About 22 thousand borrower families were benefited from the project.

Community Groundwater Irrigation Sector Project

11.6 This project came into operation in 12 districts of Eastern and Mid-Terai with the loan agreement between HMG and the ADB on November 17, 1998. The objective of the project was to increase agricultural productivity for raising income of small and marginal farmers. Of the total loan amounting SDR 21.9 million available for this project, SDR 9.9 million was availed for credit to farmers for shallow tube wells installation and crop production activities. RSRF received the available loan and distributed to the farmers through participating financial institutions. About 657,000 individuals (of which 50 percent are below the poverty line) from 110,000 marginal families are expected to be benefited from this project.

11.7 As of mid-July 2005, NBL, ERRDB, MWRRDB, Sahara Nepal Savings and Credit Cooperative Ltd, Deprosc Development Bank Ltd, Chhimek Development Bank Ltd, Arunodaya Savings and Credit Cooperative Society, and Krishak Upahar Savings and Credit Cooperative Society were selected as participating financial institutions. Furthermore, a policy of selecting new institutions on a biannual basis was changed from 2004/05, so that any financial institutions that wanted to participate, could apply any time.

11.8 Under this project, Rs 97.5 million was invested in 3,430 shallow tube wells comprising 3,421 on a groupwise basis and 9 on individual basis through the participating financial institutions. From this, a 15,777 Bigaha land was irrigated by which 13,976 marginal farmer families were benefited directly.

Rural Self-Reliance Fund

11.9 RSRF came into operation in 1991/92 for providing wholesale credit to NGOs/ Cooperatives working in rural areas for the development of deprived rural people to operate income and employment generating activities. The Fund has been providing micro credit of Rs 30,000 per person on first instalment, Rs 35,000 on the second and Rs 40,000 on the third instalment for uplifting the deprived people. The Fund had received Rs 10.0 million in 1991, Rs. 10.0 million in 1993 and Rs 20.0 million in 2004. With this capital, the Fund has been providing credit up to Rs 1.0 million with a condition of not exceeding ten-fold of the institutions' regular savings and share amount on the first instalment. On the second instalment, credit up to Rs 1.5 million and on third instalment, credit up to Rs 2.5 million could be availed.

11.10 The interest rate charged by the Fund is 8.0 percent and it pays back 75 percent of interest income if the borrowing institutions repay principal and interest on the scheduled time. Thus, the effective interest rate is just 2.0 percent. It has disbursed loan equivalent to Rs 82.5 million through 50 NGOs and 169 cooperatives in 2004/05. Of this amount, Rs 57.9 million was recovered. Recovery rate is as high as 91.0 percent in 2004/05. Hence, 9,594 households of 47 districts were benefited as of mid-July 2005.

Third Livestock Development Project

11.11 This project came into operation under the loan agreement between HMG and the ADB on December 23, 1996. This project has been providing credit and other necessary services to farmers, businessmen and other concerned entrepreneurs operating or want to operate livestock business, by utilizing the modern technology available within the country. There are 19 participating financial institutions that have signed an agreement with NRB including two commercial banks, three development banks, four rural banks replicates, eight cooperative societies and two NGOs. Under this project, NRB refunded Rs 183.5 million to 17 financial institutions. After expiration of the implementation period of this project on July 2003, it was extended for one year to July 31, 2004. Participating financial institutions are required to repay their outstanding loan under this project between the period of January 2001 and July 2011, while NRB has to repay all loan amounts to HMG between the periods of January 2005 and July 2035. As of mid-July 2005, amount of Rs 123.4 million was recovered and Rs 60.1 million was outstanding.

Revolving Line of Credit Facility to RDBs

11.12 NRB has been providing this facility to RDBs with a view to strengthening the financial position of these banks to continue their structural reform programme. On the facility of withdrawn or deposit, at once or more than once, not exceeding the limit, refinances of Rs 20 million, Rs 10 million, Rs 50 million and Rs 10 million were made available to ERRDB, CRRDB, WRRDB and FWRRDB respectively. As of mid-July 2005, Rs 10.0 million was to be recovered from FWRRDB. Further, RDBs benefited from the reduced refinance rate, made through monetary policy in 2004/05.

STATISTICAL SECTION

Note

The following months of the Gregorian calendar year are the approximate equivalents of the months of the Nepalese Calendar Year:

Gregorian Months	Nepalese Months
Mid-Apr/Mid-May	Baishakh
Mid-May/Mid-June	Jestha
Mid-June/Mid-July	Ashadh
Mid-July/Mid-Aug	Shrawan
Mid-Aug/Mid-Sept	Bhadra
Mid-Sept/Mid-Oct	Ashwin
Mid-Oct/Mid-Nov	Kartik
Mid-Nov/Mid-Dec	Marg
Mid-Dec/Mid-Jan	Paush
Mid-Jan/Mid-Feb	Magh
Mid-Feb/Mid-Mar	Falgun
Mid-Mar/Mid-Apr	Chaitra

The fiscal year in Nepal generally begins on July 16 and ends on July 15.

Symbols Used

e = estimate
p = provisional
r = revised
- = nil or negligible

List of Tables

Real Sector

1. Gross Domestic Product
2. Aggregate Demand and Savings
3. Weighted Production Index of Agriculture and Allied Sector
4. Production Volume of Agriculture and Allied Sector
5. Area Under Principal Food grains and Cash Crops
6. Productivity of Principal Food grains and Cash Crops
7. Livestock Population
8. Irrigation and Supply of Agricultural Inputs
9. Purpose-wise Classification of Agricultural Credit
10. Market Prices of Chemical Fertilizer and Food grains
11. Production Index of Manufacturing Industries
12. Tourism Indicators
13. Imports and Sales of Petroleum Products
14. Electricity Generation, Imports and Exports (GWH)

Price and Wage Rate

15. National Urban Consumer Price Index (point-to-point)
16. National Urban Consumer Price Index (By Groups and Sub-groups of Commodities)
17. Urban Consumer Price Index : Kathmandu Valley
18. Urban Consumer Price Index : Hills
19. Urban Consumer Price Index : Terai
20. National Wholesale Price Index (By Groups and Sub-groups of Commodities)
21. National Wholesale Price Index by Month
22. Town-wise Average Wage Rate

Government Finance

23. Government Budgetary Operation
24. Revenue
25. Recurrent Expenditure
26. Capital Expenditure
27. Foreign Aid and Debt Servicing
28. Outstanding Internal and External Debt of HMG
29. Ownership Patterns of Government Bonds
30. Ownership Patterns of Treasury Bills
31. Foreign Assistance

External Sector

32. Direction of Foreign Trade
33. Foreign Trade
34. Commodity-wise Classification of Foreign Trade
35. Commodity-wise Classification of Foreign Trade with India
36. Commodity-wise Classification of Foreign Trade with Others Countries
37. Export of Major Commodities to India

38. Export of Major Commodities to Other Countries
39. Import of Major Commodities from India
40. Import of Major Commodities from Other Countries
41. Items Importable from India on Payment of Convertible Foreign Exchange
42. Summary of Balance of Payments
43. Receipt and Expenditure of Convertible Foreign Exchange
44. Foreign Assets and Liabilities of the Banking System
45. Gross Official Foreign Assets
46. Intervention in the Foreign Exchange Market
47. Foreign Loan Agreements
48. Foreign Grant Agreements
49. Commitment of Foreign Aid (Donorwise Classification)
50. SDR Holding Transactions with IMF
51. Liability to IMF
52. Transaction under Asian Clearing Union

Monetary Sector

53. Banking Survey
54. Monetary Survey
55. Condensed Assets and Liabilities of Commercial Banks
56. Credit-Deposit and Liquidity-Deposit Ratios of Commercial Banks (Monthly)
57. Interest Rate Structure of Commercial Banks

Financial Market

58. Sources and Uses of Funds of Other Banking Institutions
59. Credit Operation of Agricultural Development Bank
60. Outstanding Loan of Agricultural Development Bank (By Type of Borrowers)
61. Agricultural Development Bank Outstanding Loan (By Term)
62. Credit Operation of Agricultural Development Bank Under Small Farmers Development Programme (By Purpose)
63. Sources and Uses of Funds of Agricultural Development Bank
64. Credit Operation of Nepal Industrial Development Corporation
65. Outstanding Loan of Nepal Industrial Development Corporation (By Purpose)
66. Sources and Uses of Funds of Nepal Industrial Development Corporation
67. Sources and Uses of Funds of Other Development Banks
68. Sources and Uses of Funds of Regional Rural Development Banks
69. Sources and Uses of Funds of Micro Credit Development Banks
70. Sources and Uses of Funds of Finance Companies
71. Sources and Uses of Funds of Cooperative Societies (with Limited Banking Transaction)
72. Sources and Uses of Funds of Micro Finance NGOs
73. Aggregate Sources and Uses of Funds of Insurance Companies
74. Details of Outstanding of Credit Guaranteed of Deposit Insurance and Credit Guarantee Corporation

75. Credit Operation of Employees' Provident Fund
76. Sources and Uses of Funds of Employees' Provident Fund
77. Sources and Uses of Funds of Citizen Investment Trust
78. Stock Market Indicators

Table 1

GROSS DOMESTIC PRODUCT

	2002/03	2003/04	2004/05[R]	2003/04	2004/05[R]
		Rs. in million		% Change	
1 Nominal GDP at Producers' Prices	456,675.0	496,745.0	533,578.0	8.8	7.4
Nominal GDP at Factor Cost *	423,635.0	459,784.0	491,664.0	8.5	6.9
Agricultural	171,104.0	183,117.0	194,363.0	7.0	6.1
Non Agricultural	266,442.0	291,802.0	314,328.0	9.5	7.7
2 Real GDP at Producers' Prices (at 1994/95 price)	300,914.0	312,267.0	320,717.0	3.8	2.7
Real GDP at Factor Cost * (at 1994/95 price)	279,190.0	289,073.0	295,797.0	3.5	2.3
Agricultural sector	111,471.0	115,774.0	119,212.0	3.9	3.0
Non agricultural sector	176,218.0	182,249.0	186,020.0	3.4	2.1
Mining and Quarrying	1,601.0	1,610.0	1,650.0	0.6	2.5
Manufacturing	25,384.0	25,822.0	26,494.0	1.7	2.6
Electricity, Gas and Water	6,234.0	6,437.0	6,827.0	3.3	6.1
Construction	32,757.0	32,816.0	32,687.0	0.2	-0.4
Trade Restaurant and Hotel	29,267.0	31,613.0	30,801.0	8.0	-2.6
Transport, Comm. & Storage	22,113.0	23,273.0	24,497.0	5.2	5.3
Finance and Real Estate	29,333.0	30,275.0	31,570.0	3.2	4.3
Community & Social Services	29,529.0	30,403.0	31,503.0	3.0	3.6
3 GDP Deflator (1994/95=100)	152.1	159.4	166.7	4.8	4.6
Agricultural	153.5	158.2	163.0	3.0	3.1
Non Agricultrual	151.2	160.1	169.0	5.9	5.5
4 Percapita real GDP in NRs. (at 1994/95 prices)	12,408.0	12,599.0	12,657.0	1.5	0.5
5 Percapita nominal GDP in NRs. (at current prices)	18,871.0	20,077.0	21,093.0	6.4	5.1

* Excluding bank service charges, so may not be added up with sub-headings.

Source : Central Bureau of Statistics

Table 2

AGGREGATE DEMAND AND SAVINGS

At Current Prices

Description	2002/03	2003/04	2004/05[R]	2003/04	2004/05[R]	2002/03	2
		Rs. in million		% Change			%
Nominal GDP at Producers' Prices	456,675.1	496,744.5	533,578.1	8.8	7.4	100.0	
Domestic Demand	519,917.1	565,351.5	603,722.1	8.7	6.8	113.8	
Consumption	401,897.0	434,358.8	466,465.1	8.1	7.4	88.0	
Private	355,535.0	383,977.8	412,776.1	8.0	7.5	77.9	
Public	46,362.0	50,381.0	53,689.0	8.7	6.6	10.2	
Total Investment	118,020.1	130,992.7	137,257.0	11.0	4.8	25.8	
Gross Fixed Capital Formation	87,023.7	95,123.6	100,740.9	9.3	5.9	16.7	
Private	55,795.7	63,080.6	68,617.9	13.1	8.8	12.2	
Public	31,228.0	32,043.0	32,123.0	2.6	0.2	6.8	
Change in Stock	30,996.4	35,869.1	36,516.0	15.7	1.8	6.8	
Net External Demand	-63,242.0	-68,607.0	-70,144.0	8.5	2.2	-12.2	
Export of goods & non factor services	77,280.0	89,543.0	85,359.0	15.9	-4.7	16.9	
Import of goods & non factor services	140,522.0	158,150.0	155,503.0	12.5	-1.7	30.8	
Gross Domestic Savings	54,778.1	62,385.7	67,113.0	13.9	7.6	12.0	
Gross National Savings	70,972.1	75,340.9	77,477.1	6.2	2.8	15.5	

Source - Central Bureau of Statistics

Table 3

WEIGHTED PRODUCTION INDEX OF AGRICULTURE AND ALLIED SECTOR

(Base Year 1994/95 = 100)

Agricultural Commodities	Sub-weight	2002/03	2003/04	2004/05	2003/04	2004/05
					% Change	
Foodgrains	**33.7**	**135.7**	**143.1**	**142.8**	**5.5**	**-0.2**
Paddy	19.8	141.1	152.2	146.5	7.8	-3.7
Maize	6.9	123.2	124.9	134.8	1.3	7.9
Wheat	4.6	147.1	151.8	157.9	3.2	4.0
Millet (Kodo)	2.2	105.7	105.9	108.3	0.2	2.3
Barley	0.2	107.4	101.5	99.4	-5.5	-2.1
Cash Crops	**6.9**	**159.8**	**168.0**	**176.8**	**5.2**	**5.2**
Sugarcane	1.4	156.1	153.6	158.4	-1.6	3.1
Oil Seeds	1.5	122.4	130.2	139.1	6.4	6.9
Tobacco	0.2	52.0	49.8	45.4	-4.3	-8.9
Jute	0.1	150.1	148.8	142.8	-0.9	-4.0
Potato	3.7	182.3	195.6	207.0	7.3	5.8
Other Crops	**21.6**	**113.4**	**115.9**	**124.1**	**2.2**	**7.1**
Pulses	2.7	127.3	131.5	134.5	3.3	2.2
Fruits	10.1	91.8	90.5	97.9	-1.4	8.1
Vegetables	5.7	143.2	150.4	164.3	5.0	9.3
Others	3.1	116.1	121.2	126.1	4.4	4.0
Livestocks	**27.7**	**130.0**	**133.6**	**137.7**	**2.8**	**3.1**
Milk	15.8	132.3	136.3	141.0	3.0	3.4
Meat	10.3	125.5	128.5	131.9	2.4	2.6
Buffalo meat	4.5	132.2	135.1	140.5	2.1	4.0
Mutton	3.99	112.8	115.1	118.0	2.0	2.6
Pig meat	0.75	127.4	125.4	128.1	-1.5	2.2
Poultry meat	1.014	144.5	154.8	150.6	7.2	-2.7
Eggs	1.554	135.2	139.7	143.2	3.3	2.5
Fishery	**0.99**	**207.8**	**227.3**	**241.6**	**9.4**	**6.3**
Forestry	**9.24**	**123.8**	**126.9**	**131.3**	**2.5**	**3.5**
Overall Index	**100.0**	**130.6**	**135.7**	**139.6**	**3.9**	**2.9**

Source: Central Bureau of Statistics

Table 4

PRODUCTION VOLUME OF AGRICULTURE AND ALLIED SECTOR

Agricultural Commodities	2002/03	2003/04	2004/05	2003/04	2004/05
		In Thousand Tones		% Change	
Foodgrains	**7,360.4**	**7,744.6**	**7,767.4**	**5.2**	**0.3**
Paddy	4132.5	4455.7	4289.8	7.8	-3.7
Maize	1569.1	1590.1	1716.0	1.3	7.9
Wheat	1344.2	1387.2	1442.4	3.2	4.0
Millet (Kodo)	282.9	283.4	289.8	0.2	2.3
Barley	31.7	28.2	29.3	-11.1	3.9
Cash Crops	**4019.8**	**4101.7**	**4276.1**	**2.0**	**4.3**
Sugarcane	2343.1	2305.3	2376.1	-1.6	3.1
Oil Seeds	124.9	132.9	142.0	6.4	6.9
Tobacco	3.5	3.3	3.0	-4.3	-8.9
Jute	17.0	16.9	16.2	-0.9	-4.1
Potato	1531.3	1643.4	1738.8	7.3	5.8
Other Crops	**2575.7**	**2666.9**	**2889.4**	**3.5**	**8.3**
Pulses	256.9	265.4	271.3	3.3	2.2
Fruits	518.9	511.4	552.9	-1.4	8.1
Vegetables	1800.0	1890.1	2065.2	5.0	9.3
Livestocks					
Milk	1195.9	1231.9	1274.2	3.0	3.4
Meat	203.9	208.4	214.8	2.2	3.1
Buffalo meat	130.8	133.6	139.0	2.1	4.0
Mutton	42.5	43.3	44.4	2.0	2.6
Pig meat	15.6	15.4	15.7	-1.5	2.2
Poultry meat	15.0	16.1	15.7	7.4	-2.7
Eggs (in million No.)	557.4	575.6	590.1	3.3	2.5
Fishery	**36.6**	**39.9**	**42.5**	**9.2**	**6.3**

Source : Ministry of Agriculture and Cooperatives, HMG

Table 5

AREA UNDER PRINCIPAL FOODGRAINS AND CASH CROPS

Agricultural Commodities	2002/03	2003/04	2004/05	2003/04	2004/05
	In Thousand Hectares			% Change	
Foodgrains	**3,336.5**	**3,344.4**	**3,352.7**	**0.2**	**0.2**
Paddy	1544.7	1559.4	1541.7	1.0	-1.1
Maize	836.2	834.3	849.9	-0.2	1.9
Wheat	669.0	664.6	675.8	-0.7	1.7
Millet (Kodo)	259.1	258.6	258.8	-0.2	0.1
Barley	27.6	27.5	26.4	-0.3	-3.8
Cash Crops	**402.8**	**404.4**	**407.9**	**0.4**	**0.9**
Sugarcane	60.4	59.4	59.1	-1.7	-0.6
Oil Seeds	186.7	186.7	187.8	0.0	0.6
Tobacco	3.6	3.4	3.0	-5.5	-11.6
Jute	11.9	11.8	11.2	-0.5	-5.0
Potato	140.2	143.0	146.8	2.0	2.6
Total	**3,739.3**	**3,748.8**	**3,760.6**	**0.3**	**0.3**

Source : Ministry of Agriculture and Cooperatives, HMG.

Table 6

PRODUCTIVITY OF PRINCIPAL FOODGRAINS AND CASH CROPS

Agricultural Commodities	2002/03	2003/04	2004/05
	Per Hectare Production in MT		
Foodgrains	**2.21**	**2.32**	**2.32**
Paddy	2.68	2.86	2.78
Maize	1.88	1.91	2.02
Wheat	2.01	2.09	2.13
Millet (Kodo)	1.09	1.10	1.12
Barley	1.15	1.09	1.11
Cash Crops	**9.98**	**10.14**	**10.46**
Sugarcane	38.78	38.79	40.22
Oil Seeds	0.67	0.71	0.76
Tobacco	0.96	0.97	1.00
Jute	1.44	1.43	1.45
Potato	10.92	11.49	11.85

Source : Ministry of Agriculture and Cooperatives, HMG.

Table 7

LIVESTOCK POPULATION

	2002/03	2003/04	2004/05	2003/04	2004/05
	In Thousand Nos.			% Change	
Cattle	6,953.6	6,966.4	6,994.5	0.2	0.4
Buffaloes	3,840.0	3,952.7	4,081.5	2.9	3.3
Sheep	828.3	824.2	816.7	-0.5	-0.9
Goat	6,791.9	6,979.9	7,153.5	2.8	2.5
Pigs	932.2	935.1	947.7	0.3	1.4
Fowl	22,260.7	23,024.0	22,790.2	3.4	-1.0
Ducks	408.3	405.2	391.9	-0.8	-3.3
Total	42,014.9	43,087.4	43,176.0	2.6	0.2

Source : Ministry of Agriculture and Cooperatives, HMG.

Table 8

IRRIGATION AND SUPPLY OF AGRICULTURAL INPUTS

	Unit	2002/03	2003/04	2004/05	20
Increase in irrigation Facilities	Hect.	**11,824.0**	**15,865.0**	**10,513.0**	
Chemical Fertilizers	MT	**174,382.0**	**138,758.0**	**122,706.0**	
Chemical Fertilizers (AIC)	MT	70,746.0	20,493.0	31811.0	
D.A.P.	,,	*33,331.0*	*11,377.0*	*19436.0*	
Potash	,,	*2,966.0*	*1,688.0*	*2332.0*	
Urea	,,	*34,449.0*	*7,428.0*	*10043.0*	
Chemical Fertilizers (Private)	,,	103,636.0	118,265.0	90895.0	
Improved Seeds	MT	**2,077.2**	**2,205.1**	**1,768.4**	
Paddy	,,	353.0	503.7	546	
Maize	,,	20.0	19.9	2.1	
Wheat	,,	1,680.0	1,665.8	1205.0	
Others	,,	24.2	15.7	15.3	
Pesticides					
Powder	MT	NA	NA	NA	
Liquid	Litre	NA	NA	NA	
Total Agricultural Credit	Million Rs.	**10,115.3**	**10,148.6**	**11795.1**	

Source: Ministry of Agriculture & Co-operatives, HMG.

Table 9

PURPOSEWISE CLASSIFICATION OF AGRICULTURAL CREDIT*

	2002/03	2003/04	2004/05	2003/04	2004/05
	Rs in million			% Change	
Total Agricultural Credit	**10,115.3**	**10,148.6**	**11,795.1**	**0.3**	**16.2**
Agricultural Production	2,056.6	1,842.1	1,732.4	-10.4	-6.0
Farm Mechanisation and Irrigation	780.6	594.7	536.7	-23.8	-9.8
Agro -business	1,621.0	1,606.3	1,825.3	-0.9	13.6
Agro-Industry, Housing Construction and Warehouse Construction	4,761.8	4,899.3	5,873.8	2.9	19.9
Others	895.3	1,206.2	1,826.9	34.7	51.5

* Disbursed by Agricultural Development Bank only.

Source : Agricultural Development Bank

Table 10

MARKET PRICES OF CHEMICAL FERTILIZER AND FOODGRAINS

	Unit	2002/03	2003/04	2004/05	2003/04	2004/05
					% Change	
Chemical Fertilizer						
Urea	Rs./M. Ton	14,100.0	14,200.0	15,560.00	0.7	9.6
Potash	Rs./M. Ton	13,600.0	13,600.0	14,330.00	0.0	5.4
D.A.P	Rs./M. Ton	19,325.0	19,500.0	20,860.00	0.9	7.0
Foodgrains						
Paddy (Coarse)	Rs./Qtl.	725	730	756.00	0.7	3.6
Wheat	Rs./Qtl.	1015	1107	1,040.00	9.1	-6.1
Maize	Rs./Qtl.	964	903.9	892.00	-6.2	-1.3

Source: Ministry of Agriculture and Cooperatives, HMG

Table 11
PRODUCTION INDEX OF MANUFACTURING INDUSTRIES

	Base 1996/97 = 100									Base 2003/04 = 100	
Major Industry Groups	Weight 1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04		Weight	2003/04
Mgf.of Vegetables Oils and Fats	**2.69**	**100.0**	**114.9**	**117.7**	**123.4**	**144.1**	**176.6**	**161.8**	**163.6**	15.78	**100.0**
Vegetable Ghee	1.50	100.0	115.6	111.5	118.9	153.1	188.5	141.4	137.1	10.08	100.0
Mustard oil	0.41	100.0	112.0	115.1	120.9	122.1	154.7	179.4	170.4	1.95	100.0
Soyabean oil	0.78	100.0	115.0	131.1	133.5	138.3	165.4	191.8	211.0	3.74	100.0
Mgf. of Dairy Products	**2.97**	**100.0**	**108.0**	**111.2**	**114.5**	**124.1**	**135.8**	**142.6**	**151.2**	2.77	**100.0**
Processed milk	2.97	100.0	108.0	111.2	114.5	124.1	135.8	142.6	151.2	2.77	100.0
Mgf.of Grain mill Products,											
Prepared Animal feeds	**4.12**	**100.0**	**117.5**	**124.0**	**122.2**	**134.7**	**135.2**	**130.9**	**139.9**	8.16	**100.0**
Rice	2.00	100.0	124.0	131.4	125.7	146.3	148.3	132.0	145.2	4.33	100.0
Wheat flour	1.67	100.0	115.0	121.9	124.0	131.6	131.8	139.7	146.7	2.19	100.0
Animal Feeds	0.45	100.0	97.8	98.8	100.2	94.2	89.7	93.2	91.4	1.63	100.0
Mgf of Other Food Products	**5.97**	**100.0**	**107.9**	**113.9**	**132.1**	**125.8**	**112.7**	**131.4**	**130.7**	7.93	**100.0**
Biscuits	0.88	100.0	111.0	116.6	109.6	119.0	112.7	127.3	121.0	1.04	100.0
Sugar	3.49	100.0	104.0	110.2	142.7	119.4	95.6	115.7	111.1	2.92	100.0
Noodles	0.97	100.0	123.0	131.6	134.1	157.8	158.5	175.9	182.9	2.72	100.0
Processed Tea	0.63	100.0	102.0	103.0	102.2	121.1	136.6	155.7	172.8	1.25	100.0
Manufacture of Beverage	**10.46**	**100.0**	**111.4**	**120.2**	**131.0**	**139.8**	**117.5**	**128.8**	**129.3**	6.59	**100.0**
Liquor	2.78	100.0	105.0	113.4	114.3	99.8	67.8	68.4	78.0	2.39	100.0
Beer	5.80	100.0	115.3	123.2	139.6	157.7	142.2	160.7	155.9	2.92	100.0
Soft Drinks	1.88	100.0	109.0	121.0	129.2	143.7	115.1	119.7	123.3	1.28	100.0
Manufacture of Tobacco Products	13.78	**100.0**	**92.2**	**98.8**	**108.0**	**113.9**	**112.1**	**107.6**	**113.0**	6.53	**100.0**
Cigarette	13.78	100.0	92.2	98.8	108.0	113.9	112.1	107.6	113.0	6.53	100.0
Manufacture of Textile	**22.42**	**100.0**	**103.3**	**107.0**	**107.1**	**99.1**	**71.5**	**68.0**	**71.2**	5.20	**100.0**
Yarn	-	-	-	-	-	-	-	-	-	3.18	100.0
Cotton Clothes	1.47	100.0	94.0	79.9	70.6	65.9	59.0	59.0	60.7	1.27	100.0
Synthetic Clothes	3.04	100.0	106.0	93.3	99.6	101.5	103.8	100.7	106.7	0.75	100.0
Manufacture of Other Textile	**17.91**	**100.0**	**103.6**	**111.6**	**111.4**	**101.4**	**67.1**	**63.2**	**66.0**	6.59	**100.0**
Jute Goods	1.19	100.0	114.0	116.3	135.1	130.9	139.6	125.7	125.7	2.27	100.0
Woolen carpet	16.72	100.0	102.9	111.2	109.7	99.3	61.9	58.8	61.7	4.32	100.0
Manufacture of Wearing Apparel	**7.22**	**100.0**	**96.0**	**103.7**	**123.5**	**122.1**	**88.7**	**118.9**	**115.3**	7.14	**100.0**
Garment	7.22	100.0	96.0	103.7	123.5	122.1	88.7	118.9	115.3	7.14	100.0
Manufacture of Knitted and Crocheted Fabrics	-	-	-	-	-	-	-	-	-	1.18	**100.0**
Pashmina	-	-	-	-	-	-	-	-	-	1.18	100.0
Mnf. of Leather & Leather Products	**1.00**	**100.0**	**109.0**	**111.2**	**108.1**	**134.6**	**121.8**	**120.6**	**118.2**	0.92	**100.0**
Processed Leather	1.00	100.0	109.0	111.2	108.1	134.6	121.8	120.6	118.2	0.92	100.0
Mnf. of Wood & Wood Products	**1.17**	**100.0**	**99.0**	**95.6**	**93.3**	**91.4**	**98.9**	**113.7**	**114.9**	0.95	**100.0**

	Base 1996/97 = 100									Base 2003/04 = 100		
Major Industry Groups	Weight 1996/97		1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	Weight	2003/04	20
Wood swan	1.17	100.0	99.0	95.6	93.3	91.4	98.9	113.7	114.9	0.95	100.0	
Mnf .of Paper & Paper Products	**1.94**	**100.0**	**101.0**	**103.0**	**111.3**	**125.5**	**123.6**	**129.8**	**125.9**	1.42	**100.0**	
Paper	1.94	100.0	101.0	103.0	111.3	125.5	123.6	129.8	125.9	1.42	100.0	
Publishing Printing and Reproducing of Recorded M	-	-	-	-	-	-	-	-	-	1.58	**100.0**	
Newspaper	-	-	-	-	-	-	-	-	-	1.58	100.0	
Mng. of Other Chemical Products	**6.78**	**100.0**	**98.6**	**105.5**	**114.4**	**130.7**	**148.6**	**145.6**	**144.2**	10.34	**100.0**	
Medicine	-	-	-	-	-	-	-	-	-	7.01	100.0	
Soap	6.78	100.0	98.6	105.5	114.4	130.7	148.6	145.6	144.2	3.33	100.0	
Manufacture of Rubber Products	**1.51**	**100.0**	**96.0**	**98.0**	**96.5**	**96.6**	**101.2**	**90.1**	**88.3**	-	**-**	
I Tire and tube	1.51	100.0	96.0	98.0	96.5	96.6	101.2	90.1	88.3	-	-	
Manufacture of Plastic Products	1.90	**100.0**	**105.0**	**111.3**	**110.6**	**148.6**	**178.6**	**153.6**	**150.6**	4.75	**100.0**	
Plastic Goods	1.90	100.0	105.0	111.3	110.6	148.6	178.6	153.6	150.6	4.75	100.0	
Mnf. of Non-Metallic Mineral Products	**8.24**	**100.0**	**104.7**	**114.5**	**120.6**	**117.9**	**124.5**	**125.5**	**135.6**	5.34	**100.0**	
Cement	4.34	100.0	124.1	130.6	142.4	137.1	145.8	151.6	162.2	2.92	100.0	
Bricks & Tiles	3.90	100.0	83.0	96.5	96.3	96.5	100.9	104.9	106.0	2.42	100.0	
Mnf. of Other Fabricated Metal Product	**5.10**	**100.0**	**107.9**	**107.4**	**120.4**	**134.1**	**139.7**	**141.9**	**149.7**	3.70	**100.0**	
Iron Rod and Billets	3.47	100.0	108.3	103.5	120.9	129.7	139.4	140.8	151.0	3.70	100.0	
II Corrogated sheet	1.63	100.0	107.0	115.6	119.5	143.4	140.3	144.5	146.8	-	-	
Mnf. of Insulted Wire and Cables	**1.77**	**100.0**	**113.0**	**116.4**	**121.0**	**146.4**	**151.5**	**157.6**	**154.4**	1.68	**100.0**	
Electrical Wires and Cables	1.77	100.0	113.0	116.4	121.0	146.4	151.5	157.6	154.4	1.68	100.0	
Mgf.of primary batteries	**0.43**	**100.0**	**103.0**	**104.0**	**113.3**	**118.1**	**121.4**	**129.9**	**126.0**	-	**-**	
III Dry Cell Battery	0.43	100.0	103.0	104.0	113.3	118.1	121.4	129.9	126.0	-	**-**	
Manufacture n.e.s.	**0.53**	**100.0**	**93.1**	**89.3**	**98.9**	**92.6**	**101.7**	**84.4**	**81.0**	-	**-**	
I Matches	0.53	100.0	93.1	89.3	98.9	92.6	101.7	84.4	81.0	-	**-**	
Mnf. of Casting of Metal	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1.45	**100.0**	
Domestic Metal Product	-	-	-	-	-	-	-	-	-	1.45	100.0	
Overall Index	**100.00**	**100.0**	**103.4**	**108.9**	**116.1**	**120.1**	**112.2**	**114.9**	**117.3**	100.00	**100.0**	

Weights are based on Manufacturing Establishment Census 1996/97 and 2001/02

Source:CBS

Table 12

TOURISM INDICATORS

				% Change	
	2002/03	2003/04	2004/05	2003/04	2004/05
Tourist Arrivals by air (in number of persons)	228,916	305,945	252,153	33.6	-17.6
Indian	78,777	93,379	77,686	18.5	-16.8
Others	150,139	212,566	174,467	41.6	-17.9
Tourism Earnings (Rs.in million)	11,748	18,147	10,464	54.5	-42.3
Average Duration of Stay (in days)	8	10	14	21.5	40.6
Per Capita Expenditure (in rupees)	51,319	59,316	41,498	15.6	-30.0
Number of Hotel Beds*	37,616	38,270	39,107	1.7	2.2

From August to July each year as proxied for fiscal year.
*As of mid-Paush
Source : Economic Survey , MOF, HMG, Nepal Tourism Board & Nepal Rastra Bank.

Table 13

IMPORTS AND SALES OF PETROLEUM PRODUCTS

	Petrol Kilo-liters	% Change	Diesel Kilo-liters	% Change	Kerosene Kilo-liters	% Change	LP Gas MT	% Change
IMPORTS								
2001/02	63,578	-	287,657	-	390,113	-	48,757	-
2002/03	68,482	7.7	301,672	4.9	351,696	-9.8	56,079	15.0
2003/04	67,965	-0.8	302,644	0.3	313,127	-11.0	66,142	17.9
2004/05	76,097	12.0	308,076	1.8	213,463	-31.8	77,594	17.3
SALES								
2001/02	63,271	-	286,233	-	386,592	-	48,757	-
2002/03	67,457	6.6	299,973	4.8	348,683	-9.8	56,079	15.0
2003/04	67,586	0.2	299,730	-0.1	310,826	-10.9	66,142	17.9
2004/05	75,989	12.4	315,368	5.2	239,328	-23.0	77,594	17.3

Source: Nepal Oil Corporation.

Table 14

ELECTRICITY GENERATION, IMPORTS AND EXPORTS(GWH)

	Hydropower Generation	% Change	Imports	% Change	Exports	% Change
2002/03	1478.04	-	149.880	-	192.249	-
2003/04	1345.46	-8.97	186.675	24.55	141.235	-26.54
2004/05	1522.90	13.19	241.389	29.31	110.702	-21.62

Source: Nepal Electricity Authority

Table 15

NATIONAL URBAN CONSUMER PRICE INDEX

(Point to Point Annual Change)

(Base Year : 1995/96 = 100)

	Food & Beverages		Non-food & Services		Overall Index	
Months	Index	% Changes	Index	% Changes	Index	% Changes
Jul/Aug	154.8	2.8	164.1	2.0	159.1	2.4
Aug/Sep	156.8	3.3	164.2	1.9	160.2	2.6
Sep/Oct	157.0	2.1	166.0	3.0	161.2	2.6
Oct/Nov	155.9	2.2	166.7	3.3	160.8	2.7
Nov/Dec	152.4	3.0	166.7	3.2	159.0	3.1
Dec/Jan	149.7	3.4	170.8	5.7	159.5	4.6
Jan/Feb	150.6	4.1	174.1	7.4	161.4	5.7
Feb/Mar	152.2	4.7	173.2	6.8	161.9	5.7
Mar/Apr	154.3	4.8	173.4	6.8	163.1	5.8
Apr/May	155.7	5.8	173.8	7.0	164.0	6.4
May/Jun	156.6	5.3	173.9	7.0	164.6	6.2
Jun/Jul	160.3	6.0	174.4	7.3	166.8	6.6
Annual	**154.7**	**4.0**	**170.1**	**5.1**	**161.8**	**4.5**

Source: Nepal Rastra Bank.

Table 16

NATIONAL URBAN CONSUMER PRICE INDEX
(By Groups and Sub-groups of Commodities)
Base:1995/96=100

Groups & Sub-groups of the Commodities	Weight %	2002/03	2003/04	2004/05	Perce
1	2	3	4	5	4 over
1. Overall Index	**100.00**	**148.9**	**154.8**	**161.8**	
1.1 Food and Beverages	**53.20**	**144.0**	**148.8**	**154.7**	
Grains and Cereal Products	18.00	138.2	139.8	145.1	
Rice and Rice Products	(14.16)	136.6	138.0	142.4	
Pulses	2.73	125.3	126.1	131.6	
Vegetables, Fruits and Nuts	7.89	135.7	140.3	146.9	
Spices	1.85	142.3	148.0	146.5	
Meat, Fish and Eggs	5.21	148.2	158.3	168.5	
Milk and Milk Products	4.05	147.8	150.4	151.1	
Oil and Ghee	3.07	136.9	153.7	150.8	
Sugar and Related Products	1.21	124.4	123.9	154.6	
Beverages	2.28	161.6	162.1	165.0	
Restaurant Meals	6.91	174.1	183.2	192.6	
1.2 Other Goods and Services	**46.80**	**154.6**	**161.8**	**170.1**	
Cloth, Clothing & Sewing Services	8.92	135.7	138.1	141.5	
Cloths	(2.28)	124.6	126.3	130.7	
Clothings	(5.75)	136.6	138.1	140.5	
Footwear	2.20	132.7	133.3	133.9	
Housing Goods and services	14.87	153.0	163.1	178.1	
Fuel, Light and Water	(5.92)	182.6	200.8	230.3	
Transport and Communication	4.03	172.2	185.2	198.2	
Medical and Personal Care	8.03	163.2	169.3	172.1	
Education, Reading and Recreation	7.09	174.1	182.1	190.1	
Tobacco and Related Products	1.66	150.5	153.2	156.2	

Table 17

URBAN CONSUMER PRICE INDEX: KATHMANDU VALLEY

(Base : 1995/96 = 100)

Groups & Sub-groups of the Commodities	Weight %	2002/03	2003/04	2004/05	Per
1	2	3	4	5	4 ov
1. Overall Index	**100.00**	**141.7**	**150.1**	**157.6**	
1.1 Food and Beverages	**51.53**	**137.5**	**145.6**	**151.8**	
Grains and Cereal Products	16.37	138.8	146.9	151.7	
Rice and Rice Products	(13.05)	140.8	150.6	155.1	
Pulses	2.14	115.4	114.2	119.6	
Vegetables, Fruits and Nuts	8.27	123.4	133.7	135.7	
Spices	1.57	137.2	141.8	143.6	
Meat, Fish and Eggs	5.28	141.6	153.4	169.1	
Milk and Milk Products	4.18	133.7	134.5	137.2	
Oil and Ghee	2.62	131.1	149.8	146.6	
Sugar and Related Products	1.36	130.4	127.9	164.3	
Beverages	2.39	136.6	136.6	142.0	
Restaurant Meals	7.35	159.9	171.2	179.7	
1.2 Other Goods and Services	**48.47**	**146.3**	**155.0**	**163.8**	
Cloth, Clothing & Sewing Services	8.67	134.4	139.0	145.5	
Cloths	(1.83)	126.4	130.8	140.5	
Clothings	(6.14)	133.6	135.5	140.4	
Footwear	2.41	132.5	133.9	135.1	
Housing Goods and services	15.14	147.9	158.4	172.6	
Fuel, Light and Water	(4.95)	188.5	208.9	241.8	
Transport and Communication	4.21	160.4	172.7	190.4	
Medical and Personal Care	7.86	166.5	172.4	174.1	
Education, Reading and Recreation	8.33	135.9	150.0	157.4	
Tobacco and Related Products	1.85	133.5	136.5	138.6	

Table 18

URBAN CONSUMER PRICE INDEX : HILLS

(Base : 1995/96 = 100)

Groups & Sub-groups of the Commodities	Weight %	2002/03	2003/04	2004/05	P
1	2	3	4	5	4 c
1. Overall Index	**100.00**	**151.8**	**156.6**	**163.5**	
1.1 Food and Beverages	**53.04**	**148.5**	**153.0**	**158.8**	
Grains and Cereal Products	17.76	132.5	134.1	139.6	
Rice and Rice Products	(13.86)	129.2	130.3	133.7	
Pulses	2.66	129.5	127.7	133.4	
Vegetables, Fruits and Nuts	7.61	140.1	146.7	152.8	
Spices	2.01	146.6	153.2	155.4	
Meat, Fish and Eggs	5.48	151.2	161.9	169.6	
Milk and Milk Products	3.94	163.2	163.3	164.2	
Oil and Ghee	3.77	138.5	150.0	152.5	
Sugar and Related Products	1.15	125.9	124.0	157.0	
Beverages	2.65	185.0	185.1	187.2	
Restaurant Meals	6.01	198.1	206.2	213.9	
1.2 Other Goods and Services	**46.96**	**155.5**	**160.8**	**168.8**	
Cloth, Clothing & Sewing Services	8.94	124.5	126.8	129.9	
Cloths	(2.54)	104.4	107.0	110.2	
Clothings	(5.51)	127.2	128.3	130.4	
Footwear	2.63	127.5	129.7	133.4	
Housing Goods and services	14.40	154.4	162.4	176.9	
Fuel, Light and Water	(5.92)	180.7	195.6	223.8	
Transport and Communication	3.31	192.7	206.4	221.6	
Medical and Personal Care	8.39	160.7	163.8	165.9	
Education, Reading and Recreation	7.78	182.0	185.6	192.2	
Tobacco and Related Products	1.51	151.6	155.0	162.0	

Table 19

URBAN CONSUMER PRICE INDEX : TERAI

(Base:1995/96=100)

Groups & Sub-groups of the Commodities	2052/53	Weight %	2002/03	2003/04	2004/05	Pe
1	2	2	3	4	5	4 o
1. Overall Index	**100.0**	**100.00**	**152.2**	**156.9**	**163.8**	
1.1 Food and Beverages	**100.0**	**54.98**	**146.4**	**149.2**	**155.0**	
Grains and Cereal Products	100.0	19.76	140.0	137.7	143.1	
Rice and Rice Products	100.0	(15.42)	136.8	133.1	137.9	
Pulses	100.0	3.35	129.8	132.7	138.3	
Vegetables, Fruits and Nuts	100.0	7.63	141.5	141.9	151.6	
Spices	100.0	2.06	143.7	149.7	145.0	
Meat, Fish and Eggs	100.0	5.02	151.0	159.9	167.7	
Milk and Milk Products	100.0	3.98	150.6	155.3	154.7	
Oil and Ghee	100.0	3.23	139.8	157.3	152.7	
Sugar and Related Products	100.0	1.09	120.3	121.4	147.8	
Beverages	100.0	2.00	168.2	169.2	170.8	
Restaurant Meals	100.0	6.86	173.8	181.9	192.5	
1.2 Other Goods and Services	**100.0**	**45.02**	**159.3**	**166.4**	**174.5**	
Cloth, Clothing & Sewing Services	100.0	9.16	140.6	141.7	143.3	
Cloths	100.0	(2.63)	131.1	130.8	132.4	
Clothings	100.0	(5.45)	142.0	143.4	144.3	
Footwear	100.0	1.78	134.8	134.2	133.3	
Housing Goods and Services	100.0	14.80	155.5	166.1	182.0	
Fuel, Light and Water	100.0	(6.91)	179.7	197.7	225.7	
Transport and Communication	100.0	4.16	171.7	185.0	194.3	
Medical and Personal Care	100.0	8.04	162.0	169.5	173.1	
Education, Reading and Recreation	100.0	5.54	194.5	200.5	209.3	
Tobacco and Related Products	100.0	1.54	160.5	162.7	164.8	

Table 20

NATIONAL WHOLESELE PRICE INDEX

(By Groups and Sub-groups of Commodities)

(Base : 1999/2000 = 100)

Groups and Sub-groups	Weight %	2002/03	2003/04	2004/05	Percentage Change	
1	2	3	4	5	4/3	5/4
1. Overall Index	**100.0**	**110.4**	**114.9**	**123.3**	**4.1**	**7.3**
1.1 Agricultural Commodities	**49.6**	**109.6**	**111.9**	**118.5**	**2.1**	**5.9**
Foodgrains	16.6	95.3	93.7	102.4	-1.7	9.3
Cash Crops	6.1	131.7	120.5	147.3	-8.5	22.2
Pulses	3.8	114.5	115.3	118.7	0.7	2.9
Fruits and Vegetables	11.2	112.3	121.3	114.7	8.0	-5.4
Spices	1.9	97.8	106.1	102.0	8.4	-3.9
Livestock Production	10.0	117.2	126.2	134.8	7.7	6.8
1.2 Domestic Manufactured Commodities	**20.4**	**108.4**	**114.5**	**121.6**	**5.6**	**6.2**
Food Related Products	6.1	107.2	109.0	112.0	1.7	2.8
Beverages and Tobacco	5.7	112.1	116.3	122.2	3.7	5.0
Construction Materials	4.5	109.5	126.4	145.9	15.5	15.4
Others	4.1	104.0	107.3	108.5	3.2	1.1
1.3 Imported Commodities	**30.0**	**113.1**	**120.1**	**132.3**	**6.2**	**10.1**
Petrolium Products and Coal	5.4	141.0	158.3	196.2	12.3	23.9
Chemical Fertilizers and Chemical Goods	2.5	122.9	127.6	143.1	3.8	12.1
Transport Vehicles and Machinery Goods	7.0	102.9	108.3	117.3	5.3	8.4
Electric and electronic Goods	1.9	97.6	96.1	96.7	-1.6	0.7
Drugs and Medicine	2.7	103.2	107.0	108.3	3.6	1.2
Textile related Products	3.1	105.8	110.8	113.2	4.8	2.1
Others	7.4	109.9	115.9	122.2	5.5	5.5

Table 21

NATIONAL WHOLESALE PRICE INDEX BY MONTH

(Point to Point Annual Changes)

(Base : 1999/00 = 100)

Months	Overall Index		Agricultural Commodities		Domestic Manufactured Commodities		Impo
	Index	% Change	Index	% Change	Index	% Change	Inc
Mid-Aug	122.1	6.8	122.1	7.4	118.9	7.5	
Mid-Sep	123.1	6.1	123.2	5.4	118.9	7.3	
Mid-Oct	123.4	6.0	121.8	3.7	119.5	7.7	
Mid-Nov	122.6	4.6	120.2	1.2	119.4	7.4	
Mid-Dec	119.0	4.4	113.1	0.8	119.4	7.6	
Mid-Jan	119.7	6.9	112.0	4.1	119.8	7.2	
Mid-Feb	121.0	7.2	111.2	3.5	121.7	5.6	
Mid-Mar	123.2	8.5	115.5	7.7	122.4	4.3	
Mid-Apr	123.7	8.4	115.9	7.7	123.3	4.0	
Mid-May	125.2	9.5	118.1	9.9	125.4	5.4	
Mid-June	126.5	8.9	120.7	8.6	126.0	5.6	
Mid-July	129.9	9.9	127.7	10.8	124.9	5.2	
Average	**123.3**	**7.3**	**118.5**	**5.9**	**121.6**	**6.2**	

Table 22

TOWNWISE AVERAGE WAGE RATE

S. No.	Groups/Sub-groups	Unit	2003/04 KTM	2003/04 BRT	2003/04 BRJ	2003/04 BHR	2004/05 KTM	2004/05 BRT	2004/05 BRJ	2004/05 BHR	Perc KTM	Perc BH
1	**Agricultural Labourer**											
	Male	Daily	138.00	85.42	106.94	65.00	152.50	90.28	116.67	72.50	10.51	
	Female	Daily	88.33	64.30	106.94	65.00	90.83	70.00	116.67	72.50	2.83	
2	**Construction Labourer**											
	Mason											
	Skilled	Daily	316.70	190.00	172.92	216.67	331.94	192.78	175.00	216.67	4.81	
	Unskilled	Daily	241.70	170.00	129.72	175.00	241.70	170.83	130.00	175.00	0.00	
	Carpenter											
	Skilled	Daily	316.70	188.34	198.61	216.67	331.94	193.89	200.00	216.67	4.81	
	Unskilled	Daily	241.70	156.67	149.17	175.00	241.70	160.00	150.00	175.00	0.00	
3	**Labour**											
	Male	Daily	150.00	103.33	99.44	101.67	153.06	106.11	100.00	104.44	2.04	
	Female	Daily	133.30	88.34	99.44	93.33	133.33	91.67	100.00	96.11	0.03	

KTM = Kathmandu BRT = Biratnagar BRJ = Birgunj BHR = Bhairahawa

Table 23
GOVERNMENT BUDGETARY OPERATION

Rs. in million

	2002/03	2003/04	2004/05	
			Budget Estimate	Revised Estimate
Revenue and Grants	**66,029.3**	**71,763.9**	**87,270.7**	**81,304.7**
Revenue	***54,690.1***	***60,480.5***	***71,920.0***	***70,134.7***
Tax Revenue	42,586.9	48,173.0	55,970.0	54,477.1
Non-Tax Revenue[1]	12,103.2	12,307.5	15,950.0	15,657.6
Foreign Grants	***11,339.2***	***11,283.4***	***15,350.7***	***11,170.0***
Expenditure and Investment	**72,906.9**	**76,797.2**	**100,785.9**	**87,095.0**
Expenditure	***74,444.6***	***78,592.7***	***102,785.9***	***88,282.5***
Recurrent	52,088.5	55,552.1	70,098.4	63,117.3
Capital	22,356.1	23,040.6	32,687.5	25,165.1
Loans and Investment, Net	***-1,537.7***	***-1,795.5***	***-2,000.0***	***-1,187.5***
Loans and Investment	2.0	55.0	0.0	0.0
Principal Recovery	1,539.7	1,850.5	2,000.0	1,187.5
Surplus (+) Deficit (-)	**-6,877.6**	**-5,033.3**	**-13,515.2**	**-5,790.3**
Source of Financing Deficits	**6,877.6**	**5,033.3**	**13,515.2**	**5,790.3**
Internal Loans, Net	***4,816.7***	***578.8***	***3,531.2***	***2,265.3***
Loans Received	8,880.0	5,607.8	9,060.0	9,060.0
Principal Repayments[2]	4,063.3	5,029.0	5,528.8	6,794.7
External Loans, Net	***-949.8***	***1,863.2***	***9,984.0***	***2,953.9***
Loans Received	4,546.4	7,629.0	16,959.1	8,814.0
Principal Repayments	5,496.2	5,765.8	6,975.1	5,860.1
Cash Balance (- Increase)	**3,010.7**	**2,591.4**	**0.0**	**571.1**

1 Revenue receipts from principal repayment is not included.

2 Since the principal repayment on internal and foreign loans are not shown separately in the budget, the principal repayments on external loans and internal loans are taken from the Table 2.4 & 2.10 of Economic Survey 2003/04

Note: Principal repayment for revised estimate for 2004/05 is taken from FCGO.

Source: Budget Speeches, Economic Survey and Expenditure Estimate (Red Book), Ministry of Finance, HMG.

Table 24
REVENUE *

Rs. in million

	2002/03	2003/04	2004/05	
			Budget Estimate	Revised Estimate
Tax Revenue	**42,586.9**	**48,173.0**	**55,970.0**	**54,477.1**
Tax on External Trade	**14,236.4**	**15,554.8**	**16,480.0**	**15,915.0**
Import Duty[1]	13,364.0	14,954.4	15,891.2	15,195.0
Export Duty	855.6	527.1	500.0	670.0
Others	16.7	73.3	88.8	50.0
Commodity and Services Tax	**18,244.8**	**20,705.6**	**26,150.0**	**25,308.0**
VAT	13,459.7	14,478.9	19,150.0	18,950.0
Excise Duties	4,785.1	6,226.7	7,000.0	6,358.0
Income and property Transfer Tax	**10,105.7**	**11,912.6**	**13,340.0**	**13,254.1**
Corporate Income Tax	5,549.8	6,816.9	7,494.6	7,244.5
Government Corporation	1,251.0	2,056.6	1,254.2	920.0
Non-Government Corporation	4,298.8	4,760.2	6,240.4	6,324.5
Remuneration Tax	1,252.6	1,391.2	1,538.5	1,528.0
Investment and other Tax	1,329.5	1,306.4	1,466.9	1,477.5
House and Land Registration Tax	1,414.3	1,697.5	2,090.0	2,253.1
House Land and other Property Tax	0.0	0.0	0.0	0.0
Vehicle Tax	559.5	700.6	750.0	751.0
Non-Tax Revenue	**12,103.2**	**12,307.5**	**15,950.0**	**15,657.6**
Forest	683.6	674.1	736.8	505.0
Interest	924.6	1,656.5	1,200.0	1,590.0
Dividend	2,497.6	2,661.1	4,480.0	5,186.0
Departmental Receipts[2]	590.8	648.1	942.2	745.8
Civil Administration[3]	2,368.2	3,377.4	4,000.0	3,974.7
Miscellaneous[4]	5,038.3	3,290.3	4,591.0	3,656.1
Total Revenue	**54,690.1**	**60,480.5**	**71,920.0**	**70,134.7**

* Amount of Principal recovery is not included.

1 Includes Imports Duties, Indian Excise Refund and Agriculture Improvement Duties.

2 Includes drinking water, irrigation, electricity, postal services, food and agriculture, education, transport and others.

3 Includes duties and fees and penalty, fines and forfeitures.

4 Includes royalty and sales of government property and donation and miscellaneous income.

Source: Budget Speeches, Ministry of Finance, HMG.

Table 25

RECURRENT EXPENDITURE*

Rs. in million

	2001/02	2002/03	2003/04	2004/05 Budget
General Administration and Constitutional Bodies	**4,064.2**	**4,118.9**	**3,958.1**	**4,882.6**
Constitutional Bodies	571.0	819.2	737.2	1,970.9
General Administration	3,493.2	3,299.7	3,220.9	2,911.7
Revenue Administration	470.5	470.5	496.6	0.0
Economic Administration and Planning	235.7	235.7	269.6	0.0
Others	1,147.3	1,147.3	1,159.2	0.0
Defence and Internal Security	**10,786.4**	**12,058.0**	**12,659.4**	**13,242.5**
Defence	5,264.8	6,168.3	6,629.6	6,917.1
Police & Jail	5,521.6	5,889.7	6,029.8	6,325.4
Social Services	**16,953.1**	**18,886.9**	**20,808.5**	**26,392.7**
Education	11,947.0	12,300.9	13,379.5	16,548.1
Health	2,957.3	3,492.7	3,826.4	5,586.7
Drinking Water	339.8	354.6	351.5	442.7
Local Development	303.3	1,286.8	1,687.2	1,587.6
Other Social Services	1,405.7	1,451.9	1,563.9	2,227.6
Economic Services	**5,795.1**	**5,078.5**	**5,512.8**	**9,010.6**
Agriculture	2,190.9	1,784.0	1,856.0	2,445.0
Irrigation	271.4	503.7	401.1	472.9
Land Reform & Cadastral Survey	397.2	315.0	336.9	654.8
Forest	1,262.7	1,271.4	1,323.7	1,562.2
Industry & Mining	694.7	364.9	498.0	564.6
Communication	42.2	69.7	86.7	1,071.9
Transport	341.5	303.3	297.1	397.6
Electricity	33.1	31.4	34.3	119.7
Other Economic Services	561.4	435.1	679.0	1,721.8
Miscellaneous	**11,265.1**	**11,948.2**	**12,613.3**	**16,570.1**
Interest Payments	5,770.3	6,621.8	6,543.9	7,609.0
Unclassified Expenditures	5,494.8	5,326.4	6,069.4	8,961.1
Total Recurent Expenditures	**48,863.9**	**52,090.5**	**55,552.1**	**70,098.4**

* Loans and Investment as well as Principal repayment on external and internal loans is not included.

Source: Budget Speeches, Economic Survey 2005, Ministry of Finance, HMG.

Table 26

CAPITAL EXPENDITURE

Rs. in million

	2001/02	2002/03	2003/04	2004/05 Budget Estimate
Economic Administration and Planning	**171.1**	**148.8**	**210.4**	**497.8**
Planning and Statistics	7.6	3.7	8.9	25.4
Constitutional Organs	11.9	16.8	36.9	229.8
General Administration	151.6	128.3	164.6	242.6
Defence and Internal Security	**1,344.6**	**1,717.8**	**2,394.0**	**1,715.0**
Defence	595.0	1,213.2	1,890.4	1,083.1
Police & Jail	749.6	504.6	503.6	631.9
Social Services	**7,927.5**	**7,050.9**	**7,135.2**	**10,989.3**
Education	1,103.0	940.7	1,003.4	1,375.0
Health	899.3	159.3	142.2	1,117.9
Drinking Water	1,418.0	1,669.9	2,065.8	3,143.0
Local Development	3,872.4	4,009.4	3,538.8	4,575.1
Other Social Services	634.8	271.6	385.0	778.3
Economic Services	**13,562.1**	**12,561.0**	**13,129.0**	**18,259.8**
Agriculture	505.4	187.0	160.2	237.8
Irrigation	2,913.5	1,840.9	2,070.9	2,870.0
Land Reform & Cadastral Survey	92.9	32.1	51.8	73.5
Forest	376.0	373.7	459.8	336.9
Industry & Mining	125.6	425.1	40.5	92.2
Communication	256.6	1,680.1	356.5	1,192.0
Transport	4,429.6	3,664.9	3,958.0	5,531.2
Electricity	4,371.9	3,881.6	4,746.2	6,242.8
Other Economic Services	490.6	475.6	1,285.1	1,309.0
Unclassified Expenditures	**1,755.5**	**875.6**	**172.0**	**1,225.5**
Capital Expenditure	**24,760.8**	**22,354.1**	**23,040.6**	**32,687.4**
Loan and Investment	12.6	2.0	55.0	0.0
Total Capital Expenditures	**24,773.4**	**22,356.1**	**23,095.6**	**32,687.4**

Table 27

FOREIGN AID AND DEBT SERVICING

Rs. in million

	2002/03	2003/04	2004/05	
			Budget Estimate	Revised Estimate
Foreign Grants	**11,339.1**	**11,283.4**	**15,350.7**	**11,170.0**
Bilateral	9,387.2	8,947.2	11,724.6	8,970.0
Multilateral	1,951.9	2,336.2	3,626.1	2,200.0
Foreign Loans, net	**-949.8**	**1,863.1**	**9,984.0**	**2,861.8**
Foreign Loans	***4,546.4***	***7,628.9***	***16,959.2***	***8,814.0***
Bilateral	657.2	66.0	768.0	67.0
Multilateral	3,889.2	7,562.9	16,191.2	8,747.0
Principal Repayments	***5,496.2***	***5,765.8***	***6,975.1***	***5,952.2***
Bilateral	-	-	-	-
Multilateral	-	-	-	-
Total Foreign Aid, net	**10,389.3**	**13,146.5**	**25,334.8**	**14,031.8**
Interest Payment	2,021.6	2,141.7	2,635.8	2,146.7

Source: Budget Speeches and Economic Survey, Ministry of Finance, HMG.

Table 28

OUTSTANDING INTERNAL AND EXTERNAL DEBT OF HMG

Rs. in million

Internal Debts*	**84,708.5**	**86,196.8**	**86,769.3**
Central Bank	23,685.7	19,138.8	19,075.6
Commercial Banks	39,469.3	43,796.3	44,432.0
Financial Institutions[1]	9,587.5	9,665.3	9,665.3
Others	11,966.0	13,596.4	13,596.4
External Debts	**223,436.3**	**232,881.1**	**220,753.7**
Direct	223,433.2	232,779.3	-
Indirect	3.1	1.8	-
Total Debt	**308,144.8**	**319,077.9**	**307,523.0**

* Includes Treasury Bills, Development Bonds, National Savings Bonds, Special Bonds, Citizen Savings Certificates and IMF Promissory Notes.

1 Includes Agriculture Development Bank, Provident Funds, Citizen Investment Trust, Insurance Companies, Rural Development Banks, Nepal Development Bank and Financial Companies.

Source: Nepal Rastra Bank and Economic Survey, Ministry of Finance, HMG, FCGO.

Table 29
OWNERSHIP PATTERNS OF GOVERNMENT BONDS*

Rs. in million

	Outstanding as at mid July					
	2003		2004		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
Nepal Rastra Bank	7,805.7	21.8	9,271.2	25.3	6,521.9	18.0
Commercial Banks	8,295.5	23.2	7,642.0	20.8	9,049.1	25.0
Financial Institutions[1]	4,788.4	13.4	4,653.6	12.7	4,998.9	13.8
Provident Fund Corporation	3,881.6	10.8	4,334.2	11.8	5,088.6	14.1
Government Business Enterprises	480.8	1.3	380.8	1.0	300.3	0.8
Private Business Enterprises	384.0	1.1	444.1	1.2	358.4	1.0
Individuals	9,399.5	26.3	9,460.6	25.8	9,376.8	25.9
Non-profit Organisations	749.2	2.1	517.6	1.4	487.1	1.3
Total Debt	**35,784.7**	**100.0**	**36,704.1**	**100.0**	**36,181.2**	**100.0**

* Includes Development Bonds, National Savings Bonds and Special Bonds and IMF Promissory Notes

1 Includes Financial Corporations, Insurance Companies, Nepal Development Bank, Rural Development Banks, Agricultural Development Bank, Citizen Investment Trust and Nepal Telecommunication Corporation.

Table 30
OWNERSHIP PATTERNS OF TREASURY BILLS

Rs. in million

	Outsanding as at mid-July					
	2003		2004		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
Nepal Rastra Bank	15,816.9	32.4	9,804.4	19.8	10,923.8	21.3
Commercial Banks	31,173.8	63.8	36,154.3	73.1	39,004.0	75.9
Financial Institutions	930.0	1.9	690.0	1.4	697.6	1.4
Others	940.0	1.9	2,780.9	5.6	757.7	1.5
Total Debt	**48,860.7**	**100.0**	**49,429.6**	**100.0**	**51,383.1**	**100.0**

Table 31

FOREIGN ASSISTANCE

Rs. in million

				Percent Change	
	2002/03	2003/04	2004/05*	2003/04	2004/05
A. Foreign Grants	**6,686.1**	**11,339.1**	**11,457.5**	**69.6**	**1.0**
Bilateral	4,588.3	9,387.2	9,506.5	104.6	1.3
Multilateral	2,097.8	1,951.9	1,951.0	-7.0	0.0
B. Foreign Loans	**7,698.7**	**4,546.4**	**11,111.0**	**-40.9**	**144.4**
Bilateral	87.0	657.2	453.5	655.4	-31.0
Multilateral	7,611.7	3,889.2	10,657.5	-48.9	174.0
Total (A+B)	**14,384.8**	**15,885.5**	**22,568.5**	**10.4**	**42.1**

* Revised Estimate.

Source: Budget Speeches, Ministry of Finance, HMG.

Table 32

DIRECTION OF FOREIGN TRADE

Rs. in million

				Percentage Change	
	2002/03	2003/04R	2004/05P	2003/04	2004/05
Total Exports	**49,930.6**	**53,910.7**	**58,705.7**	**8.0**	**8.9**
To India	26,430.0	30,777.1	38,916.9	16.4	26.4
To Other Countries	23,500.6	23,133.6	19,788.8	-1.6	-14.5
Total Imports	**124,352.1**	**136,277.1**	**149,473.6**	**9.6**	**9.7**
From India	70,924.2	78,739.5	88,675.5	11.0	12.6
From Other Countries	53,427.9	57,537.6	60,798.1	7.7	5.7
Trade Balance	**-74,421.5**	**-82,366.4**	**-90,767.9**	**10.7**	**10.2**
With India	-44,494.2	-47,962.4	-49,758.6	7.8	3.7
With Other Countries	-29,927.3	-34,404.0	-41,009.3	15.0	19.2
Total Foreign Trade	**174,282.7**	**190,187.8**	**208,179.3**	**9.1**	**9.5**
With India	97,354.2	109,516.6	127,592.4	12.5	16.5
With Other Countries	76,928.5	80,671.2	80,586.9	4.9	-0.1

Table 33

FOREIGN TRADE*
(Monthly)

	2002/03			2003/04[R]				20
Months	Export	Import	Balance	Export	Import	Balance	Export	
Jul/Aug	2,831.6	8,096.3	-5,264.7	3,647.0	9,463.8	-5,816.8	4,558.5	1
Aug/Sep	3,692.6	9,259.9	-5,567.3	4,715.9	11,650.4	-6,934.5	4,421.6	1
Sep/Oct	4,465.3	9,536.3	-5,071.0	3,667.6	10,412.3	-6,744.7	4,744.2	1
Sep/Nov	3,610.5	9,871.9	-6,261.4	3,973.3	10,275.7	-6,302.4	4,496.7	1
Nov/Dec	4,872.2	10,658.3	-5,786.1	4,981.6	11,280.1	-6,298.5	5,691.2	1
Dec/Jan	4,291.3	10,385.3	-6,094.0	5,249.1	10,610.6	-5,361.5	4,322.2	1
Jan/Feb	4,634.9	11,029.5	-6,394.6	5,157.2	11,484.0	-6,326.8	4,870.5	1
Feb/Mar	5,393.8	11,355.4	-5,961.6	4,727.8	11,329.1	-6,601.3	4,663.4	
Mar/Apr	4,160.9	11,150.7	-6,989.8	4,360.7	12,154.8	-7,794.1	4,895.8	1
Apr/May	4,171.3	11,187.1	-7,015.8	4,659.3	11,847.1	-7,187.8	5,531.3	1
May/Jun	3,970.7	10,488.5	-6,517.8	4,611.2	11,906.0	-7,294.8	5,266.8	1
Jun/Jul	3,835.5	11,332.9	-7,497.4	4,160.0	13,863.2	-9,703.2	5,243.5	1
Annual	**49,930.6**	**124,352.1**	**-74,421.5**	**53,910.7**	**136,277.1**	**-82,366.4**	**58,705.7**	**14**

* On customs data basis

Table 34

COMMODITYWISE CLASSIFICATION OF FOREIGN TRADE*

Standard International Trade	Exports			Imp	
Classification Description	2002/03	2003/04[R]	2004/05[P]	2002/03	200
1. Food and Live Animals	6,100.9	6,276.9	6,993.5	9,370.5	8
2. Tobacco and Beverages	138.7	55.2	31.6	792.2	1
3. Crude Materials,Inedibles except Fuels	800.1	714.3	881.6	8,479.3	10
4. Mineral Fuels and Lubricants	5.5	14.5	4.2	19,944.1	21
5. Animals and Vegetable Oils and Fats	4,278.7	3,375.7	5,070.3	7,750.5	8
6. Chemicals and Drugs	3,279.0	3,865.9	3,677.6	14,319.5	16
7. Manufactured Goods Classified Chiefly by Materials	17,794.7	23,601.7	28,590.6	34,888.2	36
8. Machinery and Transport Equipments	208.2	619.5	207.6	20,702.1	25
9. Miscellaneous Manufactured Articles	17,281.5	15,380.1	13,239.6	6,582.7	5
10. Commodity and Transaction not Classified According to Kind	43.3	6.9	9.1	1,523.0	1
Total	**49,930.6**	**53,910.7**	**58,705.7**	**124,352.1**	**136**

* On Customs data basis.

Table 35

COMMODITYWISE CLASSIFICATION OF FOREIGN TRADE WITH INDIA*

Standard International Trade Classification Depreciation	Exports 2002/03	Exports 2003/04[R]	Exports 2004/05[P]	Imp 2002/03	Imp 2003
1 Food and Live Animals	4,672.3	4,595.5	5,389.3	6,598.1	6
2 Tobacco and Beverages	106.6	42.3	26.5	600.1	
3 Crude Materials, Inedibles Except Fuels	682.2	576.5	736.6	4,297.5	4
4 Mineral Fuels and Lubricants	5.2	14.5	3.9	19,605.7	21
5 Animals & Vegetable Oils & Fats	4,053.2	3,206.4	4,858.8	55.4	
6 Chemicals & Drugs	3,174.1	3,624.5	3,577.7	6,786.9	8
7 Manufactured Goods Classified Chiefly by Materials	11,387.7	16,228.9	21,353.1	22,499.6	22
8 Machinery & Transport Equipments	118.5	219.1	85.7	8,444.8	11
9 Miscellaneous Manufactrued Aricles	2,225.7	2,262.5	2,876.2	2,035.1	2
10 Commodity & Transaction not Classified According to Kind	4.5	6.9	9.1	1.0	
Total	**26,430.0**	**30,777.1**	**38,916.9**	**70,924.2**	**78**

* On customs data basis.

Table 36

COMMODITYWISE CLASSIFICATION OF FOREIGN TRADE WITH OTHER COUNTRIES*

Standard International Trade Classification Depreciation	Exports			Impo	
	2002/03	2003/04[R]	2004/05[P]	2002/03	2003/
1 Food and Live Animals	1,428.6	1,681.4	1,604.2	2,772.4	2,7
2 Tobacco and Beverages	32.1	12.9	5.1	192.1	2
3 Crude Materials, Inedibles Except Fuels	117.9	137.8	145.0	4,181.8	5,9
4 Mineral Fuels and Lubricants	0.3	0.0	0.3	338.4	3
5 Animals & Vegetable Oils & Fats	225.5	169.3	211.5	7,695.1	8,5
6 Chemicals & Drugs	104.9	241.4	99.9	7,532.6	8,4
7 Manufactured Goods Classified Chiefly by Materials	6,407.0	7,372.8	7,237.5	12,388.6	13,7
8 Machinery & Transport Equipments	89.7	400.4	121.9	12,257.3	13,7
9 Miscellaneous Manufactrued Aricles	15,055.8	13,117.6	10,363.4	4,547.6	2,9
10 Commodity & Transaction not Classified According to Kind	38.8	0.0	0.0	1,522.0	1,4
Total	**23,500.6**	**23,133.6**	**19,788.8**	**53,427.9**	**57,5**

* On customs data basis.

Table 37

EXPORTS OF MAJOR COMMODITIES TO INDIA*

Rs. in million

		2002/03	2003/04[R]	2004/05[P]
Total		**20895.5**	**25791.7**	**31419.3**
1	Aluminium Section	255.1	381.1	879.2
2	Batica hair oil	386.7	524.6	232.3
3	Cardamom	469.6	451.0	607.0
4	Catechue	145.4	162.5	438.7
5	Cattlefeed	405.9	550.9	547.4
6	Chemicals	148.5	610.0	1407.5
7	Copper Wire Rod	356.6	200.8	530.1
8	Dried Ginger	108.4	78.0	80.1
9	G.I. pipe	357.2	556.3	424.0
10	Ghee (Vegetable)	3812.3	2959.0	4635.9
11	Ghee(Clarified)	54.6	76.5	83.1
12	Ginger	315.4	287.1	161.0
13	Handicraft Goods	44.8	27.4	104.7
14	Herbs	111.9	91.5	132.4
15	Juice	600.1	786.8	1091.3
16	Jute Goods	1899.0	1882.6	2693.5
17	M.S. Pipe	548.2	851.8	316.6
18	Medicine (Ayurvedic)	743.1	289.9	205.6
19	Noodles	309.7	259.7	369.3
20	Oil Cakes	311.1	324.1	317.1
21	Paper	363.6	266.3	169.7
22	Particle Board	243.8	283.5	335.3
23	Pashmina	475.6	427.7	341.5
24	Plastic Utensils	807.7	1192.4	1361.6
25	Polyster Yarn	656.9	1114.5	1896.3
26	Pulses	880.4	579.1	667.1
27	Readymade garment	399.2	626.7	365.9
28	Ricebran Oil	210.0	194.7	199.0
29	Rosin	221.6	173.6	256.6
30	Shoes and Sandles	108.2	107.7	235.9
31	Skin	248.5	332.3	338.6
32	Soap	469.2	539.6	368.0
33	Stone and Sand	189.5	209.1	249.1
34	Textiles*	878.2	1780.5	2996.6
35	Thread	1235.2	1637.4	2213.7
36	Tooth Paste	1002.8	1478.8	1283.0
37	Wire	150.9	710.9	1221.4
38	Zinc sheet	970.6	2785.3	1663.2

* On customs data basis.

Table 38

EXPORT OF MAJOR COMMODITIES TO OTHER COUNTRIES*

Rs. in million

		2002/03	2003/04[R]	2004/05[P]
Total		**19,893.2**	**18,357.2**	**14,824.2**
1	Handicraft (Metal and Wooden)	352.1	626.4	644.2
2	Herbs	33.3	48.3	54.7
3	Nepalese Paper & Paper Products	262.0	279.6	239.8
4	Nigerseed	10.6	8.5	0.0
5	Pashmina.	1,157.6	1,064.2	1,049.8
6	Pulses	214.9	280.7	106.5
7	Readymade Garments	11,890.1	9,550.0	6,124.6
8	Readymade Leather Goods	33.1	30.6	30.2
9	Silverware and Jewelleries	347.7	368.7	363.2
10	Tanned Skin	227.3	309.0	235.8
11	Tea	44.5	113.7	106.7
12	Woolen Carpet	5,320.0	5,677.5	5,868.7

* On customs data basis.

Table 39

IMPORT OF MAJOR COMMODITIES FROM INDIA*

Rs. in million

		2002/03	2003/04[R]	2004/05[P]
Total		**57,526.3**	**62,682.6**	**67,703.8**
1	Agri. Equip.& Parts	689.9	497.5	527.4
2	Aluminium Ingot, Billet & Rod	304.6	539.9	443.2
3	Baby Food & Milk Products	508.8	428.3	360.6
4	Bitumen	54.3	169.7	137.6
5	Books and Magazines	304.5	331.3	337.8
6	Cement	2,934.7	2,318.9	1,410.2
7	Chemical Fertilizer	183.5	563.0	389.2
8	Chemicals	1,906.6	2,563.6	3,401.9
9	Coal	695.4	782.7	803.1
10	Coldrolled Sheet in Coil	1,392.8	3,332.9	4,084.5
11	Cosmetics	409.7	422.6	397.8
12	Cuminseeds and Peppers	199.3	225.0	404.8
13	Electrical Equipment	997.5	1,106.3	1,129.5
14	Enamel & Other Paints	111.2	124.6	128.0
15	Fruits	284.5	336.8	387.2
16	Glass Sheet and G.Wares	439.8	449.6	501.6
17	Hotrolled Sheet in Coil	2,639.2	2,059.9	568.6
18	Insecticides	145.8	144.6	111.3
19	Live Animals	404.0	403.4	417.8
20	M.S. Billet	3,573.2	4,201.5	3,393.8
21	M.S. Wire Rod	939.3	1,339.3	1,480.0
22	Medicine	3,225.7	3,340.9	3,691.6
23	Other Machinery & Parts	2,571.8	3,295.3	3,010.8
24	Other Stationary Goods	68.4	90.0	105.0
25	Paper	431.2	410.1	406.8
26	Petroleum Products	18,811.6	20,169.5	26,653.6
27	Pipe and Pipe Fittings	128.4	129.8	245.0
28	Plastic Utensils	126.5	187.1	131.0
29	Radio, TV, Deck & Parts	128.6	92.1	106.8
30	Raw Cotton	91.4	96.1	143.0
31	Readymade Garments	444.7	489.4	903.8
32	Rice	744.9	555.5	437.1
33	Salt	713.3	607.3	390.4
34	Steel Sheet	212.2	6.0	459.7
35	Textiles	4,186.1	3,275.6	2,195.1
36	Thread	1,105.8	1,003.9	1,106.3
37	Tobacco	534.3	659.9	591.1
38	Tyre Tubes,Flapes	252.2	246.1	228.3
39	Vegetables	772.8	738.4	949.4
40	Vehicles & Spare Parts	3,857.8	4,948.2	5,133.1

* On customs data basis.

Table 40

IMPORT OF MAJOR COMMODITIES FROM OTHER COUNTRIES*

Rs. in million

		2002/03	2003/04[R]	2004/05[P]
	Total	**35,853.7**	**40,723.3**	**31,751.8**
1	Aircraft & Spareparts	996.2	2,301.1	980.5
2	Betelnut	600.2	768.0	638.7
3	Camera	194.8	132.5	110.3
4	Chemical Fertilizer	800.6	1,281.9	170.5
5	Computer Parts	1,420.3	1,274.1	1,227.0
6	Copper Wire Rod,Scrapes & Sheets	873.7	968.8	1,387.2
7	Cosmetic Goods	226.3	290.2	236.5
8	Crude Palm Oil	5,055.6	5,277.0	2,085.5
9	Crude Soyabean Oil	1,614.2	2,079.1	834.6
10	Edible Oil	145.3	416.6	360.5
11	Electrical Goods	1,443.8	1,616.3	1,326.4
12	M.S. Billet	1.6	68.2	255.5
13	Medical Equip.& Tools	659.9	612.2	690.6
14	Medicine	619.3	583.1	701.2
15	Office Equip.& Stationary	166.9	209.8	163.0
16	Other Machinary & Parts	1,936.3	2,460.1	2,695.9
17	Other Stationaries	83.8	113.1	113.6
18	P.V.C.Compound	243.4	303.2	218.8
19	Palm Oil	236.4	308.5	228.2
20	Petroleum Products	290.4	291.1	215.6
21	Polythene Granules	2,800.4	2,834.3	1,972.7
22	Raw Wool	1,604.8	2,017.8	2,059.8
23	Readymade Garments	1,394.4	493.5	1,649.6
24	Shoes and Sandals	559.4	615.9	612.1
25	Silver	283.7	61.9	212.2
26	Small Cardamom	558.8	421.2	361.6
27	Steel Rod & Sheet	362.1	522.0	192.6
28	Synthetic Carpet	122.0	135.0	131.3
29	Telecommunication Equip. Parts	2,358.8	2,483.9	1,860.7
30	Tello	197.9	135.7	164.2
31	Textile Dyes	10.2	11.4	380.9
32	Textiles	2,032.0	2,752.1	1,768.0
33	Threads	1,456.1	1,977.5	998.2
34	Transport Equip. & Parts	1,684.5	1,625.6	1,751.5
35	Tyre,Tube & Flapes	148.4	194.9	159.4
36	Umbrella and Parts	65.7	83.9	124.3
37	Video Television & Parts	1,120.6	1,099.4	1,055.7
38	Watches & Bands	179.0	185.7	192.1
39	Writing & Printing Paper	373.8	452.7	198.5
40	Zinc Ingot	932.1	1,264.0	1,266.3

* On customs data basis.

Table 41

ITEMS IMPORTABLE FROM INDIA ON PAYMENT OF CONVERTIBLE FOREIGN EXCHANGE

(As at Mid-July 2005)

S.N.	Harmonized Section	Harmonized Code No.	Name of Items
1	13.01	1301.02.00	Extract
2	21.06	2106.90.40	Soft Drink Concentrate
3	27.10	2710.19.11	Furnace Oil
4	27.13	2713.20.00	Bitumen
5	28.00	2800.00.00	Industrial Chemicals
6	28.03	2803.00.00	Carbon Black
7	29.01	2901.10.00	Light Liquid Paraffin
8	29.02	2902.20.00	Benzene
9	29.02	2902.30.00	Toluene
10	29.05	2905.11.00	Methanol
11	29.05	2905.31.00	Ethylene Glycol
12	29.15	2915.00.00	Methyle Salicylate
13	29.15	2915.32.00	Vinyl Acetate Monomer
14	29.16	2916.12.00	Butyl Acraylate Monomer
15	29.16	2916.12.00	Ethyl Hexyl Acrylate
16	29.17	2917.34.00	Dibutyl Phthalate
17	29.17	2917.35.00	Phthalic Anhydride
18	29.17	2917.36.00	Terephthalic Acid
19	29.33	2933.00.00	Heterocyclic Compounds
20	29.34	2934.00.00	Nucleic Acids
21	29.41	2941.00.00	Antibiotics
22	33.02	3302.90.00	Flavour (Raw Material of Toothpaste)
23	33.02	3302.90.00	Odoriferous Substances
24	33.02	3302.90.00	Perfume
25	34.02	3402.90.10	LABSA / Acid Slurry
26	38.17	3817.10.00	Mixed Alkylbenzenes
27	38.23	3823.19.00	Palm Stearin DFA/Palm Karnel DFA
28	39.01	3901.10.00, 3901.20.00	Polyethylenene Granules
29	39.02	3902.10.00	Polypropyline Granules
30	39.05	3905.30.00	Poly Vinyl Alcohol
31	39.07	3907.60.00	Plastic Pet Chips / Pet Resin
32	39.11	3911.90.00	PVC Resin
33	39.20	3920.59.00	Printed Laminated Web
34	40.01	4001.00.00	Natural Rubber
35	40.02	4002.00.00	Synthetic Rubber
36	48.01	4801.00.00	News Print Paper
37	48.02, 48.06	4802.00.00, 4806,00.00	Paper
38	50.04, 50.05	5004.00.00, 5005.00.00	Silk Yarn
39	51.06, 51.07, 51.08	5106.00.00, 5107.00.00, 5108.00.00	Woolen Yarn
40	52.05, 52.06	5205.11.00, 5205.12.00, 5205.13.00, 5205.14.00	Cotton Yarn
41	52.01	5201.00.00	Cotton

S.N.	Harmonized Section	Harmonized Code No.	Name of Items
42	54.02	5402.42.00	Polyesters Partially Oriented Yarn
43	54.02	5402.49.00	Synthetic Filament Yarn
44	55.01 - 55.07	5501.00.00 - 5507.00.00	Artificial Acrylic/Synthetic
45	55.03	5503.20.00	Polyster Fiber
46	54.03, 55.09, 55.10	5403.00.00, 5509.00.00, 5510.00.00	Artificial Yarn (Other than Sewing Thread)
47	55.04	5504.10.00	Viscose Rayon Fiber
48	59.02	5902.00.00	Tyre Cord Fabric
49	72.03	7203.90.00	Sponge Iron
50	72.04	7204.49.00	M.S. Scrap
51	72.06	7206.00.00	Iron Ingot
52	72.07	7207.00.00	M.S. Billet
53	72.08	7208.27.00, 7208.36.00, 7208.37.00, 7208.38.00, 7208.39.00, 7208.51.00,	Hotrolled Sheet in Coil & not in Coil
54	72.09	7209.15.00, 7209.16.00, 7209.17.00, 7209.18.00	Coldrolled Sheet in Coil
55	72.10	7210.12.00	Tin Plate
56	72.13	7213.91.10	M.S.Wire rod in coil
57	72.17	7217.20.00, 7217.30.00, 7217.90.00	Bead Wire (Copper Coated)
58	72.18	7218.99.00	Steel Bloom
59	72.19	7219.00.00	Steel Plate
60	72.26	7226.11.00	Silicon Steel
61	76.01	7601.00.00	Aluminium Ingot and Billet
62	76.04, 76.05	7604.00.00, 7605.00.00	Aluminium Rod in Coil
63	79.01	7901.20.00	Zinc Alloy
64	84.00	8400.00.00	Machinery Equipments
65	85.01, 85.02	8501.00.00, 8502.00.00	Electrical Motor / Generator
66	85.04	8504.90.00	Amorphous Metalcores

Table 42

SUMMARY OF BALANCE OF PAYMENTS

Rs. in million

Particulars	2002/03	2003/04[R]	2004/05[P]
A. Current Account	**11,614.7**	**14,598.0**	**11,544.6**
Goods: exports f.o.b.	50,760.7	55,228.3	59,956.1
Oil	0.0	0.0	0.0
Other	50,760.7	55,228.3	59,956.1
Goods: imports f.o.b.	-121,053.0	-132,909.9	-145,718.2
Oil	-18,811.6	-20,167.3	-26,653.6
Other	-102,241.4	-112,742.6	-119,064.6
Balance on Goods	*-70,292.3*	*-77,681.6*	*-85,762.1*
Services Net	**7,049.7**	**9,074.9**	**-2,034.2**
Services: credit	26,518.9	34,315.9	26,001.9
Travel	11,747.7	18,147.4	10,463.8
Government n.i.e.	6,624.0	7,143.9	6,804.9
Other	8,147.2	9,024.6	8,733.2
Services: debit	-19,469.2	-25,241.0	-28,036.1
Transportation	-8,618.4	-9,382.1	-10,602.2
Travel	-6,171.5	-10,021.5	-9,691.9
Other	-4,679.3	-5,837.4	-7,742.0
Balance on Goods and Services	*-63,242.6*	*-68,606.7*	*-87,796.3*
Income Net	**-675.7**	**-1,683.9**	**1,636.5**
Income: credit	4,487.0	3,841.5	7,751.6
Income: debit	-5,162.7	-5,525.4	-6,115.1
Balance on Goods, Services and Income	*-63,918.3*	*-70,290.6*	*-86,159.8*
Current transfers Net	**75,533.0**	**84,888.6**	**97,704.4**
Current transfers: credit	77,765.1	89,161.8	101,310.1
Grants	13,842.2	19,557.8	21,071.9
Workers' remittances	54,203.3	58,587.6	65,541.2
Pensions	7,327.3	7,906.2	12,502.2
Other	2,392.3	3,110.2	2,194.8
Current transfer: debit	-2,232.1	-4,273.2	-3,605.7
B. Capital Account	**5,393.9**	**1,452.2**	**1,573.6**
Total, Groups A plus B	*17,008.6*	*16,050.2*	*13,118.2*
C. Financial Account (including group E)	**-17,198.9**	**-21,540.1**	**-25,536.9**
Direct investment in Nepal	961.4	0.0	136.0
Portfolio investment	0.0	0.0	0.0
Other investment: assets	-34,629.5	-32,591.2	-21,863.2
Trade credits	1,041.0	-2,247.6	-323.8
Other	-35,670.5	-30,343.6	-21,539.4
Other investment: liabilities	16,469.2	11,051.1	-3,809.7
Trade credits	16,899.3	3,629.8	-4,489.0
Loans	-52.4	3,325.2	744.4
General Government	-432.8	3,479.1	1,300.4

Particulars	2002/03	2003/04[R]	2004/05[P]
Drawings	5,236.0	9,244.7	7,253.7
Repayments	-5,668.8	-5,765.6	-5,953.3
Other sectors	380.4	-153.9	-556.0
Currency and deposits	-377.7	4,096.1	-65.1
Nepal Rastra Bank	-23.4	-77.4	46.2
Deposit money banks	-354.3	4,173.5	-111.3
Other liabilities	0.0	0.0	0.0
Total, Groups A through C	*-190.3*	*-5,489.9*	*-12,418.7*
D. Net Errors and Omissions	**4,176.1**	**25,591.2**	**18,098.1**
Total, Groups A through D	*3,985.8*	*20,101.3*	*5,679.4*
E. Reserves and Related Items	**-3,985.8**	**-20,101.3**	**-5,679.4**
Reserve assets	-3,685.2	-20,658.0	-6,464.6
Nepal Rastra Bank	-7,809.9	-19,507.8	-3,253.7
Deposit Money Banks	4,124.7	-1,150.2	-3,210.9
Use of Fund credit and loans	-300.6	556.7	785.2
Change in Net Foreign Assets (-increase)	***-4,363.5***	***-16,005.2***	***-5,744.5***

Table 43

RECEIPT AND EXPENDITURE OF CONVERTIBLE FOREIGN EXCHANGE*

Rs. in million

	2002/03	2003/04	2004/05
Income	**98,682.3**	**120,643.0**	**123,268.4**
Services	54,719.7	71,594.7	77,493.8
Remittances	41,630.3	56,629.7	61,784.7
Gorkha Remittances	4,221.4	4,464.7	5,012.8
Tourist Expenditure	10,369.4	12,337.4	11,814.9
Interest Receipts	2,674.1	2,245.3	3,284.2
Others	45.9	382.3	610.1
Merchandise Exports	22,578.9	22,489.6	20,851.9
Diplomatic Mission	4,661.8	4,241.8	3,505.2
Foreign Aid	12,988.0	19,823.0	20,397.5
Loan	5,236.0	9,101.5	6,020.5
Miscellaneous	3,733.9	2,493.9	1,020.0
Expenditure	**81,419.8**	**98,677.1**	**108,931.7**
Services	11,419.6	10,025.4	14,449.7
Interest Payments	1,958.7	2,035.2	2,089.3
Others	9,460.9	7,990.2	12,360.3
Amortization	5,343.8	4,812.1	5,285.3
Merchandise Imports	64,296.7	71,494.9	63,086.7
Diplomatic Mission	211.6	716.5	621.5
Miscellaneous	148.1	11,628.2	25,488.5
Surplus (+) Deficit (-)	**17,262.5**	**21,965.9**	**14,336.7**

* Data based on foreign exchange record of Nepal Rastra Bank

Note: Figures of some heads, sub-heads may not tally with the published figures in previous year due to some changes made in composition of respective heads and sub-heads

Table 44

FOREIGN ASSETS AND LIABILITIES OF THE BANKING SYSTEM

Rs. in million

		Mid-July		
		2003	2004	2005
A.	**Monetary Authorities**			
	A.1. Foreign Assets	88,043.0	109,076.8	105,446.5
	Gold	482.2	478.3	383.4
	IMF Gold Tranche	592.7	627.6	0.0
	SDRs	2.0	55.0	637.1
	Foreign Exchange	86,966.1	107,915.9	104,426.0
	Convertible	76,752.0	96,235.9	100,825.9
	Inconvertible	10,214.1	11,680.0	3,600.1
	A.2. Foreign Liabilities	376.7	865.3	1,590.0
	A.3. Net Foreign Assets (A1-A2)	87,666.3	108,211.5	103,856.5
B.	**Commercial Banks**			
	B.1. Foreign Exchange	21,263.3	22,289.2	25,472.7
	Convertible	20,249.2	20,734.8	23,154.9
	Inconvertible	1,014.1	1,554.4	2,317.8
	B.2. Total Liabilities	17,522.6	21,696.1	21,584.8
	B.3. Net Foreign Assets	3,740.7	593.1	3,887.9
C.	**Banking System (A + B)**			
	C.1. Foreign Assets	109,306.3	131,366.0	130,919.2
	Gold, IMF Gold Tranche, SDRs	1,076.9	1,160.9	1,020.5
	Foreign Exchange	108,229.4	130,205.1	129,898.7
	Convertible	97,001.2	116,970.7	123,980.8
	Inconvertible	11,228.2	13,234.4	5,917.9
	C.2. Foreign Liabilities	17,899.3	22,561.4	23,174.8
	C.3. Net Foreign Assets	91,407.0	108,804.6	107,744.4

Table 45

GROSS OFFICIAL FOREIGN ASSETS*
(Monthly)

Rs. in million

Mid-month	2002/03	2003/04	2004/05
August	81,901.0	86,510.8	105,877.5
September	80,365.8	85,653.9	106,012.6
October	79,467.9	87,496.8	108,573.5
November	78,110.4	89,009.8	108,293.3
December	80,177.5	90,975.4	105,439.0
January	81,623.3	102,248.4	108,861.0
February	83,676.1	102,798.9	105,652.5
March	85,035.9	103,309.9	106,974.2
April	88,413.9	102,741.8	108,930.9
May	86,626.2	103,361.1	108,313.6
June	87,565.0	106,882.3	106,833.2
July	88,043.0	109,072.8	105,446.5

* Include gold bullion and coins, IMF Reserve Tranche, SDRs and foreign exchange of Monetary Authority.

Table 46

INTERVENTION IN THE FOREIGN EXCHANGE MARKET

US $ in million

Purchased			Sold		
Date	Rate (Rs.)	Amount	Date	Rate (Rs.)	Amount
July 23, 2004	74.66	8.5	Oct 18, 2004	74.55	12.2
July 30, 2004	74.91	3.2	Oct 19, 2004	74.55	2.4
Aug 9, 2004	74.91	6.5	Jan 14, 2005	71.45	24.5
Aug 17, 2004	74.91	11.1	Apr 15, 2005	70.94	11.0
Aug 19, 2004	74.91	4.1			
Aug 25, 2004	74.91	12.4			
Oct 6, 2004	74.76	15.8			
Oct 8, 2004	74.76	8.1			
Oct 14, 2004	74.55	25.5			
Oct 19, 2005	74.52	8.6			
Nov 2, 2004	74.02	15.5			
Nov 10, 2004	73.51	8.8			
Nov 19, 2004	73.26	14.2			
Nov 29, 2004	73.26	13.3			
Dec 7, 2004	71.71	16.2			
Dec 10, 2004	71.21	0.8			
Dec 20, 2004	71.26	12.0			
Dec 24, 2004	71.26	8.5			
January 6, 2005	70.53	8.7			
Jan 12, 2005	71.45	37.0			
Jan 31, 2005	70.91	8.3			
Feb 9, 2005	70.84	21.2			
Feb 25, 2005	70.91	15.4			
Mar 4, 2005	70.91	7.0			
Mar 9, 2005	70.91	7.5			
Mar 16, 2005	70.76	22.4			
Apr 1, 2005	70.91	16.7			
Apr 6, 2005	70.91	12.5			
Apr 13, 2005	70.94	36.4			
Apr 21, 2005	70.91	10.7			
Apr 27, 2005	70.91	12.2			
May 2, 2005	70.91	7.5			
May 3, 2005	70.67	1.5			
May 9, 2005	70.41	10.4			
May 13, 2005	70.26	11.6			
June 8, 2005	70.65	29.5			
June 10, 2005	70.61	2.9			
June 21, 2005	70.61	9.5			
June 28, 2005	70.61	11.0			
June 29, 2005	70.61	5.5			
July 13, 2005	70.64	28.5			
		526.95			**50.10**

Table 47

FOREIGN LOAN AGREEMENTS
(Date and Purpose/Projectwise)

Rs. in million

S.N.	Date of Agreement Signed	Donor Agency/ Govt.	Amount	Name of the Project/Purpose
1	August 12, 2004	WB	3732.0	Education for All
2	September 14, 2004	WB	1888.4	Second Rural Water Supply and Sanitation Project
3	November 29, 2004	WB	729.9	Health Sector Program Project
4	December 23, 2004	ADB	2840.0	Decentralized Rural Infrastructure Livelihood Project
5	January 19, 2005	ADB	1415.0	Sub Regional Transport Facilitation Project
6	February 2, 2005	ADB	1413.0	Skills for Employment Project
7	June 7, 2005	IFAD	741.3	Leasehold Forestry and Livestock Program
Total Amount			**12759.6**	

Source: Ministry of Finance, HMG.

Table 48
FOREIGN GRANT AGREEMENTS
(Date and Purpose / Projectwise)

Rs. in million

S. N.	Date of Agreement Signed	Donor Agency/ Govt.	Amount	Name of Project / Purpose
1	July 26, 2004	USA	756.3	Promoting Peace Through Improved Governance and Incomes in Targeted Areas
	July 30, 2004	UK	2720.0	Nepal National Safer Motherhood Plan
3	August 2, 2004	France	NA	Establishment of French School in Kathmandu
4	August 5, 2005	Australia	94.0	Integrated Management of Childhood Illness (CB-IMCI) Program
5	August 16, 2004	China	451.0	Economic and Technical Cooperation
6	September 15, 2004	World Bank	1121.8	Poverty Alleviation Fund Project
	September 24, 2004	Denmark	2449.9	Education for All
7	Septermber 24, 2004	Finland	913.3	Education for All
8	Septermber 24, 2004	Norway	1856.0	Education for All
9	November 26, 2004	Norway	385.3	Support to Rural Electrification and Micro Hydro Development through AEPC
10	November 29, 2004	World Bank	2919.6	Health Sector Program Project
11	December 2, 2004	Denmark	235.0	Support to the Energy Sector Assistance Program
	December 3, 2004	Japan	581.7	Construction of Primary Schools in Support of Education for All Program
12	December 8, 2004	ADB	24.8	Strengthening the National Accounts System
13	January 6, 2005	India	73.9	Development of Farmer Managed Deep Tube Well Irrigation Systems
	January 12, 2005	Germany	700.7	Biogas Support Program (Biogas 3)
14	January 24, 2005	India	80.0	Control of Goiter and Iodine Deficiency Disorders in Nepal for the year 2005
15	February 8, 2005	Germany	64.0	Health Sector Support Program
16	February 14, 2005	UK	414.8	Seed and Livelihood Support Project
17	February 21, 2005	UK	3939.9	Health Sector Program
18	February 21, 2005	UK	1969.9	National HIV/AIDS Program
19	March 7, 2005	Japan	1005.0	Non-project Grant Assistance Scheme
20	March 7, 2005	Japan	201.7	Increase of Food Production (2 KR)
21	March 10, 2005	UK	54.6	District and National Implementation of Nepal's Agriculture Perspective Plan
22	April 1, 2005	France	27.6	Food Security Program for Nepal (FSPN)
23	April 20, 2005	UK	262.2	Rural Community Infrastructure Works Program (RCIW)
24	May 10, 2005	Japan	233.1	Procurement and Transportation of Rice
25	June 5, 2005	UK	50.0	Mobilise of Volunteers
	June 7, 2005	IFAD	87.1	Leasehold Forestry and Livestock Program
	June 9, 2005	Japan	1705.5	Construction of Sindhuli Road (Section II: Sindhuli Bazar - Khurkot)
26	March 18,2004	Japan	338.5	Non-project Grant Assistance Scheme
	March 31,2004	Germany	87.5	Study and Expert Fund II
27	April 8, 2004	ADB	70.0	Optimizing Productivity of Poor Water User Association
28	April 23, 2004	Japan	227.9	Procrument and Transportation of Rice
29	April 30, 2004	Germany	673.2	Middle Marsyangdi Hydroelectric Project
30	May 3, 2004	Germany	128.7	Rural Infrastructure II/Integrated Food Security
	June 10, 2004	WB	508.7	Financial Sector Restructuring Project
31	June 21, 2004	India	469.5	Sapta Koshi High Dam Multipurpose Project
	June 28, 2004	USA	20.8	Anti-corruption and Law Enforcement
	Total Amount		**25378.7**	

Table 49

COMMITMENT OF FOREIGN AID
(Donorwise Classification)

Rs. in million

S.No.	Sector	Grant	Loan	Total
A.	**Bilateral**			
1	Australia	94.0	0.0	94.0
2	China	451.0	0.0	451.0
3	Denmark	2,684.9	0.0	2,684.9
4	Finland	913.3	0.0	913.3
5	France	27.6	0.0	27.6
6	Germany	764.6	0.0	764.6
7	India	153.9	0.0	153.9
8	Japan	3,727.0	0.0	3,727.0
9	Norway	2,241.3	0.0	2,241.3
10	United Kingdom	9,411.4	0.0	9,411.4
11	USA	756.3	0.0	756.3
	Sub Total (A)	**21,225.3**	**0.0**	**21,225.3**
B.	**Mulilateral**			
1	ADB	24.8	5,668.0	5,692.8
2	World Bank	4,041.5	6,350.3	10,391.8
3	IFAD	87.1	741.3	828.4
	Sub Total (B)	**4,153.4**	**12,759.6**	**16,913.0**
	Grand Total (A+B)	**25,378.7**	**12,759.6**	**38,138.3**

Table 50

SDR HOLDING TRANSACTIONS WITH IMF
(As at Mid-July, 2005)

In SDRs

Date	Description	Debit	Credit
Aug 13, 2004	Remuneration	11,244.0	-
Aug 13, 2004	Interest	2,225.0	-
Aug 13, 2004	Allocation Charges	-	36,107.0
Oct 13, 2004	Reserve Tranche Withdrawn	5,774,401.0	-
Nov 9, 2004	Remuneration	9,739.0	-
Nov 11, 2004	Interest	8,787.0	-
Nov 11, 2004	Allocation Charges	-	40,274.0
Feb 14, 2005	Interest	34,594.0	-
Feb 14, 2005	Allocation Charges	-	45,009.0
May 6, 2005	Assesment Charges	-	567.0
May 12, 2005	Interest	36,573.0	-
May 12, 2005	Allocation Charges	-	47,664.0
	Total	**5,877,563.0**	**169,621.0**
	Opening Balance	**499,205.0**	**-**
	Closing Balance	**-**	**6,207,147.0**
		6,376,768.0	**6,376,768.0**

Table 51

LIABILITY TO IMF

Rs. in million
(SDR In million)

	Mid July		
	2003	2004	2005
1. Standby Credit	Nil	Nil	Nil
2. IMF Trust Fund	Nil	Nil	Nil
3. SAF	Nil	Nil	Nil
4. ESAF	60.1 (0.6)	Nil	Nil
5. PRGF	-	784.39 (7.13)	1463.6 (14.3)
Total	60.1 (0.6)	784.39 (7.13)	1463.6 (14.3)

Table 52

TRANSACTION UNDER ASIAN CLEARING UNION*

Rs. in million
(US Dollar in million)

	2003*	2004**	2005#
Total Exports	531.1	400.4	364.3
	(7.01)	(5.44)	(5.10)
Total Imports	471.2	817.1	625.7
	(6.22)	(11.10)	(8.76)
Balance	59.9	-416.7	-261.4
	(0.79)	(-5.66)	(-3.66)

* Data based on calendar year (January-December)

* At the annual average middle rate of Rs 75.76 per US dollar

** At the annual average middle rate of Rs 73.61 per US dollar

$ At the annual average middle rate of Rs 71.43 per US dollar

Table 53
BANKING SURVEY

Rs. in million

Particulars	2003	2004	2005	Change 2003/04		Change 2004/05	
	Jul	Jul	Jul	Amount	Percent	Amount	Percent
1. Foreign Assets, Net	87,850.6	107,965.0	104,827.4	18,721.9	21.3	3,667.3	3.4
Net Foreign Assets(MS)	91,407.0	108,804.6	107,744.4	16,005.1 1/	17.5	5,744.7 2/	5.3
Foreign Assets	109,306.3	131,366.0	130,919.2	22,059.7	20.2	-446.8	-0.3
Foreign Liabilities	17,899.3	22,561.4	23,174.8	4,662.1	26.0	613.4	2.7
Net Foreign Assets(OBI)	-3,556.4	-839.6	-2,917.0	2,716.8		-2,077.4	
Foreign Assets	0.0	0.0	0.0				
Foreign Liabilities	3,556.4	839.6	2,917.0	-2,716.8		2,077.4	
2. Net Domestic Assets	179,429.7	193,238.2	222,342.4	15,201.0 1/	8.5	22,299.3 2/	11.5
A. Domestic Credit	274,985.0	284,086.7	325,330.3	9,101.7	3.3	41,243.6	14.5
i. Claims on Government	60,751.4	59,733.9	64,773.3	-1,017.5	-1.7	5,039.4	8.4
Claims on Govt(net)(MS)	58,458.5	57,396.6	63,897.2	-1,061.9	-1.8	6,500.6	11.3
Claims on Govt(MS)	58,920.2	58,149.6	63,897.2	-770.6	-1.3	5,747.6	9.9
Govt Deposits (MS)	461.7	753.0	0.0				
Claims on Govt (OBI)	2,292.9	2,337.3	876.1	44.4	1.9	-1,461.2	-62.5
ii. Claims on NBFI	9,923.5	11,879.2	10,829.1	1,955.7	19.7	-1,050.1	-8.8
Claims on NBFI(MS)	9,923.5	11,879.2	10,829.1	1,955.7	19.7	-1,050.1	-8.8
Claims on NBFI(OBI)							
iii. Claims on Nonfinancial Govt. Enter.	2,833.2	2,914.9	6,566.2	81.7	2.9	3,651.3	125.3
Claims on Non-Fin. Govt. Ent.(MS)	2,833.2	2,914.9	6,566.2	81.7	2.9	3,651.3	125.3
Claims on Non-Fin. Govt. Ent.(OBI)							
iv. Claims on Private Sector	201,476.9	209,558.7	243,161.7	8,081.8	4.0	33,603.0	16.0
Claims on Private Sector(MS)	150,956.9	161,239.6	186,556.7	10,282.7	6.8	25,317.1	15.7
Claims on Private Sector(OBI)	50,520.0	48,319.1	56,605.0	-2,200.9	-4.4	8,285.9	17.1
B. Capital and Other Items(net)	95,555.3	90,848.5	102,987.9	-6,099.3 1/	-6.4	18,944.3 2/	20.9
Capital and Other Items(net)(MS)	79,417.7	78,191.0	87,845.1	-1,226.7	-1.5	9,654.1	12.3
Less Claims on OBI (MS)	-11,750.4	-13,262.2	-12,691.5	-1,511.8	12.9	570.7	-4.3
Time and Saving Deposits of OBI at MS	3,480.5	3,435.1	4,943.4	-45.4	-1.3	1,508.3	43.9
Capital and Other Items(net)(OBI)	24,407.5	22,484.6	22,890.9	-1,922.9	-7.9	406.3	1.8
3. Liquid Liabilities (L1)	267,280.3	301,203.2	327,169.8	33,922.9	12.7	25,966.6	8.6
A. Broad Money (M2)	245,911.8	277,306.1	300,440.0	31,394.3	12.8	23,133.9	8.3
Money Supply (M1)	83,754.6	93,969.6	100,205.7	10,215.0	12.2	6,236.1	6.6
- Currency	56,885.7	63,218.9	68,784.1	6,333.2	11.1	5,565.2	8.8
- Demand Deposits	26,868.9	30,750.7	31,421.6	3,881.8	14.4	670.9	2.2
Time Deposits (MS)	162,157.2	183,336.5	200,234.3	21,179.3	13.1	16,897.8	9.2
B. Less Time and Saving Deposits of OBI (at MS)	3,480.5	3,435.1	4,943.4	-45.4	-1.3	1,508.3	43.9
C. Time and Saving Deposits (OBI)	24,849.0	27,332.2	31,673.2	2,483.2	10.0	4,341.0	15.9

Note: In this table ,MS refers to those items that are derived from the Monetary Survey; OBI to Other Banking Institutions and NBFI to Non-bank Financial Institutions.

1/ Adjusting the exchange valuation gain of Rs. 1392.5 million

2/Adjusting the exchange valuation loss of Rs. 6804.9 million

Table 54

MONETARY SURVEY

Monetary aggregates	2003	2004	2005	Changes 2003/04	
	Jul	Jul	Jul[P]	Amount	Percent
1. Foreign Assets, Net	91,407.0	108,804.6	107,744.4	16,005.1 [1/]	17.5
1.1. Foreign Assets	109,306.3	131,366.0	130,919.1	22,059.7	20.2
1.2 Foreign Liabilities	17,388.4	21,174.6	21,557.2	3,786.2	21.8
1.3 Other Foreign Liabilities	510.9	1,386.7	1,617.6	875.9	171.4
2. Net Domestic Assets	154,504.1	168,501.2	192,695.6	15,389.7 [1/]	10.0
2.1. Domestic Credit	224,077.3	246,171.8	280,243.2	22,094.5	9.9
a. Net Claims on Govt.	58,458.5	57,396.6	63,897.2	-1,062.0	-1.8
i. Claims on Govt.*	58,920.2	58,149.6	63,897.2	-770.6	-1.3
ii. Govt. Deposits	461.7	753.0	0.0	291.3	63.1
b. Claims on Non-Financial Govt. Ent.	2,833.2	2,914.9	6,566.2	81.7	2.9
c. Claims on Financial Institutions	11,828.7	13,343.9	12,762.8	1,515.2	12.8
i. Government	11,739.0	13,203.3	12,730.8	1,464.3	12.5
ii. Non-government	89.7	140.6	32.0	50.9	56.7
d. Claims on Private Sector	150,956.9	172,516.5	197,017.0	21,559.6	14.3
2.2. Net Non-monetary Liabilities	69,573.2	77,670.6	87,547.6	6,704.8 [1/]	9.6
3. Broad Money (M_2)	245,911.1	277,305.9	300,440.0	31,394.8	12.8
3.1. Money Supply (M_1)	83,753.9	93,969.5	100,205.8	10,215.6	12.2
a. Currency	56,885.7	63,218.9	68,784.1	6,333.1	11.1
b. Demand Deposits	26,868.2	30,750.7	31,421.6	3,882.5	14.5
3.2. Time Deposits	162,157.2	183,336.4	200,234.2	21,179.2	13.1
4. Board Money Liquidity (M_3)	263,299.5	298,480.5	321,997.2	35,181.0	13.4

1/ Adjusting the exchange valuation gain of Rs. 1,392.5 million.

2/ Adjusting the exchange valuation loss of Rs 6,804.9 million.

* IMF promissory notes and Government Issued coins are excluded.

Table 55

CONDENSED ASSETS AND LIABILITIES OF COMMERCIAL BANKS

	2003	2004	2005	Changes 2003/04	
	Jul	Jul	Jul[r]	Amount	Percent
1. Total Deposits	202,733.8	232,576.3	250,464.9	29,842.5	14.7
1.1. Demand Deposits	28,299.4	33,038.7	34,120.0	4,739.3	16.7
a. Domestic Deposits	23,188.2	28,065.2	28,673.5	4,877.0	21.0
b. Foreign Deposits	5,111.2	4,973.5	5,446.5	-137.7	-2.7
1.2. Saving Deposits	97,236.4	114,106.3	130,013.6	16,869.9	17.3
a. Domestic Deposits	92,889.4	107,497.2	123,917.8	14,607.8	15.7
b. Foreign Deposits	4,347.0	6,609.1	6,095.8	2,262.1	52.0
1.3. Fixed Deposits	75,348.4	83,268.2	84,137.4	7,919.8	10.5
a. Domestic Deposits	67,418.2	73,676.2	74,122.5	6,258.0	9.3
b. Foreign Deposits	7,930.2	9,592.1	10,014.9	1,661.9	21.0
1.4. Margin Deposits	1,849.6	2,163.1	2,194.0	313.5	16.9
2. Borrowings from Rastra Bank	947.4	477.9	1,724.0	-469.5	-49.6
3. Foreign Liabilities	134.2	521.4	27.6	387.2	288.5
4. Other Liabilities	88,234.2	75,655.4	88,416.0	-12,578.9	-14.3
4.1 Paid-up Capital	7,726.0	8,350.6	9,723.9	624.6	8.1
4.2 General Reserves	38,961.9	13,747.1	14,777.4	-25,214.8	-64.7
4.3 Other Liabilities	41,546.3	53,557.6	63,914.7	12,011.3	28.9
Assets = Liabilities	292,049.6	309,230.9	340,632.5	17,181.3	5.9
6. Liquid Funds	41,330.0	50,385.0	50,222.8	9,055.0	21.9
6.1. Cash in Hand	4,723.3	4,283.8	4,773.0	-439.5	-9.3
6.2. Balance with Rastra Bank	15,690.3	24,227.0	20,234.1	8,536.7	54.4
6.3. Foreign Currency in Hand	721.6	435.5	374.8	-286.1	-39.6
6.4. Balance Held Abroad	19,366.1	20,798.6	24,045.1	1,432.5	7.4
6.5. Cash in Transit	828.7	640.1	795.9	-188.6	-22.8
7. Loans and Advances	201,822.5	228,234.9	260,867.3	26,412.4	13.1
7.1. Claims on Government	39,469.3	43,796.3	48,550.7	4,327.0	11.0
7.2. Claims on Non-Financial Govt. Ent.	2,825.7	2,907.4	6,557.7	81.7	2.9
7.3. Claims on Financial Ent.	10,278.7	11,783.3	11,436.2	1,504.6	14.6
7.4. Claims on Private Sector	148,073.2	168,692.8	193,270.0	20,619.6	13.9
a. Principal	121,144.0	135,081.2	154,803.4	13,937.2	11.5
b. Interest Accrued	26,929.2	33,611.6	38,466.6	6,682.4	24.8
7.5. Foreign Bills Purchased & Discounted	1,175.6	1,055.1	1,052.8	-120.5	-10.2
8. Other Assets	48,897.1	30,611.0	29,542.4	-18,286.1	-37.4

Table 56

CREDIT-DEPOSIT AND LIQUIDITY-DEPOSIT RATIOS OF COMMERCIAL BANKS
(Monthly)

Rs. In million

	Total Deposit [1]	Total Credit [2]	Liquidity [3]	Credit-Deposit Ratio (Percent)	Liquidity-Deposit Ratio (Percent)
2003/04					
August	202,441.1	161,181.9	83,058.7	79.6	41.0
September	203,103.5	163,885.4	82,954.1	80.7	40.8
October	204,854.1	168,475.2	81,425.9	82.2	39.7
November	206,741.8	170,703.3	81,241.2	82.6	39.3
December	210,221.1	171,655.3	80,738.7	81.7	38.4
January	214,874.0	174,203.4	83,908.8	81.1	39.1
February	223,840.3	175,454.9	85,474.8	78.4	38.2
March	216,833.2	176,925.0	84,626.1	81.6	39.0
April	221,355.5	182,309.8	86,270.2	82.4	39.0
May	221,434.7	182,445.3	92,893.8	82.4	42.0
June	223,320.5	183,708.0	90,896.5	82.3	40.7
July	232,576.3	184,438.6	94,181.3	79.3	40.5
2004/05					
August	231,790.6	188,989.4	91,348.1	81.5	39.4
September	233,711.3	191,602.6	92,451.6	82.0	39.6
October	232,189.6	197,811.3	88,938.4	85.2	38.3
November	234,170.1	199,255.9	89,858.5	85.1	38.4
December	236,103.2	198,600.2	89,813.4	84.1	38.0
January	239,875.6	202,970.8	93,751.5	84.6	39.1
February	238,265.2	203,062.8	91,881.4	85.2	38.6
March	238,230.0	205,834.7	91,390.4	86.4	38.4
April	240,155.7	209,136.7	94,206.6	87.1	39.2
May	242,464.5	209,072.5	93,228.8	86.2	38.5
June	243,886.5	212,728.9	94,164.2	87.2	38.6
July	250,464.9	212,316.6	98,773.6	84.8	39.4

1. Excludes inter-bank deposits and government deposits, but includes foreign deposits
2. Excludes investment in government securities and includes foreign bills purchased and discounted.
3. Includes cash in hand, balance with Nepal Rastra Bank, foreign currency in hand, balance held abroad, cash in transit and government securities.

Table 57

INTEREST RATE STRUCTURE OF COMMERCIAL BANKS*

Particulars	Percent per annum		
	2003	2004	2005
1. Deposits Rates			
Saving Deposits	2.5-6.0	2.0-5.0	1.75-5.0
One Year Fixed Deposits	3.0-7.0	2.75-5.75	2.25-5.0
2. Lending Rates			
Industrial	8.5-14.0	8.5-13.5	8.25-13.5
Commercial	7.5-16.0	9.0-14.5	8.0-14.0
Priority Sector	10.5-14.5	10.5-13.0	10.0-13.0
Export	4.0-12.5	4.0-11.5	4.0-12.0
Overdraft	10.0-17.0	10.0-16.0	5.0-14.5

* Unweighted.

Table 58
SOURCES AND USES OF FUNDS OF OTHER BANKING INSTITUTIONS *

Rs. in million

	Mid-July			Amount Change		Percentage Change	
	2003	2004	2005	2003/04	2004/05	2003/04	2004/05
Sources of Funds							
1. Paid-up Capital	**5,088.6**	**5,394.3**	**6,399.5**	**305.7**	**1,005.2**	**6.0**	**18.6**
2. Reserve/Surplus	**2,002.1**	**-7,555.7**	**406.9**	**-9,557.8**	**7,962.6**	**-477.4**	**-105.4**
3. Deposits **	**47,854.9**	**53,576.4**	**59,547.8**	**5,721.5**	**5,971.4**	**12.0**	**11.1**
4. Borrowing	**8,111.8**	**9,579.4**	**10,008.4**	**1,467.6**	**429.0**	**18.1**	**4.5**
a. Domestic	4,555.4	8,739.8	7,091.4	4,184.4	-1,648.4	91.9	-18.9
b. Foreign	3,556.4	839.6	2,917.0	-2,716.8	2,077.4	-76.4	247.4
5. Other Liabilities	**18,636.8**	**19,318.6**	**21,234.8**	**681.8**	**1,916.2**	**3.7**	**9.9**
Soureces = Uses	**81,694.2**	**80,313.0**	**97,597.4**	**-1,381.2**	**17,284.4**	**-1.7**	**21.5**
Uses of Funds	**81,694.2**	**80,313.0**	**97,597.4**	**-1,381.2**	**17,284.4**	**-1.7**	**21.5**
1. Cash & Bank Balance	**7,657.2**	**10,312.0**	**10,243.9**	**2,654.8**	**-68.1**	**34.7**	**-0.7**
2. Investment	**6,214.9**	**6,470.8**	**6,172.2**	**255.9**	**-298.6**	**4.1**	**-4.6**
a. Share	441.5	698.4	352.7	256.9	-345.7	58.2	-49.5
b. Govt.Securities	2,292.9	2,337.3	876.1	44.4	-1,461.2	1.9	-62.5
c. Fixed Deposits & Others	3,480.5	3,435.1	4,943.4	-45.4	1,508.3	-1.3	43.9
3. Loans and Advances	**50,520.0**	**48,319.1**	**56,605.0**	**-2,200.9**	**8,285.9**	**-4.4**	**17.1**
a. Agriculture	18,615.7	21,309.2	24,317.3	2,693.5	3,008.1	14.5	14.1
b. Industry	2,049.6	2,082.4	2,316.6	32.8	234.2	1.6	11.2
c. Housing	4,211.1	5,967.6	7,797.7	1,756.5	1,830.1	41.7	30.7
d. Others	25,643.6	18,959.9	22,173.4	-44,629.6	-18,986.0	-26.1	16.9
4. Other Assets	**17,302.1**	**15,211.1**	**24,576.3**	**-2,091.0**	**9,365.2**	**-12.1**	**61.6**

* Include ADB/N, NIDC, ODBs -24, Micro Credit Development Banks -6 RDBs -5, Finance Companies -59, Cooperative Societies (with limited banking transactions) -20, and NGOs -47.

** Include Rs. 23,005.9, Rs. 26,244.2 and 27874.6 million deposits of ADB/N commercial banking transactions for 2002/03, 2003/04 and 2004/05 respectively.

Note: Figures in parenthesis indicate a decline

Table 59

CREDIT OPERATION OF AGRICULTURAL DEVELOPMENT BANK

Rs. in million

		Mid-July			Amount Change		Percentage Change	
		2002/03	2003/04	2004/05[P]	2003/04	2004/05	2003/04	2004/05
1	Loans Disbursed	10,115.3	10,148.9	11,654.1	33.6	1,505.2	0.3	14.8
2	Loans Repaid	8,173.3	9,050.3	10,292.2	877.0	1,241.9	10.7	13.7
3	Net Loans Disbursed	1,942.0	1,098.6	1,361.9	(843.4)	263.3	-43.4	24.0
4	Loans Outstanding	18,615.7	19,714.3	21,076.2	1,098.6	1,361.9	5.9	6.9

Source: Agricultural Development Bank.

Table 60

AGRICULTURAL DEVELOPMENT BANK
OUTSTANDING LOAN
(By Type of Borrowers)

Rs. in million

	Mid - July			Amount Change		Percentage Change	
	2003	2004	2005	2003/04	2004/05	2003/04	2004/05
1. Institutions							
(Cooperative)	614.5	903.1	-	288.6	(903.1)	47.0	(100.0)
2. Individuals	18,001.2	18811.2	-	810.0	(18,811.2)	4.5	(100.0)
3. **Total**	**18,615.7**	**19,714.3**	**-**	**1,098.6**	**(19,714.3)**	5.9	(100.0)

Note: Figures in parenthesis indicate a decline
Source : Agricultural Development Bank

Table 61

AGRICULTURAL DEVELOPMENT BANK
OUTSTANDING LOAN
(By Term)

Rs. in million

	Mid - July			Amount Change		Percentage Change	
	2003	2004	2005	2003/04	2004/05	2003/04	2004/05
1. Short Term	8,082.7	7878.6	8736.0	(204.1)	857.4	(2.53)	10.88
2. Medium Term	9,443.3	9966.6	10055.0	523.3	88.4	5.54	0.89
3. Long Term	1,089.7	1868.9	1173.4	779.2	(695.5)	71.51	(37.21)
4. Total	**18,615.7**	**19,714.1**	**19,964.4**	**1,098.4**	**250.3**	**5.90**	**1.27**

Source : Agricultural Development Bank

Table 62

CREDIT OPERATION OF AGRICULTURAL DEVELOPMENT BANK UNDER SMALL FARMER DEVELOPMENT PROGRAMME

(By Purpose)

Rs. in million

Mid - July	Agricultural Production	Farm Improvement and irrigation	Agro - business	Agro - Industry, Marketing and Warehouse construction	Others	Total
Disbursement*						
2002/03	123.5	55.4	121.8	63.7	4.9	369.3
2003/04[P]	95.4	32.5	74.8	47.5	2.6	252.8
2004/05	NA	NA	NA	NA	NA	NA
Collection						
2002/03	112.2	59.2	123.8	54.2	4.8	354.2
2003/04[P]	83.9	39.2	77.6	45.1	3.7	249.5
2004/05	NA	NA	NA	NA	NA	NA
Outstanding						
2002/03	448.2	394.4	841.5	231.4	53.1	1,968.6
2003/04[P]	459.7	387.7	838.7	233.8	52.0	1,971.9
2004/05	NA	NA	NA	NA	NA	NA
		Change				
Disbursemnet						
2003/04	(28.1)	(22.9)	(47.0)	(16.2)	(2.3)	(116.5)
2004/05	NA	NA	NA	NA	NA	NA
Collection						
2003/04	(28.3)	(20.0)	(46.2)	(9.1)	(1.1)	(104.7)
2004/05	NA	NA	NA	NA	NA	NA
Outstanding						
2003/04	11.5	(6.7)	(2.8)	2.4	(1.1)	3.3
2004/05	NA	NA	NA	NA	NA	NA

	Mid - July		
	2002/03	2003/04[P]	2004/05
Total No. of Small Farmers' Development Project	154	90	NA
Savings collected under the programme	65.2	48.2	NA
Farmers benefitted from the programme	83,093	52064	NA

Note: Figures in parenthesis indicate a decline

***** Disbursed by the Agricultural Development Bank under SFDP only

Source:- Agricultural Development Bank

Table 63

SOURCES AND USES OF FUNDS
AGRICULTURAL DEVELOPMENT BANK

	Mid-July			Amount Change		Per
	2003	2004	2005	2003/04	2004/05	2003
Sources of Funds						
1. Paid-up Capital	**1,546.9**	**1574.6**	**1677.6**	**27.7**	**103.0**	
2. Reserve Fund	**424.7**	**(7,437.2)**	**399.3**	**(7,861.9)**	**7,836.5**	**(1,8**
3. Borrowing	**4,053.7**	**3,664.9**	**3,606.4**	**(388.8)**	**(58.5)**	
a. Nepal Rastra bank	250.6	277.5	331.2	26.9	53.7	
b. Commercial Bank and Others	766.7	742.8	665.6	(23.9)	(77.2)	
c. Foreign borrowing	3,036.4	2644.6	2609.6	(391.8)	(35.0)	
4. Deposits	**23,941.8**	**26,236.1**	**27,874.8**	**2,294.3**	**1,638.7**	
a. Current	1,273.3	896.9	1824.9	(376.4)	928.0	
b. Saving	12,850.9	14682.8	15121	1,831.9	438.2	
c. Fixed	8,761.8	9856.6	10085	1,094.8	228.4	
d. Other	1,055.8	799.8	843.9	(256.0)	44.1	
5. Compulsory Saving	**8.2**	**8.1**	**23.3**	**(0.1)**	**15.2**	
6. Other Liabilities	**10,343.4**	**13776.9**	**14456.2**	**3,433.5**	**679.3**	
Sources =Uses	**40,318.7**	**37,823.4**	**48,037.6**	**(2,495.3)**	**10,214.2**	
Uses of Funds	**40,318.7**	**37,823.4**	**48,037.6**	**(2,495.3)**	**10,214.2**	
1. Cash and Bank Balance	**2,765.5**	**2,910.8**	**3,477.1**	**145.3**	**566.3**	
a. Cash Balance	691.2	546.7	632.6	(144.5)	85.9	
b. Bank Balance	2,074.3	2364.1	2844.5	289.8	480.4	
2. Loan	**24,253.0**	**20,921.8**	**23,812.3**	**(3,331.2)**	**2,890.5**	
a. Agricultural	18,615.7	19686.8	21166.4	1,071.1	1,479.6	
b. Commercial	8,083.3	9656.5	10986.1	1,573.2	1,329.6	
c. Loan loss provision	(2,446.0)	(8,421.5)	(8,340.2)	(5,975.5)	81.3	2
3. Investment	**2,646.9**	**2,735.4**	**1,492.8**	**88.5**	**(1,242.6)**	
a. Share	137.0	137.0	137.0	-	0.0	
b. Government Securities	967.7	669.8	20.2	(297.9)	(649.6)	
c. Fixed Deposits	0.1	7.0	369.2	6.9	362.2	6,9
d. Other Investment	1,542.1	1921.6	966.3	379.5	(955.3)	
4. Other Assets	**10,653.3**	**11255.4**	**19255.43**	**602.1**	**8,000.0**	

Note: Figures in parenthesis indicate a decline
Sources:- Agricultural Development Bank

Table 64

CREDIT OPERATION OF NEPAL INDUSTRIAL DEVELOPMENT CORPORATION

Rs. in million

	Mid - July			Amount Change	
	2003	2004P	2005	2003/04	2004/05
1. Loans Disbursed	36.7	71.0	NA	34.3	NA
2. Loans Repaid	97.9	132.8	NA	34.9	NA
3. Net Loans Disbursed	(61.2)	(61.8)	NA	(0.6)	NA
4. Loans Outstanding	2,051.9	1,990.1	NA	(61.8)	NA

Note: Figures in parenthesis indicate a decline
Sources: Nepal Industrial Development Corporation

Table 65

OUTSTANDING LOAN OF NEPAL INDUSTRIAL DEVELOPMENT CORPORATION
(By Purpose)

Rs. in million

	Mid - July			Amount Change	
	2003	2004P	2005	2003/04	2004/05
1. Manufacturing	1,281.3	1182.9	NA	(98.4)	NA
2. Hotel	514.4	561.3	NA	46.9	NA
3. Service	131.8	120.5	NA	(11.3)	NA
4. Electricity	-	-	NA	-	NA
5. Transport	-	-	NA	-	NA
6. Others	124.4	125.4	NA	1.0	NA
7. **Total**	**2,051.9**	**1,990.1**	NA	**(61.8)**	NA

Note: Figures in parenthesis indicate a decline
Sources: Nepal Industrial Development Corporation

Table 66

SOURCES AND USES OF FUNDS OF NEPAL INDUSTRIAL DEVELOPMENT CORPORATION

Rs. in million

	Mid - July			Amount Change	
	2003	2004	2005	2003/04	2004/05
Sources of Funds					
1. Paid-up Capital	**415.8**	NA	NA		
2. Reserve Fund	**180.7**	NA	NA		
3. Deposits	**522.5**	NA	NA		
a. Fixed Deposits	522.5	NA	NA		
4. Borrowing	**1,289.3**	NA	NA		
a. Nepal Rastra Bank	773.4	NA	NA		
b. Gvernment	234.6	NA	NA		
c. External	281.3	NA	NA		
d. Others	-	NA	NA		
5. Industrial Development Bond	**55.0**	NA	NA		
6. Other Liabilities	**2,908.0**	NA	NA		
Sources =Usese	**5,371.3**	NA	NA		
Uses of Funds	5,371.3	NA	NA		
1. Cash and Bank Balance	**206.3**	NA	NA		
a. Cash Balance	-	NA	NA		
b. Bank Balance	206.3	NA	NA		
2. Investment	**183.4**	NA	NA		
a. Share	165.4	NA	NA		
b. HMG Securities	-	NA	NA		
c. NCM Mutual Fund	18.0	NA	NA		
3. Loan	**2,049.6**	NA	NA		
a. Industrial Loan	2,049.6	NA	NA		
4. Other Assets	**2,932.0** &	NA	NA		

& Includes Rs.976.5 million operational loss

Note: Figures in parenthesis indicate a decline

Sources: Nepal Industrial Development Corporation

Table 67

SOURCES AND USES OF FUNDS OF OTHER DEVELOPMENT BANKS

	Mid-July			Amount Change		P
	2003#	2004*	2005**	2003/04	2004/05	200
Sources of Funds						
1. Capital Funds	519.9	556.0	1,180.6	36.1	624.6	
a. Paid-up Capital	438.1	542.7	1,144.0	104.6	601.3	
b. General Reserve	4.2	10.1	19.4	5.9	9.3	
c. Other Reserve	77.6	3.2	17.2	-74.4	14.0	
2. Deposits	4,330.0	4,954.7	6,311.8	624.7	1,357.1	
a. Term Deposit	4,234.5	3,997.7	5,807.9	-236.8	1,810.2	
b. Other Deposit	95.5	957.0	503.9	861.5	-453.1	
3. Borrowings	86.2	158.7	175.7	72.5	17.0	
a. NRB	86.1	146.8	33.1	60.7	-113.7	
b. Commercial Banks	0.1	9.9	141.0	9.8	131.1	9
c. Others	0.0	2.0	1.6	2.0	-0.4	
4. Others	**331.6**	**467.2**	**529.2**	**135.6**	**62.0**	
Sources =Uses	**5,267.7**	**6,136.6**	**8,197.3**	**868.9**	**2,060.7**	
Uses of Funds	**5,267.7**	**6,136.6**	**8,197.3**	**868.9**	**2,060.7**	
1. Liquid Funds	**1,162.2**	**1,067.3**	**1,475.9**	**-94.9**	**408.6**	
a. Cash in Hand	33.9	50.9	95.2	17.0	44.3	
b. Bal.with NRB	42.3	97.0	111.8	54.7	14.8	
c. Bal.with Dom. Bank	1,086.0	919.4	1,268.9	-166.6	349.5	
2. Investments	**385.8**	**318.2**	**424.5**	**-67.6**	**106.3**	
a. Share and Debenture	139.1	92.7	98.0	-46.4	5.3	
b. Govt.Securities	194.0	147.1	69.5	-46.9	-77.6	
c. Others	52.7	78.4	257.0	25.7	178.6	
3. Loans and Advances	**3,358.2**	**4,236.6**	**5,249.1**	**878.4**	**1,012.5**	
a. Staff	0.0	0.0	0.0	**0.0**	**0.0**	
b. Others	3,358.2	4,236.6	5,249.1	878.4	1,012.5	
4. Others	**361.5**	**514.5**	**1,047.8**	**153.0**	**533.3**	

Note: Figures in parenthesis indicate a decline
Number of Development Banks 8
* Number of Development Banks 8
** Number of Development Banks 24

Table 68

SOURCES AND USES OF FUNDS OF REGIONAL RURAL DEVELOPMENT BA

	Mid-July			Amount Change		
	2003	2004	2005	2003/04	2004/05	2
Sources of Funds						
1. Capital Funds	**201.5**	**317.2**	**303.9**	**115.7**	**(13.3)**	
a. Paid-up Capital	298.5	298.5	298.5	-	-	
b. General Reserve	4.7	1.8	3.0	(2.9)	1.2	
c. Other Reserve	(101.7)	16.9	2.4	118.6	(14.5)	
2. Deposits	**451.6**	**473.6**	**439.8**	**22.0**	**(33.8)**	
a. Personal Savings	30.3	4.4	8.6	(25.9)	4.2	
b. Other Savings	421.3	469.2		47.9	(469.2)	
3. Borrowings	**1,324.9**	**1,471.9**	**1,675.8**	**147.0**	**203.9**	
a. Domestic Institution	1,275.3	713.9		(561.4)	(713.9)	
b. NRB	39.4	115.7		76.3	(115.7)	
c. Others	10.2	642.3		632.1	(642.3)	
4. Others	**227.4**	**100.1**	**425.6**	**(127.3)**	**325.5**	
Sources =Uses	**2,205.4**	**2,362.8**	**2,845.1**	**157.4**	**482.3**	
Uses of Funds	**2,205.4**	**2,362.8**	**2,845.1**	**157.4**	**482.3**	
5. Liquid of Funds	**211.3**	**257.1**	**294.3**	**45.8**	**37.2**	
a. Cash in Hand	19.7	11.2	10.8	(8.5)	(0.4)	
b. Bal.with NRB	1.8	6.6	83.5	4.8	76.9	
c. Bal.with Dom. Bank	189.8	239.3	200	49.5	(39.3)	
6. Investments	**537.4**	**579.9**	**660.6**	**42.5**	**80.7**	
a. Govt.Bond	7.5	3.2		(4.3)	(3.2)	
b. Fixed Deposits	526.7	573.5		46.8	(573.5)	
c. Others	3.2	3.2		-	(3.2)	
7. Loans and Advances	**1,309.1**	**1358.4**	**1466**	**49.3**	**107.6**	
a. Group Lending	832.2	-	-	(832.2)	-	
b. Personal Loan	-	-	-	-	-	
c. Staff Loan	-	-	-	-	-	
d. Others	476.9	1358.4	0	881.5	(1,358.4)	
8. Others	**147.6**	**167.4**	**424.2**	**19.8**	**256.8**	

Note: Figures in parenthesis indicate a decline
* Number of RDB- 5
Sources: Non -Banking Operations Dept.

Table 69

SOURCES AND USES OF FUNDS OF MICRO CREDIT DEVELOPMENT BA

	Mid - July			Amount Change		P
	2003	2004	2005	2003/04	2004/05	200
Sources of Funds						
1. Capital Funds	**312.4**	**370.9**	**435.8**	**58.5**	**64.9**	
a. Paid-up Capital	217.0	222.3	249.7	5.3	27.4	
b. General Reserve	6.8	11.0	100.1	4.2	89.1	
c. Other Reserve	88.6	137.6	86	49.0	(51.6)	
2. Deposits	**174.2**	**225.8**	**309.0**	**51.6**	**83.2**	
a. Term Deposit	20.2	-	14.1	(20.2)	14.1	
b. Other Deposit	154.0	225.8	294.9	71.8	69.1	
3. Borrowings	**1,065.9**	**1,360.8**	**1,726.6**	**294.9**	**365.8**	
a. NRB	33.5	19.9	10.3	(13.6)	(9.6)	
b. Commercial Banks	377.4	606.9	671.4	229.5	64.5	
c. Others	655.0	734.0	1044.9	79.0	310.9	
4. P/L Account	**1.0**	**38.2**	**68.1**	**37.2**	**29.9**	**3**
5. Others	**496.1**	**605.0**	**915.3**	**108.9**	**310.3**	
Sources =Uses	**2,049.6**	**2,600.7**	**3,454.8**	**551.1**	**854.1**	
Uses of Funds	**2,049.6**	**2,600.7**	**3,454.8**	**551.1**	**854.1**	
1. Liquid Funds	**230.3**	**364.3**	**353.8**	**134.0**	**(10.5)**	
a. Cash in Hand	4.1	3.5	3.1	(0.6)	(0.4)	
b. Bal.with NRB	61.1	52.6	106.9	(8.5)	54.3	
c. Bal.with Dom. Bank	165.1	308.2	243.8	143.1	(64.4)	
2. Investments	**510.6**	**650.9**	**855.5**	**140.3**	**204.6**	
a. Share and Debenture	-	-	6.6	-	6.6	
b. Govt.Securities	162.5	162.5	162.5	-	-	
c. Others	348.1	488.4	686.4	140.3	198.0	
3. Loans and Advances	**1,118.4**	**1,463.7**	**2,071.6**	**345.3**	**607.9**	
a. Staff	-	-	-	-	-	
b. Others	1,118.4	1463.7	2071.6	345.3	607.9	
4. Others	**190.3**	**121.8**	**173.9**	**(68.5)**	**52.1**	

Note: Figures in parenthesis indicate a decline

Table 70
SOURCES AND USES OF FUNDS OF FINANCE COMPANIES

	Mid - July			Amount Change		
	2003*	2004**	2005**	2003/04	2004/05	2
Sources of Funds						
1. Capital Funds	**3,205.2**	**3,653.8**	**4,250.0**	**448.6**	**596.2**	
a. Paid-up Capital	1,947.4	2155.8	2411.6	208.4	255.8	
b. General Reserve	339.1	405.5	481.1	66.4	75.6	
c. Other Reserve	87.2	99.9	1234.5	12.7	1,134.6	
d. Loan Loss Prov.	831.5	992.6	122.8	161.1	(869.8)	
2. Deposits	**16,510.3**	**19391.7**	**22338.1**	**2,881.4**	**2,946.4**	
3. Borrowings	**134.3**	**1,306.5**	**990.8**	**1,172.2**	**(315.7)**	
a. NRB	13.9	-	-	(13.9)	-	
b. Commercial Banks	120.4	1306.5	990.8	1,186.1	(315.7)	
c. Others	-	-	-	-	-	
4. P/L Account	**478.2**	**615.5**	**990.4**	**137.3**	**374.9**	
5. Others	**1,788.5**	**2231.2**	**1949.1**	**442.7**	**(282.1)**	
Sources =Uses	**22,116.5**	**27,198.7**	**30,518.4**	**5,082.2**	**3,319.7**	
Uses of Funds	**22,116.4**	**27,198.7**	**30,518.4**	**5,082.3**	**3,319.7**	
5. Liquid of Funds	**2,674.0**	**4,469.8**	**3,904.9**	**1,795.8**	**(564.9)**	
a. Cash in Hand	109.0	132.6	125.9	23.6	(6.7)	
b. Bal.with NRB	178.9	428.3	440.9	249.4	12.6	
c. Bal.with Dom. Bank	2,386.1	3908.9	3338.1	1,522.8	(570.8)	
6. Investments	**2,392.4**	**2,510.5**	**2,411.2**	**118.1**	**(99.3)**	
a. Govt.Securities	913.0	1270.0	567.5	357.0	(702.5)	
c. Others	1,479.4	1240.5	1843.7	(238.9)	603.2	
7. Loans and Advances	**14,473.7**	**17,540.8**	**21,223.3**	**3,067.1**	**3,682.5**	
a. Hire Purchases	2,477.4	3049.9	3591.0	572.5	541.1	
b. Housing	4,211.1	5286.5	6807.5	1,075.4	1,521.0	
c. Term Loan	6,806.5	7954.8	9448.9	1,148.3	1,494.1	
d. Leasing	148.8	138.2	247.2	(10.6)	109.0	
e. Others	829.9	1111.4	1128.7	281.5	17.3	
8. Others	**2,576.3**	**2677.6**	**2979.0**	**101.3**	**301.4**	

Note: Figures in parenthesis indicate a decline

* Number of Finance Companies 57

** Number of Finance Companies 59

Source: Bank and Financial Institutions Regulation Department

Table 71

SOURCES AND USES OF FUNDS OF COOPERATIVE SOCIETIES
(With Limited Banking Transaction)

	Mid - July			Amount Change		Pe
	2003#	2004*	2005**	2003/04	2004/05	2003
Sources of Funds						
1. Capital Funds	**273.0**	**247.2**	**277.6**	**-25.8**	**30.4**	
a. Paid-up Capital	218.6	191.7	202.4	-26.9	10.7	
b. General Reserve	33.5	31.1	33.8	-2.4	2.7	
c. Other Reserve	20.9	24.4	41.4	3.5	17.0	
2. Deposits	**1,924.5**	**1,679.8**	**1,724.5**	**-244.7**	**44.7**	
a. Saving	971.3	865.3	932.9	-106.0	67.6	
b. Fixed	802.5	626.8	574.7	-175.7	-52.1	
c. Others	150.7	187.7	216.9	37.0	29.2	
3. Borrowings	**66.4**	**41.1**	**46.2**	**-25.3**	**5.1**	
a. NRB	0.4	0.0	0.0	-0.4	0.0	
b. Commercial Banks	61.3	36.4	36.2	-24.9	-0.2	
c. Other Financial Institution	4.7	4.7	10.0	0.0	5.3	
4. P/L Account	**-8.1**	**-47.8**	**-4.5**	**-39.7**	**43.3**	
5. Others	**394.6**	**432.2**	**367.2**	**37.6**	**-65.0**	
Sources =Uses	**2,650.4**	**2,352.5**	**2,411.0**	**-297.9**	**58.5**	
Uses of Funds	**2,650.4**	**2,352.5**	**2,411.0**	**-297.9**	**58.5**	
5. Liquid of Funds	**389.1**	**413.1**	**424.3**	**24.0**	**11.2**	
a. Cash in Hand	42.0	34.0	35.7	-8.0	1.7	
b. Bal.with NRB	28.3	20.1	20.2	-8.2	0.1	
c. Bal.with Dom. Bank	318.8	359.0	368.4	40.2	9.4	
6. Investments	**251.9**	**181.5**	**142.1**	**-70.4**	**-39.4**	
a. Govt.Securitis	48.2	40.9	32.7	-7.3	-8.2	
b. Fixed Deposits	54.5	86.8	87.3	32.3	0.5	
c. Others	149.2	53.8	22.1	-95.4	-31.7	
7. Loans and Advances	**1,463.2**	**1,310.6**	**1,431.5**	**-152.6**	**120.9**	
a. Commercial Loan	609.3	547.6	640.1	-61.7	92.5	
b. Production Loan	64.5	40.1	73.0	-24.4	32.9	
c. Loan on FDR and Securities	49.6	70.4	72.4	20.8	2.0	
d. Others	739.8	652.5	646.0	-87.3	-6.5	
8. Others	**532.1**	447.3	413.1	**-84.8**	**-34.2**	
9. P/L Account	**14.1**	0.0	0.0	**-14.1**	**0.0**	

\# No. of Cooperatives 34
* No. of Cooperatives 21
** No. of Cooperatives 20
Source:- Bank and Financial Institutions Regulation Department
Note:- Figures in parenthesis indicate a decline.

Table 72

SOURCES AND USES OF FUNDS OF MICRO FINANCE NGOs (Liscensed by NRB)

	Mid - July			Amount Change		
	2003#	2004*	2005**	2003/04	2004/05	200
Sources of Funds						
1. Funds	**6,288.0**	**14,512.0**	**27,526.0**	**8,224.0**	**13,014.0**	
2. Staff Welfare Fund	**5,603.0**	**9,465.0**	**18,899.0**	**3,862.0**	**9,434.0**	
a. Staff Welfare Fund	95.0	199.0	748.0	104.0	549.0	
b. Staff Provident Fund	918.0	696.0	5,128.0	-222.0	4,432.0	
c. Others	4,590.0	8,570.0	13,023.0	3,980.0	4,453.0	
3. Risk Bearing Fund	**1,620.0**	**15,041.0**	**30,874.0**	**13,421.0**	**15,833.0**	
4. P/L Account (Net)	**12,367.0**	**2,451.0**	**9,710.0**	**-9,916.0**	**7,259.0**	
5. Borrowings	**91,119.0**	**219,685.0**	**437,474.0**	**128,566.0**	**217,789.0**	
a. Domestic Institution	87,030.0	207,137.0	424,912.0	120,107.0	217,775.0	
b. Foreign Institution	4,089.0	12,548.0	12,562.0	8,459.0	14.0	
6. Others	**20,363.0**	**33,891.0**	**116,862.0**	**13,528.0**	**82,971.0**	
Sources =Uses	**137,360.0**	**295,045.0**	**641,345.0**	**157,685.0**	**346,300.0**	
Uses of Funds	**137,360.0**	**295,045.0**	**641,345.0**	**157,685.0**	**346,300.0**	
1. Liquid of Funds	**18,528.0**	**106,309.0**	**168,767.0**	**87,781.0**	**62,458.0**	
a. Cash in Hand	3,807.0	1,480.0	12,298.0	-2,327.0	10,818.0	
c. Bal.with Dom. Bank	14,721.0	104,829.0	156,469.0	90,108.0	51,640.0	
2. Investment	**50,189.0**	**10,179.0**	**56,423.0**	**-40,010.0**	**46,244.0**	
3. Micro Credit	**48,790.0**	**114,824.0**	**259,395.0**	**66,034.0**	**144,571.0**	
4. Others	**19,853.0**	**63,733.0**	**156,760.0**	**43,880.0**	**93,027.0**	

Note: Figures in parenthesis indicate a decline

\# Number of NGO[s] 24

* Number of NGO[s] 44

** Number of NGO[s] 47

Sources: Non-Banking Operations Department

Table 73

AGGREGATE SOURCES AND USES OF FUNDS OF INSURANCE COMPAN

	Mid - July							
	2003*			2004#			2	
	Life	Non- Life	Total	Life	Non- Life	Total	Life	Nor
Sources of Funds								
1. Paidup Capital	509.3	675.5	1,184.8	509.3	790.7	1,300.0	509.3	
2. Reserve Fund	54.0	1,058.0	1,112.0	54.0	846.0	900.0	54.0	
3. Insurance Fund	7,542.9	508.7	8,051.6	9,185.0	1,515.0	10,700.0	11,000.0	
4. Other Liabilities	545.3	1,473.5	2,018.8	450.0	1,250.0	1,700.0	1,287.0	
Sources = Uses	**8,651.5**	**3,715.7**	**12,367.2**	**10,198.3**	**4,401.7**	**14,600.0**	**12,850.3**	
Uses of Fund	**8,651.5**	**3,715.7**	**12,367.2**	**10,198.3**	**4,401.7**	**14,600.0**	**12,850.3**	
1. Cash and Bank Balance	263.2	279.9	543.1	200.0	300.0	500.0	250.0	
2. Investment	7,932.9	2,456.4	10,389.3	9,779.1	2,675.0	12,454.1	12,000.0	
3. Fixed Assets	42.1	175.0	217.1	50.0	200.0	250.0	400.0	
4. Other Assets	413.3	804.4	1,217.7	169.2	1,226.7	1,395.9	200.3	

***** Number of Companies - 18

Number of Companies - 19

Source: Beema Samiti

Table 74

DETAILS OUTSTANDING OF CREDIT GUARANTEE OF DEPOSIT INSURAN CREDIT GUARANTEE CORPORATION

	Mid-July						Amount Change	
	2003	Share %	2004	Share %	2005[r]	Share %	2003/04	2004/05
By Member Oragnaisations								
1. Nepal Bank Limited	685.8	21.7	276.2	13.8	178.9	10.2	(409.60)	(97.30)
2. Rastriya Banijya Bank	1,110.4	35.1	475.9	23.8	315.5	18.1	(634.50)	(160.40)
3. Nabil Bank Ltd.	118.4	3.7	101.5	5.1	76.9	4.4	(16.90)	(24.60)
4. Nepal Indosuez Bank .	182.9	5.8	171.2	8.6	156.8	9.0	(11.70)	(14.40)
5. Himalayan Bank Ltd.	191.2	6.0	95.1	4.8	93.5	5.4	(96.10)	(1.60)
6. Lumbini Bank Ltd.	176.5	5.6	113.6	5.7	127.3	7.3	(62.90)	13.70
7. Bank of Kathmandu	164.0	5.2	-	-	69.9	4.0	-	-
8. Agri. Development Bank	53.8	1.7	50.2	2.5	0.0	0.0	(3.58)	(50.20)
9. Nepal Credit & Comm. Bank	68.8	2.2	76.1	3.8	72.0	4.1	7.30	(4.10)
10. Nepal S. B. I. Bank	414.0	13.1	635.9	31.9	655.6	37.5	221.90	19.70
Total	**3,165.8**	**100.0**	**1,995.7**	**100.0**	**1746.4**	**100.0**	**(1,170.08)**	**(249.30)**
By Purpose								
1. Agricultural	892.4	28.2	408.6	20.5	378.2	21.7	(483.80)	(30.40)
2. Industry	958.8	30.3	632.2	31.7	544.5	31.2	(326.60)	(87.70)
3. Service	1,314.6	41.5	954.9	47.8	823.7	47.2	(359.70)	(131.20)
Total	**3,165.8**	**100.0**	**1,995.7**	**100.0**	**1746.4**	**100.0**	**(1,170.10)**	**(249.30)**
By Development Region								
1. Eastern	560.5	17.7	144.2	7.2	89.6	5.1	(416.30)	(54.60)
2. Central	2,120.8	67.0	1,627.8	81.6	1500.0	85.9	(493.00)	(127.80)
3. Western	314.9	9.9	106.7	5.3	72.6	4.2	(208.20)	(34.10)
4. Mid-Western	40.8	4.3	25.9	1.3	10.4	0.6	(14.90)	(15.50)
5. Far-Western	128.8	4.1	91.1	4.6	73.8	4.2	(37.70)	(17.30)
Total	**3,165.8**	**100.0**	**1,995.7**	**100.0**	**1746.4**	**100.0**	**(1,170.10)**	**(249.30)**

Source: Deposit Insurance and Credit Gurantee Corporation (Pvt.) Ltd.
Note: Figures in parenthesis indicate a decline

Table 75

CREDIT OPERATION OF EMPLOYEES PROVIDENT FUND

Rs. in million

	Mid-July			Amount Change		Percentage Change	
	2003	2004	2005[P]	2003/04	2004/05	2003/04	2004/05
1. Loans Disbursed	5,365.4	4854.9	7411.6	(510.5)	2,556.7	(9.5)	52.7
2. Loans Repaid	899.7	1569.0	1692.9	669.3	123.9	74.4	7.9
3. Net Loans Disbursed	4,465.7	3,285.9	5,718.7	(1,179.8)	2,432.8	(26.4)	74.0
4. Loans Outstanding	14,036.0	17,321.9	23,040.6	3,285.9	5,718.7	23.4	33.0

Note: Figures in parenthesis indicate a decline
Source: Employees Provident Fund

Table 76

SOURCES AND USES OF FUNDS OF EMPLOYEES PROVIDENT FUND

	Mid - July			Amount Change		Pe
	2003	2004	2005[P]	2003/04	2004/05	200
Sources of Funds						
1. Provident Funds	**32,283.0**	**36837.0**	**41256.0**	**4,554.0**	**4,419.0**	
2. Reserve Fund	**2,278.0**	**2494.0**	**2481.1**	**216.0**	**(12.9)**	
3. Other Provisions	**1,120.0**	**552.1**	**1445.3**	**(567.9)**	**893.2**	
Sources =Uses	**35,681.0**	**39,883.1**	**45,182.4**	**4,202.1**	**5,299.3**	
Uses of Funds	**35,681.0**	**39,883.1**	**45,182.4**	**4,202.1**	**5,299.3**	
1. Loan	*14,098.0*	*17,653.8*	*23,372.5*	*3,555.8*	*5,718.7*	
a. Employee's	10,475.0	14281.5	18093.2	3,806.5	3,811.7	
b. Institutional	3,623.0	3372.3	5279.3	(250.7)	1,907.0	
2. Investment	*19,401.0*	*21,549.7*	*21,029.2*	*2,148.7*	*(520.5)*	
a. Share	231.0	255.1	310.6	24.1	55.5	
b. HMG Securities	3,914.0	5198.6	5088.6	1,284.6	(110.0)	
c. Fixed deposits	15,256.0	16096.0	15630.0	840.0	(466.0)	
4. Cash and Bank Balance	**989.0**	**914.5**	**915.5**	**(74.5)**	**1.0**	
5. Fixed Assets	**397.0**	**467.6**	**813.2**	**70.6**	**345.6**	
6. Other Assets	**796.0**	**-702.5**	**-948.0**	**(1,498.5)**	**(245.5)**	

Note: Figures in parenthesis indicate a decline

Source:- Employees Provident Fund

Table 77

SOURCES AND USES OF FUNDS OF CITIZEN INVESTMENT TRUST

	Mid - July			Amount Change		P
	2003	2004	2005[P]	2003/04	2004/05	200
Sources of Funds						
1. Paidup Capital	40.0	40.0	40.0	-	-	
2. Reserve Fund	21.1	40.5	40.5	19.4	-	
3. Fund Collection	2,749.6	4039.2	5665	1,289.6	1,625.8	
4. Other Liabilities	215.2	692.7	162.1	477.5	(530.6)	2
Sources = Uses	3,025.9	4,812.4	5,907.6	1,786.5	1,095.2	
Uses of Fund	3,025.9	4,812.4	5,907.6	1,786.5	1,095.2	
1. Cash and Bank Balance	418.4	1166.2	744.5	747.8	(421.7)	1
2. Investment	1,857.7	2865.7	3834.5	1,008.0	968.8	
3. Loans & Advances	513.8	488.3	934.5	(25.5)	446.2	
4. Fixed Assets	2.5	2.9	3.4	0.4	0.5	
5. Other Assets	233.5	289.3	390.7	55.8	101.4	

Note: Figures in parenthesis indicate a decline
Source:-Citizen Investment Fund

Table 78

STOCK MARKET INDICATORS

	Mid - July			Amount Change		
	2003	2004	2005	2003/04	2004/05	20
1. Number of Listed Companies	108.0	114.0	125.0	6.0	11.0	
2. Paid - Up value of Listed Share *(Rs. in million)*	11,898.0	12,016.0	16,771.0	118.0	4,755.0	
3. Market Capitalization *(Rs. in million)*	35,240.4	41,424.8	61,365.9	6,184.4	19,941.1	
4. Annual Turnover *(Rs. in million)*	576.0	2,144.3	4,507.7	1,568.3	2,363.4	
5. Market day	238.0	243.0	236.0	5.0	(7.0)	
6. Average daily turnover *(Rs. in million)*	2.4	8.8	19.1	6.4	10.3	
7. Average Monthly Turnover *(Rs. in million)*	48.0	178.7	375.6	130.7	196.9	
8. NEPSE Index (Closing)*	204.9	222.0	286.7	17.2	64.6	

Note: Figures in parentheses indicate a decline
Source: Nepal Stock Exchange Ltd.
* Base Year: 12th February, 1994