1. Global and National Macro Economic Performance

Global Economy at a Glance

1.1 Global economy, which had suffered slowdown as a result of crisis of confidence created by non-economic events of the past, steadily recovered and grew by 3.0 percent in 2002. This was possible with the expansion in the trade of goods and services and efficient macroeconomic management during this period. Similarly, the global economy in 2003, as compared to 2002, further grew by 1 percentage point and reaching 4.0 percent. This growth is attributable to the adoption and thereby effective implementation of expansionary fiscal and monetary policies by the United States and the East Asian countries.

1.2 Unpredictable and resistant facets such as geopolitical risks, terrorist attacks and price of petroleum products continue to remain potent questions in the global prospects. Risk bearing capacity of industrial and developing countries, however, has improved in comparison to the past by the continued increase in industrial output, rising confidence of consumers, substantial increase in world trade, as well as structural improvement in macro economic policy especially in the monetary sector. Furthermore, open and liberal economic policy, increasing external shocks bearing capacity of the financial sector, and decreasing sensitiveness of emerging market economies toward the risk of external sector have been other major contributors to such enhanced risk bearing capacity of the countries. The global economy is estimated to have grown by 5.1 percent in 2004, the highest in the past one decade, because of the strong economic growth of USA, China, India, emerging market economies, and other developing countries. During the same period, economic growth rate of Europe and Japan remained discouraging due to the weak export trading and internal demand, and the review of National Accounting System respectively.

1.3 Ever widening current account deficit of USA, depreciating US dollar, and increase in the price of petroleum products helped widening the already unbalanced world current account. At the same time, surpluses in the current accounts of newly emerging Asian countries, Japan, petroleum producing countries, and to some extent European Countries helped in remarkably raising their foreign exchange reserves especially US dollars. The risk, including other things, of relatively less developed countries, some emerging markets with high debt burden, and almost all poor countries, increased due to the high rise of petroleum product prices. Similarly, it is expected to have minor effect on the economic growth of *tsunami* affected countries, due to the substantially unfavorable impact on finance and balance of payment of these countries because of *tsunami* of 2004. However, the share of production of *tsunami*-affected area in comparison to global product is very low and reconstruction activities on these areas may offset this unfavorable impact in this area. The world economy, according to IMF, will grow by 4.3 percent in 2005 for reasons like adaptability of macroeconomic policy, improved profit scenario of the organized institutional sector, cooperative financial market, continuous rise in employment, and continued higher economic growth in emerging countries like China. In the same way IMF forecast of global economic growth rate of 4.4 percent for the year 2006 is based on the assumption of the consistency of economic activities. In this context, following problems, which would impinge the world economy in the medium-term, could equally have their short-term impact on the global economy.

1.3.1. Global Imbalance: In order to reduce the global imbalances it is necessary that internal demand of USA increases at a lower rate than its GDP where current account deficit is substantially rising while boosting internal demand in those countries whose current account balances are in surplus. Similarly, for an extensive strategy to reduce the global economic imbalance, it is necessary to have medium-term fiscal consolidation and exchange rate flexibility in USA. At the same time, it is necessary to providing continuity to the financial sector reform, consolidating the supply side through structural reform in emerging Asian countries, increasing investment capacity of South American countries, and improving the economic growth rate of Europe sector and Japan.

1.3.2. Structural Reform: Improving labor and products market of the European sector, carrying out organized institutional and financial sector reform in emerging Asian countries and Japan, reinforcing the investment environment in South American Countries, improving monitoring of banking sector in central and eastern Europe, and the developing the non-petroleum sector in middle-east could contribute to the enhanced economic growth and reduced external shocks by eliminating the structural and institutional weaknesses of global market.

1.3.3. Fiscal Situation: Fiscal situation of many countries is posing a challenge by obstructing the macroeconomic stability in medium term. The reform process in large industrial countries, facing higher levels of fiscal deficit, has not been carried out as vigorously as expected because of their inability to adopt reliable and effective measures. Although improvements were seen in the financial indicators of South American countries, in many other countries, it may take long time to contain the government debt/GDP ratio at the desired (25 to 50 percent) level. It is clear that USA, China, European countries and Japan play a key role in the global economic growth. Hence, there is a need for the concerned policy makers to make a collaborative effort in a reliable manner for finding the solution for reducing global economic instability while giving continuity to the reform process. Developed and developing economies need to design economic policies that facilitate implementation of structural reforms and should also be flexible enough to achieving sustainable and broader economic growth.

1.4 The economic growth rate of Asian countries, which was 8.2 percent in 2004, according to IMF estimates, will grow by 7.4 percent in 2005 and 7.1 percent in 2006. On the regional level, the economic growth rate of emerging Asian countries has been highest during all years in review.

The growth rate of that region was 7.8 percent in 2004 and the projection for 2005 and 2006 is 7.0 percent and 6.9 percent respectively. It has been estimated that the annual average growth rate of 5 percent will prevail between 2004 and 2006 in all the regions discussed above. The South Asian economy, which grew at a constant rate of 7.1 percent in 2003 and 2004, is estimated to grow by 6.5 percent and 6.3 percent respectively in 2005 and 2006. In India and China, the neighboring countries of Nepal, economic growth rate was 7.3 percent and 9.5 percent respectively in 2004. The economy of India in 2005 and 2006 is projected to grow at 6.7 percent and 6.4 percent respectively, whereas for China the growth rate is projected to hover around 8.5 percent and 8.0 percent respectively during the same period. Similarly, the International Monetary Fund has estimated that the growth of Nepalese economy will be by 3.5 percent in 2005 and 5 percent in 2006.

Table 1 (a)
World Economic Growth Rates (in percent)

	2002	2003	2004	Projection	
				2005	2006
World Production	3.0	4.0	5.1	4.3	4.4
Developed Economies	1.7	2.0	3.4	2.6	3.0
Major Developed Economies*	1.4	1.5	2.8	2.1	2.5
Other Developed Economies	2.8	2.5	4.4	3.4	3.9
Developing economies	4.6	6.4	7.2	6.3	6.0
Developing Asia	6.4	8.1	8.2	7.4	7.1
Emerging European Countries	4.4	4.6	6.2	4.5	4.5
African Countries	3.5	4.6	5.1	5.0	5.4
Middle East Countries	4.2	5.8	5.5	5.0	4.9
Petroleum Product Exporting Countries**	4.6	6.5	5.7	5.2	5.0
Emerging Asia***	6.2	7.4	7.8	7.0	6.9
New Industrial Asian Economics****	5.1	3.1	3.5	4.0	4.8
Asian-4*****	4.3	5.4	5.8	5.4	5.8
China	8.0	9.3	9.5	8.5	8.0
South Asia******	4.6	7.1	7.1	6.5	6.3
Bangladesh	4.9	5.4	5.4	5.5	5.9
India	4.7	7.5	7.3	6.7	6.4
Nepal	-0.6	3.1	3.5	3.5	5.0
Pakistan	4.4	5.6	6.5	6.7	6.3

**USA, Japan, Germany, France, UK, and Canada*
***Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syria, and Yemen*
**** Developing Asia, New Industrialized Asian Countries and Mongolia*
***** Korea, Taiwan, Hong Kong and Singapore*
****** Indonesia, Malaysia, the Philippines, and Thailand*
******* Bangladesh, India, Maldives, Nepal, Pakistan, and Sri Lanka*
Source: World Economic Outlook, IMF, Washington, D.C, April 2005, pp. 3, 33, 40, 46 and 52

1.5 The volume of the world trade in terms goods and services increased by 3.1 percent and 4.9 percent in 2002 and 2003 respectively. With continued encouraging trend of improvement observed in economic activities and growth rate as compared to the previous year, it is estimated to rise by 5 percentage points and reaching 9.9 percent in 2004. The volume of trading of the developed countries in terms of both export and import has narrowed in comparison to their developing counterparts. The world trade, according to IMF, will grow by 7.4 and 7.6 percent in 2005 and 2006 respectively.

Table 1 (b)
World Trade
(Annual change in percent)

	2002	2003	2004	Projection	
				2005	2006
World Trade Volume (Goods and Services)	3.1	4.9	9.9	7.4	7.6
Imports					
Developed countries	2.3	3.6	8.5	6.5	6.3
Developing countries	6.2	8.9	15.5	12.0	11.0
Exports					
Developed Countries	1.9	2.8	8.1	5.9	6.8
Developing Countries	6.5	10.7	13.8	9.9	9.7

Source: World Economic Outlook, IMF, Washington, DC. April, 2005, p.3

1.6 In 2004 the price of crude oil steeply rose by 30.7 percent as compared to 15.8 percent in 2003. Ever rising global demand for crude oil, irresolute production plan of Petroleum Exporting (OPEC) Countries, reduction in supply and absence of increased production capacity of non-OPEC countries and geopolitical uncertainty and instability have been the main reasons for such substantial increase in the price of crude oil. IMF had projected the price of raw petroleum product to increase further by 23.2 percent in 2005 with the forecast of a slight decline of 5.9 percent in 2006.

1.7 Consumer price in 2004 increased by 2 percent in the developed countries, 5.7 percent in developing countries, and 4.3 percent in South Asia. Consumer price in 2005 is estimated to increase by 2.0 percent in developed countries, 5.5 percent in developing countries, and 4.6 percent in South Asia. It is estimated to increase further by 1.9 percent, 4.6 percent and 4.0 percent respectively in 2006 in these countries. The rate of consumer price rise in India was 3.8 percent in 2004 and it is projected to increase by 4 percent and 3.6 percent in 2005 and 2006 respectively. Similarly, China's price rise rate was 3.9 percent in 2004 and it has been projected to be 3 percent and 2.5 percent in 2005 and 2006 respectively.

Table 1 (c)
World Prices
(Annual change in percent)

	2002	2003	2004	Projection	
				2005	2006
Oil*	2.5	15.8	30.7	23.2	-5.9
Non Fuel goods	0.5	7.1	18.8	3.8	-5.1
Consumer Price					
Developed economies	1.5	1.8	2.0	2.0	1.9
Developing economies	6.0	6.0	5.7	5.5	4.6
Developing European Countries	15.3	9.5	6.7	5.4	4.1
African Countries	9.6	10.6	7.7	7.7	5.9
Middle East Countries	7.5	7.1	8.3	8.6	8.3
Petroleum Exporting Countries**	9.4	8.8	9.0	9.2	9.4
Developing Asia	1.9	2.4	4.0	3.7	3.2
Dev. Ind. Asian Economics	0.9	1.5	2.4	2.2	2.3
ASEAN –4	5.8	4.0	4.4	5.3	4.5
China	-0.8	1.2	3.9	3.0	2.5
South Asia	4.2	3.9	4.3	4.6	4.0
Bangladesh	3.8	5.4	6.1	5.7	4.5
India	4.3	3.8	3.8	4.0	3.6
Nepal	2.9	4.7	4.0	4.1	4.0
Pakistan	2.9	2.9	6.7	7.9	6.5

**Average prices crude oil at Brent (UK), Dubai and West Texas (USA)*
*** As indicated in Table 1(A)*
Source: World Economic Outlook, IMF, Washington, D.C, April 2005, pp. 3, 33, 40, 46 and 52

1.8 With notable global economic growth rate especially that of India and China, and having favorable impact of their growth on South Asian economies in turn would have positive effect on the Nepalese economic growth rate, as well. There is immense potential for higher economic growth and also the possibility of broad-based regional development in Nepal by expanding opportunities in the backward areas. This potential is emerging because of expanded market opportunities and also because of the increasing trade between India and China that is opening up Nepal as a transit point between these two countries. This will surely have a positive impact on the economy. The price of POL, which increased substantially in 2004 and is also expected to continue in 2005, will not have much impact on Nepalese price as it is highly influenced by the price movement in India—our main trading partner with open border and open movements. Since the price rise in India is not expected to exceed 4 percent in 2005 and 2006, and the price of POL will presumably decrease in 2006, the consumer price in Nepal is also expected to remain between 4.1 percent and 4.0 percent during these two years respectively.

National Economic Activities

1.9 Improvement in economic indicators in FY 2004/05 has been less than satisfactory because of unfavorable weather, slack international trade and unexpected negative impact on tourism and transport sector, even though, the peace and security situation in the country, especially towards the end of FY 2004/05, has somewhat improved. The attempt of HMG for the successful implementation of past policy and institutional reform and development and implementation of additional reforms like economic reforms, legal reform, etc, were to some extent meaningful. The peace and security situation has yet to be fully restored the persistent problem of violence and terrorism, increasing since last few years.

Table 1(d)
Gross Domestic Product (Annual change in percent+)

	Sectors by Origin	Fiscal Year 2002/03	2003/04*	2004/05**
1	Agriculture, Fisheries, and Forestry	2.5	3.9	2.8
2	Mining	1.9	0.6	0.7
3	Manufacturing Industry	2.0	1.7	2.8
4	Electricity, Gas, and Water	23.1	2.5	8.0
5	Construction	1.8	0.2	-2.4
6	Trade, Restaurants and Hotels	3.3	6.0	-3.0
7	Transport, Communication and Storage	4.3	5.3	5.4
8	Finance and Real Estate	3.3	2.1	2.9
9	Community and Social Services	3.1	2.9	3.9
	Agriculture Domestic Product	**2.5**	**3.9**	**2.8**
	Non-Agriculture Domestic Product	**3.5**	**2.9**	**1.6**
10	**GDP (at factor cost)**	**3.1**	**3.3**	**2.0**
11	Banking Service charges (-)	5.4	5.3	1.9
12	**Gross Domestic Product**	**3.0**	**3.2**	**2.1**
13	Net Indirect Taxes (+)	8.0	5.5	8.5
14	**Gross Domestic Product (at producer price)**	**3.4**	**3.4**	**2.5**

+ At FY1994/95 prices
**Revised estimate*
***Preliminary estimate*
Source: Central Bureau of Statistics

1.10 Nepalese economy in FY 2004/05 is estimated to grow at 2.0 percent as against 3.3 percent (at factor cost) of FY 2003/04. During FY 2004/05, Agriculture and non-Agriculture GDP (before the deduction of bank service charge) are estimated to have grown by 2.8 percent and 1.6 percent as against 3.9 and 2.9 percent growth rate registered by these sectors in FY 2003/04. The economic growth rate is expected to be reduced to this low level because the economy has not yet recovered from internal and external unfavorable events, unfavorable weather, and projection of negative growth rate in construction and trade, restaurant and hotel sub sectors. Main indicators of the economic performance are presented in Table 1 (E).

1.11 According to the trend analysis of sectors of GDP, growth rate of both Agriculture and non-agriculture sectors in FY 2004/05 were lower than

Table 1(e)

Main Indicators of Economic Activities@

/1/

S. N.	Indicators	Unit	Fiscal Year										
			1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05*
1	GDP (at Producers' Price of 1994/95)	Annual Change in %	3.3	5.3	5.3	2.9	4.5	6.1	5.5	-0.6	3.4	3.4	2.5
2	Gross Domestic Product A	,,	2.7	5.4	4.8	3.3	4.5	6.1	4.9	-0.3	3.1	3.3	2.0
	a. Agriculture	,,	-0.9	3.7	4.2	0.8	2.8	4.9	5.5	2.2	2.5	3.9	2.8
	b. Non-agriculture	,,	5.1	6.5	5.2	4.7	5.3	6.8	4.5	-1.9	3.5	2.9	1.6
3	GDP (at Current Producers' Price)	,,	10.0	13.6	12.7	7.2	13.7	10.9	8.0	2.8	8.0	8.5	6.7
4	Gross Domestic Product B	,,	9.6	14.0	12.6	7.5	13.9	11.0	7.6	3.1	7.7	8.4	6.3
	a. Agriculture	,,	6.2	13.2	12.3	3.4	17.7	9.6	4.1	6.0	6.8	7.2	5.4
	b. Non-agriculture	,,	12.1	14.5	12.8	10.3	11.5	11.9	9.9	1.2	8.3	9.1	6.9
5	GNP (at Current Price)	,,	10.3	12.7	12.9	7.6	15.0	11.2	8.9	3.2	7.2	7.5	6.1
6	Major Agricultural Production C	,,	-	4.2	4.3	0.8	2.8	4.9	4.3	2.4	2.3	3.9	3.4
	a. Food Crops	,,	-	16.1	0.7	0.6	2.0	7.9	2.8	0.7	1.6	5.5	0.3
	b. Cash Crops	,,	-	7.7	4.7	-2.3	13.9	6.5	9.1	7.6	1.9	5.2	7.2
7	Major Industrial Production (1986/87=100)	,,	9.2	9.7	3.0	37.6	14.6	6.1	6.3	2.6	-6.5	1.4	1.7
8	GDP Price Index C	,,	6.7	7.9	7.2	4.0	8.9	4.6	2.6	3.4	4.5	4.9	4.2
	a. Agriculture	,,	7.2	9.1	7.6	2.5	14.4	4.5	-1.3	3.7	4.2	3.2	2.6
	b. Non-agriculture	,,	6.3	7.6	6.5	5.0	5.5	4.7	5.2	3.2	4.7	6.0	5.3
9	Consumer Price Index, annual average (1995/96=100)	,,	7.7	8.1	8.1	8.4	11.4	3.5	2.4	2.9	4.8	4.0	4.3
10	Gross National Saving/Gross National Product Ratio	%	17.0	15.4	15.7	15.8	16.6	18.0	18.3	15.8	15.0	14.6	13.9
11	Ratio with GDP at current producers' price												
	a. Gross Domestic Savings	%	14.8	13.8	14.0	13.8	13.6	15.2	15.1	12.1	12.0	12.4	12.3
	b. Total Investment	%	25.2	27.3	25.3	24.8	20.5	24.3	24.1	24.2	26.1	27.2	26.1
	c. Domestic Savings & Investment gap	%	-10.4	-13.5	-11.4	-11.1	-6.9	-9.1	-9.0	-12.1	-14.1	-14.8	-13.8
	d. Total consumption	%	85.2	86.2	86.0	86.2	86.4	84.8	84.9	87.9	88.0	87.7	87.7
	e. Total Government Expenditure X	%	-	-	-	-	17.4	17.5	19.4	18.9	18.4	18.0	
	f. Recurrent Expenditure X	%	-	-	-	-	9.3	9.4	11.1	11.5	11.4	11.2	
	g. Capital Expenditure X	%	-	-	-	-	6.7	6.7	6.9	5.9	4.9	4.6	
	h. Principal Repayments X		-	-	-	-	1.4	1.4	1.4	1.5	2.1	2.2	
	i. Total revenue	%	11.2	11.2	10.8	10.9	10.9	11.3	11.9	11.9	12.3	12.6	
	j. Tax revenue	%	9.0	8.7	8.7	8.6	8.4	8.7	9.5	9.3	9.3	9.7	
	k. Non-tax revenue	%	2.2	2.5	2.1	2.3	2.5	2.6	2.4	2.6	3.0	2.9	
	l. Budget Deficit	%	-4.8	-5.6	-5.1	-5.9	-5.3	-4.7	-5.9	-5.4	-3.6	-3.2	
	m. Receipt of Foreign Loan	%	3.3	3.8	3.2	3.7	3.5	3.1	2.7	2.4	1.4	1.9	

S. N.	Indicators	Unit	Fiscal Year										
			1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05*
	j. Receipt of Foreign Loan & Grant	%	5.1	5.7	5.4	5.5	4.7	4.6	4.6	3.4	3.5	3.8	
	k. Outstanding Domestic Loan	%	14.6	13.8	12.8	12.8	14.5	14.3	14.6	17.4	18.5	17.4	
	l. Outstanding Foreign Loan	%	51.6	51.4	47.1	53.6	49.6	50.2	48.7	52.1	48.9	47.0	
	m. Total Outstanding Loan	%	66.2	65.2	59.9	66.4	64.1	64.5	63.3	69.5	67.4	54.4	
	n. Total Exports (goods)	%	8.0	8.0	8.1	9.1	10.4	13.1	13.5	11.1	10.9	10.9	
	o. Total Imports (goods)	%	29.1	30.0	33.4	29.6	25.6	28.6	28.1	25.4	27.2	27.5	
	p. Merchandise Trade Decifit	%	-21.1	-22.0	-25.3	-20.4	-15.2	-15.5	-14.6	-14.3	-16.3	-16.6	
	q. Current Account Deficit	%	-5.4	-8.6	-5.9	-5.0	0.1	4.5	4.9	4.3	2.5	3.0	
12	Outstanding Foreign Loan/Government Revenue	%	459.8	459.0	434.9	489.4	454.9	444.6	409.9	436.4	397.4	373.5	
13	Outstanding Foreign Loan/Total Exports	%	640.6	644.0	583.5	585.9	474.8	382.6	360.1	468.9	447.5	431.8	
14	Total Government Revenue	% Change	25.5	13.5	8.9	8.4	13.1	15.1	14.0	3.2	11.5	10.8	
15	Recurrent Expenditure x	,,	-	-	-	-	-	11.4	28.8	6.6	6.6	6.6	
16	Capital Expenditure x	,,	-	-	-	-	-	10.8	11.1	-12.5	-9.8	3.3	
17	Principal Repayments x		-	-	-	-	-	12.3	9.2	13.1	48.6	12.9	
18	Total Government Expenditure x	,,	-	-	-	-	-	11.2	20.5	0.3	4.9	6.5	
19	Debt Service (Principle & Interest Payments)/Recurrent Expenditure	%	-	-	-	-	27.3	27.2	22.7	25.0	31.1	31.2	
20	Money Supply M_1	% Change	15.7	10.6	5.4	17.4	13.1	19.4	15.7	9.3	8.6	12.2	11.2
21	Money Supply M_2	,,	16.1	14.4	11.9	21.9	20.8	21.8	15.2	4.4	9.8	12.8	12.5
22	Share of Private Sector in the total Outstanding Credit of the Banking System	%	58.7	62.2	64.1	66.3	67.3	69.3	67.5	64.3	66.1	68.7	70.8
23	Total Exports	%Change	-8.5	12.6	13.8	21.5	29.6	39.6	11.7	-15.6	6.4	8.0	3.5#
24	Total Imports	,,	23.5	17.0	25.6	-4.8	-1.6	23.9	6.6	-7.2	15.8	9.6	-4.0#
25	Exports/Imports Ratio	%	27.7	26.7	24.2	30.9	40.7	45.9	48.1	43.7	40.2	39.5	42.7#
26	Current Account D	Rs. crore	-1178.6	-2154.2	-1650.8	-1518.8	23.5	1708.4	2014.9	1816.11	1161.5	1459.8	2258.0#
27	Balance of Payments D	,,	-31.4	-108.1	320.2	1096.6	984	1444.8	522.1	-334.3	436.4	1600.1	550.0#
28	Foreign Exchange Reserves	,,	4308.5	4443.8	4854.1	6515.8	7665.1	9385.8	10517.3	10590.1	10822.9	13020.1	13033.0
29	Exchange Rate E	US$1=Rs.	50.7	56.5	57	67.9	68.5	70.9	75.0	78.3	77.8	74.0	71.1
30	Total Population	In '000'	20053	20533	21023	21526	22040	22567	23151	23670	24200	24740	25300.0

@ *The statistics of this FY could be different from the statistics presented in the economic survey of past years since the statistics included in this table are updated on the basis of the updated information from concerned sources.*

* *Preliminary annual estimate (based on first eight months)*

\# *Preliminary annual estimates (based on first seven & eight months)*

A *Factor Cost at constant price prior to the deduction of the imputed value of the bank service charge.*

B *Factor Cost at current price prior to the deduction of the imputed value of the bank service charge.*

C *Change of the Base Year.*

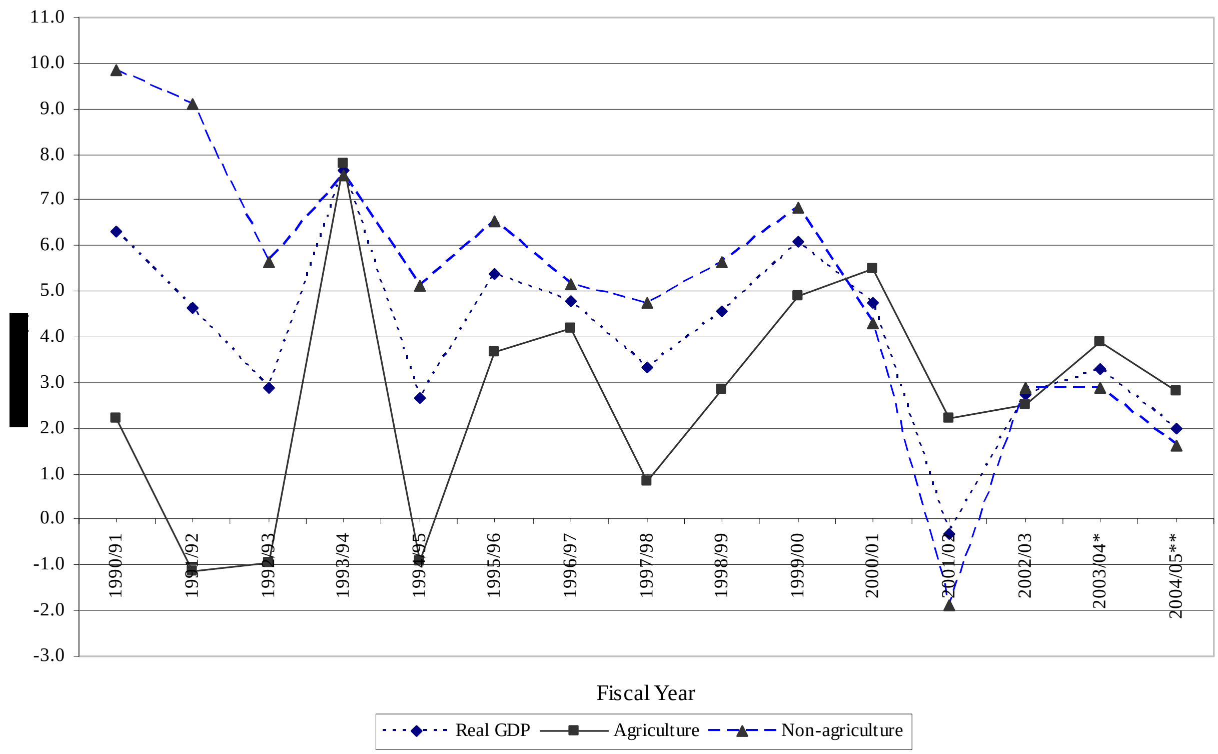
D *Estimitaed remittance income has been included in the new format of the balance of payments since FY 1999/00.*

E *Average of buying and selling rates in mid-July.*

x *Due to the reclassification of the heads of government expenditure, data prior to 1998/99 are not presented into new format.*

Chart 1(a) : Gross Domestic Product

(At 1994/95 Price+)



that of FY 2003/04. Such lower growth rate of agriculture (2.8 percent in comparison to 3.9 percent in the previous year) was mainly due to phenomenal decrease in aggregate production of food grains due to decrease in production of paddy and barley, even though there was some increase in production of grains like maize, wheat, and millet. Production of cash crops like, sugarcane, oilseed, jute, potato and livestock, fish and forest related products however were up. Electricity gas and water in non-agriculture sub-sectors contributed most by registering the estimated growth rate of 8.0 percent in FY 2004/05 against the lower growth rate of 2.5 percent in this sub-sector in FY 2003/04. The reason behind such substantial increase is attributable to the additional generation of electricity from *Rairang Khola* and *Sunkoshi* small hydropower projects and increase in capacity utilization to meet the demand for electricity. Growth rate in transport, communication and warehousing sub-sector is estimated to increase by 5.4 percent in FY 2004/05 as against 5.3 percent in the previous fiscal year due to the increase in import of means of transportation and expansion of communications sector. Similarly, growth rate in community and social service sub-sector is estimated to go up to 3.9 percent in FY 2004/05 as compared to 2.9 percent in the previous fiscal year. The achievement of higher growth rate in this sector is mainly due to increase in allowance of government employees though GDP of the private services sector has been nominal.

1.12 The real GDP growth rate in finance and real estate transactions is expected to increase by 2.9 percent in FY 2004/05, which was limited to 2.1 percent increase in the previous fiscal year. On surface, it looks as though it is the result of increase in financial sector transactions, but no proportional growth is observed in financial intermediation because of falling interest rate. Manufacturing sub sector's GDP is estimated to have risen by 2.8 percent in FY 2004/05 as compared to 1.7 percent of FY 2003/04. Such increase is attributable to the increase in production of food items like vegetable ghee/oil, milk products, other food items, and non-food items like textile, leather, wood, Nepali cashmere

(*Pashmina)* wool, paper, printing works and chemical goods. Simplified system of remittance and increase in borrowing limit also contributed to the increase in industrial production in spite of decrease in readymade garments, tobacco and iron related products. Similarly, mining and quarrying sub-sector's GDP growth rate is estimated to be 0.7 percent in FY 2004/05 as against 0.6 percent of FY 2003/04. The economic growth rate of trade, restaurant and hotel sub-sector is estimated to decrease by 3 percent in FY 2004/05 against an increase of 6 percent in FY 2003/04. Reasons behind such decrease are substantial decrease in imports of trade related goods, negligible growth in internal production, and higher rate of decrease in income of tourism and hotel sub-sector. Similarly the real growth rate of construction sub-sector is also estimated to decrease by 2.4 percent in FY 2004/05 as compared to marginal increase of 0.2 percent in previous year. The reason behind such decrease is attributable to substantial decrease in imports of construction related goods, high rate of increase in price of construction materials like iron rod and sheet, and electric cable.

1.13 GDP in FY 2003/04 at producer's price was Rs. 495.59 billion, which is estimated to reach Rs. 529.00 billion in FY 2004/05 with an increase of Rs. 33.41 billion.

1.14 Shares of agriculture and non-agriculture sectors to GDP in constant price at factor cost in both FY 2003/04 and FY 2004/05 have been about 39.0 percent and 61.0 percent respectively.

1.15 In FY 2003/04, per capita GDP at current producer's price was Rs.20,030 (Rs. twenty thousand thirty, equivalent to US$ 271), which grew by 4.4 percent FY 2004/05 reaching Rs.20,912 (Rs. twenty thousand nine hundred and twelve-equivalent to US$ 294). Per capita GDP, in US dollar terms, is estimated to have grown by 8.5 percent, major reason being the appreciation of Nepalese currency vis-à-vis US dollar. In constant price at factor cost, per capita GDP is estimated to

Chart 1 (b) : Gross Domestic Product

(At Current Price+)

have increased by 0.2 percent in FY 2004/05 against 1.1 percent in the previous fiscal year.

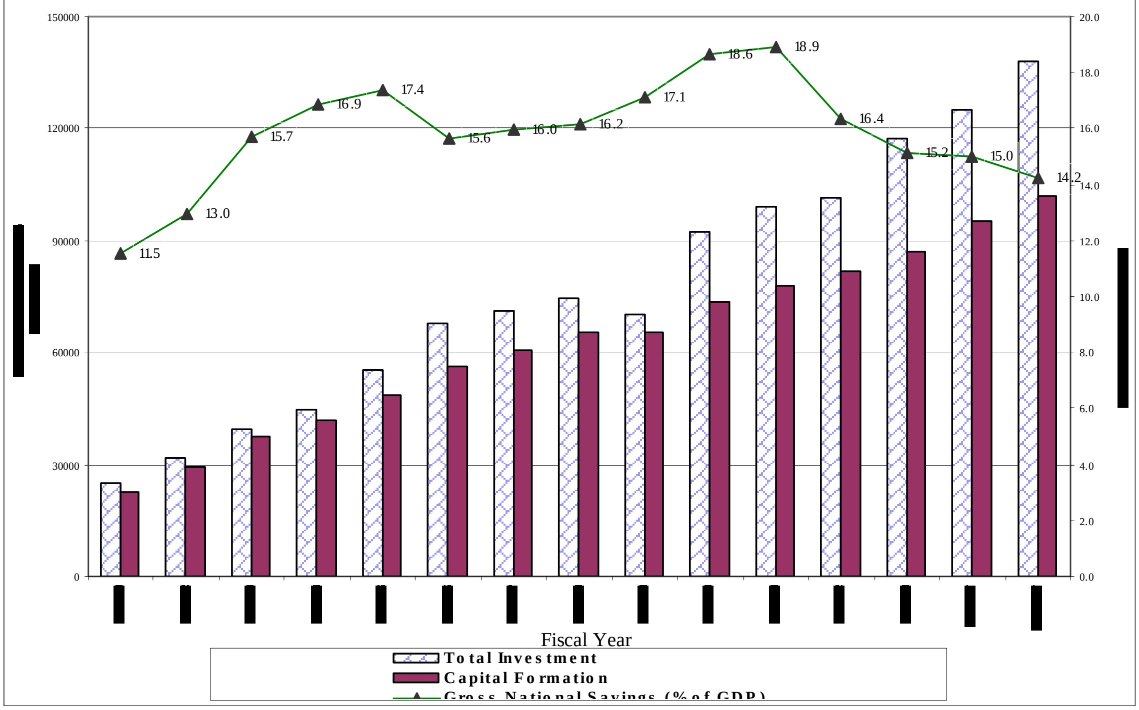
National Production

1.16 Gross National Product (GNP) in FY 2004/05, at current prices, is estimated to reach Rs.539.37 billion as compared to Rs.508.54 billion in FY 2003/04. Per capita GNP during the same period is estimated to have increased by 3.7 percent. In Rupee terms, it amounts to Rs. 21,322 (Twenty one thousand three hundred twenty two Rupees or approximately US$ 300) as compared to Rs. 20,554 (Twenty thousand five hundred fifty four Rupees or about US$ 278) in FY 2003/04. Rise in per capita GNP in US Dollar terms is estimated at 7.9 percent for FY 2004/05.

Utilization of Resources

1.17 In both the fiscal years 2003/04 and 2004/05, the proportion of gross consumption to GDP at current producer price is estimated at 87.7 percent. Of this gross consumption, the private sector in the both FY 2003/04 and FY 2004/05 is estimated to have consumed around 88.5 percent leaving the remaining 11.5 percent for the public sector. Aggregate rate of growth in gross consumption during FY 2003/04 was 8.1 percent, which is estimated to have declined to 6.9 percent in FY 2004/05. Such rate for private sector consumption is also estimated to decrease slightly to 7.0 percent in FY 2004/05 from 8.0 percent in the previous year, while that of public sector is estimated to sharply decline from 8.7 percent to 5.7 percent during the same period. As a result, there has been a decline in the proportion of gross investment to GDP by more than one percentage point from 27.2 percent in FY 2003/04 to 26.1 percent in 2004/05. The proportion of gross domestic savings to GDP decreased marginally from 12.4 percent of FY 2003/04 to 12.3 percent in FY 2004/05. The saving-investment gap, as a result of higher reduction in gross investment to GDP than savings to GDP, decreased from 14.8 percentage point of FY 2003/04 to 13.8

Chart 1 (c) : Investment, Capital Formation and Savings



percentage point in FY 2004/05. Similarly, gross national savings to GDP ratio of 15 percent of FY 2003/04 marginally declined to 14.2 percent in FY 2004/05. Gross investment to GDP ratio during the review period declined at a higher rate than that of gross savings to GDP. The gap between national savings and gross investment decreased only marginally from 12.2 percent to 11.9 percent as gross investment/GDP ratio decreased at higher rate than national saving/GDP ratio during the review period despite the fact that gross national savings-investment gap is less by 1.9 percentage point than the gross domestic savings-investment gap.

1.18 Ratio of export of goods and services to GDP at current producer's price decreased from 16.8 percent in FY 2003/04 to 16.4 percent in FY 2004/05. Ratio of imports of such goods and services to GDP also decreased from 31.7 percent in FY 2003/04 to 30.2 percent in FY 2004/05. As a result, export-import ratio of 53.1 percent in FY 2003/04 increased to 54.2 percent in FY 2004/05.

1.19 Indication of decrease in the trend of gross capital formation has been observed. As a result, formation of fixed capital is estimated to have increased by only 7.1 percent in FY 2004/05 as compared to 9.3 percent increase in FY 2003/04. There was no respite from the disruption in economic activities and, as a result, the rate of increase in private sector capital formation declined to 10.5 percent in FY 2004/05 as against 12.2 percent in FY 2003/04. Similarly, because of the need to increase public sector spending in the maintenance of security and other consumption expenses, public sector capital spending suffered and the public sector capital formation increased only by 0.6 percent in FY 2004/05 compared to 4.1 percent increase in FY 2003/04. As a result, the fixed capital formation did not increase as expected. On the other hand, growth rate of gross fixed capital formation remained higher than that of the GDP at current producer price. It implies that the ratio of gross capital formation to GDP increased marginally from

19.2 percent of FY 2003/04 to 19.3 percent in FY 2004/05. Similarly, public sector gross fixed capital formation/GDP ratio also declined marginally from 6.6 percent of FY 2003/04 to 6.2 percent in FY 2004/05. While the private sector capital formation was estimated to increase from 12.6 percent to 13.1 percent during the same period. In the gross capital formation the share of private sector is estimated to increase from 65.8 percent of FY 2003/04 to 67.9 percent in FY 2004/05. And the share of public sector is supposed to decrease from 34.2 percent to 32.1 percent in the same period. Decline in GDP, GNP, gross consumption, gross investment and the volume and utilization of resources observed in FY 2004/05 indicates comparatively low rate of improvement in macro economic situation of the country.

Challenges

1.20 At present, the statistics related to GDP and national income, which is prepared annually, is being prepared by eleventh months of the fiscal year. The scale variable like GDP is necessary for the functional study and analysis of activities of the economy and to make revision on policy formulation. It is also necessary for comparative study and research of different aspects at national and international level. In this context, it is necessary and challenging to convert the present four monthly system of record keeping of all government organizations to three monthly (quarterly) systems to make it compatible with the arrangement of estimation/projection of the statistics related to national income on a quarterly basis.

1.21 In the absence of various surveys necessary for the estimation of GDP, the sectoral weightage, in accordance the structural change in the economy, has not been updated. Similarly, there is a need to adopt internationally accepted SNA-1993 for the estimation of national income by including other economic activities through further surveys. Different government ministries should support Central Bureau of Statistics by providing data in a timely manner.

1.22 The government expenditure, despite its ever increasing trend, has not been able to achieve the economic and development targets. Such a situation has posed challenges on two fronts: on the one, to maintaining macro economic stability, and on the other, striking a balance between the resource constraint and rising demand for resource utilization.

1.23 As the contribution of agriculture to GDP is still significant, it is still a challenge to increasing productivity and production in this sector by its commercialization, and by proper utilization of increased resources. Increase in the economic opportunities, developing and expanding the employment opportunities (including self employment), successful execution of APP, promotion of bamboo, reed, cane, broom grass (*amriso)* and forest products etc. by making best use of slopes and barren land is also necessary. Similarly, priority should be given to the production of herbs and medicinal plants in the hills and mountains, production of fruits and off-season vegetables, adoption of chain farming system (e.g. fish farming in the pond, banana farming on the pond edges and pig and duck farming around the pond). Moreover, instead of excessive reliance on the vagaries of the climate, raising the level of human control over the land for enhancing agricultural productivity by increasing irrigation facility is still a challenging task.

1.24 There is still a structural challenge to make sustainable, broad based and higher economic growth rate and increasing productivity of the factors of production by enhancing the availability of resources. At the same time, preparation and implementation of macro economic policy for achieving higher and sustainable growth rate by increasing the investment with the increase in gross domestic saving is equally a challenging task.

1.25 It is still a major challenge to designing and implementing structural and policy reforms to reverse the mutual causes and effects of economic variables like low rate of savings, low level of consumption of essential goods and services, low income, and low investment and transform these variables into a virtuous circle of economic growth.

1.26 A number of persistent problems, like destructions of physical infrastructures; slowdown in development expenditure and the private sector investment; tendency of closures and mergers of the banks and financial institutions in rural areas; and unpredictable closures and blockades on the movements of the people and the means of transports etc. emanating from internal insurgency have overall negative effect on productivity and production in the country. As a consequence, the country is chronically facing adverse situation in the supply of goods, price, deposit mobilization, credit disbursements and so on. Thus, it is extremely essential to find a solution for the internal conflict; speed up economic development through structural reforms; and adopt flexible, private sector friendly and transparent policy to reap the benefit from high growth rate of the global economy, especially the sustainable development achieved by our two neighboring countries.

2. Public Finance

Fiscal Framework and Budget

2.1 In FY 2002/03, ratio of revenue mobilization to GDP accounted for 12.3 percent. In FY 2003/04 it increased to 12.6 percent, up by 0.3 percentage points. The ratio of total expenditure in relation to GDP amounted to 18.0 percent , declining by 0.4 percentage point in FY 2003/04 as compared to previous year. Analyzing the ratio of revenue and total expenditure with total GDP reveals that the ratio of expenditure has declined and that of revenue has increased. As a result, the gap between total expenditure and total revenue in FY 2003/04 declined by 0.7 percentage point and remained at 5.4 percent compared to 6.1 percent in FY 2002/03.

Table 2 (a)
Ratios of Government Expenditure and Revenue to GDP
(at Current Producers Price)

Fiscal Year	Government Expenditure				Revenue Collection	Expenditure and Revenue Gap
	Recurrent	Capital Expenditure	Payment of Principal	Total		
1998/99	9.3	6.7	1.4	17.4	10.9	6.5
1999/00	9.4	6.7	1.4	17.5	11.3	6.2
2000/01	11.1	6.9	1.4	19.4	11.9	7.5
2001/02	11.5	5.9	1.5	18.9	11.9	7.0
2002/03	11.4	4.9	2.1	18.4	12.3	6.1
2002/04	11.2	4.6	2.2	18.0	12.6	5.4

Sources: FCGO and CBS.

2.2 The share of revenue surplus to total capital expenditure and repayment amount increased by 7.0 percentage point and reached to 20.0 percent in FY 2003/04 as compared to previous year, owing to surplus in revenue savings than that of expenditure.

2.3 Revenue surplus is one of the sources of capital expenditure and repayment of principle . Because of the improvement in its share, the share of foreign grant and other sources of deficit finance mobilization were in declining rate in FY 2003/04. In FY 2002/03 among the sources of capital expenditure and principle repayment, the foreign grant contributed 35.5 percent and while sources of deficit finance mobilization 51.5 percent. In FY 2003/04, as shown in table 2 (b) such share of foreign grant and sources of deficit finance was 33.3 percent and 46.7 percent respectively.

Table 2 (b)
Capital Expenditure, Principal Repayment and the Sources of Financing them

Heads	Fiscal year					
	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
A. Total capital expenditure and Principal Repayment (Rs. in billion)	2763.48	3069.34	3399.78	3120.83	3191.56	3389.05
a. Capital Expenditure	2299.21	2548.07	2830.72	2477.34	2235.61	2309.56
b. Principal Repayment	464.27	521.27	569.06	643.49	955.95	1079.49
B. Financing sources (in percent)						
c. Revenue surplus	19.2	23.8	9.0	5.1	13.0	20.0
d. Foreign grant	15.7	18.6	19.9	21.4	35.5	33.3
e. Deficit financing	65.1	57.6	71.1	73.5	51.5	46.7
1. Foreign loan	(42.9)	(38.5)	(35.4)	(24.7)	(14.3)	(22.5)
2. Internal loan	(17.0)	(17.9)	(20.6)	(25.6)	(27.8)	(16.5)
3. Change in cash balance	(5.2)	(1.2)	(15.1)	(23.2)	(9.4)	(7.7)

Sources: FCGO and CBS.

Government Finance

2.4 The total government expenditure is in increasing trend. In FY 2003/04 total government expenditure increased by 6.5 percent compared to 4.9 percent increase in FY 2002/03. The recurrent expenditure was increased by 6.6 percent in FY 2002/03 and it was increased by the same rate in FY 2003/04. In FY 2003/04 capital expenditure was increased by 3.3 percent as against its decline by 9.8 percent in FY 2002/03. Similarly the expenditure on principle repayment increased only by 12.9 percent in FY 2003/04 compared to 48.6 percent increase in FY 2002/03.

2.5 Of the total Government expenditure of Rs. 84.00 billion in FY 2002/03, 66.9 percent was met by revenue mobilization, 13.5 percent from foreign grant, 5.4 percent from foreign loan, 10.6 percent from internal loan and 3.6 percent from change in cash balance. In FY 2003/04 the amount of government expenditure was Rs. 89.44 billion. The sources contributing this expenditure were: 69.7 percent by revenue mobilization, 12.6 percent by foreign grant, 8.5 percent by foreign loan, 6.3 percent by internal loan and 2.9 percent by the change in cash balance. Among the sources of government expenditure, the share of change in cash balance declined by 0.7 percentage point in FY 2003/04 due to the increase in the share of foreign loan.

Government Expenditure

2.6 Previous classification of government expenditure in the form of development and regular expenditures has been changed into recurrent, capital and repayment expenditures from FY 2004/05, and accordingly, the analysis has been made.

Recurrent Expenditure

2.7 Compared to FY 2002/03, recurrent expenditure in FY 2003/04 rose by 6.6 percent to the total of Rs.55.55 billion. In FY 2002/03 the amount of total recurrent expenditure was Rs. 52.09 billion. In the total recurrent expenditure of FY 2003/04 the share of constitutional organs was 1.3 percent, general administration 13.2 percent, revenue and economic administration 0.9 percent, economic administration and planning 0.5 percent, judicial administration 0.8 percent, foreign services 1.3 percent, while the share of defense expenditure was 11.9 percent, social services 37.5 percent, economic services 9.9 percent, principle and interest repayment 11.8 percent and miscellaneous expenses 10.9 percent.

2.8 Of the total recurrent expenditure in FY 2003/04, maximum amount was spent on education, health, drinking water, local development and other social services, the total expenses in these categories amounted to Rs. 20.81 billion. Similarly, recurrent expenditures of Rs. 7.33 billion went to general administration, Rs. 6.63 billion to security and Rs. 5.51

billion to other economic services. Expenditure for payment of interest was Rs. 6.54 billion during this fiscal year.

2.9 Comparing the main expenditures in FY 2003/04 with that of 2002/03 reveals that the expenditure on social service was increased by 10.2 percent. Similarly the expenditure on economic services increased by 8.5 percent, revenue and economic administration by 5.5 percent, economic administration and planning by 14.4 percent and security by 7.5 percent. On the other hand, the expenditures for constitutional organizations declined by 10.0 percent, general administration by 0.1 percent and expenditure for principal and interest payment by 1.2 percent.

Capital Expenditure

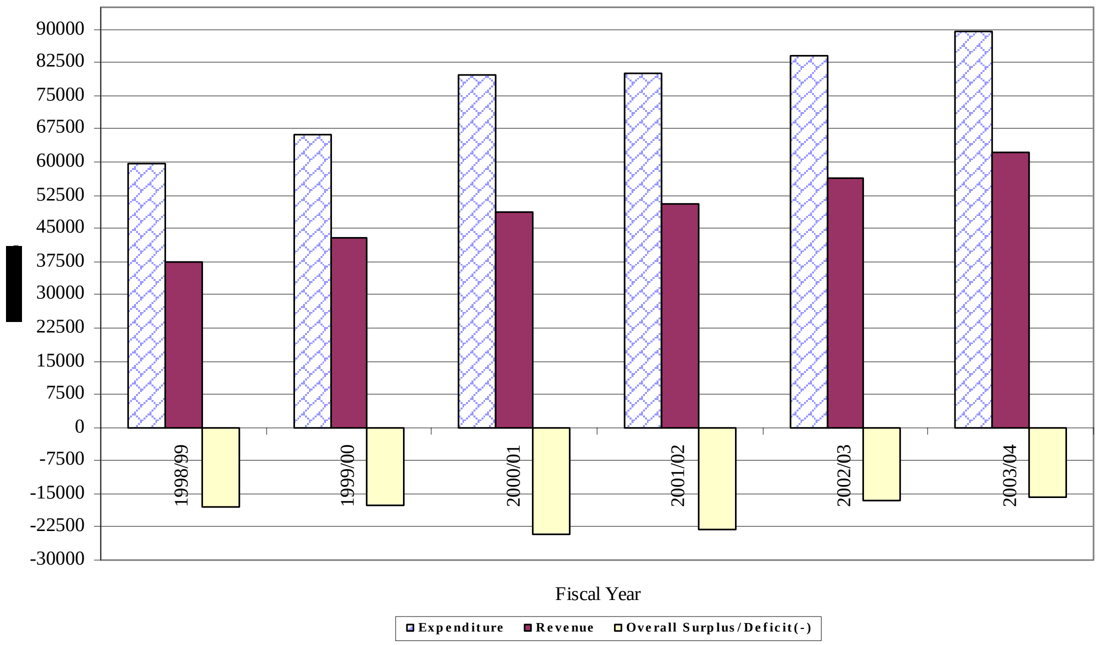
2.10 In FY 2003/04, capital expenditure increased by 3.3 percent totaling Rs. 23.95 billion compared to the previous fiscal year. In FY 2002/03 total capital expenditure was Rs. 22.36 billion. Of the total capital expenditure, in FY 2003/04, Rs. 13.13 billion (56.8 percent) was for economic services, Rs. 7.14 billion (30.9 percent) for social services and Rs. 1.89 billion (8.2 percent) for security. In FY 2003/04, compared to the FY 2002/03, the expenditure was increased by 1.2 percent in social services, 4.5 percent in economic services 55.8 percent in security and 26.5 percent in judicial administration.

Repayment of Principal

2.11 Repayment of principal is in gradually increasing trend. Repayment of principal accounted for Rs. 6.43 billion in FY 2001/02, Rs. 9.55 billion in FY 2002/03 and Rs. 10.79 billion in FY 2003/04. The principal repayment expenditure increased by 12.9 percent in FY 2003/04 compared to FY 2002/03.

2.12 Of the total principal repayment expenditure, the share of internal loan repayment expenditure in FY 2003/04 is 46.6 percent and external loan repayment is 53.4 percent. The principal repayment expenditure of

Chart 2 (a) : Government Revenue, Expenditure and Deficit



internal loan increased by 23.8 percent and that of external loan increased by 4.9 percent in FY 2003/04 compared to previous year.

Expenditure in the First 8 Months of FY 2004/05

2.13 In the first 8 months of FY 2004/05, total expenditure increased by 1.4 percent to Rs. 49.80 billion compared to Rs. 49.14 billion in the corresponding period of FY 2003/04. Of the total expenditure, in review period of FY 2004/05, Rs. 34.52 billion was spent for recurrent expenditure, Rs. 9.31 billion for capital expenditure and Rs. 5.98 billion for principal repayment. In the review period of FY 2004/05 capital expenditure increased by 17.7 percent while the recurrent expenditure and principal repayment expenditure decreased by 1.8 percent and 1.4 percent respectively, compared to the same period of previous fiscal year. In the first eight months of FY 2003/04, Rs. 35.16 billion was spent for recurrent expenditure Rs. 7.91 billion was for capital expenditure and Rs. 6.6 billion was for principal repayment.

Source of Financing

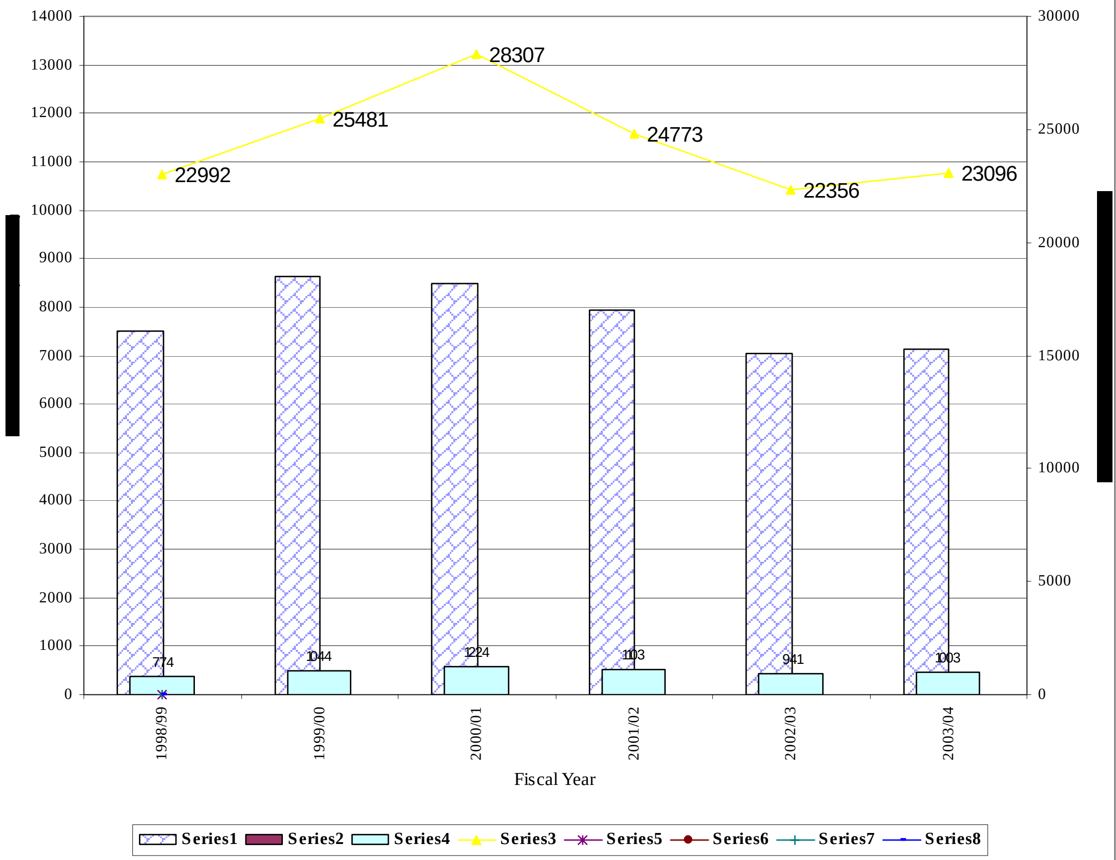
2.14 The major sources of public financing are revenue mobilization, foreign grants and loan, internal loan and change in cash balance.

Revenue

2.15 Revenue collection increased by 10.8 percent in FY 2003/04 totaling Rs. 62.33 billion compared to FY 2002/03, which increased by 11.5 percent. In line with increase in revenue collection, in FY 2002/03, the share of revenue to total Government expenditure was 66.9 percent and in FY 2003/04 such share was 69.7 percent. In FY 2001/02 the share of revenue to total government expenditure was 63 percent.

2.16 Of the total revenue collection, in FY 2003/04, the share of tax revenue was 77.3 percent whereas the share of non-tax revenue was 22.7 percent. In FY 2002/03, the share of tax revenue and non-tax revenue was 75.7 percent and 24.3 percent respectively.

Chart 2 (b) : Total Capital Expenditure, Social Service and Education



2.17 In FY 2003/04 tax revenue increased by 13.1 percent, compared to previous fiscal year. In FY 2002/03 such increase was only 8.3 percent as compared to previous FY. Of the total tax revenue, in FY 2003/04, the share of customs was 32.3 percent and consumption and production (levied on the consumption and production of goods and services) tax was 43.0 percent. Similarly, the share of income, profit and property tax was 21.2 percent and the share of land revenue and registration fee was 3.5 percent.

2.18 Under the tax revenue, customs tax increased by 9.3 percent, whereas the tax from production and consumption increased by 13.5 percent in FY 2003/04. Similarly, income, profit and property tax increased by 17.5 percent and land revenue and registration fee increased by 20.0 percent. Under the customs duty; import duty increased by 0.9 percent and Indian Excise Duty Refund (DRP) increased by 63.8 percent, while the export duty decreased by 38.4 percent in FY 2003/04. In the same way, the rate of excise duty and VAT increased by 30.1 percent and 7.6 percent respectively.

2.19 Non Tax revenue in FY 2003/04 amounted to Rs. 14.16 billion with an increase of 3.8 percent, compared to FY 2002/03. Of the total non-tax revenue, the share of fee, charges, penalties, and seizures accounted for 8.5 percent, revenue from the sales of government goods and services 24.7 percent, dividend 18.8 percent, royalty and public property sale 10.3 percent, principal and interest receipt 24.8 percent and miscellaneous revenue 12.9 percent. Under the non-tax revenue, driving license fees increased significantly resulting into 107.5 percent increase in penalty, charges and seizures in FY 2003/04, compared to previous FY. Similarly, revenue from sales of public goods and services increased by 14.2 percent and revenue from dividend, principal and interest receipt increased by 6.5 percent and 42.3 percent respectively. On the other hand, the revenue from royalty and sale of government property and non tax revenue decreased by 24.7 percent and 41.0 percent respectively.

Revenue Collection in the First 8 Months of FY 2004/05

2.20 In the first eight months of FY 2004/05, revenue collection amounted to Rs. 39.55 million compared to Rs. 35.97 billion in the corresponding period of FY 2003/04. This is an increase of 9.9 percent over the previous fiscal year. Of the total revenue collected, tax revenue accounted for Rs. 31.47 billion and non tax revenue Rs. 8.7 billion in the review period of FY 2004/05. Revenue from taxes increased by 11.3 percent and non-taxes by 5 percent in the review period of FY 2004/05 compared to the corresponding period of FY 2003/04.

2.21 Revenue from customs increased by 4.1 percent to the total of Rs. 9.61 billion, during the review period of FY 2004/05 compared to the same period of previous fiscal year. Tax on consumption and production increased by 14.7 percent to the total of Rs. 14.60 billion in FY 2004/05, compared to the corresponding period of FY 2003/04. During the review period of FY 2004/05, the collection duties on imports and exports increased by 4.6 percent and 5.7 percent respectively while Indian excise duty refund (DRP) by 6.1 percent. Similarly, the collection of excise duty increased by 2.9 percent, and VAT increased by 20 percent during the review period of Y 2004/05, compared to of the same period of previous year. In the same way, the collection of land revenue and registration fee increased by 26.2 percent and the collection of income, profit, and property tax increased by 13.1 percent during the review period, compared to previous FY.

2.22 On non tax revenue, the revenues from fees, penalty, fine, and seizure increased by 6.9 percent and the revenue from the sales of public goods increased by 1.1 percent in the review period of FY 2004/05, compared to the corresponding period of FY 2003/04. During the review period, dividend increased by 127.4 percent, the revenue form the royalty and sales of public property by 7.7 percent, whereas, the principal and interest receipts and miscellaneous non tax revenue decreased by 53.9 percent and 16.9 percent respectively.

Foreign Aid

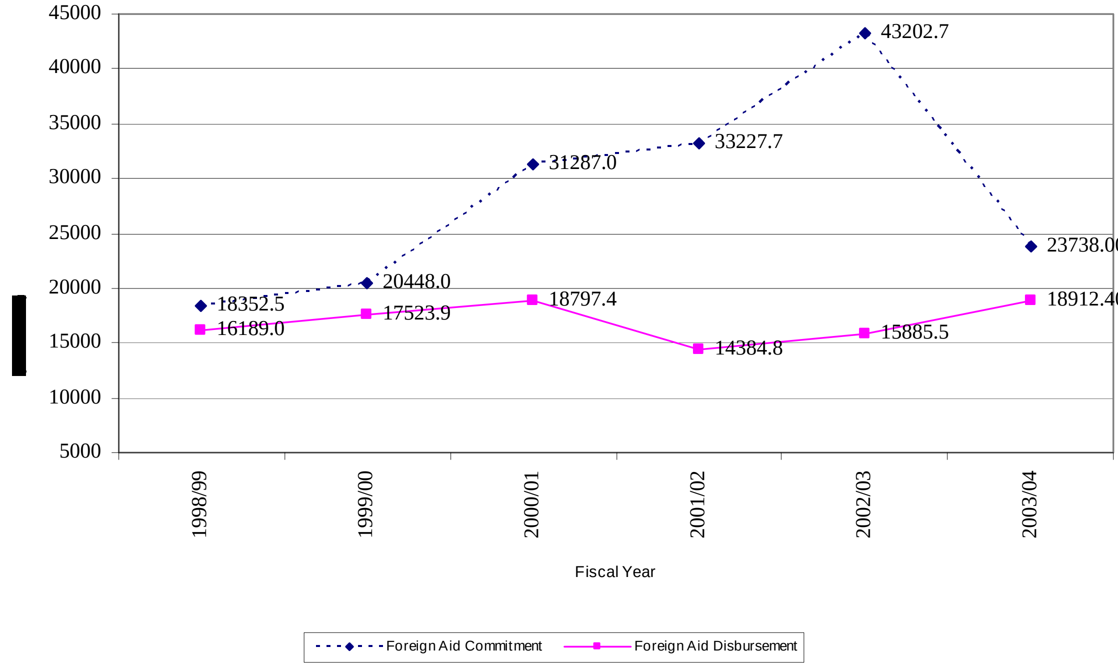
2.23 Foreign aid commitment has declined in FY 2003/04, compared to FY 2002/03. In FY 2003/04 the amount of foreign aid committed was Rs. 23.74 billion compared to 43.20 billion in FY 2002/03. The total foreign aid committed, in FY 2003/04, includes bilateral aid of Rs. 8.22 billion and multilateral aid of Rs. 15.51 billion. Of the total foreign aid received, the share of grant assistance constituted Rs. 8.96 billion and loan assistance Rs. 14.78 billion. In FY 2003/04, the foreign loan assistance has declined by 6.7 percent compared to the previous fiscal year.

2.24 A sectoral analysis of total foreign aid received in FY 2003/04 reveals that agriculture, irrigation, and forest sector received 8.8 percent, transport and communication 0.2 percent, electricity 7.9 percent, rural development 2 percent, education 3.8 percent, health 0.7 percent and other sectors 63.9 percent.

Grant and Loan

2.25 In the first 8 months of FY 2003/04,of the total foreign aid Rs. 13.75 billion , Rs. 6.43 billion (46.8 percent) was in the form of grant and Rs. 7.32 billion (53.2 percent) was in loan. During the first eight months of FY 2004/05, receipt of total foreign aid noticeably increased by 154.7 percent to Rs. 35.3 billion compared to the same period of FY 2003/04. Of the total foreign aid received, during the review period of FY 2004/05, Rs 23.01 billion (65.7 percent) was grant while Rs. 12.2 billion (34.3 percent) was loan.

Chart 2(c) : Foreign Aid Commitment and Disbursement



Commitment and Disbursement

2.26 In the first eight months of FY 2004/05, of the total foreign aid receipt, the share of bilateral and multilateral aid was 54.1 percent and 45.9 percent respectively. Share of bilateral and multilateral aid in FY 2003/04 was 45.6 percent and 54.4 percent respectively. A sectoral analysis of the total foreign aid received in the first 8 months of FY 2004/05 reveals that Rs. 12.44 billion (35.5 percent) was committed in health sector, Rs. 10.95 billion (31.2 percent) in education, Rs. 1.89 billion (5.4 percent) in drinking water and sanitation, Rs. 2.92 billion (8.3 percent) in rural development, Rs. 1.42 billion (4.0 percent) in transport and communication, Rs. 740 million (2.2 percent) in agriculture irrigation and forest and Rs. 4.68 billion (13.4 percent) in other sectors.

2.27 Aid utilization in FY 2003/04 had gone up by 19.1 percent totaling Rs. 18.91 billion compared to FY 2002/03. Of the total aid utilization, Rs. 11.28 billion (59.7 percent) was in the from of grant and Rs. 7.63 billion (40.3 percent) was in loan. Of the total foreign aid utilized Rs. 15.89 billion in FY 2002/03, Rs. 11.34 billion (71.4 percent) consisted as grant and Rs. 4.55 billion (28.6 percent) as loan. Of the total foreign aid utilization in FY 2003/04, bilateral aid constituted Rs. 9.1 billion (47.7 percent) and multilateral aid Rs. 9.90 billion (52.3 percent). In previous fiscal year, the share of bilateral aid was Rs. 10.4 billion (63.2 percent) and multilateral aid was Rs. 5.84 billion (36.8 percent).

2.28 In FY 2003/04, a sector wide aid utilization analysis reveals that social service utilized Rs. 8.73 billion (46.2 percent), transport, electricity and communication Rs. 7.57 billion (40.0 percent), agriculture, irrigation and forest Rs. 2.43 billion (12.8 percent), industry and commerce Rs. 146.8 million (0.8 percent) and other sector Rs. 35.1 million (0.2 percent). In FY 2003/04, the aid utilization in agriculture, irrigation, and forestry sector was increased by 11.6 percent and in social service sector it increased by 64.1 percent as compared to previous fiscal year. However, aid utilization declined by 2.6 percent in transport electricity and communication, and 63.4 percent in industry and commerce sectors.

Public Debt

2.29 Of the total public debt owed by Nepal, though the share of concessional foreign loan is higher, the share of internal loan is also increasing. Such loans have important role in cash flow management and to support the expenditure for development activities. The maximum limit of loan will be fixed on the basis of act prepared for the arrangement of right to collect national debt, and loan and guarantee act. National debt act has made legal arrangement regarding the mobilization of internal loan through, development bond, national savings certificate, treasury bills, special bonds and citizen saving certificate. Nepal Rastra Bank Act 2002 has fixed the limit of maximum amount of loan with NRB. NRB can accept the ownership of internal loan not exceeding 10 percent of total revenue of previous year. Similarly, overdraft borrowing of HMG should not exceed 5 percent of total revenue of previous year.

2.30 Different government entities are involved in public debt management. Debt management unit, within the Economic Activities and Policy Analysis Division of Ministry of Finance is working as a focal point for public debt management. Major functions of this unit are to assist for policy formulation, analyze the policies and prepare the analytical studies on public debt. Foreign Aid Coordination Division of the Ministry of Finance mobilizes the foreign resources. Office of the Comptroller General is involved in transactions and maintains the account. In case of internal loan management, National Debt. Management Department of NRB performs all necessary activities as per the direction of Open Market Operation Committee.

2.31 The amount of internal loan is relatively smaller than that of external loan. However, the external loan is received in subsidized rate whereas internal loan is available normally at market rate of interest. As such the repayment amount of internal loan is found to be greater than foreign loan. Internal loan mobilization is relatively expensive than external loan. But external loan depends on foreign exchange rate. Hence, it becomes cheaper when our currency is revaluated and expensive when our currency is devaluated. The public debt of Nepal is still less burdensome, as foreign loans are available at subsidized rate.

2.32 HMG is doing homework for the adoption of different reforms realizing the need to integrate the different aspects of public debt. HMG is reviewing to change institutional structure with the concept of making a high level policy making institution and to develop front office, middle office and back office to support the former. To this end, a high level "Public Debt and Foreign Aid Coordination Committee" has been conceived. The committee will have representation from Ministry of Finance, National Planning Commission and NRB. Similarly Economic Activities and Policy Analysis Division of Ministry of Finance is expected to coordinate public debt management and improve effectiveness of analytical activities. Concept of Contingent Reserve Fund is also emerging for the effective management of public debt. Accordingly, draft law on public debt is prepared and is in the process of discussion.

2.33 Tenth Plan has forwarded some policies on public debt. However, there is a deficiency of integrated public debt policy covering different aspects of public debt management. To fill this gap a draft policy is prepared for systematic management of public debt. The policy is also posted in the web site of the Ministry of Finance. The draft policy among others, includes external and internal loan, government's guarantee system, and loan to other sectors by the government. Making the arrangement of loan, providing government guarantee at internal level, can be an important instrument for the operation of development activities. Government has opened the second market for government bonds in this context. A proposal for the institutionalization of bonds market is prepared. For this the need of CDS is realized. HMG has also initiated to prepare trust fund law, in this regard.

Total Outstanding Foreign Debt

2.34 Foreign loan is playing a substantial role of fulfill the gap of total government expenditure and revenue as the revenue surplus available for development budget has been shrinking. An analysis of trend of foreign loan reveals that net foreign loan is increasing over the years. Outstanding foreign loan during the FY 2003/04 increased by 4.2 percent to Rs. 232.78 billion as compared to Rs. 223.43 billion in FY 2002/03.

2.35 After adjustment of foreign loan receipt and repayment net outstanding loan by the end of first 8 months of FY 2004/05 decreased by 4.1 percent to the tune of Rs. 235. 20 billion against Rs. 245.21 billion in the corresponding period of FY 2003/04.

2.36 The ratio of net outstanding loan to total GDP (at producer's price) was 52.1 percent in FY 2001/02, 48.9 percent in FY 2002/03 and 47 percent in FY 2003/04. Considering the high ratio of foreign loan to GDP, Nepal needs to take initiative to join the HIPC Initiative.

Box 2(1)

HIPC Initiative for the Poor Countries with Excessive Loan Burden

a. HIPC initiative is a comprehensive approach initiated by IMF & World Bank through their adjustment and reform programs. It's objective is to reduce loan burden of countries having excessive loan burden. Under this program, till March 2005, 32 billion US Dollar was allocated to reduce the loan burden of 27 countries of the world as a package program.

b. HIPC initiative was proposed in September 1996, as a joint program of IMF and World Bank with an objective of reducing the loan burden of poor countries. The additional objectives of the initiative were, not to add additional loan burden and maintain the loan burden of these countries at sustainable level. In September 1999, additional reforms and adjustment on this program were made by integrating poverty eradication and social policy. In this back ground, the countries, joined in this program, are increasing their investment on basic requirements like health, education adopting the policy of macro economic adjustment and structural and social policy reform.

c. Following conditions should be fulfilled to receive the assistance under HIPC initiative.

- having unsustainable loan burden
- adopted the reform policy as guided by IMF and World Bank, and executing reform policy in better way
- prepared Poverty Reduction Strategy Paper (PRSP)

Debt sustainability analysis of any country is done on the following basis.

Basis	Numerical Target
• NPV debt/exports	> 150 percent
Fiscal Basis	
• NPV debt/revenue	> 250 percent
Basic requirement under fiscal criteria.	
• Export/GDP	< 30 percent
• Revenue/GDP	< 15 percent

Generally, HIPC initiative is considered suitable to those countries having NPV debt/exports more than 150 percent. However, the fiscal basis is adopted for countries having more open economy.

d. While calculating the NPV debt/exports net present value of external loan of government or government guaranteed external loan will be taken to find out the NPV of debt and average amount of three years exports of goods and services will be taken to find out the value of exports. To calculate the ratio of NPV debt/revenue last three years average index of exports, revenue and GDP will be taken for additional basis.

e. In this context, it will be useful to Nepal to take initiative for the entry in HIPC initiative as it is a member nation of IMF and World Bank, and also a low income country. Although Nepal's debt is not un sustainable. In the context of present unfavorable economic situation of the country, it is an opportunity to Nepal to attempt to enter into HIPC initiative since it has prepared PRSP and is giving continuity to reform programs. In addition to this, the country have characteristics like lack of sustainable and broad basis of export, the current account deficit is being fulfilled by remittance income, the economy is in unfavorable situation due to existing conflict and the external loan burden is more than 50 percent of GDP. With these background, a low income country like Nepal should consider it as an opportunity to inter into HIPC initiative.

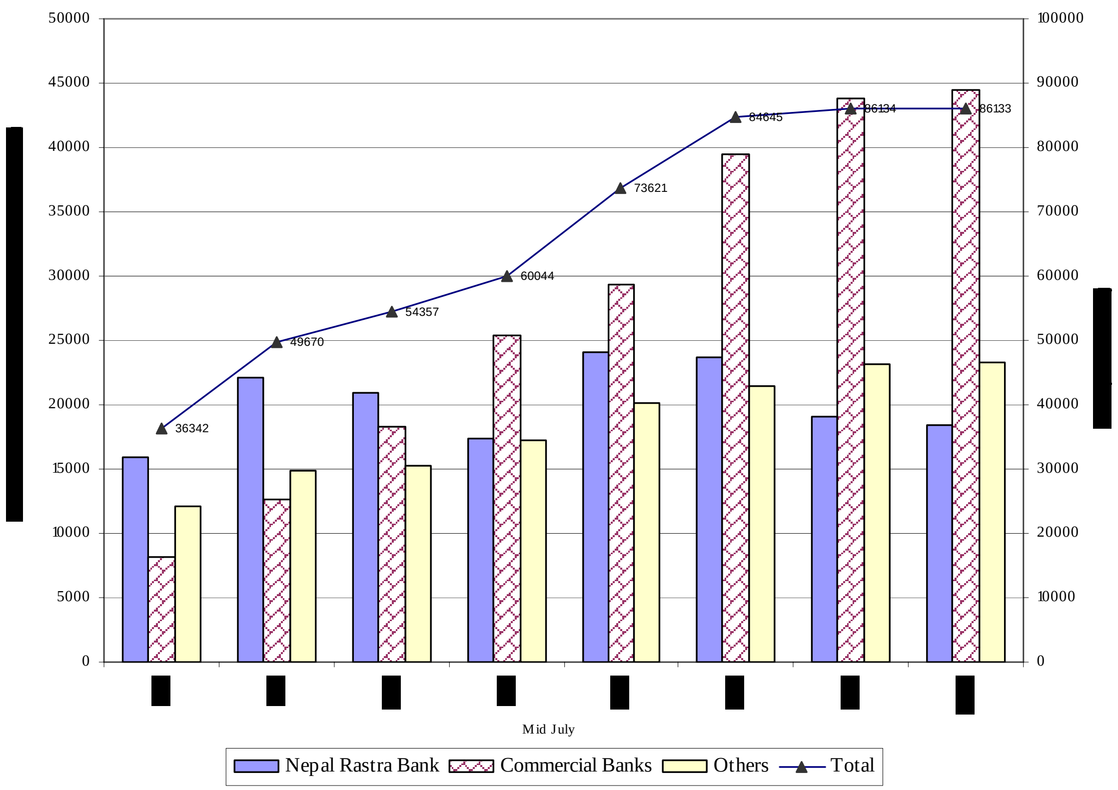
Source: Nepal Rastra Bank.

Total Outstanding Domestic Debt

2.37 Between mid-July 2003 and mid-July 2004, domestic loans grew by 1.8 percent totaling Rs. 86.13 billion. In mid-July 2003, total outstanding domestic loan was Rs. 84.65 billion. Of total loan as of mid July 2004, the share of Nepal Rastra Bank is Rs. 19.14 billion (22.2 percent), commercial Banks' Rs. 43.80 billion (50.9 percent) and other institutions and private sector Rs. 23.20 billion (26.9 percent). Similarly, of that loan, share of treasury bills is 57.4 percent (Rs. 49.43 billion), that of Development Bond is 20.4 percent (Rs. 17.55 billion), National Saving Bond 10.5 percent (Rs. 9.3 billion), Citizens Saving Certificate 1.3 percent (Rs. 1.18 billion), and Special Bond 10.4 percent (Rs. 8.95 billion).

2.38 Total outstanding domestic loans by mid-March 2005 (first 8 months of FY 2004/05) stood at Rs. 86.13 billion. , 3.7 percent more than total outstanding loan amount of Rs. 83.02 billion by mid-March of FY 2003. Of the total outstanding loans by mid-March 2005 Nepal Rastra Banks' share is 21.4 percent (Rs. 18.41 billion) and commercial banks' share is 51.6 percent (Rs. 44.43 billion) and share of other institutions and private sector is 27 percent (Rs. 23.29 billion). An analysis of the internal loans structure reveals that treasury bills accounted for Rs. 51.09 billion (59.3 percent), development bonds Rs. 17 billion ((19.7 percent), national saving bonds Rs. 8.56 billion (9.9 percent), citizen's saving bond Rs. 1.18 billion (1.4 percent) and special debt bonds Rs 8. 31 billion (9.7 percent). The ratios of domestic debt, foreign debt, total outstanding debt and repayments to macro-economic indicators have been presented in Table 2.13.

Chart 2 (d) : Ownership Patterns of Government Bonds and Treasury Bills



Fiscal Deficit

2.39 Fiscal deficit is continuously increasing due to lack of proper income management to meet the increasing trend of government expenditure. The actual situation of fiscal deficit and its ratio with loan/total GDP is as follows.

Table 2 (c)
Fiscal Deficit (Rs. in million)

Fiscal year	Fiscal surplus/(deficit)*	Fiscal deficit/GDP ratio (percent)
1998/99	-17991.4	5.3
1999/2000	-17667.0	4.7
2000/01	-24188.1	5.9
2001/02	-22940.6	5.4
2002/03	-16437.2	3.6
2002/04	-15828.2	3.2

Sources: FCGO and CBS.

2.40 In FY 2003/04 fiscal deficit stood at Rs. 15.83 billion, decreased by 3.7 percent, as compared to Rs. 16. 44 billion in FY 2002/03. An Analysis of the trend of fiscal deficit shows that, the size of deficit is gradually widening from FY 2001/2002. The gap between expenditure and income is shrinking. Because of this, the ratio of fiscal deficit and total GDP was down by 3.2 percentage point a decrease of 0.4 percent in FY 2003/04 from 3.6 percent in FY 2002/03.

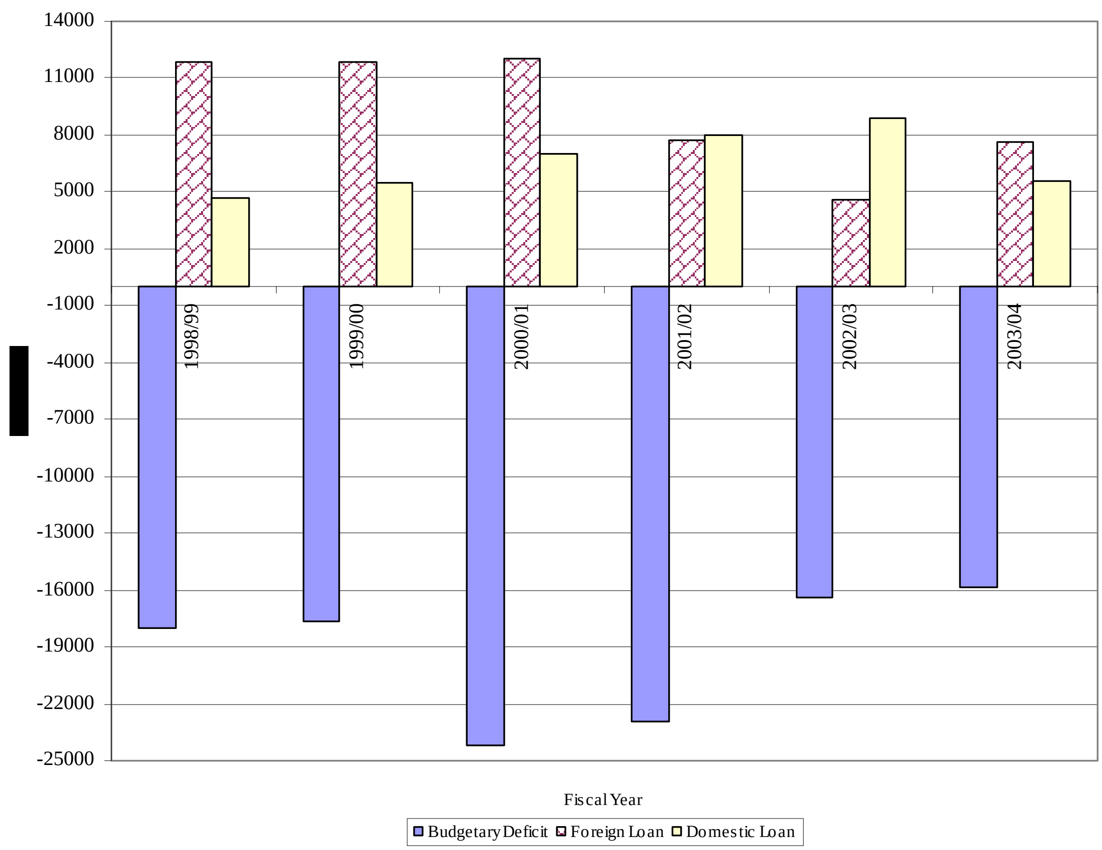
Sources of Meeting Fiscal Deficit

2.41 In FY 2003/04, the total fiscal deficit amount of Rs. 15.83 billion was met by foreign and internal loan and by change in cash balance. An analysis of sources of meeting fiscal deficit shows that 48.2 percent (Rs. 7.63 billion) was met through foreign loan, 35.4 percent (Rs. 5.61 billion) internal loan and remaining 16.4 percent (Rs. 2.59 billion) through change in cash balance.

Economic Policy Network Project

2.42 The ADB approved the Economic Policy Network Project (TA 4288-NEP) under its Technical Assistance in 2003. This Project has been

Chart 2 (e) : Budgetary Deficit, Foreign and Domestic Loan



implemented under the Economic Affairs and Policy Analysis Division of the Ministry of Finance since August 2004. The overall objective of the Project is to support the government in the implementation of a responsive, transparent and results oriented economic policy by ensuring the participation and ownership of the government, academic and professional sector and private sector in its formulation. This process will facilitate and consolidate the government's economic policy, which will be crucial to achieve the poverty reduction objectives of the Tenth Plan.

2.43 In respect of the implementation of the Project, a high level Coordination Committee has been formed under the Chairmanship of the Chief Secretary with representatives from the private sector and independent experts. The committee provides the overall guidance in its implementation. Similarly, attempts have been made to address four thematic areas: (i) macroeconomic management (ii) international trade, investment, and employment; (iii) physical infrastructure development; and (iv) tourism, agriculture, and regional development. In this context, four Advisory Committees have been formed under the convenorship of the Secretaries of the Ministry finance; Ministry of Industry, Commerce, and Supplies; Ministry of Physical Planning and Works; and Ministry of Culture, Tourism, and Civil Aviation, respectively. The Economic Affairs and Policy Analysis Division of the Ministry of Finance will support, coordinate and facilitate in the tasks of the four Committees.

2.44 As many as 21 policy papers have been prepared after the intensive policy discussions on the thematic areas identified by the Project. Likewise, 11 policy papers are in the process of preparation. By the end of the project period, which is scheduled for December 2005, a total of 32 policy papers will be prepared with 8 papers in each thematic areas. These policy papers will for the basis for the policy dialogue among the stakeholders in the government, non-governmental, and private sector.

Auditing and Cash Management

2.45 Accounting system and audit play important roles to enhance the effectiveness and efficiency of public finance, maintain fiscal discipline and create accountability. Cash management, internal audit and final audit bring positive impact to maintain public finance within the purview of fiscal discipline and achieve internal-control.

Auditing

2.46 HMG mobilizes economic resources to provide various services to the people. General public has the right to get information on the purpose, and uses of the resources. The government will perform its activities in more effective and responsible manner in the existence of strong, capable and conscious civil society. In this context, HMG needs to inform the general public about how, where, when, and why the public resources have been used, including the amount. It also need s to inform about the outcomes as well as expected outcomes from the investments. To this end, the government makes necessary legal and procedural arrangements.

2.47 Public expenditure refers to the expenditure made for the purpose of fulfilling people's needs. Such expenditure is made through the central government organizations, local bodies, NGOs and the private sector. The main objective of such expenditure is to help improve the living standards of general people. Thus, the measurement of effectiveness of public expenditure will depend on the service/benefit received by the people as well as the public opinion on this matter.

2.48 Though the role of the government has been declining in the economic activities in developed countries, its role is still important in the economic activities in developing countries like Nepal. The government is taking the responsibility for the delivery of services to the people, as market mechanism is yet to be competitive. To meet the resources required to fulfill such responsibility, government collects tax from the people and receives foreign aid from different sources. Taxes collected from the people and the foreign aid received for the people need to be utilized effectively. People need to be assured that that such resources have been utilized in an effective and efficient manner. Thus, all democratic countries establish a mechanism to provide information to the people by evaluating the accountability of the government. In Nepal, the responsibility of informing the people by evaluating the fiscal accountability of the government has been provided to the to the Office of Auditor General, an independent constitutional body, and Public Accounts Committee of the House of Representatives, a supreme people's representative body. People receive information on fiscal accountability of the government through these institutions.

2.49 Though the final evaluation of the fiscal accountability of the government lies on the Office of the Auditor General and Public Accounts Committee, it will be worthwhile to have a self evaluation system of the government on the various activities carried out by it right from the beginning of the implementation. This will help solve the problems encountered during the implementation timely and enhance the people's confidence towards the government activities by maintaining transparency. Realizing this, internal control and internal auditing system have been adopted for the effective utilization of public resources.

Final Auditing

2.50 The Constitution of the Kingdom of Nepal, 1990, has made the provision of the Office of Auditor General as an independent constitutional body for the auditing of government organizations, and organized institutions fully or partially owned by the government. Office of Auditor General performs final audit after the end of each fiscal year. Final audit is performed by analyzing regularity, economy, efficiency, effectiveness and rationality. In addition to financial auditing, this Office also carries out performance audit for some agencies.

Internal Control

2.51 Every organization makes an arrangement of internal control system, which is an instrument to systematize the internal activities. It also helps the management to achieve the objectives of an organization. A strong internal control system helps to follow the existing laws, rules and directives and perform the activities of the organization economically, efficiently and effectively. It also helps to utilize the resources in an efficient manner by preventing from miss-utilization of resources, unnecessary expenditures, and fraud. In addition, it also helps management to have necessary and reliable financial information and prepare and submit the reports in a timely manner. Therefore, internal control system is required for the financial transactions performed in all government units. The arrangements of a separate store section for the procurement of goods, technical manpower for quality control, and joint signature for the operation of bank account can be taken as some examples of internal control system. In addition, legal provisions related to the requirements of checking the legality of the expenditure, fulfillment of necessary procedures and attachment of relevant documents for each and every transaction before making expenditure by the government units will help to maintain regularity in financial transaction.

Internal Auditing

2.52 The universally accepted standards of internal auditing is directed towards checking the sufficiency and effectiveness of internal control system, observance of prevailing Acts, rules and directives, and the reliability of the financial records and reports. The present internal auditing system is consistent with this standards.

2.53 In Nepal, Districts Treasury Offices are operating in all 75 districts to carry out internal auditing of government organizations. The surveillance, supervision and control of these offices are performed by the Office of the Comptroller's General. Internal auditing is guided by

Financial Working Procedure Act, 1998, Financial Rules and Regulations, 1999, District Treasury Offices Directives, 1997 and Internal Auditing Directives, 1995. Although existing regulations have not clearly spelled out the scope of internal auditing, the Jurisdiction of internal auditing is fixed by Internal Auditing Directives, 1995. According to this, arithmetic accuracy, regularity and evaluation of internal control system are the main jurisdiction of internal auditing. Accordingly, internal auditing is being performed.

2.54 Internal auditing is performed to indicate the weaknesses and irregularities made by the management before final auditing and assist to improve and maintain proper records at the time of final auditing. It is the responsibility of management to take internal auditing positively and correct the errors pointed out by internal auditing in a timely manner in order to maintain fair and transparent financial administration.

Box 2(2)

Modern Concept of Internal Auditing

Internal auditing is a self-evaluation to assist management It evaluates the effectiveness of internal control system adopted by the organization. In addition, it evaluates whether the organization has used the available resources in an economic, efficient and effective manner or not. It also evaluates the records of financial transaction and activities.

<u>Scope of Works</u>

The modern concept of internal auditing carries out review and evaluation of the following issues:

- Reliability and integrity of financial information
- Observance of approved policy, plan, working procedures, Acts and rules in respect of the programs carried out.
- Assessment of the status of physical assets and its protection
- Utilization of resources in an economic and effective manner
- Implementation of programs according to the objectives and goals of the organization and their implementation as stipulated in the beginning.

Source: Financial Comptroller General Office

2.55 District Treasury Offices have to play the advisory role in respect of the financial transactions of all the district level government offices. District Treasury Office Directives, 2004 has been prepared and executed to make this task systematic and transparent. Special skills and training are required for the manpower related to financial administration. In the present context, it may take much time to provide training to all the manpower involved in internal auditing. Therefore, continuity has been given for timely revision of the Internal Auditing Directives, 1995, to ensure smooth operation of this task. As the internal auditing has to motivate to remove weaknesses in respect of the financial transactions throughout the year, bi-monthly internal auditing system has been initiated instead of trimester system from the last fiscal year.

Cash Management

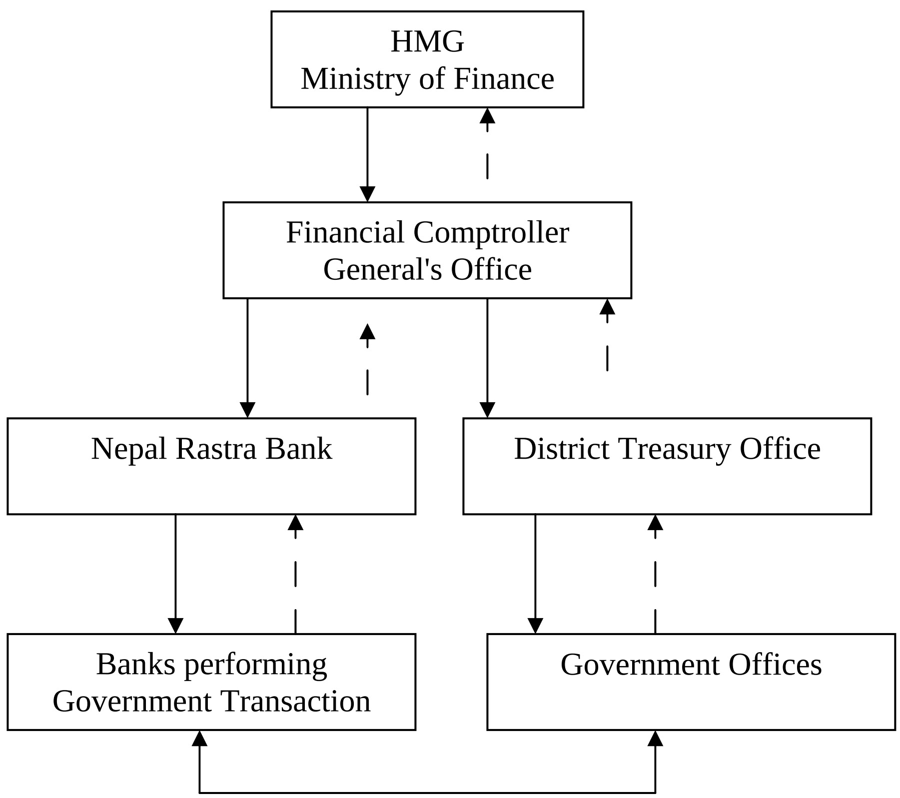
2.56 HMG has formulated and implemented various programs to reduce the existing poverty in the country through maximum and effective utilization of limited resources. Such programs have been anchored with Poverty Reduction Strategy Paper (PRSP) through Medium Term Expenditure Framework (MTEF). Pursuant to the projection and prioritization made in the MTEF, priority number one projects have been ensured financial resources in the annual budget. The public financial management has been carried out under the purview of these policies and programs.

2.57. Budget estimates of each fiscal year contain the total requirement of financial resources for the government in a particular fiscal year. Such estimates also identify the sources of financing and include amounts of internal revenue, internal loan and foreign aid. Although, the financial estimates mentioned in the annual budget are made under certain theoretical assumptions, effective cash management is required for successful execution of the budget.

2.58 Cash management activities can be analyzed mainly by two ways. The Ministry of Finance makes arrangement of the financial resources as estimated in annual budget and such resources are made available in the form of cash by District Treasury Offices under the Financial Comptroller General's Office. In this way, cash is mobilized at field level.

2.59 About 4000 payment/accounting centers, which are scattered all over the country, carry out the tasks according to the approved programs and budget limit. Financial resources required to carry out such tasks are made available at the field level by the District Treasury Offices in all 75 districts of the country. The cash is mobilized by the coordinated efforts of Financial Comptroller General's Office, NRB and the commercial banks authorized to carry out government transactions.

Cash Management Execution Structure



Legends

= Fiscal Report

= Necessary Direction

2.60 After receiving the approved program and authorization for spending, the concerned office request to District Treasury Offices for the release of the budget. In case of number one priority projects, the amount thus released will be one third of total approved budget of the current fiscal year or the amount of the first trimester stated in the program, whichever is greater. In case of the other projects, one sixth of the approved annual budget will be released and transferred to the account of the concerned office as recurrent fund. Subsequently, amount will be released for the reimbursement on the basis of expenditure made from the recurrent fund. Each government offices will open their account in the bank performing government transaction. The released amount will be deposited in this account and the expenditure will also be made from this account.

2.61 For the purpose of monitoring cash management, the financial statement containing the release and expenditures amount of each government unit will be made available at the center. The concerned offices will send such information at District Treasury Office and respective Department/ Ministry/ Secretariat. The District Treasury Offices collect and compile information about all the district level offices and send such information to the Financial Comptroller General's Office. All the banks performing government transaction send such report to NRB. At the center, NRB and Financial Comptroller General's Office prepare the national level cash mobilization database by processing such information. Policy related to cash mobilization is revised/ improved on the basis of such database.

Reform Programs

2.62 Accurate and reliable financial information are required timely for the effective cash management. Realizing this fact, District Expenditure Control System (DECS) has been brought into operation in the District Treasury Offices by linking such system with the computerized Financial Management Information System (FMIS) of the FCGO. Data are transferred to central financial information system from FCGO every month. The online data transfer service has been already set up at 55 districts. Of the remaining 20 districts, data of 18 districts are copied in data diskette and transferred via the nearest District Treasury Office having the online data transfer facility. Thus, the system covers nearly 95 percent of the total financial transactions.

2.63 In order to make financial information system more reliable, trustworthy and sustainable, it is necessary to give continuity to FMIS and improve it. For this, skill enhancement and capacity development of manpower need to be continued. In this regard, a total of 425 personnel from District Treasury Offices and FCGO have been trained to operate FMIS and DECS until the last fiscal year. In FY 2004/05, additional 75 personnel have been trained on this matter.

2.64 The share of foreign aid is 28.9 percent in the budget of FY 2004/05. In case of the majority of the projects funded by foreign aid, government has to spend first from its own source and receive reimbursement on the basis of expenditures. The cash management has become complicated due to the limited internal sources. The amount to be received from donor agency is increasing due to the delay in reimbursement request from the concerned projects. Various steps have been initiated to improve this situation. For instance, an arrangement has been made for regular monitoring on financial transaction of foreign aided project in order to pursue for claiming reimbursement in timely manner. Likewise, necessary actions are being taken to the responsible persons failing to do so. As a result, there has been gradual improvement in reimbursement process.

2.65 In FY 2004/05, the share of budget allocation for priority number one projects (P1) is 75.3 percent. The resources and release of funds have been guaranteed for such projects. For such projects, one third of the total allocated budget or the amount needed for first trimester, whichever is greater, will be released at the beginning of the fiscal year so that their programs are not disrupted due to cash shortage. After this, the release will be made on the basis of reimbursement of expenditures system. This has helped to implement the P1 programs/projects with timely availability of financial resources.

Challenges

2.66 The gap between expenditure and income has not reduced, which is due to the fact that the ratio of revenue collection has not increased as per expectation to meet the increasing trend of total government expenditures. As result, the figure of budget deficit could not be minimized. Thus, there is a challenge to maintain macro economic stability by reducing the current size of budget deficit with the control in expenditures (particularly recurrent expenditures) and increase in income volume.

2.67 There is a need to concentrate the public investment in productive and income generating sector and make investment in those projects and programs which provide high returns on expenditures and helps to control expenditure. Thus, making the public expenditure management effective is also a challenging task.

2.68 The utilization of foreign aid has not been according to the commitment amount. There is a substantial gap between commitment and disbursement and this trend is continuing. If the approved foreign aid amount could be utilized in the useful and welfare programs, it can help to reduce poverty and mobilize revenue. Thus, the effective and maximum utilization of foreign aid is also a challenging task.

2.69 As Nepal has become a member of WTO, tariff rates may need to be adjusted according to the international standards and principles. In this context, there is a challenge to increase the production and supply of competitive and high demand goods and services and increase the sources of revenue.

2.70 Tax revenue has an important role to play for overall increase in the Government revenue. In this context, it is a challenge to increase tax revenue by revisiting the instruments like, tapping of the tax potential, broadening the tax net, changing the tax rates, and through awareness raising and educational programs. Further challenges are: full automation of tax administration, making customs valuation more realistic, reducing the threshold of VAT, carrying out administrative reforms, making income tax simple and adjusting non-tax revenues.

2.71 It is necessary to create a simple environment for encouraging participation of the private sector in programs and activities under public, social service, and the economic sector as well in addition to maintaining the fiscal balance by reducing the burden on public expenditure.

2.72 There is still an absence of the clear concept as how to mobilize economic diplomacy for economic development. In this regard, it is necessary to orient the economic diplomacy especially towards the promotion of foreign employment, foreign trade and tourism.

2.73 Regular analysis on public debt being carried out should be continued. The need is also to make transparent the process of purchasing foreign currency from international market for debt servicing denominated in different currencies. Timely forecast of the repayment schedule for debt servicing in different currencies and making other information more effective are also challenging tasks for Nepal Rastra Bank. Other challenges in respect of public debt management are: necessary arrangement for institutional structure and capacity building with clear legal provisions, and developing analytical capacity.

2.74 Although the debt servicing has not yet been burdensome, precaution, however, is necessary as the level of such annual servicing has already reached 30 percent of the total Government expenditure. On the one hand, it is necessary to regularize the repayment of internal loan, while on the other, due attention should be paid to make the internal debt less burdensome from the management aspect. The high volume of external loan gets highly influenced with fluctuating foreign exchange. The vulnerability of fluctuating debt burden especially with the devaluation and/or revaluation of domestic currency needs to be addressed.

2.75 In the absence of internal control system many of the controls, which internal control system should automatically be undertaking, have also come under the purview of internal audit. As a result, internal auditing function has mostly been following conventional approach. The challenge, therefore, is how to modernize the internal auditing system by making internal control system effective and also by lifting internal auditing system from its conventional approach.

2.76 The system of preparing cash flow projection plan on the basis of the cash requirements for program implementation has not been in place even until today. The cash flow management has been rudimentary in the absence of proper analysis of timing and the volume of cash the government requires and the sources of cash. The necessity to borrow more overdraft than what the legal ceiling permits is the indication of poor cash management and there is challenge to improve on this.

2.77 There is a need to establish a research and analysis unit in the Ministry of Finance with a view to conducting periodic review of economic policy, restructuring and refining the economic policies as required, harmonizing revenue policy, public expenditure policy and other policies. As this unit will also provide policy feed back by preparing theme papers, economic policy papers and occasional papers, the relevant Division of the Ministry needs to be strengthened for this purpose.

2.78 Although public-private partnership could play a meaningful role in the implementation of development programs in an effective manner, there is no clarity in the concept of its institutional mechanism.

2.79 Although analytical works on public finance could help in formulating policy, decision making and also inform the public, the institutional capacity for this task remains poor.

3. Price and Supply Situation

Aggregate Consumer Price

3.1 Analysis of National Urban Price Index for the first 8 months of FY 2004/05 with the corresponding period of FY 2003/04 on point-to-point (P-P) basis (FY 1995/96=100 as the base year) shows higher increase in prices, but aggregate prices during the same period increased at a lower rate. For example, P-P price index, that had decreased by 0.1 percent during the first eight months of FY 2003/04, increased by 3.5 percent during the corresponding period of FY 2004/05. The pressure on price is estimated to remain higher towards the second half of this fiscal year, mainly due to the effect of increase in price of POL, revision in Value Added Tax (VAT) rate, and increase in price of rice due to decline in production of paddy—the main food grain of the country—caused by the adverse weather. Aggregate price during first eight months of FY 2004/05 increased by 3.7 percent only, as against 5.1 percent in 2003/04, with a net decrease of 1.4 percentage point. Regional observation of movement of price on P-P basis shows highest (4.5 percent) price increase in Hills during the review period of FY 2004/05 against 3.8 and 3.0 percent in Kathmandu Valley and Terai respectively. In comparison to Mid-July 2004, the P-P price by Mid-March 2005 increased by 2.3 percent in Kathmandu. However such price decreased by 1.0 Percent and 1.1 percent in Hills and Terai respectively during the same period.

Box 3(1)

Factors Affecting the Price In Nepal

Considering the present economic structure of the country, open boarder with India, dependence on import for necessary goods, the price of Nepal is highly affected by the supply related factors along with increase in demand. The (econometric) analysis done for factors affecting for the change in price during the period of 1972/73 to 2003/04 shows the following results.

dln(CPI)=-0.009+0.44din(AMI) - 0.002 dln(GEXP)-0.18din(GRDP)-0.47dln(WPI(-1)-0.003din(XUS$)

(-0.27) (2.28)** (0.021) (-0.70) (3.49)* (-0.04)

Adj.-R^2=0.33, DW = 1.75

Figures in parenthesis show t-statistics,

*indicates significance at 1 percent level

** indicates significance at 5.0 percent level.

CPI	=	Consumer Price Index of Nepal
GEXP	=	Government Expenditure
AMI	=	Average Narrow Money Supply
RGDP	=	Real Gross Domestic Product of Nepal
WPI	=	Indian Wholesale Price Index
XUS$	=	Exchange Rate with US$
d	=	the first difference
ln	=	natural logarithm

The regression result shows that increase in money supply and Indian Wholesale Price Index are the main reason of inflation. The above result also shows that Nepalese price increases by 4.4 percent with 10 percent increase in Nepalese Narrow Money Supply and price increases by 4.7 percent with 10 percent increase in Indian Wholesale Price.

Source: Nepal Rastra Bank.

3.2 Despite the decline in production of paddy, which weighs heavily in food and beverages group index, the P-P based price index of all commodities in FY 2004/05 increased only marginally by 0.7 percent due to the improvement in production and supply of vegetables, fruits as well as the impact of favorable weather. Under this group, though the prices of vegetables, fruits, spices, oil and clarified butter (ghee) and milk and milk products decreased substantially, the price of food and beverage group increased marginally due to increase in prices of restaurant food, beverages, sugar and food-grain based products, meat, fish, egg and lentil. Under the non-food and services group, there was an increase in the price of transport and communication and household goods due to notable rise in the price of POL products accompanied by the persistent increase in the prices of education, health, textiles and tobacco related products. The above factors and increase in the prices of all other sub-groups culminated into higher increase in aggregate price index during the review period of 2004/05. The average rate of increase in Consumer Price Index (CPI), however, has been lower for the review period of FY 2004/05 in comparison to FY 2003/04.

Table 3 (a)
Urban Consumer Price Index (Percentage Change on Average)*
(Base year 1995/96 =100)

Sectors	Weight in percent	Fiscal year			
		2001/02	2002/03	2003/04	2004/05**
Kathmandu	30.8	1.9	2.7	6.5	4.8
Mountain	18.8	2.7	2.6	4.4	3.1
Terai	50.4	3.6	4.4	4.6	3.2
Nepal Kingdom	100.0	2.9	3.6	5.1	3.7

** Average price increasing rate of first eight months*
*** Provisional*
Source: Nepal Rastra Bank

Food and Beverage Group

3.3 In Comparison to 2.1 percent decrease in P-P based price of food and beverage group during eight months of FY 2003/04, it increased by 0.7 percent during the corresponding period of FY 2004/05. Main reason for this increase is rise in prices between 1.9 and 13.5 percent for grain and grain based products, lentil, meat, fish and fruits, sugar and sugar based products, beverages and restaurant dishes sub-group despite the decline in prices of spices, milk and its allied products, oil and ghee sub-group between 0.3 and 15 percent.

3.4 Prices of grain and grain based items during first eight months of FY 2004/05 rose noticeably by 3.2 percent as compared to decrease of 5.8 percent during the same period of FY 2003/04. At the same time, price of grain and grain-based food items increased significantly because of 1.6 percent rise in the price of rice in FY 2004/05 as against the price decrease of 8.1 percent during FY 2003/04 mainly due to favorable weather in Nepal and neighboring country India. Such an increase in prices is attributable mainly to decrease in supply of rice (by 3.7

percent) due to decline in production of paddy in India and Nepal because of adverse weather. There was a sharp drop of 15.0 percent in the price index of vegetable and fruit sub-group in FY 2004/05 because of increase in production of these items in the hinterland of Kathmandu Valley and also in the outlying hill districts. P-P based price of vegetable in mid-March is always less than in mid-July due to augmented supply. In the previous year, the price of this sub-group had dropped by 12.3 percent. The price of spices decreased by 6.0 percent during FY 2004/05, as opposed to increase of 3.0 percent during FY 2003/04. The augmentation in supply of chilly, ginger, garlic, as cash crops, due to the farmer's attraction towards the cultivation of these commodities caused decrease in the price of this sub-group.

3.5 Despite marginal increase in production, price of lentils increased by 1.9 percent in FY 2004/05 as compared to 0.6 percent increase in FY 2003/04 because of its increased export to India. The price of meat, fish and eggs increased by 2.6 percent during the review period of 2004/05 as compared to 2.9 percent increase in FY 2003/04. Although production of fish in Terai increased and supply from India was normal, supply of goats (both castrated and non-castrated) and buffaloes from Hills and the Terai decreased. Frequent strikes and closures also hindered the supply leading to price rise in this sub-group. Although strikes, closures and blockades caused some unfavorable impact on the production and supply of milk and milk products, the price of this sub-group decreased only by 0.3 percent in FY 2004/05 as against an increase of 0.6 percent in FY 2003/04, mainly due to the advancement of commercialization in the production of these commodities. The price of oil and ghee decreased by 0.7 percent in FY 2004/05 as opposed to an increase of 10.1 percent in FY 2003/04, because of improved supply during this period.

Box 3 (2)

Household Budget Survey

a) Price index is necessary to understand the aggregate price situation of the country. One of major objectives of Nepal Rastra Bank is the formulation and administration of monetary and foreign exchange rate policy for maintaining the price stability and BOP to achieve sustainable development of the country. In Nepal, inflation is measured on the basis of urban consumer price index. The group-wise weightage given for the calculation of urban consumer price index in the household budget survey conducted by NRB first in 1973-75, second in 1984-85, and third in 1995-96, is as given below.

Survey Year	Food & Beverage	Non-food Goods & Services	Total Index
1973-75	66.8	33.2	100.0
1984-85	62.6	37.4	100.0
1995-96	53.2	46.8	100.0

b) The above survey results show that weightage of food and beverages group is decreasing and that of non-food and service group is increasing. Present commodity basket of urban area consumer price index and weightage division is fixed on the basis of third household budget survey of 1995-96. Price index should represent the actual market price situation, since it is highly sensitive and its construction and basis should be linked to the economy and consumer's habit. After the third household budget survey traditional goods and services are disappearing and many new ones are emerging in the market and also that there is a substantial change in consumption habit of the consumers. Considering these facts, Nepal Rastra Bank is going to conduct fourth household budget survey in the near future. The objectives of the fourth household budget survey are listed below:

- Develop National Consumer Price Index capable to represent national aggregate price situation and expand the survey activity by covering urban and rural areas in the context of expanding economic activities in rural areas.
- Listing of the goods and services related to household expenditure pattern and consumption.
- Collect and analyze the statistics on income, savings, assets and liabilities of the household.

- Find out the cost of living of the household.
- Develop the socio-economic indicators like employment, educational situation, household numbers etc, and bring to the notice of general public.
- Find out the ratio of institutional and non-institutional credit and the structure of interest rate in the survey area.
- Since, remittance income is important part of the economy, study of the sources of remittance income and its utilization is also objective of the survey.

Source: Nepal Rastra Bank

3.6 The price of sugar and sugar related products rose by 13.5 percent in 2004/05 as against 8.7 rise in 2003/04, mainly because of control on imports during the national festival Dashain and Tihar. Added to this, the price of this sub-group increased because of the unwillingness of sugarcane producers to producing sugarcane crop assigning reasons of price uncertainty and difficulty in selling their produce to sugar mills while at the same time there was also a noticeable decline in sugar imports. The overall price of beverages declined by 0.7 percent during 2003/04 because of increase in supply of different types of imported liquor and other beverages. The price of beverages, however, increased by 3.6 percent in 2004/05 because domestic production of liquor declines due to frequent strikes and blockades in the country. The price of restaurant food sub-group rose by 7.4 percent during the review period of FY 2004/05 as against 1.8 percent increase registered in FY 2003/04. Continuous increase in the price of this sub-group was due to the direct and indirect impact of increase in the price of POL products as well as prices of meat, fish and eggs, sugar and allied products.

Non-Food and Services Group

3.7 P-P based price of non-food and Services Group increased at the rate of 6.6 percent in the first eight months of FY 2004/05 as compared to 2.1 percent in the same period of the previous year. Prices of all sub-groups within this group hiked during the review period of FY 2004/05. Price of medicine and personal care sub-group increased at the lowest rate (1.2 percent) while the rise in the price of transport and communication sub-group was highest (14.0 percent). The price of textile and readymade garments sub-group increased by 2.1 percent within the review period of FY 2004/05, which is slightly higher than the increase of 1.9 percent in FY 2003/04. Continuous increase in price of this sub-group was because of the closure of national textile industries and increase in tailoring charges at the local level. The price of shoe sub-group increased by 1.3 percent during review period of FY 2004/05 as against 0.3 percent drop in FY 2003/04.

3.8 Price of household items sub-group rose substantially by 12.0 percent during the review period of FY 2004/05 as against 1.4 percent increase in FY 2003/04. The continuous increase in the price of electricity, water, house rent, kerosene and increase in transportation cost due to substantial increase in price of POL products are the major reasons for considerable increase in the price of this sub-group. Main reason for substantial increase in the price of transport and communication sub-group by 14.0 percent within the first eight month of FY 2004/05, as against drop of 1.7 percent within the same period of FY 2003/04, was the direct impact of hike in the prices of POL products. The prices of medicines and personal care items increased by 1.2 percent in FY 2004/05 as against 3.6 percent increase in the immediately preceding fiscal year. The reason for this moderate price rise in FY 2004/05 is because the impact of hike in service charge of private nursing homes and clinics was felt in FY 2003/04, while in FY 2004/05 there was only a moderate increase in the prices of medicines only.

Table 3 (b)
National Urban Consumer Price Index (Percentage Point Change)
(Base year 1995/96 =100)*

Consumable goods	Weight in percent	Fiscal year			
		2001/02	2002/03	2003/04	2003/05#
Total (A+B)	**100.0**	**-0.1**	**1.5**	**-0.1**	**3.5**
A. Food and Beverages	**53.2**	**-2.2**	**-0.1**	**-2.1**	**0.7**
Food grain and food products	18.0	1.5	3.2	-5.8	3..2
Pulses (Lentils)	2.7	-0.8	-4.9	0.6	1.9
Vegetables and fruits	7.9	-19.9	-13.8	-12.3	-15.0
Spices	1.9	-2.9	-1.5	3.0	-6.0
Meat, fish and eggs	5.2	1.2	1.4	2.9	2.6
Milk & Milk products	4.0	-1.1	0.5	0.6	-0.3
Oil and Ghee	3.1	2.9	10.4	10.1	-0.7
Sugar and sweets	1.2	-3.6	-9.2	8.7	13.5
Beverages	2.3	4.6	5.6	-0.7	3.6
Restaurant meals	6.9	0.2	2.8	1.8	7.4
B. Non-Food and Services	**46.8**	**2.0**	**3.2**	**2.1**	**6.6**
Cloth & Garments	8.9	1.7	1.8	1.9	2.1
Footwear	2.2	1.0	0.5	-0.3	1.3
Household goods	14.9	2.5	2.9	1.4	12.0
Transport & communication	4.0	0.1	0.9	-1.7	14.0
Medicines & personal care	8.0	5.9	2.4	3.6	1.2
Education, educational materials and entertainment	7.1	-1.4	9.2	4.8	4.6
Cigarettes	1.7	4.2	1.8	1.3	2.5

**Point-to-point price from July to March*
 # Provisional
Source: Nepal Rastra Bank

3.9 Price of education, educational materials and entertainment sub-group increased by 4.6 percent during the review period of FY 2004/05, which is closer (4.8 percent) to the price increase in these items during the same period of FY 2003/04. The major factor for such consistent rise in price of this sub-group is the increase in the price of educational materials. The price of tobacco and tobacco related products increased by 2.5 percent during the review period of FY 2004/05 as compared to 1.3 percent increase in price of this sub-group during the same period of FY 2003/04.

Price situation by Region

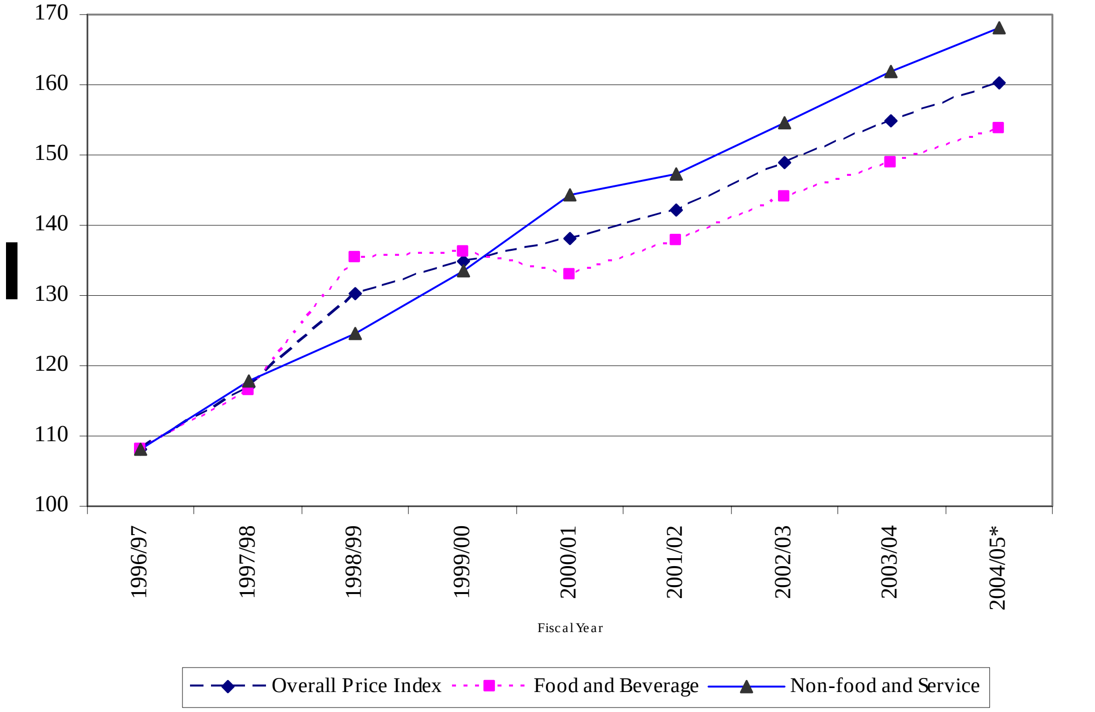
3.10. Region-wise analysis of urban CPI reveals that the price rise in the Hills was highest during the first eight months of FY 2004/05. Nonetheless, there has also been upward pressure on the prices prevailing in Kathmandu and Terai. The supply situation especially in the mountain areas has been pathetic and commodities very expensive mainly due to regular obstruction in the transportation of goods as a result of the current uneasy situation in the country. Moreover, the reason for price rise in Kathmandu is attributable to the increase in the prices of POL products, accompanied by rise in the number of consumers as a result of sharp rise in the population migration into the Kathmandu valley due to the security situation. The aggregate price in Terai region increased because of substantial decrease in paddy production. The aggregate price index increased by 4.5 percent in Hills, 3.8 percent in Kathmandu valley and 3.0 percent in Terai. During the same period of FY 2003/04, such price in Kathmandu valley had increased by 2.3 percent and had decreased by 1.0 percent and 1.1 percent in Hills and Terai respectively. The price trend in Kathmandu valley fluctuates more in comparison to Terai and Hilly region because of frequent obstruction on the entry routes to the valley and volatile freight rate. Sub-group wise, price of food and beverages increased by 1.1 percent in Kathmandu and 2.1 percent in the Hills while in Terai such price declined by 0.2 percent during the review period of FY 2004/05. In the same period of FY 2003/04, the price of this sub-group had decreased by 2.0 and 3.8 percent in Hills and Terai respectively, while there was an increase of 0.9 percent in Kathmandu. Similarly, non-food and services group price in the Hills, Kathmandu and Terai increased by 7.2 percent, 6.6 percent and 6.5 percent respectively during the review period of FY 2004/05 as compared to increase of 0.2 percent, 3.7 percent and 1.9 percent respectively in these regions during the same period of 2003/04.

Wholesale Price Index

3.11 National wholesale price index (Base year FY 1999/00=100) on P-P basis increased by 4.3 percent for the first eight months of FY 2004/05 as compared to a marginal increase of 0.7 percent during the corresponding period of 2003/04. Agricultural produce carry heaviest weight of 49.6 percent in this index. Although the index of cash-crop,

Chart 3 (a) : National Urban Consumer Price Index

(Base Year 1995/96 = 100)



lentil, fruits and vegetables and prices decreased by 24.7 percent, 4.3 percent 1.0 percent and 9.5 percent respectively, the price index of sub-groups carrying more than 50 percent weight increased substantially. In this context, the aggregate price index of this sub-group increased marginally by 0.2 percent in review period of FY 2004/05 because of the increase in price of food grain and livestock products by 12.3 percent and 8.2 percent respectively. Although there was an increase in the price index of all other sub-groups within this group by 3.6 percent to 5.7 percent, the price index of agro-based products had decreased by 3.1 percent in FY 2003/04 because of decrease in food grain price by 7.9 percent, cash crop price by 15.8 percent and price of fruits and vegetables by 1.7 percent.

Table 3 (c)
National Wholesale Price Index*
(percentage change)
(Base year 1999/00=100)

Group	Weight (%)	Fiscal Year		
		2002/03	2003/04	2004/05**
Total	100.0	3.1	0.7	4.3
Agricultural Products	49.6	3.5	-3.1	0.2
Domestic Manufactured Goods	20.4	3.0	6.6	3.1
Import	30.0	2.7	2.9	11.3

**Mid-July to mid-March P-P based price*
*** Provisional*
Source: Nepal Rastra Bank

3.12 Price of domestically manufactured goods, which carry 20.4 percent of the total weight in the National Wholesale Price Index, increased by 3.1 percent during the first eight months of FY 2004/05 as compared to 6.6 percent increase in the corresponding period of FY 2003/04. Though there was a decline in price of food related items under this group by 0.7 percent, prices of beverage and tobacco related products increased by 6.2 percent, price of construction materials by 5.0 percent, and prices of other items by 1.8 percent. Prices of all sub-groups had increased by 3.7 percent to 15.7 percent in the same period of FY 2003/04.

Box 3(3)

Difference between Wholesale Price Index (WPI) and Consumer Price Index (CPI)

The inflation rate of Nepal is measured on the Basis of National Urban CPI instead of WPI. Following are the main reasons for measuring inflation on the basis of Urban CPI.

- CPI was being published in the form of unweighted price index since the establishment of NRB and started publishing weighted CPI giving weight on the basis of the first extensive household Budget Survey of 1973-75. Similarly, Price Index was regularly revised and updated conducting Household Budget Survey every ten years because of the trend of change in consumer preferences, entry of new goods in the market and disappearance of some traditional goods and other economic variables. Thus, CPI truly represents the actual price situation of the country.
- The commodity basket for tracking price movements is larger in CPI than in WPI and number of quotations also increases with time.
- WPI represents the price increase situation only of goods and does not include the service group.
- The weight will be different for WPI and the CPI depending upon the market centers. Only National Price Index is being published on WPI, whereas CPI is also being published with Regional Price Index for Terai, Kathmandu Valley and Hills.
- Different goods are included in WPI and CPI and there are also large differences in their respective weightage.
- CPI includes consumer goods, but mostly commercial goods are included in WPI.

Because of the reasons stated above, the growth rates of CPI and WPI have been different. Till today, Nepalese inflation rate is measured in terms of CPI and studies show that this Index is capable of measuring the true inflation rate. The WPI is being used for comparative analysis of CPI (used for measuring inflation), for the study of price situation of goods not included in CPI and to help for expanding the horizon of Price Indic`es.

Source: Nepal Rastra Bank.

3.13 Imported items carry 30.0 percent weight in the National Wholesale Price Index. There was a substantial rise of 11.3 percent in the first eight month of FY 2004/05 in the Index of such items as compared to the increase of 2.9 percent within the same period of previous fiscal year. Prices of electricity and electrical goods sub-group under this group declined by 0.5 percent and price of textile related items declined by 1.7 percent, while that of all other items rose substantially in the range of 2.3 percent to 33.7 percent. Price rise for POL products, coal, chemical fertilizers and chemical goods and other sub-group goods was at relatively lower rate during FY 2003/04. As a result, the price rise of the group as a whole was low in FY 2003/04.

Retail price of selected commodities

3.14 Analysis of P-P based prices of 10 major agricultural commodities (between mid-July 2004 and mid-March 2005) reveals that the retail prices of two commodities recorded increase, while the prices of eight commodities recorded decrease. Eight commodities that recorded decrease in prices were: coarse rice (1.7 percent) black lentil (1.6 percent) pigeon peas (2.1 percent) mustard oil (2.5 Percent) purified ghee (2.4 percent) potato (22.4 percent) onion (3.7 percent) and ginger (32.4 percent). Two commodities that recorded increase in their prices were wheat flour (8.3 percent) and mutton (2.8 percent) Prices of coarse rice, wheat flour, black lentil, pigeon peas, mustard oil, purified ghee, mutton, onion and ginger had increased and only the price of potato had decreased during the corresponding period of FY 2003/04.

3.15 In the Hills, average prices of five (out of ten) of these commodities (wheat flour, black lentil, pigeon peas, mutton and onion), between mid July 2004 and mid-March 2005, had increased while prices of remaining five commodities decreased. In comparison, prices of eight commodities (coarse rice, wheat flour, black pulses, pigeon peas, mustard oil. purified ghee, mutton, onion and ginger) had increased and prices of remaining two commodities had decreased in the review period of FY 2003/04. In the Terai, the P-P based prices of coarse rise, wheat flour, purified ghee and mutton rose and prices of other six commodities fell during mid-July 2004 and mid March 2005. In Terai the prices of wheat flour, black pulse, pigeon peas, mustard oil, purified ghee, mutton, onion and ginger had increased while prices of coarse rice and potato had decreased in the same period of FY 2003/04.

3.16 In the Hills, prices between mid-March 2004 and mid-March 2005 increased for five of those ten commodities (black lentil, pigeon peas, mutton, potato and ginger) while the prices of remaining five commodities decreased. In the Terai, the P-P prices for 5 commodities (coarse rise, wheat flour, purified ghee, mutton and potato) rose and prices of other 5 commodities fell. On nationwide basis, prices of mutton and potato increased but prices of remaining 8 commodities declined within this period.

3.17 Monthly national average retail prices of 4 of the said 10 commodities during the review period of FY 2004/05 rose and the prices of remaining 6 commodities fell compared to the prices of such commodities in FY 2003/04. Commodities, whose prices increased included pigeon peas (4.7 percent) mutton (4.3 percent) onion (25.3 percent) and ginger (143.0 percent). Prices of coarse rice, wheat flour, black lentil, mustard oil, purified ghee, and potato declined by 0.3 percent, 62. percent, 0.2 percent, 4.7 percent 0.1 percent and 2.2 percent respectively during the same period.

3.18 Among the POL products, the price of petrol in FY 2004/05 in comparison to FY 2003/04 increased by 14.8 percent and reached Rs. 62.00 per liter. Similarly, prices of diesel and kerosene reached to Rs. 41.00 and Rs 34.00 per liter by the increase in price by 32.3 percent and 41.7 percent respectively during the same period. The kerosene is available at Rs. 30.00 per liter at the subsidized coupon rate. At the same time, the price of aviation fuel also increased by 45.5 percent and is fixed at Rs. 48.00 per liter. The price of liquefied petroleum gas increased by 16.2 percent and fixed at Rs. 43,570.28 per Metric Ton.

Supply Situation

3.19 During first eight months of FY 2004/05 in comparison to the corresponding period of FY 2003/04, the supply of petrol increased by 4.3 percent totaling 48,038 KL; diesel by 0.4 percent totaling 182,489 KL; while the supply of kerosene decreased by 28.5 percent totaling 148,830 KL; and furnace oil by 65.4 percent totaling 2,215 KL. In the same way, the supply of fuel and liquefied petroleum gas increased by 1.4 and 15.9 percent totaling 45,300 KL and 50,835 Metric Ton respectively while there was no supply of light diesel oil.

3.20 Under the policy of making food-grains available to the population of remote hill districts without any road access at fair prices through the provision of transportation subsidy, 30 districts received 4,804 Metric Tons (75 percent of the target of 6,444 Metric Tons) during the first eight months of FY 2003/04. During the first eight months of FY 2004/05, 30 such districts were supplied with 3,018 Metric Tons (46 percent of the target of 6,520 Metric Tons). Food-grain has been supplied by air (airplane/helicopter) to all the districts of the Karnali

Zone. Despite the accessibility of road transport, food-grains had to be airlifted by helicopters and supplied to the districts like Bajhang, Bajura, Jajarkot, Rukum, Khotang, Solokhumbu, and Bhojpur, as it was not possible to use road transport because of frequent disruption. There are still some districts facing the shortfall of food-grains where the targeted quantities of food-grain could not be delivered due to strikes, blockades, and bans put particularly on the transportation of such item. Thus, food-grain to such remote districts has been transported and made available from time to time by road and air as situation demanded. The purchase price of food grain has been raised in FY 2004/05 in comparison to FY 2003/04. For example, the purchase price of coarse rice in the review period of FY 2004/05 reached up to Rs 14,410.00 per Metric Ton, which ranged between Rs.12,250.00 and Rs.12,390.00 per Metric Ton in FY 2003/04. Moreover, with a view to serving the interest of the people of remote, districts food-grain is being sold at previous year's price despite the rise in transportation cost.

3.21 The production of daily consumable items and distribution of other production materials through proper market mechanism helps consumers and producers in getting goods and commodities easily and smoothly. Therefore, it has become necessary for His Majesty's Government to motivate and mobilize private sector and non-governmental sector (such as, community based organization-CBO, voluntary organization-VO, Ward Reform Committee, etc.) to make proper arrangement for the operation of such markets. On a model basis, such markets have been developed in some places. This system needs to be expanded on a national basis and efforts should also be made to strengthen existing retail and wholesale markets. These efforts will help accelerate the development of agriculture and industries.

Challenges

3.22 Although the share of government controlled goods and services in the National Consumer Price Index is low, the practice of suppressing their prices for a long period and then raising sharply at once exert unexpected influence on aggregate prices. The challenge, therefore, is focusing policies and institutions towards establishing a competitive system whereby the prices of such goods and services are decided by supply and demand functions. At the same time, the other challenge is strengthening domestic production so as to offset the effects of possible rise of prices in India, maintain domestic price stability, substitute imports and promote exports.

3.23 The domestic agricultural products need to be competitive with the Indian products as both the Indian products and prices have excessive influences on Nepalese products due to the open Nepal-India border, free movements and free convertibility of Indian currency. The prices of Indian products are low because of the lower cost of production as India, for a few years now, has in addition to making provisions for agricultural insurance facility, price subsidy on diesel and electricity charge, credit card facility, and subsidy on the purchase of agricultural inputs, intensified introduction and extension of productivity-enhancing technology. Nepalese farmers, on the other hand, are not able to recover their higher costs of production due to artificially created shortages of agricultural inputs and inability of the Government to fully implement Agricultural Perspective Plan (APP). Agriculture, as a profession, is getting unattractive as a consequence of unexpected effect on the aggregate price of agriculture produces. Thus, it is a challenge to stabilizing the price of agricultural products by raising the productivity of Nepalese agriculture, which is lowest in South Asia by the commercialization of agriculture through the arrangement of proper marketing system, and increasing and expanding storage and irrigation facilities respectively. There is need to emphasize the extension of technology for higher levels of production.

3.24 Empirical studies have shown that Indian prices have similar influence as that of Nepalese money supply on the Nepalese price level. Similarly, absence of alternatives to existing roads of limited carriage capacity exerts pressure on transportation cost to the Kathmandu valley. Thus, the challenge of simplification of supply system and stabilization of price by enhancing production and productivity through improvement in the infrastructure is still persistent.

3.25 Producers do not get proper price for their products while consumers have to pay higher prices due to the lack of systematic development of markets in urban areas. Also, due to lack of competitive and liberal economic mechanism, the business community are adapting to price cartel and charging higher prices for their higher monopoly profits. At the village level, fluctuation in price is the main problem due to the difficulty in carrying out trading transactions to and from the local level. To solve these problems, structural reform and strengthening the legal as well as administrative mechanism is also a challenging task.

3.26 Change in consumption habit and accordingly change in expenditure pattern of the consumer has increased the burden of expenditure in education, health and communication, etc., due to which price of such services is exceptionally increasing. The challenge is to stabilize aggregate price through effective regulation and monitoring.

3.27 As a short term measure to ensure smooth supply, quality services and stabile prices, the management of public enterprise in relation to their production, pricing and supply should be improved. In the medium and long term, the role of public enterprises should be limited to only a few sensitive goods and services and the role of private sector needs to be expanded by privatizing the public enterprises. The role of public enterprises needs to be enhanced so that they can operate without any special government assistance or support in maintaining price stability. There is now a challenge to either privatize or introduce private participation and management of public enterprises that cannot become a reckonable market force in maintaining price stability.

4. Money, Banking and Credit

Policy on Monetary and Financial Sectors

4.1 Nepal Rastra Bank (NRB), as per the provision of Nepal Rastra Bank Act, 2002 had announced the Monetary Policy for FY 2004/05 on 19 July, 2004. The main objective of the policy has been maintaining price stability and reasonable Balance of Payments surplus. The level of inflation and balance payment surplus has been expected not to exert pressure on the prevailing exchange rate leading to a reasonable level of real exchange rate. In addition to this, in the context of present monetary and fiscal situation, the stance of monetary policy of FY 2004/05 is to maintain the macroeconomic stability, and make the reasonable level of liquidity necessary for economic activities without disrupting Balance of Payments situation and price stability. Similarly, monetary policy aims at using monetary instruments for the stabilization of financial sector as a vehicle of monetary expansion. The monetary policy of FY 2004/05 has taken accommodative position in the context of low economic growth rate.

Box 4(1)

Monetary Policy and Program for FY 2004/05

a. While formulating the monetary policy for FY 2004/05, its objective has been clearly specified together with the monetary strategy, instruments and implementation strategy to achieve the said objective, in compatibility with the fiscal policy of HMGN.

b. The main objective of monetary policy is to maintain price stability and consolidate the BOP with the purpose of helping achieve the targeted economic growth rate. Similarly, special emphasis has been given to the implementation strategy of monetary policy to maintain overall economic stability.

c. The excess liquidity of commercial banks is taken as the operating target of monetary policy. In order to monitor and forecast short-term liquidity position, the Liquidity Monitoring and Forecasting Framework (LMFF) has been put into operation with effect from July 15, 2004. To facilitate the same task, an inter-departmental liquidity monitoring working group has already been formed. In addition, a high-level monetary management committee has also been constituted to provide policy guidance in different aspects of monetary management including the operations of LMFF

d. In order to analyze the monetary situation, a third monetary aggregate, M_3 (M_2 with foreign currency deposits) will be compiled by incorporating foreign currency deposits and it will be taken as a measure of monetary liquidity.

e. The NRB mops up liquidity through outright sale in the secondary market if commercial banks bid below the rate as shown by the yield curve, whereas it injects liquidity through outright purchase after adding some percentage points (currently 2.0 percentage points) to the yield curve rate. In addition, the NRB has been observing liquidity through the tap sale. The NRB, from now on, will fix the quantities for outright purchase auction, sale auction and repo auction based on LMFF and depending upon the trends of monetary targets by abolishing the existing provisions. The secondary market interest rate will be determined by the market, based on the quantities fixed for such transactions. Earlier, the commercial banks used to take initiative for open market transactions and now NRB is taking initiative on the basis of liquidity position in the market. This new provision will help make the process of deregulated interest rate regime, which was initiated in September 1989, more effective.

f. Treasury bills with different level of maturities (28-day, 91 days, 182 day, and 364-day) will be open for outright purchase and sale in the secondary market. However, priority will be given to the issue of short-term treasury bills so as to influence the overnight inter-bank rate and make the secondary market operations more effective. In the secondary market outright sale and purchase, the time framework for repayment does not arise because of the changes in ownership but the maturity period of repo under the secondary market auction transaction has been kept unchanged from the existing 1 to 7 days.

g. The standing liquidity facility (SLF) provided by the NRB to the commercial banks for 1 to 7 days to meet their short-term liquidity requirement through repo has been abolished. Instead, a new separate permanent SLF has been arranged. The quantity of this new SLF will be determined on the basis of the total securities of HMG under the ownership of commercial banks. The quota of total SLF will be set for each of the commercial banks on the basis of the above-mentioned criterion.

h. Loan under the SLF will be automatically made available and it will be fully collateralized. The collateral for this type of loan will be treasury bills and development bonds of HMG. Under this provision, the loan will be provided up to 90 percent of the face value of the collateral. As the SLF is the alternative to the secondary market sale of treasury bills and inter-bank (money) market borrowing, the rate on such facility will be a penal rate. Therefore, with a view to controlling the misuse of the facility and preventing adverse effect on secondary market and inter-bank transactions, the open market operations committee will fix the rate on such facility by adding certain percentage point on the last auction rate of 91-day treasury bills. Its maturity period will be only 1 to 5 days.

i. The auction rate of secondary market outright sale will as a floor rate in short-term money market, whereas the rate determined under the SLF will act as the ceiling rate. These two rates would act as a tunnel corridor within which the inter-bank transaction rate is expected to be remain.

j. The NRB made public the issue calendar for the mobilization of domestic borrowing by HMG so as to make appropriate management of monetary liquidity. However, some difficulties arose in monetary liquidity management since the domestic loan could not be collected as specified in the issue calendar as the amount of domestic loan as budgeted was not required by HMG during previous year. Various distortions can emerge in the economy if monetary liquidity is not managed properly. As such, NRB will arrange to mobilize total domestic borrowing for FY 2004/05 as per the issue calendar of NRB.

k. As per the provisions of the NRB Act, 2002, except for monetary management purposes, the government securities under the ownership of the NRB should not exceed 10 percent of the net government revenue of the preceding year. While the

NRB is required to sell the government securities in excess of the amount as prescribed in the Act. However, Non-marketable securities of Rs. 864 million are under the ownership of NRB. NRB will convert such non-marketable securities into marketable ones so as to keep government securities under the statutory limit and to facilitate the task of mopping up of the excess liquidity of the commercial banks.

l. Currently, HMG does not provide government enterprises guarantee for bank loans. However, some loans used by the government enterprises under government guarantee in the past are yet to be repaid. The interest rate charged on such loans being higher than the current market interest rates has led to the successive increase in the interest obligation of such enterprises over the years. If the total loan including principal and interest under such guarantee is converted into short-term securities and is made marketable, the future loan obligation of the government will be reduced due to the existing low short-term interest rates. The financial position of the banks will also improve when they receive these amounts. The NRB will have extra securities in open market for liquidity and monetary management. Therefore, it is required to issue ad-hoc treasury bills equivalent to the said loan amount.

m. Development bonds of HMG will be issued in the primary market through a auction process and the secondary market transactions will be allowed through the Nepal Stock Exchange Limited. These development bonds will be issued as coupon bonds and an arrangement will be made to issue these bonds on a uniform price through price auction. Though these bonds will be opened through the Stock Exchange in the secondary market, an arrangement will be made to accept these bonds as collaterals for repo transaction and to provide standing liquidity facility to the commercial banks.

n. Since FY 2001/02, an arrangement of the refinance amounting to Rs. 2.25 billion was made for commercial banks and Development Banks for the rehabilitation of sick industries. Of this refinance amount, Rs. 635.1 million was sanctioned for industries in FY 2003/04 as of mid-July 2004 including those in the industrial districts. A total of 146 enterprises, 114 hotels and 32 industries, have benefited from this provision in the form of interest subsidy of Rs. 62.1 million during the past three years. In this context, refinance facility of Rs. 1.0 billion is arranged following the same criteria and procedures for FY 2004/05. The refinance rate for this facility has been revised downwards to 1.5 percent from the existing 2 percent. When the commercial banks utilize such refinancing facility, the interest rate for the borrower would have to be maintained at 4.5 percent.

o. In order to manage the credit information system of Banks and Financial Institutions, to extend necessary information to the concerned parties, to prepare and update the black-list of credit misuses and to broaden the scope of credit information, the existing Credit Information Bureau (CIB) will be replaced by a new CIB in the form of a company in the current fiscal year.

p. Arrangement has been made for the regulation, inspection and supervision of the Small Farmers Cooperatives, previously under the supervisory purview of the NRB, through the Small Farmers Development Bank (SFDB). For the remaining cooperatives and non-bank Financial Institutions licensed, and presently inspected and supervised, by the NRB, an arrangement will be made to establish a separate, second-tier institution responsible for the supervision of these institutions. An institutional arrangement will be made for regulation, inspection and supervision for the cooperatives established and operated under the Cooperative Act, 1991.

q. The expansion of micro-finance services is necessary for reliable and accessible means of credit to deprived people of rural area and also for the institutional development of rural credit. A National Micro-finance Policy will be formulated in FY 2004/05 since the Financial Intermediation Act, 1992 seems to be insufficient. Similarly, as there is an utmost need of providing access to alternative energy in the rural areas, priority will be given to the establishment of rural micro-finance institutions and arrangements will be made to invest in alternative energy through these institutions.

r. The International Forum for Inspection and Supervision, Basel Committee on Banking Supervision, has made a provision for Minimum Capital Fund (Basel II), effective from 2007. For the effective execution of the New Capital Accord (Basel II) in the context of Nepal, the concept paper prepared by the New

Capital Accord Implementation Preparatory Core Committee will be continuously improved in accordance with the revisions made by the Bank for International Settlements (BIS).

s. In place of the present NRB practice of directly receiving from the public the soiled notes and exchanging them, this function will henceforth be handed over to the private sector. This new arrangement will involve the private sector in the note exchange function in addition to facilitating this function even in places where NRB offices are not located. Individuals or entities willing to take up this work need to obtain NRB approval and the note exchange work will be carried out only through the approved individuals or entities.

t. Currently, there is an arrangement of providing exchange facility up to US$ 500 through commercial banks to individuals and institutions for different purposes. This arrangement helps smoothen the payments system in small amounts and facilitate the general public at large. To make this arrangement easier and more convenient, such limit is to to be revised upwards to US$ 1,000 from FY 2004/05.

u. The volume of paper-work these days is rapidly increasing due to increase in the number of Nepalese Nationals visiting abroad. As the current monitoring process regarding the repatriation of air tickets seems cumbersome, an arrangement for automatic payment of such repatriation to come into force effective from FY 2004/05.

v. The existing provision allows repatriation of business class air tickets for only specified officials visiting abroad. In the backdrop of the evolving liberal stance of the foreign exchange management policy, all Nepalese nationals will henceforth be allowed to travel abroad on business class air ticket.

w. If any amount collected in the foreign agency account of the commercial banks could not be paid for some reason, NRB approval is required for remitting the sum if it amounts to US$ 2,000 or more under the existing arrangements. From now onwards, arrangement will be made to remove such limit and to remit such sums by the concerned commercial banks themselves.

x. As per the existing provision, individuals or institutions having convertible foreign currency deposit accounts in commercial banks are not eligible to make payment in foreign currency in Nepal. From now onwards, this restriction will not be applicable if the recipient is a government body.

y. Under the existing arrangement, the maximum period that the commercial banks could invest convertible foreign exchange received under the foreign currency deposit accounts of individuals and institutions is one year. From now onwards, this limit is removed.

z. Of the cash US dollars submitted by the commercial banks to the NRB, 98 percent, after deducting 2 percent, has been deposited in the US dollar account as maintained in the NRB by the respective commercial banks. Effective from this year, the following arrangements will be implemented in the case of convertible currencies other than the US dollar:-

   (i) The amount of rupee will be counted at the existing buying rate

   (ii) After deducting 2 percent, 98 percent of such rupee amount will be deposited in the US Dollar account of the commercial banks.

   (iii) For this purpose, the buying rate of the US dollar shall be used.

   (iv) As there will be no need for the commercial banks to maintain foreign currency account other the US$ account, all such other accounts will be closed.

aa. If an individual has obtained foreign currency credit card under the existing provision, such individual from now onwards could utilize the foreign currency available, under the allowable exchange facility, in the form of credit card/debit card in addition to the cash or the travelers' cheques. Besides, on the conditions of subsequent settlement in foreign currency itself, if the commercial banks so wish, a policy provision of issuing credit card/debit card with an expenditure limit of US$5000 will be made.

ab. If a Nepal-based licensed agent/representative of any money transfer company 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 will be initiated in FY 2004/05. This provision is expected to facilitate the licensed agents in making immediate payments of the remittance to the concerned parties.

ac. As in other Central Banks, some portion of the gross foreign exchange reserves of the NRB is in the form of the gold. With the recent developments in financial markets, gold can also be placed a interest-earning deposit. NRB will be earning interest in the coming years through deposits of gold lying abroad in its ownership. For investment in the international market, the purity and size of the gold should be that of the international standard. However, most part of such gold stock in Nepal is not as per the international standard. So, the NRB is studying different alternatives of investing the gold and earn interest from it.

ad. There is no policy provision for Nepalese entities to invest and establish offices abroad for the management of foreign exchange. In the light of the globalization and, especially, as Nepal has become a member of the WTO, in addition to opening the Nepalese market to the foreigners, it is also high time for opening the foreign markets to the Nepalese enterprises. In this context, a policy provision about the alternative arrangements for the Nepalese entities to set up offices/representative offices abroad as well as to invest abroad will be formulated.

ae. In the context of the facility of inter-bank buying/selling transaction in Indian currency (IC) to the commercial banks, a policy arrangement will be made in FY 2004/05 for the inter-bank lending/borrowing in IC.

af. Necessary arrangement will be made with respect to the corrections required on the basis of the study on the effects of the spread between the buying and selling rates as maintained by the commercial banks.

Source: Nepal Rastra Bank

Cash Reserve Ratio and Refinance

4.2 NRB changed the mandatory cash reserve ratio effective from mid-July 2003, under the flexible monetary policy regime with a view to reducing the cost of capital of the banks and promoting dynamism in the economic activities. Accordingly, effective from FY 2004/05, the present provision of mandatory cash deposit to be maintained with the NRB of 6.0 percent of the total domestic liability has been reduced to 5.0 percent giving the continuity of the objective of making it as simplified and integrated. This policy will release additional resources of Rs. 2.0 billion, which will help to reduce the financial intermediation cost to some extent. As soon as the existing adverse situation in the country improves, the possible increment in aggregate demand is expected to be supplemented by this provision. The existing provision of taking the bank rate as an indication of monetary policy stance will continue until the completion of financial sector reform program and full-fledged development of secondary open market operations. The bank rate has been kept unchanged at 5.5 percent in the context that some central bank have raised their bank rates, the price situation has not been fully brought under control, and there exist a challenge of managing the liquidity in the economy for the medium term. Regarding the sectoral refinance rate, the refinance rate for rural Development Banks and export credit in domestic currency including agricultural credit, has been revised downwards to 3.0 percent from 4.5 percent. Similarly, the refinance rate for export credit in foreign currency is kept unchanged at 2.0 percent, with a provision that commercial banks charge no more than 4.0 percent to the borrowers of this facility. The refinance facility for sick industries is reduced to 1.5 percent from the existing 2.0 percent since the FY 2004/05. A total of Rs. 1.0 billion has been allocated for the refinance of such industries.

Box 4 (2)

Changes in the Cash Reserve Ratio (Percentage)

Item	2059,Shrawan 6 (Dec. 2002)	2060 Shrawan, 8 (July 2003)	2061 Shrawan, 4 (July 2004)

(a) Cash Deposit mandatory for the commercial banks	-	6*	5*
(1) Total domestic current and saving deposit liability	7.0	-	-
(2) Total domestic fixed deposit liability	4.5	-	-
(b) Cash in vault	2.0	-	-

**in aggregate*

Source: NRB

Other Monetary Instruments

4.3 Although in FY 2003/04 the inflation rate was 4.0 percent and a substantial amount of Balance of Payments surplus of Rs. 16 billion, the economic growth rate was only 3.5 percent. In this context, the mandatory cash reserve ratio was reduced by 1 percentage point at the start of FY 2004/05 with the objective of expanding economic activities by increasing investible funds of commercial banks, and helping to reduce the cost of such resources. Such policy was adopted in conformity with the stance of NRB for monetary ease. The weighted average interest rate of 91 days treasury bills was 0.62 percent and 0.63 percent in mid-August and Mid-September 2004 respectively, as a first impact of decrease in mandatory cash reserve ratio and also because of seasonality. After this, the liquidity of commercial bank was absorbed by open market operation and due to which NRB was able to maintain Net Domestic Asset (NDA) within the limit set under PRGF. The interest rate of 91 days treasury bills was gradually increased by the increase in consumption loan flow of all commercial banks and improvement in their liquidity position. As a result, the average interest rate of 91 days treasury bills reached to 3.8 percent in the first week of June 2005.

4.4 In order to monitor and forecast weekly liquidity position and effectively manage the Open Market Operations, the Liquidity Monitoring and Forecasting Framework (LMFF) has been made operational effective from July 15, 2004. On the basis of this structure, Rs.10.50 billion liquidity was mopped through auction sale and Rs. 1.31 billion worth liquidity was pumped through auction purchase in first week of June 2005. Similarly, Rs.6.36 billion worth liquidity was floated through repo and Rs. 5.27 billion worth liquidity was mopped through reverse repo auction.

Box 4 (3)

Money Demand in Nepal

a) Theoretically, demand for money is determined by income, interest rate, expectation of inflation, banking development, money substitution, distribution etc. However, only GDP and interest rate are considered as major determinants of money demand.

b) The money demand function in Nepal is estimated on the basis of real GDP and interest rate of 1-year term fixed account. The sample period for the study was FY 1974-75 to FY 2003/04. The nominal value of M_1/M_2 was converted in real term on the basis of GDP deflator. Following is the result of empirical estimation.

ln(real M_1) =-6.75+1.05 ln (real GDP) - 0.04 (Interest rate)

(-5.87)* (11.76)* (-4.66)*

Adj. R^2 = 0.99, DW = 2.76,

F-Statistics = 1441.7

ln (real M_2) =-11.2+1.5 ln (real GDP) -0.03 (Interest rate)

(-9.30)* (15.8)* (-3.90)*

Adj R_2 = 0.99, DW = 2.51, F-Statistics 2401.1

* indicates significance at 1.0 percent level.

The above equation shows that the income elasticity for M_1 is 1.1 and for M_2 it is 1.5.

Source : Nepal Rastra Bank

4.5 Since FY 2004/05, the commercial banks will receive the pledgeable but directly available permanent liquidity facility. Under this arrangement, in order not to have negative impact on the internal payment system, credit up to 50 percent of the face value of collateral government securities was provided. Commercial banks have frequently utilized this permanent liquidity facility and the cumulative credit until the first week of June 2005 has been Rs. 45.84 billion.

Box 4(4)

Inflation Targeting as a Monetary Strategy in the Context of Nepal

a) Developed and emerging 22 countries had adopted monetary strategy as inflation targeting and are also able to maintain price stability. The initiation of debate regarding whether to adopt or not the strategy is natural, as the main objective of monetary policy is to maintain price stability. The demand for money, especially in developed countries, will be instable in the process of development. As such it was found difficult to execute monetary aggregates as targeted strategy. Similarly emerging states adopted monetary strategy based on targeted inflation as nominal anchor, instead of fixed exchange rate system. In this context the monetary strategy of such type is found as successful.

b) In the context of Nepal, the demand for money is fixed and the exchange rate of Nepalese currency pegged with Indian currency has helped to create the environment for economic stability. On the other side, some terms and conditions should be fulfilled to adopt inflation targeting monetary policy.

- First, price stability should be the only one objective of monetary policy under the monetary strategy based on targeted inflation. It will be difficult to take price stability as only one objective of monetary policy, observing the economic structure of the country and the factors affecting the price.

- Second, Monetary authority will be considered as responsible to maintain the price stability, under the monetary strategy based on targeted inflation. Governor of Central Bank should take the responsibility in case of inability to maintain the targeted inflation set by monetary policy. Interest rate fluctuation, considering the economic condition of the country, was required to maintain the targeted inflation. Country like Nepal, where the private sector is just in the process of getting established, could not be able to adopt such mechanism.

- Third, under such strategy, monetary instruments should be handled by keenly observing the gap between targeted inflation and projected inflation rates. For this, monetary authority should have the capability to project inflation accurately. The projection of accurate price situation would be difficult in Nepal where the price is highly affected by supply side and the regulation of supply is not fully in the government's hands.
- Fourth, NRB itself cannot measure the price situation if monetary policy based on targeted inflation is adopted. A separate, capable independent institution, outside NRB, is required for collection of data on price, processing and publication. It will not be easy to make such arrangement immediately and as such, not necessary to change the present strategy.

c) Exchange rate flexibility will be necessary if capital account is made fully convertible along with the fiscal liberalization. Inflation targeted monetary policy as a nominal anchorage will be appropriate and necessary if flexible exchange rate is adopted.

Source : Nepal Rastra Bank.

4.6 With a view to channeling the resources to the rural sector and provide capital for the longer term to the national priority sectors, NRB is contributing 5.00 percent of its profit to Rural Self-reliance Fund (RSF). Accordingly, it has deposited Rs. 78.6 million on the RSF from the profit of FY 2003/04. As of today, NRB has deposited Rs. 253.4 million in this fund. RSF is in the process of being converted into a Financial Institution providing wholesale micro credit.

Priority Sector Lending

4.7 Directed program like priority sector lending cannot be said to be compatible to the expansion and development of financial sector and liberal economic policy. Moreover, with the objective of encouraging commercial banks to manage their businesses in a professional way and use the indirect rather than direct tools of monetary management now is found to be more effective, priority sector lending will be gradually phased out by FY 2007/08. Accordingly, commercial banks are required to lend minimum of 4.0 percent of the total outstanding loan amount to priority sector in FY 2004/05. However, the mandatory loan flow to the deprived sector has been continued with variable ratios of 0.25 percent to 3.0 percent for the new and the old banks.

Box 4 (5)

Priority Sector Lending

	Fiscal year			
	2004/05	2005/06	2006/07	2007/08
Percent of total outstanding loan	4	2	2	No longer mandatory

Source: NRB

Financial Sector Reform Program

4.8 Although monetary stability has been maintained for the last few years, the financial health of some monetary institutions, as a conduit of monetary policy, has not been satisfactory. Financial Institutions need to be strong and capable of ensuring effective execution of monetary policy and maintaining financial stability, which is one of the major objectives of the policy itself. Financial Sector Reform Program is being implemented for strengthening the financial sector. Bank and Financial Institutions Ordinance 2003, which was introduced as an umbrella Act by repealing various related Acts, has been amended in 2004 by eliminating weaknesses observed during its implementation, revised and amended accordingly, and brought into operation

4.9 A regulatory system of international standard has been formulated by engaging international consultants since last two years in order to improve the regulatory capacity of NRB so as to ensure a healthy and competitive banking system by keeping pace with the technological advancement in this sector. In addition to this, guidelines for the field level inspection and supervision has already been prepared and executed for the enhancement of the regulatory and monitoring capacity of the Bank. Reengineering NRB is under implementation in the first and second phase of financial sector reform program. IOS partners, a consulting company of USA, engaged for this work since March 2003, have already completed the reengineering work as per the contract with the said company.

Box 4(6)

Reengineering of Nepal Rastra Bank

a) The Consultants imparted on-the-job training to the personnel of NRB for enhancing efficiency and effectiveness in inspection and supervision work.

b) External auditors received training with the objective of helping them to perform with efficiency.

c) Charts of accounts as per the International Auditing Standard (IAS) prepared, and necessary reforms in the present accounting manual is in process for making it IAS-compliant.

d) Job description of NRB staff prepared and facilities of the bank staff reviewed.

e) NRB to identify the training needs and organize training to enhance efficiency of its staff.

f) The agreement period of consulting company appointed for the reengineering of NRB under the first phase of financial sector reform program has been completed. The process for the appointment of new consultant for the reengineering of NRB under the second phase of financial sector reform program is underway.

g) Public relation unit established in NRB with the objective of keeping the general public informed of the Financial Sector Reform Activities of the Bank..

h) A foreign IT consultant hired to complete the NRB - IT platform by modernizing Bank's IT system.

i) Work already initiated for the strengthening of Bankers' Training Center of NRB and for strengthening and modernization of credit information center with the assistance of international level expert.

j) The work of software and hardware installation in Nepal Bank Limited and Rastriya Banijya Bank initiated by an institution selected through a global tender, for the development of MIS technology to conduct the banking activity in more systematic and satisfactory way.

k) Arrangement to be made for the appointment of international level restructuring advisor to prepare the basic infrastructure for the purpose of privatization of Nepal Bank Limited and Rastriya Banijya Bank, two large national banks of the country.

Source : Nepal Rastra Bank

Commercial Banks

4.10 A management contract was signed between the Management Consultants of ICL Consulting of the Bank of Scotland, (Ireland) Ltd. and NRB on 17 July, 2002 for two years for bringing reform in the management of Nepal Bank Ltd under the Financial Sector Reform Program. After the expiry of the contract on 21 July 2004, NRB has given approval for the extension of the contract period for one year starting from July 22, 2004. Similarly, the contract period for the consultant of Rastriya Banijya Bank management group has also been extended up to 15 January 2006. While extending the contract period, the management cost has been reduced as per the policy of utilizing financial resources made available by DFID and the World Bank economically.

4.11 Overall progress made by both of these commercial banks under the restructuring program until now can be considered positive. This is based on the fact that these banks have earned net profits from the FY 2003/04, reduced the volume of negative capital fund, prepared and executed various international level manuals, policy and regulations to maintain stability of the bank and formulated and executed internationally acceptable working style. Progress made in collecting bad debts, however, is not so satisfactory.

Box 4(7)

Reform Process of Nepal Bank Ltd. and Rastriya Banijya Bank

a) **Profit situation:** Nepal Bank Ltd, which had incurred the losses of billions of Rupees since the year 1999, has brought down its loss to Rs. 250 million in FY 2002/03. It earned a net profit of Rs. 710 million in FY 2003/04. Similarly, the Rastriya Banijya Bank recovered from its losses of Rs. 480 million in 2002/03 and earned a profit of Rs. 1.2 billion in FY 2003/04.

b) **Capital fund** : The negative capital fund of both of these bank is improving gradually. After the initiation of restructuring of Nepal Bank Ltd. and Rastriya Banijya Bank, the negative capital fund of Nepal Bank Ltd. declined to Rs. 8.09 billion in mid-July 2004 as compared to Rs. 9.08 billion in mid-July 2003. Similarly, the capital fund of Rastriya Banijya Bank was negative by only Rs. 21.03 billion in mid-July 2004 as compared to Rs. 22.39 billion in mid-July 2003.

c) **Non-performing Loan**: Although the absolute amount of non-performing loan has not declined, its level has started to decline. The share of Non-Performing Assets (NPA) in the total outstanding loan of Nepal Bank Ltd. has declined to 53.1 percent in mid-July 2004 as compared to 60.5 percent in mid-July 2003. The Management group of Nepal Bank Ltd. has collected Rs. 4.01 billion in cash during the last two years from the total NPA. Similarly, the NPA amount of the Rastriya Banijya Bank has decreased to 57.6 percent in mid-July 2004 as compared to 60.2 percent in mid-July 2003. The management group of Rastriya Banijya Bank has collected Rs. 3.03 billion in cash during the last one and half year from the total NPA.

d) **Auditing** : In the context that accounts of both banks had remained un-audited since last few years, the audit of Nepal Bank Ltd. for the FY 1999/00, 2000/01, 2001/02, 2002/03 and 2003/04 has been complete after the management contract of the bank. The bank has started publishing the quarterly financial reports regularly, and the details of the audit are being updated. Similarly the new management of Rastriya Banijya Bank has completed its audit for the FY 2001/02, 2002/03 and 2003/04.

e) **Human Resources**: Both banks have developed Management Plan, Human Resource Development Plan, and Skill Enhancement Plan for the planned development of necessary manpower in order to bring it to the appropriate level. Staff need assessment is also complete. In order to maintain the number of staff at an appropriate level, Nepal Bank Ltd. has reduced its number of staff to 3,818 by mid-July 2004 from its earlier total of 5,322 by implementing Voluntary Retirement Scheme (VRS). Similarly, Rastriya Banijya Bank has reduced its number of staff to 3,994 by mid-July 2004 from the existing 5,422.

f) **Operating System and Internal Management**: Management group has developed and implemented various types of plans, policies, and guidelines for making the banking system strong and efficient internally. Specially, lending policy and guidelines have been prepared and implemented for the improvement in loan management. Likewise, asset - liability management guidelines have been prepared and implemented towards the management of asset and liabilities. In addition, Asset Liability Committee (ALCO) has been formed. New accounting guidelines, internal audit guidelines, account heading classification guidelines, portfolio status and plan, budget plan, and strategic plan have been prepared and executed.

g) **Computer Technology**: Information Technology Plan has been prepared for performing fast and systematic banking transaction though the computer system. Accordingly, computer software and hardware have been procured. Pilot Branch Testing Program has been completed in Nepal Bank Ltd., which is being gradually expanded to other branches. Similarly, this work has been initiated in Rastriya Banijya Bank.

Source :Nepal Rastra Bank.

4.12 Management of the Lumbini Bank Ltd. was suspended and taken over by NRB and its operation was handed over to the three-member Management Committee in March 2002 under the provisions of Section 86 (1) of NRB Act, 2002. This was done in order to safeguard the interest of shareholders and depositors by enhancing the credibility of the financial sector.

4.13 Realizing the need of management restructuring for the reform of Lumbini Bank Ltd., term of the Management Committee were extended for the first time for a period of one year (March 2002 to March 2003); second time for 8 months (March 2003 to November, 2004); and third time for maximum of five weeks (up to February 2005). These extensions were made in the context of creating an environment for the bank's operation with the representation of the promoter and public shareholders in the Board of Directors, issuing shares allocated for the public, approving audit report by the Board of Directors with public share holders representation; and forming a new Board of Directors.

4.14 After the takeover of the management of Lumbini Bank by NRB, Management Committee was successful in improving the financial position of the bank by restructuring. During the restructuring period, different policy and directives were prepared to maintaining financial discipline. Initiation was taken to replace the existing software by installing integrated banking software with modern facilities suitable to the modern banking system. NRB, after selling its non banking assets purchased by itself and timely completion of primary works for the improvement of the bank, withdrew its suspension in December 2004 and handed over the operation of bank to a seven member Board of Directors with public shareholders representation to create the environment of banking operation in a healthy way. NRB also issued necessary directives to the bank for necessary reforms in different aspects for further sustainability and healthy management.

Box 4(8)

Refinement on the Directives Related to Commercial Banks

a) For the purpose of maintaining clarity and rationality in the flow of credit of commercial banks and Financial Institutions, the directives regarding the arrangement of credit information and blacklist issued in September 2003 were repealed and new directives were issued with timely revision in June 2005.

b) Consortium loan directives were issued in June 2005 with the objective of making such loan invested by the Financial Institutions licensed by NRB systematic and effective.

c) Concerning the risk provision related to restructuring or rescheduling of loans, arrangement was made to treat as a good debt with 1.0 percent loan loss provision in case of those loans where the banks and Financial Institutions have rescheduled and restructured their loans upon the recovery of 100 percent interest. This arrangement was made for the FY 2003/04 only. The benefit accrued from such concession, however, is prohibited from distribution as dividend to their shareholders by treating it as a profit.

d) The minimum capital fund to be maintained by the banks and financial institutions on the basis of risk provision of weighted asset, which was fixed at 11.0 percent for the FY 2003/04 and 12 percent for FY 2004/05, has been retained at 11.0 (5.5 percent for primary capital fund) percent for FY 2004/05 keeping in view of the present uneasy situation.

e) Banks and Financial Institutions were directed by NRB to sell, by mid-July 2004, all their share investments in other Financial Institutions. Such Banks and Financial Institutions are required to make 100 percent provision for all such investments that could not be sold within FY 2004/05, except in case where the sale of such share investment is prevented by the prevailing law.

f) Prior permission of NRB was required if bank and Financial Institutions intended to provide services to their customers during the special occasions like Dashain and Tihar, beyond office hours, and on public holidays. Such provision has been repealed and, such transaction can be made now onwards by giving prior notice to NRB.

g) As the Credit Information Center Ltd., which was previously under the Bankers' Association, is now registered as a Public Limited Company with the Office of the Company Registrar, the provision for credit information and black listing issued on May, 2004 with the objective of directing the credit flow of the banks and Financial Institutions towards a right and appropriate direction has been refined accordingly.

Source: Nepal Ratra Bank

4.15 As per the revised policy, a commercial bank with its headquarters outside the Kathmandu Valley will be allowed to operate its office in Kathmandu and in other parts of the country provided that it is functioning satisfactorily for last 3 years; its minimum paid-up capital is 1.0 billion; and it has met other conditions as prescribed. Any regional level commercial Bank, which is already in operation, will be given permission, on request, to open its offices in the Kathmandu Valley before it completes its 3 years of operation provided that its paid up capital is in the minimum of Rs.1.0 billion and has also entered into a 3-years term Technical Service Agreement (TSA) with a foreign bank. Other conditions to be met by the banks operating outside Kathmandu for 3 years have been clearly laid down in the revised policy. One of such conditions is that the bank should have earned net profit. According to the policy arrangement for determining the satisfactory transaction of the bank, it is required to earn net profit for at least one year and the financial indicators should be directing towards the profit.

Development Banks

4.16 The number of Development Banks is 25, including Nepal Industrial Development Corporation established under the Nepal Industrial Development Corporation Act (2016 B.S.), Agricultural Development Bank established under the Agricultural Development Bank Act (2024 B.S.), and the Development Banks established under the Development Bank Act 1995 (2052 B.S.) and the Bank and Financial Institutions Ordinance 2004. The number of Development Banks engaged in wholesale and micro credit transactions has reached to 11. Such banks include 5 *Grameen Bikash* (Rural Development) Banks in five development regions established with the participation of NRB and HMG/N, 4 Development Banks established under the private sector for the transaction of Micro-credit, Rural Micro-credit Development Center (RMDC), and Small Farmers Development Bank established at the national level. In the present situation of merger and closure of the commercial banks in rural areas due to the internal conflict, the Development Banks and Financial Institutions opened at regional and local level are providing financial services. In this context, priority has been given to those Development Banks and Financial Institutions willing to be established in remote and hilly areas of the country for the expansion of additional banking and financial services.

4.17 All Financial Institutions are required to obtain license under the section (78) of NRB Act. Earlier, NRB had issued directives on January 2001 pertaining to capital fund, liquidity and institutional governance to all the banks excluding banks engaged in micro credit operations, the ADB/N, and NIDC. Such directive was repealed and International Standard-based directive (1 to 13) was issued in January 2003. Development Bank Directives 2003 (with amendment) have been issued with the following directives based on the suggestions received at the discussion with the executive directors of Development Banks as well.

Box 4(9)

Directives Related to Development Bank and 'B' Grade Financial Institutions

a) **Capital Fund**: Development Banks and 'B' grade Financial Institutions, were required to maintain primary capital and capital fund at 5 and 10 percent, 5.5 percent and 11 percent, and 6 and 12 percent for Fiscal Years, 2002/03, 2003/04 and 2004/05, respectively. Considering the unfavorable situation of the country, the minimum capital fund required to maintain has been reduced to 11 percent for the FY 2004/05 with the requirement to maintain at 12 percent for FY 2005/06.

b) **Financial Resources:** The Development Banks can collect deposit through fixed, saving, and recurring deposits and provident fund. The 'B' grade Financial Institutions established under the Bank and Financial Institution Ordinance, 2004 can collect non-interest bearing deposits.

c) **Liquid fund**: Development Bank and Financial Institutions should maintain 1.0 percent of the total deposit liability and provident fund as mandatory cash in hand, and 7.0 percent of the total deposit liability in liquid assets.

d) **Loan and advances**: Development Banks and Financial Institutions like commercial banks should also classify loan and advances as good, substandard, doubtful and bad, and maintain loan loss provision of 1.0 percent, 25 percent, 50 percent and 100 percent respectively.

e) **Per customer loan**: Development Banks can advance per customer, credit and loans facility up to 25 percent for fund based and 50 percent for non-fund based advances. Banks should limit their Bank guarantees within three fold of their primary capital.

f) **Institutional good governance**: The promoters, directors, and employees should be professional, honest, disciplined, and of high moral for the efficiency enhancement of the Development Banks and Financial Institutions.

g) **Sectoral loan limit**: Of the total lending by Development Banks and Financial Institutions, they can invest in agriculture, industry, service business, land development and residential houses as well as commercial building construction, poor groups, and commercial sector, up to 60.0, 60.0, 70.5, 50.0, 50.0 and 50.0 percent respectively.

h) **Investment**: Development and Financial Institutions may execute the policy and process for the investment on government bonds, securities, shares and debentures of organized institutions, only after the approved of their Board of Directors.

i) **Interest rate:** Development Banks can decide their own interest rates on deposits and loans.

j) **Branch Office:** Development Banks need to take prior approval of NRB to open any type of branch.

k) **Sale of Promoters' Share**: Prior approval of NRB is required for the sale and transfer of ownership of promoters' share.

l) **Auditing**: Auditing should be performed by the auditor authorized by NRB. Such auditing report should be submitted to NRB at least 30 days prior to the Annual General Meeting (AGM) and public notice issued within seven days of completion of AGM.

m) Arrangement has been made for the submission of financial statements in the NRB prescribed format, for making the financial statements of Development Bank and Financial Institutions clear and transparent.

Source : Nepal Rastra Bank.

4.18 *Grameen Bikas* Banks are the sources for capital and managing credits for rural development. Structural reforms of these banks have been imperative for their effective operations. Accordingly, with the objective of gradual privatization of profit making *Grameen* Banks, Western *Grameen* Bikash Bank of Butwal is already privatized. The process for privatization of Eastern *Grameen* Bikash Bank, Biratnagar is underway. In the process, decision has been made on disposing

56.75 percent share out of 66.75 of NRB owned shares, to sell to the group member of this bank, staff, micro-finance institutions and the general public. Accordingly, application is received for 34.29 percent shares and the remaining shares are also in the process of transfer. It is hoped that the privatization of these banks will help to reduce their financial burden, which is piling up every year. It is also hoped that the development of professionalism and the sense of competitiveness will improve their efficiency in service delivery to their clients.

4.19 The Micro-finance program has provided substantial help and facility to the ultra poor families. The Micro Finance Institutes (MFI) are providing door-to-door micro credit services to those ultra poor families who have no collateral guarantees to produce, and are not capable of fulfilling the banking requirements for credit eligibility. Such families are able to create their own assets by paying their micro credits in small installments out of their earnings made by engaging themselves in small entrepreneurial activities. Micro finance institutions have been able to expand the size of their credits along with the size of borrowings of such families growing bigger with their gradual economic well being. In addition, these MFIs have been helping these ultra poor families to be self reliant through the process of social mobilization. Even in the present conflict situation whereby the Banks have closes or merged their branches/sub-branches, these MFIs have been constantly delivering door-to-door micro credit services to the ultra poor communities. Credit recovery rate of these MFIs is above 98 percent.

Box 4 (10)

Classification of Banks and Financial Institutions Based on Paid-up Capital and Other Provisions

The following policy provisions have been made in relation to the classification of the licensed institutions according to the Bank and Financial Institutions Ordinance 2004:

Classification of Banks and Financial Institutions

Class	Required minimum Paid-up Capital				
	National level*	Regional*	4-10 districts*	1-3 districts*	1 district*
A	Rs.1.0 billion	Rs250 million	X	X	X
B	Rs.320 million	X	Rs.50 million	Rs.20 million	X
C	Rs150 million+ Rs.50 million	X X	X X	X X	Rs.20 million Rs10 million++
D**	Rs 100 million	Rs 60 million	Rs 20 million	Rs 10 million	X

Excluding Kathmandu valley, bordering districts (minimum and maximum) included.*

**Financial institutions involved in micro-credit finance.

+ Applicable only to the leasing companies.

++ Limited to one district each of Mid-western and Far Western Regions.

The following policy, while fixing the application fee for licensed institutions, has been in place according to the Bank and Financial Ordinance 2004

A. Pursuant to section 4(1) of the above-mentioned Ordinance, proposal letter for the opening of a bank or Financial Institutions should be accompanied by an amount equivalent to 0.01 percent of the issued capital.

B. Proposal letter, for the license to carry out financial transaction under the provision of Section 29(2) of the Ordinance, should be accompanied by an amount of 0.02 percent of the issued capital

C. In case of the finance companies, which have been given provisional approval upon submission of proposal for license; and those already established as per the prevailing law and have applied for license, shall be required to pay the fee as per the B above.

Source: NRB

Finance Companies

4.20 By mid-March 2005, finance companies licensed for financial transaction totaled 59. After the merger of HISEF Finance Company in Laxmi Bank in April 2003, the number of finance company is now 57. Prudential Merchant Banking and Finance Company and Investment and Credit Finance Ltd. received license for financial transactions in June 2004 and in July 2004 respectively. The head office of these both banks are located in Kathmandu and their authorized capital and paid up capital is Rs. 100 million and 50 million respectively. NRB has revised the existing policy and directives for making the Finance Company and Financial Services as suitable to time, well managed, transparent, secured and reliable.

Box : 4(11)

Improvements in Policy / Directives of Finance Companies

a) **Capital Fund**: The risk weightage provision for the purpose of calculating capital funds of financing companies is revised as follows:

1. The loan against the collateral of Government securities or NRB securities or on the basis of receipt of fixed deposit of the companies concerned 0.0 percent.
2. Loan against the collateral of receipt of fixed deposit of Financial Institutions licensed from NRB 0.2 percent

b) **Loan Loss Provision**: As per the directives issued to finance companies on credit and loans, and leasehold assets classification, a rebate was granted for FY 2003/04 wherein such credit, loans and leasehold assets was be considered as good credit with 1 percent loan loss provision, in case of companies restructuring or rescheduling such credit, loans and assets by taking cent percent interest collection. However, it was prohibited to distribute dividend to the shareholders from the profit accrued due to such rebate.

c) **Reduction in Capital Fund**: In view of present unfavorable circumstances, a provision has been made wherein finance companies only require to maintain a minimum capital fund of 11 percent, (Primary fund 5.5 percent) as a risk weighted asset for the FY 2003/04 and FY 2004/05, against the earlier provision of 12 percent (Primary fund 6 percent).

d) **Share Investment**: Finance companies required to sell their investment on shares except those prohibited by law, by the end of mid-July 2004. All such investment not sold within the above stated period was required to have cent percent provisioning in FY 2004/05.

e) **Prior Approval not Required**: The existing provision of requiring prior approval from NRB for finance companies to provide services during special occasion like Dashain, Tihar and on public holiday, was repealed. Now such services can be provided only by giving prior notice to NRB.

f) **Financial Source**: Finance companies are allowed to accept deposit not exceeding 2.5 times of their primary capital.

g) **Liquid Asset and Mandatory Cash Reserve:** In case of mandatory cash deposit by finance companies in the ratio of at least 1.0 percent of their total deposit liability and loan fund to be deposited in NRB, they are now given an option of depositing such cash in a separate current account in one of the commercial banks of their choice. As regards to mandatory cash reserve and liquid assets required for finance companies, the existing provision of inclusion of cash deposit in national level development bank as required by NRB has been revised and such cash be deposited in Development Bank except (Micro Finance Development Bank). Finance companies were required to compulsorily submit the description of cash in their vaults certified by chief executive to Bank and Financial Institutions Regulation and Supervision Departments of NRB.

h) **Credit and Loans**: Prior to the credit and loans, and leasehold assets rescheduling or restructuring, minimum of 25 percent of the interest due on such transactions should have been realized. But, amendments have been made where capitalization of interest arrears into principal arrears and restructuring or rescheduling of credit has been prohibited. Similarly as regards to the loan swapped by the banks and the Financial Institutions, type of loan swapped should be clearly identifiable in the book with certificates of the bank from which the loan was swapped. And the company taking swaps should make loan loss provisioning according to existing regulation on credit loss provisioning.

i) **Per Customer Loan**: In this regard some provisions were amended considering customers having related to each other as one group.

j) **Investment in Promoters' Share**: Finance companies are not allowed to invest as promoters of any other bank and Financial Institutions licensed by NRB.

k) **Financial guarantee**: Following directives are issued for the arrangement of financial guarantee:

1. Bank and Financial Institutions are also required to have a clear policy on offering financial guarantee services with particular mention of limit, security, margin, power of attorney, as well as on information system in place. Such policy should be

executed after the approval of Board of Directors of respective company. NRB should be notified of such policy.

2. While preparing the policy of financial guarantee by the Board of directors following procedure should be adopted.
3. It is required to have loan transaction of the customer with guarantee issuer Bank/Financial Institution. The financial guarantee can be issued by the Bank/Financial Institution to their own customer, in case of not being able to provide additional loan exceeding per customer loan limit.
4. While issuing the financial guarantee, the Bank/Financial Institutions may issue financial guarantee without exceeding the limit per customer for the transaction which does not involve funding .
   I. After the lapse of guarantee period of all the guarantee issued prior to this direction, it cannot be renewed, such guarantee cannot be issued as per this direction. If renewed against this direction, cent percent credit provisioning is required.
   II. This provision will not be applicable for the following guarantee.
5. Guarantee issued against counter guarantee of internationally graded foreign bank.
6. Bid Bond
7. Performance Bond
8. Prior payment guarantee
9. Guarantees other than financial guarantee.

l) **Retirement fund**: Financial companies may manage retirement fund for other corporate bodies as provisioned in the Income Tax Act, 2001. In case of prior approval required from NRB, only the Finance Company fulfilling the following conditions, can request to NRB.

1. Having primary capital of Rs. 100 million
2. Indexed in Nepal Securities Exchange Market Ltd., after selling its share to general public.
3. Having net profit since last three years continuously.
4. Executed all the existing laws and direction of NRB.

Source : Nepal Rastra Bank.

4.21 It is required to have information on all the important indicators of the financial companies to shareholders, depositors, customers, and interested general public in a transparent manner. Arrangement regarding accounting policy and format of financial descriptions to be adopted by financial companies and clear provision of financial interest has been implemented for the purpose of maintaining uniformity in accounting policy and financial statements. Financial interest means holding of 10 percent or more of the total paid-up capital of any firm, company or corporate body by any promoter, director, shareholder holding one percent or more of the shares, or the executive director, or any member of his/her family, or any individual firm, company or corporate body empowered to nominate a director, whether singly or taken together.

Box 4(12)

Provision on Non-Banking Asset

Following directives are issued to Commercial Banks, Development Banks and Financial Institutions with regard to the arrangements on loss of non-banking assets.

a) The loss arrangement should be made in following ways for the non-banking assets, mortgage accepted by banks and Financial Institutions till the end of FY 2002/03 and not being sold within three years (i.e. up to FY 2005/06).

FY	Loss Management
2003/04	33.33 percent
2004/05	66.67 percent
2005/06	100.00 percent

However, if the duration of period for sale specified in the specific law (7 years for commercial banks and 5 years for Finance companies) is less than three years, the loss management should be made in the following ways.

- If the time set by the law/directives is being completed in FY 2004/05, 100 percent loss provision should be made by the end of FY 2003/04 for such non-banking assets.
- If the time set by the law/directives is going to be completed by FY 2005/06, 50 percent and 100 percent loss arrangement should be made

at the end of FY 2003/04 and FY 2004/05 respectively.

b) In case of non-banking asset accepted by banks and financial institutions in and after FY 2003/04, the loss provisioning of 25 percent is required for the accepted fiscal year. Loss provisioning for additional three fiscal years should be made as follows:

Year	Loss Arrangement
First Year	50.0 percent
Second Year	75.0 percent
Third Year	100.00 percent

c) In case of sale of non-banking asset, necessary accounting settlement can be made for the loss provision in the profit and loss account of the same year.

Source: Nepal Rastra Ban

4.22 Among the other Banking and Financial Institutions established under the different laws before the execution of Bank and Financial Institutions Ordinance 2003, Developments Banks, Finance Companies and Micro Finance Institutions are categorized as 'B' 'C' and 'D' groups. Till the mid-April 2005, the number of Finance Companies belonging to 'B' and ‘C’ group totaled 23 and 59 respectively. Including 5-Development Banks established with the participation of NRB and HMG, the number of Development Banks, which come under 'D' group are 11. In addition to these, there are 20 financial cooperatives, licensed from NRB for limited banking transaction and 47 non government financial institution, which come under the 'D' group are functioning within the preview of regulation of NRB. The number of Financial Institutions for the collection of savings and providing loans, having licensed under the Cooperatives Act is larger than the institutions licensed from NRB. There is a trend of closures and mergers of branches of *Rastriya Banijya Bank*, Agricultural Development Bank and Nepal Bank Ltd in rural areas because of present conflict situation in the country. In this context, the trend of establishment of rural financial institution is increasing due to the shrink in banking and financial services and increase in demand of financial cooperatives and non-government financial institutions in rural area.

Cooperatives and Non Governmental Organizations

4.23 New Directives were issued in July 2002, for saving and credit cooperative societies (except Small Farmers' Cooperatives) licensed by NRB, for limited banking transactions. Some provisions of such directives have been changed in July 2003. The new directives, effective from mid July 2003, requires such cooperatives to maintain mandatory cash deposit of at least 0.5 percent (revised from 1.0 percent) of the total deposit and credit fund with NRB or with a commercial bank in places where NRB is not present. Regulatory, inspection and supervisory services for 11 Small Farmers Cooperatives have been handed over by NRB to Small Farmers Development Bank effective from April 2003. The cooperatives, licensed from NRB for limited banking transactions, not being able to maintain Capital Fund requirement as set by the directives and the Primary Capital Fund turning negative, has been cancelled. The licenses of National Cooperative Society Ltd. of Lalitpur, Nepal Cooperative Society Ltd. of Kathmandu, and Nava Kshitis Cooperative Society Ltd. of Kathmandu have been revoked in April 2003, May 2003 and September 2003 respectively due either being unable to follow directives and/or grossly violating directives during the review period. Now the number of cooperative societies having licensed for limited banking transaction is reduced to 20 after the licenses of 3 co-operatives societies were cancelled. NRB has continued its decision not to issue license for financial transaction to any cooperatives.

4.24 The Number of Financial Institutions engaged in Micro Credit operations is increasing after the implementation of Financial Intermediation Institutions Act (first Amendment), 1999. NGO's licensed from NRB to perform as financial intermediaries has reached 47. During the review period, NRB issued license to *Chimek Samaj Sangh Sanstha*, Kathmandu in September 2004, Self Reliance

Development Centre, Kathmandu and Development Projects Services Centre (DEPROSC-Nepal) Kathmandu in November 2005 for financial intermediation. The rules under the said Act, after its Amendment, has also been revised and implemented since April 2003.

Insurance Companies

4.25 Insurance Board is functioning to achieve its objectives set by Insurance Act 1992 for the systematic, regular and developed insurance business. In addition to this, it is also functioning for regulation and supervision of insurance business, fixing the priority area of investment in insurance sector, issue license for the insurance entities and individuals, and mediate between insurers on petition, provide necessary direction to insurance companies, protect the right of insurer and any other function related to insurance. After the membership of WTO, Nepalese insurance business is accessible to foreign insurance companies. As such the process for the revision of Insurance Act, 1992, and Insurance Regulation, 1992 has been initiated as per the need of time.

Box 4 (13)

Policy Approach on Insurance Sector.

The following policy is adopted for the development and expansion of insurance industry.

a) Execute the field level and non-field level inspection and supervision of insurer with primary importance and take necessary action in issues raised during this process.

b) Mediate the dispute raised between insurer and the insured, and decide petition filed by the insured against insurer as quick as possible.

c) Conduct training programs on subject matter of insurance as basic level, medium level and higher level for the improvement of efficiency of manpower working in this industry and establish an Insurance Academy for this purpose.

d) The insurer, performing life and non life insurance business at a place should perform the insurance business as a separate agency as per the Insurance Regulation 1992. Thus, separating life and non life insurance businesses functioning within the country as two separate insurance entities.

e) Make insurance business people oriented by making qualitative improvement in the functioning of insurance surveyor and agents by making them follow the code of conduct.

f) Prepare the substantive and suitable investment policy and fix the priority areas for investment of amount received from insurance.

g) Make insurance business as trust worthy protecting the investment of life insurer , and

h) Check capital out flow through insurance business.

i) **Strategy** : The strategies of insurance sector are (1) To develop as a strong means for the mobilization of financial savings, 2) Strengthen it as a means of economic and social security, 3) Develop and expand it as a competitive and trust worthy sector of investment, and 4) promote long term capital mobilization required for development projects.

Source : Nepal Rastra Bank.

4.26 The total number of insurance companies providing life and non-life insurance services is 18, consisting of in 1 the Government sector, 11 in the private sector, and 3 foreign and Joint Venture companies. In terms of business category of insurance companies, there are 13, 3 and 2 in non-life, life, and life and non-life category respectively. Accidental insurance fund is established to help for the establishment of Reinsurance Company in the future. The total number of manpower directly involved in this business is about 17,600 consisting of 16,000 insurance agents, 100 insurance surveyors and 1500 employees working in insurance companies.

Monetary Situation

4.27 During the first eight months of FY 2004/05, broad money supply rose by 5.9 percent as compared to 6.7 percent rise during the corresponding period of FY 2003/04. Broad money supply has increased due to considerable increase in net domestic assets, though there was marginal increase in foreign assets during the same period. Narrow money supply rose by 5.5 percent in FY 2004/05 as compared to 2.3 percent rise in FY 2003/04. Narrow money supply in FY 2004/05 rose considerably in comparison to FY 2003/04 due to significant increase in net non-monetary liabilities. Currency, an integral part of narrow money supply increased by 7.7 percent in FY 2004/05 as compared to the rate of 9.6 percent growth in the review period of FY 2003/04. Demand deposits, another component of narrow money, increased by 1.0 percent in 2004/05 as compared to the decrease by 13.2 percent in FY 2003/04.

4.28 Net foreign assets of the monetary sector, one of the contributory factors of expansion in money supply, increased by a marginal rate of 0.7 percent during the first eight months of FY 2004/05. This increase was marginal due to the low rate of increase in the export earnings and remittances and decrease in foreign debt. During the corresponding period of 2003/04, net foreign asset had increased significantly at the rate of 11.6 percent. Gross domestic borrowing, another expansionary factor of money supply, increased considerably by 8.1 percent totaling Rs. 2.7155 billion during the review period of FY 2004/05 as against 3.5 percent increase in the same period of FY 2003/04. During the review period, besides the decrease in the claims on governments, gross domestic credit increased at a considerable rate due to the higher rate of increase on the claims against public enterprises and private sector compared to the previous year.

4.29 Of the domestic credit, net credit to HMG from the monetary sector decreased by 3.3 percent in the review period of 2004/05 and came down to Rs. 60.25 billion by mid-March 2005. Favorable cash balance with HMG has caused reduced flow of net credit to the government. Such credit had decreased by a noticeable rate of 11.2 percent rate in the corresponding period of FY 2003/04. Monetary sector's claim against the private sector is another important factor in the gross domestic credit. Such a claim increased, at the rate of 9.2 percent in the review period of FY 2003/04, as compared to significant increase by 12.3 percent in the same period of FY 2004/05 totaling Rs. 193.72 billion by mid-March 2005. This year, claims on private sector

Chart 4 (a) : Determinants of Money Supply

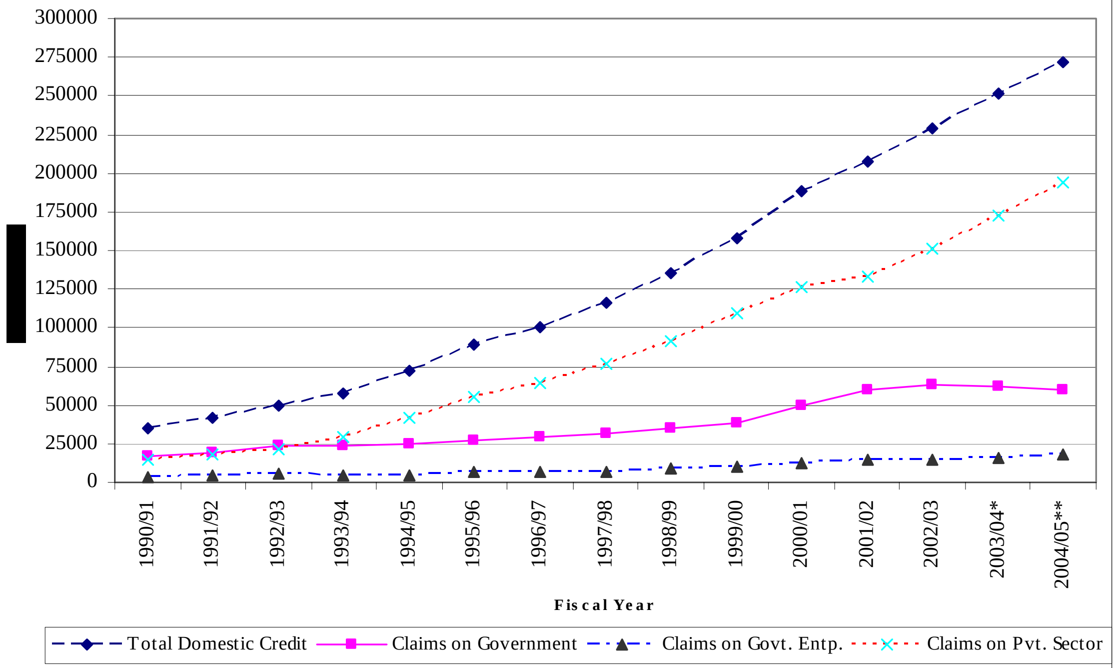
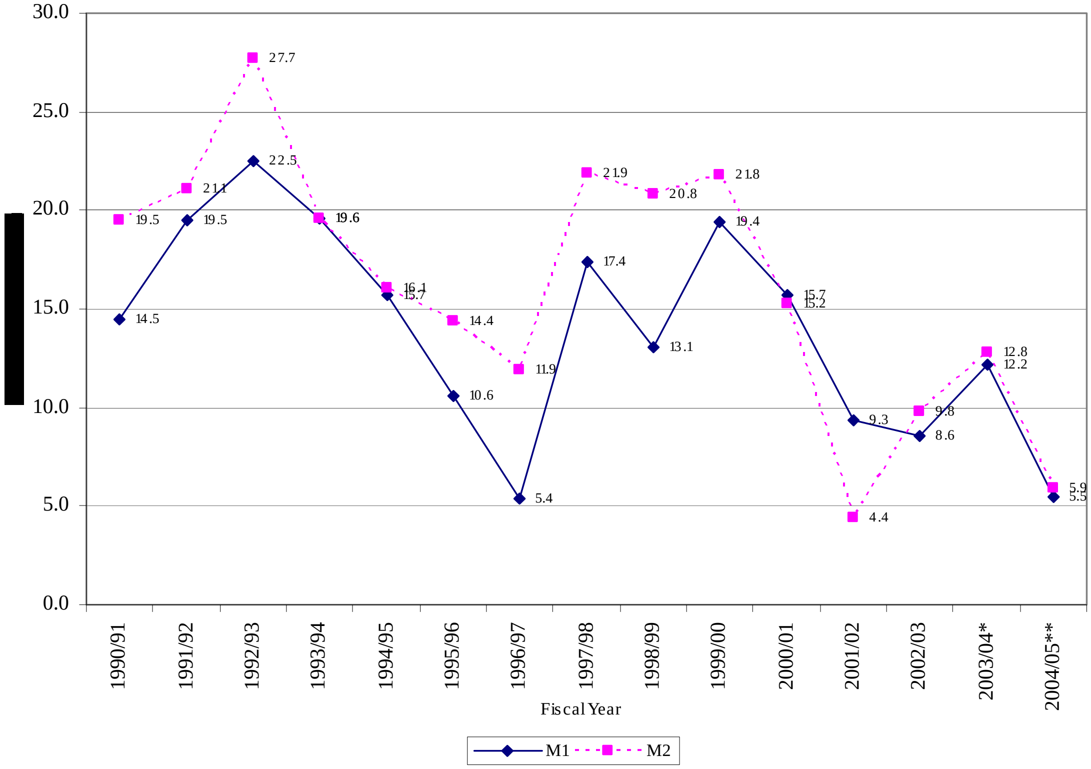


Chart 4 (b) : Growth Rates of Money Supply



increased significantly due to the competitive expansion of consumption credit by commercial banks.

4.30 Claims against Public Enterprises increased by 8.1 percent during the first eight months of FY 2004/05, as compared to the increase of 8.7 percent in the corresponding period of FY 2003/04. During the review period claims of the monetary sector against financial corporations decreased due to the payments of some refinance facility drawn from NRB by *Grameen Bikas* Banks and other Development Banks. Despite such decline in the claims of monetary sector against the financial institutions, claims against Public Enterprises increased because of the significant flow of credit to the Royal Nepal Airlines and Nepal Oil Corporation by the Commercial Banks. By mid-March 2003 of FY 2003/04, the gross domestic credit extended to HMG, public enterprises, and the private sector was -32.4 percent, 14.4 percent and 118.0 percent against the 12.8 percent, 4.7 percent and 82.5 percent respectively during the corresponding period of FY 2004/05.

4.31 Time deposit, an important part of broad money supply, increased by 6.2 percent totaling Rs. 194.68 billion by the mid-March 2004 (end of the review period). During the corresponding period of FY 2003/04, it increased by 9.0 percent. The lower rate of increase in time deposit in FY 2004/05 compared to the previous fiscal year was due to decrease in remittances at the beginning of the year caused by national and international circumstances.

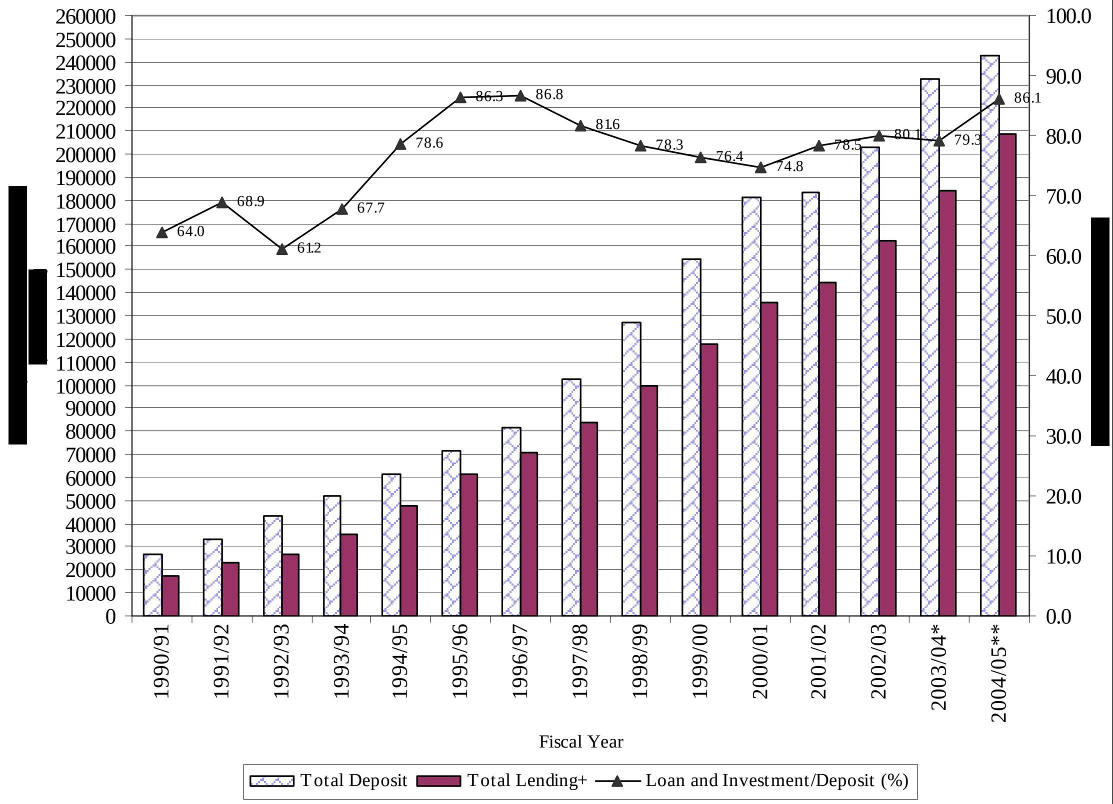
4.32 Net non-monetary liability - a contractionary factor in money supply - increased by 5.8 percent in the first eight months of the FY 2004/05, as compared to the 3.0 percent increase in the same period in FY 2003/04. This increase in non-monetary liability was due to the increase in resource for bad debt by commercial banks and paid up capital. Net domestic assets increased considerably by 9.3 percent in FY 2004/05, which had increased by 3.8 percent in FY 2003/04. As a result of significant increase in both net non-monetary liability and gross domestic credit, the net domestic asset increased at a higher rate in FY 2004/05.

Status of the Utilization of Resources by Commercial Banks

4.33 The resources of commercial banks, during the first eight months of FY 2004/05, increased by 6.6 percent to Rs. 297.60 billion. During the same period of FY 2003/04, it had increased by 8.1 percent. High growth rate of such resources in FY 2004/05 was due to the rise in saving deposits and other net resources despite a decline in current and time deposits. Commercial bank's deposits with NRB decreased due to decline in liquidity with them, which resulted in the decline in liquidity fund as compared to the previous year. Despite the decline in purchase of foreign bills on credit and investment side, total resources utilization during the review period increased due to increase in claims on government, public enterprises and the private sector.

4.34 Total deposit liabilities of the commercial banks during the first eight months of FY 2003/04 had increased by 7.0 percent, as against the increase of 4.2 percent in FY 2004/05. Of the total deposits, current deposits in the first eight months of FY 2003/04 and FY 2004/05 declined by 9.5 percent and 0.6 percent respectively. Similarly, saving deposits rose by 9.9 percent during the first eight months of FY 2004/05 compared to 9.4 percent in the same period of FY 2003/04. Saving deposits increased by a higher rate, compared to the previous year, due to the low rate of interest on fixed deposits, which caused depositors to look for alternative investment opportunities, the liberal withdrawal facility without loosing the interest on saving deposits. During the first eight months of FY 2004/05, fixed deposits declined by 2.4 percent, whereas its growth rate was 9.7 percent in the same period of the FY 2003/04. Borrowing by commercial banks from NRB, as compared to mid-June, rose to Rs. 610 million with an increase of Rs. 130 million by mid-March 2005. Increase in such borrowing by commercial banks is due to provision of refinancing at a concession rate for rehabilitation of sick industries, and the utilization of permanent liquidity facilities to deal

Chart 4 (c) : Loan & Investment and Deposit of Commercial Banks



with the short-term liquidity crunch of commercial banks. Net other liabilities of commercial banks increased by 20 percent during the first eight months of FY 2004/05, as compared to an increase of 11.9 percent in the same period of FY 2003/04. Net other liabilities increased because of the improvements in the profit of commercial banks.

4.35 Gross liquid assets of commercial banks in the review period of FY 2004/05 decreased by 12.6 percent against the increase of 4.9 percent in the same period of FY 2003/04. Of the liquid assets, deposits with NRB declined by 35.5 percent in the review period of 2004.05. Whereas cash deposit, foreign currency reserve and foreign currency deposits with the overseas banks increased by 15.7 percent, 31.2 percent 8.0 percent respectively. During the same period of 2003/04, total amount of liquid assets had increased with a rise in deposit with NRB and deposit in overseas banks by 15.1 percent and 2.5 percent respectively, despite decrease in cash deposit with banks by 17.9 percent and foreign exchange reserves by 16.7 percent.

4.36 Total loans and investments during the first eight months of FY 2004/05 increased at a rate of 10.9 percent compared to 8.8 percent increase in the same period of the previous fiscal year. Major reasons of such increase were reduction in the mandatory cash reserve requirement by NRB and increase in consumption credit by commercial banks. Of the total loans and investments, credit to the Government by commercial banks in the review period of FY 2004/05 was up only by 1.5 percent, as compared to 8.1 percent increase in the corresponding period of previous fiscal year. Credit to public enterprises by commercial banks went up by 10.3 percent during the first eight months of FY 2004/05, while it had increased by 9.7 percent in the same period of previous fiscal year. Credit to Public Enterprises increased because of the considerable amount of credit provided to the non-financial institutions like Nepal Oil Corporation and Royal Nepal Airlines Corporation. Of the total loans and investments during the first eight months of FY 2004/05, commercial bank's lending to the private sector increased by 13.5%

mainly due to the rise in consumption credit as compared to 9.1 percent increase in the corresponding period of FY 2003/04. The purchase of foreign bills by commercial banks during the review period of FY 2004/05 and FY 2003/04 decreased by same level of 9.8 percent. In the foreign currency market, NRB intervened 18 times - 17 times to buy excess foreign currency worth Rs. 17.30 billion and one time to bridge the shortfall by selling foreign currency equivalent to Rs. 500 million. Thus net liquidity flow of foreign currency by NRB amounted to Rs. 16.80 billion.

Expansion of Commercial Bank Branches

4.37 Taking into consideration of country's current situation of internal conflict, NRB has been adopting different policies to help commercial banks to improve their financial status and make them competitive. Such policies, include inter alia, opening of new branches based on the financial viability, merger of existing branches in close proximity, putting special efforts to make loss-making branches profitable within a specified period of time, and opening of new branch in city area only after opening a branch in rural area. By mid-April 2005, total number of commercial bank's branches reached 382 from 375 at mid-July 2004. If Agricultural Development Bank's 48 branches licensed for commercial banking activities are included, then total number of commercial bank branches within the Kingdom has reached 430 by mid-April 2005. *Rastriya Banijya* Bank, has the largest number of branches with 117 followed by Nepal Bank Limited with 116 branches. By mid-April 2005, branches of other commercial banks were as follows: Nepal Bangladesh Bank Ltd. - 16, Nepal Arab Bank Ltd. - 16, Nepal Credit and Commerce Bank Ltd. -16, Everest Bank Ltd.-15, Himalayan Bank Ltd. - 14, Nepal S.B.I Bank Ltd. - 12, Nepal Investment Bank Ltd.-12, Bank of Kathmandu Ltd. - 9, Standard Chartered Bank Nepal Ltd. -8, Nepal Industrial and Commercial Bank Ltd-8, Siddhartha Bank Ltd.-8, Machhapuchhre Bank Ltd-5, Lumbini Bank Ltd -4, and 3 each of Kumari Bank Ltd. and Laxmi Bank Ltd.

Other Banks and Financial Institutions

4.38 Among the Government owned banks, Agricultural Development Bank is the largest Development Bank on the basis of the number of branches and transactions. Lending of this bank had decreased by 1.9 percent in the first eight months of FY 2003/04, which increased by 16.9 percent and totaled Rs. 6.92 billion during the same period of FY 2004/05. Its loan recovery rate had increased by 7.4 percent in the review period of 2003/04, which further increased by 15.0 percent in FY 2004/05 and totaled Rs. 5.82 billion. As of mid-April 2005, lending by Agricultural Development Bank totaled Rs. 20.81 billion. Outstanding loan increased by 6.2 percent in the first eight months of FY 2003/04, which further increased by 8.9 percent in the same period of FY 2004/05. This bank, operating under the Bank and Financial Institutions Ordinance, 2005 has started to manage necessary losses on loan as per the directives of NRB. In order to develop this bank as 'A' class Financial Institution, HMG has decided to launch reform processes with issued capital of Rs. 1.6 billion and making it Agricultural Development Bank Limited.

4.39 Both Credit investments and repayments of Small Farmers Development Project declined during the first eight months of FY 2004/05 as compared to the corresponding period of FY 2003/04. During the review period, credit investments dropped by 17.5 percent from the previous year's Rs. 160 million to Rs. 132 million. Likewise, repayment of principal in the first eight months of FY 2004/05 dropped by 23.9 percent to Rs. 116 million as compared to Rs. 153 million in the corresponding period of last fiscal year. Outstanding credits, which stood at Rs. 674 million at mid-March 2003, fell by 10.8 percent to Rs. 601 million in the corresponding period of 2004.

4.40 The number of development banks and class 'B' financial institutions reached to 23 as of mid-April 2005. Agricultural Development Bank, with a majority share from the government, holds the largest portion of total transactions of Development Banks. Aggregate resources of Development Banks dropped by 18.9 percent to the tune of Rs. 47.47 billion by mid-January 2005 as compared to the corresponding period of FY 2003/04. During the first six months of FY 2004/05, compared to the same period of previous fiscal year, capital fund after adjusting profit and loss declined by 3.8 times and totaled a negative of Rs. 5.13 billion. The amount of deposits and total borrowings increased by 23.3 percent and 1.1 percent and totaled Rs. 5.73 billion and Rs. 5.18 billion respectively during the first six months of FY 2004/05 as compared to the same period of the previous fiscal year. Likewise, other liabilities decreased by 9.1 percent to total Rs. 41.68 billion. Regarding sources of resources, major cause of considerable decline in capital fund is the fall of the capital fund of Agricultural Development Bank. In regards to assets of these banks, investment, credit and loans, and other assets fell noticeably in the first six months of FY 2004/05 as compared to the same period of the previous fiscal year though there was a marginal increase in liquid assets by 6.8 percent reaching a total of Rs. 4.54 billion. Investment, credit and loans, and other assets decreased by 52.4 percent, 18.5 percent and 18.0 percent and totaled Rs. 1.89 billion, Rs. 27.97 billion and Rs. 13.06 billion respectively.

4.41 As per the Bank and Financial Institutions Ordinance 2005, the total number of financial companies under class 'C' reached 59 by the mid-April 2005. During the first six months of FY 2004/05, aggregate resources of finance companies rose by 18 percent and reached Rs. 29.25 billion as compared to the increase by 24.7 percent in the same period of the previous fiscal year. Deposit occupies 72.3 percent of the total resources of finance companies. The growth rate of deposit of these companies was 22 percent in the first six months of FY 2003/04, whereas in the same period of FY 2004/05, it increased by 17.9 percent to Rs. 21.15 billion. Capital fund during the same period of 2004/05 increased by 10.6 percent totaling Rs. 3.98 billion, whereas it had increased by 50.4 percent in the corresponding period of 2003/04. Total deposit and capital fund of finance companies reached Rs. 17.95 billion and Rs. 3.60 billion respectively by mid-January 2005. Same as to the previous year, loan/borrowing of these companies increased remarkably in the first six months of this year. Total loan resources in the first six months of FY 2004/05 rose by 66.8 percent to Rs. 1.33 billion as compared to the steep rise of 2.9 times amounting to Rs. 800 million in the first six months of FY 2003/04. Other liabilities of finance companies increased by 14. 2 percent totaling Rs. 2.79 billion in FY 2004/05, as against the decline by 2.7 percent in the same review period of FY 2003/04. Out of total resources, finance companies utilized credit and borrowings by 68.3 percent, liquid assets 12.7 percent, investment 8.7 percent and other assets 10.3 percent. Total credit and borrowings, which occupies major portion of total resource utilization, increased by 22 percent and totaled Rs. 19.96 billion in the first six months of FY 2004/05. Such credit and borrowings had increased by 26.2 percent in the same period of FY 2003/04. Investment of finance companies declined by 1.1 percent and totaling Rs. 2.55 billion at mid-January 2005, whereas such investment had increased by 22.3 percent in the corresponding period of FY 2003/04. Liquid assets of finance companies rose by 33.9 percent totaling Rs. 3.72 billion during the period under review as compared to the increase by 19.7 percent in FY 2003/04. Other assets of finance companies increased by 23.5 percent in the first six months of FY 2003/04, which had declined by 1.4 percent to Rs. 3.02 billion during the same period of FY 2004/05.

4.42 Total number of Development Banks dealing in micro finance stood at 11 by mid-January 2005. Five Regional *Grameen Bikash* Banks, having maximum share of HMG and NRB, also belong to these 11 Development Banks. In comparison to the first six months of FY 2003/04, total resources of these banks rose by 18 percent totaling Rs. 5.29 billion during the corresponding period of FY 2004/05. These banks, which provide loans without collateral and accept small saving are assisting in generating income for rural women. Compared to the first six months of FY 2003/04, these bank's total deposit increased by 11.5 percent totaling Rs. 750 million, loan/borrowings increased by 47.8 percent totaling Rs.

3.48 billion and capital fund increased by 18.6 percent totaling Rs. 780 million, and other liabilities decreased by 64 percent to stand Rs. 290 million during the same period of FY 2004/05. On utilization of resources, liquid assets increased by 17 percent totaling Rs. 570 million, investments increased by 13.5 percent totaling Rs. 1.23 billion and loan and borrowings increased by 27.2 percent totaling Rs. 3.15 billion. Whereas other assets declined by 21.7 percent to Rs. 350 million.

4.43 Total number of financial cooperatives licensed by Nepal Rastra Bank to conduct banking transactions stood at 20 by mid-April, 2005. The number of such cooperatives did not increase because of the policy adopted by Nepal Rastra Bank not to allow them to conduct financial transactions, even though, there is a large number of cooperatives doing financial transactions established under the cooperatives Act, 1992. Total financial resources of these cooperatives licensed by NRB decreased by 17.9 percent to Rs. 2.35 billion in the first six months of FY 2004/05 in comparison to the corresponding period of FY 2003/04. The number of cooperatives licensed by NRB stood at 33 by the mid-January 2003. The reason for decrease in the number of number of financial cooperatives under the jurisdiction of NRB decreased as regulation, inspection and supervision of Small Farmers Cooperatives is now the responsibility of Small Farmers Development Bank. Thus, capital fund, deposits, loan resources and other liabilities of these cooperatives declined. Likewise, utilization, investment, credit and borrowings and other assets have also decreased. In the first six months of FY 2004/05, capital fund, deposits, loan resources and other liabilities of those cooperatives decreased by 10.5 percent to Rs. 260 million, 18.4 percent to Rs. 1.66 billion, 2.4 percent to Rs. 40 million and 21.3 percent to Rs 390 million, respectively as compared to the same period of FY 2003/04. Likewise in comparison to the first six months of FY 2003/04, investments by these institutions decreased by 39.8 percent to the tune of Rs. 170 million and loans and borrowings decreased by 12.1 percent to Rs. 1.39 billion during the same period of FY 2004/05. But, liquid assets of these institutions increased by 2.4 percent reaching a total of Rs. 380 million. Other assets declined by 34.4 percent to Rs. 420 million in the first six months of FY 2004/05 as compared to the same period of previous year.

4.44 HMG has contributed a total of Rs. 40 million through the budgetary provisions in FY 1990/91, FY 1991/92 (Rs. 10 million each year) and FY 2004/05 (Rs. 20 million) to the Rural Self-reliance Fund (RSF) established in April 1990 by the decision of the HMG. Nepal Rastra Bank provided Rs. 253.40 million to the RSF including the seed money of Rs. 100 million in FY 2001/02 and the amount deposited under the policy of depositing 5 percent of its profit to the fund. By mid-April 2005, the total amount of RSF totaled Rs. 293.40 million including the contribution of both HMG and NRB. From this fund, financial resources are made available to those government and non-government Financial Institutions working in rural areas and dealing with micro credits and to other institutions which provide wholesale loans to Development Banks and to the Government's priority sectors. As per the Article 7 (2 a) of Nepal Rastra Bank Act 2002, unless otherwise of the provision of the Act, NRB is prevented from forwarding loans, accepting deposits of any kind or to give any charity. As such, NRB now cannot contribute 5 percent of its profit to the Fund. Hence, it is necessary to explore alternative sources of fund to raise the capital for RSF. Attempts have been made to develop Rural Self-reliance Fund as an independent entity to provide wholesale/micro credits.

4.45 *Grameen Bikas* Banks, one each in development regions to function as Rural Bank Replicator Financial Institutions, are operating with the objectives of providing financial resources required for different types of income generating activities by forming groups of deprived women of rural areas. By mid-January 2005, these banks has already formed 35,435 groups through the 4,961 centers of 1,003 VDCs of 43 districts and forwarded micro credits without collaterals to 147,949 members for income generating activities by mobilizing local skills, out of a total of 165,964 female members. As of now, these *Grameen* Banks have provided micro credits totaling Rs. 11.55 billion. Of this, Rs. 10.16

billion has been recovered with Rs. 1.39 billion as outstanding in credits. Total amount of saving deposits by these groups amounted Rs. 471.60 million including collective savings Rs. 416.80 million and individual savings Rs. 54.80 million by mid-January 2005. Total number of employees under these five *Grameen* Banks is 1,032. Similarly there are other four banks working as the Replicator Rural Banks viz, Nirdhan Utthan Bank Ltd., Chimek Bikash Bank. Ltd., Swablamban Bikash Bank Ltd. and DEPROSC Bikash Bank Ltd. Up to mid-January 2005, these banks provided credit totaling of Rs. 4.62 billion to 113,122 members of 24,547 groups through the 4,658 centers of 881 VDCs. During the same period, Rs. 3.89 billion has been recovered while Rs. 737.10 million is outstanding.

4.46 Table 4 (a)

Activities of Rural Development Banks (As of mid-January 2005)

S. No.	Items	Regional Grameen Banks					
		Eastern	Central	Western	Mid-Western	Far Western	Total
1.	No. of VDCs	262	286	272	107	76	1003
2.	No. of centers	1382	1267	1141	560	611	4961
3.	No. of groups	12190	7818	8049	3884	3494	35435
4.	Number of members	50737	37001	39293	19420	19513	165,964
5.	Borrowers	48687	36105	38755	13422	10980	147949
6.	Amount of loans (Rs,000)	4909646	1971616	2759037	1015295	897266	11552860
7.	Recovery of loan (Rs. 000)	4394370	1709907	2402806	878869	774909	10160861
8.	Outstanding loan (Rs. 000)	515276	261709	356231	136426	122357	1391999
9.	Group saving (Rs. 000)	163334	82569	82934	47941	40054	416832
10.	Individual saving (Rs. 000)	37622	7480	4518	3152	1985	54757
11.	Total saving (Rs. 000)	200956	90049	87452	51093	42039	471589
12.	Employees (no.)	311	247	228	133	113	1032

Districts covered in Each Region

Eastern: Jhapa, Morang, Sunsari, Saptari, Siraha, Udayapur, Ilam., Dhankuta and Panchthar (9)

Centrale: *Dhanusha, Mahottari, Rautahat, Bara, Persa, Chitwan, Lalitpur, Sarlahi, Makwanpir, Nuwakot, Kabhre, and Dhading (12)*
Western: *Rupendehi, Nawalparasi, Kapilbastu,Palpa, Syanja, Tanahun, Kaski, Gulmi, Parbat, Baglung, Lamjung, Gorkha, and Arghakanchi (13)*
Mid-West: *Banke, Berdia, Dang, and Surkhet (4)*
Far West: *Kailali, Kanchanpur, Dandeldhura, Achham, and Doti (5)*
Source : *NRB*

4.46 HMG has been implementing the Micro finance Project with the loan assistance of the Asian Development Bank since the year 2000 with the objective of outreaching the micro credit to the ultra poor communities. Currently, 36 MFIs are providing micro credit and savings services to ultra poor communities of nooks and corners of the country. The volume of credit transactions of the Rural Micro-finance Development Center (RMDC) during the first eight months of FY 2004/05 rose sharply by 177.0 percent totaling Rs. 204.4 million as compared to the corresponding period of the previous fiscal year. The rate of recovery during the same period also increased significantly by 64.0 percent totaling 98 million. The (36) MFIs affiliated with the RMDC have extended their service to 250,000 members of ultra poor communities. RMDC, by mid-May of 2005, has imparted training to 6,407 persons including the officers and other staff of MFIs with the objective of capacity building, expanding their outreach, and their strengthening. The process of bringing improvement in the economic and social status of these MFIs through their capacity development is continued. In this process, a total of 184,482 clients have been provided with the training including observation tours, skill development training, and refresher training.

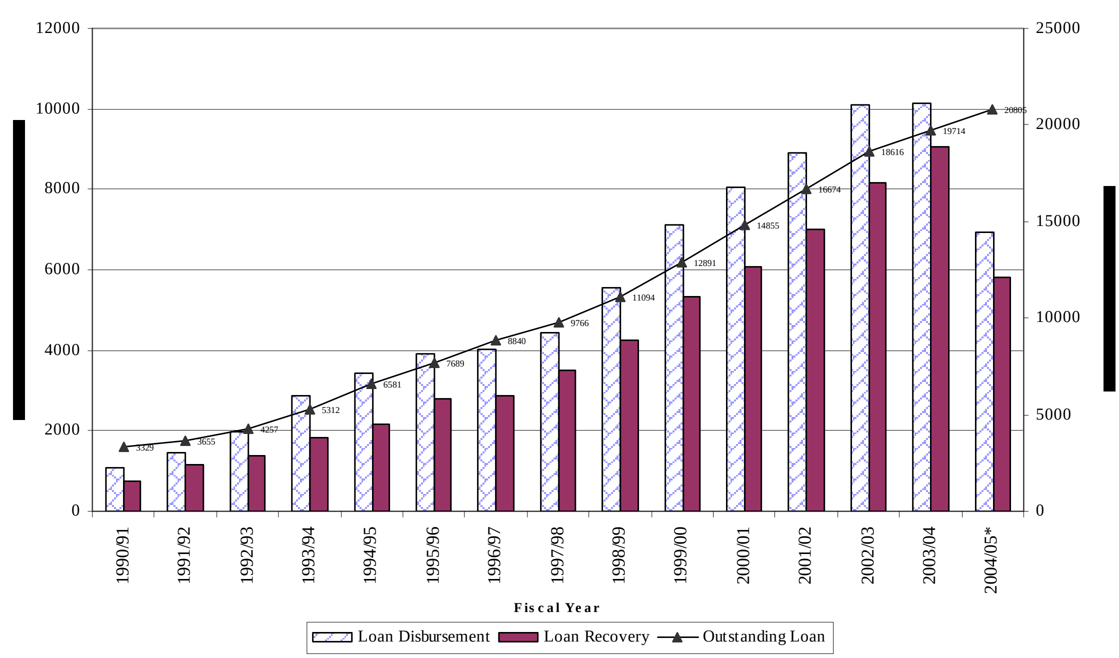
4.47 During the first eight months of FY 2004/05, loan disbursement of Employees Provident Fund has increased remarkably. Loan disbursements which had dropped by 19.7 percent during the first eight months of FY 2003/04, increased sharply by 71.0 percent reaching a total to Rs. 4.45 billion during the same period of FY 2004/05. Principle repayments of the Fund increased only by 8.2 percent and amounted to Rs. 1.10 billion in the first eight months of FY 2004/05, whereas it had increased by 74.9 percent during the same period of FY 2003/04. Because of significant increase in loan disbursements and marginal increase in repayments, outstanding loan increased by 33.6 percent totaling Rs. 20.76 billion in the review period of FY 2004/05.

4.48 For the last few years, there has been remarkable increase in the transactions in insurance market. The number of insurance companies operating businesses of life insurance, non-life insurance and both life and non-life insurance is 18. The number of such financial institutes engaged in the insurance businesses reached 19 including Deposit Insurance and Credit Guarantee Corporation established in the Government sector for providing insurance in credits on priority areas by mid-April 2005. The contribution of insurance premiums to the GDP of non-agricultural sector had reached to 1.6 percent in FY 2003/04 due to the increase in the insurance premiums from life and non-life insurance businesses. Premium collection from both life and non-life insurance companies had increased noticeably by 26.3 percent in FY 2003/04 and it is estimated to increase again by 22.2 percent totaling Rs. 5.80 billion in FY 2004/05. It is found that insurance companies had invested such collected premiums on government bonds, fixed, deposit and other assets. Investment, on life insurance side, is estimated to increase by 19.6 percent totaling Rs. 11.70 billion in FY 2004/05 as compared to the increase by 22.8 percent in FY 2003/04. Investment on non-life insurance during the same period of FY 2004/05 is estimated to increase by 8.4 percent reaching Rs. 2.9 billion, as compared to the growth of 8.9 percent in the previous fiscal year. Total investment of insurance companies in FY 2004/05 is estimated to increase by 17.2 percent and reach Rs. 14.6 billion as compared to the increase by 19.5 percent in FY 2003/04.

Challenges

4.49 Maintaining stability in price, exchange rate, balance of payment and reducing income inequalities through coordinated monetary and fiscal policies, and improving financial sector's efficiency is a challenge together with its development and making domestic payments system more effective. Simultaneous challenge is to formulate and implement appropriate policies in this regard.

Chart 4 (d) : Loan - Agriculture Development Bank



4.50 With the adoption of liberal financial policy, establishment of banks and financial institutions has become a lot easier in the country. In this context, problems may arise when economic activities could not pick up commensurate with the increase in number of banks and Financial Institutions. In such a situation, regulations should be in place for liquidation, merger and takeover of institutions to address the economic crisis. Equally important is the establishment of an Asset Management Company to address the problem of Non Performing Assets (NPA), which are also equally challenging.

4.51 The volume of loans and advances from Employee Provided Fund and Citizen's Trust Fund is continuously rising. These institutions basically transact the savings received on long-term contracts. However, there is not any proper institution to monitor, regulate and supervise these institutions regarding the classification of loans, provision for loan losses etc. It is essential to have proper arrangements for the regulation and supervision of these institutions.

4.52 Many commercial banks and banking/non-banking financial institutions are established as a result of liberal economic policy. Such institutions are collecting a large amount from general public in the form of deposit. Thus it is necessary to establish a specialized deposit insurance company, in private sector for the protection of welfare of the depositors. Establishment of such institution considering the issues like selection of depositors to be insured, issue of moral hazard and its solution, and management of expenses of insurance fee is a challenging task.

4.53 There is a tendency of closure and merger of banking offices in rural areas due to existing internal conflict. However, it is necessary to divert the city oriented investment of the banking sector towards the rural sector of the country. Thus it is necessary to develop and execute rural oriented road map for the financial sector and develop a mechanism to reducing rural poverty, which is also a challenge.

4.54 Nepal being a member of WTO, its financial sector needs to be more open, liberal, and strengthened. Hence, there is no alternative for the banks and financial institutions to be more competitive by increasing their own capacities. Strengthening of NRB has become imperative to enable it play an effective role of maintaining a balance between proper regulation and strong supervision on the one hand, and providing freedom of operation and management to the banks and financial institutions on the other.

4.55 Maintaining monetary and financial sector stability is the core issue of monetary policy of NRB. For this, NRB as a central bank of the country need to increase the reserve of foreign currency through different external reform programs and also need to maintain dynamism and stability in economic and financial sectors of the country so as to divert the national resources into productive uses, which in itself is a challenge.

4.56 Absence of small loans to rural households has impeded their capacity of income generations, raising productivity and access to the market. It is still a challenge to outreach such households to meet their credit requirements.

5. Capital and Money Market

Primary Market

5.1 In the first 9 months of FY 2004/05, 6 corporate entities have been authorized to mobilize capital from the primary stock market for a total amount of Rs. 580 million by issuing stock of ordinary and preferential shares and debentures. Such authorized amount was lower by 21.0 percent compared to the same pried of FY 2003/04. In the same period of previous fiscal year, there were 7 such entities authorized to mobilize capital of Rs. 730 million through ordinary and preferential shares and mutual fund.

Table 5 (a)

Trend of Primary Market

(Rs. in million)

Headings		Fiscal year					First 9 Months	
		1999 /00	2000/01	2001 /02	2002 /03	2003 /04	2003/04	2004/05
1	Issue Approval	630.3	717.2	1555.1	853.8	1547.8	732.0	578.4
	a. Ordinary Shares	412.5	268.5	528.7	551.5	755.0	392.0	27.5
	b. Right shares	124.6	365.8	387.9	162.2	429.9	40.0	250.9
	c. Preferential Shares	-	-	140.0	-	-	-	-
	d. Debentures	-	-	360.0	-	300.0	300.0	300.0
	e. Mutual fund	-	-	-	100.0	-	-	-
	f. Units	93.2	82.9	138.5	40.1	62.9	-	-
2	Number of Companies making public issues	9	9	16	17	16	7	6

Source : Nepal Stock Exchange Market Ltd.

Secondary Market

5.2 With the addition of 12 corporate entities and merger of one financial company to another commercial bank during the first 9 months (Review period) of FY 2004/05, number of such enteritis listed in the stock exchange has totaled 123. The number of such listed entities was 112 during the corresponding period of FY 2003/04. In the review period of FY 2004/05 market capitalization increased by 70.9 percent and reached to Rs. 62.56 billion compared to 36.61 billion during the corresponding period of FY 2003/04.

5.3 Cash transactions in the Stock Exchange during the review period of FY 2004/05 steeply rose by 720.2 percent totaling Rs. 3.8 billion with 13.58

million shares changing hands in comparison to 1.94 million shares worth Rs. 460 million transferred during the same period of FY 2003/04.

5.4 Number of transactions increased by 56.5 percent in the first 9 months of FY 2004/05 to total 83,135 as compared to 53,123 transactions in the corresponding period of the previous fiscal year.

Table 5 (b)
Trend of Secondary Market

(Rs. in million)

Headings	Fiscal year					First 8 months	
	1999 /00	2000 /01	2001 /02	2002 / 03	2002 /03	2003 /04	2004 /05
Value of shares traded	1157.0	2344.2	1540.6	575.8	2144.3	463.1	3798.1
No. of shares transacted (000)	7674	4989	6005	2428	6468	19,46	1,35,82
Transactions (No.)	29136	46095	42028	69163	85533	53,123	83,135
Market Capitalization	43123.3	46349.4	34703.8	35240.4	41424.8	36614.0	62,567.9
Traded value as a percent of market capitalization	2.68	5.06	4.44	1.63	5.18	1.26	6.07
Market capitalization as a percent of GDP	11.77	11.78	8.56	8.09	8.37#	-	-
Paid-up value of listed stocks	7347.4	8165.2	9685.0	12560.0	13404.9	11895.0	16,647.0
No. of listed entities	110	115	96*	108	114	112	123
No. of Transacted Companies	69	67	69	81	92	67	87
NEPSE Index (point)	360.70	348.40	227.50	204.86	222.04	201.22	293.26

 # % age computed on the basis of estimated GDP
** 25 companies delisted*
Source : Nepal Stock Exchange Ltd.

5.5 NEPSE index increased by 92.04 percent point from 201.22 points to 293.26 points in the first 9 months of FY 2004/05 compared to the same period of FY 2003/04.

Securities Exchange Board (SEB)

5.6 Securities Exchange Board completed a study on Income Structure of Securities Market and job performance of stock issuance and sales managers. The study regarding income structure of securities market shows that Securities Board, Nepal Securities Exchange Market Ltd, Share Brokers and HMGN are the main recipient of the income generated in the stock market. Of this income, Securities Exchange Board receives only about 4.5 percent. The study conducted by Securities Board regarding job performance of issuance and sales managers shows that only 3 out of 10 issuance and sales manager were active in issue and sales management business. The study also reveals that further improvement is required for timely indexing of issued securities and necessary steps should be taken for the expansion of investment resources in primary market.

5.7 During the review period of FY 2004/05, Primary & Secondary Market Management of Bonds Regulation, 2004 was implemented for the purpose of managing transaction of Government Bonds through Securities Exchange Market.

5.8 A total of 11 accounting standards were developed with the participation of Nepal Accounting Standards Board to maintain the economic records of issuers and indexed companies at the international level. In this regard, the Securities Board in collaboration with the Nepal Accounting Standards Board conducted awareness program for the adoption of the said accounting standard.

5.9 Securities Board, for the protection of the right of the investors of Securities Exchange Market Ltd, has prepared and posted a list of possible common complaints of investors on its website. The investors can browse through the list, select an appropriate complaint/s, and submit them to the Board through the web site. The Board has started receiving complaints and it has initiated necessary steps to address those complaints.

5.10 During the review period of FY 2004/05, Securities Exchange Board, under the implementation of Corporate and Financial Governance (CFG) project relating to securities market reform, prepared the draft regulation on securities registration and disclosure, licensing of stock exchange, the operation guidelines for stock exchange, working procedures for the stock market and members, format relating to annual and quarterly reporting by indexed companies, and format for reporting special events and circumstances directly affecting the price of stock.

Nepal Stock Exchange Market Ltd.

5.11 Nepal Stock Exchange Market Ltd., during the first the nine months of FY 2004/05, has renewed its license from the Securities Board for conducting securities market operations. During the review period of FY 2004/05, the company contributed Rs. 24.2 million to the government treasury by collecting capital gain tax from the stocks trading. Such collection was only Rs. 1.5 million during the same period of FY 2003/04. During the

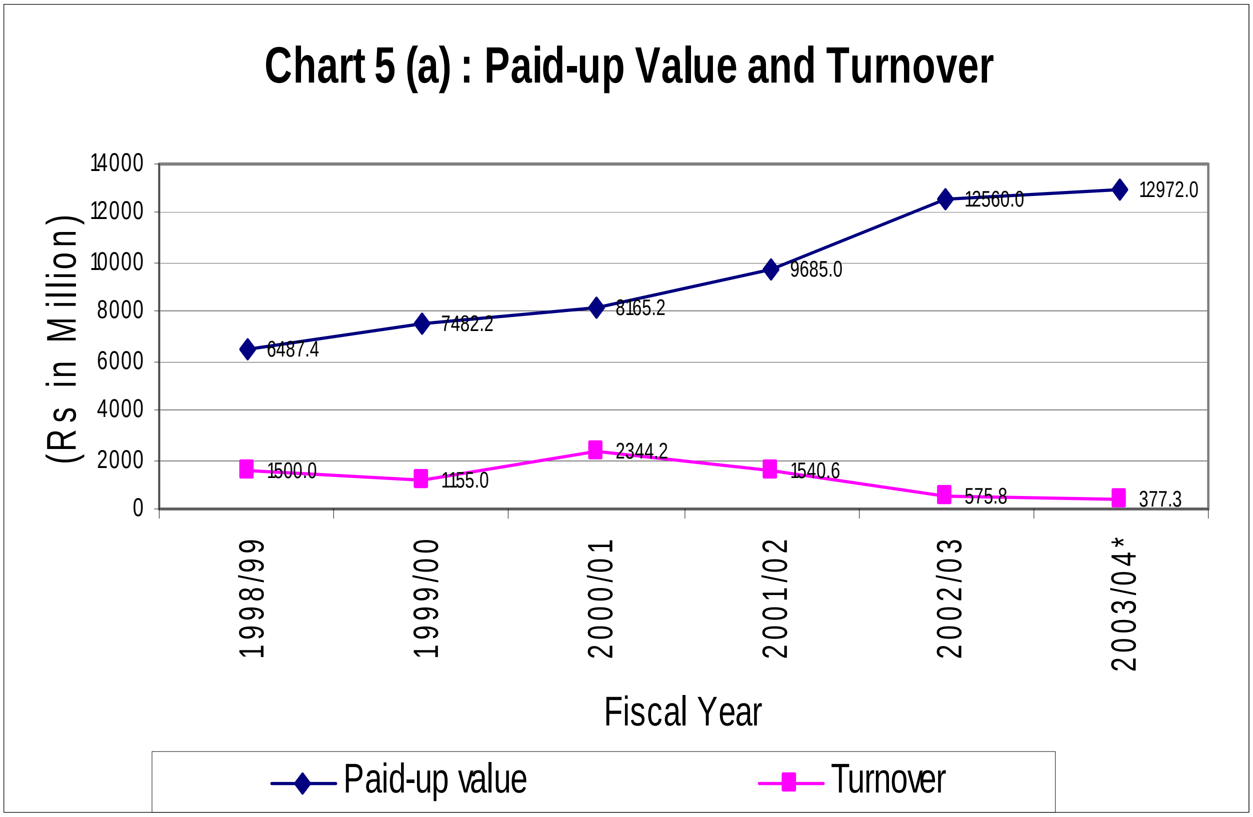


Chart 5 (a) : Paid-up Value and Turnover
(Rs in Million)
14000
12000
10000
8000
6000
4000
2000
0
6487.4
7482.2
8165.2
9685.0
12560.0
12972.0
1500.0
1155.0
2344.2
1540.6
575.8
377.3
1998/99
1999/00
2000/01
2001/02
2002/03
2003/04*
Fiscal Year
Paid-up value
Turnover

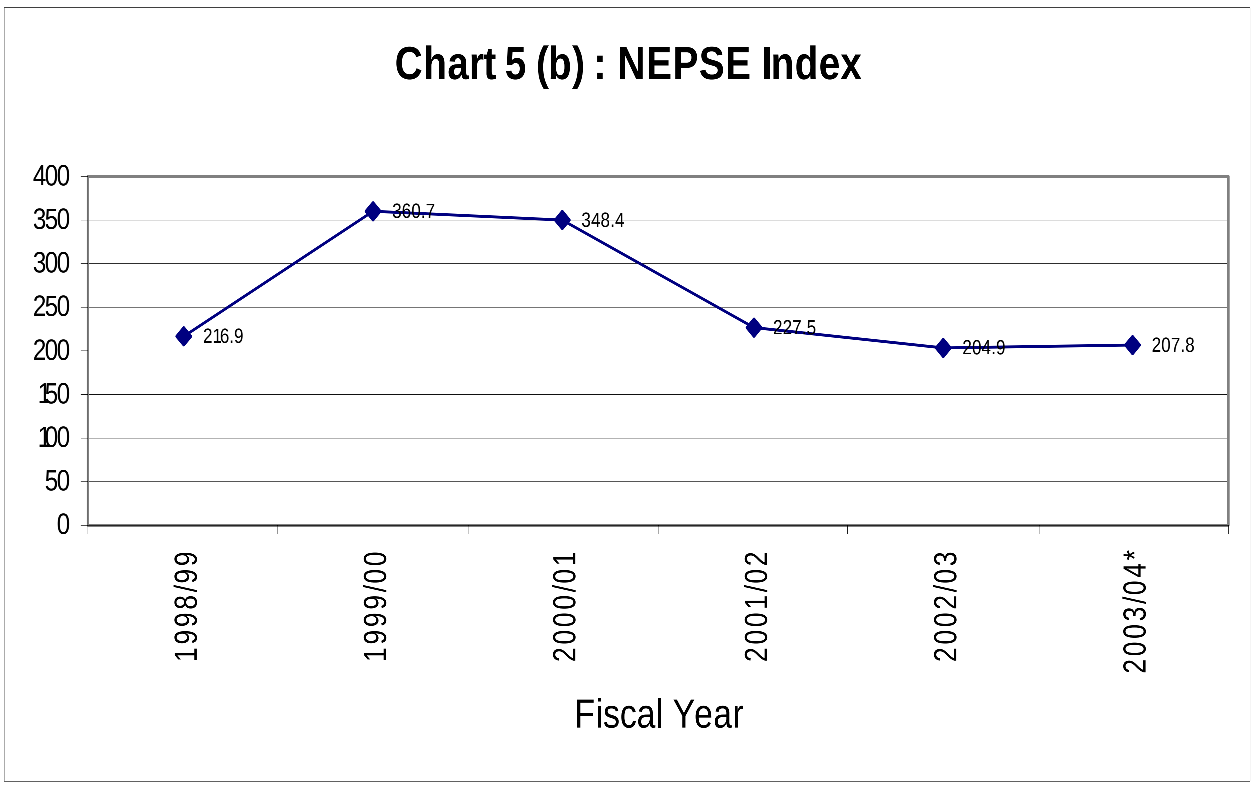


Chart 5 (b) : NEPSE Index
400
350
300
250
200
150
100
50
0
216.9
360.7
348.4
227.5
204.9
207.8
1998/99
1999/00
2000/01
2001/02
2002/03
2003/04*
Fiscal Year

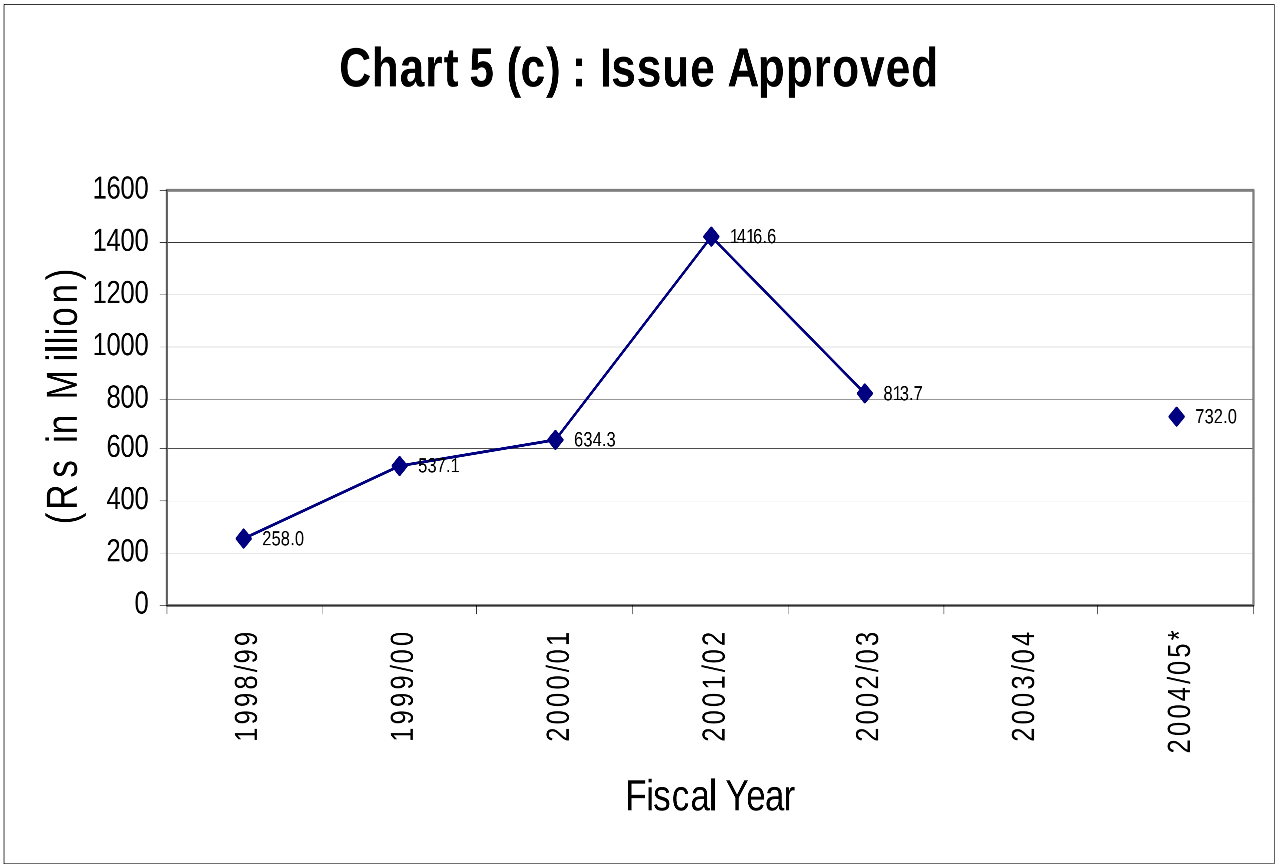


Chart 5 (c) : Issue Approved
(Rs in Million)
1600
1400
1200
1000
800
600
400
200
0
258.0
537.1
634.3
1416.6
813.7
732.0
1998/99
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05*
Fiscal Year

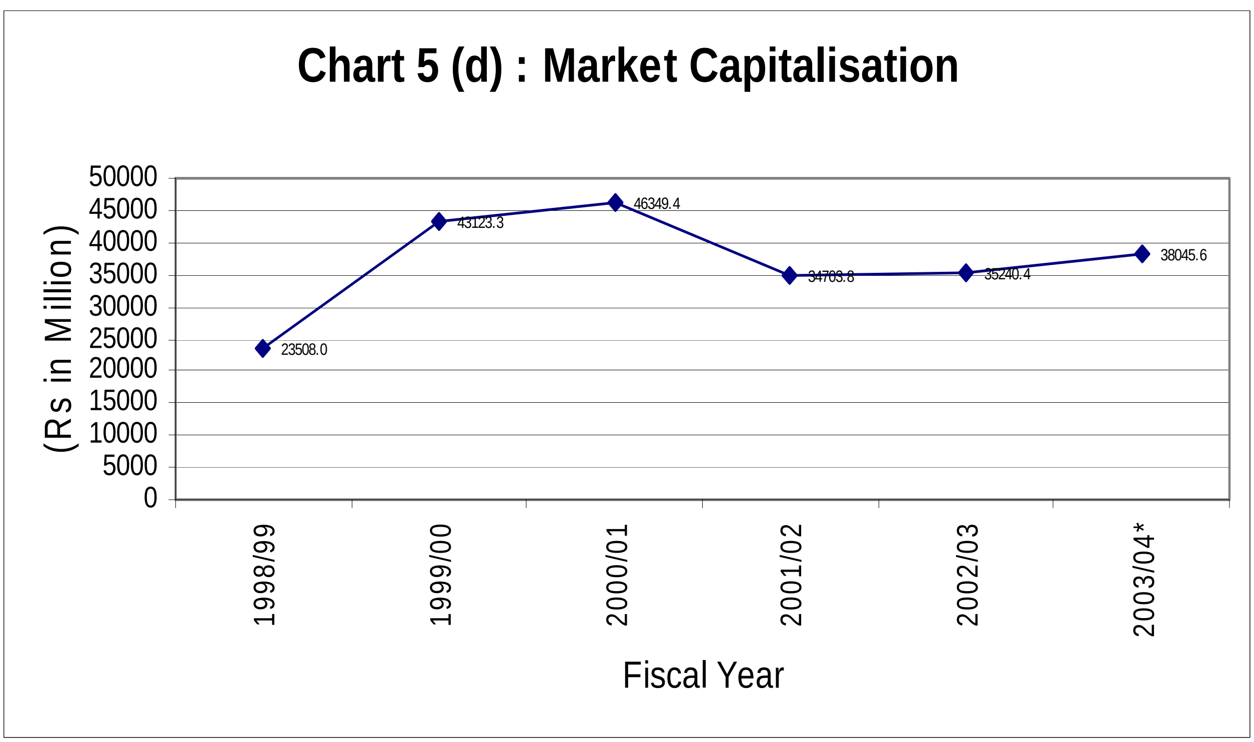


Chart 5 (d) : Market Capitalisation
(Rs in Million)
50000
45000
40000
35000
30000
25000
20000
15000
10000
5000
0
23508.0
43123.3
46349.4
34703.8
35240.4
38045.6
1998/99
1999/00
2000/01
2001/02
2002/03
2003/04*
Fiscal Year

review period of FY 2004/05, it has also classified 48 of the 123 listed companies as 'A' class according to the Stock Registration Rules, 1998. Out of 112 companies listed during the corresponding period of FY 2003/04, companies enlisted as class 'A' was limited to 43.

Stock Brokers

5.12 During the first 9 months of FY 2004/05, 24 stock brokers, 9 stock issuance and sales managers and 2 stock dealers have renewed their licenses from Securities Board while 27 stock brokers, 9 stock issuance and sales managers and 2 stock dealers had renewed their license during the same period of FY 2003/04.

Group Fund and Unit Plan

5.13 With additional mobilization of Rs. 1.12 billion worth of savings, the Citizens Investment Trust, during the first nine months of FY 2004/05, collected funds totaling Rs. 5.69 billion. Various funds in operation by the Trust include Citizens Unit Plan, Employees Incremental Saving Retirement Fund, Provident Fund Plan, Investors Account Plan, etc. Of the total amount collected during the review period of 2004/05, share of Employees Incremental Saving Retirement Fund is 51.1 percent, Citizens Unit Plan 20.7 percent, Investors Account Plan 6.7 percent and Provident Fund Plan 21.5 percent. The collected amount has been invested in Government Bonds (61.3 percent), term deposits (16.5 percent), shares and debentures of the organized companies (2.9 percent), and participatory borrowing (2.1 percent). Remaining 17.2 percent of the fund is invested in call deposit of commercial banks. The Trust, in the review period of FY 2004/05, has paid Rs. 980 million under its Repurchase and Return Payments Program.

5.14 Trading of the units issued by the Fund is continued after its listing in Nepal Stock Exchange Market Ltd, in September 2003. These units worth Rs. 100 million have been brought into operation by the name of N.M.C. Mutual Fund under the management of NIDC Capital Markets Ltd. and NIDC as its trustee. Of the total investment of 100 million 71.7 percent was kept open for general public investors after allocating for the share of NIDC capital Markets and NIDC (15.0 percent) and for the unit holders of NCM First Mutual Fund-2050 (13.3 percent). The total value of fund was Rs. 140 million and net asset value per share was Rs. 14.2 till mid-April 2005.

Long-term Government Bonds

5.15 Long-term Government Bonds, which totaled Rs. 32.02 billion at the mid-March of 2004, decreased by 5.3 percent over the period of a year, and stood at Rs. 30.32 billion by the mid-March of 2005. Of such total Government Bonds, Development Bond led with largest share of Rs. 17 billion (56.1 percent), followed by National Savings Bond of Rs. 8.56 billion (28.2 percent), Special Bonds of Rs. 3.58 billion (11.8 Percent) and Citizen Bonds of Rs. 1.18 billion (3.9 percent). From ownership aspect, NRB, as an institution owned a single largest chunk of 19.2 percent, followed by financial and other institutions combined 71.9 percent and individual persons owned 8.9 percent.

5.16 Volume of purchase of Government Bonds by the market creators through the secondary market during FY 2004/05 increased by 126.5 percent totaling a 181.2 million, which was only 80 million during the corresponding period of the previous fiscal year. Selling of long-term Government Bonds by the market creators through the secondary market during FY 2004/05 increased by 141.1 percent and amounted to 168.8 million, while such transactions during the corresponding period of FY 2003/04 had totaled Rs. 70 million.

5.17 NRB, during the review period of FY 2003/04, had purchased long term Government Bonds amounting to Rs. 1.56 billion through secondary markets. Such transaction decreased by 92.4 percent totaling Rs. 118.7 million during the corresponding period of the FY 2004/05. Sales of such Bonds by NRB during the review period of the FY 2004/05 increased by 646.4 percent totaling Rs. 2.09 billion compared to total sales of Rs. 280 million during the corresponding period of FY 2003/04.

Treasury Bills

5.18 Treasury bills, during the first eight months of FY 2004/05 increased by 9.1 percent, totaling Rs. 51.09 billion compared to Rs. 46.83 billion during the corresponding period of FY 2003/04. Nepal Rastra Bank's share of Treasury Bills totaled Rs. 11.78 billion or 23.1 percent. Share of financial and other institutions combined was Rs. 39.31 billion or 76.9 percent. The weighted average interest rate of the (91 days maturity) treasury bills as of mid-February of 2004/05 was 2.98 percent, which is 0.82 Point percent lower than that of the same period of the previous year.

5.19 Outright purchase of the treasury bills by Nepal Rastra Bank (NRB) during the first eight months of FY 2004/05 substantially dropped by 97.1 percent totaling Rs. 1.31 billion. Similarly outright sale also fell by 48.8 percent totaling Rs. 10.50 billion during this period. During FY 2003/04, NRB had purchased treasury bills (including outright) from the secondary market totaling Rs. 1.31 billions. During the same period, its sale of treasury bills through Repo and outright had totaled Rs. 14.57 billion.

Inter-bank Loans

5.20 Inter-bank transactions during the first eight months of FY 2004/05 increased by 6.0 percent reaching a total of Rs. 82.94 billion as compared to the same period of the previous fiscal year's Rs. 78.25 billion. Weighted average interest rate for inter-bank borrowing in the mid-February of the FY 2004/05 stood at 4.33 percent, which was only 4.0 percent during the same period of previous fiscal year.

Challenges

5.21 Drafting, enactment and effective execution of laws and regulations for strengthening of regulatory and supervisory agency for the effective securities market regulations system has become imperative. It has also become necessary to change open-out-cry system to automation transaction system (electronic trading system) via online trading, for the sake of transparency and efficiency. Active participation of investors is not increasing due to time consuming and complex procedures for clearing of traded stocks and transfer of rights. For making easy, clear and fast clearing of traded stocks on daily basis and to make the transfer for rights more efficient, establishment of central depository system (CDS) of stocks with the necessary arrangement of legal provisions and resources is a challenging task.

5.22 At present there is a provision of deducting capital gain tax at source of transaction. There is the difficulty in tracing the actual purchase price and the capital gain. Capital gains are taxable, but operating legal provisions are not clear about writing-off capital losses. Because of this, investors may be less enthusiastic in stock trading. Hence, rationalization of capital gain tax remains a challenge.

5.23 It is a challenging task to stabilizing the irrational fluctuations of stock prices so as to raise the institutional investors' confidence on the capital market and attract their resources to it. It is another challenge to making clear-cut arrangements for regulations concerning Employees Provident Fund, Citizens Investment Trust and Mutual Fund for encouraging the participation of small investors in the Mutual Investment Plans and Citizens Unit Plans to make them realize the benefits of such investment plans.

5.24 Standards on accounting and auditing have already been developed to bring improvement in accounting statements of the issuance and listed companies with an objective of removing institutional and governance weaknesses and developing a trustworthy private sector. Similarly other standards are in the process of formulation. The challenge is to developing mechanism and human resource for the effective implementation of standards thus developed.

5.25 Listing of securities is mandatory for trading of securities. Investors could not be attracted to invest in corporate securities as there is no alternative trading facility for such corporate bodies, which are unable to fulfill the criteria of listing. It is, thus, a challenge to develop an alternative mechanism like Over The Counter (OTC) trading for corporate securities not able to fulfill the criteria of listing.

5.26 There is a necessity to carrying out the current initiation of integrating government securities market with corporate securities market and thereby developing credible and sustainable bond market in the country. Current practice of levying tax on the debenture differently to the institutional and individual investors cannot be helpful for the development of such an integrated market. It is, thus, necessary to rationalize the said provision of tax. The possibility of vigorous promotion of Government bonds through the Securities Board Exchange Market Ltd. is very low in the context of present low interest rate in the financial sector. It is thus, a challenge to make institutional real interest rate positive.

5.27 Although there is a dominant presence of banking sub-sector in the financial sector, it has been felt that there is an equal need for the development of non-banking sub-sector. On the non-banking sector, there is a need to strengthen the insurance business and the stock market by bringing about reforms in the securities transaction. In this connection, the present initiation of listing government-issued securities in the Stock Exchange needs to be institutionalized and for strengthening equity and bond market further legal and other reforms are necessary. The listing of the share of manufacturing enterprises and their secondary market has not yet expanded and still remains a challenge. It is necessary to promote stock market so that investors can reduce their risk exposure by diversifying their investment portfolio. While privatizing the public enterprises, maximum use of stock market should be made so that general public get investment opportunities. Regulatory agencies, such as Insurance Committee and Securities Board, needs to be strengthened. It is equally necessary for regulatory agencies to keep an eye on the relationship between financial position and the price of share of listed companies.

5.28 Failure to absorb high liquidity and enhance the cash flow in low liquidity situation in the money market would have adversely impact on the process and the pace of financial intermediation. This would create unintended fluctuations in the interest rates on savings, which could create a situation of capital flight. Hence, ensuring stability and maintaining balance in the money market through a steady liquidity management system in place is an ultimate challenge.

6. International Trade and Balance of Payments

6.1 The foreign trade situation has not been so encouraging, but Balance Of Payments situation in FY 2004/05 remains mixed. Garment industries are facing serious problem after the end of Multi-Fiber Arrangement (MFA) on 31 December 2004. These industries have come across a situation of facing the challenge of open competition in the international market. The situation called for developing favorable investment environment, and creating basic infrastructures as well as reducing the cost of production, improving quality of the products and arranging timely transport of the products to meet these challenges. As it could not happen, the overall exports suffered with recording a marginal growth as a consequence of the sharp fall in the export of readymade garments.

6.2 Similarly, imports recorded a negative growth due to the decrease in import of industrial raw materials caused by the slowdown of industries and domestic trading activities. Investments could not be attracted as expected, due to failure in transforming legal and institutional structures for the protection of investments, inflow and outflow system, flexible labor policy, and improvement in accounting and auditing system for good governance of the private sector. Thus, no substantial foreign investment inflow has been recorded due to lack of improvement in the environment for investment.

6.3 The September 1, 2004 protest against the brutal murder of Nepalese labors in Iraq had unfavorable impact on the remittance income for some time as the flow of foreign employment seekers immediately dwindled. Performance of the tourism sector, during the review period of this fiscal year, has also not been so encouraging. Still, overall Balance of Payments for the first seven months of FY 2004/05 has been in surplus because of the shrunk trade deficit, increased Net Transfer income and Miscellaneous Capital inflow.

6.4 The Nepalese Customs Administration is playing the role of trade facilitator in place of its conventional role of trade controller. The three-year custom reform program, implemented since FY 2003/04 with a view to modernize custom administration, accords high priority to institutionalizing scientific custom valuation procedures, simplifying checking procedure, automating custom processes and selectivity checking based on risk analysis. Similarly, this includes simplification of passenger checking procedures, developing and implementing human resources development plan and modernizing custom infrastructures. A Trade Facilitation Committee has been constituted at the central level in order to harmonize custom work with trade facilitation. Modernization of customs will surely contribute to trade facilitation.

Exports

6.5 Exports during the first eight months of FY 2004/05, increased only by 2.3 percent totaling Rs. 36.95 billion, which had performed better with 6.9 percent growth in the corresponding period of FY 2003/04. Exports to India rose notably in FY 2004/05 reaching 67.4 percent of total exports as compared to 57 percent in FY 2003/04, while that to other countries recorded a fall. In US dollar terms, however, exports during this period increased by only 4.3 percent which was 12.8 percent during the review period of FY 2003/04. The proportion of Exports to Imports increased to 45.3 percent during the review period of FY 2004/05 from 41.8 percent in the corresponding period of the previous fiscal year as a result of increase in exports against imports.

6.6 Exports to India, during the first eight months of FY 2004/05, rose by 20.9 percent totaling Rs. 24.90 billion, as compared to an increase of 11.8 percent during the corresponding period of FY 2003/04. Major items that recorded such increase were mainly, synthetic textiles, chemicals, other yarns, vegetable ghee, copper wire and rods. However, the export of corrugated sheets, MS pipes, readymade garment, ginger, and GI pipes declined during this review period. Analysis of group-wise structure of goods exported to India shows a small improvement in the exports of manufactured goods over the primary goods in FY 2004/05 as compared to FY 2003/04. For instance, the share of primary goods decreased to 29.3 percent from 31 percent while that of manufactured goods increased to 70.7 percent from 69 percent during the review period.

Box 6 (1)

Impact of Repeal of Multi-fiber Arrangement (MFA)

a) MFA, which was started in 1974 provided right to adopt customs and non-custom obstruction to industrial countries for unilateral restriction on import of textile and garments. Underdeveloped countries including Nepal benefited from such provision, though there was unfavorable impact on exports of some large countries. In 1995, WTO passed the new Agreement on Textile and Clothing (ATC). The main objective of this Agreement was to end the restrictions on the imports of textile by some developed countries by the end of 2004.

b) After January 2005, the international trade of textile was directed by the simple rules/policy of general trade system, without being directed by any special laws outside WTO/GATT. Thus, Nepalese products lost the guaranteed market and international trade of textile as it is now quota less after the end of MFA. As a result, Nepalese products lag behind as they have to compete in international market especially with the products of large countries like India and China.

c) Textile industries expanded in developing countries because of the quantitative restriction on the export of large countries due to the quota system existing since last 30 years. As it was not possible to export garment from India in excess of quota, some industries were even relocated to Nepal. After the decade of 1980s, export of Nepalese readymade garment increased substantially, especially to USA, with the increase in the number of textile industries.

d) Garment industry in Nepal has been a main source of export earnings and employment generation. The share of this industry is 10 percent of the total production of manufactured goods with the same share in the employment of the total manufacturing industries. The share of export of garments was 17.7 percent of the total export in FY 2003/04 and it was 41.3 percent of the total export other than India during the same period. Its share to total foreign exchange was 6 percent. Thus, there is a possibility of decrease in total exports having unfavorable impact on BOP situation due to the substantial decrease in export of garments with the end of quota system.

e) It will be very difficult in coming days for the garment industry of Nepal, which was solely dependent on quota, to increase its share in international market in a competitive way. Now, the Nepalese readymade garments have to compete with the high quality but low cost products of India, China and other South East Asian Nations.

f) Nepalese garment industry is affected by other discrepant regional Trade Agreements including the repeal of quota system. After implementation of African Growth and Opportunity Act (AGOA) and Caribbean Basin Trade Partnership Act, preferential entry to US market was given to sub-

Saharan African and Caribbean market. Export of these countries has substituted the export of developing countries like Nepal.

Source : *Ministry of Industry Commerce & Supply, 2004 Nepal Trade and Competitiveness Study "Kathmandu,*
Shakya, Bijendra (2001) MFA. Phase-out under the WTO System and the impact of the US African and Caribbean Bill on Nepalese Garment Industry.

6.7 Third country exports in the first eight months of FY 2004/05 sharply fell by 22.4 percent and limited to Rs. 12.05 billion, which had increased at least by 0.9 percent in the same period of FY 2003/04. This sharp fall in third country exports during the review period of 2004/05 has been mainly due to the substantial decrease in export of garments by 38.5 percent as a result of the end of quota system. The export of *Pashmina* and processed leather also declined by 4.6 percent and 11.9 percent respectively during this period. However, the export of woolen carpet and gold and silver ornaments increased by 4.5 percent and 3.0 percent respectively. Analysis of the group-wise structure of goods exported to third countries reveals that the share of primary goods has been decreasing, while that of manufactured goods has been increasing overtime. For instance, shares of primary and manufactured goods, which stood at 7.3 percent and 92.7 percent respectively in FY 2003/04 changed to 6.4 percent and 93.6 percent respectively during the review period of FY 2004/05. Other items whose export increased to these countries during the review period of 2004/05 were cardamom and herbs. Export of other items such as lentils, handmade papers and handicrafts, however, has declined.

Imports

6.8 Total imports during the first eight months of FY 2004/05 decreased by 5.7 percent and limited to Rs. 81.55 billion in comparison to 7.9 percent increase (totaling Rs. 86.51 billion) in the corresponding period of the previous fiscal year. Imports from India increased by 7.4 percent in the review period of FY 2004/05, while imports from third countries declined substantially by 22.4 percent as compared to an increase of 8.2 percent and 7.6 percent imports from India and the third countries respectively during the same period of FY 2003/04. In US dollar terms, import, which had increased by 13.8 percent in the review period of 2003/04, decreased in the same period of FY 2004/05 by 3.8 percent. India's share in total import increased to 63.6 percent and that of third countries decreased to

36.4 percent in the review period of 2004/05 in comparison to 55.8 percent and 44.2 percent respectively during the corresponding period of 2003/04.

Box 6 (2)

Reforms in the Policy and Process in International Trade Sector

a) The businessmen are benefited from the procedural facilitation of the provision of cancellation of cheques drawn in the name of custom office for L/C deposit.

b) Exporters are facilitated with the authorization to the commercial banks to extend Cash Against Document (CAD) certificates against exports for up to three years. In the past, such payments certificates could be extended up to six months only with the permission of .Nepal Rastra Bank.

c) Facility being offered to exporters under the CAD system has been further extended with the reduction of bank guarantee level to 5 percent from the earlier 10 percent and also the value under such export facility has been raised to US$100,000 from the earlier limit of US$50,000. This change is expected to encourage exports with the reduction in the cost of transactions.

d) The number of items of goods eligible for imports from India through the convertible currency payments has been raised from 39 to 66. Such a provision is expected to bring down the import cost for importers of such commodities and contribute positively to the industrialization of the country as well. Similarly, this provision will enhance the competitive capacity of industries having positive impact on export from these industries with the lower cost of raw materials imports.

e) Provision has been made for the export and import of all goods to and from third countries via Birgunj dry port.

f) The existing Agreement between People's Republic of China and Nepal signed two years ago, with the objectives of facilitating trading transaction between Nepal and the People's Republic of China and also for making Yuan RMB partially convertible to facilitate the Chinese tourists visiting Nepal, has been renewed for the next two years.

g) In the context of Nepal already being a member of WTO, in addition to opening the Nepalese market to the foreigners, the provision has been made for of Nepalese entities to set up representative/offices abroad as well to facilitate access of the Nepalese entrepreneurs to foreign markets.

h) The system of requiring the permission of Nepal Rastra Bank to issue bank guarantees (bid bonds, performance bonds), against payments to be made to a foreign supplier in convertible currency for import of goods by an entity in Nepal, has been simplified. Under the new system, effective from the current fiscal year, commercial banks themselves can issue such bank guarantees.

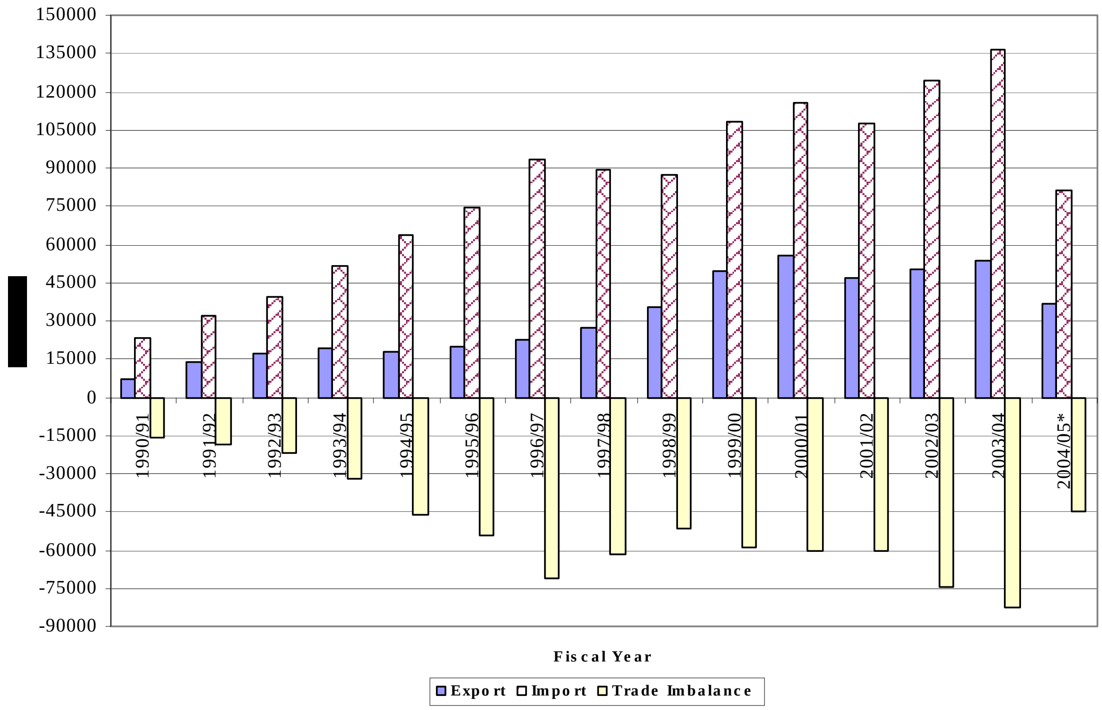
i) As there was no separate exchange facility available for transportation for imports from abroad (except India), such imports had to be made on the CIF basis. Taking into consideration the operationalization of the dry port in Birgunj from this fiscal year, separate exchange facility will be available for imports on FOB basis.

Source : Nepal Rastra Bank

6.9 Imports from India in the first eight months of FY 2003/04 had increased by 7.6 percent whereas in the same period of FY 2004/05, it increased by 7.4 percent totaling Rs. 51.87 billion. During this period, mainly the import of goods like synthetic yarn, POL products, chemicals, garments, medicines has increased. Import of goods like salt, cement, textiles, vehicles and spare parts, paper, other stationary goods, cosmetics, machinery and spare parts, however, has decreased. Imports from India, under convertible currency payments during the first eight months of FY 2004/05, has been limited to Rs. 9.21 billion, a decline of 2.2 percent as compared to Rs. 9.42 billion in the same period of the previous fiscal year. As such, share of imports from India in convertible currency, during this period, recorded a decline from 19.5 percent of total imports from that country to 17.8 percent. Goods under such payments included specially aluminum ingot, polyester fiber, cotton, iron billet, ingot and lumps, cold rolled sheets, electrical goods, tin plate and polythene granules. Imports of all these commodities increased while the import of items like M.S. billet, M.S. wire rods, industrial chemicals, fiber, hot rolled sheets and caustic soda decreased. The share of industrial raw materials and capital goods is 43.5 percent and that of petroleum product is 30.5 percent in the total imports from India during the review period of 2004/05, which was 49.8 percent and 25.5 percent respectively during the same period of 2003/04.

6.10 Imports from other countries during the review period of FY 2004/05 sharply fell by 22.4 percent totaling Rs. 29.68 billion as compared to an increase of 8.2 percent during the same period of FY 2003/04. Main reason for such substantial decline in imports is attributable to decrease in imports of industrial raw materials and textiles. During the review period, imports unprocessed soya bean, unprocessed palm oil, yarn, plastic granuals, unprocessed wool, lubricant, tires, tubes and flaps, electronic equipment and goods, aircraft spare parts, chemical fertilizer, insecticides,

Chart 6 (a) : International Trade



agricultural tools, textile, cosmetics, paper, shoes and slippers, other machinery and parts other than India, has decreased during the review period of 2004/05. However, the import of edible oil, pepper, nuts, fat, M.S. billet, M.S. wire rod, copper rod, scrapes and sheet increased from these countries during the same period. In the total imports, from other countries, the share of raw materials and capital goods was 60.9 percent during FY 2003/04, which dropped to 53.1 percent, during the review period of FY 2004/05, which is a decline of 7.8 percentage point.

Trade Balance

6.11 During the first eight months of FY 2004/05 total trade deficit narrowed by 11.5 percent amounting to Rs. 44.6 billion. Trade deficit had increased by 8.6 percent totaling Rs. 50.39 billion during the same period of FY 2003/04. During the review period of FY 2004/05 trade deficit with India decreased by 2.6 percent totaling Rs. 26.97 billion, whereas trade deficit with other countries fell by 22.4 percent totaling Rs. 17.63 billion. Trade deficit with India and other countries had increased by 4.6 percent and 13.9 percent respectively within the same period of FY 2003/04. Of the total trade deficit, India's share has been 60.5 percent and the share of other countries was 39.5 percent during review period of FY 2004/05. Such share of India and other countries was 54.9 percent and 45.1 percent respectively during the same period of 2003/04.

6.12 Income from export of goods and services used to be the major source of foreign currency earning till few years ago. In recent years, however, the remittance income has taken the lead in this area. Considering the contribution made by foreign employment and realizing the possibility of increasing foreign employment opportunity, continuity will be provided to bringing reforms in policy and the process for easy and reliable inflow of such income through the banking system.

Box 6 (3)

Promotion of Foreign Employment and Remittance Income

a) HMG has made provision of foreign employment loan for marginally poor people from among affected by the conflict, disadvantaged, minorities and women. Arrangement is made for providing 80 percent of such loan without any collateral. In this context, Nepal Rastra Bank has made arrangement to consider as poverty group loan, up to the amount of Rs.

100,000 to be provided by commercial banks for those wanting to go for foreign employment for the promotion of foreign employment, a major source of foreign currency earning.

b) Since, last few years, money transfer institutions are being encouraged with the objective that the Nepalese workers engaged in foreign employment could send their foreign currency earnings easily to their family. The number of such licensed institutions has gone up from 29 to 40 and these institutions are expanding their services through their sub-agents even internally. Letter of intent has been issued to additional 55 institutions during this year only.

c) In addition to purchase rate margin, commission of 15 Paisa per US dollar is permitted to such money transfer agencies in the private sector to encourage the inflow of convertible currency earned through foreign employment.

d) Facility to open foreign currency account is given to agencies engaged in sending Nepalese for foreign employment and institutions eligible to accept payments in convertible currency against their services.

e) Policy decision has been made to allow opening of convertible currency account to agencies licensed to conduct remittance transaction as per the prevailing rules.

f) If a Nepal-based licensed agent/representative of any foreign-based money transfer company needs bank guarantee for the purpose of receiving advance payment from its principle company, a policy provision of making such facility available, within the specified limits, directly from the commercial banks has been initiated since FY 2004/05. This provision is expected to facilitate the licensed agents in making immediate payments of the remittance to the concerned parties.

g) Policy provision is already in place to allow opening branch/representative office (in India and in other countries) to Nepalese foreign employment services agencies.

Source: Nepal Rastra Bank.

Balance of Payments

6.13 Balance of Payments Statistics[1], for the first seven months of FY 2004/05 show a noticeable increase in the current account surplus mainly led by a decrease in trade deficit and substantial increase in net transfer income despite remarkable decrease in net service income. Current accounts remained surplus during this period despite highly unfavorable Financial accounts, which was offset by increase in Miscellaneous Capital inflow. As a result, overall Balance of Payments remained favorable during the

[1] Format of Balance of Payments (BOP) reporting has been revised to the international standard with more detailed classification of statistics that facilitate analysis in comparative terms.

review period of FY 2004/05. Total exports in the review period of FY 2004/05 increased by 2.4 percent totaling Rs. 33.10 billion while total imports decreased by 2.3 percent totaling Rs. 71.50 billion. Thus, trade deficit of Rs. 40.82 billion in FY 2003/04 decreased by 5.3 percent totaling Rs. 38.40 billion only during the review period of 2004/05. Service category, which is an important sector in Nepal's international transactions, declined substantially during FY 2004/05. Total Service Sector income declined by 12.6 percent during the review period of FY 2004/05. Such decline is mainly attributable to the decline in income from Tourism by 27.3 percent due to slackness in this business despite 1.6 percent increase in incomes from other Services Sector and Government income (not shown else where) by 8.7 percent. Under Services category, payments for Travel expenses and Other payments increased by 40.3 percent and 28.2 percent respectively despite a decrease of 4.4 percent in Transport Service category. As a result, total payments under Services category increased by 17.5 percent totaling Rs. 13.83 billion in the review period of 2004/05 as compared to that of FY 2003/04. Net service income dropped by a higher rate of 79.8 percent because of decrease in income but substantial increase in payments. In the Income under Transfer Category, Remittances[2] is the key player. Income from this sub category in the review period of FY 2004/05 stood at Rs. 36.06 billion with an increase of 2 percent as compared to the corresponding period of FY 2003/04. Grant aid receipts of the government increased by 8.5 percent and there was a substantial increase in pension and other transfer income during this period. As a result, total Transfer income increased by 10.3 percent. As a counter to the income, amount of payments under the Transfer income was small and diminishing. The Net Transfer income, therefore, increased by 10.4 percent totaling Rs. 55.34 billion during the seven months of FY 2004/05 as compared to the same period of FY 2003/04. Under the Capital Accounts, Capital Transfer dropped by 35.9 percent reduced to a total of Rs. 700 million during the first seven months of FY 2004/05 as compared to FY 2003/04. Under Financial Account, other Investment Assets, as counter to the other Investment Liability remained high. As a

[2] It is to be noted that income from this Remittances is based on employee's working overseas and estimated transfer for their earnings.

result, the Net Financial Account deficit in the review period of FY 2004/05 widened by 205.8 percent totaling Rs. 20.78 billion.

Box 6 (4)

Possible Impact on Balance of Payments due to WTO Commitments Related to Service Sector.

Nepal has made a number of commitments for liberalization of 70 sub-sectors related to 11 (out of 12) services sectors in the process of getting WTO membership. Some of the aspects indicated by the study conducted by Nepal Rastra Bank on the impact of Balance of Payments situation due to Nepal's WTO service sector commitments are as follows:

a) Maintaining harmony through revisions of concerned law and policy in payment system.

b) Strengthening of monitoring mechanism of transactions along with improvement in the context of increasing service related foreign transactions and new means be adopted in such transactions.

c) Though, the liberalization of service sector does not show any special impact in the short term as its impact is also slowly visible, weakening of Balance of Payments situation will start slowly if the service sector could not be made competitive. However, if the opportunities available by liberalization are utilized by making the service sector competitive, the Balance of Payments situation will be healthy over a long period.

d) Since the study regarding the impact on Balance of Payment by liberalization of service sector shows that the gap between two different situation (WTO low/WTO-high) increase with time. This indicates the probable vulnerability and as such, reform in foreign exchange management should be made as per the demand of situation.

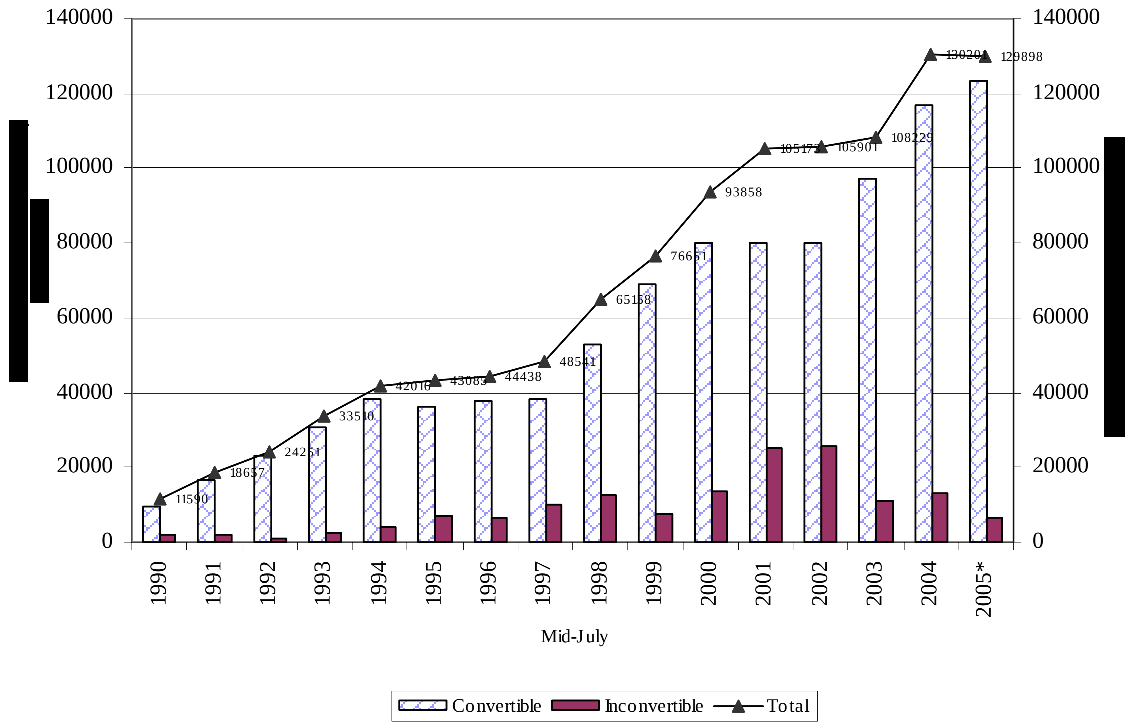
Source: Nepal's WTO Service Sector Commitments and its Impact on Balance of Payment Situation "2005, Draft Report NRB.

6.14 Current account surplus during the first seven months of FY 2004/05 as compared to the same period of FY 2003/04 surged up by 28.3 percent totaling Rs. 17.30 billion. Similarly, Miscellaneous Capital Inflows increased by 4.1 percent totaling Rs. 5.19 billion during the review period of FY 2004/05 as compared to the same period of previous fiscal year. As a result, BOP accounts turned positive by Rs. 2.92 billion during the first seven months of FY 2004/05.

Foreign Exchange Reserves

6.15 Foreign exchange reserves, which increased by 14.3 percent during mid-July to mid-February of FY 2003/04, slipped marginally by 0.2 percent

Chart 6 (b) : Foreign Exchange Holdings of the Banking System



during the first seven months of FY 2004/05 and totaled Rs. 129.9 billion. Of the total reserve, the share of NRB and commercial banks is 81.5 percent and 18.5 percent respectively. Share of convertible currency in the total reserve is 94.9 percent and that of inconvertible currency dropped to 5.1 percent during the review period of 2004/05. The reasons for such increase in share of convertible currency, among others, are higher rate of decrease in imports from other countries and increase in remittance income entering through the banking channel. In the same period of FY 2003/04, share of convertible and inconvertible currencies was 88.6 percent and 11.4 percent respectively. Of NRB's reserve of Rs. 105.91 billion equivalent in the review period of FY 2004/05, share of convertible and inconvertible currencies remained 94.8 percent and 5.2 percent respectively. Of the total reserve of Rs. 23.99 billion equivalent of foreign currencies held by the commercial banks, share of convertible currencies remained 94.9 percent and inconvertible currencies 5.1 percent. From the observation of the trend of imports during the review period of 2004/05, total reserve is estimated to cover 12.7 months of imports of commodities and 10.7 months of import of commodities and services combined. Foreign assets held by banking sector during the mid-July 2004 to mid-March 2005, dropped by 0.3 percent and stood at Rs. 130.96 billion. At the same time foreign liabilities declined by 5.4 percent and totaled Rs. 21.35 billion. Foreign assets and liabilities increased by 14.2 percent and 27.2 percent respectively during the same period of previous fiscal year. Thus, net foreign assets increased by 4 percent totaling Rs. 109.61 billion at mid-March of 2005.

Exchange Rates

6.16 During the first eight months of FY 2004/05, a mixed trend of exchange rates of Nepali Rupee vis-à-vis major foreign currencies was observed. In comparison to the rate of mid-July 2004 with that of mid-March 2005, Nepali Rupee appreciated by 4.9 percent against U.S. dollar and by 1.4 percent against Sterling Pound but it depreciated against all other main international currencies. During the review period, Nepali Rupee depreciated by 3.4 percent in terms of Euro, 1.9 percent in terms of Swiss Frank and 0.1 percent in terms, Japanese Yen. To the contrary, between the same month of 2003 and 2004, Nepali Rupee had appreciated by 2.1

percent against US dollar while it depreciated with other currencies e.g. by 8.6 percent against Sterling Pound, 6.1 percent against Euro, 5.4 percent against Swiss Frank and 3.5 percent against Japanese Yen.

Challenges

6.17 Nepal is established as a main touristic destination among the global community. The tourism industry is relatively less capital intensive and gives higher comparative benefit. In this context, it is necessary to develop integrated tour packages for all concerned to this sector. At the same times the per capita income of the people of India and China, two neighboring countries of Nepal, is increasing due to high economic growth rate of these countries. Because of which the possibility of coming as a tourist, specially, religious tourist, in Nepal by the family of higher and middle class families of these countries is growing. Thus, it is challengeful to develop Lumbini Area including Buddha Monastery, Bihar, Kunja and other famous temples and religious places as well as development of infrastructure like road, water, health posts, communication, hotel, tourism security arrangement etc. Similarly it is also a challenging task to attract and increase the average stay of rich tourists from other countries by developing additional activities like rafting, hot air balooning, rock climbing, bungy jumping, ice skeeing etc.

6.18 Since last few years remittance income is playing a main role for the foreign currency earnings and favourable impact on Balance of Payments position, and ultimately to reduce the number of people in the country below poverty line. The contribution from this sector could be substantially increased by making the remittance income of the Nepalese employees overseas as reliable and by enhancing the supply of efficient manpower. Thus, identification of market through the related institutions involved in foreign employment services and Royal Diplomatic Missions located in foreign countries, and development of national and regional level mechanism for the training to increase the efficiency of such workers in different area is a challenging task. Similarly development of special passport for people going for foreign employment for the purpose of identification of such workers, estimation of their number and income and make inflow of such remittance income though institutional channel is also are necessary tasks.

6.19 Existing Commerce Policy of 1992 is not suitable in the present context, since Nepal is already a member of WTO, and attached with regional trading system like SAFTA, BIMST-EC. Thus, it is necessary to develop and initiate revised a new Commerce Policy by incorporating the change in above stated context including the change in transit sector, development of multi model transportation system etc. Like in other countries commercial policy should be prepared specifying the time period, for making commerce sector more liberal, competitive and market oriented to maintain the sustained high economic growth rate.

6.20 Nepal is now a member of WTO. As such, it is not possible to undermine the possible achievement of regional integration and multilateral Agreements, despite Nepal's potentially negligible share in the global market. Thus, it is challengeful to prepare and execute the policies for Tourism, Services and Foreign employment sectors to maintain sustainable and enduring BOP surplus by accepting the concept of Regional and Global Road Map.

6.21 Quality control is a compulsory condition to achieve the comparative benefit from international trade and to remain competitive in the market. Very few industries of Nepal are able to get ISO 9000 Certification. In this context, many Nepalese exportable goods are not able to get market in developed countries like European Community, USA, and Japan in absence of such Certification. Thus, development of necessary mechanism to determine the quality of exportable goods of Nepal and execute the system of quality examination and their compulsory certification is still a challenging task.

6.22 Establishment and management of Export Processing Zone (EPZ) may contribute to increase the export of non-traditional goods, increase the production and trade process with high technology, and create employment opportunities. A high level working group was formed in 1990 in Kathmandu for the promotion and development of export oriented industries. However, it was not able to achieve its goal. Thus, establishment of EPZ in different regions of the country could contribute for the production and export of exportable goods. Now it is a challenge to the government to develop suitable laws and regulations helping for the establishment of EPZ in both government and the private sector.

6.23 If Nepal can be developed as a transit point between India and China, it will be helpful to Nepal to find out and explore its own export possibility in the context of increasing trade and high economic growth rate of these two large neighbouring countries. It is to be noticed that Mainland China is constructing railway at a high speed with the objective of connecting Lhasa by railway till 2006. Thus, it is necessary to develop alternate highways with high transit capacity connecting Kathmandu Valley and Terai as a prerequisite before developing it as a transit point. Similarly, development of Kathmandu-Kodari Highway, as an international highway and development of transportation facility for the enhanced trade from other transit points opened between Nepal and China, is an imminent challenging task.

7. Poverty Alleviation and Employment

Poverty Alleviation

7.1. The practice of analyzing poverty with respect to the indicators of human development and overall social inclusion is increasing, instead of looking it merely on the income generation aspect. Such practice of incorporating social indicators including economic factors has begun in Nepal as well. Indicators related to Human Development is inclusive of the literacy rate, enrollment at the primary school level, infant mortality rate, maternity death rate, average life expectancy, access to safe drinking water, utilization of housing facilities, access to public services, etc.

7.2. The first Living-standard Measurement Survey (NLMS) was conducted in Nepal in an organized manner by the government since F.Y. 1995/96. During that time, the population below the poverty line was estimated approximately at 42 percent. Recently, the Central Bureau of Statistics has completed the second Nepal LSMS in 2003/04 and has published the results. Basically, this current chapter analyzes the status of poverty in Nepal on the basis of the results of the said Survey.

7.3. **Introduction of the Survey**: The second NLMS 2003/04 is the analysis of poverty based on the household statistics collected during FY 2003/04. The Central Bureau of Statistics had already published the status report relating to education, household employment, agriculture, consumption and income inclusive of other public services, on the basis of the data collected by the second survey in the month of Oct.-Nov. 2004. The Central Bureau of Statistics (CBS) conducted the second NLMS as per the framework and procedures followed by the World Bank in conducting such Survey in many countries of the world. This survey was funded and technically supported by the World Bank, and the DFID of the United Kingdom. Scores of information had been collected from the Nepalese household samples while conducting the first survey in 1995/96. On the basis of the response of the questionnaires, data were processed, analyzed and results were published. Later, the poverty level was analyzed on the basis of the statistics generated by that first Survey. The second survey has been conducted using the framework similar to the previous one. The main objective of this survey has been to update the Living Standard Statistics completed and to measure and analyze the changes that have occurred in these statistics over a period of eight years since 1995/96.

Box 7 (1)

Summary of the Results of Poverty Analysis

a) In the year 2003/04, around 31 percent of the population is estimated to live below the poverty line, which was estimated at 42 percent in the year 1995/96.

b) According to the current estimates, the population below the poverty line in the rural areas has declined by 8 percentage point (from 43 to 35) and in the urban areas by 12 percentage point (from 22 to 10) over the period of 8 years between 1995/96 and 2003/2004.

c) Over the period, there has been an improvement in the Poverty Gap (P1). It is estimated that a larger proportion of population lying below the poverty line has moved up towards the poverty line.

d) The average per capita consumption expenditure in the year 2004/05 is estimated to have gone up to Rs. 15,224 from Rs. 7,235 of the year 1995/96. The average per capita consumption figure in 2003/04 turns out to be Rs. 10,318 at constant price of the year 1995/96.

e) The major factors leading to the significant leap in the per capita consumption expenditure over the years are remittances, average earnings and wages from the agriculture sector, income and wages from non-agricultural profession/occupation, proportion of economically active population and significant increase in urbanization etc.

f) A follow up analysis of the households who were included in the 1995/96 survey, reveals that the population living below the poverty line has gone down to 32 percent from 39 percent.

g) Though there has been improvement in consumption level and poverty rate, disparity meaning the gap between the rich and the poor has widened over these two survey periods. The Gini Coefficient, indicating disparity, has gone up over the period from 0.34 in FY 1995/96 to 0.41 in FY 2003/04.

h) The proportion of household income shared by remittance has gone up from 6 percent to 10 percent over the two survey periods. During FY 1995/96, the proportion of households receiving remittances as their income was 23 percent whereas in FY 2003/04 the proportion has gone up to 32 percent. At constant prices, the remittance income has gone up by 156 percent over the period of eight years.

i) Over the period of eight years, the number of households living in fully cemented or partially cemented houses or with houses with corrugated zinc roofs sheets have gone up significantly. Similarly households having access of piped drinking water and sanitation facilities have gone up from 33 to 44 and 22 to 39 percent respectively.

j) In relation to the availability and accessibility of social services like the provisions of main market, fair weather road, all weather road, and banking facility within a domain of 30 minutes range of their domicile, the number of households have gone up by 13.0, 10.0, 10.0 and 7.0 percentage points respectively.

k) Over the period of eight years, the ratio of gross primary school enrolments has gone up to 72 percent from 57 percent. Similarly, during the same period, the percentage of Children taking full doses of vaccination and other inoculations has gone up to 59 percent from 36 percent.

Source: Central Bureau of Statistics

7.4. **Sampling procedure of the Survey**: For the sampling purpose, the country was divided into six blocks as: 1. Himalayan region, 2. Kathmandu Valley urban area, 3. Other Hilly urban region, 4. Hilly rural region, 5. Urban Terai region, and 6. Rural Terai region). In the first stage of sampling, 326 Primary Sampling Units (PSU) were determined from these 6 blocks. In the second stage, 12 households were drawn from each (PSU) under the systematic sampling. A total of 3,912 households were selected for the purpose of Direct Personal Interviews. Standard questionnaires were used in order to collect information from the households. With a view to minimize the seasonal effect, work was carried out in the sampled areas throughout the year. Similarly, in order to make a comparison with the previous survey, out of 1,160 such households identified from 95 sampling units, 962 families which could be located were re-interviewed.

7.5. **Reference Time of Survey (Time Frame)**: The data collection under the survey was conducted within the year 2003/04. Since the data relating to the household consumption expenditure were collected before 12 months of the interview period, the information were collected for the whole year 2003/04 (2060 B.S.).

7.6. **Poverty Measurement Methodology**: The poverty level measured through the second LSMS is fundamentally based on the analysis of the consumption expenditure of families. For this, measurement (of poverty) has been arrived at by assessing the average calorie intake of average Nepalese people. Based on calculation of calorie intake necessary for a child, youth, woman and old person, on an average, 2144-calorie intake is found to be necessary for healthy living of a person. It was 2124 calorie in the year 1995/96. The reason for this rise in the required calorie intake level during the period of 8 years is that the proportion of minor members in the families has decreased whereas the proportion of adults has gone up.

7.7. **Poverty Incidence (Po)[1] :** The analysis of poverty incidence with the help of the above technique reveals that around 31 percent of population was below the poverty line in 2003/04, which was 42 percent in 1995/96. A comparison of poverty level between the rural and the urban areas reveals that 10 percent in the urban areas and 35 percent in the rural areas of the population remain below the poverty line. This was 22 percent and 43 percent in the urban and rural areas respectively in the first survey of 1995/96. Thus, we can find that the proportion of population living below the poverty line has decreased by 12 percentage points in the urban areas and 8 percentage points in the rural areas over the period of eight years. Apart from this, there has been also an improvement in the poverty gap (p1). The poverty gap indicator reveals the percentage of the poor living down below the poverty line. This index was 11.75 in the year 1995/96, which has improved with the estimated index of 7.55 by 2003/04. This means that a significant proportion of the poor have moved closer to the poverty line. Along with the above changes, the squared poverty gap (P2) has also improved. This indicator reflects the income disparity existing among the poor. Based on these two indicators, we can observe that improvement in the status of the poor in the urban areas in comparison to the rural areas has been better. Comparative analysis of the results of the two surveys conducted in 1995/96 and 2003/04 has been presented in the following Table 7 (a)

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[1] From the given formulae, three index of poverty analysis can be calculated. This is known as FGT index.

$$P_\alpha = \frac{1}{N}\sum_{i=1}^{q}\left(\frac{(Z-Y_i)}{Z}\right)^\alpha$$

where Pα = absolute poverty measurement, Yi = total expenditure of the household (or income), Z = poverty line, n = total household numbers, q = number of household below poverty line. α = 0 indicates incidence of poverty, α = 1 indicates depth of poverty, α = 2 indicates severity of poverty.

Table 7 (a)

Comparative Analysis of Poverty Measurement

	Poverty Incidence- Po (In Percent)			Poverty Gap (P1)			Squared Poverty Gap (P2)		
	1995/96	2003/04	Change %	1995/96	2003/04	Change %	1995/96	2003/04	Change %
Nepal	41.76	30.85	-26	11.75	7.55	-36	4.67	2.7	-42
Urban Area	21.55	9.55	-56	6.54	2.18	-67	2.65	0.71	-73
Rural Area	43.27	34.62	-20	12.14	8.50	-30	4.83	3.05	-37

Source: Central Bureau of Statistics.

7.8. **Poverty Situation in the Survey Stratum**: The analysis of the poverty situation in the 6-survey stratum reveals that Kathmandu Valley Urban area has the lowest of 3.3 percent population below the poverty line. The estimates for the population below the poverty line in other regions is: Other urban areas 13 percent, Western Hilly region 37.4 percent, Eastern Hilly region 42.9 percent, Rural Western Terai 38.1 percent, and Rural Eastern Terai 24.9 percent. In comparison to 1995/96, Standard of Living, in the urban areas including that of Kathmandu Valley, has significantly improved in 2003/04. The poverty situation in urban areas of Kathmandu Valley has come down to 3.3 from 4.3 percent, while in other urban areas of the country it has come down to 13 percent from 31.6 percent. Similarly, in rural Hilly region of Western Nepal poverty level has gone down from 55 percent to 37.4 percent, in Western rural Terai from 46.1 percent to 38.1 percent and in the Eastern rural Terai, the percentage has gone down to 24.9 from 37.2. However, the Survey has indicated that poverty situation in the Eastern rural Hilly areas has rather deteriorated with an increase from the previous 36.1 percent to 42.9 percent.

7.9. **Poverty Situation According to the Development Regions:** From the regional perspective, the poverty level is estimated to have decreased 38.9 percent to 29.3 percent in the Eastern Development Region, 32.5 percent to 27.1 percent in the Central Development Region, 38.6 percent to 27.1 in the Western Development Region, 59.9 percent to 44.8 percent in the mid-Western Development Region and from 63.9 percent to 41.0 percent in the far Western Development Region.

7.10. **Distribution of Poverty**: The results of the analysis reveal that of the total poor of Nepal, 29.4 percent poor live in the middle and Eastern rural hilly areas where the population is also high. Accordingly, the percentage of the poor is 23.6 in the rural areas of the Western Hilly region and 23.5 percent in the rural area of the Eastern Terai. Similarly, in the rural areas of Western Terai, it is 18.9 percent and in the urban area it is about 4.7 percent. According to the estimate, 7.5 percent out of the total poor dwell in the Himalayan region, 47.1 percent in the hilly or Mountain region and 45.4 percent in the Terai region. The detailed description of the above findings is presented in the following table 7 (B):

Table 7 (b)

Areas wise Poverty Status

Area	**Number of Poverty (In percent)**		**Distribution of Poor (In Percent)**		**Distribution of Population (In Percent)**	
	1995/96	2003/04	1995/96	2003/04	1995/96	2003/04
Nepal	41.8	30.8	100.0	100.0	100.0	100.0
Urban	21.6	9.6	3.6	4.7	6.9	15.0
Rural	43.3	34.6	96.4	95.3	93.1	85.0
Area of Survey						
Urban Area of Kathmandu Valley	4.3	3.3	0.3	0.6	2.6	5.4
Other Urban Areas	31.6	13.0	3.3	4.1	4.4	9.7
Western Rural Mountain/Hill	55.0	37.4	32.7	23.6	24.8	19.4
Rural Eastern Mountain/Hill	36.1	42.9	19.4	29.4	22.4	21.1
Western Rural Terai	46.1	38.1	18.4	18.9	16.7	15.3
Eastern Rural Terai	37.2	24.9	25.9	23.5	29.1	29.1
Development Region						
Eastern	38.9	29.3	21.0	23.4	22.5	24.7
Central	32.5	27.1	26.9	32.2	34.6	36.6
Western	38.6	27.1	18.7	16.7	20.3	18.9
Mid-Western	59.9	44.8	18.5	17.7	12.9	12.2
Far-Western	63.9	41.0	14.8	9.9	9.7	7.5
Geographical Region						
Mountain	57.0	32.6	10.7	7.5	7.9	7.1
Hills	40.7	34.5	41.9	47.1	43.0	42.1
Terai	40.3	27.6	47.4	45.4	49.2	50.8

Note: Rural western hilly region includes, western region, mid-western region, far western Himalayan and hilly region. Rural western tarai region includes, western region, mid western

region, tarai region of far western region. Rural eastern hilly region includes, central region and Himalayan and hilly region of eastern region. Rural eastern tarai region includes central and tarai region of eastern region.
Source: Department of Central Bureau of Statistics.

7.11. **Per Capita Consumption Expenditure:** Basically this survey has measured poverty level on the basis of the consumption expenditures. Overall per capita consumption expenditure is estimated at Rs. 15,224 in the year 2003/04 which was just Rs. 7,235 in the year 1995/96. After adjusting the effect of inflation over the years, the average per capita annual consumption is estimated to be Rs.10,318 at the constant price of 1995/96, a 43 percent increase consumption expenditure over the period of eight years in real terms.

7.12 **Estimation of the Panel Data**: With a view of making comparison of the poverty measurement, 3912 households of 326 survey units of the Kingdom were interviewed during the survey of 2003/04. Besides, 962 households already used in 1995/96 survey were located and interviewed, which has been termed as panel data here. The analysis of poverty level of those household units reveals that during a period of eight years the population below the poverty line has decreased to 32 percent in the year 2003/04 from 39 percent in 1995/96. In this way, the overall poverty rate has declined by 7 percent. But, over the period of eight years, some population above the poverty line is estimated to have slipped below the poverty level and the level of some did not change. The result of two surveys reveals that about 50 percent of the population below the poverty line has come above the line, whereas about 20 percent of the population from above the poverty line has gone below it over a period of 8 years.

7.13 **Inequality in Consumption Level**: In between the period of two Surveys, though there has been an improvement in the consumption poverty rate, a lacuna between the rich and the poor is reflected to have occurred in the form of consumption inequality. The Gini Coefficient (poverty indictor) of 1995/96 was 0.34 whereas it rose to 0.41 in the year 2003/04. It is a clear indication of disparity in the rate of growth of consumption between the rich and the poor. Over the period of eight years, the analysis of the per capital consumption at constant prices reveals that the per capital consumption of the 20 percent of bottom population has gone up just by 22 percent whereas during the same period, the per capita consumption expenditure of the top 20 percent of the population has gone up by 64 percent. On the basis of the consumption expenditure it is revealed that the bottom 20 percent population share only 7 percent of the total consumption with the upper 20 percent sharing 49 percent, as compared to 8 and 43 percent respectively in the year 1995/96.

7.14 **Likely Reasons for Increase in Consumption:** The significant increase in the remittance income has contributed mainly for the increase in overall family consumption. At constant prices, the remittance income has gone up by 156 percent. Similarly, an increase in agricultural productivity, an increased demand for labor in other sectors resulting into an increase in wages in the agricultural sector, contributed to the increment in demand for goods and services. Besides, growth in urbanization reaching 15 percent from 7 percent over the period of eight years has generated opportunities for labor force (manpower) to work in a highly productive areas contributing towards the increase in aggregate expenditure. On the whole, the increase in the proportion of economically active population in the total population could be taken as another main contributing factor in the increase in per capita real consumption expenditures.

7.15 **Household Income:** In between two survey periods, the average household income has gone up by more than 80 percent. Accordingly, the per capita average income over the period has gone up to Rs. 15,162 from Rs. 7,690. Over the period of eight years, occurrence of a significant change is clearly visible in the composition of income sources. During this period, the proportion of income from agricultural sector has gone down to 48 percent from 61 percent, while proportion of income from non-agricultural sector has gone up to 28 percent from 22 percent, and the proportion of other income including remittance income has gone up to 25 percent from 16 percent. In the NLMS of 1995/96, the share of agriculture sector in the income from daily wages was 53 percent, which has gone down to 37 percent in the 2003/04 survey. But the share of non-agriculture sector during this eight years period has gone up by 16 percentage points. Similarly, in the agricultural sector, average increase in daily wages is 88 percent whereas in the non-agricultural sector it is 80 percent only. Between the two survey periods of NLMS in 1995/96 and 2003/04, the percentage of households involved in non-agricultural businesses has gone up to 28 percent from 24 percent. The share of trade, industry and services under the non-agricultural business were 52, 30 and 14 respectively in NLMS 1995/96 whereas in NLMS 2003/04, the share of each of these components remained within the range of 30 percent. Among the non-agricultural business run by the households, only 20 percent of them are formally registered which is more than 8 percentage points than in the previous survey. Over the survey period, the income per business has gone up to Rs. 315,176 from Rs. 109,069 and the net average income has reached to Rs. 50,017 from Rs. 24,717 reflecting more than two folds increment.

7.16 **Remittance**: In the first NLMS of 1995/96, the households receiving remittances were only 23 percent whereas this figure has gone up to 32 percent in LSMS 2003/04. Over this period, the average household income from remittance has gone up to Rs. 34,698 from Rs. 15,160 out of the total households receiving remittance income. The share of remittance coming from outside Nepal has gone up to 76 percent from 55 percent over the period. The share of remittance received from India over the period has declined to 23 percent from 33 percent between the survey periods. During this period, out of the households receiving remittances, the share of remittance to their total income rose to 35 percent from 27 percent. The total remittance income between the two Survey periods has gone up sharply from Rs. 13 billion to Rs. 46 billion.

7.17 **Family Expenditure and its Adequacy**: Over the period of eight years, there has been a significant improvement in all categories of consumption as revealed by the personal expenditure statistics collected from personal interviews. Assuming as "Poor" to the respondents responding as "the consumption of the household was less than needed," it has been found that 'material poverty' as such has gone down significantly while comparing the two survey results. During the same period, the percentage of the households who said that their expenditures were "less than needed" in food consumption, housing, clothing, health and education of children, has gone down to 31 from 50, 41 from 64, 36 from 58, 28 from 69 and to 21 from 45, respectively. However, regarding the adequacy relating to total income, the percentage of the households responding as "their gross income was less than needed", has slightly come down to 67 percent from 73 percent, over the years.

7.18 **Consumption on Residential Services:** The survey has found 92 percent of families living in their own houses, which is a decline of 2 percentage points from that of 1994/95. Over the period of eight years, the number of families living in a rented house has increased to 5 percent from 2 percent. However, the number of families living in concrete walled, reinforced concrete roofed, and corrugated zinc sheet roofed houses has increased significantly. Similarly, the percentage of families having access to electricity, tap water and sanitation facilities has increased from 14 to 37 and 33 to 44 and 22 to 39 percent respectively over the survey periods.

7.19 **Access to Public Services**: In comparison to the previous Survey, significant improvement in the accessibility of services to families has been noticed in this second Survey. According to the result of this survey, on an average, 91 percent of the families have access to schools for their children within 30 minutes from their residence. This figure was 88 percent in the first survey. Similarly, the percentage of families having access to main market, black topped road, fair weather road, and banking facilities within a 30 minutes distance from their residence has increased by 13.0, 10.0, 10.0 and 7.0 percentage points respectively over the period of eight years. In NLMS of 2003/04, when asked to categorize the public services used by the households as 'good', 'satisfactory' and 'poor', a majority of households expressed it as 'satisfactory'. Similarly, the percentage of households expressing health, education, water supply and telephone services as 'poor' has been 22, 15, 23 and 28 percent respectively.

7.20 **Educational Situation:** The percentage of population of 15 years of age or more, who joined school at least once has increased to 46 percent in 2003/04, from just 34 percent during the Survey of 1995/96. Over the period of past eight years, the gross enrollment ratio at primary level has increased to 72 from 57. Similarly, its ratio to lower secondary and secondary levels has increased to 29 and 15 from 19 and 9 respectively.

7.21 **Vaccination, Family Planning and Maternity Services:** In past eight years, the percentage of children receiving the complete dose of the vaccination has increased significantly to 59 percent from 36 percent. During the same period, the average number of children, given birth by the women between 15 and 49 years age group, who have given birth to a baby at least once in their lifetime, has declined to 2.4 from 2.6. Over the period of these two Surveys, the number of women between 15 and 49 years of age, who knew at least one mode of family planning has increased by 17 percent reaching to 77 percent. The percentage of expectant mothers, who consulted for the medical services at the maternity homes before and after the childbirth, has increased by 57 and 13 percent respectively.

7.22 **Migration**: The Survey revealed that of the total migration taking place, 75 percent has cited as family reasons, 12 percent for comfortable living condition and 7 percent looking for jobs. Also, according to Survey result, 50 percent of women have migrated because of family and social reasons, which is more than double of 22 percent for men migrating for the same reason. Similarly, this survey has revealed that a 5 percent of the children belonging to age group below 15, have the tendency of leaving their homes.

7.23 **Labor force**: The first Survey of 1995/96 revealed that 67 percent of the labor force was productively employed, which has increased to 74 percent by the second Survey of 2003/04. During this period, the percentage of economically inactive labor force population has gone down to 23 percent, a decrease of 6 percentage point between these two periods. The unemployment rate in the year 1995/96 was 4.9 percent and the figure has fallen to 3.8 percent according to Survey report of 2003/04.

7.24 **Household Credit:** The first Survey had revealed that in the year 1995/96, 61 percent of the households borrowed money for various purposes. This figure has gone up to 69 percent in the year 2003/04. Of the total number of households taking loans, moneylenders' share has gone down to 26 from the previous 40 percent, and from friends and relatives up from the previous 41 percent to 55 percent. During the same period, the percentage of households opting for business or agricultural and household credits have gone down to 24 percent from 29 percent and to 47 percent from 49 percent respectively.

7.25 **Poverty Alleviation Fund:** A Poverty Alleviation Fund (PAF) has been established as an autonomous institution through a separate Act- 'Poverty Alleviation Fund Ordinance 2004, to implement the targeted programs to ameliorate the situation of the lower strata of the society mired in absolute poverty, addressing HMG/N's Poverty Reduction Strategy

(PRS). The Development Grant Agreement and Project Agreement for the Grant Assistance equivalent to US$15.00 Million has been signed between HMG/N and World Bank on 14 September 2004 for Fund. Further more, the Subsidiary Grant Agreement between HMG/N and PAF has been signed on 11 November 2004. The Fund has prepared Operational and Financial Manual, Environmental Assessment Framework and PAF rules as a part of managerial responsibility for the effective and efficient functioning of PAF secretariat and for the execution of the Poverty Alleviation Programs. The Fund has already started its activities in close and active collaboration with poor and deprived groups of people of the society. PAF promotes demand-led Community Driven Approach using rigorous social mobilization by organizing and bringing poor at the mainstream of development. In this background, the fund has started to support the programs formulated by the active participation of the targeted community. Similarly, the Community Organizations (COs), representing the targeted community, have been formed and capacitated for the effective and efficient implementation of the community-led projects. Similarly, the Partner Organizations (POs) have been selected from among NGOs, Private Organizations, and Local Government Organization (DDCs/VDCs) for their necessary cooperation. These POs are responsible for providing the technical support as well as facilitating COs in social mobilization, capacity building and skill development trainings, institutional development of COs, and designing and implementations of community projects/sub-projects. They also help in coordination and establish linkage between PAF and COs. PAF's programs have been implemented in selected 6 pilot districts viz. Darchula, Mugu, Pyuthan, Kapilvastu, Ramechhap and Siraha. Beside these districts, PAF has been conducting its programs in other districts by selecting innovative proposals. In FY 2003/04, a total of 68 POs were selected and signed Agreement for social mobilization, institutional capacity building and providing facilitation support for preparation of community proposals. Furthermore, 261 COs were formed and registered with the PAF covering 207 VDCs of 8 districts. Among the registered, 164 COs have signed Agreement with PAF for implementation of community projects

7.26 **Employment**: Various periodic surveys, so far, has been the basis of assessment of employment situation and its forecasting in absence of a separate employment forecasting system. The Tenth Five Year Plan

(2002 -2007), estimates that additional 1.05 million employments (Job opportunities) will be created during the plan period. Productivity increases in different sectors of the economy and their inter-sectoral linkages are thought to generate new employment opportunities. So the composite inter linkages of the sectors are estimated to generate a total of 11.012 million jobs by the end of the Tenth Five Year Plan. As mentioned in the Tenth Five Year Plan, by the end of the planning period, a total of 11.580 million populations would reach the economically active level, out of which fully unemployed population would be only 4.1 percent. The situation of disguised or under-employment is estimated to go down to 22.3 percent by the end of the Plan period.

7.27 Since the main objective of the Tenth Five Year Plan is the reduction of poverty by generating employment opportunities, various policies aimed at poverty-reduction have been introduced accordingly. Such programs and policies are aimed towards expanding economic and social development works so as to general employment opportunities. In this context, in order to generate accessibility of opportunities to the poor, labor oriented or labor intensive productions units will be encouraged. The economically disadvantaged region, people and communities will be the target groups to be addressed by the programs in order to generate employment opportunities. Similarly, increase in business efficiency and the aspects of protection of basic rights of workers will be handled in a balanced way. In the same way, the policy also includes the maximum utilization of foreign employment opportunities by increasing the number of skilled manpower.

7.28 In connection of employment generation, HMG/N is continuously adopting different policy-wide, legal, institutional and structural reforms, of which the following are the major ones:

7.28.1 In the fiscal year 2003/04, HMG/N has introduced the policy to replace obsolete training programs. Accordingly, new training programs have been designed by incorporating new subjects, which are in demand in the foreign labor market.

7.28.2 A double-track system has already been introduced in training centers from FY 2003/04, in which basic training for absolute poor would be imparted free of cost and a fee will be charged for the subsequent upgraded training for making these training centers self sustainable. Accordingly HMG/N has signed an Agreement to this effect with the CTEVT.

7.28.3 Due to the ever-increasing workload of the Labor and Employment Promotion Department, new organizational structure has been prepared with the provision of additional positions in FY 2003/04.

7.28.4 Because of the prevalent fraudulent practices in relation to foreign employment, it used to be inconvenient to the victims of such malpractices to come all the way to the Department of Labor and Employment Promotion in Kathmandu to lodge their reports. Hence, from FY 2004/05 the district labor offices have been delegated with the authority to receive and investigate against such complaints.

7.28.5 In order to speed up and simplify the processes relating to the service delivery of personal approval process to go abroad for work, Labor Department in Kathmandu has been given a full authority to handle the process.

7.28.6 In order to make the service provision of the Labor and Employment Promotion Department more effective, simple and manageable, counter and token system has been introduced besides posting Citizen's Charter. A complaint box has been placed to drop the any complaint in relation to deficiency in service delivery with the provision of a designated authority to listen to such complaints.

7.28.7 In line with the policy of expanding the opportunities for foreign employment, 107 countries have been opened (for foreign employment) by the end of the first 8 months of FY 2004/05.

7.28.8 In case, a complaint foreign employment involves a case of fraud exceeding Rs 500,000, which is required to be deposited by the manpower companies to get a license, such companies will be immediately barred from conducting the foreign employment business. Furthermore, in pursuance of the policy decision mad in FY 2004/05 to process for revoking the license of such manpower company, licenses of some of the companies have already been cancelled.

7.29 Since capable and efficient manpower is required to timely meet the demand of the labor market, training plays a an importance role to enhance the work-efficiency of the workers. In this context, training programs have been provided to both the unemployed as well as under–employed persons through 14 Skill Development Training Centers and 2 Vocational Training Centers in order to generate the employment and self-employment opportunities through the enhancement of their skills. Similarly, Employment Exchange Service Project is under implementation.

7.30 A total of 4487 persons received training from the 14 Skill Development Training Centers in FY 2003/04, out of the target of 4186. Similarly, 1120 people have already received the training from 2 Vocational Training Centers against the target to train 1249 people in the same fiscal year. Employment Exchange Service Project had targets to collect data from the labor markets of five districts, to design and revise the curriculums of 6 different subjects, to complete the 100 percent registration of unemployed, to provide skill enhancement trainings to 16 trainers, to organize a two days seminar for the chiefs of the training centers once a year, and to provide computer training to 6 persons. Progress against all these targets have been met by 100 percent. The target of the Employment Exchange Service Project of conducting a training regarding labor administration aimed at the employees in the Department of Labors and Labor Offices within the first 8 months of FY 2004/05, has been successful as targeted. Of the other target of curriculums development and improvement of 5 subjects, 3 have been completed.

7.31 Skill Development Training and Entrepreneurship Development Training are the major training programs conducted in 27 districts under the Cottage and Small Industry Development Program. In FY 2003/04, 5317 persons were trained by exceeding the target of imparting training to 4995 persons. Similarly, 2056 persons have received entrepreneurship development training, against the target of 2025. There is also a satisfactory progress in the programs like monitoring of trainees, technical consulting services, study of effectiveness of training programs, need assessment of the trainings, which were included in Small Industry Development Programs. Overall progress during the first 8 months have been satisfactory. In the area of skill development training, 3448 persons received the training against the target of 4860 persons and

1498 persons received the entrepreneurship development training against the target of 1890 persons by the middle of March 2005.

7.32 Several training programs are also being conducted under the Ministry of Women, Children and Social Welfare. In order to increase the participation of women in the civil service exams to be conducted by the Public Service Commission, preparation classes for the post of the non-gazetted Class I level were conducted in Dhankuta, Dang and Palpa districts. In order to provide skill development training for the conflict affected single mother (women), grants have been made available to them. Similarly such training have been provided to 65 physically handicapped persons.

7.33 In FY 2003/04, as per the policy of Ministry of General Administration to increase the representation of *Dalits,* women and ethnic communities in civil service, a number of training programs were conducted by the Administrative Staff College for the preparation of the examination to be given by Public Service Commission for the post of gazatted class III officers (non technician) and non gazatted Class I positions (non technician), the preparatory classes for the entrance examination for the post of gazatted class III officer and preparatory classes for non gazatted class I posts. These training were organized to 438 candidates in five Development Regions. Such programs have enabled the women candidates, *Dalits* and ethnic communities to compete in the civil service examination. Nonetheless, such training has raised awareness on the importance of the preparation for the PSC examination among those educated women and the youths belonging to *Dalits* and ethnic community who could not attend such preparatory classes.

7.34 Nepal Academy for Tourism and Hotel Management (NATHM), in FY 2003/04, has imparted training to 277 men & 1109 women in different areas of tourism. In the first 8 months of FY 2004/05, 128 men and 1152 women received such training. Altogether 20,843 persons, with 2980 men and 17,863 women have received training in different areas on tourism from this Academy. Similarly, the Technical Education and Vocational Training Council (CTEVT) had a target of providing long-term training to 3049 persons, of which it has trained 2717 people so far. During the first 8 months of FY 2004/05, CTEVT has provided long-term and short term training to 2097 and 1222 persons respectively.

7.35 The number of people visiting abroad to look for foreign employment has been increasing annually due to the limited opportunities and existing conflict situation in the country. the number of persons granted institutional permission for foreign employment reached 453,722 by the end of FY 2003/04. As compared to 347,062 persons receiving such permits at the end of FY 2002/03, it is a significant increase of 106,660 over a period of one year. Additional 82,778 persons were granted permission for foreign employment during the first eight months of FY 2004/05. Country-wide data shows that Malaysia (36.4 percent) is the major destination for foreign employment followed by Qatar (24.1 percent), Saudi Arabia (23.5 percent) and UAE (11.0 percent). These four countries contribute 95 percent of the foreign employment to Nepalese People. It is high time to focus on the diversification of foreign employment since employment concentrated in a few countries would not be that helpful in the longer term. The number of people who have gone abroad for foreign employment by mid-march 2005 stood at 536,500, which is given in the following table:

Table: 7(c)

Country-wise Foreign Employment

SN	Country	Up to FY2003/04	First eight months of FY2004/05	Total	Percent
1	Saudi Arabia	118324	7956	126280	23.50
2	Qatar	106200	23125	129325	24.10
3	U.A.E	51082	7554	58636	11.0
4	Bahrain	4595	185	4780	1.00
5	Kuwait	7074	1488	8562	1.60
6	Oman	453	262	715	0.10
7	Hong Kong	2989	126	3115	0.50
8	Malaysia	154215	41144	195359	36.40
9	Korea	5155	315	5470	1.0
11	Others	3635	623	4258	0.80
	Total	**453722**	**82778**	**536500**	**100.00**

Source: Department of Labor and Employment Promotion, New Baneswore

Challenges

Poverty Alleviation

7.36 Since attempts to reduce poverty cannot be expedited without developing agriculture sector in a sustainable manner, there is an obvious need to developing this sector for raising both the production and productivity.

7.37 Due to excessive concentration of non-agricultural sector activities in the urban areas with its minimum impact in the rural areas, it has been very difficult in establishing inter-sectoral linkages in the economy.

7.38 Since Human Development Indicators and Human Empowerment Indicators in terms of Nepal are very low, there is still a great challenge to improve these social dimension related indicators.

7.39 Poverty Reduction Programs, so far, have not been effective as expected. According to the second Nepal Living Standard Survey 2003/04, the population living above the poverty line in the year 1995/96 has slipped below that line by 20 percent. This indicates that the poverty reduction programs have not been effective.

7.40 The Gini Coefficient in FY 1995/96 was 0.34, but it is estimated to have gone up to 0.41 in 2003/04. As the Gini Coefficient moves towards the value of unity, it implies that the gap between the rich and the poor has widened. It shows that inequality between the rich and the poor is increasing in Nepal.

Employment

7.41 There is a challenge of diversifying the foreign employment, which is getting concentrated into the few countries.

7.42 Despite the realization that sending highly skilled manpower for foreign employment would significantly increase the remittance earnings, such training could not be materialized. Our training programs are of traditional nature, lack of credit facility for the trained human resource, lack of standardization of the training, lack of mechanism to monitor and feedback activities of the trained people, and whatever system we have are not effective. These are the persistent challenge before us.

7.43 There is a need of procedural reforms to wipeout the anomalies found in the field of foreign employment.

8. Agriculture, Industry and Tourism

Agriculture

Status of Production

8.1 Production of major food crops in FY 2003/04 had increased by 5.2 percent over that of FY 2002/03. In FY 2004/05, such production is estimated to have increased only marginally by 0.3 percent to total 7.767 million metric tons (MT). Total area under different crops also increased at the same rate (by 0.3 percent) covering about 3.353 million hectares. The equal marginal growth (of 0.3 percent) in crop coverage and production shows that agricultural productivity did not change in FY 2004/05. Due to adverse weather, the production of paddy declined that affected the growth rate of overall food production in FY 2004/05.

8.2 There has been improvement in the production of major cash crops. The total production of major cash crops in FY 2004/05 has risen by 7.2 percent to reach 4.28 million MT, while cash crop area coverage increased by 1.2 percent totaling 409,000 Ha. Production of these crops improved, despite insignificant increase in the total area coverage of these crops, as the productivity increased by 3.0 percent as compared to the previous fiscal year.

8.3 Production of other crops like lintel and vegetable also increased with the increase of 2.3 percent in FY 2004/05 over and above the production of FY 2003/04. Total production of lintels is estimated to be 271 thousand MT. Similarly the production of fruits increased by 7.1 percent in FY 2004/05 over and above the production of FY 2003/04 and the total production is estimated to be 548 thousand MT. Production of vegetables, is also estimated to increase by 7.8 percent in FY 2004/05 over and above the production of previous year and its total quantity of production is estimated to be 2.04 million MT.

8.4 Of the total agricultural production, shares of food and cash crops stood at 65.5 percent and 34.5 percent respectively in FY 2004/05 as compared to 65.4 percent and 34.6 percent respectively in FY 2003/04. Area under food and cash corps in FY 2004/05 is expected to remain more or less similar to that of FY 2003/04 and their respective shares of 89.1 percent and 10.9 percent.

Box 8(1)

National Agriculture Policy 2004

a) **<u>Raise Agriculture Production & productivity.</u>**

- Raise agricultural production and productivity through the development, extension & utilization of appropriate technology.
- Promote the scientific land-use by discouraging the use of fertile land for non-agriculture purpose and encourage the scientific use of land..
- Development and expansion of irrigation facility, agricultural road, rural electrification and appropriate technology will be carried out.
- Give priority to the production of low volume, high value agricultural products in remote areas,.
- Promote participatory and competitive agricultural Research and Development in participation of the private sector and non-government sector.
- Attract the private sector investment and scientific Research and Development by making expenditure on such Research & Development eligible for tax deduction.
- Increase participation of women up to 50 percent in all agricultural programs as possible.
- Provide the stated facilities by identifying and categorizing the resource poor farmers having less than 4 Ha of land.
- Provide necessary facilities and the information about the availability of agricultural land for purchase & sale, with the establishment of land bank, in participation of local institutions.
- Provide Special facility to *Dalits*, disadvantaged and oppressed groups, other marginal farmers, and farm labors having less than 0.5 Ha of land, by categorizing them as targeted groups.

b) **<u>Development of commercial and competitive Agricultural System</u>**.

- Develop large production pockets to produce the agricultural products suitable to the demand of market and of desired quantity and quality.
- Organize food supply program in food deficit areas.
- Adopt double track system management mechanism for business oriented programs.
- Provide training for the establishment and management of agricultural business to attract the educated unemployed youth in agricultural profession.
- Encourage the production and use of organic farming, hybrid seed, and hybrid species of livestock.
- Give priority for promotion of cooperative based agricultural industry and business
- Identify and protect the right of indigenous domestic produces by the registering and promoting traditional agricultural commodities and related technologies.

c)	<u>**Protection, Promotion & Utilization of Natural Resources and Environment.**</u>
d)	Reduce the negative impact of the use of agricultural chemicals on soil and water bodies, and on environment.
e)	Promote the production and use of organic fertilizer.
f)	Promote in-situ conservation and establishment of gene bank and participatory bio-diversity parks in potential areas for the protection of bio-diversity.
g)	Protect, improve and utilize bio-diversity, and develop agro-forestry system for the purpose of improving the condition of degraded forests and natural water bodies.
h)	Develop participatory protection oriented agricultural system through the watershed management, and river training.
i)	Encourage cooperative/partnership/group land management system by checking the fragmentation and by managing the land through scientific land consolidation system with the cooperation of local bodies.

Source: Irrigation Department

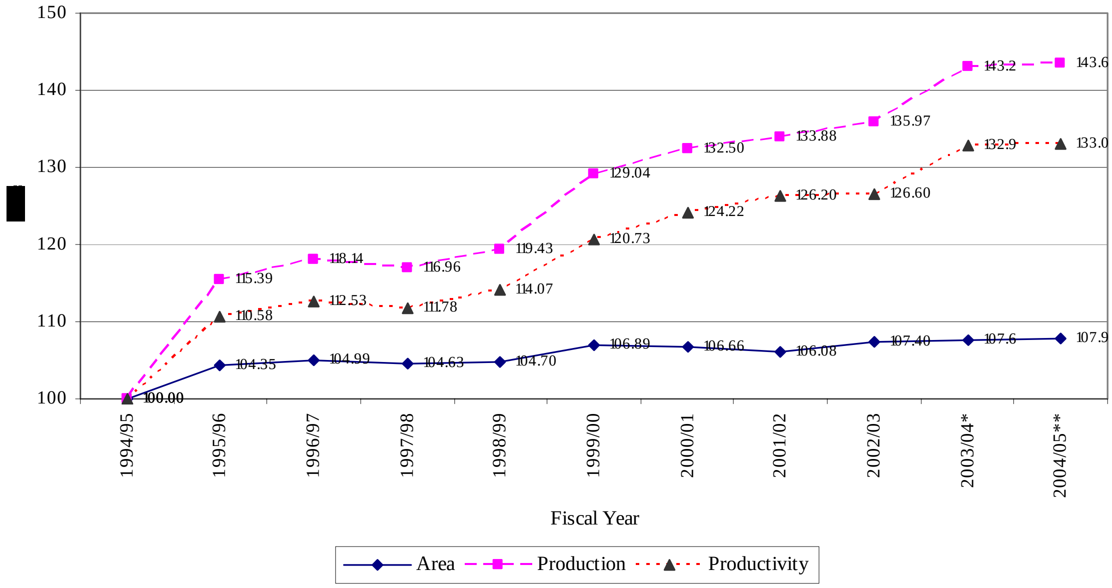
8.5 It has been estimated that the production, area of cultivation and productivity of paddy, which has a share of more than 50 percent in the overall food grain crops, will decline. In FY 2004/05, the production of paddy is estimated to decrease by 3.7 percent to a level of 4.29 million MT. The cultivated area of paddy is also expected to have declined by 1.1 percent and remain at 1.542 million Ha. in FY 2004/05. The productivity of paddy is also estimated to have decreased by 2.8 percent with the production limited at 2.78 MT. per hectare. Reasons of such decrease in paddy production go to erosion of river banks and flooding of paddy fields as a result of heavy rainfall during the second week of July 2004.

8.6 **Maize**: Production o maize, its area of coverage and productivity are estimated to have increased during FY 2004/05. Its production is estimated to have totaled 1.716 million MT with an increase of 7.9 percent in comparison to FY 2003/04. Area under this crop, however, is estimated to have increased only by 1.9 percent totaling 850 thousand ha in FY 2004/05. The productivity of maize is estimated at 2.02 MT per hectare with an increase of 5.7 percent in FY 2004/05 in comparison to the previous fiscal year.

8.7 **Wheat**: Production of wheat is estimated to have increased by 4.0 percent totaling 1.442 million MT in FY 2004/05 as compared to FY 2003/04. The area under this crop is also estimated to have increased by 1.7 percent with the acreage of 676,000 hectares in FY 2004/05. In the

Chart 8 (a) : Foodgrain Production Index

(Base year 1994/95 = 100)



same way, the per hectare productivity is also estimated at 2.13 MT with an increase of 1.9 percent as compared to 2003/04. The reasons behind such an increase in production/productivity and area under wheat are: development of new technology, farmer's interest in wheat cultivation, special relief program for winter crop cultivation, increased irrigation facility, and eased supply of agricultural inputs.

8.8 **Barley** : Area under this crop has continued to shrink over the years. Its production is estimated to be only 29,000 MT in FY 2004/05 as compared to 30 thousand MT in FY 2003/04. Area under this crop also decreased from 27,000 hectares of FY 2003/04 to 26,000 hectares in FY 2004/05. Such decline in the area under barley cultivation is because of farmer's attraction to other crop production.

8.9 **Millet** : The production of this crop is estimated to increase in FY 2004/05 as compared to FY 2003/04, even though the area under this crop remained the same in both years. The production of this crop is estimated to increase by 2.5 percent to reach 290,000 MT because of favorable weather for this crop.

Status of Cash crop Production

8.10 **Sugarcane** : Production of sugarcane in FY 2004/05 is estimated at 2.376 million MT, with 3 percent increase in production, as against 1.6 percent decline in FY 2003/04. However, the area under this crop is estimated at 59,400 hectare at the same level to that of FY 2003/04. The increase in production despite with no increase in area is attributable to improvement in productivity.

8.11 **Oilseed**: The area under oilseed production is estimated to have increased only marginally by 0.5 percent totaling 188,000 Ha. in FY 2004/05 compared to previous fiscal year. However, the production of oilseed is estimated to increase by 6.8 percent totaling 142 thousand MT in FY 2004/05.

8.12 **Tobacco**: The declining rate of production and area under this crop is continued. The production of tobacco is estimated to decrease by 9.1 percent with the production of 3,000 MT in FY 2004/05 as compared to FY 2003/04. As compared to FY 2003/04 the area under this crop is estimated to have decreased by 11.8 percent in FY 2004/05 totaling 3,000 Ha

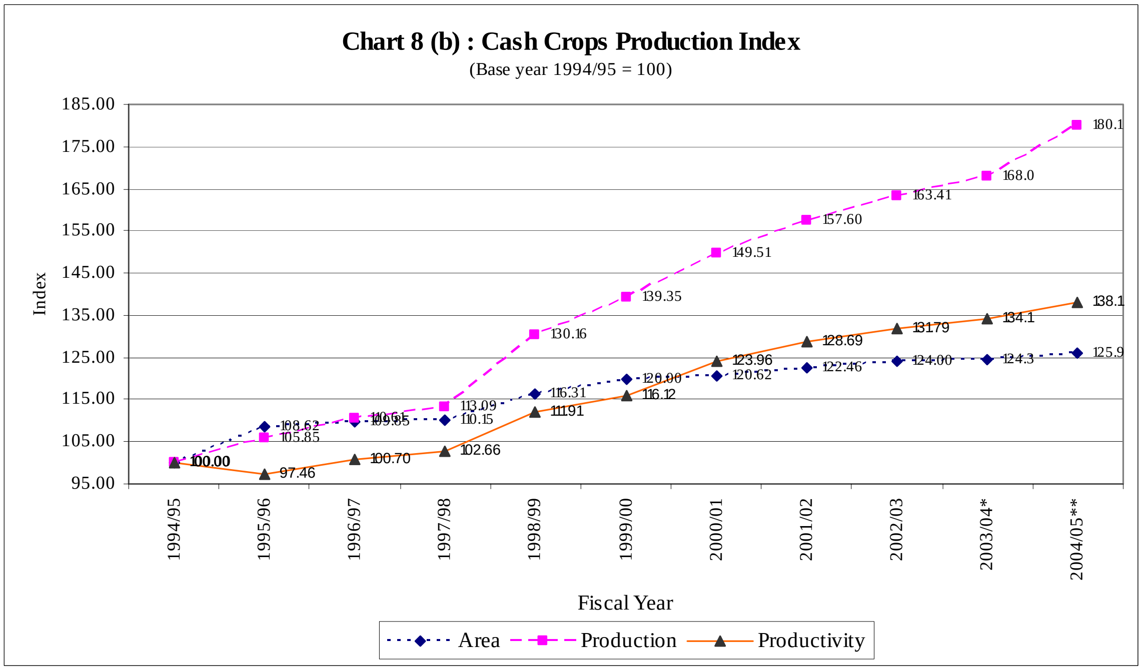


Chart 8 (b) : Cash Crops Production Index
(Base year 1994/95 = 100)
Index
Fiscal Year
Area
Production
Productivity

8.13 **Potato**: The production of potato increased by 5.8 percent totaling 1.739 million MT in FY 2004/05 as compared to FY 2003/04. Area under this crop also increased by 2.8 percent totaling 147 thousand Ha Its productivity also increased by 3.1 percent totaling of 11.85 MT/Ha in FY 2004/05.

8.14 **Jute**: Jute production is estimated to increase by 4.7 percent from 16,900 MT in FY 2003/04 to 17,700 MT in FY 2004/05.. The area under this crop is also increased by 3.4 percent to that of the previous year totaling to 12,200 Ha New technology and new market areas are the main reasons behind such increase in production and area under this crop.

8.15 **Tea**: It is being cultivated in eastern Nepal on a commercial scale. As per estimates, total production in FY 2004/05 scaled up by 15.9 percent totaling 13,500 MT as against 11,651 MT in FY 2003/04. The area under this crop is also estimated to increase by 14.1 percent totaling 17,129 Ha as against 15,012 Ha in FY 2003/04.

8.16 **Coffee**: Eastern part of the country is famous for tea production whereas coffee farming has gained commercial scale of operation in the western region of Nepal. Its production is estimated to have gone up to 261 MT in FY 2004/05 from 218 MT in FY 2003/04. Similarly, acreage under this crop is also estimated at 1018 Ha with a 10 percent growth over FY 2003/04.

8.17 **Others**: The production, cultivated area and productivity are increased in case of cash crop, despite no specific increase in production, cultivated area and productivity of food grain during FY 2004/05 compared to FY 2003/04.

Table 8 (a)
Productivity of Agriculture (MT/Ha)

Crops	FY2003/04(Actual)	FY2004/05(Estimate)
Food grain	2.316	2.316
Paddy	2.858	2.782
Corn	1.906	2.019
Wheat	2.086	3.133
Millet (Kodo)	1.093	1.120
Barley	1.111	1.115
Cash Crops	10.146	10.454

Oilseeds	0.711	0.755
Potato	11.490	11.830
Tobacco	0.971	1.000
Sugarcane	39.068	40.271
Jute	1.432	1.451

Source: Ministry of Agriculture and Cooperatives

8.18 **Pulses** : Combined production of lentil category legume crops (including black gram - mas, pigeon peas and lentil) is estimated to have increased by 2.3 percent totaling 271,000 MT in FY 2004/05 as compared to FY 2003/04. Area under this crop also increased by 0.3 percent totaling 317,000 Ha. Favorable weather and increase in demand are the main reasons for increase in production and area under this crop.

8.19 **Fruits** : It is estimated that the production of fruits increased by 9.2 percent totaling 548,000 MT in FY 2004/05 as compared to the previous Fiscal Year. The area covered by fruits also increased by 1.6 percent totaling 55,000 Ha. The 1.6 percent increase in fruit production is attributable to the increase in mango production since the current year is considered an on year for mango production.

8.20 **Vegetables** : Vegetable production increased by 7.8 percent totaling 2.038 million tons in FY 2004/05 with a growth of 5 percent over FY 2003/04. Production and area of vegetable farming is going up continuously since farmers are attracted towards it as a cash crop, as compared to other crops. Area under this crop is estimated to jump to 181,000 Ha this year. It is also assumed that there is a substantial increase in the living standard of farmers engaged in this profession.

Livestock Production

8.21 Meat production is estimated to increase by 3 percent totaling 215,000 MT in FY 2004/05 with an increase of 2.2 percent over that of FY 2003/04. Of the total meat production, buffalo meat is estimated to yield largest quantity with 64.7 percent, followed by goat (mutton), prigs & Chicken with 19.4 percent 7.3 percent and 7.2 percent respectively.

8.22 **Dairy Products :** Production of milk and other dairy products is estimated to increase by 3.4 percent in FY 2004/05 as in FY 2003/04, yielding 1.274 million MT. Of the total milk produced, share of buffalo milk is estimated at 70.2 percent and that of cow is 29.8 percent.

8.23 **Eggs** : Production of eggs, which increased by 3.3 percent in FY 2003/04, further increased by 2.5 percent in FY 2004/05 yielding 590.1 million eggs. Of the total eggs, shares of hen and duck is 97.4 percent and 2.6 percent respectively.

8.24 **Fish** : Production of fish increased by 6.3 percent yielding 42,500 MT in FY 2004/05 as compared to 9.2 percent increase in FY 2003/04. Of the total yield, 51.8 percent will be from the fish ponds and 48.2 percent from other sources.

8.25 **Weather Situation** : Heavy rainfall during the second week of July 2004 caused adverse effect in the districts of Eastern and Central Terai, whereas the drought of August and September of the same year caused very bad effect in the districts of Western and Far Western Terai. Negative impact on the production of paddy was mainly due to the heavy rainfall in June/July and low rainfall during other months. However, maize production is expected to increase due to favorable weather for this crop. Weather had a negative impact on summer crops of FY 2004/05, especially on the production of paddy due to floods, landslides, erosion of river banks, inundation, drought etc. Weather condition, however, for winter crops, especially wheat, potato, oilseed and fruits, has been favorable as compared to FY 2003/04. Districts like Sharlahi, Mohottari, Rautahat and Dhanusha were badly affected from flood, landslides, and inundation, whereas Banke and Kapilbastu were badly affected by drought.

Chemical Fertilizer and Improved Seed

8.26 **Chemical Fertilizers:** Agricultural Inputs Company Ltd. (AICL), which was established after the dissolution of Agricultural Inputs Corporation, is making chemical fertilizers easily available to farmers as per their demand. For the purpose of maintaining continuity of fertilizers supply, the company is purchasing directly from the producers, or authorized distributors of the producers, or agencies specialized in fertilizers trade. The company has initiated a study for starting the business of other types of chemical fertilizers, micro-nutrients, compost fertilizer and agricultural products. In FY 2003/04, supply of fertilizer by Agriculture Inputs Company in nutrient terms was 11,711 MT. In the first eight months of FY 2004/05, AICL distributed sold 8,909 MT nutrient equivalent chemical fertilizers, whereas it was only 7,226 MT nutrient equivalents during the same period of FY 2003/04. In the context of sufficient supply of chemical fertilizer also by the private sector, it is assumed that farmers are easily getting sufficient quantity of chemical fertilizers. On an average, the price of Urea and Di-Ammonium Phosphates (DAP) has increased and price of potash has decreased. The company is preparing a working procedure for the purchase of chemical fertilizers through direct negotiation for ensuring certainty of chemical fertilizers supplies.

8.27 **Improved Seed** : National Seed Company. Ltd. (NSCO), competing with private sector in the area of seed business, has been supplying quality seed at the farmers' doorsteps through its dealers. It has been distributing standard seed in demand from the farmers. It collects the quality seed from the farmers through seed improvement program and distributes it after the insecticide treatment at the local level. In FY 2003/04, this company distributed 2,190 MT of wheat, paddy and maize seed. The company, during the first eight months of FY 2004/05, distributed 2,218 MT of seed as against 1,755 MT during the same period of FY 2003/04. It is assumed that along with NSCO, seed produced by farmers and agencies involved in seed improvement program, are also being used at the local level.

8.28 **Irrigation**: Like in previous years, government agencies and ADB/N are implementing irrigation development projects and schemes. In FY 2003/04, a total of 12,026 Ha and 727 Ha of cultivable land received irrigation water through government level projects and ADB/N schemes respectively. Irrigation projects are being managed as per the Irrigation Policy 2003. Looking at the present pace of progress in this sector, irrigation program needs to be implemented with priority. In the review period of FY 2003/04, irrigation facilities were extended to total of 2,693 has of additional land including 2,500 Ha under government schemes and 193 Ha under ADB/N schemes. During the first eight months of FY 2004/05, a total 3,269 Ha of cultivable land was added to irrigation facility, including 3,200 Ha under government schemes and 69 Ha under ADB/N schemes.

8.29 Although total cultivable land is 2.642 million Ha, irrigable land totals 1.766 million Ha only. Total area under irrigation facility by first eight months of FY 2004/05 has reached 1.14 million Ha. Additional 3,113 Ha of land is estimated to receive irrigation facility through improvement of farmers' canals.

8.30 **Agricultural Credit**: The flow of agricultural credit required for promoting agricultural production is continued. In FY 2003/04, ADB/N extended agricultural credit of around Rs. 10.15 billion and collected Rs. 9.05 billion as repayments. By the year end of FY 2003/04 outstanding loan amount totaled Rs. 19.71 billion. During the first eight months of FY 2003/04, the credit disbursement was Rs 5.91 billion which increased by 17.9 percent in the same period of FY 2004/05 to reach Rs. 6.92 billion. Of the total credit disbursement of the bank during the review period, agro-industry, marketing and storage construction together shared 50.0 percent of the total credits, while the share of tea and coffee has been limited to 0.3 percent.

8.31 **Small Farmers' Development Program:** Currently the program is in operation under ADB/N covering 34 districts. In FY 2003/04, the program benefited farmers of 190 VDCs through 123 schemes. During this year, 161 VDC based Small Farmers' Cooperatives Ltd. (SFCL) in 36 districts operated the schemes that were handed over to them by ADB/N. Altogether 160,532 farmers were organized in 24,438 groups affiliated with the SFCL. During FY 2003/04, SFDP and SFCL distributed loans totaling Rs. 255.2 million and Rs. 581.7 million, of which Rs. 241.7 million and Rs. 485.1 million had been repaid respectively. Out of the outstanding loan of Rs. 1.32 billion, invested by SFDP and SFCL by the end of FY 2003/04 amounts invested and recovered during the first eight months of FY 2004/05 totaled Rs. 131.6 million and Rs.116.5 million respectively. Outstanding investments under SFDP at the end of first eight months of FY 2004/05 totaled Rs. 527.7 million. Similarly the investment and recovery of SFDC is Rs. 442.4 million & Rs. 356.1 million respectively during the review period. Outstanding investment under SFDC at the end of first eight months of FY 2004/05 is totaled Rs. 1.49 billion. Member farmers of such cooperatives were able to collect Rs. 389.1 million as group savings till mid-March 2005.

8.32 **Nepal Agriculture Research Council (NARC):** NARC, which has been established for the effective development of agriculture, the backbone of the national economy, is engaged in research activities by preparing a number of research proposals. Basis of such proposals are suggestions and recommendations offered by the people's representatives; various seminar reports; and feedbacks from farmers based on their on-the-spot (personal) field experiences. The overall objective of these research activities are for raising productivity in various sub-sectors of agriculture. Paddy and wheat are the major food crops of Nepal. In this context, experimental activities involving various techniques are initiated for increasing in production and at the same time bringing down their production costs. In this context, field tests are being carried out for cultivating paddy and wheat on soil beds or without tilling land for raising production while reducing the production cost at the same time. Similarly, work is continued for the development of high productivity hybrid seed. Research for the identification of suitable variety of fruits and vegetables specially tomato, cauliflower, cabbage etc. for off-season cultivation, is initiated. As increasing milk and meat production is not possible without nutritious feed and proper livestock breed, research on identification of suitable feed and bringing improvement in livestock breeding is continued. Production of milk and meat is declining in remote areas like Karnali Zone due to the feed deficiency during winter seasons. To resolve such problem, plan for the study of alternative livestock feed is prepared for the livestock farming in remote areas. Plan has been prepared for the development of post-harvest storage technology to ensure farmers against getting low prices for their products.

8.33 **Imports and Exports of Agriculture Products**: During the first eight month of FY 2004/05 exports of commodities falling in food items, animals, tobacco, and beverages category according to SITC classification, accounted for Rs. 4.33 billion as compared to exports of these items totaling Rs. 4.15 billion during the same period of FY 2003/04. As regards to imports, Rs. 6.04 billion worth of goods in the above category were imported in the review period of FY 2004/05 against Rs. 6.55 billion worth of such imports in the corresponding period of FY 2003/04.

8.34 **Cooperatives:** Localization of the working areas of cooperatives has been continued to develop such institutions as an effective medium of fulfilling the requirements of the people and arranging the flow of entrepreneurship and capital in remote areas. Such initiatives are being carried out under the policy of providing continuation to the cooperative system with the qualitative improvement in their service provision by strengthening and developing their capacities. Working policy has been initiated for the development and strengthening of cooperatives related institutions into academic entities for the purpose of developing human resource for the development and expansion of such cooperatives, orient and train them, and undertake studies and research on cooperatives. A Task Force, formed to look into the possibility of leasing out the government farms to the farmers' cooperative willing to do so, has prepared the final draft on information collection procedures for such farms like the number and the condition of such potential farms, their assets and other information.

8.35 **Land Reform**: A study is being conducted to look into as how the proposed land bank could help the squatters, crop sharers, freed bonded laborers *(Kamaiyas)*, and tenants including the financial help in pursuance of the policy to ensure access of such people with farming skills and toil, to own the land. Initiation is also taken to distribute the identity card for the *Kamiya* families identified in the process of their resettlement. Similarly, policy and program are initiated to provide substitute land for those who received the it under the resettlement program, but could not utilize. In the same way, different skill oriented training programs for the increase in income opportunities to the freed *Kamaiya* farmers and to make access the loan at low interest rate through groups formation, are also initiated.

Industry

Industrial Production by Groups

8.36 Analysis of major industrial production reveals increase in production of major food products and construction materials during FY 2003/04. Similarly, production of beverages, cigarettes, footwear, textile, wood and wood related products, paper and stationary boards, cement iron & steel wares, tools and equipment (excluding machinery), robber products, also increased during this period, in comparison to previous year. Items, which registered noticeable increase in production in FY 2003/04, are: noodles 510 MT, cigarette 456.0 million sticks, alcoholic drinks 645 thousand liter, cement 24,241 MT, and iron and steel wares 14,689 MT. The production of biscuit, animal feed, vegetable ghee, *bidi*, processed leather, soap, matches, GI/HB wire, ACRS conductors and PVC cables, and battery cells declined marginally during the review period of FY 2003/04.

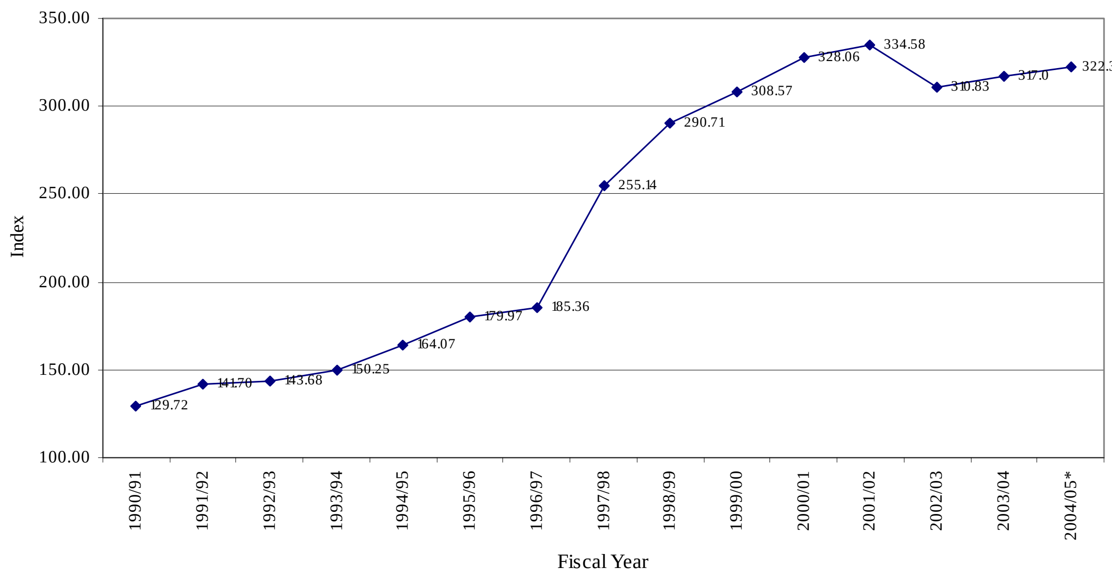
8.37 In FY 2004/05, items under food group (except animal feed), beverages group (except alcohol), textile (except synthetic), wood and wood related items, paper & stationery boards, soap, plastic goods, bricks, tools & equipment (except machinery) ACRS conductor and PVC cable and battery is expected to increase as compared to the previous year. In quantitative terms, estimated additional production during the review period are: noodles (219 MT), biscuits (262 MT), squash (91,000 Liter), sugar (1,635 MT), Tea (1,066 MT), vegetable ghee (2,298 MT) light drinks (1,185 liter), beer (974,000 liter), cotton clothing (39,000 meter). The list also includes the estimated production of: jute goods 393 MT; leather and leather goods 108,000 sq. ft.; Plywood 39,000 Sq. ft.; straw board 110 MT; paper 2,499 MT; Soap 1,248 MT; plastic goods 117 MT; bricks and tiles 330,000 nos. Stainless Steel Utensils 12 MT; ACRS conductor and PVC cable 467 MT; and Battery Cells 1,709,000 during this period. During this fiscal year, production of 33 manufactured goods falling under 15 categories is expected to decline. The decline will be by: alcohol 120,000 liter, animal feed 337 MT, *bidi* 1 million sticks, footwear 32,000 pairs, detergent soap 341 MT, matches 117,000 gross, cement 1,676 MT, iron rod angels 2,370 MT, slipper 320,000 pair and GI/HB wire 691 MT.

Status of Industrial Indices by Group

8.38 Despite the difficult situation in the country, overall Industrial Index (base year FY 1987=100), which had decreased by 7.0 percent in FY 2002/03, increased by, though marginally, by 1.37 percent in FY 2003/04. During this period, production indices of tobacco products, textile, foot wears wood and wood related goods, other chemical goods, rubber products, mineral goods (except metals) iron steel products, and tools and instruments (except machine) have increased by 6.61, 7.1, 10.05, 11.4, 1.15, 6.50, 7.4, 9.5 and 33.3 percent respectively during the review period. Production indices of other groups of commodities including food, leather and leather products, paper and stationary board, plastic products and wire coil, however, decreased by 2.47, 1.5, 0.5, 5.48 and 2.74 percent respectively during the review period of FY 2003/04 in comparison to FY 2002/03. Internal disturbances, change in the composition of consumption, low income situation, low rate of savings and weak consumption capacity, change in export/import pattern, change in consumption pattern, are the main causes for the

Chart 8 (c) Industrial Production Index

(Base Year 1986/87=100)



below the expected level of improvement in industrial production index.

8.39 Unlike in FY 2003/04, overall industrial index is estimated to rise by 1.65 percent in FY 2004/05. In the current fiscal year, indices for the group of commodities belonging to food, beverage, tobacco product, leather and leather products, wood and wood products, paper and stationary products, plastic products, tools & instruments (except machinery) and wire coil are estimated to increase by 3.21, 0.22, 2.07, 3.47, 8.25, 5.83, 7.8, 13.2 and 0.5 percent respectively. Commodities, production indices of which are estimated to decline are: textile, footwear, other chemical good, robber products mineral related product (except metal), iron and steel goods. Of the 33 industrial products listed in the group, indices of 12 items such as alcohol, *bidi*, synthetic fiber, rubber products, animal feed, detergent soap, matches, cement, footwear, iron rod, angles, GI/HB wire, are estimated to decline.

Foreign Investment In Industries

8.40 Foreign investment and technology transfer is imperative as it plays a catalytic role to move towards independence, provide robustness, dynamism, and competitiveness in the economy through mobilization of human and natural resources in the industrialization process. Foreign investment together with capital and modern technology brings in qualities of business culture, management and technical skills, access to international market and development of competitive business for the industrial development of the country. It also contributes for the independent and self reliant national economic development with the increase in revenue base. In FY 2002/03 a total of 71 Joint Venture industries were approved with the total project cost of Rs. 4.88 billion. In FY 2003/04, 78 such industries with the total project cost of Rs. 4.32 billion were approved. During the first 8 months of FY 2004/05, 35 more of such industries with fixed capital of Rs. 69 million and the total project cost of Rs. 1.08 billion have been approved. By the end of review period of FY 2004/05 a total of 953 industries have been approved for foreign investment, as an attempt to attract foreign investment through the adoption of pragmatic, liberal and open policy. Of these, 21 industries have been closed and registration of 72 has been cancelled. The total fixed capital and the total project cost of the remaining 860 industries amounts to Rs. 74.23 billion and Rs. 89.21

billion respectively. Of this total, share of foreign investment is Rs. 25.92 billion respectively. A total of 98,361 Nepalese citizens will get employment from these industries.

Table 8 (b)
Industries Approved for Foreign Investment (FY2002/03)

(Rs. million)

Type of Industry	Number	Total Project cost	Total Fixed Capital	Foreign Investment	Target Employment (No.)
Industrial Production	24	1181	848	919	276
Services Industries	24	2155	2015	1591	1590
Hotel/Resort	27	150	138	148	274
Construction	1	54	15	54	0
Energy	2	784	760	52	4
Total	78	4324	3776	2764	2144

Source: Department of Industries, MOICS

Table 8 (c)
Industries Approved for Foreign Investment in FY2003/04*

(Rs. million)

Type of Industry	Number	Total Project Cost	Total Fixed Capital	Foreign Investment	Target Employment (No.)
Industrial Production	10	269	158	182	902
Services Industry	15	716	480	308	2751
Tourism Industry	8	29	22	16	86
Construction	1	54	20	30	11
Forest	1	12	10	7	37
Total	35	1080	690	543	3787

** First eight months*
Source: Department of Industries, MOICS

Table 8 (d)
Foreign Investment by Country

S. No.	Source Country	FY2002/03	FY2003/04*
1	China	16	6
2	India	10	8
3	Japan	9	4
4	South Korea	9	2
5	UK	4	2
6	America	4	1
7	France	3	-
8	Switzerland	3	-
9	Taiwan	2	-
10	South Africa	2	1
11	Bangladesh	2	-
12	Singapore	2	-
13	Hong Kong	2	1
14	Other	10	10
	Total	78	35

** First eight months*
Source: Department of Industries, MOICS

8.41 Of 78 industries approved in FY 2003/04, 24 each for industrial production and service industry, 27 for hotel & resort, 1 for construction, 2 for the energy sector. Analyzing the investment on country-wise basis, foreign investment in 16 industries are from China, 10 from India, 9 from Japan, 9 from South Korea, 4 from United Kingdom, 4 from USA, 3 each from France and Switzerland, 2 each from Taiwan, Bangladesh, South Africa, Singapore and Hong Kong and 10 from other countries.

8.42 Of the 35 industries approved for foreign investment by the end of the first eight months of FY 2004/05, 10 are for industrial production, 15 for services, 8 for tourism, 1 for construction and 1 for agriculture. Of the country-wise investment, involvement of China in 6, India 8, Japan 4, Germany 3, South Korea 2, UK 2 and USA, Austria, Belgium, Finland, Hong Kong, Italy, Netherlands, Russia, South Africa and Turkey, 1 each.

8.43 **Capacity Utilization of Industries:** Analysis reveals that sugar cigarettes, beer, cement and jute industry recorded less capacity utilization in FY 2003/04 than they did in FY 2002/03. But, match sticks, and footwear industries improved their capacity utilization during the same period. Despite the increased capacity utilization of match sticks industry, total production decreased due to various reasons. In FY 2003/04, cigarette and jute industries utilized their 89.0 percent and 69.0 percent capacity respectively whereas sugar, beer, matches, footwear, and cement industries utilized 42.0, 65.0, 63.0, 27.0 and 45.0 percent of their production capacities respectively.

Present Situation of Industrial Estates

8.44 The underlying objective of the establishment of industrial estate was to foster industrial development through availability of physical infrastructure and other facilities in one place. At present, there are 11 industrial estates located at Balaju, Hetauda, Patan, Nepalgunj, Dharan, Pokhara, Butwal, Bhaktapur, Birendranagar, Dhankuta and Rajbiraj. In total there are 504 industries established in these estates, of which 75 industries have been closed while 41 new industries are under construction. A total of Rs. 169.6 million has been invested as fixed capital in these estates by the Industrial Estates Management Ltd, while the private sector investment totals Rs. 8.50 billion. Total area under these estates is 5,706 *Ropanis* (approx. 285 Ha), while 5,058 *Ropanis* (approx. 253 Ha) of land has been developed and out of which 3,383 *Ropanis* (approx. 169 Ha) have been leased to various industries. These currently operating industries have been providing employment to 14,122 persons. The number of employees has decreased by 854 in FY 2004/05 as compared to FY 2003/04. Industrial estates of Balaju, Hetauda, Butwal, Pokhara, Patan, Nepalgunj, Bhaktapur, Dharan, Rajbiraj and Birendranagar, are among the highest employment providers among the estates. Feasibility study for the establishment of industrial estates at more than 16 places including Nuwakot, Janakpur, Ilam, Chitwan, Jhapa, Kailali, Kanchanpur, Dang, Kavrepalanchok and Tanahun, have been completed.

On Sick Industries

8.45 HMG has adopted policy and programs for sick industries since FY 2001/02, to offset the effects of economic recession, on industry and other businesses, caused by the internal and external factors. Budget speech of FY 2004/05 has given the emphasis to activate the high-level committee formed to revive the sick industries. Similarly the monetary policy of NRB has made a provision to provide Rs. 1 billion amount for refinancing such industries. In addition to large industries, standards have also been developed to guarantee the availability of refinance to small and medium industries or firms or companies on equitable basis. Analysis of progress made so far, reveals that the sick industries are able to feel relief by the facilities like refinancing, loan rescheduling, and interest rebate. The definition of sick industries, according to the directives developed for the systematic assistance to sick industries, is given below.

a. Accruing cash loss for continuous two years with at least three years of continuous operation;

b. unable to operate at break-even continuously for last two years; and

c. registering twenty five percent decline in turnover since last three years in case of industries borrowing less than Rs. 2,500,000.

Committees on Sick Industries.

8.46 **High level sick industries revival main committee and its jurisdiction:** HMG has formed a high level sick industries revival main committee under the chairmanship of Hon'ble Finance Minister in January 2002. The Committee consists of 12 members, including: Minister of Culture, Tourism and Civil Aviation, Minister of Industry, Commerce and Supplies, Vice-Chairman of National Planning Commission, concerned Member of NPC, Governor of NRB, Secretary of Ministry of culture, Tourism and Civil Aviation, Secretary of Industry, Commerce and Supplies, Chairman of Bankers' Association, Chairman of Nepal Hotel Association and Chairman of Federation Nepal Chamber of Commerce and Industries. The Secretary of Ministry of Finance is the Member Secretary. The Terms of Reference of this Committee is to identify sick industries and tourism business, confirm the reasons of sickness, find out the possibility of revival of sick industries, conduct the revival program, finalize the standard of identification and programs for sick industries and recommend to concerned institutions for low interest loan for their revival.

8.47 **Sick Industries Revival Technical Committee, and its Terms of Reference:** This Committee is formed under the chairmanship of the concerned NPC member. Its main function is to provide assistance to the main committee for the preparation of relevant policy. All the concerned entities and institutions are represented in this committee.

8.48 **Sick Industries Revival Review Committee:** This Committee is formed under the Chairmanship of the Executive Director of Banks and Financial Institutions Regulation Department of NRB. The main purpose of formation of this Committee is to conduct regular interaction between NRB and concerned banks & industrialists to resolve the problem that could emerge during the process of providing refinance to sick industries and execution of the policy related to revival. This committee has been carrying out interactions among the borrowers and banks, as required.

8.49 **Preliminary Assessment and Recommendation Committee for Refinancing:** This Committee is formed under the Chairmanship of Joint Secretary of Ministry of Industry, Commerce & Supplies. The other members of the Committee are one representative each from Culture, Tourism and Civil Aviation Ministry, Federation of Nepal Chamber of Commerce and Industry (FNCCI) or Nepal Hotel Association, and one invitee each from the lender bank and the borrower or their representatives. The main function of this Committee is to accept application, assess, discuss, finalize and forward the application to the concerned lending bank with its recommendation. It also directs to concerned bank to finalize its recommendation within 30 days and submit to NRB for refinancing. Similarly, it facilitates (like addition of recurrent capital, rebate of interest, rescheduling of loan etc) by arranging mutual consultations between both the borrower and the lender to arrive at some conclusion.

Table 8(e)

The Description of Refinance (mid-July 2004-Mid-march 2005)

S. No.	Hotel/Industry	Accepted Refinance Amount (In Million Rs.)	Percent
1.	Hotel and Tourism	280.8	85.0
2.	Industry	48.3	15.0
	Total	329.1	100.0

Source: Nepal Rastra Bank.

Nepal Industrial Development Corporation

8.50 The corporation made loan disbursements of Rs. 22.99 million and its loan recovery was Rs 340.09 million in FY 2003/04. In the first eight months of FY 2004/05, the loan disbursement was Rs. 6.26 million and the recovery was Rs 107.36 million. For a long time now, because of lack adequate funds, the corporation has not been able to promote new projects and disbursements and recovery have also suffered.

Cottage and Small Industries

8.51 Cottage and small industries are established to help reduce poverty through employment generation. Loans are being provided under the Intensive Banking Program. Loans totaling Rs. 212.4 million loan was provided to 828 industries in 5 Development Regions In FY 2003/04. In the first 6 months of FY 2004/05, altogether 649 industries received a total of Rs. 180.1 million in loans.

8.52 In FY 2003/04, number of registered cottage and small industries declined by 5.8 percent as compared to FY 2002/03. Among those industries, private firms declined by 11.7 percent, whereas the number of partnership firms rose by 20.7 percent and private limited firms rose phenomenally by 76.5 percent. Among the registered industries, investment increased by 3.38 percent with investment totaling Rs. 6.11 billion. In the review period of FY 2004/05, a total of 3,850 such industries have been registered with the total investment estimated at Rs. 2.65 billion. It is assumed that the above-mentioned increase is due to the positive response because of improvement in security situation in the country.

Industrial Enterprise Development Institute (IEDI)

8.53 This Institute is in operation for the development of entrepreneurship, application of standard management practices and promotion of modern technology and technical manpower. This Institute has been carrying the activities of new business development, business management, entrepreneur development, consultancy and industrial business research are the important programs the Academy has been conducting. Total 809 persons received training in the first 11 months of FY 2004/05 against the target of 389. Thus the achievement is 208 percent of the target.

Mines and Geology

8.54 Mining and environmental monitoring is being done in 26 mines in *Makawanpur, Dolakha, Sindhupalchok, Kavrepalanchok, Jhapa, Palpa, Kaski*, *Tanahun* and *Dhading* districts. Similarly inspection of 7 sand and stone quarries in Kathmandu, is also completed. Under the promotion program of mining industry, 3 sets data packets are sold after the notification for the promotion of limestone mine of Surkhet

(Chaukune) and a company has shown interest and has already submitted its proposal. Announcement for proposal submission is completed after the preparation of data package of Baitadi (Diyarigad) limestone and five data sets of Udayapur (Chaladhenga/Ghyanpathumka) limestone have been sold.

8.55 Under the National Seismic Measurement Center Management Project, 21 Seismic Centers located in various parts of the Kingdom are being monitored from Kathmandu Seismic Center and *Surkhet* Seismic Center. These Centers constantly record seismic activities and when there is an earthquake of above 4-richter scale, it is reported to the media within an hour for information to the general public. Epicenter maps are made available to users by identifying the seismic risk areas on the basis of regularly recorded earthquakes. The GIS using capability has been developed and engineering, environmental and geological maps of Kathmandu Valley and Pokhara Valley, Butwal and Dharan municipalities have been prepared. These maps are being used by the municipalities for urban planning; land-use planning; urban physical infrastructure development and construction; waste management; pollution control; drinking water quality management; and for environmental conservation. It is a challenging task is reap benefit from the exploitation of mineral resources by focusing on construction related minerals, precious and semi-precious stones, metal and non-metal minerals and fuel minerals while exploring limestone and other minerals,

Tourism

8.56 The analyses of number of tourists, rate of increase and their stay reveals that the number of tourists visiting Nepal, between mid-December 2002 and mid-December 2003 had gone up by 22.7 percent. The number of tourists visiting Nepal between mid-January 2003 and to mid-December 2004 (on the basis of tourist traveling by airlines), however, had increased only by 13.9 percent. Average duration of stay per tourist had also increased from 9.6 to 13.5 days during the review period.

8.57 In terms of purpose of visit, most tourists came for recreation, trekking and mountaineering. In the period between January 2003 and December 2004, 43.4 percent of the tourist arrival was for recreation, 18.0 percent for trekking and mountaineering, 3.6 percent for trading, 4.4 percent for official visit, 11.9 percent for pilgrimage and 18.7 percent for miscellaneous purposes.

8.58 Regional analysis of origins of tourists reveals that 30.2 percent came from Western Europe, 23.4 percent from India, 6.6 percent from North America, 2.8 percent from Australia and the Pacific, 2.0 percent from Eastern Europe, 1.2 percent from Central and South America, and 0.3 percent from Africa during the period between January 2003 and mid-December 2004. The share of tourists from Asian Countries (other than India) is 33.3 percent and that of other areas has been 0.2 percent.

8.59 Data shows, there are 110 Star category hotels in the Kingdom, 2 of them added between January 2003 and mid-December 2004. Non-star hotels totaled 886 including 28 added during this period. Number of beds in the Star-level hotels increased by 1.71 percent and by 2.37 percent in non-star hotels. The number of hotel beds in the star and non-star level hotels has reached 10,715 beds and 28,392 beds respectively. There was a 3.1 percent increase in the number of hotels while number of beds increased by 2.19 percent during the review period.

8.60 Analyses of mountaineering expeditions and the mountaineers arriving between January to mid-December 2004 (FY 2003/04) and mid January to mid December 2004 (FY 2004/05) revealed declines in all parameters like number of mountaineering expeditions, seasonal employment and receipt of royalty. Nevertheless, improvement was observed in the above mentioned indicators between mid-January 2002 and mid-December 2003 as compared to the corresponding period of the years 2001 and 2002. However, between January 2003 and December 2004 the number of tourist groups totaled 140 with a decline of 12; the number of mountaineers totaled 1042 with a decrease of 38; the total number of employment fell to 9,851 with the slippage of 4,987; and royalty fell by Rs. 59.3 million to 131.27 million. The spending by mountaineers declined by Rs. 135.56 million in the period of January 2003 to December 2004 in comparison to same period of the previous year and remained at Rs. 494.49 million

8.61 Nepal Academy of Tourism and Hotel Management (NATHM) is engaged in production of skilled manpower needed for tourism promotion. Academy conducts training in tourism business operation to encourage rural people to invest in such ventures for the promotion of rural tourism. The NATHM is also producing skilled manpower required by the urban-based tourism industry. Accordingly, 1,331 persons were trained in FY 2003/04, which is higher by 69.34 percent as compared to the previous fiscal year. A total of 1063 persons have already received training form this Academy in the first eight months of FY 2004/05.

Box : 8(2)

Highlights of Tourism Sector Activities

a. Letter of Intent was invited from the interest builders for the expansion of Gautam Buddha airport Bhiarahawa and the Pokhara airport into SAARC Regional level international airports under the BOOT approach. Similarly, the up grading of Dhangdhi airport and construction of a Short Take Off and Landing (STOL) airport at Dharan was also conceived under the same approach. No such letter of intent was received except for Dharan, which could not be accepted by the Evaluation Committee. Recently, HMG/N and Nepal Civil Aviation Authority of Nepal (CAAN) jointly initiated the extension work of Dhangadhi Airport under the BOOT approach.

b. Formulation of a new Civil Aviation Policy is in its final stage for the promotion of tourism, expansion of air transport and for the promotion of civil aviation in the private sector.

c. Tourism for Rural Poverty Alleviation Program is being implemented in 48 VDCs of the 6 districts of Taplejung Dolpa, Rasuwa, Solukhumbu, Chitwan and Rupandehi, under the assistance of UNDP. Major objective of this program is to develop the tourism sector as a means to achieve higher economic growth, maintain environmental balance, and alleviate poverty. The activities organized to achieve the objectives of the program are: formation of tourism development model community organizations, building their capacities, raising awareness on tourism and environment and so on. Similarly, other activities being conducted under the program are the development of physical infrastructure for tourism development like campsites, home stay, toilets, incinerators, biogas, roads, drinking water, etc. Tourism credit and capital is being mobilized for carrying out tourism related activities like hotel and lodge operation, handicraft, poultry farming etc. Building institutional structures for the sustainable rural tourism is another major activity of the program.

d. Removal of Value Added Tax (VAT) on tourism transports has generated enthusiasm in tourism business.

e. On the occasion of golden jubilee of first scaling Makalu and Kanchanjungha, fifty percent of royalty has been waived for mountaineers applying for scaling these two peaks between March-June 2005. Similar waiver has been arranged again for the mountaineers of Choyu peak on the occasion of the golden jubilee of first step on that peak.

f. A report of the evaluation of assets and liabilities of RNAC is already submitted by ICAO. Study is being carried out to decide whether to involve the private sector in its management by transforming it into a company with a transparent process or to adopt other alternatives as appropriate.

g. Nepal Tourism Board is organizing internal tourism promotion program within the country and different promotional programs (like organizing Melas, Interaction among tour operators, press conferences, road shows etc.) in foreign countries (India, China, Thailand, Singapore, Malaysia, Sri Lanka). The Board has organized various programs like Bagmati River festival, international mountaineering film festival, Shree Sita-Ram marriage festival, street festival, and seventh national folk dance competition in Pokhara for the promotion of internal tourism. In addition to this, about 15 training programs were also organized.

Source: Culture, Tourism and Civil Aviation Ministry.

Foreign Exchange Earnings from the Tourism Sector

8.62 Compared to FY 2002/03, foreign exchange earnings from the tourism sector in FY 2003/04 rose by 54.48 percent totaling Rs. 18.15 billion. This sector earned about foreign exchange worth Rs. 6.68 billion in the first 7 months of FY 2004/05, which is lower than that was earned during same period of the previous fiscal year. The share of this sector, of the foreign exchange earned from the exports of commodities and services during this period, accounts for 20.2 percent. Its ratio to total earnings from exports of commodities and services combined is 13.9 percent. Its share in the total foreign exchange earnings is 7.1 percent. All these three ratios are on the lower side as compared to FY 2002/03.

8.63 The Nepal Tourism Board (NTB) has focused its attention to achieve its objective of enhancing the quality of tourism industry, improving

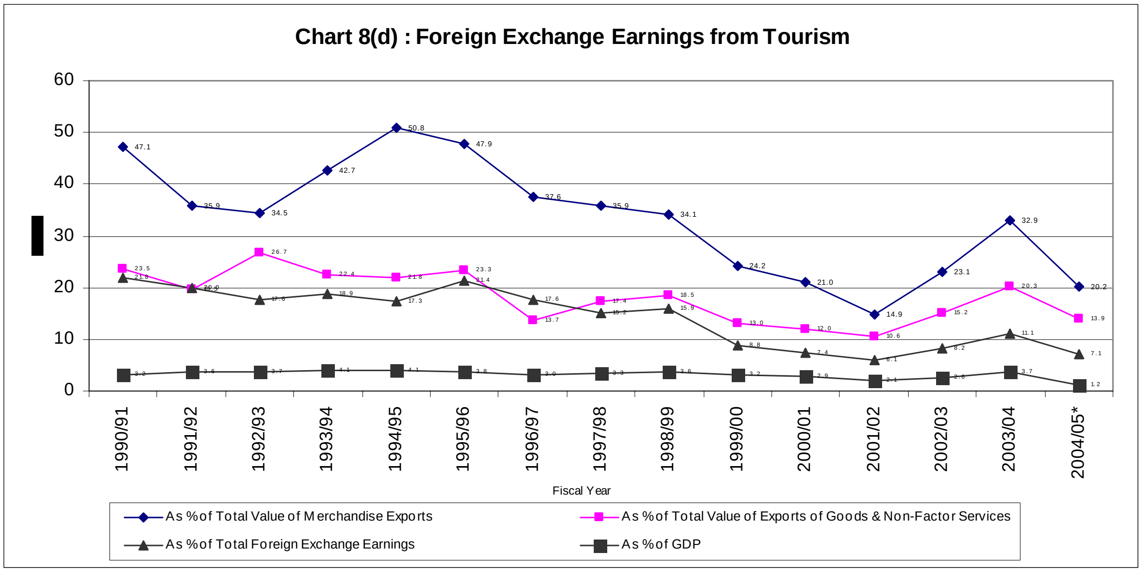


Chart 8(d) : Foreign Exchange Earnings from Tourism

and developing infrastructures, and promoting and managing the international tourism market for the growth, preservation and invigoration of this sector. Its current program for the promotion of Nepalese tourism includes: production of feature films, organizing tourism festivals, production and distribution of materials on tourism, and international exposures. Among various other programs implemented in cooperation with Government agencies and the private sector, "Destination Nepal" campaign is significant from the standpoint of tourism promotion and creating public awareness.

Challenges

8.64 As Nepal is already a member of WTO, it is a challenging task to create necessary infrastructure for grading, standardization, quality certification to maintain certain standard of our agricultural products. Moreover, developing agriculture into a competent sector through market diversification to ensure farmers of . At the same time market diversification of agricultural products, easy access of market for agricultural products, and creation of environment for proper pricing of products is necessary and challenging task.

8.65 Illegal import of Indian agricultural products is persistent because of the higher cost of production in the Nepalese side. Thus to make the Nepalese agricultural product as competitive with Indian products, raising the competitiveness of Nepalese agriculture sector is imperative. This objective can be achieved through the construction of agricultural roads, rural electrification, increase in irrigation facility, promotion of commercial farming, timely supply of qualitative seed and chemical fertilizers and proper management, and proper storage facility for agricultural products are required. It is a challenge to accomplish all the above-said tasks for encouraging the agriculture sector of Nepal.

8.66 Modernization and diversification of existing agricultural system of Nepal through the identification of off-season vegetables and fruits, targeting on the production of drought resistant crops are of utmost necessity. It is a challenging job to motivate farmers to focus on commercial production of high-yielding cash crops, livestock, fruits and vegetables.

8.67 It is necessary as well as challenging task to bring suitable policy and programs to encourage the private sector for the construction and management medium and large-sized irrigation systems for the expansion of irrigation program in longer-terms.

8.68 Despite gradual improvement in supply situation of chemical fertilizers after its production and distribution was opened to the private sector, the quality is not being maintained. Especially, some of the chemical fertilizers legally or illegally imported from India are of below the acceptable quality. Establishment of laboratory and arrangement of technical manpower to check such imports is still a challenge.

8.69 Promotion, infrastructure development, diversification, extensive publicity, removal of ignorance about Nepal by ensuring the flow of right information internationally, are some of the imperative moves for the growth and expansion of tourism. It is still a challenge to raising the number of tourists, extend duration of their stay, and encourage quality tourists through the effective measures mentioned above.

8.70 There is enough room of developing Nepal as a destination of cultural tourism, especially targeting the increasing population of two neighboring countries through the conservation and promotion of culture and heritage treasured in temples and historical sites of cultural and archeological importance. If it is a challenge of Nepal as a cultural tourism destination, another challenge is the conservation of conservation of the places of tourist importance listed as the World Heritage Sites.

8.71 Regular and unobstructed supply of essential goods and POL needs to be ensured in order to avoid artificial shortages in the market. Regular monitoring of market is equally important for ensuring the proper price, quality, measurement, and availability of such goods.

8.72 Attracting foreign and Non Residential Nepalese investment in the country through the development and promotion of modern management, use of modern skills, utilization of modern technology, improvement in professional capacity, and development of entrepreneurship is still a challenging job.

8.73 Nepal's efforts towards the exploration and development of natural mineral resources that are a viable and profitable (e.g. petroleum, gas etc) have not produced desirable results. However, it is a challenge to move towards making the economy self sufficient through the exploitation of mineral resources.

9. Public Enterprises and Privatization

Public Enterprises (PEs)

9.1 This chapter includes the actual (FY 2003/04) and the estimated statistics (FY 2004/05) for 38 public enterprises (PEs) owned by the government. This figure includes one additional public enterprise not included in the last year's analysis and omitted other one which was closed down during the last fiscal year. An overall assessment of financial position of these enterprises shows that 21 were operating in net profits and remaining 17 were in net loss in FY 2003/04. Overall, net operating loss of 38 PEs amounted to Rs. 5919.1 million in FY 2003/04 against the net loss of Rs. 4855.0 million in FY 2002/03. During the review period, the government's total share capital amounted to Rs.59045.2 million while loan capital amounted toRs.51772.8 million. The government has received Rs.1521.0 million as dividend in FY 2003/04, which is 2.58 percent of total share investment. This amount is higher by Rs. 874.3 million to that of previous year.

Sectoral Analysis

Industrial Sector

9.2 In the 9 PEs of Industrial sector, HMG/N has invested Rs. 5901.6 million as share capital and Rs.1928.3 million as loan capital and at present their net worth is negative Rs.161.1 million. Nepal Oriend and Magnesite Pvt. Ltd has the highest negative net worth of Rs.2999.4 million and Udayapur Cement Industry has highest positive net worth of Rs.2606.6 million. These PEs have incurred operating losses of Rs.117.1 million in FY 2003/04, of which the losses of Udayapur Cement Industry alone is Rs.50.0 million, while Lumbini Sugar Factory incurred a loss of Rs. 57.7 million. Dairy Development Corporation, Hetauda Cement Industry and Janakpur Cigarette Factory are in operating profit. Government received Rs. 3.0 million dividend form Janakpur Cigarette Factory. Net capital investment for 9 industrial enterprises till FY 2003/04 amounted to Rs.3449.0 million while net loss amounted to Rs.345.4 million.

Commercial Sector

9.3 Of the 6 PEs operating in this sector, HMG/N has invested Rs.1786.8 million as share capital and Rs. 615.7 million as loan capital. The net worth of these enterprises was positive to Rs. 3038.2 million till the end of FY 2003/04 while a total loss of Rs.1463.4 million was incurred until the end of FY 2003/04. Of which, significant loss of Rs.1372.9 million was incurred by Nepal Oil Corporation. Among the enterprises within this sector, the National Trading Limited has paid Rs.1.0 million dividend to HMG. The net capital investment to these enterprises amounted to Rs.3137.1 million until FY 2003/04.

Service Sector

9.4 HMG/N has made an investment up to Rs.11243.7 million as share capital and Rs.35.8 million as loan capital in 7 enterprises, including Nepal Civil Aviation Authority, in this sector by the end of FY 2003/04. Only 6 enterprises were included in such investments in the last FY. The net worth of this sector was positive by Rs.7502.8 million in FY 2003/04. Among these enterprises, the net worth of RNAC is negative by Rs.1366.7 million whereas the net worth of Civil Aviation Authority is positive by Rs. 8233.2 million. While analyzing the net worth and profit/loss status of this sector for the FY 2003/04, this sector is in profit of Rs. 188.5 million this includes the Rs. 260.0 million received from the sale of land of National Construction Company. While the operating loss incurred by this sector is Rs. 253.9 million. Among the PEs in profit, government received dividend of Rs.3.6 million and Rs.1.1 million from Industrial Sector Management Ltd and National Productivity and Economic Development Center respectively. Net Capital investment for this sector is Rs. 9950.0 million.

Social Sector

9.5 HMG/N has invested Rs.1796.1 million as share capital in the 5 PEs of this sector by FY 2003/04. The total net worth of these PEs at the end of FY 2003/04 is positive by Rs.1849.0 million. The net loss of PEs of this sector is Rs.134.2 million. Only two enterprises namely, Janak Education Material Center and Cultural Corporation are running on net profit while Nepal Television is running with heavy loss of Rs. 127.1 million. The net capital investment for this sector was Rs. 1957.2 million at the end of FY 2003/04.

Public Utility Sector

9.6 HMG/N has invested Rs.35,252.0 million as share capital and Rs.45492.6 million as loan capital in 3 PEs of this sector by the end of FY 2003/04. The total net worth of these enterprises is positive by Rs.49,187.7 million in and net profit is 2,049.0 million in FY 2003/04. A profit of Rs. 3,507.4 million is made by Nepal Telecommunication Company while Nepal Electricity Authority has incurred a loss of Rs.1, 415.4 million. The Government received Rs.1509.2 million dividends from Nepal Telecommunication Company in FY 2003/04. Net capital investment of 3 enterprises of this sector is Rs. 94,451.0 million till the end of FY 2003/04.

Financial Sector

9.7 HMG/N has invested Rs.3065.1 million as share capital and Rs. 3700.3 million as loan capital in 8 PEs of this sector by the end of FY 2003/04. The net worth of this sector was negative by Rs.26,446.0 million at the end of FY 2003/04. Of which, the Rastriya Banijya Bank has negative worth of Rs.21440.0 million, Agriculture Development Bank has Rs.6010.0 million, and Nepal Industrial Development Corporation has Rs. 210.0 million. Remaining five enterprises of this sector have positive net worth. While analyzing the profit loss situation of this sector, a net loss of Rs.6213.7 million has incurred by this sector in FY 2003/04. Agricultural Development Bank (ADB) is in loss of Rs. 8.0 billion due to employee retirement program and loan loss provisioning. Rastriya Banijya Bank earned a operating profit of Rs. 1,040.0 million. Among the, profit making enterprises of this sector, government received dividend of Rs.1.8 million from Deposit Insurance and Credit Guarantee Cooperation, Rs.0.7 million from Nepal Housing Development Finance Company and Rs.0.6 million form Citizen Trust Fund in FY 2003/04.

Status of Audit

9.8 It is mandatory to complete audit before 30 days of annual general meeting in case of public company and within 60 days after the end of fiscal year in case of private company organized under Company Act, 1996. Similarly the audit of income and expenditure of enterprises organized under the Corporation Act, 2021, should be completed each year. In the same way there is also a provision to make audit of enterprises organized under the special act. Some of the enterprises have not timely completed the auditing, though there is mandatory provision in the law. The position of annual auditing is gradually improvising since FY 2000/01. Among the operating enterprises, 24 PEs have completed their audit up to FY 2003/04, 10 PEs completed Audit up to FY 2002/03 and 4 PEs are not able to complete the audit up to FY 2002/03. HMG/N has adopted the Policy to take action to the executive chief and account chief not performing the audit. After the execution of this policy, although same progress is found in this matter, still it has not taken the pace as expected. Satisfactory reform is found in audit status of existing enterprises than that of previous situation. Direction is given to the concerned enterprises for up to date audit with continuous follow-up.

Progress of Enterprises Reform Program

9.9 The government has adopted a policy to manage and operate the enterprises by efficient professionals and the responsibility will be given to the specialist in the board of directors and number of board of directors will be only 5. During this fiscal year, this provision is implemented in 21 public enterprises. However in case of corporation, the number of board of directors was fixed by concerned Act/rule, and which may be more than 5. Thus initiation is taken to amend the act, and limit the number of board of directors only to 5.

Performance Contract /MOU

9.10 HMG/N has initiated a performance contract /MOU with enterprises, for the purpose of increasing efficiency of public enterprises. Such contract is made for some enterprises as per the policy spelled out in Budget speech of FY 2003/04. The major terms to be stated in the Performance Contract are the indices that increase in efficiency of enterprise (*viz.* capacity utilization, turnover, return of investment, labor productivity, net profit etc). Similarly, the contract also includes the guarantee of professional liberty, and the assistance to be received from the government. The enterprises receive maximum liberty under this agreement and the board of directors and management committee will be fully responsible to achieve their objective. In FY 2003/04 the performance contract was completed with five enterprises. However, in FY 2004/05, continuity could not be maintained in this regard. But, decision is taken to continue this process during coming fiscal year.

9.11 It is expected to achieve positive return if the mechanism for evaluation is adopted and a provision of punishment which performed at lowest level and provision of reward which performed at highest level is established. The evaluation of performance of the enterprises having performance contract in FY 2003/04, is not yet completed.

Staff Situation

9.12 The PEs are contributing substantially to increase in employment in the country. Even though it is required to determine the number of employee according to the work load, the number of employee is higher than that of workload in some of the enterprises, and the overhead cost is increasing. In FY 2004/05 attempt is made to reduce the un-required number of post and maintain the overhead cost of enterprises at desired level. Through attempt is made to reduce the overhead cost by reducing the number of staff, still there is a challenge of over staffing and the majority of PEs are operation in loss. Thus continuity is given to the voluntary retirement program for the reduction of employee/s liability and minimize operation through the control of overhead cost before privatization. Following are the PEs that revised the number of staff till FY 2004/05.

Table : 9(a)

The Staff Position of PEs by FY 2004/05

S. No.	Name of Enterprise	Approved Number	Reduced Number	Existing Number
1.	Nepal Electricity Authority	9606	2134	7472
2.	Agricultural Development Bank	5195	531	4664
3.	Nepal Oil Corporation	681	72	609
4.	Agricultural Input Corporation	360	74	286
5.	National Trading Ltd.	766	50	716
6.	Gorkhapatra Corporation	746	72	674
7.	Janak Educational Material Center Ltd	729	29	700
8.	Nepal Tele Communication Corporation	6000	250	5750
9.	Radio Nepal	757	116	641
10.	Royal Drugs Ltd.	577	56	521
11.	Rastriya Beema Sansthan	322	31	291
12.	Nepal Drinking Water Corporation	2280	61	2219

13.	Deposit Insurance and Credit Guarantee Corporation	38	4	34
14.	Civil Aviation Authority	1356	158	1198
15.	Nepal Television	353	2	351
16.	Nepal Food Corporation	701	64	637
17.	Nepal Transit and Warehousing Co. Ltd.	198	75	123
18.	Dairy Development Corporation	1218	134	1084
19.	Janakpur Cigarette Factory Ltd.	1647	43	1604
20.	Securities Market Ltd.	59	7	52
21.	NCCN	141	42	99
22.	RNAC	2286	412	1874
	Total	**36016**	**4417**	**31599**

9.13 The number of employee of the following privatized or dissolved PEs was 7554 and all the liabilities of such employee are already paid.

Table 9 (b)

Privatization / Dissolved Number of Employees of Privatized PEs

S. No	Name of Enterprise/Corporation	Number
1	Bhrikuti Paper Industry	280
2	Harisiddhi Brick Factory	578
3	Bansbari Leather and Shoe Factory	167
4	Nepal Film Development Company	98
5	Balaju Textile Industry	178
6	Unprocessed Leather Collection and Sales center	564
7	Nepal Bitumen and Barrel Industry	61
8	Nepal Lube Oil	106
9	Tobacco Development Company	262
10	Nepal Foundry Factory Ltd.	65

11	Shree Raghupati Jute Mills	1479
12	Nepal Tea Development Corporation	180
13	Agricultural Projects Services Center	198
14	Cottage Handicraft Sales Emporium Ltd.`	137
15	Nepal Coal Ltd.	49
16	Hetauda Textile Industry	1011
17	Nepal Transport Corporation	379
18	Butwal Power Company	305
19	Birgunj Sugar Factory Ltd.	923
20	Agricultural Tools Factory Ltd.	180
21	Bhaktapur Brick Factory	354
	Total	7554

Source: Corporation Coordination Division, MoF

Table 9(C)

Voluntary Retirement Position of Some PEs

S. No	Name of the Corporation/Enterprise	Number
1	Agriculture Lime Industry	121
2	The Timber Corporation of Nepal	460
3	Nepal Orient and Magnesite Pvt. Ltd.	460
4	Himal Cement Company LTD	705
5	Nepal Rosin and Turpentine Industry	470
	Total	2216

Source: Corporation Coordination Division, MoF

Status of Liability

9.14 The PEs can be classified into two groups on the basis of liabilities i.e. limited and Unlimited. The liability of PEs with limited liability is confined to the extent of maximum amount of the shares they have bought or they have agreed to buy whereas all the liabilities of the PEs with unlimited liability are subject to be transferred to the investors account. The PEs established under company Act 1996, fall under PEs with limited liability, whereas, PEs incorporated under corporation Act 2021, are PEs with unlimited liability. On the one hand, most of the PEs are operating in loss and on the other the PEs have generated unbearable liabilities beyond their economic capacity to pay back. In such a situation where there is no accurate account of liabilities, it is very difficult to make any provision of fund to meet such liabilities. In this context it is of utmost necessity to identify and systematize the probable liability of the PEs. As per the records available the total liability of PEs, till the mid-July 2004, was Rs 14294.2 million out of which Rs.2555.1 million falls in the category of non-provisioned fund, Rs.234.5 million in the category of filed cases, Rs.3646.6 million in the category of guarantee and Rs.7858.0 million was in the category of other liabilities.

Privatization of Public Enterprises

9.15 With the realization that the overall development is not possible only by the efforts of the government alone, open and Liberal Economic Policy was adopted by HMG/N and started to take the privatization process of the Public Enterprises as an important instrument of economic reforms. The participation of private sector in the economic affairs of the country was possible only through the privatization of PEs. Therefore HMG/N has been implementing this program with priority since last 12 years, keeping in view the areas of interest of the private sectors. In this process, the PEs termed feasible commercially, economically and financially are being transferred to private sectors, while the PEs unrelated to the changed present context, unjustifiable and obsolete ones are dissolved. To date following 24 PEs have been privatized or liquidated.

Table 9(d)
Details of Privatized & Dissolved Public Enterprises

S. No.	PEs Name	Year Privatized	Privatization mode	Lump sum Equity Sold(%)	Selling Price (Rs million)
1	Bhrikuti Paper Factory Ltd.	1992	Assets and Business sale	-	229.8
2	Harisiddhi Brick and Tile Factory Ltd.	1992	Assets and Business sale	-	214.830
3	Bansbari Leather and Shoe Factory Ltd.	1992	Assets and Business sale	-	29.854
4	Nepal Film Industry Ltd.	1993	Equity sale	51.0	64.662
5	Balaju Textile Industry	1993	Equity sale	70.0	17.716
6	Raw hide Collection and Processing Co. Ltd.	1993	Equity sale	100.0	3.990
7	Nepal Bitumen and Barrel Industry Ltd.	1994	Equity sale	65.0	13.127
8	Nepal Lube Oil Ltd.	1994	Equity sale	40.0	31.057
9	Nepal Jute Development Co. Ltd.	1993	Liquidation	-	Liquidation
10	Tobacco Development Co. Ltd.	1994	Liquidation	-	Liquidation
11	Nepal Foundry Factory Ltd.	1996	Equity sale	51	14.473
12	Raghupati Jute Mills Ltd.	1996	Equity sale	65	82.204
13	Biratnagar Jute mills Co. Ltd.*	2002	Management Contract	-	-
14	Nepal Bank Ltd**.	1997	Equity sale	10	125.140
15	Nepal Tea Development Corporation	2000	Equity sale and lease	65	267.105
16	Agriculture Project Services Center Ltd.	2001	Liquidation	-	-
17	Cottage Handicraft Sale Emporium Ltd.	2002	Liquidation	-	-
18	Nepal Coal Ltd.	2002	Liquidation	-	-

19	Hetauda Textile Industry Ltd.	2002	Liquidation	-	-
20	Nepal Transport Corporation	2002	Dissolved	-	-
21	Butwal Power Co.	2003	Equity sale	75	874.2+1 Million US $
22	Birgunj Sugar Factory Ltd.	2003	Liquidation	-	-
23	Agriculture Tools Factory Ltd.	2003	Liquidation	-	-
24	Bhaktapur Brick Factory	2004	Assets and Business sale	-	14.5 (Asset Sale) +31.9 (rent /10 years)

* *Management contract decision was taken by the Board of Directors.*

** *Ten percent of HMG equity was sold.*

Source : Corporation Coordination Division, Ministry of Finance

Out of the privatized corporations till now, three corporations have been privatized by selling the assets and business, ten by selling the shares, nine by dissolution and 1/1 by management contract and leasing out and selling the assets respectively.

9.16 Among the corporations targeted to complete the process of privatization/dissolve in FY 2004/05, Bhaktapur Brick Factory has been operated by the private sector after the completion of privatization through sale of property and by leasing out the land and building for 10 years. The process of ascertaining the loss incurred in the period of factory's operation under the previous private party and to refund that loss amount has been initiated. Similarly, the process of liquidating Bhaktapur Brick Factory has started after completing the audit of remaining period and the auditing of Agriculture Tools Factory has also been completed for the remaining period. The process of ascertaining the loss incurred in the period of factory's operation under the previous private party and to refund that loss amount has been initiated. Since the amount to be received by the government for sale of shares when Raw Leather Collection Center was privatized earlier has not been received yet, Dues Realization Central Office has been requested to maintain the record and collect the due amount.

9.17 Since the third attempt of privatizing Birgunj Sugar Factory through selling the 26.10 Bigha of land, building and machineries including other current assets could not be materialized, it has been realized that an appropriate policy should be adopted to privatize this factory promptly. Similarly, the proposal called for the privatization of Rosin and Turpentine Ltd. by selling business, machines and other property and by leasing out the land and buildings for 10 years was cancelled and again the process is initiated for new proposal with similar modality.

9.18 The dissolution of Cottage Handicraft Emporium Ltd. will be complete within this fiscal year. Though the liquidation of Nepal Coal Ltd and Hetauda Textile Industry was not completed due to the lack of proper property management as per target, the completion of this task has been expected within coming fiscal Year.

9.19 The privatization committee has decided to privatize Lumbini Sugar Factory Ltd and National Construction Company Nepal in the current fiscal year therefore, the privatization process of these PEs will be initiated in next fiscal year after the completion of preliminary work.

9.20 The concerned Ministry has completed the asset valuation of RNAC. Similarly, Nepal Telecommunication Corporation has been converted into company and the concerned ministry has been initiated the valuation of assets of this company too.

9.21 The sale of 2.0% share of Butwal Power Company to the workers/staffs and 10.0% share to the public has been completed. Similarly, as per proposal for the sale 33.62 percent share held by HMG/N in Raghupati Jute Mills for the public and the workers/staffs, the public and workers/staffs proposed to purchase only 500 shares and 5,724 shares respectively. Therefore, a decision has been made as per sale and purchase agreement to sale remaining 65% shares to Shree Arihanta Multifibers Ltd.

9.22 Since the dissolution/liquidation of three industries namely Harisiddhi Brick Factory, Bhrikuti Paper Mills and Bansbari Leather and Shoe Factory which were privatize in the first phase by selling the assets and business, is still incomplete for a long time, in this regard, a decision has been taken to dissolve these companies by organizing an annual general meeting within this fiscal year.

9.23 The amount to be received by HMG from the share sale of Nepal Foundry Factory Ltd. and Balaju Textile Industry was not received. Therefore, the transaction has been settled by ascertaining the due amount with necessary adjustment according to the provisions of the agreements. Similarly, HMG/N could not receive the due amount from Raghupati Jute Industry and Nepal Tea Development Corporation and necessary actions has been initiated to clear the account by finding the actual amount to be received by HMG.

9.24 Since the liabilities of the staffs, banks and financial institutions generated in the dissolved and privatized corporations was born by the government from the sales proceeds previously, such liabilities have been paid through the allocated budget after depositing these proceeds in the HMG's treasury.

9.25 As the number of staff/workers is very high in almost all PEs, it is necessary to minimize the long-term liability of the government by right sizing their number. Thus, the voluntary retirement scheme has been implemented in Agriculture Lime Industry and Royal Drugs Ltd and such policy will be followed for other PEs gradually.

Challenges

9.26 In the context of present open, liberal and competitive economic policy, PEs should be reformed to enable them to play an important role in the economic development of the country. However, the progress in the PEs is not satisfactory. The reform policies adopted to increase the productivity of the PEs through improving the work efficiency effectively have shown the positive impact on the one hand and the policy of making the professionals and experts lead the corporations by giving them the responsibility in the board of directors limited to 5 members has not been successful due to the provisions in the rules and regulations of the PEs themselves on the other.

9.27 The PEs running above Break Even Point have not provisioned funds like reserve fund, gratuity, pension, provident fund etc. as per the acts, rules and regulations. Therefore, it has invited a great challenge for the government to bear the unseen and unlimited liabilities of the PEs.

9.28 PEs have not prepared their annual statement of account and delayed their auditing since many years. It may decrease the public confidence toward these enterprises and may have a negative impact to privatization. The privatization process has been affected due to lack of cooperation and coordination from the purchasers for the adjustment of asset and liabilities after the privatization. Due to this, positive message and impact of privatization has not been disseminated to the general public.

9.29 There is a general complaint that the PEs with loss are fully dependent on government and the PEs with profit are taking benefit more than required. Thus PEs are not able to give due consideration towards the main theoretical aspect of “Public” and ‘Enterprises”. Despite running in loss, there is a trend in the PEs to hide the actual number of staffs and to recruit more people disregarding the government policy of right sizing, the overhead cost of PEs is increasing. It is a challenging task to establish a system of making the PEs and line ministries responsible for their commitments and implementation. The PEs can play their effective role in open and liberal economy only when they are able to face these challenges.

9.30 There is a great challenge to bear financial burden for the government because of the unsettled dues as agreed at the time of privatization and the payment of liability of dissolved enterprises.

9.31 It is necessary to maintain financial discipline in the operating enterprises, to decrease the administrative costs, to utilize full capacity of the PEs, and to utilize properly the autonomy given to them by management contract.

9.32 It is urgently felt that there are challenges like revitalizing the process of privatization process with actual and transparent evaluation, making the attractive environment for investment in privatized enterprises and making favorable and simple modality for the investment from the public.

9.33 As proper mechanisms have not yet been developed to follow-up and evaluate the privatized PEs regarding their performance based on business plan, there is still a challenge to give right direction to the policy and programs of privatization in the absence of proper feedback.

10. Energy and Forestry

Energy

10.1 Energy consumption in FY 2003/04 increased by 2.4 percent to 8501 Tons of Oil Equivalents (TOE) compared to FY 2002/03. It is expected to increase by 1.9 percent to 8,662 TOE in FY 2004/05 in comparison to previous year.

10.2 When divided energy into three categories according to their sources viz., traditional, commercial and renewable; traditional, commercial and renewable energy occupied 87.0 percent, 12.5 percent 0.5 percent respectively of the total energy consumption in FY 2003/04. Share of traditional, commercial and renewable energy is expected to remain 87.2 percent 12.2 percent and 0.6 percent respectively in FY 2004/05. This depicts this year too, Nepalese economy heavily relies on traditional sources of energy as the previous year.

10.3 Of the total traditional energy consumption in FY 2003/04, share of fuel wood was 89.0 percent, agriculture residence 4.3 percent and cattle residence 6.5 percent, while in FY 2004/05 too the share of agriculture and cattle residue is expected to remain the same. Similarly, of the total commercial energy consumption in FY 2003/04, the share of petroleum products was 70.4 percent, coal 16.2 percent and electricity 13.4 percent. Whereas in FY 2004/05, the share of petroleum products, coal and electricity in total energy consumption is expected to be 71.5, 14.5 and 14.0 percent respectively.

10.4 Of the total energy consumption by sector in FY 2003/04, the share of household use was 90.1 percent, industrial use 3.8 percent, commercial use 1.0 percent and agricultural use 0.8 percent and other use 0.2 percent. Whereas in FY 2004/05, household sector is expected to occupy 90.6 percent and industrial, commercial, agricultural other sectors by 3.6, 1.1, 0.7 and 0.1 percent respectively.

Electricity

10.5 At the end of FY 2003/04, a total of 552.201 MW hydropower was generated from various projects of the Kingdom. Similarly, production of thermal power and solar power has been 56.756 MW and 100 KW respectively. Altogether, total electricity production reached 609.057 MW. As of now, all 75 districts of Nepal have access to electricity. Up to FY 2004/05, total hydropower production is 557.01 MW including *Chilime* Hydropower plant (20 MW)-a joint venture of NEA and the private sector and Piluwa Hydropower Plant (3 MW), Rairang Khola Hydropower Plant (0.5 MW) and Sunkoshi Small (Sanima 2.6 MW) - all three by private sector contribution. The Middle-Marshyangdi Hydropower Project, Lamjung (70 MW) is under construction with the assistance of the government of the Federal Republic of Germany. Also in Humla and Mugu districts, where electricity is being provided through solar power, the Heldung (500 KW) and Gamgadi (400 KW) small hydropower plants are under construction for the delivery of reliable electricity services Of the total hydropower production, 545.785 MW electricity has been connected to the national grid and the rest which is generated by small hydro power plants have served to the local level.

10.6 Likewise in the previous FY, private sector participation in the production of electricity has been found encouraging in FY 2004/05. The projects constructed already by the private sector are handed over accordingly and come into operation. In this connection, among the projects which have signed Power Purchase Agreements (Papas) with NEA, Middle-Modikhola (3.1 MW), Mayelung (5.0 MW), Lower Myagdi (4.5 MW), Khudi (3.4 MW), Mayakada (5.0 MW), Daram Khola (5.0 MW), Baramchi (0.999 MW), Lower Indrawati (4.5 MW), Upper-Madikhola (14.0 MW) and Chakukhola (1.5 MW) have started their construction works.

10.7 In line with the expansion of electrification, high-voltage transmission lines of 1136.20 KM single circuit and 407 KM double circuit in 132 KV level; 231.30 KM single circuit, 164.50 KM double circuit and 3.37 KM bar circuit in 66 KV level; 22 KM in 66 and 132 KV joint level and 2471 KM in 33 KV level were in operation at the end of FY 2003/04. In the current FY 2004/05, Butwal–Sunauli (25 KM) and Parwanipur – Birgunj (15 KM) transmission lines under 132 KV as well as Ilam - Phidim -Taplejung (90 KM), Sitalpati-Musikot (50 KM), Buipa-Okhaldhunga (29 KM), Chhinchu-Rakam Jajarkot (70 KM), Ghorahi - Holeri (45 KM), Udipur - Beshisahar - Manang (90 KM) and Dadeldhura - Baitadi (14 KM) transmission lines under 33 KV are being constructed. In order to extend transmission lines at three additional boarder points for the exchange of electricity with India as agreed principally by raising the level of electricity exchange from 50 MW to 150 MW, necessary studies and preparations were being carried out for the construction of 132 KV transmission lines between Butwal - Sunauli (25 KM), Dhalkebar - Bhittamod (45 KW) and Parawanipur - Birgunj (15 KM). Accordingly, construction work has already been initiated for Butwal - Sunauli transmission lines. Construction of 132 KV Thankot - Chapagaun –Bhaktapur- Kathmandu "Ringmen" transmission line has been started under the loan assistance of Asian Development Bank (ADB) to strengthen the capacity of electricity transmission in the Kathmandu Valley in order to cope with ever expanding urbanization. There is a target of constructing a 220 KV Khimti -Dhalkebar (75 KM) transmission lines for the purpose of supplying the electricity generated from Khimti, Bhote Koshi and other new projects of this area to the eastern part of the country. Similarly, transmission lines of Hetauda -Dhalkebar and Butwal – Bardaghat(174 KM) in 132 KV and Birgunj - Corridor(17 KM) are under construction.

10.8 In order to update and strengthen the existing power structures, Load Dispatch Center (LDC) Expansion Project, set up with an aim to augment the production and control the system through and affiliation of major sub-stations and power houses into the communication network of the center and SCADA of the LDC, has been completed and brought into operation.

10.9 Expansion of electrification in the districts is underway where electricity has already been reached with the utilization of domestic resources. Keeping this view in mind, additional electrification in Kailali and Kanchanpur districts is being carried out with the grant assistance received from the Government of the Denmark. The electrification in additional 27 districts is continued under the Rural Electrification and Distribution System Strengthening Project with the loan assistance of Asian Development Bank. Agreement has been signed with the World Bank to expand the electricity services in additional areas of Bhaktapur, Lalitpur, Nuwakot, Dhading and Kavre districts; and preliminary works have been started. Similarly, feasibility study on electrification in eight districts of Mid-Western and Far-Western Development Regions (Surkhet, Dailekh, Achham, Doti, Bajhang, Dadeldhura, Baitadi and Darchula) has been completed in cooperation of Swedish Government. As per the directives delivered by His Majesty the King during the visit of Mid-Western Development Region in FY 2003/04, necessary process has been initiated for the electrification in different districts of this region from the central grid.

10.10 Various activities are going on regarding the feasibility and detailed studies of hydropower. Financial arrangement and infrastructure development works are on-going with a view to developing Chameliagad Hydroelectric Project. In course of studying reservoir-type hydroelectric project, among 102 identified projects, 4 attractive projects viz., Upper Seti (Tanahu), Madi Ishaneshwor (Kaski and Lamjung), Langtang (Rasuwa) and Madi/Begnas (Kaski) were selected preliminarily for the feasibility study, of which the feasibility study of upper Seti has been completed and updated feasibility study is going on under the joint program of NEA and the technical assistance of JICA. Implementation of reservoir-type hydroelectric projects is essential to mitigate seasonal imbalances in the demand and supply of electricity services. To this end, effort is on to tap foreign resources so as to carry out the detailed study of the Upper Seti Reservoir-type Project (122 MW), the most attractive project revealed by the studies so far. Similarly, studies of Seti-Trishuli (Tanahu), Nalsiaugadh (Jajarkot) and Uttarganga (Baglung) are continuing. Feasibility study report of Upper Tamakoshi Project in Dolakha district has been prepared under the Norwegian grant with a view to develop hydropower project jointly by NEA and the private sector. Feasibility Studies of Upper Hewa and Upper Modi (A) have been completed and efforts for financial arrangements to carry out updated feasibility study of upper Modi (A) Project are continued. A number of studies on feasible projects under 5 KW capacities are being carried out by the Small Hydro Master Plan Study Project.

10.11 The total supply of electricity in FY 2003/04 was 2381.498 Gega Watt Hours (GWH) including production of hydropower 2185.931 GWH, thermal power 9.92 GWH and 185.647 GWH imported from India. Of this, 1671 GWH was consumed internally and 141.2 GWH was exported to India. Whereas in FY 2004/05, total supply of electricity is expected to reach 2565.807 GWH including production of hydropower 2408.306 GWH, thermal power 15.5 GWH and 142 GWH imported from India. Out of the total available power supply in the current FY, internal consumption is estimated to be 1833.3 GWH and export to India to be 124 GWH respectively.

10.12 Sectorwise consumption of electricity in 2003/04 was that the industrial sector accounted for 38.1 percent, household sector 37.3 percent, commercial sector 6.0 percent and export 7.8 percent. Likewise in FY 2004/05, it is estimated that industrial sector will account for 37.2 percent, household sector 38.5 percent, commercial sector 5.5 percent, export 6.3 percent and miscellaneous 12.4 percent.

10.13 The total number of electricity consumers in FY 2003/04 was 1.061 million, while, this number is estimated to be 1.170 million with the increment by 10.3% in FY 2004/05.

Petroleum Products

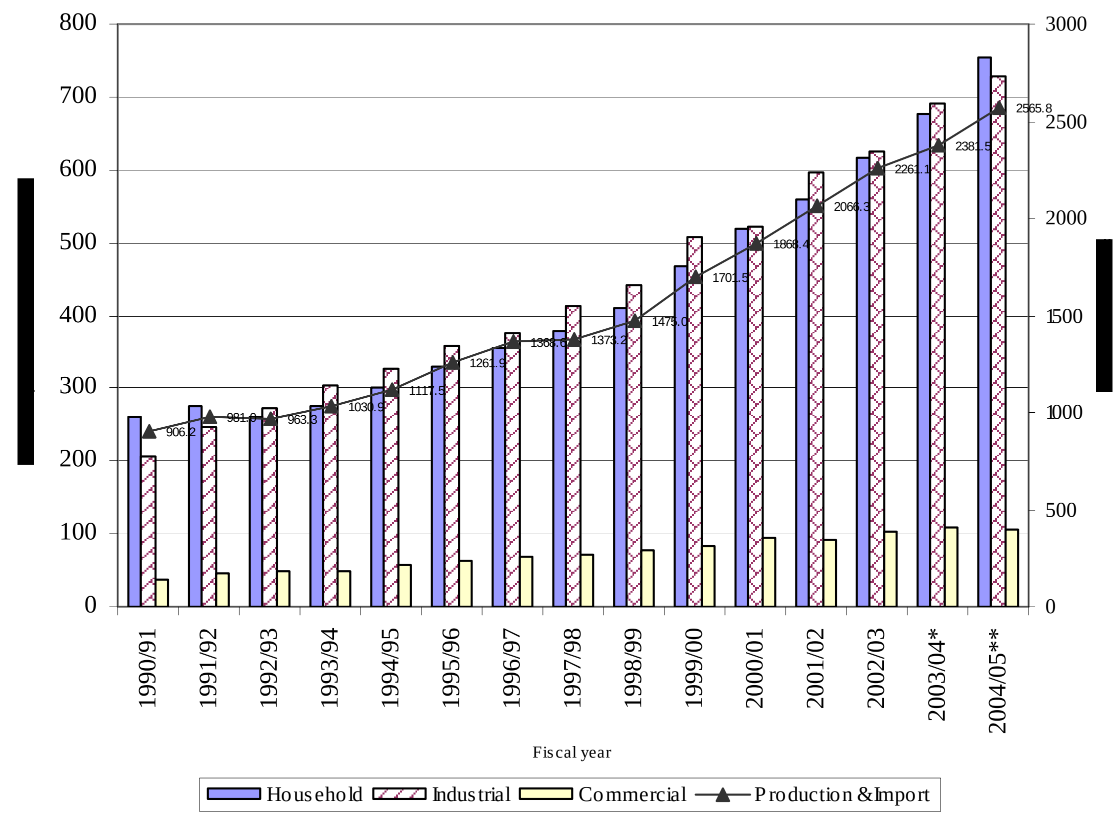
10.14 In FY 2003/04, consumption of petroleum products decreased by 3.7 percent totaling 7,55,413 Kilo Liters (KL) and L.P. Gas increased by 17.9 percent totaling 66,142 metric tons (MT). Cost of these two products was Rs. 22.60 billion. While calculating this consumption for the first eight months of FY 2003/04, petroleum products and L.P. Gas accounted for 4,80,038 KL and 43,871 MT respectively. During the same period of current FY, consumption of petroleum products declined by 6.8 percent totaling 4,47,500 KL and L.P. Gas increased by 15.9 percent totaling 50,835 MT. Cost of the consumption of petroleum products and L.P. Gas in the first eight months of FY 2004/05 totaled Rs. 15.80 billion.

10.15 Major share of the consumption of petroleum products is occupied by diesel, kerosene, petrol and aviation fuel. Of the total consumption of petroleum products (excluding L.P. Gas) in FY 2003/04, the share of diesel, kerosene, petrol and aviation fuel was 39.6 percent, 41.1 percent, 8.9 percent and 8.5 percent respectively. Whereas consumption in the first eight months of FY 2004/05, share of diesel remained as 50.4 percent, petrol 10.7 percent, kerosene 35.6 percent and aviation fuel 9.9 percent.

10.16 The total storage capacity of Nepal Oil Corporation (NOC), the only institution dealing the transactions of petroleum products, is 70,300 KL, which is adequate only for 25 days on the basis of average consumption. So storage capacity needs to be increased based on increasing consumption of petroleum products and as per the target of the Tenth Five Year Plan, NOC's storage capacity has to be increased to 1,00,000 KL. In this connection, there is a program to increase 1520 KL storage capacity of Nepalgunj Depot and build an underground tank of 350 KL in Thankot Depot. Of the total consumption of petroleum products, 65 percent is being imported from Raxaul Depot of Indian Oil Corporation (IOC). Considering the loading capacity of Raxaul Depot of IOC and the traffic congestion of different vehicles between Raxaul

Chart 10(a) : Electricity Generation and Consumption

(In MW/HR)



and Birgunj Customs area, it is indispensable to consider for an alternative arrangement of the transportation of petroleum products. In this context, the preparatory program of laying a 35 KM petroleum product pipeline from Raxual to Amlekhgunj will be continued.

Coal

10.17 Consumption of coal had increased by 27.4 percent totaling 171.0 Ton Oil Energy (TOE) equivalent in FY 2003/04, whereas in FY 2004/05, it is estimated to decrease by 10.6 percent totaling 153 TOE equivalent.

Alternative Energy

10.18 In order to mobilize in a well managed, easy and smooth way of the financial resources received from HMG/N, and the Governments of Denmark and Norway in solar energy and micro-hydro plants, and also to coordinate with banks to ensure the availability of loans, an Interim Rural Energy Fund (IREF) has been established and operated under the Alternative Energy Promotion Center (AEPC). With the setting up of IREF, it is expected that the access to new and sustainable energy systems of the rural people in particular will be increased. It will have very positive impact by providing electricity services in the areas where electricity has not reached from the national grid. At present, with a policy of converting IREF into a Rural Energy Fund (REF) and mobilizing all grants on alternative/renewable energy, final draft of REF has been prepared.

Biogas

10.19 In the first eight months of FY 2004/05, the establishment of biogas plants increased by 22 percent with a total of 1400 plants compared to the 1146 plants in the corresponding period of FY 2003/04. With a view to provide easy access of poor people to biogas and help produce clean and hygienic cooking gas and quality compost manure from slurry, a biogas credit unit has been established at the AEPC to channel faster, easier and concessional credit to install the biogas plants. And subsidized loan has been provided without collateral especially to rural poor and women through 68 micro finance institutions. This policy has positively contributed to the socio-economic condition of the rural poor and women with an access to biogas as cooking fuel. This subsidized loan has been made available from the assistance of KfW, Germany since FY 2001/02.

Forestry

10.20 Initiatives have been made to implement the programs in an integrated way, aiming at improving the living standard of the poor, women and deprived by maintaining social empowerment, gender equality, social justice, equity and good governance and by enhancing the base of macroeconomic development in all programs reaching rural people like community and leasehold forestry. Under the community forestry program, draft legislation has been finalized for the purpose of institutional lending to the users intending to run the forests-based businesses. Policy has been adapted to enhancing the base of broad economic development through community forestry program and increasing the participation of deprived women and Dalit groups in community forestry by maintaining social empowerment, gender equality, social justice, equity and good governance. Due to this policy, women's participation is about 25 percent in the community forestry. A total of 695-community forestry in the Kingdom involves only women in its management. As per the specified target of enhancing the livelihood opportunities by increasing the access of poor in community forestry, the programs like poor identification, land selection, orientation seminar and forests management training have been started in FY 2004/05 to implement the pro-poor community forestry program. Formation of 252 leasehold forest user groups (FUGs), preparation of 194 work plans, 136 training/workshops relating to land development, bee keeping and nursery management for the members of FUGs have been completed in order to uplift the living standards of low income people in line with the objective of devolution of authority to the local bodies regarding basic service delivery. Programs like improvement of 18 schools, operation of 16 small drinking water projects, improvement and development of 3 ponds and 30.5 KM of track road improvement have been completed under the rural infrastructure development program for the farmers affiliated to the leasehold FUGs.

10.21 With a view to maximum utilization of forest resources through the scientific management of national forest in order to increase public revenue and national production, forests management action plan has been enacted and implemented in 12 districts of inner Terai from the previous FY. Similarly, a five-year forests action plan is approved and implemented in 38 districts from the same FY to increase the productivity of forestry sector through the proper sales and distribution of forests products by managing them scientifically. With the objective of focusing community and leasehold forestry programs in the Mountain and Hilly region, community forestry in 55 districts, 26 leasehold forestry and partnership forests management program with the participation of local people in 11 districts of Terai and inner Terai have been implemented with the assistance of various development partners.

10.22 Policy has been adopted to reform the group formation procedures and make the monitoring job effective for the faster expansion of the community and private forestry program, motivating the private sector for commercial forests management in different sectors and mitigating the problems that were visualized in the distribution of forests products among different community groups. For the development, management and proper utilization of private forestry, the programs like free distribution of seedlings from central nursery, district and user nursery and technical assistance for forest management have been continued. Likewise, special attention has been given on the formulation of participative monitoring system and renewal of action plans. A detailed study on the support of community forestry in the livelihoods of local people in 12 districts of the Kingdom has been done.

10.23 Legal provision has been made to provide bush-forests on long term lease for the production of appropriate forests product and tourism development in view of sustainable forests development. In consonance with the policy of utilizing leasehold forestry for eco-tourism, HMG/N is initiating necessary actions to hand over 306 ha. of 3 forests areas in Nawalparasi district, 150 ha. in Satasidham and 98.6 ha. in Regia Hill of Jhapa district and 22 ha. in Champadevi Hill of Kathmandu district to different industries for production of forests products and eco-tourism development.

10.24 Emphasis will be given for the research and development of plant resources. Nepal's medicinal herbs of high value are depleting rapidly. Research in appropriate technology and data collection for their genetic conservation and sustained management is a necessity. These products can be a major source of increasing employment, export promotion and income generation for the people of the hills and high mountain region. Therefore, a national program will be initiated with the participation of agencies, both public and private sector, associated with the management of herbs production, processing and marketing. For this reason, in FY 2004/05, to estimate and study the area of trees outside forest and their condition in the districts, a preliminary survey is ongoing in Morang district, which will help provide information on tree outside forest.

10.25 In FY 2003/04, continuity was given for the programs like decentralized programs, urban environment improvement, environmental impact assessment, implementation of the agreements signed with international agencies, environment fund, environmental promotion and public awareness programs etc. In FY 2004/05, in addition to these programs, the monitoring of vehicle pollution, publication of environmental journal, and distribution of different awards were performed. Similarly, the World Environment Day was celebrated with various programs as in the past.

10.26 Difficulty in coordination between sectoral ministries was realized while considering the subject matter of population and environment separately. Thus according to the policy of the government to take these matters as multi-sectoral cross-cutting issues, HMG/N has dissolved the Ministry of Population and Environment and merged the population activities with the Ministry of Health and environmental programs with the Ministry of Science and Technology. It is believed that these structural changes will make rather easier in maintaining linkages of cross-cutting issues between population and environment.

Challenges

10.27 Energy demand is ever increasing with the increase in population and expansion of different developmental activities. Even though dependency on traditional sources of energy has not been decreased. The increasing trend of forest depletion, due to increasing pressure on natural resources, is leading to negative impact on natural balances. It is a challenge to make available the electricity services to the people easily and at appropriate price by completing electricity projects under construction in the shortest possible time so as to substitute such risks of natural imbalances. Due to the prevailing unusual situation of peace and security of the country, while allocating the available resources, the agenda of peace and security gets apparently top priority than the developmental works. Hence, it is more problematic to complete the ongoing development structures and assure them as fully secured.

10.28 Biogas, micro-hydro, solar and wind energy are the main sources of alternative energy available in the country. These sources are not used in a desired level. Lack of adequate financial resources and fragile security situation are the challenges behind not having proper development of the sources of alternative energy.

10.29 For the conservation of endangered species, necessary legal provision is indispensable to contain their illegal trafficking. In this regard, preparation of legal framework for wildlife farming has been urgent.

10.30 Despite of the high potentiality of power generation in Nepal, only one percent of the total potentiality is generated. Economically power sector is highly important though not utilized properly. That is why most of the people have no access to the electricity and due to the high power generation cost there is low potentiality for export too. Creation of conducive environment for fulfilling the domestic demand by proper utilization of available resources and support national economy through the promotion of export in future by searching and using new technologies to lower the cost of power generation is the challenge in this regards.

11. Transport and Communication

Road Transport

11.1 Out of the tenth plan target to connect 70 districts with the road network, up till now 60 district headquarters have access to road facility. No progress, however, could be made during the first 8 months of FY 2004/05 on the target of linking 4 district headquarters by the end of FY 2004/05 because of security reason. Total road length at the end of FY 2003/04 stood at 17,182 Kilometer (Km), of which black-top road was 4,871 km, graveled 4,697 km and earthen road 7,614 km. Only 35 km. (6 km graveled and 29 km. fair weather) road could be added to the total road network during the first eight months of FY 2004/05. With this addition, the total length of road has now reached 17,217 km, breakdown of which is given in the following table:

Table 11 (a)

Road Facilities of Nepal

(Km)

S. No.	Types	FY 2003/04	2004/05*	Total by mid-March 2005**	
				Km.	Percentage
1	Black topped	4871	0	4871	28.3
2	Gravel	4697	6	7403	27.3
3	Fair- Weather	7614	29	7643	44.4
	Total	17,182	35	17,217	100.0

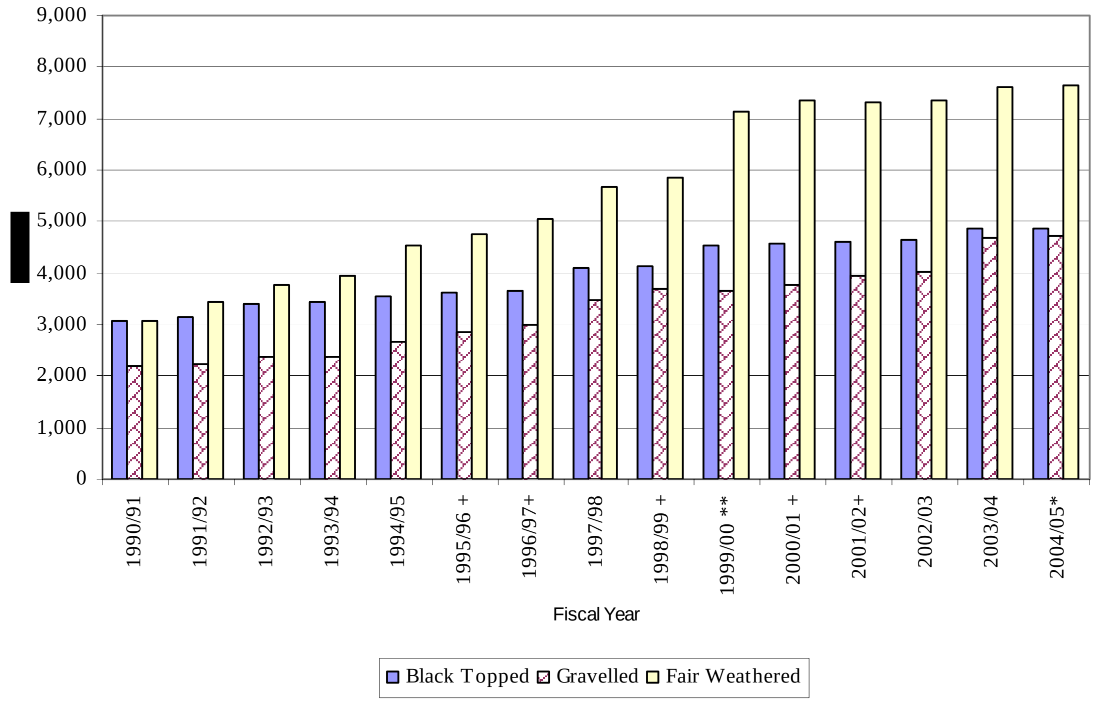
Source: Department of Roads, Kathmandu.
Note: Roads constructed by Department of Roads is only included.

*First eight months
** Total of mid-March 2005

Transport Vehicles

11.2 Transport vehicles registered in the Kingdom of Nepal since FY 1990/91 totaled 432,264 at the end of FY 2003/04. Additional 26,960

Chart 11 (a): Extension of Road Facilities



(6.2 percent) vehicles were registered during the first eight months of FY 2004/05, reaching the total to 459,224. Vehicle density per km in the country has reached 27 in mid-March 2005 from 26 of previous year.

Table 11(b)

Number of Vehicles

Types	As of Fiscal Year 2003/004+	Addition till Mid-March 2005	Total	Increase Percent
Bus	12578	401	12979	3.2
Minibus	3971	201	4172	5.1
Truck, Tanker	26067	926	26993	3.6
Car, Jeep, Van	73474	3387	76861	4.6
Tractor	31856	992	32848	3.1
Motorcycle	270949	20443	291392	7.5
Tempo (Three Wheeler)	7215	9	7224	0.1
Macro	1116	429	1545	38.4
Bulldozer, Crane and Others	5038	172	5210	3.4
Total	432264	26960	459224	6.2
Vehicles per KM	26	0	27	-

+ Total since FY 1990/91 up to FY 2003/04

Source: Department of Transport Management

Other Transports

11.3 Trolley Bus Services & Sajha Yatayat are in operation in a satisfactory way by the initiation of Municipality and the Civil Society. Likewise, Railway service is also operating normally.

Progress on Policy and Institutional Matters

11.4 Effort on the development of Transport Network Planning Capability and its implementation through the preparation of a 10-year Priority Investment Plan (PIP) is underway since the Ninth Five-Year Plan period. A 20 year Roads Master Plan has been developed. The Master Plan is being implemented in line with the Medium Term Expenditure Framework (MTEF) based Annual Program and Budgeting process.

11.5 National Standards for construction materials, specifications and standards for local construction materials have been approved and are being used.

11.6 In pursuance of Human Resources Development in the Roads Sector, a Road Sector Skill Development Unit (RSSDU) has been established in the Department of Roads (DoR). The Unit is working towards creating database for personnel within the DOR, and conducting training and orientation activities. The road sector Human Resource Development Policy has been approved and work is underway as planned.

11.7 A Traffic Engineering and Safety Unit (TESU) has been established for improved road safety. Accordingly, Traffic Sign Standard has been prepared and Accident Data Record is being maintained. In addition, various traffic safety measures are being taken.

11.8 Initiation has been made towards making the monitoring and evaluation an integral part of the Planning process. As such, a Monitoring and Evaluation Unit has been established. A Manual has been developed and brought into operation for the pursuance of Global Monitoring System on Road Safety. Effort is underway to strengthen Computer Information System (CIS) for easy flow of information between the Projects and the Planning Division.

11.9 In pursuance of the policy of handing over local level infrastructures to local bodies, process has been initiated for handing over district roads to the local bodies through the Department of Local Infrastructure and Agriculture Roads (DOLIDAR). Similarly, urban roads will be handed over to the concerned Municipalities.

11.10 Efforts are underway to bring district headquarters without road access within the road network by executing construction of roads through the mobilization of labor contribution of the local people and engaging Royal Nepal Army.

Air Transport Service

11.11 In consideration of the difficult geophysical condition of the country, air transport service is being expanded and strengthened as per the National Civil Aviation Policy. Work is underway to make air flights, air communication, air routes, air navigation and air transportation for domestic and international air connections safe, standard, regular and effective. The terms and conditions and facilities of services have been improved as per the need of time by making First Amendment in Civil Aviation Rules, 2001 The Aerodrome Certification Regulation, 2004, prepared on the recommendation of ICAO to ensure quality services at the airports, has already been approved and implemented. The existing Airport Tax (Fourth Amendment) rule is approved and implement by incorporating the cargo arrangement fee. A" Remote Area Air Services Fund" has been conceived for the development and easy availability of air services to the people of remote areas. Accordingly, "Air Services Fund Operations Procedures", for the implementation of the planned scheme, has been prepared and is in the process of implementation.

11.12 All 6 activities, under the Tribhuvan International Airport Improvement Master Plan, are being carried out with loan assistance of Asian Development Bank and OPEC. Considering the need of the people in the settlements connected to the International Airport, the development and construction activities like roads and drainage are being executed from its own source of the authority. Web site (www.tiairport.com) of International Airport is opened and the information and notice regarding airport are posted on this web site.

11.13 International Terminal office is developed as an information center. In addition to advice and assistance, arrangement has been made to provide all the information related to the airport, including the flight details from this office. Information on international flights can also be availed by calling the telephone No. 4475555.

11.14 Flight information display system is placed nearer to the golden gate for easy and effective flow of information on domestic flights. Similarly, necessary advice, assistance and flight information are availed from domestic terminal office and Automatic Teller Machine (ATM) is placed to facilitate the travelers.

11.15 Expansion work of turning pad for large aircrafts on the southern part of runway (RWY 20) is in continuation. Threat evaluation committee is formed considering the potential threat to the airport. Different types of training activities are being carried out for the airport security police. TV sets are placed in different areas of the terminal building for the entertainment of travelers.

11.16 The work of asphalt concrete overlay for the upgradation of apron, taxiway, and runway of Nepalgunj airport is completed in FY 2003/04. Jet level airlines have started their operations from this airport. As the necessity of a separate cargo apron for the proper management of air cargo was felt, the target is to construct a separate rigid cargo apron of 60x35 meter within FY 2004/05.

11.17 Considering the pressure of travelers during rainy season, up-gradation of runway and taxiway of Bharatpur airport has been completed by the end of the first quarter of FY 2004/05. This has increased the facility to the travelers as the number of daily flights has gone up now to 8-9 from the previous 3-4. The target is also to complete the extension & black topping of additional 1200 meter runway within FY 2004/05 under the second stage up-gradation work. After the completion of this construction work, all-season air services will be available for jet level airlines (like Fokker 100) and competitive air services will be available.

11.18 The up-gradation of Biratnagar runway and apron taxi way as well as the extension and up-gradation of Dhangadhi airport is being initiated under the Second Tourism Infrastructure Development project with the loan Assistance of ADB. People's participation is also mobilized in these works.

11.19 In FY 2003/04, Air Service Agreements (ASA) has been signed with Israel & Malaysia and revision and amendment have been made in the existing agreement with the United Arab Emirates, Qatar, China, Bhutan, and Thailand. In FY 2004/05, new ASA been signed with the Philippines and South Korea and the existing agreement with Sri Lanka has been revised. As a result, the total number of MOU/ASA has reached to 35. Nepal has 1,052,636 two way seats available annually from these Agreements, of which only 45.82 percent is being utilized.

11.20 As per the policy of encouraging private sector airlines to operate domestic and international air services, AOC licenses have been issued to 38 airlines. Of which Cosmic Air is operating both domestic and international air services. The other two which received AOC license, for international services, the Air Shangri-La Ltd. and Air Nepal International, are engaged in homework for extending their services. Of the 38 airlines with AOC license, 4 are related to recreation and aviation sports (1 each for Hot Air Balloon & Ultra Light Power and 2 Paraglide). In this way, altogether 17 airlines are providing services and people are receiving additional services with such expansion. Presently domestic airlines are providing air services to and from 34 airports of Kathmandu, Bajhang, Bajura, Doti, Sanfebagar, Dhangadhi, Jumla, Dolpa, Rara, Simikot, Nepalgunj, Chaurjhari, Rukum Salle, Dang, Surkhet, Mustang, Manang, Pokhara, Bhairahawa, Bharatpur, Meghauli, Simara, Janakpur, Rajbiraj, Biratnagar, Tumlingtar, Lamidanda, Lukla, Phaplu, Ramechhap, Rumjatar, Bhojpur, and Chandragadhi. Current policy also includes promotion of recreational flights, such as flying club, ballooning and gliding. Ballooning in Kathmandu Valley and micro light aircraft power gliding in Pokhara are already in operation. Such other recreational flights are also being encouraged.

11.21 HMG has been pursuing the policy of gradually implementing Communication, Navigation & Surveillance /Air Traffic Management (CNS/ATM) system based on Geo-satellites and modern technology. Accordingly, works has been completed in designing Global

Positioning System (GPS) procedures for the development and expansion of GNSS based air navigation system, impart training and review the GPS procedures designed in the past during FY 2003/04. The work for developing Biratnagar, Bhairahawa and Nepalgunj Airports as Hub airports was completed as per the target. Accordingly, together with the improvement in physical facilities, night landing facility is already available at Biratnagar. Flight helping instrument (DUOR/DME), remaining unused at Bhattedanda Lalitpur, has been transferred and connected in Nepalgunj, a regional airport of mid-Western region. The facility is expected to improve the flight security in that region with a large network of air services. The work of flight calibration has been completed, with proper testing of operating standards, for the maintenance of performance level of navigation/visual aid at different airports. Feasibility study for the possibility of X-precision Approach through instrumental landing system (ILS), has been completed with the assistance of New Zealand Airways International Company. In FY 2004/05 target is to expand the coverage of VHF (ACCVHF) of Kathmandu area control center and to establish communication link with Nepalgunj through VSAT, by setting up the Remote Control Air Ground System (RCAG) in Nepalgunj. Proposals have been invited from the Government of the People's Republic China AEROTELNET (ATNC) company and other government owned Satellite Network Services Providers of Asia and Pacific Region to establish RCAG instrument in Nepalgunj and to link with Kathmandu though the medium of VSAT.

Information and Communication

Postal Service:

11.22 Postal service has reached all the villages as a means of information and communication. Currently, the postal service network include general post office, regional post directorates, district post offices, Ilaka post offices and additional post offices and their total number is 3,992. Money order revolving fund has been gradually increased to make this service effective. In addition to India, Jordan and Qatar this service has been extended to Thailand and Hong Kong in this year. The service is being provided by 521 post offices within Nepal. There is also Postal Savings Bank service, available now in 117 post offices. Of the total deposited amount in these banks, more than 30 million has already been invested from 41 post offices. Express Mail delivery service is operating for 48 domestic municipalities and municipality oriented towns of Nepal and 26 foreign countries. Postal Service Working Procedure Guideline, 2003 has been put into practice for fast and effective postal services and to simplify the working procedure.

This year, Goshwara Hulak (General Post Office) and post offices of Sunsari, and Parsa districts collected about Rs. 2.2 million as revenue by filling up EDV-2006 forms. Computer networking is completed at Goshwara Hulak and Postal Service Department for making easy access to Information Technology (IT). Similarly, 38 computers, 2 photocopy machines, and 24 printers were procured and distributed to post offices. Arrangement has been made for providing the post box on the same day of demand, by adding 4000 post boxes in Goshwara Hulak office. Track and Trace system has been put into practice for the information mails posted for foreign countries. Registration of international Express Mail Service (EMS) has been started at Bhotahiti and Dillibazar, in addition to Goshwara Hulak.

Telecommunication

11.23 The Nepal Telecommunication Corporation has been converted into Nepal Telecommunication Company Ltd. Nepal Telecommunication Authority, established as a regulatory body, has licensed a total of 138 private sector service providers in the telecommunication area. Of the total 138, Internet (including email) license to 31 agencies; V-sat service provider license to 10; V-sat service user license to 74, radio paging network license to 8; video-conferencing license to 1; Fax mail service license to 6; basic telecommunication service license to 2; cellular mobile service license to 2; GMPCS license to 2; rural telephone service license to 1; and data network service to 1.

11.24 Nepal Telecom Ltd. provided telephone service through 195 telephone exchanges by mid-March 2005. These exchanges have a total of 525,021 line capacity, of which 433,631 lines have been distributed. Post-paid and pre-paid mobile services customers totaled 75,645 and 173,175 respectively by mid-March 2005. After the expansion of the telecom services in 325 VDCs during this year, a total of 2,234 VDCs, out of 3914 VDCs, and 58 municipalities have access to telephone service by mid-March 2005. United telecom Ltd., a single private sector service provider, is providing telephone services with 31,105 lines based on WLL technology. STM Telecom Sanchar Pvt. Ltd. is providing services in 271 VDCs out of 534 VDCs without access to telephone services in the Eastern Development Region by assembling 542 VSAT terminals under the assistance of the World Bank.

11.25 International circuit capacity, which enables worldwide telephone links, has reached 2,082, by increasing 720 in this fiscal year. There are still 319,747 customers wait-listed for new telephone line connections. In the first 8 months of FY2004/05, a total of 24,944 new telephone lines have been distributed. Additional 100,000 CDMA technology-based lines will be offered to public during this year to reduce the number of people in the waiting-list.

Table 11 (c)
Extension of Telephone Service

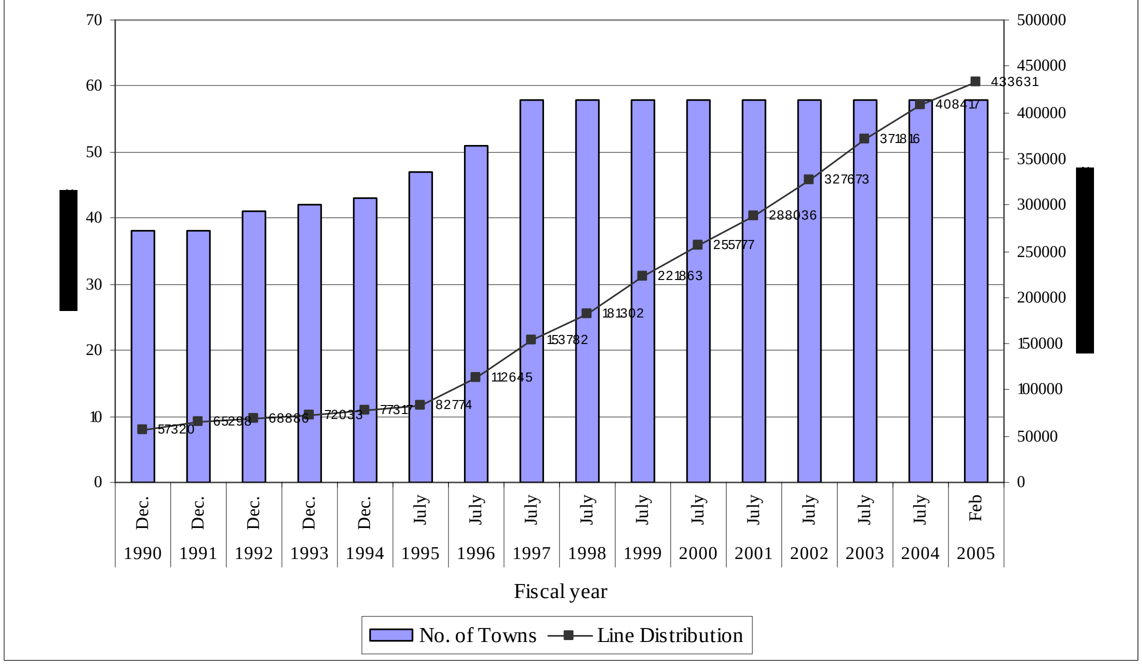
Item	FY2003/04	First eight months of FY2004/05
A. Number of Urban Areas Covered	58	58
B. Telephone lines distributed	408,417	433,631
C. Population/000 telephone lines*	17.64	18.7

**Based on National Population Census Report, 2058*
Source: Nepal Telecommunication Corporation, Kathmandu
Note: All exchanges digital and automatic.

Information Dissemination

11.26 Establishment of SAARC information center was completed this year. The code of conduct for journalism has been executed for the

Chart 11 (b) Expansion of Telephone Facilities



development of journalism and monitoring of execution of this code is also initiated. CD-ROM technology was adopted for the long-term protection of newspapers. Till now, 997,751 pages have been protected by using CD-ROM technology. Continuity is given to provide the rebate in interest rate on the bank loan, borrowed to purchase physical instruments for the development of journalism in the outskirts through Media Development Fund. By mid-March 2005, the number of newspapers registered in various districts of Nepal reached 4049. Of this total, 298 are daily 9 half-weekly, 1,414 weekly, 276 two weekly, 1231 monthly, 259 bimonthly, 407 three monthly, 22 four monthly 60 half yearly and 73 annually. The number of publications by language, registered by mid-March 2005 is as follows.

Language	**Number**	**Language**	**Number**
Nepali	2806	Bhojpuri	2
English	336	Sanskrit	2
Nepali-English	686	Urdu	1
Newari	24	Tibbati	1
Hindi	13	Limbu	1
Maithili	11	Doteli	1
Tharu	3	Other	162

Television Broadcasting Service

11.27 Television service of Nepal Television (NTV), as a strong and effective means of communication, is in regular operation in Nepal since 1984. At present, it has 3 studios and 15 broadcasting centers covering 45 percent of the total area of Nepal. Its population coverage is estimated around 65 percent. NTV is using geo-satellite to broadcast its programs countrywide. Its second channel, the Metro Channel is broadcasting educational, informative, commercial and recreational programs for 8 hour 30 minute every day within Kathmandu Valley. NTV has installed the Digital Satellite News gathering equipment and has a capacity of live cast from any part of the country. By now, five private sector institutions have received the license to broadcast the television service, of which 3 are providing services. Now these institutions are broadcasting information and entertainment programs in competitive manner and people also have the option of selection according to their preferences. By now, cable TV operator license has been issued to 326 operators and 206 cable television companies are operating in different city areas of the country.

Radio Broadcasting Service

11.28 Established in 1951, Ratio Nepal is country's oldest and country-wide electronic media. Its short-wave broadcast in can be received all over the country while its medium wave broadcast can reach to 83 percent of the population. Work is underway to extend its services to areas not covered by medium wave broadcasting with the cooperation at local level through the use of Frequency Modulation (FM) system. Ratio Nepal also adopted V-sat technology to make its broadcast receivable all over the country. It has medium wave broadcasting stations in all five regions of the country. These stations broadcast informative and entertainment programs like news, songs, music etc. Since the entertainment and information based broadcasting through the use of FM was opened to the private sector, as well 54 companies have obtained license to operate such broadcast. Out of these 48 are now operating.

Printing Service

11.29 Under the HMG Policy of developing, expanding, and strengthening the press run by the Department of Printing into the security printing press, construction of building and purchase of two offset press is completed in FY 2004/05. The newly purchased offset press is assembled in newly constructed building and which has provided additional support for security printing work. After the completion of construction of new building, the department has started printing secured materials like, bank cheque books, revenue stickers, and citizenship certificate cards, post cards of postal service department, and question papers for Mahendra Sanskrit University, Higher Education Council, and annual reports of constitutional bodies. In addition to this, it is also printing the secured printing work of the government institutions.

Motion Pictures

11.30 Motion Picture Development Board is active for the coordinated development & expansion of motion pictures. Board is continuously engaged in preparing and broadcasting motion pictures, art, culture, natural beauty of the country and protecting the Nepalese art and culture at the international level. Purchase of necessary equipment for the operation of motion picture information center is completed. Arrangement has been made for the air conditioning protection of historical pictures, with proper management of motion picture museum. Work is continuing to complete the National Motion Picture Festival 2005 within this FY 2004/05. Private sector is playing a substantial role for the development and promotion of motion picture. A total of 22 motion pictures were produced in Nepali and other different national languages within this year and also received certification from motion picture examination committee. The Board also received the consent to appoint Nepalese representative for the promotion of Nepalese Motion Pictures in international market. It can appoint such representative by giving prior notice to Foreign Ministry and Ministry of Information and Communication. Board is constructing its own building in the process of enhancing physical resources.

Challenges

11.31 Geographical complexity, peace and security problem, unavailability and problem in using explosives required for the construction of roads, absence of timely approval of programs, and inability to mobilize sufficient people's participation are still some major challenges in the development of roads transport facility

11.32 The present situation of underdeveloped infrastructure; lack of capability in using modern technology; lack of necessary resources for large-scale investments; inability to attracting foreign investment; lack of desired coordination during the execution process; and lack of sufficient development of manpower; are some other major challenges ahead of us.

11.33 Inability to expanding broadcasts of Radio Nepal and Nepal Television throughout the Kingdom; absence of integrated benefit from diverse means of communications & other means; status of information technology development still at the infancy level; and lack of development of sufficient manpower are some challenges for the development of communication sector.

11.34 Lower return on investment on roads because of high construction costs but low traffic density, and absence of integrated development is another challenge in this sector.

11.35 The telecommunication sector (in the government) has not been able to utilize the existing ample potential for the expansion of this sector. A prominent challenge is of overcoming the present situation where people have to wait on long queue for telephone connection for years in this age of competition with private sector as an already viable contender in the market.

11.36 Lack of co-ordination among utility service providing entities like Department of Roads, Nepal Water Supply Corporation, Department of Drinking Water and Sewerage and Nepal Telecom Ltd. is a still a daunting challenge against the development of sustainable road construction.

11.37 Increasing the life of roads through improvement in the quality of construction work; reducing the benefit/cost ratio with effective monitoring, regulation, evaluation, and feedback is another challenging task.

12. Social Services

12.1 Simultaneous development of Sub-sectors of Social Service Sector, like Education, Health, Women Development, Social Welfare, and Drinking Water is necessary for all-round development of the country. Firm measures is necessary for the fulfillment of commitments made at international levels in the areas of controlling water borne diseases, ensuring supply of clean drinking water, designing legal framework to address the issues of gender inequality, and protecting the rights of children, handicapped and the senior citizens. Similarly, government and non-government agencies, associated with the health sub-sector need to focus on improving the management of their financial and human resources, raise awareness among the majority on the environment and family, and personal hygiene, which are essentially the prerequisites capable, productive, disciplined and healthy citizens in the country.

Education

12.2 The Seventh Amendment of Education Rules, 2002 envisaged enabling School Management Committees by strengthening and equipping them with enough authority for the operation, supervision and management of the community level schools. An amount of Rs.150 million has already been released under the policy of providing additional Rs. 100,000 to each of the schools handed over to the communities. Under the target set for this fiscal year, 2,000 such schools will be handed over to the communities. As per the policy of providing subsidy equal to the salary bill of two teachers, a sum of Rs. 226.1 millions has been released to 4,242 community schools.

12.3 The on-going program of child education first, child education second, alternative education, primary education expansion programs and informal primary education programs being conducted for out of the schools children, have been continued in this fiscal year also. In addition, school outreach program and flexible schooling program has been made extensive to provide the opportunity for the basic and primary education to children unable to join the school under informal education program.

12.4 Phase II of Basic and Primary Education Program in FY 2001/02, was implemented by the Department of Education by adjusting the program activities into 5 components. This program, since FY 2003/04, is being implemented to meet the 6 objectives of "Education For All" as targeted in the Core Document 2004-2009 as approved by the Dakar Conference.

12.5 HMG/N has adopted the policy of providing lump sum grant of Rs. 400,000 to each of the schools succeeding to secure above 50.0 percent in S.L.C. result with at least 50 students attending the examination. According to guidelines set in the said policy, a work plan has been prepared for implementing the policy. Accordingly, 36 schools have been assessed eligible of receiving a grant of Rs. 400,000 each, and remaining 221 schools Rs. 200,000 each.

12.6 HMG has provided continuity to free distribution of text books in this current fiscal year also. The financial liability of HMG has grown with the increase in the volume of free distribution of textbooks. Various methods were applied to make the text book distribution easy, accessible and cost effective. Currently, 1 district of Koshi zone and 4 districts of Mechi zone have been selected for private sector participation in the distribution of text books on the pilot basis.

12.7 Literacy, and post-literacy, income generating and useful to life education program is being carried out to uplift the living standard especially of the people of backward classes and women. The following programs were carried out In pursuance of this program. Accordingly, adult literacy to 702,470 persons, women education to 132,642 persons, child education to 127,155 children, and income generating program to 1,013 persons were provided. A total of 50 community study centers have been established to provide continuity to the literacy program.

12.8 The University Grant Commission (UGC) is at work to look into ways of providing autonomy to the Tribhuvan University in terms of retaining its earnings and providing additional economic incentives to its teachers on the basis of certain parameters. The possible means to achieve this objective could be by adopting the principal of cost recovery in its education system, generating additional resources by utilizing the University resources for the productive purpose or by launching of pilot programs. A Task Force was formed for drafting a single Umbrella Act applicable to higher education has already drafted the Bill, which has been forwarded with its recommendations to the Ministry of Law Justice and Parliamentary Affairs.

12.9 Council for Technical Education and Vocational Training (CTEVT), in Fiscal Year 2004/05, imparted long-term training to 2,097 trainees and short term training to 2,309 persons. Skill-test training to 1,221 persons, and training to 11,673 persons under community service program were also conducted. As per the target of conducting in-service and pre-service teachers' training in different geographic regions of the Kingdom, the number of trained teachers will be enhanced through the network of 88 alternative partnering higher secondary schools and campuses under the faculty of education, and 146 private training centers. In pursuance of achieving the target of hundred percent trained teachers, the number of primary school teachers, completing all 4 training packages, reached 14,992. Similarly, 14,806 secondary level teachers have been equipped with training. In the current fiscal year, teaching license of all levels, has been granted to 191,172 persons.

12.10 According to the data of academic year 2003/04 (2061), ratios of school, student and teacher for primary, lower secondary and secondary and secondary schools are presented in the following table:

Chart 12 (a) : Number of Public Schools

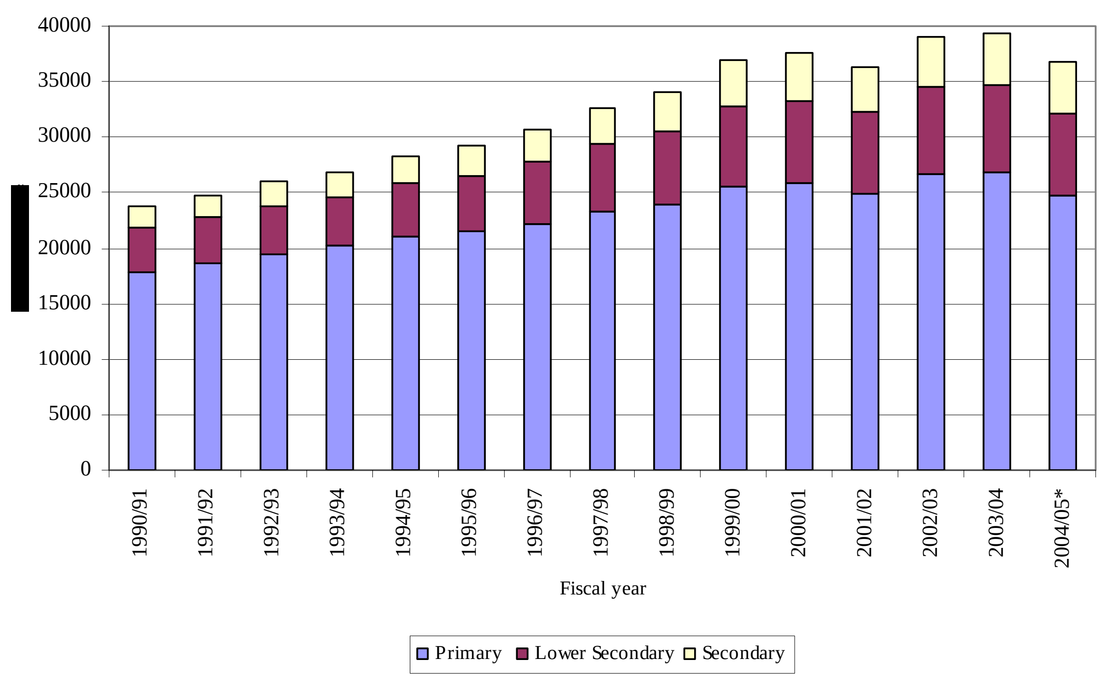


Table 12 (a) : Schools, Students and Teachers Ratios

Ratio	Primary	Lower Secondary	Secondary
Student/School	163	194	129
Teacher/School	4	3	4
Student/Teacher	40	56	29
Student/Trained Teacher	130	185	60

Source: Education and Sports Ministry

The data available for the academic year 2003/04 (2061) reveals the student/school ratios for primary, lower secondary and secondary level as 163, 194 and 129 respectively. Similarly teacher/school ratios were: 4 for primary, 3 for lower secondary, and 4 for secondary; the ratio of student/teacher were 40, 56 and 29 for primary, lower secondary and secondary level respectively. Ratios of student/trained teacher for the primary, lower secondary and secondary levels were 130, 185 and 60 in respective order.

12.11 According to the classification of schools under Education Act (Seventh Amendment) 2001, Community Schools receive grants from HMG and Institutionalized Schools run under Trust *(Guthi)* or Company Act. According to the classification, Public (Government) and Community schools fall in the Community School category and Private School fall in Institutionalized School category. As per the estimated figure of the Academic Year 2003/04 (2061), ratios of student/teacher in Government, Community and Private Sector managed schools in all 5 Development Regions are as shown below.

Table 12 (b): Students/Teachers Ration 2003/04*

Region	**Students per Teacher**		
	Primary	**Lower Secondary**	**Secondary**
All Nepal	40	56	29
Government	48	70	35
Community Private	20 -	36 -	20 -
Eastern			

Government	48	69	40
Community Private	-	-	-
Middle			
Government	50	69	34
Community Private	-	-	-
Western			
Government	40	62	32
Community Private	-	-	-
Mid-Western			
Government	58	93	36
Community Private	-	-	-
Far-Western			
Government	53	60	32
Community Private	-	-	-

** Estimated.*

Source: Education and Sports Ministry

Note: All Schools receiving HMG grant are included under Government Category while schools anticipating HMG grant are included in Community category

12.12 Under the Higher Secondary Education System (10+2), distribution of Schools affiliated with the Higher Secondary Educating Council (HSEC) by region is shown below:

Table 12 (c)

Region wise Affiliated School (By Academic Calendar 2061/62 (2004/05)

Development Region	Geographical			Total
	Mountain	Hills	Terai	
Eastern	19	53	118	190
Middle	31	278	102	411
Western	8	189	61	258

Mid-Western	8	36	17	61
Far-Western	14	28	38	80
Total	80	584	336	1000

Source: *Higher Secondary Education Council*

12.13 Number of students of class 11 and class 12 of the higher secondary schools taking regular and partial examinations since school year 1993/94 to 2004/05 (2050/51 to 2061/62) is as shown below:

Table 12 (d)

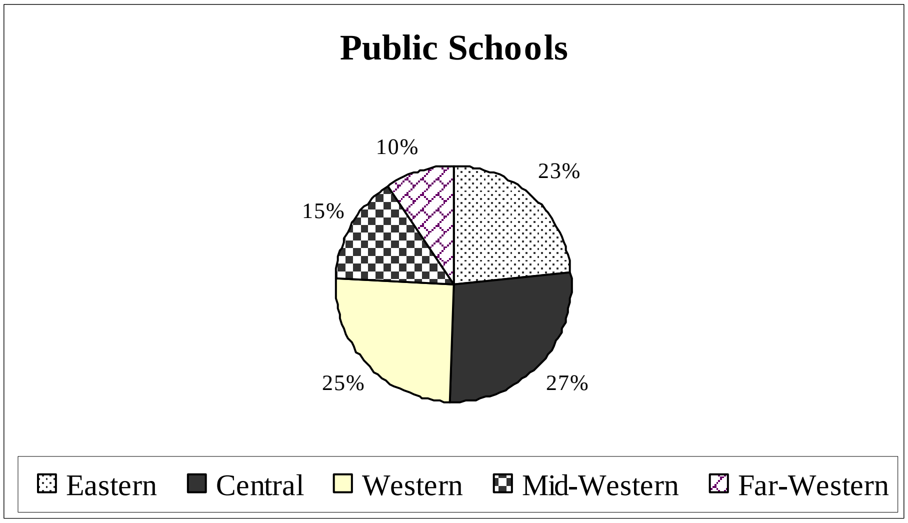
Number of Students of Class 11 and 12 Attending Examinations

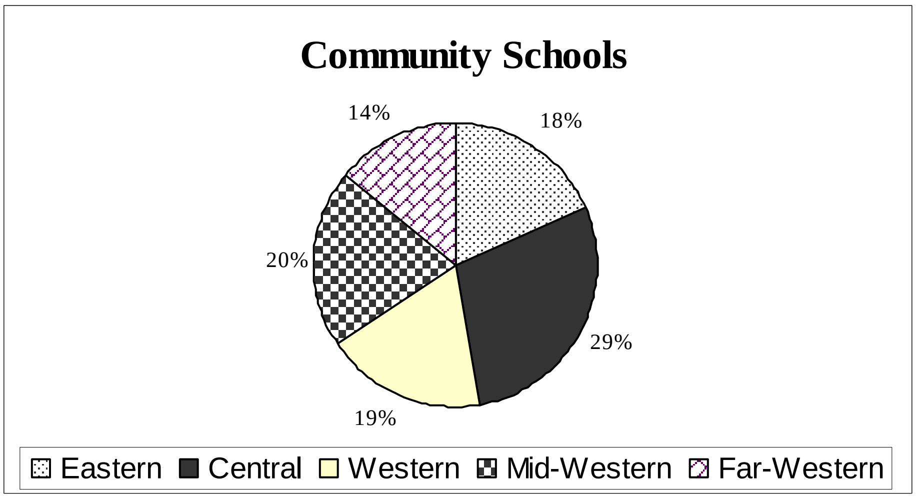
(Academic Year 1993/94 - 2004/05)

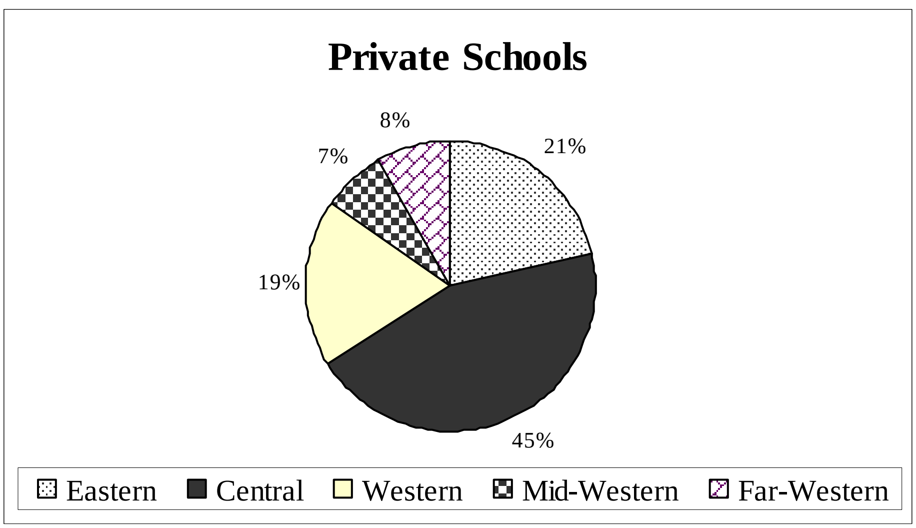
Year	11 Class			12 Class			Total (11 and 12 Classes)
	Regular	Partial	Total	Regular	Partial	Total	
1993/94	1343	0	1343	0	0	0	1343
1994/95	1066	0	1066	782	0	782	1848
1995/96	3040	827	3867	884	1140	2024	5891
1996/97	6341	2026	8367	2256	766	3022	11389
1997/98	8907	4601	13508	4727	2000	6727	20235
1998/99	12163	7505	19668	6995	3919	10914	30582
1999/00	18833	9288	28121	10188	8386	18574	46695
2000/01	28120	3668	31788	15954	7017	22971	54759
2001/02	49951	18117	68368	24368	7411	31779	100147
2002/03	44416	35737	80153	41838	16126	57967	138117
2003/04	66264	39973	106237	37131	30575	67706	173943
2004/05	61455	54077	115532	57613	37199	94812	210344
Total	301899	176119	478018	202736	114539	317275	795293

Source: Higher Secondary Education Council

12.14 In addition to continuing the policies programs launched in the FY 2002/03, some new programs have been added in the current fiscal year. Important among the started programs are, rewarding public


Public Schools
10%
23%
15%
25%
27%
Eastern
Central
Western
Mid-Western
Far-Western

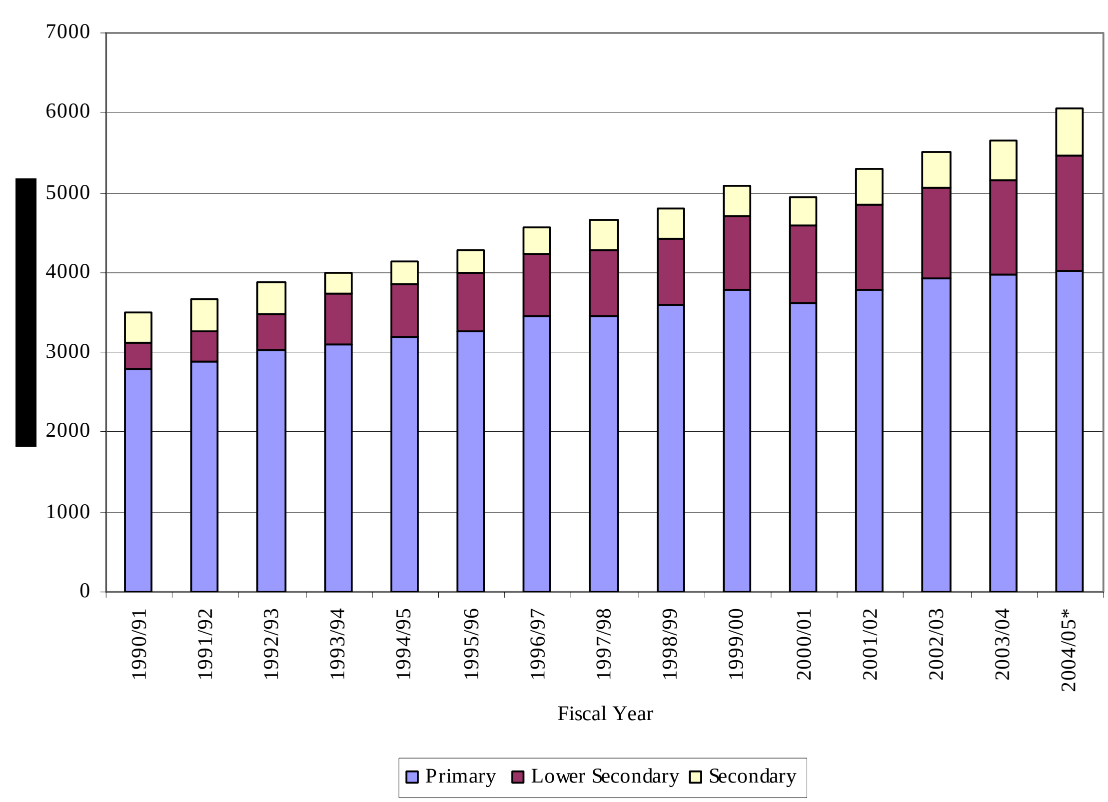

Community Schools
14%
18%
20%
29%
19%
Eastern
Central
Western
Mid-Western
Far-Western


Private Schools
8%
21%
7%
19%
45%
Eastern
Central
Western
Mid-Western
Far-Western

Higher Secondary Schools producing the best result by Region, setting up Public Schools Fund Management Schemes, Regional and Inter-country Educational Tour, Conducting Training the Trainers Programs, establishment of Education Information Center and Education Consultancy Service Centers. The direct effect of the last year's programs was visible with the increased pass percentage in the examination for 12-class students conducted in April 2004. The improvement in Science Stream result by 10 percent and other stream by 7 percent compared to previous year's result is the outcome of training provided to 650 teachers of physics, BOOM, Accountancy, Mathematics, Introduction to Education and Language subjects, and the measures taken and implemented to manage and improve examination as suggested by 'Examination Reformation Advisory Committee' formed by the Higher Secondary Education Council. Last year, two regional liaison offices were established to help settle school and student related matters at the local level. This provision is expected to offer direct benefit to 430 schools, 3,010 teachers and 1,00,000 students. The establishment of student scholarship bank envisioned in last year's program has supported 700 *Dalit* and Ethnic group students passing out SLC from government school to pursue their free education in Private Higher Secondary Schools. This program has opened up the access to Higher Secondary level education to the children of *Dalit* and Ethnic group living below the poverty line. Some improvement has been realized in the achievement of Higher Secondary Schools as a result of strengthening of the educational infrastructure by programs like teachers' salary grant to 434 community managed Higher Secondary Schools, supply of 4 sets of books to each of the 434 community Higher Secondary Schools, and regular supervision and monitoring of 637 Higher Secondary Schools.

12.15 The curricula of 7 subjects were improvised along the dynamic and changeable time wave. This has on the one hand helped to incorporate student's natural capability matching and goal oriented subjects in the curriculum and, on the other hand, it has paved the access to the higher

Chart 12 (c) : Number of Students Enrolled



secondary graduates in the world of work and higher studies. In the current fiscal year, a target has been set for preparing new curriculum of 800 full marks and revising the curriculum of 1500 marks.

12.16 General tendency has shown that teachers prefer continuous teaching, participate in symposium/seminars, interacting with experts and participate in short-term training. Therefore, a program has been prepared for providing training to 1,200 teachers in the coming fiscal year. While establishment of 14 Model Higher Secondary Schools was targeted for FY 2004/05, this target has been doubled for the next fiscal year (2005/06). By the end of the Tenth Five Year Plan (2002-2007), 1 such School will be run in each of the 75 districts of the Kingdom. About 20,000 students will receive quality education at low cost from the program.

12.17 Prioritized target set for the current fiscal year include, establishment of a question bank, organization of workshop on question setting/moderating and checking/co-checking, preparation of the guidelines on the terms and conditions and code of conduct of education. In addition, workshop of principles/district education officers/regional education directors, infrastructure building for transforming 0+2 (stand alone) system to downward trend, profiling of schools will be conducted. Research dissertation writing on higher secondary education, formulation of long-term plan for higher secondary education, evaluation of the effectiveness of curriculum implementation and training programs for text book writing and selection, and teacher training/workshop on population education are other programs included in the current fiscal year.

Higher Education

12.18 On the higher education side, by FY 2004/05, there are 5 universities in operation, namely, the Tribhuvan University (TU), Mahendra Sanskrit University, Kathmandu University, Eastern University and the Pokhara University. In fiscal year 2003/04, TU had 60 of its own campuses, 287 private campuses affiliated with it, totaling 347 campuses. Number of students in TU campuses totaled 177,375 including 112,728 in its own campuses and 64,647 in affiliated private campuses. At the end of the Ninth Five Year Plan (FY 2001/02), the number of students was 142,924, which decreased to 140,412 students with a decline of 1.75 percent during this period. In FY 2003/04 (the second year of current Tenth Five Year Plan), the number of student in TU campuses declined by 11.9 percent as compared to the first year (FY 2002/03) and stood at 1,23,566. By FY 2004/05 (the third year of Tenth Plan), it further declined by 8.77 percent and totaled at 112,728. According to the policy of phase-wise integration of certificate level with Higher Secondary School (10+2) system, less number of students is expected to enroll in the certificate level, which is the reason for lower enrolment.

12.19 Production of Technical Institutes under the TU is given in the following table:

Table 12 (e) : Production of Technical Institutes of Tribhuvan University

Institute and Program	Fiscal Year							
	1996/97 (2053/54)	1997/98 2054/55)	1998/99 (2055/56	1999/2000 (2056/57)	2000/01 (2057/58)	2001/02 (2058/59)	2002/03 (2059/60)	2003/04 (2060/61)
1. Engineering	255	332	647	559	648	665	870	985
a. Certificate	241	238	514	372	436	441	554	559
b. Diploma	14	94	133	150	184	181	257	357
c.Post-Diploma	-	-	-	37	28	43	59	69
2. Agriculture and Science	75	116 a	101	146	Not yet Produced	175	141	165
a. Certificate	57	32	21	69	Not yet Produced	42	53.15	165
b. Diploma	18	84	80	77	Not yet Produced	108	144	107
c.Post-Diploma	-	-	-	-	-	25	44	43

3. Medicine	365	390	376	458	450	504	516	597
a. Certificate	268	228	268	309	294	314	302	330
b. Diploma	48	139	67	90	109	124	148	169
c. Post-Diploma	49	23	41	59	47	66	66	98
4. Forestry	166	91	87	134	169	164	66	-
a. Certificate	124	88	87	95	103	113	66	0
b. Diploma	42	3	-	39	66	51	Examination not held	
5. Science and Technology	361	451	346	164	3491	4190	3727	3222
a. Certificate					2235	2780	2249	1946
b. Diploma					839	963	1175	961
c. Post-Diploma	361	451	346	164	415	447	303	315
Total	1222	1380	1557	1461	4756	5698	5420	4992

Source: Tribhuvan University

12.20 Production of Non-Technical Institutes under Tribhuvan University is given in the following table:

Table 12 (f): Production of Non-technical Institutes of Tribhuvan University

Institute and Program	Fiscal Year			
	2057/58 (2000/01)	**2058/59 (2001/02)**	**2059/60 (2002/03)**	**2060/61 (2003/04)**
1. Law	1440	1245	795	500
a. Certificate	97	68	28	15
b. Diploma	1315	1150	734	469
c. Post-Diploma	28	27	33	16
2. Management	10496	12923	13381	11573
a. Certificate	7096	8093	8435	7043
b. Diploma	2258	3607	3996	3877
c. Post-Diploma	1142	1223	950	653
3. Education	3746	4462	4987	5639
a. Certificate	2009	1706	1559	3632
b. Diploma	1421	2460	3195	3632

c. Post-Diploma	316	296	233	224
4. Humanity and Social Sciences	10758	15043	13498	12544
a. Certificate	6926	10530	8424	7876
b. Diploma	2462	2838	3689	3425
c. Post-Diploma	1370	1675	1385	1243
Total	26,440	33,673	32,661	30,256

Source: Tribhuvan University

The data given in the tables reveal that the number of students graduating from the Technical Institutes of Tribhuvan University in FY 2002/03 was 5420. In FY 2003/04, this number decreased to 4992. Similarly the number of students graduating from the Non-Technical Institutes of Tribhuvan University in FY 2002/03 was 32,661, which declined to 30,256 in FY 2003/04. The total number of students graduating from Tribhuvan University in FY 2002/03 was 38,081 and it was 35,239 in FY 2003/04.

12.21 The number of Ph. D. awardees from Tribhuvan University is shown in the following table:

Table 12 (g)

Number of Ph. D. Awardees

Institute/Faculty	Fiscal Year							
	1996/97 (053/54)	1997/98 (054/55)	1998/99 (055/56)	1999/00 (056/57)	2000/01 (057/58)	2001/02 (058/59)	2002/03 (059/60)	2003/04 (060/61)
1. Engineering	-	-	-	-	-	1	-	-
2. Science and Technology	2	1	1	1	2	-	3	5
3. Management Faculty	1	1	3	1	1	3	4	1
4. Faculty of Law	-	-	-	-	-	-	1	-
5. Humanities and Social Sciences	8	9	8	8	7	13	13	20
Total	11	11	12	10	10	17	21	26

Source: Tribhuvan University

Tribhuvan University awarded Ph. D. to 21 students n FY 2002/03 and to 26 in FY 2003/04.

12.22 Tribhuvan University has been providing health services from TU Teaching Hospital, B.P. Koirala Lions Optical Study Center (Eye

Hospital), Drug Abuse Care Center and TU Health Center. A total of 404,853 patients were treated in FY 2002/03. In FY 2003/04, total number of patients treated from TU's Health Institutions was 348,176.

12.23 Mahendra Sanskirt University has been advancing its programs effectively with the objective of producing time demanded manpower by preserving traditional norms and values, and keeping intact Hindu Civilization and Culture. The University has 12 its own campuses, 15 affiliated *Bidhyapiths* and 2 Sanskrit Secondary Schools being run under it. Mahendra Sanskrit University Research Center is committed to Degree Awardable Research, Special Research on Book Editing and Publication activities. The classes on *Uttar Madhyama*, *Bigyanottar Madhyama*, *Ayurbed Uttarmadhyama*, *Shastri*, Educationist *(Sikhsa Shastri)*, and *Acharya* level are being run in its own 12 campuses and 4 affiliated *Bidhyapiths*. Similarly, classes on one-year education *Shastri* and *Ayurbed Uttarmadhyama* level are being run in its 11 affiliated *Bidhyapiths*. In FY 2003/04, 3,338 students were enrolled as against the target of 3,610. In FY 2004/05 the number of students enrolled was only 2,958 below its target of enrolments of 3,838. Of the total enrolled students, 385 in first *Uttar Madhyama*, 292 in second Uttar *Madhyama*, 135 in *Shastri* first, 253 in *Shastri* second and 95 in *Shastri* third, 57 in Acharya first, 57 in *Acharya* second, 351 in one year education *Shastri*, 532 in Ayurved and 801 are in others.

12.24 Students enrolled in the Kathmandu University, its Campuses and Campuses Affiliated with it, numbered 3,740 for males and 2,275 for females in FY 2003/04. In FY 2004/05, the number of both male and female students in the University increased to 3,876 and 2,500 respectively. The students in its own Campuses in FY 2003/04, were: 898 in School of Science, 558 in School of Engineering, 135 in School of Management, 199 in School of Education, 166 in School of Arts, and 772 in School of Medical Science. In the same fiscal year, there were 2,805 students in Medical Science, 587 in Management, and 256 in Arts.

12.25 Students enrolled in Purwanchal (Eastern) University, its own and affiliated campuses in FY 2003/04, totaled 6,388. This number in FY 2004/05 totaled to 6,704. In FY 2003/04 the number of colleges/campuses and educational programs being run under it were 74 and 45 respectively.

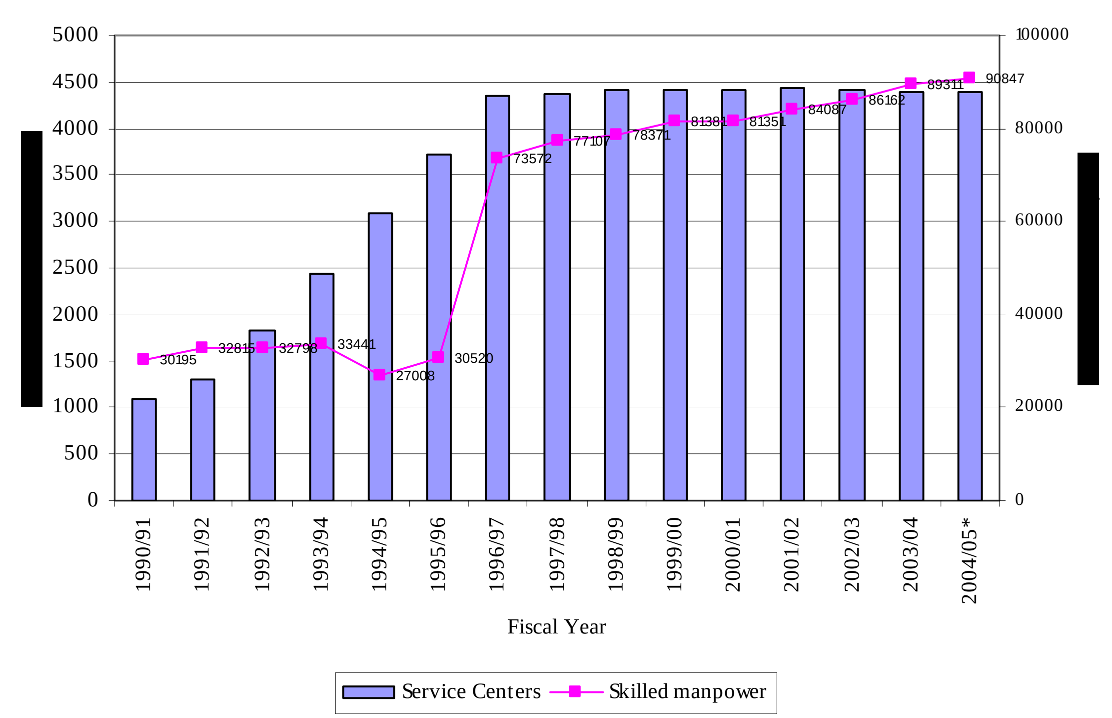
12.26 Pokhara University, in accordance with its policy of expanding educational programs since last academic year (academic year 2004/05), has launched Bachelor of Science in Medical Laboratory Technology (B.Sc. MLT) Program under its school of Pharmaceutical and Bio-Medical Science of Science and Technology program. In addition to this, the University has provided continuity to its already launched programs like Diploma and post-Diploma under the faculty of Management, and Bachelor in Medical Science under the faculty of Science and Technology. This University has granted affiliation to 24 Educational Institutions.

Health

12.27 According to the approved Organizational Structure of the Ministry of Health (MoH), Health Agencies and their staffing positions by the first 8 months of FY 2004/05 were: Hospitals 87; Health Centers 6; Health Posts 699; Ayurvedic Dispensaries 287; Sub-Health Posts 3,132; Primary Health Posts 180; and Hospital Beds 6,796. Status of Health Manpower stood at: Doctors 1,259; Nurses 11,637; *Ayurved* Physicians/*Kaviraj* (including officer level) 387; *Vaidyas* (Junior *Ayurved* Physicians) 354; Health Assistants (including Auxiliary Health Workers) 7,491; Health workers (Rural Health Worker) 3,190, Local Health Workers 3985; and other Health Workers (trained sudden-traditional maternity care-taker, Volunteer Women Health Workers) 62,546.

12.28 In the current FY 2004/05, service has been rendered by launching Community Health Insurance Program in Urlabari of Morang District and in Dumkailli of Nawalparsi District. Additional 4 places, Tikapur

Chart 12 (d) : Expansion of Health Service

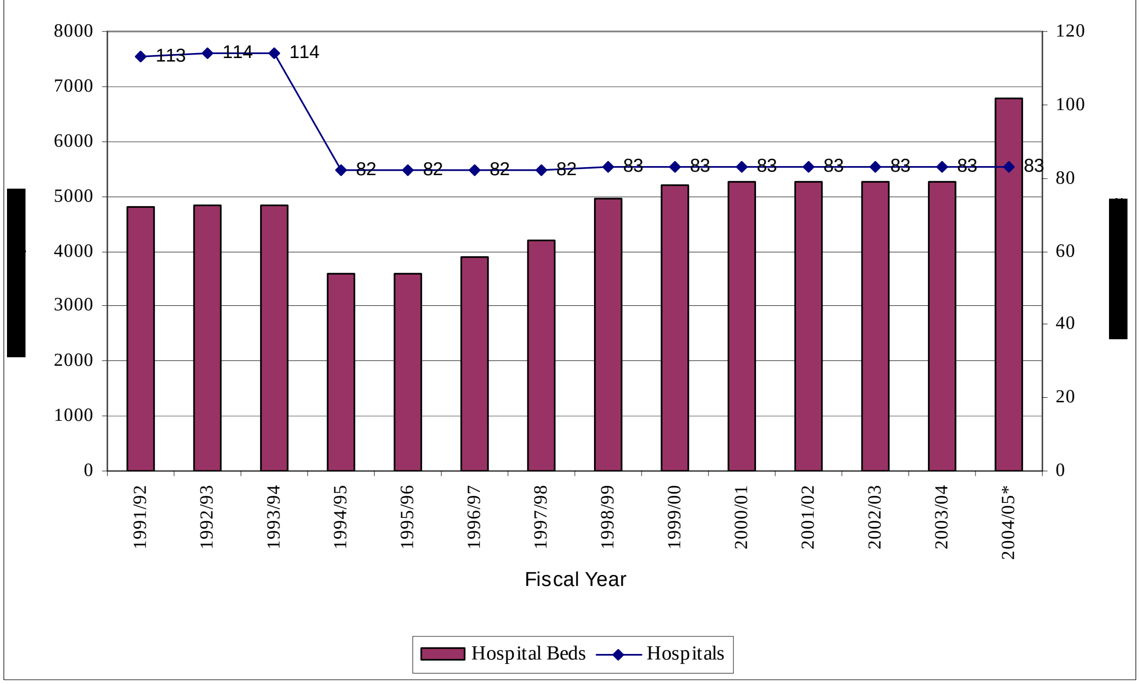


of Kailali, Lamahi of Dang, Chandranigahapur of Rauthat and Gaighat of Udayapur, have been chosen for such Insurance Program. A Three-year Agreement has been signed between the MoH and Leprosy Mission International with an objective of assisting Ananda Ban Leprosy Eradication Program.

12.29 In line with the decentralization policy of the Government, responsibilities of management of Health Institutions are to be handed over to the local bodies/agencies. Accordingly, a total of 1,184 Health Institutions have been handed over to the local bodies. Such handed over Health institutions include 1,156 sub-health posts, 19 Health Posts and 9 Primary health Centers. The number of Health Institutions handed over to local bodies in FY 2002/03 was 472 of 12 districts. In FY 2004/05, such Institutions totaled 684 in additional 13 districts. This policy will be continued in the coming fiscal year also, and there is a target of handing over 500 health agencies to the local bodies. To prevent the transmission of AIDS virus to the child born from AIDS affected mothers, prevention of Maternal to Child Transmission Diseases (PMTCT) program has been started to treat AIDS infected women at Thapathali Maternity Hospital. Anti Retroviral program for the youths has been shifted to Teku Hospital. As per the HMG/N target of identifying 100 poor and helpless heart patients annually and transplanting heart valves to them free of costs, up to the first 8 months of current fiscal year, 69 heart valves have been transplanted to such 47 heart patients free of cost, at the cost of Rs. 4,140,000 (to the Government).

12.30 The plan of opening up hospitals in Kalikot, Mugu, Rolpa and Dolpa is set in the current FY 2004/05. Accordingly, Hospitals have come into operation in Mugu and Dolpa. Preparation has been completed for starting up Hospital in the remaining districts in coming fiscal year. To reduce maternal mortality rate, it is essential to make available secured maternity service in a qualitative and effective way. According to the program of providing 18 months skill enhancement training, a training of promoting Mother-Child Health Worker *(Ma.Si.Ka.)* to Assistant

Chart 12 (e) : Extension of Health Service



Nurse Midwife *(ANaMi)*, for SLC graduate Mother Child Health Workers, 500 health workers meeting the set criteria were imparted such training in the FY 2003/04. Following the completion of their training, they have been appointed in the consultancy service in lieu of other *Ma.Si.Kas* undergoing such training. In the coming fiscal year, there is a plan of providing *A.N.Mi* training to 550 SLC graduate Mother-Child Health Worker.

12.31 As per the target of carrying out vaccination program against measles to the children aged between 9 months and 15 years in the current FY 2004/05, the program has been successfully completed in all areas except 6 Himali districts of Manang, Mustang, Humla, Jumla, Mugu and Dolpa. In the said 6 Himali districts, the vaccination program was scheduled for the April-May FY 2004/05. Selection of districts and launching of necessary training in some places have been completed for the expansion of basic maternity service in 13 districts under the Safer Motherhood Service Program.

12.32 In the current FY 2004/05, a total of 38 development projects were selected under Ministry of Health (MoH) out of which 37 projects are in implementation. Of these projects in progression, 32 are of Central Level and 5 are of District Level. Out of the total projects in operation, 21 projects are listed as Priority One (P1) Programs. Under curative services, 18.4 percent of the total population has been provided out-door patient service in the Government Health Institutions. As regard to public health, by the end of mid-February 2005, the children under the age of 1 year, 46.1 percent and 39.3 percent were vaccinated with DPT third and Polio third doses respectively, and 37.6 percent children were provided vaccination against measles. About 11.1 percent of the children below three years of age are found to be suffering from malnutrition. Under the services to pregnant women, 22.1 percent of pregnant women have taken the second dose of anti tetanus vaccination, 43.5 percent of them have used iron pills. In comparison to first time visitors, expectant mothers visiting for the fourth time for health check stood at 44.7, while number of such women consulting for the first time is estimated at 32.8 percent. About 7.9 percent women receive maternity services of the skilled health workers. Rate of family planning device usage is 37.91 percent. During this period, out of 407 patients of 309 VDCs infected by Kalajwor, 7 died. A total of 1,242 new patients of Leprosy have been identified

Drinking Water, Sanitation and Sewerage.

12.33 Water Supply System in urban areas of the Kingdom needs to be made more reliable and efficient along with the control of leakages. Until a solution is reached in order to meet the long-term water supply need of the Kathmandu Valley, some alternative must be explored to fulfill the continuing shortfall in water supply. To make up for the shortfall, Manohara and Sainbu Sources have been identified and their construction under the Kathmandu Valley Water Supply Consolidation Project is targeted for completion in current FY 2004/05. Initiative has also been taken towards harnessing minor sources in and around Kathmandu Valley including surface and ground water sources on the basis of conjunctive use to augment the water supply thereof.

12.34 The existing water supply facility is in shortfall to the need of the people living in urban and emerging town areas with high population growth rate. There is the need of improving service standard of drinking water supply. Since FY 2000/01 (2057/58) initiatives like the execution of drinking water schemes under the Small Urban Drinking Water and Sanitation Project, based on cost recovery principle, is commenced with the loan assistance of Asian Development Bank with the objectives of providing high standard drinking water and sanitation facilities in about 40 to 50 emerging cities. It is estimated that 600,000 people will be benefited from this project. In the first phase of this project with 6 years of operation period from FY 2000/01, eight projects in Parsa, Bandipur, Ratna nagar, Birendra Nagar, Trijuga, Fikkal, Attaria and Lekhanath have been selected. Similarly, for the second phase, selected 15 projects are Surunga, Kamala Mai, Bardibas, Kawasoti, Kohalpur, Bijuwar, Sunauli, Tulsipur, Tribhuvannagar, Prithvi Narayan, Khairenitar, Kushma, Beni, Walling and Mahendra Nagar, and 10 urban projects have been selected for the third phase.

12.35 Out of the construction of 48 drinking water schemes initiated in five Development Regions under the fourth group of Rural Drinking Water Supply and Sanitation Project Phase I, 30 such schemes have been completed in FY 2004/05 in pursuance of the policy of involving local institutions and NGOs in the execution of rural water schemes. The remaining schemes will be completed in the near future. Rural water supply schemes in 60 districts selected for the fifth group totaling 345 are in the process of execution after the completion of their development phase.

12.36 Under the Phase II of Rural Drinking of Water Supply and Sanitation Program, a total of 360 projects have been included in the 5th group list, out of which 346 are planned to be implemented through the communities. Of these 346 programs, the necessary pre-construction preparations of 285 programs on behalf of the communities are being carried out. At the same time, about 70 percent work of the design and cost estimates of the remaining 61 schemes is complete. For the programs of 6th group list, 118 Support Organizations (SOs) have been selected. About 443 programs in 50 districts of the Kingdom will be implemented through these selected SOs.

12.37 Clean drinking water and sanitation facilities need to be made easily accessible to the people deprived of these services. In coming fiscal year (2005/06) also, HMG will continue to adhere to the past policies and programs directed towards improving the quality of existing services and raising public awareness about drinking water and sanitation. Emphasis will be given to the implementation of projects that can be completed in a short period while ensuring quick benefits. Also, emphasis will be on the expansion of services by completing the ongoing projects, making necessary provision of sustainable operations of the completed projects, improving quality of drinking water, and priority in the involving local bodies and consumer groups and their partnership building in the operation of water supply and sanitation programs in totality. Policy initiative has been taken to involve local communities, NGOs and the private sector for the extension of water supply facilities wherever feasible, as the government effort alone is not sufficient for this. The communities are required to share 20 percent of the project cost to ensure the concept of community management. Sharing 10 percent of the project cost, however, will suffice for projects targeted to the backward class of people To ensure desired services from the facilities thus completed, and the positive impact on public health, sanitation and health education programs are to be integrated with such schemes for which funds will be earmarked.

Housing and Urban Development

12.38 The policies implemented for Urban Development in FY 2004/05, will be continued through the next fiscal year as well. An "**Urban Area Development and Market Centers Studies Program"** has been initiated with the objective of implementation of land development program for organized urbanization, and arresting the encroachment over fertile land with the effective coordination among the entities responsible for infrastructure development, i.e. the local entities, the private sector and HMG/N. The budget of Rs. 14 million allocated in FY 2004/05, is being utilized to finance activities like the reconstruction of the fire destroyed Fungling Bazaar, formulations of Real Estate Transactions Act, Land Consolidation Act, Establishment of a Land Development Revolving Fund, and physical development plans of different areas.

12.39 A "**Rural Development through Small Town Development"** program is initiated with the objective of developing physical infrastructure for future municipalities, reducing migration to urban areas, and reducing poverty by developing markets through rural infrastructure development. These objectives will be met by raising the urban facilities in small towns through the promotion of interrelationship between villages and towns. In FY 2004/05, Rs. 25

million is allocated for the implementation of infrastructure reform program to develop such rural urban interrelationships in different 29 places.

12.40 An Integrated Action Plan has been introduced to guarantee the required resources for the formulation of plans and programs and enhancement of the participation of municipalities and complete the plan and programs within the set time. In the current FY 2004/05, Rs. 2.55 million is allocated for this program. Preparations of the national urban policy, physical development plan and periodic plan of Lekhnath Municipality, digital map of Mechi, Inaruwa, Ilam and Janakpur, and improvisation of periodic plans of four municipalities have been completed in the current fiscal year under this program.

12.41 A Special Physical and Infrastructure Development Project have been initiated with the focus on sustainable development and conservation of different cultural and religious areas, and also taking environmental protection into consideration. A total of Rs.8.0 million consisting of Rs. 2.5 million from HMG source and Rs. 5.5 million from the foreign aid source, was appropriated for FY 2004/05. Preparation of a Master Plan and execution of works as per such Plan including physical infrastructure development and protection of areas in and around the temples of Changunarayan, Suryabinayak, Bajrayogini, Old Guheshwari, and Gokarneshwor, were completed under this program. Urban Development Project has been initiated for the infrastructure development of 5 cities/towns of the Kingdom declared as Model Towns, continue the fencing of Kathmandu Tundikhel, conduct feasibility study for the improvement of old settlements, implement the Harisiddhi sub-urban development program, and provide capital and operation grant to the Town Development Board. A budgetary allocation of Rs. 31.6 million is made for the said project in FY 2004/05. Urban Environmental Improvement Program is under implementation in 29 urban areas of the country. The program includes urban infrastructure development in Dhankuta, Kathmandu and Palpa, infrastructure development of three old settlements and construction of outer ring road in Kathmandu Valley.

12.42 In FY 2004/05, Bishnumati link road project Myanglung Bazaar reconstruction plan, Urban Environmental Improvement Project, Building Construction Code, and government building construction project are under implementation with the allocation of Rs. 9.44 million, Rs. 8 million, Rs. 110 million and Rs. 16.0 million respectively.

Women, Labor and Skill Development, and Children and Social Welfare

12.43 Policy attempts have been made through the implementation of various programs by making institutional and legal provisions towards fulfilling the international commitments made by Nepal for elevating the status of women and their growth through their empowerment, equality and mainstreaming. As per the commitment made by the government in Beijing Declaration to eliminate all types discrimination against women, national programs are prepared and are being implemented through the concerned entities under the Ministry, other related government institutions and NGOs. In the process of policy-wide reform, special training classes for the promotion of women at policy level in the area of public administration were conducted. Different skill oriented training are conducted in all 75 districts of the Kingdom through the Women Groups to help raising their income level. Such income-generating programs are conducted through the mobilization of NGOs. New approach is developed for policy-wide arrangement to coordinate the Government and Non-Government Organizations. Meanwhile, the concept of Gender Budgeting and Auditing for the next fiscal year has been brought forward. Draft Ordinances, pertaining to repealing discretionary laws against women, control of domestic violence and establishment of National Women Commission, have been formulated. Gender Focal Points are established in all the Ministries in the process of institutional reform.

Institution to function as a moderator, coordinator, and link has been designated to bring the coordination among the programs targeted to women, children, handicapped and senior citizens and implemented by NGOs and the Government at the district level. People’s awareness workshops were organized in Ilam, Bara and Parbat districts for the control of domestic violence in participation of fifty concerned persons in each district. Preparatory classes for women for the Public Service Commission examination for Non Gazatted Class I, were organized in Dhankuta, Dang and Palpa Districts. Financial assistance was provided to two NGOs to provide the shelters to the women as a measure to control the domestic violence. Grant assistance was provided to 26 District Executive Committees against trafficking, and for the implementation of skill oriented training to conflict affected single women group. Prize was given to journalists specially contributing to women empowerment and gender equality. Scholarship was granted for 10 students of Padma Kanya Campus studying 'Women' subjects. The meetings of Gender Focal Points are held regularly in different ministries and institutions.

12.44 As regards to the social security and reforms, continuity is being given to the ongoing policies. Programs are being implemented according to the policy, targets and plans set by the Tenth Plan in the areas of policy, legal and institutional reforms pertaining to the Disabled, and Senior Citizens. Under such programs, various services, including participatory, training and treatment, were provided. Financial grant support is provided to the institutions engaged in such activities. In order to rehabilitate the disabled persons in the society, support is given for their income generating activities. Skill oriented training was provided to 65 disabled persons and treatment service program for senior citizen was launched in 28 districts of the country under the social security and reform program,. Similarly, the rehabilitation program for disables was conducted in 6 districts and Nepal Disabled Organization was included to conduct the programs in 8 districts. In addition to these, 34 senior citizens were admitted in the old age care center of social service center during this year.

12.45 In the context of children, the long-term objective has been to protect and promote their rights by putting an end to their exploitation and discrimination, and thereby, ensure their rights of physical, intellectual, social and psychological development. To achieve this long-term objective, policy has been adopted to make legal, institutional a structural arrangement suitable to children's rights. In this respect, governmental and non-governmental organizations, civil society and private sector have been directed towards launching children's rights oriented program. Under this program, the sectoral programs are oriented towards improving nutritional status of the children by ensuring health and education in order to protect their rights. Likewise, children's participation will be enhanced in their development by ensuring their birth registration. As per the targets, policy, and programs for the protection and development of child rights, various programs are under implementation by different units within the ministry, NGOs, civil societies and private sector. In this respect, the major programs are the training of the street children on technical matters like motor mechanic, auto mechanic, etc. by providing fund to NGO for the rehabilitation of street children. For the protection of orphan children, Child Welfare Centers are established and are in operation under the Ministry in Biratnagar, Rajbiraj, Birgunj, and Butwal with a capacity of 27 children each. Child Welfare Center is also in operation in Mahendranagar by the participation of NGO. Child Reform Center in Sanothimi, Bhaktapur is in operation to provide shelter to the children of jailed parents, children convicted for criminal activities as well as drug addicts. Arrangement has been made to provide grant to NGO Federation on the basis of programs related to children's rights, child advocacy, child law amendment, and abolition of worst form of child labor, etc. Arrangement has also been made to provide a monthly amount of Rs. 1000 per child to 180 children of 18 conflicts affected districts for their basic education, food and shelter under the emergency relief program. Rehabilitation program has been continued for such children by providing them shelter in the concerned *Bal Mandir*. A coordination committee has been formed under the convenorship of Executive Director of Central Child Welfare Committee to provide suggestion on the formulation of proper policy and programs for the conflict-affected children. Pursuant to the commitment made in the world declaration on child, which was approved by the second special conference of the UN General Assembly related to children's rights, a Ten Years National Work Plan has been prepared and is in under implementation. Conflict affected children protection and development programs are underway in 25 districts for the protection and development of conflict-affected children.

12.46 The UNDP assisted Mainstreaming Gender Equity Program (MGEP) is under implementation under the Ministry of Women, Children and Social Welfare in 16 districts of the country. This program is running in various sectors to achieve its goal of gender mainstreaming. Pursuant to the programs of awareness creation on community people's rights (particularly the backward and minority women), human rights, gender discrimination, equal development of men and women and Convention on the Elimination of All Forms of Discrimination against Women, various training programs have been conducted. In this respect, a total of 526 women and 141 men have been trained on Convention on the Elimination of All Forms of Discrimination against Women. Similarly, training on human rights has been conducted for 211 women and 50 men. In addition, 163 women and 69 men have been trained through regular orientation program on equal development of men and women and 209 women and 227 men of the program area have been trained by organizing orientation program on various issues. Besides, training has been provided to 548 women and men of the field level on gender awareness. Various programs have been broadcasted and telecasted through mass media for the sake of advocacy campaigns related to gender issues. In this respect, the notable programs are: Tele serial named *"Chhaupadi*", the music cassette named "voice of women of Far Western region", and 52 serials of radio program on equality (*Barabari*). Pursuant to the programs of providing access to resources to the backward and minority communities and enabling them to acquire resources, service and facilities available in the community, orientation program on group mobilization and social development was provided to 707 women and 201 men. In addition, training has been provided to program-officers and field level researchers on related issues in 16 districts. Basic survey and formation of 126 new groups have been completed in 13 districts under this program. Program on adult education in the program districts, goat rearing assistance in two districts, water pump for vegetable farming in two districts, HIV/ AIDS training, and one day training for 415 women and 51 men on saving and loan mobilization have been completed. A total of Rs. 683,000 has been distributed as seed money to these groups to run different programs. Pursuant to the programs of peacefully resolving the disputes resulting from disgrace and suppression of backward and minority communities, particularly violence against women, Community Level Mediation Committees have been provided orientation. Likewise, Community Level Mediation Committees have been formed at local level to abolish the utouchability and discrimination system. These committees have mediated in various cases, provided orientation program on community mediation to the concerned, and publicized through various communication media. A booklet on gender budgeting and auditing has been published and distributed under the program of capacity strengthening of local bodies to address the gender issue. In this respect, training has also been imparted to the concerned people on this issue and gender focal point has been established at district level government offices. Gender and Children's Rights Mainstreaming Coordination Committees have been formed in 3 of the 16 program districts. Interactions among the concerned agencies and orientation programs have been organized under the program of developing necessary institutional structure for gender mainstreaming at national level. Initiation has also been taken for the institutionalization of mainstreaming mechanism and process at national level in Local Development Training Academy. Central Women Legal Aid Committee has completed pleading on 102 cases and 252 women were helped by women police service under this program. In respect of public pleading for formulation of favorable policy and legal structure for gender equality, the National Work Plan related to the Convention on the Elimination of All Forms of Discrimination against Women has been translated into English. Likewise, the report on the achievements on Beijing declaration was prepared, and preparation classes for the public service examination were organized for 163 women in Section Officer level and 20 in Under Secretary level with a view to increase the participation of women in civil service. In this respect, preparation class has also been conducted to enhance the competence of women in the Joint Secretary Level.

12.47 A Joint Initiative against Trafficking in Women and Girls (JIT) is being implemented in Kaski and Nuwakot districts. Under this program, 119 women have been trained on women leadership development, and 14 have been trained on refreshers training for instructors. Similarly under the capacity improvement of old groups and formation of other groups programs, training was provided to 681 persons on leadership development, agriculture, forestry and development of democratic practice and system within the groups. Study tour was conducted for 18 women of program area. Under the activities of producing paralegal resource women at district and V. D. C. level, 47 meetings of Women Justice Forum were held in Nuwakot district and legal literacy training has been provided to 482 persons. A total of 41 pending cases were resolved in Kaski and Nuwakot districts. Similarly 3 people's awareness program and consultation service to 17 persons was provided. In the context of providing health services by the community women, 3 awareness campaigns were organized, and 17 persons were provided counseling services. Three relief centers are in operation for the relief of girls and women and 3 meetings are being organized for their relief and rehabilitation. Ten different trainings have been conducted at community level for the extension of group's information system. Similarly, 3 persons were trained to provide information on foreign job, 3 resource centers were operated at national level, and 2 HIV/AIDS related trainings were conducted. In addition, 7 activities related to awareness creation for the control of domestic violence against women have been completed. Likewise, two workshops were conducted on girls trafficking, 4 media campaign materials were produced, 4 institutions were supported in research and one awareness program was launched at the Nepal - India border area. As many as 12 meetings, workshops and trainings were also completed by executing the action plan of National Contemplation Office and preparing and printing of annual report.

Population

12.48 It has been realized that there is the need of a population perspective plan in order to make the roles of government and non-government organizations related to population more effective by integrating the aspect of population in each and every segments of economic development and social services. In this context, such plan is under preparation after the approval of concept paper. Preparation work for this plan is underway by the concerned specialists through an entity named New Era under the UNFPA's financial assistance. It is expected that this work will be completed by the first half of the next fiscal year. As regards to the management of the population activities at local level, population management programs have been implemented in Sunsari, Saptari, and Rupenddhi districts. Likewise, programs related to adolescents and youths have been implemented through the support of local bodies.

Challenges:

12.49 The Tenth Plan target of raising the literacy rate towards achieving the MDG goal of 70 percent in the next 15 years is itself challenging in the context that the projects could not be implemented to the extent as targeted due to the present unfavorable situation.

12.50 Despite achieving more than 96 percent physical target in the implementation of drinking water projects each year, annually additional 0.5 percent of the population could access to this facility. The Tenth Plan target of making drinking water facility available to 85 percent population from the present 71.6 percent is a daunting challenge in the present unfavorable situation. Hence, capacity enhancement for project implementation by ensuring adequate resources is imperative to achieve this target.

12.51 Efforts on solving the education sector issues seen in the TU and other Universities could not be successful due to weak their financial constraints. The other problems are the rising tendency of students to go to foreign countries for higher studies and inability to materialize phasing out of the certificate level education from Universities and phasing in this level into the Higher Secondary Schools.

13. Economic and Structural Reform

Macro Economic Model and Projection of Economic Growth Rate

13.1 The Nepal Macro Economic Model is prepared under the Strengthening Institutional Capacity for Effective Public Debt Management Project with the technical assistance of Asian Development Bank. It is based on Keynes' aggregate demand theory. This Model helps to project the impacts of policy decisions on the overall economic indicators including economic growth rate. Other supply side models cannot be used for forecasting every economic indicator. For example, forecasting of weather, which is often used as an independent variable in explaining agriculture production, is beyond the control of policy makers. It is a medium sized model with 37 equations of which 20 equations are behavioral and 17 are identities. There are 37 endogenous and 22 exogenous variables, of which 5 variables are identified as policy variables under the control of government decision makers.

13.2 Five major areas included in the model are final demand, prices, money and credit, government, and balance of payments. This model helps to estimate the future economic behavior and the impacts of any policy interventions. External financing plays an important role not just in promoting public investment but also private investment that is taken as a function of development expenditure. Estimates of the economic growth rates for the next fiscal year 2005/06 are based on the Macro Economic Model. Development/ Capital expenditure is the key variable in the context of budget proposal. Different scenarios of public expenditure are used to forecast potential economic growth rates. Following four public expenditure scenarios are projected:

13.2.1 **Low Growth Scenario**: The economic growth rate is estimated to increase by 1.57 percent on the basis of level of public expenditure and its growth rate during fiscal years 2002/03 and 2003/04. Public expenditure is declining. The development expenditure and regular expenditure are expected to be Rs. 47.68 billion and Rs. 65.36 billion respectively in the coming fiscal year. Total revenue is estimated at Rs. 67.04 billion out of which Rs. 53.15 billion will be tax revenue.

13.2.2 **Long Term Growth Scenario**: The Nepal Macro Economic Model (NMEM) is based on the time series data for the period 1974/75 to 2003/04. Accordingly, development expenditure (capital expenditure) is estimated to be Rs. 50.11 billion and economic growth would remain at 4.87 percent. Regular expenditure will be in the tune of Rs. 73.04 billion. Total revenue is expected to reach Rs. 68.86 billion out of which Rs. 55.44 billion is estimated to be from various tax sources. The budget deficit will stand at 6.08 percent of GDP.

13.2.3 **High Growth Scenario:** It is based on the highest growth rate of public expenditures achieved in one of the latest fiscal years. In this scenario, the development expenditure is estimated to reach Rs. 54.75 billion, which is based on its growth rate for FY 1996/97. Regular expenditure will be Rs. 65.52 billion. Expenditure at this level is expected to result into 7.87 percent growth in GDP.

13.2.4 **Proposed Development Expenditure Scenario:** This scenario is based on the basis of expected expenditure level. The development and regular expenditures are estimated to reach Rs.49.64 billion and Rs.72.70 billion respectively in FY 2004/05. The GDP is expected to grow at the rate of 4.51 percent under this scenario. This forecast assumes significant improvement in the insurgency situation.

Box 13 (1)
Summary of Growth Prospects for FY 2005/06 under Various Expenditure Scenarios

	Low Growth Rate	Long Term Growth Rate	High Growth Rate	Proposed Exp. Based Growth Rate
GDP Growth Rate (In %)	1.56	4.87	7.87	4.51
Development Expenditure (Rs. in billion)	47. 681	50.106	54.749	49.645
Regular Expenditure (Rs. in billion)	65.356	73.040	65.581	72.701
Total Revenue (Rs. in billion)	67.042	68.856	73.674	68.594
Deficit (as % of GDP)	-4.94	-6.08	-4.63	-6.05

The growth rates of public expenditure under different policy scenarios are as follows:

	Low Growth Rate	Long Term Growth Rate	High Growth Rate	Proposed Expenditure Based Growth Rate
Development Exp.	1.22	6.37	16.22	5.39
Regular Exp.	11.65	24.78	12.03	24.20

Source: ADB TA/Nep-4017 Project, Ministry of Finance.

13.3 The conflict and insecurity have affected the public expenditure pattern directly. The long-term base line scenario of public expenditure shows a growth rate of 6.37 percent per annum, while in the context of declining trend in recent years it has grown at the rate of 1.22 percent only. It used to be 16.22 percent in FY 1996/97.These various scenarios clearly indicate that not even low growth rate can be achieved under normal circumstances. If the conflict continues, GDP growth rate can well go negative. Public expenditure is the main vehicle for development and that also has influence over private investment. So, there is a need for proper environment in which government can increase its development expenditure. The situation will be clearer from the economic growth forecasts for the next three years.

Table 13 (a)
Growth Rate Projection

	Low Growth	Long Term Growth	High Growth	Proposed Expenditure Based Growth
2005/06	1.56	4.87	7.87	4.51
2006/07	-2.76	2.76	7.45	2.76
2007/08	-3.42	3.93	9.27	3.92

Source: ADB TA/Nep-4017 Project, Ministry of Finance

Economic Diplomacy

13.4 Foreign aid plays a significant role on the economy of least developing countries. Economic diplomacy is considered as one of the major means in increasing foreign aid. The significant contribution made by the flow of foreign aid in the economic and social development of Nepal can not be underestimated It is necessary to increase the volume of foreign assistance through economic diplomacy to achieve the rate of economic development as targeted in the tenth plan (2002-2007) and to sustain the economic development already achieved.

13.5 The concept of economic diplomacy was pursued to strengthen and to establish strong economic relationships among different nations of the world. Economic diplomacy, an economic dimension under the nations' foreign policy, means exchange of cooperation with other nations for the fulfillment of own national needs. The main objective of economic diplomacy is to maintain economic relations and enhance collaboration with friendly countries and international organizations in different economic sectors such as Trade, Tourism, Investment, and Technical & Economic relation etc. in the context of meeting our own national requirements. HMG/N is taking various initiatives and policy measures in an effort to make economic diplomacy policy more effective and result oriented. In this context, six sectors such as Tourism, Trade, Foreign Investment, Foreign Employment, Non-Resident Nepalese's participation (NRN) in the economic development and development of information & communication technology are given priority.

13.6 A high level task force constituted by HMG/N, to suggest for the effective implementation of economic diplomacy, had submitted its report in 1995. In continuation of this, a task force named Policy Study Group on Nepal's Economic Diplomacy (PSGNED) was constituted and it also submitted its report. With the suggestion of this report, a high level Economic Diplomacy Coordination Committee (EDCC) was constituted under the chairmanship of Prime Minister for the institutional development of economic diplomacy. The members of the committee include concerned Ministers, Chief Secretary, Secretaries related to economic diplomacy, Vice-Chairman of NPC, representatives from private sectors and foreign secretary as a member secretary. The first meeting of EDCC held on 2053-10-03 BS, discussed on different subjects of economic diplomacy and decided to constitute 21 members Economic Diplomacy Standing Committee (EDSC) under the chairmanship of Foreign Minister. The scope of EDSC is to exchange views regularly for achieving the objectives of economic diplomacy through coordinating the works of Ministry of Foreign Affairs, other Ministries, Nepalese Diplomatic Mission and private sectors. The standing committee members under the chairmanship of Foreign Minister are member of NPC, Chief Secretary, and economic diplomacy related different Ministries' secretaries & representatives of private sector. Joint Secretary of Ministry of Foreign Affairs, who looks after Economic Diplomacy Division, is designated as member secretary. Outlines of the work to be performed under economic diplomacy by the Ministry and Royal Nepalese Diplomatic Missions are presented in the first meeting of EDSC held on 2060-1-09 BS.

Box 13 (2)

Activities Relating to Economic Diplomacy

a. The Economic Relations and Coordination Section of Ministry of Foreign Affairs was restructured with the name of "Multilateral Economic Affairs Division" (MEAD). Its functions of this section are as follows:

- Preparation, Implementation and Monitoring of foreign economic policy and economic diplomacy related programs.
- Preparation and Implementation of foreign trade, export, foreign investment, tourism, and foreign

employment promotion related programs.

- Promotion of Nepal's economic interest in Multilateral International Organization.
- Promotion of Nepal's economic interest and the interest of least developing and land locked countries in WTO.
- Preparation of programs on economic diplomacy by different departments of HMG with the participation of private sector.

b. Following are some examples of programs that were held to promote economic diplomacy.

  - One of the priority areas of Economic Diplomacy is to involve NRN for the economic and social development of the country. In this context, the first Conference of Non- Resident Nepalese (NRN) was jointly organized by FNCCI and International Coordination Committee of Non-Resident Nepalese, in Katmandu on 11-14, October 2003. The conference was concluded with concrete decisions and suggestions.
  - Foreign Ministry has created economic page under its home page website to provide economic diplomacy related information.
  - Economic Handbook, 1999, having economic information of Nepal was published and distributed in foreign countries through different diplomatic missions.
  - The Royal Nepalese Diplomatic Missions are taking proper measures for the promotion of economic

diplomacy by utilizing their financial and human resource.

C. The following initiations are required for the effective management of economic diplomacy.

- Increase in coordination and cooperation between Foreign Ministry, diplomatic missions within this Ministry and private sector.
- Availability of required human resources and its development, and
- Arrangement of necessary financial resources.

Source: Ministry of Foreign Affairs

Civil Service Reform:

13.7 Good governance and governance reform are the main aspects of 21 points program of HMG/N under the major directives highlighted in His Majesty the King's Royal Proclamation of February 01, 2005. In this context, it is essential to achieve the goal of reducing internal conflict, restoring peace, and alleviating poverty by providing effective and efficient service delivery through reformed civil service.

13.8 With the realization of main responsibility of providing services and facilities to the people by means of capable and effective government, as objected by the tenth plan, Governance Reform Program is in implementation since 2001.

Box 13(3)

Objective and Strategies of Governance Reform

a) Reform in Civil Service is an important aspect of Governance Reform. In view of orienting the whole civil service towards the accomplishment of goals of good governance, the main objectives of Good Governance Programme are as follows:

- To strengthen the internal capacity and capability of civil service under reform program.
- To promote good governance and discourage corruption in the government entities.
- To improve the skill of Civil service and to enhance motivation, and
- To bring in forward to the process of work performance reform.

For the accomplishment of above objectives, pilot programs are under implementation in five ministries by creating change units.

b) In view of the broader objective of good governance, Ministry of General Administration has prepared Road Map of Governance Reform Program, 2003, and Action Plan for the period FY 2003/4 – 2008/09. In an attempt of translating the commitment of governance reform, HMG has initiated the implementation of governance reform programs. Following are the major underlying policies:

- Making capable civil service to face the upcoming challenges with the enforcement of merit based recruitment and promotion system.
- Introducing succession plans for making accountable and responsible civil service.
- Making effective Complaint Management and Public Hearing System to increase effectiveness in the delivery of public services and ensure good governance.
- Enhancing good governance through gender mainstreaming and social inclusion.
- Making necessary arrangement for civil servants' salary, allowances and other benefits.
- Adopting appropriate policy to increase the salary and

allowances and improve professionalism of the civil service by right sizing them.

Source: Ministry of General Administration

13.9 A Survey is being carried out to study on the restructuring of the government organizations and management in an effort to make government organizations fit and proper. Ministry of Education and Sports, National Planning Commission Secretariat and Central Bureau of Statistics were restructured in this year. Similarly, organization and management survey study reports of Supreme Court and Public Service Commission are completed.

Box 13(4)

Governance Reform Related Policy and Program

a) System of providing pension through local banks to the retired teachers has been introduced

b) Under the policy and program of providing training for increasing participation of women, *Dalit* and minorities in the civil service, training is provided to 50 persons for examination preparation of Gazette I & II Class and 88 persons for the preparation of main examination of Gazette III class.

c) Sixth amendment has been made to the civil service regulation 2050. The amendment has made easier to the government entities for providing services to the people in Katmandu Valley.

d) The second amendment Ordinance, 2005 of Civil Service Act, 1992, is submitted to HMG (cabinet). With this amendment, it is expected that transfer system, promotion system, terms of reference, work performance evaluation and review of pay scale would be more systematic, scientific and effective in civil service.

e) With the objective of increasing salary and benefit as per the need of time, a High Level Pay Commission was constituted and on the basis of its report twenty percent of the basic salary was given as allowances to all the employees since mid-January 2005.

Voluntary participatory based Health Insurance Program for the employee of civil service, police and army is under consideration.

Source: Ministry of General Administration

13.10 His Majesty's Government of Nepal decided on March 23, 2005, to dissolve the then Ministry of Population and Environment merged and Population wing into the Ministry of Health, and Environment wing was merged into the Ministry of Science & Technology. Number of Ministries has reduced and the administrative cost will also come down with this decision. Out of the functional ministries included under the Governance Reform Programs, performance based management system is under implementation in a pilot basis in three district offices of Ministry of Agriculture and Cooperatives.

Box 13 (5)

Good Governance & Effective Service

a. Transfer Policy of Civil Servants, 2005 is under implementation replacing Employee Transfer Policy, 2004. It may help to make more systemic and transparent transfer system.

b. Task Force, constituted relating to the establishment of Ministry of Human Resources for the integrated planning, development and management of total human resource of the country, has submitted its report.

c. With the completion and implementation of "Improvement of Good Governance and Civil Service Reform Action Plan, 2005" of Ministry of General Administration, governance and civil service reform have improved .

d. Report on Administrative Irregularities prepared on the basis of Management Audit was submitted to HMG/N. This audit was carried out casually in the Ministry of Physical Planning & Works, Ministry of Water Resources, Ministry of Education and Sports. Regular audit was carried out in the Ministry of Women, Children and Social Welfare, at the central level; and eight offices from each districts of Kavre, Palpa, Sunsari and Surkhet under district level. With this audit, concerned authorities are expected to work strictly in accordance with the rules and regulations and thereby minimizing the cases of administrative irregularities.

e. Working Manual, 2005, of the Promotion Committee, was prepared for making promotion system more systematic. Furthermore, circulars were issued related to the decisions on works performance, evaluation and education standardization.

Employment record of employees received in the Civil Service Records Office, fulfilling all formalities, were gradually computerized for making the record and information system more systematic. Employees' personal record and statement on the Position of employees are being regularly updated.

Source: Ministry of General Administration

13.11 In line with the policy of housing all ministries in Singhdarbar complex, Ministry of General Administration has moved from Hariharbhawan to Singhadarbar and occupies the building of the then Ministry of Population and Environment. Ministry of General Administration is making every effort to collaborate with the private sector, civil societies, non-governmental organizations, and international communities, etc., to make substantial reform in the governance sector through skilled, efficient, pro-people, effective, competitive, motivated and high moral civil service.

Decentralization and Devolution

13.12 Considering people as the decisive power in the state governance, the Constitution of the Kingdom of Nepal, 1990, laid the sovereignty of the country on the people. The constitution has made provision for state governance as per the desire of the people and ensures the system to make people's representatives accountable to the people. The constitution, in its directive principles, has stated "the main responsibility of the state shall be to maintain conditions suitable to the enjoyment of the fruits of democracy through wide participation of the people in the governance of the country and by means of decentralization". This principle directs for the devolution of power to the local bodies, elected by the people to decide the facilities and services to be provided to the people at local level by enhancing the process of decentralization and devolution.

Box 13(6)

Principles and Policies of Local Self- Governance

Local Self- Governance Act, 1999, incorporates, as per the spirit of the Constitution of the Kingdom of Nepal, 1990, the following principles and policies in relation to local governance:

a) Devolution of power, accountability and resources enabling Local Bodies to be capable and effective.

b) Development of institutional mechanism and functional structure in Local Bodies to make accountable and capable of thinking for the benefit of the people.

c) Devolution of power to Local Bodies to collect and mobilize resources required to discharge their function, duty and responsibility.

d) Make Local Bodies transparent, democratic, and accountable to the people and orient towards establishing the civil society based on people's participation.

e) Develop local leadership for effective and responsible towards the people and encourage the private sector for participation in local self-governance.

Source: Ministry of Local Development

13.13 **Decentralization Implementation and Monitoring Committee:** The Decentralization Implementation and Monitoring Committee is formed to monitor whether the activities are taken in line with the objectives, policies and provisions of Local Self- Governance Act and to implement the functions as per the principles of local self governance.

13.14 Tenth Five Year Plan (2002-07) does not limit decentralization as the responsibility of a single Ministry or entity; rather it has adopted the policy to accept it as a means of overall national development, service delivery and poverty alleviation. Accordingly the Plan has stated the devolution of functions to the local level by central level. The Plan has adopted the strategies as to provide autonomy for local bodies to act as per the spirit of the Local Self- Governance Act, strengthen the institutional capacity of local bodies, increase people's participation though people's empowerment and make local bodies capable to mobilize internal and external resources.

13.15 Royal Proclamation of February1, 2005, has given decentralization a highest priority in the state affairs. Similarly, in 21 Points Program of HMG, it is mentioned that political, economic, social, administrative and semi-judicial powers shall be delegated gradually to the village from center in an effort to make local bodies more autonomous in accordance with the decentralization policy.

Box 13(7)

Effective Service Delivery of Local Bodies, Action Plan, 2005

a) Initiate study on restructuring of local bodies in terms of its structure, number and representation system to develop them as viable units based on the concept of inclusive democracy as per the spirit of decentralization.

b) Partial devolution started already in agriculture extension and livestock services, primary education, primary health and local infrastructure development, shall be fully devolved and internalized in the District Development Committees in this fiscal year.

c) Review of Decentralization Implementation, Action Plan.

d) Start full devolution in selected few districts as pilot program form coming fiscal year.

e) Amendment of the Local Self- Governance Act and Regulations (LSGA/R) and other Acts and Regulations contradictory to LSGA/R.

f) Prepare Local Service Act and other related Acts and Regulations.

Source: *Ministry of Local Development.*

13.16 **Full Devolution:** Selection of 18 districts, 13 districts one from each Zone representing all geographical areas (Mountain, Hill and Terai) and all 5 districts of Karnali Zone, will be made to implement full devolution as a model. Considering the level of development, population, status of infrastructures, availability of resources, accessibility to facilities and services, remoteness and internal capability of districts, human development index, situation of conflict etc, it is appropriate to select following districts for full devolution:

- Mechi - Ilam
- Koshi - Morang
- Sagarmatha - Saptari,
- Janakpur - Mahottari
- Narayani - Chitwan
- Bagmati - Bhaktapur
- Gandaki - Tanahu
- Lumbini - Rupandehi
- Dhawalagiri - Parbat
- Rapti - Dang
- Bheri - Surkhet
- Seti -Doti
- Karnali - All
- Mahakali - Kanchanpur

Box 13 (8)

Social Inclusion

a) There is a provision for the reservation of 20 percent women representatives in ward committee of village development committee and municipality according to Sections 7 and 75 of Local Self- Governance Act.

b) Sections 8, 76 and 172 of Local Self- Governance Act has made a provision for the representation of women, economically & socially deprived class, indigenous people, *Dalit* and aboriginal inhabitant and the representatives selected by the respective Councils from the less represented groups of society of people in Village Development Council, Town Development Council and District Development Council.

c) As per Sections 12, 80 and 176 of Local Self-Governance Act, at least 2 persons including one woman should be nominated in VDC, Municipality & DDC respectively.

d) According to Sections 43, 111 and 201, VDC, Municipality & DDC should prioritize, plan and implement income generating and skill development programs targeted for the deprived classes, indigenous people, women and children.

e) District Development Committee prepares periodical district development plan targeting to women, oppressed, neglected endogenous people. Fifty-two DDCs have prepared periodical plans already.

f) According to Sections 28, 96 and 189 of Local Self- Governance Act, beside specifying the functions, duties, and rights of Village Development Committee, Municipality and District Development Committee, provisions are also made for the preparation of programs for the benefit of women, children, handicapped and deprived class.

g) All most all of the programs are implemented through the Users Committee at the local level, and at least 30 percent of the Users Committee's member should be a woman.

h) There is a provision of providing monthly allowance to the 50 handicapped persons of each district under the Social Security Program. VDC/Municipality/DDC also implements a separate program for the welfare of handicapped with their own internal resource.

i) Allowances have been continuously provided at the rate of Rs. 175 to the Senior Citizens numbering 217,438 persons above the age of 75; Rs. 125 to the helpless widows numbering 239,199 exceeding the age of 60; and Rs. 175 to the helpless handicapped numbering 3,692 persons under the Social Security Program.

j) Local Bodies prepare plans and programs, allocate budget and implement programs accordingly targeting to the women, handicapped, *Dalit* and deprived people.

k) Donors' funded projects are also focused on the programs for the upliftment of women and deprived class. The programs like DACAW, DFDP and DLGSP are under implementation targeting for women, children and deprived class with separate budget allocation.

l) Services to the targeted groups are being provided regularly through the organizations like Monastery Development Board; Remote Area Development Board; Neglected, Suffered and Deprived Class Upliftment Development Board; National Foundation for Indigenous Nationalities; and National *Dalit* Commission. Source:

Source: Ministry of Local Development.

Integrated Internal Security and Development Program (IISDP)

13.17. This IISD Program was initiated in FY 2000/01 targeting to the sensitive area in terms of peace, security and development, and economically and socially backward people. At the initial phase, this program was launched in seven districts namely Rukum, Rolpa, Pyuthan, Salayan, Kalikot Jajarkot and Gorkha. Additional 7 districts (Rasuwa, Nuwakot, Dhading, Kavrepalanchok, Sindhupalchok, Bhaktapur and Lalitpur) are included under this program since FY 2003/04. Now the total number of districts under this program is 14. This program that directly helps the people through the implementation of drinking water, rural road, irrigation, reconstruction of school building and income generating projects. People are also benefited from the health services provided by the security units in the health camps. Some of these projects are continued in this year also as these programs may help to provide immediate service to the people and gives positive impact on economic and social status of the people.

13.18. In FY 2004/05 Rs. 120 million is allocated for IISDP. This amount will be invested on the programs related to security (Janapath Police, Armed Police and Field Fortification of National Investigation Department), infrastructure construction (Road, and Bus Park Construction), and different income generating programs. Other collaborative activities with NGOs include; wooden bridge construction at Manashlu area, natural resource conservation, education and awareness program through King Mahendra Trust for Nature Conservation. Similarly activities like installation of solar power, biogas plant, improved stove, livestock farming, vegetable farming, improved seeds production, nursery development, easy toilet construction, *and allo* processing training. Are being undertaken. Construction of Surkhet -Jumala, Chhinchu-Jajarkot, Devasthal-Kalaidanada-Charrjhari, Salyan-Musikot sections of roads, establishment of Mountain Herbs Collection Center and the construction of Armed Police Hospital are also included in this IISDP. In the same way people's welfare programs like operation of health camp in different places, reconstruction of schools, furniture distribution, scholarship for intelligent student, and maintenance of drinking water programs under the coordination of Royal Nepal Army are also included under this program. It is expected to improve the economic and social status of poor people and people of conflict affected area and hence it may help to reduce the existing conflict within the country.

Immediate Action Plan and Other Reform Agenda

13.19. HMG/N is implementing the time bound Immediate Action Plan, on the selected important areas at the national level, with clear responsibility, since last 3 years. In FY 2004/05, IAP-2005 with important 22 activities is under implementation. Monthly progress on IAP-2005 is being updated and reviewed periodically at the meetings held under the chairmanship of Vice-Chairman of NPC. Necessary follow up actions are being undertaken to achieve the lagged targeted goal identified at the review. Observing the implementation status of this IAP-2005 so far, it is likely that all activities under this plan will be accomplished in time.

13.20. HMG/N has prepared different reform programs to make effective poverty reduction strategy. Such reform programs are reflected in budget speech, immediate action plan, and in the commitment with different donor organizations. For the timely execution of such programs in a coordinated manner, it is required to make proper follow up. Thus there will be time-to-time progress review meetings at NPC Secretariat with secretaries of concerned Ministry. The list of the programs, lagging far behind the schedule and with high importance, that require to take initiative form the Council of Ministers will be sent to the Prime Minister's and the Council of Minister's Office.

13.21. Information plays an important role for the preparation, execution, monitoring and evaluation of development projects. Thus, the project performance information system established in NPC Secretariat to receive the information on projects timely and accurately, has been updated considering the recent development in the area of information technology. This may help to the budget system of HMG/N and preparation of different programs. This system is utilized for internal use of the NPC Secretariat. After the successful execution of this system, it will be extended to ministry, department, and at the project level.

Monitoring and Evaluation

13.22. The National Development Problems Solution Committee (NDPSC) constituted under the chairmanship of the Prime Minister and the Ministry level Development Problems Solution Committee (MDPSC) under the chairmanship of Ministers/State Ministers meet and review the programs and take measures to solve the problems encountered during the course of project and program implementation. NDPSC meetings not only review and take measures to solve the problems on the question of development projects and programs but also address and initiate corrective actions to rectify the problems on the broader issue of whole economic development and governance. In this process, time bound 20 important activities have been identified recently and different levels of government officials are made responsible to monitor the progress intensively.

13.23. In FY 2003/04, 140 out of 206 priority projects and programs achieved more than 80 percent physical progress, 31 achieved 50 to 80 percent progress and 20 of them achieved less than 50 percent progress. The number of projects and programs that have reported progress form concerned ministry was substantially high in the latest meeting than that of previous meetings. During this period the meetings of MDPSC were also regularly held. Concerned officials at the Ministries are seemed to be enthusiastic to hold meetings regularly. In order to make MDPSC meetings more effective, challenges such as establishment of systematic information system at all ministries and institutionalization of penalty and reward system to the respective performers need to be addressed.

13.24. Functional Ministries are preparing programs for the next fiscal year based on the fiscal projection. However effective implementation, monitoring and evaluation of such programs are not being done Thus, from the next fiscal year all functional Ministries are required to prepare annual progress report against the quantitative target and publish it regularly. This will help to determine the performance level of each Ministry. It is also hoped that respective Ministries will be more responsible, self-regulated and committed to fulfill the target and thereby helps to improve the overall performance level of HMG/N

Table 1.1 : Gross Domestic Product

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/0
Nominal GDP (at Current Price)	**99702**	**116127**	**144933**	**165350**	**191596**	**209976**	**239388**	**269570**	**289798**	**330018**	**366251**	**394052**	**40613**
Agriculture	50470	55368	65156	70090	80589	85569	96896	108785	112495	132373	145131	151059	16014
Non-Agriculture	49232	60759	79777	95260	111007	124407	142492	160785	177303	197645	221120	242993	24599
Real GDP (at 1994/95 Price)	**163893**	**174908**	**183371**	**188780**	**204397**	**209976**	**221930**	**233040**	**240816**	**251758**	**267096**	**280106**	**27916**
Agriculture	79512	81320	80392	79631	86356	85569	88830	92706	93496	96151	100856	106380	10875
Non-Agriculture	84381	93588	102979	109149	118041	124407	133100	140334	147320	155607	166240	173726	17041
GDP Deflator	**60.8**	**66.4**	**79.0**	**87.6**	**93.7**	**100.0**	**107.9**	**115.7**	**120.3**	**131.1**	**137.1**	**140.7**	**145.**
Agriculture	63.5	68.1	81.0	88.0	93.3	100.0	109.1	117.3	120.3	137.6	143.9	142.0	147.
Non-Agriculture	58.3	64.9	77.5	87.3	94.0	100.0	107.6	114.6	120.4	127.0	133.0	139.9	144.
Nominal GDP (at Current Price)	**16.2**	**16.5**	**24.8**	**14.1**	**15.9**	**9.6**	**14.0**	**12.6**	**7.5**	**13.9**	**11.0**	**7.6**	**3.**
Agriculture	18.6	9.7	17.7	7.6	15.0	6.2	13.2	12.3	3.4	17.7	9.6	4.1	6.
Non-Agriculture	13.8	23.4	31.3	19.4	16.5	12.1	14.5	12.8	10.3	11.5	11.9	9.9	1.
Real GDP (at 1994/95 Price)	**4.5**	**6.3**	**4.6**	**2.9**	**7.6**	**2.7**	**5.4**	**4.8**	**3.3**	**4.5**	**6.1**	**4.9**	**-0.**
Agriculture	5.5	2.2	-1.2	-1.0	7.8	-0.9	3.7	4.2	0.8	2.8	4.9	5.5	2.
Non-Agriculture	3.6	9.8	9.1	5.7	7.5	5.1	6.5	5.2	4.7	5.6	6.8	4.5	-1.

GDP at Factor Cost before deduction of bank service charge
* Revised Estimates
** Preliminary Estimates
Source: Central Bureau of Statistics

Table 1.2 : Gross Domestic Product by Industrial Origin

(At Current Price)

(As per new series)

Rs. in Million

	Originating	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04*	2004/05**
1	Agriculture, Fisheries & Forestry	50470	55368	65156	70090	80589	85569	96896	108785	112495	132373	145131	151059	160144	171104	183357	193291
2	Mining & Quarrying	449	575	795	921	990	1117	1342	1495	1553	1685	1815	1924	2056	2188	2377	2615
3	Manufacturing	5956	7894	12822	14618	17861	19555	22466	24816	26987	30337	33550	35495	32805	34337	36634	39494
4	Electricity,Gas & Water	523	815	1241	1543	2163	2862	3598	4457	4383	4632	5942	7432	8635	10905	11340	12258
5	Construction	8943	11078	14769	17318	19621	23093	26093	29263	30483	33262	37382	39584	42290	45068	49033	52729
6	Trade, Restaurants, & Hotels	10507	12902	16563	19260	22497	24326	28317	30551	33687	39313	42895	44572	40772	43978	49320	49478
7	Transport, Communications and Storages	5724	6560	8558	10819	12625	13995	15898	19315	22598	24631	29336	33297	34652	38286	43664	47558
8	Financial & Real Estate	9269	10944	13241	15684	18122	20533	23521	27157	29778	33203	36919	41634	43882	47719	51411	56088
9	Community & Social Services	7861	9991	11788	15115	17128	18924	21257	23731	27834	30582	33281	39055	40902	43961	46993	50590
10	**Total GDP at factor cost**	**99702**	**116127**	**144933**	**165368**	**191596**	**209974**	**239388**	**269570**	**289798**	**330018**	**366251**	**394052**	**406138**	**437546**	**474129**	**504101**
	Agriculture GDP at factor cost	50470	55368	65156	70090	80589	85569	96896	108785	112495	132373	145131	151059	160144	171104	183357	193291
	Non-Agriculture GDP at factor cost	49232	60759	79777	95260	111007	124405	142492	160785	177303	197587	221120	242993	245994	266442	290772	310810
11	Less imputed value of banking service (-)	1954	2289	2933	3578	4473	5060	5932	7009	7896	9438	10708	11912	12624	13911	15135	16367
12	**Total GDP at factor cost**	**97748**	**113838**	**142000**	**161790**	**187123**	**204914**	**233456**	**262561**	**281902**	**320580**	**355543**	**382140**	**393514**	**423635**	**458994**	**487734**
13	Net Indirect Taxes (+)	5668	6532	7487	9702	12149	14261	15457	17952	18943	21456	23945	29135	29293	33040	36595	41269
14	**GDP at producers' price**	**103416**	**120370**	**149487**	**171492**	**199272**	**219175**	**248913**	**280513**	**300845**	**342036**	**379488**	**411275**	**422807**	**456675**	**495589**	**529003**

* Revised Estimates
** Preliminary Estimates.
Source : Central Bureau of Statistics.

Table 1.3 : Gross Domestic Product by Source

(At 1994/95 Price)

(As per new series)

Rs. in million

S/No	Description	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04*	2004/05**
1.	Agriculture, Fisheries & Forestry	79512	81320	80392	79631	86356	85569	88830	92706	93496	96183	100856	106380	108752	111471	115774	119016
2.	Mining & Quarrying	846	922	996	1018	1080	1117	1262	1348	1365	1416	1480	1547	1571	1601	1610	1621
3.	Manufacturing	10350	12179	16076	17075	19179	19555	21322	22826	23607	24856	26646	27649	24892	25384	25822	26533
4.	Electricity Gas & Water	1845	2481	2649	2406	2553	2862	3414	3475	3331	3520	4025	4727	5200	6402	6563	7087
5.	Construction	16957	18285	19695	20474	21765	23093	24733	26372	26953	28786	31550	31823	32180	32757	32818	32020
6.	Trade, Restaurant & Hotel	16824	18701	19828	21130	22947	24326	25424	26458	27981	29069	31036	31507	28329	29267	31031	30095
7.	Transport, Communication & Storage	8759	9910	10772	11597	12653	13995	14759	15902	17186	18355	19644	20860	21201	22113	23277	24527
8.	Finance & Real Estate	15198	16647	17519	18522	19684	20534	22096	23136	24494	25719	27026	27491	28402	29333	29959	30834
9.	Community & Social Services	13602	14464	15444	16929	18180	18924	20090	20817	22403	23885	24833	28123	28642	29529	30377	31565
	Agriculture GDP at factor cost	79512	81320	80392	79631	86356	85569	88830	92706	93496	96183	100856	106380	108752	111471	115774	119016
	Non-Agriculture GDP at factor cost	84381	93589	102979	109151	118041	124406	133100	140334	147320	155606	166240	173727	170417	176386	181457	184282
10.	**Total GDP at factor cost**	**163893**	**174909**	**183371**	**188782**	**204397**	**209975**	**221930**	**233040**	**240816**	**251789**	**267096**	**280107**	**279169**	**287857**	**297231**	**303298**
11.	Less imputed value of banking service (-)	3060	3277	3519	3892	4518	5060	5616	5703	6181	6610	7230	7831	8064	8499	8950	9121
12.	**Total GDP at factor cost**	**160833**	**171632**	**179852**	**184890**	**199879**	**204915**	**216314**	**227337**	**234635**	**245179**	**259866**	**272276**	**271105**	**279358**	**288281**	**294177**
13.	Net indirect taxes (+)	8874	9346	8979	10541	12287	14261	14561	15684	15537	16240	17508	20710	20135	21737	22941	24880
14	**GDP at producers' price**	**169707**	**180978**	**188831**	**195431**	**212166**	**219176**	**230875**	**243021**	**250172**	**261419**	**277374**	**292986**	**291240**	**301095**	**311222**	**319057**

* Revised Estimates

** Preliminary Estimates

Source: Central Bureau of Statistics

Table 1.4 : National Accounts Summary

(At Current Price)

Rs. in million

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04*	2004/05**
Gross Domestic Product																
(Producers' price)	**103416**	**120370**	**149487**	**171474**	**199272**	**219175**	**248913**	**280513**	**300845**	**342036**	**379488**	**411275**	**422807**	**456675**	**495589**	**529003**
Plus Import of goods and Nfs.	21820	27785	39321	47429	62972	75850	88996	105775	101949	101648	123055	129104	127961	137355	156989	159568
Total Resources Available = Uses	**125236**	**148155**	**188808**	**218903**	**262244**	**295025**	**337909**	**386288**	**402794**	**443684**	**502543**	**540379**	**550768**	**594030**	**652578**	**688571**
Total Consumption	**95273**	**108856**	**133280**	**148302**	**170052**	**186710**	**214487**	**241351**	**259407**	**295473**	**321911**	**349257**	**371526**	**401897**	**434359**	**464133**
Private Consumption	86314	97771	121372	133402	154065	166443	191469	216364	231392	264944	287947	309107	329199	355535	383978	410856
Public Consumption	8959	11085	11908	14900	15987	20267	23018	24987	28015	30529	33964	40150	42327	46362	50381	53277
Total Investment	**19076**	**25074**	**31619**	**39653**	**44644**	**55231**	**68017**	**71084**	**74728**	**70061**	**92272**	**99301**	**102174**	**119048**	**134791**	**137885**
Gross Fixed Capital Formation	**17002**	**22780**	**29277**	**37278**	**42032**	**48370**	**56081**	**60794**	**65375**	**65269**	**73324**	**78031**	**81613**	**87024**	**95129**	**101915**
Public	7968	8683	10331	11769	13380	15070	17624	19392	22573	23888	26436	31268	32044	31228	32521	32716
Private	9034	14097	18945	25509	28652	33300	38457	41402	42802	41381	46888	46763	49569	55796	62608	69199
Change in Stock	2074	2294	2342	2375	2612	6861	11936	10290	9353	4792	18948	21270	20562	32025	39662	35970
Export of Goods and Nfs.	10887	14226	23909	30948	47548	53084	55405	73853	68659	78150	88360	91821	77068	73085	83429	86552
Gross Domestic Savings	8143	11514	16207	23172	29220	32465	34426	39162	41438	46563	57577	62018	51281	54778	61230	64869
Net Factor Income	1934	2147	2715	3231	3863	4817	3566	4660	6025	10881	13125	16172	18375	16194	12955	10364
Net Current Transfer	172	218	482	581	495	819	900	1009	1158	1205	1319	1456	1701	1885	2158	2471
Gross National Savings	10249	13879	19404	26984	33578	38101	38892	44831	48621	58648	70702	78190	69656	70972	74185	75233
Gross National Product	**105350**	**122517**	**152202**	**174705**	**203135**	**223992**	**252479**	**285173**	**306870**	**352917**	**392613**	**427447**	**441182**	**472869**	**508544**	**539367**

* Revised Estimates
** Preliminary Estimates
Source : Central Bureau of Statistics

Table 2.1 : Government Expenditure & Sources of Financing

Rs. in Million

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Expenditures	**59579.0**	**66272.5**	**79835.1**	**80072.2**	**84006.1**	**89442.6**
Recurrent Expenditure	31944.2	35579.1	45837.3	48863.9	52090.5	55552.1
Capital Expenditure	22992.1	25480.7	28307.2	24773.4	22356.1	23095.6
Principal Re-payment	4642.7	5212.7	5690.6	6434.9	9559.5	10794.9
Receipts	**41587.6**	**48605.5**	**55647.0**	**57131.6**	**67568.9**	**73614.4**
Revenue	37251.0	42893.8	48893.6	50445.5	56229.8	62331.0
Foreign Grant	4336.6	5711.7	6753.4	6686.1	11339.1	11283.4
Surplus (+) Deficit (-)	**-17991.4**	**-17667.0**	**-24188.1**	**-22940.6**	**-16437.2**	**-15828.2**
Sources of Deficit Financing						
Foreign Loan	**11852.4**	**11812.2**	**12044.0**	**7698.7**	**4546.4**	**7629.0**
Domestic Loan	**4710.0**	**5500.0**	**7000.0**	**8000.0**	**8880.0**	**5607.8**
(a) Banking System	2850.0	3300.0	-	-	-	-
(b) Non-Banking System	1860.0	2200.0	-	-	-	-
Cash Balance (-)Surplus	**1429.0**	**354.8**	**5144.1**	**7241.9**	**3010.8**	**259.1**

Note : The expenditure heads till FY 2003/04 were classified as regular and development. During FY 2004/05, such expenditure has been classified as recurrent, capital and principal repayment. As such, expenditure heads and subheads from 1998/99 to 2003/04 , may not tally with previous heads/ subheads.

Source : Financial Comptroller General Office.

Table 2.2: Tax Revenue

Rs. in Million

Heading	Fiscal Year						First Eight Months	
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2003/04	2004/05*
Customs	**9517.7**	**10813.3**	**12552.1**	**12658.8**	**14236.4**	**15554.8**	**9239.0**	**9613.4**
Imports	7698.3	8959.9	10391.9	9678.4	10567.7	10666.9	7181.3	7513.6
Exports	378.0	432.5	492.6	917.4	855.6	527.1	405.4	428.4
Indian Excise Refund	1206.0	1331.7	1456.2	1700.9	2370.6	3882.7	1308.6	1388.2
Others	235.4	89.2	211.4	362.1	442.5	478.1	343.7	283.2
Tax on Consumption and Product of Goods and Services	**11719.1**	**13387.3**	**16153.6**	**16074.3**	**18244.8**	**20705.6**	**12726.1**	**14599.8**
Excise on Industrial Products	2953.2	3127.6	3771.2	3807.0	4785.1	6226.7	3900.4	4012.1
Value Added Tax	8765.9	10259.7	12382.4	12267.3	13459.7	14478.9	8825.7	10587.7
Land Revenue and Registration	**1003.1**	**1015.9**	**612.9**	**1131.8**	**1414.3**	**1697.5**	**852.7**	**1076.3**
Land Revenue	1.3	4.6	5.1	0.8	0.0	0.0	0.0	0.0
House and Land Registration Fees	1001.8	1011.3	607.8	1131.0	1414.3	1697.5	852.7	1076.3
Tax on Property, Profit & Income	**6513.0**	**7935.6**	**9546.5**	**9465.7**	**8691.5**	**10215.1**	**5466.7**	**6185.0**
Income Tax from Public Enterprises	1526.5	2198.8	2928.0	1769.3	1251.0	2056.6	1081.3	890.8
Income Tax from Semi-Public Enterprises	–	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income Tax from Private Corporate Bodies	1155.0	1339.5	1924.3	1412.0	1236.3	1531.3	551.1	1076.7
Income Tax from Individuals	2772.7	3016.4	3200.5	4419.1	3362.3	3533.4	2406.3	2696.8
Income Tax from Remunerations	396.5	451.5	597.3	835.6	1252.6	1391.2	0.0	0.0
Urban House and Land Tax	123.3	118.5	2.9	2.3	0.0	0.0	0.3	0.0
Vehicle Tax	219.4	396.5	429.6	559.7	559.5	700.6	530.7	576.3
Tax on Interest	319.5	414.4	463.9	467.7	864.0	733.4	503.5	481.7
Other Taxes	–	0.0	0.0	0.0	165.8	268.6	393.5	462.7
Total	**28752.9**	**33152.1**	**38865.1**	**39330.6**	**42587.0**	**48173.0**	**28284.5**	**31474.5**

*Provisional: Due to reclassification of the headings of revenue, amount of revenue of some tax headings may not match with previous data.

Value Added Tax includes Sales Tax, Entertainment Tax, Hotel Tax, Air Flight Tax and Contract Tax etc.

Source : Financial Comptroller General Office.

Table 2.3 : Non-Tax Revenue

Rs. in Million

Heading	Fiscal Year						First Eight Months	
	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2003/04	2004/05*
Charges, Fees, Fines and Forfeiture	**336.1**	**386.3**	**386.7**	**518.8**	**579.6**	**1202.5**	**792.0**	**847.0**
Firm Registration	53.8	65.8	60.0	71.9	78.7	85.1	57.5	83.2
Arms Registration	2.4	2.4	1.5	1.4	1.6	2.4	1.3	2.1
Vehicle Licence	94.7	106.0	95.0	111.1	119.5	635.4	407.4	387.5
Judiciary	97.3	95.8	106.8	192.2	104.3	102.1	63.5	65.4
Administration, Penalty & Forfeiture	87.9	116.3	123.4	142.2	275.5	377.5	262.3	308.8
Receipts from sales of Commodities and Services	**2146.6**	**2428.9**	**2728.0**	**2611.1**	**3063.0**	**3497.0**	**2289.6**	**2314.5**
Drinking Water	21.4	14.1	9.1	6.5	5.6	5.3	3.3	3.0
Irrigation	1.3	1.5	1.1	1.3	1.4	0.6	0.3	0.3
Electricity	2.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Postal Service	201.7	226.6	229.6	230.3	219.9	247.0	167.9	174.0
Food and Agriculture	34.1	43.4	50.6	45.9	42.3	42.8	23.9	24.6
Education	50.5	83.5	94.0	128.0	112.3	128.7	99.9	111.7
Forest	374.6	525.2	602.6	546.2	683.6	674.1	396.1	322.4
Transport	235.9	86.0	86.3	99.9	93.5	131.6	89.7	84.6
Others	1224.7	1448.3	1654.7	1553.0	1904.4	2266.9	1508.5	1593.9
Dividend	**1782.8**	**2507.5**	**2336.5**	**2512.9**	**2497.6**	**2661.1**	**1032.2**	**2347.4**
Financial Institutions	1455.2	2135.5	2076.3	2281.8	1904.3	1103.1	802.5	601.1
Trading Concerns	124.0	9.7	13.4	8.8	11.0	9.1	6.6	3.1
Industrial Undertakings	-	103.2	0.0	0.0	6.1	3.0	3.0	39.7
Services Sector	203.6	138.0	226.6	161.8	576.2	1510.3	184.5	1703.5
Others	0.6	121.1	20.2	60.5	0.0	35.6	35.6	0.0
Royalty and Sale of Fixed Assests	**202.3**	**563.3**	**949.6**	**723.9**	**1945.4**	**1465.0**	**865.4**	**932.1**
Royalty from Mining	11.1	11.7	5.4	15.3	11.9	9.8	6.3	8.3
Other Royalties	94.8	370.9	483.1	637.2	1142.1	1002.2	558.2	428.7
Other Sales	96.4	180.7	461.1	71.4	791.4	453.0	300.9	495.1
Mint	–	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	–	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal and Interest Payment	**3927.5**	**3751.0**	**3497.2**	**3109.5**	**2464.3**	**3507.1**	**1667.8**	**768.4**
Loan Corporations	2235.2	2176.0	2050.6	1880.7	1516.7	1826.7	1095.2	497.5
Interest from Loan to Companies & Corporations	1682.7	1565.1	1437.1	1206.8	911.2	1654.0	548.5	262.8
Others	9.6	9.9	9.5	22.0	36.4	26.4	24.1	8.1
Miscellaneous Items	**102.8**	**104.6**	**130.8**	**1638.8**	**3092.8**	**1825.3**	**1039.0**	**863.5**
Miscellaneous	102.8	104.6	130.8	1638.8	3092.8	1825.3	1039.0	863.5
Total	**8498.4**	**9741.6**	**10028.8**	**11115.0**	**13642.7**	**14158.0**	**7686.0**	**8072.9**

*Provisional

Source: Financial Comptroller General Office.

Table 2.4 : Recurrent Expenditure

Rs. in Million

Heading	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Constitutional Bodies	**336.2**	**424.0**	**431.1**	**571.0**	**819.2**	**737.2**
His Majesty & Royal Family	83.3	87.8	92.9	116.2	387.9	329.1
State Council	5.0	5.9	5.9	8.2	9.2	10.4
Parliamentary Secretariat	101.2	131.1	146.3	182.3	73.2	57.1
Supreme Court	24.8	25.0	31.6	43.9	47.5	49.8
Commission for Investigation on Abuse of Authority	6.2	7.3	8.6	14.7	20.4	34.4
Office of the Auditor General	44.7	44.6	43.3	56.1	56.1	72.5
Public Service Commission	35.7	43.1	30.6	46.7	62.2	60.2
Election Commission	27.1	69.7	56.1	84.8	144.8	102.6
Office of the Attorney General	6.6	7.8	11.2	13.9	13.6	15.8
Judicial Council	1.6	1.7	4.6	4.2	4.3	5.3
General Administration	**3435.0**	**3864.2**	**5419.8**	**7140.1**	**7335.9**	**7325.3**
Council of Ministers	23.2	26.4	33.2	46.1	38.0	25.0
HMG Secretariat	287.5	313.9	524.5	968.1	935.7	801.5
District Administration	117.6	128.1	132.6	194.1	178.5	184.1
Police	2744.2	3085.9	4341.2	5377.9	5743.7	5848.4
Jail	93.2	119.2	125.1	143.7	146.0	181.4
Administrative Reform	22.5	34.6	32.2	101.2	28.0	50.6
Miscellaneous	146.8	156.1	231.0	309.0	266.0	234.3
Revenue Administration	**311.6**	**338.8**	**383.2**	**476.2**	**470.5**	**496.6**
Land Revenue	137.9	152.4	162.4	195.5	197.4	202.3
Customs	81.8	87.2	102.0	130.5	128.7	141.6
Inland Revenue*	74.7	80.2	96.6	124.5	118.6	122.2
Revenue Tribunal	2.9	3.4	4.6	5.6	5.6	6.0
Revenue Investigation	10.1	10.8	11.7	14.2	14.3	17.4
Revenue Administrative Training	4.2	4.8	5.9	5.9	5.9	7.1
Economic Administration & Planning	**140.3**	**154.6**	**364.0**	**289.1**	**235.7**	**269.6**
Planning	13.9	15.9	17.2	18.9	15.8	16.0
Statistics	40.5	46.1	205.8	124.3	68.2	79.4
Financial Comptroller General Office	85.9	92.6	141.0	145.9	151.7	174.2
Judicial Administration	**252.3**	**273.4**	**317.6**	**440.9**	**437.6**	**449.0**
Court	252.3	273.4	317.6	440.9	437.6	449.0
Foreign Services	**521.8**	**569.8**	**587.8**	**668.5**	**709.7**	**710.2**
Foreign Services	337.8	367.8	387.7	407.6	453.7	471.3
Miscellaneous	184.0	202.0	200.1	260.9	256.0	238.9
Defence	**2823.8**	**3124.1**	**3457.2**	**5264.8**	**6168.3**	**6629.6**
Defence	2814.1	3113.6	3446.4	5252.6	6081.1	6617.5
Miscellaneous	9.7	10.5	10.8	12.2	87.2	12.1
Social Services	**10794.6**	**12814.1**	**15366.3**	**16953.1**	**18886.9**	**20808.5**
Education	6907.7	8284.8	9820.7	11947.0	12300.9	13379.5
Health	1956.8	2319.2	2606.6	2957.3	3492.7	3826.4
Drinking Water	239.8	258.1	286.8	339.8	354.6	351.5
Local Development	754.8	784.0	1295.6	303.3	1286.8	1687.2
Other Social Services	935.5	1168.0	1356.6	1405.7	1451.9	1563.9
Economic Services	**4480.4**	**4683.2**	**4899.9**	**5795.1**	**5078.5**	**5512.8**
Agriculture	1696.0	1695.0	1881.6	2190.9	1784.0	1856.0
Irrigation	326.9	362.4	400.4	271.4	503.7	401.1
Land Reform	90.5	88.9	102.3	133.5	72.6	74.1
Survey	202.8	211.0	207.8	263.7	242.4	262.8
Forest	872.8	962.5	1010.9	1262.7	1271.4	1323.7
Industry &Mining	404.7	353.1	391.2	694.7	364.9	498.0
Communication	7.1	8.4	14.1	42.2	69.7	86.7
Transportation	427.2	231.6	281.9	341.5	303.3	297.1
Electricity	24.5	33.5	106.3	33.1	31.4	34.3
Other Economic Services	427.9	736.8	503.4	561.4	435.1	679.0
Interest Payment	**4080.3**	**4820.0**	**4697.8**	**5770.3**	**6621.8**	**6543.9**
Miscellaneous	**4767.9**	**4512.9**	**9912.6**	**5494.8**	**5326.4**	**6069.4**
Travelling Expenses of Dignitaries and Government Delegation	90.6	79.0	**91.1**	**103.8**	**88.8**	**102.9**
Pension, Allowances & Gratuity	1261.1	1372.0	1572.6	2985.1	3325.1	3567.4
Hospitality	1.0	0.5	3.1	0.2	0.0	1.5
Emergency Help, Donation & Prizes	0.2	0.2	2.2	0.3	0.0	0.0
Compensation	26.4	39.9	22.5	16.6	8.2	13.3
Miscellaneous	1360.0	1175.2	1207.8	1288.2	1557.7	1753.3
Contingency	2028.6	1846.1	7013.3	1100.6	346.6	631.0
Total	**31944.2**	**35579.1**	**45837.3**	**48863.9**	**52090.5**	**55552.1**

* Inland Revenue Includes the expenses of VAT, Excise and Income Tax.

Source: Financial Comptroller General Office

Table 2.5 : Capital Expenditure

Rs. in Million

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Constitutional Bodies	**76.5**	**34.2**	**19.8**	**11.9**	**16.8**	**36.9**
State Council	0.1	0.2	0.8	0.0	0.0	0.1
Parliamentary Secretariat	27.1	12.9	4.4	0.1	0.5	5.3
Supreme Court	24.7	0.9	0.0	0.0	0.9	15.6
Commission for Investigation on Abuse of Authority	0.1	1.6	1.4	1.7	0.1	2.4
Office of the Auditor General	4.1	5.4	1.1	3.3	0.8	0.5
Public Service Commission	13.9	12.0	3.5	1.6	1.5	4.6
Election Commission	6.4	1.1	0.7	1.7	9.8	2.1
Office of the Attorney General	0.1	0.1	3.5	3.5	2.5	6.3
Judicial Council	0.0	0.0	4.4	0.0	0.7	0.0
General Administration	**259.9**	**314.3**	**965.8**	**838.0**	**581.3**	**578.1**
Council of Ministers	0.0	0.1	0.3	0.2	0.3	1.1
HMG Secretariat	8.7	34.3	2.5	6.8	1.2	4.8
District Administration	5.8	0.8	0.9	0.0	0.9	0.6
Police	153.6	181.9	854.1	749.6	493.1	498.1
Jail	17.5	2.1	2.4	0.0	11.5	5.5
Administration Reform	71.1	89.7	99.4	81.4	69.9	64.8
Miscellaneous	3.2	5.4	6.2	0.0	4.4	3.2
Revenue and Fiscal Administration	**3.3**	**0.3**	**0.9**	**1.0**	**1.6**	**7.3**
Land Revenue	2.7	0.2	0.1	0.0	0.0	1.3
Customs	0.3	0.1	0.6	1.0	1.6	2.3
Inland Revenue*	0.1	0.0	0.0	0.0	0.0	3.6
Revenue Tribunal	0.1	0.0	0.1	0.0	0.0	0.0
Revenue Tranining Center	0.1	0.0	0.1	0.0	0.0	0.1
Economic Administration & Planning	**2.1**	**4.8**	**17.4**	**7.6**	**3.7**	**8.9**
Planning	0.7	3.0	7.6	3.5	2.3	5.0
Statistics	0.5	1.3	9.3	4.1	1.4	3.9
Financial Comptroller General's Office	0.9	0.5	0.5	0.0	0.0	0.0
Judicial Administration	**23.3**	**2.6**	**48.1**	**58.3**	**36.9**	**46.8**
Court	23.3	2.6	48.1	58.3	36.9	46.8
Foreign Services	**85.6**	**102.8**	**12.5**	**3.9**	**13.1**	**36.0**
Foreign Services	2.0	72.7	8.4	0.1	5.8	11.7
Miscellaneous	83.6	30.1	4.1	3.8	7.3	24.3
Defence	**171.0**	**358.1**	**356.2**	**595.0**	**1213.2**	**1890.4**
Defence	170.9	356.4	355.8	594.7	1213.0	1890.1
Miscellaneous	0.1	1.7	0.4	0.3	0.2	0.3
Social Services	**7495.5**	**8638.5**	**8489.0**	**7927.5**	**7050.9**	**7135.2**
Education	773.8	1043.7	1224.0	1103.0	940.7	1003.4
Health	857.9	1132.2	913.1	899.3	159.3	142.2
Drinking Water	1556.6	2044.3	1898.3	1418.0	1669.9	2065.8
Local Development	3227.4	3684.2	3753.1	3872.4	4009.4	3538.8
Other Social Services	1079.8	734.1	700.5	634.8	271.6	385.0
Economic Services	**14349.6**	**15466.7**	**17745.1**	**13562.1**	**12561.0**	**13129.0**
Agriculture	322.6	544.1	552.0	505.4	187.0	160.2
Irrigation	2724.7	2799.3	3684.6	2913.5	1840.9	2070.9
Land Reform	6.8	13.9	34.0	19.4	14.0	17.9
Survey	93.3	49.7	115.6	73.5	18.1	33.9
Forestry	336.0	342.0	292.7	376.0	373.7	459.8
Industry & Mining	118.6	712.5	132.4	125.6	425.1	40.5
Communication	458.9	274.1	263.3	256.6	1680.1	356.5
Transportation	4911.3	4550.0	5168.6	4429.6	3664.9	3958.0
Electricity	4797.1	5513.9	6715.5	4371.9	3881.6	4746.2
Other Economic Services	580.3	667.2	786.4	490.6	475.6	1285.1
Loans & Investment	**15.1**	**39.2**	**10.0**	**12.6**	**2.0**	**55.0**
Loans & Investment	15.1	39.2	10.0	12.6	2.0	55.0
Miscellaneous	**510.2**	**519.2**	**642.4**	**1755.5**	**875.6**	**172.0**
Pension, Allowances & Gratuity	0.0	0.0	0.5	0.0	0.0	0.0
Compensation	0.0	0.0	0.0	5.6	0.0	0.0
Miscellaneous	42.8	44.9	0.3	31.5	0.0	3.7
Contingency	467.4	474.3	641.6	1718.4	875.6	168.3
Total	**22992.1**	**25480.7**	**28307.2**	**24773.4**	**22356.1**	**23095.6**

* Inland Revenue Includes the expenses of VAT, Excise and Income Tax.

Source: Financial Comptroller General Office.

Table 2.6 Principal Repayment Expenditure

Rs. in Million

Code No.	Headings	Fiscal Year					
		1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
10.01	Principal Repayment of Domestic Loan	1447.4	1532.8	1190.0	1683.6	4063.3	5029.1
10.02	Principal Repayment of Foreign Loan	3195.3	3679.9	4500.6	4751.3	5496.2	5765.8
	Total	4642.7	5212.7	5690.6	6434.9	9559.5	10794.9

Source: Financial Comptroller General Office

Table 2.7 : Foreign Aid Commitment by Major Sources

Rs. in Million

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	First Eight Months	
							2003/04	2004/05
1. Bilateral	**19361.9**	**11293.4**	**17495.9**	**18438.7**	**15312.4**	**8223.6**	**6277.5**	**18947.0**
Grant	13299.1	11293.4	14046.0	17292.2	15183.1	8223.6	6277.5	18947.0
Loan	6062.8	-	3449.9	1146.5	129.3	0.0	0.0	0.0
2. Multilateral	**4565.0**	**9154.6**	**13791.0**	**14789.0**	**27890.3**	**15514.4**	**7477.5**	**16084.6**
Grant	5.0	1566.8	243.0	6048.0	12174.5	733.4	154.7	4066.3
Loan	4560.0	7587.8	13548.0	8741.0	15715.8	14781.0	7322.8	12018.3
3. Total	**18352.5**	**20448.0**	**31287.0**	**33227.7**	**43202.7**	**23738.0**	**13755.0**	**35031.6**
Grant	13304.2	12860.2	14289.1	23340.2	27357.6	8957.0	6432.2	23013.3
Loan	5048.3	7587.8	16997.9	9887.5	15845.1	14781.0	7322.8	12018.3

Source: Ministry of Finance

Table 2.8 : Foreign Aid Commitment (by Sectors)

Rs. in Million

Source	1998/99	1999/00#	2000/01#	2001/02#	2002/03#	2003/04#	2004/05*
Agriculture, Irrigation & Forestry	**3804.0**	**685.8**	**3290.3**	**748.3**	**3976.1**	**2083.1**	**745.0**
	3804.0	*685.8*	*3290.3*	*748.3*	*3976.1*	*1613.5*	*671.1*
Transport and Communication	**1380.9**	**5628.8**	**924.6**	**5361.2**	**4410.2**	**44.3**	**1415.0**
	1380.9	*5628.8*	*924.6*	*4017.2*	*4410.2*	*44.3*	*1415.0*
Power	**3318.0**	**4174.4**	**1158.7**	**758.5**	**6282.1**	**1866.4**	**0.0**
	3318.0	*4174.4*	*1158.7*	*758.5*	*6282.1*	*1866.4*	*0.0*
Industry & Mining	**1372.7**	**876.6**	**0.0**	**0.0**	**25.7**	**0.0**	**0.0**
	1372.7	*876.6*	*0.0*	*0.0*	*25.7*	*0.0*	*0.0*
Rural Development	**848.4**	**1474.0**	**3399.1**	**2148.9**	**2318.4**	**484.6**	**2920.0**
	848.4	*1474.0*	*3399.1*	*2148.9*	*2318.4*	*484.6*	*2840.0*
Water Supply & Sewerage	**440.0**	**518.7**	**15418.4**	**6205.8**	**3201.2**	**3007.2**	**1888.4**
	440.0	*518.7*	*15418.4*	*6205.8*	*3201.2*	*3007.2*	*1888.4*
Education	**1083.2**	**4034.5**	**540.2**	**2007.4**	**9208.0**	**899.8**	**10945.9**
	1083.2	*4034.5*	*540.2*	*2007.4*	*9208.0*	*899.8*	*10945.9*
Health	**1246.4**	**-**	**9.6**	**4895.6**	**642.7**	**176.6**	**12437.3**
	1246.4	*-*	*9.6*	*4895.6*	*610.7*	*176.6*	*12437.3*
Others	**4858.9**	**3055.2**	**6546.0**	**11102.2**	**13138.2**	**15176.0**	**4680.0**
	4433.9	*2121.6*	*5430.1*	*10348.6*	*13138.2*	*13966.0*	*4228.9*
Total	**18352.5**	**20448.0**	**31286.9**	**33227.8**	**43202.7**	**23738.0**	**35031.6**
	17927.5	*19514.4*	*30171.0*	*31130.2*	*43170.7*	*22058.4*	*34426.6*

Note: Figures in Italic indicate commitment made by members of Nepal Development Forum.

\# 1) Land reform : In agricalture

2) Physical Planning : In drinking water

3) Tourism and civil aviation : In industry

4) Supplies : In rural development

* First Eight Months

Source : Ministry of Finance

Table 2.9 : Foreign Aid Disbursement by Major Sources

Rs. in Million

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
1. Bilateral	**4167.6**	**4929.1**	**2771.2**	**4675.3**	**10044.4**	**9013.2**
Grant	3583.6	4171.2	2184.5	4588.3	9387.2	8947.2
Loan	584.0	757.9	586.7	87.0	657.2	66.0
2. Multilateral	**12021.4**	**12594.8**	**16026.2**	**9709.5**	**5841.1**	**9899.2**
Grant	753.0	1540.5	4568.9	2097.9	1951.9	2336.2
Loan	11268.4	11054.3	11457.3	7611.6	3889.2	7563.0
3. Total	**16189.0**	**17523.9**	**18797.4**	**14384.8**	**15885.5**	**18912.4**
Grant	4336.6	5711.7	6753.4	6686.2	11339.1	11283.4
Loan	11852.4	11812.2	12044.0	7698.6	4546.4	7629.0

Source: Financial Comptroller General Office

Table 2.10: Foreign Aid Disbursement by Sectors

Rs. in Million

Sectors	1998/99			1999/00			2000/01			2001/02			2002/03			2003/04		
	Grant	Loan	Total	Grant	Loan	Total	Grant	Loan	Total	Grant	Loan	Total	Grant	Loan	Total	Grant	Loan	Total
Agriculture, Irrigation and Forestry	**458.8**	**2925.1**	**3383.9**	**516.4**	**2693.4**	**3209.8**	**532.8**	**3,242.0**	**3,774.8**	**725.0**	**2,560.8**	**3,285.8**	**689.0**	**1,488.9**	**2,177.9**	**939.1**	**1,490.5**	**2,429.6**
Agriculture	100.5	808.9	909.4	79.0	788.3	867.3	27.5	778.8	806.3	289.5	607.2	896.7	141.3	433.2	574.5	193.8	481.1	674.9
Irrigation	192.5	2003.0	2195.5	205.3	1867.8	2073.1	347.1	2,436.8	2,783.9	183.5	1,895.9	2,079.4	245.1	996.4	1,241.5	409.1	993.1	1,402.2
Forest	76.0	113.2	189.2	172.7	37.3	210.0	96.7	26.4	123.1	227.0	0.0	227.0	302.6	18.8	321.4	305.9	10.7	316.6
Others+	89.8	0.0	89.8	59.4	0.0	59.4	61.5	0.0	61.5	25.0	57.7	82.7	0.0	40.5	40.5	30.3	5.6	35.9
Transport, Power and Communication	**1712.5**	**6179.7**	**7892.2**	**2119.8**	**6039.5**	**8159.3**	**3,222.5**	**6,012.6**	**9,235.1**	**2,312.4**	**3,593.3**	**5,905.7**	**6,693.6**	**1,080.5**	**7,774.1**	**5,727.5**	**1,843.3**	**7,570.8**
Transport	1231.0	1945.6	3176.6	1757.0	847.2	2604.2	2,068.8	1,292.5	3,361.3	1,687.4	801.3	2,488.7	2,214.0	384.5	2,598.5	1,846.7	1,117.7	2,964.4
Power	437.0	4234.1	4671.1	325.1	5192.3	5517.4	1,120.4	4,626.8	5,747.2	578.3	2,763.1	3,341.4	3,074.5	472.5	3,547.0	3,788.6	449.8	4,238.4
Communication	44.5	0.0	44.5	37.7	0.0	37.7	33.3	93.3	126.6	46.7	28.9	75.6	1,405.1	223.5	1,628.6	92.2	275.8	368.0
Industry and Commerce	**13.1**	**391.6**	**404.7**	**14.7**	**283.8**	**298.5**	**19.9**	**0.0**	**19.9**	**319.2**	**49.5**	**368.7**	**372.9**	**28.3**	**401.2**	**146.8**	**0.0**	**146.8**
Social Services	**2134.1**	**2312.3**	**4446.4**	**2998.9**	**2795.1**	**5794.0**	**2,970.1**	**2,789.4**	**5,759.5**	**3,190.8**	**1,495.0**	**4,685.8**	**3,582.6**	**1,738.4**	**5,321.0**	**4,442.5**	**4,287.6**	**8,730.1**
Education	405.7	535.8	941.5	1250.3	709.8	1960.1	1,367.7	562.0	1,929.7	1,601.3	278.5	1,879.8	1,509.2	519.4	2,028.6	1,576.2	850.4	2,426.6
Health	403.8	357.3	761.1	553.3	497.0	1050.3	491.0	145.0	636.0	379.3	0.0	379.3	611.9	36.0	647.9	507.3	10.0	517.3
Drinking Water	217.2	623.2	840.4	532.3	839.8	1372.1	523.1	782.6	1,305.7	398.2	575.4	973.6	611.4	562.8	1,174.2	1,329.0	340.7	1,669.7
Others++	1107.4	796.0	1903.4	663.0	748.5	1411.5	588.3	1,299.8	1,888.1	812.0	641.1	1,453.1	850.1	620.2	1,470.3	1,030.0	3,086.5	4,116.5
Others+++	**18.1**	**43.7**	**61.8**	**61.9**	**0.4**	**62.3**	8.1	0.0	8.1	138.8	0.0	138.8	1.0	210.3	211.3	27.5	7.6	35.1
Total	**4336.6**	**11852.4**	**16189.0**	**5711.7**	**11812.2**	**17523.9**	**6,753.4**	**12,044.0**	**18,797.4**	**6,686.2**	**7,698.6**	**14,384.8**	**11,339.1**	**4,546.4**	**15,885.5**	**11,283.4**	**7,629.0**	**18,912.4**

\+ Survey and Land Reform

++ Local Development, Supply and Other Social Service, Tourism, Labour, Hydrology and Metereology and others only.

+++ Statistics, Administrative Reform, Planning and contingencies.

Source: Financial Comptroller General Office

Table 2.11 : Foreign Loan and Debt Servicing

Rs. in Million

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05*
Direct							
Outstanding Upto Last Year	161813.6	182001.8	193793.8	214821.8	222733.9	228945.9	232779.3
Borrowing	10839.5	12362.4	11104.3	10049.5	6192.4	9597.4	6061.8
Repayments	3195.3	3679.9	4499.4	4750.1	5496.2	5765.8	3637.6
Interest Payments	1548.6	1640.1	1700.7	1816.0	2021.6	2141.7	1194.5
Net Outstanding	169457.8	190684.3	200398.7	220121.2	223430.1	232777.5	235203.5
Indirect							
Outstanding Upto Last Year	9.3	8.1	6.9	5.7	4.4	3.1	1.8
Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	1.2	1.2	1.2	1.3	1.3	1.3	1.3
Interest Payments	0.4	0.2	0.1	0.1	0.1	0.1	0.1
Net Outstanding	8.1	6.9	5.7	4.4	3.1	1.8	0.5
Total Foreign Loan							
Outstanding Upto Last Year	161822.9	182009.9	193800.7	214827.5	222738.3	228949.0	232781.1
Borrowing	10839.5	12362.4	11104.3	10049.5	6192.4	9597.4	6061.8
Repayments	3196.5	3681.1	4500.6	4751.4	5497.5	5767.1	3638.9
Interest Payments	1549.0	1640.3	1700.8	1816.1	2021.7	2141.8	1194.6
Net Outstanding	169465.9	190691.2	200404.4	220125.6	223433.2	232779.3	235204.0

* First Eight Months

Note : Outstanding may differ due to exchange rate fluctuation.

Source: Financial Comptroller General Office.

Table 2.12 : Ownership Pattern of Government Bonds and Treasury Bills

Rs. in Million

Description	1998	1999	2000	2001	2002	2003	2004	2005
		Mid July						Mid March
1 Treasury Bills								
a Nepal Rastra Bank	0.0	4696.7	2795.0	3050.5	15263.9	15816.9	9804.4	11786.4
b Commercial Banks	6062.8	10059.0	15686.0	22267.0	23029.8	31173.8	36154.3	36900.0
c Others	1055.0	2831.2	2546.0	2293.3	2812.8	1870.0	3470.9	2401.7
Sub-Total	7117.8	17586.9	21027.0	**27610.8**	**41106.5**	**48860.7**	**49429.6**	**51088.1**
2 Development Bonds								
a Nepal Rastra Bank	1526.7	1526.7	1522.5	2272.2	2266.2	1796.0	3298.3	1560.2
b Commercial Banks	1211.6	1658.6	1549.1	2184.4	5426.6	7240.9	6587.4	6587.4
c Financial Institutions	110.5	133.5	401.1	539.1	1404.0	3621.7	3903.7	3903.6
d Provident Fund	0.0	0.0	0.0	0.0	500.0	1250.0	1797.6	1797.6
e Govt. Business Enterprise	0.0	100.0	175.0	175.0	75.0	12.5	12.5	12.5
f Private Business Enterprise	1.0	1.0	0.0	10.0	11.0	101.5	289.5	289.5
g Individuals	0.0	0.0	549.1	553.1	1205.1	1165.7	925.6	2113.8
h Non-profit Organizations	452.4	452.4	65.4	228.4	202.8	870.9	734.6	734.6
Sub-Total	**3302.2**	**3872.2**	**4262.2**	**5962.2**	**11090.7**	**16059.2**	**17549.2**	**16999.2**
3 National Savings Certificate								
a Nepal Rastra Bank	663.3	368.7	764.4	343.2	20.7	63.1	404.0	110.0
b Commercial Banks	154.5	154.5	154.5	154.5	117.8	110.0	110.0	0.0
c Financial Institutions	1371.7	1111.2	771.2	987.9	608.9	574.7	211.6	209.9
d National Insurance Company	1246.1	1473.2	1331.7	713.7	788.2	579.5	525.8	420.7
e Provident Fund	1567.1	1384.9	1231.1	1475.6	1455.6	1158.1	1063.1	980.0
f Govt. Business Enterprise	823.9	973.4	805.8	573.9	725.9	480.8	380.8	300.3
g Private Business Enterprise	411.7	429.8	439.9	343.8	342.2	282.5	154.6	138.6
h Individuals	793.4	1031.2	929.0	1268.1	1059.7	551.7	463.8	453.3
i Non-profit Organizations	2854.7	3499.5	5098.9	6615.7	6417.1	5829.4	5716.1	5947.0
Sub-Total	**9886.4**	**10426.4**	**11526.5**	**12476.4**	**11536.1**	**9629.8**	**9029.8**	**8559.8**
4 Public Saving Card				-	3.1	0.0	45.8	47.6
a Personal area				-	625.0	931.1	1133.1	1131.3
Sub-Total					**628.1**	**931.1**	**1178.9**	**1178.9**
5 Special Bonds.								
a. Five years special bonds (N.R.BK)	80.2	32.8	-	0.0	0.0	0.0	0.0	0.0
b IMF Promisory Note (N.R.BK)	2992.7	3860.0	3650.0	3888.1	4171.7	4171.7	4722.3	4722.3
c. CB PASS 20 years Special Bond and others	12962.7	13891.3	13891.3	10106.2	5087.6	4992.8	4223.9	3584.4
1 Nepal Rastra Bank	10702.2	11630.8	11630.8	7845.7	2396.7	1838.0	864.0	185.0
2 Commercial Banks.	787.0	787.0	787.0	787.0	787.0	944.6	944.6	944.6
3 Employee's Provident Fund	1473.5	1473.5	1473.5	1473.5	1473.5	1473.5	1473.5	1473.5
4 Individuals	0.0	0.0	0.0	0.0	430.4	736.7	941.8	981.3
Sub-Total	**16035.6**	**17784.1**	**17541.3**	**13994.3**	**9259.3**	**9164.5**	**8946.2**	**8306.7**
6 Total								
a Nepal Rastra Bank	15965.1	22115.7	20362.7	17399.7	24122.3	23685.7	19138.8	18411.5
b Commercial Banks	8215.9	12659.1	18176.6	25392.9	29361.2	39469.3	43796.3	44432.0
c. Others	12161.0	14894.8	15817.7	17251.1	20137.2	21490.3	23198.6	23289.2
Grand Total	**36342.0**	**49669.6**	**54357.0**	**60043.7**	**73620.7**	**84645.3**	**86133.7**	**86132.7**

Note : Including CBPASS 20 years special bonds and forest compensation special Bonds.

Source: Nepal Rastra Bank

Table: 2.13 Ratio of Public Debt with Other Selected Indicators

percent

	Fiscal Year				
	1984/85	1991/92	1996/97	2001/02	2003/04
Total Foreign Debt					
GDP	19.8	47.4	47.1	52.1	47.0
Exports Income	171.3	296.6	178.9	285.6	272.5
Total Public Expenditures	109.6	268.5	260.4	274.9	252.7
Regular	316.7	716.0	546.2	453.0	398.2
Development	167.7	429.5	497.6	699.2	751.1
Revenue	235.0	524.9	434.9	436.4	374.1
Forex Reserves	369.9	288.2	269.6	206.7	179.2
Repayment of Foreign Debt					
GDP	0.4	1.1	1.2	1.6	1.6
Exports Income	3.5	7.0	4.5	8.5	9.3
Total Public Expenditures	2.3	6.3	6.6	8.2	8.6
Regular Expenditures	6.5	16.8	13.9	13.5	13.5
Development Expenditures	3.5	10.1	12.6	20.9	25.5
Revenue	4.8	12.3	11.0	13.0	12.7
Forex Reserves	7.6	6.8	6.8	6.2	6.1
Domestic Debt					
GDP	13.0	15.5	12.8	17.4	17.4
Total Public Expenditures	71.9	88.0	70.8	91.9	93.5
Regular Expenditures	207.5	234.6	148.4	151.5	147.4
Development Expenditures	109.9	140.7	135.2	233.9	277.9
Revenue	154.0	172.0	118.2	145.9	138.4
Total Public Debt					
GDP	32.7	63.0	59.9	69.6	64.4
Exports Income	283.6	393.8	227.4	381.2	373.4
Total Public Expenditures	181.5	356.4	331.2	366.9	346.2
Regular Expenditures	524.2	950.6	694.7	604.5	545.6
Development Expenditures	277.6	570.2	632.9	933.1	1029.0
Revenue	389.0	696.8	553.0	582.3	512.5
Forex Reserves	612.4	382.6	342.8	275.8	245.5
Repayment of Total Public Debt					
GDP	1.5	2.5	2.7	2.9	3.5
Exports Income	12.6	15.9	10.2	15.8	20.3
Total Public Expenditures	8.1	14.4	14.8	15.2	18.8
Regular Expenditures	23.3	38.3	31.1	25.1	29.7
Development Expenditures	12.4	23.0	28.4	38.8	55.9
Revenue	17.3	28.1	24.8	24.2	27.9
Forex Reserves	27.3	15.4	15.4	11.5	13.3

Note: Government Expenditures have been newly classified from FY 2004/05

Source : Various Economic Surveys.

Table 3.1 : Overall Urban Consumers' Price Index by Months

(Base Year 1995/96 = 100)

Mid-Months	National			Kathmandu			Hill			Terai		
	2002/03	2003/04	2004/05*	2002/03	2003/04	2004/05*	2002/03	2003/04	2004/05*	2002/03	2003/04	2004/05*
July /August	147.5	155.4	159.1	141.5	148.7	154.6	150.6	157.6	159.7	150.0	158.7	161.6
August/September	148.4	156.1	160.2	142.0	149.9	156.5	151.1	158.2	160.2	151.3	159.1	162.4
September/October	148.7	157.1	161.2	141.9	151.9	157.3	151.0	158.3	161.4	152.0	159.7	163.4
October/November	148.0	156.6	160.8	140.9	151.3	157.3	150.0	157.7	161.0	151.7	159.3	162.9
November/December	147.0	154.2	159.0	140.0	149.0	155.8	149.3	156.1	159.7	150.3	156.6	160.7
December/January	145.3	152.5	159.5	138.4	147.9	155.8	148.4	155.0	160.6	148.4	154.5	161.2
January/February	145.8	152.7	161.4	138.9	148.4	158.3	149.0	154.7	163.7	148.8	154.6	162.5
February/March	146.7	153.1	161.9	139.1	148.9	158.0	149.7	154.8	165.0	150.3	155.1	163.1
March/April	151.5	154.1		143.0	150.6		154.7	155.9		155.5	155.6	
April/May	152.1	154.1		144.5	150.8		155.8	156.3		155.3	155.3	
May/June	152.2	155.0		145.0	151.9		155.7	157.0		155.4	156.2	
June/July	153.3	156.4		145.5	152.2		156.3	157.9		156.9	158.4	
Annual	148.9	154.8		141.7	150.1		151.8	156.6		152.2	156.9	
Changes in Price Index (%) (Mid July-March)	1.5	-0.1	3.5	0.6	2.3	3.8	0.9	-1.0	4.5	2.3	-1.1	3.0
Average Inflation Rate (%) First Eight Months	3.6	5.1	3.7	2.7	6.5	4.8	2.6	4.4	3.1	4.4	4.6	3.2
Annual Inflation Rate %	4.8	4.0		3.8	5.9		3.8	3.2		5.7	3.1	

* Provisional

Source : Nepal Rastra Bank.

Table 3.2: National Urban Consumers' Price Index

(Base Year 1995/96=100)

Commodities	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	First Eight Months		%
								2003/04	2004/05*	Change
Overall Index	117.1	130.4	134.9	138.1	142.1	148.9	154.8	154.7	160.4	3.7
Food and Beverages	116.6	135.5	136.1	133.0	137.9	144.0	148.8	148.9	153.7	3.2
Grains and Cereal Products	112.5	133.5	145.0	125.1	127.7	138.2	139.8	140.8	143.5	1.9
Rice	110.1	132.9	145.8	124.4	125.8	136.6	138.0	139.2	140.8	1.1
Pulses	103.6	123.6	118.7	121.6	123.9	125.3	126.1	125.3	132.1	5.4
Vegetable	121.0	145.1	120.6	125.6	135.0	135.7	140.3	143.3	148.8	3.8
Spices	113.8	139.3	141.2	153.0	156.1	142.3	147.0	145.3	145.9	0.4
Meat, Fish and Eggs	120.6	128.5	134.0	137.8	143.5	148.2	158.3	155.2	166.6	7.3
Milk and Milk Products	120.6	132.1	136.9	144.7	146.4	147.8	150.4	150.4	150.2	-0.1
Oil and Clarified Butter	111.0	143.2	110.9	105.7	114.5	136.9	153.7	152.8	151.3	-1.0
Sugar and Related Product	112.8	118.0	113.4	126.4	133.8	124.4	123.9	118.5	151.8	28.1
Beverage	125.3	136.2	141.2	144.0	151.2	161.6	162.1	163.0	163.9	0.6
Sncks	124.0	139.8	150.8	162.9	168.2	174.1	183.2	182.5	189.1	3.6
Non-Food Items & Services	117.8	124.6	133.4	144.2	147.2	154.6	161.8	161.5	168.2	4.1
Cloths & Readymade Garments	115.2	122.1	127.8	130.6	133.8	135.7	138.1	137.7	140.9	2.3
Cloths	107.6	112.5	120.2	123.4	125.5	124.6	126.3	125.4	130.5	4.1
Readymade Garments	116.7	123.4	127.7	130.3	133.5	136.6	138.1	138.0	139.8	1.3
Footware	119.3	124.9	127.1	129.1	131.2	132.7	133.3	133.6	133.4	-0.1
Housing Materials	114.5	119.1	127.5	142.5	144.5	153.0	163.1	162.4	174.7	7.6
Fuel,Light and Water	119.6	122.9	139.2	170.2	168.6	182.6	200.8	200.6	223.7	11.5
Transport & Communications	124.7	130.2	146.5	158.4	162.4	172.2	185.2	186.0	192.4	3.4
Medical and Personal Care	119.9	131.0	139.4	147.4	156.5	163.2	169.3	168.8	171.8	1.8
Education, Educational Materials and Recreation	120.4	128.9	141.6	161.4	159.3	174.1	182.1	181.9	189.5	4.2
Cigarettes	124.6	130.2	137.4	139.9	146.3	150.5	153.2	153.2	154.8	1.0

* Provisional

Source: Nepal Rastra Bank

Table 3.3 : Cosumer's Price Index by Commodities Group

(Base Year 1995/96=100)

Commodities	National								
	Jun/July 2001/02	Feb/Mar 2002/03	% Change	Jun/July 2002/03	Feb/Mar 2003/04	% Change	Jun/July 2003/04	Feb/Mar 2004/05*	% Change
Overall Index	**144.5**	**146.7**	**1.5**	**153.3**	**153.1**	**-0.1**	156.4	161.9	**3.5**
Food & Bevarage	**141.0**	**140.9**	**-0.1**	**148.4**	**145.3**	**-2.1**	151.2	152.2	**0.7**
Grains and Cereal Products	**132.6**	**136.8**	**3.2**	**144.0**	**135.7**	**-5.8**	139.2	143.6	**3.2**
Rice	131.7	131.3	-0.3	144.0	132.3	-8.1	137.4	139.6	1.6
Pluses	128.2	121.9	-4.9	125.6	126.4	0.6	128.5	130.9	1.9
Vegitable & Fruits	138.8	119.6	-13.8	138.0	121.0	-12.3	148.0	125.8	-15.0
Spices	143.2	141.0	-1.5	147.7	152.1	3.0	153.8	144.6	-6.0
Meat, Fish & Eggs	146.6	148.7	1.4	152.7	157.1	2.9	167.0	171.4	2.6
Milk & Milk Products	147.1	147.9	0.5	149.4	150.3	0.6	150.7	150.3	-0.3
Oil & Ghee	123.5	136.4	10.4	148.3	163.3	10.1	152.2	151.1	-0.7
Sugar & related products	131.3	119.2	-9.2	116.7	126.9	8.7	140.4	159.3	13.5
Beverage	153.3	161.9	5.6	162.0	160.8	-0.7	160.3	166.0	3.6
Snacks	169.1	173.8	2.8	181.2	184.4	1.8	184.5	198.1	7.4
Non-Food Items & Services	**148.7**	**153.5**	**3.2**	**158.9**	**162.2**	**2.1**	162.5	173.2	**6.6**
Cloths & Readymade Garments	**134.0**	**136.4**	**1.8**	**135.8**	**138.4**	**1.9**	139.0	141.9	**2.1**
Cloths	124.7	125.1	0.3	124.5	127.5	2.4	128.4	131.0	2.0
Readymade Garments	134.0	137.6	2.7	136.8	138.1	1.0	138.6	141.0	1.7
Footware	132.1	132.8	0.5	133.1	132.7	-0.3	132.7	134.4	1.3
Housing Materials	146.5	150.7	2.9	161.6	163.9	1.4	164.4	184.1	12.0
Fuel, light & water	170.0	174.2	2.5	200.5	201.3	0.4	201.1	242.3	20.5
Transport & Communication	163.7	165.1	0.9	186.7	183.5	-1.7	183.7	209.4	14.0
Medical & Personal Care	159.8	163.7	2.4	164.5	170.4	3.6	170.2	172.2	1.2
Education, Educational Materials and Recreation	159.6	174.3	9.2	174.1	182.5	4.8	182.5	190.9	4.6
Cigarettes	148.2	150.8	1.8	151.1	153.1	1.3	153.1	157.0	2.5

* Provisional

Source : Nepal Rastra Bank

Table 3.3 : Cosumer's Price Index by Commodities Group

(Base Year 1995/96=100)

Commodities	Kathmandu								
	Jun/July 2001/02	Feb/Mar 2002/03	% Change	Jun/July 2002/03	Feb/Mar 2003/04	% Change	Jun/July 2003/04	Feb/Mar 2004/05*	% Change
Overall Index	138.3	139.1	0.6	145.5	148.9	2.3	152.2	158.0	3.8
Food & Bevarage	135.6	133.2	-1.8	141.2	142.5	0.9	148.5	150.2	1.1
Grains and Cereal Products	132.7	134.3	1.2	148.9	143.2	-3.8	148.7	149.6	0.6
Rice	134.1	134.0	-0.1	153.1	145.8	-4.8	152.7	151.8	-0.6
Pluses	121.8	111.5	-8.5	113.7	115.1	1.2	115.5	116.4	0.8
Vegitable & Fruits	129.4	110.4	-14.7	114.6	115.3	0.6	133.8	126.1	-5.8
Spices	139.0	133.6	-3.9	143.8	146.4	1.8	148.9	141.0	-5.3
Meat, Fish & Eggs	140.0	141.5	1.1	145.2	150.6	3.7	163.9	172.2	5.1
Milk & Milk Products	133.5	133.6	0.1	134.3	134.3	0.0	135.6	135.3	-0.2
Oil & Ghee	118.2	132.1	11.8	139.5	163.0	16.8	148.6	146.5	-1.4
Sugar & related products	135.2	126.4	-6.5	122.6	130.1	6.1	146.7	166.5	13.5
Beverage	134.9	135.9	0.7	136.3	135.8	-0.4	135.2	143.6	6.2
Snacks	156.6	157.4	0.5	168.0	174.5	3.9	174.9	183.2	4.7
Non-Food Items & Services	141.3	145.4	2.9	150.2	155.7	3.7	156.1	166.4	6.6
Cloths & Readymade Garments	133.5	134.7	0.9	134.8	140.0	3.9	141.4	146.5	3.6
Cloths	125.6	127.0	1.1	126.9	134.7	6.1	135.7	141.0	3.9
Readymade Garments	132.8	133.7	0.7	134.0	135.6	1.2	137.3	141.5	3.1
Footware	132.6	132.5	-0.1	132.7	134.4	1.3	134.4	135.3	0.7
Housing Materials	141.3	146.1	3.4	156.6	159.5	1.9	160.2	177.7	10.9
Fuel, light & water	174.0	178.8	2.8	208.8	209.0	0.1	209.1	253.4	21.2
Transport & Communication	153.0	155.7	1.8	172.6	172.7	0.1	172.7	200.3	16.0
Medical & Personal Care	164.8	167.0	1.3	166.8	173.3	3.9	173.2	173.4	0.1
Education, Educational Materials and Recreation	126.1	136.3	8.1	136.1	150.1	10.3	150.1	157.4	4.9
Cigarettes	131.1	133.6	1.9	133.4	137.1	2.8	136.7	140.2	2.6

* Provisional

Source : Nepal Rastra Bank

Table 3.3 : Cosumer's Price Index by Commodities Group

(Base Year 1995/96=100)

Commodities	Terai								
	Jun/July 2001/02	Feb/Mar 2002/03	% Change	Jun/July 2002/03	Feb/Mar 2003/04	% Change	Jun/July 2003/04	Feb/Mar 2004/05*	% Change
Overall Index	146.9	150.3	2.3	156.9	155.1	-1.1	158.4	163.1	3.0
Food & Bevarage	142.0	143.9	1.3	151.3	145.5	-3.8	151.4	151.1	-0.2
Grains and Cereal Products	134.0	140.6	4.9	143.5	132.5	-7.7	135.7	141.5	4.3
Rice	132.8	132.1	-0.5	141.8	125.7	-11.4	131.6	134.8	2.4
Pluses	130.1	127.1	-2.3	131.6	132.9	1.0	136.7	138.2	1.1
Vegitable & Fruits	140.8	122.9	-12.7	151.1	122.1	-19.2	154.3	121.1	-21.5
Spices	141.8	143.9	1.5	148.9	155.1	4.2	151.6	144.0	-5.0
Meat, Fish & Eggs	149.1	151.3	1.5	154.8	160.5	3.7	168.0	168.5	0.3
Milk & Milk Products	149.8	150.8	0.7	153.2	155.4	1.4	155.3	154.4	-0.6
Oil & Ghee	125.9	137.9	9.5	154.1	166.4	8.0	154.6	153.3	-0.8
Sugar & related products	128.1	115.1	-10.1	113.0	124.5	10.2	135.9	153.4	12.9
Beverage	154.7	169.0	9.2	169.0	166.7	-1.4	166.7	171.5	2.9
Snacks	168.3	175.3	4.2	180.1	182.4	1.3	182.7	198.2	8.5
Non-Food Items & Services	152.9	158.1	3.4	163.7	166.8	1.9	167.0	177.8	6.5
Cloths & Readymade Garments	138.7	141.6	2.1	140.2	141.9	1.2	141.9	143.8	1.3
Cloths	131.8	131.2	-0.5	130.6	130.7	0.1	131.2	132.7	1.1
Readymade Garments	138.3	143.6	3.8	141.6	143.5	1.3	143.4	144.8	1.0
Footware	134.2	134.7	0.4	135.1	132.8	-1.7	132.7	133.4	0.5
Housing Materials	148.8	153.2	3.0	164.3	166.8	1.5	167.4	188.5	12.6
Fuel, light & water	168.0	172.4	2.6	195.8	198.5	1.4	198.4	238.1	20.0
Transport & Communication	163.4	164.2	0.5	185.7	183.4	-1.2	183.8	203.1	10.5
Medical & Personal Care	157.9	162.6	3.0	163.7	171.2	4.6	170.9	173.3	1.4
Education, Educational Materials and Recreation	176.3	194.6	10.4	194.2	201.1	3.6	201.1	210.6	4.7
Cigarettes	158.6	160.6	1.3	161.4	162.2	0.5	162.4	165.5	1.9

* Provisional

Source : Nepal Rastra Bank

Table 3.3 : Cosumer's Price Index by Commodities Group

(Base Year 1995/96=100)

Commodities	Hill								
	Jun/July 2001/02	Feb/Mar 2002/03	% Change	Jun/July 2002/03	Feb/Mar 2003/04	% Change	Jun/July 2003/04	Feb/Mar 2004/05*	% Change
Overall Index	148.3	149.7	0.9	156.3	154.8	-1.0	157.9	165.0	4.5
Food & Bevarage	147.1	145.7	-1.0	152.7	149.7	-2.0	155.4	158.6	2.1
Grains and Cereal Products	128.5	130.8	1.8	137.6	132.2	-3.9	132.9	139.4	4.9
Rice	125.0	125.0	0.0	135.3	128.1	-5.3	127.9	132.3	3.4
Pluses	133.9	125.1	-6.6	128.9	127.2	-1.3	128.1	135.4	5.7
Vegitable & Fruits	148.8	125.4	-15.7	141.2	127.5	-9.7	154.6	137.7	-10.9
Spices	153.6	145.1	-5.5	151.0	153.0	1.3	167.7	152.1	-9.3
Meat, Fish & Eggs	150.5	153.6	2.1	159.4	158.3	-0.7	169.4	177.9	5.0
Milk & Milk Products	162.2	163.6	0.9	163.9	162.9	-0.6	163.0	163.9	0.6
Oil & Ghee	125.7	139.6	11.1	147.4	155.2	5.3	151.8	152.9	0.7
Sugar & related products	133.6	118.5	-11.3	116.9	127.9	9.4	142.4	163.3	14.7
Beverage	180.0	185.7	3.2	185.4	185.7	0.2	184.0	188.2	2.3
Snacks	191.9	197.0	2.7	205.7	206.2	0.2	205.0	222.2	8.4
Non-Food Items & Services	149.6	154.2	3.1	160.3	160.6	0.2	160.8	172.3	7.2
Cloths & Readymade Garments	122.2	125.2	2.5	125.4	126.6	1.0	127.3	129.5	1.7
Cloths	103.8	105.5	1.6	103.9	107.1	3.1	109.1	110.1	0.9
Readymade Garments	124.5	127.7	2.6	128.7	127.6	-0.9	127.9	129.6	1.3
Footware	125.9	128.1	1.7	128.2	129.5	1.0	130.0	135.8	4.5
Housing Materials	148.9	151.4	1.7	162.9	163.2	0.2	163.2	182.8	12.0
Fuel, light & water	168.7	171.5	1.7	199.4	196.0	-1.7	194.8	235.8	21.0
Transport & Communication	182.2	182.9	0.4	212.8	201.4	-5.4	201.4	241.2	19.8
Medical & Personal Care	156.4	161.0	2.9	163.0	163.4	0.2	163.6	167.0	2.1
Education, Educational Materials and Recreation	169.6	182.2	7.4	182.5	185.8	1.8	185.9	192.7	3.7
Cigarettes	148.0	152.7	3.2	152.8	155.0	1.4	155.2	162.2	4.5

* Provisional

Source : Nepal Rastra Bank

Table 3.4 :National Wholesale Price Index

(1999/00=100)

Groups and sub-groups	weight %	2002/03 Mid-July	2003/04 Mid-Mar	% Change	2003/04 Mid-July	2004/05* Mid-Mar	% Change
		1	2	2/1=3	4	5	5/4=6
Overall Index	*100.0*	*112.7*	*113.5*	**0.7**	***118.1***	***123.2***	**4.3**
Agricultural Commodities	49.6	*110.7*	*107.3*	**-3.1**	**115.3**	**115.5**	**0.2**
Fodgrains	16.6	97.8	90.0	**-7.9**	92.0	103.2	**12.2**
Cash Crops	6.1	117.8	99.2	**-15.8**	150.4	113.2	**-24.7**
Pulses	3.8	111.8	116.2	**4.0**	117.3	112.2	**-4.3**
Fruits and Vegetables	11.2	116.9	114.9	**-1.7**	118.5	117.3	**-1.0**
Spices	1.9	103.8	107.5	**3.6**	111.4	100.9	**-9.4**
Livestock Production	10.0	121.8	128.7	**5.7**	129.0	139.5	**8.1**
Domestic Manufactured Commodities	20.4	**110.1**	**117.4**	**6.6**	**118.7**	**122.4**	**3.1**
Food Related Products	6.1	107.6	111.7	**3.8**	113.4	112.6	**-0.7**
Beverages and Tobacco	5.7	112.0	116.1	**3.7**	117.0	124.2	**6.2**
Construction Materials	4.5	116.0	134.2	**15.7**	138.7	145.6	**5.0**
Others	4.1	104.5	109.1	**4.4**	107.2	109.2	**1.9**
Imported Commodities	30.0	**117.9**	**121.3**	**2.9**	**122.4**	**136.3**	**11.4**
Petroleium Products and Coal	5.4	158.1	158.5	**0.3**	158.5	212.0	**33.8**
Chemical Fertilizers and Chemical Goods	2.5	125.8	129.1	**2.7**	131.0	150.9	**15.2**
Transport Vehicles and Machinery Goods	7.0	103.6	110.7	**6.8**	113.4	117.0	**3.2**
Electric and electronic Goods	1.9	97.6	95.7	**-2.0**	97.2	96.7	**-0.5**
Drugs and Medicine	2.7	104.1	108.1	**3.9**	107.3	109.8	**2.3**
Textile related Products	3.1	107.0	112.2	**4.9**	114.2	112.2	**-1.8**
Others	7.5	114.2	116.6	**2.1**	117.2	124.3	**6.1**

* Provisional

Source : Nepal Rastra Bank

Table 3.5 : Average Retail Price of Some Major Commodities

Rs. Per. Kg.
Mustard Oil Rs. Per. Ltr.

Commodities	Unit	2003/04						2004/05*					
		Hill		Terai		National		Hill		Terai		National	
		Jul/Aug	Feb/Mar	Jul/Aug	Feb/Mar	Jul/Aug	Feb/Mar	Jul/Aug	Feb/Mar	Jul/Aug	Feb/Mar	Jul/Aug	Feb/Mar
Rice Coarse	Per.Kg	20.57	25.16	15.32	13.85	18.82	20.92	21.74	21.15	14.09	14.90	18.83	18.52
Wheat Flour	Per.Kg	21.24	26.60	15.51	17.17	19.33	23.06	21.72	23.99	16.14	17.20	19.37	20.97
Black Gram	Per.Kg	50.21	49.95	40.43	43.00	47.16	47.63	49.82	50.52	41.85	39.88	46.78	46.04
Rahar	Per.Kg	55.77	60.30	47.20	48.10	53.09	56.23	60.50	61.03	50.56	47.94	56.71	55.52
Mustard Oil	Per.Kg	104.35	107.97	94.68	108.50	101.33	108.14	104.28	103.81	94.48	90.21	100.55	98.08
Ghee (Purified)	Per. Lt.	228.19	229.22	233.60	254.17	229.99	238.58	232.04	216.57	255.00	257.50	241.71	235.83
Mutton	Per. Kg	192.45	207.50	195.00	200.00	193.25	205.00	201.85	208.59	203.13	207.06	202.33	207.95
Potato	Per.Kg	11.72	9.16	8.96	5.83	10.86	8.05	15.30	13.97	13.31	7.73	14.52	11.27
Dried Onion	Per.Kg	24.07	36.13	14.58	33.50	20.91	35.26	26.02	27.50	15.83	12.85	22.14	21.33
Ginger	Per.Kg	41.38	45.43	32.64	66.00	38.47	52.29	75.71	51.68	62.57	42.68	70.87	47.89

* Provisional

+ As the retail transaction of maize is minimal, maize has been ommitted from the list of price collection from FY 2000/01.

Source : Department of Agriculture , Marketing Development Division.

Table 3.6 : Monthly National Average Retail Price of Some Agricultural Commodities

Rs. Per. Kg.

Mustard Oil Rs. Per Litre

S.N.	Commodities	Year	Mid-Aug	Mid-Sep	Mid-Oct	Mid-Nov	Mid-Dec	Mid-Jan	Mid-Feb	Mid-Mar	National Average of Eight Months
1	Rice Coarse	2003/04	18.29	19.61	18.84	18.28	15.13	17.20	18.04	19.24	18.08
		2004/05*	18.83	18.22	18.81	18.59	15.78	17.34	18.13	18.52	18.03
2	Wheat Flour	2003/04	18.85	18.73	20.65	20.74	20.68	20.53	20.44	29.93	21.32
		2004/05*	19.37	19.18	21.00	20.20	18.01	20.07	21.13	20.97	19.99
3	Black Gram	2003/04	47.30	45.91	46.42	46.77	45.66	44.55	44.35	46.05	45.88
		2004/05*	46.78	44.66	44.27	44.94	44.92	46.66	47.83	46.04	45.76
4	Rahar	2003/04	53.08	51.86	52.49	53.08	53.52	53.75	53.46	53.85	53.14
		2004/05*	56.71	55.70	55.08	56.79	55.17	55.17	55.06	55.52	55.65
5	Mustard Oil	2003/04	99.46	99.48	101.98	102.84	101.97	101.76	102.91	106.52	102.12
		2004/05*	100.55	98.42	91.80	99.61	93.13	97.39	99.29	98.08	97.28
6	Ghee (Purified)	2003/04	233.16	234.26	237.01	239.16	237.13	237.71	237.74	239.05	236.90
		2004/05*	241.71	239.25	240.16	235.98	232.92	231.68	236.57	235.83	236.76
7	Mutton	2003/04	193.79	195.00	193.68	193.53	191.68	193.50	191.13	197.31	193.70
		2004/05*	202.33	202.50	200.26	200.79	201.20	201.85	199.06	207.95	201.99
8	Potato	2003/04	15.72	15.30	16.97	17.15	17.71	10.63	9.54	9.31	14.04
		2004/05*	14.52	15.37	15.34	15.93	14.07	11.07	12.25	11.27	13.73
9	Dried Onion	2003/04	19.41	21.92	18.37	22.98	20.85	16.24	13.84	13.71	18.42
		2004/05*	22.14	22.37	22.66	25.97	22.49	21.97	25.70	21.33	23.08
10	Ginger	2003/04	27.99	30.37	26.42	26.84	17.53	19.06	18.96	21.34	23.56
		2004/05*	70.87	69.56	52.00	64.81	59.00	45.01	48.97	47.89	57.26

* Preliminary

\+ As the retail transaction of maize is minimal, maize has been ommitted from the list of price collection from FY 2000/01.

Source : Department of Agriculture , Marketing Development Division.

Table 3.7 : Price Situation of Some Petroleum Products@

Price in Rs.

Items	Unit	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95+	1995/96	1996/97*	1997/98#	1998/99	1999/00	2000/01	2001/02	2002/03*	2003/04	2004/05**
Petrol	Per Lt.	19.00	20.00	25.00	29.00	29.00	29.00	31.00	34.00	39.00	40.00	40.00	46.00	52.00	54.00	54.00	62.00**
Diesel	Per Lt.	9.10	10.00	10.00	11.50	12.00	12.00	13.50	14.00	15.50	15.50#	23.00	26.50	26.50	31.00	31.00	41.00**
Kerosene	Per Lt.	6.90	8.50	8.00	9.75	9.75	8.50	9.50	9.50	10.50	10.50	13.00	17.00	17.00	24.00	24.00	34.00***
Kerosene (subsidized)															20.00	20.00	30.00***
Aircraft Turbine Oil	Per Lt.	1326.00	13.26	15.57	16.66	16.66	19.30	19.30	21.74	23.53	23.53	28.80	28.80	28.80	33.00	33.00	48.00**
Light Diesel Oil	Per K.L	-	8915.56	8915.56	10689.08	10689.08	10981.69	12211.54	15622.81	15622.81	12237.76	13505.24	22906.78	23365.51	28094.82	28094.82	-
Furnace Oil	Per K.L	6024.70	7896.82	7896.82	7896.82	7896.82	8980.58	10922.33	11582.52	11938.22	10567.22	12760.72	17359.62	23615.62	23615.62	23615.62	23615.62
L. P. Gas	Per M.T.	-	7160.00	8530.00	11622.93	16024.00	16024.00	16024.00	15674.00	19858.11	19858.11	17816.26	22241.45	30346.80	37487.74	37487.74🛠	43570.28***

@ Prices of Kathmandu Valley only

+Price in Mid - April 1995

Since Mid-Jan. 1998

*2060/1/25

** 2061/9/26

*** 2061/11/1

🛠 Since 2060.07.20

Source: Nepal Oil Corporation

Table 3.8 : Supply Position of Some Petroleum Products

Main Item of Petrolium	Unit	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	First Eight Months	
																	2003/04	2004/05
Petrol	In K.L.	14708	17241	26780	29910	31056	34942	41191	44889	46939	49994	55589	59245	63578	68482	67965	46058	48038
Diesel	In K.L.	103273	106438	166552	179900	196047	227226	250504	257235	300604	315780	310561	326060	287657	301672	302644	181818	182489
Kerosene	In K.L.	92672	75939	122458	149237	162077	180536	208720	243005	282026	294982	331120	316381	390113	351696	313127	208033	148830
Light Diesel Oil	In K.L.	9327	16541	2542	1530	-	4191	4375	2017	967	547	4005	3418	2413	610	590	556	0
Furnace Oil	In K.L.	-	-	11062	20222	27319	31567	18449	16858	27776	33860	26876	20999	18255	14502	12672	6405	2215
Air Fuel	In K.L.	-	-	24836	29210	30250	37536	40621	47688	51412	55549	56849	63130	47274	53546	64394	44653	45300
L.P. Gas	In M.ton	-	-	-	-	-	-	18400	21824	22961	25019	30627	40102	48757	56079	66142	43871	50835

Source: Nepal Oil Corportation

Table 4.1 : Monetary Survey

S. N.	Description	Mid-July													
		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1	Net Foreign Assets	6203.5	9338.9	16151.7	20792.4	29125.0	36218.1	37085.5	37703.6	40191.1	55572.8	65027.6	80467.5	87798.0	88419.1
2	Net Domestic Assets	20401.6	22213.5	21560.8	24878.2	29197.5	33559.0	43899.2	54948.6	63529.5	70889.8	87772.6	105653.4	126656.1	135569.2
3	Domestic Credit	26584.3	29661.6	34491.4	41609.1	49404.9	57828.1	72184.7	89265.7	100916.7	115812.1	134832.7	158001.2	187855.4	207323.0
4	Net Claims on Government	12345.1	13940.2	16821.4	19001.6	23446.2	23482.0	25191.2	27531.7	29229.4	31753.1	34918.2	38242.6	49191.1	59576.6
5	Claims on Govt. Enterprises	3882.2	4033.8	3561.3	4827.3	5749.8	4739.2	5050.4	6209.3	7028.6	7228.9	9114.0	10310.9	11906.4	14431.1
	(a) Financial	1714.3	2005.4	2225.4	2788.0	3291.7	3227.2	3821.5	4251.0	5431.6	6170.4	7547.3	8502.8	9683.4	11355.1
	(b) Non-Financial	2167.9	2028.4	1335.9	2039.3	1458.1	1512.0	1228.9	1958.3	1597.0	1058.5	1566.7	1808.1	2223.0	3076.0
6	Claims on Private Sector	10357.0	11687.6	14108.7	17780.2	21208.9	29606.9	41943.1	55524.7	64658.7	76830.1	90800.5	109447.6	126757.9	133315.3
7	Net Capital & Other Items	6182.7	7448.1	12930.6	16730.9	20207.4	24269.1	28285.5	34317.1	37387.2	44922.2	47060.1	52347.8	61199.3	71753.8
8	**Money Supply, M2 (9+10)**	**26605.1**	**31552.4**	**37712.5**	**45670.5**	**58322.5**	**69777.1**	**80984.7**	**92652.2**	**103720.6**	**126462.6**	**152800.1**	**186120.9**	**214454.1**	**223988.3**
9	**Money Supply, M1**	**11775.4**	**14223.0**	**16283.6**	**19457.7**	**23833.0**	**28510.4**	**32985.4**	**36498.0**	**38460.3**	**45163.8**	**51062.5**	**60979.8**	**70576.9**	**77156.2**
	(a) Currency	7946.6	9718.2	11654.5	13639.7	16313.0	19659.7	22493.9	25046.4	27333.7	30893.2	34984.3	42143.0	48295.1	55658.3
	(b) Demand Deposits	3828.8	4504.8	4629.1	5818.0	7520.0	8850.7	10491.5	11451.6	11126.6	14270.6	16078.1	18836.8	22281.8	21497.9
10	Fixed & Savings Deposits ++	14829.7	17329.4	21428.9	26212.8	34489.5	41266.7	47999.3	56154.2	65260.3	81298.8	101737.7	125141.1	143877.2	146832.1
11	**Change in Money Supply (%)**														
	M1	**22.7**	**20.8**	**14.5**	**19.5**	**22.5**	**19.6**	**15.7**	**10.6**	**5.4**	**17.4**	**13.1**	**19.4**	**15.7**	**9.3**
	M2	**24.2**	**18.6**	**19.5**	**21.1**	**27.7**	**19.6**	**16.1**	**14.4**	**11.9**	**21.9**	**20.8**	**21.8**	**15.2**	**4.4**

* Provisional

** Estimate

++ Includes margin deposites

Source : Nepal Rastra Bank.

Table 4.2 : Determinants of Money Supply

Rs.in Million

S. N.	Description	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04*	Mid-March 2003/04	Mid-March 2004/05**
1	Net Foreign Assets @	3135.4	6812.8	4640.7	8332.6	7093.1	867.4	618.1	2487.5	15381.7	9454.8	15439.9	7330.5	621.1	2988.0	17394.0	13059.0	7569.0
2	Net Domestic Assets	1811.9	-652.7	3317.4	4319.3	4361.5	10340.2	11049.4	8580.9	7360.3	16882.8	17880.8	21002.7	8913.1	18936.0	14001.0	14236.0	23708.0
3	Domestic Credit	3077.3	4829.8	7481.6	7853.0	8587.5	14841.2	16011.0	11651.0	14895.3	19020.7	23168.5	29854.2	19452.0	21121.0	22646.0	17170.0	35005.0
4	Net Claims on Government	1595.1	2881.2	2180.2	4444.6	35.8	1709.2	2340.5	1697.7	2523.7	3165.1	3324.4	10415.0	10386.0	3248.0	-511.0	-5560.0	4479.0
5	Claims on Govt. Enterprises	151.6	-472.5	1266.0	-77.5	-10.6	311.2	1158.9	819.3	200.3	1885.1	1197.0	1611.5	2508.7	231.0	1597.0	2478.0	1638.0
	Financial	291.1	220.0	562.6	503.7	-64.5	594.3	429.5	1180.6	738.8	1376.9	955.6	1180.6	1655.7	474.0	1515.0	2998.0	65.0
	Non-financial	-139.5	-692.5	703.4	-581.2	53.9	-283.1	729.4	-361.3	-538.5	508.2	241.4	414.9	853.0	-243.0	82.0	-520.0	1572.0
6	Claims on Private Sector	1330.6	2421.1	4035.4	3485.9	8562.3	12820.8	12511.6	9134.0	12171.4	13970.5	18647.1	17310.3	6557.4	17642.0	21561.0	20252.0	28888.0
7	Net Capital & Other Items @	1265.4	5482.5	4164.3	3533.6	4226.0	4501.0	4961.6	3070.1	7535.0	2137.9	5287.6	8134.1	10539.0	2185.0	8645.0	2934.0	11296.0
8	Money Supply,M2 (9+10)	4947.3	6160.1	7958.0	12652.0	11454.6	11207.6	11667.5	11068.4	22742.0	26337.5	33320.8	28533.2	9534.2	21924.0	31395.0	27295.0	31277.0
9	Money Supply, M1	2447.6	2060.6	3174.1	4375.3	4677.4	4475.0	3512.6	1962.3	6703.5	5898.6	9917.4	9797.1	6579.3	6598.0	10216.0	6694.0	13327.0
	(a) Currency	1771.6	1936.3	1985.2	2673.3	3346.7	2834.2	2552.5	2287.3	3559.5	4091.1	7158.7	6352.1	7363.2	1227.0	6333.0	3632.0	5611.0
	(b) Demand Deposits	676.0	124.3	1188.9	1702.0	1330.7	1640.8	960.1	-325.0	3144.0	1807.5	2758.7	3445.0	-783.9	5371.0	3883.0	3062.0	7715.0
10	Fixed and Savings Deposits +	2499.7	4099.5	4783.9	8276.7	6777.2	6732.6	8154.9	9106.1	16038.5	20438.9	23403.4	18736.1	2954.9	15325.0	21179.0	20601.0	17951.0

* Provisional

** Estimate

+ Includes margin deposits.

@ Exchange valuation gain/loss has not been adjusted.

Source : Nepal Rastra Bank.

Table 4.3 : Sources of Funds and Their Use by Commercial Banks

Rs. in Million

	Purpose	Mid-July																Mid-March	
		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*	2004	2005**
1	**Total Deposits**	**18954.6**	**21885.0**	**26687.5**	**33328.6**	**43543.1**	**52168.5**	**61045.5**	**71207.5**	**81542.4**	**102401.6**	**126773.6**	**154530.3**	**181203.4**	**183728.1**	**202734.0**	**232576.0**	**216833.0**	**242345.0**
2	Demand Deposits	3924.0	4293.7	4782.4	6451.2	8302.1	10156.8	12014.4	13215.5	12917.4	16409.4	17777.6	20307.6	24629.2	23749.2	28299.0	33039.0	25617.0	32848.1
3	Savings Deposits	4321.8	5218.2	6671.5	8634.9	12923.3	17460.7	22765.9	25887.3	29783.1	36884.4	50140.8	65703.6	80987.8	83817.7	97236.0	114106.0	106408.0	125384.3
4	Fixed Deposits	10044.7	11761.5	14382.6	17326.4	21414.7	23358.7	24811.8	30155.5	36974.7	47300.5	56844.3	66516.2	73488.8	74373.7	75348.0	83268.0	82625.0	81286.3
5	Margin Deposits	664.1	611.6	851.0	916.1	903.0	1192.3	1453.4	1949.2	1867.2	1807.3	2010.9	2002.9	2097.6	1787.5	1850.0	2163.0	2184.0	2825.8
6	Borrowings from Nepal Rastra Bank	160.1	50.5	37.2	34.0	47.8	29.2	15.4	364.6	6.5	5.5	5.5	45.1	5.5	1043.7	947.0	478.0	114.0	608.8
7	Foreign Liabilities	38.8	0.5	11.4	10.4	0.6	0.5	-	-	-	-	21.7	0.0	0.0	228.4	134.0	521.0	1973.0	34.9
8	Net Other Sources	2418.5	2793.7	5353.4	7089.8	8164.5	10943.1	12634.5	18143.2	21211.4	22439.2	22878.2	26770.3	30354.3	35271.0	39337.0	45044.0	44011.0	54075.0
9	Sources = Uses	21572.0	24729.7	32089.5	40462.7	51756.0	63141.3	73695.4	89715.3	102760.3	124846.3	149609.0	181345.7	211563.2	220271.2	243153.0	278620.0	262931.0	297063.0
10	**Liquid Funds**	**4307.5**	**5812.6**	**7679.0**	**8304.0**	**15113.3**	**18905.0**	**17512.9**	**20700.9**	**24248.6**	**31048.6**	**37710.2**	**45160.9**	**50643.8**	**46951.9**	**41330.0**	**50385.0**	**43343.0**	**44027.0**
11	Cash in Hand	761.3	808.2	953.9	1147.0	1360.1	1859.4	2037.6	2446.4	2837.3	2889.7	3310.4	3507.0	4116.9	4908.9	4723.0	4284.0	3878.0	4958.0
12	Balance with Nepal Rastra Bank @	2032.9	2522.0	3528.7	3704.3	+9515.1	+11003.9	+8322.0	+9036.6	+11017.3	12704.0	13340.8	15426.6	18363.4	18167.8	16519.0	24867.0	19018.0	16032.0
13	Foreign Currency in Hand	199.8	296.8	353.9	414.7	335.6	459.5	455.8	592.9	627.5	750.7	692.6	632.1	665.9	616.9	722.0	435.0	601.0	571.0
14	Balance held Abroad	1313.5	2185.6	2842.5	3038.0	3902.5	5582.2	6697.5	8625.0	9766.5	14704.2	20366.4	25595.2	27497.6	23258.3	19366.0	20799.0	19846.0	22466.0
15	**Loans & Advances**	**17264.5**	**18917.1**	**24410.5**	**32158.7**	**36642.7**	**43236.3**	**56182.5**	**69014.4**	**78511.7**	**93797.7**	**111968.8**	**136184.8**	**160919.4**	**173319.2**	**201822.0**	**228235.0**	**219588.0**	**253036.5**
16	Claims on Government	3771.4	3582.4	7343.1	9198.6	9998.0	8894.1	8197.8	7548.4	7746.2	10280.7	12659.1	18176.7	25393.0	29143.8	39469.0	43796.0	42662.0	44435.9
17	Claims on Govt. Enterprises	3072.7	3254.9	2830.7	4079.5	4189.9	4243.9	4318.7	5060.0	5533.1	5607.1	7463.1	8684.3	10225.4	12760.5	13104.0	14691.0	14378.0	16203.5
18	Claims on Private Sector	10079.8	11527.2	13553.1	17633.2	21115.8	29653.0	42379.2	54584.8	63169.7	75643.9	89433.1	107343.1	123417.4	130088.4	148073.0	168693.0	161484.0	191445.8
19	Foreign Bills Purchase & Discounted	340.6	552.6	683.6	1247.4	1339.0	1445.3	1286.8	1821.2	2062.7	2266.0	2413.5	1980.7	1883.6	1326.5	1176.0	1055.0	1064.0	951.3
20	**Loans & Advances Deposits Ratio (%)#**	**71.2**	**70.1**	**64.0**	**68.9**	**61.2**	**67.7**	**78.6**	**86.3**	**86.8**	**81.6**	**78.3**	**76.4**	**74.8**	**78.5**	**80.1**	**79.3**	**81.6**	**86.1**

\# Not including claims on Government

@ Includes transfer amount from FY 1995/96.

* Provisional

** Estimate

\+ Including Nepal Rastra Bank Bond.

Source: Nepal Rastra Bank.

Table 4.4 : Loan Disbursement by Commercial Banks+

Rs. in Million

	Fiscal year		First Eight Months	
	2002/03	2003/04*	2003/04	2004/05**
Agriculture ***	3734.5	4901.9	5097.5	5316.1
Mines	399.4	336.6	423.7	377.7
Production	42910.5	47368.6	45936.0	53164.4
Construction	2729.2	4986.7	3933.7	5596.8
Metal, productions, machinery & electrical tools & fittings	1430.1	1450.7	1267.4	1628.2
Transportation, equipment production and fittings	1359.8	2776.7	2306.2	3116.4
Communication and public services	6523.4	7963.6	7336.6	8938.0
Wholesalers & retailers	27555.3	31728.9	29738.8	35611.1
Finance, insurance and fixed assets	4250.3	4857.0	4280.7	5451.3
Service industries	12212.5	14216.9	13424.1	15956.4
Consumable	3364.6	4400.0	3596.5	4938.4
Local government	1.5	2.3	2.3	2.6
Other	14283.5	12371.5	12651.7	13885.2
Total	**120754.6**	**137361.4**	**129995.2**	**153982.6**

* Provisional

** Estimated

+ Sectoral classification as per new formats

*** Excluding the amount deposited by commercial bank branches of Agricultural Development Bank to their Head Office

Table 4.5 : Distribution of Loans by Agriculture Development Bank and Employee's Provident Fund

Rs. in Million

Description	1989/90	1990/91**	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	First Eight Months	
																2003/04	2004/05 *
1. Agricultural Development Bank.																	
(a) Loan Disbursement	1170.8	1095.1	1469.0	1985.3	2887.9	3433.7	3896.8	4023.4	4369.8	5562.4	7130.0	8037.0	8888.9	10115.2	10148.9	5915.0	6915.4
(b) Realisation	754.9	741.3	1142.5	1383.9	1832.8	2165.0	2788.1	2873.0	3463.5	4233.9	5341.3	6065.0	6997.5	8173.3	9050.3	5064.0	5824.2
(c) Loan Disbursement ,Net	415.9	343.8	326.5	601.4	1055.1	1268.7	1108.7	1150.4	906.3	1328.5	1796.4	1972.0	1891.4	1941.9	1098.6	851.0	1091.2
(d) Outstanding Loan	2984.7	3328.8	3655.3	4256.7	5311.8	6580.5	7689.2	8839.6	9745.9	11094.4	12890.7	14855.1	16673.8	18615.7	19714.2	19102.0	20805.4
3. Employee's Provident Fund																	
(a) Loan Disbursement	454.1	193.4	53.5	48.7	158.6	826.6	936.1	510.7	751.9	1054.0	1651.3	2524.9	3616.4	5455.1	4775.0	2600.5	4445.9
(b) Realisation	84.6	0.0	32.7	59.4	91.3	98.7	206.3	146.7	525.8	315.0	293.3	585.9	564.4	899.7	1569.1	933.6	1010.7
(c) Loan Disbursement ,Net	369.5	96.0	20.8	-10.7	67.3	727.9	729.8	364.0	226.1	739.0	1358.0	1939.0	3052.0	4555.4	3205.9	1666.9	3435.2
(d) Outstanding Loan	1580.2	289.4	310.2	299.5	366.8	1094.7	1824.5	2188.5	2482.0	3221.0	4579.0	6518.0	9570.3	14125.4	17321.9	15531.2	20757.1
4. Total																	
(a) Loan Disbursement	1624.9	1288.5	1522.5	2034.0	3046.5	4260.3	4832.9	4534.1	5121.7	6616.4	8781.3	10561.9	12505.3	15570.3	14923.9	8515.5	11361.3
(b) Realisation	839.5	741.3	1175.2	1443.3	1924.1	2263.7	2994.4	3019.7	3989.3	4548.9	5634.6	6650.9	7561.9	9073.0	10619.4	5997.6	6834.9
(c) Loan Disbursement ,Net	785.4	439.8	347.3	590.7	1122.4	1996.6	1838.5	1514.4	1132.4	2067.5	3154.4	3911.0	4943.4	6497.3	4304.5	2517.9	4526.4
(d) Outstanding Loan	4564.9	3618.2	3965.5	4556.2	5678.6	7675.2	9513.7	11028.1	12227.9	14315.4	17469.7	21373.1	26244.1	32741.1	37036.1	34633.2	41562.5

* Estimate
** Adjusted as per change in accounting system of EPF
\+ Provisional Cash Only
Source : N.I.D.C. , ADB and EPF.

Table 4.6 : Sources and Uses of Funds of Development Banks

Rs. in Million.

Description	2001/02	2002/03	2003/04	First Six months	
				2003/04	2004/05*
Liabilities					
Capital Funds+	2143.0	3464.0	2847.0	2890.0	-5130.0
Deposits	3869.0	4860.0	3193.0	4648.0	5731.0
Borrowing	5932.0	5889.0	5961.0	5130.0	5184.0
Other Liabilities	25898.0	32797.0	35900.0	45831.0	41680.0
Assets= Liabilities	37842.0	47010.0	47901.0	58499.0	47465.0
Assets					
Liquide Funds	3629.0	4149.0	4054.0	4252.0	4540.0
Investment	2792.0	2379.0	2312.0	3974.0	1893.0
Loans and Advances	27555.0	31027.0	31905.0	34341.0	27971.0
Other Assets	3866.0	9455.0	9630.0	15932.0	13062.0
No of Banks	-	10	14	10	18

* Provisional

+ Profit and Loss adjusted.

Source: Nepal Rastra Bank.

Table 4.7 : Sources and Uses of Funds of Finance Companies

Rs. in Million.

Description	1999/00	2000/01	2001/02	2002/03	2003/04	First Six months	
						2003/04	2004/05*
Liabilities							
Capital Funds+	1733.0	2263.0	2929.0	3683.0	4111.0	3600.0	3980.0
Deposits	9749.0	11654.0	13454.0	16510.0	19474.0	17945.0	21154.0
Borrowing	176.0	215.0	245.0	134.0	1313.0	796.0	1328.0
Other Liabilities	1392.0	1665.0	1825.0	1789.0	2363.0	2439.0	2785.0
Assets= Liabilities	13050.0	15797.0	18453.0	22116.0	27261.0	24780.0	29247.0
Assets							
Liquide Funds	1729.0	2049.0	2862.0	2674.0	5049.0	2779.0	3721.0
Investment	1129.0	1268.0	1624.0	2392.0	1865.0	2576.0	2547.0
Loans and Advances	9063.0	10865.0	11950.0	14474.0	17834.0	16366.0	19963.0
Other Assets	1129.0	1615.0	2017.0	2576.0	2513.0	3059.0	3016.0

* Provisional

+ Profit and Loss adjusted.

Source: Nepal Rastra Bank.

Table 4.8 : Sources and Uses of Funds of Financial Cooperatives

Rs. in Million.

Description	1999/00	2000/01	2001/02	2002/03	2003/04	First Six months	
						2003/04	2004/05*
Liabilities							
Capital Funds+	161.0	212.0	252.0	265.0	205.0	287.0	257.0
Deposits	1073.0	1425.0	1571.0	1924.0	1667.0	2038.0	1663.0
Borrowing	62.0	67.0	59.0	66.0	41.0	42.0	41.0
Other Liabilities	164.0	330.0	413.0	395.0	428.0	497.0	391.0
Assets= Liabilities	1460.0	2034.0	2295.0	2650.0	2341.0	2864.0	2352.0
Assets							
Liquide Funds	265.0	354.0	449.0	389.0	413.0	370.0	379.0
Investment	138.0	181.0	189.0	252.0	182.0	279.0	168.0
Loans and Advances	875.0	1221.0	1313.0	1463.0	1298.0	1575.0	1385.0
Other Assets	182.0	278.0	344.0	546.0	448.0	640.0	420.0

* Provisional

\+ Profit and Loss adjusted.

Source: Nepal Rastra Bank.

Table 4.9 : Sources and Uses of Funds of Citizen Investment Trust

Rs. in Million.

Description	2000/01	2001/02	2002/03	2003/04	2004/05*
Liabilities					
Capital Funds+	49.0	54.0	61.0	81.0	81.0
Deposits	987.0	1429.0	2750.0	4039.0	5665.0
Borrowing	0.0	0.0	0.0	0.0	0.0
Other Liabilities	95.0	223.0	215.0	693.0	162.0
Assets= Liabilities	1131.0	1706.0	3026.0	4813.0	5908.0
Assets					
Liquide Funds	47.0	121.0	418.0	1166.0	744.5
Investment	752.0	1126.0	1858.0	2866.0	3834.5
Loans and Advances	187.0	323.0	514.0	488.0	934.5
Other Assets	145.0	136.0	236.0	292.0	394.1

* Provisional

+ Profit and Loss adjusted.

Source: Nepal Rastra Bank.

Table 6.1 : Direction of International Trade

Rs. in Million

Description	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	First Eight Months	
																2003/04	2004/05*
Export F.O.B.	**5156.2**	**7387.5**	**13706.5**	**17266.5**	**19293.4**	**17639.2**	**19881.1**	**22636.5**	**27513.5**	**35676.3**	**49822.7**	**55654.1**	**46944.8**	**49930.6**	**53910.7**	**36119.5**	**36948.5**
India	602.5	1552.2	1450.0	1621.7	2408.9	3124.3	3682.6	5226.2	8794.4	12530.7	21220.7	26030.2	27956.2	26430.0	30777.1	20599.0	24900.3
Other countries	4553.7	5835.3	12256.5	15644.8	16884.5	14514.9	16198.5	17410.3	18719.1	23145.6	28602.0	29623.9	18988.6	23500.6	23133.6	15520.5	12048.2
Import C.I.F.	**18324.9**	**23226.5**	**31940.0**	**39205.6**	**51570.8**	**63679.5**	**74454.5**	**93553.4**	**89002.0**	**87525.3**	**108504.9**	**115687.2**	**107389.0**	**124352.1**	**136277.1**	**86506.0**	**81548.1**
India	4674.5	7323.1	11245.5	12542.1	17035.4	19615.9	24398.6	24853.3	27331.0	32119.7	39660.1	45211.0	56622.1	70924.2	78739.5	48276.0	51870.9
Other countries	13650.4	15903.4	20694.5	26663.5	34535.4	44063.6	50055.9	68700.1	61671.0	55405.6	68844.8	70476.2	50766.9	53427.9	57537.6	38230.0	29677.2
Trade Balance	**-13168.7**	**-15839.0**	**-18233.5**	**-21939.1**	**-32277.4**	**-46040.3**	**-54573.4**	**-70916.9**	**-61488.5**	**-51849.0**	**-58682.2**	**-60033.1**	**-60444.2**	**-74421.5**	**-82366.4**	**-50386.5**	**-44599.6**
India	-4072.0	-5770.9	-9795.5	-10920.4	-14626.5	-16491.6	-20716.0	-19627.1	-18536.6	-19589.0	-18439.4	-19180.8	-28665.9	-44494.2	-47962.4	-27677.0	-26970.6
Other countries	-9096.7	-10068.1	-8438.0	-11018.7	-17650.9	-29548.7	-33857.4	-51289.8	-42951.9	-32260.0	-40242.8	-40852.3	-31778.3	-29927.3	-34404.0	-22709.5	-17629.0
Total volume of Trade	**23481.1**	**30614.0**	**45646.5**	**56472.1**	**70864.2**	**81318.7**	**94335.6**	**116189.9**	**116515.5**	**123201.6**	**158327.6**	**171341.3**	**154333.8**	**174282.7**	**190187.8**	**122625.5**	**118496.6**
India	5277.0	8875.3	12695.5	14173.8	19444.3	22740.2	28081.2	30079.5	36125.4	44650.4	60880.8	71241.2	84578.3	97354.2	109516.6	68875.0	76771.2
Other countries	18204.1	21738.7	32951.0	42308.3	51419.9	58578.5	66254.4	86110.4	80390.1	78551.2	97446.8	100100.1	69755.5	76928.5	80671.2	53750.5	41725.4
% Share in Total Trade	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
India	22.5	29.0	27.8	25.1	27.4	28.0	29.8	25.9	31.0	36.2	38.5	41.6	54.8	55.9	57.6	56.2	64.8
Other countries	77.5	71.0	72.2	74.9	72.6	72.0	70.2	74.1	69.0	63.8	61.5	58.4	45.2	44.1	42.4	43.8	35.2

* Provisional
Petroleum import from the FY 1999/00 has been inculded in the import from India.
Source : Nepal Rastra Bank .

Table 6.2 : Commodity Trade by SITC Group

Rs. in million

SITC Group	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	First eight months	
																2003/04	2004/05*
Export	**5106.2**	**7387.5**	**13705.8**	**17266.5**	**19293.4**	**17639.2**	**19881.1**	**22636.5**	**27513.5**	**35676.3**	**49822.7**	**55654.1**	**46944.8**	**49930.6**	**53910.7**	**36119.5**	**36948.5**
Food & live Animals	616.0	986.5	1941.6	1862.9	1163.4	1562.7	1946.6	2661.7	3123.2	3724.5	4240.4	4776.6	5094.2	6100.9	6276.9	4138.4	4312.1
Tobacco & Beverage	4.1	11.2	13.0	13.2	12.8	11.3	9.7	14.9	22.8	50.0	117.2	75.6	145.7	138.7	55.2	13.0	19.5
Crude Materials & Inedibles	238.6	312.1	437.4	531.8	432.4	485.5	768.7	663.5	487.1	469.9	561.3	751.1	624.5	800.1	714.3	466.0	605.2
Mineral Fuels & Lubricants	-	-	-	0.3	-	-	1.3	1.4	20.9	0.5	2.2	1.3	1.6	5.5	14.5	14.5	3.7
Animals & Vegetable Oil & Fats	20.1	201.9	160.3	176.4	138.4	214.1	251.3	312.6	2136.3	3597.2	3229.7	4104.0	7421.4	4278.7	3375.7	2879.0	3139.0
Chemicals & Drugs	10.9	17.7	19.6	28.7	212.1	302.3	640.4	1353.4	1968.5	2804.0	3933.2	4041.7	3308.3	3279.0	3865.9	2426.7	2439.0
Classified by Materials	2643.1	4312.3	7557.2	10298.3	10912.6	9260.3	10455.7	11028.6	11637.1	13539.6	15838.7	18909.3	17394.9	17794.7	23601.7	14814.1	17508.5
Machinery & Transport Equipment	0.1	0.1	0.3	1.2	6.4	37.1	35.2	59.6	58.0	97.8	390.8	343.6	364.9	208.2	619.5	535.2	115.3
Miscellaneous Manufactured Articles	1573.3	1545.7	3576.4	4352.3	6415.1	5765.8	5772.2	**6540.3**	8059.6	11392.8	21509.2	22650.9	12589.3	17281.5	15380.1	10825.7	8797.5
Not Classified	-	-	-	1.4	0.2	0.1	-	0.5	0.0	0.0	0.0	0.0	0.0	43.3	6.9	6.9	8.7
Import	**18324.9**	**23226.3**	**31940.0**	**39205.6**	**51570.8**	**63679.5**	**74454.5**	**93553.4**	**89002.0**	**87525.3**	**108494.9**	**115687.2**	**107389.0**	**124352.1**	**136277.1**	**86506.0**	**81548.1**
Food & live Animals	1607.7	1820.5	2947.5	3024.7	4084.8	4464.0	4785.8	5400.5	4929.0	7619.5	10839.0	5994.4	6333.2	9370.5	8554.0	5884.5	5356.6
Tobacco & Beverage	226.6	257.0	288.3	469.3	367.6	500.9	508.6	590.7	799.5	846.1	906.5	906.1	717.1	792.2	1026.8	663.7	683.8
Crude Materials & Inedibles	1571.1	2013.4	3415.7	3977.0	3122.3	3347.9	4865.9	5487.1	6976.2	6246.7	7012.4	7559.6	6732.7	8479.3	10550.6	6800.4	5555.0
Mineral Fuels & Lubricants	1515.5	2278.3	3644.7	3834.1	4837.0	4717.1	5549.3	7160.3	9537.3	8737.5	9097.9	11269.2	15200.8	19944.1	21904.1	13390.5	16957.4
Animals & Vegetable Oil & Fats	476.3	741.7	801.8	1085.1	1457.2	2056.0	2830.9	2327.6	2025.8	3329.0	4446.0	5589.2	7887.5	7750.5	8634.4	5857.9	2480.4
Chemical & Drugs	2823.9	3051.1	4615.3	5265.0	5541.4	7193.2	8686.8	8504.2	11077.3	12476.4	14474.2	12941.9	12380.9	14319.5	16544.9	10569.6	10665.7
Classified by Materials	5065.0	5950.8	8599.9	11633.1	19147.4	25300.6	28129.7	44741.9	32601.6	25638.0	34420.0	41188.0	32889.1	34888.2	36510.5	23742.4	20695.4
Machinery & Transport Equipment	3790.4	5990.8	5892.5	7701.7	10037.5	13027.6	15301.1	13794.9	16734.7	18063.7	20547.9	23027.8	19513.8	20702.1	25694.2	14713.2	14370.2
Miscellaneous Manufactured Articles	1247.8	1120.7	1547.6	2185.9	2884.5	3057.2	3794.6	4016.4	3974.0	4302.4	6682.8	7210.2	5670.3	6582.7	5103.8	3494.4	4244.4
Not Classified	0.6	2.0	186.7	29.7	91.1	15.0	1.8	1529.8	346.6	266.0	68.2	0.8	62.1	1523.0	1753.8	1389.4	539.2

* Provisional
Source: Nepal Rastra Bank

Table 6.3 : Export of Major Commodities to India

Rs. in million

Description	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	First eight months *	
																2003/04	2004/05
Rice (Husked)	-	-	-	-	-	-	-	-	8.0	74.1	0.0	16.6	0.0	0.0	0.0	0.0	0.0
Maize	0.1	5.8	-	-	-	-	-	-	4.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Mustard & Linseeds	3.7	5.8	72.7	149.6	91.3	64.8	48.0	35.2	9.5	19.2	29.3	37.9	10.2	46.7	37.6	37.1	18.9
Herbs	4.5	21.3	22.4	24.0	28.1	41.7	40.5	52.6	50.9	31.4	61.2	71.5	84.1	111.9	91.5	56.4	85.2
Ghee	7.8	27.6	22.6	43.6	46.5	49.6	35.4	90.0	167.0	39.2	-	470.7	60.0	54.6	76.5	54.9	42.9
Dried Ginger	9.9	29.4	21.9	30.7	23.1	76.9	47.2	46.5	41.5	41.1	59.5	61.0	80.5	108.4	78.0	55.8	41.5
Pulses	2.7	77.0	14.3	6.3	183.0	401.5	314.7	510.7	198.8	281.2	969.7	713.5	1005.7	880.4	579.1	488.7	497.2
Kutch	-	5.8	10.1	5.6	4.8	3.2	4.2	6.2	7.4	11.3	10.2	12.6	8.8	11.2	13.2	9.3	8.4
Live Animals	73.1	178.1	158.6	152.9	173.4	181.2	176.3	183.4	163.2	54.1	71.9	45.8	56.2	62.5	55.1	39.7	23.6
Flour	0.2	4.5	1.7	-	-	-	0.3	3.9	8.3	13.4	0.0	60.8	44.4	7.1	32.2	20.0	0.4
Ginger	29.2	73.4	84.6	73.9	73.8	90.9	137.3	140.7	167.2	151.7	161.5	161.8	207.9	315.4	287.1	258.5	117.8
Oil Cake	22.6	78.1	67.7	99.7	110.0	105.6	103.4	104.1	124.4	165.0	222.4	212.8	302.6	311.1	324.1	235.6	195.5
Catechu	11.0	93.1	101.0	46.5	4.6	7.5	27.1	55.4	69.7	117.3	199.3	150.0	180.4	145.4	162.5	95.6	264.4
Rice bran Oil	5.1	136.4	94.0	120.3	99.5	121.2	129.3	106.2	95.4	106.7	45.0	124.7	90.6	210.0	194.7	134.9	114.2
Salseed Oil	-	33.9	-	2.5	-	47.5	0.1	0.4	-	3.7	51.9	0.0	1.6	1.9	0.0	0.0	0.0
Raw Jute	117.5	5.7	-	44.2	40.0	86.0	33.0	3.2	5.0	0.1	0.0	113.6	8.3	0.0	0.9	0.0	0.0
Jute Cutting	-	-	0.5	-	0.5	0.1	2.8	3.3	1.4	-	0.1	1.1	0.0	0.0	0.0	0.0	0.5
Jute Goods	**4.5**	**272.3**	**191.4**	**176.4**	**242.0**	**231.1**	**453.2**	**565.1**	**720.2**	**871.7**	**1103.9**	**1294.2**	**1630.1**	**1899.0**	**1882.6**	**1149.8**	**1645.8**
a) Hessian	2.2	105.2	72.2	67.8	72.0	15.3	76.1	69.2	155.5	153.2	103.9	50.5	44.7	44.2	143.5	62.1	109.1
b) Sacking	0.6	78.0	29.5	11.2	24.1	0.2	28.4	74.9	267.3	298.4	403.2	540.4	609.2	855.9	1056.5	678.3	884.1
c) Twins	1.7	89.1	89.7	97.4	145.9	215.6	348.7	421.0	297.4	420.1	596.8	703.3	976.2	998.9	682.6	409.4	652.6
Cardamom						137.7	195.4	208.6	227.7	233.4	223.0	298.2	359.9	469.6	451.0	339.4	412.4
Noodles						41.7	64.6	141.4	79.9	124.8	126.8	136.0	227.0	309.7	259.7	203.4	216.3
Cattlefeed						38.9	31.0	57.2	56.3	139.5	200.9	195.5	215.0	405.9	550.9	344.4	370.5
Tooth Paste						197.9	309.2	384.5	823.5	1291.4	2262.9	2033.4	1606.7	1002.8	1478.8	934.8	834.4
Polyster Yarn						251.5	238.0	326.3	549.5	370.8	630.3	773.6	56.5	59.6	109.0	694.4	939.3
Medicine (Ayurbedic)						0.0	0.0	0.0	197.9	348.6	511.3	487.4	583.4	743.1	289.9	190.9	169.0
Soap						0.0	0.0	0.0	568.9	728.3	1083.5	950.6	528.9	469.2	539.6	342.3	217.6
Veg. Ghee						0.0	0.0	0.0	1580.0	3146.4	2743.0	3560.3	7081.4	3812.3	2959.0	2629.4	2922.7
Pashmina						0.0	0.0	0.0	0.0	0.0	3544.2	2728.5	637.3	475.6	373.1	336.2	217.9
Thread						0.0	0.0	0.0	0.0	0.0	1169.2	1656.9	846.9	1235.2	1637.4	1031.8	1471.0
Copper wire Rod						0.0	0.0	0.0	0.0	0.0	631.5	2081.6	2620.5	356.6	200.8	111.0	371.1
M.S. Pipe						0.0	0.0	0.0	0.0	168.7	425.3	353.1	410.4	548.2	851.8	636.0	220.2
Plastic Utensils						0.0	0.0	0.0	0.0	7.2	302.5	693.9	770.9	807.7	1192.4	803.9	805.8
Zinc Sheet						0.0	0.0	0.0	0.0	0.2	58.0	72.0	13.3	970.6	2785.3	1845.1	1065.3
G.I. Pipe						0.0	0.0	0.0	0.0	21.3	65.1	328.7	165.9	357.2	556.3	378.0	248.9
Textiles						0.0	0.0	0.0	0.0	115.9	138.0	449.3	562.5	878.2	1780.5	1011.3	1876.9
Juice						0.0	0.0	0.0	0.0	156.9	242.8	303.5	540.2	748.6	1396.8	742.6	1506.6
Total	**291.9**	**1048.2**	**863.5**	**976.2**	**1120.6**	**2176.5**	**2391.0**	**3024.9**	**5926.0**	**8834.7**	**17344.3**	**20651.1**	**20998.1**	**17815.7**	**21227.4**	**15211.2**	**16922.2**
Other	**2832.4**	**2076.1**	**2260.8**	**2148.1**	**2003.7**	**947.8**	**1291.6**	**2201.3**	**2868.4**	**3696.0**	**3876.4**	**5379.1**	**6958.1**	**8614.3**	**9549.7**	**5387.8**	**7978.1**
Grand Total	**3124.3**	**3124.3**	**3124.3**	**3124.3**	**3124.3**	**3124.3**	**3682.6**	**5226.2**	**8794.4**	**12530.7**	**21220.7**	**26030.2**	**27956.2**	**26430.0**	**30777.1**	**20599.0**	**24900.3**

* Provisional

Source: Nepal Rastra Bank

Table 6.4 : Export of Major Commodities to Other Countries

Rs. in Million

Description	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	First Eight Months	
											2003/04	2004/05*
Pulses	55.4	348.7	528.3	858.3	915.7	87.1	501.1	216.0	214.9	280.7	256.0	59.5
Cardamon (Large)	0.2	-	-	-	5.4	-	21.8	71.5	125.4	231.4	131.0	145.8
Medicinal Herbs	7.2	8.1	18.0	14.3	9.6	15.1	25.9	25.4	33.3	48.3	34.5	36.1
Catechu	-	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
Wollen Goods	-	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
Nepalese Paper & Paper	50.2	47.3	66.4	82.7	121.5	168.4	196.7	200.5	262.0	279.6	157.7	153.2
Products	416.5	387.6	288.5	417.3	270.5	181.9	658.4	464.7	227.3	309.0	188.0	165.7
Hides & Skins	7718.1	8163.9	8880.0	8485.3	9802.0	9842.1	8592.3	6212.5	5320.0	5677.5	3579.1	3740.1
Carpets (Hand Knotted Wollen)	5139.3	5374.8	5955.0	7015.4	9701.9	13942.4	13124.7	7833.0	11890.1	9550.0	6628.5	4075.8
Readymade Garments	145.4	81.8	142.1	135.0	173.5	218.1	233.9	233.8	352.1	626.4	453.1	373.3
Handicrafts	164.5	138.3	168.7	196.2	223.5	232.6	211.5	274.1	347.7	368.7	226.3	233.0
Pasmina	-	-	-	-	-	2665.0	4121.2	1245.0	1157.6	1064.1	766.2	730.7
Total	**13696.8**	**14550.5**	**16047.0**	**17204.5**	**21223.6**	**27352.7**	**27687.5**	**16776.5**	**19930.4**	**18435.7**	**12420.4**	**9713.2**
Other	**818.1**	**1648.0**	**1363.3**	**1514.6**	**1922.0**	**1249.3**	**1936.4**	**2212.1**	**3570.2**	**4697.9**	**3100.1**	**2335.0**
Grand Total	**14514.9**	**16198.5**	**17410.3**	**18719.1**	**23145.6**	**28602.0**	**29623.9**	**18988.6**	**23500.6**	**23133.6**	**15520.5**	**12048.2**

* Provisional
Source: Nepal Rastra Bank.

Table 6.5 : Income and Expenditure of Convertible Foreign Exchange

Rs. in Million

Description	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	First Six Months	
																2003/04	2004/05*
Income	**13362.7**	**16465.8**	**25056.0**	**27323.4**	**36160.8**	**39103.4**	**37459.8**	**38280.4**	**44983.9**	**57939.8**	**64250.0**	**89823.2**	**76153.4**	**98682.5**	**120643.0**	**60239.8**	**58622.9**
- Services	2777.8	3343.1	4675.1	4632.1	6457.6	9343.7	8526.4	8459.2	10817.2	15225.8	15836.5	18520.5	14122.7	17264.9	19047.4	9629.1	9643.1
Gorkha Remittances	676.8	549.6	423.6	549.7	223.0	1842.9	716.0	979.9	1285.9	1627.0	1288.2	3557.5	4334.2	4221.4	40467.4	2567.8	1996.3
Tourist's Expenditure	1541.7	1993.8	3090.7	2615.1	4819.7	5896.2	6605.9	6158.8	7850.9	11584.2	11691.0	11969.2	7798.4	10369.4	12337.4	6261.2	6700.0
Intrest on Investment Abroad	559.3	799.7	1160.8	1467.3	1414.9	1604.6	1204.5	1320.5	1680.4	2014.6	2857.3	2993.8	1990.1	2674.1	2245.3	800.1	946.8
- Merchandise Export	4239.9	5763.4	10020.6	10389.5	16033.2	15624.5	14719.4	15603.9	16355.3	18766.6	23724.4	29789.7	18311.0	22578.9	22489.6	11608.2	9523.7
- Diplomatic Mission	1818.6	1829.9	2903.2	5805.3	4707.8	4689.7	2989.0	2362.9	4374.4	8327.3	6247.7	7254.4	9663.9	4661.9	4241.8	1212.4	2925.7
- Foreign Aid	3645.9	3877.6	3712.6	5188.6	4474.6	4419.3	7943.4	8921.5	9868.4	8518.4	11072.4	23459.0	18968.3	12988.2	19823.0	9611.4	10240.7
- Miscellaneous	880.5	1651.8	3744.5	1307.9	4487.6	5026.2	3281.6	2932.9	3568.6	7101.7	7369.0	10799.6	15087.5	41188.6	55041.2	28178.7	26289.7
Expenditures	**11446.8**	**11197.1**	**18885.0**	**21496.8**	**29789.2**	**35510.6**	**33463.3**	**34821.5**	**39912.3**	**45164.3**	**53066.0**	**82560.3**	**71105.8**	**81420.1**	**98677.1**	**40958.3**	**47164.1**
- Services	2100.6	2569.0	6012.5	6869.9	8221.2	10858.2	11336.0	10188.1	9820.0	8318.6	10636.5	13839.5	14643.4	16763.6	14837.5	5186.2	7299.6
Amortization	1143.2	1318.0	2214.8	2582.4	3263.1	4983.7	3772.2	3870.6	4496.4	5227.8	5776.3	6476.3	6915.3	7302.4	6847.3	3293.1	3604.3
Others	957.3	1251.0	3797.7	4287.5	4958.1	5874.5	7563.8	6317.5	5323.6	3090.8	4860.2	7363.2	7728.1	9461.2	7990.2	1893.1	3695.3
- Merchandise Import	8710.8	7745.9	8349.1	11255.3	18638.5	21527.3	21361.5	24099.7	29590.0	34185.9	41152.2	66569.0	52791.4	64296.7	71494.9	33597.9	30688.6
- Diplomatic Missions	141.5	167.2	59.2	61.0	204.3	238.5	478.4	298.1	361.1	1128.9	604.7	507.6	463.9	211.7	716.5	346.0	326.3
- Miscellaneous	494.0	715.0	4464.2	3310.6	2725.2	2886.6	287.4	235.6	141.2	1530.9	672.6	1644.2	3207.1	148.1	11628.2	1828.2	8849.6
Surplus or Deficit (-)	**1915.9**	**5268.7**	**6171.0**	**5826.6**	**6371.6**	**3592.8**	**3996.5**	**3458.9**	**5071.6**	**12775.5**	**11184.0**	**7262.9**	**5047.6**	**17262.4**	**21965.9**	**19281.5**	**11458.8**

* Provisional
Source: Nepal Rastra Bank

Table 6.6 : Gold and Foreign Exchange Holdings of Banking System

Rs. in Million

Year/Mid-Month	Nepal Rastra Bank							Commercial Banks			Total (1+8)
	Total (2+3+4+5)	Gold	IMF Gold Tranche	Special Drawing Rights	Foreign Exchange (6+7)	Con-vertible	Incon-vertible	Foreign Exchange (9+10)	Conver-tible	Inconver-tible	
	1	2	3	4	5	6	7	8	9	10	11
1988 July	5594.1	150.7	175.7	4.2	5263.5	4808.2	455.3	1801.3	1263.7	537.6	7395.4
1989 July	6837.1	176.7	200.2	3.3	6456.9	6207.4	249.5	1853.9	1329.5	524.4	8691.0
1990 Jyly	8979.4	187.7	225.4	11.5	8554.8	7127.3	1427.5	3035.0	2344.4	690.6	12014.4
1991July	15390.0	275.5	321.5	16.4	14776.6	13329.0	1447.6	3880.0	3075.4	804.6	19270.0
1992 July	20182.2	274.8	352.5	3.6	19551.3	19125.6	425.7	4700.1	4020.2	679.9	24882.3
1993 July	28647.9	316.1	388.5	10.0	27933.3	25926.5	2006.8	5577.1	4840.7	736.4	34225.0
1994 July	35261.3	316.8	414.3	1.5	34528.7	31584.2	2944.5	7487.0	6552.8	934.2	42748.3
1995 July	35423.0	324.4	450.1	3.7	34644.8	28365.4	6279.4	8440.1	7771.3	668.8	43863.1
1996 July	34231.2	362.9	459.6	9.6	33399.1	27432.4	5966.7	11039.1	10502.1	537.0	45270.3
1997 July	36909.8	366.1	451.4	7.6	36084.7	26973.4	9111.3	12456.7	11528.9	927.8	49366.5
1998 July	48393.1	436.1	514.5	5.7	47436.8	36016.3	11420.5	17720.9	16621.6	1099.3	66114.0
1999 July	54138.6	439.7	517.0	3.6	53178.3	48290.3	4888.0	23472.5	20697.0	2775.5	77611.1
2000 July	66647.8	454.2	532.4	11.1	65650.1	54364.9	11285.2	28208.0	25956.0	2252.0	94855.8
2001 July	76143.6	481.6	533.5	3.1	75125.4	52972.4	22153.0	30047.1	27194.9	2852.2	106190.7
2002 July	81794.6	503.2	591.1	0.8	80699.5	56699.5	24000.0	25201.7	23609.7	1592.0	106996.3
2003 July	88043.0	482.2	592.7	2.0	86966.1	76752.0	10214.1	21263.3	20249.2	1014.1	109306.3
2004 July*	109072.8	478.3	627.6	55.0	107911.9	96231.9	11680.0	22289.2	20734.8	1554.4	131362.0
2005 March**	106975.4	385.0	0.0	680.1	105910.3	100447.8	5462.5	23987.8	22770.4	1217.4	130963.2

* Provisional

** Estimate

Source : Nepal Rastra Bank

Table 6.7 : Balance of Payments Summary

/1/ Rs. In Million

Particulars	Fiscal Year					First Seven Months	
	1999/00	2000/01	2001/02	2002/03	2003/04	2003/04	2004/05*
A. Current Account	**17084.4**	**20148.5**	**18161.1**	**11614.7**	**14598.0**	**13489.1**	**17300.6**
Goods : Exports f.o.b.	58494.7	69788.5	57983.5	50760.7	55228.3	32323.7	33103.2
Oil	8898.5	13837.0	10452.1	0.0	55228.3	0.0	0.0
Other	49596.2	55951.5	47531.4	50760.7	0.0	32323.7	33103.2
Goods : Imports f.o.b.	-110750.2	-126238.0	-111342.0	-121053.0	-132909.9	-73146.4	-71498.2
Oil	-17910.5	-24940.7	-22136.5	-18811.6	-20167.3	-10696.6	-14032.0
Other	-92839.7	-101297.3	-89205.5	-102241.4	-112742.6	-62449.8	-57466.2
Balance on Goods	**-52255.5**	**-56449.5**	**-53358.5**	**-70292.3**	**-77681.6**	**-40822.7**	**-38395.0**
Services Net	**11924.9**	**9302.3**	**3938.4**	**7049.7**	**9074.9**	**5270.0**	**1063.8**
Services : Credit	30819.9	29821.7	23508.2	26518.9	34315.9	17045.0	14897.1
Travel	12073.9	11717.0	8654.3	11747.7	18147.4	9194.1	6683.2
Government n.i.e.	8827.2	7614.2	8894.5	6624.0	7143.9	3353.2	3645.3
Other	9918.8	10490.5	5959.4	8147.2	9024.6	4497.7	4568.6
Services : Debit	-18895.0	-20519.4	-19569.8	-19469.2	-25241.0	-11775.0	-13833.3
Transportation	-8527.0	-9308.7	-8854.4	-8618.4	-9382.1	-5202.3	-4972.4
Government n.i.e.	-4720.2	-5520.4	-5731.1	-6171.5	-10021.5	-3576.2	-5019.1
Other	-5647.8	-5690.3	-4984.3	-4679.3	-5837.4	-2996.5	-3841.8
Balance on Goods and Services	**-40330.6**	**-47147.2**	**-49420.1**	**-63242.6**	**-68606.7**	**-35552.7**	**-37331.2**
Income Net	**2361.3**	**1700.7**	**-604.9**	**-675.7**	**-1683.9**	**-1099.7**	**-703.3**
Income : Credit	4569.3	5470.5	4297.0	4487.0	3841.5	1701.9	2561.1
Income : Debit	-2208.0	-3769.8	-4901.9	-5162.7	-5525.4	-2801.6	-3264.4
Balance on Goods, Services and Income	**-37969.3**	**-45446.5**	**-50025.0**	**-63918.3**	**-70290.6**	**-36652.4**	**-38034.5**
Current Transfer Net	**55053.7**	**65595.0**	**68186.1**	**75533.0**	**84888.6**	**51873.5**	**55335.1**
Current Transfer : Credit	56952.8	67027.7	70157.3	77765.1	89161.8	51873.5	57199.5
Grants	12874.8	12046.4	12650.5	13842.2	19557.8	11718.0	12710.5
Workers' remittances	36818.1	47216.1	47536.3	54203.3	58587.6	35336.4	36060.0
Pensions	5941.0	6309.1	8269.6	7327.3	7906.2	3780.9	7269.6
Other	1318.9	1456.1	1700.9	2392.3	3110.2	1038.2	1159.4
Current Transfer : Debit	-1899.1	-1432.7	-1971.2	-2232.1	-4273.2	-1732.0	-1864.4
B. Capital Account	**7899.6**	**6173.1**	**5694.0**	**5393.9**	**1452.2**	**1087.2**	**696.8**
Capital Transfers	7899.6	6173.1	5694.0	5393.9	1452.2	1087.2	696.8
Total, Groups A plus B	**24984.0**	**26321.6**	**23855.1**	**17008.6**	**16050.2**	**14576.3**	**17997.4**

Contd.

/2/ Rs. In million

Particulars	Fiscal Year					% change during 7 months	
	1999/00	2000/01	2001/02	2002/03	2003/04	2003/04	2004/05*
C. Financial Account (exclu.group E)	**6205.4**	**-28522.2**	**-37333.4**	**-17198.9**	**-21540.1**	**-6796.1**	**-20779.8**
Direct investment abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment in Nepal	232.6	-33.0	-282.3	961.4	0.0	0.0	-34.4
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment : assets	-10507.8	-30191.1	-35136.9	-34629.5	-32591.2	-23456.9	-18248.5
Trade credits	11893.3	1108.2	-1294.5	1041.0	-2247.6	-4602.1	-1846.2
Other	-22401.1	-31299.3	-33842.4	-35670.5	-30343.6	-18854.8	-16402.3
Other investment : liabilities	16480.6	1701.9	-1914.2	16469.2	11051.1	16660.8	-2496.9
Trade credits	5444.2	-9319.0	-5279.0	16899.3	3629.8	9191.4	-179.4
Loans	8878.4	6693.4	2899.6	-52.4	3325.2	5455.5	-1810.0
General Government	8485.4	6976.5	2963.5	-432.8	3479.1	5483.9	-1594.9
Drawings	12548.0	11715.1	8040.3	5236.0	9244.7	7836.9	1702.7
Repayments	-4062.6	-4738.6	-5076.8	-5668.8	-5765.6	-2353.0	-3297.6
Other Sectors	393.0	-283.1	-63.9	380.4	-153.9	-28.4	-215.1
Currency and deposits	2158.0	4327.5	465.2	-377.7	4096.1	2013.9	-507.5
Nepal Rastra Bank	185.2	138.4	-197.4	-23.4	-77.4	133.9	-20.2
Deposit Money Banks	1972.8	4189.1	662.6	-354.3	4173.5	1880.0	-487.3
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total, Group A through C	**31189.4**	**-2200.6**	**-13478.3**	**-190.3**	**-5489.9**	**7780.2**	**-2782.4**
D. Net Errors and Omissions	**-14582.8**	**11749.5**	**10600.6**	**4176.2**	**25587.2**	**4989.9**	**5194.1**
Total, Group A through D	**16606.6**	**9548.9**	**-2877.7**	**3985.9**	**20097.3**	**12770.1**	**2411.7**
E. Reserves and related items	**-16606.6**	**-9548.9**	**2877.7**	**-3985.9**	**-20097.3**	**-12770.1**	**-2411.7**
Reserve assets	-16253.5	-9224.1	3203.4	-3685.2	-20654.0	-13385.0	-3196.8
Nepal Rastra Bank	-11463.1	-7445.1	-1712.7	-7809.9	-19503.8	-13642.6	-1430.1
Deposit Money Banks	-4790.4	-1779.0	4916.1	4124.7	-1150.2	257.6	-1766.7
Use of Fund credit and loans	-353.1	-324.8	-325.7	-300.7	556.7	614.9	785.1
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Net Foreign Assets (-deficit)	***14448.6***	***5221.4***	***-3342.9***	***4363.5***	***16001.2***	***10756.2***	***2919.2***

* Provisional

Source : Nepal Rastra Bank

Table 8.1 : Area, Production & Yield of Principal Food Crop

Area :
Productio
Y

Food Crops		1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*
Paddy	Area	1421	1497	1505	1506	1514	1551	1560	1517	
	Production	2928	3579	3699	3641	3710	4030	4216	4165	
	Yield	2.06	2.39	2.46	2.42	2.45	2.59	2.7	2.73	
Maize	Area	771	792	793	799	802	819	825	826	
	Production	1273	1331	1312	1367	1346	1445	1484	1511	
	Yield	1.65	1.68	1.65	1.71	1.68	1.76	1.8	1.83	
Wheat	Area	634	654	665	647	641	660	641	667	
	Production	914	1013	1056	1001	1086	1184	1158	1258	
	Yield	1.44	1.55	1.59	1.55	1.69	1.79	1.81	1.89	
Barley	Area	31	39	39	37	32	28	28	28	
	Production	30	41	39	37	32	31	31	31	
	Yield	0.96	0.95	1.00	1.00	1.00	1.10	1.08	1.11	
Millet	Area	250	260	260	262	264	263	260	258	
	Production	268	282	289	285	291	295	283	283	
	Yield	1.07	1.09	1.11	1.09	1.10	1.12	1.09	1.09	
	Total Area	3107	3242	3262	3251	3253	3321	3314	3296	
	Total Production	5413	6246	6395	6331	6465	6985	7172	7248	

Index of Food Crops
(1994/95=100)

	Area	100.00	104.35	104.99	104.63	104.70	106.89	106.66	106.08	1(
	Production	100.00	115.39	118.14	116.96	119.43	129.04	132.50	133.88	1:
	Yield	100.00	110.58	112.53	111.78	114.07	120.73	124.22	126.20	1:

* Revised Estimate
* * Preliminery Estimate
Source : Central Bureau of Statistics & Ministry of Agriculture and Co-operative, Agriculture Statistics Division

Table 8.2 : Area, Production & Yield of Principal Cash Crops

Area : Thousand Hectare
Production: Thousand M.T.
Yield: M.T./Hectare

Cash Crops		1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*	2003/04**
Sugercane	Area	42	45	46	49	54	58	59	59	60	59
	Production	1500	1569	1622	1718	1972	2103	2212	2248	2343	2305
	Yield	35.99	35.00	35.30	35.13	36.58	36.18	37.22	37.80	38.78	38.80
Oil seeds	Area	170	185	184	179	190	190	189	188	187	187
	Production	102	116	119	109	120	123	132	135	125	133
	Yield	0.60	0.63	0.65	0.61	0.63	0.65	0.70	0.72	0.70	0.71
Tobacco	Area	7	6	6.00	6.0	4.4	4.3	4.2	3.8	3.6	3.4
	Production	7	6	5.0	4.6	3.9	3.8	3.9	3.8	3.4	3.3
	Yield	0.91	0.90	0.83	0.80	0.88	0.89	0.94	0.99	0.96	0.97
Potato	Area	97	106	110	112	118	123	129	135	140	143
	Production	840	898	961	935	1091	1183	1314	1473	1531	1643
	Yield	8.62	8.48	8.74	8.39	9.24	9.64	10.18	10.90	10.92	11.49
Jute	Area	9	11	11	12	11.6	14.7	11.3	11.6	11.8	11.8
	Production	11	15	14	15	15.1	15.2	16.4	17.0	17.1	16.9
	Yield	1.20	1.34	1.27	1.26	1.33	1.04	1.45	1.45	1.44	1.43
	Total Area	325	353	357	358	378	390	392.5	397.4	402.4	404.2
	Total Production	2460	2604	2721	2781.6	3202	3428	3678.3	3876.8	4019.5	4101.2

Index of Cash Crops.
(1994/95=100)

Area	100.00	108.62	109.85	110.15	116.31	120	120.62	122.46	124.00	124.37
Production	100.00	105.85	110.61	113.09	130.16	139.35	149.51	157.60	163.41	166.71
Yield	100.00	97.46	100.70	102.66	111.91	116.12	123.96	128.69	131.79	134.05

* Revised Estimate

** Preliminary Estimate

Note: Revised Statistics, Area and production are given in thousand and productivity is given in accurate figure.

Source : Central Bureau of Statistics & Ministry of Agriculture and Co-operative, Agriculture Statistics Division

Table 8.3 : Other Crops Production

In Thousand Metric Ton

Description	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*	2003/04**	% Changed in 2003/04 over 2002/03
Pulses	156.70	163.23	161.32	154.54	191.14	204.69	201.78	214.85	223.00	215.70	228.84	237.32	243.24	250.40	256.90	262.30	2.10
Fruits	404.40	463.31	502.36	502.00	519.50	535.00	565.00	367.49	428.23	425.60	456.00	447.33	487.33	473.62	518.86	510.00	-1.71
Vegetables	922.00	993.56	970.20	1128.00	1197.00	1197.00	1256.85	1327.29	1350.00	1412.20	1342.57	1489.66	1652.98	1738.09	1799.97	1889.67	4.98
Total Production	**1483.10**	**1620.10**	**1633.88**	**1784.54**	**1907.64**	**1936.69**	**2023.63**	**1909.63**	**2001.23**	**2053.50**	**2027.41**	**2174.31**	**2383.55**	**2462.11**	**2575.73**	**2661.97**	**3.35**

* Revised Estimate

** Preliminary Estimate

Source : Central Bureau of Statistics and Ministry of Agriculture and Co-operative, Agriculture Statistics Division

Table 8.4 : Livestock Production

In Thousand Metric Ton

Description	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*	2003/04**	% Change in 2003/04 Over 2002/03
Meat	142.01	145.15	147.08	148.42	149.89	153.52	159.24	161.52	174.27	180.67	185.03	189.16	194.26	198.64	203.89	208.20	2.11
Milk & Milk Products	834.41	859.36	865.42	871.82	876.59	885.36	903.64	961.56	1012.16	1048.04	1072.94	1097.02	1124.13	1158.79	1195.93	1225.20	2.45
Egg (in Million)	288.06	342.15	369.52	368.16	370.93	375.10	412.11	396.40	421.50	440.90	460.62	480.80	507.32	538.42	557.36	575.56	3.27
Fish	12.52	13.30	14.50	16.50	15.19	15.52	17.58	21.88	23.20	24.86	25.75	31.72	33.27	35.00	36.57	39.95	9.24

* Revised Estimate
** Preliminary Estimate
Source : Central Bureau of Statistics & Ministry of Agriculture and Co-operative Agriculture Statistics Division.

Table 8.5 : Production Index of Agricultural Production (Base Year 1994/95=100)

S. No.	Agricultural Commodities	Weights %	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04*	% Change
1.	Foodgrains	33.68	100.00	116.08	116.93	117.69	120.04	129.58	133.23	134.13	135.72	143.11	5.45
	a) Paddy	19.75	100.00	122.23	126.33	124.35	126.70	137.64	144.00	142.24	141.14	152.18	7.82
	b) Maize	6.87	100.00	104.54	103.06	107.39	105.71	113.53	116.56	118.66	123.24	124.89	1.34
	c) Wheat	4.59	100.00	110.86	115.57	109.53	118.91	129.53	126.72	137.69	147.11	151.82	3.20
	d) Millet	2.23	100.00	105.58	108.00	106.58	108.92	110.41	105.73	105.63	105.73	105.93	0.19
	e) Barley	0.23	100.00	140.04	130.96	125.17	107.72	104.39	103.28	105.75	107.42	95.36	-11.23
2.	Cash Crops	6.87	100.00	107.71	112.79	110.25	125.54	133.71	145.85	156.86	159.76	168.01	5.16
	a) Sugarcane	1.37	100.00	104.54	108.06	114.46	131.39	140.18	147.40	149.81	156.14	153.63	-1.61
	b) Oilseeds	1.50	100.00	113.63	116.71	107.03	117.29	120.25	129.63	132.20	122.39	130.16	6.35
	c) Tobacco	0.19	100.00	82.86	76.99	68.57	58.81	57.28	59.74	56.59	52.03	49.77	-4.34
	d) Jute	0.13	100.00	131.72	123.35	135.24	133.88	133.70	144.42	149.37	150.09	148.81	-0.85
	e) Potato	3.68	100.00	106.93	114.45	111.28	129.89	140.76	156.37	175.31	182.28	195.61	7.31
3.	Other Crops	21.57	100.00	86.12	92.36	93.59	95.46	98.56	106.45	107.93	113.39	115.61	1.96
	a) Pulses	2.72	100.00	106.48	111.00	106.88	113.41	117.62	120.55	124.10	127.32	129.99	2.10
	b) Fruits	10.07	100.00	65.04	75.79	75.33	80.71	79.17	86.25	83.83	91.83	90.27	-1.70
	c) Vegetables	5.73	100.00	105.58	107.41	112.36	106.82	118.52	131.52	138.29	143.21	150.35	4.99
	d) Others	3.05	100.00	101.00	102.20	106.82	106.82	108.05	113.46	116.10	116.10	121.24	4.43
4.	Livestocks	27.66	100.00	103.13	109.55	113.56	116.44	119.20	122.45	126.10	129.97	133.08	2.39
	a) Milk	15.84	100.00	106.41	112.01	115.98	118.74	121.40	124.40	128.24	132.35	135.59	2.45
	b) Buffalo meat	4.51	100.00	105.97	114.72	118.63	120.87	123.10	126.21	128.89	132.22	135.06	2.15
	c) Mutton	3.99	100.00	92.70	99.47	102.37	103.87	105.68	107.90	109.98	112.76	114.88	1.88
	d) Pig meat	0.75	100.00	96.17	100.85	106.68	113.48	119.36	124.20	127.09	127.35	127.69	0.27
	e) Poutry meat	1.01	100.00	96.06	105.40	112.42	119.62	124.57	130.25	136.04	144.48	150.80	4.37
	f) Eggs	1.55	100.00	96.19	102.27	106.99	111.77	116.67	123.10	130.65	135.24	139.66	3.27
5.	Fishery	0.99	100.00	124.47	131.98	141.46	146.49	180.47	189.27	199.11	207.82	227.26	9.35
6.	Forestry	9.24	100.00	101.00	100.77	100.62	100.90	100.47	119.18	122.52	123.79	126.80	2.43
	Overall Index	**100.00**	**100.00**	**104.15**	**108.63**	**109.50**	**112.61**	**118.12**	**124.59**	**127.59**	**130.57**	**135.44**	**3.73**

* Preliminary estimate

Source : Nepal Rastra Bank and Central Bureau of Statistics

Table 8.6 : Use of Chemical Fertilizer, Improved Seed & Insecticides

In Metric Ton

Description	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	First Eight Months	
																2002/03	2003/04
1. Chemical Fertilizer (Nutrients)	**56839**	**67286**	**72719**	**84391**	**83331**	**73812**	**90263**	**70154**	**64150**	**47010**	**45669**	**37250**	**23623**	**19713**	**38950**	**17543**	7226
a) Nitrogen	39801	49206	51929	59956	60447	55385	64385	46448	43231	32629	32314	25034	16397	10610	21838	7996	3090
b) Phosphorus	15268	16742	19257	22833	21595	17149	24300	21306	19284	13124	12097	12031	7191	8562	15332	8735	3469
c) Potash	1770	1338	1533	1602	1289	1278	1578	2400	1635	1257	1258	185	35	541	1780	812	667
2. Improved Seed	**2048**	**2394**	**2275**	**2153**	**1862**	**3576**	**3684**	**3343**	**3926**	**2229**	**1794**	**2585**	**1894**	**2654**	**2053**	**1692**	**1755**
a) Paddy	213	146	156	177	211	242	324	250	372	178	308	326	231	89	353	7	22
b) Maize	121	126	44	66	77	105	81	144	124	116	43	25	7	41	20	5	17
c) Wheat	1714	2122	2075	1910	1574	3229	3279	2949	3430	1935	1443	2234	1656	2524	1680	1680	1716
3. Insecticides																	
a) Powder*(in MT)	733	971	429	391	422	303	147	83	34	39	7	-	-	-	-	-	-
b) Liquid (in litres)	7527	4886	3945	3236	2513	1688	744	470	445	235	55	-	-	-	-	-	-

* Includes Agri-Lime

Source: Agriculture Inputs Company Ltd and National Seeds Company Ltd.

Table 8.7 : Extension of Additional Irrigation Facilities

In Hectare

Description	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02+	2002/03	First Eight Months	
																2002/03	2003/04
1. Topography	**53304**	**25666**	**22288**	**33833**	**30405**	**33542**	**25372**	**48530**	**32018**	**21447**	**49015**	**35702**	**29661**	**17587**	**11823**	**2238**	**2693.2**
a) Hill	17502	2373	6418	6977	8601	5078	4215	10603	9209	8378	10815	7899	7266	6296	4251	823	0.2
b) Terai	32527	11070	15839	9705	21804	16576	21157	36084	21717	13069	38200	26960	22395	11291	7572	1415	2693
c)Not classified	3275	12223	31	17151	29518*	11888	-	1843	1092	-	-	843	-	-	-	-	-
2. Types	**53304**	**25666**	**22288**	**33833**	**30405**	**33542**	**25372**	**48530**	**32028**	**21447**	**49015**	**35702**	**29661**	**17587**	**11823**	**2238**	**2693.2**
a) Canals	27974	3968	11807	17522	29508	7850	7304	33898	23636	19027	27528	26509	26091	14882	7308.2	2021	1000.2
b) Ground Water	25330	8468	9840	16311	897	18594	18068	12231	6878	2420	21487	9030	3570	2705	4506	215	1693
c) Not Classified	-	13230	641	-	29518*	7098	-	2401	1514	-	-	163	-	-	8.8	2	-

* Additional irrigation facilities extended under ADB/N.
+ Figures of Irrigation Departments only.
Source: Department of Irrigation and ADB/N

Table 8.8 : Agricultural Credits & Collection

Rs. in Million

	Description	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*	First Eight Months	
																	2002/03	2003/04*
1	**Disbursement**	**1049.50**	**1170.70**	**1095.30**	**1469.00**	**1985.30**	**2887.90**	**3433.70**	**3896.80**	**4023.40**	**4430.10**	**5562.40**	**7084.70**	**8089.80**	**8888.90**	**10115.20**	**6030.40**	**5905.70**
a	Food Grains & Cash crops Production	335.50	383.80	300.30	435.00	561.60	811.50	894.80	1015.60	993.60	1170.00	1465.90	1756.30	1913.20	1891.90	2121.50	1054.90	930.7
b	Agri. Tools & Irrigation	158.80	157.40	182.20	274.80	451.90	557.00	678.40	661.50	609.10	580.40	823.00	1027.70	1084.00	958.70	806.60	425.80	312.2
c	Agricultural Business	217.10	276.40	280.30	299.60	371.20	699.50	694.50	768.50	795.40	866.60	1029.30	1221.70	1349.80	1570.10	1634.00	1117.80	1018.6
d	Agri Industries Marketing and Godowns	257.50	287.60	273.50	420.50	542.60	725.90	972.30	1224.00	1387.80	1559.10	1969.90	2772.50	3448.80	4150.1	4868.1	3071.4	3082.7
e	Horticulture	36.80	40.20	44.50	27.10	29.00	35.30	36.40	37.10	33.50	36.00	30.10	61.50	36.80	38.20	48.20	85.10	14.0
f	Tea/Coffee Cultivation	7.50	5.90	9.90	7.80	21.20	37.30	50.70	43.50	43.70	41.80	83.60	138.00	141.90	97.50	52.10	29.00	16.8
g	Housing & Land Development Loan	36.30	19.40	4.60	4.20	7.80	21.40	106.60	146.60	160.30	176.20	160.60	107.00	115.30	182.40	584.70	246.40	530.7
2	**Collection**	**732.10**	**754.80**	**747.70**	**1142.50**	**1383.90**	**1832.80**	**2165.00**	**2780.90**	**2873.00**	**3503.80**	**4233.90**	**5274.80**	**6198.10**	**5533.20**	**8173.30**	**4712.80**	**5050.90**
a	Food Grains & Cash crops Production	257.30	259.20	294.90	391.80	391.70	566.00	662.00	804.50	818.30	934.00	1132.10	1423.70	1594.70	162.7	1819.7	924.1	850.4
b	Agri. Tools & Irrigation	125.10	126.70	85.40	215.70	304.10	339.40	400.80	440.70	407.90	518.30	547.70	699.30	736.00	802.00	846.70	444.60	368.2
c	Agricultural Business	156.80	148.10	129.50	213.00	256.80	431.00	400.40	525.70	536.30	671.70	829.20	968.00	1024.80	1159.10	1367.9	864.7	853.6
d	Agri Industries Marketing and Godowns	180.00	203.50	222.10	290.70	382.40	438.80	564.50	868.40	957.50	1186.30	1517.70	1986.80	2556.30	3229.8	3787.2	2283.1	2569.3
e	Horticulture	9.80	9.50	11.40	15.70	21.20	26.10	26.00	31.20	35.70	35.10	33.90	48.00	39.10	40.00	49.50	66.80	22.1
f	Tea/Coffee Cultivation	1.00	3.20	2.50	1.70	23.90	24.90	14.20	0.80	8.00	6.30	9.10	30.30	142.20	15.90	25.90	10.80	5.5
g	Housing & Land Development Loan	2.10	4.60	1.90	13.90	3.80	6.60	97.10	109.60	109.30	152.10	164.20	118.70	105.00	123.70	276.40	118.70	381.8
3	**Total Loans Outstanding**	**2568.70**	**2984.70**	**3332.50**	**3655.30**	**4256.70**	**5311.80**	**6580.50**	**7689.20**	**8839.60**	**9765.90**	**11094.40**	**12904.20**	**14782.40**	**16673.80**	**18615.70**	**17991.40**	**19470.5**

* Provisional
Source: Agriculture Development Bank

Table 8.9 Price of Fertilizer

Rs. Per Metric Ton

Description	1988/89	1989/90	1990/91	29-Jul 1991	20-Aug. 1992	14-Feb 1993	13-Apr 1994	13-Apr 1995	13-Apr 1996	13-Apr 1997	13-Apr 1998	13-Apr 1999	13-Mar 2000	13-Mar 2001	13-Mar 2002	13-Mar 2003	13-Mar 2004*
Fertilizer																	
a) Sulphate	3050.0	3111.0	3111.0	4670.0	4200.0	6900.0	6900.0	6900.0	6900.0	6900.0	-	6900.0	10300.0	10300.0	10300.0	-	-
b) Urea	3990.0	4070.0	4070.0	5710.0	5140.0	5600.0	5600.0	5600.0	6720.0	6720.0	7400.0	7400.0	8000.0	13980.0	13500.0	14200.0	15560.0
c) Complex	4370.75	4502.0	4502.0	6300.0	5680.0	10000.0	10000.0	10000.0	10000.0	10000.0	-	10000.0	-	-	-	-	-
d) Compound	3990.0	3990.0	3990.0	3990.0	3990.0	-	-	-	-	-	-	-	-	-	-	-	-
e) D.A.P.	6020.0	6319.0	6319.0	8360.0	7520.0	12500.0	12500.0	12500.0	16880.0	16880.0	18570.0	18570.0	20400.0	19500.0	19000.0	19500.0	20860.0
f) Potash	2190.0	2315.0	2315.0	3210.0	2900.0	8500.0	8500.0	8500.0	8500.0	8500.0	9350.0	9350.0	13900.0	13907.0	13600.0	13600.0	14330.0
g) T.S.P.	3700.0	3963.0	3963.0	5150.0	4640.0	8000.0	8000.0	8000.0	8000.0	8000.0	-	8000.0	-	-	-	-	

* Average price
Source: Agriculture Inputs Company Ltd.

Table 9.1 : Capacity Utilization of Selected Public Enterprises

S. No	Name of Industaries	Annual Production Capacity	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04*	Remarks
1	Birgunj Sugar Factory	13500 M. Ton	88.98	106.82	150.18	152.66	90.08	37.03	92.76	113.46	111.50	58.87	69.54	99.87	61.07	31.85	-	-	Dissolved
		Rectified Spirit 1350000 Lit.	93.85	99.25	78.66	90.89	75.03	43.62	32.74	51.04	0.02	12.96	20.96	20.96	15.26	0.01	-	-	
2	Lumbini Sugar Factory	10800 M. Ton	7.48	46.60	90.38	129.06	95.91	69.36	126.28	117.53	112.17	89.76	58.21	84.19	56.02	57.86	109.33	65.00	
		Alchohol 10,80,000 Lit	5.46	41.57	47.40	125.19	54.54	58.53	99.69	72.63	8.34	54.06	50.93	37.96	21.95	4.25	57.17	28.18	
3	Janakpur Cigarattes Factory	5.25 Billion Sticks	79.67	83.61	83.60	85.00	61.30	55.07	43.24	55.40	32.55	40.00	21.00	43.81	78.93	78.67	78.68	23.60	
4	Bhaktapur Brick Factory	20 Million	68.50	63.50	66.00	72.50	62.50	60.00	52.00	75.08	59.84	-	-	-	-	-	-	-	Dissolved
5	Hetauda Textile Industry	11 mllion Metres	55.45	42.48	43.44	55.00	81.83	75.04	42.54	86.42	36.59	42.74	17.11	-	-	-	-	-	Dissolved
6	Himal Cement Factory	108000 M. Ton	38.59	6.78	79.17	62.67	58.48	51.75	42.56	44.61	35.95	44.42	37.57	35.46	-	-	-	-	Dissolved
7	Hetauda Cement Company	260000 M. Ton	52.28	38.97	45.54	57.69	38.91	45.40	41.14	48.00	48.42	52.69	49.55	45.64	33.42	46.40	46.00	42.00	
8	Udayapur Cement	277300 M. Ton	-	-	-	25.00	25.00	46.45	57.62	47.25	33.22	47.49	35.94	39.85	38.21	51.52	37.00	36.60	

* Estimates of 8 months
Source : Ministry of Finance.

Table 10.1 : Structure of Energy Consumption

Thousand Tonne of

Energy Sources	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003
Traditional	**5460**	**5576**	**5691**	**5811**	**5933**	**6059**	**6185**	**6268**	**6403**	**6540**	**6681**	**6824**	**7066**	**7240**	**73**
Fuelwood	4877	4980	5084	5191	5300	5412	5525	5574	5694	5816	5941	6068	6315	6451	65
Agri. Waste	219	224	228	233	238	243	248	273	279	285	292	299	305	312	3
Animal Dung	364	372	379	387	395	404	412	421	430	439	448	457	446	477	4
Commercial	**236**	**349**	**419**	**430**	**483**	**581**	**651**	**691**	**769**	**818**	**1054**	**1016**	**1029**	**1015**	**10**
Coal	7	42	58	26	32	67	72	60	61	68	246	174	152	134	1
Petroleum	185	257	306	348	391	448	507	554	625	661	709	734	758	753	7
Electricity	44	50	55	56	60	66	72	77	83	89	99	108	119	128	1
Others	4	4	5	6	6	7	10	13	16	20	24	29	33	39	
Total	**5700**	**5929**	**6115**	**6247**	**6422**	**6647**	**6846**	**6972**	**7188**	**7378**	**7759**	**7869**	**8128**	**8294**	**85**

* Estimate of first eight months.

Note:-

1. Since the fiscal year 1993/94 structure of energy consumption is presented in Tonne of Oil Equivalent (TOE) instead of Tonne of Coal Equivalent (TCE). The basis of conversion is taken as 1 TOE equivalent to 1. 454288 TCE.
2. The renewable energy has been included from FY 2004/05 in detail.
3. As data have been adjusted in accordance with the survey recently conducted by Water and Energy Commission it may not verify with the earlier stastistics.

Source: Water & Energy Commission

Table 10.2 : Sources and Uses of Electricity

In Million KWH

Fiscal Year	Household	Industrial	Commercial	Export	Other	Total	Power Loss	Production & Import	Peak Load MW	Import	Export
1988/89	193.3	175.3	30.8	17.6	79.2	**496.2**	176.2	672.4	150	113.9	17.6
1989/90	231.4	178.3	33.7	23.3	81.4	**548.1**	225.8	773.9	176	60.7	23.3
1990/91	261.4	206.9	36.6	80.6	83.8	**669.3**	236.9	906.2	201	33.7	80.6
1991/92	275.2	246.4	45.2	85.4	85.1	**737.3**	243.7	981.0	216	54.9	85.4
1992/93	259.8	273.8	47.6	46.1	82.1	**709.4**	253.9	963.3	214	82.2	46.1
1993/94	275.1	304.0	49.0	50.5	105.3	**783.9**	247.0	1030.9	231	102.8	50.5
1994/95	301.6	328.3	58.6	39.5	111.3	**839.3**	278.2	1117.5	244	113.8	39.5
1995/96	328.7	358.7	62.9	87.0	99.4	**936.7**	325.2	1261.9	275	73.0	87.0
1996/97	355.1	376.7	67.6	100.2	128.2	**1027.8**	340.8	1368.6	300	154.0	100.2
1997/98	378.8	413.7	71.5	67.4	120.0	**1051.4**	321.8	1373.2	317	210.3	67.4
1998/99	410.6	441.0	77.3	64.2	120.5	**1113.6**	361.4	1475.0	326	232.4	60.0
1999/00	467.1	508.4	81.8	95.0	117.1	**1269.4**	380.8	1701.5	352	232.2	95.0
2000/01	518.4	520.6	94.1	126.0	148.0	**1407.1**	461.3	1868.4	391	226.5	126.0
2001/02	557.9	596.7	90.4	133.9	161.1	**1540.0**	526.3	2066.3	426	238.2	133.9
2002/03	617.1	629.5	92.7	192.2	170.1	**1701.6**	559.5	2261.1	470.0	149.9	192.2
2003/04*	676.4	689.8	108.1	141.2	196.7	**1812.2**	569.3	2381.5	515.2	185.6	141.2
2004/05**	753.5	728.3	107.5	124.0	244.0	**1957.3**	608.5	2565.8	556.5	142.0	124.0

* Revised

** Estimate of first eight months.

Source: Nepal Electricity Authority

Table 10.3 : Consumption of Petroleum Products

Quantity in Kilolitre

Description	1988/89	1989/90	1990/91*	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	First Eight Months	
																	2003/04	2004/05#
Petrol	17340	14708	17241	26780	29910	31056	34942	41191	44889	46939	49994	55589	59245	63271	67457	67586	44030	47980
High speed Diesel	75356	103273	106438	166552	179900	196047	227226	250504	257235	300604	315780	310561	326060	286233	299973	299730	180348	193772
Kerosene Oil	63246	95672	75939	122458	149237	162077	180536	208720	243005	282026	294982	331120	316381	386593	348683	310826	206391	159134
Llight diesel Oil	6074	-	2476	2542	1530	-	4191	4375	2017	967	547	4005	3418	2413	610	577	556	-
Furnace Oil	6836	-	6209	11062	20222	27319	31567	18449	16858	27776	33860	26876	20999	18255	14502	12653	6405	2215
Aircraft Turbine Oil	16244	9327	16541	24836	29210	30250	37536	40621	47688	51412	55549	56849	63130	47453	52839	64041	42308	44399
Mineral Turpentine Oil	-	-	-	-	-	-	-	-	-	-	-	-	-	120	-	-	-	-
L.P. Gas	4	-	-	1	-	-	-	18400	21824	-	25019	30627	40102	48757	56079	66142	43871	50835
Total	**185,100**	**222,980**	**224,844**	**354,231**	**410,009**	**446,749**	**515,998**	**582,260**	**633,516**	**709,724**	**775,731**	**815,627**	**829,335**	**853,095**	**840,143**	**821,555**	**523,909**	**498,335**
Value (Rs. in Million)	840.80	2178.20	3025.6	4411.20	4108.60	4971.30	5346.40	6324.70	7448.70	10324.10	11136.10	14617.40	18685.70	18117.50	19330.00	22600.00	15560.00	15800.00
Import of Petrolium products/commodity export (%)**	26.6	42.2	40.9	32.2	23.8	25.8	30.30	31.80	32.90	37.60	31.21	29.30	33.60	-	-		-	-

+ Provisional

** As export data are provisional, it may not verify with earlier data.

Source: Nepal Oil Corporation

Table 11.1 : Extension of Road Facilities

In Kilometre

Fiscal Year	Black-Topped	Gravelled	Fair Weathered	Total
1989/90	2899	1621	2516	7036
1990/91	3083	2181	3064	8328
1991/92	3164	2243	3444	8851
1992/93	3227	2333	3733	9293
1993/94	3398	2356	3910	9664
1994/95	3533	2662	4529	10724
1995/96	3609	2867	4761	11237
1996/97	3655	3011	5048	11714
1997/98	4080	3489	5654	13223
1998/99	4148	3710	5851	13709
1999/2000**	4,522	3,646	7,140	15,308
2000/2001+	4,566	3,786	7,350	15,702
2001/2002**	4,781	4,520	7,533	16,834
2002/2003	4,811	4,595	7,541	16,947
2003/04	4,871	4,697	7,614	17,182
2004/2005*	4,871	4,703	7,643	17,217

+ Data of Department of Road Only.
* First Eight Months
** NRS 2000
Source : Department of Road.

Table: 11.2 : Number of Vehicles Registered

In Numbers

Type	Registration of new vehicles															
	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05*
Bus/Minibus	723	822	571	791	1245	933	513	756	1029	891	616	1453	1343	730	969	602
Truck/Tanker	240	772	1524	1491	1751	1629	3269	979	1324	1013	829	1271	1798	1212	1477	748
Jeep/Car	1831	2885	2115	2266	3049	3043	5278	2976	4139	2507	3647	5152	4374	2906	7079	3387

*First Eight Months

Source : Department of Transport Management.

Table 11.3 : Extension of Transport Facilities and Goods Transported

Particular	Unit	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05*
1. Airways +																	
a) Passenger in internal flight#	Th.	291	308	309	348	767	1182	1208	1318	1383	1328	1771	871	863	1209	1434	758
b) Passenger in External Flight	Th.	317	326	339	805	934	844	941	958	1331	1051	1254	1079	1016	888	1128	569
c) Cargo in Domestic Flight	M. Ton	853	743	887	455	1093	4006	11849	10539	10596	8500	10871	1629	2172	5067	548	227
d) Cargo in External Flight	M. Ton	6308	4111	4585	15303	18553	14060	14592	15202	16683	14230	18621	16108	15140	14311	1510	620
2. Railways																	
a) Available Facilities	KM	51	51	51	51	51	51	51	51	51	51	51	-	-	-	-	-
b) Number of Passenger	Th	1760	1100	884	755	653	1118	1245	1416	1731	1533	981	-	-	-	-	-
c) Goods Transported	Th Ton.	22	15	14	11	9	7	8	7.3	8.0	7.5	9.5	-	-	-	-	-
3. Ropeways																	
a) Available Facilities	KM	42	42	42	42	42	42	42	42	42	42	42	-	-	-	-	-
b) Goods Transported	Th. Ton	28.1	11.5	11.7	7.5	12	11	7.5	33.5	13.2	-	-	-	-	-	-	-
4. Trolley Bus																	
a) Available Facilities	KM	13	13	13	13	13	13	13	13	13	13	13	-	-	-	-	-
b) Number of Passenger	Th.	5435	5300	5032	4094	4560	4353	4182	3700	3332	3558	2116	-	-	-	-	-
5. Roads																	
a) Available Facilities	KM	7036	8328	8851	9293	9664	10724	11237	11714	13223	13709	15308	15702	15985	16018	16042	17217

* First Six Months .

Note: Private airlines services have been included since FY 1992/93.

The data of district airports have been included since FY 1994/95.

+ for the FY 2002/03 data refers to July to June.

Source: Department of Roads, Nepal Transport Corp. and Civil Aviation Authority of Nepal.

Internal passenger from airways data based on KTM., Pokhara, Biratnagar, Bhairahawa and Neplganj airport.

Table 11.4 : Extension of Telephone Facilities

	Title	Mid July																2005*
		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	
	I. Number of Towns	34	38	38	41	42	43	47	51	58	58	58	58	58	58	58	58	58
	II. Telephone Line Distribution	45457	57320	65298	68886	72033	77317	82774	112645	153782	181302	221863	255777	288036	327673	371816	408417	433631
1	Automatic													-	-	-	-	-
	I. Number of Towns	2	2	2	2	2	2	2	1	1	-	-	-	-	-	-	-	-
	II. Telephone Line Distribution	5761	5209	6108	6188	7072	7143	6974	2930	1550	-	-	-					
														-	-	-	-	-
2	C.B.													-	-	-	-	-
	I. Number of Towns	9	6	7	4	4	4	4	2	-	-	-	-					
	II. Telephone Line Distribution	1352	814	1135	559	645	653	666	374	-	-	-	-					
3	Digital Automatic																	
	I. Number of Towns	23	30	32	37	42	45	43	49	58	58	58	58	58	58	58	58	58
	II. Telephone Line Distribution	38344	51297	63404	62139	64316	69521	75114	109341	152232	181302	221863	255777	288036	327673	371816	408417	433631
4	Magneto																	
	I. Number of Towns	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	II. Telephone Line Distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* First Eight Months

Source : Nepal Telecommunication Company Ltd.

Table 12.1 : Number of Primary, Lower Secondary, Secondary Schools and Students

Students Nos. in Thousand

Year	Primary		Lower Secondary		Secondary	
	School	Student	School	Student	School	Student
1989 Sept.	15834	2526	3941	325	1791	339
1990 May	17842	2789	3964	344	1953	365
1991 May	18694	2884	4045	378	2079	395
1992 May	19498	3035	4230	433	2309	422
1993 May	20217	3092	4376	637	2242	273
1994 May	21102	3191	4739	670	2482	274
1995 May	21473	3263	5041	726	2654	290
1996 May	22218	3448	5506	791	2903	330
1997 May	23284	2110	6062	829	3322	359
1998 July	23885	3587	6617	842	3624	375
1999 Oct.	25522	3780	7276	916	4082	385
2000 Oct.	25927	3623	7289	957	4350	373
2001 Oct	24915	3792	7331	1058	4111	449
2002 Oct	26638	3928	7917	1133	4541	458
2003 Oct	26823	3974	7954	1189	4569	496
2004* Academic Year	24746	4030	7436	1444	4547	587

* Estimated

Note : Since 1993 grade 8 is included in Lower Secondary Level. Due to change in academic year in 1998/99 data collection months has been different.

Source: Ministry of Education & Sports.

Table 2.1 : Government Expenditure & Sources of Financing

Rs. in Million

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Expenditures	**59579.0**	**66272.5**	**79835.1**	**80072.2**	**84006.1**	**89442.6**
Recurrent Expenditure	31944.2	35579.1	45837.3	48863.9	52090.5	55552.1
Capital Expenditure	22992.1	25480.7	28307.2	24773.4	22356.1	23095.6
Principal Re-payment	4642.7	5212.7	5690.6	6434.9	9559.5	10794.9
Receipts	**41587.6**	**48605.5**	**55647.0**	**57131.6**	**67568.9**	**73614.4**
Revenue	37251.0	42893.8	48893.6	50445.5	56229.8	62331.0
Foreign Grant	4336.6	5711.7	6753.4	6686.1	11339.1	11283.4
Surplus (+) Deficit (-)	**-17991.4**	**-17667.0**	**-24188.1**	**-22940.6**	**-16437.2**	**-15828.2**
Sources of Deficit Financing						
Foreign Loan	**11852.4**	**11812.2**	**12044.0**	**7698.7**	**4546.4**	**7629.0**
Domestic Loan	**4710.0**	**5500.0**	**7000.0**	**8000.0**	**8880.0**	**5607.8**
(a) Banking System	2850.0	3300.0	-	-	-	-
(b) Non-Banking System	1860.0	2200.0	-	-	-	-
Cash Balance (-)Surplus	**1429.0**	**354.8**	**5144.1**	**7241.9**	**3010.8**	**259.1**

Note : The expenditure heads till FY 2003/04 were classified as regular and development. During FY 2004/05, such expenditure has been classified as recurrent, capital and principal repayment. As such, expenditure heads and subheads from 1998/99 to 2003/04 , may not tally with previous heads/ subheads.

Source : Financial Comptroller General Office.

Table 12.2: Number of Primary, Lower Secondary and Secondary School Teachers

Year	Primary		Lower Secondary		Secondary		Grant Total	
	Total	Trained	Total	Trained	Total	Trained	Total	Trained
1989 May	63945	25304	12245	4571	10207	5056	86397	34931
1990 May	71213	26775	12399	4298	10421	4771	94033	35844
1991 May	74495	31906	13005	4428	11627	5120	99127	41454
1992 May	77948	36359	13225	4490	12132	5339	103305	46188
1993 May	79590	38536	13647	4623	12656	5512	105893	48671
1994 May	81544	33536	15358	4820	13820	5865	110722	44221
1995 May	82645	35057	16821	5438	14585	6491	114051	46986
1996 May	89378	38980	19704	6204	16423	7328	125505	52512
1997 May	91464	42039	20641	6411	16494	7743	128599	56193
1998 July	91878	42683	22095	7246	16677	8220	130650	58149
1999 Oct	99382	44221	24696	8062	19185	9711	143263	61994
2000 Oct	97879	50697	25375	10228	19498	11012	142752	71977
2001 Oct	96556	11300	26661	5771	18830	7597	142047	24668
2002 Oct	110173	17606	28058	7264	22753	8571	160984	33441
2003 Oct	111027	20247	28571	7627	23029	9428	162627	37302
2004* Academic Year	101483	30967	25962	7818	20232	9727	147677	48512

* Estimated

Note : Due to change in academic year in 1998/99 data collection month has been different.

Source: Ministry of Education & Sports.

Table 12.3: Sectoral Distribution of Schools, Students and Teachers Under Public and Private Sector

(Academic Year 2003/04)*

	Primary (1-5)			Lower Secondary (6-8)			Secondary (9-10)		
	School	Student	Teacher	School	Student	Teacher	School	Student	Teacher
NEPAL	**24746**	**4030043**	**70555**	**7436**	**1444996**	**14806**	**4547**	**587566**	**12379**
PUBLIC	**19467**	**3416630**	**70555**	**3759**	**1042616**	**14806**	**2291**	**429978**	**12379**
COMMUNITY	**2421**	**188314**	NA	**1905**	**253678**	NA	**967**	**79301**	NA
PRIVATE	**2858**	**425099**	NA	**1772**	**148702**	NA	**1289**	**78287**	NA
Eastern Region	**5600**	**922827**	**16203**	**1711**	**345011**	**3581**	**999**	**154948**	**2793**
a. Public	4545	770329	16203	946	246507	3581	541	111218	2793
b. community	445	52323	NA	432	67591	NA	219	23622	NA
c. Private	610	100175	NA	333	30913	NA	239	20108	NA
Central Region	**7252**	**1217132**	**20336**	**2430**	**440711**	**4130**	**1589**	**183037**	**3743**
a. Public	5275	1023863	20336	1061	308620	4130	651	126669	3743
b. community	695	15298	NA	484	67696	NA	267	21902	NA
c. Private	1282	177971	NA	885	64395	NA	671	34466	NA
Western Region	**5922**	**849543**	**17530**	**1715**	**335905**	**3861**	**1148**	**143669**	**3366**
a. Public	4942	705395	17530	933	238627	3861	649	107377	3366
b. community	448	57220	NA	419	57212	NA	223	18916	NA
c. Private	532	86928	NA	363	40066	NA	276	17376	NA
Mid-Western Region	**3535**	**622041**	**9550**	**876**	**191111**	**1629**	**443**	**58911**	**1351**
a. Public	2849	546964	9550	465	152209	1629	264	48390	1351
b. community	493	41307	NA	297	30670	NA	112	7176	NA
c. Private	193	33770	NA	114	8232	NA	67	3345	NA
Far-Western Region	**2437**	**418500**	**6936**	**704**	**132258**	**1605**	**368**	**47001**	**1126**
a. Public	1856	370079	6936	354	96653	1605	186	36324	1126
b. community	340	22166	NA	273	30509	NA	146	7685	NA
c. Private	241	26255	NA	77	5096	NA	36	2992	NA

* Estimated

Source: Ministry of Education & Sports.

Table 12.4: Number of Students Enrolled in Higher Level of Education

Educational Institute	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/2001	2001/2002	2002/2003	2003/04	2004/05**
A. Tribhuvan University																
a. Technical Education	**15509**	**16939**	**18873**	**18472**	**19932**	**16936**	**15116**	**16230**	**14275**	**18767**	**17615**	**19058**	**19264**	**18413**	**18741**	**18829**
1. Engineering	1831	2039	2268	2080	2029	+2112	++1974	++1998	++1784	++2645	++3150	++3612	++4077	++4291	4094	4163
2. Agriculture & Animal Science	1318	684	721	674	675	565	520	602	598	696	742	745	720	564	570	710
3. Medicine	+1540	+1943	+1863	+1655	+1238	+1371	++1228	++1565	++1212	++1371	++1453	++1605	++1747	++1667	1685	1721
4. Forestry	577	561	454	563	541	483	404	410	353	435	396	405	360	358	441	407
5. Science & Technology	+10243	+11712	+13567	13500	15449	+12405	++10990	++11655	++10328	++13620	++11874	++12691	++12360	++11553	11951	11828
b. General Education	**86621**	**106523**	**135853**	**128989**	**119120**	**113163**	**84243**	**88396**	**82905**	**104466**	**109740**	**128254**	**123660**	**121999**	**100398**	**93899**
6. Law	+7109	+7539	+10268	9882+	7961	+8293	++4826	3877	4417	++4745	++4036	++3843	++2024	++1390	898	555
7. Management	+28061	+36468	+46335	42327+	40816	+42353	++28979	++31534	++28133	++36037	++36167	++39374	++37490	++37210	31341	30757
8. Education	6372	+8677	+10730	11396	16664	+15330	++11623	++10984	++10840	++14980	++17452	++21891	++22823	++22384	18814	17951
9. Humanities & Social Science	+45149	+53839	+68520	65384	53679	+47187	++38815	++42001	++39515	++48704	++52085	++63156	++61322	++61015	49345	44736
10. Sanskrit	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total	**102130**	**123462**	**154726**	**147461**	**139052**	**130099**	**99359**	**104626**	**97180**	**123233**	**127355**	**147322**	**142924**	**140412**	**119149**	**112728**
B. Mahendra Sanskrit University	**-**	**-**	**923**	**913**	**864**	**851**	**833**	**1017**	**1100**	**2311**	**2952**	**3616**	**3252**	**3001**	**3610**	**2958**
C. Kathmandu University																
1. School of Science	-	-	-	-	-	453	636	865	1372	665	828	711*	843*	715*	786	898
2. School of Engineering	-	-	-	-	-	76	180	252	388	442	428	515*	505*	468*	521	558
3. School of Management	-	-	-	-	-	71	71	71	96	138	248	127*	177*	120*	120	135
4. School of Education	-	-	-	-	-	24	13	24	156	81	30	35*	63*	100*	128	199
5. School of Arts	-	-	-	-	-	-	-	32	67	87	110	16*	16*	42*	98	166
6. School of Medical Science	-	-	-	-	-	-	-	-	-	1222	1730	93*	179*	287*	586	772
Total	-	-	-	-	-	**624**	**900**	**1244**	**2079**	**2635**	**3374**	**1497***	**1783**	**1732**	**2239**	**2728**
D. Eastern University																
1. Humanities	-	-	-	-	-	-	-	-	**-**	26	159	239	433	564	-	1978
2. Management	-	-	-	-	-	-	-	-	31	38	88	229	315	838	-	1218
3. Education	-	-	-	-	-	-	-	-	-	-	111	265	278	543	-	2588
4. Science & Technology	-	-	-	-	-	-	-	-	-	-	103	461	705	1180	-	200
5. Law										-	-	11	60	119	-	-
6. Agriculture												28	-	-	-	-
7. Engineering												96	-	-	-	5984
Total	-	-	-	-	-	-	-	-	**31**	**64**	**461**	**1329**	**1791**	**3244**	**6388**	**-**
E. Pokhara University																
1. Science & Techonology	-	-	-	-	-	-	-	-	-	71	66	137	202	334	362	NA
2. Management	-	-	-	-	-	-	-	-	-	-	220	733	1256	1751	2064	NA
3. Engineering	-	-	-	-	-	-	-	-	-	-	409	762	1438	1973	2119	NA
4. Humanities & Social Science	-	-	-	-	-	-	-	-	-	-	-	36	45	75	69	NA
Total										**71**	**695**	**1668**	**2941**	**4133**	**4614**	NA
Grand Total (A+B+C+D+E)	**102130**	**123462**	**155649**	**148374**	**139916**	**131574**	**101092**	**106887**	**100390**	**128320**	**134837**	**155432**	**152691**	**129785**	**136000**	**121670**

* Excluding affiliated campuses

** Estimated.

\+ Private Campus are included

++ Private Campus are not Included

Note:-Includes Students enrolled in Private Campuses under Science and Technology Faculty of T.U. since 1986/87.

Source : Tribhuvan University, Mahendra Sanskrit University, Kathmandu University, Eastern University & Pokhara University.

Table 12.5 : Extension of Health Services

In Number

Description	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05*
1. Extension of Services	**1088**	**1096**	**1098**	**1312**	**1833**	**2441**	**3097**	**3722**	**4340**	**4377**	**4406**	**4421**	**4418**	**4429**	**4408**	**4401**	**4390**
a. Hospitals	101	111	111	113	114	114	82	82	82	82	83	83	83	83	83	83	87
b. Health Centres	16	16	18	18	18	18	17	17	17	17	13	13	10	10	10	10	6
c. Health Posts	816	816	816	816	816	801	775	775	754	736	723	711	700	700	700	700	699
d. Ayurvedic Services Centre ++	155	153	153	165	165	168	167	172	200	230	260	275	275	286	287	287	287
e. Sub-Health Posts	-	-	-	200	700	1300	1997	2597	3187	3192	3187	3179	3170	3170	3148	3141	3131
f. Primary Health Centre	-	-	-	-	20	40	59	79	100	120	140	160	180	180	180	180	180
2. Hospital Beds	**4329**	**4572**	**4570**	**4798**	**4848**	**4848**	**3604**	**3604**	**3904**	**4189**	**4955**	**5190**	**5250**	**5250**	**5250**	**5250**	**6796**
3. Skilled Manpower	**22771**	**27948**	**30195**	**32815**	**32798**	**33441**	**27960**	**30520**	**73572**	**77107**	**78371**	**81381**	**81351**	**84087**	**86162**	**89311**	**90847**
a. Doctors	951	951	1196	1497	1497	917+	952+	872+	894+	894+	923+	1259+	1259	1259+	1259+	1259	1257
b. Nurses#	2980	2980	2986	2986	2999	2980	4606	4606	4706	3588	3925	4655	4655	7315	9146	10099	11637
c. Kaviraj (Ayurvedic Physician)+++	198	240	240	270	240	193	249	249	290	290	201	211	211	203	387	387	387
d. Vaidya (Ayurvedic Physician)	119	130	130	144	144	168	197	197	219	219	195	210	210	294	354	354	354
e. Health Assistants	1186	1186	1186	3461	3461	1168	4492	5092	5152	5192	5295	5295	5295	5295	5295	7491	7491
f. Health Workers (M. C. H. W.)	14337	19461	20442	20442	20442	24000	2400	2400	3187	3190	3190	3190	3190	3190	3190	3190	3190
g. Village Level Health Workers	3000	3000	4015	4015	4015	4015	4015	4015	4015	4015	4015	4015	3985	3985	3985	3985	3985
h. Other Members (Trained Sudeni, Women Health Volunteers)	-	-	-	-	-	-	11049	13089	55109	59719	60627	62546	62546	62546	62546	62546	62546

* First Eight Months

Data after F.Y.1994/95 are only of Governmental Sector.

+ HMG Employeed Only. In FY 99/00 and FY 00/01 doctors of Teaching Hospital have not included.

++ Zonal Ayurvedic Service Centre and Distric Ayurvedic Health Centre.

+++ Including Ayurvedic Officers (Permanent Aurvedic Officers and Vaidyas are included only after FY 1998/99).

The number of Health post and Sub-Health post have been changed because of some health post and sub-health post upgraded to primary Health Centre from FY 1996/97 .

Health center of Dolpa, Mugu, Kalikot and Rolpa are upgraded to District Hospital.

Source: Ministry of Health

Table 12.6 : Extension of Drinking Water and Sewerage Facilities

Description	Unit	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05*
A. Additional Facilities Extended By Water Supply & Sewerage Department																	
a. Additional Population Benefited from New Projects	In Th.	882	454	680	685	691	811	800	756	707	374	525	466	64	123.4	190	42
b. Additional Population Benefited from Repaired Projects	In Th.	-		-	5	8	2	5	14	-	-	-	-		-	-	-
c. Total Available Water	Th. Lt/Day	39700	20430	48875	35820	46948	54471	54067	34650	31815	20011	28271	25164	2876	5552	8550	1890
Urban Areas																	
a. Population Benefited	In Th.	-	-	10	52	18	48	40	-	-	-	-	-	-	-	-	-
b. Available Water	Th. Lt/Day	-	-	811	14096	1736	4608	3880	-	-	-	-	-	-	-	-	-
*** B. Additional Facilities Extended By Nepal Water Supply Corporation**																	
a. Available Water	Th. Lt/Day	10300	5000	8000	4260	16000	3300	5500	5500	300	7000	3000	1480	7000	5000	3000	-
b. Population Benefited	Th. Lt/Day	57	27	150	40	81	34	69	55	45	43	19	15	50	33	20	-
c. Modern Sewerage Facilities	K.M.	4	6	9	7	5	2.84	4.31	12	0.46	10	7	5	10	2.96	1	-

* First Eight Months.

Source : Water Supply and Sewerage Department & Nepal Water Supply Corporation