

Current Macroeconomic Situation
(Based on Annual Data of 2007/08)

Real Sector

Gross Domestic Product

1. The preliminary estimates of national income accounts recently released by Central Bureau of Statistics (CBS) has placed the real GDP growth in basic prices at 5.6 percent and in producers' prices at 4.7 percent in 2007/08 compared to the respective growths of 2.6 percent and 3.2 percent in the preceding year.
2. In 2007/08 the agriculture and non-agriculture sectors are reported to have grown by 5.7 percent and 5.6 percent respectively. These sectors had witnessed the growth of 1.0 percent and 4.1 percent respectively in the previous year.
3. The monsoon precipitation that plays a crucial role in agriculture production remained satisfactory in 2007/08. As per the statistics released by Department of Hydrology and Meteorology, the country witnessed 98 percent of normal precipitation in June, 125 percent in July and 101 percent in August 2007. This led to a rebound in paddy production in 2007/08. However, winter season remained unfavourable to the production of wheat, barley, pulses and fruits.
4. The paddy production surged by a whopping 16.8 percent in 2007/08 due mainly to a favourable monsoon. Over past three years, the paddy production had experienced a continuous decline. The maize, wheat and potato production also surged by 3.2 percent, 3.8 percent and 5.7 percent respectively in the review year. Consequently, the index of food grains and other crops increased by 7.3 percent contrary to the 2.7 percent decline last year. Likewise, the production indexes of vegetable and nursery, fruits and spice, livestock, other livestock and forestry groups accelerated by 9.6 percent, 5.4 percent, 2.6 percent, 3.1 percent and 0.2 percent respectively.
5. As per the latest statistics released by CBS, the manufacturing production index declined by 1.4 percent in 2007/08 compared to a growth of 2.6 percent in the previous year. The decline in the index was on account of a substantial fall in the production of vegetable ghee and oil, plastic products, garment and domestic metal products.
6. Among the other commodity groups included in the manufacturing production index, the production of processed milk, grain meal product and animal feeds, other food products, beverages, tobacco product, pashmina, wood sawn, paper and paper products, news papers, other chemical products, iron rods and billets, and electric wire and cable increased in the review period.

Consumption, Investment and Savings

7. In 2007/08, the total consumption as percent of GDP is estimated to have dropped by 1.8 percentage points to 88.5 percent from 90.3 percent in preceding year. Consequently, the ratio of gross domestic savings to GDP increased to 11.5 percent in 2007/08 from 9.7 percent in 2006/07. The ratio of total investment to GDP reached 32.0 percent in 2007/08 from 28.0 percent in the previous year. Likewise, the gross fixed capital formation increased marginally to 21.0 percent of GDP in 2007/08 from 20.4 percent in 2006/07.

Gross National Disposable Income

8. The gross national disposable income (GNDI) including the workers' remittances, among others, is estimated to have surged substantially by 14.6 percent in 2007/08. GNDI had

soared by 10.0 percent in the previous year. The ratio of GNDI to GDP stood at 120.5 percent in 2007/08 compared to a level of 118.8 percent in the preceding year.

Inflow of Tourists

9. The inflow of tourists via air surged by 10.9 percent to 367.9 thousand in 2007/08 from 331.6 thousand of the preceding year. The inflow of third-country tourists surged by 21.0 percent to 277.9 thousand in 2007/08 compared to a growth of 23.2 percent in the previous year. However, the inflow of Indian tourists via air declined sharply by 11.6 percent to 90.2 thousand contrary to a marginal rise of 0.6 percent in the preceding year.
10. The share of Indian and third countries' tourists remained at 24.5 and 75.5 percent respectively in 2007/08. The respective shares were 30.7 and 69.3 percent in the preceding year (Table 1).

Table 1
Inflow of Tourists via Air

	Numbers			Percent change		Percent share	
	2005/06	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08
India	1,01,231	1,01,862	90,016	0.6	-11.6	30.7	24.5
Third country	1,86,488	2,29,779	2,77,927	23.2	21.0	69.3	75.5
Total	2,87,719	3,31,640	3,67,943	15.3	10.9	100.0	100.0

Source: Ministry of Tourism and Civil Aviation

Foreign Direct Investment

11. With the improved law and order situation in the country, the foreign direct investment (FDI) commitment rose substantially in 2007/08. The Department of Industry approved 212 foreign investment projects with the FDI commitment of Rs. 9.8 billion in 2007/08. The Department had approved 184 projects with the FDI commitment of Rs. 2.9 billion in the preceding year. Of 212 projects approved in 2007/08, the numbers of projects in tourism, services, manufacturing, construction, agriculture, energy and mineral sectors were 67, 55, 51, 13, 11, 8 and 7 respectively. Of the total FDI commitment, the energy sector received the highest amount of 29.2 percent of the total FDI commitment in 2007/08. The share of FDI commitment in the mineral and construction sectors remained at 22.7 percent and 18.4 percent respectively.
12. The FDI projects registered in 2007/08 are estimated to create employment opportunities for 10.7 thousand people. Nepal received FDI commitment from 39 countries in the review year. Of the countries committing FDI to Nepal, Indian investors are on the top in the list followed by South Korea, China, UAE and UK.

Foreign Employment

13. The number of workers going abroad for foreign employment surged by 12.5 percent in 2007/08. The Department of Labor and Employment Promotion granted a final approval to 241.1 thousand workers for foreign employment in 2007/08. The Department had granted approval to 214.4 thousand workers in the previous year.
14. Qatar, Malaysia, UAE and Saudi Arabia were the top four countries absorbing Nepali workers in 2007/08. Qatar alone provided foreign employment for 84.5 thousand Nepalese workers in 2007/08, showing an increase of 42.9 percent over the preceding year. This is nearly 35 percent of the total foreign employment in the review year. Qatar was then followed by Malaysia (49.6 thousand), UAE (44.1 thousand) and Saudi Arabia (42.3 thousand). Qatar became the top destination for foreign employment in 2007/08. Malaysia

was the top destination till last year. The total number of workers going abroad for foreign employment exceeded 1.2 million till 2007/08.

Inflation and Salary & Wage Rate

Consumer Inflation

15. The year-on-year (y-o-y) inflation climbed to 12.1 percent in mid-July 2008 from the level of 5.1 percent in mid-July 2007. The average annual consumer inflation rose to 7.7 percent in 2007/08 from the level of 6.4 percent in 2006/07. The rise in food prices and the price hike in the petroleum products were the driving factors for inflation in 2007/08.
16. The annual average price index of food and beverages group rose by 10.1 percent in 2007/08 compared to an increase of 7.2 percent in the previous year. Of the items under food and beverages group, price indices of oil and ghee, grains and cereal products and pulses witnessed a growth of 20.9 percent, 14.6 percent and 14.2 percent respectively in the review period compared to an increase of 6.7 percent, 6.4 percent and 17.0 percent respectively in the previous year. The price index of rice and rice products rose by 14.2 percent compared to a rise of 17 percent in the previous year. But the prices of sugar and related products showed a significant decline of 10.1 percent in the review period compared to a decrease of 7.1 percent in the previous period.
17. Similarly, the annual average price index of non-food and services revealed an increment of 5.1 percent in 2007/08 compared to a rise of 5.5 percent in the preceding year. Within the group of non-food and service, the index of tobacco and related products as well as housing goods rose by 7.4 percent and 7.0 percent in the review period compared to a rise of 6.1 percent and 7.2 percent respectively in the previous year.
18. Region-wise, the annual average yearly price level in the Kathmandu Valley, the Hills and the Terai rose by 7.2 percent, 7.4 percent and 8.1 percent respectively in 2007/08. The respective rates were 6.1 percent, 6.0 percent and 6.7 percent in the previous year. A relatively higher price level was observed in the Terai region mainly on account of the effect of sporadic unrest in the Terai region in the review year.
19. The average core inflation rose by 6.1 percent in 2007/08 from the level of 6.0 percent in the previous year.

The Wholesale Price Inflation

20. The annual average National Wholesale Price Index (NWPI) increased by 9.1 percent in 2007/08 compared to a rise of 9.0 percent in the previous year. The y-o-y wholesale price inflation accelerated by 13.2 percent in mid-July 2008 from the level of 8.5 percent in the corresponding month of the preceding year. The wholesale price inflation accelerated mainly due to the increase in the prices of imported commodities.
21. Group-wise, the wholesale price of agricultural commodities rose by 9.5 percent in the review year compared to an increase of 11.6 percent in the previous year. The price of domestically manufactured commodities recorded a higher annual growth of 8.8 percent in 2007/08 compared to a growth of 8.5 percent in the previous year. The group of imported commodities observed a significant price rise of 8.6 percent in the review year compared to a growth of 5.6 percent in the previous year.

National Salary and Wage Rate Index

22. The annual average National Salary and Wage Rate Index increased by 9.7 percent in 2007/08. It had increased by 9.8 percent in the previous year. The y-o-y salary and wage rate index rose by 11.1 percent in mid-July 2008 compared to a rise of 12.3 percent a year ago. In the review period, both salary and wage rate indices rose by 10.9 percent and 9.4 percent respectively compared to the respective increases of 6.3 percent and 10.9 percent in the preceding year. The increase in the annual average National Salary and Wage Rate index was on account of about 17.0 percent increase in the salary of civil servants in mid-July 2007. Within the wage rate index, the index of industrial labor increased by a higher rate of 11.6 percent in the review year, followed by 10.2 percent of construction labor and 7.7 percent of agriculture labor.

External Sector Situation

Foreign Trade and Balance of Payments

23. The balance of payments (BOP) recorded a surplus of Rs 29.7 billion compared to a BOP surplus of Rs 5.9 billion in 2006/07. The significant rise in workers' remittances and grants assistance contributed to a record level of BOP surplus in the review year. However, the BOP surplus masked import trade credit amounting to Rs 15.2 billion in 2007/08, reflecting a rather fragile base. In the previous year, import trade credit was at a lower level of Rs 1.7 billion.
24. In 2007/08, the current account showed a surplus of Rs 21.7 billion in contrast to a deficit of Rs 900 million in the previous year. The robust growth in external net transfer income contributed to such a significant surplus in the current account despite a deficit in the merchandise and services trade account.
25. In 2007/08, the merchandise trade deficit widened by 22.2 percent to Rs. 165.3 billion compared to an increase of 19.2 percent in the previous year. The ratio of merchandise trade deficit to GDP was 20.0 percent in 2007/08. Of the total, the trade deficit with India amounted to Rs 105.9 billion and the remaining deficit of Rs 59.4 billion with other countries.
26. The significant growth in imports relative to a marginal rise in exports widened the merchandise trade deficit in the review year. Total exports went up by 2.4 percent in comparison to a decline by 1.4 percent in the previous year. Of the total exports, exports to India dropped by 7.4 percent in 2007//08 in contrast to a rise by 2.5 percent in the preceding year. Exports to other countries, however, soared by 25.5 percent as against a decline of 9.6 percent in 2006/07.
27. The dismal performance in the exports to India was due to the decline in the exports of vegetable ghee, textiles, chemicals, rosin and readymade garments. On the other hand, exports to other countries rose primarily because of the increase in the exports of pulses, Nepalese paper and paper products, herbs, wheat, noodles, ceramic products, electric wire and stationary.
28. Total imports increased by 16.1 percent in 2007/08 compared to a rise of 12.0 percent in the previous year. While imports from India accelerated by 24.7 percent in the review period compared to a growth of 8.1 percent in 2006/07, imports from other countries rose by just 3.5 percent compared to a rise of 18.3 percent in the previous year. As a result, the total trade deficit expanded by 22.2 percent in 2007/08 in comparison to its growth of 19.2 percent a year earlier.

29. The contributing factors for the upsurge in total imports in 2007/08 were a rise in the import of petroleum products, M.S. billet, vehicles and spare parts, hot rolled sheet in coil and cold rolled sheet in coil, among others, from India as well as an increase in the import of telecommunication equipment and parts, other machinery and parts, transport equipment and parts, video television and parts and polythene granules from other countries.
30. In 2007/08, the workers' remittances rose by 42.5 percent to Rs 142.7 billion. The workers' remittances/GDP ratio increased to 17.4 percent in 2007/08. The workers' remittances had increased by 2.5 percent to Rs. 100 billion in 2006/07. Likewise, current and capital grants assistance amounted to Rs 33.6 billion in 2007/08. Such assistance had amounted to Rs 22.7 billion in 2006/07.

Foreign Exchange Reserves

31. In mid-July 2008, the gross foreign exchange reserves stood at Rs. 212.6 billion, showing a growth of 28.8 per cent from the level of Rs 165.1 billion in mid-July 2007. Such reserves had gone up by barely 0.1 percent in the preceding year. In US dollar terms, the gross foreign exchange reserves went up by 21.9 percent to US\$ 3.1 billion in mid-July 2008. Such reserves had increased by 14.3 percent in the same period of the previous year. Based on the import figures of 2007/08, the current level of reserves is adequate for financing merchandise imports of 11.3 months and merchandise and service imports of 9.1 months.

Price of Oil and Gold in the International Market

32. The price of oil (Crude Oil Brent) in the international market escalated by 79.7 percent to US\$ 143.25 per barrel in mid-July 2008 from US\$ 79.73 in mid-July 2007. Likewise, the price of gold soared by 48.0 percent to US\$ 986.00 per ounce in mid-July 2008 from US\$ 666.00 a year ago.

Exchange Rate Movement

33. The Nepalese currency depreciated by 5.33 percent vis-à-vis the US dollar between mid-July 2007 and 2008. It had appreciated by 14.26 percent in the corresponding period of the previous year. The exchange rate of one US dollar was at Rs. 68.50 in mid-July 2008 in comparison to Rs. 64.85 in mid-July 2007.

Fiscal Situation

Budget Surplus/Deficit

34. The government budget deficit, on a cash basis, increased by 13 percent to Rs 21.20 billion in 2007/08. Such deficit was slightly at a lower level of Rs 18.8 billion in 2006/07. The ratio of budget deficit to GDP remained at 2.6 percent in the review year as in the previous year.

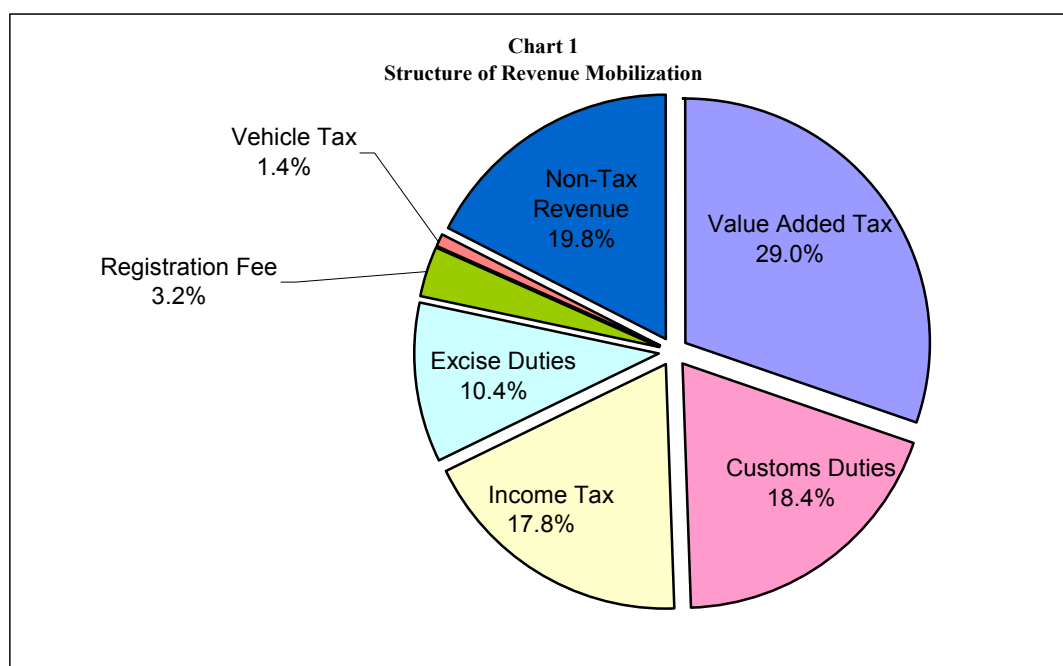
Sources of Deficit Financing

35. In 2007/08, the domestic financing of the budget deficit through the issuance of securities amounted to Rs 20.50 billion, a 2.5 percent of GDP.
36. After deducting the principal repayment of Rs.8.56 billion from gross domestic borrowing, net domestic borrowing (including the government of Nepal (GON) balance of Rs 2.1 billion with NRB) stood at Rs 9.8 billion. The ratio of net domestic borrowing to GDP stood at 1.2 percent in the review year. Consequently, the GON's total outstanding domestic debt (including GON's balance with NRB) increased to Rs.106.0 billion from Rs. 96.2 billion in the previous year.

37. The total external cash borrowing of the government amounted to Rs 3.9 billion in 2007/08 compared to Rs 4.42 billion in the previous year.

Government Revenue and Foreign Cash Grants

38. In 2007/08, revenue mobilization of the government increased by 22.6 percent to Rs 107.6 billion. The revenue had risen by 21.3 percent to Rs 87.7 billion in 2006/07. Consequently, the revenue to GDP ratio climbed to 13.1 percent in 2007/08 from that of 12.1 percent in 2006/07. Such an impressive growth of revenue was on account of substantial increase in the import of merchandise goods and the resulting increase in customs duties, VAT revenue and excise duties, the increase in income tax as well as in non tax revenue.
39. Of the total revenue mobilization, VAT revenue grew by 19.2 percent to Rs 31.2 billion in 2007/08. The growth in VAT revenue was on account of growing imports and consumption induced by the rise in remittances and reforms in VAT administration in the forms of establishment of Large Taxpayers Unit, strengthening of billing system and non-filers management.
40. In 2007/08, customs revenue rose by 18.6 percent to Rs 19.8 billion compared to an increase of 9.0 percent in the previous year. Reforms in customs administration, the increase in imports of high tax yielding vehicles and spare parts as well as a rise in the amount of Indian excise refund contributed to such a high growth of customs revenue.
41. In the review year, excise revenue increased by 20.0 percent to Rs 11.2 billion compared to an increase of 43.0 percent in the previous year. Reforms in excise administration, identification of new excisable goods, and increase in the imports of high tax yielding vehicles and spare parts accounted for such an increase in excise revenue.
42. Income tax revenue increased by 21.4 percent to Rs 19.1 billion in 2007/08 compared to an increase of 42.7 percent in the previous year. A significant amount of income tax paid by the large taxpayer companies like Nepal Telecom, Surya Nepal, Spice Nepal, Gorkha Brewery, Standard Chartered Bank contributed to such a growth of income tax collection in the review year.



43. In 2007/08, amongst the components of revenue, VAT constituted a share of 29 percent followed by customs duties with a contribution of 18.4 percent, income tax with 17.8 percent, and excise duties with 10.4 percent. In the previous year, such ratios were 29.8 percent, 19.0 percent, 17.9 percent and 10.7 percent respectively.
44. In the review year, non-tax revenue grew by 29.0 percent to Rs 21.3 billion compared to an increase of 17.2 percent in the previous year. Such an increase in non-tax revenue was on account of the increase in dividend paid by some public enterprises including the NRB as well as the amount received by the government in the form of principal repayment from Nepal Telecom, Nepal Electricity Authority and Civil Aviation Authority.
45. In 2007/08, foreign cash grants increased by 37.5 percent to Rs 17.5 billion compared to that of Rs 12.8 billion in the previous year. In the review year, the major assistance included supports provided by the Asian Development Bank for the Rural Reconstruction and Rehabilitation Sector Development Program (RRRSDP), 'Germany for Middle Marsyangdi Hydroelectric Project, the World Bank for Poverty Alleviation Fund, Road Sector Development Project, Irrigation and Water Resources Management Project and Education For All Project, the UNICEF for Decentralized Action for Children and Women, Health and Nutrition, and HIV/AIDs program and Finland for Rural Water Supply and Sanitation Project.

Government Expenditure

46. The government expenditure, on a cash basis, increased by 18.5 percent to Rs 148.6 billion in 2007/08 compared to an increase of 23.3 percent in the previous year.
47. In the review year, the government's recurrent expenditure rose by 18.0 percent to Rs 87.5 billion compared to an increase of 14.8 percent in the previous year. The rise in the salary of government employees, peace related expenditure, non-budgetary expenses on different items and expenditure on CA elections exerted the pressure on recurrent expenditure in the review year.
48. In 2007/08, the capital expenditure went up by 32.2 percent to Rs 42.7 billion compared to an increase of 57.7 percent in the previous year. A pick up in capital spending was on account of the investment in public enterprises amounting to Rs 8.9 billion including the loan investment of Rs 6.7 billion in Nepal Oil Corporation for the clearance of arrears, the share investment of Rs 2.8 billion in Agriculture Development Bank and Rs 2.2 billion in the Nepal Electricity Authority and the release of funds of Rs.1.9 billion to Poverty Alleviation Fund (PAF). Moreover, the disbursement of funds to local authorities for rural infrastructure development (such as expansion of transformer line, small hydroelectricity project, alternative energy development) also contributed to such an increase of capital expenditure in the review year.

Monetary Situation

Money Supply

49. In 2007/08, monetary aggregates expanded significantly. Broad money (M₂) grew by 25.2 percent in the review year compared to an increase of 14.0 percent in the previous year. Likewise, narrow money (M₁) registered a growth of 21.6 percent in the review year compared to a rise of 12.2 percent a year ago. A significant increase in both net foreign assets (NFA) and net domestic assets (NDA) contributed to such a substantial increase in monetary aggregates in the review year.
50. Compared to a growth of 7.4 percent in the previous year, the currency in circulation increased by 19.9 percent in the review year. Such a higher increase of currency in

circulation was on account of higher flow of remittances to rural areas and, increased government expenditures on relief related programs and CA elections. The demand deposits grew by 25.0 percent on the back of higher private sector credit growth in the review year compared to an increase of 22.8 percent in the previous year. Likewise, the time deposits grew substantially by 27.0 percent in the review year on account of the elevated level of remittance inflows. Such deposits had increased by 14.9 percent a year ago.

Net Foreign Assets (NFA)

51. NFA (after adjusting exchange valuation gain/loss) increased significantly by Rs. 29.67 billion (22.5 percent) in the review year compared to Rs. 5.9 billion (4.2 percent) in the previous year. The higher level of remittance inflows and an expansion in foreign assistances as well as tourism services contributed to such a significant rise in NFA in the review year.

Domestic Credit

52. Domestic credit increased by 20.9 percent in the review year compared to a growth of 16.7 percent a year ago. Such an increase in domestic credit was on account of a higher growth of private sector credit. In the review year, the credit to financial institutions also registered a significant growth. Expansion of such credit was Rs. 1.08 billion in the review year compared to that of Rs. 40.3 million a year ago.
53. In the review year, net claims on government increased by Rs. 7.46 billion compared to Rs. 7.37 billion in the previous year. Net claims on government increased at a lower rate on account of higher revenue mobilization of the government in the review year. The GON maintained a cash deposit of Rs. 2.10 billion with the NRB as at mid-July 2008.

Reserve Money

54. The reserve money increased by 21.2 percent in the review year compared to a growth of 7.5 percent in the previous year. Such a higher growth of monetary base was on account of a significant increase in NFA of the monetary authorities.

Deposit Mobilization, Credit Flows and Liquidity Position of Commercial Banks

55. In the review year, deposits of commercial banks increased by Rs. 87.07 billion (26.0 percent) to Rs. 421.52 billion as at mid-July 2008. Of the total deposits, saving and time deposits increased by Rs. 36.77 billion (21.1 percent) and Rs. 38.33 billion (33.6 percent) respectively. Establishment of 5 new commercial banks, expansion of branch network by the existing banks and higher remittance inflows contributed to such a significant growth of deposits in the review year.
56. Credit to private sector grew by Rs. 71.42 billion (26.9 percent) in the review year. Commercial banks, in addition to deposits mobilization, funded their increased loans and advances through an additional capital mobilization of Rs. 11.73 billion in the review year. The credit-deposit ratio increased marginally to 82.6 percent at mid-July 2008 from 82.1 percent a year ago.
57. Credit flows to production, residential and non-residential construction, wholesale and retail trade and real estate increased significantly in the review year. In the review year, bank credit to food processing industries increased by Rs. 2.48 billion and to iron and steel production sector by Rs. 2.68 billion. Likewise, credit to construction sector and real estate increased by Rs. 12.59 billion and Rs. 8.25 billion respectively in the review period. Credit to real estate had increased by Rs. 1.08 billion in the previous year. In the review year,

other credit including the credit against share and trust receipt increased by Rs. 17.51 billion compared to Rs. 6.58 billion a year ago.

58. In 2007/08, the liquid assets of commercial banks increased by 15.5 percent to Rs. 151.11 billion compared to a growth of 8.4 percent in the previous year. Of the total liquid assets, liquid fund of commercial banks grew by 21.7 percent (Rs. 14.08 billion) to Rs. 79 billion in the review year compared to an increase of 5.2 percent in the previous year. As at mid-July 2008, commercial banks had deposit of Rs. 23.86 billion with the NRB, which accounted for 6.2 percent of their total domestic deposits. Such ratio was 7.4 percent at mid-July 2007. The balance held abroad by commercial banks increased by 21.1 percent to Rs. 41.1 billion. Likewise, the investments in government securities rose by 9.5 percent to Rs. 72.1 billion in the review year. The liquidity-deposit ratio of commercial banks declined to 35.8 percent in the review year from 39.1 percent a year ago.

Liquidity Management

59. In 2007/08, the NRB injected net liquidity of Rs.102.4 billion through the net purchase of the US dollar 1.57 billion by way of foreign exchange intervention. In the previous year, the NRB had injected net liquidity of Rs. 64.45 billion through the net purchase of the US dollar 915.7 million. Such a higher foreign exchange intervention was on account of elevated level of remittance inflows in the review period.
60. In 2007/08, the NRB purchased Indian Currency (IC) 70.6 billion by selling the US dollar 1.37 billion compared to a purchase of IC 40.32 billion by selling the US dollar 930 million in the previous year. A widening current account deficit with India and the higher amount of payments made to Indian Oil Corporation (IOC) by Nepal Oil Corporation (NOC) contributed to such an increase in IC purchase in the review period.
61. As a monetary measure, the NRB absorbed total liquidity of Rs. 21.42 billion through open market operations in 2007/08, of which Rs. 6.57 billion was through reverse repo auction and Rs.14.85 billion through outright sale auction. Adjusting the liquidity of Rs.9.0 billion injected through repo auction on account of short-term liquidity shortage faced by some commercial banks mainly in the sixth and seventh month of 2007/08, the net liquidity absorption stood at Rs 12.42 billion in the review year. In the previous year, total liquidity of Rs.32.74 billion was absorbed together with Rs.14.34 billion through reverse repo auction and Rs.18.40 billion through outright sale auction. Liquidity of Rs 2.0 billion was injected through repo auction in the previous year. As a result, the net liquidity absorption had amounted to Rs 30.74 billion in the previous year.
62. In 2007/08, commercial banks' total borrowings from the NRB under standing liquidity facility (SLF) cumulated to Rs 103.83 billion. In the previous year, commercial banks' SLF borrowing had cumulated to Rs.46.97 billion.
63. Inter bank transactions cumulated to Rs. 258.31 billion in 2007/08 compared to Rs. 170.18 billion in the previous year. The expansion of bank credit to the capital market as well as the relatively better cash management by commercial banks contributed to such a higher inter-bank transactions in the review period.

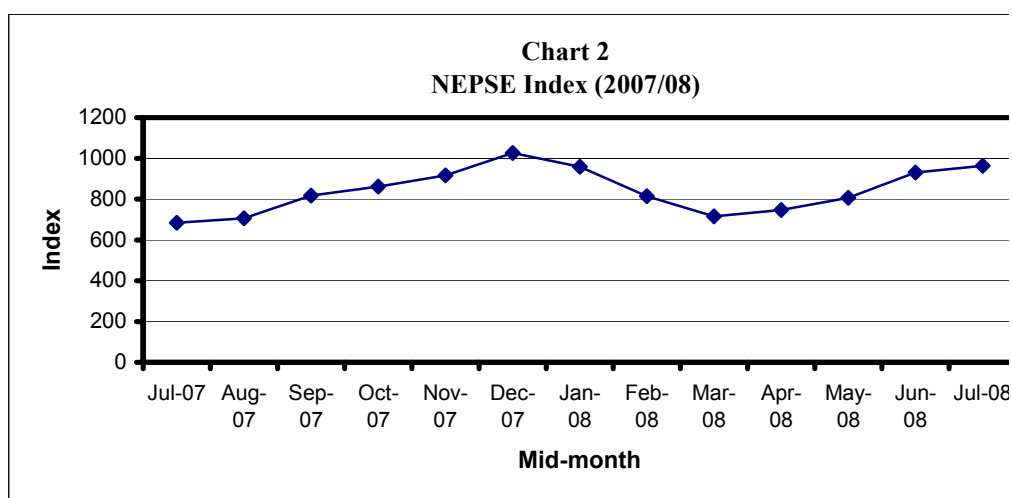
Interest Rate

64. In the review year, the weighted annual average rate of 91-day Treasury Bill increased to 4.21 percent from 2.44 percent a year ago. Likewise, weighted annual average inter-bank rate remained at 4.42 percent in the review year compared to 2.26 percent in the previous year. The interest rate on saving deposits increased to a maximum of 6.0 percent in the review year from a maximum of 5.5 percent in the previous year. Similarly, the interest

rate on one-year fixed deposit also increased to a maximum of 6.75 percent in the review year from a maximum of 5.5 percent in the previous year. On the other hand, the interest rate of industrial credit moderated from a maximum of 13.5 percent in the previous year to 13.0 percent in the review year. Similarly, the interest rate of agriculture credit came down to 12.0 percent in the review year from a high of 13.0 percent in the previous year. The increased competition in the financial market contributed to changes, to some extent, in interest rate structures in the review year.

Securities Market

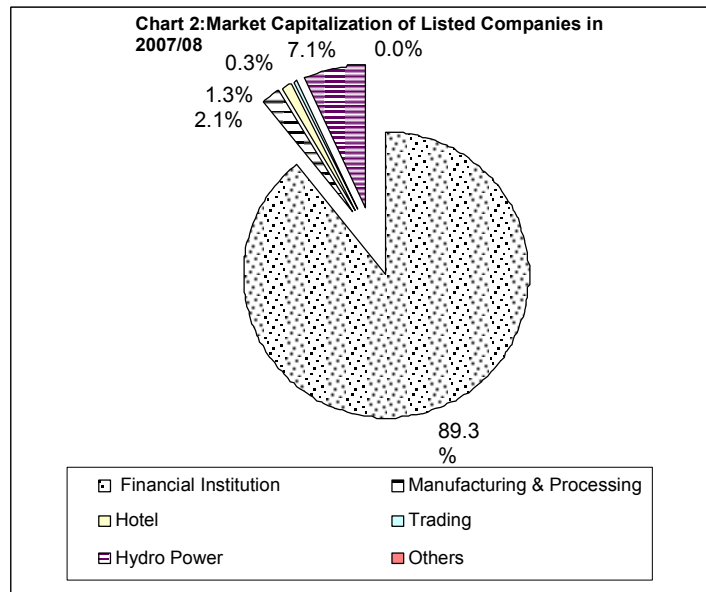
65. The y-o-y NEPSE index increased by 40.9 percent to 963.36 points in mid-July 2008. This index was 683.95 a year ago. In 2007/08, the NEPSE index had reached 1064.09 points on December 17, 2007.



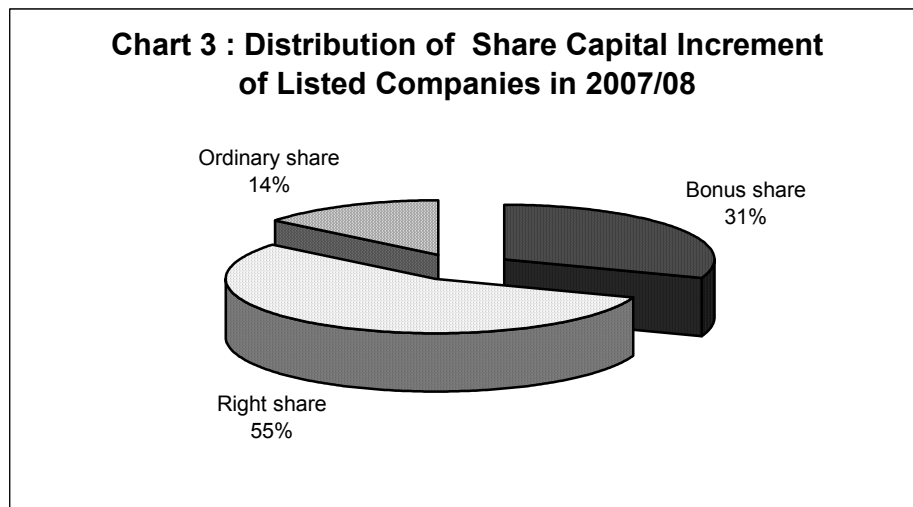
66. The y-o-y market capitalization increased by 96.6 percent to Rs.366.3 billion in mid-July 2008. Market capitalization to GDP ratio increased to 44.6 percent from 25.6 percent a year ago. Of the total market capitalization, banks and financial institutions constituted the highest share of 89.3 percent.

Table 2
Market Capitalization of Listed Companies

Companies	2007/08	
	Amount (Rs. in million)	Sectoral Share (%)
Financial Institutions	326868.9	89.3
<i>Commercial Banks</i>	259955.3	71.0
<i>Development Banks</i>	17997.8	4.9
<i>Finance Companies</i>	37674.4	10.3
<i>Insurance Companies</i>	11241.4	3.1
Manufacturing & Processing	7516.9	2.1
Hotel	4809.7	1.3
Trading	1170.2	0.3
Hydro Power	25863.3	7.1
Others	18.7	0.0
Total	366247.6	100.0



67. Total paid up capital of the listed companies stood at Rs.29.5 billion in mid-July 2008 with an increase of 35.5 percent over the period of one year. This increase was due to the additional listing of securities. Among the increased amount, the portion of right share was 55 percent, bonus share 31 percent and ordinary share 14 percent.



68. The total number of companies listed at the NEPSE reached 142 in mid-July 2008 compared to 135 a year ago. Among the currently listed companies, 112 were bank and financial institutions. Production and processing industries, hotels, business entities, hydro-power and companies in other groups were 18, 4, 4, 3 and 1 respectively. The Nepal Stock Exchange delisted the share of five companies from its list and two companies were merged in mid July 2008.
69. Monthly turnover to market capitalization ratio stood at 0.72 percent in mid-July 2008 compared to 0.77 percent a year ago.

70. The twelve-month rolling standard deviation stood at 104.5 in mid-July 2008 compared to 85.6 a year ago, reflecting an increased volatility in the stock market.
71. The Nepal Securities Board (SEBON) granted permission for new issuance of 11.6 billion in 2007/08. These consisted of ordinary shares of Rs.1012.7 million to eighteen companies, right shares of Rs.7605.2 million to 49 companies and debentures of Rs.2950 million to five companies including Nepal Electricity Authority. Likewise, the Nepal stock exchange listed the bonus share of Rs.2109.0 million to 50 companies in the review year.
72. The SEBON issued a new regulation for Initial Public Offering (IPO) effective from May14, 2008. According to new regulation, if the issue manager invested the collected amount, eighty percent of earned interest should be distributed to the applicants in pro rata basis since the period of application date to one day before of its allotment date. The issue manager should deposit the collected amount at NRB at least 3 days from subsequent day of the closing date of application.
73. The GON issued fresh treasury bills of Rs.12.5 billion, development bonds of Rs.6.1 billion, and citizens saving certificates of Rs.1.9 billion in 2007/8.

The Number of Banks and Financial Institutions

74. A total of 30 new banks and financial institutions were established in 2007/08. These included 5 commercial banks, 20 development banks, 4 finance companies and 1 micro-finance institution. The NRB revoked license of the one cooperative and one NGO (undertaking micro finance transaction) in the review period. Likewise, the number of insurance companies increased by 4 to 25 in mid-July 2008 from 21 a year ago.

Table 3
The Number of Banks and Financial Institutions

Bank and Financial Institutions	Mid-July	
	2007	2008
Commercial Banks	20	25
Development Banks	38	58
Finance Companies	74	78
Micro Finance Institutions	12	12
NRB Licensed Cooperatives (undertaking limited banking transactions)	17	16
NRB Licensed NGOs (undertaking micro finance transactions)	47	46
Insurance Companies	21	25

75. Besides the establishments of new banks and financial institutions, the branch expansion of commercial banks also took place significantly in the review period. For example, branches of commercial bank increased by 106 to 558 in mid-July 2008 from 452 in mid-July 2007.