Current Macroeconomic Situation

(Based on the annual Data of 2009/10)

Real Sector

Gross Domestic Product (GDP)

1. Based on the Preliminary estimate of the Central Bureau of Statistics, the gross domestic product (GDP) has witnessed a growth of 3.5 percent at basic price and 4.6 percent at producer's price in 2009/10. Such growth rates were 3.9 percent and 4.9 percent respectively in 2008/09.

2. The agriculture and non-agriculture sectors are estimated to grow at 1.1 percent and 5.1 percent respectively in 2009/10. Such growth rates were 3.0 percent and 4.7 percent respectively in the previous year.

3. As a consequence of the adverse monsoon, the production of paddy declined by 11.0 percent in 2009/10 in contrast to a growth of 5.2 percent in the previous year. The production of maize declined by 3.9 percent in the review year. However, the production of wheat, barley and millet is estimated to grow by 15.8 percent, 18.8 percent and 2.3 percent respectively in the review year. Similarly, the production of fruits and vegetables increased by 2.7 percent and 8.9 percent respectively in the review year.

Consumption, Investment and Savings

4. The ratio of gross consumption to GDP increased by 0.3 percentage point to 90.6 percent in 2009/10, thereby pushing the ratio of gross domestic savings to GDP reached to 9.4 percent. The ratio of Gross capital formation to GDP recorded 38.2 percent in 2009/10, as against 31.9 percent in the previous year. The ratio of gross fixed capital formation to GDP stood at 21.3 percent in the review year, this is at par with the ratio of the previous year.

Gross National Disposable Income (GNDI)

5. The gross national disposable income (GNDI), which includes the worker's remittance inflow and net transfer in gross national income, is estimated to increase by 18.1 percent in 2009/10. In the previous year, GNDI had increased by 24.5 percent. In the review year, the ratio of GNDI to GDP is expected to reach 125.1 percent. In the previous year such ratio was 126.4 percent.

Tourist Arrival

6. The number of tourist arrival by air increased by 12.8 percent to 4,11,584 in 2009/10 from that of 3,64,830 in 2008/09. In the review year, the share of tourist arrival from India and third countries by air recorded a growth of 22.1 percent and 77.9 percent respectively. In the previous year, such shares were 24.1 percent and 75.9 percent respectively.

7. In the review year, the number of tourists arrival from third countries increased by 15.7 percent to 3,20,468. The number of tourist arrival from third countries had decreased by 0.5 percent in the previous year. In the review year, the number of tourist arrival from India increased by 3.8 percent to 91,117, as against a decline of 2.3 percent in the previous year.

Foreign Direct Investment

8. The commitment for foreign direct investment in the review year increased as a consequence of the gradual improvement in the peace and security situation of the country. In the review year, the Department of Industry has given approval for the incorporation of 171 joint venture projects with foreign investment equivalent to Rs. 9.1 billion. In the previous year, the number of such approval accounted to 230 with a total foreign capital of Rs. 6.3 billion. Out of total joint venture investment, 50 are related to tourism, 72 are related to services, 37 are related to manufacturing, 1 is related to construction, 2 are related to agriculture, 5 are related to energy and the remaining 4 are related to mining. Of the total approved foreign investment projects, manufacturing sector witnessed the highest growth of 121.1 percent, as against at most reduction of 96.7 percent in the agricultural sector compared to the previous year.

9. From all the approved projects, 7,848 people are expected to get employment. In the review year, 34 countries were given approval for foreign investment. Country-wise analysis shows that the investment commitment from India secures the topmost position followed by Mauritius, Canada and China.

Foreign Employment

10. The Department of Foreign Employment, Government of Nepal granted final approval to 2,17,164 people for foreign employment in 2008/09. This number has surged by 35.4 percent to 2,94,094 in 2009/10.

11. In 2009/10, the number of people granted permission for the employment in Malaysia stood at 1,13,933, which is a substantial rise of 240.7 percent in comparison to the previous year. Of the total number of people granted permission for foreign employment, approximately 38.5 percent find their way to Malaysia followed by Saudi Arab, Qatar and United Arab Emirates. While Qatar served as the major foreign employment destination for Nepal up to 2008/09, Malaysia secured the top position in 2009/10.

Inflation

Consumer Price Inflation

12. The annual average consumer price inflation moderated to 10.5 percent in 2009/10 compared to an increase of 13.2 percent in 2008/09. Despite a substantial rise of 15.4 percent in the prices of food and beverages group, the annual average consumer price inflation moderated on account of a low increment by 4.7 percent in the prices of non-food and services group. The index of food and beverages and non-food and services had increased by 16.7 percent and 9.5 percent respectively in 2008/09. The y-o-y consumer price index rose by 10.1 percent in Mid-July 2010, as against a rise of 11.4 percent in the previous year.

13. In the review year, yearly average price index of sugar and sugar related products, the item under food and beverages group increased by a whopping rate of 45.6 percent, it had increased by 45.9 percent in the previous year. Similarly, the annual average price indices of spices, pulses, meat, fish and eggs went up by 27.3 percent, 26.1 percent and 20.6 percent respectively compared to their respective rise of 12.3 percent, 25.0 percent and 23.4 percent in the previous year. The annual price index of vegetables and fruits grew by 19.9 percent compared to a 12.7 percent rise in the previous year. Likewise, the annual price

indices of restaurant meals, beverages, milk and milk products increased by 16.8 percent, 14.6 percent and 11.9 percent respectively compared to their respective increase of 18.5 percent, 12.7 percent and 15.0 percent in the previous year. In 2009/10, the index of oil and ghee declined by 4.6 percent as against a rise of 16.3 percent in the previous year.

14. Under the non-food and services group, the yearly average indices of sewing services as well as tobacco and related products rose up by 13.0 percent and 12.1 percent respectively compared to their respective rise of 10.6 percent and 15.4 percent in the previous year. Similarly, the annual price index of education, reading and recreation group witnessed a growth of 10.7 percent, as against a rise of 8.9 percent in the previous year.

15. Region-wise, annual average price indices of Kathmandu Valley, Terai and Hills in the review year increased by 9.7 percent, 10.7 percent and 11.2 percent respectively. In the last year, such indices had risen by 14.3 percent, 12.8 percent and 12.7 percent respectively.

16. The annual average core inflation in the review year rose by 11.7 percent in 2009/10 compared to a 12.6 percent rise in the previous year. The y-o-y core inflation went up by 11.2 percent in Mid-July 2010 compared to a 12.5 percent rise in the previous year.

Wholesale Price Inflation

17. The annual average wholesale price inflation rose by 12.6 percent in 2009/10 compared to a 12.8 percent rise in the previous year. The annual average price indices of agricultural commodities and domestic manufactured commodities increased by 22.8 percent and 8.6 percent respectively compared to their respective rise of 14.0 percent and 10.9 percent in the previous year. The annual average index of imported commodities declined by 1.2 percent in contrast to a rise of 12.1 percent in the previous year. The y-o-y wholesale price inflation moved up by 7.0 percent in mid-July 2010 compared to an increase of 15.3 percent in the previous year.

18. Within the agricultural commodities group, the annual average price indices of cash crops, spices and livestock production rose by 38.0 percent, 37.6 percent and 31.0 percent respectively compared to their respective rise of 4.1 percent, 11.4 percent and 26.3 percent a year ago.

19. The annual average price indices of beverages and tobacco, food related products and construction materials, within domestic manufactured commodities group rose by 13.4 percent, 12.5 percent and 4.0 percent respectively in comparison to their respective rise of 11.7 percent, 11.4 percent and 11.1 percent in the previous year.

20. Within the imported commodities group, the annual average price indices of Drugs and Medicine as well as textile-related products increased by 7.5 percent and 3.0 percent respectively compared to their respective increase of 5.9 percent and 15.6 percent in the previous year. Annual average Price index of petroleum products and coal declined by 4.8 percent in contrast to a rise of 10.4 percent last year.

National Salary and Wage Rate Index

21. The annual average salary and wage rate index rose by 17.2 percent in 2009/10. It had increased by 15.3 percent in the previous year. In the review year, annual average price index of salary as well as wage rate went up by 20.2 percent and 16.3 percent respectively compared to their respective rise of 10.5 percent and 16.9 percent in the previous year. The annual salary index of civil servants, staff of public enterprises, army and police and

teachers increased by 23.6 percent, 18.6 percent, 22.7 percent and 29.7 percent respectively. In the previous year, such growth rates were 18.7 percent, 14.2 percent, 20.6 percent and 9.5 percent respectively. An increase in the salary of agricultural, industrial and construction laborer led to such increments in the annual salary indices. The y-o-y salary and wage rate index rose by 15.8 percent in mid-July 2010 compared to a rise of 18.4 percent a year ago.

External Sector Situation

Foreign Trade

22. Nepal's merchandise exports declined by 9.7 percent to Rs. 61.13 billion in 2009/10. Such exports had grown by 14.2 percent to Rs. 67.70 billion a year ago.

23. In terms of destination, exports to India declined by 2.2 percent in the review year in contrast to a growth of 6.4 percent last year. Likewise, exports to other countries declined by 21.3 percent as against a growth of 28.9 percent last year. The decline in the exports to India mainly ascribed to the decrease in the exports of readymade garments, zinc sheet, GI pipe, pulses and plastic utensils among others. Likewise, exports to other countries declined considerably due mainly to the decrease in the export of pulses, woolen carpet, readymade garments, pashmina as well as herbs among others.

24. The merchandise imports, on the other hand, grew by 33.2 percent to Rs. 378.80 billion in 2009/10. Such imports had grown by 28.2 percent to Rs. 284.47 billion last year.

25. Imports from India grew by 34.2 percent in the review year compared to a growth of 14.1 percent last year. Likewise, imports from other countries grew by 31.8 percent compared to a growth of 53.4 percent last year. The growth in the import of petroleum products, vehicles and spare parts, M.S. billet, chemical fertilizer as well as M.S. wire and rods among others, from India and gold, telecommunication equipment and parts, polythene granules, silver as well as steel rod and sheet among others, from other countries contributed significantly to the rise of total imports in the review year.

26. Total trade deficit in 2009/10 expanded by 46.5 percent to Rs. 317.67 billion. Trade deficit had risen by 33.3 percent to Rs. 216.77 billion last year. Trade deficit with India rose by 46.5 percent in the review year compared to a growth of 17.0 percent last year. Likewise, trade deficit with other countries expanded by 46.7 percent compared to a growth of 62.0 percent last year.

27. As a result of the slowdown in exports and accelerated import growth, the ratio of export to import dropped to 16.1 percent in 2009/10 from 23.8 percent a year ago.

Balance of Payments

28. The balance of payments posted a loss of Rs. 2.62 billion in 2009/10 as against a surplus of Rs. 44.76 billion last year. The current account also registered a deficit of Rs. 32.35 billion as against a surplus of Rs. 41.44 billion last year. The large deficit in goods and services trade led to such a huge current account deficit. Despite a huge current account deficit, a rise in the capital account surplus coupled with a rise in trade credit liabilities largely contributed in bringing down the BOP deficit.

29. The FOB-based merchandise trade deficit grew by 46.8 percent to Rs. 307.27 billion in 2009/10. Such deficit had grown by 34.2 percent to Rs. 209.32 billion last year. Deficit in services trade grew by 60.8 percent to Rs. 16.84 billion compared to the deficit of Rs. 10.48

billion last year. The transfer account registered a surplus of Rs. 282.65 billion in the review year compared to Rs. 249.49 billion a year ago. Under the transfers subgroup, grants declined marginally by 0.5 percent to Rs. 26.67 billion and pension receipts rose substantially by 45.6 percent to Rs. 25.85 billion in 2009/10. Likewise, the workers' remittances grew by 10.5 percent to Rs. 231.73 billion compared to its significant growth of 47.0 percent a year ago.

30. The capital account registered a surplus of Rs. 12.58 billion in 2009/10 compared to a surplus of Rs. 6.23 billion in the previous year. Financial account, however, registered a deficit of Rs. 3.70 billion in the review year in contrary to a surplus of Rs. 21.20 billion in the previous year. The foreign direct investment grew by Rs. 2.85 billion compared to Rs. 1.83 billion of the previous year. The trade credit liabilities remained at Rs. 21.97 billion in the review year compared to the amount of Rs. 19.55 billion in the previous year.

Foreign Exchange Reserves

31. The gross foreign exchange reserves dropped by 7.0 percent to Rs. 266.57 billion in mid-July 2010 from a level of Rs. 286.54 billion as at mid-July 2009. Such reserves had grown by 34.8 percent last year. Out of total reserve, NRB's reserve declined by 8.4 percent to Rs. 205.37 billion in mid-July 2010 from a level of Rs. 224.19 billion a year earlier. The gross foreign exchange reserves in dollar terms declined by 2.5 percent to US$ 3.58 billion in mid-July 2010 as against a growth of 18.3 percent last year. The widening of the current account deficit resulted in the depletion of foreign exchange reserves in the review year. Based on the trend of import in the twelve months of the review year, the current level of reserves is sufficient for financing merchandise imports of 8.6 months and merchandise and service imports of 7.3 months.

Price of Oil and Gold in the International Market and Exchange Rate Movement

32. The price of oil (Crude Oil Brent) in the international market went up by 24.2 percent to US$ 76.40 per barrel in mid-July 2010 from US$ 61.53 per barrel a year ago. Similarly, the price of gold also went up by 26.8 percent to US$ 1189.25 per ounce in mid-July 2010 from US$ 938.0 a year ago.

33. Nepalese currency vis-à-vis the US dollar appreciated by 4.85 percent in mid-July 2010 compared to that of mid-July 2009. It had depreciated by 12.24 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 74.44 in mid-July 2010 compared to Rs. 78.05 in mid-July 2009.

Fiscal Situation [*]

Budget Deficit / Surplus

34. The government budget deficit, on cash basis, increased by 13.8 percent to Rs. 39.1 billion in 2009/10, such deficit was Rs 34.4 billion in 2008/09. The ratio of budget deficit to GDP remained at 3.3 percent in the review year, as against 3.5 percent in the previous year.

[*] Figure includes the reports from 8 NRB offices, 65 RBB branches (out of 65 branches conducting govt. transaction), 41 NBL branches (out of 42 branches conducting govt. transaction), 5 Everest Bank branches, and 1 from Nepal Bangladesh Bank Ltd.

Sources of Deficit Financing

35. In 2009/10, the domestic financing of the budget deficit through the issuance of securities amounted to Rs. 29.91 billion, and it accounted for 2.5 percent of GDP.

36. After deducting the principal repayment of Rs. 7.93 billion from gross domestic borrowings, net domestic borrowings (including overdraft of Rs 6.16 billion from the NRB) stood at Rs 28.15 billion. The ratio of net domestic borrowing to GDP stood at 2.4 percent in the review year. Consequently, the GoN's total outstanding domestic debt increased to Rs. 157.86 billion. This amount also includes the government's last year's overdraft of Rs. 8.83 billion and an overdraft of Rs. 6.16 billion in the review year.

37. The total external cash borrowing of the government increased by 14.5 percent to Rs 4.27 billion in 2009/10 compared to Rs 3.73 billion in the previous year.

Government Revenue and Foreign Cash Grants

38. In 2009/10, revenue mobilization of the government increased significantly by 25.4 percent to Rs. 179.95 billion, which accounted to 101.9 percent of annual budget estimate. The revenue had risen by 33.3 percent to Rs. 143.47 billion in 2008/09. Consequently, the revenue to GDP ratio moved up to 15.2 percent in 2009/10 from that of 14.5 percent in 2008/09. A positive impact of "Tax Compliance year", increase in PAN number holders, mobilization of tax volunteers, growth in imports, control in revenue leakages and tax administration reforms mainly contributed to such an increase in the revenue mobilization.

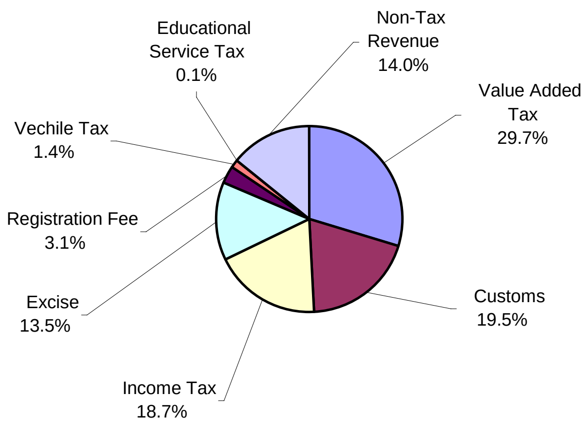
39. Of the total revenue mobilization, VAT revenue grew by 35.0 percent to Rs 53.46 billion in 2009/10. Such revenue had increased by 27.1 percent in the previous year. The increase in VAT revenue was on account of growing imports and consumption induced by an increase in the inflow of remittances and reforms in VAT administration.

40. In 2009/10, customs revenue rose by 31.6 percent to Rs. 35.3 billion compared to an increase of 34.4 percent in the previous year. Reforms in custom administration, increase in imports of high tax yielding vehicles and spare parts and increase in the amount of Indian excise refund contributed to such a high growth of customs revenue.

41. Income tax revenue increased by 22.4 percent to Rs. 33.65 billion in 2009/10 compared to an increase of 43.9 percent in the previous year. A positive impact of tax compliance year and increase in PAN number holders accounted for such an increase in the income tax revenue mobilization.

42. In the review year, excise revenue increased by 49.6 percent to Rs. 24.31 billion compared to an increase of 44.9 percent in the previous year. Reforms in excise administration and increase in the imports of high excise tax yielding light vehicles accounted for such a growth of excise revenue in the review year.

Chart: 1
Structure of Revenue Mobilization (2009/10)



43. Amongst the components of revenue in 2009/10, VAT constituted a share of 29.7 percent followed by income tax (18.7 percent), customs duties (19.5 percent), and excise duties (13.5 percent). In the previous year, such compositions were 27.6 percent, 19.2 percent, 18.6 percent and 11.3 percent respectively.

44. In the review year, non-tax revenue decreased by 4.3 percent to Rs. 25.28 billion compared to an increase of 23.3 percent in the previous year. A decline in the receipts of the Nepal Government from principal, interest and dividend accounted for such a decrease in the non-tax revenue.

45. In 2009/10, foreign cash grants increased by 1.9 percent to Rs.24.85 billion compared to that of Rs. 24.40 billion in the previous year.

Government Expenditure

46. The government expenditure, on cash basis, increased by 20.2 percent to Rs.248.37 billion in 2009/10 compared to an increase of 37.8 percent to Rs. 206.69 billion in the previous year. Growth in recurrent as well as capital expenditure accounted for such an increase in the government expenditure.

47. In the review year, the government's recurrent expenditure rose by 20.7 percent to Rs.144.38 billion compared to an increase of 35.4 percent in the previous year. An upward revision in the salary and allowances of the civil servants and teachers by the Government of Nepal mainly attributed to such a rise in the recurrent expenditure. Likewise, increasing expenditure on special security plan, growing amount of subsidies to public schools and increment in the distribution of economic assistance accounted for such a rise in the recurrent expenditure.

48. In 2009/10, the capital expenditure went up by 20.2 percent to Rs 75.38 billion compared to an increase of 45.0 percent in the previous year. However, such amount of capital expenditure accounted for only 70.9 percent of the annual budget estimate. Delay in the budget approval, lingering in the contract process, lower presence of employee in the local bodies as well as less than expected improvement in the peace and security situation mainly attributed to the lower performance of capital expenditure in the review year.

Monetary Situation

Money Supply

49. Broad money (M2) expanded by 14.5 percent in 2009/10. M2 had expanded by 27.1 percent in the previous year. Narrow money (M1), which had grown by 27.3 percent in 2008/09, grew by 11.2 percent in the review year. A deceleration in the net domestic assets and decline in net foreign assets accounted for such a lower growth of monetary aggregates in the review year.

50. Of the components of narrow money, currency in circulation increased by 13.0 percent compared to an increase of 25.5 percent in the previous year. Demand deposits increased by 7.9 percent compared to a growth of 30.5 percent a year ago. Similarly, time deposits increased by 16.1 percent in 2009/10 compared to a growth of 27.0 percent in the previous year.

51. Net foreign assets (NFA), after adjusting foreign exchange valuation gain/loss, declined by Rs. 2.6 billion in 2009/10 in contrast to an increase of Rs. 44.8 billion in the previous year. An acceleration of trade deficits contributed to such a decline in net foreign assets.

Domestic Credit

52. In 2009/10, domestic credit expanded by 16.2 percent compared to a growth of 27.1 percent in the previous year. Domestic credit increased at a lower rate mainly due to a lower growth in the private sector credit of the banking system.

53. Net claims on government increased by 25.3 percent (Rs.26.5 billion) in the review year compared to a growth of 20.4 percent (Rs.17.8 billion) in the previous year. Banking sector's claims on government registered an accelerated growth on account of a substantial growth in government expenditure during the end of fiscal year. In the review year, the government utilized a sum of Rs. 6.2 billion overdrafts from Nepal Rastra Bank.

54. In the review year, claims on private sector increased by 14.2 percent (Rs. 62.3 billion) compared to a growth of 29.0 percent (Rs. 98.5 billion) in the previous year. A contraction in the liquidity position of banking sector contributed to such a slowdown in the growth of claims on private sector.

55. Claims on non-government financial enterprises declined by 8.8 percent in the review year in contrast to a growth of 96.9 percent in the previous year. The decline in investments of commercial banks on pension funds and insurance companies in

the review year contributed to such a decline in claims on the non-government financial enterprises.

56. In 2009/10, claims on non-financial government enterprises increased by 6.9 percent against a decline of 9.8 percent in 2008/09. The increase in loan disbursement to Gorkhapatra Sansthan, Nepal Electricity Authority, and Janakpur Cigarette Factory accounted for such growth in the review year.

Reserve Money

57. In the review year, the reserve money expanded by 11.7 percent compared to a growth of 35.3 percent in the previous year. The decline in the net foreign assets of the monetary authority decelerated the growth of reserve money in the review year.

Deposits Mobilization and Credit Flow of Commercial Banks

58. In 2009/10, deposits mobilization of commercial banks increased by 12.6 percent (Rs. 69.0 billion) amounting to Rs. 618.9 billion as at mid-July 2010. The total deposits had increased by 30.4 percent (Rs. 128.3 billion) in the previous year.

59. Loan and advances of commercial banks increased by 14.0 percent (Rs. 72.9 billion) to Rs. 593.6 billion in 2009/10. Similarly, private sector credit of commercial banks grew by 16.1 percent (Rs. 65.6 billion) in 2009/10 compared to a growth of 32.3 percent (Rs. 99.4 billion) in the previous year. Of the private sector credit, credit to the production sector increased by 7.8 percent (Rs. 6.8 billion) in the review year compared to a growth of 17.3 percent a year ago. Sugar, Cement, and Iron and Steel industries witnessed a significant credit expansion under the production sector credit. Similarly, credit to agriculture sector increased by Rs. 915.0 million in the review year. Similarly, credit to wholesale and retail trade as well as finance, insurance and fixed assets; and service sectors increased by 28.7 percent (Rs.19.8 billion), 39.1 percent (Rs. 15.2 billion), and 26.7 percent (Rs. 6.2 billion) respectively. Credit to these sectors in the previous year had increased by 23.5 percent, 56.1 percent, and 10.4 percent respectively. Credit to real estate sector increased by Rs. 13.2 billion in 2009/10 compared to Rs.14.0 billion in the previous year.

Liquidity position of Commercial Banks

60. The liquid assets of the commercial banks stood at Rs. 211.7 billion as at mid-July 2010. Of the components of liquid assets, liquid fund increased by 4.9 percent. Although the balance held abroad remained almost unchanged in the review year, an increase in commercial banks' balance with the NRB accounted for such an expansion in the liquid funds. In the review year, balance held abroad slightly increased by Rs. 59.0 million amounting to Rs. 60.0 billion while the balance with NRB increased by Rs. 5.3 billion. However, another component of liquid assets, commercial banks' investments in government securities, increased by Rs. 11.1 billion in the review year.

61. The credit-deposit ratio increased to 82.5 percent in mid-July 2010 from 81.6 percent in mid-July 2009. Similarly, the liquidity-deposit ratio declined to 34.2 percent in mid-July 2010 from 35.4 percent in mid-July 2009.

Liquidity Management

62. In 2009/10, NRB injected net liquidity amounting to Rs. 126.6 billion from the open market operations of government bonds. In the review year, Rs. 7.4 billion and Rs. 1.0 billion were mopped up through outright sale auction and reverse repo auction respectively, while Rs. 131.7 billion and Rs. 3.4 billion were injected through repo and outright purchase auction respectively. In the previous year, net liquidity amounting to Rs.9.7 billion was mopped up from such operations. Of the total liquidity mopped up, Rs. 7.5 billion and Rs. 13.3 billion were mopped up through outright sale auction and reverse repo auction respectively, while Rs. 11.0 billion was injected through repo auction.

63. In 2009/10, NRB injected net liquidity amounting to Rs. 118.7 billion through net purchase of USD 1.6 billion from commercial banks. A net liquidity of Rs. 142.5 billion was injected through the net purchase of USD 1.8 billion in the previous year.

64. The NRB purchased Indian currency equal to 102.1 billion by selling of USD 2.2 billion in the Indian money market in 2009/10. In the previous year, Indian currency equal to 73.4 billion was purchased by selling of USD 1.5 billion. An accelerated trade deficits with India accounted for such a higher volume of Indian currency purchase in the review year.

Standing Liquidity Facility and Inter Bank Transactions

65. Banks and Financial Institutions used standing liquidity facility (SLF) amounting to Rs.95.9 billion in the review year. The use of the SLF by commercial banks had amounted to Rs. 107.8 billion in the previous year. Likewise, Inter-bank transactions of commercial banks stood at Rs. 268.8 billion in 2009/10 compared to Rs. 293.4 billion in 2008/09.

Interest Rates

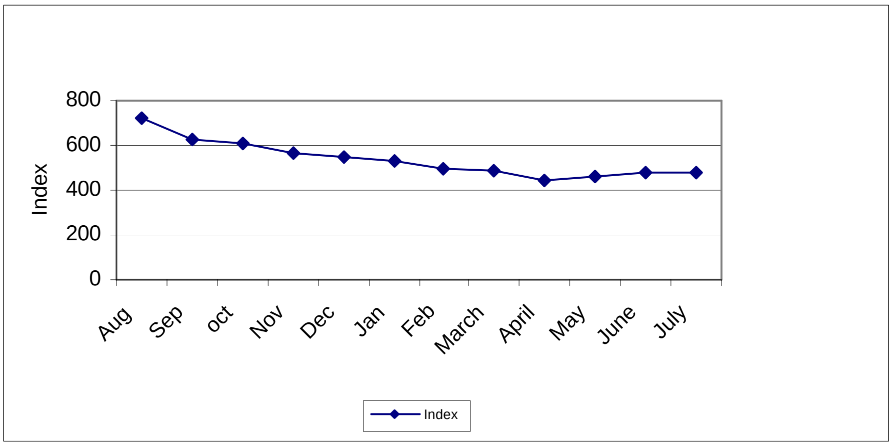
66. The annual weighted average 91-day Treasury bill rate stood at 6.5 percent in 2009/10 compared to 5.83 percent in the previous year. Similarly, the annual weighted average inter-bank rate stood at 7.74 percent in 2009/10 compared to 5.07 percent in the previous year. In addition to the short-term interest rates, the deposits rate of commercial banks also increased in the review year. The maximum interest rate of two-year and more than two years' fixed deposits increased from 9.5 percent as at mid-July 2009 to 13.0 percent as at mid-July 2010. The shortfall of liquidity in the banking system contributed to such increments in the interest rates in the review year.

Securities Market

67. The year on year (y-o-y) NEPSE index declined by 36.23 percent to 477.73 points in mid-July 2010. This index was 749.10 a year ago. Overwhelming supply of securities in the market as well as feeble progress in the economic and political situation of the country lead the NEPSE to follow downward trend. Likewise, NEPSE sensitive index (based on July 2006) stood at 116.14 point in mid-July 2010, as against 198.77 in the previous year. The NEPSE float index, calculated on the basis of closing transaction as of August 24, 2008 (as base market value), remained at 44.30 in mid-July 2010, a contraction of 37.80 percent compared to the previous year. This index was 71.22 in the previous year.

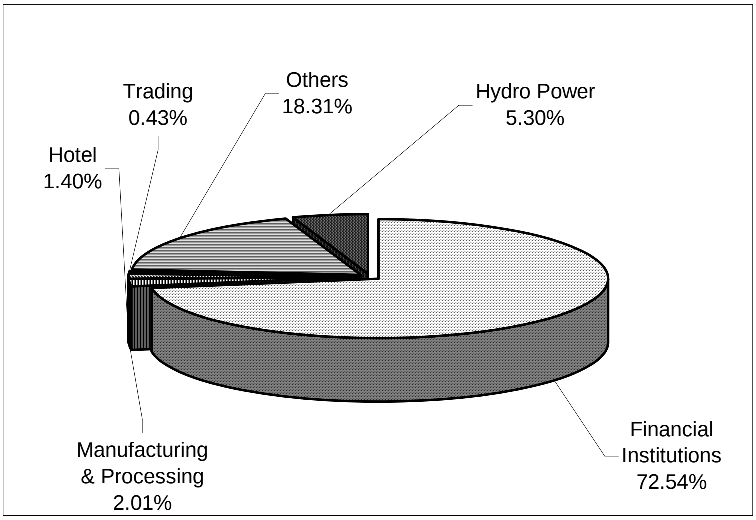
68. The securities market did not improve during the year 2009/10. Most of the indices of securities market showed a downward trend compared to the previous year. As such, the transaction of securities market declined by 45.34 percent to Rs. 11.85 billion in 2009/10 compared to Rs. 21.68 billion in the previous year.

Chart: 2
NEPSE Index 2009/10



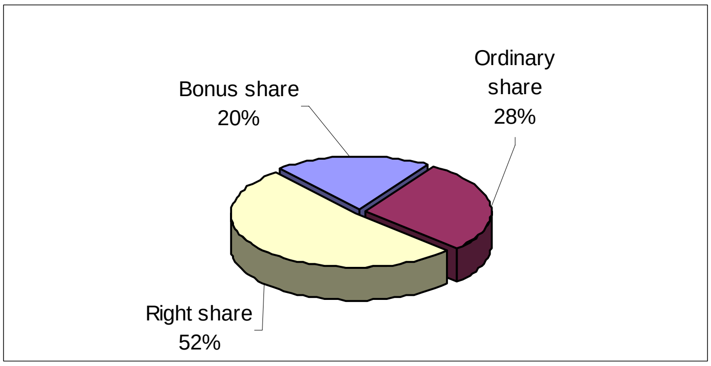
69. The y-o-y market capitalization declined by 26.53 percent to Rs.376.0 billion in mid-July 2010. The ratio of market capitalization to GDP stood at 31.87 percent in the review year. It was 51.74 percent in the previous year. Of the total market capitalization, bank and financial institutions accounted for 72.5 percent followed by manufacturing and processing companies (2.0 percent), hotels (1.4 percent), business entities (0.4 percent), hydropower (5.3 percent) and other economic sectors (18.3 percent).

Chart: 3
Market Capitalization of Listed Companies (2009/10)



70. Total paid up capital of the listed companies stood at Rs. 79.79 billion in mid July 2010, an increase of 30.5 percent over the period of one year. This increase was largely due to the additional listing of securities at the NEPSE. Among the increased amount, the portion of right share accounted to 52.0 percent followed by ordinary share (28.0 percent) and bonus share (20.0 percent). In the previous year, the proportions of right share, ordinary share and bonus share were 31.0 percent, 63.0 percent and 6.0 percent respectively. In the review year, ordinary share of 20 companies worth Rs.5.49 billion, bonus share of 55 companies worth to Rs. 4.06 billion and right share of 48 companies worth Rs.10.36 billion have been listed with Nepal Stock Exchange Limited. Likewise, government securities of Rs.9.80 billion and debentures of Rs. 22.77 million were also listed in the NEPSE.

Chart: 4
Composition of Paid up Capital Increment of Listed Companies (2009/10)



71. Total number of companies listed at the NEPSE increased to 176 in mid July 2010 compared to 159 a year ago. Among them, 144 are banks and financial institutions

(including insurance companies), followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and companies in other groups (2).

72. During the year 2009/10, Nepal Stock Exchange Limited has taken various initiatives for the protection of investors' interest and for the development of capital market. Out of such initiations, the agreement with CDSL, India for the establishment of Central Depository System (CDS) in Nepal is worth mentioning. Likewise, NEPSE has also started the brokers' services outside the Kathmandu valley. Besides Kathmandu, it has started this kind of service from Pokhara since 25 January 2010 and such service has also been extended in Biratnagar, Birgunj, Narayanghadh and Butwal.

The Expansion of Financial System

73. A total of 22 new bank and financial institutions came into operation in 2009/10. This includes 1 commercial bank, 16 development banks, 2 finance companies and 3 micro-finance institutions.

Table: 1
The Number of Banks and Financial Institutions

Bank and Financial Institutions	Mid-July	
	2009	2010
Commercial Banks	26	27
Development Banks	63	79
Finance Companies	77	79
Micro Finance Institutions	15	18
NRB Licensed Cooperatives (undertaking limited banking transactions)	16	16
NRB Licensed NGOs (undertaking micro finance transactions)	45	45
Insurance Companies	25	25

74. Besides the establishment of new banks and financial institutions, the branch expansion of commercial banks also took place significantly in the review year. For example, commercial bank branches increased by 214 to 966 in mid-July 2010 from 752 in mid-July 2009. Similarly, branches of development banks and finance companies registered at 358 and 265 respectively in the review year.