



# Nepal Rastra Bank

## Central Office

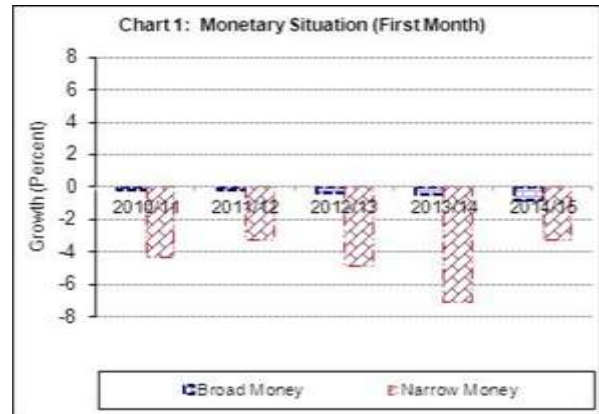
### Current Macroeconomic Situation of Nepal

*(Based on First Month's Data of 2014/15)*

#### Monetary Situation

##### Money Supply

1. Broad money supply (M2) decreased by 0.8 percent in the first month of 2014/15 compared to a decline of 0.5 percent in the corresponding period of the previous year. Likewise, narrow money supply (M1) declined by 3.3 percent in the review period compared to a decrease of 7.1 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 expanded by 18.8 percent and M1 expanded by 22.4 percent in mid-August 2014.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 2.77 billion (0.5 percent) during the review period compared to an increase of Rs. 16.09 billion (3.4 percent) in the corresponding period of the previous year. The decelerated growth of remittance inflow along with a higher growth of imports resulted in a slower growth of net foreign assets in the review period.

##### Domestic Credit

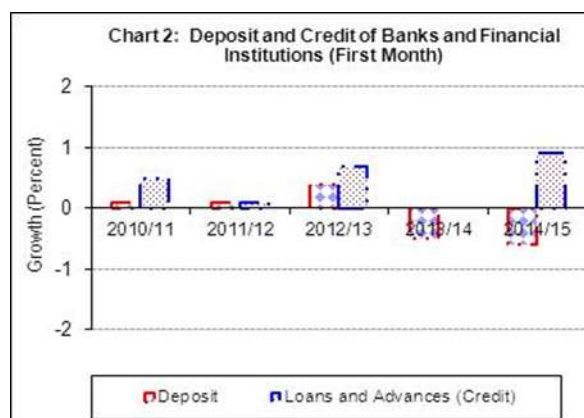
3. In the review period, domestic credit decreased by 1.3 percent compared to a decline of 3.2 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 14.8 percent in mid-August 2014. The decline in the domestic credit is due to a decrease in net claims on government in the review period. Likewise, the claims on the private sector increased by 0.8 percent in the review period compared to an increase of 0.1 percent in the corresponding period of the previous year.

## Reserve Money

4. Reserve money decreased by 4.4 percent in the review period compared to a decline of 3.5 percent in the corresponding period of the previous year. The decline in reserve money is on account of a significant increment of government deposits with the NRB in the review period. On y-o-y basis, reserve money increased by 22.0 percent in mid-August 2014.

## Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions (BFIs) decreased by 0.6 percent (Rs. 7.87 billion) in the review period. Such deposit mobilization had decreased by 0.5 percent (Rs. 5.49 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs expanded by 18.3 percent in mid-August 2014. In the review period, deposit mobilization of commercial banks and development banks decreased by 0.1 percent and 2.3 percent respectively while that of finance companies increased by 1.5 percent. The deposit mobilization of commercial banks had decreased by 0.6 percent while that of development banks and finance companies had increased by 0.9 percent and 1.4 percent respectively in the same period of the previous year.



## Credit Flow of Banks and Financial Institutions

6. In the first month of the 2014/15, loans and advances of BFIs increased by 0.9 percent (Rs. 12.02 billion) compared to a marginal increment of Rs. 0.48 billion in the corresponding period of the previous year. In the review period, loans and advances of commercial banks and finance companies increased by 1.5 percent and 2.0 percent respectively while that of development banks decreased by 1.3 percent. Similarly, the credit to the private sector from BFIs increased by 0.3 percent (Rs. 3.50 billion) in the review period as against a decline of 0.2 percent (Rs. 2.24 billion) in the same period of the previous year. On y-o-y basis, the credit to private sector from BFIs increased by 19.4 percent in mid-August 2014. In the review period, credit to the private sector from commercial banks and finance companies increased by 1.1 percent and 1.6 percent respectively while that of development banks decreased by 4.5 percent.
7. Of the total credit from BFIs, the credit to the industrial production sector increased by Rs. 3.55 billion in the review period compared to an increase of Rs. 0.32 billion in the same period of the previous year. Likewise, credit to the construction sector increased by Rs. 0.82 billion; to transportation, communication and public services increased by 0.68 billion and to the wholesale and retail trade sector increased by Rs. 2.92 billion during the review period. The credit to the construction and transportation, communication and public services sectors had increased by 1.18 billion and Rs. 0.11 billion respectively while credit to the wholesale and retail trade sector had decreased by Rs. 1.99 billion in the same period of the previous year. In the review period, credit to the agriculture sector decreased by Rs. 0.35 billion compared to an increase of Rs. 0.07 billion in the corresponding period of the previous year.

## Liquidity Management

8. In the review period, the NRB injected net liquidity of Rs. 26.79 billion through the net purchase of USD 275.6 million from foreign exchange market (commercial banks). Net liquidity of Rs. 17.73 billion was injected through the net purchase of USD 181.8 million in the corresponding period of the previous year.
9. The NRB purchased Indian currency (INR) equivalent to Rs. 19.39 billion through the sale of USD 200 million in the review period. INR equivalent to Rs. 30.87 billion was purchased through the sale of USD 320 million in the corresponding period of the previous year.

## Inter-bank Transactions and Standing Liquidity Facility

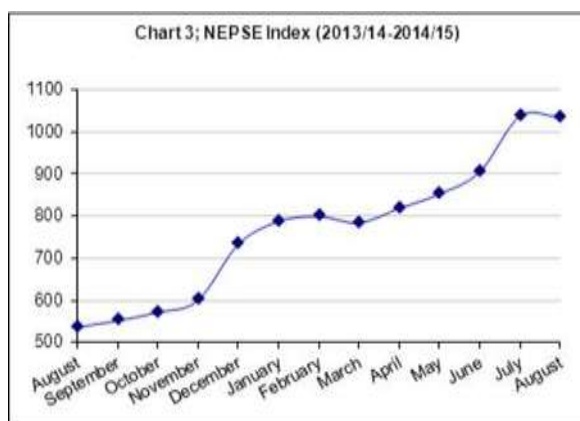
10. In the review period, inter-bank transactions of commercial banks stood at Rs. 4.18 billion and those of other financial institutions (except among commercial banks) amounted to Rs. 13.11 billion. Those figures stood at Rs. 10.82 billion and Rs. 11.89 billion respectively in the corresponding period of the previous year. The BFIs did not use standing liquidity facility (SLF) in the review period.

## Interest Rates

11. The weighted average Treasury bill rate and the inter-bank transaction rates have decreased in the first month of 2014/15 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate decreased to 0.0044 percent in the review month compared to 0.25 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.15 percent in the review month compared to 0.30 percent a year ago. Likewise, the weighted average inter-bank rate among other financial institutions declined to 2.50 percent in the review month from 4.27 percent a year ago.
12. As per the modified method of spread rate calculation, weighted average interest rate spread of commercial banks stood at 4.82 percent in the review month compared to 5.21 percent in the previous month. Moreover, the average base rate of commercial banks remained at 7.68 percent in the review month compared to 9.63 percent a year ago.

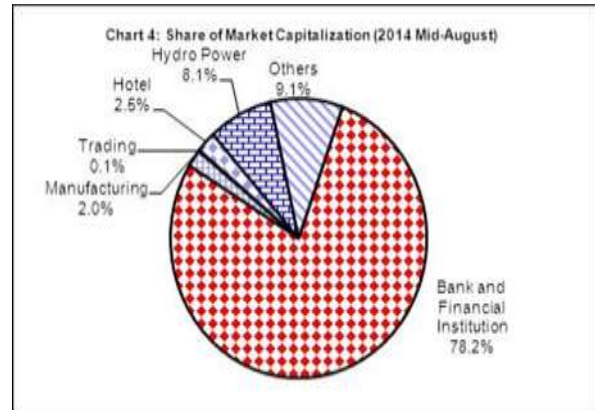
## Securities Market

13. NEPSE index, on y-o-y basis, increased by 92.8 percent to 1034.4 points in mid-August 2014. The index had increased by 34.7 percent in the corresponding period of the previous year and had stood at 536.5 points in mid-August 2013.
14. The y-o-y stock market capitalization increased by 97.6 percent to Rs. 1056.13 billion in mid-August 2014. The ratio of market capitalization to GDP stood at 54.8 percent in mid-August 2014



compared to 31.6 percent a year ago.

15. Banks and financial institutions constituted the biggest share in total market capitalization of the stock market. Of the total market capitalization as of mid-August 2014, the share of banks and financial institutions (including insurance companies) stood at 78.2 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 2.0 percent, 2.5 percent, 0.1 percent, 8.1 percent and 9.1 percent respectively.

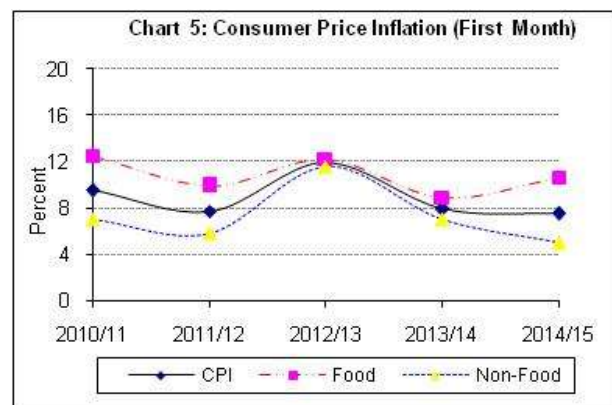


16. Total number of companies listed at the NEPSE increased from 226 in mid-August 2013 to 234 in mid-August 2014. Of the total listed companies, the number of banks and financial institutions (including insurance companies) stood at 201 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (5) and other companies (2).
17. Total paid-up capital of the listed companies stood at Rs. 147.8 billion in mid-August 2014, registering an increase of 16.7 percent over mid-August 2013. Additional securities worth Rs. 1.22 billion comprising ordinary share of Rs.0.02 billion, right share of Rs. 0.14 billion and bonus share of Rs. 1.06 billion were listed at the NEPSE during the first month of 2014/15.

## Inflation, Salary and Wage Rate

### Consumer Price Inflation

18. The y-o-y inflation as measured by the consumer price index increased by 7.5 percent in mid-August 2014 as compared to 7.9 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 10.6 percent and 5.0 percent respectively during the review period. Such indices had increased by 8.9 percent and 7.0 percent respectively in the corresponding period of previous year.



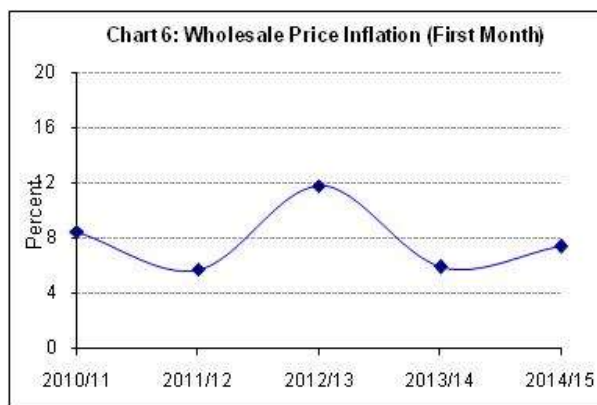
19. Under the items of the food and beverage group, price index of fruits products sub-group increased by the highest rate of 24.3 percent during the review period compared to an increase

of 6.9 percent in the corresponding period of the previous year. The price indices of tobacco product sub-group and hard drinks sub-group which had increased by 9.9 percent and 9.6 percent in the corresponding period of previous year, went up by 23.5 percent and 19.4 percent respectively during the review period. The price indices of vegetables sub-group and milk product and egg sub-group increased by 13.9 percent and 9.5 percent respectively during the review period compared to the increase of 4.2 percent and 5.6 percent respectively in the corresponding period of the previous year. The price index of sugar and sweets sub-group, which had decreased by 1.6 percent in the corresponding period of the previous year, decreased by 0.6 percent in the review period.

20. Within the group of non-food and services, the price index of clothing and footwear increased by 8.1 percent during the review period compared to an increase of 9.8 percent in the corresponding period of the previous year. The price index of miscellaneous goods and services sub-group increased by 7.1 percent during the review period compared to an increase by 7.2 percent in the corresponding period of the previous year. The price indices of education and furnishing and household sub-group increased by 5.5 percent and 5.4 percent respectively during the review period. Such indices had increased by 7.8 percent and 10.8 percent respectively in the corresponding period of the previous year. Similarly, the price index of recreation and culture sub-group increased by 5.3 percent during the review period compared to an increase by 5.9 percent in the corresponding period of the previous year.
21. Region-wise, the price indices in Kathmandu Valley increased by 7.8 percent followed by Terai and Hilly region by 7.7 percent and 6.7 percent respectively during the review period. The increments in Kathmandu Valley, Terai and Hilly region were respectively 8.0 percent, 8.3 percent and 7.1 percent in the corresponding period of the previous year.

### Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 7.4 percent during the review period compared to a rise of 5.9 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 8.3 percent, 8.2 percent and 5.1 percent respectively. The increments in agricultural commodities, domestic manufactured commodities and imported commodities were respectively 7.8 percent, 2.4 percent and 4.5 percent in the corresponding period of the previous year.



### National Salary and Wage Rate

23. The y-o-y salary and wage rate index increased by 12.6 percent during the review period compared to an increase of 9.2 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 19.5 percent during the review period compared to an increase of 13.6 percent in the corresponding period of the

previous year. The wage rate index increased by 11.0 percent during the review period compared to an increase of 8.2 percent in the corresponding period of the previous year.

24. The indices of salary of banks and financial institutions, public corporation and education increased by 48.6 percent, 34.8 percent and 26.7 percent respectively during the review period. Likewise, industrial labourer, agricultural labourer and construction labourer witnessed the growth of 20.8 percent, 5.9 percent and 16.4 percent respectively in the indices of wages in the review period.

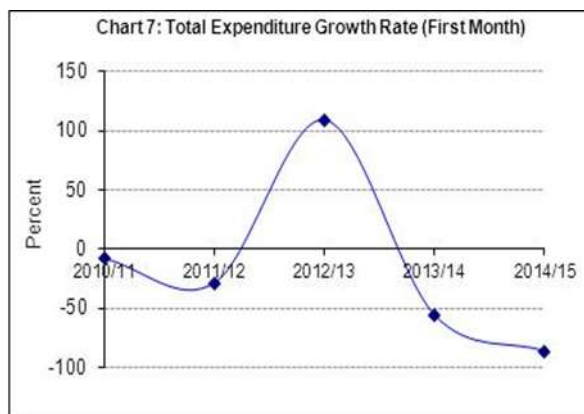
## Fiscal Situation \*

### Budget Deficit / Surplus

25. In the first month of 2014/15, government budget on cash basis remained at a surplus of Rs. 28.26 billion. Such budget surplus was of Rs. 22.13 billion in the corresponding period of the previous year. A higher growth of resource mobilization relative to government expenditure accounted for such a budget surplus during the review period.

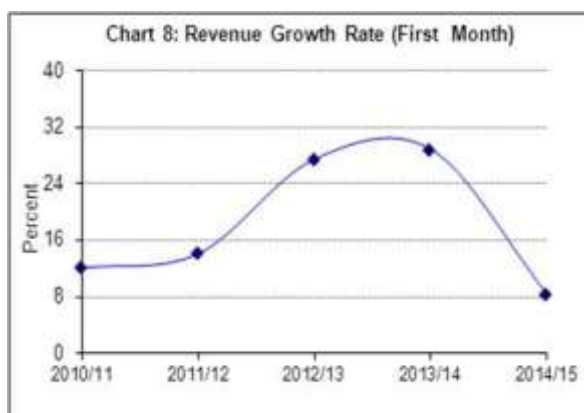
### Government Expenditure

26. During the review period, total government expenditure on cash basis dropped by 86.2 percent to Rs. 910.0 million compared to a decrease of 55.7 percent to Rs. 6.61 billion in the corresponding period of the previous year.



### Government Revenue

27. During the review period, revenue mobilization of the Government of Nepal increased by 8.4 percent to Rs. 26.74 billion. Such revenue had risen by 28.9 percent to Rs. 24.68 billion in the corresponding period of the previous year.



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Based on the data reported by 8 NRB offices, 66 branches of Rastriya Banijya Bank Limited, 42 branches of Nepal Bank limited (out of 44 branches conducting govt. transactions), 9 branches of Everest Bank Limited, 4 branches of Global IME Bank Limited and 1-1 branch each of Nepal Bangladesh Bank Limited, NMB Bank Limited and Bank of Kathmandu Limited conducting government transactions.

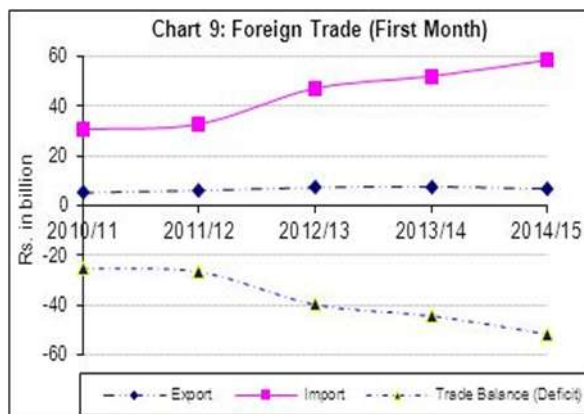
## Foreign Cash Loan and Grants

28. In the first month of 2014/15, foreign cash loans of Rs. 7.0 million and foreign cash grants of Rs. 1.31 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 608.7 million and foreign cash grants of Rs. 2.92 billion in the corresponding period of the previous year.

## External Sector Situation

### Foreign Trade

29. Merchandise exports decreased by 11.5 percent to Rs. 6.72 billion during the first month of 2014/15. Such exports had increased by 5.4 percent to Rs. 7.59 billion during the same period of the previous year.



30. Exports to India decreased by 15.4 percent during the first month of 2014/15 in contrast to an increase of 15.1 percent during the same period of the previous year. Exports to India declined in the review period due to the decline in the export of zinc sheet, cardamom, textiles and copper wire rod, among others. Exports to China decreased by 56.7 percent in the review period compared to a decline by 8.3 percent during the first month of previous year. Exports to China plummeted because of the decline in the exports of herbs, aluminum, copper and brass utensils, pashmina and agarbatti, among others. Likewise, exports to other countries decreased marginally by 0.8 percent in the review period. It had decreased by 7.7 percent in the same period of the previous year. In USD terms, exports to other countries decreased by 1.4 percent to USD 26.7 million compared to a decrease of 14.9 percent during the corresponding period of the previous year.
31. During the review period, merchandise imports increased by 12.5 percent to Rs. 58.36 billion. Such imports had gone up by 10.4 percent to Rs. 51.88 billion in the same month of the previous year. Total imports increased in the review period primarily due to a sharp increase in imports from both India and China.
32. Imports from India went up by 16.8 percent during the review period which was same in the first month of the previous year. Imports from China soared by 23.9 percent during the review period in contrast to decline by 25.6 percent in the previous year. The imports from the other countries decreased by 2.7 percent in contrast to an increase of 15.1 percent in the same period of the previous year. In US dollar terms, imports from other countries decreased by 3.3 percent to USD 134.2 million in contrast to an increase of 6.1 percent in the previous year. Imports from India increased primarily due to the increase in the imports of petroleum products, rice, vehicles and spare parts and cement, among others. Likewise, imports from China increased due to the increase in imports of

telecommunication equipment and parts, video television and parts, chemical fertilizer and polyester thread, among others. Imports from other countries increased mainly on account of an increase in the imports of telecommunication equipment and parts, silver, video television and parts and chemical fertilizer, among others.

33. Total trade deficit during the first month of 2014/15 surged by 16.6 percent to Rs. 51.64 billion compared to an increase of 11.3 percent during the first month of the previous year. Trade deficit with India and China increased by 22.2 and 27.3 percent respectively during the review period. Trade deficit with India during the first month of the previous year had increased by 17.1 percent whereas it had decreased by 26.2 percent with China. Trade deficit with other countries decreased by 3.2 percent in the review period in contrast to an increase of 22.5 percent during the same period of the previous year.
34. Due to the high growth of imports, the ratio of export to import declined to 11.5 percent in the first month of 2014/15 from 14.6 percent in the same period of the previous year.

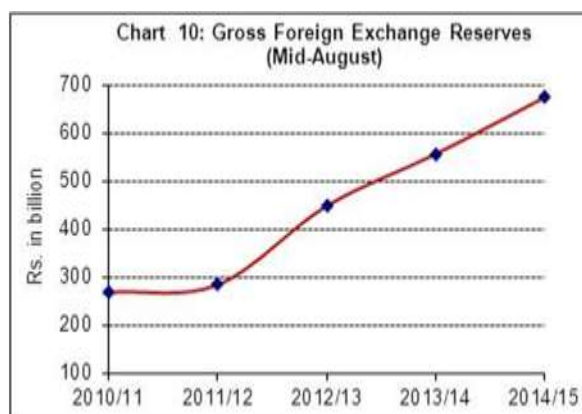
### **Balance of Payments Situation**

35. The overall BOP recorded a surplus of Rs. 2.77 billion during the first month of 2014/15 compared to a surplus of Rs. 16.09 billion during the same period of the previous year. In the review period, the current account registered a surplus of Rs. 1.01 billion compared to a surplus of Rs. 7.46 billion in the same period of the previous year. The low level of surplus in the current account is primarily due to a substantial rise in the merchandise imports and only a marginal growth in remittance in the review period. In US dollar terms, the BOP and current account surpluses were recorded at USD 28.6 million and USD 10.4 million respectively in the review period. During the same period of the previous year, BOP and current account surpluses stood at USD 167.0 million and USD 77.5 million respectively.
36. The FOB-based merchandise trade deficit increased by 15.8 percent to Rs. 49.53 billion during the first month of 2014/15. Such deficit had grown up by 12.7 percent in the same period of the previous year. The net service income increased by 64.1 percent to Rs. 1.96 billion during the review period compared to an increase of 89.7 percent to Rs. 1.19 billion during the same period of the previous year. Net transfers registered a negative growth of 2.0 percent to Rs. 47.04 billion in the review period compared to a growth of 27.6 percent in the same period of the previous year. Under transfers, workers' remittances surged marginally by 0.8 percent to Rs. 42.19 billion compared to an increase of 23.8 percent in the same period of the previous year. In US dollar terms, workers' remittances increased by 0.1 percent to USD 434.9 million compared to an increase of 14.1 percent in same period of the previous year.



## Foreign Exchange Reserves

37. The gross foreign exchange reserves increased by 1.3 percent to Rs. 673.80 billion in mid-August 2014 from a level of Rs. 665.41 billion as of mid-July 2014. Such reserves had increased by 4.2 percent to Rs. 555.88 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 1.2 percent to Rs. 579.38 billion in the review period from a level of Rs. 572.40 billion as of mid-July 2014. The gross foreign exchange reserves in USD terms increased marginally by 0.2



percent to USD 6.95 billion in mid-August 2014. Such reserves had increased by 1.1 percent in the same period of the previous year. Likewise, during the first month of 2014/15, the reserves in terms of inconvertible foreign exchange decreased by 3.6 percent to IRs 91.53 billion. Such reserves had increased by 7.5 percent during the same period of the previous year. Based on the trend of import during the first month of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.8 months and merchandise and service imports of 10.1 months.

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

38. The price of oil (Crude Oil Brent) in the international market decreased by 9.4 percent to USD 101.13 per barrel in mid-August 2014 from USD 111.58 per barrel in mid-August 2013. On the contrary, the price of gold declined by 2.5 percent to USD 1296.00 per ounce in mid-August 2014 from USD 1329.75 per ounce in mid-August 2013.
39. Nepalese currency *vis-à-vis* the US dollar depreciated by 1.1 percent in mid-August 2014 from the level of mid-July 2014. It had depreciated by 3.0 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 96.92 in mid-August 2014 compared to Rs. 95.90 in mid-July 2014.