



Nepal Rastra Bank

Central Office

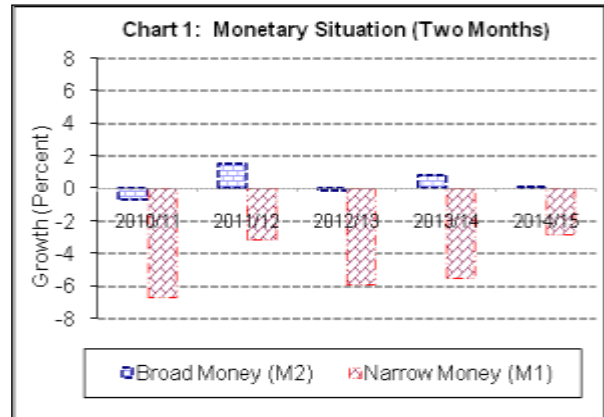
Current Macroeconomic Situation of Nepal

(Based on Two Months' Data of 2014/15)

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 0.1 percent in the two months of 2014/15 compared to an increase of 0.8 percent in the corresponding period of the previous year. Likewise, narrow money supply (M1) declined by 2.8 percent in the review period compared to a decrease of 5.5 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 expanded by 18.1 percent and M1 expanded by 20.9 percent in mid-September 2014.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) decreased by Rs. 10.50 billion (1.8 percent) during the review period compared to an increase of Rs. 33.0 billion (7.0 percent) in the corresponding period of the previous year. The decelerated growth of remittance inflows along with a higher growth of imports accounted for a decrease in net foreign assets in the review period.

Domestic Credit

3. In the review period, domestic credit increased by 0.2 percent as against a decline of 1.8 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 14.9 percent in mid-September 2014. Despite a significant growth in the claims on the private sector, a decrease in net claims on government resulted in a

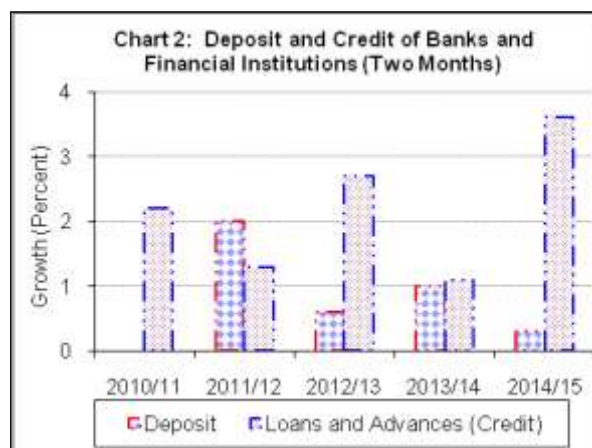
marginal growth of domestic credit in the review period. Likewise, the claims on the private sector increased by 3.9 percent in the review period compared to an increase of 1.8 percent in the corresponding period of the previous year. On y-o-y basis, credit flows to the private sector increased by 20.7 percent in mid-September 2014.

Reserve Money

4. Reserve money decreased by 9.5 percent in the review period compared to a decline of 2.9 percent in the corresponding period of the previous year. The decline in reserve money is on account of decrease in the net foreign assets of NRB in the review period. On y-o-y basis, reserve money increased by 14.9 percent in mid-September 2014.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions (BFIs) increased by 0.3 percent (Rs. 4.89 billion) in the review period. Such a deposit mobilization had increased by 1.0 percent (Rs. 11.50 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs expanded by 17.7 percent in mid-September 2014. In the review period, deposit mobilization of commercial banks and finance companies increased by 1.5 percent and 0.7 percent respectively while that of development banks decreased by 7.7 percent. Merger of some development banks with commercial banks resulted in the decline of deposits of development banks in the review period. The deposit mobilization of commercial banks, development banks and finance companies had increased by 0.9 percent, 2.7 percent and 3.2 percent respectively in the same period of the previous year.



Credit Flow of Banks and Financial Institutions

6. In the two months of the 2014/15, loans and advances of BFIs increased by 3.6 percent (Rs. 47.76 billion) compared to an increment of 1.1 percent (Rs. 12.75 billion) in the corresponding period of the previous year. In the review period, loans and advances of commercial banks and finance companies increased by 5.3 percent and 2.3 percent respectively while that of development banks decreased by 6.3 percent. Similarly, the credit to the private sector from BFIs increased by 3.2 percent (Rs. 35.21 billion) in the review period compared to an increase of 1.1 percent (Rs. 10.82 billion) in the same period of the previous year. On y-o-y basis, the credit to private sector from BFIs increased by 21.1 percent in mid-September 2014. In the review period, credit to the

private sector from commercial banks and finance companies increased by 5.1 percent and 0.8 percent respectively while that of development banks decreased by 6.1 percent. As mentioned above, merger of large development banks with commercial banks lowered the credit flows from development banks.

7. Of the total credit from BFIs, the credit to the industrial production sector increased by Rs. 11.69 billion in the review period compared to an increase of Rs. 2.67 billion in the same period of the previous year. Likewise, credit to the wholesale and retail trade sector increased by Rs. 11.08 billion; to the construction sector increased by Rs. 6.04 billion and to the transportation, communication and public service sector increased by 1.58 billion during the review period. The credit to the wholesale and retail trade sector, construction sector and transportation, communication and public service sector had increased by Rs. 3.87 billion, 3.27 billion and Rs. 0.65 billion respectively in the same period of the previous year. In the review period, credit to the agriculture sector increased by Rs. 0.48 billion as against a decline of Rs. 0.46 billion in the corresponding period of the previous year.

Liquidity Management

8. In the review period, the NRB injected net liquidity of Rs. 45.78 billion through the net purchase of USD 471.53 million from foreign exchange market (commercial banks). Net liquidity of Rs. 49.92 billion was injected through the net purchase of USD 491.0 million in the corresponding period of the previous year.
9. NRB purchased Indian currency (INR) equivalent to Rs. 46.55 billion through the sale of USD 480 million in the review period. INR equivalent to Rs. 57.56 billion was purchased through the sale of USD 580 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. 20.97 billion and those of other financial institutions (except among commercial banks) amounted to Rs. 24.43 billion. Those figures stood at Rs. 31.86 billion and Rs. 20.55 billion respectively in the corresponding period of the previous year. BFIs did not use standing liquidity facility (SLF) in the review period.

Interest Rates

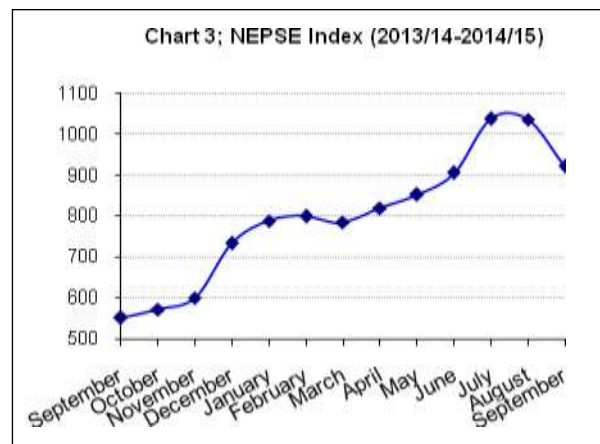
11. The weighted average Treasury bill rate and the inter-bank transaction rates have decreased in the two months of 2014/15 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate decreased to 0.0565 percent in the review month from 0.14 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.17 percent in the review month compared to 0.27 percent a year ago. Likewise, the weighted average

inter-bank rate among other financial institutions declined to 2.30 percent in the review month from 3.62 percent a year ago.

12. As per the modified method of spread rate calculation, weighted average interest rate spread of commercial banks stood at 4.32 percent in the review month compared to 4.82 percent in the previous month. Moreover, the average base rate of commercial banks remained at 7.90 percent in the review month compared to 9.35 percent a year ago.

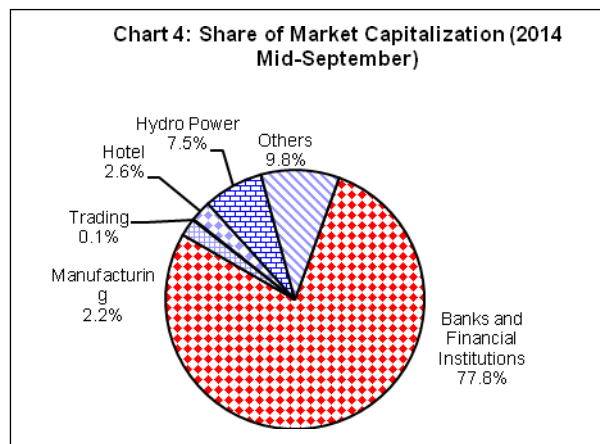
Securities Market

13. NEPSE index, on y-o-y basis, increased by 66.7 percent to 919.9 points in mid-September 2014. The index had increased by 31.1 percent in the corresponding period of the previous year and stood at 551.7 points in mid-September 2013.



14. The y-o-y stock market capitalization increased by 69.6 percent to Rs. 939.83 billion in mid-September 2014. The ratio of market capitalization to GDP stood at 48.7 percent in mid-September 2014 compared to 32.7 percent a year ago.

15. Of the total market capitalization as of mid-September 2014, the share of banks and financial institutions (including insurance companies) stood at 77.8 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 2.2 percent, 2.6 percent, 0.1 percent, 7.5 percent and 9.8 percent respectively.



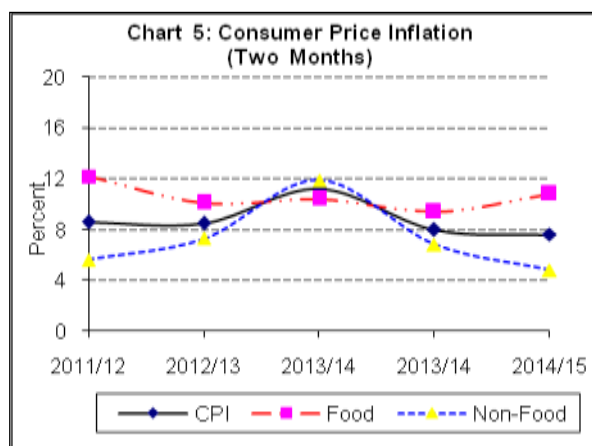
16. Total number of companies listed at the NEPSE increased from 226 in mid-September 2013 to 235 in mid-September 2014. Of the total listed companies, the number of banks and financial institutions (including insurance companies) stood at 202 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (5) and other companies (2).

17. Total paid-up capital of the listed companies stood at Rs. 150.69 billion in mid-September 2014, registering an increase of 16.5 percent over mid-September 2013. Additional securities worth Rs. 3.43 billion comprising ordinary share of Rs. 1.32 billion, right share of Rs. 0.46 billion and bonus share of Rs. 1.65 billion were listed at the NEPSE during the first two months 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 7.6 percent in mid-September 2014 as compared to 8.0 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 10.8 percent and 4.8 percent respectively during the review period. Such indices had increased by 9.4 percent and 6.8 percent respectively in the corresponding period of previous year.



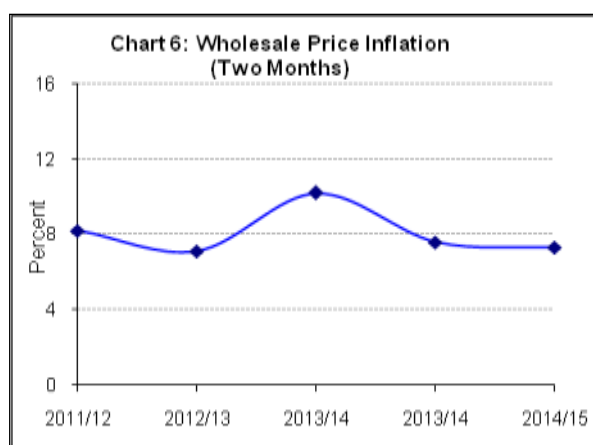
19. Under the items of the food and beverage group, price index of fruits products sub-group increased by the highest rate of 26.4 percent during the review period compared to a decrease of 0.9 percent in the corresponding period of the previous year. The price indices of tobacco product sub-group and 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 cereals grains and their products sub-group increased by 14.0 percent and 11.4 percent respectively during the review period compared to the increase of 18.6 percent and 10.4 percent respectively in the corresponding period of the previous year. The price index of sugar and sweets sub-group, which had decreased by 6.9 percent in the corresponding period of the previous year, increased by 0.7 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 indices of furnishing and household sub-group and education sub-group increased by 6.1 percent and 5.5 percent during the review period which had increased by 10.4 percent and 7.8 percent in the corresponding period of the previous year. The price indices of miscellaneous goods and services sub-group and recreation and culture sub-group

increased by 5.4 percent and 5.2 percent respectively during the review period. Such indices had increased by 8.9 percent and 5.8 percent respectively in the corresponding period of the previous year.

21. Region-wise, the price indices in Kathmandu Valley increased by 7.9 percent followed by Terai and Hilly region by 7.6 percent and 7.2 percent respectively during the review period. The respective increments in Kathmandu Valley, Terai and Hilly region were 7.8 percent, 8.7 percent and 7.0 percent in the corresponding period of the previous year.

Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 7.3 percent during the review period compared to a rise of 7.6 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 9.4 percent, 5.7 percent and 4.2 percent respectively. The increments in agricultural commodities, domestic manufactured commodities and imported commodities were respectively 10.3 percent, 4.9 percent and 4.0 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 9.4 percent during the review period compared to an increase of 11.5 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 7.5 percent during the review period compared to an increase of 26.4 percent in the corresponding period of the previous year. The wage rate index increased by 9.9 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 civil service, education and army and police forces sub-group increased by 9.7 percent, 9.1 percent and 8.5 percent respectively during the review period. Likewise, indices of wages of industrial labourer, agricultural labourer and construction labourer witnessed the growth of 17.3 percent, 5.6 percent and 16.1 percent respectively in the review period.

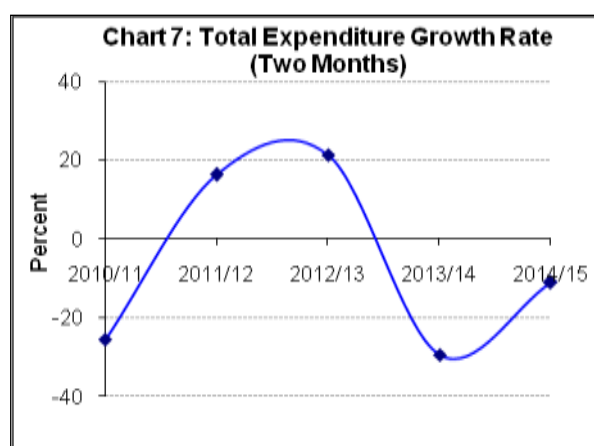
Fiscal Situation *

Budget Deficit / Surplus

25. During the two months of 2014/15, government budget on cash basis remained at a surplus of Rs. 42.93 billion. Such budget surplus was Rs. 35.44 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 decreased by 11.1 percent to Rs. 17.52 billion compared to a decrease of 29.4 percent to Rs. 19.71 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 21.4 percent to Rs. 55.08 billion. Such revenue had risen by 22.8 percent to Rs. 45.36 billion in the corresponding period of the previous year.



Foreign Cash Loan and Grants

28. During the two months of 2014/15, foreign cash loans of Rs. 1.50 billion and foreign cash grants of Rs. 2.52 billion were received by the GoN. The GoN had received foreign cash

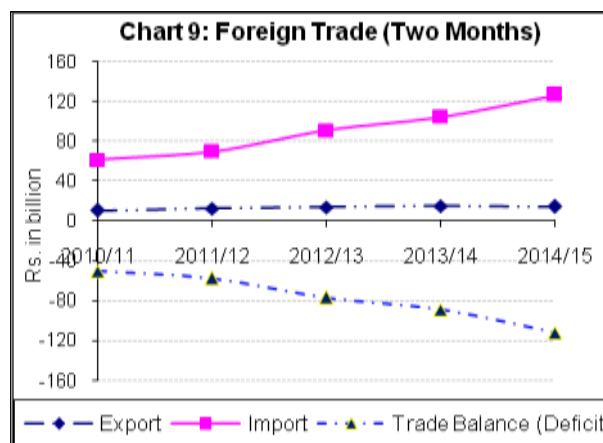
* Based on the data reported by 8 NRB offices, 66 branches of Rastriya Banijya Bank Limited, 42 branches of Nepal Bank Limited (out of 44 branches), 9 branches of Everest Bank Limited, 4 branches of Global IME Bank Limited and 1 branch each of Nepal Bangladesh Bank Limited, NMB Bank Limited and Bank of Kathmandu Limited conducting government transactions and release report from 70 out of 79 DTCOs and payment centres.

loans of Rs. 890.8 million and foreign cash grants of Rs. 7.25 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

29. Merchandise exports decreased by 4.8 percent to Rs. 14.43 billion in the two months of 2014/15. Such exports had increased by 8.6 percent to Rs. 15.16 billion during the same period of the previous year. On a monthly basis, merchandise exports increased by 14.7 percent in August/September of the current fiscal year compared to that of the previous month.
30. Exports to India decreased by 7.6 percent during the review period of 2014/15 in contrast to an increase by 18.5 percent in the corresponding period of the previous year. Exports to India decreased mainly due to the decrease in the export of zinc sheet, cardamom, jute goods and textiles, among others. Likewise, exports to China decreased by 15.3 percent compared to a decline by 51.8 percent in the same period of the previous year. The decrease in export to China is mainly attributed to the decrease in the export of tanned skin, readymade garments, woolen carpets and handicraft, among others. On the other hand, exports to other countries increased marginally by 0.5 percent in the review period in contrast to a decrease of 0.6 percent in the same period of the previous year. Exports to other countries increased largely due to the increase in export of readymade garments, pulses, tea and tanned skin, among others. In USD terms, exports to other countries increased by 3.3 percent to USD 56.2 million in contrast to a decline by 11.7 percent during the corresponding period of the previous year.
31. During the review period, merchandise imports increased by 20.9 percent to Rs. 126.36 billion. Such imports had gone up by 15.3 percent to Rs. 104.54 billion in the same period of the previous year. On monthly basis, merchandise imports increased by 16.5 percent in August/September of the current fiscal year compared to that of the previous month.
32. Imports from India went up by 19.1 percent during the review period compared to a growth of 20.6 percent in the same period of the previous year. Imports from India increased primarily due to an increase in the imports of petroleum products, vehicles and spare parts, rice and M.S. billet, among others. Likewise, imports from China increased by 39.8 percent in the review period in contrast to a decrease of 18.5 percent in the same period of the previous year. Import from China increased due to the increase in the imports of telecommunication equipments and parts, chemical fertilizer, video television and parts and other machinery & parts, among others. Similarly, imports from other



countries increased by 18.0 percent in the review period compared to a growth of 21.6 percent in the same period of the previous year. Imports from other countries rose mainly on account of an increase in the imports of silver, telecommunication equipment and parts, crude palm oil and aircraft spare parts, among others. In US dollar terms, imports from other countries increased by 20.8 percent to USD 305.5 million compared to an increase of 8.4 percent during the same period of the previous year.

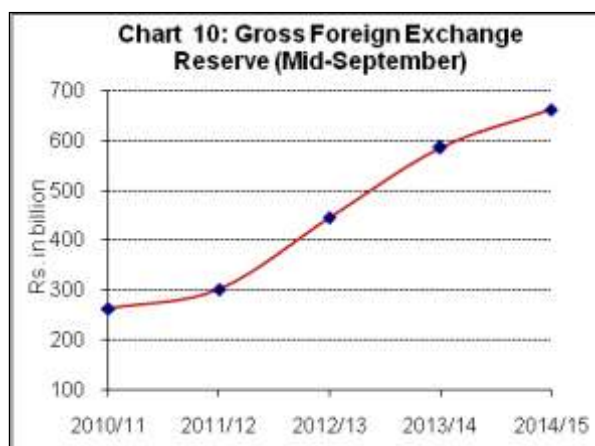
33. Total trade deficit during the two months of 2014/15 grew by 25.2 percent to Rs. 111.93 billion compared to an increase of 16.6 percent during the same period of the previous year. Trade deficit with India and China increased by 23.3 and 41.1 percent respectively during the review period. Such deficit had increased by 21.0 percent in case of India and decreased by 17.2 percent in case of China in the same period of the previous year. Trade deficit with other countries grew by 22.8 percent in the review period compared to an increase of 29.5 percent during the same period of the previous year.
34. Export to import ratio declined to 11.4 percent in the review period primarily arising from a high growth of imports compared to exports. Such ratio remained at 14.5 percent during the same period of the previous year.

Balance of Payments Situation

35. The overall BOP recorded a deficit of Rs. 10.50 billion during the two months of 2014/15 compared to a surplus of Rs. 33.0 billion during the same period of the previous year. The current account registered a deficit of Rs. 9.98 billion during the review period in contrast to a surplus of Rs. 18.35 billion in the same period of the previous year. The high level of deficit in the current account was primarily due to a high growth of merchandise and services imports and decrease in workers remittances and grants in the review period. In USD terms, the BOP and current account deficits in the review period were recorded at USD 108.2 million and USD 102.9 million respectively. During the same period of the previous year, BOP and current account had recorded surplus amounting to USD 333.0 million and USD 182.6 million respectively.
36. The FOB-based merchandise trade deficit increased by 25.3 percent to Rs. 107.73 billion during the two months of 2014/15. Such deficit had grown by 16.8 percent in the same period of the previous year. The net service remained at a surplus of Rs. 115.0 million in the review period compared to a surplus of Rs. 208.7 billion in the same period of the previous year. Net transfers declined by 7.0 percent to Rs. 94.28 billion in the review period compared to a growth of 35.8 percent in same period of the previous year. Under transfers, workers' remittances decreased by 4.0 percent to Rs. 84.48 billion compared to an increase by 34.7 percent in the same period of the previous year. In USD terms, workers' remittances decreased by 1.1 percent to USD 871.0 million in the review period compared to an increase by 19.6 percent in the same period of the previous year. On a monthly basis, remittances inflows increased marginally by 0.2 percent in August/September of the current fiscal year compared to that of the previous month. Similarly, under the financial account, foreign direct investment of Rs. 341.5 million was recorded in the review period.

Foreign Exchange Reserves

37. The gross foreign exchange reserves decreased marginally by 0.7 percent to Rs. 660.80 billion in mid-September 2014 from a level of Rs. 665.41 billion as at mid-July 2014. Such reserves had increased by 9.6 percent to Rs. 584.61 billion in the same period of the previous year. Out of total reserves, NRB's reserves decreased by 1.7 percent to Rs. 562.82 billion in the review period from a level of Rs. 572.40 billion as at mid-July 2014. The gross foreign exchange reserves in USD terms decreased by 2.3 percent to USD 6.78 billion in mid-September 2014. Such reserves had increased by 2.8 percent in the same period of the previous year. Likewise, during the two months of 2014/15, the inconvertible foreign exchange reserves decreased by 1.4 percent to INR 93.62 billion. Such reserves had increased by 13.9 percent during the same period of the previous year. Based on the trend of imports during the two months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 10.7 months and merchandise and service imports of 9.1 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 13.0 percent to USD 96.43 per barrel in mid-September 2014 from USD 110.86 per barrel in mid-September 2013. Similarly, the price of gold declined by 6.8 percent to USD 1234.25 per ounce in mid-September 2014 from USD 1324.0 per ounce in mid-September 2013.
39. Nepalese currency vis-à-vis the US dollar depreciated by 1.7 percent in mid-September 2014 from the level of mid-July 2014. It had depreciated by 6.2 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 97.52 in mid-September 2014 compared to Rs. 95.90 in mid-July 2014.