



Nepal Rastra Bank

Central Office

Current Macroeconomic Situation of Nepal

(Based on Ten Months' Data of 2013/14)

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 12.6 percent in the ten months of 2013/14 compared to an increase of 8.3 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 grew by 21.0 percent in mid-May 2014. Narrow money supply (M1) increased by 9.9 percent in the review period compared to an increase of 5.1 percent in the same period of the previous year. M1 grew by 19.6 percent on y-o-y basis in mid-May 2014.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 115.26 billion (24.6 percent) during the review period compared to an increase of Rs. 38.60 billion (10.1 percent) in the corresponding period of the previous year. A significant growth of remittance inflows as well as foreign aid resulted in a higher growth of net foreign assets in the review period.

Domestic Credit

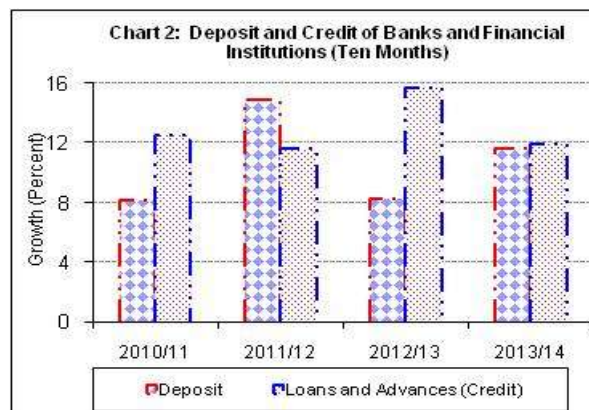
3. Domestic credit increased by 5.2 percent in the review period compared to a growth of 9.0 percent in the same period of the previous year. A slower growth of domestic credit in the review period was on account of remarkable decrease in net claims on government. On y-o-y basis, domestic credit increased by 13.1 percent in mid-May 2014. The claims on private sector increased by 14.7 percent in the review period compared to an increase of 17.5 percent in the same period of the previous year. On y-o-y basis credit to private sector increased by 17.3 percent in mid-May 2014.

Reserve Money

4. In the review period, reserve money increased by 9.4 percent in contrast to a decline of 5.5 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased by 28.4 percent in mid-May 2014. Increase in net foreign assets of Nepal Rastra Bank contributed to such a growth of reserve money in the review period.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions (BFIs) increased by 11.6 percent (Rs. 137.47 billion) in the review period compared to a growth of 8.3 percent (Rs. 84.11 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs increased by 21.0 percent in mid-May 2014. In the review period, deposit mobilization of commercial banks increased by 10.9 percent, development banks by 18.8 percent and finance companies by 5.0 percent. Deposit mobilization of commercial banks had increased by 7.3 percent, development banks by 10.2 percent and finance companies by 6.6 percent in the same period of the previous year.



Credit Flows of Banks and Financial Institutions

6. In the ten months of 2013/14, loans and advances of BFIs increased by 11.9 percent (Rs. 136.66 billion) compared to a growth of 15.7 percent (Rs. 151.62 billion) in the same period of the previous year. In the review period, loans and advances of commercial banks increased by 11.7 percent, development banks by 18.0 percent and finance companies by 3.9 percent. In the corresponding period of the previous year, such loans and advances had increased by 15.1 percent, 10.6 percent and 8.3 percent respectively. Similarly, credit to the private sector from BFIs increased by 14.3 percent (Rs. 134.35 billion) in the review period compared to a growth of 17.2 percent (Rs. 134.17 billion) in the same period of the previous year. On y-o-y basis, credit to the private sector from BFIs increased by 17.7 percent in mid-May 2014. In the review period, credit to the private sector from commercial banks increased by 14.8 percent and development banks by 20.5 percent but from finance companies decreased by 3.4 percent. Such a credit flow to the private sector had increased by 17.0 percent, 19.2 percent and 16.2 percent respectively in the same period of the previous year.
7. Of the total credit from BFIs, credit to the wholesale and retail trade sector increased by Rs. 37.24 billion compared to a growth of Rs. 31.89 billion in the same period of the previous year. Similarly, credit to the industrial production sector increased by

Rs. 30.10 billion in the review period compared to an increase of Rs. 26.84 billion in the same period of the previous year. In the review period, credit to the construction sector increased by Rs. 18.20 billion and to the transportation, communication and public services by Rs. 2.07 billion. Credit to the construction sector had increased by Rs.11.03 billion and to the transportation, communication and public services by Rs. 6.66 billion in the same period of previous year. Credit to the agriculture sector increased by Rs. 9.32 billion in the review period compared to an increase of Rs. 8.83 billion in the corresponding period of the previous year.

Liquidity Management

8. In the review period, the NRB injected net liquidity of Rs. 283.33 billion through the net purchase of USD 2.86 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 215.66 billion was injected through the purchase of USD 2.48 billion in the same period of the previous year.
9. The NRB purchased Indian currency (INR) equivalent to Rs. 246.97 billion by selling USD 2.50 billion in the review period. INR equivalent to Rs. 217.36 billion was purchased by selling USD 2.50 billion in the same period of the previous year.
10. Excess liquidity of BFIs has been mopped up through the open market operations (OMOs) in the review period. NRB mopped up net liquidity of Rs. 426.00 billion through reverse repo auctions and Rs. 8.50 billion through outright sale auctions in the review period. A net liquidity of Rs. 8.50 billion was mopped up through outright sale auctions in the corresponding period of the previous year.

Inter-bank Transactions and Standing Liquidity Facility

11. In the review period, inter-bank transactions of commercial banks stood at Rs. 185.15 billion and those of other financial institutions (Developments banks and Finance companies) amounted to Rs. 140.87 billion. Those figures were Rs. 605.25 billion and Rs. 141.11 billion respectively in the corresponding period of the previous year. The standing liquidity facility (SLF) has not been utilized in the review period.

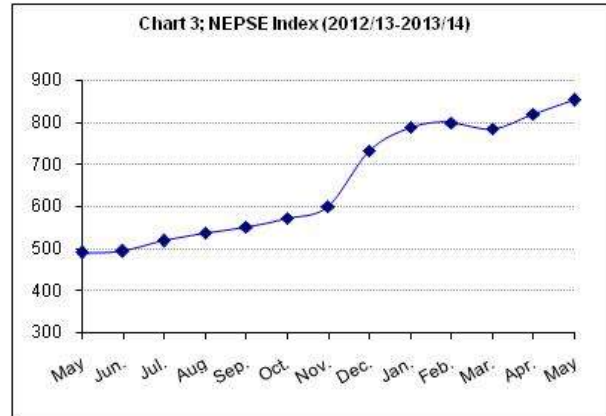
Interest Rates

12. The weighted average Treasury bill rate and inter-bank transaction rate declined in May 2014 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate decreased to 0.04 percent in May 2014 from 4.46 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.19 percent in May 2014 compared to 5.77 percent in May 2013. Likewise, the weighted average inter-bank rate among other financial institutions declined to 2.11 percent in May 2014 from 7.11 percent a year ago.
13. In mid-May 2014, the weighted average deposit and lending rates of commercial banks remained at 4.26 percent and 10.82 percent respectively. Accordingly, the interest rate spread (lending rate less deposit rate) of commercial banks stood at 6.56

percent in mid-May 2014. Such a spread was 6.62 percent in the previous month. Moreover, the average base rate of commercial banks remained at 8.31 percent in mid-May 2014. Such a rate was 8.38 percent in the previous month.

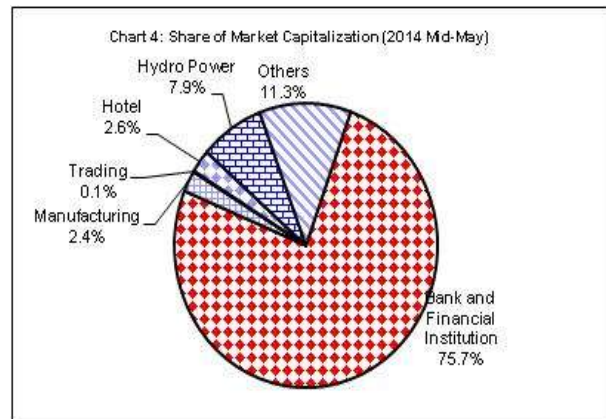
Securities Market

14. NEPSE index, on y-o-y basis, increased by 73.7 percent to 852.1 points in mid-May 2014. The index had increased by 25.6 percent to 490.6 points in mid-May 2013.



15. The y-o-y stock market capitalization increased by 80.2 percent to Rs. 868.88 billion in mid-May 2014. The ratio of market capitalization to GDP stood at 50.4 percent in mid-May 2014 compared to 31.7 percent a year ago.

16. Of the total market capitalization as of mid-May 2014, the share of banks and financial institutions (including insurance companies) stood at 75.7 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 2.4 percent, 2.6 percent, 0.1 percent, 7.9 percent and 11.3 percent respectively.

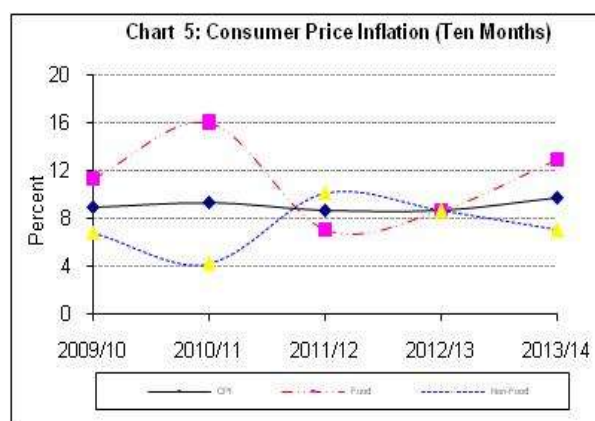


17. Total number of companies listed at the NEPSE increased from 226 in mid-May 2013 to 239 in mid-May 2014. Of the total listed companies there were 206 banks and financial institutions (including insurance companies) followed by manufacturing and processing companies (18), hotels (4), business entities (4), hydropower companies (5) and others (2).
18. Total paid-up capital of the listed companies registered a y-o-y growth of 15.5 percent amounting to Rs.146.06 billion in mid-May 2014. Additional securities of Rs.17.70 billion which included ordinary share of Rs. 5.28 billion, right share of Rs. 4.96 billion, bonus share of Rs. 5.86 billion and commercials banks' debenture of Rs. 1.6 billion were listed at the NEPSE during the ten months of 2013/14.

Inflation, Salary and Wage Rate

Consumer Price Inflation

19. The y-o-y inflation as measured by the consumer price index increased by 9.7 percent in mid-May 2014 compared to an increase of 8.7 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 12.9 percent and 7.0 percent respectively during the review period. Such indices had increased by 8.7 percent and 8.6 percent respectively in the corresponding period of the previous year.

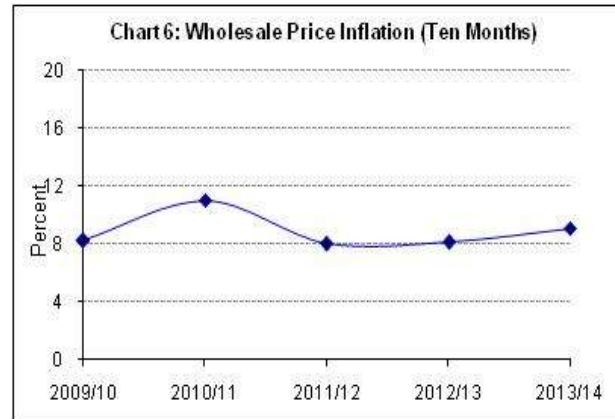


20. Within the food and beverage group, the price index of vegetables products sub-group increased by the highest rate of 31.6 percent during the review period in contrast to a decrease of 7.1 percent in the corresponding period of the previous year. The price indices of tobacco product sub-group and hard drinks sub-group which had increased by 11.4 percent and 4.4 percent respectively in the corresponding period of previous year, went up by 25.3 percent and 22.5 percent respectively during the review period. The price indices of fruits sub-group and meat and fish sub-group increased by 15.8 percent and 13.7 percent respectively during the review period compared to a increase of 8.7 percent and 16.3 percent respectively in the corresponding period of the previous year. The price index of sugar and sweets sub-group, which had increased by 9.8 percent in the corresponding period of the previous year, decreased by 1.8 percent in the review period.
21. Within the group of non-food and services, the price index of clothing and footwear increased by 11.0 percent during the review period compared to an increase of 10.0 percent in the corresponding period of the previous year. The price indices of furnishing and household equipment sub-group and health sub-group increased by 9.2 percent and 8.3 percent respectively during the review period. Such indices had increased by 11.7 percent and 5.4 percent respectively in the corresponding period of the previous year. Similarly, the price indices of recreation and culture sub-group and education sub-group increased by 7.9 percent and 7.8 percent respectively during the review period. Such indices had increased by 6.3 percent and 12.5 percent in the corresponding period of the previous year.
22. Region-wise, the price index in Terai increased by 10.4 percent followed by Kathmandu Valley and Hilly region with 9.9 percent and 8.6 percent respectively during the review period. Such a rise in price indices in Terai, Kathmandu Valley and

Hilly region were 8.7 percent, 9.4 percent and 7.8 percent respectively in the corresponding period of the previous year.

Wholesale Price Inflation

23. The y-o-y wholesale price index increased by 9.1 percent during the review period compared to a rise of 8.2 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 11.9 percent, 7.3 percent and 4.9 percent respectively during the review period compared to a rise of 11.1 percent, 4.6 percent and 5.1 percent respectively in the corresponding period of the previous year.



National Salary and Wage Rate

24. The y-o-y salary and wage rate index increased by 15.4 percent during the review period compared to an increase of 7.0 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 26.5 percent and the wage rate index increased by 12.9 percent during the review period. In the corresponding period of the previous year, the salary index did not witness any increase while the wage rate index had increased by 8.7 percent.
25. The indices of salary of Bank and Financial Institutions, army and police forces and civil services increased by 47.7 percent, 34.5 percent and 31.3 percent respectively during the review period. Likewise, wage rate of industrial labourer, agricultural labourer and construction labourer witnessed a growth of 24.8 percent, 8.4 percent and 9.6 percent respectively in the review period.

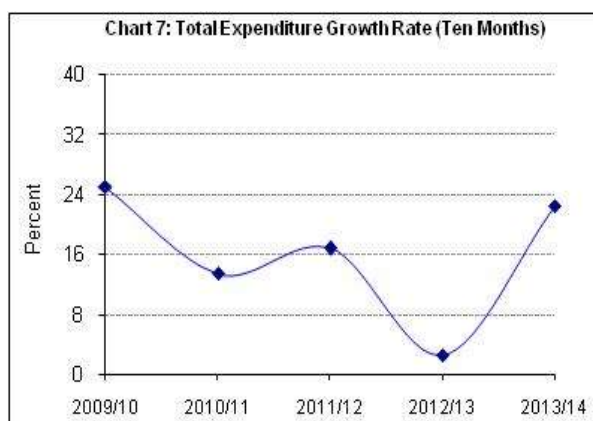
Fiscal Situation *

Budget Deficit / Surplus

26. During the ten months of 2013/14, government budget on cash basis remained at a surplus of Rs. 58.57 billion. Such a surplus was Rs. 47.33 billion in the corresponding period of the previous year. A higher resource mobilization relative to government expenditure accounted for such a budget surplus during the review period.

Government Expenditure

27. During the review period, total government expenditure on cash basis increased by 22.5 percent to Rs. 265.41 billion compared to a growth of 2.5 percent amounting to Rs. 216.68 billion in the corresponding period of the previous year. High growth rate of both recurrent and capital expenditure accounted for such a high growth of total expenditure during the review period.



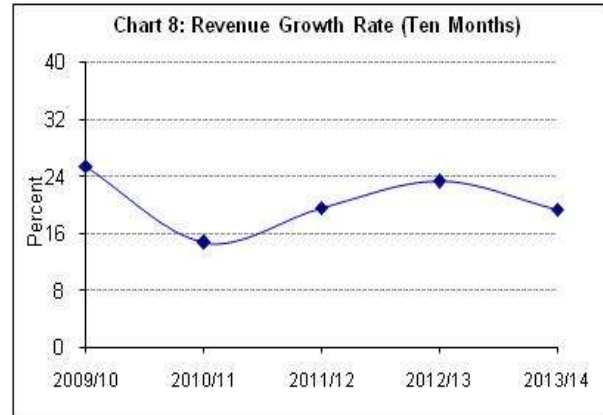
28. During the review period, recurrent expenditure increased by 28.3 percent to Rs. 213.96 billion. In the corresponding period of the previous year, such expenditure had increased by 1.1 percent. Timely announcement of the annual budget and expenditure incurred in the completion of constitutional assembly election among others accounted for such a growth of recurrent expenditure.
29. During the review period, capital expenditure increased by 37.4 percent amounting to Rs. 30.66 billion. In the corresponding period of the previous year, such expenditure had decreased by 3.5 percent. Timely announcement of the annual budget, delegation of authority to make expenses and immediate approval of annual programmes contributed to such a growth of capital expenditure.

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Based on the data reported by 8 NRB offices, 66 RBBL branches (all of 66 branches conducting govt. transactions), 43 NBL branches (out of 44 branches conducting govt. transactions), 5 Everest Bank branches, 4 Global IME Bank branches and 1-1 branch each of Nepal Bangladesh Bank Limited, NMB Bank Limited and Bank of Kathmandu Limited conducting government transactions.

Government Revenue

30. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 19.4 percent to Rs. 280.04 billion. Such revenue mobilization had risen by 23.3 percent to Rs. 234.45 billion in the corresponding period of the previous year. Deceleration in the growth rate of revenue is attributed to the slow down in growth rate of custom and income tax revenue during the review period.



31. Of the total revenue mobilization, VAT revenue grew by 19.2 percent to Rs. 80.94 billion during the review period. It had increased by 16.2 percent in the corresponding period of the previous year. The increase in VAT revenue was due mainly to the positive impact of controlling leakage as well as reforming VAT administration.
32. During the review period, custom revenue rose by 18.1 percent to Rs. 55.20 billion compared to an increase of 37.9 percent in the corresponding period of the previous year.
33. During the review period, excise revenue increased by 22.2 percent to Rs. 35.54 billion compared to an increase of 21.3 percent in the corresponding period of the previous year.
34. Income tax revenue increased by 12.6 percent to Rs. 58.52 billion during the review period. Such revenue had risen by 32.6 percent in the corresponding period of the previous year.
35. During the review period, non-tax revenue increased by 26.2 percent to Rs. 35.09 billion. Such revenue had decreased by 0.6 percent in the corresponding period of the previous year. Such a high growth rate of non-tax revenue was on account of the increase in dividend paid by the public enterprises, other administrative fees and charge on issuing passports.

Foreign Cash Loan and Grants

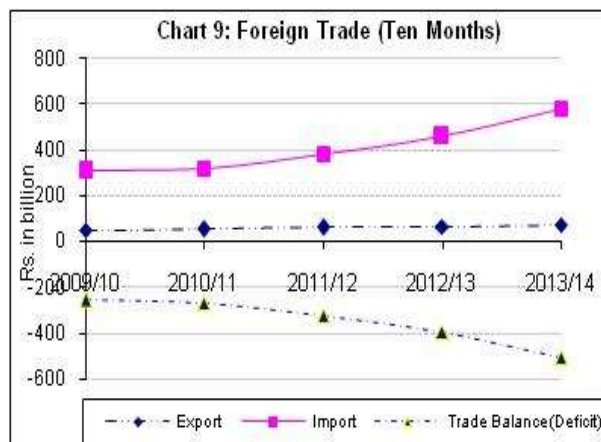
36. In the ten months of 2013/14, the GoN received foreign cash loans of Rs. 13.86 billion and foreign cash grants of Rs. 32.17 billion. The GoN had received foreign cash loans

of Rs. 7.23 billion and foreign cash grants of Rs. 20.31 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

37. Merchandise exports went up by 18.6 percent to Rs. 75.12 billion during ten months of 2013/14. Such exports had increased by 4.0 percent to Rs. 63.33 billion during the same period of the previous year. On a monthly basis, merchandise exports decreased by 3.1 percent in April/May of the current fiscal year compared to that of the previous month.



38. Exports to India increased by 19.9 percent during the review period compared to an increase of 1.9 percent in the corresponding period of the previous year. Exports to other countries went up by 16.1 percent compared to an increase by 8.5 percent in the same period of the previous year. In US dollar terms, exports to other countries increased by 2.6 percent to US dollar 252.0 million in contrast to a decrease of 1.7 percent during the corresponding period of the previous year. The exports of mainly zinc sheet, cardamom, stone & sand and juice increased to India. Likewise, exports to other countries went up primarily due to the increase in export of woolen carpets, readymade garments, herbs, and pashmina, among others.

39. During the review period, merchandise imports surged by 26.7 percent to Rs. 580.93 billion. Such imports had risen by 19.7 percent to Rs. 458.56 billion during the corresponding period of the previous year. Total imports surged in the review period due to a sharp increase in imports from both India and other countries. On a monthly basis, merchandise imports decreased by 8.7 percent during April/May of the current fiscal year compared to that of the previous month.

40. Imports from India went up by 28.2 percent during the review period compared to an increase of 22.1 percent in the same period of the previous year. Likewise, imports from other countries rose by 23.7 percent compared to an increase of 15.3 percent in the corresponding period of the previous year. In US dollar terms, imports from other countries increased by 9.3 percent to US dollar 1.96 billion compared to an increase of 5.2 percent in the corresponding period of the previous year. Imports from India increased primarily owing to an increase in the imports of petroleum products, vehicles and spare parts, hot rolled sheet in coil and thread, among others. Likewise, imports from other countries increased mainly on account of an increase in the imports of betelnut, crude soybean oil and transport equipment and parts, among others.

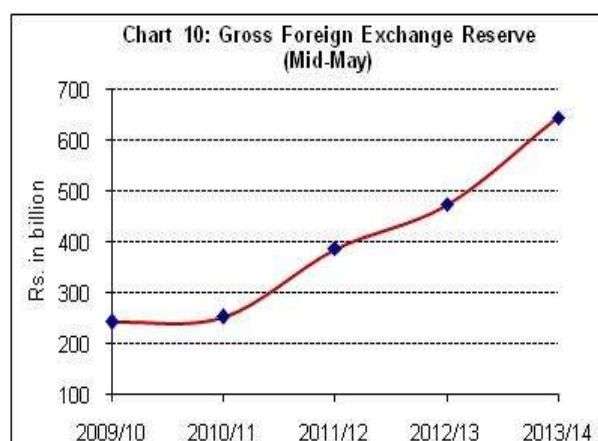
41. Total trade deficit during the ten months of 2013/14 surged by 28.0 percent to Rs. 505.81 billion compared to an increase of 22.7 percent during the same period of the previous year. Trade deficit with India increased by 29.6 percent during the review period compared to a growth of 26.2 percent in the same period of the previous year. Trade deficit with other countries increased by 24.9 percent compared to an increase of 16.5 percent during the same period of the previous year.
42. Due to high growth of imports compared to exports, the ratio of export to import declined to 12.9 percent in the review period from 13.8 percent a year ago.

Balance of Payments Situation

43. The overall BOP recorded a surplus of Rs. 115.26 billion during the ten months of 2013/14 compared to a surplus of Rs. 38.60 billion during the same period of the previous year. The current account posted a surplus of Rs. 78.03 billion in the review period compared to a surplus of Rs. 28.99 billion in the same period of the previous year. The increase in surplus in the current account was primarily due to a substantial rise in net services, net income, grants as well as substantial growth of workers' remittances in the review period. In US dollar terms, the current account registered a surplus of USD 787.5 million in the review period compared to a surplus of USD 331.9 million during the corresponding period of the previous year.
44. The FOB-based merchandise trade deficit increased by 28.1 percent to Rs. 487.04 billion during the ten months of 2013/14. Such a deficit had grown up by 22.6 percent in the same period of the previous year. The net service income posted a surplus of Rs. 17.39 billion in the review period compared to a surplus of Rs. 7.08 billion in the same period of the previous year. Likewise, net transfers registered a growth of 32.2 percent to Rs. 520.36 billion in the review period compared to a growth of 18.3 percent in the same period of the previous year. Under the transfers, workers' remittances surged by 29.7 percent to Rs. 444.48 billion compared to an increase of 21.5 percent in the same period of the previous year. In USD terms, remittance inflow increased by 14.3 percent to USD 4.50 billion during the review period compared to an increase of 11.1 percent in same period of the previous year. On a monthly basis, remittance inflows increased by 13.6 percent in April/May over the previous month.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 22.5 percent to Rs. 653.09 billion in mid-May 2014 from the level of Rs. 533.30 billion as at mid-July 2013. Such reserves had increased by 10.0 percent to Rs. 483.36 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by



24.0 percent to Rs. 561.70 billion in the review period from the level of Rs. 452.99 billion as at mid-July 2013. The gross foreign exchange reserves in US dollar terms increased by 22.2 percent to USD 6.86 billion in mid-May 2014. Such reserves had increased by 11.2 percent in the same period of the previous year. Likewise, during the ten months of 2013/14, inconvertible foreign exchange reserves increased by 24.1 percent to INR. 92.48 billion. Such reserves had increased by 4.5 percent during the same period of the previous year. On the basis of the trend of imports during the first ten months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.4 months, and merchandise and service imports of 9.9 months.

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

46. The price of oil (Crude Oil Brent) in the international market increased by 8.0 percent to USD 109.74 per barrel in mid-May 2014 from USD 101.57 per barrel in mid-May 2013. Similarly, the price of gold decreased by 7.9 percent to USD 1299.00 per ounce in mid-May 2014 from 1410.00 percent ounce in mid-May 2013.
47. Nepalese currency vis-à-vis the US dollar depreciated by 0.2 percent in mid-May 2014 from the level of mid-July 2013. It had appreciated by 1.1 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 95.20 in mid-May 2014 compared to Rs. 95.00 in mid-July 2013.