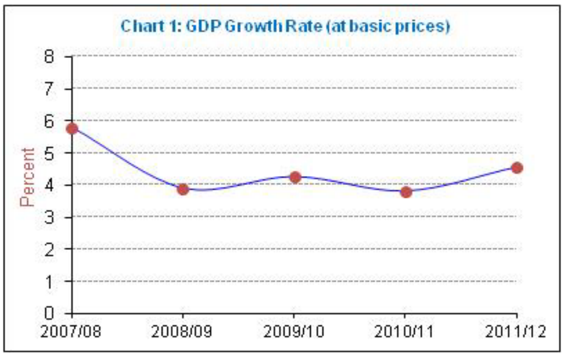
# Current Macroeconomic Situation of Nepal

*(Based on the Annual Data of FY 2011/12)*

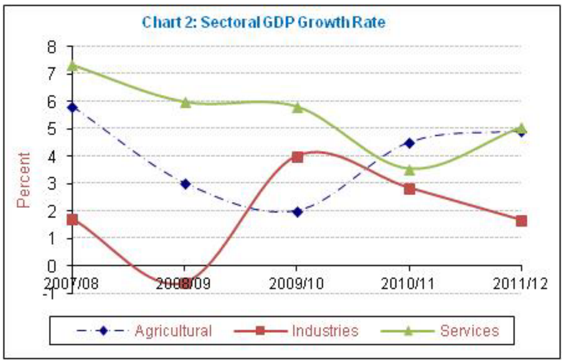
## Real Sector

### Gross Domestic Product

1. According to the preliminary estimates of the Central Bureau of Statistics (CBS), the real GDP at basic price grew by 4.56 percent in 2011/12 compared to 3.81 percent in the previous year. The real GDP at producers' price was estimated to grow by 4.63 percent in the review year compared to the growth of 3.88 percent in the previous year. The growth performance of agriculture and service sector has improved whereas the industry sector has witnessed a sluggish growth in the review year.




2. In the review year, the agriculture and non-agriculture sectors were estimated to grow by 4.9 percent and 4.3 percent respectively. These sectors had grown by 4.5 percent and 3.4 percent respectively in the previous year.




3. In the review year, the better performance of agriculture sector was attributed to favorable weather condition along with the use of improved seeds and technology. In the review year, the production of principal crops like paddy and maize was estimated to grow by 13.7 percent and 11.5 percent respectively. Likewise, the production of vegetables was estimated to grow by 5.1 percent, meat and dairy production by 3.0 percent and other animal related products by 6.0 percent.

4. In the review year, the industrial sector was estimated to grow by a marginal rate of 1.7 percent compared to the growth rate of 2.9 percent in the previous year. The impacts of various structural bottlenecks including power and fuel shortage resulted into the sluggish growth of industrial sector in the review year.

5. In the review year, the services sector was estimated to grow by 5.1 percent compared to the growth rate of 3.6 percent in the previous year. The improvement in the growth rate of sub-sectors like hotel and restaurant; transport, storage and communication; health and social services contributed to have better performance of overall services sector in the review year.

## Consumption, Saving and Investment

6. In 2011/12, the ratio of total consumption to GDP was estimated at 90.02 percent compared to 91.38 percent in the previous year. Likewise, the ratio of total saving to GDP was estimated at 9.98 percent in the review year compared to 8.62 percent in the previous year. In the review year, the ratio of gross investment to GDP was estimated at 32.77 percent compared to 32.52 percent in the previous year.

## Gross National Disposable Income

7. In 2011/12, the Gross National Disposable Income (GNDI) was estimated to grow by 17.2 percent compared to 13.4 percent in the previous year. In the review year, the ratio of GNDI to GDP was estimated at 126.67 percent compared to 123.03 percent in the preceding year.

## Tourist Arrival

8. In 2011/12, the number of tourist arrival by air increased by 18.9 percent to 595,262. Of which, the number of Indian tourists accounted for 28.32 percent and the remaining 71.7 percent from other countries.

9. In the review year, the tourist arrival from India increased by 29.0 percent to 168,594 compared to a growth of 41.0 percent in the previous year. Likewise, the tourist arrival from other countries grew by 15.3 percent in the review period compared to the growth of 16.0 percent in the preceding year.

**Table: 1**

**Inflow of Tourists via Air**

| Countries | Tourist Arrival | | | Percent Change | | Share |
|---|---|---|---|---|---|---|
| | 2009/10 | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2011/12 |
| **India** | 92,748 | 130,717 | 168,594 | 40.93 | 28.98 | 28.32 |
| **Other Countries** | 319,019 | 370,033 | 426,668 | 15.99 | 15.30 | 71.68 |
| **Total** | **411,767** | **500,750** | **595,262** | **21.61** | **18.87** | **100.00** |

*Source: Nepal Tourism Board*

## Foreign Direct Investment

10. Prolonged political transition of the country has also resulted into a declining commitment of foreign direct investment. In 2011/12, the Department of Industry granted approval to 227 joint venture projects with a foreign direct investment commitment of Rs. 7.14 billion. In the previous year, 209 joint venture projects were approved with a total amount of Rs. 10.05 billion. Out of 227 registered projects, 106 are service related, 64 tourism, 31 manufacturing, 15 agriculture, 7 mineral and 4 energy related projects. In the previous year, there were 88 service related, 47 tourism, 39 manufacturing and 23 were agriculture related projects. In the

review year, both the number and total amount of service and mine based projects have increased whereas that of agriculture and production based projects have declined.

11. In the review year, the number of joint venture projects increased by 8.6 percent; while the investment amount has decreased by 28.9 percent. Of the total 227 projects approved in the review year, the largest number were from China (77) followed by India (24), USA (24) and South Korea (21). These projects were expected to generate direct employment opportunities for 9050 people.

## Foreign Employment

12. In 2011/12, the Government of Nepal, Department of Foreign Employment granted final approval to 384,665 workers for foreign employment registering a growth rate of 8.4 percent compared to the previous year.

13. As in the past, Malaysia and the Gulf countries appeared to be the major destinations for Nepalese workers in 2011/12. Of the total workers granted final approval for foreign employment in the review year, 27.5 percent were for Qatar, 25.6 percent for Malaysia, 20.9 percent for Saudi Arab, 14.2 percent for U.A.E, 6.4 percent for Kuwait and remaining 5.5 percent were for other countries. In the previous year, such figures were 29.8 percent for Malaysia, 29.0 percent for Qatar, 20.0 percent for Saudi Arab, 12.5 percent for U.A.E., 4.3 percent for Kuwait and remaining 4.3 percent for other countries. In the review year, the number of workers approved for Malaysia declined by 7.1 percent whereas that for Qatar increased by 2.6 percent thereby making Qatar in the top position in terms of the number of approval granted to the Nepalese workers for foreign employment.

**Table: 2**

**Number of Workers Approved for Foreign Employment**

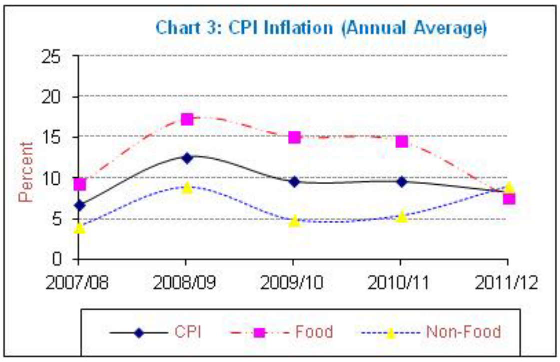
| Countries | Total Approval for Foreign Employment | | | Percent Change | | Share |
|---|---|---|---|---|---|---|
| | 2009/10 | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2011/12 |
| Qatar | 55940 | 102966 | 105681 | 84.07 | 2.64 | 27.47 |
| Malaysia | 113982 | 105906 | 98367 | -7.09 | -7.12 | 25.57 |
| Saudi Arab | 63400 | 71116 | 80455 | 12.17 | 13.13 | 20.92 |
| UAE | 33188 | 44464 | 54482 | 33.98 | 22.53 | 14.16 |
| Kuwait | 8255 | 15187 | 24575 | 83.97 | 61.82 | 6.39 |
| Others | 19329 | 15077 | 21105 | -22.00 | 39.98 | 5.49 |
| **Total** | **294094** | **354716** | **384665** | **20.61** | **8.44** | **100.00** |

*Source: Department of Foreign Employment, Government of Nepal.*

# Inflation, Salary and Wage Rate

## Consumer Price Inflation

14. The annual average consumer price inflation increased by 8.3 percent in Fiscal Year 2011/12 compared to an increase of 9.6 percent in Fiscal Year 2010/11. The price index of food and beverages group increased by 7.7 percent whereas the index of non-food and services group increased by 9.0 percent witnessing relatively lower price rise in the review period as compared to previous year. The indices of food and beverages and non-food and services had increased by 14.7 percent and 5.4 percent respectively in Fiscal Year 2010/11.



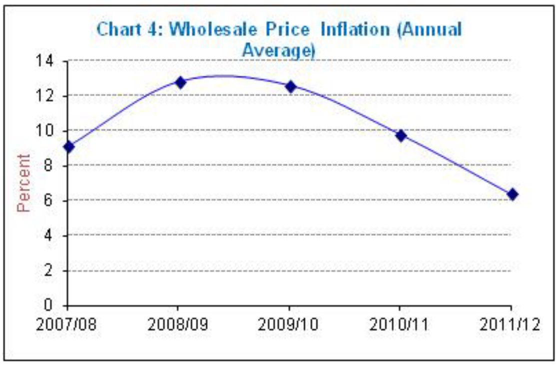

15. Under the food and beverages group, the yearly average price index of vegetables, increased sharply by 24.2 percent in the review year whereas it had increased by 35.0 percent in the previous year. Similarly, the annual average price indices of fruits, ghee and oil and milk and eggs went up by 16.9 percent, 14.4 percent and 13.6 percent respectively compared to their respective increments of 19.4 percent, 2.5 percent and 14.6 percent in the previous year. The annual price index of restaurant and hotel grew up by 11.9 percent compared to 15.5 percent rise in the previous year. Likewise, the annual price indices of tobacco products and sugar and sweets increased by 10.8 percent and 9.2 percent respectively compared to their respective increases of 13.5 percent and 19.5 percent in the previous year. In Fiscal Year 2011/12, the annual average price index of spices declined by 9.1 percent against an increase of 23.2 percent in the previous year.

16. Under the non-food and services group, the yearly average indices of transport as well as clothing and footwear went up 15.6 percent and 14.8 percent respectively compared to their respective increase of 10.1 percent and 13.3 percent in the previous year. Similarly, the annual price indices of furnishing and household equipment and education grew up by 13.4 percent and 9.8 percent respectively in the review year compared to their respective increments of 5.7 percent and 5.5 percent in the previous year. The annual average price index of communication, which had decreased by 10.6 percent in the previous year, has further declined by 8.2 percent during the review year.

17. Region-wise, annual average price indices of Hills, Terai and Katmandu Valley increased by 9.7 percent, 8.1 percent and 7.4 percent respectively in the review year. Such indices had risen by 10.6 percent, 7.2 percent and 12.1 percent respectively in the previous year.

## Wholesale Price Inflation

18. The annual average wholesale price inflation increased by 6.4 percent in the FY 2011/12 compared to 9.9 percent rise in the previous year. The annual average price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 2.5 percent 9.6 percent and 12.1 percent respectively compared to their corresponding rise of 10.8 percent, 9.1 percent and 8.5 percent in the previous year.




19. Within the agricultural commodities group, the annual average price index of cash crops, which had declined by 10.9 percent in the previous year, has increased by 14.0 percent in the review year. The annual wholesale price index of fruits and vegetables and livestock production also increased by 11.5 percent and 3.0 percent respectively compared to their respective increments of 23.6 percent and 12.7 percent in the previous year.

20. The annual average price indices of beverages and tobacco and food related product, under the domestic manufactured commodities group, rose by 11.6 percent and 10.8 percent respectively in comparison to their respective increments of 14.3 percent and 5.7 percent in the previous year. The annual average price index of construction materials, which had increased by 5.2 percent in previous year, further increased by 5.3 percent during the review year.

21. Within the imported commodities group, the annual average price indices of textiles related products, petroleum products and coal and electric and electronic goods increased by 23.3 percent, 21.2 percent and 11.3 percent in the review year. Such increments of these goods were 5.4 percent, 15.8 percent and 3.0 percent respectively in the previous year.

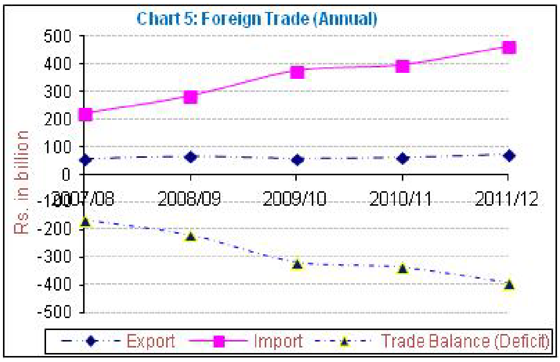
## National Salary and Wage Rate Index

22. The annual average salary and wage rate index increased by 27.4 percent in Fiscal Year 2011/12 whereas it had increased by 18.0 percent in the previous year. In the review year, annual average price index of salary and wage rate rose by 19.3 percent and 29.6 percent respectively. In the previous year, there was no increment in salary index whereas the wage rate index had increased by 24.0 percent. In the review year, the salary index of bank and financial institutions has increased by 42.4 percent. Similarly, the salary index of public corporations and army and police forces have increased by 27.1 percent and 26.5 percent. The annual salary indices of education, civil services and private institutions have increased by 19.1 percent, 18.7 percent and 8.6 percent respectively. In the review year, the wage rate index of construction laborers has increased by 31.8 percent whereas the wage rate index of industrial laborers and agricultural laborers has grown up by 29.8 percent and 29.1 percent respectively.

# External Sector Situation

## Foreign Trade

23. Merchandise exports which had increased by 5.8 percent in the previous year, recorded a growth of 15.4 percent to Rs. 74.26 billion in the review year. Exports had amounted to Rs. 64.34 billion in the previous year. On a monthly basis, merchandise exports increased by 11.5 percent in June/July of the current fiscal year compared to that of the previous month.




24. Exports to India went up by 14.4 percent during the review year compared to the growth of 8.4 percent in the previous year. Likewise, exports to other countries which had increased marginally by 0.7 percent in the previous year rose significantly by 17.5 percent in the review year. In USD terms, exports to other countries increased by 5.2 percent to USD 305.1 million compared to an increase by 4.1 percent in the previous year. The increase in the exports to India was mainly attributed to the increase in the exports of textiles, cardamom, polyester yarn, copper wire rod and G.I. pipe, among others. Exports to other countries increased due mainly to an increase in the export of woolen carpet, pashmina, readymade garments, tanned skin and Nepalese paper & paper products, among others.

25. Merchandise imports increased by 16.5 percent to Rs. 461.67 billion in the review year. Such imports had risen by 5.8 percent to Rs. 396.18 billion in the previous year. Total merchandise imports surged significantly primarily due to a large increase in the imports of gold and petroleum products. On a monthly basis, the merchandise imports increased by 15.2 percent in June/July of the current fiscal year in comparison to the value of the previous month.

26. Imports from India rose by 14.3 percent during the review year compared to a growth of 20.6 percent in the previous year. Likewise, imports from other countries soared up by 20.9 percent in the review year in contrast to a decline by 14.6 percent in the previous year. In USD terms, imports from other countries went up by 7.9 percent to USD 2.01 billion as against a decline by 11.7 percent in the previous year. In the review year, the import of petroleum products, coal, rice, M.S. wires (including rods, coils and bars) and chemical fertilizer, among others, increased from India whereas import of gold, crude soybean oil, edible oil, polythene granules and electrical goods, among others, increased from other countries.

27. Due to the strong base and high growth rate of imports compared to exports, total trade deficit went up by 16.7 percent to Rs. 387.41 billion in the review year. Trade deficit had expanded by 5.8 percent in the previous year. Trade deficit with India rose by 14.3 percent during the review year compared to a growth of 23.4 percent in the previous year. Likewise, trade deficit with other countries grew by 21.5 percent as against a decline by 17.0 percent in the previous year.

28. The ratio of export to import decreased marginally to 16.1 percent in the review year compared to 16.2 percent in the previous year. The share of India in Nepal's total trade stood at 65.1 percent in the review year as compared to 66.3 percent in the previous year.

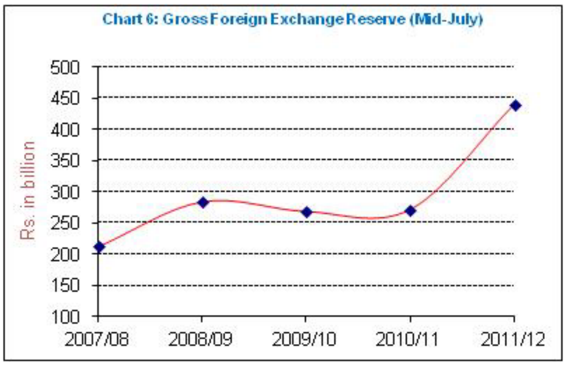
## Balance of Payments Situation

29. The overall BOP recorded its highest ever surplus of Rs. 127.70 billion in the review year compared to a surplus of Rs. 2.18 billion in the previous year. The current account posted a surplus of Rs. 75.98 billion in the review year compared to a deficit of Rs. 12.94 billion in the previous year. The substantial rise in the growth of remittances and the improvement in the service account were the responsible factors for the encouraging surplus in the current account. In USD terms, the overall BOP recorded a surplus of USD 1.57 billion in the review year in comparison to a surplus of USD 34.7 million in the previous year. Similarly, the current account registered a surplus of USD 909.0 million in the review year as against to a deficit of USD 177.0 million in the previous year.

30. The FOB-based merchandise trade deficit rose by 16.7 percent to Rs. 373.14 billion in the review year. Such deficit had increased by 5.3 percent in the previous year. Net service account witnessed a surplus of Rs. 14.06 billion during the review year in contrast to a deficit of Rs. 8.67 billion in the previous year. Under services, tourism income rose by 24.8 percent in the review year in contrast to a decline by 12.5 percent in the previous year. Net transfers registered a growth of 37.3 percent to Rs. 422.77 billion in the review year compared to that of the previous year. Under transfers, workers' remittances surged by 41.8 percent to Rs. 359.55 billion compared to a growth of 9.4 percent in the previous year. On a monthly basis, remittance inflows increased by 2.1 percent in June/July compared to the value of the previous month of the review year. In USD terms, remittance inflows increased by 25.8 percent to USD 4.41 billion in the review year compared to a growth of 12.0 percent in the previous year. Likewise, under the financial account, foreign direct investment of Rs. 9.20 billion was recorded during the review year compared to such investment of Rs. 6.44 billion in the previous year.

## Foreign Exchange Reserves

31. The gross foreign exchange reserves surged by 61.5 percent to Rs. 439.46 billion in mid-July 2012 from a level of Rs. 272.15 billion as at mid-July 2011. Such reserves had increased by 1.2 percent in the previous year. Out of total reserves, NRB's reserves increased by 76.2 percent to Rs. 375.52 billion in the review year from a level of Rs. 213.10 billion as at mid-July 2011. In USD terms, the reserves of convertible foreign exchange increased by 24.4 percent to USD 3.87 billion in mid-July 2012 from the level of mid-July 2011. Such reserves had increased by 3.3 percent in the previous year. Likewise, the reserves in terms of inconvertible foreign exchange increased by 88.0 percent to IRs. 60.39 billion in the review year. Such reserves had increased by 15.0 percent in the previous year. On the basis of the current trend of import, the



existing level of reserves is sufficient for financing merchandise imports of 11.6 months and merchandise and service imports of 10.3 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 declined by 13.5 percent to USD 102.10 per barrel in mid-July 2012 from USD 118.06 per barrel in mid-July 2011. On the other hand, the price of gold increased marginally by 0.2 percent to USD 1589.75 per ounce in mid-July 2012 from the level a year ago.

33. Nepalese currency vis-à-vis the US dollar depreciated by 19.9 percent in mid-July 2012 from the level of mid-July 2011. It had appreciated by 4.9 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 88.60 in mid-July 2012 compared to Rs. 70.95 in mid-July 2011.

## Fiscal Situation *

### Budget Deficit / Surplus

34. The government budget deficit, on cash basis, decreased by 82.3 percent to Rs. 8.95 billion in 2011/12, such deficit was Rs 50.51 billion in 2010/11. The ratio of budget deficit to GDP remained at 0.6 percent during the review year, as against 3.7 percent in the previous year.

### Sources of Deficit Financing

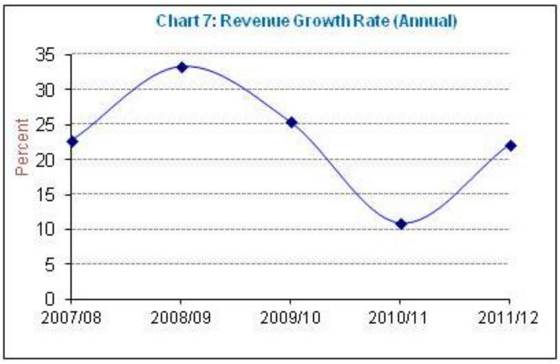
35. In 2011/12, the domestic financing of the budget deficit through the issuance of securities amounted to Rs. 36.41 billion, accounting for 2.3 percent of GDP.

36. Government net domestic borrowing stood at Rs. 18.68 in the review year due to principal repayment of Rs.6.63 billion and the balance amount of Rs.11.01 billion (after adjusting government overdraft of Rs 20.76 billion of the preceding year) with Nepal Rastra Bank. The ratio of net domestic borrowing to GDP stood at 1.2 percent in the review year.

37. After adjusting the balance amount of Rs. 11.01 billion of government with Nepal Rastra Bank with total internal debt amounting Rs. 209.12 billion, government total domestic debt increased to Rs. 198.11 billion in mid-July 2011-12.

* Based on the figures reported by 8 NRB offices, 65 RBBL branches (out of 65 branches conducting govt. transaction), 34 NBL branches (out of 43 branches conducting govt. transaction), 5 Everest Bank branches and 1-1 branches each from Nepal Bangladesh Bank Ltd. and Global Bank Limited conducting government transactions.

## Government Revenue and Foreign Cash Grants




38. In 2011/12, revenue mobilization of the Government of Nepal increased by 22.2 percent to Rs. 244.15 billion, which is 100.98 percent of annual budget estimate of Rs. 241.77 billion. The revenue had risen by 11.0 percent to Rs. 199.82 billion in 2010/11. Consequently, the revenue to GDP ratio remained at 15.7 percent in 2011/12 as against 14.6 percent in 2010/11. The expansion of economic activities with the timely announcement of the budget for the FY 2011/12 contributed to such a growth in government's revenue collection during the review period. Likewise, a positive impact of "Tax Enforcement Campaign Year 2011-12", increase in PAN number holders, 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 17.1 percent to Rs. 72.19 billion in 2011/12. Such revenue had increased by 15.3 percent in the previous year. The increase in VAT revenue was on account of growing imports positive impact of investigation into taxpayers involved in fraud VAT bill issuance and reforms in VAT administration.

40. In 2011/12, customs revenue rose by 21.7 percent to Rs. 43.41 billion compared to an increase of 1.8 percent in the previous year. Increase in imports compared to that of the previous year, increase in agriculture improvement duties, appreciation of US dollar against Nepalese currencies, increase in DRP, etc contributed to such an increase in custom revenue during the review year.

41. Income tax revenue increased by 25.5 percent to Rs. 52.33 billion in 2011/12 compared to an increase of 23.9 percent in the previous year. A positive impact of tax compliance year 2011/12 and expansion on taxpayer education accounted for such an increase in the income tax revenue mobilization.

42. During the review year, excise revenue increased by 15.2 percent to Rs. 30.41 billion compared to an increase of 8.5 percent in the previous year. Reforms in the tax administration and control of leakages attributed to the growth of excise duty during the review year.

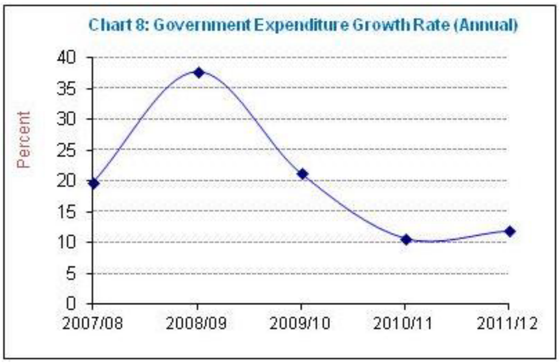
43. Amongst the components of revenue in 2011/12, VAT constituted a share of 29.6 percent followed by income tax (21.4 percent), customs duties (17.8 percent), and excise duties (12.5 percent). In the previous year, such compositions were 30.9 percent, 20.9 percent, 17.8 percent and 13.2 percent respectively.

44. During the review year, non-tax revenue increased by 34.4 percent to Rs. 37.62 billion compared to an increase of 10.8 percent in the previous year. A positive impact of campaign organized by ministry of finance for the collection of non-tax revenue contributed for such a growth rate and dividends, rent and royalty, sales of goods and services, charges for issuing passports and visa fees also contributed for such a growth in non-tax revenue.

45. In 2011/12, foreign grants on cash basis increased to Rs. 46.57 billion. In the previous year such grants had risen to Rs. 26.21 billion.

### Government Expenditure

46. The government expenditure, on cash basis, increased by 11.9 percent to Rs. 310.75 billion in 2011/12 compared to an increase of 10.7 percent to Rs. 277.62 billion in the previous year. Timely announcement of the budget for the FY 2011/12 contributed to such increase in government expenditure. The implementation of budget was delayed in preceding year as it was announced only in the fifth month of the fiscal year.

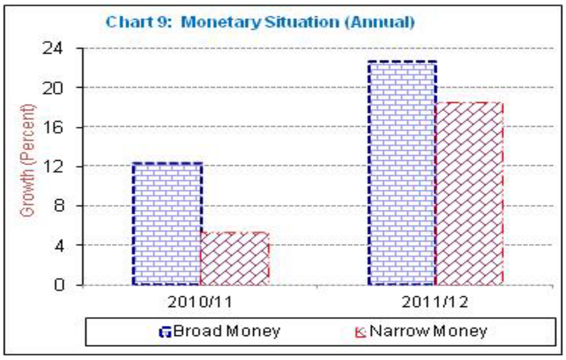



47. During the review year, the government's recurrent expenditure stood at Rs. 231.79 billion, which is 86.9 percent of annual budget estimate. Likewise, the capital expenditure stood at 40.83 billion, which is 56.2 percent of annual budget estimate.

# Monetary Situation*

### Money Supply

48. Broad money supply (M2) increased by 22.7 percent in FY 2011/12 compared to a growth of 12.3 percent in the previous year. A significant rise in net foreign assets of monetary sector contributed to the expansion in broad money supply during the review year. Similarly, narrow money supply (M1) increased by 18.5 percent during the review year as compared to 5.2 percent increase in the previous year.




49. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs.127.70 billion (59.1 percent) in the review year compared to the increase of Rs. 2.18 billion (1.0 percent) in the previous year. The current account surplus on account of improvement in exports, workers' remittances and services income as well as improvement in capital account were the factors responsible for the favorable balance of payments (BOP) leading to such an increase in net foreign assets of the monetary sector during the review year.

* In the past, Nepal Rastra Bank was publishing monetary survey based on the balance sheets of Nepal Rastra Bank and commercial banks. From the fourth month (mid-November 2011) of the FY 2011/12, the coverage of the monetary survey has been extended to include development banks and finance companies as well. The monetary aggregates presented here are based on broad monetary survey.

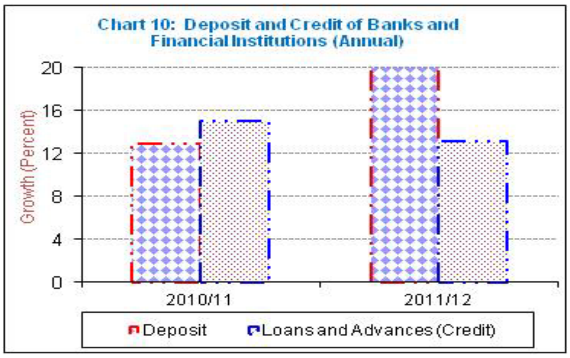
## Domestic Credit

50. Domestic credit increased by 8.0 percent in FY 2011/12. It had increased by 14.6 percent in the previous year. A lower growth of claims on private sector coupled with net savings in government account due to lower level of public expenditure relative to resource mobilization resulted a lower growth of domestic credit during the review year. Claims on private sector increased by 11.3 percent in 2011/12 compared to a growth of 13.9 percent in the previous year. The slow growth in credit to private sector is contributed by the policy measures like sectoral credit limit implemented to curb the excessive credit flow to unproductive sector and the reduction of credit by financial institutions having high credit deposit ratio to bring such ratio within the stipulated limit.

## Reserve Money

51. Reserve money increased by 36.4 percent during the review year compared to an increase of 7.2 percent in the previous year. Despite a fall in Nepal Rastra Bank's claims on government and claims on banks and financial institutions, a significant rise in net foreign assets contributed to the expansion in reserve money during the review year.

## Deposit Mobilization of Banks and Financial Institutions




52. Deposit mobilization of banks and financial institutions increased by 22.9 percent (Rs. 188.59 billion) in the review year. Such deposit mobilization had increased by 12.9 percent (Rs. 94.13 billion) in the previous year. In the review year, deposit mobilization remain positive due to expansion in economic activities compared to previous year and also increasing remittances income and export . In the review year, deposit mobilization of commercial banks and development banks increased by 26.7 percent and 34.0 percent respectively whereas deposit mobilization of finance companies decreased by 7.5 percent. The deposit mobilization of commercial banks, development banks and finance companies had increased by 9.6 percent, 25.0 percent and 8.1 percent respectively in the previous year. In the review year, the deposit mobilization of finance companies remained low due to the merger of 3 finance companies with commercial banks and 5 finance companies with development banks. It also contributed to increase the deposit mobilization of commercial banks and development banks.

## Credit Flow of Banks and Financial Institutions

53. During the review year, loans and advances of banks and financial institutions increased by 13.2 percent (Rs. 112.78 billion) which had increased by 15.1 percent (Rs. 111.91 billion) in the previous year. Loans and advances of commercial banks and development banks increased by 17.0 percent and 23.6 percent respectively whereas loans and advances of finance companies decreased by 10.6 percent during the review year. Credit to private sector from

banks and financial institutions increased by 12.2 percent (Rs. 84.86 billion) during the review year compared to a growth of 14.4 percent (Rs. 87.50 billion) in the previous year. During the review year, credit to private sector extended by commercial banks and development banks increased by 17.8 percent and 12.4 percent respectively while that of finance companies dropped by 22.3 percent. The decline in loans and advances of finance companies in the review year is primarily attributed to the reduction in number of finance companies due to the merger of some finance companies with commercial banks and development banks.

54. Of the total commercial banks' credit to private sector, the credit to industrial production sector increased by Rs. 28.79 billion during the review year compared to Rs. 20.47 billion in the previous year. Similarly, banks' credit to agriculture sector surged up by Rs. 9.22 billion during the review year compared to a fall by Rs. 0.10 billion in last year. Likewise, commercial banks' credit to construction sector increased by Rs. 9.72 billion, wholesale and retail trade sector by Rs. 20.04 billion and transportation, communication and public services sector by Rs. 5.36 billion in the review year.

## Liquidity Management

55. The NRB mopped up net liquidity of Rs. 7.66 billion through secondary market operation in 2011/12 of which Rs. 8.40 billion was mopped up through outright sale auction and Rs. 0.74 billion was injected through repo auction in the review year. Net liquidity of Rs. 71.39 billion was injected as a result of liquidity injection of Rs. 92.39 billon through repo auction and liquidity mopped up of Rs. 2 billion through outright sale auction and Rs. 19 million through reverse repo auction in the previous year.

56. The NRB injected net liquidity of Rs. 258.28 billion through the purchase of USD 3.19 billion from foreign exchange market (commercial banks) in FY 2011/12. Net liquidity of Rs. 174.30 billion was injected through the purchase of USD 2.42 billion from foreign exchange market in the previous year.

57. The NRB purchased Indian currency equivalent to Rs. 213.95 billion through the sale of USD 2.66 billion in the Indian money market during the review year. INR equivalent to Rs. 198.15 billion was purchased through the sale of USD 2.74 billion in the previous year. Though, the widening trade deficit with India on account of increase in the import of petroleum products attributed to a higher amount of INR purchase in the review year, such amount of INR has been purchased against the lower quantity of USD compared to previous year due to depreciation of Indian currency against USD.

## Inter-bank Transaction and Standing Liquidity Facility

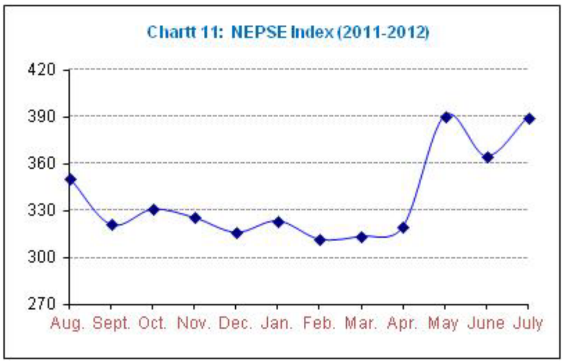
58. Inter-bank transaction of commercial banks stood at Rs. 212.77 billion in FY 2011/12 compared to Rs. 397.56 billion in the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 5.57 billion during the review year and all the amount of SLF is recovered as at mid-July 2012. Liquidity injected through the SLF had amounted to Rs. 216.67 billion in the previous year.

### Short-term Interest Rates

59. The short-term interest rates remained at lower level in 2011/12 compared to those in FY 2010/11. For example, the weighted average 91-day Treasury bill rate remained at 1.31 percent in FY 2011/12 compared to 7.41 percent in the previous year. Similarly, the weighted average inter-bank rate remained at 1.28 percent in the review year compared to 8.44 percent in the previous year.

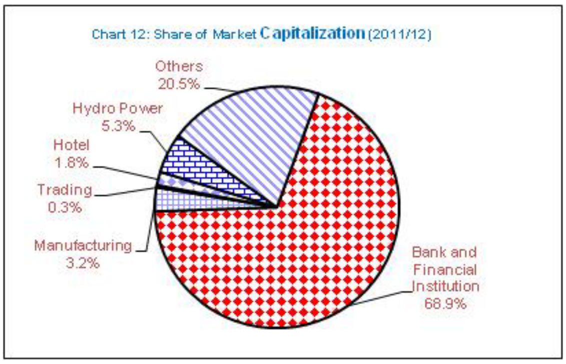
## Securities Market

60. Some positive signals have been observed in securities market in FY 2011/12. NEPSE index, year on year (y-o-y) basis, increased by 7.4 percent to 389.74 points in mid-July 2012. The index had dropped by 24.0 percent in the previous year and stood at 362.85 points as at mid-July 2011. NEPSE sensitive index (based on mid-July 2006) stood at 98.77 point in mid-July 2012, as against 89.44 in mid-July 2011. The NEPSE float index, calculated on the basis of closing transaction as of August 24, 2008 (as base market value), dropped marginally by 0.4 percent in the review year to 30.56 in mid-July 2012 from 30.67 as at mid-July 2011.




61. The value of transaction in the securities market also increased remarkably in FY 2011/12. The transaction value increased by 54.2 percent to Rs.10.28 billion during FY 2011/12 as compared to Rs. 6.66 billion in the previous year.

62. The y-o-y market capitalization increased by 13.8 percent to Rs.368.26 billion in mid-July 2012. As a result, the ratio of market capitalization to GDP stood at 23.6 percent in mid-July 2012. Such ratio was also 23.6 percent in mid-July 2011. Of the total market capitalization, the share of bank and financial institutions stood at 68.9 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 3.2 percent, 1.8 percent, 0.3 percent, 5.3 percent and 20.5 percent respectively. As in the previous year, the banks and financial institutions comprise a major share in total market capitalization in review year.




63. Total paid-up capital of the listed companies stood at Rs. 110.61 billion in mid-July 2012, registering an increase of 10.4 percent over mid-July 2011. Such an increase in paid-up capital was due to the additional listing of securities at the NEPSE. In FY 2011/12, additional securities comprising ordinary share of 11 companies worth Rs. 3.57 billion, bonus share of 61 companies worth to Rs. 4.21 billion and right share of 33 companies worth Rs. 2.40 billion

were listed at the NEPSE. In addition, government securities of Rs.15 billion and commercial banks' bond of Rs.0.70 billion were also listed at the NEPSE.

64. Total number of companies listed at the NEPSE increased from 209 in mid-July 2011 to 216 in mid-July 2012. Banks and financial institutions comprise a major share in the number of listed companies. Of the total listed companies as of mid-July 2012, the number of banks and financial institutions (including insurance companies) stood at 184 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and other companies (2).

# Banks and Financial Institutions

65. Total number of bank and financial institutions licensed by NRB dropped to 266 as in mid-July 2012 from 272 as of mid-July 2011. Though, 5 new banks and financial institutions comprising a commercial bank, a development bank and 3 microfinance development banks come into operation in FY 2011/12, the reduction in the total number of banks and financial institutions is attributed to the merger of 3 finance companies with 2 commercial banks, formation of 6 development banks as a result of merger among 7 development banks and 5 finance companies and revocation of license of 2 non-governmental organizations in the review year. Accordingly, the total number of commercial banks reached 32 while the number of development banks, finance companies and microfinance development banks stood at 88, 70 and 24 respectively as at mid-July 2012. In addition, there are 16 cooperatives and 36 NGOs licensed from NRB.

**Table: 2**

**The Number of Banks and Financial Institutions**

| Bank and Financial Institutions | Mid-July | |
|---|---|---|
| | 2011 | 2012 |
| Commercial Banks | 31 | 32 |
| Development Banks | 87 | 88 |
| Finance Companies | 79 | 70 |
| Microfinance Development Banks | 21 | 24 |
| NRB Licensed Cooperatives (Undertaking limited banking transactions) | 16 | 16 |
| NRB Licensed NGOs (undertaking micro finance transactions) | 38 | 36 |
| Insurance Companies | 25 | 25 |