



Nepal Rastra Bank

Central Office

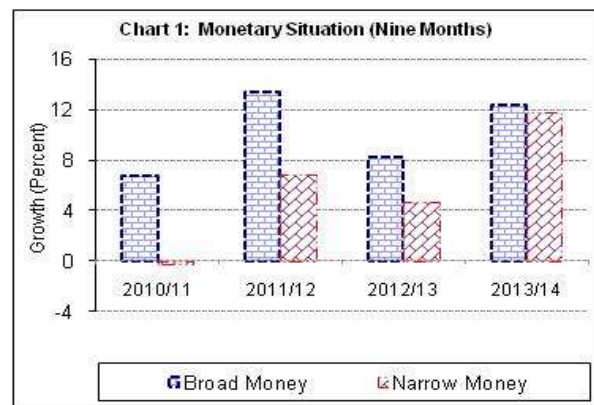
Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 12.4 percent in the nine 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 20.8 percent in mid-April 2014. Narrow money supply (M1) increased by 11.8 percent in the review period compared to an increase of 4.7 percent in the same period of the previous year. M1 grew by 22.1 percent on year-on-year (y-o-y) basis in mid-April 2014.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 106.23 billion (22.7 percent) during the review period compared to an increase of Rs. 30.77 billion (8 percent) in the corresponding period of the previous year. Higher growth of remittance inflows accompanied by a significant increase in foreign assistance resulted in a higher growth of net foreign assets in the review period.

Domestic Credit

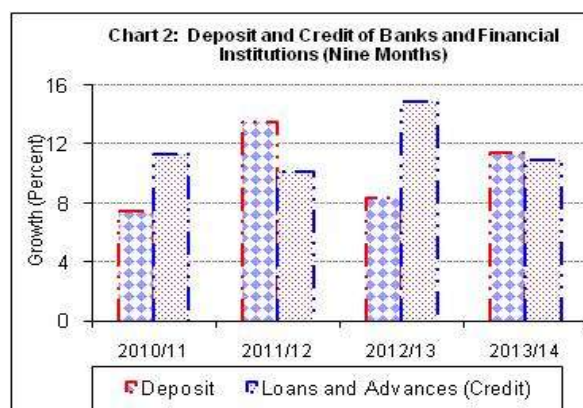
3. Domestic credit increased by 4.0 percent in the review period compared to a growth of 8.3 percent in the same period of the previous year. A slower growth of domestic credit in the review period was on account of decrease in net claims on government. On y-o-y basis, domestic credit increased by 12.5 percent in mid-April 2014. The claims on private sector increased by 13.5 percent in the review period compared to an increase of 16.5 percent in the same period of the previous year. On y-o-y basis credit to private sector increased by 17.1 percent in mid-April 2014.

Reserve Money

4. In the review period, reserve money increased by 5.0 percent as against a decline of 11.3 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased by 31.4 percent in mid-April 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 11.4 percent (Rs. 135.28 billion) in the review period. Such deposit mobilization had increased by 8.4 percent (Rs. 85.44 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs increased by 20.6 percent in mid-April 2014. In the review period, deposit mobilization of commercial banks increased by 10.9



percent, development banks by 16.9 percent and finance companies by 10.7 percent. The deposit mobilization of commercial banks had increased by 7.5 percent, development banks by 10.9 percent and finance companies by 7.3 percent in the same period of the previous year.

Credit Flows of Banks and Financial Institutions

6. In the nine months of 2013/14, loans and advances of BFIs increased by 10.9 percent (Rs. 125.40 billion) compared to a growth of 14.9 percent (Rs. 143.94 billion) in the same period of the previous year. In the review period, loans and advances of commercial banks increased by 10.8 percent, development banks by 16.6 percent and finance companies by 8.5 percent. In the corresponding period of the previous year, such loans and advances had increased by 14.3 percent, 10.8 percent and 8.1 percent respectively. Similarly, the credit to private sector from BFIs increased by 13.5 percent (Rs. 126.97 billion) in the review period compared to a growth of 16.7 percent (Rs. 129.84 billion) in the same period of the previous year. On y-o-y basis, the credit to private sector from BFIs increased by 17.5 percent in mid-April 2014. In the review period, credit to private sector from commercial banks increased by 13.8 percent, development banks by 18.5 percent and finance companies by 0.5 percent. Such figures had increased by 16.6 percent, 18.1 percent and 15.4 percent respectively in the same period of the previous year.
7. Of the total credit from BFIs, the credit to wholesale and retail trade sector increased by Rs. 36.43 billion compared to an increase by Rs. 29.56 billion in the same period of the previous year. Similarly, the credit to industrial production sector increased by

Rs. 29.40 billion in the review period compared to an increase of Rs. 27.65 billion in the same period of the previous year. In the review period, the credit to construction sector increased by Rs. 16.38 billion and to transportation, communication and public services by Rs. 3.08 billion. The credit to construction sector had increased by Rs. 8.55 billion and to transportation, communication and public services by Rs. 6.86 billion in the same period of the previous year. The credit to agriculture sector increased by Rs. 8.46 billion in the review period compared to an increase of Rs. 8.02 billion in the corresponding period of the previous year.

Liquidity Management

8. In the review period, the NRB injected net liquidity of Rs. 250.87 billion through the net purchase of USD 2.52 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 180.69 billion was injected through the purchase of USD 2.08 billion in the same period of the previous year.
9. The NRB purchased Indian currency (INR) equivalent to Rs. 225.70 billion through the sale of USD 2.28 billion in the review period. INR equivalent to Rs. 198.27 billion was purchased through the sale of USD 2.28 billion in the same period of the previous year.
10. The excess liquidity of BFIs has been mopped up through the open market operations (OMOs) during the review period. NRB mopped up net liquidity of Rs. 348.00 billion through reverse repo auction and Rs. 8.50 billion through outright sale auction in the review period. A net liquidity of Rs. 8.50 billion was mopped up through outright sale auction 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. 167.97 billion and those of other financial institutions amounted to Rs. 123.67 billion. Those figures stood at Rs. 516.80 billion and Rs. 125.19 billion respectively in the corresponding period of the previous year. The standing liquidity facility (SLF) has not been utilized in the review period.

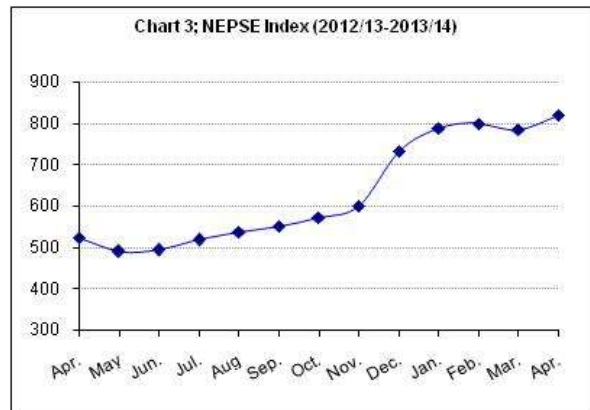
Interest Rates

12. The weighted average Treasury bill rate and inter-bank transaction rate declined in April 2014 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate decreased to 0.06 percent in April 2014 from 3.49 percent a year ago. The weighted average inter-bank transaction rate among commercial banks went down to 0.19 percent in April 2014 from 3.78 percent in April 2013. Likewise, the weighted average inter-bank rate among other financial institutions declined to 2.29 percent in April 2014 from 6.31 percent a year ago.
13. In mid-April 2014, the weighted average deposit and lending rates of commercial banks remained at 4.30 percent and 10.92 percent respectively. Accordingly, the

interest rate spread (lending rate less deposit rate) of commercial banks stood at 6.62 percent in mid-April 2014. Such spread was 6.73 percent in the previous month. Moreover, the average base rate of commercial banks remained at 8.38 percent in mid-April 2014. Such rate was 8.55 percent in the previous month.

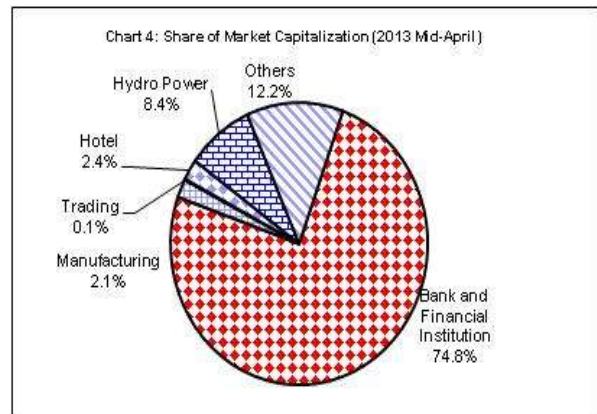
Securities Market

14. NEPSE index, on y-o-y basis, increased by 56.4 percent to 818.4 points in mid-April 2014. The index had increased by 63.6 percent to 523.4 points in mid-April 2013.



15. The y-o-y stock market capitalization increased by 63.9 percent to Rs. 833.19 billion in mid-April 2014. The ratio of market capitalization to GDP stood at 48.3 percent in mid-April 2014 compared to 33.4 percent a year ago.

16. Of the total market capitalization as of mid-April 2014, the share of banks and financial institutions (including insurance companies) stood at 74.8 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 2.1 percent, 2.4 percent, 0.1 percent, 8.4 percent and 12.2 percent respectively.



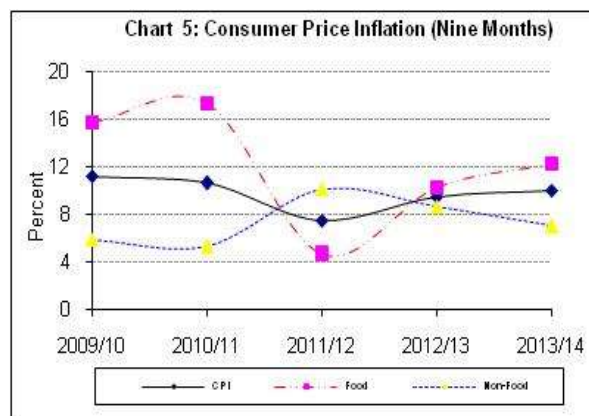
17. Total number of companies listed at the NEPSE increased from 215 in mid-April 2013 to 237 in mid-April 2014. Of the total listed companies, the number of banks and financial institutions (including insurance companies) stood at 204 followed by manufacturing and processing companies (18), hotels (4), business entities (4), hydropower companies (5) and others (2).

18. Total paid-up capital of the listed companies stood at Rs. 140.53 billion in mid-April 2014, registering an increase of 17.5 percent over mid-April 2013. Additional securities worth Rs.16.40 billion comprising ordinary share of Rs. 5.29 billion, right share of Rs. 4.59 billion, bonus share of Rs. 4.92 billion and commercial banks' debenture of Rs.1.6 billion were listed at the NEPSE during the nine 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 9.4 percent in mid-April 2014 compared to an increase by 9.5 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 12.3 percent and 7.0 percent respectively during the review period. Such indices had increased by 10.3 percent and 8.7 percent respectively in the corresponding period of the previous year.

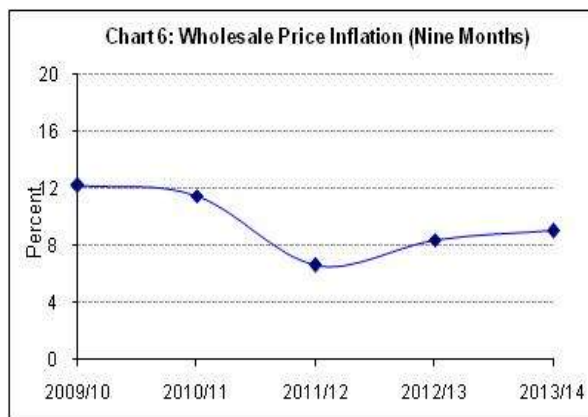


20. Within the food and beverage group, price index of tobacco products sub-group increased by the highest rate of 25.3 percent during the review period compared to an increase of 11.4 percent in the corresponding period of the previous year. The price indices of hard drinks sub-group and vegetables sub-group which had increased by 4.4 percent and 3.5 percent in the corresponding period of previous year, went up by 22.5 percent and 21.5 percent respectively during the review period. The price indices of fruits sub-group and meat and fish sub-group increased by 17.0 percent and 13.9 percent respectively during the review period compared to the increase of 5.4 percent and 16.2 percent respectively in the corresponding period of the previous year. The price index of sugar and sweets sub-group, which had increased by 10.8 percent in the corresponding period of the previous year, decreased by 2.1 percent in the review period.
21. Among the items of non-food and services group, the price index of clothing and footwear sub-group 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 index of furnishing and household equipment sub-group increased by 9.2 percent whereas the price indices of health sub-group and recreation and culture sub-group increased by the same rate of 8.3 percent respectively during the review period. The price index of furnishing and household equipment sub-group had increased by 12.1 percent whereas the price indices of health sub-group and recreation and culture sub-group had increased by 5.4 percent and 5.8 percent respectively in the corresponding period of the previous year. Similarly, the price index of education sub-group increased by 7.8 percent during the review period while such index had increased by 12.5 percent in the corresponding period of the previous year.
22. Region-wise, the price indices in Terai increased by 10.0 percent followed by Kathmandu Valley and Hilly region with 9.5 percent and 8.6 percent respectively

during the review period. The increments in Terai, Kathmandu Valley and Hilly region were respectively 9.3 percent, 10.3 percent and 8.8 percent in the corresponding period of the previous year.

Wholesale Price Inflation

23. The y-o-y wholesale price index increased by 9.0 percent during the review period compared to a rise of 8.4 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 12.1 percent, 7.2 percent and 4.5 percent respectively during the review period. The increments in agricultural commodities, domestic manufactured commodities and imported commodities were respectively 11.6 percent, 4.7 percent and 5.3 percent 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 16.3 percent during the review period compared to an increase of 7.3 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 26.4 percent during the review period, while it did not show any increment in the corresponding period of the previous year. The wage rate index increased by 14.1 percent during the review period compared to an increase of 9.1 percent in the corresponding period of the previous year.
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, industrial labourer, agricultural labourer and construction labourer witnessed a growth of 24.8 percent, 10.2 percent and 9.6 percent respectively in the indices of wages in the review period.

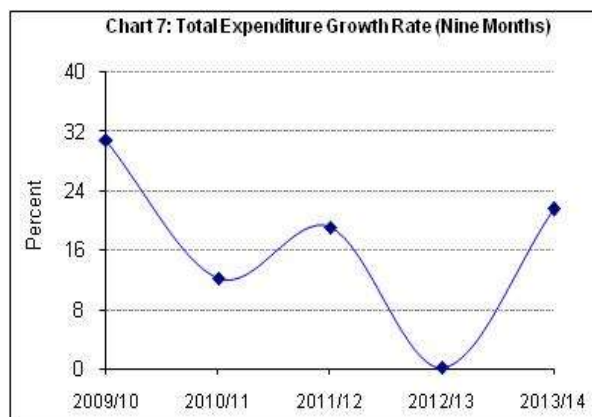
Fiscal Situation *

Budget Deficit / Surplus

26. During the nine months of 2013/14, government budget on cash basis remained at a surplus of Rs. 61.97 billion. Such surplus was Rs. 47.20 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 21.5 percent to Rs. 227.97 billion. Such expenditure had increased by 0.2 percent to Rs. 187.67 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.



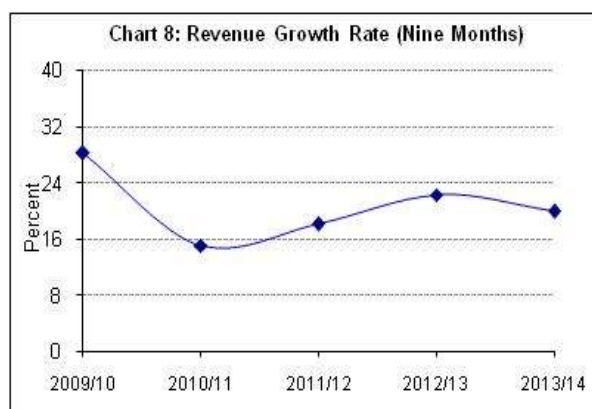
28. During the review period, recurrent expenditure increased by 27.4 percent to Rs. 186.08 billion. In the corresponding period of the previous year, such expenditure had decreased by 1.1 percent. Timely announcement of the annual budget and expenditures incurred in the completion of constitutional assembly election accounted for such a growth of recurrent expenditures.
29. During the review period, capital expenditure increased by 34.7 percent to Rs. 22.94 billion. In the corresponding period of the previous year, such expenditures had decreased by 9.4 percent. Timely announcement of the annual budget contributed to such a growth of capital expenditures.

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Based on the data reported by 8 NRB offices, 66 RBBL branches (all of 66 branches conducting govt. transactions), 44 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 19.9 percent to Rs. 252.41 billion. Such revenue had risen by 22.3 percent to Rs. 210.47 billion in the corresponding period of the previous year. Such deceleration in the growth rate is attributed to the deceleration in growth rate of custom revenue and income tax revenue during the review period.



31. Of the total revenue mobilization, VAT revenue grew by 19.6 percent to Rs. 72.54 billion during the review period. It had increased by 15.7 percent in the corresponding period of the previous year. The increase in VAT revenue was mainly due to the positive impact of leakages control in VAT including reforms in VAT administration.
32. During the review period, custom revenue rose by 18.5 percent to Rs. 49.37 billion compared to an increase of 38.9 percent in the corresponding period of the previous year.
33. During the review period, excise revenue increased by 20.6 percent to Rs. 31.59 billion compared to an increase of 20.5 percent in the corresponding period of the previous year.
34. Income tax revenue increased by 12.3 percent to Rs. 54.22 billion during the review period. Such revenue had risen by 31.1 percent in the corresponding period of the previous year.
35. During the review period, non-tax revenue increased by 38.8 percent to Rs. 33.07 billion. Such revenue had decreased by 5.7 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 compared to that of the corresponding period of the previous year.

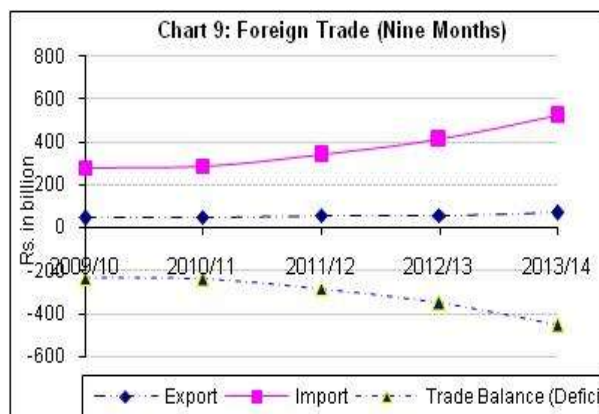
Foreign Cash Loan and Grants

36. In the nine months of 2013/14, foreign cash loans of Rs. 13.69 billion and foreign cash grants of Rs. 28.14 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 7.21 billion and foreign cash grants of Rs. 17.30 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

37. Merchandise exports went up by 19.2 percent to Rs. 68.12 billion during nine months of 2013/14. Such exports had increased by 3.5 percent to Rs. 57.16 billion during the same period of the previous year. On a monthly basis, merchandise exports decreased by 9.8 percent in March/April of the current fiscal year compared to that of the previous month.



38. Exports to India increased by 20.6 percent during the review period compared to an increase of 0.4 percent in the corresponding period of the previous year. Exports to other countries went up by 16.4 percent compared to an increase by 10.0 percent in the same period of the previous year. In US dollar terms, exports to other countries increased by 2.5 percent to US dollar 230.2 million in contrast to a decrease of 1.1 percent during the corresponding period of the previous year. The export of zinc sheet, cardamom, stone & sand and juice, among others, increased to India. Likewise, exports to other countries went up primarily due to the increase in export of woollen carpets, readymade garments, herbs, and pashmina, among others.

39. During the review period, merchandise imports surged by 27.7 percent to Rs. 522.19 billion. Such imports had risen by 20.3 percent to Rs. 408.83 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 1.3 percent during March/April of the current fiscal year compared to that of the previous month.

40. Imports from India went up by 29.0 percent during the review period compared to an increase of 22.9 percent in the same period of the previous year. Likewise, imports from other countries rose by 25.2 percent compared to an increase of 15.5 percent in the corresponding period of the previous year. In US dollar terms, imports from other countries increased by 10.2 percent to US dollar 1.75 billion compared to an increase of 4.5 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, thread and hot rolled sheet in coil, among others. Likewise, imports from other countries increased mainly on account of an increase in the imports of crude soyabean oil, betelnut, silver and telecommunication equipment, among others.

41. Total trade deficit during the nine months of 2013/14 surged by 29.1 percent to Rs. 454.06 billion compared to an increase of 23.6 percent during the same period of the previous year. Trade deficit with India increased by 30.4 percent during the review period compared to a growth of 27.5 percent in the same period of the previous year. Trade

deficit with other countries increased by 26.6 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 13.0 percent in the review period from 14.0 percent a year ago.

Balance of Payments Situation

43. The overall BOP recorded a surplus of Rs. 106.23 billion during the nine months of 2013/14 compared to a surplus of Rs. 30.77 billion during the same period of the previous year. The current account posted a surplus of Rs. 68.77 billion in the review period compared to a surplus of Rs. 22.24 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 a high growth of workers' remittances in the review period. In US dollar terms, the current account registered a surplus of US dollar 691.5 million in the review period compared to a surplus of US dollar 254.0 million during the corresponding period of the previous year.
44. The FOB-based merchandise trade deficit increased by 29.1 percent to Rs. 436.97 billion during the nine months of 2013/14. Such deficit had grown up by 23.5 percent in the same period of the previous year. The net service income posted a surplus of Rs. 15.78 billion in the review period in comparison to a surplus of Rs. 4.56 billion in the same period of the previous year. Net transfers registered a growth of 33.5 percent to Rs. 464.54 billion in the review period compared to a growth of 18.1 percent in the same period of the previous year. Under the transfers, workers' remittances surged by 31.5 percent to Rs. 397.80 billion compared to an increase of 21.9 percent in the same period of the previous year. In US dollar terms, remittance inflow increased by 15.6 percent to US dollar 4.02 billion during the review period compared to an increase of 10.7 percent in same period of the previous year. On a monthly basis, remittance inflows decreased by 8.3 percent in March/April compared to the value of the previous month of this fiscal year.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 21.0 percent to Rs. 645.42 billion in mid-April 2014 from a level of Rs. 533.30 billion as at mid-July 2013. Such reserves had increased by 7.9 percent to Rs. 474.16 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 21.4 percent to Rs. 550.11 billion in the review period from a level of Rs. 452.99 billion as at mid-July 2013. The gross foreign exchange reserves in US dollar terms increased by 19.8 percent to US dollar 6.72 billion in mid-April 2014. Such reserves had increased by 10.2 percent in the same period of the previous year. Likewise, during the nine months



of 2013/14, the reserves in terms of inconvertible foreign exchange increased by 24.9 percent to IRs 93.12 billion. Such reserves had increased by 6.8 percent during the same period of the previous year. On the basis of trend of import during the first nine months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.3 months and merchandise and service imports of 9.8 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 9.1 percent to US dollar 108.40 per barrel in mid-April 2014 from US dollar 99.32 per barrel in mid-April 2013. On the other hand, the price of gold decreased by 7.0 percent to US dollar 1298.00 per ounce in mid-April 2014 from 1395.00 ounce in mid-April 2013.
47. Nepalese currency vis-à-vis the US dollar depreciated by 1.0 percent in mid-April 2014 from the level of mid-July 2013. It had appreciated by 2.0 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 95.99 in mid-April 2014 compared to Rs. 95.00 in mid-July 2013.