



Nepal Rastra Bank

Central Office

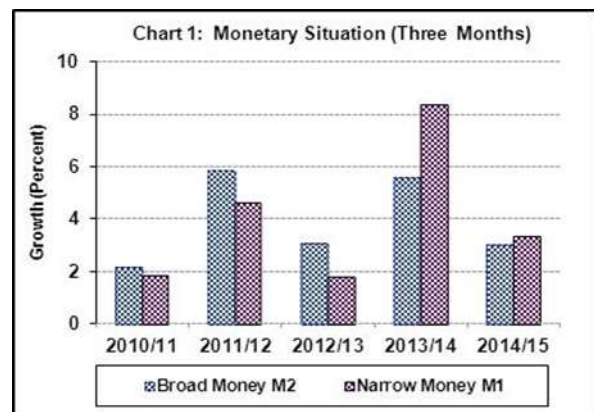
Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 3.0 percent in the three months of 2014/15 compared to an increase of 5.6 percent in the corresponding period of the previous year. Likewise, narrow money supply (M1) increased by 3.4 percent in the review period compared to an increase of 8.4 percent in the corresponding period of the previous year. On year-on-year (y-o-y) basis, M2 expanded by 16.2 percent and M1 expanded by 12.2 percent in mid-October 2014.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 2.96 billion (0.5 percent) during the review period compared to an increase of Rs. 52.74 billion (11.3 percent) in the corresponding period of the previous year. A marginal decrease in remittance inflows and a higher growth of imports accounted such a decrease in net foreign assets in the review period.

Domestic Credit

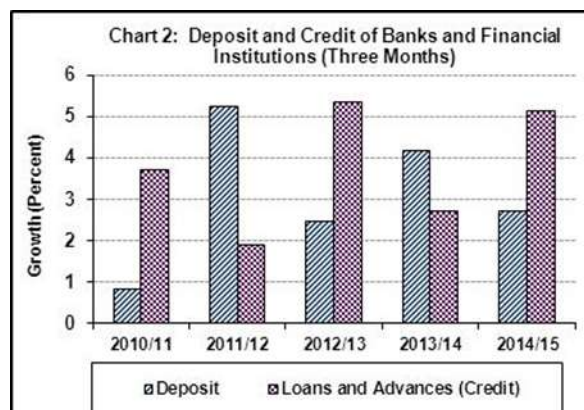
3. During the review period, domestic credit increased by 2.1 percent compared to an increase of 0.4 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 14.5 percent in mid-October 2014. A significant growth in the claims on the private sector resulted in a higher growth of domestic credit in the review period compared to the same period of the previous year. Likewise, the claims on the private sector increased by 5.4 percent in the review period compared to an increase of 4.0 percent in the corresponding period of the previous year. On y-o-y basis, credit flows to the private sector increased by 19.8 percent in mid-October 2014.

Reserve Money

4. Reserve money decreased by 8.9 percent in the review period in contrast to an increase of 9.8 percent in the corresponding period of the previous year. The decelerated growth of net foreign assets of the NRB contributed to the decline in reserve money in the review period. On y-o-y basis, reserve money increased by 2.3 percent in mid-October 2014.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions (BFIs) increased by 2.7 percent (Rs. 38.15 billion) in the review period. Such a deposit mobilization had increased by 4.2 percent (Rs. 49.64 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs expanded by 16.7 percent in mid-October 2014. In the review period, deposit mobilization of commercial banks and finance companies increased by 4.1 percent and 1.1 percent respectively while



that of development banks decreased by 5.0 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 3.9 percent, 4.8 percent and 3.3 percent respectively in the same period of the previous year.

Credit Flow of Banks and Financial Institutions

6. In the three month of the 2014/15, loans and advances of BFIs increased by 5.1 percent (Rs. 67.15 billion) compared to an increment of 2.7 percent (Rs. 31.11 billion) in the corresponding period of the previous year. In the review period, loans and advances of commercial banks and finance companies increased by 7.0 percent and 2.7 percent respectively while that of development banks decreased by 4.0 percent. Similarly, the credit to the private sector from BFIs increased by 5.3 percent (Rs. 59.53 billion) in the review period compared to an increase of 4.0 percent (Rs. 37.66 billion) in the same period of the previous year. On y-o-y basis, the credit to private sector from BFIs increased by 20.2 percent in mid-October 2014. In the review period, credit to the private sector from commercial banks increased by 7.7 percent and while that of development banks and finance companies decreased by 5.2 percent 0.6 percent respectively. As mentioned above, merger of some 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. 19.95 billion in the review period compared to an increase of Rs. 10.06 billion in the same period of the previous year. Likewise, credit to the wholesale and retail trade sector increased by Rs. 22.75 billion; to the construction sector increased by Rs. 8.63 billion and to the transportation, communication and public service sector increased by 2.84 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. 13.22 billion, 4.85 billion and Rs. 0.41 billion respectively in the same period of the previous year. In the review period, credit to the agriculture sector increased by Rs. 2.71 billion compared to an increase of Rs. 1.70 billion in the corresponding period of the previous year.

Liquidity Management

8. In the review period, the NRB injected net liquidity of Rs. 72.01 billion through the net purchase of USD 801.63 million from foreign exchange market (commercial banks). Net liquidity of Rs. 88.93 billion was injected through the net purchase of USD 882.30 million in the corresponding period of the previous year.
9. The NRB purchased Indian currency (INR) equivalent to Rs. 83.68 billion through the sale of USD 860.0 million in the review period. INR equivalent to Rs. 81.53 billion was purchased through the sale of USD 820.0 million in the corresponding period of the previous year.

Inter-bank Transactions and Standing Liquidity Facility

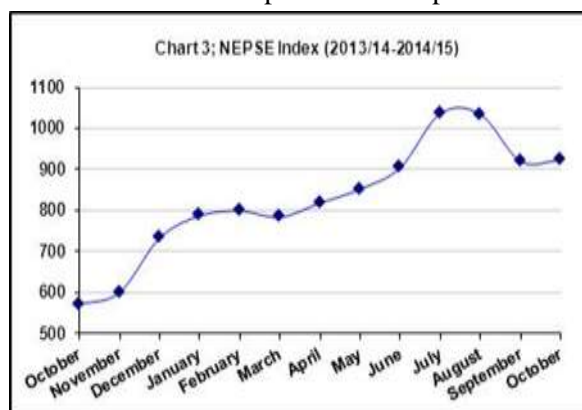
10. In the review period, inter-bank transactions of commercial banks stood at Rs. 80.12 billion and those of other financial institutions (except among commercial banks) amounted to Rs. 40.04 billion. Those figures stood at Rs. 48.15 billion and Rs. 33.21 billion respectively in the corresponding period of the previous year. The BFIs did not use standing liquidity facility (SLF) in the review period.

Interest Rates

11. The weighted average Treasury bill rate and the inter-bank transaction rates have marginally increased in the three months of 2014/15 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate increased to 0.9267 percent in the review month from 0.07 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 1.03 percent in the review month up from 0.25 percent a year ago. However, the weighted average inter-bank rate among other financial institutions declined slightly to 2.55 percent in the review month from 2.64 percent a year ago.
12. As per the modified method of spread rate calculation, weighted average interest rate spread of commercial banks stood at 4.83 percent in the review month compared to 4.32 percent in the previous month. Moreover, the average base rate of commercial banks remained at 7.73 percent in the review month compared to 9.23 percent a year ago.

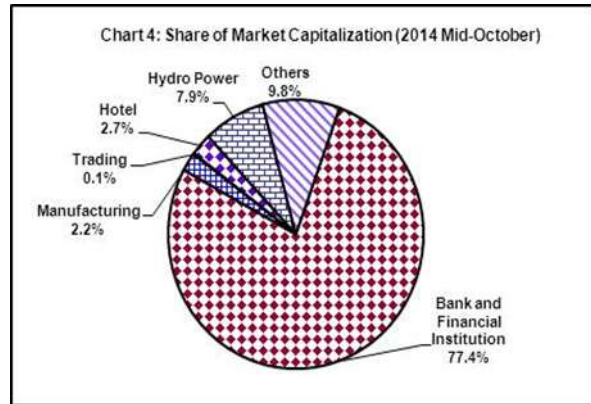
Securities Market

13. NEPSE index, on y-o-y basis, increased by 61.6 percent to 923.6 points in mid-October 2014. The index had increased by 33.7 percent in the corresponding period of the previous year



and stood at 571.5 points in mid-October 2013.

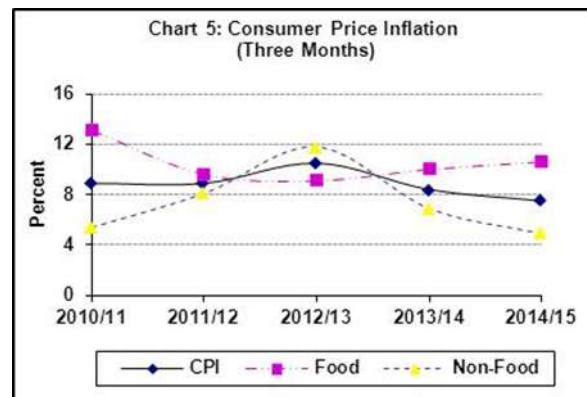
14. The y-o-y stock market capitalization increased by 64.7 percent to Rs. 947.81 billion in mid-October 2014. The ratio of market capitalization to GDP stood at 49.1 percent in mid-October 2014 compared to 34.0 percent a year ago.
15. Of the total market capitalization as of mid-October 2014, the share of banks and financial institutions (including insurance companies) stood at 77.4 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 2.2 percent, 2.7 percent, 0.1 percent, 7.9 percent and 9.8 percent respectively.
16. Total number of companies listed at the NEPSE increased from 232 in mid-October 2013 to 235 in mid-October 2014. Of the total listed companies the number of banks and financial institutions (including insurance companies) stood at 201 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (6) and other companies (2).
17. Total paid-up capital of the listed companies stood at Rs. 142.76 billion in mid-October 2014, registering an increase of 8.8 percent over mid-October 2013. Additional securities worth Rs. 3.86 billion comprising ordinary share of Rs. 1.42 billion, right share of Rs. 0.47 billion and bonus share of Rs. 1.97 billion were listed at the NEPSE during the three 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 7.5 percent in mid-October 2014 as compared to 8.4 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 10.6 percent and 4.9 percent respectively during the review period. Such indices had increased by 10.0 percent and 6.9 percent respectively in the corresponding period of previous year.
19. Under the items of the food and beverage group, price index of tobacco products sub-group increased by the highest rate of 23.5 percent during the review period compared to an increase of 9.9 percent in the corresponding period of the previous year. The price indices



of vegetables sub-group and hard drinks sub-group which had increased by 14.0 percent and 9.6 percent in the corresponding period of the previous year went up by 20.0 percent and 19.4 percent respectively during the review period. The price index of fruits sub-group increased by 14.3 percent in the review period which has increased by 9.2 percent in the corresponding period of the previous year. The price indices of legume varieties sub-group and milk products and egg sub-group increased by the same rate 10.5 percent in the review period compared to the increase of 2.3 percent and 4.7 percent respectively in the corresponding period of the previous year. The price index of ghee and oil sub-group, which had increased by 0.7 percent in the corresponding period of the previous year, decreased by 1.1 percent in the review period.

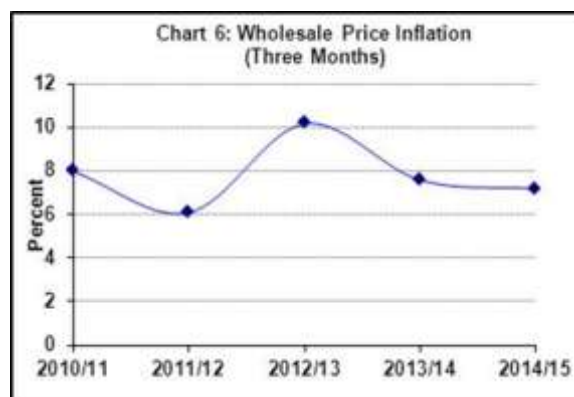
20. Within the group of non-food and services, the price index of clothing and footwear increased by 7.6 percent during the review period compared to an increase of 11.7 percent in the corresponding period of the previous year. The price indices of health sub-group and furnishing and household sub-group increased by 6.9 percent and 6.3 percent during the review period which had increased by 5.7 percent and 9.5 percent in the corresponding period of the previous year. The price indices of miscellaneous goods and services sub-group and education sub-group increased by 5.8 percent and 5.5 percent respectively during the review period. Such indices had increased by 8.1 percent and 7.8 percent respectively in the corresponding period of the previous year.
21. Region-wise, the price indices in Kathmandu Valley increased by 7.7 percent followed by Terai and Hilly region by the same rate of 7.4 percent during the review period. The respective increments in Kathmandu Valley, Terai and Hilly region were 8.4 percent, 9.3 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 7.2 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 9.5 percent, 6.2 percent and 3.0 percent respectively. The increments in agricultural commodities, domestic manufactured commodities and imported commodities were 10.5 percent, 4.9 percent and 3.6 percent respectively 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 11.3 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 7.6 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 7.9 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, construction labourer and agricultural labourer witnessed the growth of 17.3 percent, 16.1 percent and 5.6 percent respectively in the review period.

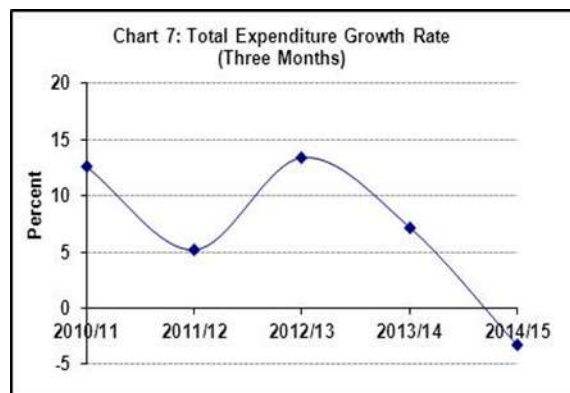
Fiscal Situation *

Budget Deficit / Surplus

25. During the three months of 2014/15, government budget on cash basis remained at a surplus of Rs. 37.44 billion. Such budget surplus was Rs. 32.62 billion in the corresponding period of the previous year. A high growth of resource mobilization relative to government expenditure accounted for such a budget surplus during the review period.

Government Expenditure

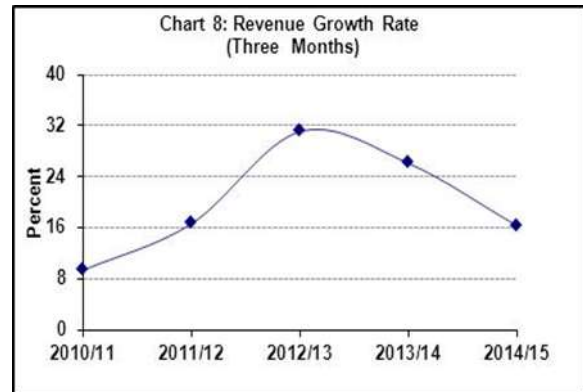
26. During the review period, total government expenditures on cash basis declined by 3.3 percent to Rs. 55.24 billion. Such expenditures had increased by 7.2 percent to Rs. 57.11 billion in the corresponding period of the previous year. Reduction in both recurrent and capital expenditure was responsible for such a reduction in total expenditure in the review period.
27. During the review period, recurrent expenditures dropped by 3.3 percent to Rs. 52.66 billion. Such expenditures had increased by 45.6 percent in the corresponding period of the previous year.
28. During the review period, capital expenditures decreased by 16.0 percent to Rs. 1.81 billion. In the corresponding period of the previous year, such expenditures had increased by 42.3 percent. Delay in approval of development programmes accounted for such a decline in capital expenditure in the review period.



* Based on the data reported by 8 NRB offices, 66 branches of Rastriya Banijya Bank Limited, 43 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 79 DTCOs and payment centres.

Government Revenue

29. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 16.3 percent to Rs. 84.27 billion. Such revenue had risen by 26.1 percent to Rs. 72.43 billion in the corresponding period of the previous year. Decline in the growth rate of VAT, income tax and non-tax revenue accounted for such a decline in the revenue growth rate during the review period.



30. Of the total revenue mobilization, VAT revenue grew by 19.4 percent to Rs. 28.21 billion during the review period. It had increased by 20.7 percent in the corresponding period of the previous year.

31. During the review period, custom revenue rose by 23.7 percent to Rs. 18.60 billion compared to an increase of 9.0 percent in the corresponding period of the previous year. Increase in the imports including the imports of high tax yielding vehicles and spare parts contributed to such a growth of custom revenue during the review period.

32. During the review period, excise revenue increased by 25.4 percent to Rs. 13.03 billion compared to an increase of 24.3 percent in the corresponding period of the previous year.

33. Income tax revenue increased by 13.4 percent to Rs. 10.42 billion during the review period. Such revenue had risen by 16.0 percent in the corresponding period of the previous year.

34. During the review period, non-tax revenue increased by 1.8 percent to Rs. 9.61 billion compared to an increase of 81.7 percent in the corresponding period of the previous year.

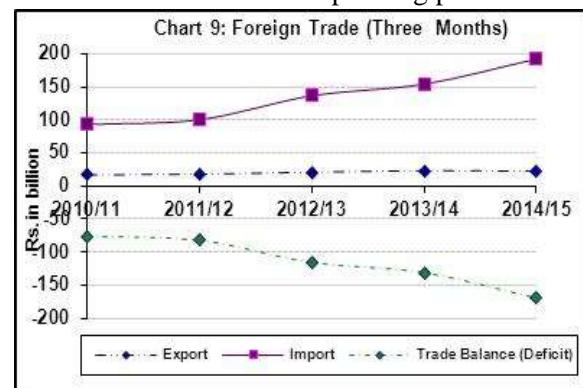
Foreign Cash Loans and Grants

35. In the three months of 2014/15, foreign cash loans of Rs. 1.99 billion and foreign cash grants of Rs. 3.34 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 1.19 billion and foreign cash grants of Rs. 13.39 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

36. Merchandise exports decreased by 2.3 percent to Rs. 22.53 billion in the three months of 2014/15. Such exports had increased by 11.3 percent to Rs. 23.07 billion during the same period of the



previous year. On a monthly basis, merchandise exports increased by 5.2 percent in September/October of the current fiscal year compared to that of the previous month.

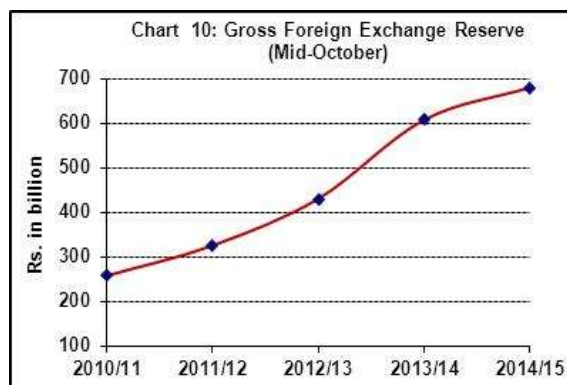
37. Exports to India decreased by 6.4 percent during the review period of 2014/15 in contrast to an increase by 18.2 percent in the corresponding period of the previous year. Exports to India decreased mainly due to the decrease in the exports of cardamom, zinc sheet, jute goods and copper wire rod, among others. Likewise, exports to China increased by 93.2 percent in the review period of the current fiscal year in contrast to a decline by 32.6 percent in the same period of the previous year. The increase in exports to China is mainly attributed to the increase in the exports of tanned skin, handicrafts, readymade garments and woolen carpet, among others. On the other hand, exports to other countries decreased marginally by 0.4 percent in the review period in contrast to an increase of 4.2 percent in the same period of the previous year. Exports to other countries decreased marginally due to the decrease in the exports of woolen carpet, pashmina, readymade leather goods, and tanned skin, among others. In USD terms, exports to other countries increased by 1.9 percent to USD 83.1 million in contrast to a decline by 8.4 percent during the corresponding period of the previous year.
38. During the review period, merchandise imports increased by 24.7 percent to Rs. 192.25 billion. Such imports had gone up by 12.9 percent to Rs. 154.12 billion in the same month of the previous year. On monthly basis, merchandise imports decreased by 3.1 percent in September/October of the current fiscal year compared to that of the previous month.
39. Imports from India went up by 23.4 percent during the review period compared to a growth of 16.0 percent in the same period of the previous year. Imports from India increased primarily due to an increase in the imports of vehicles and spare parts, petroleum products, rice, medicine and M.S. billet, among others. Likewise, imports from China increased by 39.3 percent in the review period in contrast to a decrease of 11.7 percent in the same period of the previous year. Imports from China increased due to the increase in the imports of telecommunication equipments and parts, video television and parts, chemical fertilizer and other machinery and parts among others. Similarly, imports from other countries increased by 21.8 percent in the review period compared to a growth of 19.3 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, edible oil, aircraft spare parts, crude palm oil and telecommunication equipment and parts, among others. In US dollar terms, imports from other countries increased by 24.3 percent to USD 458.0 million compared to an increase of 5.0 percent during the same period of the previous year.
40. Total trade deficit during the three months of 2014/15 grew by 29.5 percent to Rs. 169.72 billion compared to an increase of 13.2 percent during the same period of the previous year. Trade deficit with India and China increased by 28.4 and 37.8 percent respectively during the review period. Such deficit had increased by 15.7 percent in case of India and decreased by 10.9 percent in case of China in the same period of the previous year. Trade deficit with other countries grew by 28.1 percent in the review period compared to an increase of 24.4 percent during the same period of the previous year.
41. Exports to imports ratio declined to 11.7 percent in the review period primarily arising from a high growth of imports. Such ratio remained at 15.0 percent during the same period of the previous year.

Balance of Payments Situation

42. The overall BOP recorded a surplus of Rs. 2.96 billion during the three months of 2014/15 compared to a surplus of Rs. 52.74 billion during the same period of the previous year. The current account registered a deficit of Rs. 7.59 billion during the review period in contrast to a surplus of Rs. 37.49 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 grants and workers remittances in the review period. In USD terms, the BOP recorded a surplus of USD 29.0 million whereas the current account deficit was recorded at USD 78.5 million in the review period. During the same period of the previous year, BOP and current account had recorded surpluses amounting to USD 530.2 million and USD 376.5 million respectively.
43. The FOB-based merchandise trade deficit increased by 29.6 percent to Rs. 163.06 billion during the three months of 2014/15. Such deficit had grown by 13.4 percent in the same period of the previous year. The net service remained at a surplus of Rs. 546.4 million in the review period compared to a surplus of Rs. 1.17 billion in the same period of the previous year. Net transfers declined by 4.5 percent to Rs. 149.45 billion in the review period compared to a growth of 41.7 percent in the same period of the previous year. Under transfers, workers' remittances decreased marginally by 0.6 percent to Rs. 134.19 billion compared to an increase by 38.2 percent in the same period of the previous year. In USD terms, workers' remittances increased by 1.6 percent to USD 1.38 billion in the review period compared to an increase by 21.3 percent in same period of the previous year. On a monthly basis, remittances inflows increased by 17.6 percent in September/October of the current fiscal year compared to that of the previous month. Similarly, under the financial account, foreign direct investment of Rs. 917.7 million was recorded in the review period.

Foreign Exchange Reserves

44. The gross foreign exchange reserves increased by 2.1 percent to Rs. 679.40 billion in mid-October 2014 from a level of Rs. 665.41 billion as at mid-July 2014. Such reserves had increased by 13.8 percent to Rs. 606.82 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 1.0 percent to Rs. 577.95 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 marginally by 0.7 percent to USD 6.89 billion in mid-October 2014. Such reserves had increased by 9.6 percent in the same period of the previous year. Likewise, during the three months of 2014/15, the reserves in terms of inconvertible foreign exchange increased by 1.4 percent to IRs 96.26 billion. Such reserves had increased by 15.7 percent during the same period of the previous year. Based on the trend of imports during the three months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 10.8 months and merchandise and service imports of 9.3 months.



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

45. The price of oil (Crude Oil Brent) in the international market decreased by 23.0 percent to USD 85.23 per barrel in mid-October 2014 from USD 110.67 per barrel in mid-October 2013. Price of oil in the international market has dropped sharply due to the slowdown in the economy of China and Euro, increase domestic production in the USA and increase production by Saudi Arabia and Libya, among others. Similarly, the price of gold declined by 2.9 percent to USD 1234.00 per ounce in mid- October 2014 from USD 1270.50 per ounce in mid- October 2013.
46. Nepalese currency vis-à-vis the US dollar depreciated by 2.8 percent in mid- October 2014 from the level of mid-July 2014. It had depreciated by 3.7 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 98.64 in mid-October 2014 compared to Rs. 95.90 in mid-July 2014.