



# Nepal Rastra Bank

## Central Office

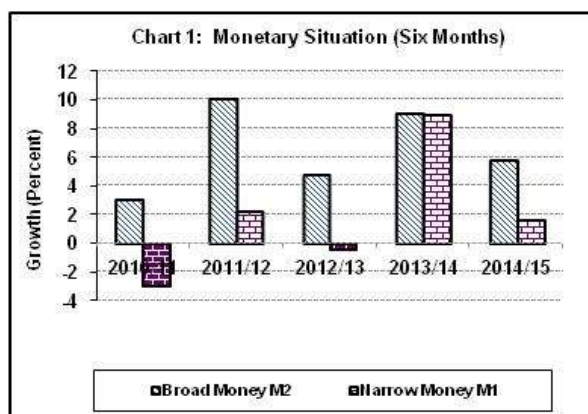
### Current Macroeconomic Situation of Nepal

*(Based on Six Months' Data of 2014/15)*

#### Monetary Situation

##### Money Supply

1. Broad money supply (M2) increased by 5.8 percent in the six months of 2014/15 compared to an increase of 9.0 percent in the corresponding period of the previous year. Likewise, narrow money supply (M1) grew by 1.6 percent in the review period compared to a growth of 8.9 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 expanded by 15.6 percent and M1 expanded by 9.8 percent in mid-January 2015.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 34.26 billion (5.7 percent) during the review period compared to an increase of Rs. 77.19 billion (16.5 percent) in the corresponding period of the previous year. A decelerated growth of remittance inflows accompanied by a decline in grant inflows resulted in a slower growth of net foreign assets in the review period.

##### Domestic Credit

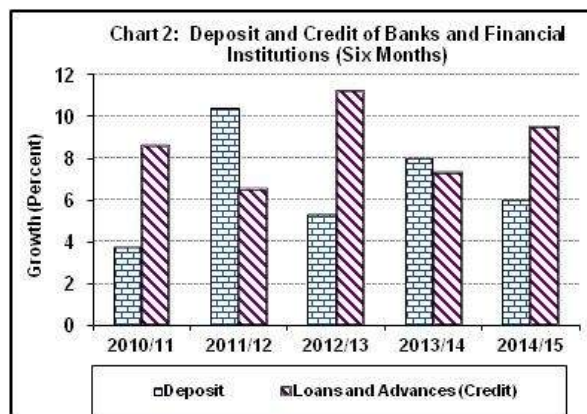
3. In the review period, domestic credit increased by 5.6 percent compared to a growth of 1.1 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 17.8 percent in mid-January 2015. A significant growth in the claims on the private sector resulted in a higher growth of domestic credit in the review period. Likewise, the claims on the private sector increased by 11.5 percent in the review period compared to an increase of 8.9 percent in the corresponding period of the previous year. On y-o-y basis, the claims on the private sector increased by 21.1 percent in mid-January 2015.

## Reserve Money

4. Reserve money decreased by 12.4 percent in the review period in contrast to an increase of 2.2 percent in the corresponding period of the previous year. Decelerated growth of net foreign assets of the NRB in the review period resulted in a decline in reserve money. On y-o-y basis, reserve money increased by 5.7 percent in mid-January 2015.

## Deposit Mobilization of Banks and Financial Institutions

5. Deposit of banks and financial institutions (BFIs) increased by 6.0 percent (Rs. 83.76 billion) in the review period. Such a deposit had increased by 8.0 percent (Rs. 95.41 billion) in the corresponding period of the previous year. On y-o-y basis, deposit of BFIs expanded by 16.1 percent in mid-January 2015. In the review period, deposit of commercial banks and finance companies increased by 7.2 percent and 2.3 percent respectively while that of development banks decreased by 1.1 percent. Merger



of some development banks with commercial banks resulted in such a decline in deposits of development banks in the review period. The deposit of commercial banks, development banks and finance companies had increased by 7.2 percent, 13.9 percent and 8.4 percent respectively in the same period of the previous year.

## Credit Flow of Banks and Financial Institutions

6. In the six months of the 2014/15, loans and advances of BFIs increased by 9.5 percent (Rs. 125.39 billion) compared to a growth of 7.3 percent (Rs. 83.66 billion) in the corresponding period of the previous year. In the review period, loans and advances of commercial banks, development banks and finance companies increased by 11.6 percent, 0.2 percent and 4.1 percent respectively. Likewise, the credit to the private sector from BFIs increased by 11.6 percent (Rs. 129.28 billion) in the review period compared to an increase of 9.0 percent (Rs. 84.83 billion) in the same period of the previous year. On y-o-y basis, the credit to the private sector from BFIs increased by 21.5 percent in mid-January 2015. In the review period, credit to the private sector from commercial banks, development banks and finance companies increased by 14.2 percent, 1.3 percent and 1.5 percent respectively.
7. Of the total credit from BFIs, the credit to the industrial production sector increased by Rs. 34.12 billion (15.3 percent) in the review period compared to an increase of Rs. 22.36 billion (11.7) in the same period of the previous year. Likewise, credit to the wholesale and retail trade sector increased by Rs. 32.74 billion (13.4 percent); to the construction sector increased by Rs. 16.46 billion (13.8 percent) and to the transportation, communication and public service sector increased by Rs. 5.98 billion (12.6 percent) 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. 26.38 billion (13.3 percent), Rs. 9.62 billion (10.0 percent) and Rs. 1.67 billion (3.8 percent) respectively in the same period of the previous year. In the review period, credit to the agriculture sector increased by

Rs. 6.43 billion (12.6 percent) compared to an increase of Rs. 4.11 billion (10.3 percent) in the corresponding period of the previous year.

### **Liquidity Management**

8. In the six months of 2014/15, the NRB mopped up liquidity of Rs. 75.00 billion through deposit auctions and Rs. 260.50 billion through reverse repo auction on cumulative basis. In the corresponding period of the previous year, Rs. 118.50 billion was mopped up through reverse repo auction. As mentioned in the monetary policy statement for 2014/15, the deposit auction has been used as a new instrument to mop up liquidity since the second month of 2014/15.
9. In the review period, the NRB injected net liquidity of Rs. 157.20 billion through the net purchase of USD 1.66 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 168.93 billion was injected through the net purchase of USD 1.69 billion in the corresponding period of the previous year.
10. The NRB purchased Indian currency (INR) equivalent to Rs. 171.10 billion through the sale of USD 1.74 billion in the review period. INR equivalent to Rs. 143.06 billion was purchased through the sale of USD 1.44 billion in the corresponding period of the previous year.

### **Inter-bank Transaction and Standing Liquidity Facility**

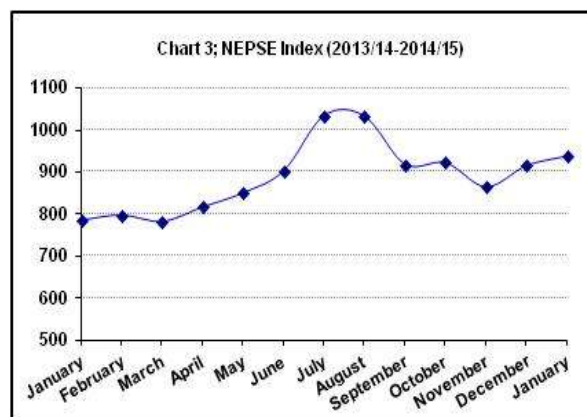
11. In the review period, inter-bank transactions of commercial banks stood at Rs. 152.50 billion and those of other financial institutions (except among commercial banks) amounted to Rs. 96.66 billion. Those figures stood at Rs. 94.34 billion and Rs. 64.28 billion respectively in the corresponding period of the previous year. The BFIs did not use standing liquidity facility (SLF) in the review period.

### **Interest Rates**

12. The weighted average of 91-days Treasury bill rate and inter-bank transaction rates have marginally decreased in the sixth month of 2014/15 compared to a year ago. The weighted average 91-day Treasury bill rate decreased to 0.1551 percent in mid January 2015 from 0.47 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.15 percent in mid January 2015 down from 0.21 percent a year ago. However, the weighted average inter-bank rate among other financial institutions declined slightly to 2.51 percent in mid January 2015 from 2.62 percent a year ago.
13. Weighted average interest rate spread of commercial banks stood at 4.50 percent in mid January 2015 compared to 4.48 percent in mid January 2015. Moreover, the average base rate of commercial banks remained at 7.49 percent in mid January 2015 compared to 8.75 percent a year ago.

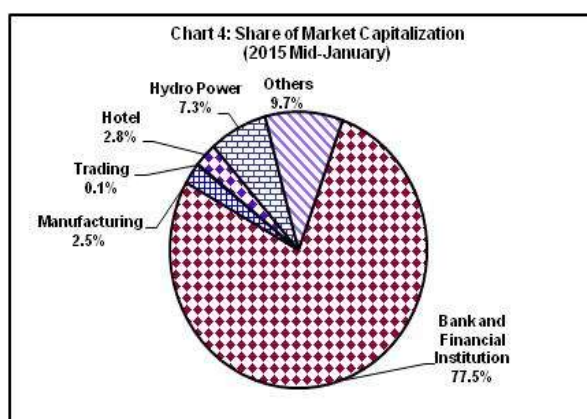
## Securities Market

14. NEPSE index, on y-o-y basis, increased by 19.4 percent to 939.5 points in mid-January 2015. The index had increased by 48.6 percent in the corresponding period of the previous year and stood at 787.7 points in mid-January 2014.



15. The y-o-y stock market capitalization increased by 20.5 percent to Rs. 963.42 billion in mid- January 2015. The ratio of market capitalization to GDP stood at 50.0 percent in mid-January 2015 compared to 47.2 percent a year ago.

16. Of the total market capitalization as of mid-January 2015, the share of banks and financial institutions (including insurance companies) stood at 77.5 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 2.5 percent, 2.8 percent, 0.1 percent, 7.3 percent and 9.7 percent respectively.



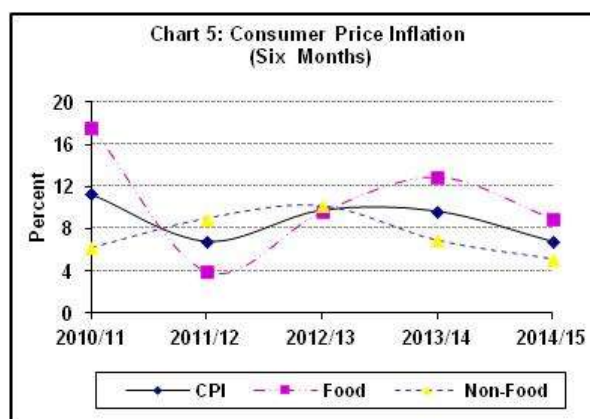
17. Total number of companies listed at the NEPSE decreased from 235 in mid-January 2014 to 232 in mid-January 2015. Of the total listed companies the number of banks and financial institutions (including insurance companies) stood at 198 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (6) and other companies (2).

18. Total paid-up capital of the listed companies stood at Rs. 159.25 billion in mid-January 2015, registering an increase of 16.4 percent over mid-January 2014. Additional securities worth Rs. 12.65 billion comprising ordinary share of Rs. 9.01 billion, right share of Rs. 0.87 billion and bonus share of Rs. 2.76 billion have been listed at the NEPSE during the six months of 2014/15.

## Inflation, Salary and Wage Rate

### Consumer Price Inflation

19. The y-o-y inflation as measured by the consumer price index increased by 6.8 percent in mid-January 2015 compared to 9.7 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 9.0 percent and 5.1 percent respectively during the review period. Such indices had increased by 12.9 percent and 6.9 percent respectively in the corresponding period of previous year.

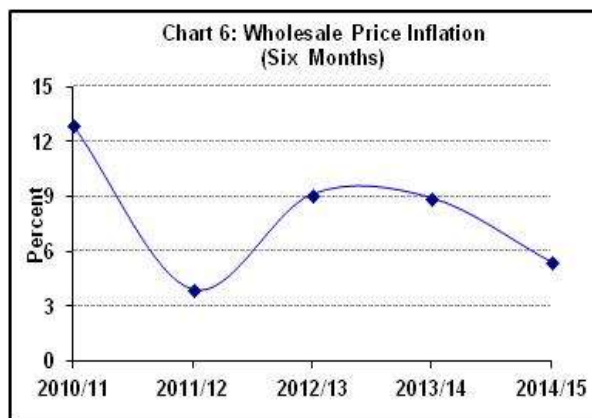


20. Under the items of the food and beverage group, price index of tobacco products sub-group increased by the highest rate of 26.6 percent during the review period compared to an increase of 25.3 percent in the corresponding period of the previous year. The price indices of hard drinks sub-group and milk products and egg sub-group which had increased by 22.5 percent and 4.7 percent in the corresponding period of previous year went up by 21.1 percent and 17.4 percent respectively during the review period. The price indices of legume varieties sub-group and spices sub-group increased by 13.7 percent and 11.1 percent respectively in the review period which had increased by 6.0 percent and 10.8 percent respectively in the corresponding period of the previous year. The price index of ghee and oil sub-group, which had increased by 1.8 percent in the corresponding period of the previous year, decreased by 1.5 percent in the review period.
21. Within the group of non-food and services, the price index of clothing and footwear increased by 10.0 percent during the review period compared to an increase of 12.2 percent in the corresponding period of the previous year. The price indices of furnishing and household sub-group and miscellaneous goods and services sub-group increased by 9.0 percent and 7.3 percent respectively during the review period which had increased by 9.3 percent and 6.6 percent respectively in the corresponding period of the previous year. The price indices of recreation and culture sub-group and education sub-group increased by 6.1 percent and 5.5 percent respectively during the review period. Such indices had increased by 6.7 percent and 7.8 percent respectively in the corresponding period of the previous year.
22. Region-wise, the price index of Hilly region increased by 7.1 percent whereas the indices in Kathmandu Valley and Terai region increased by 6.9 percent and 6.6 percent respectively during the review period. The respective increments in the same

period of the last year were 9.2 percent (Hill), 9.3 percent (Kathmandu Valley) and 10.4 percent (Terai).

### Wholesale Price Inflation

23. The y-o-y wholesale price index increased by 5.4 percent during the review period compared to a rise of 8.9 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 8.4 percent, 4.4 percent and 0.3 percent respectively. The increments in agricultural commodities, domestic manufactured commodities and imported commodities were 11.9 percent, 8.3 percent and 3.8 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 7.0 percent during the review period compared to an increase of 16.6 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 whereas the wage rate index increased by 6.9 percent compared to an increase of 14.5 percent in the corresponding period of the previous year.
25. 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, wage rate indices of construction labourer, agricultural labourer and industrial labourer witnessed the growth of 14.0 percent, 7.9 percent and 2.7 percent respectively in the review period.



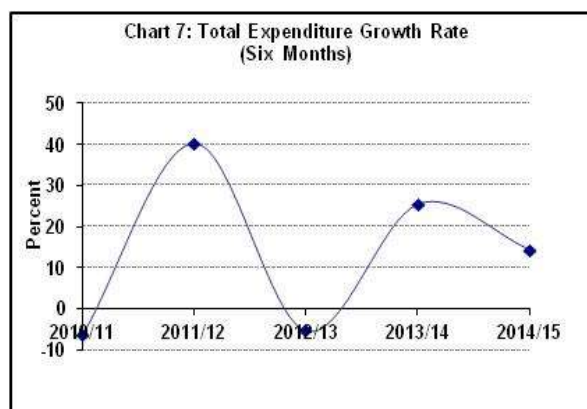
## Fiscal Situation \*

### Budget Deficit / Surplus

26. During the six months of 2014/15, government budget on cash basis remained at a surplus of Rs. 64.95 billion. Such budget surplus was Rs. 56.10 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

27. During the review period, total government expenditures on cash basis increased by 14.4 percent to Rs. 153.71 billion. Such expenditures had increased by 25.4 percent to Rs. 134.42 billion in the corresponding period of the previous year. Slow growth rate of recurrent expenditure compared to corresponding period of the previous year was responsible for such a slow growth rate in total expenditure in the review period.



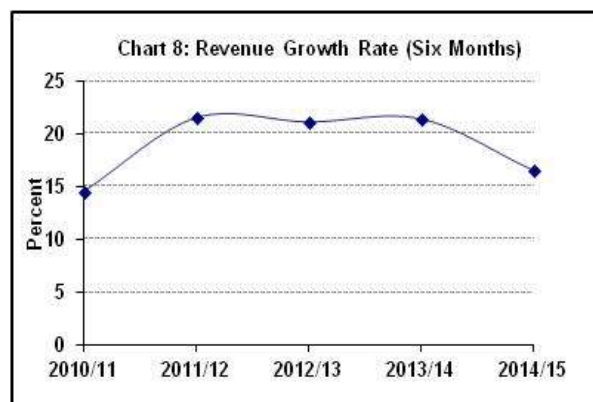
28. During the review period, recurrent expenditures increased by 4.9 percent to Rs. 116.12 billion. Such expenditures had increased by 36.0 percent in the corresponding period of the previous year.
29. During the review period, capital expenditures increased by 49.2 percent to Rs. 13.84 billion. Such expenditures had increased by 31.7 percent in the corresponding period of the previous year.

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Based on the data reported by 8 NRB offices, 66 branches of Rastriya Banijya Bank Limited, 41 out of 44 branches of Nepal Bank Limited, 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

30. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 16.6 percent to Rs. 190.52 billion. Such revenue had risen by 21.5 percent to Rs. 163.44 billion in the corresponding period of the previous year. Due to slower growth rate of VAT, customs revenue, excise revenue and decline in non-tax revenue accounted for such a slower growth rate of revenue during the review period.



31. Of the total revenue mobilization, VAT revenue grew by 16.0 percent to Rs. 55.67 billion during the review period. It had increased by 19.6 percent in the corresponding period of the previous year.
32. During the review period, customs revenue rose by 11.8 percent to Rs. 36.32 billion compared to an increase of 20.0 percent in the corresponding period of the previous year.
33. During the review period, excise revenue increased by 17.2 percent to Rs. 25.10 billion compared to an increase of 21.0 percent in the corresponding period of the previous year.
34. Income tax revenue increased by 14.3 percent to Rs. 39.15 billion during the review period. Such revenue had risen by 11.8 percent in the corresponding period of the previous year.
35. During the review period, non-tax revenue declined by 22.1 percent to Rs. 16.12 billion in contrast to an increase of 42.6 percent in the corresponding period of the previous year. Decrease in dividend paid by the public enterprises to the government was responsible for such a decrease in non-tax revenue during the review period.

## Foreign Cash Loans and Grants

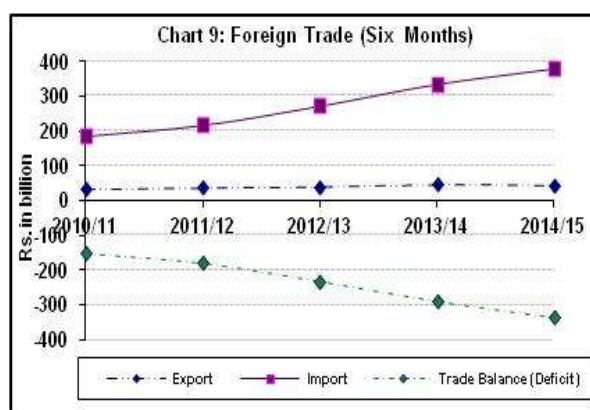
36. In the six months of 2014/15, foreign cash loans of Rs. 6.30 billion and foreign cash grants of Rs. 15.01 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 10.80 billion and foreign cash grants of Rs. 21.56 billion in the corresponding period of the previous year.



## External Sector Situation

### Foreign Trade

37. Merchandise exports decreased by 3.9 percent to Rs. 43.39 billion in the six months of 2014/15. Such exports had increased by 15.0 percent to Rs. 45.14 billion during the same period in the previous year. On a monthly basis, merchandise exports decreased by 12.0 percent in December/January of the current fiscal year compared to that of the previous month.



38. Exports to India decreased by 8.1 percent during the review period in contrast to an increase by 18.4 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, copper wire rod, jute goods, among others. However, exports to China increased by 16.9 percent in the review period compared to an increase by 2.2 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, woolen carpet, handicrafts, noodles, among others. On the other hand, exports to other countries increased by 3.0 percent in the review period compared to a growth of 9.9 percent in the same period of the previous year. Exports to other countries increased due to the increase in the exports of pashmina, readymade garments, tea, silverware and jewelleryes, among others. In US dollar terms, exports to China increased by 17.5 percent to USD 15.9 million during the review period in contrast to a decline of 9.7 percent in the corresponding period of the previous year. Similarly, exports to other countries increased by 4.2 percent to USD 149.2 million in the review period in contrast to a decline of 3.4 percent during the corresponding period of the previous year.

39. During the review period, merchandise imports increased by 13.3 percent to Rs. 378.22 billion. Such imports had gone up by 23.1 percent to Rs. 333.91 billion in the same period of the previous year. The growth of imports remained low mainly due to the decrease in the price of petroleum products in the international market and resulting decline in the growth rate of imports as well as decline in imports of gold, crude soyabean oil, betel nut among others. On a monthly basis, merchandise imports decreased by 3.1 percent in December/January of the current fiscal year compared to that of the previous month.

40. Imports from India went up by 9.3 percent during the review period compared to a growth of 25.6 percent in the same period of the previous year. Imports from India increased primarily due to an increase in the imports of M.S. billet, transport equipment and parts, rice, hot-rolled sheet in coil, among others. Likewise, imports from China increased by 48.1 percent in the review period compared to a growth of 6.9 percent in the same period of the previous year. Imports from China increased due to the increase in the imports of telecommunication equipment and parts, other machinery and parts, chemical fertilizer,

medical equipment and tools, among others. Similarly, imports from other countries increased by 8.3 percent in the review period compared to a growth of 24.6 percent in the same period of the previous year. Imports from other countries rose mainly on account of an increase in the imports of silver, edible oil, crude palm oil, telecommunication equipment and parts, among others. In US dollar terms, imports from China increased by 49.4 percent to USD 543.5 million in the review period in contrast to a decline of 6.1 percent during the same period of the previous year. Similarly, imports from other countries increased by 9.4 percent to USD 850.6 million in the review period compared to an increase of 9.5 percent during the same period of the previous year.

41. Total trade deficit during the six months of 2014/15 grew by 16.0 percent to Rs. 334.83 billion compared to an increase of 24.4 percent during the same period of the previous year. Trade deficit with India, China and other countries increased by 12.0 percent, 49.3 percent and 9.4 percent respectively during the review period. Such deficits had increased by 26.8 percent, 7.1 percent and 28.4 percent respectively in the same period of the previous year.
42. Exports-imports ratio declined to 11.5 percent in the review period as a result of decrease in exports and increase in imports. Such a ratio remained at 13.5 percent during the same period of the previous year.

#### **Balance of Payments Situation**

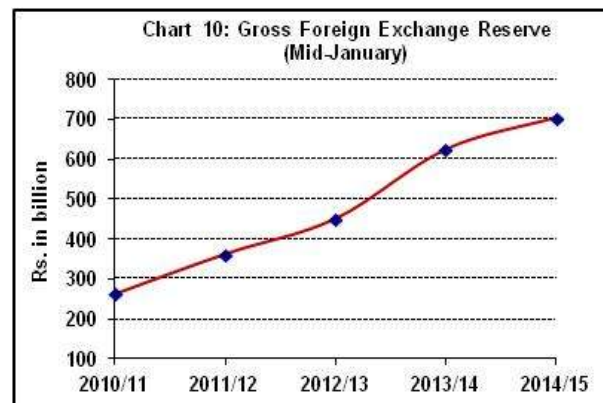
43. The overall BOP recorded a surplus of Rs. 34.26 billion during the six months of 2014/15 compared to a surplus of Rs. 77.19 billion during the same period of the previous year. The current account registered a surplus of Rs. 13.65 billion during the review period compared to a surplus of Rs. 55.02 billion in the same period of the previous year. The low level of surplus in the current account was primarily due to a high growth of merchandise and services imports, decrease in grants and slow growth of workers' remittances in the review period. In US dollar terms, the BOP recorded a surplus of USD 343.0 million whereas the current account surplus was recorded at USD 134.1 million in the review period. During the same period of the previous year, BOP and current account had recorded surpluses amounting to USD 776.7 million and USD 553.2 million respectively.

The FOB-based merchandise trade deficit increased by 16.0 percent to Rs. 321.34 billion during the six months of 2014/15. Such deficits had grown by 24.7 percent in the same period of the previous year. The net services remained at a surplus of Rs. 7.36 billion in the review period compared to a surplus of Rs. 9.49 billion in the same period of the previous year. Net transfers increased marginally by 2.0 percent to Rs. 314.52 billion in the review period compared to a growth of 37.9 percent in the same period of the previous year. Under transfers, workers' remittances increased by 3.9 percent to Rs. 275.96 billion compared to an increase by 34.4 percent in the same period of the previous year. In US dollar terms, workers' remittances increased by 4.9 percent to USD 2.80 billion in the review period compared to an increase by 18.0 percent in same period of the previous year. On a monthly basis, remittances inflows increased by 4.0 percent in December/January of the current fiscal year compared to that of the previous month.

Similarly, under the financial account, foreign direct investment of Rs. 1.03 billion was recorded in the review period.

### Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 5.9 percent to Rs. 704.44 billion in mid-January 2015 from a level of Rs. 665.41 billion as at mid-July 2014. Such reserves had increased by 17.1 percent to Rs. 624.60 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 3.9 percent to Rs. 594.61 billion in the review period from a level of Rs. 572.40 billion as at mid-July 2014.



The gross foreign exchange reserves in US dollar terms increased marginally by 2.4 percent to USD 7.11 billion in mid-January 2015. Such reserves had increased by 13.4 percent in the same period of the previous year. Likewise, during the six months of 2014/15, the inconvertible foreign exchange reserve increased by 9.8 percent to IRs 104.20 billion. Such reserves had increased by 17.3 percent during the same period of the previous year. Based on the trend of imports during the six 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 9.8 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 decreased by 57.6 percent to USD 45.82 per barrel in mid-January 2015 from USD 108.09 per barrel in mid-January 2014. Price of oil in the international market has dropped sharply due to the slowdown in the economy of China, Japan and Euro, increase production in the US and Saudi Arabia, the decision taken by OPEC to maintain the existing production quota, among others. Similarly, the price of gold declined marginally by 0.1 percent to USD 1235.00 per ounce in mid-January 2015 from USD 1236.00 per ounce in mid-January 2014.
47. Nepalese currency vis-à-vis the US dollar depreciated by 3.3 percent in mid-January 2015 from the level of mid-July 2014. It had depreciated by 3.2 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 99.13 in mid-January 2015 compared to Rs. 95.90 in mid-July 2014.