



Nepal Rastra Bank

Central Office

Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 13.5 percent in the eleven months of 2013/14 compared to an increase of 10.7 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 grew by 19.4 percent in mid-June 2014. Narrow money supply (M1) increased by 11.6 percent in the review period compared to an increase of 11.2 percent in the same period of the previous year. M1 grew by 14.8 percent on y-o-y basis in mid-June 2014.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 109.56 billion (23.4 percent) during the review period compared to an increase of Rs. 52.69 billion (13.7 percent) in the corresponding period of the previous year. A significant growth of remittance inflows accompanied by an increase in foreign assistance resulted in a higher growth of net foreign assets in the review period.

Domestic Credit

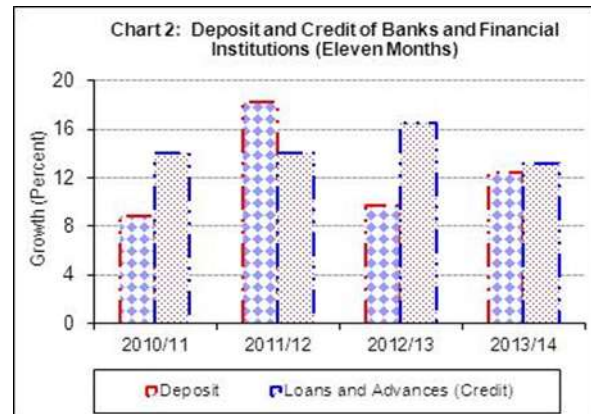
3. Domestic credit increased by 7.1 percent in the review period compared to a growth of 10.9 percent in the same period of the previous year. A slower growth of domestic credit in the review period was on account of sharp decrease in net claims on government. On y-o-y basis, domestic credit increased by 13.2 percent in mid-June 2014. Likewise, the claims on the private sector increased by 16.5 percent in the review period compared to an increase of 19.4 percent in the same period of the previous year. On y-o-y basis, credit to the private sector increased by 17.2 percent in mid-June 2014.

Reserve Money

4. In the review period, reserve money increased by 10.4 percent in contrast to a decline of 1.5 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased by 24.4 percent in mid-June 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 12.5 percent (Rs. 148.23 billion) in the review period compared to a growth of 9.8 percent (Rs. 99.01 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs increased by 20.3 percent in mid-June 2014. In the review period, deposit mobilization of commercial banks increased by 12.0 percent, development banks by 20.3 percent and finance companies by 4.8 percent. Deposit mobilization of commercial banks had increased by 9.2 percent, development banks by 10.9 percent and finance companies by 4.5 percent in the same period of the previous year.



Credit Flows of Banks and Financial Institutions

6. In the eleven months of 2013/14, loans and advances of BFIs increased by 13.2 percent (Rs. 151.15 billion) compared to a growth of 16.5 percent (Rs. 159.59 billion) in the same period of the previous year. In the review period, loans and advances of commercial banks increased by 12.8 percent, development banks by 20.5 percent and finance companies by 4.7 percent. In the corresponding period of the previous year, such loans and advances had increased by 16.0 percent, 13.1 percent and 7.4 percent respectively. Similarly, credit to the private sector from BFIs increased by 15.7 percent (Rs. 147.42 billion) in the review period compared to a growth of 18.6 percent (Rs. 144.89 billion) in the same period of the previous year. On y-o-y basis, credit to the private sector from BFIs increased by 17.8 percent in mid-June 2014. In the review period, credit to the private sector from commercial banks increased by 16.0 percent and development banks by 22.6 percent while such a credit flow from finance companies decreased by 1.3 percent. The same period of the previous year had witnessed a growth of credit flow to the private sector from commercial banks, development banks and finance companies by 18.3 percent, 21.1 percent and 17.6 percent respectively.
7. Of the total credit from BFIs, credit to the wholesale and retail trade sector increased by Rs. 39.03 billion compared to a growth of Rs. 32.14 billion in the same period of the previous year. Similarly, credit to the industrial production sector increased by

Rs. 30.06 billion in the review period compared to an increase of Rs. 28.64 billion in the same period of the previous year. In the review period, credit to the construction sector increased by Rs. 20.72 billion and to the transportation, communication and public services by Rs. 2.87 billion. Credit to the construction sector had increased by Rs.12.71 billion and to the transportation, communication and public services by Rs.7.32 billion in the same period of previous year. Credit to the agriculture sector increased by Rs. 9.69 billion in the review period compared to an increase of Rs. 10.37 billion in the corresponding period of the previous year.

Liquidity Management

8. In the review period, NRB injected net liquidity of Rs. 309.34 billion through the net purchase of USD 3.17 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 242.63 billion was injected through the purchase of USD 2.78 billion in the same period of the previous year.
9. NRB purchased Indian currency (INR) equivalent to Rs. 275.34 billion by selling USD 2.80 billion in the review period. INR equivalent to Rs. 251.47 billion was purchased by selling USD 2.88 billion in the same period of the previous year.
10. Excess liquidity of BFIs has been mopped up through the open market operations (OMOs) in the review period. The NRB mopped up net liquidity of Rs. 523.50 billion through reverse repo auctions and Rs. 8.50 billion through outright sale auctions in the review period. A net liquidity of Rs. 8.50 billion was mopped up through outright sale auctions in the corresponding period of the previous year.

Inter-bank Transactions and Standing Liquidity Facility

11. In the review period, inter-bank transactions of commercial banks stood at Rs. 193.75 billion and those of other financial institutions (development banks and finance companies) amounted to Rs. 155.00 billion. Those figures were Rs. 675.27 billion and Rs. 163.40 billion respectively in the corresponding period of the previous year. The standing liquidity facility (SLF) has not been utilized in the review period.

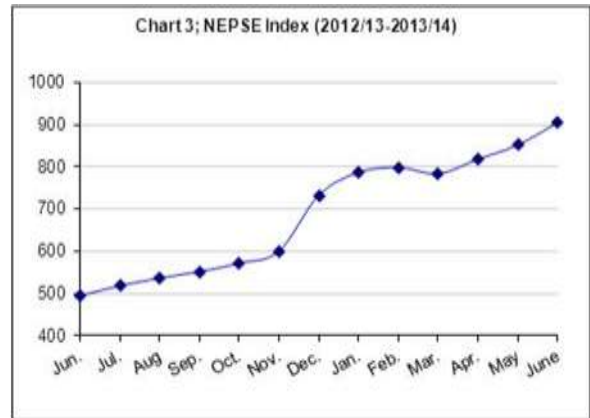
Interest Rates

12. The weighted average Treasury bill rate and inter-bank transaction rate declined in mid-June 2014 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate decreased to 0.13 percent in mid-June 2014 from 2.67 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.18 percent in mid-June 2014 compared to 1.36 percent in mid-June 2013. Likewise, the weighted average inter-bank rate among other financial institutions declined to 2.20 percent in mid-June 2014 from 5.54 percent a year ago.
13. In mid-June 2014, the weighted average deposit and lending rates of commercial banks remained at 4.22 percent and 10.81 percent respectively. Accordingly, the interest rate spread (lending rate less deposit rate) of commercial banks stood at 6.59 percent in

mid-June 2014. Such a spread was 6.56 percent in the previous month. Moreover, the average base rate of commercial banks remained at 8.23 percent in mid-June 2014. Such a rate was 8.31 percent in the previous month.

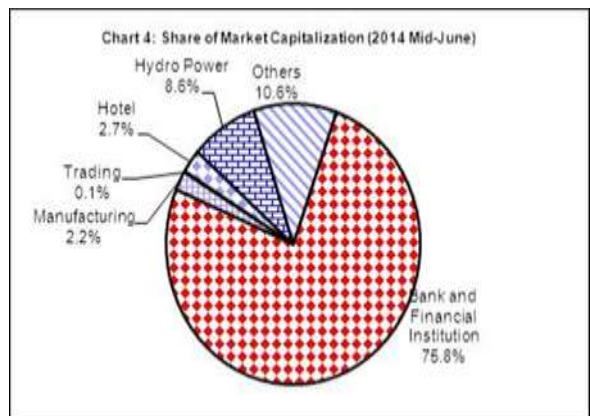
Securities Market

14. NEPSE index, on y-o-y basis, increased by 83.0 percent to 904.6 points in mid-June 2014. The index had increased by 35.6 percent to 494.4 points in mid-June 2013.



15. The y-o-y stock market capitalization increased by 88.4 percent to Rs. 922.83 billion in mid-June 2014. The ratio of market capitalization to GDP stood at 47.9 percent in mid-June 2014 compared to 28.9 percent a year ago.

16. Of the total market capitalization as of mid-June 2014, the share of banks and financial institutions (including insurance companies) stood at 75.8 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, 8.6 percent and 10.6 percent respectively.



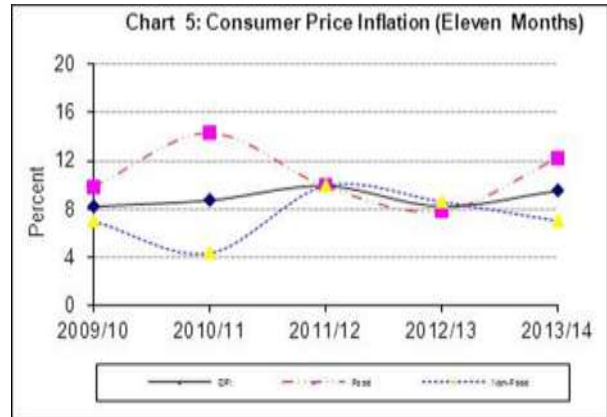
17. Total number of companies listed at the NEPSE increased from 227 in mid-June 2013 to 239 in mid-June 2014. Of the total listed companies the number of banks and financial institutions (including insurance companies) stood at 206 followed by manufacturing and processing companies (18), hotels (4), business entities (4), hydropower companies (5) and others (2).

18. Total paid-up capital of the listed companies stood at Rs. 145.35 billion in mid-June 2014, registering an increase of 15.4 percent over mid-June 2013. Additional securities worth Rs. 20.47 billion comprising ordinary share of Rs. 7.29 billion, right share of Rs. 4.96 billion, bonus share of Rs. 6.62 billion and commercial banks' debenture of Rs.1.6 billion were listed at the NEPSE during the eleven 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 9.5 percent in mid-June 2014 as compared to 8.2 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 12.2 percent and 7.0 percent respectively during the review period. Such indices had increased by 7.7 percent and 8.6 percent respectively in the corresponding period of previous year.

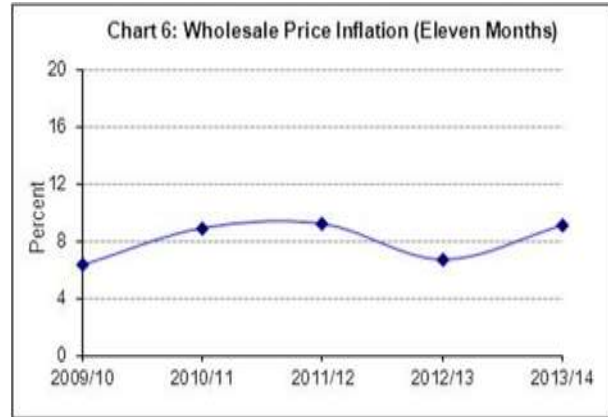


20. Under the items of the food and beverage group, price index of vegetables products sub-group increased by the highest rate of 27.5 percent during the review period in contrast to a decrease of 9.1 percent in the corresponding period of the previous year. The price indices of tobacco product sub-group and hard drinks sub-group which had increased by 11.4 percent and 4.4 percent in the corresponding period of previous year, went up by 25.3 percent and 22.5 percent respectively during the review period. The price indices of meat and fish sub-group and fruits sub-group increased by 16.1 percent and 14.0 percent respectively during the review period compared to the increase of 14.5 percent and 9.6 percent respectively in the corresponding period of the previous year. The price index of sugar and sweets sub-group, which had increased by 7.0 percent in the corresponding period of the previous year, decreased by 1.6 percent in the review period.
21. Within the group of non-food and services, the price index of clothing and footwear increased by 11.0 percent during the review period compared to an increase of 10.0 percent in the corresponding period of the previous year. The price indices of furnishing and household equipment sub-group and health sub-group increased by 9.4 percent and 8.3 percent respectively during the review period. Such indices had increased by 11.5 percent and 5.4 percent respectively in the corresponding period of the previous year. Similarly, the price indices of recreation and culture sub-group and education sub-group increased by 8.2 percent and 7.8 percent respectively during the review period while such indices had increased by 6.3 percent and 12.5 percent in the corresponding period of the previous year.
22. Region-wise, the price indices in Terai increased by 10.1 percent followed by Kathmandu Valley and Hilly region with 9.7 percent and 8.1 percent respectively during the review period. The increments in Terai, Kathmandu Valley and Hilly region were

respectively 8.4 percent, 8.2 percent and 7.8 percent in the corresponding period of the previous year.

Wholesale Price Inflation

23. The y-o-y wholesale price index increased by 9.1 percent during the review period compared to a rise of 6.7 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 11.9 percent, 7.3 percent and 5.0 percent respectively. The increments in agricultural commodities, domestic manufactured commodities and imported commodities were respectively 8.5 percent, 4.2 percent and 5.1 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 15.0 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 26.5 percent, while it did not show any increment in the corresponding period of the previous year. The wage rate index increased by 12.6 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 the growth of 23.3 percent, 8.4 percent and 9.5 percent respectively in the indices of wages in the review period.

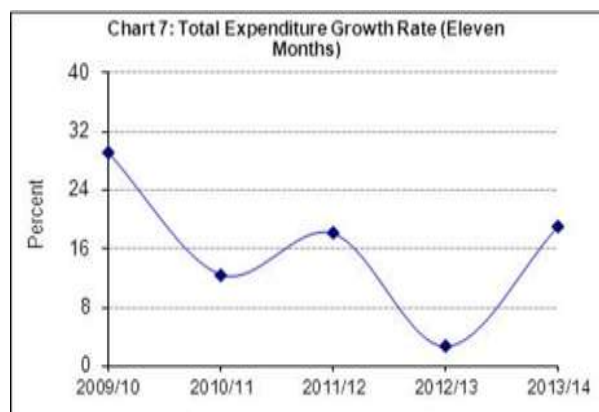
Fiscal Situation *

Budget Deficit / Surplus

26. During the eleven months of 2013/14, government budget on cash basis remained at a surplus of Rs. 53.69 billion. Such a surplus was Rs. 32.93 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 19.1 percent to Rs. 306.65 billion compared to a growth of 2.7 percent amounting to Rs. 257.43 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.

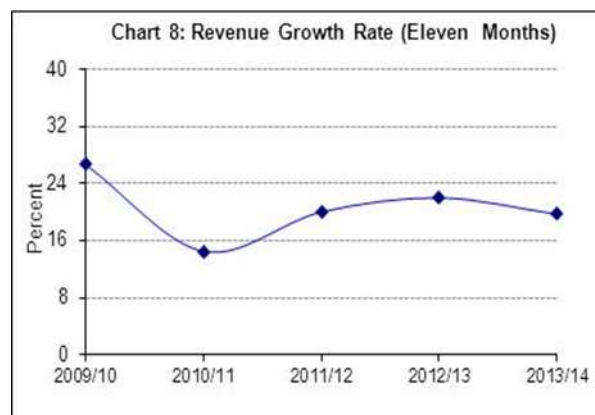


28. During the review period, recurrent expenditure increased by 26.4 percent to Rs. 240.37 billion. In the corresponding period of the previous year, such expenditure had increased by 0.9 percent. Timely announcement of the annual budget and expenditure incurred in the completion of constitutional assembly election, among others, accounted for such a growth of recurrent expenditure.
29. During the review period, capital expenditure increased by 34.3 percent amounting to Rs. 36.36 billion. In the corresponding period of the previous year, such expenditure had decreased by 3.7 percent. Timely announcement of the annual budget, delegation of authority to make expenses and immediate approval of annual programmes contributed to such a growth of capital expenditure.

* Based on the data reported by 8 NRB offices, 66 RBBL branches (all of 66 branches conducting govt. transactions), 42 NBL branches (out of 44 branches conducting govt. transactions), 9 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; also report received from 79 out of 79 DTOs and payment centers.

Government Revenue

30. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 19.7 percent to Rs. 308.21 billion. Such revenue mobilization had risen by 22.0 percent to Rs. 257.46 billion in the corresponding period of the previous year. The low growth rate of revenue is attributed to the slowdown in growth rate of custom and income tax revenue during the review period.



31. Of the total revenue mobilization, VAT revenue grew by 20.5 percent to Rs. 90.96 billion during the review period. It had increased by 16.7 percent in the corresponding period of the previous year. The increase in VAT revenue was mainly due to the positive impact of controlling leakage as well as reforming VAT administration.
32. During the review period, custom revenue rose by 19.4 percent to Rs. 61.31 billion compared to an increase of 33.4 percent in the corresponding period of the previous year.
33. During the review period, excise revenue increased by 24.9 percent to Rs. 40.67 billion compared to an increase of 22.2 percent in the corresponding period of the previous year.
34. Income tax revenue increased by 12.7 percent to Rs. 61.57 billion during the review period. Such revenue had risen by 30.7 percent in the corresponding period of the previous year.
35. During the review period, non-tax revenue increased by 20.1 percent to Rs. 37.97 billion. Such revenue had decreased by 1.5 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 and charges on issuing passports.

Foreign Cash Loan and Grants

36. In the eleven months of 2013/14, the GoN received foreign cash loans of Rs. 14.50 billion and foreign cash grants of Rs. 33.68 billion. The GoN had received foreign cash loans of Rs. 9.34 billion and foreign cash grants of Rs. 23.71 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

37. Merchandise exports went up by 16.9 percent to Rs. 81.73 billion during eleven months of 2013/14. Such exports had increased by 4.0 percent to Rs. 69.93 billion during the same period of the previous year. The growth of total exports remained high in the review period due to the increase in exports to both India and other countries. On a monthly basis, merchandise exports decreased by 5.6 percent in May/June of the current fiscal year compared to that of the previous month.



38. Exports to India increased by 17.5 percent during the review period compared to an increase of 2.6 percent in the corresponding period of the previous year. Exports to other countries went up by 15.7 percent compared to an increase of 7.0 percent in the same period of the previous year. In US dollar terms, exports to other countries increased by 2.8 percent to US dollar 276.5 million in contrast to a decrease of 2.3 percent during the corresponding period of the previous year. Primarily, the exports of zinc sheets, stone and sand, cardamom and juice, among others, increased to India. Likewise, exports to other countries went up mainly due to the increase in exports of woolen carpet, readymade garments, herbs and pashmina, among others.
39. During the review period, merchandise imports surged by 27.0 percent to Rs. 645.70 billion. Such imports had risen by 21.2 percent to Rs. 508.60 billion during the corresponding period of the previous year. Total imports surged in the review period due to the rapid increase in imports from India and other countries. On a monthly basis, merchandise imports increased by 10.3 percent during May/June of the current fiscal year compared to that of the previous month.
40. Imports from India went up by 28.6 percent during the review period compared to an increase of 23.3 percent in the same period of the previous year. Likewise, imports from other countries rose by 23.8 percent compared to an increase of 17.3 percent in the corresponding period of the previous year. In US dollar terms, imports from other countries increased by 10.1 percent to US dollar 2.18 billion compared to an increase of 7.6 percent in the corresponding period of the previous year. Imports from India increased mainly owing to an increase in the imports of petroleum products, vehicles and spare parts, hot-rolled sheet in coils and thread, among others. Likewise, imports from other countries increased largely on account of an increase in imports of betelnut, crude soybean oil, silver and polythene granules, among others.

41. Total trade deficit during the eleven months of 2013/14 surged by 28.6 percent to Rs. 563.97 billion compared to an increase of 24.5 percent during the same period of the previous year. Trade deficit with India increased by 30.3 percent during the review period compared to a growth of 27.4 percent in the same period of the previous year. Trade deficit with other countries increased by 25.1 percent compared to an increase of 19.2 percent during the same period of the previous year.
42. Due to high growth of imports compared to exports, the ratio of exports to imports declined to 12.7 percent in the review period from 13.7 percent a year ago.

Balance of Payments Situation

43. The overall BOP recorded a surplus of Rs. 109.56 billion during the eleven months of 2013/14 compared to a surplus of Rs. 52.69 billion during the same period of the previous year. The current account posted a surplus of Rs. 77.84 billion in the review period compared to a surplus of Rs. 41.56 billion in the same period of the previous year. The increase in surplus in the current account was mainly 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 785.4 million in the review period compared to a surplus of US dollar 471.8 million during the corresponding period of the previous year.
44. The FOB-based merchandise trade deficit increased by 28.8 percent to Rs. 543.21 billion during the eleven months of 2013/14. Such deficit had grown by 24.3 percent in the same period of the previous year. The net service income posted a surplus of Rs. 19.73 billion in the review period compared to a surplus of Rs. 7.15 billion in the same period of the previous year. Net transfers registered a growth of 28.1 percent to Rs. 571.98 billion in the review period compared to a growth of 18.4 percent in the same period of the previous year. Under transfers, workers' remittances rose by 26.4 percent to Rs. 490.95 billion compared to an increase of 21.3 percent in the same period of the previous year. In US dollar terms, remittance inflow increased by 12.2 percent to US dollar 4.99 billion during the review period compared to an increase of 11.8 percent in same period of the previous year. On a monthly basis, remittance inflows decreased marginally by 0.4 percent in May/June compared to the value of the previous month of this fiscal year.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 21.4 percent to Rs. 647.64 billion in mid-June 2014 from a level of Rs. 533.30 billion as at mid-July 2013. Out of total reserves, NRB's reserves increased by 22.5 percent to Rs. 554.71 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 21.0 percent to US dollar 6.79 billion in mid-June 2014. Such reserves had increased by 11.3 percent in the same period of the previous year. Likewise, during the eleven months of 2013/14, the reserves in terms of inconvertible foreign exchange increased by 20.2 percent to INR 89.59 billion. Such reserves had increased by 17.6 percent during the same period of the previous year. On the basis of trend of imports during the eleven months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.2 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 7.9 percent to US dollar 113.42 per barrel in mid-June 2014 from USD 105.10 per barrel in mid-June 2013. On the other hand, the price of gold decreased by 8.5 percent to USD 1273.00 per ounce in mid-June 2014 from USD 1391.25 in mid-June 2013.
47. Nepalese currency vis-à-vis the US dollar depreciated by 0.3 percent in mid-June 2014 from the level of mid-July 2013. It had depreciated by 4.4 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 95.32 in mid-June 2014 compared to Rs. 95.00 in mid-July 2013.