Nepal Rastra Bank

Central Office

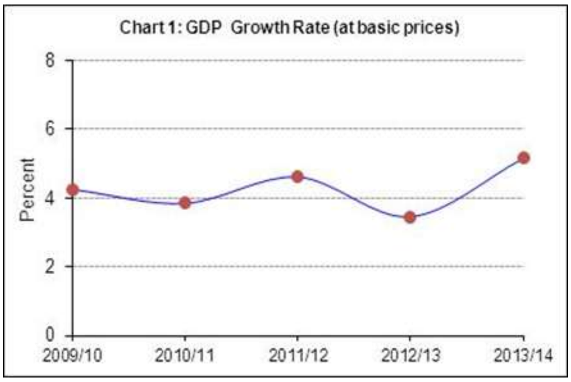
Current Macroeconomic Situation of Nepal

(Based on the Annual Data of FY 2013/14)

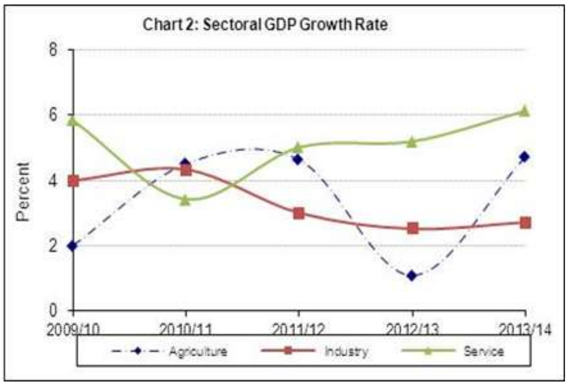
Real Sector

Gross Domestic Product

1. According to the preliminary estimates of Central Bureau of Statistics (CBS), the real GDP at basic price is expected to grow by 5.2 percent in fiscal year 2013/14 compared to a growth of 3.5 percent in the previous year. Similarly, the real GDP at producers' price is expected to grow by 5.5 percent in the review year compared to a growth of 3.9 percent in the previous year. In the review year, the growth in agriculture and service sectors are expected to witness a significant improvement.



2. In the review year, the agriculture sector is expected to grow by 4.7 percent whereas the non-agriculture sector is expected to expand by 5.3 percent. These sectors had grown by 1.1 percent and 4.6 percent respectively in the previous year.



3. In the review year, the agriculture sector grew satisfactorily due to the favorable monsoon and smooth supply of agricultural inputs such as seed, chemical fertilizer etc. In the review year, among the principal cereal crops, the production of paddy is estimated to grow by 12.0 percent, maize by 9.9 percent and wheat by 6.1 percent. Similarly, the production of fruits and spices is estimated to grow by 3.6 percent and that of meat and dairy products by 2.8 percent whereas the production of other animal related products is estimated to decline by 5.9 percent.

4. In the review year, the industrial sector is estimated to expand by 2.7 percent compared to a growth of 2.5 percent in the previous year. Despite the energy shortages, gradual improvements in industrial labor relation, peace and security along with other structural bottlenecks have helped accelerate the growth of this sector marginally.

5. In the review year, the service sector is estimated to expand by 6.1 percent compared to a growth of 5.2 percent in the previous year. The expansion in the wholesale and retail trade, hotels and restaurants, transport, storage and communication, financial intermediaries, public administration and defense, education and health and social work have contributed to the growth of overall service sector in the review period.

Gross National Disposable Income, Consumption, Saving and Investment

6. In 2013/14, the Gross National Disposable Income (GNDI) is estimated to grow by 20.4 percent compared to a growth of 12.3 percent in the previous year. In 2013/14, the ratio of total consumption to GDP stood at 91.1 percent compared to 89.9 percent in the previous year. Likewise, the ratio of saving to GDP was 8.9 percent in the review year compared to 10.1 percent in the previous year. In the review year, the ratio of gross investment to GDP remained at 37.1 percent compared to 36.9 percent in the previous year. In the review year, the ratio of Gross National Saving to GDP stood at 46.4 percent compared to 40.3 percent in the previous year.

Foreign Direct Investment

7. Despite the high priority pledged by the government in foreign investment, the commitment of foreign direct investment in 2013/14 has increased marginally by 0.9 percent whereas the number of foreign investment projects has declined by 3.8 percent. During the review period, Department of Industry granted approval to 305 joint venture projects with the foreign direct investment commitment amounting to Rs. 20.10 billion. In the previous year, 317 foreign investment projects having commitment amount of Rs. 19.94 billion received approval.

Table: 1

Foreign Direct Investment Committment (Sectoral)

Sectors	F.Y. 2012/13			F.Y. 2013/14		
	Number of Projects	**FDI Commitment Amount (Rs. in million)**	**Employment**	**Number of Projects**	**FDI Commitment Amount (Rs. in million)**	**Employment**
Agro and Forestry	43	913.6	1760	47	1013.8	1399
Construction	1	100.0	110	0	0.00	0
Energy	6	2755.2	408	10	11186.6	939
Manufacturing	84	4054.2	5077	44	1852.2	2337
Mineral	5	596.0	527	11	281.4	867
Service	89	7544.5	4594	106	4471.7	3494
Tourism	89	3972.8	4093	87	1301.6	2696
Total	**317**	**19936.3**	**16569**	**305**	**20107.3**	**11732**

8. Out of 305 projects approved in the review year, 106 were service related, followed by 87 tourism-related, 47 agriculture and forestry-related, 44 manufacturing-related, 11 mineral-related and 10 energy-related projects. In the previous year, out of total approved projects, 89 each were service and tourism related followed by 84 manufacturing related, 43 agriculture and forestry-related, 6 energy-related, 5 mineral-related and 1 construction-related projects. In the review year, both the number and total investment amount on agriculture and forestry and energy-related projects increased whereas total amount of investment on manufacturing, service, mining and tourism-related projects witnessed a sharp decline.

9. Of the total 305 approved projects, China ranks first with 119 foreign investment projects, followed by USA (28), India (22), South Korea (22), Japan (15), and UK (12) as well as 87 from other countries. The approved projects are expected to generate direct employment opportunities for 11,732 people.

Table: 2

Foreign Direct Investment Committment (Countrywise)

Country	F.Y. 2012/13			F.Y. 2013/14		
	Number of Projects	**FDI Commitment Amount (Rs. in million)**	**Employment**	**Number of Projects**	**FDI Commitment Amount (Rs. in million)**	**Employment**
China	97	2771.8	4943	119	7314.4	4618
India	41	2809.1	3471	22	6540.8	2108
Japan	12	300.9	450	15	322.4	365
South Korea	23	263.9	876	22	2030.0	581
UK	10	82.4	430	12	148.6	281
USA	24	380.5	853	28	536.2	850
Others	110	13327.7	5546	87	3214.9	2929
Total	**317**	**19936.3**	**16569**	**305**	**20107.3**	**11732**

Foreign Employment

10. In 2013/14, the Government of Nepal, Department of Foreign Employment granted final approval to 5,27,814 workers for foreign employment registering a growth of 16.4 percent compared to the previous year. The Department granted such approval for a total of 4,53,543 workers in the previous year.

11. As in the past, Malaysia and the Gulf countries appeared to be the major destinations for Nepalese workers in 2013/14. Out of total workers who were granted final approval for the foreign employment in the review year, 40.6 percent were for Malaysia followed by 23.7 percent for Qatar, 16.4 percent for Saudi Arabia and 10.3 percent for U.A.E. In the review year, the number of workers that were granted approval for foreign employment to two major destinations Malaysia and Qatar increased significantly by 36.7 percent and 37.0 percent respectively.

Table: 3
Number of Workers Approved for Foreign Employment

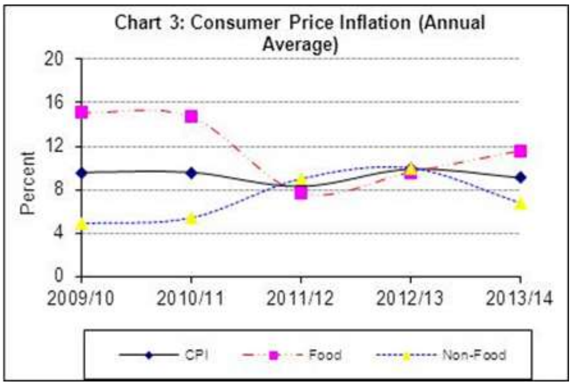
Countries	Total Approval for Foreign Employment			Percent Change		Share (in percent)
	2011/12	2012/13	2013/14	2012/13	2013/14	2013/14
Malaysia	98367	156770	214270	59.4	36.7	40.6
Qatar	105681	90935	125170	-14.0	37.6	23.7
Saudi Arabia	80455	86276	86653	7.2	0.4	16.4
UAE	54482	52295	54625	-4.0	4.5	10.3
Kuwait	24575	14401	19861	-41.4	37.9	3.8
Bahrain	5865	3390	4260	-42.2	25.7	0.8
Oman	3163	3114	3345	-1.5	7.4	0.6
South Korea	5627	4299	5811	-23.6	35.2	1.1
Others	6450	42063	13819	552.1	-67.1	2.6
Total	**384665**	**453543**	**527814**	**17.9**	**16.4**	**100.0**

Source: Government of Nepal, Department of Foreign Employment.

Inflation, Salary and Wage Rate

Consumer Price Inflation

12. The annual average consumer price inflation increased by 9.1 percent in 2013/14 compared to an increase of 9.9 percent in 2012/13. The price index of food and beverages group increased by 11.6 percent whereas the index of non-food and services group increased by 6.8 percent. The indices of food and beverages group and non-food and services group had increased by 9.6 percent and 10.0 percent respectively in 2012/13.



13. Under the food and beverages group, the annual average price index of vegetable sub-group increased by the highest rate of 20.5 percent in the review year compared to rise by 5.7 percent only in the previous year. Similarly, the annual average price indices of tobacco products sub-group and meat and fish sub-group increased by 18.8 percent and 18.2 percent respectively compared to the respective increments of 13.8 percent and 14.4 percent in the previous year. Similarly, the annual average price indices of hard drinks sub-group and fruits sub-group which had witnessed the growth of 8.0 percent and 6.3 percent in the previous year went up by 16.9 percent and 13.7 percent respectively in the review year. In contrast, the annual price index of sugar and sweets sub-group went down by 3.8 percent in the review year as against the growth of 13.7 percent in the previous year.

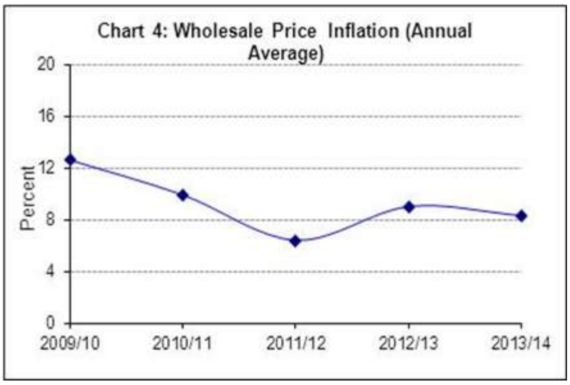
14. Under the non-food and services group, the annual average index of clothing and footwear sub-group increased by 11.1 percent in the review year compared to its growth of 12.1 percent in the previous year. Similarly, the annual average indices of furnishing and household equipment sub-group and education sub-group went up by 9.2 percent and 7.6 percent respectively in the

review year compared to the respective rise of 13.3 percent and 12.1 percent in the previous year. Likewise, the annual price indices of health sub-group and miscellaneous goods and services sub-group increased by the same rate of 7.3 percent in the review year. These indices had increased by 6.8 percent and 10.1 percent respectively in the previous year. The annual average price index of communication sub-group had witnessed a marginal growth of 0.4 percent in the review year. This index had decreased by 2.0 percent in the previous year.

15. Region-wise, the annual average price indices increased by 9.6 percent in Terai followed by 9.1 percent in Kathmandu Valley and 8.1 percent in Hills in the review year. Such indices had risen by 10.2 percent in Terai, 9.7 percent in Kathmandu Valley and 9.5 percent in Hills in the previous year.

Wholesale Price Inflation

16. The annual average wholesale price index increased by 8.3 percent in 2013/14 compared to a growth of 9.0 percent in the previous year. The annual average price indices of agricultural commodities, imported commodities and domestic manufactured commodities increased by 11.3 percent, 4.2 percent and 6.0 percent respectively compared to the growth of 10.6 percent, 8.4 percent and 5.2 percent in the previous year.



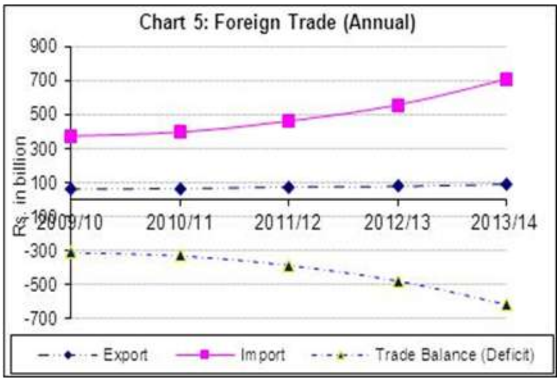
National Salary and Wage Rate Index

17. The annual average salary and wage rate index increased by 13.7 percent in 2013/14 compared to an increase of 9.2 percent in the previous year. In the review year, the annual average price index of salary increased by 25.4 percent whereas the price index of wage rate rose by 11.1 percent. In the previous year there was no change in salary index whereas the wage rate index had increased by 11.5 percent. In the review year, the wage rate index of agricultural laborers, industrial laborers and construction laborers have increased by 8.7 percent, 18.1 percent and 6.6 percent respectively.

External Sector Situation

Foreign Trade

18. Merchandise exports went up by 17.4 percent to Rs. 90.29 billion in the review year. Such exports had increased by 3.6 percent to Rs. 76.92 billion in the previous year. The growth of total export remained high in the review year due to the increase in exports to both India and other countries.



19. Exports to India increased by 16.5 percent during the review year compared to a growth of 2.8 percent in the previous year. Likewise, exports

to other countries which had increased by 5.2 percent in the previous year rose by 19.1 percent in the review year. In USD terms, exports to other countries increased by 7.0 percent to USD 314.9 million in contrast to a decrese of 3.5 percent in the previous year. The export of zinc sheet, stone & sand, juice and cardamom, among others, increased to India. Likewise, exports to other countries increased due mainly to an increase in export of woolen carpet, readymade garments, herbs and pashmina, among others.

20. Merchandise imports surged by 27.3 percent to Rs. 708.76 billion in the review year. Such imports had risen by 20.6 percent to Rs. 556.74 billion in the previous year. Merchandise imports surged in the review year due mainly to the rapid increase in the imports both from India and other countries.

21. Imports from India soared by 28.8 percent during review year compared to a growth of 22.6 percent in the previous year. Likewise, imports from other countries rose by 24.4 percent in the review year compared to an increase of 16.9 percent in the previous year. In USD terms, imports from other countries went up by 11.7 percent to USD 2.41 billion compared to an increase of 7.4 percent in the previous year. Imports from India increased primarily owing to an increase in the imports of petroleum products, vehicles and spare parts, hotrolled sheet in coil and thread, among others. Likewise, imports from other countries increased mainly on account of an increase in the imports of betelnut, crude soyabean oil, silver and polythene granules, among others.

22. Due to a large base and high growth rate of imports compared to exports, total trade deficit surged by 28.9 percent to Rs. 618.47 billion in the review year. Such deficit had expanded by 23.9 percent in the previous year. Trade deficit with India surged by 30.8 percent during the review year compared to a growth of 26.5 percent in the previous year. Likewise, trade deficit with other countries grew by 25.3 percent in the review year compared to an increase of 19.0 percent in the last year.

23. The ratio of export to import declined to 12.7 percent in the review year from 13.8 percent in the previous year. The share of India in Nepal's total trade increased marginally to 66.6 percent in the review year from 66.0 percent in the last year.

Balance of Payments Situation

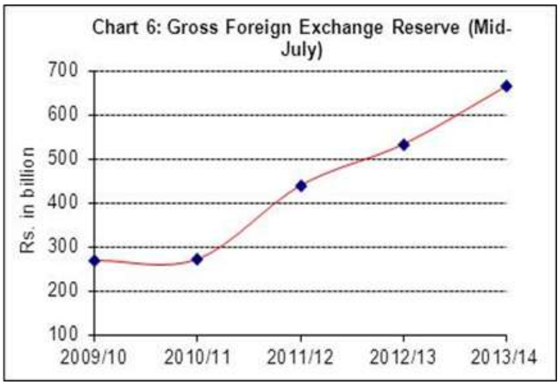
24. The overall BoP recorded a significant surplus of Rs. 127.13 billion in the review year compared to a surplus of Rs. 68.94 billion in the previous year. The current account posted a surplus of Rs. 89.85 billion in the review year compared to a surplus of Rs. 57.06 billion in the last year. The current account surplus was higher in the review year due mainly to a substantial rise in remittance inflow, travel income and foreign grants. In USD terms, the current account and the overall BoP registered a surplus of USD 910.5 million and USD 1.29 billion respectively in the review year. The current account and overall BoP had recorded a surplus of USD 634.6 million and USD 768.0 million respectively in the preceding year.

25. The FOB-based merchandise trade deficit increased by 29.1 percent to Rs. 595.41 billion in the review year. Such deficit had grown by 23.6 percent in the previous year. The net service income posted a surplus of Rs. 20.88 billion in the review year compared to a surplus of Rs. 7.59 billion in the previous year. Net transfers registered a growth of 26.9 percent to Rs. 631.50 billion in the review year compared to a growth of 17.7 percent in the previous year. Under transfers, workers' remittances rose by 25.0 percent to Rs. 543.29 billion in the review year compared to an increase of 20.9 percent in the last year. In USD terms, remittance inflows increased by 12.3 percent to

USD 5.54 billion in the review year compared to an increase of 11.7 percent in the preceding year. Likewise, under financial account, foreign direct investment of Rs. 3.19 billion was recorded during the review year compared to such investment of Rs. 9.08 billion in the previous year.

Foreign Exchange Reserves

26. The gross foreign exchange reserves increased by 24.8 percent to Rs. 665.41 billion in mid-July 2014 from a level of Rs. 533.30 billion in mid-July 2013. Such reserves had increased by 21.4 percent in the previous year. Out of total reserves, NRB's reserves increased by 26.4 percent to Rs. 572.40 billion in the review year from a level of Rs. 453.0 billion in mid-July 2013. In USD terms, the convertible foreign exchange reserves increased by 22.9 percent to USD 5.35 billion in mid-July 2014 from the level of mid-July 2013. Such reserves had increased by 12.6 percent in the last year. Likewise, the inconvertible foreign exchange reserves increased by 27.4 percent to INR 94.94 billion. Such reserves had increased by 23.4 percent in the preceding year. On the basis of the trend of imports, the existing level of reserves is sufficient for financing merchandise imports of 11.5 months and merchandise and service imports of 10.0 months.



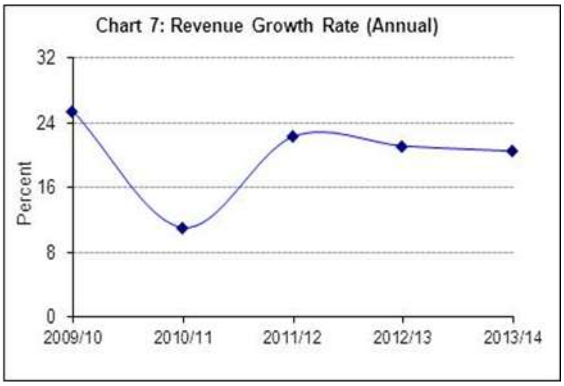
Price of Oil and Gold in the International Market and Exchange Rate Movement

27. The price of oil (Crude Oil Brent) in the international market decreased by 4.0 percent to USD 104.73 per barrel in mid-July 2014 from USD 109.05 per barrel in mid-July 2013. On the other hand, the price of gold increased by 2.0 percent to USD 1310.0 per ounce in mid-July 2014 from USD 1284.75 in mid-July 2013.

28. Nepalese currency vis-à-vis the US dollar depreciated by 0.9 percent in mid-July 2014 from the level of mid-July 2013. It had depreciated by 6.7 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 95.90 in mid-July 2014 compared to Rs. 95.0 in mid-July 2013.

Fiscal Situation *

Government Revenue and Foreign Cash Grants



29. In 2013/14, revenue mobilization of the Government of Nepal (GoN) increased by 20.5 percent to Rs. 356.62 billion, which was 100.6 percent of annual budget estimate of Rs. 354.50 billion. The revenue had risen by 21.2 percent to Rs. 296.01 billion in 2012/13. Consequently, the revenue to GDP ratio remained at 18.5 percent in 2013/14 compared to that of 17.5 percent in 2012/13. An increase in imports and resulting rise in custom revenue, increase in value added tax and income tax, tax leakage control as well as overall revenue administration reforms mainly contributed to such an increase in revenue mobilization.

30. Of the total revenue mobilization, VAT revenue grew by 20.9 percent to Rs. 100.97 billion in 2013/14. Such revenue had increased by 15.7 percent to Rs. 83.51 billion in 2012/13. Value added tax leakage control, VAT administration reforms as well as increase in VAT revenue from domestic production, sale and services contributed to such an increase in VAT revenue.

31. Income tax revenue increased by 16.3 percent to Rs. 77.93 billion in 2013/14 compared to an increase of 28.1 percent to Rs. 67.02 billion in 2012/13. Positive impact of reforms in income tax administration, tax leakage control and taxpayer education contributed to such an increase in income tax revenue.

32. In 2013/14, customs revenue rose by 19.3 percent to Rs. 67.88 billion compared to an increase of 31.1 percent to Rs. 56.89 billion in 2012/13. Rise in high custom tax yielding imports of vehicles and spare parts, fuel as well as iron and steel, contributed to such growth in customs revenue.

33. During the review year, excise revenue surged by 23.8 percent to Rs. 45.40 billion compared to an increase of 20.6 percent to Rs. 36.66 billion in 2012/13. Increase in imports of higher excise tax yielding goods as well as growth in excise revenue from domestic production are mainly attributed for such a high growth of excise revenue during the review year.

34. Among the components of revenue in 2013/14, VAT revenue registered a share of 28.3 percent followed by income tax revenue (21.8 percent), customs revenue (19.0 percent), and excise revenue (12.7 percent). In the previous year, such compositions were 28.2 percent, 22.6 percent, 19.2 percent and 12.4 percent respectively.

* Based on the data reported by 8 NRB offices, 66 branches of Rastriya Banijya Bank Limited, 44 branches of Nepal Bank Limited, 9 branches of Everest Bank Limited, 4 branches of Global IME Bank Limited and 1-1 branch each of Nepal Bangladesh Bank Limited, NMB Bank Limited and Bank of Kathmandhu Limited conducting government transactions and release report from 79 DTCOs and payment centres.

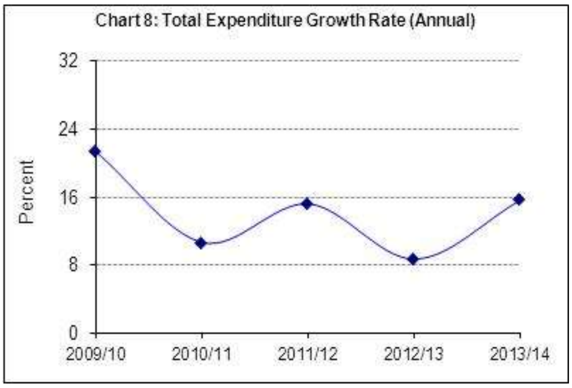
35. In the review year, non-tax revenue soared by 23.8 percent to Rs. 45.05 billion in contrast to a decrease of 3.7 percent to Rs. 36.40 billion in 2012/13. Such a high growth of non-tax revenue was on account of the increase in dividend paid by the public enterprises and increase in passport fees.

36. Of the total revenue, the share of tax revenue and non-tax revenue stood at 87.4 percent and 12.6 percent respectively in 2013/14. Such ratios were 87.7 percent and 12.3 percent respectively in the previous year. The share of direct tax and indirect tax revenue in total tax revenue remained at 31.0 percent and 69.0 percent respectively during the review year. Such ratios were 31.7 percent and 68.3 percent respectively in 2012/13.

37. In 2013/14, GoN received foreign cash grants amounting to Rs. 36.94 billion. Such grant had amounted to Rs. 24.43 billion in the previous year.

Government Expenditure

38. Government expenditure, on cash basis, increased by 15.7 percent to Rs. 415.58 billion in 2013/14 compared to an increase of 12.3 percent to Rs. 359.04 billion in 2012/13. An increase in recurrent and capital expendiutre contributed to such a growth of total expenditure during the review year.



39. During the review year, recurrent expenditure increased by 21.0 percent to Rs. 294.72 billion compared to a growth of 3.1 percent in the preceding year. Such expenditure is 83.4 percent of annual budget estimate for 2013/14. Creation of new vacancies, increase in salary and allowances of government employees, increasing trend of operational expenditure and expenditure incurred in the completion of constitutional assembly election, among others, accounted for such a growth of recurrent expenditure.

40. In the review year, capital expenditure increased by 19.0 percent to Rs. 60.95 billion compared to its growth of 12.7 percent in the previous year. It is 71.6 percent of annual budget estimate for 2013/14. Timely announcement of the annual budget, delegation of authority to make expenses and timely approval of annual programmes contributed to such a growth of capital expenditure.

41. During the review year, financial expenditure increased by 14.8 percent to Rs. 59.78 billion compared to its growth of 56.3 percent in the previous year. This was 75.9 percent of annual budget estimate of 2013/14.

Budget Deficit/Surplus

42. In the review year, government budget on cash basis remained at a deficit of Rs. 12.06 billion. Such budget was at deficit by Rs. 31.21 billion in 2012/13. The ratio of budget deficit to GDP remained at 0.6 percent in the review year. Such ratio was 1.8 percent in the previous year.

Sources of Deficit Financing

43. Domestic borrowings of Rs. 19.98 billion has been mobilized in 2013/14, which was 1.0 percent of GDP. Domestic borrowing of Rs. 19.04 billion was mobilized in the previous year.

44. The GoN has repaid principal of domestic borrowings of Rs. 25.17 billion in 2013/14. Moreover GoN has cash balance of Rs. 25.19 billion (including the previous year's balance of Rs. 184.5 million) with Nepal Rastra Bank.

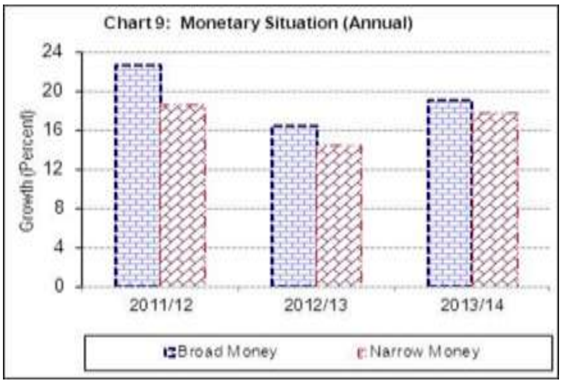
45. Outstanding domestic debt of the GoN stood at Rs. 201.82 billion in 2013/14. After adjusting the government cash balance of Rs. 25.19 billion, total outstanding domestic debt stood at Rs. 176.63 billion in mid-July 2014.

46. GoN received foreign cash loan of Rs 15.08 billion in 2013/14. Such loan stood at Rs. 9.54 billion in the previous year.

Monetary Situation

Money Supply

47. Broad money supply (M2) increased by 19.1 percent in 2013/14 compared to a growth of 16.4 percent in the previous year. A higher growth of broad money supply in the review year is due mainly to the higher growth rate of net foreign assets (NFA) of the banking sector. Similarly, narrow money supply (M1) increased by 17.7 percent during the review year compared to a growth rate of 14.4 percent in the previous year.



48. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 127.13 billion (27.2 percent) during the review year compared to a growth of Rs. 68.94 billion (18.0 percent) in the preceding year. A significant growth of remittance inflows accompanied by an increase in foreign assistance resulted in such a higher growth of NFA in the review year.

Domestic Credit

49. Domestic credit increased by 12.6 percent in the review year compared to a growth of 17.2 percent in the previous year. A slower growth of domestic credit in the review period was due to decrease in net claims on government. The claims on the private sector increased by 18.3 percent in the review year compared to 20.2 percent growth in the previous year.

Reserve Money

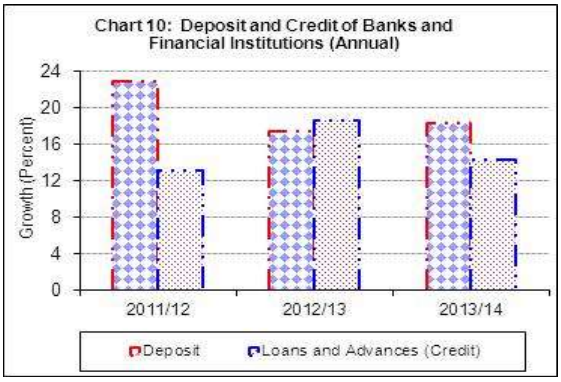
50. Reserve money surged by 23.3 percent in the review year compared to an increase of 10.9 percent in the previous year. Increase in NFA of Nepal Rastra Bank contributed to such a higher growth of reserve money in the review year.

Deposit Mobilization of Banks and Financial Institutions

51. Deposit mobilization of banks and financial institutions (BFIs) increased by 18.4 percent (Rs. 218.68 billion) in 2013/14. Such deposit mobilization had increased by 17.4 percent (Rs. 176.27 billion) in the previous year. In the review year, the deposit mobilization of commercial banks increased by 17.8 percent, whereas that of development banks by 29.1 percent and finance companies by 5.7 percent. In the previous year, the deposit mobilization of commercial banks and development banks had increased by 17.9 percent and 27.1 percent respectively whereas the deposit mobilization of finance companies had decreased by 9.6 percent.

Credit Flow of Banks and Financial Institutions

52. In 2013/14, the loan and advances of BFIs increased by 14.4 percent (Rs. 165.48 billion) compared to a growth of 18.6 percent (Rs. 180.20 billion) in the previous year. In the review year, loan and advances of commercial banks rose by 13.7 percent and that of development banks by 27.0 percent and finance companies by 4.3 percent respectively in the review year. In the review year, credit from BFIs to the private sector increased by 18.7 percent (Rs. 176.14 billion) compared to a rise of 20.8 percent (Rs. 161.92 billion) in the previous year. In the review year, credit flows to the private sector from commercial banks and development banks registered a growth of 18.7 percent and 29.3 percent respectively whereas the credit flows to the private sector from finance companies declined by 2.1 percent.



53. Of the total credit from BFIs, the credit to the industrial production sector surged by Rs. 32.10 billion in the review year compared to a growth of Rs. 34.21 billion in the previous year. Similarly, credit to the agriculture sector increased by Rs. 11.13 billion in the review year compared to an increase of Rs. 10.99 billion in the previous year. Likewise, credit to the construction sector increased by Rs. 23.49 billion, to the wholesale and retail trade sector by Rs. 45.94 billion, and to the transportation, communications and public services sector by Rs. 3.45 billion during the review year. Credit flows to these sectors had increased by Rs. 13.53 billion, Rs. 36.90 billion and Rs. 7.75 billion respectively in the previous year.

Liquidity Management

54. In 2013/14, the NRB injected net liquidity of Rs. 343.46 billion through the net purchase of USD 3.52 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 285.03 billion was injected through the purchase of USD 3.22 billion in the previous year.

55. The NRB purchased Indian currency (INR) equivalent to Rs. 307.98 billion by selling USD 3.14 billion in the review year. INR equivalent to Rs. 274.44 billion was purchased by selling USD 3.12 billion in the previous year.

56. Excess liquidity of BFIs has been mopped up through the open market operations (OMOs) in the review year. The NRB mopped up net liquidity of Rs. 602.50 billion through reverse repo auctions

and Rs. 8.50 billion through outright sale auctions in the review year. A net liquidity of Rs. 8.50 billion was mopped up through outright sale auctions in the previous year.

Inter Bank Transactions and Standing Liquidity Facility

57. During 2013/14, the inter-bank transactions of commercial banks stood at Rs. 200.76 billion and those of development banks and finance companies amounted to Rs. 171.06 billion. Those figures had stood at Rs. 725.77 billion and Rs. 184.58 billion respectively in the previous year. The standing liquidity facility (SLF) has not been utilized in the review year.

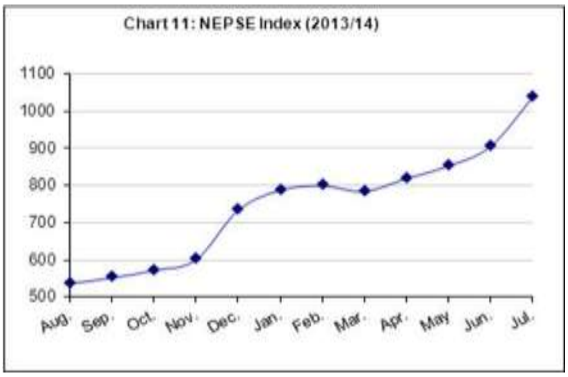
Interest Rates

58. The weighted average Treasury bill rate and inter-bank transaction rate declined in the last month of 2013/14 compared to the previous year. The weighted average 91-day Treasury bill rate stood at 0.02 percent in the last month of 2013/14 compare to 1.19 percent a year ago. Likewise, the weighted average inter-bank rate among commercial banks declined to 0.16 percent from 0.86 percent and the weighted average inter-bank rate among other financial institutions declined to 2.40 percent from 5.03 percent a year ago.

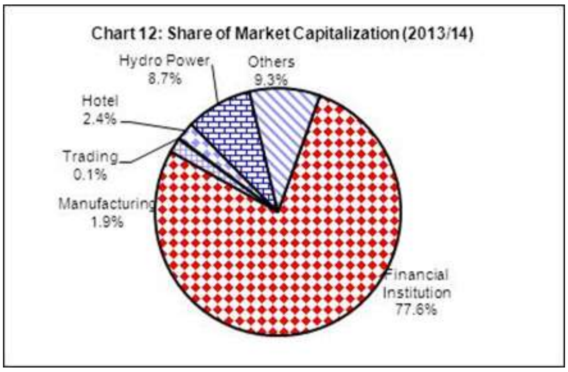
59. As per the modified method of spread rate calculation, weighted average interest rate spread of commercial banks stood at 5.15 percent (Excluding Agricultural Development Bank Limited) in mid-July 2014. Moreover, the average base rate of commercial banks remained at 8.36 percent in mid-July 2014 compared to 9.83 percent a year ago.

Securities Market

60. Remarkable improvement has been observed in securities market in 2013/14. The y-o-y NEPSE index increased by 99.9 percent to 1036.1 points in mid-July 2014. Such index had increased by 33.0 percent to 518.3 points in mid-July 2013. The NEPSE sensitive index stood at 222.5 points in mid-July 2014 compared to 130.3 in mid-July 2013. Similarly, the NEPSE float index, stood at 64.1 in mid-July 2014 by increasing at a rate of 79 percent from 35.8 as of mid-July 2013.



61. The securities market transaction also witnessed a significant improvement in 2013/14. The transaction volume increased by 47.9 percent to Rs. 77.26 billion during 2013/14 compared to Rs. 22.05 billion in the previous year.



62. The y-o-y market capitalization increased by 105.5 percent to Rs.1057.17 billion in mid-July 2014. As a result, the ratio of market capitalization to GDP stood at 54.8 percent in mid-July 2014 compared to 30.4 percent in mid-July 2013. Of the total market

capitalization, the share of bank and financial institutions (including insurance companies) stood at 77.6 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 1.9 percent, 2.4 percent, 0.1 percent, 8.7 percent and 9.3 percent respectively.

63. Total paid-up capital of the listed companies stood at Rs. 146.52 billion in mid-July 2014, registering an annual growth of 16.2 percent. Such an increase in paid-up capital was due to the listing of additional securities at the NEPSE. In 2013/14, additional securities which included Rs. 7.58 billion ordinary shares, Rs. 7.10 billion bonus share, and Rs. 6.03 billion right shares were listed at the NEPSE. In addition, commercial banks' bond of Rs. 2.30 billion was also listed at the NEPSE.

64. Total number of companies listed at the NEPSE increased from 230 in mid-July 2013 to 237 in mid-July 2014. Of the total listed companies as of mid-July 2014, the number of banks and financial institutions (including insurance companies) stood at 204 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (5) and other companies (2).

Presence of Banks and Financial Institutions

65. Total number of banks and financial institutions licensed by the NRB dropped to 204 in mid-July 2014 from 207 as of mid-July 2013. Such a reduction in numbers of banks and financial institution was a result of merging up 64 BFIs with each other to form 25 BFIs after the issuance of "Bank and Financial Institutions Merger By-law, 2011". The total number of commercial banks reached 30 while the number of development banks, finance companies and microfinance development banks stood at 84, 53 and 37 respectively as of mid-July 2014.

66. As of mid-July 2014, the branches of commercial banks reached 1547, development banks 818, finance companies 239 and micro finance institutions 826. Such numbers were 1486, 764, 242 and 646 respectively as of mid-July 2013. As a result, in mid-July 2014, each branch has a population coverage of approximately 7,724 people.

Table: 4

The Number of Banks and Financial Institutions

Bank and Financial Institutions	**2013 (Mid-July)**		**2014 (Mid-July)**	
	Number of BFIs	**Branches of BFIs**	**Number of BFIs**	**Branches of BFIs**
Commercial Banks	31	1486	30	1547
Development Banks	86	764	84	818
Finance Companies	59	242	53	239
Microfinance Development Banks	31	646	37	826
Total	**207**	**3138**	**204**	**3430**