Nepal Rastra Bank

Central Office

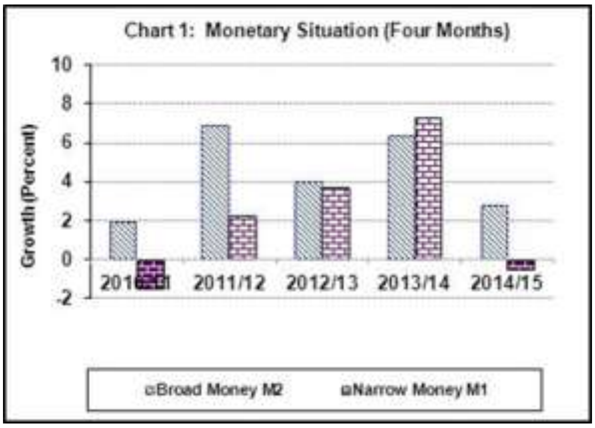
Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 2.8 percent in the four months of 2014/15 compared to an increase of 6.4 percent in the corresponding period of the previous year. In contrast, narrow money supply (M1) decreased by 0.5 percent in the review period as against an increase of 7.3 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 expanded by 15.0 percent and M1 expanded by 9.0 percent in mid-November 2014.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 6.18 billion (1.0 percent) during the review period compared to an increase of Rs. 64.44 billion (13.8 percent) in the corresponding period of the previous year. A slower growth of remittance inflow accompanied by a higher growth of imports resulted in a deceleration in net foreign assets in the review period.

Domestic Credit

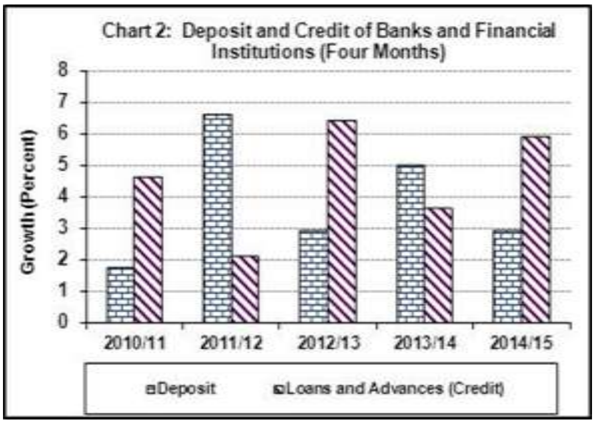
3. In the review period, domestic credit increased by 2.2 percent as compared to an increase of 0.1 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 14.9 percent in mid-November 2014. A significant growth in the claims on the private sector resulted in a higher growth of domestic credit in the review period compared to the previous year. Likewise, the claims on the private sector increased by 6.4 percent in the review period compared to an increase of 5.1 percent in the corresponding period of the previous year. On y-o-y basis, credit flows to the private sector increased by 19.7 percent in mid-November 2014.

Reserve Money

4. Reserve money decreased by 11.3 percent in the review period in contrast to an increase of 14.0 percent in the corresponding period of the previous year. The decline in reserve money is attributed for decelerated growth of net foreign assets of NRB in the review period. On y-o-y basis, reserve money decreased by 4.1 percent in mid-November 2014.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit of banks and financial institutions (BFIs) increased by 2.9 percent (Rs. 40.11 billion) in the review period. Such a deposit had increased by 5.0 percent (Rs. 58.87 billion) in the corresponding period of the previous year. On y-o-y basis, deposit of BFIs expanded by 16.0 percent in mid-November 2014. In the review period, deposit of commercial banks and finance companies increased by 4.1 percent and 1.5 percent respectively while that of development banks decreased by 4.7 percent. Merger of some development banks with commercial banks resulted in the decline of deposit of development banks in the review period. The deposit of commercial banks, development banks and finance companies had increased by 4.5 percent, 9.5 percent and 6.9 percent respectively in the same period of the previous year.



Credit Flow of Banks and Financial Institutions

6. In the four months of the 2014/15, loans and advances of BFIs increased by 5.9 percent (Rs. 77.77 billion) compared to an increment of 3.6 percent (Rs. 41.08 billion) in the corresponding period of the previous year. In the review period, loans and advances of commercial banks and finance companies increased by 7.9 percent and 3.1 percent respectively while that of development banks decreased by 2.8 percent. As mentioned above, merger of some development banks with commercial banks lowered the flows of loans and advances from development banks. Similarly, the credit to the private sector from BFIs increased by 6.0 percent (Rs. 66.52 billion) in the review period compared to an increase of 4.7 percent (Rs. 44.40 billion) in the same period of the previous year. On y-o-y basis, the credit to the private sector from BFIs increased by 20.1 percent in mid-November 2014. In the review period, credit to the private sector from commercial banks increased by 8.5 percent while that of development banks and finance companies decreased by 4.8 percent 1.2 percent respectively.

7. Of the total credit from BFIs, the credit to the industrial production sector increased by Rs. 18.95 billion in the review period compared to an increase of Rs. 10.45 billion in the same period of the previous year. Likewise, credit to the wholesale and retail trade sector increased by Rs. 19.78 billion; followed by the construction sector (Rs. 8.99 billion) and the transportation, communication and public service sector (Rs.3.25 billion). The credit to the wholesale and retail trade sector, construction sector and transportation, communication and

public service sector had increased by Rs. 12.96 billion, Rs. 5.20 billion and Rs. 0.89 billion respectively in the same period of the previous year. In the review period, credit to the agriculture sector increased by Rs. 2.84 billion compared to an increase of Rs. 1.51 billion in the corresponding period of the previous year.

Liquidity Management

8. In the review period, the NRB injected net liquidity of Rs. 100.98 billion through the net purchase of USD 1.10 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 123.52 billion was injected through the net purchase of USD 1.23 billion in the corresponding period of the previous year.

9. The NRB purchased Indian currency (INR) equivalent to Rs. 115.13 billion through the sale of USD 1.18 billion in the review period. INR equivalent to Rs. 105.34 billion was purchased through the sale of USD 1.06 billion in the corresponding period of the previous year.

10. In the four months of the 2014/15, the NRB mopped up liquidity amounting Rs. 40.0 billion through deposit auction and Rs. 198.0 billion through reverse repo auction on cumulative basis. In the corresponding period of the previous year, Rs. 35.0 billion was mopped up through reverse repo auction. As mentioned in the monetary policy statement for 2014/15, deposit auction has been used as a new instrument for mopping up liquidity since the second month of 2014/15.

Inter-bank Transaction and Standing Liquidity Facility

11. In the review period, inter-bank transactions of commercial banks stood at Rs. 126.74 billion and those of other financial institutions (except among commercial banks) amounted to Rs. 61.33 billion. Those figures stood at Rs. 57.48 billion and Rs. 43.95 billion respectively in the corresponding period of the previous year. The BFIs did not use standing liquidity facility (SLF) in the review period.

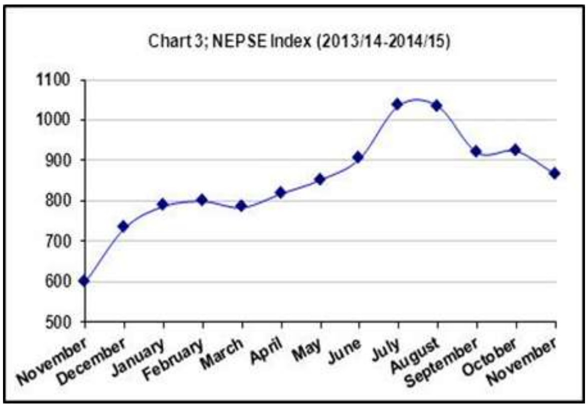
Interest Rates

12. The weighted average Treasury bill rate and the inter-bank transaction rates have marginally increased in the four months of 2014/15 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate increased to 0.5235 percent in the review month from 0.03 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.42 percent in the review month up from 0.22 percent a year ago. However, the weighted average inter-bank rate among other financial institutions declined slightly to 2.41 percent in the review month from 2.65 percent a year ago.

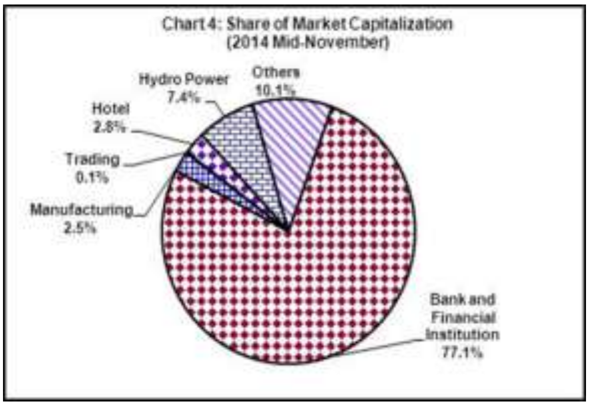
13. As per the modified method of spread rate calculation, weighted average interest rate spread of commercial banks stood at 4.49 percent in the review month compared to 4.83 percent in the previous month. Moreover, the average base rate of commercial banks remained at 7.46 percent in the review month compared to 9.03 percent a year ago.

Securities Market

14. NEPSE index, on y-o-y basis, increased by 44.3 percent to 866.2 points in mid-November 2014. The index had increased by 24.8 percent and stood at 600.3 points in mid-November 2013.



15. The y-o-y stock market capitalization increased by 45.9 percent to Rs. 888.70 billion in mid-November 2014. The ratio of market capitalization to GDP stood at 46.1 percent in mid-November 2014 compared to 36.0 percent a year ago.



16. Of the total market capitalization as of mid-November 2014, the share of banks and financial institutions (including insurance companies) stood at 77.1 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, 7.4 percent and 10.1 percent respectively.

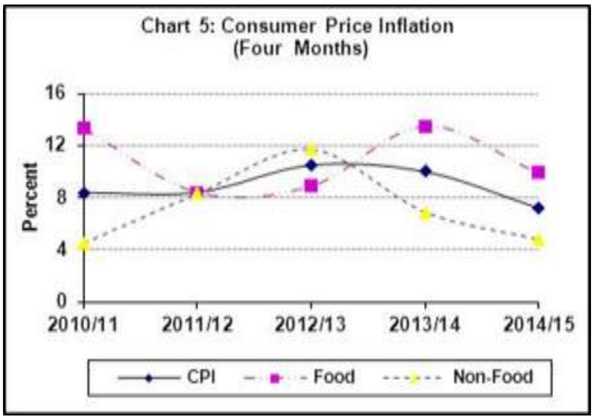
17. Total number of companies listed at the NEPSE increased from 234 in mid-November 2013 to 235 in mid-November 2014. Of the total listed companies the number of banks and financial institutions (including insurance companies) stood at 201 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (6) and other companies (2).

18. Total paid-up capital of the listed companies stood at Rs. 152.55 billion in mid-November 2014, registering an increase of 14.7 percent over mid-November 2013. Additional securities worth Rs. 4.19 billion comprising ordinary share of Rs. 1.44 billion, right share of Rs. 0.67 billion and bonus share of Rs. 2.08 billion were listed at the NEPSE during the four 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 7.2 percent in mid-November 2014 as compared to 10.0 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 9.9 percent and 4.8 percent respectively during the review period. Such indices had increased by 13.5 percent and 6.9 percent respectively in the corresponding period of previous year.



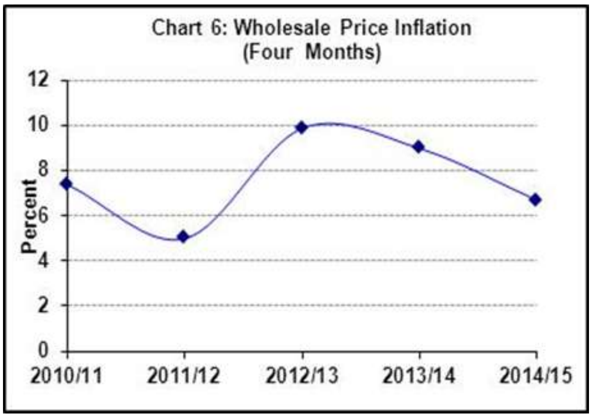
20. Under the items of the food and beverage group, price index of tobacco products sub-group increased by the highest rate of 23.5 percent during the review period compared to an increase of 9.9 percent in the corresponding period of the previous year. The price indices of hard drinks sub-group and fruits sub-group which had increased by 9.6 percent and 15.3 percent in the corresponding period of previous year went up by 19.4 percent and 13.4 percent respectively during the review period. The price index of cereals, grains and their products sub-group increased by 12.7 percent in the review period which has increased by 12.6 percent in the corrosponding period of pervious year. The price index of legume varieties sub-group increased by 11.7 percent in the review period compared to the increase of 3.5 percent in the corrosponding period of pervious year. The price index of ghee and oil sub-group, which had increased by 1.2 percent in the corresponding period of the previous year, decreased by 0.1 percent in the review period.

21. 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 6.4 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 8.3 percent and 7.8 percent respectively in the corresponding period of the previous year.

22. Region-wise, the price indices in Terai and Hilly region increased by the same rate of 7.2 percent during the review period whereas the index of Kathmandu Valley increased by 7.1 percent. The respective increments in the last year were 10.6 percent (Terai), 8.4 percent (Hill) and 10.4 percent (Kathmandu Valley).

Wholesale Price Inflation

23. The y-o-y wholesale price index increased by 6.7 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 8.7 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

24. The y-o-y salary and wage rate index increased by 9.4 percent during the review period compared to an increase of 10.7 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 9.9 percent compared to an increase of 7.2 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, 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

26. During the four months of 2014/15, government budget on cash basis remained at a surplus of Rs. 44.82 billion. Such budget surplus was Rs. 37.14 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.

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* 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 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.

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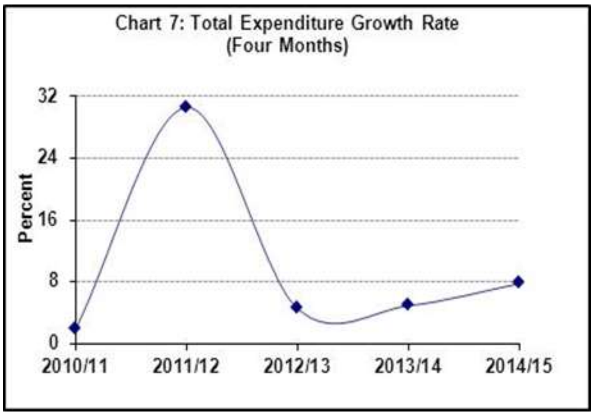
Government Expenditure

27. During the review period, total government expenditures on cash basis increased by 7.8 percent to Rs. 79.56 billion. Such expenditures had increased by 4.9 percent to Rs. 73.82 billion in the corresponding period of the previous year. Increment in both recurrent and capital expenditure was responsible for such an increment in total expenditure in the review period.

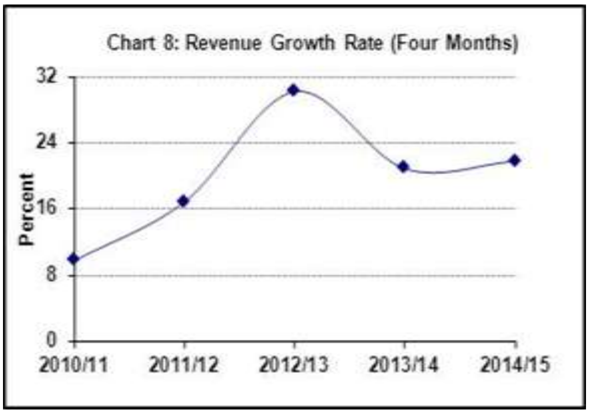


28. During the review period, recurrent expenditures increased by 7.0 percent to Rs. 72.54 billion. Such expenditures had increased by 32.0 percent in the corresponding period of the previous year.

29. During the review period, capital expenditures increased by 19.0 percent to Rs. 4.66 billion. In the corresponding period of the previous year, such expenditures had increased by 10.9 percent. Expenditure incurred in developmental activities for 18th SAARC summit, among others contributed for such a growth in capital expenditures.

Government Revenue

30. During the review period, revenue of the Government of Nepal (GoN) grew by 21.8 percent to Rs. 114.89 billion. Such revenue had risen by 20.9 percent to Rs. 94.32 billion in the corresponding period of the previous year. Increase in the growth rate of custom revenue and income tax contributed to such an increment in the revenue growth rate during the review period.



31. Of the total revenue, VAT revenue grew by 18.2 percent to Rs. 37.10 billion during the review period. It had increased by 19.7 percent in the corresponding period of the previous year.

32. During the review period, custom revenue rose by 21.6 percent to Rs. 24.35 billion compared to an increase of 12.3 percent in the corresponding period of the previous year. Increase in the imports contributed to such a growth of custom revenue during the review period.

33. During the review period, excise revenue increased by 20.2 percent to Rs. 16.89 billion compared to an increase of 20.4 percent in the corresponding period of the previous year.

34. Income tax revenue increased by 28.1 percent to Rs. 16.27 billion during the review period. Such revenue had risen by 12.2 percent in the corresponding period of the previous year. Positive impact of reform in income tax administration and an increasing consciousness of taxpayers through the expansion on taxpayer education accounted for such an increase in the income tax revenue during the review period.

35. During the review period, non-tax revenue increased by 6.1 percent to Rs. 11.87 billion compared to an increase of 47.3 percent in the corresponding period of the previous year. Low growth rate of rent and royalty and decrease in sales of goods and services, interest and dividend accounted for such a low growth rate in non- tax revenue during the review period.

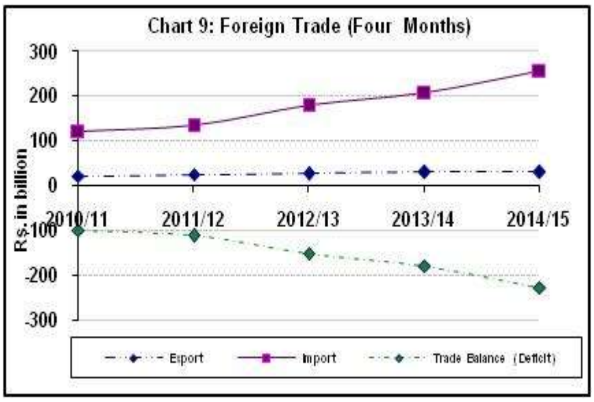
Foreign Cash Loans and Grants

36. In the four months of 2014/15, foreign cash loans of Rs. 2.06 billion and foreign cash grants of Rs. 3.85 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 8.91 billion and foreign cash grants of Rs. 13.26 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

37. Merchandise exports decreased marginally by 0.2 percent to Rs. 29.55 billion in the four months of 2014/15. Such exports had increased by 11.9 percent to Rs. 29.60 billion during the same period of the previous year. On a monthly basis, merchandise exports decreased by 13.5 percent in October/November of the current fiscal year compared to that of the previous month.



38. Exports to India decreased by 4.9 percent during the review period in contrast to an increase by 18.0 percent in the corresponding period of the previous year. Exports to India decreased mainly due to the decrease in the export of cardamom, zinc sheet, jute goods and copper wire rod, among others. Likewise, exports to China increased by 81.9 percent in the review period of the current fiscal year in contrast to a decline by 27.1 percent in the same period of the previous year. The increase in export to China is mainly attributed to the increase in the export of tanned skin, woolen carpet, handicrafts, and readymade garments, among others. On the other hand, exports to other countries increased by 3.5 percent in the review period compared to 5.1 percent in the same period of the previous year. Exports to other countries increased due to the increase in the export of pulses, readymade garments, tea, Nepalese paper and paper products, among others. In USD terms, exports to other countries increased by 5.5 percent to USD 106.0 million in contrast to a decline by 7.7 percent during the corresponding period of the previous year.

39. During the review period, merchandise imports increased by 23.5 percent to Rs. 256.91 billion. Such imports had gone up by 16.4 percent to Rs. 208.09 billion in the same period of the previous year. On monthly basis, merchandise imports decreased by 1.9 percent in October/November of the current fiscal year compared to that of the previous month.

40. Imports from India went up by 20.6 percent during the review period compared to a growth of 20.2 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, petroleum products, rice, vehicles and spare parts, among others. Likewise, imports from China increased by 49.5 percent in the review period in contrast to a decrease of 7.9 percent in the same period of the previous year. Import from China increased due to the increase in the imports of telecommunication equipments and parts, chemical fertilizer, other machinery and parts, video television and parts, among others. Similarly, imports from other countries increased by 20.0 percent in the review period compared to a growth of 19.7 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, telecommunication equipment and parts, aircraft spare parts, among others. In US dollar terms, imports from other countries increased by 22.1 percent to USD 611.6 million compared to an increase of 5.1 percent during the same period of the previous year.

41. Total trade deficit during the four months of 2014/15 grew by 27.4 percent to Rs. 227.36 billion compared to an increase of 17.1 percent during the same period of the previous year. Trade deficit with India and China increased by 24.7 percent and 48.5 percent respectively during the review period. Such deficit had increased by 20.5 percent in case of India and decreased by 7.2 percent in case of China in the same period of the previous year. Trade deficit with other countries grew by 24.2 percent in the review period compared to an increase of 24.1 percent during the same period of the previous year.

42. Export to import ratio declined to 11.5 percent in the review period on account of a high growth and base of imports. Such ratio remained at 14.2 percent during the same period of the previous year.

Balance of Payments Situation

43. The overall BOP recorded a surplus of Rs. 6.18 billion during the four months of 2014/15 compared to a surplus of Rs. 64.44 billion during the same period of the previous year. The current account registered a deficit of Rs. 5.86 billion during the review period in contrast to a surplus of Rs. 48.14 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, as well as the decrease in grants and marginal growth of workers remittances in the review period. In USD terms, the BOP recorded a surplus of USD 61.8 million whereas the current account deficit was recorded at USD 60.9 million in the review period. During the same period of the previous year, BOP and current account had recorded surpluses amounting to USD 648.3 million and USD 484.0 million respectively.

44. The FOB-based merchandise trade deficit increased by 27.6 percent to Rs. 218.20 billion during the four months of 2014/15. Such deficit had grown by 17.3 percent in the same period of the previous year. The net services remained at a surplus of Rs. 2.81 billion in the review period compared to a surplus of Rs. 2.95 billion in the same period of the previous year. Net transfers declined by 3.0 percent to Rs. 201.90 billion in the review period compared to a growth of 44.6 percent in the same period of the previous year. Under transfers, workers'

remittances increased marginally by 0.8 percent to Rs. 180.34 billion compared to an increase by 40.5 percent in the same period of the previous year. In USD terms, workers' remittances increased by 2.7 percent to USD 1.85 billion in the review period compared to an increase by 23.1 percent in same period of the previous year. On a monthly basis, remittances inflows decreased by 7.2 percent in October/November of the current fiscal year compared to that of the previous month. Similarly, under the financial account, foreign direct investment of Rs. 934.8 million was recorded in the review period.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 2.4 percent to Rs. 681.31 billion in mid-November 2014 from a level of Rs. 665.41 billion as at mid-July 2014. Such reserves had increased by 16.9 percent to Rs. 623.50 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 1.1 percent to Rs. 578.58 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 0.3 percent to USD 6.92 billion in mid-November 2014. Such reserves had increased by 10.3 percent in the same period of the previous year. Likewise, during the four months of 2014/15, the reserves in terms of inconvertible foreign exchange increased by 6.7 percent to IRs 101.32 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 four 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

46. The price of oil (Crude Oil Brent) in the international market decreased by 28.4 percent to USD 77.51 per barrel in mid-November 2014 from USD 108.25 per barrel in mid-November 2013. 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 by 9.2 percent to USD 1169.0 per ounce in mid- November 2014 from USD 1287.25 per ounce in mid-November 2013.

47. Nepalese currency vis-à-vis the US dollar depreciated by 2.6 percent in mid-November 2014 from the level of mid-July 2014. It had depreciated by 5.7 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 98.46 in mid-November 2014 compared to Rs. 95.90 in mid-July 2014.