



Nepal Rastra Bank

Central Office

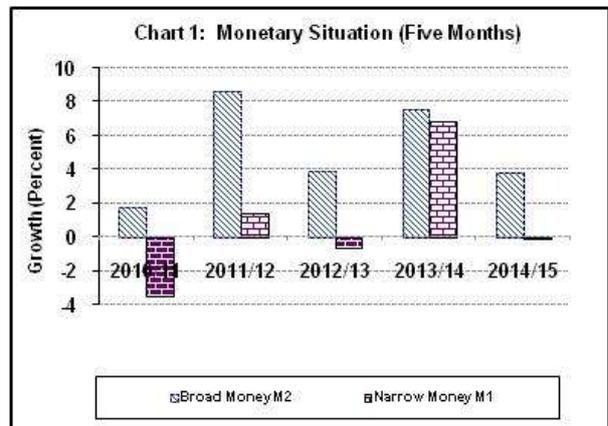
Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 3.8 percent in the five months of 2014/15 compared to an increase of 7.6 percent in the corresponding period of the previous year. In contrast, narrow money supply (M1) decreased by 0.1 percent in the review period as against an increase of 6.8 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 expanded by 14.8 percent and M1 expanded by 10.0 percent in mid-December 2014.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 23.35 billion (3.9 percent) during the review period compared to an increase of Rs. 68.02 billion (14.5 percent) in the corresponding period of the previous year. A decelerated growth of remittance inflows accompanied by a higher growth of imports resulted in a slower growth of net foreign assets in the review period.

Domestic Credit

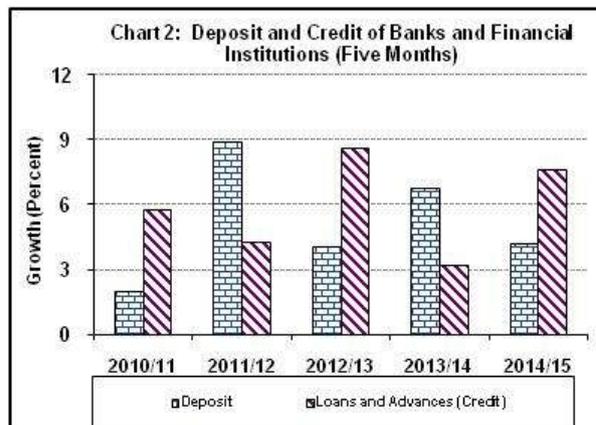
3. In the review period, domestic credit increased by 3.5 percent in contrast to a decrease of 0.7 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 17.4 percent in mid-December 2014. A significant growth in the claims on the private sector resulted in a higher growth of domestic credit in the review period. Likewise, the claims on the private sector increased by 8.7 percent in the review period compared to an increase of 4.4 percent in the corresponding period of the previous year. On y-o-y basis, the claims on the private sector increased by 23.1 percent in mid-December 2014.

Reserve Money

4. Reserve money decreased by 7.8 percent in the review period in contrast to an increase of 7.8 percent in the corresponding period of the previous year. The decline in reserve money is attributed for decelerated growth of net foreign assets of the NRB in the review period. On y-o-y basis, reserve money increased by 5.4 percent in mid-December 2014.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit of banks and financial institutions (BFIs) increased by 4.2 percent (Rs. 59.36 billion) in the review period. Such a deposit had increased by 6.8 percent (Rs. 80.26 billion) in the corresponding period of the previous year. On y-o-y basis, deposit of BFIs expanded by 15.6 percent in mid-December 2014. In the review period, deposit of commercial banks and finance companies increased by 5.5 percent and 1.8 percent respectively while that of development banks decreased by 4.0 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 6.3 percent, 10.5 percent and 6.7 percent respectively in the same period of the previous year.



Credit Flow of Banks and Financial Institutions

6. In the five months of the 2014/15, loans and advances of BFIs increased by 7.7 percent (Rs. 100.63 billion) compared to a growth of 3.3 percent (Rs. 37.42 billion) in the corresponding period of the previous year. In the review period, loans and advances of commercial banks and finance companies increased by 9.5 percent and 3.1 percent respectively while that of development banks decreased by 1.7 percent. As mentioned above, merger of some development banks with commercial banks lowered the flows of loans and advances from development banks. Likewise, the credit to the private sector from BFIs increased by 8.0 percent (Rs. 89.04 billion) in the review period compared to an increase of 3.6 percent (Rs. 33.43 billion) in the same period of the previous year. On y-o-y basis, the credit to private sector from BFIs increased by 23.8 percent in mid-December 2014. In the review period, credit to the private sector from commercial banks increased by 10.3 percent and while that of development banks and finance companies decreased by 1.4 percent and 0.3 percent respectively.
7. Of the total credit from BFIs, the credit to the industrial production sector increased by Rs. 21.64 billion (9.7 percent) in the review period compared to an increase of Rs. 14.16 billion in the same period of the previous year. Likewise, credit to the wholesale and retail trade sector increased by Rs. 23.30 billion (9.5 percent); to the construction sector increased by Rs. 13.37 billion and to the transportation, communication and public service sector increased by Rs. 4.37 billion during the review period. The credit to the wholesale and retail trade sector, construction sector and transportation, communication and public service sector

had increased by Rs. 18.45 billion, Rs. 7.62 billion and Rs. 1.82 billion respectively in the same period of the previous year. In the review period, credit to the agriculture sector increased by Rs. 4.66 billion (9.2 percent) compared to an increase of Rs. 2.29 billion (5.8 percent) in the corresponding period of the previous year.

Liquidity Management

8. In the five months of the 2014/15, the NRB mopped up liquidity of Rs. 55.00 billion through deposit auctions and Rs. 220.50 billion through reverse repo auction on cumulative basis. In the corresponding period of the previous year, Rs. 64.50 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. 131.62 billion through the net purchase of USD 1.41 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 139.01 billion was injected through the net purchase of USD 1.39 billion in the corresponding period of the previous year.
10. The NRB purchased Indian currency (INR) equivalent to Rs. 148.82 billion through the sale of USD 1.52 billion in the review period. INR equivalent to Rs. 125.18 billion was purchased through the sale of USD 1.26 billion in the corresponding period of the previous year.

Inter-bank Transaction and Standing Liquidity Facility

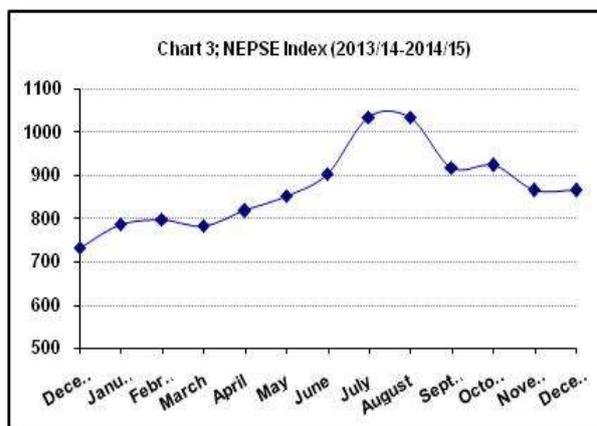
11. In the review period, inter-bank transactions of commercial banks stood at Rs. 140.68 billion and those of other financial institutions (except among commercial banks) amounted to Rs. 81.81 billion. Those figures stood at Rs. 69.98 billion and Rs. 53.64 billion respectively in the corresponding period 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 has marginally increased while that of inter-bank transaction rates has marginally decreased in the fifth month of 2014/15 compared to a year ago. The weighted average 91-day Treasury bill rate increased to 0.128 percent in the review month from 0.08 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.15 percent in the review month up from 0.20 percent a year ago. However, the weighted average inter-bank rate among other financial institutions declined slightly to 2.48 percent in the review month from 2.73 percent a year ago.
13. Weighted average interest rate spread of commercial banks stood at 4.48 percent in the review month compared to 4.49 percent in the previous month. Moreover, the average base rate of commercial banks remained at 7.44 percent in the review month compared to 8.86 percent a year ago.

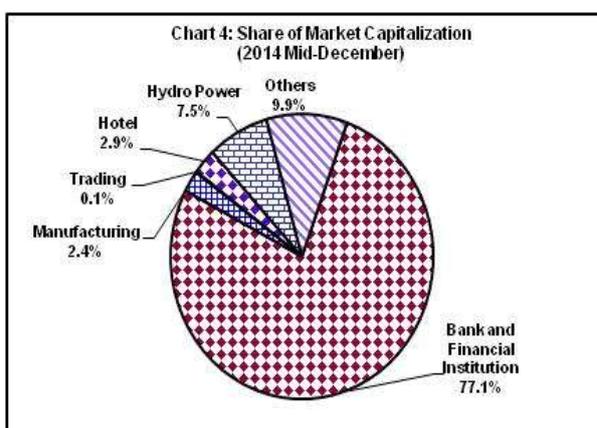
Securities Market

14. NEPSE index, on y-o-y basis, increased by 25.1 percent to 916.7 points in mid-December 2014. The index had increased by 52.4 percent in the corresponding period of the previous year and stood at 733.0 points in mid-December 2013.



15. The y-o-y stock market capitalization increased by 26.3 percent to Rs. 940.09 billion in mid-December 2014. The ratio of market capitalization to GDP stood at 48.7 percent in mid-December 2014 compared to 44.0 percent a year ago.

16. Of the total market capitalization as of mid-December 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 2.4 percent, 2.9 percent, 0.1 percent, 7.5 percent and 9.9 percent respectively.



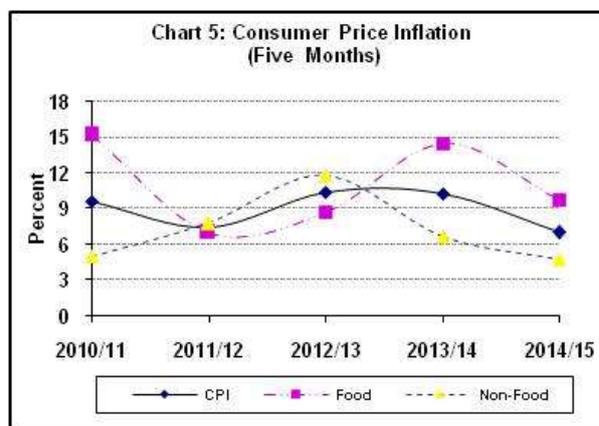
17. Total number of companies listed at the NEPSE decreased from 235 in mid-December 2013 to 231 in mid-December 2014. Of the total listed companies the number of banks and financial institutions (including insurance companies) stood at 197 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (6) and other companies (2).

18. Total paid-up capital of the listed companies stood at Rs. 154.48 billion in mid-December 2014, registering an increase of 14.7 percent over mid-December 2013. Additional securities worth Rs. 12.10 billion comprising ordinary share of Rs. 9.01 billion, right share of Rs. 0.77 billion and bonus share of Rs. 2.32 billion have been listed at the NEPSE during the five 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 7.0 percent in mid-December 2014 that of compared to 10.3 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 9.8 percent and 4.8 percent respectively during the review period. Such indices had increased by 14.5 percent and 6.7 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 legume varieties sub-group which had increased by 9.6 percent and 5.4 percent in the corresponding period of previous year went up by 19.4 percent and 13.7 percent respectively during the review period. The price indices of both fruits sub-group and cereals grains and their products sub-group increased by 13.3 percent respectively in the review period which had increased by 16.8 percent and 12.9 percent respectively in the corresponding period of previous year. The price index of ghee and oil sub-group, which had increased by 1.5 percent in the corresponding period of the previous year, decreased by 0.4 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 6.7 percent respectively during the review period which had increased by 5.7 percent and 8.4 percent respectively in the corresponding period of the previous year. The price indices of miscellaneous goods and services sub-group and recreation and culture sub-group increased by 6.3 percent and 5.7 percent respectively during the review period. Such indices had increased by 8.2 percent and 6.0 percent respectively in the corresponding period of the previous year.
22. Region-wise, the price index of Terai region increased by 7.2 percent whereas the indices in Kathmandu Valley and Hilly region increased by the same rate of 6.9 percent during the review period. The respective increments in the same period of the last year were 10.9 percent (Terai), 10.7 percent (Kathmandu Valley) and 8.7 percent (Hill).

Wholesale Price Inflation

23. The y-o-y wholesale price index increased by 6.6 percent during the review period compared to a rise of 9.3 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 8.2 percent, 6.7 percent and 3.3 percent respectively. The increments in agricultural commodities, domestic manufactured commodities and imported commodities were 14.1 percent, 4.2 percent and 3.5 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 10.4 percent during the review period compared to an increase of 11.7 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 11.1 percent compared to an increase of 8.5 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 industrial labourer, construction labourer and agricultural labourer witnessed the growth of 13.9 percent, 13.4 percent and 9.5 percent respectively in the review period.

Fiscal Situation *

Budget Deficit / Surplus

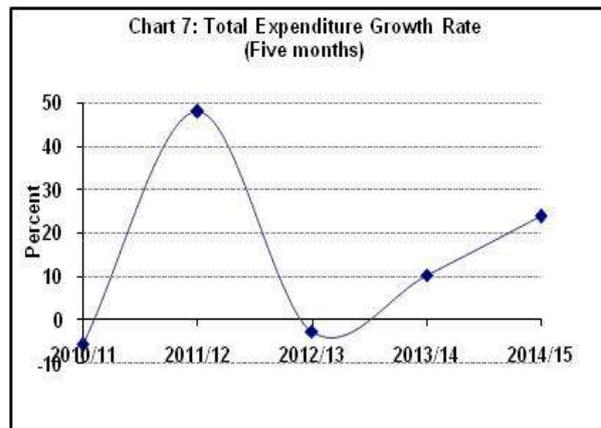
26. During the five months of 2014/15, government budget on cash basis remained at a surplus of Rs. 46.63 billion. Such budget surplus was Rs. 38.41 billion in the corresponding period of the previous year. A high level of resource mobilization relative to government expenditure accounted for such a 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 Kathmandu Limited conducting government transactions and release report from 79 DTCOs and payment centres.

Government Expenditure

27. During the review period, total government expenditure on cash basis increased by 23.9 percent to Rs. 117.21 billion. Such expenditure had increased by 10.3 percent to Rs. 94.64 billion in the corresponding period of the previous year. Increment in all recurrent, capital and financial expenditure was responsible for such an increment in total expenditure in the review period.

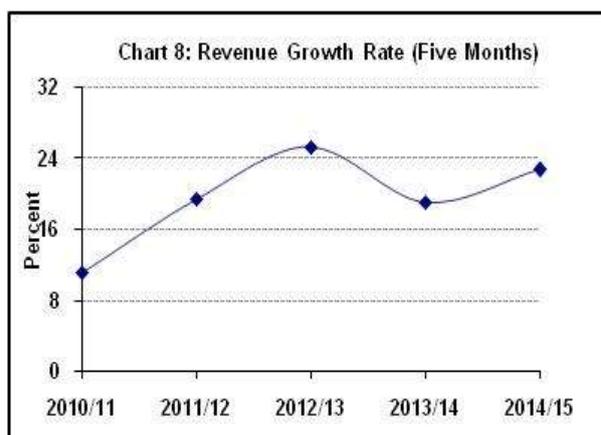


28. During the review period, recurrent expenditure increased by 14.8 percent to Rs. 95.28 billion. Such expenditure had increased by 34.6 percent in the corresponding period of the previous year.

29. During the review period, capital expenditure increased by 49.9 percent to Rs. 8.8 billion. In the corresponding period of the previous year, such expenditure had increased by 10.3 percent. Expenditure incurred in development activities for eighteen SAARC summit, among others contributed to such a growth in capital expenditure.

Government Revenue

30. During the review period, revenue of the Government of Nepal (GoN) grew by 22.7 percent to Rs. 142.11 billion. Such revenue had risen by 19.0 percent to Rs. 115.84 billion in the corresponding period of the previous year. Increase in the growth rate of custom revenue and income tax revenue 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. 46.51 billion during the review period. It had increased by 18.8 percent in the corresponding period of the previous year.

32. During the review period, custom revenue rose by 24.5 percent to Rs. 30.37 billion compared to an increase of 6.7 percent in the corresponding period of the previous year. Increase in the imports of high custom tax yielding goods contributed to such a growth of custom revenue during the review period.

33. During the review period, excise revenue increased by 19.9 percent to Rs. 21.21 billion compared to an increase of 20.3 percent in the corresponding period of the previous year.

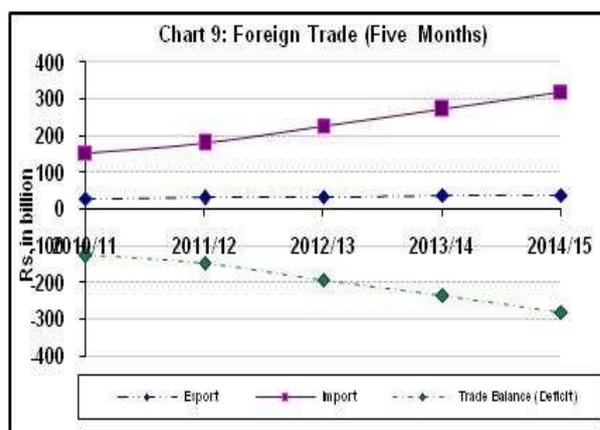
34. Income tax revenue increased by 23.1 percent to Rs. 19.29 billion during the review period. Such revenue had risen by 14.3 percent in the corresponding period of the previous year. Positive impact of reform in income tax administration and an increasing consciousness of taxpayers through the expansion of taxpayer education contributed to 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. 13.69 billion compared to an increase of 47.6 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 of non- tax revenue during the review period.

Foreign Cash Loans and Grants

36. In the five months of 2014/15, foreign cash loans of Rs. 4.80 billion and foreign cash grants of Rs. 11.96 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 10 billion and foreign cash grants of Rs. 14.92 billion in the corresponding period of the previous year.

External Sector Situation

37. Merchandise exports decreased by 1.2 percent to Rs. 36.91 billion in the five months of 2014/15. Such exports had increased by 13.7 percent to Rs. 37.37 billion during the same period of the previous year. On a monthly basis, merchandise exports increased by 5.1 percent in mid-November to mid-December of the current fiscal year compared to that of the previous month.



38. Exports to India decreased by 5.8 percent during the review period of 2014/15 in contrast to an increase by 17.4 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, juice, jute goods, among others. However, exports to China increased by 38.5 percent in the review period in contrast to a decline by 8.6 percent in the same period of the previous year. The increase in exports to China is mainly due to the increase in the exports of tanned skin, woolen carpet, handicrafts, and readymade garments, among others. On the other hand, exports to other countries increased by 4.6 percent in the review period compared to a growth of 8.9 percent in the same period of the previous year. Exports to other countries increased due to the increase in the exports of readymade garments, pashmina, and tea, among others. In US dollar terms, exports to other countries increased by 6.4 percent to USD 129.7 million in contrast to a decline of 4.4 percent during the corresponding period of the previous year.
39. During the review period, merchandise imports increased by 17.8 percent to Rs. 318.52 billion. Such imports had gone up by 19.9 percent to Rs. 270.35 billion in the same period of the previous year. The growth rate of imports slightly decreased mainly due to the decrease in

the price of petroleum products in the international market and resulting decline in the growth rate of imports of petroleum products during the review period. On a monthly basis, merchandise imports decreased by 4.7 percent in mid-November to mid-December of the current fiscal year compared to that of the previous month.

40. Imports from India went up by 14.6 percent during the review period compared to a growth of 23.2 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, transport equipment and parts, rice, medicine, among others. Likewise, imports from China increased by 39.3 percent in the review period compared to a growth of 5.7 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, video television and parts, among others. Similarly, imports from other countries increased by 16.3 percent in the review period compared to a growth of 18.9 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, telecommunication equipment and parts, crude palm oil, other machinery and parts, among others. In US dollar terms, imports from other countries increased by 18.1 percent to USD 730.9 million compared to an increase of 4.4 percent during the same period of the previous year.
41. Total trade deficit during the five months of 2014/15 grew by 20.9 percent to Rs. 281.61 billion compared to an increase of 21.0 percent during the same period of the previous year. Trade deficit with India, China and other countries increased by 17.8 percent, 39.3 percent and 19.2 percent respectively during the review period. Such deficits had increased by 24.2 percent, 6.3 percent and 21.7 percent respectively in the same period of the previous year.
42. Exports-imports ratio declined to 11.6 percent in the review period as a result of a high growth of imports. Such a ratio remained at 13.8 percent during the same period of the previous year.

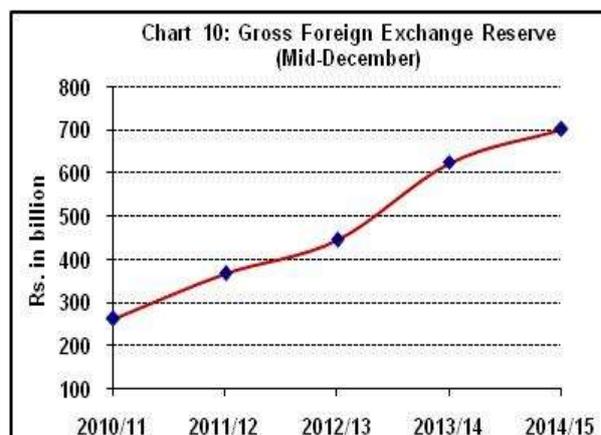
Balance of Payments Situation

43. The overall BOP recorded a surplus of Rs. 23.35 billion during the five months of 2014/15 compared to a surplus of Rs. 68.02 billion during the same period of the previous year. The current account registered a surplus of Rs. 3.61 billion during the review period which was remained in deficit in the previous months of the current fiscal year. Such account was surplus of Rs. 50.35 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 235.1 million whereas the current account surplus was recorded at USD 34.7 million in the review period. During the same period of the previous year, BOP and current account had recorded surpluses amounting to USD 684.3 million and USD 506.1 million respectively.
44. The FOB-based merchandise trade deficits increased by 21.1 percent to Rs. 270.15 billion during the five months of 2014/15. Such deficits had grown by 21.3 percent in the same period of the previous year. The net services remained at a surplus of Rs. 5.31 billion in the review period compared to a surplus of Rs. 7.06 billion in the same period of the previous year. Net transfers increased marginally by 1.3 percent to Rs. 258.65 billion in the review period compared to a growth of 38.1 percent in the same period of the previous year. Under transfers, workers' remittances increased by 2.7 percent to Rs. 227.20 billion compared to an increase by

35.3 percent in the same period of the previous year. In US dollar terms, workers' remittances increased by 4.3 percent to USD 2.32 billion in the review period compared to an increase by 18.7 percent in same period of the previous year. On a monthly basis, remittances inflows increased by 1.5 percent in mid-November to mid-December of the current fiscal year compared to that of the previous month. Similarly, under the financial account, foreign direct investment of Rs. 945.6 million was recorded in the review period.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 5.5 percent to Rs. 702.12 billion in mid-December 2014 from a level of Rs. 665.41 billion as at mid-July 2014. Such reserves had increased by 17.3 percent to Rs. 625.47 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 3.8 percent to Rs. 594.22 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 1.8 percent to USD 7.07 billion in mid-December 2014. Such reserves had increased by 12.4 percent in the same period of the previous year. Likewise, during the five months of 2014/15, the inconvertible foreign exchange reserve increased by 11.4 percent to IRs 105.80 billion. Such reserves had increased by 21.0 percent during the same period of the previous year. Based on the trend of imports during the five months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.3 months, and merchandise and service imports of 9.7 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 44.6 percent to USD 61.09 per barrel in mid-December 2014 from USD 110.30 per barrel in mid-December 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 2.1 percent to USD 1209.25 per ounce in mid-December 2014 from USD 1234.75 per ounce in mid-December 2013.
47. Nepalese currency vis-à-vis the US dollar depreciated by 3.5 percent in mid-December 2014 from the level of mid-July 2014. It had depreciated by 4.1 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 99.37 in mid-December 2014 compared to Rs. 95.90 in mid-July 2014.