Current Macroeconomic Situation

(Based on the Annual Data of 2008/09)

Real Sector

Gross Domestic Product (GDP)

1. According to the preliminary estimate of Central Bureau of Statistics, the real GDP growth rate in 2008/09 stood at 3.8 percent at basic price, and 4.7 percent at producers' price. In 2007/08 the real GDP growth was 5.3 percent at both basic and producers' prices.

2. In 2008/09 the agriculture sector was estimated to grow at 2.2 percent and non-agriculture sector at 4.7 percent. The respective growth rates for agriculture and non-agriculture sector were respectively 4.7 percent and 5.6 percent in the previous year.

3. In 2008/09 the production of paddy increased by 5.2 percent compared to a growth of 16.8 percent in 2007/08. This low growth of paddy production was mainly on account of the unfavorable monsoon. The fall in production of the main winter crops such as wheat (14.5 percent) and barley (17.3 percent) as well as slowdown in growth rate of paddy production led to the deceleration in overall agricultural growth. In the review year, the production of maize, millet, potato and soybean increased by 2.8 percent, 0.5 percent, 1.4 percent and 2.4 percent, respectively. Similarly, the production of vegetables, horticultural specialties and nursery products expanded by 7.3 percent, fruit, nuts beverage and spice crops by 20.4 percent and livestock by 3.4 percent in the review year. However, the production of other livestock decreased by 1.8 percent as the production of chicken and eggs was adversely affected due to bird flu.

4. In accordance with the currently released statistics by the Central Bureau of Statistics, the manufacturing production index increased marginally by 0.19 percent in 2008/09. In the previous year, the index had decreased by 0.94 percent. In the review year, the production of rice, wheat flour, animal feeds, soft drinks, noodles, biscuits etc increased where as the production of vegetable ghee, woolen carpet, garments, jute goods, medicine, cement, iron rod, metal products, electrical wire and cables decreased.

Consumption, Investment and Savings

5. In 2008/09, the ratio of total consumption to GDP increased by 3.2 percentage point to 92 percent. As a consequence, the gross domestic saving remained only at 8 percent of the GDP. In the review year, the ratio of investment to GDP stood at 31.8 percent compared to 29.7 percent in the preceding year. The gross fixed capital formation reached 21.2 percent in 2008/09 with a marginal rise from 21.1 percent in 2007/08.

Gross National Disposable Income (GNDI)

6. The GNDI rose by 21.2 percent in 2008/09 mainly on account of the remarkable growth in workers' remittances and other transfer income. In the previous year, the GNDI had increased by 13.9 percent. The ratio of GNDI to GDP stood at 124.3 percent in 2008/09 compared to 120.3 percent in the preceding year.

Inflow of Tourists

7. In 2008/09, the tourist arrival went down marginally by 0.9 percent to 364.8 thousand from 368.2 thousand in 2007/08. Region-wise, the tourist arrival from third country dropped by 0.5 percent to 277.1 thousand. Similarly, arrival of Indian tourist also went down by 2.3 percent to 87.8 thousand. In the previous year, the tourist inflow from third country had increased by 11 percent while that from India had decreased by 11.6 percent.

8. Of the total tourists that visited Nepal in 2008/09, the share of Indian and the third country tourists are 24.1 percent and 75.9 percent, respectively. In the preceding year, the corresponding share was 24.4 percent and 75.6 percent, respectively.

Table 1

Inflow of Tourists via Air

	Tourist Arrival			**% change**		**% Share**
	2006/07	**2007/08**	**2008/09**	**200708**	**2008/09**	**2008/09**
India	101694	89919	87818	-11.6	-2.3	24.1
Third Country	229997	278337	277011	21.0	-0.5	75.9
Total	**331691**	**368256**	**364829**	**11.0**	**-0.9**	**100.0**

Source: Tourism Board, Nepal.

Foreign Direct Investment

9. The inflow of foreign direct investment is not encouraging in the review year attributed to a gloomy investment climate. The number of joint venture projects increased by 8.5 percent to 230, while the foreign investment tied with these projects decreased by 36.4 percent to Rs.6245 million in 2008/09. In the preceding year, 212 joint venture projects with total FDI amounting to Rs.9811 million were registered in the Department of Industry.

10. Out of the registered 230 projects, service related projects were 78, tourism related 69, production related 48, mines related 17, energy related 9, agriculture related 8 and construction related 1. The number of mine related project increased with the highest growth of 142.9 percent whereas construction related projects recorded a sharp decline of 92.3 percent. On the basis of FDI amount, India is the largest foreign investor in Nepal followed by America, China, Norway, South Korea and UK.

11. The joint venture projects registered in 2008/09 are expected to provide employment to about 11.1 thousand people. The number is higher by 3.7 percent compared to the previous year.

Foreign Employment

12. In 2008/09, Department of Foreign Employment, Government of Nepal granted the final approval to 220 thousand persons for foreign employment. The number is lower by 11.7 percent compared to that of the preceding year. The global economic slowdown resulting from the global financial crisis adversely affected foreign employment in the later months.

13. Qatar, Saudi Arab, Malaysia, and the UAE are the main destinations for the Nepalese workers. Out of the total approval for foreign employment, 35 percent was to Qatar followed by 22 percent to Saudi Arab, 16 percent to Malaysia and 14 to percent UAE. Though there is a decline of 10.8 percent in the approval rate of people for Qatar, it still stood as the largest country for the Nepalese workers. In 2008/09, the Department of Foreign Employment granted approval to 2.5 thousand workers for Israel and 2.9 thousands workers for South Korea. The corresponding numbers were only 56 and 146 in the previous year. As at 2009 July, the number of workers granted approval for foreign employment stood at 1432.2 thousand.

Inflation

Consumer Price Inflation

14. The annual average consumer inflation increased to 13.2 percent in 2008/09 compared to an increase of 7.7 percent in 2007/08. The inflation, in the review year, soared up mainly on account of annual average price rise by 16.7 percent on food and beverages group. The annual average price of non-food and service group increased by 9.5 percent. The price rises of food and beverages and non-food and services group, were 10.1 percent and 5.1 percent respectively in 2007/08. The y-o-y consumer price inflation rose to 11.4 percent in mid-July 2009 from 12.1 percent in the previous year.

15. In the review year, of the items under food and beverages group, yearly average price indices of sugar and sugar related products, increased by a whopping rate of 45.9 percent. This is in sharp contrast to last year's decline of 10.1 percent. Similarly, in the review year, the annual average price indices of pulses, meat, fish and eggs, restaurant meals, oil and ghee as well as milk and milk products increased by 25.0 percent, 23.4 percent, 18.5 percent, 16.3 percent and 15.0 percent respectively compared to an increase of 14.2 percent, 7.7 percent, 7.1 percent, 20.9 percent and 7.6 percent respectively in the previous year. The subgroup of grains and cereal products also witnessed a price rise of 14.3 percent compared to an increase of 14.6 percent in the previous year.

16. Within the group of non-food and services, the yearly average indices of transport and communication as well as tobacco and related products rose by 15.8 percent and 15.4 percent respectively in the review year compared to a rise of 2.3 percent and 7.4 percent respectively in the previous year. Despite a slight moderation in the prices of petroleum products in the review year, the lagged effect of increased prices of petroleum products in June, 2008 exerted an upward pressure in the index of fuel, light and water by 10.6 percent.

17. Region-wise, annual average price level in the Kathmandu Valley, Terai and Hills rose by 14.3 percent, 12.8 percent and 12.7 percent respectively in 2008/09 compared to a rise of 7.2 percent, 8.1 percent and 7.4 percent respectively in the previous year.

18. The annual average core inflation rose by 12.6 percent in 2008/09 compared to 6.1 percent in the previous year. The y-o-y core inflation rose to 12.5 percent in mid-July 2009 compared to 8.7 percent in the previous year.

Wholesale Price Inflation

19. The annual average wholesale price index increased by 12.8 percent in 2008/09 compared to a rise of 9.1 percent in the previous year. The annual average price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 14.0 percent, 10.9 percent and 12.1 percent respectively in the review year compared to a rise of 9.5 percent, 8.8 percent and 8.6 percent respectively in the previous year. The y-o-y wholesale price index increased by 15.3 percent in mid-July 2009 compared to an increase of 13.2 percent in the previous year.

20. Within the agricultural commodities group, the annual average price indices of pulses, fruits and vegetables increased by 21.8 percent and 13.6 percent respectively compared to an increase of 13.3 percent and 11.4 percent a year ago. Within the group of domestic manufactured commodities, the annual average price indices of beverages and tobacco, food related products and construction materials rose by 11.7 percent, 11.4 percent and 11.1 percent respectively in the review year compared to an increase of 6.0 percent, 9.6 percent and 13.8 percent in the previous year.

21. Within the imported commodities group, the annual average price indices of transport vehicles and machinery goods as well as textile-related products increased by 19.8 percent and 15.6 percent respectively in the review year compared to an increase of 7.7 percent and -2.3 percent in the previous year. The price index of petroleum products and coal moderated in the review year to 10.4 percent from the 11.8 percent in the previous year.

National Salary and Wage Rate Index

22. The annual average salary and wage rate index rose by 15.3 percent in 2008/09. It had increased by 9.7 percent in the previous year. In the review year, the annual average indices of both salary and wage rose by 10.5 percent and 16.9 percent respectively

attributing mainly to the increase in the salary of civil servants in mid-September 2008. In the previous year such indices had increased by 10.9 percent and 9.4 percent respectively. Annual average wage rate index of agricultural, industrial and construction laborers increased by 23.0 percent, 8.3 percent and 15.3 percent respectively in the review year. These wage rates had increased by 7.7 percent, 11.6 percent and 10.2 percent respectively in the previous year. The y-o-y salary and wage rate index rose by 18.4 percent in mid-July 2009 compared to a rise of 11.1 percent a year ago.

External Sector Situation

Foreign Trade

23. In 2008/09, exports went up by 13.5 percent in contrast to a nominal decline of 0.2 percent in the previous year. Exports to India rose by 6.2 percent in 2008/09 as against a decline of 7.6 percent in the previous year; likewise, exports to other countries expanded by 26.9 percent compared to an increase of 17.3 percent in the previous year.

24. The increase in the exports of readymade garments, textiles, G.I. pipe, catechu and shoes and sandals mainly contributed to the increase in exports to India. Similarly, the surge in the exports to other countries can be attributed to the rise in the exports of pulses followed by pashmina, woolen carpets, handicraft and herbs.

25. In 2008/09, total imports soared by 28.2 percent in comparison to an increase of 14.0 percent in the previous year. Out of total imports, imports from India increased by 15.1 percent compared to a growth of 22.9 percent in 2007/08; similarly, imports from other countries surged by 51.7 percent compared to a growth of just 0.9 percent in the preceding year.

26. An upsurge in the import of vehicles and spare parts, other machinery and parts, cold-rolled sheet in coil, cement and medicine, among others, from India and gold, electrical goods, crude soybean oil, MS billet, and other machinery and parts, among others, from other countries were, to a great degree, responsible for the expansion in total imports in 2008/09.

Balance of Payments

27. The overall BOP posted a significant surplus of Rs. 37.7 billion in 2008/09 compared to a lower surplus of Rs. 29.7 billion in the previous year. The current account also recorded a massive surplus of Rs. 41.4 billion compared to a surplus of Rs.23.7 billion in 2007/08. The significant current account surplus in 2008/09 was largely attributed to the rise in net transfers by 36.5 percent. Under transfers, workers' remittances soared by 47.0 percent in 2008/09 compared to a growth of 42.5 percent in the previous year. Similarly, grants rose by 27.6 percent in 2008/09 compared to a growth of 15.2 percent in the preceding year.

Foreign Exchange Reserves

28. In mid-July 2009, the gross foreign exchange reserves stood at Rs.280.0 billion, an increase of 31.7 percent compared to the level as at mid-July 2008. Such reserves had risen by 28.8 percent in the previous year. On the basis of US dollar, gross foreign exchange reserves went up by 15.6 percent to US$ 3.59 billion in mid-July 2009. Such reserves had risen by 21.9 percent in the previous year. The current level of reserves is adequate for financing merchandise imports of 11.8 months, and merchandise and service imports of 9.7 months.

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

29. In the international market, the price of oil (Crude Oil Brent) plunged by 57.0 percent to US$ 61.5 per barrel in mid-July, 2009 from US$ 143.3 per barrel in mid-July 2008. Likewise, the price of gold fell by 4.9 percent to US$ 938.0 per ounce in mid-July, 2009 from US$ 986.0 per ounce a year earlier.

30. Compared to mid-July 2008, the Nepalese currency vis-à-vis the US dollar depreciated by 12.24 percent in mid-July 2009. It had depreciated by 5.33 percent in the previous year. The exchange rate of one US dollar was Rs.78.05 in mid-July 2009 compared to Rs. 68.50 in mid-July 2008.

Fiscal Situation

Budget Surplus/Deficit

31. The government budget deficit, on cash basis, increased by 16.3 percent to Rs. 26.2 billion in 2008/09. Such deficit was Rs 22.5 billion in 2007/08. The ratio of budget deficit to GDP remained at 2.7 percent in the review year, which was almost the same in the previous year as well.

Sources of Deficit Financing

32. In 2008/09, the domestic financing of the budget deficit through the issuance of securities amounted to Rs. 18.4 billion, and it accounted for 2.9 percent of GDP.

33. After deducting the principal repayment of Rs. 8.8 billion from gross domestic borrowing, net domestic borrowing (including overdraft of Rs 626.3 million from the NRB) stood at Rs 10.3 billion. The ratio of net domestic borrowing to GDP stood at 1.07 percent in the review year. Consequently, the GON's total outstanding domestic debt (including GON's overdraft from the NRB) increased to Rs.121.5 billion from Rs. 107.3 billion in the previous year.

34. The total external cash borrowing of the government amounted to Rs 3.7 billion in 2008/09 compared to Rs 3.9 billion in the previous year.

Government Revenue and Foreign Cash Grants

35. In 2008/09, revenue mobilization of the government increased significantly by 33.2 percent to Rs 143.3 billion. The revenue had risen by 22.7 percent to Rs 107.6 billion in 2007/08. Consequently, the revenue to GDP ratio moved up to 14.9 percent in 2008/09 from that of 13.2 percent in 2007/08. The Government's firm commitment in revenue leakage control, revenue administration reforms, Voluntary Discloser of Income Scheme (VDIS) and significant growth of non-tax revenue contributed to such an impressive growth of revenue mobilization in the review year.

36. Of the total revenue mobilization, VAT revenue grew by 28.0 percent to Rs 39.9 billion in 2008/09. Such revenue had increased by 17.3 percent in the previous year. The increase in VAT revenue was on account of growing imports and consumption induced by an increase in the inflow of remittances and reforms in VAT administration.

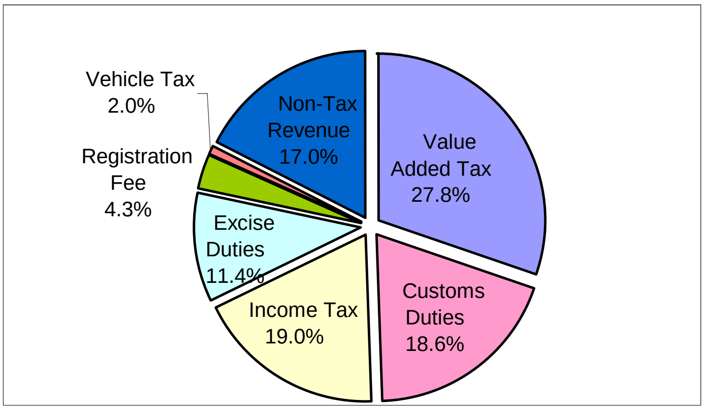
37. In 2008/09, customs revenue rose by 34.5 percent to Rs. 26.6 billion compared to an increase of 18.6 percent in the previous year. Reforms in customs administration as well as increase in imports of high tax yielding vehicles and vehicles' parts contributed to such an increase in customs revenue.

38. In the review year, excise revenue increased by 45.3 percent to Rs 16.3 billion compared to an increase of 21.3 percent in the previous year. Reforms in excise administration and identification of newly excised goods contributed for such a growth in excise revenue in the review year.

39. Income tax revenue increased by 42.5 percent to Rs. 27.4 billion in 2008/09 compared to an increase of 19.9 percent in the previous year. A remarkable receipt under VDIS program due to government's strong administrative and political commitment, contributed to such an increase in income tax collection.

Chart: 1

Structure of Revenue Mobilization (2008/09)



40. Amongst the components of revenue in 2008/09, VAT constituted a share of 27.8 percent followed by income tax (19.0 percent), customs duties (18.6 percent), and excise duties (11.4 percent). In the previous year, such ratios were 29.0 percent, 17.8 percent, 18.4 percent and 10.4 percent respectively.

41. In the review year, non-tax revenue grew by 13.9 percent to Rs. 24.3 billion compared to an increase of 38.7 percent in the previous year. Such an increase was on account of the increase in dividend paid by some public enterprises including the NRB as well as the amount received as the principal repayment from Nepal Telecom, Nepal Electricity Authority.

42. In 2008/09, foreign cash grants showed a significant growth of 39.1 percent to Rs.24.4 billion compared to that of Rs. 17.5 billion in the previous year.

Government Expenditure

43. The government expenditure, on a cash basis, increased by 32.0 percent to Rs.198.0 billion in 2008/09 compared to an increase of 19.7percent in the previous year.

44. In the review year, the government's recurrent expenditure rose by 30.8 percent to Rs.115.5 billion compared to an increase of 19.1 percent in the previous year. The rise in the salary of government employees, peace and security related expenditure; non-budgetary expenses on different items and expenditure on CA elections exerted an upward pressure on recurrent expenditure in the review year.

45. In 2008/09, the capital expenditure went up by 34.2 percent to Rs 58.0 billion compared to an increase of 33.9 percent in the previous year. The trend of increasing capital expenditure in the later months of the year, payment for the contracts, smoothness in public procurement processes, significant amount of budget release to the local bodies as well as subsidies provided to Small Farmers' debt waiver program contributed to such a growth in the capital expenditure in the review year.

Monetary Situation

Money Supply

46. In 2008/09, monetary aggregates expanded substantially. Broad money (M_2) grew by 27.0 percent compared to an increase of 25.2 percent in the previous year. Likewise, narrow money (M_1) registered a growth of 27.3 percent in the review year compared to a growth of 21.6 percent a year ago. A significant increase in both net foreign assets (NFA) and net domestic assets (NDA) contributed to such a substantial increase in monetary aggregates in the review year.

47. Compared to a growth of 19.9 percent in the previous year, the currency in circulation increased by 25.5 percent in the review year. Such a higher increase of currency in circulation is attributed to monetary expansion in rural areas on account of elevated inflows of remittances and a delay to flow back to the financial institutions, due to lack

of effective financial services in these areas as well as a higher inflation induced-currency demand for transaction. The demand deposits grew by 30.5 percent in the review year compared to an increase of 25.0 percent in the previous year on account of a higher private sector credit growth. Likewise, the time deposits grew by 26.9 percent in the review year, which was, contributed by the elevated inflows of remittances. Such deposits had increased by 27.0 percent a year ago.

Net Foreign Assets (NFA)

48. NFA (after adjusting exchange valuation gain/loss) increased significantly by Rs. 37.7 billion (22.0 percent) in the review year compared to Rs. 29.7 billion (22.5 percent) in the previous year. Higher remittance inflows and expansion in foreign assistances contributed to such a significant rise in NFA in the review year.

Domestic Credit

49. Domestic credit increased by 24.7 percent in 2008/09 compared to a growth of 21.3 percent a year ago. Such an increase in domestic credit was on account of a higher growth of private sector credit accompanied by claims on financial institutions.

50. In the review year, net claims on government increased marginally by a lower rate than that of the previous year. Claims on government increased by 11.0 percent in the review year. Such claims had grown by 11.2 percent in the previous year. Net claims on government increased at a lower rate on account of a lower internal borrowing in the review year due to a higher revenue mobilization of the government.

51. Claims on non-financial government enterprises declined by 9.6 percent (Rs.544.7 million) in the review year against a growth of 10.4 percent (Rs.531.6 million) in the previous year. A partial repayment of loan by National Trading Ltd, Nepal Food Corporation and Nepal Electricity Authority and a full repayment of loan by Nepal Oil Corporation contributed to a decline in the claims on such enterprises in the review year.

52. Claims on financial institutions grew by 60.5 percent (Rs. 2.9 billion) in the review year. Such credit had grown by 30.0 percent (Rs. 1.1 billion) in the previous year. Notwithstanding a decline in claims of commercial banks on government financial institutions, an increase in a short-term investment of commercial banks to the development banks and other financial institutions, ascribed to a higher growth of claims on financial institutions in the review year.

53. In the review year, claims on private sector expanded significantly. The claims on private sector expanded by 28.3 percent in the review year compared to an expansion of 24.3 percent in the previous year. Inclusion of the credit disbursed by KIST bank, which upgraded from "C" class financial institution to "A" class in the review year, also contributed to a higher growth of claims on private sector in 2008/09.

Reserve Money

54. The reserve money increased by 35.3 percent in the review year compared to a growth of 21.2 percent in the previous year. Such a higher growth of monetary base is attributed to a significant increase in NFA of the monetary authority. On the uses side, the effects of substantial expansion of reserve money has been reflected in growth of currency in circulation and deposits of commercial banks in the NRB.

Deposit Mobilization, Credit Flows and Liquidity Position of Commercial Banks

55. In the review year, deposits of commercial banks increased by Rs. 128.3 billion (30.4 percent) to Rs. 549.8 billion as at mid-July 2009. In the previous year, total deposits had increased by Rs. 87.0 billion (26.0 percent). Of the total deposits, saving and time deposits increased by 22.9 percent and 41.8 percent respectively compared to a growth of 21.1 percent and 33.6 percent in the previous year. Expansion of branch network by the existing banks, upgrade of one finance company to a commercial bank and higher remittance inflows contributed to such a significant growth of deposits in the review year.

56. Commercial banks, in addition to deposits mobilization, have increased financial resource mobilization through an additional capital mobilization of Rs.8.9 billion in the review year. The increasing size of capital mobilization by banks can be viewed as a positive sign to financial sector stability.

57. The growth of credit to the private sector remained marginally lower in the review year compared to that of the previous year. The credit to the private sector expanded by 31.6 percent (Rs 97.2 billion) in the review year compared to a growth of 32.5 percent (Rs. 75.3 billion) in the previous year. Therefore, the credit-deposit ratio declined to 81.2 percent in 2008/09 from a ratio of 82.6 percent a year ago.

58. Of the credit disbursed to the private sector, the growth of credit to production, construction, metal production, machinery and electrical tools, transportation, communication and public services and service sectors remained lower in the review year compared to that of the previous year. Credit to the production and construction sectors increased by 17.3 and 38.6 percent in the review year compared to an increase of 20.1 percent and 53.7 percent respectively in the previous year. Likewise, credit to transportation, communication and public services and service sector expanded by 14.3 percent and 10.4 percent respectively in the review year compared to a growth of 22.8 percent and 15.2 percent in the previous year. The review year witnessed a decline in credit growth to construction sector from 63.7 percent in 2007/08 to 38.6 percent in 2008/09. However, the volume of credit has been higher than that of the previous year. The credit to wholesale and retail business increased by 23.5 percent in the review year compared to a growth of 22.1 percent in the previous year. The consumable loan

increased by Rs 5.3 billion in the review year. Such loan had increased by Rs 1.3 billion in the previous year.

59. Liquid assets of commercial banks increased significantly in the review year. Of the liquid assets, liquid funds of commercial banks grew by 47.0 percent to Rs. 116.1 billion in the review year compared to an increase of 21.7 percent in the previous year. An elevated inflow of remittances and increased spending of the government at the end of the fiscal year contributed to the increase of the liquid funds of commercial banks significantly. As at mid-July 2009, commercial banks' deposits with the NRB increased by 92.2 percent compared to an increase of 5.6 percent in the previous year. Likewise, the balance held abroad by commercial banks increased by 29.9 percent to Rs. 53.4 billion in the review year compared to a growth of 21.1 percent in the previous year. The total liquid assets of the commercial banks increased by 24.2 percent in the review year. Such assets had increased by 15.5 percent in the previous year.

Liquidity Management

60. In 2008/09, the NRB mopped up net liquidity of Rs 9.7 billion through open market operations. Of the total liquidity of Rs 20.7 billion mopped up in the review year, Rs 7.5 billion was mopped up from outright sale auctions and Rs 13.3 billion from reverse repo auctions. Despite a substantial injection of liquidity through foreign exchange intervention, a total liquidity of Rs 11.0 billion has been injected through repo auctions in the months of January/February, February/March and May/June of the review year on account of a shortfall in liquidity in these months, particularly due to a higher cash balance of the GON with the NRB and a higher expansion of currency in circulation. Net liquidity of Rs 12.4 billion had been mopped up in the previous year through open market operation including Rs. 14.9 billion through outright sale auctions; Rs. 6.6 billion through reverse repo auctions and Rs 9.0 billion through repo auctions.

61. In 2008/09, the NRB injected net liquidity of Rs 142.5 billion by net purchase of 1.8 billion US dollar from commercial banks through foreign exchange intervention. A net liquidity of Rs 102.4 billion had been injected through a net purchase of 1.6 billion US dollar from commercial banks in the previous year. An elevated inflow of remittances necessitated such a substantial amount of intervention in the foreign exchange market in the review year.

62. The NRB purchased Indian currency (IC) amounting 73.4 billion through the sale of 1.5 billion US dollar in the review year. IC amounting 70.6 billion had been purchased through the sale of 1.7 billion US dollar in a year ago. A depreciation of Indian currency vis-à-vis the US dollar caused a lower amount of the US dollar sale for IC purchase in the review year.

Standing Liquidity Facility and Inter Bank Transactions

63. In 2008/09, commercial banks used standing liquidity facility (SLF) amounting to Rs. 107.8 billion compared to that of Rs. 103.8 billion in the previous year. Likewise, the inter bank transactions of commercial banks stood at Rs. 293.4 billion in the review year compared to that of Rs. 258.3 billion in 2007/08.

Short-term Interest Rates

64. The annual weighted average 91-day Treasury bill rate stood at 5.83 percent in 2008/09 compared to that of 4.21 percent a year ago. The annual weighted average inter bank rate stood at 5.07 percent in 2009, a rate same to that of the previous year.

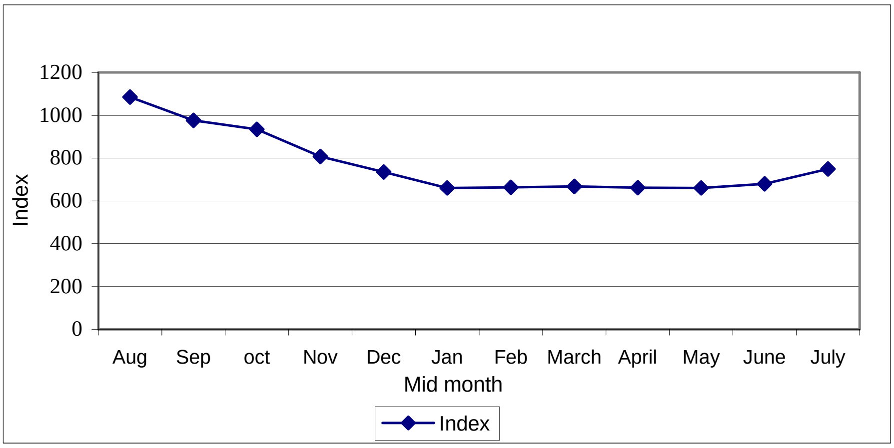
65. Along with an increase in short-term market interest rates, interest rates on deposits also increased in the review year. The maximum interest rate on savings deposits increased by one percentage point to 7.5 percent in mid-July 2009 compared to that of 6.5 percent in the previous year. Likewise, the maximum interest rates on 6-month, 1-year and two or more than two years fixed deposits increased by 0.25, 3.0 and 2.5 percentage points respectively to 7.0 percent, 9.0 percent, 9.5 percent as in mid-July 2009 from rates effective as at mid-July 2008.

Securities Market

66. The y-o-y NEPSE index decreased by 22.24 percent to 749.10 points in mid-July 2009. This index was 963.36 a year ago. The NEPSE index did not seem stable during the 2008/09. At the end of the fiscal year there was a slight improvement in the NEPSE index.

Chart: 2

NEPSE Index (2008/09)



67. The y-o-y market capitalization increased by 40.05 percent to Rs.512.94 billion in mid-July 2009. Market capitalization to GDP ratio increased to 58.09 percent from 44.6 percent a year ago. Of the total market capitalization, banks and financial institutions constituted the highest share of 74.65 percent. The share of these institutions was 89.2 percent in mid-July 2008.

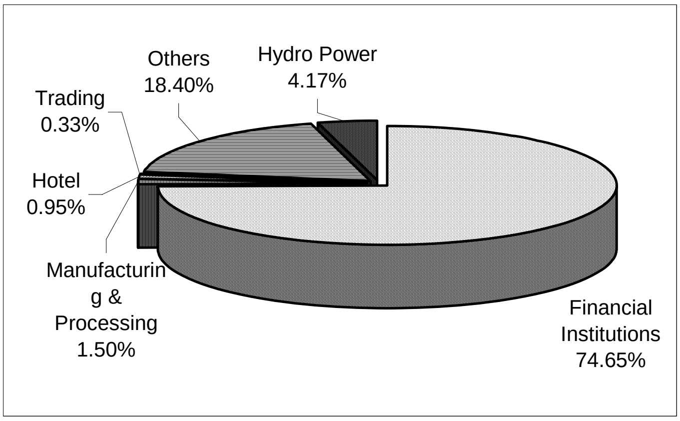
Table: 2

Market Capitalization of Listed Companies

Companies	2008/09	
	Amount (Rs. in million)	**Sectoral Share (%)**
Financial Institutions	382901.8	74.65
Commercial Banks	302219.29	58.92
Development Banks	27137.89	5.29
Finance Companies	43007.13	8.38
Insurance Companies	10537.49	2.05
Manufacturing & Processing	7706.09	1.50
Hotel	4851.95	0.95
Trading	1696.36	0.33
Hydro Power	21413.72	4.17
Others	94369.16	18.40
Total	512939.1	100.0

Chart: 3

Market capitalization of listed companies in 2008/09

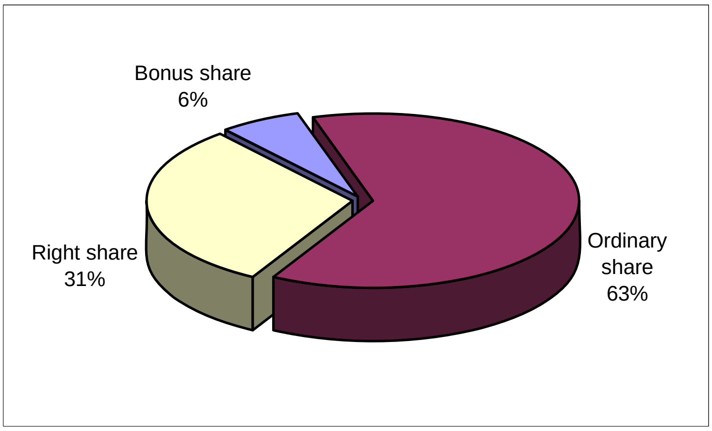


68. Total paid up capital of the listed companies stood at Rs. 61.1 billion in mid-July 2009 with an increase of 107.5 percent over the period of one year. This increase was due to the additional listing of securities. Among the increased amount, the portion of right share was 30.7 percent, bonus share 6.3 percent and ordinary share 63.0 percent. In

Mid-July 2008, the right share was increased by 55 percent, bonus share by 31 percent and ordinary share by 14 percent. In the review year, the listed companies issued bond worth of Rs. 3300 million.

Chart: 4

Composition of paid up capital increment of listed companies in 2008/09



69. The total number of companies listed at the NEPSE reached 159 as at mid-July 2009 compared to 142 in the previous year. Among the listed companies, 128 were banks and financial institutions followed by production and processing industries (18), hotels (4), business entities (4), hydro- power (3) and companies in other groups (2).

70. Monthly turnover to market capitalization ratio stood at 0.29 percent in mid-July 2009 compared to 0.44 percent a year ago.

71. The twelve-month rolling standard deviation stood at 146.9 in mid-July 2009 compared to 104.5 a year ago, reflecting an increased volatility in the stock market.

72. In the review year, bonus share of of 37 companies worth Rs.1924.77 million, right share of of 50 companies worth Rs.9307.8 million and ordinary share of 14 companies worth Rs.19087.5 million has been listed in the Nepal Stock Exchange Ltd.

73. Nepal stock exchange Ltd. began to calculate NEPSE float index and sensitive float index from 2008/09 based on the final transaction of August 24, 2008 as base market price. While calculating the NEPSE index, the float index excludes the share of promoters, staffs and strategic shares and thus the float index solely represents the transaction in the market price of the public shares. Likewise, the rules regarding the market halt also changed from August 25, 2008. Accordingly, the stock market will be halted for fifteen minutes, thirty minutes and remaining transaction time of the day, if NEPSE index is changed by 3 percent, 4 percent and 5 percent respectively in contrary to the previous system of the index points by 15, 20 and 25 minutes respectively.

74. The GON issued fresh treasury bills worth Rs. 9.0 billion, development bonds worth Rs.7.8 billion, and citizens saving certificates worth Rs.1.7 billion in 2008/09.

The Expansion of Financial System

75. A total of 9 new banks and financial institutions were established in 2008/09. These included 1 commercial banks, 5 development banks, and 3 micro-finance institutions. Likewise, the NRB upgraded one of the finance companies to a commercial bank and revoked the license of one NGO in the review year.

Table: 3
The Number of Banks and Financial Institutions

Bank and Financial Institutions	Mid-July	
	2008	2009
Commercial Banks	25	26
Development Banks	58	63
Finance Companies	78	77
Micro Finance Institutions	12	15
NRB Licensed Cooperatives (undertaking limited banking transactions)	16	16
NRB Licensed NGOs (undertaking micro finance transactions)	46	45
Insurance Companies	21	25

76. Besides the establishments of new banks and financial institutions, the branch expansion of commercial banks also took place significantly in the review year. For example, branches of commercial bank increased by 194 to 752 in mid-July 2009 from 558 in mid-July 2008.