Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

(Based on Six Months' Data of 2015/16)

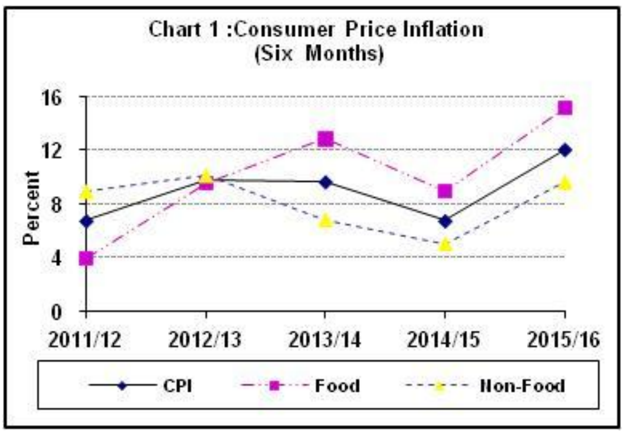
Growth Outlook

1. Economic activities are expected to rebound following the ease in the trade routes in the southern parts of the country.
2. However, the production of wheat and winter vegetables is likely to suffer on account of unavailability of chemical fertilizer and improved seeds during cropping season and unfavorable weather condition.
3. Reconstruction activities are likely to gain momentum as the Government has started distributing the necessary fuel to the projects of National Pride.
4. Likewise, industrial production is likely to pick up following the improvement in supply of fuel, together with the return of normalcy in the southern parts of the country. The tourism sector is expected to rise slowly as the positive message of the return of peace throughout the country spreads to the countries of the tourist origins. On the top of this, the prime tourist season is approaching.
5. In sum, lower international commodity prices, especially, of oil and metals, excess monetary liquidity resulting in a very low interest rates and weaker Nepalese rupee vis-a-vis the US dollar should stimulate aggregate demand and thus have a positive impact on activity going forward.

Inflation, Salary and Wage Rate

Consumer Price Inflation

6. The y-o-y consumer price inflation (CPI) edged up to 12.1 percent in mid-January 2016 from 6.8 percent in the corresponding period of the previous year. The double digit rise in the overall CPI was on account of a surge in food and beverage group inflation at 15.2



percent in the review period. The non-food and services group inflation also saw a growth of 9.7 percent in mid-January 2016.

7. Some of food and beverage items have become pricier, resulting in two spikes in prices of pulses and legumes sub-group at 46.9 percent, and ghee and oil sub-group at 31.3 percent in the review period. Likewise, a pick up in prices of spices at 17.6 percent, meat and fish at 16.8 percent, clothes and footwear at 13.7 percent also created pressure in overall CPI inflation in the review period.
8. The prolonged strikes in the Terai region and disruption on trade routes in the southern parts of the country are the underlying factors driving prices up in the review period. However, the recent return of normalcy in the southern trade routes is likely to moderate the rate of inflation in the remaining period of the current fiscal year.
9. Geographically, the Kathmandu Valley saw a relatively higher rate of inflation at 13.8 percent followed by Hilly region at 12.1 percent, Terai region at 10.7 percent and Mountain region at 10 percent in the review period. Last year, the Hilly region had seen a higher rate of inflation of 7.1 percent followed by the Kathmandu valley at 6.9 percent and Terai region at 6.6 percent.

Consumer Price Inflation: Deviation between Nepal and India

10. The y-o-y CPI inflation of Nepal saw a surge of 12.1 percent compared to 5.7 percent in India showing an inflation differential of 6.4 percent in the review period. A year ago, inflation in Nepal was 6.8 percent compared to 5.2 percent in India reflecting a narrower inflation wedge of 1.6 percent. The rise in inflation wedge between Nepal and India was on account of lingering impact of April/May 2015 earthquakes, strikes in Terai and the recent obstruction on trade routes in the southern parts of the country.

Wholesale Price Inflation

11. The y-o-y wholesale price index increased by 7.6 percent in the review period compared to a rise of 5.4 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities and domestic manufactured commodities increased by 12.2 percent and 6.4 percent respectively, whereas such index of imported commodities decreased by 1.3 percent in the review period. The increments in agricultural commodities, domestic manufactured commodities and imported commodities were 8.4 percent, 4.4 percent and 0.3 percent respectively in the corresponding period of the previous year.

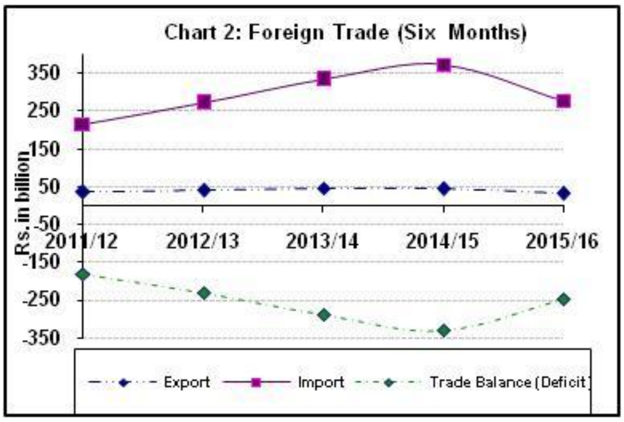
National Salary and Wage Rate

12. The y-o-y salary and wage rate index increased by 4.5 percent in the review period compared to an increase of 7 percent in the corresponding period of the previous year. Within the salary and wage rate index, while the salary index increased by 0.8 percent, the wage rate index rose by 5.4 percent. The salary indices of bank and financial institutions, education and public corporations sub-groups increased by 2.3 percent, 1.5 percent and 0.7 percent respectively in the review period. Likewise, wage rate indices of construction

labourer, agricultural labourer and industrial labourer witnessed a growth of 9.3 percent, 5.6 percent and 3.6 percent respectively in the review period.

External Sector

Merchandise Trade



13. In six months of 2015/16, merchandise exports decreased by 27.2 percent to Rs. 31.59 billion compared to a drop of 3.9 percent in the same period of the previous year. Exports to India decreased by 35.9 percent, China by 61.8 percent and other countries by 7.3 percent due to obstructions at customs points. Commoditywise, export of zinc sheet, textiles, GI Pipe, juice to India; tanned skin, noodles, and readymade garments to China; and pulses, tanned skin, readymade leather goods, and tea to other countries decreased in the review period.
14. Merchandise imports dipped by 25.7 percent to Rs. 277.79 billion in the review period as against a growth of 12 percent in the same period of the previous year. Imports from India decreased by 33.8 percent, China by 14.4 percent and other countries by 9.9 percent in the review period on account of obstruction at customs points. Commoditywise, import of petroleum products, vehicle and spare parts, mild steel billet, machinery and parts, among others from India; machinery and parts, medical equipments and tools, video television, among others from China; and silver, crude soyabean oil, edible oil, crude palm oil, among others decreased.
15. Total trade deficit in the review period improved by 25.5 percent to Rs. 246.20 billion compared to an expansion of 14.5 percent in the same period of the previous year. The export-import ratio dropped to 11.4 percent in the review period compared to 11.6 percent in the corresponding period of the previous year.

Customs points-wise Trade Situation

16. Based on customs points, the exports through Tribhuwan International Airport increased in the review period while exports through other customs points decreased. Imports through Bhairahawa, Tribhuwan International Airport, Mechi, Krishnanagar, Kailali customs points increased while imports from other custom points decreased in the review period.

Export-Import Price Index

17. The y-o-y unit value export price index based on customs data increased by 15.9 percent while import price index decreased by 7.3 percent in the sixth month of 2015/16. Consequently, the TOT index increased by 25 percent compared to an increase of 15.5

percent in the corresponding period of the previous year. Increase in price of export items such as jute and ginger caused the export price index to rise in the review period. Fall in the price of petroleum products resulted in a decline in import price index in the review period.

Services

18. The total services income declined by 4.5 percent and service expenses increased by 2 percent in the review period. As a result net services income decreased by 59 percent to Rs. 3.02 billion in the first six months of 2015/16 reflecting lagged effect of the devastating earthquake of April 2015 and obstructions in customs points as well as the disturbances in supply system. The net services income was Rs. 7.36 billion in the same period of previous year.

Box 1: The Number of Nepalese Workers Going Abroad for Foreign Employment *

Mid-Month/Year	2013/14	2014/15	2015/16
August	45937	42309	37756
September	24214	51551	40275
October	31959	35550	35484
November	31949	43213	23061
December	41634	53354	38350
January	50032	45362	35389
February	37285	48941	-
March	48552	44460	-
April	45854	52210	-
May	54173	31375	-
June	54926	37962	-
July	61717	26600	-
Total	**528232**	**512887**	**210315**
Percentage Change (first six months)	12.7	20.2	-22.5

* Based on final approval for foreign employment.
Source:- Department of Foreign Employment, GoN

Workers' Remittances

19. The workers' remittances grew by 17.3 percent to Rs. 323.69 billion in the review period compared to a growth of 3.9 percent in the previous year. Consequently, net transfer receipt increased by 20.5 percent to Rs. 378.85 billion in the review period. Such receipt had increased by 2 percent in the same period of the previous year.
20. The number of workers going abroad for foreign employment decreased in the review period. The number of Nepalese workers seeking foreign employment, based on final approval for foreign employment, decreased by 22.5 percent in the first six months of 2015/16. It had increased by 20.2 percent in the same period of the previous year.
21. The inflow of remittances is likely to be affected due to the potential decline in demand for Nepalese workers from the Golf countries on account of the sharp fall in the price of petroleum products in international market and the recent foreign employment related decission of the Malaysian government.

Current Account and BOP Position

22. The current account registered a surplus of Rs. 157.52 billion in the review period compared to Rs. 13.82 billion surplus in the same period of the previous year. Similarly, the overall BOP recorded a significant

Box 2: Dividend Payment to FDI Companies*

(Rs. in million)

Sectors	2014/15 Annual	2015/16 Jul- Jan
Financial Sector	1794.4	8.3
Communication Sector	4.0	1692.8
Hydro Power Sector	2874.5	0.0
Industry Sector	2299.2	189.1
Services Sector	238.6	0.00
Total	**7210.7**	**1890.2**

**Based on approval from NRB*

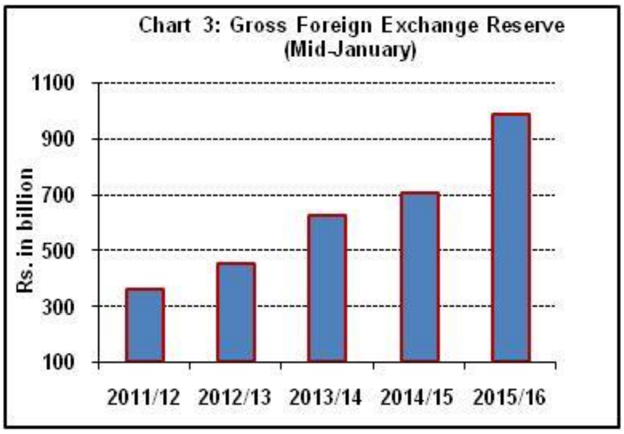
surplus of Rs. 139.75 billion in the review period compared to a surplus of Rs. 34.26 billion in the same period of the previous year.

23. In the review period, Nepal received capital transfer amounting to Rs. 7.41 billion and Foreign Direct Investment (FDI) inflow of Rs. 1.93 billion. In the same period of the previous year, capital transfer and FDI inflow stood at Rs. 5.98 billion and Rs. 1.03 billion respectively.

24. Dividend payment to FDI companies, based on approval from Nepal Rastra Bank, amounted to Rs. 1.89 billion in the review period. The dividend payment was Rs. 7.21 billion in 2014/15.

Foreign Exchange Reserves

25. The gross foreign exchange reserves stood at Rs. 988.40 billion as at mid-January 2016, an increase by 19.9 percent from Rs. 824.06 billion in mid-July 2015. Of the total reserves, reserves held by NRB increased by 21.4 percent to Rs. 853.56 billion as at mid-January 2016 from the level of reserves as at mid-July 2015. Similarly, the reserves of banks and financial institutions (except NRB) increased by 11.4 percent to Rs. 134.84 billion in the same period. The share of Indian currency reserves in total reserves stood at 21.1 percent as at mid-January 2016.



Foreign Exchange Adequacy Indicators

26. Based on the imports of the six months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover prospective merchandise imports of 21.7 months, and merchandise and services imports of 17.6 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 increased to 46.5 percent, 147 percent and 48.3 percent respectively as at mid-January 2016. Such ratios were 38.8 percent, 93.3 percent and 43.9 percent as at mid-July 2015.

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 sharply by 37.1 percent to USD 28.84 per barrel in mid-January 2016 from USD 45.82 per barrel a year ago. Similarly, the price of gold declined by 11.9 percent to USD 1088.40 per ounce in mid-January 2016 from USD 1235 per ounce a year ago.

28. Nepalese currency vis-à-vis the US dollar depreciated by 5.1 percent in mid-January 2016 from mid-July 2015. It had depreciated by 3.3 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 106.60 in mid-January 2016 compared to Rs. 101.14 in mid-July 2015.

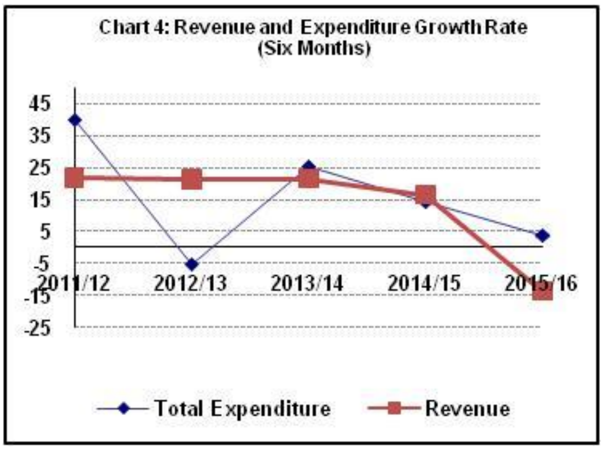
Fiscal Situation *

Budget Deficit / Surplus

29. In six months of 2015/16, government budget on a cash basis remained at a surplus of Rs. 28.93 billion. Such surplus was Rs. 64.95 billion in the corresponding period of the previous year.

Government Expenditure

30. In the review period, total government expenditure on a cash basis increased by 3.7 percent to Rs. 159.40 billion. This amount accounts for 19.5 percent of annual budget estimate of Rs. 819.47 billion. Such expenditure had increased by 14.4 percent to Rs. 153.71 billion in the corresponding period of the previous year. The decline in government expenditure in the review period is attributable to the adverse impact of continuous unrest in southern plains and the disturbances at customs points.



31. In the review period, recurrent expenditures increased by 8.5 percent to Rs. 126.01 billion. Such expenditures had increased by 4.9 percent in the corresponding period of the previous year. In the review period, capital expenditures dropped by 1.5 percent to Rs. 13.63 billion as works at various important projects remained stalled and the post- earthquake reconstruction works remained affected on

Box 3: The Budget Performance

Heads	Budget Estimates (Rs. in millions)	Outturns in six months	
		Rs. in million	As percent of budget estimates
Total Expenditure	**819469.0**	**159401.1**	**19.5**
Recurrent Expenditure	484266.4	126008.4	26
Capital Expenditure	208877.2	13631.0	6.5
Financial Expenditure	126325.3	19761.7	15.6
Revenue	**475012.1**	**112812.1**	**34.6**

* Based on the data reported by 8 NRB offices, 68 branches of Rastriya Banijya Bank Limited, 41 out of 48 branches of Nepal Bank limited, 21 branches of Agriculture Development Bank limited, 9 branches of Everest Bank Limited, 4 branches of Global IME Bank Limited and, 1 branch each from Nepal Bangladesh Bank limited, NMB Bank Limited, and Bank of Kathmandu Limited conducting government transactions and released report from 79 DTCOs and payment centers.

account of the shortage of fuel and construction materials. Such expenditures had increased by 49.2 percent in the corresponding period of the previous year. The capital expenditure in the review period is only 6.5 percent of annual budget estimate of Rs. 208.88 billion.

Government Revenue

32. In the review period, the government revenue mobilization declined by 13.7 percent to Rs. 164.33 billion. Such revenue had risen by 16.6 percent in the corresponding period of the previous year. Contraction in imports and the slowdown in economic activities due to disturbances at southern customs points led to a decrease in VAT, customs revenue and excise duty. As government revenue collection in the review period is just 34.6 percent of the annual target of Rs. 475 billion, mobilizing the targeted revenue seems difficult in 2015/16.

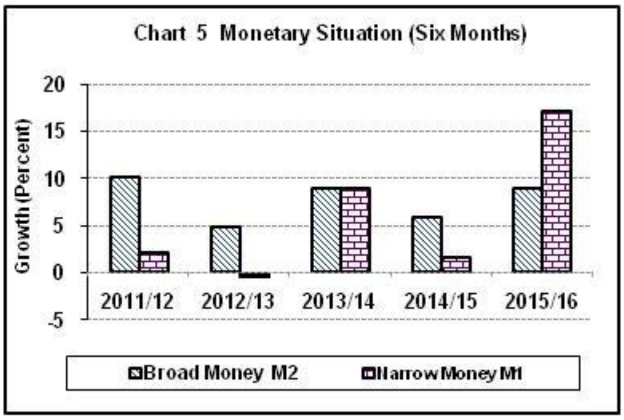
Public Debt and Cash Balance of the GON

33. In the review period, the GoN made principal payment of Rs. 15.60 billion of domestic debt. As a result, outstanding domestic debt decreased to Rs. 181.19 billion in mid-Januanry 2015 from Rs. 196.79 billion in mid-July 2015.
34. Because of a slow pace of government expenditure relative to resource mobilization, the GoN accumulated cash balance of Rs. 81.89 billion at Nepal Rastra Bank as of mid-January 2016.

Monetary and Financial Situation

Money Supply

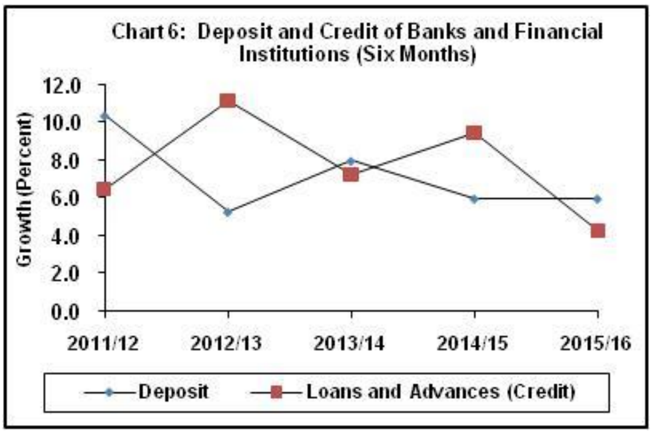
35. Broad money (M2) increased by 9 percent in six months of 2015/16 compared to an increase of 5.8 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded by 23.5 percent in mid-January 2016.



36. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 139.75 billion in the review period compared to an increase of Rs. 34.26 billion in the corresponding period of the previous year.
37. Reserve money, which had decreased by 12.4 percent in the corresponding period of the previous year, increased by 0.7 percent in the review period. On y-o-y basis, reserve money increased by 37.6 percent in mid-January 2016. Such growth of reserve money is attributed to the increase in the net foreign assets of this bank.

Domestic Credit

38. Domestic credit growth remained lower in the review period relative to that of last year. The slowdown in private sector credit disbursement and increase in the government deposits at this bank accounted for the decelerated rate of domestic credit growth. Domestic credit expanded by 1.1 percent in the review period compared to an increase of 3.9 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 13.1 percent in mid-January 2016.



39. Claims of monetary sector on the private sector increased by 5.9 percent in the review period compared to a growth of 11.5 percent in the corresponding period of the previous year. On y-o-y basis, claims on the private sector increased by 13.5 percent in mid-January 2016 compared to a growth of 21.1 percent a year ago.

Deposit Collection

40. Deposits at BFIs increased by 6 percent in the review period. Deposits at commercial banks, development banks and finance companies increased by 6.1 percent, 2.5 percent and 4.7 percent respectively in the review period. On y-o-y basis, deposits at BFIs expanded by 20.1 percent in mid-January 2016.

Credit Disbursement

41. Credit to the private sector increased by 5.8 percent in the review period compared to an increase of 11.6 percent in the same period of the previous year. Private sector credit from commercial banks, development banks and finance companies increased by 6.6 percent, 2.2 percent and 3.1 percent respectively in the review period. On y-o-y basis, credit to the private sector from BFIs increased by 13.6 percent in mid-January 2016.
42. Credit disbursement in major areas such as industrial production, wholesale and retail trade and agriculture remained lower then that of the previous year. Credit to the industrial production sector increased by 5.4 percent, wholesale and retail trade sector by 4.4 percent, construction sector by 4.1 percent, transport, communication and public sector by 14 percent and agriculture sector by 2 percent in the review period.
43. In six months of 2015/16, banks and financial institutions extended 59.8 percent of their total credit against the collateral of land and building, and 12.6 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 58.8 percent and 13.6 percent respectively in the same period of the previous year.

44. Of the total lending of the commercial banks, the credit to small and medium enterprises is only 2.6 percent (Rs. 31.07 billion) in the review period. Insufficient collateral has been one of the major constraints for SME finance in Nepal. Therefore, to address this problem, it is necessary to initiate the secured transactions related work. Likewise, T. R. (Trust Receipt) loan extended by commercial banks decreased by 13.4 percent (Rs. 7.36 billion) in the review period compared to a growth of 9.5 percent (Rs. 3.93 billion) in the same period of the previous year. This is mainly attributable to the contraction in imports accompanied by disruption in border points and the unrest in southern plain.

Liquidity Management

45. In six months of 2015/16, the NRB mopped up Rs. 304.85 billion liquidity, on a turnover basis, through various instruments. These consist of Rs. 198.40 billion liquidity absorption through deposit collection auctions, Rs. 97.35 billion through reverse repo auction and Rs. 9.10 billion through outright sale auction on a cumulative basis. The outstanding deposit collection auction amounted to Rs. 141.15 billion in mid-January 2016. In the corresponding period of the previous year, Rs. 75 billion was mopped up through deposit collection auction and Rs. 260.50 billion through reverse repo auction.

Box 4: Cost of Liquidity Absorption (Rs. in million)

Liquidity Absorption Instruments	2014/15 (Annual)		2015/16 (Six Months)	
	Amount	Interest Expenses	Amount	Interest Expenses
Deposit Collection Auction	155000	170.5	198400	540.9
Reverse Repo Auction	315800	2.8	97350	6.4
Outright Sale Auction	6000	17.3	9100	36.2
Total	**476800**	**190.6**	**30485**	**583.5**

46. In the review period, the NRB injected net liquidity of Rs. 234.13 billion through the net purchase of USD 2.23 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 157.20 billion was injected through the net purchase of USD 1.66 billion in the corresponding period of the previous year.

Box 5: Financial Access Indicators

Headings	Mid-January	
	2015	2016
Number of BFIs	197	191
Branches of BFIs	3,625	4,023
Number of ATM/Debit Card	41,05,408	43,59,366
Number of Credit Card	53,042	47,618

Number of Deposit Accounts	1,39,84,468	1,58,15,959
Number of Loan Accounts	10,03,523	10,10,204

47. The NRB purchased Indian currency (INR) equivalent to Rs. 145.28 billion through the sale of USD 1.38 billion in the review period. INR equivalent to Rs. 171.10 billion was purchased through the sale of USD 1.74 billion in the corresponding period of the previous year.

Financial Access

48. Expansion in branch network of BFIs has widened the access to finance. The branch network of BFIs reached 4,023 in mid-January 2016 from 3,625 a year ago. Likewise, the growth in the deposit and loan accounts has also contributed to broaden the financial access (Box 5).

Refinance and Productive Sector Lending

49. The NRB has been providing a refinance facility to expand credit to the productive sector. The use of such facility has slightly decreased in the review period. In the review period, a total refinance of Rs. 1.86 billion including general refinance of Rs. 1.70 billion and export refinance of Rs. 0.16 billion has been provided. In the corresponding period of the previous year, a total refinance of Rs. 4.23 billion including general refinance of Rs. 2.81 billion and export refinance of Rs. 1.42 billion was utilized.
50. This bank has introduced a provision of refinance facility at zero percent interest rate to the BFIs with an objective of providing concessional housing loan to earthquake victims. The policy provision introduced in May 2015 for such facility, whereby 'A', 'B' and 'C' category financial institutions were eligible for refinance, has been extended to microfinance institutions as well. The mannual revised on 4 January 2016 provides an avenue to microfinance institutions to extend housing loan up to Rs. three hundred thousands to earthquake victims.
51. There is a policy-provision for commercial banks to disburse 20 percent of their total credit in the productive sector. Such credit of commercial banks out of their total loans and advances stood at 16 percent in mid-January 2016.

Inter-bank Transaction and Standing Liquidity Facility

52. In the review period, inter-bank transactions of commercial banks stood at Rs. 411 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 34.75 billion. Such transactions had amounted to Rs. 152.50 billion and Rs. 96.66 billion respectively in the corresponding period of the previous year. The BFIs did not use the standing liquidity facility (SLF) in the review period.

Interest Rates

53. The weighted average of 91-day Treasury Bill rate, deposit auction rate and inter-bank transaction rate among commercial banks increased in the sixth month of 2015/16

compared to a year ago. The weighted average 91-day Treasury Bill rate increased to 0.68 percent in the review month from 0.16 percent a year ago. The weighted average deposit auction rate reached 0.81 percent in mid January 2016 from 0.20 percent a year ago. Similarly, the weighted average inter-bank transaction rate among commercial banks, which was 0.15 percent a year ago, increased to 0.26 percent in the review month. However, the weighted average inter-bank rate among other financial institutions decreased to 1.21 percent from 2.51 percent a year ago.

54. In the sixth month of 2015/16, the weighted average interest rate spread between deposit and lending rate of commercial banks inched down to 4.47 percent from 4.50 percent a year ago and the average base rate came down to 6.82 percent from 7.49 percent a year ago.

Status of Merger and Acquisition of Banks and Financial Institutions

55. The number of BFIs opting for merger has been increasing after the introduction of merger policy aimed at strengthening financial stability. After the issuance of the "Bank and Financial Institutions Merger By-law, 2011", 83 BFIs have merged with each other resulting in the formation of 31 BFIs as of mid-January 2016. Likewise, 2 finance companies were acquired by a commercial bank and one development bank was acquired by another development bank.

Regulatory Measures

56. In the review period, the NRB issued directives pertaining to branch acquisition of problematic bank by another bank under specified provisions, special refinance facility up to Rs. 0.5 million for extending credit to agriculture and small enterprises in the specified 10 districts of high poverty incidence and bordering VDCs and municipalities of specified districts in the Southern regions and opening branches in these areas without approval from the NRB. Further, additional directives relate to the credit extended to the organized sector operating public city transport services under productive sector lending and replacing magnetic strip cards by chip-based card.

57. The existing provision for submitting the net clearing position of BFIs through electronic channel by Nepal Clearing House Limited to the Banking Office at this bank has been modified in five specified sessions from the existing ones. Similarly, the BFIs are required to make their capital plan, as per the monetary policy provision, public through their own websites.

58. NRB also issued directives addressing unusual situation caused by the unrest in Terai region and trade-transit disturbances in Indo-Nepal Transit points. Such directives include the continuation of deferred loans as pass loans until mid-April 2016 and exemption from penalty for such loans, rescheduling or restructuring of loan up to one year for one time if borrowers of service sector (industry, trade, education, health, tourism and energy) submit

work-plan within mid-April 2016, provision for including accrued interest received by mid-February 2016 in income statement of the second quarter and extension of time period of T.R. loans (import loans) from 120 days to 180 days, among others.

59. In order to enhance the confidence of public in banking system through minimizing risk of banking transaction, this bank has introduced "New Capital Adequacy Framework-2015". Commercial banks are required to implement it in parallel run since mid-January 2016 and fully since mid-August 2016.

Macro prudential Regulation

60. There is a provision to limit credit in real estate sector up to 25 percent of total credit disbursement. Such credit flow of BFIs amounted to Rs. 218.90 billion (including Rs. 125.28 billion residential home loans less than Rs. 10 million each) in mid-January 2016. This is 15.2 percent of total credit exposure of BFIs. As at mid-January 2016, the BFIs' total margin lending extended against the collateral of shares stood at 1.9 percent (Rs. 27.61 billion) of their total credit exposure.

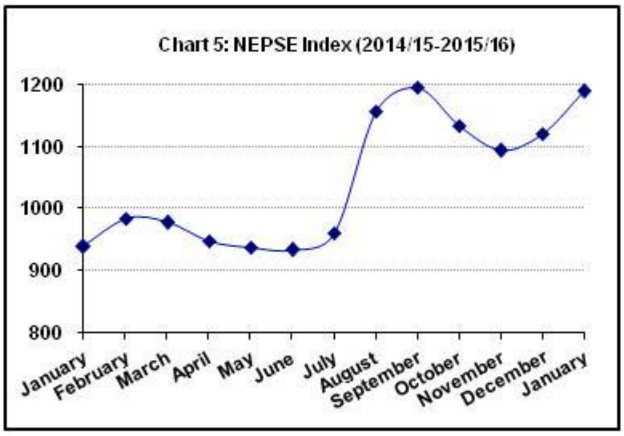
61. Currently, mandatory credit-deposit (local currency deposit and including core capital) ratio is 80 percent for the BFIs. Such ratio of commercial banks, development banks and finance companies stood at 71.86 percent, 70.16 percent and 68.65 percent respectively as at mid-December 2015. This shows that BFIs have additional room for credit disbursement.

62. Commercial banks are required to maintain 10 percent capital fund ratio of the risk weighted assets and the development banks and finance companies are required 11 percent each. Such ratios of commercial banks, development banks and finance companies were 11.89 percent, 16.47 percent and 21.49 percent respectively as at mid-December 2015. BFIs are required to maintain capital buffer of 1 percent or more in addition to capital adequacy ratio (CAR) before they distribute dividend.

63. While there is no limit for commercial banks in deposit collection, development banks and finance companies can collect financial resources up to 20 times and 15 times of their core capital respectively. Accordingly, development banks' and finance companies' resources collection stood at 6.7 times and 5.1 times of their core capital respectively as at mid-January 2016.

Capital Market

64. The NEPSE index on y-o-y basis increased by 26.7 percent to 1,190.2 points in mid-January 2016. This index had increased by 19.4 percent to 939.5 points a year ago. The stock market that was continously declining from mid-September 2015 to November owing to the Terai unrest and supply disruptions,



has been continosly gaining a momentum of late.

65. The twelve months' rolling standard deviation of NEPSE index increased by 31.5 percent in mid-January 2016. On the basis of daily (sector-wise) transactions from mid-December 2015 to mid-January 2016, the hydro power sector's index shows the highest volatility followed by the development banks.

66. The stock market capitalization on y-o-y basis increased by 33.2 percent to Rs. 1,282.87 billion in mid-January 2016. This had increased by 20.4 percent a year ago. The ratio of market capitalization stood at 60.4 percent in mid-January 2016 compared to 49.6 percent a year ago. In the total market capitalization, the share of banks and financial institutions (including insurance companies) stood at 82.2 percent, hydropower 5.5 percent, manufacturing and processing companies 2.5 percent, hotels 1.8 percent, trading 0.1 percent, and others 7.8 percent respectively.

67. On y-o-y basis, the total turnover of the securities increased by 114.7 percent to Rs. 9.93 billion in mid-January 2016. The turnover of the securities was decreased by 42.5 percent to Rs. 4.63 billion a year ago. In the total turnover, the share of commercial bank was 37.9 percent, insurance companies was 28.6 percent, development bank was 17.7 percent, promoter share was 6.9 percent, hydropower sector was 5.3 percent, finance companies was 2.3 percent, hotel was 0.5 percent, mutual fund was 0.2 percent and other sectors was 0.3 percent.

68. Total number of companies listed at the NEPSE decreased from 232 in mid-January 2015 to 230 in mid-January 2016 due to the merger of some BFIs.

69. On y-o-y basis, total paid-up capital of the listed companies increased by 35.9 percent to Rs. 252.12 billion in mid-January 2016. In the sixth month of 2015/16, total securities worth Rs. 7.69 billion were listed in the NEPSE. These consist of ordinary shares Rs. 1.74 billion, right shares Rs. 1.46 billion, bonus shares Rs. 2.79 billion and the debentures Rs. 1.70 billion.