Nepal Rastra Bank

Research Department

Current Macroeconomic Situation of Nepal

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

Growth Outlook

1. At the start of the fiscal year, economic growth was projected at 6 percent for 2015/16. The underlying assumptions of the growth projection were the acceleration in reconstruction works, and a significant increase in overall capital expenditure by the Government of Nepal (GoN). However, there has neither been an acceleration in reconstruction works nor a surge in overall capital expenditure by the GoN in the first two months of the current fiscal year. Likewise, works in development projects of the GoN has not yet resumed on account of the shortage of fuel, among others. Tourism, hotels, transportation and educational activities have also been affected adversely during the review period.
2. According to the monsoon report based on information[*] gathered from 21 different centers of the country by the Department of Hydrology and Meteorology, the average rainfall from August 18 through September 17 this year has been 81.9 percent of the last 30 year's average rainfall. In the review period, the agricultural sector has also suffered from supply disturbances of chemical fertilizers, pesticides and impeded market access of agro-products as a result of continuous strikes and blockade in the trade routes in the southern parts of the country.
3. The construction of major hydropower projects which were stalled due to the April earthquake, has not yet resumed. Likewise, the construction of infrastructure projects such as roads and irrigation has been negatively affected due to the shortage of fuel. The industrial sector has also been adversely affected on account of the shortage of fuel and necessary raw materials.
4. The continued strikes and disruption in trade routes in the Terai region further affected the tourism sector already hit by the devastating earthquakes. The average occupancy rate of the tourist standard hotels is about 30 percent in the review period.

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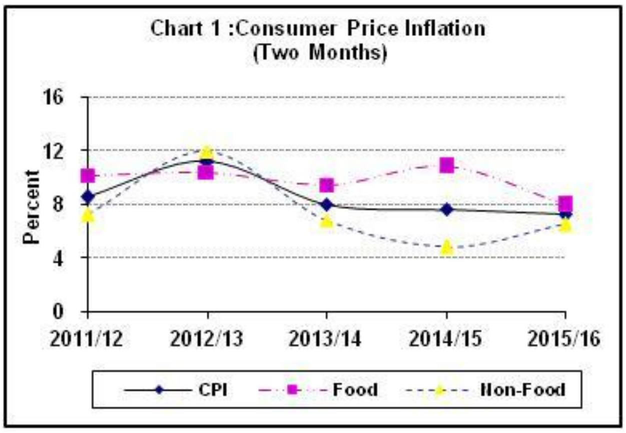
[*] Generally, monsoon remains active in Nepal during June 10 to September 23 every year.

5. Nepal Reconstruction Authority (NRA), which was formed through the ordinance of the GoN, could also not come into operation due to the failure of timely enactment of necessary law. Similarly, the process of disbursal of Rs. 2 hundred thousands to each household of the earthquake victims for the reconstruction of their houses has not yet taken place. Likewise, the reconstruction of historical heritages and private buildings has also not started yet.
6. Of the two major customs points of Nepal with China, Rasuwagadhi customs point has been made operational after clearing the landslides from the road. However, Kodari customs point is still not operational due to landslides between Barhabise-Tatopani part of Araniko highway. The Rasuwagadhi customs point may get blocked at any time due to the landslide at seven kilometers long Ramche segment road to Rasuwagadhi customs point and the incompletion of Betrawati-Mailung-Syanfrubesi track.
7. The newly constructed bridge over Koshi River in Chatara has come into operation since August 3, 2015. The roads linking this bridge with other main highway are yet to be improved to pave the easy movement of large vehicles through this bridge.
8. These developments are likely to pose the downside risks to the growth outlook for 2015/16.

Inflation, Salary and Wage Rate

Consumer Price Inflation



9. The y-o-y consumer price inflation stood at 7.2 percent in mid-September 2015 compared to 7.6 percent in the corresponding period of the previous year. The lower rate of inflation this year relative to that of the last year was on account of sluggish aggregate demand outweighing the supply side factors. While food and beverage group inflation was 7.9 percent, non-food and services group inflation was 6.5 percent during the review period. Such inflations were 10.8 percent and 4.8 percent respectively in the corresponding period of the previous year.
10. Under food and beverage group, the price index of legume varities sub-group increased by the highest rate of 29 percent during the review period compared to an increase of

10.3 percent in the corresponding period of the previous year. The price indices of milk products and eggs sub-group and meat and fish sub-group which had increased by 9.8 percent and 9.3 percent in the corresponding period of the previous year, increased by 10.5 percent and 10.1 percent respectively during the review period. The price indices of cereal grains and their products sub-group and alcoholic drinks sub-group increased by 8 percent and 7.9 percent respectively during the review period compared to an increase of 11.4 percent and 19.4 percent respectively in the corresponding period of the previous year. The price index of sugar and sweets sub-group, which had increased by 0.7 percent in the corresponding period of the previous year, decreased by 0.7 percent in the review period.

11. Under non-food and services group, the price index of education sub-group increased by a higher rate of 12.1 percent during the review period compared to an increase of 5.5 percent in the corresponding period of the previous year. The price index of clothing and footwear sub-group and housing and utilities sub-group, which had increased by 8.1 percent and 2.4 percent in the corresponding period of the previous year, increased by 10.4 percent and 9.5 percent respectively. During the review period, the price indices of furnishing and household equipment sub-group and communication sub-group increased by 4.1 percent and 3.8 percent respectively. The price index of furnishing and household equipment sub-group had increased by 6.1 percent whereas the price index of communication sub-group had decreased by 0.5 percent in the corresponding period of the previous year. The price index of transport sub-group decreased by 5.3 percent in the review period compared to an increase of 3 percent in the corresponding period of the previous year.

12. In terms of ecological regions, the price index in the Kathmandu Valley increased by 8.2 percent followed by 7.1 percent in Hilly region, 6.5 percent in Terai region and 6.1 percent in Mountain region during the review period. Such indices had increased by 7.9 percent in the Kathmandu Valley, 7.2 percent in Hilly region and 7.6 percent in Terai region in the corresponding period of the previous year.

Wholesale Price Inflation

13. The y-o-y wholesale price index increased by 5.1 percent during the review period compared to a rise of 7.3 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities and domestic manufactured commodities increased by 9.3 percent and 5.3 percent respectively, whereas such index of imported commodities decreased by 4.1 percent in the review period. The increments in agricultural commodities, domestic manufactured commodities and imported

commodities were 9.4 percent, 5.7 percent and 4.2 percent respectively in the corresponding period of the previous year.

National Salary and Wage Rate

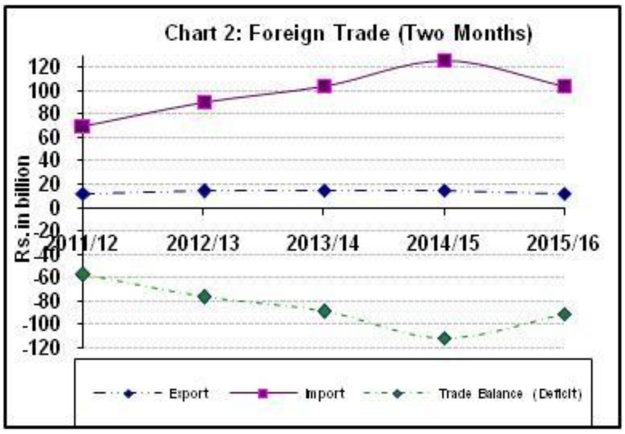
14. The y-o-y salary and wage rate index increased by 6.4 percent during the review period compared to an increase of 9.4 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 0.9 percent and the wage rate index increased by 7.8 percent compared to an increase of 7.5 percent and 9.9 percent respectively in the corresponding period of the previous year.
15. The salary indices of public corporations, bank and financial institutions and education sub-group increased by 2.5 percent, 2.3 percent and 1.5 percent respectively during the review period. Likewise, wage rate indices of agricultural labourer, construction labourer and industrial labourer witnessed a growth of 11.4 percent, 4.6 percent and 1.6 percent respectively in the review period.

External Sector

16. The foreign trade of Nepal is being affected due to the strike in Terai-Madesh region as well as disturbances at the custom points between Nepal and India. In addition, the main two customs points of Nepal with China, Tatopani and Kerung Rasuwagadi, were also not in operation during the review period. However, the level of foreign exchange reserves climbed up on account of the decrease in imports and upsurge in transfer income.

Foreign Trade Situation

17. Merchandise exports saw a significant fall of 15.2 percent to Rs. 12.24 billion in the first two months of 2015/16 compared to a drop of 4.8 percent to Rs. 14.43 billion in the same period of the previous year. The total exports decreased due to a fall in exports to India, China and other countries in the review period.



18. Exports to India decreased by 22.8 percent during the review period compared to a drop of 7.6 percent in the same period of

the previous year. Exports to India decreased mainly due to the fall in the exports of zinc sheet, juice, polyster yarn, textiles, among others. Similarly, exports to China decreased by 12.3 percent in the review period compared to a decrease of 15.3 percent in the same period of the previous year. This fall is mainly attributed to the decrease in the exports of tanned skin, readymade garments, rudrakshya, agarbatti among others. Similarly, exports to other countries dropped by 3 percent in the review period in contrast to an increase of 0.5 percent in the same period of the previous year. The fall in exports to other countries is attributed to a drop in the exports of pulses, tanned skin, tea, handicrafts, among others. In US dollar terms, exports to China decreased by 18.4 percent to USD 1.7 million during the review period compared to a fall of 15 percent in the same period of the previous year. Similarly, exports to other countries decreased by 9.7 percent to USD 50.9 million in the review period as against an increase of 3.5 percent in the same period of the previous year.

19. During the review period, merchandise imports decreased by 17.5 percent to Rs. 103.95 billion. Such imports had gone up by 20.5 percent to Rs. 126.02 billion in the same period of the previous year. The slowdown in imports is attributed mainly to a decrease in imports of petroleum products, among others as well as problem in supply side due to strike in Terai-Madesh region.

20. Imports from India fell by 19.9 percent in the review period as against an increase of 18.7 percent in the same period of the previous year. The imports of chemical fertilizer, M.S.wire rod, collrolled sheet in coil, hotrolled sheet in coil has increased where as the imports of petroleum product, M.S. billet, cement, medicine, among others has decreased. Imports from China increased by 5.9 percent in the review period compared to a growth of 39.8 percent in the same period of the previous year. Imports from China rose due to the increase in the imports of readymade garments, shoes/sandles, telecommunication equipments and parts, among others. Similarly, imports from other countries decreased by 22.4 percent in the review period contrary to an increase of 17.7 percent in the same period of the previous year. Imports from other countries decreased mainly due to a fall in the imports of silver, chemical fertilizer, aircraft spare parts and equipments, copper wire rod among others. In US dollar terms, imports from China decreased by 1.2 percent to USD 148.2 million in the review period compared to an increase of 44.2 percent in the same period of the previous year. Similarly, imports from other countries decreased by 27.6 percent to USD 221.1 million in the review period compared to the increase of 20.9 percent in the previous year.

21. Total trade deficit during the review period decreased by 17.8 percent to Rs. 91.71 billion compared to an increase of 24.9 percent in the same period of the previous year. Trade deficit with India and other countries decreased by 19.6 percent and 26.8 percent

respectively whereas trade deficit with China increased by 6.2 percent in the review period. Such deficits had gone up by 22.9 percent, 41.1 percent and 22.4 percent respectively in the same period of the previous year. The FOB based trade deficit decreased by 18.4 percent to Rs. 87.90 billion in the review period. Such deficit had gone up by 25.3 percent in the same period of the previous year.

22. The exports-imports ratio reached 11.8 percent in the review period on account of a fall in imports. Such ratio had remained at 11.4 percent in the same period of the previous year.

Box 1:Trade Policy, 2015

The Government of Nepal, Ministry of Commerce and Supply has issued the trade policy 2015 with a vision to achieve economic prosperity from higher contribution of trade and commerce sector in the economy through the export promotion. The goal of the trade policy is inclusive and sustainable economic growth through export promotion. The objectives are to strengthen the supply capacity, reduce the trade deficit by exporting value added competitive products in world market, and increase the access of goods, services and intellectual property rights in regional and world market. The policy has identified following 26 goods and 7 services as potential products for exports.

Goods			Services
1. Ginger	10. Shoes	19. Fruits	1. Engineering
2. Cardamom	11. Textile	20. Iron and its products	2. Hydroelectricity
3. Woolen and Carpet	12. Vegetables and its seeds	21. Honey	3. Tourism
4. Medicine, Medicinal Herbs	13. Instant Noodles	22. Lentil	4. Education
5. Coffee	14. Readymade Garments	23. Cement	5. Information Technology and Business Process Outsourcing
6. Carpet	15. Milk Products	24. Gold and silverware and precious stone	6. Health Services
7. Chyngra Pashmina and silk goods	16. Tanned Skin	25. Handicraft Products	7. Labour resources (Skilled and Semi-skilled)
8. Sugar	17. Pashmina	26. Handmade Paper and its products	–
9. Tea	18. Flower	–	–

Export-Import Price Index

23. The y-o-y unit value export price index based on customs data increased by 7.3 percent in the second month of 2015/16 compared to 8.6 percent rise in the same period of the previous year. Increase in price of major export items such as pulses, betelnut, cardamom, jute strings caused the export price index to rise in review period.

24. The y-o-y unit value import price index based on customs data decreased by 4.3 percent in the review period. It had increased by 6.2 percent in the corresponding period of the

previous year. Price of major import items such as diesel, L.P. gas, petrol, zinc etc. caused import price index to decrease in review period.

25. Terms of Trade (TOT) index increased by 12.2 percent on y-o-y basis in the second month of 2015/16 compared to an increase of 2.2 percent in the corresponding period of the previous year.

Services

26. The gross services receipts in the review period decreased by 0.7 percent to Rs. 21.19 billion in contrast to an increase of 22.7 percent in the same period of the previous year. The travel receipts and government services receipts increased by 0.8 percent and 52.7 percent respectively in the review period. On the other hand, other receipts decreased by 26.6 percent in the review period. The services receipts fell on account of losses in tourism including other service sectors induced by the devastating earthquake of April 25, 2015 as well as the strike in the Terai-Madesh region.
27. The total service expenses increased by 17.4 percent in the review period compared to the 23.5 percent increase in the same period of the previous year. The transportation, travel and other service expenses increased by 4.2 percent, 13 percent and 53 percent respectively in the review period.
28. The net services receipts remained in deficit by Rs. 3.73 billion on account of a decrease in services receipts and increase in service expenses in the review period compared to Rs. 0.11 billion surpluses in the same period of the previous year.

Transfers

29. The net transfer receipts increased by 32.2 percent to Rs. 125.50 billion in the review period due to an upsurge in foreign grants, remittance inflows and pension. It had decreased by 6.4 percent in the same period of the previous year.
30. The gross transfer receipt increased by 32.1 percent to Rs. 125.90 billion in the review period as against a decrease of 6.5 percent in the same period of the previous year. The total foreign grants of Rs. 10.98 billion was received in the review period. Such grant was Rs. 4.27 billion in the same period of the previous year.
31. The remittances inflow increased by 27.5 percent to Rs. 107.67 billion in the review period in contrast to a decrease by 4 percent in the same period of the previous year. In US dollar terms, the remittances increased by 18.7 percent to USD 1.03 billion in contrast to a decrease by 1.1 percent in the same period of the previous year.

32. The number of workers going abroad for foreign employment, which directly affects remittances inflow, has decreased to some extent in recent months. The number of Nepalese workers seeking foreign employment, based on final approval for foreign employment, decreased by 17.9 percent in the two months of 2015/16. It had increased by 33.8 percent in the same period of the previous year.

Box 2: 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	39314
October	31959	35550	-
November	31949	43213	-
December	41634	53354	-
January	50032	45362	-
February	37285	48941	-
March	48552	44460	-
April	45854	52210	-
May	54173	31375	-
June	54926	37962	-
July	61717	26600	-
Total	**528232**	**512887**	**77070**
Percentage Change	16.5	-2.9	-17.9**

* Based on final approval for foreign employment.
** July/Sep. 2014-July/Sept 2015
Source:- Foreign Employment Department

33. The pension income increased by 10.5 percent to Rs. 7.25 billion in the review period. Such income was Rs. 6.56 billion in the same period a year ago.

Current Account

34. The current account registered a surplus of Rs. 38.48 billion during the review period in contrast to a deficit of Rs. 9.33 billion in the same period of the previous year. The surplus of current account is mainly attributed to the decrease in merchandise import, increase in remittances and grants, among others. The current account surplus in US dollar terms was USD 366 million in the review period compared to USD 96.2 million deficit in the same period of the previous year.

Capital and Financial Account

35. The capital transfer amounted to Rs. 2.51 billion in the review period compared to Rs. 1.04 billion in the same period of the previous year.

36. Foreign Direct Investment (FDI) inflow amounted to Rs. 0.83 billion in the review period compared to Rs. 0.34 billion in the same period of the previous year.

Box 3: Dividend Payment to FDI Companies*

(Rs. in million)

SN	Sectors	2014/15 Annual
1	Financial Sector	1794.43
2	Communication Sector	4.00
3	Hydro Power Sector	2874.48
4	Industry Sector	2299.19
5	Service Sector	238.61
	Total	**7210.71**

**Based on approval from NRB*

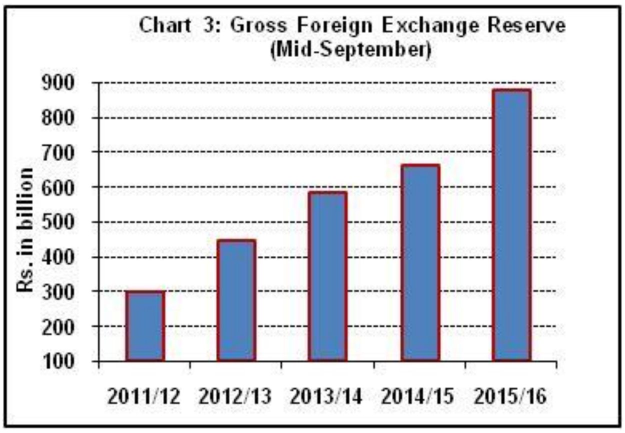
37. In 2014/15, dividend payment to FDI companies, based on approval, stood at Rs. 7.21 billion. No

dividend was paid in the first two months of current fiscal year 2015/16.

BOP Situation

38. The overall BOP showed a surplus of Rs. 32.06 billion in the review period compared to a deficit of Rs. 744.4 million in the same period of the previous year. In US dollar terms, the BOP recorded a surplus of USD 304.3 million compared to a deficit of USD 7.7 million in the same period of the previous year.

Foreign Exchange Reserves



39. The gross foreign exchange reserves increased by 6.4 percent to Rs. 876.75 billion as at mid-September 2015 from Rs. 823.87 billion as of mid-July 2015. Such reserves had increased by 0.8 percent in the same period of the previous year. The gross foreign exchange reserves in US dollar terms increased by 1.6 percent to USD 8.28 billion in mid-September 2015. Such reserves had decreased by 0.9 percent in the same period of the previous year.

40. The foreign exchange reserves held by NRB increased by 7.5 percent to Rs. 755.35 billion as at mid-September 2015 compared to Rs. 702.88 billion as of mid-July 2015. Such reserves had increased by Rs. 168.22 million in the same period of the previous year. The share of NRB in total reserves stood at 86.2 percent as at mid-September 2015.

41. The foreign exchange reserves of banks and financial institutions (except NRB) increased by 0.3 percent to Rs. 121.41 billion as at mid-September 2015 compared to the level of mid-July 2015. Such reserves had increased by 5.4 percent in the same period of the previous year.

42. During the review period, the inconvertible foreign exchange reserves increased by 3.8 percent to IRs 124.26 billion. Such reserves had decreased by 1.4 percent in the same period of the previous year. The share of inconvertible foreign exchange reserves in total reserves stood at 22.7 percent as at mid-September 2015.

Foreign Exchange Adequacy Indicators

43. The reserve adequacy indicators remained satisfactory in the review period. Based on the imports of the two months of current fiscal year, the foreign exchange holding of the banking sector is sufficient to cover prospective merchandise imports of 17.2 months, and merchandise and services imports of 13.8 months. The ratio of reserve to GDP, reserve to imports and reserve to M_2 remained 41.3 percent, 115.2 percent and 46.2 percent respectively in mid-September 2015. Such ratios were 38.8 percent, 93.2 percent and 43.9 percent as at mid-July 2015.

Box 4 : Reserve Adequacy Ratio (Percent)

Description	Mid-July		Mid-September	
	2014	2015	2014	2015
Reserve/GDP	34.3	38.8	34.5[a]	41.3[a]
Reserve/Imports*	83.1	93.2	77.1	115.2
Reserve/M2	42.5	43.9	42.8	46.2

* Goods and services import
a, GDP data of the previous year is used.

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

44. The price of oil (Crude Oil Brent) in the international market decreased sharply by 49.9 percent to USD 48.27 per barrel in mid-September 2015 from USD 96.43 per barrel a year ago. The decrease in the price of petroleum product is attributed to the decrease of demand for petroleum products in emerging and developing economies including China along with no reduction in production by the OPEC and USA. Similarly, the price of gold declined by 9.5 percent to USD 1117.5 per ounce in the mid-September 2015 from USD 1234.25 per ounce a year ago.

45. Nepalese currency vis-à-vis the US dollar depreciated by 4.5 percent in mid-September 2015 from mid-July 2015. It had depreciated by 1.7 percent in the same period of the previous year. The exchange rate per US dollar stood at Rs. 105.92 in mid-September 2015. It was Rs. 101.14 in mid-July 2015.

Policy Measures for Narrowing Down Trade Deficit

46. Nepal has undertaken some policy initiatives such as special refinance facility to export industries and cash subsidy to exporters to promote export. With a view to promoting export, the GoN has made a provision of providing cash subsidy of 2 percent for export of specified 10 industrial goods, 1 percent for export of specified 15 industrial and 7 agricultural goods. Under this provision, cash subsidy of Rs 250.3 million was granted for exporters in 2014/15. In the two months of the current fiscal year, Rs 8.83 million

has been granted as cash subsidy for export of four products including leather products, pulses, pashmina and carpet.

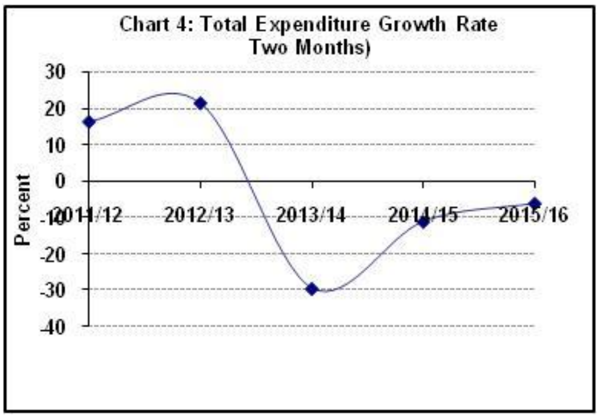
Fiscal Situation *

Budget Deficit / Surplus

47. During the two months of 2015/16, the government budget, on cash basis, showed a surplus of Rs. 48.43 billion. Such budget surplus was Rs. 42.93 billion in the corresponding period of the previous year.

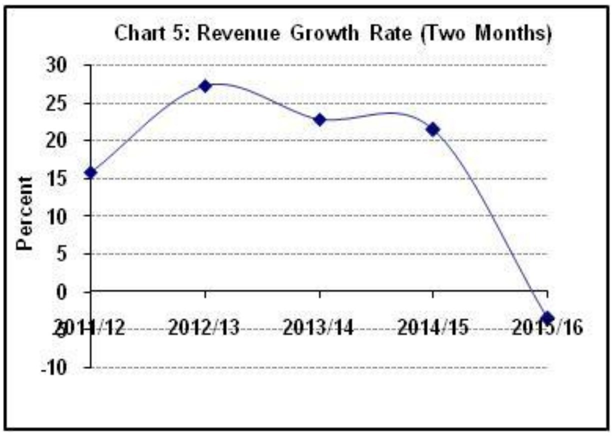
Government Expenditure

48. During the review period, total government expenditure on cash basis dropped by 6.1 percent to Rs. 16.45 billion compared to a decrease of 11.1 percent to Rs. 17.52 billion in the corresponding period of the previous year. The total government expenditure declined mainly due to drop in recurrent expenditure. The total government expenditure in the review period remained low at 1.34 percent of the budget estimates for 2015/16 (Box 5).



Government Revenue

49. During the review period, the government revenue collection dipped by 3.6 percent to Rs. 53.08 billion in contrast to an increase by 21.4 percent to Rs. 55.08 billion in the corresponding period of the previous year. The total government revenue collection in the review period stood at



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* Based on the data reported by 8 NRB offices, 67 branches of Rastriya Banijya Bank Limited, 44 out of 47 branches of Nepal Bank limited, 9 branches of Everest Bank Limited, 4 branches each of Global IME Bank Limited and Agriculture Development Bank limited, 1/1 branch each of NMB Bank Limited and Bank of Kathmandu Limited conducting government transactions and release report from 79 DTCOs and payment centres.

11.17 percent of the annual revenue target for 2015/16 (Box 5).

50. During the review period, value added tax, customs revenue, excise, registration fees, vehicle tax, other tax and non-tax revenue declined whereas the income tax, health service tax and educational service tax increased.

Box: 5 Fiscal Outturn (Cash Basis)

Rs. in million

	Budget Estimates for 2015/16	Progress up to Two months	Progress in Percent
Total Expenditure	819468.88	11001.70	1.34
Recurrent Expenditure	484266.38	10565.80	2.18
Capital Expenditure	208877.24	435.90	0.21
Financial Expenditure	126325.27	0.00	0.00
Revenue	475012.10	53075.40	11.17
Foreign Grant	110929.41	6508.00	5.87
Total Borrowing	182964.70	1769.10	1.86
Domestic Borrowing	88000.00	0.00	0.00
Foreign Borrowing	94964.70	1769.10	1.86
Change in Cash Balance (- increase)	48562.7	-44684.3	

Public Debt †

51. Outstanding public debt of the GoN declined to Rs. 534.67 billion with domestic debt falling to Rs. 191.34 billion and external debt amounting to Rs. 343.34 billion in mid-September 2015 from the July 2015 level. In mid-September 2015, total public debt-to-GDP ratio declined to 25.17 percent. During the review period, the GoN made principal payment of Rs. 6.84 billion comprising Rs. 5.45 billion domestic debt and Rs.1.40 billion external debt.

Government Cash Balance

52. In mid-September 2015, the total cash balance of the GoN at Nepal Rastra Bank stood at Rs 91.21 billion comprising Rs. 50.13 billion balance of the review period and Rs. 41.08 billion balance of the previous year.

Monetary Situation

Money Supply

53. Broad money supply (M2) increased by 1 percent in the two months of 2015/16 compared to an increase of 0.1 percent in the corresponding period of the previous year. Narrow money supply (M1) declined by 3.1 percent in the review period compared to a decrease of 2.8 percent in the same period of the previous year. On y-o-y basis, M2 expanded by 21 percent and M1 expanded by 19.4 percent in mid-September 2015.

† Based on FCGO and Balance of Payment data.

54. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 32.06 billion (4.3 percent) during the review period in contrast to a decrease of Rs. 0.74 billion (0.1 percent) in the corresponding period of the previous year. Increase in remittance inflows along with shrinking imports resulted in a higher growth of net foreign assets in the review period.

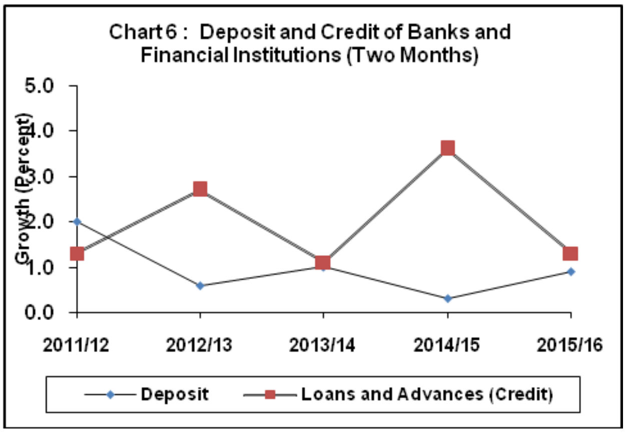
Domestic Credit

55. Domestic credit decreased by 1.9 percent in the review period compared to an increase of 0.2 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 13.1 percent in mid-September 2015. A rise in cash balances of the GoN with the NRB resulted in a decelerated growth rate of domestic credit in the review period. Claims on the private sector increased by 1.7 percent in the review period compared to a growth of 3.9 percent in the corresponding period of the previous year. On y-o-y basis, claims on the private sector increased by 16.8 percent in mid-September 2015 compared to a growth of 20.7 percent a year ago.

Reserve Money

56. Reserve money decreased by 9.1 percent in the review period compared to a decrease of 9.5 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased by 14.8 percent in mid-September 2015. The liquidity absorption through deposit collection auction contributed to a decrease in the reserve money in the review period.

Deposit Mobilization



57. Deposits at banks and financial institutions (BFIs) increased by 0.9 percent (Rs. 14.90 billion) in the review period compared to a growth of 0.3 percent (Rs. 4.89 billion) in the corresponding period of the previous year. Deposits at commercial banks, development banks and finance companies increased by 0.9 percent, 2.2 percent and 3.0 percent respectively in the review period. In the same period of the previous year, deposits at commercial banks and finance companies had increased by 1.5 percent and 0.7 percent respectively. However, such

deposits at development banks had decreased by 7.7 percent. On y-o-y basis, deposits at BFIs expanded by 20.7 percent in mid-September 2015.

Credit Disbursement

58. Loans and advances of BFIs increased by 1.3 percent (Rs. 20.36 billion) in the review period compared to a growth of 3.6 percent (Rs. 47.76 billion) in the corresponding period of the previous year. In the review period, loans and advances of commercial banks, development banks and finance companies increased by 1.1 percent, 2.5 percent and 5.9 percent respectively. Likewise, credit to the private sector from BFIs increased by 0.9 percent (Rs. 11.72 billion) in the review period compared to an increase of 3.2 percent (Rs. 35.21 billion) in the same period of the previous year. Private sector credit from commercial banks, development banks and finance companies increased by 0.8 percent, 0.8 percent and 2.1 percent respectively in the review period. On y-o-y basis, credit to the private sector from BFIs increased by 17.2 percent in mid-September 2015.
59. Credit to the industrial production sector increased by Rs. 2.68 billion (1 percent) in the review period compared to an increase of Rs. 11.69 billion (5.3 percent) in the same period of the previous year. In the review period, credit to the wholesale and retail trade sector, construction sector and transport, communication and public sector increased by Rs. 2.43 billion (0.8 percent), Rs. 2.18 billion (1.4 percent) and Rs. 4.14 billion (6.9 percent) respectively. The credit to the wholesale and retail trade sector, construction sector and transportation, communication and public service sector had increased by Rs. 11.08 billion (4.5 percent), Rs. 6.04 billion (5.1 percent) and Rs. 1.58 billion (3.3 percent) respectively in the same period of the previous year. In the review period, credit to the agriculture sector decreased by Rs. 1.24 billion (1.9 percent) compared to an increase of Rs. 0.48 billion (0.9 percent) in the corresponding period of the previous year.
60. In the two months of 2015/16, the banks and financial institutions have extended 59.4 percent of their total credit against the collateral of house and land, and 12.9 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 58.8 percent and 13.8 percent respectively in the same period of the previous year.
61. In the review period, commercial banks' credit to government enterprises decreased by 26.7 percent to Rs. 9.06 billion. Such credit had declined by 0.3 percent in the same period of the previous year.

Liquidity Management

62. In the two months of 2015/16, the NRB mopped up Rs. 57.25 billion liquidity through deposit collection auctions, Rs. 21.30 billion through reverse repo auction and Rs. 9.10 billion through outright sale auction on cumulative basis. The outstanding deposit collection auction amounted to Rs. 107.25 billion as at mid-September 2015. In the corresponding period of the previous year, Rs. 168 billion was mopped up through reverse repo auction.
63. In the review period, the NRB injected net liquidity of Rs. 73.93 billion through the net purchase of USD 709.4 million from foreign exchange market (commercial banks). Net liquidity of Rs. 45.78 billion was injected through the net purchase of USD 471.5 million in the corresponding period of the previous year.
64. The NRB purchased Indian currency (INR) equivalent to Rs. 35.08 billion through the sale of USD 540 million in the review period. INR equivalent to Rs. 30.31 billion was purchased through the sale of USD 500 million in the corresponding period of the previous year.

Reinstating the Bank Branches Closed during the Conflict

Box 6: Reinstatement of Bank Branches Closed during the Conflict Period

Particulars	Total	Nepal Bank Ltd.	Rastriya Banijya Bank Ltd.	Agriculture Development Bank Ltd.
Total closed branches	284	120	97	67
Reinstated branches	127	26	47	54
In the process of reinstatement	157	94	50	13

65. Of the total 284 closed during the conflict period, 54 branches of Agriculture Development Bank Limited, 47 branches of Rastriya Banijya Bank Limited and 26 branches of Nepal Bank Limited have been reinstated till mid-September 2015. Of the remaining, 13 of ADBL, 50 of RBB and 94 of NBL are in the process of reestablishment. Thus, of the total 284 public sector bank branches closed during the conflict period, 127 branches have been re-established and 157 branches are still in the process of re-establishment.

Financial Deepening Indicators

66. In the two months of 2015/16, the ratios of broad money, domestic credit, private sector credit and total deposits to GDP have increased compared to that of the previous years, indicating improvement in financial deepening (Box 7).

Box 7: Financial Deepening Indicators

(Percent)

Indicators	Mid-September		
	2013	2014	2015*
M2/GDP	68.3	73.7	89.2
Domestic Credit/GDP	59.0	62.0	69.9
Private Sector Credit/GDP	51.0	56.3	65.7
Total Deposits/GDP	61.8	66.4	80.2

*Ratios calculated with the GDP of 2014/15

Financial Broadening

67. Expansion of branch network of BFIs has contributed to widen the access to finance. The branch network of BFIs reached 3,862 in mid-September 2015 from 3,497 a year ago. Likewise, increase in the debit cards, deposit and loan accounts have also contributed to broaden the financial access (Box: 8).

Box 8: Financial Broadening Indicators

Headings	Mid-September	
	2014	2015
Number of BFIs	201	194
Branches of BFIs	3497	3862
Number of ATM/Debit Card	4129711	4531787
Number of Credit Card	57898	43895
Number of Deposit Accounts	13112881	14934618
Number of Loan Accounts	937873	1033384

Regulatory Measures

68. In the review period, the NRB has issued directives pertaining to branch acquisition of problematic bank by another 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 area without approval from the NRB. Further, additional directives relate to including 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, among others.

Refinance and Productive Sector Lending

69. The NRB has been providing refinance facility to enhance productive sector lending and contribute to export promotion. Utilization of such facility has decreased in the review period.
70. In the review period, a total refinance of Rs. 671 million including general refinance of 618 million and export refinance of Rs. 53 million has been provided. In the corresponding period of the previous year, a total refinance of Rs. 965.1 million including general refinance of Rs. 554.8 million and export refinance of Rs. 410.3 million was utilized.
71. To relieve the earthquake victims, the NRB has issued necessary work procedures for providing interest free refinance facility. Under this scheme, a sum of Rs. 1.744 million has been extended as of mid-September 2015.
72. 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 15.6 percent in mid-September 2015.

Inter-bank Transaction and Standing Liquidity Facility

73. In the review period, inter-bank transactions of commercial banks stood at Rs. 141.38 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 14 billion. Such transactions had amounted to Rs. 20.97 billion and Rs. 24.43 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

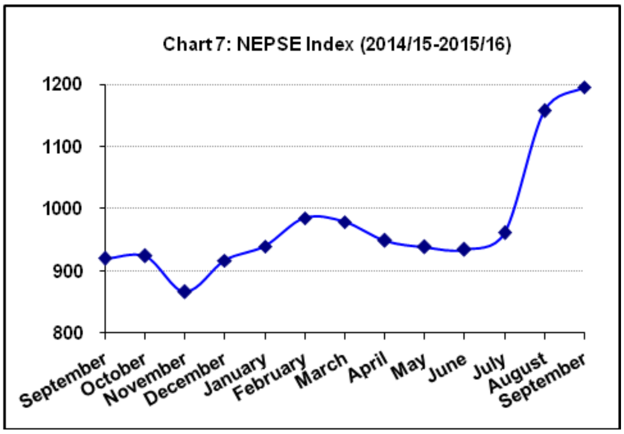
74. Both the weighted average of 91-day Treasury Bill rate and inter-bank transaction rates increased in the two months of 2015/16 compared to a year ago. The weighted average 91-day Treasury Bill rate increased to 2.22 percent in the review month from 0.07 percent a year ago. The weighted average inter-bank transaction rate among commercial banks that was 0.17 percent a year ago reached 1.45 percent in the review month. Likewise, the weighted average inter-bank rate among other financial institutions increased to 2.71 percent from 2.30 percent a year ago.
75. Weighted average interest rate spread between deposit and lending rate of commercial banks inched up to 4.60 percent from 4.32 percent a year ago and the average base rate came down to 7.21 percent from 7.90 percent a year ago.

Macro prudential Regulation

76. There is a provision to limit credit in real estate sector at 25 percent of total credit disbursement. Such credit flow of BFIs amounted to Rs. 206.85 billion (including Rs. 120.20 billion residential home loans less than Rs. 10 million each) as at mid-September, 2015. This is 15.1 percent of total credit exposure of BFIs. As at mid-September 2015, the BFIs' total margin lending extended against the collateral of shares stood at 1.8 percent (Rs. 24.28 billion) of their total credit exposure.
77. There are provisions to maintain Loan-to-Value (LTV) ratio at 60 percent while lending in real estate sector, single obligor limit not to exceed 40 percent of the total loans and advances, Statutory Liquidity Ratio (SLR) at 12 percent of total deposits for commercial banks and 9 percent and 8 percent for development banks and finance companies, which collect current and call deposits respectively.
78. There is a provision of not exceeding 80 percent credit-deposit (local currency deposit and including core capital) ratio. Such ratios of commercial banks, development banks and finance companies stood at 71.97 percent, 70.05 percent and 75.22 percent respectively as at mid-September 2015. This shows that BFIs have additional room for credit disbursement.
79. To manage the risk that occurs because of higher institutional deposits in the deposit structure of BFIs, there is a provision for commercial banks to limit institutional deposit at 60 percent of their total deposit. Share of such deposits at BFIs remained at 48.4 percent as at mid-September 2015.
80. Commercial banks are required to maintain 10 percent capital fund ratio of the risk weighted assets and development banks and finance companies are required 11 percent each. Such ratios of commercial banks, development banks and finance companies were 11.94 percent, 16.14 percent and 21.58 percent respectively as at mid-September 2015. BFIs are required to maintain capital buffer of 1 percent or more in addition to capital adequacy ratio (CAR) before they distribute dividend.
81. There is no limit for commercial banks to collect deposits while 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 6.8 times and 5 times of their core capital respectively as at mid-September 2015.

Securities Market

82. NEPSE index increased by 30 percent to 1196 points in mid-September 2015 on y-o-y basis. This index had increased by 66.7 percent to 919.9 points a year ago. The index started to surge with the rise in investors' confidence due to the provision of monetary policy of 2015/16 relating to the hike in paid-up capital of BFIs, and the speed-up in the constitution making process.



83. The stock market capitalization on y-o-y point basis increased by 31.1 percent to Rs. 1231.94 billion in mid-September 2015. The ratio of market capitalization to GDP of 2014/15 stood at 58 percent in mid-September 2015 compared to such ratio of 48.4 percent a year ago.
84. Of the total market capitalization in mid-September 2015, the share of banks and financial institutions (including insurance companies) stood at 81.5 percent, hydropower 5.3 percent, manufacturing and processing companies 2.9 percent, hotels 2.1 percent, trading 0.1 percent, and others 8.2 percent respectively.
85. Total number of companies listed at the NEPSE decreased from 235 in mid-September 2014 to 230 in mid-September 2015 due to the merger of some BFIs. Of the total listed companies, the number of BFIs (including insurance companies) stood at 196 followed by manufacturing and processing industries (18), hydropower (6), hotels and trading (4 each) and other companies (2).
86. On y-o-y basis, total paid-up capital of the listed companies increased by 24 percent to Rs. 212.45 billion in mid-September 2015. Within the two months of 2015/16, the total securities worth of Rs. 2.23 billion comprising bonus shares of Rs. 1.63 billion and the debenture of Rs. 600 million was listed in the NEPSE.