Nepal Rastra Bank

Research Department

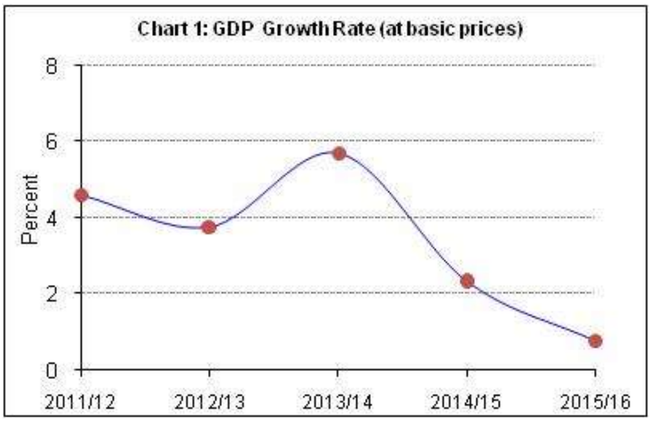
Current Macroeconomic and Financial Situation of Nepal

(Based on the Annual Data of 2015/16)

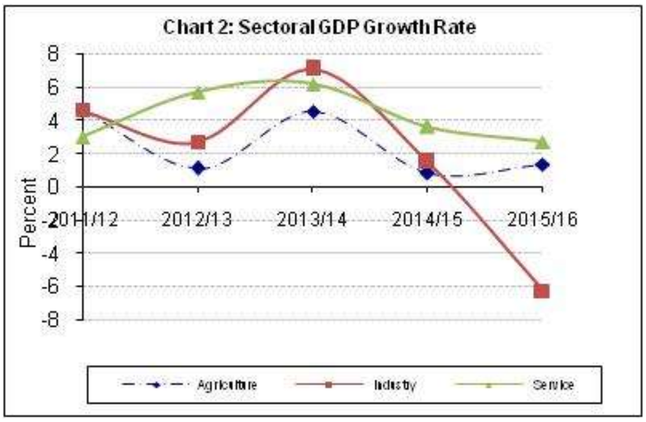
Real Sector

Gross Domestic Product

1. According to the preliminary estimates of the Central Bureau of Statistics (CBS), the real GDP at basic price is expected to grow 0.8 percent in 2015/16 compared to a growth of 2.3 percent in the previous year. Similarly, the real GDP at producers' price is expected to grow 0.6 percent compared to a growth of 2.7 percent in the previous year. Delay in monsoon, prolonged strikes and obstructions in southern border points adversely affected the economy resulting in a lower growth in the review year.



2. In the review year, the agriculture sector is expected to grow 1.3 percent whereas the non-agriculture sector is expected to expand 0.6 percent. These sectors had grown 0.8 percent and 3.1 percent respectively in the previous year.



3. In the review year, maize production showed a moderate growth, whereas other cereal crops such as paddy and wheat production witnessed a decline. The prolonged strife in the major cereal producing regions and disturbances in the supply of agricultural inputs such as chemical fertilizers and seeds because of the obstructions at border points were responsible for the decline in production of major cereal products. In the review year, among the principal cereal crops, the paddy, wheat and millet have been estimated to plunge 10.2 percent, 5.0 percent and 2.0 percent respectively. On the other hand, maize is

Box 1 : Gross National Disposable Income (Current Price)					
Particulars	Rs. in Million			Percent Change	
	2013/14	2014/15	2015/16	2014/15	2015/16
Gross Domestic Product (Producers Price)	1964540	2120470	2248691	7.9	6.0
Factor Income Net	32752	34243	43962	4.6	28.4
Current Transfers Net	631500	709957	803572	12.4	13.2
Gross National Disposable Income	2628792	2864669	3096225	9.0	8.1

Source: Central Bureau of Statistics

expected to grow 4.0 percent. Similarly, vegetables and potato are estimated to grow 5.0 percent and 4.5 percent respectively.

4. In the review year, the industrial sector is estimated to shrink 6.3 percent as against a growth of 1.5 percent in the previous year. A fall in demand of industrial goods resulting from the earthquake of 2015, energy shortage, and disturbances in supply of fuel and raw materials adversely affected the output of the industrial sector.

5. In the review year, the service sector is estimated to grow 2.7 percent compared to a growth of 3.6 percent in the previous year. A minimal tourist arrival owing to the lagged effect of earthquake and the prolonged border disruptions adversely affected hotels and restaurants and trade sectors resulting in a deceleration in service sector growth.

Gross National Disposable Income, Consumption, Savings and Investment

6. In 2015/16, the gross national disposable income (GNDI) is estimated to grow 8.1 percent compared to a growth of 9.0 percent in the previous year. Similarly, the ratio of total consumption to GDP remains at 94.7 percent compared to 91.2 percent in the previous year. Likewise, the ratio of gross domestic savings to GDP is 5.3 percent in the review year compared to 8.8 percent in the previous year. In the review year, the ratio of gross investment to GDP remains at 34.0 percent compared to 38. 8 percent in the previous year. Similarly, the ratio of gross national savings to GDP is at 42.9 percent compared to 43.9 percent in the previous year.

Foreign Direct Investment

7. In 2015/16, the foreign direct investment commitment witnessed a decline of 77.5 percent along with the decline in number of such projects by 7.3 points. During the review year, the Department of Industry granted approval to 341 joint venture projects with the foreign direct investment commitment amounting to Rs. 15.14 billion. The Department had granted approval to total 368 foreign investment projects with commitment of Rs. 67.42 billion in the previous year. While the number of projects relating to manufacturing, tourism and energy declined, the commitment for service sector projects has increased in the review year.

Box 2 : Foreign Direct Investment Commitment (Sectorwise)

Particulars	2014/15			2015/16		
	No of Projects	FDI Commitment (Rs. in million)	Employment	No of Projects	FDI Commitment (Rs. in million)	Employment
Agro and Forest	39	735.9	1010	22	297.3	554
Construction	1	100.0	25	1	10.0	0
Energy	5	54287.1	992	3	1827.1	41
Manufacturing	59	2152.6	2137	50	3177.1	2756
Mineral	6	190.0	532			
Service	126	5622.2	4335	143	7937.0	5272
Tourism	132	4333.0	4127	122	1891.1	2803
Total	**368**	**67420.8**	**13158**	**341**	**15139.6**	**11426**

Source: GoN, Ministry of Industry, Department of Industry

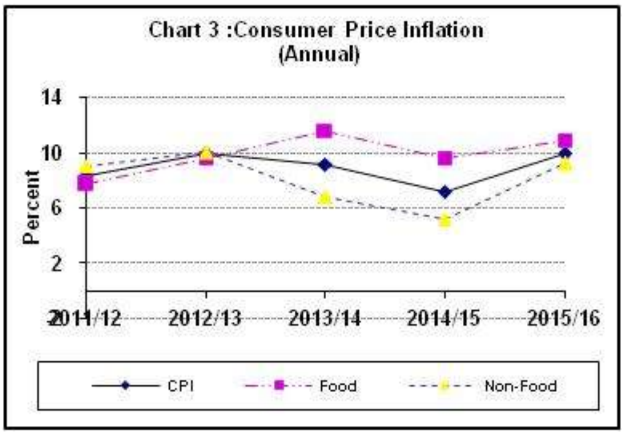
8. Countrywise, China stands first with 125 foreign investment projects, followed by South Korea (55), USA (40), India (23), Japan (18), UK (11) and the other countries (69) totaling 341 projects. The approved projects are expected to generate direct employment opportunities for 11,426 people.

Box 3 : Foreign Direct Investment Commitment (Countrywise)						
Particulars	2014/15			2015/16		
	No of Projects	FDI Commitment (Rs. in Million)	Employment	No of Projects	FDI Commitment (Rs. in Million)	Employment
China	153	4333.2	5858	125	6211.8	5527
India	25	34719.0	712	23	1941.9	764
Japan	13	240.0	306	18	223.4	680
South Korea	32	348.6	977	55	435.6	1101
UK	11	1247.6	678	11	2078.7	237
USA	33	597.5	819	40	701.0	916
Others	101	25934.9	3808	69	3547.2	2201
Total	368	67420.8	13158	341	15139.6	11426

Source: GoN, Ministry of Industry, Department of Industry

Inflation, Salary and Wage Rate

Consumer Price Inflation



9. The annual average consumer price inflation increased 9.9 percent in 2015/16 compared to 7.2 percent in the previous year. This is mainly due to strikes in Terai region, obstructions at border points and supply disturbances. The y-o-y consumer price inflation stood at 10.4 percent in mid-July 2016 compared to that of 7.6 percent a year ago.

10. The higher rate of increase in price indices of pulses and legumes, ghee and oil, clothes and footwear, spices, housing and utilities, among other sub-groups, exerted an upward pressure on overall consumer price inflation in the review year.

11. The average price indices of food and beverages group and non-food and services group increased 10.9 percent and 9.2 percent respectively in the review year. These indices had increased 9.6 percent and 5.2 percent respectively in the previous year.

12. In the review year, spikes in pulses and legumes prices of 32.7 percent, ghee and oil of 19.5 percent and spices of 13.5 percent drove up the annual average food inflation to double digit. Likewise, prices of clothes and footwear sub-group and housing and utilities sub-group increased 14.2 percent and 12.7 percent respectively.

13. In terms of ecological regions, the Kathmandu Valley witnessed a relatively higher annual average inflation at 11.6 percent followed by Hilly region at 10.4 percent, Mountain region at 8.8 percent and Terai region at 8.6 percent in the review year. The inflation was 7.2 percent in Kathmandu Valley, 7.3 percent in Hilly region and 7.1 percent in Terai region in the previous year.

Inflation Wedge between Nepal and India

14. The annual average consumer price inflation of Nepal in 2015/16 remained at 9.9 percent compared to 5.2 percent in India, resulting in an inflation wedge of 4.7 percent. In the previous year, such inflation in Nepal and India was 7.2 percent and 5.3 percent respectively resulting in an inflation gap of 1.9 percent. The rise in inflation wedge between Nepal and India was on

account of lingering impact of April 2015 earthquake, prolonged strikes in the Terai region in the first half of the review year and obstructions in southern trade routes.

Wholesale Price Inflation

15. The annual average wholesale price inflation stood at 6.3 percent in 2015/16 compared to a growth of 6.1 percent in the previous year. The annual average wholesale price indices of agricultural commodities and domestic manufactured commodities showed a growth of 10.5 percent and 6.2 percent respectively, whereas such index of imported commodities declined 2.9 percent in the review year. These increments were 8.8 percent, 5.6 percent and 0.7 percent respectively in the previous year.

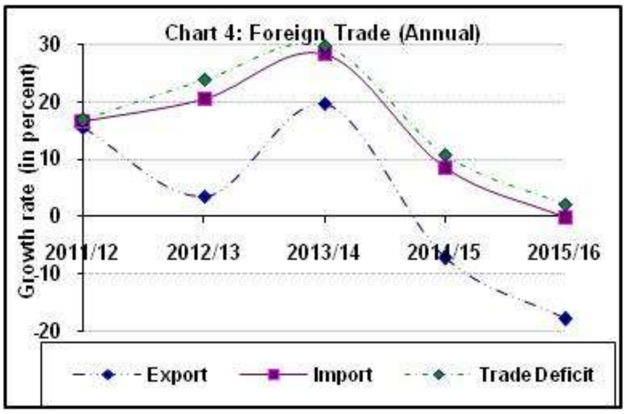
National Salary and Wage Rate

16. The annual average salary and wage rate index increased 5.8 percent in 2015/16. Such index had increased 8.4 percent in the previous year. In the review year, the salary index and the wage rate index rose 0.8 percent and 7 percent respectively, while the annual average of both salary index and wage rate index went up by the same rate of 8.4 percent in the previous year. Under wage rate, the annual average wage rate index of construction laborers, agricultural laborers and industrial laborers increased 9.7 percent, 8.3 percent and 3.6 percent respectively in the review year.

External Sector

Merchandise Trade

17. In 2015/16, merchandise exports decreased 17.8 percent to Rs. 70.12 billion compared to a drop of 7.3 percent in the previous year. Exports to India and China decreased 29.3 percent and 24.6 percent respectively whereas exports to other countries increased 6.3 percent in the review year. In the review year, the ratio of total exports to GDP remained at 3.1 percent compared to 4 percent a year ago.



18. Commodity wise, export of woolen carpet, cardamom, pashmina, readymade garments, oil cakes, among others increased whereas export of zinc sheet, GI pipe, polyester yarn, textiles, juices, among other decreased during the review year.

Box 4: External Sector Indicators

(As Percentage of GDP)

Particulars	2013/14	2014/15	2015/16
Merchandise Exports	4.7	4.0	3.1
Merchandise Imports	36.4	36.5	34.4
Merchandise Trade balance*	-31.7	-32.5	-31.3
Merchandise Total trade	41.0	40.6	37.5
Travel receipts	2.4	2.5	1.9
Remittance	27.7	29.1	29.6
Current account *	4.6	5.1	6.2
Foreign exchange Reserve	33.9	38.9	46.2

**(+Suplus/-deficit)*

19. The large fall in imports of petroleum products resulted in 0.1 percent drop in merchandise imports to Rs. 773.60 billion in the review year. However, there was a growth of 8.4 percent in merchandise imports in the previous year. The import excluding the petroleum products increased 6.4 percent in the review year. While imports from China increased 15.5 percent, imports from India and other countries decreased 2.9 percent and 1.2

percent respectively. In the review year, the ratio of total imports to GDP decreased to 34.4 percent from 36.5 percent a year ago.

20. Commodity-wise, import of vehicle and spare parts, gold, medicine, chemical fertilizer, telecommunication equipments and parts, among others, increased whereas import of petroleum products, silver, MS billet, betel nut, crude palm oil among others, decreased during the review year.

21. Based on customs points, exports through Tribhuwan International Airport and Birgunj Dry Port customs point increased whereas exports through other customs points decreased. On the import side, imports through Birgunj customs point declined significantly. However, imports through Dryport customs point, Bhairahawa customs Point, Krishnanagar customs point and Kailali Customs point increased markedly in the review year.

22. Total trade deficit in the review year widened 2 percent to Rs. 703.48 billion compared to an expansion of 10.8 percent in the same period of the previous year. In the review year, the ratio of total trade deficit to GDP declined a little bit to 31.3 percent from 32.5 percent a year ago.

23. The export-import ratio dropped to 9.1 percent. This implies the size of imports is almost 11 times larger than the size of exports in the review year. The export-import ratio was 11 percent in the previous year.

Export-Import Price Index

24. The annual average unit value export price index based on customs data increased 14.5 percent while import price index decreased 6.4 percent in the review year. Consequently, the terms of trade (TOT) index increased 22.2 percent compared to an increase of 12.8 percent in the corresponding period of the previous year. Increase in price of export items such as cardamom, betelnut, tea, and yarsagumba led to a rise in the export price index. However, a fall in the price of petroleum products, tubes and tyres of vehicles resulted in a decline in import price index in the review period.

Services

25. The total services receipt declined 7.2 percent and expenses increased 5.7 percent in the review year. As a result, net services receipt decreased 64.3 percent to Rs. 9.85 billion in the review year. The net services receipt was Rs. 27.62 billion in the previous year.

26. Under the service account, travel receipts decreased 21.8 percent in the review year due to the significant fall in earnings from sightseeing, travel and trekking agencies as against the increase of 15.2 percent a year ago. Education expense on tourism increased 6.1 percent in review year. On travel payments side, education expenses increased 18 percent in the review year whereas it had increased 12.9 percent a year ago.

Workers' Remittances

27. The workers' remittances grew 7.7 percent to Rs. 665.06 billion in the review year compared to a growth of 13.6 percent in the previous year. However, the ratio of remittances to GDP increased to 29.6 percent in the review year from 29.1 percent in the previous year. The net transfer receipt increased 9.6 percent to Rs. 778.19 billion in the review year. Such receipt had increased 12.4 percent in the previous year.

Box 5: Foreign Employment*

(No. of Labour)			Countrywise share	
Country wise/Year	**2014/15**	**2015/16**	**2014/15**	**2015/16**
Saudi Arabia	98246	138529	19.2	33.1
Qatar	124368	129038	24.2	30.8
Malaysia	202828	60979	39.5	14.6
U A E	53699	52793	10.5	12.6
Kuwait	9668	10049	1.9	2.4
S Korea	5158	7352	1	1.8
Japan	2836	3844	0.6	0.9
Baharain	4165	3146	0.8	0.8
Oman	2300	3059	0.4	0.7
Afganistan	1501	1419	0.3	0.3
Israel	450	189	0.1	0
Lebanon	598	167	0.1	0
Others	7070	8149	1.4	1.9
Total	512887	418713	100.0	100.0
Percentage Change	-2.8	-18.4		

Source: Department of Foreign Employment. * *Based on final approval.*

28. The number of workers going abroad for foreign employment, which directly affects the flow of inward remittance, decreased in the review year. The number of Nepalese workers leaving for foreign employment, based on final approval, decreased 18.4 percent in the review year. Last year, the number had fallen 2.8 percent. The rank of destination countries changed in the review year. Saudi Arabia topped followed by Qatar and Malaysia as major destinations for employment in the review year. In the previous year, Malaysia, Qatar and Saudi Arabia were in this order.

Current Account and BOP Position

29. The current account registered a surplus of Rs. 140.42 billion in the review year due to the increase in net surplus in current transfer. The surplus in current account was Rs. 108.32 billion in the previous year. Similarly, the overall BOP recorded a significant level of surplus of Rs. 188.95 billion in the review year on account of the increase in current account surplus and capital inflows. The surplus in balance of payments was Rs. 145.04 billion in the previous year. In the review year, Nepal received capital transfer of Rs. 16.99 billion and Foreign Direct Investment (FDI) inflow of Rs. 5.92 billion. In the previous year, capital transfer and FDI inflow were Rs. 14.81 billion and Rs. 4.38 billion respectively.

30. Dividend payment to FDI companies, based on approval from Nepal Rastra Bank, amounted to Rs. 6.25 billion in the review year compared to the annual dividend payment of Rs. 7.21 billion in 2014/15.

Box 6: Dividend Payment to FDI Companies*

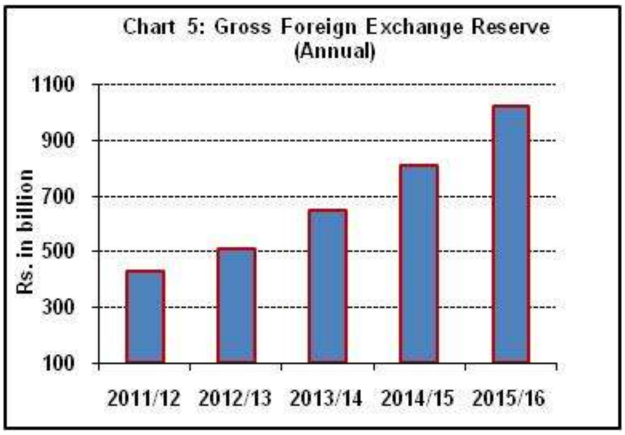
(Rs. in million)

Sectors	**2014/15 Annual**	**2015/16 July- July**
Financial Sector	1794.43	13.7
Communication Sector	4.00	1692.8
Hydro Power Sector	2874.48	3154.3
Industry Sector	2299.19	1387.8
Services Sector	238.61	4.1
Total	**7210.71**	**6252.7**

**Based on approval from NRB*

Foreign Exchange Reserves

31. The gross foreign exchange reserves stood at Rs. 1039.21 billion in mid-July 2016, an increase of 26.1 percent from Rs. 824.06 billion a year ago. Of the total foreign exchange, reserves held by NRB increased 26.2 percent to Rs. 887.01 billion and reserves of banks and financial institutions increased 25.8 percent to Rs. 152.20 billion. The share of Indian currency in total reserves stood at 21.4 percent in mid-July 2016.



Foreign Exchange Adequacy Indicators

32. Based on the imports of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 16.5 months, and merchandise and services imports of 14.1 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-broad money increased to 46.2 percent, 117.4 percent and 46.3 percent respectively in mid-July 2016. These ratios were 38.9 percent, 93.3 percent and 43.9 percent respectively a year ago.

International Investment Position (IIP)

33. The International Investment Position (IIP) is the summary statement of foreign assets and liabilities of a country. The IIP showed that foreign assets and liabilities of Nepal were Rs. 1054.01 billion and Rs. 564.55 billion respectively in mid-July 2016. Accordingly, the net IIP remained in surplus of Rs. 489.46 billion. Such surplus was Rs. 316.78 billion a year ago.

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

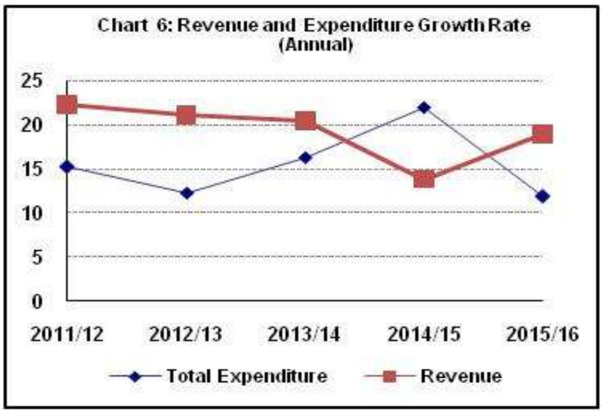
34. The price of oil (Crude Oil Brent) in the international market decreased 19.3 percent to USD 46.25 per barrel in mid-July 2016 from USD 57.31 per barrel a year ago. The price of gold increased 12.1 percent to USD 1283.30 per ounce in mid-July 2016 from USD 1144.40 per ounce a year ago.

35. Nepalese currency vis-à-vis the US dollar depreciated 5.2 percent in mid-July 2016 from mid-July 2015. It had depreciated 5.2 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 106.73 in mid-July 2016 compared to Rs. 101.14 in mid-July 2015.

Fiscal Situation *

Government Revenue

36. The government revenue increased 18.9 percent to Rs. 482.75 billion in 2015/16. Thus, the actual revenue collection is 101.63 percent of annual target of Rs. 475.01 billion. The revenue had risen by 13.8 percent to Rs. 405.85 billion in 2014/15. Revenue-to-GDP ratio increased to 21.5 percent in the review year from 19.1 percent in 2014/15.(Box 7)



37. Of the total revenue mobilization, VAT revenue increased 8.6 percent to Rs. 122.07 billion in 2015/16. Such revenue had increased 11.3 percent to Rs 112.38 billion in 2014/15.

Box 7 : Major Fiscal Indicators

(As Percent of GDP)

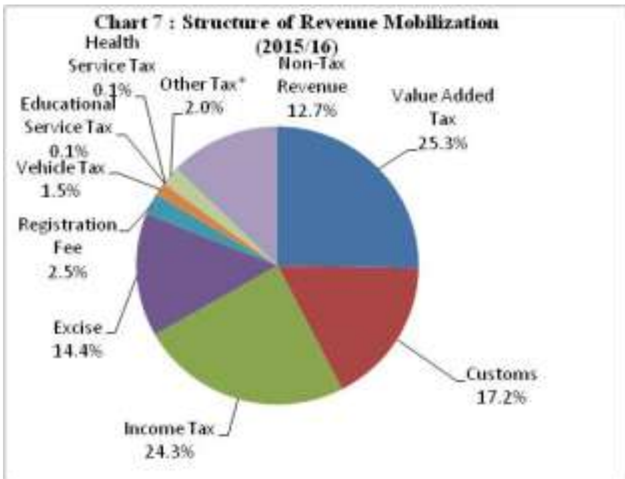
Heads	2013/14	2014/15	2015/16
Total Expenditure	21.3	24.0	25.3
Recurrent expenditure	15.1	15.8	15.9
Capital expenditure	3.1	3.8	5.0
Revenue	18.2	19.1	21.5
Tax Revenue	15.3	16.1	16.8
Fiscal Deficit	-0.7	-2.2	-1.7

38. Income tax revenue increased 32.4 percent to Rs. 117.13 billion in 2015/16 compared to an increase of 30.3 percent in 2014/15.

39. In 2015/16, customs revenue rose 10.9 percent to Rs. 82.81 billion compared to a decrease of 4.2 percent in 2014/15.

40. During the review year, excise revenue increased 29.8 percent to Rs. 69.45 billion compared to an increase of 17.9 percent to Rs. 53.53 billion in 2014/15.

41. Among the components of revenue, VAT accounted for 25.3 percent followed by income tax (24.3 percent), customs (17.2 percent), and excise duties (14.4 percent). In the previous year, their shares were 27.7 percent, 21.8 percent, 18.4 percent and 13.2 percent respectively.



42. In the review year, non-tax revenue increased 22.9 percent to Rs. 61.31 billion compared to an increase of 10.8 percent in 2014/15.

43. Of the total revenue, the share of tax revenue and non-tax revenue stood at 87.3 percent and 12.7 percent respectively in the review year. In the previous year, the shares of tax and non-tax revenue in the total revenue were 87.7 percent and 12.3 percent respectively, while the share of direct in total tax revenue increased to 34.9 percent in 2015/16 from 32.4

* Based on the data reported by 8 NRB offices, 69 branches of Rastriya Banijya Bank Limited, 49 branches of Nepal Bank Limited, 22 branches of ADB/N 9 branches of Everest Bank Limited, 4 branches of Global IME Bank Limited and 1-1 branch each of Nepal Bangladesh Bank Limited, NMB Bank Limited and Bank of Kathmandu Limited conducting government transactions and release report from 79 DTCOs and payment centers.

percent in the previous year, the indirect tax revenue fell to 65.1 percent from 67.5 percent a year ago.

Government Expenditure

44. Government expenditure, on cash basis, increased 11.9 percent to Rs. 569.57 billion in 2015/16 compared to an increase of 22 percent 2014/15.

Box 8: The Budget Performance

Heads	Budget Estimates (Rs. in millions)	Annual Outturns	
		Rs. in million	As percent of budget estimates
Total Expenditure	**819468.9**	**569571.4**	**69.5**
Recurrent Expenditure	484266.4	**356499.3**	**73.6**
Capital Expenditure	208877.2	**111700.9**	**53.5**
Financial Expenditure	126325.3	**101371.2**	**80.2**
Revenue	**475012.1**	**482750.1**	**101.6**

45. During the review year, recurrent expenditure increased 6.5 percent to Rs. 356.50 billion compared to a growth of 12.9 percent in the preceding year. Such expenditure stood at 73.6 percent of budget estimate.

46. In the review year, capital expenditure increased 37.9 percent to Rs. 111.70 billion compared to its growth of 32.1 percent in the previous year. The capital expenditure in the review year accounted for 53.5 percent of budget estimate.

47. During the review year, financial expenditure increased 8.6 percent to Rs. 101.37 billion. Such spending had increased 57.0 percent in the previous year. The financial spending accounted for 80.2 percent of budget estimate.

Budget Deficit

48. In the review year, government budget on cash basis remained at a deficit of Rs. 37.49 billion. Such deficit was Rs. 45.88 billion in 2014/15. The ratio of budget deficit-to-GDP fell to 1.7 percent in the review year from 2.2 percent in the preceding year.

Sources of Deficit Financing

49. The GON mobilized Rs. 87.77 billion gross domestic borrowing in 2015/16. This is 3.9 percent of GDP. Gross domestic borrowing of Rs. 42.42 billion was mobilized in the previous year.

50. The GoN repaid Rs. 50.40 billion domestic debt in 2015/16. The GoN maintained cash balance of Rs. 127.38 billion at NRB at the end of 2015/16. At the end of the previous fiscal year, such balance was Rs. 33.81 billion.

Government Debt

51. The outstanding foreign loan of the GoN stood at Rs. 381.74 billion in mid-July 2016. The outstanding domestic debt of the GoN increased from Rs. 196.79 billion to Rs. 234.16 billion in mid July 2016. The total government debt amounted to Rs. 615.90 billion, which stood at 27.4 percent of GDP. Likewise, the total debt servicing/revenue ratio stood at 17.6 percent in mid July 2016 (Box 9).

Box 9 : Public Debt Situation

	Public Debt Indicators	2013/14	2014/15	2015/16
1	Total Debt/ GDP	27.9	25.5	27.4
2	External Debt/ GDP	17.7	16.2	17.0
3	Domestic Debt/ GDP	10.3	9.3	10.4
4	External Debt/ Exports	153.4	138.5	178.9
5	External Debt Servicing/ Exports	8.9	8.1	12.2
6	Total Debt Servicing/ Revenue	15.1	18.2	17.6
7	Domestic Debt Servicing/ Revenue	9.5	13.2	11.9
8	External Debt Servicing/ Revenue	5.6	4.9	5.7

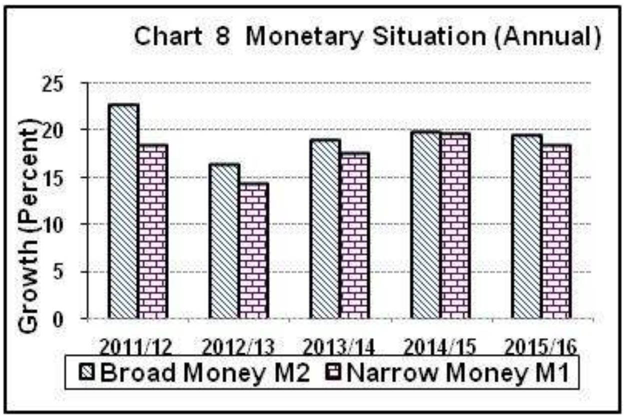
Note: IMF Promissory Note and overdraft amount are not included in Domestic Debt.

Source: FCGO and NRB

Monetary Situation

Money Supply

52. Broad money supply (M2) increased 19.5 percent in 2015/16 compared to an increase of 19.9 percent in the previous year.



53. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 188.95 billion (25.3 percent) during the review year compared to a rise of Rs. 145.04 billion in the preceding year. Workers' remittance and compression in imports accounted for a significant growth in NFA. Reserve money increased 4.6 percent in the review year compared to an increase of 19.8 percent in the previous year.

Domestic Credit

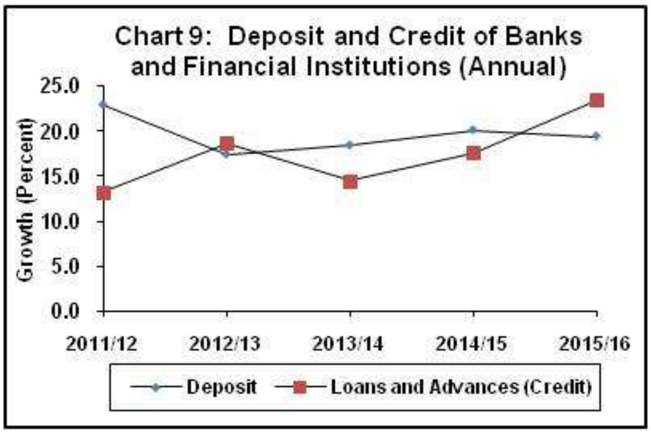
54. Domestic credit increased 17.4 percent in the review year compared to a growth of 16.2 percent in the previous year. Claims on private sector increased 23.2 percent compared to a growth of 19.4 percent in the previous year.

Deposit Mobilization

55. Deposits at banks and financial institutions (BFIs) increased 19.4 percent in the review year compared to an increase of 20.1 percent in the previous year. Deposits at commercial banks and development banks increased 20.7 percent and 16.5 percent respectively, while that of finance companies decreased 12 percent in the review year. In the previous year, the deposits at commercial banks and development banks had increased 21.4 percent and 15.2 percent respectively, while that of finance companies had decreased 0.6 percent. The merger and acquisition drive in the review year resulted in a contraction in finance companies' deposit.

Credit Disbursement

56. Credit to the private sector from BFIs increased 23.7 percent in the review year compared to a growth of 19.8 percent in the previous year. The momentum that economic activities gained in the fourth quarter of 2015/16 attributed to private sector credit off take. In the review year, private sector credit from commercial banks and development banks increased 26.5 percent and 20.3 percent respectively, while that of finance companies decreased 12.5 percent.



57. Of the BFIs' credit exposure to private sector, credit to the transport, communication and public services sector increased 39.8 percent in the review year compared to 27 percent in the previous year. Likewise, credit to the wholesale and retail trade sector, and finance, insurance and fixed assets sector increased 25.8 percent and 25.9 percent respectively in the review year compared to an increase of 21.8 percent and 18.3 percent respectively in the previous year.

58. Credit to the agriculture sector increased 20.9 percent in the review year compared to an increase of 28 percent in the previous year. Likewise, the credit to the industrial production increased 15.9 percent in the review year compared to a growth of 14.8 percent in the previous year.

59. Of the total outstanding credit of BFIs, 60.8 percent was against the collateral of land and building and 15.2 percent against the collateral of current assets (such as agricultural and non-agricultural products) in the review year. Such ratios were 59.6 percent and 12.8 percent respectively in the previous year.

60. The outstanding credit to real estate sector amounted to Rs. 250.87 billion (including Rs. 142.81 billion residential home loans less than Rs. 10 million each) in mid-July 2016. This is 14.9 percent of total credit exposure of BFIs. The BFIs' total margin lending extended against the collateral of shares stood at 2.2 percent (Rs. 37.66 billion) of their total credit exposure. Of the total lending of the commercial banks, the credit to small and medium enterprises was 2.6 percent (Rs. 35.87 billion) in mid July 2016.

61. Trust Receipt (T. R.) loan extended by commercial banks increased 31.8 percent (Rs. 17.56 billion) to Rs. 72.68 billion in the review year compared to a growth of 13.3 percent in the previous year.

62. Financial deepening accelerated further in the review year. The ratios of total deposit, loans and advances and claims on private sector to GDP increased significantly compared to those of the previous year (Box 10).

Box 10 : Major Monetary and Financial Indicators (in percent)

Indicators	2013/14	2014/15	2015/16
M2/GDP	79.7	88.6	99.8
Total Deposits/GDP	71.6	79.6	89.7
Loans and Advances/GDP	66.9	72.7	84.6
Claims on Private Sector/GDP	58.6	64.8	75.3

Liquidity Management

63. In 2015/16, the NRB mopped up Rs 591.63 billion liquidity, on a turnover basis, through various instruments. Liquidity absorption consisted of Rs. 297.50 billion through deposit collection auctions, Rs. 235.95 billion through reverse repo auction, Rs. 49.08 billion through NRB Bonds and Rs. 9.10 billion through outright sale auction on a cumulative basis. In the previous year, Rs. 155 billion was mopped up through deposit collection auction, Rs. 315.80 billion through reverse repo auction and Rs. 6 billion through outright sale auction.

64. In the review year, interest expenses incurred in mopping up liquidity reached Rs. 718.2 million. Such cost was Rs. 190.6 million in the previous year (Box 11).

65. In the review year, the NRB injected net liquidity of Rs. 471.35 billion through the net purchase of USD 4.45 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 396.72 billion was injected through the net purchase of USD 4.03 billion in the previous year.

Box 11: Cost of Liquidity Absorption (Rs. in million)

Liquidity Absorption Instruments	2014/15		2015/16	
	Amount	Interest Expenses	Amount	Interest Expenses
Deposit Collection Auction	155000	170.5	297500	650.1
Reverse Repo Auction	315800	2.8	235950	9.5
Outright Sale Auction	6000	17.3	9100	36.2
NRB Bond	-	-	49080	22.4
Total	**476800**	**190.6**	**591630**	**718.2**

66. The NRB purchased Indian currency (INR) equivalent to Rs. 385.47 billion through the sale of USD 3.4 billion and Euro 0.21 billion in the review year. INR equivalent to Rs. 348.09 billion was purchased through the sale of USD 3.5 billion in the previous year.

Refinance and Productive Sector Lending

67. The NRB has been providing a refinance facility aimed at expanding credit to the productive sector. A total refinance of Rs. 8.9 billion including general refinance of Rs. 7.6 billion and export refinance of Rs. 1.30 billion was availed in the review year. In the previous year, a total refinance of Rs. 8.56 billion including general refinance of Rs. 5.82 billion and export refinance of Rs. 2.74 billion was utilized. Moreover, the NRB 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. Under this scheme, a sum of Rs. 59 million was extended as of mid-July 2016.

68. 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 stood at 16.6 percent in mid-July 2016.

69. As of mid-April 2016, a total number of 2342 farmers obtained Rs. 1.99 billion loan under the 6 percent interest subsidized lending scheme for selected agro-businesses. Under this provision, Rs. 41.9 million interest subsidy has been provided. The budget of the GoN for 2016/17 has lowered the rate of such subsidized lending to 5 percent.

Inter-bank Transaction and Standing Liquidity Facility

70. In the review year, inter-bank transactions of commercial banks stood at Rs. 961.72 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 129.06 billion. Such transactions were Rs. 374.70 billion and Rs. 226.91 billion respectively in the previous year. The BFIs used standing liquidity facility (SLF) of Rs. 14.03 billion in the review year.

Interest Rates

71. The weighted average 91-day Treasury Bill rate decreased to 0.0456 percent in the review month from 0.1739 percent a year ago. The weighted average inter-bank transaction rate among commercial banks declined to 0.69 percent in the review month from 1.01 percent a year ago. Likewise, the weighted average inter-bank rate among other financial institutions decreased to 3.25 percent from 3.89 percent a year ago.

72. The weighted average interest rate spread of commercial banks increased to 4.85 percent in the review month from 4.61 percent a year ago. Likewise, the average base rate of commercial banks came down to 6.54 percent in the review month from 7.88 percent a year ago.

Merger/Acquisition and Resolution

73. After the issuance of the "Bank and Financial Institutions Merger By-law, 2011", 108 BFIs have merged with each other resulting in the formation of 43 BFIs as of mid-July 2016. Likewise, 4 finance companies were acquired by two commercial banks and one development bank was acquired by another development bank.

74. As of mid-July 2016, eleven institutions including 2 development banks and 9 finance companies were under resolution process. Total deposits and loans of such institutions stood at Rs. 3.04 billion and Rs. 6.42 billion respectively. The overall capital fund of these institutions was negative by 33.9 percent and non-performing loan stood at 97.3 percent as of mid-July 2016.

Number and Branches of Banks and Financial Institutions

Box 12 : Number of BFIs /Number of Branches				
Bank and Financial Institutions	Number of BFIs		Branches of BFIs	
	2015 (Mid-July)	2016 (Mid-July)	2015 (Mid-July)	2016 (Mid-July)
Commercial Banks	30	28	1672	1869
Development Banks	76	67	808	852
Finance Companies	48	42	242	175
Microfinance Development Banks	39	42	1116	1376
Total	**193**	**179**	**3838**	**4272**

75. As a result of the merger and acquisition drive, the total number of BFIs licensed by NRB came down to 179 in mid-July 2016 from 193 a year ago (Box 12). In mid July 2016, the number of commercial banks stood at 28, development banks at 67, finance companies at 42 and microfinance development banks at 42. However, financial access has widened along with the expansion of the branch network. The total number of BFIs' branches increased to 4,272 in mid-July 2016 from 3,838 a year ago.

Capital Market

76. The NEPSE index increased to 1,718.2 points in mid-July 2016 from 961.2 points in the corresponding period of the previous year. The rally in the NEPSE index was on account of introduction of the capital hike policy for financial institutions, dematerialized transactions from mid-January 2016 and rise in investors' confidence due to improved political situation.

77. The total turnover of the securities traded rose 151 percent to Rs. 163.96 billion in 2015/16. The increased liquidity of stocks due to the dematerialized transactions as well as the bullish trend of the NEPSE index was the primary reason for such upsurge in turnover.