



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

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

Growth Outlook

1. Economic activities remained sluggish in the review period on account of headwinds from continued disruptions on trade routes and agitations in some areas of the southern parts of country, resulting in shortages of fuel and other essential commodities.
2. Birgunj-Raxaul customs point, a major trading point of Nepal with India and the rest of the world, remained closed till the end of review period. However, other customs points bordering to India have gradually been eased signaling a positive impact on economic activities. Tatopani customs point, a major trading point with China, which remained closed after the earthquake, has still not come into operation. However, the Rasuwagadhi customs point has come into operation.
3. According to the Ministry of Agriculture, paddy crop is estimated to plunge by 10 percent, while maize is estimated to grow by 4 percent in 2015/16. The obstruction in the supply of chemical fertilizers is likely to affect the winter crops, particularly of wheat production.
4. A rebound in developmental as well as reconstruction activities is expected along with the ease in fuel supplies. This will also have positive impact on tourism and industrial activities. The economy is likely to gain traction, once the normalcy on trade routes in the southern parts of the country returns.

Box 1: Duty-Free Facility in Readymade Garments

The US Senate has recently passed a bill "Nepal Trade Preferences Act" granting duty-free treatment to certain textile or apparel articles from Nepal*, effective from 1 January 2016. This provision will remain in place by 2025.

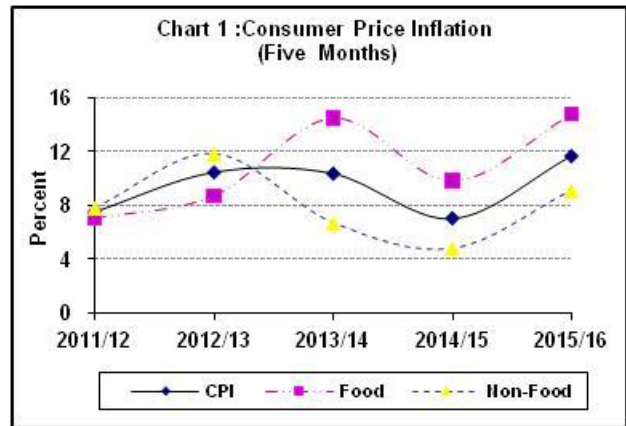
The USA had also provided such facility in the past to promote garment export from Nepal. However, Nepal had to pull back from such facility with the termination of Multi-Fiber Arrangement on 1 January 2005. Consequently, the garment export from Nepal significantly dropped from Rs. 9.55 billion in 2003/04 to Rs. 3.96 billion in 2014/15. The USA has revived this facility to Nepal in such a situation when the country's economy is disrupted by the earthquake and garment export has remained sluggish for long. This renewed facility from the USA is expected to enhance the competitiveness of the Nepalese garment, which, in turn, is believed to attract the investment in garment industries and increase employment opportunities.

**Nepal Trade Preferences Act, House of Representative, USA.*

Inflation, Salary and Wage Rate

Consumer Price Inflation (CPI)

5. The y-o-y consumer price inflation hit 11.6 percent in mid-December 2015, up from 7 percent in the corresponding period of the previous year. While the food and beverage group inflation saw a pick up of 14.8 percent, non-food and services group rose 9.1 percent in mid-December 2015.



6. Some of food and beverage items have become pricier, resulting in two spikes in prices of pulses and legumes subgroup at 48.9 percent, and ghee and oil subgroup at 42.3 percent in the review period. Likewise, a pick up in prices of spices at 15.3 percent, clothes and footwear at 14.6 percent, fruit at 14.3 percent and meat and fish at 13.9 percent has created pressure in overall CPI inflation in the review period.

7. 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 during the review period. The recent relaxation of obstruction on most of the trade routes is likely to break the spiral like rise in prices witnessed since mid-September 2015.

8. Geographically, the Kathmandu Valley saw a relatively higher rate of inflation at 13.2 percent followed by Hilly region at 12.4 percent, Mountain region at 10.3 percent and Terai region at 10.2 percent in the review period. Last year, the Terai region had seen a higher rate of inflation of 7.2 percent followed by the Kathmandu Valley and Hilly region at 6.9 percent.

Consumer Price Inflation: Deviation between Nepal and India

9. The y-o-y CPI inflation of Nepal saw a surge of 11.6 percent compared to 5.6 percent in India revealing an inflation wedge of 6 percent in the review period. A year ago, inflation in Nepal was 7.0 percent compared to 4.9 percent in India, reflecting a narrower inflation wedge of 2.1 percent. The rise in inflation wedge between Nepal and India was on account of lingering impact of April/May 2015 earthquakes, unrest in southern plains and the recent disturbances on trade routes in southern parts of the country.

Wholesale Price Inflation

10. The y-o-y wholesale price index rose 7.9 percent in the review period compared to a rise of 6.6 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities and domestic manufactured commodities increased by 13.4 percent and 7.5 percent respectively, whereas such index of imported commodities decreased by 3.6 percent in the review period. The increments in agricultural

commodities, domestic manufactured commodities and imported commodities were 8.2 percent, 6.7 percent and 3.3 percent respectively in the corresponding period of the previous year.

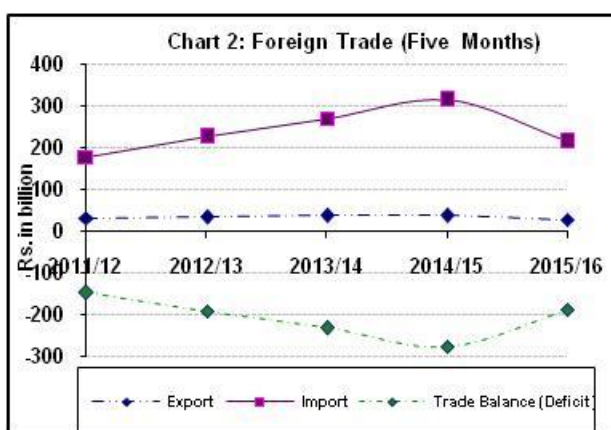
National Salary and Wage Rate

- The y-o-y salary and wage rate index increased by 6.3 percent in the review period compared to an increase of 10.4 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 7.7 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 11.6 percent, 9 percent and 3.6 percent respectively in the review period.

External Sector

Merchandise Trade

- The Nepalese external sector exhibited eight major trends during the review period of 2015/16. First, the merchandise trade continued to operate in the negative territory especially after the first month of the current fiscal year. For instance, merchandise exports saw a negative growth of 29.1 percent to Rs. 26.17 billion in the first five months of 2015/16 compared to a drop of 1.2 percent to Rs. 36.91 billion in the same period of the previous year. Destinationwise, exports to India, China and other countries fell on account of obstructions at customs points.



- Commoditywise, export of zinc sheet, textiles, juice, GI Pipe to India, tanned skin, noodles, and readymade garments to China and pulses, tanned skin, tea, and handicrafts to other countries decreased in the review period.
- Likewise, merchandise imports dropped significantly by 32 percent to Rs. 213.83 billion as against a growth of 16.3 percent to Rs. 314.52 billion in the same period of the previous year. The decrease in imports is attributed mainly to a decrease in imports of goods including petroleum products on account of unrest in southern plains along with obstruction at customs points.
- Sourcewise, imports from India, China and other countries fell by 39.2 percent, 14.1 percent and 22.6 percent respectively in the review period. Commoditywise, the import of petroleum product shrank to Rs. 18.35 billion, a significant decline of 63.2 percent from the level of Rs. 49.88 billion a year ago. Likewise, the import of capital, raw material and

consumption goods such as M.S. billet, machinery spare parts, steel rod, silver, crude soybean oil and edible oil, declined significantly in the review period.

16. As a result, total trade deficit in the review period contracted by 32.4 percent to Rs. 187.66 billion compared to an expansion of 19.1 percent in the same period of the previous year. The FOB based trade deficit decreased by 32.6 percent to Rs. 182.03 billion in the review period. Such deficit had gone up by 21.1 percent.
17. Likewise, the exports-imports ratio reached 12.2 percent in the review period on account of a fall in imports. Such ratio was 11.7 percent in the same period of the previous year.

Customs points-wise Trade Situation

18. The second development pertains to the change in customs points-wise trade flows in the review period. For example, while the major customs points such as Birgunj, Biratnagar, Bhairahawa and Nepalgunj showed trade decline of 67 percent, 11.5 percent, 2.7 percent and 21.5 percent respectively. Tribhuvan airport customs point and Kailali recorded a trade growth of 7.7 percent and 135.4 percent respectively.

Export-Import Price Index

19. The third development relates to the Terms of trade (TOT) situation, which continued to be favourable for Nepal. For instance, the y-o-y unit value export price index based on customs data increased by 13.1 percent while import price index decreased by 7 percent in the fifth month of 2015/16. Consequently, the TOT index increased by 21.6 percent compared to an increase of 11.8 percent in the corresponding period of the previous year. Increase in price of major export items such as tea, yarsagumba, cardamom 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

20. The fourth trend pertains to travel receipts, which showed a decline of 15.3 percent in the review period, reflecting an adverse impact of the devastating earthquake of 25 April 2015 as well as the unrest in the Terai on tourism. As a result, the net service receipts compressed by 42.7 percent to Rs. 3 billion in the first five months of 2015/16 from Rs. 5.3 billion, a year ago.

Workers' Remittances

21. The significant growth in workers' remittances by 19.4 percent to Rs. 271.4 billion was the fifth prominent feature of external sector development in the review period. A year ago, the growth in remittances was a meager of 2.7 percent. Consequently, net transfer receipt increased by 22 percent to Rs. 315.50 billion in the review period. Such receipt had increased by 1.3 percent in the same period of the previous year.

22. However, 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 22.6 percent in the first five months of 2015/16. It had increased by 28.6 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	40275
October	31959	35550	35484
November	31949	43213	23061
December	41634	53354	38350
January	50032	45362	-
February	37285	48941	-
March	48552	44460	-
April	45854	52210	-
May	54173	31375	-
June	54926	37962	-
July	61717	26600	-
Total	528232	512887	174926
Percentage Change	16.5	-2.9	-22.6**

* Based on final approval for foreign employment.
 ** July/Dec. 2014-July/Dec 2015
 Source:- Department of Foreign Employment, GoN

Current Account and BOP Position

23. Seventh, for that matter, the resultant outcome of all these developments was the record surpluses in both current account and BOP position in the review period. While the current account registered a surplus of Rs. 148.52 billion in the review period compared to Rs. 3.61 billion surplus in the same period of the previous year, the overall BOP recorded a significant surplus of Rs. 128.11 billion in the review period compared to a surplus of Rs. 23.35 billion in the same period of the previous year.

24. The capital transfer amounting to Rs. 6.78 billion and Foreign Direct Investment (FDI) inflow of Rs. 1.92 billion also contributed to a rise in the BOP surplus in the review period. In the same period of the previous year, capital transfer and FDI inflow stood at Rs. 4.74 billion and Rs. 945.6 million respectively.

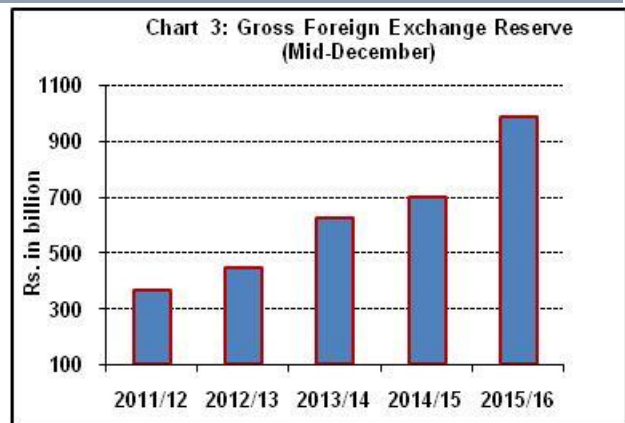
25. Dividend payment to FDI companies, based on approval from Nepal Rastra Bank, amounted to Rs. 1.52 billion in the review period. The dividend payment was Rs. 7.21 billion in 2014/15.

Box 3: Dividend Payment to FDI Companies*		
(Rs. in million)		
Sectors	2014/15 Annual	2015/16 Jul.- Dec.
Financial Sector	1794.43	0.00
Communication Sector	4.00	1416.2
Hydro Power Sector	2874.48	0.00
Industry Sector	2299.19	103.5
Services Sector	238.61	0.00
Total	7210.71	1519.7

*Based on approval from NRB

Foreign Exchange Reserves

26. The eighth development in the external sector was obviously the significant level of accumulation of the gross foreign



exchange reserves of Rs. 985.52 billion as at mid-December 2015, a 19.6 percent increase from Rs. 824.06 billion in mid-July 2015.

27. The foreign exchange reserves held by NRB increased by 20.3 percent to Rs. 845.89 billion as at mid-December 2015 from the level of reserves as at mid-July 2015. Similarly the reserves of banks and financial institutions (except NRB) increased by 15.4 percent to Rs. 139.64 billion in the same period. The share of NRB in total reserves stood at 85.8 percent. The share of Indian currency reserves in total reserves stood at 21.1 percent.

Foreign Exchange Adequacy Indicators

28. These developments led to a significant improvement in the reserve adequacy indicators in the review period. Based on the imports of the five months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover prospective merchandise imports of 23.4 months, and merchandise and services imports of 18.7 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 increased to 46.4 percent, 156 percent and 48.5 percent respectively as at mid-December 2015. 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

29. The price of oil (Crude Oil Brent) in the international market decreased sharply by 38.4 percent to USD 37.66 per barrel in mid-December 2015 from USD 61.09 per barrel a year ago. The decrease in the price of petroleum product is attributed to increase in US petroleum products stock and slowing demand in China. Similarly, the price of gold declined by 12.2 percent to USD 1061.5 per ounce in mid-December 2015 from USD 1209.25 per ounce a year ago.
30. Nepalese currency vis-à-vis the US dollar depreciated by 5.5 percent in mid-December 2015 from mid-July 2015. It had depreciated by 3.5 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 107 in mid-December 2015 compared to Rs. 101.14 in mid-July 2015.

Fiscal Situation *

Budget Deficit / Surplus

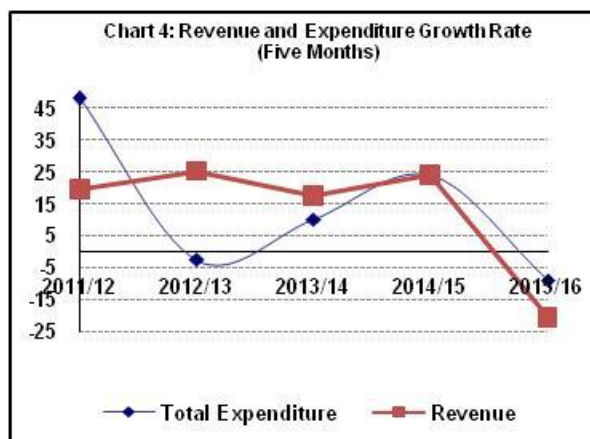
31. During five months of 2015/16, government budget on a cash basis remained at a surplus of Rs. 32.81 billion. Such surplus was Rs. 46.63 billion in the corresponding period of the previous year.

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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.

Government Expenditure

32. During the review period, total government expenditure on a cash basis dropped by 13 percent to Rs. 106.65 billion. This amount accounts for 13 percent of annual budget estimate of Rs. 819.47 billion. Such expenditure had increased by 23.9 percent to Rs. 117.21 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.



33. During the review period, recurrent expenditures decreased by 12.7 percent to Rs. 83.22 billion. Such expenditures had increased by 14.8 percent in the corresponding period of the previous year. During the review period, capital

Box 4: The Budget Performance			
Heads	Budget Estimates (Rs. in millions)	Outturns in five months	
		Rs. in million	As percent of budget estimates
Total Expenditure	819469.0	106652.0	13.0
Recurrent Expenditure	484266.4	83215.8	17.2
Capital Expenditure	208877.2	8518.9	4.1
Financial Expenditure	126325.3	14917.3	11.8
Revenue	475012.1	112812.1	23.7

expenditures dropped by 3.2 percent to Rs. 8.52 billion as works at various important projects remained stalled and the post- earthquake reconstruction task procrastinated on account of the shortage of fuel and construction materials. Such expenditures had increased by 49.9 percent in the corresponding period of the previous year. The capital expenditure in the review period is only 4.1 percent of annual budget estimate of Rs. 208.89 billion.

Government Revenue

34. During the review period, the government revenue mobilization dropped by 20.6 percent to Rs. 112.81 billion. Such revenue had risen by 24.1 percent in the corresponding period of the previous year. Contraction in imports and slowdown in economic activities due to disturbances at southern customs points led to a decrease in VAT, customs revenue, excise duty and income tax. As government revenue collection in the review period is just 23.7 percent of the annual target of Rs. 475.01 billion, mobilizing the targeted revenue seems difficult in 2015/16.

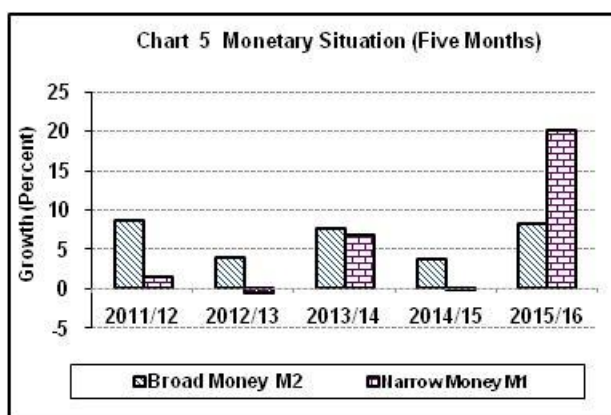
Public Debt and Cash Balance of the GoN

35. During the review period, the GoN made principal payment of Rs. 10.6 billion of domestic debt. As a result, outstanding domestic debt decreased to Rs. 186.19 billion in mid-December 2015 from Rs. 196.79 billion in mid-July 2015.
36. Because of a slow pace of government expenditure relative to resource mobilization, the GoN accumulated cash balance of Rs. 82.08 billion at Nepal Rastra Bank as of mid-December 2015.

Monetary and Financial Situation

Money Supply

37. Broad money supply (M2) increased by 8.2 percent in five months of 2015/16 compared to an increase of 3.8 percent in the corresponding period of the previous year. Narrow money supply (M1), which had decreased by 0.1 percent in the same period of the previous year, increased by 20 percent in the review period. On y-o-y basis, M2 expanded by 25 percent and M1 expanded by 43.7 percent in mid-December 2015. The larger expansion of M1 is attributed to an increase in deposit of some of the institutions other than the BFIs at this bank on account of the initial public offerings.



38. Reserve money, which had decreased by 7.8 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 30.8 percent in mid-December 2015. Such growth of reserve money is attributed to the increase in the net foreign assets of this bank.
39. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 128.11 billion (17.1 percent) in the review period compared to an increase of Rs. 23.35 billion (3.9 percent) in the corresponding period of the previous year. Remarkable increase in remittance inflows along with the contraction in imports at a higher rate resulted in a large expansion of net foreign assets in the review period.

Domestic Credit

40. Domestic credit contracted by 0.3 percent in the review period in contrast to an increase of 3.5 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 11.9 percent in mid-December 2015. A rise in government deposits at this bank resulted in a decline in domestic credit in the review period. Claims of monetary sector on the private sector increased by 4.2 percent in the review period compared to a

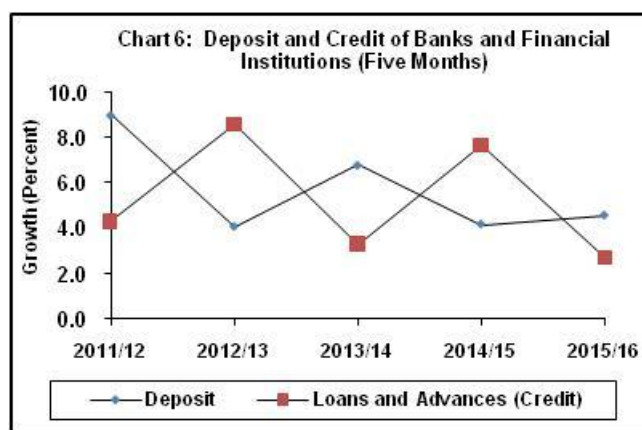
growth of 8.7 percent in the corresponding period of the previous year. On y-o-y basis, claims on the private sector increased by 14.4 percent in mid-December 2015 compared to a growth of 23.1 percent a year ago.

Financial Resources Mobilization

41. The growth in deposits at the bank and financial institutions (BFIs) nearly doubled the growth in loans and advances in the review period.

Deposit Collection

42. Deposits at BFIs increased by 4.6 percent (Rs. 78.46 billion) in the review period compared to a growth of 4.2 percent (Rs. 59.36 billion) in the corresponding period of the previous year. Deposits at commercial banks and finance companies increased by 5 percent and 2.7 percent respectively in the review period, while deposits at development banks decreased by 0.9 percent. On y-o-y basis, deposits at BFIs expanded by 20.5 percent in mid-December 2015.



Credit Disbursement

43. Credit to the private sector from BFIs increased by 3.3 percent (Rs. 43.72 billion) in the review period compared to an increase of 8 percent (Rs. 89.04 billion) in the same period of the previous year. Private sector credit from commercial banks and finance companies increased by 4 percent and 3.6 percent respectively in the review period. However, such credit of development banks decreased by 0.9 percent. On y-o-y basis, credit to the private sector from BFIs increased by 14.6 percent in mid-December 2015.
44. There has been a lower growth in credit disbursement in major areas such as industrial production, wholesale and retail trade and agriculture. Credit to the industrial production sector increased by Rs. 1.37 billion (0.5 percent), wholesale and retail trade sector by Rs. 3.9 billion (1.3 percent), construction sector by Rs. 4.66 billion (3 percent), transport, communication and public sector by Rs. 6.45 billion (10.7 percent) and agriculture sector by Rs. 370 million (0.6 percent) in the review period.
45. In the five months of 2015/16, banks and financial institutions extended 60.1 percent of their total credit against the collateral of land and building, and 12.5 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 58.9 percent and 13.5 percent respectively in the same period of the previous year.
46. Of the total lending of commercial banks, the credit to small and medium enterprises is only 2.6 percent (Rs. 30.22 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 transaction related work. Likewise, T. R. (Trust Receipt) loan extended by commercial banks decreased by 7.1 percent (Rs. 3.92 billion) in the review period compared to a growth of 17.7 percent (Rs. 8.61 billion) in the same period of the previous year. The decline in such credit is mainly attributable to the contraction in imports accompanied by disruption in border points and unrest in southern plain.

47. In the five months of 2015/16, the NRB mopped up Rs. 277.80 billion liquidity, on a turnover basis, through various instruments. These consisted of Rs. 183.40 billion liquidity absorption through

Box 5: Cost of Liquidity Absorption (Rs. in million)				
Liquidity Absorption Instruments	2014/15 (Annual)		2015/16 (Five Months)	
	Amount	Interest Expenses	Amount	Interest Expenses
Deposit Collection Auction	155000	170.5	183400	482.1
Reverse Repo Auction	315800	2.8	85300	6.3
Outright Sale Auction	6000	17.3	9100	29.0
Total	476800	190.6	277800	517.4

deposit collection auctions, Rs. 85.30 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. 126.15 billion in mid-December 2015. In the corresponding period of the previous year, Rs. 55 billion was mopped up through deposit collection auction and Rs. 220.50 billion through reverse repo auction. In five months of 2015/16, total interest expenses incurred in mopping up liquidity through various instruments reached Rs. 517.4 million.

48. In the review period, the NRB injected net liquidity of Rs. 196.83 billion through the net purchase of USD 1.88 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 131.62 billion was injected through the net purchase of USD 1.41 billion in the corresponding period of the previous year.
49. The NRB purchased Indian currency (INR) equivalent to Rs. 115.45 billion through the sale of USD 1.10 billion in the review period. INR equivalent to Rs. 148.82 billion was purchased through the sale of USD 1.52 billion in the corresponding period of the previous year.

Financial Broadening

50. Expansion in branch network of BFIs has widened the access to finance. The branch network of BFIs reached 3,984 in mid-December 2015 from 3,694 a year ago. Likewise, the growth in the deposit and loan accounts has also contributed to broaden the financial access (Box 5).

Box 6: Financial Broadening Indicators		
Headings	Mid-December	
	2014	2015
Number of BFIs	197	190
Branches of BFIs	3,694	3,984
Number of ATM/Debit Card	41,45405	42,86,455
Number of Credit Card	59,352	45,554
Number of Deposit Accounts	1,44,16,701	1,52,79,909
Number of Loan Accounts	9,49,777	10,27,090

Refinance and Productive Sector Lending

51. The NRB has been providing refinance facility to expand productive sector lending. Utilization of such facility has slightly decreased in the review period. In the review period, a total refinance of about Rs. 1.70 billion including general refinance of Rs. 1.54 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. 2.87 billion including general refinance of Rs. 1.68 billion and export refinance of Rs. 1.19 billion was utilized.
52. This bank has introduced a provision of zero percent refinance facility to banks and financial institutions with an objective of providing concessional loan to earthquake victims. It is expected that the demand for this loan will take place along with the commencement of the government led rehabilitation and reconstruction work.
53. 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 16.2 percent in mid-December 2015.

Inter-bank Transaction and Standing Liquidity Facility

54. In the review period, inter-bank transactions of commercial banks stood at Rs. 317.52 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 30.78 billion. Such transactions had amounted to Rs. 140.68 billion and Rs. 81.81 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

55. The weighted average of 91-day Treasury Bill rate and inter-bank transaction rate among commercial banks rate has increased in the fifth month of 2015/16 compared to a year ago. The weighted average 91-day Treasury Bill rate increased to 0.48 percent in the review month from 0.13 percent a year ago. Similarly, the weighted average inter-bank transaction rate among commercial banks that was 0.15 percent a year ago increased to 0.82 percent in the review month. However, the weighted average inter-bank rate among other financial institutions decreased to 1.50 percent from 2.48 percent a year ago.
56. In the fifth month of 2015/16, the weighted average interest rate spread between deposit and lending rate of commercial banks inched down to 4.41 percent from 4.48 percent a year ago and the average base rate came down to 6.91 percent from 7.44 percent a year ago.

Status of Merger and Acquisition of Banks and Financial Institutions

57. 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-December 2015. Likewise, 2 finance

companies were acquired by a commercial bank and one development bank was acquired by another development bank.

Regulatory Measures

58. 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 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. Likewise, the existing provision for submitting the net clearing position of BFIs through electronic channel by Nepal Clearing House Ltd. to Banking Office has been modified in five specified sessions from the existing ones. Similarly, BFIs are required to make their capital plan, as per the monetary policy provision, public through their own websites.
59. NRB also issued directives addressing unusual situation caused by unrest in Terai region and trade-transit disturbances in Indo-Nepal Transit points. Such directives include continuation of deferred loans as pass loans until mid-January 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-January 2016, provision for including accrued interest received by mid-November 2015 in income statement of the first quarter and extension of time period of T.R. loans (import loans) from 120 days to 180 days, among others.

Macro prudential Regulation

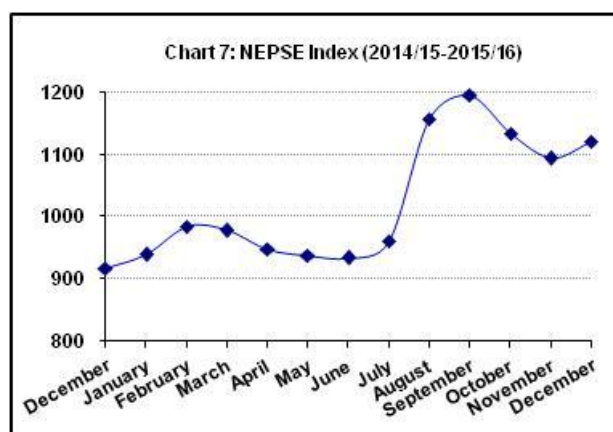
60. There is a provision to limit credit in real estate sector at 25 percent of total credit disbursement. Such credit flow of BFIs amounted to Rs. 215.10 billion (including Rs. 123.75 billion residential home loans less than Rs. 10 million each) in mid-December 2015. This is 15.3 percent of total credit exposure of BFIs. As at mid-December 2015, the BFIs' total margin lending extended against the collateral of shares stood at 1.9 percent (Rs. 26.75 billion) of their total credit exposure.
61. Mandatory credit-deposit (local currency deposit and including core capital) ratio is 80 percent. Such ratios of commercial banks, development banks and finance companies stood at 71.86 percent, 70.16 percent and 68.65 percent respectively as at mid-November 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 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 6.5 times and 5 times of their core capital respectively as at mid-December 2015.

Capital Market

64. The NEPSE index on y-o-y basis increased by 22.3 percent to 1,121 points in mid-December 2015. This index had increased by 25 percent to 916.7 points a year ago. The stock market that started spooking in mid-September 2015 owing to Terai unrest and supply disruptions, has been recovering since early December.



65. The twelve months' rolling standard deviation of NEPSE index increased by 16 percent in mid-December 2015. On the basis of daily (sector-wise) transactions from mid-November to mid-December 2015, the insurance sector's index shows the highest volatility.
66. The stock market capitalization on y-o-y basis increased by 26.5 percent to Rs. 1,189.49 billion in mid-December 2015. This had increased by 26.3 percent a year ago. The ratio of market capitalization stood at 56 percent in mid-December 2015 compared to 48.4 percent a year ago. In the total market capitalization, the share of banks and financial institutions (including insurance companies) stood at 81.5 percent, hydropower 5.3 percent, manufacturing and processing companies 2.8 percent, hotels 2 percent, trading 0.1 percent, and others 8.3 percent respectively.
67. On y-o-y basis, total turnover of the traded securities increased by 59.6 percent to Rs. 6.02 billion in the fifth month of 2015/16. This was Rs.3.77 billion in the fifth month of 2014/15. In the total turnover, the share of commercial bank was 43.6 percent, development bank was 20 percent, insurance companies was 17.7 percent, promoters share was 7.4 percent, hydropower sector was 6.9 percent, finance companies was 1.8 percent, hotel was 1.2 percent, manufacturing and processing was 0.6 percent, mutual fund and industries as well as other sectors were 0.4 percent.
68. Total number of the companies listed at the NEPSE decreased from 234 in mid-December 2014 to 227 in mid-December 2015 due to the merger of some BFIs.
69. On y-o-y basis, total paid-up capital of the listed companies increased by 32.2 percent to Rs. 238.97 billion in mid-December 2015. In the fifth month of 2015/16, total securities worth Rs. 6.68 billion were listed in the NEPSE. These consist of ordinary shares Rs. 1.74

billion, right shares Rs. 1.28 billion, bonus shares Rs. 2.56 billion and the debentures Rs. 1.10 billion.