

NEPAL
ECONOMIC
FORUM

nefport

Docking Nepal's Economic Analysis

APRIL 2013 | ISSUE 12

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EDITORIAL

We are happy to present you the twelfth issue of nefport, which provides an overview of the events of the past three months that had an impact on the Nepali economy, covering events from December 15, 2012 to March 15, 2013. For this issue, we have used NPR 86.88 to a dollar, the quarterly average to the dollar amount.

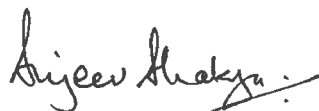
An agreement was reached to appoint Chief Justice Khil Raj Regmi as the Chairman of the interim election government, with the election date set for June 20, 2013. While Kathmandu got engrossed in the political discourses, outside Kathmandu, economic activities continued despite political uncertainty. Nepal was ranked 112th, out of 140 economies, in the World Economic Forum's Travel & Tourism Competitiveness Index. A Nepali got into the Forbes Asia list and was ranked 1342nd among the 1426 billionaires.

Bandhs continue to disrupt the Nepali economy. In the last quarter alone, there were approximately 15 *bandhs*. One day of Nepal *bandh* costs the country an estimated NPR 2 billion (USD 23 million). The loss from strikes from all sectors (businesses to transportation to tourism) accumulates to NPR 100 billion (USD 1.15 billion) annually.

We continue to cover the sections in the manner readers are now used to: the first section provides a general overview of the macroeconomic state of Nepal's economy and the second section presents an in depth review of the financial and capital markets.

Nepal Economic Forum, a division of beed, is a not-for-profit organization that functions as Nepal's premier private sector led economic policy and research institution. We would like to thank beed invest and beed management for their support in making this issue possible.

We are eager to receive your valuable feedback on how to make future issues of nefport more useful and user friendly. Please email us your suggestions at info@nepaleconomicforum.org



Sujeev Shakya
Chairman
Nepal Economic Forum

POLITICAL OVERVIEW

The Government of Nepal has taken an unconventional step to end the political deadlock in the country. With the appointment of the Chairman of the interim election government, Nepal is gearing up for the upcoming 20 June elections. However, what remains to be seen is whether the political parties will rise above their personal differences this time and allow the people to exercise their right to choose their own government.

CJ heads interim election govt.: In order to end the political impasse, Chief Justice Khil Raj Regmi was appointed the Chairman of the interim election government on March 14.¹ A presidential order for Regmi's appointment was passed by President Ram Baran Yadav with a view to end disputes between various political parties by instating an independent person to oversee the next elections. Regmi has been given the task of overseeing elections for a new constituent assembly that will determine the constitution of Nepal. Although Regmi will not serve in court while he heads the government, he will retain his title of Chief Justice. Twenty one fringe parties, including CPN-Maoist, have protested the 11-point deal agreed by the major political parties that paved the way for Chief Justice Khil Raj Regmi to head the interim election government.

UCPN Maoist calls for capitalist revolution: At the seventh general convention of the Unified Communist Party of Nepal (Maoist) held at Hetauda in February, party Chairman Pushpa Kamal Dahal called for a "capitalist revolution to create the foundation of socialism".² Although in 2005 the UCPN-Maoist had decided to accept multiparty system, the convention, where the new agenda was accepted, marks the party's formal

entry into parliamentary politics. The party also re-elected Pushpa Kamal Dahal as Chairman.

Nepal Army to help set up TRC: As the scrutiny on Nepal's conflict-era human rights violations increase, the Nepal Army has agreed to the formulation of the Truth and Reconciliation Commission (TRC) to address these cases.³ This development follows closely on the heels of Colonel Kumar Lama's arrest in the UK over allegations of torture committed during the 10-year Maoist insurgency. The international community has been denying visas to soldiers facing allegations of human rights violations. Some Maoist leaders have also expressed concerns that they may be at risk of being arrested when traveling abroad and, as such, support the TRC.

Meanwhile, political parties are divided on the issue of TRC. While the UCPN (Maoists) want to immediately finalize an ordinance on the formation of the TRC, Nepali Congress and the CPN-UML have stressed the need for revising the ordinance by addressing the concerns of the international community. Rights groups and the international community have expressed strong reservations on the government's ordinance on the grounds that the whole transitional justice system could

be jeopardized if amnesty is granted to serious war-era abuses.

NPR 100 billion lost annually to bandhs:

Although the country had a momentary respite from *bandhs* in 2011 and early 2012, Nepal has seen 11 national and 74 regional *bandhs* since April 2012. One day of Nepal *bandh* costs the country approximately NPR 2 billion (USD 23 million). The loss from strikes from all sectors (businesses to transportation to tourism) accumulates to NPR 100 billion (USD 1.15 billion) annually. In terms of regional strikes, far west has seen the highest number of *bandhs* (32), followed by Terai (8), Dhanusa (9), Banke (5), Rautahat (5) and Bardiya (4). Various student bodies have also been actively involved in shutting down the nation in protest against rise in petroleum prices and violence against student body members.

“ OUTLOOK

Although the election date has been set, Nepal's future hinges on whether or not the elections take place within the stipulated time. The political parties need to push for the elections and limit the tenure of the current interim government. Any disruptions from the political parties and prolonging of the process will result in negative impact on the Nepali economy.

INTERNATIONAL ECONOMY

Economies big and small are looking to attract foreign investments to jump start their economies; however, stricter regulatory frameworks may dampen the spirits for foreign investments.

Indian budget 2013-14 released: The budget, presented by Finance Minister P. Chidambaram, declared that the Indian economy has dropped to 8%⁴ as the economic activities in India are still feeling the effects of the global economic downturn. Currently, China and Indonesia are growing faster than India, but Chidambaram projects that by next year, India will overtake Indonesia. The Finance Minister emphasized the need for foreign investment for economic growth. India is also facing current account deficit as exports slow down and imports of oil, coal and gold put pressure on the balance of payment. India needs USD 75 billion (NPR 86.88 billion) to finance the current account gap over the next two years. India's fiscal deficit is estimated to be 5.3% of GDP in the fiscal year (FY) 2012-13 and 4.8% of GDP in FY 2013-14. The budget also established a steep rise (10% to 25%)⁵ in the tax rate on royalties and fees for technical services that an Indian company pays to a Non Resident Indian or a foreign company.

China gears up for urbanization program: Under the new leadership of Xi Jinping, China is to engineer an unprecedented urbanization program which will entail moving 400 million people from rural areas into the cities by 2020. China's current urban res-

idents, which make up 30% of the total population of 1.3 billion, will double by 2020.⁶ The Chinese government plans to spend USD 6.4 trillion (NPR 566 trillion) to pay for the program by creating employment opportunities and building homes, roads, hospitals, and schools for them. Although there are many benefits associated with urbanization, critics worry that a top-down approach to urbanization could lead to a host of other problems: erosion of farmland, an overburdened social welfare system and a high unemployment rate.

Hugo Chávez Death: On March 5, Venezuelan President Hugo Chávez died of cancer.⁷ Chávez is known to direct a large part of the Venezuelan budget on social spending in areas such as health, housing, and education for the poor. He promoted his vision of Latin American integration and pushed bilateral trade with the Latin American countries. He was firmly against "American Imperialism" and chose to ally with Cuba, Syria, Libya and Iran instead. Although the Vice President Nicolás Maduro was sworn in as the acting president after Chávez's death, Venezuela is currently a bitterly divided nation with an uncertain future.

World Economic Forum 2013 concluded: The conference this year was dominated

by the growing divide between emerging and developed economies, rift in the European Union, fighting in Syria and Mali, rioting in Egypt, disparities on how to fix the financial sector, worries of central bank meddling and growing unemployment. British Prime Minister David Cameron promised a referendum in the UK, which could signal an exit from the EU. Bank executives showed their disapproval of the piecemeal global regulatory landscape, which they said could prove to be operationally and legally risky for global corporations. International Monetary Fund (IMF) criticized banks, regulators and governments for not being able to find common ground five years after the financial crisis broke out.

“ OUTLOOK

The aftershocks of the global economic downturn are still being felt by the developed as well as emerging economies. Developed economies are still trying to bounce back from the 2008-2009 financial crisis. Although the emerging markets were able to balance out the troubles of their developed counterparts in 2010 and 2011, the trend did not continue in 2012 and will most likely not do so in 2013. These uncertainties will result in sluggish exports and remittances in Nepal.

macroECONOMIC

OVERVIEW

The Nepali economy has shown positive developments over the last quarter. For instance, Nepal has the highest ranking of 6 out of 140 countries in terms of price competitiveness in the travel and tourism industry as per the World Economic Forum in its Travel and Tourism Competitiveness Index, 2013.

However, unstable political environment continues to hinder economic development, with the economy losing over USD 1.15 billion (NPR 100 billion) annually through *bandhs*.

AGRICULTURE

The agriculture sector in Nepal is all set to get a much needed boost from the government. Besides increasing its budget for the agriculture sector in the FY 2013-14, which will increase by 10% annually, the government also plans to increase domestic investment in agriculture by ensuring insurance is provided to farmers.

Agriculture allotted NPR 65 billion:

The National Planning Commission (NPC) has approved a ceiling of NPR 65.77 billion (USD 757 million) in the agriculture sector over a period of three years (FY 2013-14 to FY2015-16).⁹

As shown in *Figure 1*, the budget for fiscal year 2013-14 has been increased by 41.72% and the agriculture budget is scheduled to increase by 10% annually. Of the total budget approved for fiscal year 2013-14, NPR 4 billion (USD 46 million) has been earmarked

for subsidizing chemical and organic fertilizers. Since the government plans to increase salaries of public sector employees, it is expected that less than 20% of the budget will be used for agriculture programs. In spite of these projections, it is expected that the actual budget will be based on the Agriculture Perspective Plan (APP) since the Agriculture Development Strategy (ADS), a roadmap for the agriculture sector with a 20-year vision and 10-year plan, is still at the planning phase and should be implemented by 2015.

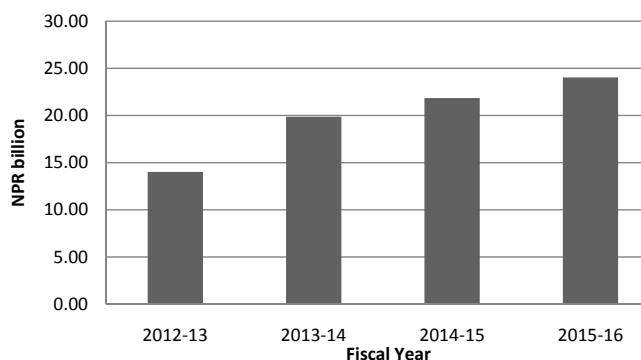
Government to ban FDI in Agriculture:

Despite a strong lobby for commercialization of the agriculture sector and an increase in investment in the same, the government has been considering a ban on foreign direct investment (FDI).¹⁰ The government's decision will be implemented through Agriculture Development Strategy (ADS) and the

ban is meant to protect Nepali farmers and agricultural sector as a whole. The government plans to ban multinational companies from engaging in agricultural production and marketing; however, it will not ban the import of genetically modified organism and hybrid seeds by the farmers, for which the government will issue permits.

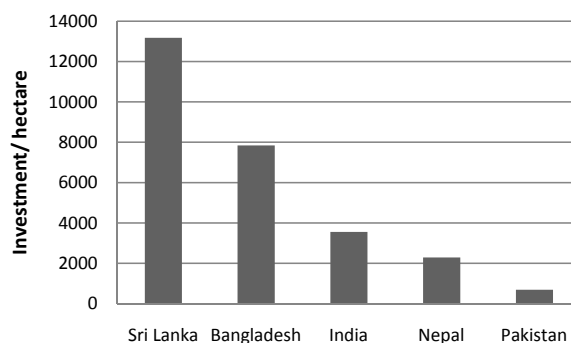
The government's decision to ban FDI comes after a nationwide criticism of Monsanto. In early 2012, Monsanto, an American multinational agricultural biotechnology corporation, had shown an interest in investing in Nepal but stopped influencing the government after receiving criticism from all fronts. Other multinationals like Adler Seeds, AgriSA, and Agrium are also interested in the Nepali market. The government has been developing ADS with technical assistance from Asian Development Bank (ADB) and a dozen other

Figure 1: Agriculture Budget



Source: "Govt. to spend NPR 65b on agriculture in three years," The Kathmandu Post, February 28, 2013

Figure 2: Investment in Agriculture in South Asia



Source: Trade and Export Promotion Center

donors, including International Fund for Agriculture Development (IFAD), European Union (EU), Food and Agriculture Organization (FAO), Swiss Development Corporation (SDC), Japanese International Corporation Agency (JICA), Danish International Development Agency (DANIDA), United States Agency for International Development (USAID), and World Food Program. ADS is a USD 2 million (NPR 173.76 million) project where ADB has contributed USD 1.5 million (NPR 130.32 million) and the remaining by other donors.

Govt. prepares for increase in food production: The National Seed Vision 2025, an initiative of the Ministry of Agriculture and Cooperatives (MOAC), plans to produce eight million metric tons of food grain by 2025.¹¹ Nepal currently needs 5.3 million metric tons of food to feed its 26.6 million population. Through the new policy, MOAC seeks to provide one million farm families easy access to quality seeds. It is expected that the nation will produce 2,978 metric tons of foundation seeds and 92,527 metric tons of improved

seeds through formal system by 2025. According to one conventional estimate, 92,527 metric tons of improved seeds will be required by 2025. Ideally, the seed replacement rate (SRR) is 25% for self-pollinated crops, 33% for cross pollinated crops and 100% for hybrid varieties. In 2009, the SRR of rice was only 9%, maize 7%, wheat 9% and vegetable 66%. By 2025, the SRR is expected to reach 25% in cereals and 90% in vegetable crops. The new policy can help increase yield rice and vegetable crops up to 3.8 mt/ha and 19 mt/ha, respectively. Similarly, edible food availability by 2025 will reach eight million metric tons worth NPR 200 billion at current price.

Steep rise in exports of agricultural products: Lentil, cardamom, tea, and ginger recorded significant rise in the first six months of fiscal year 2012-13 as shown in *Figure 2*.

Ginger recorded the fastest growth in export earnings during the review period; ginger surged by almost four-fold to NPR 814.61 million (USD 9.37 million), an increase of approximately

300%. Food and Agriculture Organization (FAO) has also identified Nepal as the world's third largest producer of ginger after India and China. India, which is the main buyer of Nepali ginger and provides free market access, absorbed 98% of Nepal's exports. Rise in ginger exports was due to an improvement in the quality of the product and a growing number of farmers that are being attracted to the sector.

Agro Insurance to be mandatory: After the Nepal Rastra Bank's (NRB) directive for commercial banks to push their lending to the agriculture and energy sectors to 10%, Insurance Board (IB) has now made agro insurance mandatory for non-life insurance companies.¹² This directive is to be put into effect by January 2013 and is pushing non-life insurance companies to insure paddy, vegetables, fruits, potatoes, livestock and poultry. Since loans in the agriculture sector is risky—agriculture in Nepal is heavily dependent on weather conditions—introduction of agro-insurance is expected to stimulate lending to the sector by assuring banks that they will not have to face defaults and bad debts.

EDUCATION

Despite the outcry on public education lacking funds, the highest budget in the social sector has been allocated to public education over the last few decades. However, though the country has over 34,000 schools, only 500 can be regarded as good educational institutions.

Education strike affects students nationwide: The March 3 nationwide strike enforced by the Association for Private Educational Institutions Nepal (APEIN) has affected over eight million students across the nation. The APEIN is an alliance of Higher Secondary School's Association Nepal (HISSAN), Private and Boarding Schools' Organization (PABSON), National Private and Boarding Schools Association Nepal (NPABSAN), Association of Engineering College, Purnwanchal University College of Nepal, Pokhara University College Forum, Technical Institutes, Association of Private Medical and Dental College and Forum for Health and Technical Sciences. The strike was called by the association after members of the All Nepal National Independent Student Unions-Revolutionary (ANNISU-R), aligned to the UCPN-Maoist, burnt a school bus belonging to Golden Gate College in retaliation over not being allowed to form an ANNISU-R chapter in the college. The protest culture within the economy has led to Nepal being a country with the least number of credit hours for students in a year.¹³

TU faces financial crunch: The professors and employees at Tribhuvan University (TU) have not received their salaries since mid-November 2012. The reason: the Ministry of Edu-

cation has not approved the university's higher education program and budget, resulting in a delay in the release of budget by the University Grants Commission (UGC). TU is the largest and oldest university of the country and has over 15,000 professors and staff. Due to its inability to sustain on its own, it receives over 90% of its budget through UGC grants.¹⁴

Over 0.5 million students to appear for SLC: According to the Office of the Controller of Examinations, a total of 5,47,165 students are expected to appear for the School Leaving Certificate (SLC) examination, of which 4,30,097 are regulars and 1,17,068 exempted. This year, the number of examinees exceeds the previous year's figure by 18,908. A total of 1,786 exam centers have been set up across the country and will be supervised by an equal number of superintendents and 2,655 assistant superintendents. Similarly, 21,890 invigilators, 7,297 peons and 19,860 security personnel have been deployed to conduct the exams successfully.¹⁵

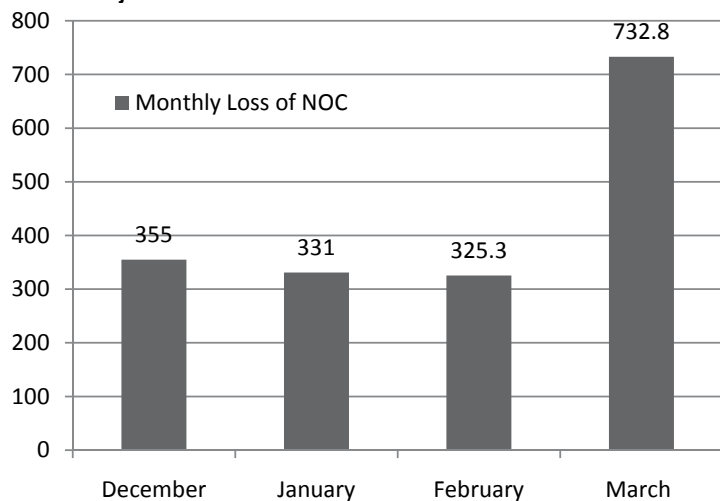
Criteria for hostel operation-2012 come into force: A 29 point criteria relating to Hostel Operation 2012 has been enforced by the Kathmandu District Administration Office to ensure transparency, safety, good management and uniformity in hostel operations. The criteria was enforced after a series of meetings held between committee members and concerned authorities. The nine member recommendation committee members include the Local Development Office, District Education Office, Small Scale and Cottage Industry, Kathmandu Metropolitan City, Kirtipur Municipality, Office of Company Registrar, and Nepal Hostel Business Association.¹⁶

Drop in number of foreign-bound students: According to the Ministry of Education (MoE), there has been a drop of 60% in the number of Nepali students going abroad to pursue their studies in the last fiscal year, as compared to the preceding year. The numbers are expected to further drop this fiscal year due to stricter visa policies being adopted by countries. Alternatively, Nepali universities are also providing newer courses and, therefore, newer opportunities within the country. The analysis is based on the number of students who have applied for a "no objection letter", which is necessary for students to go out of the country.¹⁷

New technology to crack down on fake examinees: A Bar Code and Optical Mark Reader (OMR) has been introduced by the Higher Secondary Education Board (HSEB) in an attempt to keep fake examinees at bay. The OMR is expected to be used from this academic session to detect fake examinees and control irregularities while marking answer sheets. Photos, signatures and other details of students will be scanned on the basis of their registration forms before creating a database with the help of the OMR technology. All application forms will be tallied with the registration documents and entrance cards to check whether or not the same photos and signatures are used in line with the students' symbol and registration numbers.¹⁸

ENERGY

The energy sector in Nepal continues to be plagued by the same problems that crippled it in the past with Nepal Oil Corporation (NOC) running in

Figure 3: Monthly Losses of NOC in NPR Millions from December to March

Source: Nepal Oil Corporation, www.nepaloil.com.np

a loss this quarter. Though the corporation curbed its monthly losses to approximately NPR 300 million (USD 3.5 million) between December 2012 and February 2013, monthly losses for NOC are still predicted to reach NPR 730 million (USD 8.4 million) in March. This downward spiral can be attributed to the revised prices of petroleum products in the international market. February registered the lowest losses in the current fiscal year, owing to a decrease in LPG during that month. As per the revised prices for the month of March, while NOC enjoys a profit of NPR 2.27 (USD 0.01) and NPR 9.16 (USD 0.11) on a liter of petrol and kerosene respectively, it bears a loss of NPR 5.43 (USD 0.06) on every liter of diesel and NPR 513.14 (USD 5.9) per LPG cylinder.¹⁹

Load shedding hours reduced: The load shedding has gone down from 12 to 10 hours per day. The reduction in load shedding hours came into effect as a result of electricity being imported from India; repair of the Kali Gandaki Hydropower Project on time, and

an appropriate level of water in the Kulekhani reservoir.²⁰

Interest rate slashed for NEA hydropower loans:

In order to provide some relief to the Nepal Electricity Authority (NEA), the government has made alterations in its lending policy by reducing the rate at which it relends soft loans to NEA. While relending soft loans from donor agencies, the government will charge NEA the same rate it pays to these agencies. Nonetheless, the government will charge NEA 1% of the loan amount as processing and guaranteeing fee. NEA will have to bear the risk of exchange rate fluctuations, as it will pay interest at the same exchange rate used by the government to pay the donor agencies. While the earlier relending rate stood at 10%, this rate was brought down to 8% two years ago due to pressure from NEA. Madhu Marasaini, joint secretary at the Ministry of Energy (MoE), said the provision will be applicable on all such loans extended to NEA for hydropower project development. The decision was taken after NEA demanded low interest

rate on the loan for the Tanahun Hydropower Project. The interest rate charged by donor agencies ranges from 1% to 1.5%.

Private Sector to construct transmission lines:

Following the government's decision to allow the private sector to construct power transmission lines, a number of private companies have shown interest in this area. The decision was taken keeping in mind that the Nepal Electricity Authority has been struggling with power line projects. The private sector will be allowed to invest up to 33% of the cost of any transmission line project for hydropower projects smaller than 25 MW under the Build-Own-Operate-Transfer (BOOT) and Build-Transfer (BT) model.²² Himalaya Energy Development Company (HEDC) has submitted its proposal to NEA to construct the 132 KV Khimti-Gajryang transmission line under the BT modality. Though the government, as per its Interim Plan (2010-11 to 2012-13), had envisioned to construct 408 km of transmission lines, not a single project has been completed so far. The deadline for the World Bank-funded 220 KV Khimti-Dhalkebar Transmission Line project also expired in December 2012. Had the project been completed on time, NEA would have been able to save a loss of NPR 350 million every year since 2008.²³ As per the report submitted by NEA to the Ministry of Energy, the government can also transfer transmission line projects being built by NEA to the private sector.

Subsidized renewable energy for urban consumers:

The draft of the new Energy Policy, currently being finalized, will provide subsidies to urban residents willing to make use of

renewable resources of energy such as solar and waste. According to Professor Dr. Govinda Raj Pokharel, executive director of the Alternative Energy Promotion Centre (AEPCC), of the total cost of installation of the renewable energy device, the government will bear 40%, another 40% will be made available through banks and financial institutions, and the remaining 20% will be borne by individuals who want to use renewable energy.²⁴ As of now, 38 municipalities have shown interest in developing plants to generate energy from waste. The government hopes to provide consumers some relief from the heavy load shedding schedule through this move. The new policy will also increase the subsidy on per kilowatt hydropower generation in rural areas from the existing NPR 195,000 (USD 2,200) to NPR 225,000 (USD 2,600).

Three gas companies granted license: NOC issued licenses to Gita Gas, Namaste Gas, and Kapa Sons in February, allowing these gas companies to operate services with purchase delivery order. Each of these companies will import 108 tons of gas in the initial phase. With the latest addition, the number of gas companies in Nepal has reached 51. The objective of granting license to additional companies is to make the availability of Liquid Petroleum Gas (LPG) easier.²⁵

MoU to promote renewable energy in protected areas: In a bid to promote renewable energy technologies that help conserve biodiversity and promote sustainable livelihood in the nation's protected areas, the Alternative Energy Promotion Center (AEPCC) signed a memorandum of understanding with the International Union for Conservation of Nature (IUCN) on March 5. The objective of the agreement is

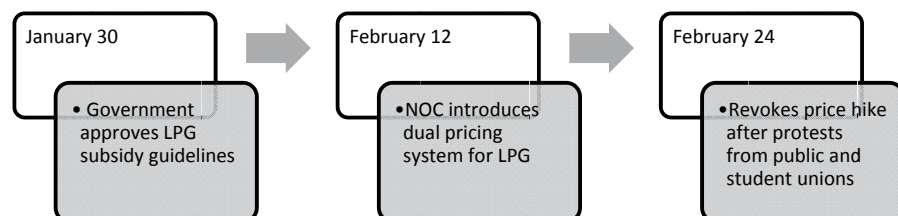
to provide the local communities with alternate renewable energy options that focuses on reducing dependency on traditional energy sources, such as firewood, and cutting down on carbon emissions.²⁶ Currently, over 85% of the rural population is dependent on firewood for their basic energy needs, which is a major cause of deforestation. The memorandum is expected to contribute to the national goal of poverty reduction and economic development through promotion of renewable energy technologies in and around the protected areas of Nepal.

Nuclear Energy, solution for energy crisis: Given the current energy crisis in Nepal, the government is considering establishing a Nuclear Technology Centre to conduct research on nuclear energy. The Ministry of Science, Technology and Environment (MoSTE) has prepared a proposal in this regard which will be presented to the Cabinet.²⁷ According to Professor Dr. Lok Narayan Jha at the Central Department of Physics, Tribhuvan University, there is no alternative to nuclear energy in the long run, and it is the best option for Nepal given its existing power crisis. The nuclear plant, if established, will generate thousands of MW of electricity. A team of specialists at the Tribhuvan University have already started their research to develop a nuclear plant. Nepal became a member of the International Atomic Energy Agency (IAEA) in 2011 and will get economic assistance from 2014. Currently, IAEA provides trainings to Nepali scientists and government employees.

NOC revokes LPG price hike: On February 12, following the Cabinet's approval of the LPG Subsidy Guidelines, NOC increased the price

of LPG to NPR 2,100 (USD 24.2) per cylinder, up by NPR 630 (USD 7.25), for commercial (non-subsidized) users²⁸. While the subsidized rate for household users stood at NPR 1,550 (USD 17.8), in effect the consumers had to pay the full price at the time of purchase and later be reimbursed for the subsidy through banking channels. However, NOC promptly rolled back the prices following protests from various student unions.²⁹ Citing their reasons for protest, the student unions pointed out the failure of the government to effectively distribute consumer cards—only 100,000 cards have been distributed since the process started in April 2012—and introduce the dual color cylinders, red for household and blue for commercial users. Without a proper mechanism in place, the effectiveness of the subsidy for LPG was questionable, which eventually led to the decision being revoked.

NOC asks NPR 2 billion to stay afloat: The total outstanding loans of NOC, from the government and various agencies, currently stand at NPR 27.5 billion (USD 316.5 million).³⁰ At the 43rd anniversary of NOC, Executive Director Suresh Kumar Agrawal stated that given the current situation, NOC has been unable to clear these loans. Therefore, he urged the government to take special initiatives and clear these loans, which would allow NOC to move ahead as a competitive institution. Amidst these circumstances, NOC has continued to remain dependent on loans to maintain supply of petroleum products. NOC had demanded a grant of NPR 2 billion (USD 23 million) from the government, as Indian Oil Corporation reduced shipments to Nepal. However, NOC's requests were turned down.³¹

Figure 4: Timeline for Implementation and Revocation of LPG Subsidies

Hydropower project developments in Nepal: The government, in February, awarded power generation license to three hydropower projects. With a total generation capacity of 36.36 MW, these projects are 30MW Nyadi Hydropower Project, 4.36MW Tungun Thosne Khola Hydropower Project, and 2MW Khani Khola Hydropower Project. The estimated cost of construction of the Nyadi project is NPR 6 billion (USD 690 million).³²

The Investment Board has also decided to fast track formal negotiations for four hydropower projects namely, SN Power's Tamakoshi 3 (650MW), Sutlej Jal Vidyut Nigam Limited's (SJVN) Arun 3 (900MW), GMR Group's Upper Karnali (900MW) and Upper Marsyangdi 2 (600MW).³³ These companies had reviewed the Project Development Agreement PDA template in December and provided comments for the same. After taking these comments into consideration, the Investment Board is in the process of finalizing project specific PDAs.

The government also approved the upgradation of the 60MW Upper Trishuli 3A hydropower project to 90MW in January. However, this move has been criticized by opposition parties and hydropower experts. The project, which is being developed by a Chinese contractor, China Gezhouba

Group Company, will only produce extra energy during the wet season. This means the project upgradation will do little to help reduce load shedding hours during the dry season. Experts have said that they have seen financial irregularities in the government's decision. Even though the contractor had initially agreed to develop 90 MW for USD 111 million (NPR 9.6 billion), the government has now agreed to spend USD 132 million (NPR 11.5 billion) for the same capacity. While the cost of hydropower is always on the decline, the cost of this project is on the rise.³⁴

FOREIGN AID

Research indicates that 90% of the foreign assistance commitments received by Nepal in the first six months of the current fiscal year 2012-13 are grants. Over the last six months, the country received foreign aid commitments worth USD 182 million (NPR 15.8 billion), with the energy sector receiving the highest grant commitments followed by security, local development, agriculture, good governance and drinking water supply sectors. Despite education and health being the top two priority sectors, these sectors have not received any grant commitments over the past six months.³⁵ The midterm budget review

of the government indicates that expenditure in foreign-aided projects has come down by 80.58% compared to the figure during the same period last year.

British assistance for agricultural promotion: The Department for International Development (DFID) and Adam Smith International (ASI) Nepal have agreed to provide a grant assistance of USD 26.6 million (NPR 2.3 billion) to promote the agricultural sector in Nepal. The assistance is to be mobilized over a five year period through the Nepal Market Development Project. The project is targeted at poverty alleviation through capacity enhancement of over 300,000 rural agro entrepreneurs and creating job opportunities them. The project is to be coordinated through the Cottage and Small Industry Development Committee and Industrial Entrepreneurship Development Foundation in all the districts.³⁶

Finnish aid for development projects: As a part of its Country Strategic Program 2013-2017, the Government of Finland has agreed to provide USD 150 million (NPR 13 billion) to the Government of Nepal. This financial assistance will aid the Government of Nepal in its implementation of priority development projects in Nepal under the government's three year plan.³⁷

Japan to help reduce child labor: The Government of Japan has provided financial assistance of USD 1.1 million (NPR 96 million) for the Project for Prevention and Reduction of Child Labor in Restaurants in the Kathmandu Valley.³⁸ The project will be implemented by Shapla Neer, which works in poverty alleviation through income generation, disaster preparedness activities, and the protection of child rights. The

grant will be used to promote human resources development through setting up of monitoring units in Kathmandu, Bhaktapur and Lalitpur Municipalities to effectively improve monitoring and related activities. The project aims at strengthening human resource development of officers in municipalities, making them better equipped to sustain activities independently in the future.³⁹

UNDP signs NPR 13 billion country action plan: The Government of Nepal and the United Nations Development Programme (UNDP) has signed a new Country Program Action Plan (CPAP) with a total budget of USD 159 million (NPR 13.8 billion) to be mobilized over the next five years. The CPAP outlines UNDP's engagement in Nepal for the next five years; it also focuses on efforts to reduce vulnerability of communities under threat from climate change and natural disasters, and expanding access to energy, while continuing support for elections, constitution writing and income generating opportunities. CPAP is in line with the government's priorities and the United Nations Development Assistance Framework's (UNDAF 2013-2017) two key goals of advancing equality and protecting development gains.⁴⁰

Japanese assistance for school development: The Government of Japan, under its Grant Assistance for Human Security Projects (GGP) scheme, has decided to provide USD 125,632 (NPR 10.9 million) to Shree Deurali Lower Secondary School and Saptari Community Development Centre (SCDC). The grant is expected to assist the school to implement its project for construction of a school building in Parbat, and for SCDC to implement construction of school buildings for Early Child Development

in three VDCs of Saptari. The assistance is expected to contribute towards supporting education of rural children and strengthening the relationship between the two countries.⁴¹

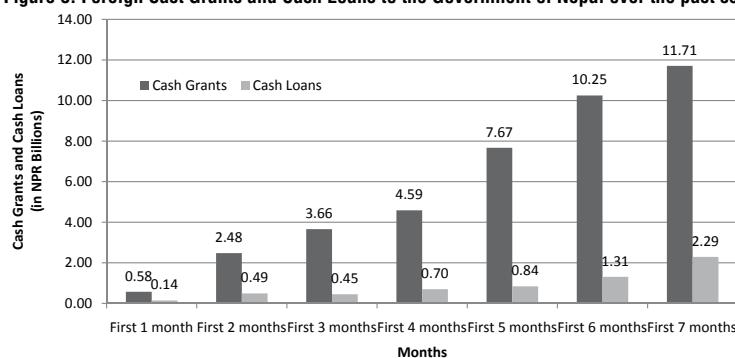
World Bank to help promote agribusiness: The World Bank will be providing an additional financing of USD 40 million (NPR 3.4 million) in assistance to the Government of Nepal to finance its Project for Agriculture Commercialization and Trade (PACT). The Bank will provide USD 22 million (NPR 1.9 billion) in loan assistance and USD 18 million (NPR 1.56 billion) as grants assistance. The project aims at improving the competitiveness of smallholder farmers and the agribusiness sector, improving access to markets, creating and strengthening of industry partnerships, reduction in obstacles and contributing towards market oriented production. The additional financing allows the project to be implemented across 75 districts rather than 25.⁴²

ADB loans USD 150 million to hydropower: The Asian Development Bank (ADB) has agreed to provide USD 150 million (NPR 13 billion) to the project company Tanahu

Hydropower Limited for the development of USD 500 million (NPR 43.4 billion) hydropower plant with a 140MW capacity. The project will be located on the Seti River, in the district of Tanahu, 150 km west of Kathmandu, and will be jointly funded by the ADB, Japan International Cooperation Agency (JICA), European Investment Bank, and the Abu Dhabi Fund for Development. The plant is expected to generate electricity throughout the year and deal with the energy crisis that is adversely affecting the economic prospects of the country. The plant will have a 7.26 sq km reservoir to ensure steady supply during the dry winter months. The project is expected to be Nepal's first hydropower plant with storage capacity and a sediment flushing system. The project will follow best international practices and aims to provide 17,636 homes in the area with direct connections to the national power grid.⁴³

EU provides assistance to Election Commission: A project implementation document has been signed between the European Union, United Nations Development Programme (UNDP) and the Gov-

Figure 5: Foreign Cast Grants and Cash Loans to the Government of Nepal over the past seven months



Source: Recent Macroeconomic Situation, Nepal Rastra Bank

Table 1: Comparison of Foreign Cash Grants for the first six months from FY 2009-10 to FY 2012/13 (in billions)

Foreign Cash Grants	2012/13	2011/12	2010/11	2009/10
First 1 month	0.58	3.66	1.28	1.50
First 2 months	2.48	4.07	1.81	2.72
First 3 months	3.66	5.71	2.85	3.78
First 4 months	4.59	11.52	5.54	4.86
First 5 months	7.67	15.40	8.72	9.74
First 6 months	10.25	21.21	12.69	13.07
First 7 months	11.71	24.27	12.46	13.24

Source: Recent Macroeconomic Situation, Nepal Rastra Bank

Table 2: Comparison of Foreign Cash Loans for the first six months from FY 2009-10 to FY 2012-13

Foreign Cash Loans (in billions)	2012/13	2011/12	2010/11	2009/10
First 1 month	0.14	0.51	0.18	0.21
First 2 months	0.49	0.56	0.73	0.26
First 3 months	0.45	0.90	0.91	0.58
First 4 months	0.70	1.55	1.30	1.11
First 5 months	0.84	1.23	1.90	1.80
First 6 months	1.31	2.59	2.29	1.98
First 7 months	2.29	2.79	2.70	2.18

Source: Recent Macroeconomic Situation, Nepal Rastra Bank

ernment of Nepal for the implementation of the “Electoral Support Project Phase II”, a 48 month project to be administered by UNDP.⁴⁴ The project has a total budget of USD 26 million (NPR 2.2 billion) and aims at holding fair and credible elections, enhancing institutional capacity at central and local levels, and maintaining stakeholder confidence in the electoral process.⁴⁵

ADB to ease South Asian intra-regional trade: To facilitate intra-regional trade within South Asia and reduce informal trading, the Asian Development Bank (ADB) will be

providing USD 48 million (NPR 4.17 billion). This fund will be utilized to ensure smooth movement of goods in and out of Bangladesh, Bhutan and Nepal, by overhauling time consuming, costly and non transparent custom procedures. ADB hopes to remove non tariff barriers which currently impede trade in South Asia, and introduce automated, user friendly and transparent customs keeping with international administration protocols, that will reduce costs and informal activity. Nepal is one of three countries that have been selected for the South Asia Sub Regional Economic Cooperation (SASEC) program.⁴⁶

HEALTH

In a bid to address the shortage of health professionals in the private and public health sector, the Government of Nepal has planned to add more health specialists, doctors and nurses in the sector by 2015. According to the World Health Organization, Nepal lies in the bottom 20 of 57 countries that have critical shortage of human resources in the health sector. The Ministry of Health and Population (MoHP) aims at hiring over 14,210 health professionals by 2015 to address this acute shortage. A reduction in the health budget—from NPR 24.92 billion (USD 286.8 million) earmarked in the previous fiscal year to NPR 16.58 billion (USD 190.8 million) in the current fiscal year—has led to bottlenecks in achieving the Millennium Development Goals (MDG).⁴⁷

National Organ Donation Program ineffective: The National Organ Donation program, initiated by Bir Hospital in August 2011, has failed to make much progress with only 300 people having donated their organs till date. The failure of the program, aimed at collecting kidneys from brain-dead patients and transplanting them to the needy, is attributed to a lack of awareness regarding organ donation. Despite over 100 brain-dead patients being admitted to Bir Hospital every year, absence of a legal registration unit means that organs cannot be transplanted to those who require it.⁴⁸

Bird flu hampers poultry farming: Nepal has witnessed over 38 outbreaks of bird flu over the last few year with over 70,000 chickens worth NPR 29.4 million (USD 338,390) being killed since 2008. According to the Directorate of Animal Health, this

has directly affected Nepali farmers, severely affecting the country's poultry farming with many quitting the business, resulting in a climb in poultry prices. Vaccines, feeds and other equipment used in poultry farming are suspected to be carriers of H5N1, the bird flu virus.⁴⁹

Health insurance scheme launched:

The first phase of the National Social Health Insurance Program, initiated by the Ministry of Health and Population (MoHP), was launched on March 1 across Ilam, Sarlahi, Banke, Kailali and Baglung. Based on the success of the first phase, the program will be scaled up to include other districts. Despite the launch of the program, estimated government funding, insurance coverage, and claim settlement mechanisms are yet to be decided. The health insurance scheme aims to increase people's access to medical services and widen the social safety net while also aiming at minimizing impoverishment through the government funded subsidy. The major external partners for the program are World Bank, GIZ, World Health Organization, and Korea International Cooperation Agency.⁵⁰

Online blood donation: Sankalpa, a local organization in Pokhara, has developed an online system for blood donation whereby regular contact is maintained with people wishing to donate blood. The prospective blood donor is then sent to the transfusion center or hospital when blood is required. This initiative is aimed at dealing with blood shortage issues facing the country and to help the poor and underprivileged.⁵¹

Medical relief for senior citizens: The Ministry of Health and Population is working towards providing a 50%

waiver on treatment fees for senior citizens at regional hospitals from fiscal year 2012-13. The provision is set to be implemented immediately on revision of guidelines for establishment of geriatric wards. The revision of guidelines follows the Supreme Court's decision on the 50% waiver for the elderly and their entitlement to free Out Patient Department and indoor services to a maximum of NPR 6,000 (USD 69).⁵²

Urban Health Policy approved: Urban health programs are set to be introduced this year by the Ministry of Health and Population (MoHP), following the finalization of the National Urban Health Policy by the ministry in the last fiscal year. The policy was formulated in accordance with the Interim Constitution 2007, which regards health as a fundamental right and prescribes access to free basic health care for every citizen. Under the policy, the ministry will provide free primary health care to urban dwellers with low economic status. The policy aims to resolve basic health problems in municipalities and ensure appropriate urban health care delivery system.⁵³

Government takes action against water bottlers: The Government of Nepal has filed 33 cases against water bottling plants in the first four months of the current fiscal year 2012-13 to curb the sale of substandard drinking water. Similarly, the Department of Food Technology and Quality Control (DFTQC) filed 25 cases, and the Department of Commerce and Supply Management (DoCSM) filed eight cases during the same period under the Food Act and Consumer Protection Acts. Bottled water has become a major public health issue with multiple incidents of substandard water being sold in the Nepali market. The

DFTQC examined over 79 samples of bottled water in the previous fiscal year 2011-12, of which 52 samples were found contaminated with fungi or coliform, a harmful bacteria. Similarly, pH value was also not maintained in bottled water.⁵⁴

License test mandatory for health professionals:

The Nepal Health Professionals' Council (NPHC) is planning to enforce licensing examinations from this fiscal year for all health professionals, other than doctors and nurses. This action is being taken to address complaints of incompetent health workers, and to ensure the quality and competence of health professionals, which include health assistants, auxiliary health workers, lab technicians, medical/ health laboratory technicians, public health professionals, microbiologists, physiotherapists, auxiliary Ayurved workers, dental hygienists and ophthalmic assistants.⁵⁵

New guideline for ambulances:

The Ministry of Health and Population is set to implement its new regulation on ambulance service operation within a month to increase access of ambulance services to the public. Ambulances are currently operated as per the Ambulance Service Operating Policy-2003. The new regulation aims to regulate and monitor ambulance services more effectively.⁵⁶

INFRASTRUCTURE

Petro Pipeline: The cabinet in January had agreed in principle to develop the Nepal-India cross border petroleum pipeline. A pre-feasibility study conducted in 2004 and a technical study in 2006 terms the project economically viable under conditions that the

pipeline is operated unhindered for 20 years. Apart from the land acquisition cost, the project has been estimated to cost NPR 1.6 billion (USD 18.4 million). As per the study, the 40 kilometer pipeline from Raxual to Amlekhgunj will reduce fuel transportation cost by over NPR 350 million (USD 4 million). In this regard, a technical team entrusted with the modality of the project is scheduled to submit its report to the National Planning Commission.⁵⁷

Pokhara Cable Car: The Ministry of Physical Planning Works and Transport Management, after studying the expression of interest, has shortlisted three joint venture consortiums under the build-operate-transfer model. These include (a) Lama construction, United Builders and Engineers, Shahiba International; (b) Laxmi International, Sujal foods, Pomagalski SAS Exclusivity Co-operation; and (c) Manakamana Darshan Chitwan Co-E, Doppelmayr, an Austrian company. The project is estimated to cost approximately NPR 1.2 billion (USD 13.8 million), excluding land cost. The cable car will span 1.5 km providing service from Phewa Lake to the World Peace Stupa.

Larcha dry port construction underway: Under the technical and financial assistance of China, the inland dry port construction is underway for an estimated NPR 1.2 billion (USD 13.8 million). The dry port is spread over 34 hectares and will accommodate 158 containers and 35 small vehicles.⁵⁸

Upper Trishuli hydropower stalled: The Upper Trishuli 3A hydro project came to a halt again following local interferences. Previously, the project had come under controversy after the government's decision to upgrade the

existing capacity from 60 megawatt to 90 megawatt.⁵⁹

Upper Tamakoshi Hydropower project: Fifty per cent of the 16 km tunnel construction works on the Upper Tamakoshi project has been completed on time. Till date, 48% of the civil construction and 41% of the total construction work has been completed.⁶⁰

Government approves three projects: Recently, three projects have been approved by the Industrial Promotion Board. These include MIT Group Holding Five Star Hotel, 216MW Upper Trishuli I hydro project developed by Nepal Water & Energy Development Company (NWEDC), and 10MW Madi Khola hydro project developed by Annapurna Group. MIT plans to invest NPR 7.09 billion (USD 81.6 million) in the hotel while NWEDC and Annapurna Group plan to put NPR 46.76 billion (USD 538.2 million) and NPR 3.8 billion (USD 43.7 million) in their respective hydro projects.⁶¹

Ring Road Widening: The Kathmandu Valley's Ring Road is all set to get the much needed upgradation. The entire 27 km stretch will be upgraded in three phases with China's annual grant. As per the Ring Road Improvement Plans, the existing four lane road will be upgraded to an eight lane track with addition of a four lane carriageway, which will include a two way relief road, two way bicycle track and two way pedestrian path. The Chinese contractor Shanghai Construction Group Company Limited will undertake upgrading the 9 km Koteswor-Kalanki stretch of the Ring Road. The project is estimated to cost NPR 4 billion (USD 46 million).⁶²

Kathmandu-Terai fast track: The construction of Kathmandu-Terai Fast Track

from Chalnakhel, Lalitpur, to Nijgadh, Bara, is all set for completion with only 1 km of the construction remaining. The project has been delayed owing to land acquisition problems in Khokana, Lalitpur. Since the acquired land is less than what was originally planned, some changes have been made in the Khokana alignment as a solution. Following these changes, the length of the road is estimated to reach 77 km. The project is estimated to cost NPR 77 billion (USD 886.27 million).⁶³

Mid-hill highway shortened: The government has initiated work on reducing the length of the proposed Mid-hill highway by 376 km from the existing 1,776 km to 1400 km. It is estimated that the reduction in length will reduce the project cost by over NPR 15 billion (USD 172.6 million). A total of NPR 200 million (USD 2.3 million) has been set aside for conducting a detailed feasibility report.⁶⁴

MANUFACTURING AND TRADE

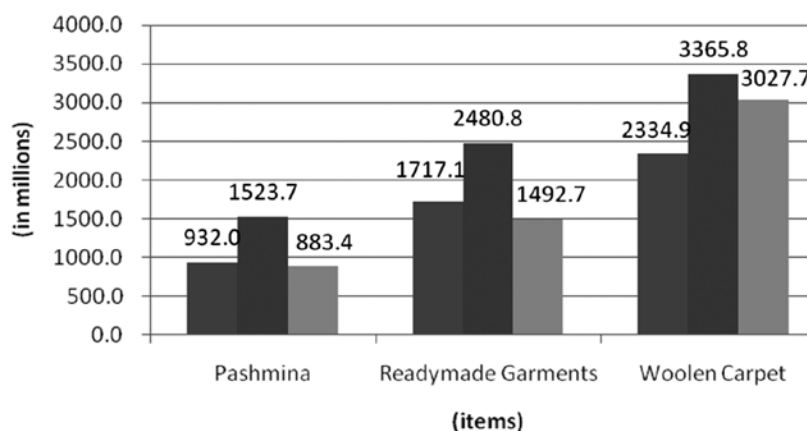
In terms of export, the first seven months of the fiscal year 2012-13 remained largely unproductive compared to the 1st quarter with the country witnessing only a 5.6% increase in export. Meanwhile, in comparison to last year, the imports have increased by a whopping 24%. While the Balance of Payments (BOP) has shown a significant improvement compared to the same period last year, there has been a 20% increase in the flow of workers' remittance. Similarly, the trade deficit also widened as total imports increased by 24%. The slump in Nepal's manufacturing sector can be attributed to the ongoing energy crisis, labor problems, and lack of foreign investments in the country.

Decline in garment, carpet export: The first half of the fiscal year 2012-13 saw a huge decline in the export of readymade garments, carpets and pashmina—the country’s major exportable items—compared to the figures of the same period last year. During the review period, Nepal exported pashmina products worth NPR 88.33 crores (USD 10.17 million) as against NPR 1.52 billion (USD 17.49 million) last year, a decrease of a whopping 42%. Similarly, the export of readymade garments also dropped sharply to NPR 1.49 billion (USD 17.15 million) from NPR 2.48 billion (USD 28.54 million), a decrease of 39.2%. Likewise, earnings from woolen exports also declined. While figures from the export of woolen goods stood at NPR 3.36 billion (USD 38.67 million) last year, this year the figure dropped to NPR 3.02 billion (USD 34.76 million), a decline of 10% compared to the figures of the first six months of last fiscal year.⁶⁵

It is interesting to note here that despite being the country’s major exportable products, readymade garments and carpets are yet to be included in Nepal Trade Integrated Strategy 2010 (NTIS). Repeated lobbying by exporters to the Government for the inclusion of these products in the NTIS priority list has yielded little result; till date, the government has not made any move to initiate the process for its inclusion.⁶⁶

Trade deficit widens further: There was a sharp increase in the country’s trade deficit in the first seven months of the fiscal year 2012-13, with imports gaining a seven-fold increase over exports. During the review period, total exports were to the tune of NPR 44.98 billion (USD 517.72 million) whereas total imports stood at NPR 316.20 billion (USD 3,639.50 million). Due

Figure 6: Export comparison of country’s major export items (based on 6 months data)



Source: "Exports of garment, carpets, pashmina decline in Q1", The Kathmandu Post, November 27, 2012.

to a higher rate of growth in imports, the ratio of export to import declined to 14.2% during the review period from 16.7% a year ago. The imports from India increased from NPR 164.70 billion (USD 1895.71 million) to NPR 207.63 billion (USD 2389.84million), an increase of 26.1%, whereas the total imports from other countries increased from NPR 90.24 billion (USD 1038.67 million) to NPR 108.56 billion (USD 1249.53 million), an increase of 20.3%. A significant increase in demand for plastic utensils, salt, live animals, rice, and baby food and milk products boosted the import figures from India. Likewise, the imports from other countries increased primarily due to increase in imports of buttons, shoes and sandals, readymade garments and dry cell batteries.⁶⁷

Balance of payment portray surplus: During the first seven months of the fiscal year 2012-13, the country’s Balance of Payments (BOP) recorded a surplus of NPR 1.59 billion (USD 18.30 million) compared to a surplus of NPR 76.28 billion (USD 877.99 million) during the same period the previous

year. The workers’ remittances inflow into the country recorded a growth of 19.6% with the figure rising to NPR 225.06 billion (USD 2590.46 million) from that of NPR 188.19 billion (USD 2166.09 million) the previous year.

A deficit of NPR 1.71 billion (USD 19.68 million) was posted in the current account in the review period as against a surplus of NPR 34.66 billion (USD 398.94 million) in the same period the previous year. This decline in surplus was primarily due to a substantial rise in the import of merchandise and services, the deficit in the net services income compared to a surplus in the corresponding period of the previous year, and the slower growth of workers’ remittances in the review period.⁶⁸

Government plans to boost exports: As per the new three year plan submitted to the National Planning Commission (NPC) by the Ministry of Commerce and Supplies (MoCS), the country’s projected exports will be to the tune of NPR 100 billion (USD 1151.01 million) within the next three years; the figure stood at NPR 76 billion

(USD 874.76 million) in the last fiscal. As per the plan, the goods identified as having huge export potential in the Nepal Trade Integration Strategy (NTIS) will see an increase of at least NPR 1 billion (USD 11.51 million) by the end of the proposed three year period. The ministry is also in the process of revising the NTIS action plan and increasing the list of product. Its plan is to reduce the country's trade deficit to 20% of the Gross Domestic Product (GDP), which currently stands at 22.8% according to the Economic Survey of 2011-12.

The proposal focuses on measures like promotion of exportable goods and services through incentives and facilities. The ministry has also envisioned prioritizing the services sector as an essential factor of the trade sector and expanding the sector in the international arena. The ministry will also set up a Council for Service Trade Promotion to promote the service sector as a major exportable item. It is also developing a product profile of products from 10 districts which have high export potential.⁶⁹

Nepali products to get duty free access into Bangladesh: Bangladesh and Nepal have entered into an agreement wherein the former will provide duty free access to 108 Nepali products, mainly farm products, into Bangladesh. In a joint-secretary level technical meeting held in Dhaka on February 17, Bangladesh agreed to provide preferential treatment to Nepali lentils, vegetables, cereals, and wheat flour, fruits, and juices, dairy and handmade papers in the Bangladeshi market. In return, Bangladesh has proposed that 153 Bangladeshi products, mainly comprising of fish products, pharmaceuticals, textiles and electrical goods, be accorded preferential treatment in the Nepali market.

Apart from duty free access, both the country's delegations held discussions on operation modalities of Chittagong and Mongla ports, which are crucial for promotion of trade between the two countries.⁷⁰

REAL ESTATE

Land revenue collection increase: Revenue collection from land and property registrations increased during the first six months of the current fiscal year 2012-13 from NPR 1.75 billion (USD 20.1 million) to NPR 2.27 billion (USD 26.1 million), showing a growth of approximately 30%. The highest revenue collection was in the first month (mid July-mid August) amounting to NPR 434 million (USD 4.9 million). The five land revenue offices within Kathmandu contributed almost half of the collection amounting to NPR 1.14 billion (USD 13.1 million).⁷¹

Government floats plan to purchase housing: The high level Financial

Table 7: Foreign Trade Indicators for first 7 months (in NPR millions)

	2010-11	2011-12 R	2012-13 P	Percent Change	
				2011-12	2012-13
TOTAL EXPORTS	37538.8	42586.0	44983.6	13.4	5.6
To India	24891.7	28133.4	28935.8	13.0	2.9
To Other Countries	12647.1	14452.6	16047.8	14.3	11.0
TOTAL IMPORTS	218108.5	254949.1	316205.2	16.9	24.0
From India	147639.8	164708.2	207635.5	11.6	26.1
From Other Countries	70468.7	90240.9	108569.7	28.1	20.3
TOTAL TRADE BALANCE	-180569.7	-212363.1	-271221.6	17.6	27.7
With India	-122748.1	-136574.8	-178699.7	11.3	30.8
With Other Countries	-57821.6	-75788.3	-92521.9	31.1	22.1
TOTAL FOREIGN TRADE	255647.3	297535.1	361188.7	16.4	21.4
With India	172531.5	192841.6	236571.3	11.8	22.7
With Other Countries	83115.8	104693.5	124617.5	26.0	19.0

*based on customs data R=Revised / P= Provisional

Source: NRB Report - Recent Macroeconomic Situation (3 months) 2069/70

Sector Coordination Committee had floated plans to conduct a comprehensive study on purchase of housing units and apartments through soft loans for civil servants, special class officials and chiefs of constitutional bodies. This includes purchase of 66 units of apartments and 22 units of houses.⁷²

New guidelines on leasing state-owned land:

A draft guideline on leasing government land has been prepared by the Ministry of Land Reforms and Management to formulate necessary provisions to ensure state-owned land is put to productive use. Earlier, under the 'Use Right Policy 2005', the government had been giving its land for use. This provision of granting use rights has now been scrapped, and under the new draft guidelines, leasing of state-owned land may be extended for commercial purposes.⁷³

Revival of Land pooling: The Kathmandu Metropolitan City (KMC) had planned to pool 1024 *ropanis*⁷⁴ of land under the Manohara Land Pooling Project eleven years ago. The project that was to be completed in three years came to a standstill as a result of opposition from the local people. The KMC is now set to resume the project for managing the city in a better way.⁷⁵

REMITTANCE

Remittance inflows to Nepal reached NPR 197.7 billion (USD 2.3 billion) in the first six months of the fiscal year 2012-13, registering an increase of 21.8% as against an increase of 37.1% during the same period of last fiscal year. In US dollar terms, remittance inflow went up by 9.5% to USD 2.26

billion (NPR 197.7 billion) compared to an increase of 26.7% in same period of the previous year.⁷⁶

Increase in migrant workers leaving Nepal:

Data from the Department of Foreign Employment shows that a total of 378,249 workers have left the country for foreign employment during the first seven months of FY 2012-13. Of this figure, 237,686 were further classified as new foreign job aspirants, which points towards a rise in this migrant category by 6% compared to the same period in the last fiscal year.⁷⁷ Due to low confidence in the private sector to create jobs, workers are forced to seek employment in foreign countries. Malaysia has become the top hiring country providing jobs to 88,980 migrant workers, followed by Saudi Arabia with 48,006 workers and Qatar with 40,785 workers.

Government to rethink work ban on Afghanistan, Iraq:

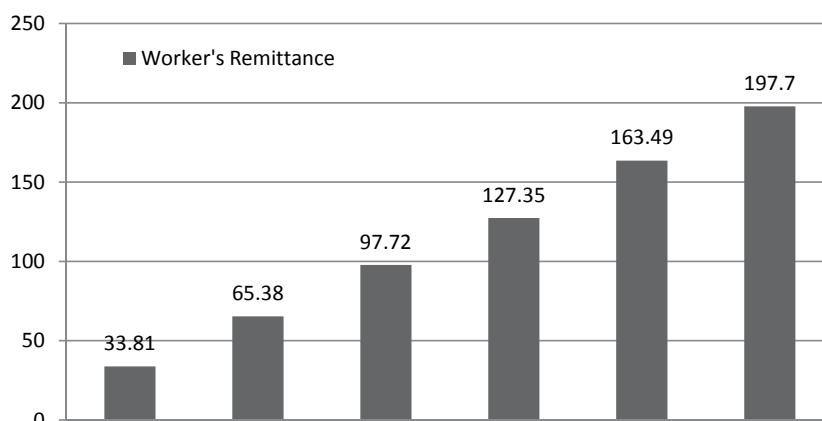
Despite the Nepal Government's partial ban on migration of manpower to Afghanistan and a blanket ban on Iraq, the number of migrant workers heading for these

countries has increased. This has forced the government to contemplate lifting its ban on these two countries to provide a legal status to these migrant workers. In absence of a legal status, migrant workers have been forced to pay higher fees to migrate illegally. This decision was a result of the meeting called by the high level employment direction committee, led by Foreign Minister Narayan Kaji Shrestha. According to Ministry of Labor and Employment Secretary Somlal Subedi, the Foreign Ministry will assess the current situation in these countries and the status of migrant workers based on which the decision will be made.⁷⁸

Republic of Congo open for migrant workers:

The Ministry of Labor and Employment added the Republic of Congo to its list of destinations for migrant workers, taking the number of government approved countries for foreign employment to 109. In its notice published in the Nepal Gazette in March, the ministry has fixed the minimum salary at USD 320 (NPR 27,800) and USD 430 (NPR 37,300) per month for unskilled and semi-

Figure 7: Monthly Inflow of Worker's Remittance for first 6 months of FY 2012-13



Source: Current Macroeconomic Situation of Nepal Series, Nepal Rastra Bank

Figure 8: Monthly Breakdown of Migrant Workers Seeking Foreign Employment in the first seven months of FY 2012-13



Source: Migration and Development Brief 19, Migration and Remittances Unit, Development Prospects Group, World Bank

skilled workers respectively, except the facility for food and accommodation. The monthly remuneration for skilled and highly skilled workers has been fixed at USD 620 (NPR 53,800) and USD 2,000 (NPR 173,700).⁷⁹ Congo's industry, agriculture, restaurants and hotel sectors are considered as prime areas where Nepali workers can gain employment. Despite the extensive list of countries approved for foreign employment, the government has only been able to send migrant workers to around 60 countries due to lack of promotion of Nepal's potential.

Outsourcers to create fund for migrant workers: Outsourcing agencies have started taking some amount of responsibility towards the migrant workers they send abroad. The President of Nepal Association of Foreign Employment Agencies Bal Bahadur Tamang informed a welfare fund will be set up wherein outsourcing agencies will contribute NPR 500 (USD 5.6) for each migrant worker sent abroad. In return, the fund will provide compensation worth NPR 200,000 (USD

2,300) to the victims or their kin in case of death or accident at the workplace. The compensation for early returnees, who are forced out of their employment due to exploitation, will be compensated based on individual cases; the criterion for the same is currently being worked out.⁸⁰

Government hikes Qatar minimum salary: The government recently increased the minimum salary of Qatar bound Nepali migrant workers from the existing USD 213 (NPR 18,500) to USD 264 (NPR 23,000), including USD 213 (NPR 18,500) for wage and USD 52 (NPR 4,500) for boarding allowance. However, this move has been condemned by outsourcing agencies that fear this decision will impact the demand of workers, as recruiters will begin exploring cheaper destinations.⁸¹ On the other hand, the Nepali ambassador to Qatar, Dr. Maya Kumari Sharma, assured that the demand will not drop as Qatar has a large demand for construction workers since it is hosting the 2022 FIFA World Cup Football.⁸² Qatar is the third preferred destination for migrant workers in recent months.

Banks buoyant on soaring remittance:

Bouncing back from the sluggish deposit growth and liquidity crunch that ailed commercial banks in the previous two fiscal years, the five month deposit collection for fiscal year 2012-13 increased to NPR 743 billion (USD 8.5 billion) from NPR 687 billion (USD 7.9 billion). The massive growth in remittance due to a strong dollar compared to the Nepali rupee and increased tourism revenues have led to this surge in deposits. Experts state that with the appreciation in the dollar by almost 18% in a span of three months, migrant workers took advantage of the situation and were repatriating their savings home.⁸³

TELECOMMUNICATION AND MEDIA

The Telecom sector of Nepal registered a 24% growth in the number of telecom users between Mid-December 2011 and Mid December 2012. During the same period, Smart Telecom Pvt. Ltd. (STPL) registered the highest growth in the sector with a whopping 157% rise in its customer base while Ncell recorded a growth of 32%. The tele-density of the country currently stands at 70.61%; this growth has been spurred by a 24% increase in the number of mobile phone users. In the cellular segment, market leader Ncell recorded a total of 9.04 million GSM users, while Nepal Telecom had 8.3 million GSM and CDMA users.⁸⁴

The growth in Data/Internet users increased from 3.8 million users in December 2011 to 5.7 million users in December 2012, a growth of 47%. The internet penetration rate currently stands at 21.49%.

Nepal Telecom-Huawei Technologies agreement for 'Package A': An agreement for adding 5.2 million mobile lines in the country has been signed between Nepal Telecom and Chinese telecom vendor Huawei Technologies. The company will install equipment, commission service and provide managed service for up to five years. The new addition is under the 'Package A' project of adding 10 million mobile lines. The cost of new addition is estimated at NPR 10.3 billion (USD 119 million).⁸⁵

3G Spectrum Fees: The Telecommunications Radio Frequency Distribution and Pricing Policy requires Nepal Telecom to pay NPR 240 million (USD 2.7 million) each year for using 2x10 MHz of 3G spectrum for six years. Though Nepal Telecom's total due amounts to NPR 1.44 billion (USD 16.6 million) for the use of 3G Spectrum during 2006-07 to 2011-12, it is preparing to pay only NPR 600

million (USD 6.9 million) to Nepal Telecommunications Authority. Ncell owes NPR 1.2 billion in 3G fees for five years.⁸⁶

WIMAX: Worldwide Interoperability for Microwave Access (WIMAX) services will be made available to all customers after completing Customer Premise Equipment bundling. Nepal Telecom has plans to expand the WIMAX services in 38 districts, including 1,800 VDCs, in the current fiscal year.

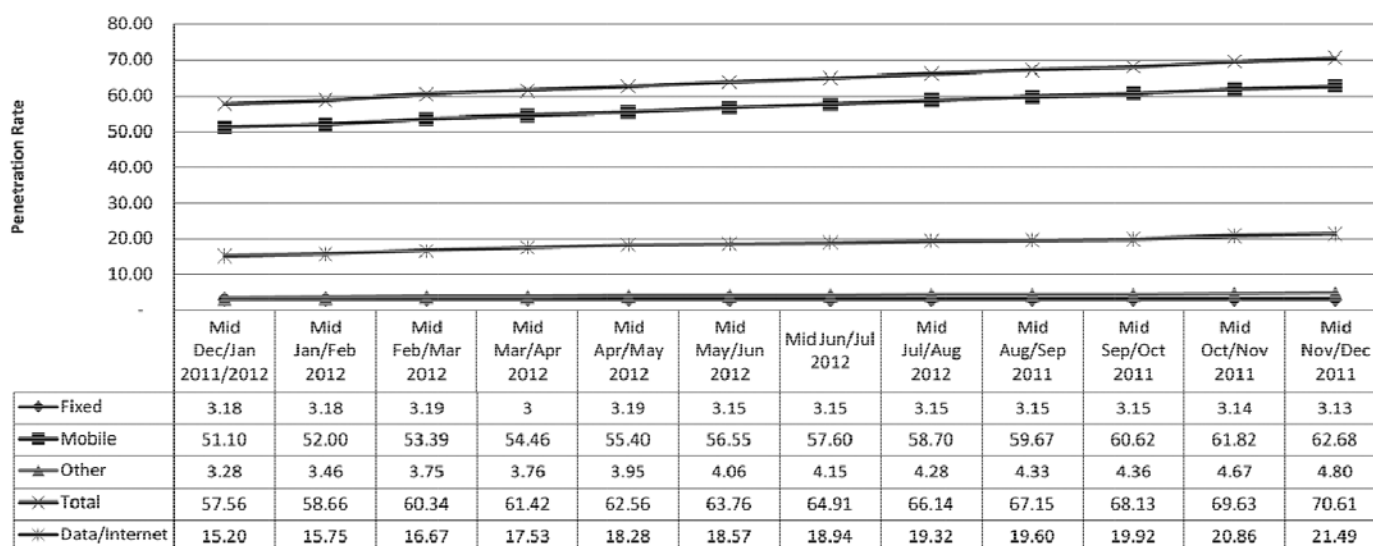
Infrastructure Sharing: The executive order on telecommunication infrastructure sharing for capable telecom companies, issued five months ago, is yet to come into practice. The Nepal Telecommunication Authority has decided to carry out a study on telecom infrastructure sharing. The study is aimed at determining the types of infrastructure that can be shared as well as suggest a way for its effective management.⁸⁷

TOURISM

Nepal witnessed a dip of 5% in the arrival of foreign tourists by air during the first two months of 2013 as compared to the data available for arrivals for the same period last year. A total of 82,500 tourists visited Nepal in the first two months. The current unstable political situation, frequent strikes and lack of innovative marketing strategies in the international market might cause further decline of tourist arrivals in the coming months.

Chinese, Indian tourists account for highest inflow: During the first two months of 2013, Indian and Chinese tourists accounted for the highest inflow into Nepal. Out of 80,450 tourists, Indian and Chinese nationals recorded a combined 35% of the total tourists that visited by air. Comparing the figures for the first two months of 2013 to that of last year, there has been a slump in the arrivals of Indian tourists

Figure 14: Growth Trend of Voice Telephone and Data Service Penetration



Source: Nepal Telecommunications Authority "MIS report dated February 2013"

by 14%; Chinese tourists, meanwhile, accounted for a 17% growth. Amongst other nations, 6,200 American, 4,800 South Korean and 4,200 nationals from the United Kingdom visited Nepal during the review period.⁸⁸

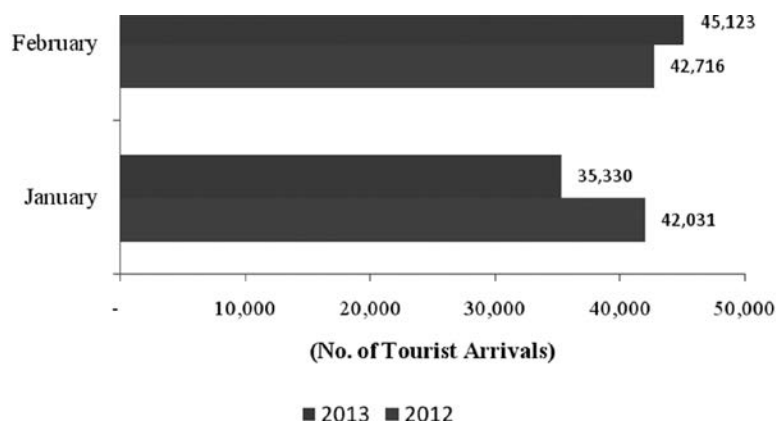
Tourism zones to be developed: The Ministry of Culture, Tourism and Civil Aviation (MoTCA) is devising a plan to promote tourism in the entire country by creating 18 tourism zones catering to most areas in the country. The creation of such zones is expected to increase the flow of foreign tourists and moreover, increase the duration of their stay in the country.

The government has proposed to build the Sishne-Jaljala-Dhorpatan zone to promote tourism in Baglung, Rolpa, Salyan and Rukum districts. Similarly, the creation of Annapurna-Manaslu zone would promote tourism in Manang, Mustang, Gorkha and the Lamjung districts. Likewise, the promotion of Pokhara zone would promote tourism in Kaski, Syangja, Parbat and Tanahun districts. The ministry has already initiated programs promoting tourism in districts like Rolpa, Bhojpur, Accham, Parsa and Banke.⁸⁹

Nepal-India Tourism Mart in Lumbini:

The first ever Nepal-India Tourist Mart, held in Lumbini earlier this year, focused on the need to promote Lumbini and the Buddhist circuit within Nepal as pilgrimage tourism destinations. An initiative of this nature is imperative keeping in mind that out of the 6.64 million tourists who visited India in 2012—out of which over one million tourists came from countries where Buddhism is practiced, only 10% crossed the border from India to Nepal when the country observed

Figure 14: Comparison of tourist arrivals by air for the period between January to February 2012 and 2013



Source: Nepal Tourism Board

Visit Lumbini Year.⁹⁰ The Tourist Mart, organized jointly by the Indian Embassy, Kathmandu, along with the Ministry of Culture, Tourism and Civil Aviation (MoTCA) and Nepal Tourism Board (NTB) was attended by government officials and travel trade organizations from both the countries, as well as over 60 tourism entrepreneurs from Nepal.⁹¹

To attract more tourists to Lumbini and lengthen their stay there, the need to develop the birthplace of Lord Buddha through the use of modern technology was emphasized upon during the event. Manoj Kumar Singh, the Secretary of the Ministry of Tourism, Uttar Pradesh, India, offered to promote Lumbini and the Buddhist circuit in Nepal by establishing infor-

Table 4: Total tourist arrivals by air, February 2013

Country of Nationality	February		% Change	% Share '13 Feb
	2012	2013		
ASIA (SAARC)	12,873	10,919	-15.20%	24.20%
ASIA (OTHER)	10,203	14,982	46.0%	33.0%
EUROPE	10,779	10,184	-5.5%	22.6%
OCEANIA	1,324	1,300	-1.8%	2.9%
AMERICAS	3,617	4,236	17.1%	9.4%
OTHERS	3,920	3,592	-8.4%	8.0%
Total	42,716	45,123	6.0%	100.0%

Source: Nepal Tourism Board

mation centers at the Buddhist sites in Uttar Pradesh.

The officials from India articulated that improved over-land connectivity, better customs and immigration facilities and the finalization of the pending Motor Vehicle Agreement would help attract significant numbers of tourists from the third world countries to Nepal. Both the governments of Nepal and India are planning to jointly organize similar promotional events in Pokhara and Kathmandu this year.

The Travel & Tourism Competitiveness Report 2013: *Table 5* depicts the overall ratings given to Nepal based on various indicators highlighted by the World Economic Forum. The overall rankings awarded were based on travel and tourism (T&T) regulatory framework, business environment and infrastructure, and travel and tourism human, cultural and natural resources. Amongst all the indicators, Nepal had the best ranking in the T&T regulatory framework followed by T & T human, cultural and natural resources. The major reasons for Nepal's low ranking among 140 economies were due to the indicators under business environment and infrastructure, which have been shown in the table.

Government prepares tourism plan: The Government has prepared a 3 year tourism plan and a comprehensive strategy to stimulate economic growth, create jobs, and boost private sector investment into the tourism sector. The strategies would be implemented from fiscal year 2012-13 till 2015-16. The plan expects to create 300,000 direct jobs in the tourism industry annually. By attracting private investments into infrastructure

Table 5: Travel and Competitiveness Report, 2013

**WORLD ECONOMIC FORUM
THE TRAVEL & TOURISM COMPETITIVENESS REPORT, 2013 – NEPAL**

Travel & Tourism Indicators			
T&T industry, 2012 estimates	Absolute value	Percent of total	T&T industry GDP growth forecast (2013-2022)
T&T industry GDP (USD millions)	784.4	4	3.7
T&T industry employment (1,000 jobs)	428.1	3.4	2.8
T&T economy, 2012 estimates			
T&T economy GDP (USD millions)	1,666	8.9	4.1
T&T economy employment (1,000 jobs)	988	7.7	3.1
The Travel & Tourism Competitiveness Index	Rank (out of 140)	Score (1- 7)	
2013 Travel & Tourism Competitiveness Index	112	3.4	
T&T regulatory framework			
T&T regulatory framework	100	4.1	
Policy rules and regulations	106	4	
Environmental sustainability	89	4.4	
Safety and Security	109	4	
Health and Hygiene	102	4.6	
Prioritization of Travel & Tourism	47	4.7	
Business Environment & Infrastructure			
Business Environment & Infrastructure	128	6.6	
Air Transport infrastructure	121	2.2	
Ground Transport infrastructure	137	2.3	
Tourism infrastructure	130	1.5	
ICT infrastructure	127	1.8	
Price competitiveness in T&T industry	6	5.4	
T&T human, capital and natural resources			
T&T human, capital and natural resources	105	3.5	
Human Resources	125	3.7	
Education and training	131	3	
Availability of qualified labor	120	4.4	
Affinity for Travel & Tourism	92	4.4	
Natural resources	35	4.4	
Cultural resources	128	1.3	

development under the public-private partnerships, the Tourism Ministry plans to increase the tourist arrivals to 1.5 million. As per the plan, Nepal will be promoted in Brazil, Russia, India and China (BRIC) economies as well. The plan focuses on prolonging the tourists' average length of stay from 13.12 days to 14 days and also increase the per day expenditure of tourists from USD 39.90 to USD 65 (NPR 3466 to NPR 5647). The plan has also envisaged raising the tourism sector's contribution to the GDP to 4% from 1.8% in 2011. Further, the plan aims to increase the number of international airlines flying to Nepal from the current 29 to 40 airlines.⁹²

ACAP identifies new trekking routes: New trekking trails along the Annapurna Conservation Area have been identified by the Annapurna Conservation Area Project (ACAP) as the existing popular trails have been hampered with the construction of motorable roads. Trekkers can complete the new trails within two to eight days while enjoying the majestic views of various mountain peaks and diverse culture along the routes. The new trail from Tanti of Kaski to Bhujung of Lamjung takes five days to complete. The other trail starts from Bhujung up till Dudhpokhari of Lamjung and can be completed in four days; the third route starts from Sikles of Kaski and ends at Timang of Manang. Lastly,

the longest route, which takes eight days to complete, starts from Khudi of Lamjung and ends at Nar and Phu villages of Manang. All these new trails will be away from the Beni–Jomsom and Besisahar–Chame road sections.⁹³

TAAN to promote sustainable tourism: Trekking Agencies Association of Nepal (TAAN)—in association with Travelife International and CBI, an NGO based in the Netherlands—are planning to implement environment friendly principles towards sustainable tourism development and attract more eco-friendly trekkers to Nepal. TAAN has already started training programs for its agencies towards awareness of the sustainable mechanism. They are aiming towards reusing papers, replacing generator sets with solar equipments and usage of rain water harvesting. Also, the association will educate its members regarding the human rights of their employees, porters and trekking guides. As per Travelife requisites on sustainable tourism, the agencies will have to comply with certain guidelines like promotion of local products, discourage trekkers on use of plastic bags and ensure that no child labor is being hired. Moreover, once the agencies are trained and certified by Travelife, the agencies can start partnership with Travelife, which in turn would provide huge exposure to the agencies and also boost Nepal's tourism industry. Travelife is also associated with the

Nepali hoteliers to encourage adoption of eco-friendly measures like rain water harvesting, waste management and use of solar lighting systems.

Ace Hotels to construct a three star hotel: Ace Hotels and Resorts Group is constructing an 8 storied three star hotel on the land occupied by Hotel Ambassador in Lazimpat that was demolished as a part of the recent road expansion move of the Government. The Group will be investing NPR 250 million (USD 2.88 million) in this project that will take two years to complete. The first two floors of the hotel, spread over 0.25 acres (two *ropanis*) of land, will be dedicated for a shopping arcade and the remaining six floors will be used by the hotel. The new hotel will have 50 deluxe or 75 standard rooms. The entire hotel will be centrally air-conditioned; will have sound proof windows, complete with new interiors. The tariffs are earmarked at a range from USD 50 to 75 (NPR 4344 to NPR 6516) for bed and breakfast.

The group currently operates Marco Polo Business Hotel in Kathmandu, Trek-o-Tel in Pokhara, Club Himalaya in Nagarkot, and Shanti Ban Resort in Chitwan. The promoters are planning to construct a new 5 star hotel in Nag-pokhari, Shakya Heritage Hotel, once the construction of Hotel Ambassador is completed.⁹⁴

“ MACROECONOMIC OUTLOOK

While there have been some positive developments in the Nepali economy, it is still restricted by a shaky political situation. Taking the third place worldwide in ginger production, Nepal has been able to show its potential in niche markets. What the country now needs to do is focus on establishing export markets for such niche products. The government needs to facilitate investment in the agriculture sector if Nepal is to perform at its full potential. Commitment to agro insurance is a positive step in this regard. Although the government has banned foreign direct investment in agriculture, the government can facilitate matchmaking with foreign companies to build the capacity of Nepali agriculture based enterprises.

Nepal is currently fraught with energy crisis as it is unable to meet the demands of both electricity and petroleum products. While there has been, and will continue to be, major developments in hydropower projects in Nepal, the fact that the main focus of such projects is energy export does very little for the prevalent power crisis in the country. In this regard, experts from the South Asia region have urged for reframing of the bilateral and multilateral treaties on water resources in order to protect the people's rights on water resources. These treaties must focus on equitable sharing of water and energy. The mega hydropower projects should be welcomed as long as they also fulfill the demands of the local people for energy. Regarding petroleum products, their price is currently volatile in the international market. Given the political unrest in a number of oil exporting countries in the Middle East and North Africa, the price rise of petroleum products seems inevitable. With the NOC's inefficiency in implementing price hikes and subsidies, the losses of NOC will continue to rise in the coming months.

Meanwhile, although the Government of Nepal is also moving towards channelizing all foreign financial assistance through a single channel—the Ministry of Finance, there has been a significant decrease in aid to Nepal. Foreign Cash Grants received by the Government of Nepal were at its lowest during the first seven months in the current fiscal year 2012-13 when compared to the figures received for the

same period in the past 4 years; Nepal received 50% less grants than what the country received in fiscal year 2011-12. The same applies to Foreign Cash Loans received by the country during this period.

The Ministry of Health and Population has been very active in the last quarter with the initiation of its National Social Health Insurance Program, urban health programs and 50% waiver on medical treatment fees for senior citizens. Similarly, other departments in the public sector have also been taking action to address issues that concern public health, such as quality control in water bottling, licensing of medical professionals and improved guidelines for ambulance services. The health sector has also been identified as one of the sunrise sectors in terms of potential contribution to the country's economy and development.

Despite the government's focus on the promotion of new products and their inclusion in the Nepal Trade Integration Strategy (NTIS) product list, it has failed to address the issues that hinder the growth of regular and major exportable products of the country, i.e. pashmina, woolen carpets and readymade garments, which are not listed in the NTIS list.

The real estate sector is showing some signs of recovery from the 3 year downfall. Housing and land prices have declined by approximately 30% as compared to prices last year. This can be validated by the 30% increase in revenue collection. The slow growth is attributed to Nepal Rastra Bank's move to distinguish between real estate loan and housing loan as well as a decrease in the rates per square feet. However, this slow growth has not motivated real estate developers to bring forth new housing projects. The government's plan to purchase 88 housing units is a relief for the sector but the minimum criteria set are debatable and lopsided. Few developers continue to reel under the pressure of banks loans as they have divested into other sectors.

Even if we only look at the inflow of remittance for the first half of the fiscal year 2012-13, it is evident that the Nepali

economy's dependence on remittance is only increasing. Despite little investment of remittance money in the productive sector, remittance has contributed to decreasing poverty levels in the country and will continue to do so unless the Nepali job market can absorb the work force. Nonetheless, due to weak information flow, fraudulent activities by outsourcing agencies have continued to increase. A total of 943 fraud cases were reported in the first five months of fiscal year 2012-13, amounting to NPR 447.9 million. There needs to be stricter provisions in the foreign employment law to ensure the safety of migrant workers who make significant contributions to the economy. The DOFE has, thus far, punished 100 outsourcing agencies for their involvement in fraudulent activities, and it must continue to implement harsher penalties to discourage such practices.

There has been a phenomenal growth in the telecom sector in Nepal. The rapid expansion is attributed to the growth in mobile services. The country's penetration rate was 2% in 1999; it has now increased to 70%. The growth has been

boosted with the entry of private company Ncell. Infrastructure sharing among telecom companies is a welcome step as this will cancel out the need for telecom companies to make huge infrastructure-related investments, thereby bringing down the cost for service expansion and operation.

Amongst all the various indicators that were used to draw the rankings, Nepal was awarded the highest ranking in price competitiveness in the travel and tourism industry as per the World Economic Forum "Travel and Tourism Competitiveness Report 2013". The report placed Nepal at 112th position out of 140 economies in the overall Travel & Tourism Competitive Index. Keeping the above index in mind, the Government's initiative to develop tourism plans and create various tourism zones is a step to provide the sector a much needed boost. There is an immediate need to bring new marketing plans and strategies that focus on both the international and domestic markets, encourage adventure sports, natural healing and eco-tourism to draw tourists into Nepal as a favorable tourist destination.

REVIEW

Financial Markets

Nepal may fall short of achieving the economic growth target of 5.5% during the current fiscal year due to deepening energy crisis, lack of full fiscal budget, sluggish government spending and especially poor capital spending, political instability, and also unfavorable weather.

**MONETARY POLICY
MID-TERM REVIEW**

The mid-term monetary policy review for the Fiscal Year (FY) 2012-13 states that “despite key financial indicators moving towards favorable direction, the country might fall short of achieving the economic growth target of 5.5% during the FY largely due to deepening energy crisis, lack of full fiscal budget, sluggish government spending and especially poor capital spending, political instability, and also unfavorable weather. Moreover, the review further states that tackling the target inflation rate below 7.5% seems challenging due to substantial growth in imports, and higher inflation in India.

As per the mid-term review conducted by Nepal Rastra Bank (NRB), the revised economic growth rate of the country during the FY 2012-12 is expected to be around 4.1%, which is lower than the growth rate experienced during the previous FY. Similarly, it made an upward revision of inflation to 9.5% from the projected 7.5%.

Table 6: Key indicators

Data Categories	Units	Actual	Forecasted	Mid-Term Review
		FY 2011-12	FY 2012-13	FY 2012-13
GDP growth rate	%	4.6	5.5	4.1
Inflation-CPI	%	8.3	7.5	9.5
Broader Money	%	22.7	15.0	13
Domestic Credit Growth	%	8.0	16.0	13.5
Credit to Private sector	%	12.5	16.0	16
Deposit Growth	%	22.4	15.1	13.1

Source: Nepal Rastra Bank

The banking sector deposit growth continued to deteriorate at the end of the first six months of FY 2012-13. As per the mid-term review report, deposit mobilization of Banks and Financial Institutions (BFIs) increased by 5.3%, i.e. NPR 54.12 billion (USD 622.92 million), as compared to a growth of 10.4%—NPR 85.68 billion (USD 986.18 million)—during the same period last fiscal year. During the review period, deposit mobilization of commercial

banks, development banks and finance companies increased by 4.6%, 7.4% and 5.8% respectively as compared to a growth of 11.4%, 11.6% and 1.7% respectively during the same period last fiscal year.

With the ease in liquidity situation, banking credit grew by 11.2%—NPR 108.17 billion (USD 1.24 billion)—as compared to a mere growth of 6.5%—NPR 55.25 billion (USD 635.93 million)—during the same

period in the previous fiscal year. Amongst the BFIs, commercial banks saw the highest growth of credit mobilization by 10.7%, followed by 7.2% in development banks and 5.8% in finance companies.

During the review period, the net liquid fund of BFIs decreased by 15.1%, NPR 30.3 billion (USD 348.75 million), as compared to a growth of 9.1%, NPR 12.78 billion (USD 147.09 million), during the same period last year largely due to sluggish growth of deposits and rapid expansion of credit by BFIs.

Similarly, the Central Bank mopped up net liquidity equivalent to NPR 8.5 billion (USD 97.83 million) via open market operations during the review period, while it injected net liquidity of NPR 103.34 billion (USD 1.18 billion) through the net purchase of USD from the foreign exchange market (commercial banks).

SHORT TERM INTEREST RATES

Due to sluggish deposit growth rate and rapid credit expansion, the yield on short term money market instruments has seen some increment lately. The yield on 28

days treasury-bill has gone up to 2.54% from 0.06% at the beginning of the current FY; similarly, the yield on one year T-bill has increased to 4.08% against 0.55% at the beginning of the current FY. Likewise, the volume of interbank transaction has gone up lately; the latest weighted average interbank rate stood at 5.85%, which was below 1% at the beginning of the current FY.

BASE RATE COMMENCES

As per the direction of NRB, commercial banks have started disclosing their base rate in their quarterly financial results. As per the latest published base rates of commercial banks, the average base rate of commercial banks as on second quarter of the current FY stood at 9.43%. Out of 32 commercial banks, 11 commercial banks had base rate above 10%. Standard Chartered Bank Nepal had the lowest base rate at 6.80% while the public sector bank Agricultural Development Bank had the highest base rate at 12.35%. The base rate of individual banks is listed in *Table 8* (pg 30).

The base rate is calculated by taking into consideration cost of fund, mandatory cash

reserve ratio (CRR), statutory liquidity ratio (SLR), operating cost and minimum predetermined return on investment. The base rate is expected to keep the interest rate regime transparent to allow borrowers to make wise decisions as they can compare the base rate of various banks. Moreover, it will also push banks to be efficient, thus reducing their operating cost in order to keep the base rate competitive, especially the newer banks.

PROGRESS: ANTI-MONEY LAUNDERING

Thanks to a last minute approval of the Organized Crime Bill on February 15, 2013, the plenary of the Financial Action Task Force (FATF)—a global anti-money laundering body—held in Paris, has asked Nepal to enact all pending laws against money laundering by June 2013 to avoid being blacklisted.

Nepal is currently listed as Improving Global AML/CFT Compliance Ongoing Process, which is also recognized as the Grey List, and will continue to be in the same 'status quo' until the next meeting in June 2013. Nepal may face blacklisting by FATF if it fails to execute the action plan

Table 7: Yield on Short Term Interest Rates

S.No.	Short Term Interest Rates (%)	July 15, 10	July 15, 11	July 15, 12	Jan 15, 13	Mar 11, 13
1	Weighted Average Treasury Bills					Latest
	28-Days	7.89	8.42	0.06	0.48	2.54
	91-Days	8.51	8.72	0.27	1.6	3.78
	182-Days	9.2	8.69	1.17	2.27	4.42
	364-Days	9.2	8.64	2.2	2.48	4.08
2	Weighted Average Interbank	2	6.81	0.55	0.95	5.85

Source: Nepal Rastra Bank

TABLE 8: SECOND QUARTER RESULTS OF COMMERCIAL BANK – UNAUDITED FY 2012-13 (NPR IN TEN MILLIONS)

Bank	PAID UP CAPITAL		RESERVE & SURPLUS		DEPOSIT			LOANS AND ADVANCES			OPERATING PROFIT			NET PROFIT			NPL (%)			COST OF FUND (LCY)			BASE RATE		
	Paid up Capital	Reserve & Surplus	FY 12/13	FY 12/13	% Change	FY 12/13	FY 12/13	% Change	FY 11/12	FY 12/13	2 QTR	FY 11/12	FY 12/13	2 QTR	% Change	FY 11/12	FY 12/13	2QTR	FY 11/12	FY 12/13	2QTR	FY 11/12	FY 12/13	2QTR	Change
Nabil Bank	243.6	412.1	5,948.8	5,899.6	-0.8	4,241.7	4,545.5	7.2	99.6	144.9	45.48	65.9	111.2	68.7	3.33	2.68	7.39	4.79	-2.60	7.26					
Nepal Investment	376.8	317.5	5,443.4	5,513.7	1.3	4,440.7	4,644.9	4.6	48.6	117.6	141.98	47.9	89.1	86.0	2.11	3.17	8.10	5.20	-2.90	7.80					
Standard Chartered	185.4	282.9	3,499.3	3,705.0	5.9	1,929.0	1,982.3	2.8	80.6	83.9	4.06	55.5	55.9	0.7	1.06	0.75	3.58	2.47	-1.11	6.80					
Himalayan Bank	276.0	237.2	4,815.3	4,753.7	-1.3	3,721.5	3,896.3	4.7	53.0	77.9	46.98	33.9	50.0	47.5	4.50	3.20	7.51	4.87	-2.64	8.23					
Nepal SBI Bank	235.6	122.4	5,169.7	5,409.9	4.6	2,797.6	2,809.6	0.4	28.9	56.8	96.54	20.5	38.2	86.3	1.18	0.43	5.36	4.60	-0.76	8.76					
Nepal Bangladesh	200.9	111.6	1,576.3	1,510.5	-4.2	1,150.3	1,239.4	7.7	-2.2	8.3	477.27	10.3	17.2	67.0	18.58	3.57	7.92	5.34	-2.58	9.62					
Everest Bank	176.1	305.9	5,005.0	4,922.3	-1.7	3,780.9	4,219.3	11.6	76.3	100.7	31.98	48.7	64.2	31.8	0.37	0.70	7.10	4.70	-2.40	7.40					
Bank of Kathmandu	168.4	131.9	2,459.2	2,397.4	-2.5	1,902.8	2,115.9	11.2	40.6	43.9	8.13	27.0	30.3	12.2	1.83	2.02	7.41	5.04	-2.37	8.29					
NCC Bank	140.0	68.2	1,769.9	1,858.6	5.0	1,465.2	1,562.2	6.6	8.1	15.5	91.36	7.4	15.6	110.8	4.39	2.98	8.66	6.48	-2.18	9.81					
NIC Bank	131.2	98.9	2,060.6	2,213.8	7.4	1,544.9	1,784.1	15.5	24.3	37.4	53.91	15.5	23.8	53.5	1.51	1.20	9.38	6.89	-2.49	9.58					
Lumbini Bank	160.2	49.5	859.4	920.1	7.1	810.4	836.9	3.3	6.2	8.2	32.26	5.6	6.3	12.5	1.60	1.52	9.72	6.72	-3.00	9.94					
Machhapuchhre	247.9	20.2	2,185.8	2,255.2	3.2	1,699.7	1,861.3	9.5	-5.3	3.6	167.92	0.6	3.3	450.0	4.19	3.07	9.38	6.96	-3.00	10.34					
Kumari Bank	160.4	98.3	2,254.2	2,342.3	3.9	1,901.5	1,917.5	0.8	3.9	15.3	292.31	2.5	9.7	288.0	4.04	4.38	8.78	6.76	-2.42	9.92					
Laxmi Bank	169.4	93.8	2,256.8	2,371.7	5.1	1,818.9	1,822.1	0.2	27.0	23.6	-12.59	17.7	16.2	-8.5	1.26	1.30	8.12	5.85	-2.27	9.65					
Siddhartha Bank	161.9	81.7	2,531.8	2,671.4	5.5	2,087.6	2,157.2	3.3	14.6	19.5	33.56	9.3	11.6	24.7	1.79	3.10	9.48	6.57	-2.91	10.30					
Global IME Bank	225.0	53.1	2,810.3	2,936.6	4.5	2,296.8	2,391.7	4.1	16.2	33.6	107.41	10.5	24.5	133.3	2.89	2.10	9.14	6.41	-2.73	9.58					
Citizens Bank	210.2	28.1	1,759.8	1,963.6	11.6	1,559.7	1,689.5	8.3	3.4	11.9	250.00	7.2	10.1	40.3	2.89	3.60	9.40	6.21	-3.19	8.92					
Prime Commercial	234.0	41.2	2,320.6	2,439.5	5.1	2,020.8	2,039.3	0.9	10.3	16.7	62.14	7.0	16.2	131.4	1.12	3.51	10.10	7.08	-3.02	10.19					
Bank of Asia Nepal	200.0	30.0	1,526.4	1,608.2	5.4	1,306.7	1,430.9	9.5	18.1	18.9	4.42	11.6	12.3	6.0	1.77	3.81	10.53	7.48	-3.05	9.97					
Sunrise Bank	201.5	26.2	2,058.2	2,215.8	7.7	1,695.5	1,725.7	1.8	-3.1	10.2	429.03	3.9	12.6	223.1	3.81	2.94	9.54	6.68	-2.86	9.50					
Grand Bank	200.0	24.9	1,488.9	1,629.9	9.5	1,225.1	1,367.4	11.6	10.4	10.1	-2.88	10.0	8.8	-12.0	1.63	1.70	9.05	7.96	-1.09	10.53					
NIMB Bank	200.0	42.9	1,596.2	1,705.2	6.8	1,429.5	1,477.1	3.3	6.5	23.4	260.00	5.5	16.6	201.8	2.70	1.82	9.37	6.44	-2.93	9.32					
KIST Bank	200.0	17.4	2,013.0	2,098.4	4.2	1,668.7	1,758.7	5.4	0.4	-8.2	-2,150.00	0.2	-6.9	-3,550.0	3.54	7.15	9.39	6.44	-2.95	10.26					
Janata Bank	200.0	13.1	920.4	1,042.5	13.3	906.8	1,000.4	10.3	-0.7	11.1	1,685.71	-0.7	7.1	1,114.3	0.00	1.22	9.84	7.35	-2.49	10.29					
Mega Bank	163.1	23.8	1,092.5	1,182.7	8.3	1,022.6	1,088.9	6.5	-3.9	13.2	438.46	-3.8	13.2	447.4	1.45	1.83	9.79	5.16	-4.63	8.75					
Commerz & Trust	140.0	7.9	738.1	839.7	13.8	699.5	786.0	12.4	0.2	6.5	3,150.00	0.1	4.1	4,000.0	0.00	0.32	9.54	6.77	-2.77	10.14					
Civil Bank	200.0	6.5	1,033.6	1,100.2	6.4	914.9	978.2	6.9	-0.3	5.3	1,866.67	-0.3	3.4	1,233.3	0.00	1.48	11.47	7.98	-3.49	10.91					
Century Bank	108.0	10.3	699.8	816.1	16.6	650.6	720.9	10.8	-1.5	3.9	360.00	-1.5	2.5	266.7	0.00	0.45	10.95	7.39	-3.56	11.07					
Sanima Bank	201.6	24.4	1,274.6	1,447.1	13.5	1,163.6	1,299.3	11.7	9.3	18.4	97.85	5.9	13.1	122.0	0.63	0.19	9.61	7.67	-1.94	10.36					
PUBLIC SECTOR BANKS																									
Nepal Bank	177.3	-464.2	5,611.3	5,701.4	1.6	2,981.9	3,241.7	8.7	-2.7	-8.7	-222.22	1.1	3.9	254.5	5.17	5.40	5.24	4.80	-0.44	9.19					
Rastriya Banijya Bank	850.2	-801.4	8,766.3	8,616.7	-1.7	4,125.0	4,320.5	4.7	1.1	41.00	3,627.27	55.3	61.0	10.3	10.85	6.53	3.79	3.84	0.05	6.82					
Agriculture Dev. Bank	947.4	404.5	4,598.2	4,497.2	-2.2	3,977.9	4,317.2	8.5	-2.8	29.9	1,167.86	46.5	54.6	17.4	8.83	6.64	6.12	5.57	-0.55	12.35					
TOTAL	7,692.1	1,920.8	8,143.7	90,586.0	2.8	64,938.3	69,027.9	6.3	565.1	994.3	75.94	526.8	799.7	51.8	3.09	2.65	8.46	6.08	-2.38	9.43					

against money laundering it has proposed to FATF by June 2013. In the upcoming meeting of FATF, Nepal will have to show progress in the endorsement of the second amendment of the Assets Laundry Prevention Act and Proceeds of Crime Bill.

In the event of blacklisting by FATF, Nepal may face the following risks in future:

- Foreign governments may direct not to conduct or ensure high level of alertness during any financial transactions or other transactions with any Nepali entity, corporation or citizens.
- The bank accounts of Nepali entities such as NRB, other banks and diplomatic entities maintained at the foreign banks may be closed, imposed higher transaction fees and increased transaction cost.
- Nepali banks will face difficulties to conduct foreign transactions, cost of remittances will go up, which may decrease foreign business, widen business losses and deplete Nepal's business environment which can impact additional investments and endanger on-going foreign investments.
- Nepal's financial credibility in global arena will further deteriorate.
- Nepal may face substantial drop in loans and grants from international organizations and nations.
- Foreign Direct Investments would be demotivated.

COMMERCIAL BANKS: PERFORMANCE ANALYSIS

The performance of commercial banks at the end of second quarter of the current FY is promising and at the same time surprising, showcasing strong resilience. As per the published unaudited data for the second quarter of the current fiscal year, of the 32 commercial banks, 30 banks saw their net profit increase while 28 banks saw their operating profit increase as compared to the same quarter in the previous fiscal year. During the period, the operating

profit margin of commercial banks grew by a staggering 75.94%, whereas the net profit margin grew by a whopping 54.4%.

The commercial banks deposit grew merely by 2.8% while its credit grew by 6.3% during the second quarter of the current FY. Commercial banks continue to decrease their cost of fund, the average cost of fund of banks stood at 6.08%, which

was at 8.46% during the same period last year. Similarly, the average base rate of commercial bank stood at 9.43%, and the average difference between base rate and cost of fund stood at 3.28% at the end of second quarter. Likewise, the average Non Performing Loans (NPL) of commercial banks remained on the lower side at 2.65%, which was at 3.09% during the same period of the previous FY.

“ OUTLOOK

The mid-term review of the monetary policy clearly magnifies the situation of our economy and monetary woes. Achieving the targeted economic growth rate is unlikely and inflationary pressure will continue to rise. As expected, with the ease in liquidity in the banking system, the interest rate offered by BFIs on deposits tumbled during the revision period. However, the yield on deposits might slightly move upwards in the days ahead on the basis of tightening liquidity, sluggish deposit growth rate, slower government spending, slight increment on yield on short term money market instruments and increment on average inter banking rates. Moreover, the credit flow might slow down a bit.

On one hand, at the end of second quarter of the current FY, the average cost of fund of commercial banks dropped to 6.08% while the average base rate of commercial banks stood at 9.43%. On the other hand, the commercial banks are still extending loans at a rate as high as 18% and have not made any substantial changes in its lending rates. Most of the commercial banks are offering loans at rates far higher than their respective base rates. As per the second quarter financial results, commercial banks have posted a staggering net profit growth rate of 54.4% as compared to the same quarter last FY. Due to lack of investment avenues in Nepali financial sector,

Nepalese banks are highly concentrated on interest earning from their loan portfolio, thus exhausting higher pressure on lending rates. Analyzing the above equation, the ease in liquidity has not really helped borrowers to get cheap financing but rather seems that it has helped banks to widen their profitability net.

Yes, it is true that the Nepali financial market has not matured enough and lacks investment avenues to diversify investments; however, depositors and borrowers shouldn't be made scapegoats to maintain one's profitability to provide higher return to its shareholders. The market competition amongst banks is intense, therefore banks need to innovate and foresee emerging changes in business dynamics and strategize accordingly to be efficient rather than transferring the cost to its customers, as in the long run banks that are able to take care of its customers are able to garner a greater share of business in the future. Moreover, it is also the responsibility of the central bank to regulate any anomalies and open up new avenues for investment and to ensure that banks do not take advantage of liberalized banking system. On a recent development, NRB has allowed banks to invest abroad in call deposit, Certificate of Deposit (CDs) and other less risky instruments which should help banks to diversify its portfolio in the future.

REVIEW Capital Markets

The Nepal Stock Exchange (NEPSE) Index (+40.71%) continued with its upward momentum at the end of the first eight months of FY 2012-13. The Index gained valuable 158.68 points to reach 548.4 points during the review period.

MARKET PERFORMANCE

The Nepal Stock Exchange (NEPSE) Index (+40.71%) continued with its upward momentum at the end of the first eight months of FY 2012-13. The Index gained valuable 158.68 points to reach 548.4 points during the review period. Moreover, the total market turnover amounted to NPR 14.07 billion (USD 162 million), a staggering growth of 163% as compared to the same period in FY 2011-12.

As shown in *Table 9*, during the review period, the insurance sector (+77.48%) was the highest gainer amongst the sub-indices as investors were lured by the bonus shares declared by the listed insurance companies. Similarly, the hydropower sub-index (+54.52%) gained valuable 372.72 points as buying pressure mounted on key hydropower companies. Likewise, the commercial banking sub-index (+52.91%) con-

tinued to appreciate further due to better than expected second quarter financial results of most of the commercial banks.

Likewise, the hotels sub-index (+34.92%) also witnessed an encouraging growth, and the 'others' sub-index (+29.21%) gained 172.67 points largely due to the upward movement in the share price of Nepal Telecom (NTC). The development banking sub-index (+4.20%) managed to gain marginally while the finance sub-index (-3.76%) failed to appeal to investors as selling pressure mounted over them.

ONGOING DEVELOPMENTS

Mutual funds

The secondary market is going to witness another mutual fund offering.

Nabil Invest, a subsidiary of Nabil Bank, is issuing a close-ended mutual fund—Nabil Balance Fund-1—worth NPR 600 million (USD 6.90 million). This is the second issuance of mutual

Table 9: Sector Wise Performances of Sub-Indices

Indicators	July 15, 2012	Mar 15, 2013	% Change
NEPSE Index	389.72	548.4	40.71
Commercial Bank Index	358.57	548.29	52.91
Development Bank Index	245.43	255.95	4.28
Hydropower Index	683.56	1056.28	54.52
Finance Index	265.66	255.65	-3.76
Insurance Index	497.86	883.62	77.48
Others Index	590.98	763.65	29.21
Hotels Index	489.04	659.82	34.92

Source: NEPSE

funds after Securitas Board of Nepal (SEBON) issued fresh regulations for mutual funds operation. Earlier, Siddhartha Capital, a subsidiary of Siddhartha Bank, had issued NPR 500 million (USD 5.75 million) closed-ended Siddhartha Growth Scheme-1.

Likewise, NMB capital, a subsidiary of NMB Bank, and Laxmi Capital, a subsidiary of Laxmi Bank, are also planning to offer mutual fund scheme in near future as these banks have already obtained license to operate mutual fund from SEBON. Moreover, recently Nepal Investment Bank and Global IME Bank have also applied to SEBON for a mutual fund license.

Investor's sentiment seems improving towards the capital market and especially towards Initial Public offering (IPOs). Civil Bank's IPO worth NPR 800 million (USD 9.2 million) was oversubscribed by around 5 times⁹⁵ while Commerz and Trust Bank Nepal's IPO worth NPR 600 million

(USD 6.9 million) was oversubscribed by 11.36 times.⁹⁶

In near future, the capital market is expected to witness issuance of primary shares of two additional commercial banks, Mega Bank and Century Commercial Bank, and Upper Tamakoshi Hydropower Project.

CREDIT RATINGS MANDATORY

Companies who are planning to issue primary shares (ordinary shares), bonds, debentures, right shares, preference shares, Further Public Issue (FPO) and issuance of shares in premium exceeding NPR 30 million (USD 345.30 thousand) in value from now onwards will have to rate themselves by a credit rating agency.

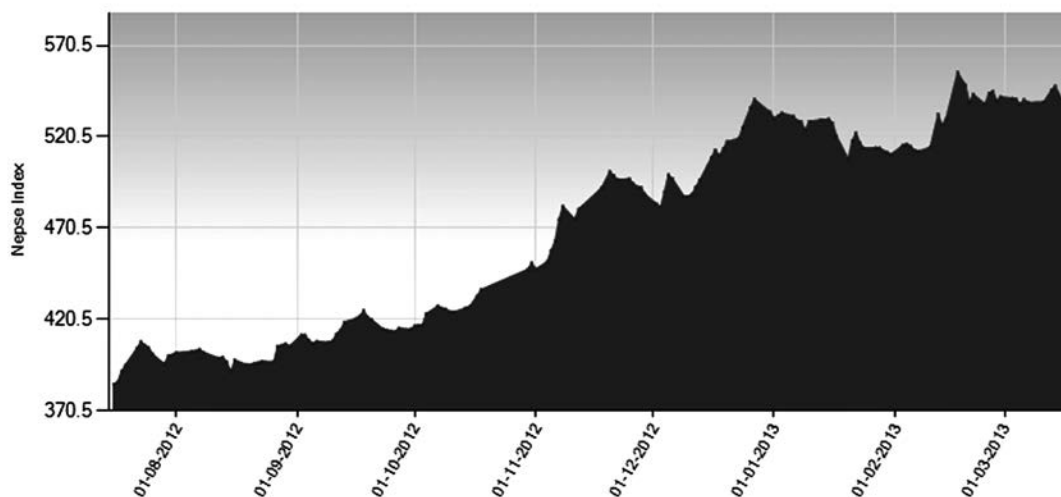
Currently, ICRA Nepal, a subsidiary of ICRA Limited India, which is the first credit rating agency in Nepal, is the

only licensed rating agency by SEBON. The ratings provided by the rating agency is expected to help investors to make sound and informed investment decision, mitigate investment risk and help promote transparency and credibility in the Nepali financial sector. Credit rating agency provides ratings of the company based on companies' financial position, management and governance amongst others.

CDS

Central Depository System and Clearing Limited (CDSCL), which started its operation from the beginning of FY 2012-13, may come into full operation to clear and settle share trading electronically by Mid-April⁹⁷ of the current FY. Currently, CDSCL is awaiting approval of its clearing and settlement bylaws which is pending at SEBON, and arrival of its software compatible with Nepali tax system.

Figure 17: NEPSE Index Long Term Performance



Currently, CDSCL is dematerializing shares (to convert physical paper certificate into electronic form); however, these shares are not able to trade. Moreover, the company has taken over the task of settlement and clearing related to share trading, which used to be carried out at NEPSE; the settlement is being carried out manually.

LIST OF GROUP “A” COMPANIES PUBLISHED

Out of 216 companies listed at NEPSE, 120 companies have managed to end up in the list of group ‘A’ companies published by NEPSE for the current FY. Last year, 133 companies were listed in this group. According to NEPSE, the number of ‘A’ class companies decreased this year largely due to the ongoing merger drive and failure of listed companies to provide financial reports within stipulated time.

This year, 25 commercial banks, 1 manufacturing, 1 telecom, 2 hydropower,

OUTLOOK

After reaching as high as 555.93 points on mid-February of the current FY, the market has been hovering between 535-545 points due to strong resistance at these points. The current market condition can be characterized as highly volatile with investors focused more on political events such as speculation on formation of new government, than on corporate earnings, economic data or fundamentals. Therefore, a quick correction or retracement can be expected in near future as the market is slightly overvalued at this point. On a positive side, the second quarterly financial results of listed commercial banks and other financial institutional are impressive and better than expected, which is expected to push market on strong fundamentals of the company.

So far, the performance of the capital market has been encouraging; both primary and secondary markets have been able to attract investors amidst unfavorable political environment, thus showcasing improving investors’ confidence. The entry of mutual funds, credit rating agency and Central Depository System is expected to provide additional momentum and resources for the long term growth of the capital market in Nepal.

1 hotel, 14 insurance companies, 31 finance companies, and 45 development banks made up the category of group ‘A’ companies. NEPSE enrolls companies in this category if the companies are able to meet established standards, such as having paid-up capital of at least NPR 20 million, possess at least 1,000 general shareholders, generate profits for three

consecutive years, maintain book value of shares at higher level than paid-up value, and submit financial reports within six months of conclusion of every financial year. In the absence of lack of adequate information and ratings of listed companies at the NEPSE, this list is expected to help investors as a tool to make wise investment decisions.

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NEPAL ECONOMIC FORUM

Nepal Economic Forum (NEF) strives to be the premier private-sector led economic policy and research organization by redefining the economic development discourse in Nepal. Established as a not-for-profit organization under the beed (www.beed.com.np) eco-system, NEF has benefited from extensive exposure, experience and network of beeds who contribute in the research and dialogue process. With Sujeev Shakya as Chair, NEF benefits from the leadership of one of the most respected economic analysts in Nepal, known for his bestseller *Unleashing Nepal - Past, Present and Future of the Economy* (Penguin 2009). NEF has worked in partnership with many Nepali and International institutions in its quest to mainstream the discourse on the Nepali economy, which has not received the necessary space it deserves.

NEF broadly works under three areas:

First, the **Business Policy Research Center (BPRC)**, which engages in research, dialogue and dissemination relating to pertinent economic policy issues. Through BPRC, NEF has been producing *neport*, a quarterly economic publication docking economic analysis and research, *nefsearch*, a periodic research publication, conducting *neftalk*, a platform for policy discourse, and *nefcast*, an online dissemination platform. BPRC is in the process of starting *nefsource* a resource center, and holding a *nefclave*, a platform for discourse on economy and beyond, which is scheduled for September 2013.

Second, through the **Center for Public, Private and Community Partnerships (PPCP)**, the partnerships discourse is further elaborated through addition of the community dimension to the existing models of public private partnerships. The concept stems from the need to integrate the community dimension to economic development strategies especially as Nepal moves towards a federated structure. Apart from standalone interventions, the PPCP perspective is integrated in many of the work that NEF and beed initiate.

Thirdly, through **Development Consulting**, NEF engages with a plethora of multilateral, bilateral and International Non-Governmental Organizations in areas where a fresh pair of lenses are required to view the formulation and implementation of strategies. Hands on experience along with a wide 'cultural bandwidth' put NEF in a unique position to deliver Glocal solutions. With an international network and extensive Nepal experience, NEF uses solution-oriented approach to assignments.

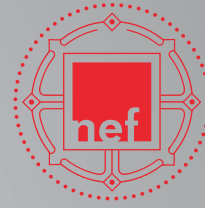
Currently, NEF is helping to incubate the US based Accountability Lab's Nepal operations. With transparent financial systems, high standards of conflict of interest disclosures, strong support of beed back-end infrastructure, access to high quality global and local human resources and firms, NEF is poised to set high delivery and ethical standards for firms operating in Nepal.



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