



NEPAL
ECONOMIC
FORUM

nefport

Docking Nepal's Economic Analysis

OCTOBER 2014 | ISSUE 18

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EDITORIAL

We are happy to present you the eighteenth issue of nefport, which provides an overview of the events of the past three months that had an impact on the Nepali economy.

The Full Budget for FY 2014-15 was announced on time, a first in the last three years. The NPR 618 billion (USD 6.42 billion) budget has allocated significant investments in energy, infrastructure, and tourism. Another first in 17 years was a state visit from an Indian Prime Minister. Prime Minister Narendra Modi's visit in August 2014 was welcomed by Nepalis, especially his speech at the Parliament where his powerful oratory appeased all.

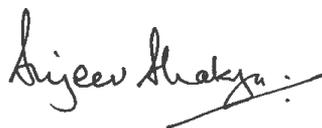
We have used USD conversation rate of NPR 96.26 to a dollar, the three month average, for this issue.

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. It goes into some depth within each sector and provides an overview of the key stories that have developed over the last quarter. This section also provides a review of the Nepal Budget for 2014 for each sector, as well as an outlook for the next quarter.

Like in the previous issues, the second part of nefport presents an in-depth review of the financial and capital markets, where we provide a detailed analysis and assessment of the performance and figures of banks, financial institutions and capital markets. We have also included a Review of Human Development Index 2014.

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
Chairperson
Nepal Economic Forum

POLITICAL OVERVIEW



The Parliament is getting ready to tackle key and contentious issues such as federalism. Further, 15 parliamentary committees have been formed to work on various issues, including thematic areas and special committees.

Private sector applauds Budget 2014-15: The NPR 618 billion (USD 6.4 billion) budget for FY 2014-15, which envisions to end the country's power crisis in three years, build special economic zones, develop infrastructure essential for the industrial sector, and launch measures against syndicate systems and tax, has been applauded as pro-private by Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and Confederation of Nepalese Industries (CNI).

Though the new budget has managed to please the private sector and appease law makers, economists doubt the viability of achieving a 6% economic growth while maintaining the inflation at 8% since no concrete plans are in place to increase industrial production that is required to fuel the targeted economic growth. While the budget stresses on developing the energy infrastructure, what it lacks is concrete plans to propel economic development.¹

Indian PM visits Nepal: During his two-day visit to Nepal, Indian Prime Minister Narendra Modi met Prime Minister Sushil Koirala, President Ram Baran Yadav and the leaders of political parties. This was the first visit of an Indian Prime Minister in 17 years. The

highlight of the visit, however, was his 46-minute speech in the Parliament where Modi—the first guest to address Nepal's parliament—managed to tap into Nepal's insecurities and assured the lawmakers of Nepal's sovereignty, stressing that the country has to make its own decisions and India does not have any plans of interfering unless India is asked for support. He encouraged Nepali lawmakers to build the new constitution and move towards a peaceful democracy. He further recognized Nepal as the birthplace of Buddha, a strange reassurance Nepalis needed.²

Contempt of Court Bill draws flak: The proposed Contempt of Court Bill has met with fierce criticism from the press with the International Federation of Journalists and its affiliate, the Federation of Nepali Journalists, claiming that certain areas of the bill curtailed press freedom and freedom of speech, thereby undermining the citizen's right to freedom and expression.

The controversial bill—registered in the Legislature Parliament on June 9, 2014—defines contempt of court as deliberately causing an obstruction while implementing justice delivery, affecting a sub judicial matter and disrespecting the judgment of the court.

The bill also defines insulting a staff or judge of the court and recording the proceedings inside the court without the consent of the judge as contempt of court. This bill, if passed in its present form, will give unrestricted power to the judges to set up a case for contempt of court, which is punishable with a fine of up to NPR 10,000 (USD 104) or a jail term that could last for a year.

The media and media rights organizations have warned of conducting street protests if amendments were not made to the bill.³ This open dissatisfaction over the contempt of court bill has resulted in the Parliament endorsing a proposal seeking public opinion on the bill. The opinions thus provided will be integrated in the bill and discussed in the parliament.⁴

“ OUTLOOK

Nepal is gearing up to host the upcoming SAARC Summit, which is a good opportunity to explore bilateral relations between the different neighboring countries. Although Indian Prime Minister Narendra Modi's visit did not culminate in the signing of the Project Development Agreement (PDA) for Upper Tamakoshi, if Nepal is able to ensure the signing of such PDAs, it will change the future course of history.

INTERNATIONAL ECONOMY

Emerging markets are challenging the status quo, whether it is through the establishment of the BRICS New Development Bank that seeks to fight the dominance of the US Dollar, Argentina's struggle with the United States over its "default" on its sovereign bonds, or Russian President Putin's struggle with the European Union and United States over Crimea.

Argentina debt default crisis: Argentina has fallen into its second debt default in 13 years after the US Supreme Court came to a decision that Argentina needs to pay NPR 144.4 billion (USD 1.5 billion) to "holdout" bondholders, the holders of debt defaulted on in 2001, who declined past restructuring deals, in an economic and legal standoff which has been going on for more than a decade. While many economists believe that Argentina should pay the holdout bondholders the designated amount or at the very least try to come to a consensus over a certain amount suitable to both parties involved, the nation would be in danger of depleting its NPR 2.6 trillion (USD 28 billion) foreign reserve. In addition, the default would bring up the borrowing costs due to the increasing inflation and higher risk; put more pressure on the peso as the central bank has already weakened the peso bringing it to a record low against the US dollar, while also driving away investors that will in turn threaten the nation's already struggling economy.

The recent default presents fewer difficulties for the rest of the world's finances, as compared to the last one in 2001 because the global capital markets have been inaccessible for Argentina since then. But, the default is not looking good for the economic future of the nation.⁵ The debt crisis has brought about rise in unemployment, and annual inflation looks to be around 40%. As of now, Argentina has proposed a plan to push bondholders to swap the debt issued under foreign law for bonds of the same value under the Argentine law.⁶

Indian Union Budget 2014-15: The first Budget by the Modi led government focuses on sustainable economic growth. The budget promises to take the GDP to a desired 7-8% and presents various reforms like the introduction of Infrastructure Investment Trust (Invit), and working together with Reserve Bank of India (RBI) to ease financial norms for long term lending for infrastructure and housing

projects. Under this collaboration, RBI will exempt banks from various requirements such as Cash Reserve Ratio (CRR)—making banks free of holding reserves either in cash or as deposits with the central bank in the specified small fraction of the total deposits of customers; Statutory Liquidity Ratio (SLR)—making banks free of the liability of maintaining a minimum proportion of their net demand in the form of cash, gold and other approved securities at the close of business every day; and Priority Sector Lending (PSL)—making banks free of the role of providing a specified portion of its lending to a few specific industries. This, in turn, has led to an increase in long term lending for infrastructure and housing projects. These reforms promise to boost the Indian financial market provided that the government delivers on its aim of sustaining fiscal discipline, bringing a reduction in government borrowings and implementing the reform centric approach.

The budget gives special emphasis to the infrastructure sector as it plans to connect India through 8,500 km of roads, airport development, 15,000 km of additional gas pipeline, and establishing and improving 16 ports around India's coastline. The government has put forth NPR 1.4 quadrillion (USD 15.1 trillion) for development of roads and rural infrastructure while NPR 175.5 trillion (USD 1.8 trillion) for the development of infrastructure in the north east region.⁷ The budget has been commended for its economic growth centric approach and introducing various reforms to support that projected growth. In spite of the positives, there have been concerns that the budget does not have concrete plans to decrease inflation and bring about universal and equitable access in education and health sector. A big question has also arisen about the proposed NPR 11.7 trillion (USD 121.5 billion) Sardar Vallabhbhai Statue in Gujarat despite the state currently facing a slow economic growth.⁸

BRICS' New Development Bank launched: At the sixth annual BRICS Summit in Fortaleza, Brazil, the leaders of Brazil, Russia, India, China and South Africa (BRICS) announced that they would establish a New Development Bank. Each of the five BRICS nations will contribute USD 10 billion (NPR 962.6 billion) to the total capital pool of NPR 4.8 trillion (USD 50 billion). The nations have also created an emergency reserve fund—Contingency Reserve Arrangement—of NPR 9.6 trillion (USD 100 billion)

that will support developing nations to steer away from short-term liquidity pressures, encourage further BRICS nations' cooperation and build the global financial safety net strongly. The bank's physical location is to be Shanghai, China, whereas its first president is going to be from India.

The organization of the bank is to be done in such a way that there is equality amongst the BRICS nations unlike the World Bank and International Monetary Fund where the leader of IMF is always a European and the head of the World Bank is always a US citizen. One of the main goals of the bank is to raise the amount of loan used for infrastructure projects in developing nations.⁹

Sanctions on Russia: In its efforts on deescalating the crisis taking place in Ukraine, the European Union (EU) encouraged Russia to do the same but Russia's illegal annexation of Crimea led to the imposition of the first travel bans and asset freezes against Russian officials on March 17, 2014.¹⁰ As Russia consciously destabilized its neighboring sovereign country and supported pro-Russian rebels fighting the Ukrainian government, the EU and the United States are tightening sanctions against the nation, targeting its energy, banking and defense sectors. These sanctions have led to foreign banks tightening credit for all Russian companies due to which not a single dollar, euro or Swiss franc was lent to any Russian company in July, 2014. The sanctions have also had an

impact on lending and interest rates that has slowed down the economy.

Much to the dismay of its citizens, the Russian government banned food imports that have brought about an increase in retail prices, like the increase of 6% in food prices in just a week in Moscow, causing a food inflation that will no doubt be a setback for the nation which has been struggling to stabilize inflation. The International Monetary Fund (IMF) has already stated that Russia is in recession, expecting growth by 0.2% this year. As Russia is still considered as a developing economy, a growth that is 1% or less puts the nation in recession.¹¹ Russia is a large, energy-rich nation from which more than 30% of EU's oil and natural gas came from in 2010; in return, Moscow received more than 80% of revenue from EU for its oil and natural gas. This brings about a costly scenario where EU could cut off Russia from the European financial markets and the Russian President, in return, could cut off oil and gas exports to EU. This would likely bring EU on the brink of a recession.¹²

OUTLOOK

It would be interesting to see how developing countries like Nepal that should be investing in infrastructure in the near future, would benefit from the establishment of the New Development Bank.

macroECONOMIC

OVERVIEW

Announced on 13, July 2014, the NPR 618 billion (USD 6.42 billion) budget for fiscal year 2014-15 was focused primarily on infrastructure, energy and tourism. Of the total budget, NPR 398.95 billion (USD 4.14 billion) will go to recurrent expenditure, USD 26.63 billion (NPR 166.76 billion) to capital expenditure and NPR 102.39 billion (USD 1.06 billion) to the finance-related expenditures. The size of budget is 19% more than the previous year's budget of NPR 517.24 billion (USD 5.37 billion).¹³ While the GDP growth rate in the last fiscal year was 5.2%, it is expected to be 6% in fiscal year 2014-15. Annual average inflation rate is expected to remain at 8% for this fiscal year.

AGRICULTURE

The Government of Nepal has revealed its plans to revive the agriculture sector in FY 2014-15 by pumping in more funds into the sector. As a part of the government's strategy to promote agriculture, the budget to the sector has seen a hike. Further, plans are on to provide loans to small farmers at subsidized interest rates, to promote self-employment among the youth and to encourage them take up commercial farming, the government plans to roll out employment generating programs.

Agro output likely to decline: Untimely and inadequate rainfall during the monsoon season is expected to drop agriculture production in FY 2014-15. Agriculture statisticians have projected a drop in the cultivation of paddy, which accounts more than a fifth of the country's total agriculture production. The transplantation of paddy in the Far Western, Central and Mid-Western regions have reached 32%, 39% and

42% respectively of the land allotted for the crop's production.¹⁴ In the same period last year, transplantation was completed on 70%, 44% and 47% of the fields in the Far Western, Central and Mid-Western regions respectively. With the projected decline in agro output, the Ministry of Finance has expressed its doubts on the government's ability to meet the economic growth target, as the agriculture sector's contribution to the GDP stands at 33%.

Shortage of fertilizers: Following the shortage of chemical fertilizers in the country, here has been a rise in the smuggling of fertilizers through the porous Nepal-India border. Since the transplanting season has already begun, the daily demand for fertilizers has reached 50 tons. With fertilizers being out of stock for weeks in the state owned agencies that supply fertilizer at a subsidized rate—the Agriculture Input

Company (AIC) and Salt Trading, southern Terai farmers have been travelling across the border and smuggling in small quantities of fertilizers.¹⁵ The smuggled fertilizers are generally cheap and poor in quality than those supplied by government agencies.

Pesticide usage in agro products: The alarming increase in the use of pesticides in production of fruits and vegetables has led to growing public health concerns. According to the Rapid Pesticide Residue Analysis Laboratory, 14% of vegetables that come to Kalimati are not fit for consumption. Use of illegal pesticides, combined with lack of knowledge on the proper usage of pesticides among farmers, have been attributed as the primary reason behind this.

Vegetables that contain high level of pesticides are potatoes, chillies, cowpeas, capsicum, cauliflowers, Chinese

cabbage, carrots, spinach, okra and tomatoes. The laboratory found a 100% presence of pesticide residue in potatoes brought in from Panauti and Kavre, and 99% residue in brinjals from Khanikhola and Dhading.¹⁶ Plant Protection Directorate has set up a monitoring team at Kalimati Fruits and Vegetable Market to check the amount of pesticide usage in the vegetables supplied by farmers and has started educating farmers in the use of bio-pesticides.

Introduction of agriculture research center: Australian Center for International Agriculture Research along with agriculture research institutes from Nepal, India, and Bangladesh have teamed up to implement the Sustainable and Resilient Farming Systems Intensification (SRFSI) in the Eastern Gangetic Plains to improve the productivity, profitability, and sustainability of small scale farmers along the eastern Gangetic plains. The project has an estimated budget of NPR 449 million (USD 4.6 million). International Wheat and Maize Improvement Center will lead the project in eight districts: two in eastern Terai of Nepal, two in north-west Bangladesh, and two each in the Indian states of Bihar and West Bengal.¹⁷

In Nepal, the five year regional agriculture research initiative was launched in Dhulikhel and Kavre by the Australian Embassy, targeting rice-based farming systems through resource conserving agro-technologies, efficient use of water to strengthen innovation, and adaptive capacity of farmers, eventually connecting them to markets. Nepal Agriculture Research Council will be responsible for implementation of the project.

BUDGET HIGHLIGHTS: AGRICULTURE

The annual budget for the agriculture sector increased by 41% from NPR 21.4 billion (USD 222 million) in FY 2013-14 to NPR 30.28 billion (USD 314 million) in FY 2014-15 to emphasize on extension of agriculture services, trainings, research and development, and to increase overall agriculture productivity.¹⁸

The budget has adopted different plans and strategies to promote the agriculture sector. Some of the major agriculture budget highlights include allocation of NPR 1 billion (USD 10 million) for agriculture interest subsidy with up to 4% subsidy, and fixing the maximum interest at 6% on loans provided by commercial banks for agro related activities. The budget has a provision of 50% subsidy on the production of organic fertilizer and 75% on insurance premium on agriculture production and livestock.

The government will levy only 1% custom duty on import of machineries used in agriculture production and storage to commercialize agriculture. To promote tea industries, the government has announced 50% VAT exemption. Another highlight of the budget is the allocation of NPR 1.78 billion (USD 18.4 million) to strengthen agriculture research programs.

EDUCATION

The Ministry of Finance, in its budget plan for FY 2015-15, recently announced the allotment of NPR 86.03 billion (USD 893.72 million) for the education sector, which is 13.91% of the total budget. The education budget, which has decreased by 1.74% of the total budget from the previous FY 2013-14, primarily focuses on policy changes and programs to increase nationwide literacy rates, providing technical education and providing scholarships for marginalized communities.

Education campaign in 37 VDCs over-looked: The UNICEF funded Girls' Education Campaign, which aims at educating over 2000 girls across 37 village development committees (VDCs) in the district of Saptari, is facing implementation issues due to a lack of supervision and monitoring. While over 100 facilitators, 13 super-

visors and a program coordinator were appointed to implement the program, classes in certain VDCs have been discontinued to allow students to assist in agricultural work. The campaign has produced little progress with the appointed individuals failing to fulfill their duties.¹⁹

Kathmandu Post Career Edufair 2014 a success: The third three-day Kathmandu Post Career Edufair that featured over 100 academic institutions from Nepal and abroad ended with a success by attracting over 112,000 visitors, up from 100,000 in the previous year. The fair provided visitors with the opportunity to gather first-hand information from colleges and universities as well as finding career opportunities for students rather than just providing information about academic institutions. In addition to course and career coun-

selling, the fair also provided opportunities for students to gain information about the US and UK visa systems.²⁰

Government to examine community schools' monthly progress: The Eastern Regional Education Directorate, Dhankuta, in an effort to improve the school leaving certificate (SLC) success rate and overall performance of community schools, has made it mandatory for all community schools in 16 districts to prepare and submit monthly progress reports to the directorate. While the nationwide SLC success rate stood at 43.92 %, it was only 34.17 % in the eastern districts. The progress report will include attendance details, total school hours, active participation in classrooms and extra-curricular activities of students as well as teachers at the end of each month.²¹

Literacy programs to be launched in 17 districts: With FY 2014-15 declared as the 'Illiteracy Eradication Year', the Non Formal Education Center (NFEC) will be introducing various literacy programs in 17 districts in Terai. These programs aim at making 1,693,165 people literate within FY 2014-15 and an additional 1,447,343 residents literate by 2015.²² Media campaigns will also be undertaken by the NFEC to encourage people to take part in the literacy programs. A budget of NPR 1.39 billion (USD 14.44 million) has been allocated for this program for FY 2014-15.²³

200 schools to be merged: The government is set to merge 200 community schools across the country. The schools to be merged either have very low enrolment²⁴ or do not meet the prescribed teacher-student ratio, which is 1:50 in the Terai, 1:45 in the hilly regions and 1:40 in the mountainous

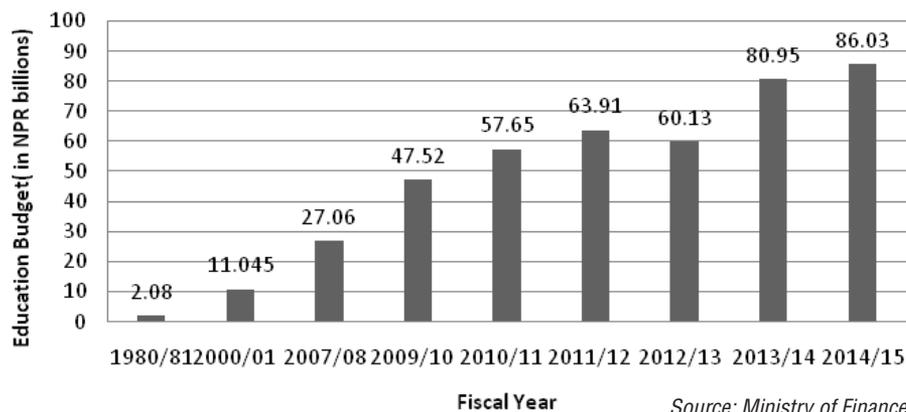
BUDGET HIGHLIGHTS: EDUCATION

The Government of Nepal has allocated NPR 86.03 billion (USD 893.72 million) for the education sector for the FY 2014-15. Although the amount allocated for the sector has increased by 6.28% compared to the previous year's budget of NPR 80.95 billion (USD 904.94 million), the education budget allocation as a percentage of the total budget for the current fiscal year is the lowest in a decade. In the past ten years, the education budget has averaged between 16%-17% of the total budget. However, the current budget for FY 2014-15 comprises of only 13.91% (a drop of 1.74% from 15.65% in FY 2013-14). Although education receives the largest share of the budget every year, the allocation as a part of national budget has been on a decreasing trend.

Policy-wise, the government has announced the revision of the Education Act, an umbrella act to manage all universities. The act seeks to focus primarily on the nationwide improvement of literacy rate, quality of educational institutions, vocational education, infrastructure in community schools, and providing scholarship and grants to make education accessible to all marginalized communities.²⁹ While the government's main focus is on improving education statistics, an estimated 70% of the budget has been allocated for government teachers' salaries.³⁰

A total of NPR 4.74 billion (USD 49.24 million) has been allocated for the development of infrastructure of educational and academic institutions which includes the construction of 1,285 school buildings, 9 district education office buildings, 3,230 toilets in schools and 13 polytechnic buildings.

Figure 1: Budget Allocation for Education in Consecutive Years (in NPR billions)



regions.²⁵ Another factor that will be considered is the walking distance between the merging schools, which should be less than 30 minutes.

200 Sarlahi schools face closure for embezzlement: The District Education Committee has recommended the closure of 200 educational institutions

receiving government funds. An investigation undertaken by the Commission for the Investigation of Abuse of Authority (CIAA) has shown that educational institutions in the district have been receiving funds from the District Education Office for various projects, despite not being operational. The CIAA is currently investigating 315 primary schools for possible misappropriation of funds.²⁶

Vocational training institution for every constituency: The government plans to establish one technical school in every electoral constituency. According to the Council for Technical Education and Vocational Training (CTEVT), a total of 423 colleges and training centers currently provide vocational courses including nursing, health assistants, pharmacy and computer engineering.²⁷ The government has

also started vocational education in 100 secondary schools in all 75 districts as a pilot project since last year's academic session and also has scholarship schemes offered for diploma and Proficiency Certificate Level courses under CTEVT.

Computer training introduced in Madrassas: Madrassas schools training young Nepali Muslims in Quranic studies, Arabic and Islamic thought have not only expanded their curriculum to include secular subjects like mathematics, science and geography but have recently added computer training to their curriculum. These Madrassas are mainly located in the Terai, along the Nepal-India border. Officials of the Madrassas believe that computer skills can be used as religious tools to strengthen the understanding of Islam, and also provide students

with necessary marketable skills for better employability prospects.²⁸

ENERGY

While there were no price increments for petroleum products in the last quarter of the FY 2013-14, Nepal Oil Corporation (NOC) incurred a monthly loss of NPR 290.60 million (USD 3.02 million) and NPR 272 million (USD 2.83 million) on August 1 and August 16 respectively (see Table 1 for breakdown of monthly loss for NOC).³¹ Of the petroleum products sold, NOC made a profit from the sale of petrol, kerosene and aviation turbine fuel, while recording losses from the sale of diesel and Liquefied Petroleum Gas.

The state owned Nepal Electricity Authority (NEA) made a net loss of NPR 5.74

Table 1: Per Unit Profit/(Loss) on Petroleum Products as per Current Rates for the Month of August

Petroleum Products	As of August 1, 2014		As of August 16, 2014	
	Profit/(Loss) in NPR	Profit/(Loss) in USD	Profit/(Loss) in NPR	Profit/(Loss) in USD
Petrol	8.68 per liter	0.09 per liter	12.53 per liter	0.13 per liter
Diesel	(0.76) per liter	(0.01) per liter	(1.54) per liter	(0.02) per liter
Kerosene	13.71 per liter	0.14 per liter	13.71 per liter	0.14 per liter
Aviation Turbine Fuel (Duty Paid)	38.93 per liter	0.40 per liter	38.93 per liter	0.40 per liter
Aviation Turbine Fuel (Bonded)	46.15 per liter	0.48 per liter	46.15 per liter	0.48 per liter
LP Gas	(587.47) per cylinder	(6.10) per cylinder	(587.47) per cylinder	(6.10) per cylinder
Total Estimated Monthly Profit/ (Loss)	(290.60) million	(3.02) million	(272) million	(2.83) million

Source: Nepal Oil Corporation

billion (USD 59.63 million) in FY 2013-14 compared to NPR 3.71 billion (USD 38.54 million) in FY 2012-13, while the accumulated loss reached NPR 19.31 billion (USD 200.60 million).³² The increase in losses is attributed to the increase in import of electricity. NEA imported 1.07 billion units of electricity worth around NPR 8.25 billion (USD 85.71 million) from India in the last fiscal year while it had imported only 790 million units of electricity worth NPR 6 billion (USD 62.33 million) in FY 2012-13.³³

Fuel import exceeds total exports:

Fuel imports constituted 19% of Nepal's total imports in the first eleven months of FY 2013-14. According to Trade and Export Promotion Centre (TECP), Nepal imported petroleum products worth NPR 123.43 billion (USD 1.2 billion), an increase of 21.4% from NPR 101.69 billion (USD 1.05 billion) during the same period last year. The total exports stood at NPR 81.8 billion (USD 849.95 million) for the same period in FY 2013-14.³⁴ The fuel import exceeded the total exports by NPR 41.62 billion (USD 432.37 million). This shows that export figures are not sufficient to finance the growing import of petroleum products.

Introduction of dual pricing of LPG:

The government announced the introduction of the dual pricing of Liquefied Petroleum Gas (LPG) from the third week of August. In 2011, the then Baburam Bhattarai-led government had started preliminary work to introduce dual pricing in cooking gas for commercial use and household use, although the Nepal Oil Corporation (NOC) has yet to finalize the guidelines for the dual pricing. NOC estimates that around 30% of the country's total LPG imports are consumed for commercial purpose

by hotels, restaurants and industries. In total, 1.5 million LPG cylinders are consumed every month.³⁵ The government is seeking to implement appropriate mechanism to control the misuse of subsidy. The government will also implement an appropriate mechanism to control the misuse of subsidy. Currently, commercial users are purchasing subsidized LPG cylinders and getting refund of VAT from the government.

NEA blacklists 33,600 customers over unpaid bills:

The state owned Nepal Electricity Authority (NEA) has stepped up its efforts to crack down on customers over unpaid bills. The authority has blacklisted 33,600 subscribers who owe it a total of NPR 648.2 million (USD 6.73 million).³⁶ The blacklist includes the names of customers who have not paid their power bills since 1989 to mid-July 2013. The Kathmandu region has the highest number of defaulting customers with 9,351 owing the NEA a total of NPR 200.7 million (USD 2.08 million). In the event of these customers failing to pay their dues within the grace period of 35 days, the NEA will request the District Development Office, Land Reform Office, District Development Committee and the Village Development Committee of the concerned customers to disconnect their service. The final action will be to start legal proceedings against the defaulters.

The World Bank to provide USD 80 million for solar plants:

In a bid to curb the power crisis in Nepal, the World Bank is extending a support of USD 80 million to install solar plants of 25 MW.³⁷ The sites for the installation of solar plans have not been finalized yet. According to the Ministry of Energy,

the cost of per unit of solar electricity stands between NPR 12 (USD 0.12) and NPR 15 (USD 0.16). The World Bank's proposed solar project is expected to generate per kW-hour of electricity at around NPR 14.44 (USD 0.15). The solar sector has the potential to reduce load shedding in a shorter period of time compared to hydropower plants, as the plants take longer to build, hence, the government is adamant over generating 150 MW of electricity through solar systems next fiscal year.

Dhalkebar-Muzaffarpur cross-border transmission construction begins:

The construction of Nepali portion of the much anticipated Dhalkebar-Muzaffarpur cross-border transmission line began in July, with the Power Transmission Company Nepal Limited (PTCNL) laying foundation of the transmission towers at Manohar VDC of Mahottari district. The 140 km transmission line is being constructed in order to facilitate power trade between Nepal and India. The 40 km portion, which lies in Nepal, will have 115 towers. The Nepal Electricity Authority (NEA) owns 50% while India's Hydroelectric Investment and Development Company (HIDC) has 14%. In addition, two Indian power companies—Power Grid Corporation and IL&FS Energy of India—have 26% and 10% stake in the company respectively.³⁸ The transmission line is being built by Indian contractor Tata Projects Ltd. at an estimated cost of NPR 1.5 billion (USD 15.58).

Nepal-India talks on petroleum pipeline begin:

After the Indian Prime Minister Narendra Modi pledged to expedite the much delayed the 41 km Amlekhgunj-Raxaul petroleum pipeline project

during his visit to Nepal in August, Nepal and India have formally begun talks on developing the project. Nepal Oil Corporation (NOC) officials and their Indian counterparts held talks on the probable routes to lay the pipeline after field inspections were conducted in Amlekhgunj. The project has been stalled since 1995. Upon the completion of the pipeline, it is expected to reduce leakage, provide relief to Nepali consumers from frequent shortages due to strikes, and to make the supply cleaner and affordable. During the talks held between NOC and Indian Oil Corporation in 2011, there was an agreement to implement the project under separate ownership-joint operation model, dropping the previous idea of a joint venture.³⁹ The agreement failed to gather momentum with legal and technical constraints emerging.

Sindhupalchowk landslide hits hydropower projects: The massive landslide that hit Sindhupalchowk district caused an abrupt interruption in the flow of the Sunkoshi River, affecting five hydropower projects. Power transmission from these projects—Bhotekoshi (45 MW), Sunkoshi (10 MW), Sanima Sunkoshi (2.5 MW), Chaku (6 MW) and Bhairabkunda (3 MW)—have been halted temporarily. Due to this, there has been a shortfall of 66.5 MW electricity in the national grid, increasing the daily load shedding by one and a half hours a day.⁴⁰ In addition, power developers are losing NPR 8 million (USD 0.08 million) due to the landslide and damming of Sunkoshi River. The accumulated loss reached NPR 960 million (USD 9.97 million) mainly because of disruption in transmission lines and damage in two hydropower projects.⁴¹

BUDGET HIGHLIGHTS: ENERGY

With the aim of ending load shedding with the campaign, “Illuminated Nepal Prosperous Nepal”, the Government of Nepal (GoN) has allocated a budget to fund hydroelectric projects including but not limited to Upper Tamakoshi, Kulekhani II, Chameliya and Upper Trishuli. The total amount of budget allocated for the construction of hydropower projects amounts to NPR 12.62 billion (USD 131.1 million).

Furthermore, the government will also be reaching out to the private sector for the construction of other hydropower projects. In this regard the GoN is working towards improving the investment climate in Nepal by completing the Power Development Agreement negotiation proposed by Nepal Investment Board for the development of several hydropower projects.

In order to ensure efficiency in the NEA, the government has decided to divide the company into three different components that will deal with electricity generation, transmission and distribution separately. Furthermore, the government will grant Electricity Generation License for industrial consumption to companies that are in the automobiles, agriculture appliances, aluminum, cement, chemical fertilizers, information technology and solar technology related industries. Finally, the government will provide income tax exemptions along with grants to producers who generate and connect electricity to the national grid.⁴³

Nepal urged to export power to reduce trade deficit: In order to bridge the NPR 377.08 billion (USD 3.91 billion) trade deficit with India in the first 11 months of FY 2013-14, India has reiterated the problem could be solved by export of surplus power.⁴² India has also expressed for early conclusion of Project Development Agreements (PDAs) on 900 MW Arun III, 600 MW Upper Marsyangdi and 880 MW Tamakoshi III hydropower projects. To narrow the trade deficit, India wished to conclude the Power Trade Agreement within 45 days. Furthermore, India also agreed to increase Indian foreign direct investment in Nepal, relax non-tariff barriers like quarantine checks for agro products,

support product development and relax rules of origin requirement for duty-free access of Nepali products, among others, to facilitate cross-border trade and transit. The prime ministers of both Nepal and India have also directed their concerned officials to expedite the construction of four Integrated Check Posts (ICPs).

FOREIGN AID

World Bank refocuses on unlocking growth constraints: The World Bank has narrowed its focus to the energy and transport sectors under its new Country Partnership Strategy (CPS) for

the next four years. The bank will concentrate on these areas as they provide a comparative advantage and can direct its resources for greater development impact. The new initiative is geared towards establishing the foundations for increased, inclusive and sustainable growth with the revamped strategy in what is a shift from its short-term post-conflict assistance.⁴⁴

In the energy sector, the CPS will focus on increasing Nepal's energy supply. The strategy will assist Nepal to develop corporate development place for the Nepal Electricity Authority (NEA) for restructuring its operations and reducing its financial losses besides creating a power trading strategy to ensure that electricity generated in Nepal can be evacuated to a regional power grid. In the transport sector, the bank will support transport connectivity with a focus on rural transport and connectivity to India, besides improving access to markets for the poor and facilitating national and regional integration. The bank has hinted that it could support building the Kathmandu-Terai Fast Track Project in partnership with other development partners.⁴⁵

UK pledges to provide aid: The United Kingdom has vowed to assist Nepal with

a grant of NPR 3.7 billion (USD 38.9 million) for the Access to Finance for the Poor Program which will be made effective in Manang, Humla, Dolpa, Kalikot, Mugu, Jajarkot, Bajhang, Bajura and Darchula. The program aims to improve access to finance for micro-enterprises and small farmers, mainly through micro-finance institutions. A committee of representatives from the Ministry of Finance, National Planning Commission, Department of Cooperatives, Nepal Rastra Bank and Department for International Development will provide necessary guidance to implement the program.⁴⁶

Local development sector receives the most aid: As per the foreign aid commitment made in the first 11 months for the FY 2013-14, the local development sector has become the largest recipient of foreign aid commitment, despite the sector lacking good governance. In total, the government received an aid commitment of NPR 105 billion (USD 1.09 billion), including NPR 36 billion (USD 373.9 million) in loan and NPR 69 billion (USD 716.8 million) in grants. The Asian Development Bank followed by the World Bank are the largest donors with aid commitments of NPR 23.34 billion (USD 242.4 million) and NPR

21.63 billion (USD 224.7 million) respectively. Likewise, UK stands as the largest bilateral donor by committing an aid of NPR 15.36 billion (USD 159.5 million), followed by Denmark and China with NPR 10.8 billion (USD 112.1 million) and NPR 8.59 billion (USD 89.2 million) respectively. *Table 2* provides an overview of the major foreign aid commitments by sector for the current FY.⁴⁷

Development Cooperation Report Update:

The Ministry of Finance launched the Development Cooperation Policy 2014 in which it has fixed the threshold for the amount of foreign aid. According to the policy, NPR 481.3 million (USD 5 million) has been set as the minimum acceptable grant amount. Concessional loans and commercial loans per program/project shall not be accepted below NPR 962.6 million (USD 10 million) and NPR 1.9 billion (USD 20 million) respectively.

According to the Development Cooperation Report (DCR) 2012-13, foreign assistance worth NPR 33.2 billion (USD 345 million) was disbursed outside the budgetary system last fiscal year. Despite the policy being promulgated to improve the effectiveness of foreign assistance, the donors are not satisfied with certain provisions, including setting the minimum limit, use of technical assistance and restrictions on collaborating with INGOs.⁴⁸

Australia assisting in agriculture research in Terai:

The Australian government is all set to fund a five-year regional agricultural research project called "Sustainable and Resilient Farming Systems Intensification in the Eastern Gangetic Plains" worth

Table 2: Major Foreign Aid Commitments by Sector for FY 2013-14

Sector	Amount	Type of Commitment
Energy	NPR 10.32 billion (USD 107.2 million)	Aid
Physical Planning	NPR 9.9 billion (USD 102.8 million)	Loan
Irrigation	NPR 4.81 billion (USD 49.97 million)	Loan
Agriculture	NPR 7.52 billion (USD 78.22 million)	Grant

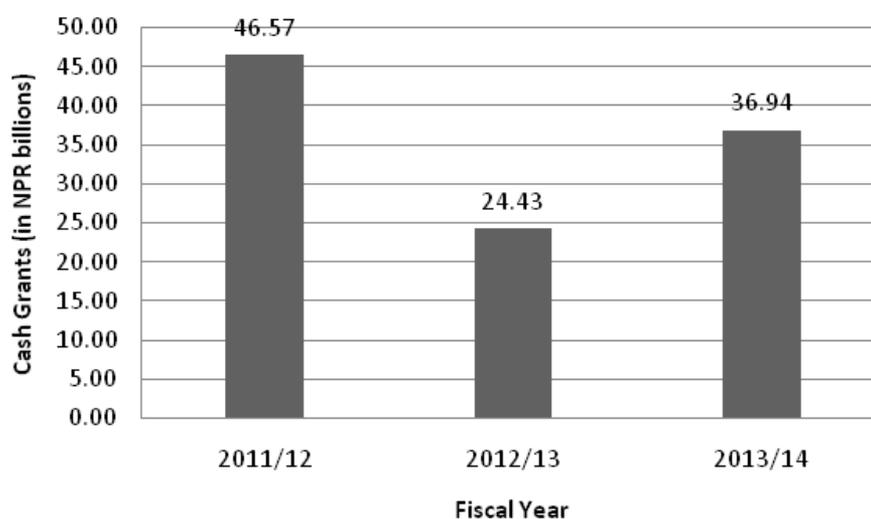
Source: Ministry of Finance

NPR 449 million (USD 4.6 million) in Kathmandu. The program, led by the International Wheat and Maize Improvement Center, will be managed by the Australian Centre for International Agricultural Research in collaboration with scientists and development practitioners from Australia, Bangladesh, India and Nepal. The program has been designed for two districts in eastern Terai of Nepal along with two in Bangladesh and four in India.⁴⁹

ADB to provide loan to ease power shortages: The Asian Development Bank (ADB) has approved a loan of NPR 17.32 billion (USD 180 million) to Nepal from its concessional resources to deal with the issue of power shortage. The loan will be supplemented by a co-financing loan of NPR 11.5 billion (USD 120 million) from the European Investment Bank, a USD 60 million grant from the Government of Norway, and a NPR 1.07 billion (USD 11.2 million) grant from the ADB-administered Strategic Climate Fund. Nepal Electricity Authority (NEA) will utilize the amount to upgrade and expand the transmission and distribution lines and substations, allowing the transfer of up to 2,000 MW of power to main load centers in the Kathmandu valley. This expansion shall also make Nepal capable of exporting at least 1,200 MW of electricity to India in the future.⁵⁰

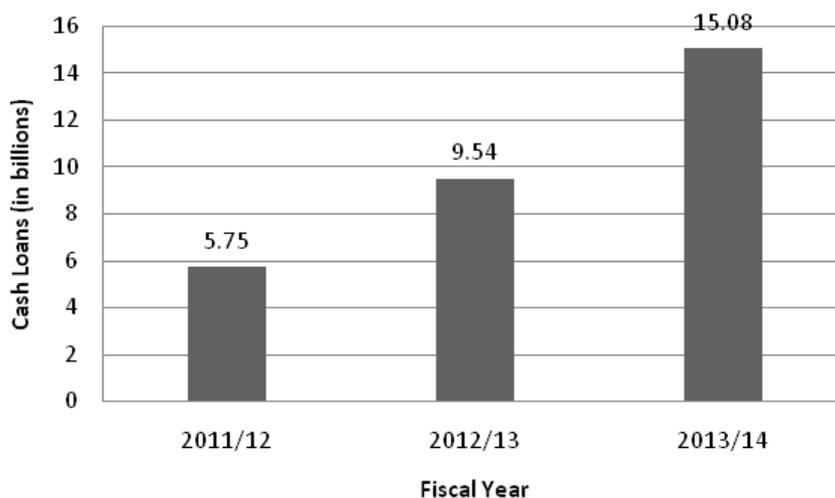
USAID introduces business literacy project: The US Agency for International Development (USAID) has launched a three-year business literacy project worth NPR 393 million (USD 4.09 million) to build skills related to literacy, education, nutrition, entrepreneurship, life skills, and access to finance to

Figure 2: Comparison of Annual Foreign Cash Grants over the past three years



Source: Current Macroeconomic Situation, Nepal Rastra Bank

Figure 3: Comparison of Annual Foreign Cash Loans over the past three years



Source: Current Macroeconomic Situation, Nepal Rastra Bank

empower women, youth and marginalized communities. The project is targeted at benefitting 48,000 individuals in 20 districts in the West, Mid-West and Far-West regions.⁵¹

UNDP-AEPC sign agreement on renewable energy: The United Nations Development Program (UNDP) and Alternative Energy Promotion Centre (AEPC) have signed a project

agreement worth NPR 481.3 million (USD 5 million) to compliment the ongoing government efforts to provide clean energy solutions for cooking and lightening purposes to every household by 2017. The project “Renewable Energy for Rural Livelihood Program” (UNDP GEF-RERL) aims to expand access to renewable energy in rural areas under the government program “National Rural Renewable Energy Program” (NRREP) initiated in 2012. Further, the project will support in building the capacity of local fabricators, installers and system integrators and also support the formulation of innovative financial mechanisms in order to attract private investment in renewable energy systems and productive energy uses.⁵²

ADB to issue NPR 50 billion local currency bonds: The Asian Development Bank (ADB) has sought permission of the Ministry of Finance to issue local currency bonds worth NPR 50 billion (USD 519.4 million) to fund eight hydropower projects. The guideline released by the Ministry of Finance states that it is essential to submit applications mentioning the objective behind issuance of bonds, potential investment sectors, major investors, quantity of bonds to be issued, their maturity date, coupon rates and interest spread to issue local currency bonds. However, the ADB has not clearly mentioned the yield on the bonds it is planning to float, their maturity period, the rate at which it plans to buy funds from the market, and the rate at which it plans to sell these funds to the private sector.⁵³

Increase in foreign cash grants and loans: The amount of annual foreign cash grants to Nepal increased by 51.21% to NPR 46.57 billion (USD

483.79 million). The cash grants had decreased in FY 2012-13 to NRB 24.43 billion (USD 253.79 million) due to the political uncertainty in Nepal. Similarly, the annual foreign cash loan has increased to NPR 15.08 billion (USD 156.66 million) in the FY 2013-14. This represented an increment of 58.07% compared to the cash loans provided in the FY 2012-13 (see *Figure 2&3 for a comparison of annual foreign cash grants and loans over the past three fiscal years*).

HEALTH

The health sector has been allocated a budget of NPR 33.52 billion (USD 344 million) for FY 2014-15, which is a 0.5% decrease in comparison to the last fiscal budget. The budget provides for capacity development of government hospital and upgradation of health post in various locations.

Decline in rheumatic fever and RHD: According to a study conducted by Sahid Gangalal National Heart Center (SGNHC), rheumatic fever and rheumatic heart disease (RHD) is on the decline. There has been a fall in RHD prevalence from 1.3 per 1000 to 0.8 per 1000 children in the Kathmandu valley. This decline has been achieved significantly due to the successful implementation of the RHD control programs for seven years which focuses on awareness generation, heart screening of children, distribution of penicillin injection to the RHD patients, and treatment of tonsillitis and pharyngitis in children. The World Health Federation has declared Nepal as a model for RHD control programs.⁵⁴

Alarmingly high blood lead level in children: A research currently being conducted by Society for Legal and

Environmental Analysis and Development Research, an NGO, in partnership with Siddhi Memorial, shows that the blood lead level in children in urban areas has been found to be 45 micrograms per deciliter—nine times more than the safe level. The research is currently being conducted in Bhaktapur municipality. Lead acid battery has been attributed as the root cause behind the lead poisoning among children.⁵⁵ Increased levels of lead in the blood can harm learning, growth, and hearing abilities among children.

NCD, a major public health concern: A survey conducted by the Nepal Health Research Council, with the support of the Ministry of Health and Population and the World Health Organization, revealed that Non-communicable diseases (NCD) are a major public health problem in Nepal.⁵⁶ According to the findings of the survey “NCD Risk Factor: STEPS survey Nepal 2013”, 42% of the deaths are caused by NCDs and nearly 35% of the deaths are caused by four particular NCDs: cancer, cardiovascular diseases, chronic obstructive pulmonary disease, and diabetes mellitus. Modifiable behavioral factors (tobacco use, alcohol consumption, low fruit and vegetable consumption and lack of physical inactivity) and biological factors (overweight, obesity, raised blood pressure, raised blood glucose and abnormal lipids) are attributed to be the major risk factors of NCDs.

Child mortality drops below 50%: Nepal's success in combating child mortality rates and bringing it below 50% has been hailed as a big achievement by Hans Rosling, a professor of International Health at Karolinska Institute, who also pointed out that no country in

the world has achieved such progress. Nepal Demographic and Health Survey 2011 indicated that neo-natal mortality rate is 33 deaths per 1,000 live births. As per the survey, 35% of births take place in health facilities, of which 26% are in a public sector health facilities, 2% in non-government facilities, 7% in private facilities, whereas 63% take place at home. Annual data indicates that over 600,000 women give birth in the country and 20,000 newborns die. While the number of babies per woman in Nepal in 1950 was 6, it has decreased to 2.4 in 2012.⁵⁷

Laborers at high risk of tuberculosis: A majority of people suffering from tuberculosis in Jhapa district are said to belong to the disadvantaged Dalit community. According to the records maintained by the Primary Health Center of Mechinagar, of the total 185 patients under medication for the disease in the current FY 2014-15, 37% belong to the Dalit community.⁵⁸ According to doctors, hard labor, tendency to smoke and drink, poor financial conditions, and negligence towards health were the major factors behind Dalits and other manual workers being prone to the disease. It is estimated that the number of Dalits with tuberculosis throughout Jhapa might be higher than 20,000, with 5,000 of them residing in Mechinagar alone.

INFRASTRUCTURE

A total of NPR 116.75 billion (USD 1.21 billion)—i.e. 18.9% of the total budget—has been allotted for capital expenditure, which includes building physical infrastructure projects. The capital expenditure increased by 37% in the current

BUDGET HIGHLIGHTS: HEALTH

The government has allocated NPR 33.52 billion (USD 348.22 million) for the health sector as against NPR 33.69 billion (USD 350 million) in the previous year. As in the case of education, the government plans to strengthen public-private partnership to improve the capacity of health institutions. The government will upgrade all sub-health posts to the level of health posts along with upgrading hospitals, and health centers and also ensure a 24-hour free distribution of medicines as per the local need.

Since people in rural areas have limited access to doctors, the government will provide non-practice allowance with certain criteria to encourage doctors to work in remote and rural areas. The government plans to increase the number of doctors in primary health centers. To increase effectiveness, the government will increase the positions of specialist doctors. The government will also develop, extend and improve the immunization service program in an effort to reduce infant, child and maternal mortality rate. Additional efforts to improve maternal health include “Mid-Wifery” training programs and the increment of travel and dress allowance for women health workers.⁵⁹

fiscal year as compared to NPR 85.10 billion (USD 888.06 million) allocated in the last fiscal. The details of some of the projects along with their allocated budget can be seen in *Table 3*.

Petroleum pipeline nearing completion: The initial survey for the 41 km Amlekhganj-Raxual Petroleum Pipeline Project is reported to be in its final stage of completion. The pipeline is expected to be built outside human settlement. The proposed pipeline is expected to supply 6000 kiloliters of petroleum products daily. A detailed project report prepared in 2002 estimated the cost to build the 41 km pipeline at NPR 1.6 billion (USD 16.62 million).⁶⁰

Dry port in Rasuwa: The Ministry of Commerce and Supplies has begun the process of acquiring land in Rasuwagadhi, Rasuwa, to build an Inland Container Depot after the cabinet cleared the land acquisition proposal of the Ministry of Forest and Soil Con-

servation on June 12, 2014. The Forest Ministry has agreed to provide five hectares of land to build the dry port. The Government of China will be constructing the Dry Port.⁶¹

Cable car to connect Phulchoki-Godawari: The Ministry of Physical Infrastructure and Transport has approved the construction of a 2.9 km mono cable car connecting Phulchoki hill and Godawari. The Phulchoki-Godawari cable car is expected to cost NPR 1.41 billion (USD 14.65 million).⁶²

MANUFACTURING AND TRADE

The manufacturing and trade sector saw a continuous improvement in exports, with total exports rising by 17.4 %, amounting to NPR 90.29 billion (USD 938 million) in FY 2013-14. However, this was overshadowed by the rise in total imports, which stood at

NPR 708.76 billion (USD 7.36 billion), registering an increment of 27.3%. The high influx of remittance has fueled demand for imported goods. Moreover, as Nepal's productive capacity has been bogged down by issues of power shortages, high cost of production, labor problems and non-tariff barriers, the country has not been able to make substantial improvement in manufacturing and trade.

Foreign trade scenario: Exports to India increased by 16.5% to NPR 59.41 billion (USD 617.26 million) whereas total exports to other countries registered a growth of 19.1%, to NPR 30.87 billion (USD 320.75 million) in FY 2013-14. Similarly, imports from India amounted to NPR 472.73 billion (USD 4.91 billion) while imports from other countries stood at NPR 236 billion (USD 2.45 billion) as can be seen in *Table 4*.

Likewise, Nepal's total trade deficit in FY 2013-14 has gone up by 28.9% to NPR 618.47 billion (USD 6.42 billion). The increase in deficit during the same period last fiscal was 23.9%. Trade deficit with India has increased by 30.8% to NPR 413.31 billion (USD 4.29 billion) in comparison to 26.5% increase in the same review period last year. Similarly, trade deficit with other countries has increased by 25.3% to NPR 205 billion (USD 2.13 billion) in contrast to the 19% increment during the same review period last year.⁶³

Top exports, imports: Woolen carpets has topped the country's export list with carpets worth NPR 6.62 billion (USD 68.77 million) being exported in the first eleven months of fiscal year 2013-14. This is a 29.6% increment as compared to the same period in the last fiscal year. Polyester, cotton and other yarns registered a growth of 10.7% becoming the second most

Table 3: Budget allocation for infrastructure projects

S.N	Details	Budget allocation 'In NPR'
1.	Detailed project report of Kathmandu–Terai fast track to be prepared within the next six months with construction to start in this fiscal year 2014-2015. NPR 250 million (USD 2.6 million) allocated for pre-construction works.	250 million
2.	The track opening of Mid-Hill Highway for total of 1,776 km to be completed within the coming fiscal year.	2 billion
3.	Track opening of remaining 20 km of Kaligandaki corridors of North-South highway to be completed. Track opening for 30 km of Limi-Lapcha-Simikot. Construction of five bridges and track opening of 60 km of Koshi corridors to be completed.	1.18 billion
4.	Total of 70 km of different roads to be upgraded and black topped in this fiscal year, which includes <ul style="list-style-type: none"> • Lamosanghu-Tamakoshi-Jiri road • Sahid Marga (Ghorahi-Holeri segment) • Lumbini Buddhist Circuit • Saphebagar-Martadi road • Bardaghat-Tribeni road • Balaju-Trishuli road • Chhahare-Bidur road • Balkhu-Chhaimale road • Bhaktapur-Nagarkot road • Janakpur Pilgrimage road 	2.39 billion
5.	Kalanki-Koteshwor segment of Kathmandu ring road to be expanded to eight lanes and separation of track of Kalanki-Balaju-Koteshwor segment to be completed	1.19 billion
6.	41 km road extension, improvement and maintenance within Kathmandu valley within this fiscal and completion of Dhobikhola corridor road.	1.80 billion
7.	Expansion of the following commercial roads to six lanes: <ul style="list-style-type: none"> • Rani-Itahari-Dharan road • Belhiya-Butwal road • Birgunj-Pathlaiya road • Jatahi-Janakpur road 	1 billion
8.	Black topping of 160 km of Surkhet-Jumla road and Shitalpati-Musikot road	2.40 billion
9.	Black topping of 112 km of Chainpur-Khadbari, Harkapur-Okhaldhunga, Okhaldhunga-Salleri and Nepalgunj-Kohalpur roads	1.15 billion
10.	Narayanghat-Mungling road upgradation and detailed feasibility study to be conducted for improvement of Mungling-Kathmandu segment	1.19 billion
11.	16,788 km roads to be maintained under a separate mechanism for rehabilitation of large roads	4.5 billion
12.	Construction of Simara-Bardibas Railway	1.35 billion
13.	Construction of 125 bridges on strategic and local roads	7.3 billion
14.	Maintenance and rehabilitation of Nepal Gandak West Canal, Chandra Canal, Koshi Pump, Koshi Distribution, kamala, Narayani, Narayani Lift, and Banganga irrigation system	400 million
15.	4,500 hectares additional surface irrigation facility to be provided	12 billion
16.	Expansion of road connectivity to 815 VDCs which are not connected to road networks	1.2 billion
17.	Improvement of 55,000 km of road constructed at local level	2.25 billion

Source: Government of Nepal, Ministry of Finance, "Budget Speech of Fiscal Year 2014-15"

exported product, bringing in NPR 5.85 billion (USD 60.77 million) during the same review period.

Similarly, petroleum products continued to top the import list with products worth NPR 123.45 billion (USD 1.28 billion) being imported. This was followed by iron and steel with products worth NPR 58.54 billion (USD 608.14 million) being imported during the same review period. India, China and UAE are the top three import partners of Nepal. However, imports from Brazil witnessed an increment of 148.9% with imports rising to NPR 6.81 billion (USD 70.74 million) from NPR 2.74 billion (USD 28.46 million).⁶⁴

BOP surplus: Balance of Payment (BOP) surplus for FY 2013-14 stood at NPR 127.13 billion (USD 1.32 billion) with remittance registering an increase of 25%, contributing NPR 543.29 billion (USD 5.6 billion). The increased inflow of remittance has again contributed to a surplus BOP. Besides remittance, the surplus in current account can also be attributed to substantial rise in net services, net income and grants.⁶⁵

90% export from Central and Eastern Regions: The Central and Eastern Development Regions contributed 90.83% of Nepal's total exports in the last fiscal year. Statistics of Ministry of Commerce and Supply show goods worth NPR 38.30 billion (USD 397.88 million) were exported from Central Region while the Eastern Region exported goods worth NPR 31.81 billion (USD 330.46 million). The contribution of these regions are justifiable as most of the industrial establishments of the country are present here. Kathmandu alone has 318 industries while Morang, Sunsari,

Table 4: Foreign Trade Statistics for FY 2013-14 (in millions)

NPR in millions	2011/12	2012/13 ^R	2013/14 ^P	Percent Change	
				2012/13	2013/14
TOTAL EXPORTS	74261.0	76917.1	90292.3	3.6	17.4
To India	49616.3	50999.8	59417.3	2.8	16.5
To Other Countries	24644.7	25917.3	30875.0	5.2	19.1
TOTAL IMPORTS	461667.7	556740.3	708761.8	20.6	27.3
From India	299389.6	367031.3	472730.6	22.6	28.8
From Other Countries	162278.1	189709.0	236031.2	16.9	24.4
TOTAL TRADE BALANCE	-387406.7	-479823.2	-618469.5	23.9	28.9
With India	-249773.3	-316031.5	-413313.3	26.5	30.8
With Other Countries	-137633.4	-163791.7	-205156.2	19.0	25.3
TOTAL FOREIGN TRADE	535928.7	633657.3	799054.1	18.2	26.1
With India	349005.9	418031.1	532147.9	19.8	27.3
With Other Countries	186922.8	215626.3	266906.2	15.4	23.8

Based on customs data R=Revised / P=Provisional
Source: NRB Report - Recent Macroeconomic Situation, 2070-71

Parsa and Bara have more than 200 industries each.⁶⁶

Nepal converting into food importing country: Nepal's import in the first ten month of the fiscal year 2013-14 stood at NPR 33.38 billion (USD 346.77 million), which is an increase of 31.4% compared to last year. The volume of imports of agro-products such as rice, fresh vegetables, potato, oilcake and soybean has been increasing each passing year as shown in *Table 5*. Nepal has also started to import ginger and lentils which are listed as priority export products under the Nepal Trade Integration Strategy (NTIS). This growing dependency on import of

agro-products has been a major reason behind Nepal's rising trade deficit. The monsoon-based cultivation system, poor linkage to the market, and flight of youths for foreign employment are major barriers for commercialization of agriculture.⁶⁷

Shipping lines cut import cost: Shipping companies have started availing the service of transporting containers of imported goods from Kolkata port of India to Inland Container Depot (ICD) in Sirsiya, Birgunj. A number of foreign companies such as Maersk Line have started providing shipping services which is expected to reduce transportation cost for Nepali

traders. The importers will only have to pay the charge for using containers until goods are unloaded at ICD whereby they will not be liable to deliver the empty containers back to Kolkata port. Normally it takes 28 days for a container to arrive at ICD from Kolkata port; in addition to this normal duration, the importers are given a grace period of two weeks without any extra charge. Traders have been paying billions of rupees annually in demurrage and freight charges to send empty containers back to Kolkata port.⁶⁸

Internal Trade Policy in the offing:

In order to promote locally-made products and end illegal practices like black-marketing and negligent quality control, the Government of Nepal has been preparing an Internal Trade Policy. The Department of Commerce and Supplies has finalized a draft policy which plans to promote local products through major departmental stores and cooperatives. Moreover, the policy also aims to facilitate transport and storage services wherein cargo service providers will get discounts on customs duty and income tax. The government has also planned to waive VAT on highly necessary goods.⁶⁹

Export and Import Bill being drafted:

Ministry of Commerce and Supplies has started preparing the draft of Export and Import Bill which, when turned into an Act, will be replacing the Export and Import (Control) Act 1957. The new bill will focus more on facilitating trade rather than on prohibiting and curbing imports and exports. The bill will have explanation on procedures to be followed for import and export of goods and services and permissions to be taken from the government to engage in trade.⁷⁰

BUDGET HIGHLIGHTS: TRADE

Nepal's dwindling industrial sector currently contributes only 6% of the GDP. A number of steps have been outlined in the budget to increase investment and production. While a few production-oriented incentives have been announced, particularly for the agriculture sector, no clear-cut measure to improve the country's external trade have been mentioned. Except for the continuity of existing programs, adequate budgetary allocations have not been made for external trade. The budget has reiterated plans for construction of special economic zones and inland container depots; however, the acts governing their operations still do not exist. The budget has given continuity to cash subsidies for third country exports.

In order to reduce the trade deficit, the government aims to provide a special concession in the Value Added Tax of domestically produced garments, make it mandatory for public entities to purchase local products, make arrangements to facilitate export to China, and continue the cash subsidies for third country export. Although the subsidy program was heavily criticized for excluding trade with India, the new budget has not provided any remedy.⁷¹

REAL ESTATE

Increase in land revenue: In the last fiscal year 2013-14, the government revenue from property transactions hit a record high of NPR 7.81 billion (USD 81.13 million). The revenue target set by the government for 2013-14 was NPR 4.5 billion (USD 46.75 million). The target was achieved within the first eight

months of the fiscal year. The lowest revenue collection was NPR 4.18 billion (USD 43.4 million) during fiscal year 2010-11.⁷²

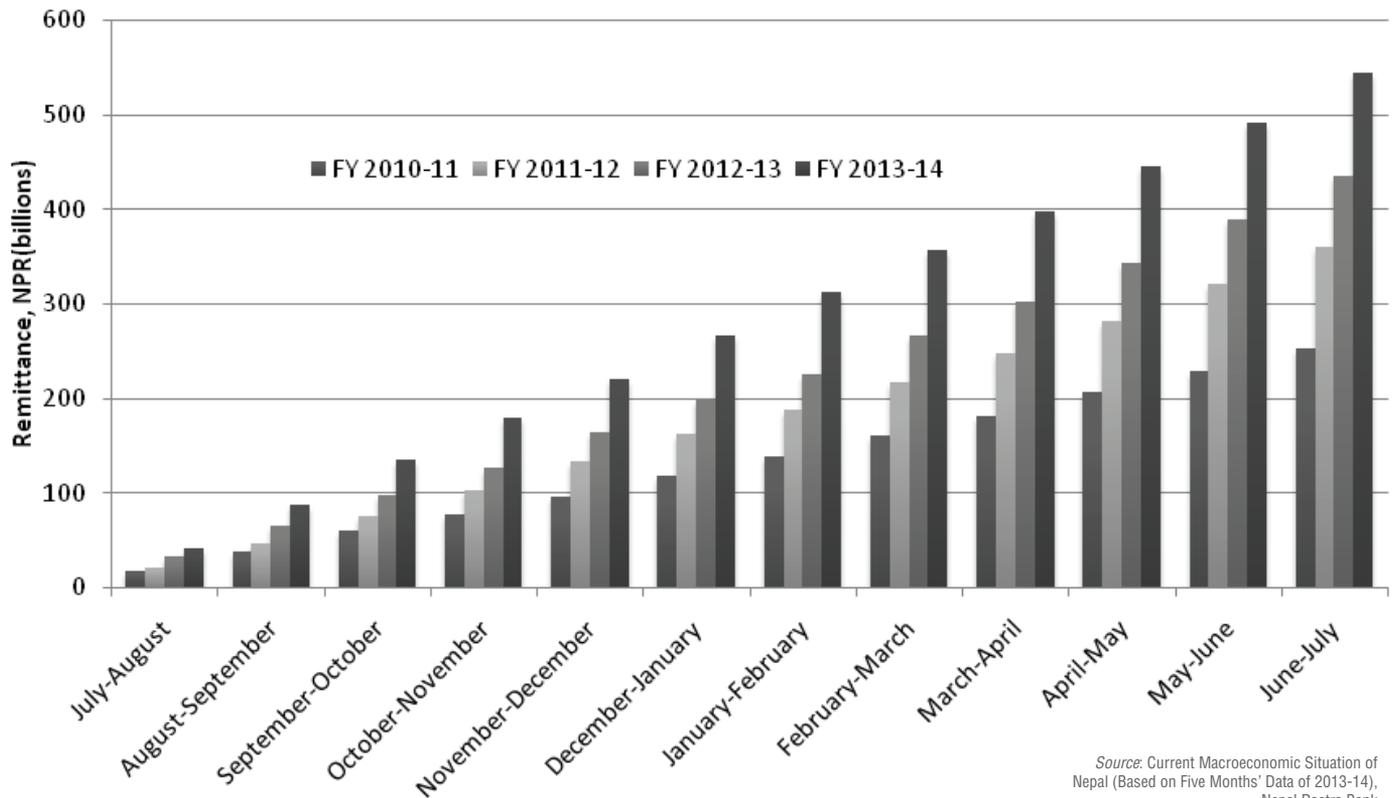
Increase in home loans: Home loans within the range of NPR 10 million, increased from NPR 62 billion (USD 644 million) in mid-May 2013 to NPR 83 billion (USD 862.25 million) in mid-May 2014.

Table 5. Import of Agro-products in first ten months(NPR in billions)

Product	Fiscal Year		Growth (%)
	2012/13	2013/14	
Rice	12,120.20	13680.1	12.9
Maize	3719.50	4973.4	33.7
Soybean Oil	9435.5	12537.8	32.9
Vegetables	5422.80	7126	31.4
Potato	2475.90	3084.30	24.6

Source: Republica, August 05, 2014

Figure 4: Inflow of Worker's Remittance from 2010-2014



Source: Current Macroeconomic Situation of Nepal (Based on Five Months' Data of 2013-14), Nepal Rastra Bank

During the same period, lending to other real estate sectors decreased from NPR 87.47 billion (USD 91 million) to NPR 82.72 billion (USD 860 million).

Integrated law for land acquisition:

The government, in its budget speech, announced plans to introduce an integrated law to make land acquisition and valuation easy. Land acquisition has always been a major challenge for the government to implement infrastructure projects effectively. The budget emphasized on implementing technical audit of projects to ensure quality of projects.⁷³

Investigation of fraud cases in housing sector:

A three member

commission has been formed by the Ministry of Urban Development to investigate cases of scam in the housing sector. The commission will look into problems faced by those living in housing and apartment units. The commission is scheduled to submit a detailed report along with policy recommendation within the next three months from the date of its formation.⁷⁴

Establishment of new cities: Ten locations along the Mid Hills highway and north-south links in all five development regions have been selected to establish new cities. Phidim (Panchthar), Basantapur (Terhathum), Khurkot (Sindhuli), Baireni Galchhi (Dhading), Dumre

(Tanahun), Burtibang (Baglung), Chaurjahari (Rukum), Raakam (Dailekh), Sanfegbar (Accham) and Patan (Baitadi) are potential locations identified for establishment of modern cities.⁷⁵

REMITTANCE

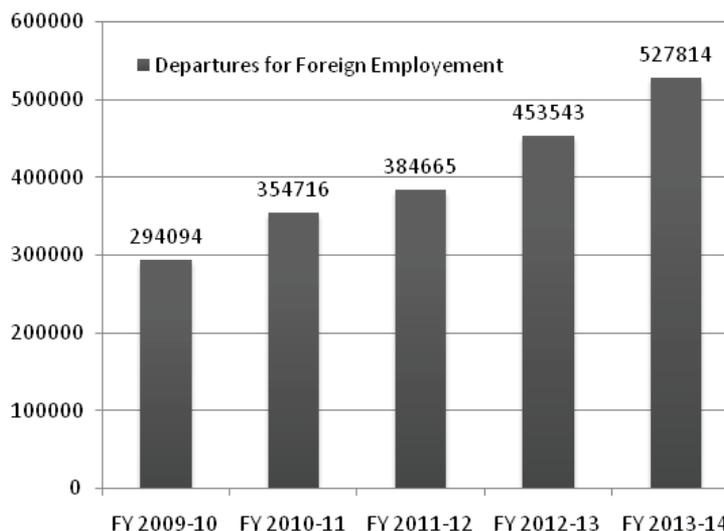
Remittance inflows to Nepal reached NPR 543.29 billion (USD 5.64 billion) in the fiscal year 2013-14, registering an increase of 25.01% as against an increase of 20.9% during the same period of the last fiscal year (see Figure 4: Inflow of Worker's Remittance for the Past Four Fiscal years). In US dollar terms, remittance inflow went up by 12.3% to NPR 533.28 billion (USD

5.54 billion) compared to an increase of 11.7% in same period in the previous year.⁷⁶

Increasing remittance has had a positive impact on the Balance of Payments (BoP), recording a surplus of NPR 127.13 billion (USD 1.32 billion) by the year end, as against a mere NPR 68.94 billion (USD 716.19 million) in the previous year. The growing BoP surplus provides an indication that Nepal is earning more than it is paying in terms of transactions with the rest of the world.

Increase in number of Nepali migrant workers: In fiscal year 2013-14, the Department of Foreign Employment granted final approval to 5,27,814 workers for foreign employment.⁷⁷ The number witnessed a growth of 16.4% compared to the previous year where a total of 4,53,543 were granted such approvals (see Figure 5:

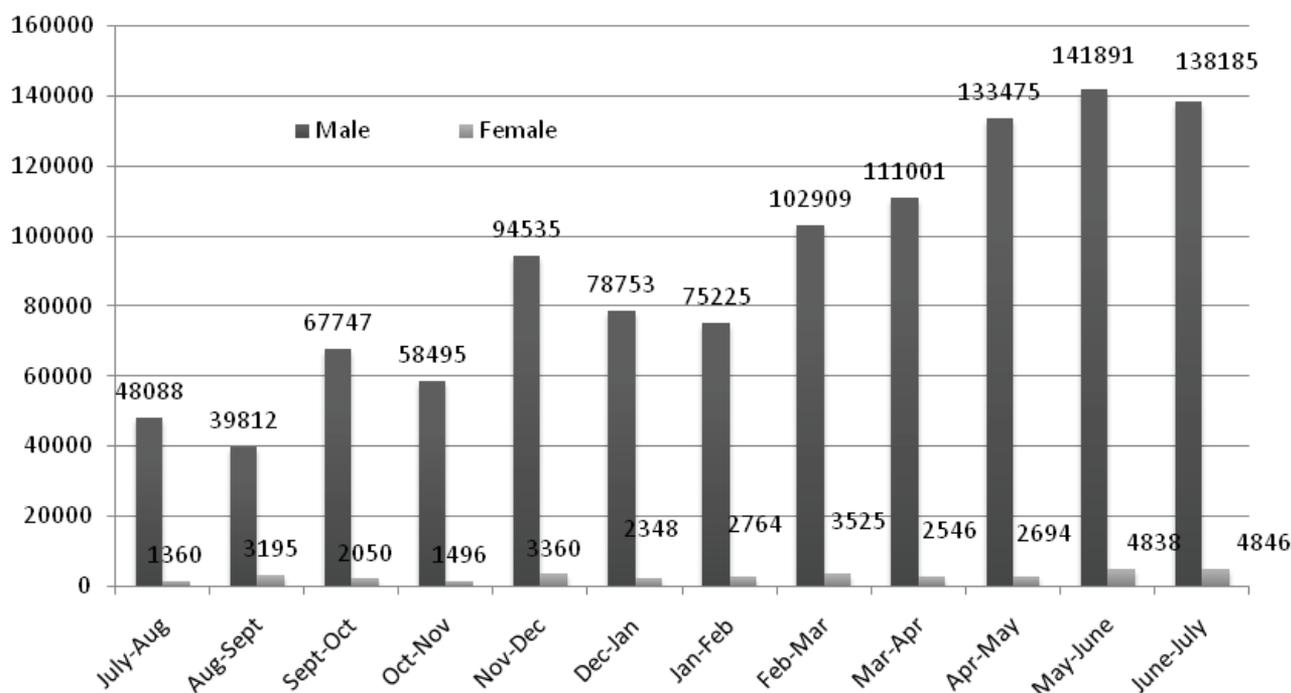
Figure 5: Departures for Foreign Employment, 2009-2014



Departures for Foreign Employment, 2009-2014). Of the total workers who were granted final approvals for the

foreign employment, 40.6% were for Malaysia, 23.7 % for Qatar, 16.4% for Saudi Arabia, 10.3% for UAE,

Figure 6: Monthly Figures for Migrant Workers Seeking Foreign Employment for FY 2013-14



and 3.8% for Kuwait. The increase in number of Nepali workers willing to go abroad is due to lack of job opportunities in Nepal and the growing demand for Nepali workers in the international labor markets, especially in the Middle East. For a breakdown of the monthly figures for migrant workers seeking foreign employment during FY 2013-14, see *Figure 6*.

EPS gains popularity among Nepali youth:

The much anticipated South Korean Employment Permit System (EPS) received 20,769 applications for the Korean language test.⁷⁸ The total number of applicants reached 40,318 in the first two days. Ever since Nepal signed a memorandum of understanding with South Korea in 2008, an estimated 22,000 Nepalis have found employment in Korea. However, only one-fifth of the successful candidates will be getting employed in Korea where pay ranges above NRS 100,000 (USD 1038.85) per month.

Formation of labor bank: In a bid to provide easy banking services to migrant workers and their dependent families, the government is planning to establish a separate financial institution. The new financial institution will be established with a paid-up capital of at least NPR 5 billion (USD 51.94 million) and authorized capital of NPR 10 billion (USD 103.86 million).⁷⁹ The Foreign Employment Promotion Board (FEPB) expects to collect investments from National Welfare Fund and Social Security Fund. In alignment with the Bank and Financial Institutions Act 2006, the bank will provide basic banking facilities and the workers will be able to get loans at cheaper interest rates to go for employment abroad or for business ventures in Nepal.

BUDGET HIGHLIGHTS: TELECOM & MEDIA

The government has allocated a total budget of NPR 4.13 billion (USD 42.9 million) for the development of the information and communication sector. In an effort to safeguard the right of the Nepalese people to information, the government hopes to make transmission of information effective by setting up a Public Service Broadcaster by merging publicly owned Radio Nepal and Nepal Television. Similarly, the government will establish broadband internet service in the rural parts of the country, provide e-service by constructing 30 Community Information Centers, and expand broadcasting service of Radio Nepal to all districts of the country.

There are also provisions for setting up a communication training academy, establishing a revolving fund for the accidental insurance to journalists, enhancing the quality of the telecommunication services by introducing 3G and 4G technology, setting up a studio in Itahari, and commencing telecasting from different telecasting centers in Nepal.⁸⁷

TELECOMMUNICATION AND MEDIA

Telecommunication is an important tool for socio-economic development of a country. It is a catalyst for rapid growth and modernization of different sectors of the economy. The drivers of growth of the telecom sector in Nepal are the active participation of the private sector and wireless technology.

Telecom subscriber base hits 24.28 million: Nepal Telecommunication Authority reported a total of 24,281,296 telecom subscribers during mid-June 2014. The tele-density of the country stands at 91.64% as on mid-June 2014 (*see Figure 7*).⁸⁰ During the same period, the Internet penetration rate was 32.78% with 8.69 million subscribers.⁸¹

Telecom equipment imports decline: The import of telecommunication equipment decreased by 18.25% in fiscal year 2013-14. The decrease is the result of Nepal Telecom procuring less equipment and other service providers not buying anything during the year. Yearly imports of telecommunication

equipment are shown in *Figure 8*. Similarly, the investment made by service providers is depicted in *Table 7*.

Review of interconnection usage charge:

The government is preparing to review the exorbitant interconnection usage charge (IUC) being collected by Nepali telecom companies which has made inbound calls expensive. IUC is a fee paid by the call operator of originating countries to the operator in the destination country that transfers the incoming international call to the phone bearer's number. Nepal Telecommunication Authority has been planning to set the IUC for international incoming calls at NPR 0.72 per minute.⁸²

Smart Telecom soft launch plan:

Smart Telecom plans to soft launch its service in the Kathmandu valley before Dasain. The company is therefore seeking permission to import telecommunication equipment worth NPR 1 billion (USD 10.38 million) and spot frequency from Nepal Telecommunication Authority. This will enable the company to establish connections between mobile towers in locations

Figure 7: Growth Trend of Voice Telephone and Data Penetration

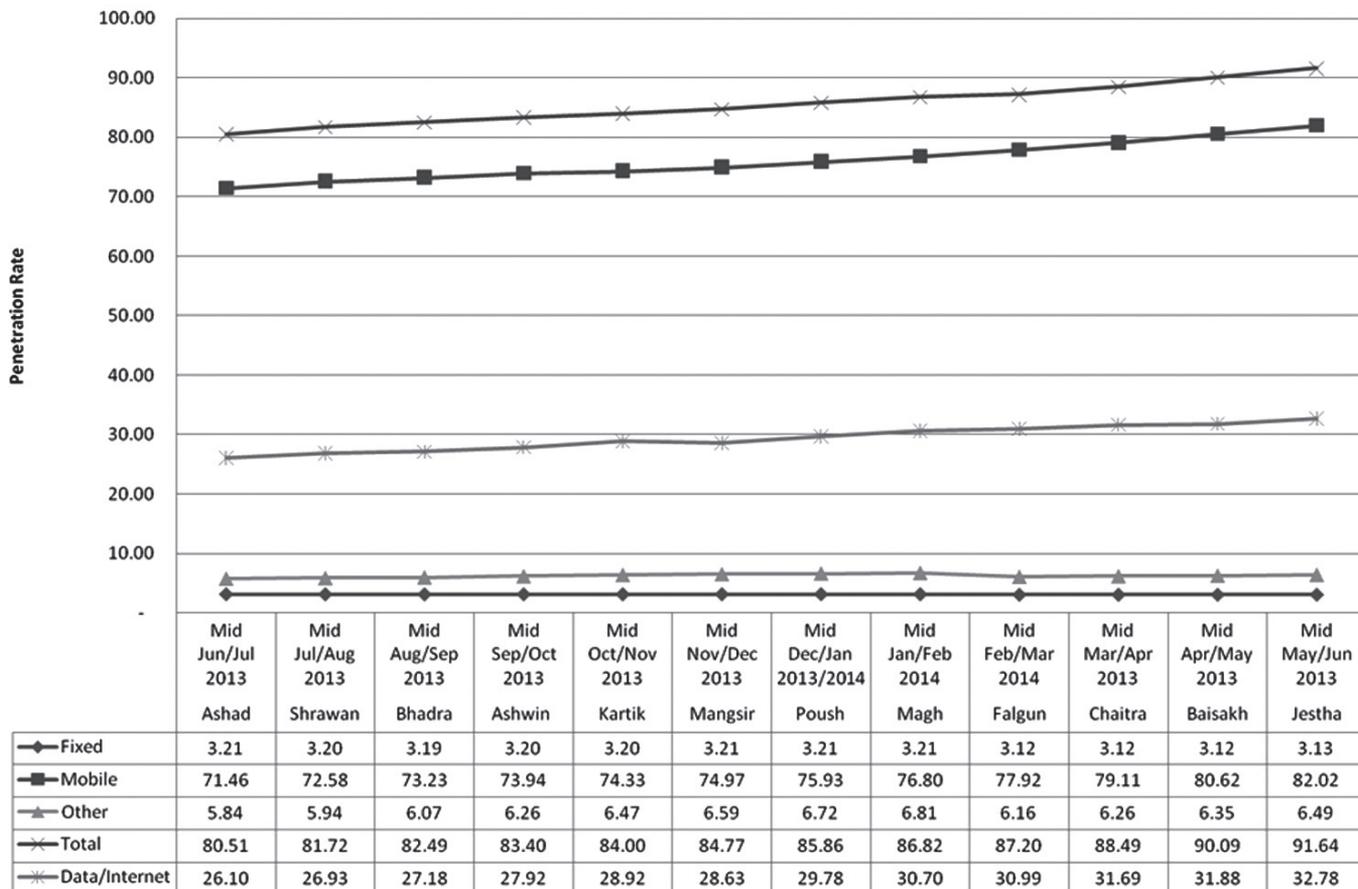
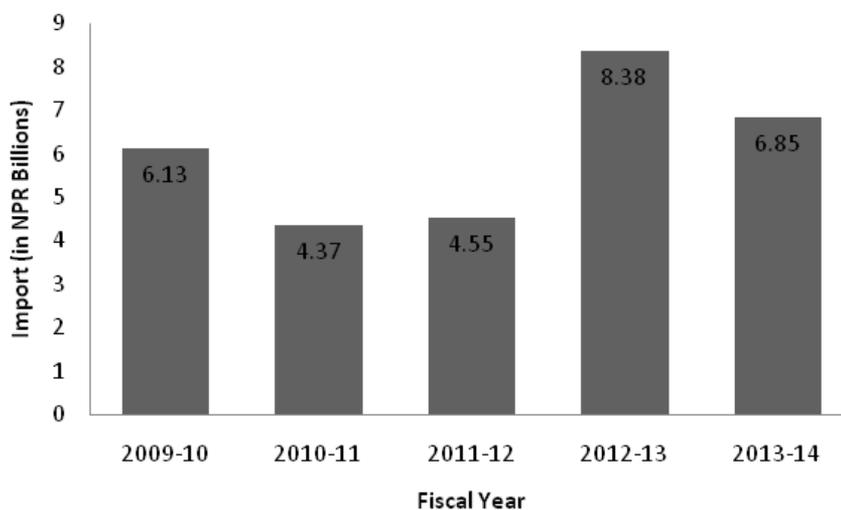


Figure 8: Investment in telecommunication equipment

where there are no optical fibers or satellite links.⁸³

United Telecom Ltd pays second installment royalty: United Telecom Ltd paid NPR 204.18 million (USD 2,121,130) towards the second installment of its committed royalty to the government. The remaining outstanding royalty fees stand at NPR 1.22 billion (USD 12.67 million) which needs to be paid within the fiscal year 2019-20 in six annual installments.⁸⁴

Amendment of Telecom Law: A committee under the coordination of the secretary of Ministry of Infor-



Source: Nepal Telecommunication Authority

Table 6: Market Share of major telecom service providers

Service Provider	Subscribers	Market Share %
Service Provider	Subscribers	Market Share %
NDCL	10,707,970	44.10%
UTL	508,841	2.10%
NCELL	11,797,212	48.59%
STM	5,385	0.02%
NSTPL	150,000	0.62%
STPL	1,110,146	4.57%
Others	1,742	0.01%
Total Subscribers	24,281,296	

Table 7: Investment made by service providers

Service Provider	Amount 'In NPR'
Nepal Telecom	3.16 billion
Ncell	3 billion
Nepal Satellite Telecom	661.12 million
Smart Telecom	7.86 million
I4 Technologies	1.34 million
Constellation	4.73 million
Otel Communication	4.2 million

Source: The Himalayan Times

mation and Communications has been appointed to fix legal provisions for auction of frequency and issuance of unified license. The committee is currently conducting a study and will soon prepare a draft for the amendment in the telecom law.⁸⁵

IP-based land line service: Nepal Telecom plans to replace its Public Switched Telephone Network (PSTN) to internet protocol based service from the FY 2014-15. The new service provides the user with voice, high speed data and cable television through a single cable.⁸⁶

TOURISM

The budget announcement for FY 2014-15 has allocated NPR 3.92 billion (USD 40.72 million) to the Ministry of Culture, Tourism and Civil Aviation. Under the tourism projects, the budget has given continuity to the South Asian Tourism Infrastructure Development Project, through which the Gautam Buddha Airport in Bhairahawa is

being constructed. Another big project is the Transport Project Preparatory Facility, which is being undertaken with the objective to enhance transport connectivity through improved efficiency in air transport. Under this, the government will ensure that critically important road and air transport projects are implemented efficiently.⁸⁸

Pokhara gets NPR 1 billion investment: The growth in the number of tourists in the Lake City has encouraged local entrepreneurs to open new hotels and expand the capacity of the existing ones. A total of NPR 1 billion (USD 10.39 million) has been freshly invested in the hotel industry of Pokhara.

Twenty-three new hotels have been opened in Pokhara in the past year with investment up to NPR 300 million (USD 3.12 million) for the addition of 300 rooms. Additionally, the number of restaurants, trekking agencies and travel agencies have also seen an increase in Pokhara.⁸⁴

New five-star hotels in Kathmandu: The backpackers' hub of Nepal is all set

to get a facelift in the next two years. A five-star hotel and commercial complex will be established in Thamel in an area of 76,608 sq. ft. Chhaya Devi Complex Pvt. Ltd. is building a 14-storey hotel and commercial center at a cost of NPR 3.5 billion (USD 36.36 million). The company has entered into an agreement with Aloft Hotels for management. The operation of the hotel is expected to bring in high-end tourists, and middle and upper-middle income groups into the country.⁸⁵

Similarly, Everest Hospitality Group has begun the construction of 221-room five-star deluxe hotel in Nagpokhari, Naxal, under the banner of Marriott International. The property will be a five star deluxe hotel with all the amenities and facilities targeted at sophisticated world travelers.⁸⁶

Shangri-La Group in Pokhara: The Shangri-La group, which currently operates the four-star resort Shangri-La Village in Pokhara, is planning to open another resort at Begnas, Pokhara, under the name of The Lost Horizon

Table 8: Budget allocation for Fiscal Year 2014-15 (in NPR millions)

	GoN	Foreign Grant	Total Budget
Ministry of Culture, Tourism and Civil Aviation	3,461	462.1	3,923.9
Project	GoN	Foreign Grant	Total Budget
South Asian Tourism Infrastructure Development Project	28.9	234.4	263.3
Transport (Civil Aviation) Project Preparatory Facility (TPPF)		227.7	227.7

Source: Source Book for Projects Financed with Foreign Assistance Fiscal Year 2014-15, Ministry of Finance

NTB MIRED IN FINANCIAL IRREGULARITIES

Nepal Tourism Board (NTB), the organization established to promote Nepali tourism in a professional manner, has been plagued by multiple issues whereby it has not been able to facilitate and uplift the country's tourism industry. NTB has once again come under allegations of financial irregularities resulting in strong protests. A 33 day protest and an additional 18-day long relay hunger strike was staged by travel trade entrepreneurs at NTB, bringing to halt all activities of the board. The strikes were called off after the Minister for Culture, Tourism and Civil Aviation formed a probe committee to look into the alleged corruption.⁸⁹

NTB had earlier unilaterally amended its financial bylaws whereby increasing the authority of the CEO to spend up to USD 650 per day on foreign tours and procure services and goods worth up to NPR 2.5 million (USD 25,971), without following any due process of Public Procurement Act (PPA).⁸⁰

A preliminary report of the Office of the Auditor General has revealed that the annual financial statement of NTB does not match with its bank statement. Transparency has not been maintained in the procurement process and the practices appear to be violating PPA. The board also failed to deduct 15% tax under the Tax Deducted at Source provisions, causing losses to the government in tax revenue collection.⁸¹

The Commission for the Investigation of Abuse of Authority (CIAA) directed Ministry of Culture, Tourism and Civil Aviation to remove Subash Niroula from the post of acting CEO of NTB, while the Tourism Secretary Sushil Ghimire has empowered NTB's directors to run the organization. After the removal of the CEO, the official work at NTB restarted after 53 days of disruption.⁸² However, since no official directive was issued by the ministry, Subash Niroula rejoined the board as its officiating CEO. The CIAA has launched an investigation into NTB's financial irregularities.⁸³

Resort with an investment of NPR 500 million (USD 5.12 million). The new resort will be constructed from the beginning of 2015 and will come into operation in the following year. The resort is targeted to cater to high-end tourists wherein they will be charged USD 400-500 per night. The resort will have 40 villa type cottages spread across an area of 40 *ropanis* (1 *ropani* is equivalent to 5476 square feet) and will provide employment to 200 people.⁸⁷

New climbing permits: The government has opened two mountains for mountaineers—Yangri (6635m) and Lempogang (6633m) located in Sindhupalchowk. This is the nearest mountain range from the capital city to be opened for mountaineering. Tourism entrepreneurs believe that this decision will establish Sindhupalchowk as a key tourist destination within the country and will aid in the development of the area.⁸⁸

Decline in tourist's length of stay: The 2013 preliminary tourism statistics presented by Ministry of Tourism has shown a dip in the average length of stay hitting a four-year low. The average stay now stands at 12.57 days. The length of stay is further expected to decline this year resulting from the Everest Avalanche that has cut short the climbing season. Mountaineering is the largest contributor for extending the length of stay of visitors. Moreover, Nepal's travel packages have been concentrated on short-haul destinations since 2012 which has resulted in an increase in number of short visit tourists.⁸⁹

Decline in hotel occupancy: The proliferation of new accommodation options ranging from guest houses to home stays has resulted in decline in hotel occupancy rate. From 62.76% in

previous year, the occupancy has fallen to 58.85% this year. In the hospitality sector, an occupancy rate of 50% is termed to be fair while an occupancy rate in the range of 40% is considered to be the survival rate. Nepal has a total of 10 five-star hotels with two in Pokhara and eight in Kathmandu.¹⁰⁰

Two fold increment in Chinese tourist arrival: In the last three years, Chinese tourist arrivals to Nepal has doubled and is expected to further increase as a result of improved air connectivity. The number of Chinese arrivals has jumped to 89,509 in 2013 from 46,360 in 2010. The revised Air Service Agreement between Nepal and China has permitted Chinese carriers to operate 56 flights a week with any type of aircraft. Earlier, Chinese airlines were allowed to operate only 14 flights every week.¹⁰¹

New standards for tourist buses: Gandaki Transportation Management Office has set out new compliance standards for tourist buses plying along the Beni-Jomsom road section. The new standards were set to break the monopoly of local bus operators and make travel in that section safer and comfortable. As per the new standards, all tourist buses must have air conditioning systems, seat belts, fire extinguishers and first aid kits. All vehicles must get certificates from transportation management office to be eligible to operate in Beni-Jomsom road.¹⁰²

New trails at Sisne Himal: Two new trails have been opened to reach Sisne Himal of Kanjiwara Mountain Range in Rukum. Sisne Himal was opened a year ago but the trekking trail was too risky and narrow. In the first phase, a total of 8 km has been constructed out of the total 15 km route which starts from

Melgairi Shahidpark of Jamunkatte.¹⁰³

Guest System Information in the offing: Department of Immigration (DOI) is working on introducing a Guest Information System wherein all hotel entrepreneurs will be required to install the system and keep an electronic record of foreigners. This is being done in a bid to discourage foreign nationals from over-staying and to keep proper track of tourists visiting the country. Many tourists are working in the country without securing work permits. The implementation of this system is expected to bolster the ability of DOI to enforce immigration laws of the country.¹⁰⁴

Unlicensed guides barred: Trekking Association of Nepal (TAAN), in collaboration with various trekking

workers unions, have decided to bar unlicensed trekking guides from leading groups. This ban will be applicable from January 2015. TAAN has also agreed to implement the provision of 'no trekking without guide or porter'. In addition to revising daily wages of trekking workers every two years, TAAN has also agreed to form Worker's Welfare Fund to assist the trekking workers.¹⁰⁵

Increase in Domestic Rafters: Domestic tourist's contribution to Nepal's rafting industry has gone up from 50% last year to 80% this year. The number of international tourists has decreased as local agencies are not being able to address their safety concerns. Out of more than 100 rafting operators, only about 10%

BUDGET HIGHLIGHTS: TOURISM

The government is committed to promoting Nepal as a tourist destination for which the government has allocated a total of NPR 3.92 billion (USD 40.7 million) for the development of tourism infrastructure and cultural promotional programs.

The government has planned to upgrade the Tribhuvan International Airport and Pokhara Airport with modern facilities. In addition, the government will expedite the construction of Gautam Buddha Regional Airport, and start the process of constructing the second international airport at Nighadh, Bara. Finally, the government will improve the conditions of the other airports, including Biratnagar and Nepalgunj airports. Within the next five years, the government hopes to bring into operation 15 aircrafts for domestic and seven new aircrafts for international flights through Nepal Airlines.

The government also has provisions to develop tourist attractions. The government will initiate a high hill rural touristic path which will fall under the Great Himalayan Trail, develop Lumbini, Pashupati, Janakpur and other religious tourist destinations, and promote and protect cultural heritages of the country. Lastly, the government will provide 100% income tax rebates for 10 years to tourism entrepreneurs who construct and operate well facilitated resorts at Rara Lake and other important lake sides.¹¹³

has trained manpower and meets international safety standards.¹⁰⁶

Entry fee hiked at Shivapuri: The national park under the Department of Wildlife and National Parks has increased the entry fee for Shivapuri Nagarjun National Park. General people can travel freely on two routes. However, the government has hiked the fee for cycles and mountain bikes from NPR 10 to NPR 1000. This decision has met with criticism from cyclists and environmental groups. While motorbikes are charged NPR 30 and cars, jeeps and minibuses are charged NPR 300, the steep hike in entry fee for cycles has ignited debate for the rationale behind discouraging cycling practices which pose little threat to biodiversity of the park.¹⁰⁷

TAAN lobbies to ban solo trekkers: Due to increasing safety concerns, Trekking Association of Nepal (TAAN) has started to lobby against the ban on solo or free independent trekkers. The government also appears to be positive towards the proposal. TAAN has proposed prohibiting trekking without guides or porters. The government

believes that making guides mandatory for trekker will increase employment and ensure safety of foreign travelers. Although this will increase the cost for solo travelers, it would greatly aid in ensuring their safety.¹⁰⁸

Two new airlines in the offing: A new domestic airline, Saurya Airlines, is planning to start operation from September 2014 with its Bombardier CRJ-200 plane. The company is offering flights from Kathmandu to Dhangadi, Biratnagar, Nepalgunj, Bhairahawa and Bhadrapur along with chartered mountain flights.¹⁰⁹ The company will be adding another CRJ-200 next year. Saurya Airlines was launched with overseas Nepali investment and investments from former pilots of Buddha Air and Yeti Airlines.¹¹⁰

Similarly, another private international airline, Himalayan Airlines—a joint venture between Tibet Airlines of China, Nepal Aviation Investment and Yeti Airlines—has announced to start its operation from October 28, with flights from Kathmandu to Lhasa and Chengdu. The company is acquiring two Airbus 319 Series 2

aircrafts and has options to acquire three more when its network expands to India, Gulf and Hong Kong. This is one of the highest private sector investments in tourism sector.¹¹¹

Roadblock draining tourism revenue: Nepal is suffering an average revenue loss of around NPR 1.2 million (USD 12,329) daily due to the inundated Arniko Highway that has affected overland tourists taking the Khasa-Tatopani route. A massive mudslide on August 2 had buried a part of Arniko highway and blocked the Sunkoshi River creating a dam that inundated the surrounding areas. As per the Nepali Consulate General Office in Lhasa, the number of tourists has dipped to 400 from 1200 daily. Tatopani is used by Indian tourists as the entry point to reach religious site of Kailash-Mansarovar in Tibet with May-August being the peak travel season. Moreover, 40% of total Chinese tourists travelling to Nepal take this route. Although Nepali entrepreneurs have started using Kerung point, an immigration facility is yet to be set up at the point to facilitate the flow of tourists.¹¹²

MACROECONOMIC OUTLOOK

Nepal's agriculture sector has struggled to access the financing it needs for sustained growth. The government, having realized this, has increased its focus on enhancing tools to finance agriculture by providing grants, subsidies, and many other facilities to farmers. However despite these efforts, the sector has not been able to produce the output that will help push economic growth to the target level.

In the education sector, with the improving standards of community and public schools, more children will have access to better standards of education. The goals set by the government to uplift education standards within the current fiscal year are ambitious, and will need to be

coupled with stricter and more regulated supervision to ensure successful implementation of the planned provisions, and to ascertain the funds are not underutilized.

In terms of energy, the aftermath of the landslide at Sindhupalchowk has hit the hydropower sector hard. With disruptions in operations of several hydropower projects, the nation is expected to witness more load shedding hours. Nepal Oil Corporation continues to post losses year after year, resulting in consumers bearing the brunt. Thus, a tangible solution is required to solve the constant fuel crisis. The visit of Indian Prime Minister Narendra Modi has given a sense of optimism to Nepal after Modi

expressed his government's commitment to help Nepal solve its energy crisis by constructing a petroleum pipeline between India and Nepal.

Nepal has seen an increase in foreign aid; however, due to the lack of proper direction, management and a stable government, it has not been able to utilize foreign aid effectively. The World Bank's Country Partnership Strategy initiative is focusing on the potential sectors and Nepal could gain a competitive advantage over other countries in energy and transport sectors. In addition to this, with the increase in cash loans and cash grants in the last fiscal year, Nepal could explore more avenues for proper utilization of the aid available for the overall development of the Nepalese economy.

The Government of Nepal needs to focus on improving the health care system throughout the country. A majority of government-funded and government-run hospitals are found to have dysfunctional equipment, unhygienic environment, and lack adequate number of health specialists and staff nurses. Similarly, coverage of health institutions and access to health services need to be improved in mid-western and far-western regions of Nepal.

Nepal's trade dependency on India has been increasing, with India contributing 67% of both imports and exports. Nepal's proximity with India, along with the pegged Nepali rupee with Indian currency, has made trade with India more favorable. However, Nepal's overdependence with India has made Nepali economy more vulnerable. Nepal's trade deficit with India has also surged continuously, accounting for almost two-thirds of Nepal's foreign trade.

Nepal's increasing trade deficit with India can be attributed to the growing number of global companies establishing their production bases in India which has resulted in the decrease of import from third countries in recent years. With a remittance fueled economy, Nepal's import figures will increase further. Furthermore, with increasing trade liberalization and phasing out of preferential tariff arrangements in India and globally, the erosion of preference will affect the competitiveness of Nepal's export which will ultimately intensify Nepal's problem of trade balance. Nepal needs to facilitate the development of its production capacity by addressing issues related to policies of all concerned government agencies.

Land acquisition related problems are emerging as one of the biggest hurdles for development projects. To speed up infrastructure projects of national importance, the Land Acquisition Act needs to be amended to accommodate a provision for compensation based on market rate. A major problem in Nepal is the inability to make capital expenditures. Despite local Self Governance Act and guidelines set by the Fiscal Commission, Nepal has failed to spend on time, which raises concerns over resource allocations.

The reasons behind the huge surge in land transactions are that banks with surplus liquidity are financing property buyers. Another major reason for increased land revenue is the stringent anti-money laundering laws and government authorities seeking income source and questioning on gains. However, still many of the banks and financial institutions are hesitant to issue loans to property developers and many of the projects still face uncertainties.

Remittance still keeps the Nepali economy afloat, with the remittance amount increasing year on year. Since there is limited job opportunities and lack of government initiative to boost self-employment among the youth in Nepal, they still prefer to go abroad in search of employment. The increase in people applying for foreign employment clearly highlights the plight faced by the youth in Nepal where job opportunities are limited. Thus, to avoid the exodus of people from the country, the government needs to be proactive and introduce and implement initiatives that would boost employment.

In the telecommunication sector, the launch of telecom services by Smart Telecom will intensify competition. It is expected that operators will come up with attractive schemes and promotions to retain their customers. Further, the government must decide on spectrum allocation modalities, taxation and bring provisions for infrastructure sharing to reduce investments which will help make services economical. With growth in the teledensity, it is necessary that the government prepare a spectrum roadmap to guide development in the telecom sector.

Nepal Tourism Board (NTB), the body responsible to promote Nepal tourism, has again come under tremendous strain and erosion of public confidence. It is high time the concerned government authority come with a strategic plan to promote and facilitate the tourism industry. Nepal's tourism potential is not being realized as evident by the decline in tourist arrival, tourist spending and length of stay. Although the Ministry of Tourism and Civil Aviation has recently endorsed the decision to form Department of Tourism (DoT) which will look after all tourism-related activities, its effectiveness and relevance is yet to be assessed. This department is expected to ensure smooth service delivery in tourism sector and strengthen regulatory works. It is anticipated that many rights of NTB will be curtailed after the formation of DoT. The new department will also be responsible for all tourism related policies.

The recent Everest Avalanche, multiple problems concerning air safety, blacklisting of Nepal by European Commission and Nepal Airlines Corporation's controversial new planes, all will have a negative ripple effect on the upcoming tourism statistics. However, big new investments for operation of domestic and international flights are a big positive for the tourism industry, especially at a time when Nepal Airlines Corporation is losing its international destinations due to lack of adequate planes.

The background features a large, light gray, stylized letter 'R' on the left side. A series of small, light gray dots forms a curved path along the left and bottom edges of the page. The word 'REVIEW' is printed in a thin, black, sans-serif font, positioned horizontally across the middle of the page, overlapping the right side of the 'R' and the dotted path.

REVIEW

REVIEW

Financial Markets

Nepal's monetary policy is directed to contain inflation originating from aggregate demand side and maintain external balance as well as financial sector stability. It also focuses on increasing credit flows to productive sectors for sustainable economic and financial sector development and on expanding financial services and financial inclusion.

MONETARY POLICY 2014-15

During the FY 2013-14, the overall macroeconomic situation seemed favorable; particularly with the improved performance of agriculture and services sectors which led to a higher economic growth as compared to the last five years. The private sector investment remained sluggish as a result of slow growth of capital expenditure due to the existing energy crisis. Similarly, inflation remained slightly higher than the targeted level mainly due to rise in price of petroleum products and other supply side factors. Also, widening of trade deficit has continued as a consequence of higher growth of imports relative to exports. However, significant amount of remittance inflows and foreign assistance contributed to maintain a surplus in current account as well as in the balance of payments (BOP). The overall economic growth is expected to remain satisfactory despite the sluggish growth of the agriculture

sector due to the expansion of the service and industrial sector.

Preliminary estimates of the Central Bureau of Statistics (CBS) show that GDP grew by 5.2% in FY 2013-14, against the growth rate of 3.5% in the previous year. Similarly, the growth rates of agriculture and non-agriculture sector are estimated at 4.7% and 5.3% as compared to 1.1% and 4.6% respectively in the previous year. Likewise, the industry and service sub-sectors are estimated to grow by 2.7% and 6.1% as against 2.5% and 5.2% respectively.

The monetary policy for the fiscal year has adopted a tightened policy as compared to the flexible policy of last fiscal year. Moreover, the policy is focused on notching up economic growth of 6% by expanding credit and managing excessive liquidity. Similarly, it also focuses on price control, financial stability, financial equilibrium and external-sector stability.

KEY TARGETS

- To achieve the economic growth at 6% and control inflation rate at 8%.
- The growth rate of broad money is to be maintained at 16%.
- The growth rate of private sector credit is projected to be at 18%.

KEY INSTRUMENTS

- The Cash Reserve Ratio (CRR) to be maintained has been fixed at 6% for commercial banks, 5% for development banks and 4% for finance companies. Earlier, commercial banks, development banks and finance companies were required to maintain the CRR of 5%, 4.5% and 4% respectively.
- The bank rate has remained unchanged at 8%.

- Statutory Liquidity Ratio (SLR) to be maintained by BFIs has stayed unchanged. Commercial banks, development banks and finance companies will still have to maintain 12%, 9% and 8% respectively.
- In the present context, where high liquidity situation is prevailing in the banking sector, provisions will be made to allow BFIs carrying out foreign exchange transactions to invest a certain portion of their foreign exchange reserve in foreign financial instruments.
- Provision is to be made whereby commercial banks can invest up to 40% of their foreign exchange reserves balance without affecting requirement of daily liquidity adversely, on call deposit, certificate of deposit or similar type of other safe instruments of up to 2 years maturity.
- Regular Open Market Operations (OMOs) will be used for seven days for managing general type of shortage/excess of liquidity. Structural OMOs will be conducted for managing long term liquidity and signaling monetary policy stance. For structural OMOs, outright sale/purchase auctions and repos/reverse repo auctions of maximum of 6 months will be used.
- The refinance rate for agriculture, hydropower, livestock and fishery and other specified productive sectors will be reduced from 5% to 4%.

- Necessary arrangement will be made to ensure the availability of credit at 6% interest rate from commercial banks for livestock, herbs, horticulture, dairy, fishery, mushroom farming, agriculture storage, animal slaughterhouse and meat related businesses.

KEY POINTS ON FINANCIAL SECTOR PROGRAM, REGULATION AND SUPERVISION

- Financial Sector Development Strategy is in the process of formulation for the overall development and stability of the financial sector. After its formulation, it will be implemented in 2014-15.
- Provision requiring commercial bank to lend 20% to productive sector has remained unchanged. Similarly, provision requiring lending to agriculture and energy at 12% has been kept unchanged.
- Provision will be made for the implementation of the action plan submitted by the development banks and finance companies to lend 15% and 10% of total credit to the productive sector by mid July 2016.
- In context of implementing the approach of BASEL-II, a provision of requiring the commercial banks to obtain credit rating from a rating agency while approving/advancing loans and facilities exceeding certain limit will be gradually implemented.
- Since the preparation of capital fund framework has been completed

for the gradual implementation of provisions of BASEL-III in commercial banks, such provisions will be gradually implemented.

- International Financial Reporting Standard (IFRS) will be fully implemented in the financial sector institutions by 2017.
- Prompt Corrective Action (PCA) will also be implemented on the basis of liquidity.
- To consolidate the financial system, along with the merger process among the BFIs, acquisition activities will be encouraged as per the provision of Acquisition Bylaws, 2070.
- Risk Based Supervision will be fully implemented in all commercial banks by 2015-16.
- Monitoring mechanism will be developed to discourage multiple banking transactions undertaken for credit purposes.
- Provision will be introduced by the BFIs whereby the same individual cannot be elected, nominated or appointed to the post of chairman, managing director, CEO continuously for more than two terms.
- Provision will be made where the directors and CEOs of BFIs cannot take bank loans for company/firm where they have majority share.
- Arrangements will be made to monitor spread rate and base rate of

TABLE 9: FOURTH QUARTER RESULTS OF COMMERCIAL BANKS-UNAUDITED FY 2013-14 (FIGURES IN NPR IN TEN MILLION)																					
Bank	DEPOSIT				LOANS AND ADVANCES				OPERATING PROFIT				NET PROFIT				NPL (%)		COST OF FUND (LCY)		BASE RATE %
	Paid-up Capital	Reserve & Surplus	FY 12/13	FY 13/14	% Change	FY 12/13	FY 13/14	% Change	FY 12/13	FY 13/14	% Change	FY 12/13	FY 13/14	% Change	FY 12/13	FY 13/14	FY 12/13	FY 13/14	Change	Change	
			4 QTR	4 QTR		4 QTR	4 QTR		4 QTR	4 QTR		4 QTR	4 QTR		4 QTR	4 QTR		4 QTR			
Nabil Bank	304.71	596.51	6360.98	7538.87	18.52	4764.55	5620.30	17.96	346.49	354.93	2.44	221.87	231.96	4.55	2.13	2.23	4.36	3.34	-1.02	5.67	
Nepal Investment Bank	414.67	482.66	6242.88	7383.13	18.26	4770.06	5345.84	12.07	214.53	273.83	27.64	191.50	195.08	1.87	1.91	1.68	5.07	3.91	-1.16	6.94	
Standard Chartered Bank	204.16	393.45	3946.64	4629.85	17.31	2313.83	2632.83	13.79	186.24	204.31	9.70	121.79	137.74	13.10	0.77	0.48	1.94	1.90	-0.04	5.18	
Himalayan Bank	289.80	350.45	5307.23	6467.48	21.86	4105.73	4644.93	13.13	114.59	178.69	55.94	94.36	110.28	16.87	2.89	2.58	4.81	4.26	-0.55	8.63	
Nepal SBI Bank	265.02	207.17	5912.57	5449.29	-7.84	2878.81	3527.95	22.55	117.50	135.84	15.61	77.14	92.29	19.64	0.37	0.26	4.44	3.99	-0.45	8.78	
Nepal Bangladesh Bank	221.03	214.52	1784.51	2580.02	44.58	1313.75	1905.13	45.01	55.39	59.18	6.84	77.86	78.21	0.45	1.33	1.35	5.39	4.92	-0.47	8.14	
Everest Bank	192.12	444.79	5772.04	6210.81	7.60	4419.77	4845.03	9.62	230.27	242.03	5.11	147.11	154.96	5.34	0.62	0.62	4.20	3.56	-0.64	6.40	
Bank of Kathmandu	192.02	189.87	2770.09	3411.56	23.16	2304.95	2886.67	25.24	88.99	77.19	-13.26	61.70	51.43	-16.65	1.50	1.06	5.21	4.91	-0.30	7.58	
NCC Bank	147.00	116.06	2165.12	2225.68	2.80	1601.38	1787.31	11.61	42.73	36.03	-15.68	35.48	36.85	3.86	2.80	2.70	6.58	6.33	-0.25	9.85	
NIC Asia Bank	231.15	289.13	3990.87	4498.28	12.71	3155.95	3631.13	15.06	97.80	115.72	18.32	64.21	81.47	26.88	2.32	2.25	6.88	5.99	-0.89	7.88	
Lumbini Bank	188.75	75.76	1081.69	1725.23	59.49	917.49	1424.71	55.28	21.10	22.06	4.55	14.95	24.32	62.68	0.86	0.88	6.52	6.19	-0.33	8.80	
Machhapuchhre Bank	247.87	76.85	2713.66	3713.20	36.83	2165.24	2954.14	36.43	13.65	57.29	319.71	14.85	45.07	203.50	2.84	1.78	6.58	5.80	-0.78	8.25	
Kumari Bank	182.83	116.92	2531.85	2757.83	8.93	2011.97	2280.85	13.36	46.61	46.92	0.67	29.14	34.09	16.99	2.89	3.19	6.61	6.03	-0.58	8.86	
Laxmi Bank	194.83	124.42	2596.05	3058.48	17.81	1969.38	2309.64	17.28	63.61	66.11	3.93	41.98	47.18	12.39	1.51	1.15	6.62	5.05	-1.57	8.89	
Siddhartha Bank	181.35	148.01	2839.28	3541.40	24.73	2308.65	2733.08	18.38	76.84	97.13	26.41	48.25	79.14	64.02	2.39	1.69	6.34	5.40	-0.94	8.81	
Global IME Bank	410.68	221.86	3411.14	5229.20	53.30	2699.16	4300.13	59.31	59.14	102.84	73.89	44.92	100.74	124.27	1.64	2.37	6.64	4.84	-1.80	7.92	
Citizens Bank International	210.18	83.91	2274.31	2796.34	22.95	1795.93	2317.36	29.03	56.75	53.84	-5.13	41.32	56.12	35.82	2.01	2.40	6.72	5.24	-1.48	8.16	
Prime Commercial Bank	263.86	108.35	2881.41	3406.31	18.22	2121.56	2723.18	28.36	66.66	86.24	29.37	47.97	63.23	31.81	2.23	1.50	6.99	5.89	-1.10	8.91	
Sunrise Bank	223.66	52.25	2327.06	2661.64	14.38	1773.05	2003.04	12.97	34.22	40.26	17.65	31.16	30.80	-1.16	3.74	4.51	6.49	5.61	-0.88	8.62	
Grand Bank	200.00	-142.36	1932.22	2120.12	9.72	1452.64	1514.99	4.29	17.81	-165.39	-1028.64	11.73	-160.65	-1469.57	3.52	19.09	7.43	7.26	-0.17	9.68	
NMB Bank	200.00	83.41	2218.55	2708.72	22.09	1649.10	2046.70	24.11	47.92	55.20	15.19	36.03	41.00	13.79	1.80	0.55	6.14	5.52	-0.62	8.12	
KIST Bank	200.00	-81.58	2109.30	1983.51	-5.96	1682.66	1373.25	-18.39	-134.01	-59.93	55.28	-80.46	-24.06	70.10	12.61	24.18	6.45	4.57	-1.88	8.67	
Janata Bank Nepal	206.00	15.03	1354.64	1844.21	36.14	1207.58	1598.52	32.37	30.95	12.39	-59.97	19.73	8.81	-55.35	0.23	1.02	7.01	6.25	-0.76	10.26	
Mega Bank	233.00	43.22	1253.34	1714.76	36.82	1146.25	1449.63	26.47	27.86	48.18	72.94	17.73	31.09	75.35	2.17	2.18	5.49	4.94	-0.55	8.97	
Civil Bank	269.89	38.65	1563.31	2203.42	40.95	1236.73	1867.01	50.96	19.08	15.35	-19.55	12.12	24.62	103.14	0.50	1.88	8.05	7.18	-0.87	9.44	
Century Commercial Bank	200.00	23.72	1139.64	1839.37	61.40	908.68	1504.54	65.57	10.16	17.52	72.44	6.63	13.95	110.41	0.49	0.51	7.44	6.22	-1.22	9.76	
Sanima Bank	221.76	66.03	1778.93	2484.16	39.64	1509.30	2041.14	35.24	45.89	69.55	51.56	30.50	45.38	48.79	0.03	0.02	7.24	6.29	-0.95	8.22	
Public Sector Banks																					
Nepal Bank	646.50	-259.89	6298.88	6934.07	10.08	3785.52	4119.59	8.82	36.10	70.03	93.99	79.15	123.59	56.15	4.53	4.74	4.52	4.08	-0.44	8.07	
Rastriya Banijya Bank	858.89	-559.34	9109.39	10726.99	17.76	4904.49	6085.48	24.08	55.21	98.51	78.43	131.01	173.33	32.30	5.32	3.95	3.61	2.95	-0.66	6.32	
Agriculture Dev. Bank	963.68	609.55	5447.76	6582.83	20.84	4968.58	5750.52	15.74	112.83	81.60	-27.68	228.93	150.94	-34.07	5.85	5.34	5.40	6.08	0.68	11.40	
Total	8765.41	4130.38	101115.34	120426.76	19.10	73842.74	89224.62	20.83	2202.91	2493.45	13.19	1900.66	2078.96	9.38	2.46	3.27	5.91	5.15	-0.76	8.37	

development banks, finance companies, and microfinance institutions on a monthly basis in addition to commercial banks. Such spread rate and base rate will be monitored on a regular basis.

- For Class “A”, “B” and “C” financial institutions who have failed to meet the minimum paid up capital, restrictions will be placed on their branch expansions and distribution of cash dividend.
- Moratorium on accepting application for opening new commercial banks, development banks and finance companies is continued for 2014-15 as well.

COMMERCIAL BANK PERFORMANCE ANALYSIS

The financial performance of commercial bank during the FY 2013-14 has not been encouraging with a fall in their profit growth rate. As per the published unaudited data, of the 30 commercial banks, 25 banks saw their net profit rise, while 23 banks saw their operating profit increase as compared the last fiscal year. Likewise, during the FY 2013-14, the operating profit margin of commercial banks grew by a mere 13.19% whereas the net profit margin grew by just 9.38% as compared to the previous fiscal. The commercial bank was able to increase its deposit base by 19.5% and Loans and Advances

by 20.83% during the fourth quarter of FY 2013-14. However, the cost of fund of commercial banks decreased by 0.76 points to 5.15% from 5.91%. Likewise, the average base rate of commercial banks stood at 8.37% during the year, the highest being 11.40% of Agriculture Development Bank and the lowest being 5.18% of Standard Chartered Bank.

“ OUTLOOK

To aid economic growth, curb inflation and control the excess liquidity prevailing in the market, the monetary policy has been tightened in view of the possible risks that liquidity surplus could pose in inflation as well as on financial and external stability of the country. With the Cash Reserve Ratio increased for commercial banks and development banks from 5% and 4.5% to 6% and 5% respectively, this move is expected to help manage the current situation of excess liquidity. Similarly, decreasing the refinancing rate to productive sectors indicate central bank's efforts to support the fiscal policy that aims to enhance investments to the productive sectors by increasing the money supply to these sectors. Likewise, to make liquidity management effective, the central bank has decided to bring into force open market operation tools: open market operations, emergency fine-tuning operations and strategic open market operations.

Similarly, the central bank encouraged banks and financial institutions (BFIs) to increase lending to small and medium enterprises, with provisions to be introduced to make loan security or insurance more flexible and effective. A startup fund will also be created to encourage lending to small and medium investors and entrepreneurs with innovative ideas. Likewise, Nepal Rastra Bank has decided to allow BFIs to invest up to 40% of their foreign exchange reserves in tools like call deposits, certificates of deposit and other secure instruments abroad for a period of two years. Moreover, the monetary policy is focused on managing liquidity by exercising various open market tools and enhancing economic growth and productive-sector lending.

REVIEW

Capital Markets

Nepal saw positive trends in the economy with the formation of the present government. Some of these positive trends are highest economic growth in six years, improvement in investment climate with the increment in NEPSE index (from 803 points before government formation to above 1000 points), increased assistance from the international community, and increased effectiveness in capital expenditure.

SECONDARY MARKET PERFORMANCE

The Nepal Stock Exchange (NEPSE) index breached the four digit mark on July 8, 2014, after a period of 5 years and 9 months. The benchmark index had last reached 1004.28 points on September 18, 2008, post which the market started to witness a bearish trend after climbing to the record high of 1,175.38 points on August 31, 2008.

During the review period (June 15 to August 15, 2014), the NEPSE index (11.52%) rallied to close at 1034.39 points. The review period saw the index reach up to 1083.55 points following positive political developments, high liquidity with banks, a fall in interest rates on deposits, easy availability of loans against shares, a fall in interest

rates on margin lending, and an increase in investments by institutional investors; following this, the market witnessed correction in the index to close at 1034.39 points during the review period.

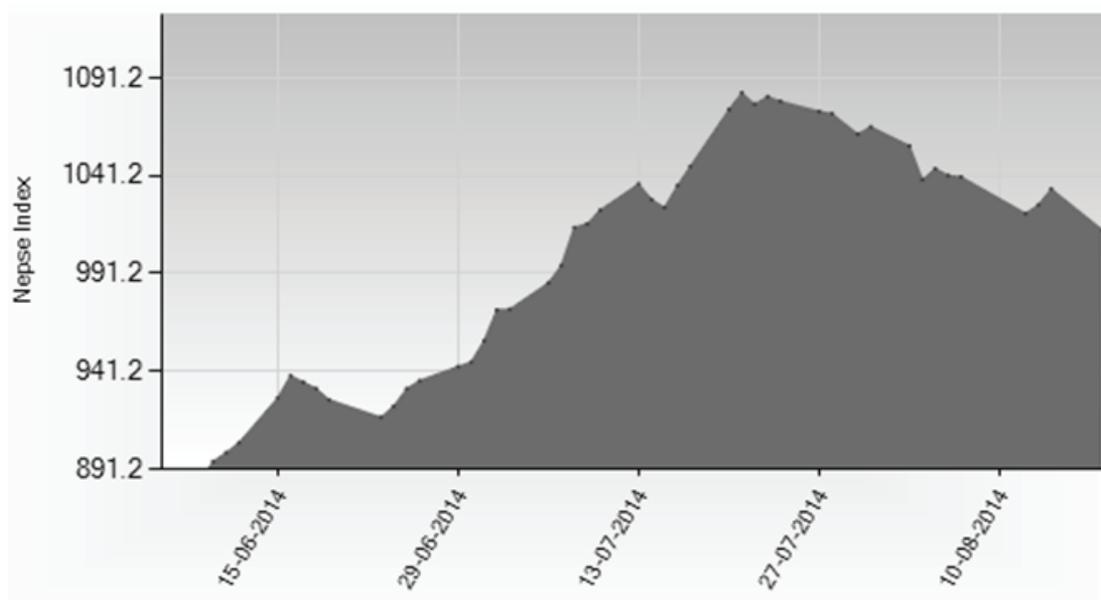
As shown in *Table 10*, during the review period, all the sub-indices closed in the green zone except for the 'Others' sub-index. The Development Bank sub-index (+29.49%) saw the biggest gain amongst all the sub-indices with an increase of 170.66 points. The Insurance sub-index (+21.40%) continued to gain value and impress the investors as the sub-index increased by a whopping 765.89 points to close at 4344.16 points. The Finance sub-index (+18.10%) also continued with its upward stream as it gained 81.38 points.

Table 10: Sector wise Performance of the sub-indices

Indicators	15-Jun-14	11-Aug-14	% Change
NEPSE Index	927.56	1034.39	11.52%
Commercial Bank Index	851.59	937.28	10.06%
Development Bank Index	578.77	749.43	29.49%
Hydropower Index	2657.76	2842.67	6.96%
Finance Index	449.57	530.95	18.10%
Insurance Index	3578.27	4344.16	21.40%
Others Index	763.64	754.24	-1.23%
Hotels Index	1858.64	1977.52	6.40%
Manufacturing & Processing	1139.99	1189.22	4.32%

Source: NEPSE

Figure 9: NEPSE Index performance



The Commercial bank sub-index (+10.06%) couldn't impress investors as much as the other BFIs scrips as the sub-index gained 85.69 points to close at 937.28 points during the review period. The Hydropower sub-index (+6.96%) could not gain hugely as in the previous quarter, as the sub-index increased merely by 184.91 points hugely due to rise in the recently listed IPO scrip. The Hotels sub-index (+6.40%) also saw a marginal growth as the index increased by 118.88 points. The Manufacturing & Processing sub-index (+4.32%) also managed to close positively as the sub-index gained only 49.23 points. However, the 'Others' sub-index (-1.23%) lost value post book closure of Nepal Telecom's 46% cash dividend announcement for FY 2012-13.

KEY DEVELOPMENTS

Some of the key developments in the capital market during the review period are as follows:

NEPSE recorded the highest ever transaction history

Nepal Stock Exchange (NEPSE) recorded the highest ever single day transaction of NPR. 1.2 billion (USD 12.46 million) on July 21, 2014. The surge in the market turnover has been attributed to the improved investor confidence after the monetary policy, relatively stable political situation, surplus liquidity with banks, and improved stock trading system. During the recent months, NEPSE has been witnessing a huge increase in the market turnover with an average daily turnover of around NPR 400 million (USD 4.15 million). With the introduction of the full-fledged implementation of the online clearing system through the Central Depository System, it would add improvement into the trading system and also help boost the market transaction. A recent initiative of NEPSE to provide access to stock brokering firms in the trading software has helped the brokers to

carry out large transaction volume on a daily basis.¹¹⁴

NEPSE issue directives to clearing members

NEPSE has issued a directive to all the clearing members, especially the stock brokers, to submit a bank guarantee to Central Depository System (CDS) and Clearing Limited and complete all the process related to CDS installation and connectivity. NEPSE has even directed all the listed companies to apply for the dematerialization of its shares within August 16. Similarly, NEPSE has directed all the brokering firms to send all their clients' Blank Transfer (BT) shares for Name Transfer (NT) process, a move initiated towards full automation system.¹¹⁵

Hydropower IPOs in the pipeline

The capital market will be witnessing one of the biggest Initial Public Offering (IPO) of hydropower com-

panies in the coming Fiscal Year. The Upper Tamakoshi Hydropower Project (UTHPL) has already applied to Securities Board of Nepal (SEBON) to issue its IPO worth NPR 5.18 billion (USD 53.81 million). The company is planning to issue the IPO in two phases wherein the first phase will be issued for the primary beneficiaries (the people of Dolakha where project is located), members of the Employees' Provident Fund (EPF), its employees, Citizen Investment Trust (CIT), Nepal Electricity Authority (NEA), Nepal Telecom, Rastriya Beema Sansthan, and employees of Upper Tamakoshi Project. In the second phase, the project plans to issue ordinary shares to the general public.¹¹⁶

Similarly, The Hydroelectricity Investment and Development Company Limited (HIDCL) are also

preparing to issue ordinary shares worth NPR 2 billion (USD 20.77 million). The company is planning to float 20 million units with face value of NPR 100 each. HIDCL was established by the government to mobilize fund for investment in large scale hydropower projects.¹¹⁷

NRB increase limit on margin call

Nepal Rastra Bank (NRB) has increased the limit and eased provision on margin call—loans issued against stocks—through its Unified Directives 2071. As per the new directive, there will be no need for a margin call of up to 1.5 times of the security coverage. Likewise, in the Unified Directives, NRB has also allowed promoters of BFIs, who convert promoter shares to public shares, to hold such public shares.¹¹⁸

“ OUTLOOK

The NEPSE index crossed the four digit benchmark index after a period of 5 years and 9 months. With the surge in the index, the average daily market turnover has also increased immensely. The average daily market turnover is at around NPR 400 million (USD 4.15 million), with the market capitalization, which measures the total prices of all the listed stocks, to be over NPR. 1000 billion (USD 10.38 billion). Similarly, with NEPSE and Central Depository System and Clearing Ltd working towards

developing the infrastructure, initiative to bring in the full-fledged implementation of the online clearing system and adding improvements into the trading system would help in boosting the market.

Moreover, looking at the current trend, the market is approaching an over sell situation; and with the recent surge in the index in the past weeks, currently the market is undergoing a correction with the market set to stabilize at a certain point post correction.

REVIEW Nepal's HDI in Perspective

The Human Development Index (HDI) is representative of the development of a country. The HDI focuses on the specific capabilities of people. For example, how vulnerable is one to shocks, or unexpected adverse events in their lives? How well equipped—in terms of life resources and internal skills—is one to recover from a shock? How able is one to live a life with a considerable amount of freedom, with enough dignity and livelihood? It goes a step further than impersonal measures of economic growth such as Gross Domestic Product (GDP) which often detract from what is really going on in the lives of citizens who may not necessarily be experiencing wellbeing despite a number that claims so.

The HDI is interested in issues like the apparent inability of poor people to make strategic decisions (as they are distracted by a harsher pressure to survive), which plunges them into even greater poverty. Furthermore, the HDI is concerned with policies that either facilitate or avert these kinds of conditions. The HDI is the mean of three indices. The first is the health component which is based off of life expectancy at birth figures. The second is the education component that is calculated using the mean of years of schooling for individuals 25 years and above, and expected years of schooling for those just entering school. The third is the standard of living component which is calculated using gross national income per capita.¹¹⁹

In 2013, Nepal ranked 145 out of 187 countries assessed in terms of HDI and was categorized in the “low human development” category which is marked

Table 11: Nepal's HDI Trends

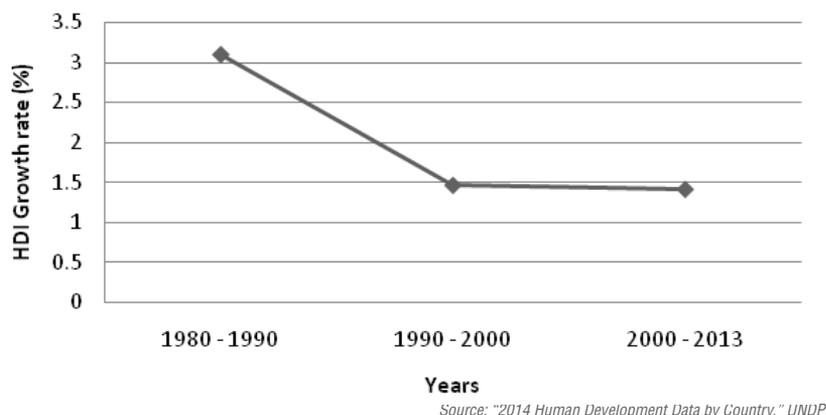
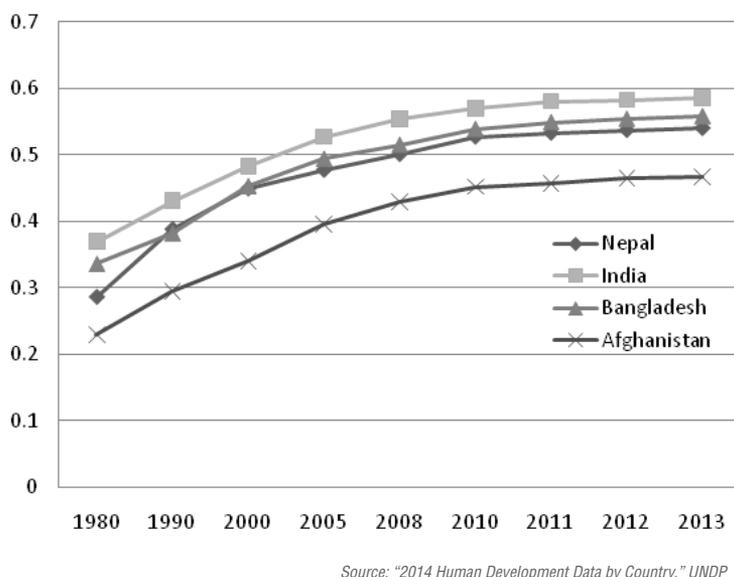
	Life Expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011 PPP\$)	HDI value
1980	47.7	4.8	0.6	1067	0.286
1985	51.2	5.9	1.2	1125	0.33
1990	55.1	7.8	2	1255	0.388
1995	58.8	8.4	2.2	1442	0.419
2000	62.1	9.3	2.4	1572	0.449
2005	64.8	9.9	2.7	1722	0.477
2010	67.1	12.1	3.2	2026	0.527
2011	67.6	12.4	3.2	2067	0.533
2012	68	12.4	3.2	2151	0.537
2013	68.4	12.4	3.2	2194	0.54

Source: “2014 Human Development Data by Country,” United Nations Development Programme

by an HDI below 0.55. HDI ranges from 0 to 1; the greater the HDI value, the greater the level of human development. With a minimal change in HDI from the 0.537 recorded in 2012 to the 0.54 in 2013, Nepal's ranking has not changed. Between 1980 and 1990, Nepal's average annual HDI growth rate was 3.09%. This growth rate diminished to 1.47% in the 1990 to 2000 phase, and then to 1.42% in the 2000 to 2013 interval.¹²⁰ The growth rate of HDI, thus, has been observed to diminish at a decreasing rate over the last 30 years. This finding is at odds with an overall trend observed in South Asia: an initial increase in average annual HDI value from the 1990-2000 to 2000-2008 phase and then a decrease in the growth rate from the 2000-2008 to 2008-2013 phase.

On a more relative basis, Nepal has climbed up four places in the HDI rankings in the last five years (2008 to 2013). While Nepal's HDI is above the average for countries in the low human development group (0.54 as compared to a 0.493 average), its HDI is less than the average of countries in South Asia (0.588).

The HDI average fails to address disparity of human development across a population. Not all residents within a country receive/experience the same level of health, education, and income. In order to account for this skewed distribution of experiences, there is the Inequality-Adjusted HDI (IHDI) which discounts a certain loss percentage (representative of inequality) from the overall HDI of the country. This loss percentage is determined

Figure 10: Nepal's Average Annual HDI Growth

Figure 10: Trends in Nepal, India, Bangladesh and Afghanistan's HDI 1980-2013

Table 12: Nepal's HDI indicators for 2013 relative to selected countries and groups

	HDI value	HDI rank	Life Expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (PPP USD)
Nepal	0.54	145	68.4	12.4	3.2	2194
Sri Lanka	0.75	74	74.3	13.6	10.8	9250
Afghanistan	0.468	169	60.9	9.3	3.2	1904
South Asia	0.588		67.2	11.2	4.7	5195
Low HDI countries	0.493		59.4	9	4.2	2904

Source: "2014 Human Development Data by Country," United Nations Development Programme

by the unweighted average of three inequality coefficients (one for each component measured to estimate HDI).¹²¹ The IHDI of Nepal for 2013 was 0.384. This was less than its HDI value for the same year, which suggests an unequal distribution of wellbeing among citizens in Nepal.

The Gender Development Index assesses the difference in HDI based on gender in the form of a ratio, which, when closer to 1, represents a smaller disparity between the two genders. Out of 148 countries, Nepal ranks 102 in terms of GDI with a female to male HDI ratio of 0.912.¹²²

Nepal has yet to see greater leaps of progress. Despite areas of concern regarding inequality and an HDI growth rate that appears to be slowing down, Nepal holds promise and potential for growth. Nepal has given attention to policies catered especially for its own structure as a developing country in the post-conflict phase. For example, Nepal's Emergency Employment Program, which addresses the need for peace and employment after a period of conflict, looks to protect citizens from employment vulnerability. Another such example of progress is that of greater access to prenatal care and a higher rate of birth attendance that have been facilitated in the country in order to significantly decrease maternal mortality. It is hoped that this kind of initiative is replicated in other areas such as the boosting of Gross National Income per capita which appears to be extremely low in Nepal relative to the rest of South Asia, thus causing HDI to deflate despite health and education component values that are close to the regional average.

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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 re-defining 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 **nefport**, 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 **nefsourcea** resource center, and holding a **nefclave**, a platform for discourse on economy and beyond.

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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