

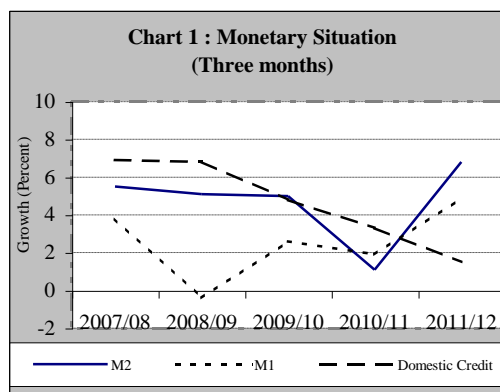
Current Macroeconomic Situation of Nepal

(Based on the Three Months' Data of FY 2011/12)

Monetary Situation

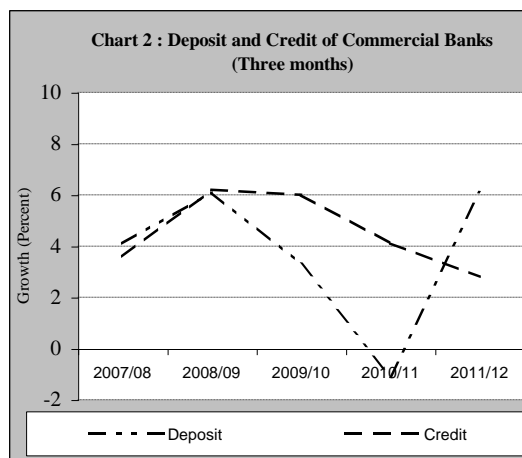
Money Supply

1. Broad money (M2) increased by 6.8 percent during the three months of the FY 2011/12 as compared to a growth of 1.1 percent in the corresponding period of the previous year. Broad money expanded during the review period on account of remarkable increase in net foreign assets as well as net domestic assets of the banking system. Narrow money (M1) increased by 4.9 percent during the review period.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 33.89 billion (15.6 percent) during the review period against a decline by Rs. 6.88 billion (3.2 percent) in the corresponding period of the previous year. The current account surplus on account of improvement in workers' remittances as well as improvement in financial account were the factors responsible for strengthening balance of payments (BOP) leading to such an increase in net foreign assets of the monetary sector during the review period.



Domestic Credit

3. Domestic credit increased by 1.5 percent during the review period. It had increased by 3.3 percent in the corresponding period of the previous year. During the review period, claims on private sector increased by 2.4 percent. The claim on private sector had increased by 4.1 percent in the corresponding period of the previous year. The credit to private sector could not expand during the review period due to policy measures initiated to curb the excessive credit flow to unproductive sector and to reduce high credit-deposit ratio.



Deposit Mobilization and Credit Flow of Commercial Banks

4. The imbalance between deposit mobilization and lending by commercial banks has improved during the three months of the FY 2011/12. Deposit mobilization of

commercial banks increased by Rs. 41.19 billion while the loan and advances increased by Rs. 19.14 billion during the review period. Deposit mobilization had declined by Rs. 6.75 billion while loan and advances had increased by Rs. 24.46 billion in the corresponding period of the previous year. Contrary to the higher growth rate in deposit mobilization, commercial banks' credit to private sector increased by only 1.8 percent during the review period.

5. Of the total bank credit to private sector, the credit to industrial production sector increased by Rs. 4.60 billion million during the review period compared to Rs. 4.89 billion in the corresponding period of the previous year. Similarly, banks' credit to agriculture, construction, wholesale and retail trade and transportation, communication and public services sectors increased by Rs. 1.98 billion, Rs. 3.29 billion, Rs. 1.19 billion and Rs. 0.90 billion respectively during the review period.

Liquidity Management

6. The NRB injected net liquidity of Rs. 743.7 million through repo auction under open market operation during the review period. A liquidity of Rs. 21.0 billion was mopped up through reverse repo auction amounting to Rs. 19 billion and outright sale auction amounting to Rs. 2.0, billion while a liquidity of Rs. 3.0 billion was injected through repo auction in the corresponding period of the previous year.
7. The NRB injected net liquidity of Rs. 68.62 billion through the purchase of USD 915.6 million from foreign exchange market (commercial banks) during the review period. A net liquidity of Rs. 37.78 billion was injected through the purchase of USD 514.8 million from foreign exchange market in the corresponding period of the previous year.
8. The NRB purchased Indian currency equivalent to Rs. 51.81 billion through the sale of USD 700.0 million in the Indian money market during the review period. INR equivalent to Rs. 41.27 billion was purchased through the sale of USD 560 million in the corresponding period of the previous year.

Inter Bank Transaction and Standing Liquidity Facility

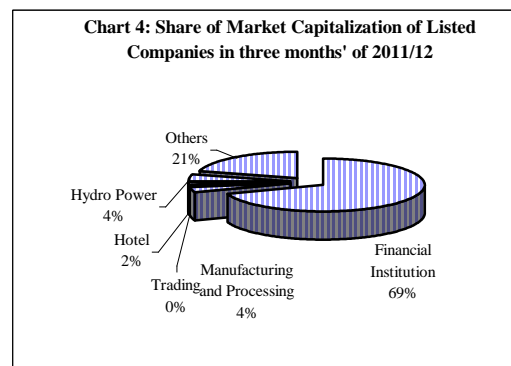
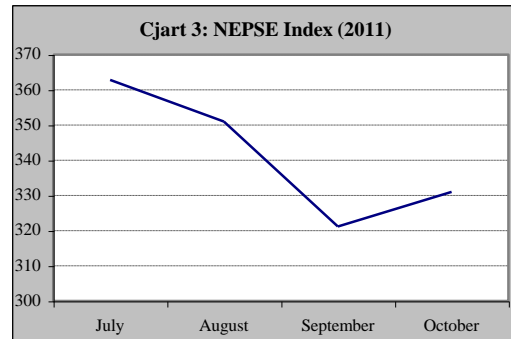
9. Inter-bank transaction of commercial banks reached Rs. 83.54 billion during the three months of the FY 2011/12 compared to Rs. 74.15 billion in the corresponding period of the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 4.21 billion during the review period. Of the total SLF used during the review period, the outstanding amount was only Rs. 0.29 million as at mid-October 2011. Liquidity injected through the SLF had amounted to Rs. 20.84 billion in the corresponding period of the previous year with an outstanding amount of Rs. 7.62 billion as at mid-October 2010.

Short-term Interest Rates

10. The short-term interest rates remained lower in mid-October 2011 compared to mid-October 2010. For example, the weighted monthly average 91-day Treasury bill rate stood at 1.82 percent in mid-October 2011 compared to 5.63 percent in mid-October 2010. The weighted average inter-bank rate remained at 1.08 percent in mid-October 2011 compared to 5.89 percent in mid-October 2010.

Securities Market

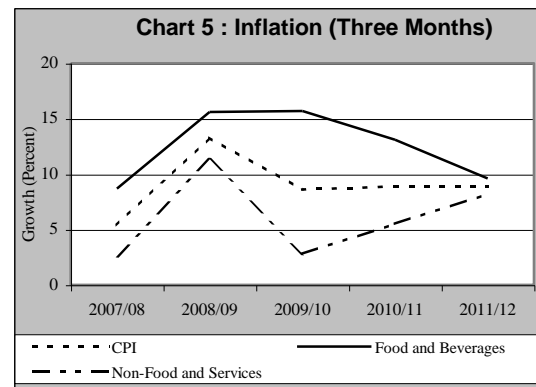
11. The year on year (y-o-y) NEPSE index declined by 21.2 percent to 330.99 points in mid-October 2011. This index had stood at 420.30 in the corresponding period of the previous year. The decline in share prices was on account of the significant increase in the supply of securities.
12. The y-o-y stock market capitalization decreased by 15.1 percent to Rs. 302 billion in mid-October 2011. The ratio of market capitalization to GDP stood at 22.4 percent in mid-October 2011. This ratio was 30.4 percent a year ago. Of the total market capitalization, the share of bank and financial institutions stood at 69.3 percent followed by manufacturing and processing companies (3.5 percent), hotels (1.7 percent), business entities (0.5 percent), hydropower (4.4 percent) and other sectors (20.6 percent).
13. Total paid-up capital of the listed companies stood at Rs. 101.26 billion in mid-October 2011, registering an increase of 14.7 percent over the period of one year. This increase was largely due to the additional listing of securities at the NEPSE. As at mid-October 2011, total securities worth Rs. 7.06 billion (bonus share of Rs. 0.24 billion, right share of Rs. 1.78 billion, convertible preference share of Rs. 0.04 billion and government securities of Rs. 5 billion) were listed at the NEPSE.
14. Total number of companies listed at the NEPSE increased from 184 in mid-October 2010 to 209 in mid-October 2011. Among them, 177 were banks and financial institutions (including insurance companies), followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and companies in other groups (2).



Inflation

Consumer Price Inflation

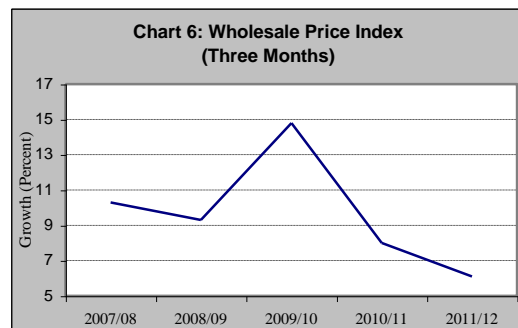
15. The year-on-year (y-o-y) inflation as measured by the consumer price index remained stable at 8.9 percent in mid-October 2011 as in the corresponding period of the previous year. The index of food and beverage group and non-food and services group increased by 9.6 percent and 8.2 percent respectively during the review period. The indices of these groups had increased by 13.1 percent and 5.5 percent respectively in the corresponding period of previous year.



16. Under the items of the food and beverage group, price index of vegetables sub-groups rose by the highest rate of 42.5 percent during the review period compared to an increase of 9.7 percent in the same period of the previous year. The price index of fruits, which had increased by 3.7 percent in the corresponding period of previous year, went up by 30.2 percent during the review period. The price indices of milk products and egg and restaurant and hotel increased by 12.9 percent and 11.9 percent respectively during the review period compared to increases of 14.9 percent and 14.8 percent respectively in the corresponding period of the previous year. Similarly, the price index of cereal grains and their products, which had increased by 17.1 percent in the corresponding period of the previous year, increased marginally by 1.8 percent during the review period. The price index of spices, which had increased by a highest rate of 41.1 percent during the same period of the previous year, decreased by 9.0 percent during the review period.
17. Within the group of non-food and services, the price index of clothing and footwear increased by 15.4 percent during the review period compared to an increase of 11.6 percent in the corresponding period of the previous year. The price indices of transport and furnishing and household equipment, which had increased by 8.2 percent and 5.0 percent respectively in the corresponding period of the previous year, went up by 13.3 percent and 12.9 percent during the review period. Similarly, the price indices of miscellaneous goods and services and education, which had increased by 6.1 percent and 5.8 percent in the corresponding period of the previous year, increased by 10.0 percent and 8.9 percent respectively during the review period. The price index of communication, which had decreased by 9.6 percent in the corresponding period of the previous year, witnessed a further decline of 8.8 percent during the review period.
18. Region-wise, the price index in Hill increased by 10.0 percent followed by 9.3 percent in Terai and 7.5 percent in Kathmandu Valley during the review period. The respective growth rates were 10.3 percent, 5.8 percent and 12.1 percent in the corresponding period of the previous year.

Wholesale Price Inflation

19. The y-o-y wholesale price index increased by 6.1 percent during the review period compared to a rise of 8.0 percent in the corresponding period of the previous year. The wholesale price indices of imported commodities, domestic manufactured commodities and agricultural commodities increased by 12.0 percent, 11.0 percent and 1.7 percent respectively during the review period compared to the increase of 7.5 percent, 7.8 percent and 8.2 percent in the same period of previous year.
20. Within the group of agricultural commodities, the wholesale price index of cash crops, which had decreased by 32.9 percent in the corresponding period last year, has increased by 24.0 percent during the review period. The wholesale price index of fruits and vegetables, which had increased by 12.9 percent in the corresponding period of the previous year, increased by 12.7 percent during the review period. The wholesale price



indices of spices and pulses, which had increased by 48.5 percent and 8.6 percent during the corresponding period of the previous year, decreased by 13.7 percent and 7.9 percent respectively during the review period.

21. Within the group of domestic manufactured commodities, the wholesale price indices of beverages and tobacco and food-related products increased by 16.8 percent and 9.8 percent respectively during the review period. Likewise, the wholesale price index of construction material increased by 2.7 percent during the review period.
22. Within the imported commodities group, the wholesale price indices of textile-related products and petroleum products and coal increased by 29.3 percent and 19.7 percent during the review period. Similarly, the price indices of electric and electronic goods and transport vehicles and machinery goods increased by 9.5 percent and 8.5 percent during the review period.

National Salary and Wage Rate

23. The y-o-y salary and wage rate index increased by 29.9 percent during the review period compared to an increase of 15.6 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 19.3 percent during the review period, which was unchanged in the same period of the previous year. The wage rate index increased by 32.9 percent during the review period compared to an increase of 21.0 percent in the corresponding period of the previous year.
24. The indices of salary of banks and financial institutions, public corporations and civil service increased by 42.4 percent, 28.0 percent and 18.7 percent respectively during the review period. These rates were unchanged in the corresponding period of the previous year.
25. The indices of wages of construction, agricultural and industrial laborers increased by 37.3 percent, 36.5 percent and 23.5 percent respectively during the review period. These rates had increased by 19.1 percent, 29.4 percent and 6.8 percent respectively in the corresponding period of the previous year.

Fiscal Situation *

Budget Deficit / Surplus

26. In the three months of FY 2011/12, government budget remained at a surplus of Rs. 2.48 billion. A high growth of resources mobilization relative to government expenditure accounted for such a budget surplus during the review period. In the corresponding period of the previous year, budget deficit amounted to Rs. 3.95 billion.

Government Expenditure

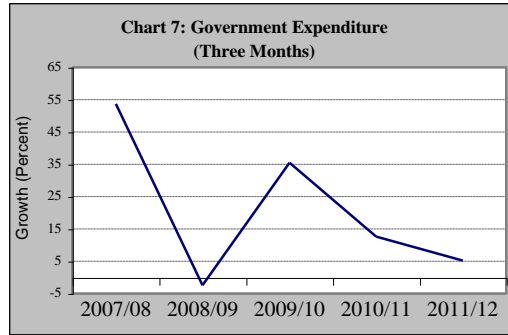
27. During the review period, total government spending increase by 5.2 percent to Rs. 47.0 billion compared to the increased of 12.6 percent in the corresponding period of the previous year.

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Figure includes the reports from 8 NRB offices, 62 RBB branches (out of 65 branches conducting govt. transaction), 33 NBL branches (out of 43 branches conducting govt. transaction), 5 Everest Bank branches and 1-1 branches each from Nepal Bangladesh Bank Ltd. and Global Bank Limited conducting government transactions.

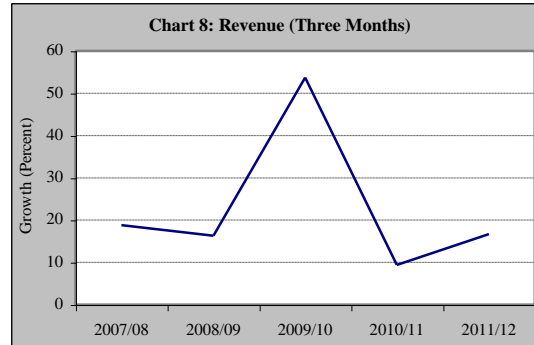
Government Revenue

28. During the review period, revenue mobilization of the Government of Nepal grew by 16.7 percent to Rs. 43.83 billion compared to an increase of 9.4 percent to Rs. 37.54 billion in the corresponding period of the previous year. An increase in import as well as an expansion of non-tax revenue was attributed to such a growth of revenue collection during the review period compared to the corresponding period of the previous year.



29. Of the total revenue mobilization, VAT revenue grew by 14.8 percent to Rs. 16.73 billion in mid-October 2011. It had increased by 27.6 percent in the corresponding period of previous year.

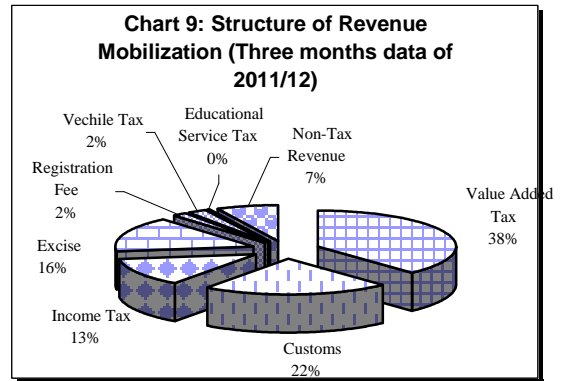
30. During the review period, custom revenue rose by 14.8 percent to Rs. 9.54 billion compared to an increase of 5.8 percent in the corresponding period of previous year.



31. During the review period, excise revenue increased by 10.4 percent to Rs. 6.91 billion compared to an increase of 22.3 percent in the corresponding period of the previous year.

32. Income tax revenue increased by 14.9 percent to Rs. 5.64 billion during the review period. Such revenue had risen by 30.4 percent in the corresponding period of the previous year.

33. During the review period, non-tax revenue increased by 83.7 percent to Rs. 3.20 billion compared to a decrease of 55.9 percent in the corresponding period of the previous year.



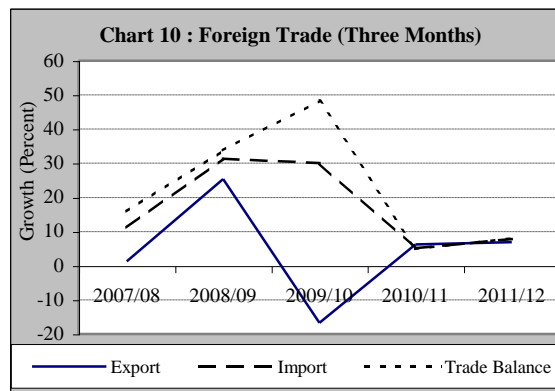
Foreign Cash Loans and Grants

34. In the three months of FY 2011/12, foreign cash loans of Rs. 896.4 million and foreign cash grants of Rs. 5.71 billion were received by the GoN.

External Sector Situation

Foreign Trade

35. Merchandise exports rose by 6.9 percent to Rs. 18.04 billion during the three months of FY 2011/12. Such exports had increased by 6.2 percent to Rs. 16.87 billion in the same period last year. On a monthly basis, merchandise exports declined by 13.3 percent in September/October of the current fiscal year compared to the value of the previous month.
36. Exports to India went up by 12.1 percent during the three months of FY 2011/12 compared to an increase of 11.9 percent in the same period last year. Exports to other countries declined by 1.3 percent compared to a drop by 1.8 percent in the same period last year. The increase in the exports to India was mainly ascribed to the increase in the exports of jute goods, zinc sheet, textiles, copper wire rod, wire and cardamom, among others. Exports to other countries declined mainly due to the decrease in the export of pulses, handicraft goods, herbs and readymade leather goods among others.
37. During the three months of FY 2011/12, merchandise imports increased by 7.8 percent to Rs. 100.26 billion. Such imports had risen by 5.1 percent to Rs. 92.98 billion in the same period last year. On a monthly basis, merchandise imports declined by 18.5 percent in September/October of the current fiscal year in comparison to the value of the previous month.
38. Imports from India increased by only 0.6 percent during the review period compared to a growth of 32.7 percent in the same period last year. Imports from other countries increased by 23.4 percent in contrast to a drop by 27.4 percent in the same period last year. In the review period, the import of petroleum products, medicine, agricultural equipments and parts, readymade garments and coal, among others, increased from India whereas import of gold, crude soybean oil, chemical fertilizers, electrical goods, and other machinery and parts increased from other countries.
39. Total trade deficit during the three months of FY 2011/12 went up by 8.0 percent to Rs. 82.23 billion. Trade deficit had gone up by 4.9 percent in the same period last year. Trade deficit with India declined by 1.6 percent during the review period compared to a growth of 37.7 percent in the same period last year. On the contrary, trade deficit with other countries increased by 30.5 percent in contrast to a drop by 32.4 percent in the same period a year ago.
40. The increase in the import growth led to a slight reduction in the ratio of export to import to 18.0 percent in the review period from the ratio of 18.1 percent a year ago.



Balance of Payments Situation

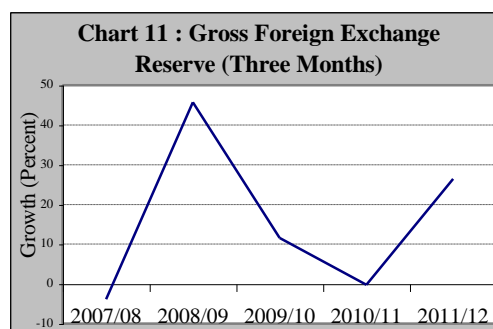
41. The overall BOP recorded a surplus of Rs. 33.89 billion during the three months of FY 2011/12 compared to a deficit of Rs. 6.88 billion in the same period last year. The current account, which had witnessed deficit for the last two years, registered a surplus

of Rs. 13.82 billion during the review period. Such account had recorded a deficit of Rs. 2.17 billion in the same period last year. The acceleration in the growth of remittance along with improvement in the service account was attributed to the surplus in the current account. After experiencing deficit for a long time, the service account also turned into positive mainly due to a significant rise in tourism income.

42. The FOB-based merchandise trade deficit increased by 7.3 percent to Rs. 79.35 billion during the three months of FY 2011/12. Such deficit had grown by 4.7 percent in the same period last year. Net service account witnessed a surplus of Rs. 3.29 billion during the review period in contrast to a deficit of Rs. 3.75 billion in the same period last year. Under services tourism income rose by 29.8 percent in the first three months of 2011/12 in contrast to a decline by 20.9 percent in the same period last year. The net transfer account registered a growth of 19.0 percent to Rs. 87.95 billion in the review period compared to that of a year ago. Under transfers, while pension receipts declined by 22.9 percent to Rs. 6.66 billion, workers' remittances increased by 28.3 percent to Rs. 75.88 billion compared to its growth of 14.2 percent in the same period last year. On a monthly basis, the remittance inflows increased by 12.2 percent in September/October compared to the value of the previous month of this fiscal year. Likewise, under the financial account, foreign direct investment of Rs 2.20 billion was recorded in the review period compared to the level of Rs 0.18 billion in the same period a year ago.

Foreign Exchange Reserves

43. The gross foreign exchange reserves increased by 19.5 percent to Rs. 325.03 billion in mid-October 2011 from a level of Rs. 272.10 billion as at mid-July 2011. Such reserves had gone down by 4.4 percent to Rs. 257.06 billion in the same period last year. On a monthly basis, foreign exchange reserve of Rs 24.90 billion increased in the month of September/October from the level of the previous month of this year. Out of total reserve, NRB's reserves increased by 24.6 percent to Rs. 265.58 billion in the review period from a level of Rs. 213.10 billion as at mid-July 2011. The gross foreign exchange reserves in USD terms increased by 8.5 percent to USD 4.16 billion in mid-October 2011. Such reserves had increased by just 0.6 percent in the same period last year. Based on the trend of import during the three months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 9.9 months and merchandise and service imports of 8.6 months.



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

44. The price of oil (Crude Oil Brent) in the international market surged by 35.9 percent to USD 114.33 per barrel in mid-October 2011 from USD 84.10 per barrel in mid-October 2010. Similarly, the price of gold also rose by 22.7 percent to USD 1678.00 per ounce in mid-October 2011 from the level a year ago.
45. Nepalese currency vis-à-vis the US dollar depreciated by 9.15 percent in mid-October 2011 from the level of mid-July 2011. It had appreciated by 5.25 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 78.10 in mid- October 2011 compared to Rs. 70.95 in mid-July 2011.