

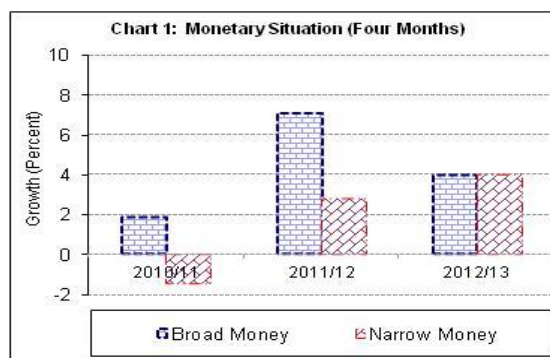
Current Macroeconomic Situation of Nepal

(Based on the Four Months' Data of FY 2012/13)

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 4.0 percent during the four months of the FY 2012/13 compared to 7.1 percent increase in the corresponding period of the previous year. On year-on-year (y-o-y) basis, broad money supply expanded by 19.1 percent in mid-November 2012. Narrow money supply (M1) increased by 4.0 percent during the review period as compared to 2.8 percent increase in the corresponding period of the last year. On y-o-y basis, narrow money expanded by 19.9 percent in mid-November 2012.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 0.14 billion during the review period as compared to an increase of Rs. 46.31 billion (21.4 percent) in the corresponding period of the previous year. A significant rise in trade deficit together with deficit in net services and a decelerating growth of capital transfer led to a slower growth in net foreign assets of the monetary sector during the review period.

Domestic Credit

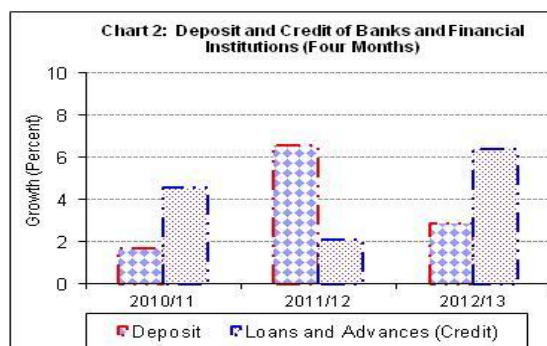
3. Domestic credit increased by 4.5 percent during the four months of the FY 2012/13. It had increased slightly by 0.6 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased by 13.2 percent in mid-November 2012. Despite decreased claims of Nepal Rastra Bank on Government of Nepal on account of lower level of public expenditure relative to resource mobilization and consequent net savings in the government account, increase in claims on private sector impacted in the growth of domestic credit during the review period. During the four months of the FY 2012/13, claims on private sector increased by 7.0 percent compared to a growth of 1.6 percent in the corresponding period of the previous year.

Reserve Money

- Reserve money decreased by 5.6 percent during the review period as against an increase of 17.0 percent in the corresponding period of last year. A decrease in Nepal Rastra Bank's net claims on government coupled with a decline in net foreign assets caused a decrease in reserve money during the review period. On y-o-y basis, reserve money increased by 10.1 percent in mid-November 2012.

Deposit Mobilization of Banks and Financial Institutions

- Deposit mobilization of banks and financial institutions increased by 2.9 percent (Rs. 29.24 billion) during the four months of the FY 2012/13. Such deposit mobilization had increased by 6.6 percent (Rs. 54.57 billion) in the corresponding period of the previous year. In the review period, deposit mobilization of commercial banks, development banks and finance companies increased by 1.7 percent, 5.1 percent and 3.4 percent respectively. While the deposit mobilization of commercial banks and development banks increased by 7.6 percent and 4.7 percent respectively, the finance companies' deposit had decreased by 1.1 percent in the corresponding period of the previous year.



Credit Flow of Banks and Financial Institutions

- During the four months of the FY 2012/13, loan and advances of banks and financial institutions increased by 6.4 percent (Rs. 62.26 billion) compared to a rise of 2.1 percent (Rs. 17.82 billion) in the corresponding period of the previous year. Loan and advances of commercial banks, development banks and finance companies rose by 6.1 percent, 4.8 percent and 2.9 percent respectively during the review period. During the review period, banks and financial institutions' credit to private sector increased by 6.6 percent (Rs. 51.17 billion) compared to a rise of 1.0 percent (Rs. 6.98 billion) in the corresponding period of the previous year. Among the private sector's credit extension, commercial banks registered a growth of 6.2 percent followed by development banks (8.7 percent) and finance companies (7.0 percent).
- Of the total banks and financial institutions' credit, the credit to industrial production sector surged by Rs. 13.83 billion at the review period compared to an increase of Rs. 4.84 billion in the corresponding period of the previous year. Similarly, credit to agriculture sector increased by Rs. 5.45 billion in the review period compared to an increase by Rs. 1.61 billion in the corresponding period of the last year. Likewise, credit to construction sector increased by Rs. 3.42 billion, while the wholesale and retail trade sector registered a surge of Rs. 12.61 billion and transportation, communication and public services sector credit increased by Rs. 2.44 billion.

Liquidity Management

8. The NRB mopped up net liquidity equivalent to Rs. 8.50 billion under the open market operation through outright sale auction during the review period. A net liquidity of Rs. 0.74 billion was injected through repo auction in the corresponding period of the previous year.
9. During the review period, the NRB injected net liquidity of Rs. 63.33 billion through the net purchase of USD 0.73 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 88.48 billion was injected through the purchase of USD 1.17 billion in the corresponding period of the previous year.
10. The NRB purchased Indian currency (INR) equivalent to Rs. 74.69 billion through the sale of USD 0.86 billion in the Indian money market during the review period. INR equivalent to Rs. 77.19 billion was purchased through the sale of USD 1.02 billion in the corresponding period of the previous year.

Inter Bank Transaction and Standing Liquidity Facility

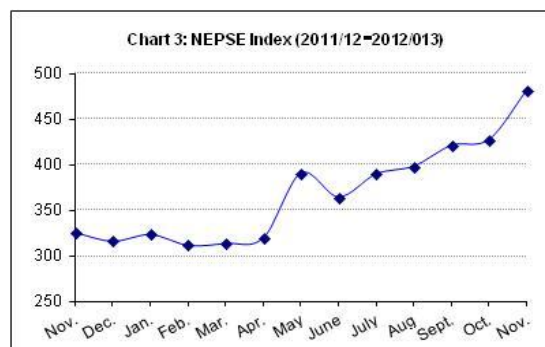
11. During the four months of the FY 2012/13, while the inter-bank transaction of commercial banks stood at Rs. 75.88 billion, such transaction of other financial institutions (development banks and finance companies) aggregated to Rs. 43.45 billion. Those figures had stood at Rs. 90.02 billion and Rs. 65.54 billion respectively in the corresponding period of the previous year. Banks and financial institutions did not use standing liquidity facility (SLF) during the review period whereas liquidity amounting to Rs. 4.21 billion was used under SLF in the corresponding period of the previous year. During the review period, inter-bank transaction and use of SLF decreased on account of comfortable liquidity situation of banks and financial institutions.

Short-term Interest Rates

12. The short-term interest rates remained at lower level in mid-November 2012 compared to those of mid-November 2011. For example, the weighted monthly average 91-day Treasury bill rate dropped to 0.60 percent in mid-November 2012 compared to 0.97 percent in mid-November 2011. The weighted average inter-bank rate between commercial banks remained at 0.45 percent in mid-November 2012 compared to 1.11 percent in mid-November 2011, whereas the weighted average inter-bank rate between other financial institutions remained at 3.03 percent in mid-November 2012 compared to 8.02 percent in the mid-November 2011.

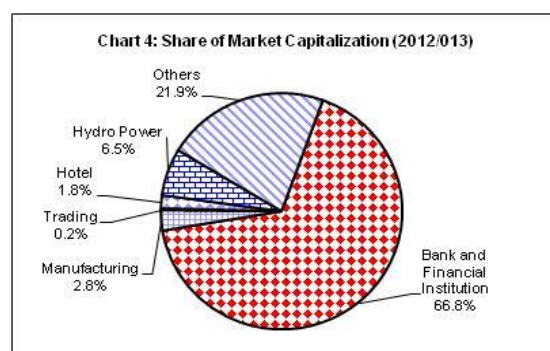
Securities Market

13. NEPSE index, on y-o-y basis, increased by 47.7 percent to 480.9 points in mid-November 2012 as against a drop of 23.4 percent in the corresponding period of the previous year to 325.6 points.



14. The y-o-y stock market capitalization witnessed a significant surge of 52.9 percent to Rs. 455.32 billion in mid-November 2012. The ratio of market capitalization to GDP stood at 29.2 percent in mid-November 2012. The ratio was 21.7 percent a year ago.

15. Banks and financial institutions constituted the biggest share in total market capitalization of stock market. Of the total market capitalization as of mid-November 2012, the share of banks and financial institutions (including insurance companies) stood at 66.8 percent while that of manufacturing and processing companies, hotels, trading, hydropower and other sectors stood at 2.8 percent, 1.8 percent, 0.2 percent, 6.5 percent and 21.9 percent respectively.

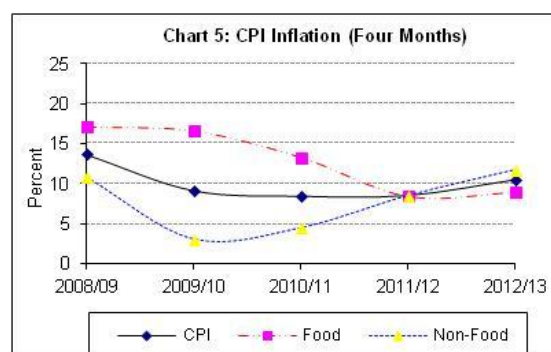


16. Total number of companies listed at the NEPSE increased to 219 in mid-November 2012 from 214 in mid-November 2011. Banks and financial institutions comprise a major share in the number of listed companies. Of the total listed companies as of mid-November 2012, the number of banks and financial institutions (including insurance companies) stood at 187 followed by production and processing industries (18), hotels (4), trading entities (4), hydropower (4) and other companies (2).
17. Total paid-up capital of the listed companies stood at Rs. 112.55 billion in mid-November 2012, registering an increase of 8.7 percent over mid-November 2011. Such an increase in paid-up capital was due to the additional listing of securities at the NEPSE. Additional securities worth Rs. 1.96 billion comprising ordinary share of Rs. 1.53 billion, bonus share of Rs. 0.22 billion and right share of Rs. 0.21 billion were listed at the NEPSE during the four months of 2012/13.

Inflation, Salary and Wage Rate

Consumer Price Inflation

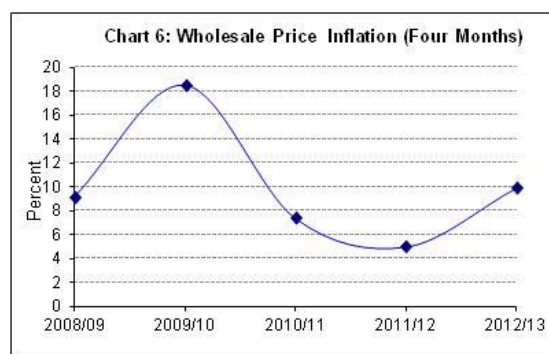
18. The y-o-y inflation as measured by the consumer price index increased by 10.5 percent in mid-November 2012 as compared to 8.5 percent in the corresponding period of the previous year. The index of food and beverage group increased by 8.9 percent whereas non-food and services group increased by 11.7 percent during the review period. These indices had increased by 8.4 percent and 8.5 percent respectively in the corresponding period of previous year.
19. Under the items of the food and beverage group, price index of ghee and oil sub-group increased by the highest rate of 20.5 percent during the review period compared to an increase of 10.3 percent in the corresponding period of the previous year. The price index of sugar and sweet and tobacco products, which had increased by 5.3 percent and 11.4 percent in the corresponding period of previous year, went up by 18.6 percent and 17.9 percent during the review period. Similarly, the price index of meat and fish, which had increased by 4.9 percent in the corresponding period of previous year, increased by 14.0 percent in the review period. The price indices of legume varieties and hard drinks sub-groups have increased by 13.8 percent and 12.1 percent respectively during the review period. In the same period of previous year, such indices had decreased by 0.4 percent and 2.2 percent respectively.
20. Within the group of non-food and services, the price index of transport increased by 15.1 percent during the review period compared to an increase of 13.4 percent in the corresponding period of the previous year. The price indices of furnishing and household equipment and clothing and footwear increased by 14.9 percent and 13.9 percent respectively during the review period. Such indices had increased by 13.0 percent and 15.2 percent respectively in the corresponding period of the previous year. Similarly, the price indices of housing and utilities and education sub-groups have increased at the same rate of 12.5 percent during the review period while such indices had increased by 8.0 percent and 8.9 percent in the corresponding period of the previous year. The price index of communication, which had decreased by 8.8 percent in the corresponding period of the previous year, witnessed a further decline of 2.7 percent during the review period.
21. Region-wise, the price indices increased at the same rate of 10.8 percent in Hills and Terai whereas price index increased in Kathmandu Valley by 9.6 percent during the



review period. The respective increments were 9.8 percent, 8.7 percent and 7.1 percent respectively in the corresponding period of the previous year.

Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 9.9 percent during the review period compared to a rise of 5.0 percent in the corresponding period of the previous year. The increments of wholesale price indices of agricultural commodities, imported commodities and domestic manufactured commodities are 10.5 percent, 10.3 percent and 7.4 percent respectively during the review period. The price indices of imported commodities and domestic manufactured commodities had increased by 13.5 percent and 10.9 percent respectively in the corresponding period of the previous year whereas the wholesale price index of agriculture products had decreased by 0.7 percent.
23. Within the group of agricultural commodities, the wholesale price indices of cash crops increased by 27.8 percent during the review period, compared to an increase of 8.7 percent in the corresponding period of the previous year. The wholesale price index of livestock production and pulses, which had decreased by 1.7 percent and 8.1 percent during the corresponding period of the previous year, increased by 17.6 percent and 13.7 percent respectively in the review period. The wholesale price index of food grains, which had decreased by 8.2 percent in the previous year, increased by 8.9 percent during the review period. The wholesale price index of spices, which had decreased by 13.7 percent in the corresponding period of the previous year, further decreased by 7.4 percent during the review period.
24. Under the group of domestic manufactured commodities, the wholesale price indices of food-related products increased by 10.5 percent during the review period. Similarly, the wholesale price indices of construction materials and beverages and tobacco increased by 9.6 percent and 3.2 percent respectively during the review period.
25. Within the imported commodities, the wholesale price indices of petroleum products and coal and drugs and medicine increased by 26.2 percent and 11.0 percent respectively during the review period. Similarly, the price indices of chemical fertilizers and chemical goods and transport vehicles and machinery goods increased by 5.1 percent and 0.7 percent respectively during the review period.



National Salary and Wage Rate

26. The y-o-y salary and wage rate index increased by 11.7 percent during the review period compared to an increase of 29.6 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index remained unchanged in the review period compared to an increase of 19.3 percent in the corresponding period of the previous year. The wage rate index has increased by 14.6 percent during the review period compared to an increase of 32.6 percent in the corresponding period of the previous year.
27. The indices of wages of industrial labourers, construction labourers and agricultural labourers increased by 19.9 percent, 13.5 percent and 8.2 percent respectively during the review period. These indices had increased by 22.5 percent, 36.5 percent and 37.1 percent respectively in the corresponding period of the previous year.

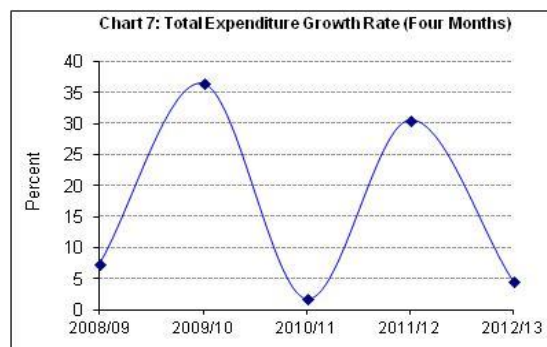
Fiscal Situation *

Budget Deficit / Surplus

28. During the four months of 2012/13, government budget remained at a surplus of Rs. 14.07 billion. The budget surplus had stood at Rs. 6.34 billion in the corresponding period of the previous year. A high growth of resource mobilization relative to government expenditure accounted for such a surplus during the review period.

Government Expenditure

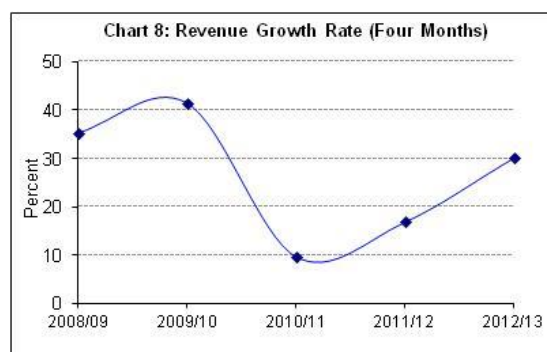
29. During the review period, total government spending increased by 4.5 percent to Rs. 70.38 billion compared to an increase of 30.6 percent in the corresponding period of the previous year. The impact of delays in adopting a full-year budget for the FY 2012/13 attributed to such a decrease in the growth rate of total expenditure during the review period.



* Based on the figures reported by 8 NRB offices, 65 RBBL branches (out of 65 branches conducting govt. transaction), 36 NBL branches (out of 44 branches conducting govt. transaction), 5 Everest Bank branches and 1-1 branches each from Nepal Bangladesh Bank Limited and Global IME Bank Limited conducting government transactions.

Government Revenue

30. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 30.2 percent to Rs. 78.03 billion. Such revenue had risen by 16.9 percent to Rs. 59.92 billion in the corresponding period of the previous year. Continuous reforms in tax administration, control in tax evasion as well as increase in import and consumption contributed to such an increase in the revenue mobilization.



31. Of the total revenue mobilization, VAT revenue grew by 18.0 percent to Rs. 26.23 billion during the review period. It had increased by 7.6 percent in the corresponding period of the previous year. The increase in VAT revenue was on account of growing imports and positive impact of leakages control in VAT including reform in VAT administration during review period.
32. During the review period, custom revenue rose by 41.3 percent to Rs. 17.83 billion compared to an increase of 14.9 percent in the corresponding period of the previous year. Increase in the imports including the imports of high tax yielding vehicles and spare parts contributed to such a growth of custom revenue during the review period.
33. During the review period, excise revenue increased by 23.0 percent to Rs. 11.67 billion compared to an increase of 13.1 percent in the corresponding period of the previous year. Increase in the imports of high excise tax yielding vehicles and reforms in excise administration accounted for such a growth of excise revenue during the review period.
34. Income tax revenue increased by 41.0 percent to Rs. 11.32 billion during the review period. Such revenue had risen by 17.0 percent in the corresponding period of the previous year. Positive impact of reform in income tax administration and an increasing consciousness of taxpayers through the expansion on taxpayer education accounted for such an increase in the income tax revenue during the review period.
35. During the review period, non-tax revenue increased to Rs. 7.74 billion. Such revenue was Rs. 5.09 billion in the corresponding period of the previous year.

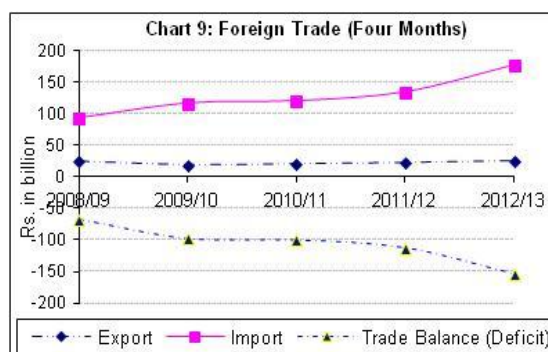
Foreign Cash Loans and Grants

36. During the four months of 2012/13, foreign cash loans of Rs. 0.70 billion and foreign cash grants of Rs. 4.59 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 1.55 billion and foreign cash grants of Rs. 11.52 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

37. Merchandise exports went up by 11.7 percent to Rs. 26.46 billion in the four months of 2012/13. Such exports had increased by 10.7 percent to Rs. 23.69 billion during the same period of the previous year. On a monthly basis, merchandise exports decreased by 15.3 in October/November of the current fiscal year compared to that of the previous month.



38. Exports to India increased by 4.5 percent during the review period compared to an increase of 14.6 percent in the previous year. Exports to other countries went up by 24.9 percent compared to an increase by 4.0 percent in the same period of the previous year. In USD terms, exports to other countries increased by 7.8 percent to USD 119.1 million compared to a growth of 0.7 percent during the corresponding period of the previous year. The export of G.I. pipe, jute sackings, polyester yarn, wire and ginger, among others increased to India. Likewise, exports to other countries went up primarily due to the increase in export of pulses, tanned skin and readymade leather goods, among others.
39. During the review period, merchandise imports surged by 32.0 percent to Rs. 178.84 billion. Such imports had risen by 11.8 percent to Rs. 135.49 billion during the corresponding period of the previous year. Total imports increased in the review period largely due to a sharp increase in imports from both India and other countries. On a monthly basis, merchandise imports decreased by 7.4 percent during October/November of the current fiscal year compared to that of the previous month.
40. Imports from India went up by 33.0 percent during the review period compared to an increase of 4.2 percent in the same period of the previous year. Imports from other countries rose by 30.2 percent compared to an increase of 27.9 percent in the corresponding period of the previous year. In US dollar terms, imports from other countries increased by 12.7 percent to USD 746.9 million compared to an increase of 23.8 percent in the previous year. Imports from India increased primarily owing to an increase in the imports of petroleum products, M.S. billet, vehicles and spare parts, chemical fertilizer, and cement, among others. Likewise, the imports from other countries increased mainly on account of an increase in the imports of pipe and pipe fittings, telecommunication equipment parts, readymade garments, gold and edible oil, among others.

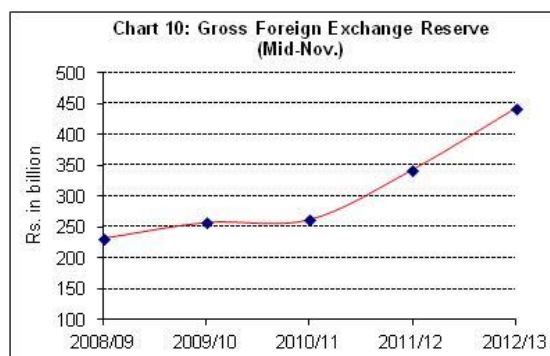
41. Total trade deficit during the four months of 2012/13 surged by 36.3 percent to Rs. 152.38 billion compared to an increase of 12.1 percent during the same period of the previous year. Trade deficit with India increased by 39.3 percent during the review period compared to a growth of 2.1 percent in the same period of the previous year. Trade deficit with other countries increased by 31.3 percent compared to an increase of 34.1 percent during the same period of the previous year.
42. Due to high growth of imports, the ratio of export to import declined to 14.8 percent in the review period from 17.5 percent a year ago.

Balance of Payments Situation

43. The overall BOP recorded a surplus of Rs. 140.7 million during the four months of 2012/13 compared to a surplus of Rs. 46.31 billion during the same period of the previous year. The current account, however, posted a deficit of Rs. 1.77 billion in the review period in contrast to a surplus of Rs. 20.73 billion in the same period of the previous year. The deficit in the current account was primarily due to a substantial rise in the imports of merchandise, the deficit in the net services income compared to a surplus in the corresponding period in the previous year and the slow growth of workers' remittances in the review period. In US dollar terms, the current account registered a deficit of USD 20.7 million in the review period in contrast to a surplus of USD 266.0 million during the corresponding period of the previous year.
44. The FOB-based merchandise trade deficit increased by 35.5 percent to Rs. 145.75 billion during the four months of 2012/13. Such deficit had grown up by 11.3 percent in the same period of the previous year. The net service income posted a deficit of Rs. 1.55 billion in the review period in contrast to a surplus of Rs. 6.25 billion in the same period of the previous year. Net transfers registered a growth of 20.4 percent to Rs. 143.94 billion in the review period compared to a growth of 25.1 percent in same period of the previous year. Under the transfers, workers' remittances surged by 23.4 percent to Rs. 127.35 billion compared to an increase of 34.2 percent in the same period of the previous year. In US dollar terms, remittance inflow increased by 7.4 percent to USD 1.46 billion during the review period compared to an increase of 29.3 percent in same period of the previous year. On a monthly basis, remittance inflows increased by 30.3 percent in October/November compared to the value of the previous month of this fiscal year. Similarly, under the financial account, foreign direct investment of Rs. 2.64 billion was recorded in the review period.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 0.7 percent to Rs. 442.33 billion in mid-November 2012 from a level of Rs. 439.46 billion as at mid-July 2012. Such reserves had increased by 25.9 percent to Rs. 342.74 billion in the same period of the previous year. Out of total reserves, NRB's reserves declined by 2.3 percent to Rs. 366.70 billion in the review period from a level of Rs. 375.52 billion as at mid-July 2012. The gross foreign exchange reserves in USD terms increased by 1.8 percent to USD 5.05 billion in mid-November 2012. Such reserves had increased by 10.7 percent in the same period of the previous year. Likewise, during the four months of 2012/13, the reserves in terms of inconvertible foreign exchange decreased by 5.6 percent to IRs 57.02 billion. Such reserves had increased by 50.8 percent during the same period of the previous year. On the basis of trend of import during the four month of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 10.1 months and merchandise and service imports of 8.6 months.



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

46. The price of oil (Crude Oil Brent) in the international market increased by 2.8 percent to USD 115.00 per barrel in mid-November 2012 from USD 111.90 per barrel in mid-November 2011. On the other hand, the price of gold decreased by 2.7 percent to USD 1736.0 per ounce in mid-November 2012.
47. Nepalese currency vis-à-vis the US dollar appreciated by 1.1 percent in mid-November 2012 from the level of mid-July 2012. It had depreciated by 12.1 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 87.64 in mid-November 2012 compared to Rs. 88.60 in mid-July 2012.