

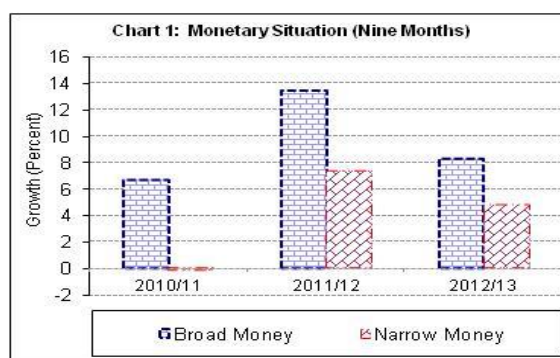
Current Macroeconomic Situation of Nepal

(Based on Nine Months' Data of 2012/13)

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 8.3 percent during nine months of 2012/13 compared to an increase of 13.5 percent in the corresponding period of the previous year. Similarly, narrow money supply (M1) increased by 4.8 percent during the review period compared to a rise of 7.4 percent in the corresponding period of the previous year. On a y-o-y basis, the M2 expanded by 17.0 percent and the M1 expanded by 15.6 percent in mid-April 2013.



2. Net foreign assets-NFA (after adjusting foreign exchange valuation gain/loss) increased by Rs. 30.77 billion (8.0 percent) during the review period compared to a significant growth of Rs. 92.55 billion (41.8 percent) in the corresponding period of the previous year. A significant rise in imports, relatively lower growth of remittance and a fall in capital as well as current transfer led to a slower growth in NFA of the monetary sector during the review period. However, the NFA registered a substantial rise in the ninth month of the review year relative to the previous month on account of a higher foreign aid received by the government in the review month.

Domestic Credit

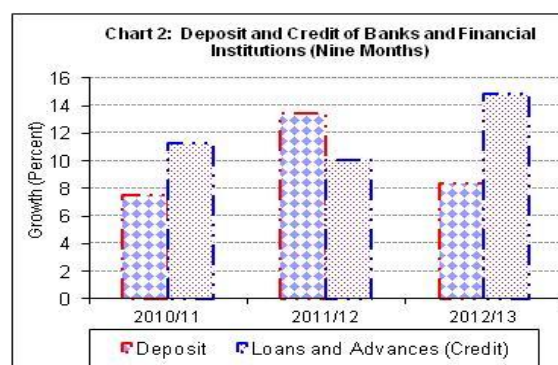
3. Domestic credit increased by 8.4 percent during nine months of 2012/13. It had increased by 3.0 percent in the corresponding period of the previous year. On a y-o-y basis, it increased by 14.6 percent in mid-April 2013. Domestic credit grew on the back of accelerated growth in claims on private sector during the review period. During nine months of 2012/13, claims on the private sector increased by 16.5 percent compared to a growth of 8.7 percent in the corresponding period of the previous year.

Reserve Money

- Reserve money decreased by 11.3 percent during the review period in contrast to an increase of 11.3 percent in the corresponding period of the previous year. A decrease in Nepal Rastra Bank's (NRB) net claims on government coupled with a slower growth of net foreign assets contributed to such a decline in the reserve money during the review period. On a y-o-y basis, the reserve money, however, increased by 8.6 percent in mid-April 2013.

Deposit Mobilization of Banks and Financial Institutions

- Deposit mobilization of banks and financial institutions increased by 8.4 percent (Rs.85.44 billion) during nine months of 2012/13. Such deposit mobilization had increased by 13.5 percent (Rs. 110.73 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 7.5 percent, 10.9 percent and 7.3 percent respectively compared to 15.8 percent, 10.8 and 1.6 percent respectively in the corresponding period of the previous year. The deposit mobilization of banks and financial institutions (BFIs) increased by 17.5 percent (Rs. 163.30 billion) on a y-o-y basis amounting to Rs. 1097.26 billion as of mid-April 2013.



Credit Flow of Banks and Financial Institutions

- During nine months of 2012/13, the loan and advances of BFIs increased by 14.9 percent (Rs. 143.94 billion) compared to a rise of 10.1 percent (Rs. 86.49 billion) in the corresponding period of the previous year. Loan and advances of commercial banks, development banks and finance companies rose by 14.3 percent, 10.8 percent and 8.1 percent respectively during the review period. The y-o-y loan and advances of BFIs increased by 18.1 percent (Rs. 170.24 billion) amounting to Rs. 1111.59 billion as of mid-April 2013. During the review period, credit to the private sector from BFIs increased by 16.7 percent (Rs. 129.84 billion) compared to a rise of 8.4 percent (Rs. 58.52 billion) in the corresponding period of the previous year. Of the credit expansion to private sector, credit from commercial banks registered a growth of 16.6 percent, from development banks 18.1 percent and from finance companies 15.4 percent. On a y-o-y basis, credit to the private sector from BFIs increased by 20.7 percent (Rs. 156.19 billion) to Rs. 909.10 billion in mid-April 2013.
- Of the total credit from BFIs, the credit to the industrial production sector surged by Rs. 27.65 billion in the review period compared to an increase of Rs. 17.86 billion in the corresponding period of the previous year. Similarly, credit to the agriculture

sector increased by Rs. 8.02 billion in the review period compared to an increase of Rs. 7.33 billion in the corresponding period of the previous year. Likewise, credit to the construction sector increased by Rs. 8.55 billion, to the wholesale and retail trade sector by Rs. 29.56 billion, and to the transportation, communications and public services sector by Rs. 6.86 billion during the review period.

Liquidity Management

8. The NRB mopped up net liquidity of Rs. 8.50 billion through outright sale auction in the review period. In the corresponding period of the previous year, liquidity of Rs. 8.40 billion was mopped up through outright sale auction while liquidity of Rs. 0.74 billion was injected through repo auction.
9. During the review period, the NRB injected net liquidity of Rs. 180.69 billion through the net purchase of USD 2.08 billion from the foreign exchange market (commercial banks). Net liquidity of Rs. 181.66 billion was injected through the purchase of USD 2.31 billion in the corresponding period of the previous year.
10. The NRB purchased Indian currency (INR) equivalent to Rs. 198.27 billion through the sale of USD 2.28 billion in the Indian money market during the review period. INR equivalent to Rs. 168.34 billion was purchased through the sale of USD 2.14 billion in the corresponding period of the previous year.

Inter Bank Transaction and Standing Liquidity Facility

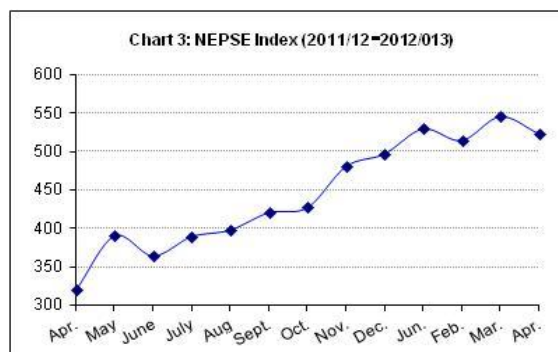
11. During nine months of 2012/13, the inter-bank transactions of commercial banks stood at Rs. 516.80 billion and those of development banks and finance companies amounted to Rs. 125.19 billion. Those figures had stood at Rs. 145.55 billion and Rs. 134.66 billion respectively in the corresponding period of the previous year. BFIs borrowed Rs. 32.22 billion (on cumulative basis) under the Standing Liquidity Facility (SLF) during the review period compared to Rs. 4.37 billion during the same period of the previous year.

Interest Rates

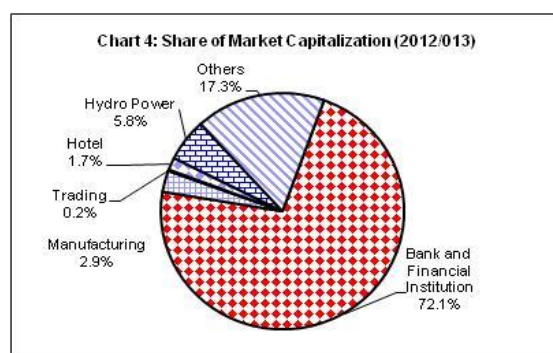
12. The weighted average 91-day Treasury bill rate increased to 3.49 percent in mid-April 2013 from 1.09 percent a year ago. The weighted average inter-bank rate between commercial banks remained at 3.78 percent in mid-April 2013 compared to 0.69 percent in mid-April 2012, whereas the weighted average inter-bank rate among other financial institutions declined to 6.31 percent in mid-April 2013 from 8.89 percent a year ago.
13. In mid-April 2013, the weighted average deposit and lending rates of commercial banks remained at 5.08 percent and 12.05 percent respectively. Accordingly, the interest rate spread between deposit and lending rates of commercial banks stood at 7.0 percent in mid-April 2013. Moreover, the average base rate of commercial banks remained at 9.47 percent in mid-March 2013.

Securities Market

14. The y-o-y NEPSE index increased by 63.6 percent to 523.4 points in mid-April, 2013 as against a drop of 14.3 percent to 320.0 points in the corresponding period of the previous year.



15. The y-o-y stock market capitalization witnessed a significant surge of 68.4 percent to Rs. 508.33 billion in mid-April, 2013. Of the total market capitalization as of mid-April 2013, the share of BFIs (including insurance companies) stood at 72.1 percent while that of manufacturing and processing companies, hotels, trading, hydropower and other sectors stood at 2.9 percent, 1.7 percent, 0.2 percent, 5.8 percent and 17.3 percent respectively.



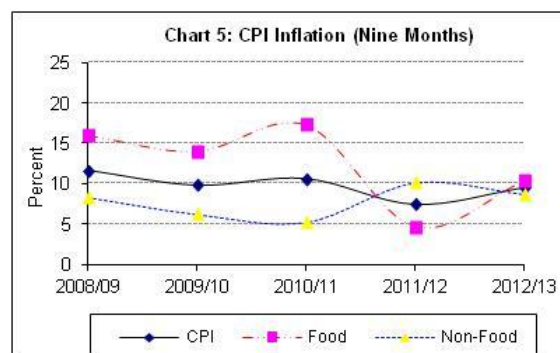
16. Total number of companies listed at the NEPSE increased to 229 in mid-April 2013 from that of 215 in mid-April 2012. Of the total listed companies, the number of BFIs (including insurance companies) stood at 197 followed by production and processing industries (18), hotels (4), trading entities (4), hydropower (4) and other companies (2).

17. Total paid-up capital of the listed companies stood at Rs.119.60 billion in mid-April 2013, registering an increase of 10.1 percent over mid-April 2012. Additional securities worth Rs. 8.82 billion comprising ordinary share of Rs. 6.0 billion, bonus share of Rs. 2.16 billion, right share of Rs. 0.26 billion and debenture of Rs. 0.40 billion were listed at the NEPSE during nine months of 2012/13.

Inflation, Salary and Wage Rate

Consumer Price Inflation

18. The y-o-y CPI inflation increased by 9.5 percent in mid-April 2013 compared to 7.5 percent a year ago. The index of food and beverage group increased by 10.3 percent whereas nonfood and services group rose by 8.7 percent in mid-April 2013. These indices had increased by 4.6 percent and 10.1 percent respectively in the corresponding month of the previous year.



19. Under the items of the food and beverage group, price index of meat and fish sub-group increased by higher rate of 16.2 percent during the review month compared to an increase of 8.0 percent in the corresponding month of the previous year. The price indices of cereals, grains and their products and legume varieties increased by 13.5 percent and 11.8 percent respectively during the review month. Such indices had decreased by 3.0 percent and 1.0 percent respectively in the corresponding month of the previous year. Similarly, the price indices of tobacco products and restaurants and hotel which had increased by 9.0 percent and 12.5 in the corresponding month of the previous year increased by 11.4 percent and 11.0 percent during the review month.
20. Within the group of non-food and services, the price index of education sub-group increased by 12.5 percent during the review month compared to an increase of 8.9 percent in the corresponding month of the previous year. Similarly, furnishing and household equipment and clothing and footwear sub-groups increased by 12.1 percent and 10.0 percent respectively during the review month. Such indices had increased by 13.6 percent and 15.1 percent respectively in the corresponding month of the previous year. The price index of communication, which had decreased by 7.1 percent in the corresponding month of the previous year, witnessed a further decline of 0.8 percent during the review month also.
21. Region-wise, the price indices increased at 10.3 percent in the Kathmandu valley followed by 9.3 percent in Terai and 8.8 percent in Hill in the review month. These increments were 6.4 percent, 7.8 percent and 8.4 percent respectively in the corresponding month of the previous year.

Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 8.4 percent during the review month compared to a rise of 6.6 percent in the corresponding month of the previous year. A higher rate of growth in prices of agricultural commodities accounted for a significant rise in wholesale price inflation during the review month.



National Salary and Wage Rate

23. The y-o-y salary and wage rate index increased by 7.3 percent during the review month compared to an increase of 21.3 percent a year ago. Within the salary and wage rate index, the salary index remained unchanged during the review month compared to an increase of 19.3 percent in the corresponding month of the previous year. The wage rate index increased by 9.1 percent during the review month compared to a rise of 21.8 percent in corresponding month a year ago.
24. The indices of wages of agricultural labourers, construction labourers and industrial labourers increased by 12.2 percent, 6.8 percent and 3.4 percent respectively during the review month. These indices had increased by 17.4 percent, 23.1 percent and 31.6 percent respectively in the corresponding month of the previous year in the corresponding month of the previous year.

Fiscal Situation *

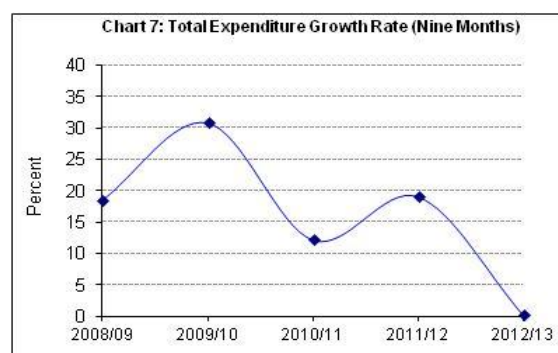
Budget Deficit / Surplus

25. During nine months of 2012/13, government budget surplus surged to Rs. 47.20 billion from Rs. 24.52 billion a year ago. A higher rate of growth in resource mobilization relative to government expenditure led to a surge in the budget surplus during the review period.

* Based on the data reported by 8 NRB offices, 66 RBBL branches (all of 66 branches conducting govt. transaction), 39 NBL branches (out of 44 branches conducting govt. transaction), 5 Everest Bank branches and 1-1 branch each of Nepal Bangladesh Bank Limited and Global IME Bank Limited conducting government transactions.

Government Expenditure

26. During the review period, total government spending increased by 0.2 percent to Rs. 187.67 billion. Total government spending had increased by 19.1 percent in the corresponding period of the previous year. Announcement of full budget only in the ninth month of the current fiscal year was responsible for the decline rate in total spending during the review period.



Government Revenue

27. During the review period, government revenue grew by 22.3 percent to Rs. 210.47 billion. Such revenue had risen by 18.1 percent to Rs. 172.09 billion in the corresponding period of the previous year. Revenue grew on the back of the rise in imports.



28. Of the total revenue mobilization, VAT revenue grew by 15.7 percent to Rs. 60.64 billion during the review period. It had increased by 15.1 percent in the corresponding period of the previous year. The growth in revenue collection from imports led to the rise in overall VAT revenue.
29. During the review period, customs revenue rose by 38.9 percent to Rs. 41.64 billion. It had increased by 13.4 percent in the corresponding period of the previous year. The rise in the imports including the imports of high tax yielding vehicles and spare parts contributed to such a growth in customs revenue during the review period.
30. Income tax revenue increased by 31.1 percent to Rs. 48.26 billion during the review period. Such revenue had risen by 23.3 percent in the corresponding period of the previous year. Positive impact of reform in income tax administration and taxpayer education campaign launched recently accounted for such an increase in the income tax revenue during the review period.
31. During the review period, excise revenue increased by 20.5 percent to Rs. 26.19 billion compared to an increase of 11.7 percent in the corresponding period of the previous year. Increase in the imports of higher excise tax yielding vehicles and reforms in tax administration accounted for such a growth of excise revenue during the review period.

32. During the review period, non-tax revenue mobilization reached to Rs. 23.82 billion. Such revenue was Rs. 25.25 billion in the corresponding period of the previous year.

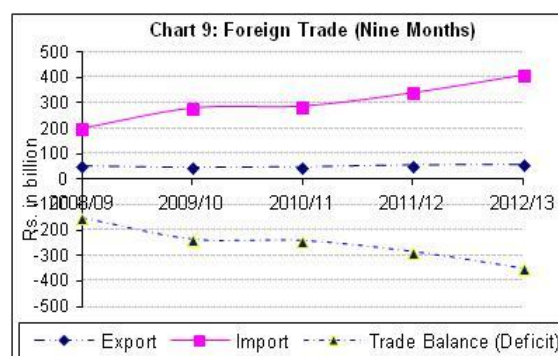
Foreign Cash Loans and Grants

33. During nine months of 2012/13, while foreign cash loans amounted to Rs. 7.21 billion, foreign cash grants stood at Rs. 17.30 billion. Such receipts were Rs. 3.61 billion and Rs. 31.81 billion respectively in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

34. Merchandise exports rose by a paltry rate of 3.5 percent to Rs. 57.16 billion during nine months of 2012/13. Such exports had increased by 15.9 percent to Rs. 55.24 billion during the same period of the previous year. Exports to India remained almost stagnant which caused overall export growth to slow during the review period. On a monthly basis, merchandise exports increased by 12.1 percent in March/April of the current fiscal year compared to that of the previous month.



35. Exports to India increased marginally by 0.4 percent during the review period compared to an increase of 18.4 percent in the corresponding period of the previous year. Exports to other countries went up by 10.0 percent compared to an increase by 11.1 percent in the same period of the previous year. In US dollar terms, exports to other countries decreased by 1.1 percent to US dollar 224.6 million in contrast to an increase of 2.7 percent during the corresponding period of the previous year. The export of G.I. pipe, wire, zinc sheet, 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.
36. During review period, merchandise imports surged by 20.3 percent to Rs. 408.83 billion. Such imports had risen by 18.0 percent to Rs. 339.84 billion during the corresponding period of the previous year. Total imports surged in the review period due to a increase in imports from both India and other countries. On a monthly basis, merchandise imports increased by 13.4 percent during March/April of the current fiscal year compared to that of the previous month.
37. Imports from India went up by 22.9 percent during review period compared to an increase of 13.1 percent in the same period of the previous year. Likewise, imports

from other countries rose by 15.5 percent compared to an increase of 28.3 percent in the corresponding period of the previous year. In US dollar terms, imports from other countries increased by 4.5 percent to US dollar 1.59 billion compared to an increase of 18 percent in the corresponding period of the previous year. Imports from India increased primarily owing to an increase in the imports of petroleum products, vehicles and spare parts, cement, rice and other machinery and parts, among others. Likewise, imports from other countries increased mainly on account of an increase in the imports of readymade garments, silver, pipe and pipe fittings, telecommunication equipment parts and shoes and sandals, among others.

38. Total trade deficit during nine months of 2012/13 surged by 23.6 percent to Rs. 351.67 billion compared to an increase of 18.4 percent during the same period of the previous year. Trade deficit with India increased by 27.6 percent during the review period compared to a growth of 12.0 percent in the same period of the previous year. Trade deficit with other countries increased by 16.5 percent compared to an increase of 31.9 percent during the same period of the previous year.
39. Due to high growth of imports, the ratio of export to import declined to 14.0 percent in the review period from 16.3 percent a year ago.

Balance of Payments Situation

40. The overall BOP recorded a surplus of Rs. 30.77 billion during nine months of 2012/13 compared to a surplus of Rs. 92.55 billion during the same period of the previous year. The current account posted a surplus of Rs. 22.23 billion in the review period compared to a surplus of Rs. 41.95 billion in the same period of the previous year. The decline in surplus in the current account was largely due to a substantial rise in the imports of services as well as the slow growth of workers' remittances in the review period. In US dollar terms, the current account registered a surplus of US dollar 253.9 million in the review period compared to a surplus of US dollar 524.3 million during the corresponding period of the previous year.
41. The FOB-based merchandise trade deficit increased by 23.5 percent to Rs. 338.43 billion during nine months of 2012/13. Such deficit had grown up by 18.1 percent in the same period of the previous year. The net service income posted a surplus of Rs. 4.56 billion in the review period compared to a surplus of Rs. 12.49 billion in the same period of the previous year. Net transfers registered a growth of 18.1 percent to Rs. 347.87 billion in the review period compared to a growth of 33.1 percent in the same period of the previous year. Under the transfers, workers' remittances surged by 21.9 percent to Rs. 302.58 billion compared to an increase of 36.5 percent in the same period of the previous year. In US dollar terms, remittance inflow increased by 10.7 percent to US dollar 3.47 billion during the review period compared to an increase of 25.1 percent in same period of the previous year. On a monthly basis, remittance inflows increased by 13.7 percent in March/April compared to the value of the previous month of this fiscal year.

Foreign Exchange Reserves

42. The gross foreign exchange reserves increased by 7.9 percent to Rs. 474.16 billion in mid-April 2013 from a level of Rs. 439.46 billion as at mid-July 2012. Such reserves had increased by 42.2 percent to Rs. 386.96 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 3.2 percent to Rs. 387.56 billion in the review period from a level of



Rs. 375.52 billion as at mid-July 2012. The gross foreign exchange reserves in US dollar terms increased by 10.1 percent to US dollar 5.46 billion in mid-April 2013. Such reserves had increased by 22.8 percent in the same period of the previous year. Likewise, during nine months of 2012/13, the reserves in terms of inconvertible foreign exchange increased by 6.8 percent to INRs 64.52 billion. Such reserves had increased by 87.3 percent during the same period of the previous year. On the basis of trend of import during the first nine months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 10.6 months and merchandise and service imports of 9.2 months.

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

43. The price of oil (Crude Oil Brent) in the international market decreased by 16.0 percent to US dollar 99.32 per barrel in mid-April 2013 from US dollar 118.23 per barrel in mid-April 2012. Similarly, the price of gold decreased by 15.6 percent to US dollar 1395.00 per ounce in mid-April 2013.
44. Nepalese currency vis-à-vis the US dollar appreciated by 2.0 percent in mid-April 2013 from the level of mid-July 2012. It had depreciated by 13.6 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 86.86 in mid-April 2013 compared to Rs. 88.60 in mid-July 2012.