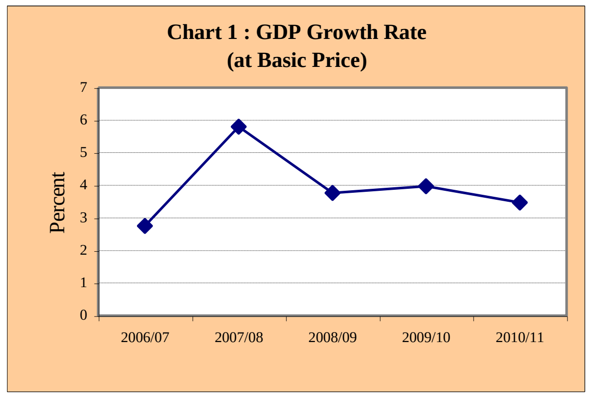
Current Macroeconomic Situation

(Based on the Annual Data of the FY 2010/11)

Real Sector

Gross Domestic Product

1. According to the preliminary estimates of the Central Bureau of Statistics (CBS) based on the first three to seven months data of 2010/2011, the real GDP at basic price grew at 3.47 percent compared to 3.97 percent in the previous year. The real GDP at producers' price was estimated to grow at 3.48 percent in the review year compared to 4.55 percent last year.

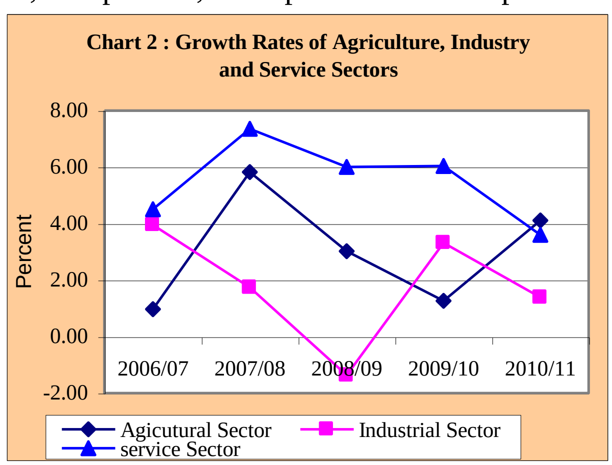


2. The agriculture and non-agriculture sectors were estimated to grow by 4.1 percent and 3.1 percent respectively in 2010/11. These sectors had grown by 1.3 percent and 5.4 percent respectively last year.

3. In 2010/11, the production of major crops like paddy and maize were estimated to grow by 10.8 percent and 11.4 percent respectively. Such a higher production was due mainly to the favorable weather condition and expansion in the area of maize cultivation. The production of these two crops had declined by 11.0 percent and 3.9 percent respectively in the previous year. In the review period, the production of vegetables, fruits, meat and milk were estimated to grow by 6.7 percent, 2.8 percent, 10.6 percent and 4.0 percent respectively.

Consumption, Saving and Investment

4. In 2010/11, the ratio of total consumption to GDP increased marginally to 93.3 percent from 92.6 percent last year. Consequently, the gross domestic saving remained at only 6.7 percent of GDP in the review year. Similarly, the ratio of gross investment to GDP stood at 30.2 percent in the review year compared to 35.1 percent in the preceding year.



Gross National Disposable Income

5. The Gross National Disposable Income (GNDI), which includes gross national income and net current transfers, was estimated to grow by 14.3 percent in 2010/11 compared to 17.2 percent in the previous year. In the review year, the ratio of GNDI to GDP stood at 124.3 percent compared to 124.9 percent in the preceding year.

Tourist Arrival

6. In 2010/11, the number of tourist arrivals by air increased by 21.7 percent to 500,750, of which the share of Indian tourists accounted for 26.1 percent and the remaining 73.9 percent from other countries.

7. In the review year, the tourist arrival from India grew by 43.5 percent to 130,717 compared to a growth of 3.8 percent in the previous year. Similarly, the tourist arrivals from other countries increased by 15.5 percent in the review period compared to 15.7 percent in the preceding year.

Table 1: Inflow of Tourists via Air

Countries	Tourist Arrival			% Change		% Share
	2008/09	2009/10	2010/11	2009/10	2010/11	2010/11
India	87,818	91,116	130,717	3.76	43.46	26.10
Other Countries	277,011	320,468	370,033	15.69	15.47	73.90
Total	**364,829**	**411,584**	**500,750**	**12.82**	**21.66**	**100.00**

Source: Nepal Tourism Board

Foreign Direct Investment

8. With the gradual improvement in peace and security situation and investment-friendly environment, the inflow of foreign direct investment was expected to increase. The Government of Nepal, Department of Industry granted approval to 209 joint venture projects with a foreign direct investment commitment of Rs. 10.05 billion in 2010/11. Such figures were 171 joint venture projects with a total amount of Rs. 9.1 billion. Out of 209 registered projects, 88 are service-related, 47 tourism, 39 manufacturing, 23 agriculture, 6 energy, 5 mines and 1 is construction-related projects. In the review year, there was a remarkable increment in the agro-based projects that rose to 23 from only 2 in the previous year. There were 50 projects related to tourism and 72 projects related to service sector last year.

9. In the review period, the number of joint venture projects increased by 22.2 percent, while the investment amount increased by 10.4 percent only. On the basis of number of projects, China stood first (69) followed by India (38) and South Korea (18). These projects were expected to generate employment opportunities for 10,887 people.

Foreign Employment

10. In 2010/11, the Government of Nepal, Department of Foreign Employment granted the final approval to 354,716 workers for foreign employment, a 20.6 percent increase in comparison to that of the previous year.

11. Malaysia and Gulf countries appeared to be the major destinations for Nepalese workers. Of the total Nepalese workers granted final approval for foreign employment, 29.9 percent are for Malaysia, 29.0 percent for Qatar, 20.1 percent for Saudi Arabia, 12.5 percent for UAE and 4.3 percent for Kuwait. The shares of these countries were 38.8 percent, 19.0 percent, 21.6 percent, 11.3 percent and 2.8 percent respectively in the preceding year. Despite the decline in the number of workers approved for Malaysia in the review year, it still records the position of attracting the largest number of Nepalese workers.

Table 2: Number of Workers Approved for Foreign Employment

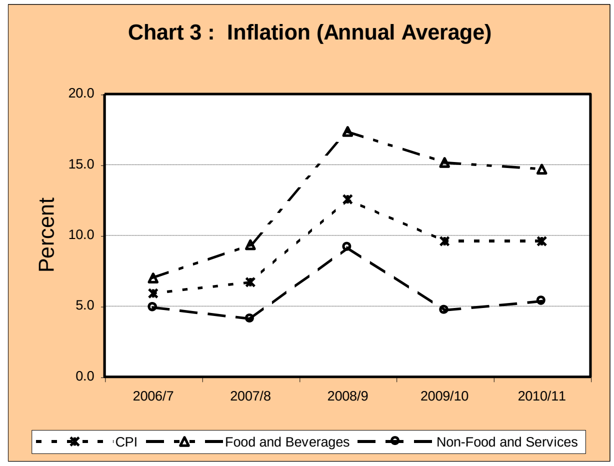
Countries	Total Approval for Foreign Employment			% Change		Share
	2008/09	2009/10	2010/11	2009/10	2010/11	2010/11
Malaysia	35070	113982	105906	225.01	-7.09	29.86
Qatar	76175	55940	102966	-26.56	84.07	29.03
Saudi Arab	48749	63400	71116	30.05	12.17	20.05
UAE	31688	33188	44464	4.73	33.98	12.54
Kuwait	2291	8255	15187	260.32	83.97	4.28
Others	25992	19329	15077	-25.63	-22.00	4.25
Total	**219965**	**294094**	**354716**	**33.70**	**20.61**	**100.00**

Source: Department of Foreign Employment, Government of Nepal.

Inflation

Consumer Price Inflation

12. The annual average consumer price inflation remained constant at 9.6 percent in 2010/11 compared to an increase of 9.6 percent in 2009/10. Despite a substantial rise of 14.7 percent in the prices of food and beverages group, the annual average consumer price inflation moderated on account of a low increment by 5.4 percent in the prices of non-food and services group. The index of food and beverages and non-food and services had increased by 15.1 percent and 4.9 percent respectively in 2009/10.



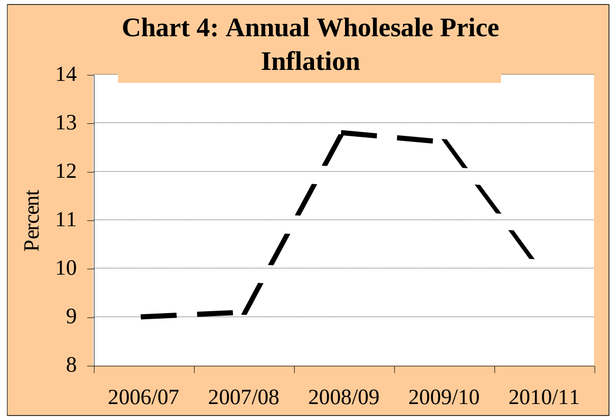
13. In the review year, yearly average price index of vegetables, the item under food and beverages group, increased sharply by 35.0 percent; it had increased by 20.5 percent in the previous year. Similarly, the annual average price indices of spices, sugar and sweets and fruits went up by 23.2 percent, 19.5 percent and 19.4 percent respectively compared to their respective increments of 27.4 percent, 45.3 percent and 20.5 percent in the previous year. The annual price index of restaurant and hotel grew by 15.5 percent compared to a 20.3 percent rise in the previous year. Likewise, the annual price indices of milk products and egg, cereals grains and their products and tobacco products increased by 14.6 percent, 13.9 percent and 13.5 percent respectively compared to their respective increases of 11.9 percent, 10.1 percent and 12.5 percent in the previous year. In 2010/11, the annual average price index of legume varieties declined by 7.6 percent as against a rise of 26.0 percent in the previous year.

14. Under the non-food and services group, the yearly average indices of clothing and footwear as well as housing and utilities rose up by 13.3 percent and 7.5 percent respectively compared to their respective rise of 7.6 percent and 3.1 percent in the previous year. Similarly, the annual price indices of furnishing and household equipment and education grew by 5.7 percent and 5.5 percent respectively compared to their respective increments of 6.2 percent and 11.4 percent in the previous year. The annual average index of transport, which had declined by 4.7 percent in the previous year, increased by 10.1 percent in the review year. The annual average index of communication, which had remained unchanged in the previous year, declined by 10.6 percent during the review year.

15. Region-wise, annual average price indices of Katmandu Valley, Hills and Terai in the review year increased by 12.1 percent, 10.6 percent and 7.2 percent respectively. In the last year, such indices had risen by 9.2 percent, 10.3 percent and 9.5 percent respectively.

Wholesale Price Inflation

16. The annual average wholesale price inflation rose by 9.9 percent in 2010/11 compared to a 12.6 percent rise in the previous year. The annual average price indices of agricultural commodities and domestic manufactured commodities increased by 10.8 percent and 9.1 percent respectively compared to their respective rise of 22.8 percent and 8.6 percent in the previous year. The annual average index of imported commodities, which had declined by 1.2 percent in the previous year, increased by 8.5 percent during the review year.



17. Within the agricultural commodities group, the annual average price indices of spices, fruits and vegetables and foodgrains rose by 38.1 percent, 23.6 percent and 13.0 percent respectively compared to their respective increments of 37.6 percent, 9.4 percent and 17.2 percent a year ago.

18. The annual average price indices of beverages and tobacco and food related product, within domestic manufactured commodities group rose by 14.3 percent and 5.7 percent respectively in comparison to their respective increments of 13.4 percent and 12.5 percent in the previous year. The annual average price index of construction materials, which had increased by 4.0 percent in previous year, increased by 5.2 percent during the review year.

19. Within the imported commodities group, the annual average price indices of petroleum products and coal and transport vehicles and machinery goods, which had decreased by 4.8 percent and 1.5 percent in pervious year, increased by 15.8 percent and 5.8 percent respectively during the review year. Likewise, the annual average price index of chemical fertilizer and chemical goods, which had decreased by 9.9 percent in the previous year, increased by 4.9 percent during the review year.

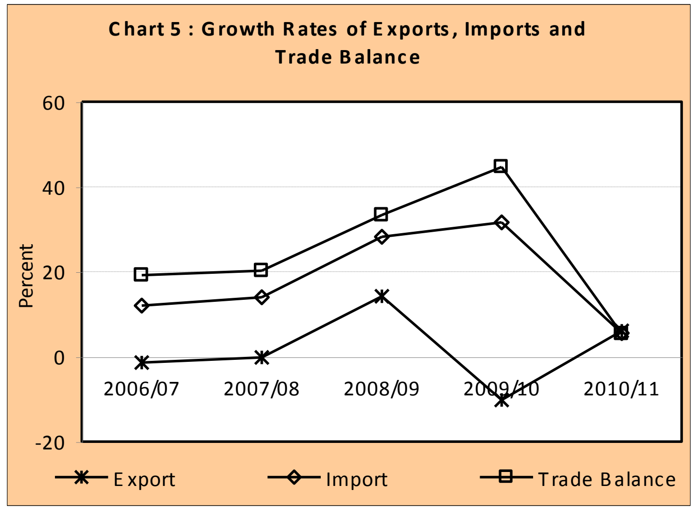
National Salary and Wage Rate Index

20. The annual average salary and wage rate index rose by 18.0 percent in 2010/11. It had increased by 17.2 percent in the previous year. In the review year, annual average price index of salary remained unchanged, whereas the wage rate index went up by 24.0 percent. Their respective increment was 20.2 percent and 16.3 percent in the previous year. During the review year, within the wage rate index, annual average indices of agricultural, industrial and construction laborer increased by 32.3 percent, 9.5 percent and 21.3 percent respectively. The y-o-y salary and wage rate index rose by 19.1 percent in mid-July 2011 compared to a rise of 15.8 percent a year ago.

External Sector Situation

Foreign Trade

21. In 2010/11, the growth rate of exports outpaced the growth of imports for the first time in ten years. While exports rebounded after a slump in the previous year, the growth rate of imports declined markedly, resulting in a significant fall in the growth of trade deficit. Nevertheless, trade concentration with India reached its peak, constituting about two thirds of Nepal's total trade.



22. Export trade, which had declined by 10.2 percent in the previous year, recorded a growth of 6.1 percent to Rs. 64.56 billion in the review year. Exports had amounted to Rs. 60.82 billion in the previous year.

23. Exports to India went up by 8.4 percent during the review year in contrast to a drop by 2.5 percent in the last year. Exports to other countries increased by 1.8 percent in contrast to a plunge by 22.0 percent in a year ago. The increase in the exports to India was mainly ascribed to the increase in the exports of zinc sheet, jute goods, juice, cardamom and thread, among others. Exports to other countries increased due mainly to an increase in the export of pashmina, woolen carpet, tanned skin and tea, among others.

24. In 2010/11, merchandise imports increased by 5.5 percent to Rs. 394.90 billion, primarily led by strong growth (43.9 percent) of petroleum product import. Such imports had risen by 31.6 percent to Rs. 374.34 billion in the last year. On a monthly basis, the merchandise imports declined by 2.9 percent in June/July of the current fiscal year in comparison to the value of the previous month.

25. Imports from India soared by 20.5 percent during the review year compared to a growth of 33.7 percent in the last year. Likewise, imports from other countries plummeted by 15.2 percent in contrast to a growth of 28.8 percent in a year ago. In the review year, the import of petroleum products, M.S. billet, medicine, cold rolled sheet in coil and hot rolled sheet in coil, among others, increased from India whereas import of gold, readymade garments, steel rod & sheet, other machinery & parts and betel nuts declined from other countries.

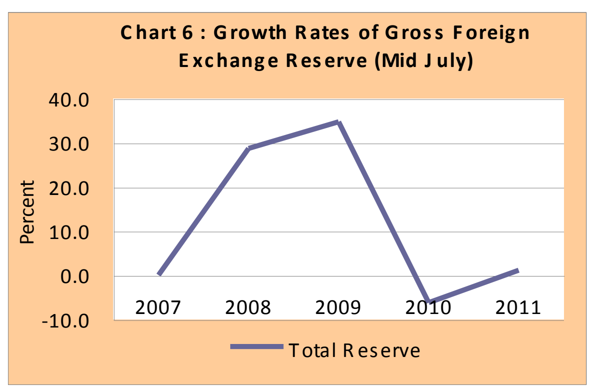
26. Due to the improvement in the export and reduction in the growth of import, total trade deficit went up only by 5.4 percent to Rs. 330.34 billion in the review year. Trade deficit had expanded by 44.6 percent in the last year. Trade deficit with India rose by 23.2 percent during the review year compared to a growth of 45.9 percent in the last year. On the contrary, trade deficit with other countries declined by 17.8 percent compared to a growth of 43.1 percent in a year ago.

27. The ratio of export to import increased marginally to 16.3 percent in the review year compared to a growth of 16.2 percent in the previous year. The share of India in Nepal's total trade stood at 66.4 percent in the review year as compared to 59.1 percent a year ago.

Balance of Payments Situation

28. The overall BOP which had remained in deficit until the ten months of 2010/11 ended with a surplus of Rs. 2.93 billion in contrast to a deficit of Rs. 3.63 billion in the previous year. The BOP registered the highest deficit of Rs. 14.79 billion in the nine months of the review year. The improvement in the BOP was attributed to the significant moderation in the current account deficit coupled with satisfactory increase in the government capital transfers and external loan. The current account deficit shrank to Rs. 11.91 billion from a deficit of Rs. 28.14 billion a year ago. The deceleration in the growth of trade deficit resulting from higher growth in exports than imports coupled with improvement in the service account led to significant contraction in the current account deficit. In the review year, the current account deficit to GDP ratio improved to 0.9 percent from 2.4 percent a year ago.

29. The FOB-based merchandise trade deficit increased by 5.0 percent to Rs. 318.74 billion during the review year. Such deficit had grown by 45.0 percent in the previous year. The service account deficit declined considerably by 47.7 percent to Rs. 8.57 billion during the review year. Service account deficit had increased by 56.4 percent to Rs. 16.39 billion in the previous year. The net transfer account registered a growth of 8.9 percent to Rs. 307.86 billion in the review year compared to that of a year ago. Under the transfers sub-group, pension receipts rose by 12.2 percent to Rs. 28.99 billion. Likewise, workers' remittances increased by 9.4 percent to Rs. 253.55 billion compared to its growth of 10.5 percent in the previous year. On a monthly basis, the remittance inflows increased by 5.1 percent in June/July compared to the value of the previous month of the review year. Likewise, under the financial account, foreign direct investment of Rs 6.44 billion was recorded in the review year compared to the level of Rs 2.85 billion in the previous year. The government loan inflows stood at Rs 13.70 billion, just double than that of the previous year. Under the capital account, capital transfer increased by 26.5 percent to Rs. 15.91 billion in the review year compared to the level of Rs. 12.58 billion in the previous year.



Foreign Exchange Reserves

30. The gross foreign exchange reserves increased by 1.2 percent to Rs. 272.10

billion in mid-July 2011 from a level of Rs. 268.91 billion as at mid-July 2010. Such reserves had gone down by 6.2 percent in the previous year. On a monthly basis, foreign exchange reserves of Rs 10.76 billion increased in the month of June/July from the level of the previous month of the review year. Out of total reserve, NRB's reserves augmented by 3.8 percent to Rs. 213.09 billion in mid-July 2011 from a level of Rs. 205.37 billion as at mid-July 2010. The gross foreign exchange reserves in USD terms increased by 6.2 percent to USD 3.84 billion in mid-July 2011. Such reserves had decreased by 1.6 percent in the last year. Based on the trend of import during the review year, the current level of reserves is sufficient for financing merchandise imports of 8.4 months and merchandise and service imports of 7.3 months.

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

31. The price of oil (Crude Oil Brent) in the international market surged by 54.5 percent to USD 118.06 per barrel in mid-July 2011 from USD 76.40 per barrel in mid-July 2010. Similarly, the price of gold also escalated by 33.4 percent to USD 1,587.00 per ounce in mid-July 2011 from the level a year ago.

32. Nepalese currency vis-à-vis the US dollar appreciated by 4.92 percent in mid-July 2011 from the level of mid-July 2010. It had appreciated by 4.85 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 70.95 in mid-July 2011 compared to Rs. 74.44 in mid-July 2010.

Fiscal Situation *

Budget Deficit / Surplus

33. The government budget deficit, on cash basis, increased by 24.3 percent to Rs. 50.63 billion in 2010/11, such deficit was Rs 40.73 billion in 2009/10. The ratio of budget deficit to GDP remained at 3.8 percent in the review year, as against 3.5 percent in the previous year.

Sources of Deficit Financing

34. In 2010/11, the domestic financing of the budget deficit through the issuance of securities amounted to Rs. 33.68 billion, accounting for 2.5 percent of GDP.

35. After deducting the principal repayment of Rs. 6.05 billion from gross domestic borrowings, net domestic borrowings (including overdraft of Rs 13.01 billion from the NRB) stood at Rs 40.64 billion. The ratio of net domestic borrowing to GDP stood at 3.0 percent in the review year. Consequently, the GoN's total outstanding domestic debt

* Based on the data reported by 8 offices of NRB, 65 out of total 65 branches of Rastriya Banijya Bank Limited, 43 out of total 43 branches of Nepal Bank Limited, 5 branches of Everest Bank Limited and 1 branch each of Nepal Bangladesh Bank Limited and Global Bank Limited conducting government transactions.

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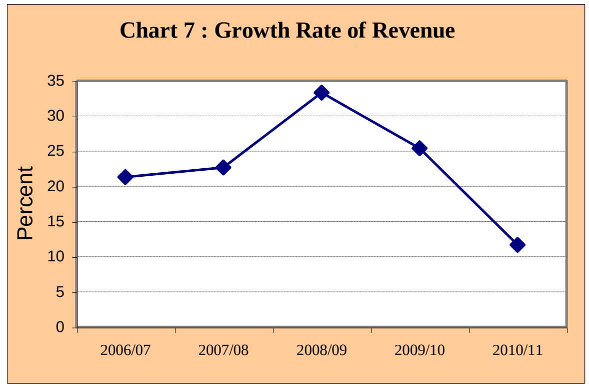
increased to Rs. 200.21 billion. This amount also includes the government's overdraft of Rs. 7.88 billion last year and an overdraft of Rs. 13.01 billion in the review year.

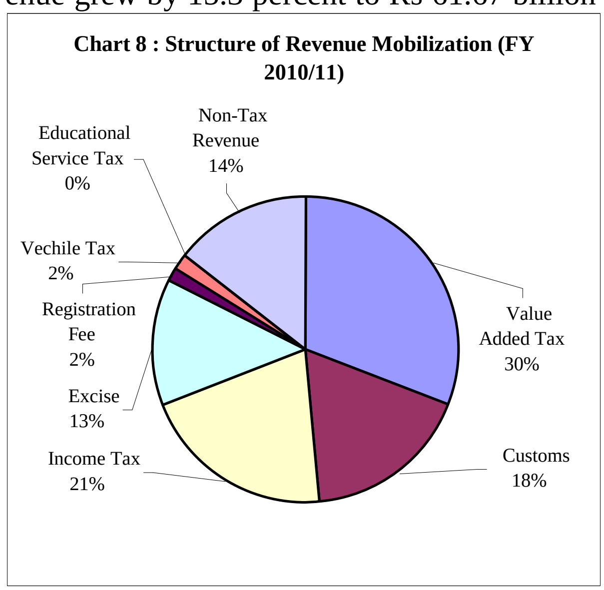
36. The total external cash borrowing of the government increased by 17.4 percent to Rs 4.93 billion in 2010/11 compared to Rs 4.20 billion in the previous year.

Government Revenue and Foreign Cash Grants

37. In 2010/11, revenue mobilization of the GoN increased by 11.6 percent to Rs. 200.79 billion, which is 92.7 percent of annual budget estimate of Rs. 216.64 billion. The revenue had risen by 25.4 percent to Rs. 179.95 billion in 2009/10. Consequently, the revenue to GDP ratio remained at 14.9 percent in 2010/11 as against 15.4 percent in 2009/10. The impact of the delay in the announcement of the government budget, revenue mobilization based on previous year's Finance Act during the first four months and slow growth rate of the capital expenditure were responsible for such a low growth rate of revenue mobilization. Likewise, decline in the growth rate of import also affected the growth rate of revenue of the government during the review year.



38. Of the total revenue mobilization, VAT revenue grew by 15.3 percent to Rs 61.67 billion in 2010/11. Such revenue had increased by 35.0 percent in the previous year. Lack of expansion of industrial products, ineffective billing system, use of fake bills and low invoicing practice were attributed for such a low growth rate in VAT.



39. In 2010/11, customs revenue rose by 1.8 percent to Rs. 35.66 billion compared to an increase of 31.6 percent in the previous year. The growth rate of customs revenue declined mainly due to the low growth rate of import compared to that of the previous year.

40. Income tax revenue increased by 23.9 percent to Rs. 41.68 billion in 2010/11 compared to an increase of 22.4 percent in the previous year. A positive impact of tax compliance year 2010/11 accounted for such an increase in the income tax revenue mobilization.

41. In the review year, excise revenue increased by 8.5 percent to Rs. 26.39 billion compared to an increase of 49.6 percent in the previous year. The growth rate of excise revenue declined mainly due to the decline in imports of high excise tax-yielding vehicles.

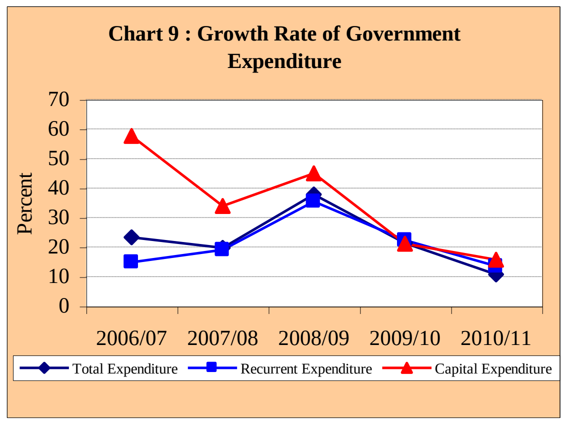
42. Amongst the components of revenue in 2010/11, VAT constituted a share of 30.7 percent followed by income tax (20.8 percent), customs duties (17.8 percent), and excise duties (13.1 percent). In the previous year, such compositions were 29.7 percent, 18.7 percent, 19.5 percent and 13.5 percent respectively.

43. In the review year, non-tax revenue increased by 14.6 percent to Rs. 28.97 billion compared to a decrease of 4.3 percent in the previous year.

44. In 2010/11, foreign grants on cash basis increased by 3.9 percent to Rs.26.21 billion. In the previous year such grants had risen by 3.4 percent to Rs. 25.23 billion.

Government Expenditure

45. The government expenditure, on cash basis, increased by 10.7 percent to Rs.277.68 billion in 2010/11 compared to an increase of 21.3 percent to Rs. 250.82 billion in the previous year. During the review period, the low growth rates on both recurrent and capital expenditures were attributed for such a low growth rate in the government expenditure.



46. In the review year, the government's recurrent expenditure rose by 13.5 percent to Rs.166.01 billion compared to an increase of 22.3 percent in the previous year. Delay in the announcement of the annual budget of FY 2010/11 was responsible for such a low growth rate of recurrent expenditure.

47. In 2010/11, the capital expenditure went up by 15.7 percent to Rs 87.89 billion compared to an increase of 21.1 percent in the previous year. However, such amount of capital expenditure accounted for only 67.8 percent of the annual budget estimate of 2010/11. Delay in the announcement of the annual budget, delay in approval of program and procurement process and slow process in tenders for infrastructure development were mainly attributed to the lower performance of capital expenditure in the review year.

Monetary Situation

Money Supply

48. Broad money (M2) increased by 9.5 percent in 2010/11 compared to a growth of 14.1 percent in the previous year. Despite some increment in net foreign asset (NFA) of the banking sector, the growth rate of broad money remained lower in 2010/11 compared to the previous year on account of slower growth in net domestic assets. Narrow money (M1) increased by 4.5 percent in the review year.

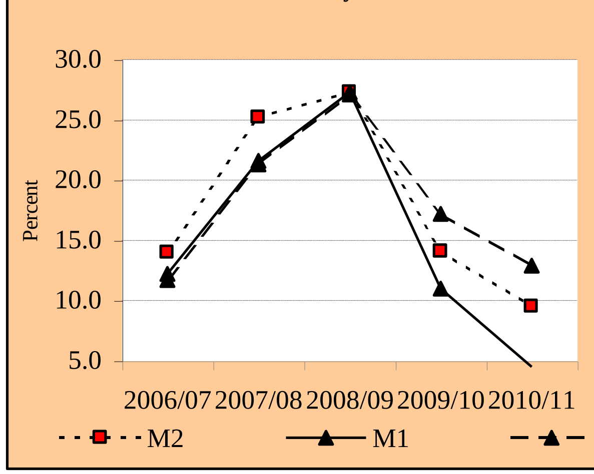


Chart 10 : Monetary Situation

49. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 2.93 billion (1.4 percent) in the review year against a decline of Rs. 3.63 billion (1.6 percent) in the previous year. The improvement in merchandise export and workers' remittances as well slower growth in import were the factors responsible for the improvement in balance of payments (BoP), thereby leading to the increase in net foreign assets of the monetary sector.

Domestic Credit

50. Domestic credit increased by 12.9 percent during the review year. It had increased by 17.2 percent in the previous year. During the review year, claims on private sector increased by 11.7 percent compared to a growth of 14.2 percent in the previous year. The policy measures initiated to curb the excessive credit flow to unproductive sector and a decline in import growth contributed to slower growth in credit to the private sector during the review year.

Deposit Mobilization and Credit Flow of Commercial Banks

51. The imbalance between deposit mobilization and lending by commercial banks also continued in 2010/11. The deposit mobilization of commercial banks increased by Rs. 59.62 billion while the loan and advances increased by Rs. 79.80 billion in the review year. The deposit mobilization and loan and advances had increased by Rs. 69.93 billion and Rs. 76.71 billion respectively in the previous year. Credit to private sector increased by Rs. 57.94 billion during the review year compared to Rs. 65.61 billion in the previous year.

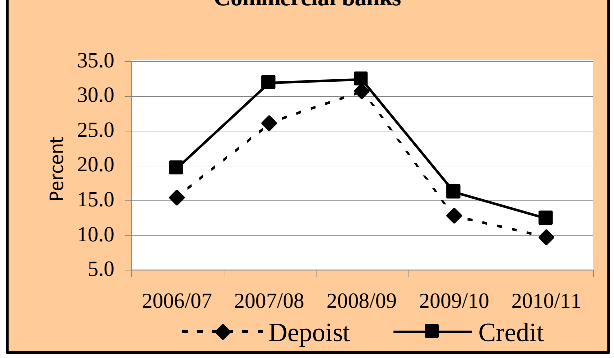


Chart 11: Growth of Deposit and Credit of Commercial banks

52. Of the total bank credit to private sector, the credit to production sector increased by Rs. 20.13 billion during the review year compared to Rs. 6.84 billion in the previous year. Similarly, banks' credit to wholesale and retail trade, and construction sectors increased by Rs. 20.63 billion and Rs. 2.02 billion respectively during the review year. On the contrary, credit to agriculture, and transportation, communication and public services declined by Rs. 1.77 billion and Rs. 2.46 billion respectively during the review year.

Liquidity Management

53. The NRB injected net liquidity of Rs. 71.39 billion through secondary market operation in 2010/11. Liquidity of Rs. 21.0 billion was mopped up through outright sale auction of Rs. 2.0 billion and reverse repo auction of Rs. 19.0 billion in the review year. On the other hand, liquidity of Rs. 92.39 billion was injected through repo auction in the review year. Liquidity of Rs. 8.44 billion was mopped up through outright sale auction and reverse repo auction while Rs. 135.06 billion was injected through outright purchase auction and repo auction in the previous year.

54. The NRB injected net liquidity of Rs. 174.30 billion through the purchase of USD 2.41 billion from foreign exchange market (commercial banks) in 2010/11. A net liquidity of Rs. 118.66 billion was injected through the purchase of USD 1.60 billion from foreign exchange market in the previous year.

55. The NRB purchased Indian currency equivalent to Rs. 198.15 billion through the sale of USD 2.74 billion in the Indian money market during the review year. INR equivalent to Rs. 163.35 billion was purchased through the sale of USD 2.19 billion in the previous year. Such a higher amount of INR purchase in the review year is mainly attributed to the widening trade deficit with India on account of sharp increase in the import of petroleum products.

Inter Bank Transaction and Standing Liquidity Facility

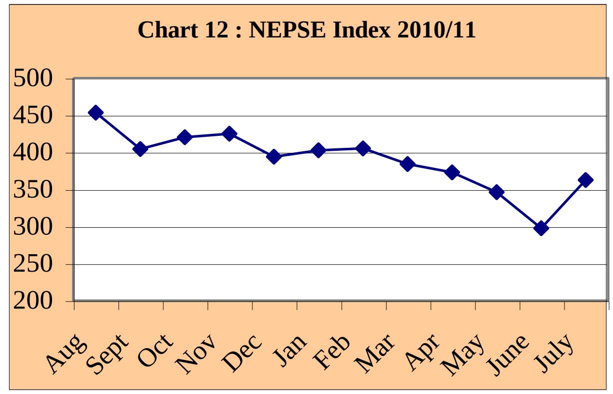
56. Inter-bank transaction of commercial banks reached Rs. 397.56 billion in 2010/11 compared to Rs. 268.85 billion in the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 216.67 billion during the review year. The outstanding amount of SLF was Rs. 310 million as at mid-July 2011. Liquidity injected through the SLF had amounted to Rs. 95.94 billion in the previous year and there was no outstanding amount of SLF as at mid-July 2010.

Short-term Interest Rates

57. The short-term interest rates remained slightly higher in 2010/11 compared to the previous year. For example, the weighted monthly average 91-day Treasury bill rate stood at 7.41 percent in 2010/11 compared to 6.5 percent in the previous year. Similarly, the weighted average inter-bank rate remained at 8.44 percent in 2010/11 compared to 7.74 percent in the previous year.

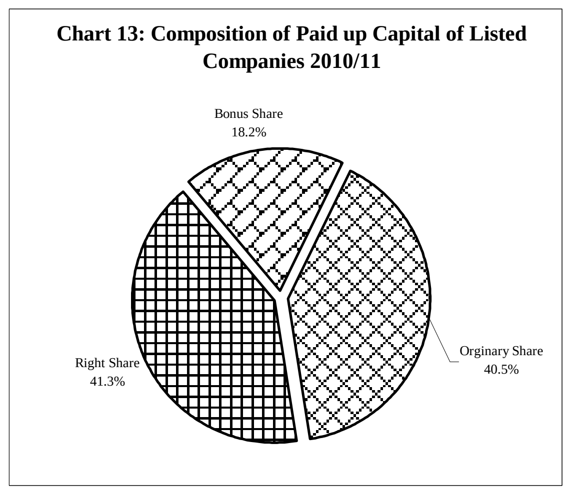
Securities Market

58. The NEPSE index declined by 24.1 percent to 362.85 points in mid-July 2011 compared to 477.73 points a year ago. Due to increased supply of corporate shares in the market and prolonged adverse economic and political situation of the country, both the share prices and market index remained in downward trend. Likewise, NEPSE sensitive index (based on July 2006) stood at 89.44 point in mid July 2011, as against 116.14 in the same period last year. The NEPSE float index, calculated on the basis of closing transaction as of August 24, 2008 (as base market value), remained at 30.67 in mid July 2011, compared to 44.30 in the previous year.



59. Improvement in the stock market transaction could not take place during the year 2010/11. Most of the indices of stock market went down compared to last year. Thus, the transaction of stock market declined by 43.5 percent to Rs. 6.66 billion during the year 2010/11. Such volume of transaction was Rs. 11.78 billion in the previous year.

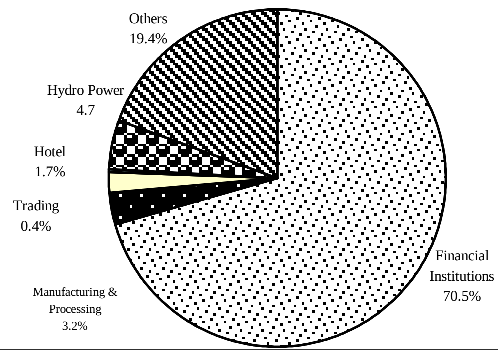
60. The market capitalization declined to Rs. 323.48 billion in mid- July 2011 from Rs. 376.87 billion in mid-July 2010. As a result, the ratio of market capitalization to GDP stood at 24.0 percent in the review year. Such ratio was 32.2 percent a year ago. Of the total market capitalization, the share of bank and financial institutions accounted for 70.5 percent followed by manufacturing and processing companies (3.2 percent), hotels (1.7 percent), business entities (0.4 percent), hydropower (4.7 percent) and other economic sectors (19.4 percent).



61. Total paid-up capital of the listed companies stood at Rs. 100.23 billion in mid-July 2011, an increase of 25.6 percent over the period of one year. This increase was largely due to the additional listing of securities at the NEPSE. Among the increased amount, the portion of right share accounted for 41.3 percent followed by ordinary share (40.5 percent) and bonus share (18.2 percent). In the previous year, the proportions of right share, ordinary share and bonus share were 52 percent, 28 percent and 20 percent respectively. In the review year, ordinary share of Rs 8.79 billion of 31 companies, bonus share of 58 companies worth Rs. 3.95 billion and right share of 40 companies amounting to Rs. 8.95 billion have been listed with Nepal Stock Exchange Limited. Likewise, government securities of Rs.7.99 billion were also listed at the NEPSE.

62. Total number of companies listed at the NEPSE increased from 176 in mid-July 2010 to 209 in mid-July 2011. Among them, 177 are 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).

Chart 14 : Share of Market Capitalization of Listed Companies in 2010/11



Expansion of Financial System

63. In 2010/11, a total of 15 new banks and financial institutions came into operations including 4 commercial banks, 8 development banks and 3 micro-finance development banks. During the same period, 7 non-government organizations licensed by this bank to carry out micro finance transaction were de-licensed. As at mid-July 2011, the total number of banks and financial institutions licensed by Nepal Rastra Bank stood at 272.

Table 3: The Number of Banks and Financial Institutions

Bank and Financial Institutions	Mid-July	
	2010	2011
Commercial Banks ("A")	27	31
Development Banks ("B")	79	87
Finance Companies ("C")	79	79
Micro Finance Development Bank ("D")	18	21
NRB Licensed Cooperatives (undertaking limited banking transactions)	16	16
NRB Licensed NGOs (undertaking micro finance transactions)	45	38
Insurance Companies	25	25

64. Besides the establishment of new banks and financial institutions, the branches of commercial banks and development banks also increased significantly in the review period. For example, commercial banks branches increased by 145 to 1,111 in mid-July 2011 from 966 in mid-July 2010.