

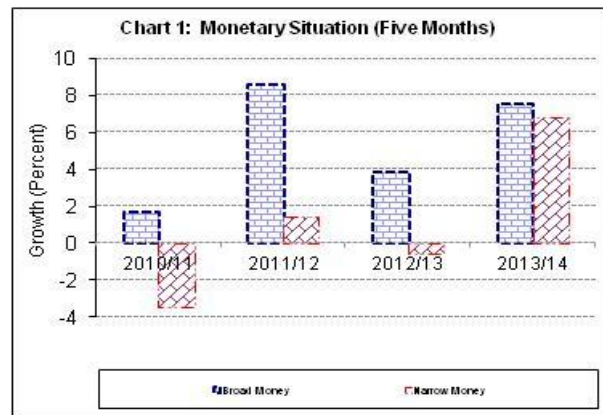
Current Macroeconomic Situation of Nepal

(Based on Five Months' Data of 2013/14)

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 7.6 percent in the five months of 2013/14 compared to an increase of 3.9 percent in the corresponding period of the previous year. Likewise, narrow money supply (M1) increased by 6.8 percent in the review period against a decline of 0.6 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 grew by 20.5 percent and M1 grew by 22.9 percent in mid-December 2013.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 68.02 billion (14.5 percent) during the review period compared to an increase of Rs. 3.30 billion (0.9 percent) in the corresponding period of the previous year. Expansion of remittance inflow and increase in foreign assistance resulted in a higher growth of net foreign assets in the review period.

Domestic Credit

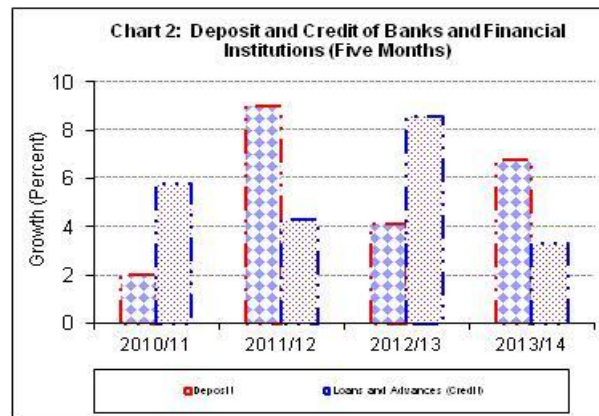
3. In the review period, domestic credit decreased by 0.7 percent in contrast to a growth of 5.5 percent in the same period of the previous year. The decline in domestic credit is due to a decrease in net claims on government in the review period. On y-o-y basis, domestic credit increased by 10.3 percent in mid-December 2013. The claims on private sector increased by 4.4 percent in the review period compared to an increase of 9.2 percent in the same period of the previous year.

Reserve Money

4. Reserve money increased by 7.8 percent in the review period in contrast to a decline of 8.5 percent in the corresponding period of the previous year. On y-o-y basis, such money increased by 30.7 percent in mid-December 2013. Increase in currency in circulation along with the increment of deposit of banks and financial institutions (BFIs) at Nepal Rastra Bank (NRB) resulted in a growth of reserve money in the review period.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of BFIs increased by 6.8 percent (Rs. 80.26 billion) in the review period. Such deposit mobilization had increased by 4.1 percent (Rs. 41.39 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs expanded by 20.4 percent in mid-December 2013. In the review period, deposit mobilization of commercial banks increased by 6.3 percent, development banks by 10.5 percent and finance companies by 6.7 percent. The deposit mobilization of commercial banks had increased by 3.2 percent, development banks by 6.9 percent and finance companies by 5.3 percent in the same period of the previous year.



Credit Flow of Banks and Financial Institutions

6. In the five months of 2013/14, loans and advances of BFIs increased by 3.3 percent (Rs. 37.42 billion) compared to a growth of 8.6 percent (Rs. 83.38 billion) in the same period of the previous year. In the review period, loans and advances of commercial banks increased by 2.4 percent, development banks by 10.1 percent and finance companies by 5.0 percent. Similarly, the credit to private sector from BFIs increased by 3.6 percent (Rs. 33.43 billion) in the review period compared to a growth of 8.3 percent (Rs. 64.59 billion) in the same period of the previous year. On y-o-y basis, the credit to private sector from BFIs increased by 15.5 percent in mid-December 2013. In the review period, credit to private sector from commercial banks increased by 3.0 percent, development banks by 8.7 percent and finance companies by 0.3 percent. Such figures had increased by 7.5 percent, 12.2 percent and 9.2 percent respectively in the same period of the previous year.
7. Of the total credit from BFIs, the credit to industrial production sector increased by Rs. 14.16 billion in the review period compared to an increase of Rs. 16.19 billion in

the same period of the previous year. Similarly, credit to agriculture sector increased by Rs. 2.29 billion in the review period compared to an increase of Rs. 6.91 billion in the corresponding period of the previous year. In the review period, the credit to construction sector increased by Rs. 7.62 billion, to transportation, communication and public services by Rs. 1.82 billion and to wholesale and retail trade sector by Rs. 18.45 billion. The credit to construction sector had increased by Rs. 4.42 billion, to transportation, communication and public services by Rs. 2.73 billion and to wholesale and retail trade sector by Rs. 14.73 billion in the same period of the previous year.

Liquidity Management

8. In the review period, NRB injected net liquidity of Rs. 139.01 billion through the net purchase of USD 1.39 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 85.85 billion was injected through the purchase of USD 988.0 million in the same period of the previous year.
9. NRB purchased Indian currency (INR) equivalent to Rs. 125.18 billion through the sale of USD 1.26 billion in the review period. INR equivalent to Rs. 101.0 billion was purchased through the sale of USD 1.16 billion in the same period of the previous year.
10. The excess liquidity of BFIs has been mopped up through the open market operations (OMOs) during the review period. NRB mopped up net liquidity of Rs. 64.50 billion through reverse repo auction and Rs. 8.50 billion through outright sale auction in the review period. A net liquidity of Rs. 8.50 billion was mopped up through outright sale auction in the corresponding period of the previous year.

Inter-bank Transactions and Standing Liquidity Facility

11. In the review period, inter-bank transactions of commercial banks stood at Rs. 69.98 billion and those of other financial institutions amounted to Rs. 53.64 billion. Those figures stood at Rs. 133.03 billion and Rs. 55.75 billion respectively in the corresponding period of the previous year. The standing liquidity facility (SLF) has not been utilized in the review period.

Interest Rates

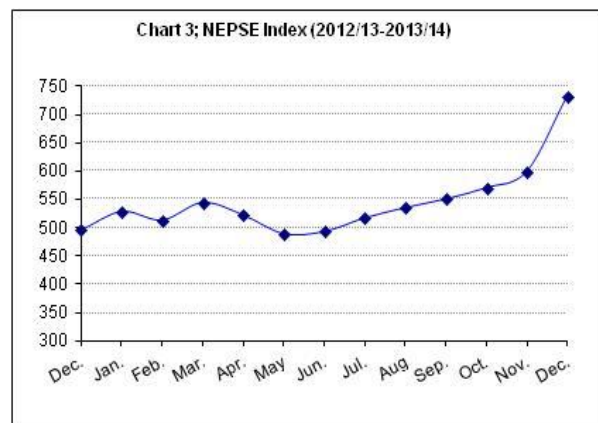
12. The weighted average Treasury bill rate and inter-bank transaction rate declined in December 2013 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate decreased to 0.08 percent in December 2013 from 0.74 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.20 percent in December 2013 compared to 0.57 percent in December 2012. Likewise, the weighted average inter-bank rate among

other financial institutions declined to 2.73 percent in December 2013 from 3.80 percent a year ago.

13. In mid-December 2013, the weighted average deposit and lending rates of commercial banks remained at 4.75 percent and 11.48 percent respectively. Accordingly, the interest rate spread (lending rate less deposit rate) of commercial banks stood at 6.73 percent in mid-December 2013. Such spread was 6.93 percent in the previous month. Moreover, the average base rate of commercial banks remained at 8.86 percent in mid-December 2013. Such rate was 9.03 percent in the previous month.

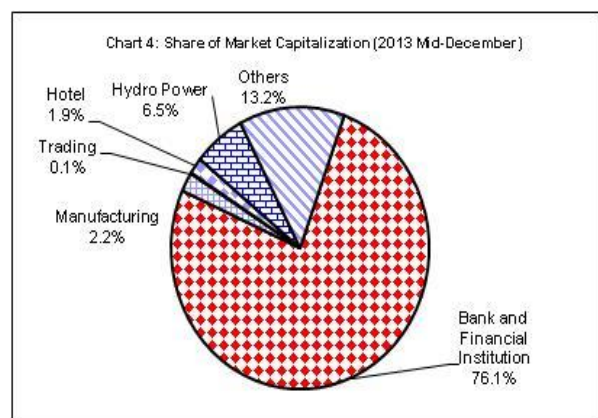
Securities Market

14. NEPSE index, on y-o-y basis, increased by 52.4 percent to 733 points in mid-December 2013. The index had increased by 52 percent in the corresponding period of the previous year and stood at 480.9 points in mid-December 2012.



15. The y-o-y stock market capitalization increased by 63.4 percent to Rs. 744.14 billion in mid-December 2013. The ratio of market capitalization to GDP stood at 43.7 percent in mid-December 2013 compared to 29.6 percent a year ago.

16. Of the total market capitalization as of mid-December 2013, the share of banks and financial institutions (including insurance companies) stood at 76.1 percent while that of hydropower, manufacturing and processing companies, hotels, business entities, and other sectors stood at 6.5 percent, 2.2 percent, 1.9 percent, 0.1 percent and 13.2 percent respectively.



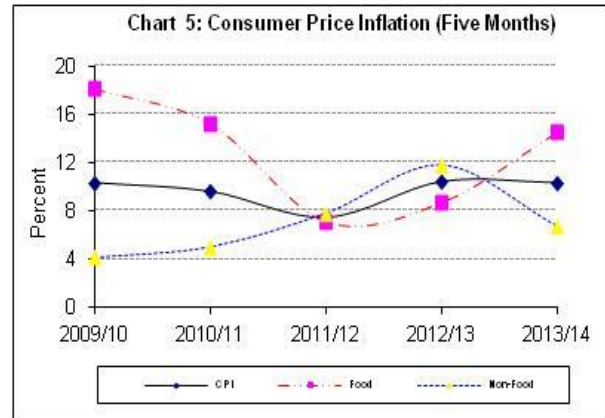
17. Total number of companies listed at the NEPSE increased from 220 in mid-December 2012 to 235 in mid-December 2013. Of the total listed companies the number of banks and financial institutions (including insurance companies) stood at 203 followed by production and processing industries (18), hotels (4), business entities (4), hydropower companies (4) and other (2).

18. Total paid-up capital of the listed companies stood at Rs. 134.69 billion in mid-December 2013, registering an increase of 19.7 percent over mid-December 2012. Additional securities worth Rs. 9.38 billion comprising ordinary share of Rs. 3.89 billion, right share of Rs. 3.82 billion and bonus share of Rs. 1.17 billion and commercials banks' debenture of Rs. 0.5 billion were listed at the NEPSE during the five month of 2013/14.

Inflation, Salary and Wage Rate

Consumer Price Inflation

19. The y-o-y inflation as measured by the consumer price index increased by 10.3 percent in mid-December 2013 as compared to 10.4 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 14.5 percent and 6.7 percent respectively during the review period. Such indices had increased by 8.7 percent and 11.8 percent respectively in the corresponding period of previous year.

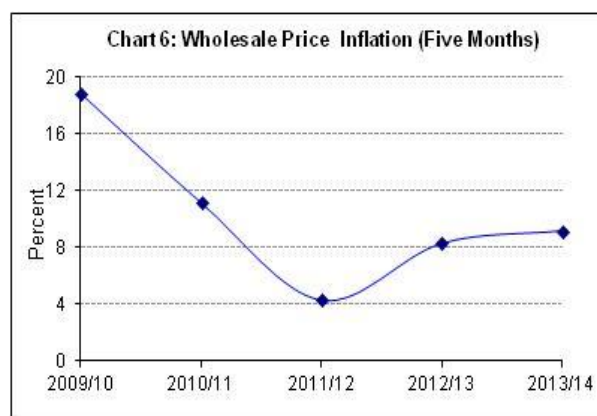


20. Under the items of the food and beverage group, price index of vegetables sub-group increased by the highest rate of 36.6 percent during the review period compared to an increase of 4.0 percent in the corresponding period of the previous year. The price indices of meat and fish sub-group and fruits sub-group which had increased by 13.3 percent and 7.0 percent in the corresponding period of previous year, went up by 27.9 percent and 16.8 percent respectively during the review period. The price indices of and cereals, grains and their products subgroup and spices subgroup increased by 12.9 percent and 11.4 percent respectively during the review period compared to the increase of 5.0 percent and 0.6 percent respectively in the corresponding period of the previous year.
21. Within the group of non-food and services, the price index of clothing and footwear increased by 11.7 percent during the review period compared to an increase of 13.9 percent in the corresponding period of the previous year. The price indices of furnishing and household equipment sub-group and miscellaneous goods and services sub-group increased by 8.4 percent and 8.2 percent respectively during the review period. Such indices had increased by 15.6 percent and 10.8 percent respectively in the corresponding period of the previous year. Similarly, the price index of education sub-group increased by 7.8 percent during the review period while such index had increased by 12.5 percent in the corresponding period of the previous year.

22. Region-wise, the price indices in Terai increased by 10.9 percent followed by Kathmandu Valley and Hilly region with 10.7 percent and 8.7 percent respectively during the review period. Their respective increments were 11.1 percent, 8.8 percent and 11.2 percent respectively in the corresponding period of the previous year.

Wholesale Price Inflation

23. The y-o-y wholesale price index increased by 9.2 percent during the review period compared to a rise of 8.3 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 14.1 percent, 4.2 percent and 3.5 percent respectively during the review period. The respective increments of these sub-groups were 7.8 percent, 7.0 percent and 10.1 percent in the corresponding period of the previous year.



National Salary and Wage Rate

24. The y-o-y salary and wage rate index increased by 11.7 percent during the review period compared to an increase of 10.5 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 26.4 percent during the review period, which did not show any increment in the corresponding period of the previous year. The wage rate index increased by 8.5 percent during the review period compared to an increase of 13.0 percent in the corresponding period of the previous year.
25. The indices of salary of BFIs, army and police forces and civil services increased by 47.7 percent, 34.5 percent and 31.3 percent respectively during the review period. Likewise, industrial labourer, agricultural labourer and construction labourer has witnessed the growth of 12.3 percent, 7.3 percent and 5.1 percent respectively in the indices of wages in the review period.

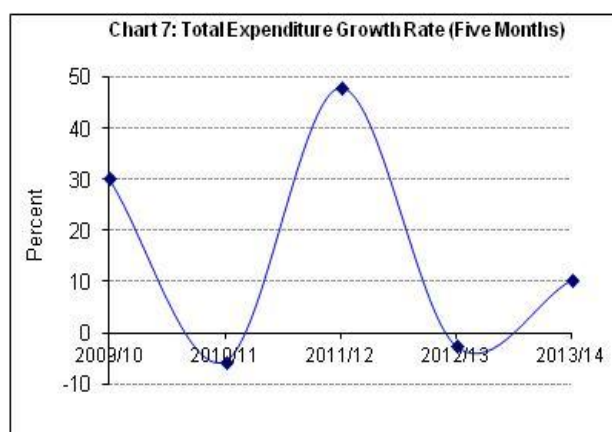
Fiscal Situation *

Budget Deficit / Surplus

26. During the five months of 2013/14, government budget on cash basis remained at a surplus of Rs. 38.41 billion. Such budget surplus was Rs. 23.17 billion in the corresponding period of the previous year. A high growth of resource mobilization relative to government expenditure accounted for such a budget surplus during the review period.

Government Expenditure

27. During the review period, total government expenditure on cash basis increased by 10.3 percent to Rs. 94.64 billion. Such expenditure had decreased by 2.6 percent to Rs. 85.83 billion in the corresponding period of the previous year.

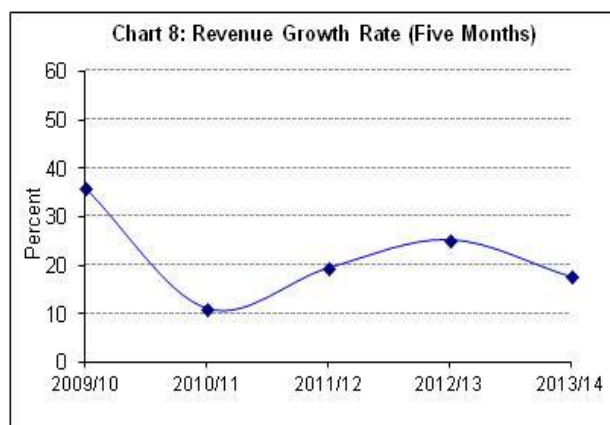


28. During the review period, recurrent expenditure increased by 34.6 percent to Rs. 83.0 billion. In the corresponding period of the previous year, such expenditure had decreased by 14.3 percent. Timely announcement of the annual budget and expenditures incurred in the completion of constitutional assembly election accounted for such a growth in recurrent expenditures.
29. During the review period, capital expenditure increased by 10.3 percent to Rs. 5.87 billion. In the corresponding period of the previous year, such expenditures had increased by 0.5 percent. Timely announcement of the annual budget contributed for such a growth in capital expenditures.

* Based on the data reported by 8 NRB offices, 66 RBBL branches (out of 66 branches conducting govt. transactions), 44 NBL branches (out of 44 branches conducting govt. transactions), 5 Everest Bank branches, 4 Global IME Bank branches and 1-1 branch each of Nepal Bangladesh Bank Limited and NMB Bank Limited conducting government transactions.

Government Revenue

30. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 17.6 percent to Rs. 114.51 billion. Such revenue had risen by 25.3 percent to Rs. 97.34 billion in the corresponding period of the previous year. A sharp decrease of growth rate of custom revenue and income tax accounted for such a decrease in the revenue growth rate during the review period.



31. Of the total revenue mobilization, VAT revenue grew by 18.8 percent to Rs. 39.34 billion during the review period. It had increased by 16.6 percent in the corresponding period of the previous year. The increase in VAT revenue was due mainly to the positive impact of leakages control in VAT including reform in VAT administration.
32. During the review period, custom revenue rose by 6.7 percent to Rs. 24.39 billion compared to an increase of 42.0 percent in the corresponding period of the previous year. Low growth rate in imports accounted for such a low growth rate of custom revenue during the review period.
33. During the review period, excise revenue increased by 20.3 percent to Rs. 17.70 billion compared to an increase of 19.8 percent in the corresponding period of the previous year.
34. Income tax revenue increased by 14.3 percent to Rs. 15.67 billion during the review period. Such revenue had risen by 37.1 percent in the corresponding period of the previous year.
35. During the review period, non-tax revenue increased by 47.6 percent to Rs. 12.91 billion compared to an increase of 11.0 percent in the corresponding period of the previous year.

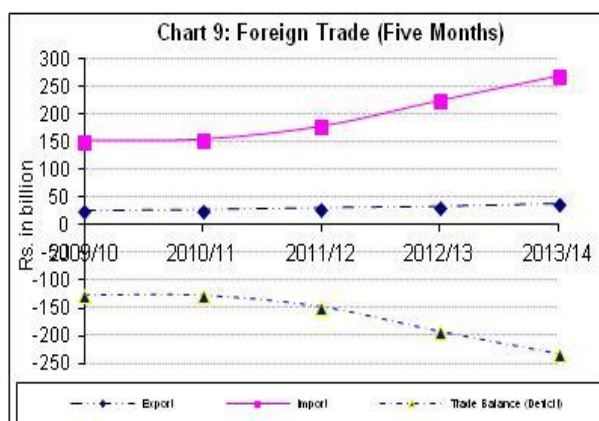
Foreign Cash Loan and Grants

36. In the five months of 2013/14, foreign cash loans of Rs. 10.0 billion and foreign cash grants of Rs. 14.92 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 835.3 million and foreign cash grants of Rs. 7.67 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

37. Merchandise exports went up by 13.7 percent to Rs. 37.37 billion in the five months of 2013/14. Such exports had increased by 9.4 percent to Rs. 32.88 billion during the same period of the previous year. On a monthly basis, merchandise exports increased by 18.9 percent in November/December of the current fiscal year compared to that of the previous month.



38. Exports to India increased by 17.4 percent during the review period compared to an increase of 4.2 percent in the corresponding period of the previous year. Exports to other countries went up by 7.3 percent compared to an increase by 19.3 percent in the same period of the previous year. In US dollar terms, exports to other countries decreased by 5.7 percent to US dollar 132.3 million in contrast to an increase of 4.7 percent during the corresponding period of the previous year. The export of zinc sheet, cardamom, juice, shoes and sandals, among others, increased to India. Likewise, exports to other countries went up primarily due to the increase in export of herbs, woolen carpets, readymade garments and pashmina, among others.

39. During the review period, merchandise imports surged by 19.9 percent to Rs. 270.35 billion. Such imports had risen by 26.8 percent to Rs. 225.39 billion during the corresponding period of the previous year. Growth of total imports remained low in the review period due to a slow growth of imports from both India and other countries. On a monthly basis, merchandise imports increased by 15.4 percent during November/December of the current fiscal year compared to that of the previous month.

40. Imports from India went up by 23.2 percent during the review period compared to an increase of 28.6 percent in the same period of the previous year. Imports from other countries rose by 14.1 percent compared to an increase of 23.7 percent in the corresponding period of the previous year. In US dollar terms, imports from other countries increased marginally by 0.2 percent to US dollar 929.4 million compared to an increase of 9.3 percent in the previous year. Imports from India increased primarily owing to an increase in the imports of petroleum products, vehicles & spare parts, thread and cold rolled sheet in coil, among others. Likewise, imports from other countries increased mainly on account of an increase in the imports of crude soyabean oil, silver, readymade garments and chemical fertilizer, among others.

41. Total trade deficit during the five months of 2013/14 surged by 21.0 percent to Rs. 232.99 billion compared to an increase of 30.3 percent during the same period of the previous year. Trade deficit with India increased by 24.2 percent during the review period

compared to a growth of 33.7 percent in the same period of the previous year. Trade deficit with other countries increased by 15.4 percent compared to an increase of 24.6 percent during the same period of the previous year.

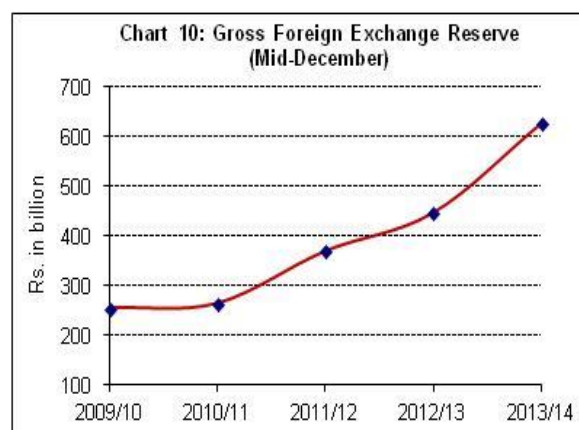
42. Due to high growth of imports compared to exports, the ratio of export to import declined to 13.8 percent in the review period from 14.6 percent a year ago.

Balance of Payments Situation

43. The overall BOP recorded a surplus of Rs. 68.02 billion during the five months of 2013/14 compared to a surplus of Rs. 3.30 billion during the same period of the previous year. The current account posted a surplus of Rs. 50.35 billion in the review period compared to a surplus of Rs. 1.64 billion in the same period of the previous year. The surplus in the current account was primarily due to a decrease in the growth of imports compared to the corresponding period of the previous year, increase in services income and the high growth of workers' remittances in the review period. In US dollar terms, the current account registered a surplus of US dollar 506.1 million in the review period compared to a surplus of US dollar 18.1 million during the corresponding period of the previous year.
44. The FOB-based merchandise trade deficit increased by 21.3 percent to Rs. 223.17 billion during the five months of 2013/14. Such deficit had gone up by 29.6 percent in the same period of the previous year. The net service income posted a surplus of Rs. 7.06 billion in the review period in contrast to a deficit of Rs. 2.21 billion in the same period of the previous year. Net transfers registered a growth of 38.1 percent to Rs. 255.4 billion in the review period compared to a growth of 18.9 percent in the same period of the previous year. Under the transfers, workers' remittances surged by 35.3 percent to Rs. 221.18 billion compared to an increase of 22.7 percent in the same period of the previous year. In US dollar terms, remittance inflow increased by 18.7 percent to US dollar 2.22 billion during the review period compared to an increase of 8.8 percent in same period of the previous year. On a monthly basis, remittance inflows decreased by 3.6 percent in November/December compared to the value of the previous month of this fiscal year. Similarly, under the financial account, foreign direct investment of Rs. 882.0 million was recorded in the review period.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 17.3 percent to Rs. 625.47 billion in mid-December 2013 from a level of Rs. 533.30 billion as at mid-July 2013. Such reserves had increased by 1.4 percent to Rs. 445.59 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 14.4 percent to Rs. 518.35 billion in the review period from a level of Rs. 452.99 billion as at mid-July 2013. The gross foreign



exchange reserves in US dollar terms increased by 12.4 percent to US dollar 6.31 billion in mid-December 2013. Such reserves had increased by 3.7 percent in the same period of the previous year. Likewise, during the five months of 2013/14, the reserves in terms of inconvertible foreign exchange increased by 21.0 percent to IRs 90.17 billion. Such reserves had decreased marginally by 0.2 percent during the same period of the previous year. On the basis of trend of import during the five months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.8 months and merchandise and service imports of 10.2 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 marginally by 0.9 percent to US dollar 110.30 per barrel in mid-December 2013 from US dollar 109.28 per barrel in mid-December 2012. On the other hand, the price of gold decreased by 27.2 percent to US dollar 1234.75 per ounce in mid-December 2013 from US dollar 1696.25 per ounce in mid-December 2012.
47. Nepalese currency vis-à-vis the US dollar depreciated by 4.1 percent in mid-December 2013 from the level of mid-July 2013. It had appreciated by 2.3 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 99.11 in mid-December 2013 compared to Rs. 95.00 in mid-July 2013.