

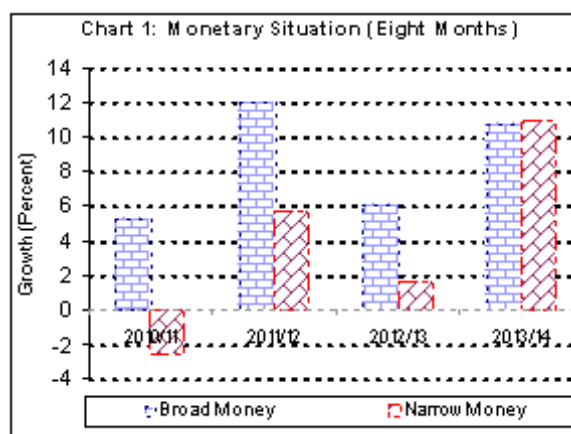
Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 10.8 percent in the eight months of 2013/14 compared to an increase of 6.2 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 grew by 21.5 percent in mid-March 2014. Narrow money supply (M1) increased by 10.9 percent in the review period compared to an increase of 1.6 percent in the same period of the previous year. M1 grew by 24.9 percent on year-on-year (y-o-y) basis in mid-March 2014.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 102.81 billion (22.0 percent) during the review period compared to an increase of Rs. 11.78 billion (3.1 percent) in the corresponding period of the previous year. Higher growth of remittance inflow accompanied by a significant increase in foreign assistance resulted in a higher growth of net foreign assets in the review period.

Domestic Credit

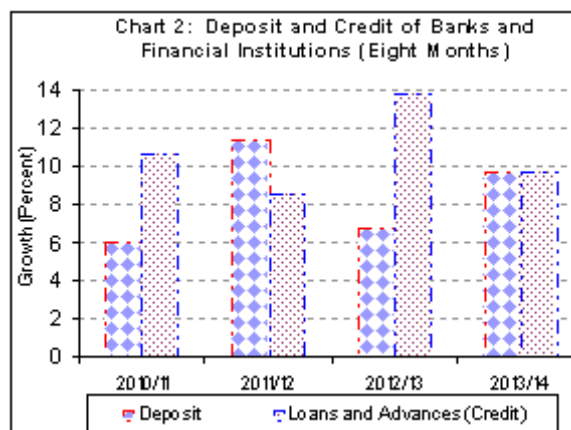
3. Domestic credit increased by 3.1 percent in the review period compared to a growth of 8.9 percent in the same period of the previous year. A slower growth of domestic credit in the review period was on account of decrease in net claims on government. On y-o-y basis, domestic credit increased by 11.0 percent in mid-March 2014. The claims on private sector increased by 11.1 percent in the review period compared to an increase of 15.6 percent in the same period of the previous year. On y-o-y basis credit to private sector increased by 15.5 percent in mid-March 2014.

Reserve Money

4. In the review period, reserve money increased by 5.8 percent as against a decline of 10.0 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased by 30.4 percent in mid-March 2014. Increase in net foreign assets of Nepal Rastra Bank contributed to such a growth of reserve money in the review period.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions (BFIs) increased by 9.7 percent (Rs. 115.47 billion) in the review period. Such deposit mobilization had increased by 6.8 percent (Rs. 68.62 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs increased by 20.7 percent in mid-March 2014. In the review period, deposit mobilization of commercial banks increased by 9.5 percent, development banks by 13.7 percent and finance companies by 7.5 percent. The deposit mobilization of commercial banks had increased by 5.7 percent, development banks by 8.5 percent and finance companies by 4.7 percent in the same period of the previous year.



Credit Flow of Banks and Financial Institutions

6. In the eight months of 2013/14, loans and advances of BFIs increased by 9.7 percent (Rs. 111.46 billion) compared to a growth of 13.8 percent (Rs. 133.51 billion) in the same period of the previous year. In the review period, loans and advances of commercial banks increased by 9.4 percent, development banks by 14.9 percent and finance companies by 6.9 percent. In the corresponding period of the previous year, such loans and advances had increased by 13.1 percent, 8.5 percent and 6.6 percent respectively. Similarly, the credit to private sector from BFIs increased by 11.0 percent (Rs. 103.81 billion) in the review period compared to a growth of 14.6 percent (Rs. 114.0 billion) in the same period of the previous year. On y-o-y basis, the credit to private sector from BFIs increased by 17.0 percent in mid-March 2014. In the review period, credit to private sector from commercial banks increased by 11.2 percent, development banks by 14.9 percent and finance companies by 1.9 percent. Such figures had increased by 14.3 percent, 16.1 percent and 15.4 percent respectively in the same period of the previous year.
7. Of the total credit from BFIs, the credit to wholesale and retail trade sector increased by Rs. 29.44 billion which had increased by Rs. 26.85 billion in the same period of the previous year. Similarly, the credit to industrial production sector increased by

Rs. 26.13 billion in the review period compared to an increase of Rs. 23.82 billion in the same period of the previous year. In the review period, the credit to construction sector increased by Rs. 14.55 billion and to transportation, communication and public services by Rs. 1.86 billion. The credit to construction sector had increased by Rs. 7.44 billion and to transportation, communication and public services by Rs. 4.97 billion in the same period of previous year. The credit to agriculture sector increased by Rs. 7.28 billion in the review period compared to an increase of Rs. 8.89 billion in the corresponding period of the previous year.

Liquidity Management

8. In the review period, the NRB injected net liquidity of Rs. 224.99 billion through the net purchase of USD 2.25 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 155.17 billion was injected through the purchase of USD 1.79 billion in the same period of the previous year.
9. The NRB purchased Indian currency (INR) equivalent to Rs. 202.46 billion through the sale of USD 2.04 billion in the review period. INR equivalent to Rs. 170.42 billion was purchased through the sale of USD 1.96 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. 270.00 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. 157.59 billion and those of other financial institutions amounted to Rs. 107.51 billion. Those figures stood at Rs. 390.18 billion and Rs. 100.62 billion respectively in the corresponding period of the previous year. The standing liquidity facility (SLF) has not been utilized in the review period.

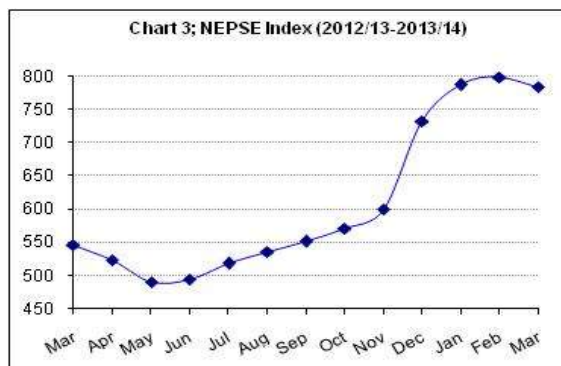
Interest Rates

12. The weighted average Treasury bill rate and inter-bank transaction rate declined in March 2014 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate decreased to 0.08 percent in March 2014 from 4.02 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.20 percent in March 2014 compared to 4.26 percent in March 2013. Likewise, the weighted average inter-bank rate among other financial institutions declined to 2.13 percent in March 2014 from 4.81 percent a year ago.
13. In mid-March 2014, the weighted average deposit and lending rates of commercial banks remained at 4.45 percent and 11.18 percent respectively. Accordingly, the

interest rate spread (lending rate less deposit rate) of commercial banks stood at 6.73 percent in mid-March 2014. Such spread was 6.76 percent in the previous month. Moreover, the average base rate of commercial banks remained at 8.55 percent in mid-March 2014. Such rate was 8.58 percent in the previous month.

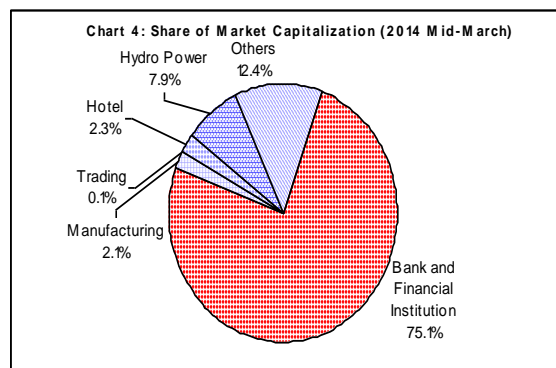
Securities Market

14. NEPSE index, on y-o-y basis, increased by 43.6 percent to 783.8 points in mid-March 2014. The index had increased by 73.8 percent to 545.7 points in mid-March 2013.



15. The y-o-y stock market capitalization increased by 50.6 percent to Rs. 797.77 billion in mid-March 2014. The ratio of market capitalization to GDP stood at 46.9 percent in mid-March 2014 compared to 34.5 percent a year ago.

16. Of the total market capitalization as of mid-March 2014, the share of banks and financial institutions (including insurance companies) stood at 75.1 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 2.1 percent, 2.3 percent, 0.1 percent, 7.9 percent and 12.4 percent respectively.



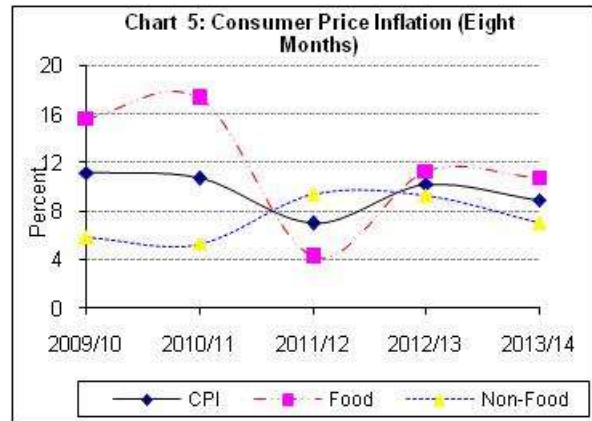
17. Total number of companies listed at the NEPSE increased from 229 in mid-March 2013 to 235 in mid-March 2014. Of the total listed companies the number of banks and financial institutions (including insurance companies) stood at 203 followed by manufacturing and processing companies (18), hotels (4), business entities (4), hydropower companies (4) and others (2).

18. Total paid-up capital of the listed companies stood at Rs. 139.83 billion in mid-March 2014, registering an increase of 17.4 percent over mid-March 2013. Additional securities worth Rs.14.37 billion comprising ordinary share of Rs. 5.25 billion, right share of Rs. 4.31 billion, bonus share of Rs. 3.21 billion and commercial banks' debenture of Rs.1.6 billion were listed at the NEPSE during the eight months of 2013/14.

Inflation, Salary and Wage Rate

Consumer Price Inflation

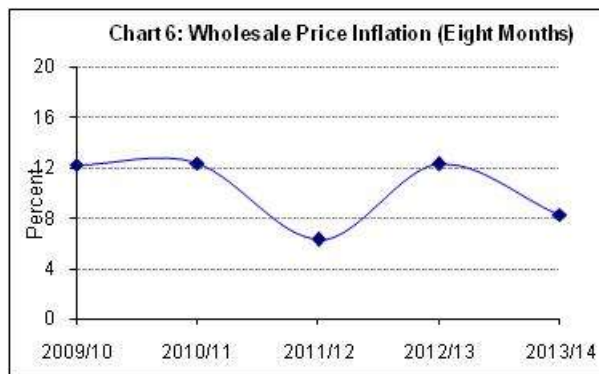
19. The y-o-y inflation as measured by the consumer price index increased by 8.9 percent in mid-March 2014 compared to an increase of 10.2 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 10.8 percent and 7.1 percent respectively during the review period. Such indices had increased by 11.3 percent and 9.3 percent respectively in the corresponding period of previous year.



20. Under the items of the food and beverage group, price index of tobacco products sub-group increased by the highest rate of 25.3 percent during the review period compared to an increase of 11.4 percent in the corresponding period of the previous year. The price indices of hard drinks sub-group and fruits sub-group, which had increased by 4.4 percent and 5.2 percent in the corresponding period of previous year, went up by 22.5 percent and 14.1 percent respectively during the review period. The price indices of vegetables sub-group and meat and fish sub-group increased by 13.9 percent and 13.5 percent respectively during the review period compared to the increase of 9.4 percent and 17.1 percent respectively in the corresponding period of the previous year. The price index of sugar and sweets sub-group, which had increased by 12.0 percent in the corresponding period of the previous year, decreased by 3.5 percent in the review period.
21. Within the group of non-food and services, the price index of clothing and footwear increased by 12.2 percent during the review period compared to an increase of 11.5 percent in the corresponding period of the previous year. The price indices of furnishing and household equipment sub-group and health sub-group increased by 9.4 percent and 9.1 percent respectively during the review period. Such indices had increased by 12.7 percent and 6.5 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 9.5 percent followed by Kathmandu Valley and Hilly region with 8.7 percent and 7.9 percent respectively during the review period. The increments in Terai, Kathmandu Valley and Hilly region were respectively 10.2 percent, 10.8 percent and 9.6 percent in the corresponding period of the previous year.

Wholesale Price Inflation

23. The y-o-y wholesale price index increased by 8.3 percent during the review period compared to a rise of 9.0 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 11.4 percent, 6.8 percent and 3.7 percent respectively during the review period. The increments in agricultural commodities, domestic manufactured commodities and imported commodities were respectively 12.3 percent, 3.5 percent and 6.6 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 16.3 percent during the review period compared to an increase of 8.3 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, while it did not show any increment in the corresponding period of the previous year. The wage rate index increased by 14.1 percent during the review period compared to an increase of 10.3 percent in the corresponding period of the previous year.
25. The indices of salary of Bank and Financial Institutions, 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 witnessed the growth of 24.8 percent, 10.2 percent and 9.4 percent respectively in the indices of wages in the review period.

Fiscal Situation *

Budget Deficit / Surplus

26. During the eight months of 2013/14, government budget on cash basis remained at a surplus of Rs. 58.03 billion. Such budget surplus was Rs. 31.94 billion in the

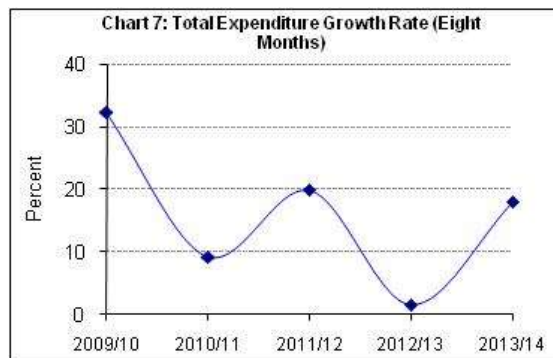
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Based on the data reported by 8 NRB offices, 66 RBBL branches (all of 66 branches conducting govt. transactions), 44 NBL branches (out of 44 branches conducting govt. transactions), 5 Everest Bank branches, 4 Global IME Bank branches and 1-1 branch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

corresponding period of the previous year. A higher resource mobilization relative to government expenditure accounted for such a budget surplus during the review period.

Government Expenditure

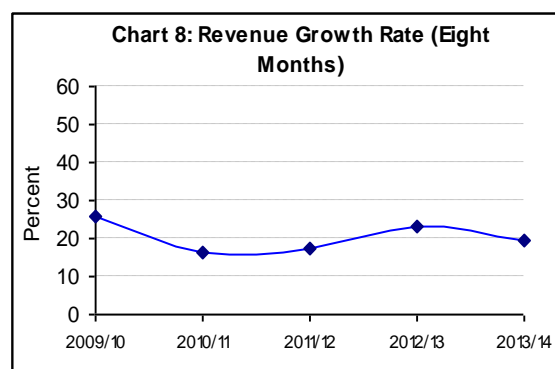
27. During the review period, total government expenditure on cash basis increased by 18.0 percent to Rs. 190.60 billion. Such expenditure had increased by 1.5 percent to Rs. 161.46 billion in the corresponding period of the previous year. High growth rate of both recurrent and capital expenditure accounted for such a high growth of total expenditure during the review period.



28. During the review period, recurrent expenditure increased by 24.8 percent to Rs. 156.55 billion. In the corresponding period of the previous year, such expenditure had decreased by 1.9 percent. Timely announcement of the annual budget and expenditures incurred in the completion of constitutional assembly election accounted for such a growth of recurrent expenditures.
29. During the review period, capital expenditure increased by 31.3 percent to Rs.16.30 billion. In the corresponding period of the previous year, such expenditures had decreased by 9.8 percent. Timely announcement of the annual budget contributed to such a growth of capital expenditures.

Government Revenue

30. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 19.5 percent to Rs. 212.59 billion. Such revenue had risen by 23.2 percent to Rs. 177.97 billion in the corresponding period of the previous year.
31. Of the total revenue mobilization, VAT revenue grew by 18.6 percent to Rs. 63.43 billion during the review period. It had increased by 17.0 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 reforms in VAT administration.
32. During the review period, custom revenue rose by 17.7 percent to Rs. 42.91 billion compared to an increase of 39.7 percent in the corresponding period of the previous year.
33. During the review period, excise revenue increased by 21.9 percent to Rs. 28.14



billion compared to an increase of 19.7 percent in the corresponding period of the previous year.

34. Income tax revenue increased by 12.7 percent to Rs. 41.38 billion during the review period. Such revenue had risen by 32.4 percent in the corresponding period of the previous year.
35. During the review period, non-tax revenue increased by 24.4 percent to Rs. 26.36 billion. Such revenue had increased by 3.8 percent in the corresponding period of the previous year. Such a high growth rate of non-tax revenue was on account of the increase in dividend paid by the public enterprises to the government.

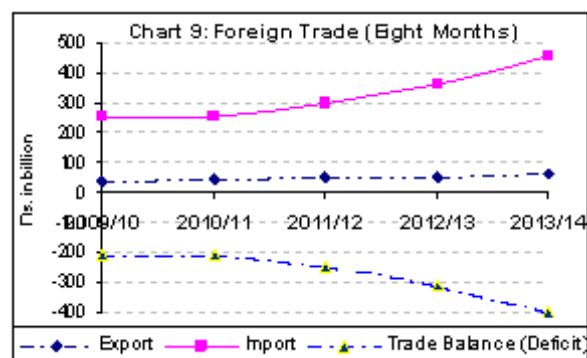
Foreign Cash Loan and Grants

36. In the eight months of 2013/14, foreign cash loans of Rs. 13.35 billion and foreign cash grants of Rs. 27.51 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 6.93 billion and foreign cash grants of Rs. 8.68 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

37. Merchandise exports went up by 19.4 percent to Rs. 60.90 billion during eight months of 2013/14. Such exports had increased by 5.0 percent to Rs. 51.01 billion during the same period of the previous year. On a monthly basis, merchandise exports increased by 3.4 percent in February/March of the current fiscal year compared to that of the previous month.



38. Exports to India increased by 21.9 percent during the review period compared to an increase of 2.0 percent in the corresponding period of the previous year. Exports to other countries went up by 14.7 percent compared to an increase by 11.2 percent in the same period of the previous year. In US dollar terms, exports to other countries increased by 0.7 percent to US dollar 205.1 million compared to a decrease of 0.4 percent during the corresponding period of the previous year. The exports of zinc sheet, cardamom, juice, and stone and sand, among others increased to India. Likewise, exports to other countries went up primarily due to the increase in export of woolen carpets, readymade garments, herbs, and pashmina, among others.
39. During the review period, merchandise imports surged by 27.0 percent to Rs. 457.85 billion. Such imports had risen by 22.1 percent to Rs. 360.56 billion during the

corresponding period of the previous year. Total imports surged in the review period due to a sharp increase in imports from both India and other countries. On a monthly basis, merchandise imports increased by 10.8 percent during February/March of the current fiscal year compared to that of the previous month.

40. Imports from India went up by 28.1 percent during the review period compared to an increase of 24.2 percent in the same period of the previous year. Likewise, imports from other countries rose by 24.8 percent compared to an increase of 18.2 percent in the corresponding period of the previous year. In US dollar terms, imports from other countries increased by 9.5 percent to US dollar 1.55 billion compared to an increase of 6.5 percent in the corresponding period of the previous year. Imports from India increased primarily owing to an increase in the imports of petroleum products, thread, vehicles and spare parts, and hot 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, betelnut, telecommunication equipment and silver, among others.
41. Total trade deficit during the eight months of 2013/14 surged by 28.2 percent to Rs. 396.96 billion compared to an increase of 25.5 percent during the same period of the previous year. Trade deficit with India increased by 29.1 percent during the review period compared to a growth of 28.8 percent in the same period of the previous year. Trade deficit with other countries increased by 26.5 percent compared to an increase of 19.5 percent during the same period of the previous year.
42. Due to high growth of imports compared to exports, the ratio of exports to imports declined to 13.3 percent in the review period from 14.1 percent a year ago.

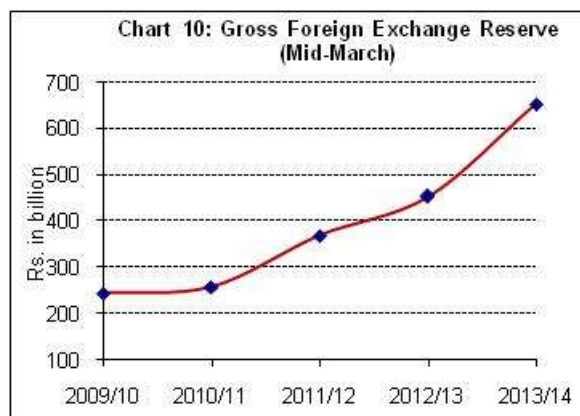
Balance of Payments Situation

43. The overall BOP recorded a surplus of Rs. 102.81 billion during the eight months of 2013/14 compared to a surplus of Rs. 11.78 billion during the same period of the previous year. The current account posted a surplus of Rs. 68.41 billion in the review period compared to a surplus of Rs. 9.51 billion in the same period of the previous year. The increase in surplus in the current account was primarily due to a substantial rise in net services, net income, grants as well as a high growth of workers' remittances in the review period. In US dollar terms, the current account registered a surplus of US dollar 687.7 million in the review period compared to a surplus of US dollar 107.7 million during the corresponding period of the previous year.
44. The FOB-based merchandise trade deficit increased by 28.1 percent to Rs. 381.59 billion during the eight months of 2013/14. Such deficit had grown up by 25.4 percent in the same period of the previous year. The net service income posted a surplus of Rs. 13.89 billion in the review period compared to a surplus of Rs. 2.02 billion in the same period of the previous year. Net transfers registered a growth of 38.5 percent to Rs. 415.44 billion in the review period compared to a growth of 16.8 percent in the same period of the previous year. Under the transfers, workers' remittances surged by 34.1 percent to Rs. 356.72 billion compared to an increase of 22.2 percent in the same period of the previous year. In US dollar terms, remittance inflows increased by 17.5

percent to US dollar 3.59 billion during the review period compared to an increase of 10.5 percent in same period of the previous year. On a monthly basis, remittance inflows decreased by 3.2 percent in February/March compared to the value of the previous month of this fiscal year.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 22.5 percent to Rs. 653.42 billion in mid-March 2014 from a level of Rs. 533.30 billion as at mid-July 2013. Such reserves had increased by 3.2 percent to Rs. 453.61 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 21.5 percent to Rs. 550.42 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 19.3 percent to US dollar 6.70 billion in mid-March 2014. Such reserves had increased by 7.2 percent in the same period of the previous year. Likewise, during the eight months of 2013/14, the reserves in terms of inconvertible (Indian) foreign exchange increased by 24.0 percent to IRs 92.44 billion. Such reserves had increased by 1.4 percent during the same period of the previous year. On the basis of trend of import during the first eight months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.6 months and merchandise and service imports of 10.1 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 decreased by 1.1 percent to US dollar 108.08 per barrel in mid-March 2014 from US dollar 109.32 per barrel in mid-March 2013. Similarly, the price of gold decreased by 13.2 percent to US dollar 1385.00 per ounce in mid-March 2014 from 1595.50 percent ounce in mid-March 2013.
47. Nepalese currency vis-à-vis the US dollar depreciated by 2.6 percent in mid-March 2014 from the level of mid-July 2013. It had appreciated by 2.1 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 97.58 in mid-March 2014 compared to Rs. 95.00 in mid-July 2013.