

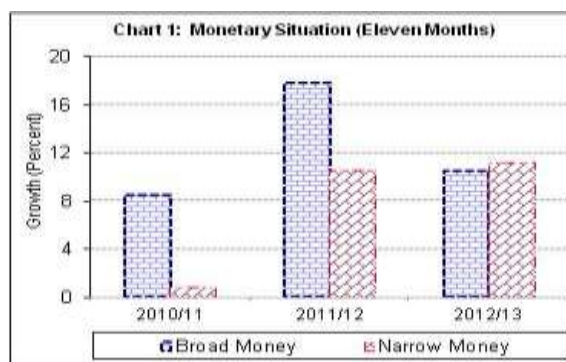
Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 10.7 percent during eleven months of 2012/13 compared to an increase of 17.9 percent in the corresponding period of the previous year. Similarly, narrow money supply (M1) increased by 11.2 percent during the review period compared to a rise of 10.6 percent in the corresponding period of the previous year. On a y-o-y basis, the M2 expanded by 15.2 percent and the M1 expanded by 19.2 percent in mid-June 2013.



2. Net foreign assets-NFA (after adjusting foreign exchange valuation gain/loss) increased by Rs. 52.69 billion (13.7 percent) during the review period compared to a significant growth of Rs. 115.76 billion (52.3 percent) in the corresponding period of the previous year. A significant rise in imports relative to exports and a fall in foreign grants led to such a decelerated growth in NFA of the monetary sector.

Domestic Credit

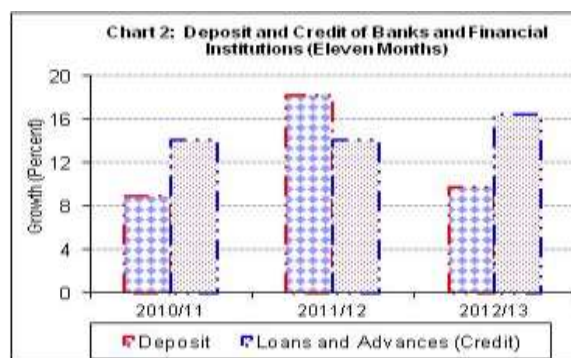
3. Domestic credit increased by 10.9 percent during eleven months of 2012/13. It had increased by 6.3 percent in the corresponding period of the previous year. On a y-o-y basis, it increased by 14.0 percent in mid-June 2013. Such a high growth of domestic credit was due to an accelerated growth in credit flows to private sector in the review period. During eleven months of 2012/13, claims on the private sector increased by 19.4 percent compared to a growth of 11.6 percent in the corresponding period of the previous year.

Reserve Money

- Reserve money decreased by 1.5 percent during the review period in contrast to an increase of 20.0 percent in the same period last 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. However, the reserve money, increased by 11.9 percent in mid-June 2013 on a y-o-y basis.

Deposit Mobilization of Banks and Financial Institutions

- Deposit mobilization of banks and financial institutions (BFIs) increased by 9.8 percent (Rs. 99.01 billion) during eleven months of 2012/13. Such deposit mobilization had increased by 18.2 percent (Rs. 149.92 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 9.2 percent, 10.9 percent and 4.5 percent respectively. In the same period of previous year, the deposit mobilization of commercial banks and development banks had increased by 20.4 percent and 24.3 percent respectively whereas the deposit of finance companies had decreased by 0.1 percent. The deposit mobilization of BFIs increased by 14.1 percent (Rs. 137.68 billion) on a y-o-y basis amounting to Rs. 1110.83 billion as of mid-June 2013.



Credit Flow of Banks and Financial Institutions

- During eleven months of 2012/13, the loan and advances of BFIs increased by 16.5 percent (Rs. 159.59 billion) compared to a rise of 14.1 percent (Rs. 120.14 billion) in the corresponding period of the previous year. Loan and advances of commercial banks, development banks and finance companies rose by 16.0 percent, 13.1 percent and 7.4 percent respectively during the review period. The y-o-y loan and advances of BFIs increased by 15.6 percent (Rs. 152.23 billion) amounting to Rs. 1127.24 billion as of mid-June 2013. During the review period, credit to private sector from BFIs increased by 18.6 percent (Rs. 144.89 billion) compared to a rise of 10.3 percent (Rs. 71.50 billion) in the corresponding period of the previous year. Of the credit flows to private sector, credit from commercial banks registered a growth of 18.3 percent, from development banks 21.1 percent and from finance companies 17.6 percent. On a y-o-y basis, credit to private sector from BFIs increased by 20.7 percent (Rs. 158.26 billion) to Rs. 924.16 billion in mid-June 2013.
- Of the total credit from BFIs, the credit to the industrial production sector surged by Rs. 28.64 billion in the review period compared to an increase of Rs. 25.79 billion in

the corresponding period of the previous year. Similarly, credit to the agriculture sector increased by Rs. 10.37 billion in the review period compared to an increase of Rs. 9.67 billion in the corresponding period of the previous year. Likewise, credit to the construction sector increased by Rs. 12.71 billion, to the wholesale and retail trade sector by Rs. 32.14 billion, and to transportation, communications and public services sector by Rs. 7.32 billion during the review period. Such credit flows to these sectors had increased by Rs. 8.34 billion, Rs. 14.58 billion and Rs. 2.83 billion respectively in the corresponding period of the previous year.

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 auctions while liquidity of Rs. 0.74 billion was injected through repo auctions.
9. During the review period, the NRB injected net liquidity of Rs. 242.63 billion through the net purchase of USD 2.78 billion from the foreign exchange market (commercial banks). Net liquidity of Rs. 234.45 billion had been injected through the purchase of USD 2.92 billion in the corresponding period of the previous year.
10. The NRB purchased Indian currency (INR) equivalent to Rs. 251.47 billion through the sale of USD 2.88 billion in the Indian money market during the review period. INR equivalent to Rs. 199.51 billion had been purchased through the sale of USD 2.50 billion in the corresponding period of the previous year.

Inter-Bank Transactions and Standing Liquidity Facility

11. During eleven months of 2012/13, the inter-bank transactions of commercial banks stood at Rs. 675.27 billion and those of development banks and finance companies amounted to Rs. 163.40 billion. Those figures had stood at Rs. 205.08 billion and Rs. 163.49 billion respectively in the corresponding period of the previous year. BFIs borrowed Rs. 54.20 billion (on cumulative basis) under the Standing Liquidity Facility (SLF) during the review period compared to Rs. 5.57 billion during the same period of the previous year.

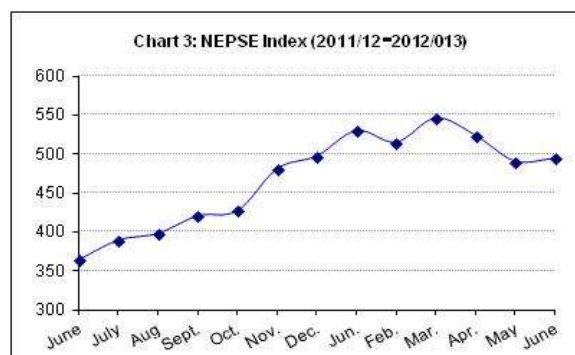
Interest Rates

12. The weighted average 91-day Treasury bill rate increased to 2.67 percent in mid-June 2013 from 1.34 percent a year ago. The weighted average inter-bank rate among commercial banks remained at 1.36 percent in mid-June 2013 compared to 0.84 percent in mid-June 2012, whereas the weighted average inter-bank rate among other financial institutions declined to 5.54 percent in mid-June 2013 from 6.96 percent a year ago.
13. In mid-June 2013, the weighted average deposit and lending rates of commercial banks remained at 5.20 percent and 12.34 percent respectively. Accordingly, the interest rate spread (lending rate less deposit rate) of commercial banks stood at 7.14

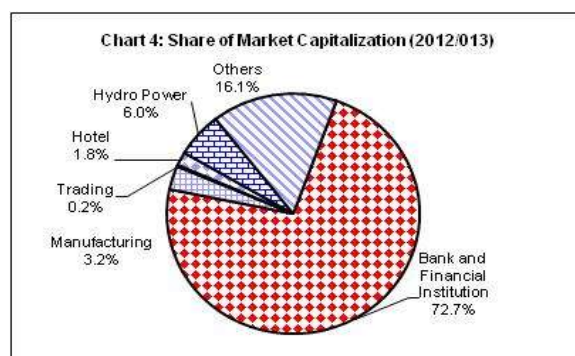
percent in mid-June 2013. Moreover, the average base rate of commercial banks remained at 9.70 percent in mid-May 2013.

Securities Market

14. The y-o-y NEPSE index increased by 35.6 percent to 494.4 points in mid-June 2013 compared to an increase of 22.5 percent to 364.7 points in the corresponding period of the previous year.



15. The y-o-y stock market capitalization witnessed a surge of 42.2 percent to Rs. 489.86 billion in mid-June 2013. Of the total market capitalization as of mid-June 2013, the share of banks and financial institutions (including insurance companies) stood at 72.7 percent while that of manufacturing and processing companies, hotels, trading, hydropower and other sectors stood at 3.2 percent, 1.8 percent, 0.2 percent, 6.0 percent and 16.1 percent respectively.

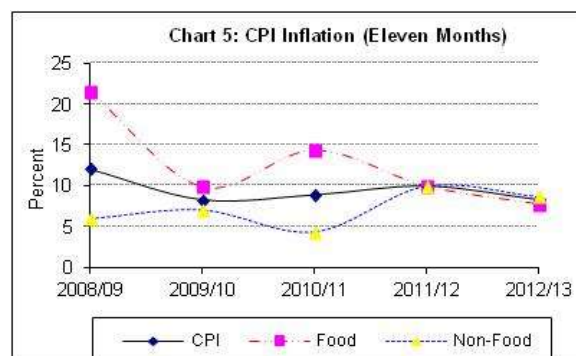


16. Total number of companies listed at the NEPSE increased to 227 in mid-June 2013 from that of 217 in mid-June 2012. Of the total listed companies, the number of banks and financial institutions (including insurance companies) stood at 195 followed by production and processing industries (18), hotels (4), trading entities (4), hydropower (4) and other companies (2).
17. Total paid-up capital of the listed companies stood at Rs.125.97 billion in mid-June 2013, registering an increase of 15.7 percent over mid-June 2012. Additional securities worth Rs. 13.51 billion comprising ordinary share of Rs. 8.02 billion, bonus share of Rs. 3.66 billion, right share of Rs. 0.28 billion, commercial banks' debenture of Rs. 0.80 billion and mutual fund of Rs.0.75 billion were listed at the NEPSE during eleven months of 2012/13.

Inflation, Salary and Wage Rate

Consumer Price Inflation

18. The y-o-y CPI inflation increased by 8.2 percent in mid-June 2013, which had increased by 9.9 percent a year ago. The index of food and beverage group increased by 7.7 percent, whereas index of non-food and services group increased by 8.6 percent in mid-June 2013. These indices had increased by 9.9 percent in the corresponding month of the previous year.



19. Under the food and beverage group, the y-o-y price index of spices sub-group increased by 16.2 percent during the review month compared to a decline of 10.4 percent in the corresponding month of the previous year. The price indices of meat and fish and cereals, grains and their products increased by 14.5 percent and 12.0 percent respectively during the review month. Such indices had increased by 13.0 percent and 1.0 percent respectively in the corresponding month of the previous year. Similarly, the price indices of tobacco products and hotel and restaurant which had increased by 9.0 percent and 12.3 percent in the corresponding month of the previous year increased by 11.4 percent and 10.8 percent respectively during the review month.

20. Within the group of non-food and services, the y-o-y 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 11.5 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 y-o-y price indices increased by 8.4 percent in Terai followed by 8.2 percent in Kathmandu valley and 7.8 percent in Hills in the review month. These increments were 10.1 percent, 9.4 percent and 10.3 percent respectively in the corresponding month of the previous year.

Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 6.7 percent during the review month compared to a rise of 9.2 percent in the corresponding month of the previous year. The wholesale price indices of agriculture commodities, imported commodities and domestic manufactured commodities have risen by 8.5 percent, 5.1 percent and 4.2 percent respectively. Such indices had increased by 8.7 percent, 11.9 percent and 6.6 percent respectively in the same month of the previous year.



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 y-o-y indices of wages of agricultural labourers, industrial labourers and construction labourers increased by 12.1 percent, 4.4 percent and 4.0 percent respectively during the review month. These indices had increased by 17.7 percent, 32.0 percent and 21.2 percent respectively in the corresponding month of the previous year.

Fiscal Situation *

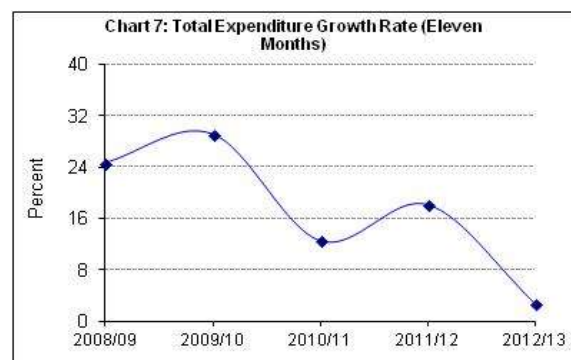
Budget Deficit / Surplus

25. During eleven months of 2012/13, government budget surplus, on cash basis, surged to Rs. 32.93 billion from Rs. 11.33 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. transactions), 44 NBL branches (out of 44 branches conducting govt. transactions), 5 Everest Bank branches and 1-1 branch each of Nepal Bangladesh Bank Limited and Global IME Bank Limited conducting government transactions.

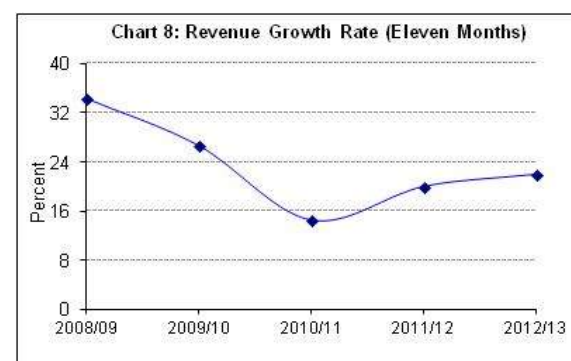
Government Expenditure

26. During the review period, total government spending on cash basis, increased by 2.7 percent to Rs. 257.43 billion. Total government spending had increased by 18.1 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 growth rate of total spending during the review period.



Government Revenue

27. During the eleven month of 2012/13, government revenue grew by 22.0 percent to Rs. 257.46 billion. Such revenue had risen by 20.0 percent to Rs. 210.96 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 16.7 percent to Rs. 75.46 billion during the review period. It had increased by 16.0 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 33.4 percent to Rs. 51.63 billion. It had increased by 19.4 percent in the corresponding period of the previous year. The rise in imports including the import of high tax yielding vehicles and spare parts contributed to such a growth in customs revenue.
30. Income tax revenue increased by 30.7 percent to Rs. 54.63 billion during the review period. Such revenue had risen by 24.8 percent in the corresponding period of the previous year. Positive impact of reform in income tax administration and taxpayer education accounted for such an increase in the income tax revenue.
31. During the review period, excise revenue increased by 22.2 percent to Rs. 32.57 billion compared to an increase of 13.2 percent in the corresponding period of the previous year. Increase in imports of higher excise tax yielding vehicles accounted for such a growth of excise revenue during the review period.

32. During the review period, non-tax revenue mobilization reached Rs. 31.61 billion. Such revenue was Rs. 32.09 billion in the corresponding period of the previous year.

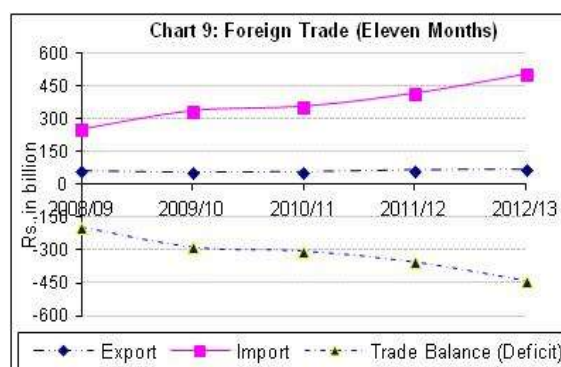
Foreign Cash Loans and Grants

33. During eleven months of 2012/13, foreign cash loans amounted to Rs. 9.34 billion and foreign cash grants stood at Rs. 23.71 billion. Such receipts were Rs. 4.26 billion and Rs. 39.54 billion respectively in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

34. Merchandise exports went up by 4.0 percent to Rs. 69.93 billion during eleven months of 2012/13. Such exports had increased by 16.3 percent to Rs. 67.21 billion during the same period of the previous year. The growth of total export remained low in the review period due to the slowdown in exports to both India and other countries. On a monthly basis, merchandise exports increased by 6.8 percent in May/June of the current fiscal year compared to the previous month.



35. Exports to India increased by 2.6 percent during the review period compared to an increase of 16.7 percent in the corresponding period of the previous year. Exports to other countries went up by 7.0 percent compared to an increase by 15.6 percent in the same period of the previous year. In USD terms, exports to other countries decreased by 2.5 percent to USD 268.1 million in contrast to an increase of 4.9 percent during the corresponding period of the previous year. The export of G.I. pipe, sackings, zinc sheet, wire and polyester yarn, 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 the review period, merchandise imports surged by 21.2 percent to Rs. 508.60 billion. Such imports had risen by 16.8 percent to Rs. 419.57 billion during the corresponding period of the previous year. Total imports surged in the review period due mainly to the rapid increase in imports from India. On a monthly basis, merchandise imports increased marginally by 0.6 percent during May/June of the current fiscal year compared to the previous month.
37. Imports from India went up by 23.3 percent during the review period compared to an increase of 13.6 percent in the same period of the previous year. Likewise, imports from other countries rose by 17.3 percent compared to an increase of 23.1

percent in the corresponding period of the previous year. In USD terms, imports from other countries increased by 7.2 percent to USD 1.97 billion compared to an increase of 11.2 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 imports of telecommunication equipment parts, silver, readymade garments, pipe and pipe fittings and chemical fertilizers, among others.

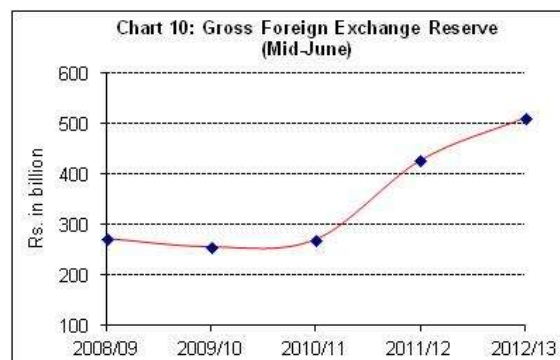
38. Total trade deficit during eleven months of 2012/13 surged by 24.5 percent to Rs. 438.67 billion compared to an increase of 16.8 percent during the same period of the previous year. Trade deficit with India increased by 27.4 percent during the review period compared to a growth of 13.0 percent in the same period of the previous year. Trade deficit with other countries increased by 19.2 percent compared to an increase of 24.5 percent during the same period of the previous year.
39. Due to high growth of imports compared to exports, the ratio of export to import declined to 13.7 percent in the review period from 16.0 percent a year ago.

Balance of Payments Situation

40. The overall BOP recorded a surplus of Rs. 52.69 billion during eleven months of 2012/13 compared to a surplus of Rs. 115.76 billion during the same period of the previous year. The current account posted a surplus of Rs. 41.56 billion in the review period compared to a surplus of Rs. 61.56 billion in the same period of the previous year. The current account surplus was lower in the review period due mainly to a substantial rise in imports of goods and services. In USD terms, the current account registered a surplus of USD 471.8 million in the review period compared to a surplus of USD 747.9 million during the corresponding period of the previous year.
41. The FOB-based merchandise trade deficit increased by 24.3 percent to Rs. 421.79 billion during eleven months of 2012/13. Such deficit had grown by 16.7 percent in the same period of the previous year. The net service income posted a surplus of Rs. 7.15 billion in the review period compared to a surplus of Rs. 14.23 billion in the same period of the previous year. Net transfers registered a growth of 18.4 percent to Rs. 446.50 billion in the review period compared to a growth of 35.2 percent in the same period of the previous year. Under transfers, workers' remittances rose by 21.3 percent to Rs. 388.46 billion compared to an increase of 39.6 percent in the same period of the previous year. In USD terms, remittance inflow increased by 11.8 percent to USD 4.45 billion during the review period compared to an increase of 25.2 percent in same period of the previous year. On a monthly basis, remittance inflows increased by 14.3 percent in May/June compared to the value of the previous month of this fiscal year.

Foreign Exchange Reserves

42. The gross foreign exchange reserves increased by 16.4 percent to Rs. 511.69 billion in mid-June 2013 from a level of Rs. 439.46 billion as at mid-July 2012. Out of total reserves, NRB's reserves increased by 12.5 percent to Rs. 422.52 billion in the review period from a level of Rs. 375.52 billion as at mid-July 2012. The gross foreign exchange reserves in USD terms increased by 11.3 percent to USD 5.52 billion in mid-June 2013. Such reserves had increased by 25.6 percent in the same period of the previous year. Likewise, during eleven months of 2012/13, the inconvertible foreign exchange reserves increased by 17.6 percent to INR 71.0 billion. Such reserves had increased by 89.7 percent during the same period of the previous year. On the basis of trend of import during the eleven months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.3 months and merchandise and service imports of 9.7 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 increased by 8.2 percent to USD 105.10 per barrel in mid-June 2013 from USD 97.13 per barrel in mid-June 2012. On the other hand, the price of gold decreased by 14.5 percent to USD 1391.25 per ounce in mid-June 2013 from USD 1627.25 in mid-June 2012.
44. Nepalese currency vis-à-vis the US dollar depreciated by 4.4 percent in mid-June 2013 from the level of mid-July 2012. It had depreciated by 19.9 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 92.72 in mid-June 2013 compared to Rs. 88.60 in mid-July 2012.