

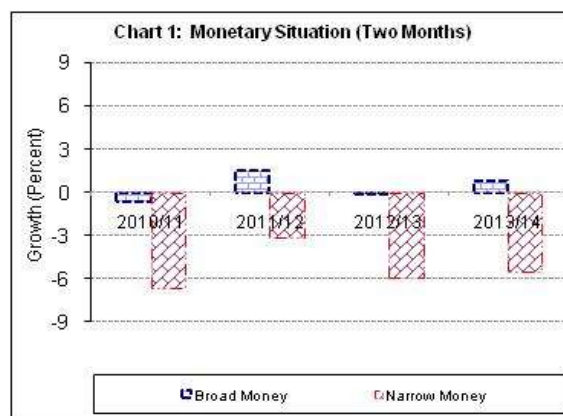
Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 0.8 percent in the two months of 2013/14 compared to a decrease of 0.1 percent in the corresponding period of the previous year. Likewise, narrow money supply (M1) declined by 5.5 percent in the review period compared to a decrease of 5.9 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 expanded by 17.5 percent and M1 expanded by 14.9 percent in mid-September 2013.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 33.0 billion (7.0 percent) during the review period compared to an increase of Rs. 5.52 billion (1.4 percent) in the corresponding period of the previous year. Decelerated growth of imports along with the expansion of foreign assistance and remittance inflow resulted in a higher growth of net foreign assets in the review period.

Domestic Credit

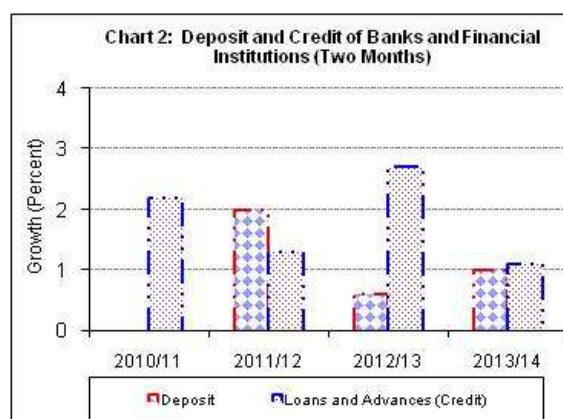
3. In the review period, domestic credit decreased by 1.8 percent as against the growth of 0.3 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 14.7 percent in mid-September 2013. The decline in the domestic credit is due to a decrease in net claims on government in the review period. The claims on private sector increased by 1.8 percent in the review period compared to an increase of 2.9 percent in the corresponding period of the previous year.

Reserve Money

4. Reserve money decreased by 2.9 percent during the review period compared to a decline of 5.9 percent in the corresponding period of the previous year. On y-o-y basis, such money increased by 14.4 percent in mid-September 2013. The decline in reserve money is on account of an increment of government deposits with the NRB.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions (BFIs) increased by 1.0 percent (Rs. 11.50 billion) in the two months of 2013/14. Such deposit mobilization had increased by 0.6 percent (Rs. 6.15 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs expanded by 17.8 percent in mid-September 2013. In the review period, deposit mobilization of commercial banks increased by 0.9 percent, development banks by 2.7 percent and finance companies by 3.2 percent. The deposit mobilization of commercial banks decreased by 0.1 percent while that of development banks and finance companies increased by 2.8 percent and 1.9 percent respectively in the same period of the previous year.



Credit Flow of Banks and Financial Institutions

6. In the two months of 2013/14, loans and advances of BFIs increased by 1.1 percent (Rs. 12.75 billion) compared to a growth of 2.7 percent (Rs. 25.89 billion) in the corresponding period of the previous year. In the review period, loans and advances of commercial banks increased by 0.9 percent, development banks by 3.3 percent and finance companies by 2.3 percent. Similarly, the credit to private sector from BFIs increased by 1.1 percent (Rs. 10.82 billion) in the review period compared to a growth of 2.1 percent (Rs. 16.59 billion) in the same period of the previous year. On y-o-y basis, the credit to private sector from BFIs increased by 19.6 percent in mid-September 2013. In the review period, credit to private sector from commercial banks and development banks increased by 1.1 percent and 2.3 percent respectively while that of finance companies decreased by 0.9 percent.
7. Of the total credit from BFIs, the credit to industrial production sector increased by Rs. 2.67 billion during the review period compared to an increase of Rs. 5.39 billion in the same period of the previous year. However, credit to agriculture sector decreased by Rs. 0.46 billion in the review period compared to an increase of Rs. 2.10 billion in the corresponding period of the previous year. In the review period, the credit to

construction sector increased by Rs. 3.27 billion, to transportation, communication and public services by Rs. 0.65 billion and to wholesale and retail trade sector by Rs. 3.87 billion. The credit to construction sector had increased by Rs. 0.80 billion, to transportation, communication and public services by Rs. 0.58 billion and to wholesale and retail trade sector by Rs. 3.89 billion in the same period of the previous year.

Liquidity Management

8. In the review period, the NRB injected net liquidity of Rs. 49.92 billion through the net purchase of USD 491.0 million from foreign exchange market (commercial banks). Net liquidity of Rs. 27.51 billion was injected through the purchase of USD 310.0 million in the corresponding period of the previous year.
9. The NRB purchased Indian currency (INR) equivalent to Rs. 57.56 billion through the sale of USD 580 million in the Indian money market during the review period. INR equivalent to Rs. 34.64 billion was purchased through the sale of USD 390.0 million in the corresponding period of the previous year.
10. The excess liquidity of BFIs has been mopped up through the open market operation (OMO) during the two months of 2013/14. The NRB mopped up net liquidity of Rs. 15.0 billion through reverse repo auction in the review period. A net liquidity of Rs. 3.50 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. 31.86 billion and those of other financial institutions amounted to Rs. 20.55 billion. Those figures stood at Rs. 11.39 billion and Rs. 18.43 billion respectively in the corresponding period of the previous year. BFIs did not use standing liquidity facility (SLF) in the review period.

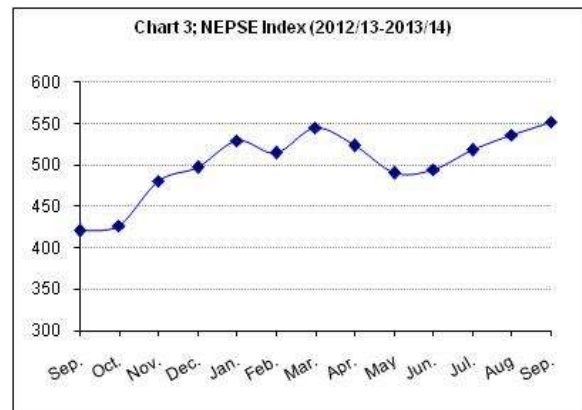
Interest Rates

12. The weighted average Treasury bill rate and inter-bank transaction rate decreased in September 2013 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate decreased to 0.14 percent in September 2013 compared to 0.15 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.27 percent in September 2013 compared to 0.34 percent in September 2012. Likewise, the weighted average inter-bank rate among other financial institutions declined to 3.62 percent in September 2013 from 6.65 percent in September 2012.
13. In mid-September 2013, the weighted average deposit and lending rates of commercial banks remained at 5.01 percent and 11.95 percent respectively. Accordingly, the

interest rate spread (lending rate less deposit rate) of commercial banks stood at 6.94 percent in mid-September 2013. Moreover, the average base rate of commercial banks remained at 9.35 percent in mid-September 2013.

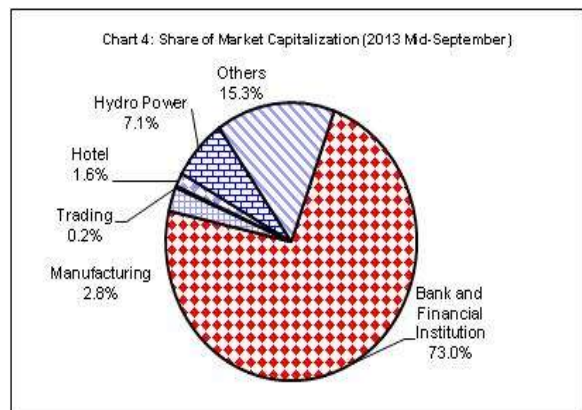
Securities Market

14. NEPSE index, on y-o-y basis, increased by 31.1 percent to 551.7 points in mid-September 2013. The index had increased by 31.0 percent in the corresponding period of the previous year and stood at 420.8 points as at mid-September 2012.



15. The y-o-y stock market capitalization increased by 39.1 percent to Rs. 554.05 billion in mid-September 2013. The ratio of market capitalization to GDP stood at 32.6 percent in mid-September 2013 compared to 25.9 percent a year ago.

16. Of the total market capitalization as of mid-September 2013, the share of banks and financial institutions (including insurance companies) stood at 73.0 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 2.8 percent, 1.6 percent, 0.2 percent, 7.1 percent and 15.3 percent respectively.

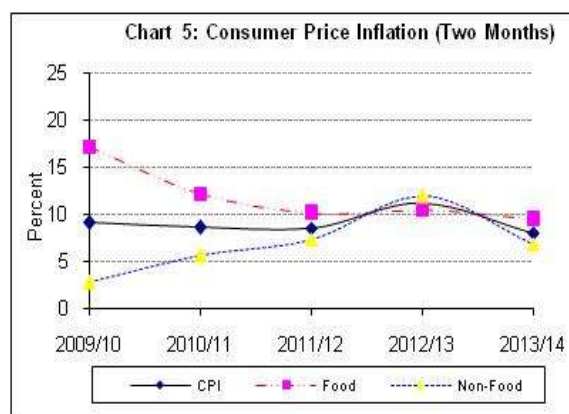


17. Total number of companies listed at the NEPSE increased from 216 in mid-September 2012 to 226 in mid-September 2013. Of the total listed companies the number of banks and financial institutions (including insurance companies) stood at 194 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and other companies (2).
18. Total paid-up capital of the listed companies stood at Rs. 129.35 billion in mid-September 2013, registering an increase of 15.7 percent over mid-September 2012. Additional securities worth Rs. 4.05 billion comprising ordinary share of Rs. 2.79 billion, right share of Rs. 0.17 billion and bonus share of Rs. 1.09 billion were listed at the NEPSE during the two 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 8.0 percent in mid-September 2013 as compared to 11.2 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 9.4 percent and 6.8 percent respectively during the review period. Such indices had increased by 10.4 percent and 11.9 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 18.6 percent during the review period compared to an increase of 9.9 percent in the corresponding period of the previous year. The price indices of meat and fish sub-group and restaurant and hotel sub-group which had increased by 12.5 percent and 12.2 percent in the corresponding period of previous year, went up by 17.0 percent and 12.7 percent respectively during the review period. The price indices of cereals, grains and their products sub-group and tobacco products sub-group increased by 10.4 percent and 9.9 percent respectively during the review period compared to the increase of 7.2 percent and 17.9 percent respectively in the corresponding period of the previous year.
21. Within the group of non-food and services, the price index of furnishing and household equipment increased by 10.4 percent during the review period compared to an increase of 14.6 percent in the corresponding period of the previous year. The price indices of clothing and footwear sub-group and miscellaneous goods and services sub-group increased respectively by 9.8 percent and 8.9 percent during the review period. Such indices had increased by 15.1 percent and 9.9 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 8.7 percent followed by Kathmandu Valley and Hilly region with 7.8 percent and 7.0 percent respectively during the review period. The respective increments were 11.2 percent, 11.9 percent and 10.5 percent in the corresponding period of the previous year.

Wholesale Price Inflation

23. The y-o-y wholesale price index increased by 7.6 percent during the review period compared to a rise of 10.2 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 10.3 percent, 4.9 percent and 4.0 percent respectively during the review period. The respective increments of these sub-groups were 10.0 percent, 6.8 percent and 12.8 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 11.5 percent during the review period compared to an increase of 11.6 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 had only increased marginally by 0.2 percent in the corresponding period of the previous year. The wage rate index increased by 8.2 percent during the review period compared to an increase of 14.5 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 10.2 percent, 8.3 percent and 2.1 percent respectively in the indices of wages in the review period.

Fiscal Situation *

Budget Deficit / Surplus

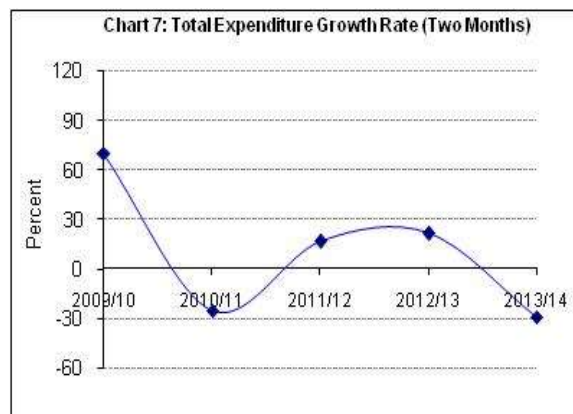
26. During the two months of 2013/14, government budget on cash basis remained at a surplus of Rs. 35.44 billion. Such budget surplus was of Rs. 13.35 billion in the

* 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.

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.

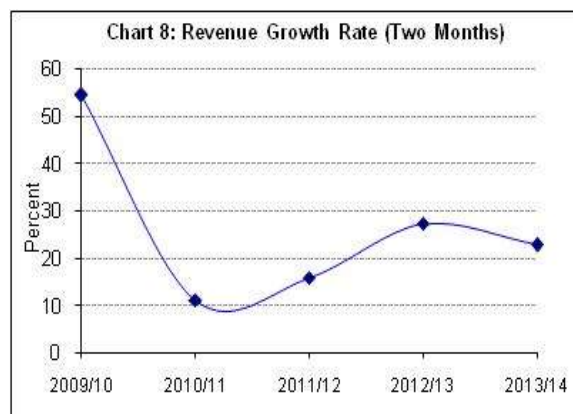
Government Expenditure

27. During the review period, total government expenditure on cash basis decreased by 29.4 percent to Rs. 19.71 billion in contrast to an increase of 21.4 percent in the corresponding period of the previous year.



Government Revenue

28. During the review period, revenue mobilization of the Government of Nepal grew by 22.8 percent to Rs. 45.36 billion. Such revenue had risen by 27.2 percent to Rs. 36.95 billion in the corresponding period of the previous year. Remarkable decrease on growth rate of custom revenue contributed to such a decrease in the revenue growth rate during the review period.



29. During the review period custom revenue, income tax, value added tax, vehicle tax and non tax revenue declined whereas the growth rate of excise duties and registration fees accelerated compared to that of the corresponding period of the previous year.

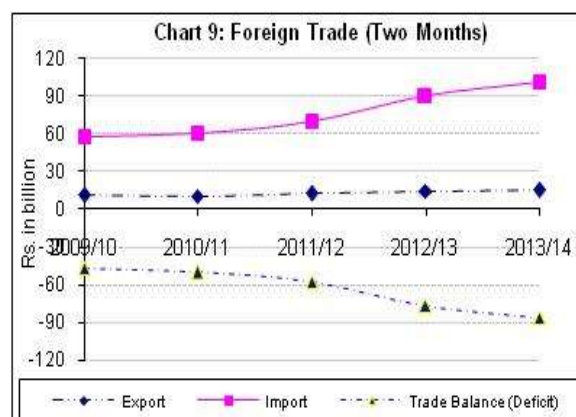
Foreign Cash Loan and Grants

30. In the two months of 2013/14, foreign cash loans of Rs. 890.8 million and foreign cash grants of Rs. 7.25 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 489.8 million and foreign cash grants of Rs. 2.48 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

31. Merchandise exports went up by 8.6 percent to Rs. 15.16 billion in the two months of 2013/14. Such exports had increased by 11.9 percent to Rs. 13.97 billion during the same period of the previous year. On a monthly basis, merchandise exports decreased by 0.3 percent in August/September of the current fiscal year compared to that of the previous month.



32. Exports to India went up by 18.5 percent during the review period of 2012/13 in contrast to a decline by 0.4 percent in the corresponding period of the previous year. Exports to India increased mainly due to the increase in export of zinc sheet, juice, cardamom, Ayurvedic medicine and shoes and sandals, among others. Exports to other countries declined by 4.8 percent in the review period in contrast to an increase of 34.0 percent in the same period of the previous year. Exports to other countries declined mainly due to the decline in export of pulses, tanned skins and handicrafts, among others. In USD terms, exports to other countries decreased by 15.3 percent to USD 56.8 million in contrast to an increase of 9.7 percent during the corresponding period of the previous year.

33. During the review period, merchandise imports increased by 12.1 percent to Rs. 101.66 billion. Such imports had gone up by 29.7 percent to Rs. 90.65 billion in the same month of the previous year. Total imports remained low in the review period mainly because of a low growth of imports from other countries. On monthly basis, merchandise imports decreased by 4.1 percent in August/September of the current fiscal year compared to that of the previous month.

34. Imports from India went up by 17.9 percent during the review period compared to a high growth of 31.5 percent in the same period of the previous year. Imports from other countries increased by only 2.3 percent in the review period compared to a high growth of 26.7 percent in the same period of the previous year. In USD terms, imports from other countries decreased by 8.8 percent to USD 343.9 million in contrast to an increase of 3.7 percent during the same period of the previous year. Imports from India increased primarily due to an increase in the imports of petroleum products, coldrolled sheet in coil, thread and other machinery & parts, among others. Likewise, imports from other countries rose mainly on account of an increase in the imports of silver, crude soyabean oil, polythene granules, among others.

35. Total trade deficit during the two months of 2013/14 grew by 12.8 percent to Rs. 86.50 billion compared to an increase of 33.5 percent during the same period of the previous year. Trade deficit with India increased by 17.8 percent during the review period compared to an increase of 38.7 percent in the same period of the previous year. Trade deficit with other countries grew by 3.8 percent compared to an increase of 25.2 percent during the same period of the previous year.
36. Export to import ratio declined to 14.9 percent in review period due mainly to a high growth of imports compared to exports. Such ratio remained at 15.4 percent during the same period of the previous year.

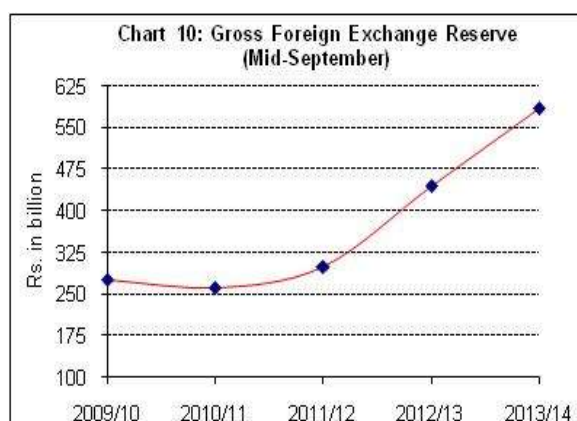
Balance of Payments Situation

37. The overall BOP recorded a surplus of Rs. 33.00 billion during the two months of 2013/14 compared to a surplus of Rs. 5.52 billion during the same period of the previous year. The current account registered a surplus of Rs. 21.05 billion during the review period in contrast to a deficit of Rs. 646.1 million in the same period of the previous year. The high level of surplus in the current account was primarily due to a low growth of merchandise and service imports in the review period. In USD terms, the BOP and current account surpluses in the review period were recorded at USD 330.3 million and USD 210.6 million respectively. During the same period of the previous year, BOP and current account had recorded surpluses of USD 62.2 million and USD 7.3 million respectively.
38. The FOB-based merchandise trade deficit increased by 13.2 percent to Rs. 83.29 billion during the two months of 2013/14. Such deficit had grown by 32.9 percent in the same period of the previous year. The net service remained at a surplus of Rs. 208.7 million in the review period in contrast to a deficit of Rs. 1.98 billion in the same period of the previous year. Net transfers registered a growth of 35.8 percent to Rs. 101.39 billion in the review period compared to a growth of 32.7 percent in the same period of the previous year. Under transfers, workers' remittances increased by 34.7 percent to Rs. 88.04 billion compared to an increase of 38.1 percent in the same period of the previous year. In USD terms, workers' remittances increased by 19.6 percent to USD 880.6 million in the review period compared to an increase of 13.2 percent in same period of the previous year. On a monthly basis, remittances inflows declined by 3.8 percent in August/September of the current fiscal year compared to that of the previous month. Similarly, under the financial account, foreign direct investment of Rs. 783.9 million was recorded in the review period.

Foreign Exchange Reserves

39. The gross foreign exchange reserves increased by 9.6 percent to Rs. 584.61 billion in mid-September 2013 from a level of Rs. 533.30 billion as at mid-July 2013. Such reserves had increased by 1.3 percent to Rs. 445.02 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 9.1 percent to Rs.

494.17 billion in the review period from a level of Rs. 452.99 billion as at mid-July 2013. The gross foreign exchange reserves in USD terms increased by 2.8 percent to USD 5.77 billion in mid-September 2013. Such reserves had increased by 2.9 percent in the same period of the previous year. Likewise, during the two months of 2013/14, the reserves in terms of inconvertible foreign exchange increased by 13.9 percent to



IRs 84.90 billion. Such reserves had decreased by 4.5 percent during the same period of the previous year. Based on the trend of imports during the two months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.7 months and merchandise and service imports of 10.0 months.

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

40. The price of oil (Crude Oil Brent) in the international market decreased by 4.2 percent to USD 112.60 per barrel in mid-September 2013 from USD 117.48 per barrel in mid-September 2012. Similarly, the price of gold declined by 25.4 percent to USD 1324.00 per ounce in mid-September 2013 from USD 1775.50 per ounce in mid-September 2012.
41. Nepalese currency vis-à-vis the US dollar depreciated by 6.2 percent in mid-September 2013 from the level of mid-July 2013. It had appreciated by 1.6 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 101.29 in mid-September 2013 compared to Rs. 95.00 in mid-July 2013.