

Current Macroeconomic Situation of Nepal

(Based on the Two Months' Data of FY 2012/13)

Monetary Situation

Money Supply

1. Broad money supply (M2) decreased by Rs. 0.11 billion during the two months of the FY 2012/13 compared to 1.6 percent (Rs. 15.07 billion) increased in the corresponding period of the previous year. On year-on-year (y-o-y) basis, broad money supply expanded by 20.7 percent in mid-September 2012. Narrow money supply (M1) decreased by 5.6 percent during the review period as compared to 2.7 percent decrease in the corresponding period of the last year. On y-o-y basis, such money expanded by 15 percent in mid-September 2012.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 3.82 billion (1.0 percent) during the review period as compared to an increase of Rs. 17.6 billion (7.9 percent) in the corresponding period of the previous year. A rise in imports caused a slower growth in net foreign assets of the monetary sector during the review period.

Domestic Credit

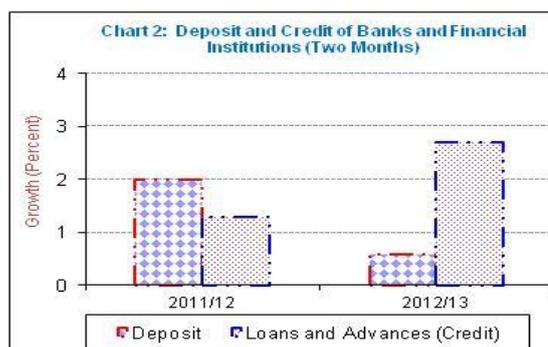
3. Domestic credit increased by 1.2 percent during the two months of the FY 2012/13. It had decreased by 0.4 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased by 9.8 percent in mid-September 2012. Though Nepal Rastra Banks' claims on government decreased with net savings in government account due to lower level of public expenditure relative to resource mobilization, increase in claims on private sector resulted a growth of domestic credit during the review period. During the two months of the FY 2012/13, claims on private sector increased by 2.9 percent compared to a growth of 0.9 percent in the corresponding period of the previous year.

Reserve Money

4. Reserve money decreased by 5.9 percent during the review period compared to an increase of 1.9 percent in the corresponding period of last year. Decrease in Nepal Rastra Bank's net claims on government and a decline in net foreign assets caused a decrease in reserve money during the review period. On y-o-y basis, such money increased by 26 percent in mid-September 2012.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions increased by 0.6 percent (Rs. 6.15 billion) during the two months of the FY 2012/13. Such deposit mobilization had increased by 2 percent (Rs. 16.38 billion) in the corresponding period of the previous year. In the review period, 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. The deposit mobilization of commercial banks increased by 2.4 percent while that of development banks and finance companies decreased by 1.9 percent and 3.7 percent respectively in the corresponding period of the previous year.



Credit Flow of Banks and Financial Institutions

6. During the two months of the FY 2012/13, loans and advances of banks and financial institutions increased by 2.7 percent (Rs. 25.89 billion) compared to a rise of 1.3 percent (Rs. 11.14 billion) in the corresponding period of the previous year. Loans and advances of commercial banks, development banks and finance companies increased by 2.1 percent, 3.4 percent and 0.5 percent respectively during the review period. Banks and financial institutions' credit to private sector increased by 2.1 percent (Rs. 16.59 billion) during the review period compared to a decrease of 0.3 percent (Rs. 1.74 billion) in the corresponding period of the previous year. During the review period, such credit extended by commercial banks increased by 1.6 percent, development banks by 4.5 percent and finance companies by 3.2 percent.
7. Of the total banks and financial institutions' credit, the credit to industrial production sector increased by Rs. 5.39 billion during the review period compared to an increase by Rs. 0.63 billion in the corresponding period of the previous year. Similarly, credit to agriculture sector surged by Rs. 2.10 billion in the review period compared to an increase by Rs. 0.93 billion in the corresponding period of the last year. Likewise, credit to construction sector increased by Rs. 0.80 billion, wholesale and retail trade sector by Rs. 3.89 billion and transportation, communication and public services sector by Rs. 0.58 billion during the review period.

Liquidity Management

8. The NRB mopped up net liquidity of Rs. 3.50 billion under the open market operation through outright sale auction during the review period. A net liquidity of Rs. 0.74 billion was injected through repo auction in the corresponding period of the previous year.
9. During the review period, NRB injected net liquidity of Rs. 27.51 billion through the net purchase of USD 0.31 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 39.66 billion was injected through the purchase of USD 0.55 billion in the corresponding period of the previous year.

- NRB purchased Indian currency (INR) equivalent to Rs. 34.64 billion through the sale of USD 0.39 billion in the Indian money market during the review period. INR equivalent to Rs. 36.30 billion was purchased through the sale of USD 0.50 billion in the corresponding period of the previous year.

Inter Bank Transaction and Standing Liquidity Facility

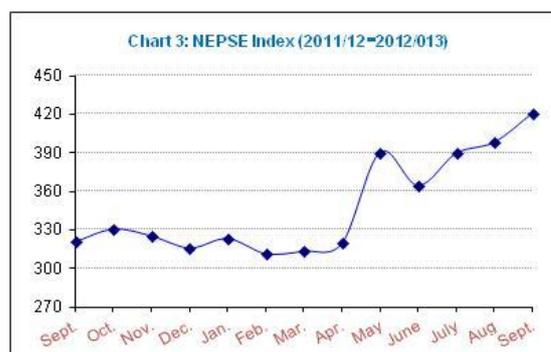
- Inter-bank transaction of commercial banks and other financial institutions stood at Rs. 11.39 billion and Rs. 18.43 billion respectively during the two months of the FY 2012/13 compared to Rs. 70.14 billion and Rs. 38.85 billion respectively in the corresponding period of the previous year. Banks and financial institutions did not use standing liquidity facility (SLF) during the review period whereas liquidity amounting to Rs. 4.14 billion was used under SLF in the corresponding period of the previous year. During the review period, inter-bank transaction and use of SLF decreased on account of comfortable liquidity situation of banks and financial institutions.

Short-term Interest Rates

- The short-term interest rates remained at lower level in mid-September 2012 compared to those of mid-September 2011. For example, the weighted monthly average 91-day Treasury bill rate dropped to 0.15 percent in mid-September 2012 compared to 2.28 percent in mid-September 2011. The weighted average inter-bank rate between commercial banks' remained at 0.34 percent in mid-September 2012 compared to 1.33 percent in mid-September 2011 whereas the weighted average inter-bank rate between other financial institutions' remained at 7.65 percent in mid-September 2012 compared to 6.65 percent in mid-September 2011.

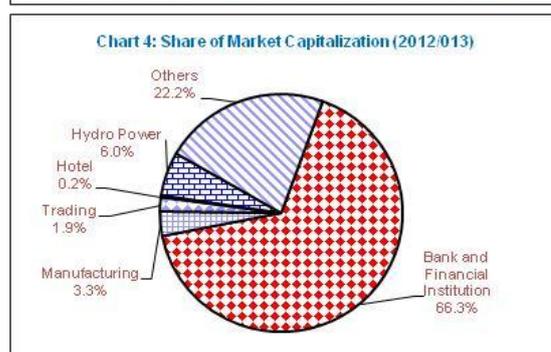
Securities Market

- NEPSE index, on y-o-y basis, increased by 31.0 percent to 420.8 points in mid-September 2012. The index had dropped by 20.6 percent in the corresponding period of the previous year and stood at 321.2 points as at mid-September 2011.



- The y-o-y stock market capitalization increased by 39.1 percent to Rs. 398.23 billion in mid-September 2012. The ratio of

market capitalization to GDP stood at 25.6 percent in mid-September 2012. The ratio was 20.9 percent a year ago.



- Banks and financial institutions constituted the biggest share in total market capitalization of stock market. Of the total market capitalization as of mid-September 2012, the share of banks and financial institutions stood at 66.3 percent while that

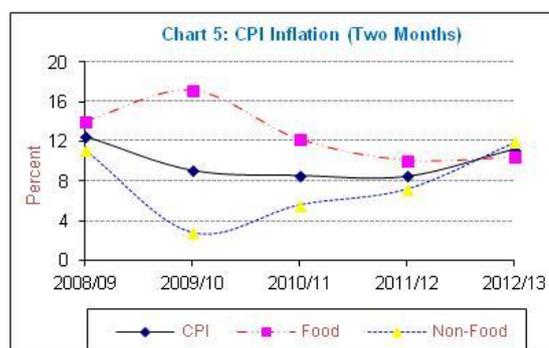
of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 3.3 percent, 1.9 percent, 0.2 percent, 6.0 percent and 22.2 percent respectively.

16. Total number of companies listed at the NEPSE increased from 209 in mid-September 2011 to 216 in mid-September 2012. Banks and financial institutions comprise a major share in the number of listed companies. Of the total listed companies as of mid-September 2012, the number of banks and financial institutions (including insurance companies) stood at 184 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and other companies (2).
17. Total paid-up capital of the listed companies stood at Rs. 111.82 billion in mid-September 2012, registering an increase of 11.3 percent over mid-September 2011. Such an increase in paid-up capital was due to the additional listing of securities at the NEPSE. Additional securities worth Rs. 1.08 billion comprising ordinary share of Rs. 0.97 billion, bonus share of Rs. 0.06 billion and right share of Rs. 0.05 billion were listed at the NEPSE during the two months of 2012/13.

Inflation, Salary and Wage Rate

Consumer Price Inflation

18. The y-o-y inflation as measured by the consumer price index increased by 11.2 percent in mid-September 2012 as compared to 8.5 percent in the corresponding period of the previous year. The index of food and beverage group increased by 10.4 percent whereas non-food and services group increased by 11.9 percent during the review period. These indices had increased by 10.1 percent and 7.2 percent respectively in the corresponding period of previous year.



19. Under the items of the food and beverage group, price index of sugar and sweets sub-group increased by the highest rate of 23.4 percent during the review period compared to an increase of 5.7 percent in the corresponding period of the previous year. The price index of ghee and oil and tobacco products, which had increased by 10.2 percent and 11.4 percent in the corresponding period of previous year, went up by 21.5 percent and 17.9 percent during the review period. The price indices of legume varieties and hard drinks sub-groups have increased by 18.0 percent and 12.1 percent respectively during the review period. In the same period of previous year such indices had decreased by 4.1 percent and 2.2 percent respectively. The price indices of soft drink and restaurant and hotel which had increased by 1.0 percent and 12.1 in the corresponding period of previous year have increased by 12.6 percent and 12.2 percent respectively in the review period.
20. Within the group of non-food and services, the price index of transport has increased by 15.7 percent during the review period compared to an increase of 12.7 percent in the corresponding period of the previous year. The price indices of clothing and footwear and furnishing and household equipment increased by 15.1 percent and 14.6 percent respectively during the

review period. Such indices had increased by 13.0 percent and 12.5 percent respectively in the corresponding period of the previous year. Similarly, the price indices of housing and utilities has increased by 12.8 percent during the review period while such index had increased by 5.3 percent in the corresponding period of the previous year. The price index of communication, which had decreased by 10.7 percent in the corresponding period of the previous year, witnessed a further decline of 4.0 percent during the review period also.

21. Region-wise, the price indices in Kathmandu Valley increased by 11.9 percent followed by Terai by 11.2 percent and in Hills by 10.5 percent during the review period. The respective increments were 6.7 percent, 8.4 percent and 11.0 percent respectively in the corresponding period of the previous year.

Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 10.2 percent during the review period compared to a rise of 7.1 percent in the corresponding period of the previous year. The wholesale price indices of imported commodities, agricultural commodities and domestic manufactured commodities are 12.8 percent, 10.0 percent and 6.8 percent respectively during the review period. The respective increments of these sub-groups were 10.5 percent, 3.9 percent and 12.3 percent in the corresponding period of the previous year.



23. Within the group of agricultural commodities, the wholesale price indices of cash crops increased by 30.9 percent during the review period, compared to an increase of 18.3 percent in the corresponding period of the previous year. The wholesale price index of legume verities, which had decreased by 7.6 percent during the corresponding period of the previous year, increased by 18.9 percent in the review period. The wholesale price index of fruits and vegetables, which had decreased by 7.9 percent in the previous year, increased by 20.0 percent during the review period. The wholesale price index of spices, which had decreased by 8.4 percent in the corresponding period of the previous year, further decreased by 12.5 percent during the review period.
24. Under the group of domestic manufactured commodities, the wholesale price indices of construction materials increased by 9.8 percent during the review period. Similarly, the wholesale price indices of food-related products and beverages and tobacco increased by 8.9 percent and 3.5 percent respectively during the review period.
25. Within the imported commodities, the wholesale price indices of petroleum products and coal and textile-related products increased by 25.9 percent and 13.3 percent respectively during the review period. Similarly, the price indices of drugs and medicine and chemical fertilizer and chemical goods increased by 11.0 percent and 5.6 percent respectively during the review period.

National Salary and Wage Rate

26. The y-o-y salary and wage rate index increased by 10.6 percent during the review period compared to an increase of 30.5 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 0.2 percent during the review period compared to an increase of 19.1 percent in the corresponding period of the previous year. The wage rate index increased by 13.3 percent during the review period compared to an increase of 33.9 percent in the corresponding period of the previous year.
27. The salary indices of public corporations increased by 4.2 percent during the review period. Other sub group of salary are unchanged. But the indices of wages of industrial labourers, construction labourers and agricultural labourers increased by 19.2 percent, 11.4 percent and 11.2 percent respectively during the review period. These indices had increased by 24.6 percent, 37.2 percent and 37.7 percent respectively in the corresponding period of the previous year.

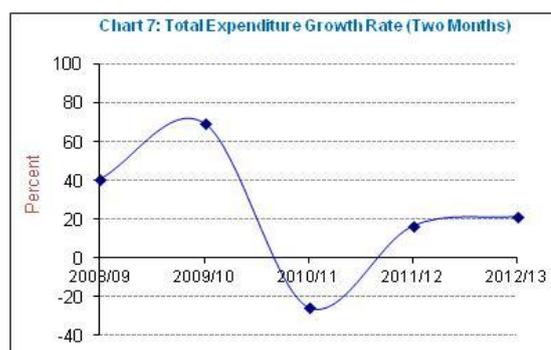
Fiscal Situation *

Budget Deficit / Surplus

28. During the two months of 2012/13, government budget remained at a surplus of Rs. 13.35 billion. Such budget surplus was of Rs. 10.9 billion in the corresponding period of the previous year. A high amount of growth of resource mobilization relative to government expenditure accounted for such a budget surplus during the review period.

Government Expenditure

29. During the review period, total government spending increased by 21.4 percent to Rs. 27.93 billion compared to an increase of 16.3 percent in the corresponding period of the previous year. The total expenditure increased mainly on account of the rise in freeze expenditure during the review period.

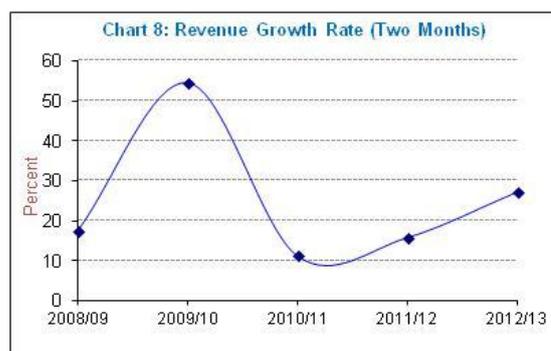


Government Revenue

30. During the review period, revenue mobilization of the Government of Nepal grew by 27.2 percent to Rs. 36.95 billion. Such revenue had risen by 15.8 percent to Rs. 29.04 billion in the corresponding period of the previous year. The GoN control in leakage, tax administration reforms as well as increasing import and consumption by virtue of high remittance inflow contributed to such an increase in the revenue mobilization.

* Based on the figures reported by 8 NRB offices, 65 RBBL branches (out of 65 branches conducting govt. transaction), 42 NBL branches (out of 44 branches conducting govt. transaction), 5 Everest Bank branches and 1-1 branches each from Nepal Bangladesh Bank Ltd. and Global IME Bank Limited conducting government transactions.

31. During the review period, the growth rate of VAT revenue, custom duties, income tax, excise, vehicle tax and educational service tax accelerated compared to that of the corresponding period of the previous year. Likewise, the growth rate of non-tax revenue decelerated during the review period compared to that of corresponding period of the previous year.



Foreign Cash Loans and Grants

32. During the two months of 2012/13, foreign cash loans of Rs. 489.8 million and foreign cash grants of Rs. 2.48 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 557.2 million and foreign cash grants of Rs. 4.07 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

33. Merchandise exports went up by 11.9 percent to Rs. 13.97 billion in the two months of 2012/13. Such exports had increased by 17.8 percent to Rs. 12.48 billion during the same period of the previous year. On a monthly basis, merchandise exports decreased by 6.0 percent in August/September of the current fiscal year compared to that of the previous month.



34. Exports to India declined by 0.4 percent during the review period in contrast to an increase of 18.5 percent in the corresponding period of the previous year. Exports to India decreased mainly due to the decline in export of thread, zinc sheet, catechue, M.S. pipe and readymade garments, among others. Exports to other countries went up by 34.0 percent compared to an increase of 16.6 percent in the same period of the previous year. In USD terms, exports to other countries increased by 9.7 percent to USD 67.1 million compared to an increase of 19.7 percent during the corresponding period of the previous year. The export of G.I. pipe, jute sackings, polyester yarn, textiles and wire, 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.
35. During the review period, merchandise imports increased by 29.7 percent to Rs. 90.65 billion. Such imports had risen by 14.5 percent to Rs. 69.92 billion during the corresponding period of the previous year. Total imports increased in the review period primarily due to a sharp increase in imports from both India and other countries. On a monthly basis, merchandise imports decreased by 7.1 percent during August/September of the current fiscal year compared to that of the previous month.

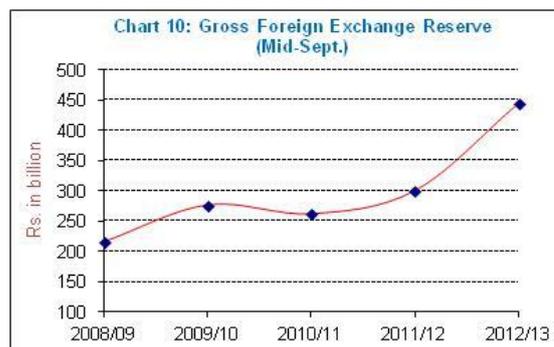
36. Imports from India went up by 31.5 percent during the review period compared to an increase of 2.0 percent in the same period of the previous year. Imports from other countries increased by 26.7 percent compared to an increase of 43.3 percent in the corresponding period of the previous year. In US dollar terms, imports from other countries increased by 3.7 percent to USD 377.1 million compared to an increase of 47.2 percent in the corresponding period of the previous year. Imports from India increased primarily due to an increase in the imports of petroleum products, M.S. billet, chemical fertilizer, cement and rice, among others. Likewise, the imports from other countries rose mainly on account of an increase in the imports of pipe and pipe fittings, telecommunication equipment parts, readymade garments, gold and edible oil, among others.
37. Total trade deficit during the two months of 2012/13 surged by 33.5 percent to Rs. 76.68 billion compared to an increase of 13.7 percent during the same period of the previous year. Trade deficit with India increased by 38.7 percent during the review period in contrast to a decline by 1.1 percent in the same period of the previous year. Trade deficit with other countries increased by 25.2 percent compared to an increase of 50.3 percent during the same period of the previous year.
38. Due to high growth of imports, the ratio of export to import declined to 15.4 percent during in the review period from 17.9 percent a year ago.

Balance of Payments Situation

39. The overall BOP recorded a surplus of Rs. 3.82 billion during the two months of 2012/13 compared to a surplus of Rs. 17.06 billion during the same period of the previous year. The current account posted a deficit of Rs. 646.1 million during the review period in contrast to a surplus of Rs. 2.2 billion in the same period of the previous year. The deficit in the current account was primarily due to a substantial rise in merchandise imports as well as a decline in net service income during the review period. In US dollar terms, the overall BOP recorded a surplus of USD 43.0 million compared to a surplus of USD 234.6 million during the same period of the previous year. Similarly, the current account registered a deficit of USD 7.3 million during the review period in contrast to a surplus of USD 30.1 million during the corresponding period of the previous year.
40. The FOB-based merchandise trade deficit increased by 32.9 percent to Rs. 73.60 billion during the two months of 2012/13. Such deficit had grown by 12.4 percent in the same period of the previous year. The net service income posted a deficit of Rs. 1.98 billion during the review period compared to a surplus of 1.70 billion in the same period of the previous year. The transfer, net registered a growth of 32.7 percent to Rs. 74.64 billion during the review period compared to a growth of 18.1 percent in same period of the previous year. Under transfers, workers' remittances surged by 38.1 percent to Rs. 65.38 billion compared to an increase of 24.9 percent in the same period of the previous year. In US dollar terms, remittance inflows increased by 13.2 percent to USD 736.4 million during the review period compared to an increase of 28.1 percent in the same period of the previous year. On a monthly basis, remittance inflows increased by 93.4 percent in August/September compared to the value of the previous month of this fiscal year. Similarly, under the financial account, foreign direct investment of Rs. 932.6 million was recorded in the review period.

Foreign Exchange Reserves

41. The gross foreign exchange reserves went up by 1.3 percent to Rs. 445.02 billion in mid-September 2012 from a level of Rs. 439.46 billion as at mid-July 2012. Such reserves had increased by 10.3 percent to Rs. 300.08 billion in the same period of the previous year. Out of total reserves, NRB's reserves declined by 1.0 percent to Rs. 371.80 billion during 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 2.9 percent to USD 5.10 billion in mid-September 2012. Such reserves had risen by 3.5 percent in the same period of the previous year. Likewise, during the two months of 2012/13, the reserves in terms of inconvertible foreign exchange decreased by 4.5 percent to IRs 57.68 billion. Such reserves had increased by 23.9 percent during the same period of the previous year. On the basis of trend of import during the two months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 10.0 months and merchandise and service imports of 8.5 months.



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

42. The price of oil (Crude Oil Brent) in the international market increased by 0.7 percent to USD 117.48 per barrel in mid-September 2012 from USD 116.71 per barrel in mid-September 2011. On the other hand, the price of gold declined by 0.4 percent to USD 1775.50 per ounce in mid-September 2012 from the level of mid-September 2011.
43. Nepalese currency vis-à-vis the US dollar appreciated by 1.6 percent in mid-September 2012 from the level of mid-July 2012. It had depreciated by 6.2 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 87.23 in mid-September 2012 compared to Rs. 88.60 in mid-July 2012.