

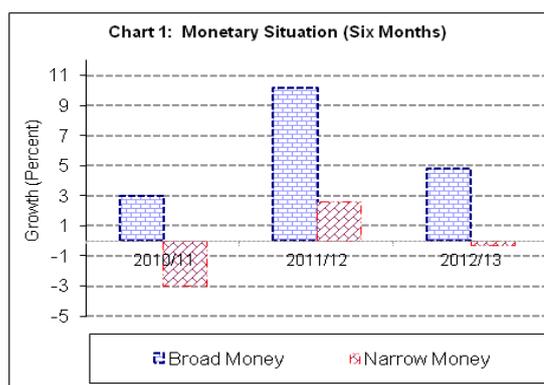
Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 4.8 percent during six months of 2012/13 compared to an increase of 10.2 percent in the corresponding period of the previous year. Broad money supply, on a year-on-year (y-o-y) basis, expanded by 16.7 percent in mid-January 2013. Narrow money supply (M1) decreased by 0.3 percent during the review period in contrast to a 2.6 percent increase in the corresponding period of the previous year. On a y-o-y basis, narrow money expanded by 15.2 percent in mid-January 2013.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 6.07 billion (1.6 percent) during the review period compared to an increase by Rs. 66.72 billion (30.9 percent) in the corresponding period of the previous year. A significant rise in imports, relatively lower growth in remittance and a fall in capital as well as current transfer led to a slower growth in net foreign assets of the monetary sector during the review period.



Domestic Credit

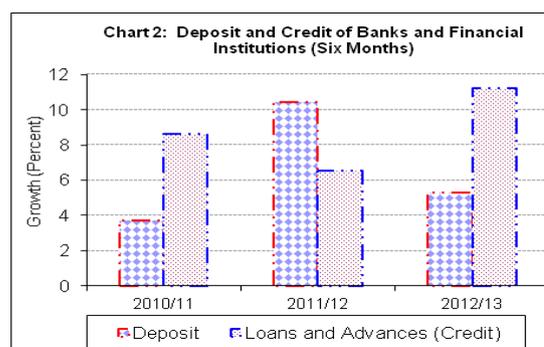
3. Domestic credit increased by 6.1 percent during six months of 2012/13. It had increased by 1.0 percent in the corresponding period of the previous year. On a y-o-y basis, domestic credit increased by 14.5 percent in mid-January 2013. Domestic credit grew on the back of accelerated growth in claims on private sector during the review period. During six months of 2012/13, claims on private sector increased by 12.3 percent compared to a growth of 4.9 percent in the corresponding period of the previous year.

Reserve Money

- Reserve money decreased by 14.6 percent during the review period as against an increase of 9.1 percent in the corresponding period of the previous year. A decrease in Nepal Rastra Bank's net claims on government coupled with a decline in net foreign assets caused a decrease in reserve money during the review period. On a y-o-y basis, reserve money increased by 6.8 percent in mid-January 2013.

Deposit Mobilization of Banks and Financial Institutions

- Deposit mobilization of banks and financial institutions increased by 5.3 percent (Rs. 54.13 billion) during six months of 2012/13. Such deposit mobilization had increased by 10.4 percent (Rs. 85.68 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 4.6 percent, 7.4 percent and 5.8 percent respectively. While the deposit mobilization of commercial banks, development banks and finance companies had increased by 11.4 percent, 11.6 percent and 1.7 percent respectively in the corresponding period of the previous year. The y-o-y deposit mobilization of banks and financial institutions increased by 17.3 percent (Rs. 157.03 billion) to Rs. 1065.95 billion in mid-January 2013.



Credit Flow of Banks and Financial Institutions

- During six months of 2012/13, loan and advances of banks and financial institutions increased by 11.2 percent (Rs. 108.17 billion) compared to a rise of 6.5 percent (Rs. 55.25 billion) in the corresponding period of the previous year. Loan and advances of commercial banks, development banks and finance companies rose by 10.7 percent, 7.2 percent and 5.8 percent respectively during the review period. The y-o-y loan and advances of banks and financial institutions increased by 18.2 percent (Rs. 165.70 billion) to Rs. 1075.82 billion in mid-January 2013. During the review period, banks and financial institutions' credit to private sector increased by 12.3 percent (Rs. 95.77 billion) compared to a rise of 4.6 percent (Rs. 31.94 billion) in the corresponding period of the previous year. Among the private sector's credit extension, commercial banks registered a growth of 12.1 percent, development banks 12.4 percent and finance companies 13.8 percent. The y-o-y banks and financial institutions' credit to private sector increased by 20.5 percent (Rs. 148.70 billion) to Rs. 875.04 billion in mid-January 2013.

7. Of the total banks and financial institutions' credit, the credit to industrial production sector surged by Rs. 21.78 billion in the review period compared to an increase of Rs. 15.47 billion in the corresponding period of the previous year. Similarly, credit to agriculture sector increased by Rs. 8.29 billion in the review period compared to an increase by Rs. 3.83 billion in the corresponding period of the previous year. Likewise, credit to construction sector increased by Rs. 5.29 billion, while the wholesale and retail trade sector registered a surge of Rs. 22.28 billion and transportation, communication and public services sector credit increased by Rs. 4.32 billion in the review period.

Liquidity Management

8. The NRB mopped up net liquidity equivalent to Rs. 8.50 billion under the open market operation 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 auction while liquidity of Rs. 0.74 billion was injected through repo auction.
9. During the review period, the NRB injected net liquidity of Rs. 103.34 billion through the net purchase of USD 1.19 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 126.47 billion was injected through the purchase of USD 1.62 billion in the corresponding period of the previous year.
10. The NRB purchased Indian currency (INR) equivalent to Rs. 122 billion through the sale of USD 1.40 billion in the Indian money market during the review period. INR equivalent to Rs. 110.62 billion was purchased through the sale of USD 1.42 billion in the corresponding period of the previous year.

Inter Bank Transaction and Standing Liquidity Facility

11. During six months of 2012/13, while the inter-bank transaction of commercial banks stood at Rs. 174.41 billion, such transaction of other financial institutions (development banks and finance companies) aggregated Rs. 69.26 billion. Those figures had stood at Rs. 101.82 billion and Rs. 88.21 billion respectively in the corresponding period of the previous year. Banks and financial institutions used Standing Liquidity Facility (SLF) of Rs. 1.59 billion during the review period whereas liquidity amounting to Rs. 4.25 billion was used under SLF in the corresponding period of the previous year.

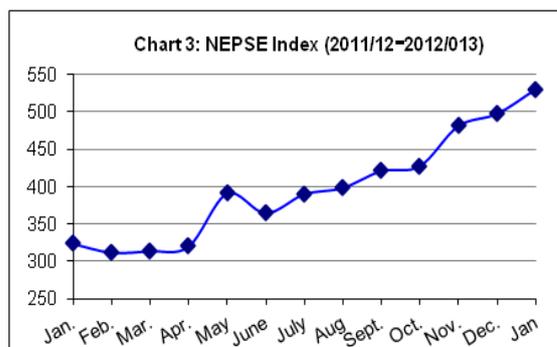
Short-term Interest Rates

12. Among the short-term interest rates, weighted average 91-day Treasury bills rate has increased whereas inter-bank rate remained at lower level in mid-January 2013 compared to those of mid-January 2012. For example, the weighted monthly average 91-day Treasury bill rate increased to 1.52 percent in mid-January 2013 compared to 0.70 percent in mid-January 2012. The weighted

average inter-bank rate between commercial banks remained at 0.71 percent in mid-January 2013 compared to 0.90 percent in mid-January 2012, whereas the weighted average inter-bank rate between other financial institutions remained at 4.13 percent in mid-January 2013 compared to 9.96 percent in the mid-January 2012.

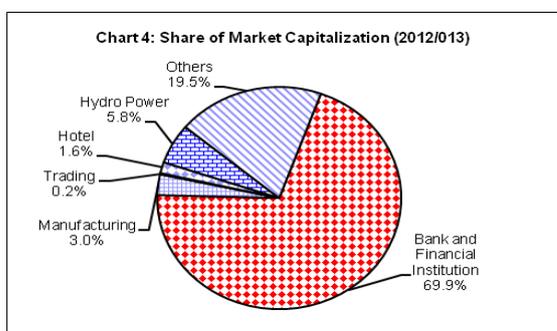
Securities Market

13. The y-o-y NEPSE index increased by 63.7 percent to 529.7 points in mid-January 2013 as against a drop of 19.6 percent to 323.6 points in the corresponding period of the previous year.



14. The y-o-y stock market capitalization witnessed a significant surge of 69.9 percent to Rs. 510.43 billion in mid-January 2013.

15. Banks and financial institutions constituted the biggest share in total market capitalization of stock market. Of the total market capitalization as of mid-January 2013, the share of banks and financial institutions (including insurance companies) stood at 69.8 percent while that of manufacturing and processing companies, hotels, trading, hydropower and other sectors stood at 3.0 percent, 1.6 percent, 0.2 percent, 5.8 percent and 19.5 percent respectively.



16. Total number of companies listed at the NEPSE increased to 221 in mid-January 2013 from that of 214 in mid-January 2012. Banks and financial institutions comprise a major share in the number of listed companies. Of the total listed companies as of mid-January 2013, the number of banks and financial institutions (including insurance companies) stood at 189 followed by production and processing industries (18), hotels (4), trading entities (4), hydropower (4) and other companies (2).

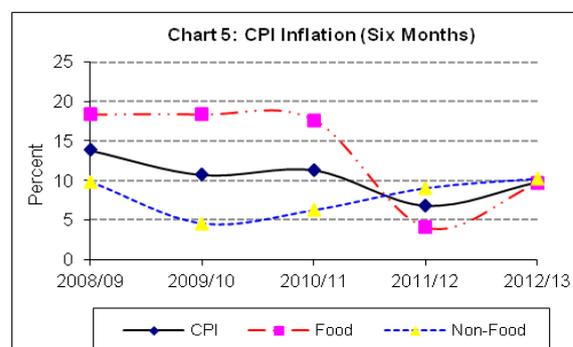
17. Total paid-up capital of the listed companies stood at Rs. 116.64 billion in mid-January 2013, registering an increase of 9.6 percent over mid-January 2012. Such an increase in paid-up capital was due to the additional listing of securities at the NEPSE. Additional securities worth Rs. 3.08 billion comprising ordinary

share of Rs. 2.51 billion, bonus share of Rs. 0.36 billion and right share of Rs. 0.21 billion were listed at the NEPSE during six months of 2012/13.

Inflation, Salary and Wage Rate

Consumer Price Inflation

18. The y-o-y CPI inflation increased by 9.8 percent in mid-January 2013 compared to 6.8 percent a year ago. The index of food and beverage group increased by 9.6 percent whereas non-food and services group increased by 10.2 percent during mid-December-mid-January 2013. These indices had increased by 4.0 percent and 9.0 percent respectively in the corresponding month of the previous year.

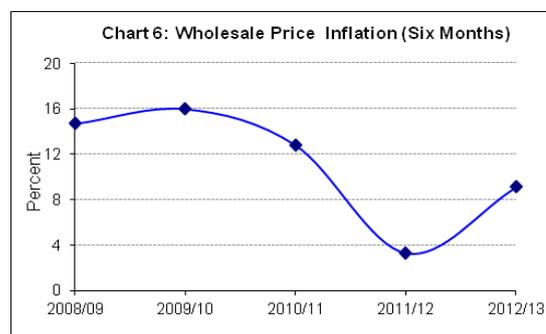


19. Under the items of the food and beverage group, price index of ghee and oil sub-group increased by the higher rate of 14.8 percent during the review month compared to an increase of 15.6 percent in the corresponding month of the previous year. The price index of meat and fish and restaurant and hotel, which had increased by 5.0 percent and 9.3 percent in the corresponding month of previous year, went up by 14.0 percent and 13.2 percent respectively during the review month. Similarly, the price index of soft drinks, which had increased by 6.7 percent in the corresponding month of the previous year, increased by 11.7 percent in the review month. The price indices of vegetables subgroups has increased by 11.5 percent during the review month, which had been recorded a decrease of 5.1 percent in a year ago.
20. Within the group of non-food and services, the price index of furnishing and household equipment increased by 13.1 percent during the review month compared to an increase of 13.2 percent in the corresponding month of the previous year. The price indices of education and housing and utilities increased by 12.5 percent and 12.3 percent respectively during the review month. Such indices had increased by 8.9 percent and 3.5 percent respectively in the corresponding month of the previous year. Similarly, the price indices of clothing and footwear sub-group has increased at the rate of 11.5 percent during the review month while such indices had increased by 15.2 percent in the corresponding month of the previous year. The price index of communication, which had decreased by 8.2 percent in the corresponding month of the previous year, witnessed a further decline of 2.1 percent during the review month also.
21. Region-wise, the price indices increased at the 11.2 percent in Terai followed by 9.0 percent in hill and 8.7 percent in Kathmandu Valley in the review month.

These increments were 5.4 percent, 9.2 percent and 6.6 percent respectively in the corresponding month of the previous year.

Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 9.1 percent during the review month compared to a rise of 3.2 percent in the corresponding month of the previous year. A higher rate of growth in prices of agricultural items and imported goods accounted for a significant rise in wholesale price inflation during the review month.



National Salary and Wage Rate

23. The y-o-y salary and wage rate index increased by 10.3 percent during the review month compared to an increase of 32.1 percent a year ago. Within the salary and wage rate index, the salary index remained unchanged in the review month compared to an increase of 19.3 percent in the corresponding period of the previous year. The wage rate index increased by 12.8 percent during the review month compared to an increase of 35.7 percent in a year ago.
24. The indices of wages of agricultural labourers, industrial labourers, construction labourers increased by 14.6 percent, 10.5 percent and 8.8 percent respectively during the review month. These indices had increased by 36.5 percent, 33.4 percent and 37.0 percent respectively in the corresponding month of the previous year.

Fiscal Situation *

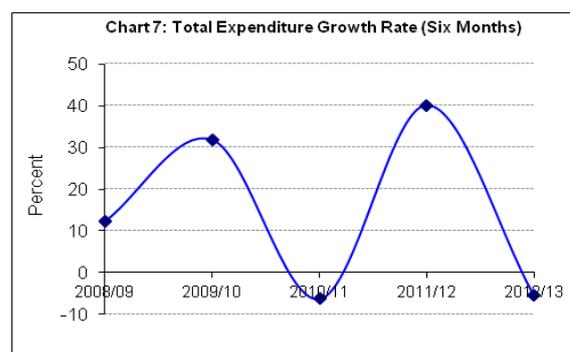
Budget Deficit / Surplus

25. During six months of 2012/13, government budget surplus surged to Rs. 40.44 billion from Rs. 24.04 billion in the corresponding period of the previous year. 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. transaction), 39 NBL branches (out of 44 branches conducting govt. transaction), 5 Everest Bank branches and 1-1 branch each from Nepal Bangladesh Bank Limited and Global IME Bank Limited conducting government transactions.

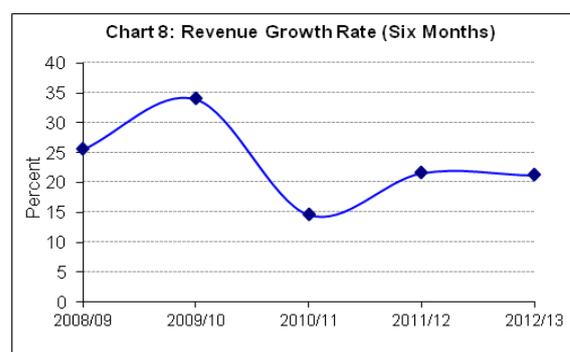
Government Expenditure

26. During the review period, total government spending decreased by 5.4 percent to Rs. 107.21 billion in contrast to an increase of 40.1 percent in the corresponding period of the previous year. The delay in adopting a full-year budget for 2012/13 accounted for the decline in total expenditure during the review period.



Government Revenue

27. During the review period, government revenue grew by 21.2 percent to Rs. 134.57 billion. Such revenue had risen by 21.6 percent to Rs. 111.03 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 17.4 percent to Rs. 40.14 billion during the review period. It had increased by 16.1 percent in the corresponding period of the previous year. Revenue collection from imports led to the rise in overall VAT revenue.
29. During the review period, customs revenue rose by 39.1 percent to Rs. 27.07 billion compared to an increase of 15.4 percent in the corresponding period of the previous year. The rise in the imports including the imports of high tax yielding vehicles and spare parts contributed to such a growth in customs revenue during the review period.
30. During the review period, excise revenue increased by 21.0 percent to Rs. 17.69 billion compared to an increase of 10.4 percent in the corresponding period of the previous year. Increase in the imports of higher excise tax yielding vehicles and reforms in tax administration accounted for such a growth of excise revenue during the review period.
31. Income tax revenue increased by 30.3 percent to Rs. 30.65 billion during the review period. Such revenue had risen by 23.5 percent in the corresponding period of the previous year. Positive impact of reform in income tax administration and taxpayer education campaign launched recently accounted for such an increase in the income tax revenue during the review period.

32. During the review period, non-tax revenue rose to Rs. 14.51 billion. Such revenue was Rs. 15.53 billion in the corresponding period of the previous year.

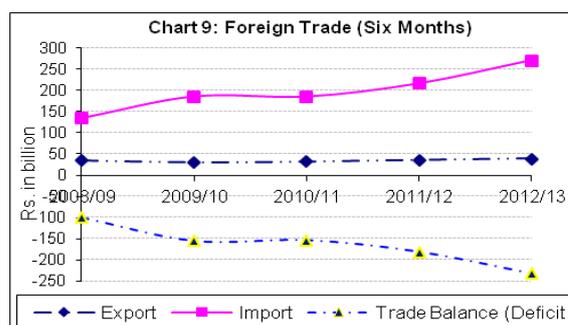
Foreign Cash Loans and Grants

33. During six months of 2012/13, while foreign cash loans amounted to Rs. 1.31 billion, foreign cash grants stood at Rs. 10.25 billion. Such receipts were Rs. 2.59 billion and Rs. 21.21 billion respectively in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

34. Merchandise exports went up by 9.3 percent to Rs. 39.25 billion during six months of 2012/13. Such exports had increased by 11.2 percent to Rs. 35.92 billion during the same period of the previous year. On a monthly basis, merchandise exports decreased by 0.7 percent in December/January of the current fiscal year compared to that of the previous month.



35. Exports to India increased by 3.8 percent during the review period compared to an increase of 13.9 percent in the corresponding period of the previous year. Exports to other countries went up by 20.3 percent compared to an increase by 6.1 percent in the same period of the previous year. In US dollar terms, exports to other countries increased by 6.9 percent to US dollar 163.2 million in contrast to a decrease of 0.7 percent during the corresponding period of the previous year. The export of jute sackings, G.I. pipe, cardamom, wire and ginger, 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 25.2 percent to Rs. 271.35 billion. Such imports had risen by 16.8 percent to Rs. 216.68 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 declined by 1.3 percent during December/January of the current fiscal year compared to that of the previous month.
37. Imports from India went up by 26.2 percent during the review period compared to an increase of 10.1 percent in the same period of the previous year. Likewise, imports from other countries rose by 23.6 percent compared to an increase of 31.0 percent in the corresponding period of the previous year. In US dollar terms, imports

from other countries increased by 10.6 percent to US dollar 1.1 billion compared to an increase of 21.6 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 M.S. billet, among others. Likewise, imports from other countries increased mainly on account of an increase in the imports of pipe and pipefittings, readymade garments, gold, telecommunication equipment parts and edible oil, among others.

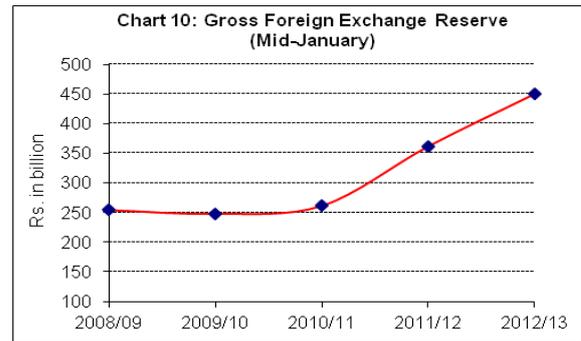
38. Total trade deficit widened further by 28.4 percent to Rs. 232.1 billion during six months of 2012/13 from 17.9 percent during the same period of the previous year. Trade deficit with India expanded by 30.8 percent during the review period from 9.4 percent in the same period of the previous year. Trade deficit with other countries rose by 24.1 percent compared to an increase of 36.7 percent during the same period of the previous year.
39. Due to high growth of imports, the ratio of export to import declined to 14.5 percent in the review period from 16.6 percent a year ago.

Balance of Payments Situation

40. The overall BOP recorded a surplus of Rs. 6.1 billion during six months of 2012/13 compared to a surplus of Rs. 66.72 billion during the same period of the previous year. The current account posted a surplus of Rs. 4.41 billion in the review period compared to a surplus of Rs. 31.99 billion in the same period of the previous year. The decline in surplus in the current account was primarily due to a substantial rise in the imports of merchandise, the deficit in the net services income compared to a surplus in the corresponding period of the previous year and the slower growth of workers' remittances in the review period. In US dollar terms, the current account registered a surplus of US dollar 49.7 million in the review period compared to a surplus of US dollar 400.1 million during the corresponding period of the previous year.
41. The FOB-based merchandise trade deficit increased by 27.9 percent to Rs. 222.27 billion during six months of 2012/13. Such deficit had grown up by 17.4 percent in the same period of the previous year. The net service income posted a deficit of Rs. 1.91 billion in the review period in contrast to a surplus of Rs. 9.93 billion in the same period of the previous year. Net transfers registered a growth of 18.2 percent to Rs. 223.74 billion in the review period compared to a growth of 29.1 percent in the same period of the previous year. Under the transfers, workers' remittances surged by 21.8 percent to Rs. 197.70 billion compared to an increase of 37.1 percent in the same period of the previous year. In US dollar terms, remittance inflow increased by 9.5 percent to US dollar 2.26 billion during the review period compared to an increase of 26.7 percent in same period of the previous year. On a monthly basis, remittance inflows increased by 20.9 percent in December/January compared to the value of the previous month of this fiscal year.

Foreign Exchange Reserves

42. The gross foreign exchange reserves increased by 2.6 percent to Rs. 450.80 billion in mid-January 2013 from a level of Rs. 439.46 billion as at mid-July 2012. Such reserves had increased by 33.1 percent to Rs. 362.13 billion in the same period of the previous year. Of total reserves, NRB's held a Rs. 367.34 billion as at mid-January 2013. On the basis of trend of import during the first six months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 10.2 months and merchandise and service imports of 8.7 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 0.7 percent to US dollar 111.32 per barrel in mid-January 2013 from US dollar 110.55 per barrel in mid-January 2012. Similarly, the price of gold increased by 1.6 percent to US dollar 1666.50 per ounce in mid-January 2013.
44. Nepalese currency vis-à-vis the US dollar appreciated by 1.7 percent in mid-January 2013 from the level of mid-July 2012. It had depreciated by 13.4 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 87.10 in mid-January 2013 compared to Rs. 88.60 in mid-July 2012.