

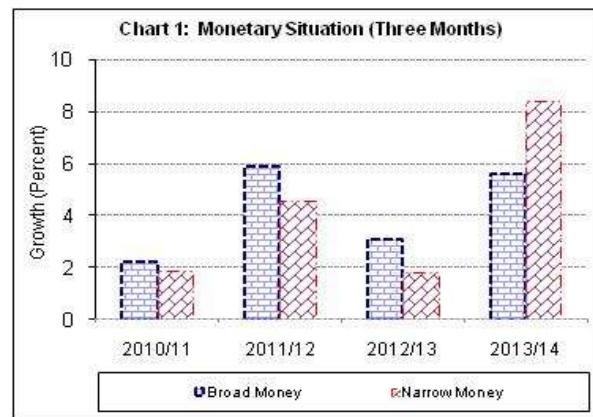
Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 5.6 percent in the three months of 2013/14 compared to an increase of 3.1 percent in the corresponding period of the previous year. Likewise, narrow money supply (M1) increased by 8.4 percent in the review period compared to an increase of 1.8 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 expanded by 19.2 percent and M1 expanded by 21.8 percent in mid-October 2013.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 52.74 billion (11.3 percent) during the review period compared to an increase of Rs. 2.05 billion (0.5 percent) in the corresponding period of the previous year. Expansion of remittance inflow and increase in foreign assistance along with the decelerated growth of imports resulted in a higher growth of net foreign assets in the review period.

Domestic Credit

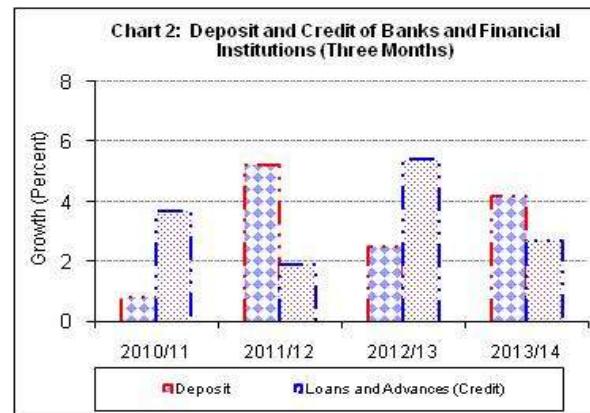
3. In the review period, domestic credit increased by 0.4 percent compared to the growth of 2.9 percent in the same period of the previous year. The decline in the domestic credit is due to a decrease in net claims on government in the review period. On y-o-y basis, domestic credit increased by 14.3 percent in mid-October 2013. The claims on private sector increased by 4.0 percent in the review period compared to an increase of 5.8 percent in the corresponding period of the previous year.

Reserve Money

4. Reserve money increased by 9.8 percent in the review period compared to a decline of 7.0 percent in the corresponding period of the previous year. On y-o-y basis, such money increased by 31.0 percent in mid-October 2013. The growth of reserve money is on account of an increment of currency in circulation.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions (BFIs) increased by 4.2 percent (Rs. 49.64 billion) in the three months of 2013/14. Such deposit mobilization had increased by 2.5 percent (Rs. 24.97 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs expanded by 19.4 percent in mid-October 2013. In the review period, deposit mobilization of commercial banks increased by 3.9 percent, development banks by 4.8 percent and finance companies by 3.3 percent. The deposit mobilization of commercial banks increased by 1.7 percent, development banks by 4.8 percent and finance companies by 3.4 percent in the same period of the previous year.



Credit Flow of Banks and Financial Institutions

6. In the three months of 2013/14, loans and advances of BFIs increased by 2.7 percent (Rs. 31.11 billion) compared to a growth of 5.4 percent (Rs. 51.79 billion) in the corresponding period of the previous year. In the review period, loans and advances of commercial banks increased by 2.3 percent, development banks by 3.6 percent and finance companies by 2.2 percent. Similarly, the credit to private sector from BFIs increased by 4.0 percent (Rs. 37.66 billion) in the review period compared to a growth of 5.8 percent (Rs. 45.27 billion) in the same period of the previous year. On y-o-y basis, the credit to private sector from BFIs increased by 18.7 percent in mid-October 2013. In the review period, credit to private sector from commercial banks increased by 4.0 percent, development banks by 5.4 percent and finance companies by 1.2 percent.
7. Of the total credit from BFIs, the credit to industrial production sector increased by Rs. 10.05 billion during the review period compared to an increase of Rs. 10.64 billion in the same period of the previous year. Similarly, credit to agriculture sector increased by Rs. 1.70 billion in the review period compared to an increase of Rs. 4.15 billion in the corresponding period of the previous year. In the review period, the credit to construction sector increased by Rs. 4.85 billion, to transportation,

communication and public services by Rs. 0.41 billion and to wholesale and retail trade sector by Rs. 13.22 billion. The credit to construction sector had increased by Rs. 2.38 billion, to transportation, communication and public services by Rs. 3.24 billion and to wholesale and retail trade sector by Rs. 12.71 billion in the same period of the previous year.

Liquidity Management

8. In the review period, NRB injected net liquidity of Rs. 88.93 billion through the net purchase of USD 882.30 million from foreign exchange market (commercial banks). Net liquidity of Rs. 46.86 billion was injected through the purchase of USD 539.0 million in the corresponding period of the previous year.
9. NRB purchased Indian currency (INR) equivalent to Rs. 81.53 billion through the sale of USD 820.0 million in the Indian money market during the review period. INR equivalent to Rs. 60.99 billion was purchased through the sale of USD 700.0 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 review period. NRB mopped up net liquidity of Rs. 35.0 billion through reverse repo auction and Rs. 8.50 billion through outright sale auction in the review period. A net liquidity of Rs. 8.50 billion was mopped up through outright sale auction in the corresponding period of the previous year.

Inter-bank Transactions and Standing Liquidity Facility

11. In the review period, inter-bank transactions of commercial banks stood at Rs. 48.15 billion and those of other financial institutions amounted to Rs. 33.21 billion. Those figures stood at Rs. 34.06 billion and Rs. 30.65 billion respectively in the corresponding period of the previous year. The BFIs did not use standing liquidity facility (SLF) in the review period.

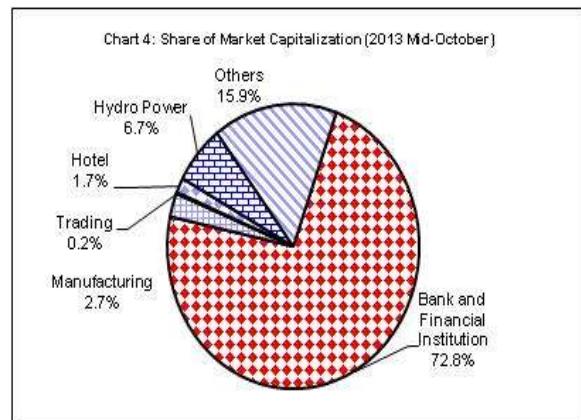
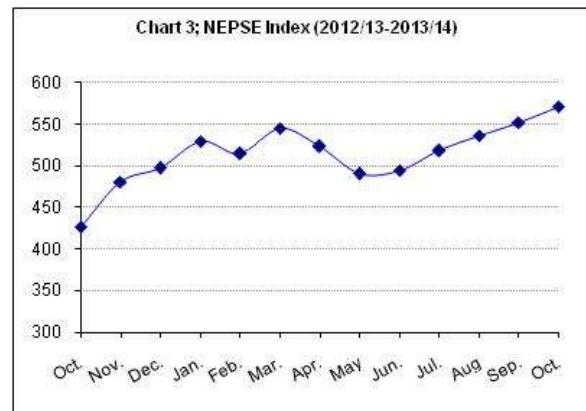
Interest Rates

12. The weighted average Treasury bill rate and inter-bank transaction rate declined in October 2013 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate decreased to 0.07 percent in October 2013 from 0.31 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.25 percent in October 2013 compared to 0.33 percent in October 2012. Likewise, the weighted average inter-bank rate among other financial institutions declined to 2.64 percent in October 2013 from 4.23 percent in October 2012.
13. In mid-October 2013, the weighted average deposit and lending rates of commercial banks remained at 4.89 percent and 11.78 percent respectively. Accordingly, the

interest rate spread (lending rate less deposit rate) of commercial banks stood at 6.89 percent in mid-October 2013. Moreover, the average base rate of commercial banks remained at 9.23 percent in mid-October 2013.

Securities Market

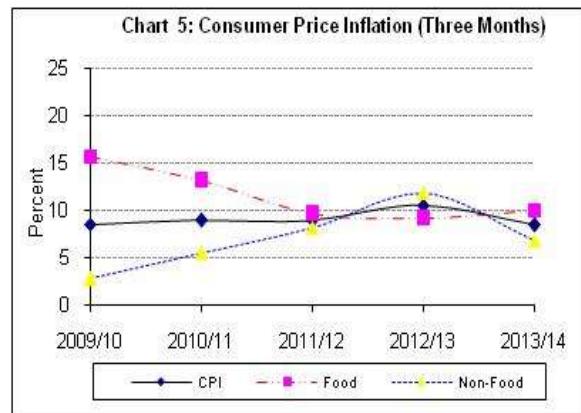
14. NEPSE index, on y-o-y basis, increased by 33.7 percent to 571.5 points in mid-October 2013. The index had increased by 29.1 percent in the corresponding period of the previous year and stood at 427.3 points in mid-October 2012.
15. The y-o-y stock market capitalization increased by 42.2 percent to Rs. 575.43 billion in mid-October 2013. The ratio of market capitalization to GDP stood at 33.8 percent in mid-October 2013 compared to 26.3 percent a year ago.
16. Of the total market capitalization as of mid-October 2013, the share of banks and financial institutions (including insurance companies) stood at 72.8 percent while that of manufacturing and processing companies, business entities, hotels, hydropower and other sectors stood at 2.7 percent, 0.2 percent, 1.7 percent, 6.7 percent and 15.9 percent respectively.
17. Total number of companies listed at the NEPSE increased from 214 in mid-October 2012 to 232 in mid-October 2013. Of the total listed companies, the number of banks and financial institutions (including insurance companies) stood at 200 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. 131.17 billion in mid-October 2013, registering an increase of 17.3 percent over mid-October 2012. Additional securities worth Rs. 8.63 billion comprising ordinary share of Rs. 3.77 billion, right share of Rs. 3.75 billion and bonus share of Rs. 1.10 billion were listed at the NEPSE during the three 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 8.4 percent in mid-October 2013 compared to 10.5 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 10.0 percent and 6.9 percent respectively during the review period. Such indices had increased by 9.1 percent and 11.8 percent respectively in the corresponding period of previous year.



20. Under the items of the food and beverage group, price index of meat and fish sub-group increased by the highest rate of 18.5 percent during the review period compared to an increase of 13.3 percent in the corresponding period of the previous year. The price indices of vegetables sub-group and restaurant and hotel sub-group which had increased by 5.8 percent and 12.4 percent in the corresponding period of previous year, went up by 14.0 percent and 11.9 percent respectively during the review period. The price indices of cereals, grains and their products sub-group and tobacco products sub-group increased by 11.5 percent and 9.9 percent respectively during the review period compared to the increase of 5.3 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 clothing and footwear increased by 11.7 percent during the review period compared to an increase of 13.9 percent in the corresponding period of the previous year. The price indices of furnishing and household equipment sub-group and education sub-group increased respectively by 9.5 percent and 7.8 percent during the review period. Such indices had increased by 15.0 percent and 12.5 percent respectively in the corresponding period of the previous year. Similarly, the price index of recreation and culture sub-group increased by 6.5 percent during the review period while such index had increased by 10.2 percent in the corresponding period of the previous year.
22. Region-wise, the price indices in Terai increased by 9.3 percent followed by Kathmandu Valley and Hilly region with 8.4 percent and 7.0 percent respectively during the review period. The respective increments were 10.8 percent, 9.7 percent and 11.1 percent in the corresponding period of the previous year.

Wholesale Price Inflation

23. The y-o-y wholesale price index increased by 7.5 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 10.5 percent, 4.9 percent and 3.6 percent respectively during the review period. The respective increments of these sub-groups were 10.6 percent, 6.8 percent and 11.6 percent in the corresponding period of the previous year.



National Salary and Wage Rate

24. The y-o-y salary and wage rate index increased by 11.3 percent during the review period compared to an increase of 11.1 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 remained unchanged in the corresponding period of the previous year. The wage rate index increased by 7.9 percent during the review period compared to an increase of 13.9 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 9.1 percent, 8.2 percent and 2.9 percent respectively in the indices of wages in the review period.

Fiscal Situation *

Budget Deficit / Surplus

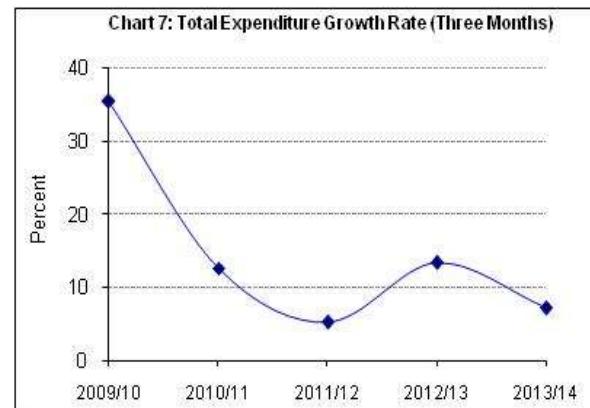
26. During the three months of 2013/14, government budget on cash basis remained at a surplus of Rs. 32.62 billion. Such budget surplus was Rs. 10.94 billion in the

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Based on the data reported by 8 NRB offices, 66 RBBL branches (all of 66 branches conducting govt. transactions), 44 NBL branches (out of 44 branches conducting govt. transactions), 5 Everest Bank branches 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.

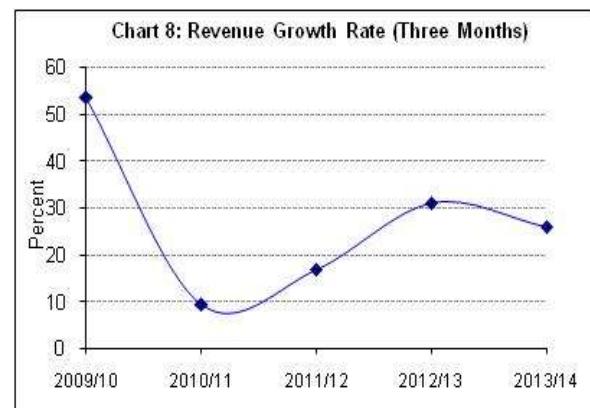
Government Expenditure

27. During the review period, total government expenditures on cash basis increased by 7.2 percent to Rs. 57.11 billion. Such expenditures had increased by 13.4 percent to Rs. 53.29 billion in the corresponding period of the previous year.
28. During the review period, recurrent expenditures increased by 45.6 percent to Rs. 54.45 billion. In the corresponding period of the previous year, such expenditures had decreased by 5.9 percent. Timely announcement of the annual budget and expenditures incurred in the preparation of constitutional assembly election accounted for such a growth in recurrent expenditures.
29. During the review period, capital expenditures increased by 42.3 percent to Rs. 2.16 billion. In the corresponding period of the previous year, such expenditures had increased by 7.5 percent. Timely announcement of the annual budget contributed to such a growth in capital expenditures.



Government Revenue

30. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 26.1 percent to Rs. 72.43 billion. Such revenue had risen by 31.1 percent to Rs. 57.45 billion in the corresponding period of the previous year. A sharp decrease on growth rate of custom revenue accounted for such a decrease in the revenue growth rate during the review period.
31. Of the total revenue mobilization, VAT revenue grew by 20.7 percent to Rs. 23.64 billion during the review period. It had increased by 17.1 percent in the corresponding period of the previous year. The increase in VAT revenue was due



mainly to the positive impact of leakages control in VAT including reform in VAT administration.

32. During the review period, custom revenue rose by 9.0 percent to Rs. 15.04 billion compared to an increase of 44.6 percent in the corresponding period of the previous year. Decrease in imports accounted for such a low growth rate of custom revenue during the review period.
33. During the review period, excise revenue increased by 24.3 percent to Rs. 10.40 billion compared to an increase of 21.1 percent in the corresponding period of the previous year. Reforms in excise administration contributed to such a high growth of excise revenue during the review period.
34. Income tax revenue increased by 16.0 percent to Rs. 9.19 billion during the review period. Such revenue had risen by 40.5 percent in the corresponding period of the previous year.
35. During the review period, non-tax revenue increased by 81.7 percent to Rs. 9.44 billion compared to an increase of 62.3 percent in the corresponding period of the previous year.

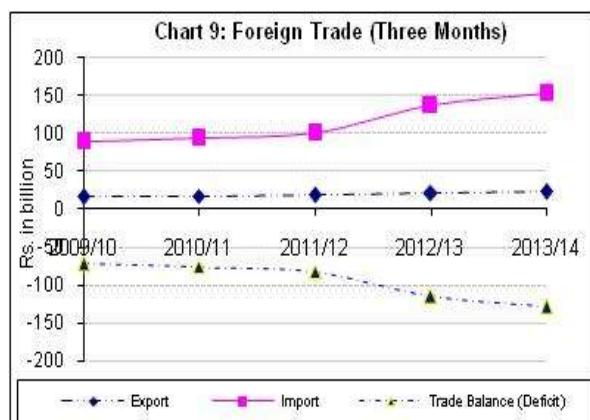
Foreign Cash Loan and Grants

36. In the three months of 2013/14, foreign cash loans of Rs. 1.19 billion and foreign cash grants of Rs. 13.39 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 449.2 million and foreign cash grants of Rs. 3.66 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

37. Merchandise exports went up by 11.3 percent to Rs. 23.07 billion in the three months of 2013/14. Such exports had increased by 14.9 percent to Rs. 20.73 billion during the same period of the previous year. On a monthly basis, merchandise exports increased by 4.5 percent in September/October of the current fiscal year compared to that of the previous month.
38. Exports to India increased by 18.2 percent during the review period compared to an increase of 6.0 percent in the



previous year. Exports to other countries went up by 1.2 percent compared to an increase of 31.0 percent in the same period of the previous year. In USD terms, exports to other countries decreased by 11.0 percent to USD 86.0 million in contrast to an increase of 11.2 percent during the corresponding period of the previous year. The export of zinc sheet, cardamom, juice, medicine (Ayurvedic), shoes and sandals, among others increased to India. Likewise, exports to other countries went up primarily due to the increase in export of woolen carpet, readymade garments, pashmina and herbs among others.

39. During the review period, merchandise imports increased by 11.3 percent to Rs. 151.86 billion. Such imports had risen by 36.1 percent to Rs. 136.48 billion during the corresponding period of the previous year. On a monthly basis, merchandise imports decreased by 1.6 percent in September/October of the current fiscal year compared to that of the previous month.
40. Imports from India went up by 14.8 percent during the review period compared to an increase of 36.0 percent in the same period of the previous year. Imports from other countries increased by 5.1 percent compared to an increase of 36.3 percent in the corresponding period of the previous year. In US Dollar terms, imports from other countries decreased by 7.6 percent to USD 523.7 million in contrast to an increase of 15.5 percent in the previous year. Imports from India increased primarily owing to an increase in the imports of petroleum products, coldrolled sheet in coil, thread, vehicles & spare parts, among others. Likewise, the imports from other countries increased mainly on account of an increase in the imports of silver, crude soyabean oil, chemical fertilizer, other stationaries, transport equipments and parts, among others.
41. Total trade deficit during the three months of 2013/14 surged by 11.3 percent to Rs. 128.79 billion compared to an increase of 40.8 percent during the same period of the previous year. Trade deficit with India increased by 14.2 percent during the review period compared to an increase of 42.7 percent in the same period of the previous year. Trade deficit with other countries increased by 5.9 percent compared to an increase of 37.5 percent during the same period of the previous year.
42. Due to the same growth rate of import and export, the ratio of export to import remained at 15.2 percent in the review period as well as in the corresponding period of the previous year.

Balance of Payments Situation

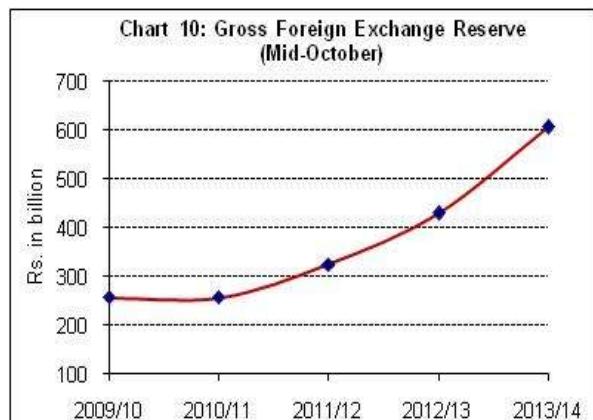
43. The overall BOP recorded a surplus of Rs. 52.74 billion during the three months of 2013/14 compared to a surplus of Rs. 2.05 billion during the same period of the previous year. The current account posted a surplus of Rs. 40.19 billion in the review period in contrast to a deficit of Rs. 2.94 billion in the same period of the previous year. In USD terms, the overall BOP recorded a surplus of USD 530.2 million compared to a surplus of USD 21.3 million during the same period of the previous year. Similarly, the current account registered a surplus of USD 404.4 million in the

review period in contrast to a deficit of USD 34.3 million during the corresponding period of the previous year.

44. The FOB-based merchandise trade deficit increased by 11.0 percent to Rs. 123.15 billion during the three months of 2013/14. Such deficit had grown by 39.8 percent in the same period of the previous year. The net service income posted a surplus of Rs. 1.16 billion in the review period in contrast to a deficit of Rs. 2.47 billion in the same period of the previous year. Net transfers registered a growth of 41.7 percent to Rs. 156.49 billion in the review period compared to a growth of 25.5 percent in same period of the previous year. Under transfers, workers' remittances surged by 38.2 percent to Rs. 135.03 billion compared to an increase of 28.8 percent in the same period of the previous year. In USD terms, remittance inflows increased by 21.3 percent to USD 1.36 billion during the review period compared to an increase of 10.0 percent in same period of the previous year. On a monthly basis, remittance inflows increased by 53.4 percent in September/October compared to the value of the previous month of this fiscal year.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 13.8 percent to Rs. 606.82 billion in mid-October 2013 from a level of Rs. 533.30 billion as at mid-July 2013. Such reserves had decreased by 2.2 percent to Rs. 429.95 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 12.2 percent to Rs. 508.12 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 9.6 percent to USD 6.15 billion in mid-October 2013. Such reserves had increased by 2.5 percent in the same period of the previous year. Likewise, during the three months of 2013/14, the reserves in terms of convertible foreign exchange increased by 15.7 percent to IRs. 86.23 billion. Such reserves had decreased by 3.8 percent during the same period of the previous year. On the basis of trend of import during the three months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 12.3 months and merchandise and service imports of 10.4 months.

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

46. The price of oil (Crude Oil Brent) in the international market decreased by 3.8 percent to USD 110.67 per barrel in mid-October 2013 from USD 115.00 per barrel in mid-

October 2012. Likewise, the price of gold decreased by 27.3 percent to USD 1270.50 per ounce in mid-October 2013 from USD 1746.50 per barrel in mid-October 2012.

47. Nepalese currency vis-à-vis the US Dollar depreciated by 3.7 percent in mid-October 2013 from the level of mid-July 2013. It had appreciated by 4.7 percent in the corresponding period of the previous year. The exchange rate of one US Dollar stood at Rs. 98.64 in mid-October 2013 compared to Rs. 95.00 in mid-July 2013.