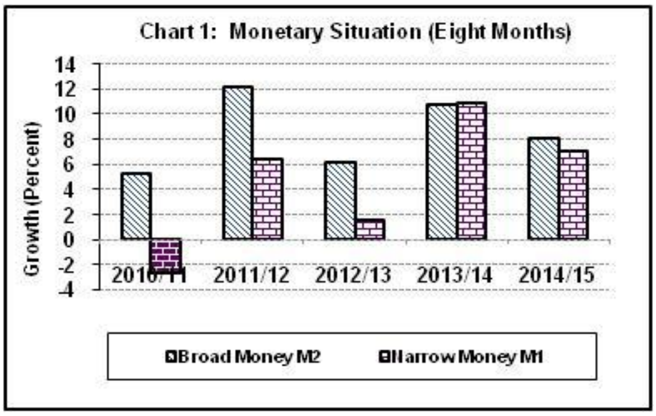
Current Macroeconomic Situation of Nepal

(Based on Eight Months' Data of 2014/15)

Monetary Situation

Money Supply



1. Broad money supply (M2) increased by 8.1 percent in the eight months of 2014/15 compared to an increase of 10.8 percent in the corresponding period of the previous year. Likewise, narrow money supply (M1) grew by 7.0 percent in the review period compared to a growth of 10.9 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 expanded by 16.2 percent and M1 expanded by 13.5 percent in mid-March 2015.

2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 35.07 billion (5.9 percent) during the review period compared to an increase of Rs. 102.81 billion (22.0 percent) in the corresponding period of the previous year. A decelerated growth of remittance inflows along with a decline in exports and grants resulted in a slower growth of net foreign assets in the review period.

Domestic Credit

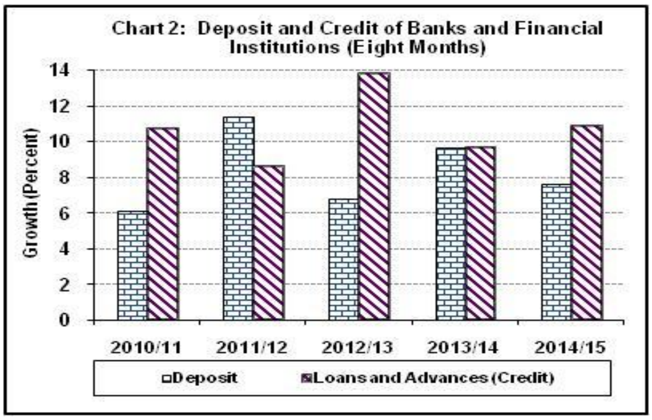
3. Domestic credit increased by 6.4 percent in the review period compared to a growth of 3.1 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 16.3 percent in mid-March 2015. Increase in the claims on the private sector as well as financial institutions resulted in a higher growth of domestic credit in the review period. Likewise, the claims on the private sector increased by 12.4 percent in the review period compared to a growth of 11.1 percent in the corresponding period of the previous year. On y-o-y basis, the claims on the private sector increased by 19.7 percent in mid-March 2015, compared to 15.5 percent a year ago.

Reserve Money

4. Reserve money decreased by 4.8 percent in the review period contrary to an increase of 5.8 percent in the corresponding period of the previous year. Decelerated growth of net foreign assets of the NRB resulted in a decline in the reserve money. On y-o-y basis, reserve money decreased by 10.9 percent in mid-March 2015.

Deposit Mobilization

5. Deposits at banks and financial institutions (BFIs) increased by 7.6 percent (Rs. 106.62 billion) in the review period compared to an increase of 9.7 percent (Rs. 115.47 billion) in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded by 16.1 percent in mid-March 2015. While deposits at commercial banks and finance companies increased by 8.7 percent and 1.8 percent respectively in the review period, deposits at development banks decreased by 1.0 percent. Merger of a development bank with a commercial bank in the review period resulted in such a decline in the deposits of development banks. Deposits at commercial banks, development banks and finance companies had increased by 9.5 percent, 13.7 percent and 7.5 percent respectively in the same period of the previous year.



Credit Disbursement

6. In the eight months of 2014/15, loans and advances of BFIs increased by 10.9 percent (Rs. 142.60 billion) compared to a growth of 9.7 percent (Rs. 111.46 billion) in the corresponding period of the previous year. In the review period, loans and advances of commercial banks, development banks and finance companies increased by 12.4 percent, 1.7 percent and 6.0 percent respectively. Likewise, credit to the private sector from BFIs increased by 11.8 percent (Rs. 132.40 billion) in the review period compared to an increase of 11.0 percent (Rs. 103.81 billion) in the same period of the previous year. Private sector credit from commercial banks, development banks and finance companies increased by 13.6 percent, 4.7 percent and 6.0 percent respectively. On y-o-y basis, the credit to the private sector from BFIs increased by 19.6 percent in mid-March 2015.

7. Of the total credit from BFIs, the credit to the industrial production sector increased by Rs. 31.41 billion (14.1 percent) in the review period compared to an increase of Rs. 26.13 billion (13.7 percent) in the same period of the previous year. Likewise, credit to the wholesale and retail trade sector increased by Rs. 39.27 billion (16.1

percent); construction sector by Rs. 22.85 billion (19.1 percent) and the transportation, communication and public service sector by Rs. 7.80 billion (16.5 percent) during the review period. The credit to the wholesale and retail trade sector, construction sector and transportation, communication and public service sector had increased by Rs. 29.44 billion (14.8 percent), Rs. 14.55 billion (15.1 percent) and Rs. 1.86 billion (4.2 percent) respectively in the same period of the previous year. In the review period, credit to the agriculture sector increased by Rs. 9.27 billion (18.2 percent) compared to an increase of Rs. 7.28 billion (18.3 percent) in the corresponding period of the previous year.

Liquidity Management

8. In the eight months of 2014/15, the NRB mopped up liquidity of Rs. 85.00 billion through deposit auctions and Rs. 271.10 billion through reverse repo auction on cumulative basis. In the corresponding period of the previous year, Rs. 270.00 billion was mopped up through reverse repo auction. As mentioned in the monetary policy statement for 2014/15, the deposit auction has been introduced to mop up liquidity since the second month of the current fiscal year.

9. In the review period, the NRB injected net liquidity of Rs. 213.47 billion through the net purchase of USD 2.23 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 224.99 billion was injected through the net purchase of USD 2.25 billion in the corresponding period of the previous year.

10. The NRB purchased Indian currency (INR) equivalent to Rs. 232.60 billion through the sale of USD 2.36 billion in the review period. INR equivalent to Rs. 202.46 billion was purchased through the sale of USD 2.04 billion in the corresponding period of the previous year.

Inter-bank Transaction and Standing Liquidity Facility

11. In the review period, inter-bank transactions of commercial banks stood at Rs. 275.30 billion and those of other financial institutions (excluding commercial banks) amounted to Rs. 134.89 billion. These were Rs. 157.59 billion and Rs. 107.51 billion respectively in the corresponding period of the previous year. The BFIs used standing liquidity facility (SLF) of Rs. 1.72 billion in the review period.

Interest Rates

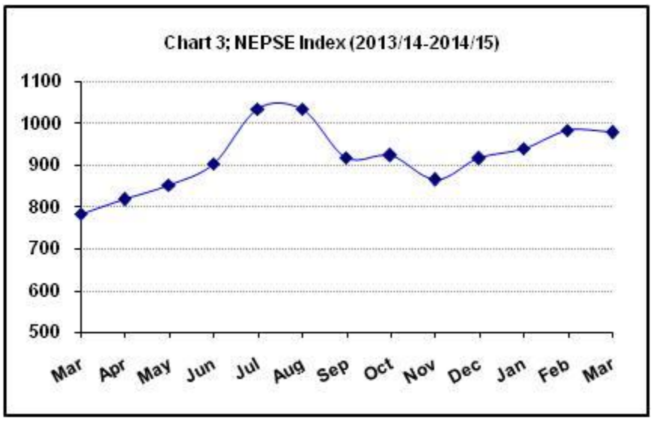
12. Both the weighted average of 91-days Treasury Bill rate and inter-bank transaction rates have increased in the eighth month of 2014/15 compared to a year ago. The weighted average 91-day Treasury Bill rate increased to 1.13 percent in the review month from 0.08 percent a year ago. The weighted average inter-bank transaction rate among commercial banks that was 0.20 percent a year ago reached 1.80 percent

in the review month. Likewise, the weighted average inter-bank rate among other financial institutions increased to 4.06 percent from 2.13 percent a year ago.

13. Weighted average interest rate spread of commercial banks inched up to 4.49 percent from 4.24 percent a month ago and the average base rate came down to 7.52 percent from 8.55 percent a year ago.

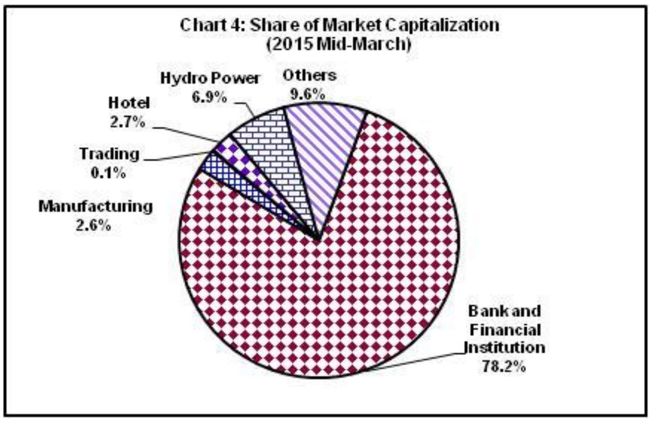
Securities Market

14. NEPSE index increased by 24.8 percent to 978.4 points in mid-March 2015 on y-o-y basis. This index was 783.8 points a year ago.



15. The y-o-y stock market capitalization increased by 25.9 percent to Rs. 1004.03 billion in mid-March 2015. The ratio of market capitalization to GDP stood at 52.1 percent in mid-March 2015 compared to 47.1 percent a year ago.

16. Of the total market capitalization as of mid-March 2015, the share of banks and financial institutions (including insurance companies) stood at 78.2 percent while that of hydropower, hotels, manufacturing and processing companies, business entities, and other sectors stood at 6.9 percent, 2.7 percent, 2.6 percent, 0.1 percent, and 9.6 percent respectively.



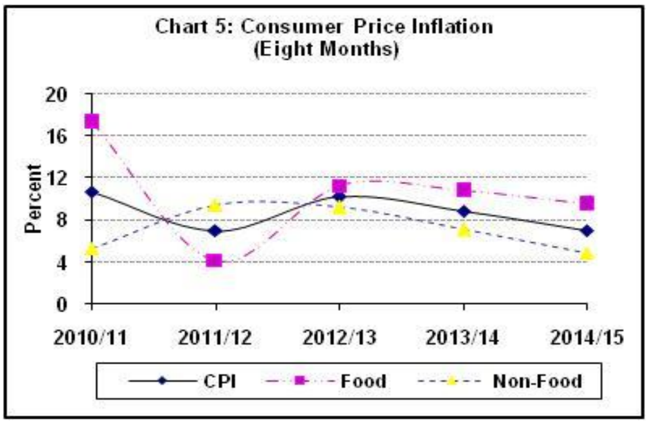
17. Total number of companies listed at the NEPSE decreased from 235 in mid-March 2014 to 232 in mid-March 2015. Merger of some bank and financial institutions during this period led to the decline in the number of listed companies. Of the total listed companies the number of banks and financial institutions (including insurance companies) stood at 198 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (6) and other companies (2).

18. On y-o-y basis, total paid-up capital of the listed companies increased by 12.0 percent to Rs. 156.57 billion in mid-March 2015. Securities worth Rs. 16.72 billion

comprising ordinary shares of Rs. 9.11 billion, right shares of Rs. 0.96 billion and bonus shares of Rs. 6.64 billion have been listed at the NEPSE during the eight months of 2014/15.

Inflation, Salary and Wage Rate

Consumer Price Inflation



19. The y-o-y inflation as measured by the consumer price index increased by 7.0 percent in mid-March 2015. The CPI based inflation was 8.9 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 9.5 percent and 4.9 percent respectively during the review period. Such indices had increased by 10.8 percent and 7.1 percent respectively in the corresponding period of the previous year.

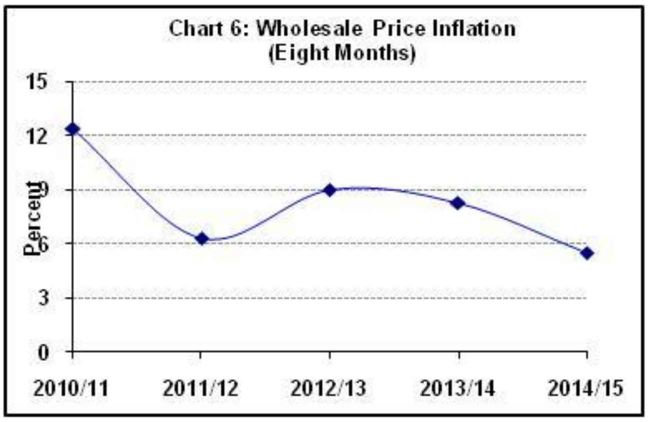
20. Under the food and beverage group, price index of tobacco products sub-group increased by the highest rate of 26.6 percent compared to an increase of 25.3 percent in the corresponding period of the previous year. The price indices of hard drinks sub-group and milk products and egg sub-group went up by 21.1 percent and 16.8 percent respectively compared to an increase of 22.5 percent and 6.7 percent in the corresponding period of the previous year. The price indices of legume varieties sub-group and spices sub-group increased by 16.7 percent and 12.0 percent respectively in the review period. These indices had increased by 6.8 percent and 10.5 percent respectively in the corresponding period of the previous year. The price index of ghee and oil sub-group, which had increased by 0.3 percent in the corresponding period of the previous year, decreased by 0.4 percent in the review period.

21. Within the group of non-food and services, the price index of clothing and footwear increased by 10.0 percent during the review period compared to an increase of 12.2 percent in the corresponding period of the previous year. The price indices of furnishing and household equipment sub-group and miscellaneous goods and services sub-group increased by 8.9 percent and 8.3 percent respectively during the review period, which had increased by 9.4 percent and 6.5 percent respectively in the corresponding period of the previous year. The price indices of recreation and culture sub-group and education sub-group increased by 6.2 percent and 5.5 percent

respectively during the review period. Such indices had increased by 7.5 percent and 7.8 percent respectively in the corresponding period of the previous year.

22. Looking at the geographic region specific price index, both the Hilly region and the Kathmandu Valley observed an increase of 7.1 percent and Terai region witnessed such an increase of 6.9 percent in the review period. The respective increments in the same period of the previous year were 7.9 percent, 8.7 percent and 9.5 percent.

Wholesale Price Inflation



23. The y-o-y wholesale price index increased by 5.5 percent during the review period compared to a rise of 8.3 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities and domestic manufactured commodities increased by 8.4 percent and 6.0 percent respectively, whereas such index of imported commodities decreased by 0.8 percent in the review period. The increments in agricultural commodities, domestic manufactured commodities and imported commodities were 11.3 percent, 6.7 percent and 3.7 percent respectively 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 6.8 percent during the review period compared to an increase of 16.9 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 7.6 percent and the wage rate index increased by 6.6 percent compared to an increase of 26.4 percent and 14.8 percent respectively in the corresponding period of the previous year.

25. The indices of civil service, education and army and police forces sub-group increased by 9.7 percent, 9.1 percent and 8.5 percent respectively during the review period. Likewise, wage rate indices of construction labourer, agricultural labourer and industrial labourer witnessed a growth of 10.4 percent, 7.9 percent and 2.7 percent respectively in the review period.

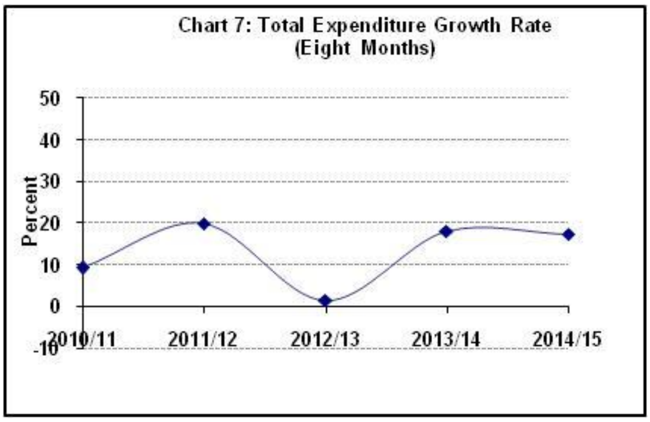
Fiscal Situation *

Budget Deficit / Surplus

26. During the eight months of 2014/15, government budget on cash basis remained at a surplus of Rs. 50.38 billion. Such budget surplus was Rs. 58.03 billion in the corresponding period of the previous year.

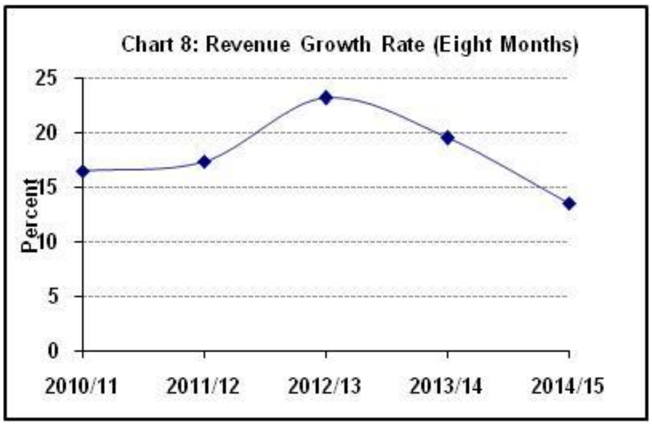
Government Expenditure

27. During the review period, total government expenditures on cash basis increased by 17.3 percent to Rs. 223.58 billion. Such expenditures had increased by 18.0 percent to Rs. 190.60 billion in the corresponding period of the previous year. Slower growth in recurrent expenditure is responsible for such a lower growth in total expenditure in the review period.



28. During the review period, recurrent expenditures increased by 6.9 percent to Rs. 167.31 billion. Such expenditures had increased by 24.8 percent in the corresponding period of the previous year.

29. During the review period, capital expenditures increased by 39.4 percent to Rs. 22.72 billion. Such expenditures had increased by 31.3 percent in the corresponding period of the previous year.



Government Revenue

30. During the review period,

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* Based on the data reported by 8 NRB offices, 66 branches of Rastriya Banijya Bank Limited, 42 out of 44 branches of Nepal Bank Limited, 9 branches of Everest Bank Limited, 4 branches of Global IME Bank Limited and 1 branch each of NMB Bank Limited and Bank of Kathmandhu Limited conducting government transactions and release report from 79 DTCOs and payment centres.

revenue mobilization of the Government of Nepal (GoN) grew by 13.5 percent to Rs. 241.26 billion. Such revenue had risen by 19.5 percent to Rs. 212.59 billion in the corresponding period of the previous year. Lower growth rate of VAT, customs revenue, excise revenue and decline in non-tax revenue accounted for such a slower growth rate of revenue during the review period.

31. Of the total revenue mobilization, VAT revenue grew by 15.5 percent to Rs. 73.24 billion during the review period. It had increased by 18.6 percent in the corresponding period of the previous year.

32. During the review period, customs revenue rose by 14.5 percent to Rs. 49.13 billion compared to an increase of 17.7 percent in the corresponding period of the previous year.

33. During the review period, excise revenue increased by 18.9 percent to Rs. 33.45 billion compared to an increase of 21.9 percent in the corresponding period of the previous year.

34. Income tax revenue increased by 15.7 percent to Rs. 47.87 billion during the review period. Such revenue had risen by 12.7 percent in the corresponding period of the previous year.

35. During the review period, non-tax revenue declined by 26.9 percent to Rs. 19.26 billion compared to an increase of 24.4 percent in the corresponding period of the previous year. Decrease in dividend paid by the public enterprises to the government was responsible for such a decline in non-tax revenue during the review period.

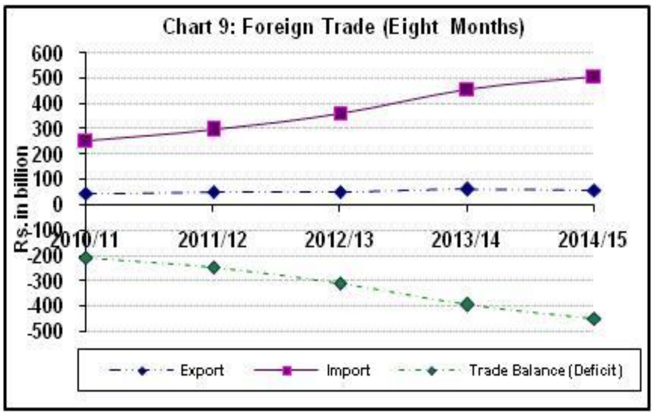
Foreign Cash Loans and Grants

36. In the eight months of 2014/15, foreign cash loans of Rs. 6.29 billion and foreign cash grants of Rs. 15.71 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 13.35 billion and foreign cash grants of Rs. 27.51 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

37. Merchandise exports decreased by 6.6 percent to Rs. 56.87 billion in the eight months of 2014/15. Such exports had increased by 19.4 percent to Rs. 60.90 billion during the same



period of the previous year. On a monthly basis, merchandise exports decreased by 1.7 percent in the eighth month of the current fiscal year compared to that of the previous month.

38. Exports to India decreased by 9.9 percent during the review period in contrast to an increase of 21.9 percent in the corresponding period of the previous year. Exports to India decreased mainly due to the decrease in the exports of cardamom, zinc sheet, textiles, jute goods, among others. However, exports to China increased by 9.3 percent in the review period compared to an increase of 12.6 percent in the same period of the previous year. This increase is mainly attributed to the increase in the exports of tanned skin, readymade garments, noodles, among others. On the other hand, exports to other countries decreased by 0.9 percent in the review period in contrast to an increase of 14.9 percent in the same period of the previous year. Exports to other countries decreased due to the decrease in the exports of pulses, woolen carpet, tanned skin, readymade garments, among others. In US dollar terms, exports to China increased by 9.8 percent to USD 19.1 million during the review period in contrast to a decline of 0.7 percent in the corresponding period of the previous year. Similarly, exports to other countries that had increased by 0.9 percent to USD 187.8 million in the same period of the previous year did not change in the review period.

39. During the review period, merchandise imports increased by 10.5 percent to Rs. 505.92 billion. Such imports had gone up by 27.0 percent to Rs. 457.85 billion in the same period of the previous year. The growth of imports remained low mainly due to the decrease in the price of petroleum products and decrease in the imports of chemical fertilizer, M.S.Wire rod, thread, coal, among others. On a monthly basis, merchandise imports decreased by 3.9 percent in the eighth month of the current fiscal year compared to that of the previous month.

40. Imports from India went up by 5.1 percent during the review period compared to a growth of 28.1 percent in the same period of the previous year. Imports from India increased primarily due to an increase in the imports of vehicle and spare parts, M.S. billet, rice, hot rolled sheet in coil, among others. Likewise, imports from China increased sharply by 48.6 percent in the review period compared to a growth of 14.7 percent in the same period of the previous year. Imports from China increased due to the increase in the imports of other machinery and parts, telecommunication equipment and parts, electrical equipment and tools, video television and parts, among others. Similarly, imports from other countries increased only by 8.7 percent in the review period compared to a growth of 30.1 percent in the same period of the previous year. Imports from other countries rose mainly due to an increase in the imports of silver, aircraft spare parts, edible oil, crude palm oil, among others. In US dollar terms, imports from China increased by 49.6 percent to USD 726.3 million in the review period compared to an increase of 0.6 percent during the same period of the previous year. Similarly, imports from other countries increased by 9.5 percent to USD 1.16 billion in the review period compared to an increase of 14.1 percent during the same period of the previous year.

41. Total trade deficit during the eight months of 2014/15 grew by 13.1 percent to Rs. 449.05 billion compared to an increase of 28.2 percent during the same period of the previous year. Trade deficit with India, China and other countries increased by 7.4 percent, 50.1 percent and 10.7 percent respectively during the review period. Such deficits had increased by 29.1 percent, 14.8 percent and 33.9 percent respectively in the same period of the previous year.

42. Exports-imports ratio declined to 11.2 percent in the review period as a result of decrease in exports and higher volume of imports. Such a ratio was 13.3 percent during the same period of the previous year.

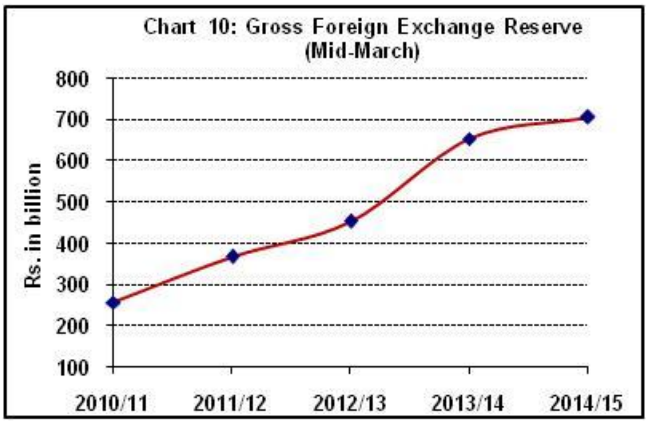
Balance of Payments Situation

43. The overall BOP recorded a surplus of Rs. 35.07 billion during the eight months of 2014/15 compared to a surplus of Rs. 102.81 billion during the same period of the previous year. The current account registered a surplus of Rs. 11.65 billion during the review period compared to a surplus of Rs. 68.41 billion in the same period of the previous year. The low level of surplus in the current account is primarily due to the growth of merchandise and services imports, decrease in exports and grants and slow growth of workers' remittances in the review period. In US dollar terms, the BOP recorded a surplus of USD 351.0 million and the current account surplus was USD 113.8 million in the review period. During the same period of the previous year, BOP and current account surpluses were USD 1.03 billion and USD 687.7 million respectively.

44. The FOB-based merchandise trade deficit increased by 14.0 percent to Rs. 435.17 billion during the eight months of 2014/15. Such deficit had grown by 28.1 percent in the same period of the previous year. The net services remained at a surplus of Rs. 10.60 billion in the review period compared to a surplus of Rs. 13.89 billion in the same period of the previous year. Net transfers increased 1.3 percent to Rs. 420.66 billion in the review period compared to a growth of 38.5 percent in the same period of the previous year. Under transfers, workers’ remittances increased by 4.0 percent to Rs. 371.0 billion compared to an increase of 34.1 percent in the same period of the previous year. In US dollar terms, workers’ remittances increased by 4.8 percent to USD 3.76 billion in the review period compared to an increase of 17.5 percent in the same period of the previous year. On a monthly basis, remittance inflows increased by 11.3 percent in the eighth month of the current fiscal year compared to that of the previous month. Similarly, under the financial account, foreign direct investment of Rs. 2.67 billion was recorded in the review period.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 6.1 percent to Rs. 705.73 billion in mid-March 2015 from Rs. 665.41 billion as of mid-July 2014. Such reserves had increased by 22.5 percent to Rs. 653.42 billion in the same period of the previous year. Of the total reserves, NRB's reserves increased by 3.6 percent to Rs. 593.05 billion in the review period from Rs. 572.40 billion in mid-July 2014. The gross foreign exchange reserves in US dollar terms increased by 1.3 percent to USD 7.03 billion in mid-March 2015. Such reserves had increased by 19.3 percent in the same period of the previous year. Likewise, during the eight months of 2014/15, the inconvertible foreign exchange reserve increased by 12.6 percent to IRs 106.86 billion. Such reserves had increased by 24.0 percent during the same period of the previous year. Based on the trend of imports during the eight months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.3 months, and merchandise and services imports of 9.7 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 sharply by 49.3 percent to USD 54.80 per barrel in mid-March 2015 from USD 108.08 per barrel a year ago. Similarly, the price of gold declined by 16.8 percent to USD 1152.0 per ounce from USD 1385.0 per ounce in a year.

47. Nepalese currency vis-à-vis the US dollar depreciated by 4.5 percent in mid-March 2015 from the level of mid-July 2014. It had depreciated by 2.6 percent in the corresponding period of the previous year. The exchange rate per US dollar remained Rs. 100.45 in mid-March 2015 compared to Rs. 95.90 in mid-July 2014.