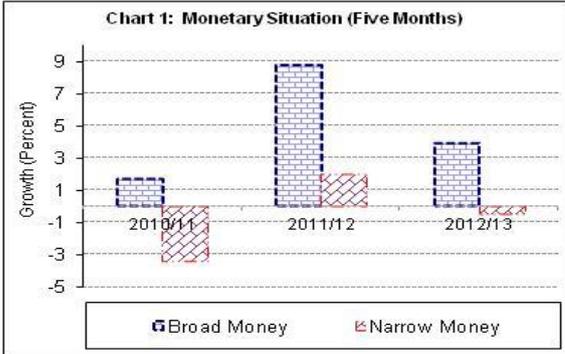


Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) increased by 3.9 percent during five months of the FY 2012/13 compared to an increase of 8.8 percent in the corresponding period of the previous year. On year-on-year (y-o-y) basis, broad money supply expanded by 17.2 percent in mid-December 2012. Narrow money supply (M1) decreased by 0.5 percent during the review period in contrast to a 2.0 percent increase in the corresponding period of the previous year. On y-o-y basis, narrow money expanded by 15.6 percent in mid-December 2012.
- 
- | Period | Broad Money Growth (%) | Narrow Money Growth (%) |
|---------|------------------------|-------------------------|
| 2010/11 | 1.7 | -2.5 |
| 2011/12 | 8.8 | 2.0 |
| 2012/13 | 3.9 | -0.5 |
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 1.60 billion (0.4 percent) during the review period compared to an increase by Rs. 61.19 billion (28.3 percent) in the corresponding period of the previous year. A significant rise in imports relative to exports, relatively lower growth in remittance and a fall in capital as well 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 5.5 percent during five months of the FY 2012/13. It had increased by 1.7 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased by 13.2 percent in mid-December 2012. The acceleration in claims on private sector pushed the growth of domestic credit during the review period. During five months of the FY 2012/13, claims on private sector increased by 9.2 percent compared to a growth of 3.2 percent in the corresponding period of the previous year.

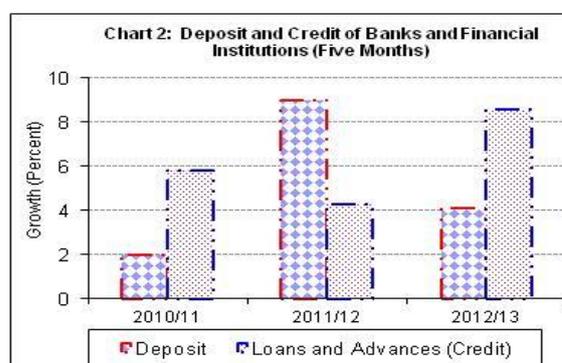
Reserve Money

4. Reserve money decreased by 8.5 percent during the review period as against an increase of 16.6 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 y-o-y basis, reserve money increased by 7.0 percent in mid-December 2012.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions increased by 4.1 percent (Rs. 41.39 billion) during five months of the FY 2012/13. Such deposit mobilization had increased by 9.0 percent (Rs. 73.77 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 3.2 percent, 6.9 percent and 5.3 percent respectively. While the deposit mobilization of commercial banks and development banks had increased by 10.3 percent and 6.5 percent respectively, the finance companies' deposits had decreased by 0.5 percent in the corresponding period of the previous year.



Credit Flow of Banks and Financial Institutions

6. During five months of the FY 2012/13, loan and advances of banks and financial institutions increased by 8.6 percent (Rs. 83.38 billion) compared to a rise of 4.3 percent (Rs. 36.54 billion) in the corresponding period of the previous year. Loan and advances of commercial banks, development banks and finance companies rose by 7.9 percent, 7.4 percent and 4.7 percent respectively during the review period. During the review period, banks and financial institutions' credit to private sector increased by 8.3 percent (Rs. 64.59 billion) compared to a rise of 2.3 percent (Rs. 15.73 billion) in the corresponding period of the previous year. Among the private sector's credit extension, commercial banks registered a growth of 7.5 percent, development banks 12.2 percent and finance companies 9.2 percent.
7. Of the total banks and financial institutions' credit, the credit to industrial production sector surged by Rs. 16.19 billion in the review period compared to an increase of Rs. 9.87 billion in the corresponding period of the previous year. Similarly, credit to agriculture sector increased by Rs. 6.91 billion in the review period compared to an increase by Rs. 1.52 billion in the corresponding period of the previous year. Likewise, credit to construction sector increased by Rs. 4.42 billion, while the wholesale and retail trade sector registered a surge of Rs. 14.73 billion and transportation, communication and public services sector credit increased by Rs. 2.73 billion.

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. 5.40 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. 85.85 billion through the net purchase of USD 0.99 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 107.69 billion was injected through the purchase of USD 1.40 billion in the corresponding period of the previous year.
10. The NRB purchased Indian currency (INR) equivalent to Rs. 101 billion through the sale of USD 1.16 billion in the Indian money market during the review period. INR equivalent to Rs. 100.41 billion was purchased through the sale of USD 1.30 billion in the corresponding period of the previous year.

Inter Bank Transaction and Standing Liquidity Facility

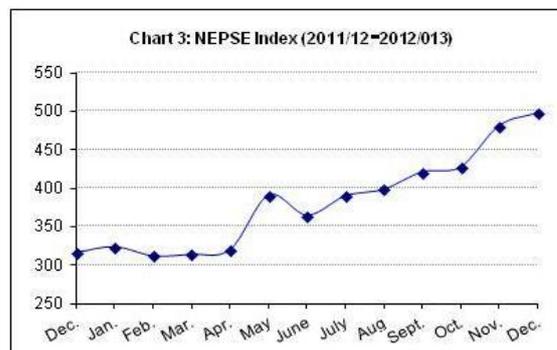
11. During five months of the FY 2012/13, while the inter-bank transaction of commercial banks stood at Rs. 133.03 billion, such transaction of other financial institutions (development banks and finance companies) aggregated Rs. 55.75 billion. Those figures had stood at Rs. 98.08 billion and Rs. 77 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. 4.21 billion was used under SLF in the corresponding period of the previous year.

Short-term Interest Rates

12. The short-term interest rates remained at lower level in mid-December 2012 compared to those of mid-December 2011. For example, the weighted monthly average 91-day Treasury bill rate dropped to 0.74 percent in mid-December 2012 compared to 0.80 percent in mid-December 2011. The weighted average inter-bank rate between commercial banks remained at 0.57 percent in mid-December 2012 compared to 1.06 percent in mid-December 2011, whereas the weighted average inter-bank rate between other financial institutions remained at 3.80 percent in mid-December 2012 compared to 7.70 percent in the mid-December 2011.

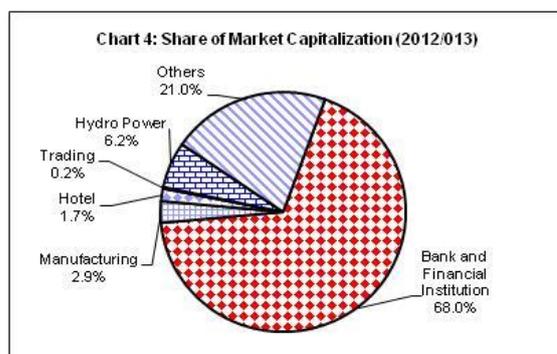
Securities Market

13. NEPSE index, on y-o-y basis, increased by 57.2 percent to 497.2 points in mid-December 2012 as against a drop of 19.8 percent to 316.3 points in the corresponding period of the previous year.



14. The y-o-y stock market capitalization witnessed a significant surge of 62.4 percent to Rs. 471.52 billion in mid-December 2012. The ratio of market capitalization to GDP stood at 30.3 percent in mid-December 2012. The ratio was 21.2 percent a year ago.

15. Banks and financial institutions constituted the biggest share in total market capitalization of stock market. Of the total market capitalization as of mid-December 2012, the share of banks and financial institutions (including insurance companies) stood at 68.0 percent while that of manufacturing and processing companies, hotels, trading, hydropower and other sectors stood at 2.9 percent, 1.7 percent, 0.2 percent, 6.2 percent and 21 percent respectively.



16. Total number of companies listed at the NEPSE increased to 221 in mid-December 2012 from that of 214 in mid-December 2011. Of the total listed companies as of mid-December 2012, 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. 113.97 billion in mid-December 2012, registering an increase of 8.7 percent over mid-December 2011. Such an increase in paid-up capital was due to the additional listing of securities at the NEPSE. Additional securities worth Rs. 2.44 billion comprising ordinary share of Rs. 1.91 billion, bonus share of Rs. 0.32 billion and right share of Rs. 0.21 billion were listed at the NEPSE during five 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 10.4 percent in mid-December 2012 compared to 7.5 percent in the corresponding period of the previous year. The index of food and beverage group increased by 8.7 percent whereas non-food and services group increased by 11.8 percent during the review period. These indices had increased by 7.1 percent and 7.8 percent respectively in the corresponding period of previous year.
-
- | Year | CPI (%) | Food (%) | Non-Food (%) |
|---------|---------|----------|--------------|
| 2008/09 | 13.5 | 17.5 | 10.0 |
| 2009/10 | 10.0 | 18.7 | 4.0 |
| 2010/11 | 10.0 | 15.4 | 5.0 |
| 2011/12 | 7.5 | 7.8 | 7.1 |
| 2012/13 | 10.4 | 8.7 | 11.8 |
19. Under the items of the food and beverage group, price index of ghee and oil sub-group increased by higher rate of 18.7 percent during the review period compared to an increase of 12.5 percent in the corresponding period of the previous year. The price index of tobacco products and sugar and sweet, which had increased by 11.4 percent and 7.8 percent in the corresponding period of the previous year, went up by 17.9 percent and 15.4 percent respectively during the review period. Similarly, the price indices of meat and fish and restaurant and hotel which had risen by 5.7 percent and 9.2 percent respectively in the corresponding period of the previous year, increased by 13.3 percent and 12.9 percent respectively during the review period. The price indices of legume varieties, which had increased by 0.3 percent in the corresponding period of the previous year, rose by 11.2 percent during the review period.
20. Within the group of non-food and services, the price index of furnishing and household equipment increased by 15.6 percent during the review period compared to an increase of 13.7 percent in the corresponding period of the previous year. The price indices of transport and clothing and footwear increased by 15.1 percent and 13.9 percent respectively during the review period. Such indices had increased by 12.5 percent and 15.2 percent respectively in the corresponding period of the previous year. Similarly, the price indices of housing and utilities, and education sub-groups increased at the rate of 12.6 percent and 12.5 percent during the review period while such indices had increased by 3.5 percent and 8.9 percent in the corresponding period of the previous year. The price index of communication, which had decreased by 8.8 percent in the corresponding period of the previous year, witnessed a further decline of 2.7 percent during the review period also.
21. Region-wise, Hills saw price indices rise by 11.2 percent followed by Terai at 11.1 percent and Kathmandu valley at 8.8 percent during the review period. These

increments were 9.6 percent, 7.3 percent and 6.0 percent respectively in the corresponding period of the previous year.

Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 8.3 percent during the review period compared to a rise of 4.3 percent in the corresponding period of the previous year. The increments of wholesale price indices of imported commodities, agricultural commodities and domestic manufactured commodities were 10.1 percent, 7.8 percent and 7.0 percent respectively during the review period. The price indices of imported commodities and domestic manufactured commodities had increased by 12.0 percent and 11.3 percent respectively in the corresponding period of the previous year whereas the wholesale price index of agriculture products had decreased by 1.5 percent.
23. Within the group of agricultural commodities, the wholesale price indices of cash crops increased by 22.3 percent during the review period, compared to an increase of 8.6 percent in the corresponding period of the previous year. The wholesale price indices of pulses and food grains, which had decreased by 6.4 percent and 8.2 percent during the corresponding period of the previous year, went up by 13.7 percent and 11.3 percent respectively during the review period. The wholesale price index of spices, which had decreased by 8.4 in the corresponding period of the previous year further declined by 12.6 percent during the review period. The wholesale price index of fruit and vegetables, which had increased by 2.3 percent in the corresponding period of the previous year, declined by 13.6 percent during the review period.
24. Under the group of domestic manufactured commodities, the wholesale price indices of food-related products, increased by 11.0 percent during the review period. Similarly, the wholesale price indices of construction materials and beverages and tobacco increased by 7.7 percent and 3.2 percent respectively during the review period.
25. Within the imported commodities, the wholesale price indices of petroleum products and coal and drugs and medicine increased by 25.7 percent and 11.0 percent respectively during the review period. Similarly, the price indices of chemical fertilizers and chemical goods and transport vehicles and machinery goods increased by 5.1 percent and 0.7 percent respectively during the review period.



National Salary and Wage Rate

26. The y-o-y salary and wage rate index increased by 10.5 percent during the review period compared to an increase of 31.0 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index remained unchanged during the review period compared to an increase of 19.3 percent in the corresponding period of the previous year. The wage rate index increased by 13.0 percent during the review period compared to a rise of 34.4 percent in the corresponding period of the previous year.
27. The indices of wages of industrial labourers, agricultural labourers and construction labourers increased by 14.0 percent, 13.5 percent and 8.2 percent respectively during the review period. These indices had increased by 28.8 percent, 36.5 percent and 37.1 percent respectively in the corresponding period of the previous year.

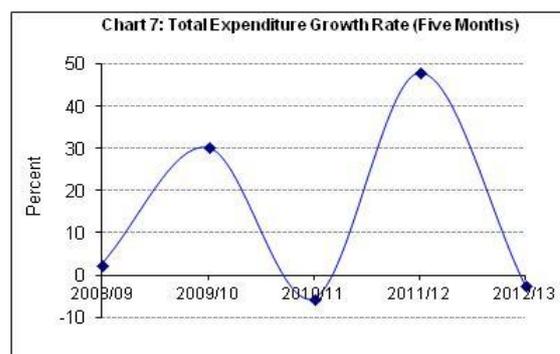
Fiscal Situation *

Budget Deficit / Surplus

28. During five months of 2012/13, government budget remained at a surplus of Rs. 23.17 billion. The budget surplus had stood at Rs. 8.03 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.

Government Expenditure

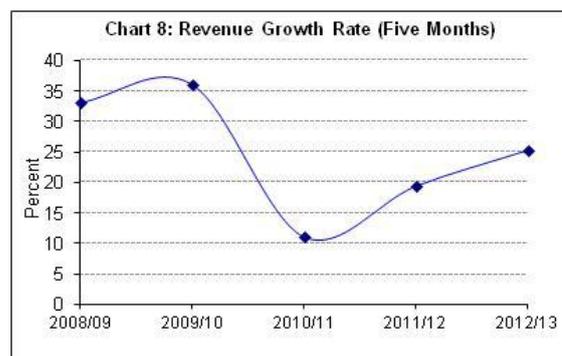
29. During the review period, total government spending decreased by 2.6 percent to Rs. 85.83 billion in contrast to an increase of 48.0 percent in the corresponding period of the previous year. The delay in adopting a full-year budget for the FY 2012/13 attributed to such a decrease in the growth rate of total expenditure during the review period.



* Based on the data reported by 8 NRB offices, 65 RBBL branches (all of 65 branches conducting govt. transaction), 38 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 Revenue

30. During the review period, revenue mobilization of the Government of Nepal grew by 25.3 percent to Rs. 97.34 billion. Such revenue had risen by 19.4 percent to Rs. 77.70 billion in the corresponding period of the previous year. Increase in import and consumption contributed to such an increase in the revenue mobilization.



31. Of the total revenue mobilization, VAT revenue grew by 16.6 percent to Rs. 33.12 billion during the review period. It had increased by 17.4 percent in the corresponding period of the previous year. Despite a rise in VAT revenue pertaining to imports, the growth rate of VAT revenue decelerated to 9.6 percent compared to an increase of 15.4 percent in the corresponding period of the previous year mainly due to a slower VAT revenue collection from the domestic goods and services front.
32. During the review period, customs revenue rose by 42.0 percent to Rs. 22.87 billion compared to an increase of 14.7 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.
33. During the review period, excise revenue increased by 19.8 percent to Rs. 14.71 billion compared to an increase of 12.8 percent in the corresponding period of the previous year. Increase in the imports of high excise tax yielding vehicles and reforms in excise administration accounted for such a growth of excise revenue during the review period.
34. Income tax revenue increased by 37.1 percent to Rs. 13.71 billion during the review period. Such revenue had risen by 17.6 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.
35. During the review period, non-tax revenue increased to Rs. 8.74 billion. Such revenue was Rs. 7.88 billion in the corresponding period of the previous year.

Foreign Cash Loans and Grants

36. During five months of 2012/13, foreign cash loans of Rs. 0.84 billion and foreign cash grants of Rs. 7.67 billion were received by the Government of Nepal. The Government of Nepal had received foreign cash loans of Rs. 1.23 billion and foreign cash grants of Rs. 15.4 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

37. Merchandise exports went up by 9.4 percent to Rs. 32.88 billion during five months of 2012/13. Such exports had increased by 11.5 percent to Rs. 30.06 billion in the corresponding period of the previous year. On a monthly basis, merchandise exports increased by 11.9 in November/December of the current fiscal year compared to that of the previous month.



38. Exports to India increased by 4.2 percent during the review period compared to an increase of 14.7 percent in the corresponding period of the previous year. Exports to other countries went up by 19.3 percent compared to an increase by 5.7 percent in the same period of the previous year. In US dollar terms, exports to other countries increased by 4.7 percent to US dollar 140.3 million compared to a growth of 0.5 percent in the corresponding period of the previous year. The export of G.I. pipe, jute sackings, polyester yarn, ginger 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.
39. During the review period, merchandise imports surged by 26.8 percent to Rs. 225.39 billion. Such imports had risen by 15.5 percent to Rs. 177.79 billion in the corresponding period of the previous year. Total imports increased during the review period largely due to a sharp increase in imports from both India and other countries. On a monthly basis, merchandise imports increased by 9.9 percent during November/December of the current fiscal year compared to that of the previous month.
40. Imports from India went up by 28.6 percent during the review period compared to an increase of 8.1 percent in the corresponding period of the previous year. Likewise, imports from other countries rose by 23.7 percent compared to an increase of 30.9 percent in the corresponding period of the previous year. In US dollar terms, imports from other countries increased by 9.3 percent to US dollar 927.3 million compared to an increase of 23.8 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, chemical fertilizer, and rice, among others. Likewise, imports from other countries increased mainly on account of an increase in the imports of pipe and pipe fittings, readymade garments, telecommunication equipment parts, edible oil and gold, among others.

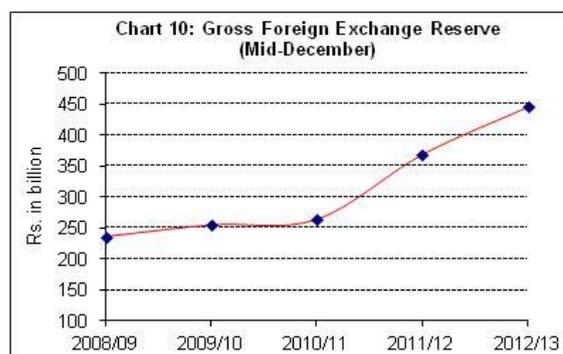
41. Total trade deficit during five months of 2012/13 surged by 30.3 percent to Rs. 192.52 billion compared to an increase of 16.3 percent in the corresponding period of the previous year. Trade deficit with India increased by 33.7 percent during the review period compared to a growth of 6.7 percent in the same period of the previous year. Trade deficit with other countries increased by 24.6 percent compared to an increase of 37.0 percent in the corresponding period of the previous year.
42. Due to higher rate of growth in imports, the ratio of export to import declined to 14.6 percent during the review period from 16.9 percent a year ago.

Balance of Payments Situation

43. The overall BOP recorded a surplus of Rs. 1.60 billion during five months of 2012/13 compared to a surplus of Rs. 61.19 billion in the corresponding period of the previous year. The current account posted a surplus of Rs. 1.64 billion in the review period compared to a surplus of Rs. 24.89 billion in the corresponding period of the previous year. The decline in surplus in the current account was primarily due to a substantial rise in merchandise imports, the deficit in the net services income compared to a surplus in the corresponding period of the previous year and the slow growth of workers' remittances during the review period. In US dollar terms, the current account registered a surplus of US dollar 18.1 million in the review period compared to a surplus of US dollar 316.1 million in the corresponding period of the previous year.
44. The FOB-based merchandise trade deficit increased by 29.6 percent to Rs. 183.95 billion during five months of 2012/13. Such deficit had risen by 15.7 percent in the corresponding period of the previous year. The net service income posted a deficit of Rs. 2.21 billion in the review period in contrast to a surplus of Rs. 8.33 billion in the corresponding period of the previous year. Net transfers registered a growth of 18.9 percent to Rs. 184.91 billion during the review period compared to a growth of 29.5 percent in the same period of the previous year. Under transfers, workers' remittances surged by 22.7 percent to Rs. 163.49 billion compared to an increase of 37.9 percent in the corresponding period of the previous year. In US dollar terms, remittance inflow increased by 8.8 percent to US dollar 1.87 billion during the review period compared to an increase of 30.0 percent in the corresponding period of the previous year. On a monthly basis, remittance inflows increased by 28.4 percent in November/December compared to the value of the previous month of this fiscal year. Similarly, under the financial account, foreign direct investment of Rs. 3.73 billion was recorded in the review period.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 1.4 percent to Rs. 445.59 billion in mid-December 2012 from a level of Rs. 439.46 billion as at mid-July 2012. Such reserves had increased by 35.4 percent to Rs. 368.63 billion in the corresponding period of the previous year. Out of total reserves, NRB's reserves declined by 2.5 percent to Rs. 366.18 billion during the review period from



a level of Rs. 375.52 billion as at mid-July 2012. The gross foreign exchange reserves in US dollar terms increased by 3.7 percent to US dollar 5.14 billion in mid-December 2012. Such reserves had increased by 8.3 percent in the same period of the previous year. Likewise, during the five months of 2012/13, the reserves in terms of inconvertible foreign exchange decreased by 0.2 percent to IRs 60.27 billion. Such reserves had increased by 72.7 percent during the corresponding period of the previous year. On the basis of trend of import during the five months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 10.1 months and merchandise and service imports of 8.6 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 increased by 4.6 percent to US dollar 109.28 per barrel in mid-December 2012 from US dollar 104.52 per barrel in mid-December 2011. Similarly, the price of gold increased by 7.8 percent to US dollar 1696.25 per ounce in mid-December 2012.
47. Nepalese currency vis-à-vis the US dollar appreciated by 2.3 percent in mid-December 2012 from the level of mid-July 2012. It had depreciated by 17.0 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 86.61 in mid-December 2012 compared to Rs. 88.60 in mid-July 2012.