

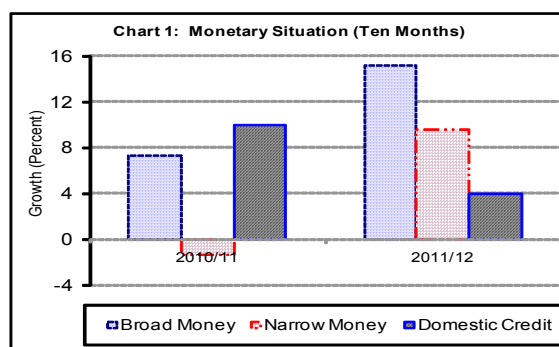
Current Macroeconomic Situation of Nepal

(Based on the Ten Months' Data of FY 2011/12)

Monetary Situation*

Money Supply

1. Broad money supply (M2) increased by 15.1 percent during the ten months of the FY 2011/12 compared to a growth of 7.3 percent in the corresponding period of the previous year. On year-on-year (y-o-y) basis, broad money supply expanded by 20.6 percent in mid-May 2012. A significant rise in net foreign assets of monetary sector contributed to the expansion in broad money supply during the review period. Narrow money supply (M1) increased by 9.5 percent during the review period as compared to a fall by 1.4 percent in the corresponding period of the last year. On y-o-y basis, such money expanded by 16.8 percent in mid-May 2012.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs.100.10 billion (46.3 percent) during the review period against a decline of Rs. 12.32 billion (5.8 percent) in the corresponding period of the previous year. The current account surplus on account of improvement in exports, workers' remittances and services income as well as improvement in capital account were the factors responsible for the favorable balance of payments (BOP) leading to such an increase in net foreign assets of the monetary sector during the review period.



Domestic Credit

3. Domestic credit increased by 4.0 percent during the ten months of the FY 2011/12. It had increased by 9.9 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased by 8.4 percent in mid-May 2012. During the ten months of the FY 2011/12, claims on private sector increased by 10.0 percent compared to a growth of 13.7 percent in the corresponding period of the previous year.

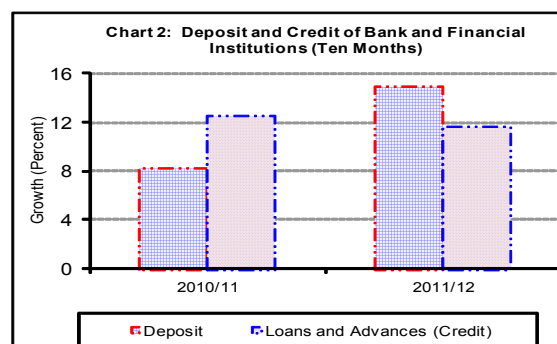
* In the past, Nepal Rastra Bank was publishing monetary survey based on the balance sheets of Nepal Rastra Bank and commercial banks. From the fourth month (mid-November 2011) of the FY 2011/12, the coverage of the monetary survey has been extended to include development banks and finance companies as well. The monetary aggregates presented here are based on broad monetary survey.

Reserve Money

- Reserve money increased by 13.5 percent during the review period against a decline by 2.6 percent in the corresponding period of last year. On y-o-y basis, such money increased by 24.9 percent in mid-May 2012. Despite a fall in Nepal Rastra Bank's claims on government and claims on banks and financial institutions, a significant rise in net foreign assets contributed to the expansion in reserve money during the review period.

Deposit Mobilization of Banks and Financial Institutions

- Deposit mobilization of banks and financial institutions increased by 14.9 percent (Rs. 122.59 billion) during the ten months of the FY 2011/12. Such deposit mobilization had increased by 8.2 percent (Rs. 59.62 billion) in the corresponding period of the previous year. During the review period, deposit mobilization of commercial banks and development banks increased by 17.1 percent and 18.3 percent respectively whereas deposit mobilization of finance companies decreased



by 3.2 percent. The deposit mobilization of commercial banks had increased by only 3.8 percent while that of development banks and finance companies had increased by 16.6 percent and 13.5 percent respectively in the corresponding period of the previous year.

Credit Flow of Banks and Financial Institutions

- During the ten months of the FY 2011/12, loans and advances of banks and financial institutions increased by 11.6 percent (Rs. 99.49 billion) compared to a growth of 12.5 percent (Rs. 92.81 billion) in the corresponding period of the previous year. Loans and advances of commercial banks and development banks increased by 14.4 percent and 13.3 percent respectively whereas loans and advances of finance companies decreased by 3.9 percent during the review period. Credit to private sector from banks and financial institutions increased by 9.3 percent (Rs. 64.24 billion) during the review period compared to a growth of 13.5 percent (Rs. 81.84 billion) in the corresponding period of the previous year. During the review period, credit extended by commercial banks and development banks increased by 12.9 percent and 6.6 percent respectively while that by finance companies dropped by 10.5 percent.
- Of the total commercial banks' credit to private sector, the credit to industrial production sector increased by Rs. 22.95 billion during the review period compared to Rs. 20.28 billion in the corresponding period of the previous year. Similarly, banks' credit to agriculture sector surged by Rs. 7.28 billion during the review period compared to a fall by Rs. 0.74 billion in the corresponding period last year. Likewise, commercial banks' credit to construction sector increased by Rs. 8.48 billion, wholesale and retail trade sector by Rs. 13.61 billion and transportation, communication and public services sector by Rs. 3.79 billion during the review period.

Liquidity Management

8. NRB mopped up net liquidity of Rs. 7.66 billion as a result of liquidity injection of Rs. 0.74 billion through repo auction and liquidity mop-up of Rs. 8.40 billion through outright sale auction under open market operations during the review period. In the corresponding period of the previous year, liquidity amounting to Rs. 54.21 billion was injected by liquidity injection of Rs. 75.21 billion through repo auction and liquidity mop-up of Rs. 19.0 billion through reverse repo auction as well as Rs. 2.0 billion through outright sale auction.
9. NRB injected net liquidity of Rs. 204.18 billion through the purchase of USD 2.58 billion from foreign exchange market (commercial banks) during the review period. Net liquidity of Rs. 143.61 billion was injected through the purchase of USD 1.99 billion in the corresponding period of the previous year.
10. NRB purchased Indian currency (INR) equivalent to Rs. 183.54 billion through the sale of USD 2.32 billion in the Indian money market during the review period. INR equivalent to Rs. 157.95 billion was purchased through the sale of USD 2.18 billion in the corresponding period of the previous year.

Inter Bank Transaction and Standing Liquidity Facility

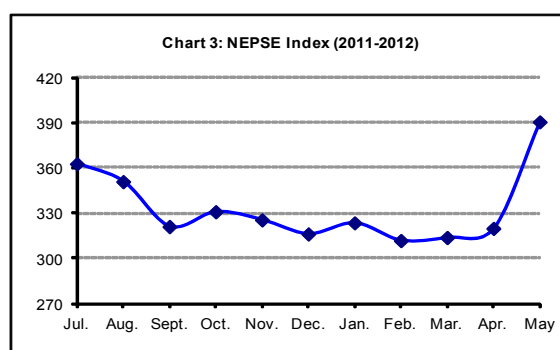
11. Inter-bank transaction of commercial banks stood at Rs. 184.77 billion during the ten months of the FY 2011/12 compared to Rs. 297.05 billion in the corresponding period of the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 4.37 billion during the review period but there was no outstanding amount at mid-May 2012. Liquidity injected through the SLF had amounted to Rs. 186.77 billion in the corresponding period of the previous year with an outstanding amount of Rs. 2.27 billion as at mid-May 2011.

Short-term Interest Rates

12. The short-term interest rates remained at lower level in mid-May 2012 compared to those of mid-May 2011. For example, the weighted monthly average 91-day Treasury bill rate stood at 0.83 percent in mid-May 2012 compared to 9.0 percent in mid-May 2011. The weighted average inter-bank rate remained at 0.75 percent in mid-May 2012 compared to 10.4 percent in mid-May 2011.

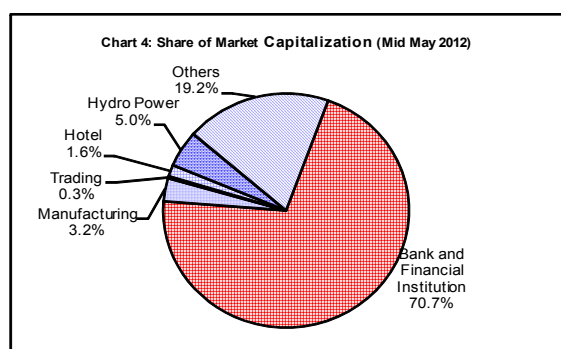
Securities Market

13. NEPSE index, on y-o-y basis, increased by 12.8 percent to 390.63 points in mid-May 2012. The index had dropped by 24.3 percent during the corresponding period of the previous year and stood at 346.44 points as at mid-May 2011.
14. The y-o-y stock market capitalization increased by 19.6 percent to Rs. 368.89 billion in mid-May 2012. The ratio of market capitalization of mid-May 2012 to GDP



estimate for the FY 2011/12 stood at 27.0 percent. The ratio was 25.8 percent a year ago.

15. Banks and financial institutions constitute the biggest share in total market capitalization of stock market. Of the total market capitalization as of mid-May 2012, the share of bank and financial institutions stood at 70.7 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 3.2 percent, 1.6 percent, 0.3 percent, 5.0 percent and 19.2 percent respectively.

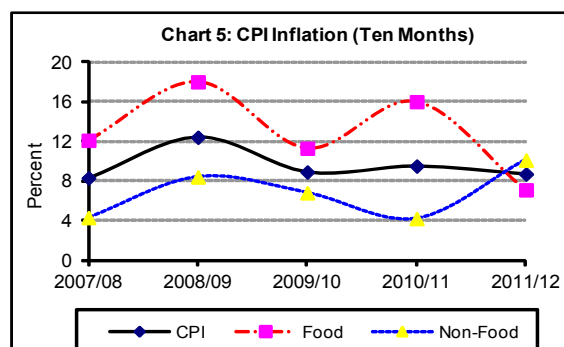


16. Total number of companies listed at the NEPSE increased from 205 in mid-May 2011 to 215 in mid-May 2012. Banks and financial institutions comprise a major share in the number of listed companies. Of the total listed companies as of mid-May 2012, the number of banks and financial institutions (including insurance companies) stood at 183 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and other companies (2).
17. Total paid-up capital of the listed companies stood at Rs. 108.77 billion in mid-May 2012, registering an increase of 9.4 percent over mid-May 2011. Such an increase in paid-up capital was due to the additional listing of securities at the NEPSE. Additional securities worth Rs. 15.56 billion comprising ordinary share of Rs. 1.40 billion, bonus share of Rs. 3.07 billion, right share of Rs. 2.16 billion, convertible preference share of Rs. 0.04 billion and government securities of Rs. 8.90 billion were listed at the NEPSE during the first ten months of 2011/12.

Inflation, Salary and Wage Rate

Consumer Price Inflation

18. The y-o-y inflation as measured by the consumer price index increased by 8.7 percent in mid-May 2012 as compared to 9.5 percent in the corresponding period of the previous year. The index of food and beverage group and non-food and services group increased by 7.1 percent and 10.1 percent respectively during the review period. These indices had increased by 16.0 percent and 4.2 percent respectively in the corresponding period of previous year. The rate of inflation in mid-May 2012 was higher than 7.5 percent recorded in mid-April 2012 due to the adverse impact on supply arising from strikes and *bandhs*.



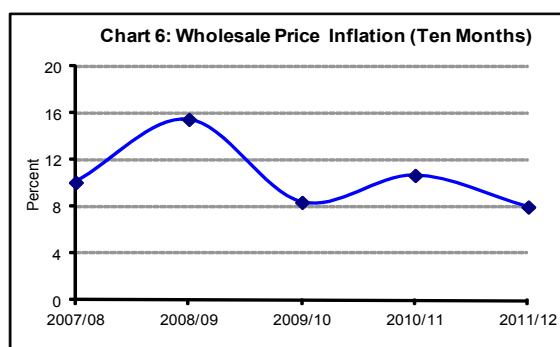
19. Under the items of the food and beverage group, price index of vegetables sub-group increased by the highest rate of 27.8 percent during the review period compared to an increase of 48.3 percent in the corresponding period of the previous year. The price index of ghee and oil and restaurant and hotel, which had increased by 5.7 percent and 13.5 percent in the corresponding

period of previous year, went up by 19.2 percent and 13.1 percent during the review period. The price indices of milk product and egg and meat and fish increased by 11.1 percent and 10.2 percent respectively during the review period compared to the increase of 18.1 percent and 5.8 percent respectively in the corresponding period of the previous year. Likewise, the price indices of sugar and sweets and hard drink, which had increased by 22.2 percent and 1.6 percent respectively in the corresponding period of the previous year, increased by 9.5 percent and 9.2 percent during the review period. However, the price index of spices and cereals grains and their products decreased by 12.2 percent and 1.9 percent during the review period compared to an increase of 18.7 percent and 13.5 percent respectively in the corresponding period of the previous year.

20. Within the group of non-food and services, the price index of transport increased by 18.0 percent during the review period compared to an increase of 10.1 percent in the corresponding period of the previous year. The price indices of clothing and footwear, and furnishing and household equipment increased by 15.1 percent and 13.7 percent during the review period. Such indices had increased by 15.4 percent and 4.9 percent respectively in the corresponding period of the previous year. Similarly, the price indices of miscellaneous goods and services increased by 11.2 percent during the review period while such index had increased by 3.9 percent in the corresponding period of the previous year. The price index of communication, which had decreased by 12.8 percent in the corresponding period of the previous year, witnessed a further decline of 7.1 percent during the review period.
21. Region-wise, the price indices in Hill increased by 9.4 percent followed by 9.0 percent in Terai and 7.7 percent in Kathmandu Valley during the review period. The respective increment rates were 10.8 percent, 7.1 percent and 11.6 percent respectively in the corresponding period of the previous year.

Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 8.0 percent during the review period compared to a rise of 10.7 percent in the corresponding period of the previous year. The wholesale price indices of imported commodities and domestic manufactured commodities increased by 13.7 percent and 6.7 percent whereas the price index of agricultural commodities increased by 5.5 percent during the review period. The respective price increases of these sub-groups were 8.3 percent, 11.3 percent and 11.8 percent in the corresponding period of the previous year.



23. Within the group of agricultural commodities, the wholesale price indices of fruits and vegetables and livestock production, increased by 22.3 percent and 8.2 percent respectively during the review period, compared to an increase of 26.6 percent and 9.4 percent respectively in the corresponding period of the previous year. Similarly, the wholesale price index of cash crops, which had increased by 8.4 percent in the corresponding period of the previous year, increased by 2.5 percent during the review period. The wholesale price indices of spices and

food grains, which had increased by 36.2 percent and 10.3 percent in the corresponding period of the previous year, decreased by 28.6 percent and 0.2 percent respectively during the review period.

24. Under the group of domestic manufactured commodities, the wholesale price indices of food-related products increased by 11.2 percent; similarly, the wholesale price indices of beverages and tobacco and construction materials increased at the same rate of 5.2 percent during the review period.
25. Within the imported commodities group, the wholesale price indices of petroleum products and coal and textile-related products increased by 27.2 percent and 24.2 percent respectively during the review period. Similarly, the price indices of electric and electronic goods, and transport vehicles and machinery goods increased by 11.8 percent and 7.2 percent respectively during the review period.

National Salary and Wage Rate

26. The y-o-y salary and wage rate index increased by 22.7 percent during the review period compared to an increase of 24.8 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 19.3 percent during the review period, which was unchanged in the corresponding period of the previous year. The wage rate index increased by 23.5 percent during the review period compared to an increase of 32.8 percent in the corresponding period of the previous year.
27. The indices of salary of banks and financial institutions, public corporations and army and police service increased by 42.4 percent, 28.0 percent and 26.5 percent respectively during the review period. Similarly, the salary indices of education, civil service, and private institutions service increased by 19.1 percent, 18.7 percent and 8.6 percent respectively. These indices remained unchanged in the corresponding period of the previous year.
28. The indices of wages of industrial, construction and agricultural laborers increased by 32.0 percent, 26.6 percent and 19.5 percent respectively during the review period. These wage rates had increased by 14.1 percent, 27.9 percent and 43.7 percent respectively in the corresponding period of the previous year.

Fiscal Situation *

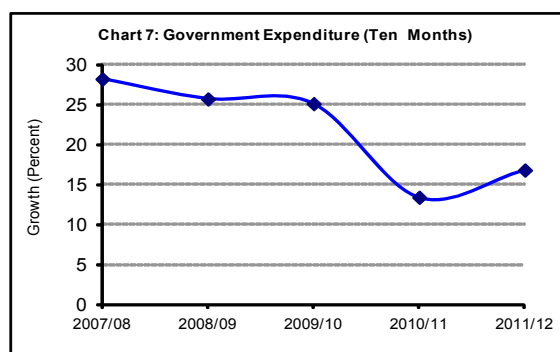
Budget Deficit / Surplus

29. In the ten months of FY 2011/12, government budget remained at a surplus of Rs. 24.31 billion. In the corresponding period of the previous year, such budget surplus had amounted to Rs. 1.61 billion. A high growth of resource mobilization relative to total government expenditure accounted for such a surplus in government budget during the review period.

* Based on the figures reported by 8 NRB offices, 65 RBBL branches (out of 65 branches conducting govt. transaction), 34 NBL branches (out of 43 branches conducting govt. transaction), 5 Everest Bank branches and 1-1 branches each from Nepal Bangladesh Bank Ltd. and Global Bank Limited conducting government transactions.

Government Expenditure

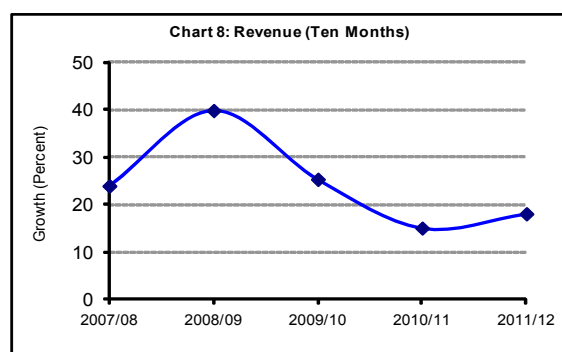
30. During the review period, on cash basis, total government spending increased by 16.8 percent to Rs. 211.39 billion compared to an increase of 13.4 percent in the corresponding period of the previous year. The timely announcement of the budget for the FY 2011/12 contributed to such an increase in government expenditure. The implementation of budget was delayed last year as it was announced only in the fifth month of the fiscal year.



31. On cash basis, recurrent expenditure stood at Rs. 164.82 billion while capital expenditure stood at Rs. 23.12 billion during the review period.

Government Revenue

32. During the review period, revenue mobilization of the Government of Nepal grew by 19.6 percent to Rs. 190.08 billion compared to an increase of 14.7 percent to Rs. 158.98 billion in the corresponding period of the previous year. The expansion of economic activities with the timely announcement of the budget for the FY 2011/12 contributed to such a growth in government's revenue collection during the review period. Likewise, increase in import compared to that of the corresponding period of the previous year also contributed to such an increase in revenue.



33. VAT revenue grew by 15.7 percent to Rs. 58.40 billion during the review period. It had increased by 17.8 percent in the corresponding period of the previous year.
34. Custom revenue increased by 16.4 percent to Rs. 33.90 billion compared to a growth of 4.2 percent in the corresponding period of the previous year. Increase in imports compared to that of the corresponding period of the previous year contributed to such an increase in custom revenue during the review period.
35. Likewise, excise revenue increased by 13.2 percent to Rs. 23.96 billion compared to an increase of 12.0 percent in the corresponding period of the previous year.
36. Income tax revenue increased by 23.2 percent to Rs. 39.18 billion in the first ten months of the FY 2011/12. Such revenue had risen by 28.6 percent in the corresponding period of the previous year.
37. Non-tax revenue increased to Rs. 27.97 billion. It stood at Rs. 21.51 billion a year ago.

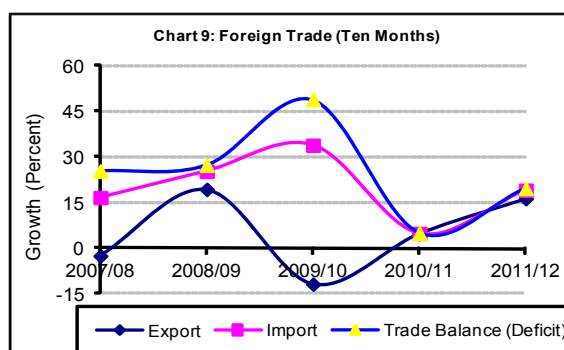
Foreign Cash Loans and Grants

38. In the ten months of the FY 2011/12, foreign cash loans of Rs. 4.12 billion and foreign cash grants of Rs. 35.21 billion were received by the Government of Nepal.

External Sector Situation

Foreign Trade

39. Merchandise exports rose by 16.4 percent to Rs. 60.90 billion during the ten months of FY 2011/12. Such exports had increased by 4.9 percent to Rs. 52.33 billion during the corresponding period of the previous year. On a monthly basis, merchandise exports decreased by 15.4 percent in April/May of the current fiscal year compared to that of the previous month.



40. Exports to India went up by 17.6 percent during the ten months of the FY 2011/12 compared to an increase of 7.5 percent during the corresponding period of the previous year. Exports to other countries also increased by 13.8 percent compared to a decrease of 0.1 percent during the corresponding period of the previous year. In USD terms, exports to other countries increased by 4.4 percent to USD 250.0 million compared to an increase by 3.2 percent during the corresponding period of the previous year. The increase in the exports to India was primarily attributed to the increase in the exports of textiles, cardamom, polyester yarn, copper wire rod and G.I. pipe, among others. The export of woolen carpets, readymade garments, pashmina, tanned skin and Nepalese paper & paper products, among others, increased to other countries.
41. During the ten months of the FY 2011/12, merchandise imports increased by 19.2 percent to Rs. 383.02 billion. Such imports had risen by 5.0 percent to Rs. 321.34 billion during the corresponding period of the previous year. On a monthly basis, merchandise imports increased by 3.2 percent during April/May of the current fiscal year compared to that of the previous month.
42. Imports from India increased by 14.9 percent during the review period compared to a growth of 23.8 percent during the corresponding period of the previous year. Likewise, imports from other countries increased by 27.9 percent in contrast to a decline by 19.8 percent during the corresponding period of the previous year. In USD terms, imports from other countries soared by 16.5 percent to USD 1.71 billion as against a decline by 17.2 percent in the corresponding period of the previous year. In the review period, the import of petroleum products, coal, M.S. wires, rods, coils and bars, readymade garments, and thread, among others, from India and import of gold, crude soybean oil, edible oil, other machinery and parts and polythene granules, among others, from other countries went up.
43. Total trade deficit during the ten months of the FY 2011/12 went up by 19.7 percent to Rs. 322.12 billion. Trade deficit had increased by 5.0 percent during the corresponding period of the previous year. Trade deficit with India increased by 14.4 percent during the review period

compared to a growth of 27.5 percent during the corresponding period of the previous year. Trade deficit with other countries increased by 30.7 percent in contrast to a drop by 22.8 percent during the same period of the previous year.

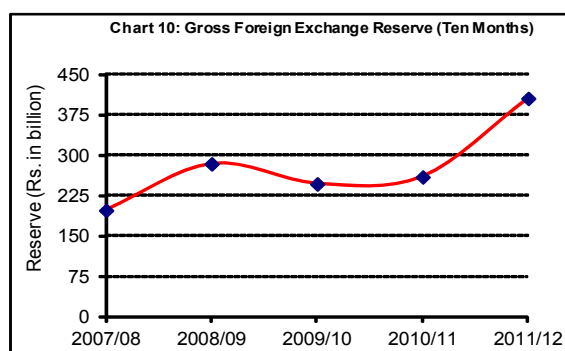
44. The increase in the import growth led to a reduction in the export to import ratio to 15.9 percent in the review period from 16.3 percent a year ago.

Balance of Payments Situation

45. The overall BOP registered its highest ever surplus of Rs. 100.10 billion during the ten months of the FY 2011/12 compared to a deficit of Rs. 12.32 billion during the corresponding period of the previous year. The current account posted a surplus of Rs. 44.75 billion compared to a deficit of Rs. 11.32 billion during the corresponding period of the previous year. The substantial rise in the growth of remittances coupled with the improvement in the service account was the responsible factors for the substantial surplus in the current account. In USD terms, the overall BOP recorded a surplus of USD 1.26 billion during the ten months of the review period in comparison to a deficit of USD 166.8 million during the same period of the previous year. Similarly, the current account registered a surplus of USD 557.6 million during the ten months of the review year compared to a deficit of USD 154.4 million during the corresponding period of the previous year.
46. The FOB-based merchandise trade deficit rose by 19.4 percent to Rs. 310.15 billion during the ten months of the FY 2011/12. Such deficit had increased by 4.7 percent during the corresponding period of the previous year. Net service account witnessed a surplus of Rs. 13.49 billion during the review period in contrast to a deficit of Rs. 7.93 billion during the corresponding period of the previous year. Under services, tourism income rose by 26.8 percent during the first ten months of the FY 2011/12 in contrast to a decline by 14.9 percent during the corresponding period of the previous year. The net transfer account registered a growth of 32.8 percent to Rs. 332.64 billion during the review period compared to that of a year ago. Under transfers, while pension receipts increased by 0.8 percent to Rs. 23.63 billion, workers' remittances surged by 36.5 percent to Rs. 282.02 billion compared to a growth of 10.8 percent during the corresponding period of the previous year. On a monthly basis, remittance inflows increased by 11.3 percent in April/May compared to the value of the previous month of this fiscal year. In USD terms, remittance inflows increased by 23.9 percent to USD 3.54 billion during the review period compared to a growth of 13.2 percent during the corresponding period of the previous year. Likewise, under the financial account, foreign direct investment of Rs 7.32 billion was recorded during the review period compared to such investment of Rs 5.74 billion during the same period a year ago.

Foreign Exchange Reserves

47. The gross foreign exchange reserves surged by 48.8 percent to Rs. 405.01 billion in mid-May 2012 from a level of Rs. 272.15 billion as at mid-July 2011. Such reserves had declined by 3.6 percent to Rs. 259.22 billion during the corresponding period of the previous year. Out of total reserve, NRB's reserves increased by 58.1 percent to Rs. 336.99 billion in the review period from a level of Rs. 213.10 billion as at mid-July 2011. In USD terms, the reserves of



convertible foreign exchange increased by 16.8 percent to USD 3.63 billion in mid-May 2012 from the level of mid-July 2011. Such reserves had fallen by 9.3 percent during the corresponding period of the previous year. Likewise, during the first ten months of 2011/12, the reserves in terms of inconvertible foreign exchange increased by 84.9 percent to IRs 59.39 billion. Such reserves had decreased by 20.9 percent during the same period of the previous year. Based on the trend of import during the ten months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 10.7 months and merchandise and service imports of 9.6 months.

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

48. The price of oil (Crude Oil Brent) in the international market decreased by 2.0 percent to USD 111.40 per barrel in mid-May 2012 from USD 113.72 per barrel in mid-May 2011. Similarly, the price of gold rose by 3.7 percent to USD 1556.50 per ounce in mid-May 2012 from USD 1500.75 in mid-May 2011.
49. Nepalese currency vis-à-vis the USD depreciated by 16.8 percent in mid-May 2012 from the level of mid-July 2011. It had appreciated by 4.2 percent in the corresponding period of the previous year. The exchange rate of one USD stood at Rs. 85.32 in mid-May 2012 compared to Rs. 70.95 in mid-July 2011.