

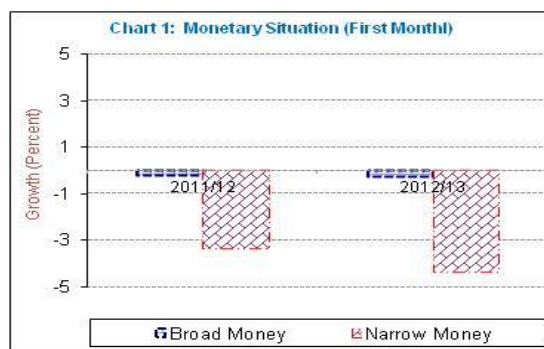
Current Macroeconomic Situation of Nepal

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

Monetary Situation

Money Supply

1. Broad money supply (M2) decreased by 0.3 percent in the first month of the FY 2012/13 compared to 0.2 percent decrease in the corresponding period of the previous year. On year-on-year (y-o-y) basis, broad money supply expanded by 22.6 percent in mid-August 2012. Narrow money supply (M1) decreased by 4.4 percent during the review period as compared to 3.4 percent decrease in the corresponding period of the last year. On y-o-y basis, such money expanded by 17.2 percent in mid-August 2012.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 3.85 billion (1.0 percent) during the review period as compared to an increase of Rs. 8.10 billion (3.7 percent) in the corresponding period of the previous year. A rise in imports caused a slower growth in net foreign assets of the monetary sector during the review period.

Domestic Credit

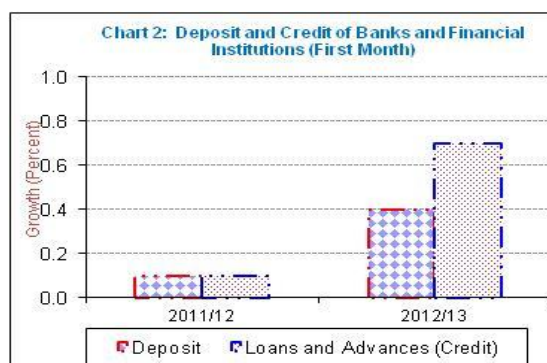
3. Domestic credit decreased by 0.3 percent in the first month of the FY 2012/13. It had decreased by 1.3 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased by 9.2 percent in mid-August 2012. A lower growth of claims on private sector coupled with net savings in government account due to lower level of public expenditure relative to resource mobilization resulted in a lower growth of domestic credit during the review period. In the first month of the FY 2012/13, claims on private sector increased by 0.5 percent.

Reserve Money

4. Reserve money decreased by 3.4 percent during the review period compared to a decrease of 1.6 percent in the corresponding period of last year. On y-o-y basis, such money increased by 33.8 percent in mid-August 2012. Decrease in Nepal Rastra Bank's net claims on government and a decline in net foreign assets caused a decrease in reserve money during the review period.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions increased by 0.4 percent (Rs. 3.98 billion) in the first month of the FY 2012/13. Such deposit mobilization had increased only by 0.1 percent (Rs. 0.44 billion) in the corresponding period of the previous year. In the review period, deposit mobilization of commercial banks increased by 0.2 percent while that of development banks and finance companies increased by the same rate of 1.1 percent. The deposit mobilization of commercial banks had increased by 0.1 percent while that of development banks and finance companies decreased by 2.4 percent and 2.8 percent respectively in the corresponding period of the previous year.



Credit Flow of Banks and Financial Institutions

6. In the first month of the FY 2012/13, loans and advances of banks and financial institutions increased by 0.7 percent (Rs. 6.67 billion) compared to a rise of 0.1 percent (Rs. 1.18 billion) in the corresponding period of the previous year. Loans and advances of commercial banks and development banks increased by 0.1 percent and 1.4 percent respectively whereas loans and advances of finance companies decreased by 0.1 percent during the review period. Banks and financial institutions' credit to private sector increased by 0.1 percent (Rs. 0.44 billion) during the review period compared to a decrease of 0.6 percent (Rs. 4.11 billion) in the corresponding period of the previous year. During the review period, such credit extended by commercial banks decreased by 0.1 percent while that by development banks and finance companies increased by the same rate of 0.8 percent.
7. Of the total banks and financial institutions' credit to private sector, the credit to industrial production sector increased by Rs. 2.24 billion during the review period compared to a decrease by Rs. 0.50 billion in the corresponding period of the previous year. Similarly, credit to agriculture sector surged by Rs. 1.79 billion in the review period compared to Rs. 0.25 billion in the corresponding period of the last year. Likewise, credit to construction sector increased by Rs. 0.24 billion, wholesale and retail trade sector by Rs. 1.59 billion and transportation, communication and public services sector by Rs. 0.26 billion during the review period.

Liquidity Management

8. During the review period, NRB injected net liquidity of Rs. 12.55 billion through the net purchase of USD 0.14 billion from foreign exchange market (commercial banks) by purchasing a total of USD 0.15 billion and selling USD 0.01 billion. Net liquidity of Rs. 18.38 billion was injected through the purchase of USD 0.26 billion in the corresponding period of the previous year.

9. NRB purchased Indian currency (INR) equivalent to Rs. 21.31 billion through the sale of USD 0.24 billion in the Indian money market during the review period. INR equivalent to Rs. 18.60 billion was purchased through the sale of USD 0.26 billion in the corresponding period of the previous year.

Inter Bank Transaction and Standing Liquidity Facility

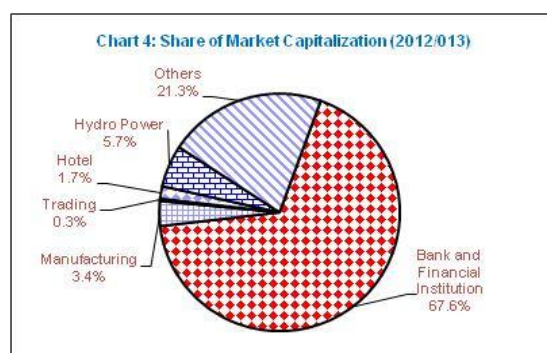
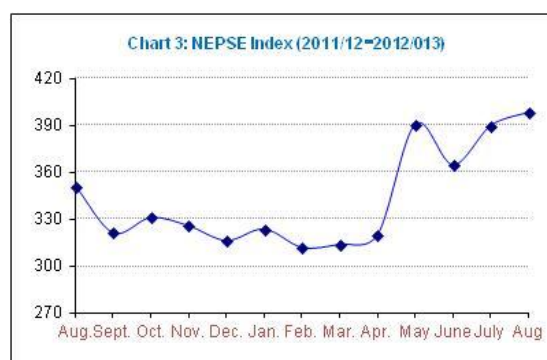
10. Inter-bank transaction of commercial banks and other financial institutions stood at Rs. 3.78 billion and Rs. 8.04 billion respectively in the first month of the FY 2012/13 compared to Rs. 46.48 billion and Rs. 21.37 billion in the corresponding period of the previous year. Banks and financial institutions did not use standing liquidity facility (SLF) during the review period whereas liquidity amounting to Rs. 3.94 billion was used under SLF in the corresponding period of the previous year. In the review period, inter-bank transaction and use of SLF decreased on account of comfortable liquidity situation of banks and financial institutions.

Short-term Interest Rates

11. The short-term interest rates remained at lower level in mid-August 2012 compared to those of mid-August 2011. For example, the weighted monthly average 91-day Treasury bill rate dropped to 0.18 percent in mid-August 2012 compared to 3.98 percent in mid-August 2011. The weighted average inter-bank rate between commercial banks' remained at 0.48 percent in mid-August 2012 compared to 2.69 percent in mid-August 2011 whereas the weighted average inter-bank rate between other financial institutions' remained at 4.85 percent in mid-August 2012 compared to 10.12 percent in mid-August 2011.

Securities Market

12. NEPSE index, on y-o-y basis, increased by 13.5 percent to 398.3 points in mid-August 2012. The index had dropped by 22.6 percent in the corresponding period of the previous year and stood at 351.0 points as at mid-August 2011.
13. The y-o-y stock market capitalization increased by 20.3 percent to Rs. 376.34 billion in mid-August 2012. The ratio of market capitalization to GDP stood at 24.2 percent in mid-August 2012. The ratio was 22.9 percent a year ago.
14. Banks and financial institutions constituted the biggest share in total market capitalization of stock market. Of the total market capitalization as of mid-August 2012, the share of banks and financial institutions stood at 67.6 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and



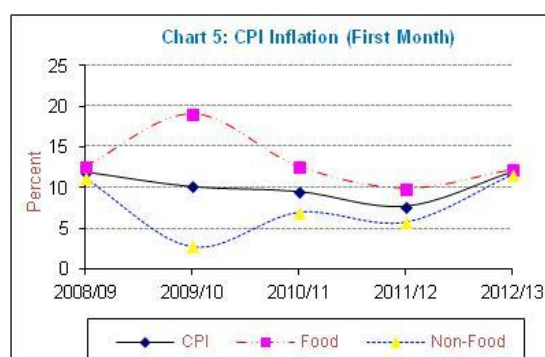
other sectors stood at 3.4 percent, 1.7 percent, 0.3 percent, 5.7 percent and 21.3 percent respectively.

15. Total number of companies listed at the NEPSE increased from 209 in mid-August 2011 to 219 in mid-August 2012. Banks and financial institutions comprise a major share in the number of listed companies. Of the total listed companies as of mid-August 2012, the number of banks and financial institutions (including insurance companies) stood at 187 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and other companies (2).
16. Total paid-up capital of the listed companies stood at Rs. 112.27 billion in mid-August 2012, registering an increase of 12.0 percent over mid-August 2011. Such an increase in paid-up capital was due to the additional listing of securities at the NEPSE. Additional securities worth Rs. 0.99 billion comprising ordinary share of Rs. 0.96 billion and bonus share of Rs. 0.03 billion were listed at the NEPSE during the first months of 2012/13.

Inflation, Salary and Wage Rate

Consumer Price Inflation

17. The y-o-y inflation as measured by the consumer price index increased by 11.9 percent in mid-August 2012 as compared to 7.7 percent in the corresponding period of the previous year. The indices of food and beverage group increased by 12.2 percent whereas non-food and services group increased by 11.6 percent during the review period. These indices had increased by 9.9 percent and 5.8 percent respectively in the corresponding period of previous year.



18. Under the items of the food and beverage group, price index of vegetables sub-group increased by the highest rate of 30.4 percent during the review period compared to an increase of 39.3 percent in the corresponding period of the previous year. The price index of ghee and oil and sugar and sweets, which had increased by 9.3 percent and 20.9 percent in the corresponding period of previous year, further went up by 21.0 percent and 19.9 percent during the review period. The price indices of tobacco products and legume varieties have increased by 17.9 percent and 14.7 percent respectively during the review period. In the same period of previous year, the index of tobacco had increased by 11.4 percent whereas index of legume varieties had fallen by 5.3 percent. The price index of spices that had decreased by 5.8 percent in the corresponding period of previous year has further decreased marginally by 0.6 percent in the review period.
19. Within the group of non-food and services, the price index of clothing and footwear has increased by 15.1 percent during the review period compared to an increase of 13.0 percent in the corresponding period of the previous year. The price indices of transport and furnishing and household equipment increased by 14.8 percent and 14.2 percent respectively during the review period. Such indices had increased by 12.8 percent and 12.5 percent respectively in the

corresponding period of the previous year. Similarly, the price indices of housing and utilities has increased by 11.8 percent during the review period while such index had increased by 1.6 percent in the corresponding period of the previous year. The price index of communication, which had decreased by 10.7 percent in the corresponding period of the previous year, witnessed a further decline of 4.0 percent during the review period also.

20. Region-wise, the price indices in Kathmandu Valley increased by 12.3 percent followed by Terai by 11.8 percent and in Hills by 11.5 percent during the review period. The respective increments were 6.6 percent, 6.9 percent and 10.3 percent respectively in the corresponding period of the previous year.

Wholesale Price Inflation

21. The y-o-y wholesale price index increased by 11.8 percent during the review period compared to a rise of 5.7 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, imported commodities, and domestic manufactured commodities increased by 13.6 percent, 11.4 percent and 6.9 percent respectively during the review period. The respective price increases of these sub-groups were 1.9 percent, 9.9 percent and 11.5 percent in the corresponding period of the previous year.



22. Within the group of agricultural commodities, the wholesale price indices of cash crops increased by 26.1 percent during the review period, compared to an increase of 16.2 percent in the corresponding period of the previous year. The wholesale price indices of legume varieties, which had decreased by 7.9 percent during the corresponding period of the previous year, increased by 20.3 percent in the review period. The wholesale price index of fruits and vegetables, which had increased by 5.4 percent in the previous year, increased by 15.2 percent during the review period. The wholesale price index of spices, which had decreased by 5.3 percent in the corresponding period of the previous year, further decreased by 7.8 percent during the review period.
23. Under the group of domestic manufactured commodities, the wholesale price indices of construction materials increased by 10.9 percent during the review period. Similarly, the wholesale price indices of food-related products and beverages and tobacco increased by 9.3 percent and 2.8 percent respectively during the review period.
24. Within the imported commodities, the wholesale price indices of petroleum products and coal and textile-related products increased by 22.1 percent and 13.3 percent respectively during the review period. Similarly, the price indices of drugs and medicine and transport vehicles and machinery goods increased by 8.2 percent and 5.4 percent respectively during the review period.

National Salary and Wage Rate

25. The y-o-y salary and wage rate index increased by 12.2 percent during the review period compared to an increase of 30.5 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 0.2 percent during the review period compared to an increase of 19.1 percent in the corresponding period of the previous year. The wage rate index increased by 15.3 percent during the review period compared to an increase of 33.8 percent in the corresponding period of the previous year.
26. The indices of salary public corporations increased by 4.2 percent during the review period. Other sub group of salary index has not changed. But the indices of wages of industrial labourers, agricultural labourers and construction labourers increased by 20.5 percent, 13.6 percent and 12.5 percent respectively during the review period. These wage rates had increased by 25.8 percent, 36.9 percent and 37.4 percent respectively in the corresponding period of the previous year.

Fiscal Situation *

Budget Deficit / Surplus

27. In the first month of 2012/13, government budget remained at a surplus of Rs. 9.30 billion. Such budget surplus was of Rs. 10.93 billion in the 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

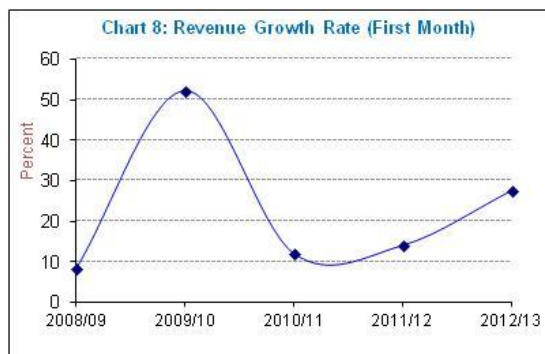
28. During the review period, total government spending increased by 109.2 percent to Rs. 14.91 billion compared to a decrease of 28.5 percent in the corresponding period of the previous year. The growth rate of total expenditure increased mainly on account of the rise in freeze expenditure during the review period.
29. During the review period, revenue mobilization of the Government of Nepal grew by 27.5 percent to Rs. 19.15 billion. Such revenue had risen by 14.1 percent to Rs. 15.01 billion in the corresponding period of the previous year. The government's firm commitment in revenue leakage control, tax administration reforms as well as increasing import and consumption by virtue of high remittance inflow contributed to such an increase in the revenue mobilization.



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Based on the figures reported by 8 NRB offices, 65 RBBL branches (out of 65 branches conducting govt. transaction), 34 NBL branches (out of 44 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.

30. During the review period, custom duties, income tax, registration fee, vehicle tax and non-tax revenue accelerated compared to that of the corresponding period of the previous year. Likewise, VAT revenue declined during the review period compared to that of corresponding period of the previous year.



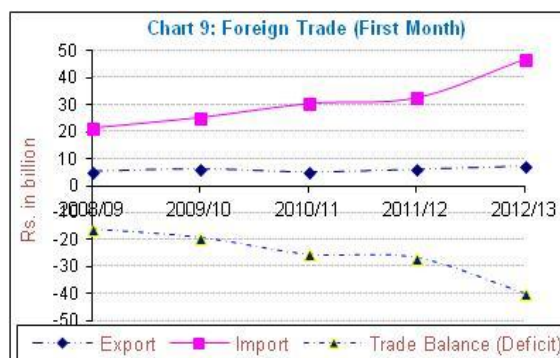
Foreign Cash Loans and Grants

31. In the first month of 2012/13, foreign cash loans of Rs. 144.1 million and foreign cash grants of Rs. 575.0 million were received by the GoN. The GoN had received foreign cash loans of Rs. 509.0 million and foreign cash grants of Rs. 3.66 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

32. Merchandise exports went up by 18.5 percent to Rs. 7.20 billion during the first month of 2012/13. Such exports had increased by 18.4 percent to Rs. 6.07 billion during the same period of the previous year.



33. Exports to India went up by 5.7 percent during the first month of 2012/13 compared to an increase of 17.1 percent during the same period of the previous year. Slow growth of export to India in the review period is attributed to the decline in the export of thread, M.S. pipe, zinc sheet, among others. Exports to other countries grew up by 42.1 percent compared to an increase of 20.9 percent in the same period of the previous year. In USD terms, exports to other countries increased by 14.4 percent to USD 34.3 million compared to an increase of 26.3 percent during the corresponding period of the previous year. Exports to India increased mainly due to the increase in the exports of G.I. pipe, jute sackings, polyester yarn, textiles and cardamom, among others. Likewise, exports to other countries increased primarily due to the rise in the export of pulses, tanned skin and readymade leather goods, among others.
34. During the review period, merchandise imports increased by 43.7 percent to Rs. 46.98 billion. Such imports had gone up by 7.1 percent to Rs. 32.70 billion in the same month of the previous year. The total imports increased in the review period primarily due to a sharp increase in imports from both India and other countries.
35. Imports from India went up by 48.1 percent during the review period in contrast to a decline by 4.3 percent in the same period of the previous year. Imports from other countries increased by 37.2 percent compared to an increase of 29.7 percent in the same period of the previous year. In US dollar terms, imports from other countries increased by 10.4 percent to USD 205.6 million compared to an increase of 35.4 percent in the previous year. Imports from India

increased primarily due to the increase in the imports of petroleum products, chemical fertilizer, M.S. billet, hotrolled sheet in coil and rice, among others. Likewise, the imports from other countries increased mainly on account of an increase in the imports of pipe and pipe fittings, gold, edible oil, readymade garments and silver, among others.

36. Total trade deficit during the first month of 2012/13 surged by 49.4 percent to Rs. 39.78 billion compared to an increase of 4.9 percent during the same period of the previous year. Trade deficit with India increased by 58.9 percent during the review period in contrast to a decline by 8.5 percent in the same period of the previous year. Trade deficit with other countries increased by 36.3 percent compared to an increase of 31.5 percent during the same period of the previous year.
37. The ratio of export to import declined to 15.3 percent during the first month of 2012/13 from 18.6 percent during the same period of the previous year.

Balance of Payments Situation

38. The overall BOP recorded a surplus of Rs. 3.85 billion during the first month of 2012/13 compared to a surplus of Rs. 8.10 billion during the same period of the previous year. In the review period, the current account registered a surplus of Rs. 56.7 million compared to a surplus of Rs. 727.7 million in the same period of the previous year. The low level of surplus in the current account is primarily due to a substantial rise in the merchandise import in the review period. In US dollar terms, the BOP and current account recorded surpluses of USD 43.4 million and USD 0.6 million respectively in the review period. During the same period of the previous year, BOP and current account posted surpluses of USD 113.4 million and USD 10.2 million respectively.
39. The FOB-based merchandise trade deficit increased by 48.3 percent to Rs. 37.93 billion during the first month of 2012/13. Such deficit had grown up by 3.8 percent in the same period of the previous year. The net service income increased by 52.4 percent to Rs. 628.1 million during the review period compared to an increase of 135.2 percent to Rs. 412.1 million during the same period of the previous year. Net transfer registered a growth of 43.8 percent to Rs. 37.61 billion in the review period compared to a growth of 13.2 percent in same period of the previous year. Under transfers, workers' remittances surged by 54.6 percent to Rs. 33.81 billion compared to an increase of 23.6 percent in the same period of the previous year. In US dollar terms, workers' remittances increased by 24.4 percent to USD 381.0 million compared to an increase of 29.0 percent in same period of the previous year. Similarly, under the financial account, foreign direct investment of Rs 457.0 million was recorded in the review period.

Foreign Exchange Reserves

40. The gross foreign exchange reserves increased by 1.9 percent to Rs. 447.86 billion in mid-August 2012 from a level of Rs. 439.46 billion as of mid-July 2012. Such reserves had increased by 4.2 percent to Rs. 283.72 billion in the same period of the previous year. Out of total reserves, NRB's reserves declined by 0.6 percent to Rs. 373.40 billion in the review period from a level of Rs. 375.52 billion as of mid-July 2012. The gross foreign exchange reserves in USD terms increased by 1.7 percent to USD 5.05 billion in mid-August 2012. Such reserves had increased by 2.6 percent in the same period of the previous year. Likewise, during the first month of 2012/13, the reserves in terms of inconvertible foreign exchange increased by 1.0 percent to IRs 61.02 billion. Such reserves had increased by 14.1 percent during the same period of the previous year. Based on the trend of import during the first month of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 9.8 months and merchandise and service imports of 8.3 months.



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

41. The price of oil (Crude Oil Brent) in the international market increased by 6.1 percent to USD 115.51 per barrel in mid-August 2012 from USD 108.89 per barrel in mid-August 2011. On the contrary, the price of gold declined by 7.9 percent to USD 1601.75 per ounce in mid-August 2012.
42. Nepalese currency vis-à-vis the US dollar depreciated by 0.2 percent in mid-August 2012 from the level of mid-July 2012. It had depreciated by 1.6 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 88.75 in mid-August 2012 compared to Rs. 88.60 in mid-July 2012.