

Current Macroeconomic Situation

(Based on the First Month's Data of 2009/10)

Monetary Situation

Money Supply

1. Broad money (M_2) expanded by 1.6 percent in the first month of 2009/10, it had expanded by the same percentage during the corresponding period last year. Narrow money (M_1) declined by 5.1 percent in the review period compared to a decline of 5.0 percent during the corresponding period in the previous year. But, time deposits, which had grown by 4.6 percent in the first month of 2008/09, grew by 4.7 percent in the review period.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) declined by 0.7 percent (Rs 1.4 billion) in the review period compared to a decline of 1.8 percent (Rs.3.2 billion) during the same period in the previous year.

Domestic Credit

3. Compared to an increase of 1.8 percent in the first month last year, domestic credit rose slightly by 0.1 percent in the review period. Deceleration in the growth rate of domestic credit was attributed mainly to a subdued growth of private sector credit by 0.8 percent compared to a growth of 2.0 percent in the first month of the previous year and a muted growth of claims on financial institutions by 5.9 percent compared to a growth of 66 percent in the same period of previous year. A lower credit flow to finance companies and other financial institutions from commercial banks contributed to such slowdown in the claims on financial institutions in the review period.

Deposit Mobilization and Credit Flow of Commercial banks

4. Deposit mobilization of commercial banks increased by Rs 5.0 billion in the first month of 2009/10 amounting to Rs 554.8 billion. Deposit mobilization of commercial banks had increased by Rs 12.5 billion in the corresponding period of the previous year. Similarly, credit to the private sector expanded by 0.9 percent (Rs 3.5 billion) in the review period as against an increase of 2.2 percent (Rs. 6.7 billion) during the same period in the previous year.

Liquidity Management

5. The NRB mopped up net liquidity amounting Rs 7.4 billion through outright sale auction from the secondary market in the review period. In the same period last year, a net liquidity of Rs 5.5 billion was mopped up through outright sale auction of Rs 3.5 billion and Rs 2.0 billion through reverse repo auction.
6. The NRB injected Rs 5.8 billion liquidity by purchasing USD 74.8 million from commercial banks through foreign exchange intervention, in the review period. A net liquidity of Rs 5.4 billion was injected through the purchase of USD 79.1 million from commercial banks in the same period last year.

7. The NRB purchased Indian currency amounting to INR 15.9 billion through the sale of USD 330 million in the Indian money market in the review period. Indian currency of 6 billion was purchased through the sale of USD140 million in corresponding period of the previous year. Such a rise in purchase of IC is attributable to a higher trade deficit with India.

Inter Bank Transaction

8. Commercial banks undertook inter bank transaction of Rs 9.5 billion in the review period compared to Rs 22.43 billion in the same period of the previous year. Commercial banks have not used standing liquidity facility (SLF) from the NRB in the review period whereas a total of Rs 18.2 billion had been used by commercial banks under this facility in the previous year.

Short-term Interest Rates

9. In the first month of 2009/10, the weighted average monthly 91-day Treasury bill rate stood at 1.77 percent compared to 5.17 percent in mid-Aug 2008. The weighted average monthly inter-bank rate remained at 1.41 percent in mid-Aug 2009 compared to 5.15 percent in mid-Aug 2008. Similarly, maximum interest rates on time deposits of 1-month and 3-month maturity period increased by 0.50 percentage point to 5.75 percent and 1 percentage point to 6.5 percent respectively.

Securities Market

10. The year on year (y-o-y) NEPSE index decreased by 33.4 percent to 721.95 points in mid-August 2009. This index was 1084.76 a year ago. Likewise, NEPSE sensitive index (based on July 2006) stood at 194.70 point in Mid-August 2009. This index was 290.15 in mid-August 2008.
11. The NEPSE float index, calculated on the basis of final transaction as of August 24, 2008 (at market price) remained at 70.01 in mid-August 2009.
12. The y-o-y market capitalization increased by 17.1 percent to Rs. 495.99 billion in mid August 2009. Of the total market capitalization, bank and financial institutions, manufacturing and processing companies, hotels, business entities, hydropower and other economic sectors accounted for 76.4 percent, 1.6 percent, 1.0 percent, 0.3 percent, 3.8 and 16.9 percent respectively.
13. Total paid up capital of the listed companies increased by 101.0 percent amounting to Rs. 61.43 billion in the review period. This increase was largely due to the additional listing of securities. The right share of Rs.292.91 million was listed in Mid-August 2009.
14. The monthly turnover to market capitalization ratio remained at 0.38 percent in Mid-August 2009, compared to 0.70 percent a year ago.
15. Total number of companies listed at the NEPSE increased to 159 in mid-August 2009 compared to 144 a year ago. Among them, 128 are banks and financial institutions (including insurance companies). The number of companies relating to production and

processing industries, hotels, business entities, hydropower and companies in other groups are 18, 4, 4, 3 and 2 respectively.

16. The twelve-month rolling standard deviation reflecting the volatility in the stock market, stood at 109.5 in Mid-August 2009 compared to 112.3 a year ago.

Inflation

Consumer Price Inflation

17. The y-o-y inflation as measured by the consumer price index moderated to 10.4 percent in mid-August 2009 from 13.1 percent in the same period of previous year. In the review period, the price index of food and beverages group increased by 17.8 percent. Similarly the index of non-food and services group rose only by 2.1 percent. The price rise of food and beverages and non-food and services group, was 13.4 percent and 12.7 percent respectively in Mid-August 2008.
18. Of the items in the food and beverage group, price indices of sugar and sugar related products increased by a whopping rate of 49.6 percent during the review period as compared to an increase of 18.2 percent in the same period last year. Similarly, the price indices of vegetables and fruits increased by 47.2 percent. This is in sharp contrast to last year's decline of 10.6 percent. Similarly, the price indices of meat, fish and eggs as well as pulses sub-groups increased in the review period by 32.8 percent and 31.7 percent respectively compared to an increase of 12.1 percent and 19.4 percent respectively in the same period last year. The index of the grains and cereal products subgroup also witnessed an increment of 5.8 percent compared to 23.5 percent increase in the corresponding period of the previous year.
19. Within the group of non-food and services, the index of tobacco and related products rose up by 17.0 percent in the review period compared to a rise of 12.7 percent respectively in the same period of the previous year. The price index of transport and communication declined by 8.7 percent in the review period, however it had increased by 23.1 percent in the same period last year.
20. Region-wise, the price index of Kathmandu valley rose by 10.7 percent followed by 10.4 percent in Terai and by 10.1 percent in Hills in the review period. Last year, the respective rates were 13.5 percent, 13.1 percent and 12.4 percent.
21. In the review period, the y-o-y core inflation rose to 11.8 percent from 10.6 percent a year ago.

Wholesale Price Inflation

22. In the review period, the y-o-y wholesale price inflation increased to 13.2 percent compared to 11.2 percent a year ago. The index of agricultural commodities and domestic manufactured commodities increased by 31.3 percent and 4.2 percent respectively in the review period compared to 2.0 percent and 15.4 percent increase a year ago. The price indices of imported commodities declined by 7.8 percent in the review period, however it had increased by 24.9 percent in the same period last year.

23. Within the agricultural commodities group, mainly the price index of cash crops surged by 87.2 percent in the review period, as against a decline of 28.3 percent a year ago. Likewise, livestock production and pulses increased by 43.2 percent and 20.5 percent compared to an increase of 15.2 percent and 22.2 percent in the same period of the previous year. The price index of fruits and vegetables had increased by 35.6 percent in the review period in contrast to a decline of 15.5 percent in the corresponding period last year. Within the group of domestic manufactured commodities, the price index of beverages and tobacco increased by 20.9 percent compared to a rise of 5.3 percent a year ago.
24. Within the imported commodities group, the price indices of petroleum products and coal and transport vehicles and machinery goods declined by 20.2 percent and 6.4 percent respectively in the review period compared to a respective increase of 39.1 percent and 32.3 percent in the corresponding period of previous year.

National Salary and Wage Rate

25. The overall y-o-y salary and wage rate index rose by 22.2 percent in the review period compared to a rise of 8.2 percent a year ago. Of the salary and wage rate indices, the salary index increased by 32.8 percent in the review period compared to a rise of 0.1 percent in the corresponding period of the previous year. The main reason behind such an increase in the salary index is the upward revision in basic salary and allowances by the Government of Nepal. Such decision by the Government of Nepal has also led to the upward revision in the wages and salary of private sector. The wage rate index increased by 18.9 percent in the review period compared to an increase of 11.0 percent in the same period of the previous year. Wages of agricultural, industrial and construction laborers increased by 20.5 percent, 15.8 percent and 20.1 percent respectively in the review period. These wage rates had increased by 17.6 percent, 2.7 percent and 6.2 percent respectively in the same period of the previous year.

Fiscal Situation

Budget Deficit / Surplus

26. In the first month of 2009/10, government budget remained at a surplus of Rs.3.18 billion. A high growth of revenue mobilization relative to government expenditure accounted for such a budget surplus in the review period. In the corresponding period last year, budget surplus was of Rs 2.65 billion.

Government Expenditure

27. In the review period, total government spending increased by 44.0 percent to Rs.10.84 billion compared to an increase of 107.0 percent in the corresponding period of the previous year. In spite of decline in the recurrent and capital expenditure, total government expenditure, in the review period, increased mainly on account of the rise in principal repayment as well as a surge in freeze expenditure
28. In the review period, revenue mobilization of the Government of Nepal grew substantially by 52.0 percent to Rs.11.74 billion compared to an increase of 8.2 percent

in the corresponding month 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.

29. In the review period, income tax, customs duties and VAT, registration fee and vehicle revenue accelerated compared to that of the corresponding period of the previous year. In the review period, the excise revenue also increased. Likewise, non-tax revenue also showed an impressive increment in the review period.

Foreign Cash Loans and Grants

30. In the first month of 2009/10, foreign cash loans of Rs 208.7 million and foreign cash grants of Rs 150.0 million were received by the GON. The GON had received foreign cash loans of Rs 201.9 million and foreign cash grants of Rs 1183 million in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

31. In the first month of 2009/10, exports expanded by 12.4 percent compared to a rise of 4.5 percent in the corresponding period of the previous year. Of the total exports, export to India went up by 6.6 percent in 2009/10 in contrast to a decline by 20.4 percent in the same period last year. Exports to other countries increased by 18.5 percent compared to an increase of 55.3 percent in the same period of the previous year.
32. The rise in exports to India was attributed to the rise in the exports of polyester yarn, thread, jute goods, textiles and copper wire rod, among others. Likewise, exports to other countries soared up mainly attributing to the rise in the exports of pulses, Nepalese paper and paper products, handicraft, silverware and jewelries and herbs.
33. Total imports rose by 16.3 percent in the first month of 2009/10 compared to a higher growth of 33.3 percent in the corresponding period of the previous year. While imports from India rose by 14.9 percent in the review period compared to a growth of 27.6 percent in the corresponding period last year, imports from other countries increased by 18.4 percent in comparison to a significant growth of 42.9 percent.
34. A rise in the import of vehicles and spare parts, electrical equipment, MS wire and rods, medicine and cement among others, from India and electrical goods, gold, medical equipment and tools, betel nut and computer and parts, among others, from other countries were attributable for the upsurge in total imports in the first month of 2009/10.

Balance of Payments

35. The overall BOP recorded a deficit of Rs. 1.42 billion in the first month of 2009/10 compared to a deficit of Rs. 3.15 billion in the corresponding period of the previous year. However, the current account posted a surplus of Rs. 777.1 million in the first month of 2009/10 in contrast to a deficit of Rs. 1.90 billion in the corresponding period of the previous year. Although there was an increase in trade deficit, the increase in net

transfers was responsible for the current account surplus. Under transfers, workers' remittances increased by 35.3 percent in the first month of 2009/10 compared to its growth of 31.2 percent in the corresponding period of the previous year.

Foreign Exchange Reserves

36. The gross foreign exchange reserves stood at Rs. 270.17 billion in mid-August 2009, a decline by 3.5 percent compared to the level as at mid-July 2009. Such reserves had fallen by 3.3 percent in the corresponding period of the preceding year. In terms of USD, gross foreign exchange reserves declined by 2.2 percent to USD 3.51 billion in mid-August 2009. In the same period in the previous year, such reserves had gone down by 3.4 percent. The current level of reserves is sufficient for financing merchandise imports of 10.8 months and merchandise and service imports of 8.9 months.

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

37. The price of oil (Crude Oil Brent) in the international market declined by 35.3 percent to USD 71.19 per barrel in mid-August, 2009 from USD 110.08 per barrel in mid-August, 2008. On the other hand, the price of gold rose by 21.2 percent to USD 953.60 per ounce in mid-August, 2009 from USD 786.50 a year earlier.
38. In comparison to mid-July 2009, the Nepalese currency vis-à-vis the USD appreciated by 1.36 percent in mid-August 2009. It had depreciated by 0.07 percent in the corresponding period of the previous year. The exchange rate of one USD stood at Rs. 77.00 in mid-August 2009 compared to Rs. 78.05 in mid-July 2009.