

# **Current Macroeconomic Situation**

*(Based on the First Four Months' Data of 2009/10)*

## **Monetary Situation**

### **Money Supply**

1. Broad money (M2) expanded by 4.1 percent in the first four months of 2009/10. M2 had expanded by 6.9 percent in the corresponding period of the previous year. Narrow money (M1), which had grown by 3.1 percent during the same period in the previous year, registered a muted growth of 0.7 percent in the review period. Notwithstanding a higher growth of net domestic assets of the monetary sector, substantial decline in net foreign assets owed to the slowdown in the growth of monetary aggregates during the review period.
2. Of the components of narrow money, currency in circulation increased by 5.3 percent to Rs.132.41 billion in the review period compared to a growth of 10.9 percent during the same period in the previous year. Time deposits, which had grown by 8.6 percent a year ago increased by 5.6 percent in the review period. Demand deposits witnessed a decline of 7.4 percent in the review period compared to a decline of 11.3 percent during the same period in the previous year. A higher growth of credit to private sector contributed to the decline in demand deposits at a lower rate in the review period compared to that during the same period last year.
3. Net foreign assets (NFA), after adjusting foreign exchange valuation gain/loss, declined substantially by Rs.20.5 billion (9.3 percent) in the review period against an increase of Rs.11.9 billion (6.9 percent) in the same period of the previous year. An acceleration of trade deficits contributed to such a significant decline of net foreign assets in the review period.

### **Domestic Credit**

4. In the first four months of 2009/10, domestic credit expanded by 7.0 percent compared to a growth of 6.5 percent in the corresponding period of the previous year. Domestic credit increased at a marginally higher rate on account of a lower rate of decline in net claims on government and an increase in claims on private sector of commercial banks.
5. Claims on government declined by Rs.2.1 billion (2.0 percent) in the review period compared to a decline by Rs.5.1 billion (5.8 percent) in the corresponding period of the previous year. A substantial increase in government expenditure relative to resource mobilization contributed to a lower rate of decline in claims on government in the review period. The government has used Rs.3.3 billion overdrafts from Nepal Rastra Bank in the review period.
6. Claims on private sector increased by 9.7 percent (Rs.42.5 billion) in the review period compared to a growth of 9.4 percent (Rs.32.1 billion) in the corresponding period of the previous year. The higher credit flow to the private sector from commercial banks

resulted on account of a marginal growth of claims on private sector in the review period

7. Claims on non-government financial enterprises decreased by 20.1 percent in the review period against a growth of 11.7 percent in the corresponding period of the previous year. The decline in investments of commercial banks on pension funds and insurance companies in the review period contributed to such a decrease in claims on non-government financial enterprises.
8. In the first four months of 2009/10, claims on non-financial government enterprises decreased by 4.1 percent in the review period in contrast to a growth of such credit by 14.9 percent in the corresponding period of the previous year. A portion of loan repayment by National Trading Ltd., Nepal Food Corporation, Janakpur Cigarette Factory Ltd, Nepal Airlines Corporation, and Janak Education Material Center Ltd contributed to a decline on such claims in the review period.

### **Deposits Mobilization and Credit Flow of Commercial banks**

9. In the first four months of 2009/10, the deposits mobilization of commercial banks increased by Rs.19.8 billion (3.6 percent) amounting to Rs.569.7 billion. The total deposits had increased by Rs.27.2 billion (6.5 percent) in the corresponding period of the previous year. Similarly, credit to the private sector expanded by 10.1 percent (Rs.41.0 billion) in the review period compared to an increase of 9.2 Percent (Rs.30.2 billion) in the corresponding period of the previous year.
10. Of the private sector credit, credit to the production sector witnessed a lower rate of growth in the review period. The credit to that sector increased by 4.1 percent (Rs.3.6 billion) in the review period compared to a growth of 8.3 percent (Rs.6.3 billion) in the same period of the previous year. In the review period, the credit to wholesale and retail business as well as finance, insurance and fixed assets increased by 14.9 percent (Rs.10.3 billion) and 21.8 percent (Rs.8.5 billion) respectively. The credit to these sectors during the corresponding period in the previous year had increased by 4.1 percent (Rs.2.8 billion) and 6.9 percent (Rs.5.1 billion) respectively. Likewise, the credit to the service sector registered a growth of 10.4 percent compared to a growth of 8.7 percent in the same period last year. Although the growth of the credit to real estate sector decelerated, the volume of such credit flow marginally increased in the review period than that in the same period of the previous year. The credit to such sector stood at Rs.5.5 billion in the first four months of 2009/10 compared to Rs.5.5 billion in the same period a year ago.

### **Liquidity position of commercial banks**

11. The liquid assets of the commercial banks declined significantly in the review period. In the first four months of 2009/10, such assets declined by 10.6 percent to Rs.167.8 billion against a growth of 2.5 percent amounting to Rs.154.9 billion in the same period of the previous year. Of the components of liquid assets, liquid fund declined by 19.5 percent in the review period. Similarly, balance held abroad by commercial banks declined by 9.9 percent to Rs.48.1 billion, while the investments on government securities increased by 3.9 percent in the review period. The higher growth of loans and advances relative to deposit mobilization mainly attributed to the tightening of liquidity position of the banks. In the review period, the loans and advances of the banks

increased by 8.7 percent (Rs.45.0 billion). As a result, the credit deposit ratio increased to 85.8 percent as at mid November 2009 from 81.2 percent in mid-July 2009 while the liquidity deposit ratio declined to 29.5 percent from 34.1 percent in mid-July 2009.

### **Liquidity Management**

12. In the first four months of 2009/10, NRB mopped up net liquidity amounting to Rs.5.4 billion. Of the total amount Rs.7.4 billion and Rs.1.0 billion was mopped up through outright sale auction and reverse repo auction respectively, while Rs. 3.0 billion was injected in the economy through repo auction in review period. In the same period of the previous year, liquidity amounting to Rs.11.0 billion was mopped up. Of the total liquidity mopped up, Rs.5.5 billion was through outright sale auction and Rs.5.5 billion from reverse repo auction.
13. The NRB injected net liquidity of Rs26.6 billions by net purchase of USD 346.5 million from commercial banks through foreign exchange intervention in the first four months of 2009/10. A net liquidity of Rs42.2 billion was injected through the net purchase of USD 569.6 million from commercial banks in the same period last year.
14. The NRB purchased Indian currency (IC) equal to 34.1 billion through the sale of USD 710 million in the Indian money market during the review period. Indian currency equal to 22.5 billion was purchased through the sale of USD 490 million in the corresponding period of the previous year. An accelerated trade deficits with India contributed to such a high purchase of Indian currency against a sale of USD in the review period.

### **Standing Liquidity Facility and Inter Bank Transactions**

15. Inter-bank transactions of commercial banks stood at Rs.96.1 billion in the first four months of 2009/10 compared to that of Rs.105.1 billion in the corresponding period of the previous year. Likewise, commercial banks used standing liquidity facility (SLF) amounting to Rs.17.3 billion in the review period. The use of the SLF by commercial banks was Rs.35.5 billion in the corresponding period of the previous year.

### **Short-term Interest Rates**

16. The weighted average monthly 91-day Treasury bill rate stood at 4.67 percent in mid-Nov 2009 compared to a rate of 5.55 percent in mid-Nov 2008. The weighted average monthly inter-bank rate increased to 9.22 percent in mid-Nov 2009 from 5.34 percent in mid-Nov 2008.

### **Securities Market**

17. The year on year (y-o-y) NEPSE index declined during the same period by 29.7 percent to 566.94 points in mid November 2009. This index was 806.90 last year. Likewise, NEPSE sensitive index (based on July 2006) stood at 141.95 point in mid November 2009. This index was 210.31 in mid November 2008. The NEPSE float index, calculated on the basis of final transaction as of August 24, 2008 (at market price) declined by 29.4 percent and remained at 54.20 in mid November 2009.
18. The y-o-y market capitalization declined by 3.2 percent to Rs.414.86 billion in mid November 2009. The ratio of market capitalization to GDP stood at 38.3 percent in the

review period, this ratio was 44.7 percent in the corresponding period last year. Of the total market capitalization, bank and financial institutions accounted for 73.9 percent followed by manufacturing and processing companies (1.9 percent), hotels (1.2 percent), business entities (0.4 percent), hydropower (4.0 percent) and other economic sectors (18.7 percent).

19. Total paid up capital of the listed companies stood at Rs.67.47 billion in mid November 2009, an increase of 44.7 percent over the period of one year. This increase was largely due to the additional listing of securities at the NEPSE. An additional securities worth Rs.11.95 billion (ordinary share of Rs.2.99 billion, bonus share of Rs.280.8 million, right share of Rs.2.93 billion and government securities of Rs.5.75 billion) were listed at the NEPSE as at mid November 2009.
20. The monthly turnover to market capitalization ratio remained at 0.25 percent in mid November 2009, compared to 0.61 percent in the corresponding period last year.
21. Total number of companies listed at the NEPSE increased to 163 as at mid November 2009 compared to an increase of 144 in the corresponding period last year. Of the total companies, 132 are banks and financial institutions (including insurance companies), followed by production and processing industries (18), hotels (4), business entities (4), hydropower (3) and companies in other groups (2).
22. The twelve-months rolling standard deviation which reflects the volatility in the stock market, stood at 51.7 in mid November 2009 compared to 115.9 in the same period last year.

## **Inflation**

### **Consumer Price Inflation**

23. The year on year (y-o-y) inflation as measured by the consumer price index moderated to 9.9 percent in mid November 2009 as against an increase of 14.5 percent in the same period last year. In the review period, the price index of food and beverages group increased by 16.4 percent, whereas the index of non-food and services group rose only by 2.2 percent. The index of food and beverages and non-food and services group had risen by 17.0 percent and 11.7 percent respectively in the same period last year.
24. Of the items in the food and beverage group, price indices of sugar and sugar related products increased by the highest rate of 50.6 percent compared to an increase of 37.6 percent in the same period last year. Similarly, the price indices of vegetables and fruits increased by 38.7 percent during the review period. This is in sharp contrast to last year's decline of 0.9 percent. Likewise, the price indices of pulses as well as meat, fish and eggs sub-groups increased by 29.5 percent and 21.4 percent respectively in the review period compared to an increase of 26.0 percent and 20.1 percent in the same period last year. The index of grains and cereal products subgroup also witnessed an increase of 8.1 percent compared to an increase of 19.1 percent in the corresponding period of the previous year.
25. Similarly, within the group of non-food and services, the index of tobacco and related products increased by 11.6 percent during the review period compared to a rise of 15.1 percent during the same period last year. The price index of transport and

communication declined by 8.0 percent in the review period. However, it had increased by 22.0 percent during the same period last year.

26. Region-wise, the price index of Terai rose by 10.7 percent, followed by 10.3 percent in Hills and 8.1 percent in Kathmandu Valley in the review period. The respective rates were 13.3 percent, 14.2 percent and 16.8 percent in the corresponding period last year.
27. In the review period, the y-o-y core inflation rose to 10.9 percent, a moderation from 13.5 percent a year ago.

### **Wholesale Price Inflation**

28. During the review period, the y-o-y wholesale price inflation increased by 18.5 percent compared to 9.2 percent a year ago. The index of agricultural commodities and domestic manufactured commodities increased by 38.8 percent and 8.4 percent respectively in the review period compared to 2.7 percent and 13.4 percent a year ago. The price indices of imported commodities declined by 5.4 percent in the review period. However, it had increased by 17.5 percent during the same period of last year.
29. Within the agricultural commodities group, the price index of cash crops jumped by 116.2 percent in the review period, as against a decline of 23.3 percent a year ago. Similarly, the price index of spices, livestock production as well as fruits and vegetables increased by 36.6 percent, 33.2 percent and 32.8 percent respectively. The price indices of spices and livestock production had respectively increased by 7.0 percent and 22.2 percent, however the price index of fruits and vegetables had posed a negative growth of 4.8 percent during the same period last year. Within the group of domestic manufactured commodities, the price index of beverages and tobacco increased by 14.0 percent compared to a rise of 12.4 percent a year ago.
30. Within the imported commodities group, the price indices of petroleum products and coal declined by 16.7 percent in the review period compared to an increase of 25.0 percent in the corresponding period of the previous year.

### **National Salary and Wage Rate**

31. The overall y-o-y salary and wage rate index rose by 22.2 percent in the review period compared to a rise of 10.0 percent a year ago. Of the salary and wage rate indices, the salary index increased by 32.8 percent in the review period. No change had been observed in the salary index in the same period last year. The increase in basic salary and allowances by the government of Nepal for civil servants and its simultaneous effect on salary of the private sector contributed to such an increase in the salary index. The wage rate index increased by 18.9 percent in the review period compared to an increase of 13.3 percent in the same period of the previous year. Wages of agricultural, industrial and construction laborers increased by 21.7 percent, 16.5 percent and 11.8 percent respectively in the review period. These wage rates had increased by 20.2 percent, 2.5 percent and 15.2 percent respectively in the same period last year.

## **Fiscal Situation**

### **Budget Deficit / Surplus**

32. In the first four months of 2009/10, government budget surplus stood at Rs.3.40 billion compared to a surplus of Rs 1.26 billion in the corresponding period of the previous year. A high growth of revenue collection relative to total government expenditure accounted for such a budget surplus during the review period.

### **Government Expenditure**

33. In the first four months of 2009/10, total government spending increased by 36.5 percent to Rs. 50.61 billion compared to an increase of 7.3 percent in the corresponding period of the previous year. The high growth of recurrent as well as capital expenditure accounted for such an increase in the government expenditure.
34. In the first four months of 2009/10, recurrent expenditure increased by 50.6 percent to Rs.35.85 billion. In the corresponding period of the previous year, recurrent expenditure had decreased by 2.5 percent. An upward revision in the salary and allowances of the civil servants and teachers by the Government of Nepal mainly attributed to such a rise in the recurrent expenditure. In the review period, capital expenditure increased by 46.5 percent to Rs.4.07 billion in contrast to a decline of 17.5 percent in the corresponding period of the previous year.
35. In the first four months of 2009/10, principal repayment expenditure declined by 52.6 percent to Rs.2.64 billion. In the corresponding period of the previous year, such expenditure had increased by 26.7 percent.

### **Government Revenue**

36. In the first four months of 2009/10, revenue mobilization of the government grew by 41.6 percent to Rs.46.70 billion compared to an increase of 35.4 percent in the corresponding period of the previous year. Government's firm commitment to control the revenue leakage and tax administration reforms contributed to such an increase in the revenue mobilization.
37. Of the total revenue mobilization, VAT revenue grew by 29.9 percent to Rs.15.63 billion in mid November 2009. It had increased by 31.2 percent in the corresponding period of the previous year.
38. In the review period, custom revenue rose by 42.9 percent to Rs.10.31 billion compared to an increase of 22.7 percent in the same period of the previous year. Reforms in custom administration and the increase in imports of high tax yielding vehicles and spare parts contributed to such a high growth of customs revenue.
39. In the review period, excise revenue increased by 73.7 percent to Rs.7.21 billion compared to an increase of 32.4 percent in the same period of the previous year. Reforms in excise administration and increase in the imports of high excise tax yielding vehicles accounted for such a growth of excise revenue in the review period.
40. Income tax revenue increased by 37.1 percent to Rs.5.05 billion in the review period. Reforms in income tax administration and improved corporate culture in the economy

contributed to such a growth of income tax collection. In the corresponding period last year such revenue had risen by 25.9 percent.

41. In the review period, non-tax revenue grew by 62.8 percent to Rs.5.53 billion compared to an increase of 73.9 percent in the same period of the preceding year.

#### **Foreign Cash Loans and Grants**

42. The government received foreign cash loans amounting to Rs.1.11 billion and foreign cash grants amounting to Rs.4.86 billion in the first four months of 2009/10. The government had received foreign cash loans amounting to Rs.1.20 billion and foreign cash grants amounting to Rs.3.44 billion in the corresponding period of the previous year.

### **External Sector Situation**

#### **Foreign Trade**

43. The external sector exhibited a dismal picture in the first four months of 2009/10. Exports plummeted by 23.7 percent in contrast to an upsurge of 38.1 percent in the corresponding period of the previous year. Of the total exports, export to India fell by 19.1 percent in the first four months of 2009/10 in contrast to a rise of 16.2 percent in the same period of 2008/09. Exports to other countries went down by 30.0 percent as against a rise by 85.4 percent in the same period of the previous year.
44. Exports to India fell considerably arising from the decline in the exports of readymade garments, zinc sheet, shoes and sandals, thread and marble slab, among others. Likewise, exports to other countries decreased because of the decline in the export of pulses, woolen carpets, readymade garments, tanned skin and herbs.
45. In the first four months of 2009/10 total imports rose by 27.8 percent compared to a growth of 41.1 percent in the corresponding period of the previous year. While imports from India went up by 28.9 percent in the review period compared to its growth of 23.7 percent in the corresponding period of 2008/09, imports from other countries grew only by 26.6 percent compared to a sharp growth of 68.8 percent in the corresponding period of 2008/09.
46. An upsurge in the import of vehicles and spare parts, M.S. billet, M.S. wire and rods, electrical equipment, other machinery and parts, among others, from India and gold, computer and parts, medical equipment and tools, spare parts of aircraft and telecommunication equipment and parts, among others, from other countries were responsible for the rise in total imports in the first four months of 2009/10.

#### **Balance of Payments**

47. In the first four months of 2009/10, the overall BOP recorded a deficit of Rs. 20.49 billion in contrast to a surplus of Rs. 11.86 billion in the corresponding period of the previous year. The current account also registered a deficit of Rs. 13.94 billion in the first four months of 2009/10 as against a surplus of Rs. 8.38 billion in the corresponding period of the previous year. A number of factors were responsible for the large current account deficit in the first four months of 2009/10. These include the expansion in trade deficit by 48.9 percent. Similarly, under transfers, while grants declined by 10.2 percent in the first four months of 2009/10, workers' remittances went

up by just 6.6 percent compared to its significant growth of 65.9 percent in the corresponding period of the previous year.

#### **Foreign Exchange Reserves**

48. The gross foreign exchange reserves stood at Rs.248.89 billion in mid November 2009, a drop by 11.1 percent compared to the level as at mid July 2009. However, such reserves had gone up by 8.8 percent in the corresponding period of the preceding year. In US dollar terms, gross foreign exchange reserves fell by 6.2 percent to US\$ 3.36 billion in mid November 2009. In the same period in the previous year, such reserves had dropped by 5.3 percent. The current level of reserves is sufficient for financing merchandise imports of 8.5 months and merchandise and service imports of 7.3 months.

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

49. The price of oil (Crude Oil Brent) in the international market went up by 31.9 percent to US\$ 75.22 per barrel in mid November 2009 from US\$ 57.04 per barrel in mid November 2008. Similarly, the price of gold also surged by 47.7 percent to US\$ 1,104.00 per ounce in mid November 2009 from US\$ 747.50 a year earlier.
50. In comparison to mid July 2009, the Nepalese currency vis-à-vis the US dollar appreciated by 5.47 percent in mid November 2009. It had depreciated by 12.96 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs.74.00 in mid November 2009 compared to Rs.78.05 in mid July 2009.