

Current Macroeconomic Situation

(Based on the First Month's Data of 2008/09)

Monetary Situation

Money Supply

1. Broad money (M_2) expanded by 1.5 percent in the first month of 2008/09. M_2 had risen by 0.6 percent during the same period of the previous year. A higher growth of net domestic assets (NDA) accounted for the rise in M_2 in the review period. Time deposits, the major component of M_2 , grew by 4.6 percent in the first month of 2008/09. Time deposits had grown by 2.9 percent in the corresponding period of 2007/08.
2. Net foreign assets (NFA), after adjusting foreign exchange valuation gain/loss, declined by 1.7 percent (Rs 3.0 billion) in the review period compared to a decrease of 1.2 percent (1.6 billion) in the previous year. The rise in trade deficit contributed to the decline in NFA in the review period.

Domestic Credit

3. In contrast to a decline by 0.1 percent in the previous year, domestic credit increased by 1.8 percent in the review period. Domestic credit increased due mainly to an increase in private sector credit by 2.0 percent compared to a growth of 1.3 percent in the previous year and the increase in claims on non-government financial institutions by Rs 3.1 billion compared to a growth of Rs 0.24 billion in the previous year. A higher credit flow to finance companies and other financial institutions from commercial banks resulted in the rise in the claims on non-government financial institutions in the review period.

Deposit Mobilization and Credit Flow of Commercial banks

4. Deposit mobilization of commercial banks increased by Rs 11.8 billion in the first month of 2008/09 and reached Rs 433.3 billion in mid August 2008. Similarly, credit to the private sector expanded by 2.2 percent (Rs 7.5 billion) in the review period. In the review period, credit to iron and steel based industries of production sector, services and consumer sectors has remained higher. Liquidity-deposit ratio declined to 34.7 percent in mid-August 2008 from 35.8 percent a year ago.

Liquidity Management

5. The Nepal Rastra Bank (NRB) absorbed net liquidity of Rs 5.5 billion from the secondary market in the review period. Of the total liquidity absorbed, Rs 3.5 billion was mopped up through outright sale auction and Rs 2.0 billion through reverse repo auction.

However, liquidity injection through open market operations (OMO_s) has not taken place in the review period.

6. The NRB injected Rs 5.4 billion liquidity by purchasing the US dollar of 79.0 million from commercial banks through foreign exchange intervention in the review period. A net liquidity of Rs 2.3 billion was injected through the purchase of 34.6 million US dollar from commercial banks in the previous year.
7. The NRB purchased Indian currency (IC) 6.0 billion through the sale of 140 million US dollar in the Indian money market in the review period. Indian currency of 3.6 billion was purchased through the sale of 90 million US dollar in the previous year. Such a rise in purchase of IC was due to a higher trade deficit with India.

Inter Bank Transaction

8. The inter bank transactions of commercial banks amounted to Rs 22.4 billion in the review period compared to Rs 35.5 billion in the previous year. The standing liquidity facility (SLF) availed by the commercial banks from the NRB amounted to Rs 17.1 billion in the review period. The SLF borrowing by the commercial banks did not take place in the corresponding period of the previous year.

Short-term Interest Rates

9. In mid-August 2008, the weighted average monthly 91-day Treasury bill rate reached 5.17 percent from 4.25 percent a year ago. The weighted average monthly inter bank rate rose to 5.15 percent in mid-August 2007 from 4.1 percent a year ago. Similarly, maximum interest rate on time deposits of one year as well as two years and more than two years maturity period rose to 7.25 percent and 7.75 percent respectively from the respective 5.0 percent and 5.5 percent in the previous year.

Securities market

10. The year on year (y-o-y) NEPSE index increased by 53.7 percent to 1084.76 points in mid-August 2008. This index was 705.96 a year ago.
11. The y-o-y market capitalization increased by 119.3 percent to Rs. 423.7 billion in mid-August 2008. Market capitalization to GDP ratio is estimated at 44.8 percent from 23.5 percent a year ago.
12. Total paid up capital of the listed companies reached Rs. 30.6 billion in mid-August 2008 with an increase of 39.4 percent over the period of one year. This increase was due to the additional listing of securities. Of the total listed share of Rs. 17.4 billion, bonus share of Rs. 15 million, right share of Rs. 1.6 billion, ordinary share of Rs. 15.2 billion and bonds of Rs. 1.2 billion were listed in the Nepal Stock Exchange Ltd. The listing of the

share of Nepal Telecom amounting to Rs 15 billion accounted for the growth in the issuance of ordinary shares.

13. Monthly turnover to market capitalization ratio remained at 0.70 percent in mid-August 2008 compared to 0.89 percent a year ago.
14. Total number of companies listed at the NEPSE Ltd. increased to 144 in mid-August 2008 compared to 136 a year ago. Among the currently listed companies, 113 are bank and financial institutions (including insurance companies). Production and processing industries, hotels, business entities, hydropower and companies in other groups are 18, 4, 4 and 3 and 2 respectively.
15. The twelve-month rolling standard deviation of share prices stood at 112.3 in mid-August 2008 compared to 97.7 a year ago. This reflected the increased volatility in the stock market.
16. Nepal Securities Board (SEBON) granted permission to issue right shares of Rs. 14 million to a finance company in the first month of 2008/09.

Inflation and Wage Rate

Consumer Price Inflation

17. The y-o-y consumer inflation rose to 13.1 percent in mid-August 2008 from 6.3 percent in the previous year. The inflation was driven by the significant rise in prices of food and beverage (13.4 percent) as well as non-food and service group (12.7 percent) in the review period. The price rise of food and beverages and non-food and service group was 9.7 percent and 2.8 percent respectively a year ago.
18. Of the items showing double digit price rise, price indices of oil and ghee sub-group increased by a whopping rate of 36.0 percent on a y-o-y basis in August 2008 compared to an increase of 11.4 percent a year ago. The sub-group of grains and cereal products witnessed a y-o-y price rise of 23.5 percent in mid-August 2008 compared to an increase of 8.0 percent in mid-August 2007. Prices of rice and rice products of this sub-group increased by 27.8 percent (y-o-y) compared to an increase of 7.0 percent a year ago. The y-o-y price rise of pulses, sugar and related products, restaurant meals, and meat, fish and eggs stood at 19.4 percent, 18.2 percent, 14.3 percent and 12.1 percent respectively in mid-August 2008.
19. Within the group of non-food and service, the index of transportation and communication, housing goods and services as well as tobacco and related products rose by 23.1 percent, 18.1 percent and 12.7 in mid-August 2008 compared to a rise of negative 0.5 percent, 2.5 percent and 3.2 percent respectively a year ago.

20. Region-wise, the price rise in the Kathmandu valley was 13.5 percent followed by 13.1 percent in Terai region and 12.4 percent in the hills. Last year, the respective rates were 5.8 percent, 6.8 percent and 6.1 percent.
21. In mid-August 2008, the y-o-y core inflation rose to 10.6 percent from 5.5 percent a year ago.

Wholesale Price Inflation

22. The y-o-y wholesale price inflation moderated to 11.2 percent in mid-August 2008 from 12.4 percent a year ago. Such moderation was mainly due to the decrease in the price of cash crops under agriculture commodities group in spite of high increase in the price of imported commodities. The index of agriculture commodities, domestic manufactured commodities and imported commodities increased by 2.0 percent, 15.4 percent and 24.9 percent respectively in the review period compared to 20.0 percent, 7.7 percent and 3.4 percent respectively a year ago.
23. Of agriculture commodities, the price index of pulses, food grains, livestock production and spices increased by 22.2 percent, 20.2 percent and 15.2 percent and 13.7 percent respectively in mid-August 2008 compared to a rise of 16.1 percent, 10.3 percent, 3.4 percent and 11.8 percent respectively a year ago.
24. Within the group of domestic manufactured commodities, the price index of construction materials and food-related products increased by 28.7 percent and 16.3 percent respectively in mid-August 2008 compared to a rise of 10.9 percent and 9.8 percent a year ago.
25. Of imported commodities, the y-o-y price index of petroleum products and coal increased by a whopping rate of 39.1 percent in mid-August 2008 compared to an increase of 2.1 percent a year ago. Likewise, the price index of transport vehicles and machinery goods as well as chemical fertilizers and chemical goods also increased by 32.3 percent and 12.2 percent respectively in the review period compared to a rise of 3.5 percent and 8.5 percent in the corresponding period of the previous year.

National Salary and Wage Rate

26. The y-o-y salary and wage rate index rose by 8.1 percent in mid-August 2008 compared to a rise of 12.4 percent a year ago. Of the salary and wage rate indices, the y-o-y salary index increased by 0.1 percent compared to a rise of 11.0 percent in the corresponding period of the previous year. The y-o-y wage rate index increased by 11.0 percent in the review period compared to an increase of 12.8 percent in the same period of the previous year. The moderation was on account of the base effect of the increment in the salaries of civil servants, including security personnel, teachers and employees of public enterprises in mid-July 2007. Wages of agriculture, industrial and construction labor increased by

17.6 percent, 2.8 percent and 6.2 percent respectively in mid-August 2008. Last year, these wages had increased by 7.7 percent, 21.4 percent and 11.9 percent respectively.

Fiscal Situation

Budget Deficit / Surplus

27. In the first month of 2008/09, the government budget surplus stood at Rs.2.7 billion compared to a surplus of Rs 3.6 billion in the corresponding period of the previous year.

Government Expenditure

28. In the first month of 2008/09, the total government spending increased by 107.0 percent to Rs.7.5 billion compared to an increase of 25.3 percent in the corresponding period of the previous year. The increase was on account of a rise in recurrent as well as freeze expenditure.

29. In the first month of 2008/09, recurrent expenditure rose by 25.9 percent to Rs.1.6 billion. In the corresponding month of the previous year, recurrent expenditure had increased by 63.8 percent. The rise in spending on expanded parliament management, regular government administrative expenses and conflict management accounted for such an increase in recurrent expenditure in the review period.

Government Revenue

30. In the first month of 2008/09, revenue mobilization of the Government of Nepal (GON) grew by 8.2 percent to Rs.7.7 billion compared to an increase of 41.2 percent in the corresponding month of the previous year. A high rate of growth of income tax, customs duties and VAT revenue contributed to such an increase in revenue mobilization.

31. In the review period, income tax, customs duties and VAT revenue recorded a higher growth compared to that of the corresponding period of the previous year. While revenue from the other sources decelerated in the review period. Non-tax revenue witnessed a decline of 56.0 percent.

Foreign Cash Loans and Grants

32. The GON received foreign cash loans of Rs 201.9 million and foreign cash grants of Rs 1.8 billion in the first month of 2008/09. The GON had received foreign cash loans of Rs 127.70 million and foreign cash grants of Rs 359.3 million in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

33. In the first month of 2008/09, exports rose by 2.1 percent compared to a significant rise of 13.3 percent in the corresponding period of the previous year. Of the total exports, export to India plummeted by 20.7 percent in 2008/09 in contrast to a rise by 9.1 percent in the same period of 2007/08. Exports to other countries soared by 46.0 percent in comparison to an increase of 22.6 percent in the same period of the previous year. .
34. The fall in the exports to India was on account of the decline in the exports of vegetable ghee, thread, jute goods, chemicals and textiles, among others. Similarly, exports to other countries surged owing to the exports of pulses, woolen carpets, pashmina, tanned skin and herbs.
35. Total imports surged by 31.4 percent in the first month of 2008/09 compared to a lower increase of 11.7 percent in the corresponding period of the previous year. While imports from India rose by 26.5 percent in the review period in comparison to a growth of 16.3 percent in the corresponding period of 2007/08, imports from other countries soared by 39.3 percent in comparison to a growth of just 4.8 percent.
36. A rise in the import of hot-rolled sheet in coil, thread, vehicles & spare parts, M.S. wire rod and other machinery & parts, among others, from India and telecommunication equipment & parts, textiles, computer & parts, other machinery & parts and aircraft spare-parts, among others, from other countries resulted in the rise in total imports in the first month of 2008/09.

Balance of Payments

37. The overall BOP recorded a deficit of Rs. 2.97 billion in the first month of 2008/09. Of this deficit, the current account deficit was Rs. 781.0 million. In the corresponding period the previous year, the BOP had also registered a deficit of Rs. 1.62 billion while the current account had posted a deficit of Rs. 1.46 billion. Although net transfers rose by 64.7 percent in the first month of 2008/09, the increase in trade deficit as well as the decline in net services was responsible for the current account deficit. Under transfers, workers' remittances increased by 43.2 percent in the first month of 2008/09 compared to the 21.4 percent growth in the corresponding period of the previous year.

Foreign Exchange Reserves

38. The gross foreign exchange reserves stood at Rs. 205.60 billion in mid-August 2008, a decline by 3.3 percent compared to the level of mid-July 2008. Such reserves had fallen by 0.1 percent in the corresponding period of the preceding year. In terms of US dollar, gross foreign exchange reserves declined by 3.4 percent to US\$ 3.0 billion in mid-August 2008. In the same period of the previous year, such reserves had gone down by 1.6

percent. The current level of reserves is sufficient to cover merchandise imports of 9.4 months and merchandise and service imports of 6.9 months.

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

39. The price of oil (Crude Oil Brent) in the international market increased by 56.1 percent to US\$ 110.08 per barrel on August 15, 2008 from US\$ 70.51 per barrel in mid-August, 2007. Likewise, the price of gold rose by 19.6 percent to US\$ 786.50 per ounce on August 15, 2008 from US\$ 657.50 a year earlier.
40. In comparison to mid-July 2008, the Nepalese currency vis-à-vis the US dollar depreciated by 0.07 percent in mid-August 2008. It had depreciated by 1.55 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 68.55 in mid-August 2008 compared to Rs. 65.87 in mid-August 2007.