

Current Macroeconomic Situation

(Based on the First Eight Months' Data of 2008/09)

Monetary Situation

Money Supply

1. Broad money (M_2) grew by 13.6 percent in the first eight months of 2008/09 compared to a growth of 13.4 percent in the corresponding period of the previous year. Despite a subdued growth of domestic credit in the review period compared to that of the previous year, a substantial growth of net foreign assets (NFA) contributed to growth in M_2 by a marginally higher rate than in the review period.
2. The growth of narrow money (M_1) remained marginally higher rate in the review period compared to that of the previous year. M_1 grew by 11.9 percent in the review period compared to a growth of 11.3 percent in the previous year. Though demand deposits, one of the components of M_1 , declined by 6.6 percent in the review period, M_1 registered a higher growth on account of a substantial growth of currency in circulation. Such currency increased by 21.9 percent in the review period compared to a growth of 13.9 percent in the corresponding period of the previous year. Time deposits grew by 14.4 percent in the review period—a growth similar to that of the previous year.
3. NFA, after adjusting foreign exchange valuation gain/loss, increased by Rs. 34.8 billion (20.3 percent) in the review period compared to a growth of Rs 13.6 billion in the same period of the previous year. An elevated inflows of remittance accompanied by an increase in foreign assistance to the Government of Nepal (GON) contributed to a significant growth of NFA in the review period.

Domestic Credit

4. In the first eight months of 2008/09, domestic credit expanded by 7.5 percent compared to a growth of 13.2 percent in the corresponding period of the previous year. A decline in net claims on government by 23.1 percent (Rs 20.1 billion) on account of a higher resource mobilization relative to the expenditure of the GON in the review period resulted in a cash deposits of Rs. 26.5 billion with Nepal Rastra Bank (NRB) and a slowdown in private sector credit both these factors contributed to lower down the growth of domestic credit in the review period.
5. Claims on non-financial government enterprises increased by 5.3 percent (Rs. 297.8 million) in the review period against a decline of such credit by 10 percent (Rs 510 million) in the corresponding period of the previous year. A higher use of credit by Janakpur Cigarette Factory Ltd., Nepal Airlines Corporation, Janak Education Material Center Ltd. and Nepal Electricity Authority contributed to increase the claims on such enterprises in the review period.
6. Claims on financial institutions grew by 40.4 percent (Rs 1.9 billion) in the review period compared to a growth of 55.3 percent (Rs 2.0 billion) in the corresponding period of the previous year. The lower growth of credit in the review period to the financial institutions is ascribed to a slowdown in commercial banks' short-term investment in rural development banks.

7. The review period witnessed a slowdown in a growth of private sector credit compared to that of the previous year. The credit to the private sector grew by 14.9 percent in the review period compared to a growth of 17.1 percent in the corresponding period of the previous year. The removal of credit disbursed to small farmers and micro enterprise entrepreneurs by government-owned commercial banks from their private sector credit outstanding on account of government's decision to waive such loans contributed to a lower growth of private sector credit in the review period.

Deposit Mobilizations and Credit Flow of Commercial Banks

8. In the first eight months of 2008/09, deposit mobilization of commercial banks increased by Rs 59.9 billion (14.2 percent) amounting to Rs 481.4 billion in mid-March 2009. Deposit mobilization of commercial banks had increased by Rs 41.1 billion (12.3 percent) in the corresponding period of the previous year. In the review period, saving and fixed deposits increased by 14.1 percent and 20.7 percent respectively. Such deposits had increased by 12.2 and 14.5 percent respectively in the corresponding period of the previous year. The initial public offering (IPO) of Citizens Bank International Ltd and Bank of Asia Ltd shares, where by issue manager required call deposits of commercial banks, contributed to increase the time deposits in the review period.
9. The review period witnessed a lower growth of private sector credit from commercial banks compared to that of the previous year. In the review period, credit to the private sector from commercial banks expanded by 15.1 percent compared to a growth of 18.9 percent in the corresponding period of the previous year. The credit to production and construction sub-sector increased by 10.7 percent (Rs 9.0 billion) and 16.0 percent (Rs 6.2 billion) respectively in the review period compared to a growth of 17.6 percent (Rs 11.0 billion) and 37.2 percent (Rs 7.4 billion) in corresponding period of the previous year. Similarly, the review period witnessed a slowdown in credit growth to metal production, machinery and electric tools, wholesale and retail business and service industries, while credit to consumable loans increased.
10. The liquid funds of commercial banks grew by 14.9 percent in the review period compared to a growth of 7.2 percent in the previous year. An elevated inflow of remittances contributed to this situation. Of the components of liquid funds, commercial banks' balance with the NRB increased by 6.7 percent compared to a growth of 7.9 percent in the corresponding period of the previous year. Likewise, the commercial banks' balance held abroad increased by 22.0 percent amounting to Rs 50.2 billion in mid-March 2009, compared to a growth of 5.2 percent a year ago.

Liquidity Management

11. In the first eight month of 2008/09, the NRB mopped up net liquidity of Rs 11.7 billion through open market operations. Of the total liquidity mopped up in the review period, Rs 7.5 billion was mopped up from outright sale auctions and Rs 13.3 billion from reverse repo auctions. Despite an elevated inflow of remittances in the review period, a liquidity of Rs 9.0 billion has been injected through repo auctions in the seventh and eighth months of the review period. This was on account of a short-term shortfall in liquidity, particularly due to a higher cash balance of the GON with the

NRB, issuance of IPO and a higher increase of currency in circulation in the review period. Net liquidity of Rs 270 million was mopped up in the corresponding period of the previous year through open market operation including Rs. 3.7 billion through outright sale auctions; Rs. 5.6 billion through reverse repo auctions and Rs 9.0 billion through repo auctions.

12. In the first eight months of 2008/09, the NRB injected net liquidity of Rs 97.2 billion by net purchase of 1.3 billion US dollar from commercial banks through foreign exchange intervention. A net liquidity of Rs 55.0 billion had been injected through the net purchase of 860.2 million US dollar from commercial banks in the corresponding period of the previous year. An elevated inflow of remittance necessitated such a substantial amount of intervention in the foreign exchange market in the review period.
13. The NRB purchased Indian currency (IC) of 47.8 billion through the sale of 1.0 billion US dollar in the review period. Indian currency of 36.2 billion had been purchased through the sale of 910.0 million US dollar in the corresponding period a year ago. A higher amount of payment made by Nepal Oil Corporation to Indian Oil Corporation attributed to a higher amount of IC purchase against a sale of US dollar in the review period.

Standing Liquidity Facility and Inter Bank Transactions

14. In the first eight months of 2008/09, commercial banks used standing liquidity facility (SLF) of Rs 83.2 billion compared to that of Rs. 72.5 billion in the corresponding period of the previous year. Likewise, the inter bank transactions of commercial banks stood at Rs 193.0 billion in the review period compared to that of Rs 190.8 billion in the corresponding period of the previous year. A tightening of liquidity on account of a substantial GON cash balance with the NRB, issuance of IPO of two commercial banks and increase in currency in circulation in the review period, contributed to increase the inter bank transactions and use of the SLF in the review period.

Short-term Interest Rates

15. The short-term market interest rates increased in the eighth month of 2008/09. The weighted average monthly 91-day Treasury bill rate stood at 6.83 percent as in mid-March 2009 compared to that of 5.59 percent a year ago. The weighted average monthly inter bank rate stood at 6.38 percent in mid-March 2009 compared to that of 5.07 percent in the corresponding period of the previous year. A higher demand of liquidity in money market on account of an issue of IPO of shares for the general public by Citizen Bank International Ltd and Bank of Asia Ltd in the eight month of the review period, contributed to a rise in short-term interest rates in that month.

Securities market

16. The year on year (y-o-y) NEPSE index declined by 6.7 percent to 667.20 points in mid-March 2009. This index was 714.76 a year ago. Likewise, NEPSE sensitive index (based on July 2006) stood at 176.90 point in mid-March 2009, which was 184.64 in mid-March 2008.
17. The NEPSE float index, calculated on the basis of final transaction as of August 24, 2008 (at market price) remained at 65.31 in mid-March 2009.

18. The y-o-y market capitalization increased by 74.2 percent to Rs. 402.0 billion in mid-March 2009. Of the total market capitalization, bank and financial institutions, manufacturing and processing companies, hotels, business entities, hydropower and other economic sectors accounted for 72.5 percent, 1.8 percent, 1.1 percent, 0.3 percent, 4.1 percent and 20.3 percent respectively.
19. Total paid up capital of the listed companies stood at Rs. 51.4 billion in mid-March 2009, an increase of 108.9 percent over the one year period. This increase was largely due to the additional listing of securities. Of the total listed share at Nepal Stock Exchange Ltd. of Rs. 25.5 billion up to mid-March 2009, bonus share, right share, ordinary share and bonds accounted for Rs. 872.8 million, Rs. 5.6 billion, Rs.15.7 billion and Rs. 3.3 billion respectively. The ordinary share constituted the largest portion largely due to the share of Nepal Telecom.
20. The monthly turnover to market capitalization ratio remained at 0.29 percent in mid-March 2009, compared to 0.46 percent a year ago.
21. Total number of companies listed at the NEPSE increased to 152 in mid-March 2009 compared to 145 a year ago. Among the currently listed companies, 121 are banks and financial institutions (including insurance companies).The number of production and processing industries, hotels, business entities, hydropower and companies in other groups are 18, 4, 4, 3 and 2 respectively.
22. The twelve-month rolling standard deviation which reflect the volatility in the stock market, stood at 143 in mid-March 2009 from 172.4 a year ago.

Consumer Price Inflation

23. The y-o-y an increase of consumer price inflation rose to 13.1 percent in Mid-March 2009 compared to 7.2 percent in Mid-March 2008. The inflation, in the review period, was driven mainly by the significant rise of 17.1 percent in food and beverages group as against the 9.4 percent rise of the same period last year. The price index of non-food and service group also increased by 8.8 percent compared to a growth of 4.9 percent in the corresponding period of the previous year.
24. Of the items in the food and beverage group, price indices of sugar and sugar related products increased by a whopping rate of 53.0 percent in contrast to a decline of 8.4 percent in the corresponding period of the previous year. Similarly, the price indices of meat, fish and eggs as well as pulses sub-groups increased by 25.2 percent and 24.6 percent respectively compared to an increase of 5.3 percent and 13.7 percent respectively in the last year. Likewise, the indices of vegetables and fruits rose by 21.8 percent in the review period compared to a decline of 1.8 percent in the same period last year. However, the subgroup of grains and cereal products witnessed a price rise of 13 percent in the review period compared to an increase of 14.9 percent in the corresponding period of previous year.
25. Within the group of non-food and services, the index of tobacco and related products as well as transport and communication rose up by 16.3 percent and 13.5 percent respectively in the review period compared to a rise of 8.3 percent and 1.1 percent respectively in the same period of last year.

26. Region-wise, the price rise in Kathmandu valley was 13.4 percent followed by 13.3 percent in Terai and 12.4 percent in Hills in the review period. Last year, the respective rates were 7.0 percent, 7.1 percent and 7.5 percent.

27. In the review period, the y-o-y core inflation rose to 12.5 percent from 6.1 percent a year ago.

Wholesale Price Inflation

28. The y-o-y wholesale price inflation increased to 12.3 percent in Mid-March 2009 compared to a growth of 6.6 percent a year ago. The index of agricultural commodities, imported commodities and domestic manufactured commodities increased by 15.3 percent, 10.0 percent and 8.8 percent respectively in the review period compared to the growth of 4.9 percent, 7.8 percent and 9.0 percent a year ago.

29. Of the agricultural commodities, the price index of fruits and vegetables, livestock production and pulses increased by 31.8 percent, 23.2 percent and 15.4 percent respectively in the review period compared to rise of -12.7 percent, 6.1 percent and 13.4 percent respectively a year ago. Within the group of domestic manufactured commodities, the price index of beverages and tobacco increased by 13.3 percent in the review period compared to a rise of 5.0 percent a year ago.

30. Of the imported commodities, the price indices of textile related products increased by 20.3 percent in the review period compared to a decline of 4.0 percent in the corresponding period of previous year. Likewise, the price index of transport vehicles and machinery goods increased by 18.5 percent as compared to an increase of 6.3 percent a year ago.

National Salary and Wage Rate

31. The overall y-o-y salary and wage rate index rose by 20.3 percent in Mid-March 2009 compared to a rise of 9.0 percent a year ago. Of the salary and wage rate indices, the salary index increased by 20.8 percent in the review period compared to a rise of 10.9 percent in the corresponding period of the previous year. The wage rate index increased by 20.1 percent in the review period compared to an increase of 8.4 percent in the same period of the previous year. Such an increase was on account of increase in the salary of civil servants. Wages of agricultural, industrial and construction laborers increased by 26.9 percent, 10.6 percent and 18.1 percent respectively in the review period. Last year, these wage rates had increased by 6.0 percent, 11.6 percent and 10.9 percent respectively.

Fiscal Situation

Budget Deficit / Surplus

32. In the first eight months of 2008/09, the government budget remained at a surplus of Rs.11.3 billion in contrast to a deficit of Rs 7.0 billion in the corresponding period of the previous year. An impressive growth of resource mobilization relative to the government expenditure accounted for such a budget surplus in the review period.

33. In the review period, the government has cash surplus of Rs 26.5 billion with the NRB.

Government Expenditure

34. In the first eight months of 2008/09, the total government expenditure increased by 14.2 percent to Rs.91.8 billion compared to an increase of 32.5 percent in the corresponding period of the previous year. The deceleration of such spending was mainly due to a decline in the capital expenditure.
35. In the first eight months of 2008/09, recurrent expenditure increased by 20.1 percent to Rs.61.4 billion. In the corresponding period of the previous year, recurrent expenditure had increased by 19.2 percent. Upward revision of the salary of the government employees as well as an increase in non-budgetary expenditure led to such acceleration in recurrent expenditure in the review period.
36. In the review period, capital expenditure declined by 15.9 percent to Rs. 14.7 billion in contrast to an increase of 91.0 percent in the corresponding period of the previous year. Delay in presenting budget, lack of representatives in local bodies, delay in the formulation of programmes and directives regarding the projects under New Nepal movement, delay in contracts and procurement procedures as well as uncertain and irregular power supply and conflict accounted for such a decline in capital expenditure in the review period.

Government Revenue

37. In the first eight months of 2008/09, revenue mobilization of the government grew by 38.6 percent to Rs.84.0 billion compared to an increase of 26.2 percent in the corresponding period of the previous year. Government's strong commitment to control revenue leakages reforms in revenue administration, voluntary declaration of income tax programme (VDIS) and substantial growth of non-tax revenue contributed to such an impressive growth of revenue mobilization in the review period.
38. Of the total revenue mobilization, VAT revenue grew by 20.1 percent to Rs 23.4 billion in mid-March 2009. It had increased by 25.8 percent in the corresponding period of the previous year. The increase in VAT revenue was on account of growing imports and consumption induced by the rise in remittances and reforms in VAT administration. However, frequent conflicts in Terai and border areas, sluggish industrial production as well as low growth of imports of high tax yielding vehicles contributed to such a deceleration in VAT revenue in the review period.
39. In the review period, customs revenue rose by 19.3 percent to Rs 15.3 billion compared to an increase of 26.1 percent in the same period of the previous year. Reforms in customs administration contributed to such an increase in customs revenue. However the frequent conflict in the border areas, reduction of the custom rates to zero for 131 goods by latest budget speech, led to the low growth of customs revenue in the review period.
40. In the review period, excise revenue increased by 41.4 percent to Rs 9.0 billion compared to an increase of 27.8 percent in the same period of the previous year. Reforms in excise administration and identification of newly excised goods accounted for such a growth of excise revenue in the review period.

41. Income tax revenue increased by 42.6 percent to Rs 14.5 billion in the first eight months of 2008/09. A significant receipt under VDIS program due to strong government administrative and political commitment contributed to such an increase in income tax collection. Last year such revenue had risen by 33.7 percent.
42. In the review period, non-tax revenue grew by 96.0 percent to Rs 17.0 billion compared to an increase of 15.9 percent in the same period of the preceding year. Such an increase in non-tax revenue was on account of the increase in dividend paid by some public enterprises to the government.

Foreign Cash Loans and Grants

43. The government has received foreign cash loans of Rs 2.9 billion and foreign cash grants of Rs 15.6 billion in the first eight months of 2008/09. Such receipts were Rs 2.5 billion and Rs 9.8 billion respectively in the corresponding period of the previous year.
44. The government mobilized domestic borrowing of Rs 8.7 billion in the review period. The same was Rs 9.2 billion in the corresponding period of the previous year.

Foreign Trade

45. Exports rose by 17.1 percent in the first eight months of 2008/09 in contrast to a decline by 2.9 percent in the corresponding period of the previous year. While exports to India rose by 3.6 percent in the first eight months of 2008/09 as against a decline by 6.9 percent in the corresponding period of the previous year, exports to other countries went up significantly by 46.1 percent compared to an increase of 6.9 percent in the same period of the previous year.
46. The rise in the exports of readymade garments, G.I. pipe, shoes & sandals, catechue and tooth paste was largely responsible for the increase in exports to India. In the same way, the rapid increase in the exports to other countries can be ascribed to the rise in the exports of pulses, pashmina, woolen carpets, herbs and Nepalese paper & paper products.
47. In the first eight months of 2008/09, total imports soared by 26.1 percent compared to an increase of 19.2 percent in the corresponding period of the previous year. While imports from India rose by 13.1 percent in the review period compared to a growth of 24.9 percent in the corresponding period of 2007/08, imports from other countries surged by 48.7 percent compared to a growth of 10.5 percent a year earlier.
48. An increase in the import of petroleum products, cold-rolled sheet in coil, other machinery & parts, vehicles & spare parts and medicine, among others, from India and gold, MS billet, electrical goods, medicine and computer & parts, among others, from other countries were largely responsible for the rise in total imports in the first eight months of 2008/09.

Balance of Payments

49. In the first eight months of 2008/09, the overall BOP recorded a significant surplus of Rs. 34.8 billion in comparison to a surplus of Rs. 13.6 billion in the corresponding period of the previous year. The current account also registered a considerable surplus of Rs. 28.9 billion in the first eight months of 2008/09 compared to a deficit of Rs. 1.5 billion in the corresponding period of the previous year. Such current account surplus was primarily due to the surge in net transfers by 53.5 percent in the first eight months of 2008/09. Under transfers, workers' remittances soared by 58.9 percent in the first eight months of 2008/09 compared to the growth of 28.1 percent in the corresponding period of the previous year.

Foreign Exchange Reserves

50. In mid-March 2009, the gross foreign exchange reserves aggregated Rs. 270.8 billion, a rise by 27.4 percent compared to the level as at mid-July 2008. In the corresponding period of the previous year, such reserves had gone up 10.2 percent. On the basis of US dollar, gross foreign exchange reserves rose by 5.7 percent to US\$ 3.3 billion in mid-March 2009. Such reserves had increased by 10.8 percent in the same period in the previous year. The current level of reserves is sufficient for financing merchandise imports of 12.3 months and merchandise and service imports of 9.9 months.

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

51. In the international market, the price of oil (Crude Oil Brent) plummeted by 59.2 percent to US\$ 45.18 per barrel in mid-March, 2009 from US\$ 110.75 per barrel in mid-March 2008. Likewise, the price of gold went down by 6.7 percent to US\$ 928.00 per ounce in mid-March, 2009 from US\$ 995.00 per ounce a year earlier.

52. Compared to mid-July 2008, the Nepalese currency *vis-à-vis* the US dollar depreciated by 17.02 percent in mid-March 2009. It had appreciated by 0.56 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 82.55 in mid-March 2009 compared to Rs. 68.50 in mid-July 2008.