

# **Current Macroeconomic Situation**

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

## **Monetary Situation**

### **Money Supply**

1. Broad money (M2) increased by 3.2 percent in the first two months of 2009/10. M2 had grown by 2.9 percent during the same period in the previous year. However, narrow money (M1) marginally increased by 0.6 percent in the review period compared to a decline of 4.6 percent in the previous year. The lower negative growth of net claims on government along with decline in non-monetary liability has contributed to such growths in monetary aggregates.
2. Time deposits grew by 4.4 percent in the review period compared to a growth of 6.3 percent in the corresponding period of the previous year. Similarly, the currency in circulation, a component of narrow money supply, grew by 3.5 percent to Rs. 130.21 billion in the review period compared to a decline of 1.5 percent in the previous year. However, demand deposits declined by 4.7 percent compared to a decline of 10.3 percent in the same period last year.
3. Net foreign assets (NFA), after adjusting foreign exchange valuation gain/loss, declined by 1.7 percent (Rs 3.76 billion) in the review period compared to a decline of 1.1 percent (Rs.1.89 billion) in the previous year.

### **Domestic Credit**

4. In the first two months of 2009/10, domestic credit expanded by 2.4 percent compared to a growth of 4.3 percent in the previous year. The slower growth in domestic credit is mainly due to a slower growth in private sector's credit along with a decline in commercial banks' claim on other financial institutions.
5. Net claims on government declined by Rs. 230 million (0.2 percent) in the review period compared to a decline of Rs 4.58 billion (5.3 percent) in the previous year. A higher growth of expenditure relative to resource mobilization of the Government of Nepal (GON) in the review period compared to the previous year resulted into the lower negative growth in such claims.

### **Deposit Mobilization and Credit Flow of Commercial Banks**

6. Deposit mobilization of commercial banks increased by Rs 17.08 billion (3.1 percent) in the first two months of 2009/10 to Rs 566.91 billion compared to an increase of Rs 19.54 billion (4.6 percent) in the previous year. Similarly, commercial banks' claims to private sector expanded by 2.6 percent (Rs 10.42 billion) in the review period compared to a growth of 5.9 percent (Rs. 18.01 billion) in the previous year.
7. In the review period, commercial banks' credit to the production sector increased marginally by 0.3 percent compared to a growth of 6.2 percent in the previous year. On the other hand, credit to wholesale and retail trade increased by 5.5 percent in the review period compared to a growth of 2.3 percent in the same period last year.

## **Liquidity Management**

8. The NRB mopped up net liquidity amounting to Rs 8.44 billion through the open market operation during the first two months of 2009/10. Of the total liquidity mopped up, Rs 7.44 billion was mopped up from the outright sale auction and Rs 1.00 billion through reverse-repo auction. During the same period of the previous year, a total of Rs. 9.02 billion was mopped up. Of the total, Rs. 3.50 billion was mopped up from the outright sale auction and Rs. 5.52 billion from reverse-repo auction.
9. The NRB injected liquidity amounting to Rs 15.62 billions by purchasing the US dollar 201.4 million from commercial banks through foreign exchanges intervention in the first two months of 2009/10. A net liquidity worth Rs 12.19 billion was injected through the purchase of 174.9 million US dollar from commercial banks during the same period in the previous year.
10. The NRB purchased Indian currency (IC) amounting 24.68 billion by selling US dollar 510 million in the review period. Indian currency worth 8.61 billion was purchased through the sale of US dollar 200 million in the same period last year. The expanded trade deficit with India resulted to such a growth in the IC purchase in the review period.

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

11. During the first two months of 2009/10, inter bank transactions of commercial banks stood at Rs 39.29 billion compared to Rs. 44.33 billion in the same period of the previous year. Similarly, commercial banks utilized standing liquidity facility (SLF) worth Rs. 350 million in the review period compared to Rs. 21.87 billion in the same period last year.

## **Short-term Interest Rates**

12. In the second months of 2009/10, the weighted average 91-day Treasury bill rate declined to 2.41 percent compared to 3.73 percent in the same period last year. Similarly, the weighted average inter bank rate remained at 2.0 percent in the review period compared to 2.33 percent in the same period of the previous year. In the review period, the maximum interest rates on one-month and three-months fixed deposit increased by 0.5 percentage points and reached 5.75 percent and 6.5 percent respectively.

## **Securities Market**

13. The year on year (y-o-y) NEPSE index decreased by 35.6 percent from 976.01 in mid September 2009 to 628.34 points in mid September 2009. Likewise, the NEPSE sensitive index based on July 2006 stood at 160.79 point in mid September 2009. This index was 258.15 in mid September 2008. The NEPSE float index, calculated on the basis of final transaction as of August 24, 2008 (at market price), remained at 59.74 in mid-September 2009.
14. The y-o-y market capitalization decreased by 13.6 percent to Rs. 440.53 billion in mid September 2009. The ratio of market capitalization to GDP stood at 45.9 percent in the review period. Of the total market capitalization, the share of banks and financial

institutions was 73.8 percent followed by manufacturing and processing companies (1.8 percent), hotels (1.1 percent), business entities (0.4 percent), hydropower (3.9 percent) and other economic sectors (19.1percent).

15. Total paid-up capital of the listed companies stood at Rs. 63.66 billion in mid September 2009, an increase of 38.4 percent compared to the corresponding period last year. Such an increase in the paid-up value was mainly due to listing of newly issued securities with Nepal Stock Exchange Limited during the review period. In the second month of 2009/10, additional securities worth Rs.2.42 billion (bonus share of Rs.152.2 million and right share of Rs.2.27 billion) were listed with Nepal Stock Exchange Limited.
16. The monthly turnover to market capitalization ratio remained at 0.49 percent in mid September 2009, compared to 0.60 percent a year ago.
17. Total number of companies listed with Nepal Stock Exchange Limited, which stood at 144 in mid September 2008, increased to 159 in mid September 2009. Among them, 128 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).
18. The twelve-month rolling standard deviation which reflects the volatility in the stock market, stood at 85.6 in mid September 2009 compared to that of 112.8 in the previous year.

## **Inflation**

### **Consumer Price Inflation**

19. The y-o-y inflation as measured by the consumer price index moderated to 9.7 percent in mid September 2009 as against that of 13.5 percent in the same period last year. In the review period, the price index of food and beverages group increased by 16.3 percent. Similarly, the index of non-food and services group rose only by 2.1 percent. The index of food and beverages and non-food and services group rose by 14.2 percent and 12.8 percent respectively in mid September 2008.
20. Of the items in the food and beverage group, price indices of vegetables and fruits increased by a whopping rate of 43.5 percent during the review period. This is in sharp contrast to last year's decline of 14.6 percent. Similarly, the price index of sugar and sugar related products increased by 40.5 percent compared to an increase of 38.9 percent in the same period last year. Similarly, the price indices of meat, fish and eggs as well as pulses sub-groups increased in the review period by 29.0 percent and 25.6 percent respectively compared to an increase of 14.5 percent and 23.7 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 23.8 percent increase in the corresponding period of the previous year.
21. 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 in the same period last year. The price index of transport and communication declined by 8.7

percent in the review period. It was increased by 23.1 percent in the same period last year.

22. Region-wise, the price index of Terai rose by 9.9 percent followed by 9.6 percent increase in Kathmandu Valley and 9.4 percent in Hills in the review period. The respective rates were 13.5 percent, 14.1 percent and 12.7 percent last year.
23. In the review period, the y-o-y core inflation rose to 10.9 percent, a moderation from 12.1 percent a year ago.

### **Wholesale Price Inflation**

24. In the review period, the y-o-y wholesale price inflation rose by 12.6 percent compared to 10.3 percent increase a year ago. There is a difference in the bases and coverage of CPI and WPI. The weights assigned to potato under cash crops sub-group and vegetables under fruits and vegetable sub-group are higher in WPI compared to the respective weights assigned in CPI, this has attributed to increase WPI at a higher rate than CPI. The index of agricultural commodities and domestic manufactured commodities increased by 29.7 percent and 4.6 percent respectively in the review period compared to 0.7 percent and 15.8 percent a year ago. The price indices of imported commodities declined by 7.9 percent in the review period, compared to an increase of 24.0 percent during the same period last year.
25. Within the agricultural commodities group, the price index of cash crops increased by 84.3 percent in the review period, as against the decline of 23.2 percent a year ago. Likewise, livestock production and spices increased by 42.5 percent and 20.2 percent compared to an increase of 13.3 percent and 10.0 percent in the same period last year, but fruits and vegetables increased by 30.9 percent which is in sharp contrast to a decline of 22.1 percent a year ago. Within the group of domestic manufactured commodities, the price index of beverages and tobacco increased by 20.4 percent compared to a rise of 5.0 percent a year ago.
26. Within the imported commodities group, the price indices of petroleum products and coal as well as transport vehicles and machinery goods declined respectively by 20.2 percent and 6.3 percent in the review period compared to respective increase of 39.2 percent and 30.8 percent in the corresponding period of the previous year.

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

27. The overall y-o-y salary and wage rate index rose by 20.8 percent in the review period compared to a rise of 9.1 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 has 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 17.1 percent in the review period compared to an increase of 12.3 percent in the same period of the previous year. Wages of agricultural, industrial and construction laborers increased by 18.1 percent, 15.8 percent and 16.4 percent respectively in the review period. These wage rates had increased by 19.5 percent, 2.7 percent and 9.0 percent respectively in the same period last year.

## **Fiscal Situation**

### **Budget Deficit / Surplus**

28. In the first two months of 2009/10, government budget surplus stood at Rs.556.6 million compared to a surplus of Rs 3.4 billion in the corresponding period of the previous year.

### **Government Expenditure**

29. In the first two months of 2009/10, the total government spending surged by 69.8 percent to Rs.26.6 billion compared to an increase of 40.4 percent in the corresponding period the last year. The increase was mainly on account of a rise in the growth of recurrent expenditure.
30. Recurrent expenditure rose by a whopping rate of 108.1 percent to Rs. 17.6 billion in the review period, compared to a moderate rise of 11.9 percent to Rs. 8.4 billion in the corresponding period of the previous year. An upward revision in the salary and allowances of the civil servants and teachers by the Government of Nepal, among others, mainly attributed to such a rise in the recurrent expenditure.

### **Government Revenue**

31. In the first two months of 2009/010, revenue mobilization of the government grew by 54.5 percent to Rs.22.6 billion compared to an increase of 17.5 percent in the corresponding period of the previous year. Government's firm commitment to control the leakage in the revenue as well as tax administration reforms in conjunction with increasing import and consumption by virtue of high remittances inflow contributed to such an increase in the revenue mobilization.

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

32. The government received foreign cash loans amounting to Rs. 158.9 million and foreign cash grants amounting to Rs 2.72 billion in the first two months of 2009/10. The government had received foreign cash loans of Rs 625.1 million and foreign cash grants of Rs 2.12 billion in the corresponding period of the previous year.

## **External Sector Situation**

### **Foreign Trade**

33. In the first two months of 2009/10, exports fell by 15.2 percent in contrast to a rise of 35.7 percent in the corresponding period of the previous year. Of the total exports, export to India declined by 13.2 percent in 2009/10 in contrast to a rise of 6.7 percent in the same period of 2008/09. Exports to other countries plummeted by 17.4 percent as against a rise of 94.7 percent in the same period of the previous year.
34. The decline in the exports to India was attributed to the decline in the exports of readymade garments, zinc sheet, thread, copper wire rod and aluminum section, among others. Similarly, exports to other countries went down due to the decline in the export of woolen carpets, readymade garments, pulses, tanned skin and silverware & jewelleryes.

35. Total imports expanded by 20.3 percent in the first two months of 2009/10 compared to a higher growth of 45.5 percent in the corresponding period of the previous year. While imports from India rose by 17.3 percent in the review period compared to a growth of 35.4 percent in the corresponding period of 2008/09, imports from other countries soared by 24.2 percent in the review period compared to a significant growth of 60.7 percent during the same period last year.
36. A rise in the import of vehicles & spare parts, MS wire & rods, electrical equipment, M.S. billet and other medicine & parts, among others, from India and gold, electrical goods, crude soyabean oil, medical equipment & tools and computer & parts, among others, from other countries were responsible for the surge in total imports in the first two months of 2009/10.

### **Balance of Payments**

37. The overall BOP recorded a deficit of Rs. 3.76 billion in the first two months of 2009/10 compared to a deficit of Rs. 1.89 billion in the corresponding period of the previous year. The current account also posted a deficit of Rs. 5.07 billion in the first two months of 2009/10 compared to a deficit of Rs. 2.57 billion in the corresponding period of the previous year. Under transfers, workers' remittances increased by 19.7 percent in the first two months of 2009/10 compared to its growth of 59.4 percent in the corresponding period of the previous year.

### **Foreign Exchange Reserves**

38. The gross foreign exchange reserves stood at Rs. 271.79 billion in mid-September 2009, a drop by 2.9 percent compared to the level as at mid-July 2009. Such reserves had risen by 1.3 percent in the corresponding period of the preceding year. In terms of US dollar, gross foreign exchange reserves declined by 2.2 percent to US\$ 3.51 billion in mid-September 2009. In the same period last year, such reserves had decelerated by 5.3 percent. The current level of reserves is sufficient for financing merchandise imports of 9.5 months and merchandise and service imports of 8.0 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 dropped by 24.9 percent to US\$ 66.16 per barrel in mid-September, 2009 from US\$ 88.06 per barrel in mid-September, 2008. The price of gold, on the other hand, soared by 30.3 percent to US\$ 1015.75 per ounce in mid-September, 2009 from US\$ 779.50 a year earlier.
40. In comparison to mid-July 2009, the Nepalese currency vis-à-vis the US dollar appreciated by 0.71 percent in mid-September 2009. It had depreciated by 6.48 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 77.50 in mid-September 2009 compared to Rs. 78.05 in mid-July 2009.