Current Macroeconomic Situation

(Based on the Second Months' Data of 2010/11)

Monetary Situation

Money Supply

1. Broad money (M2) declined by 1.7 percent in the second month of 2010/11 contrary to a growth of 3.7 percent in corresponding period of the previous year. Similarly, narrow money (M1), declined by 6.5 percent in the review period as against a growth of 0.6 percent in corresponding period of the previous year. Time deposits, which had grown by 5.1 percent in 2009/10, grew marginally by 0.4 percent in the review period.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) declined by Rs. 4.4 billion (2.1 percent) in the review period compared to a decline of Rs. 1.4 billion (0.6 percent) in corresponding period of the previous year.

Domestic Credit

3. Domestic credit remained unchanged during the review period. It had expanded by 1.7 percent in the corresponding period of the previous year. Despite decline in claims on Government of Nepal by 7.3 percent and financial institutions by 6.2 percent, the domestic credit remained unchanged on account of an increase in claims on private sector by 1.9 percent. However, claims on non-financial government enterprises increased by 11.0 percent in the review period.

Reserve Money

4. The reserve money declined by Rs. 16.8 billion in the review period. The decline in reserve money is attributed to the decline in net foreign assets and net domestic assets of the monetary authority. On the uses side, currency in circulation and the banks' balance with the NRB has declined in the review period. The banks' balance with the NRB has declined in the review period due to the use of such balance to extend credit by commercial banks.

Deposit Mobilization and Credit Flow of Commercial banks

5. Deposit mobilization of commercial banks declined by Rs. 8.9 billion in the second month of 2010/11 amounting to Rs. 610.9 billion. The decline in deposit in the review period is due to the remarkable surplus in the government budget and the contraction in the reserve money with decline in NFA of banking sector. Total deposit of commercial banks had increased by Rs. 17.1 billion in corresponding

period of the previous year. However, credit to the private sector increased by 1.6 percent (Rs. 7.8 billion) in the review period. Such a credit had increased by 1.8 percent (Rs. 7.3 billion) in corresponding period of the previous year.

6. The banks' credit to production sector increased by Rs. 2.0 billion in the review period compared to Rs. 242 million in the corresponding period of the previous year. Similarly, banks' credit to agriculture, mining and wholesale and retail trade increased by Rs. 440 million, Rs. 260 million and Rs. 1.5 billion respectively. On the contrary, credit to construction, and transportation, communication and public services has declined by Rs. 440 million and Rs. 2.3 billion respectively.

Liquidity Management

7. The NRB mopped up net liquidity of Rs. 19.0 billion through reverse repo auction from the secondary market in the review period. A net liquidity of Rs. 8.4 billion was mopped from outright sale auction and reverse repo auction in corresponding period of the previous year.

8. The NRB injected net liquidity of Rs. 23.9 billion through the purchase of USD 321 million from commercial banks in the review period. A net liquidity of Rs. 15.6 billion was injected through purchase of the USD 201 million from commercial banks in corresponding period of the previous year.

9. The NRB purchased Indian currency amounting to INR 16.8 billion through sale of the USD 360 million in the Indian money market in the review period. INR 24.7 billion was purchased through sale of the USD 510 million in corresponding period of the previous year.

Inter Bank Transaction

10. Commercial banks undertook inter-bank transaction of Rs. 49.2 billion in the second month of 2010/11 compared to Rs. 39.3 billion in corresponding period of the previous year. Liquidity of Rs. 3.0 billion has been used under standing liquidity facility in the review period.

Short-term Interest Rates

11. In the second month of 2010/11, the weighted average monthly 91-day Treasury bill rate stood at 3.77 percent compared to 2.41 percent in mid September 2009. The weighted average monthly inter–bank rate remained at 3.24 percent in mid September 2010 compared to 2.0 percent in corresponding period of the previous year.

Securities Market

12. The year on year (y-o-y) NEPSE index declined by 35.6 percent to 404.43 points in mid September 2010. This index stood at 628.34 in the same period last year. Likewise, NEPSE sensitive index (based on July 2006) stood at 98.94 point in mid September 2010, which was 160.79 in the same period last year. The NEPSE float

index, calculated on the basis of closing price of August 24, 2008 (as base market value), remained at 37.15 in mid September 2010, a contraction of 37.8 percent compared to the same period last year. This index was 59.74 in the same period last year.

13. The y-o-y market capitalization decreased by 25.0 percent to Rs. 330.0 billion in mid September 2010. The ratio of market capitalization to GDP stood at 28.0 percent in the review period. This ratio was 45.9 percent in the same period last year. Of the total market capitalization, bank and financial institutions stood with highest share of 71.5 percent followed by manufacturing and processing companies (2.4 percent), hotels (1.6 percent), business entities (0.5 percent), hydropower (4.8 percent) and other economic sectors (19.3 percent).

14. Total paid up capital of the listed companies stood at Rs. 86.34 billion in mid September 2010, an increase of 35.6 percent over the period of one year. This increase was largely due to the additional listing of securities at the NEPSE. As at mid September 2010, additional securities worth Rs. 12.39 billion (ordinary share of Rs. 4.62 billion, bonus share of Rs. 226.5 million, right share of Rs. 2.56 billion and government securities of Rs. 4.99 billion) were listed at the NEPSE.

15. Total number of companies listed at the NEPSE increased to 180 in mid September 2010 compared to 159 in the corresponding period of the previous year. Among them, 148 are banks and financial institutions (including insurance companies), followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and companies in other groups (2).

Inflation

Consumer Price Inflation

16. As per the new series, the year on year (y-o-y) inflation as measured by the consumer price index (2005/06 =100) stood at 8.6 percent in mid September 2010 compared to 9.1 percent in the same period of last year. In the review period, the price index of food and beverages group increased by 12.2 percent whereas the index of non-food and services group rose by 5.6 percent in the new series (2005/06=100). The indices of these groups had increased by 17.1 percent and 2.8 percent respectively during the same period of the previous year.

17. During the review period, of the items in the food and beverage group, price indices of spices sub-group increased by a whopping rate of 45.4 percent compared to an increase of 11.4 percent in the same period last year. Similarly, the price indices of sugar and sweets, restaurant and hotel, milk products and egg as well as cereals grains and their products sub-groups increased respectively by 30.5 percent, 17.8 percent, 16.8 percent and 16.7 percent in the review period compared to their respective increase of 40.3 percent, 24.6 percent, 6.3 percent and 5.1 percent during the same period of the previous year. The price index of vegetables, which had

jumped by 52.9 percent in the previous year increased marginally by 1.4 percent, in the review period. The price index of legume varieties, ghee and oil and fruits, however, declined in the review period.

18. Within the group of non-food and services, the price index of housing and utilities increased by 10.1 percent which had decreased by 3.8 percent in the corresponding period of the previous year. Accordingly, the index of clothing and footwear, health and education increased respectively by 10.4 percent, 9.4 percent and 5.8 percent in the review period compared to their respective increase of 8.0 percent, 3.4 percent and 10.9 percent during the corresponding period of the previous year. In the review period, the price index of transport increased by 8.2 percent whereas the price index of communication decreased by 6.2 percent.

19. Region-wise, the price index of Kathmandu Valley rose by 10.6 percent followed by 9.7 percent in Hills and 6.6 percent in Terai in the review period. The respective growth rates were 10.0 percent, 9.0 percent and 8.6 percent during the same period of previous year.

Wholesale Price Inflation

20. During the review period, the y-o-y wholesale price index increased by 8.2 percent compared to a rise of 12.2 percent during the same period last year. The wholesale price indices of agricultural commodities and domestic manufactured commodities increased by 9.0 percent and 7.2 percent respectively in the review period compared to 28.8 percent and 4.6 percent during the same period last year. The wholesale price indices of imported commodities increased by 7.2 percent in the review period whereas it had decreased by 7.9 percent in the corresponding period of the previous year.

21. In the review period, within the group of agricultural commodities, the wholesale price index of spices increased by 48.7 percent compared to a rise of 20.2 percent during the same period of the previous year. Likewise, the wholesale price indices of foodgrains, fruits and vegetables and livestock production, increased by 21.1 percent, 18.0 percent and 14.8 percent respectively compared to an increase of 3.6 percent, 26.5 percent and 42.5 percent during the same period last year. The wholesale price index of cash crops, however, declined by 29.8 percent which had increased by a whopping rate of 84.4 percent in the corresponding period of the previous year.

22. Within the group of domestic manufactured commodities, the wholesale price index of food related products increased by 10.9 percent as compared to a rise of 2.8 percent during the same period of the previous year. Similarly the index of beverages and tobacco increased by 7.8 percent compared to a rise of 20.5 percent in the same period of previous year.

23. In the review period, within the imported commodities group, the wholesale price indices of petroleum products and coal and transport vehicles and machinery goods

increased by 15.9 percent and 2.7 percent respectively as against a respective decline of 20.2 percent and 6.3 percent in the corresponding period of the previous year.

National Salary and Wage Rate

24. The overall y-o-y salary and wage rate index rose by 15.6 percent in the review period compared to increase of 20.8 percent in the same period of the previous year. Of the salary and wage rate indices, the salary index remained unchanged in the review period as against the increase of 32.8 percent in the corresponding period last year. However, in the review period, the overall salary and wage rate index increased mainly due to increase in wage rate index. The wage rate index increased by 20.9 percent in the review period compared to an increase of 17.1 percent in the same period of the previous year. Wages of agricultural, industrial and construction laborers increased by 30.6 percent, 5.6 percent and 16.5 percent respectively in the review period. These wage rates had increased by 18.1 percent, 15.8 percent and 16.4 percent respectively in the corresponding period of the previous year.

Fiscal Situation [?]

Budget Deficit / Surplus

25. In the second month of 2010/11, government budget remained at a surplus of Rs.8.1 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. 556.6 million.

Government Expenditure

26. In the review period, total government spending decreased by 25.5 percent to Rs. 19.78 billion compared to an increase of 69.8 percent in the corresponding period of the previous year. The total government expenditure, in the review period, decreased mainly due to decrease in both recurrent and capital expenditure as well as freeze expenditure.

27. In the review period, revenue mobilization of the Government of Nepal grew by 11.2 percent to Rs. 25.1 billion compared to an increase of 54.5 percent to Rs. 22.55 billion in the corresponding period of the previous year.

28. In the review period, the growth rate of income tax accelerated, however, the growth rates of customs duties, VAT and excise revenue decelerated compared to

? Figure includes the reports from 8 NRB offices, 62 RBB branches (out of 65 branches conducting govt. transaction), 41 NBL branches (out of 42 branches conducting govt. transaction), 5 Everest Bank branches, and 1 from Nepal Bangladesh Bank Ltd.

that of the corresponding period of the previous year. Likewise, the non-tax revenue has declined in the review period comparison to that of corresponding period of the previous year.

Foreign Cash Loans and Grants

29. In the second month of 2010/11, foreign cash loans of Rs. 726.4 million and foreign cash grants of Rs. 1.81 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 158.9 million and foreign cash grants of Rs. 2.72 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

30. Nepal's merchandise exports declined by 3.8 percent to Rs. 10.68 billion in the second months of 2010/11. Such exports had declined by 14.4 percent to Rs. 11.10 billion in the same period last year. On a monthly basis, exports declined by 7.2 percent in August/September, 2010/11 compared to the value of the previous month.

31. In terms of destination, exports to India increased by 13.7 percent in the two months of 2010/11 in contrast to a drop of 13.1 percent in the same period last year. Likewise, exports to other countries plummeted by 24.5 percent compared to a drop of 16.0 percent in the same period last year. The increase in the exports to India was mainly ascribed to the increase in the exports of readymade garments, M.S. pipe, jute goods, plastic utensils, herbal medicines, oil cake, shoes and sandals, skin, shop, vegetables, wire and juice among others. Likewise, exports to other countries declined considerably due mainly to the decrease in the export of pulses, pashmina, handicraft, silverware and jewelleries, herbs and Nepalese paper and paper products among others.

32. The merchandise imports, on the other hand, grew by 5.2 percent to Rs. 61.07 billion in the two months of 2010/11. Such imports had grown by 21.3 percent to Rs. 58.04 billion in the same period last year. On a monthly basis, the merchandise imports increased only by 0.2 percent in August/September, 2010/11 compared to the value of the previous month.

33. Imports from India grew by 36.1 percent in the review period compared to a growth of 18.8 percent in the same period last year. Likewise, imports from other countries declined by 31.3 percent compared to a growth of 24.3 percent in the same period last year. The growth in the import of hotrolled sheet in coil, sugar, chemical fertilizers, fruits, books and magazines among others increased from India whereas import of crude palm oil, edible oil, electrical goods, G.I. wire, gold, other stationary, polythene granules, powder milk and umbrella and parts declined from other countries in the review period.

34. Total trade deficit during the two months of 2010/11 expanded by 7.4 percent to Rs. 50.4 billion. Trade deficit had risen by 34.5 percent to Rs. 46.9 billion in the same period last year. Trade deficit with India rose by 41.3 percent in the review period compared to a growth of 30.1 percent in the same period last year. On the contrary, trade deficit with other countries declined by 32.9 percent compared to a growth of 40.3 percent in the same period last year.

35. As a result of the slowdown in exports and accelerated import growth, the ratio of export to import dropped to 17.5 percent in the two months of 2010/11 from 19.1 percent a year ago.

Balance of Payments

36. The overall BOP recorded a deficit of Rs. 4.36 billion in the two months of 2010/11 compared to a deficit of Rs. 1.44 billion in the same period last year. The current account also registered a deficit of Rs. 3.26 billion compared to a deficit of Rs. 6.29 billion in the same period last year. The deceleration in the growth rate of trade deficit and considerable growth transfer income led to such a decline in the current account deficit.

37. The FOB-based merchandise trade deficit grew by 7.7 percent to Rs. 49.24 billion in the two months of 2010/11. Such deficit had grown by 34.1 percent in the same period last year. The service income net has witnessed a drop of 48.9 percent to Rs. 2.46 billion in the review period. Such income had declined by 29.8 percent to Rs. 16.84 billion in the same period last year. The transfer account registered a growth of 13.4 percent to Rs. 48.11 billion in the review period compared to the same period a year ago. Under the transfers subgroup, grants increased by 54.0 percent to Rs. 5.67 billion while pension receipts rose by 9.4 percent to Rs. 4.49 billion. Likewise, the workers' remittances increased only by 9.7 percent to Rs. 38.4 billion compared to its growth of 19.7 percent in the corresponding period of the previous year. On a monthly basis, the remittance inflows grew by 11.5 percent in August/September compared to the same month of the previous year.

Foreign Exchange Reserves

38. The gross foreign exchange reserves declined by 1.8 percent to Rs. 261.81 billion in mid September 2010 from a level of Rs. 266.57 billion as at mid July 2010. Such reserves had decreased by 3.1 percent to Rs. 277.60 billion in the same period last year. NRB's reserves declined by 2.4 percent to Rs. 200.4 billion in the review period from a level of Rs. 205.37 billion as at mid-July 2010. The gross foreign exchange reserves in dollar terms declined by 1.1 percent to USD 3.54 billion in mid September 2010 from a level of USD 3.59 billion as at mid-July 2009. Such reserves had decreased by 1.8 percent in the same period last year. Based on the trend of import in the two months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 8.7 months and merchandise and service imports of 7.4 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 went up by 20.0 percent to USD 79.38 per barrel in mid September 2010 from USD 66.16 per barrel in mid September 2009. Similarly, the price of gold also surged by 24.7 percent to USD 1267.0 per ounce in mid September 2010 from USD 1015.75 a year ago.

40. Nepalese currency vis-à-vis the US dollar appreciated by 0.73 percent in mid September 2010 compared to mid July 2010. It had appreciated by 0.71 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 73.90 in mid September 2010 compared to Rs. 74.44 in mid July 2010.