

# Current Macroeconomic Situation of Nepal

*(Based on the Two Months' Data of FY 2011/12)*

## Monetary Situation

### Money Supply

1. Broad money (M2) has increased by 1.8 percent during the two months of the FY 2011/12 as against a decline of 1.7 percent in the corresponding period of the previous year. Despite a decline in net domestic assets, broad money has expanded in the review period on account of remarkable increase in net foreign assets of the banking system. However, narrow money (M1) declined by 3.3 percent in the review period.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 17.27 billion (8.0 percent) during the review period against a decline by Rs. 5.90 billion (2.8 percent) in the corresponding period of the previous year. The current account surplus on account of improvement in merchandise export and workers' remittances as well as improvement in financial account were the factors responsible for strengthening balance of payments (BOP) leading to such an increase in net foreign assets of the monetary sector during the review period.

### Domestic Credit

3. Domestic credit decreased by 0.7 percent during the review period. It had declined by 0.3 percent in the corresponding period of the previous year. During the review period, claims on private sector increased by 0.8 percent compared to a growth of 1.9 percent in the corresponding period of the previous year. The policy measures initiated to curb the excessive credit flow to unproductive sector and to reduce high credit-deposit ratio contributed to slower growth in credit to the private sector during the review period.

### Deposit Mobilization and Credit Flow of Commercial Banks

4. The imbalance between deposit mobilization and lending by commercial banks has improved during the two months of the FY 2011/12. The deposit mobilization of commercial banks increased by Rs. 16.66 billion while the loan and advances increased by Rs. 9.98 billion in the review period. The deposit mobilization had declined by Rs. 9.75 billion while loan and advances had increased by Rs. 10.58 billion in the corresponding period of the previous year. Contrary to the higher

growth rate in deposit mobilization, credit to private sector declined by Rs. 2.45 billion during the review period.

5. Of the total bank credit to private sector, the credit to industrial production sector increased by Rs. 189.5 million during the review period compared to Rs. 1.97 billion in the corresponding period of the previous year. Similarly, banks' credit to agriculture, construction and transportation, communication and public services sectors increased by Rs. 750.2 million, Rs. 2.96 billion and Rs. 925.9 million respectively during the review period. On the contrary, credit to wholesale and retail trade declined by Rs. 1.25 billion during the review period.

### **Liquidity Management**

6. The NRB injected net liquidity of Rs. 743.7 million through repo auction under secondary market operation during the review period. A net liquidity of Rs. 19.0 billion was mopped up through reverse repo auction in the corresponding period of the previous year.
7. The NRB injected net liquidity of Rs. 39.66 billion through the purchase of USD 544.6 million from foreign exchange market (commercial banks) during the review period. A net liquidity of Rs. 23.93 billion was injected through the purchase of USD 321 million from foreign exchange market in the corresponding period of the previous year.
8. The NRB purchased Indian currency equivalent to Rs. 36.30 billion through the sale of USD 500 million in the Indian money market during the review period. INR equivalent to Rs. 26.85 billion was purchased through the sale of USD 360 million in the corresponding period of the previous year.

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

9. Inter-bank transaction of commercial banks reached Rs. 70.14 billion during the two months of the FY 2011/12 compared to Rs. 49.20 billion in the corresponding period of the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 4.14 billion during the review period. Of the total SLF used during the review period, the outstanding amount was Rs. 24.5 million as at mid-September 2011. Liquidity injected through the SLF had amounted to Rs. 2.95 billion in the corresponding period of the previous year. There was no outstanding amount of SLF as at mid-September 2010.

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

10. The short-term interest rates remained slightly lower in mid-September 2011 compared to mid-September 2010. For example, the weighted monthly average 91-day Treasury bill rate stood at 2.28 percent in mid-September 2011 compared to 3.77 percent in mid-September 2010. The weighted average inter-bank rate

remained at 1.33 percent in mid-September 2011 compared to 3.24 percent in mid-September 2010.

## **Securities Market**

11. The year on year (y-o-y) NEPSE index declined by 20.6 percent to 321.18 points in mid-September 2011. This index had stood at 404.43 in the corresponding period of the previous year. The decline in share prices was on account of the significant increase in the supply of securities.
12. The y-o-y stock market capitalization decreased by 13.4 percent to Rs. 286 billion in mid-September 2011. The ratio of market capitalization to GDP stood at 21.3 percent in mid-September 2011. This ratio was 28.2 percent a year ago. Of the total market capitalization, the share of bank and financial institutions stood at 68.3 percent followed by manufacturing and processing companies (3.8 percent), hotels (1.8 percent), business entities (0.5 percent), hydropower (4.4 percent) and other sectors (21.2 percent).
13. Total paid-up capital of the listed companies stood at Rs. 100.48 billion in mid-September 2011, registering an increase of 16.4 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 2011, total securities worth Rs. 6.68 billion (bonus share of Rs. 0.04 billion, right share of Rs. 1.6 billion, convertible preference share of Rs. 0.04 billion and government securities of Rs. 5 billion) were listed at the NEPSE.
14. Total number of companies listed at the NEPSE increased from 180 in mid-September 2010 to 209 in mid-September 2011. Among them, 177 were 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**

15. The y-o-y inflation as measured by the consumer price index increased to 8.5 percent in mid-September 2011 from 8.6 percent in the corresponding period of the previous year. During the review period, the index of food and beverage group increased by 10.1 percent and the index of non-food and services group increased by 7.2 percent respectively. The indices of these groups had increased by 12.2 percent and 5.6 percent respectively in the corresponding period of the previous year.
16. During the review period, the items under food and beverage group, price index of vegetables sub-groups increased by the highest rate of 49.1 percent compared to the

marginal increase of 1.4 percent in the corresponding period of the previous year. The price indices of fruits and ghee and oil, which had decreased by 1.3 percent and 0.7 percent respectively in the corresponding period of the previous year, increased by 38.4 percent and 10.2 percent respectively during the review period. During the review period, the price indices of milk products and egg and restaurant and hotel increased by 13.4 percent and 12.1 percent respectively compared to the increase of 16.8 percent and 17.8 percent in the corresponding period of the previous year. The price index of tobacco products, which had increased by 10 percent in the corresponding period of the previous year, increased by 11.4 percent during the review period. The price index of spices, which had increased by a highest rate of 45.4 percent during the corresponding period of the previous year, decreased by 10.5 percent in the review period. The price indices of cereal grains and their products and soft drinks, which had increased by 16.7 percent and 12.9 percent respectively in the corresponding period of the previous year, has increased moderately by 0.6 percent and 1.0 percent in the review period.

17. Within the group of non-food and services, the price index of clothing and footwear increased by 13.0 percent in the review period compared to an increase by 10.4 percent in the corresponding period of the previous year. The price indices of transport and furnishing and household equipment, which had increased by 8.2 percent and 4.3 percent respectively in the corresponding period of the previous year, increased by 12.7 percent and 12.5 percent during the review period. Similarly, the price indices of miscellaneous goods and services and education, which had increased by 6.1 percent and 5.8 percent in the corresponding period of the previous year, increased by 9.8 percent and 8.9 percent respectively during the review period. The price index of communication, which had decreased by 6.2 percent in the corresponding period of the previous year, witnessed a decrease of 10.7 percent during the review period.
18. Region-wise, the price index in Hill increased by 11.0 percent followed by 8.4 percent in Terai and 6.7 percent in Kathmandu valley during the review period. The respective growth rates were 9.7 percent, 6.6 percent and 10.6 percent in the corresponding period of the previous year.

#### **Wholesale Price Inflation**

19. During the review period, the y-o-y wholesale price index increased by 7.1 percent compared to a rise of 8.2 percent in the corresponding period of the previous year. The wholesale price indices of domestic manufactured commodities, imported commodities and agricultural commodities increased by 12.4 percent, 10.5 percent and 3.9 percent respectively during the review period compared to the increase of 7.2 percent 7.2 percent and 8.9 percent in the corresponding period of the previous year.

20. During the review period, within the group of agricultural commodities, the wholesale price index of fruits and vegetables increased by 20.0 percent compared to an increase of 18.0 percent in the corresponding period of the previous year. Likewise, the wholesale price indices of spices, food grains and pulses, which had increased by 47.9 percent, 21.1 percent and 7.3 percent in the corresponding period of the previous year, decreased by 6.6 percent, 6.2 percent and 7.6 percent respectively during the review period. The price index of cash crops, which had decreased by 29.8 percent during the corresponding period of the previous year, has increased by 18.3 percent in the review period.
21. Within the group of domestic manufactured commodities, the wholesale price indices of beverages and tobacco and food-related products increased by 17.6 percent and 10.6 percent during the review period. Likewise, the wholesale price index of construction material increased by 4.7 percent during the review period.
22. During the review period, within the imported commodities group, the wholesale price indices of petroleum products and coal and textile-related products, increased by 17.8 percent and 14.8 percent during the review period. Likewise, the price indices of electric and electronic goods and transport vehicles and machinery goods increased by 9.8 percent and 8.6 percent during the review period.

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

23. The y-o-y salary and wage rate index increased by 30.5 percent during the review period compared to an increase of 15.6 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 19.1 percent during the review period, which was unchanged in the corresponding period of the previous year. During the review period, the wage rate index increased by 33.9 percent compared to an increase of 20.9 percent in the corresponding period of the previous year.
24. In the review period, the indices of salary of banks and financial institutions, public corporations and civil service increased by 42.4 percent, 22.8 percent and 18.7 percent respectively during the review period. These rates were unchanged in the corresponding period of the previous year.
25. The indices of wages of agricultural, construction and industrial laborers increased by 37.7 percent, 37.2 percent and 24.6 percent respectively during the review period. These rates had increased by 30.6 percent, 16.5 percent and 5.6 percent respectively in the corresponding period of the previous year.

## **Fiscal Situation \***

### **Budget Deficit / Surplus**

26. In the two months of FY 2011/12, government budget remained at a surplus of Rs. 10.91 billion. A high growth of resources mobilization relative to government expenditure accounted for such a budget surplus during the review period. In the corresponding period of the previous year, budget surplus was of Rs. 8.06 billion.

### **Government Expenditure**

27. During the review period, total government spending increased by 16.3 percent to Rs. 23.01 billion compared to a decrease of 25.5 percent in the corresponding period of the previous year.

### **Government Revenue**

28. During the review period, revenue mobilization of the Government of Nepal grew by 15.8 percent to Rs. 29.04 billion compared to an increase of 11.2 percent to Rs. 25.07 billion in the corresponding period of the previous year.
29. In the review period, the growth rate of customs duties, excise, vehicle revenue and non-tax revenue accelerated however, the growth rates of VAT and income tax decelerated compared to that of the corresponding period of the previous year. Likewise, the registration fee and educational service tax have declined during the review period compared to that of corresponding period of the previous year.

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

30. In the two months of FY 2011/12, foreign cash loans of Rs. 557.2 million and foreign cash grants of Rs. 4.07 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 726.4 million and foreign cash grants of Rs. 1.81 billion in the corresponding period of the previous year.

## **External Sector Situation**

### **Foreign Trade**

31. Merchandise exports rose by 16.9 percent to Rs. 12.48 billion during the two months of the FY 2011/12. Such exports had declined by 3.6 percent to Rs. 10.68 billion in the same period last year. On a monthly basis, exports increased by 5.5 percent in August/September of the current fiscal year compared to that of the previous month.

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\* Figure includes the reports from 8 NRB offices, 59 RBB branches (out of 65 branches conducting govt. transaction), 35 NBL branches (out of 43 branches conducting govt. transaction), 5 Everest Bank branches and 1-1 branches each from Nepal Bangladesh Bank Ltd. and Global Bank Limited conducting government transactions.

32. Exports to India went up by 17.7 percent during the two months of the FY 2011/12 compared to an increase of 13.6 percent in the same period last year. Exports to other countries increased by 15.5 percent in contrast to a plunge by 24.0 percent in the same period last year. The increase in the exports to India was mainly ascribed to the increase in the exports of jute goods, zinc sheet, thread, textiles, wire and cardamom among others. Exports to other countries increased due mainly to the increase in the export of woolen carpet, pashmina, readymade garments, tea and Nepalese pater and paper products among others.
33. During the two months of the FY 2011/12, merchandise imports increased by 14.5 percent to Rs. 69.92 billion. Such imports had risen by 6.1 percent to Rs. 61.07 billion in the same period last year. On a monthly basis, the merchandise imports increased by 13.8 percent in August/September of the current fiscal year in comparison to that of the previous month.
34. Imports from India soared up by 1.5 percent during the review period compared to a growth of 36.7 percent in the same period last year. Likewise, imports from other countries increased by 44.9 percent in contrast to a drop by 30.5 percent in the same period last year. In the review period, the import of petroleum products, medicine, M.S. wires, rods and bars, readymade garments and agricultural equipment among others, from India increased whereas import of gold, crude soybean oil, electrical goods, chemical fertilizers and computer and parts from other countries increased.
35. Total trade deficit during the two months of FY 2011/12 went up by 14.0 percent to Rs. 57.42 billion. Trade deficit had gone up by 8.4 percent in the same period last year. Trade deficit with India declined by 1.5 percent during the review period compared to a growth of 42.2 percent in the same period last year. On the contrary, trade deficit with other countries increased by 52.7 percent in contrast to a drop by 32.1 percent in the same period a year ago.
36. The improvement in exports growth led to a slight increase in the ratio of export to import to 17.9 percent in the review period from a ratio of 17.5 percent a year ago.

#### **Balance of Payments Situation**

37. The overall BOP recorded a surplus of Rs. 17.27 billion during the two months of FY 2011/12 compared to a deficit of Rs. 5.90 billion in the same period last year. The current account registered a surplus of Rs. 2.20 billion compared to a deficit of Rs. 3.26 billion in the same period last year. The acceleration in the growth of remittance along with improvement in the service account attributed to the improvement in the current account.
38. The FOB-based merchandise trade deficit increased by 12.5 percent to Rs. 55.40 billion during the two months of FY 2011/12. Such deficit had grown by 8.6

percent in the same period last year. The service account recorded a surplus of Rs. 1.70 billion during the review period. Service account had recorded a deficit of Rs. 1.97 billion in the same period last year. The net transfer account registered a growth of 18.1 percent to Rs. 56.26 billion in the review period compared to that of a year ago. Under the transfers, while pension receipts rose by 18.1 percent to Rs. 5.30 billion, workers' remittances increased by 24.9 percent to Rs. 47.33 billion compared to its growth of 8.3 percent in the same period last year. On a monthly basis, the remittance inflows increased by 16.4 percent in August/September compared to the value of the previous month of this fiscal year. Likewise, under the financial account, foreign direct investment of Rs 1.10 billion was recorded in the review period compared to the level of Rs 0.17 billion in the same period a year ago.

### **Foreign Exchange Reserves**

39. The gross foreign exchange reserves increased by 10.3 percent to Rs. 300.14 billion in mid-September 2011 from a level of Rs. 272.10 billion as at mid-July 2011. Such reserves had gone down by 2.6 percent to Rs. 261.81 billion in the same period last year. On a monthly basis, foreign exchange reserves of Rs 16.37 billion increased in the month of August/September from the level of the previous month of this fiscal year. Out of the total reserves, NRB's reserves increased by 13.1 percent to Rs. 240.99 billion in the review period from a level of Rs. 213.10 billion as at mid-July 2011. The gross foreign exchange reserves in USD terms increased by 3.5 percent to USD 3.97 billion in mid-September 2011. Such reserves had decreased by 1.9 percent in the same period last year. Based on the trend of import during 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 7.6 months.

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

40. The price of oil (Crude Oil Brent) in the international market surged by 47.0 percent to USD 116.71 per barrel in mid-September 2011 from USD 79.38 per barrel in mid-September 2010. Similarly, the price of gold also rose by 40.6 percent to USD 1782.00 per ounce in mid-September 2011 from the level a year ago.
41. Nepalese currency vis-à-vis the US dollar depreciated by 6.15 percent in mid-September 2011 from the level of mid-July 2011. It had appreciated by 0.73 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 75.60 in mid-September 2011 compared to Rs. 70.95 in mid-July 2011.