

Current Macroeconomic Situation of Nepal

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

Monetary Situation

1. In the past, Nepal Rastra Bank was publishing monetary survey based on the balance sheets of Nepal Rastra Bank and commercial banks. As monetary transactions are also carried out by development banks and finance companies, it was felt necessary to incorporate balance sheets of these institutions in the monetary survey to make it more realistic. In this context, as announced in the Monetary Policy for the FY 2011/12, Nepal Rastra Bank has initiated the publication of broad monetary survey from fourth month (mid-November 2011) of the FY 2011/12 by extending the coverage to include development banks and finance companies as well.

Money Supply

2. As per the broad money survey data, broad money (M2) has increased by 7.1 percent during the four months of the FY 2011/12 compared to a growth of 1.9 percent in the corresponding period of the previous year. On y-o-y basis, broad money expanded by 18.0 percent in mid-November 2011. Broad money has expanded during the review period on account of remarkable increase in net foreign assets of the monetary sector. Narrow money (M1) increased by 2.8 percent during the review period. On y-o-y basis, narrow money expanded by 9.7 percent in mid-November 2011.
3. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 46.31 billion (21.4 percent) during the review period against a decline of Rs. 5.72 billion (2.7 percent) in the corresponding period of the previous year. The current account surplus on account of improvement in workers' remittances and services income 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

4. Domestic credit increased by 0.5 percent during the four months of the FY 2011/12. It had increased by 2.9 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased by 11.9 percent in mid-November

2011. During the four months of the FY 2011/12, claims on private sector increased by 1.6 compared to a growth of 5.2 percent in the corresponding period of the previous year. The credit to private sector could not expand during the review period due to policy measures initiated to curb the excessive credit flow to unproductive sector and to reduce high credit-deposit ratio.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions increased by 6.6 percent (Rs. 54.57 billion) during the four months of the FY 2011/12. Deposit mobilization had increased by 1.7 percent (Rs. 12.08 billion) in the corresponding period of the previous year. During the review period, deposit mobilization of commercial banks and development banks increased by 7.6 percent and 4.7 percent respectively whereas deposit mobilization of finance companies dropped by 1.1 percent. The deposit mobilization of commercial banks had declined by 0.7 percent and that of development banks and finance companies had increased by 3.8 percent and 1.0 percent respectively in the corresponding period of the previous year.

Credit Flow of Banks and Financial Institutions

6. The imbalance between deposit mobilization and lending by commercial banks has improved owing to weak credit growth contrary to high deposit growth during the four months of the FY 2011/12. Loan and advances increased by 2.0 percent (Rs. 17.43 billion) during the review period compared to 4.6 percent (Rs. 33.82 billion) in the corresponding period of the previous year. Loan and advances of commercial banks and development banks increased by 2.8 percent and 1.8 percent respectively while that of finance companies dropped by 1.6 percent during the review period. Credit to private sector from banks and financial institutions increased by 1.0 percent (Rs.6.98 billion) during the review period compared to 4.9 percent (Rs. 29.86 billion) in the corresponding period of the previous year. During the review period, credit extended by commercial banks to private sector increased by 2.1 percent while that from development banks and finance companies dropped by 1.7 percent and 3.1 percent respectively.
7. Of the total commercial banks' credit to private sector, the credit to industrial production sector increased by Rs. 4.68 billion during the review period compared to Rs. 9.48 billion in the corresponding period of the previous year. Similarly, banks' credit to construction, agriculture, wholesale and retail trade and transportation, communication and public services sectors increased by Rs. 3.48 billion, Rs. 1.19 billion, Rs. 0.50 billion and Rs. 0.97 billion respectively during the review period.

Liquidity Management

8. NRB injected net liquidity of Rs. 743.7 million through repo auction under open market operation during the review period. A liquidity of Rs. 21.0 billion was mopped up through reverse repo auction amounting to Rs. 19 billion and outright sale auction amounting to Rs. 2.0 billion while a liquidity of Rs. 5.0 billion was injected through repo auction in the corresponding period of the previous year.
9. NRB injected net liquidity of Rs. 88.48 billion through the purchase of USD 1.17 billion from foreign exchange market (commercial banks) during the review period. A net liquidity of Rs. 57.08 billion was injected through the purchase of USD 785.7 million from foreign exchange market in the corresponding period of the previous year.
10. NRB purchased Indian currency equivalent to Rs. 77.19 billion through the sale of USD 1.02 billion from the Indian money market during the review period. INR equivalent to Rs. 51.21 billion was purchased through the sale of USD 700 million in the corresponding period of the previous year.

Inter Bank Transaction and Standing Liquidity Facility

11. Inter-bank transaction of commercial banks stood at Rs. 90.02 billion during the four months of the FY 2011/12 compared to Rs. 119.99 billion in the corresponding period of the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 4.21 billion during the review period. The outstanding SLF amount was nil as at mid-November 2011. Liquidity injected through the SLF had amounted to Rs. 51.81 billion in the corresponding period of the previous year with an outstanding amount of Rs. 2.46 billion as at mid-November 2010.

Short-term Interest Rates

12. The short-term interest rates remained at lower level in mid-November 2011 compared to those of mid-November 2010. For example, the weighted monthly average 91-day Treasury bill rate stood at 0.97 percent in mid-November 2011 compared to 7.73 percent in mid-November 2010. The weighted average inter-bank rate remained at 1.11 percent in mid-November 2011 compared to 9.79 percent in mid-November 2010.

Securities Market

13. The year on year (y-o-y) NEPSE index declined by 23.4 percent to 325.61 points in mid-November 2011. This index had stood at 424.93 in the corresponding period of

the previous year. The decline in the index was on account of the significant increase in the supply of securities.

14. The y-o-y stock market capitalization decreased by 17.7 percent to Rs. 297.7 billion in mid-November 2011. The ratio of market capitalization to GDP stood at 22.1 percent in mid-November 2011. This ratio was 30.9 percent a year ago. Of the total market capitalization, the share of bank and financial institutions stood at 68.5 percent followed by manufacturing and processing companies (3.8 percent), hotels (1.7 percent), business entities (0.5 percent), hydropower (4.4 percent) and other sectors (21.1 percent).
15. Total paid-up capital of the listed companies stood at Rs. 103.54 billion in mid-November 2011, registering an increase of 14.9 percent over the period of one year. This increase was due to the additional listing of securities at the NEPSE. As at mid- November 2011, total securities worth Rs. 8.01 billion (Ordinary share of Rs. 0.95 billion, bonus share of Rs. 0.24 billion, right share of Rs. 1.78 billion, convertible preference share of Rs. 0.04 billion and government securities of Rs. 5 billion) were listed at the NEPSE.
16. Total number of companies listed at the NEPSE increased from 186 in mid-November 2010 to 214 in mid-November 2011. Among them, 182 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

17. The year-on-year (y-o-y) inflation as measured by the consumer price index increased by 8.5 percent in mid-November 2011 as compared to 8.4 percent of the corresponding period of the previous year. The index of food and beverage group and non-food and services group increased by 8.4 percent and 8.5 percent respectively during the review period. The indices of these groups had increased by 13.3 percent and 4.5 percent respectively in the corresponding period of previous year.
18. Under the items of the food and beverage group, price index of vegetables sub-groups rose by the highest rate of 29.6 percent during the review period compared to an increase of 15.9 percent in the corresponding period of the previous year. The price index of fruits, which had increased by 14.4 percent in the corresponding period of the previous year, went up by 24.2 percent during the review period. The price indices of milk products and egg and restaurant and hotel

increased by 13.8 percent and 12.3 percent respectively during the review period compared to an increases of 14.3 percent and 15.0 percent respectively in the corresponding period of the previous year. Similarly, the price indices of sugar and sweets and cereal grains and their products, which had increased by 28.8 percent and 15.4 percent respectively in the corresponding period of the previous year, increased moderately by 5.3 percent and 2.2 percent during the review period. The price index of spices, which had increased by a highest rate of 34.9 percent in the corresponding period of the previous year, decreased by 9.0 percent during the review period.

19. Within the group of non-food and services, the price index of clothing and footwear increased by 15.2 percent during the review period compared to an increase of 10 percent in the corresponding period of the previous year. The price indices of transport and furnishing and household equipment, which had increased by 7.8 percent and 3.2 percent respectively in the corresponding period of the previous year, went up by 13.4 percent and 13 percent during the review period. Similarly, the price indices of miscellaneous goods and services and education, which had increased by 5.5 percent and 5.8 percent in the corresponding period of the previous year, increased by 9.9 percent and 8.9 percent respectively during the review period. The price index of communication, which had decreased by 9.5 percent in the corresponding period of the previous year, witnessed a further decline of 8.8 percent during the review period too.
20. Region-wise, the price index in Hill increased by 9.8 percent followed by 8.7 percent in Terai and 7.1 percent in Kathmandu Valley during the review period. Such growth rates were 9.4 percent in Hill, 5.8 percent in Terai and 11.5 percent in Kathmandu valley in the corresponding period of the previous year.

Wholesale Price Inflation

21. The y-o-y wholesale price index increased by 5.0 percent during the review period compared to a rise of 7.4 percent in the corresponding period of the previous year. The wholesale price indices of imported commodities and domestic manufactured commodities increased by 13.5 percent and 10.9 percent whereas the index of agricultural commodities decreased by 0.7 percent during the review period. The respective price rises of these sub-groups were 7.5 percent, 7.8 percent and 7.3 percent in the corresponding period of the previous year.
22. Within the group of agricultural commodities, the wholesale price index of fruits and vegetables, which had increased by 12.2 percent in the corresponding period of the previous year, increased by 10.3 percent during the review period. The wholesale price index of cash crops, which had decreased by 30.7 percent in the corresponding period of the previous year, has increased by 8.7 percent during the

review period. The wholesale price indices of spices and food grains, which had increased by 42.9 percent and 21.1 percent during the corresponding period of the previous year, decreased by 13.7 percent and 8.2 percent respectively during the review period.

23. Under the group of domestic manufactured commodities, the wholesale price indices of beverages and tobacco and food-related products increased by 16.8 percent and 9.4 percent respectively during the review period. Likewise, the wholesale price index of construction material increased by 2.6 percent during the review period.
24. Within the imported commodities' group the wholesale price indices of textile-related products and petroleum products and coal increased by 29.4 percent and 20.2 percent during the review period. Similarly, the price indices of transport vehicles and machinery goods and electric and electronic goods increased by 12.4 percent and 9.5 percent during the review period.

National Salary and Wage Rate

25. The y-o-y salary and wage rate index increased by 29.6 percent during the review period compared to an increase of 14.9 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 19.3 percent during the review period, which was unchanged in the same period of the previous year. The wage rate index increased by 32.6 percent during the review period compared to an increase of 20.0 percent in the corresponding period of the previous year.
26. The indices of salary of banks and financial institutions, public corporations and civil service increased by 42.4 percent, 28.0 percent and 18.6 percent respectively during the review period. These rates were unchanged in the corresponding period of the previous year.
27. The indices of wages of construction, agricultural and industrial laborers increased by 37.1 percent, 36.5 percent and 22.5 percent respectively during the review period. These rates had increased by 17.4 percent, 27.3 percent and 7.7 percent respectively in the corresponding period of the previous year.

Fiscal Situation *

Budget Deficit / Surplus

28. In the four months of FY 2011/12, government budget remained at a surplus of Rs. 6.35 billion. A high growth of resource 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 amounted to Rs. 4.64 billion.

Government Expenditure

29. During the review period, total government spending increased by 30.6 percent to Rs. 67.33 billion compared to an increase of 1.8 percent in the corresponding period of the previous year. Timely announcement of the budget for the FY 2011/12 has contributed to such increase in government expenditure. The implementation of budget was delayed last year as it was only announced in the fifth month of the fiscal year.

Government Revenue

30. During the review period, revenue mobilization of the Government of Nepal grew by 16.9 percent to Rs. 59.92 billion compared to an increase of 9.8 percent to Rs. 51.25 billion in the corresponding period of the previous year. Increase in import and non-tax revenue attributed to such a growth of revenue collection during the review period compared to the corresponding period of the previous year.
31. VAT revenue grew by 7.6 percent to Rs. 22.22 billion in mid-November 2011. It had increased by 32.2 percent in the corresponding period of the previous year.
32. During the review period, custom revenue increased by 14.9 percent to Rs. 12.62 billion compared to a growth of 6.5 percent in the corresponding period of the previous year. Increase in import compared to that of the corresponding period of the previous year and increase in the receipt of DRP from India have contributed to such increase in custom revenue during the review period.

*

Based on the figures reported by 8 NRB offices, 62 RBBL 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.

33. During the review period, excise revenue increased by 13.1 percent to Rs. 9.49 billion compared to an increase of 16.3 percent in the corresponding period of the previous year.
34. Income tax revenue increased by 17.0 percent to Rs. 8.02 billion during the review period. Such revenue had risen by 35.8 percent in the corresponding period of the previous year.
35. During the review period, non-tax revenue increased to Rs. 5.17 billion. It stood at Rs. 2.16 billion in the corresponding period of the previous year .

Foreign Cash Loans and Grants

36. In the four months of the FY 2011/12, foreign cash loans of Rs. 1.55 billion and foreign cash grants of Rs. 11.52 billion were received by the GoN.

External Sector Situation

Foreign Trade

37. Merchandise exports rose by 10.7 percent to Rs. 23.69 billion during the four months of the FY 2011/12. Such exports had increased by 7.7 percent to Rs. 21.41 billion during the corresponding period of the previous year. On a monthly basis, merchandise exports increased by 1.8 percent in October/November of the current fiscal year compared to that of the previous month.
38. Exports to India went up by 14.6 percent during the four months of the FY 2011/12 compared to an increase of 10.2 percent during the corresponding period of the previous year. Exports to other countries also increased by 4.0 percent compared to an increase of 3.8 percent in the corresponding period of the previous year. In USD term such export increased by 0.7 percent to USD 110.5 million compared to an increased by 9.1 percent in the corresponding period of the previous year. The increase in the exports to India was mainly ascribed to the increase in the exports of zinc sheet, textiles, cardamom, wire and G.I. pipes, among others. Exports to other countries increased mainly due to an increase in the export of woolen carpet, pashmina, readymade garments, Nepalese paper and paper products and tea, among others.
39. During the four months of the FY 2011/12, merchandise imports increased by 11.8 percent to Rs. 135.49 billion. Such imports had risen by 3.1 percent to Rs. 121.17 billion during the corresponding period of the previous year. On a monthly basis, the merchandise imports increased by 16.1 percent in October/November of the current fiscal year in comparison to that of the previous month.
40. Imports from India increased by 4.2 percent during the review period compared to a growth of 27.8 percent during the corresponding period of the previous year. Likewise,

imports from other countries increased by 27.9 percent in contrast to a drop by 26.7 percent during the corresponding period of the previous year. In USD term such imports increased by 23.8 percent to USD 662.7 million compared to a drop by 23.2 percent in the corresponding period of the previous year. In the review period, the import of petroleum products, readymade garments, agricultural equipments and parts, tyre, tubes and flaps, and sanitaryware, among others, from India have increased whereas from other countries, import of gold, crude soybean oil, chemical fertilizers, silver, and other machinery and parts have increased.

41. Total trade deficit during the four months of the FY 2011/12 went up by 12.1 percent to Rs.111.80 billion. Trade deficit had gone up by 2.2 percent during the corresponding period of the previous year. Trade deficit with India increased by 2.1 percent during the review period compared to a growth of 31.9 percent during the corresponding period of the previous year. On the contrary, trade deficit with other countries increased by 34.1 percent in contrast to a drop by 31.8 percent in the same period of the previous year. In USD term, the total trade deficit rose by 8.4 percent to USD 1.48 billion in the review period compared to a growth of 6.8 percent during the corresponding period of the previous year.
42. The increase in the import growth led to a slight reduction in the export to import ratio to 17.5 percent in the review period, which stood at 17.7 percent a year ago.

Balance of Payments Situation

43. The overall BOP recorded a surplus of Rs. 46.31 billion during the four months of the FY 2011/12 compared to a deficit of Rs. 5.72 billion during the corresponding period of the previous year. This is the highest level of BOP surplus ever recorded since the BOP compilation started in 1974/75. The current account also registered a surplus of Rs. 20.73 billion compared to a deficit of Rs. 1.96 billion during the corresponding period of the previous year. In USD terms, the overall BOP recorded a surplus of USD 606.9 million during the four months of the review period in comparison to a deficit of USD 76.3 million during the same period of the previous year. Similarly, the current account registered a surplus of USD 266.0 million during the four month of the review year compared to a deficit of USD 25.5 million during the corresponding period of the previous year. The acceleration in the growth of remittance along with improvement in the service account attributed to the surplus in the current account.
44. The FOB-based merchandise trade deficit increased by 11.3 percent to Rs. 107.53 billion during the four months of the FY 2011/12. Such deficit had grown by 1.6 percent during the corresponding period of the previous year. Net service account witnessed a surplus of Rs. 6.25 billion during the review period in contrast to a deficit of Rs. 3.60 billion during the corresponding period of the previous year. Under services tourism income rose by 33.4 percent in the first four months of the FY 2011/12 in contrast to a decline by 14.7 percent during the corresponding period of the previous year. The net transfer account registered a growth of 25.1 percent to Rs.

119.57 billion in the review period compared to that of a year ago. Under transfers, while pension receipts declined by 17.4 percent to Rs. 8.99 billion, workers' remittances increased by 34.2 percent to Rs.103.20 billion compared to a growth of 13.6 percent during the corresponding period of the previous year. On a monthly basis, the remittance inflows increased by 36.0 percent in October/November compared to the value of the previous month of this fiscal year. In USD terms, remittance inflow increased by 29.3 percent to USD 1.36 billion in the review period compared to a growth of 16.6 percent during the corresponding period of the previous year. Likewise, under the financial account, foreign direct investment of Rs 2.74 billion was recorded in the review period compared to such investment Rs 3.42 billion in the same period a year ago.

Foreign Exchange Reserves

45. The gross foreign exchange reserves increased by 25.9 percent to Rs. 342.74 billion in mid-November 2011 from a level of Rs. 272.15 billion as at mid-July 2011. Such reserves had declined by 2.7 percent to Rs. 261.68 billion during the corresponding period of the previous year. On a monthly basis, foreign exchange reserve of Rs 17.71 billion increased in the month of October/November from the level of the previous month of this year. Out of total reserve, NRB's reserves increased by 31.8 percent to Rs. 280.83 billion in the review period from a level of Rs. 213.10 billion as at mid-July 2011. In USD terms, the gross holding of convertible currency in the banking system increased by 5.6 percent to USD 3.29 billion compared to a growth of 5.5 percent in the corresponding period of the previous year. The gross foreign exchange reserves in USD terms increased by 10.7 percent to USD 4.25 billion in mid-November 2011. Such reserves had increased by just 0.6 percent during the corresponding period of the previous year. Based on the trend of import during the four months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 10.3 months and merchandise and service imports of 9.1 months.

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

46. The price of oil (Crude Oil Brent) in the international market surged by 30.0 percent to USD 111.90 per barrel in mid-November 2011 from USD 86.11 per barrel in mid-November 2010. Similarly, the price of gold also rose by 30.4 percent to USD 1785.00 per ounce in mid-November 2011 from the level of mid-November 2010.
47. Nepalese currency vis-à-vis the USD depreciated by 12.13 percent in mid-November 2011 from the level of mid-July 2011. It had appreciated by 5.47 percent in the corresponding period of the previous year. The exchange rate of one USD stood at Rs. 80.74 in mid-November 2011 compared to Rs. 70.95 in mid-July 2011.