

Current Macroeconomic Situation of Nepal

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

Monetary Situation*

Money Supply

1. As per the broad money survey data, broad money (M2) has increased by 11.6 percent during the seven months of the FY 2011/12 compared to a growth of 3.9 percent in the corresponding period of the previous year. On y-o-y basis, broad money expanded by 20.6 percent in mid-February 2012. 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 6.4 percent during the review period. On y-o-y basis, narrow money expanded by 14.0 percent in mid-February 2012.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 75.09 billion (34.8 percent) during the review period against a decline of Rs. 13.04 billion (6.1 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 the 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 increased by 2.2 percent during the seven months of the FY 2011/12. It had increased by 5.6 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased by 10.9 percent in mid-February 2012. During the seven months of the FY 2011/12, claims on private sector increased by 5.8 percent compared to a growth of 11.7 percent in the corresponding period of the previous year.

Deposit Mobilization of Banks and Financial Institutions

4. Deposit mobilization of banks and financial institutions increased by 10.9 percent (Rs. 89.96 billion) during the seven months of the FY 2011/12. Such deposit

* In the past, Nepal Rastra Bank was publishing monetary survey based on the balance sheets of Nepal Rastra Bank and commercial banks. From the fourth month (mid-November 2011) of the FY 2011/12, the coverage of the monetary survey is extended to include development banks and finance companies as well. The monetary aggregates presented here are based on broad monetary survey.

mobilization had increased by 4.5 percent (Rs. 32.83 billion) in the corresponding period of the previous year. During the review period, deposit mobilization of commercial banks, development banks, and finance companies increased by 12.0 percent, 12.7 percent and 1.4 percent respectively. The deposit mobilization of commercial banks had increased by only 1.2 percent while that of development banks and finance companies had increased by 9.8 percent and 7.0 percent respectively in the corresponding period of the previous year.

Credit Flow of Banks and Financial Institutions

5. During the seven months of the FY 2011/12, loan and advances of banks and financial institutions increased by 7.3 percent (Rs. 62.31 billion) compared to a growth of 9.7 percent (Rs. 72.42 billion) in the corresponding period of the previous year. Loan and advances of commercial banks and development banks increased by 8.4 percent and 8.8 percent respectively while that of finance companies remained almost the same during the review period. Credit to private sector from banks and financial institutions increased by 5.1 percent (Rs.35.41 billion) during the review period compared to a growth of 11.5 percent (Rs. 70.08 billion) in the corresponding period of the previous year. During the review period, credit extended by commercial banks and development banks to private sector increased by 6.8 percent and 2.8 percent respectively while that from finance companies dropped by 3.1 percent.
6. Of the total commercial banks' credit to private sector, the credit to industrial production sector increased by Rs. 13.60 billion during the review period compared to Rs. 17.22 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. 4.99 billion, Rs. 4.75 billion, Rs. 5.14 billion and Rs. 1.48 billion respectively during the review period.

Liquidity Management

7. NRB mopped up net liquidity of Rs. 7.66 billion as a result of liquidity injection of Rs. 743.7 million through repo auction and liquidity mopped up of Rs. 8.40 billion through outright sale auction under open market operations during the review period. Liquidity of Rs. 19.0 billion was mopped up through reverse repo auction and Rs. 2.0 billion was mopped up through outright sale auction while liquidity of Rs. 28.0 billion was injected through repo auction in the corresponding period of the previous year.
8. NRB injected net liquidity of Rs. 141.26 billion through the purchase of USD 1.81 billion from foreign exchange market (commercial banks) during the review period. Net liquidity of Rs. 98.50 billion was injected through the purchase of USD 1.36 billion from foreign exchange market in the corresponding period of the previous year.
9. NRB purchased Indian currency equivalent to Rs. 126.57 billion through the sale of USD 1.62 billion in the Indian money market during the review period. INR equivalent

to Rs. 104.92 billion was purchased through the sale of USD 1.44 billion in the corresponding period of the previous year.

Inter Bank Transaction and Standing Liquidity Facility

10. Inter-bank transaction of commercial banks stood at Rs. 112.41 billion during the seven months of the FY 2011/12 compared to Rs. 225.43 billion in the corresponding period of the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 4.29 billion during the review period. The outstanding SLF amount was Rs. 9.0 million as at mid-February 2012. Liquidity injected through the SLF had amounted to Rs. 136.64 billion in the corresponding period of the previous year with an outstanding amount of Rs. 5.71 billion as at mid-February 2011.

Short-term Interest Rates

11. The short-term interest rates remained at lower level in mid-February 2012 compared to those of mid-February 2011. For example, the weighted monthly average 91-day Treasury bill rate stood at 0.61 percent in mid-February 2012 compared to 7.78 percent in mid-February 2011. The weighted average inter-bank rate remained at 0.72 percent in mid-February 2012 compared to 8.45 percent in mid-February 2011.

Securities Market

12. The year on year (y-o-y) NEPSE index declined by 23.0 percent to 311.88 points in mid-February 2012. This index had stood at 405.03 in the corresponding period of the previous year. A rise in supply of share and deteriorating investors' confidence level contributed to the decline in the index during the review period.
13. The y-o-y stock market capitalization decreased by 18.0 percent to Rs. 290.23 billion in mid-February 2012. The ratio of market capitalization to GDP stood at 21.5 percent in mid-February 2012. This ratio was 30.2 percent a year ago. Of the total market capitalization, the share of banks and financial institutions stood at 66.3 percent followed by manufacturing and processing companies (3.9 percent), hotels (2 percent), business entities (0.4 percent), hydropower (5.1 percent) and other sectors (22.3 percent).
14. Total paid-up capital of the listed companies stood at Rs. 107.15 billion in mid-February 2012, registering an increase of 14.5 percent over the period of one year. Such an increase was due to the additional listing of securities at the NEPSE. As at mid-February 2012, total securities worth Rs. 9.07 billion (ordinary share of Rs. 1.31 billion, bonus share of Rs. 0.73 billion, right share of Rs. 1.99 billion, convertible preference share of Rs. 0.04 billion and government securities of Rs. 5 billion) were listed at the NEPSE.

15. Total number of companies listed at the NEPSE increased from 197 in mid-February 2011 to 214 in mid-February 2012. 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 other companies (2)

Inflation, Salary and Wage Rate

Consumer Price Inflation

16. The year-on-year (y-o-y) inflation as measured by the consumer price index increased by 7.0 percent in mid-February 2012 as compared to 10.2 percent in the corresponding period of the previous year. The index of food and beverage group and non-food and services group increased by 4.1 percent and 9.6 percent respectively during the review period. These indices had increased by 16.6 percent and 5.0 percent respectively in the corresponding period of previous year.
17. Under the items of the food and beverage group, price index of milk products and egg sub-group increased by the highest rate of 17.6 percent during the review period compared to an increase of 10.5 percent in the same period of the previous year. The price index of ghee and oil, which had increased by 0.9 percent in the corresponding period of previous year, went up by 15.2 percent during the review period. The price indices of fruits and restaurant and hotel increased by 14.1 percent and 10.5 percent respectively during the review period compared to the increase of 26.1 percent and 15.6 percent respectively in the corresponding period of the previous year. Similarly, the price indices of hard drinks and tobacco products, which had increased by 2.1 percent and 17.1 percent respectively in the corresponding period of the previous year, increased by 9.2 percent and 9.0 percent during the review period. The price index of vegetables and cereals grains and their products, which had increased sharply by 73.1 percent and 12.2 percent respectively in the corresponding period of the previous year, decreased by 1.6 percent and 1.1 percent during the review period.
18. Within the group of non-food and services, the price index of transport increased by 18.5 percent during the review period compared to an increase of 9.2 percent in the corresponding period of the previous year. The price indices of clothing and footwear, and furnishing and household equipment increased by 15.2 percent and 13.6 percent during the review period. Such indices had increased by 13.8 percent and 6.9 percent respectively in the corresponding period of the previous year. Similarly, the price indices of miscellaneous goods and services and education sub-group increased by 10.1 percent and 8.9 percent respectively during the review period while such indices of both the sub-groups had increased by 4.7 percent each in the corresponding period of the previous year. The price index of communication, which had decreased by 10.4 percent in the corresponding period

of the previous year, witnessed a further decline of 8.2 percent during the review period.

19. Region-wise, the price indexes in Hill increased by 8.6 percent followed by Terai 6.6 percent and Kathmandu Valley 6.3 percent during the review period. The respective increment rates were 11.3 percent, 7.3 percent and 13.3 percent respectively in the corresponding period of the previous year.

Wholesale Price Inflation

20. The y-o-y wholesale price index increased by 4.7 percent during the review period compared to a rise of 11.8 percent in the corresponding period of the previous year. The wholesale price indices of imported commodities and domestic manufactured commodities increased by 12.2 percent and 9.0 percent whereas the index of agricultural commodities decreased by 0.5 percent during the review period. The respective price increases of these sub-groups were 9.6 percent, 9.8 percent and 13.7 percent in the corresponding period of the previous year.
21. Within the group of agricultural commodities, the wholesale price indices of fruits and vegetables and cash crops, increased by 7.1 percent and 6.7 percent respectively during the review period, compared to an increase of 24.7 and 11.5 percent respectively in the corresponding period of the previous year. The wholesale price indices of spices and food grains, which had increased by 53.9 percent and 10.3 percent in the corresponding period of the previous year, decreased by 17.7 percent and 6.1 percent respectively during the review period. Similarly, the wholesale price index of livestock production, which had increased by 12.2 percent in the corresponding period of the previous year, increased by only 1.0 percent during the review period. The wholesale price index of pulses that declined by 2.4 percent in the corresponding period of the previous year further declined by 4.3 percent in the review period.
22. Under the group of domestic manufactured commodities, the wholesale price indices of food-related products and beverages and tobacco increased by 11.0 percent and 9.8 percent respectively during the review period. Likewise, the wholesale price index of construction material increased by 8.0 percent during the review period.
23. Within the imported commodities group the wholesale price indices of textile-related products and petroleum products and coal increased by 25.0 percent and 19.8 percent respectively during the review period. Similarly, the price indices of electric and electronic goods, and transport vehicles and machinery goods increased by 12.3 percent and 6.9 percent respectively during the review period.

National Salary and Wage Rate

24. The y-o-y salary and wage rate index increased by 30.1 percent during the review period compared to an increase of 16.5 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 corresponding period of the previous year. The wage rate index increased by 33.0 percent during the review period compared to an increase of 22.0 percent in the corresponding period of the previous year.
25. 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. Similarly, the salary indices of army and police service, education and private institutions increased by 26.5 percent, 19.1 percent and 8.6 percent respectively. These indices were unchanged in the corresponding period of previous year.
26. The indices of wages of construction, industrial and agricultural laborers increased by 34.5 percent, 34.3 percent and 32.2 percent respectively during the review period. These wage rates had increased by 20.2 percent, 10.6 percent and 28.5 percent respectively in the corresponding period of the previous year.

Fiscal Situation *

Budget Deficit / Surplus

27. In the seven months of FY 2011/12, government budget remained at a surplus of Rs. 19.45 billion. In the corresponding period of the previous year, such budget surplus had amounted to Rs. 12.33 billion. A high growth of resource mobilization relative to total government expenditure accounted for such a surplus in government budget during the review period.

Government Expenditure

28. During the review period, on cash basis, total government spending increased by 28.2 percent to Rs. 138.43 billion compared to an increase of 4.4 percent in the corresponding period of the previous year. Timely announcement of the budget for the FY 2011/12 contributed to such increase in government expenditure. The implementation of budget was delayed last year as it was announced only in the fifth month of the fiscal year.

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Based on the figures reported by 8 NRB offices, 65 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.

29. During the review period, on cash basis, recurrent expenditure stood at Rs. 110.57 billion while capital expenditure stood at Rs. 10.67 billion.

Government Revenue

30. During the review period, revenue mobilization of the Government of Nepal grew by 19.3 percent to Rs. 128.47 billion compared to an increase of 14.2 percent to Rs. 107.67 billion in the corresponding period of the previous year. The expansion of economic activities during the review period due to the impact of timely announcement of the budget for the FY 2011/12 contributed to such a growth in the government revenue collection during the review period. Likewise, increase in import compared to that of the corresponding period of the previous year has contributed to such an increase in government revenue during the review period.
31. VAT revenue grew by 15.1 percent to Rs. 39.88 billion in mid-February 2012. It had increased by 18.6 percent in the corresponding period of the previous year.
32. During the review period, custom revenue increased by 10.4 percent to Rs. 22.81 billion compared to a growth of 7.8 percent in the corresponding period of the previous year. Increase in imports compared to that of the corresponding period of the previous year contributed to such an increase in custom revenue during the review period.
33. During the review period, excise revenue increased by 11.5 percent to Rs. 16.85 billion compared to an increase of 17.0 percent in the corresponding period of the previous year. Decrease in the imports of high excise tax yielding vehicles accounted for such a low growth rate of excise revenue during the review period compared to the corresponding period of the previous year.
34. Income tax revenue increased by 23.5 percent to Rs. 26.22 billion during the review period. Such revenue had risen by 28.0 percent in the corresponding period of the previous year.
35. During the review period, non-tax revenue increased to Rs. 18.29 billion. It stood at Rs. 12.21 billion in the corresponding period of the previous year.

Foreign Cash Loans and Grants

36. In the seven months of the FY 2011/12, foreign cash loans of Rs. 2.79 billion and foreign cash grants of Rs. 24.27 billion were received by the Government of Nepal.

External Sector Situation

Foreign Trade

37. Merchandise exports rose by 13.4 percent to Rs. 42.59 billion during the seven months of FY 2011/12. Such exports had increased by 5.5 percent to Rs. 37.54 billion in the

corresponding period of the previous year. On a monthly basis, merchandise exports increased by 13.8 percent in January/February of the current fiscal year compared to that of the previous month.

38. Exports to India went up by 13.0 percent during the seven months of the FY 2011/12 compared to an increase of 9.9 percent in the corresponding period of the previous year. Exports to other countries also increased by 14.3 percent in contrast to a decrease of 2.2 percent in the corresponding period of the previous year. In USD terms, exports to other countries increased by 6.5 percent to USD 185.2 million compared to an increase by 1.8 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, polyester yarn, G.I. pipe and copper wire rod, among others. The export of woolen carpets, readymade garments, pashmina, Nepalese paper & paper products and tanned skin, among others, increased to other countries.
39. During the seven months of the FY 2011/12, merchandise imports increased by 16.9 percent to Rs. 254.95 billion. Such imports had dropped by 0.3 percent to Rs. 218.11 billion in the corresponding period of the previous year. On a monthly basis, merchandise imports declined by 1.6 percent in January/February of the current fiscal year in comparison to that of the previous month.
40. Imports from India increased by 11.6 percent during the review period compared to a growth of 24.2 percent in the corresponding period of the previous year. Likewise, imports from other countries increased by 28.1 percent in contrast to a decline by 29.5 percent in the corresponding period of the previous year. In USD terms, imports from other countries increased by 18.7 percent to USD 1.15 billion as against a decline by 26.8 percent in the corresponding period of the previous year. In the review period, the import of petroleum products, chemical fertilizer, readymade garments, agricultural equipments & parts and coal, among others, from India and import of gold, crude soybean oil, silver, chemical fertilizer and other machinery & parts, among others, from other countries went up.
41. Total trade deficit during the seven months of the FY 2011/12 went up by 17.6 percent to Rs.212.36 billion. Trade deficit had declined by 1.4 percent in the corresponding period of the previous year. Trade deficit with India increased by 11.3 percent during the review period compared to a growth of 27.6 percent in the corresponding period of the previous year. Trade deficit with other countries increased by 31.1 percent in contrast to a drop by 33.6 percent in the corresponding period of the previous year.
42. The increase in import growth led to a reduction in the export to import ratio to 16.7 percent in the review period from 17.2 percent a year ago.

Balance of Payments Situation

43. The overall BOP registered its highest ever surplus of Rs. 75.09 billion during the seven months of the FY 2011/12 compared to a deficit of Rs. 13.04 billion in the

corresponding period of the previous year. The current account posted a surplus of Rs. 34.67 billion compared to a deficit of Rs. 6.67 billion in the corresponding period of the previous year. The rise in the growth of remittance along with improvement in the service account was the responsible factors for the substantial surplus in the current account. In USD terms, the overall BOP recorded a surplus of USD 956.6 million during the seven months of the review period in comparison to a deficit of USD 176.7 million in the corresponding period of the previous year. Similarly, the current account registered a surplus of USD 433.7 million during the seven months of the review year compared to a deficit of USD 89.8 million in the corresponding period of the previous year.

44. The FOB-based merchandise trade deficit increased by 17.1 percent to Rs. 204.32 billion during the seven months of the FY 2011/12. Such deficit had fallen by 1.7 percent in the corresponding period of the previous year. Net service account witnessed a surplus of Rs. 10.05 billion during the review period in contrast to a deficit of Rs. 6.0 billion in the corresponding period of the previous year. During the review period, service receipts rose by 35.1 percent while service expenditures declined by 15.1 percent. Under services, tourism income rose by 28.4 percent in the first seven months of the FY 2011/12 in contrast to a decline by 21.1 percent in the corresponding period of the previous year. Under services, there was a decline in total travel expenses by 27.2 percent, including educational expenses by 24.9 percent. The net transfer account registered a growth of 30.2 percent to Rs. 222.12 billion in the review period compared to that of a year ago. Under transfers, while pension receipts declined by 1.2 percent to Rs. 15.44 billion, workers' remittances increased by 35.5 percent to Rs.188.19 billion compared to a growth of 11.7 percent in the corresponding period of the previous year. In USD terms, remittance inflow increased by 25.0 percent to USD 2.39 billion in the review period compared to a growth of 14.7 percent in the corresponding period of the previous year. Likewise, under the financial account, foreign direct investment of Rs 5.61 billion was recorded in the review period compared to such investment of Rs 4.84 billion in the same period a year ago.

Foreign Exchange Reserves

45. The gross foreign exchange reserves surged by 32.3 percent to Rs. 360.14 billion in mid-February 2012 from a level of Rs. 272.15 billion as at mid-July 2011. Such reserves had declined by 4.0 percent to Rs. 258.10 billion in the corresponding period of the previous year. Out of total reserve, NRB's reserves increased by 40.9 percent to Rs. 300.29 billion in the review period from a level of Rs. 213.10 billion as at mid-July 2011. In USD terms, the gross foreign exchange reserves increased by 14.6 percent to USD 4.40 billion in mid-February 2012 from the level of mid-July 2011. Such reserves had declined by 1.9 percent in the corresponding period of the previous year. Based on the trend of import during the seven months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 10.0 months and merchandise and service imports of 9.0 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 18.4 percent to USD 120.25 per barrel in mid-February 2012 from USD 101.60 per barrel in mid-February 2011. Similarly, the price of gold also rose by 26.2 percent to USD 1733.00 per ounce in mid-February 2012 from the level of mid-February 2011.
47. Nepalese currency vis-à-vis the USD depreciated by 10.2 percent in mid-February 2012 from the level of mid-July 2011. It had appreciated by 2.2 percent in the corresponding period of the previous year. The exchange rate of one USD stood at Rs. 79.05 in mid-February 2012 compared to Rs. 70.95 in mid-July 2011.