Current Macroeconomic Situation

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

Monetary Situation

Money Supply

1. Broad money (M2) increased by 4.6 percent in the first three months of 2009/10. M2 increased by 5.1 percent during the same period in the previous year. Similarly, narrow money (M1) increased by 2.6 percent in the review period as against a decline of 0.4 percent in the previous year. Although the domestic credit increased at a higher rate in the review period compared to previous year, the decline in net foreign assets has contributed to such lower growth in broad money. On the other hand, sharp increase in currency in circulation contributed to increase in narrow money in the review period.

2. The currency in circulation, a component of narrow money supply, grew by 10.8 percent to Rs. 139.30 billion in the review period compared to a growth of 5.5 percent in the previous year. Time deposits increased by 5.5 percent in the review period compared to a growth of 7.6 percent in the corresponding period of the previous year. However, demand deposits declined by 11.9 percent compared to a decline of 11.3 percent in the same period last year.

3. Net foreign assets (NFA), after adjusting foreign exchange valuation gain/loss, declined by Rs. 19.45 billion (8.8 percent) in the review period compared to an increase of Rs. 7.70 billion (4.5 percent) in the previous year. The expansion in the trade deficit along with the slower growth in remittance inflow compared to previous year contributed such a decline in NFA.

Domestic Credit

4. In the first three months of 2009/10, domestic credit expanded by 5.4 percent compared to a growth of 6.8 percent in the previous year. The slower growth in domestic credit is mainly due to a slower growth in commercial banks' claim on private sector.

5. Net claims on government increased by Rs. 457.8 million (0.4 percent) in the review period compared to a decline of Rs 820 million (0.9 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 marginal growth in such claims.

6. Claims on non-financial government enterprises increased by 3.7 percent in the review period compared to an increase of 6.2 percent in the previous year. Payment of some portion of banks' credit by National Trading Ltd., Nepal Food Corporation, Janakpur Cigarette Factory Ltd, Nepal Airlines Corporation, Gorkhapatra Sansthan, and Janak Education Material Center Ltd. contributed to slower growth in such claims in the review period.

Deposit Mobilization and Credit Flow of Commercial Banks

7. Deposit mobilization of commercial banks increased by Rs 19.12 billion (3.5 percent) to Rs 568.95 billion in the first three months of 2009/10 compared to an increase of Rs 25.65 billion (6.1 percent) in the previous year. Similarly, commercial banks' claims to private sector expanded by 6.8 percent (Rs 27.43 billion) in the review period compared to a growth of 9.2 percent (Rs. 28.22 billion) in the previous year.

8. The growth in commercial banks' credit to production sector in review period is lower than that of the corresponding period last year. In the review period, such credit increased by 3.3 percent compared to a growth of 8.3 percent in the previous year. On the other hand, credit to wholesale and retail trade; and services increased by 12.4 percent and 8.2 percent respectively in the review period compared to a respective growth of 4.1 percent and 6.9 percent in the same period last year.

9. In the review period, the liquid fund of commercial banks has declined by 19.0 percent compared to last year's growth of 17.9 percent. Of the components of liquid funds, commercial banks' balance held with the NRB decreased by Rs. 16.99 billion, and their balance held abroad decreased by Rs. 5.49 billion in the review period. The higher growth in loan and advances relative to resource mobilization contributed such a decline in the liquid fund. The total loan and advances of commercial banks increased by 6.5 percent (Rs. 33.86 billion) in the review period.

Liquidity Management

10. The NRB mopped up net liquidity amounting to Rs 7.44 billion through the open market operation during the first three months of 2009/10. Of the net liquidity moped up, Rs 7.44 billion and Rs. 1.00 billion were mopped up respectively from the outright sale auction and reverse-repo auction, and Rs. 1.00 billion was injected through 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.

11. The NRB injected liquidity amounting to Rs 20.18 billion by purchasing the US dollar 261.2 million from commercial banks through foreign exchanges intervention in the first three months of 2009/10. A net liquidity worth Rs 30.65 billion was injected through the purchase of US dollar 420.1 million from commercial banks during the same period in the previous year.

12. The NRB purchased Indian currency (IC) amounting 30.31 billion by selling US dollar 630 million in the review period. Indian currency worth 11.87 billion was purchased through the sale of US dollar 270 million in the same period last year. The expanded trade deficit with India led to such a growth in the IC purchase during the review period.

Inter Bank Transactions and Standing Liquidity Facility

13. During the first three months of 2009/10, inter bank transactions of commercial banks stood at Rs 65.53 billion compared to Rs. 68.26 billion in the same period of the previous year. Similarly, commercial banks utilized standing liquidity facility (SLF) worth Rs. 4.05 billion in the review period compared to Rs. 33.03 billion in the same period last year.

Short-term Interest Rates

14. In the third month of 2009/10, the weighted average 91-day Treasury bill rate remained at 2.73 percent compared to 6.08 percent in the same period last year. Similarly, the weighted average inter bank rate remained at 5.10 percent in the review period compared to 5.16 percent in the same period of the previous year.

Securities Market

15. The year on year (y-o-y) NEPSE index decreased by 34.7 percent to 609.55 points in mid October 2009. It stood at 933.97 last year. Likewise, NEPSE sensitive index (based on July 2006) recorded at 153.67 point in mid October 2009. This index was 256.01 in mid October 2008. The NEPSE float index, calculated on the basis of final transaction as of August 24, 2008 (at market price), remained at 58.16 in mid October 2009 in comparison to a decline of 37.1 percent from last year.

16. The y-o-y market capitalization decreased by 11.9 percent to Rs. 429.65 billion in mid October 2009. The ratio of market capitalization to GDP stood at 44.8 percent in the review period. It was 59.6 percent in the corresponding period last year. Of the total market capitalization, bank and financial institutions accounted 73.3 percent followed by manufacturing and processing companies (1.8 percent), hotels (1.1 percent), business entities (0.3 percent), hydropower (3.9 percent) and other economic sectors (19.6 percent).

17. Total paid up capital of the listed companies stood at Rs. 64.20 billion in the review period, representing an increase of 39.5 percent over the period of one year. This increase was largely due to additional listing of securities with the NEPSE. By the end of the third month of 2009/10, additional securities worth Rs.3.13 billion (ordinary share of Rs.60.0 million, bonus share of Rs.280.8 million and right share of Rs.2.79 billion) were listed with the NEPSE.

18. The monthly turnover to market capitalization ratio remained at 0.22 percent in mid October 2009, compared to 0.40 percent a year ago.

19. Total number of companies listed with the NEPSE increased to 159 in mid October 2009 compared to 144 a year ago. 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).

20. The twelve-month rolling standard deviation, which reflects the volatility in the stock market, stood at 55.8 in mid October 2009 compared to 112.4 a year ago.

Inflation

Consumer Price Inflation

21. The y-o-y inflation as measured by the consumer price index moderated to 9.3 percent in mid October 2009 as against 14.1 percent in the same period last year. In the review period, the price index of food and beverages group increased by 15.6 percent. Similarly, the index of non-food and services group rose only by 2.0 percent. The index of food and

beverages and non-food and services group had risen by 15.2 percent and 12.9 percent respectively in mid October 2008.

22. Of the items in the food and beverage group, price indices of sugar and sugar related products increased by a whopping rate of 42.0 percent compared to an increase of 39.5 percent in the same period last year. Similarly, the price indices of vegetables and fruits increased by 37.5 percent during the review period. This is in sharp contrast to last year's decline of 10.1 percent. Similarly, the price indices of pulses as well as meat, fish and eggs sub-groups increased in review period by 25.1 percent and 22.7 percent respectively compared to an increase of 24.7 percent and 22.0 percent in the same period last year. The index of the grains and cereal products subgroup also witnessed an increment of 5.6 percent compared to 21.3 percent increase in the corresponding period of the previous year.

23. Within the group of non-food and services, the index of tobacco and related products rose up by 17.0 percent during the review period compared to a rise of 12.7 percent during the same period last year. The price index of transport and communication declined by 8.7 percent in the review period. However, it had increased by 23.1 percent during the same period last year.

24. Region-wise, the price index of Kathmandu Valley rose by 9.7 percent followed by 9.4 percent in Terai and 8.5 percent in Hills in the review period. The respective rates were 14.5 percent, 14.0 percent and 13.9 percent in the last year.

25. In the review period, the y-o-y core inflation rose to 10.9 percent, a moderation from 13.1 percent a year ago.

Wholesale Price Inflation

26. During the review period, the y-o-y wholesale price inflation rose to 14.8 percent compared to 9.3 percent a year ago. The index of agricultural commodities and domestic manufactured commodities increased by 33.8 percent and 5.2 percent respectively in the review period compared to 0.5 percent decrease and 15.7 percent increase a year ago. The price indices of imported commodities declined by 7.7 percent in the review period. However, it increased by 23.3 percent during the same period last year.

27. Within the agricultural commodities group, the price index of cash crops jumped by 109.4 percent in the review period, as against the decline of 27.8 percent a year ago. Likewise, livestock production and spices increased by 37.9 percent and 27.8 percent compared to an increase of 18.3 percent and 10.4 percent in the same period of last year, but fruits and vegetables increased by 31.9 percent, which is in sharp contrast to a decline of 21.3 percent a year ago. Within the group of domestic manufactured commodities, the price index of beverages and tobacco increased by 16.3 percent compared to a rise of 9.5 percent a year ago.

28. Within the imported commodities group, the price indices of petroleum products and coal declined by 20.3 percent in the review period compared to an increase of 39.4 percent in the corresponding period of previous year.

National Salary and Wage Rate

29. The overall y-o-y salary and wage rate index rose by 22.1 percent in the review period compared to a rise of 9.0 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 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 salary index. The wage rate index increased by 18.9 percent in the review period compared to an increase of 12.2 percent in the same period of the previous year. Wages of agricultural, industrial and construction laborers increased by 20.9 percent, 16.5 percent and 15.1 percent respectively in the review period. These wage rates had increased by 19.1 percent, 2.5 percent and 10.2 percent respectively in the same period last year.

Fiscal Situation

Budget Deficit / Surplus

30. In the first three months of 2009/10, government budget deficit stood at Rs.90.5 million compared to a deficit of Rs 2.9 billion in the corresponding period of the previous year. A high growth of revenue collection accounted for such a reduction in budget deficit during the review period.

Government Expenditure

31. In the first three months of 2009/10, total government spending increased by 35.5 percent to Rs. 39.7 billion in contrast to a decrease of 2.4 percent in the corresponding period of the previous year. The high growth of recurrent as well as capital expenditure accounted for such an increase in the government expenditure.

32. In the first three months of 2009/10, recurrent expenditure increased by 54.0 percent to Rs.28.5 billion. In the corresponding period of the previous year, recurrent expenditure decreased by 13.2 percent. 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. In the review period, capital expenditure increased by 73.3 percent to Rs. 1.93 billion in contrast to a decline of 60.8 percent in the corresponding period of the previous year.

33. In the first three months of 2009/10, principal repayment expenditure decreased by 71.5 percent to Rs.1.2 billion. In the corresponding period of the previous year, such expenditure increased by 20.8 percent.

Government Revenue

34. In the first three months of 2009/10, revenue mobilization of the government grew by 53.7 percent to Rs.34.3 billion compared to an increase of 16.0 percent in the corresponding period of the previous year. Government's firm commitment to control the leakage in the revenue as well as reforms in tax administration in conjunction with increasing import and consumption by virtue of increasing remittances inflow contributed to such an increase in the revenue mobilization.

35. Of the total revenue mobilization, VAT revenue grew by 25.6 percent to Rs 11.4 billion in mid-October 2009. It had increased by 29.2 percent in the corresponding period of the previous year.

36. In the review period, custom revenue rose by 50.1 percent to Rs 7.9 billion compared to an increase of 11.2 percent in the same period of the previous year. Reforms in custom administration and the increase in imports of high tax yielding vehicles and spare parts contributed to such a high growth of customs revenue.

37. In the review period, excise revenue increased by 76.6 percent to Rs 5.1 billion compared to an increase of 19.4 percent in the same period of the previous year. Reforms in excise administration and increase in the imports of high tax yielding vehicles accounted for such a growth of excise revenue in the review period.

38. Income tax revenue increased by 32.4 percent to Rs 3.8 billion in the review period. Reforms in income tax administration and improved corporate culture in the economy contributed to such a growth of income tax collection. Last year such revenue rose by 26.7 percent.

39. In the review period, non-tax revenue grew by 447 percent to Rs 3.8 billion in contrast to a decline of 59.7 percent in the same period of the preceding year.

Foreign Cash Loans and Grants

40. The government received foreign cash loans of Rs 584.1 million and foreign cash grants of Rs 3.7 billion in the first three months of 2009/10. The government received foreign cash loans of Rs 936.7 million and foreign cash grants of Rs 2.5 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

41. The external sector shows an unsatisfactory performance in the first three months of 2009/10. Exports fell by 16.8 percent in contrast to an upsurge of 25.9 percent in the corresponding period of the previous year. Of the total exports, export to India declined by 11.4 percent in the first three months of 2009/10 in contrast to a rise of 3.2 percent in the same period of 2008/09. Exports to other countries plummeted by 23.2 percent as against a rise of 70.6 percent in the same period of the previous year.

42. The decline in the exports to India was attributed to the decline in the exports of readymade garments, zinc sheet, shoes and sandals, thread and marble slab, among others. Similarly, exports to other countries went down due to the decline in the export of pulses, woolen carpets, readymade garments, tanned skin and readymade leather goods.

43. Total imports increased by 30.4 percent in the first three months of 2009/10 compared to a growth of 32.8 percent in the corresponding period of the previous year. While imports from India rose by 25.2 percent in the review period compared to a growth of 20.9 percent in the corresponding period of 2008/09, imports from other countries soared by 37.0 percent compared to a sharp growth of 51.8 percent in the corresponding period of 2008/09.

44. A rise in the import of vehicles and spare parts, M.S. billet, M.S. wire and rods, electrical equipment, and other machinery and parts, among others, from India and gold, electrical goods, crude soyabean oil, medical equipment and tools and computer and parts, among others, from other countries were responsible for the surge in total imports in the first three months of 2009/10.

Balance of Payments

45. In the first three months of 2009/10, the overall BOP registered a deficit of Rs. 19.45 billion in contrast to a surplus of Rs. 7.70 billion in the corresponding period of the previous year. The current account also posted a deficit of Rs. 11.38 billion in the first three months of 2009/10 as against a surplus of Rs. 4.31 billion in the corresponding period of the previous year. Factors responsible for the current account deficit in the first three months of 2009/10 were the expansion in trade deficit by about 48 percent and the decline in net income by 15.6 percent. Likewise, under transfers, while grants fell by 21.0 percent in the first three months of 2009/10, workers' remittances increased by just 11.1 percent compared to its significant growth of 67.3 percent in the corresponding period of the previous year.

Foreign Exchange Reserves

46. The gross foreign exchange reserves stood at Rs. 249.10 billion in mid-October 2009, a drop by 11.0 percent compared to the level as at mid-July 2009. Such reserves rose by 8.5 percent in the corresponding period of the preceding year. In US dollar term, gross foreign exchange reserves declined by 5.7 percent to US$ 3.38 billion in mid-October 2009. In the same period last year, such reserves had gone down by 3.9 percent. The current level of reserves is sufficient for financing merchandise imports of 8.5 months and merchandise and service imports of 7.2 months.

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

47. The price of oil (Crude Oil Brent) in the international market rose by 15.9 percent to US$ 74.92 per barrel in mid-October, 2009 from US$ 64.62 per barrel in mid-October, 2008. Likewise, the price of gold also soared by 30.5 percent to US$ 1,047.50 per ounce in mid-October, 2009 from US$ 802.50 a year ago.

48. Compared to mid-July 2009, the Nepalese currency vis-à-vis the US dollar appreciated by 5.96 percent in mid-October 2009. It had depreciated by 11.50 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 73.66 in mid-October 2009 compared to Rs. 78.05 in mid-July 2009.