

Current Macroeconomic Situation

(Based on the First Five Months' Data of 2009/10)

Monetary Situation

Money Supply

1. Broad money (M2) expanded by 5.8 percent in the first five months of 2009/10. M2 expanded by 9.1 percent in the corresponding period of the previous year. Narrow money (M1), which had grown by 4.7 percent during the first five months of 2008/9, grew by 3.0 percent in the review period. Although the net domestic assets increased at a higher rate, substantial decline in net foreign assets owed to the slowdown in the growth of monetary aggregates during the review period.
2. Of the components of narrow money, currency in circulation increased by 6.8 percent to Rs.134.36 billion in the review period compared to a growth of 10.3 percent during the same period in the previous year. Demand deposits, which had declined by 5.5 percent in the same period a year ago, declined by 3.7 percent in the review period. A higher growth of credit to private sector contributed to the decline in demand deposits at a lower rate in the review period compared to that during the same period last year. Time deposits increased by 7.1 percent in the review period compared to a growth of 11.0 percent during the same period in the previous year.
3. Net foreign assets (NFA), after adjusting foreign exchange valuation gain/loss, declined substantially by Rs.19.60 billion (8.9 percent) in the review period. It increased by Rs.22.77 billion (13.3 percent) in the same period of the previous year. An acceleration of current account deficits due to high growth in import contributed to such a significant decline in net foreign assets in the review period.

Reserve Money

4. Reserve money declined by 2.9 percent (Rs. 5.66 billion) in the review period. In the same period of the previous year, it increased by 8.6 percent (Rs. 12.41 billion). A substantial decline in net foreign assets of monetary authority by Rs. 14.99 billion contributed to such a decline in reserve money.

Domestic Credit

5. In the first five months of 2009/10, domestic credit expanded by 9.0 percent compared to a growth of 6.5 percent in the corresponding period of the previous year. Domestic credit increased at a higher rate on account of a significant increase in loan and advances of commercial banks to the private sector. In the review period, the monetary sector's claims on private sector increased by 13.3 percent (Rs. 57.82 billion) compared to a growth of 10.1 percent (Rs. 34.24 billion) in the same period a year ago.
6. Claims on government declined by Rs.8.58 billion (8.2 percent) in the review period compared to a decline of Rs.6.83 billion (7.8 percent) in the corresponding period of the previous year. A substantial increase in government revenues relative to resource

mobilization contributed to the higher rate of decline in claims on government in the review period. The government deposit as on mid-December 2009 stood at Rs. 353.3 million while the government had used Rs. 8.84 billion overdrafts from Nepal Rastra Bank in mid-July 2009.

7. Claims on non-government financial enterprises increased by 12.5 percent in the review period compared to a growth of 30.6 percent in the corresponding period of the previous year. The decline in investments of commercial banks on pension funds and insurance companies in the review period contributed to such a slowdown in growth of claims on non-government financial enterprises.
8. In the first five months of 2009/10, claims on non-financial government enterprises decreased by 6.1 percent in contrast to a growth of such credit by 6.7 percent in the corresponding period of the previous year. A portion of loan repayment by National Trading Ltd., Nepal Food Corporation, Janakpur Cigarette Factory Ltd, Nepal Airlines Corporation, and Janak Education Material Center Ltd. contributed to a decline on such claims in the review period.

Deposits Mobilization and Credit Flow of Commercial banks

9. In the first five months of 2009/10, the deposits mobilization of commercial banks increased by Rs.25.10 billion (4.6 percent) amounting to Rs. 574.92 billion. The total deposits had increased by Rs.34.65 billion (8.2 percent) in the corresponding period of the previous year. Similarly, the loan and advances of commercial banks grew by 11.3 percent (Rs. 58.47 billion) compared to a growth of 7.7 percent (Rs 32.23 billion) in the corresponding period of the previous year.
10. In the review period, the private sector credit of commercial banks expanded by 13.4 percent (Rs.54.38 billion) compared to an increase of 10.2 percent (Rs.31.43 billion) in the corresponding period of the previous year. Of the private sector credit, credit to the production sector increased by 8.2 percent (Rs.7.23 billion) in the review period compared to a growth of 7.4 percent (Rs.5.54 billion) in the same period of the previous year. Among the production sectors, the credit to sugar industry and steel and iron industries saw a higher rate of growth.
11. In the review period, the credit to wholesale and retail business as well as finance, insurance and fixed assets increased by 19.60 percent (Rs.13.46 billion) and 33.3 percent (Rs.12.94 billion) respectively. The credit to these sectors during the corresponding period in the previous year had increased by 2.4 percent (Rs.1.31 billion) and 22.5 percent (Rs.5.60 billion) respectively. Likewise, the credit to the service sector registered a growth of 14.0 percent compared to a growth of 9.1 percent in the same period last year. Although the growth of the credit to real estate sector decelerated, the volume of such credit flow marginally increased in the review period compared to that in the same period of the previous year. The credit to such sector increased by Rs.8.0 billion in the first five months of 2009/10 compared to Rs.6.21 billion in the same period a year ago.

Liquidity position of Commercial Banks

12. The liquid assets of the commercial banks declined substantially in the review period. In the first five months of 2009/10, such assets declined by 11.1 percent to Rs.167.12

billion against a growth of 2.6 percent amounting to Rs.155.03 billion in the same period of the previous year. Of the components of liquid assets, liquid fund declined by 17.5 percent in the review period. A decline in commercial banks balance held abroad and balances with the NRB led to such a reduction in liquid fund of commercial banks. In the review period, balance held abroad by commercial banks declined by 15.3 percent to Rs.45.23 billion, and the investments on government securities declined by 0.9 percent. The decline in balance held abroad is mainly due to financing the resource gap between credit growths and deposit mobilization. Because of high growth in credit relative to resource mobilization, the credit deposit ratio increased to 88.0 percent as at mid December 2009 from 81.2 percent in mid-July 2009 while the liquidity deposit ratio declined to 29.1 percent from 34.2 percent in mid-July 2009.

Liquidity Management

13. In the first five months of 2009/10, NRB injected net liquidity amounting to Rs.7.56 billion. During this period, Rs.7.4 billion and Rs.1.0 billion was mopped up through outright sale auction and reverse repo auction respectively, while Rs. 16.0 billion was injected through repo auction. In the same period of the previous year, liquidity amounting to Rs.16.48 billion was mopped up. Of the total liquidity mopped up, Rs.7.46 billion was through outright sale auction and Rs.9.02 billion from reverse repo auction.
14. In the first five months of 2009/10, NRB injected net liquidity amounting to Rs. 33.76 billions through net purchase of USD 443.5 million from commercial banks. A net liquidity of Rs. 59.69 billion was injected through the net purchase of USD 789.1 million in the same period last year.
15. The NRB purchased Indian currency equal to 41.5 billion through the sale of USD 870 million in the Indian money market during the review period. Indian currency equal to 29.48 billion was purchased through the sale of USD 630 million in the corresponding period of the previous year. An accelerated trade deficits with India contributed to such a higher volume of Indian currency purchase in the review period. From the purchase/sale operation of foreign currency, net liquidity amounting to Rs. 32.64 billion was mopped up in the review period. However, during the same period in the previous year, net liquidity amounting to Rs. 12.53 billion was injected.

Standing Liquidity Facility and Inter Bank Transactions

16. Inter-bank transactions of commercial banks stood at Rs.118.93 billion in the first five months of 2009/10 compared to Rs.126.80 billion in the corresponding period of the previous year. Likewise, commercial banks used standing liquidity facility (SLF) amounting to Rs.45.46 billion in the review period. The use of the SLF by commercial banks amounted to Rs.35.53 billion in the corresponding period of the previous year.

Interest Rates

17. The weighted average 91-day Treasury bill rate stood at 6.35 percent in the fifth month of 2009/10 compared to 4.72 percent in the corresponding period of the previous year. Similarly, the weighted average inter-bank rate increased to 9.93 percent in the fifth month of 2009/10. Such rate in the corresponding period of the previous year stood at 2.38 percent.

18. An impact of the tight liquidity position has been observed on the deposit, lending as well as short-term interest rates of commercial banks. The maximum interest rate on one-year and two-years or above fixed deposits have increased by one percentage point to 10.0 percent and 10.5 percent respectively in December 2009 compared to November 2009. Similarly, the maximum interest rates on export credit and overdraft also increased respectively by 5.5 percentage points and 3.5 percentage points to 18.0 percent in December 2009 compared to November 2009.

Securities Market

19. The year on year (y-o-y) NEPSE index decreased by 25.3 percent to 548.61 points in mid December 2009. This index was 734.85 in the same period last year. Likewise, NEPSE sensitive index (based on July 2006) stood at 135.89 point in mid December 2009 as against 191.17 in mid December 2008. The NEPSE float index, calculated on the basis of closing transaction of August 24, 2008 (as base market value), remained at 52.54 in mid December 2009, a contraction of 24.3 percent compared to the same period last year.
20. The y-o-y market capitalization increased by 2.9 percent to Rs.401.55 billion in mid December 2009. The ratio of market capitalization to GDP stood at 37.1 percent in the review period. It was 40.7 percent in the same period last year. Of the total market capitalization, bank and financial institutions accounted for 73.5 percent followed by manufacturing and processing companies (1.9 percent), hotels (1.2 percent), business entities (0.4 percent), hydropower (4.1 percent) and other economic sectors (18.9 percent).
21. The total paid up capital of the listed companies stood at Rs. 67.92 billion in mid December 2009, an increase of 45.7 percent over the period of one year. This increase was largely due to the additional listing of securities with the NEPSE. **As at** the fifth month of 2009/10, additional securities worth Rs.13.12 billion (ordinary share of Rs.3.23 billion, bonus share of Rs.779.5 million, right share of Rs.3.36 billion and government securities of Rs.5.75 billion) were listed with the NEPSE.
22. The monthly turnover to market capitalization ratio remained at 0.59 percent in mid December 2009, compared to 0.48 percent a year ago.
23. Total number of companies listed with the NEPSE increased to 165 in mid December 2009 compared to 144 in the same period last year. Among them, 133 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).
24. The twelve-month rolling standard deviation which reflects the volatility of the stock market, stood at 57.1 in mid December 2009 compared to 116.9 during the same period last year.

Inflation

Consumer Price Inflation

25. The year on year (y-o-y) inflation as measured by the consumer price index moderated to 11.3 percent in mid December 2009 as against 14.1 percent increase in the same period last year. In the review period, the price index of food and beverages group increased by 17.8 percent whereas the index of non-food and services group rose only by 3.7 percent. The index of food and beverages and non-food and services group had risen by 17.2 percent and 10.8 percent respectively in the same period last year.
26. Of the items in the food and beverage group, price indices of sugar and sugar related products have surged by 56.9 percent compared to an increase of 35.9 percent in the same period last year. Similarly, in the review period, the price indices of vegetables and fruits, pulses, spices as well as meat, fish and eggs sub-groups increased by 39.3 percent, 34.6 percent, 28.4 and 21.9 percent respectively compared to the respective growths of 3.4 percent, 25.7 percent, 10.1 percent and 21.5 percent in the same period last year. The index of grains and cereal products subgroup also witnessed an increase of 9.9 percent compared to 18.0 percent in the corresponding period of the previous year.
27. Similarly, within the non-food and services group, the index of tobacco and related products increased by 11.6 percent during the review period compared to a rise of 15.1 percent during the same period last year. The price index of transport and communication declined by 7.8 percent in the review period. However, it had increased by 21.7 percent during the same period last year.
28. Region-wise, the price index of Terai rose by 12.3 percent followed by 11.8 percent in Hills and 9.3 percent in Kathmandu Valley in the review period. The respective rates were 13.1 percent, 13.6 percent and 16.2 percent in the corresponding period last year.
29. In the review period, the y-o-y core inflation rose to 11.8 percent, a moderation from 13.1 percent a year ago.

Wholesale Price Inflation

30. During the review period, the y-o-y wholesale price inflation increased by 18.9 percent compared to 10.1 percent a year ago. The indices of agricultural commodities and domestic manufactured commodities increased by 38.7 percent and 8.6 percent respectively in the review period compared to 6.1 percent and 12.3 percent respectively a year ago. The price indices of imported commodities declined by 3.1 percent in the review period whereas it had increased by 14.9 percent during the same period last year.
31. Within the agricultural commodities group, the price index of cash crops jumped by 114.4 percent in the review period, as against a decline of 28.0 percent a year ago. In the review period, the price index of spices, livestock production and fruits and vegetables also increased by 54.9 percent, 34.5 percent and 32.8 percent respectively compared to an increase of 1.8 percent, 26.5 percent and 5.7 percent respectively during the same period last year. Within the group of domestic manufactured

commodities, the price index of beverages and tobacco increased by 13.2 percent compared to a rise of 11.2 percent a year ago.

32. Within the imported commodities group, the price indices of chemical fertilizers and chemical goods declined by 11.9 percent in the review period compared to an increase of 8.3 percent in the corresponding period of the previous year.

National Salary and Wage Rate

33. The overall y-o-y salary and wage rate index rose by 17.4 percent in the review period compared to a rise of 14.6 percent a year ago. Of the salary and wage rate indices, the salary index increased by 18.0 percent in the review period compared to a rise of 12.6 percent in the same period of the previous 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 17.3 percent in the review period compared to an increase of 15.3 percent in the same period of the previous year. Wages of agricultural, industrial and construction laborers increased by 20.0 percent, 14.1 percent and 12.1 percent respectively in the review period. These wage rates had increased by 22.7 percent, 4.7 percent and 15.1 percent respectively in the same period last year.

Fiscal Situation

Budget Deficit / Surplus

34. In the first five months of 2009/10, government budget surplus stood at Rs.7.28 billion compared to a surplus of Rs 2.17 billion in the corresponding period of the previous year. A high growth of revenue collection relative to total government expenditure accounted for such a budget surplus during the review period.

Government Expenditure

35. In the first five months of 2009/10, total government spending increased by 30.3 percent to Rs. 63.13 billion compared to an increase of 2.5 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.
36. In the review period, recurrent expenditure increased by 41.0 percent to Rs.45.60 billion. In the corresponding period of the previous year, the recurrent expenditure had increased by 4.5 percent. An upward revision in the salary and allowances of the civil servants and teachers by the Government of Nepal mainly attributed to such a rise in the recurrent expenditure. In the review period, capital expenditure increased by 13.3 percent to Rs.5.53 billion in contrast to a decline of 34.3 percent in the corresponding period of the previous year.
37. In the first five months of 2009/10, principal repayment expenditure declined by 37.5 percent to Rs.3.95 billion. In the corresponding period of the previous year, such expenditure had decreased by 2.8 percent.

Government Revenue

38. In the first five months of 2009/10, revenue mobilization of the government grew by 36.1 percent to Rs.58.60 billion compared to an increase of 33.1 percent in the corresponding period of the previous year. Growth in imports, control in revenue leakages and tax administration reforms mainly contributed to such an increase in revenue mobilization.
39. Of the total revenue mobilization, Value Added Tax (VAT) grew by 42.5 percent to Rs.20.20 billion in mid December 2009. It had increased by 17.1 percent in the corresponding period of the previous year.
40. In the review period, custom revenue rose by 48.1 percent to Rs.13.24 billion compared to an increase of 13.7 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.
41. In the review period, excise revenue increased by 64.2 percent to Rs.8.93 billion compared to an increase of 34.1 percent in the same period of the previous year. Reforms in excise administration and increase in the imports of high excise tax yielding vehicles accounted for such a growth of excise revenue in the review period.
42. Income tax revenue increased by 41.5 percent to Rs.6.47 billion in the review period. Reforms in income tax administration and improving corporate culture in the economy contributed to such a growth of income tax collection. In the corresponding period last year such revenue had risen by 23.9 percent.
43. In the review period, non-tax revenue decreased by 8.8 percent to Rs.6.11 billion compared to an increase of 125.2 percent in the same period of the preceding year.

Foreign Cash Loans and Grants

44. The government received foreign cash loans amounting to Rs.1.80 billion and foreign cash grants amounting to Rs.9.74 billion in the first five months of 2009/10. In the corresponding period of the previous year, the government had received foreign cash loans and foreign cash grants amounting to Rs.2.06 billion and Rs.5.69 billion respectively.

External Sector Situation

Foreign Trade

45. In the first five months of 2009/10, total exports declined by 18.7 percent compared to a growth of 28.3 percent in the corresponding period of 2008/09. Of the total exports, exports to India declined by 12.3 percent as against a growth of 6.4 percent in the same period last year. Exports to other countries went down by 27.4 percent as against a substantial growth of 77.8 percent in the corresponding period last year.
46. Exports to India fell considerably arising from the decline in the exports of readymade garments, zinc sheet, marble slab, thread and pulses among others. Likewise, exports to other countries decreased due mainly to the decline in the export of pulses, woolen carpets, readymade garments, silverware and jewelleryes and tanned skin.

47. Total imports grew by 32.8 percent compared to a growth of 34.9 percent in the corresponding period last year. While imports from India went up by 31.6 percent in the review period compared to a growth of 18.5 percent in the corresponding period last year. However, imports from other countries grew by 34.3 percent compared to a sharp growth of 61.1 percent in the corresponding period last year.
48. Growth in the import of M.S. billet, vehicles and spare parts, M.S. wire and rods, electrical equipment and other machinery and parts, among others, from India and gold, telecommunication equipment and parts, spare parts of aircraft, computer and parts and medical equipment and tools, among others, from other countries were responsible for the rise in the total imports in the first five months of 2009/10.

Balance of Payments

49. In the first five months of 2009/10, the overall balance of payment (BOP) recorded a deficit of Rs. 19.60 billion compared to a surplus of Rs. 22.77 billion in the corresponding period of the previous year. The current account also registered a deficit of Rs. 19.64 billion in the first five months of 2009/10 as against a surplus of Rs. 10.74 billion in the corresponding period last year. The increase in the trade deficit of goods by 52.8 percent has resulted in the current account deficit. Similarly, under the subgroups transfers; while grants declined by 25.7 percent in the first five months of 2009/10, workers' remittances went up only by 10.4 percent compared to its significant growth of 65.8 percent in the corresponding period last year.

Foreign Exchange Reserves

50. The gross foreign exchange reserves stood at Rs. 245.94 billion in mid-December 2009, a decline of 12.2 percent compared to that of mid-July 2009. However, such reserves went up by 10.8 percent in the corresponding period of the preceding year. In US dollar terms, gross foreign exchange reserves decreased by 7.9 percent to US\$ 3.30 billion in mid-December 2009. During the same period last year, such reserves had decreased by 1.8 percent. The current level of reserves is sufficient for financing merchandise imports of 8.2 months and merchandise and service imports of 7.0 months.

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

51. The price of oil (Crude Oil Brent) in the international market went up by 60.5 percent to US\$ 71.43 per barrel in mid-December, 2009 from US\$ 44.51 per barrel in mid-December, 2008. Similarly, the price of gold also surged by 35.8 percent to US\$ 1122.00 per ounce in mid-December, 2009 from US\$ 826.00 a year earlier.
52. Compared to mid-July 2009, the Nepalese currency vis-à-vis the US dollar appreciated by 4.85 percent in mid-December 2009. It depreciated by 11.38 percent in the corresponding period last year. The exchange rate of one US dollar stood at Rs. 74.44 in mid-December 2009 compared to Rs. 78.05 in mid-July 2009.