

# **Current Macroeconomic Situation**

*(Based on the Eleven Months' Data of the FY 2010/11)*

## **Monetary Situation**

### **Money Supply**

1. Broad money (M2) has increased by 5.3 percent during the eleven months of the FY 2010/11 compared to a growth of 9.8 percent in the corresponding period of the previous year. Broad money has expanded at a lower rate during the review period on account of marginal increase in net foreign assets of the banking system and a slower growth in net domestic assets. However, narrow money (M1) increased by 1.4 percent during the review period.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 249.1 million (0.1 percent) during the review period compared to Rs. 10.86 billion (4.8 percent) in the corresponding period of the previous year. The improvement in merchandise export and rise in workers' remittances as well as marginal increase in import were the factors responsible for the improvement in net foreign assets of the monetary sector during the review period relative to that of the corresponding period of the previous year.

### **Domestic Credit**

3. Domestic credit increased by 7.7 percent during the review period. It had expanded by 12.5 percent in the corresponding period of the previous year. During the review period, claims on private sector increased by 12.0 percent compared to a growth of 16.8 percent in the corresponding period of the previous year. The policy measures initiated to curb the excessive credit flow to unproductive sector and a decline in import growth contributed to slower growth in credit to the private sector during the review period.

### **Deposit Mobilization and Credit Flow of Commercial Banks**

4. The imbalance between deposit mobilization and lending by commercial banks has continued during the eleven months of the FY 2010/11. The deposit mobilization of commercial banks increased by Rs. 29.68 billion while the loan and advances increased by Rs. 69.24 billion during the review period. The deposit mobilization had increased by Rs. 40.97 billion and loan and advances had increased by Rs. 71.20 billion in the corresponding period of the previous year. Despite the lower growth rate in deposit mobilization, credit to private sector increased by

Rs. 51.10 billion during the review period. The liquidity overhang of the previous year also facilitated for such growth in credit to private sector.

5. Of the total bank credit to private sector, the credit to production sector increased by Rs.18.82 billion during the review period compared to Rs. 10.65 billion in the corresponding period of the previous year. Similarly, banks' credit to wholesale and retail trade, and construction sectors increased by Rs. 19.33 billion and Rs. 2.85 billion respectively during the review period. On the contrary, credit to agriculture and transportation, communication and public services declined by Rs. 2.24 billion and Rs. 1.78 billion respectively during the review period.

### **Liquidity Management**

6. The NRB injected net liquidity of Rs. 61.40 billion through secondary market operation during the review period. Liquidity of Rs. 21.0 billion was mopped up through outright sale auction of Rs. 2.0 billion and reverse repo auction of Rs. 19.0 billion during the review period. On the other hand, liquidity of Rs. 82.40 billion was injected through repo auction during the review period. Liquidity of Rs. 8.44 billion was mopped up through outright sale auction and reverse repo auction while Rs. 122.49 billion was injected through outright purchase auction and repo auction in the corresponding period of the previous year.
7. The NRB injected net liquidity of Rs. 160.64 billion through the purchase of USD 2.22 billion from foreign exchange market (commercial banks) during the review period. A net liquidity of Rs. 100.99 billion was injected through the purchase of USD 1.36 billion from foreign exchange market in the corresponding period of the previous year.
8. The NRB purchased Indian currency equivalent to Rs. 178.10 billion through the sale of USD 2.46 billion in the Indian money market during the review period. INR equivalent to Rs. 146.93 billion was purchased through the sale of USD 1.97 billion in the corresponding period of the previous year.

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

9. Inter-bank transaction of commercial banks reached Rs. 344.58 billion during the first eleven months of the FY 2010/11 compared to Rs. 245.82 billion in the corresponding period of the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 205.72 billion during the review period. Of the total SLF used during the review period, the outstanding amount was Rs. 2.51 billion as at mid-June 2011. Liquidity injected through the SLF had amounted to Rs. 91.86 billion in the corresponding period of the previous year. There was no outstanding amount of SLF as at mid-June 2010.

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

10. The short-term interest rates remained slightly higher in mid-June 2011 compared to mid-June 2010. For example, the weighted monthly average 91-day Treasury bill rate stood at 8.34 percent in mid-June 2011 compared to 6.77 percent in mid-June 2010. The weighted average inter-bank rate remained at 10.23 percent in mid-June 2011 compared to 5.52 percent in mid-June 2010.

### **Securities Market**

11. The year on year (y-o-y) NEPSE index declined by 37.6 percent to 297.62 points in mid-June 2011. This index had stood at 476.69 in the corresponding period of the previous year. The decline in share prices was on account of the significant increase in the supply of securities.
12. The y-o-y stock market capitalization decreased by 29.1 percent to Rs. 265 billion in mid-June 2011. The ratio of market capitalization to GDP stood at 21.7 percent in mid-June 2011. This ratio was 35.2 percent a year ago. Of the total market capitalization, the share of bank and financial institutions stood at 68.8 percent followed by manufacturing and processing companies (3.2 percent), hotels (2.0 percent), business entities (0.5 percent), hydropower (4.0 percent) and other sectors (21.4 percent).
13. Total paid-up capital of the listed companies stood at Rs. 99.38 billion in mid-June 2011, registering an increase of 27.6 percent over the period of one year. This increase was largely due to the additional listing of securities at the NEPSE. As at mid-June 2011, total securities worth Rs. 28.86 billion (ordinary share of Rs 8.09 billion, bonus share of Rs. 3.85 billion, right share of Rs. 8.93 billion and government securities of Rs. 7.99 billion) were listed at the NEPSE.
14. Total number of companies listed at the NEPSE increased from 173 in mid-June 2010 to 205 in mid-June 2011. Among them, 173 were banks and financial institutions (including insurance companies), followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and companies in other groups (2).

### **Inflation**

#### **Consumer Price Inflation**

15. The y-o-y inflation as measured by the consumer price index increased to 8.8 percent in mid-June 2011 from 8.2 percent in the corresponding period of the previous year. During the review period, the index of food and beverage group increased by 14.3 percent and the index of non-food and services group increased by 4.3 percent respectively. The indices of these groups had increased by 9.8 percent and 7.0 percent respectively in the corresponding period of the previous year.

16. During the review period, of the items under food and beverage group, price index of vegetables sub-groups increased by the highest rate of 46.6 percent compared to the decrease of 13.4 percent in the corresponding period of the previous year. The price indices of fruits and sugar and sweets, which had increased by 10.9 percent and 20.3 percent respectively in the same period of the previous year, increased by 28.2 percent and 23.4 percent respectively during the review period. During the review period, the price indices of tobacco products, restaurant and hotel and cereals grains increased by 15.3 percent, 13.9 percent and 10.4 percent respectively compared to the increase of 9.8 percent, 18.2 percent and 13.5 percent respectively in the corresponding period of the previous year. Similarly, the price indices of milk products and egg and meat and fish increased by 16.9 percent and 5.5 percent respectively during the review period compared to their respective increase of 15.2 percent and 11.3 percent in the corresponding period of the previous year. The index of legume varieties, which had increased by 16.4 percent in the corresponding period of the previous year, decreased by 6.5 percent during the review period.
17. Within the group of non-food and services, the price index of clothing and footwear increased by 14.7 percent in the review period compared to an increase of 7.7 percent in the corresponding period of the previous year. The price index of transport, which had increased by 0.1 percent in the corresponding period of the previous year, increased by 11.0 percent during the review period. Similarly, the price index of housing and utilities, which had increased by 9.8 percent in the corresponding period of the previous year increased by 2.8 percent during the review period. The price index of communication, which had remained unchanged in the corresponding period of the previous year, declined by 13.0 percent during the review period.
18. Region-wise, the price index in Kathmandu Valley increased by 10.5 percent followed by 9.9 percent in Hills and 6.9 percent in Terai during the review period. The respective growth rates were 7.0 percent, 9.8 percent and 8.0 percent in the corresponding period of the previous year.

#### **Wholesale Price Inflation**

19. During the review period, the y-o-y wholesale price index increased by 8.9 percent compared to a rise of 6.3 percent in the corresponding period of the previous year. The wholesale price indices of domestic manufactured commodities, imported commodities and agricultural commodities increased by 11.7 percent, 9.7 percent and 7.6 percent respectively during the review period compared to the increase of 8.5 percent, 5.7 percent and 6.0 percent in the corresponding period of the previous year.
20. During the review period, within the group of agricultural commodities, the wholesale price index of fruits and vegetables increased sharply by 31.8 percent. Likewise, the wholesale price indices of food grains and livestock production increased by 3.0 percent and 6.3 percent respectively during the review period. The

wholesale price index of pulses declined by 8.2 percent during the review period. The wholesale price index of spices increased by 16.9 percent during the review period.

21. Within the group of domestic manufactured commodities, the wholesale price index of beverages and tobacco and construction materials increased by 20.5 percent and 4.3 percent during the review period. Likewise, the wholesale price index of food-related products increased by 5.9 percent during the review period.
22. During the review period, within the imported commodities group, the wholesale price index of petroleum products and coal and transport vehicles and machinery goods increased by 13.4 percent and 8.8 percent during the review period. Likewise, the price index of chemical fertilizer and chemical goods increased by 9.1 percent during the review period, while, the price index of textile-related products increased by 7.7 percent during the review period.

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

23. The y-o-y salary and wage rate index increased by 23.3 percent during the review period compared to an increase of 13.4 percent in the corresponding period of the previous year. In the salary and wage rate indices, the salary index remained unchanged in the review period as against the increase of 13.8 percent in the corresponding period of the previous year. However, during the review period, the overall salary and wage rate index increased mainly due to the increase in wage rate index. During the review period, the wage rate index increased by 30.7 percent compared to an increase of 13.3 percent in the corresponding period of the previous year.
24. The indices of wages of agricultural, industrial and construction laborers increased by 39.6 percent, 13.6 percent and 29.5 percent respectively during the review period. These rates had increased by 18.8 percent, 4.4 percent and 11.5 percent respectively in the corresponding period of the previous year.

#### **Fiscal Situation \***

##### **Budget Deficit / Surplus**

25. During the eleven months of the FY 2010/11, government budget remained at a deficit of Rs. 8.42 billion. A high government expenditure relative to total resource mobilization accounted for such a deficit during the review period. In the

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\* Based on the data reported by 8 offices of NRB, 60 out of total 65 branches of Rastriya Banijya Bank Limited, 36 out of total 42 branches of Nepal Bank Limited, 5 branches of Everest Bank Limited and 1 branch each of Nepal Bangladesh Bank Limited and Global Bank Limited conducting government transactions.

corresponding period of the previous year, budget deficit had stood at Rs. 6.69 billion.

### **Government Expenditure**

26. During the review period, total government spending increased by 12.5 percent to Rs. 212.18 billion compared to an increase of 29.1 percent in the corresponding period of the previous year. During the review period, the low growth rates on both recurrent and capital expenditures were attributed for such a low growth rate in the government expenditure.
27. During the review period, recurrent expenditure increased by 14.7 percent to Rs. 133.38 billion. In the corresponding period of the previous year, such expenditure had increased by 25.3 percent. Delay in the announcement of the annual budget of FY 2010/11 was responsible for such a low growth rate of recurrent expenditure.
28. During the review period, capital expenditure increased by 19.7 percent to Rs. 55.74 billion compared to an increase of 41.5 percent in the corresponding period of the previous year. Delay in the announcement of the annual budget, delay in approval of program and procurement process and slow process in tenders for infrastructure development were attributed for such a low growth rate of capital expenditures.
29. During the review period, principal repayment expenditure increased by 6.0 percent to Rs. 16.50 billion in comparison to an increase of 4.9 percent in the corresponding period of the previous year.

### **Revenue**

30. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 14.5 percent to Rs. 175.86 billion compared to an increase of 26.7 percent to Rs. 153.59 billion in the corresponding period of the previous year. The impact of the delay in the announcement of the government budget, revenue mobilization based on previous year's Finance Act during the first four months and slow growth in the capital expenditure were responsible for such a low growth of revenue mobilization. Likewise, decline in growth rate of import also affected the growth rate of revenue of the government during the review period.
31. Of the total revenue mobilization, VAT revenue grew by 16.4 percent to Rs. 55.78 billion in mid-June 2011. It had increased by 36.2 percent in the corresponding period of the previous year. Lack of expansion of industrial products, ineffective billing system, use of fake bills and low invoicing practice were attributed for such a low growth rate in VAT.
32. During the review period, custom revenue rose by 4.3 percent to Rs. 32.22 billion compared to an increase of 32.1 percent in the corresponding period of the previous

year. The growth rate of custom revenue declined mainly due to the low growth rate of import compared to that of the corresponding period of the previous year.

33. Income tax revenue increased by 28.8 percent to Rs. 33.48 billion during the review period. Such revenue had risen by 22.7 percent in the corresponding period of the previous year.
34. During the review period, excise revenue increased by 11.2 percent to Rs. 23.55 billion compared to an increase of 51.8 percent in the corresponding period of the previous year. The growth rate of excise revenue declined mainly due to the decline in imports of high excise tax yielding vehicles.
35. During the review period, non-tax revenue increased by 22.3 percent to Rs. 25.02 billion compared to a marginal increase of 2.5 percent in the corresponding period of the previous year.

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

36. During the first eleven months of the FY 2010/11, the Government of Nepal received foreign cash loans amounting to Rs. 4.39 billion and foreign cash grants amounting to Rs. 23.77 billion. Such receipts were respectively Rs. 3.83 billion and Rs. 21.80 billion in the corresponding period of the previous year.

### **External Sector Situation**

#### **Foreign Trade**

37. Merchandise exports rose by 5.6 percent to Rs. 58.14 billion during the eleven months of the FY 2010/11. Such exports had declined by 10.3 percent to Rs. 55.07 billion in the same period last year. On a monthly basis, exports increased by 16.5 percent in May/June of the FY 2010/11 compared to the value of the previous month.
38. Exports to India went up by 8.0 percent during the eleven months of the FY 2010/11 in contrast to a drop of 4.8 percent in the corresponding period of the previous year. Exports to other countries increased by 1.0 percent in contrast to a plunge by 19.2 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, jute goods, thread, juice, and cardamom among others. Exports to other countries increased due mainly to the increase in the export of pashmina, woolen carpet, tanned skin and tea among others.
39. During the eleven months of the FY 2010/11, merchandise imports increased by 5.7 percent to Rs. 358.40 billion. Such imports had risen by 33.7 percent to Rs. 339.08 billion in the corresponding period of the previous year. On a monthly basis, the merchandise imports increased by 14.8 percent in May/June of the FY 2010/11 in comparison to the value of the previous month.

40. Imports from India soared by 22.8 percent during the review period compared to a growth of 35.2 percent in the corresponding period of the previous year. Likewise, imports from other countries plummeted by 17.6 percent in contrast to a growth of 31.7 percent in the corresponding period of the previous year. In the review period, the import of petroleum products, M.S. billet, cold rolled sheet in coil, medicine and electrical equipments, among others, increased from India whereas import of gold, readymade garments, steel rod and sheet, other machinery and parts and betelnuts declined from other countries.
41. Total trade deficit during the eleven months of FY 2010/11 went up by 5.7 percent to Rs. 300.27 billion. Trade deficit had gone up by 47.8 percent in the same period last year. Trade deficit with India rose by 26.2 percent during the review period compared to a growth of 49.5 percent in the same period last year. On the contrary, trade deficit with other countries declined by 20.4 percent compared to a growth of 45.7 percent in the same period a year ago.
42. The ratio of export to import remained at 16.2 percent in the eleven months of 2010/11, the same level as that of the corresponding period of the previous year.

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

43. The overall BOP situation, which remained continuously negative for the last two years, has become positive in the review period. The overall BOP recorded a surplus of Rs. 249.1 million during the eleven months of FY 2010/11 in contrast to a deficit of Rs. 10.86 billion in the same period last year. The current account registered a deficit of Rs. 11.92 billion compared to a deficit of Rs. 28.26 billion in the same period last year. The deceleration in the growth of trade deficit along with improvement in the service account attributed to such a decline in the current account deficit thereby recording a marginal level of BOP surplus.
44. The FOB-based merchandise trade deficit increased by 5.5 percent to Rs. 289.97 billion during the eleven months of FY 2010/11. Such deficit had grown by 48.7 percent in the same period last year. The service account deficit declined considerably by 44.4 percent to Rs. 8.58 billion during the review period. Service account deficit had increased by 86.9 percent to Rs. 15.44 billion in the same period last year. The net transfer account registered a growth of 9.9 percent to Rs. 280.40 billion in the review period compared to that of a year ago. Under the transfers sub-group, grants increased by 5.0 percent to Rs. 25.97 billion while pension receipts rose by 6.2 percent to Rs. 25.55 billion. Likewise, workers' remittances increased by 10.1 percent to Rs. 229.52 billion compared to its growth of 10.3 percent in the same period last year. On a monthly basis, the remittance inflows decreased by 7.9 percent in May/June compared to the value of the previous month of FY 2010/11. Likewise, under the financial account, foreign direct investment of

Rs 6.06 billion was recorded in the review period compared to the level of Rs 2.41 billion in the same period a year ago.

#### **Foreign Exchange Reserves**

45. The gross foreign exchange reserves increased marginally by 0.3 percent to Rs. 269.77 billion in mid-June 2011 from a level of Rs. 268.91 billion as at mid-July 2010. Such reserves had gone down by 11.0 percent to Rs. 255.13 billion in the same period last year. On a monthly basis, foreign exchange reserve of Rs 10.76 billion increased in the month of May/June from the level of the previous month of FY 2010/11. Out of total reserve, NRB's reserves rose by 4.0 percent to Rs. 213.54 billion in the review period from a level of Rs. 205.37 billion as at mid-July 2010. The gross foreign exchange reserves in USD terms increased by 4.5 percent to USD 3.77 billion in mid-June 2011. Such reserves had decreased by 3.2 percent in the same period last year. Based on the trend of import during the eleven months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 8.4 months and merchandise and service imports of 7.3 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 52.6 percent to USD 114.67 per barrel in mid-June 2011 from USD 75.15 per barrel in mid-June 2010. Similarly, the price of gold also rose by 25.0 percent to USD 1529.75 per ounce in mid-June 2011 from the level a year ago.
47. Nepalese currency vis-à-vis the US dollar appreciated by 4.13 percent in mid-June 2011 from the level of mid-July 2010. It had appreciated by 4.62 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 71.49 in mid-June 2011 compared to Rs. 74.44 in mid-July 2010.