

Current Macroeconomic Situation of Nepal

(Based on First Month's Data of 2013/14)

Monetary Situation

Money Supply

1. Broad money supply (M2) decreased by 0.5 percent in the first month of 2013/14 compared to a decline of 0.4 percent in the corresponding period of the previous year. Likewise, narrow money supply (M1) declined by 7.1 percent in the review period compared to a decrease of 4.9 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 expanded by 16.2 percent and M1 expanded by 11.8 percent in mid-August 2013.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 16.09 billion (3.4 percent) during the review period compared to an increase of Rs. 5.56 billion (1.4 percent) in the corresponding period of the previous year. Increase in net foreign assets is accompanied by decelerated growth of imports along with the expansion of foreign assistance and remittance inflow in the review period.

Domestic Credit

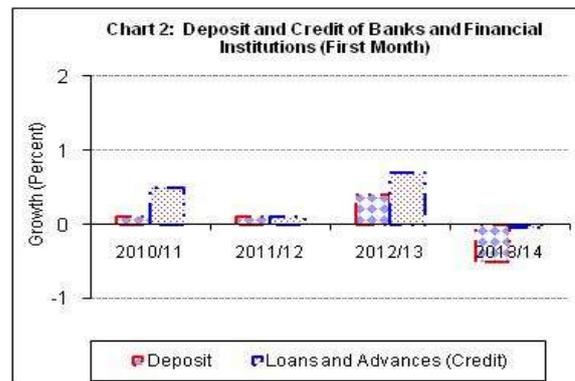
3. In the review period, domestic credit decreased by 2.1 percent compared to a decline of 1.2 percent in the same period of the previous year. On y-o-y basis, domestic credit increased by 14.8 percent in mid-August 2013. The decline in the domestic credit is due to a decrease in net claims on government in the review period. In the review period, the claims on private sector increased by 0.1 percent compared to an increase of 0.5 percent in the corresponding period of the previous year.

Reserve Money

4. Reserve money decreased by 3.5 percent during the review period compared to a decline of 3.4 percent in the corresponding period of the previous year. On y-o-y basis, such money increased by 10.8 percent in mid-August 2013. The decline in reserve money is on account of an increment of government deposits with the NRB.

Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions (BFIs) decreased by 0.5 percent (Rs. 5.49 billion) in the first month of 2013/14. Such deposit mobilization had increased by 0.4 percent (Rs. 3.98 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs expanded by 16.4 percent in mid-August 2013. In the review period, deposit mobilization of commercial banks decreased by 0.6 percent while that of development banks and finance companies increased by 0.9 percent and 1.4 percent respectively. The deposit mobilization of commercial banks, development banks and finance companies had increased by 0.2 percent, 1.1 percent and 1.1 percent respectively in the same period of the previous year.



Credit Flow of Banks and Financial Institutions

6. In the first month of the 2013/14, loans and advances of BFIs decreased marginally by Rs. 0.48 billion compared to a growth of 0.7 percent (Rs. 6.67 billion) in the corresponding period of the previous year. In the review period, loans and advances of commercial banks decreased by 0.2 percent while that of development banks and finance companies increased by 1.3 percent and 0.1 percent respectively. Similarly, the credit to private sector from BFIs decreased by 0.2 percent (Rs. 2.24 billion) in the review period compared to a growth of 0.1 percent (Rs. 0.44 billion) in the same period of the previous year. On y-o-y basis, the credit to private sector from BFIs increased by 20.4 percent in mid-August 2013. In the review period, credit to private sector from commercial banks and finance companies decreased by 0.3 percent and 1.5 percent respectively while that of development banks increased by 0.8 percent.
7. Of the total credit from BFIs, the credit to industrial production sector increased by Rs. 0.32 billion during the review period compared to an increase of Rs. 2.24 billion in the same period of the previous year. Similarly, credit to agriculture sector decreased by Rs. 0.07 billion in the review period compared to an increase of Rs. 1.79 billion in the corresponding period of the previous year. Likewise, credit to construction sector increased by Rs. 1.18 billion; to transportation, communication and public services increased by 0.11 billion and to wholesale and retail trade sector decreased by Rs. 1.99 billion during the review period. The credit to construction sector had increased by 0.24 billion while the credit to transportation, communication and public services decreased by Rs. 0.26 billion and to wholesale and retail trade sector decreased by Rs. 1.59 billion in the same period of the previous year.

Liquidity Management

8. In the review period, the NRB injected net liquidity of Rs. 17.73 billion through the net purchase of USD 181.83 million from foreign exchange market (commercial banks). Net liquidity of Rs. 12.55 billion was injected through the purchase of USD 141.70 million in the corresponding period of the previous year.

9. The NRB purchased Indian currency (INR) equivalent to Rs. 30.87 billion through the sale of USD 320 million in the Indian money market during the review period. INR equivalent to Rs. 21.31 billion was purchased through the sale of USD 240 million in the corresponding period of the previous year.

Inter-bank Transactions and Standing Liquidity Facility

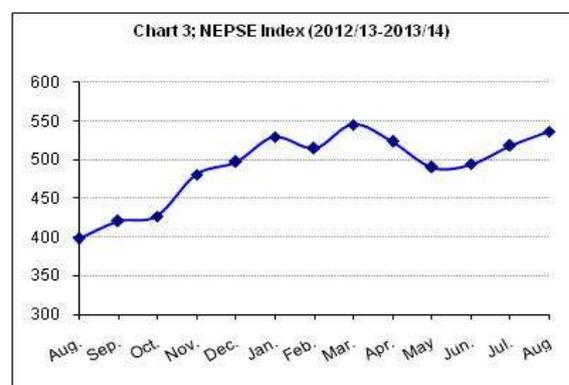
10. In the review period, inter-bank transactions of commercial banks stood at Rs. 10.82 billion and those of other financial institutions amounted to Rs. 11.89 billion. Those figures stood at Rs. 3.78 billion and Rs. 8.04 billion respectively in the corresponding period of the previous year. BFIs did not use standing liquidity facility (SLF) in the review period.

Interest Rates

11. The weighted average Treasury bill rate has slightly increased while the inter-bank transaction rate decreased in August 2013 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate increased to 0.25 percent in August 2013 compared to 0.18 percent a year ago. The weighted average inter-bank transaction rate among commercial banks remained at 0.30 percent in August 2013 compared to 0.48 percent in August 2012. Likewise, the weighted average inter-bank rate among other financial institutions declined to 4.27 percent in August 2013 from 4.85 percent in August 2012.
12. In mid-August 2013, the weighted average deposit and lending rates of commercial banks remained at 5.13 percent and 12.10 percent respectively. Accordingly, the interest rate spread (lending rate less deposit rate) of commercial banks stood at 6.97 percent in mid-August 2013. Moreover, the average base rate of commercial banks remained at 9.63 percent in mid-August 2013.

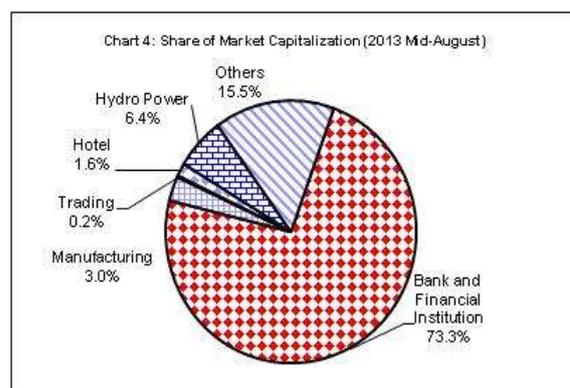
Securities Market

13. NEPSE index, on y-o-y basis, increased by 34.7 percent to 536.5 points in mid-August 2013. The index had increased by 13.5 percent in the corresponding period of the previous year and stood at 398.3 points as at mid-August 2012.



14. The y-o-y stock market capitalization increased by 42.0 percent to Rs. 534.44 billion in mid-August 2013. The ratio of market capitalization to GDP stood at 31.4 percent in mid-August 2013 compared to 24.5 percent a year ago.

15. Banks and financial institutions constituted the biggest share in total market capitalization of stock market. Of the total market capitalization as of mid-August 2013, the share of banks and financial institutions (including insurance companies) stood at 73.3 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 3.0 percent, 1.6 percent, 0.2 percent, 6.4 percent and 15.5 percent respectively.



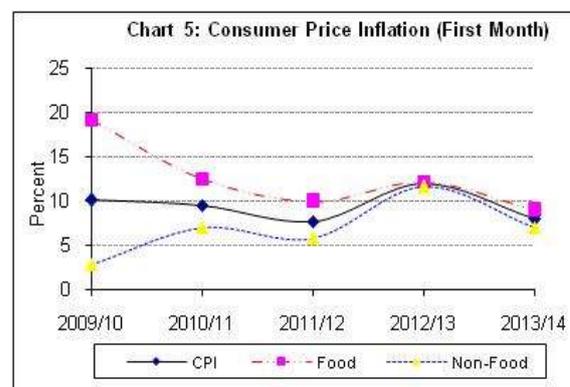
16. Total number of companies listed at the NEPSE increased from 219 in mid-August 2012 to 226 in mid-August 2013. Of the total listed companies the number of banks and financial institutions (including insurance companies) stood at 194 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and other companies (2).

17. Total paid-up capital of the listed companies stood at Rs. 126.62 billion in mid-August 2013, registering an increase of 14.5 percent over mid-August 2012. Additional securities worth Rs. 1.09 billion comprising right share of Rs. 0.17 billion and bonus share of Rs. 0.92 billion were listed at the NEPSE during the first months of 2013/14.

Inflation, Salary and Wage Rate

Consumer Price Inflation

18. The y-o-y inflation as measured by the consumer price index increased by 7.9 percent in mid-August 2013 as compared to 11.9 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 8.9 percent and 7.0 percent respectively during the review period. Such indices had increased by 12.2 percent and 11.6 percent respectively in the corresponding period of previous year.



19. Under the items of the food and beverage group, price index of meat and fish sub-group increased by the highest rate of 17.4 percent during the review period

compared to an increase of 11.5 percent in the corresponding period of the previous year. The price index of restaurant and hotel sub-group and cereals, grains and their products sub-group which had increased by 12.6 percent and 5.8 percent in the corresponding period of previous year, went up by 12.2 percent and 11.5 percent respectively during the review period. The price indices of tobacco products and hard drinks increased by 9.9 percent and 9.6 percent respectively during the review period compared to the increase of 17.9 percent and 12.1 percent respectively in the corresponding period of the previous year. The price index of spices that had decreased by 0.6 percent in the corresponding period of previous year, increased by 11.0 percent in the review period.

20. Within the group of non-food and services, the price index of furnishing and household equipment increased by 10.8 percent during the review period compared to an increase of 14.2 percent in the corresponding period of the previous year. The price indices of clothing and footwear sub-group and education sub-group increased respectively by 9.8 percent and 7.8 percent during the review period. Such indices had increased by 15.1 percent and 12.5 percent respectively in the corresponding period of the previous year. Similarly, the price indices of health sub-group and transport sub-group increased by the same percentage of 6.4 percent during the review period while such indices had increased by 8.1 percent and 14.8 percent in the corresponding period of the previous year. The price index of communication sub-group which had decreased by 4.0 percent in the corresponding period of the previous year, witnessed a lowest growth in price index with 0.9 percent.
21. Region-wise, the price indices in Terai increased by 8.3 percent followed by Kathmandu Valley and Hilly region with 8.0 percent and 7.1 percent respectively during the review period. The respective increments were 11.8 percent, 12.3 percent and 11.5 percent respectively in the corresponding period of the previous year.

Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 5.9 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 agricultural commodities, imported commodities and domestic manufactured commodities increased by 7.8 percent, 4.5 percent and 2.4 percent respectively during the review period. The respective increments of these sub-groups were 13.6 percent, 11.4 percent and 6.9 percent in the corresponding period of the previous year.



National Salary and Wage Rate

23. The y-o-y salary and wage rate index increased by 9.2 percent during the review period compared to an increase of 12.2 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 13.6 percent during the review period, which had only increased marginally by 0.2 percent in the corresponding period of the previous year. The wage rate index increased by 8.2 percent during the review period compared to an increase of 15.3 percent in the corresponding period of the previous year.
24. The indices of salary of army and police forces, civil services and education sector increased by 26.2 percent, 26.1 percent and 12.4 percent respectively during the review period. Likewise, agricultural labourer, industrial labourer and construction labourer has witnessed the growth of 9.6 percent, 7.5 percent and 1.5 percent respectively in the indices of wages in the review period.

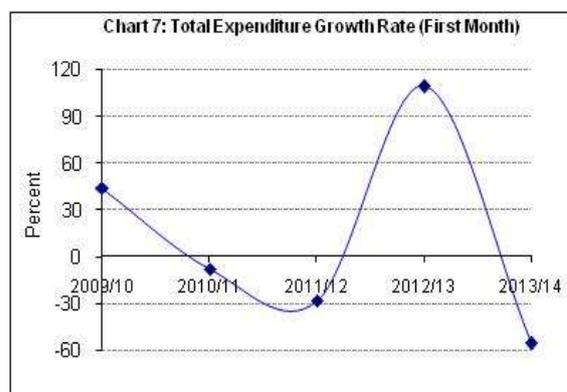
Fiscal Situation *

Budget Deficit / Surplus

25. In the first month of 2013/14, government budget on cash basis remained at a surplus of Rs. 22.13 billion. Such budget surplus was of Rs. 9.30 billion in the corresponding period of the previous year. A high growth of resource mobilization relative to government expenditure accounted for such a budget surplus during the review period.

Government Expenditure

26. During the review period, total government expenditure on cash basis dropped by 55.7 percent to Rs. 6.61 billion in contrast to an increase of 109.2 percent in the corresponding period of the previous year.

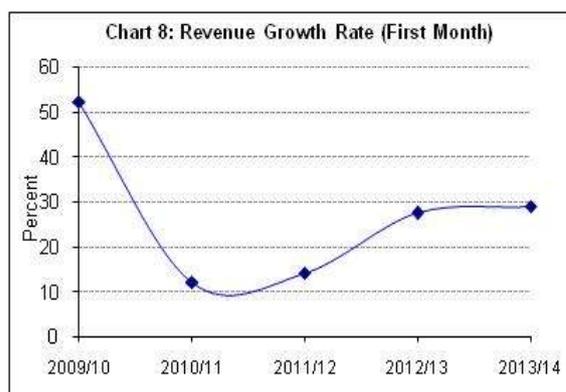


*

Based on the data reported by 8 NRB offices, 66 RBBL branches (all of 66 branches conducting govt. transactions), 44 NBL branches (out of 44 branches conducting govt. transactions), 5 Everest Bank branches and 1-1 branch each of Nepal Bangladesh Bank Limited and Global IME Bank Limited conducting government transactions.

Government Revenue

27. During the review period, revenue mobilization of the Government of Nepal grew by 28.9 percent to Rs. 24.68 billion. Such revenue had risen by 27.5 percent to Rs. 19.15 billion in the corresponding period of the previous year. Overall reforms on revenue leakage control and tax administration contributed to such an increase in the revenue mobilization during the review period.



28. During the review period, excise duties, registration fee and non-tax revenue accelerated where the growth rate of value added tax, custom duties, income tax declined compared to that of the corresponding period of the previous year.

Foreign Cash Loan and Grants

29. In the first month of 2013/14, foreign cash loans of Rs. 608.7 million and foreign cash grants of Rs. 2.92 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 144.1 million and foreign cash grants of Rs. 575.3 million in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

30. Merchandise exports went up by 5.4 percent to Rs. 7.59 billion during the first month of 2013/14. Such exports had increased by 18.5 percent to Rs. 7.20 billion during the same period of the previous year.



31. Exports to India went up by 15.1 percent during the first month of 2013/14 compared to an increase of 5.7 percent during the same period of the previous year. The growth of export to India in the review period is due mainly to the increase in export of zinc sheet, juice, Ayurvedic medicine and polyester yarn, among others. Exports to other countries fell by 7.7 percent in the review period in contrast to an increase of 42.1 percent in the same period of the previous year. Export to other countries declined mainly due to the decrease in export of

pulses, paper and paper products, among others. In USD terms, exports to other countries decreased by 16.4 percent to USD 28.7 million in contrast to an increase of 14.4 percent during the corresponding period of the previous year.

32. During the review period, merchandise imports increased by 4.6 percent to Rs. 49.15 billion. Such imports had gone up by 43.7 percent to Rs. 46.98 billion in the same month of the previous year. Such low growth rate of imports in the review period is due to the low growth of imports from India and decline in imports from other countries.
33. Imports from India went up by 10.7 percent during the review period compared to a high growth of 48.1 percent in the same period of the previous year. Imports from other countries decreased by 4.9 percent in contrast to an increase of 37.2 percent in the same period of the previous year. In US dollar terms, imports from other countries decreased by 13.9 percent to USD 177.1 million compared to an increase of 10.4 percent during the same period of the previous year. Imports from India increased primarily due to the increase in the imports of petroleum products, other machinery & parts, dry cell battery and medicine, among others. Likewise, imports from other countries decreased mainly on account of the decrease in the imports of pipe and pipe fittings, electrical goods, gold and edible oil, among others.
34. Total trade deficit during the first month of 2013/14 surged by 4.5 percent to Rs. 41.56 billion compared to an increase of 49.4 percent during the same period of the previous year. Trade deficit with India increased by 9.9 percent during the review period compared to an increase by 58.9 percent in the same period of the previous year. Trade deficit with other countries decreased by 4.4 percent in contrast to an increase of 36.3 percent during the same period of the previous year.
35. The ratio of export to import remained to 15.4 percent during the first month of 2013/14 compared to that of 15.3 percent during the same period of the previous year.

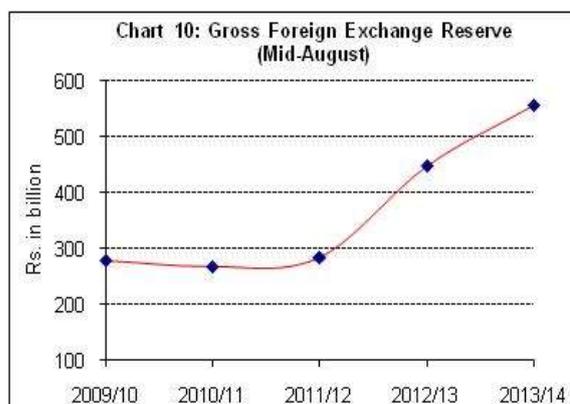
Balance of Payments Situation

36. The overall BOP recorded a surplus of Rs. 16.09 billion during the first month of 2013/14 compared to a surplus of Rs. 5.56 billion during the same period of the previous year. In the review period, the current account registered a surplus of Rs. 10.07 billion compared to a surplus of Rs. 56.7 million in the same period of the previous year. The high level of surplus in the current account is primarily due to a low growth of merchandise imports and decline in the service imports in the review period. In US dollar terms, the BOP and current account surpluses were recorded at USD 167.0 million and USD 104.5 million respectively in the review period. During the same period of the previous year, BOP and current account surpluses were USD 62.7 million and USD 0.6 million respectively.
37. The FOB-based merchandise trade deficit increased by 5.9 percent to Rs. 40.16 billion during the first month of 2013/14. Such deficit had grown by 48.3 percent in the same period of the previous year. The net service income increased by 89.7 percent to Rs. 1.19 billion during the review period compared to an increase of 52.4 percent during the same period of the previous year. Net transfers registered a growth of 27.6 percent to Rs. 47.98 billion in the review period compared to a growth of 43.8 percent in same period of the

previous year. Under the transfers, workers' remittances surged by 23.8 percent to Rs. 41.87 billion compared to an increase of 54.6 percent in the same period of the previous year. In US dollar terms, workers' remittances increased by 14.1 percent to USD 434.7 million in the review period compared to an increase of 24.4 percent in same period of the previous year.

Foreign Exchange Reserves

38. The gross foreign exchange reserves increased by 4.2 percent to Rs. 555.87 billion in mid-August 2013 from a level of Rs. 533.30 billion as of mid-July 2013. Such reserves had increased by 1.9 percent to Rs. 447.86 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 2.6 percent to Rs. 464.96 billion in the review period from a level of Rs. 452.99 billion as of mid-July 2013. The gross foreign exchange reserves in USD terms increased by 1.1 percent to USD 5.67 billion in mid-August 2013. Such reserves had increased by 1.7 percent in the same period of the previous year. Likewise, during the first month of 2013/14, the reserves in terms of inconvertible foreign exchange increased by 109.9 percent to IRs 156.46 billion. Such reserves had increased by 1.0 percent during the same period of the previous year. Based on the trend of imports during the first month of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.5 months and merchandise and service imports of 9.9 months.



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

39. The price of oil (Crude Oil Brent) in the international market decreased by 3.4 percent to USD 111.58 per barrel in mid-August 2013 from USD 115.51 per barrel in mid-August 2012. Similarly, the price of gold declined by 17.0 percent to USD 1329.75 per ounce in mid-August 2013 from USD 1601.75 per ounce in mid-August 2012.
40. Nepalese currency vis-à-vis the US dollar depreciated by 3.0 percent in mid-August 2013 from the level of mid-July 2013. It had depreciated by 0.2 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 97.96 in mid-August 2013 compared to Rs. 95.00 in mid-July 2013.