

## **Current Macroeconomic Situation**

*(Based on the First Nine Months' Data of 2008/09)*

### **Monetary Situation**

#### **Money Supply**

1. Broad money ( $M_2$ ) grew by 15.6 percent in the first nine months of 2008/09 compared to a growth of 16.3 percent in the corresponding period of the previous year. Despite a substantial growth of net foreign assets in the review period compared to that of the previous year, a subdued growth of net domestic assets contributed  $M_2$  to grow by a lower rate in the review period.
2. The growth of narrow money ( $M_1$ ) remained higher in the review period compared to that of the previous year.  $M_1$  grew by 14.0 percent in the review period compared to a growth of 10.2 percent in the previous year. Though demand deposits, one of the components of  $M_1$ , declined sharply in the review period,  $M_1$  registered a higher growth on account of a substantial growth of currency in circulation. Such currency increased by 25.0 percent in the review period compared to a growth of 14.6 percent in the corresponding period of the previous year. Demand deposits declined by 6.4 percent and time deposits grew by 16.3 percent in the review period. Time deposits had grown by 19.1 percent in the previous year.
3. Net foreign assets (NFA), after adjusting foreign exchange valuation gain/loss, increased by Rs.38.8 billion (22.6 percent) in the review period compared to a growth of Rs.14.0 billion (10.6 percent) in the same period of the previous year. An elevated inflows of remittance accompanied by an increase in foreign assistance to the government of Nepal (GON) contributed to a significant growth of NFA in the review period.

#### **Domestic Credit**

4. In the first nine months of 2008/09, domestic credit expanded by 9.5 percent compared to a growth of 14.6 percent in the corresponding period of the previous year. A sharp decline in net claims on government by 25.0 percent (Rs.21.8 billion) on account of a higher resource mobilization relative to the expenditure of the GON in the review period; resulting to a cash deposits of Rs..28.0 billion with Nepal Rastra Bank (NRB) in the review period.
5. Claims on non-financial government enterprises increased by 33.3 percent (Rs.1.9 billion) in the review period against a decline of such credit by 10.0 percent (Rs.513.7 million) in the corresponding period of the previous year. A higher use of credit by Janakpur Cigarette Factory Ltd., Nepal Airlines Corporation, Janak Education Material Center Ltd. and Nepal Electricity Authority contributed to increase the claims on such enterprises in the review period.
6. Claims on financial institutions grew by 28.9 percent (Rs.1.4 billion) in the review period. Such credit was Rs.9.0 billion in the corresponding period of the previous year. A decline in short-term investment of commercial banks to the development banks and finance companies resulted to a slowdown of claims on financial institutions in the review period.

7. The review period witnessed a higher marginal growth of private sector credit compared to that of the previous year. The credit to the private sector grew by 17.7 percent in the review period compared to a growth of 17.4 percent in the corresponding period of the previous year. The removal of credit disbursed to small farmers and micro enterprise entrepreneurs by government-owned commercial banks from their private sector credit outstanding on account of government's decision to waive such loans, accounted for the marginally higher growth of private sector credit in the review period.

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

8. In the first nine months of 2008/09, deposit mobilization of commercial banks increased by Rs 71.1 billion (16.9 percent) amounting to Rs.492.6 billion as in mid-April 2009. Deposit mobilization of commercial banks had increased by Rs.55.4 billion (16.6 percent) in the corresponding period of the previous year. Saving and fixed deposits increased by 16.6 percent and 23.7 percent respectively in the review period. Such deposits had increased by 13.9 percent and 24.4 percent respectively in the corresponding period of the previous year.
9. The review period witnessed a lower growth of private sector credit from commercial banks compared to that of the previous year. In the review period, credit to the private sector from commercial banks expanded by 17.9 percent compared to a growth of 19.9 percent in the corresponding period of the previous year. Of the credit disbursed to the private sector, the growth of credit to production, construction, metal production, machinery and electrical tools, transportation, communication and public services, wholesale and retail business and service sectors declined in the review period. Credit to the production and construction sector increased by 14.1 and 27.2 percent in the review period compared to an increase of 17.6 and 43.9 percent in the corresponding period of the previous year. Likewise, credit to wholesale and retail business and service sector increased by 14.1 and 4.3 percent respectively compared to an increase of 14.8 percent and 14.7 percent in the previous year. The credit growth to the real sector also declined in the review period. However, consumable loan increased by 33.3 percent (Rs.3.2 billion) in the review period.
10. The liquid funds of commercial banks grew by 21.5 percent in the review period compared to a growth of 12.3 percent in the previous year. An elevated inflow of remittances contributed to an increase of commercial banks' balance held abroad and thus, an increase of liquid funds of commercial banks. Of the components of liquid funds, commercial banks' balance with the NRB increased by 6.9 percent compared to a growth of 3.4 percent in the corresponding period of the previous year. Likewise, the commercial banks' balance held abroad increased significantly by 32.6 percent amounting to Rs.54.5 billion in mid-April 2009 compared to a growth of 4.0 percent a year ago. Including the investment of commercial banks on the government securities, total liquid assets of commercial banks increased by 9.67 percent amounting to Rs.165.7 billion as in mid-April 2009 compared to a growth of 5.28 percent in the previous year.

## **Liquidity Management**

11. In the first nine months of 2008/09, the NRB mopped up net liquidity of Rs.11.8 billion through open market operations. Of the total liquidity of Rs.20.8 billion mopped up in the review period, Rs.7.5 billion was mopped up from outright sale auctions and Rs.13.3 billion from reverse repo auctions. Despite a substantial injection of liquidity through foreign exchange intervention in the review period, a liquidity of Rs.9.0 billion has been injected through repo auctions in the seventh and eighth months of the review period on account of a shortfall in liquidity, particularly due to a higher cash balance of the GON with the NRB and a higher expansion of currency in circulation in the review period. Net liquidity of Rs.2.0 billion had been mopped up in the corresponding period of the previous year through open market operation including Rs..4.5 billion through outright sale auctions; Rs..6.6 billion through reverse repo auctions and Rs.9.0 billion through repo auctions.
12. In the first nine months of 2008/09, the NRB injected net liquidity of Rs.108.0 billion by net purchase of 1.4 billion US dollar from commercial banks through foreign exchange intervention. A net liquidity of Rs.66.0 billion had been injected through a net purchase of 1.0 billion US dollar from commercial banks in the corresponding period of the previous year. An elevated inflow of remittances necessitated such a substantial amount of intervention in the foreign exchange market in the review period.
13. The NRB purchased Indian currency (IC) of 53.4 billion through the sale of 1.1 billion US dollar in the review period. IC of 41.8 billion had been purchased through the sale of 1.1 billion US dollar in the corresponding period a year ago. A higher amount of payment made by Nepal Oil Corporation to Indian Oil Corporation is attributed to a higher amount of IC purchase against a sale of US dollar in the review period.

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

14. In the first nine months of 2008/09, commercial banks used standing liquidity facility (SLF) of Rs.86.6 billion compared to that of Rs..76.4 billion in the corresponding period of the previous year. Likewise, the inter bank transactions of commercial banks stood at Rs.220.5 billion in the review period compared to that of Rs.203.4 billion in the corresponding period of the previous year. A tightening of liquidity on account of a higher cash balance of the GON with the NRB and increase in currency in circulation in the review period, contributed to increase the inter bank transactions and use of the SLF in the review period.

## **Short-term Interest Rates**

15. The short-term market interest rates increased in the ninth month of 2008/09. The weighted average monthly 91-day Treasury bill rate stood at 5.98 percent as in mid-April 2009 compared to that of 4.07 percent a year ago. The weighted average monthly inter bank rate stood at 5.06 percent as in mid-Apr 2009 compared to that of 2.69 percent in the corresponding period of the previous year.
16. Along with an increase in short-term market interest rates, interest rates on deposits and credit also increased in the review period. The maximum interest rate on 3-month fixed deposit went up by 25 basis point to 5.75 percent as in mid-April 2009 compared to that of mid-March 2009. The

maximum interest rates on 6-month and 1-year fixed deposits increased by 50 and 25 basis points to 6.25 percent and 7.5 percent respectively as in mid-April 2009 from that of the rates in effects in mid-March 2009. Likewise, interest rate on two or more than two years fixed deposits increased by 25 basis point to 8.0 percent as in mid-April 2009 from a rate of 7.75 percent in mid-March 2009.

17. Interest rates on industrial, agriculture and commercial loans have also increased in the review period. Minimum as well as maximum interest rates on industrial loans increased by 100 and 50 basis points to 8.0 percent and 13.5 percent respectively in mid-April 2009 compared to that of mid-March 2009. Likewise, the maximum interest rates on agriculture and commercial loans increased by 100 and 50 basis points to 13.0 percent and 14.0 percent respectively as in mid-April 2009 from that of the rates in effects in mid-March 2009.

### **Securities market**

18. The year on year (y-o-y) NEPSE index decreased by 11.4 percent to 661.27 points in mid-April 2009. This index was 746.69 a year ago. Likewise, NEPSE sensitive index (based on July 2006) stood at 176.17 point in mid-April 2009. This index was 190.09 in mid-April 2008.
19. The NEPSE float index, calculated on the basis of final transaction as of August 24, 2008 (at market price) remained at 64.58 in mid-April 2009.
20. The y-o-y market capitalization increased by 74.7 percent to Rs.421.2 billion in mid-April 2009. Of the total market capitalization, bank and financial institutions, manufacturing and processing companies, hotels, business entities, hydropower and other economic sectors accounted for 74.0 percent, 1.8 percent, 1.1 percent, 0.3 percent, 4 and 18.7 percent respectively.
21. Total paid up capital of the listed companies stood at Rs.54.7 billion in mid-April 2009, increasing by 122.4 percent over the period of one year. This increase was largely due to the additional listing of securities. Of the total listed securities at Nepal Stock Exchange Ltd., Rs.25.46 billion up to mid-April 2009, bonus share, right share, ordinary share and bonds accounted for Rs.1.4 billion, Rs.5.4 billion, Rs.17.1 billion and Rs.3.3 billion respectively. The ordinary share constituted the largest portion largely due to the share of Nepal Telecom.
22. The monthly turnover to market capitalization ratio remained at 0.28 percent in mid-April 2009, compared to 0.45 percent a year ago.
23. Total number of companies listed at the NEPSE increased to 157 in mid-April 2009 compared to 146 a year ago. Among them, 126 are banks and financial institutions (including insurance companies). Production and processing industries, hotels, business entities, hydropower and companies in other groups are 18, 4, 4, 3 and 2 respectively.
24. The twelve-month rolling standard deviation which reflect the volatility in the stock market, stood at 149.6 in mid-April 2009 compared to that of 151.7 a year ago.

## **Consumer Price Inflation**

25. The y-o-y consumer price inflation rose to 11.9 percent in mid-April 2009 from 8.9 percent in the same period of the previous year. The inflation, in the review period, was driven mainly by the rise of 14.8 percent in food and beverages group. The price index of non-food and service group increased by 8.8 percent. The price rise of food and beverages and non-food and services group, was 12.6 percent and 4.9 percent respectively in mid-April 2008.
26. Of the items in the food and beverage group, price indices of sugar and sugar related products increased in mid-April 2009, by a whopping rate of 50.5 percent. This is in sharp contrast to last year's decline of 3.8 percent. Similarly, the price indices of meat, fish and eggs as well as vegetables and fruits sub-groups increased in the review period by 28.2 percent and 21.3 percent respectively compared to an increase of 8.8 percent and 3.0 percent in the same period of the last year. During the review period, the indices of pulses rose up by 20.7 percent compared to an increase of 14.9 percent in the same period of the last year. The subgroup of grains and cereal products witnessed a price rise of 7.8 percent in the review period compared to an increase of 19.7 percent in the corresponding period of the previous year. Price indices of oil and ghee declined by 1.6 percent in the review period, which increased by 33.8 percent in the same period of the last year.
27. Within the group of non-food and services, the index of tobacco and related products as well as transport and communication rose up by 16.3 percent and 13.5 percent in the review period compared to a rise of 8.3 percent and 1.1 percent respectively in the same period of last year.
28. Region-wise, the price rise in Kathmandu valley was 12.5 percent followed by 11.8 percent in Hills and 11.7 percent in Terai in the reviewed period. Last year, the respective rates were 8.6 percent, 8.5 percent and 9.2 percent.
29. In the review period, the y-o-y core inflation rose to 12.1 percent from 7.0 percent a year ago.

## **Wholesale Price Inflation**

30. In the review period, the y-o-y wholesale price inflation increased to 13.7 percent compared to 9.4 percent a year ago. The index of agricultural commodities, domestic manufactured commodities and imported commodities increased by 19.0 percent, 9.1 percent and 8.7 percent respectively in the review period as compared to 10.4 percent, 8.5 percent and 8.3 percent a year ago.
31. Of agricultural commodities, mainly the price index of cash crops increased by 34.3 percent in the review period, compared to a rise of 6.0 percent a year ago. Likewise, livestock production and fruits and vegetables increased by 30.3 percent and 26.7 percent compared to an increase of 7.1 percent and 4.1 percent in the same period of the last year. Within the group of domestic manufactured commodities, the price index of beverages and tobacco increased by 14.8 percent compared to a rise of 5.0 percent a year ago.
32. Of imported commodities, the price indices of textile related products increased by 20.8 percent in the review period, as against the decline of 3.8 percent in the corresponding period of the previous

year. Likewise, the price index of transport vehicles and machinery goods increased by 16.2 percent in mid-April 2009 compared to an increase of 9.5 percent a year ago.

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

33. The overall y-o-y salary and wage rate index rose by 20.3 percent in the review period as compared to a rise of 9.2 percent a year ago. Of the salary and wage rate indices, the salary index increased by 16.8 percent in the review period compared to a rise of 10.9 percent in the corresponding period of the previous year. The wage rate index increased by 21.5 percent in the review period compared to an increase of 8.7 percent in the same period of the previous year. Such an increase was on account of increase in the salary of civil servants. Wages of agricultural, industrial and construction labourers increased by 27.0 percent, 14.0 percent and 18.8 percent respectively in the review period. These wage rates had increased by 6.0 percent, 12.0 percent and 11.0 percent respectively in the same period of last year.

## **Fiscal Situation**

### **Budget Deficit / Surplus**

34. In the first nine months of 2008/09, the government budget remained at a surplus of Rs.12.7 billion in contrast to a deficit of Rs.5.3 billion in the corresponding period of the previous year. An impressive growth of resource mobilization relative to the government expenditure accounted for such a budget surplus in the review period.
35. In the review period, the government has significant cash surplus of Rs.28.0 billion with Nepal Rastra Bank.

### **Government Expenditure**

36. In the first nine months of 2008/09, the total government expenditure increased by 18.5 percent to Rs.107.1 billion compared to an increase of 31.5 percent in the corresponding period of the previous year. Low growth rate of capital expenditure and principal repayment expenditure accounted for such a deceleration of total government expenditure.
37. In the first nine months of 2008/09, recurrent expenditure increased by 22.0 percent to Rs.70.7 billion. In the corresponding period of the previous year, recurrent expenditure had increased by 21.4 percent. Upward revision of the salary of the government employees as well as an increase in non-budgetary expenditure led to such acceleration in recurrent expenditure in the review period.
38. In the review period, capital expenditure declined by 2.5 percent to Rs.19.2 billion in contrast to an increase of 69.0 percent in the corresponding period of the previous year. Delay in budget presenting, lack of representatives in local bodies, delay in the formulation of programmes and directives regarding the projects under New Nepal movement, delay in contracts and procurement procedures as well as uncertain and irregular power supply and conflict accounted for such a decline in capital expenditure in the review period.

## **Government Revenue**

39. In the first nine months of 2008/09, revenue mobilization of the government grew by 39.3 percent to Rs.98.7 billion compared to an increase of 25.1 percent in the corresponding period of the previous year. The Government's strong commitment in revenue leakage control, revenue administration reforms, Voluntary Discloser of Income Scheme (VDIS) and significant growth of non-tax revenue contributed to such an impressive growth of revenue mobilization in the review period.
40. Of the total revenue mobilization, VAT revenue grew by 23.2 percent to Rs.27.4 billion in mid-March 2009. It had increased by 23.2 percent in the corresponding period of the previous year. The increase in VAT revenue was on account of growing imports and consumption induced by the rise in remittances and reforms in VAT administration.
41. In the review period, customs revenue rose by 25.7 percent to Rs.18.4 billion compared to an increase of 23.6 percent in the same period of the previous year. Reforms in customs administration as well as increase in imports of high tax yielding vehicles and parts contributed to such an increase in customs revenue.
42. In the review period, excise revenue increased by 45.1 percent to Rs.10.6 billion compared to an increase of 23.0 percent in the same period of the previous year. Reforms in excise administration and identification of newly excised goods accounted for such a growth of excise revenue in the review period.
43. Income tax revenue increased by 49.6 percent to Rs.19.2 billion in the first nine months of 2008/09. A remarkable receipt under VDIS program due to government's strong administrative and political commitment contributed to such an increase in income tax collection. Last year such revenue had risen by 33.8 percent.
44. In the review period, non-tax revenue grew by 68.7 percent to Rs.17.6 billion compared to an increase of 20.0 percent in the same period of the preceding year. Such an increase in non-tax revenue was on account of the increase in principal, interest and dividend paid by some public enterprises to the government.

## **Foreign Cash Loans and Grants**

45. The government received foreign cash loans of Rs.3.0 billion and foreign cash grants of Rs.17.7 billion in the first nine months of 2008/09. The government had received foreign cash loans of Rs.2.8 billion and foreign cash grants of Rs.11.6 billion in the corresponding period of the previous year.
46. The government mobilized domestic borrowing of Rs.8.7 billion in the review period, which was Rs.13.3 billion in the corresponding period of the previous year.

## **Foreign Trade**

47. Total exports increased by 21.0 percent in the first nine months 2008/09 in contrast to a decline of 3.9 percent in the corresponding period of the previous year. Total exports can be disaggregated

into those destined to India and those to other countries. Exports to India rose by 10.6 percent in 2008/09 as against a decline by 8.3 percent in the corresponding period of the previous year, exports to other countries expanded by 42.6 percent compared to an increase of 6.7 percent in the same period of the previous year.

48. The rise in the exports of readymade garments, G.I. pipe, textiles, toothpaste and catechu was largely responsible for the increase in exports to India. Likewise, the rapid increase in the exports to other countries could be ascribed to the expansion in the exports of pulses, pashmina, woollen carpets, handicraft and Nepalese paper & paper products.
49. Total imports went up by 25.1 percent in the first nine months of 2008/09 compared to an increase of 15.8 percent in the corresponding period of the previous year. Total imports can be disaggregated into imports from India and those from other countries. Imports from India rose by 12.6 percent in the review period in compared to a growth of 22.9 percent in the corresponding period of 2007/08, imports from other countries surged by 47.3 percent in compared to a lower growth of 5.0 percent in the preceding year.
50. A rise in the import of petroleum products, other machinery and parts, vehicles and spare parts, cold-rolled sheet in coil and medicine, among others, from India and gold, MS billet, electrical goods, other machinery and parts and computer and parts, among others, from other countries were largely responsible for the augmentation in total imports in the first nine months of 2008/09.

#### **Balance of Payments**

51. In the first nine months of 2008/09, the overall BOP posted a significant surplus of Rs.38.8 billion in compared to a lower surplus of Rs.14.0 billion in the corresponding period of the previous year. The current account also recorded a huge surplus of Rs.34.6 billion in the first nine months of 2008/09 compared to a surplus of just Rs.1.5 billion in the corresponding period of the previous year. The significant current account surplus in the review period was largely due to the rise in net transfers by 50.9 percent in the first nine months of 2008/09. Under transfers, workers' remittances surged by 60.3 percent in the first nine months of 2008/09 in compared to the growth of 29.6 percent in the corresponding period of the previous year. Likewise, grants soared by 62.2 percent in the review period in contrast to a decline of 20.3 percent in the corresponding period of the previous year.

#### **Foreign Exchange Reserves**

52. In mid-April 2009, the gross foreign exchange reserves stood at Rs.276.05 billion with an upsurge of 29.8 percent in comparison to the level as at mid-July 2008. In the corresponding period of the previous year, such reserves had increased by 10.4 percent. On the basis of US dollar, gross foreign exchange reserves rose by 11.7 percent to US\$ 3.47 billion in mid-April 2009. Such reserves had risen by 12.1 percent in the same period of the previous year. The current level of reserves is adequate for financing merchandise imports of 12.4 months and merchandise and service imports of 10.0 months.

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

53. In the international market, the price of oil (Crude Oil Brent) plummeted by 52.6 percent to US\$ 52.08 per barrel in mid-April, 2009 from US\$ 109.86 per barrel in mid-April 2008. Similarly, the price of gold declined by 4.3 percent to US\$ 887.50 per ounce in mid-April, 2009 from US\$ 927.75 per ounce a year earlier.
54. Compared to mid-July 2008, the Nepalese currency *vis-à-vis* the US dollar depreciated by 14.0 percent in mid-April 2009. It had appreciated by 1.6 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs.79.65 in mid-April 2009 compared to Rs.68.50 in mid-July 2008.