Current Macroeconomic Situation

(Based on the First Months' Data of 2010/11)

Monetary Situation

Money Supply

1. Broad money (M2) declined by 0.8 percent in the first month of 2010/11 contrary to a growth of 1.6 percent in corresponding period of the previous year. Similarly, narrow money (M1), declined by 4.2 percent in the review period compared to a decline of 5.1 percent in corresponding period of the previous year. Time deposits, which had grown by 4.6 percent in the first month of 2009/10, grew marginally by 0.6 percent in the review period.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) declined by Rs 312.8 million (0.1 percent) in the review period compared to a decline of Rs. 8.4 billion (3.8 percent) in corresponding period of the previous year.

Domestic Credit

3. Domestic credit declined by 1.2 percent in the first month of 2010/11 compared to a decline of 1.7 percent in the same period of the previous year. A decline in claims on Government of Nepal by 3.9 percent, private sector by 0.4 percent and financial institutions by 15.1 percent contributed to decline domestic credit in the review period. However, claims on non-financial government enterprises increased by 12.4 percent in the review period.

Deposit Mobilization and Credit Flow of Commercial banks

4. Deposit mobilization of commercial banks declined by Rs 3.3 billion in the first month of 2010/11 amounting to Rs 615.6 billion. Total deposit of commercial banks had increased by Rs 5 billion in corresponding period of the previous year. Similarly, credit to the private sector declined by 0.8 percent (Rs 3.8 billion) in the review period. Such a credit had increased by 0.3 percent (1.2 billion) in corresponding period of the previous year.

Liquidity Management

5. The NRB mopped up net liquidity of Rs 12 billion through reverse repo auction from the secondary market in the review period. A net liquidity of Rs 7.4 billion was mopped from outright sale auction in corresponding period of the previous year.

6. The NRB injected net liquidity of Rs 12.8 billion through the purchase of the USD 172 million from commercial banks in the review period. In corresponding period of the previous year, a net liquidity of Rs. 5.8 billion was injected through purchase of the USD 74.8 million from commercial banks.

7. The NRB purchased Indian currency amounting to INR 7.5 billion through sale of the USD 160 million in the Indian money market in the review period. In corresponding period of the previous year, INR 15.9 billion was purchased through sale of the USD 330 million.

Inter Bank Transaction

8. Commercial banks undertook inter-bank transaction of Rs. 26.3 billion in the first month of 2010/11 compared to Rs. 9.5 billion in corresponding period of the previous year. Liquidity of Rs. 3 billion has been used under standing liquidity facility in the review period.

Short-term Interest Rates

9. In the first month of 2010/11, the weighted average monthly 91-day Treasury bill rate stood at 3.81 percent compared to 1.77 percent in mid-Aug 2009. The weighted average monthly inter–bank rate remained at 2.46 percent in mid-Aug 2010 compared to 1.41 percent in corresponding month of the previous year.

Securities Market

10. The year on year (y-o-y) NEPSE index declined by 37.2 percent to 453.70 points in the mid August 2010/11. This index stood at 721.95 in the same period last year. Likewise, NEPSE sensitive index (based on July 2006) stood at 110.82 point in mid August 2010, which was 194.70 in the same period last year. The NEPSE float index, calculated on the basis of closing price of August 24, 2008 (as base market value), remained at 41.65 in mid August 2010, a contraction of 40.5 percent compared to the same period last year. This index was 70.01 in the same period last year.

11. The y-o-y market capitalization decreased by 27.4 percent to Rs.360 billion in mid August 2010. The ratio of market capitalization to GDP stood at 30.5 percent in the review period. This ratio was 50.0 percent in the same period last year. Of the total market capitalization, bank and financial institutions stood with highest share of 72.4 percent followed by manufacturing and processing companies (2.1 percent), hotels (1.5 percent), business entities (0.4 percent), hydropower (4.4 percent) and other sectors (19.2 percent).

12. Total paid up capital of the listed companies stood at Rs. 81.32 billion in mid August 2010, an increase of 32.4 percent over the period of one year. This increase was largely due to the additional listing of securities at the NEPSE. As at the mid August 2010/11, additional securities worth Rs.9.40 billion (ordinary share of

Rs.3.26 billion, bonus share of Rs. 87 million, right share of Rs.1.06 billion and government securities of Rs.4.99 billion) were listed at the NEPSE.

13. Total number of companies listed at the NEPSE increased to 178 in mid August 2010 compared to 159 last year. Among them, 146 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).

Inflation

Consumer Price Inflation

14. Nepal Rastra Bank from the first month of fiscal year 2010/11, has made public the new series of Consumer Price Index (CPI) based on the Fourth Household Budget Survey conducted by Nepal Rastra Bank during the fiscal year 2005/06. The new series has been prepared by shifting the base year from 1995/96 to 2005/06. Accordingly, the CPI for the month of mid August has been measured taking 2005/06 as base year. The y-o-y inflation as measured by the consumer price index (2005/06 =100) moderated to 9.5 percent in mid-August 2010 from 10.1 percent in the same period of the previous year. According to 1995/96 base year index, such inflation accounted a growth of 10.4 percent. Under the new series of the CPI, the weight assigned to food and beverages and services group have been changed and relatively lower rate of inflation in comparison to the old series was observed. The weight assigned to the food and beverage group from 1995/96 survey was 53.20 percent, whereas it is 46.82 percent in the new series. Similarly the weight assigned to non-food and services group has been changed from 46.80 percent to 53.18 percent. In the old series, there were 21 urban market centers and the prices of 301 goods and services used to be collected from those centers, whereas in the new series the prices of 410 goods and services are collected from the 33 market centers including urban and rural areas. The old series was compiled according to the guidelines and classification of International labour Organization (ILO), whereas the new series is prepared according to the guidelines and classification of COICOP (Classification of Individual Consumption According to Purpose) method of United Nations.

15. In spite of the rise of 12.5 percent in the index of food and beverage group in the new series (2005/06=100) the inflation rate moderated on account of a low increment by 7.0 percent in the index of non-food and services group. The index of these groups had increased by 19.2 percent and 2.9 percent during the same period last year.

16. During the review period, of the items in the food and beverage group, price indices of spices increased by a whopping rate of 42.6 percent compared to an increase of 11.3 percent in the same period of last year. Similarly, the price indices of sugar and sweets increased by 22.2 percent as compared to 49.1 percent increase

in the same period last year. The price indices of cereals grains and their products, milk product and egg increased by 17.9 percent and 17.2 percent respectively as compared to the respective increase of 5.5 percent and 12.4 percent during the same period last year. The indices of restaurant and hotel and hard drinks and soft drinks increased by 18.9 percent, 16.2 percent and 13.1 percent respectively as compared to an increase of 21.9 percent, 12.0 percent and 29.8 percent during the same period last year. The price index of vegetables, which had jumped by 54.3 percent in the last year increased marginally by 2.2 percent, whereas the price index of legume varieties, ghee and oil and fruits declined in the review period .The price index of tobacco product increased by 10 percent as compared to 17.4 percent increase in the same period last year.

17. Within the group of non-food and services, the index of housing and utilities increased by 13.6 percent which had decreased by 3.7 percent last year. Similarly the index of clothing and footwear increased by 10.7 percent as compared the increase of 8.4 percent during the same period last year. Similarly the price index of health and education increased by 9.4 percent and 5.8 percent respectively as compared to the increase of 3.4 percent and 10.9 respectively percent during the same period of the last year. The index of transport increased by 8.0 percent, which had declined by 9.4 percent last year whereas the price index of communication decreased by 6.2 percent.

18. Region-wise, the price index of Kathmandu valley rose by 10.6 percent followed by 10.1 percent in Hills and 8.4 percent in Terai in the review period. Last year, the respective rates were 11.4 percent, 9.6 percent and 9.4 percent.

Wholesale Price Inflation

19. During the review period, the y-o-y wholesale price inflation increased to 8.4 percent compared to 13.2 percent a year ago. The index of agricultural commodities and domestic manufactured commodities increased by 9.1 percent and 8.8 percent respectively in the review period as compared to 31.3 percent and 4.2 percent a year ago. The price indices of imported commodities increased by 7.0 percent in the review period compared to decreased of 7.8 percent during the same period of last year.

20. Within the agricultural commodities group, the price index of spices increased by 51.7 percent in the review period, as compared to the increase of 15.2 percent a year ago. Likewise, the indices of foodgrains livestock production, fruits and vegetables, increased by 22.1 percent, 14.3 percent and 12.95 percent respectively as compared to an increase of 4.4 percent, 43.2 percent and 35.6 percent during the same period of last year. The index of cash crops, however, declined by 27.3 percent which had increased by a whopping rate of 87.2 percent last year

21. Within the group of domestic manufactured commodities, the price index of food related products increased by 13.7 percent as compared to an increase of 1.7

percent during the same period of the last year. Similarly the index of beverages and tobacco increased by 8.6 percent compared to a rise of 20.9 percent a year ago.

22. Within the imported commodities group, the price indices of petroleum products and coal and transport vehicles and machinery goods increased by 15.9 percent and 2.7 percent in the review period as compared to an decline of 20.2 percent and 6.4 percent last year.

National Salary and Wage Rate

23. The overall y-o-y salary and wage rate index rose by 14.2 percent in the review period as compared to a rise of 22.2 percent a year ago. Of the salary and wage rate indices, the salary index remained unchanged in the review period as against the increase of 32.8 percent in the corresponding period of the previous year. The wage rate index increased by 19.2 percent in the review period as compared to an increase of 18.9 percent in the same period of the previous year. Wages of agricultural, industrial and construction laborers increased by 28.6 percent, 3.9 percent and 15.8 percent respectively in the review period. These wage rates had increased by 20.5 percent, 15.8 percent and 20.1 percent respectively in the same period of last year.

Fiscal Situation [?]

Budget Deficit / Surplus

24. In the first month of 2010/11, government budget remained at a surplus of Rs.4.97 billion. A high growth of revenue mobilization relative to government expenditure accounted for such a budget surplus in the review period. In the corresponding period last year, budget surplus was of Rs. 3.18 billion.

Government Expenditure

25. In the review period, total government spending decreased by 8.1 percent to Rs. 9.97 billion compared to an increase of 44.0 percent in the corresponding period of the previous year. In spite of increase in the recurrent expenditure, total government expenditure, in the review period, decreased mainly on account of the decrease in capital expenditure, principal repayment and freeze expenditure

26. In the review period, revenue mobilization of the Government of Nepal grew by 12.1 percent to Rs.13.16 billion compared to an increase of 52.2 percent to Rs.11.74 billion in the corresponding period of the previous year.

27. In the review period, the growth rate of income tax accelerated however, the growth rates of customs duties, VAT, excise revenue, registration fee and vehicle

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[?] Figure includes the reports from 8 NRB offices, 63 RBB branches (out of 65 branches conducting govt. transaction), 36 NBL branches (out of 42 branches conducting govt. transaction), 5 Everest Bank branches, and 1 from Nepal Bangladesh Bank Ltd.

revenue decelerated compared to that of the corresponding period of the previous year. Likewise, the non-tax revenue has declined in the review period compared to that of corresponding period of the previous year.

Foreign Cash Loans and Grants

28. In the first month of 2010/11, foreign cash loans of Rs. 183.5 million and foreign cash grants of Rs. 1.28 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 208.7 million and foreign cash grants of Rs. 1.50 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

29. In the first month of 2010/11, total exports declined by 17.2 percent compared to a rise of 15.6 percent in the corresponding period of the previous year. Of the total exports, export to India went up by 12.1 percent in 2010/11 compared to a rise of 6.8 percent in the same period of 2009/10. Exports to other countries declined by 44.8 percent in contrast to an increase of 25.4 percent in the same period of the previous year.

30. The rise in exports to India can attributed to the rise in the exports of jute goods, M.S. pipe, herbal medicines, oil cakes and plastic utensils, among others. Likewise, exports to other countries declined due to diminution in the exports of pulses, Nepalese paper & paper products, pashmina, silverware and jewelleries, and herbs.

31. Total imports rose by 19.4 percent in the first month of 2010/11 compared to a growth of 19.0 percent in the corresponding period of the previous year. While imports from India rose by 34.3 percent in the review period compared to a growth of 16.6 percent in the corresponding period of 2009/10, imports from other countries declined by 2.1 percent in comparison to a significant growth of 22.5 percent.

32. A rise in the import of petroleum products, M.S. billet, chemical fertilizers, other machinery and parts, and cold-rolled sheet in coil, among others, from India and crude palm oil, telecommunication equipment and parts, M.S. billet, and television and parts, among others, from other countries were responsible for the upsurge in total imports in the first month of 2010/11.

Balance of Payments

33. The overall BOP recorded a deficit of Rs. 312.8 million in the first month of 2010/11 compared to a deficit of Rs. 8.44 billion in the corresponding period of the previous year. Similarly, the current account posted a deficit of Rs. 2.42 billion in the first month of 2010/11 in contrast to a surplus of Rs. 205.4 million in the corresponding period of the previous year. Both the increase in trade deficit and fall in the growth of the remittance were major responsible factors for the current

account deficit. The workers' remittances increased by 7.8 percent in the first month of 2010/11 compared to its growth of 35.3 percent in the corresponding period of the previous year.

Foreign Exchange Reserves

34. The gross foreign exchange reserves stood at Rs. 267.85 billion in mid-August 2010, an increment of 0.5 percent compared to the level as at mid-July 2010. Such reserves had fallen by 5.7 percent in the corresponding period of the preceding year. In terms of US dollar, gross foreign exchange reserves increased by 0.4 percent to US$ 3.59 billion in mid-August 2010. In the same period of the previous year, such reserves had gone down by 4.4 percent. The current level of reserves is sufficient for financing merchandise imports of 8.8 months and merchandise and service imports of 7.6 months.

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

35. The price of oil (Crude Oil Brent) in the international market increased by 6.7 percent to US$ 75.93 per barrel in mid-August, 2010 from US$ 71.19 per barrel in mid-August, 2009. On the other hand, the price of gold rose by 28.3 percent to US$ 1223.50 per ounce in mid-August, 2010 from US$ 953.60 a year earlier.

36. In comparison to mid-July 2010, the Nepalese currency vis-à-vis the US dollar depreciated by 0.08 percent in mid-August 2010. It was appreciated by 1.36 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 74.50 in mid-August 2010 compared to Rs. 74.44 in mid-July 2010.