

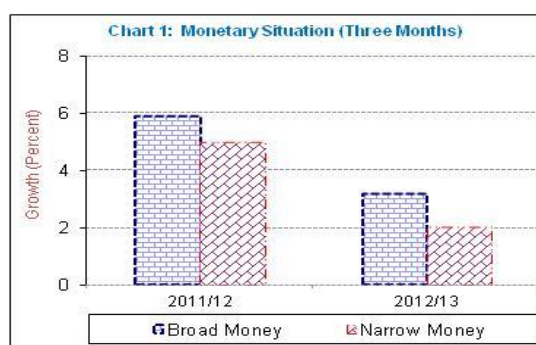
# Current Macroeconomic Situation of Nepal

*(Based on the Three Months' Data of FY 2012/13)*

## Monetary Situation

### Money Supply

1. Broad money supply (M2) increased by 3.2 percent during the three months of the FY 2012/13 compared to 5.9 percent increase in the corresponding period of the previous year. On year-on-year (y-o-y) basis, broad money supply expanded by 19.4 percent in mid-October 2012. Narrow money supply (M1) increased by 2.0 percent during the review period as compared to 5.0 percent increase in the corresponding period of the last year. On y-o-y basis, the narrow money expanded by 15.2 percent in mid-October 2012.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 0.35 billion (0.1 percent) during the review period as compared to an increase of Rs. 33.66 billion (15.6 percent) in the corresponding period of the previous year. A significant rise in trade deficit impacted to a slower growth in net foreign assets of the monetary sector during the review period.



### Domestic Credit

3. Domestic credit increased by 2.9 percent during the three months of the FY 2012/13. It had increased slightly by 0.9 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased by 11.1 percent in mid-October 2012. Despite decreased claims of Nepal Rastra Bank on Government of Nepal and consequent net savings in the government account due to lower level of public expenditure relative to resource mobilization, increase in claims on private sector resulted to a growth of domestic credit during the review period. During the three months of the FY 2012/13, claims on private sector increased by 5.8 percent compared to a growth of 1.4 percent in the corresponding period of the previous year.

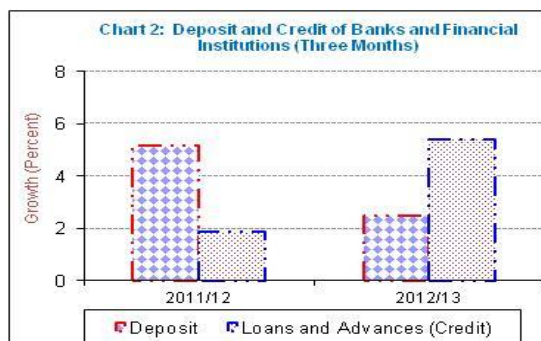
### Reserve Money

4. Reserve money decreased by 7.0 percent during the review period as against an increase of 14.7 percent in the corresponding period of last year. Decrease in Nepal

Rastra Bank's net claims on government coupled with a decline in net foreign assets caused a decrease in reserve money during the review period. On y-o-y basis, the reserve money increased by 10.5 percent in mid-October 2012.

### Deposit Mobilization of Banks and Financial Institutions

5. Deposit mobilization of banks and financial institutions increased by 2.5 percent (Rs. 24.97 billion) during the three months of the FY 2012/13. Such deposit mobilization had increased by 5.2 percent (Rs. 43.14 billion) in the corresponding period of the previous year. In the review period, deposit mobilization of commercial banks, development banks and finance



companies increased by 1.7 percent, 4.8 percent and 3.4 percent respectively. While the deposit mobilization of commercial banks and development banks increased by 6.1 percent and 2.8 percent respectively, the finance companies' deposit had decreased by 1.8 percent in the corresponding period of the previous year.

### Credit Flow of Banks and Financial Institutions

6. During the three months of the FY 2012/13, loan and advances of banks and financial institutions increased by 5.4 percent (Rs. 51.79 billion) compared to a rise of 1.9 percent (Rs. 16.03 billion) in the corresponding period of the previous year. Loan and advances of commercial banks, development banks and finance companies increased by 5.1 percent, 3.8 percent and 1.9 percent respectively during the review period. During the review period, banks and financial institutions' credit to private sector increased by 5.8 percent (Rs. 45.27 billion) compared to a rise of 0.8 percent (Rs. 5.51 billion) in the corresponding period of the previous year. Among the private credit extension, commercial banks registered a growth of 5.7 percent followed by development banks (6.9 percent) and finance companies (5.2 percent).
7. Of the total banks and financial institutions' credit, the credit to industrial production sector surged by Rs. 10.64 billion at the review period compared to an increase of Rs. 4.75 billion in the corresponding period of the previous year. Similarly, credit to agriculture sector increased by Rs. 4.15 billion in the review period compared to an increase by Rs. 2.23 billion in the corresponding period of the last year. Likewise, credit to construction sector increased by Rs. 2.38 billion, while the wholesale and retail trade sector registered a surge of Rs. 12.71 billion and transportation, communication and public services sector credit increased by Rs. 3.24 billion.

## **Liquidity Management**

8. The NRB mopped up net liquidity equivalent to Rs. 8.50 billion under the open market operation through outright sale auction during the review period. A net liquidity of Rs. 0.74 billion was injected through repo auction in the corresponding period of the previous year.
9. During the review period, the NRB injected net liquidity of Rs. 46.86 billion through the net purchase of USD 0.54 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 68.62 billion was injected through the purchase of USD 0.92 billion in the corresponding period of the previous year.
10. The NRB purchased Indian currency (INR) equivalent to Rs. 60.99 billion through the sale of USD 0.70 billion in the Indian money market during the review period. INR equivalent to Rs. 51.81 billion was purchased through the sale of USD 0.56 billion in the corresponding period of the previous year.

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

11. During the three months of the FY 2012/13, while the inter-bank transaction of commercial banks stood at Rs. 34.06 billion, such transaction of other financial institutions (development banks and finance companies) registered to Rs. 30.65 billion. These figures had stood at Rs. 83.54 billion and Rs. 53.49 billion respectively in the corresponding period of the previous year. Banks and financial institutions did not use standing liquidity facility (SLF) during the review period whereas liquidity amounting to Rs. 4.21 billion was used under SLF in the corresponding period of the previous year. During the review period, inter-bank transaction and use of SLF decreased on account of comfortable liquidity situation of banks and financial institutions.

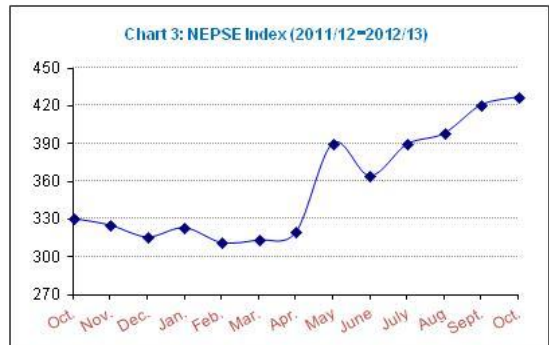
## **Short-term Interest Rates**

12. The short-term interest rates remained at lower level in mid-October 2012 compared to those of mid-October 2011. For example, the weighted monthly average 91-day Treasury bill rate dropped to 0.31 percent in mid-October 2012 compared to 1.82 percent in mid-October 2011. The weighted average inter-bank rate between commercial banks' remained at 0.33 percent in mid-October 2012 compared to 1.08 percent in mid-October 2011 whereas the weighted average inter-bank rate between other financial institutions' remained at 4.23 percent in mid-October 2012 compared to 7.65 percent in the mid-October 2011.

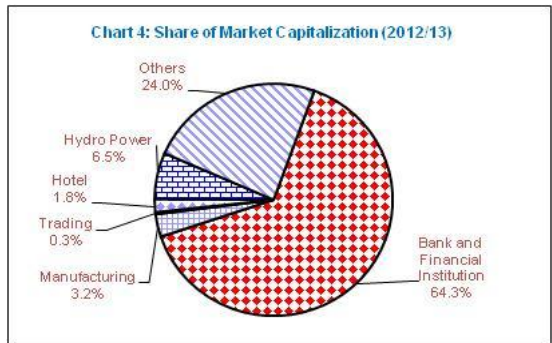
## **Securities Market**

13. NEPSE index, on y-o-y basis, increased by 29.1 percent to 427.3 points in mid-October 2012 as against a drop of 21.2 percent in the corresponding period of the previous year, while the index had stood at 331.0 points as at mid- October 2011.

14. The y-o-y stock market capitalization witnessed a significant surge of 34.0 percent to Rs. 404.63 billion in mid-October 2012. The ratio of market capitalization to GDP stood at 26.0 percent in mid- October 2012. The ratio was 22.1 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-October 2012, the share of banks and financial institutions (including insurance companies) stood at 64.3 percent while that of manufacturing and processing companies, hotels, trading entities, hydropower and other sectors stood at 3.2 percent, 1.8 percent, 0.3 percent, 6.5 percent and 24.0 percent respectively.



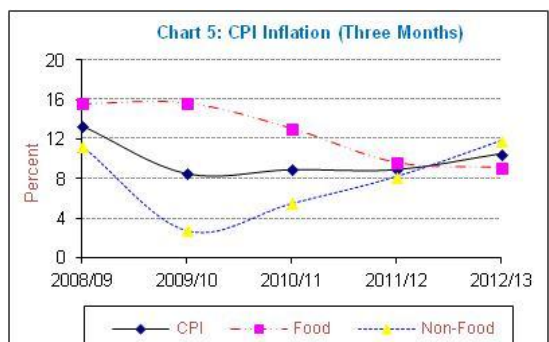
16. Total number of companies listed at the NEPSE increased to 214 in mid-October 2012 from that of 209 in mid-October 2011. Banks and financial institutions comprise a major share in the number of listed companies. Of the total listed companies as of mid-October 2012, the number of banks and financial institutions (including insurance companies) stood at 182 followed by production and processing industries (18), hotels (4), trading entities (4), hydropower (4) and other companies (2).

17. Total paid-up capital of the listed companies stood at Rs. 111.82 billion in mid-October 2012, registering an increase of 10.4 percent over mid-October 2011. Such an increase in paid-up capital was due to the additional listing of securities at the NEPSE. Additional securities worth Rs. 1.96 billion comprising ordinary share of Rs. 1.53 billion, bonus share of Rs. 0.22 billion and right share of Rs. 0.21 billion were listed at the NEPSE during three months of 2012/13.

## Inflation, Salary and Wage Rate

### Consumer Price Inflation

18. The y-o-y inflation as measured by the consumer price index increased by 10.5 percent in mid-October 2012 as compared to 8.9 percent in the corresponding period of the previous year. The index of food and beverage group increased by 9.1 percent whereas non-food and services

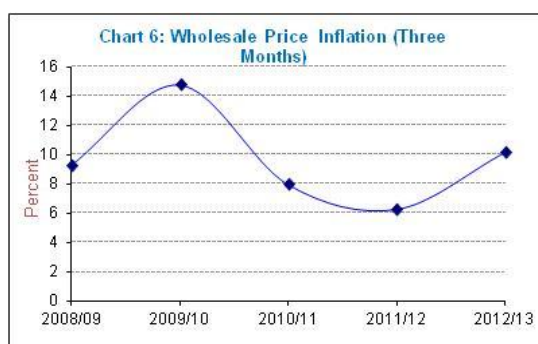


group increased by 11.8 percent during the review period. These indices had increased by 9.6 percent and 8.2 percent respectively in the corresponding period of previous year.

19. Under the items of the food and beverage group, price index of ghee and oil sub-group increased by the highest rate of 22.0 percent during the review period compared to an increase of 10.6 percent in the corresponding period of the previous year. The price index of sugar and sweet and tobacco products, which had increased by 8.1 percent and 11.4 percent in the corresponding period of the previous year, went up by 21.5 percent and 17.9 percent during the review period. Similarly, the price index of meat and fish, which had increased by 4.4 percent in the corresponding period of the previous year, has increased by 13.3 percent during the review period. The price indices of legume varieties and hard drinks sub-groups have increased by 16.5 percent and 12.1 percent respectively during the review period. In the same period of previous year such indices had decreased by 2.8 percent and 2.2 percent respectively. The price indices of restaurant and hotel and soft drink, which had increased by 11.9 percent and 4.2 in the corresponding period of the previous year, have increased by 12.4 percent and 11.4 percent respectively in the review period.
20. Within the group of non-food and services, the price index of transport has increased by 15.1 percent during the review period compared to an increase of 13.3 percent in the corresponding period of the previous year. The price indices of furnishing and household equipment and clothing and footwear increased by 15.0 percent and 13.9 percent respectively during the review period. Such indices had increased by 12.9 percent and 15.4 percent respectively in the corresponding period of the previous year. Similarly, the price indices of housing and utilities has increased by 12.6 percent during the review period while such index had increased by 5.2 percent in the corresponding period of the previous year. The price index of communication, which had decreased by 8.8 percent in the corresponding period of the previous year, witnessed a further decline of 2.7 percent during the review period also.
21. Region-wise, the price indices increased by 11.1 percent in Hills followed by 10.8 percent in Terai and 9.7 percent in Kathmandu Valley during the review period. The respective increments were 10.0 percent, 9.3 percent and 7.5 percent in the corresponding period of the previous year.

### Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 10.2 percent during the review period compared to a rise of 6.1 percent in the corresponding period of the previous year. The wholesale price indices of imported commodities, agricultural commodities and domestic manufactured commodities increased by 11.6 percent, 10.6 percent



and 6.8 percent respectively during the review period. The respective increments of these sub-groups were 12.0 percent, 1.7 percent and 11.0 percent in the corresponding period of the previous year.

23. Within the group of agricultural commodities, the wholesale price indices of cash crops increased by 21.6 percent during the review period, compared to an increase of 24.0 percent in the corresponding period of the previous year. The wholesale price index of live stock production and legume varieties, which had decreased by 3.1 percent and 7.9 percent during the corresponding period of the previous year, increased by 19.9 percent and 18.1 percent respectively during the review period. The wholesale price index of food grains, which had decreased by 6.5 percent in the previous year, has increased by 6.2 percent during the review period. The wholesale price index of spices, which had decreased by 13.7 percent in the corresponding period of the previous year, further decreased by 12.3 percent during the review period.
24. Under the group of domestic manufactured commodities, the wholesale price indices of food-related products increased by 9.5 percent during the review period. Similarly, the wholesale price indices of construction materials and beverages and tobacco increased by 9.3 percent and 3.2 percent respectively during the review period.
25. Within the imported commodities, the wholesale price indices of petroleum products and coal; and drugs and medicine have increased by 26.7 percent and 11.0 percent respectively during the review period. Similarly, the price indices of chemical fertilizer and chemical goods; and transport vehicles and machinery goods increased by 4.9 percent and 4.3 percent respectively during the review period.

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

26. The y-o-y salary and wage rate index increased by 11.1 percent during the review period compared to an increase of 29.9 percent in the corresponding period of the previous year. Within the salary and wage rate index, there is no change in salary index compared to an increase of 19.3 percent in the corresponding period of the previous year. However, the wage rate index increased by 13.9 percent during the review period compared to an increase of 32.9 percent in the corresponding period of the previous year.
27. The indices of wages of industrial labourers, construction labourers and agricultural labourers increased by 19.9 percent, 12.3 percent and 8.0 percent respectively during the review period. These indices had increased by 23.5 percent, 36.5 percent and 37.3 percent respectively in the corresponding period of the previous year.

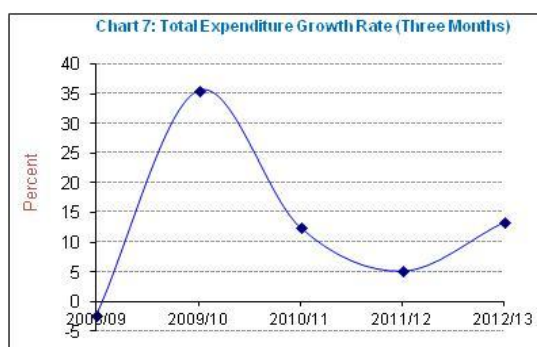
## Fiscal Situation \*

### Budget Deficit / Surplus

28. During the three months of 2012/13, government budget remained at a surplus of Rs. 10.94 billion. The budget surplus had stood at Rs. 2.47 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.

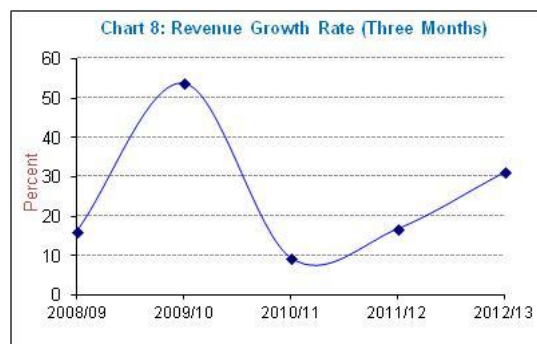
### Government Expenditure

29. During the review period, total government spending increased by 13.4 percent to Rs. 53.29 billion compared to an increase of 5.2 percent in the corresponding period of the previous year. The total expenditure increased mainly on account of the significant rise in freeze expenditure.



### Government Revenue

30. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 31.1 percent to Rs. 57.45 billion. Such revenue had risen by 16.7 percent to Rs. 43.83 billion in the corresponding period of the previous year. Continue reforms in tax administration, control in tax evasion as well as an increase in import and consumption contributed to such an increase in the revenue mobilization.



31. Of the total revenue mobilization, VAT revenue grew by 17.1 percent to Rs. 19.59 billion during the review period. It had increased by 14.8 percent in the corresponding period of the previous year. The increase in VAT revenue was on account of growing imports and positive impact of leakages control in VAT including reform in VAT administration during review period.

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\* Based on the figures reported by 8 NRB offices, 65 RBBL branches (out of 65 branches conducting govt. transaction), 35 NBL branches (out of 44 branches conducting govt. transaction), 5 Everest Bank branches and 1-1 branches each from Nepal Bangladesh Bank Limited and Global IME Bank Limited conducting government transactions.

32. During the review period, custom revenue rose by 44.6 percent to Rs. 13.79 billion compared to an increase of 14.8 percent in the corresponding period of the previous year. Increase in the imports including the imports of high tax yielding vehicles and spare parts contributed to such a growth of custom revenue during the review period.
33. During the review period, excise revenue increased by 21.1 percent to Rs. 8.37 billion compared to an increase of 10.4 percent in the corresponding period of the previous year. Increase in the imports of high excise tax yielding vehicles and reforms in excise administration accounted for such a growth of excise revenue during the review period.
34. Income tax revenue increased by 40.5 percent to Rs. 7.92 billion during the review period. Such revenue had risen by 14.9 percent in the corresponding period of the previous year. Positive impact of reform in income tax administration and expansion on taxpayer education accounted for such an increase in income tax revenue during the review period.
35. During the review period, non-tax revenue increased by 62.3 percent to Rs. 5.20 billion compared to a increase of 83.7 percent in the corresponding period of the previous year.

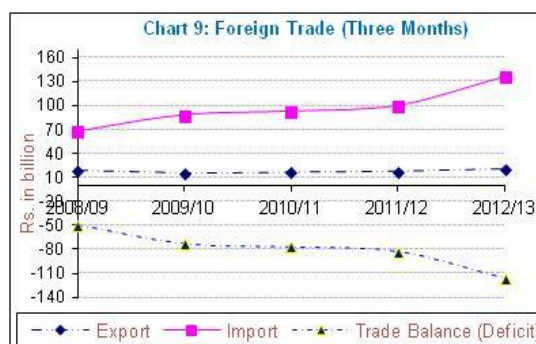
### Foreign Cash Loans and Grants

36. During the three months of 2012/13, foreign cash loans of Rs. 449.2 million and foreign cash grants of Rs. 3.66 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 896.4 million and foreign cash grants of Rs. 5.71 billion in the corresponding period of the previous year.

## External Sector Situation

### Foreign Trade

37. Merchandise exports went up by 14.9 percent to Rs. 20.73 billion in the first three months of 2012/13. Such exports had increased by 8.1 percent to Rs. 18.04 billion during the same period of the previous year. On a monthly basis, merchandise exports decreased marginally in September/October of the current fiscal year compared to that of the previous month.



38. Exports to India increased by 6.0 percent during the review period compared to an increase of 12.9 percent in the previous year. Exports to other countries went up by 31.0 percent compared to a slight increase of 0.6 percent in the same period of the previous year. In USD terms, exports to other countries increased by 11.2 percent to USD 96.7 million in contrast to a decrease of 0.5 percent during the corresponding period of the previous year.



The export of G.I. pipe, jute sackings, polyester yarn, textiles and juice, among others increased to India. Likewise, exports to other countries went up primarily due to the increase in export of pulses, tanned skin and readymade leather goods, among others.

39. During the review period, merchandise imports increased by 36.1 percent to Rs. 136.48 billion. Such imports had risen by 7.7 percent to Rs. 100.26 billion during the corresponding period of the previous year. Total imports increased in the review period largely due to a sharp increase in imports from both India and other countries. On a monthly basis, merchandise imports increased by 5.0 percent during September/October of the current fiscal year compared to that of the previous month.
40. Imports from India went up by 36.0 percent during the review period compared to an increase of just 1.1 percent in the same period of the previous year. Imports from other countries increased by 36.3 percent compared to an increase of 21.9 percent in the corresponding period of the previous year. In US dollar terms, imports from other countries increased by 15.5 percent to USD 566.8 million compared to an increase of 21.1 percent in the previous year. Imports from India increased primarily owing to an increase in the imports of petroleum products, M.S. billet, chemical fertilizer, cement and rice, among others. Likewise, the imports from other countries increased mainly on account of an increase in the imports of pipe and pipe fittings, telecommunication equipment parts, gold, readymade garments and edible oil, among others.
41. Total trade deficit during the first three months of 2012/13 surged by 40.8 percent to Rs. 115.75 billion compared to an increase of 7.6 percent during the same period of the previous year. Trade deficit with India increased by 42.7 percent during the review period in contrast to a decline by 1.2 percent in the same period of the previous year. Trade deficit with other countries increased by 37.5 percent compared to an increase of 27.7 percent during the same period of the previous year.
42. Due to high growth of imports, the ratio of export to import declined to 15.2 percent in the review period from 18.0 percent a year ago.

### **Balance of Payments Situation**

43. The overall BOP recorded a surplus of Rs. 347.3 million during the first three months of 2012/13 compared to a surplus of Rs. 33.66 billion during the same period of the previous year. The current account posted a deficit of Rs. 2.94 billion in the review period in contrast to a surplus of Rs. 13.82 billion in the same period of the previous year. The deficit in the current account was primarily due to a substantial rise in the imports of merchandise and services. In US dollar terms, the overall BOP recorded a surplus of USD 2.1 million compared to a surplus of USD 447.1 million during the same period of the previous year. Similarly, the current account registered a deficit of USD 34.3 million in the review period in contrast to a surplus of USD 178.8 million during the corresponding period of the previous year.
44. The FOB-based merchandise trade deficit increased by 39.8 percent to Rs. 110.96 billion during the first three months of 2012/13. Such deficit had grown up by 6.9 percent in the same period of the previous year. The net service income posted a deficit of Rs. 2.47

billion in the review period compared to a surplus of Rs. 3.29 billion in the same period of the previous year. Net transfers registered a growth of 25.5 percent to Rs. 110.42 billion in the review period compared to a growth of 19.0 percent in same period of the previous year. Under the transfers, workers' remittances increased by 28.8 percent to Rs. 97.72 billion compared to an increase of 28.3 percent in the same period of the previous year. In US dollar terms, remittance inflow increased by 10.0 percent to USD 1.12 billion during the review period compared to an increase of 26.6 percent in same period of the previous year. On a monthly basis, remittance inflows increased by 49.5 percent in September/October compared to the value of the previous month of this fiscal year. Similarly, under the financial account, foreign direct investment of Rs. 2.05 billion was recorded in the review period.

### Foreign Exchange Reserves

45. The gross foreign exchange reserves decreased by 2.2 percent to Rs. 429.95 billion in mid-October 2012 from a level of Rs. 439.46 billion as at mid-July 2012. Such reserves had increased by 19.4 percent to Rs. 324.97 billion in the same period of the previous year. Out of total reserves, NRB's reserves declined by 5.0 percent to Rs. 356.93 billion in the review period from a level of Rs. 375.52 billion as at mid-July 2012. The gross foreign exchange reserves in USD terms increased by 2.5 percent to USD 5.08 billion in mid-October 2012. Such reserves had decreased by 4.4 percent in the same period of the previous year. Likewise, during the first three months of 2012/13, the reserves in terms of inconvertible foreign exchange decreased by 3.8 percent to IRs 58.11 billion. Such reserves had increased by 29.3 percent during the same period of the previous year. On the basis of trend of import during the first three month of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 9.7 months and merchandise and service imports of 8.2 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 increased by 0.6 percent to USD 115.00 per barrel in mid-October 2012 from USD 114.33 per barrel in mid-October 2011. Likewise, the price of gold increased by 4.1 percent to USD 1746.50 per ounce in mid-October 2012.
47. Nepalese currency vis-à-vis the US dollar appreciated by 4.7 percent in mid-October 2012 from the level of mid-July 2012. It had depreciated by 9.2 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 84.60 in mid-October 2012 compared to Rs. 88.60 in mid-July 2012.