

# Current Macroeconomic Situation of Nepal

*(Based on the Five Months' Data of FY 2011/12)*

## Monetary Situation

1. In the past, Nepal Rastra Bank was publishing monetary survey based on the balance sheets of Nepal Rastra Bank and commercial banks. As monetary transactions are also carried out by development banks and finance companies, it was felt necessary to incorporate balance sheets of these institutions in the monetary survey to make it more realistic. As announced in the Monetary Policy for the FY 2011/12, Nepal Rastra Bank has initiated the publication of broad monetary survey from fourth month (mid-November 2011) of the FY 2011/12 by extending the coverage to include development banks and finance companies as well.

### Money Supply

2. As per the broad money survey data, broad money (M2) has increased by 8.8 percent during the five months of the FY 2011/12 compared to a growth of 1.7 percent in the corresponding period of the previous year. On y-o-y basis, broad money expanded by 20.1 percent in mid-December 2011. Broad money has expanded during the review period on account of remarkable increase in net foreign assets of the monetary sector. Narrow money (M1) increased by 2.0 percent during the review period. On y-o-y basis, narrow money expanded by 11.2 percent in mid-December 2011.
3. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 61.19 billion (28.3 percent) during the review period against a decline of Rs. 3.76 billion (1.8 percent) in the corresponding period of the previous year. The current account surplus on account of improvement in workers' remittances and services income as well as improvement in financial account were the factors responsible for strengthening balance of payments (BOP) leading to such an increase in net foreign assets of the monetary sector during the review period.

### Domestic Credit

4. Domestic credit increased by 1.6 percent during the five months of the FY 2011/12. It had increased by 2.7 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased by 13.4 percent in mid-December 2011. During the five months of the FY 2011/12, claims on private sector increased by 3.2 percent compared to a growth of 6.5 percent in the corresponding period of the previous year. The credit to private sector could not expand during the review period due to policy

measures initiated to curb the excessive credit flow to unproductive sector and to reduce high credit-deposit ratio.

### **Deposit Mobilization of Banks and Financial Institutions**

5. Deposit mobilization of banks and financial institutions increased by 9.0 percent (Rs. 73.77 billion) during the five months of the FY 2011/12. Deposit mobilization had increased by 2.0 percent (Rs. 14.87 billion) in the corresponding period of the previous year. During the review period, deposit mobilization of commercial banks and development banks increased by 10.3 percent and 6.5 percent respectively whereas deposit mobilization of finance companies dropped by 0.5 percent. The deposit mobilization of commercial banks had declined by 0.4 percent and that of development banks and finance companies had increased by 5.9 percent and 2.4 percent respectively in the corresponding period of the previous year.

### **Credit Flow of Banks and Financial Institutions**

6. During the five months of the FY 2011/12, loan and advances of banks and financial institutions increased by 4.3 percent (Rs. 36.54 billion) compared to the growth rate of 5.8 percent (Rs. 43.24 billion) in the corresponding period of the previous year. Loan and advances of commercial banks and development banks increased by 5.4 percent and 4.7 percent respectively while that of finance companies dropped by 0.3 percent during the review period. Credit to private sector from banks and financial institutions increased by 2.3 percent (Rs.15.73 billion) during the review period compared to 5.9 percent (Rs. 35.62 billion) in the corresponding period of the previous year. During the review period, credit extended by commercial banks to private sector increased by 3.7 percent while that from development banks and finance companies dropped by 0.6 percent and 3.6 percent respectively.
7. Of the total commercial banks' credit to private sector, the credit to industrial production sector increased by Rs. 9.72 billion during the review period compared to Rs. 10.71 billion in the corresponding period of the previous year. Similarly, banks' credit to construction, agriculture, wholesale and retail trade and transportation, communication and public services sectors increased by Rs. 3.70 billion, Rs. 1.3 billion, Rs. 0.47 billion and Rs. 0.80 billion respectively during the review period.

### **Liquidity Management**

8. NRB mopped up net liquidity of Rs. 4.65 billion with the liquidity injection of Rs. 743.7 million through repo auction and liquidity mopped up of Rs. 5.40 billion through outright sale auction under open market operation during the review period. A liquidity of Rs. 19.0 billion was mopped up through reverse repo auction and Rs. 2.0 billion was mopped up through outright sale auction while a liquidity of Rs. 5.0 billion was injected through repo auction in the corresponding period of the previous year.

9. NRB injected net liquidity of Rs. 107.69 billion through the purchase of USD 1.40 billion from foreign exchange market (commercial banks) during the review period. A net liquidity of Rs. 69.96 billion was injected through the purchase of USD 964 million from foreign exchange market in the corresponding period of the previous year.
10. NRB purchased Indian currency equivalent to Rs. 100.41 billion through the sale of USD 1.30 billion from the Indian money market during the review period. INR equivalent to Rs. 74.45 billion was purchased through the sale of USD 1.02 billion in the corresponding period of the previous year.

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

11. Inter-bank transaction of commercial banks stood at Rs. 98.08 billion during the five months of the FY 2011/12 compared to Rs. 165.14 billion in the corresponding period of the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 4.21 billion during the review period. The outstanding SLF amount was nil as at mid-December 2011. Liquidity injected through the SLF had amounted to Rs. 81.68 billion in the corresponding period of the previous year with an outstanding amount of Rs. 1.74 billion as at mid-December 2010.

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

12. The short-term interest rates remained at lower level in mid-December 2011 compared to those of mid-December 2010. For example, the weighted monthly average 91-day Treasury bill rate stood at 0.8 percent in mid-December 2011 compared to 6.82 percent in mid-December 2010. The weighted average inter-bank rate remained at 1.06 percent in mid-December 2011 compared to 8.59 percent in mid-December 2010.

### **Securities Market**

13. The year on year (y-o-y) NEPSE index declined by 19.8 percent to 316.27 points in mid-December 2011. This index had stood at 394.16 in the same period last year. The decline in share prices was on account of the significant increase in the supply of securities.
14. The y-o-y stock market capitalization decreased by 14.1 percent to Rs. 290.34 billion in mid-December 2011. The ratio of market capitalization to GDP stood at 21.6 percent in mid-December 2011. This ratio was 28.9 percent a year ago. Of the total market capitalization, the share of bank and financial institutions stood at 67.5 percent followed by manufacturing and processing companies (4 percent), hotels (1.8 percent), business entities (0.5 percent), hydropower (4.2 percent) and other sectors (22 percent).
15. Total paid-up capital of the listed companies stood at Rs. 104.81 billion in mid-December 2011, registering an increase of 14.4 percent over the period of one year. This increase was due to the additional listing of securities at the NEPSE. As at

mid- December 2011, total securities worth Rs. 8.88 billion (Ordinary share of Rs. 1.3 billion, bonus share of Rs. 0.58 billion, right share of Rs. 1.96 billion, convertible preference share of Rs. 0.04 billion and government securities of Rs. 5 billion) were listed at the NEPSE.

16. Total number of companies listed at the NEPSE increased from 190 in mid- December 2010 to 214 in mid-December 2011. Among them, 182 were banks and financial institutions (including insurance companies), followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and companies in other groups (2).

## **Inflation, Salary and Wage Rate**

### **Consumer Price Inflation**

17. The year-on-year (y-o-y) inflation as measured by the consumer price index increased by 7.5 percent in mid-December 2011 as compared to 9.6 percent of the corresponding period of the previous year. The index of food and beverage group and non-food and services group increased by 7.1 percent and 7.8 percent respectively during the review period. The indices of these groups had increased by 15.2 percent and 5.0 percent respectively in the same period of previous year.
18. Under the items of the food and beverage group, price index of fruits sub-groups rose by the highest rate of 20.0 percent during the review period compared to an increase of 22.9 percent in the same period of the previous year. The price index of vegetables, which had increased by 33.7 percent in the corresponding period of previous year, went up by 18.8 percent during the review period. The price indices of milk products and egg increased by 13.0 percent and ghee and oil increased by 12.5 percent during the review period compared to an increases of 15.2 percent of milk product and egg and 0.5 percent of ghee and oil in the same period of the previous year. Similarly, the price indices of sugar and sweets and cereal grains and their products, which had increased by 26.3 percent and 15.6 percent respectively in the corresponding period of the previous year, increased by 7.8 percent and 2.1 percent during the review period. The price index of spices, which had increased by a highest rate of 26.4 percent during the same period of the previous year, decreased by 8.3 percent during the review period.
19. Within the group of non-food and services, the price index of clothing and footwear increased by 15.2 percent during the review period compared to an increase of 9.8 percent in the corresponding period of the previous year. The price indices of furnishing and household equipment and transport, which had increased by 2.8 percent and 8.7 percent respectively in the corresponding period of the previous year, went up by 13.7 percent and 12.5 percent during the review period too. Similarly, the price indices of miscellaneous goods and services and education, which had increased by 6.3 percent and 5.8 percent in the corresponding period of the previous year, increased by

9.7 percent and 8.9 percent respectively during the review period. The price index of communication, which had decreased by 9.5 percent in the corresponding period of the previous year, witnessed a further decline of 8.8 percent during the review period too.

20. Region-wise, the price index in Hill increased by 9.6 percent followed by 7.3 percent in Terai and 6.0 percent increment in Kathmandu Valley during the review period. The respective growth rates were 9.3 percent, 6.6 percent and 14.0 percent in the corresponding period of the previous year.

### **Wholesale Price Inflation**

21. The y-o-y wholesale price index increased by 4.3 percent during the review period compared to a rise of 11.2 percent in the corresponding period of the previous year. The wholesale price indices of imported commodities and domestic manufactured commodities increased by 12.0 percent and 11.3 percent whereas the index of agricultural commodities decreased by 1.5 percent during the review period. The respective price rise of these sub-groups was 8.0 percent, 6.8 percent and 14.3 percent in the corresponding period of the previous year.
22. Within the group of agricultural commodities, the wholesale price index of fruits and vegetables, which had increased by 31.1 percent in the corresponding period of the previous year, increased by 2.3 percent during the review period. The wholesale price index of cash crops, which had decreased by 11.7 percent in the corresponding period last year, has increased by 8.6 percent during the review period. The wholesale price indices of spices and food grains, which had increased by 36.4 percent and 17.9 percent during the corresponding period of the previous year, decreased by 8.4 percent and 8.2 percent respectively during the review period.
23. Under the group of domestic manufactured commodities, the wholesale price indices of beverages and tobacco and food-related products increased by 16.8 percent and 9.0 percent respectively during the review period. Likewise, the wholesale price index of construction material increased by 4.3 percent during the review period.
24. Within the imported commodities' group the wholesale price indices of textile-related products and petroleum products and coal increased by 29.4 percent and 15.6 percent during the review period. Similarly, the price indices of transport vehicles and machinery goods and electric and electronic goods increased by 12.4 percent and 9.5 percent during the review period.

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

25. The y-o-y salary and wage rate index increased by 31.0 percent during the review period compared to an increase of 14.9 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 19.3 percent during the review period, which was unchanged in the same period of the

previous year. The wage rate index increased by 34.4 percent during the review period compared to an increase of 20 percent in the corresponding period of the previous year.

26. The indices of salary of banks and financial institutions, public corporations and civil service increased by 42.4 percent, 28.0 percent and 18.7 percent respectively during the review period. Similarly, the salary index of army and police service, education and private institutions were 26.5 percent, 19.1 percent and 8.6 percent respectively. These rates were unchanged in the same period of previous year.
27. The indices of wages of construction, agricultural and industrial laborers increased by 37.0 percent, 36.5 percent and 28.8 percent respectively during the review period. These rates had increased by 17.2 percent, 27.3 percent and 7.7 percent respectively in the corresponding period of the previous year.

## **Fiscal Situation \***

### **Budget Deficit / Surplus**

28. In GoN. In the five months of FY 2011/12, government budget remained at a surplus of Rs. 8.05 billion. In the corresponding period of the previous year, budget surplus amounted to Rs. 13.13 billion. A high growth of resource mobilization relative to total government expenditure accounted for such a surplus in government budget during the review period.

### **Government Expenditure**

29. During the review period, total government spending increased by 48.0 percent to Rs. 88.14 billion compared to a decrease of 5.7 percent in the corresponding period of the previous year. Timely announcement of the budget for the FY 2011/12 has contributed to such increase in government expenditure. The implementation of budget was delayed last year as it was announced only in the fifth month of the fiscal year.

### **Government Revenue**

30. During the review period, revenue mobilization of the Government of Nepal grew by 19.4 percent to Rs. 77.70 billion compared to an increase of 11.1 percent to Rs. 65.10 billion in the corresponding period of the previous year. Increase in import compared to that of the corresponding period of the previous year and increase in the receipt of DRP from India have contributed to such increase in government revenue during the review period.

---

\*

Based on the figures reported by 8 NRB offices, 63 RBBL branches (out of 65 branches conducting govt. transaction), 38 NBL branches (out of 43 branches conducting govt. transaction), 5 Everest Bank branches and 1-1 branches each from Nepal Bangladesh Bank Ltd. and Global Bank Limited conducting government transactions.

31. VAT revenue grew by 17.4 percent to Rs. 28.41 billion in mid-December 2011. It had increased by 19.8 percent in the corresponding period of the previous year.
32. During the review period, custom revenue increased by 14.7 percent to Rs. 16.10 billion compared to a growth of 6.0 percent in the corresponding period of the previous year. Increase in import compared to that of the corresponding period of the previous year and increase in the receipt of DRP from India have contributed to such increase in custom revenue during the review period.
33. During the review period, excise revenue increased by 12.8 percent to Rs. 12.28 billion compared to an increase of 21.9 percent in the corresponding period of the previous year. Decrease in the imports of high excise tax yielding vehicles accounted for such a low growth rate of excise revenue during the review period compared to the corresponding period of the previous year.
34. Income tax revenue increased by 17.6 percent to Rs. 10.0 billion during the review period. Such revenue had risen by 31.3 percent in the corresponding period of the previous year.
35. During the review period, non-tax revenue increased to Rs. 7.88 billion. It stood at Rs. 4.72 billion in the corresponding period of the previous year.

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

36. In the five months of the FY 2011/12, foreign cash loans of Rs. 1.23 billion and foreign cash grants of Rs. 15.40 billion were received by the GoN.

### **External Sector Situation**

#### **Foreign Trade**

37. Merchandise exports rose by 11.5 percent to Rs. 30.06 billion during the five months of FY 2011/12. Such exports had increased by 8.0 percent to Rs. 26.96 billion during the corresponding period of the previous year. On a monthly basis, merchandise exports increased by 12.5 percent in November/December of the current fiscal year compared to that of the previous month.
38. Exports to India went up by 14.7 percent during the five months of the FY 2011/12 compared to an increase of 11.2 percent during the corresponding period of the previous year. Exports to other countries also increased by 5.7 percent compared to an increase of 2.8 percent in the corresponding period of the previous year. In USD terms such exports increased by 0.5 percent to USD 134.0 million compared to an increase by 7.5 percent in the corresponding period of the previous year. The increase in the exports to India was mainly ascribed to the increase in the exports of zinc sheet, textiles, polyester yarn, G.I. pipe and stone & stand, among others. Exports to other

countries rose largely owing to an increase in the export of woollen carpets, pashmina, readymade garments, Nepalese paper and paper products, and tea, among others.

39. During the five months of the FY 2011/12, merchandise imports increased by 15.5 percent to Rs. 177.79 billion. Such imports had risen by 1.6 percent to Rs. 153.97 billion during the corresponding period of the previous year. On a monthly basis, the merchandise imports increased by 20.0 percent in November/December of the current fiscal year in comparison to that of the previous month.
40. Imports from India increased by 8.1 percent during the review period compared to a growth of 27.1 percent during the corresponding period of the previous year. Likewise, imports from other countries increased by 30.9 percent in contrast to a decline by 28.3 percent during the corresponding period of the previous year. In USD terms, such imports increased by 23.8 percent to USD 848.4 million compared to a decline by 25.3 percent in the corresponding period of the previous year. In the review period, the import of petroleum products, readymade garments, agricultural equipments and parts, M.S. wires and coal, among others, from India and import of gold, crude soybean oil, silver, other machinery & parts and chemical fertilizers, among others, from other countries went up.
41. Total trade deficit during the five months of the FY 2011/12 went up by 16.3 percent to Rs.147.73 billion. Trade deficit had gone up by 0.3 percent during the corresponding period of the previous year. Trade deficit with India increased by 6.7 percent during the review period compared to a growth of 30.8 percent during the corresponding period of the previous year. On the contrary, trade deficit with other countries increased by 37.0 percent in contrast to a drop by 33.2 percent in the same period of the previous year. In USD term, the total trade deficit rose by 9.9 percent to USD 1.91 billion in the review period compared to a growth of 4.4 percent during the corresponding period of the previous year.
42. The increase in the import growth led to a slight reduction in the export to import ratio to 16.9 percent in the review period from 17.5 percent a year ago.

### **Balance of Payments Situation**

43. The overall BOP recorded its highest ever surplus of Rs. 61.19 billion during the five months of the FY 2011/12 compared to a deficit of Rs. 3.76 billion during the corresponding period of the previous year. The current account also registered a surplus of Rs. 24.89 billion compared to a deficit of Rs. 4.58 billion during the corresponding period of the previous year. The upsurges in the growth of remittance along with improvement in the service account were the responsible factors for the surplus in the current account. External sector has strengthened on account of high surplus in the current account.



44. The FOB-based merchandise trade deficit increased by 15.7 percent to Rs. 141.90 billion during the five months of the FY 2011/12. Such deficit had fallen by 0.3 percent during the corresponding period of the previous year. Net service account witnessed a surplus of Rs. 8.33 billion during the review period in contrast to a deficit of Rs. 4.76 billion during the corresponding period of the previous year. Under services, tourism income rose by 37.0 percent in the first five months of the FY 2011/12 in contrast to a decline by 18.3 percent during the corresponding period of the previous year. The net transfer account registered a growth of 29.5 percent to Rs. 155.53 billion in the review period compared to that of a year ago. Under transfers, while pension receipts declined by 19.6 percent to Rs. 10.93 billion, workers' remittances increased by 37.9 percent to Rs.133.19 billion compared to a growth of 11.3 percent during the corresponding period of the previous year. On a monthly basis, the remittance inflows increased by 9.7 percent in November/December compared to the value of the previous month of this fiscal year. In USD terms, remittance inflow increased by 30.0 percent to USD 1.72 billion in the review period compared to a growth of 14.2 percent during the corresponding period of the previous year. Likewise, under the financial account, foreign direct investment of Rs 3.20 billion was recorded in the review period compared to such investment of Rs 3.58 billion in the same period a year ago.

#### **Foreign Exchange Reserves**

45. The gross foreign exchange reserves increased by 35.4 percent to Rs. 368.63 billion in mid-December 2011 from a level of Rs. 272.15 billion as at mid-July 2011. Such reserves had declined by 2.0 percent to Rs. 263.43 billion during the corresponding period of the previous year. On a monthly basis, foreign exchange reserve of Rs 25.89 billion increased in the month of November/December from the level of the previous month of this year. Out of total reserve, NRB's reserves increased by 42.1 percent to Rs. 302.86 billion in the review period from a level of Rs. 213.10 billion as at mid-July 2011. In USD terms, the gross foreign exchange reserves increased by 12.4 percent to USD 4.31 billion in mid-December 2011 from the level of mid-July 2011. Such reserves had increased by just 1.2 percent during the corresponding period of the previous year. Based on the trend of import during the five months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 10.6 months and merchandise and service imports of 9.3 months.

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

46. The price of oil (Crude Oil Brent) in the international market surged by 13.5 percent to USD 104.52 per barrel in mid-December 2011 from USD 92.06 per barrel in mid-December 2010. Similarly, the price of gold also rose by 13.3 percent to USD 1574.00 per ounce in mid-December 2011 from the level of mid-December 2010.
47. Nepalese currency vis-à-vis the USD depreciated by 17.03 percent in mid-December 2011 from the level of mid-July 2011. It had appreciated by 3.89 percent in the

corresponding period of the previous year. The exchange rate of one USD stood at Rs. 85.51 in mid-December 2011 compared to Rs. 70.95 in mid-July 2011.