

Current Macroeconomic Situation

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

Monetary Situation

Money Supply

1. Broad money (M2) has increased by 0.6 percent during the six months of FY 2010/11 compared to a growth of 6.8 percent in the corresponding period of the previous year. The broad money has expanded marginally during the review period on account of decline in net foreign assets of the banking system and a slower growth in net domestic assets. However, the narrow money (M1) declined by 3.1 percent during the review period.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) declined by Rs. 4.43 billion (2.1 percent) during the review period compared to Rs. 16.64 billion (7.4 percent) in the corresponding period of the previous year. The improvement in merchandise export and workers' remittances together with a decline in import were the factors responsible for the lower deficit in balance of payments (BoP) thereby the lower decline in net foreign assets of the monetary sector during the review period relative to that of the corresponding period of the previous year.

Domestic Credit

3. Domestic credit increased by 2.7 percent during the review period. It had expanded by 7.3 percent in the corresponding period of the previous year. During the review period, claims on private sector increased by 8.4 percent compared to a growth of 12.1 percent in the corresponding period of the previous year. The policy measures initiated to curb the excessive credit flow to unproductive sector and a decline in import contributed to slower growth in credit to the private sector during the review period.

Deposit Mobilization and Credit Flow of Commercial Banks

4. The gap between deposit mobilization and lending by commercial banks has increased during the six months of FY 2010/11. The deposit mobilization of commercial banks increased by Rs. 3.78 billion while the loan and advances increased by Rs. 45.93 billion in the review period. The deposit mobilization had increased by Rs. 25.65 billion and loan and advances had increased by Rs. 45.28 billion in the corresponding period of the previous year. Contrary to the marginal

increase in deposit mobilization, credit to private sector increased by Rs. 40.11 billion during the review period.

5. Of the total bank credit to private sector, the credit to production sector increased by Rs. 15.20 billion during the review period compared to Rs. 8.43 billion in the corresponding period of the previous year. Similarly, banks' credit to wholesale and retail trade, construction and agriculture sectors increased by Rs. 10.41 billion, Rs. 3.48 billion and Rs. 1.89 billion respectively during the review period. On the contrary, credit to transportation, communication and public services declined by Rs. 2.22 billion.

Liquidity Management

6. The NRB mopped up net liquidity of Rs. 3.0 billion through secondary market operation during the review period. Liquidity of Rs. 21.0 billion was mopped up through outright sale auction of Rs. 2.0 billion and reverse repo auction of Rs. 19.0 billion during the review period. On the other hand, liquidity of Rs. 18.0 billion was injected through repo auction during the review period. Liquidity of Rs. 8.44 billion was mopped up through outright sale auction and reverse repo auction while Rs. 43.36 billion was injected through repo auction in the corresponding period of the previous year.
7. The NRB injected net liquidity of Rs. 82.12 billion through the purchase of the USD 1.13 billion from foreign exchange market (commercial banks) during the review period. A net liquidity of Rs. 37.57 billion was injected through the purchase of USD 494.70 million from foreign exchange market in the corresponding period of the previous year.
8. The NRB purchased Indian currency equivalent to Rs. 88.89 billion through the sale of the USD 1.22 billion in the Indian money market during the review period. INR equivalent to Rs. 79.71 billion was purchased through the sale of USD 1.05 billion in the corresponding period of the previous year.

Inter Bank Transaction and Standing Liquidity Facility

9. Inter-bank transaction of commercial banks reached Rs. 201.68 billion during the first six months of FY 2010/11 compared to Rs. 150.90 billion in the corresponding period of the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 121.71 billion during the review period. Of the total SLF used during the review period, the outstanding amount was Rs. 2.42 billion as at mid-January 2011. Liquidity injected through the SLF had amounted to Rs. 65.25 billion in the corresponding period of the previous year. The outstanding amount of SLF was Rs. 1.83 billion as at mid-January 2010.

Short-term Interest Rates

10. The short-term interest rates remained slightly lower in mid-January 2011 as compared to mid-January 2010. For example, the weighted monthly average 91-day Treasury bill rate stood at 8.21 percent in mid-January 2011 compared to 8.74 percent in mid-January 2010. The weighted average inter-bank rate remained at 10.58 percent in mid-January 2011 compared to 12.83 percent in mid-January 2010.

Securities Market

11. The year on year (y-o-y) NEPSE index declined by 24.1 percent to 402.75 points in mid-January 2011. This index had stood at 530.96 in the same period last year. The decline in share index was on account of the significant increase in the supply of securities.
12. The y-o-y stock market capitalization decreased by 14.3 percent to Rs. 349.28 billion in mid-January 2011. The ratio of market capitalization to GDP stood at 26.4 percent in mid-January 2011. This ratio was 34.5 percent a year ago. Of the total market capitalization, the share of bank and financial institutions stood at 71.6 percent followed by manufacturing and processing companies (2.6 percent), hotels (1.7 percent), business entities (0.4 percent), hydropower (4.6 percent) and other sectors (19.0 percent).
13. Total paid-up capital of the listed companies stood at Rs. 93.82 billion in mid-January 2011, registering an increase of 30.8 percent over the period of one year. This increase was largely due to the additional listing of securities at the NEPSE. As at mid-January 2011, additional securities worth Rs. 19.65 billion (ordinary share of Rs. 7.0 billion, bonus share of Rs.2.27 billion, right share of Rs. 5.38 billion and government securities of Rs. 4.99 billion) were listed at the NEPSE.
14. Total number of companies listed at the NEPSE increased to 195 in mid-January 2011 from 165 last years. Among them, 163 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

Consumer Price Inflation

15. The y-o-y inflation as measured by the consumer price index (2005/06=100) increased to 11.3 percent in mid-January 2011 from 10.7 percent in the corresponding period of the previous year. During the review period, the index of food and beverage group increased by 17.6 percent and the index of non-food and

services group increased by 6.2 percent. The indices of these groups had increased by 18.3 percent and 4.6 percent respectively in the same period of the previous year.

16. During the review period, of the items under food and beverage group, price index of vegetables sub groups increased by a highest rate of 67.4 percent compared to an increase of 30.3 percent in the corresponding period of the previous year. The price indices of fruits and spices, which had increased by 28.5 percent and 34.6 percent respectively in the same period of the previous year, increased by 26.7 percent and 22.6 percent respectively during the review period. During the review period, the price indices of cereals grains and their products, meat and fish and milk products and egg increased by 15.5 percent, 9.5 percent and 14.0 percent respectively compared to the increase of 11.1 percent, 22.8 percent and 10.5 percent respectively during the corresponding period of the previous year. Similarly, the price indices of tobacco products and restaurant and hotel increased by 18.9 percent and 17.0 percent respectively during the review period, compared to their respective increase of 11.7 percent and 18.8 percent in the corresponding period of the previous year. The index of legume varieties, which had increased by 36.6 percent in the corresponding period of the previous year, decreased by 13.4 percent during the review period.
17. Within the group of non-food and services, the price index of clothing and footwear increased by 14.8 percent which had increased by 7.9 percent in the corresponding period of previous year. The price index of transport, which had decreased by 8.2 percent in the corresponding period of the previous year, increased by 11.2 percent in the review period. Similarly, the price index of communication, which had remained constant in the corresponding period of the previous year, declined by 10.4 percent in the review period.
18. Region-wise, the price index increased highest in Kathmandu Valley by 13.9 percent followed by 12.1 percent in Hills and 9.1 percent in Terai during the review period. The respective growth rates were 10.3 percent, 10.8 percent and 10.8 percent in the corresponding period of the previous year.

Wholesale Price Inflation

19. During the review period, the y-o-y wholesale price index increased by 12.8 percent compared to a rise of 16.0 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities and domestic manufactured commodities increased by 16.2 percent and 8.3 percent respectively during the review period compared to the increase of 30.2 percent and 10.4 percent in the corresponding period of the previous year. The wholesale price index of imported commodities increased by 9.3 percent, in the review period, as against the decrease of 1.8 percent in the corresponding period of the previous year.

20. During the review period, within the group of agricultural commodities, the wholesale price index of spices increased by 41.5 percent compared to an increase of 50.3 percent in the corresponding period of the previous year. Likewise, the wholesale price indices of fruits and vegetables, livestock production and food grains increased by 39.6 percent, 14.0 percent and 12.0 percent respectively compared to an increase of 17.7 percent, 33.8 percent and 20.4 percent in the corresponding period of the previous year. The wholesale price index of pulses declined by 1.2 percent in the review period, as against the increase of 34.0 percent, during the corresponding period of the previous year.
21. Within the group of domestic manufactured commodities, the wholesale price index of beverages and tobacco, construction materials and food related products increased by 15.8 percent 5.7 percent and 4.1 percent compared to the increase of 14.4 percent, 7.4 percent and 15.1 percent respectively during the same period of the previous year.
22. During the review period, within the imported commodities group, the wholesale price index of petroleum products and coal increased by 17.9 percent as against the decline of 5.3 percent in the corresponding period of the previous year. Similarly, the price indices of textile related products electric and electronic goods, chemical fertilizers and chemical goods increased by 7.5 percent, 6.4 percent and 6.3 percent respectively as against the decline of 2.4 percent, 6.3 percent and 11.9 percent respectively in the corresponding period previous year. Similarly, the price index of transport vehicles and machinery goods, which had remained constant in the corresponding period of the previous year, increased by 7.3 percent in the review period.

National Salary and Wage Rate

23. The overall y-o-y salary and wage rate index increased by 12.4 percent during the review period compared to an increase of 17.7 percent in the corresponding period of the previous year. In the salary and wage rate indices, the salary index remained unchanged in the review period as against the increase of 18.0 percent in the corresponding period of the previous year. However, during the review period, the overall salary and wage rate index increased mainly due to the increase in wage rate index. During the review period, the wage rate index increased by 16.6 percent compared to an increase of 17.6 percent in the corresponding period of the previous year. The indices of wages of agricultural laborers, industrial laborers and construction laborers increased by 22.9 percent, 5.6 percent and 15.3 percent respectively during the review period. These rates had increased by 20.7 percent, 13.8 percent and 13.0 percent respectively in the corresponding period of the previous year.

Fiscal Situation *

Budget Deficit / Surplus

24. During the six months of FY 2010/11, government budget remained at a surplus of Rs. 22.42 billion. A high growth of revenue mobilization relative to total expenditure accounted for such a government budget surplus during the review period. In the corresponding period of the previous year, budget surplus had stood at Rs. 10.16 billion.

Government Expenditure

25. During the review period, total government spending decreased by 6.3 percent to Rs. 80.85 billion compared to an increase of 31.8 percent in the corresponding period of the previous year. During the review period, the negative growth rates on both recurrent and capital expenditure attributed for such a decline in the government expenditure.
26. During the review period, recurrent expenditure declined by 1.3 percent to Rs. 59.87 billion. In the corresponding period of the previous year, such expenditure had increased by 40.2 percent. Likewise, capital expenditure declined by 15.0 percent to Rs. 8.97 billion in contrast to an increase of 33.9 percent in the corresponding period of the previous year. Delay in the announcement of the annual budget also attributed for such a decline in the growth of recurrent and capital expenditures.

Revenue

27. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 14.6 percent to Rs. 91.33 billion compared to an increase of 34.0 percent to Rs. 79.68 billion in the corresponding period of the previous year. The impact of the delay in announcement of the Government budget coupled with decline import compared to the same period of the previous year affected the growth rate of revenue of the government.
28. Of the total revenue mobilization, VAT revenue grew by 19.6 percent to Rs. 29.45 billion in mid-January 2011. It had increased by 43.5 percent in the corresponding period of the previous year.
29. During the review period, custom revenue rose by 4.7 percent to Rs.16.88 billion compared to an increase of 45.1 percent in the same period of the previous year.

* Based on data reported by 8 offices of NRB, 58 out of total 65 branches of Rastriya Banijya Bank Limited, 35 out of total 42 branches of Nepal Bank Limited, 5 branches of Everest Bank Limited and 1-1 branch each from Nepal Bangladesh Bank Limited and Global Bank limited conducting government transactions.

The growth rate of custom revenue declined mainly due to decrease in amount of Duty Refund Procedure (DRP) from India and low growth rate of import compared to the same period of the previous year.

30. During the review period, excise revenue increased by 19.8 percent to Rs. 13.25 billion compared to an increase of 67.6 percent in the same period of the previous year. The growth rate of excise revenue declined due mainly to the decline in imports of high excise tax yielding vehicles.
31. Income tax revenue increased by 27.6 percent to Rs.19.05 billion during the review period. Such revenue had risen by 32.0 percent in the corresponding period of the previous year.
32. During the review period, non-tax revenue increased by 10.8 percent to Rs.9.36 billion compared to a decrease of 11.0 percent in the same period of the previous year.

Foreign Cash Loans and Grants

33. During the first six months of the FY 2010/11, the Government of Nepal received foreign cash loans amounting to Rs. 2.29 billion and foreign cash grants amounting to Rs. 12.69 billion. Such receipts were respectively Rs. 1.98 billion and Rs. 13.07 billion in the corresponding period of the previous year.

External Sector Situation

Foreign Trade

34. Merchandise exports increased by 5.9 percent to Rs. 32.63 billion during the six months of the FY 2010/11. Such exports had declined by 11.1 percent to Rs. 30.81 billion in the same period last year. On a monthly basis, exports decreased by 4.0 percent in the sixth month of the current fiscal year compared to the value of the previous month.
35. Exports to India increased by 9.7 percent during the six months of the FY 2010/11 in contrast to a drop of 4.1 percent in the same period last year. Exports to other countries decreased by 0.5 percent in contrast to a plunge of 20.9 percent in the same period last year. The increase in the exports to India was mainly ascribed to the increase in the exports of jute goods, thread, M.S. pipe, plastic utensils, juice and wire among others. Exports to other countries declined due mainly to the decline in the export of handicraft goods, readymade garments, Nepalese paper & paper products, herbs and silverware & jewelleryes among others.
36. Merchandise imports also declined by 1.6 percent to Rs. 185.83 billion during the six months of the FY 2010/11. Such imports had grown by 40.2 percent to Rs. 188.81 billion in the same period last year. The decline in the growth rate of total import during the review period is mainly due to a significant decrease in gold

import. During the review period the import of non-gold items increased by 18.7 percent, which had increased by 23.3 percent in the corresponding period of the previous year. On a monthly basis, the merchandise imports declined by 4.1 percent in the sixth month of the current fiscal year compared to the value of the previous month.

37. Imports from India grew by 28.0 percent during the review period compared to a growth of 34.7 percent in the same period last year. Likewise, imports from other countries declined by 34.2 percent in contrast to a growth of 46.9 percent in the same period last year. The import of petroleum product, M.S. billet, cold rolled sheet in coil, chemical fertilizers, hot rolled sheet in coil and electrical equipment, among others increased from India whereas import of gold, steel rod & sheet, other machinery & parts, betelnuts, threads and polythene granules declined from other countries in the review period.
38. Total trade deficit during the six months of FY 2010/11 declined by 3.0 percent to Rs. 153.20 billion. Trade deficit had risen by 58.0 percent in the same period last year. Trade deficit with India rose by 32.5 percent during the review period compared to a growth of 49.4 percent in the same period last year. On the contrary, trade deficit with other countries declined by 39.1 percent compared to a growth of 67.8 percent in the same period a year ago.
39. The improvement in exports coupled with deceleration in import contributed to an increase in the ratio of export to import to 17.6 percent in the review period from the ratio of 16.3 percent a year ago.

Balance of Payments

40. The overall BOP recorded a deficit of Rs. 4.43 billion during the six months of FY 2010/11 compared to a deficit of Rs. 16.64 billion in the same period last year. The current account also registered a deficit of Rs. 3.53 billion compared to a deficit of Rs. 25.07 billion in the same period last year. The decline in trade deficit along with improvement in service account attributed to such a decline in the current account deficit.
41. The FOB-based merchandise trade deficit dropped by 3.3 percent to Rs. 147.99 billion during the six months of FY 2010/11. Such deficit had grown by 60.7 percent in the same period last year. The service account deficit declined significantly by 28.5 percent to Rs. 5.26 billion during the review period. Service account deficit had increased by 6.8 percent to Rs. 7.35 billion in the same period last year. The net transfer account registered a growth of 12.8 percent to Rs. 146.71 billion in the review period compared to that of a year ago. Under the transfers sub-group, grants increased by 29.2 percent to Rs. 15.2 billion while pension receipts rose marginally by 2.0 percent to Rs. 13.92 billion. Likewise, workers' remittances increased by 11.5 percent to Rs. 118.45 billion compared to its growth of 12.6

percent in the same period last year. On a monthly basis, the remittance inflows increased by 10.9 percent in the sixth month compared to the value of the previous month of this fiscal year. Likewise, under the financial account foreign direct investment of Rs 4.46 billion was recorded in the review period compared to the level of Rs 966 million in the same period a year ago.

Foreign Exchange Reserves

42. The gross foreign exchange reserves declined by 3.2 percent to Rs. 260.29 billion in mid-January 2011 from a level of Rs. 268.91 billion as at mid-July 2010. Such reserves had decreased by 13.4 percent to Rs. 248.10 billion in the same period last year. On a monthly basis, foreign exchange reserve of Rs 2.61 billion declined in the month of December/January from the level of the previous month of this year. Out of total reserve, NRB's reserves declined by 1.1 percent to Rs. 203.10 billion in the review period from a level of Rs. 205.37 billion as at mid-July 2010. The gross foreign exchange reserves in US dollar terms increased marginally by 0.1 percent to USD 3.62 billion in mid-January 2011 from a level of USD 3.61 billion as at mid-July 2010. Such reserves had decreased by 6.9 percent in the same period last year. Based on the trend of import during the six months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 8.6 months and merchandise and service imports of 7.3 months.

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

43. The price of oil (Crude Oil Brent) in the international market went up by 28.3 percent to USD 99.70 per barrel in mid-January 2011 from USD 77.73 per barrel in mid-January 2010. Similarly, the price of gold also surged by 20.3 percent to USD 1369.25 per ounce in mid-January 2011 from the level of mid-July 2010
44. Nepalese currency vis-à-vis the US dollar appreciated by 3.46 percent in mid-January 2011 from the level of mid-July 2010. It had appreciated by 7.51 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 71.95 in mid-January 2011 compared to Rs. 74.44 in mid-July 2010.