

Current Macroeconomic Situation

(Based on the First Month's Data of the FY 2011/12)

Monetary Situation

Money Supply

1. Broad money (M2) declined by 0.2 percent during the first month of 2011/12 compared to 0.6 percent in the corresponding period of the previous year. Despite some decline in net domestic assets of the banking sector, the broad money contracted at lower rate in the review period on account of remarkable increase in net foreign assets. Narrow money (M1) declined by 3.6 percent during the review period.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 8.30 billion (3.8 percent) during the review period compared to Rs. 1.51 billion (0.7 percent) in the corresponding period of the previous year. The improvement in merchandise export and workers' remittances as well slower growth in import were the factors responsible for the improvement in balance of payments (BoP) leading to the increase in net foreign assets of the monetary sector.

Domestic Credit

3. Domestic credit declined by 1.6 percent during the review period. It had declined by 2.0 percent in the corresponding period of previous year. During the review period, claims on private sector declined by 0.3 percent compared to 0.4 percent in the corresponding period of the previous year.

Deposit Mobilization and Credit Flow of Commercial Banks

4. The deposit mobilization of commercial banks increased by Rs. 0.74 billion while the loan and advances increased by Rs. 1.70 billion in the review period. The deposit mobilization had declined by Rs. 5.01 billion and loan and advances had also declined by Rs. 4.58 billion in the corresponding period of the previous year. Credit to private sector dropped by Rs. 4.68 billion during the review period compared to Rs. 3.76 billion in the corresponding period of previous year.
5. Of the total bank credit to private sector, the credit to industrial production sector decreased by Rs. 1.03 billion during the review period as against an increase of Rs. 124.2 million in the corresponding period of the previous year. Similarly, banks' credit to wholesale and retail trade decreased by Rs. 3.24 billion during the review period. However, banks' credit to construction; transportation, communication and public services and agriculture sectors increased by Rs. 1.51 billion, Rs. 1.12 billion and Rs. 217 million respectively during the review period.

Liquidity Management

6. The NRB injected net liquidity of Rs. 0.73 billion through repo auction in the first month of 2011/12. Liquidity of Rs. 12.0 billion was mopped up through reverse repo auction in the corresponding period of the previous year.
7. The NRB injected net liquidity of Rs. 18.38 billion through the purchase of USD 256.6 million from foreign exchange market (commercial banks) in the first month of 2011/12. Net liquidity of Rs. 12.82 billion was injected through the purchase of USD 172.0 million from foreign exchange market in the corresponding period of the previous year.
8. The NRB purchased Indian currency equivalent to Rs. 18.60 billion through the sale of USD 260 million in the Indian money market during the review period. INR equivalent to Rs. 11.92 billion was purchased through the sale of USD 160.0 million in the corresponding period of previous year.

Inter Bank Transaction and Standing Liquidity Facility

9. Inter-bank transaction of commercial banks stood at Rs. 46.48 billion in the first month of 2011/12 compared to Rs. 26.35 billion in the corresponding period of the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 3.94 billion during the review period. Of the total SLF used during the review period, the outstanding amount of SLF was Rs. 185.0 million as at mid-August 2011. Liquidity injected through the SLF had amounted to Rs. 2.95 billion in the corresponding period of the previous year and there was no outstanding amount of SLF as at mid-August 2010.

Short-term Interest Rates

10. The short-term interest rates remained slightly higher in the first month of 2011/12 compared to the corresponding period of the previous year. For example, the weighted monthly average 91-day Treasury bill rate stood at 3.98 percent in the first month of 2011/12 compared to 3.81 percent in the corresponding period of the previous year. Similarly, the weighted average inter-bank rate remained at 2.69 percent in the first month of 2011/12 compared to 2.46 percent in the corresponding period of the previous year.

Securities Market

11. The year on year (y-o-y) NEPSE index declined by 22.6 percent to 351.01 points in mid-August 2011. This index had stood at 453.7 in the corresponding period of the previous year. The decline in share prices was on account of the significant increase in the supply of securities.
12. The y-o-y stock market capitalization decreased by 13.1 percent to Rs. 312.0 billion in mid-August 2011. The ratio of market capitalization to GDP stood at 23.2 percent in mid-August 2011. This ratio was 30.7 percent a year ago. Of

the total market capitalization, the share of bank and financial institutions stood at 70.8 percent followed by manufacturing and processing companies (3.3 percent), hotels (1.7 percent), business entities (0.4 percent), hydropower (4.1 percent) and other sectors (19.7 percent).

13. Total paid-up capital of the listed companies stood at Rs. 100.23 billion in mid-August 2011, registering an increase of 23.3 percent over the period of one year. This increase was largely due to the additional listing of securities at the NEPSE.
14. Total number of companies listed at the NEPSE increased from 178 in mid-August 2010 to 209 in mid-August 2011. Among them, 177 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 increased by 7.7 percent in mid-August 2011 as compared to 9.5 percent of the corresponding period of the previous year. During the review period, the index of food and beverage group increased by 9.9 percent and the index of non-food and services group increased by 5.8 percent respectively. The indices of these groups had increased by 12.5 percent and 7.0 percent respectively in the corresponding period of the previous year.
16. During the review period, the items under food and beverage group, price index of vegetables sub-group increased by the highest rate of 39.3 percent compared to an increase of 2.2 percent in the corresponding period of the previous year. The price indices of fruits and ghee and oil which had decreased by 0.8 percent and 0.2 percent respectively in the corresponding period of the previous year, increased by 26.7 percent and 9.3 percent respectively during the review period. During the review period, the price indices of restaurant and hotel, tobacco products and meat and fish increased by 11.9 percent, 11.4 percent and 6.9 percent respectively compared to the increase of 18.9 percent, 10.0 percent and 11.0 percent respectively in the corresponding period of the previous year. Similarly, the price indices of cereals grains and their product, which had increased by 17.9 percent in the corresponding period of the previous year, increased by 1.2 percent during the review period.
17. Within the group of non-food and services, the price index of clothing and footwear increased by 13.0 percent in the review period compared to an increase of 10.7 percent in the corresponding period of the previous year. The price index of transport, which had increased by 8.0 percent in the same period of the previous year, increased by 12.8 percent during the review period. Similarly, the price index of furnishing and household equipment and education, which had increased by 4.2 percent and 5.8

percent respectively in the corresponding period of the previous year increased by 12.5 percent and 8.9 percent during the review period.

18. Region-wise, the price index in Hills increased by 10.3 percent followed by 6.9 percent in Terai and 6.6 percent in Kathmandu Valley during the review period. The respective growth rates were 10.1 percent, 8.4 percent and 10.6 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 5.7 percent compared to a rise of 8.5 percent in the corresponding period of the previous year. The wholesale price indices of domestic manufactured commodities, imported commodities and agricultural commodities increased by 11.5 percent, 9.9 percent and 1.9 percent respectively during the review period compared to the increase of 8.8 percent, 7.0 percent and 9.0 percent in the corresponding period of the previous year.
20. During the review period, within the group of agricultural commodities, price index of cash crops increased by the highest rate of 16.2 percent during the review period. Likewise, the wholesale price indices of fruits and vegetables, and livestock production increased by 5.4 percent and 4.4 percent respectively during the review period. Similarly, the wholesale price indices of pulses and food grains decreased by 7.9 percent and 4.7 percent respectively during the review period.
21. Within the group of domestic manufactured commodities, the wholesale price index of beverages and tobacco and food-related products increased by 18.4 percent and 9.3 percent during the review period. Similarly, the wholesale price index of construction materials increased by 2.5 percent during the review period.
22. During the review period, within the imported commodities group, the wholesale price index of petroleum products and coal and electric and electronic goods increased by 16.1 percent and 15.3 percent respectively during the review period. Likewise, the price index of textile-related products and chemical fertilizer and chemical goods increased by 14.8 percent and 9.7 percent during the review period.

National Salary and Wage Rate

23. The y-o-y salary and wage rate index increased by 30.5 percent during the review period compared to an increase of 14.2 percent in the corresponding period of the previous year. Within the salary and wage rate indices, the salary index increased by 19.1 percent during the review period, which was unchanged in the corresponding period of the previous year. During the review period, the wage rate index increased by 33.8 percent compared to an increase of 19.2 percent in the corresponding period of the previous year.
24. In the review period, the indices of salary of civil service, public corporations and banks and financial institutions increased by 18.7 percent, 22.8 percent and 42.4

percent respectively during the review period. These rates were unchanged in the corresponding period of previous year.

25. The indices of wages of construction, agricultural and industrial laborers increased by 37.4 percent, 36.9 percent and 25.8 percent respectively during the review period. These rates had increased by 15.8 percent, 28.6 percent and 3.9 percent respectively in the corresponding period of the previous year.

Fiscal Situation *

Budget Deficit / Surplus

26. In the first month of 2011/12, government budget remained at a surplus of Rs. 10.93 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 of the previous year, budget surplus had stood at Rs. 4.97 billion.

Government Expenditure

27. In the review period, total government spending decreased by 28.5 percent to Rs. 7.13 billion compared to a decrease of 8.1 percent in the corresponding period of the previous year.
28. In the review period, revenue mobilization of the Government of Nepal grew by 14.1 percent to Rs.15.01 billion compared to an increase of 12.1 percent to Rs. 13.16 billion in the corresponding period of the previous year.
29. In the review period, the growth rate of VAT and excise accelerated; however, the growth rates of customs duties, income tax and vehicle revenue decelerated compared to that of the corresponding period of the previous year. Likewise, the registration fee, educational service tax and non-tax revenue has declined in the review period compared to that of corresponding period of the previous year.

Foreign Cash Loans and Grants

30. In the first month of 2011/12, foreign cash loans of Rs. 509.0 million and foreign cash grants of Rs. 3.66 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 183.5 million and foreign cash grants of Rs. 1.28 billion in the corresponding period of the previous year.

* Figure includes the reports from 8 NRB offices, 58 RBB 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 branch each from Nepal Bangladesh Bank Ltd and Global Bank Limited.

External Sector Situation

Foreign Trade

31. Merchandise exports rose by 17.9 percent to Rs. 6.07 billion during the first month of 2011/12. Such exports had declined by 16.9 percent to Rs. 5.15 billion in the same period of the previous year.
32. Exports to India went up by 16.3 percent during the first month of 2011/12 compared to an increase of 11.9 percent in the same period of the previous year. Exports to other countries increased by 20.9 percent in contrast to a plunge by 44.2 percent in the same 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, cardamom, wire and copper wire rod, among others. Exports to other countries increased mainly due to the increase in the export of woolen carpet, pashmina, readymade garments, Nepalese paper and paper products and tea, among others.
33. During the first month of the 2011/12, merchandise imports increased by 7.2 percent to Rs. 32.70 billion. Such imports had risen by 20.3 percent to Rs. 30.51 billion in the same month of the previous year.
34. Imports from India declined by 4.5 percent during the review period compared to a growth of 35.2 percent in the same period of the previous year. On the contrary, imports from other countries increased by 30.5 percent in contrast to a decline by 1.4 percent in the same period of the previous year. In the review period, the import of M.S. billet, chemical fertilizers, cold rolled sheet in coil, other machinery and parts and rice, among others, declined from India whereas import of gold, crude soybean oil, chemical fertilizers, electrical goods and medicine increased from other countries.
35. Total trade deficit during the first month of 2011/12 went up by 5.0 percent to Rs. 26.62 billion. Trade deficit had surged by 32.3 percent in the same period of the previous year. Trade deficit with India declined by 8.7 percent during the review period in contrast to a growth of 41.0 percent in the same period of the previous year. On the contrary, trade deficit with other countries increased by 32.5 percent compared to a growth of 17.7 percent in the same period a year ago.
36. The ratio of export to import increased to 18.6 percent during the first month of 2011/12 from 16.9 percent during the same period of the previous year.

Balance of Payments Situation

37. The overall BOP recorded a surplus of Rs. 8.30 billion during the first month of 2011/12 compared to a surplus of Rs. 1.51 billion in the same period of the previous year. In the review period, the current account registered a surplus of Rs. 727.7 million compared to a deficit of Rs. 2.42 billion in the same period of the previous year. The deceleration in the growth of trade deficit and improvement in the service account along with the substantial increase in the remittance inflow were responsible for the surplus in the current account, and thereby recording a surplus in the overall BOP.

38. The FOB-based merchandise trade deficit increased by 3.9 percent to Rs. 25.58 billion during the first month of 2011/12. Such deficit had grown by 32.9 percent in the same period of the previous year. The net service account recorded a surplus of Rs. 412.1 billion during the first month of the review period. The net service account deficit had declined by 51.6 percent to Rs. 1.16 billion in the same period of the previous year. The net transfer account registered a growth of 13.2 percent to Rs. 26.15 billion in the review period compared to that of a year ago. Under the transfers sub-group, pension declined by 1.4 percent to Rs. 3.32 billion. Likewise, workers' remittances increased by 23.6 percent to Rs. 21.87 billion compared to its growth of 6.5 percent in the same period of the previous year. Similarly, under the financial account, foreign direct investment of Rs. 455.9 million was recorded in the review period.

Foreign Exchange Reserves

39. The gross foreign exchange reserves increased by 4.3 percent to Rs. 283.77 billion in mid-August 2011 from a level of Rs. 272.10 billion as at mid-July 2011. Such reserves had gone down by 0.4 percent to Rs. 267.85 billion in the same period of the previous year. Out of total reserve, NRB's reserves rose by 5.6 percent to Rs. 225.12 billion in the review period from a level of Rs. 213.09 billion as at mid-July 2011. The gross foreign exchange reserves in USD terms increased by 2.6 percent to USD 3.94 billion in mid-August 2011. Such reserves had decreased by 0.5 percent in the same period of the previous year. Based on the trend of import during the first month of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 8.9 months and merchandise and service imports of 7.6 months.

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

40. The price of oil (Crude Oil Brent) in the international market surged by 43.4 percent to USD 108.89 per barrel in mid-August 2011 from USD 75.93 per barrel in mid-August 2010. Similarly, the price of gold also rose by 42.1 percent to USD 1739.00 per ounce in mid-August 2011 from the level a year ago.
41. Nepalese currency vis-à-vis the US dollar depreciated by 1.6 percent in mid-August 2011 from the level of mid-July 2011. It had depreciated by 0.1 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs. 72.10 in mid-August 2011 compared to Rs. 70.95 in mid-July 2011.