

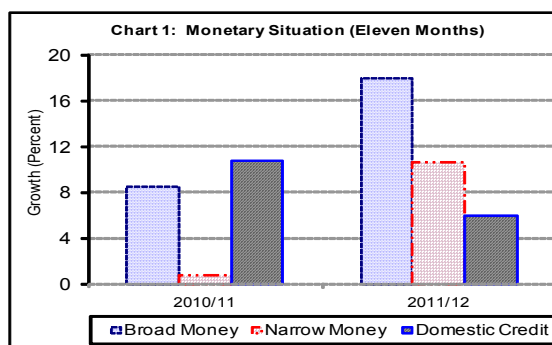
# Current Macroeconomic Situation of Nepal

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

## Monetary Situation\*

### Money Supply

1. Broad money supply (M2) increased by 17.9 percent during the eleven months of the FY 2011/12 compared to a growth of 8.5 percent in the corresponding period of the previous year. On year-on-year (y-o-y) basis, broad money supply expanded by 22.1 percent in mid-June 2012. A significant rise in net foreign assets of monetary sector contributed to the expansion in broad money supply during the review period. Narrow money supply (M1) increased by 10.6 percent during the review period compared to 0.7 percent increase in the corresponding period of the last year. On y-o-y basis, such money expanded by 15.6 percent in mid-June 2012.
2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs.113.22 billion (52.4 percent) during the review period against a decline of Rs. 0.34 billion (0.2 percent) in the corresponding period of the previous year. The current account surplus on account of improvement in exports, workers' remittances and services income as well as improvement in capital account were the factors responsible for the favorable balance of payments (BOP) leading to such an increase in net foreign assets of the monetary sector during the review period.



### Domestic Credit

3. Domestic credit increased by 6.0 percent during the eleven months of the FY 2011/12. It had increased by 10.8 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased by 9.6 percent in mid-June 2012. A lower growth of credit to private sector coupled with net savings in government account due to lower level of public expenditure relative to resource

\* In the past, Nepal Rastra Bank was publishing monetary survey based on the balance sheets of Nepal Rastra Bank and commercial banks. From the fourth month (mid-November 2011) of the FY 2011/12, the coverage of the monetary survey has been extended to include development banks and finance companies as well. The monetary aggregates presented here are based on broad monetary survey.

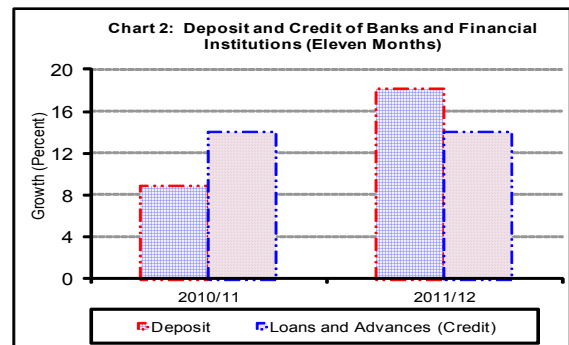
mobilization resulted in a lower growth of domestic credit during the review period. During the eleven months of the FY 2011/12, claims on private sector increased by 11.6 percent compared to a growth of 14.5 percent in the corresponding period of the previous year.

### Reserve Money

- Reserve money increased by 20.0 percent during the review period compared to an increase of 2.6 percent in the corresponding period of last year. On y-o-y basis, such money increased by 25.3 percent in mid-June 2012. Despite a fall in Nepal Rastra Bank's claims on government and claims on banks and financial institutions, a significant rise in net foreign assets contributed to the expansion in reserve money during the review period.

### Deposit Mobilization of Banks and Financial Institutions

- Deposit mobilization of banks and financial institutions increased by 18.2 percent (Rs. 149.92 billion) during the eleven months of the FY 2011/12. Such deposit mobilization had increased by 8.9 percent (Rs. 64.73 billion) in the corresponding period of the previous year. During the review period, deposit mobilization of commercial banks and development banks increased by 20.4 percent and 24.3 percent respectively whereas deposit mobilization of finance companies decreased by 0.1 percent. The deposit mobilization of commercial banks had increased by only 4.8 percent while that of development banks and finance companies increased by 14.3 percent and 9.9 percent respectively in the corresponding period of the previous year.



### Credit Flow of Banks and Financial Institutions

- During the eleven months of the FY 2011/12, loans and advances of banks and financial institutions increased by 14.1 percent (Rs. 120.14 billion). It had also increased by the same rate in the corresponding period of the previous year. Loans and advances of commercial banks and development banks increased by 16.9 percent and 17.9 percent respectively whereas loans and advances of finance companies decreased by 1.7 percent during the review period. Credit to private sector from banks and financial institutions increased by 10.3 percent (Rs. 71.50 billion) during the review period compared to a growth of 13.6 percent (Rs. 82.38 billion) in the corresponding period of the previous year. During the review period, credit extended by commercial banks and development banks increased by 14.0 percent and 8.3 percent respectively while that by finance companies dropped by 10.5 percent.

7. Of the total commercial banks' credit to private sector, the credit to industrial production sector increased by Rs. 26.26 billion during the review period compared to Rs. 18.43 billion in the corresponding period of the previous year. Similarly, banks' credit to agriculture sector soared by Rs. 8.51 billion during the review period compared to a fall by Rs. 2.24 billion in the corresponding period last year. Likewise, commercial banks' credit to construction sector increased by Rs. 8.97 billion, wholesale and retail trade sector by Rs. 14.81 billion and transportation, communication and public services sector by Rs. 3.69 billion during the review period.

### **Liquidity Management**

8. NRB mopped up net liquidity of Rs. 7.66 billion as a result of liquidity injection of Rs. 0.74 billion through repo auction and liquidity mop-up of Rs. 8.40 billion through outright sale auction under open market operations during the review period. In the corresponding period of the previous year, liquidity amounting to Rs. 61.40 billion was injected by liquidity injection of Rs. 82.40 billion through repo auction and liquidity mop-up of Rs. 19.0 billion through reverse repo auction as well as Rs. 2.0 billion through outright sale auction.
9. NRB injected net liquidity of Rs. 234.45 billion through the purchase of USD 2.92 billion from foreign exchange market (commercial banks) during the review period. Net liquidity of Rs. 160.64 billion was injected through the purchase of USD 2.22 billion in the corresponding period of the previous year.
10. NRB purchased Indian currency (INR) equivalent to Rs. 199.51 billion through the sale of USD 2.50 billion in the Indian money market during the review period. INR equivalent to Rs. 178.10 billion was purchased through the sale of USD 2.46 billion in the corresponding period of the previous year.

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

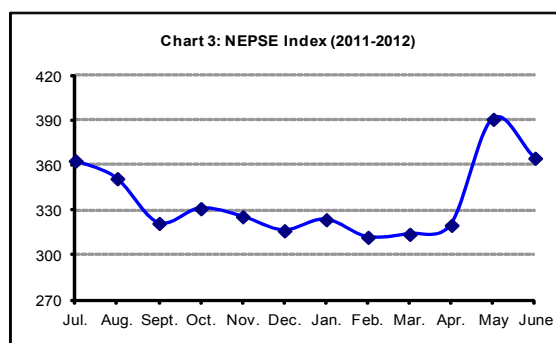
11. Inter-bank transaction of commercial banks stood at Rs. 205.08 billion during the eleven months of the FY 2011/12 compared to Rs. 344.58 billion in the corresponding period of the previous year. Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 5.57 billion during the review period, but there was no outstanding amount at mid-June 2012. Liquidity injected through the SLF had amounted to Rs. 205.72 billion in the corresponding period of the previous year with an outstanding amount of Rs. 2.51 billion as at mid-June 2011.

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

12. The short-term interest rates remained at lower level in mid-June 2012 compared to those of mid-June 2011. For example, the weighted monthly average 91-day Treasury bill rate dropped to 1.34 percent in mid-June 2012 compared to 8.34 percent in mid-June 2011. The weighted average inter-bank rate remained at 0.84 percent in mid-June 2012 compared to 10.23 percent in mid-June 2011.

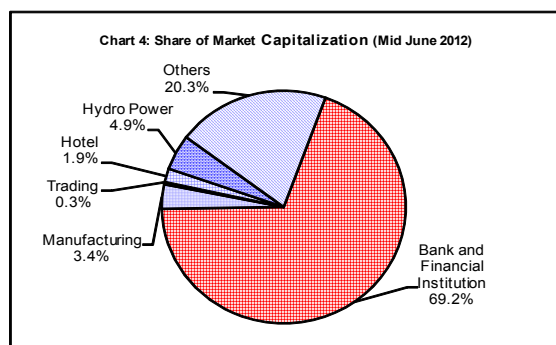
## Securities Market

13. NEPSE index, on y-o-y basis, increased by 22.5 percent to 364.67 points in mid-June 2012. The index had dropped by 37.6 percent in the corresponding period of the previous year and stood at 297.62 points as at mid-June 2011.



14. The y-o-y stock market capitalization increased by 30 percent to Rs. 344.42 billion in mid-June 2012. The ratio of market capitalization of mid-June 2012 to GDP estimate for the FY 2011/12 stood at 25.2 percent. The ratio was 22.2 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-June 2012, the share of banks and financial institutions stood at 69.2 percent while that of manufacturing and processing companies, hotels, business entities, hydropower and other sectors stood at 3.4 percent, 1.9 percent, 0.3 percent, 4.9 percent and 20.3 percent respectively.



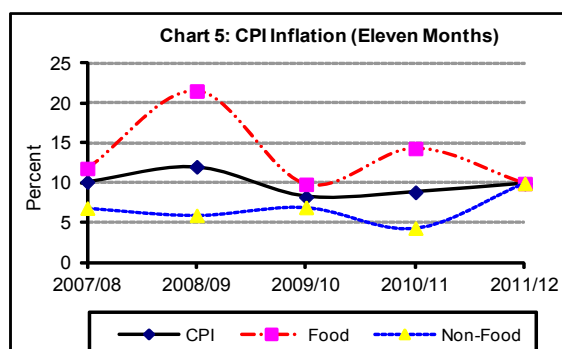
16. Total number of companies listed at the NEPSE increased from 205 in mid-June 2011 to 217 in mid-June 2012. Banks and financial institutions comprise a major share in the number of listed companies. Of the total listed companies as of mid-June 2012, the number of banks and financial institutions (including insurance companies) stood at 185 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and other companies (2).

17. Total paid-up capital of the listed companies stood at Rs. 108.84 billion in mid-June 2012, registering an increase of 9.5 percent over mid-June 2011. Such an increase in paid-up capital was due to the additional listing of securities at the NEPSE. Additional securities worth Rs. 16.86 billion comprising ordinary share of Rs. 1.55 billion, bonus share of Rs. 3.91 billion, right share of Rs. 2.16 billion, convertible preference share of Rs. 0.04 billion and government securities of Rs. 9.20 billion were listed at the NEPSE during the eleven months of 2011/12.

## Inflation, Salary and Wage Rate

### Consumer Price Inflation

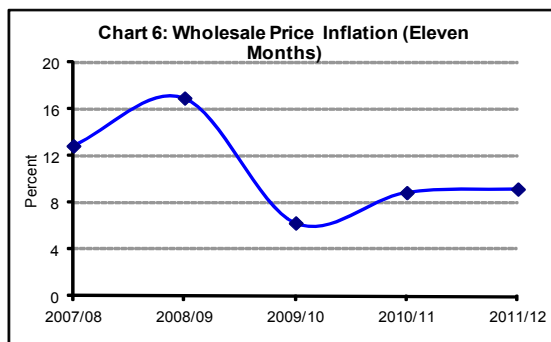
18. The y-o-y inflation as measured by the consumer price index increased by 9.9 percent in mid-June 2012 as compared to 8.8 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group both increased by 9.9 percent during the review period. The indices of food and beverage group and non-food and services group had increased by 14.3 percent and 4.3 percent respectively in the corresponding period of previous year. While the y-o-y rate of inflation in mid-May was 8.7 percent, there was additional pressure on consumer price in mid-June 2012 due to the adverse impact on supply arising from the strikes and *bandhs* as well as the increase in the price of imported commodities because of the significant weakening of the Nepalese rupee. As a result, the average inflation rate for the first eleven months has increased to 8.0 percent.
19. Under the items of the food and beverage group, price index of vegetables sub-group increased by the highest rate of 38.5 percent during the review period compared to an increase of 46.6 percent in the corresponding period of the previous year. The price index of ghee and oil and meat and fish, which had increased by 7.0 percent and 5.5 percent in the corresponding period of the previous year, went up by 20.7 percent and 13.0 percent during the review period. The price indices of sugar and sweet and milk product and egg increased by 12.5 percent and 9.7 percent respectively during the review period compared to the increase of 23.4 percent and 16.9 percent respectively in the corresponding period of the previous year. The price index of spices that had increased by 6.9 percent in the corresponding period of the previous year, decreased by 10.4 percent during the review period.
20. Within the group of non-food and services, the price index of transport increased by 17.0 percent during the review period compared to an increase of 11.0 percent in the corresponding period of the previous year. The price indices of clothing and footwear, and furnishing and household equipment increased by 15.1 percent and 13.6 percent during the review period. Such indices had increased by 14.7 percent and 5.5 percent respectively in the corresponding period of the previous year. Similarly, the price indices of miscellaneous goods and services increased by 9.8 percent during the review period while such index had increased by 5.9 percent in the corresponding period of the previous year. The price index of communication, which had decreased by 12.8 percent in the corresponding period of the previous year, witnessed a further decline of 7.1 percent during the review period.



21. Region-wise, the price indices in Hill increased by 10.3 percent followed by 10.1 percent in Terai and 9.4 percent in Kathmandu Valley during the review period. The respective increments were 9.9 percent, 6.9 percent and 10.5 percent respectively in the corresponding period of the previous year.

### Wholesale Price Inflation

22. The y-o-y wholesale price index increased by 9.2 percent during the review period compared to a rise of 8.9 percent in the corresponding period of the previous year. The wholesale price indices of imported commodities, agricultural commodities and domestic manufactured commodities increased by 11.9 percent, 8.7 percent and 6.6 percent respectively during the review period. The respective price increases of these sub-groups were 9.7 percent, 7.6 percent and 11.7 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 28.5 percent during the review period. Such price indices had decreased by 1.3 percent in the corresponding period of the previous year. The wholesale price indices of fruits and vegetables and livestock production increased by percent 20.8 percent and 10.5 percent respectively during the review period, compared to an increase of 31.8 percent and 6.3 percent respectively in the corresponding period of the previous year. The wholesale price index of spices which had increased by 16.9 percent in the corresponding period of the previous year, decreased by 25.4 percent during the review period.
24. Under the group of domestic manufactured commodities, the wholesale price indices of food-related products increased by 10.1 percent during the review period. Similarly, the wholesale price indices of beverages and tobacco and construction materials increased by 6.1 percent and 5.1 percent during the review period.
25. Within the imported commodities, the wholesale price indices of petroleum products and coal and textile-related products increased by 27.0 percent and 18.0 percent respectively during the review period. Similarly, the price indices of electric and electronic goods, and transport vehicles and machinery goods increased by 11.8 percent and 5.3 percent respectively during the review period.

### National Salary and Wage Rate

26. The y-o-y salary and wage rate index increased by 21.3 percent during the review period compared to an increase of 23.3 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 corresponding period of the previous year. The wage rate index increased by 21.8 percent during the review period compared to an increase of 30.7 percent in the corresponding period of the previous year.

27. The indices of salary of banks and financial institutions, public corporations and army and police service increased by 42.4 percent, 28.0 percent and 26.5 percent respectively during the review period. Similarly, the salary indices of education, civil service, and private institutions service increased by 19.1 percent, 18.7 percent and 8.6 percent respectively. These indices remained unchanged in the corresponding period of the previous year.
28. The indices of wages of industrial, construction and agricultural laborers increased by 32.0 percent, 21.2 percent and 17.7 percent respectively during the review period. These wage rates had increased by 13.6 percent, 29.5 percent and 39.6 percent respectively in the corresponding period of the previous year.

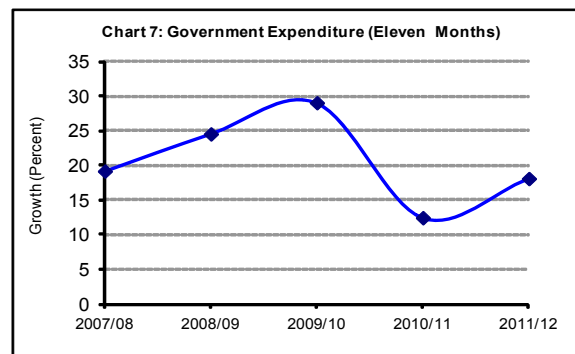
## **Fiscal Situation \***

### **Budget Deficit / Surplus**

29. In the eleven months of FY 2011/12, government budget remained at a surplus of Rs. 11.44 billion on cash basis. In the corresponding period of the previous year, government budget was in deficit by Rs. 8.42 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**

30. During the review period, on cash basis, total government spending increased by 18.1 percent to Rs. 250.63 billion compared to an increase of 12.5 percent in the corresponding period of the previous year. The timely announcement of the budget for the FY 2011/12 contributed to such an 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.



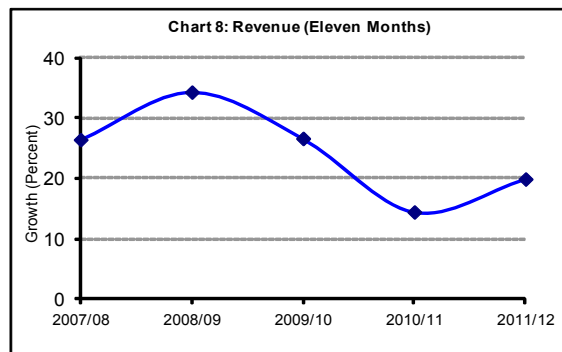
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Based on the figures reported by 8 NRB offices, 65 RBBL branches (out of 65 branches conducting govt. transaction), 35 NBL branches (out of 43 branches conducting govt. transaction), 5 Everest Bank branches and 1-1 branches each from Nepal Bangladesh Bank Ltd. and Global Bank Limited conducting government transactions.

31. On cash basis, recurrent expenditure stood at Rs. 188.59 billion while capital expenditure stood at Rs. 28.12 billion during the review period.

### Government Revenue

32. Revenue mobilization of the Government of Nepal grew by 20.0 percent to Rs. 210.96 billion during the review period compared to an increase of 14.5 percent to Rs. 175.86 billion in the corresponding period of the previous year. The expansion of economic activities with the timely announcement of the budget for the FY 2011/12



contributed to such a growth in government's revenue collection during the review period. Likewise, increase in import compared to that of the corresponding period of the previous year also contributed to such an increase in revenue.

33. VAT revenue grew by 16.0 percent to Rs. 64.68 billion during the review period. It had increased by 16.4 percent in the corresponding period of the previous year.
34. Custom revenue increased by 19.4 percent to Rs. 38.49 billion compared to a growth of 4.3 percent in the corresponding period of the previous year. Increase in imports compared to that of the corresponding period of the previous year and increase in the receipt of DRP from India contributed to such an increase in custom revenue during the review period.
35. Likewise, excise revenue increased by 13.2 percent to Rs. 26.66 billion compared to an increase of 11.2 percent in the corresponding period of the previous year.
36. Income tax revenue increased by 24.8 percent to Rs. 41.78 billion in the eleven months of the FY 2011/12. Such revenue had risen by 28.8 percent in the corresponding period of the previous year.
37. Non-tax revenue increased by 28.3 percent to Rs. 32.09 billion compared to a growth of 22.3 percent to Rs. 25.02 billion a year ago. Such an increase was on account of increase in dividend paid by public enterprises and receipt from royalty and visa fee compared to that of the corresponding period of the previous year.

### Foreign Cash Loans and Grants

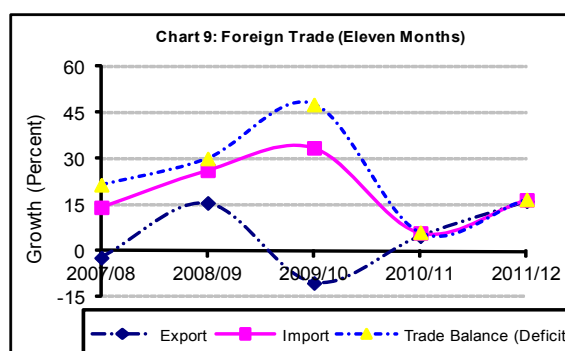
38. In the eleven months of the FY 2011/12, foreign cash loans of Rs. 4.26 billion and foreign cash grants of Rs. 39.54 billion were received by the Government of Nepal.



## External Sector Situation

### Foreign Trade

39. Merchandise exports rose by 16.3 percent to Rs. 67.21 billion during the eleven months of FY 2011/12. Such exports had increased by 4.9 percent to Rs. 57.78 billion during the corresponding period of the previous year. On a monthly basis, merchandise exports increased by 11.8 percent in May/June of the current fiscal year compared to that of the previous month.



40. Exports to India went up by 16.7 percent during the eleven months of the FY 2011/12 compared to an increase of 7.5 percent during the corresponding period of the previous year. Likewise, exports to other countries increased by 15.6 percent. In USD terms, exports to other countries increased by 4.9 percent to USD 275.1 million compared to an increase by 3.3 percent during the corresponding period of the previous year. The increase in the exports to India was primarily attributed to the increase in the exports of textiles, cardamom, polyester yarn, copper wire rod and G.I. pipe, among others while the increase in the export to other countries was due to the rise in the export of woollen carpets, pashmina, readymade garments, tanned skin and Nepalese paper & paper products, among others.
41. During the eleven months of the FY 2011/12, merchandise imports increased by 16.8 percent to Rs. 419.57 billion. Such imports had risen by 6.0 percent to Rs. 359.33 billion during the corresponding period of the previous year. On a monthly basis, merchandise imports decreased by 15.3 percent during May/June of the current fiscal year compared to that of the previous month.
42. Imports from India rose by 13.6 percent during the review period compared to a growth of 22.8 percent during the corresponding period of the previous year. Likewise, imports from other countries soared by 23.1 percent in contrast to a decline by 16.8 percent during the corresponding period of the previous year. In USD terms, imports from other countries soared by 11.2 percent to USD 1.84 billion as against a decline by 14.1 percent in the corresponding period of the previous year. In the review period, the import of petroleum products, coal, rice, M.S. wires, rods, coils and bars and thread, among others, from India and import of gold, crude soybean oil, edible oil, other machinery and parts and polythene granules, among others, from other countries went up.
43. Total trade deficit during the eleven months of the FY 2011/12 went up by 16.8 percent to Rs. 352.36 billion. Trade deficit had increased by 6.2 percent during the

corresponding period of the previous year. Trade deficit with India increased by 13.0 percent during the review period compared to a growth of 26.2 percent during the corresponding period of the previous year. Trade deficit with other countries increased by 24.5 percent in contrast to a drop by 19.4 percent during the same period of the previous year.

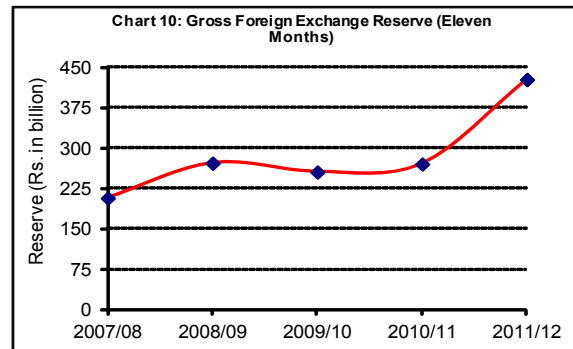
44. The increase in the import growth led to a slight reduction in the export to import ratio to 16.0 percent in the review period from 16.1 percent a year ago.

#### **Balance of Payments Situation**

45. The overall BOP recorded its highest ever surplus of Rs. 113.22 billion during the eleven months of the FY 2011/12 compared to a deficit of Rs. 335.6 million during the corresponding period of the previous year. The current account posted a surplus of Rs. 61.56 billion compared to a deficit of Rs. 14.69 billion during the corresponding period of the previous year. The substantial rise in the growth of remittances and the improvement in the service account were the responsible factors for the substantial surplus in the current account. In USD terms, the overall BOP recorded a surplus of USD 1.41 billion during the eleven months of the review period in comparison to a deficit of USD 0.1 million during the same period of the previous year. Similarly, the current account registered a surplus of USD 747.9 million during the eleven months of the review year compared to a deficit of USD 201.3 million during the corresponding period of the previous year.
46. The FOB-based merchandise trade deficit rose by 16.7 percent to Rs. 339.29 billion during the eleven months of the FY 2011/12. Such deficit had increased by 5.8 percent during the corresponding period of the previous year. Net service account witnessed a surplus of Rs. 14.23 billion during the review period in contrast to a deficit of Rs. 8.69 billion during the corresponding period of the previous year. Under services, tourism income rose by 25.5 percent during the first eleven months of the FY 2011/12 in contrast to a decline by 13.2 percent during the corresponding period of the previous year. Net transfers registered a growth of 35.2 percent to Rs. 377.1 billion during the review period compared to that of a year ago. Under transfers, workers' remittances surged by 39.6 percent to Rs. 320.38 billion compared to a growth of 10.1 percent during the corresponding period of the previous year. On a monthly basis, remittance inflows increased by 13.4 percent in May/June compared to the value of the previous month of this fiscal year. In USD terms, remittance inflows increased by 25.2 percent to USD 3.98 billion during the review period compared to a growth of 12.6 percent during the corresponding period of the previous year. Likewise, under the financial account, foreign direct investment of Rs 8.1 billion was recorded during the review period compared to such investment of Rs 6.1 billion during the same period a year ago.

## Foreign Exchange Reserves

47. The gross foreign exchange reserves surged by 56.9 percent to Rs. 427.01 billion in mid-June 2012 from a level of Rs. 272.15 billion as at mid-July 2011. Such reserves had increased by 0.4 percent to Rs. 269.92 billion during the corresponding period of the previous year. Out of total reserve, NRB's reserves increased by 69.9



percent to Rs. 361.95 billion in the review period from a level of Rs. 213.10 billion as at mid-July 2011. In USD terms, the reserves of convertible foreign exchange increased by 19.5 percent to USD 3.72 billion in mid-June 2012 from the level of mid-July 2011. Such reserves had increased by 5.0 percent during the corresponding period of the previous year. Likewise, during the first eleven months of 2011/12, the reserves in terms of inconvertible foreign exchange increased by 89.7 percent to IRs 60.94 billion. Such reserves had decreased by 2.0 percent during the same period of the previous year. On the basis of the trend of import during the eleven months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 11.4 months and merchandise and service imports of 10.1 months.

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

48. The price of oil (Crude Oil Brent) in the international market decreased by 15.3 percent to USD 97.13 per barrel in mid-June 2012 from USD 114.67 per barrel in mid-June 2011. However, the price of gold rose by 6.4 percent to USD 1627.25 per ounce in mid-June 2012 from USD 1529.75 in mid-June 2011.
49. Nepalese currency vis-à-vis the USD depreciated by 19.9 percent in mid-June 2012 from the level of mid-July 2011. It had appreciated by 4.1 percent in the corresponding period of the previous year. The exchange rate of one USD stood at Rs. 88.60 in mid-June 2012 compared to Rs. 70.95 in mid-July 2011.