

# Current Macroeconomic Situation of Nepal

*(Based on Four Months' Data of 2013/14)*

## Monetary Situation

### Money Supply

1. Broad money supply (M2) increased by 6.4 percent in the four months of 2013/14 compared to an increase of 4.0 percent in the corresponding period of the previous year. Likewise, narrow money supply (M1) increased by 7.3 percent in the review period compared to the growth of 3.7 percent in the same period of the previous year. On year-on-year (y-o-y) basis, M2 grew by 19.1 percent and M1 grew by 18.4 percent in mid-November 2013.



2. Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by Rs. 64.44 billion (13.8 percent) during the review period compared to an increase of Rs. 1.85 billion (0.5 percent) in the corresponding period of the previous year. Expansion of remittance inflow and increase in foreign assistance along with the decelerated growth of imports resulted in a higher growth of net foreign assets in the review period.

### Domestic Credit

3. In the review period, domestic credit increased by 0.2 percent compared to the growth of 4.5 percent in the same period of the previous year. The slower growth of domestic credit is due to a decrease in net claims on government in the review period. On y-o-y basis, domestic credit increased by 12.3 percent in mid-November 2013. The claims

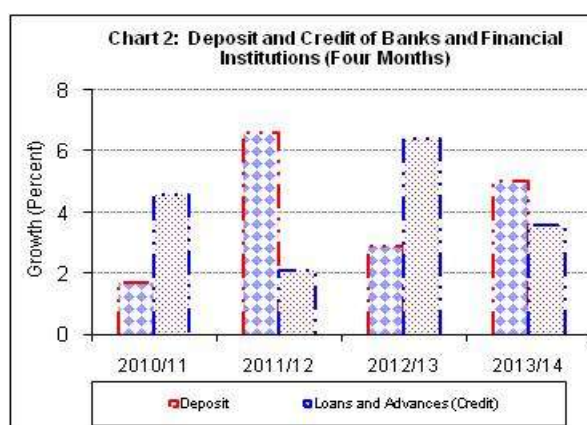
on private sector increased by 5.1 percent in the review period compared to an increase of 7.0 percent in the corresponding period of the previous year.

### Reserve Money

- Reserve money increased by 14.0 percent in the review period in contrast to a decline of 5.6 percent in the corresponding period of the previous year. On y-o-y basis, such money increased by 34.0 percent in mid-November 2013. The growth of reserve money is on account of increase in Banks and Financial Institutions(BFIs) deposit at Nepal Rastra Bank(NRB) and currency in circulation.

### Deposit Mobilization of Banks and Financial Institutions

- Deposit mobilization of banks and financial institutions (BFIs) increased by 5.0 percent (Rs. 58.87 billion) in the four months of 2013/14. Such deposit mobilization had increased by 2.9 percent (Rs. 29.24 billion) in the corresponding period of the previous year. On y-o-y basis, deposit mobilization of BFIs expanded by 19.8 percent in mid-November 2013. In the review period, deposit mobilization of commercial banks increased by 4.5 percent, development banks by 9.5 percent and finance companies by 6.9 percent. The deposit mobilization of commercial banks increased by 1.7 percent, development banks by 5.1 percent and finance companies by 3.4 percent in the same period of the previous year.



### Credit Flow of Banks and Financial Institutions

- In the four months of 2013/14, loans and advances of BFIs increased by 3.6 percent (Rs. 41.08 billion) compared to a growth of 6.4 percent (Rs. 62.26 billion) in the corresponding period of the previous year. In the review period, loans and advances of commercial banks increased by 3.0 percent, development banks by 8.1 percent and finance companies by 4.3 percent. Similarly, the credit to private sector from BFIs increased by 4.7 percent (Rs. 44.40 billion) in the review period compared to a growth of 6.6 percent (Rs. 51.17 billion) in the same period of the previous year. On y-o-y basis, the credit to private sector from BFIs increased by 18.7 percent in mid-November 2013. In the review period, credit to private sector from commercial banks increased by 4.6 percent, development banks by 7.5 percent and finance companies by 0.2 percent.

7. Of the total credit from BFIs, the credit to industrial production sector increased by Rs. 10.45 billion during the review period compared to an increase of Rs. 13.83 billion in the same period of the previous year. Similarly, credit to agriculture sector increased by Rs. 1.51 billion in the review period compared to an increase of Rs. 5.45 billion in the corresponding period of the previous year. In the review period, the credit to construction sector increased by Rs. 5.20 billion, to transportation, communication and public services by Rs. 0.89 billion and to wholesale and retail trade sector by Rs. 12.96 billion. The credit to construction sector had increased by Rs. 3.42 billion, to transportation, communication and public services by Rs. 2.44 billion and to wholesale and retail trade sector by Rs. 12.61 billion in the same period of the previous year.

### **Liquidity Management**

8. In the review period, NRB injected net liquidity of Rs. 123.52 billion through the net purchase of USD 1.23 billion from foreign exchange market (commercial banks). Net liquidity of Rs. 63.33 billion was injected through the purchase of USD 730.65 million in the corresponding period of the previous year.
9. NRB purchased Indian currency (INR) equivalent to Rs. 105.34 billion through the sale of USD 1.06 billion in the Indian money market during the review period. INR equivalent to Rs. 74.69 billion was purchased through the sale of USD 860.0 million in the corresponding period of the previous year.
10. The excess liquidity of BFIs has been mopped up through the open market operation (OMO) during the review period. NRB mopped up net liquidity of Rs. 35.0 billion through reverse repo auction and Rs. 8.50 billion through outright sale auction in the review period. A net liquidity of Rs. 8.50 billion was mopped up through outright sale auction in the corresponding period of the previous year.

### **Inter-bank Transactions and Standing Liquidity Facility**

11. In the review period, inter-bank transactions of commercial banks stood at Rs. 57.48 billion and those of other financial institutions amounted to Rs. 43.95 billion. Those figures stood at Rs. 75.88 billion and Rs. 43.45 billion respectively in the corresponding period of the previous year. The BFIs did not use standing liquidity facility (SLF) in the review period.

### **Interest Rates**

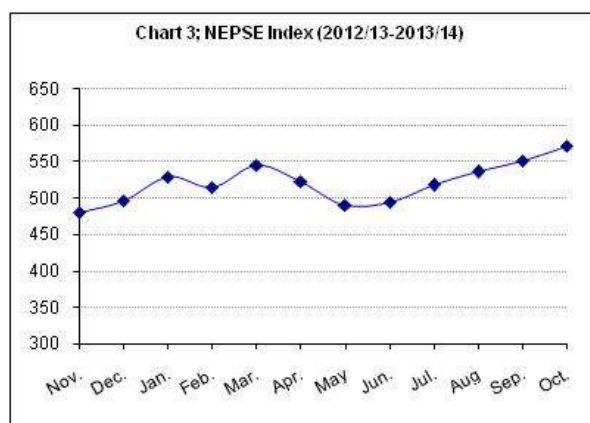
12. The weighted average Treasury bill rate and inter-bank transaction rate declined in November 2013 compared to the same period of the previous year. The weighted average 91-day Treasury bill rate decreased to 0.03 percent in November 2013 from 0.60 percent a year ago. The weighted average inter-bank transaction rate among

commercial banks remained at 0.22 percent in November 2013 compared to 0.45 percent in November 2012. Likewise, the weighted average inter-bank rate among other financial institutions declined to 2.65 percent in November 2013 from 3.03 percent in November 2012.

13. In mid-November 2013, the weighted average deposit and lending rates of commercial banks remained at 4.86 percent and 11.79 percent respectively. Accordingly, the interest rate spread (lending rate less deposit rate) of commercial banks stood at 6.93 percent in mid-November 2013. Such spread was 6.89 percent in the previous month. Moreover, the average base rate of commercial banks remained at 9.03 percent in mid-November 2013. Such rate was 9.23 percent in the previous month.

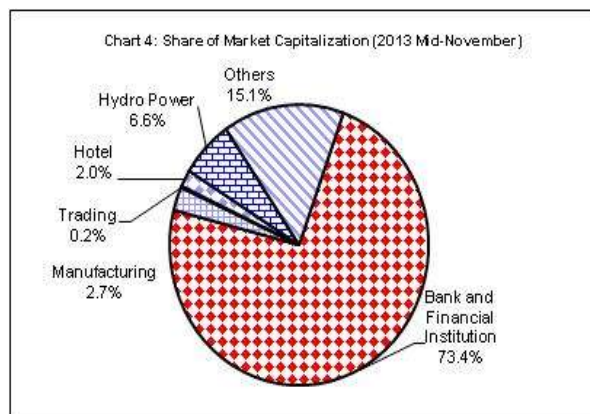
## Securities Market

14. NEPSE index, on y-o-y basis, increased by 24.8 percent to 600.3 points in mid-November 2013. The index had increased by 47.7 percent in the corresponding period of the previous year and stood at 480.9 points in mid-November 2012.



15. The y-o-y stock market capitalization increased by 33.8 percent to Rs. 609.25 billion in mid-November 2013. The ratio of market capitalization to GDP stood at 35.8 percent in mid-November 2013 compared to 29.6 percent a year ago.

16. Of the total market capitalization as of mid-November 2013, the share of banks and financial institutions (including insurance companies) stood at 73.4 percent while that of hydropower 6.6 percent, manufacturing and processing companies, hotels, business entities, and other sectors stood at 2.7 percent, 2.0 percent, 0.2 percent, and 15.1 percent respectively.



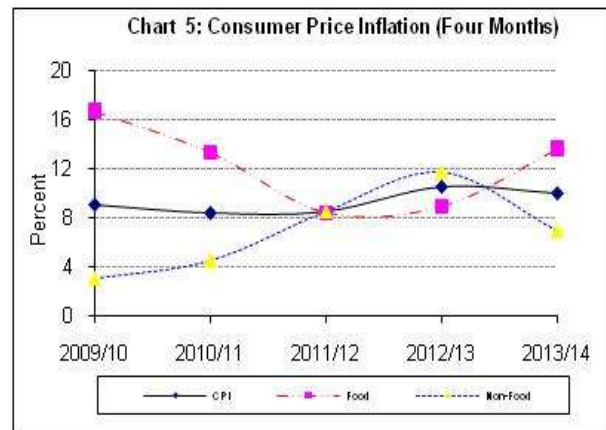
17. Total number of companies listed at the NEPSE increased from 220 in mid-November 2012 to 234 in mid-November 2013. Of the total listed companies the number of banks and financial institutions (including insurance companies) stood at 202 followed by production and processing industries (18), hotels (4), business entities (4), hydropower (4) and other companies (2).

18. Total paid-up capital of the listed companies stood at Rs. 133.03 billion in mid- November 2013, registering an increase of 18.2 percent over mid-November 2012. Additional securities worth Rs. 9.32 billion comprising ordinary share of Rs. 3.89 billion, right share of Rs. 3.82 billion, bonus share of Rs. 1.11 billion and commercial banks' debenture of Rs. 0.5 billion were listed at the NEPSE during the four months of 2013/14.

## Inflation, Salary and Wage Rate

### Consumer Price Inflation

19. The y-o-y inflation as measured by the consumer price index increased by 10.0 percent in mid-November 2013 as compared to 10.5 percent in the corresponding period of the previous year. The indices of food and beverage group and non-food and services group increased by 13.5 percent and 6.9 percent respectively during the review period. Such indices had increased by 8.9 percent and 11.7 percent respectively in the corresponding period of previous year.



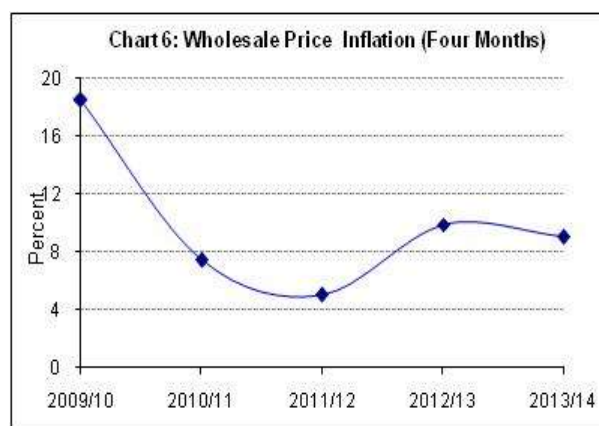
20. Under the items of the food and beverage group, price index of vegetables sub-group increased by the highest rate of 35.3 percent during the review period compared to an increase of 3.4 percent in the corresponding period of the previous year. The price indices of meat and fish sub-group and fruits sub-group which had increased by 14.0 percent and 6.2 percent in the corresponding period of previous year, went up by 22.3 percent and 15.3 percent respectively during the review period. The price indices of and cereals, grains and their products sub-group and restaurant and hotel sub-group increased by 12.6 percent and 11.9 percent respectively during the review period compared to the increase of 5.3 percent and 11.7 percent respectively in the corresponding period of the previous year.
21. Within the group of non-food and services, the price index of clothing and footwear increased by 11.7 percent during the review period compared to an increase of 13.9 percent in the corresponding period of the previous year. The price indices of furnishing and household equipment sub-group and miscellaneous goods and services sub-group increased by 9.5 percent and 8.3 percent respectively during the review period. Such indices had increased by 14.9 percent and 10.7 percent respectively in the corresponding period of the previous year. Similarly, the price index of education

sub-group increased by 7.8 percent during the review period while such index had increased by 12.5 percent in the corresponding period of the previous year.

22. Region-wise, the price indices in Terai increased by 10.6 percent followed by Kathmandu Valley and Hilly region with 10.4 percent and 8.4 percent respectively during the review period. The respective increments were 10.8 percent, 9.6 percent and 10.8 percent respectively in the corresponding period of the previous year.

### Wholesale Price Inflation

23. The y-o-y wholesale price index increased by 9.0 percent during the review period compared to a rise of 9.9 percent in the corresponding period of the previous year. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities increased by 13.5 percent, 4.3 percent and 3.5 percent respectively during the review period. The respective increments of these sub-groups were 10.5 percent, 7.4 percent and 10.3 percent in the corresponding period of the previous year.



### National Salary and Wage Rate

24. The y-o-y salary and wage rate index increased by 10.7 percent during the review period compared to an increase of 11.7 percent in the corresponding period of the previous year. Within the salary and wage rate index, the salary index increased by 26.4 percent during the review period, which did not show any increment in the corresponding period of the previous year. The wage rate index increased by 7.2 percent during the review period compared to an increase of 14.6 percent in the corresponding period of the previous year.
25. The indices of salary of bank and financial institutions, army and police forces and civil services increased by 47.7 percent, 34.5 percent and 31.3 percent respectively during the review period. Likewise, industrial labourer, agricultural labourer and construction labourer has witnessed the growth of 9.1 percent, 7.1 percent and 2.7 percent respectively in the indices of wages in the review period.

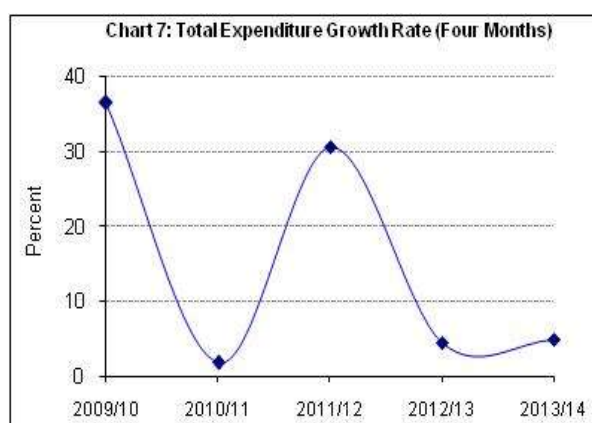
## Fiscal Situation \*

### Budget Deficit / Surplus

26. During the four months of 2013/14, government budget on cash basis remained at a surplus of Rs. 37.14 billion. Such budget surplus was Rs. 14.07 billion in the corresponding period of the previous year. A high growth of resource mobilization relative to government expenditure accounted for such a budget surplus during the review period.

### Government Expenditure

27. During the review period, total government expenditure on cash basis increased by 4.9 percent to Rs. 73.82 billion. Such expenditure had increased by 4.5 percent to Rs. 70.38 billion in the corresponding period of the previous year.
28. During the review period, recurrent expenditure increased by 32.0 percent to Rs. 67.78 billion. In the corresponding period of the previous year, such expenditure had decreased by 4.9 percent. Timely announcement of the annual budget and expenditures incurred in the preparation of constitutional assembly election accounted for such a growth in recurrent expenditures.
29. During the review period, capital expenditure increased by 10.9 percent to Rs. 3.92 billion. In the corresponding period of the previous year, such expenditures had increased by 22.7 percent.

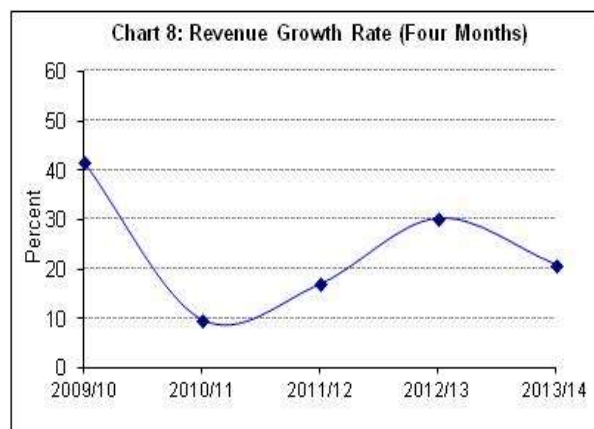


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\* Based on the data reported by 8 NRB offices, 65 RBBL branches (out of 66 branches conducting govt. transactions), 44 NBL branches (out of 44 branches conducting govt. transactions), 5 Everest Bank branches and 1-1 branch each of Nepal Bangladesh Bank Limited and Global IME Bank Limited conducting government transactions.

## Government Revenue

30. During the review period, revenue mobilization of the Government of Nepal (GoN) grew by 20.9 percent to Rs. 94.32 billion. Such revenue had risen by 30.2 percent to Rs. 78.03 billion in the corresponding period of the previous year. A sharp decrease on growth rate of custom revenue and income tax accounted for such a decrease in the revenue growth rate during the review period.



31. Of the total revenue mobilization, VAT revenue grew by 19.7 percent to Rs. 31.40 billion during the review period. It had increased by 18.0 percent in the corresponding period of the previous year. The increase in VAT revenue was due mainly to the positive impact of leakages control in VAT including reform in VAT administration.
32. During the review period, custom revenue rose by 12.3 percent to Rs. 20.03 billion compared to an increase of 41.3 percent in the corresponding period of the previous year. Low growth rate in imports accounted for such a low growth rate of custom revenue during the review period.
33. During the review period, excise revenue increased by 20.4 percent to Rs. 14.05 billion compared to an increase of 23.0 percent in the corresponding period of the previous year.
34. Income tax revenue increased by 12.2 percent to Rs. 12.70 billion during the review period. Such revenue had risen by 41.0 percent in the corresponding period of the previous year.
35. During the review period, non-tax revenue increased by 47.3 percent to Rs. 11.18 billion compared to an increase of 49.3 percent in the corresponding period of the previous year.

## Foreign Cash Loan and Grants

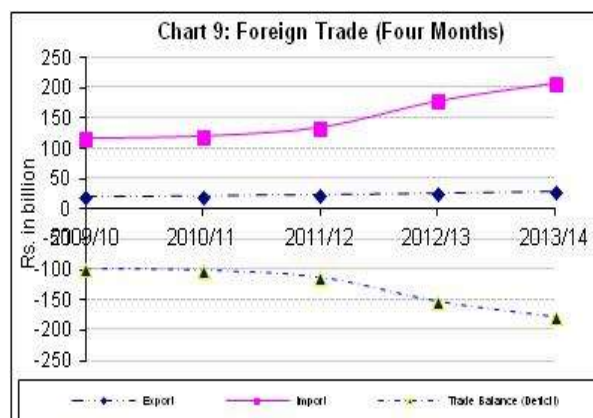
36. In the four months of 2013/14, foreign cash loans of Rs. 8.91 billion and foreign cash grants of Rs. 13.26 billion were received by the GoN. The GoN had received foreign cash loans of Rs. 701.3 million and foreign cash grants of Rs. 4.59 billion in the corresponding period of the previous year.



## External Sector Situation

### Foreign Trade

37. Merchandise exports went up by 11.9 percent to Rs. 29.60 billion in the four months of 2013/14. Such exports had increased by 11.7 percent to Rs. 26.46 billion during the same period of the previous year. On a monthly basis, merchandise exports decreased by 17.4 percent in October/November of the current fiscal year compared to that of the previous month.



38. Exports to India increased by 18.0 percent during the review period compared to an increase of 4.5 percent in the previous year. Exports to other countries went up by 2.4 percent compared to an increase of 24.9 percent in the same period of the previous year. In USD terms, exports to other countries decreased by 10.1 percent to USD 107.1 million in contrast to an increase of 7.8 percent during the corresponding period of the previous year. The export of zinc sheet, cardamom, juice, shoes/sandals, medicine (Ayurvedic), among others increased to India. Likewise, exports to other countries went up primarily due to the increase in export of woolen carpets, readymade garments, herbs and pashmina, among others.

39. During the review period, merchandise imports increased by 16.4 percent to Rs. 208.09 billion. Such imports had risen by 32.0 percent to Rs. 178.84 billion during the corresponding period of the previous year. On a monthly basis, merchandise imports increased by 8.9 percent in October/November of the current fiscal year compared to that of the previous month.

40. Imports from India went up by 20.2 percent during the review period compared to an increase of 33.0 percent in the same period of the previous year. Imports from other countries increased by 9.7 percent compared to an increase of 30.2 percent in the corresponding period of the previous year. In US Dollar terms, imports from other countries decreased by 3.7 percent to USD 719.10 million in contrast to an increase of 12.7 percent in the previous year. Imports from India increased primarily owing to an increase in the imports of petroleum products, vehicles & spare parts, coldrolled sheet in coil and thread, among others. Likewise, imports from other countries increased mainly on account of an increase in the imports of crude soyabean oil, silver and other stationaries, among others.

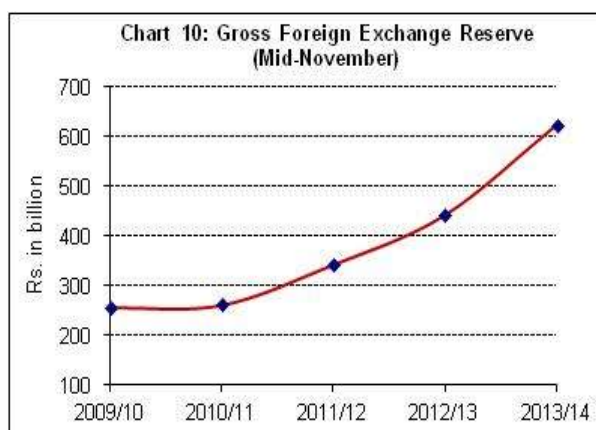
41. Total trade deficit during the four months of 2013/14 surged by 17.1 percent to Rs. 178.49 billion compared to an increase of 36.3 percent during the same period of the previous year. Trade deficit with India increased by 20.5 percent during the review period compared to an increase of 39.3 percent in the same period of the previous year. Trade deficit with other countries increased by 11.1 percent compared to an increase of 31.3 percent during the same period of the previous year.
42. Due to the high growth of imports compared to exports, the ratio of exports to imports declined to 14.2 percent in the review period from 14.8 percent a year ago.

### **Balance of Payments Situation**

43. The overall BOP recorded a surplus of Rs. 64.44 billion during the four months of 2013/14 compared to a surplus of Rs. 1.85 billion during the same period of the previous year. The current account posted a surplus of Rs. 48.14 billion in the review period in contrast to a deficit of Rs. 1.77 billion in the same period of the previous year. The high surplus in current account in the review period compared to the corresponding period of the previous year was due primarily to a low growth of services imports and high growth of workers' remittances. In USD terms, the overall BOP recorded a surplus of USD 648.30 million compared to a surplus of USD 18.9 million during the same period of the previous year. Similarly, the current account registered a surplus of USD 484.00 million in the review period in contrast to a deficit of USD 20.7 million during the corresponding period of the previous year.
44. The FOB-based merchandise trade deficit increased by 17.3 percent to Rs. 170.95 billion during the four months of 2013/14. Such deficit had gone up by 35.5 percent in the same period of the previous year. The net service income posted a surplus of Rs. 2.95 billion in the review period in contrast to a deficit of Rs. 1.55 billion in the same period of the previous year. Net transfers registered a growth of 44.6 percent to Rs. 208.13 billion in the review period compared to a growth of 20.4 percent in same period of the previous year. Under transfers, workers' remittances surged by 40.5 percent to Rs. 178.89 billion compared to an increase of 23.4 percent in the same period of the previous year. In USD terms, remittance inflows increased by 23.1 percent to USD 1.80 billion during the review period compared to an increase of 7.4 percent in same period of the previous year. On a monthly basis, remittance inflows increased by 32.5 percent in October/November compared to the value of the previous month of this fiscal year.

### **Foreign Exchange Reserves**

45. The gross foreign exchange reserves increased by 16.9 percent to Rs. 623.50 billion in mid-November 2013 from a level of Rs. 533.30 billion as at mid-July 2013. Such reserves had increased



marginally by 0.7 percent to Rs. 442.33 billion in the same period of the previous year. Out of total reserves, NRB's reserves increased by 17.6 percent to Rs. 532.76 billion in the review period from a level of Rs. 452.99 billion as at mid-July 2013. The gross foreign exchange reserves in USD terms increased by 10.3 percent to USD 6.19 billion in mid-November 2013. Such reserves had increased by 1.8 percent in the same period of the previous year. Likewise, during the four months of 2013/14, the reserves in terms of inconvertible foreign exchange increased by 15.7 percent to IRs. 86.28 billion. Such reserves had decreased by 5.6 percent during the same period of the previous year. On the basis of trend of import during the four months of the current fiscal year, the current level of reserves is sufficient for financing merchandise imports of 12.2 months and merchandise and service imports of 10.5 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 decreased by 3.1 percent to USD 111.47 per barrel in mid-November 2013 from USD 115.00 per barrel in mid-November 2012. Likewise, the price of gold decreased by 24.7 percent to USD 1287.25 per ounce in mid-November 2013 from USD 1710.00 per ounce in mid-November 2012.
47. Nepalese currency vis-à-vis the US Dollar depreciated by 5.7 percent in mid-November 2013 from the level of mid-July 2013. It had appreciated by 1.1 percent in the corresponding period of the previous year. The exchange rate of one US Dollar stood at Rs. 100.73 in mid-November 2013 compared to Rs. 95.00 in mid-July 2013.