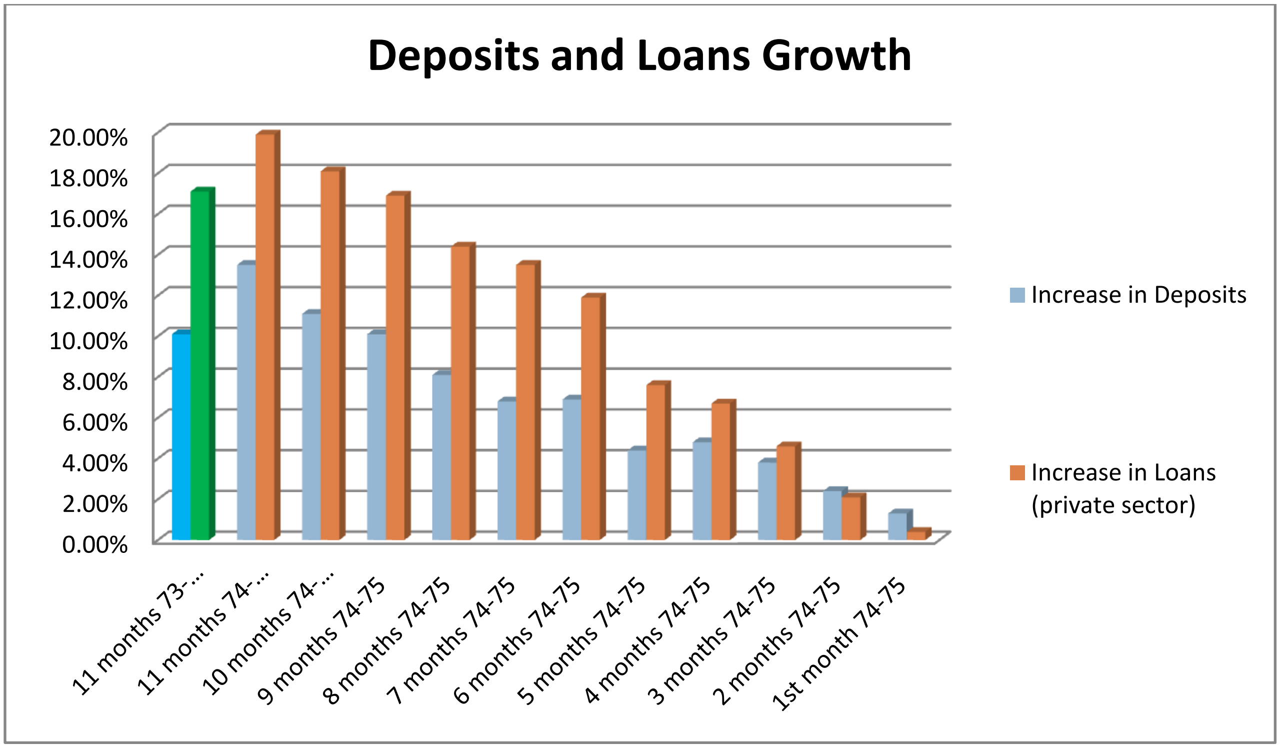
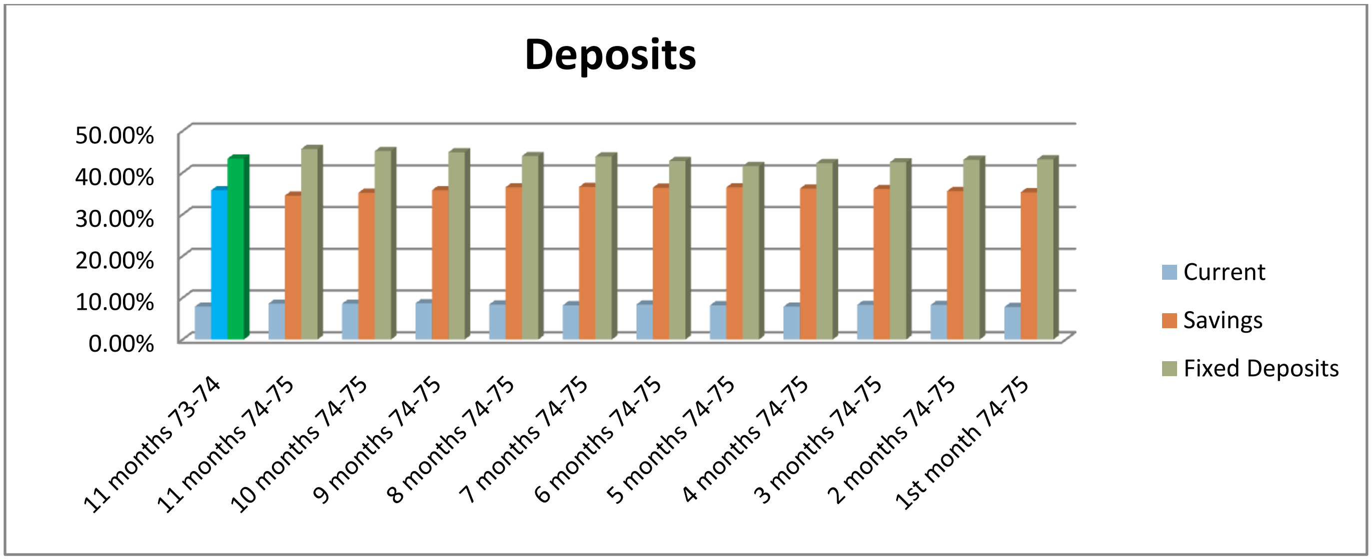
NRB Macroeconomic update report (11th month of FY 74/75)

BANKING SECTOR

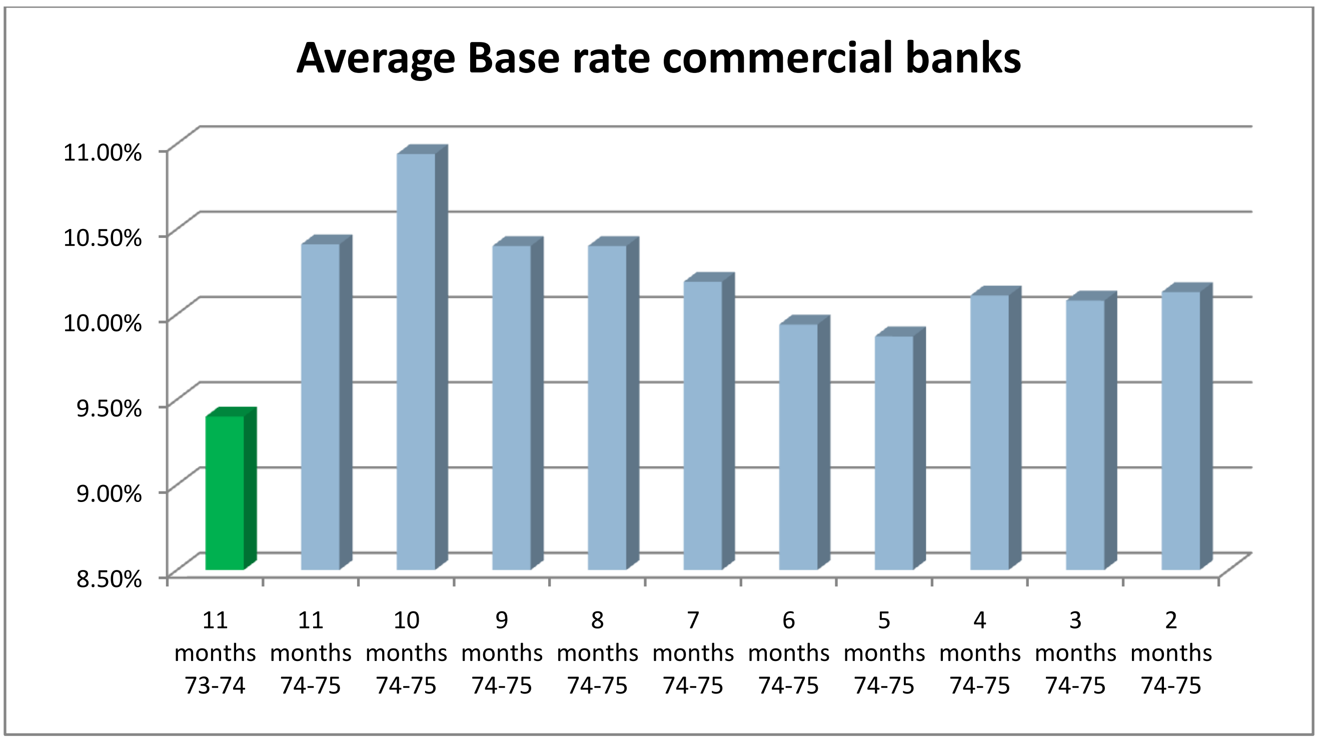
Loan growth, at 19.9% has been higher than deposit growth of 13.5% which has resulted in the credit crunch that the banks had been facing leading to higher interest rates.



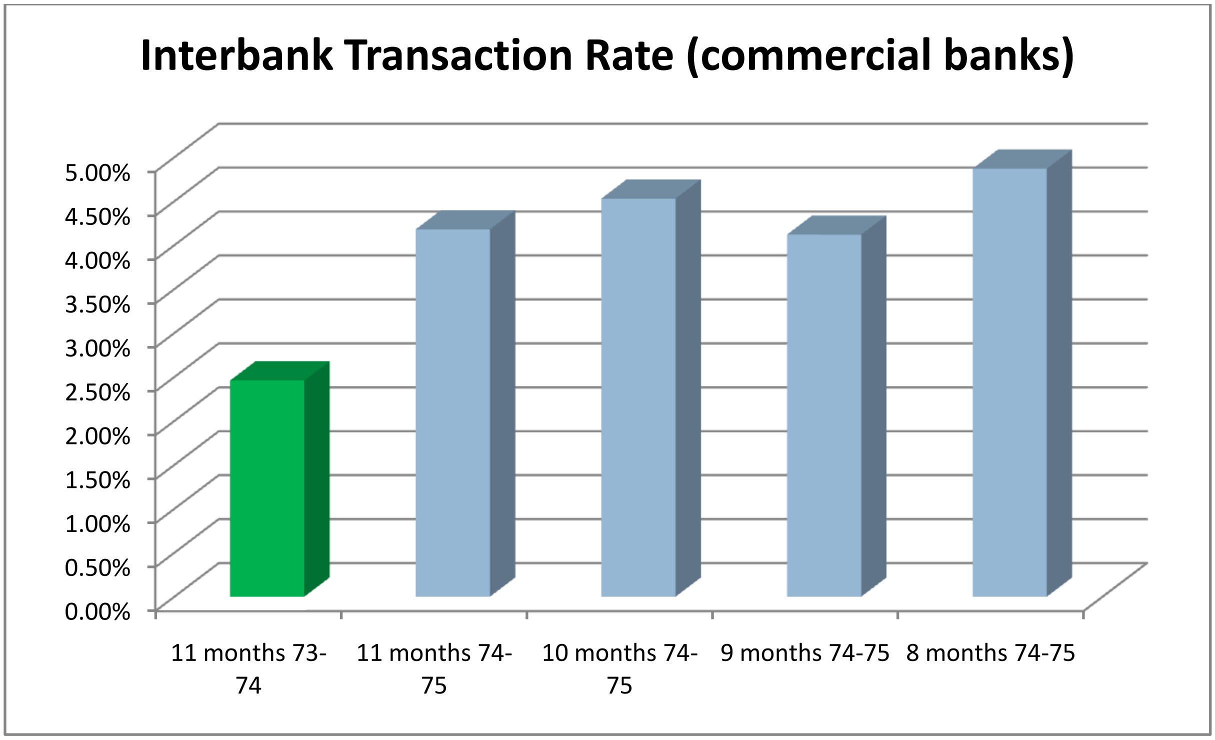
The proportion of deposits in FDs is 45.7% which is also higher than previous months 45.20%. **Since the savings in the economy are being locked into Fixed Deposits**, this reduces the demand side of the equation in the stock market which is another area of investments of the savings.



Most of the deposits are still being held in Fixed Deposits (45.70%). After which, 34.5% of the total deposits is held in savings account and then 8.6% in current accounts.



This month we saw the average base rate of commercial banks dip to 10.41% from last month's 10.94%. **This is an indication that liquidity constraints have improved from the previous month.** However, this rate is still higher than the 9.0% base rate during the same period last year.



Interbank transaction rate has also fallen to 4.18% this month from previous month's value of 4.53%. This rate was only 2.73% last year. **The high interbank transaction rate indicates a tight liquidity situation.**

CAPITAL MARKET

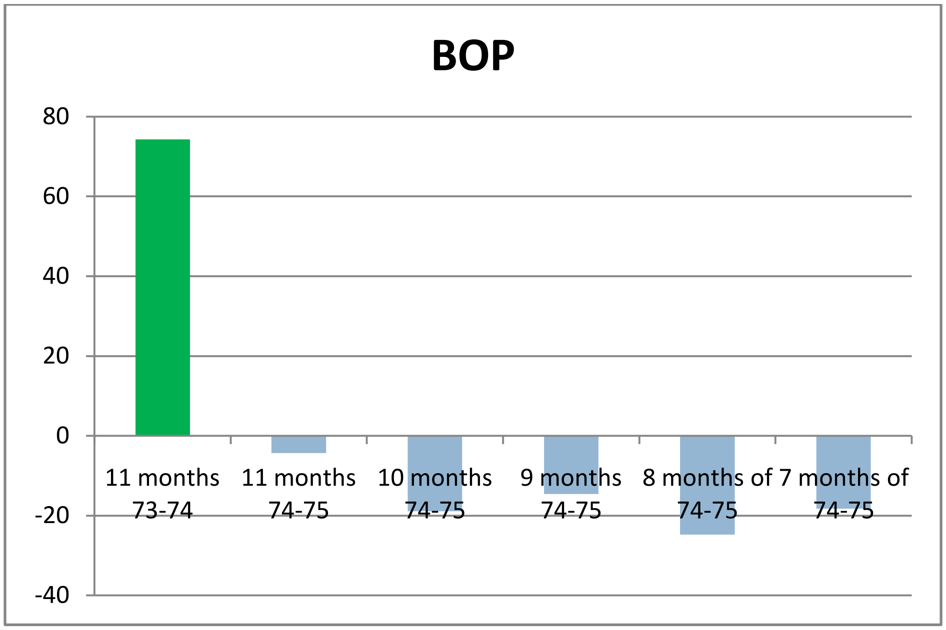
The capital market witnessed significant addition in listed securities amounting to Rs 127 arba 72 crores the first 11 months of this FY. The increase in addition of paid up capital was 22.6% year over year in listed shares.

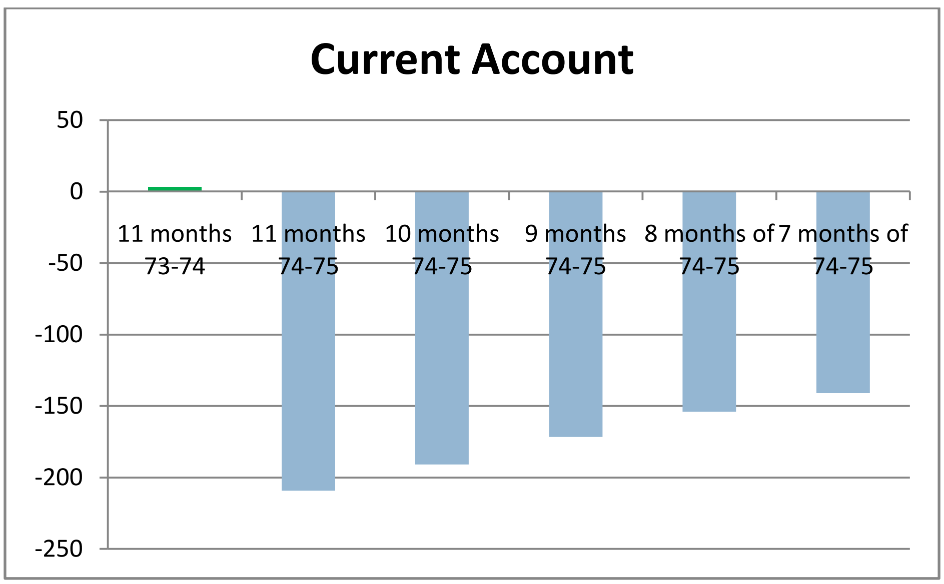
Capital Market (in billions)	**11 months 74-75**
Paid up Capital	347.05
Paid up capital increase YOY	22.60%
Common Share Listed	30.83
Right Share Listed	33.35
Bonus Listed	26.44
Government bonds	36.47
Total Addition	127.72

The above means that investors had to put in huge sums of capital in already owned shares to acquire right shares. This money otherwise might have resulted in new purchase of stocks from the secondary market.

However, since the paid up requirements of almost all BFIs have been met, we can expect cash and bonus dividends from them for this FY. This will definitely cause an increase in interest amongst the investors and also increase their purchasing power.

BOP

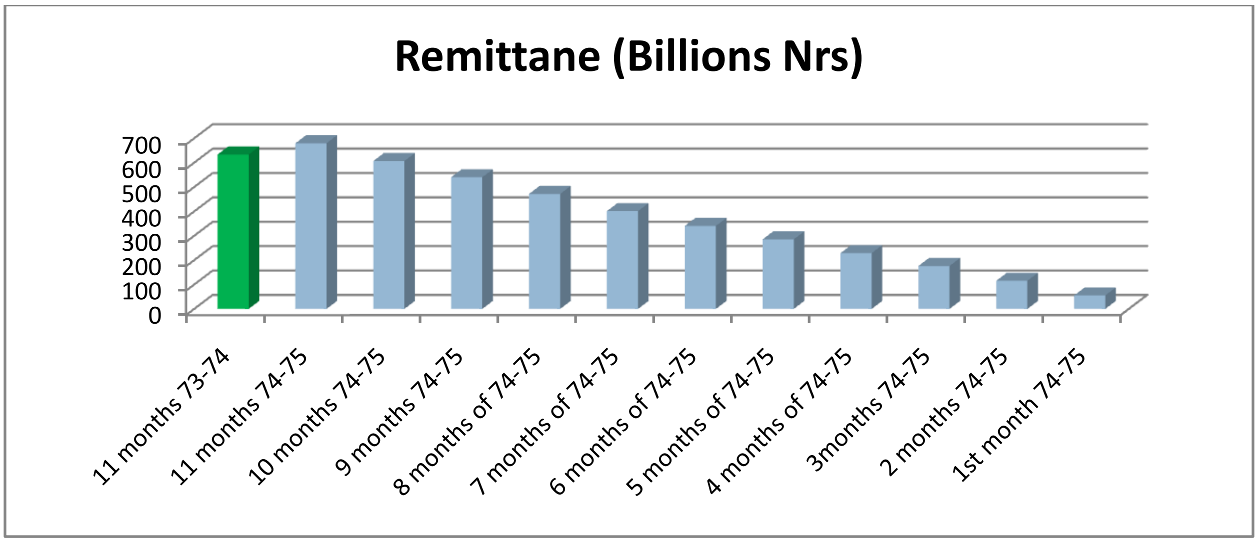




Current account is at a deficit of 209.21 billion rupees which during the same period last year was at a surplus of 2.99 billion. Balance of payment is at a deficit of 4.34 billion while it was at a surplus of 74.23 billion during the same period last year. B**OP deficit has been reduced last month which means the situation has improved last month.** Having a BOP deficit of the Nepalese economy is a matter of concern and needs to be addressed by the Government by implementing measures that encourage domestic production and consumption.

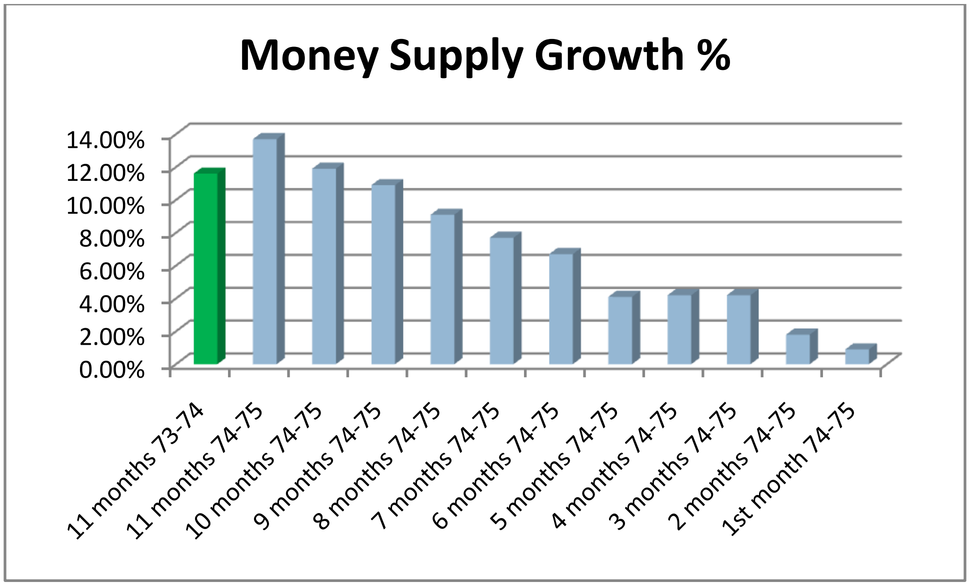
REMITTANCE

There has been a significant rise in Remittances for the review month. **Remittances grew by 7.3% in the first 11 months this FY when compared to the same period last year**.



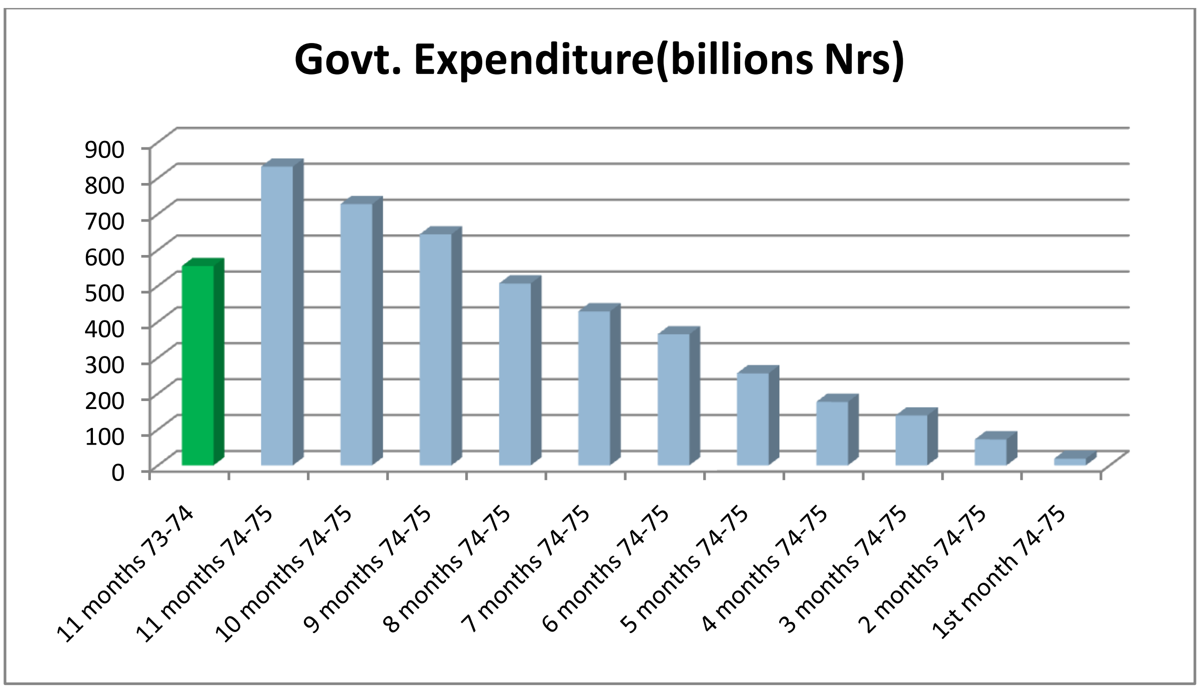
MONEY SUPPLY M2

Broad Money Supply (M2) grew by 13.70 % in the review period while last year the increase in money supply was 11.60 % during the same period. **Growth in money supply has an inflationary effect on all assets and this includes stock market valuations as well. Therefore, higher money supply will help in increasing the price of stocks.**



GOVERNMENT EXPENDITURE

Government Expenditure has increased by 49.9% in review period compared to the same period last year. Rs 832 arba 4 crore was spent the review period while this amount was only Rs 555 arba 10 crore in the same period last year.



The improvement in government expenditure will contribute to higher money supply and also a help in the growth of bank deposits.

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