



# Nepal Rastra Bank

## Research Department

### **Current Macroeconomic and Financial Situation of Nepal**

(Based on Eight Months' Data of 2017/18)

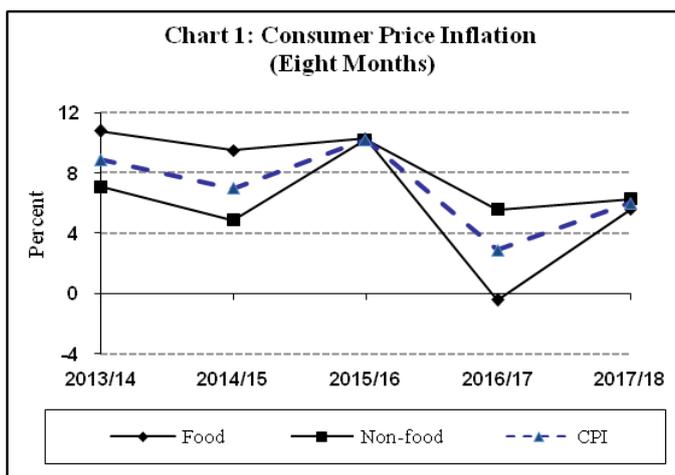
#### **Macroeconomic Outlook**

1. The data available so far indicate a mixed performance of economic activity in 2017/18. As per the Ministry of Agriculture, Land Management and Cooperatives, while maize and wheat crops are expected to grow 9.4 percent and 5.0 percent respectively, paddy production is estimated to fall 1.5 percent on account of widespread floods and inundation in the southern plain at the beginning of the current fiscal year. Given the weight of cereal in agricultural GDP, the growth in farm output is likely to be less than expected.
2. Of non-farm activity, some hydropower projects are completed and a total of 72 megawatts has been added to the electricity production during eight months of 2017/18. Taken together with a rise in the import of raw materials especially of iron related items, the improved power supply underpins a pick-up in industrial activity going forward. Likewise, a rise in import of iron-related items and cement is reflective of construction activities gaining traction.
3. The year on year (y-o-y) consumer inflation has risen to 6.0 percent in mid-March 2018 from 2.9 percent a year ago. An uptick in inflation is partly due to the spike in prices of vegetables and the lower price base of last year. Given the transitory spike in prices of vegetables, the annual average inflation is expected to remain below the annual forecast.
4. Deficits both in current account and overall balance of payments have widened further on account of elevated level of imports. However, the level of foreign exchange reserves is sufficient to cover the prospective import of goods and services of 9.7 months.
5. The y-o-y growth in deposit has been lower at 13.0 percent relative to credit off-take at 17.4 percent in mid-March 2018, reflecting a tighter financial condition. Fiscal operations are gaining momentum following the successful conclusion of elections and the formation of government at local, provincial and federal levels. The acceleration in fiscal operations is expected to ameliorate financial conditions in days ahead.

# Inflation, Salary and Wage Rate

## Consumer Price Inflation

6. The y-o-y consumer price inflation rose to 6.0 percent in mid-March 2018 from 2.9 percent a year ago. The spike in prices of vegetables mainly contributed to the rise in inflation in the review period. However, the average consumer price inflation in eight months of 2017/18 remained lower at 4.0 percent.



## Food Inflation

7. Food inflation increased to 5.6 percent in mid-March 2018 from the negative growth of 0.4 percent a year ago. A surge in prices of vegetables is mainly responsible for the rise in food inflation in the review period.

Particulars	Inflation (Percent)	
	2073/74	2074/75
<b>Food Inflation</b>	<b>(0.4)</b>	<b>5.6</b>
1 Vegetable	(8.3)	28.4
2 Milk products and eggs	3.9	7.9
3 Fruit	0.9	5.6
4 Meat and fish	0.0	4.9
5 Ghee and oil	(5.8)	2.6

*Source: National Consumer Price Index, Mid-March 2018*

## Non-food Inflation

8. Non-food inflation increased to 6.3 percent in mid-March 2018 from 5.6 percent a year ago. A rise in prices of education, housing and utilities among others accounted for a pickup in non-food inflation in the review month.

## Region-wise Consumer Price Inflation

9. The Terai region witnessed relatively higher rate of inflation of 6.3 percent followed by 6.0 percent in Mountain, 5.6 percent in Hill and 4.5 percent in the Kathmandu Valley. In the corresponding period of the previous year, these regions had witnessed inflation rates of 2.8 percent, 3.7 percent, 5.9 percent and 1.9 percent respectively.

## Wholesale Price Inflation

10. The y-o-y wholesale price inflation increased to 2.3 percent in mid-March 2018 from 1.0 percent a year ago. The rise in prices of drugs and medicine, fruits and vegetables and construction materials accounted for a pick-up in overall wholesale price inflation in mid-March 2018.

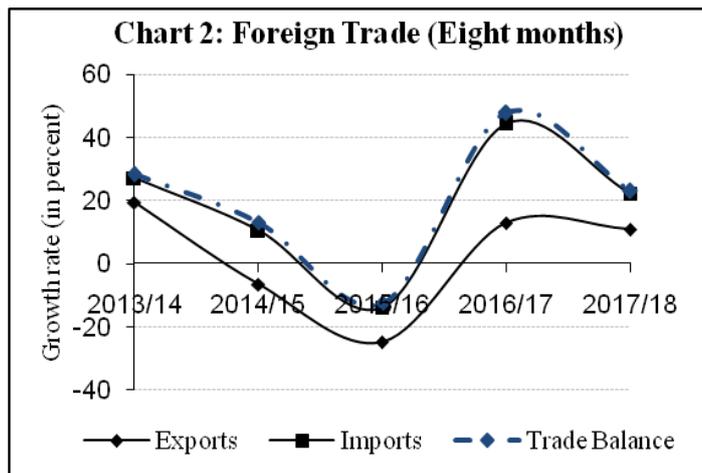
## National Salary and Wage Rate

11. The y-o-y growth in salary and wage rate index moderated to 7.8 percent in mid-March 2018 from 14.1 percent a year ago. In the review period, while the salary index increased 9.4 percent, the wage rate index grew 7.4 percent. The salary indices of private institutions, showed a significant growth of 36.3 percent in the review month.

## External Sector

### Merchandise Trade

12. During eight months of 2017/18, merchandise exports increased 10.8 percent to Rs. 53.42 billion compared to an increase of 12.8 percent in the same period of the previous year. Destination-wise, exports to India, China and other countries increased 9.8 percent, 62.0 percent and 9.1 percent in the review period. Commodity-wise, exports of cardamom, sacking, thread, polyester



- yarn, among others, increased whereas exports of G.I. pipes, juice, woolen carpet, pashmina, among others, decreased in the review period.
13. The growth in merchandise imports remained elevated at 22.1 percent to Rs. 767.36 billion in the review period compared to an increase of 44.2 percent in the same period of the previous year. Country-wise, imports from India, China and other countries increased 22.3 percent, 22.2 percent and 21.3 percent respectively in the review period. Commodity-wise, imports of petroleum products reached Rs. 100.60 billion, followed by food and live animals of Rs. 97.05 billion and vehicles and spare parts of Rs. 84.91 billion during eight months of 2017/18.
  14. Based on customs points, the exports through Birgunj Customs Office, Krishnanagar Customs Office and Kanchanpur Customs Office decreased whereas exports from other customs points increased in the review period. On the import side, imports through Dry Port Customs Office and Kanchanpur Customs Office decreased whereas imports through other customs points increased in the review period.
  15. Total trade deficit widened 23.0 percent to Rs. 713.93 billion in eight months of 2017/18. The export-import ratio declined to 7 percent in the review period from 7.7 percent in the corresponding period of the previous year.

## Export-Import Price Index

16. The y-o-y unit value export price index based on customs data increased 1.7 percent while import price index increased 6.2 percent in mid-March 2018. Consequently, the TOT index decreased 4.2 percent as against an increase of 2.4 percent in the corresponding period of the previous year. Increase in price of export items such as herbs, tea, catechu, tooth-paste, brass, coils, among others caused the increase in export price index whereas increase in the price of vehicles, petroleum products, refrigerator, tyres, laptop, among others resulted an increase in import price index in the review period.

## Services

17. The total services receipts increased 8.6 percent whereas expenses rose 15.1 percent in the review period. As a result, net services receipts turned into a deficit of Rs. 2.31 billion in the review period as against a surplus of Rs. 3.73 billion in the same period of the previous year. Under the services account, travel receipts increased 20.1 percent to Rs. 43.46 billion in the review period. Such receipts had increased 38.7 percent in the same period of the previous year.

## Workers' Remittances

18. The workers' remittances increased 4.9 percent to Rs. 471.86 billion in the review period compared to a rise of 5.3 percent in the same period of the previous year. However, net transfer receipts decreased 0.7 percent to Rs. 539.19 billion in the review period. Such receipts had increased 8.4 percent in the same period of the previous year.
19. Based on approval, the number of Nepalese workers going for foreign employment (except renew entry) fell by 5.4 percent in the review period. It had decreased 7.1 percent in the same period of the previous year, too.

**Box 2: Outflow of Nepalese Workers for Foreign Employment (Eight Months)**

**a) Institutional and Individual (New and Legalized)**

Country	(No. of Labor)		Percentage Share	
	2016/17	2017/18	2016/17	2017/18
Malaysia	56855	77496	21.8	31.5
Qatar	86073	69091	33.1	28.0
U.A.E.	38305	39398	14.7	16.0
Saudi Arabia	55254	29368	21.2	11.9
Kuwait	8594	10024	3.3	4.1
Bahrain	2709	3403	1.0	1.4
South Korea	1131	3056	0.4	1.2
Oman	2138	1897	0.8	0.8
Afghanistan	855	1019	0.3	0.4
Japan	1894	508	0.7	0.2
Israel	90	86	0.0	0.0
Lebanon	120	13	0.0	0.0
Others	6352	10965	2.4	4.5
<b>Total</b>	<b>260370</b>	<b>246324</b>	<b>100.0</b>	<b>100.0</b>
<b>Percentage Change</b>	<b>-7.1</b>	<b>-5.4</b>	<b>-</b>	<b>-</b>

**b) Renew Entry**

<b>Renew Entry</b>	<b>174610</b>	<b>172424</b>	<b>-</b>	<b>-</b>
<b>Percentage Change</b>	<b>12.6</b>	<b>-1.3</b>	<b>-</b>	<b>-</b>

Source: Department of Foreign Employment.

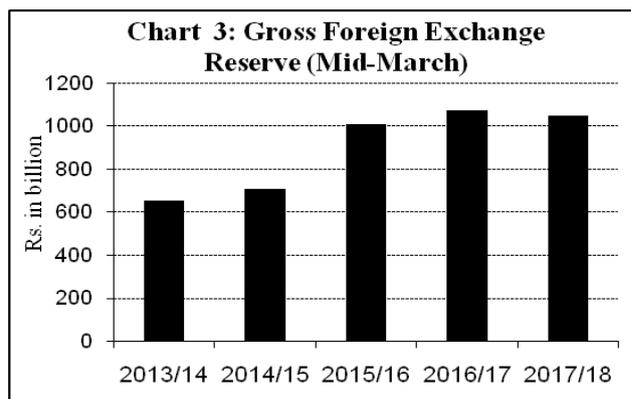
## Current Account and BOP Position

20. The current account deficit widened further to Rs. 153.96 billion in the review period from a deficit of Rs. 6.31 billion in the same period of the previous year. The significant increase in imports and dividends payment for foreign investment widened the current account deficit. Similarly, the overall BOP remained at a deficit of Rs. 24.73 billion in contrast to a surplus of Rs. 50.02 billion in the same period of the previous year.
21. In the review period, the flow of foreign direct investment (FDI) amounted to Rs. 14.24 billion compared to Rs. 8.35 billion in the corresponding period of the previous year.

Particulars	2015-16		2016-17		2017-18	Percent Change in Eight month	
	Eight Months	Annual	Eight Months	Annual	Eight Months	2016/17	2017/18
Goods Exports (FoB)	423.6	703.9	503.4	773.7	591.0	18.8	17.4
Goods Imports (FoB)	-4019.9	-7092.5	-5761.9	-9219.3	-7328.5	43.3	27.2
Trade Balance	-3596.3	-6388.6	-5258.5	-8445.6	-6737.5	46.2	28.1
Travel Receipts	246.2	392.7	336.5	552.3	421.1	36.7	25.1
Workers' Remittances	4033.6	6253.4	4182.6	6556.3	4578.8	3.7	9.5
Current Account Balance	1322.1	1338.8	-57.0	-93.5	-1497.8	-104.3	2529.2
BOP (-Surplus)	-1493.3	-1779.4	-465.6	-776.6	240.9	-68.8	-151.7

## Foreign Exchange Reserves

22. The gross foreign exchange reserves decreased 2.8 percent to Rs. 1049.22 billion as at mid-March 2018 from Rs. 1079.43 billion as at mid-July 2017. Of the total foreign exchange reserves, reserves held by NRB increased 0.7 percent to Rs. 933.50 billion as at mid-March 2018 from Rs. 927.27 billion as at mid-July 2017. The reserves of banks and financial institutions



(except NRB) decreased 23.9 percent to Rs. 115.73 billion as at mid-March 2018 from Rs. 152.17 billion as at mid-July 2017. The share of Indian currency in total reserves stood at 24.7 percent as at mid-March 2018.

### **Foreign Exchange Adequacy Indicators**

23. Based on the imports of eight months of current fiscal year, the foreign exchange holdings of the banking sector are sufficient to cover the prospective merchandise imports of 11.1 months, and merchandise and services imports of 9.7 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 40.4 percent, 80.8 percent and 37.1 percent respectively as at mid-March 2018. Such ratios were 41.5 percent, 95.2 percent and 41.6 percent as at mid-July 2017.

### **Price of Oil and Gold**

24. The price of oil (Crude Oil Brent) in the international market increased 27 percent to USD 63.61 per barrel in mid-March 2018 from USD 50.10 per barrel a year ago. The price of gold increased 9.9 percent to USD 1323.55 per ounce in mid-March 2018 from USD 1204.20 per ounce a year ago.
25. The price of petroleum products in Nepal (Kathmandu) remained lower than that of India (New Delhi) in the review period. The prices of petrol and diesel in Nepal were lower by Rs. 12.92 and Rs. 17.60 per litre respectively in mid-March, 2018.

### **Exchange Rate**

26. Nepalese currency vis-à-vis US dollar depreciated 0.6 percent in mid-March 2018 from the level of mid-July 2017. It had appreciated 0.4 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 103.53 in mid-March 2018 compared to Rs. 102.86 in mid-July 2017.

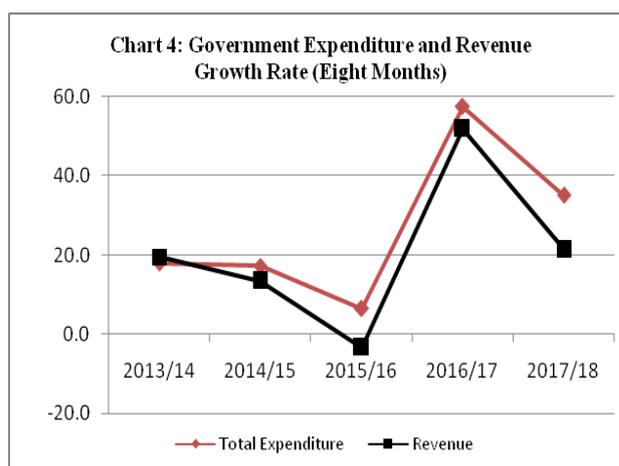
## Fiscal Situation\*

### Budget Deficit/ Surplus

27. The budget deficit of the Government of Nepal (GoN) increased to Rs. 53.63 billion in eight months of 2017/18 from a deficit of Rs. 8.73 billion in the corresponding period of the previous year.

### Government Expenditure

28. In the review period, total government expenditure on a cash basis stood at Rs. 506.55 billion. Such expenditure was Rs. 374.96 billion in the corresponding period of the previous year.



29. In the review period, recurrent expenditure stood at Rs. 389.67 billion, which was Rs. 275.81 billion in the corresponding period of the previous year. In the review period, capital expenditure increased 43.5 percent to Rs. 86.44 billion. Such expenditure was Rs. 60.23 billion in the corresponding period of the previous year.

Heads	Budget Estimates	Outturns in Eight Months*	As percent of Budget Estimates
<b>Total Expenditure</b>	<b>1278.99</b>	<b>506.55</b>	<b>39.6</b>
Recurrent	803.53	389.67	48.5
Capital	335.18	86.44	25.8
Financial	140.29	30.44	21.7
<b>Revenue</b>	<b>730.06</b>	<b>430.06</b>	<b>58.9</b>

\* On cash basis

### Government Revenue

30. In the review period, the government revenue collection increased 21.4 percent to Rs. 430.06 billion. Such revenue had increased 51.9 percent to Rs. 354.16 billion in the corresponding period of the previous year.

### Treasury Position of the GoN

31. The treasury surplus amounted to Rs. 274.03 billion (including Rs. 72.48 billion balances on Local Authorities' Accounts) as of mid-March 2018.

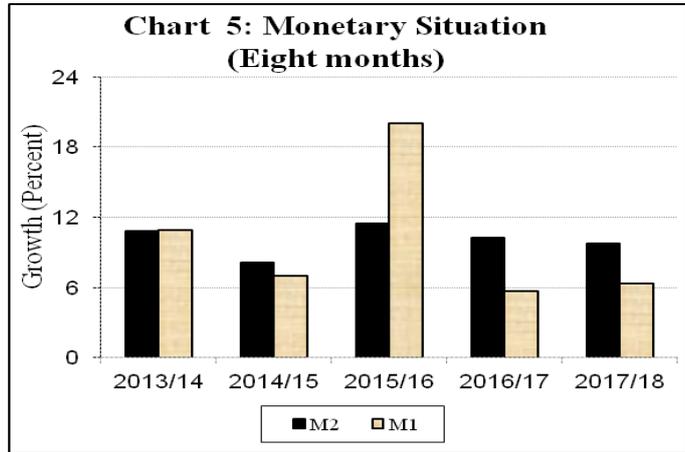
\*

Based on the data reported by 1 NRB office, 81 branches of Rastriya Banijya Bank Limited, 54 branches of Nepal Bank Limited, 40 branches of NIC Asia Bank Limited, 25 branches of Agricultural Development Bank Limited, 12 branches each of Everest Bank Limited and Global IME Bank Limited, 10 branches of Nepal Investment Bank Limited, 7 branches of NMB Bank Limited, 3 branches of Bank of Kathmandu Limited and 2 branches each of Prabhu Bank Limited, Civil Bank Limited and Nepal Bangladesh Bank Limited and 1 branch each from Prime Commercial Bank Limited, Century Commercial Bank Limited, Sanima Bank Limited and Machhapuchhre Bank Limited conducting government transactions and released report from 81 DTCOs and payment centers.

# Monetary Situation

## Money Supply

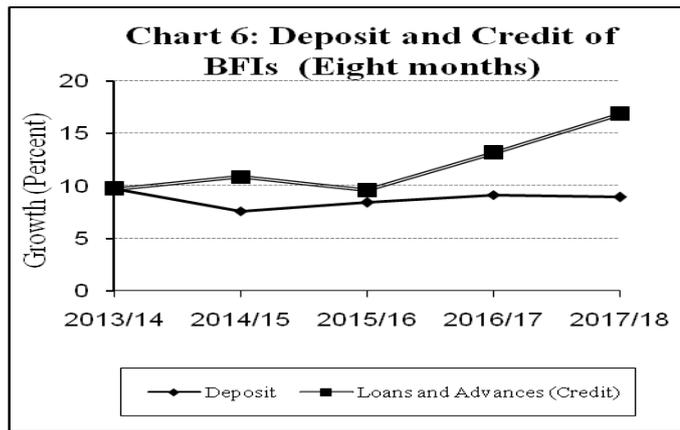
32. Broad money (M2) increased 9.1 percent in the review period compared to a rise of 10.3 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 14.2 percent in mid-March 2018.
33. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs. 24.73 billion (2.4 percent) in the review period in



- contrast to an increase of Rs. 50.02 billion (5.2 percent) in the corresponding period of the previous year.
34. Reserve money marginally decreased 0.5 percent in the review period compared to an increase of 12.0 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 6.6 percent in mid-March 2018.

## Domestic Credit

35. Domestic credit increased 11.7 percent in the review period compared to an increase of 10.7 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 21.6 percent in mid-March 2018.



36. Claims of monetary sector on the private sector increased 15.6 percent in the review period compared to a growth of 16.2 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 17.4 percent in mid-March 2018.

## Deposit Collection

37. Deposits at Banks and Financial Institutions (BFIs) increased 8.1 percent in the review period compared to a growth of 9.1 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 13.0 percent in mid-March 2018.

38. Out of the total deposits at the BFIs, the share of saving deposits decreased to 36.5 percent in mid-March 2018 from 37.3 percent a year ago. However, the share of demand deposits increased to 8.4 percent from 7.6 percent and fixed deposits to 44.0 percent from 38.1 percent a year ago.
39. The share of institutional deposits in total deposit of BFIs stood at 44.0 percent in mid-March 2018. Such share was 48.4 percent a year ago.

### **Credit Disbursement**

40. Credit to the private sector from BFIs increased 14.4 percent in the review period compared to a growth of 15.3 percent in the corresponding period of the previous year. In the review period, private sector credit from commercial banks, development banks and finance companies increased 13.9 percent, 21.2 percent and 6.8 percent respectively. On y-o-y basis, credit to the private sector from BFIs increased 17.3 percent in mid-March 2018.
41. Of the total outstanding credit of BFIs, 61.4 percent is against the collateral of land and building and 14.7 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 60.2 percent and 14.5 percent respectively in the corresponding period of the previous year.
42. Trust receipt loan extended by commercial banks increased 65.7 percent (Rs. 42.39 billion) to Rs. 106.92 billion in the review period compared to an increase of 15.1 percent in the corresponding period of the previous year.
43. In the review period, while hire purchase loan rose 8.8 percent, overdraft loan increased 11.3 percent. Likewise, real estate loan (including residential personal home loan) increased 11.3 percent in the review period.

### **Liquidity Management**

44. In the review period, NRB mopped up Rs. 130.25 billion liquidity through open market operations. Of which, Rs. 42.35 billion was mopped up under deposit collection auction, Rs. 3.15 billion through 14 days deposit collection auction under interest rate corridor and Rs. 84.75 billion through reverse repo auction on a cumulative basis. Liquidity absorption had amounted to Rs. 101.10 billion in the corresponding period of the previous year.
45. In the review period, Rs. 97.25 billion liquidity was injected. Of which, Rs. 60.15 billion was injected through 14 days repo auction under interest rate corridor and Rs. 37.10 billion through outright purchase auction. In the corresponding period of the previous year, Rs. 61 billion liquidity was injected.
46. In the review period, standing liquidity facility (SLF) borrowing by BFIs amounted to Rs. 27.38 billion. In the corresponding period of the previous year, BFIs had utilized such facility of Rs. 58.17 billion.

47. In the review period, NRB injected net liquidity of Rs. 283.32 billion through the net purchase of USD 2.75 billion from foreign exchange market. Net liquidity of Rs. 290.02 billion was injected through the net purchase of USD 2.70 billion in the corresponding period of the previous year.
48. NRB purchased Indian currency (INR) equivalent to Rs. 328.35 billion through the sale of USD 3.14 billion and Euro 40 million in the review period. INR equivalent to Rs. 304.06 billion was purchased through the sale of USD 2.72 billion and Euro 95 million in the corresponding period of the previous year.

### **Refinance**

49. NRB has been providing refinance facility aimed at expanding credit to the productive sector along with promoting export. As of mid-March 2018, the outstanding refinance amounted to Rs. 12.94 billion.
50. As of mid-March 2018, the number of beneficiaries of the 5 percent interest subsidized lending scheme of the Government of Nepal stood at 6532. They availed subsidized loans for selected agriculture and livestock businesses. Under this provision, Rs.6.61 billion loan extended by BFIs is outstanding and Rs. 382 million interest subsidy has been provided.

### **Inter-bank Transaction**

51. In the review period, inter-bank transactions of commercial banks stood at Rs. 792.11 billion and transactions of other financial institutions (excluding transactions of commercial banks) amounted to Rs. 19.20 billion. Such transactions were Rs. 750.49 billion and Rs. 275.85 billion respectively in the corresponding period of the previous year.

### **Interest Rates**

52. The weighted average 91-day Treasury bill rate increased to 4.70 percent in the review month of 2017/18 from 0.74 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.90 percent a year ago, increased to 4.87 percent in the review month. Likewise, the average base rate of commercial banks increased to 10.4 percent in the review month from 8.30 percent a year ago.

### **Merger/Acquisition**

53. The number of BFIs involved in merger and acquisition has been increasing after the introduction of merger/acquisition policy aimed at consolidating the financial sector. So far, 158 BFIs (including 'D' class) were involved in merger and acquisition. Out of which, the license of 118 BFIs was revoked, thereby forming 40 BFIs.

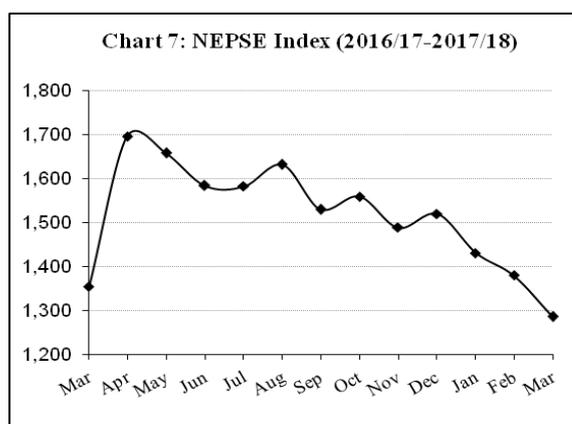
## Financial Access

54. Of the total 753 local levels formed in the process of implementing federalism, commercial banks have their presence in 394 levels as of mid-March 2018. Province-wise presence of commercial banks in local levels is presented in Box 5.

Province	No. of Local Bodies	No. of Banks/Branches
Province 1	137	76
Province 2	136	67
Province 3	119	72
Province 4	85	49
Province 5	109	68
Province 6	79	28
Province 7	88	34
<b>Total</b>	<b>753</b>	<b>394</b>

## Capital Market

55. The NEPSE index on y-o-y basis decreased 5.1 percent to 1286 points in mid-March 2018. This index had increased 2.8 percent to 1355.2 points in mid-March 2017. Such index was 1582.7 points in mid-July 2017.



56. The stock market capitalization on y-o-y basis decreased 2.0 percent to Rs. 1505.58 billion in mid-March 2018. This had increased 8.2 percent a year ago. The ratio of market capitalization to GDP of 2016/17 stood at 57.9 percent in mid-March 2018. This ratio was 68.4 percent a year ago. In the total market capitalization, the share of banks, financial institutions and insurance companies stood at 81.4 percent, hydropower 4.5 percent, manufacturing and processing companies 2.7 percent, hotels 1.6 percent, trading 0.1 percent, and others 9.7 percent respectively.
57. During eight months of 2017/18, the total turnover of the securities decreased 20.4 percent to Rs. 7.58 billion. The turnover of the securities had decreased 12.6 percent to Rs. 9.52 billion in the corresponding period of the previous year.
58. Due to the merger and acquisitions of BFIs, total number of companies listed at the NEPSE decreased to 193 in mid-March 2018 from 212 a year ago. Of the listed companies, 146 are BFIs (including insurance companies), 18 manufacturing and processing industries, 17 hydropower companies, 4 each hotels and trading institutions and 4 other sectors.
59. On y-o-y basis, total paid-up value of the listed shares increased 33.9 percent to Rs. 336.85 billion in mid-March 2018. Total additional securities worth Rs. 103.96 billion were listed in the NEPSE during the review period. These consisted of ordinary shares of Rs. 29.68 billion, right shares of Rs. 26.84 billion, bonus shares of Rs. 11.69 billion and government securities of Rs. 35.14 billion.