



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

(Based on Eight Months' Data of 2018/19)

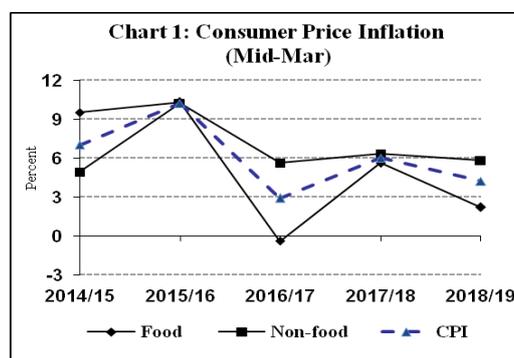
Major Highlights

- Inflation remained 4.2 percent on y-o-y basis and also on average during eight months.
- Import expanded 23.8 percent and export 14.6 percent.
- Remittances increased 23.4 percent in NPR and 11.6 percent in US Dollars.
- Balance of Payments remained at a deficit of Rs.58.99 billion.
- Government spending based on banking transactions increased 2.6 percent and revenue collection 21.1 percent.
- Broad money (M2) expanded 8.4 percent. On y-o-y basis, M2 expanded 18.7 percent.
- Deposits at Banks and Financial Institutions increased 9.7 percent and bank credit to the private sector 14.6 percent. On y-o-y basis, deposits increased 21.0 percent and credit 22.6 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 4.2 percent in mid-March 2019 compared to 6.0 percent a year ago.



Food and Beverage Inflation

2. Food and beverage inflation stood at 2.2 percent in mid-March 2019 compared to 5.6 percent a year ago.

Table 1: Y-O -Y Food and Beverage Inflation (Mid-Mar)

Particulars	Inflation (Percent)	
	2017/18	2018/19
Food and Beverage Inflation	5.6	2.2
1. Vegetable	28.4	(10.7)
2. Pulses and Legumes	(22.5)	(2.5)
3. Sugar and Sugar Products	(2.4)	(1.8)

Non-food and Service Inflation

3. Non-food and service inflation stood at 5.8 percent in mid-March 2019 compared to 6.3 percent a year ago.

Region-wise Consumer Price Inflation

4. The Mountain region witnessed 5.5 percent inflation followed by 4.6 percent in the Hilly region, 4.6 percent in the Kathmandu Valley and 3.6 percent in the Terai. These regions had witnessed 6.0 percent, 5.6 percent, 4.5 percent and 6.3 percent inflation respectively in the corresponding period of the previous year.

Inflation in Nepal and India

5. The y-o-y consumer price inflation in Nepal (mid-March 2019) and India (March 2019) stood at 4.2 percent and 2.9 percent respectively. Such inflation was 6.0 percent in Nepal compared to 4.3 percent in India a year ago.

Wholesale Price Inflation

6. The y-o-y wholesale price inflation stood at 5.0 percent in mid-March 2019 compared to 2.3 percent a year ago.

National Salary and Wage Rate Index

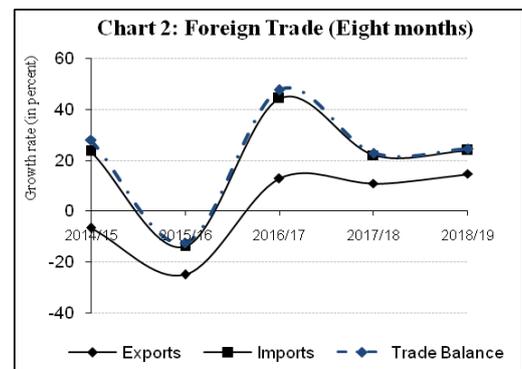
7. The salary and wage rate index increased 10.0 percent in mid-March 2019 from 7.8 percent a year ago. In the review period, the salary index and the wage rate index increased 6.6 percent and 11.0 percent respectively.

External Sector

Merchandise Trade

8. In eight months of 2018/19, merchandise exports increased 14.6 percent to Rs.61.22 billion compared to an increase of 10.8 percent a year ago. Destination-wise, exports to India and other countries increased 26.3 percent and 1.3 percent respectively whereas exports to China decreased 27.6 percent. Mainly exports of polyester yarn, zinc sheet, jute goods, woollen carpet, pulses, among others, increased whereas exports of cardamom, shoes and sandals, tanned skin, readymade garment, rosin, among others, decreased in the review period.

Particulars	Inflation (Percent)	
	2017/18	2018/19
Non-Food and Service Inflation	6.3	5.8
1. Communication	0.1	(1.7)
2. Education	9.3	5.0
3. Housing and Utilities	8.3	7.4
4. Clothes and Footwear	7.1	7.0



9. In eight months of 2018/19, merchandise imports increased 23.8 percent to Rs.949.11 billion compared to an increase of 22.0 percent in the same period of the previous year. Destination-wise, imports from India, China and other countries increased 22.0 percent, 37.8 percent and 20.8 percent respectively. Commodity-wise, imports of petroleum products, readymade garment, M.S. billet, aircraft spareparts, electrical goods, among others, increased whereas imports of cement, telecommunication equipment and parts, crude soybean oil, medical equipment and tools, betelnut, among others, decreased in the review period.
10. Based on customs points, exports from Rasuwa Customs Office, Krishnanagar Customs Office and Dry Port Customs Office decreased whereas exports from other major customs points increased. On the import side, imports from all customs points increased in the review period.
11. Total trade deficit further widened 24.5 percent to Rs.887.88 billion in eight months of 2018/19. The export-import ratio declined to 6.5 percent in the review period from 7.0 percent in the corresponding period of the previous year.

Export-Import Price Index

12. The y-o-y unit value export price index based on customs data increased 1.5 percent whereas import price index increased 4.3 percent in mid-March 2019. The terms of trade (TOT index) decreased 2.7 percent in the review month compared to a decrease of 4.2 percent in the corresponding month of the previous year.

Services

13. Net services receipt remained at a deficit of Rs.12.30 billion in the review period compared to a deficit of Rs.2.45 billion a year ago.
14. Under the service account, travel receipt increased 9.5 percent to Rs.47.58 billion in the review period. Such receipt was Rs.43.46 billion in the same period of the previous year.
15. Under the service account, travel payments increased 21.0 percent to Rs.61.49 billion, including Rs.32.17 billion for education. Such travel payment was Rs.50.83 billion in the same period of the previous year.

Remittances

16. Remittances increased 23.4 percent to Rs.582.19 billion in the review period compared to an increase of 4.9 percent in the same period of the previous year. In the US Dollar terms, remittances increased 11.6 percent in the review period compared to 9.5 percent in the corresponding period of the previous year.
17. Net transfer receipt increased 22.9 percent to Rs.662.70 billion in the review period. Such receipt had decreased 0.7 percent in the same period of the previous year.
18. Number of Nepalese workers (institutional and individual-new and legalized) migrated for foreign employment decreased 38.3 percent in the review period. It had decreased 5.4 percent in the same period of the previous year. Moreover, the number of Nepalese workers (Renew

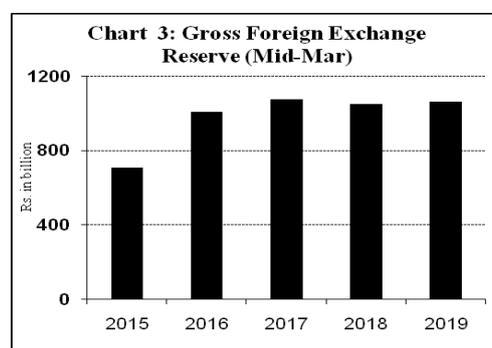
entry) migrated for foreign employment increased 4.6 percent in the review period. It had decreased 1.3 percent in the same period of the previous year.

Current Account and BOP Position

19. The current account registered a deficit of Rs.191.13 billion in the review period. Such deficit was Rs.154.99 billion in the same period of the previous year. In the US Dollar terms, the current account deficit widened 1.68 billion in the review period compared to 1.51 billion a year ago.
20. Balance of Payments (BOP) remained at a deficit of Rs.58.99 billion in the review period compared to a deficit of Rs.24.73 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a deficit of 518.1 million in the review period compared to a deficit of 241.4 million in the same period of the previous year.
21. In the review period, capital transfer and foreign direct investment (FDI) in Nepal amounted to Rs.11.56 billion and Rs.6.66 billion respectively. In the same period of the previous year, capital transfer and FDI amounted to Rs.11.94 billion and Rs.14.24 billion respectively.

Foreign Exchange Reserves

22. Gross foreign exchange reserves stood at Rs.1061.71 billion as at mid-March 2019 from Rs.1102.59 billion as at mid-July 2018. In the US Dollar terms, the gross foreign exchange reserves remained 9.57 billion as at mid-March 2019 from 10.08 billion as at mid-July 2018.



23. Of the total foreign exchange reserves, reserves held by NRB decreased to Rs.914.42 billion as at mid-March 2019 from Rs.989.40 billion as at mid-July 2018. However, reserves held by banks and financial institutions (except NRB) increased to Rs.147.29 billion as at mid-March 2019 from Rs.113.19 billion as at mid-July 2018. The share of Indian currency in total reserves stood at 24.1 percent as at mid-March 2019.

Foreign Exchange Adequacy Indicators

24. Based on the imports of eight months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 9.1 months, and merchandise and services imports of 7.9 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 35.3 percent, 66.1 percent and 31.6 percent respectively as at mid-March 2019. Such ratios were 36.7 percent, 78.6 percent and 35.6 percent as at mid-July 2018.

Price of Oil and Gold

25. The price of oil (Crude Oil Brent) in the international market increased 4.0 percent to USD 66.18 per barrel in mid-March 2019 from USD 63.61 per barrel a year ago. The price of gold decreased 2.1 percent to USD 1295.55 per ounce in mid-March 2019 from USD 1323.55 per ounce a year ago.

Exchange Rate

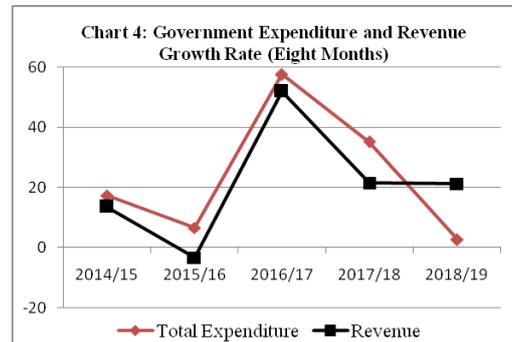
26. Nepalese currency vis-à-vis US dollar depreciated 1.5 percent in mid-March 2019 from mid-July 2018. It had depreciated 0.6 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 110.96 in mid-March 2019 compared to Rs.109.34 in mid-July 2018.

Fiscal Situation*

Fiscal Deficit/ Surplus

27. In eight months of 2018/19, fiscal position of the Government remained at a surplus of Rs.8.90 billion, which was at a deficit of Rs.53.63 billion in the corresponding period of the previous year.

Government Expenditure and Revenue



28. In the review period, total expenditure of the federal government (based on banking transactions) stood at Rs.519.58 billion. Total government expenditure was Rs.506.55 billion in the corresponding period of the previous year.
29. In the review period, revenue collection based on banking transactions (including the amount to be transferred to provincial and local governments) increased 21.1 percent to Rs.520.79 billion. Total government revenue had increased 21.4 percent to Rs.430.06 billion in the corresponding period of the previous year.

Cash Balance of the Government of Nepal

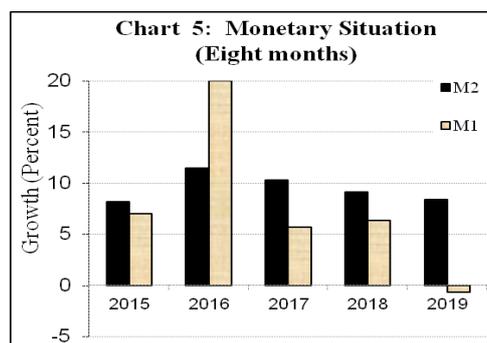
30. Balance at various accounts of the GoN maintained with NRB remained Rs.131.94 billion (including Rs.50.96 billion in Local Levels' account) in mid-March 2019.

* Based on data reported by banking office of NRB and commercial banks conducting government transactions and report released from 81 DTCOs and payment centres.

Monetary Situation

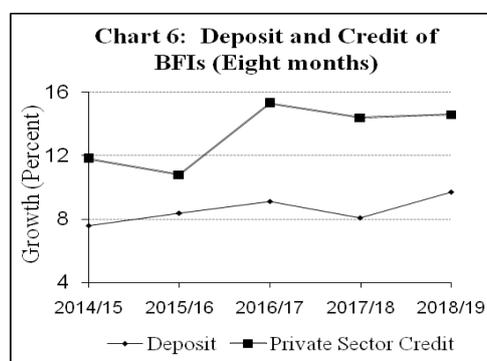
Money Supply

31. Broad money (M2) increased 8.4 percent in the review period compared to a rise of 9.1 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 18.7 percent in mid-March 2019.
32. Net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs.58.99 billion (5.6 percent) in the review period compared to a decrease of Rs.24.73 billion (2.4 percent) in the corresponding period of the previous year.
33. Reserve money decreased 8.3 percent in the review period compared to a decrease of 0.5 percent in the corresponding period of the previous year. On y-o-y basis, reserve money decreased 0.3 percent in mid-March 2019.



Domestic Credit

34. Domestic credit increased 13.0 percent in the review period compared to an increase of 11.7 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 28.1 percent in mid-March 2019.
35. Monetary sector's claim on the private sector increased 15.7 percent in the review period compared to a growth of 15.6 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 22.4 percent in mid-March 2019.



Deposit Collection

36. Deposits at Banks and Financial Institutions (BFIs) increased 9.7 percent in the review period compared to a growth of 8.1 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 21.0 percent in mid-March 2019.

Table 3: Deposits at Banks and Financial Institutions (Percentage Share)

Deposits	Mid-Jul			Mid-Mar	
	2016	2017	2018	2018	2019
Demand	9.1	8.7	9.3	8.4	8.5
Saving	43.3	35.4	34.5	36.5	33.5
Fixed	30.5	43.2	44.8	44.0	47.5
Other	17.0	12.7	11.3	11.1	10.5

37. The share of demand, saving, and fixed deposits in total deposits stands at 8.5 percent, 33.5 percent, and 47.5 percent respectively in mid-March 2019. Such shares were 8.4 percent, 36.5 percent, and 44.0 percent respectively a year ago.
38. The share of institutional deposits in total deposit of BFIs stands at 45.0 percent in mid-March 2019. Such share was 44.0 percent in mid-March 2018.

Credit Disbursement

39. Credit to the private sector from BFIs increased 14.6 percent in the review period compared to a growth of 14.4 percent in the corresponding period of the previous year. In the review period, private sector credit increased 13.4 percent from commercial banks, 24.5 percent from development banks and 13.0 percent from finance companies. On y-o-y basis, credit to the private sector from BFIs increased 22.6 percent.
40. Of the total outstanding credit of the BFIs, 63.9 percent is against the collateral of land and building and 14.2 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 61.4 percent and 14.7 percent respectively a year ago.
41. In the review period, term loan extended by BFIs increased 21.2 percent, overdraft increased 10.2 percent, trust receipt (import) loan increased 17.6 percent, demand and working capital loan increased 19.1 percent, real estate loan (including residential personal home loan) and hire purchase loan increased 7.8 percent each.

Liquidity Management

42. In the review period, NRB mopped up Rs.100.35 billion liquidity through open market operations. Of which, Rs.79.65 billion was mopped up through deposit collection auction and Rs.20.70 billion through reverse repo auction on a cumulative basis. Rs.130.25 billion liquidity was mopped up in the corresponding period of the previous year.
43. The NRB injected Rs. 23.53 billion liquidity through repo auctions under open market operations in the review period. Rs. 97.25 billion liquidity was injected in the corresponding period of the previous year.
44. BFIs utilized standing liquidity facility (SLF) of Rs.6.72 billion in the review period. Such facility of Rs.27.38 billion was utilized in the corresponding period of the previous year.
45. In the review period, NRB injected net liquidity of Rs.225.56 billion through the net purchase of USD 1.97 billion from foreign exchange market. Net liquidity of Rs.281.59 billion was injected through the net purchase of USD 2.73 billion in the corresponding period of the previous year.
46. The NRB purchased Indian currency (INR) equivalent to Rs.349.64 billion through the sale of USD 2.82 billion, Euro 28 million, GBP 20 million, Japanese Yen 18 billion and Chinese Yuan 200 million in the review period. INR equivalent to Rs.328.35 billion was purchased through the sale of USD 3.14 billion and Euro 40 million in the corresponding period of the previous year.

Refinance

47. Use of refinance facility provided by the NRB at a concessional rate for expanding credit to the productive sector along with promoting export has increased in the review period. The

outstanding refinance amounted to Rs.24.54 billion in mid-March 2019. Of which, general refinance of Rs.20.38 billion and export refinance of Rs.1.48 billion was availed.

48. The outstanding amount of refinance extended to BFIs for providing concessional housing loan to earthquake victims stands at Rs.2.68 billion as of mid-March 2019. The number of earthquake victims utilizing such loan is 1577.
49. As of mid-March 2019, the number of beneficiaries from the 5 percent interest subsidized lending scheme of the GoN for selected agriculture and livestock businesses stood at 14,113. Under this provision, Rs.23.41 billion loan extended by BFIs has been outstanding and Rs.982.2 million interest subsidy has been provided. The concessional loan disbursed to other sectors as mentioned in the "Unified Procedures for Interest Subsidy on Concessional Loan, 2075" remains at Rs.51.4 million.

Inter-bank Transaction

50. In the review period, inter-bank transactions among commercial banks stood at Rs.1005.48 billion and among other financial institutions (excluding transactions among commercial banks) amounted to Rs.182.10 billion. Such transactions were Rs.792.11 billion and Rs.19.20 billion respectively in the corresponding period of the previous year.

Interest Rates

51. The weighted average 91-day Treasury bills rate decreased to 3.55 percent in the eighth month of 2018/19 from 4.70 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 4.87 percent a year ago, increased to 5.15 percent in the review month. Likewise, the average base rate of commercial banks decreased to 9.65 percent in the review month from 10.36 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 6.62 percent and 12.33 percent respectively in the review month. Such rates were 6.45 percent and 11.96 percent respectively in the corresponding month of the previous year.

Merger and Acquisition

52. The number of BFIs involved in merger and acquisition increased after the introduction of merger/acquisition policy aimed at strengthening financial stability. So far, 165 BFIs were involved in merger and acquisition. Out of which, the license of 123 BFIs was revoked, thereby forming 42 BFIs in the review period.

Financial Access

53. Of the total 753 local levels, commercial banks extended their branches at 713 levels as of mid-March 2019 (Table 4).

Province	No. of Local Levels	Local Levels having Bank Branches
Province 1	137	130
Province 2	136	133
Province 3	119	114
Gandaki	85	82
Province 5	109	107
Karnali	79	65
Far West	88	82
Total	753	713

54. The total number of BFIs licensed by NRB increased to 167 in mid-March 2019 from 151 in mid-July 2018 (Table 5). As of mid-March 2019, 28 commercial banks, 33 development banks, 24 finance companies and 82 microfinance financial institutions are in operation. The BFIs expanded their branches to 8055 in mid-March 2019 from 6651 in mid-July 2018.

Bank and Financial Institutions	Number of BFIs		Branches of BFIs	
	Mid-Jul 2018	Mid-Mar 2019	Mid-Jul 2018	Mid-Mar 2019
Commercial Banks	28	28	3023	3305
Development Banks	33	33	993	1196
Finance Companies	25	24	186	200
Microfinance Financial Institutions	65	82	2449	3354
Total	151	167	6651	8055

*Detail information is available at <http://emap.nrb.org.np/>

Payment Transactions

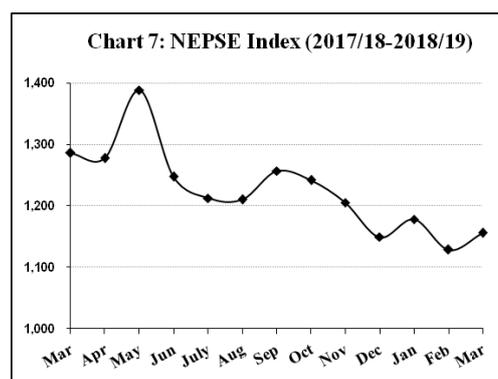
55. NRB established a separate Payment Systems Department in July 2015 with an objective of developing secure, healthy and efficient payment system. To promote the payment system, various legal and policy measures such as Payment and Settlement Act (2019), Payment and Settlement Bylaws (2015), Licensing Policy for Payment related Institutions (2016), Payment Systems Oversight Framework (2018) have been introduced. There has been an increasing trend in the use of various payment instruments.

Particulars	Mid-Jan 2018	Mid-Jan 2019
No. of Mobile Banking Customers	3530227	6394916
No. of Internet Banking Customers	842431	856695
No. of ATMs	2638	3049
No. of Debit Cards	5769128	5962838
No. of Credit Cards	94716	100527

Capital Market

56. The NEPSE index on y-o-y basis decreased 10.1 percent to 1155.5 points in mid-March 2019 compared to 1286.0 points in mid-March 2018. Such index was 1212.4 points in mid-July 2018.

57. The stock market capitalization on y-o-y basis decreased 6.2 percent to Rs.1411.89 billion in mid-March 2019 compared to a decrease of 2 percent a year ago. The ratio of market capitalization to GDP (2017/18) stood at 46.9 percent in mid-March 2019. This ratio was 57.9 percent a year ago.



58. The total number of companies listed at the NEPSE remained 205 in mid- March 2019. Of the total listed companies, 150 are financial sector including BFIs and insurance companies, 18 manufacturing and processing industries, 25 hydropower companies, 4 each hotels and trading institutions and 4 other sectors.
59. Total paid-up value of the listed shares stood at Rs.391.63 billion in mid-March 2019. Total additional securities worth Rs.33.36 billion were listed in the NEPSE during the review period. These consisted of ordinary shares of Rs.15.85 billion, right shares of Rs.7.94 billion and bonus shares of Rs.9.22 billion.