



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

(Based on First Month's Data of 2017/18)

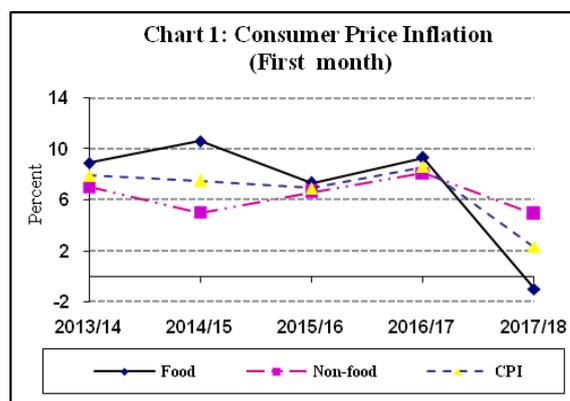
Macrofinancial Outlook

1. The greater loss of farm output on account of widespread floods and inundation caused by heavy rains of mid August 2017 is likely to be less than initially feared. The torrential rains did cause the stock loss including agricultural infrastructures in most of districts of Terai region. However, the timely onset of monsoon, the normal rainfall in subsequent period, improved supply of agricultural inputs and the steps taken by the government are likely to offset the output loss initially assumed.
2. The industrial output is expected to remain on growth trajectory on the back of improved energy supply, smooth supply situation and the rise in foreign direct investment. The successful holding of local elections has also improved the industrial climate.
3. The bed occupancy rate of tourist standard hotels in the review period has increased significantly to 75 percent compared to the previous period of the last fiscal year. Similarly, the booking rate of such hotels has reached 50 percent during the review period reflecting satisfactory developments in tourism sector in days ahead.
4. The budget of 2017/18 has made fiscal transfer of Rs. 225 billion to local levels. Fiscal transfers along with the successful conclusion of local elections are expected to boost capital spending in the current fiscal year. These developments are expected to spur economic activities across the country resulting in broad-based and inclusive economic growth going forward.
5. However, the growth in government revenue has remained less than targeted. Merchandise exports have fallen. Trade deficit has widened. Both current account and overall balance of payments are in deficit. These developments, in case they continue, pose policy challenges for macroeconomic management into the future.

Inflation, Salary and Wage Rate

Consumer Price Inflation

6. Consumer price inflation has further decelerated to 2.3 percent in mid-August 2017 from 2.7 percent in mid-July 2017 and 8.6 percent a year ago. The higher base price of the previous year has contributed to the moderation of inflation in the review period.



Food Inflation

7. Food inflation turned negative by 1 percent in mid-August 2017 from 9.3 percent in the corresponding month of the previous year. A fall in prices of pulses and legumes by 23.3 percent, vegetables by 11.7 percent, spices by 3.5 percent and fruits by 1.4 percent were mainly responsible for negative food inflation in the review period.

Non-food Inflation

8. Non-food inflation also decelerated to 4.9 percent during the review period from 8.1 percent in the corresponding period of the previous year. The decline in growth rate of prices of clothes and footwear, housing and utilities, furnishing and household equipment, among others, caused the moderation in non-food inflation in the review period.

Box 1: Y-O -Y Food Inflation (First Month)		
Particulars	Inflation (Percent)	
	2073/74	2074/75
Food Inflation	9.3	-1.0
1 Sugar and Sugar products	19.5	5.3
2 Pulses and Legumes	18.7	-23.3
3 Vegetable	17.9	-11.7
4 Fruit	17.5	-1.4
5 Alcoholic drinks	13.4	8.3
6 Spices	13.3	-3.5
7 Restaurant and Hotel	10.1	5.0

Source: National Consumer Price Index, Mid-August 2017

Region-wise Consumer Price Inflation

9. The Mountain region witnessed relatively a higher rate of inflation of 5.6 percent followed by Terai region of 2.8 percent, Hilly region of 2.2 percent and the Kathmandu Valley of 1.3 percent in the review period. In the corresponding period of the previous year, these regions witnessed inflation rate of 7.1 percent, 8.5 percent, 10.9 percent and 7 percent respectively.

Inflation Differential between Nepal and India

10. The y-o-y consumer price inflation was relatively lower at 2.3 percent in Nepal in mid-August 2017 compared to 3.4 percent in India, showing an inflation wedge of 1.1 percent between the two countries. A year ago, the rate of inflation was 8.6 percent in Nepal compared to 5.1 percent in India, reflecting a wider inflation differential of 3.5 percent.

Wholesale Price Inflation

11. The y-o-y wholesale price inflation moderated to 1.2 percent in the review period from 5.9 percent a year ago. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities registered a growth of 0.6 percent, 3.8 percent and 0.7 percent respectively in the review period. In the corresponding period of the previous year, the increments in wholesale price indices of agricultural commodities and domestic manufactured commodities were 9.6 percent and 6 percent respectively, whereas the price index of imported commodities had declined by 2.8 percent.

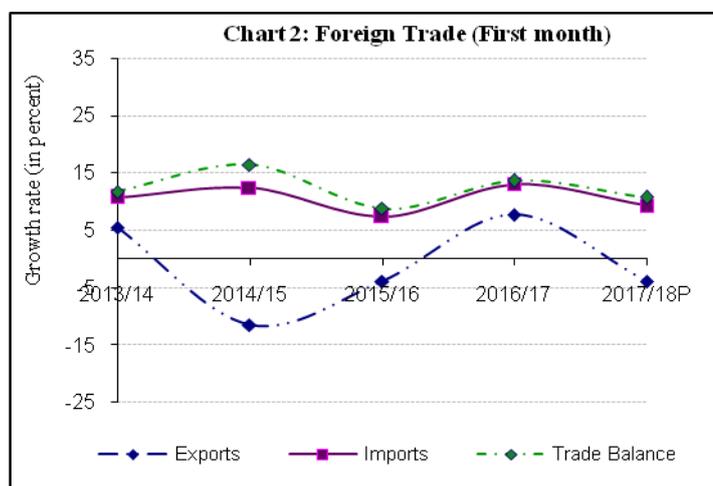
National Salary and Wage Rate

12. The y-o-y salary and wage rate index rose 6.4 percent in the review period compared to 14.9 percent in the corresponding period of the previous year. In the review period, the salary index increased 14.6 percent, while the wage rate index grew 4.4 percent. The salary indices of bank and financial institutions, education and public corporations sub-groups increased 10.6 percent, 5.8 percent and 4.9 percent respectively in the review period. Likewise, wage rate indices of agricultural laborer, industrial laborer and construction laborer witnessed a growth of 2.8 percent, 8.9 percent and 2.1 percent respectively in the review period.

External Sector

Merchandise Trade

13. In the first month of 2017/18, merchandise exports decreased 3.9 percent to Rs. 6.68 billion as against a growth of 7.7 percent in the same period of the previous year. In the review period, exports to India decreased 10.1 percent whereas exports to China and other countries increased 11.3 percent and 3.2 percent respectively. Commodity wise, the exports of zinc sheet, thread, readymade garments, oil cake, among others, increased whereas the export of woolen carpet, polyester yarn, toothpaste, cardamom, among others, decreased in the review month.
14. Merchandise imports increased 9.3 percent to Rs. 77.28 billion in the review period compared to a growth of 13 percent in the same period of the previous year. In the review period, imports from India increased 9 percent whereas import from China and other countries increased 14.2 percent and 7.1 percent respectively. In the review month, imports of petroleum products, gold, cement, hot rolled sheet in coil, aircraft spare parts among others increased whereas imports of edible oil, machinery and parts, electrical goods and equipments, cold rolled sheet in coil, agricultural equipments, among others decreased.
15. Based on customs points, the exports through Tribhuvan International Airport Customs, Birgunj Customs Office, Dry port Customs, Kailali Customs Office decreased. On the import side, imports through Birgunj Customs, Dry port Customs Birgunj, Biratnagar



Customs, Tribhuvan International Airport Customs, Nepalgunj Customs, Krishnanagar Customs, Kailali Customs, Jaleswar Customs Office increased.

16. Total trade deficit in the review period contracted to 10.7 percent to Rs. 70.60 billion compared to an expansion of 13.6 percent in the same period of the previous year. The export-import ratio dropped to 8.6 percent in the review period from 9.8 percent in the corresponding period of the previous year.

Export-Import Price Index

17. The y-o-y unit value export price index based on customs data increased 0.5 percent while import price index increased 5 percent in the first month of 2017/18. Consequently, the TOT index decreased 4.3 percent in contrast to an increase of 22 percent in the corresponding period of the previous year. Increase in price of export items such as yarsagumba, woolen carpet, tea, acrylic yarn, ghee caused the rise in export price index in the review period. Increase in the price of vehicles, lead acid battery, laptop, printer, copper wire, zinc ingot resulted in increase in import price index in the review period.

Services

18. The total services receipt increased 20.1 percent and expenses 8.4 percent in the review period. As a result, net services receipt deficit decreased to Rs. 2.36 billion in the review period from Rs. 3.21 billion in the same period of the previous year.
19. Under the service account, travel receipt increased 17.8 percent to Rs. 4.26 billion in the review period. Such receipt had increased 49.4 percent in the same period of the previous year.

Workers' Remittances

20. The workers' remittances increased 7 percent to Rs. 55.55 billion in the review period in contrast to a decline by 2.5 percent in the same period of the previous year. Consequently, net transfer receipt increased 4.9 percent to Rs. 62.70 billion in the review period. Such receipt had decreased 2.5 percent in the same period of the previous year.
21. The outflow of migrant workers has been falling. The

Box 2: Outflows of migrants workers (First Month)				
a) Institutional and Individual (New and Legalized)				
Country	(No. of Labor)		Percentage Share	
	2016/17	2017/18	2016/17	2017/18
Malaysia	6775	11231	19.1	35.9
Qatar	9551	7159	26.9	22.9
U.A.E.	5041	4997	14.2	16.0
Saudi Arabia	10788	4194	30.4	13.4
South Korea	774	904	2.2	2.9
Kuwait	731	721	2.1	2.3
Bahrain	305	454	0.9	1.5
Oman	294	180	0.8	0.6
Afghanistan	0	117	0.0	0.4
Japan	254	58	0.7	0.2
Lebanon	31	2	0.1	0.0
Israel	15	3	0.0	0.0
Others	926	1289	2.6	4.1
Total	35485	31309	100.0	100.0
Percentage Change	-6.9	-11.8	-	-
b) Renew Entry				
Renew Entry	15622	15073	-	-
Percentage Change	15.3	-3.5	-	-
Source: Department of Foreign Employment				

number of Nepalese workers seeking foreign employment decreased 11.8 percent in the review period. It had decreased 6.9 percent in the same period of the previous year. In the review period, the number of workers outbound to Malaysia surged while those to Saudi Arabia shrank significantly.

Current Account and BOP Position

22. The current account registered a deficit of Rs. 5.43 billion in the review period as a result of widening trade deficit. The current account deficit had amounted to Rs. 2.32 billion in the same period of the previous year. Similarly, the overall BOP turned into a deficit of Rs. 3.29 billion in the review period compared to a deficit of Rs. 2.11 billion in the same period of the previous year.
23. In the review period, Nepal received capital transfer amounting to Rs. 674.7 million and Foreign Direct Investment (FDI) inflows of Rs. 4.61 billion. In the same period of the previous year, capital transfer and FDI inflows were Rs. 606 million and Rs. 1.23 billion respectively.

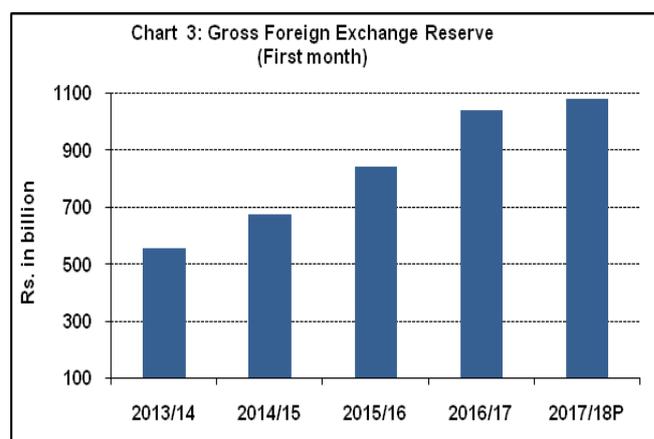
Particulars	2015-16		2016-17		2017-18	Percentage Change in First month	
	First Month	Annual	First Month	Annual	First Month	2016/17	2017/18
Goods Exports (FoB)	71.6	703.9	70.7	773.7	71.3	-1.2	0.8
Goods Imports (FoB)	596.2	7092.5	645.3	9219.3	741.0	8.2	14.8
Trade Balance	-524.6	-6388.6	-574.5	-8445.6	-669.7	9.5	16.6
Total Trade	667.8	7796.3	716.0	9993.0	812.3	7.2	13.4
Travel Receipts	23.6	392.7	33.7	552.3	41.5	42.7	23.0
Workers' Remittances	520.1	6253.4	484.6	6556.3	541.5	-6.8	11.8
Current Account Balance	79.5	1338.8	-21.6	-93.5	-52.9	-	-
BOP (-Surplus)	-46.6	-1779.8	19.7	-777.1	32.0	-	-

** Data from BOP Presentation*

1. In the US dollar terms, total merchandise exports and imports increased 0.8 percent and 14.8 percent respectively in the first month of 2017/18. Exports had decreased 1.2 percent whereas imports increased by 8.2 percent in the corresponding period of the previous year.
2. In the review period, travel receipts increased 23 percent and worker's remittance rose 11.8 percent. Travel receipts had increased 42.7 percent and remittances had decreased 6.8 percent in the corresponding period of the previous year.
3. Current account recorded a deficit of USD 52.9 million in the review period compared to a deficit of USD 21.6 million in the corresponding period of the previous year. Likewise, Balance of Payments (BOP) recorded a deficit of USD 32 million in the review period compared to the deficit of USD 19.7 million in the corresponding period of the previous year.

Foreign Exchange Reserves

24. The gross foreign exchange reserves stood at Rs. 1078.84 billion as at mid-August 2017, a decrease of 0.1 percent from Rs. 1079.52 billion as at mid-July 2017. Of the total foreign exchange, reserves held by NRB decreased 0.9 percent to Rs. 919.04 billion as at mid-August 2017 from



Rs. 927.27 billion as at mid-July 2017. On the other hand, the reserves of banks and financial institutions (except NRB) increased 5 percent to Rs. 159.80 billion as at mid-August 2017 from Rs. 152.26 billion as at mid-July 2017. The share of Indian currency in total reserves stood at 23.3 percent as at mid-August 2017.

Foreign Exchange Adequacy Indicators

25. Based on the imports of the first month of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 14.2 months, and merchandise and services imports of 12 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 increased to 41.5 percent, 100.1 percent and 41.3 percent respectively as at mid-August 2017. Such ratios were 41.5 percent, 95.3 percent and 41.7 percent as at mid-July 2017.

Price of Oil and Gold

26. The price of oil (Crude Oil Brent) in the international market increased 4.4 percent to USD 50.39 per barrel in mid-August 2017 from USD 48.27 per barrel a year ago. The price of gold decreased 5.3 percent to USD 1272.75 per ounce in mid-August 2017 from USD 1344 per ounce a year ago.

Exchange Rate

27. Nepalese currency vis-à-vis US dollar appreciated 0.6 percent in mid-August 2017 from mid-July 2017. It had remained stable in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 102.29 in mid-August 2017 compared to Rs. 102.86 in mid-July 2017.

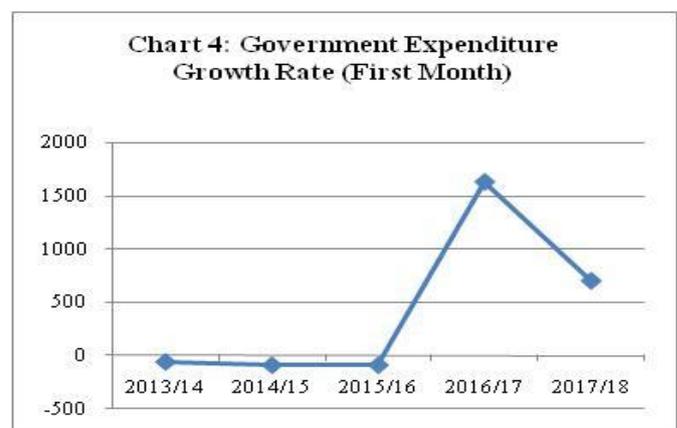
Fiscal Situation*

Budget Deficit / Surplus

28. In the first month of 2017/18, the Government of Nepal (GoN) was at a surplus of Rs. 74.01 billion in its budget. Such surplus was Rs. 52.04 billion in the corresponding period of the previous year.

Government Expenditure

29. In the review period, total government expenditure on a cash basis stood at Rs. 18.57 billion. Such expenditure was just



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Based on the data reported by 6 NRB offices, 76 branches of Rastriya Banijya Bank Limited, 49 branches of Nepal Bank Limited, 25 branches of Agricultural Development Bank Limited, 12 branches of Everest Bank Limited, 10 branches of Nepal Investment Bank Limited, 9 branches of Global IME Bank Limited, 8 branches of NIC Asia Bank Limited, 2 branches of Bank of Kathmandu Limited and 1 branch each from NMB Bank Limited and Century Commercial Bank Limited conducting government transactions and released report from 79 DTCOs and payment centers.

Rs. 2.31 billion in the corresponding period of the previous year.

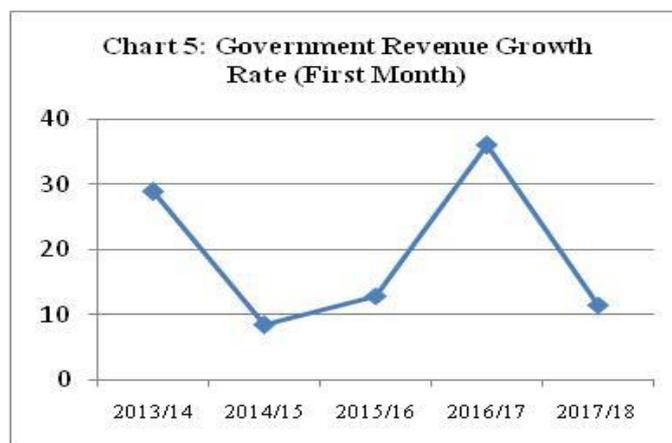
30. In the review period, recurrent expenditure stood at Rs. 18.46 billion. Such expenditure was Rs. 2.30 billion in the corresponding period of the previous year. In the review period, capital expenditure increased to Rs. 115.3 million. Such expenditure was just Rs. 1 million in the corresponding period of the previous year.

Box 4: The Budget Performance (Rs. in million)			
Heads	Budget Estimates	Outturns in One Months*	As percent of Budget Estimates
Total Expenditure	1278994.9	18572.0	1.45
Recurrent	803531.5	18456.7	2.30
Capital	335176.0	115.3	0.03
Financial	140287.4	0	0.00
Revenue	730055.6	45787.3	6.27

* On cash basis

Government Revenue

31. In the review period, the government revenue collection increased 11.5 percent to Rs. 45.79 billion. Such revenue had increased 36 percent to Rs. 41.07 billion in the corresponding period of the previous year. The government revenue collection has been less than targeted. The growth in the government revenue continues to remain sensitive to high tariff rate related imports.



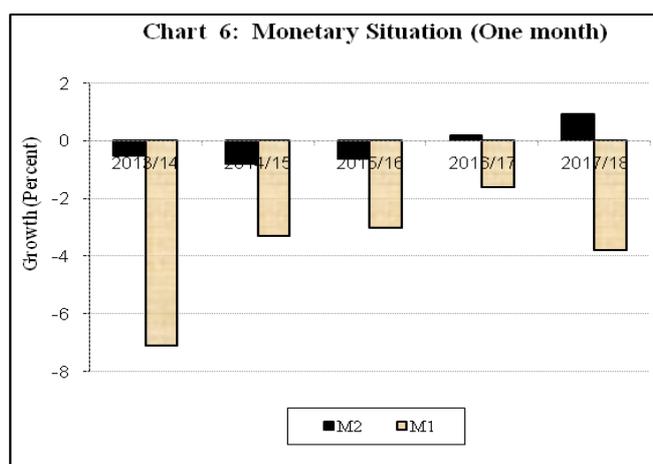
Cash Balance of the GoN

32. Because of a slow pace of government expenditure relative to resource mobilization, the GoN accumulated cash balance of Rs. 228.94 billion at Nepal Rastra Bank as of mid-August 2017.

Monetary Situation

Money Supply

33. Broad money (M2) increased 0.9 percent in the review period compared to a rise of 0.2 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 16.3 percent in mid-August 2017.
34. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs. 3.29 billion (0.3 percent) in the review period compared to a decrease of Rs.2.11

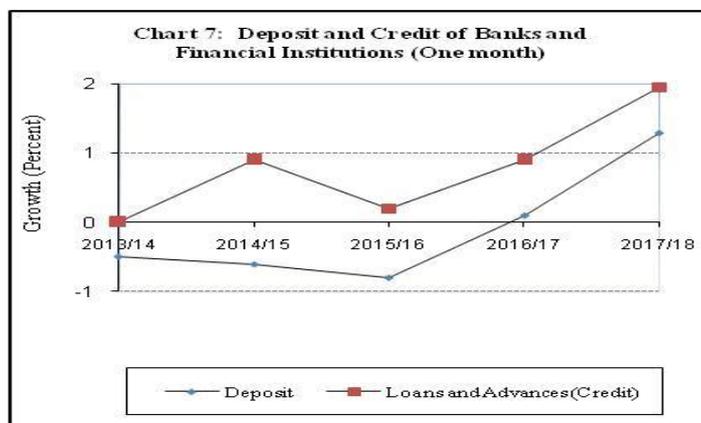


(0.2 percent) billion in the corresponding period of the previous year.

35. Reserve money decreased 10.7 percent in the review period compared to a decrease of 4.8 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 12.6 percent in mid-August 2017.

Domestic Credit

36. Domestic credit decreased 2.6 percent in the review period compared to a decline of 2.1 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 18.8 percent in mid-August 2017.



37. Claims of monetary sector on the private sector increased 1 percent in the review period compared to a growth of 1.1 percent in the corresponding period of the previous year. On y-o-y basis, claims of monetary sector on the private sector increased 17.9 percent in mid-August 2017.

Deposit Collection

38. Deposits at Banks and Financial Institutions (BFIs) increased 1.3 percent in the review period compared to an increase of 0.1 percent in the previous year. On y-o-y basis, deposits at BFIs expanded 15.3 percent in mid-August 2017.
39. Of the total deposits at BFIs, while the share of demand deposits fell to 7.8 percent from 8.5 percent and saving deposits to 35.3 percent from 43.8 percent, the share of fixed deposits increased to 43.2 percent in mid-August 2017 from 30.5 percent a year ago.

Credit Disbursement

40. Credit to the private sector from BFIs increased 0.4 percent in the review period compared to a rise of 0.7 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 0.1 percent, 2.9 percent and 0.3 percent respectively. On y-o-y basis, credit to the private sector from BFIs increased 17.9 percent in mid-August 2017.
41. Credit to the agriculture sector increased 0.2 percent, industrial production sector 0.7 percent, construction sector 1.6 percent, wholesale and retail trade sector 0.3 percent, service sector industries 0.9 percent and transport, communication and public sector 1.7 percent in the review period.
42. Of the total outstanding credit of BFIs, 60.9 percent is against the collateral of land and building and 14.1 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 60.7 percent and 15 percent respectively in the corresponding period of the previous year.

43. Of the total outstanding loan of commercial banks, credit to small and medium enterprises was 2.4 percent (Rs. 48.03 billion) in mid-August 2017.
44. Trust receipt (T.R.) loan extended by commercial banks increased 6.6 percent (Rs. 4.28 billion) to Rs. 68.81 billion in the review period compared to an increase of 5.7 percent in the corresponding period of the previous year.
45. In the review period, hire purchase lending increased 1.1 percent while that of overdraft loan decreased 1.6 percent. Similarly, residential personal home loan (up to Rs. 10 million) increased 1.9 percent and real estate loan 0.9 percent in the review period.

Liquidity Management

46. In the first month of 2017/18, the NRB mopped up Rs. 73.5 billion through open market operations. Of which, Rs. 27.75 billion was under deposit collection auction and Rs. 45.75 billion was through reverse repo auction on a cumulative basis. In the corresponding period of the previous year, Rs. 32.45 billion liquidity was mopped up. This consists of Rs. 5 billion through deposit collection auction and Rs. 27.45 billion through reverse repo auction.
47. In the review period, the NRB injected net liquidity of Rs. 19.14 billion through the net purchase of USD 186.8 million from foreign exchange market. Net liquidity of Rs. 23.63 billion was injected through the net purchase of USD 220.8 million in the corresponding period of the previous year.
48. The NRB purchased Indian currency (INR) equivalent to Rs. 30.77 billion through the sale of USD 300 million in the review period. INR equivalent to Rs. 36.83 billion was purchased through the sale of USD 260 million and Euro 75 million in the corresponding period of the previous year.

Refinance

49. The NRB has been providing refinance facility aimed at expanding credit to the productive sector along with promoting export. As of mid-August 2017, the outstanding refinance amount stood Rs. 7.53 billion including general refinance Rs. 7.39 billion and export refinance Rs 140 million. In the corresponding period of the previous year, general refinance of Rs. 240 million was utilized.
50. A sum of Rs. 759.03 million housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims. NRB provides refinance facility to BFIs at a zero percent interest to extend housing loan to earthquake victims.

Inter-bank Transaction

51. In the first month of 2017/18, inter-bank transactions of commercial banks stood at Rs. 35.75 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 7 billion. Such transactions were Rs. 74.53 billion and Rs. 26.35 billion respectively in the corresponding period of the previous year.

Interest Rates

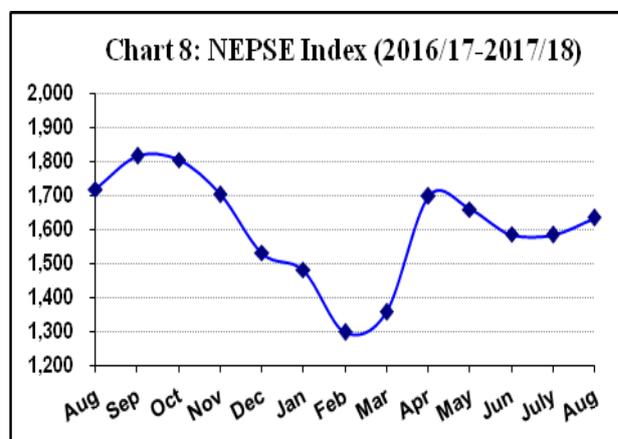
52. The weighted average 91-day Treasury Bill rate increased to 0.55 percent in the first month of 2017/18 from 0.44 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.82 percent a year ago, decreased to 0.29 percent in the review month. However, the weighted average inter-bank rate among other financial institutions increased to 3.56 percent from 3.16 percent a year ago. Likewise, the average base rate of commercial banks increased to 9.7 percent in the review month from 6.1 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 strengthening financial stability. So far, 151 BFIs (including 'D' class) were involved in merger and acquisition since this bank introduced the regulatory procedure regarding merger and acquisition. Of which, the license of 112 BFIs was revoked thereby forming 39 BFIs.

Capital Market

54. The NEPSE index on y-o-y basis decreased 4.9 percent to 1,632.7 points in mid-August 2017 as against the increase of 48.4 percent a year ago. Such index was 1582.7 points in mid-July 2017.



55. The stock market capitalization on y-o-y basis increased 1.2 percent to Rs. 1915.19 billion in mid-August 2017. This had increased 58.7 percent a year ago. The ratio of market capitalization to GDP of 2016/17 stood at 73.7 percent in mid-August 2017. This ratio was 84.2 percent a year ago. In the total market capitalization, the share of banks, financial institutions and insurance companies stood at 85.2 percent, hydropower 4.0 percent, manufacturing and processing companies 2.5 percent, hotels 1.7 percent, trading 0.1 percent, and others 6.5 percent respectively.
56. During the first month of 2017/18, the total turnover of the securities decreased 39.5 percent to Rs. 21.64 billion. The turnover of the securities had substantially increased 213.1 percent to Rs. 35.78 billion in the corresponding period of the previous year.
57. Due to the merger and acquisitions of BFIs, total number of companies listed at the NEPSE decreased to 199 in mid-August 2017 from 226 in mid-August 2016. Of the listed companies, 154 are BFIs (including insurance companies), 18 manufacturing and processing industries, 16 hydropower companies, 4 each hotels and trading institutions and 3 other sectors.
58. On y-o-y basis, total paid-up value of the listed shares increased 40.6 percent to Rs. 291.71 billion in mid-August 2017. Total additional securities worth Rs. 16.66 billion

were listed in the NEPSE during the review period. These consist of ordinary shares of Rs. 1.10 billion, right shares of Rs. 8.17 billion, bonus shares of Rs. 388 million and government securities of Rs. 7 billion.