



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

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

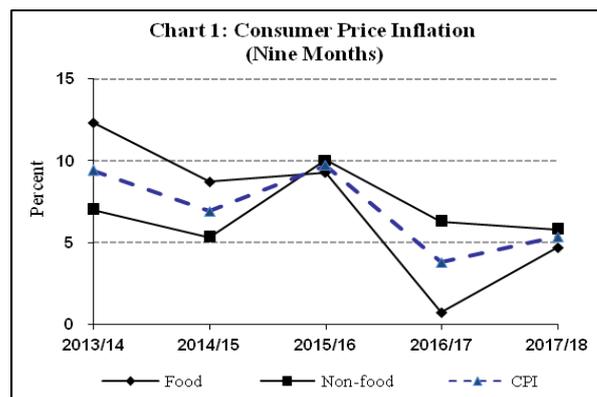
Macroeconomic Outlook

1. As per the recent release of national accounts statistics by Central Bureau of Statistics (CBS), Gross Domestic Product (GDP) is estimated to grow 5.9 percent at basic prices and 6.3 percent at producers' prices in 2017/18. This is the second year in a row that the economic growth in Nepal has been encouraging. In 2016/17, the GDP growth in Nepal was above 7.0 percent.
2. The CBS has estimated gross capital formation ratio at 51.7 percent of GDP and gross national savings rate at 43.9 percent of GDP, indicating resource gap of 7.8 percent of GDP for 2017/18. The resource gap is reflective of current account balance. The current account deficit was 0.38 percent of GDP in 2016/17.
3. Further, the CBS has estimated workers' remittances to increase 4.9 percent to Rs. 729 billion in 2017/18 compared to a growth of 4.6 percent in 2016/17.
4. The year-on year (y-o-y) CPI inflation has risen to 5.3 percent in mid-April 2018 from 3.8 percent a year ago. Although the sporadic rise in prices of vegetables and other edible items caused the y-o-y CPI inflation slightly higher than that of last year in recent months, the annual average CPI inflation is expected to remain below the annual forecast.
5. On financial sector front, the y-o-y credit off-take of 19.5 percent continues to exceed the deposit growth of 15.3 percent as at mid-April 2018. This is reflective of persisting financial frictions. The expected rise in capital spending is likely to ease the financial conditions in days ahead.

Inflation, Salary and Wage Rate

Consumer Price Inflation

6. The y-o-y consumer price inflation increased to 5.3 percent in mid-April 2018 from 3.8 percent a year ago. The increase in food inflation contributed to the rise in overall inflation in the



review period. However, the average consumer price inflation in nine months of 2017/18 remained low at 4.1 percent.

Food Inflation

7. Food inflation rose 4.7 percent in mid-April 2018 from 0.7 percent a year ago. A surge in prices of vegetables, fruits, milk products and eggs, among others are mainly responsible for the rise in food inflation in the review period.

Box 1: Y-O -Y Food Inflation (Nine Months)		
Particulars	Inflation (Percent)	
	2073/74	2074/75
Food Inflation	0.7	4.7
1 Vegetable	(9.7)	24.7
2 Fruit	3.0	9.0
3 Milk products and eggs	4.4	7.6
4 Tobacco products	3.9	6.3
5 Cereal grains and their products	(0.3)	3.6
<i>Source: National Consumer Price Index, Mid-April 2018</i>		

Non-food Inflation

8. Non-food inflation has moderated to 5.8 percent in mid-April 2018 from 6.3 percent a year ago. A slower growth in prices of clothes and footwear, furnishing and household equipment, education, among others accounted for a moderation in non-food inflation in the review month.

Region-wise Consumer Price Inflation

9. The Mountain region witnessed relatively higher rate of inflation of 7.0 percent followed by 6.0 percent in Hill, 5.7 percent in Terai and 4.3 percent in the Kathmandu Valley. In the corresponding period of the previous year, these regions had witnessed inflation rates of 2.8 percent, 5.6 percent, 3.4 percent and 2.7 percent respectively.

Inflation Differential between Nepal and India

10. The y-o-y consumer price inflation was slightly higher at 5.3 percent in Nepal in mid-April 2018 compared to 4.6 percent in India, showing inflation wedge of 0.7 percent between the two countries. A year ago, the rate of inflation was 3.8 percent in Nepal compared to 3.0 percent in India.

Wholesale Price Inflation

11. The y-o-y wholesale price inflation increased to 2.2 percent in mid-April 2018 from 1.2 percent a year ago. The surge in prices of imported commodities as well as domestic manufactured commodities contributed for a pick-up in overall wholesale price inflation in mid-April 2018.

National Salary and Wage Rate Index

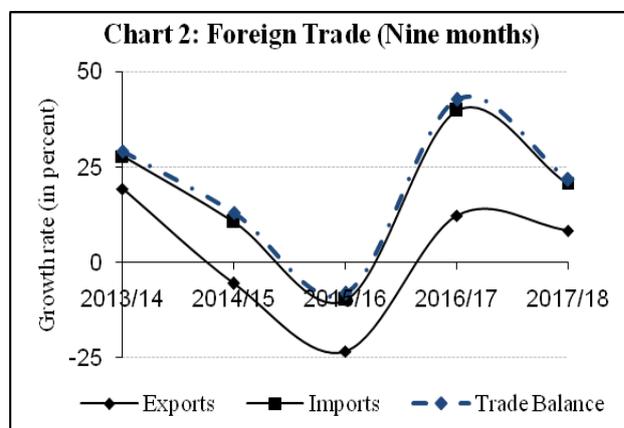
12. The y-o-y growth in salary and wage rate index moderated to 6.8 percent in mid-April 2018 from 14.7 percent a year ago. In the review period, the salary index increased 9.4 percent,

while the wage rate index grew 6.1 percent. The salary index of private institutions showed a significant growth of 36.3 percent in the review month.

External Sector

Merchandise Trade

13. During nine months of 2017/18, merchandise exports increased 8.2 percent to Rs. 59.74 billion compared to an increase of 12.1 percent in the same period of the previous year. Destination-wise, exports to India, China and other countries increased 6.9 percent, 58.9 percent and 7.1 percent in the review period. Commodity-wise, exports of cardamom, thread, polyester yarn, ginger, wire, among others, increased whereas exports of juice, G.I. pipes, woolen carpet, pashmina, handicrafts among others, decreased in the review period.
14. The growth in merchandise imports remained elevated at 20.6 percent to Rs. 876.29 billion in the review period compared to an increase of 39.7 percent in the same period of the previous year. Source-wise, imports from India, China and other countries increased 21.9 percent, 22.8 percent and 15.7 percent respectively in the review period. Commodity wise imports of petroleum products, other machinery & parts, vehicles & spare parts, cement, hot-rolled sheet in coil, among others, increased whereas imports of agri. equip. & parts, aircraft spareparts, sanitaryware, small cardamom, zinc ingot, among others, decreased in the review period.
15. 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.
16. Total trade deficit widened 21.7 percent to Rs. 816.55 billion in nine months of 2017/18. The export-import ratio declined to 6.8 percent in the review period from 7.6 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 1.7 percent while import price index increased 6.4 percent in mid-April 2018. Consequently, the TOT index decreased 4.4 percent as against an increase of 3.3 percent in the corresponding period of the previous year. Increase in price of export items such as tea, copper wires, brass sheet, catechu

among others caused the rise in export price index whereas uptick in the price of petroleum products, vehicles, tyres, refrigerator, laptop, among others resulted an increase in import price index in the review period.

Services

18. The total services receipts and expenses increased 4.8 percent and 13.1 percent respectively in the review period. As a result, net services receipts turned into a deficit of Rs. 2.79 billion in the review period as against a surplus of Rs. 6.42 billion in the same period of the previous year. Under the services account, travel receipts increased 14 percent to Rs. 50.30 billion in the review period. Such receipts had increased 45.3 percent in the same period of the previous year.

Workers' Remittances

19. The workers' remittances increased 5.6 percent to Rs. 540.38 billion in the review period compared to a rise of 6.3 percent in the same period of the previous year. However, net transfer receipts remained Rs. 621.66 billion in the review period. Such receipts had increased 9.9 percent in the same period of the previous year.
20. Based on approval, the number of Nepalese workers going for foreign employment (except renew entry) fell by 6.8 percent in the review period. It had decreased 3.2 percent in the same period of the previous year, too.

Box 2: Outflow of Nepalese Workers for Foreign Employment (Nine Months)				
Country	(No. of Labor)		Percentage Share	
	2016/17	2017/18	2016/17	2017/18
a) Institutional and Individual (New and Legalized)				
Malaysia	69638	89011	23.1	31.6
Qatar	99996	79607	33.1	28.3
U.A.E.	41570	44007	13.8	15.6
Saudi Arabia	62277	32361	20.6	11.5
Kuwait	10016	12151	3.3	4.3
Bahrain	3180	3855	1.1	1.4
South Korea	2151	3837	0.7	1.4
Oman	2513	2226	0.8	0.8
Afghanistan	1002	1149	0.3	0.4
Japan	1991	572	0.7	0.2
Israel	104	94	0	0
Lebanon	133	17	0	0
Others	7305	12518	2.4	4.4
Total	301876	281405	100	100
Percent Change	-3.2	-6.8	-	-
b) Renew Entry				
Renew Entry	203823	197517	-	-
Percent Change	14	-3.1	-	-
<i>Source: Department of Foreign Employment</i>				

Current Account and BOP Position

21. The persistent current account deficits since mid-January 2017 has been posing risk to external sector stability. The current account deficit widened further to Rs. 171.64 billion in the review period from a deficit of Rs. 10.34 billion in the same period of the previous year. The elevated level of imports widened the current account deficits. As a result, the overall BOP turned into a

deficit of Rs. 14.60 billion in contrast to a surplus of Rs. 50.60 billion in the same period of the previous year.

22. In the review period, the flow of foreign direct investment (FDI) amounted to Rs. 14.41 billion compared to Rs. 11.07 billion in the corresponding period of the previous year.

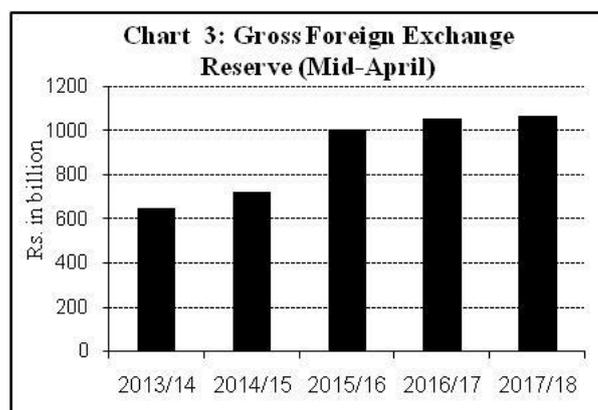
Box 3: External Sector (USD)*							
Particulars	(USD Million)						
	2015-16		2016-17		2017-18	Percent Change in Nine month	
	Nine Months	Annual	Nine Months	Annual	Nine Months	2016/17	2017/18
Goods Exports (FoB)	490.6	703.9	580.3	773.7	661.8	18.3	14.1
Goods Imports (FoB)	4788.3	7092.5	6692.8	9219.3	8364.5	39.8	25.0
Trade Balance	-4297.7	-6388.6	-6112.6	-8445.6	-7702.7	42.2	26.0
Travel Receipts	286.2	392.7	412.4	552.3	486.8	44.1	18.0
Workers' Remittances	4543.4	6253.4	4777.0	6556.3	5237.1	5.1	9.6
Current Account Balance	1271.8	1338.8	-95.6	-93.5	-1667.7	-	-
BOP (-Surplus)	-1546.2	-1779.4	-471.2	-776.6	143.7	-	-

** Data from BOP Presentation*

1. In the US dollar terms, total merchandise exports and imports increased 14.1 percent and 25 percent respectively in nine months of 2017/18. Exports and imports had increased 18.3 percent and 39.8 percent in the corresponding period of the previous year.
2. In the review period, travel receipts and workers' remittance increased 18 percent and 9.6 percent respectively. Travel receipts and workers' remittances had increased 44.1 percent and 5.1 percent respectively in the corresponding period of the previous year.
3. Current account recorded a deficit of USD 1667.7 million in the review period compared to a deficit of USD 95.6 million in the corresponding period of the previous year. Likewise, balance of payments (BOP) recorded a deficit of USD 143.7 million in the review period in contrast to a surplus of USD 471.2 million in the corresponding period of the previous year.

Foreign Exchange Reserves

23. The gross foreign exchange reserves decreased 1.4 percent to Rs. 1064.37 billion as at mid-April 2018 from Rs. 1079.43 billion as at mid-July 2017. Of the total foreign exchange reserves, reserves held by NRB increased 2.8 percent to Rs. 953.26 billion as at mid-April 2018 from Rs. 927.27 billion as at mid-July 2017. The reserves of banks and financial institutions (except NRB) decreased 27 percent to Rs. 111.11 billion as at mid-April 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-April 2018.



Foreign Exchange Adequacy Indicators

24. Based on the imports of nine 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 35.4 percent, 80.5 percent and 37 percent respectively as at mid-April 2018. Such ratios were 40.8 percent, 95.2 percent and 41.6 percent as at mid-July 2017.

Price of Oil and Gold

25. The price of oil (Crude Oil Brent) in the international market increased 32.9 percent to USD 73.18 per barrel in mid-April 2018 from USD 55.05 per barrel a year ago. The price of gold increased 4.6 percent to USD 1343.70 per ounce in mid-April 2018 from USD 1284.15 per ounce a year ago.

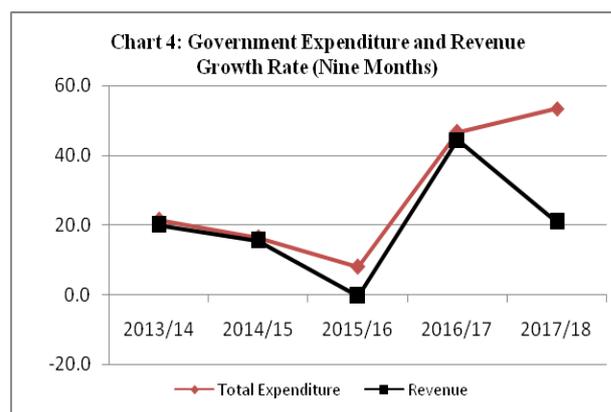
Exchange Rate

26. Nepalese currency vis-à-vis US dollar depreciated 1.2 percent in mid-April 2018 from the level of mid-July 2017. It had appreciated 3.5 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 104.12 in mid-April 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.112.75 billion in nine months of 2017/18 as against a surplus of Rs.11.83 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.643.64 billion. Such expenditure was Rs.419.93 billion in the corresponding period of the previous year.

*

Based on the data reported by 1 NRB office, 81 branches of Rastriya Banijya Bank Limited, 54 branches of Nepal Bank Limited, 38 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 and Sanima Bank Limited conducting government transactions and released report from 81 DTCOs and payment centers.

29. In the review period, recurrent expenditure stood at Rs.491.30 billion, which was Rs.305.77 billion in the corresponding period of the previous year. In the review period, capital expenditure increased 47.1 percent to Rs. 108.96 billion. Such expenditure was Rs.74.09 billion in the corresponding period of the previous year.

Box 4: The Budget Performance of 2017/18			
<i>(Rs. in billion)</i>			
Heads	Budget Estimates	Outturns in Nine Months*	As percent of Budget Estimates
Total Expenditure	1279.0	643.6	50.3
<i>Recurrent</i>	<i>803.5</i>	<i>491.3</i>	61.1
<i>Capital</i>	<i>335.2</i>	<i>109.0</i>	32.5
<i>Financial</i>	<i>140.3</i>	<i>43.4</i>	30.9
Revenue	730.1	505.9	69.3
* On cash basis			

Government Revenue

30. In the review period, the government revenue collection increased 20.8 percent to Rs.505.90 billion. Such revenue had increased 44.4 percent to Rs.418.95 billion in the corresponding period of the previous year.

Treasury Position of the GoN

31. The treasury surplus amounted to Rs. 288.64 billion (including Rs.121.91 billion balances on Local Authorities' Accounts) as of mid-April 2018.

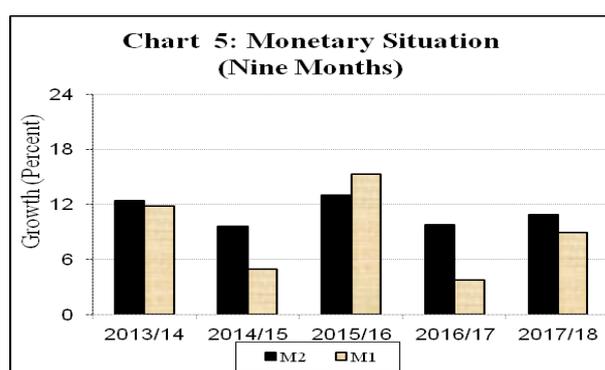
Monetary Situation

Money Supply

32. Broad money (M2) increased 10.9 percent in the review period compared to a rise of 9.8 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 16.6 percent in mid-April 2018.

33. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs. 14.60 billion (1.4 percent) in the review period compared to an increase of Rs. 50.60 billion (5.3 percent) in the corresponding period of the previous year.

34. Reserve money decreased 5.3 percent in the review period compared to an increase of 8.9 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 4.5 percent in mid-April 2018.



Domestic Credit

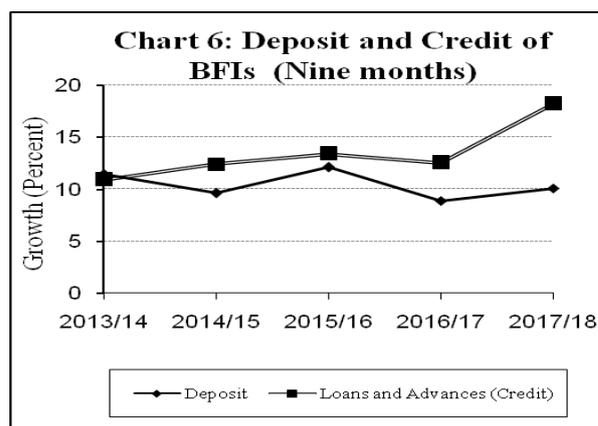
35. Domestic credit increased 12.6 percent in the review period compared to an increase of 9.0 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 24.6 percent in mid-April 2018.
36. Claims of monetary sector on the private sector increased 16.8 percent in the review period compared to a growth of 15.5 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 19.3 percent in mid-April 2018.

Deposit Collection

37. Deposits at Banks and Financial Institutions (BFIs) increased 10.1 percent in the review period compared to a growth of 8.9 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 15.3 percent in mid-April 2018.
38. Out of the total deposits at the BFIs, while the share of demand deposit increased from 7.5 percent a year ago to 8.7 percent in mid-April 2018, the share of fixed deposit rose from 40.6 percent a year ago to 44.9 percent in mid-April 2018. However, the share of saving deposits decreased from 36.6 percent a year ago to 35.8 percent in the review month.
39. The share of institutional deposits in total deposit of BFIs stood at 46.1 percent in mid-April 2018. Such share was 46.8 percent a year ago.

Credit Disbursement

40. Credit to the private sector from BFIs increased 16.9 percent in the review period compared to a growth of 15.6 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 16.2 percent, 24.7 percent and 10.0 percent respectively. On y-o-y basis, credit to the private sector from BFIs increased 19.5 percent in mid-April 2018.



41. Of the total outstanding credit of BFIs in mid-April 2018, 61.4 percent is against the collateral of land and building and 14.8 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 60.8 percent and 14.0 percent respectively a year ago.
42. Trust receipt loan extended by commercial banks increased 70.9 percent (Rs. 45.75 billion) to Rs. 110.28 billion in the review period compared to an increase of 3.2 percent in the corresponding period of the previous year.

43. In the review period, while hire purchase loan increased 10.0 percent, overdraft loan rose 14.0 percent. Likewise, real estate loan (including residential personal home loan) increased 13.3 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. Rs. 101.10 billion liquidity was mopped up in the corresponding period of the previous year.
45. In the review period, Rs. 98.91 billion liquidity was injected. Of which, Rs. 61.82 billion was injected through 14 days repo auction under interest rate corridor and Rs. 37.09 billion through outright purchase auction. In the corresponding period of the previous year, Rs. 61 billion liquidity was injected.
46. In the review period, BFIs utilized Rs. 29.86 billion Standing Liquidity Facility (SLF). In the corresponding period of the previous year, BFIs had utilized such facility of Rs. 61.74 billion.
47. In the review period, NRB injected net liquidity of Rs. 329.62 billion through the net purchase of USD 3.19 billion from foreign exchange market. Net liquidity of Rs. 327.60 billion was injected through the net purchase of USD 3.01 billion in the corresponding period of the previous year.
48. NRB purchased Indian currency (INR) equivalent to Rs. 382.47 billion through the sale of USD 3.66 billion and Euro 40 million in the review period. INR equivalent to Rs. 356.19 billion was purchased through the sale of USD 3.22 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-April 2018, the outstanding refinance amounted to Rs. 15.11 billion.
50. A sum of Rs. 1.50 billion housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims as of mid-April 2018. NRB provides refinance facility to BFIs at a zero percent interest to facilitate housing loan to earthquake victims.
51. As of mid-April 2018, the number of beneficiaries of the 5 percent interest subsidized lending scheme of the Government of Nepal stood at 6,956. They availed subsidized loans for selected agriculture and livestock businesses. Under this provision, Rs. 7.84 billion loan extended by BFIs is outstanding and Rs. 418 million interest subsidy has been provided.

Inter-bank Transaction

52. In the review period, inter-bank transactions among commercial banks stood at Rs. 882.87 billion and among other financial institutions (excluding transactions among commercial banks) amounted to Rs. 27.41 billion. Such transactions were Rs. 772.05 billion and Rs. 296.78 billion respectively in the corresponding period of the previous year.

Interest Rates

53. The weighted average 91-day Treasury bill rate increased to 4.98 percent in the ninth month of 2017/18 from 0.93 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.75 percent a year ago, increased to 4.12 percent in the review month. Likewise, the average base rate of commercial banks increased to 10.4 percent in the review month from 8.6 percent a year ago.

Merger/Acquisition

54. 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, 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

55. Of the total 753 local bodies formed in the process of implementing federalism, commercial banks have shown their presence in 424 bodies as of mid-April 2018. Province wise presence of commercial banks in local bodies is presented in Box 5 as of mid-April 2018.

Box 5: Province wise Presence of Commercial Banks in Local Bodies (as of mid-April 2018)		
Province	No. of Local Bodies	No. of Banks/ Branches
Province 1	137	82
Province 2	136	71
Province 3	119	76
Province 4	85	55
Province 5	109	74
Province 6	79	30
Province 7	88	36
Total	753	424

Capital Market

56. The NEPSE index on y-o-y basis decreased 24.7 percent to 1277.6 points in mid-April 2018. This index had increased 22 percent to 1697.1 points in mid-April 2017. Such index was 1582.7 points in mid-July 2017.

57. The stock market capitalization on y-o-y basis decreased 23.2 percent to Rs. 1497.80 billion in mid-April 2018. This had increased 30.4 percent a year ago. The ratio of market

capitalization to GDP of 2017/18 stood at 49.8 percent in mid-April 2018. This ratio was 73.8 percent a year ago. In the total market capitalization, the share of banks, financial institutions and insurance companies stood at 81.3 percent, hydropower 4.4 percent, manufacturing and processing companies 2.7 percent, hotels 1.6 percent, trading 0.1 percent, and others 9.8 percent respectively.

58. During the ninth month of 2017/18, the total turnover of the securities decreased 71 percent to Rs. 8.50 billion. The turnover of the securities had increased 107.2 percent to Rs. 2.93 billion in the corresponding period of the previous year.

59. Due to the merger and acquisitions of BFIs, the total number of companies listed at the NEPSE decreased to 196 in mid-April 2018 from 210 a year ago. Of the listed companies, 148 are BFIs (including insurance companies), 18 manufacturing and processing industries, 18 hydropower companies, 4 each hotels and trading institutions and 4 other sectors.

60. On y-o-y basis, total paid-up value of the listed shares increased 25.8 percent to Rs. 339.29 billion in mid-April 2018. Total additional securities worth Rs. 118.27 billion were listed in the NEPSE during the review period. These consisted of ordinary shares of Rs. 30.21 billion, right shares of Rs. 27.24 billion, bonus shares of Rs. 23.73 billion and government securities of Rs. 36.47 billion.

