



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

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

Major Highlights

- Inflation remained 4.4 percent on y-o-y basis and 4.2 percent on average during seven months.
- Import expanded 26.0 percent and export 11.5 percent.
- Remittances increased 28.5 percent in NPR and 16.0 percent in US Dollars.
- Balance of Payments remained at a deficit of Rs.49.32 billion.
- Government spending based on banking transactions decreased 3.1 percent, whereas revenue collection increased 22.1 percent.
- Broad money (M2) increased 7.5 percent. On y-o-y basis, M2 increased 19.2 percent.
- Deposits at Banks and Financial Institutions increased 8.7 percent and bank credit to the private sector 14.0 percent. On y-o-y basis, deposits increased 21.3 percent and credit 23.0 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 4.4 percent in mid-February 2019 compared to 5.0 percent a year ago.

Food and Beverage Inflation

2. Food and beverage inflation stood at 2.5 percent in mid-February 2019 compared to 4.0 percent a year ago.

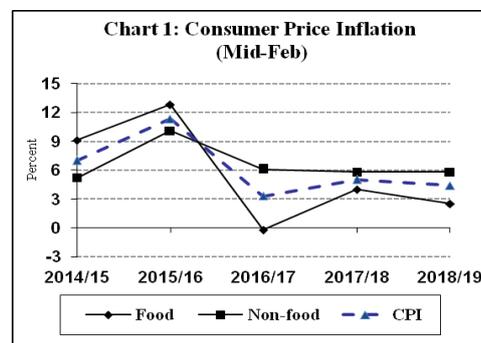


Table 1: Y-O -Y Food and Beverage Inflation (Mid-Feb)

Particulars	Inflation (Percent)	
	2017/18	2018/19
Food and Beverage Inflation	4.0	2.5
1. Vegetable	25.5	(11.7)
2. Pulses and Legumes	(27.0)	(3.9)
3. Sugar and Sugar products	(2.5)	(2.7)

Non-food and Service Inflation

- Non-food and service inflation stood at 5.8 percent in mid-February 2019, the same rate as in mid-February 2018.

Particulars	Inflation (Percent)	
	2017/18	2018/19
Non-Food and Service Inflation	5.8	5.8
1. Clothes and Footwear	6.2	7.0
2. Housing and Utilities	8.2	7.4
3. Transportation	1.5	6.7

Region-wise Consumer Price Inflation

- The Mountain region witnessed 5.3 percent inflation followed by 5.2 percent in the Kathmandu Valley, 4.9 percent in the Hill region and 3.4 percent in the Terai region in mid-February 2019. These regions had witnessed 5.4 percent, 4.0 percent, 5.1 percent and 5.6 percent inflation respectively in the corresponding period of the previous year.

Inflation in Nepal and India

- The y-o-y consumer price inflation in Nepal (mid-February 2019) and India (February 2019) stood at 4.4 percent and 2.6 percent respectively. Such rate of inflation was 5.0 percent in Nepal compared to 4.4 percent in India a year ago.

Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 5.2 percent in mid-February 2019 compared to 2.2 percent a year ago. A hike in price of petroleum products, textiles, transport, equipments and parts, among others, contributed to the rise in overall wholesale price inflation in the review period.

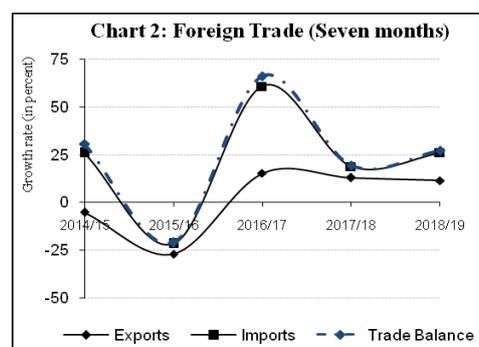
National Salary and Wage Rate Index

- The salary and wage rate index increased 11.3 percent in mid-February 2019 compared to 6.6 percent a year ago. In the review period, the salary index and the wage rate index increased 6.6 percent and 12.6 percent respectively.

External Sector

Merchandise Trade

- In seven months of 2018/19, merchandise exports increased 11.5 percent to Rs.53.08 billion compared to an increase of 12.9 percent a year ago. Destination-wise, exports to India and Other countries increased 21.1 percent and 1.4 percent respectively whereas export to China decreased 31.1 percent. Mainly exports of polyester yarn, zinc sheet, pulses, herbs, woollen carpet, jute products, among others, increased whereas export of cardamom, tanned skin, rosin, shoes and sandals, medicine (ayurvedic), among others, decreased in the review period.



9. In seven months of 2018/19, merchandise imports increased 26.0 percent to Rs.833.27 billion compared to an increase of 18.9 percent in the same period of the previous year. Destination-wise, imports from India, China and other countries increased 24.8 percent, 36.6 percent and 23.2 percent respectively. Commodity-wise imports of petroleum products, M.S. billet, aircraft spare parts, readymade garments, other machinery & parts, among others, increased whereas imports of telecommunication equipment and parts, cement, 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 customs points increased. On the import side, imports from Kanchanpur Customs Office decreased and imports from all other customs points increased in the review period.
11. Total trade deficit further widened 27.1 percent to Rs.780.19 billion in seven months of 2018/19. The export-import ratio declined to 6.4 percent in the review period from 7.2 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 3.0 percent whereas import price index increased 4.1 percent in mid-February 2019. The terms of trade (TOT index) decreased 1.1 percent in the review period as against a decrease of 5.0 percent in the corresponding period of the previous year.

Services

13. Net services receipt turned into a deficit of Rs.10.78 billion in the review period from Rs.2.96 billion a year ago.
14. Under the service account, travel receipt increased 11.1 percent to Rs.41.97 billion in the review period. Such receipt was Rs.37.78 billion in the same period of the previous year.
15. Under the service account, travel payments increased 26.8 percent to Rs.54.96 billion, including Rs.28.66 billion for education. Such travel payment was Rs.43.35 billion in the same period of the previous year.

Remittances

16. The remittances increased 28.5 percent to Rs.515.55 billion in the review period compared to an increase of 1.7 percent in the same period of the previous year. In the US Dollar terms, remittances increased 16.0 percent in the review period compared to 6.4 percent in the corresponding period of the previous year.
17. Net transfer receipt increased 27.3 percent to Rs.586.55 billion in the review period. Such receipt had decreased 3.0 percent in the same period of the previous year.
18. The number of Nepalese workers (Institutional and Individual-new and legalized) migrated for foreign employment decreased 39.2 percent in the review period. It had decreased 4.9 percent

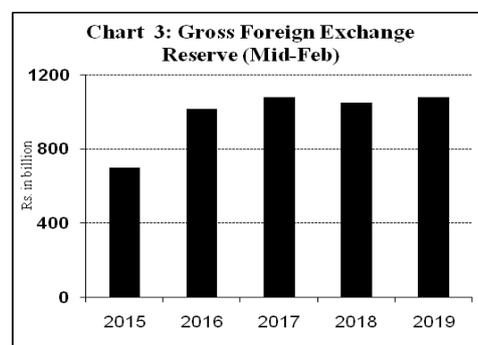
in the same period of the previous year. Moreover, the number of Nepalese workers (Renew entry) migrated for foreign employment increased 4.9 percent in the review period. It had decreased 1.6 percent in the same period of the previous year.

Current Account and BOP Position

19. The current account registered a deficit of Rs.166.24 billion in the review period. Such deficit was Rs.142.09 billion in the same period of the previous year. In the US Dollar terms, the current account deficit widened 1.46 billion in the review period compared to 1.38 billion in the corresponding period of the previous year.
20. The overall BOP remained at a deficit of Rs.49.32 billion in the review period compared to a deficit of Rs.18.28 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a deficit of 433.0 million in the review period compared to a deficit of 179.1 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.7.43 billion and Rs.5.15 billion respectively. In the same period of the previous year, capital transfer and FDI amounted to Rs.10.64 billion and Rs.14.34 billion respectively.

Foreign Exchange Reserves

22. The gross foreign exchange reserves stood at Rs.1078.36 billion as at mid-February 2019 from Rs.1102.59 billion as at mid-July 2018. In the US Dollar terms, the gross foreign exchange reserves remained 9.49 billion as at mid-February 2019 from 10.08 billion as at mid-July 2018.



23. Of the total foreign exchange reserves, reserves held by NRB remained at Rs.937.35 billion as at mid-February 2019 from Rs.989.40 billion as at mid-July 2018. However, reserves held by banks and financial institutions (except NRB) increased to Rs.141.0 billion as at mid- February 2019 from Rs.113.19 billion as at mid-July 2018. The share of Indian currency in total reserves stood at 24 percent as at mid-February 2019.

Foreign Exchange Adequacy Indicators

24. Based on the imports of seven months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 9.2 months, and merchandise and services imports of 8.0 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 35.9 percent, 66.9 percent and 32.4 percent respectively as at mid-February 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 0.6 percent to USD 62.58 per barrel in mid-February 2019 from USD 62.20 per barrel a year ago. The price of gold decreased 0.9 percent to USD 1310 per ounce in mid-February 2019 from USD 1322.30 per ounce a year ago.

Exchange Rate

26. Nepalese currency vis-à-vis US dollar depreciated 3.7 percent in mid-February 2019 from mid-July 2018. It had appreciated 0.1 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.113.58 in mid-February 2019 compared to Rs.109.34 in mid-July 2018.

Fiscal Situation*

Fiscal Deficit/ Surplus

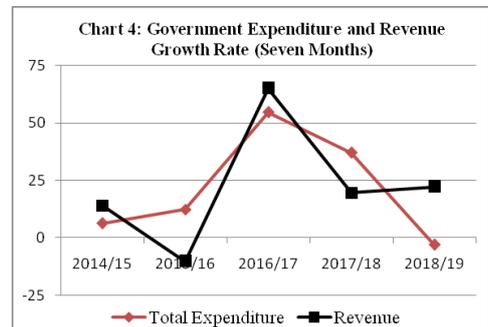
27. Government's fiscal position remained at a surplus of Rs.57.74 billion in seven months of 2018/19, which was at a deficit of Rs.26.47 billion in the corresponding period of the previous year.

Government Expenditure and Revenue

28. In the review period, total expenditure of the federal government (based on banking transactions) stood at Rs.415.51 billion. Total government expenditure was Rs.428.88 billion in the corresponding period of the previous year.
29. In the review period, revenue collected by federal government (including the amount to be transferred to provincial and local governments) increased 22.1 percent to Rs.465.74 billion. Total government revenue had increased 19.5 percent to Rs.381.34 billion in the corresponding period of the previous year.

Cash Balance of the Government of Nepal

30. The total balance of all accounts of the GoN maintained with NRB remained at Rs.179.75 billion (including Rs.50.52 billion in Local Levels' account) as of mid-February 2019.

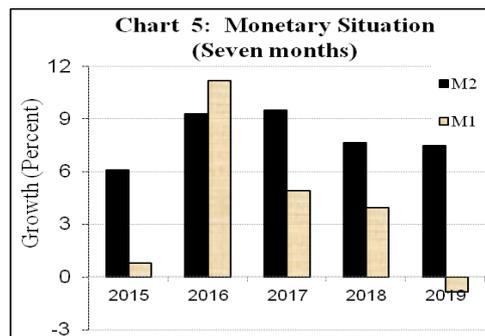


* Based on data reported by banking office of NRB and commercial banks conducting government transactions and report released from 81 DTCOs and payment centres.

Monetary Situation

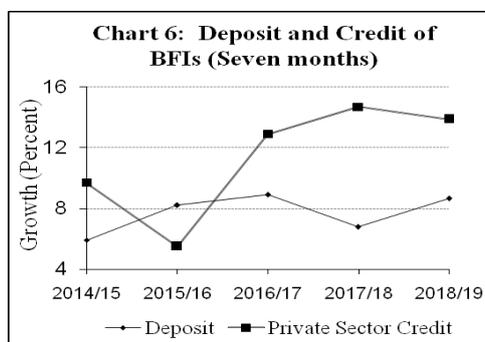
Money Supply

31. Broad money (M2) increased 7.5 percent in the review period compared to a rise of 7.7 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 19.2 percent in mid-February 2019.
32. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs.49.32 billion (4.7 percent) in the review period compared to a decrease of Rs.18.28 billion (1.8 percent) in the corresponding period of the previous year.
33. Reserve money decreased 13.4 percent in the review period compared to a decrease of 5.2 percent in the corresponding period of the previous year. On y-o-y basis, reserve money decreased 1.3 percent in mid-February 2019.



Domestic Credit

34. Domestic credit increased 10.3 percent in the review period compared to an increase of 9.2 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 27.8 percent in mid-February 2019.
35. Claims of monetary sector on the private sector increased 14.5 percent in the review period compared to a growth of 14.1 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 22.8 percent.



Deposit Collection

36. Deposits at Banks and Financial Institutions (BFIs) increased 8.7 percent in the review period compared to a growth of 6.8 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 21.3 percent in mid-February 2019.

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

Deposits	Mid-Jul			Mid-Feb	
	2016	2017	2018	2018	2019
Demand	9.1	8.7	9.3	8.2	8.7
Saving	43.3	35.4	34.5	36.6	33.5
Fixed	30.5	43.2	44.8	43.9	47.6
Other	17.0	12.7	11.3	11.3	10.2

37. The share of demand, saving and fixed deposits in total deposits stands at 8.7 percent, 33.5 percent and 47.6 percent respectively in mid-February 2019. Such share was 8.2 percent, 36.6 percent and 43.9 percent respectively a year ago.
38. The share of institutional deposits in total deposit of BFIs stands at 44.8 percent in mid-February 2019. Such share was 44.0 percent in mid-February 2018.

Credit Disbursement

39. Credit to the private sector from BFIs increased 14.0 percent in the review period compared to a growth of 13.5 percent in the corresponding period of the previous year. In the review period, private sector credit increased 13.1 percent from commercial banks, 21.8 percent from development banks and 11.8 percent from finance companies. On y-o-y basis, credit to the private sector from BFIs increased 23.0 percent in mid-February 2019.
40. Of the total outstanding credit of BFIs in mid-February 2019, 63.4 percent is against the collateral of land and building and 14.5 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 61.5 percent and 14.6 percent respectively a year ago.
41. In the review period, term loan extended by BFIs increased 19.0 percent, overdraft increased 10.3 percent, trust receipt (import) loan increased 19.2 percent, demand and working capital loan increased 18.6 percent, real estate loan (including residential personal home loan) increased 7.0 percent and hire purchase loan increased 7.5 percent.

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. NRB injected Rs. 21.03 billion liquidity through repo auctions under open market operations in the review period. Rs. 90.40 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.24.08 billion was utilized in the corresponding period of the previous year.
45. In the review period, NRB injected net liquidity of Rs.197.66 billion through the net purchase of USD 1.72 billion from foreign exchange market. Net liquidity of Rs.236.65 billion was injected through the net purchase of USD 2.30 billion in the corresponding period of the previous year.
46. NRB purchased Indian currency (INR) equivalent to Rs.311.05 billion through the sale of USD 2.48 billion, Euro 28 million, GBP 20 million, Japanese Yen 18 billion and Chinese Yuan 200 million in the review period. INR equivalent to Rs.284.79 billion was purchased through the sale of USD 2.72 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.17.70 billion in mid-February 2019.

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-February 2019. The number of earthquake victims utilizing such loan is 1576.
49. As of mid-February 2019, the number of beneficiaries from the 5 percent interest subsidized lending scheme of the GoN stood at 10,487. They availed subsidized loans for selected agriculture and livestock businesses. Under this provision, Rs.18.64 billion loan extended by BFIs has been outstanding and Rs.885.5 million interest subsidy has been provided.

Inter-bank Transaction

50. In the review period, inter-bank transactions among commercial banks stood at Rs.860.76 billion and among other financial institutions (excluding transactions among commercial banks) amounted to Rs.165.56 billion. Such transactions were Rs.694.16 billion and Rs.14.38 billion respectively in the corresponding period of the previous year.

Interest Rates

51. The weighted average 91-day Treasury bills rate decreased to 3.44 percent in the seventh month of 2018/19 from 3.93 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 4.31 percent a year ago, increased to 5.82 percent in the review month. Likewise, the average base rate of commercial banks decreased to 9.69 percent in the review month from 10.19 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 6.67 percent and 12.34 percent respectively in the review month. Such rates were 6.38 percent and 11.90 percent respectively in the corresponding month of the previous year.

Merger/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, 164 BFIs were involved in merger and acquisition. Out of which, the license of 122 BFIs was revoked, thereby forming 42 BFIs in the review period.

Financial Access

53. Of the total 753 local levels, commercial banks extended their branch network in 711 levels as of mid-February 2019 (Table 4).
54. The total number of BFIs licensed by NRB increased to 157 in mid-February 2019 from 151 in mid-July 2018 (Table 5). In mid-February 2019, the number of commercial banks is 28, development banks 33, finance companies 24 and microfinance financial

Province	No. of Local Levels	Local Levels having Bank Branches
Province 1	137	129
Province 2	136	133
Province 3	119	114
Gandaki	85	82
Province 5	109	107
Karnali	79	64
Far West	88	82
Total	753	711

institutions 72. The branch network of BFIs expanded to 7731 in mid-February 2019 from 6651 in mid-July 2018.

Bank and Financial Institutions	Number of BFIs		Branches of BFIs	
	Mid-Jul 2018	Mid-Feb 2019	Mid-Jul 2018	Mid-Feb 2019
Commercial Banks	28	28	3023	3266
Development Banks	33	33	993	1181
Finance Companies	25	24	186	197
Microfinance Financial Institutions	65	72	2449	3087
Total	151	157	6651	7731

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

Capital Market

55. The NEPSE index on y-o-y basis decreased 18.3 percent to 1128.2 points in mid-February 2019 in comparison to 1380.3 points in mid- February 2018. Such index was 1212.4 points in mid-July 2018.

56. The stock market capitalization on y-o-y basis decreased 14.7 percent to Rs.1377.15 billion in mid-February 2019 against an increase of 10.7 percent a year ago. The ratio of market capitalization to last year's GDP stood at 45.8 percent in mid-February 2019. This ratio was 62.1 percent a year ago.

57. The total number of companies listed at the NEPSE remained 203 in mid- February 2019. Of the listed companies, 149 are financial sector including BFIs and insurance companies, 18 manufacturing and processing industries, 24 hydropower companies, 4 each hotels and trading institutions and 4 other sectors.

58. Total paid-up value of the listed shares stood at Rs.387.69 billion in mid- February 2019. Total additional securities worth Rs.29.13 billion were listed in the NEPSE during the first seven months of 2018/19. These consisted of ordinary shares of Rs.15.09 billion, right shares of Rs.7.39 billion and bonus shares of Rs.6.65 billion.

