



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

(Based on Ten Months' Data of 2016/17)

Macrofinancial Outlook

1. Most of the macro-financial data of the first ten months of 2016/17 show that the economy is gaining traction. The GDP growth estimate of 6.9 percent released by the Central Bureau of Statistics recently is reflective of optimistic growth outlook at least in near term.
2. However, sustaining the current economic growth over the next fiscal year is contingent upon the acceleration in reconstruction works, expediting the mega projects and maintaining the recent improvement in power supply.
3. Acceleration in reconstruction works will potentially increase trade deficit further at least in near term. Expected increase in foreign aid and foreign direct investment will, however, keep the country's balance of payment in surplus.
4. Decelerated growth in migrant workers' remittances is moderating deposit growth. Bridging the gap between deposit and credit growth is crucial in reducing financial frictions going forward.

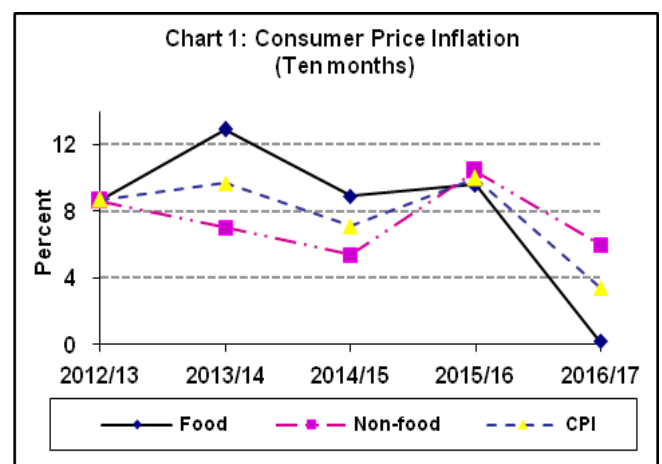
Inflation, Salary and Wage Rate

Consumer Price Inflation

5. Consumer price inflation has decelerated to 3.4 percent in mid-May 2017 from 10 percent in mid-May 2016. The decline in y-o-y inflation is mainly on account of the previous year's base price effect and improved supply situation.

Food Inflation

6. The food inflation dropped to 0.2 percent in mid-May 2017 from 9.6 percent in the corresponding period of the previous year. A fall in prices of pulses and legumes by 13.4 percent, vegetable by 13.1 percent and ghee and oil by 1.9 percent accounted for such a decline in food



inflation. Of food and beverage group, the prices of sugar and sugar products increased by 12.7 percent and alcoholic drinks by 10.7 percent in the review period.

Box 1: Y-O -Y Food Inflation (Ten Months)		
Particulars	Inflation (Percent)	
	2072/73	2073/74
Food Inflation	9.6	0.2
1 Pulses and Legumes	23.4	(13.4)
2 Vegetable	20.1	(13.1)
3 Alcoholic drinks	15.9	10.7
4 Spices	14.1	3.4
5 Sugar and Sugar products	12.5	12.7
6 Ghee and Oil	12.4	(1.9)
7 Restaurant and Hotel	10.1	5.9
<i>Source: National Consumer Price Index, Mid-May 2017</i>		

Non-food Inflation

7. The non-food inflation also moderated to 6 percent during the review period from 10.4 percent in the corresponding period of the previous year. The decline in growth rate of prices of clothes and footwear, housing and utilities, communication and health, among others, contributed to the moderation in non-food inflation in the review period.

Region-wise Consumer Price Inflation

8. The Hilly region witnessed relatively a higher rate of inflation of 4 percent followed by Terai region (3.6 percent), Mountain region (2.8 percent) and the Kathmandu Valley (1.9 percent) in the review period. In the corresponding period of the previous year, Hilly region, Terai region, Mountain region and the Kathmandu Valley had witnessed inflation rate of 11 percent, 8.6 percent, 9.1 percent and 11.5 percent respectively.

Wholesale Price Inflation

9. The y-o-y wholesale price inflation dropped to 1.5 percent in the review period from 5.8 percent a year ago. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities showed a growth of 0.5 percent, 4.5 percent and 1.8 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.

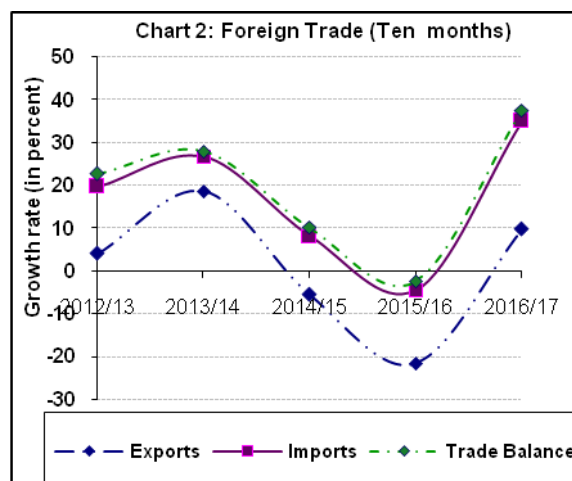
National Salary and Wage Rate

10. The y-o-y salary and wage rate index rose 14.9 percent in the review period compared to 5.3 percent in the corresponding period of the previous year. In the review period, the salary index increased by 18.9 percent, while the wage rate index grew by 14 percent. The hike in pay scale of civil service drove up the salary and wage rate index in the review period. The salary indices of civil service, army and police forces and public corporation sub-groups increased by 24.2 percent, 23.6 percent and 21.7 percent respectively in the review period. Likewise, wage rate indices of agricultural laborer, industrial laborer and construction laborer witnessed a growth of 13.1 percent, 16.9 percent and 11.8 percent respectively in the review period.

External Sector

Merchandise Trade

11. In the first ten months of 2016/17, merchandise exports increased 9.8 percent to Rs. 61.02 billion compared to a drop of 21.7 percent in the same period of the previous year. In the review period, exports to India, China and other countries increased 15 percent, 5.6 percent and 3.1 percent respectively. Commodity wise, exports of juice, oil cakes, jutes goods, G.I. pipe, noodles among others increased whereas export of woolen carpet, readymade garments, cardamom, polyester yarn, tea, among others, decreased in the review period.



12. Merchandise imports increased 34.9 percent to Rs. 808.68 billion in the review period compared to a drop of 4.6 percent in the same period of the previous year. In the review period, imports from India, China and Other countries increased 43.7 percent, 12.5 percent and 26.9 percent respectively. Commodity wise, imports of petroleum products, vehicles and spare parts, MS billet, aircraft spare parts, other machinery and parts, among others, increased whereas imports of chemical fertilizer, medicine, coldrolled-sheet in coil, dry cell battery, betulnut, among others, decreased in the review period.
13. Based on customs points, the exports through Dry Port Customs Office, Biratnagar Customs Office, Mechi Customs Office, Kailali Customs Office and Jaleshwar Customs Office decreased whereas exports from other customs points increased in the review period. On the import side, imports through Bhairahawa Customs Office and Kailali Customs Office decreased whereas imports through other customs points increased in the review period.
14. Total trade deficit in the review period widened 37.5 percent to Rs 747.65 billion as against a contraction of 2.4 percent in the same period of the previous year. The export-import ratio declined to 7.5 percent in the review period from 9.3 percent in the corresponding period of the previous year.

Export-Import Price Index

15. The y-o-y unit value export price index based on customs data increased 5.8 percent while import price index increased 4.1 percent in the ten months of 2016/17. Consequently, the TOT index improved 1.6 percent compared to an increase of 26.1 percent in the corresponding period of the previous year. Increase in price of export items such as carpet, cardamom, pashmina, amliso, ginger caused the rise in export price index in the review period. Increase in the price of petroleum products, vehicles, tyre, copper wire, lubricants resulted in an increase in import price index in the review period.

Services

16. The total services receipts increased 17.9 percent and expenses rose 20.3 percent in the review period. As a result, net services surplus stood at Rs. 7.76 billion in the review period compared to Rs. 8.77 billion in the same period of the previous year. Under the services account, travel receipts increased 44.8 percent to Rs. 50.97 billion in the review period. Such receipts had decreased 22.8 percent in the same period of the previous year.

Workers' Remittances

17. The workers' remittances increased 5.2 percent to Rs. 566.97 billion in the review period compared to a growth of 10.2 percent in the corresponding period of the previous year. Consequently, net transfer receipts increased 10.3 percent to Rs. 692.76 billion in the review period. Such receipts had increased 11.8 percent in the same period of the previous year.

Current Account and BOP

18. The current account slipped into deficit by Rs. 7.57 billion in the review period on account of sharp increase in imports and slow growth of remittances. The current account was in surplus at a significant level of Rs. 134.30 billion in the same period of the previous year. The overall BOP recorded a surplus of Rs. 53.84 billion in the review period compared to a surplus of Rs. 166.83 billion in the same period of the previous year.
19. Capital transfer of Rs. 11.30 billion and Foreign Direct Investment (FDI) inflows of Rs. 11.61 billion were recorded in the review period. In the same period of the previous year, capital transfer and FDI inflows were Rs. 11.59 billion and Rs. 4.64 billion respectively.

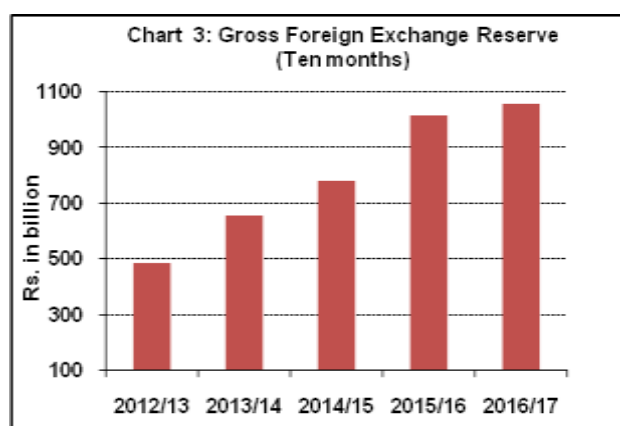
Particulars	2014-15		2015-16		2016-17	Percentage Change in Ten months	
	Ten Months	Annual	Ten Months	Annual	Ten Months	2015/16	2016/17
Goods Exports (FoB)	820.0	988.1	558.2	703.9	644.5	-31.9	15.5
Goods Imports (FoB)	6244.7	7657.6	5519.8	7092.5	7488.4	-11.6	35.7
Trade Balance	-5424.7	-6669.5	-4961.6	-6388.6	-6843.9	-8.5	37.9
Total Trade	7064.7	8645.6	6078.0	7796.3	8132.9	-14.0	33.8
Travel Receipts	459.7	536.7	331.7	392.7	479.0	-27.8	44.4
Workers' Remittances	4934.0	6192.0	5080.8	6253.4	5311.3	3.0	4.5
Current Account Balance	705.1	1067.3	1282.3	1338.8	-68.7	-	-
BOP (-Surplus)	-1006.5	-1437.0	-1574.5	-1779.8	-502.7	-	-

** Data from BOP Presentation*

1. In the US dollar terms, total merchandise exports and imports increased 15.5 percent and 35.7 percent respectively in the first ten months of 2016/17. Exports and imports had decreased 31.9 percent and 11.6 percent respectively in the corresponding period of the previous year.
2. In the review period, travel receipts increased 44.4 percent and worker's remittance rose 4.5 percent. Travel receipts had decreased 27.8 percent and remittances had increased 3.0 percent in the corresponding period of the previous year.
3. Current account recorded a deficit of USD 68.7 million in the review period. It was in surplus of USD 1338.8 million in the corresponding period of the previous year. Likewise, Balance of Payments (BOP) recorded a surplus of USD 502.7 million in the review period compared to the surplus of USD 1779.8 million in the corresponding period of the previous year.

Foreign Exchange Reserves

20. The gross foreign exchange reserves increased 1.8 percent to Rs. 1058.28 billion as at mid-May 2017 from Rs. 1039.21 billion in mid-July 2016. Of the total foreign exchange, reserves held by NRB increased 1.2 percent to Rs. 897.74 billion as at mid-May 2017 from Rs. 887.01 billion as at mid-July 2016. Similarly, the reserves of banks and financial institutions (except NRB) increased 5.5 percent to Rs. 160.54 billion as at mid-May 2017 from Rs. 152.20 billion as at mid-July 2016. The share of Indian currency in total reserves stood at 22.8 percent as at mid-May 2017.



Foreign Exchange Adequacy Indicators

21. Based on the imports of the first ten months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 13.2 months, and merchandise and services imports of 11.4 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 40.7 percent, 95.3 percent and 42.7 percent respectively as at mid-May 2017. Such ratios were 46.2 percent, 117.4 percent and 46.3 percent as at mid-July 2016.

Price of Oil and Gold in the International Market and Exchange Rate Movement

22. The price of oil (Crude Oil Brent) in the international market increased 4.3 percent to USD 49.08 per barrel in mid-May 2017 from USD 47.05 per barrel a year ago. The price of gold decreased 2.7 percent to USD 1231.25 per ounce in mid-May 2017 from USD 1265.90 per ounce a year ago.
23. Nepalese currency vis-à-vis the US dollar appreciated 4 percent in mid-May 2017 from mid-July 2016. It had depreciated 4.8 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 102.61 in mid-May 2017 compared to Rs. 106.73 in mid-July 2016.

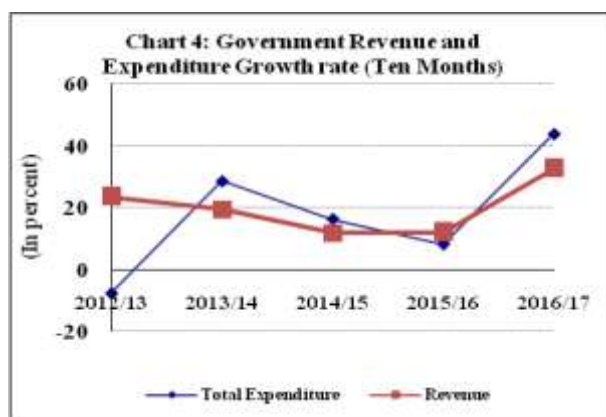
Fiscal Situation *

Budget Deficit / Surplus

24. In the first ten months of 2016/17, the Government of Nepal (GoN) was at a surplus of Rs. 59.91 billion in its budget. Such surplus was Rs. 64.82 billion in the corresponding period of the previous year.

Government Expenditure

25. In the review period, total government expenditure on a cash basis increased 43.7 percent to Rs. 478.63 billion. Such expenditure had increased just 8 percent to Rs. 333.14 billion in the corresponding period of the previous year.



26. In the review period, recurrent expenditure increased 43.2 percent to Rs. 344.99 billion.

Such expenditure had stood at Rs. 240.99 billion in the corresponding period of the previous year. In the review period, capital expenditure increased to Rs. 90.24 billion. Such expenditure was Rs. 42.99 billion in the corresponding period of the previous year.

Government Revenue

27. In the review period, the government revenue collection increased 32.6 percent to Rs. 464.42 billion. Such revenue had increased 11.9 percent to Rs. 350.27 billion in the corresponding period of the previous year. Higher growth rate of major tax heads such as value added tax, income tax, customs and excise duty contributed to the overall rise in revenue collection in the review period.

Cash Balance of the GoN

28. Because of a slow pace of government expenditure relative to

Box 3: The Budget Performance			
(Rs. in millions)			
Heads	Budget Estimates	Outturns in Ten Months*	As percent of Budget Estimates
Total Expenditure	1048921.4	478629.9	45.6
Recurrent	617164.13	344986.1	55.9
Capital	311946.33	90242.6	28.9
Financial	119810.9	43401.2	36.2
Revenue	565896.5	464416.8	82.1

* On cash basis

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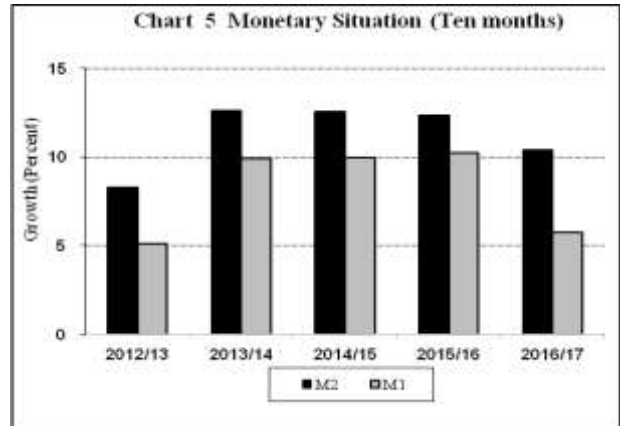
Based on the data reported by 8 NRB offices, 69 branches of Rastriya Banijya Bank Limited, 49 branches of Nepal Bank Limited, 24 branches of Agricultural Development Bank Limited, 9 branches of Everest Bank Limited, 4 branches of Global IME Bank Limited and 1 branch each from Nepal Bangladesh Bank Limited, NMB Bank Limited, Bank of Kathmandu Lumbini Limited and Century Commercial Bank Limited conducting government transactions and released report from 79 DTCOs and payment centers.

resource mobilization, the GoN accumulated cash balance of Rs. 262.35 billion at Nepal Rastra Bank as of mid-May 2017.

Monetary Situation

Money Supply

29. Broad money (M2) increased 10.4 percent in the review period compared to a rise of 12.3 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 17.5 percent in mid-May 2017.
30. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 53.84 billion between mid-July 2016 and mid-May 2017 compared to an increase of Rs.166.83 billion in the corresponding period of the previous year.



31. Reserve Money increased 5 percent in the review period as against a decline of 2.1 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 12.1 percent in mid-May 2017.

Domestic Credit

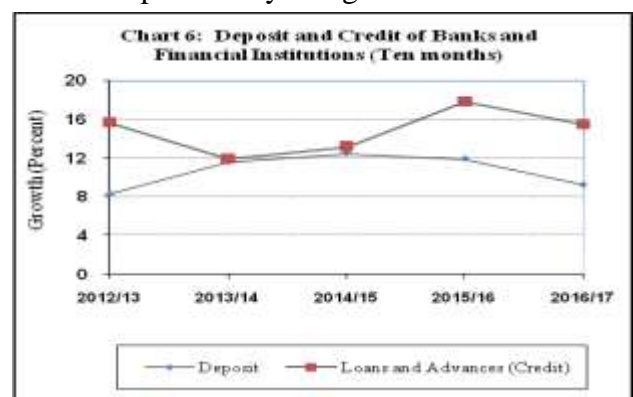
32. Domestic credit expanded 10.5 percent in the review period compared to a growth of 6.4 percent in the same period of the previous year. On y-o-y basis, domestic credit increased 22.8 percent in mid-May 2017.
33. Claims of monetary sector on the private sector increased 17.1 percent in the review period compared to a growth of 16.5 percent in the previous year. On y-o-y basis, claims on the private sector increased 23.7 percent in mid-May 2017.

Deposit Collection

34. Deposits at Banks and Financial Institutions (BFIs) increased 9.3 percent in the review period compared to an increase of 11.9 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 16.6 percent in mid-May 2017. Such growth was 19.5 percent a year ago. 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 36.2 percent from 43.7 percent, the share of fixed deposits increased to 42.6 percent in mid-May 2017 from 29.7 percent a year ago.

Credit Disbursement

35. Credit to the private sector from BFIs increased 16.6 percent in the review period compared to a rise of 16.2 percent in the same period of the



previous year. In the review period, private sector credit from commercial banks and development banks increased 19.7 percent and 2.5 percent respectively, while that of finance companies decreased 1.7 percent. On y-o-y basis, credit to the private sector from BFIs increased 24.1 percent in mid-May 2017 compared to an increase of 21.1 percent a year ago.

36. Credit to the agriculture sector increased 10.8 percent, industrial production sector 12.4 percent, construction sector 18.4 percent, wholesale and retail trade sector 13.8 percent, service sector 16.8 percent and transport, communication and public sector 26.1 percent in the review period.

37. Of the total outstanding credit of BFIs, 61 percent is against the collateral of land and building and 13.9 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 61.5 percent and 14.2 percent respectively in the same period of the previous year.

38. The BFIs loan on overdraft, margin nature, real estate and hire purchase was 42.2 percent of total outstanding loan in mid-May 2017. On y-o-y basis, the outstanding loan of BFIs in these areas has increased by 29.2 percent in mid-May 2017.

Box 4: Outstanding loan of BFIs in some areas				
<i>(Rs. in billion)</i>				
Headings	2015/16		2016/17	
	Mid-Jul	Mid-May	Mid-Jul	Mid-May
Overdraft	246.0	277.1	294.3	343.2
Real Estate & Personal Residential Home Loan	204.6	233.8	250.9	293.7
Hire Purchase	81.0	96.2	110.1	150.4
Margin Nature Loan	24.1	32.2	37.7	38.9
Total	555.7	639.3	693.0	826.2
Total Outstanding Loan	1361.4	1580.7	1681.9	1958.6

39. Of the total outstanding loan of commercial banks, credit to small and medium enterprises was only 2.7 percent (Rs. 44.15 billion) in mid-May 2017.

40. Trust receipt (T.R.) loan extended by commercial banks increased 1.9 percent (Rs. 1.38 billion) in the review period compared to an increase of 27 percent in the same period of the previous year.

Refinance and Productive Sector Lending

41. The NRB has been providing refinance facility aimed at expanding credit to the productive sector along with promoting export. In the review period, the use of such facility has increased. In the review period, a total refinance of Rs. 12.81 billion including general refinance of Rs. 12.09 billion and export refinance of Rs 726 million was availed. In the corresponding period of the previous year, a total refinance of Rs. 5.74 billion including general refinance of Rs. 4.57 billion and export refinance of Rs. 1.17 billion was utilized.

42. A sum of Rs. 675.03 million housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims as of mid-May 2017. For this, NRB provides a refinance facility to BFIs at a zero percent interest.

43. There is a policy-provision for commercial banks to disburse 20 percent of their total credit to the designated productive sector. Such credit of commercial banks was 17.3 percent in mid-May 2017.

Liquidity Management

44. In the first ten months of 2016/17, Rs. 61 billion liquidity was injected through open market operations. Under this provision, NRB injected liquidity of Rs. 33.21 billion through repo auction including Rs. 5.4 billion under the corridor system. A total of Rs. 27.79 billion liquidity was availed through outright purchase auction. Likewise, the BFIs used Rs. 62.39 billion standing liquidity facility (SLF) in the review period.
45. In the review period, the NRB injected net liquidity of Rs. 357.59 billion through the net purchase of USD 3.35 billion from foreign exchange market. Net liquidity of Rs. 392.25 billion was injected through the net purchase of USD 3.71 billion in the corresponding period of the previous year.
46. In the first ten months of 2016/17, the NRB mopped up Rs. 101.10 billion through open market operations. Of which, Rs. 29.80 billion was mopped up through 14 days deposit collection auction under the corridor system, Rs. 7.05 billion under 90 days deposit collection auction and Rs. 64.25 billion through reverse repo auction on a cumulative basis. In the corresponding period of the previous year, Rs. 477.55 billion liquidity was mopped up. This consists of Rs. 297.5 billion through deposit collection auction, Rs. 170.95 billion through reverse repo auction and Rs. 9.10 billion through outright sale auction.
47. The NRB purchased Indian currency (INR) equivalent to Rs. 372.22 billion through the sale of USD 3.38 billion and Euro 110 million in the review period. INR equivalent to Rs. 308.44 billion was purchased through the sale of USD 2.80 billion and Euro 110 million in the corresponding period of the previous year.

Inter-bank Transaction

48. In the review period, inter-bank transactions of commercial banks stood at Rs. 890.83 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 321.81 billion. Such transactions were Rs. 777.72 billion and Rs. 73.13 billion respectively in the corresponding period of the previous year.

Interest Rates

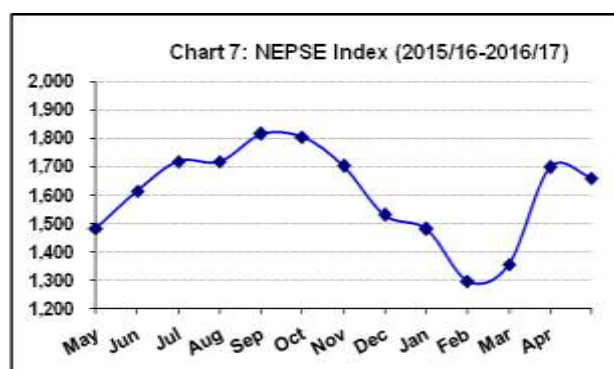
49. The weighted average 91-day Treasury Bill rate decreased to 0.78 percent in mid-May 2017 from 1.34 percent a year ago. Likewise, the weighted average inter-bank transaction rate among commercial banks, which was 3.44 percent a year ago, dropped to 2.73 percent in the review month. The weighted average inter-bank rate among other financial institutions increased to 3.92 percent from 2.75 percent a year ago.
50. The weighted average interest rate spread between deposit and lending rate of commercial banks decreased to 5.2 percent in the review month from 6 percent a year ago. The average base rate of commercial banks increased to 9 percent in the review month from 6.3 percent a year ago.

Merger/Acquisition

51. The number of BFIs involved in merger and acquisition has been increasing after the introduction of merger/acquisition policy aimed at strengthening financial stability. As of mid-May 2017, 138 BFIs (including 'D' class) were involved in merger and acquisition. Of which, the license of 94 BFIs was revoked thereby forming 44 BFIs.

Capital Market

52. The NEPSE index on y-o-y basis increased 11.9 percent to 1,658.6 points in mid-May 2017. This index had increased 58 percent to 1481.9 points a year ago. This index had stood at 1718.2 points in mid-July 2016. The various reforms initiated in the capital market as well as capital hike plan of financial institutions are the primary causes of upsurge in the index.



53. The stock market capitalization on y-o-y basis increased 20.5 percent to Rs. 1925.65 billion in mid-May 2017. This had increased 65.8 percent a year ago. The ratio of market capitalization to GDP of 2017 stood at 74.1 percent in mid-May 2017. In the total market capitalization, the share of banks, financial institutions and insurance companies stood at 86 percent, hydropower 4.1 percent, manufacturing and processing companies 2 percent, hotels 1.5 percent, trading 0.1 percent, and others 6.3 percent respectively.
54. On y-o-y basis, the total turnover of the securities decreased 5 percent to Rs. 17.08 billion in mid-May 2017. The turnover of the securities had substantially increased to Rs. 17.99 billion a year ago.
55. Due to the merger and acquisitions of BFIs, total number of companies listed at the NEPSE decreased to 210 in mid-May 2017 from 232 in mid-May 2016. Of the listed companies, 170 are BFIs (including insurance companies), 18 manufacturing and processing industries, 12 hydropower companies, 4 each hotels and trading institutions and 2 other sectors.
56. On y-o-y basis, total paid-up capital of the listed companies increased 44.3 percent to Rs. 275.66 billion in mid-May 2017. Total additional securities worth Rs. 110.24 billion were listed in the NEPSE from mid-July 2016 through mid-May 2017. These consist of ordinary shares Rs. 3.23 billion, right shares Rs. 16.64 billion, bonus shares Rs. 27.12 billion, government securities Rs. 62 billion and the mutual fund Rs. 1.25 billion.