



Nepal Rastra Bank

Research Department

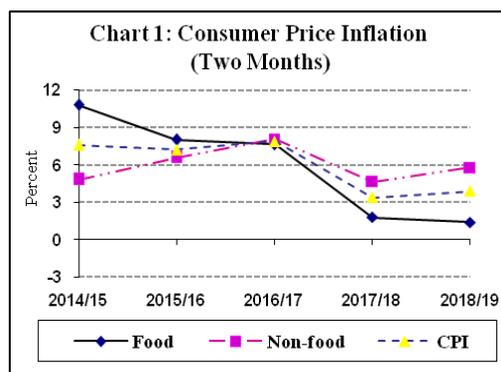
Current Macroeconomic and Financial Situation of Nepal

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

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation increased to 3.9 percent in mid-September 2018 from 3.4 percent a year ago. The increase in the price of non-food and services group contributed to a rise in overall inflation in the review period.



Food and Beverage Inflation

2. The inflation of food and beverage group eased to 1.4 percent in mid-September 2018 from 1.8 percent a year ago. The fall in prices of pulses, vegetables and sugar related products contributed to the easing of food inflation in the review period.

Non-food and Service Inflation

3. Non-food and service inflation rose to 5.8 percent in mid-September 2018 from 4.7 percent a year ago. A rise in prices of transportation, furnishing and household equipment, housing and utilities, and cloth and footwear accounted for the increase in non-food inflation in the review month.

Region-wise Consumer Price Inflation

4. The Hilly region witnessed relatively higher rate of inflation of 5.0 percent followed by 3.7 percent in Terai, 3.4 percent in Mountain and 3.0 percent in the Kathmandu Valley in the review period. In the corresponding period of the previous year, these regions had witnessed inflation rates of 3.4 percent, 3.8 percent, 5.4 percent and 2.8 percent respectively.

Inflation of Nepal and India

5. The y-o-y consumer price inflation of Nepal stood at 3.9 percent and India 3.8 percent in mid-September 2018. Such rate of inflation was 3.4 percent in Nepal compared to 3.3 percent in India a year ago.

Wholesale Price Inflation

6. The y-o-y wholesale price inflation increased 8.7 percent in mid-September 2018 from 1.5 percent a year ago. The surge in prices of petroleum products, basic metals, textiles, among others, contributed to the rise in overall wholesale price inflation in the review period.

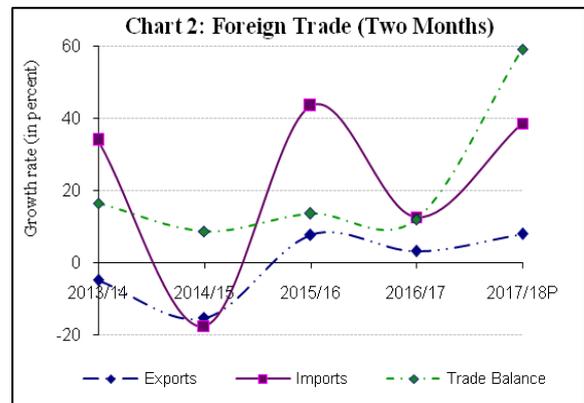
National Salary and Wage Rate Index

7. The y-o-y salary and wage rate index increased to 8.3 percent in mid-September 2018 from 5.0 percent a year ago. In the review period, the salary index increased 6.6 percent, while the wage rate index grew 8.8 percent.

External Sector

Merchandise Trade

8. In two months of 2018/19, merchandise exports increased 8 percent to Rs.14.7 billion compared to an increase of 3.2 percent in the same period of the previous year. Destination-wise, exports to India, China and other countries increased 13.6 percent, 11.4 percent and 1.0 percent respectively in the review period. Commodity-wise, export of polyester yarn, zinc sheet, tooth paste, textiles, juice, among others, increased whereas export of cardamom, rosin, readymade garments, G.I. pipes, herbs, among others, decreased in the review period.
9. The growth in merchandise imports remained elevated at 38.5 percent to Rs.232.35 billion in the review period compared to an increase of 12.6 percent in the same period of the previous year. Source-wise, imports from India, China and other countries increased 38.9 percent, 13.2 percent and 55.2 percent respectively in the review period. Commodity-wise imports of petroleum products, aircraft spareparts, metals, vehicles, machinery parts, among others, increased whereas imports of telecommunication equipment, cement, medical equipment, video television, baby foods and milk products, among others, decreased in the review period.
10. Based on customs points, the exports through Bhairahawa Customs Office, Biratnagar Customs Office, Tribhuvan Airport Customs Office, Mechi Customs Office and Rasuwa Customs Office increased whereas exports from other customs points decreased in the review



period. On the import side, imports through Birgunj Customs Office, Dry Port Customs Office, Bhairahawa Customs Office, Biratnagar Customs Office, Tribhuvan Airport Customs Office, Nepalgunj Customs Office, Mechi Customs Office, Krishnagar Customs Office, Kailali Customs Office, Jaleshwar Customs Office, and Rasuwa Customs Office increased whereas imports through other customs points decreased in the review period.

11. Total trade deficit further widened 41.2 percent to Rs.217.65 billion in two months of 2017/18. The export-import ratio declined to 6.3 percent in the review period from 8.1 percent in the corresponding period of the previous year.

Services

12. While the total services receipt increased 26.9 percent, expenses rose 35.8 percent in the review period. As a result, the deficit in net services receipt increased to Rs.11.02 billion in the review period from Rs.6.70 billion in the same period of the previous year.
13. Under the services account, travel receipt increased 12.9 percent to Rs.9.16 billion in the review period. Such receipt had increased 8.2 percent in the same period of the previous year.

Workers' Remittances

14. The workers' remittances increased 33.4 percent to Rs.154.20 billion in the review period compared to a growth of 0.7 percent in the same period of the previous year. In US Dollar terms, workers' remittances increased 22.3 percent in the review period compared to 5.2 percent in the corresponding period of the previous year.
15. Net transfer receipt increased 34.1 percent to Rs.175.03 billion in the review period. Such receipt had increased 0.3 percent in the same period of the previous year.
16. The number of Nepalese workers outbound for foreign employment decreased 41 percent in the review period. It had decreased 7.2 percent in the same period of the previous year. In the review period, the number of workers outbound to Malaysia shrank significantly.

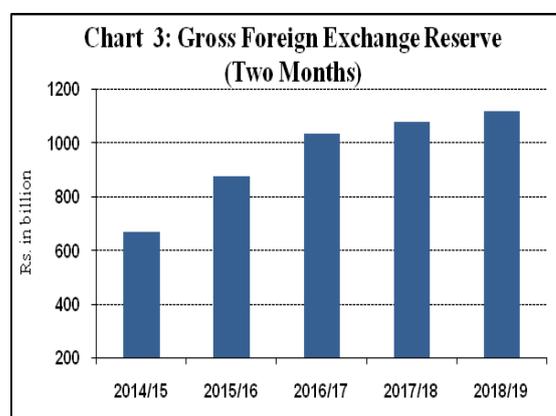
Table 1: The Number of Nepalese Outbound for Foreign Employment (Two Months)				
a) Institutional and Individual (New and Legalized)				
Country	(No. of Labor)		Percentage Share	
	2017/18	2018/19	2017/18	2018/19
Qatar	14733	14278	22.6	37.1
U.A.E.	10330	9018	15.8	23.5
Saudi Arabia	8868	4905	13.6	12.8
Kuwait	2186	2906	3.4	7.6
Malaysia	23362	2302	35.8	6.0
Bahrain	711	841	1.1	2.2
Oman	529	444	0.8	1.2
Afghanistan	398	192	0.6	0.5
Japan	110	91	0.2	0.2
South Korea	1352	15	2.1	0.0
Israel	7	9	0.0	0.0
Lebanon	2	0	0.0	0.0
Others	2599	3449	4.0	9.0
Total	65187	38450	100.0	100.0
Percent Change	-7.2	-41.0	-	-
b) Renew Entry				
Renew Entry	32271	29101	-	-
Percent Change	6.9	-9.8	-	-
Source: Department of Foreign Employment				

Current Account and BOP Position

17. The current account registered a deficit of Rs.35.56 billion in the review period because of a significant rise in imports. The current account had registered a deficit of Rs.19.74 billion in the same period of the previous year. In the US Dollar terms, the current account deficit widened to USD 320.1 million in the review period from USD 192.6 million in the corresponding period of the previous year.
18. The overall BOP remained at a deficit of Rs.25.45 billion in the review period compared to a deficit of Rs.5.87 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a deficit of USD 230.9 million in the review period compared to a deficit of USD 57.3 million in the same period of the previous year.
19. In the review period, Nepal received capital transfer amounting to Rs.2.80 billion and Foreign Direct Investment (FDI) inflows of Rs.1.23 billion. In the same period of the previous year, capital transfer and FDI inflows had amounted to Rs.1.84 billion and Rs.5.10 billion respectively.

Foreign Exchange Reserves

20. The gross foreign exchange reserves stood at Rs.1117.46 billion as at mid-September 2018, an increase of 1.3 percent from Rs.1102.59 billion as at mid-July 2018. In the US Dollar terms, the gross foreign exchange reserves declined to USD 9.75 billion as at mid-September 2018 from USD 10.08 billion as at mid-July 2018.



21. Of the total foreign exchange reserves, reserves held by NRB decreased 2.2 percent to Rs.967.93 billion as at mid-September 2018 from Rs.989.40 billion as at mid-July 2018. On the other hand, reserves held by banks and financial institutions (except NRB) increased 32.1 percent to Rs.149.53 billion as at mid-September 2018 from Rs.113.19 billion as at mid-July 2018. The share of Indian currency in total reserves stood at 23.6 percent as at mid-September 2018.

Foreign Exchange Adequacy Indicators

22. Based on the imports of two months of 2018/19, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 9.7 months, and merchandise and services imports of 8.3 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 37.2 percent, 69.5 percent and 36.1 percent respectively as at mid-September 2018. Such ratios were 36.7 percent, 78.6 percent and 35.6 percent as at mid-July 2018.

Price of Oil and Gold

23. The price of oil (Crude Oil Brent) in the international market increased 38.6 percent to USD 77.87 per barrel in mid-September 2018 from USD 56.18 per barrel a year ago. The price of gold decreased 9.1 percent to USD 1203 per ounce in mid-September 2018 from USD 1322.85 per ounce a year ago.

Exchange Rate

24. Nepalese currency vis-à-vis US dollar depreciated 4.6 percent in mid-September 2018 from mid-July 2018. It had appreciated 0.6 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.114.66 in mid-September 2018 compared to Rs.109.34 in mid-July 2018.

Fiscal Situation*

Budget Deficit/ Surplus

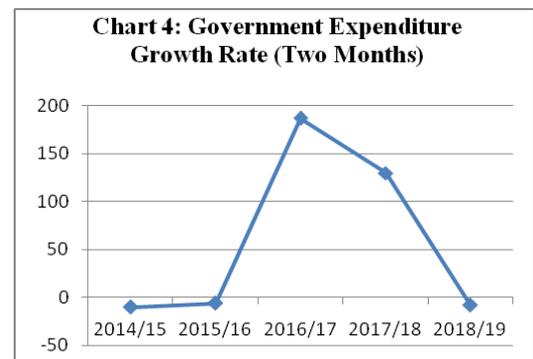
25. The budget surplus of the Government of Nepal (GoN) increased to Rs.55.93 billion in two months of 2018/19 from Rs.19.18 billion in the corresponding period of the previous year.

Heads	Budget Estimates	Outturns in Two Months*	As percent of Budget Estimates
Total Expenditure	1315.2	66.3	5.0
<i>Recurrent</i>	<i>845.4</i>	<i>61.5</i>	<i>7.3</i>
<i>Capital</i>	<i>314.0</i>	<i>4.1</i>	<i>1.3</i>
<i>Financial</i>	<i>155.7</i>	<i>0.7</i>	<i>0.4</i>
Revenue	945.6	119.2	12.6

* On cash basis

Government Expenditure

26. In the review period, total government expenditure (cash basis) stood at Rs.66.33 billion. Such expenditure was Rs.72.38 billion in the corresponding period of the previous year.
27. Recurrent expenditure stood at Rs.61.51 billion in two months of 2018/19, which was Rs.70.26 billion a year ago. Likewise, capital expenditure increased to Rs.4.14 billion from Rs.1.55 billion a year ago.

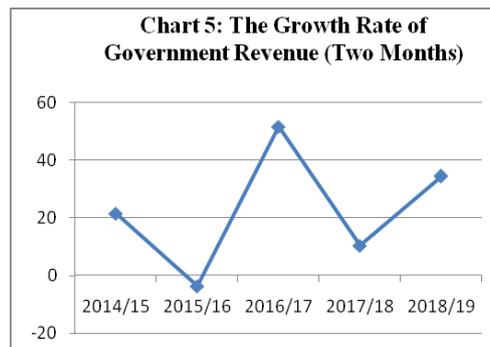


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Based on data reported by 1 office of NRB, 81 branches of Rastriya Banijya Bank Limited, 56 branches each of Nepal Bank Limited and NIC Asia Bank Limited, 26 branches of Agriculture Development Bank, 22 branches of Global IME Bank Limited, 16 branches each of Everest Bank Limited and Nepal Investment Bank, 11 branches each of NMB Bank Limited and Mega Bank Limited, 9 branches of Nepal Bangladesh Bank Limited, 7 branches each of Citizens Bank International Limited and Janata Bank Limited, 6 branches of Siddhartha Bank Limited, 5 branches each of Bank of Kathmandu Limited, Nabil Bank Limited and Civil Bank Limited, 4 branches of Prime Commercial Bank Limited, 3 branches each of Prabhu Bank Limited, Kumari Bank Limited, Sunrise Bank Limited and Machhapuchhre Bank Limited, and 2 branches each of Sanima Bank Limited and Century Commercial Bank, conducting government transactions and release report from 81 DTCOs and payment centres.

Government Revenue

28. In the review period, the government revenue collection increased 34.3 percent to Rs.119.20 billion. Such revenue had increased 10.3 percent to Rs.88.79 billion in the corresponding period of the previous year.



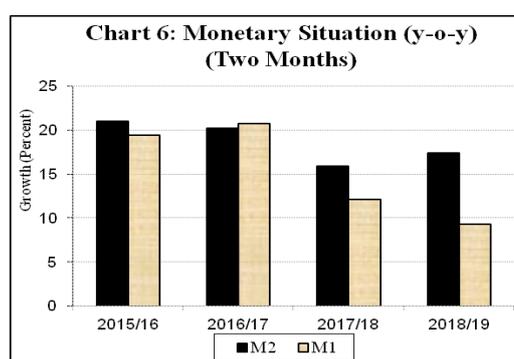
Treasury Position of the GoN

29. The treasury surplus amounted to Rs.201.45 billion as of mid-September 2018.

Monetary Situation

Money Supply

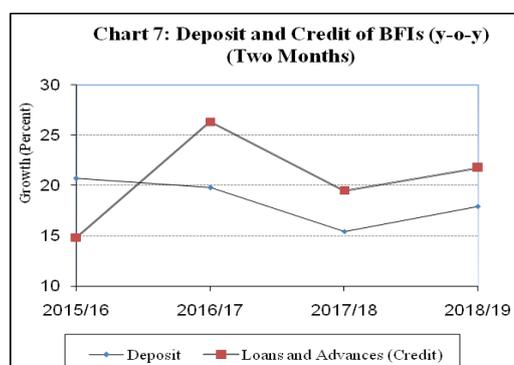
30. Broad money (M2) increased 0.1 percent in the review period compared to a rise of 1.8 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 17.4 percent in mid-September 2018.



31. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs.25.45 billion (2.4 percent) in the review period compared to a decrease of Rs.5.87 billion (0.6 percent) in the corresponding period of the previous year.
32. Reserve money decreased 10.1 percent in the review period compared to a decrease of 13.3 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 12.1 percent in mid-September 2018.

Domestic Credit

33. Domestic credit increased 1.1 percent in the review period in contrast to a decrease of 1.7 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 28.4 percent in mid-September 2018.



34. Claims of monetary sector on the private sector increased 3.2 percent in the review period compared to the same level of growth of 3.2 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 22.3 percent in mid-September 2018.

Deposit Collection

35. Deposits at Banks and Financial Institutions (BFIs) increased 1.3 percent in the review period compared to a growth of 2.4 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 17.9 percent in mid-September 2018.
36. The share of demand, saving and fixed deposits in total deposits stood at 7.9 percent, 34.2 percent and 45.7 percent respectively in mid-September 2018. Such shares were 8.3 percent, 35.6 percent and 43.1 percent respectively a year ago.
37. The share of institutional deposits in total deposit of BFIs stood at 44.7 percent in mid-September 2018. Such share was 43.7 percent a year ago.

Credit Disbursement

38. Credit to the private sector from BFIs increased 2.0 percent in the review period compared to a growth of 2.1 percent in the corresponding period of the previous year. In the review period, private sector credit increased 2.0 percent from commercial banks, 2.7 percent from development banks and 0.5 percent from finance companies. On y-o-y basis, credit to the private sector from BFIs increased 22.4 percent in mid-September 2018.
39. Of the total outstanding credit of BFIs in mid-September 2018, 63.1 percent is against the collateral of land and building and 14.3 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 60.9 percent and 14.2 percent respectively a year ago.
40. In the review period, term loan extended by BFIs increased 5.0 percent, overdraft increased 0.5 percent, trust receipt (import) loan increased 6.2 percent, demand and working capital loan increased 5.5 percent, real estate loan (including residential personal home loan) increased 2.2 percent and hire purchase loan increased 2.1 percent while margin nature loan decreased 0.9 percent.

Liquidity Management

41. In the review period, NRB mopped up Rs.85.35 billion liquidity through open market operations. Of which, Rs.79.65 billion was mopped up under deposit collection auction and Rs.5.70 billion through reverse repo auction.
42. In the review period, NRB injected net liquidity of Rs.31.47 billion through the net purchase of USD 279.9 million from foreign exchange market. Net liquidity of Rs.52.70 billion was injected through the net purchase of USD 514.3 million in the corresponding period of the previous year.
43. NRB purchased Indian currency (INR) equivalent to Rs.85.66 billion through the sale of USD 720 million, Euro 16 million and GBP 20 million in the review period. INR equivalent to Rs.63.56 billion was purchased through the sale of USD 620 million in the corresponding period of the previous year.

Refinance

44. Use of refinance facility provided by the NRB for expanding credit to the productive sector along with promoting export has increased in the review period. The outstanding refinance amounted to Rs.15.83 billion in mid-September 2018.
45. Housing loan to the earthquake victims provided by BFIs at a concessional rate of 2 percent amounted to Rs.2.18 billion as of mid-September 2018. The number of earthquake victims utilizing such loan is 1231.
46. As of mid-September 2018, the number of beneficiaries from the 5 percent interest subsidized lending scheme of the GoN stood at 8930. They availed subsidized loans for selected agriculture and livestock businesses. Under this provision, Rs.10.66 billion loan extended by BFIs has been outstanding and Rs.596.6 million interest subsidy has been provided.

Inter-bank Transaction

47. In the review period, inter-bank transactions among commercial banks stood at Rs.209.08 billion and among other financial institutions (excluding transactions among commercial banks) amounted to Rs.15.41 billion. Such transactions were Rs.93.93 billion and Rs.7.08 billion respectively in the corresponding period of the previous year.

Interest Rates

48. The weighted average 91-day Treasury bills rate increased to 2.74 percent in the second month of 2018/19 from 0.48 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.39 percent a year ago, increased to 1.68 percent in the review month. Likewise, the average base rate of commercial banks decreased slightly to 10.03 percent in the review month from 10.13 percent a year ago.

Merger/Acquisition

49. 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, 164 BFIs (including 'D' class) 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

50. Of the total 753 local levels, commercial banks extended their branch network in 666 levels as of mid-September 2018 (Table 3).

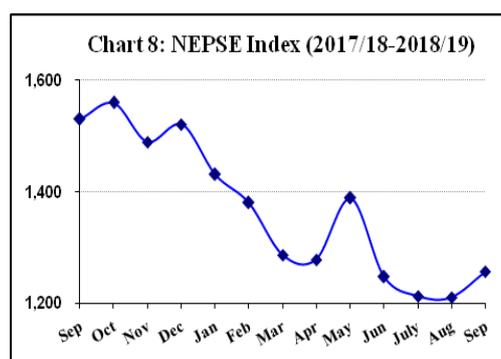
Province	No. of Local Levels	Presence of Commercial Banks
Province 1	137	118
Province 2	136	130
Province 3	119	108
Gandaki	85	80
Province 5	109	106
Karnali	79	59
Province 7	88	65
Total	753	666

51. The total number of BFIs licensed by NRB stood at 151 comprising 28 commercial banks, 33 development banks, 24 finance companies and 66 microfinance institutions. The branch network of BFIs expanded to 6819 in mid-September 2018 from 6651 in mid-July 2018.

Table 4: Number of BFIs/ Number of Branches				
Bank and Financial Institutions	Number of BFIs		Branches of BFIs	
	Mid-Jul 2018	Mid-Sep 2018	Mid-Jul 2018	Mid-Sep 2018
Commercial Banks	28	28	3023	3093
Development Banks	33	33	993	1043
Finance Companies	25	24	186	186
Microfinance Institutions	65	66	2449	2497
Total	151	151	6651	6819

Capital Market

52. The NEPSE index on y-o-y basis decreased 17.9 percent to 1256.5 points in mid-September 2018. This index had decreased 15.7 percent to 1530.3 points in mid-September 2017. Such index was 1212.4 points in mid-July 2018.



53. The stock market capitalization on y-o-y basis decreased 15.7 percent to Rs.1496.64 billion in mid-September 2018. This had decreased 11.4 percent a year ago. The ratio of market capitalization to GDP stood at 49.8 percent in mid-September 2018. This ratio was 67.2 percent a year ago. Of the total market capitalization, the share of banks, financial institutions and insurance companies stood at 80.8 percent, hydropower 4.2 percent, manufacturing and processing companies 2.7 percent, hotels 1.7 percent, trading 0.1 percent, and others 10.5 percent respectively.

54. The total number of companies listed at the NEPSE stood at 196 in mid-September 2018. Of the listed companies, 147 are BFIs (including insurance companies), 18 manufacturing and processing industries, 19 hydropower companies, 4 each hotels and trading institutions and 4 other sectors.

55. On y-o-y basis, total paid-up value of the listed shares increased 21.2 percent to Rs.358.01 billion in mid-September 2018. Total additional securities worth Rs.8.28 billion were listed in the NEPSE during the review period. These consisted of ordinary shares of Rs.1.35 billion, right shares of Rs.2.85 billion, bonus shares of Rs.4.08 billion.