Nepal Rastra Bank
Research Department

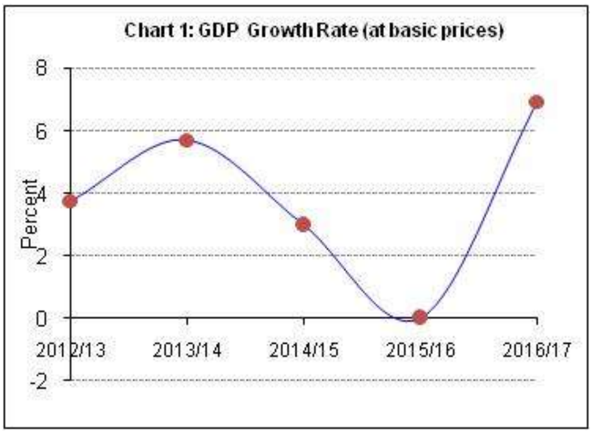
Current Macroeconomic and Financial Situation of Nepal

(Based on Annual Data of 2016/17)

Real Sector

Gross Domestic Product

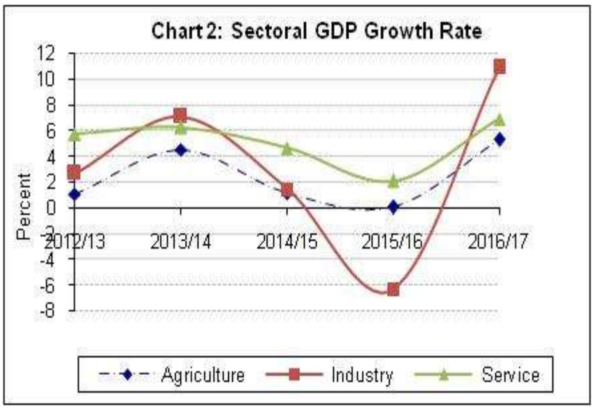
1. Estimates of Central Bureau of Statistics (CBS) show the growth in the real GDP (at producers' price) at 7.5 percent in 2016/17 compared to 0.4 percent in the preceding year. Similarly, the real GDP at basic price is estimated to grow 6.9 percent compared to a growth of 0.01 percent in the previous year. Good monsoon rains, improved power supply and normal supply situation helped accelerate growth from the low base of the preceding year. The growth in real GDP at producers' price of 7.5 percent in 2016/17 has been a record high since 1993/94 (Annex 1).



2. The record high growth was on account of a pick up in agricultural output by 5.3 percent and non-agricultural sector by 7.7 percent.

3. The growth in agricultural output was due to a surge in paddy production by 21.7 percent in the review year.

4. Industrial sector saw a growth of 10.9 percent in the review year as against a contraction of 6.3 percent in the previous year.



5. In the review year, the service sector is estimated to grow 6.9 percent compared to a growth of 2.1 percent in the previous year. Increased tourists inflow, expansion of trade and communication sector accounted for the rise in service sector.

Gross National Disposable Income, Consumption, Savings and Investment

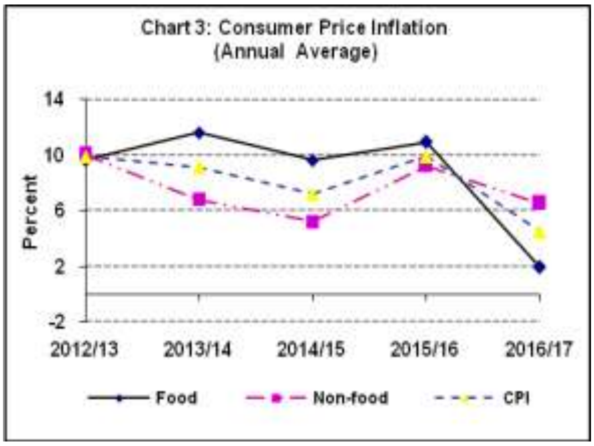
6. In 2016/17, the gross national disposable income (GNDI) is estimated to grow 13.4 percent compared to a growth of 6.5 percent in the previous year. The consumption ratio stood at 89.70 percent in the review year. In the review year, the ratio of gross fixed capital to GDP increased to 33.8 percent from 28.8 percent last year. Similarly, the ratio of gross national savings to GDP increased to 43.78 percent from 39.96 percent in the previous year.

Box 1 : Disposable Income (at current price)

Particular	Rs. in million			Percentage change	
	2014/15	2015/16	2016/17	2015/16	2016/17
Gross Domestic Products (at producer's prices)	21,301.50	22,474.27	25,992.34	5.51	15.65
Net Factor Income	342.43	340.04	277.85	-0.70	-18.29
Net Current Transfer	7,099.57	7,781.87	8,436.58	9.61	8.41
Gross Disposable Income	2,874.35	3,059.62	3,470.68	6.45	13.43

Inflation, Salary and Wage Rate

7. The annual average consumer price inflation moderated to 4.5 percent in 2016/17 from 9.9 percent in the previous year. The annual average inflation of 2016/17 has been the lowest since 2004/05 (Annex 3). The inflation rate of 4.5 percent has been lower than its target of 7.5 percent in 2016/17. Only in other three occasions, 2003/04, 2006/07 and 2014/15, actual inflation has been lower than its target (Box 2) ever since the NRB began issuing the annual monetary policy in 2002/03. The higher base price of the preceding year, improved supply situation and lower global prices including that of India contributed to inflation easing in the review year.



Box 2: Inflation Target and Achievement

Fiscal Year	Inflation	
	Target	Actual
2002/03	4.0	4.7
2003/04	4.3	4.0
2004/05	4.0	4.5
2005/06	5.0	8.0
2006/07	6.0	5.9
2007/08	5.5	6.7
2008/09	7.5	12.6
2009/10	7.0	9.6
2010/11	7.0	9.6
2011/12	7.0	8.3
2012/13	7.5	9.9
2013/14	8.0	9.1
2014/15	8.0	7.2
2015/16	8.5	9.9
2016/17	7.5	4.5

8. The year-on-year (y-o-y) consumer price inflation dipped to 2.7 percent in mid-July 2017 from 10.4 percent in the previous year. The y-o-y inflation rate has been the lowest since October-November 2004.

9. The decline in prices of ghee and oil, pulses and legumes, vegetable, transportation, among others were mainly responsible for a fall in overall consumer price inflation in the review year.

10. While the average food inflation eased to 1.9 percent in 2016/17 from 10.9 percent in the preceding year, the nonfood inflation moderated to 6.5 percent in the review year from 9.2 percent a year ago. The decline in prices of ghee and oil (6 percent), pulses and legumes

(5.5 percent) and vegetable (2.5 percent) drove down overall food inflation in the review year.

11. Ecological region-wise, the Hilly region witnessed a relatively higher annual average rate of inflation of 6.4 percent followed by Terai region 4.4 percent, Mountain region 4.1 percent and the Kathmandu Valley 3.1 percent in the review year.

Inflation Wedge between Nepal and India

12. The average consumer price inflation was slightly higher at 4.5 percent in Nepal compared to 3.4 percent in India showing a narrower inflation wedge of 1.1 percent in 2016/17. In the previous year, inflation in Nepal was at 9.9 percent and in India; it was 5.2 percent, reflecting a wider inflation wedge of 4.7 percent.

Wholesale Price Inflation

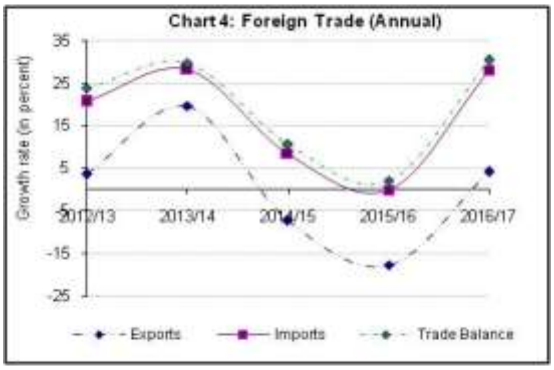
13. The annual average wholesale price inflation eased to 2.7 percent in 2016/17 from 6.3 percent in the previous year. A significant deceleration in prices of agricultural commodities and the decline in prices of imported commodities eased overall wholesale prices.

National Salary and Wage Rate

14. In contrast to retail and wholesale prices, the annual average salary and wage rate index saw a growth of 14.4 percent in 2016/17 compared to a rise of 5.8 percent in the previous year. In the review year, the salary index and the wage rate index witnessed a growth of 18.7 percent and 13.4 percent respectively. The hike in pay scale of civil service drove up the salary and wage rate index in the review year.

External Sector

Merchandise Trade



15. Merchandise exports witnessed a turnaround from a decline of 17.8 percent in 2015/16 to a growth of 4.2 percent to Rs 73.05 billion in 2016/17. However, merchandise exports have not fully recovered from the level of Rs. 85.32 billion in 2014/15. In the review year, exports to India, China and other countries increased 5 percent, 1.2 percent and 3.3 percent respectively. Commodity wise, exports of juice, oil cakes, jute goods, GI pipes, among others, increased whereas export of cardamom, woolen carpet, readymade garments, polyester yarn, among others, decreased in the review year. Total merchandise exports as percentage of GDP shrank to 2.8 percent in the review year from 3.1 percent in the previous year.

16. Merchandise imports increased 28 percent to Rs. 990.11 billion in the review year as against a drop of 0.1 percent in the previous year. In the review year, imports from India, China and Other countries increased 32.8 percent, 10 percent and 26.8 percent respectively. Commodity wise, imports of petroleum products, vehicles and spare parts, MS billet, cement, among others, increased whereas imports of chemical fertilizer, medicine, coldrolled-sheet in coil, dry cell battery, among others, decreased in the review year. Total import-to-GDP ratio increased to 38.1 in the review year from 34.4 percent of the previous year.

Box 3: External Sector Indicators

As Percentage of GDP

Description	2014/15	2015/16	2016/17	Average
Merchandise Exports	4.0	3.1	2.8	3.3
Merchandise Imports	36.4	34.4	38.1	36.3
Merchandise Trade Deficits	32.4	31.3	35.3	33.0
Total Merchandise Trade	40.4	37.5	40.9	39.6
Travel Income	2.5	1.9	2.3	2.2
Workers' Remittances	29.0	29.6	26.8	28.4
Current Account Balance	5.1	6.2	-0.4	3.6
Foreign Exchange Reserve	38.7	46.2	41.5	42.2

* + surplus/-deficits

17. Based on customs points, the exports through Bhairahawa Customs Office, Tribhuwan Airport Customs Office, Mechi Customs Office, Kailali Customs Office and Jaleshwar Customs Office decreased whereas exports from other customs points increased in the review year. On the import side, imports through Bhairahawa Customs Office, Biratnagar Customs Office and Kailali Customs Office decreased whereas imports through other customs points increased in the review year.

18. Merchandise trade deficit widened 30.4 percent to Rs 917.06 billion in 2016/17. The export-import ratio declined to 7.4 percent in the review year from 9.1 percent in the previous year. Total merchandise trade deficit as percentage of GDP jumped to 35.3 percent in the review year from 31.3 percent of the previous year.

Export-Import Price Index

19. The y-o-y unit value export price index based on customs data increased 10.4 percent while import price index increased 0.1 percent in 2016/17. Consequently, the terms of trade (TOT) index improved 9.1 percent compared to 22.2 percent in the previous year.

Services

20. The total services receipts increased 14.3 percent and expenses rose 20.8 percent in the review year. As a result, net services surplus squeezed to Rs. 2.89 billion in the review year from Rs. 9.85 billion in the previous year. Under the services account, travel receipts increased 40.1 percent to Rs. 58.53 billion in the review year as against a decline of 21.8 percent in the previous year.

Workers' Remittances

21. The workers' remittances increased 4.6 percent to Rs. 695.45 billion in the review year compared to a growth of 7.7 percent in the previous year. The ratio of workers' remittances-to-GDP declined to 26.8 percent in 2016/17 from 29.6 percent in 2015/16. The net transfer receipts increased 9.5 percent to Rs. 851.80 billion in the review year. Such receipts had increased 9.6 percent in the previous year.

22. The number of workers going abroad for foreign employment (except renew entry) has been falling. The number of Nepalese workers seeking foreign employment further fell 4.7 percent in 2016/17 compared to a decline of 18.4 percent in the previous year. In the review year, the number of workers outbound to Malaysia, UAE, Kuwait increased while those to Saudi Arabia, Qatar declined.

Box 4: Outmigration for Foreign Employment

a) Institutional and Individual (New and Legalized)						
Country	**Number of Labor**			**Country wise Share (%)**		
	2014/15	**2015/16**	**2016/17**	**2014/15**	**2015/16**	**2016/17**
Malaysia	202828	60979	98437	39.5	14.6	24.7
Qatar	124368	129038	125892	24.2	30.8	31.6
Saudi Arabia	98246	138529	76884	19.2	33.1	19.3
U.A.E.	53699	52793	56526	10.5	12.6	14.2
Kuwait	9668	10049	13576	1.9	2.4	3.4
Bahrain	4165	3146	4007	0.8	0.8	1.0
Oman	2300	3059	3186	0.4	0.7	0.8
South Korea	5288	7432	5804	1.0	1.8	1.5
Lebanon	598	167	140	0.1	0.0	0.0
Israel	450	189	130	0.1	0.0	0.0
Afghanistan	1501	1419	1381	0.3	0.3	0.3
Japan	2836	3844	2251	0.6	0.9	0.6
Others	6940	8069	10764	1.4	1.9	2.7
Total*	**512887**	**418713**	**398978**	**100**	**100**	**100**
Percentage Change	-2.8	-18.4	-4.7		-	-
b) Renew Entry						
Renew Entry	**202888**	**238098**	**260252**	**-**	**-**	**-**
Percentage Change	15.5	17.4	9.3	-	-	-

Source: Department of Foreign Employment.

Current Account and BOP

23. The current account slipped into a deficit of Rs. 10.13 billion in 2016/17 as against a significant level of surplus of Rs. 140.42 billion in the previous year. The surge in imports relative to exports accounted for a deficit in the current account. The overall BOP recorded a surplus of Rs. 82.15 billion in the review year compared to a surplus of Rs. 188.95 billion in the previous year.

Box 5: External Sector (USD)*

(USD Million)

	Annual			**Percentage Change**	
	2014/15	**2015/16**	**2016/17**	**2015/16**	**2016/17**
Goods Exports (FoB)	988.1	703.9	773.7	-28.8	9.9
Goods Imports (FoB)	7657.6	7092.5	9219.3	-7.4	30.0
Trade Balance	-6669.5	-6388.6	-8445.6	-4.2	32.2
Total Trade	8645.6	7796.3	9993.0	-9.8	28.2
Travel Receipts	536.7	392.7	552.3	-26.8	40.6
Workers' Remittances	6192.0	6253.4	6556.3	1.0	4.8
Current Account Balance (-deficits)	1067.3	1338.8	-93.5	-	-
BOP (-Surplus)	-1437.0	-1779.8	-777.1	-	-

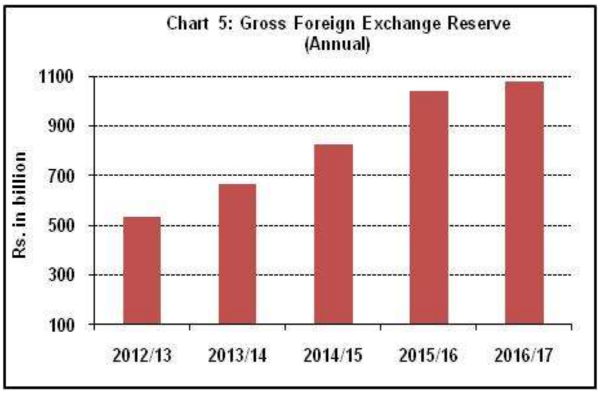
** Data from BOP Presentation*

1. In the US dollar terms, total merchandise exports and imports increased 9.9 percent and 30 percent respectively in 2016/17. Exports and imports had decreased 28.8 percent and 7.4 percent respectively in the previous year.
2. In the review year, travel receipts increased 40.6 percent and worker's remittance rose 4.8 percent. Travel receipts had decreased 26.8 percent and remittances had increased 1 percent in the previous year.
3. Current account recorded a deficit of USD 93.5 million in the review year. It was in surplus of USD 1338.8 million in the previous year. Likewise, Balance of Payments (BOP) recorded a surplus of USD 777.1 million in the review year compared to the surplus of USD 1779.8 million in the previous year.

24. Capital transfer of Rs. 13.36 billion and foreign direct investment (FDI) inflows of Rs. 13.50 billion were recorded in the review year. In the previous year, capital transfer and FDI inflows were Rs. 16.99 billion and Rs. 5.92 billion respectively.

Foreign Exchange Reserves

25. The gross foreign exchange reserves increased 3.9 percent to Rs. 1079.52 billion as at mid-July 2017 from Rs. 1039.21 billion in mid-July 2016. The share of reserves held by NRB increased 4.5 percent to Rs. 927.27 billion as at mid-July 2017 from Rs. 887.01 billion as at mid-July 2016. The share of Indian currency in total reserves stood at 23.3 percent as at mid-July 2017.



Foreign Exchange Adequacy Indicators

26. Based on the imports of 2016/17, the foreign exchange holding 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 41.5 percent, 95.3 percent and 41.7 percent respectively as at mid-July 2017. Such ratios were 46.2 percent, 117.4 percent and 46.3 percent as at mid-July 2016.

International Investment Position (IIP)

27. Foreign assets and liabilities of the country stood at Rs. 1107.79 billion and Rs. 666.41 billion respectively as at mid-July 2017. Accordingly, the net IIP remained in surplus of Rs. 441.38 billion as at mid-July 2017. Such surplus was Rs. 443.53 billion as at mid-July 2016.

Price of Oil and Gold

28. The price of oil (Crude Oil Brent) in the international market increased 3.5 percent to USD 47.89 per barrel in mid-July 2017 from USD 46.25 per barrel a year ago. The price of gold decreased 7.3 percent to USD 1230.30 per ounce in mid-July 2017 from USD 1327 per ounce a year ago.

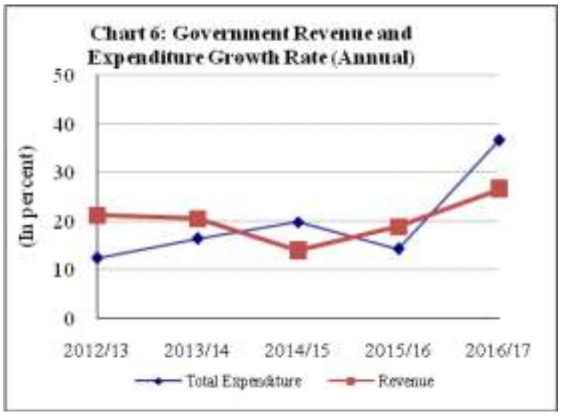
Exchange Rate

29. Nepalese currency vis-à-vis the US dollar appreciated 3.8 percent in mid-July 2017 from mid-July 2016. It had depreciated 5.2 percent in the previous year. The buying exchange rate per US dollar stood at Rs. 102.86 in mid-July 2017 compared to Rs. 106.73 in mid-July 2016.

Fiscal Situation*

Government Revenue

30. The government revenue increased 26.4 percent to Rs. 609.17 billion in 2016/17. The revenue collection is 107.7 percent of its budget target of Rs. 565.90 billion. The revenue had risen by 18.8 percent to Rs. 481.98 billion in 2015/16. Revenue-to-GDP ratio increased to 23.4 percent in the review year from 21.4 percent in 2015/16. (Box 7)



31. Of the total revenue mobilization, VAT revenue increased 31 percent to Rs. 160.32 billion in 2016/17. Such revenue had increased 8.9 percent to Rs 122.41 billion in 2015/16.

32. Income tax revenue increased 26.3 percent to Rs. 148.24 billion in 2016/17 compared to an increase of 32.7 percent to Rs. 117.41 billion in 2015/16.

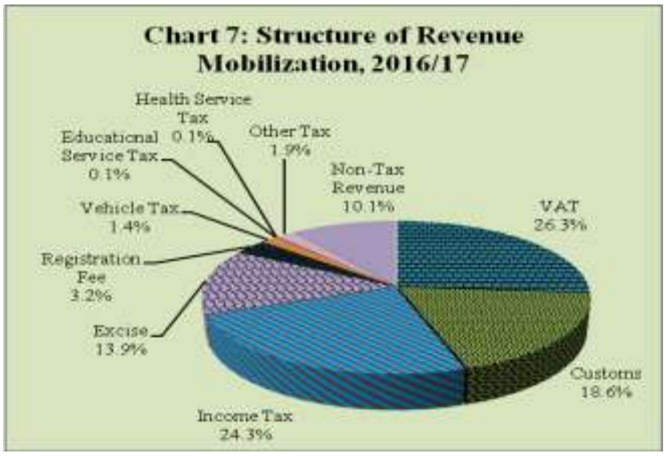
Box 6: Major Fiscal Indicators*
(As Percent of GDP)

Heads	2014/15	2015/16	2016/17**
Total Expenditure	**23.9**	**25.9**	**30.5**
Recurrent	15.7	16.2	19.3
Capital	3.8	5.1	7.3
Revenue	19.1	21.4	23.4
Tax Revenue	16.7	18.7	21.1
Fiscal Deficit	**–2.2**	**–2.2**	**–4.8**

*Cash basis, ** Preliminary
Source: Nepal Rastra Bank

33. In 2015/16, customs revenue rose 37.8 percent to Rs. 113.18 billion compared to a rise of 10 percent to 82.16 billion in 2015/16.

34. During the review year, excise revenue increased 28.7 percent to Rs. 84.68 billion compared to an increase of 22.9 percent to Rs. 65.78 billion in 2015/16.



35. Among the components of revenue, VAT accounted for 26.3 percent followed by income tax (24.3 percent), customs (18.6 percent), and excise duties (13.9 percent). In the previous year, their shares were 25.4 percent, 24.4 percent, 17 percent and 13.6 percent respectively.

36. In the review year, non-tax revenue increased 1.4 percent to Rs. 61.69 billion

* Based on the data reported by 8 NRB offices, 69 branches of Rastriya Banijya Bank Limited, 49 branches of Nepal Bank Limited, 22 branches of ADB/N 9 branches of Everest Bank Limited, 4 branches of Global IME Bank Limited and 1-1 branch each of Nepal Bangladesh Bank Limited, NMB Bank Limited and Bank of Kathmandu Limited conducting government transactions and release report from 79 DTCOs and payment centers.

compared to an increase of 22 percent to 60.86 billion in 2015/16.

37. Of the total revenue, the share of tax revenue and non-tax revenue stood at 89.9 percent and 10.1 percent respectively in the review year. In the previous year, the shares of tax and non-tax revenue in the total revenue were 87.4 percent and 12.6 percent respectively. While the share of direct tax in total tax revenue decreased to 34.6 percent in 2016/17 from 35.8 percent in the previous year, the share of indirect tax revenue increased to 65.4 percent from 64.2 percent a year ago.

Government Expenditure

38. Government expenditure, on cash basis, increased 36.5 percent to Rs. 793.91 billion in 2016/17 compared to an increase of 14.2 percent to Rs 581.7 billion in 2015/16.

Box 7: The Budget Performance

Rs. in millions

Heads	Budget Estimates	Annual Outturns*	As percent of Budget Estimates
Total Expenditure	**1048921.35**	**793912.7**	**75.7**
Recurrent Expenditure	617164.1	501619.6	81.3
Capital Expenditure	311946.3	189456.6	60.7
Financial Expenditure	119810.9	102836.5	85.8
Revenue	**565896.50**	**609163.8**	**107.6**

*Cash Basis

39. During the review year, recurrent expenditure increased 37.6 percent to Rs. 501.62 billion compared to a growth of 8.8 percent in the preceding year. Such expenditure stood at 81.3 percent of its budget estimate.

40. In the review year, capital expenditure increased 63.8 percent to Rs. 189.46 billion compared to its growth of 42.8 percent in the previous year. The capital expenditure in the review year accounted for 60.7 percent of its budget estimate of Rs. 311.95 billion.

41. During the review year, financial expenditure increased 1.3 percent to Rs. 102.84 billion. The financial spending accounted for 85.8 percent of its budget estimate.

Budget Deficit

42. In the review year, budget deficit on cash basis increased to Rs. 125.61 billion from Rs. 49.83 billion in 2015/16. The ratio of budget deficit-to-GDP stood at 4.8 percent in the review year.

Sources of Deficit Financing

43. The GON resorted to gross domestic borrowing of Rs. 88.34 billion in 2016/17. This is 3.4 percent of GDP. Gross domestic borrowing of Rs. 87.77 billion was mobilized in the previous year.

Box 8 : Public Debt Situation

	Public Debt Indicators	2014/15	2015/16	2016/17*
1	Total Debt/ GDP	25.4	27.7	26.8
2	External Debt/ GDP	16.1	17.3	15.9
3	Domestic Debt/ GDP	9.2	10.4	10.9
4	External Debt/ Exports	138.7	182.2	172.1
5	External Debt Servicing/ Exports	8.1	9.9	8.8
6	Total Debt Servicing/ Revenue	18.2	15.9	10.9
7	Domestic Debt Servicing/ Revenue	13.2	11.6	7.5
8	External Debt Servicing/ Revenue	4.9	4.4	3.5

Note: IMF Promissory Note and overdraft amount are not included in domestic debt.

Source: FCGO and NRB

**Provisional*

44. The GoN repaid Rs. 38.79 billion domestic debt in 2016/17. The GoN maintained cash balance of Rs. 127.69 billion at NRB at the end of 2016/17. At the end of the previous fiscal year, such balance was Rs. 115.02 billion.

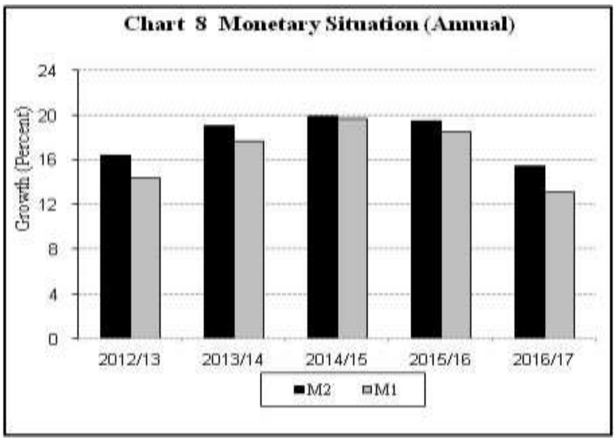
Government Debt

45. The outstanding foreign loan of the GoN stood at Rs. 413.66 billion in mid-July 2017. The outstanding domestic debt of the GoN increased from Rs. 234.16 billion of mid July 2016 to Rs. 283.71 billion in mid July 2017. The total government debt amounted to Rs. 697.37 billion, which stood at 26.7 percent of GDP. Likewise, the total debt servicing/revenue ratio stood at 10.9 percent in mid July 2017 (Box 8).

Monetary Situation

Money Supply

46. The growth in broad money (M2) was relaively lower at 15.5 percent in the review year compared to 19.5 percent in the previous year. The growth in M2 at 15.5 percent almost matched with the growth in nominal GDP of 15.7 percent in 2016/17.

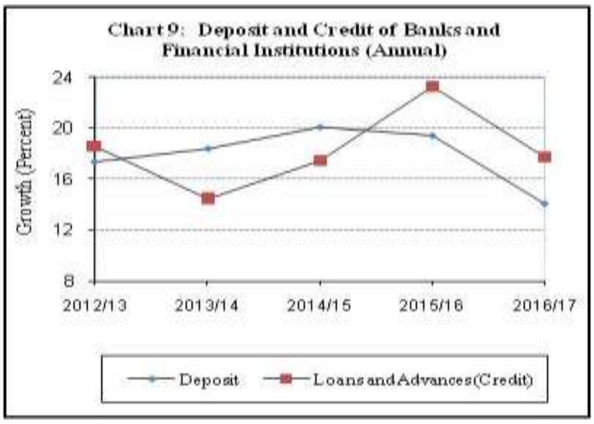


47. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 82.15 billion (8.6 percent) in the review year compared to an increase of Rs.188.95 (25.3 percent) billion in the previous year.

48. Reserve money increased 20.1 percent in the review year compared to a rise of 4.6 percent in the previous year.

Domestic Credit

49. Domestic credit expanded 19.4 percent in the review year compared to a growth of 18.2 percent in the previous year. Claims of monetary sector on the private sector increased 18 percent in the review year compared to a growth of 23.2 percent in the previous year.



Deposit Collection

50. Deposits at Banks and Financial Institutions (BFIs) increased 14 percent in the review year compared to an increase of 19.4 percent in the previous year. Of the total deposits at BFIs, while the share of demand deposits fell to 8.7 percent from 9.1 percent and saving

deposits to 35.4 percent from 43.3 percent, the share of fixed deposits increased to 43.2 percent in mid-July 2017 from 30.5 percent a year ago.

Credit Disbursement

51. Credit to the private sector from BFIs increased 18.2 percent in the review year compared to a rise of 23.7 percent in the previous year. In the review year, private sector credit from commercial banks increased 25 percent, while that of development banks and finance companies decreased 13.7 percent and 13.3 percent respectively.

Box 9 : Major Monetary and Financial Indicators (in percent)

Indicators	2014/15	2015/16	2016/17
M2/GDP	88.2	99.9	99.7
Total Deposits/GDP	79.3	89.7	88.5
Loans and Advances/GDP	72.4	84.7	86.2
Claims on Private Sector/GDP	64.5	75.3	76.8

52. Credit to the agriculture sector increased 14.3 percent, industrial production sector 11.4 percent, construction sector 16 percent, wholesale and retail trade sector 16.1 percent, service sector industries 23.3 percent and transport, communication and public sector 25.2 percent in the review year.

53. Of the total outstanding credit of BFIs, 60.9 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 60.8 percent and 15.2 percent respectively in the previous year.

54. Of the total outstanding loan of commercial banks, credit to small and medium enterprises was only 2.6 percent (Rs. 45.59 billion) in mid-July 2017.

55. Trust receipt (T.R.) loan extended by commercial banks decreased 11.2 percent (Rs. 8.16 billion) to Rs. 64.53 billion in the review year as against the increase of 31.8 percent in the previous year.

56. The growth in hire purchase lending was significant at 35.6 percent and overdraft at 22.1 percent in the review year. Similarly, residential personal home loan (up to Rs. 10 million) saw a growth of 17.5 percent and real estate loan grew 16.5 percent.

57. Indicators relating to financial deepening reflected marginal change. While the ratios of broad money and total deposit to GDP declined a little bit, ratios of loans and advances and claims on private sector to GDP increased (Box 9).

Liquidity Management

58. In the review year, 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 2016/17.

59. In the review year, the NRB injected net liquidity of Rs. 435.86 billion through the net purchase of USD 4.11 billion from foreign exchange market. Net liquidity of Rs. 471.35 billion was injected through the net purchase of USD 4.45 billion in the previous year.

60. In 2016/17, the NRB mopped up Rs. 124.45 billion through open market operations. Of which, Rs. 43.75 billion was mopped up through 14 days deposit collection auction under the corridor system, Rs. 16.45 billion under 90 days deposit collection auction and Rs. 64.25 billion through reverse repo auction on a cumulative basis. In the previous year, Rs. 542.55 billion liquidity was mopped up. This consists of Rs. 297.5 billion through deposit collection auction, Rs. 235.95 billion through reverse repo auction and Rs. 9.10 billion through outright sale auction.

61. The NRB purchased Indian currency (INR) equivalent to Rs. 451.89 billion through the sale of USD 4.12 billion and Euro 120 million in the review year. INR equivalent to Rs. 385.47 billion was purchased through the sale of USD 3.40 billion and Euro 210 million in the previous year.

Refinance and Productive Sector Lending

62. The NRB has been providing refinance facility aimed at expanding credit to the productive sector along with promoting export. In the review year, the use of such facility has increased to Rs. 14.61 billion including general refinance of Rs. 13.78 billion and export refinance of Rs 830 million. In the previous year, a total refinance of Rs. 8.9 billion including general refinance of Rs. 7.6 billion and export refinance of Rs. 1.3 billion was utilized.

63. In 2016/17, a sum of Rs. 799 million housing loan at a concessional interest rate of 2 percent was extended by the BFIs to the earthquake victims. In 2015/16, Rs. 59 million housing loan in this category was extended. NRB provides refinance facility to BFIs at a zero percent interest to extend housing loan to earthquake victims.

64. 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 18.2 percent in mid-July 2017.

Inter-bank Transaction

65. In 2016/17, inter-bank transactions of commercial banks stood at Rs. 1062.04 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 381.02 billion. Such transactions were Rs. 961.72 billion and Rs. 129.06 billion respectively in the previous year.

Interest Rates

66. The weighted average 91-day Treasury Bill rate increased to 0.71 percent in the twelve month of 2016/17 from 0.05 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.69 percent a year ago, decreased to 0.64 percent in the review month. However, the weighted average inter-bank rate among other financial institutions increased to 4.47 percent from 3.35 percent a year ago.

67. The weighted average interest rate spread between deposit and lending rate of commercial banks decreased to 5.2 percent in the review month from 5.6 percent a year ago. The average base rate of commercial banks increased to 9.9 percent in the review month from 6.5 percent a year ago.

Merger/Acquisition

68. The number of BFIs involved in merger and acquisition has been increasing after the introduction of merger/acquisition policy aimed at consolidating financial sector. 150 BFIs (including 'D' class) were involved in merger and acquisition since this bank introduced the regulatory procedure regarding merger and acquisition. Of which, the license of 111 BFIs was revoked thereby forming 39 BFIs.

69. As of mid-July 2017, among the 16 problematic BFIs, the resolution process of 7 institutions has been completed. Two of these institutions, General Finance Ltd and Arun Finance Ltd have come out from the problem status and are operating normally. Of the remaining 9 problematic institutions, ownership transfer process of 6 institutions is underway and of another one is under consideration. However, the case related to other 2 entities is under the jurisdiction of the court.

Number and Branches of Banks and Financial Institutions

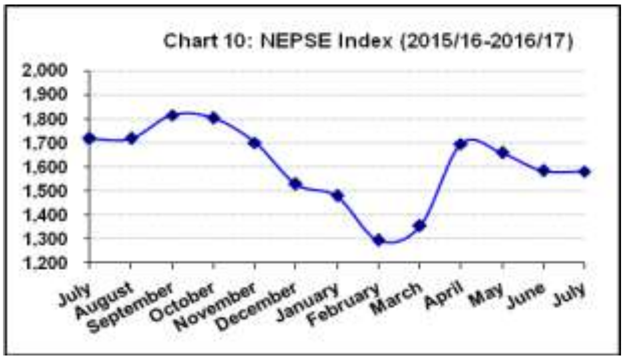
70. As a result of the merger and acquisition drive, the total number of BFIs licensed by NRB came down to 149 in mid-July 2017 from 179 a year ago (Box 10). In mid July 2017, the number of commercial banks stood at 28, development banks at 40, finance companies at 28 and microfinance institutions at 53. However, the branch network expanded to 5,068 in mid-July 2017 from 4,272 a year ago.

Box 10 : Number of BFIs/ Number of Branches

Bank and Financial Institutions	Number of BFIs		Branches of BFIs	
	Mid-July		Mid-July	
	2016	2017	2016	2017
Commercial Banks	28	28	1869	2274
Development Banks	67	40	852	769
Finance Companies	42	28	175	130
Microfinance Institutions	42	53	1376	1895
Total	**179**	**149**	**4272**	**5068**

Capital Market

71. The NEPSE index, on y-o-y basis, decreased 7.9 percent to 1,582.7 points in mid-July 2017 from 1718.2 points in mid-July 2016.



72. The stock market capitalization, on y-o-y basis, decreased 1.8 percent to Rs. 1856.8 billion in mid-July 2017. The ratio of market capitalization-to-GDP stood at 71.4 percent in mid-July 2017. Of the total market capitalization, the share of banks, financial institutions and insurance companies stood at 85.4 percent, hydropower 4.2 percent, manufacturing and processing

companies 2.3 percent, hotels 1.6 percent, trading 0.1 percent, and others 6.5 percent respectively.

73. The annual turnover of the securities increased 24.9 percent to Rs. 204.79 billion in 2016/17 from Rs. 163.96 billion in the previous year.

74. Due to the merger and acquisitions of BFIs, total number of companies listed at the NEPSE decreased to 208 in mid-July 2017 from 230 in mid-July 2016. Of the listed companies, 165 are BFIs (including insurance companies), 18 manufacturing and processing industries, 14 hydropower companies, 4 each hotels and trading institutions and 3 other sectors.

75. Total paid-up capital of the listed companies increased 41.9 percent to Rs. 289.59 billion in mid-July 2017 from the level of Rs. 204.02 billion a year ago. Total additional securities worth Rs. 133.98 billion were listed in the NEPSE during 2016/17. Of the additional securities listed, ordinary shares amounted to Rs. 4.67 billion, right shares Rs. 29.64 billion, bonus shares Rs. 36.42 billion, government securities Rs. 62 billion and the mutual fund Rs. 1.25 billion.

Macro Financial Outlook

76. The recent incessant monsoon rains, which trigerred landslides, widespread floods and inundation in the southern parts of the country, have added an element of uncertainity to the growth outlook for 2017/18. The havoc wreaked by torrential downpour across the southern plains in terms of loss of lives, both of human and cattle, destruction of infrastructure and inundation of fertile land with sands, has the danger to impair potential output. However, it is too early to prejudge the likely impact of the recent floods and innudation on summer crops, especially, paddy production. The behavior of rains during the remaining period of monsoon, the pace of implementation of national pride projects and the reconstruction of national heritages destroyed by the earthquakes of 2015 will underpin the growth propect.

77. Inflation has been a record low since 2004/05. The recent floods and landslides have potential to create upside risks to inflation. However, such risks will be temporary.

78. Financial frictions seen in recent months have significantly improved. The gap between deposit and credit growth has narrowed. The comfortable level of central bank liquidity has eased financial conditions. The upward trend in market interest rates has been arrested. The increased level of capital, the introduction of fixed interest rate corridor in the recent monetary policy statement and macroprudential tools in place are the measures aimed at making financial sector more resilient and stable going forward.