



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

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

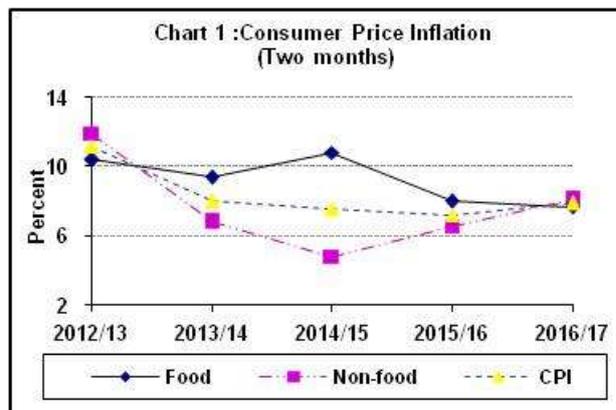
Economic Outlook

1. Summer crops are expected to improve on account ample rainfall coupled with an ease in supply of agricultural inputs during the review period.
2. The capacity utilization of manufacturing industries has expanded following the improvement energy and supply of raw materials during the review period.
3. The bed occupancy rate of tourist standard hotels has increased during the review period as compared to the same period of the previous year. This signals a gradual turn around in tourism industry.
4. To sum up, macroeconomic situation is gaining a gradual traction during the review period with rising capital expenditure of the government and rebounding in industrial output along with promising summer crops under the agricultural sector.

Inflation, Salary and Wage Rate

Consumer Price Inflation

5. The consumer price inflation eased to 7.9 percent in mid-September 2016 from the level of 8.6 percent in mid-August 2016. A year ago consumer price inflation was 7.2 percent.
6. The higher rate of increase in prices of sugar and sugar products, fruit, pulses and legumes, alcoholic drinks, spices, clothes and footwear and miscellaneous goods and services exerted an upward pressure on the overall consumer price inflation in the review period.



Food and Beverage Group

7. The food inflation decreased to 7.7 percent in the review period from 8.0 percent in the corresponding period of the previous year. The food inflation declined slightly on account of deceleration in prices of pulses and legumes, meat and fish, ghee and oil, alcoholic products, hotel and restaurants compared to the corresponding period of the previous year. Under food and beverage group, the prices of sugar and sugar products increased by 20.6 percent where as prices of fruits, pulses and legumes, alcoholic drinks and spices rose by 16.6 percent, 14.4 percent, 13.4 percent and 12.6 percent respectively.

Non-food and Services Group

8. The non-food inflation rose to 8.1 percent during the review period from 6.6 percent in the corresponding period of the previous year. The rise in non-food inflation was on account of increase in price indices of miscellaneous goods and services (13.6%), clothes and footwear (11.2%) among others.

Region-wise Consumer Price Inflation

9. The Hilly region witnessed a relatively higher rate of inflation at 10.3 percent followed by Mountain region at 7.5 percent, Terai region at 7.4 percent and the Kathmandu Valley at 6.6 percent in the review period. In the corresponding period of the previous year, Hilly region, Mountain Terai region, Terai region and the Kathmandu Valley had seen the inflation rate of 7.2 percent, 6.1 percent, 6.6 percent and 8.2 percent respectively.

Inflation Differential between Nepal and India

10. The y-o-y consumer price inflation was lower at 4.3 percent in India compared to 7.9 percent in Nepal in September 2016 showing an inflation wedge of 3.6 percent. Such inflation was 4.4 percent in India and 7.2 percent in Nepal reflecting a narrower inflation differential of 2.8 percent in the corresponding period of the previous year.

11. During the review period, the prices of fruit, pulses and legumes, spices, clothes and footwear among others in Nepal increased 16.6 percent, 14.4 percent, 12.6 percent and 11.2 percent respectively while price rises of these commodities in India were increased by 6.1 percent, 14.3 percent, 8.1 percent and 5.2 percent respectively. In the review period, the prices of sugar and sugar products increased by 20.6 percent in Nepal lower than that of increment in India by 25.8 percent (Box 1).

Box 1: Commodity Wise Inflation Wedge between in Nepal and India			
Commodities	Inflation (Percent)		Wedge
	Nepal	India	
Overall Consumer Price Inflation	7.9	4.3	3.6
1. Sugar and Sugar Products	20.6	25.8	(5.2)
2. Fruits	16.6	6.1	10.5
3. Pulses and Legumes	14.4	14.3	0.1
4. Spices	12.6	8.1	4.5
5. Clothes and Footwear	11.2	5.2	6.0

Source: Ministry of Statistics and Programme Implementation, India, September 2016

Wholesale Price Inflation

- The y-o-y wholesale price inflation rose to 5.3 percent in the review period from 5.1 percent a year ago. The wholesale price indices of agricultural commodities and domestic manufactured commodities showed a growth of 7.9 percent and 6.2 percent respectively, whereas such index of imported commodities declined 1.9 percent 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 9.3 percent and 5.3 percent respectively, whereas the price index of imported commodities had seen a decline of 4.1 percent.

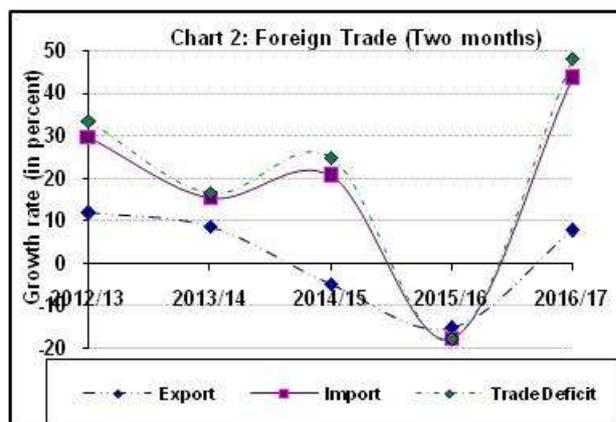
National Salary and Wage Rate

- The y-o-y salary and wage rate index rose to 15.1 percent in the review period from 6.4 percent in the corresponding period of the previous year. In the review period, the salary index increased 18.5 percent, while the wage rate index grew 14.3 percent. The salary indices of civil service, army and police forces and public corporation sub-groups increased 24.2 percent, 23.6 percent and 20.8 percent respectively in the review period. Likewise, wage rate indices of construction laborer, industrial laborer and agricultural laborer witnessed a growth of 21.4 percent, 14.4 percent and 13.2 percent respectively in the review period. The hike in pay scale of civil service drove up national salary and wage rate in the review period.

External Sector

Merchandise Trade

- In the first two months of 2016/17, merchandise exports increased 7.7 percent to Rs. 13.18 billion compared to a drop of 15.2 percent in the same period of previous year. In the review period, exports to India, China and other countries increased 9 percent, 24.5 percent and 5.5 percent respectively. Commodity wise exports of juice, jute materials, rosin, oil cake, noodles, pulses among other increased whereas export of zinc sheet, readymade garments, polyester yarn, cardamom, G.I. pipes, woolen carpet among others decreased in the review period.
- Merchandise imports increased 43.4 percent to Rs. 149.02 billion in the review period compared to a drop of 17.5 percent in the same period of the previous year. In review period, imports from India, China and Other countries increased 49.8 percent, 26.2 percent and 36.5 percent respectively. Commodity wise imports of Vehicles & spare parts, MS billet, Petroleum products, edible oil, telecommunication equipment and parts, electrical goods among others increased whereas imports of Chemical fertilizer, silver, Coldrolled Sheet in Coil, Hotrolled Sheet in coil, readymade garments among others decreased in the review period.



16. Based on customs points, the exports through Tribhuvan Airport Customs Office, Kailali customs office and Jaleshwar customs decreased whereas exports from other customs points increased. On the import side, imports through Bhairawa customs office and Biratnagar customs office decreased whereas imports through other customs points increased in the review period.
17. Total trade deficit in the review period expanded 48.1 percent to Rs 135.84 billion compared to contraction of 17.8 percent in the same period of the previous year. The export-import ratio fell to 8.8 percent in the review period from 11.8 percent in the corresponding period of the previous year.

Export-Import Price Index

18. The y-o-y unit value export price index based on customs data increased 18.8 percent while

Box 2: External Sector (USD)*							
Particulars	(USD Million)						
	2014-15		2015-16		2016-17	Percentage Change in two months	
	Two months	Annual	Two months	Annual	Two months	2015/16	2016/17
Goods Exports FoB	165.5	988.1	135.2	703.9	134.2	-18.3	-0.8
Goods Imports FoB	1276.1	7657.6	982.5	7092.5	1363.4	-23.0	38.8
Trade Balance	-1110.7	-6669.5	-847.3	-6388.6	-1229.3	-23.7	45.1
Total Trade	1441.6	8645.6	1117.7	7796.3	1497.6	-22.5	34.0
Current Account Balance	-96.2	1067.3	366.0	1338.8	-103.8	-	-
Travel Credit	57.7	536.7	54.0	392.7	70.0	-6.3	29.7
Remittance	871.0	6192.0	1033.8	6253.4	1071.3	18.7	3.6
BOP (-Surplus)	7.7	-1437.0	-302.5	-1779.8	32.6	-	-

* Data from BOP Presentation

1. In the US dollar terms, total merchandise exports decreased 0.8 percent and imports increased 38.8 percent in the first two months of 2016/17. Exports and imports had decreased 18.3 percent and 23 percent respectively in the corresponding period of the previous year.
2. Current account slipped into deficit by USD 103.8 million in the review period. It was in surplus of USD 366 million in the corresponding period of previous year. Likewise, Balance of Payments (BOP) slipped into deficit of USD 32.6 million in the review period as against the surplus of USD 302.5 million in the corresponding period of previous year.
3. In the review period, travel receipt increased 29.7 percent and worker's remittance increased by 3.6 percent. Travel receipt had decreased 6.3 percent and remittances had increased 18.7 percent in the corresponding period of previous year.

import price index decreased 3 percent in the second month of 2016/17. Consequently, the TOT index increased 22.5 percent compared to an increase of 15.7 percent in the corresponding period of the previous year. Increase in price of export items such as Jute fabrics, carpet, ginger, orthodox tea caused the rise in export price index in the review period. Fall in the price of petroleum product, lubricants, medicines, animal feed, betel nuts resulted in a decline in import price index in the review period.

Services

19. The total services receipt declined 2.8 percent and expenses increased 4 percent in the review period. As a result, net services receipt deficit increased to Rs. 5.31 billion in the review period from a deficit of Rs. 3.73 billion in the same period of previous year. Under the services account, travel receipt increased 33.1 percent to Rs. 7.50 billion in the review period. Such receipt had decreased 0.8 percent in the same period of previous year.

Workers' Remittances

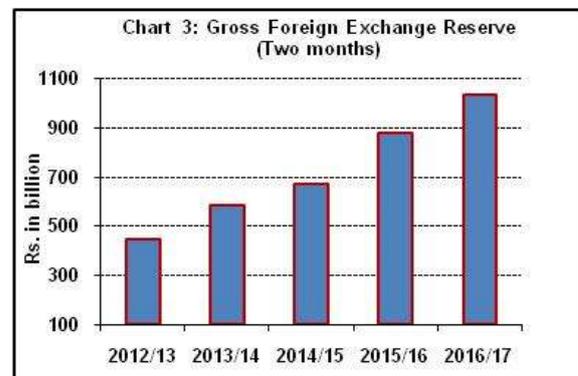
20. The workers' remittances increased 6.6 percent to Rs. 114.74 billion in the review period compared to a growth of 27.5 percent in the corresponding period of the previous year. Consequently, net transfer receipt increased 3.7 percent to Rs. 130.15 billion in the review period. Such receipt had increased 32.2 percent in the same period of the previous year.

Current Account and BOP

21. On account of an increase in trade deficit and dividend payments on foreign investment accompanied with decrease in foreign grants, the current account slipped into a deficit of Rs. 11.12 billion in the review period from a surplus of Rs. 38.48 billion in the same period of the previous year. Similarly, the overall BOP recorded a deficit of Rs. 3.50 billion in the review period from a surplus of Rs. 31.88 billion in the same period of the previous year.
22. In the review period, Nepal received capital transfer amounting to Rs. 1.54 billion and Foreign Direct Investment (FDI) inflow of Rs. 2.19 billion. In the same period of the previous year, capital transfer and FDI inflows were Rs. 2.51 billion and Rs. 834.7 million respectively.

Foreign Exchange Reserves

23. The gross foreign exchange reserves decreased 0.6 percent to Rs. 1032.70 billion as at mid-September 2016 from Rs. 1039.21 billion in mid-July 2016. Of the total foreign exchange, reserves held by NRB decreased 0.8 percent to Rs. 880.16 billion as at mid-September 2016 from Rs. 887.01 billion as at mid-July 2016. Similarly, the reserves of banks and financial institutions (except NRB) increased 0.2 percent to Rs. 152.55 billion as at mid-September 2016 from Rs. 152.20 billion as at mid-July 2016. The share of Indian currency in total reserves stood at 22.4 percent as at mid-September 2016.



Foreign Exchange Adequacy Indicators

24. Based on the imports of the first two months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 14.1 months, and merchandise and services imports of 12 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 45.9 percent, 100.1 percent and 45.3 percent respectively as at mid-September 2016. 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

25. The price of oil (Crude Oil Brent) in the international market increased 6.2 percent to USD 48.27 per barrel in mid-September 2016 from USD 45.26 per barrel a year ago. The price of gold increased 17.1 percent to USD 1308.35 per ounce in mid-September 2016 from USD 1117.50 per ounce a year ago.

26. Nepalese currency vis-à-vis the US dollar depreciated 0.1 percent in mid-September 2016 from mid-July 2016. It had depreciated 4.5 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 106.85 in mid-September 2016 compared to Rs. 106.73 in mid-July 2016.

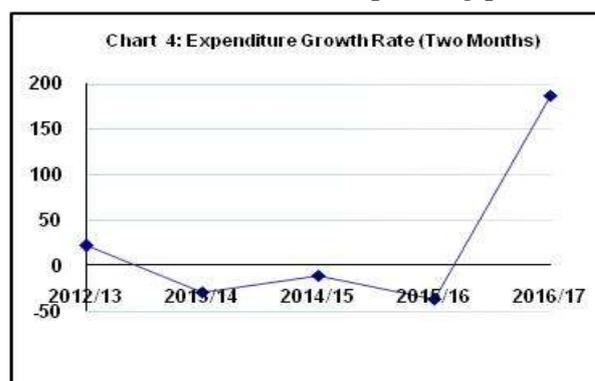
Fiscal Situation *

Budget Deficit / Surplus

27. In the first two months of 2016/17, the Government of Nepal (GoN) ran a surplus of Rs. 66.45 billion in its budget. Such surplus was Rs. 48.43 billion in the corresponding period of the previous year.

Government Expenditure

28. In the review period, total government expenditure on a cash basis increased to Rs. 31.55 billion. Such expenditure was Rs. 11 billion in the corresponding period of the previous year.



29. In the review period, recurrent expenditures increased to Rs. 29.58 billion. Such expenditures had remained at 10.57 billion in the corresponding period of the previous year. In the review period, capital expenditures remained at Rs. 1.29 billion. Such expenditures were Rs. 436 million in the corresponding period of the previous year. Government Budget announcement one and half months before the start of new fiscal year and timely approval of Appropriation Bill resulted high growth on recurrent and capital expenditure.

Box 3: The Budget Performance

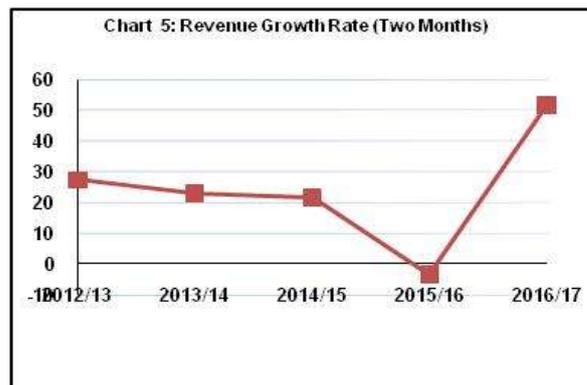
Heads	Budget Estimates Rs. in millions	Outturns in the First Two Months	
		Rs. in million	As percent of budget estimates
Total Expenditure	1048921.4	31547.6	3.01
Recurrent Expenditure	617164.1	29578.9	4.79
Capital Expenditure	311946.3	1290.8	0.41
Financial Expenditure	119810.9	677.9	0.57
Revenue	565896.5	80474.6	14.22

Government Revenue

*

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 Agriculture 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, and Bank of Kathmandu Limited conducting government transactions and released report from 79 DTCOs and payment centers.

30. In the review period, the government revenue collection increased 51.6 percent to Rs. 80.47 billion. Such revenue had decreased 3.6 percent in the corresponding period of the previous year. Higher growth rate of value added tax, customs, excise duty and including others tax heads contributed to the overall rise in revenue collection in the review period.

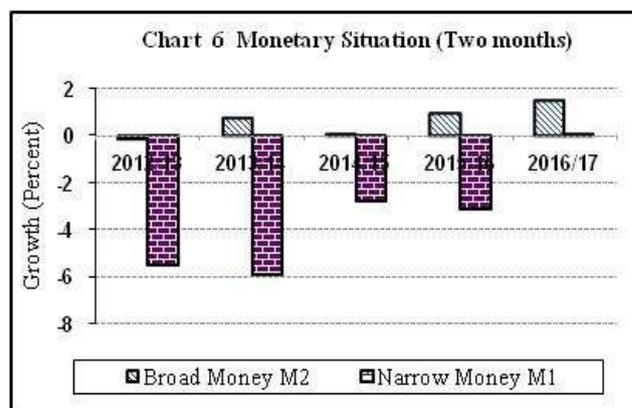


Cash Balance of the GoN

31. Because of a slow pace of government expenditure relative to resource mobilization, the GoN accumulated cash balance of Rs. 200.90 billion at Nepal Rastra Bank as of mid-September 2016.

Money Supply

32. Broad money (M2) increased 1.5 percent in the review period compared to an increase of 1 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 20.2 percent in mid-September 2016.



33. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs. 3.50 billion in the review period as against an increase of Rs. 31.88 billion in the corresponding period of the previous year. The decline in NFA was due to the rise in import in the review period.

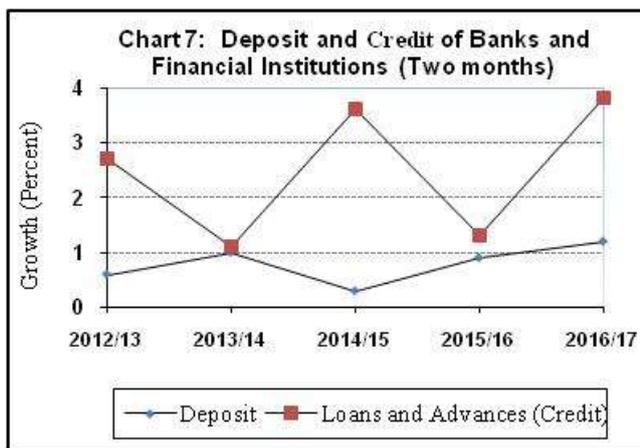
34. Reserve money declined 6.3 percent in the review period compared to a decrease of 13.2 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 13 percent in mid-September 2016.

Domestic Credit

35. Domestic credit expanded 0.1 percent in the review period as against a decline of 2.4 percent in the same period of the previous year. On y-o-y basis, domestic credit increased 20.4 percent in mid-September 2016.
36. Claims of monetary sector on the private sector increased 4.3 percent in the review period compared to a growth of 1.7 percent in the previous year. On y-o-y basis, claims on the private sector increased 26.3 percent in mid-September 2016.

Deposit Collection

37. Deposits at Banks and Financial Institutions (BFIs) increased 1.2 percent in the review period compared to an increase of 0.9 percent in the corresponding period of the previous year. Deposits at commercial banks and finance companies increased 1.4 percent and 0.6 percent respectively, while that at development banks decreased 0.4 percent in the review period. On y-o-y basis, deposits at BFIs expanded 19.8 percent in mid-September 2016.



Credit Disbursement

38. Credit to the private sector from BFIs increased 3.5 percent in the review period compared to an increase of 0.9 percent in the same period of the previous year. In the review period, private sector credit from commercial banks, development banks and finance companies increased 3.8 percent, 2.2 percent and 1.7 percent respectively. On y-o-y basis, credit to the private sector from BFIs increased 27 percent in mid-September 2016.
39. Credit to the agriculture sector increased 4.2 percent, industrial production sector 2.4 percent, construction 4.3 percent, wholesale and retail trade sector 3.9 percent, service industries sector 3.6 percent and transport, communication and public sector 4 percent in the review period.
40. Of the total outstanding credit of BFIs, 60.6 percent is against the collateral of land and building and 15.2 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 59.4 percent and 12.9 percent respectively in the same period of the previous year.
41. The outstanding credit of BFIs to real estate sector amounted to Rs. 260.01 billion (including Rs. 149.50 billion residential home loans less than Rs. 10 million each) in mid-September 2016. This is 15 percent of total credit exposure of BFIs. As at mid-September 2016, the BFIs' total margin lending extended against the collateral of shares stood at 2.1 percent (Rs. 37.33 billion) of their total credit exposure. Of the total lending of commercial banks, credit to small and medium enterprises was only 2.5 percent (Rs. 36.68 billion) in the review period.
42. Trust Receipt (T.R.) loan extended by commercial banks increased 9.2 percent (Rs. 6.72 billion) in the review period compared to a growth of 4.6 percent in the same period of the previous year.

Liquidity Management

43. In the first two months of 2016/17, the NRB mopped up Rs 85.05 billion liquidity, on a turnover basis, through various instruments. These consist of Rs. 31.5 billion through deposit collection auction (including Rs. 26.45 billion through 14 days deposit collection auction under corridor system introduced in the current fiscal year) and Rs. 53.55 billion through

reverse repo auction on a cumulative basis. In the corresponding period of the previous year, Rs. 57.25 billion was mopped up through deposit collection auction, Rs. 21.30 billion through reverse repo auction and Rs. 9.10 billion through outright sale auction.

44. In the review period, the NRB injected net liquidity of Rs. 57.51 billion through the net purchase of USD 537.5 million from foreign exchange market (commercial banks) and Rs. 10 million through repo auction. Net liquidity of Rs. 73.93 billion was injected through the net purchase of USD 709.4 million in the corresponding period of the previous year.
45. The NRB purchased Indian currency (INR) equivalent to Rs. 77.47 billion through the sale of USD 640 million and Euro 75 million in the review period. INR equivalent to Rs. 35.08 billion was purchased through the sale of USD 540 million in the corresponding period of the previous year.

Refinance and Productive Sector Lending

46. 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. 1.99 billion including general refinance Rs. 1.62 billion and export refinance Rs 0.37 billion was availed. In the corresponding period of the previous year, a total refinance of Rs. 0.67 billion including general refinance of Rs. 0.62 billion and export refinance of Rs. 0.5 billion was utilized. Moreover, a sum of Rs. 117.08 million housing loan has been extended by the BFIs to the earthquake victims as of mid-September 2016. This is under the zero percent interest refinance scheme introduced by this bank.
47. There is a policy-provision for commercial banks to disburse 20 percent of their total credit in the productive sector. Such credit of commercial banks stood at 16.63 percent in mid-September 2016.

Inter-bank Transaction and Standing Liquidity Facility

48. In the review period, inter-bank transactions of commercial banks stood at Rs. 167.79 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 45.59 billion. Such transactions were Rs. 141.38 billion and Rs. 14 billion respectively in the corresponding period of the previous year. The BFIs did not use the standing liquidity facility (SLF) in the review period.

Interest Rates

49. The weighted average 91-day Treasury Bill rate decreased to 2.05 percent in the review month from 2.22 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 1.45 percent a year ago, increased to 2.56 percent in the review month. Likewise, the weighted average inter-bank rate among other financial institutions increased to 3.58 percent from 2.71 percent a year ago.
50. The weighted average interest rate spread between deposit and lending rate of commercial banks decreased to 4.56 percent in the review month from 4.60 percent a year ago. The average base rate of commercial banks came down to 6.23 percent in the review month from 7.21 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-September 2016, 118 BFIs (including 'D' class) were involved in merger and acquisition. Of which, the license of 77 BFIs was revoked thereby forming 41 BFIs.

Capital Market

52. The NEPSE index reached 1,815.2 points in mid-September 2016 from 1,717.5 points in mid-August 2016. The index was 1,196.0 points in mid-September 2015. The stock market has been on bullish trend as the capital hike plan of BFIs was found to be encouraging by investors, the reforms implemented in stock market, among others.