



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

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

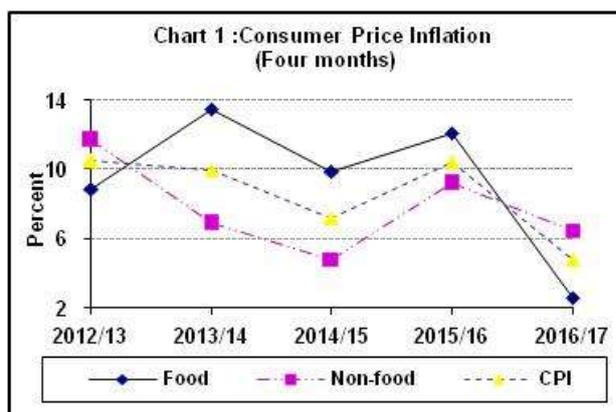
Economic Outlook

1. The economic activity is expected to rebound on the back of post earthquake reconstruction of individual houses following the acceleration in disbursement of housing grants, improved power supply, and recovery in agricultural, industrial and tourism sectors in 2016/17. A boost in summer crops is to underpin a stronger than expected recovery in agriculture.
2. However, the growth outlook is contingent upon the successful implementation of developmental projects, amelioration of fiscal drag of cash balances accumulated with the NRB and the external environment. The recent demonetization of Indian high value bank notes is likely to have near term dampening effect on tourism and export of agricultural commodities to India.
3. The deceleration in inflation is expected to provide relief to the general public and create conducive environment for industrial production and businesses.
4. The current account has returned to a surplus after a deficit in preceding three months, resulting in BOP surplus, which is likely to strengthen the country's external position.

Inflation, Salary and Wage Rate

Consumer Price Inflation

5. Consumer price inflation has further decelerated to 4.8 percent in mid-November 2016 from the level of 6.7 percent in mid-October 2016. Such inflation was 10.4 percent both in mid-July 2016 and mid-November 2015.
6. The pressure on overall consumer price inflation eased on account of decline in both the food and non-food inflation in



the review period compared to the corresponding period of the previous year.

Food Inflation

7. The food inflation fell to 2.6 percent in mid-November 2016 from 12.1 percent a year ago. The fall in prices of edible oil as well as pulses and deceleration in prices of milk products and egg, cereal grains and their products, fruit, meat and fish drove down food inflation during the review period (Box 1).

Box 1: The Y-O -Y Food Inflation This Year and Last Year (Fourth Month)		
Particulars	Inflation (Percent)	
	2015/16	2016/17
Food Inflation	12.1	2.6
1. Ghee and Oil	41.1	(19.8)
2. Pulses and Legumes	44.1	(2.3)
3. Milk Products and Egg	11.9	3.1
4. Cereal Grains and their Products	9.4	1.5
5. Fruit	10.2	3.2
6. Meat and Fish	9.6	3.9

Source: National Consumer Price Index, Mid-November 2016

Non-food Inflation

8. The non-food inflation also fell to 6.5 percent in mid-November 2016 from 9.2 percent a year ago. The moderation in non-food inflation was due to the fall in prices of transportation and communication during the review period (Box 2).

Box 2: The Y-O -Y Non-food Inflation This Year and Last Year (Fourth Month)		
Particulars	Inflation (Percent)	
	2015/16	2016/17
Non-food Inflation	9.2	6.5
1. Transportation	4.8	(6.4)
2. Communication	5.8	(0.6)
3. Clothes and Footwear	14.6	9.2
4. Housing and Utilities	11.4	8.9

Source: National Consumer Price Index, Mid-November 2016

Region-wise Consumer Price Inflation

9. The Hilly region witnessed a relatively higher rate of inflation of 6.2 percent followed by Terai region at 5.1 percent, Mountain region at 4 percent and the Kathmandu Valley at 3 percent in the review period. In the corresponding period of the previous year, Hilly region, Terai region, Mountain region and the Kathmandu Valley had seen the inflation rate of 11.4 percent, 9.1 percent, 9.6 percent and 11.8 percent respectively.

Inflation Differential between Nepal and India

10. The y-o-y consumer price inflation was lower at 3.6 percent in India compared to 4.8 percent in Nepal in the review month of 2016

Box 3: Commodity-Wise Inflation Wedge between Nepal and India			
Commodities	Inflation (Percent)		Wedge
	Nepal	India	
Overall Consumer Price Inflation	4.8	3.6	1.2
1. Sugar and Sugar Products	13.2	22.4	(9.2)
2. Alcoholic Products	11.6	6.3	5.3
3. Vegetable	10.5	(10.3)	20.8
4. Education	10.0	5.2	4.8

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

showing an inflation wedge of 1.2 percent. Such inflation was 5.4 percent in India and 10.4 percent in Nepal reflecting a wider inflation differential of 5 percent in the corresponding period of the previous year.

11. The slightly higher rate of inflation in Nepal than India is due to the relatively higher prices of vegetable and alcoholic products in Nepal (Box 3).

Wholesale Price Inflation

12. The y-o-y wholesale price inflation dropped to 4.1 percent in the review period from 7.1 percent a year ago. While the wholesale price inflation of agricultural commodities and domestic manufactured commodities showed a growth of 6.2 percent and 4.7 percent respectively, whereas such index of imported commodities declined 1.6 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 11.9 percent and 7.2 percent respectively, whereas the price index of imported commodities had seen a decline of 3.4 percent.

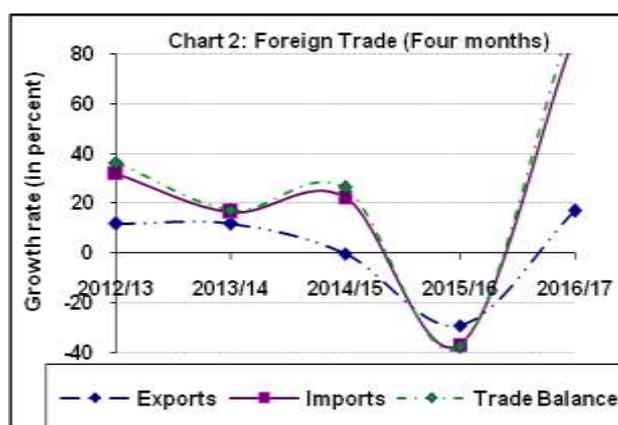
National Salary and Wage Rate

13. The y-o-y salary and wage rate index rose to 14.4 percent in the review period from 8.1 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 13.4 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 24.2 percent, 23.6 percent and 20.8 percent respectively in the review period. Likewise, wage rate indices of construction laborer, agricultural laborer and industrial laborers witnessed a growth of 15.7 percent, 13.5 percent and 12.2 percent respectively in the review period.

External Sector

Merchandise Trade

14. In the first four months of 2016/17, merchandise exports increased 17 percent to Rs. 24.52 billion as against a decline of 29.1 percent in the same period of the previous year. In the review period, exports to India, China and other countries increased 23.2 percent, 36.6 percent and 9 percent respectively.



Commodity wise, exports of juice, jute goods, shoes and sandals, rosin, oil cakes, pulses among others increased whereas export of cardamom, readymade garments, zinc sheet, vegetables, polyester yarn among others decreased in the review period.

15. Merchandise imports increased 87.4 percent to Rs. 301.66 billion in the review period in contrast to a drop of 36.8 percent in the same period of the previous year. In the review period, imports from India, China and Other countries increased 106.1 percent, 72.7 percent and 53.2 percent respectively. Commodity wise, imports of vehicles and spare parts, petroleum products, MS billet, other machinery & parts, telecommunication equipment and parts, cement among others increased whereas imports of aircraft spare parts, coldrolled-sheet in coil, silver, betel nut, readymade garments among others decreased in the review period.
16. Based on customs points, the exports through Tribhuvan International Airport Customs Office, Jaleswar Customs Office and Dry Port Customs Office decreased whereas exports from other customs points increased in the review period. On the import side, imports through Kailali Customs Office decreased whereas imports through other customs points increased in the review period.
17. Total trade deficit in the review period widened 97.9 percent to Rs 277.13 billion as against a contraction of 37.8 percent in the same period of the previous year. The export-import ratio fell to 8.1 percent in the review period from 13 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 12.8 percent while import price index decreased 0.2 percent in four months of 2016/17. Consequently, the Terms of Trade (TOT) index improved 13.07 percent compared to an increase of 18.1 percent in the corresponding period of the previous year. Increase in price of export items such as ginger, carpet, rudraksha, pulse, polyester yarn caused the rise in export price index in the review period. The fall in the price of betel nut, jute goods and MS billet resulted in a decline in import price index in the review period.

Services

19. The total services receipts increased 14.1 percent and expenses rose 8.8 percent in the review period. As a result, net services surplus stood at Rs. 1.09 billion in the review period in contrast to a deficit of Rs. 1.05 billion in the same period of the previous year. Under the services account, travel receipts increased 33.5 percent to Rs. 17.21 billion in the review period. Such receipts had decreased 18.1 percent in the same period of the previous year.

Workers' Remittances

20. The workers' remittances increased 7.8 percent to Rs. 232.14 billion in the review period compared to a growth of 19.4 percent in the corresponding period of the previous year. Consequently, net transfer receipts increased 6.7 percent to Rs. 265.43 billion in the review period. Such receipts had increased 23.2 percent in the same period of the previous year.
21. The number of workers going abroad for foreign employment has been falling. The number of Nepalese workers seeking foreign employment, based on final approval for foreign employment, decreased by 7.9 percent in the first four months of 2016/17. It had decreased by 20.9 percent in the same period of the previous year.

<i>Box 4: Number of Nepalese Workers Going Abroad for Foreign Employment *</i>			
Mid-Month/Year	2014/15	2015/16	2016/17
August	42309	37756	35485
September	51551	40275	34759
October	35550	35484	24949
November	43213	23061	30588
December	53354	38350	
January	45362	35389	
February	48941	34219	
March	44460	35701	
April	52210	31615	
May	31375	36778	
June	37962	37687	
July	26600	32398	
Total	512887	418713	125781
Percentage Change	-2.8	-18.4	-7.9**
* Based on final approval for foreign employment except re-approval. ** July/Nov. Source:- Foreign Employment Department			

Current Account and BOP

22. The current account returned to a surplus of Rs. 1.86 billion in mid-November 2016 after a consecutive deficit in preceding three months. The overall BOP recorded a surplus of Rs. 21.98 billion in the review period compared to a surplus of Rs. 83.70 billion in the same period of the previous year.
23. Capital transfer of Rs. 3.38 billion and Foreign Direct Investment (FDI) inflow of Rs. 5.71 billion were recorded in the review period. In the same period of the previous year, capital transfer and FDI inflows were Rs. 4.61 billion and Rs. 1.12 billion respectively.

Box 5: External Sector (USD)*

Particulars	(USD Million)						
	2014-15		2015-16		2016-17	Percentage Change in Four months	
	Four Months	Annual	Four Months	Annual	Four Months	2015/16	2016/17
Goods Exports (FoB)	340.7	988.1	219.6	703.9	254.8	-35.5	16.0
Goods Imports (FoB)	2576.8	7657.6	1523.6	7092.5	2763.4	-40.9	81.4
Trade Balance	-2236.0	-6669.5	-1304.0	-6388.6	-2508.6	-41.7	92.4
Total Trade	2917.5	8645.6	1743.2	7796.3	3018.1	-40.3	73.1
Travel Receipts	161.0	536.7	123.2	392.7	160.9	-23.4	30.6
Workers' Remittances	1847.6	6192.0	2061.8	6253.4	2170.2	11.6	5.3
Current Account Balance	-60.9	1067.3	1153.5	1338.8	17.7	-	-
BOP (-Surplus)	-62.9	-1437.0	-797.1	-1779.8	-206.0	-	-

* Data from BOP Presentation

1. In the US dollar terms, total merchandise exports and imports increased 16 percent and 81.4 percent respectively in the first four months of 2016/17. Exports and imports had decreased 35.5 percent and 40.9 percent respectively in the corresponding period of the previous year.
2. In the review period, travel receipts increased 30.6 percent and worker's remittance rose 5.3 percent. Travel receipts had decreased 23.4 percent and remittances had increased 11.6 percent in the corresponding period of the previous year.
3. Current account recorded a surplus of USD 17.7 million in the review period. It was in surplus of USD 1153.5 million in the corresponding period of the previous year. Likewise, Balance of Payments (BOP) recorded a surplus of USD 206 million in the review period compared to the surplus of USD 797.1 million in the corresponding period of the previous year.

Foreign Exchange Reserves

24. The gross foreign exchange reserves increased 2.1 percent to Rs. 1061.28 billion as at mid-November 2016 from Rs. 1039.21 billion in mid-July 2016. Of the total foreign exchange, reserves held by NRB increased 1.5 percent to Rs. 900.26 billion as at mid-November 2016 from Rs. 887.01 billion as at mid-July 2016. Similarly, the reserves of banks and financial institutions (except NRB) increased 5.8 percent to Rs. 161.01 billion as at mid-November 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-November 2016.



Foreign Exchange Adequacy Indicators

25. Based on the imports of the first four months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of

14.4 months, and merchandise and services imports of 12.4 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 47.2 percent, 103.2 percent and 44.8 percent respectively as at mid-November 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

26. The price of oil (Crude Oil Brent) in the international market increased 9.6 percent to USD 44.15 per barrel in mid-November 2016 from USD 40.28 per barrel a year ago. The price of gold increased 13.1 percent to USD 1226.95 per ounce in mid-November 2016 from USD 1084.75 per ounce a year ago.
27. Nepalese currency vis-à-vis the US dollar depreciated 0.5 percent in mid-November 2016 from mid-July 2016. It had depreciated 4.1 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 107.31 in mid-November 2016 compared to Rs. 106.73 in mid-July 2016.

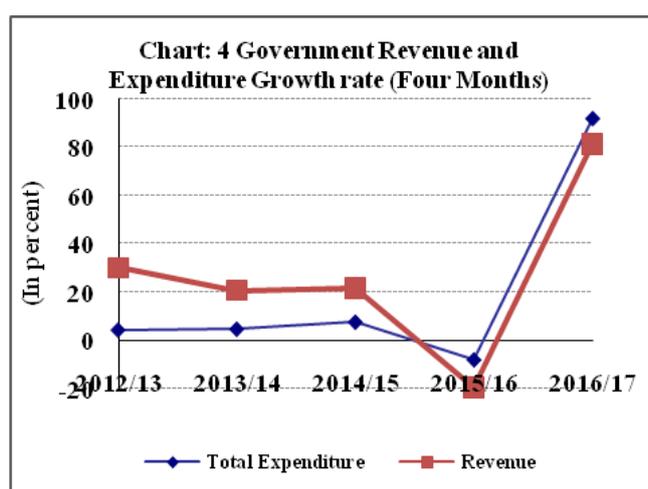
Fiscal Situation *

Budget Deficit / Surplus

28. In the first four months of 2016/17, the Government of Nepal (GoN) ran a surplus of Rs. 53.29 billion in its budget. Such surplus was Rs. 35.10 billion in the corresponding period of the previous year.

Government Expenditure

29. In the review period, total government expenditure on a cash basis increased 91.8 percent to Rs. 140.68 billion. Such expenditure had decreased 7.8 percent in the corresponding period of the previous year.
30. In the review period, recurrent expenditure increased to Rs. 124.89 billion. Such expenditure was 58.05 billion in the corresponding period of the previous year. In the review period, capital expenditure increased to Rs. 11.86 billion. Such expenditure was Rs. 5.74 billion in the corresponding period of the previous year. Government Budget



* 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.

announcement one and half months before the start of new fiscal year and timely approval of Appropriation Bill resulted in relatively higher growth in recurrent and capital expenditure. However, outturns in various heads of government expenditure have remained far below annual targets.

Government Revenue

31. In the review period, the government revenue collection increased 81.5 percent to Rs. 168.04 billion. Such revenue had decreased 19.4 percent in the corresponding period of the previous year. Higher growth rate of major tax

Box: 6 The Budget Performance			
Heads	Budget Estimates (Rs. in millions)	Outturns in Four Months	
		Rs. in million	As percent of budget estimates
Total Expenditure	1048921.4	140684.4	13.41
Recurrent	617164.1	124894.1	20.24
Capital	311946.3	11862.5	3.80
Financial	119810.9	3927.8	3.28
Revenue	565896.5	168039.2	29.69

heads such as value added tax, income tax, customs, excise duty and others tax heads contributed to the rise in overall revenue collection in the review period.

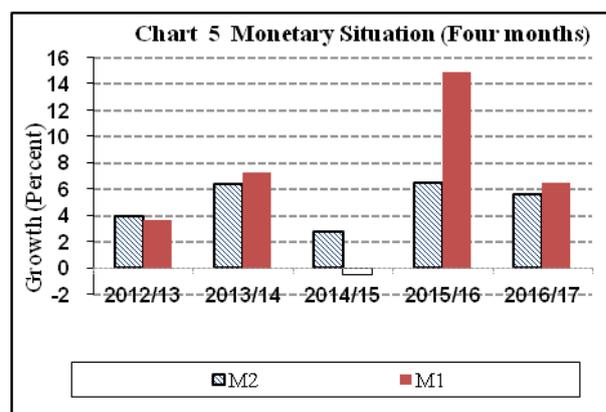
Cash Balance of the GoN

32. Because of a slow pace of government expenditure relative to resource mobilization, the GoN accumulated cash balance of Rs. 195.96 billion at Nepal Rastra Bank as of mid-November 2016.

Monetary Situation

Money Supply

33. Broad money (M2) increased 5.6 percent in the review period compared to an increase of 6.5 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 18.6 percent in mid-November 2016.
34. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 21.98 billion in the review



period compared to an increase of Rs. 83.70 billion in the corresponding period of the previous year.

35. Reserve money increased 1 percent in the review period compared to a growth of 0.1 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 5.6 percent in mid-November 2016.

Domestic Credit

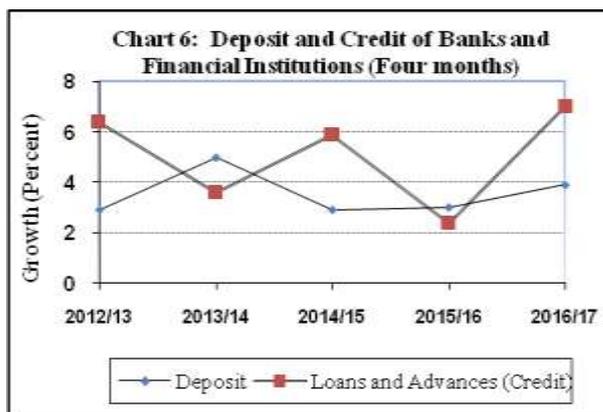
36. Domestic credit expanded 3.8 percent in the review period as against a decline of 0.7 percent in the same period of the previous year. On y-o-y basis, domestic credit increased 22.7 percent in mid-November 2016.
37. Claims of monetary sector on the private sector increased 7.8 percent in the review period compared to a growth of 3.3 percent in the previous year. On y-o-y basis, claims on the private sector increased 28.5 percent in mid-November 2016.

Deposit Collection

38. Deposits at Banks and Financial Institutions (BFIs) increased 3.9 percent in the review period compared to an increase of 3 percent in the corresponding period of the previous year. Deposits at commercial banks and development banks increased 4 percent and 4.8 percent respectively, while that at finance companies decreased 11.5 percent in the review period. On y-o-y basis, deposits at BFIs expanded 20.5 percent in mid-November 2016.

Credit Disbursement

39. Credit to the private sector from BFIs increased 7.4 percent in the review period compared to an increase of 2.7 percent in the same period of the previous year. In the review period, private sector credit from commercial banks and development banks increased 7.8 percent and 9 percent respectively, while that of finance companies decreased 7.2 percent. On y-o-y basis, credit to the private sector from BFIs increased 29.4 percent in mid-November 2016.



40. Credit to the agriculture sector increased 5.7 percent, industrial production sector 5.7 percent, construction 7.3 percent, wholesale and retail trade sector 7 percent, service industries sector 8.1 percent and transport, communication and public sector 10.1 percent in the review period.
41. Of the total outstanding credit of BFIs, 60.7 percent is against the collateral of land and building and 14.9 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 59.7 percent and 12.6 percent respectively in the same period of the previous year.

42. The outstanding credit of BFIs to real estate sector amounted to Rs. 270.40 billion (including Rs. 155.67 billion residential home loans less than Rs. 10 million each) in mid-November 2016. This is 15 percent of total credit exposure of BFIs. As at mid-November 2016, the BFIs' total margin lending extended against the collateral of shares stood at 2.2 percent (Rs. 39.3 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. 37.47 billion) in the review period.
43. Trust Receipt (T.R.) loan extended by commercial banks increased 7.4 percent (Rs. 5.35 billion) in the review period as against a decline of 1 percent in the same period of the previous year.

Liquidity Management

44. In the first four months of 2016/17, the NRB mopped up Rs. 92.25 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 the corridor system introduced in the current fiscal year) and Rs. 60.75 billion through reverse repo auction on a cumulative basis. In the corresponding period of the previous year, Rs. 157.25 billion was mopped up through deposit collection auction, Rs. 76.30 billion through reverse repo auction and Rs. 9.10 billion through outright sale auction.
45. In the review period, the NRB injected net liquidity of Rs. 137.87 billion through the net purchase of USD 1.29 billion from foreign exchange market (commercial banks) and Rs. 10.01 billion through repo auction (including Rs. 10 million through 14 days repo auction under the corridor system introduced in the current fiscal year). Net liquidity of Rs. 154.28 billion was injected through the net purchase of USD 1.48 billion in the corresponding period of the previous year.
46. The NRB purchased Indian currency (INR) equivalent to Rs. 150.33 billion through the sale of USD 1.3 billion and Euro 95 million in the review period. INR equivalent to Rs. 79.19 billion was purchased through the sale of USD 760 million in the corresponding period of the previous year.

Refinance and Productive Sector Lending

47. 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. 3.04 billion including general refinance Rs. 2.67 billion and export refinance Rs. 0.37 billion was availed. In the corresponding period of the previous year, a total refinance of Rs. 1.53 billion including general refinance of Rs. 1.39 billion and export refinance of Rs. 0.14 billion was utilized. Moreover, a sum of Rs. 209.7 million housing loan has been extended by the BFIs to the

earthquake victims as of mid-November 2016. This is under the zero percent interest refinance scheme introduced by this bank.

Inter-bank Transaction and Standing Liquidity Facility

48. In the review period, inter-bank transactions of commercial banks stood at Rs. 400.33 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 120.75 billion. Such transactions were Rs. 231.50 billion and Rs. 23.70 billion respectively in the corresponding period of the previous year. The BFIs used the standing liquidity facility (SLF) of Rs. 10.05 billion in the review period.

Interest Rates

49. The weighted average 91-day Treasury Bill rate increased to 3 percent in the review month from 0.29 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.36 percent a year ago, increased to 3.59 percent in the review month. Likewise, the weighted average inter-bank rate among other financial institutions increased to 5.08 percent from 1.49 percent a year ago.

Merger/Acquisition

50. 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-November 2016, 120 BFIs (including 'D' class) were involved in merger and acquisition. Of which, the license of 79 BFIs was revoked thereby forming 41 BFIs.

Capital Market

51. The NEPSE index declined to 1,701.9 points in mid-November 2016 from 1,803.7 points in mid-October 2016. However, on y-o-y basis, the index increased 55.5 percent in mid-November, 2016.
52. The total turnover of the securities increased 157.1 percent to Rs. 87.08 billion during the first four months of 2016/17. The increased liquidity of stocks due to the dematerialized transactions, the increment in the share trading time from this fiscal year as well as the bullish trend of the NEPSE index were the primary reasons of such upsurge in turnover.