



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

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

Macrofinancial Outlook

1. The available macro financial indicators show the mixed outlook of the Nepalese economy in the near term. While macroeconomic outlook is positive with economic growth gaining traction to the projected path, the economy faces headwinds in the form of financial frictions that emerged in recent months.
2. The higher than expected growth in agriculture, the improved power supply and a pickup in construction as well as reconstruction activities underpin the optimistic growth outlook.
3. Inflationary pressure continues to ease. The inflation outlook is expected to remain subdued and is likely to undershoot the annual target of 7.5 percent in 2016/17.
4. The financial imbalance (credit growth outpacing deposit growth) that emerged in recent months is showing some signs of improvement. Financial sector has now ample liquidity. Credit flows have resumed but their full restoration to the normal level is likely to take some time. Sooner is the acceleration in capital spending, faster will be resumption of credit flows to the economy.

Inflation, Salary and Wage Rate

Consumer Price Inflation

5. Consumer price inflation has further moderated to 2.9 percent in mid-March 2017 from the point of 10.2 percent in mid-March 2016. The y-o-y inflation has been decelerating in recent months due mainly to the previous year's base price effect and improved supply situation.



Food Inflation

6. The food inflation remained negative by 0.4 percent in mid-March 2017 from 10.3 percent in the corresponding period of the previous year. A fall in prices of pulses and legumes by 11.2 percent,

vegetable by 8.3 percent, ghee and oil by 5.8 percent and cereal grains by 0.1 percent caused food inflation to decline. Of food and beverage group, the prices of sugar and sugar products increased by 15.2 percent and alcoholic drinks by 10.7 percent in the review period.

Box 1: Y-O -Y Food Inflation (Eight Months)		
Particulars	Inflation (Percent)	
	2015/16	2016/17
Food Inflation	10.3	(0.4)
1 Pulses and Legumes	31.6	(11.2)
2 Ghee and Oil	18.8	(5.8)
3 Spices	16.6	2.4
4 Milk products and Eggs	11.9	3.9
5 Cereal Grains and their Products	9.2	(0.1)
6 Fruit	9.2	0.9
7 Vegetable	6.8	(8.3)
<i>Source: National Consumer Price Index, Mid-March 2017</i>		

Non-food Inflation

7. The non-food inflation also moderated to 5.6 percent during the review period from 10.2 percent in the corresponding period of the previous year. The decline in growth rate of prices of clothes and footwear, communication, housing and utilities, transportation, among others contributed to the moderation in non-food inflation in the review period.

Region-wise Consumer Price Inflation

8. The Hilly region witnessed relatively a higher rate of inflation of 5.9 percent followed by Mountain region (3.7 percent), Terai region (2.8 percent) and the Kathmandu Valley (1.9 percent) in the review period. In the corresponding period of the previous year, Hilly region, Mountain region, Terai region and the Kathmandu Valley had witnessed inflation rate of 10.4 percent, 8.5 percent, 8.6 percent and 12.7 percent respectively.

Wholesale Price Inflation

9. The y-o-y wholesale price inflation dropped to 1.0 percent in the review period from 5.5 percent a year ago. The wholesale price indices of agricultural commodities declined by 0.2 percent whereas domestic manufactured commodities and imported commodities showed a growth of 4.2 percent and 1.8 percent respectively in the review period. In the corresponding period of the previous year, the increments in wholesale price indices of agricultural commodities and domestic manufactured commodities were 9.1 percent and 6.3 percent respectively, whereas the price index of imported commodities had declined by 2.8 percent.

National Salary and Wage Rate

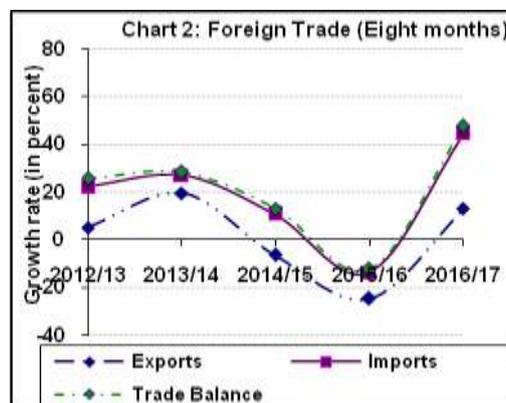
10. The y-o-y salary and wage rate inflation rose to 14.1 percent in the review period from 4.6 percent in the corresponding period of the previous year. In the review period, the salary index increased 18.9 percent, while the wage rate index grew 13.0 percent. The hike in pay scale of civil service 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 21.7 percent respectively in the review period. Likewise, wage rate indices of agricultural laborer, construction laborer and industrial laborer witnessed a growth of 13.5 percent, 13.0 percent and 11.6 percent respectively in the review period.

External Sector

Merchandise Trade

11. In the first eight months of 2016/17, merchandise exports increased 12.8 percent to Rs. 48.22 billion as against a drop of 24.9 percent in the same period of the previous year. In the review period, exports to India, China and other countries increased 16.3 percent, 13.4 percent and 8.2 percent respectively. Commodity wise, exports of juice, oil cakes, rosin, noodles, wire, among others increased whereas exports of cardamom, polyster yarn, readymade garments, woolen carpet among others decreased in the review period.



12. Merchandise imports increased 44.2 percent to Rs. 628.56 billion in the review period in contrast to a drop of 13.9 percent in the same period of the previous year. In the review period, imports from India, China and Other countries increased 59.0 percent, 17.5 percent and 26.2 percent respectively. Commodity wise, imports of petroleum products, vehicles and spare parts, MS billet, other machinery and parts, cement among others increased whereas imports of chemical fertilizer, medicine, cold rolled- sheet in coil, raw silk, readymade garments among others decreased in the review period.
13. Based on customs points, the exports through Dry port customs office, Biratnagar Customs Office and Jaleswar customs points decreased whereas exports from other customs points increased in the review period. On the import side, imports through Kailali Customs Office and Bhairahawa customs points decreased whereas imports through other customs points increased in the review period.
14. Total trade deficit in the review period widened 47.6 percent to Rs 580.34 billion as against a contraction of 12.5 percent in the same period of the previous year. The exports-imports ratio fell to 7.7 percent in the review period from 9.8 percent in the corresponding period of the previous year.

Exports-Imports Price Index

15. The y-o-y unit value exports price index based on customs data increased 10.7 percent while import price index increased 8.2 percent in the first eight months of 2016/17. Consequently, the TOT index improved 2.4 percent compared to an increase of 25.1 percent in the corresponding period of the previous year. Increase in price of exports items such as carpet, ginger,

cardamom, caused the rise in export price index in the review period. Increase in the price of petroleum products and vehicles, resulted in an increase in imports price index in the review period.

Services

16. The total services receipts increased 17.9 percent and expenses rose 19.4 percent in the review period. As a result, net services surplus stood at Rs. 3.73 billion in the review period compared to Rs. 4.19 billion in the same period of the previous year. Under the services account, travel receipts increased 38.7 percent to Rs. 36.20 billion in the review period. Such receipts had decreased 24 percent in the same period of the previous year.

Workers' Remittances

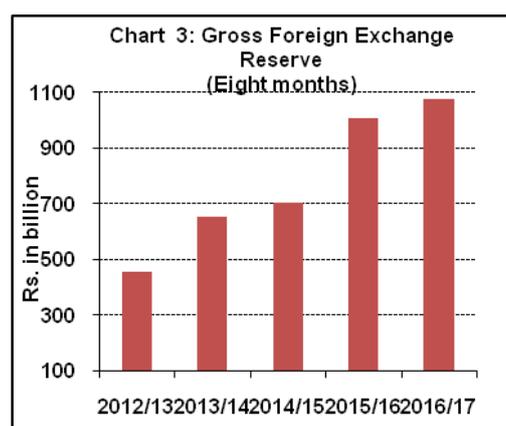
17. The workers' remittances increased 5.3 percent to Rs. 449.99 billion in the review period compared to a growth of 15.2 percent in the corresponding period of the previous year. Consequently, net transfer receipts increased 8.4 percent to Rs. 542.72 billion in the review period. Such receipts had increased 19 percent in the same period of the previous year.

Current Account and BOP

18. The current account slipped into deficit by Rs. 6.31 billion in the review period on account of sharp increase in imports. The current account was in surplus at a significant level of Rs. 138.55 billion in the same period of the previous year. The overall BOP recorded a surplus of Rs. 50.06 billion in the review period compared to a surplus of Rs. 158.18 billion in the same period of the previous year.
19. Capital transfer of Rs. 10.03 billion and Foreign Direct Investment (FDI) inflows of Rs. 8.35 billion were recorded in the review period. In the same period of the previous year, capital transfer and FDI inflows were Rs. 9.72 billion and Rs. 2.34 billion respectively.

Foreign Exchange Reserves

20. The gross foreign exchange reserves increased 3.4 percent to Rs. 1074.27 billion as at mid-March 2017 from Rs. 1039.21 billion in mid-July 2016. Of the total foreign exchange, reserves held by NRB increased 3.2 percent to Rs. 915.31 billion as at mid-March 2017 from Rs. 887.01 billion as at mid-July 2016. Similarly, the reserves of banks and financial institutions (except NRB) increased 4.4 percent to Rs. 158.96 billion as at mid-March 2017 from Rs. 152.20 billion as at mid-July 2016. The share of Indian currency in total reserves



stood at 22.1 percent as at mid-March 2017.

Box 2: External Sector (USD)*							
Particulars	(USD Million)						
	2014-15		2015-16		2016-17	Percentage Change in Eight months	
	Eight Months	Annual	Eight Months	Annual	Eight Months	2015/16	2016/17
Goods Exports (FoB)	656.3	988.1	423.6	703.9	503.4	-35.5	18.8
Goods Imports (FoB)	5070.8	7657.6	4019.9	7092.5	5761.9	-20.7	43.3
Trade Balance	-4414.5	-6669.5	-3596.3	-6388.6	-5258.5	-18.5	46.2
Total Trade	5727.1	8645.6	4443.5	7796.3	6265.3	-22.4	41.0
Travel Receipts	347.6	536.7	246.2	392.7	336.5	-29.2	36.7
Workers' Remittances	3760.8	6192.0	4033.6	6253.4	4182.6	7.3	3.7
Current Account Balance	113.8	1067.3	1322.1	1338.8	-57.0	-	-
BOP (-Surplus)	-352.1	-1437.0	-1493.3	-1779.8	-466.0	-	-

** Data from BOP Presentation*

1. In the US dollar terms, total merchandise exports and imports increased 18.8 percent and 43.3 percent respectively in the first eight months of 2016/17. Exports and imports had decreased 35.5 percent and 20.7 percent respectively in the corresponding period of the previous year.
2. In the review period, travel receipts increased 36.7 percent and worker's remittance rose 3.7 percent. Travel receipts had decreased 29.2 percent and remittances had increased 7.3 percent in the corresponding period of the previous year.
3. Current account recorded a deficit of USD 57 million in the review period. It was in surplus of USD 1322.1 million in the corresponding period of the previous year. Likewise, Balance of Payments (BOP) recorded a surplus of USD 466 million in the review period compared to the surplus of USD 1493.3 million in the corresponding period of the previous year.

Foreign Exchange Adequacy Indicators

21. Based on the imports of the first eight months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 13.9 months, and merchandise and services imports of 12 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 47.8 percent, 99.7 percent and 43.7 percent respectively as at mid-March 2017. Such ratios were 46.2 percent, 117.4 percent and 46.3 percent as at mid-July 2016.

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

22. The price of oil (Crude Oil Brent) in the international market increased 27.1 percent to USD 50.10 per barrel in mid-March 2017 from USD 39.41 per barrel a year ago. The price of gold decreased 4.8 percent to USD 1204.20 per ounce in mid-March 2017 from USD 1264.80 per ounce a year ago.
23. Nepalese currency vis-à-vis the US dollar appreciated 0.4 percent in mid-March 2017 from mid-July 2016. It had depreciated 5.7 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 106.27 in mid-March 2017 compared to Rs. 106.73 in mid-July 2016.

Fiscal Situation *

Budget Deficit / Surplus

24. In the first eight months of 2016/17, the Government of Nepal (GoN) was at a surplus of Rs. 42.45 billion in its budget. Such surplus was Rs. 31.75 billion in the corresponding period of the previous year.



Government Expenditure

25. In the review period, total government expenditure on a cash basis increased 57.5 percent to Rs. 374.96 billion. Such expenditure had increased just 6.5 percent to Rs. 238.11 billion in the corresponding period of the previous year.

Box 3: The Budget Performance			
(Rs. in millions)			
Heads	Budget Estimates	Outturns in Eight Months	As percent of Budget Estimates
Total Expenditure	1048921.4	374956.1	35.75
Recurrent	617164.13	275807.2	44.69
Capital	311946.33	60229.4	19.31
Financial	119810.9	38919.5	32.48
Revenue	565896.5	354160.2	62.58

26. In the review period, recurrent expenditure increased 53.5 percent to Rs. 275.81 billion. Such expenditure stood at Rs. 179.69 billion in the corresponding period of the previous year. In the review period, capital expenditure increased to Rs. 60.23 billion. Such expenditure was Rs. 22.97 billion in the corresponding period of the previous year. However, outturns in various heads of government expenditure have remained far below of annual targets.

Government Revenue

27. In the review period, the government revenue collection increased 51.9 percent to Rs. 354.16 billion. Such revenue had decreased 3.4 percent in the corresponding period of the previous year. Higher growth rate of major tax heads such as value added tax, income tax, customs, excise duty and others tax heads contributed to the overall rise in revenue collection in the review period.

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

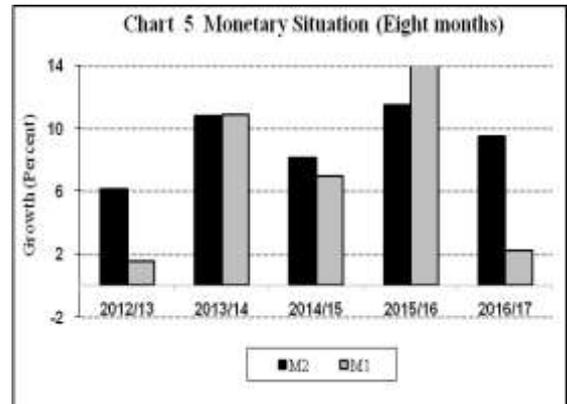
Cash Balance of the GoN

28. Because of a slow pace of government expenditure relative to resource mobilization, the GoN accumulated cash balance of Rs. 195.71 billion at Nepal Rastra Bank as of mid-March 2017.

Monetary Situation

Money Supply

29. Broad money (M2) increased 9.5 percent in the review period compared to a rise of 11.5 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 17.4 percent in mid-March 2017.
30. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 50.06 billion between mid-July 2016 and mid-March 2017 compared to an increase of Rs.158.18 billion in the corresponding period of the previous year.



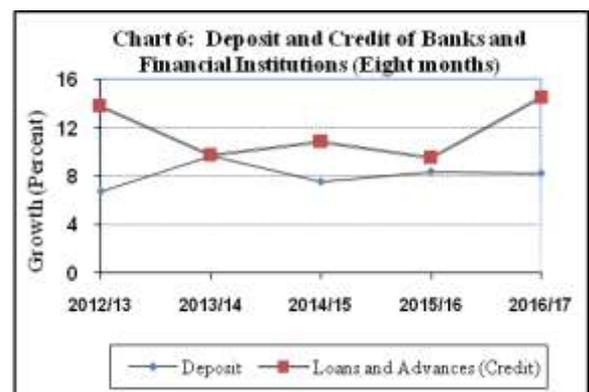
31. Reserve Money increased 12 percent in the review period compared to a growth of 4 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 12.7 percent in mid-March 2017.

Domestic Credit

32. Domestic credit expanded 10.7 percent in the review period compared to a growth of 5.5 percent in the same period of the previous year. On y-o-y basis, domestic credit increased 24 percent in mid-March 2017.
33. Claims of monetary sector on the private sector increased 16.2 percent in the review period compared to a growth of 11.6 percent in the previous year. On y-o-y basis, claims on the private sector increased 28.3 percent in mid-March 2017.

Deposit Collection

34. Deposits at Banks and Financial Institutions (BFIs) increased 8.3 percent in the review period compared to a growth of 8.4 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 19.3 percent in mid-March 2017. Of the total deposits at BFIs, while the share of demand deposits fell



to 6.9 percent from 9.1 percent and saving deposits to 37.6 percent from 44.1 percent, the share of fixed deposits increased to 38.4 percent in mid-March 2017 from 28.5 percent a year ago.

Credit Disbursement

35. Credit to the private sector from BFIs increased 15.3 percent in the review period compared to a rise of 10.8 percent in the same period of the previous year. In the review period, private sector credit from commercial banks and development banks increased 17.6 percent and 6.5 percent respectively, while that of finance companies decreased 3.6 percent. On y-o-y basis, credit to the private sector from BFIs increased 28.9 percent in mid-March 2017.

36. Credit to the agriculture sector increased 8.5 percent, industrial production sector 12.0 percent, construction sector 17.9 percent, wholesale and retail trade sector 13.0 percent, service industries sector 14.7 percent and transport, communication and public sector 22.4 percent in the review period.

Box 4: Outstanding loan of BFIs in some areas				
<i>(Rs. in billion)</i>				
Headings	2015/16		2016/17	
	Mid-Jul	Mid-Mar	Mid-Jul	Mid-Mar
Overdraft	246.0	264.6	294.3	341.3
Real Estate & Personal Residential Home Loan	204.6	225.4	250.9	292.4
Hire Purchase	81.0	89	110.1	148.4
Margin Nature Loan	24.1	32.7	37.7	39.7

37. Of the total outstanding credit of BFIs, 60.2 percent is against the collateral of land and building and 14.5 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 59.7 percent and 13 percent respectively in the same period of the previous year.

38. Of the total lending of bank and financial institutions, the share of real estate (including personal home loan up to Rs. 10 million) was 15.1 percent in mid-March 2017.

39. Of the total lending of commercial banks, credit to small and medium enterprises was only 2.6 percent (Rs. 42.69 billion) in mid-March 2017.

40. Trust Receipt (T.R.) loan extended by commercial banks increased 14.1 percent (Rs. 10.23 billion) in the review period compared to an increase of 1.2 percent in the same period of the previous year.

Liquidity Management

41. In the first eight months of 2016/17, the NRB injected liquidity of Rs. 33.21 billion through repo auction including Rs. 5.4 billion under the corridor system. Likewise, the BFIs used Rs. 58.17 billion standing liquidity facility (SLF) in the review period.

42. In the review period, the NRB injected net liquidity of Rs. 286.98 billion through the net purchase of USD 2.67 billion from foreign exchange market. Net liquidity of Rs. 306.33 billion was injected through the net purchase of USD 2.89 billion in the corresponding period of the previous year.

43. In the first eight months of 2016/17, the NRB mopped up Rs. 101.10 billion through open market operations. Of which, Rs. 29.80 billion was mopped up through 14 days deposit collection auction under the corridor system, Rs. 7.05 billion under 90 days deposit collection auction and Rs. 64.25 billion through reverse repo auction on a cumulative basis. In the corresponding period of the previous year, Rs. 297.5 billion was mopped up through deposit collection auction, Rs. 162.77 billion through reverse repo auction and Rs. 9.10 billion through outright sale auction.
44. The NRB purchased Indian currency (INR) equivalent to Rs. 301.9 billion through the sale of USD 2.72 billion and Euro 95 million in the review period. INR equivalent to Rs. 208.37 billion was purchased through the sale of USD 1.98 billion in the corresponding period of the previous year.

Refinance, Productive Sector and Deprived Sector Lending

45. 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. 9.51 billion including general refinance of Rs. 9.09 billion and export refinance of Rs 420 million was availed. In the corresponding period of the previous year, a total refinance of Rs. 3.38 billion including general refinance of Rs. 2.26 billion and export refinance of Rs. 1.12 billion was utilized.
46. A sum of Rs. 526.2 million housing loan at a concessional interest rate of 2 percent has been extended to 264 borrowers by the BFIs to the earthquake victims as of mid-March 2017. For this, NRB provides a refinance facility to BFIs at a zero percent interest.
47. 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 16.9 percent in mid-March 2017.
48. There is a policy provision for "A", "B" and "C" class Banks and Financial Institutions (BFIs) to disburse at least 5 percent, 4.5 percent and 4 percent loan to the deprived sector. These institutions have disbursed 5.6 percent, 6.5 percent and 4.6 percent respectively to the deprived sector as of mid-January 2017.

Inter-bank Transaction

49. In the review period, inter-bank transactions of commercial banks stood at Rs. 750.49 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 275.85 billion. Such transactions were Rs. 523.84 billion and Rs. 45.20 billion respectively in the corresponding period of the previous year.

Interest Rates

50. The weighted average 91-day Treasury Bill rate increased to 0.74 percent in the eighth month of 2016/17 from 0.53 percent a year ago. Likewise, the weighted average inter-bank transaction rate among commercial banks, which was 0.42 percent a year ago, increased to 0.90 percent in the review month. The weighted average inter-bank rate among other financial institutions increased to 7.96 percent from 0.98 percent a year ago.
51. The weighted average interest rate spread between deposit and lending rate of commercial banks decreased to 5.6 percent in the review month from 6.1 percent a year ago. The average base rate of commercial banks increased to 8.3 percent in the review month from 6.5 percent a year ago.

Merger/Acquisition

52. 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-March 2017, 134 BFIs (including 'D' class) were involved in merger and acquisition. Of which, the license of 91 BFIs was revoked thereby forming 43 BFIs.

Reinstatement of Branches

53. Of the total 318 branches of Nepal Bank Limited, Rastriya Banijya Bank and Agricultural Development Bank closed during the insurgency period, 151 branches have been reinstated as of mid-February 2017.

Capital Market

54. The NEPSE index which was 1,318.9 points in mid-March 2016 increased 2.8 percent to 1,355.2 points in mid-March 2017. However, the index which was 1,718.2 points in mid-July 2016 has decreased by 21.1 percent during the review period.
55. The total turnover of the securities increased 88.4 percent to Rs. 132.58 billion during the eight months of 2016/17. The increased liquidity of stocks due to the dematerialized transactions as well as extension in the share trading time from 2016/17 was the primary reasons of such upsurge in turnover.
56. During the eight months of 2016/17, Securities Board of Nepal (SEBON) has approved 37.5 million securities of 11 companies worth Rs. 11.31 billion for the initial public offerings (including further public offerings).