



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

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

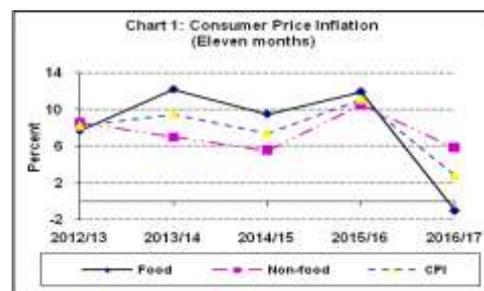
Macrofinancial Outlook

1. Developments in four areas relating to weather, fiscal, political and financial have a potential to shape the country's macrofinancial position going forward.
2. First, monsoon rains, so far, have been less than expected. According to the weather forecast made by South Asian Climate Outlook Forum (SACOF), the country is expected to receive uneven rainfall across the country during this monsoon. The eastern part will witness near to normal rainfall whereas the central part will receive normal rainfall and the mid and far-western parts will receive below normal rainfall. Hence, the behaviour of rains in the remaining period of monsoon will be the key in shaping the farm output going forward.
3. Second, the annual budget for 2017/18 presented to the parliament on the constitutionally stipulated date has its envelope enlarged. This is expected to sustain growth momentum going forward. Besides the expanded size of the budget, the financial resources earmarked for local bodies has the potential to spur economic activities nation-wide.
4. Third, the successful completion of the first and the second phase local elections have rekindled hope in people for possible utilization of resources in spurring economic activities across the country.
5. Fourth, the recent upturn in long term interest rates is expected to upend in the face of a gradual amelioration in financial friction in general and a build up in liquidity in particular. Migrant workers' remittances have remained resilient in the face of fall in the number of out migrants in the recent period. Foreign direct investment is on the rise. These two positive developments are likely to ease financial conditions.

Inflation, Salary and Wage Rate

Consumer Price Inflation

6. Consumer price inflation eased to 2.8 percent in mid-June 2017 from 11.1 percent a year ago. The previous year's high base price and improved supply situation largely contributed to inflation easing.



Food Inflation

7. Food inflation turned negative by 1 percent in mid-June 2017 from 11.9 percent in the corresponding month of the previous year. A fall in prices of pulses and legumes by 17.5 percent, vegetable by 16.3 percent and ghee and oil by 1 percent were mainly responsible for such a decline in food inflation. Of food and beverage group, the prices of sugar and sugar products increased 11.5 percent and alcoholic drinks 10.8 percent in the review period.

Non-food Inflation

8. Non-food inflation also moderated to 5.8 percent during the review period from 10.5 percent in the corresponding period of the previous year. The decline in growth rate of prices of clothes and footwear, housing and utilities, communication and health, among others, caused the moderation in non-food inflation in the review period.

Box 1: Y-O -Y Food Inflation (Eleven Months)		
Particulars	Inflation (Percent)	
	2012/13	2016/17
Food Inflation	11.9	-1.0
1 Vegetable	29.4	-16.3
2 Pulses and Legumes	21.5	-17.5
3 Alcoholic drinks	15.9	10.8
4 Spices	15.1	1.6
5 Sugar and Sugar products	13.5	11.5
6 Meat and fish	12.7	5.0
7 Ghee and Oil	12.6	-1.0
8 Restaurant and Hotel	10.7	6.1

Source: National Consumer Price Index, Mid-June 2017

Region-wise Consumer Price Inflation

9. The Hilly region witnessed relatively a higher rate of inflation of 4 percent followed by Terai region (3.1 percent), Mountain region (1.8 percent) and the Kathmandu Valley (1.4 percent) in the review period. In the corresponding period of the previous year, the Hilly region, the Terai region, the Mountain region and the Kathmandu Valley had witnessed inflation rate of 12 percent, 9.5 percent, 10.2 percent and 13 percent respectively.

Inflation Differential between Nepal and India

10. The y-o-y consumer price inflation was 1.5 percent in India in June 2017. Such inflation was 2.8 percent in Nepal during the review period showing inflation wedge of 1.3 percent. Such inflation was 11.1 percent in Nepal and 5.8 percent in India reflecting a wider inflation differential of 5.3 percent in the corresponding period of the previous year.

Box 2: Commodity-Wise Inflation Wedge between Nepal and India (June 2017)			
Commodities	Inflation Percent)		Wedge
	Nepal	India	
Overall Consumer Price Inflation	2.8	1.5	1.3
1. Sugar and Sugar Products	11.5	8.7	2.8
2. Alcoholic drinks	10.8	5.6	5.2
3. Education	10.6	4.4	6.2

Source: Ministry of Statistics and Programme Implementation, India, June 2017

Wholesale Price Inflation

11. The y-o-y wholesale price inflation dropped to 0.8 percent in the review period from 6.4 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 4.1 percent and 0.7 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 10.2 percent and 6.4 percent respectively, whereas the price index of imported commodities had declined by 1.9 percent.

National Salary and Wage Rate

12. The y-o-y salary and wage rate index rose 15 percent in the review period compared to 5 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 14.1 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 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, industrial laborer and construction laborer witnessed a growth of 13.1 percent, 16.9 percent and 12.7 percent respectively in the review period.

External Sector

Merchandise Trade

13. In the first eleven months of 2016/17, merchandise exports increased 10.4 percent to Rs. 68.62 billion compared to a drop of 20.1 percent in the same period of the previous year. In the review period, exports to India, China and other countries increased 12 percent, 4.3 percent and 8.7 percent respectively. Commodity wise, exports of juice, oil cakes, jutes



goods, handicrafts, noodles, among others, increased whereas export of woolen carpet, cardamom, readymade garments, polyester yarn, tea, among others, decreased in the review period.

14. Merchandise imports increased 30.9 percent to Rs. 896.57 billion in the review period as against a drop of 0.9 percent in the same period of the previous year. In the review period, imports from India, China and Other countries increased 39 percent, 10 percent and 23.4 percent respectively. Commodity wise, imports of petroleum products, vehicles and spare parts, MS billet, cement, aircraft spare parts, among others, increased whereas imports of chemical fertilizer, medicine, coldrolled-sheet in coil, dry cell battery, betulnut, among others, decreased in the review period.
15. Based on customs points, the exports through Dry Port Customs Office, Mechi Customs Office, and Jaleshwar Customs Office decreased whereas exports from other customs points increased in the review period. On the import side, imports through Dry Port customs office, Bhairarawa Customs Office and Kailali Customs Office decreased whereas imports through other customs points increased in the review period.
16. Total trade deficit in the review period widened 33 percent to Rs 827.95 billion compared to 1.6 percent in the same period of the previous year. The export-import ratio declined to 7.7 percent in the review period from to 9.1 percent in the corresponding period of the previous year.

Export-Import Price Index

17. The y-o-y unit value export price index based on customs data increased 1.1 percent while import price index decreased 0.4 percent in the first eleven months of 2016/17. Consequently, the TOT index improved 1.5 percent compared to 23 percent in the corresponding period of the previous year. Increase in price of export items such as carpet, yarsagumba, cardamom caused the rise in export price index in the review period. Decrease in the price of computer monitor, rice, betel-nuts resulted in decrease in import price index in the review period.

Services

18. The total services receipts increased 16.1 percent and expenses rose 20.3 percent in the review period. As a result, net services surplus stood at Rs. 6.01 billion in the review period compared to Rs. 9.45 billion in the same period of the previous year. Under the services account, travel receipts increased 41.8 percent to Rs. 55.20 billion in the review period. Such receipts had decreased 22.2 percent in the same period of the previous year.

Workers' Remittances

19. The workers' remittances increased 5.8 percent to Rs. 633.42 billion in the review period compared to a growth of 8.6 percent in the corresponding period of the previous year. Consequently, net transfer receipts increased 11.6 percent to Rs. 775.64 billion in the review period. Such receipts had increased 10.1 percent in the same period of the previous year.

Current Account and BOP

20. The current account slipped into deficit by Rs. 1.72 billion in the review period on account of sharp increase in imports. The current account was in surplus at a significant level of Rs. 130.08 billion in the same period of the previous year. The overall BOP

recorded a surplus of Rs. 74.26 billion in the review period compared to a surplus of Rs. 171.15 billion in the same period of the previous year.

21. Capital transfer of Rs. 12.23 billion and foreign direct investment (FDI) inflows of Rs. 12.27 billion were recorded in the review period. In the same period of the previous year, capital transfer and FDI inflows were Rs. 12.25 billion and Rs. 4.80 billion respectively.

Box 3: External Sector (USD)*

(USD Million)

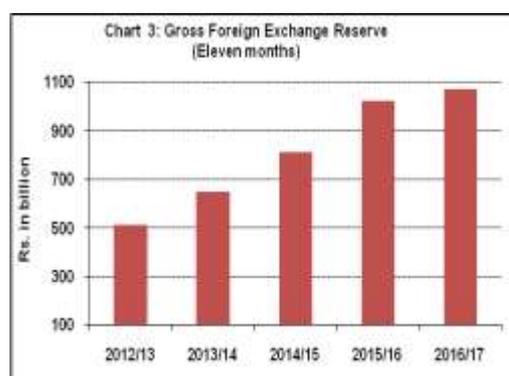
Particulars	2014-15		2015-16		2016-17	Percentage Change in Eleven months	
	Eleven Months	Annual	Eleven Months	Annual	Eleven Months	2015/16	2016/17
Goods Exports (FoB)	902.2	988.1	627.2	703.9	724.4	-30.5	15.5
Goods Imports (FoB)	6843.3	7657.6	6294.6	7092.5	8334.5	-8.0	32.4
Trade Balance	-5941.2	-6669.5	-5667.4	-6388.6	-7610.1	-4.6	34.3
Total Trade	7745.5	8645.6	6921.9	7796.3	9058.9	-10.6	30.9
Travel Receipts	503.5	536.7	366.4	392.7	520.1	-27.2	41.9
Workers' Remittances	5547.9	6192.0	5640.4	6253.4	5955.7	1.7	5.6
Current Account Balance	939.2	1067.3	1242.9	1338.8	-12.1	-	-
BOP (-Surplus)	-1261.8	-1437.0	-1614.8	-1779.8	-700.7	-	-

* Data from BOP Presentation

1. In the US dollar terms, total merchandise exports and imports increased 15.5 percent and 32.4 percent respectively in the first eleven months of 2016/17. Exports and imports had decreased 30.5 percent and 8 percent respectively in the corresponding period of the previous year.
2. In the review period, travel receipts increased 41.9 percent and worker's remittance rose 5.6 percent. Travel receipts had decreased 27.2 percent and remittances had increased 1.7 percent in the corresponding period of the previous year.
3. Current account recorded a deficit of USD 12.1 million in the review period. It was in surplus of USD 1242.9 million in the corresponding period of the previous year. Likewise, Balance of Payments (BOP) recorded a surplus of USD 700.7 million in the review period compared to the surplus of USD 1614.8 million in the corresponding period of the previous year.

Foreign Exchange Reserves

22. The gross foreign exchange reserves increased 3 percent to Rs. 1070.26 billion as at mid-June 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. 915.12 billion as at mid-June 2017 from Rs. 887.01 billion as at mid-July 2016. Similarly, the reserves of banks and financial institutions (except NRB) increased 1.9 percent to Rs. 155.13 billion as at mid-June 2017 from Rs. 152.20 billion as at mid-July 2016. The share of Indian currency in total reserves stood at 22.6 percent as at mid-June 2017.



Foreign Exchange Adequacy Indicators

23. Based on the imports of the first eleven months of 2016/17, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 13.3 months, and merchandise and services imports of 11.5 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 41.2 percent, 95.6 percent and 42.7 percent respectively as at mid-June 2017. Such ratios were 46.2 percent, 117.4 percent and 46.3 percent as at mid-July 2016.

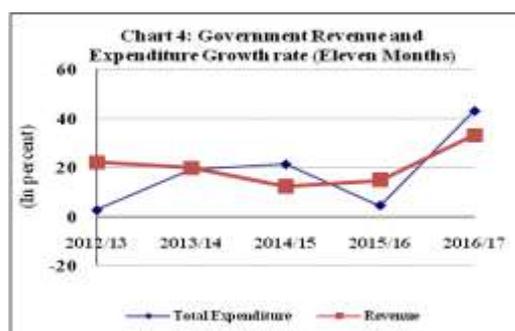
Price of Oil and Gold in the International Market and Exchange Rate Movement

24. The price of oil (Crude Oil Brent) in the international market decreased 5 percent to USD 45.47 per barrel in mid-June 2017 from USD 47.88 per barrel a year ago. The price of gold decreased 0.9 percent to USD 1275.50 per ounce in mid-June 2017 from USD 1287.15 per ounce a year ago.
25. Nepalese currency vis-à-vis the US dollar appreciated 3.9 percent in mid-June 2017 from mid-July 2016. It had depreciated 5.5 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 102.77 in mid-June 2017 compared to Rs. 106.73 in mid-July 2016.

Fiscal Situation *

Budget Deficit / Surplus

26. In the first eleven months of 2016/17, the Government of Nepal (GoN) was at a surplus of Rs. 50.13 billion in its budget. Such surplus was Rs. 59.99 billion in the corresponding period of the previous year.



Government Expenditure

27. In the review period, total government expenditure on a cash basis increased 43 percent to Rs. 555.10 billion. Such expenditure had increased just 4.4 percent to Rs. 388.31 billion in the corresponding period of the previous year.
28. In the review period, recurrent expenditure increased 42.8 percent to Rs. 394.51 billion. Such expenditure had stood at Rs. 276.23 billion in the corresponding period of the previous year. In the review period, capital expenditure increased to Rs. 108.43 billion. Such expenditure was Rs. 55.76 billion in the corresponding period of the previous year.

Heads	Budget Estimates	Outturns in Eleven Months*	As percent of Budget Estimates
Total Expenditure	1048921.4	555101.9	52.9
Recurrent	617164.13	394507.8	63.9
Capital	311946.33	108434.1	34.8
Financial	119810.9	52160.0	43.5
Revenue	565896.5	527140.6	93.2

* On cash basis

Government Revenue

29. In the review period, the government revenue collection increased 33.1 percent to Rs. 527.14 billion. Such revenue had increased 14.7 percent to Rs. 396.02 billion in the

*

Based on the data reported by 6 NRB offices, 66 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 Limited and Century Commercial Bank Limited conducting government transactions and released report from 79 DTCOs and payment centers.

corresponding period of the previous year. Higher growth rate of major tax heads such as value added tax, income tax, customs and excise duty contributed to the overall rise in revenue collection in the review period.

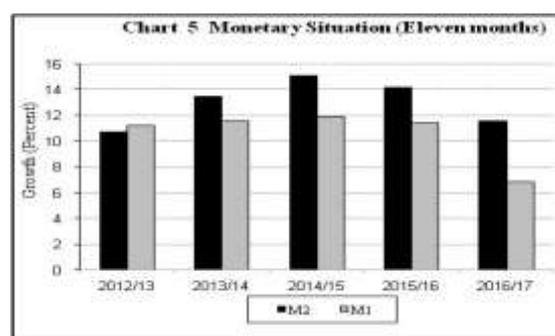
Cash Balance of the GoN

30. Because of a slow pace of government expenditure relative to resource mobilization, the GoN accumulated cash balance of Rs. 269.07 billion at Nepal Rastra Bank as of mid-June 2017.

Monetary Situation

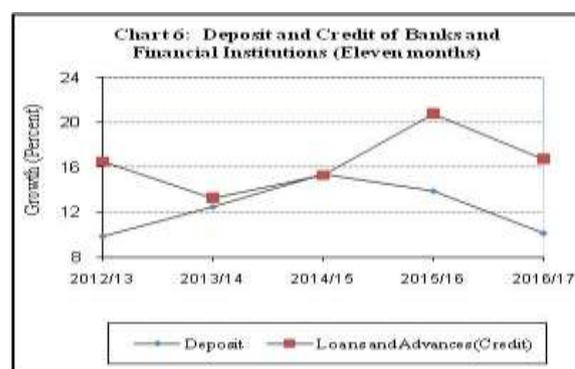
Money Supply

31. Broad money (M2) increased 11.6 percent in the review period compared to a rise of 14.2 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 16.8 percent in mid-June 2017.
32. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 74.26 billion between mid-July 2016 and mid-June 2017 compared to an increase of Rs.171.15 billion in the corresponding period of the previous year.
33. Reserve Money increased 7.3 percent in the review period against a decline of 0.1 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 12.4 percent in mid-June 2017.



Domestic Credit

34. Domestic credit expanded 11.3 percent in the review period compared to a growth of 8.9 percent in the same period of the previous year. On y-o-y basis, domestic credit increased 20.9 percent in mid-June 2017.
35. Claims of monetary sector on the private sector increased 18.1 percent in the review period compared to a growth of 19.4 percent in the previous year. On y-o-y basis, claims on the private sector increased 21.8 percent in mid-June 2017.



Deposit Collection

36. Deposits at Banks and Financial Institutions (BFIs) increased 10.1 percent in the review period compared to an increase of 13.9 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 15.5 percent in mid-June 2017. Such growth was 18.5 percent a year ago.

37. Of the total deposits at BFIs, while the share of demand deposits fell to 7.9 percent from 8.5 percent and saving deposits to 35.8 percent from 43.8 percent, the share of fixed deposits increased to 43.4 percent in mid-June 2017 from 30.2 percent a year ago.

Credit Disbursement

38. Credit to the private sector from BFIs increased 17.1 percent in the review period compared to a rise of 18.8 percent in the same period of the previous year. In the review period, private sector credit from commercial banks and development banks increased 20.5 percent and 1.5 percent respectively, while that of finance companies decreased 0.6 percent. On y-o-y basis, credit to the private sector from BFIs increased 21.9 percent in mid-June 2017 compared to an increase of 20.9 percent a year ago.
39. Credit to the agriculture sector increased 12.6 percent, industrial production sector 11.2 percent, construction sector 19.9 percent, wholesale and retail trade sector 14.9 percent, service sector industries 17.7 percent and transport, communication and public sector 26.2 percent in the review period.
40. Of the total outstanding credit of BFIs, 61.1 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 61.3 percent and 14 percent respectively in the same period of the previous year.
41. Of the total outstanding loan of commercial banks, credit to small and medium enterprises was only 2.7 percent (Rs. 44.37 billion) in mid-June 2017.
42. Trust receipt (T.R.) loan extended by commercial banks increased 0.9 percent (Rs. 0.62 billion) in the review period compared to an increase of 36 percent in the same period of the previous year.

Refinance, Productive Sector and Deprived Sector Lending

43. 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. 14.36 billion including general refinance of Rs. 13.53 billion and export refinance of Rs 0.83 billion was availed. In the corresponding period of the previous year, a total refinance of Rs. 7.52 billion including general refinance of Rs. 6.22 billion and export refinance of Rs. 1.3 billion was utilized.
44. A sum of Rs. 816.5 million housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims. Total of 382 earthquake victims will be benefited from the provision. For this, NRB provides a refinance facility to BFIs at a zero percent interest.
45. 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 17.5 percent in mid-June 2017.

Liquidity Management

46. In the eleven months of 2016/17, 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 the review period.

47. In the review period, the NRB injected net liquidity of Rs. 398.33 billion through the net purchase of USD 3.74 billion from foreign exchange market. Net liquidity of Rs. 423.90 billion was injected through the net purchase of USD 4 billion in the corresponding period of the previous year.
48. In the eleven 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. 517.55 billion liquidity was mopped up. This consists of Rs. 297.5 billion through deposit collection auction, Rs. 210.95 billion through reverse repo auction and Rs. 9.10 billion through outright sale auction.
49. The NRB purchased Indian currency (INR) equivalent to Rs. 410.57 billion through the sale of USD 3.72 billion and Euro 120 million in the review period. INR equivalent to Rs. 342.8 billion was purchased through the sale of USD 3.12 billion and Euro 110 million in the corresponding period of the previous year.

Inter-bank Transaction

50. In the review period, inter-bank transactions of commercial banks stood at Rs. 1006.6 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 360.78 billion. Such transactions were Rs. 862.17 billion and Rs. 94.82 billion respectively in the corresponding period of the previous year.

Interest Rates

51. The weighted average 91-day Treasury Bill rate increased to 1.03 percent in the eleven month of 2016/17 from 0.12 percent a year ago. Likewise, the weighted average inter-bank transaction rate among commercial banks, which was 0.36 percent a year ago, increased to 2.46 percent in the review month. The weighted average inter-bank rate among other financial institutions increased to 4.48 percent from 2.55 percent a year ago.
52. The weighted average interest rate spread between deposit and lending rate of commercial banks decreased to 5.4 percent in the review month from 5.9 percent a year ago. The average base rate of commercial banks increased to 9.4 percent in the review month from 6.3 percent a year ago.

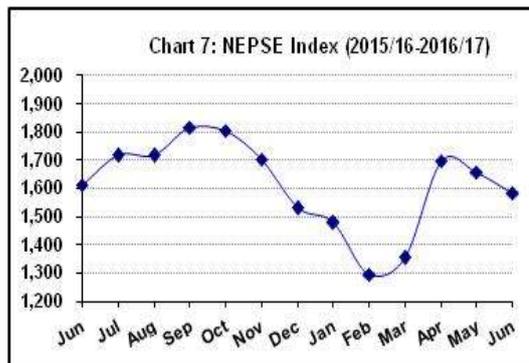
Merger/Acquisition

53. The number of BFIs involved in merger and acquisition has been increasing after the introduction of merger/acquisition policy aimed at strengthening financial stability. So far, 155 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 112 BFIs was revoked thereby forming 43 BFIs.

Capital Market

54. The NEPSE index on y-o-y basis decreased 1.8 percent to 1,584.5 points in mid-June 2017. This index had increased 72.9 percent to 1614.2 points a year ago. This index had stood at 1718.2 points in mid-July 2016.

55. The stock market capitalization on y-o-y basis increased by 6.5 percent to Rs. 1853.77 billion in mid-June 2017. This had increased by 81.4 percent a year ago. The ratio of market capitalization to estimated GDP of 2016/2017 stood at 71.3 percent in mid-June 2017. In the



total market capitalization, the share of banks, financial institutions and insurance companies stood at 85.3 percent, hydropower 4.3 percent, manufacturing and processing companies 2.3 percent, hotels 1.6 percent, trading 0.1 percent, and others 6.4 percent respectively.

56. On y-o-y basis, the total turnover of the securities decreased 54.3 percent to Rs. 13.78 billion in mid-June 2017. The turnover of the securities had substantially increased 642.0 percent to Rs. 30.08 billion a year ago.

57. Due to the merger and acquisitions of BFIs, total number of companies listed at the NEPSE decreased to 212 in mid-June 2017 from 230 in mid-June 2016. Of the listed companies, 169 are BFIs (including insurance companies), 18 manufacturing and processing industries, 14 hydropower companies, 4 each hotels and trading institutions and 3 other sectors.

58. On y-o-y basis, total paid-up capital of the listed companies increased 44.4 percent to Rs. 283.16 billion in mid-June 2017. Total additional securities worth Rs. 121.85 billion were listed in the NEPSE during mid-July 2016 to mid-June 2017. These consist of ordinary shares Rs. 4.67 billion, right shares Rs. 18.84 billion, bonus shares Rs. 35.09 billion, government securities Rs. 62 billion and the mutual fund Rs. 1.25 billion.