



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal (Based on Eleven Months' Data of 2017/18)

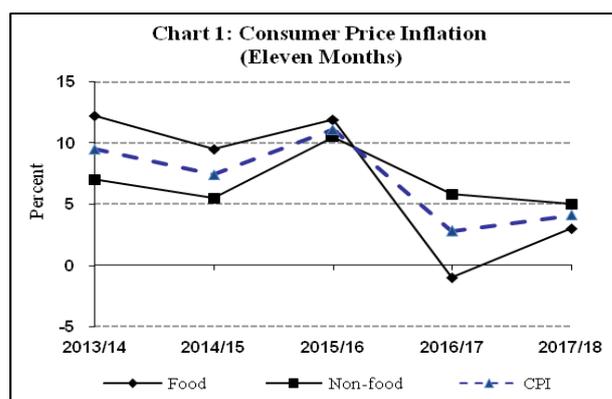
Macroeconomic Outlook

1. In Nepal, monsoon rains underpin the agricultural output, especially the performance of summer crops. So far, there has been a good start of monsoon rains. As per the Ministry of Agriculture, the early monsoon this year has accelerated the plantation of paddy. The behavior of rains in the remaining monsoon period will determine the agriculture output in 2018/19.
2. Likewise, tourist arrival has also surged. Together with this, a pickup in reconstruction of individual houses destroyed by the 2015 earthquakes exhibits a positive trend of economic activity going forward.
3. Country's balance of payments (BOP) position has witnessed some improvement in 11 months of 2017/18. The BOP deficit, which was Rs.18.93 billion in 10 months, came down to Rs.4.34 billion in 11 months of 2017/18. As of mid-June 2018, international reserves stood at Rs. 1094 billion, sufficient to cover the prospective imports of goods and services for 9.6 months.
4. The growth of monetary aggregates has remained within the desirable level. Credit growth continues to outstrip deposit growth. However, deposit growth has gathered steam following the rise in government expenditure and a slight improvement in the growth of remittances. As a result, market interest rates have somewhat stabilized.

Inflation, Salary and Wage Rate

Consumer Price Inflation

5. The y-o-y consumer price inflation increased to 4.1 percent in mid-June 2018 from 2.8 percent a year ago. The increase in food inflation contributed to a rise in overall inflation in the review period.



Food Inflation

6. Food inflation rose 3.0 percent in mid-June 2018 from a negative growth of 1.0 percent a year ago. A surge in prices of vegetables, fruits, ghee and oil, milk products and eggs, among others are mainly responsible for the rise in food inflation in the review period.

Box 1: Y-O -Y Food Inflation (Eleven Months)		
Particulars	Inflation (Percent)	
	2073/74	2074/75
Food Inflation	(1.0)	3.0
1 Vegetable	(16.3)	11.0
2 Fruit	(2.1)	11.4
3 Ghee and Oil	(1.0)	4.0
4 Milk products and Eggs	2.8	7.8
5 Cereal grains and their products	0.1	3.9
<i>Source: National Consumer Price Index, Mid-June 2018</i>		

Non-food Inflation

7. Non-food inflation has moderated to 5.0 percent in mid-June 2018 from 5.8 percent a year ago. A slower growth in prices of education, clothes and footwear, furnishing and household equipment and housing and utilities, among others accounted for a moderation in non-food inflation in the review month.

Region-wise Consumer Price Inflation

8. The Mountain region witnessed relatively higher rate of inflation of 6.4 percent followed by 4.9 percent in Hill, 4.2 percent in Terai and 3.1 percent in the Kathmandu Valley. In the corresponding period of the previous year, these regions had witnessed inflation rates of 1.8 percent, 4.0 percent, 3.1 percent and 1.4 percent respectively.

Inflation Differential between Nepal and India

9. The y-o-y consumer price inflation was slightly higher at 4.1 percent in Nepal in mid-June 2018 compared to 5.0 percent in India, showing inflation wedge of 0.9 percent between the two countries. A year ago, the rate of inflation was 2.8 percent in Nepal compared to 1.5 percent in India.

Wholesale Price Inflation

10. The y-o-y wholesale price inflation increased to 1.2 percent in mid-June 2018 from 0.7 percent a year ago. The surge in prices of petroleum products, drugs and medicines, and cash crops, among others contributed to the rise in overall wholesale price inflation in mid-June 2018.

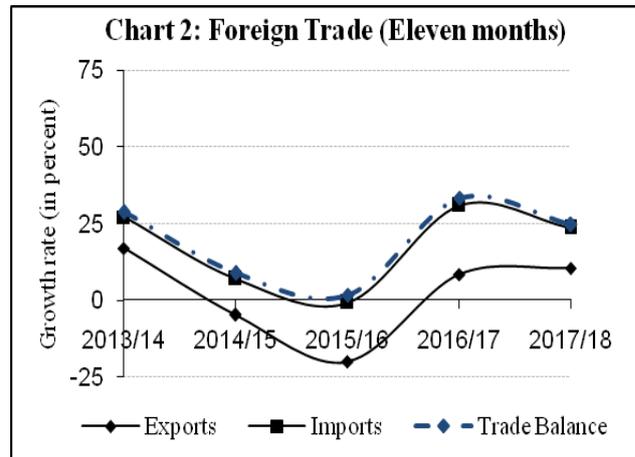
National Salary and Wage Rate Index

11. The y-o-y growth in salary and wage rate index moderated to 6.3 percent in mid-June 2018 from 15.0 percent a year ago. In the review period, the salary index increased 9.4 percent, while the wage rate index grew 5.5 percent.

External Sector

Merchandise Trade

12. During eleven months of 2017/18, merchandise exports increased 10.4 percent to Rs.74.31 billion compared to an increase of 8.3 percent in the same period of the previous year. Destination-wise, exports to India, China and other countries increased 8.7 percent, 91.6 percent and 8.1 percent in the review period. Commodity wise, exports of cardamom, polyester yarn, sackings, threads, zinc sheet, among others, increased whereas export of G.I. pipes, twines, juice, woolen carpet, pashmina, among others, decreased in the review period.
13. The growth in merchandise imports remained elevated at 23.5 percent to Rs.1107.4 billion in the review period compared to an increase of 30.9 percent in the same period of the previous year. Source-wise, imports from India, China and other countries increased 25 percent, 25.3 percent and 18.1 percent respectively in the review period. Commodity wise imports of petroleum products, vehicles & spare parts, other machinery & parts, M.S. billet, cement, among others, increased whereas imports of agri. equip. & parts, aircraft spareparts, sanitaryware, small cardamom, zinc ingot, among others, decreased in the review period.
14. Based on customs points, the exports through Dry Port Customs Office, Bhairahawa Customs Office, Biratnagar Customs Office, Tribhuvan International Airport Customs Office, Nepalgunj Customs Office, Mechi Customs Office, Kailali Customs Office and Rasuwa Customs Office increased whereas exports from other customs points decreased in the review period. On the import side, imports through Dry Port Customs Office and Kanchanpur Customs Office decreased whereas imports through other customs points increased in the review period.
15. Total trade deficit widened 24.6 percent to Rs. 1033.04 billion in eleven months of 2017/18. The export-import ratio declined to 6.7 percent in the review period from 7.5 percent in the corresponding period of the previous year.



16. The y-o-y unit value export price index based on customs data increased 6.2 percent while import price index increased 11 percent in mid-May 2018. Consequently, the Terms of Trade (TOT) index decreased 4.4 percent as against an increase of 1.6 percent in the corresponding period of the previous year. Increase in price of export items such as carpet, brass sheet,

yarshaghumba, catechu, among others caused the rise in export price index whereas uptick in the price of petroleum products, vehicles, tyres, refrigerator, among others resulted an increase in import price index in the review period.

Services

17. The total services receipts and expenses increased 9.9 percent and 13.4 percent respectively in the review period. As a result, net services receipts remained at a surplus of Rs.1.59 billion in the review period compared to a surplus of Rs.6 billion in the same period of the previous year. Under the services account, travel receipts increased 13.3 percent to Rs.62.57 billion in the review period. Such receipts had increased 41.8 percent in the same period of the previous year.

Workers' Remittances

18. The workers' remittances increased 7.3 percent to Rs.679.73 billion in the review period compared to a rise of 5.8 percent in the same period of the previous year. However, net transfer receipts increased 0.1 percent to Rs.776.27 billion in the review period. Such receipts had increased 11.6 percent in the same period of the previous year.
19. The number of Nepalese workers seeking approval for foreign employment (except renew entry) fell by 8.2 percent in the review period. It had decreased 3.5 percent in the same period of the previous year.

Box 2: Outflow of Nepalese Workers for Foreign Employment (Eleven Months)				
Country	(No. of Labor)		Percentage Share	
	2016/17	2017/18	2016/17	2017/18
a) Institutional and Individual (New and Legalized)				
Malaysia	90269	104149	24.2	30.4
Qatar	119791	97536	32.1	28.5
U.A.E.	52749	55631	14.1	16.2
Saudi Arabia	72437	38680	19.4	11.3
Kuwait	13013	16134	3.5	4.7
South Korea	4193	4824	1.1	1.4
Bahrain	3824	4536	1.0	1.3
Oman	3035	2853	0.8	0.8
Afghanistan	1300	1350	0.3	0.4
Japan	2179	692	0.6	0.2
Israel	124	116	0.0	0.0
Lebanon	139	21	0.0	0.0
Others	9792	15904	2.6	4.6
Total	372845	342426	100.0	100.0
Percentage Change	-3.5	-8.2	-	-
b) Renew Entry				
Renew Entry	245901	241882	-	-
Percent Change	10.8	-1.6	-	-

Source: Department of Foreign Employment

Current Account and BOP Position

20. The current account deficit widened further to Rs.209.21 billion in the review period from a deficit of Rs.2.99 billion in the same period of the previous year. The elevated level of imports widened the current account deficit. As a result, the overall BOP turned into a deficit of

Rs.4.34 billion in contrast to a surplus of Rs.74.23 billion in the same period of the previous year.

21. In the review period, the flow of foreign direct investment (FDI) amounted to Rs.15.88 billion compared to Rs.12.27 billion in the corresponding period of the previous year.

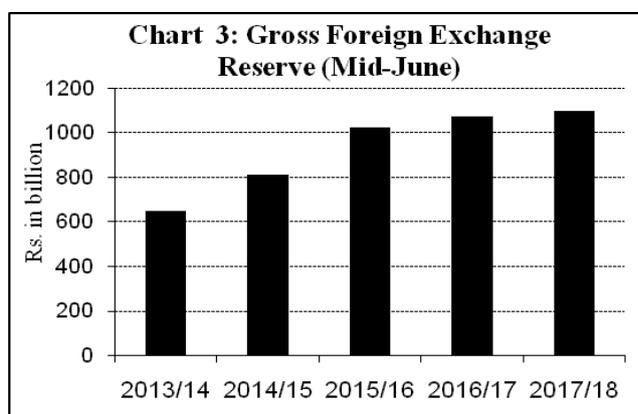
Box 3: External Sector (USD) *							
Particulars	(USD Million)						
	2015-16		2016-17		2017-18	Percent Change in Eleven month	
	Eleven Months	Annual	Eleven Months	Annual	Eleven Months	2016/17	2017/18
Goods Exports (FoB)	627.2	703.9	712.1	773.7	822.2	13.5	15.5
Goods Imports (FoB)	6294.6	7092.5	8334.5	9219.3	10504.7	32.4	26.0
Trade Balance	-5667.4	-6388.6	-7622.4	-8445.6	-9682.5	34.5	27.0
Travel Receipts	366.4	392.7	520.1	552.3	601.3	41.9	15.6
Workers' Remittances	5640.4	6253.4	5955.7	6556.3	6535.6	5.6	9.7
Current Account Balance	1242.9	1338.8	-24.4	-93.5	-2018.0	-	-
BOP (-Surplus)	-1614.8	-1779.4	-700.4	-776.6	49.5	-	-

** Data from BOP Presentation*

1. In the US dollar terms, total merchandise exports and imports increased 15.5 percent and 26 percent respectively in eleven months of 2017/18. Exports and imports had increased 13.5 percent and 32.4 percent in the corresponding period of the previous year.
2. In the review period, travel receipts and workers' remittance increased 15.6 percent and 9.7 percent respectively. Travel receipts and workers' remittances had increased 41.9 percent and 5.6 percent respectively in the corresponding period of the previous year.
3. Current account recorded a deficit of USD 2018.0 million in the review period compared to a deficit of USD 24.4 million in the corresponding period of the previous year. Likewise, balance of payments (BOP) recorded a deficit of USD 49.5 million in the review period in contrast to a surplus of USD 700.4 million in the corresponding period of the previous year.

Foreign Exchange Reserves

22. The gross foreign exchange reserves increased 1.3 percent to Rs.1094 billion as at mid-June 2018 from Rs.1079.43 billion as at mid-July 2017. Of the total foreign exchange reserves, reserves held by NRB increased 5.5 percent to Rs.978.18 billion as at mid-June 2018 from Rs.927.27 billion as at mid-July 2017. The reserves of banks and financial institutions (except NRB) decreased 23.9 percent to Rs.115.82 billion as at mid-June 2018 from Rs.152.17 billion as at mid-July 2017. The share of Indian currency in total reserves stood at 23.6 percent as at mid-June 2018.



Foreign Exchange Adequacy Indicators

23. Based on the imports of eleven months of current fiscal year, the foreign exchange holdings of the banking sector are sufficient to cover the prospective merchandise imports of 11 months, and merchandise and services imports of 9.6 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 36.4 percent, 80.1 percent and 37.1 percent respectively as at mid-June 2018. Such ratios were 40.8 percent, 95.2 percent and 41.6 percent as at mid-July 2017.

Price of Oil and Gold

24. The price of oil (Crude Oil Brent) in the international market increased 64.4 percent to USD 74.77 per barrel in mid-June 2018 from USD 45.47 per barrel a year ago. The price of gold increased 2.1 percent to USD 1302.75 per ounce in mid-June 2018 from USD 1275.50 per ounce a year ago.

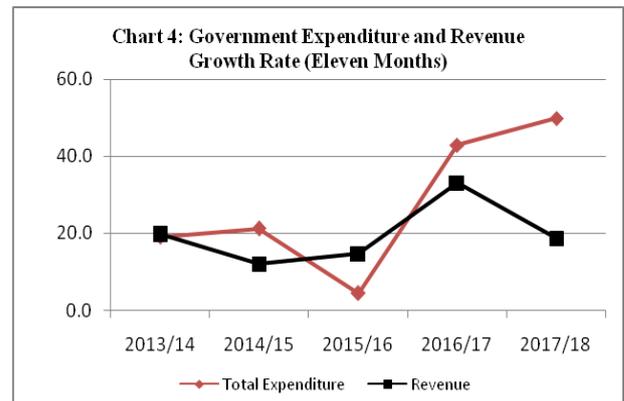
Exchange Rate

25. Nepalese currency vis-à-vis US dollar depreciated 4.7 percent in mid-June 2018 from the level of mid-July 2017. It had appreciated 3.9 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.107.94 in mid-June 2018 compared to Rs.102.86 in mid-July 2017.

Fiscal Situation*

Budget Deficit/ Surplus

26. The budget deficit of the Government of Nepal (GoN) increased to Rs.177.82 billion in eleven months of 2017/18 from a deficit of Rs.12.65 billion in the corresponding period of the previous year.



*

Based on data reported by 1 office of NRB, 81 branches of Rastriya Banijya Bank Limited, 56 branches of Nepal Bank Limited, 25 branches of Agriculture Development Bank, 50 branches of NIC Asia Bank Limited, 16 branches of and Global IME Bank Limited, 12 branches each of Everest Bank Limited, 10 branches of Nepal Investment Bank, 8 branches of NMB Bank Limited, 7 branches of Nepal Bangladesh Bank Limited, 5 branches of Bank of Kathmandu Limited, Siddhartha Bank Limited and Citizens Bank International Limited, 3 branches each of Civil Bank Limited and Prabhu Bank limited, 2 branches each of Prime Commercial Bank Limited, Janata Bank Nepal Limited and Sanima Bank Limited, 1 branches of Century Commercial Bank, Machhapuchhre Bank Limited and Mega Bank Limited conducting government transactions and release report from 81 DTCOs and payment centres.

Government Expenditure

27. In the review period, total government expenditure (cash basis) stood at Rs.832.04 billion. Such expenditure was Rs.555.10 billion in the corresponding period of the previous year.
28. In the review period, recurrent expenditure stood at Rs.607.72 billion, which was Rs.394.51 billion in the corresponding period of the previous year. In the review period, capital expenditure increased 40.1 percent to Rs.151.88 billion. Such expenditure had increased 94.5 percent to Rs.108.43 billion in the corresponding period of the previous year.

Box 4: The Budget Performance of 2017/18 (Rs. in billion)			
Heads	Budget Estimates	Outturns in Eleven Months*	As percent of Budget Estimates
Total Expenditure	1279.0	832.0	65.05
<i>Recurrent</i>	803.5	607.7	75.63
<i>Capital</i>	335.2	151.9	45.31
<i>Financial</i>	140.3	72.4	51.63
Revenue	730.1	625.8	85.72

* On cash basis

Government Revenue

29. In the review period, the government revenue collection increased 18.7 percent to Rs.625.77 billion. Such revenue had increased 33.1 percent to Rs.527.14 billion in the corresponding period of the previous year.

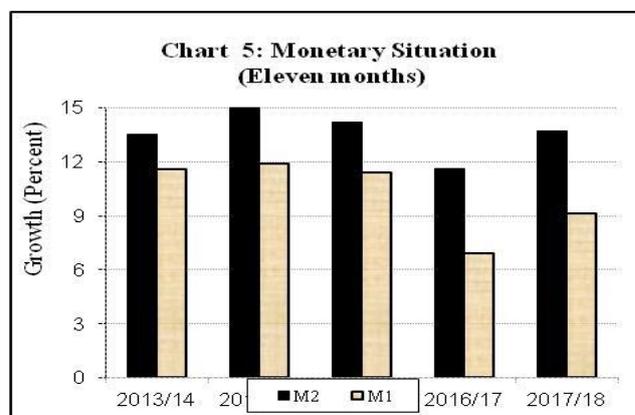
Treasury Position of the GoN

30. The treasury surplus amounted to Rs. 248.48 billion (including Rs.103.77 billion balances on Local Authorities' Accounts) as of mid-June 2018.

Monetary Situation

Money Supply

31. Broad money (M2) increased 13.7 percent in the review period compared to a rise of 11.6 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 17.7 percent in mid-June 2018.
32. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs. 4.34 billion (0.4 percent) in the review period compared to an increase of Rs. 74.23 billion (7.8 percent) in the corresponding period of the previous year.



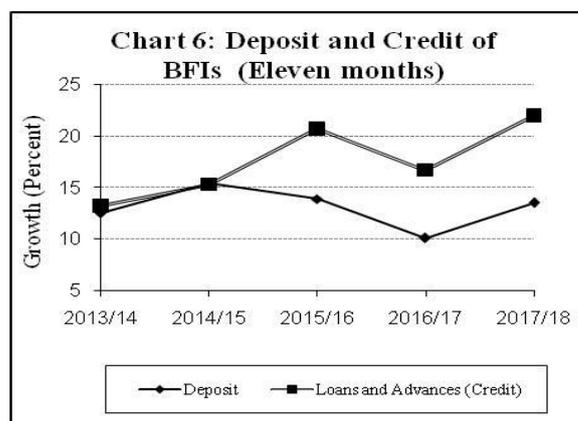
33. Reserve money increased 0.3 percent in the review period compared to an increase of 7.3 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 12.2 percent in mid-June 2018.

Domestic Credit

34. Domestic credit increased 18.4 percent in the review period compared to an increase of 11.3 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 28.3 percent in mid-June 2018.
35. Claims of monetary sector on the private sector increased 21.0 percent in the review period compared to a growth of 18.1 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 21.0 percent in mid- June 2018.

Deposit Collection

36. Deposits at Banks and Financial Institutions (BFIs) increased 13.5 percent in the review period compared to a growth of 10.1 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 17.6 percent in mid-June 2018.



37. Out of the total deposits at the BFIs, while the share of demand deposit increased from 7.9 percent a year ago to 8.6 percent in mid-June 2018, the share of fixed deposit rose from 43.4 percent a year ago to 45.7 percent in mid- June 2018. However, the share of saving deposits decreased from 35.8 percent a year ago to 34.5 percent in mid-June 2018.
38. The share of institutional deposits in total deposit of BFIs stood at 44.32 percent in mid-June 2018. Such share was 44.2 percent a year ago.

Credit Disbursement

39. Credit to the private sector from BFIs increased 19.9 percent in the review period compared to a growth of 17.1 percent in the corresponding period of the previous year. In the review period, private sector credit from commercial banks, development banks and finance companies increased 19.9 percent, 20.6 percent and 14.3 percent respectively. On y-o-y basis, credit to the private sector from BFIs increased 21.0 percent in mid-June 2018.
40. Of the total outstanding credit of BFIs in mid-June 2018, 61.4 percent is against the collateral of land and building and 14.7 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 61.1 percent and 13.9 percent respectively a year ago.

41. Trust receipt loan extended by commercial banks increased 83.3 percent (Rs. 53.74 billion) to Rs. 118.27 billion in the review period compared to decrease of 0.8 percent in the corresponding period of the previous year.
42. In the review period, while hire purchase loan increased 12.8 percent, overdraft loan rose 13.3 percent. Likewise, real estate loan (including residential personal home loan) increased 15.0 percent in the review period.

Liquidity Management

43. In the review period, NRB mopped up Rs. 135.25 billion liquidity through open market operations. Of which, Rs. 42.35 billion was mopped up under deposit collection auction, Rs. 3.15 billion through 14 days deposit collection auction under interest rate corridor, Rs. 84.75 billion through reverse repo auction and Rs. 5 billion through outright sale auction on a cumulative basis. Rs. 101.10 billion liquidity was mopped up in the corresponding period of the previous year.
44. In the review period, Rs. 107.34 billion liquidity was injected. Of which, Rs. 69.72 billion was injected through 14 days repo auction under interest rate corridor and Rs. 37.62 billion through outright purchase auction. In the corresponding period of the previous year, Rs. 61 billion liquidity was injected.
45. In the review period, BFIs utilized Rs. 38.33 billion Standing Liquidity Facility (SLF). In the corresponding period of the previous year, BFIs had utilized such facility of Rs. 62.39 billion.
46. In the review period, NRB injected net liquidity of Rs. 393.81 billion through the net purchase of USD 3.79 billion from foreign exchange market. Net liquidity of Rs. 398.33 billion was injected through the net purchase of USD 3.74 billion in the corresponding period of the previous year.
47. NRB purchased Indian currency (INR) equivalent to Rs. 473.12 billion through the sale of USD 4.36 billion, Euro 60 million and GBP 90 million in the review period. INR equivalent to Rs. 451.89 billion was purchased through the sale of USD 4.12 billion and Euro 120 million in the corresponding period of the previous year.

Refinance

48. NRB has been providing refinance facility aimed at expanding credit to the productive sector along with promoting export. As of mid-June 2018, the outstanding refinance amounted to Rs. 17.92 billion.
49. A sum of Rs. 1.77 billion housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims as of mid-June 2018. NRB provides refinance facility to BFIs at a zero percent interest to facilitate housing loan to earthquake victims.

Inter-bank Transaction

50. In the review period, inter-bank transactions among commercial banks stood at Rs. 1082.40 billion and among other financial institutions (excluding transactions among commercial banks) amounted to Rs. 43.28 billion. Such transactions were Rs. 1006.60 billion and Rs. 360.78 billion respectively in the corresponding period of the previous year.

Interest Rates

51. The weighted average 91-day Treasury bills rate increased to 4.38 percent in the eleventh month of 2017/18 from 1.03 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 2.46 percent a year ago, increased to 4.18 percent in the review month. Likewise, the average base rate of commercial banks increased to 10.41 percent in the review month from 9.40 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. So far, 162 BFIs (including 'D' class) were involved in merger and acquisition. Out of which, the license of 121 BFIs was revoked, thereby forming 41 BFIs in the review period.

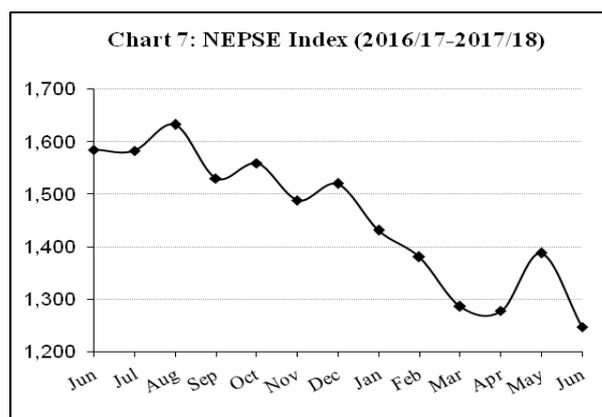
Financial Access

53. Of the total 753 local levels, commercial banks have their presence in 550 levels as of mid-June 2018. Province wise presence of commercial banks in local levels is presented in Box 5 as of mid-June 2018.

Box 5: Province wise Presence of Commercial Banks in Local Levels (as of mid- June 2018)		
Province	No. of Local Levels	Presence of Banks
Province 1	137	100
Province 2	136	107
Province 3	119	96
Gandaki	85	68
Province 5	109	89
Karnali	79	42
Province 7	88	48
Total	753	550

Capital Market

54. The NEPSE index on y-o-y basis decreased 21.3 percent to 1247.3 points in mid-June 2018. This index had decreased 1.8 percent to 1584.5 points in mid-June 2017. Such index was 1582.7 points in mid-July 2017.
55. The stock market capitalization on y-o-y basis decreased 20.6 percent to Rs.1471.8 billion in mid-June 2018. This had increased 6.5 percent a year ago. The ratio of market



capitalization to GDP of 2017/18 stood at 48.9 percent in mid-June 2018. This ratio was 70.1 percent a year ago. In the total market capitalization, the share of banks, financial institutions and insurance companies stood at 80.6 percent, hydropower 4.6 percent, manufacturing and processing companies 2.9 percent, hotels 1.7 percent, trading 0.1 percent, and others 10.2 percent respectively.

56. In the eleventh month of 2017/18, the total turnover of the securities decreased 41.3 percent to Rs.8.07 billion compared to the corresponding period of the previous year. The turnover of the securities had decreased 54.3 percent to Rs.13.76 billion in the eleventh month of 2016/17.
57. The total number of companies listed at the NEPSE remains at 195 in mid-June 2018 from 212 a year ago. Of the listed companies, 147 are BFIs (including insurance companies), 18 manufacturing and processing industries, 18 hydropower companies, 4 each hotels and trading institutions and 4 other sectors.
58. On y-o-y basis, total paid-up value of the listed shares increased 22.6 percent to Rs.347.05 billion in mid-June 2018. Total additional securities worth Rs.127.72 billion were listed in the NEPSE during the review period. These consisted of ordinary shares of Rs.30.83 billion, right shares of Rs.26.45 billion, bonus shares of Rs.36.47 billion and government securities of Rs.36.47 billion.