



# Nepal Rastra Bank

Research Department

## Current Macroeconomic and Financial Situation of Nepal (Based on Five Months' Data of 2018/19)

### Major Highlights

- Inflation remained 3.7 percent on y-o-y basis.
- Import expanded 34.2 percent and export 11.2 percent.
- Remittances increased 31.9 percent in NPR and 19.2 percent in US Dollars.
- Balance of Payments remained at a deficit of Rs.85.32 billion.
- Government spending on cash basis increased 6.8 percent and revenue collection 26.3 percent.
- Broad money (M2) increased 5.1 percent. On y-o-y basis, M2 increased 19.4 percent.
- Deposits at Banks and Financial Institutions increased 6.2 percent and bank credit to the private sector 10.2 percent. On y-o-y basis, deposits increased 19.8 percent and credit 24.1 percent.

## Inflation

### Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 3.7 percent in mid-December 2018 compared to 4.2 percent a year ago. Marginal increase in the price of food and beverage group contributed to a moderate inflation in the review period.

### Food and Beverage Inflation

2. Food and beverage inflation moderated to 0.5 percent in mid-December 2018 compared to 2.8 percent a year ago. A decrease in the price of vegetables, pulses and legumes, sugar and sugar products, among others, contributed to contain food and beverage inflation in the review period.

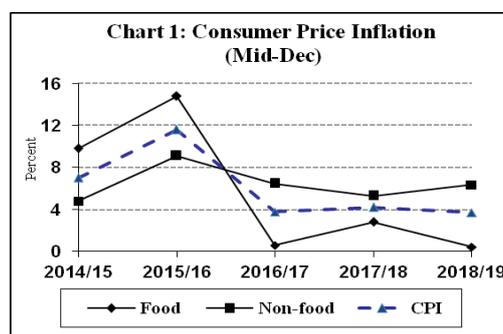


Table 1: Y-O -Y Food and Beverage Inflation (Mid-Dec)

Particulars	Inflation (Percent)	
	2017/18	2018/19
<b>Food and Beverage Inflation</b>	<b>2.8</b>	<b>0.5</b>
1. Vegetables	12.5	(16.2)
2. Pulses and Legumes	(26.4)	(10.8)
3. Sugar and sugar products	1.9	(7.6)

Source: National Consumer Price Index, Mid-December 2018

### **Non-food and Service Inflation**

3. Non-food and service inflation stood at 6.3 percent in mid-December 2018 compared to 5.3 percent a year ago. An increase in price of housing and utilities, transportation, clothes and footwear, furnishing and household equipment sub-groups, among others, contributed to increase non-food and service inflation in the review period.

Particulars	Inflation (Percent)	
	2017/18	2018/19
<b>Non-Food and Service Inflation</b>	<b>5.3</b>	<b>6.3</b>
1. Housing and Utilities	6.9	8.5
2. Transportation	1.7	7.8
3. Clothes and Footwear	5.7	6.9
4. Furnishing and Household Equipment	3.2	6.1

*Source: National Consumer Price Index, Mid-December 2018*

### **Region-wise Consumer Price Inflation**

4. The Mountain region witnessed 4.1 percent inflation followed by 3.8 percent in the Hilly region, 3.7 percent each in the Kathmandu Valley and the Terai. These regions had witnessed 5.5 percent, 4.8 percent, 3.4 percent and 4.3 percent inflation respectively in the corresponding period of the previous year.

### **Inflation in Nepal and India**

5. The y-o-y consumer price inflation in Nepal (mid-December 2018) and India (December 2018) stood at 3.7 percent and 2.2 percent respectively. Such rate of inflation was 4.2 percent in Nepal compared to 5.2 percent in India a year ago.

### **Wholesale Price Inflation**

6. The y-o-y wholesale price inflation stood at 7.2 percent in mid-December 2018 compared to 1.8 percent a year ago. A rise in price of petroleum products, textiles, basic metals, transport, equipments and parts, non-food primary goods, among others, contributed to the rise in overall wholesale price inflation in the review period.

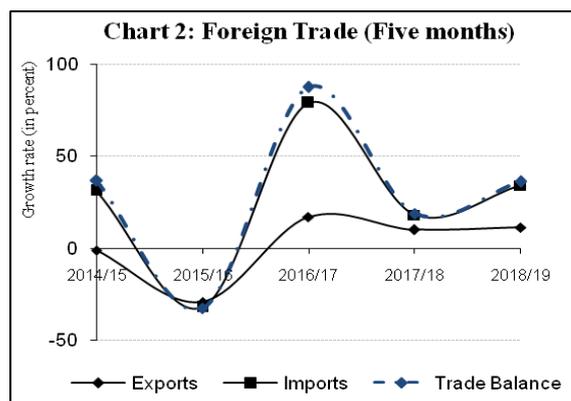
### **National Salary and Wage Rate Index**

7. The salary and wage rate index increased 9.3 percent in mid-December 2018 from 6.1 percent a year ago. In the review period, the salary index and the wage rate index increased 6.6 percent and 10.1 percent respectively.

## External Sector

### Merchandise Trade

8. In five months of 2018/19, merchandise exports increased 11.2 percent to Rs.37.50 billion compared to an increase of 10.1 percent a year ago. Destination-wise, exports to India and other countries increased 20.7 percent and 3 percent respectively, whereas exports to China decreased 30.7 percent. Mainly exports of polyester yarn, zinc sheet, woolen carpet, pulses, readymade garments, pashmina, jute goods, among others, increased, whereas exports of cardamom, rosin, tanned skin, shoes and sandals, among others, decreased in the review period.
9. In five months of 2018/19, merchandise imports increased 34.2 percent to Rs.607 billion compared to an increase of 18.2 percent a year ago. Destination-wise, imports from India, China and other countries increased 31.7 percent, 47.7 percent and 33.7 percent respectively. Commodity-wise, imports of petroleum products, vehicle and spare parts, aircraft spare parts, M.S. billet, machinery & parts, vegetables, fruits and rice, among others, increased whereas imports of telecommunication equipment and parts, crude soybean oil, cement, medical equipment and tools, among others, decreased in the review period.
10. Based on customs points, exports from Rasuwa Customs Office, Krishnanagar Customs Office, Kailali Customs Office and Dry Port Customs Office decreased whereas exports from other customs points increased. On the import side, imports from Kanchanpur Customs point decreased whereas imports from all other customs points increased in the review period.
11. Total trade deficit further widened 36.1 percent to Rs.569.49 billion in five months of 2018/19. The export-import ratio declined to 6.2 percent in the review period from 7.5 percent in the corresponding period of the previous year.



### Export-Import Price Index:

12. The y-o-y unit value export price index based on customs data increased 5.3 percent while import price index increased 10.2 percent in mid-December 2018. Consequently, the TOT index decreased 4.4 percent as against a decrease of 5.1 percent in the corresponding period of the previous year. Increase in price of export items such as carpet, pashmina, brass sheet, acrylic yarn, ghee, among others caused the rise in export price index whereas uptick in the price of petroleum products, vehicles, tyres, wool, among others, resulted in an increase in import price index in the review period.

## Services

13. Net services receipt turned into a deficit of Rs.8.49 billion in the review period from a deficit of Rs.4.54 billion a year ago.
14. Under the services account, travel receipt increased 8.7 percent to Rs.31.89 billion in the review period. Such receipt was Rs.29.33 billion in the same period of the previous year.
15. Under the services account, travel payments increased 38.6 percent to Rs.41.33 billion, including Rs.22.14 billion for education.

## Workers' Remittances

16. The workers' remittances increased 31.9 percent to Rs.376.59 billion in the review period as against a decrease of 0.8 percent in the same period of the previous year. In USD terms, workers' remittances increased 19.2 percent in the review period compared to 3.2 percent in the corresponding period of the previous year.
17. Net transfers receipt increased 29.8 percent to Rs.428.59 billion in the review period. Such receipt decreased 0.5 percent in the same period of the previous year.
18. The number of Nepalese workers migrated for foreign employment (except renew entry) decreased 40.2 percent in the review period. It had decreased 2.5 percent in the same period of the previous year. In the review period, the number of workers outbound to Malaysia shrank significantly.

**Table 3: Number of Nepalese going for Foreign Employment (Five Months)**

**a) Institutional and Individual (New and Legalized )**

Country	(No. of Labor)		Percentage Share	
	2017/18	2018/19	2017/18	2018/19
Qatar	39593	34216	25.5	36.8
U.A.E.	26999	24687	17.4	26.6
Saudi Arabia	19499	13715	12.5	14.8
Kuwait	6578	6533	4.2	7.0
Malaysia	49057	2532	31.6	2.7
Bahrain	2145	1949	1.4	2.1
Oman	1156	1058	0.7	1.1
Afghanistan	691	526	0.4	0.6
Japan	320	322	0.2	0.3
South Korea	2433	37	1.6	0.0
Israel	66	33	0.0	0.0
Lebanon	3	2	0.0	0.0
Others	6841	7321	4.4	7.9
<b>Total</b>	<b>155381</b>	<b>92931</b>	<b>100.0</b>	<b>100.0</b>
<b>Percentage Change</b>	-2.5	-40.2	0	0

**b) Renew Entry**

<b>Renew Entry</b>	<b>104575</b>	<b>103079</b>	-	-
Percentage Change	-3.4	-1.4	-	-

**Source: Department of Foreign Employment.**

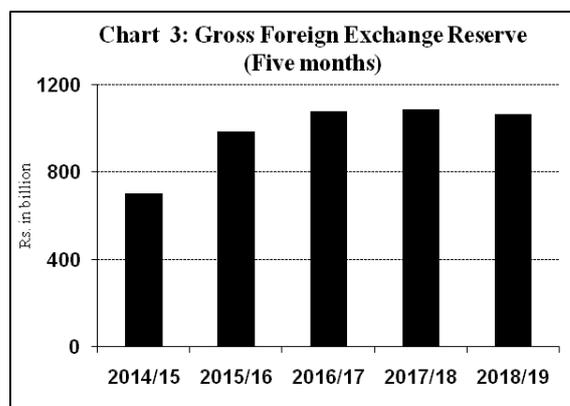
## Current Account and BOP Position

19. The current account registered a deficit of Rs.119.33 billion in the review period. Such deficit was Rs.64.11 billion in the same period of the previous year. In the USD terms, the current account deficit widened 1044.5 million in the review period compared to 620.3 million in the corresponding period of the previous year.

20. The overall BOP remained at a deficit of Rs.85.32 billion in the review period compared to a deficit of Rs.5.48 billion in the same period of the previous year. In the USD terms, the overall BOP recorded a deficit of 750.1 million in the review period compared to a deficit of 53.9 million in the same period of the previous year.
21. In the review period, Nepal received capital transfer of Rs.5.27 billion and Foreign Direct Investment (FDI) inflows of Rs.6.78 billion. In the same period of the previous year, capital transfer and FDI inflows amounted to Rs.8.86 billion and Rs.11.12 billion respectively.

### Foreign Exchange Reserves

22. The gross foreign exchange reserves stood at Rs.1065.80 billion as at mid-December 2018, a decrease of 3.3 percent from Rs.1102.59 billion as at mid-July 2018. In the USD terms, the gross foreign exchange reserves remained 9.29 billion as at mid-December 2018, a decrease of 7.9 percent from 10.08 billion as at mid-July 2018.



23. Of the total foreign exchange reserves, reserves held by NRB decreased Rs.66.26 billion to Rs.923.14 billion as at mid- December 2018 from Rs.989.40 billion as at mid-July 2018. On the other hand, reserves held by banks and financial institutions (except NRB) increased 26 percent to Rs.142.67 billion as at mid- December 2018 from Rs.113.19 billion as at mid-July 2018. The share of Indian currency in total reserves stood at 23.7 percent as at mid-December 2018.

### Foreign Exchange Adequacy Indicators

24. Based on the imports of five months, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 9 months, and merchandise and services imports of 7.8 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 decreased to 35.4 percent, 65.0 percent and 32.8 percent respectively as at mid-December 2018. Such ratios were 36.7 percent, 78.6 percent and 35.6 percent as at mid-July 2018.

### Price of Oil and Gold

25. The price of oil (Crude Oil Brent) in the international market decreased 8.2 percent to USD 58.56 per barrel in mid-December 2018 from USD 63.81 per barrel a year ago. The price of gold decreased 1.5 percent to USD 1235.35 per ounce in mid-December 2018 from USD 1254.60 per ounce a year ago.

## Exchange Rate

26. Nepalese currency vis-à-vis US dollar depreciated 4.7 percent in mid-December 2018 from mid-July 2018. It had appreciated 0.2 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 114.74 in mid-December 2018 compared to Rs.109.34 in mid-July 2018.

## Fiscal Situation\*

### Fiscal Deficit/ Surplus

27. Government of Nepal recorded a fiscal surplus of Rs.37.56 billion in five months of 2018/19, which was Rs.4.93 billion in the corresponding period previous year.

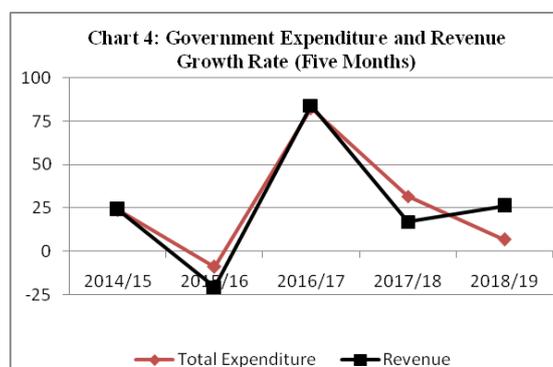
### Government Expenditure

28. In the review period, total government expenditure (cash basis) stood at Rs.273.74 billion. Such expenditure was Rs.256.30 billion in the corresponding period previous year.

29. Recurrent expenditure stood at Rs.221.96 billion in five months of 2018/19, which was Rs.222.62 billion a year ago. Likewise, capital expenditure remained at Rs.34.04 billion which was Rs.24.79 billion a year ago.

### Government Revenue

30. In the review period, government revenue increased 26.3 percent to Rs.306.87 billion. Such revenue had increased 17.0 percent to Rs.242.97 billion in the corresponding period previous year.



**Table 4: The Budget Performance of 2018/19**  
(Rs. in billion)

Heads	Budget Estimates	Outturns in Five Months*	As percent of Budget Estimates
<b>Total Expenditure</b>	<b>1315.2</b>	<b>273.7</b>	<b>20.8</b>
<i>Recurrent</i>	<i>845.5</i>	<i>222.0</i>	<i>26.3</i>
<i>Capital</i>	<i>314.0</i>	<i>34.0</i>	<i>10.8</i>
<i>Financial</i>	<i>155.7</i>	<i>17.7</i>	<i>11.4</i>
<b>Revenue</b>	<b>945.6</b>	<b>306.9</b>	<b>32.5</b>

\* On cash basis

\* Based on data reported by one banking office of NRB, 89 branches of Rastriya Banijya Bank Limited, 65 branches of NIC Asia Bank Limited, 61 branches of Nepal Bank Limited, 33 branches of Agriculture Development Bank, 31 branches of Prabhu Bank Limited, 25 branches of Global IME Bank Limited, 21 branches each of Nepal Investment Bank Limited and Mega Bank Limited, 19 branches of NMB Bank Limited, 17 branches of Everest Bank Limited, 15 branches of Janata Bank Limited, 14 branches of Siddhartha Bank Limited, 13 branches each of Nepal Bangladesh Bank, Laxmi Bank Limited, Sanima Bank Limited and Citizens Bank Limited, 12 branches of Nabil Bank limited, 11 branches of Civil Bank Limited, 9 branches each of Kumari Bank limited and Machhapuchhre Bank Limited, 8 branches of Sunrise Bank Limited, 7 branches each of Prime Commercial Bank Limited and Bank of Kathmandu Limited, 5 branches each of Century Commercial Bank Limited and Himalayan Bank Limited, 3 branches of Nepal SBI Bank Limited, 2 branches of NCC Bank Limited conducting government transactions and report released from 81 DTCOs and payment centres.

## Cash Balance of Government of Nepal

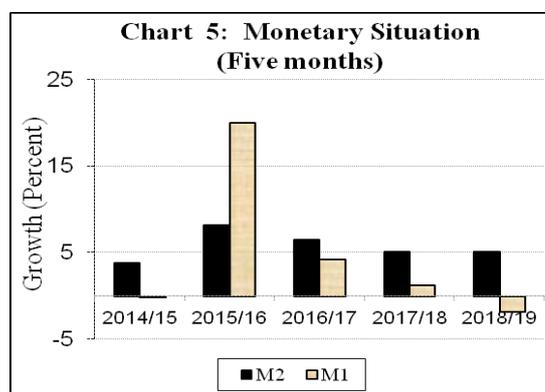
31. The total balance of all accounts of the GoN maintained with NRB remained at Rs.119.38 billion (including Rs.46.78 billion in Local Authority Account) as of mid-December 2018.

## Monetary Situation

### Money Supply

32. In the review period broad money (M2) increased 5.1 percent, same as in the corresponding period of the previous year. On y-o-y basis, M2 expanded 19.4 percent in mid-December 2018.

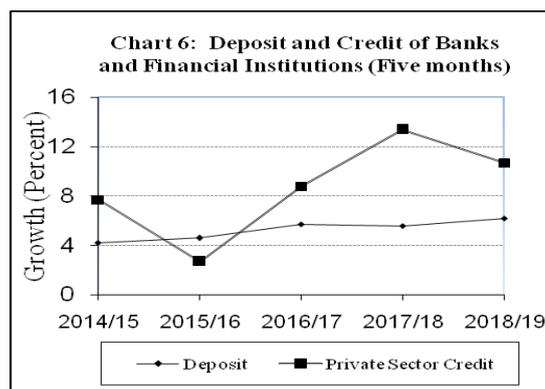
33. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs.85.32 billion (8.1 percent) in the review period compared to a decrease of Rs.5.48 billion (0.5 percent) in the corresponding period of the previous year.



34. Reserve money decreased 11.3 percent in the review period compared to a decrease of 16.1 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 14.4 percent in mid-December 2018.

### Domestic Credit

35. Domestic credit increased 9.4 percent in the review period compared to an increase of 2.9 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 34.6 percent in mid-December 2018.



36. Claims of monetary sector on the private sector increased 11.4 percent in the review period compared to a growth of 9.9 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 23.9 percent.

### Deposit Collection

37. Deposits at Banks and Financial Institutions (BFIs) increased 6.2 percent in the review period compared to a growth of 5.6 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 19.8 percent in mid-December 2018.

**Table 5: Deposits at Banks and Financial Institutions (Percentage Share)**

Deposits	Mid-Jul			Mid-Dec	
	2016	2017	2018	2017	2018
Demand	9.1	8.7	9.3	8.2	8.8
Saving	43.3	35.4	34.5	36.4	33.4
Fixed	30.5	43.2	44.8	41.9	47.5
Other	17.0	12.7	11.3	13.5	10.3

38. The share of demand, saving and fixed deposits in total deposits stands at 8.8 percent, 33.4 percent and 47.5 percent respectively in mid-December 2018. Such share was 8.2 percent, 36.4 percent and 41.9 percent respectively a year ago.
39. The share of institutional deposits in total deposit of BFIs stands at 45.1 percent in mid-December 2018. Such share was 45.5 percent a year ago.

### **Credit Disbursement**

40. Credit to the private sector from BFIs increased 10.2 percent in the review period compared to a growth of 8.8 percent in the corresponding period of the previous year. In the review period, private sector credit increased 9.8 percent from commercial banks, 14.8 percent from development banks and 7.3 percent from finance companies. On y-o-y basis, credit to the private sector from BFIs increased 24.1 percent in mid-December 2018.
41. Of the total outstanding credit of BFIs in mid-December 2018, 63.3 percent is against the collateral of land and building and 14.6 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 61.9 percent and 14.0 percent respectively a year ago.
42. In the review period, term loan extended by BFIs increased 12.7 percent, overdraft increased 5.8 percent, trust receipt (import) loan increased 18.2 percent, demand and working capital loan increased 14.8 percent, real estate loan (including residential personal home loan) increased 6.0 percent and hire purchase loan increased 5.6 percent.

### **Liquidity Management**

43. In the review period, NRB mopped up Rs.100.35 billion liquidity through open market operations. Of which, Rs.79.65 billion was mopped up through deposit collection auction and Rs.20.70 billion through reverse repo auction on a cumulative basis. Rs.127.20 billion liquidity was mopped up in the corresponding period of previous year.
44. BFIs utilized standing liquidity facility (SLF) of Rs.5.72 billion in the review period. Rs.20.58 billion SLF was utilized in the corresponding period of the previous year.
45. In the review period, NRB injected net liquidity of Rs.131.54 billion through the net purchase of USD 1.14 billion from foreign exchange market. Net liquidity of Rs.165.46 billion was injected through the net purchase of USD 1.60 billion in the corresponding period of the previous year.
46. NRB purchased Indian currency (INR) equivalent to Rs.220.15 billion through the sale of USD 1.74 billion, Euro 16 million, GBP 20 million and Japanese Yen 16 billion in the review period. INR equivalent to Rs.182.57 billion was purchased through the sale of USD 1.72 billion and Euro 40 million in the corresponding period of the previous year.

## Refinance

47. Use of refinance facility provided by the NRB for expanding credit to the productive sector along with promoting export has increased in the review period. The outstanding refinance amounted to Rs.16.70 billion in mid-December 2018.
48. The outstanding amount of refinance extended to BFIs for providing concessional housing loan to earthquake victims stands at Rs. 2.42 billion as at mid-Dec 2018. The number of earthquake victims utilizing such loan is 1534.
49. As of mid-December 2018, the number of beneficiaries from the 5 percent interest subsidized lending scheme of the GoN stood at 9749. They availed subsidized loans for selected agriculture and livestock businesses. Under this provision, Rs.14.39 billion loan extended by BFIs has been outstanding and Rs.758.2 million interest subsidy has been provided.

## Inter-bank Transaction

50. In the review period, inter-bank transactions among commercial banks stood at Rs.564.17 billion and among other financial institutions (excluding transactions among commercial banks) amounted to Rs.108.08 billion. Such transactions were Rs.443.33 billion and Rs.7.18 billion respectively in the corresponding period of the previous year.

## Interest Rates

51. The weighted average 91-day Treasury bills rate decreased to 1.00 percent in the fifth month of 2018/19 from 5.51 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 4.83 percent a year ago, decreased to 1.20 percent in the review month. Likewise, the average base rate of commercial banks increased to 10.30 percent in the review month from 9.87 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, 164 BFIs (including 'D' class) were involved in merger and acquisition. Out of which, the license of 122 BFIs was revoked, thereby forming 42 BFIs in the review period.

## Financial Access

53. Of the total 753 local levels, commercial banks extended their branch network in 688 levels as of mid-December 2018 (Table 6).
54. The total number of BFIs licensed by NRB increased to 154 in mid-December 2018 from

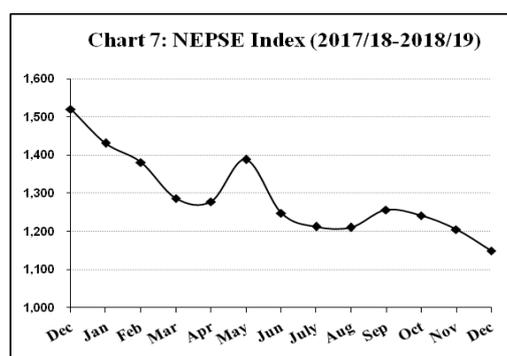
Province	No. of Local Bodies	No. of Banks/ Branches
Province 1	137	120
Province 2	136	133
Province 3	119	112
Gandaki	85	82
Province 5	109	107
Karnali	79	62
Far West	88	72
<b>Total</b>	<b>753</b>	<b>688</b>

151 in mid-July 2018 (Table 7). In mid-December 2018, the number of commercial banks is 28, development banks 33, finance companies 24 and microfinance financial institutions 69. The branch network of BFIs expanded to 7389 in mid-December 2018 from 6651 in mid-July 2018.

<b>Table 7: Number of BFIs and their Branches</b>				
<b>Bank and Financial Institutions</b>	<b>Number of BFIs</b>		<b>Branches of BFIs</b>	
	<b>Mid-Jul 2018</b>	<b>Mid-Dec 2018</b>	<b>Mid-Jul 2018</b>	<b>Mid-Dec 2018</b>
Commercial Banks	28	28	3023	3200
Development Banks	33	33	993	1136
Finance Companies	25	24	186	195
Microfinance Financial Institutions	65	69	2449	2858
<b>Total</b>	<b>151</b>	<b>154</b>	<b>6651</b>	<b>7389</b>

## Capital Market

55. The NEPSE index on y-o-y basis decreased 24.4 percent to 1148.8 points in mid-December 2018 from 1520.2 points a year ago. Such index was 1212.4 points in mid-July 2018.



56. The stock market capitalization on y-o-y basis decreased 22.5 percent to Rs.1370.36 billion in mid-

December 2018 against an increase of 3.8 percent a year ago. The ratio of market capitalization to GDP of 2017/18 stood at 45.6 percent in mid-December 2018. This ratio was 66.9 percent a year ago. In the total market capitalization, the share of banks, financial institutions and insurance companies stood at 80.5 percent, hydropower 4.1 percent, manufacturing and processing companies 2.9 percent, hotels 1.7 percent, trading 0.1 percent and others 10.8 percent respectively.

57. During the fifth month of 2018/19, the total turnover of the securities decreased 37.6 percent to Rs.6.63 billion compared to the corresponding month of the previous year. The turnover of the securities had decreased 43.5 percent to Rs.10.63 billion in the fifth month of 2017/18.

58. The total number of companies listed at the NEPSE remained 198 in mid-December 2018. Of the listed companies, 147 are BFIs (including insurance companies), 18 manufacturing and processing industries, 21 hydropower companies, 4 each hotels and trading institutions and 4 other sectors.

59. On y-o-y basis, total paid-up value of the listed shares increased 17.5 percent to Rs.363.65 billion in mid-December 2018. Total additional securities worth Rs.14.52 billion were listed in the NEPSE during the five months of 2018/19. These consisted of ordinary shares of Rs.3.05 billion, right shares of Rs.6 billion and bonus shares of Rs.5.47 billion.