



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

(Based on Four Months' Data of 2017/18)

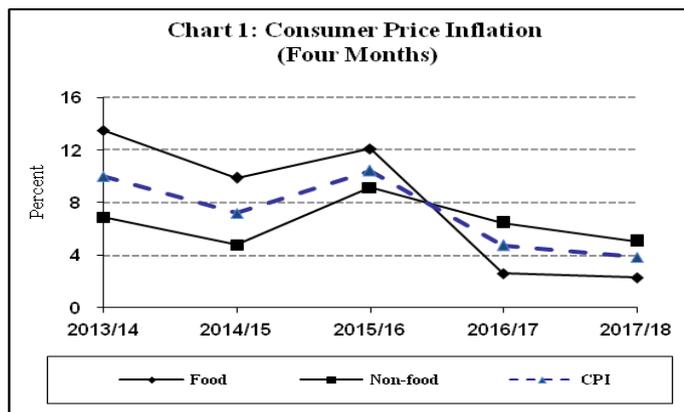
Macroeconomic Outlook

1. Economic data available so far suggest a mixed macro-financial outlook going forward.
2. Positive developments in three areas are expected to underpin the growth outlook going forward. First, construction is gaining momentum. Construction of individual houses, hotels and hydro power projects is on the rise. The rise in the import of cement, aluminum bars, coldrolled sheet in coil, M.S. billet and M.S. rods is reflective of the acceleration in construction related works. Second, manufacturing is slowly but steadily recovering. A recent study on economic activities conducted by Nepal Rastra Bank shows a pickup in industrial capacity utilization. The performance of industries relating to cement, iron and steel, zinc sheet and wire products has been encouraging. The rise in the import of raw materials and bank loans extended to these industries are supportive of positive outlook of manufacturing sector. Third, tourism is showing the sign of recovery. The growth in tourist arrival, the rise in hotel bed occupancy and a pickup in construction of hotels are indicative of positive outlook of tourism.
3. Inflation, which had remained low in the recent past, has slightly surged up in mid-November 2017. Globally, there are instances of consumer inflation picking up.
4. On external front, besides the growth in imports relative to exports, the decline in migrant workers' remittances has resulted in a deficit in the current account. However, the sufficient level of international reserves underpins the external sector stability.
5. On financial sector, the credit growth has remained significant at 17.5 percent year-on-year in mid-November 2017. On the other hand, the year-on-year deposit growth has remained lower at 14.9 percent in mid-November 2017. The lingering gap between credit and deposit growth requires banks to be cautious on their lending. Following the successful completion of local, provincial and federal level elections, streamlining of government finances, especially a pickup in local level government spending is expected. This is likely to help ease the financial friction currently seen in the financial sector.

Inflation, Salary and Wage Rate

Consumer Price Inflation

6. Consumer price inflation has accelerated to 3.9 percent in mid-November 2017 from 3.1 percent in mid-October 2017. The increment in the prices of vegetables, alcoholic drinks, among others, has contributed to the acceleration of inflation in the review month. Such inflation was 4.8 percent a year ago.



Food Inflation

7. Food inflation has moderated to 2.3 percent in mid-November 2017 from 2.6 percent in the corresponding month of the previous year. A fall in prices of pulses and legume by 24.1 percent and spice by 5.5 percent contributed to the moderation in overall food inflation. However, food inflation increased by 1.3 percent in review month over last month on account of rise in price of vegetable by 9.6 percent during that month.

Non-food Inflation

8. Non-food inflation moderated to 5.1 percent during the review month from 6.5 percent in the corresponding month of the previous year. The slower growth of prices of clothes and footwear, furnishing and household equipment, housing and utilities, health, among others, contributed to the moderation of non-food inflation in the review period.

Region-wise Consumer Price Inflation

9. The Mountain region witnessed relatively a higher rate of inflation of 5.4 percent followed by Hilly region of 4.7 percent, Terai region of 3.7 percent and the Kathmandu Valley of 3.2 percent in the review period. During the review period, higher inflation observed in Chandannath market centre (Jumla) caused a higher rate of inflation in Mountain region. In the corresponding period of the previous year, these regions had witnessed inflation rates of 4.0 percent, 6.2 percent, 5.1 percent and 3.0 percent respectively.

Inflation Differential between Nepal and India

10. The y-o-y consumer price inflation was 3.9 percent in Nepal in mid-November 2017 compared to 4.9 percent in India, showing an inflation wedge of 1.0 percent between the two countries. A significant fall in prices of pulses and legumes was the factor for a lower level of inflation in Nepal relative to India during the review month. A year ago, the rate of inflation was 4.8 percent in Nepal compared to 3.6 percent in India, reflecting inflation differential of 1.2 percent.

Wholesale Price Inflation

11. The y-o-y wholesale price inflation eased to 0.8 percent in the review month from 4.1 percent a year ago. The wholesale price indices of agricultural commodities declined by 0.3 percent where as domestic manufactured commodities and imported commodities grew 4.1 percent and 1.3 percent respectively in the review period. In the corresponding period of the previous year, wholesale price indices of agricultural commodities and domestic manufactured commodities had observed the growth of 6.2 percent and 4.7 percent respectively, whereas the price index of imported commodities had declined by 1.6 percent.

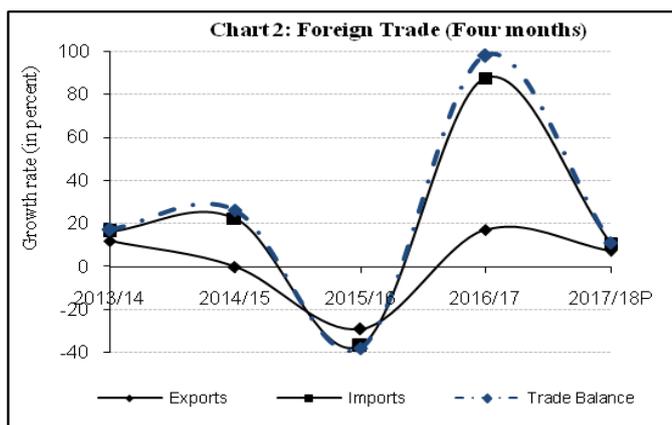
National Salary and Wage Rate

12. The y-o-y growth in salary and wage rate index moderated to 6 percent in the review period from 14.4 percent in the corresponding period of the previous year. In the review period, the salary index increased 9.5 percent, while the wage rate index grew 5.1 percent. The growth in salary indices of bank and financial institutions, education and public corporations sub-groups was 10.6 percent, 5.8 percent and 0.8 percent respectively in the review period. Likewise, wage rate indices of agricultural laborer, industrial laborer and construction laborer witnessed a growth of 4.8 percent, 6.6 percent and 3.2 percent respectively in the review period

External Sector

Merchandise Trade

13. In the first four months of 2017/18, merchandise exports increased 7.5 percent to Rs. 26.35 billion compared to an increase of 17 percent in the same period of the previous year. In the review period, exports to India, China and other countries increased 2 percent, 33.5 percent and 13.3 percent respectively. Commodity-wise exports of cattle feed, threads, vegetable ghee, readymade garments, among others, increased whereas export of juice, cardamom, G.I. pipes, woolen carpet, among others, decreased in the review period.



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14. Merchandise imports increased 10.8 percent to Rs. 334.31 billion in the review period compared to an increase of 87.4 percent in the same period of the previous year. In the review period, imports from India and Other countries increased 12.2 percent and 17.4 percent respectively whereas imports from China decreased 4.8 percent. Commodity-wise imports of petroleum products, M.S. billet, vehicle and spareparts, among others, increased whereas imports of agriculture equipment and parts, electrical goods, chemical fertilizer, among others, decreased in the review period.
15. Based on customs points, the exports through Birgunj Customs Office and Krishnagar Customs Office decreased whereas exports from other customs points increased in the

review period. On the import side, imports through Tribhuwan International Airport Customs Office and Rasuwa Customs Office decreased whereas imports through other customs points increased in the review period.

16. Total trade deficit in the review period expanded 11.1 percent to Rs. 307.96 billion compared to an expansion of 97.9 percent in the same period of the previous year. The export-import ratio remained at 7.9 percent in the review period compared to 8.1 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 1.2 percent while import price index increased 4.6 percent in the fourth month of 2017/18. Consequently, the ToT index decreased 3.3 percent as against an increase of 13.1 percent in the corresponding period of the previous year. Increase in price of export items such as tea, yarsagumba, carpet, catechu, flour caused the rise in export price index in the review period. Similarly, increase in the price of petroleum products, tyre, refrigerator resulted in an increase in import price index in the review period.

Services

18. The total services receipt increased 6 percent and expenses rose 13.9 percent in the review period. As a result, net services receipt turned deficits of Rs. 2.58 billion in the review period. It was surplus of Rs. 1.09 billion in the same period of the previous year.
19. Under the service account, travel receipt increased 32 percent to Rs. 22.72 billion in the review period. Such receipt had increased 33.5 percent in the same period of the previous year.

Workers' Remittances

20. The workers' remittances decreased 1.4 percent to Rs. 228.95 billion in the review period in contrast to 7.8 percent increase in the same period of the previous year. Consequently, net transfer receipt decreased 0.3 percent to Rs. 264.57 billion in the review period. Such receipt had increased 6.7 percent in the same period of the previous year.
21. The outflow of Nepalese workers for foreign employment (except renew entry) has been falling. The number of Nepalese workers seeking foreign employment decreased 1 percent

Box 1: Outflow of Nepalese Workers for Foreign Employment (First Four Months)				
a) Institutional and Individual (New and Legalized)				
Country	(No. of Labor)		Percentage Share	
	2016/17	2017/18	2016/17	2017/18
Malaysia	24686	40573	19.6	32.6
Qatar	39709	30358	31.6	24.4
Saudi Arabia	31881	15921	25.3	12.8
U.A.E.	18498	21906	14.7	17.6
Kuwait	3321	4906	2.6	3.9
Bahrain	1289	1690	1.0	1.4
Oman	993	939	0.8	0.8
South Korea	797	2005	0.6	1.6
Lebanon	60	3	0.0	0.0
Israel	56	55	0.0	0.0
Afghanistan	203	605	0.2	0.5
Japan	1040	270	0.8	0.2
Others	3248	5287	2.6	4.2
Total	125781	124518	100.0	100.0
Percentage Change	-7.9	-1.0	-	-
b) Renew Entry				
Renew Entry	76028	82646	-	-
Percentage Change	28.9	8.7	-	-

in the review period. It had decreased 7.9 percent in the same period of the previous year. In the review period, the number of workers outbound to Malaysia jumped up while the outbound to Saudi Arabia has shrank significantly.

Current Account and BOP Position

22. The current account registered a deficit of Rs. 25.81 billion in the review period. It was surplus of Rs. 1.86 billion in the same period of the previous year. Similarly, the overall BOP remained at surplus of Rs. 2.40 billion in the review period compared to Rs. 21.98 billion in the same period of the previous year.
23. In the review period, Nepal received capital transfer amounting to Rs. 6.42 billion and Foreign Direct Investment (FDI) inflows of Rs. 10.17 billion. In the same period of the previous year, capital transfer and FDI inflows had amounted to Rs. 3.38 billion and Rs. 5.71 billion respectively.

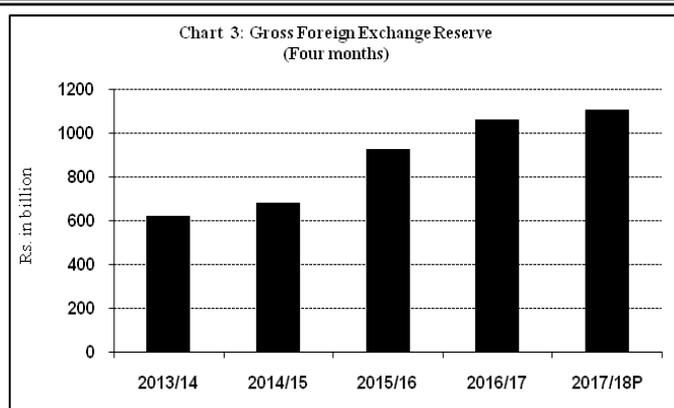
Box 2: External Sector (USD)*							
Particulars	(USD Million)						
	2015-16		2016-17		2017-18	Percent Change in Four month	
	Four Months	Annual	Four Months	Annual	Four Months	2016/17	2017/18
Goods Exports (FoB)	219.6	703.9	254.8	773.7	286.2	16.0	12.3
Goods Imports (FoB)	1523.6	7092.5	2763.4	9219.3	3182.5	81.4	15.2
Trade Balance	-1304.0	-6388.6	-2508.6	-8445.6	-2896.3	92.4	15.5
Total Trade	1743.2	7796.3	3018.1	9993.0	3468.7	73.1	14.9
Travel Receipts	123.2	392.7	160.9	552.3	219.6	30.6	36.4
Workers' Remittances	2061.8	6253.4	2170.2	6556.3	2217.9	5.3	2.2
Current Account Balance	1153.5	1338.8	17.7	-93.5	-250.7	-	-
BOP (-Surplus)	-797.1	-1779.8	-206.0	-777.1	-22.3	-	-

** Data from BOP Presentation*

1. In the US dollar terms, total merchandise exports and imports increased 12.3 percent and 15.2 percent respectively in the first four months of 2017/18. Exports had increased 16 percent whereas imports increased by 81.4 percent in the corresponding period of the previous year.
2. In the review period, travel receipts and worker's remittance increased 36.4 percent and 2.2 percent respectively. Travel receipts and workers' remittances had increased 30.6 percent and 5.3 percent respectively in the corresponding period of the previous year.
3. Current account recorded a deficit of USD 250.7 million in the review period compared to a surplus of USD 17.7 million in the corresponding period of the previous year. Likewise, Balance of Payments (BOP) recorded a surplus of USD 22.3 million in the review period compared to the surplus of USD 206 million in the corresponding period of the previous year.

Foreign Exchange Reserves

24. The gross foreign exchange reserves increased 2.4 percent to Rs. 1105.52 billion as at mid-November 2017 from Rs. 1079.52 billion as at mid-July 2017. Of the total foreign exchange, reserves held by NRB increased 2.3 percent to Rs. 948.18 billion as at mid-November 2017 from Rs. 927.27 billion as at



mid-July 2017. Similarly, reserves of banks and financial institutions (except NRB) increased 3.3 percent to Rs. 157.34 billion as at mid-November 2017 from Rs. 152.26 billion as at mid-July 2017. The share of Indian currency in total reserves stood at 23.1 percent as at mid-November 2017.

Foreign Exchange Adequacy Indicators

25. Based on the imports of four months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 13.5 months, and merchandise and services imports of 11.6 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 42.5 percent, 96.4 percent and 40.9 percent respectively as at mid- November 2017. Such ratios were 41.5 percent, 95.3 percent and 41.7 percent as at mid-July 2017.

Price of Oil and Gold

26. The price of oil (Crude Oil Brent) in the international market increased 38.6 percent to USD 61.18 per barrel in mid-November 2017 from USD 44.15 per barrel a year ago. The price of gold increased 4.3 percent to USD 1280 per ounce in mid-November 2017 from USD 1226.95 per ounce a year ago.

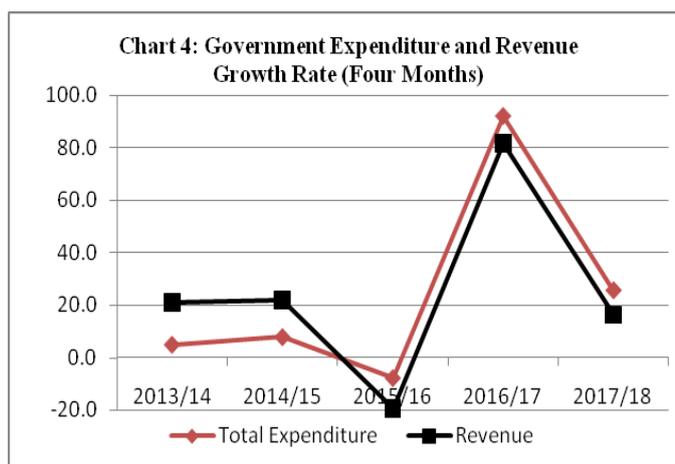
Exchange Rate

27. Nepalese currency vis-à-vis US dollar depreciated 1.1 percent in mid-November 2017 from mid-July 2017. It had depreciated 0.5 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 104.04 in mid-November 2017 compared to Rs. 102.86 in mid-July 2017.

Fiscal Situation*

Budget Deficit/ Surplus

28. In the first four months of 2017/18, the Government of Nepal (GoN) was at a surplus of Rs. 32.15 billion in its budget. Such surplus was Rs. 27.08 billion in the corresponding period of the previous year.



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Based on the data reported by 1 NRB office, 79 branches of Rastriya Banijya Bank Limited, 49 branches of Nepal Bank Limited, 25 branches of Agricultural Development Bank Limited, 24 branches of NIC Asia Bank Limited, 12 branches of Everest Bank Limited, 10 branches of Nepal Investment Bank Limited, 9 branches of Global IME Bank Limited, 3 branches of NMB Bank Limited and Bank of Kathmandu Limited and 1 branch each from Prime Commercial Bank Limited and Century Commercial Bank Limited conducting government transactions and released report from 79 DTCOs and payment centers.

Government Expenditure

29. In the review period, total government expenditure on a cash basis stood at Rs. 176.70 billion. Such expenditure was just Rs. 140.68 billion in the corresponding period of the previous year.

30. In the review period, recurrent expenditure stood at Rs. 152.12 billion. Such expenditure was Rs. 124.89 billion in the corresponding period of the previous year. In the review period, capital expenditure increased 50.6 percent to Rs. 17.86 billion. Such expenditure was Rs. 11.86 billion in the corresponding period of the previous year.

Box 3: The Budget Performance of 2017/18 (Rs. in million)			
Heads	Budget Estimates	Outturns in Four Months*	As percent of Budget Estimates
Total Expenditure	1278994.9	176703.0	13.82
Recurrent	803531.5	152118.3	18.93
Capital	335176.0	17861.2	5.33
Financial	140287.4	6723.5	4.79
Revenue	730055.6	195425.6	26.77

* On cash basis

Government Revenue

31. In the review period, the government revenue collection increased 16.3 percent to Rs. 195.43 billion. Such revenue had increased 81.5 percent to Rs. 168.04 billion in the corresponding period of the previous year. The government revenue collection has been less than the target. The growth in the government revenue continues to remain sensitive to high tariff rate related imports.

Treasury Position of the GoN

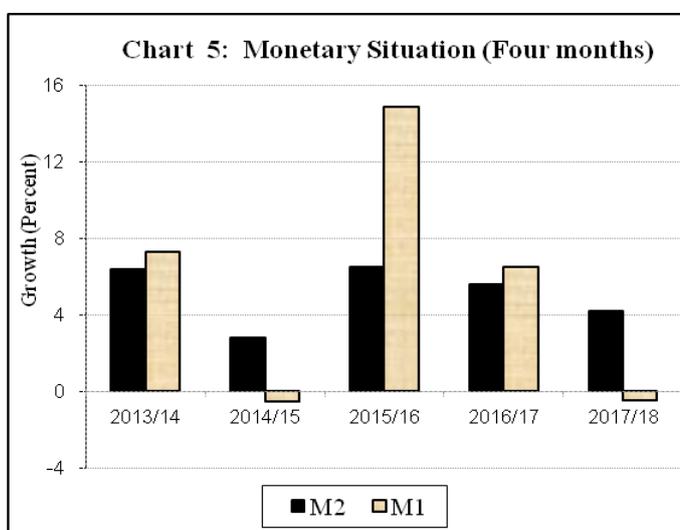
32. Because of a slow pace of government expenditure relative to resource mobilization, the treasury surplus amounted to Rs. 308.74 billion as of mid-November 2017.

Monetary Situation

Money Supply

33. Broad money (M2) increased 4.2 percent in the review period compared to a rise of 5.6 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 13.9 percent in mid-November 2017.

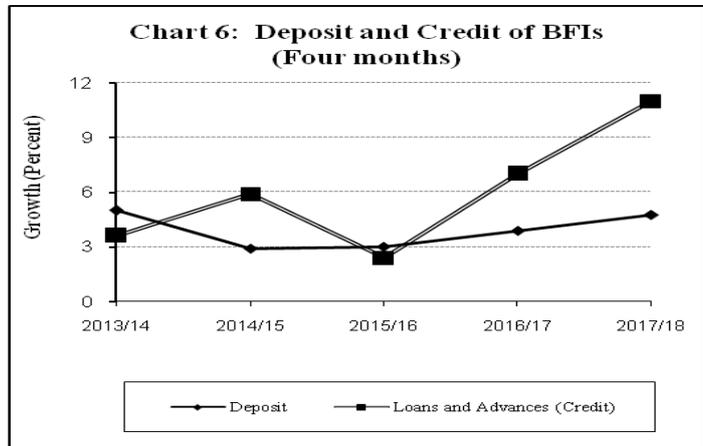
34. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 2.40 billion (0.2 percent) in the review period compared to an increase of Rs. 21.98 billion (2.3 percent) in the corresponding period of the previous year.



35. Reserve money decreased 14.3 percent in the review period compared to an increase of 1 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 1.9 percent in mid-November 2017.

Domestic Credit

36. Domestic credit increased 3 percent in the review period compared to an increase of 3.7 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 18.6 percent in mid-November 2017.



37. Claims of monetary sector on the private sector increased 7.4 percent in the review period compared to a growth of 7.8 percent in the corresponding period of the previous year. On y-o-y basis, increase on such claims stood 17.5 percent in mid-November 2017.

Deposit Collection

38. Deposits at Banks and Financial Institutions (BFIs) increased 4.8 percent in the review period compared to the growth of 3.9 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 14.9 percent in mid-November 2017.
39. Out of the total deposits at the BFIs, the share of demand deposits decreased from 8.2 percent to 7.9 percent and saving deposits from 44.0 percent to 36.2 percent in mid-November 2017 compared to a year ago. However, the share of fixed deposits increased to 42.3 percent from 31.2 percent a year ago.

Credit Disbursement

40. Credit to the private sector from BFIs increased 6.7 percent in the review period compared to a rise of 7.4 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 6.5 percent, 10.2 percent and 1.1 percent respectively. On y-o-y basis, credit to the private sector from BFIs increased 17.5 percent in mid-November 2017.
41. Of the total outstanding credit of BFIs, 61.2 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 60.7 percent and 14.9 percent respectively in the corresponding period of the previous year.
42. Trust receipt loan extended by commercial banks increased 43.6 percent (Rs. 28.11 billion) to Rs. 92.64 billion in the review period compared to an increase of 7.4 percent in the corresponding period of the previous year.

43. In the review period, hire purchase loan increased 3.6 percent and overdraft loan increased 2.9 percent. Similarly, real estate loan (including residential personal home loan) increased 5.5 percent in the review period.

Liquidity Management

44. In the review period, NRB mopped up Rs. 127.20 billion through open market operations. Of which, Rs. 42.45 billion was mopped up under deposit collection auction (90 days, 30 days and 14 days) and Rs. 84.75 billion through reverse repo auction on a cumulative basis. In the corresponding period of the previous year, Rs. 92.25 billion liquidity was absorbed. Likewise, in the corresponding period of the previous year Rs. 10.01 billion liquidity was injected through repo auctions.
45. In the review period, bank and financial institutions (BFIs) utilized Rs. 5.50 billion standing liquidity facility (SLF). In the corresponding period of the previous year, BFIs had utilized such facility of Rs. 10.05 billion.
46. In the review period, NRB injected net liquidity of Rs. 132.47 billion through the net purchase of USD 1.28 billion from foreign exchange market. Net liquidity of Rs. 137.87 billion was injected through the net purchase of USD 1.29 billion in the corresponding period of previous year.
47. NRB purchased Indian currency (INR) equivalent to Rs. 149.47 billion through the sale of USD 1.40 billion and Euro 40 million in the review period. INR equivalent to Rs. 150.33 billion was purchased through the sale of USD 1.30 billion and Euro 95 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-November 2017, the outstanding refinance amounted to Rs. 8.32 billion including general refinance of Rs.7.56 billion and export refinance of Rs.754.1 million.
49. A sum of Rs. 1.01 billion housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims as of mid-November 2017. NRB provides refinance facility to BFIs at a zero percent interest to extend housing loan to earthquake victims.
50. As of mid-October 2017, the number of beneficiaries of the 5 percent interest subsidized lending scheme of the Government of Nepal stood at 5974. They availed subsidized loans for selected agriculture and livestock businesses. Under this provision, Rs. 6.46 billion loan extended by BFIs is outstanding and Rs. 311 million interest subsidy has been provided.

Inter-bank Transaction

51. In the review period, inter-bank transactions among commercial banks stood at Rs. 321.10 billion and among other financial institutions (excluding transactions among commercial banks) amounted to Rs. 7.18 billion. Such transactions were Rs. 400.33 billion and Rs. 120.75 billion respectively in the corresponding period of the previous year.

Interest Rates

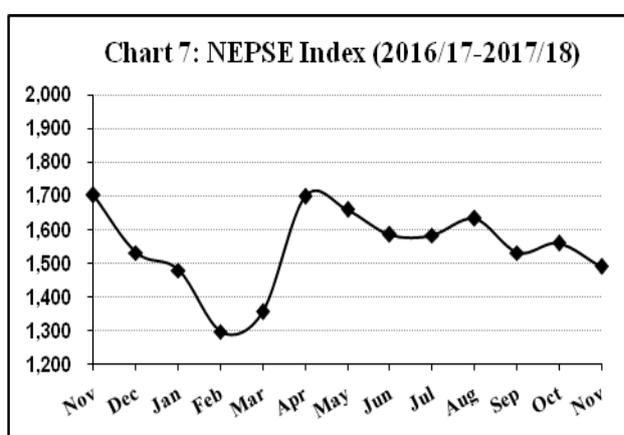
52. The weighted average 91-day Treasury bill rate decreased to 2.55 percent in the fourth month of 2017/18 from 3 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 3.59 percent a year ago, decreased to 2.68 percent in the review month. Likewise, the average base rate of commercial banks increased to 10.11 percent in the review month from 6.55 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, 156 BFIs (including 'D' class) were involved in merger and acquisition. Out of which, the license of 116 BFIs was revoked, thereby forming 40 BFIs.

Capital Market

54. The NEPSE index on y-o-y basis decreased 12.5 percent to 1489.1 points in mid-November 2017. This index had increased 55.5 percent to 1701.9 points in mid-November 2016. Such index was 1582.7 points in mid-July 2017.



55. The stock market capitalization on y-o-y basis decreased 8.6 percent to Rs. 1728.68 billion in mid-November 2017. This had increased 63.6 percent a year ago. The ratio of market capitalization to GDP of 2016/17 stood at 66.5 percent in mid-November 2017. This ratio was 84.2 percent a year ago. In the total market capitalization, the share of banks, financial institutions and insurance companies stood at 82.7 percent, hydropower 4.7 percent, manufacturing and processing companies 2.5 percent, hotels 1.6 percent, trading 0.1 percent, and others 8.4 percent respectively.
56. The total turnover of the securities decreased 19.6 percent to Rs. 9.83 billion in the review period. The turnover of the securities had substantially increased 271.4 percent to Rs. 12.23 billion in the corresponding month of the previous year.
57. Due to the merger and acquisitions of BFIs, total number of companies listed at the NEPSE decreased to 197 in mid-November 2017 from 223 in mid-November 2016. Of the listed companies, 151 are BFIs (including insurance companies), 18 manufacturing and processing industries, 17 hydropower companies, 4 each hotels and trading institutions and 3 other sectors.
58. On y-o-y basis, total paid-up value of the listed shares increased 33.5 percent to Rs. 303.30 billion in mid-November 2017. Total additional securities worth Rs. 57.60 billion were listed in the NEPSE during the review period. These consist of ordinary shares Rs. 1.56 billion, right shares Rs. 19.63 billion, bonus shares Rs. 1.27 million and government securities Rs. 35.14 billion.