



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

(Based on Four Months' Data of 2018/19)

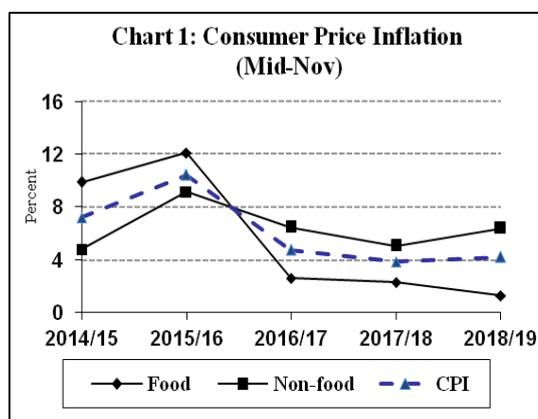
Major Highlights

- Inflation remained 4.2 percent on y-o-y basis.
- Import expanded 35.8 percent and export 11.0 percent.
- Workers' remittances increased 36.4 percent in NPR and 23.1 percent in US Dollars.
- Balance of Payments remained at a deficit of Rs.57.3 billion.
- Government spending on cash basis increased 17.5 percent and revenue collection 30.5 percent.
- Broad money (M2) increased 3.5 percent. On y-o-y basis, M2 increased 18.6 percent.
- Deposits at Banks and Financial Institutions increased 3.6 percent and bank credit to the private sector 8.5 percent. On y-o-y basis, deposits increased 17.9 percent and credit 24.5 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 4.2 percent in mid-November 2018 compared to 3.9 percent a year ago. Increase in the price of transportation, cereal and grains, housing and utilities and clothing, among others, mainly contributed to a rise in overall inflation in the review period.



Food and Beverage Inflation

2. Food and beverage inflation moderated to 1.3 percent in mid-November 2018 compared to 2.3 percent a year ago. A decrease in the price of pulses and legumes, vegetables, and sugar and sugar related products contributed to the moderate food and beverage inflation in the review period.

Box 1: Y-O -Y Food and Beverage Inflation (Mid-Nov)		
Particulars	Inflation (Percent)	
	2017/18	2018/19
Food and Beverage Inflation	2.3	1.3
1. Pulses and Legumes	(24.1)	(14.3)
2. Sugar and sugar products	3.7	(7.6)
3. Vegetables	5.6	(8.7)
4. Milk products and Eggs	7.8	2.9

Source: National Consumer Price Index, Mid-November 2018

Non-food and Service Inflation

3. Non-food and service inflation stood at 6.4 percent in mid-November 2018 compared to 5.1 percent a year ago. An increase in price of transportation, furnishing and household equipment, housing and utilities sub-groups, among others, accounted for the increase in non-food and service inflation in the review month.

Box 2: Y-O -Y Non-Food and Services Inflation (Mid-Nov)		
Particulars	Inflation (Percent)	
	2017/18	2018/19
Non-Food and Service Inflation	5.1	6.4
1. Transportation	1.4	8.4
2. Furnishing and Household Equipment	3.3	6.1
3. Housing and Utilities	6.7	8.7

Source: National Consumer Price Index, Mid-November 2018

Region-wise Consumer Price Inflation

4. The Mountain region witnessed 4.6 percent inflation followed by 4.5 percent in the Kathmandu Valley, 4.3 percent in the Hilly region and 3.8 percent in the Terai. These regions had witnessed 5.4 percent, 3.2 percent, 4.7 percent and 3.7 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-November 2018) and India (November 2018) stood at 4.2 percent and 2.3 percent respectively. Such rate of inflation was 3.9 percent in Nepal compared to 4.9 percent in India a year ago.

Wholesale Price Inflation

6. The y-o-y wholesale price inflation stood at 8.6 percent in mid-November 2018 from a meagre 0.8 percent a year ago. A rise in price of non-food primary goods, petroleum products, textiles, basic metals among others, contributed to the rise in overall wholesale price inflation in the review period.

National Salary and Wage Rate Index

- The salary and wage rate index increased 8.9 percent in mid-November 2018 from 6.1 percent a year ago. In the review period, the salary index increased 6.6 percent and the wage rate index 9.5 percent.

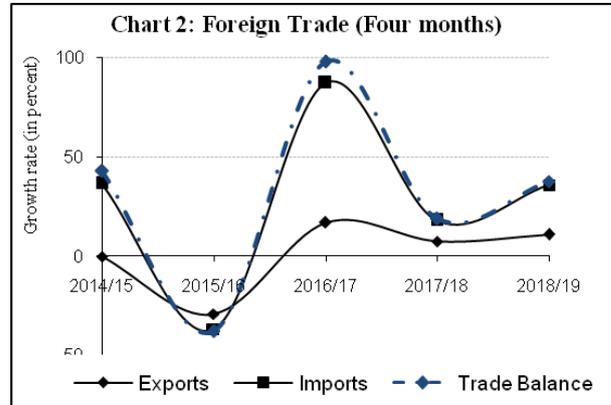
External Sector

Merchandise Trade

- In four months of 2018/19, merchandise exports increased 11 percent to Rs.29.28 billion compared to an increase of 7.6 percent in the same period of the previous year. Destination-wise, exports to India, China and Other countries increased 18.3 percent, 8.9 percent and 2.2 percent respectively. Mainly exports of polyester yarn, zinc sheet, textiles, tooth paste, jute goods, among others, increased whereas export of cardamom, rosin, tanned skin, shoes and sandals, G.I. pipes, among others, decreased in the review period.
- In four months of 2018/19, merchandise imports increased 35.8 percent to Rs. 483.76 billion compared to an increase of 18.1 percent in the same period of the previous year. Destination-wise, imports from India, China and other countries increased 33.5 percent, 45.1 percent and 36.8 percent respectively. Commodity wise, imports of petroleum products, aircraft spare parts, M.S. billet, machinery & parts, vehicles & spare parts, rice, among others, increased whereas imports of cement, crude soybean oil, telecommunication equipment and parts, medical equipment and tools, among others, decreased in the review period.
- Based on customs points, exports from Kanchanpur Customs Office, Kailali Customs Office, Krishnanagar Customs Office and Dry Port Customs Office decreased whereas exports from other customs points increased. On the import side, except from Kanchanpur Customs Office, imports from all other customs points increased in the review period.
- Total trade deficit further widened 37.8 percent to Rs.454.48 billion in four months of 2018/19. The export-import ratio slid down to 6.1 percent in the review period from 7.4 percent in the corresponding period of the previous year.

Services

- Net services deficit increased to Rs.13.16 billion in the review period from Rs.3.01 billion in the same period of the previous year.
- Under the service account, travel receipt increased 10.3 percent to Rs.25.06 billion in the review period. Such receipt was Rs.22.72 billion in the same period of the previous year.



Workers' Remittances

14. The workers' remittances increased 36.4 percent to Rs.312.26 billion in the review period compared to a decrease of 1.4 percent in the same period of the previous year. In US Dollar terms, workers' remittances increased 23.1 percent in the review period compared to 2.2 percent in the corresponding period of the previous year.
15. Net transfer receipt increased 33.6 percent to Rs.352.97 billion in the review period. Such receipt had decreased 0.5 percent in the same period of the previous year.
16. The number of Nepali workers migrated for foreign employment decreased 41.2 percent in the review period. It had decreased 1 percent in the same period of the previous year. In the review period, the number of workers outbound to Malaysia shrank significantly.

Box 3: Number of Nepalese going for Foreign Employment (Four Months)

a) Institutional and Individual (New and Legalized)

Country	(No. of Labor)		Percentage Share	
	2017/18	2018/19	2017/18	2018/19
Qatar	30358	26933	24.4	36.8
U.A.E.	21906	19591	17.6	26.8
Saudi Arabia	15921	9741	12.8	13.3
Kuwait	4906	5183	3.9	7.1
Malaysia	40573	2447	32.6	3.3
Bahrain	1690	1557	1.4	2.1
Oman	939	843	0.8	1.2
Afghanistan	605	418	0.5	0.6
Japan	270	240	0.2	0.3
South Korea	2005	30	1.6	0.0
Israel	55	29	0.0	0.0
Lebanon	3	2	0.0	0.0
Others	5287	6141	4.2	8.4
Total	124518	73155	100.0	100.0
Percentage Change	-1.0	-41.2	-	-

b) Renew Entry

Renew Entry	82646	74142	-	-
Percentage Change	8.7	-10.3	-	-

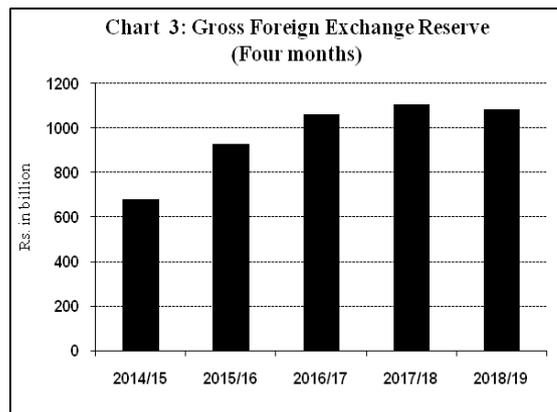
Source: Department of Foreign Employment.

Current Account and BOP Position

17. The current account registered a deficit of Rs.88.64 billion in the review period. The current account had registered a deficit of Rs.48.98 billion in the same period of the previous year. In the US Dollar terms, the current account deficit widened 774.1 million in the review period compared to 250.7 million in the corresponding period of the previous year.
18. The overall BOP remained at a deficit of Rs.57.33 billion in the review period compared to a surplus of Rs.2.40 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a deficit of 503.6 million in the review period compared to a surplus of 22.3 million in the same period of the previous year.
19. In the review period, Nepal received capital transfer amounting to Rs.4.22 billion and Foreign Direct Investment (FDI) of Rs.4.95 billion. In the same period of the previous year, capital transfer and FDI inflows were Rs.6.42 billion and Rs.10.17 billion respectively.

Foreign Exchange Reserves

20. The gross foreign exchange reserves stood at Rs.1082.91 billion as at mid-November 2018, a decrease of 1.8 percent from Rs.1102.59 billion as at mid-July 2018. In the US Dollar terms, the gross foreign exchange reserves remained USD 9.43 billion as at mid-November 2018, a decrease of 6.5 percent from USD 10.08 billion as at mid-July 2018.



21. Of the total foreign exchange reserves, reserves held by NRB decreased Rs.44.86 billion to Rs.944.54 billion as at mid- November 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 22.2 percent to Rs.138.37 billion as at mid- November 2018 from Rs.113.19 billion as at mid-July 2018. The share of Indian currency in total reserves stood at 24 percent as at mid-November 2018.

Foreign Exchange Adequacy Indicators

22. 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 9.2 months, and merchandise and services imports of 7.9 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 decreased to 36 percent, 65.8 percent and 33.8 percent respectively as at mid-November 2018. Such ratios were 36.7 percent, 78.6 percent and 35.6 percent as at mid-July 2018.

Price of Oil and Gold

23. The price of oil (Crude Oil Brent) in the international market increased 6.7 percent to USD 65.29 per barrel in mid-November 2018 from USD 61.18 per barrel a year ago. The price of gold decreased 4.5 percent to USD 1222.40 per ounce in mid-November 2018 from USD 1280 per ounce a year ago.

Exchange Rate

24. Nepalese currency vis-à-vis US dollar depreciated 4.8 percent in mid-November 2018 from mid-July 2018. It had depreciated 1.1 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.114.88 in mid-November 2018 compared to Rs.109.34 in mid-July 2018.

Fiscal Situation*

Fiscal Deficit/ Surplus

25. Government of Nepal (GoN) recorded a fiscal surplus of Rs.51.01 billion in four months of 2018/19, which was Rs.32.15 billion in the corresponding period previous year.

Government Expenditure

26. In the review period, total government expenditure (cash basis) stood at Rs.207.68 billion (15.8 percent of the budget estimate). Such expenditure was Rs.176.70 billion in the corresponding period previous year.
27. Recurrent expenditure stood at Rs.173.78 billion (20.6 percent of the budget estimate) in four months of 2018/19, which was Rs.152.12

billion a year ago. Likewise, capital expenditure remained at Rs.26.01 billion (8.3 percent of the budget estimate) which was Rs.17.86 billion a year ago.

Government Revenue

28. In the review period, government revenue increased 30.5 percent to Rs.255.02 billion (27 percent of the target for the year). Such revenue had increased 16.3 percent to Rs.195.43 billion in the corresponding period previous year.

Treasury Position of the GoN

29. The treasury surplus amounted to Rs.206.25 billion (including Rs.75.8 billion in Local Authority Account) as of mid-November 2018.

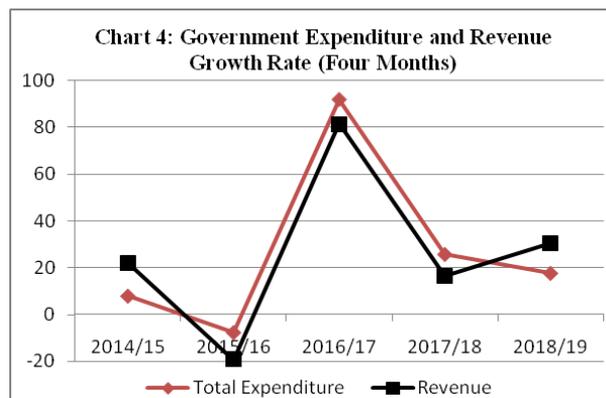


Table 4: The Budget Performance of 2018/19

(Rs. in billion)			
Heads	Budget Estimates	Outturns in Four Months*	As percent of Budget Estimates
Total Expenditure	1315.2	207.7	15.8
<i>Recurrent</i>	<i>845.5</i>	<i>173.8</i>	<i>20.6</i>
<i>Capital</i>	<i>314.0</i>	<i>26.0</i>	<i>8.3</i>
<i>Financial</i>	<i>155.7</i>	<i>7.9</i>	<i>5.1</i>
Revenue	945.6	255.0	27.0

* On cash basis

* Based on data reported by one banking office of NRB, 86 branches of Rastriya Banijya Bank Limited, 64 branches of NIC Asia Bank Limited, 60 branches of Nepal Bank Limited, 28 branches of Agriculture Development Bank, 25 branches of Global IME Bank Limited, 21 branches of Nepal Investment Bank Limited, 18 branches each of NMB Bank Limited and Mega Bank Limited, 17 branches of Everest Bank Limited, 14 branches of Janata Bank Limited, 12 branches of Nabil Bank limited, 10 branches each of Nepal Bangladesh Bank Limited, Sanima Bank Limited, Civil Bank Limited, Laxmi Bank Limited and Citizens Bank International Limited, 9 branches Kumari Bank limited, 8 branches of Siddhartha Bank Limited, 7 branches of Machhapuchhre Bank Limited, 6 branches each of Prime Commercial Bank Limited, Bank of Kathmandu Limited and Sunrise Bank Limited, 4 branches of Prabhu Bank Limited, 3 branches of Century Commercial Bank Limited, 2 branches each of Himalayan Bank Limited and NCC Bank Limited and 1 branch of Nepal SBI Bank Limited conducting government transactions and report released from 81 DTCOs and payment centres.

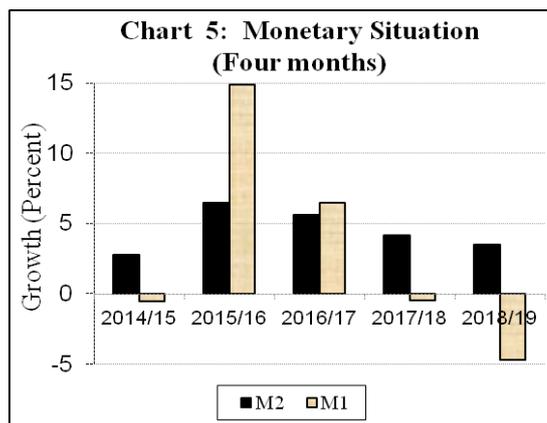
Monetary Situation

Money Supply

30. Broad money (M2) increased 3.5 percent in the review period compared to a rise of 4.2 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 18.6 percent in mid-November 2018.

31. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs.57.33 billion (5.4 percent) in the review period compared to an increase of Rs. 2.40 billion (0.2 percent) in the corresponding period of the previous year.

32. Reserve money decreased 15.0 percent in the review period compared to a decrease of 14.3 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 7.2 percent in mid-November 2018.



Domestic Credit

33. Domestic credit increased 5.2 percent in the review period compared to an increase of 2.0 percent in the corresponding period previous year. On y-o-y basis, domestic credit increased 28.7 percent in mid-November 2018.

34. Claims of monetary sector on the private sector increased 9.1 percent in the review period compared to a growth of 7.4 percent in the corresponding period previous year. On y-o-y basis, such claims increased 24.3 percent.

Deposit Collection

35. Deposits at Banks and Financial Institutions (BFIs) increased 3.6 percent in the review period compared to a growth of 4.8 percent in the corresponding period previous year. On y-o-y basis, deposits at BFIs expanded 17.9 percent in mid-November 2018.

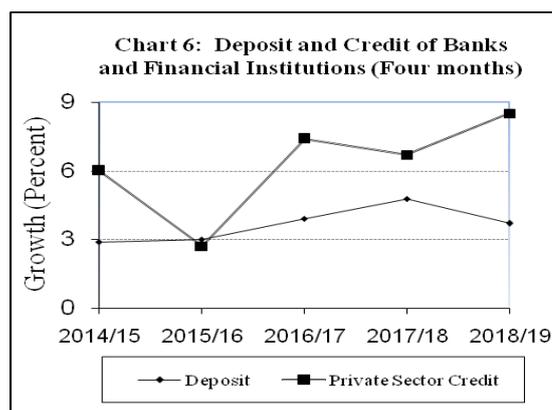
Deposits	Mid-Jul			Mid-Nov	
	2016	2017	2018	2017	2018
Demand	9.1	8.7	9.3	7.9	7.7
Saving	43.3	35.4	34.5	36.2	34.7
Fixed	30.5	43.2	44.8	42.3	46.2
Other	17.0	12.7	11.3	13.6	11.4

36. The share of demand, saving and fixed deposits in total deposits stands at 7.7 percent, 34.7 percent and 46.2 percent respectively in mid-November 2018. Such share was 7.9 percent, 36.2 percent and 42.3 percent respectively a year ago.

37. The share of institutional deposits in total deposit of BFIs stands at 44.3 percent in mid-November 2018. Such share was 44.8 percent a year ago.

Credit Disbursement

38. Credit to the private sector from BFIs increased 8.5 percent in the review period compared to a growth of 6.7 percent in the corresponding period of the previous year. In the review period, private sector credit increased 8.3 percent from commercial banks, 11.2 percent from development banks and 5.1 percent from finance companies. On y-o-y basis, credit to the private sector from BFIs increased 24.5 percent in mid-November 2018.



39. Of the total outstanding credit of BFIs in mid-November 2018, 63.2 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 61.2 percent and 14.5 percent respectively a year ago.
40. In the review period, term loan extended by BFIs increased 11.1 percent, overdraft increased 4.0 percent, trust receipt (import) loan increased 14.5 percent, demand and working capital loan increased 13.7 percent, real estate loan (including residential personal home loan) increased 5.2 percent and hire purchase loan increased 3.1 percent.

Liquidity Management

41. 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.135.75 billion liquidity was mopped up in the corresponding period of previous year.
42. BFIs utilized standing liquidity facility (SLF) of Rs. 5.42 billion in the review period. Such facility was Rs. 5.50 billion in the corresponding period of the previous year.
43. In the review period, NRB injected net liquidity of Rs.101.86 billion through the net purchase of USD 879.5 million from foreign exchange market. Net liquidity of Rs.130.74 billion was injected through the net purchase of USD 1.27 billion in the corresponding period of the previous year.
44. NRB purchased Indian currency (INR) equivalent to Rs.163.03 billion through the sale of USD 1.38 billion, Euro 16 million, GBP 20 million and Japanese Yen 16 billion in the review period. INR equivalent to Rs.145.37 billion was purchased through the sale of USD 1.36 billion and GBP 40 million in the corresponding period of the previous year.

Refinance

45. 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.15.63 billion in mid-November 2018.
46. A sum of Rs.2.23 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 2018. The number of earthquake victims utilizing such loan is 1401.
47. As of mid-November 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.14.38 billion loan extended by BFIs has been outstanding and Rs.758.2 million interest subsidy has been provided.

Inter-bank Transaction

48. In the review period, inter-bank transactions among commercial banks stood at Rs.421.91 billion and among other financial institutions (excluding transactions among commercial banks) amounted to Rs.48.69 billion. Such transactions were Rs.321.10 billion and Rs.7.18 billion respectively in the corresponding period of the previous year.

Interest Rates

49. The weighted average 91-day Treasury bills rate decreased to 2.20 percent in the fourth month of 2018/19 from 2.55 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 2.68 percent a year ago, decreased to 1.68 percent in the review month. Likewise, the average base rate of commercial banks marginally increased to 10.21 percent in the review month from 10.11 percent a year ago.

Merger/Acquisition

50. 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

51. Of the total 753 local levels, commercial banks extended their branch network in 682 levels as of mid-November 2018 (Table 6).
52. The total number of BFIs licensed by NRB increased to 154 in mid-November 2018 from

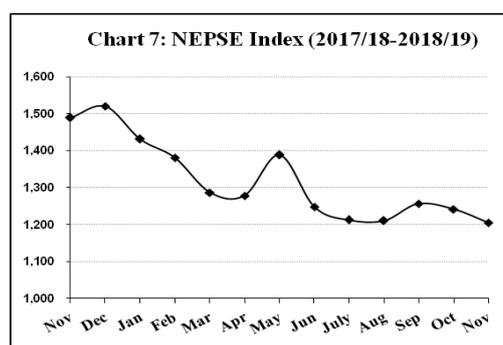
Province	No. of Local Bodies	No. of Banks/ Branches
Province 1	137	120
Province 2	136	131
Province 3	119	112
Gandaki	85	82
Province 5	109	107
Karnali	79	62
Far West	88	68
Total	753	682

151 in mid-July 2018 (Table 7). In mid-November 2018, the number of commercial banks is 28, development banks 33, finance companies 24 and microfinance institutions 69. The branch network of BFIs expanded to 7218 in mid-November 2018 from 6651 in mid-July 2018.

Bank and Financial Institutions	Number of BFIs		Branches of BFIs	
	Mid-Jul 2018	Mid-Nov 2018	Mid-Jul 2018	Mid-Nov 2018
Commercial Banks	28	28	3023	3175
Development Banks	33	33	993	1110
Finance Companies	25	24	186	192
Microfinance Institutions	65	69	2449	2741
Total	151	154	6651	7218

Capital Market

53. The NEPSE index on y-o-y basis decreased 19.1 percent to 1205 points in mid-November 2018. This index had decreased 12.5 percent to 1489.1 points in mid-November 2017. Such index was 1212.4 points in mid-July 2018.



54. The stock market capitalization on y-o-y basis decreased 15.7 percent to Rs.1456.95 billion in mid-

November 2018. This had decreased 8.6 percent a year ago. The ratio of market capitalization to GDP stood at 48.4 percent in mid-November 2018. This ratio was 65.4 percent a year ago.

55. The total number of companies listed at the NEPSE remained 198 in mid-November 2018.