



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

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

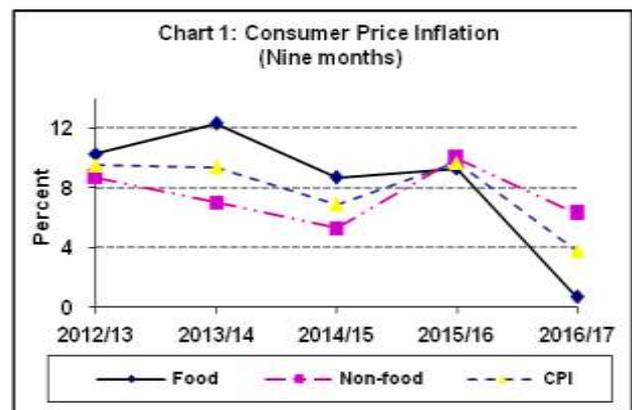
Macrofinancial Outlook

1. As per the recent release of national accounts statistics by Central Bureau of Statistics (CBS), Gross Domestic Product (GDP) at basic prices is estimated to grow by 6.9 percent in 2016/17. The better than expected rainfall, ongoing reconstruction works and improved energy situation have underpinned the growth estimates exceeding the initial targets.
2. The growth in agriculture sector is estimated to accelerate to 5.3 percent in 2016/17 from the revised estimate of 0.03 percent in 2015/16. The favourable monsoon has accounted for the acceleration in growth in agriculture in the current fiscal year.
3. The preliminary estimates show a growth of 10.9 percent in the industrial sector in the current fiscal year. An ease in supply of fuel and raw materials and improvement in power supply have accounted for the rise in the production of this sector. The industrial sector had witnessed a negative growth of 6.3 percent in the previous year.
4. The services sector is estimated to witness a growth of 6.9 percent in the current fiscal year. The revised growth rate of this sector has been 2.06 percent in the preceding year.
5. The ratio of consumption to GDP which was 96.2 percent in the previous year is estimated at 89.7 percent in the current fiscal year. While Gross Domestic Savings to GDP ratio is estimated to stand at 10.3 percent, the ratio of Gross National Savings to GDP is slated to rise 43.8 percent in 2016/17 from 40.0 percent in the previous year.

Inflation, Salary and Wage Rate

Consumer Price Inflation

6. Consumer price inflation has increased to 3.8 percent in mid-April 2017 from 2.9 percent in mid-March 2017. Such inflation was 9.7 percent in the corresponding period of the previous year. The decline in y-o-y inflation compared to



the previous year is mainly on account of the previous year's base price effect and improved supply situation.

Food Inflation

7. The food inflation dropped to 0.7 percent in mid-April 2017 from 9.3 percent in the corresponding period of the previous year. A fall in prices of pulses and legumes by 10.0 percent, vegetable by 9.7 percent, ghee and oil by 3.0 percent and cereal grains by 0.3 percent accounted for such a decline in food inflation. Of food and beverage group, the prices of sugar and sugar products increased by 13.9 percent and alcoholic drinks by 13.0 percent in the review period.

Box 1: Y-O -Y Food Inflation (Nine Months)			
Particulars		Inflation (Percent)	
		2072/73	2073/74
Food Inflation		9.3	0.7
1	Pulses and Legumes	26.8	(10.0)
2	Spices	15.9	3.1
3	Ghee and Oil	15.5	(3.0)
4	Alcoholic drinks	14.5	13.0
5	Sugar and Sugar products	10.5	13.9
6	Restaurant and Hotel	9.9	6.4
7	Milk products and Eggs	9.8	4.4
8	Vegetable	9.2	(9.7)
9	Tobacco products	7.9	3.9
10	Cereal Grains and their Products	7.5	(0.3)
<i>Source: National Consumer Price Index, Mid-April 2017</i>			

Non-food Inflation

8. The non-food inflation also moderated to 6.3 percent during the review period from 10.0 percent in the corresponding period of the previous year. The decline in growth rate of prices of clothes and footwear, housing and utilities, communication, transportation, among others contributed to the moderation in non-food inflation in the review period.

Region-wise Consumer Price Inflation

9. The Hilly region witnessed relatively a higher rate of inflation of 5.6 percent followed by Terai region (3.4 percent), Mountain region (2.8 percent) and the Kathmandu Valley (2.7 percent) in the review period. In the corresponding period of the previous year, Hilly region, Terai region, Mountain region and the Kathmandu Valley witnessed inflation rate of 10.0 percent, 8.3 percent, 8.0 percent and 11.7 percent respectively.

Inflation Differential between Nepal and India

10. The y-o-y consumer price inflation was 3.0 percent in India compared to 3.8 percent in Nepal in April 2017 showing inflation wedge of 0.8 percent. Such inflation was 5.4 percent in India and 9.7 percent in Nepal reflecting a wider inflation

Box 2: Commodity-Wise Inflation Wedge between Nepal and India (April 2017)			
Commodities	Inflation (Percent)		Wedge
	Nepal	India	
Overall Consumer Price Inflation	3.8	3.0	0.8
1. Sugar and Sugar Products	13.9	11.4	2.5
2. Alcoholic drinks	13.0	6.1	6.9
3. Education	10.2	5.3	4.9
<i>Source: Ministry of Statistics and Programme Implementation, India, April 2017</i>			

differential of 4.3 percent in the corresponding period of the previous year.

Wholesale Price Inflation

11. The y-o-y wholesale price inflation dropped to 1.2 percent in the review period from 5.5 percent a year ago. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities showed a growth of 0.1 percent, 4.0 percent and 1.8 percent respectively in the review period. In the corresponding period of the previous year, the increments in wholesale price indices of agricultural commodities and domestic manufactured commodities were 9.2 percent and 6.2 percent respectively, whereas the price index of imported commodities had declined by 2.9 percent.

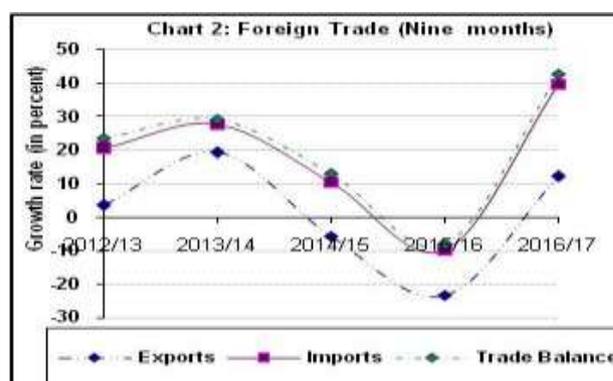
National Salary and Wage Rate

12. The y-o-y salary and wage rate index rose to 14.7 percent in the review period from 5.1 percent in the corresponding period of the previous year. In the review period, the salary index increased by 18.9 percent, while the wage rate index grew by 13.7 percent. The hike in pay scale of civil service drove up the salary and wage rate index in the review period. The salary indices of civil service, army and police forces and public corporation sub-groups increased by 24.2 percent, 23.6 percent and 21.7 percent respectively in the review period. Likewise, wage rate indices of agricultural laborer, industrial laborer and construction laborer witnessed a growth of 12.2 percent, 18.1 percent and 11.0 percent respectively in the review period.

External Sector

Merchandise Trade

13. In the first nine months of 2016/17, merchandise exports increased 12.1 percent to Rs. 55.22 billion as against a drop of 23.4 percent in the same period of the previous year. In the review period, exports to India, China and other countries increased 15.7 percent, 8.5 percent and 7.5 percent respectively. Commodity wise, exports of juice, oil cakes, rosin, noodles among others increased whereas exports of cardamom, polyster yarn, readymade garments, woolen carpet among others decreased in the review period.



14. Merchandise imports increased 39.7 percent to Rs. 726.41 billion in the review period in contrast to a drop of 9.9 percent in the same period of the previous year. In the review period, imports from India, China and Other countries increased 51.2 percent, 12.6 percent and 28.9 percent respectively. Commodity wise, imports of petroleum products, vehicles and spare parts,

MS billet, machinery and parts among others increased whereas imports of chemical fertilizer, medicine, cold rolled- sheet in coil, raw silk among others decreased in the review period.

15. Based on customs points, the exports through Jaleshwar customs points, Bhairawa Customs Office and Tribhuvan International Airport customs points decreased whereas exports from other customs points increased in the review period. On the import side, imports through Kailali Customs Office and Biratnagar customs points decreased whereas imports through other customs points increased in the review period.
16. Total trade deficit in the review period widened 42.6 percent to Rs 671.20 billion as against a contraction of 8.2 percent in the same period of the previous year. The exports-imports ratio fell to 7.6 percent in the review period from 9.5 percent in the corresponding period of the previous year.

Exports-Imports Price Index

17. The y-o-y unit value exports price index based on customs data increased 8.8 percent while import price index increased 5.4 percent in nine months of 2016/17. Consequently, the TOT index improved 3.3 percent compared to an increase of 24.5 percent in the corresponding period of the previous year. Increase in price of exports items such as carpet, cardamom, pashmina, tea caused the rise in export price index in the review period. Increase in the price of petroleum products, vehicles and its spare parts resulted in an increase in imports price index in the review period.

Services

18. The total services receipts increased 20.6 percent and expenses rose 21.4 percent in the review period. As a result, net services surplus stood at Rs. 6.42 billion in the review period compared to Rs. 5.95 billion in the same period of the previous year. Under the services account, travel receipts increased 45.3 percent to Rs. 44.10 billion in the review period. Such receipts had decreased 26.1 percent in the same period of the previous year.

Workers' Remittances

19. The workers' remittances increased 6.3 percent to Rs. 511.93 billion in the review period compared to a growth of 13 percent in the corresponding period of the previous year. Consequently, net transfer receipts increased 10 percent to Rs. 619.12 billion in the review period. Such receipts had increased 16.5 percent in the same period of the previous year.

Current Account and BOP

20. The current account slipped into deficit by Rs. 10.34 billion in the review period on account of sharp increase in imports. The current account was in surplus at a significant level of Rs. 133.19 billion in the same period of the previous year. The overall BOP recorded a surplus

of Rs. 50.64 billion in the review period compared to a surplus of Rs. 163.81 billion in the same period of the previous year.

21. Capital transfer of Rs. 10.41 billion and Foreign Direct Investment (FDI) inflows of Rs. 11.07 billion were recorded in the review period. In the same period of the previous year, capital transfer and FDI inflows were Rs. 10.82 billion and Rs. 4.19 billion respectively.

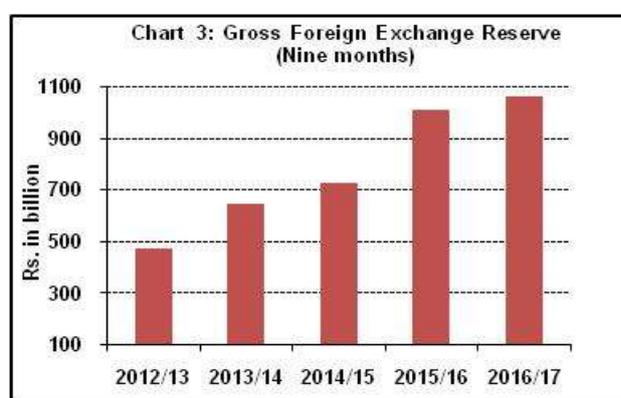
Box 3: External Sector (USD)*							
Particulars	(USD Million)						
	2014-15		2015-16		2016-17	Percentage Change in Nine months	
	Nine Months	Annual	Nine Months	Annual	Nine Months	2015/16	2016/17
Goods Exports (FoB)	740.7	988.1	490.6	703.9	580.3	-33.8	18.3
Goods Imports (FoB)	5772.9	7657.6	4788.3	7092.5	6692.8	-17.1	39.8
Trade Balance	-5032.2	-6669.5	-4297.7	-6388.6	-6112.6	-14.6	42.2
Total Trade	6513.6	8645.6	5278.9	7796.3	7273.1	-19.0	37.8
Travel Receipts	415.1	536.7	286.2	392.7	412.4	-31.0	44.1
Workers' Remittances	4312.9	6192.0	4543.4	6253.4	4777.0	5.3	5.1
Current Account Balance	214.2	1067.3	1271.8	1338.8	-95.6	-	-
BOP (-Surplus)	-495.5	-1437.0	-1546.2	-1779.8	-471.6	-	-

** Data from BOP Presentation*

1. In the US dollar terms, total merchandise exports and imports increased 18.3 percent and 39.8 percent respectively in the first nine months of 2016/17. Exports and imports had decreased 33.8 percent and 17.1 percent respectively in the corresponding period of the previous year.
2. In the review period, travel receipts increased 42.2 percent and worker's remittance rose 5.1 percent. Travel receipts had decreased 31 percent and remittances had increased 5.3 percent in the corresponding period of the previous year.
3. Current account recorded a deficit of USD 95.6 million in the review period. It was in surplus of USD 1271.8 million in the corresponding period of the previous year. Likewise, Balance of Payments (BOP) recorded a surplus of USD 471.6 million in the review period compared to the surplus of USD 1546.2 million in the corresponding period of the previous year.

Foreign Exchange Reserves

22. The gross foreign exchange reserves increased 1.7 percent to Rs. 1057.38 billion as at mid-April 2017 from Rs. 1039.21 billion in mid-July 2016. Of the total foreign exchange, reserves held by NRB increased 0.8 percent to Rs. 894.16 billion as at mid-April 2017 from Rs. 887.01 billion as at mid-July 2016. Similarly, the reserves of banks and financial institutions (except NRB) increased 7.2 percent to Rs. 163.22 billion as at mid-April 2017 from Rs. 152.20 billion as at mid-July 2016. The share of Indian currency in total reserves stood at 23.9 percent as at mid-April 2017.



Foreign Exchange Adequacy Indicators

23. Based on the imports of the first nine months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 13.3 months, and merchandise and services imports of 11.5 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 40.7 percent, 95.4 percent and 42.9 percent respectively as at mid-April 2017. Such ratios were 46.2 percent, 117.4 percent and 46.3 percent as at mid-July 2016.

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

24. The price of oil (Crude Oil Brent) in the international market increased 28 percent to USD 55.05 per barrel in mid-April 2017 from USD 43.02 per barrel a year ago. The price of gold increased 2.4 percent to USD 1284.15 per ounce in mid-April 2017 from USD 1254.60 per ounce a year ago.
25. Nepalese currency vis-à-vis the US dollar appreciated 3.5 percent in mid-April 2017 from mid-July 2016. It had depreciated 4.5 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 103.10 in mid-April 2017 compared to Rs. 106.73 in mid-July 2016.

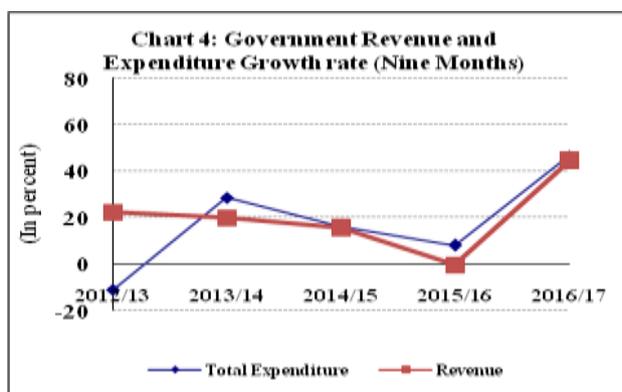
Fiscal Situation *

Budget Deficit / Surplus

26. In the first nine months of 2016/17, the Government of Nepal (GoN) was at a surplus of Rs. 63.59 billion in its budget. Such surplus was Rs. 47.69 billion in the corresponding period of the previous year.

Government Expenditure

27. In the review period, total government expenditure on a cash basis increased 46.6 percent to Rs. 419.93 billion. Such expenditure had increased just 8 percent to Rs. 286.54 billion in the corresponding period of the previous year.
28. In the review period, recurrent expenditure increased 44.6 percent to Rs. 305.77 billion. Such expenditure stood at Rs. 211.44 billion in the corresponding period of the previous year. In



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Based on the data reported by 8 NRB offices, 69 branches of Rastriya Banijya Bank Limited, 49 branches of Nepal Bank Limited, 24 branches of Agricultural Development Bank Limited, 9 branches of Everest Bank Limited, 4 branches of Global IME Bank Limited and 1 branch each from Nepal Bangladesh Bank Limited, NMB Bank Limited, Bank of Kathmandu Lumbini Limited and Century Commercial Bank Limited conducting government transactions and released report from 79 DTCOs and payment centers.

the review period, capital expenditure increased to Rs. 74.09 billion. Such expenditure was Rs. 32.44 billion in the corresponding period of the previous year.

Government Revenue

29. In the review period, the government revenue collection increased 44.4 percent to Rs. 418.95 billion. Such revenue had decreased 0.4 percent in the corresponding period of the previous year. Higher growth rate of major tax heads such as value added tax, income tax, customs and excise duty contributed to the overall rise in revenue collection in the review period.

Box 4: The Budget Performance			
Heads	Budget Estimates	Outturns in Nine Months	(Rs. in millions)
			As percent of Budget Estimates
Total Expenditure	1048921.4	419933.9	40.03
Recurrent	617164.13	305772.0	49.54
Capital	311946.33	74094.7	23.75
Financial	119810.9	40067.2	33.44
Revenue	565896.5	418946.9	74.03

Cash Balance of the GoN

30. Because of a slow pace of government expenditure relative to resource mobilization, the GoN accumulated cash balance of Rs. 234.66 billion at Nepal Rastra Bank as of mid-April 2017.

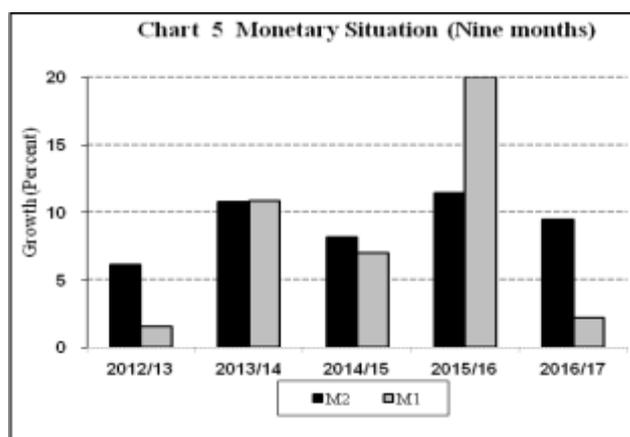
Monetary Situation

Money Supply

31. Broad money (M2) increased 9.8 percent in the review period compared to a rise of 13 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 16.2 percent in mid-April 2017.

32. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 50.64 billion between mid-July 2016 and mid-April 2017 compared to an increase of Rs.163.81 billion in the corresponding period of the previous year.

33. Reserve Money increased 8.9 percent in the review period against a decline of 2.1 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 16.4 percent in mid-April 2017.



Domestic Credit

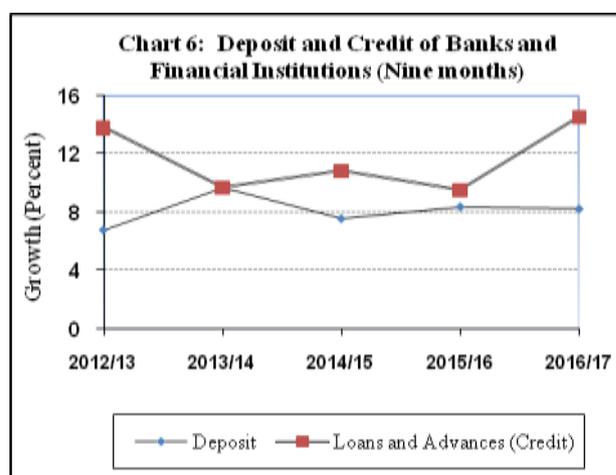
34. Domestic credit expanded 9 percent in the review period compared to a growth of 5.9 percent in the same period of the previous year. On y-o-y basis, domestic credit increased 21.7 percent in mid-April 2017.
35. Claims of monetary sector on the private sector increased 15.5 percent in the review period compared to a growth of 14.3 percent in the previous year. On y-o-y basis, claims on the private sector increased 24.4 percent in mid-April 2017.

Deposit Collection

36. Deposits at Banks and Financial Institutions (BFIs) increased 8.9 percent in the review period compared to a growth of 12.1 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 16 percent in mid-April 2017. Of the total deposits at BFIs, while the share of demand deposits fell to 7.5 percent from 9.4 percent and saving deposits to 36.6 percent from 42.8 percent, the share of fixed deposits increased to 40.6 percent in mid-April 2017 from 28.6 percent a year ago.

Credit Disbursement

37. Credit to the private sector from BFIs increased 15.6 percent in the review period compared to a rise of 14.4 percent in the same period of the previous year. In the review period, private sector credit from commercial banks increased 19.1 percent, while that of development banks and finance companies decreased 0.1 percent and 2.8 percent respectively. On y-o-y basis, credit to the private sector from BFIs increased 25.1 percent in mid-April 2017.



38. Credit to the agriculture sector increased 9.3 percent, industrial production sector 11.6 percent, construction sector 17.5 percent, wholesale and retail trade sector 13.5 percent, service industries sector 16.3 percent and transport, communication and public sector 24.1 percent in the review period.

39. Of the total outstanding credit of BFIs, 60.8 percent is against the collateral of land and building and

Box 5: Outstanding loan of BFIs in some areas				
<i>(Rs. in billion)</i>				
Headings	2015/16		2016/17	
	Mid-Jul	Mid-Apr	Mid-Jul	Mid-Apr
Overdraft	246.0	278.6	294.3	346.5
Real Estate & Personal Residential Home Loan	204.6	231.1	250.9	292.4
Hire Purchase	81.0	92.9	110.1	149.0
Margin Nature Loan	24.1	35	37.7	39.2

14 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 61.3 percent and 13.1 percent respectively in the same period of the previous year.

40. The outstanding loan of BFIs in overdraft, margin nature, real estate and hire purchase increased in mid-April 2017 from the level of a year ago.
41. Of the total lending of commercial banks, credit to small and medium enterprises was only 2.6 percent (Rs. 42.21 billion) in mid-April 2017.
42. Trust receipt (T.R.) loan extended by commercial banks increased 3.2 percent (Rs. 2.32 billion) in the review period compared to an increase of 12.2 percent in the same period of the previous year.

Liquidity Management

43. In the first nine months of 2016/17, Rs. 61 billion liquidity was injected through open market operations. Under this provision, NRB injected liquidity of Rs. 33.21 billion through repo auction including Rs. 5.4 billion under the corridor system. A total of Rs. 27.79 billion liquidity was availed through outright sale auction. Likewise, the BFIs used Rs. 61.74 billion standing liquidity facility (SLF) in the review period.
44. In the review period, the NRB injected net liquidity of Rs. 324.56 billion through the net purchase of USD 3.03 billion from foreign exchange market. Net liquidity of Rs. 349.66 billion was injected through the net purchase of USD 3.3 billion in the corresponding period of the previous year.
45. In the first nine months of 2016/17, the NRB mopped up Rs. 101.10 billion through open market operations. Of which, Rs. 29.80 billion was mopped up through 14 days deposit collection auction under the corridor system, Rs. 7.05 billion under 90 days deposit collection auction and Rs. 64.25 billion through reverse repo auction on a cumulative basis. In the corresponding period of the previous year, Rs. 471.64 billion liquidity was mopped up. This consists of Rs. 297.5 billion through deposit collection auction, Rs. 165.04 billion through reverse repo auction and Rs. 9.10 billion through outright sale auction.
46. The NRB purchased Indian currency (INR) equivalent to Rs. 354.04 billion through the sale of USD 3.22 billion and Euro 95 million in the review period. INR equivalent to Rs. 268.39 billion was purchased through the sale of USD 2.48 billion and Euro 60 million in the corresponding period of the previous year.

Refinance, Productive Sector and Deprived Sector Lending

47. The NRB has been providing refinance facility aimed at expanding credit to the productive sector along with promoting export. In the review period, the use of such facility has increased. In the review period, a total refinance of Rs. 9.5 billion including general refinance of Rs. 9.07 billion and export refinance of Rs 424 million was availed. In the corresponding period of the

previous year, a total refinance of Rs. 4.02 billion including general refinance of Rs. 2.9 billion and export refinance of Rs. 1.12 billion was utilized.

48. A sum of Rs. 612.3 million housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims as of mid-April 2017. For this, NRB provides a refinance facility to BFIs at a zero percent interest.
49. There is a policy-provision for commercial banks to disburse 20 percent of their total credit to the designated productive sector. Such credit of commercial banks was 17.1 percent in mid-April 2017.

Inter-bank Transaction

50. In the review period, inter-bank transactions of commercial banks stood at Rs. 772.05 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 296.78 billion. Such transactions were Rs. 640.24 billion and Rs. 61.47 billion respectively in the corresponding period of the previous year.

Interest Rates

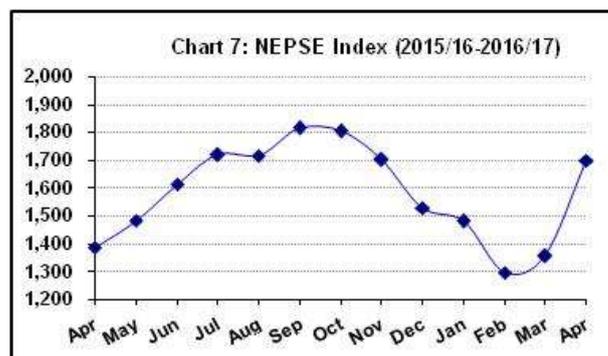
51. The weighted average 91-day Treasury Bill rate decreased to 0.93 percent in mid-April 2017 from 1.1 percent a year ago. Likewise, the weighted average inter-bank transaction rate among commercial banks, which was 1.59 percent a year ago, dropped to 0.75 percent in the review month. The weighted average inter-bank rate among other financial institutions jumped to 7.27 percent from 1.52 percent a year ago.
52. The weighted average interest rate spread between deposit and lending rate of commercial banks decreased to 5.7 percent in the review month from 6.1 percent a year ago. The average base rate of commercial banks increased to 8.6 percent in the review month from 6.3 percent a year ago.

Merger/Acquisition

53. The number of BFIs involved in merger and acquisition has been increasing after the introduction of merger/acquisition policy aimed at strengthening financial stability. As of mid-April 2017, 136 BFIs (including 'D' class) were involved in merger and acquisition. Of which, the license of 92 BFIs was revoked thereby forming 44 BFIs.

Capital Market

54. The NEPSE index on y-o-y basis increased 22.2 percent to 1,697.1 points in mid-April 2017. This index had increased 46.4 percent to 1388.6 points a year ago. The various reforms initiated in the capital market as well as capital hike plan of



financial institutions are the main causes of upsurge in the index.

55. The stock market capitalization on y-o-y basis increased 30.4 percent to Rs. 1951.15 billion in mid-April 2017. This had increased 53.8 percent a year ago. The ratio of market capitalization to GDP of 2016/17 stood at 75.1 percent in mid-April 2017. In the total market capitalization, the share of banks and financial institutions (including insurance companies) stood at 86.7 percent, hydropower 3.6 percent, manufacturing and processing companies 2.0 percent, hotels 1.5 percent, trading 0.1 percent, and others 6.1 percent respectively.
56. On y-o-y basis, the total turnover of the securities increased 107.2 percent to Rs. 29.27 billion in mid-April 2017. The turnover of the securities had increased 273.1 percent to Rs. 14.13 billion a year ago.
57. Due to the merger and acquisitions of BFIs, total number of companies listed at the NEPSE decreased to 210 in mid-April 2017 from 231 in mid-April 2016. Out of listed institutions, 169 are BFIs (including insurance companies), 18 manufacturing and processing industries, 12 hydropower companies, 4 each hotels and trading institutions, and 3 other entities.
58. On y-o-y basis, total paid-up capital of the listed companies increased 42.3 percent to Rs. 269.75 billion in mid-April 2017. Total additional securities worth Rs. 101.79 billion were listed in the NEPSE during mid-July 2016 to mid-April 2017. These consist of ordinary shares of Rs. 2.02 billion, right shares of Rs. 14.96 billion, bonus shares of Rs. 21.56 billion, government securities of Rs. 62 billion and the mutual fund of Rs. 1.25 billion.