



# Nepal Rastra Bank

## Research Department

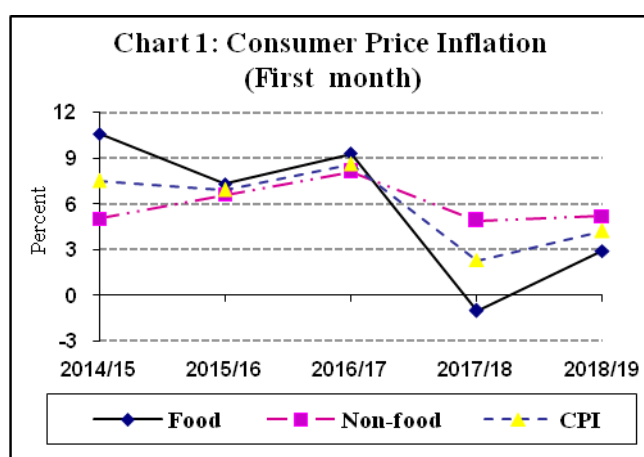
### Current Macroeconomic and Financial Situation of Nepal

(Based on First Month's Data of 2018/19)

## Inflation

### Consumer Price Inflation

- The y-o-y consumer price inflation increased to 4.2 percent in mid-August 2018 from 2.3 percent a year ago. The increase in the price of food and beverage group contributed to a rise in overall inflation in the review period.



### Food and Beverage Inflation

- The y-o-y inflation of food and beverage group rose to 2.9 percent in mid-August 2018 as against the decline of 1.0 percent a year ago. A surge in prices of vegetables, tobacco products, cereals grains and their products among others mainly contributed to a rise in food inflation in the review period.

Box 1: Y-O -Y Food Inflation (First Month)		
Particulars	Inflation (Percent)	
	2017/18	2018/19
<b>Food Inflation</b>	<b>(1.0)</b>	<b>2.9</b>
1 Vegetable	(11.7)	5.6
2 Pulses and Legumes	(23.3)	(16.4)
3 Tobacco Products	5.4	10.50
4 Cereals grains and Their Products	0.8	4.5
5 Alcoholic Drinks	8.3	11.9
6 Fruits	(1.4)	2.3
7 Spices	(3.5)	0.2

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

### Non-food and Service Inflation

- Non-food and service inflation increased to 5.2 percent in mid-August 2018 from 4.9 percent a year ago. A rise in price of goods and services including transportation, housing and utilities, furnishing and household equipment accounted for an increase in non-food inflation in the review period.

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

4. The Hilly region witnessed relatively higher rate of inflation of 5.3 percent followed by 4.1 percent in Terai, 3.5 percent in the Kathmandu Valley and 2.7 percent in Mountain. In the corresponding period of the previous year, these regions had witnessed inflation rates of 2.2 percent, 2.8 percent, 1.3 percent and 5.6 percent respectively.

### **Inflation Differential between Nepal and India**

5. The y-o-y consumer price inflation was slightly higher at 4.2 percent in Nepal in mid-August 2018 compared to 3.7 percent in India, showing a narrow inflation wedge of 0.5 percent between the two countries. A year ago, the rate of inflation was 3.4 percent in Nepal compared to 2.2 percent in India.

### **Wholesale Price Inflation**

6. The y-o-y wholesale price inflation stood at 6.3 percent in mid-August 2018 compared to 1.2 percent a year ago. This inflation figure is compiled from the revised commodity basket and weight based on the Second WPI Survey with the base year of 2017/18. The index is constructed on the basis of the data obtained from a basket of 262 goods selected from different 24 market centers. Due to the surge in the prices of petroleum products, basic metals, textiles, wooden products, among others, the wholesale price inflation in the review period remained higher compared to the same period of the previous year.
7. As per the broad economic classification, the wholesale price of intermediate goods, consumption goods and capital goods increased 8.3 percent, 4.6 percent and 2.2 percent respectively in the review period. Likewise in the review period, the wholesale price of construction materials increased 14.6 percent.

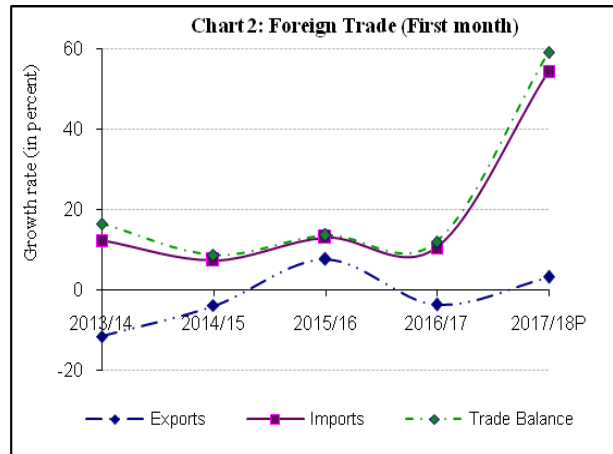
### **Wage Inflation**

8. The y-o-y salary and wage rate index increased to 7.4 percent in mid-August 2018 from 5.6 percent a year ago. In the review period, the salary index increased 6.6 percent, while the wage rate index grew 7.6 percent.

## External Sector

### Merchandise Trade

9. In the first month of 2018/19, merchandise exports increased 3.2 percent to Rs.6.92 billion in contrast to a decrease of 3.6 percent in the same period of the previous year. Destination-wise, exports to India increased 9.6 percent, whereas export to China and other countries decreased 44.8 percent and 2.3 percent respectively in the review period. Commodity wise, exports of polyester yarn, zinc sheet, juice, pulses, herbs, among others, increased whereas export of readymade garments, jute goods, rosin, cardamom, pashmina, among others, decreased in the review period.



10. The growth in merchandise imports remained significant at 54.3 percent to Rs.120.61 billion in the review period compared to an increase of 10.5 percent in the same period of the previous year. Country wise, imports from India, China and other countries increased 43 percent, 39.5 percent and 94.9 percent respectively in the review period. Commodity wise, imports of aircraft spare parts, other machinery & parts, petroleum products, M.S. billet, vehicles & spare parts, among others, increased whereas imports of cement, telecommunication equipment and parts, chemical fertilizer, transport equipment and parts, medical equipment and tools, among others, decreased in the review period.
11. Based on customs points, the exports through Bhairawa Customs Office, Biratnagar Customs Office, Tribhuvan International Airport Customs Office and Mechi Customs Office increased whereas exports from other customs points decreased in the review period. On the import side, imports through Kanchanpur Customs Office decreased whereas imports through other customs points increased in the review period.
12. Total trade deficit widened 59.1 percent to Rs.113.69 billion in the first month of 2018/19. The export-import ratio declined to 5.7 percent in the review period from 8.6 percent in the corresponding period of the previous year.

### Services

13. The total services receipt increased 29.6 percent and expenses rose 31 percent in the review period. As a result, net services receipt turned into a deficit of Rs.3.23 billion in the review period from Rs.2.34 billion in the same period of the previous year.
14. Under the service account, travel receipt increased 2.8 percent to Rs.4.38 billion in the review period. Such receipt had increased 17.8 percent in the same period of the previous year.

## Workers' Remittances

15. The workers' remittances increased 33.1 percent to Rs.73.95 billion in the review period compared to a growth of 7 percent in the same period of the previous year. In US Dollar terms, workers' remittances increased 24 percent in the review period compared to 11.8 percent in the corresponding period of the previous year.
16. Net transfer receipt increased 35.3 percent to Rs.84.72 billion in the review period. Such receipt had increased 4.7 percent in the same period of the previous year.
17. The number of Nepalese workers seeking foreign employment decreased 33.5 percent in the review period. It had decreased 11.8 percent in the same period of the previous year. In the review period, the number of workers outbound to Malaysia shrank significantly.

### Box 2: Number of Nepalese going for Foreign Employment (First Month)

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

Country	(No. of Labor)		Percentage Share	
	2017/18	2018/19	2017/18	2018/19
Qatar	7159	7852	22.9	37.7
U.A.E.	4997	5183	16.0	24.9
Saudi Arabia	4194	2751	13.4	13.2
Kuwait	721	1676	2.3	8.0
Malaysia	11231	434	35.9	2.1
Bahrain	454	403	1.5	1.9
Oman	180	227	0.6	1.1
Afghanistan	117	105	0.4	0.5
Lebanon	2	74	0.0	0.4
Japan	58	54	0.2	0.3
South Korea	904	42	2.9	0.2
Israel	3	6	0.0	0.0
Others	1289	1400	4.1	6.7
<b>Total</b>	<b>31309</b>	<b>20824</b>	<b>100.0</b>	<b>100.0</b>
<b>Percentage Change</b>	-11.8	-33.5	-	-

#### b) Renew Entry

<b>Renew Entry</b>	15073	15239	-	-
<b>Percentage Change</b>	-3.5	1.1	-	-

Source: Department of Foreign Employment.

## Current Account and BOP Position

18. The current account registered a deficit of Rs.25.38 billion in the review period because of a significant rise in imports. The current account had registered a deficit of Rs.5.98 billion in the same period of the previous year. In the US Dollar terms, the current account deficit widened USD 230.4 million in the review period compared to USD 58.3 million in the corresponding period of the previous year.
19. The overall BOP remained at a deficit of Rs.24.77 billion in the review period compared to a deficit of Rs.3.29 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a deficit of USD 225 million in the review period compared to a deficit of USD 32 million in the same period of the previous year.
20. In the review period, Nepal received capital transfer amounting to Rs.1.70 billion and Foreign Direct Investment (FDI) inflows of Rs.295.7 million. In the same period of the previous year, capital transfer and FDI inflows amounted to Rs.674.7 million and Rs.4.61 billion respectively.

### **Foreign Exchange Reserves**

21. The gross foreign exchange reserves stood at Rs.1092.87 billion as at mid-August 2018, a decrease of 0.9 percent from Rs.1102.59 billion as at mid-July 2018. In the US Dollar terms, the gross foreign exchange reserves remained USD 9.80 billion as at mid-August 2018, a decrease of 2.8 percent from USD 10.08 billion as at mid-July 2018.
22. Of the total foreign exchange reserves, reserves held by NRB decreased 2.4 percent to Rs.965.30 billion as at mid-August 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 12.7 percent to Rs.127.57 billion as at mid-August 2018 from Rs.113.19 billion as at mid-July 2018. The share of Indian currency in total reserves stood at 23.5 percent as at mid-August 2018.

### **Foreign Exchange Adequacy Indicators**

23. Based on the imports of first month 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 8 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 increased to 36.3 percent, 66.7 percent and 35.6 percent respectively as at mid-August 2018. Such ratios were 36.7 percent, 78.6 percent and 35.6 percent as at mid-July 2018.

### **Price of Oil and Gold**

24. The price of oil (Crude Oil Brent) in the international market increased 37.3 percent to USD 69.21 per barrel in mid-August 2018 from USD 50.39 per barrel a year ago. The price of gold decreased 7.3 percent to USD 1180.40 per ounce in mid-August 2018 from USD 1272.75 per ounce a year ago.

### **Exchange Rate**

25. Nepalese currency vis-à-vis US dollar depreciated 2 percent in mid-August 2018 from mid-July 2018. It had appreciated 0.6 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.111.54 in mid-August 2018 compared to Rs.109.34 in mid-July 2018.

## Fiscal Situation\*

### Budget Deficit/ Surplus

26. The budget surplus of the Government of Nepal (GoN) increased to Rs.57.54 billion in the first month of 2018/19 from a surplus of Rs.28.52 billion in the corresponding period of the previous year.

### Government Expenditure

27. In the review period, total government expenditure (cash basis) stood at Rs.10.64 billion. Such expenditure was Rs.18.57 billion in the corresponding period of the previous year.
28. In the review period, recurrent expenditure stood at Rs.10.07 billion, which was Rs.18.46 billion in the corresponding period of the previous year. Likewise, capital expenditure increased to Rs.0.57 billion from Rs.0.12 billion a year ago.

### Government Revenue

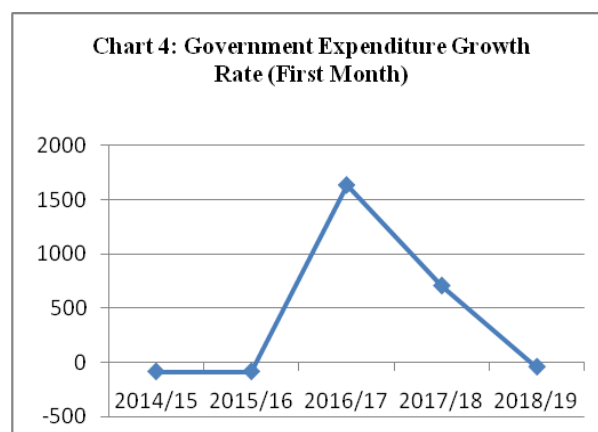
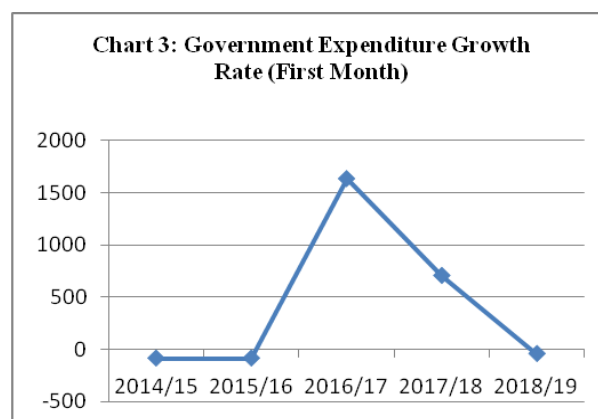
29. In the review period, the government revenue collection increased 43.2 percent to Rs.65.58 billion. Such revenue had increased 11.5 percent to Rs.45.79 billion in the corresponding period of the previous year.

### Treasury Position of the GoN

30. The treasury surplus amounted to Rs.178.12 billion as of mid-August 2018.

Box 3: The Budget Performance of 2018/19 (Rs. in billion)			
Heads	Budget Estimates	Outturns in First Month*	As percent of Budget Estimates
<b>Total Expenditure</b>	<b>1315.2</b>	<b>10.6</b>	<b>0.8</b>
<i>Recurrent</i>	<i>845.4</i>	<i>10.1</i>	<i>1.2</i>
<i>Capital</i>	<i>314.0</i>	<i>0.6</i>	<i>0.2</i>
<i>Financial</i>	<i>155.7</i>	<i>0</i>	<i>0</i>
<b>Revenue</b>	<b>945.6</b>	<b>65.6</b>	<b>6.9</b>

\* On cash basis



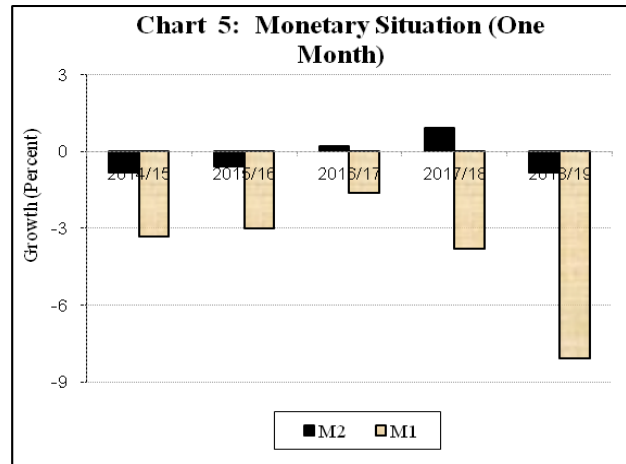
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Based on data reported by 1 office of NRB, 81 branches of Rastriya Banijya Bank Limited, 56 branches of Nepal Bank Limited, 54 branches of NIC Asia Bank Limited, 26 branches of Agriculture Development Bank, 20 branches of Global IME Bank Limited, 16 branches of Everest Bank Limited, 10 branches each of Nepal Investment Bank and NMB Bank Limited, 7 branches of Nepal Bangladesh Bank Limited, 5 branches each of Bank of Kathmandu Limited, Siddhartha Bank Limited and Citizens Bank International Limited, 3 branches each of Civil Bank Limited, Janata Bank Limited, Machhapuchhre Bank Limited and Prabhu Bank Limited, 2 branches each of Prime Commercial Bank Limited, Century Commercial Bank and Sanima Bank Limited and 1 branch each of Mega Bank Nepal Limited and Sunrise Bank Limited and conducting government transactions and release report from 81 DTCOs and payment centers.

# Monetary Situation

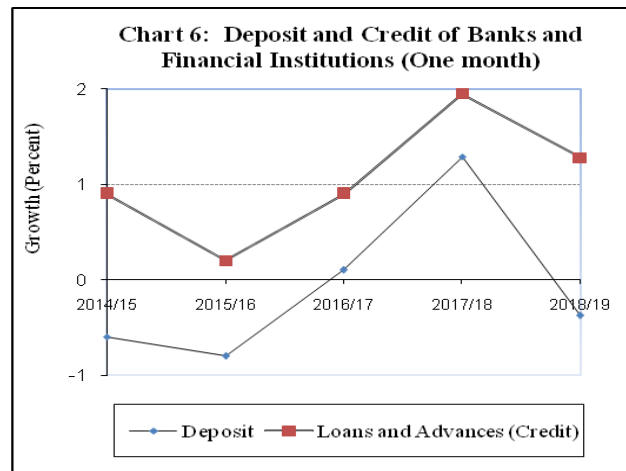
## Money Supply

- 31. Broad money (M2) decreased 0.8 percent in the review period in contrast to a rise of 0.9 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 17.4 percent in mid-August 2018.
- 32. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs.24.77 billion (2.3 percent) in the review period compared to a decrease of Rs.3.29 billion (0.3 percent) in the corresponding period of the previous year.
- 33. Reserve money decreased 16.2 percent in the review period compared to a decrease of 10.7 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 1.4 percent in mid-August 2018.



## Domestic Credit

- 34. Domestic credit decreased 0.8 percent in the review period compared to a decrease of 3.6 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 28.5 percent in mid-August 2018.
- 35. Claims of monetary sector on the private sector increased 1.3 percent in the review period compared to a growth of 1.0 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 22.6 percent in mid-August 2018.



## Deposit Collection

- 36. Deposits at Banks and Financial Institutions (BFIs) decreased 0.4 percent in the review period compared to a growth of 1.3 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 17.3 percent in mid-August 2018.
- 37. The share of demand, saving and fixed deposits in total deposits stood at 7.8 percent, 34.5 percent and 46.4 percent respectively in mid-August 2018. Such share was 7.8 percent, 35.3 percent and 43.2 percent respectively a year ago.

38. The share of institutional deposits in total deposit of BFIs stood at 44.5 percent in mid-August 2018. Such share was 45.0 percent a year ago.

### **Credit Disbursement**

39. Credit to the private sector from BFIs increased 0.7 percent in the review period compared to a growth of 0.4 percent in the corresponding period of the previous year. In the review period, private sector credit from commercial banks increased 0.8 percent whereas such credit from development banks and finance companies decreased 0.2 percent and 0.5 percent respectively. On y-o-y basis, credit to the private sector from BFIs increased 22.9 percent in mid-August 2018.
40. Of the total outstanding credit of BFIs in mid-August 2018, 61.6 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 60.9 percent and 14.1 percent respectively a year ago.
41. In the review period, term loan extended by BFIs increased 2.4 percent, trust receipt (import) loan increased 1.9 percent, demand and working capital loan increased 2.2 percent, real estate loan (including residential personal home loan) increased 0.6 percent and hire purchase loan increased 1.4 percent while overdraft and margin nature loan decreased 1.7 percent and 2.3 percent respectively.

### **Liquidity Management**

42. In the review period, NRB mopped up Rs.80.35 billion liquidity through open market operations. Of which, Rs.79.65 billion was mopped up under deposit collection auction and Rs.700 million through reverse repo auction on a cumulative basis. Rs.73.50 billion liquidity was mopped up in the corresponding period of the previous year.
43. In the review period, NRB injected net liquidity of Rs.9.69 billion through the net purchase of USD 87.8 million from foreign exchange market. Net liquidity of Rs.18.74 billion was injected through the net purchase of USD 182.9 million in the corresponding period of the previous year.
44. NRB purchased Indian currency (INR) equivalent to Rs.40.19 billion through the sale of USD 320 million, Euro 16 million and GBP 20 million in the review period. INR equivalent to Rs.30.77 billion was purchased through the sale of USD 300 million in the corresponding period of the previous year.

### **Refinance**

45. The use of refinance facility provided by the NRB to BFIs for the purpose of expanding credit to the productive sectors and promoting export has increased in the review period. The amount of outstanding refinance facility remained at Rs.14.80 billion in mid-August 2018.



46. A sum of Rs.2.0 billion housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims as of mid-August 2018. NRB provides refinance facility to BFIs at a zero percent interest to facilitate housing loan to earthquake victims. The number of earthquake victims utilizing such loan is 1218.

### **Inter-bank Transaction**

47. In the review period, inter-bank transactions among commercial banks stood at Rs.127.85 billion and among other financial institutions (excluding transactions among commercial banks) amounted to Rs.5.77 billion. Such transactions were Rs.35.75 billion and Rs.7 billion respectively in the corresponding period of the previous year.

### **Interest Rates**

48. The weighted average 91-day Treasury bills rate increased to 3.31 percent in the first month of 2018/19 from 0.55 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.29 percent a year ago, increased to 1.88 percent in the review month. Likewise, the average base rate of commercial banks increased to 10.12 percent in the review month from 9.67 percent a year ago.

### **Merger/Acquisition**

49. 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**

50. Of the total 753 local levels, commercial banks extended their branch network in 666 levels as of mid-September 2018 (Box 4).

<b>Box 4: Province wise Presence of Commercial Banks in Local Levels (As of mid-Sep 2018)</b>		
<b>Province</b>	<b>No. of Local Levels</b>	<b>Presence of Commercial Banks</b>
Province 1	137	118
Province 2	136	130
Province 3	119	108
Gandaki	85	80
Province 5	109	106
Karnali	79	59
Province 7	88	65
<b>Total</b>	<b>753</b>	<b>666</b>

51. The total number of BFIs licensed by NRB increased to 152 in mid-August 2018 from 151 in mid-July 2018 (Box 5). In mid-August 2018, the number of commercial banks is

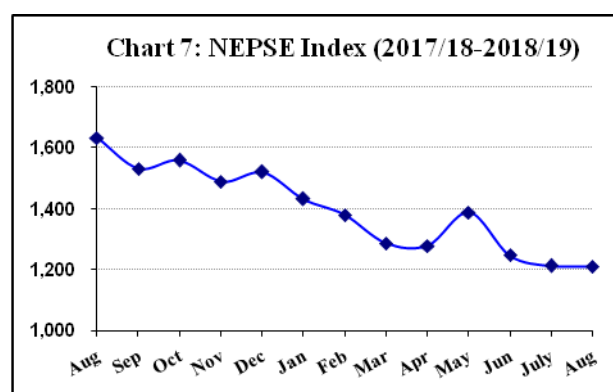
<b>Box 5: Number of BFIs/ Number of Branches</b>				
<b>Bank and Financial Institutions</b>	<b>Number of BFIs</b>		<b>Branches of BFIs</b>	
	<b>Mid-July 2018</b>	<b>Mid-Aug 2018</b>	<b>Mid-July 2018</b>	<b>Mid-Aug 2018</b>
Commercial Banks	28	28	3023	3052
Development Banks	33	33	993	1027
Finance Companies	25	25	186	186
Microfinance Institutions	65	66	2449	2449*
<b>Total</b>	<b>151</b>	<b>152</b>	<b>6651</b>	<b>6714</b>
* As of mid-July 2018				

28, development banks 33, finance companies 25 and microfinance institutions 66. The branch network of BFIs expanded to 6714 in mid-August 2018 from 6651 in mid-July 2018.

## Capital Market

52. The NEPSE index on y-o-y basis decreased 25.9 percent to 1210.3 points in mid-August 2018. The index had decreased 4.9 percent to 1632.7 points in mid-August 2017. Such index was 1212.4 points in mid-July 2018.

53. The stock market capitalization on y-o-y basis decreased 24.8 percent to Rs.1440.17 billion in mid-August 2018. This had



increased 1.2 percent a year ago. The ratio of market capitalization to GDP stood at 47.9 percent in mid-August 2018. This ratio was 72.5 percent a year ago. In the total market capitalization, the share of banks, financial institutions and insurance companies stood at 80.7 percent, hydropower 4.4 percent, manufacturing and processing companies 2.7 percent, hotels 1.7 percent, trading 0.1 percent, and others 10.4 percent respectively.

54. The total number of companies listed at NEPSE decreased to 196 in mid-August 2018 from 199 a year ago. Of the listed companies, 147 are BFIs (including insurance companies), 18 manufacturing and processing industries, 19 hydropower companies, 4 each hotels and trading institutions and 4 other sectors.