Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

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

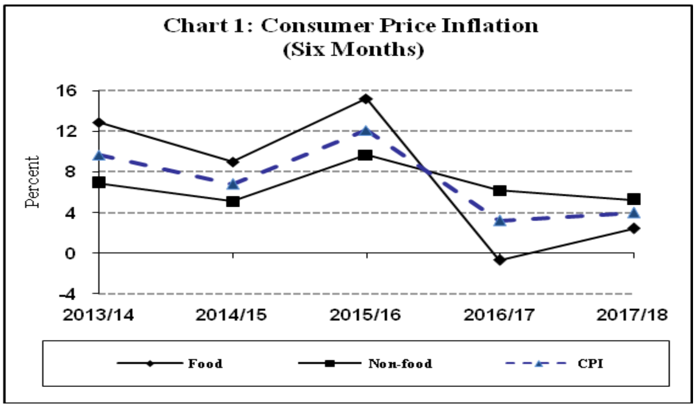
Macroeconomic Outlook

1. The available macroeconomic indicators of the first six months of 2017/18 show a mixed performance of the Nepalese economy. While the tempo of non-agricultural activities continues to gather momentum, the growth in farm output is likely to be less than expected. A steady growth in electricity generation, improved supply situation and a pick-up in construction activities are expected to help maintain pace in non-agricultural activities. While the torrential summer rains contributed to the growth in maize production, the widespread floods in the plains hit the paddy production. On account of these factors, the overall economic growth is expected to remain satisfactory in 2017/18.
2. The CPI based inflation has remained moderate. The volatility in prices of agricultural items and the behavior of prices of construction materials as well as petroleum products are likely to determine the inflation outlook going forward. However, given the smooth supply situation and the global policy vigilance on prices, inflation is expected to remain below the annual limit of seven percent.
3. The credit off-take continues to exceed the growth in deposit. Given the decline in the migrant workers' remittances, the growth in deposit is expected to remain moderate. Once this becomes a key consideration for planning credit, financial imbalances currently seen will get corrected in due course of time.
4. On the external front, current account has recorded a deficit of relatively a higher magnitude of Rs. 75.71 billion on account of elevated level of imports and a decline in remittances in the first six months of 2017/18. As a consequence, country's balance of payments has also remained in a deficit of Rs. 6.66 billion in the review period. However, international reserves are at a comfortable level to sustain 10.6 months' imports of goods and services. This level of international reserves is adequate to provide a cushion for external sector stability at least in the near term.

Inflation, Salary and Wage Rate

Consumer Price Inflation

5. Consumer price inflation has increased to 4 percent in mid-January 2018 from 3.2 percent in mid-December 2017. A pick up in prices of food items contributed to an increase in inflation in the review period.



Food Inflation

Box 1: Y-O-Y Food Inflation (Six Months)			
Particulars		Inflation (Percent)	
		2073/74	2074/75
Food Inflation		**(0.7)**	**2.4**
1	Vegetable	(3.9)	12.7
2	Milk products and eggs	2.9	7.3
3	Fruit	(2.0)	4.4
4	Ghee and oil	(13.9)	2.5
5	Cereal grains and their products	(1.2)	2.0
6	Meat and fish	(1.7)	1.9
Source: National Consumer Price Index, Mid-January 2018			

6. Food inflation surged to 2.4 percent in mid-January 2018 from the negative growth of 0.7 percent in the corresponding period of the previous year. A rise in prices of vegetable, milk product and eggs, fruits, ghee and oil, cereal grains and their products, meat and fish, among others, accounted for an increase in overall food inflation in the review period.

Non-food Inflation

7. Non-food inflation decelerated to 5.3 percent during the review period from 6.2 percent in the corresponding period of the previous year. The slower growth in prices of clothes and footwear, furnishing and household equipment, health, education, among others, contributed to the deceleration of non-food inflation in the review period.

Region-wise Consumer Price Inflation

8. The Mountain region witnessed a relatively higher rate of inflation of 5.5 percent whereas the inflation rate at Terai and Hill stood at 4.4 percent. Such inflation was 2.9 percent in the Kathmandu Valley. The surge in inflation rate of Mountain region during the review period is due to a significant rise in prices of Chandannath market centre. In the corresponding period of the previous year, these regions had witnessed inflation rates of 4.2 percent, 2.8 percent, 5.7 percent and 1.9 percent respectively.

Wholesale Price Inflation

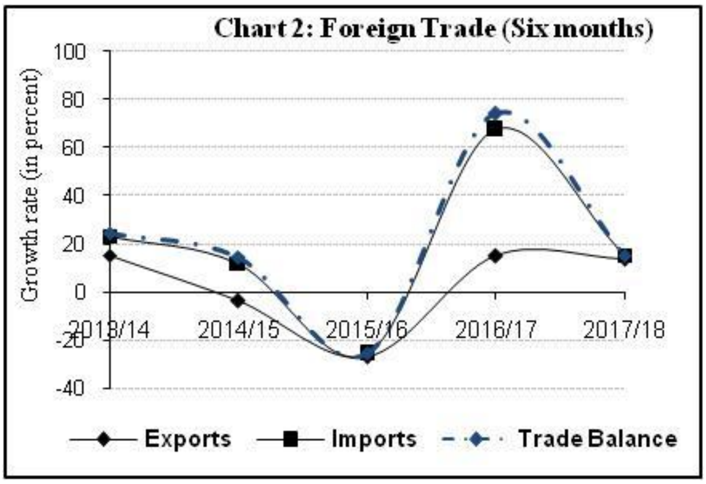
9. The y-o-y wholesale price inflation moderated to 2 percent in the review period from 1.8 percent a year ago. The wholesale price indices of agricultural commodities grew up by 1 percent, domestic manufactured commodities by 4.7 percent and imported commodities by 2.2 percent in the review period. In the corresponding period of the previous year, wholesale price indices of agricultural commodities and domestic manufactured commodities had observed the growth of 2 percent and 4.8 percent respectively, whereas the price index of imported commodities had declined by 0.8 percent.

National Salary and Wage Rate

10. The y-o-y salary and wage rate index decelerated to 6.1 percent in the review period compared to a rise of 14.1 percent in the corresponding period of the previous year. In the review period, the salary index increased by 9.7 percent and the wage rate index grew by 5.1 percent. The salary indices of private institutions, bank and financial institutions and education sub-groups increased 36.3 percent, 10.6 percent and 5.8 percent respectively in the review period. Likewise, wage rate indices of agricultural, industrial and construction laborer witnessed a growth of 4.8 percent, 6.6 percent and 3.1 percent respectively in the review period.

External Sector

Merchandise Trade



11. In the first six months of 2017/18, merchandise exports increased 13.4 percent to Rs. 41.14 billion compared to an increase of 14.8 percent in the same period of the previous year. In the review period, exports to India, China and other countries increased 13.1 percent, 70.2 percent and 10.3 percent respectively. Commodity wise, exports of cattle feed, jute goods, vegetable ghee, zinc sheet, thread, among others, increased whereas export of juice, cardamom, G.I. pipes, woolen carpet, copper wire rods, among others, decreased in the review period.

12. Merchandise imports increased 15 percent to Rs. 534.16 billion in the review period compared to an increase of 67.3 percent in the same period of the previous year. In the review period, imports from India, China and Other countries increased 15.3 percent, 9.2 percent and 17.6 percent respectively. Commodity wise imports of petroleum products, machinery & parts, vehicles & spare parts, gold, polythene granules, among others, increased whereas imports of

agri. equip. & parts, sanitaryware, edible oil, dry cell battery, readymade garments, among others, decreased in the review period.

13. Based on customs points, the exports through Tribhuwan International Airport Customs Office, Dry port Customs Office, Birgunj Customs Office and Krishnagar Customs Office decreased whereas exports from other custom points increased in the review period. On the import side, imports through Bhairahawa Customs Office, Kanchanpur Customs Office and Rasuwa Customs Office decreased whereas imports through other customs points increased in the review period.
14. Total trade deficit in the review period expanded 15.1 percent to Rs 493.02 billion compared to a widening of 74 percent in the same period of the previous year. The export-import ratio remained 7.7 percent in the review period compared to 7.8 percent in the corresponding period of the previous year.

Export-Import Price Index

15. The y-o-y unit value export price index based on customs data decreased 0.4 percent while import price index increased 3.7 percent in mid-January 2018. Consequently, the TOT index decreased 4 percent compared to an increase of 8.9 percent in the corresponding period of the previous year. Decrease in price of export items such as carpet, pasmina, cardamom, ghee, red lentil caused the decrease in export price index in the review period. Whereas increase in the price of petroleum goods, vehicles, tyre, refrigerator, laptop resulted an increase in import price index in the review period.

Services

16. The total services receipt increased 11.7 percent and expenses rose 19.8 percent in the review period. As a result, net services receipt turned into a deficit of Rs. 763.5 million in the review period as against a surplus of Rs. 4.29 billion in the same period of the previous year.
17. Under the services account, travel receipt increased 27.5 percent to Rs. 33.75 billion in the review period. Such receipt had increased 30.4 percent in the same period of the previous year.

Workers' Remittances

18. The workers' remittances decreased 0.5 percent to Rs. 340.54 billion in the review period in contrast to a rise of 5.7 percent in the same period of the previous year. Consequently, net transfer receipt decreased 1.7 percent to Rs. 393.34 billion in the review period. Such receipt had increased 5.6 percent in the same period of the previous year.
19. The number of Nepalese workers seeking foreign employment (except renew entry) decreased 1.8 percent in the review period. It had decreased 9.9 percent in the same period of the previous year.

Box 1: Outflow of Nepalese Workers for Foreign Employment (First Six Months)

a) Institutional and Individual (New and Legalized)

Country	(No. of Labor)		Percentage Share	
	2016/17	2017/18	2016/17	2017/18
Malaysia	38801	59288	20.5	31.9
Qatar	62776	48957	33.1	26.3
U.A.E.	26396	30758	13.9	16.5
Saudi Arabia	44481	23286	23.5	12.5
Kuwait	5699	7781	3.0	4.2
South Korea	815	2687	0.4	1.4
Bahrain	1932	2485	1.0	1.3
Oman	1416	1437	0.7	0.8
Afghanistan	553	774	0.3	0.4
Japan	1629	385	0.9	0.2
Israel	70	68	0.0	0.0
Lebanon	76	5	0.0	0.0
Others	4789	8142	2.5	4.4
Total	189433	186053	100.0	100.0
Percentage Change	-9.9	-1.8	-	-

b) Renew Entry

Renew Entry	**132065**	**127024**	-	-
Percentage Change	16.4	-3.8	-	-

Current Account and BOP Position

20. The current account registered a deficit of Rs. 75.71 billion in the review period compared to a deficit of Rs. 1.08 billion in the same period of the previous year. Similarly, the overall BOP remained at a deficit of Rs. 6.66 billion in contrast to a surplus of Rs. 45 billion in the same period of the previous year.
21. In the review period, Nepal received capital transfer amounting to Rs. 10.07 billion and Foreign Direct Investment (FDI) inflows of Rs. 14.33 billion. In the same period of the previous year, capital transfer and FDI inflows had amounted to Rs. 7.93 billion and Rs. 7.39 billion respectively.

Box 2: External Sector (USD)*

(USD Million)

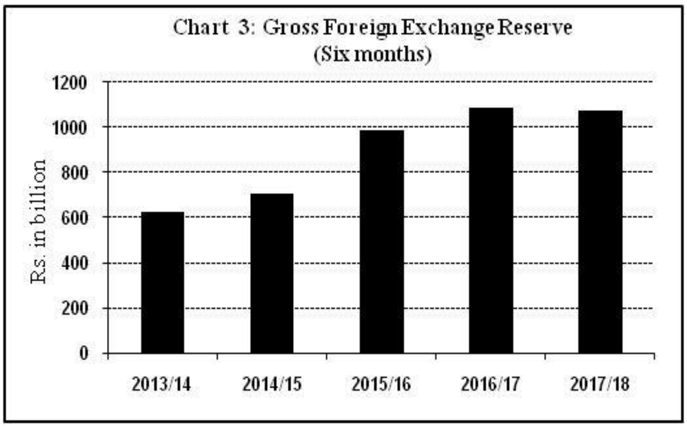
Particulars	2015-16		2016-17		2017-18	Percent Change in Six month	
	Six Months	Annual	Six Months	Annual	Six Months	2016/17	2017/18
Goods Exports (FoB)	320.0	703.9	377.1	773.7	447.8	17.8	18.7
Goods Imports (FoB)	2596.3	7092.5	4250.5	9219.3	5087.3	63.7	19.7
Trade Balance	-2276.3	-6388.6	-3873.4	-8445.6	-4639.5	70.2	19.8
Total Trade	2916.3	7796.3	4627.6	9993.0	5535.1	58.7	19.6
Travel Receipts	192.8	392.7	246.0	552.3	326.9	27.6	32.9
Workers' Remittances	3079.4	6253.4	3182.0	6556.3	3303.9	3.3	3.8
Current Account Balance	1496.5	1338.8	-9.4	-93.5	-737.5	-	-
BOP (-Surplus)	-1323.5	-1779.4	-417.6	-776.6	65.10	-	-

** Data from BOP Presentation*

1. In the US dollar terms, total merchandise exports and imports increased 18.7 percent and 19.7 percent respectively in the first six months of 2017/18. Exports had increased 17.8 percent whereas imports had risen 63.7 percent in the corresponding period of the previous year.
2. In the review period, travel receipts and workers' remittance increased 32.9 percent and 3.8 percent respectively. Travel receipts and workers' remittances had increased 27.6 percent and 3.3 percent respectively in the corresponding period of the previous year.
3. Current account recorded a deficit of USD 737.5 million in the review period compared to a deficit of USD 9.4 million in the corresponding period of the previous year. Likewise, Balance of Payments (BOP) recorded a deficit of USD 65.10 million in the review period in contrast to a surplus of USD 417.6 million in the corresponding period of the previous year.

Foreign Exchange Reserves

22. The gross foreign exchange reserves decreased 1.1 percent to Rs. 1067.34 billion as at mid-January 2018 from Rs. 1079.43 billion as at mid-July 2017. Of the total foreign exchange, reserves held by NRB increased 0.7 percent to Rs. 933.82 billion as at mid-January 2018 from Rs. 927.27 billion as at mid-July 2017. The reserves of banks and financial institutions (except NRB) decreased 12.3 percent to Rs. 133.52 billion as at mid-January 2018 from Rs. 152.17 billion as at mid-July 2017. The share of Indian currency in total reserves stood at 23.9 percent as at mid-January 2018.



Foreign Exchange Adequacy Indicators

23. Based on the imports of six months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 12.2 months, and merchandise and services imports of 10.6 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 41.1 percent, 87.9 percent and 38.6 percent respectively as

at mid- January 2018. Such ratios were 41.5 percent, 95.2 percent and 41.6 percent as at mid-July 2017.

Price of Oil and Gold

24. The price of oil (Crude Oil Brent) in the international market increased 28.1 percent to USD 69.64 per barrel in mid-January 2018 from USD 54.37 per barrel a year ago. The price of gold increased 11.5 percent to USD 1326.80 per ounce in mid-January 2018 from USD 1190.35 per ounce a year ago.

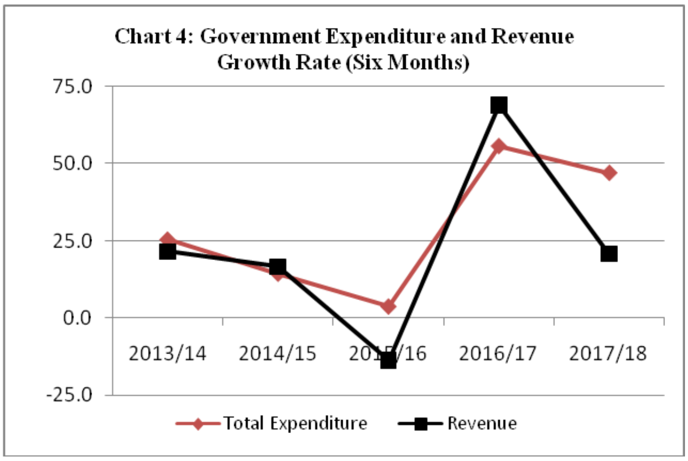
Exchange Rate

25. Nepalese currency vis-à-vis US dollar appreciated 1.3 percent in mid-January 2018 from mid-July 2017. It had depreciated 1.7 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 101.52 in mid-January 2018 compared to Rs. 102.86 in mid-July 2017.

Fiscal Situation*

Budget Deficit/ Surplus

26. In the first six months of 2017/18, the Government of Nepal (GoN) was at a deficit of Rs. 35.47 billion in its budget. There was a budget surplus of Rs. 40.22 billion in the corresponding period of the previous year.



Government Expenditure

27. In the review period, total government expenditure on a cash basis stood at Rs. 364.95 billion. Such expenditure was just Rs. 248.20 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 Six Months*	As percent of Budget Estimates
Total Expenditure	**1278994.9**	**364946.2**	**28.53**
Recurrent	803531.5	303332.5	37.75
Capital	335176.0	42723.3	12.75
Financial	140287.4	18890.4	13.47
Revenue	**730055.6**	**335100.0**	45.90

* On cash basis

28. In the review period, recurrent

* Based on the data reported by 1 NRB office, 80 branches of Rastriya Banijjya Bank Limited, 52 branches of Nepal Bank Limited, 34 branches of NIC Asia Bank Limited, 27 branches of Agricultural Development Bank Limited, 12 branches of Everest Bank Limited, 10 branches of Nepal Investment Bank Limited, 9 branches of Global IME Bank Limited, 7 branches of NMB Bank Limited, 3 branches of Bank of Kathmandu Limited and 2 branches each of Prabhu Bank Limited and Nepal Bangladesh Bank Limited and 1 branch each from Prime Commercial Bank Limited, Century Commercial Bank Limited, Sanima Bank Limited and Civil Bank Limited conducting government transactions and released report from 81 DTCOs and payment centers.

expenditure stood at Rs. 303.33 billion, which was Rs. 196.47 billion in the corresponding period of the previous year. In the review period, capital expenditure increased 38 percent to Rs. 42.72 billion. Such expenditure was Rs. 30.97 billion in the corresponding period of the previous year.

Government Revenue

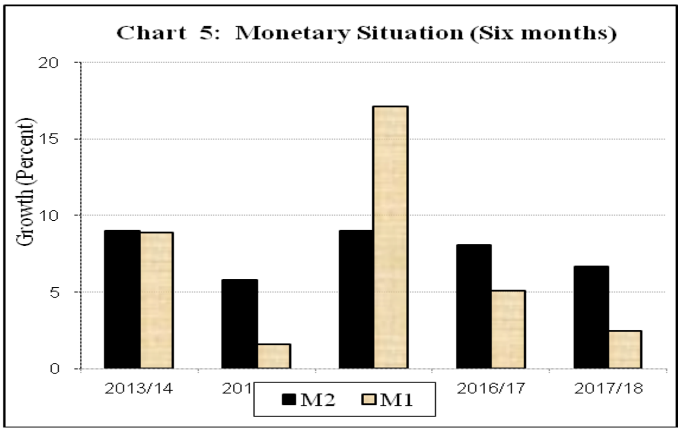
29. In the review period, the government revenue collection increased 20.7 percent to Rs. 335.10 billion. Such revenue had increased 68.9 percent to Rs. 277.57 billion in the corresponding period of the previous year. The government revenue collection has met the target of 334.14 billion during the first six months. The growth in the government revenue continues to remain sensitive to high tariff rate related imports.

Treasury Position of the GoN

30. Due to a slow pace of government expenditure relative to resource mobilization, the treasury surplus amounted to Rs. 303.17 billion (including Rs. 93.05 billion balances on Local Authorities' Accounts) as of mid-January 2017.

Monetary Situation

Money Supply



31. Broad money (M2) increased 6.7 percent in the review period compared to a rise of 8.1 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 14.0 percent in mid-January 2018.
32. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs. 6.66 billion (0.7 percent) in the review period compared to an increase of Rs. 45 billion (4.7 percent) in the corresponding period of the previous year.
33. Reserve money decreased 9.0 percent in the review period compared to an increase of 1.4 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 7.8 percent in mid-January 2018.

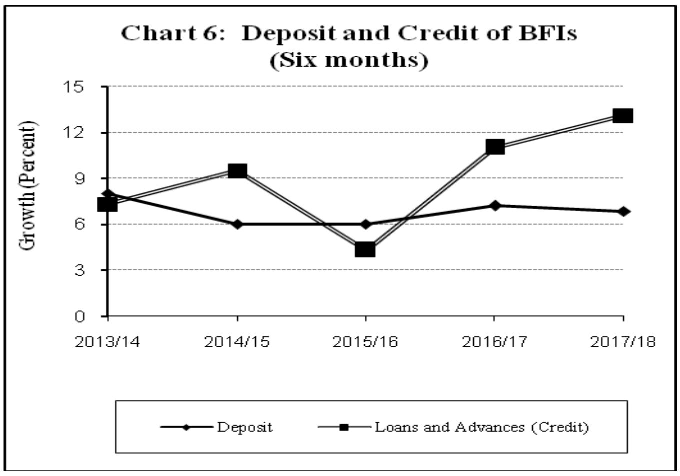
Domestic Credit

34. Domestic credit increased 7.0 percent in the review period compared to an increase of 6.0 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 21.7 percent in mid-January 2018.
35. Claims of monetary sector on the private sector increased 11.9 percent in the review period compared to a growth of 12.6 percent in the corresponding period of the previous year. On y-o-y basis, increase on such claims stood 17.3 percent in mid-January 2018.

Deposit Collection

36. Deposits at Banks and Financial Institutions (BFIs) increased 6.9 percent in the review period compared to a growth of 7.2 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 13.7 percent in mid-January 2018.
37. Out of the total deposits at the BFIs, the share of demand deposits increased from 8.2 percent to 8.4 percent and fixed deposits from 32.8 percent to 42.8 percent in mid-January 2018 compared to a year ago. However, the share of saving deposits decreased to 36.4 percent from 42.1 percent a year ago.
38. The share of institutional deposits in total deposit of Bank and Financial Institutions (BFIs) stands 44.3 percent in mid-January 2018. Such share was 47.6 percent a year ago.

Credit Disbursement



39. Credit to the private sector from BFIs increased 11.9 percent in the review period compared to a rise of 12.9 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 11.5 percent, 16.6 percent and 4.2 percent respectively. On y-o-y basis, credit to the private sector from BFIs increased 17.2 percent in mid-January 2018.
40. Of the total outstanding credit of BFIs, 61.3 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 60.6 percent and 14.3 percent respectively in the corresponding period of the previous year.

41. Trust receipt loan extended by commercial banks increased 50.5 percent (Rs. 32.61 billion) to Rs. 97.14 billion in the review period compared to an increase of 6.4 percent in the corresponding period of the previous year.
42. In the review period, hire purchase loan increased 7.0 percent and overdraft loan increased 9.6 percent. Similarly, real estate loan (including residential personal home loan) increased 9.5 percent in the review period.

Liquidity Management

43. In the review period, NRB mopped up Rs. 129.20 billion liquidity through open market operations. Of which, Rs. 42.35 billion was mopped up under deposit collection auction, Rs. 2.10 billion through 14 days deposit collection auction under interest rate corridor and Rs. 84.75 billion through reverse repo auction on a cumulative basis. Rs. 101.10 billion liquidity was mopped up in the corresponding period of the previous year.
44. In the review period, Rs. 69.33 billion liquidity was injected. Of which, Rs. 44.05 billion was injected through 14 days repo auction under interest rate corridor and Rs. 25.28 billion through outright purchase auction. In the corresponding period of the previous year, Rs. 15.40 billion liquidity was injected.
45. In the review period, Bank and Financial Institutions (BFIs) utilized Rs. 23.58 billion Standing Liquidity Facility (SLF). In the corresponding period of the previous year, BFIs had utilized such facility of Rs. 13.98 billion.
46. In the review period, NRB injected net liquidity of Rs. 198.04 billion through the net purchase of USD 1.92 billion from foreign exchange market. Net liquidity of Rs. 219.35 billion was injected through the net purchase of USD 2.04 billion in the corresponding period of the previous year.
47. NRB purchased Indian currency (INR) equivalent to Rs. 231.64 billion through the sale of USD 2.20 billion and Euro 40 million in the review period. INR equivalent to Rs. 224.30 billion was purchased through the sale of USD 1.98 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-January 2018, the outstanding refinance amounted to Rs. 13.21 billion.
49. A sum of Rs. 1.12 billion housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims as of mid-January 2018. NRB provides refinance facility to BFIs at a zero percent interest to extend housing loan to earthquake victims.

50. As of mid-January 2018, the number of beneficiaries of the 5 percent interest subsidized lending scheme of the Government of Nepal stood at 6203. They availed subsidized loans for selected agriculture and livestock businesses. Under this provision, Rs. 6.91 billion loan extended by BFIs is outstanding and Rs. 337.3 million interest subsidy has been provided.

Inter-bank Transaction

51. In the review period, inter-bank transactions among commercial banks stood at Rs. 585.28 billion and among other financial institutions (excluding transactions among commercial banks) amounted to Rs. 9.63 billion. Such transactions were Rs. 595.59 billion and Rs. 197.93 billion respectively in the corresponding period of the previous year.

Interest Rates

52. The weighted average 91-day Treasury bill rate increased to 5.82 percent in the sixth month of 2017/18 from 1.74 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 2.71 percent a year ago, increased to 4.40 percent in the review month. Likewise, the average base rate of commercial banks increased to 9.94 percent in the review month from 7.1 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, 158 BFIs (including 'D' class) were involved in merger and acquisition. Out of which, the license of 118 BFIs was revoked, thereby forming 40 BFIs.

Financial Access

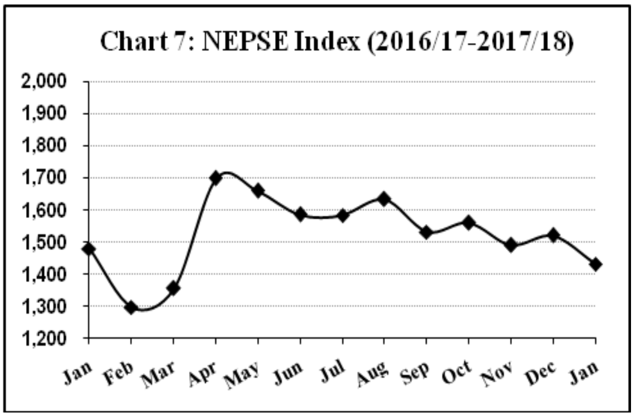
54. Of the total 753 local bodies formed in the process of implementing federalism, commercial banks have shown their presence in 352 bodies as of mid-January 2018. Province wise presence of commercial banks in local bodies is presented in Box 4.

Box 4: Province wise Presence of Commercial Banks in Local Bodies

Province	No. of Local Bodies	No. of Banks/ Branches
Province 1	137	65
Province 2	136	60
Province 3	119	66
Province 4	77	38
Province 5	123	75
Province 6	73	17
Province 7	88	31
Total	**753**	**352**

Capital Market

55. The NEPSE index on y-o-y basis decreased 3.3 percent to 1431.1 points in mid-January 2018. This index had increased 24.3 percent to 1479.9 points in mid-January 2017. Such index was 1582.7 points in mid-July 2017.



56. The stock market capitalization on y-o-y basis increased 0.7 percent to Rs. 1671.61 billion in mid-January 2018. This had increased 29.4 percent a year ago. The ratio of market capitalization to GDP of 2016/17 stood at 64.3 percent in mid-January 2018. This ratio was 73.9 percent a year ago. In the total market capitalization, the share of banks, financial institutions and insurance companies stood at 80.8 percent, hydropower at 5.1 percent, manufacturing and processing companies at 2.6 percent, hotels at 1.7 percent, trading at 0.1 percent, and others at 9.7 percent respectively.
57. On y-o-y basis, the total turnover of the securities increased 12.3 percent to Rs. 9.96 billion. The turnover of the securities had decreased 10.7 percent to Rs. 8.86 billion in the corresponding period of the previous year.
58. Due to the merger and acquisitions of BFIs, total number of companies listed at the NEPSE decreased to 192 in mid-January 2018 from 219 in mid-January 2017. Of the listed companies, 145 are BFIs (including insurance companies), 18 manufacturing and processing industries, 17 hydropower companies, 4 each hotels and trading institutions and 4 other sectors.
59. On y-o-y basis, total paid-up value of the listed shares increased 35.9 percent to Rs. 329.49 billion in mid-January 2018. Total additional securities worth Rs 84.96 billion were listed in the NEPSE during the review period. These consisted of ordinary shares of Rs. 16.56 billion, right shares of Rs. 25.60 billion, bonus shares of Rs.7.66 billion and government securities of Rs. 35.14 billion.