



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

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

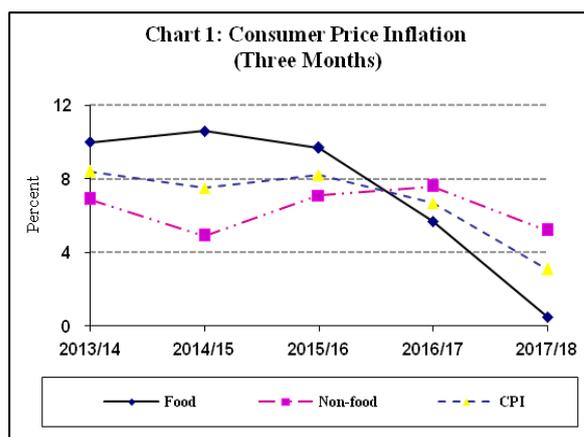
Macroeconomic Outlook

1. Macroeconomic data available so far suggest an optimistic growth outlook going forward. Four factors underpin an improved growth outlook for 2017/18. First, incessant rainfall of mid-August 2017 is expected to boost farm output this year. Second, the uninterrupted supply of energy and the near completion of some hydropower projects including Chamelia are likely to help augment the industrial capacity utilization in days ahead. Third, a rebound in tourism as reflected in an increase in hotel booking and occupancy rate is expected to accelerate activities in associated service sectors. Fourth, a rise in import of cement and iron related items is a reflection of acceleration in construction activities.
2. Inflation has remained subdued at 3.1 percent in mid-October 2017 with sporadic rise and fall in prices of perishable items such as vegetables and fruits. Inflation in Nepal is likely to be erratic but subdued in line with the global inflation.
3. The central government budget is set to come under pressure on account of stipulated fiscal transfers to sub national governments and election related expenses. Revenue growth has remained modest. Foreign grants have shown resiliency.
4. Credit growth has remained healthy but moderate in relation to the annual target and the growth of the preceding year. The government has front loaded its domestic borrowing this year. This has helped banks maintain a balance in their credit and liquidity position. Growth in deposit is expected to remain sluggish in line with subdued inflows of remittances.
5. The overall balance of payment has returned to a surplus after deficits in consecutive first two months of 2017/18. Healthy capital and financial flows especially of capital account transfer, foreign direct investment and foreign loans have contributed to the return of overall balance of payments to a surplus position.

Inflation, Salary and Wage Rate

Consumer Price Inflation

6. Consumer price inflation has moderated to 3.1 percent in mid-October 2017 from 6.7 percent a year ago. The higher base price of the previous year has largely contributed to the moderation of inflation in the review period.



Food Inflation

7. Food inflation has decelerated to 0.5 percent in mid-October 2017 from 5.7 percent in the corresponding period of the previous year. A fall in prices of pulses and legume by 22.9 percent, spice by 5.7 percent, vegetable by 5.1 percent and fruit by 3.7 percent contributed to the deceleration in overall food inflation rate.

Box 1: Y-O-Y Food Inflation (Third Month)		
Particulars	Inflation (Percent)	
	2073/74	2074/75
Food Inflation	5.7	0.5
1 Sugar and Sugar products	17.8	4.8
2 Alcoholic drinks	13.4	8.3
3 Fruit	10.0	(3.7)
4 Spices	10.0	(5.7)
5 Restaurant and Hotel	9.3	5.6
6 Vegetable	7.6	(5.1)
7 Pulses and Legumes	6.4	(22.9)

Source: National Consumer Price Index, Mid-October 2017

Non-food Inflation

8. Non-food inflation moderated to 5.2 percent during the review period from 7.6 percent in the corresponding period of the previous year. The slower growth of prices of clothes and footwear, furnishing and household equipment, housing and utilities, among others, contributed to the moderation of non-food inflation in the review period.

Region-wise Consumer Price Inflation

9. The Mountain region witnessed relatively a higher rate of inflation of 5.1 percent followed by Terai region of 3.6 percent, Hilly region of 3.0 percent and the Kathmandu Valley of 2.3 percent in the review period. In the corresponding period of the previous year, these regions had witnessed inflation of 6.3 percent, 6.2 percent, 8.9 percent and 5.7 percent respectively.

Inflation Differential between Nepal and India

10. The y-o-y consumer price inflation was 3.1 percent in Nepal in mid-October 2017 compared to 3.6 percent in India, showing an inflation wedge of 0.5 percent between the two countries. A year ago, the rate of inflation was 6.7 percent in Nepal compared to 4.2 percent in India, reflecting a wider inflation differential of 2.5 percent.

Wholesale Price Inflation

11. The y-o-y wholesale price inflation moderated to 1.6 percent in the review period from 5 percent a year ago. The wholesale price indices of agricultural commodities, domestic

manufactured commodities and imported commodities grew 1.0 percent, 4.2 percent and 1.2 percent respectively in the review period. In the corresponding period of the previous year, wholesale price indices of agricultural commodities and domestic manufactured commodities had observed the growth of 7.2 percent and 5.8 percent respectively, whereas the price index of imported commodities had declined by 1.1 percent.

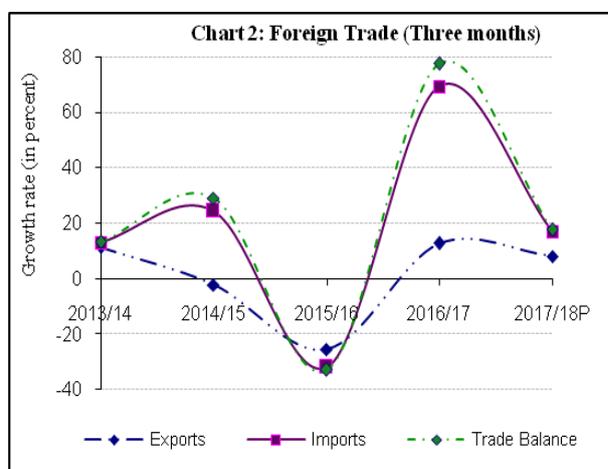
National Salary and Wage Rate

- The y-o-y salary and wage rate index rose 5.5 percent in the review period compared to 14.4 percent in the corresponding period of the previous year. In the review period, the salary index increased by 14.4 percent, while the wage rate index grew 3.3 percent. The salary indices of bank and financial institutions, education and public corporations sub-groups increased by 10.6 percent, 5.8 percent and 0.8 percent respectively in the review period. Likewise, wage rate indices of agricultural laborer, industrial laborer and construction laborer witnessed a growth of 2 percent, 6.3 percent and 3.2 percent respectively in the review period.

External Sector

Merchandise Trade

- In the first three months of 2017/18, merchandise exports increased 7.9 percent to Rs. 20.43 billion compared to an increase of 12.6 percent in the same period of previous year. In the review period, exports to India, China and other countries increased 3.2 percent, 27.7 percent and 13.1 percent respectively. Commodity wise exports of cattle feed, threads, vegetable ghee, oil cakes, readymade garments among other increased whereas export of juice, cardamom, G.I. pipes, woolen carpet, polyester yarn etc. among others decreased in the review period.



- Merchandise imports increased 16.9 percent to Rs. 257.87 billion in the review period compared to increase of 69.1 percent in the same period of the previous year. In review period, imports from India, China and Other countries increased 17.7 percent, 9.5 percent and 19.5 percent respectively. Commodity wise imports of petroleum products, gold, aircraft spareparts, vehicle and spareparts, cement among others increased whereas imports of Agriculture equipment and parts, chemical fertilizer, sanitaryware, electrical goods, edible oil, among others, decreased in the review period.
- Based on customs points, the exports through Birgunj customs office and Krishnagar customs office decreased whereas exports from other customs points increased in the review period. On the import side, imports through Tribhuvan international airport customs office and Kanchanpur customs office decreased whereas imports through other customs points increased in the review period.

16. Total trade deficit in the review period expanded 17.7 percent to Rs 237.44 billion. Such deficit had expanded 77.5 percent in the same period of the previous year. The export-import ratio remained 7.9 percent in the review period compared to 8.6 percent in the corresponding period of the previous year.

Export-Import Price Index

17. While y-o-y unit value export price index based on customs data increased 9.6 percent, import price index increased 5.2 percent in the third month of 2017/18. Consequently, the TOT index increased 4.2 percent compared to an increase of 18 percent in the corresponding period of the previous year. Increase in price of export items such as yarsagumba, carpet, pulses, tea caused the rise in export price index in the review period. Increase in the price of petroleum product, tyre, laptop, vehicles, heavy equipments resulted in an increase in import price index in the review period.

Services

18. The total services receipt increased 5.4 percent and expenses 15.4 percent in the review period. As a result, net services receipt deficit increased to Rs. 6.20 billion in the review period. Such deficit was Rs. 2.40 billion in the same period of previous year.
19. Under the services account, travel receipt increased 27.4 percent to Rs. 14.86 billion in the review period. Such receipt had increased 27.6 percent in the same period of previous year.

Workers' Remittances

20. The workers' remittances increased 2.6 percent to Rs. 176.32 billion in the review period compared to 3.2 percent in the same period of the previous year. Consequently, net transfer receipt increased 4.6 percent to Rs. 203.48 billion in the review period. Such receipt had increased 1.5 percent in the same period of the previous year.
21. The outflow of Nepalese workers for foreign employment (except renew entry) has been falling. The number of Nepalese workers seeking foreign employment decreased 2.6 percent in the review period. It had decreased 16.1 percent in the same period of the previous year. In the review period, the number of workers outbound to Malaysia jumped up while those to Saudi Arabia and Qatar shrank significantly.

Box 2: Outflows of Nepalese Workers for Foreign Employment (First Three Months)

a) Institutional and Individual (New and Legalized)

Country	(No. of Labor)		Percentage Share	
	2016/17	2017/18	2016/17	2017/18
Malaysia	19352	31529	20.3	34.0
Qatar	29334	22140	30.8	23.9
U.A.E.	12769	15892	13.4	17.1
Saudi Arabia	26160	11835	27.5	12.8
Kuwait	2042	3128	2.1	3.4
South Korea	786	1648	0.8	1.8
Bahrain	893	1160	0.9	1.3
Oman	733	749	0.8	0.8
Afghanistan	11	513	0.0	0.6
Japan	747	181	0.8	0.2
Israel	31	35	0.0	0.0
Lebanon	54	3	0.1	0.0
Others	2281	3909	2.4	4.2
Total	95193	92722	100.0	100.0
Percentage Change	-16.1	-2.6	-	-

b) Renew Entry

Renew Entry	47434	53869	-	-
Percentage Change	14.6	13.6	-	-

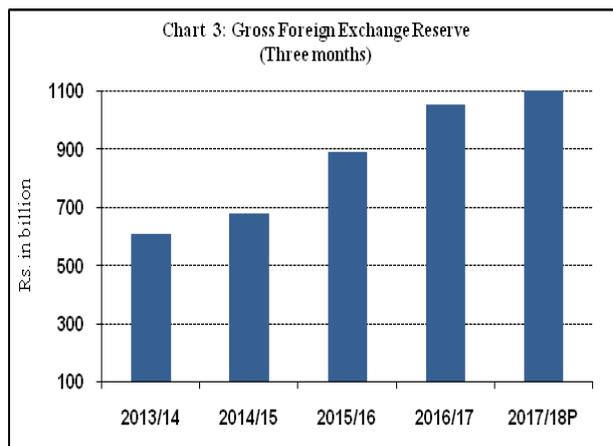
Current Account and BOP Position

22. The current account registered a deficit of Rs. 21.94 billion in the review period compared to the deficit of Rs. 1.97 billion in the same period of the previous year. Similarly, the overall BoP returned to a surplus of Rs. 4.27 billion after a deficit in two consecutive months of 2017/18. A year ago, BoP had a surplus of Rs. 19.70 billion.
23. In the review period, Nepal received capital transfer amounting to Rs. 4.96 billion and Foreign Direct Investment (FDI) inflow of Rs. 6.07 billion. In the same period of the previous year, capital transfer and FDI inflow had amounted to Rs. 2.41 billion and Rs. 5.02 billion respectively.

Particulars	2015-16		2016-17		2017-18	Percentage Change in First Three months	
	First Three Months	Annual	First Three Months	Annual	First Three Months	2016/17	2017/18
Goods Exports (FoB)	179.9	703.9	193.0	773.7	220.8	7.3	14.4
Goods Imports (FoB)	1236.2	7092.5	2021.8	9219.3	2456.0	63.5	21.5
Trade Balance	-1056.3	-6388.6	-1828.7	-8445.6	-2235.2	73.1	22.2
Total Trade	1416.1	7796.3	2214.8	9993.0	2676.7	56.4	20.9
Travel Receipts	87.5	392.7	109.0	552.3	144.0	24.7	32.0
Workers' Remittances	1594.3	6253.4	1605.9	6556.3	1711.5	0.7	6.6
Current Account Balance	818.2	1338.8	-18.2	-93.5	-213.5	-	-
BOP (-Surplus)	-608.6	-1779.8	-184.6	-777.1	-40.3	-	-

Foreign Exchange Reserves

24. The gross foreign exchange reserves increased to Rs. 1099.82 billion in mid-October 2017 from Rs. 1079.52 billion in mid-July 2017. Of the total foreign exchange, reserves held by NRB increased 2.1 percent to Rs. 947.14 billion as at mid-October 2017 from Rs. 927.27 billion as at mid-July 2017. Similarly, the reserves of banks and financial institutions (except NRB) increased 0.3 percent to Rs. 152.68 billion as at mid-October 2017 from Rs. 152.26 billion as at mid-July



2017. The share of Indian currency in total reserves stood at 22.1 percent as at mid-October 2017.

Foreign Exchange Adequacy Indicators

25. Based on the imports of the first three months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 13 months, and merchandise and services imports of 11.2 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 increased to 42.3 percent, 93 percent and 40.7 percent respectively as at mid-October 2017. Such ratios were 41.5 percent, 95.3 percent and 41.7 percent as at mid-July 2017.

Price of Oil and Gold

26. The price of oil (Crude Oil Brent) in the international market increased 17.6 percent to USD 57.49 per barrel in mid-October 2017 from USD 48.87 per barrel a year ago. The price of gold increased 4.1 percent to USD 1303.30 per ounce in mid-October 2017 from USD 1251.80 per ounce a year ago.

Exchange Rate

27. Nepalese currency vis-à-vis US dollar depreciated 0.4 percent in mid-October 2017 from mid-July 2017. It had appreciated 0.2 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 103.29 in mid-October 2017 compared to Rs. 102.86 in mid-July 2017.

Fiscal Situation*

Budget Deficit/ Surplus

28. In the first three months of 2017/18, the Government of Nepal (GoN) was at a surplus of Rs. 11.63 billion in its budget. Such surplus was Rs. 28.84 billion in the corresponding period of the previous year.

Heads	Budget Estimates	Outturns in Three Months*	As percent of Budget Estimates
Total Expenditure	1278994.9	138836.0	10.86
Recurrent	803531.5	126351.7	15.72
Capital	335176.0	11641	3.47
Financial	140287.4	843.3	0.60
Revenue	730055.6	139648.8	19.13
* On cash basis			

Government Expenditure

29. In the review period, total government expenditure on a cash basis stood at Rs. 138.84 billion. Such expenditure was just Rs. 95.16 billion in the corresponding period of the previous year.

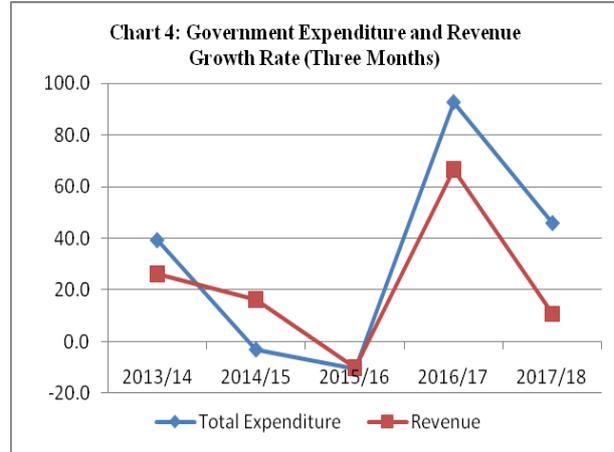
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Based on the data reported by 1 NRB office, 79 branches of Rastriya Banijya Bank Limited, 49 branches of Nepal Bank Limited, 25 branches of Agricultural Development Bank Limited, 24 branches of NIC Asia Bank Limited, 12 branches of Everest Bank Limited, 10 branches of Nepal Investment Bank Limited, 9 branches of Global IME Bank Limited, 2 branches of Bank of Kathmandu Limited and 1 branch each from NMB Bank Limited, Nepal Bangladesh Bank Limited, Prime Commercial Bank Limited and Century Commercial Bank Limited conducting government transactions and released report from 79 DTCOs and payment centers.

30. In the review period, recurrent expenditure stood at Rs. 126.35 billion. Such expenditure was Rs. 86.79 billion in the corresponding period of the previous year. In the review period, capital expenditure increased 59.6 percent to Rs. 11.64 billion. Such expenditure was Rs. 7.29 billion in the corresponding period of the previous year.

Government Revenue

31. In the review period, the government revenue collection increased 10.7 percent to Rs. 139.65 billion. Such revenue had increased 66.7 percent to Rs. 126.12 billion in the corresponding period of the previous year. The government revenue collection has been less than the target. The growth in the government revenue continues to remain sensitive to high tariff rate related imports.



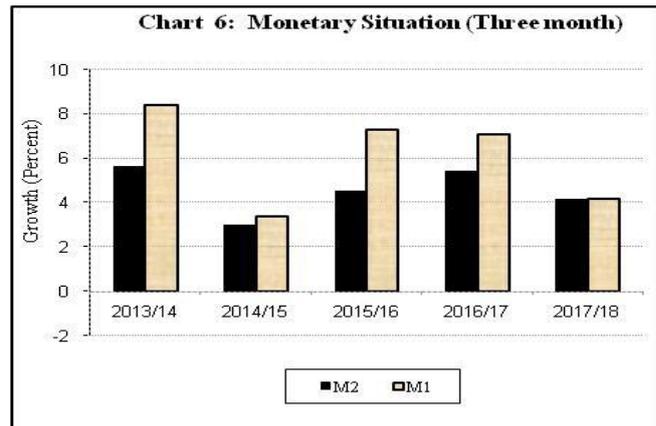
Treasury Position of the GoN

32. Because of a slow pace of government expenditure relative to resource mobilization, the treasury surplus amounted to Rs. 246.04 billion as of mid-October 2017.

Monetary Situation

Money Supply

33. Broad money (M2) increased 4.2 percent in the review period compared to a rise of 5.4 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 14.2 percent in mid-October 2017.
34. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 4.27 billion (0.4 percent) in the review period compared to an increase of Rs.19.70 billion (2.1 percent) in the corresponding period of the previous year.



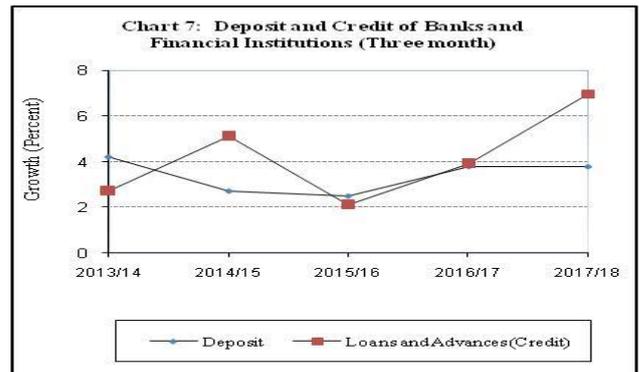
35. Reserve Money decreased 6 percent in the review period compared to a decrease of 0.3 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 13.2 percent in mid- October 2017.

Domestic Credit

36. Domestic credit increased 1.7 percent in the review period compared to an increase of 0.4 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 20.9 percent in mid- October 2017.
37. Claims of monetary sector on the private sector increased 4.8 percent in the review period compared to a growth of 4.3 percent in the corresponding period of the previous year. On y-o-y basis, claims of monetary sector on the private sector increased 18.5 percent in mid-October 2017.

Deposit Collection

38. Deposits at Banks and Financial Institutions (BFIs) increased 3.8 percent in the review period. Deposit growth was at the same rate in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 14 percent in mid-October 2017.
39. Out of the total deposits at the BFIs, the share of demand deposits decreased from 8.7 percent to 8.3 percent and saving deposits from 44.1 percent to 36.1 percent in mid-October 2017 from the level of a year ago. However, the share of fixed deposits increased to 42.5 percent from 29.9 percent in the review period.



Credit Disbursement

40. Credit to the private sector from BFIs increased 4.6 percent in the review period compared to a rise of 4.2 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 4.2 percent, 8.3 percent and 1.9 percent respectively. On y-o-y basis, credit to the private sector from BFIs increased 18.7 percent in mid-October 2017.
41. Of the total outstanding credit of BFIs, 61 percent is against the collateral of land and building and 14.5 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 60.7 percent and 15.1 percent respectively in the corresponding period of the previous year.
42. Trust receipt (T.R.) loan extended by commercial banks increased 25.5 percent (Rs. 16.44 billion) to Rs. 80.97 billion in the review period compared to an increase of 5.5 percent in the corresponding period of the previous year.
43. In the review period, hire purchase loan increased 1.7 percent and overdraft loan rose 2.9 percent. Similarly, residential personal home loan (up to Rs. 15 million) increased 6.7 percent and real estate loan 0.8 percent.

Liquidity Management

44. In three months of 2017/18, the NRB mopped up Rs. 115.40 billion through open market operations. Of which, Rs. 40.65 billion was mopped up under deposit collection auction and Rs. 74.75 billion through reverse repo auction on a cumulative basis. In the corresponding period of the previous year, Rs. 90.25 billion liquidity was absorbed. Likewise, in the previous year Rs. 17.76 billion liquidity was injected through Rs. 10.01 billion repo auctions (7days and 14 days) and Rs.7.75 standing liquidity facility.
45. In the review period, the NRB injected net liquidity of Rs. 89.80 billion through the net purchase of USD 947.5 million from foreign exchange market. Net liquidity of Rs. 98.94 billion was injected through the net purchase of USD 925.9 million in the corresponding period of previous year.
46. The NRB purchased Indian currency (INR) equivalent to Rs. 97.49 billion through the sale of USD 900 million and Euro 40 million in the review period. INR equivalent to Rs. 107.59 billion was purchased through the sale of USD 900 million and Euro 95 million in the corresponding period of the previous year.

Refinance

47. The NRB has been providing refinance facility aimed at expanding credit to the productive sector along with promoting export. As of mid-October 2017, the outstanding refinance amounted to Rs. 8.29 billion including general refinance of Rs. 7.62 billion and export refinance of Rs 672.4 million.
48. A sum of Rs. 962.6 million housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims as of mid-October 2017. NRB provides refinance facility to BFIs at a zero percent interest to extend housing loan to earthquake victims.
49. As of mid-July 2017, the number of beneficiaries of the 5 percent interest subsidized lending scheme of the Government of Nepal stood at 5927. They availed subsidized loans for selected agriculture and livestock businesses. Under this provision, Rs. 6.23 billion loan extended by BFIs is outstanding and Rs. 239.1 million interest subsidy has been provided.

Inter-bank Transaction

50. In three months of 2017/18, inter-bank transactions among commercial banks stood at Rs. 202.40 billion and inter-bank transactions among other financial institutions (excluding transactions among commercial banks) amounted to Rs. 7.08 billion. Such transactions were Rs. 280.57 billion and Rs. 88.37 billion respectively in the corresponding period of the previous year.

Interest Rates

51. The weighted average 91-day Treasury bill rate decreased to 1.18 percent in the third month of 2017/18 from 2.12 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 3.27 percent a year ago, decreased to 1.13 percent in

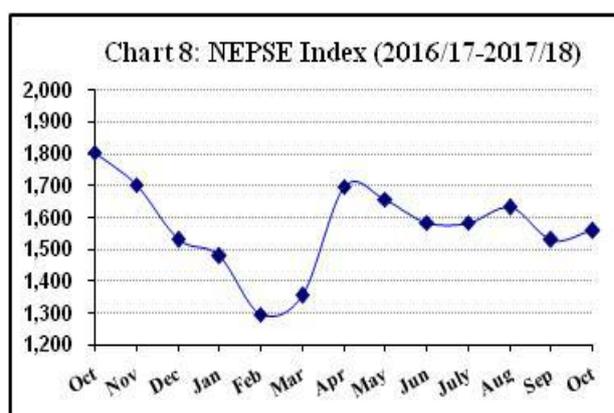
the review month. Likewise, the average base rate of commercial banks increased to 10.08 percent in the review month from 6.43 percent a year ago.

Merger/Acquisition

52. 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, 153 BFIs (including 'D' class) were involved in merger and acquisition since this bank introduced the regulatory procedure regarding merger and acquisition. Of which, the license of 113 BFIs was revoked thereby forming 40 BFIs.

Capital Market

53. The NEPSE index on y-o-y basis decreased 13.6 percent to 1,559.2 points in mid-October 2017 from 1803.7 points in mid-October 2016. Such index was 1582.7 points in mid-July 2017.



54. The stock market capitalization on y-o-y basis decreased 9.4 percent to Rs. 1809.81 billion in mid-October 2017. This had increased 70.9 percent a year ago. The ratio of market capitalization to GDP of 2016/17 stood at 69.6 percent in mid-October 2017. This ratio was 88.9 percent a year ago. In the total market capitalization, the share of banks, financial institutions and insurance companies stood at 83.8 percent, hydropower 4.4 percent, manufacturing and processing companies 2.5 percent, hotels 1.8 percent, trading 0.1 percent, and others 7.5 percent respectively.
55. The total turnover of the securities decreased 57.0 percent to Rs. 6.64 billion in the review period. The turnover of the securities had substantially increased 123.3 percent to Rs. 15.45 billion in the corresponding period of the previous year.
56. Due to the merger and acquisitions of BFIs, total number of companies listed at the NEPSE decreased to 196 in mid-October 2017 from 223 in mid-October 2016. Of the listed companies, 151 are BFIs (including insurance companies), 18 manufacturing and processing industries, 16 hydropower companies, 4 each hotels and trading institutions and 3 other sectors.
57. On y-o-y basis, total paid-up value of the listed shares increased 34.4 percent to Rs. 298.51 billion in mid-October 2017. Total additional securities worth Rs. 23.31 billion were listed in the NEPSE during the review period. These consist of ordinary shares Rs. 1.20 billion, right shares Rs. 14.41 billion, bonus shares Rs. 697 million and government securities Rs. 7.0 billion.