



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal (Based on Three Months' Data of 2018/19)

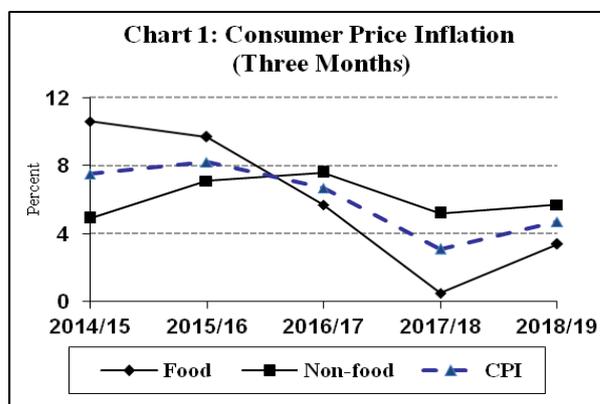
Major Highlights

- Inflation remained 4.7 percent on y-o-y basis.
- Import expanded 43.6 percent and export 16.1 percent.
- Workers' remittances increased 37.3 percent.
- Balance of Payments remained in deficit of Rs.35.42 billion.
- Government spending on cash basis increased 23.1 percent and revenue collection 43.4 percent.
- Broad money (M2) increased 3.5 percent. On y-o-y basis, M2 increased 18.6 percent.
- Deposit at BFIs increased 2.4 percent and credit disbursement 7.2 percent. On y-o-y basis, deposit increased 17.7 percent and credit 25.5 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation increased 4.7 percent in mid-October 2018 from 3.1 percent a year ago. Increase in the price of food, vegetables, meat, fish, alcoholic drinks, as well as housing and utilities contributed to the rise in overall inflation in the review period.



Food and Beverage Inflation

2. The inflation of food and beverage group increased to 3.4 percent in mid-October 2018 from a level of 0.5 percent a year ago. A surge in prices of cereal grains and their products, meat and fish, ghee and oil, and tobacco sub-groups, among others, mainly contributed to the rise in food and beverage inflation in the review period.

| Particulars | Inflation (Percent) | |
|-------------------------------------|---------------------|------------|
| | 2017/18 | 2018/19 |
| Food and Beverage Inflation | 0.5 | 3.4 |
| 1. Cereal Grains and Their Products | 1.7 | 4.6 |
| 2. Meat and Fish | 2.3 | 5.2 |
| 3. Ghee and Oil | 2.4 | 5.4 |
| 4. Tobacco | 5.4 | 10.5 |

Source: National Consumer Price Index, Mid-Oct 2018

Non-food and Service Inflation

3. Non-food and service inflation increased to 5.7 percent in mid-October 2018 from 5.2 percent a year ago. An increase in price of transportation, furnishing and household equipment, recreation and culture, and housing and utilities sub-groups, among others, accounted for the increase in non-food inflation in the review month.

| Particulars | Inflation (Percent) | |
|---------------------------------------|---------------------|------------|
| | 2017/18 | 2018/19 |
| Non-Food and Service Inflation | 5.2 | 5.7 |
| 1. Transportation | 1.6 | 7.4 |
| 2. Furnishing and Household Equipment | 4.2 | 5.2 |
| 3. Recreation and Culture | 3.9 | 4.7 |
| 4. Housing and Utilities | 6.5 | 7.7 |

Source: National Consumer Price Index, Mid-Oct 2018

Region-wise Consumer Price Inflation

4. Hilly region witnessed relatively higher rate of inflation of 6.1 percent followed by 4.3 percent in Terai, 4.2 percent in Mountain and 4.0 percent in the Kathmandu Valley in the review period. In the corresponding period of the previous year, these regions had witnessed inflation rates of 3.0 percent, 3.6 percent, 5.1 percent and 2.3 percent respectively.

Inflation of Nepal and India

5. The y-o-y consumer price inflation of Nepal (mid-October 2018) and India (October 2018) stood at 4.7 percent and 3.3 percent respectively. Such inflation was 3.1 percent in Nepal compared to 3.6 percent in India a year ago.

Wholesale Price Inflation

6. The y-o-y wholesale price inflation stood at 9.2 percent in mid-October 2018. Surge in prices of petroleum products, basic metals, construction materials, and food and beverage, among others, contributed to the rise in overall wholesale price inflation in the review period.

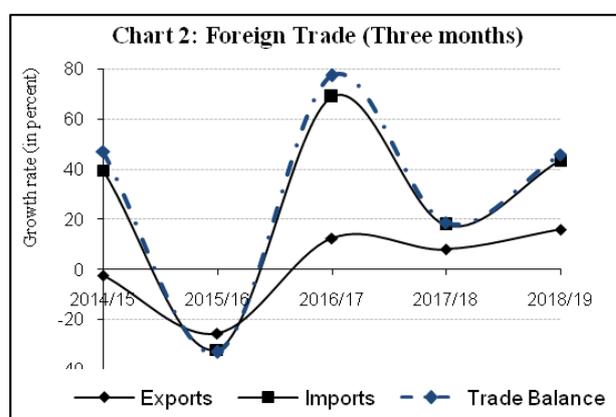
National Salary and Wage Rate Index

- The salary and wage rate index increased 8.7 percent in mid-October 2018 from 4.7 percent a year ago. In the review period, the salary index increased 6.6 percent, while the wage rate index grew by 9.3 percent.

External Sector

Merchandise Trade

- In the three months of 2018/19, merchandise exports increased 16.1 percent to Rs.23.74 billion compared to an increase of 8.1 percent in the same period of the previous year. Destination-wise, exports to India, China and Other countries increased 20.2 percent, 14.4 percent and 11.2 percent respectively in the review period. Mainly, exports of polyester yarn, zinc sheet, woolen carpet, pashmina, tooth paste, among others, increased whereas export of cardamom, rosin, tanned skin, G.I. pipes, aluminium section, among others, decreased in the review period.
- Merchandise imports increased 43.6 percent to Rs.373.59 billion in the review period compared to a rise of 17.9 percent in the same period previous year. Destination-wise, imports from India, China and other countries increased 40.8 percent, 45.9 percent and 50.5 percent respectively in the review period. Commodity-wise, imports of petroleum products, aircraft and spareparts, M.S. billet, vehicles & spare parts, other machinery & parts, among others, increased whereas imports of telecommunication equipment and parts, cement, crude soybean oil, video television and parts, medical equipment and tools, among others, decreased in the review period.
- Based on customs points, exports from Dry Port Customs Office, Nepalgunj Customs Office, Krishnanagar Customs Office, Kailali Customs Office and Kanchanpur Customs Office decreased whereas exports from other customs points increased in the review period. On the import side, imports from Kanchanpur Customs Office decreased whereas imports from other customs points increased in the review period.
- Total trade deficit further widened 45.9 percent to Rs. 349.84 billion in the three months of 2018/19. The export-import ratio slid down to 6.4 percent in the review period from 7.9 percent in the corresponding period of the previous year.



Services

12. The deficit in net services receipt increased to Rs.19.81 billion in the review period from Rs.6.13 billion in the same period previous year.
13. Under the service account, travel receipt increased 5.6 percent to Rs.15.69 billion in the review period. Such receipt had increased 27.4 percent in the same period previous year.

Workers' Remittances

14. The workers' remittances increased 37.3 percent to Rs.242.17 billion in the review period compared to a growth of 2.6 percent in the same period previous year. In US Dollar terms, workers' remittances increased 24.5 percent in the review period compared to 6.6 percent in the corresponding period previous year.
15. Net transfer receipt increased 33.4 percent to Rs.270.73 billion in the review period. Such receipt had increased 4.3 percent in the same period previous year.
16. The number of Nepalese workers migrated for foreign employment decreased 36.7 percent in the review period. It had decreased 2.6 percent in the same period of the previous year. In the review period, the number of workers outbound to Malaysia shrank noticeably.

| a) Institutional and Individual (New and Legalized) | | | | |
|---|-----------------------|----------------|-------------------------|----------------|
| Country | (No. of Labor) | | Percentage Share | |
| | 2017/18 | 2018/19 | 2017/18 | 2018/19 |
| Qatar | 22140 | 21873 | 23.9 | 37.3 |
| U.A.E. | 15892 | 14861 | 17.1 | 25.3 |
| Saudi Arabia | 11835 | 8018 | 12.8 | 13.7 |
| Kuwait | 3128 | 4334 | 3.4 | 7.4 |
| Malaysia | 31529 | 2377 | 34.0 | 4.0 |
| Bahrain | 1160 | 1198 | 1.3 | 2.0 |
| Oman | 749 | 697 | 0.8 | 1.2 |
| Afghanistan | 513 | 300 | 0.6 | 0.5 |
| Japan | 181 | 169 | 0.2 | 0.3 |
| South Korea | 1648 | 22 | 1.8 | 0.0 |
| Israel | 35 | 15 | 0.0 | 0.0 |
| Lebanon | 3 | 0 | 0.0 | 0.0 |
| Others | 3909 | 4849 | 4.2 | 8.3 |
| Total | 92722 | 58713 | 100 | 100 |
| Percentage Change | -2.6 | -36.7 | - | - |
| b) Renew Entry | | | | |
| Renew Entry | 53869 | 51341 | - | - |
| Percentage Change | 13.6 | -4.7 | - | - |

Source: Department of Foreign Employment.

Current Account and BOP Position

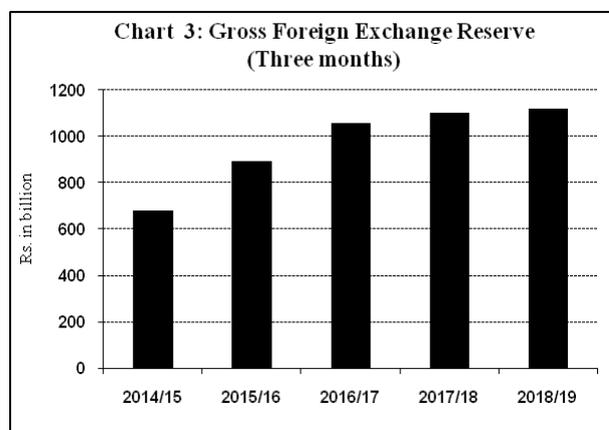
17. The current account registered a deficit of Rs.81.96 billion in the review period. The current account had registered a deficit of Rs.25.52 billion in the same period previous year. In the US Dollar terms, the current account deficit widened USD 716.9 million in the review period compared to USD 248.2 million in the corresponding period previous year.
18. The overall BOP remained at a deficit of Rs.35.42 billion in the review period in contrast to a surplus of Rs.4.27 billion in the same period previous year. In the US Dollar terms, the overall

BOP recorded a deficit of USD 316.2 million in the review period in contrast to a surplus of USD 40.3 million in the same period previous year.

19. In the review period, Nepal received capital transfer of Rs.3.55 billion and Foreign Direct Investment (FDI) inflows of Rs.1.54 billion. In the same period of the previous year, capital transfer and FDI inflows amounted to Rs.4.96 billion and Rs.6.07 billion respectively.

Foreign Exchange Reserves

20. The gross foreign exchange reserves stood at Rs.1120.92 billion as at mid-October 2018, an increase of 1.7 percent from Rs.1102.59 billion as at mid-July 2018. In the US Dollar terms, the gross foreign exchange reserves remained USD 9.56 billion as at mid-October 2018, a decrease of 5.2 percent from USD 10.08 billion as at mid-July 2018.



21. Of the total foreign exchange reserves, reserves held by NRB increased Rs.240 million to Rs.989.64 billion as at mid-October 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 16 percent to Rs.131.28 billion as at mid-October 2018 from Rs.113.19 billion as at mid-July 2018. The share of Indian currency in total reserves stood at 23.2 percent as at mid-October 2018.

Foreign Exchange Reserve Adequacy Indicators

22. Based on the imports of three months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 9.2 months, and merchandise and services imports of 7.9 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 37.3 percent, 65.7 percent and 35 percent respectively as at mid-October 2018. Such ratios were 36.7 percent, 78.6 percent and 35.6 percent as at mid-July 2018.

Price of Oil and Gold

23. The price of oil (Crude Oil Brent) in the international market increased 39 percent to USD 79.91 per barrel in mid-October 2018 from USD 57.49 per barrel a year ago. The price of gold decreased 5.7 percent to USD 1229.05 per ounce in mid-October 2018 from USD 1303.30 per ounce a year ago.

Exchange Rate

24. Nepalese currency vis-à-vis the US dollar depreciated 6.7 percent in mid-October 2018 from mid-July 2018. It had depreciated 0.4 percent in the same period of the previous year. The

buying rate per US dollar stood at Rs.117.24 in mid-October 2018 compared to Rs.109.34 in mid-July 2018.

Fiscal Situation*

Budget Deficit/ Surplus

25. The budget surplus of the Government of Nepal (GoN) increased to Rs.32.83 billion in three months of 2018/19 from Rs.11.63 billion in the corresponding period previous year.

Government Expenditure

26. In the review period, total government expenditure (cash basis) stood at Rs.170.95 billion. Such expenditure was Rs.138.84 billion in the corresponding period previous year.

27. Recurrent expenditure stood at Rs.149.57 billion in three months of 2018/19, which was Rs.126.35 billion a year ago. Likewise, capital expenditure increased to Rs.18.78 billion from Rs.11.64 billion a year ago.

Government Revenue

28. In the review period, government revenue increased 43.4 percent to Rs.200.32 billion. Such revenue had increased 10.7 percent to Rs.139.65 billion in the corresponding period previous year.

Treasury Position of the GoN

29. The treasury surplus amounted to Rs.181.88 billion as of mid-October 2018.

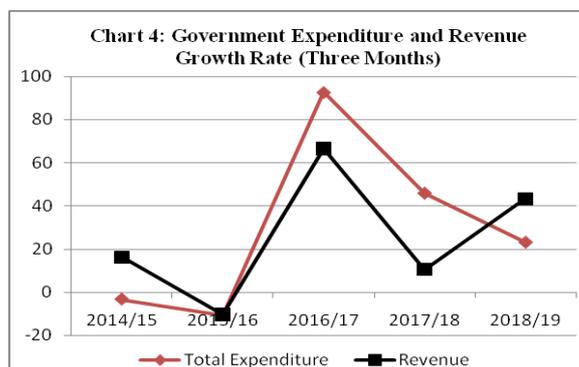


Table 4: The Budget Performance of 2018/19
(Rs. in billion)

| Heads | Budget Estimates | Outturns in Three Months* | As percent of Budget Estimates |
|--------------------------|------------------|---------------------------|--------------------------------|
| Total Expenditure | 1315.2 | 171.0 | 13.0 |
| <i>Recurrent</i> | <i>845.4</i> | <i>149.6</i> | <i>17.7</i> |
| <i>Capital</i> | <i>314.0</i> | <i>18.8</i> | <i>6.0</i> |
| <i>Financial</i> | <i>155.7</i> | <i>2.6</i> | <i>1.7</i> |
| Revenue | 945.6 | 200.3 | 21.2 |

* On cash basis

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

Monetary Situation

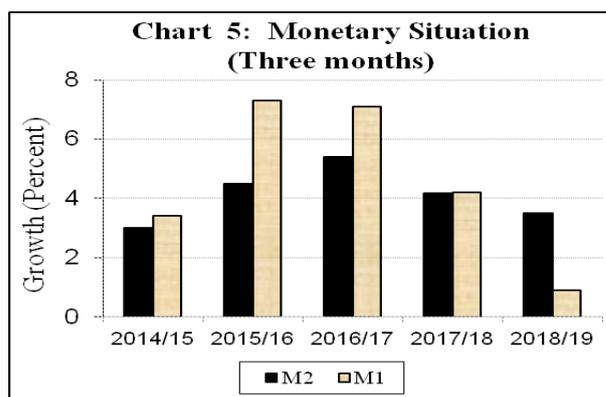
Money Supply

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

31. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss)

decreased Rs.35.42 billion (3.4 percent) in the review period compared to an increase of Rs. 4.27 billion (0.4 percent) in the corresponding period of the previous year.

32. Reserve money decreased 10.6 percent in the review period compared to a decrease of 6.0 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 2.8 percent in mid-October 2018.

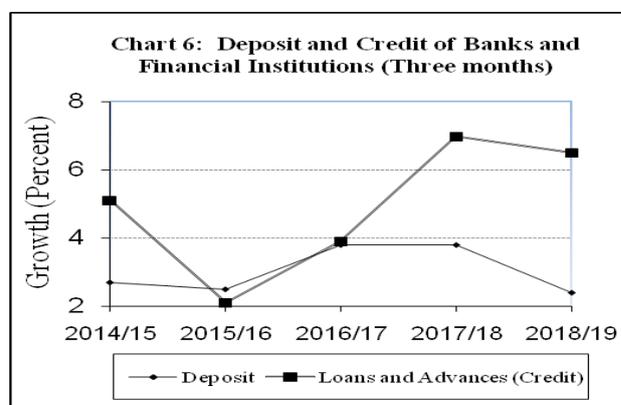


Domestic Credit

33. Domestic credit increased 4.5 percent in the review period compared to an increase of 0.7 percent in the corresponding period previous year. On y-o-y basis, domestic credit increased 29.6 percent in mid-October 2018.

34. Claims of monetary sector on the private

sector increased 7.3 percent in the review period compared to a growth of 4.8 percent in the corresponding period previous year. On y-o-y basis, such claims increased 25.2 percent.



Deposit Collection

35. Deposits at Banks and Financial Institutions (BFIs) increased 2.4 percent in the review period compared to a growth of 3.8 percent in the corresponding period previous year. On y-o-y basis, deposits at BFIs expanded 17.7 percent in mid-October 2018.

36. The share of demand, saving and fixed deposits in total deposits stands at 8.0 percent, 35.0 percent and 46.2 percent respectively in mid-October 2018. Such share was 8.3 percent, 36.1 percent and 42.5 percent respectively a year ago.

Table 5: Deposits at Banks and Financial Institutions (Percentage Share)

| Deposit | Mid-Jul | | | Mid-Oct | |
|---------|---------|------|------|---------|------|
| | 2016 | 2017 | 2018 | 2017 | 2018 |
| Demand | 9.1 | 8.7 | 9.3 | 8.3 | 8.0 |
| Saving | 43.3 | 35.4 | 34.5 | 36.1 | 35.0 |
| Fixed | 30.5 | 43.2 | 44.8 | 42.5 | 46.2 |
| Other | 17.0 | 12.7 | 11.3 | 13.0 | 10.9 |

37. The share of institutional deposits in total deposit of BFIs stands at 43.8 percent in mid-October 2018. Such share was 45.9 percent a year ago.

Credit Disbursement

38. Credit to the private sector from BFIs increased 7.2 percent in the review period compared to a growth of 4.6 percent in the corresponding period previous year. In the review period, private sector credit increased 7.2 percent from commercial banks, 8.0 percent from development banks and 3.8 percent from finance companies. On y-o-y basis, credit to the private sector from BFIs increased 25.5 percent in mid-October 2018.
39. Of the total outstanding credit of BFIs in mid-October 2018, 63.1 percent is against the collateral of land and building and 14.4 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 61.0 percent and 14.5 percent respectively a year ago.
40. In the review period, term loan extended by BFIs increased 8.8 percent , overdraft increased 4.1 percent, trust receipt (import) loan increased 10.1 percent, demand and working capital loan increased 12.1 percent, real estate loan (including residential personal home loan) increased 4.4 percent, margin nature loan increased 0.6 percent and hire purchase loan increased 2.8 percent.

Liquidity Management

41. In the review period, NRB mopped up Rs.95.35 billion liquidity through open market operations. Of which, Rs.79.65 billion was mopped up through deposit collection auction and Rs.15.70 billion through reverse repo auction on a cumulative basis. Rs.115.40 billion liquidity was mopped up in the corresponding period previous year.
42. In the review period, NRB injected net liquidity of Rs.80.75 billion through the net purchase of USD 699.1 million from foreign exchange market. Net liquidity of Rs.95.96 billion was injected through the net purchase of USD 930.1 million in the corresponding period previous year.
43. NRB purchased Indian currency (INR) equivalent to Rs.120.91 billion through the sale of USD 1.02 billion, Euro 16 million, GBP 20 million and Japanese Yen 10 billion in the review period. INR equivalent to Rs.88.47 billion was purchased through the sale of USD 860 million in the corresponding period previous year.

Refinance

44. Use of refinance facility provided by the NRB for expanding credit to the productive sector along with promoting export has increased in the review period. The outstanding refinance amounted to Rs.18.05 billion in mid-October 2018.
45. A sum of Rs.2.17 billion housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims as of mid-October 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 1274.

46. As of mid-October 2018, the number of beneficiaries from the 5 percent interest subsidized lending scheme of the GoN stood at 9563. They availed subsidized loans for selected agriculture and livestock businesses. Under this provision, Rs.14.12 billion loan extended by BFIs has been outstanding and Rs.679.2 million interest subsidy has been provided.

Inter-bank Transaction

47. In the review period, inter-bank transactions among commercial banks stood at Rs.336.87 billion and among other financial institutions (excluding transactions among commercial banks) amounted to Rs.32.44 billion. Such transactions were Rs.202.40 billion and Rs.7.08 billion respectively in the corresponding period of the previous year.

Interest Rates

48. The weighted average 91-day Treasury bills rate increased to 1.77 percent in the third month of 2018/19 from 1.18 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 1.13 percent a year ago, increased to 1.86 percent in the review month. Likewise, the average base rate of commercial banks increased to 10.23 percent in the review month from 10.08 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 677 levels as of mid-October 2018 (Table 6).

51. The total number of BFIs licensed by NRB increased to 154 in mid-October 2018 from 151 in mid-July 2018 (Table 7). In mid October 2018, the number of commercial banks is 28, development

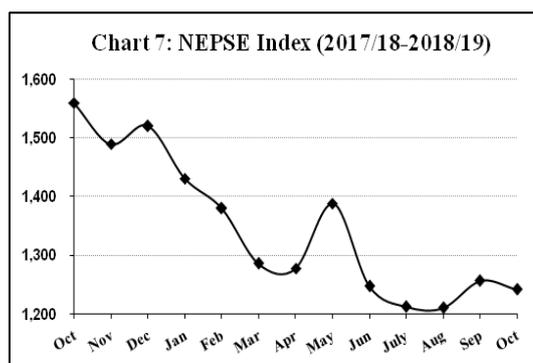
| Province | No. of Local Bodies | No. of Banks/ Branches |
|-----------------|----------------------------|-------------------------------|
| Province 1 | 137 | 119 |
| Province 2 | 136 | 131 |
| Province 3 | 119 | 111 |
| Gandaki | 85 | 82 |
| Province 5 | 109 | 107 |
| Karnali | 79 | 62 |
| Far West | 88 | 65 |
| Total | 753 | 677 |

banks 33, finance companies 24 and microfinance institutions 69. The branch network of BFIs expanded to 7014 in mid-October 2018 from 6651 in mid-July 2018.

| Bank and Financial Institutions | Number of BFIs | | Branches of BFIs | |
|---------------------------------|----------------|--------------|------------------|--------------|
| | Mid-Jul 2018 | Mid-Oct 2018 | Mid-Jul 2018 | Mid-Oct 2018 |
| Commercial Banks | 28 | 28 | 3023 | 3104 |
| Development Banks | 33 | 33 | 993 | 1057 |
| Finance Companies | 25 | 24 | 186 | 186 |
| Microfinance Institutions | 65 | 69 | 2449 | 2667 |
| Total | 151 | 154 | 6651 | 7014 |

Capital Market

52. The NEPSE index on y-o-y basis decreased 20.4 percent to 1241.6 points in mid-October 2018. This index had decreased 13.6 percent to 1559.2 points in mid-October 2017. Such index was 1212.4 points in mid-July 2018.



53. The stock market capitalization on y-o-y basis decreased 18.2 percent to Rs. 1481.22 billion in

mid-October 2018. This had decreased 9.4 percent a year ago. The ratio of market capitalization to GDP of 2017/18 stood at 49.3 percent in mid-October 2018. This ratio was 68.5 percent a year ago. In the total market capitalization, the share of banks, financial institutions and insurance companies stood at 80.9 percent, hydropower 4.3 percent, manufacturing and processing companies 2.7 percent, hotels 1.7 percent, trading 0.1 percent, and others 10.4 percent respectively.

54. During the third month of 2018/19, the total turnover of the securities decreased 45.2 percent to Rs. 22.92 billion compared to the corresponding period of the previous year. The turnover of the securities had decreased 44.1 percent to Rs. 41.85 billion in the third month of 2017/18.

55. The total number of companies listed at the NEPSE remained 198 in mid-October 2018. Of the listed companies, 147 are BFIs (including insurance companies), 18 manufacturing and processing industries, 21 hydropower companies, 4 each hotels and trading institutions and 4 other sectors.

56. On y-o-y basis, total paid-up value of the listed shares increased 20.9 percent to Rs. 360.99 billion in mid-October 2018. Total additional securities worth Rs. 11.32 billion were listed in the NEPSE during the review period. These consisted of ordinary shares of Rs. 3.05 billion, right shares of Rs. 3.12 billion and bonus shares of Rs. 5.16 billion.