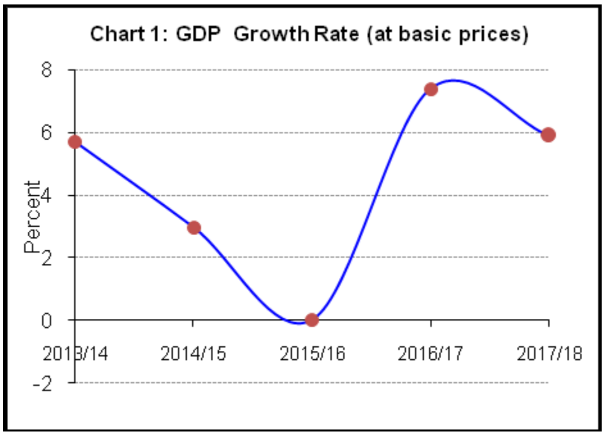
Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

(Based on Annual Data of 2017/18)

Macro-Financial Outlook



1. The recent national, international and monsoon related developments portend a mixed macro-financial outlook for 2018/19. On the domestic front, successful conclusion of elections, formation of governments and the formulation of budget at all three levels of governments have the potential to create a conducive environment for economic activities going forward. On top of this, monsoon rains have been timely and evenly. As a consequence of favourable monsoon, paddy plantation has been completed in more than 95 percent of paddy field, suggesting a good summer harvest this year.

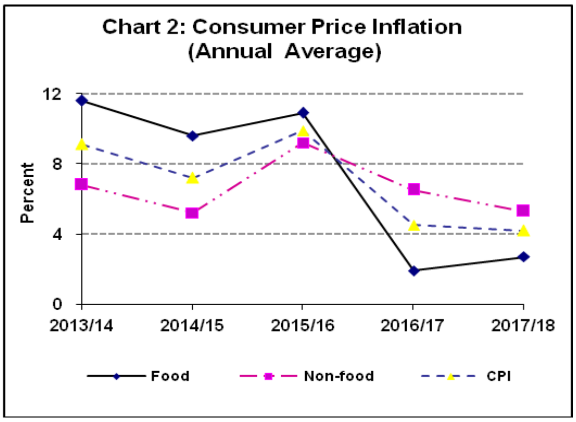
2. With a turnaround of paddy production from a negative growth of 1.5 percent in 2017/18, a pickup in agricultural growth in 2018/19 is likely to underpin the sustained rebound in overall GDP growth seen in the last two years. The real GDP estimates (at producers' prices) of Central Bureau of Statistics show the growth of 6.3 percent in 2017/18 and 7.9 percent in 2016/17.

3. Although the annual average consumer price inflation has moderated to 4.2 percent in 2017/18 from 4.5 percent a year ago, the year-on-year (y-o-y) consumer price inflation has been up at 4.6 percent in mid-July 2018 from 2.7 percent a year ago. This is reflective of recent global developments including exchange rate volatility with a risk of exerting inflationary pressures.

4. Current account deficit spiked to Rs.245 billion (8.2 percent of GDP) in 2017/18 from a deficit of Rs.10 billion (0.4 percent of GDP) in 2016/17. With intermittent deficits, country's overall balance of payments has returned to a surplus, albeit marginal of Rs.960 million in mid-July 2018.

5. Despite much hyped liquidity pressure, credit-offtake picked to 22.5 percent in 2017/18 from 18.2 percent in the preceding year. Compared to credit-offtake of 22.5 percent, deposit growth remained relatively lower at 19.2 percent in 2017/18, reflecting a tighter financial condition. The growth in inward remittances and the pace of capital spending are likely to shape the financial conditions going forward.

Inflation, Salary and Wage Rate



Consumer Inflation

6. The annual average consumer price inflation moderated to 4.2 percent in 2017/18 from 4.5 percent in the previous year. This rate of inflation is the lowest since 2004/05. Improvement in the supply-chain management and the lower rate of inflation in India contributed to the lower level of inflation in the review year.

7. The year-on-year (y-o-y) consumer price inflation, however, increased to 4.6 percent in mid-July 2018 from 2.7 percent a year ago. This is indicative of recent built up inflationary pressure.

8. In terms of ecological regions, the Mountain region witnessed a relatively higher annual average rate of inflation at 5.9 percent followed by Hilly region at 4.6 percent, Terai region at 4.4 percent and Kathmandu Valley at 3.3 percent in the review year. Such increments were 4.1 percent in the Mountain region, 6.4 percent in Hilly region, 4.4 percent in Terai region and 3.1 percent in Kathmandu Valley in the previous year.

Box 1: Projected and Actual Inflation

S.N.	Fiscal Year	Inflation	
		Projected	Actual
1	2002/03	4.0	4.7
2	2003/04	4.3	4.0
3	2004/05	4.0	4.5
4	2005/06	5.0	8.0
5	2006/07	6.0	5.9
6	2007/08	5.5	6.7
7	2008/09	7.5	12.6
8	2009/10	7.0	9.6
9	2010/11	7.0	9.6
10	2011/12	7.0	8.3
11	2012/13	7.5	9.9
12	2013/14	8.0	9.1
13	2014/15	8.0	7.2
14	2015/16	8.5	9.9
15	2016/17	7.5	4.5
16	2017/18	7.0	4.2

Inflation Wedge between Nepal and India

9. In mid-July 2018, the y-o-y consumer price inflation of Nepal was slightly higher at 4.6 percent compared to 4.2 percent in India showing inflation wedge of 0.4 percent. In the previous year, such inflation levels were lower at 2.7 percent in Nepal and 2.4 percent in India, reflecting a slightly narrower inflation wedge of 0.3 percent.

Wholesale Price Inflation

10. The annual average wholesale price inflation further decelerated to 1.7 percent in 2017/18 from 2.7 percent in the previous year. The annual average wholesale price indices of agricultural commodities declined 0.3 percent whereas the indices of domestic manufactured

commodities and imported commodities increased 5.3 percent and 4.1 percent respectively in the review year.

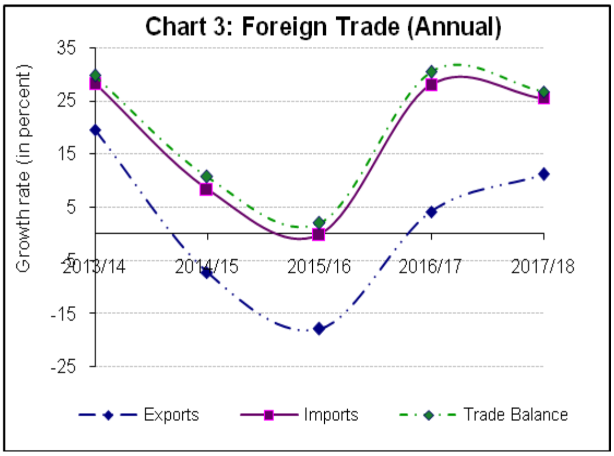
National Salary and Wage Rate

11. The growth in annual average salary and wage rate index moderated to 6.2 percent in the review year from 14.4 percent in the previous year. In the review year, the salary index was higher at 9.6 percent than the growth in wage rate index at 5.3 percent.

External Sector

Merchandise Trade

12. In 2017/18, merchandise exports increased 11.1 percent to Rs.81.19 billion compared to an increase of 4.2 percent in the same period of the previous year. Destination-wise, exports to India, China and other countries increased 12.4 percent, 43.3 percent and 7.5 percent respectively in the review year. Commodity wise, exports of cardamom, polyester yarn, sackings, zinc sheet, threads, among others, increased whereas export of G.I. pipes, twines, juice, woolen carpet, pashmina, among others, decreased in the review year.



13. The growth in merchandise imports remained elevated at 25.5 percent to Rs.1242.83 billion in the review year compared to an increase of 28 percent in the same period of the previous year. Source-wise, imports from India, China and other countries increased 27.8 percent, 25.5 percent and 19.3 percent respectively in the review year. Commodity-wise, imports of petroleum products, vehicles & spare parts, other machinery & parts, M.S. billet, Hot-rolled Sheet in Coil, among others, increased whereas imports of agri. equip. & parts, sanitary ware, edible oil, small cardamom, zinc ingot, among others, decreased in the review year.

14. Based on customs points, the exports through Birgunj Customs Office, Krishnagar Customs Office and Kanchanpur Customs Office decreased whereas exports from other customs points increased in the review year. On the import side, imports through Dry Port Customs Office and Kanchanpur Customs Office decreased whereas imports through other customs points increased in the review year.

Box 2: External Sector Indicators
As Percent of GDP

Description	2015/16	2016/17	2017/18	Average
Merchandise Exports	3.1	2.8	2.7	2.9
Merchandise Imports	34.3	37.5	41.3	37.7
Merchandise Trade Balance	-31.2	-34.7	-38.6	-34.9
Total Merchandise Trade	37.4	40.2	44.0	40.6
Travel Income	1.9	2.2	2.2	2.1
Workers' Remittances	29.5	26.3	25.1	27.0
Current Account Balance	6.2	-0.4	-8.2	-0.8
Foreign Exchange Reserve	46.1	40.8	36.7	41.2

* + surplus/-deficits

15. Total trade deficit widened 26.7 percent to Rs. 1161.64 billion in 2017/18. The export-import ratio declined to 6.5 percent in the review year from 7.4 percent a year ago.

Export-Import Price Index

16. The y-o-y unit value export price index based on customs data increased 10.3 percent while import price index increased 12.5 percent in mid-July 2018. Consequently, the TOT index decreased 2 percent compared to a decrease of 1.2 percent in the corresponding period of the previous year. Increase in price of export items such as carpet, pashmina, cardamom, black tea, catechu, among others caused the rise in export price index whereas uptick in the price of petroleum products, vehicles, tyres, refrigerator, laptop, among others resulted an increase in import price index in the review period.

Services

17. The total services receipts increased 12.1 percent and expenses rose 12.9 percent in the review year. As a result, net services surplus squeezed to Rs.2.07 billion in the review year from Rs.2.89 billion in the previous year.

18. Under the services account, travel receipts increased 14.6 percent to Rs.67.09 billion in the review year compared to a marked growth of 40.1 percent in the previous year. Similarly, travel payments squeezed narrowly 0.4 percent to Rs.79.60 billion in the review year as against a growth of 41.7 percent in the previous year.

Workers' Remittances

19. The workers' remittances increased 8.6 percent to Rs.755.06 billion compared to a growth of 4.6 percent in the previous year. However, the ratio of workers' remittances-to-GDP came down to 25.1 percent in the review year from 26.3 percent of the previous year.

20. The net transfer receipts increased 1.5 percent to Rs.864.67 billion in the review year. Such receipts had increased 9.5 percent in the previous year.

21. The number of Nepalese workers seeking foreign employment, based on labor approval, further fell 10.1 percent in the review year compared to a decline of 4.7 percent in the previous year. In the review year, the number of workers outbound to Malaysia, UAE, Kuwait increased while those to Saudi Arabia and Qatar declined.

Box 3: Outmigration for Foreign Employment

a) Institutional and Individual (New and Legalized)

Country	Number of Labor			Country wise Share (%)		
	2015/16	2016/17	2017/18	2015/16	2016/17	2017/18
Malaysia	60979	98437	104207	14.6	24.7	29
Qatar	129038	125892	103174	30.8	31.6	28.8
U.A.E.	52793	56526	60243	12.6	14.2	16.8
Saudi Arabia	138529	76884	40963	33.1	19.3	11.4
Kuwait	10049	13576	17555	2.4	3.4	4.9
Bahrain	3146	4007	4862	0.8	1	1.4
South Korea	7432	5804	4832	1.8	1.5	1.3
Oman	3059	3186	3059	0.7	0.8	0.9
Afghanistan	1419	1381	1442	0.3	0.3	0.4
Japan	3844	2251	761	0.9	0.6	0.2
Israel	189	130	122	0	0	0
Lebanon	167	140	22	0	0	0
Others	8069	10764	17573	1.9	2.7	4.9
Total	**418713**	**398978**	**358815**	**100**	**100**	**100**
% Change	-18.4	-4.7	-10.1		-	-
b) Renew Entry						
Renew Entry	**238098**	**260252**	**258602**	-	-	-
% Change	15.5	9.3	-0.6	-	-	-

Source: Department of Foreign Employment. (Based on monthly progress report)

Current Account and BOP

22. The current account deficit showed a marked expansion to Rs.245.22 billion in the review year compared to a narrow deficit of Rs.10.13 billion in the previous year. The surge in current account deficits was on account of the elevated level of import of petroleum products, transport equipments and parts, and industrial goods. The overall balance of payments (BOP) recorded a surplus of Rs.960.2 million in the review year compared to a surplus of Rs.82.11 billion in the previous year.

23. Capital transfer, which had amounted to Rs.13.36 billion in the previous year, increased to Rs.17.72 billion in the review year.

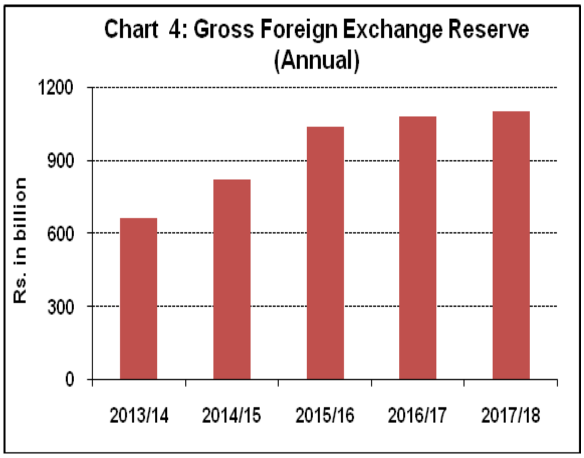
Box 4: External Sector (USD)*

1. In the US dollar terms, total merchandise exports and imports increased 15.5 percent and 27.3 percent respectively in the review year. Exports and imports had increased 9.9 percent and 30 percent respectively in the previous year.
2. In the review year, travel receipts increased 16.4 percent and worker's remittance rose 10.2 percent. Such growth rates were 40.6 percent and 4.8 percent respectively in the previous year.
3. Current account deficits recorded USD 2.34 billion in the review year compared to USD 93.5 million in the previous year. Likewise, BOP recorded a deficit of USD 1.1 million in the review year in contrast to the surplus of USD 777.1 million in the previous year.

24. The foreign direct investment (FDI) inflows of Rs.17.51 billion were recorded in the review year. The significant portions of inflows were observed in the energy, cement and hotel industries. The FDI inflows were Rs.13.50 billion in the previous year.

Foreign Exchange Reserves

25. The gross foreign exchange reserves increased 2.1 percent to Rs.1102.59 billion as at mid-July 2018 from Rs.1079.43 billion in mid-July 2017. The share of reserves held by NRB increased 6.7 percent to Rs.989.40 billion as at mid-July 2018 from Rs.927.27 billion a year ago. The share of Indian currency in total reserves stood at 23.8 percent as at mid-July 2018.



Foreign Exchange Adequacy Indicators

26. Based on the imports of 2017/18, the foreign exchange holding of the banking sector is sufficient to cover the prospective merchandise imports of 10.8 months, and merchandise and services imports of 9.4 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 36.7 percent, 78.6 percent and 35.6 percent respectively as at mid-July 2018. Such ratios were 40.8 percent, 95.2 percent and 41.6 percent as at mid-July 2017.

International Investment Position (IIP)

27. Foreign assets and liabilities of the country stood at Rs.1138.24 billion and Rs.819.97 billion respectively as at mid-July 2018. Accordingly, the net IIP remained in surplus of Rs.318.27 billion as at mid-July 2018. Such surplus was Rs.430.76 billion a year ago.

Price of Oil and Gold

28. The price of oil (Crude Oil Brent) in the international market increased 48.3 percent to USD 71.03 per barrel in mid-July 2018 from USD 47.89 per barrel a year ago. The price of gold increased 0.9 percent to USD 1241.10 per ounce in mid-July 2018 from USD 1230.30 per ounce a year ago.

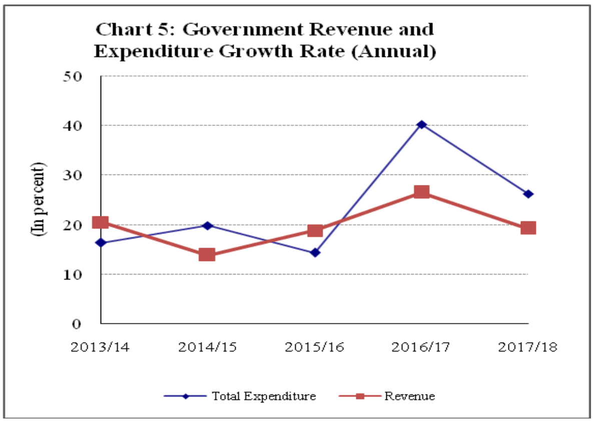
Exchange Rate

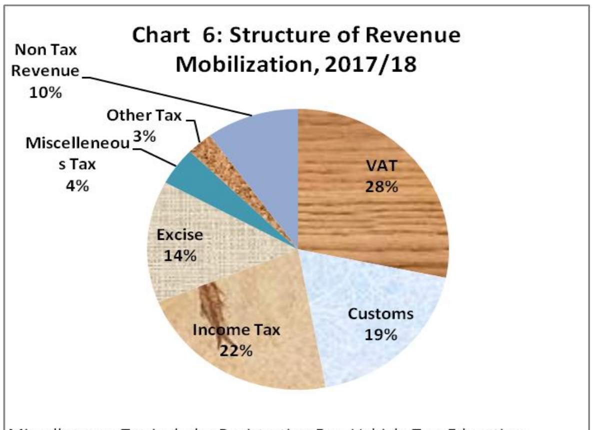
29. Nepalese currency vis-à-vis the US dollar depreciated 5.9 percent in mid-July 2018 from the level of a year ago. It had appreciated 3.8 percent in the previous year. The buying exchange rate per US dollar stood at Rs.109.34 in mid-July 2018 compared to Rs.102.86 a year ago.

Fiscal Situation*

Government Revenue

30. The government revenue increased 19.2 percent to Rs.726.08 billion in 2017/18. The revenue collection is 99.5 percent of the budget target of Rs.730.06 billion. However, the government revenue receipt amounted to Rs.732.23 billion including the previous year's cash balance and irregularities. The revenue had recorded a growth of 26.4 percent to Rs.609.12 billion in 2016/17. Revenue-to-GDP ratio increased to 24.1 percent in the review year from 23.0 percent in 2016/17. (Box 6)





Miscelleneous Tax includes Registration Fee, Vehicle Tax, Education Service Tax and Health Service Tax

31. Of the total revenue mobilization, VAT revenue increased 29.0 percent to Rs.206.79 billion in 2017/18. Such revenue had increased 31.0 percent to Rs.160.32 billion in 2016/17.

32. Income tax revenue increased 7.9 percent to Rs.159.90 billion in 2017/18 compared to an increase of 26.3 percent to Rs.148.24 billion in the previous year.

33. In 2017/18, customs revenue rose 21.7

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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, 52 branches of NIC Asia Bank Limited, 25 branches of Agriculture Development Bank Limited, 16 branches of Global IME Bank Limited, 12 branches of Everest Bank Limited, 10 branches of Nepal Investment Bank Limited, 8 branches of NMB Bank Limited, 7 branches of Nepal Bangladesh Bank Limited, 5 branches each of Bank of Kathmandu Limited, Citizens Bank International Limited and Siddhartha Bank Limited , 3 branches each of Civil Bank Limited, Prabhu Bank Limited, Janata Bank Limited and Machhapuchhre Bank Limited, 2 branches each of Sanima Bank Limited and Prime Commercial Bank Limited, and 1 branch each of Century Commercial Bank Limited and Mega Bank Limited conducting government transactions and release report from 81 DTCOs and payment centres.

percent to Rs.137.79 billion compared to a rise of 37.8 percent to Rs.113.18 billion in the previous year.

34. In the review year, excise revenue increased 21.1 percent to Rs.102.58 billion compared to an increase of 28.7 percent to Rs.84.68 billion in the previous year.

35. Among the components of revenue, VAT accounted for 28.2 percent followed by income tax (21.8 percent), customs (18.8 percent), and excise duties (14.0 percent). In the previous year, their shares were 26.3 percent, 24.3 percent, 18.6 percent and 13.9 percent respectively.

36. In the review year, non-tax revenue increased 17.9 percent to Rs.72.74 billion compared to an increase of 1.4 percent to Rs.61.69 billion in the previous year.

37. Of the total revenue, the share of tax revenue and non-tax revenue stood at 90.1 percent and 9.9 percent respectively in the review year. In the previous year, the shares of tax and non-tax revenue in the total revenue were 89.9 percent and 10.1 percent respectively. While the share of direct tax in total tax revenue decreased to 32.2 percent in 2017/18 from 34.6 percent in the previous year, the share of indirect tax revenue increased to 67.8 percent from 65.4 percent a year ago.

Government Expenditure

38. Government expenditure, on cash basis, increased 26.2 percent to Rs.1029.02 billion in 2017/18 compared to an increase of 40.2 percent to Rs.815.70 billion in the previous year.

39. In the review year, recurrent expenditure increased 32.4 percent to Rs.680.31 billion compared to a growth of 40.9 percent in the preceding year. Such expenditure stood at 84.7 percent of the budget estimate.

40. In the review year, capital expenditure increased 20.4 percent to Rs.239.91 billion compared to a growth of 72.2 percent in the previous year. The capital expenditure in the review year accounted for 71.6 percent of the budget estimate of Rs.335.18 billion.

41. In the review year, financial expenditure increased 5.8 percent to Rs.108.80 billion. The financial spending accounted for 77.6 percent of the budget estimate.

Box 5: The Budget Performance in 2017/18∗

Rs. in billion

Heads	Budget Estimates	Annual Outturns**	As % of Budget Estimates
Total Expenditure	1278.99	1029.02	80.5
Recurrent	*803.53*	*680.31*	*84.7*
Capital	*335.18*	*239.91*	*71.6*
Financial	*140.29*	*108.80*	*77.6*
Revenue	730.06	726.08	99.5

∗Cash basis, ** Preliminary Source: Nepal Rastra Bank

Box 6: Major Fiscal Indicators*

(As Percent of GDP)

Heads	**2015/16**	**2016/17**	**2017/18****
Total Expenditure	**25.8**	**30.9**	**34.2**
Recurrent	16.2	19.4	22.6
Capital	5.1	7.5	8.0
Revenue	**21.4**	**23.0**	**24.1**
Tax Revenue	18.7	20.9	21.8
Budget Deficit	**–2.5**	**–7.1**	**–8.9**

* Cash basis, ** Preliminary Source: Nepal Rastra Bank

Budget Deficit

42. In the review year, budget deficit on cash basis increased to Rs.268.85 billion from Rs.188.69 billion in 2016/17. The ratio of budget deficit-to-GDP stood at 8.9 percent in the review year (Box 6).

Sources of Deficit Financing

43. The GON resorted to gross domestic borrowing of Rs.144.75 billion and made a repayment of Rs.37.56 billion domestic debt in 2017/18, thus having a net borrowing of Rs.107.19 billion (3.6 percent of GDP). Gross domestic borrowing of Rs.88.34 billion was mobilized in the previous year. The GoN maintained a cash balance of Rs.126.15 billion at NRB at the end of 2017/18. Such balance was Rs.106.27 billion a year ago.

Box 7: Government Debt Situation

	Public Debt Indicators	2015/16	2016/17	2017/18
1	Total Debt/ GDP	27.4	26.4	29.7
2	External Debt/ GDP	17.0	15.7	16.7
3	Domestic Debt/ GDP	10.4	10.7	13.0
4	External Debt/ Exports	510.9	504.1	539.8
5	External Debt Servicing/ Exports	28.2	31.6	24.1
6	Total Debt Servicing/ Revenue	15.9	11.7	9.9
7	Domestic Debt Servicing/ Revenue	11.6	7.4	6.8
8	External Debt Servicing/ Revenue	4.4	4.3	3.1

Note: IMF Promissory Note and overdraft amount are not included in domestic debt.
Source: FCGO and NRB

44. As per the preliminary estimates of FCGO, the GON resorted to gross foreign borrowing of Rs.93.40 billion (3.1 percent of GDP) in 2017/18 compared to Rs 214 billion as estimated in budget of 2017/18. Gross foreign borrowing of Rs.58.01 billion was mobilized in the previous year. The GoN made a repayment of Rs.18.59 billion foreign debt in 2017/18. Such repayment was Rs.22.70 billion a year ago.

Government Debt

45. The total government debt amounted to Rs.894.53 billion in mid-July 2018, which is 29.7 percent of GDP. Such ratio was 26.4 percent a year ago (Box 7). Of the total outstanding public debt, the amount of foreign and domestic debt stood at Rs.503.63 billion and Rs.390.90 billion respectively.

Revenue Rights and Revenue Sharing in the Federal Structure

46. As per the provision of the Constitution of Nepal, 2015, Inter-governmental Fiscal Arrangement Act, 2017 has been enacted to provide necessary provisions regarding revenue rights, revenue sharing, grants, loans, budget arrangements, public expenditures, and fiscal discipline of the federal, provincial and the local governments.

Box 8: Revenue Rights and Revenue Sharing

S.N.	Revenue	Revenue Rights	Revenue Sharing		
			Federal	Province	Local Level
1	Value Added Tax	Federal	70	15	15
2	Excise (Domestic Production)	Federal	70	15	15
3	Other Excise	Federal	100	-	-
4	Income Tax	Federal	100	-	-
5	Customs	Federal	100	-	-
6	Vehicle Tax	Province	-	60	40
7	House and Land Registration Tax	Province	-	40	60
8	Entertainment Tax	Province	-	40	60
9	Advertisement Tax	Local	-	40	60
10	Tax on Agriculture Income	Province	-	100	-
11	Property Tax	Local	-	-	100
12	House Rent Tax	Local	-	-	100
13	Land Tax	Local	-	-	100
14	Business Tax	Local	-	-	100
15	Royalty from Natural Resources	Federal	50	25	25

Source: Inter-governmental Fiscal Arrangement Act, 2017

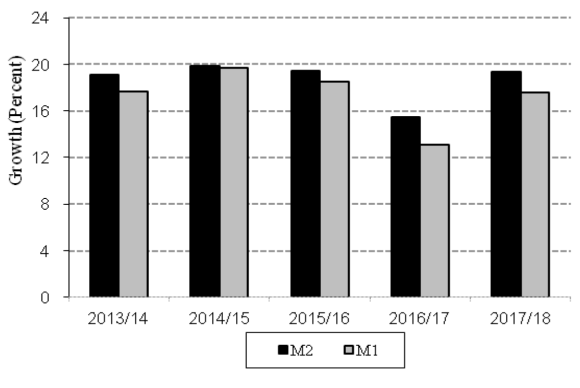
Monetary Situation

Money Supply

47. Broad money (M2) increased 19.4 percent in 2017/18 compared to 15.5 percent in the previous year.

48. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs.0.96 billion (0.1 percent) in the review year compared to an increase of Rs.82.11 billion (8.6 percent) in the previous year.

Chart 7: Monetary Situation (Annual)

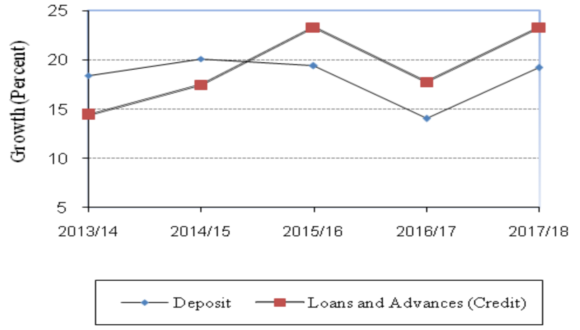


49. Reserve money growth moderated to 8.1 percent in the review year compared to a rise of 20.1 percent in the previous year.

Domestic Credit

50. Domestic credit expanded 24.9 percent in the review year compared to a growth of 20.6 percent in the previous year. Claims on private sector increased 22.3 percent in the review year compared to a growth of 18.0 percent in the previous year.

Chart 8: Deposit and Credit of Banks and Financial Institutions (Annual)



Deposit Collection

51. Deposits at Banks and Financial Institutions (BFIs) increased 19.2 percent in the review year

compared to an increase of 14.0 percent in the previous year. Of the total deposits at BFIs, while the share of saving deposits fell to 34.5 percent from 35.4 percent, the share of demand deposits increased to 9.3 percent from 8.7 percent and fixed deposits increased to 44.8 percent in mid-July 2018 from 43.2 percent a year ago.

Credit Disbursement

52. Credit to the private sector from BFIs increased 22.5 percent in the review year compared to a rise of 18.2 percent in the previous year. In the review year, private sector credit from commercial banks, development banks and finance companies increased 22.3 percent, 25.6 percent and 16.1 percent respectively.

53. Credit to the agriculture sector increased 50.8 percent, industrial production sector 20.6 percent, construction sector 19.3 percent, wholesale and retail trade sector 22.4 percent, service sector industries 26.3 percent and transport, communication and public sector 26.7 percent in the review year.

54. Of the total outstanding credit of BFIs, 61.7 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 60.9 percent and 13.9 percent respectively in the previous year.

55. Trust receipt (T.R.) loan extended by commercial banks increased 76.5 percent to Rs.113.87 billion in the review year as against the decrease of 11.2 percent in the previous year.

56. The growth in hire purchase lending was at 14.5 percent and overdraft at 14.4 percent in the review year. Similarly, residential personal home loan (up to Rs.15 million) increased 20.2 percent and real estate loan (including residential personal home loan) grew 17.0 percent.

Liquidity Management

57. In the review year, Rs.107.34 billion liquidity was injected through open market operations from time to time. Under this provision, NRB injected liquidity of Rs.69.72 billion through repo auction and Rs.37.62 billion liquidity was availed through outright purchase auction. Likewise, the BFIs used Rs.38.33 billion standing liquidity facility (SLF) in 2017/18.

58. In the review year, the NRB injected net liquidity of Rs.422.34 billion through the net purchase of USD 4.05 billion from foreign exchange market. Net liquidity of Rs.435.86 billion was injected through the net purchase of USD 4.11 billion in the previous year.

59. In 2017/18, the NRB mopped up Rs.195 billion through open market operations. In the previous year, Rs.124.45 billion liquidity was mopped up.

60. The NRB purchased Indian currency (INR) equivalent to Rs.522.03 billion through the sale of USD 4.76 billion, Euro 59 million and GBP 110 million in the review year. INR equivalent to Rs.451.89 billion was purchased through the sale of USD 4.12 billion and Euro 120 million in the previous year.

Refinance and Productive Sector Lending

61. The utilization of refinance facility provided by NRB to BFIs increased significantly in 2017/18. The outstanding amount reached Rs.12.23 billion in mid-July 2018 compared to Rs.6.94 billion in mid-July 2017.

62. A sum of Rs.1.79 billion housing loan at a concessional interest rate of 2 percent has been extended by the BFIs to the earthquake victims so far. The number of earthquake victims utilizing such loans reached 1067. Until last year, Rs.799 million housing loan in this category was extended. NRB provides refinance facility to BFIs at a zero percent interest to extend housing loan to earthquake victims.

Inter-bank Transaction

63. In 2017/18, inter-bank transactions of commercial banks stood at Rs.1161.31 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs.49.43 billion. Such transactions were Rs.1062.04 billion and Rs.381.02 billion respectively in the previous year.

Interest Rates

64. The weighted average 91-day Treasury Bill rate increased to 3.74 percent in the last month of 2017/18 from 0.71 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.64 percent a year ago, increased to 2.96 percent in the review month. However, the weighted average inter-bank rate among other financial institutions increased to 5.40 percent from 4.47 percent a year ago.

65. The weighted average deposit rate of commercial banks stood at 6.49 percent and lending rate at 12.47 percent in the review month. Such rates were 6.15 percent and 11.33 percent a year ago. Similarly, the average base rate of commercial banks increased to 10.47 percent in the review month from 9.89 percent a year ago.

Merger/Acquisition

66. The number of BFIs involved in merger and acquisition has been increasing after the introduction of merger/acquisition policy aimed at consolidating financial sector. 162 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 121 BFIs was revoked thereby forming 41 BFIs.

Financial Access

67. The total number of BFIs licensed by NRB stands 151 in mid-July 2018 from 149 a year ago (Box 9). As of mid-July 2018, the number of commercial banks stood at 28, development banks 33, finance companies 25 and microfinance institutions 65. The branch network of BFIs expanded to 6651 in mid-July 2018 from 5068 a year ago.

Box 9: Number of BFIs/ Number of Branches

Bank and Financial Institutions	Number of BFIs		Branches of BFIs	
	Mid-July		Mid-July	
	2017	2018	2017	2018
Commercial Banks	28	28	2274	3023
Development Banks	40	33	769	993
Finance Companies	28	25	130	186
Microfinance Institutions	53	65	1895	2449
Total	149	151	5068	6651

68. Of the total 753 local levels, commercial banks extended their branch network in 631 levels as of mid-July 2018 (Box 10).

Box 10: Presence of Commercial Banks in Local Levels

Province	No. of Local Levels	Presence of Banks		
		Mid-July 2017	Mid-July 2018	Change
Province 1	137	58	112	54
Province 2	136	47	122	75
Province 3	119	58	107	49
Gandaki	85	34	74	40
Province 5	109	56	99	43
Karnali	79	16	54	38
Province 7	88	27	63	36
Total	753	296	631	335

Deposit and Credit Guarantee

69. Deposit and Credit Guarantee Fund (GCGF) has guaranteed saving, current, call and fixed deposits amounting to Rs.430.74 billion of 19.3 million accounts of natural persons maintained at 89 BFIs as of mid-July 2018. A year ago, Rs.381.89 billion deposits of 15.3 million account holders was guaranteed.

70. DCGF has guaranteed micro and deprived sector loan, small and medium enterprises loan and agriculture loan of BFIs amounting to Rs.12.35 billion as of mid-July 2018 compared to Rs.9.46 billion loans a year ago.

Blacklisted Borrowers

71. The number of borrowers blacklisted by Credit Information Bereau (CIB) on the request of BFIs is on the rise in recent years. The number of blacklisted borrowers reached 6241 in mid-July 2018 from 5247 a year ago (Box 11). This calls for BFIs to be more cautious on screening borrowers.

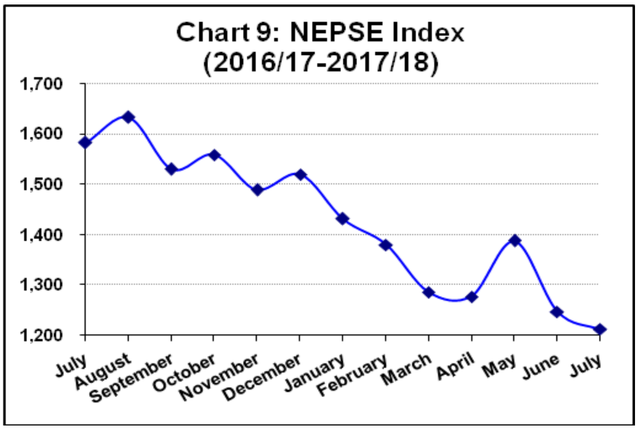
Box 11: Number of blacklisted borrowers

F.Y.	Number
2013/14	3609
2014/15	4260
2015/16	4785
2016/17	5247
2017/18	6241

Source: Credit Information Bureau

Capital Market

72. The NEPSE index on y-o-y basis decreased 23.4 percent to 1212.4 points in mid-July 2018. This index had decreased 7.9 percent to 1582.7 points in mid-July 2017.



73. The stock market capitalization on y-o-y basis decreased 22.7 percent to Rs.1435.14 billion in mid-July 2018. This had increased 1.8 percent a year ago. The ratio of market capitalization to GDP stood at 47.7 percent in mid-July 2018. This ratio was 70.3 percent a year ago. Of the total market capitalization, the share of banks, financial institutions and insurance companies stood at 80.5 percent, hydropower 4.7 percent, manufacturing and processing companies 2.8 percent, hotels 1.7 percent, trading 0.1 percent, and others 10.2 percent respectively.

74. During the twelfth month of 2017/18, the total turnover of the securities decreased 46.2 percent to Rs.6.63 billion compared to the corresponding period of the previous year. The turnover of the securities had decreased 61 percent to Rs.12.33 billion in the twelfth month of 2016/17.

75. The total number of companies listed at the NEPSE decreased to 196 in mid-July 2018 from 208 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.

76. On y-o-y basis, total paid-up value of the listed shares increased 21.6 percent to Rs.352.09 billion in mid-July 2018. Total additional securities worth Rs.131.53 billion were listed in the NEPSE during the review period. These consisted of ordinary shares of Rs.30.83 billion, right shares of Rs.36.14 billion, bonus shares of Rs.27.47 billion and government securities of Rs.36.47 billion.