

Current Macroeconomic and Financial Situation of Nepal

(Based on Annual Data of 2018/19)

Major Highlights

- GDP is estimated to have grown 7.1 percent.
- Inflation remained 4.6 percent on annual average.
- Import expanded 13.9 percent and export 19.4 percent. Such growth was 25.8 percent and 11.4 percent respectively last year.
- Remittance increased 16.5 percent in Rs and 7.8 percent in USD.
- Balance of Payments recorded a deficit of Rs.67.40 billion compared to a surplus of Rs. 0.96 billion last year.
- Gross foreign exchange reserves stood at Rs.1038.92 billion, which is sufficient to cover the prospective merchandise and services imports for 7.8 months. Such reserve was Rs.1102.59 billion a year ago.
- Government spending and revenue collection based on banking transactions amounted to Rs.1067.67 billion (According to latest update as of September 2, 2019) and Rs.865.55 billion respectively.
- Broad money expanded 15.8 percent on y-o-y basis.
- Deposits at Banks and Financial Institutions increased 18.0 percent and bank credit to the private sector 19.4 percent.
- Total deposits at BFIs stood at Rs. 3235 billion and credit to the private sector of such institutions amounted to Rs. 2866 billion. Paid up capital of these institutions stood at Rs. 305.9 billion.

Real Sector

1. Gross Domestic Product is estimated to have grown 7.1 percent in 2018/19. Agriculture, industry and service sectors estimated to grow 5.0 percent, 8.2 percent and 7.3 percent respectively.
2. Share of agriculture, industry and service sectors in GDP stands 27 percent, 15.2 percent and 57.8 percent respectively in 2018/19 (Table 1).
3. Gross domestic saving to GDP stands 20.5 percent in 2018/19. Ratio of gross capital formation, gross fixed capital formation and gross national saving to GDP stands 62.3 percent, 36.9 percent and 52.4 percent respectively.
4. Tourists arrival increased 23.9 percent to 12,38,589 in 2018/19.

Table 1: Share in GDP (Percent)			
Sectors	2016/17	2017/18R	2018/19P
Agriculture*	29.6	28.1	27.0
Industry	14.5	14.9	15.2
Service	55.9	57.0	57.8
Real GDP Growth			
GDP growth	8.2	6.7	7.1
Agriculture*	5.2	2.8	5.0
Industry	12.4	9.6	8.2
Service	8.1	7.2	7.3
* Agriculture, Forestry and Fishing			
P: Preliminary estimation.			
R: Revised estimation			
Source: Central Bureau of Statistics			

Inflation

Consumer Price Inflation

5. The average consumer price inflation stood at 4.6 percent in 2018/19 compared to 4.2 percent a year ago.

Food and Beverage Inflation

6. The annual average food and beverage inflation stood at 3.1 percent in 2018/19 compared to 2.7 percent a year ago.

Non-food and Service Inflation

7. The annual average non-food and services inflation stood at 5.9 percent in 2018/19 compared to 5.3 percent a year ago.

Region-wise Consumer Price Inflation

8. The Hilly region witnessed 5.0 percent inflation followed by 4.9 percent in the Mountain, 4.9 percent in the Kathmandu Valley and 4.3 percent in the Terai. These regions had witnessed 4.6 percent, 5.9 percent, 3.3 percent and 4.4 percent inflation respectively in the previous fiscal year.

Inflation in Nepal and India

9. The y-o-y consumer price inflation in Nepal in the 12th month of 2018/19 remained 6 percent. Such inflation in India in July 2019 was 3.15 percent.

Wholesale Price Inflation

10. The y-o-y wholesale price inflation stood at 5.4 percent in the 12th month of 2018/19 compared to 2.1 percent a year ago.

National Salary and Wage Rate Index

11. The y-o-y salary and wage rate index increased 9.1 percent in the 12th month of 2018/19 compared to 6.8 percent a year ago. The salary index increased 6.6 percent and the wage rate index 9.8 percent.

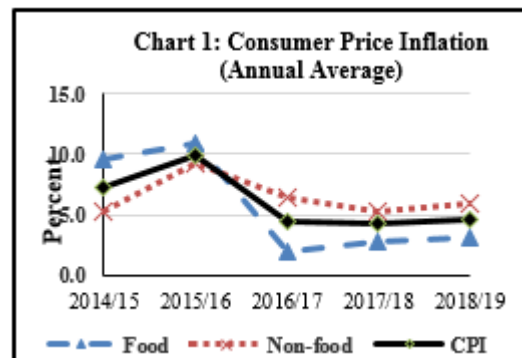


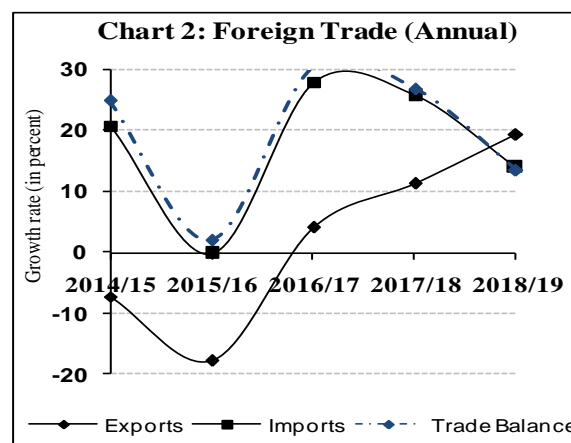
Table 2: Annual Average Inflation

Particulars	Percent	
	2017/18	2018/19
Consumer Price Inflation	4.2	4.6
Food and Beverage Inflation	2.74	3.09
1. Cereal grains	2.47	5.34
2. Meat and Fish	2.22	4.48
3. Fruits	3.77	6.21
4. Ghee and Oil	2.42	6.34
Non-Food and Service Inflation	5.26	5.86
1. Housing and Utilities	6.82	7.68
2. Clothes and Footwear	5.94	6.75
3. Transportation	1.92	6.26
4. Furnishing and Household Equipment	3.74	5.71

External Sector

Merchandise Trade

12. Merchandise exports increased 19.4 percent to Rs.97.11 billion in Fiscal Year 2018/19, compared to an increase of 11.4 percent a year ago. Destination-wise, exports to India and other countries increased 34.3 percent and 0.2 percent respectively whereas exports to China decreased 13.5 percent. Mainly exports of palm oil, polyester yarn, jute goods, pulses, noodles, among others, increased whereas exports of cardamom, readymade garment, pashmina, shoes and sandals, tanned skin, among others, decreased in the review year.



13. In Fiscal Year 2018/19, merchandise imports increased 13.9 percent to Rs.1418.54 billion compared to an increase of 25.8 percent in the previous year. Destination-wise, imports from India, China and other countries increased 12.8 percent, 28.5 percent and 8.9 percent respectively. Commodity-wise, import of petroleum products, readymade garment, electrical goods, other machinery and parts, M.S. billet, among others, increased. However, imports of cement, transportation equipment and parts, telecommunication equipment and parts, medical equipment and tools, polythene granules, among others, decreased.
14. Based on customs points, exports from Dry Port Customs Office and Krishnanagar Customs Office decreased whereas exports from other major customs points increased. On the import side, imports from Krishnanagar Customs Office decreased whereas imports from other major customs points increased in the review year.
15. Total trade deficit widened 13.5 percent to Rs.1321.43 billion in 2018/19. Such deficit stands 38.1 percent of GDP. The export-import ratio increased marginally to 6.8 percent in the review year from 6.5 percent in the corresponding period of the previous year.

Export-Import Price Index

16. The y-o-y unit value export price index based on customs data increased 0.8 percent and import price index decreased 2.3 percent in mid-July 2019. The terms of trade (ToT index) increased 3.2 percent in the review month against a decrease of 2.0 percent in the corresponding month of the previous year.

Services

17. Net service income remained at a deficit of Rs.16.52 billion in the review year against a surplus of Rs.2.27 billion a year ago.
18. Under the service account, travel income increased 9.7 percent to Rs.73.57 billion in the review year. Such income was Rs.67.09 billion in the previous year.

19. Under the service account, travel payments increased 12.5 percent to Rs.89.58 billion, including Rs.46.32 billion for education. Travel payment was Rs.79.60 billion in the previous year.

Transfers

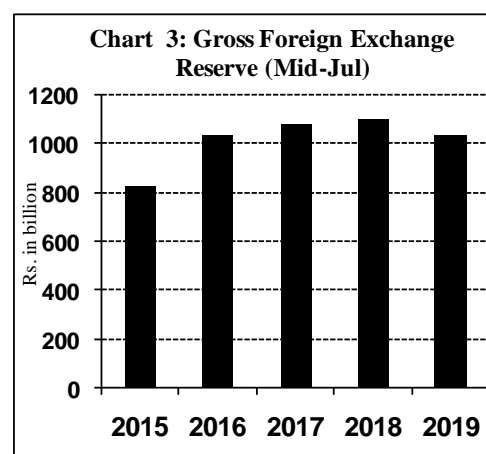
20. Remittance inflows increased 16.5 percent to Rs.879.27 billion in the review year compared to an increase of 8.6 percent in the previous year. In the US Dollar terms, such inflows increased 7.8 percent in the review year compared to 10.2 percent in the corresponding period of the previous year.
21. Net transfer receipt increased 15.0 percent to Rs.994.79 billion in the review year. Such receipt had increased 1.5 percent in the previous year.
22. Number of Nepalese workers (institutional and individual-new and legalized) migrated for foreign employment decreased 32.6 percent in the review year. It had decreased 9.3 percent in the previous year. The number of Nepalese workers migrated for foreign employment based on renew entry however increased 5.4 percent in the review year. It had decreased 0.6 percent in the previous year.

Current Account and BOP Position

23. The current account registered a deficit of Rs.265.37 billion in the review year. Such deficit was Rs.247.57 billion in the previous year. In the US Dollar terms, the current account deficit marginally narrowed down to 2.35 billion in the review year from 2.37 billion a year ago.
24. Balance of Payments (BOP) remained at a deficit of Rs.67.40 billion in the review year compared to a surplus of Rs.0.96 billion in the previous year. In the US Dollar terms, the overall BOP recorded a deficit of 591 million in the review year compared to a deficit of 1.1 million in the previous year.
25. Capital transfer and net foreign direct investment (FDI) amounted to Rs.15.46 billion and Rs.13.07 billion respectively in 2018/19. In the previous year, capital transfer and FDI stood at Rs.17.72 billion and Rs.17.51 billion respectively.

Foreign Exchange Reserve

26. Gross foreign exchange reserves decreased to Rs.1038.92 billion as on mid-July 2019 from Rs.1102.59 billion in the previous year. In the US Dollar terms, the gross foreign exchange reserves remained 9.50 billion as on mid-July 2019 from 10.08 billion in the previous year.
27. Of the total foreign exchange reserves, reserves held by NRB decreased to Rs.902.44 billion in mid-July 2019 from Rs.989.40 billion a year ago. However, reserves held by banks and financial institutions (except NRB) increased to Rs.136.47 billion in mid-July 2019 from Rs.113.19 billion a year ago. The share of the Indian currency in total reserves stood at 23.6 percent as on mid-July 2019.



Foreign Exchange Adequacy Indicators

28. Based on the imports of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports for 8.9 months, and merchandise and services imports for 7.8 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 30.0 percent, 64.9 percent and 29.0 percent respectively in mid-July 2019. Such ratios were 36.4 percent, 78.6 percent and 35.6 percent respectively a year ago.

International Investment Position (IIP)

29. Foreign assets and liabilities of the country stood at Rs.1080.10 billion and Rs.921.94 billion respectively as on mid-July 2019. Accordingly, the net IIP remained in surplus by Rs.158.16 billion as on mid-July 2019. Such surplus was Rs.282.12 billion in mid-July 2018.

Price of Oil and Gold

30. The price of oil (Crude Oil Brent) in the international market decreased 7.3 percent to USD 65.87 per barrel in mid-July 2019 from USD 71.03 per barrel a year ago. The price of gold increased 13.6 percent to USD 1409.85 per ounce in mid-July 2019 from USD 1241.10 per ounce a year ago.

Exchange Rate

31. Nepalese currency vis-à-vis the US dollar depreciated 0.02 percent in mid-July 2019 from mid-July 2018. It had depreciated 5.9 percent in the previous year. The buying exchange rate per USD stood at Rs.109.36 in mid-July 2019 compared to Rs.109.34 in mid-July 2018. In the review year, buying exchange rate per USD reached maximum Rs.118.73 on October 10, 2018.

Fiscal Situation*

Government Expenditure and Revenue

32. Total expenditure of the federal government based on banking transactions stood at Rs.1067.67 billion in the review period.** Total government expenditure was Rs.1066.18 billion in the corresponding period of the previous year.
33. Revenue collection (including the amount to be transferred to provincial and local governments) stood at Rs.865.55 billion in the review period. Total government revenue was Rs.726.72 billion in the corresponding period of the previous year.

Debt Mobilization

34. GoN mobilized domestic debt of Rs.96.38 billion and made a payment of Rs. 34.31 billion thereby mobilizing net domestic debt of Rs.62.07 billion in 2018/19. Net domestic debt mobilization in the review year stands at 1.8 percent of GDP.

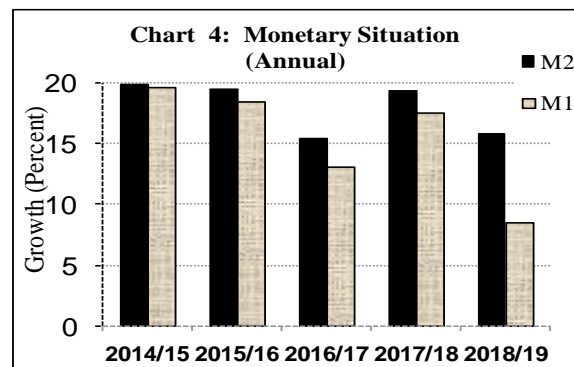
* Based on data reported by banking office of NRB and commercial banks conducting government transactions and report released from 81 DTCOs and payment centers.

** According to latest update as of September 2, 2019

Monetary Situation

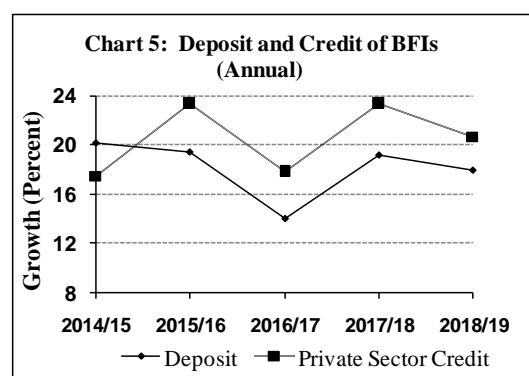
Money Supply

35. Broad money (M2) increased 15.8 percent in 2018/19 compared to 19.4 percent in the previous year.
36. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs. 67.40 billion (6.4 percent) in the review year compared to an increase of Rs.0.96 billion (0.1 percent) in the previous year.
37. Reserve money decreased 1.5 percent in the review year compared to a rise of 8.1 percent in the previous year.



Domestic Credit

38. Domestic credit expanded 21.4 percent in the review year compared to a growth of 26.5 percent in the previous year. Claims on private sector increased 19.1 percent compared to a growth of 22.3 percent in the previous year.



Deposit Collection

39. Deposits at Banks and Financial Institutions (BFIs) increased 18 percent in the review year compared to an increase of 19.2 percent in the previous year. Share of demand, saving, and fixed deposits in total deposits stood at 9.7 percent, 32.8 percent and 46.3 percent respectively in mid-July 2019. Such shares were 9.3 percent, 34.5 percent, and 44.8 percent respectively a year ago.
40. Share of institutional deposits in total deposit of BFIs stood at 45.3 percent in mid-July 2019. Such share was 45 percent in mid-July 2018.

Table 3 : Deposits at Banks and Financial Institutions (Percentage Share)

Deposits	Mid-July				
	2015	2016	2017	2018	2019
Demand	9.4	9.1	8.7	9.3	9.7
Saving	42.2	43.3	35.4	34.5	32.8
Fixed	30.2	30.5	43.2	44.8	46.3
Other	18.2	17.1	12.7	11.3	11.2

Credit Disbursement

41. Credit to the private sector from BFIs increased 19.4 percent in the review year compared to a growth of 22.5 percent in the previous year. In the review year, private sector credit from commercial banks, development banks and finance companies increased 17.5 percent, 35.7 percent and 17.9 percent respectively.
42. Of the total outstanding credit of the BFIs, 64.4 percent is against the collateral of land and building and 13.5 percent is against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 61.7 percent and 14.4 percent respectively a year ago.
43. Loan of BFIs to agriculture sector increased 42.5 percent, industrial production sector increased 20.3 percent, construction sector increased 22.2 percent, transportation, communication and public sector increased 32.8 percent, wholesale and retail sector increased 15.7 percent and service industry sector increased 24.3 percent in the review year.

44. In the review year, term loan extended by BFIs increased 32.8 percent, overdraft increased 10.9 percent, trust receipt (import) loan increased 11.7 percent, demand and working capital loan increased 23.6 percent, real estate loan (including residential personal home loan) increased 12 percent, margin nature loan increased 10.5 percent and hire purchase loan increased 5.8 percent.

Liquidity Management

45. NRB mopped up Rs.100.35 billion liquidity through open market operations in the review year. Of which, Rs.79.65 billion was mopped up through deposit collection auction and Rs.20.70 billion through reverse repo auction on a cumulative basis. Rs.195 billion liquidity was mopped up in the previous year.
46. Total liquidity worth Rs.322.49 billion was injected in 2018/19, of which Rs.168.16 billion was injected through Repo and Rs.154.33 billion was through the standing liquidity facility (SLF).
47. In the review year, NRB injected net liquidity of Rs.360.91 billion through the net purchase of USD 3.19 billion from foreign exchange market. Net liquidity of Rs.422.34 billion was injected through the net purchase of USD 4.05 billion in the previous year.
48. NRB purchased Indian currency (INR) equivalent to Rs.516.97 billion through the sale of USD 4.24 billion and other convertible foreign currencies in the review year. INR equivalent to Rs.522.03 billion was purchased through this process in the previous year.

Refinance

49. Use of refinance facility provided by the NRB at a concessional rate for expanding credit to the productive sector along with promoting export has increased in the review year. The outstanding refinance amounted to Rs.22.41 billion in mid-July 2019. Of which, general refinance of Rs.19.31 billion and export refinance of Rs.866.1 million was availed.
50. The outstanding amount of refinance extended to BFIs for providing concessional housing loan to earthquake victims stands at Rs.2.21 billion in mid-July 2019. The number of earthquake victims utilizing such loan is 1578.
51. As of mid-July 2019, Rs.32.19 billion concessional loan has been extended to 17,203 borrowers under "Unified Procedure for Interest Subsidy on Concessional Loan, 2075" for selected agriculture and livestock businesses. The concessional loan to other sectors as mentioned in the Unified Procedure disbursed Rs.632 million to 1092 beneficiaries. Total interest subsidized by the Government of Nepal (GoN) on such loan stands Rs.1.25 billion.

Inter-bank Transaction

52. Inter-bank transactions among commercial banks amounted to Rs.1775.11 billion and among other financial institutions (excluding transactions among commercial banks) to Rs.209.55 billion in the review year. Such transactions were Rs.1161.31 billion and Rs.49.43 billion respectively in the previous year.

Interest Rate

53. The weighted average 91-day Treasury bills rate increased to 4.97 percent in mid-July 2019 from 3.74 percent a year ago. The weighted average inter-bank transaction rate among commercial banks increased to 4.52 percent in mid-July 2019 from 2.96 percent a year ago
54. The average base rate of commercial banks decreased to 9.57 percent in mid-July 2019 from 10.47 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 6.60 percent and 12.13 percent respectively in mid-July 2019. Such rates were 6.49 percent and 12.47 percent respectively in the corresponding month of the previous year.

Merger and Acquisition

55. After the introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 171. Out of which, the license of 128 BFIs was revoked thereby forming 43 BFIs.

Financial Access

56. Of the total 753 local levels, commercial banks extended their branches at 735 levels as of mid-July 2019 (Table 4).

Province	No. of Local Levels	Local Levels having Bank Branches		
		mid-July 2018	mid-July 2019	Change
Province 1	137	112	136	24
Province 2	136	122	134	12
Province 3	119	107	117	10
Gandaki	85	74	84	10
Province 5	109	99	109	10
Karnali	79	54	73	19
Far West	88	63	82	19
Total	753	631	735	104

57. Total number of BFIs licensed by NRB increased to 171 in mid-July 2019 from 151 a year ago (Table 5). As of mid-July 2019, 28 commercial banks, 29 development banks, 23 finance companies, 90 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 8686 in mid-July 2019 from 6651 a year ago.

Bank and Financial Institutions	Number of BFIs		Branches of BFIs	
	Mid-July 2018	Mid-July 2019	Mid-July 2018	Mid-July 2019
Commercial Banks	28	28	3023	3585
Development Banks	33	29	993	1267
Finance Companies	25	23	186	205
Microfinance Financial Institutions	65	90	2449	3629
Infrastructure Development Banks	-	1	-	-
Total	151	171	6651	8686

*Detail information is available at <http://emap.nrb.org.np/>

Deposit and Credit Guarantee

58. Deposit and Credit Guarantee Fund (DCGF) has guaranteed saving, current, call and fixed deposits amounting Rs.603.38 billion of 22.1 million accounts of individuals maintained at 85 banks and financial institutions (BFIs) as of mid-July 2019. Rs.430.74 billion deposits of 19.3 million account holders was guaranteed a year ago.

59. DCGF has guaranteed micro and deprived sector loan, small and medium enterprises loan and agriculture loan of BFIs amounting to Rs. 25.66 billion as of mid-July 2019. Rs. 14.35 billion loans was guaranteed a year ago.

Number of Loan Accounts and Blacklisted Borrowers

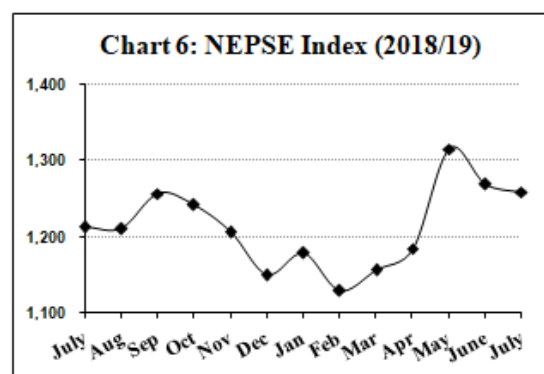
60. The number loan accounts at Banks and Financial Institutions (BFIs) reached 1,439,648 in mid-July 2019 (Table 6). The number of borrowers added to and released from the blacklist in 2018/19 are 2842 and 628 respectively. The number of blacklisted borrowers reached 8620 in mid-July 2019.

Fiscal Year	No. of loan accounts	No. of borrowers added to the blacklist	No. of borrowers released from the blacklist
2014/15	1,033,384	930	279
2015/16	1,096,570	833	308
2016/17	1,216,091	834	372
2017/18	1,301,010	1,335	341
2018/19	1,439,648	2,842	628

Capital Market

61. The NEPSE index increased 3.8 percent to 1259.0 points in mid-July 2019 compared to 1212.4 points a year ago.

62. The stock market capitalization on y-o-y basis increased 9.2 percent to Rs. 1567.50 billion in mid-July 2019 against a decrease of 22.7 percent to Rs. 1435.14 billion a year ago. The ratio of market capitalization to GDP stood at 45.2 percent in mid-July 2019 compared to 47.3 percent a year ago.



63. The total number of companies listed at the NEPSE remained 215 in mid-July 2019. Of the total listed companies, the number of banks and financial institutions (including insurance companies) stood at 154 followed by 19 manufacturing and processing industries, 30 hydropower companies, and 4 hotels, trading institutions and other sectors each.

64. Total paid-up value of listed shares stood at Rs. 412.28 billion in mid-July 2019. Total additional securities worth Rs 61.45 billion were listed at the NEPSE in 2018/19. These consist of ordinary shares of Rs. 27.20 billion, right shares of Rs. 10.81 billion, bonus shares of Rs. 22.58 billion and debenture of Rs. 851.7 million.

65. Securities Board of Nepal has approved debenture issuance worth Rs. 25.58 billion in 2018/19.