

Current Macroeconomic and Financial Situation of Nepal

(Based on Eleven Months' Data of 2018/19)

Major Highlights

- Inflation remained 6.2 percent on y-o-y basis and 4.5 percent on average during eleven months.
- Import expanded 17.3 percent and export 18.7 percent.
- Remittances increased 17.5 percent in NPR and 8.1 percent in USD.
- Balance of Payments remained at a deficit of Rs.90.83 billion.
- Gross foreign exchange reserves stood at Rs.1030.88 billion. This level of reserve is sufficient to cover the prospective merchandise and services imports of 7.7 months.
- Federal Government spending based on banking transactions amounted to Rs.792.63 billion and revenue collection Rs.745.59 billion.
- Broad money (M2) expanded 11.2 percent. On y-o-y basis, M2 expanded 16.7 percent.
- Deposits at Banks and Financial Institutions increased 13.3 percent and bank credit to the private sector 18.2 percent. On y-o-y basis, deposits increased 19.0 percent and credit 20.8 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 6.2 percent in mid-June 2019 compared to 4.1 percent a year ago.

Food and Beverage Inflation

2. Food and beverage inflation stood at 6.7 percent in mid-June 2019 compared to 3.0 percent a year ago.

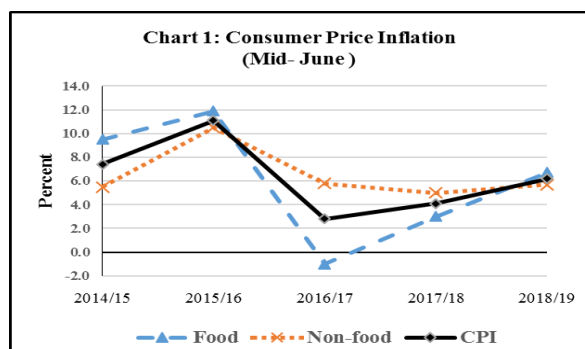


Table 1: Y-O -Y Food and Beverage Inflation (Mid-June)

Particulars	Inflation (Percent)	
	2017/18	2018/19
Food and Beverage Inflation	3.0	6.7
1. Cereal grains and their product	3.9	5.6
2. Meat and Fish	-1.3	7.6
3. Vegetables	11.0	14.6

Non-food and Service Inflation

3. Non-food and service inflation stood at 5.7 percent in mid-June 2019 compared to 5.0 percent a year ago.

Particulars	Inflation (Percent)	
	2017/18	2018/19
Non-Food and Service Inflation	5.0	5.7
1. Housing and Utilities	6.1	7.0
2. Clothes and Footwear	5.7	7.0
3. Transportation	3.3	4.7
4. Furnishing and Household Equipment	4.0	5.7

Region-wise Consumer Price Inflation

4. The Kathmandu Valley witnessed 7.1 percent inflation followed by 6.5 percent in the Mountain, 5.8 percent in the Terai and 5.7 percent in the Hilly region. These regions had witnessed 3.1 percent, 6.4 percent, 4.2 percent and 4.9 percent inflation respectively in the corresponding period of the previous year.

Inflation in Nepal and India

5. The y-o-y consumer price inflation in Nepal (mid-June 2019) and India (June 2019) stood at 6.2 percent and 3.18 percent respectively. Such rate of inflation was 4.1 percent in Nepal and to 5.0 percent in India a year ago.

Wholesale Price Inflation

6. The y-o-y wholesale price inflation stood at 5.3 percent in mid- June 2019 compared to 1.2 percent a year ago.

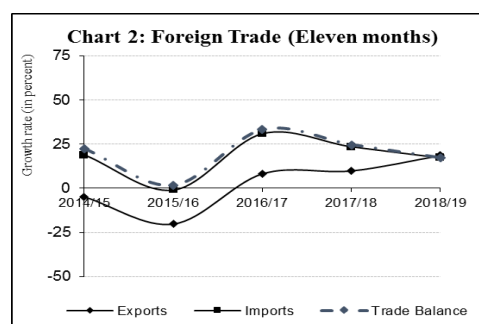
National Salary and Wage Rate Index

7. The salary and wage rate index increased 9.5 percent in mid- June 2019 from 6.3 percent a year ago. In the review period, the salary index and the wage rate index increased 6.6 percent and 10.3 percent respectively.

External Sector

Merchandise Trade

8. In eleven months of 2018/19, merchandise exports increased 18.7 percent to Rs.87.83 billion compared to an increase of 10 percent a year ago. Destination-wise, exports to India and other countries increased 33.3 percent and 1.5 percent respectively whereas exports to China decreased 27.1 percent. Mainly exports of polyester yarn, jute goods, noodles, pulses, woolen carpet, among others, increased whereas exports of cardamom, readymade garment, shoes and sandals, skin, pashmina, among others, decreased in the review period.
9. In eleven months of 2018/19, merchandise imports increased 17.3 percent to Rs.1299.80 billion compared to an increase of 23.6 percent in the same period of the previous year. Destination-wise, imports from India, China and other countries increased 15.1 percent, 30.7



percent and 16.1 percent respectively. Commodity-wise import of petroleum products, aircraft spare parts, readymade garment, M.S. billet, electrical goods, among others, increased whereas imports of cement, transportation equipment and parts, telecommunication equipment and parts, medical equipment and tools, crude soybean oil, among others, decreased in the review period.

10. Based on customs points, exports from Rasuwa Customs Office, Dry Port Customs Office and Nepalgunj Customs Office decreased whereas exports from other major customs points increased. On the import side, imports from Krishnagar Customs Points decreased whereas imports from other major customs points increased in the review period.
11. Total trade deficit widened 17.2 percent to Rs.1211.96 billion in eleven months of 2018/19. The export-import ratio increased marginally to 6.8 percent in the review period from 6.7 percent in the corresponding period of the previous year.

Export-Import Price Index

12. The y-o-y unit value export price index based on customs data increased 2.4 percent and import price index increased 1.9 percent in mid-June 2019. The terms of trade (ToT index) increased by 0.5 percent in the review month against a decrease of 4.4 percent in the corresponding month of the previous year.

Services

13. Net services income remained at a deficit of Rs.10.56 billion in the review period against a surplus of Rs.1.44 billion a year ago.
14. Under the service account, travel income increased 9.7 percent to Rs.68.63 billion in the review period. Such income was Rs.62.57 billion in the same period of the previous year.
15. Under the service account, travel payments increased 12 percent to Rs.80.45 billion, including Rs.40.99 billion for education. Such payment was Rs.71.86 billion in the same period of the previous year.

Remittances

16. Remittance inflows increased 17.5 percent to Rs.799.02 billion in the review period compared to an increase of 7.3 percent in the same period of the previous year. In the US Dollar terms, such inflows increased 8.1 percent in the review period compared to 9.7 percent in the corresponding period of the previous year.
17. Net transfer receipt increased 16.6 percent to Rs.905.14 billion in the review period. Such receipt had increased 0.1 percent in the same period of the previous year.
18. Number of Nepalese workers (institutional and individual-new and legalized) migrated for foreign employment decreased 37.3 percent in the review period. It had decreased 8.2 percent in the same period of the previous year. The number of Nepalese workers (Renew entry)

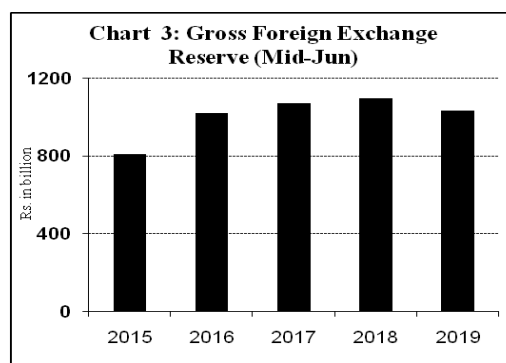
migrated for foreign employment increased 5.4 percent in the review period. It had decreased 1.6 percent in the same period of the previous year.

Current Account and BOP Position

19. The current account registered a deficit of Rs.248.72 billion in the review period. Such deficit was Rs.210.24 billion in the same period of the previous year. In the US Dollar terms, the current account deficit widened 2.20 billion in the review period compared to 2.03 billion a year ago.
20. Balance of Payments (BOP) remained at a deficit of Rs.90.83 billion in the review period compared to a deficit of Rs.4.34 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a deficit of 803.1 million in the review period compared to a deficit of 49.9 million in the same period of the previous year.
21. In the review period, capital transfer and foreign direct investment (FDI) in Nepal amounted to Rs.13.88 billion and Rs.11.81 billion respectively. In the same period of the previous year, capital transfer and FDI amounted to Rs.15.02 billion and Rs.15.88 billion respectively.

Foreign Exchange Reserve

22. Gross foreign exchange reserves decreased to Rs.1030.88 billion as at mid-June 2019 from Rs.1102.59 billion as at mid-July 2018. In the US Dollar terms, the gross foreign exchange reserves remained 9.25 billion as at mid-June 2019 from 10.08 billion as at mid-July 2018.



23. Of the total foreign exchange reserves, reserves held by NRB decreased to Rs.885.83 billion as at mid-June 2019 from Rs.989.40 billion as at mid July 2018. However, reserves held by banks and financial institutions (except NRB) increased to Rs.145.05 billion as at mid- June 2019 from Rs.113.19 billion as at mid-July 2018. The share of Indian currency in total reserves stood at 24.2 percent as at mid-June 2019.

Foreign Exchange Adequacy Indicators

24. Based on the imports of eleven months of current fiscal year, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 8.8 months, and merchandise and services imports of 7.7 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 29.8 percent, 64.6 percent and 30 percent respectively as at mid-June 2019. Such ratios were 36.4 percent, 78.6 percent and 35.6 percent as at mid-July 2018.

Price of Oil and Gold

25. The price of oil (Crude Oil Brent) in the international market decreased 15.6 percent to USD 63.13 per barrel in mid-June 2019 from USD 74.77 per barrel a year ago. The price of gold increased 3.7 percent to USD 1351.25 per ounce in mid-June 2019 from USD 1302.75 per ounce a year ago.

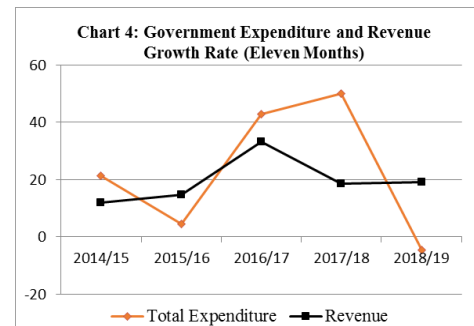
Exchange Rate

26. Nepalese currency vis-à-vis US dollar depreciated 1.8 percent in mid-June 2019 from mid-July 2018. It had depreciated 4.7 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.111.39 in mid-June 2019 compared to Rs.109.34 in mid-July 2018.

Fiscal Situation*

Fiscal Deficit/ Surplus

27. In eleven months of 2018/19, fiscal position of the Government remained at a deficit of Rs.35.77 billion, which was at a deficit of Rs.177.82 billion in the corresponding period of the previous year.



Government Expenditure and Revenue

28. In the review period, total expenditure of the federal government (based on banking transactions) stood at Rs.792.63 billion. Total government expenditure was Rs.832.04 billion in the corresponding period of the previous year.

29. In the review period, revenue collection based on banking transactions (including the amount to be transferred to provincial and local governments) is Rs.745.59 billion. Total government revenue was Rs.625.77 billion in the corresponding period of the previous year.

Domestic Debt Mobilization

30. In the review period, GoN collected Rs.53.4 billions as domestic debt. The total domestic debt collection was Rs.144.8 billion in the corresponding period of the previous year.

Cash Balance of the Government of Nepal

31. Balance at various accounts of the GoN maintained with NRB remained Rs.164.54 billion (including Rs.63.22 billion in Local Levels' account) in mid-June 2019.

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

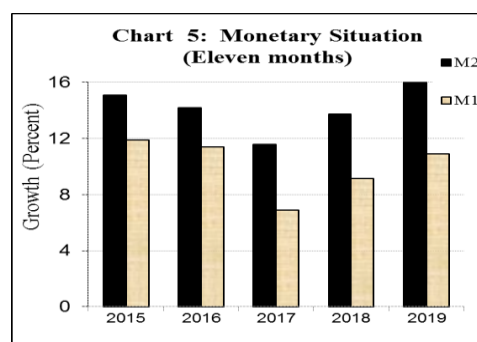
Monetary Situation

Money Supply

32. Broad money (M2) increased 11.2 percent in the review period compared to a rise of 13.7 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 16.7 percent in mid-June 2019.

33. Net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs.90.83 billion (8.6 percent) in the review period compared to a decrease of Rs.4.34 billion (0.4 percent) in the corresponding period of the previous year.

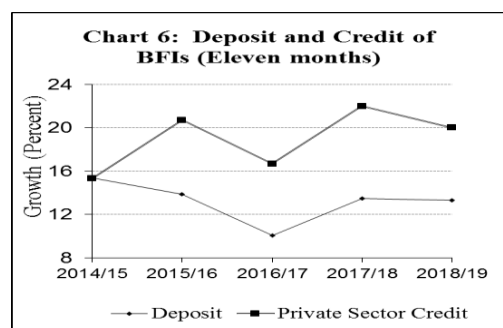
34. Reserve money decreased 10 percent in the review period compared to an increase of 0.3 percent in the corresponding period of the previous year. On y-o-y basis, reserve money decreased 3 percent in mid-June 2019.



Domestic Credit

35. Domestic credit increased 17 percent in the review period compared to an increase of 18.4 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 25.1 percent in mid-June 2019.

36. Monetary sector's claim on the private sector increased 19.3 percent in the review period compared to a growth of 21 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 20.6 percent in mid-June 2019.



Deposit Collection

37. Deposits at Banks and Financial Institutions (BFIs) increased 13.3 percent in the review period compared to a growth of 13.5 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 19 percent in mid-June 2019.

38. The share of demand, saving, and fixed deposits in total deposits stands at 9.2 percent, 32.5 percent, and 47.6 percent respectively in mid-June 2019. Such shares were 8.6 percent, 34.5 percent, and 45.7 percent respectively a year ago.

39. The share of institutional deposits in total deposit of BFIs stands at 45.2 percent in mid-June 2019. Such share was 44.3 percent in mid-June 2018.

Deposits	Mid-July			Mid-June	
	2016	2017	2018	2018	2019
Demand	9.1	8.7	9.3	8.6	9.2
Saving	43.3	35.4	34.5	34.5	32.5
Fixed	30.5	43.2	44.8	45.7	47.6
Other	17.0	12.7	11.3	11.2	10.7

Credit Disbursement

40. Credit to the private sector from BFIs increased 18.2 percent in the review period compared to a growth of 19.9 percent in the corresponding period of the previous year. In the review period, private sector credit increased 16.4 percent from commercial banks, 33.4 percent from development banks and 18 percent from finance companies. On y-o-y basis, credit to the private sector from BFIs increased 20.8 percent in mid-June 2019.
41. Of the total outstanding credit of the BFIs, 64.4 percent is against the collateral of land and building and 13.6 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 61.4 percent and 14.7 percent respectively a year ago.
42. In the review period, term loan extended by BFIs increased 29.6 percent, overdraft increased 10.5 percent, trust receipt (import) loan increased 12.2 percent, demand and working capital loan increased 23 percent, real estate loan (including residential personal home loan) increased 11.1 percent, margin nature loan increased 5.1 percent and hire purchase loan increased 7.4 percent.

Liquidity Management

43. In the review period, NRB mopped up Rs.100.35 billion liquidity through open market operations. 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.135.25 billion liquidity was mopped up in the corresponding period of the previous year.
44. The NRB injected Rs. 141.29 billion liquidity through open market operations in the review period. Rs. 107.34 billion liquidity was injected in the corresponding period of the previous year.
45. BFIs utilized standing liquidity facility (SLF) of Rs.146.28 billion in the review period. Such facility of Rs.38.33 billion was utilized in the corresponding period of the previous year.
46. In the review period, NRB injected net liquidity of Rs.330.72 billion through the net purchase of USD 2.92 billion from foreign exchange market. Net liquidity of Rs.392.08 billion was injected through the net purchase of USD 3.78 billion in the corresponding period of the previous year.
47. The NRB purchased Indian currency (INR) equivalent to Rs.478.14 billion through the sale of USD 3.90 billion, Euro 49 million, GBP 20 million, Japanese Yen 24 billion and Chinese Yuan 200 million in the review period. INR equivalent to Rs.454.19 billion was purchased through the sale of USD 4.36 billion, Euro 40 million and GBP 90 million in the corresponding period of the previous year.

Refinance

48. 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 period. The

outstanding refinance amounted to Rs.22.40 billion in mid-June 2019. Of which, general refinance of Rs.19.27 billion and export refinance of Rs.866.8 million was availed.

49. The outstanding amount of refinance extended to BFIs for providing concessional housing loan to earthquake victims stands at Rs.2.25 billion as of mid-June 2019. The number of earthquake victims utilizing such loan is 1578.
50. As of mid-June 2019, Rs.29.36 billion concessional loan has been extended to 15,916 borrowers under "Unified Procedure for Interest Subsidy on Concessional Loan, 2075" for selected agriculture and livestock businesses. The concessional loan outstanding to other sectors as mentioned in the Unified Procedure remains Rs.413.2 million utilized by 766 beneficiaries. Total interest subsidy provided by Government of Nepal (GoN) for the concessional loans reached Rs.1.25 billion.

Inter-bank Transaction

51. In the review period, inter-bank transactions among commercial banks amounted to Rs.1554.65 billion and among banks and financial institutions (excluding transactions among commercial banks) to Rs.194.85 billion. Such transactions were Rs.1082.40 billion and Rs.43.28 billion respectively in the corresponding period of the previous year.

Interest Rates

52. The weighted average 91-day Treasury bills rate increased to 5.50 percent in the eleventh month of 2018/19 from 4.38 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 4.18 percent a year ago, increased to 6.91 percent in the review month.
53. The average base rate of commercial banks decreased to 9.48 percent in the review month from 10.41 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 6.64 percent and 12.20 percent respectively in the review month. Such rates were 6.61 percent and 12.42 percent respectively in the corresponding month of the previous year.

Merger and Acquisition

54. After introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 165. Out of which, the license of 123 BFIs was revoked thereby forming 42 BFIs.

Financial Access

55. Of the total 753 local levels, commercial banks extended their branches at 730 levels as of mid-June 2019 (Table 4).

Province	No. of Local Levels	Local Levels having Bank Branches
Province 1	137	136
Province 2	136	134
Province 3	119	117
Gandaki	85	83
Province 5	109	109
Karnali	79	69
Far West	88	82
Total	753	730

56. The total number of BFIs licensed by NRB increased to 176 in mid-June 2019 from 151 in mid-July 2018 (Table 5). As of mid-June 2019, 28 commercial banks, 32 development banks, 24 finance companies, 91 microfinance financial institutions and one infrastructure development bank are in operation. The number of branches of BFIs branches reached 8564 in mid-June 2019 from 6651 in mid-July 2018.

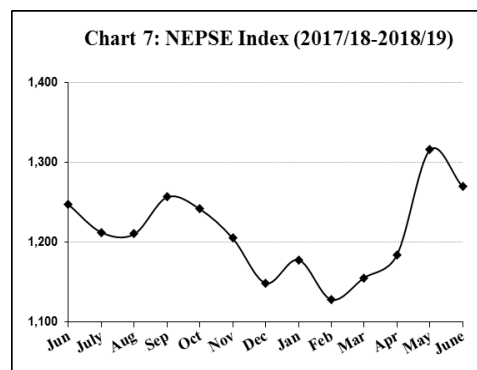
Bank and Financial Institutions	Number of BFIs		Branches of BFIs	
	Mid-Jul 2018	Mid-June 2019	Mid-Jul 2018	Mid-June 2019
Commercial Banks	28	28	3023	3539
Development Banks	33	32	993	1250
Finance Companies	25	24	186	205
Microfinance Financial Institutions	65	91	2449	3570
Infrastructure Development Banks	-	1	-	-
Total	151	176	6651	8564

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

Capital Market

57. The NEPSE index increased 1.8 percent to 1269.6 points in mid-June 2019 in comparison to 1247.3 points in mid-June 2018. Such index was 1212.4 points in mid-July 2018.

58. The stock market capitalization on y-o-y basis increased 7.3 percent to Rs. 1579.39 billion in mid-June 2019 against decrease of 20.6 percent amounting to Rs. 1471.81 billion a year ago. The ratio of market capitalization to GDP stood at 45.6 percent in mid-June 2019. This ratio was 48.6 percent a year ago.



59. The total number of companies listed at the NEPSE remained 213 in mid-June 2019. Of the listed companies, 152 are financial sector including BFIs and insurance companies, 19 manufacturing and processing industries, 30 hydropower companies, 4 each hotels and trading institutions and 4 other sectors.

60. Total paid-up value of the listed shares stood at Rs. 418.87 billion in mid-June 2019. Total additional securities worth Rs 57.90 billion were listed in the NEPSE during the eleven months of 2018/19. These consisted of ordinary shares of Rs. 26.99 billion, right shares of Rs. 9.26 billion, bonus shares of Rs. 20.89 billion and debenture of 751.7 million