



Nepal Rastra Bank

Research Department

Current Macroeconomic and Financial Situation of Nepal

(Based on Seven Months' Data of 2016/17)

Macroeconomic Outlook

1. All three sectors of the economy: agriculture, industry and services show the improved performance in the seven months of 2016/17.
2. The available recent data show that the production of fruits and vegetables is expected to grow positively contributing to the overall agricultural production.
3. The improved power supply is expected to boost industrial production and enhance the industrial capacity utilization.
4. The tourist arrival is picking up with the advent of mountaineering and trekking season. The average bed-occupancy rate is estimated around 45 percent in the review period.
5. In the review period, the Government of Nepal, Department of Industry has granted approval to 199 joint venture projects with the foreign direct investment commitment of Rs 8.41 billion. This amount is 24.3 percent higher than the commitments of the previous year. The approved projects are expected to generate direct employment opportunities for 5785 people.
6. Outstanding credit from the BFIs to the private sector increased 15.1 percent in the review period. On y-o-y basis, such credit increased 32.9 percent in mid-February 2017.
7. In the review period, consumer price inflation remained at 3.3 percent on y-o-y basis. However, pressure in Indian inflation due to increase in crude oil price is likely to affect the Nepalese inflation in the coming months.
8. There is an improving trend of Government budgetary operations. The government of Nepal (GoN) accumulated cash balance of Rs. 201.6 billion at NRB in mid-February 2017 on account of the high revenue growth compared to the government expenditure.
9. Foreign exchange reserves is at comfortable level. In mid-February 2017, gross foreign exchange reserves increased to Rs. 1077.47 billion, which is sufficient to cover the merchandise and service imports for 12 months.

Inflation, Salary and Wage Rate

Consumer Price Inflation

10. Consumer price inflation has further moderated to 3.3 percent in mid-February 2017 from the point of 11.3 percent in mid-February 2016.
11. The y-o-y inflation has been continuously decelerating in recent months due mainly to the previous year's base price effect, improved supply situation and moderate Indian inflation.



Food Inflation

12. The food inflation remained negative by 0.2 percent in mid-February 2017 from 12.8 percent in the corresponding period of the previous year. A fall in prices of pulses and legumes; and ghee and oil both by same 8.4 percent, vegetable by 5.8 percent, meat and fish by 2.4 percent and cereal grain by 0.4 percent was mainly responsible for such a decline in food inflation. Of food and beverage group, the prices of sugar and sugar products increased by 16.5 percent and alcoholic drinks by 10.5 percent.

Box 1: Y-O-Y Food Inflation (Seven Months)		
Particulars	Inflation (Percent)	
	2072/73	2073/74
Food Inflation	12.8	(0.2)
1 Pulses and Legumes	39.7	(8.4)
2 Ghee and Oil	23.1	(8.4)
3 Spices	19.2	3.4
4 Alcoholic drinks	15.5	10.5
5 Meat and Fish	12.6	(2.4)
6 Cereal Grains and their Products	11.7	(0.4)
7 Milk products and Eggs	11.4	4.6
8 Fruit	10.0	0.7
9 Vegetable	8.7	(5.8)

Source: National Consumer Price Index, Mid-February 2017

Non-food Inflation

13. The non-food inflation also moderated to 6.1 percent during the review period from 10.1 percent in the corresponding period of the previous year. The decline in growth rate of prices of clothes and footwear, housing and utilities, education, communication, transportation, among others contributed to the moderation in non-food inflation in the review period.

Region-wise Consumer Price Inflation

14. The Hilly region witnessed relatively a higher rate of inflation of 5.9 percent followed by Mountain region (3.2 percent), Terai region (3.0 percent) and the Kathmandu Valley (1.1 percent) in the review period. In the corresponding period of the previous year, Hilly region, Mountain region, Terai region and the Kathmandu Valley witnesses inflation rate of 11.4 percent, 10.5 percent, 9.6 percent and 14.3 percent respectively.

Inflation Differential between Nepal and India

15. The y-o-y consumer price inflation was 3.7 percent in India in February 2017. Such inflation was 3.3 percent in Nepal in the same month showing lower inflation in Nepal by

Commodities	Inflation (Percent)		Wedge
	Nepal	India	
Overall Consumer Price Inflation	3.3	3.7	(0.4)
1. Sugar and Sugar Products	16.5	18.8	(2.3)
2. Alcoholic drinks	10.5	6.2	4.3
3. Education	9.9	5.4	4.5
<i>Source: Ministry of Statistics and Programme Implementation, India, February 2017</i>			

0.4 percentage point than in India. This is mainly due to last year's base price effect. In the corresponding month of the previous year, such inflation was 5.2 percent in India and 11.3 percent in Nepal reflecting a wider inflation differential of 6.1 percent.

Wholesale Price Inflation

16. The y-o-y wholesale price inflation dropped to 1.7 percent in the review period from 6.9 percent a year ago. The wholesale price indices of agricultural commodities, domestic manufactured commodities and imported commodities showed a growth of 0.8 percent, 4.7 and 1.6 percent respectively in the review period. In the corresponding period of the previous year, the increments in wholesale price indices of agricultural commodities and domestic manufactured commodities were 11.5 percent and 6.5 percent respectively, whereas the price index of imported commodities had decline by 2.6 percent.

National Salary and Wage Rate

17. The y-o-y salary and wage rate index rose to 14.2 percent in the review period from 4.5 percent in the corresponding period of the previous year. In the review period, the salary index increased 18.9 percent, while the wage rate index grew 13.0 percent. The hike in pay scale of civil service drove up the salary and wage rate index in the review period. The salary indices of civil service, army and police forces and public corporation sub-groups increased 24.2 percent, 23.6 percent and 21.7 percent respectively in the review period. Likewise, wage rate indices of construction laborer, agricultural laborer and industrial laborer witnessed a growth of 14.0 percent, 13.5 percent and 11.6 percent respectively in the review period.

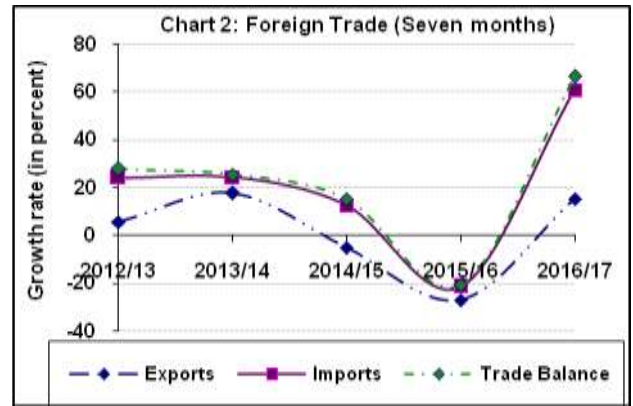
External Sector

Merchandise Trade

18. In the first seven months of 2016/17, merchandise exports increased 15.2 percent to Rs. 42.18 billion as against a drop of 27.1 percent in the same period of the previous year. In the review period, exports to India, China and other countries increased 18.2 percent, 54.2 percent and 9.7

percent respectively. Commodity wise, exports of juice, oil cakes, rosin, GI pipe, among others increased whereas export of cardamom, polyester yarn, vegetable, ginger among others decreased in the review period.

19. Merchandise imports increased 60.8 percent to Rs. 556.16 billion in the review period in contrast to a drop of 21.6 percent in the same period of the previous year. In the review period,



imports from India, China and Other countries increased 80.1 percent, 31.9 percent and 34.8 percent respectively. Commodity wise, imports of petroleum products, vehicles and spare parts, MS billet, cement, among others increased whereas imports of chemical fertilizer, medicine, coldrolled- sheet in coil, betelnut, among others decreased in the review period.

20. Based on customs points, the exports through Bhairahawa Customs, Tribhuvan International Airport Customs and Biratnagar Customs points decreased whereas exports from other customs points increased in the review period. On the import side, imports through Mechi Customs, Kailali Customs, Biratnagar Customs and Nepalgunj Customs points decreased whereas imports through other customs points increased in the review period.
21. Total trade deficit in the review period widened 66.2 percent to Rs 513.98 billion as against a contraction of 20.9 percent in the same period of the previous year. The export-import ratio remained 7.6 percent in the review period compared to 10.6 percent in the corresponding period of the previous year.

Export-Import Price Index

22. The y-o-y unit value export price index based on customs data increased 11.7 percent while import price index increased 6.7 percent in the seventh months of 2016/17. Consequently, the TOT index improved 4.7 percent compared to an increase of 25.5 percent in the corresponding period of the previous year. Increase in price of export items such as carpet, pashmina, cardamom, caused the rise in export price index in the review period. Increase in the price of petroleum products, vehicles, resulted in an increase in import price index in the review period.

Services

23. The total services receipts increased 15.2 percent and expenses rose 13.3 percent in the review period. As a result, net services surplus stood at Rs. 4.59 billion in the review period compared to Rs. 2.81 billion in the same period of the previous year. Under the services account, travel receipts increased 30.1 percent to Rs. 29.87 billion in the review period. Such receipts had decreased 21.2 percent in the same period of the previous year.

Workers' Remittances

24. The workers' remittances increased 5.2 percent to Rs. 394.57 billion in the review period compared to a growth of 16.9 percent in the corresponding period of the previous year. Consequently, net transfer receipts increased 8.3 percent to Rs. 475.31 billion in the review period. Such receipts had increased 19.9 percent in the same period of the previous year.

Current Account and BOP

25. The current account slipped into deficit by Rs. 10.66 billion in mid-February 2017 on account of sharp increase in imports. The current account was in significant surplus of Rs. 154.78 billion in the same period of the previous year. The overall BOP recorded a surplus of Rs. 36.98 billion in the review period compared to a surplus of Rs. 154.40 billion in the same period of the previous year.
26. Capital transfer of Rs. 9.25 billion and Foreign Direct Investment (FDI) inflow of Rs. 7.60 billion were recorded in the review period. In the same period of the previous year, capital transfer and FDI inflows were Rs. 8.60 billion and Rs. 2.26 billion respectively.

Box 3: External Sector (USD)*							
Particulars	(USD Million)						
	2014-15		2015-16		2016-17	Percentage Change in Seven months	
	Seven Months	Annual	Seven Months	Annual	Seven Months	2015/16	2016/17
Goods Exports (FoB)	578.9	988.1	366.2	703.9	438.0	-36.7	19.6
Goods Imports (FoB)	4430.7	7657.6	3212.1	7092.5	5090.4	-27.5	58.5
Trade Balance	-3851.8	-6669.5	-2845.9	-6388.6	-4652.4	-26.1	63.5
Total Trade	5009.5	8645.6	3578.3	7796.3	5528.4	-28.6	54.5
Travel Receipts	295.6	536.7	217.4	392.7	277.4	-26.4	27.6
Workers' Remittances	3258.0	6192.0	3553.8	6253.4	3664.3	9.1	3.1
Current Account Balance	114.2	1067.3	1471.3	1338.8	-97.6	-	-
BOP (-Surplus)	-329.3	-1437.0	-1458.6	-1779.8	-343.7	-	-

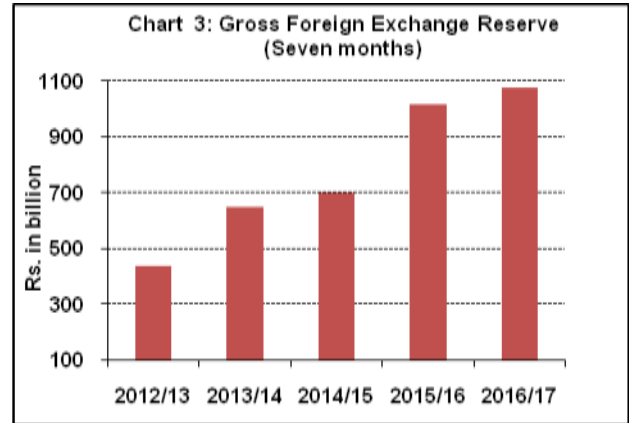
* Data from BOP Presentation

1. In the US dollar terms, total merchandise exports and imports increased 19.6 percent and 58.5 percent respectively in the seven months of 2016/17. Exports and imports had decreased 36.7 percent and 27.5 percent respectively in the corresponding period of the previous year.
2. In the review period, travel receipts increased 27.6 percent and worker's remittance rose 3.1 percent. Travel receipts had decreased 26.4 percent and remittances had increased 9.1 percent in the corresponding period of the previous year.
3. Current account recorded a deficit of USD 97.6 million in the review period. It was in surplus of USD 1471.3 million in the corresponding period of the previous year. Likewise, Balance of Payments (BOP) recorded a surplus of USD 343.7 million in the review period compared to the surplus of USD 1458.6 million in the corresponding period of the previous year.

Foreign Exchange Reserves

27. The gross foreign exchange reserves increased 3.7 percent to Rs. 1077.47 billion as at mid-February 2017 from Rs. 1039.21 billion in mid-July 2016. Of the total foreign exchange, reserves held by NRB increased 3 percent to Rs. 913.46 billion as at mid-February 2017 from Rs. 887.01 billion as at mid-July 2016. Similarly, the reserves of banks and financial

institutions (except NRB) increased 7.8 percent to Rs. 164 billion as at mid-February 2017 from Rs. 152.20 billion as at mid-July 2016. The share of Indian currency in total reserves stood at 22.4 percent as at mid-February 2017.



Foreign Exchange Adequacy Indicators

28. Based on the imports of the review period, the foreign exchange holdings of the banking sector is sufficient to cover the prospective merchandise imports of 13.7 months, and merchandise and services imports of 12 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 47.9 percent, 99.7 percent and 43.8 percent respectively as at mid-February 2017. Such ratios were 46.2 percent, 117.4 percent and 46.3 percent as at mid-July 2016.

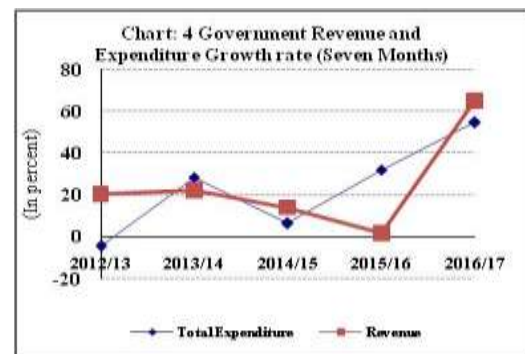
Price of Oil and Gold in the International Market and Exchange Rate Movement

29. The price of oil (Crude Oil Brent) in the international market increased 73.6 percent to USD 55.20 per barrel in mid-February 2017 from USD 31.80 per barrel a year ago. The price of gold decreased 0.9 percent to USD 1228.30 per ounce in mid-February 2017 from USD 1239.75 per ounce a year ago.
30. Nepalese currency vis-à-vis the US dollar appreciated 0.1 percent in mid-February 2017 from mid-July 2016. It had depreciated 7.1 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs. 106.63 in mid-February 2017 compared to Rs. 106.73 in mid-July 2016.

Fiscal Situation *

Budget Deficit / Surplus

31. In the first seven months of 2016/17, the Government of Nepal (GoN) ran a surplus of Rs. 63.85 billion in its budget. Such surplus was Rs. 21.98 billion in the corresponding period of the previous year.



*

Based on the data reported by 8 NRB offices, 69 branches of Rastriya Banijya Bank Limited, 49 branches of Nepal Bank Limited, 24 branches of Agricultural Development Bank Limited, 9 branches of Everest Bank Limited, 4 branches of Global IME Bank Limited and 1 branch each from Nepal Bangladesh Bank Limited, NMB Bank Limited, Bank of Kathmandu Lumbini Limited and Century Commercial Bank Limited conducting government transactions and released report from 79 DTCOs and payment centers.

Government Expenditure

32. In the review period, total government expenditure on a cash basis increased 54.6 percent to Rs. 313.30 billion. Such expenditure had increased 31.9 percent to Rs. 202.72 billion in the corresponding period of the previous year.

Box: 4 The Budget Performance			
(Rs. in millions)			
Heads	Budget Estimates	Outturns in Seven Months	As percent of Budget Estimates
Total Expenditure	1048921.4	313304.0	29.87
Recurrent	617164.13	237536.7	38.49
Capital	311946.33	46940.5	15.05
Financial	119810.9	28826.8	24.06
Revenue	565896.5	319152.3	56.40

33. In the review period, recurrent expenditure increased 54.8 percent to Rs. 237.54 billion. Such expenditure stood at Rs. 153.46 billion in the corresponding period of the previous year. In the review period, capital expenditure increased to Rs. 46.94 billion. Such expenditure was Rs. 17.45 billion in the corresponding period of the previous year. However, outturns in various heads of government expenditure have remained far below of annual targets.

Government Revenue

34. In the review period, the government revenue collection increased 65.0 percent to Rs. 319.15 billion. Such revenue had increased 1.6 percent in the corresponding period of the previous year. Higher growth rate of major tax heads such as value added tax, income tax, customs, excise duty and others tax heads contributed to the overall rise in revenue collection in the review period.

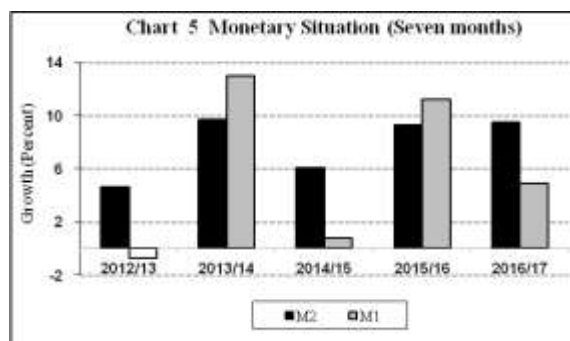
Cash Balance of the GoN

35. Because of a slow pace of government expenditure relative to resource mobilization, the GoN accumulated cash balance of Rs. 201.61 billion at Nepal Rastra Bank as of mid-February 2017.

Monetary Situation

Money Supply

36. Broad money (M2) increased 9.5 percent in the review period compared to a rise of 9.3 percent in the corresponding period of the previous year.



On y-o-y basis, M2 expanded 19.8 percent in mid-February 2017.

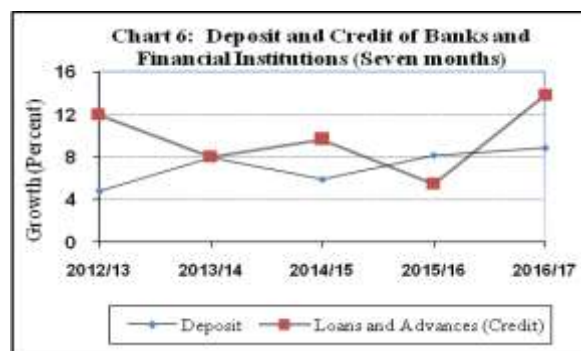
37. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 36.98 billion between mid-July 2016 and mid-February 2017 compared to an increase of Rs. 154.40 billion in the corresponding period of the previous year.
38. Reserve Money increased 4.3 percent in the review period compared to a growth of 8.7 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 0.4 percent in mid-February 2017.

Domestic Credit

39. Domestic credit expanded 9.3 percent in the review period compared to a growth of 2.8 percent in the same period of the previous year. On y-o-y basis, domestic credit increased 25.7 percent in mid-February 2017.
40. Claims of monetary sector on the private sector increased 15.4 percent in the review period compared to a growth of 7.6 percent in the previous year. On y-o-y basis, claims on the private sector increased 32.1 percent in mid-February 2017.

Deposit Collection

41. Deposits at Banks and Financial Institutions (BFIs) increased 8.9 percent in the review period compared to a growth of 8.2 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 20.2 percent in mid-February 2017. Of the total deposits at BFIs, the share of demand deposits, saving deposits and fixed deposits



remained 8.1 percent, 38.7 percent and 35.1 percent respectively in mid-February 2017. Such shares were 8.8 percent, 44.1 percent and 28.3 percent respectively a year ago.

Credit Disbursement

42. Credit to the private sector from BFIs increased 15.1 percent in the review period compared to an increase of 7.1 percent in the same period of the previous year. In the review period, private sector credit from commercial banks and development banks increased 17.2 percent and 6.9 percent respectively, while that of finance companies decreased 2.9 percent. On y-o-y basis, credit to the private sector from BFIs increased 32.9 percent in mid-February 2017.
43. Credit to the agriculture sector increased 8.1 percent, industrial production sector 12.4 percent, construction sector 16.8 percent, wholesale and retail trade sector 12.4 percent, service industries sector 13.5 percent and transport, communication and public sector 21.8 percent in the review period.

44. Of the total outstanding credit of BFIs, 60.2 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 59.8 percent and 13 percent respectively in the same period of the previous year.

45. The outstanding loan of BFIs in overdraft, margin nature, real estate and hire purchase increased significantly in mid-February 2017 from the level of a year ago.

Box 5: Outstanding loan of BFIs in some areas				
<i>(Rs. in billion)</i>				
Headings	2015/16		2016/17	
	Mid-Jul	Mid- Feb	Mid-Jul	Mid- Feb
Overdraft	246.0	257.2	294.3	342.2
Real Estate & Personal Residential Home Loan	204.6	220.8	250.9	291.5
Hire Purchase	81.0	87.1	110.1	146.3
Margin Nature Loan	24.1	26.9	37.7	42.3

46. Of the total lending of bank and financial institutions, share to real estate (including personal home loan up to Rs. 10 million) was 15.1 percent in mid-February 2017.

47. Of the total lending of commercial banks, credit to small and medium enterprises was only 2.6 percent (Rs. 42.64 billion) in mid-February 2017.

48. Trust Receipt (T.R.) loan extended by commercial banks increased 14.3 percent (Rs. 10.43 billion) in the review period as against a decline of 5.6 percent in the same period of the previous year.

Liquidity Management

49. In the review period, the NRB injected liquidity of Rs. 33.21 billion through repo auction including Rs. 5.4 billion under interest rate corridor system. Likewise, the BFIs used Rs. 54.83 billion standing liquidity facility (SLF) in the review period.

50. In the review period, the NRB injected net liquidity of Rs. 251.12 billion through the net purchase of USD 2.33 billion from foreign exchange market. Net liquidity of Rs. 268.62 billion was injected through the net purchase of USD 2.54 billion in the corresponding period of the previous year.

51. In the review period, the NRB mopped up Rs. 101.10 billion through open market operations. Of which, Rs. 29.80 billion was mopped up through 14 days deposit collection auction under corridor system, Rs. 7.05 billion under 90 days deposit collection auction and Rs. 64.25 billion through reverse repo auction on a cumulative basis. In the corresponding period of the previous year, Rs. 258.40 billion was mopped up through deposit collection auction, Rs. 137.35 billion through reverse repo auction and Rs. 9.10 billion through outright sale auction.

52. The NRB purchased Indian currency (INR) equivalent to Rs. 263.37 billion through the sale of USD 2.36 billion and Euro 95 million in the review period. INR equivalent to Rs. 180 billion was purchased through the sale of USD 1.72 billion in the corresponding period of the previous year.

Refinance, Productive Sector and Deprived Sector Lending

53. The NRB has been providing refinance facility aimed at expanding credit to the productive sector along with promoting export. In the review period, the use of such facility has increased. In the review period, a total refinance of Rs. 8.63 billion including general refinance Rs. 7.62 billion and export refinance Rs 1.01 billion was availed. In the corresponding period of the previous year, a total refinance of Rs. 2.82 billion including general refinance of Rs. 1.70 billion and export refinance of Rs. 1.12 billion was utilized.
54. A sum of Rs. 472.9 million housing loan at a concessional interest rate of 2 percent has been extended to 212 borrowers by the BFIs to the earthquake victims as of mid-February 2017. For this, NRB provides a refinance facility to BFIs at a zero percent interest.
55. There is a policy-provision for commercial banks to disburse 20 percent of their total credit to the designated productive sector. Such credit of commercial banks was 16.5 percent in mid-February 2017.
56. There is a policy provision for "A", "B" and "C" class Banks and Financial Institutions (BFIs) to disburse at least 5 percent, 4.5 percent and 4 percent loan to the deprived sector. These institutions have disbursed 5.6 percent, 6.5 percent and 4.6 percent respectively to the deprived sector as of mid-January 2017.

Inter-bank Transaction

57. In the review period, inter-bank transactions of commercial banks stood at Rs. 699.02 billion and those of other financial institutions (excluding transactions among commercial banks) amounted to Rs. 239.88 billion. Such transactions were Rs. 448.57 billion and Rs. 38.52 billion respectively in the corresponding period of the previous year.

Interest Rates

58. The short term interest rates have increased during the one year period. The weighted average 91-day Treasury Bill rate increased to 2.64 percent in the seventh month of 2016/17 from 0.35 percent a year ago. Likewise, the weighted average inter-bank transaction rate among commercial banks, which was 0.22 percent a year ago, increased to 4.13 percent in the review month. The weighted average inter-bank rate among other financial institutions increased to 7.05 percent from 1.01 percent a year ago.
59. The weighted average interest rate spread between deposit and lending rate of commercial banks decreased to 5.4 percent in the review month from 6.1 percent a year ago. The average base rate of commercial banks increased to 7.8 percent in the review month from 6.6 percent a year ago.

Merger/Acquisition

60. The number of BFIs involved in merger and acquisition has been increasing after the introduction of merger/acquisition policy aimed at strengthening financial stability. As of mid-February 2017, 131 BFIs (including 'D' class) were involved in merger and acquisition. Of which, the license of 89 BFIs was revoked thereby forming 42 BFIs.

Reinstatement of Branches

61. Of the total 318 branches of Nepal Bank Limited, Rastriya Banijya Bank and Agricultural Development Bank closed during the insurgency period, 151 branches have been reinstated as of mid-February 2017.

Capital Market

62. The NEPSE index which was 1,263.7 points in mid-February 2016 increased 2.6 percent to 1,296.2 points in mid-February 2017. However, the index which was 1,718.2 points in mid-July 2016, has decreased by 24.6 percent during the review period.
63. The total turnover of the securities increased 107.0 percent to Rs. 123.05 billion during the first seven months of 2016/17. The increased liquidity of stocks due to the dematerialized transactions as well as extension in the share trading time from 2016/17 were the primary reasons of such upsurge in turnover.
64. During the seven months of 2016/17, Securities Board of Nepal (SEBON) has approved 34.97 million securities of 10 companies worth Rs. 7.66 billion for the initial public offerings (including further public offerings).