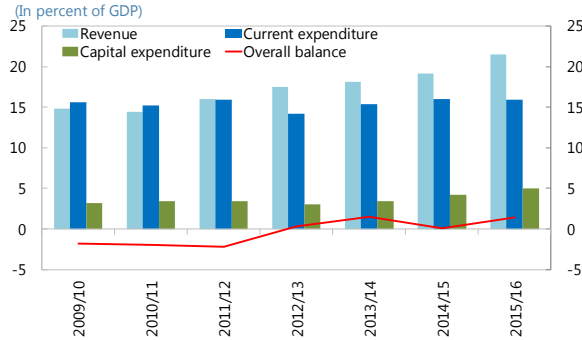


Figure 1. Nepal: Recent Fiscal Developments

Strong revenue growth combined with subdued capital spending kept the budget in surplus the past 4 years.

Fiscal Performance

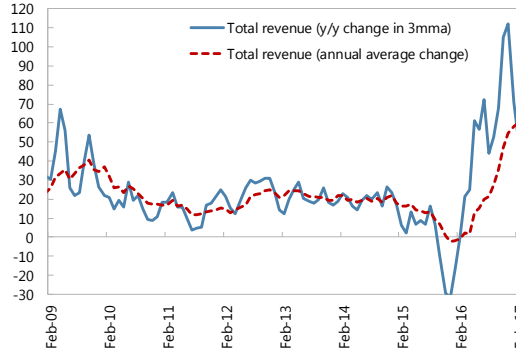


Sources: Nepali authorities; and IMF staff estimates.

Note: Overall balance: incurrence of net liabilities (incl. government deposits at NRB).

Government revenues over the past 3 months was up 50 percent from a year ago, when the trade disruption curtailed imports.

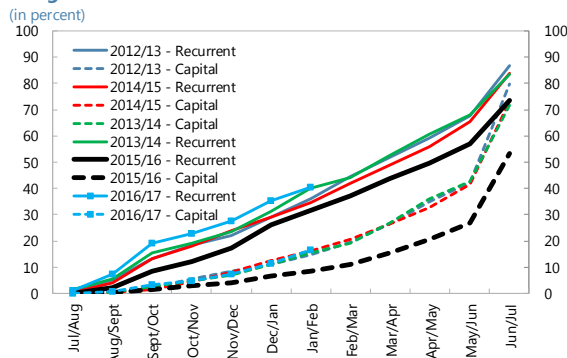
Government Revenue



Source: Nepali authorities.

Budget execution rates remain low, particularly for capital spending.

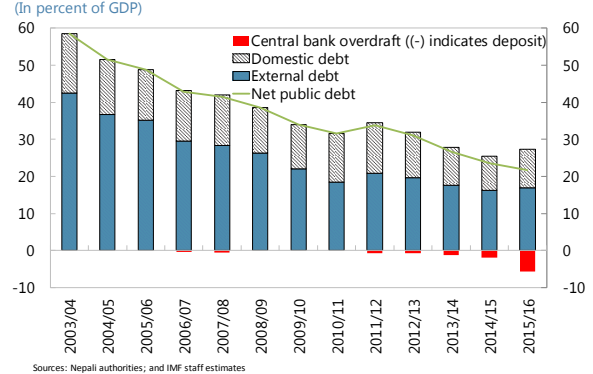
Budget Execution Rate



Source: Nepali authorities.

As a result, Nepal's public debt has been trending down. In July 2016, government deposits stood at NRs 127 billion.

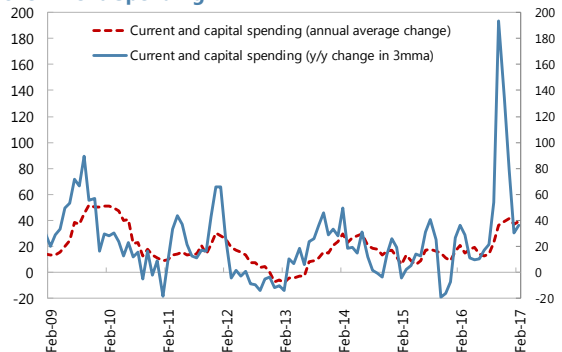
Public Debt



Sources: Nepali authorities; and IMF staff estimates.

Government spending in the past 3 months was up 36 percent compared to the same period a year ago.

Government Spending

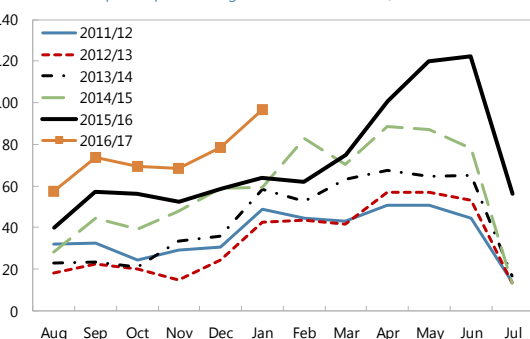


Source: Nepali authorities.

Net of the change in domestic borrowing, the government accumulated NR 97 bn (3.8 percent of GDP) at the NRB during the first 6 months of the fiscal year.

Cash Accumulation in the Treasury

(In billions of Nepali Rupees, change since start of the FY)



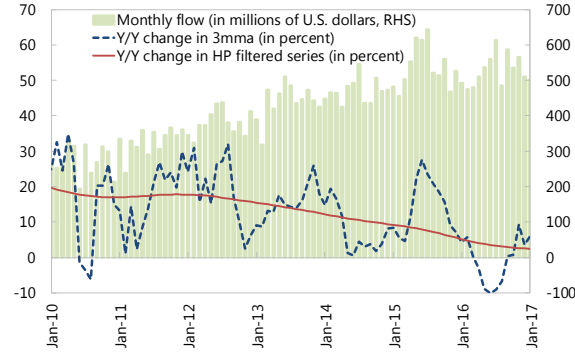
Source: Nepali authorities.

Note: Increase in government deposits at the NRB plus decline in domestic debt.

Figure 2. Nepal: Recent External Sector Developments

Recorded remittances amounted to US\$502 million in January. During the past 3 months they were up 6 percent from a year ago.

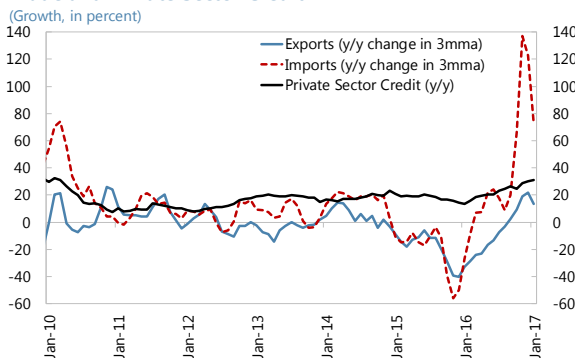
Remittances



Sources: Nepali authorities; and IMF staff estimates.

Imports are up 123 percent from a year ago. The recovery of exports is slower. Private sector credit growth, at 30½ percent in December (y/y), is at a 7-year high.

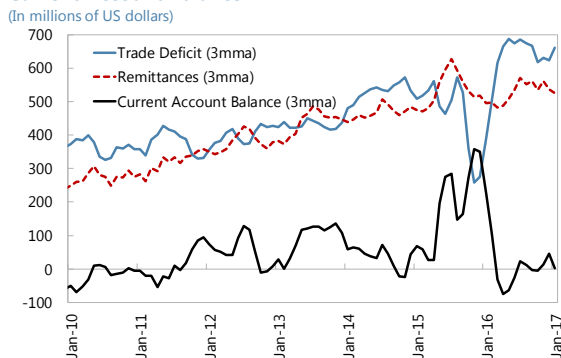
Trade and Private Sector Credit



Sources: Nepali authorities; and IMF staff estimates.

The recovery of imports raised the trade deficit but remittances continue to support the current account.

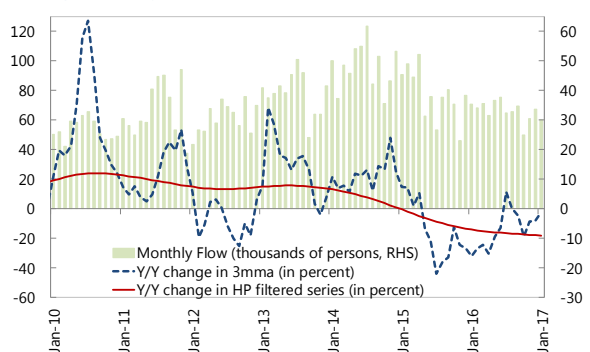
Current Account Balance



Source: Nepali authorities.

Meanwhile, the outflow of migrant workers during the past 3 months was 3 percent smaller than a year ago.

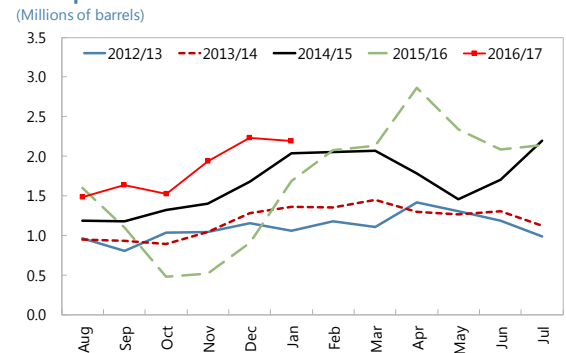
Foreign Employment



Sources: Nepali authorities; and IMF staff estimates.

Balance of payments data suggests that oil import volumes so far this fiscal year are up 25 percent from 2014/15, the year before the trade disruption.

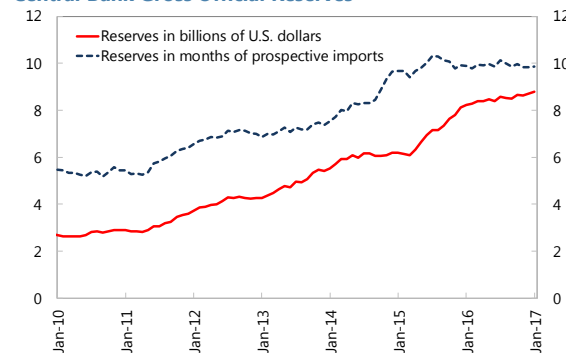
Oil Import Volume



Sources: Nepali authorities; and IMF staff estimates.

Central bank reserves (including gold and SDR holdings) reached a new high of US\$8.8 billion in mid-January.

Central Bank Gross Official Reserves



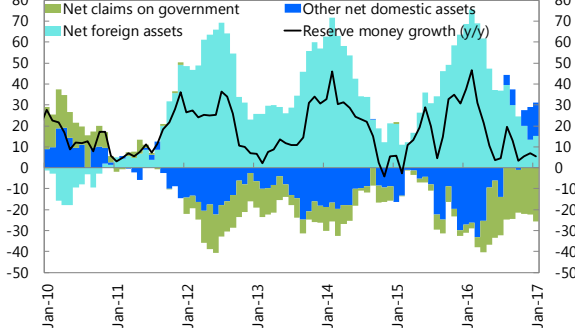
Sources: Nepali authorities; and IMF staff estimates.

Figure 3. Nepal: Recent Monetary Developments

Reserve money expanded by 5 percent (y/y) in January. The growth of central bank NFA continued to moderate.

Central Bank Balance Sheet

(In percent, contribution to reserve money growth)

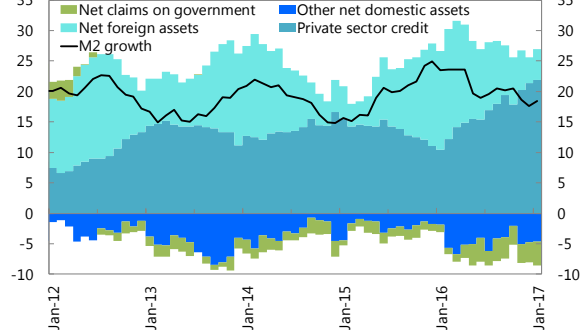


Sources: Nepali authorities; and IMF staff estimates.

Credit to the private sector is the key driver of the 18½ percent (y/y) increase in broad money (M2) in January.

Broad Money Growth

(In percent, contribution to broad money growth)

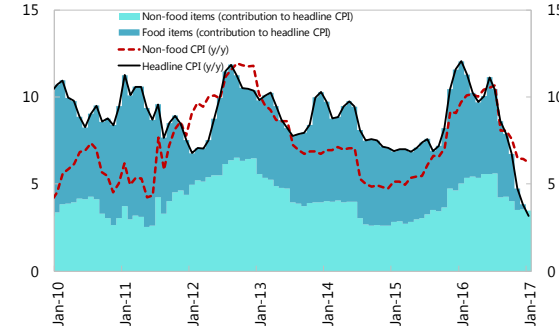


Sources: Nepali authorities; and IMF staff estimates.

Inflation decelerated to 3.2 percent (y/y) in January, the lowest in a decade. Food price inflation turned negative, falling to a multi-year low of -0.7 percent (y/y).

Consumer Price Inflation

(Percent change, year-on-year)

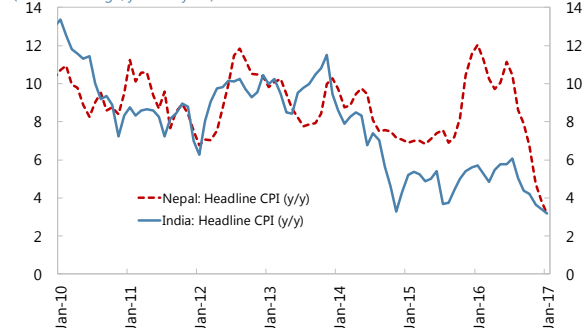


Sources: Nepali authorities; and IMF staff estimates.

As a result, the inflation wedge with India closed, for the first time since mid-2014.

Consumer Prices in Nepal and India

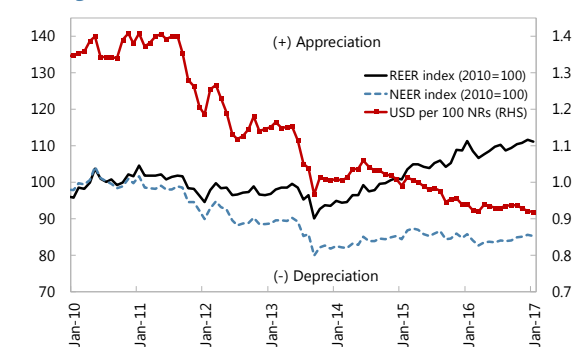
(Percent change, year on year)



Sources: Nepali authorities, Haver analytics; and IMF staff estimates.

The REER is 13 percent above the 2010-2014 average.

Exchange Rates

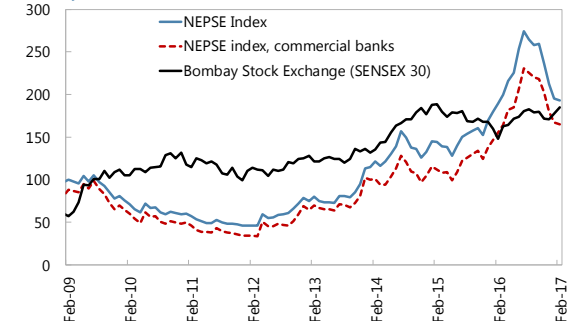


Sources: Nepali authorities; and IMF staff estimates.

Stock prices have undergone a correction since the July peak. They are still up about 2 percent from a year ago.

Stock Market Performance in Nepal and India

(Mid-July 2007=100)

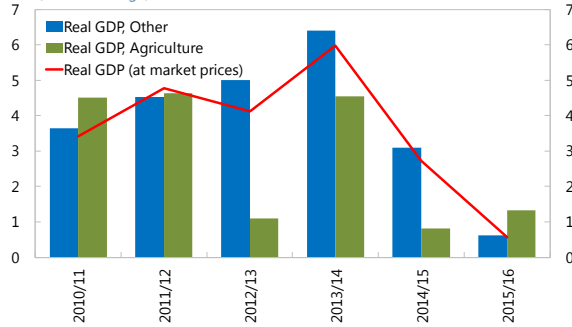


Sources: Nepali authorities; and IMF staff estimates.

Figure 4. Nepal: Economic Growth, Human Development, Remittances, and Exports

The growth of real GDP (at market prices) is estimated to have slowed to 0.6 percent in 2015/16 due to the earthquakes and trade disruption.

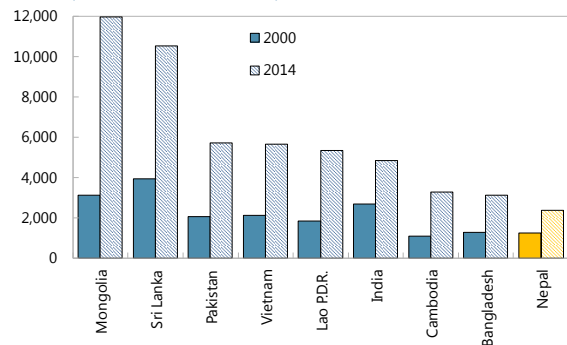
Real GDP Growth
(Percent change)



Source: Nepal Central Bureau of Statistics.

Nepal's growth has lagged peers and per capita GDP remains lower than in other Asian countries.

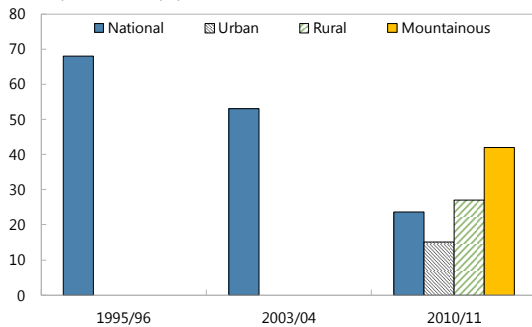
Per Capita GDP (PPP)
(In current international dollars)



Source: World Bank, WDI Database.

Poverty declined to 24 percent of the population in 2010/11. It is higher in rural and mountainous areas.

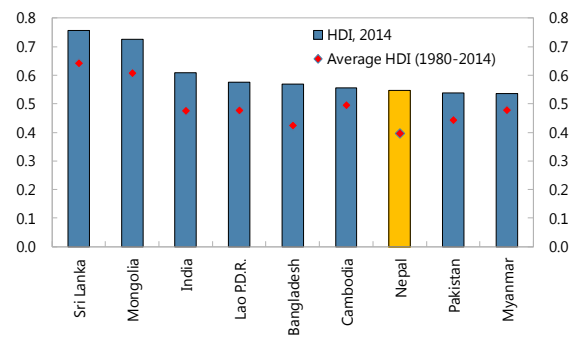
Poverty rate, 1995/96-2010/11
(In percent of the population)



Source: Nepal Central Bureau of Statistics.

The decline in poverty is reflected in an improvement in Nepal's UNDP Human Development Index.

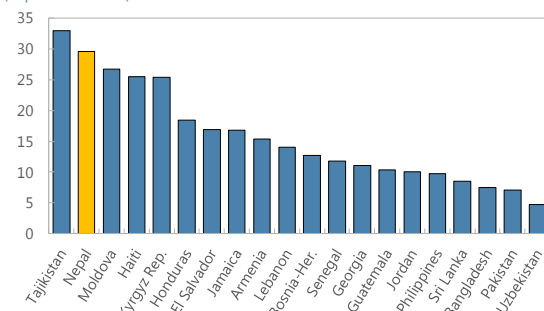
Human Development Index (HDI)
(Index number)



Source: UNDP, Human Development Report 2015.

Compared to other countries, Nepal has high remittances.

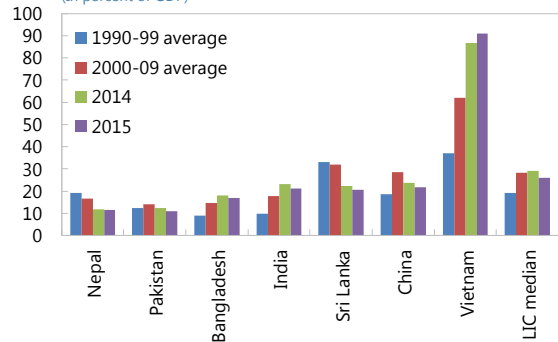
Inflows of Remittances, Selected Countries, 2015
(In percent of GDP)



Sources: World Bank, Remittances Data; IMF, World Economic Outlook.
Note: Observation for Nepal is for 2015/16.

But Nepal's exports have been growing slower than GDP.

Exports of Goods and Services
(In percent of GDP)



Sources: World Economic Outlook; and IMF staff estimates.

Table 1. Nepal: Monthly Data for Key Macroeconomic Indicators.

	2015/16					2016/17					Year-on-year change, in percent				
	Nov	Dec	Jan	Feb	FY to date	Nov	Dec	Jan	Feb	FY to date	Nov	Dec	Jan	Feb	FY to date
											2016	2017		(2016/17)	
Inflation (end of period, in percent)	10.4	11.6				4.8	3.8								
Imports (in US\$ m)	242	385	517		2,205	648	658	672		3,740	168	71	30		70
Non-oil imports (in US\$ m)	221	355	472		1,965	557	547	554		3,208	152	54	17		63
Oil imports (in US\$ m)	21	30	45		240	92	111	118		533	336	264	164		122
Exports (in US\$ m)	39	48	50		295	51	54	50		329	31	13	1		11
Remittances (in US\$ m)	468	526	492		3,079	564	510	502		3,182	21	-3	2		3
Flow of migrant workers (thousands)	23	38	35		210	31	34	30		187	33	-12	-15		-11
Government revenue (in NR bn)	17	20	52	29	193	42	40	70	44	322	148	96	36	51	67
Government expenditure (in NR bn)	20	28	48	31	171	26	37	61	48	301	33	33	28	52	76
Current expenditure (in NR bn)	17	25	43	27	153	22	29	49	31	249	31	16	14	12	63
Capital expenditure (in NR bn)	3	3	5	4	17	4	8	12	17	52	45	188	143	340	198
	2015/16					2016/17					Year-on-year change, in percent				
	Stocks			Flow FY to date	Stocks			Flow FY to date	2016		2017		Flow Fiscal year		
	Nov	Dec	Jan		Nov	Dec	Jan		Nov	Dec	Jan				
Central bank reserves (in US\$ m)	7,797	8,112	8,229		1,084	8,631	8,707	8,798		224	11	7	7		
Credit to the private sector (in NR bn)	1,419	1,431	1,455		81	1,824	1,866	1,905		213	29	30	31		161

Source: Nepali authorities.