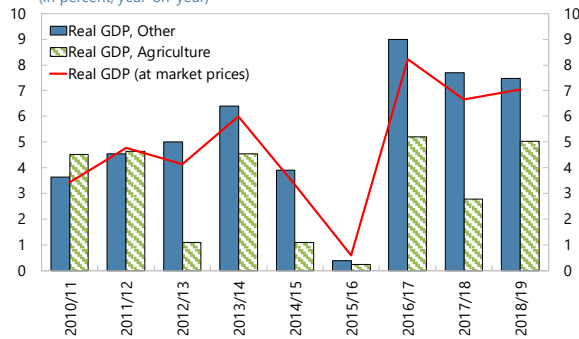


Figure 1. Nepal: Recent Macro-Economic Developments

Real GDP growth continued to be robust, reaching 7.1 percent in FY 2018/19, following growth of 6.6 percent in 2017/18.

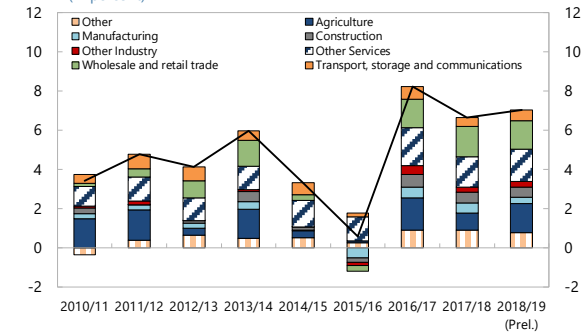
Real GDP Growth (In percent, year-on-year)



Source: Nepal Central Bureau of Statistics.

The service sector contributed the most towards real GDP growth for FY 2018/19, followed by agriculture, and wholesale and retail trade.

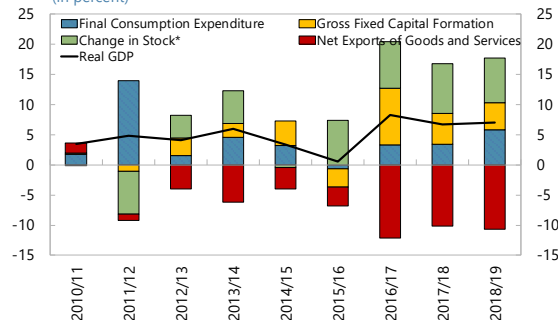
Contribution to Real GDP Growth by Sector (In percent)



Sources: Nepal Central Bureau of Statistics, and IMF staff calculations.

In FY 2018/19, real GDP growth was supported by stronger consumption expenditure.

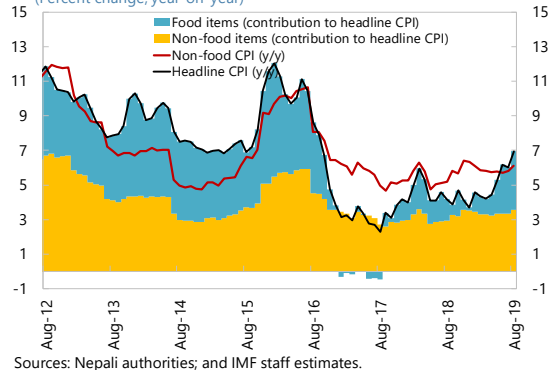
Contribution to Real GDP Growth by Expenditure (In percent)



Sources: Nepali Authorities, and IMF staff calculations.
*Includes Statistical discrepancy

Headline inflation rose to 7.0 percent (y/y) in Aug. 2019, compared to 6.0 percent in July, due to higher food and non-food inflation.

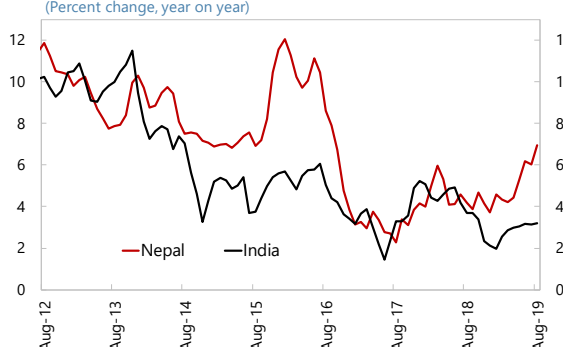
Consumer Price Index (Percent change, year-on-year)



Sources: Nepali authorities; and IMF staff estimates.

Nepal's headline inflation rate has been higher than India's inflation since Sep-2018, and the wedge has been widening since Apr-19.

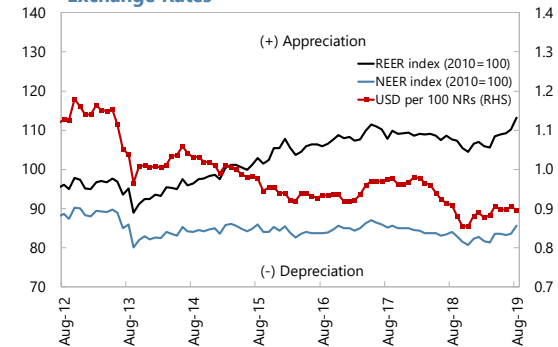
Consumer Price Index in Nepal and India (Percent change, year on year)



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

The REER appreciated by 5.2 percent in August 2019 (y/y).

Exchange Rates

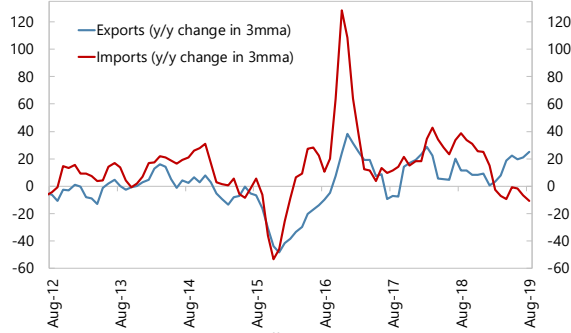


Sources: Nepali authorities; and IMF staff estimates.

Figure 2. Nepal: Recent External Sector Developments

Imports are down by 10.8 percent while exports are up by 25 percent (y/y, on a 3mma basis), in Aug 2019.

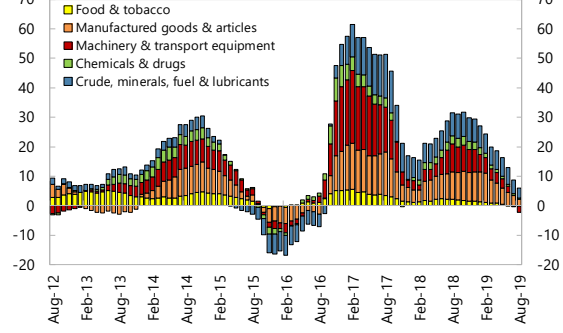
Exports and Imports
(Growth, in percent)



Sources: Nepali authorities; and IMF staff estimates.

Crude, minerals, fuel and lubricants contributed the most to import growth in Aug. 2019 (3.3 percent), while imports of machinery have been declining.

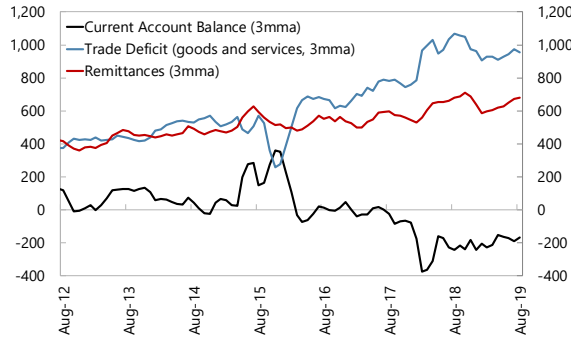
Contribution to Import Growth
(In percent, based on 12MMA, year-on-year)



Sources: Nepali authorities and IMF staff calculations.

The current account deficit was US\$84 Mn in August 2019, while the trade deficit was US\$847 Mn.

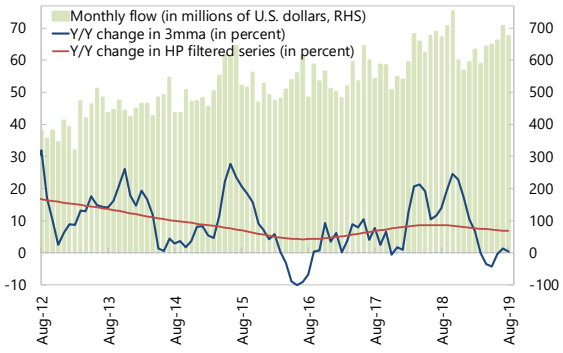
Current Account Balance
(In millions of U.S. dollars)



Source: Nepali authorities.

Remittance inflows were at US\$675 million in Aug. 2019, and the growth of remittances has stabilized in recent months.

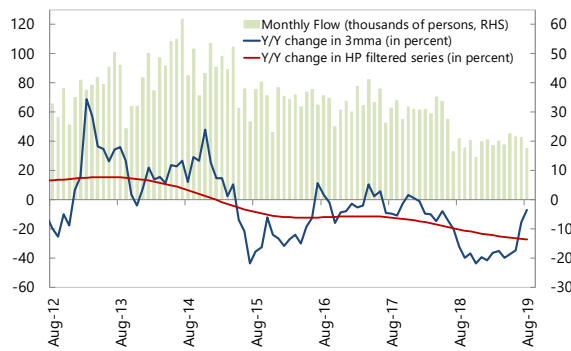
Remittances



Sources: Nepali authorities; and IMF staff estimates.

The number of first-time migrants declined by 6.9 percent in August (y/y, 3mma)

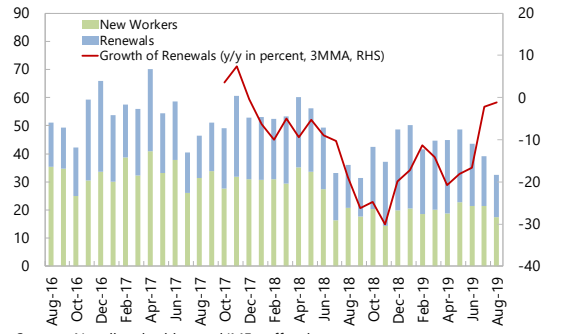
New Foreign Employment



Sources: Nepali authorities; and IMF staff estimates.

The total number of foreign workers (new and renewals) declined by 1.2 percent in August (y/y, 3ma).

Total Foreign Employment
(Thousands of workers)

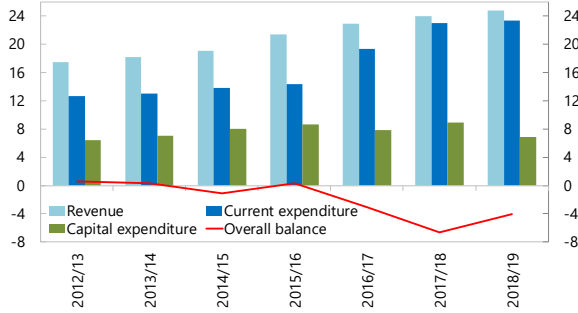


Sources: Nepali authorities; and IMF staff estimates.

Figure 3a. Nepal: Recent Fiscal Developments

In FY2018/19, the fiscal deficit (based on above-the-line data) was 4.1 percent of GDP compared to 6.7 percent of GDP in FY 2017/18.

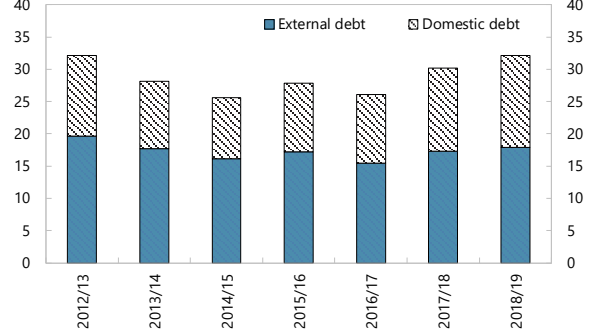
Fiscal Performance
(In percent of GDP)



Sources: Nepali authorities; and IMF staff estimates.
Note: Overall balance calculated as total revenue and grants minus expenditure.

Public debt rose to 32.2 percent of GDP in 2018/19, from 30.2 percent of GDP in the previous year.

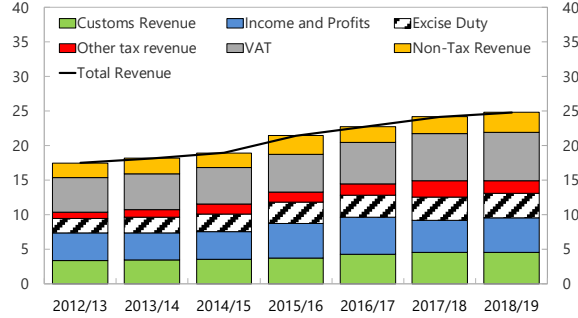
Public Debt
(In percent of GDP)



Sources: Nepali authorities, and IMF staff estimates.

In FY 2018/19, the chief source of revenue was VAT (7.0 percent of GDP), followed by income tax revenue and customs.

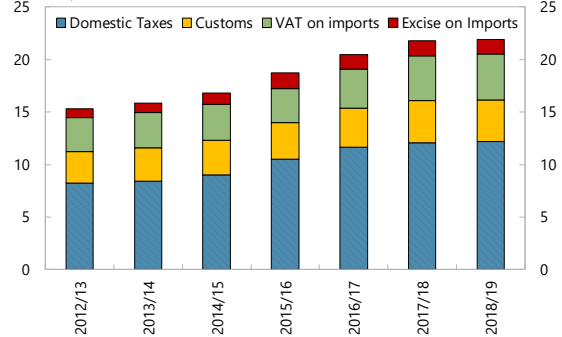
Fiscal Revenues Excluding Grants
(In percent of GDP)



Sources: Nepali Authorities, and IMF staff estimates.

In FY 2018/19, taxes from imports were 9.7 percent of GDP, while taxes from domestic sources were 12.2 percent of GDP.

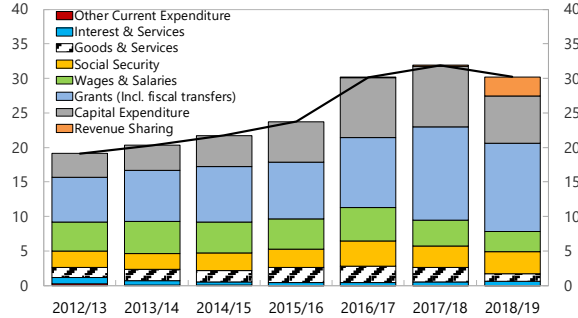
Tax Revenue by Source
(In percent of GDP)



Sources: Nepali authorities, and IMF staff calculations.

Expenditure grants (12.8 percent of GDP) were the biggest component of spending in FY 2018/19, followed by capital expenditure and social security.

Fiscal Expenditure
(In percent of GDP)



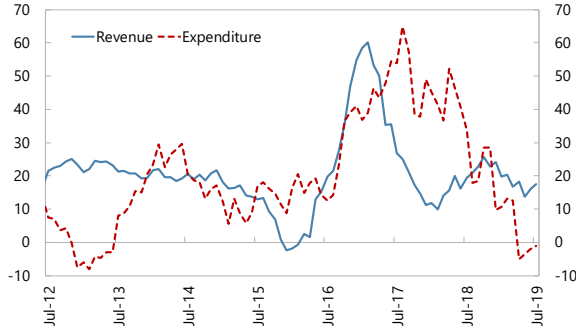
Sources: Nepali Authorities, and IMF staff estimates.

Figure 3b. Nepal: Recent Fiscal Developments

In July 2019, revenues were up by 17.5 percent (annual avg. change), while spending (excluding revenue sharing) fell by 1.1 percent (annual avg. change).

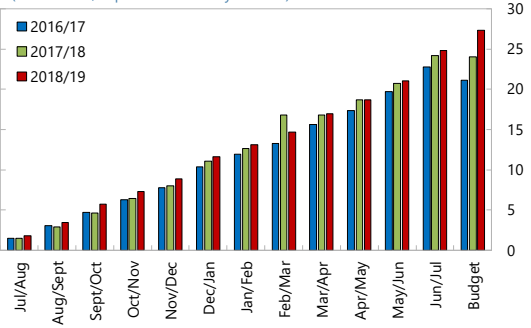
The revenue collection rate (excluding grants) in 2018/19 was about 24.8 percent of GDP.

Total Revenue and Expenditure
(Annual average change, in percent)



Sources: Nepali Authorities and IMF staff calculations.

Revenue Collection Rate Excluding Grants
(Cumulative, in percent of fiscal year GDP)

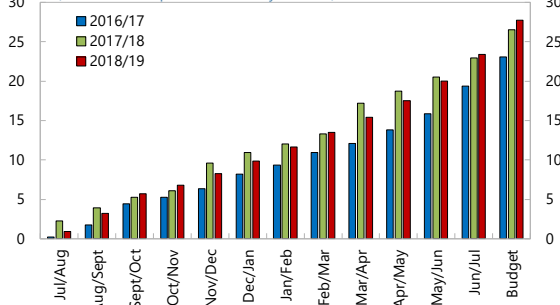


Sources: Nepali Authorities and IMF staff estimates.

Recurrent expenditure (including revenue sharing) was 23.2 percent of GDP in 2018/19.

Capital expenditure was 6.9 percent of GDP in 2018/19.

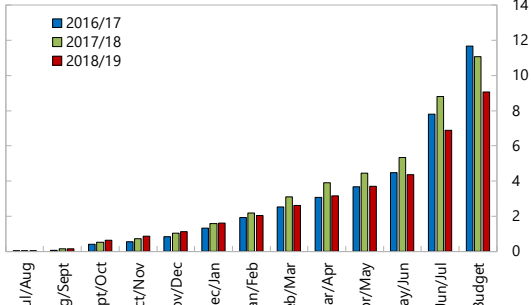
Recurrent Expenditure 1/
(Cumulative, in percent of fiscal year GDP)



Sources: Nepali Authorities and IMF staff calculations.

1/ Includes revenue sharing.

Capital Expenditure
(Cumulative, in percent of fiscal year GDP)

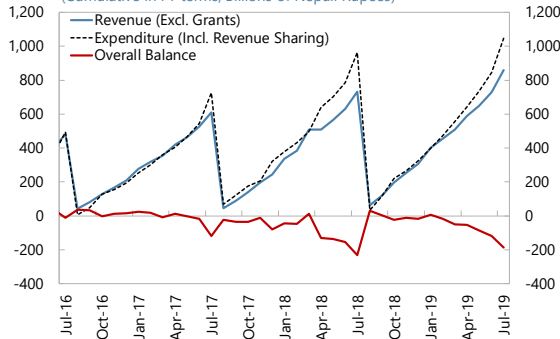


Sources: Nepali Authorities and IMF staff calculations

In FY 2018/19, the overall balance (excl. revenue grants) was in a deficit of 188 billion Nepali Rupees....

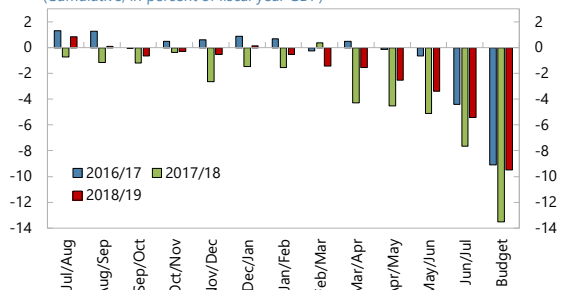
...or about 5.4 percent of GDP.

Central Government Finances
(Cumulative in FY terms, Billions of Nepali Rupees)



Sources: Nepali Authorities, and IMF staff calculations.

Overall Fiscal Balance 1/
(Cumulative, in percent of fiscal year GDP)



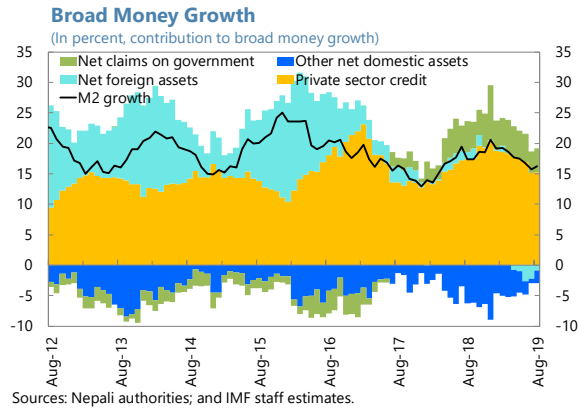
Sources: Nepali Authorities and IMF staff calculations.

1/ Total Revenue in this calculation excludes revenue grants.

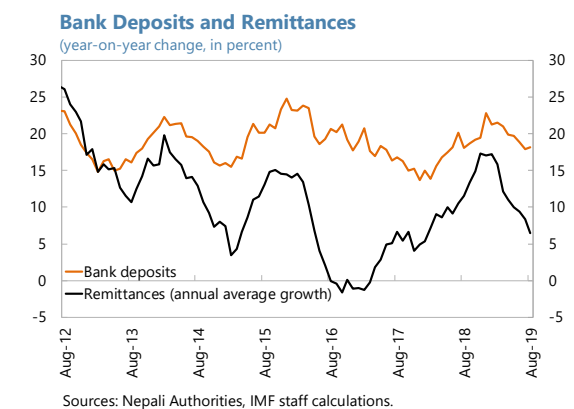
Note: The overall fiscal balance including revenue grants as projected in the budget was -9.6 percent of GDP in 2016/17, -11.1 percent of GDP in 2017/18, and -7.8 percent of GDP in 2018/19.

Figure 4. Nepal: Recent Monetary Sector Developments

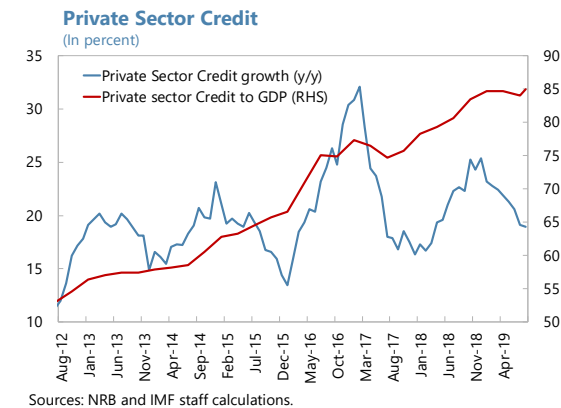
Broad money expanded by 16.3 percent (y/y) in August, driven mostly by private sector credit growth.



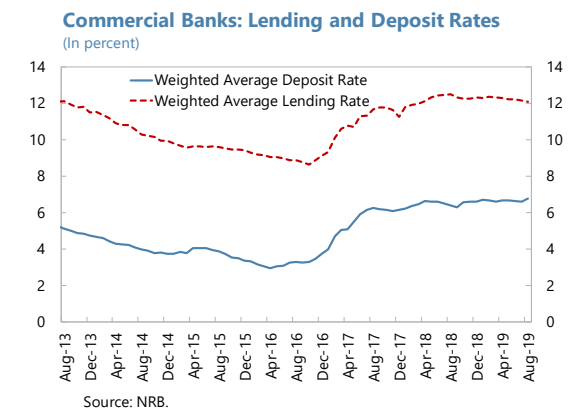
The growth of deposits in the banking system was at 18.2 percent (y/y) in August.



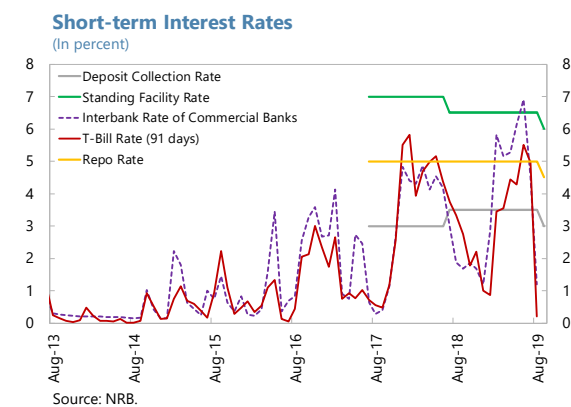
Private sector credit grew by 19 percent in August (y/y), and now is about 85 percent of GDP.



Banks' average deposit and lending rates were stable...



...while interbank rates fell sharply in August, well below the interest rate corridor.



Gross official reserves (including gold and SDR holdings) stood at US\$8.4 billion in August, covering about 6.5 months of prospective imports of goods and services.

