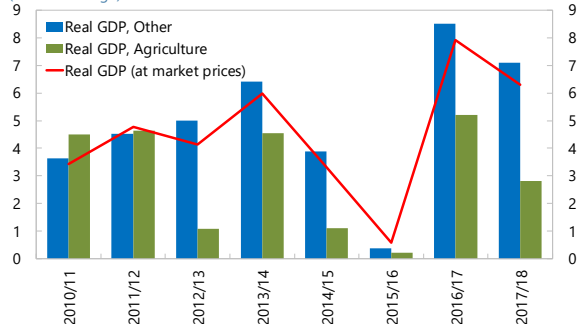


Figure 1. Nepal: Recent Macro-Economic Developments

Real GDP growth is estimated at 6.3 percent in 2017/18. Growth rebounded to 7.9 percent in 2016/17, after a slump due to the 2015 earthquakes and trade disruptions.

Real GDP Growth

(Percent change)

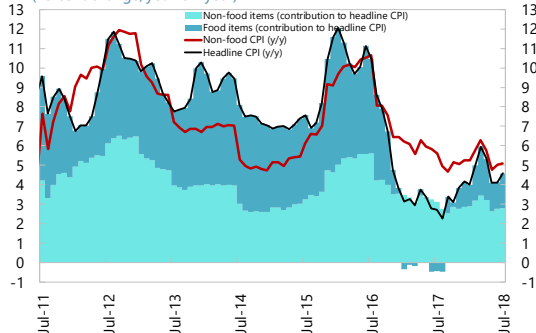


Source: Nepal Central Bureau of Statistics.

Headline inflation rose to 4.6 percent (y/y) in July. Non-food inflation amounted to 5.1 percent.

Consumer Price Inflation

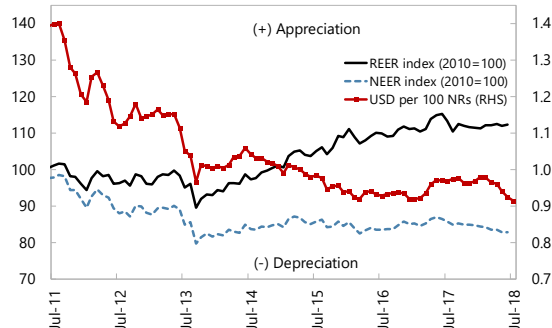
(Percent change, year-on-year)



Sources: Nepali authorities; and IMF staff estimates.

The real effective exchange rate of the Nepali rupee has been about 14 percent above the 2010-14 average. The recent weakening of the rupee/US\$ rate could lower that.

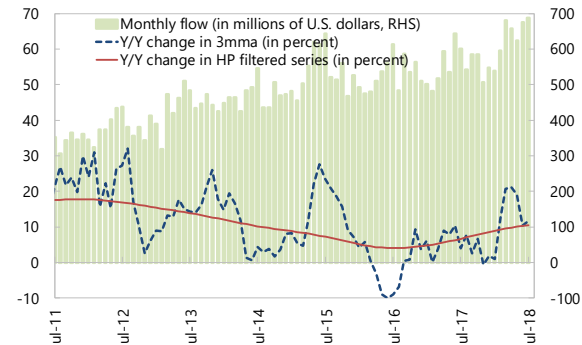
Exchange Rates



Sources: Nepali authorities; and IMF staff estimates.

Remittances set a new record of US\$688 million in July. For 2017/18 as a whole, remittances were US\$7.2 billion, up 10 percent from a year ago.

Remittances

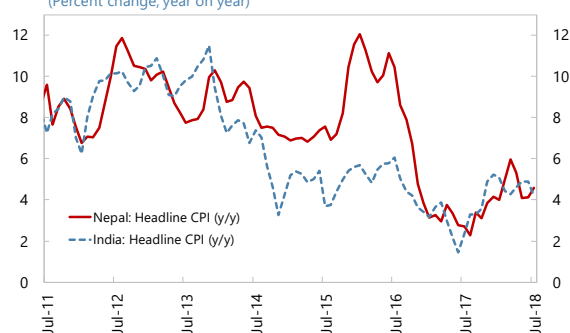


Sources: Nepali authorities; and IMF staff estimates.

Nepal's inflation has moved broadly in line with India's inflation since early 2017.

Consumer Prices in Nepal and India

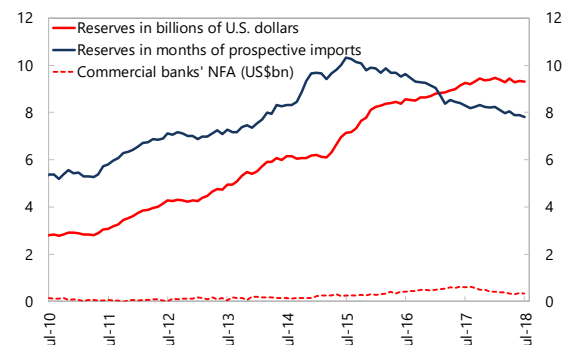
(Percent change, year on year)



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

Central bank reserves (including gold and SDR holdings) amounted to US\$9.3 billion in mid-July, covering about 7.8 months of prospective imports.

Central Bank Gross Reserves and Commercial Banks NFA



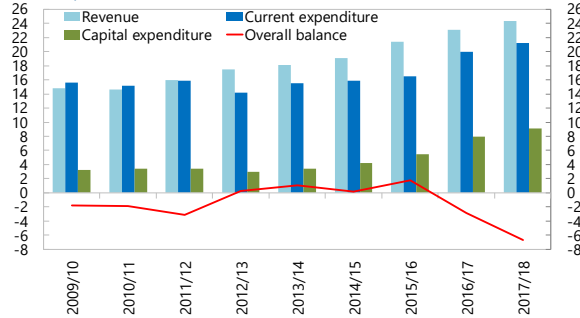
Sources: Nepali authorities; and IMF staff estimates.

Figure 2. Nepal: Recent Fiscal Developments

Spending expanded more rapidly than revenue, causing the deficit (based on below-the-line financing data) to rise by 3.8 percent of GDP to 6.7 percent of GDP in 2017/18.

Fiscal Performance

(In percent of GDP)

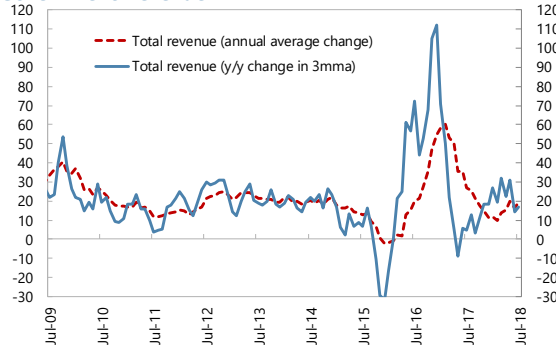


Sources: Nepali authorities; and IMF staff estimates.

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

FCGO data indicates that revenues rose by 17 percent (year-on-year) during the last 3 months of the fiscal year. For 2017/18 as a whole, revenue was up 19 percent.

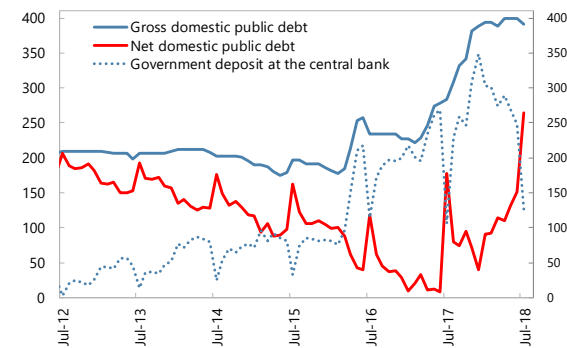
Government Revenue



Source: Nepali authorities.

Gross domestic debt amounts to about NR 400 bn. Large variations in government deposits at the central bank lead to large variations in net domestic public debt.

Government Net Domestic Debt

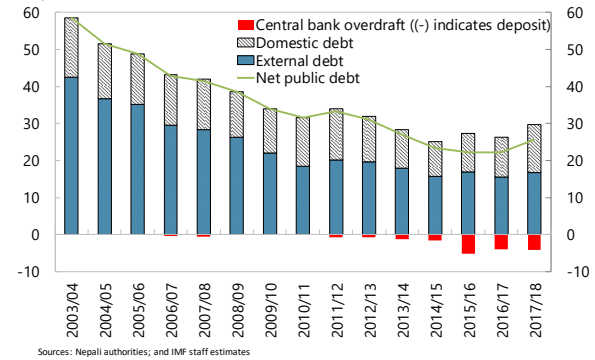


Source: Nepali authorities.

As a result, Nepal's gross and net public debt both rose by 3½ percent of GDP in 2017/18, to 29.7 and 25.6 percent of GDP, respectively.

Public Debt

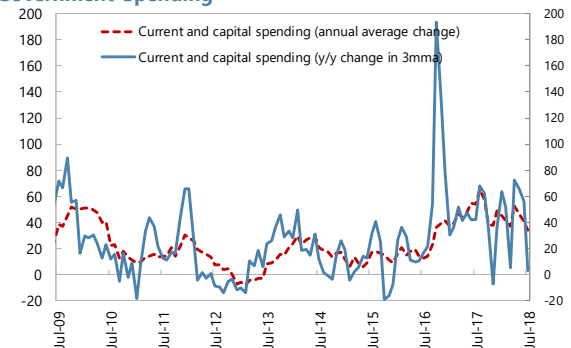
(In percent of GDP)



Sources: Nepali authorities; and IMF staff estimates.

Central government spending rose 3 percent (y/y) during the last 3 months. For the fiscal year, central government spending (incl. transfers to local govs.) rose 34 percent.

Government Spending



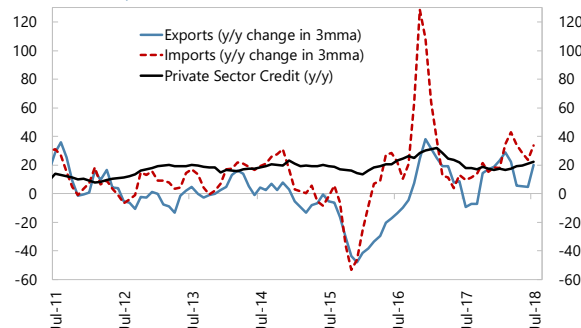
Source: Nepali authorities.

Figure 3. Nepal: Recent External and Monetary Sector Developments

Imports and exports are up by 34 and 20 percent (y/y, on a 3mma basis), respectively, from a year ago. Private credit growth firmed to 22 percent in July (y/y).

Trade and Private Sector Credit

(Growth, in percent)

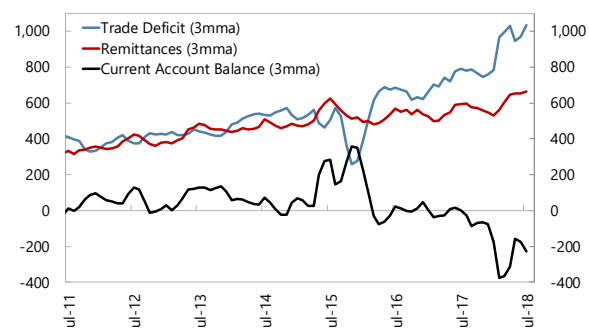


Sources: Nepali authorities; and IMF staff estimates.

Strong imports are raising the trade deficit. This contributed to a current account deficit of US\$2.3 billion, despite firming remittances.

Current Account Balance

(In millions of US dollars)

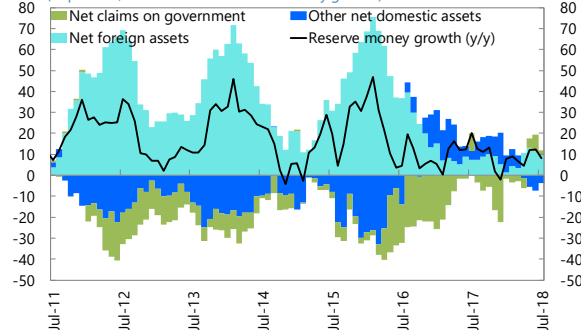


Source: Nepali authorities.

Reserve money expanded by 8 percent (y/y) in July.

Central Bank Balance Sheet

(In percent, contribution to reserve money growth)

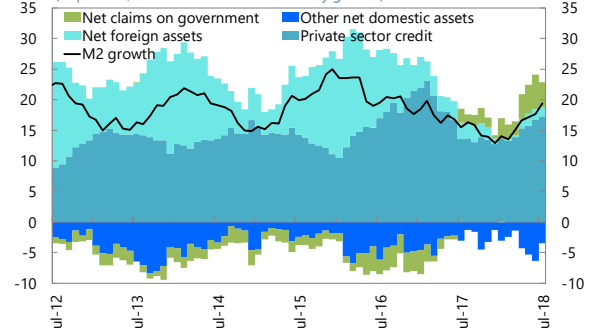


Sources: Nepali authorities; and IMF staff estimates.

Amid firming private sector credit growth, M2 growth rose to 19 percent (y/y) in July.

Broad Money Growth

(In percent, contribution to broad money growth)

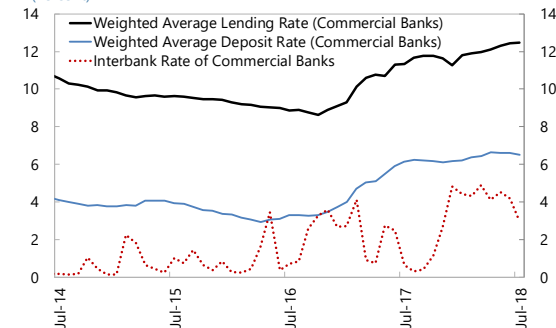


Sources: Nepali authorities; and IMF staff estimates.

Commercial banks' lending interest rates are inching up. Interbank rates had stabilizing at 4 pct on implementation of the interest rate corridor but have recently fallen.

Nepal: Interest Rates

(Percent)

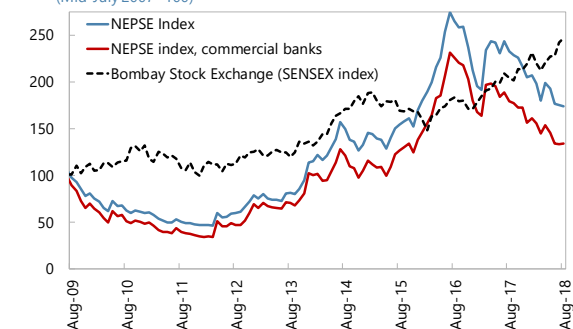


Source: NRB

By late August, stock prices were down 25 percent from a year ago. Bank stocks were down by the same amount.

Stock Market Performance in Nepal and India

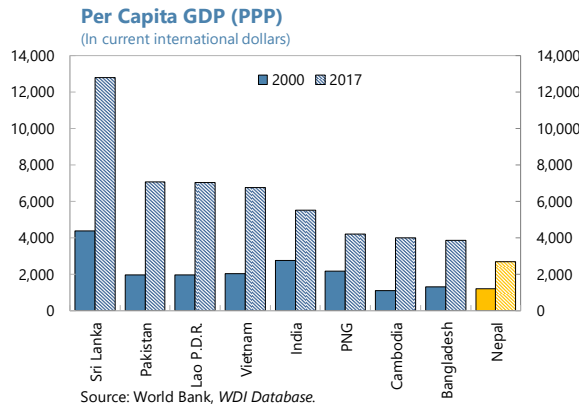
(Mid-July 2007=100)



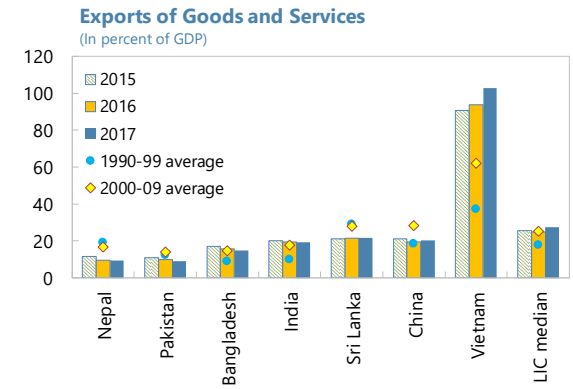
Sources: Nepali authorities; and IMF staff estimates

Figure 4. Nepal and its Peers: Growth, Exports, FDI, Remittances and Human Development

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

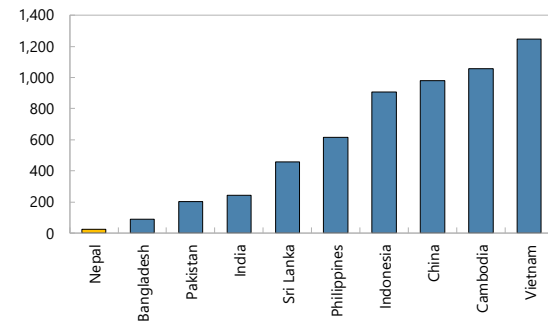


Nepal's exports have been growing slower than GDP and are lower than in most peers.



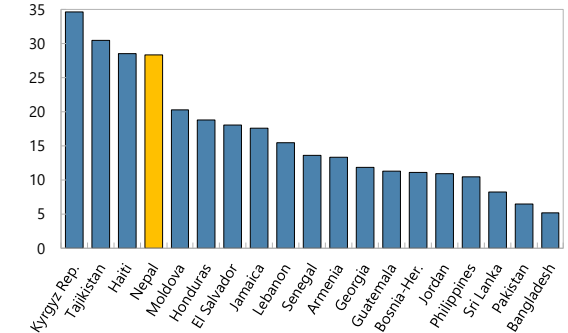
Inflows of foreign direct investment (FDI) in Nepal remain small. As a result, the stock of FDI is much smaller than in peer countries.

FDI Stocks in 2016
(US\$ per capita)



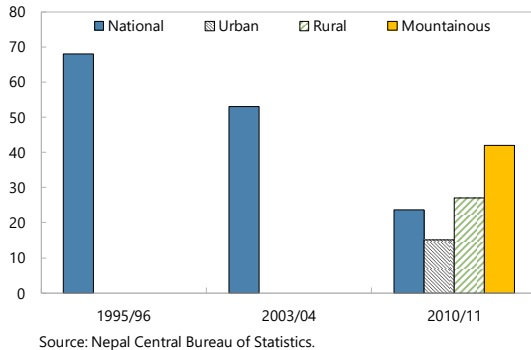
On the other hand, compared to other countries, Nepal has high remittances.

Inflows of Remittances, Selected Countries, 2017
(In percent of GDP)



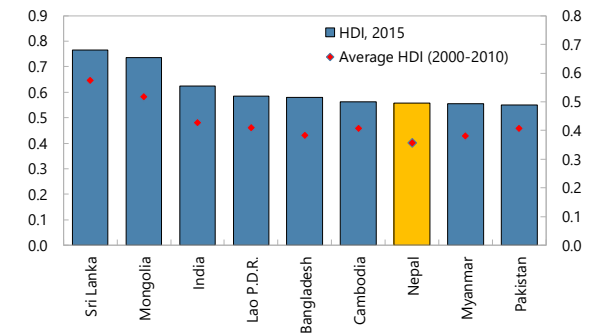
Poverty declined to 24 percent of the population in 2010/11, thanks in part to the growth of remittances. Poverty is higher in rural and mountainous areas.

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



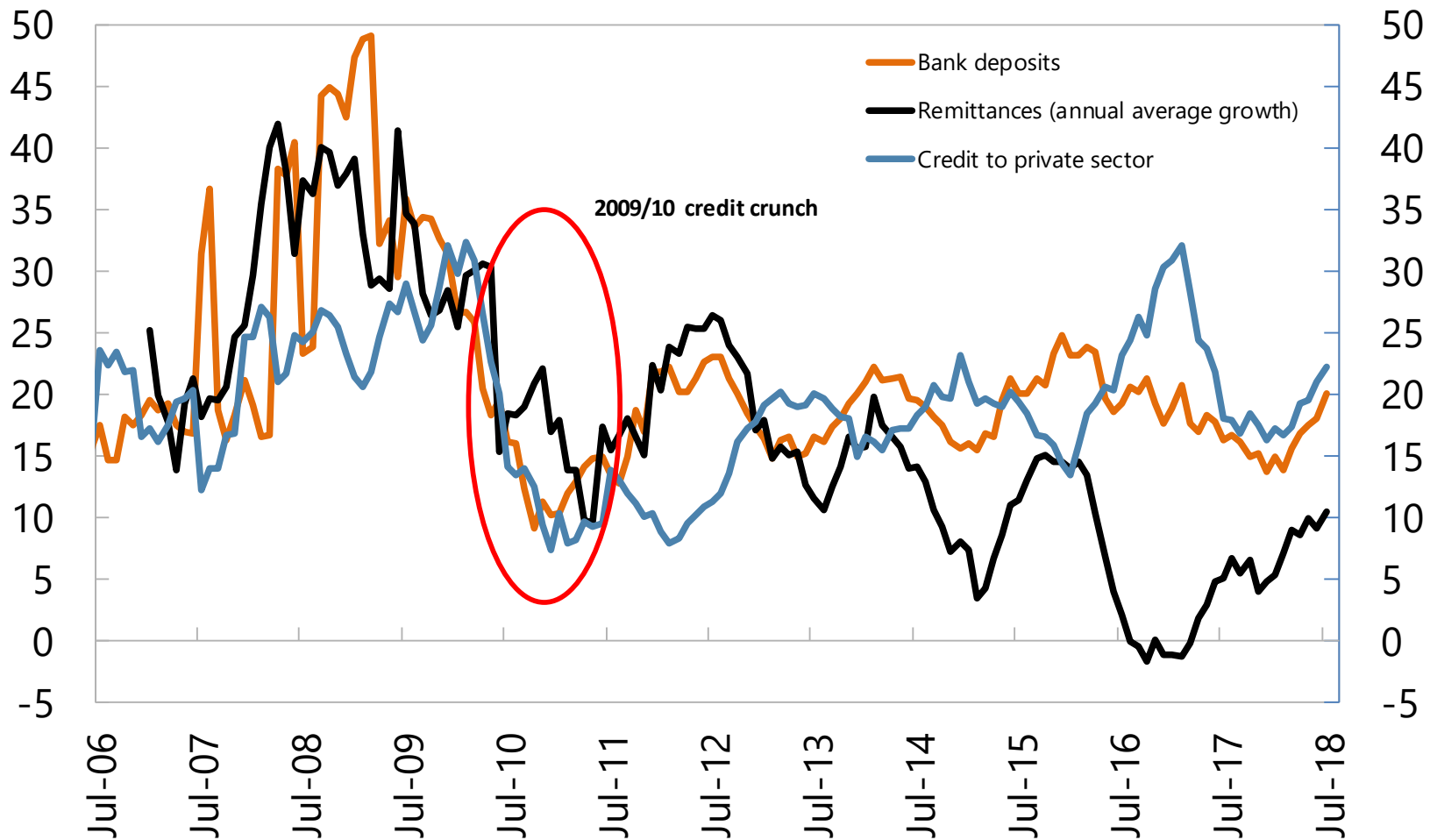
The decline in poverty is reflected in an improvement in Nepal's UNDP Human Development Index.

Human Development Index (HDI)
(Index number)



Bank Deposits, Credit and Remittances

(year-on-year change, in percent)



Sources: Nepali Authorities, IMF staff calculations.