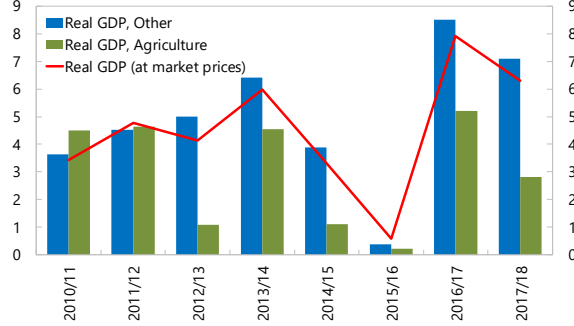


Figure 1. Nepal: Recent Macro-Economic Developments

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

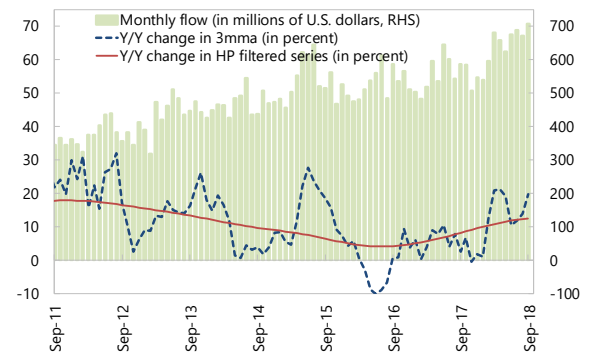
(Percent change)



Source: Nepal Central Bureau of Statistics.

Recorded remittances set a new record (US\$707 million) in September. During the past three months they rose by 20 percent compared to the same year-ago period.

Remittances

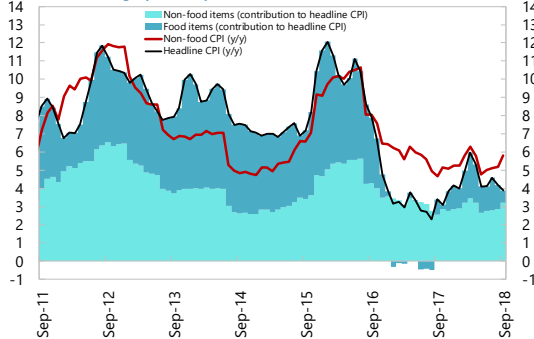


Sources: Nepali authorities; and IMF staff estimates.

Headline inflation eased to 3.9 percent (y/y) in September, on low food prices. Non-food inflation rose to 5.8 percent.

Consumer Price Index

(Percent change, year-on-year)

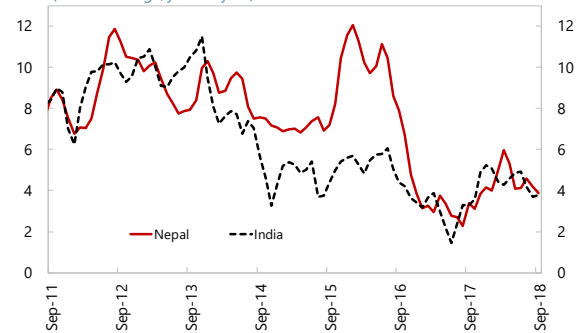


Sources: Nepali authorities; and IMF staff estimates.

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

Consumer Price Index in Nepal and India

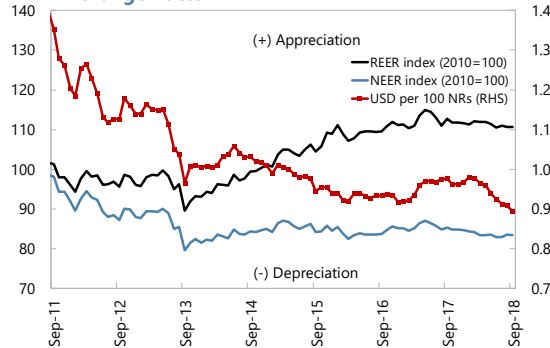
(Percent change, year on year)



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

The U.S. dollar has strengthened against the Nepali rupee as well as against other currencies. The real effective exchange rate of the Nepali rupee remains about 12 percent above the 2010-14 average.

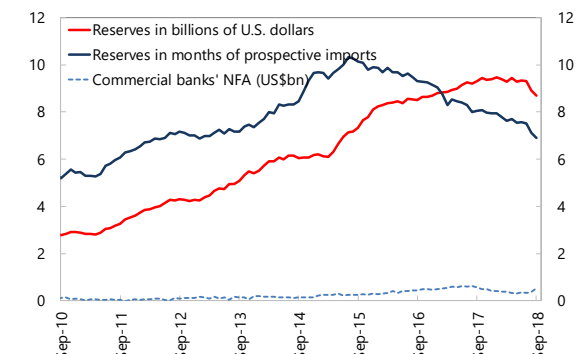
Exchange Rates



Sources: Nepali authorities; and IMF staff estimates.

Central bank reserves (including gold and SDR holdings) amounted to US\$8.7 billion in mid-September, covering about 7 months of prospective imports.

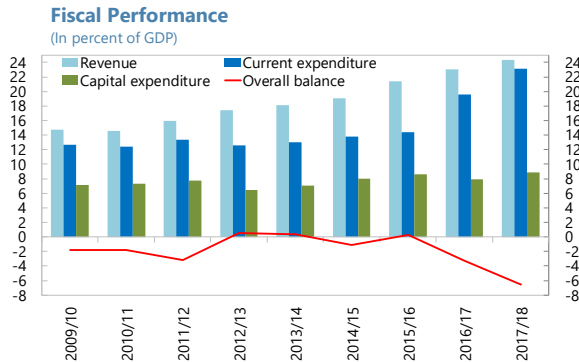
Central Bank Gross Reserves and Commercial Banks NFA



Sources: Nepali authorities; and IMF staff estimates.

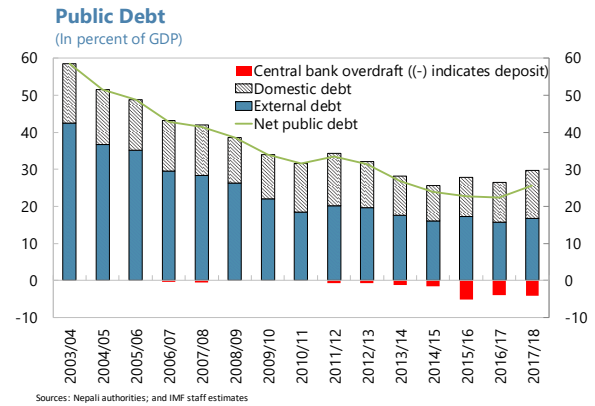
Figure 2. Nepal: Recent Fiscal Developments

Spending expanded more rapidly than revenue, causing the deficit (based on above-the-line data) to rise by 3.2 percent of GDP to 6.5 percent of GDP in 2017/18.



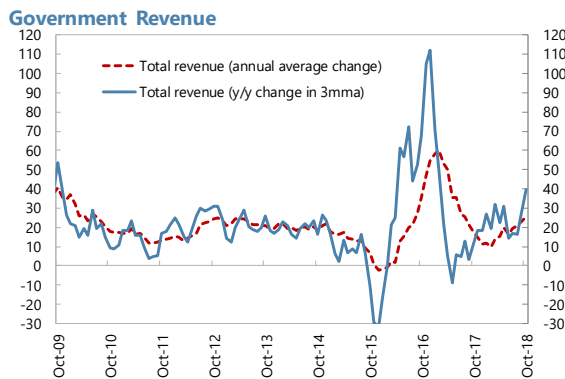
Sources: Nepali authorities; and IMF staff estimates.
Note: Overall balance calculated as total revenue and grants minus expenditure.

As a result, public debt rose to 29.7 percent of GDP in 2017/18. Public debt net of government deposits also rose by 3½ percent of GDP, to 25.6 percent of GDP.



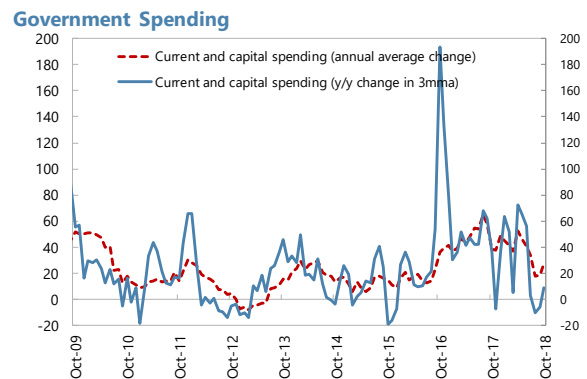
Sources: Nepali authorities; and IMF staff estimates

FCGO data indicates that revenues rose by 39 percent (year-on-year) during the last 3 months. In fiscal year 2017/18, revenue was up 19 percent.



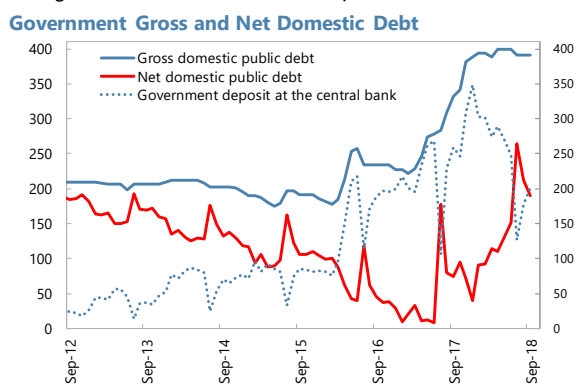
Source: Nepali authorities.

Central government spending rose 9 percent (y/y) during the last 3 months. In fiscal year 17/18, central government spending (incl. transfers to local govts.) rose 32 percent.



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.

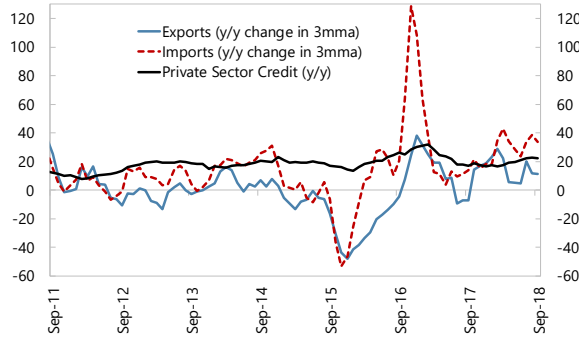


Source: Nepali authorities.

Figure 3. Nepal: Recent External and Monetary Sector Developments

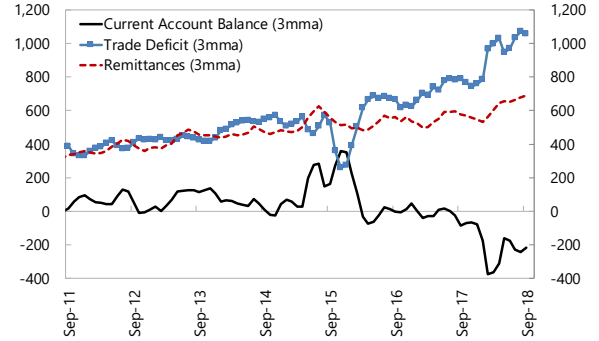
Imports and exports are up by 33 and 11 percent (y/y, on a 3mma basis), respectively, from a year ago. Private credit grew by 22 percent in September (y/y).

Trade and Private Sector Credit
(Growth, in percent)



Strong imports are raising the trade deficit. This contributed to a current account deficit of US\$2.3 billion in 2017/18 (8.2 percent of GDP), despite firming remittances.

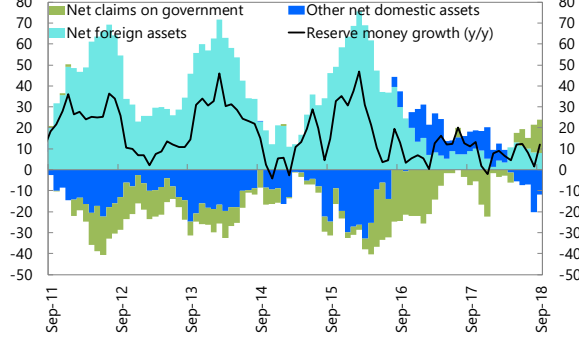
Current Account Balance
(In millions of U.S. dollars)



Reserve money expanded by 12 percent (y/y) in September

Central Bank Balance Sheet

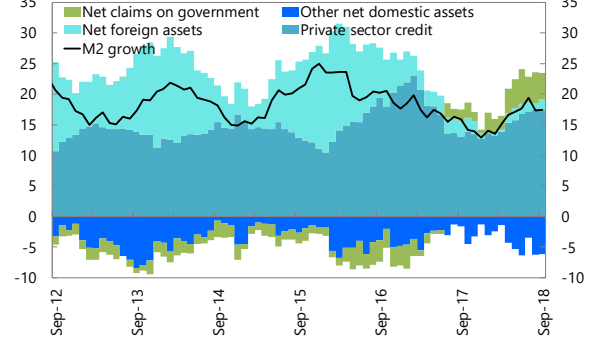
(In percent, contribution to reserve money growth)



Amid strong private sector credit growth, M2 growth amounted to 17 percent (y/y) in September.

Broad Money Growth

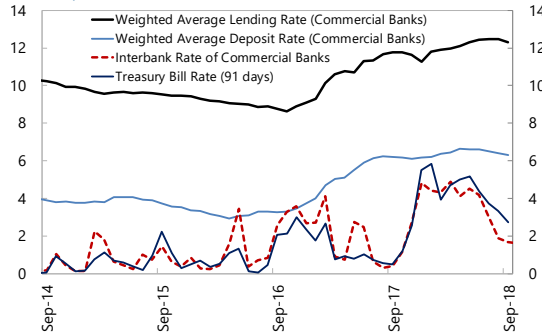
(In percent, contribution to broad money growth)



Banks' lending and deposit interest rates inched down in September. Interbank rates had stabilizing at 4 percent, in the interest rate corridor, but have recently fallen.

Nepal: Interest Rates

(In percent)



Stock prices remain volatile. By end-October, they were down about 20 percent from a year ago.

Stock Market Performance in Nepal and India

(Mid-July 2007=100)

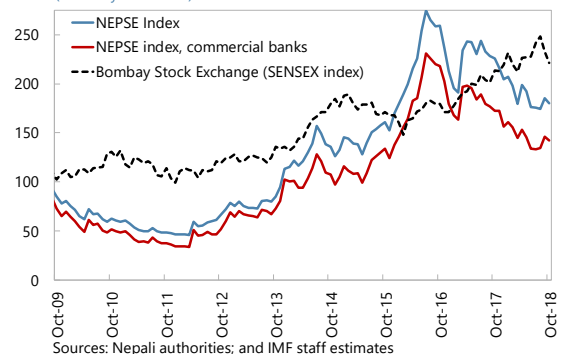
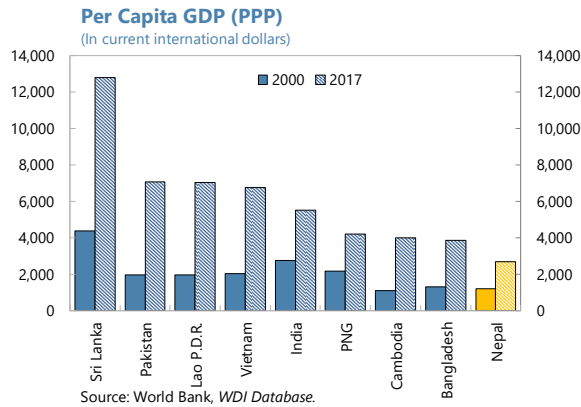
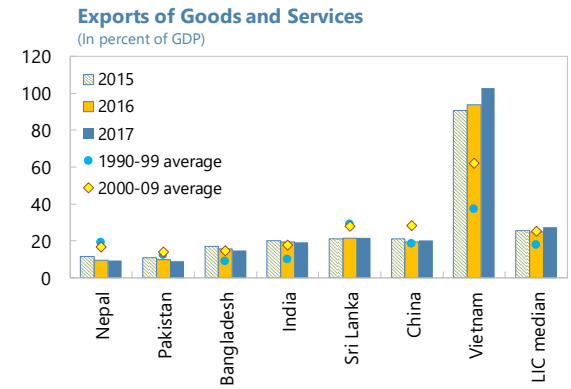


Figure 4. Nepal and its Peers: Growth, Exports, FDI, Remittances and Human Development

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

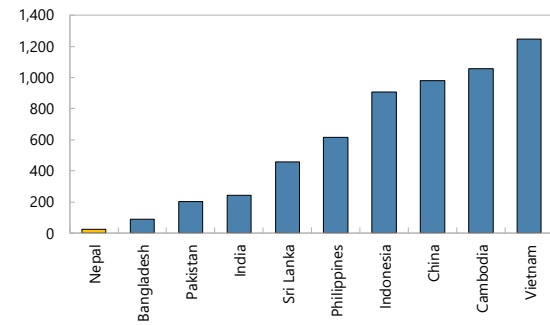


Nepal's exports have been growing slower than GDP and are lower than in most peers.



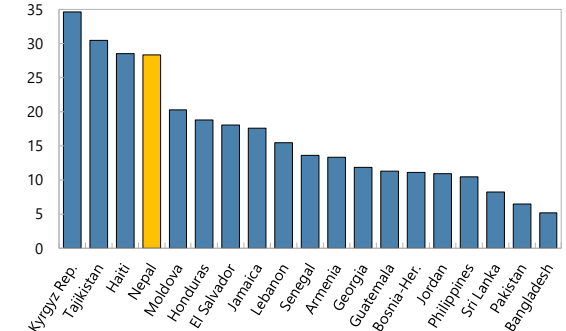
Inflows of foreign direct investment (FDI) in Nepal remain small. As a result, the stock of FDI is much smaller than in peer countries.

FDI Stocks in 2016
(US\$ per capita)



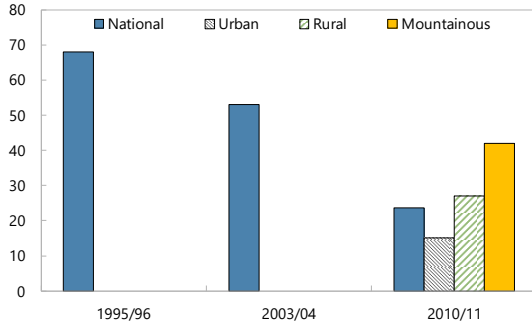
On the other hand, compared to other countries, Nepal has high remittances.

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



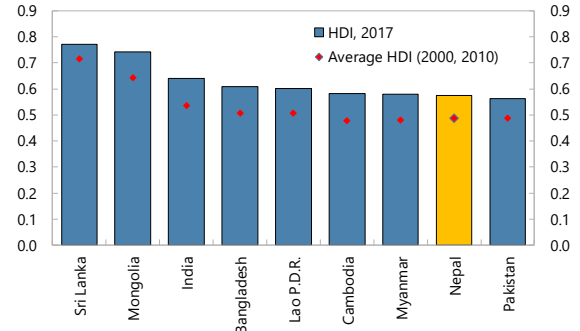
Poverty declined to 24 percent of the population in 2010/11, thanks in part to the growth of remittances. Poverty is higher in rural and mountainous areas.

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



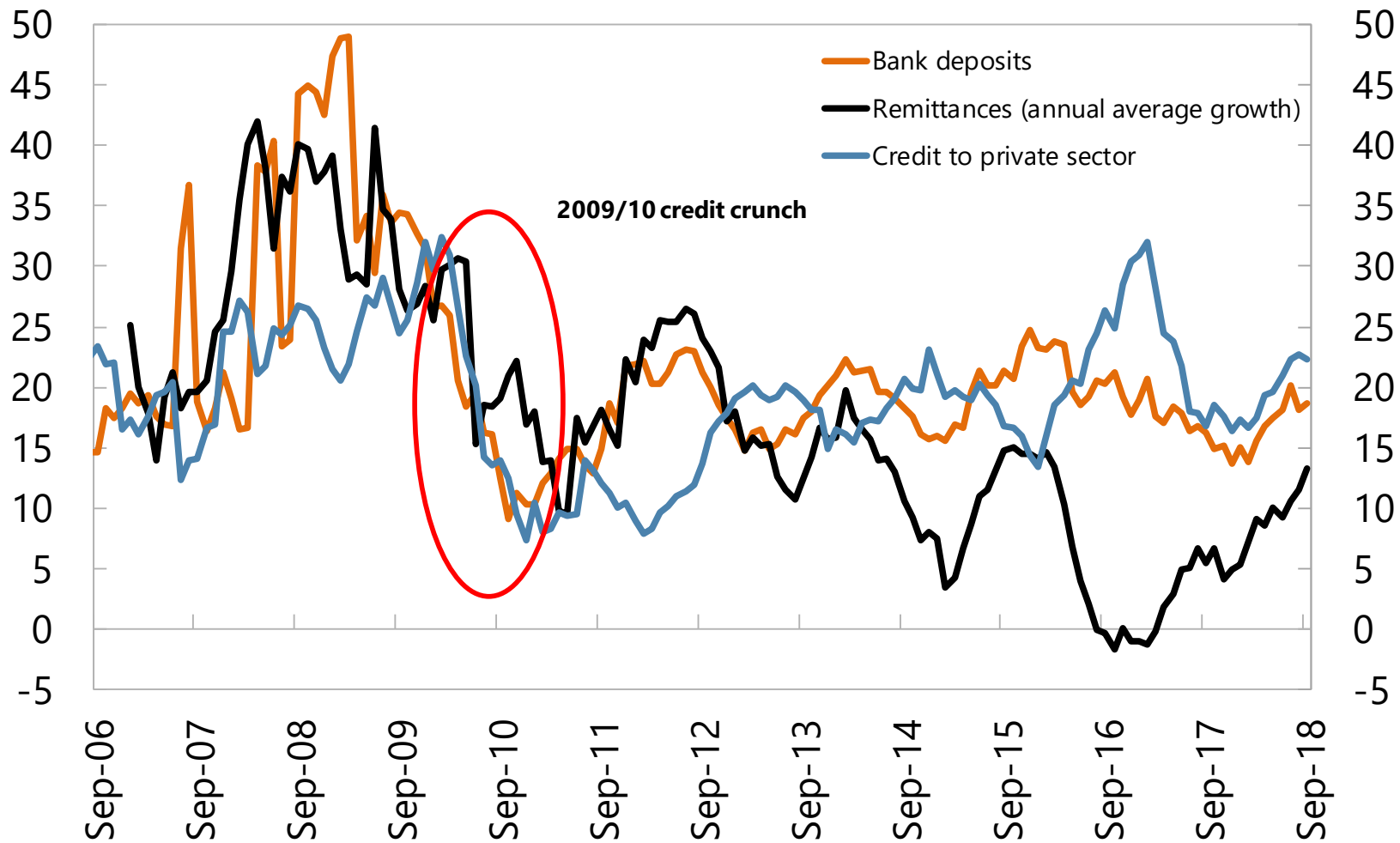
The decline in poverty is reflected in an improvement in Nepal's UNDP Human Development Index.

Human Development Index (HDI)
(Index number)



Bank Deposits, Credit and Remittances

(year-on-year change, in percent)



Sources: Nepali Authorities, IMF staff calculations.