

Current Macroeconomic and Financial Situation of Nepal

(Based on Two Months' Data of 2019/20)

Major Highlights

- Inflation remained 6.16 percent on y-o-y basis and 6.56 percent on average during two months.
- Import decreased 1.2 percent and export increased 25.9 percent.
- Remittances decreased 0.3 percent in NPR (1.3 percent decrease in USD).
- Balance of Payments remained at a surplus of Rs.8.83 billion.
- Gross foreign exchange reserves stood at Rs.1078.94 billion. This level of reserve is sufficient to cover the prospective merchandise and services imports for 8.4 months.
- Federal Government spending based on banking transactions amounted to Rs.43.12 billion and revenue collection Rs.141.51 billion.
- Broad money (M2) contracted 0.2 percent. On y-o-y basis, M2 expanded 15.4 percent.
- Deposits at Banks and Financial Institutions expanded 0.4 percent and bank credit to the private sector expanded 2.5 percent. On y-o-y basis, deposits increased 17 percent and credit 20 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 6.16 percent in mid-September 2019 compared to 3.86 percent a year ago. Food and beverage inflation stood at 6.51 percent whereas non-food and service inflation stood at 5.89 percent in the review month.
2. Within the food and beverage group, prices of items in vegetable, fruit, meat and fish, and spice sub-groups spiked significantly in the review month. Likewise, within the non-food and service group, prices of the items in clothes and footwear; housing and utilities and education sub-groups rose significantly.
3. In the review month, the Kathmandu Valley witnessed 7.9 percent inflation followed by 5.69 percent in the Terai, 5.09 percent in the Hill and 5.02 percent in the Mountain. These regions had witnessed 2.98 percent, 3.68 percent, 5.0 percent and 3.35 percent inflation respectively a year ago.

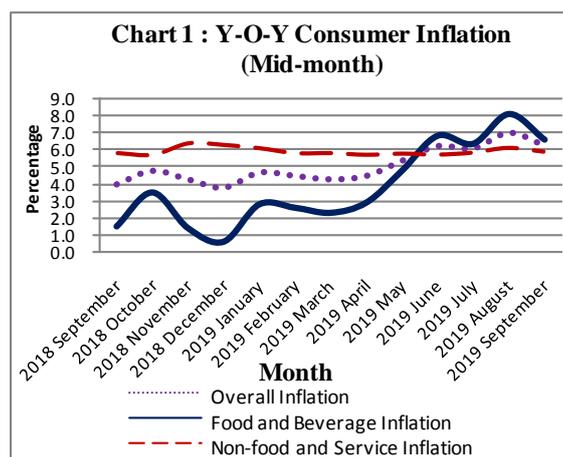


Table 1: Y-O -Y Consumer Price Inflation (Percent)

Particulars	Mid-Sep 2018	Mid-Aug 2019	Mid-Sep 2019
Overall inflation	3.86	6.95	6.16
1. Food and beverage	1.42	8.02	6.51
2. Non-food and Service	5.81	6.12	5.89

- The y-o-y consumer price inflation in Nepal (mid-September 2019) and India (September 2019) stood at 6.16 percent and 3.99 percent respectively. Such rate of inflation was 3.86 percent in Nepal compared to 3.70 percent in India a year ago.

Wholesale Price Inflation

- The y-o-y wholesale price inflation recorded 4.65 percent in mid-September 2019 compared to 8.70 percent a year ago. In the review month, primary goods group witnessed high inflation. In the review month, prices of transport, equipment and parts; chemicals and chemical goods; and primary food sub-groups grew significantly.
- Based on broad economic classification, prices of consumption goods, intermediate goods and capital goods increased 7.41 percent, 3.40 percent and 2.46 percent respectively.

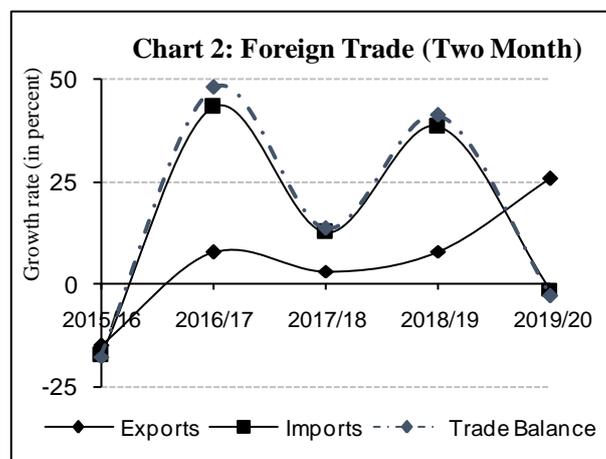
Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 12.88 percent in mid- September 2019 compared to 8.3 percent a year ago. In the review month, salary index and wage rate index increased 13.56 percent and 12.68 percent respectively.

External Sector

Merchandise Trade

- In two months of 2019/20, merchandise exports increased 25.9 percent to Rs.18.50 billion compared to an increase of 8 percent a year ago. Destination-wise, exports to India and other countries increased 46 percent and 0.6 percent respectively whereas exports to China decreased 17.4 percent. Mainly exports of palm oil, cardamom, jute goods, yarn (polyester and other), textiles, among others, increased whereas exports of zinc sheet, juice, wire, readymade garment, pashmina, among others, decreased in the review period.



- In two months of 2019/20, merchandise imports decreased 1.2 percent to Rs.229.50 billion against an increase of 38.5 percent in the same period of the previous year. Destination-wise, imports from China increased 39.2 percent whereas imports from India, and other countries decreased 2 percent and 19.8 percent respectively. Commodity-wise import of readymade garments, crude palm oil, other machinery and parts, hot rolled sheet, chemical fertilizer, among others, increased whereas imports of aircraft spareparts, M.S. billet, gold, petroleum product, cement, among others, decreased in the review period.
- Based on customs points, exports from Dry Port Customs Office, Bhairahawa Customs Office, Nepalgunj Customs Office, Krishnanagar Customs Office, Kailali Customs Office, Rasuwa Customs Office decreased whereas exports from other major customs points increased. On the import side, imports from Birgunj Customs Office, Tribhuvan Airport Customs Office,

Nepalgunj Customs Office, Krishnanagar Customs Office, Jaleshwar Customs Office, decreased whereas imports from other major customs points increased in the review period.

11. Total trade deficit narrowed 3.1 percent to Rs.211 billion in the two months of 2019/20. The export-import ratio increased to 8.1 percent in the review period from 6.3 percent in the corresponding period of the previous year.

Export-Import Price Index

12. The y-o-y unit value export price index based on customs data increased 1.2 percent and import price index decreased 2.8 percent in mid-September 2019. The terms of trade (ToT) index increased by 4.1 percent in the review month against a decrease of 2.6 percent in the corresponding month of the previous year.

Services

13. Net services income remained at a deficit of Rs.5.06 billion in the review period compared to a deficit of Rs.11.02 billion a year ago.
14. Under the service account, travel income increased 24.4 percent to Rs.11.39 billion in the review period. Such income was Rs.9.16 billion in the same period of the previous year.
15. Under the service account, travel payments decreased 21.9 percent to Rs.14.85 billion, including Rs.7.71 billion for education. Such travel payment was Rs.19.01 billion in the same period of the previous year.

Remittances

16. Remittance inflows decreased 0.3 percent to Rs.153.73 billion in the review period compared to an increase of 33.4 percent in the same period of the previous year. In the US Dollar term, such inflows decreased 1.3 percent in the review period compared to 22.3 percent increase in the corresponding period of the previous year.
17. Net transfer receipt increased 0.8 percent to Rs.176.39 billion in the review period. Such receipt had increased 34.1 percent in the same period of the previous year.
18. Number of Nepalese workers (institutional and individual-new and legalized) migrated for foreign employment increased 0.2 percent in the review period. It had decreased 39.0 percent in the same period of the previous year. The number of Nepalese workers (Renew entry) migrated for foreign employment increased 10.3 percent in the review period. It had decreased 9.8 percent in the same period of previous year.

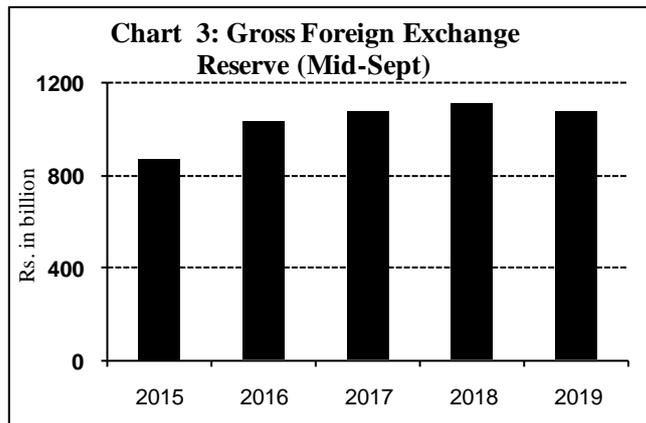
Current Account and BOP Position

19. The current account registered a deficit of Rs.21.79 billion in the review period. Such deficit was Rs.35.16 billion in the same period of the previous year. In the US Dollar terms, the current account deficit remained 192.5 million in the review period compared to 316.6 million a year ago.
20. Balance of Payments (BOP) remained at a surplus of Rs.8.83 billion in the review period compared to a deficit of Rs.25.45 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a surplus of 78.5 million in the review period against a deficit of 230.9 million in the same period of previous year.

21. In the review period, capital transfer and foreign direct investment (FDI) in Nepal amounted to Rs.2.96 billion and Rs.1.98 billion respectively. In the same period of previous year, capital transfer and FDI amounted to Rs.2.80 billion and Rs.1.23 billion respectively.

Foreign Exchange Reserve

22. Gross foreign exchange reserves increased to Rs.1078.94 billion as at mid-September 2019 from Rs.1038.92 billion as at mid-July 2019. In the US Dollar terms, the gross foreign exchange reserves decreased to 9.44 billion as at mid-September 2019 from 9.50 billion as at mid-July 2019.



23. Of the total foreign exchange reserves, reserves held by NRB increased to Rs.932.60 billion as at mid-September 2019 from Rs.902.44 billion as at mid-July 2019. Reserves held by banks and financial institutions (except NRB) increased to Rs.146.33 billion as at mid-September 2019 from Rs.136.47 billion as at mid-July 2019. The share of Indian currency in total reserves stood at 23.8 percent as at mid-September 2019.

Foreign Exchange Adequacy Indicators

24. Based on the imports of the two months of current fiscal year, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 9.6 months, and merchandise and services imports of 8.4 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 31.1 percent, 69.6 percent and 30.2 percent respectively as at mid-September 2019. Such ratios were 30.0 percent, 64.9 percent and 29.0 percent as at mid-July 2019.

Price of Oil and Gold

25. The price of oil (Crude Oil Brent) in the international market decreased 15.8 percent to USD 65.59 per barrel in mid-September 2019 from USD 77.87 per barrel a year ago. The price of gold increased 24.9 percent to USD 1502.10 per ounce in mid-September 2019 from USD 1203.0 per ounce a year ago.

Exchange Rate

26. Nepalese currency vis-à-vis US dollar depreciated 4.3 percent in mid-September 2019 from mid-July 2019. It had depreciated 4.6 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.114.26 in mid-September 2019 compared to Rs.109.36 in mid-July 2019.

Fiscal Situation*

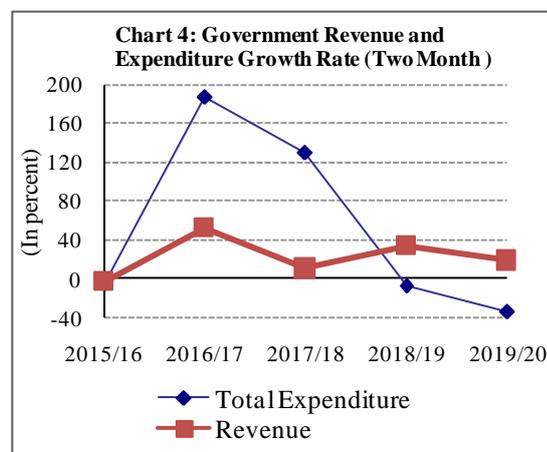
Fiscal Deficit/Surplus

27. In the second month of 2019/20, fiscal position of the Government based on banking transactions, remained at a surplus of Rs.105.05 billion compared to a surplus of Rs. 55.93 billion in the corresponding period of the previous year.

Government Expenditure and Revenue

28. In the review period, total expenditure of the federal government based on banking transactions (excluding direct payments and unrealized cheques) stood at Rs. 43.12 billion. Such expenditure was Rs. 66.33 billion in the corresponding period of the previous year.

29. In the review period, revenue collection based on banking transactions (including the amount to be transferred to provincial and local governments) stood at Rs.141.51 billion. Total government revenue was Rs. 119.20 billion in the corresponding period of the previous year.



Cash Balance of the Government of Nepal

30. Balance at various accounts of the GoN maintained with NRB remained Rs.175.87 billion (including Rs. 36.36 billion in Local Levels' account) in mid-September 2019.

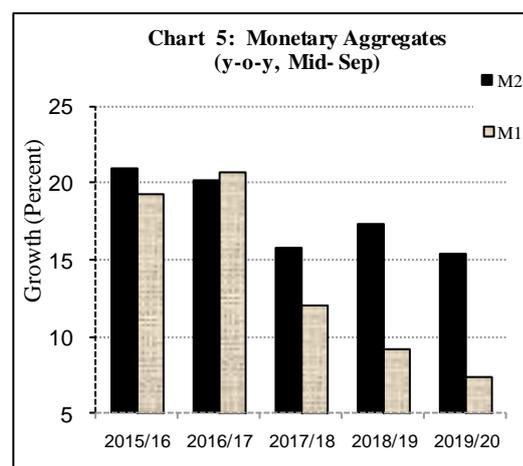
Monetary Situation

Money Supply

31. Broad money (M2) contracted 0.2 percent in the review period compared to a rise of 0.1 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 15.4 percent in mid-September 2019.

32. Net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs.8.83 billion (0.9 percent) in the review period compared to a decrease of Rs.25.45 billion (2.4 percent) in the corresponding period of the previous year.

33. Reserve money decreased 9.5 percent in the review period compared to a decrease of 10.1 percent in the corresponding period of the previous year. On y-o-y basis, reserve money decreased 0.9 percent in mid-September 2019.



* Based on data reported by banking office of NRB and commercial banks conducting government transactions and report released from 81 DTCOs and payment centers.

Domestic Credit

34. Domestic credit decreased 0.3 percent in the review period compared to an increase of 1.1 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 19.8 percent in mid-September 2019.
35. Monetary sector's claim on the private sector increased 3.6 percent in the review period compared to a growth of 3.2 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 19.7 percent in mid-September 2019.

Deposit Mobilization

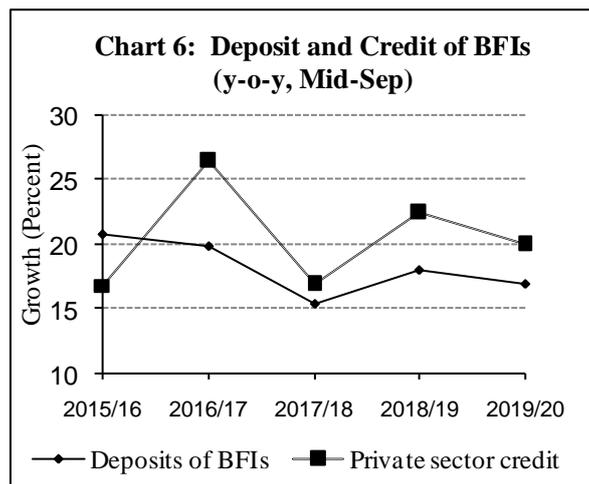
36. Deposits at Banks and Financial Institutions (BFIs) increased 0.4 percent in the review period compared to an increase of 1.3 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 17 percent in mid-September 2019.

Deposits	Mid-Jul				Mid-Sep	
	2016	2017	2018	2019	2018	2019
Demand	9.1	8.7	9.3	9.7	7.9	7.9
Saving	43.3	35.4	34.5	32.8	34.2	32.5
Fixed	30.5	43.2	44.8	46.3	45.7	48.3
Other	17.1	12.7	11.3	11.2	12.2	11.3

37. The share of demand, saving, and fixed deposits in total deposits stands at 7.9 percent, 32.5 percent, and 48.3 percent respectively in mid-September 2019 (Table 2). Such shares were 7.9 percent, 34.2 percent, and 45.7 percent respectively a year ago.
38. The share of institutional deposits in total deposit of BFIs stands at 44.6 percent in mid-September 2019. Such share was 44.7 percent in mid-September 2018.

Credit Disbursement

39. Credit to the private sector from BFIs increased 2.5 percent in the review period compared to a growth of 2 percent in the corresponding period of the previous year. On y-o-y basis, credit to the private sector from BFIs increased 20 percent in mid-September 2019.



40. Of the total outstanding credit of the BFIs, 64.3 percent is against the collateral of land and building and 13.7 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 63.1 percent and 14.3 percent respectively a year ago.
41. Loan of BFIs to agriculture sector increased 1.1 percent, industrial production sector increased 3.2 percent, construction sector increased 3.2 percent, transportation, communication and public sector increased 2.8 percent and service industry sector increased 3.8 percent in the review year.
42. In the review year, term loan extended by BFIs increased 4.5 percent, trust receipt (import) loan increased 10.2 percent, demand and working capital loan increased 2.4 percent, real estate loan (including residential personal home loan) increased 1.8 percent and hire purchase loan increased

1.3 percent whereas overdraft decreased 0.8 percent and margin nature loan decreased 1.4 percent.

Liquidity Management

43. In the review period, NRB mopped up Rs.30 billion liquidity through open market operations. Rs.85.35 billion liquidity was mopped up in the corresponding period of the previous year.
44. BFIs utilized standing liquidity facility (SLF) of Rs.34.02 billion in the review period.
45. In the review period, NRB injected net liquidity of Rs.52.46 billion through the net purchase of USD 460.7 million from foreign exchange market. Net liquidity of Rs.31.47 billion was injected through the net purchase of USD 279.9 million in the corresponding period of the previous year.
46. NRB purchased Indian currency (INR) equivalent to Rs.88.10 billion through the sale of USD 780 million in the review period. INR equivalent to Rs.85.66 billion was purchased through the sale of USD 720 million and other convertible foreign currencies in the corresponding period of the previous year.

Refinance

47. The outstanding refinance facility provided by the NRB at a concessional rate for expanding credit to the productive sector along with promoting export amounted to Rs.16.45 billion in mid-September 2019. Of which, general refinance of Rs.14.26 billion and export refinance of Rs.229.8 million was availed.
48. The outstanding amount of refinance extended to BFIs for providing concessional housing loan to earthquake victims stands at Rs.1.95 billion as of mid-September 2019. The number of earthquake victims utilizing such loan is 1578.

Concessional Loan

49. The outstanding concessional loan extended to 17,993 borrowers for selected agriculture and livestock businesses stands Rs.35.92 billion as of mid-September 2019. The concessional loan outstanding to other sectors remains Rs.925.7 million utilized by 1,535 beneficiaries.

Inter-bank Transaction

50. In the review period, inter-bank transactions among commercial banks amounted to Rs.395.87 billion and among banks and financial institutions (excluding transactions among commercial banks) Rs.29.38 billion. Such transactions were Rs.209.08 billion and Rs.15.41 billion respectively in the corresponding period of the previous year.

Interest Rates

51. The weighted average 91-day Treasury bills rate decreased to 2.73 percent in the second month of 2019/20 from 2.74 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 1.68 percent a year ago, increased to 1.69 percent in the review month.
52. The average base rate of commercial banks decreased to 9.53 percent in the review month from 10.03 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 6.80 percent and 11.97 percent respectively in the review month. Such rates were 6.30 percent and 12.31 percent respectively in the corresponding month of the previous year.

Merger and Acquisition

53. After the introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 176. Out of which, the license of 132 BFIs was revoked thereby forming 44 BFIs.

Financial Access

54. Of the total 753 local levels, commercial banks extended their branches at 739 levels as of mid-September 2019 (Table 3).

55. The total number of BFIs licensed by NRB is 168 in mid-September 2019 (Table 4). Of which, 28 commercial banks, 28 development banks, 22 finance companies, 89 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 8970 in mid-September 2019 from 8686 in mid-July 2019.

Province	No. of Local Levels	Local Levels having Bank Branches
Province 1	137	136
Province 2	136	134
Province 3	119	117
Gandaki	85	84
Province 5	109	109
Karnali	79	77
Far West	88	82
Total	753	739

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	Mid-Jul 2018	Mid-Jul 2019	Mid-Sep 2019	Mid-Jul 2018	Mid-Jul 2019	Mid-Sep 2019
Commercial Banks	28	28	28	3023	3585	3740
Development Banks	33	29	28	993	1267	1308
Finance Companies	25	23	22	186	205	209
Microfinance Financial Institutions	65	90	89	2449	3629	3713
Infrastructure Development Banks	-	1	1	-	-	-
Total	151	171	168	6651	8686	8970

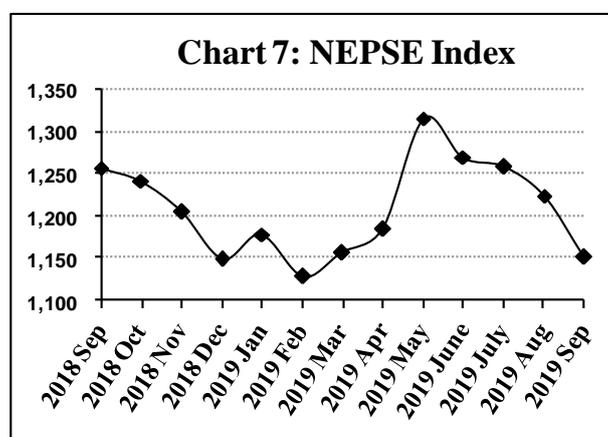
*Detail information is available at <http://emap.nrb.org.np/>

Capital Market

56. The NEPSE index decreased 8.4 percent to 1150.7 points in mid-September 2019 compared to 1256.5 points in mid-September 2018. Such index was 1259.0 in mid-July 2019.

57. Stock market capitalization, on y-o-y basis, decreased 2.3 percent to Rs. 1461.54 billio in mid-September 2019. Market capitalization in mid-July 2019 stood at Rs. 1567.50 billion

58. The number of companies listed at NEPSE stood 218 in mid-September 2019 out of which 155 are Bank and Financial Institutions and insurance companies, 32 hydropower companies, 19 manufacturing and processing industries, 4 hotels, 4 trading companies and 4 others. The number of companies listed at NEPSE was 196 in mid-September 2018.



59. The share of BFIs and insurance companies in stock market capitalization is 78.4 percent. Such share for hydropower companies is 6.5 percent, manufacturing and processing industries 4.1 percent, hotels 1.7 percent, trading companies 0.1 percent and the share of other sector companies is 9.1 percent.
60. The paid-up value of the 4.37 billion listed shares at NEPSE stood at Rs. 428.50 billion in mid-September 2019.
61. Securities worth Rs 28.36 billion were listed at NEPSE in two months of 2019/20. Such securities comprise ordinary shares worth Rs. 20.94 billion, bonus shares worth Rs. 4.48 billion, right shares worth 1.45 billion, debenture worth Rs. 350 million and others worth 1.14 billion. Securities Board of Nepal approved the issuance of debentures worth Rs. 1.8 billion during the period.