

Current Macroeconomic and Financial Situation of Nepal

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

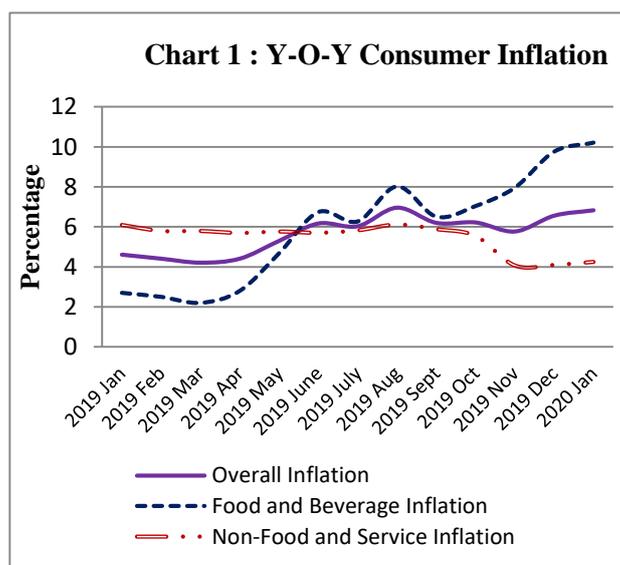
Major Highlights

- Inflation remained 6.82 percent on y-o-y basis and 6.41 percent on average during six months.
- Imports decreased 4.0 percent and exports increased 26.1 percent.
- Remittances increased 0.9 percent.
- Balance of Payments remained at a surplus of Rs.26.65 billion.
- Gross foreign exchange reserves stood at Rs.1095.98 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.378.17 billion and revenue collection Rs.483.72 billion.
- Broad money (M2) expanded 5.3 percent. On y-o-y basis, M2 expanded 14.5 percent.
- Deposits at Banks and Financial Institutions expanded 6.2 percent and bank credit to the private sector expanded 8.6 percent. On y-o-y basis, deposits increased 16.3 percent and credit 15.1 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 6.82 percent in mid-January 2020 compared to 4.58 percent a year ago. Food and beverage inflation stood at 10.21 percent whereas non-food and service inflation stood at 4.25 percent in the review month.
2. Within the food and beverage group, prices of vegetables, spices, pulses and legumes and fruits sub-groups rose significantly in the review month. Likewise, within the non-food and service group, the prices of education, clothes and footwear, and furnishing and household equipment subgroups rose moderately in the review month.



- In the review month, the Kathmandu Valley witnessed 7.24 percent inflation followed by 7.46 percent in the Terai, 5.39 percent in the Hill and 5.01 percent in the Mountain. These regions had witnessed 5.15 percent, 4.02 percent, 4.92 percent and 4.48 percent inflation respectively a year ago.
- The y-o-y consumer price inflation in Nepal in the review month and in India (January 2020) stood at 6.82 percent and 7.59 percent respectively. Such rate of inflation was 4.58 percent in Nepal compared to 2.05 percent in India a year ago.

Particulars	Mid-Jan 2019	Mid-Dec 2019	Mid-Jan 2020
Overall inflation	4.58	6.55	6.82
1. Food and beverage	2.65	9.76	10.21
2. Non-food and service	6.11	4.10	4.25

Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 7.88 percent in the review month compared to 6.04 percent a year ago. In the review month, price of food under primary group and prices of food, beverage and tobacco, and leather and leather products under manufactured group rose significantly.
- The y-o-y prices of consumption goods, intermediate goods and capital goods increased 10.20 percent, 7.58 percent and 2.50 percent respectively. The wholesale price of construction materials dropped 5.06 percent in the review month.

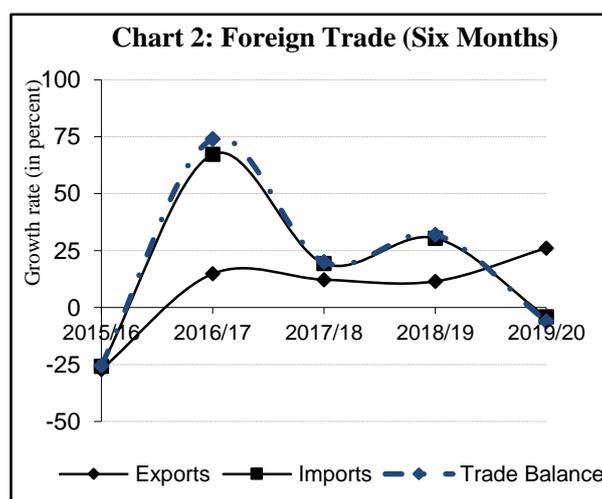
Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 10.04 percent in the review month compared to 9.30 percent a year ago. In the review month, salary index and wage rate index increased 13.56 percent and 9.06 percent respectively.

External Sector

Merchandise Trade

- In six months of 2019/20, merchandise exports increased 26.1 percent to Rs.57.28 billion compared to an increase of 11.5 percent a year ago. Destination-wise, exports to India increased 45.8 percent whereas exports to China and other countries decreased 8.5 and 3.8 percent respectively. Mainly exports of palm oil, cardamom, jute goods, medicine (ayurvedic), pulses, among others, increased whereas exports of zinc sheet, wire, readymade garment, juice, copper wire rod, among others, decreased in the review period.



- In six months of 2019/20, merchandise imports decreased 4.0 percent to Rs.694.69 billion against an increase of 30.5 percent in the same period of the previous year. Destination-wise, imports from China and other countries increased 12.1 percent and 0.4 percent respectively whereas imports from India decreased 9.1 percent. Mainly imports of crude palm oil, hot rolled sheet in coil, chemical fertilizer, other machinery and parts, electrical equipments, among others,

increased whereas imports of M.S. billet, petroleum products, gold, transport equipment and parts, cement, among others, decreased in the review period.

10. Based on customs points, exports from Birgunj, Biratnagar, Tribhuvan International Airport, Mechi and Tatopani Customs Office increased whereas exports from other customs points decreased. On the import side, imports from Dry Port, Tatopani, Kanchanpur and Rasuwa increased whereas imports from other customs points decreased in the review period.
11. Total trade deficit narrowed down 6.1 percent to Rs.637.41 billion in the six months of 2019/20. Such deficit was expanded 32.0 percent in the same period of the previous year. The export-import ratio increased to 8.2 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 1.3 percent and import price index increased 1.9 percent in mid-January 2020. The terms of trade (ToT) index decreased 0.6 percent in mid-January 2020 against a decrease of 0.1 percent in the corresponding period of the previous year.

Services

13. Net services income remained at a deficit of Rs. 4.46 billion in the review period compared to a deficit of Rs. 9.45 billion in the same period of the previous year.
14. Under the service account, travel income increased 14.2 percent to Rs.42.74 billion in the review period. Such income was Rs.37.42 billion in the same period of the previous year.
15. Under the service account, travel payments decreased 21.7 percent to Rs.37.59 billion, including Rs.17.95 billion for education. Such payments were Rs.47.99 billion and Rs.25.59 billion in the same period of the previous year respectively.

Remittances

16. Remittance inflows increased 0.9 percent to Rs.447.26 billion in the review period compared to 30.2 percent in the same period of the previous year. In the US Dollar term, such inflows increased 1.3 percent in the review period compared to increase of 17.6 percent in the corresponding period of the previous year.
17. Number of Nepalese workers (institutional and individual-new and legalized) migrated for foreign employment increased 17.7 percent in the review period. It had decreased 37.3 percent in the same period of the previous year. The number of Nepalese workers (Renew entry) migrated for foreign employment increased 0.5 percent in the review period. It had increased 4.5 percent in the same period of the previous year.
18. Net transfer income increased 0.1 percent to Rs.506.05 billion in the review period. Such income had increased 28.7 percent in the same period of the previous year.

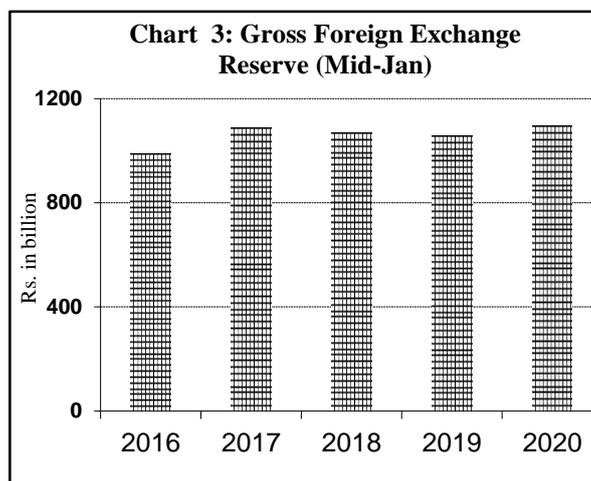
Current Account and BOP Position

19. The current account registered a deficit of Rs. 84.71 billion in the review period. Such deficit was Rs.152.16 billion in the same period of the previous year. In the US Dollar terms, the current account deficit remained 743.9 million in the review period compared to 1333.6 million a year ago.

20. In the review period, capital transfer and foreign direct investment (FDI) in Nepal amounted to Rs.7.46 billion and Rs.12.20 billion respectively. In the same period of the previous year, capital transfer and FDI amounted to Rs.6.89 billion and Rs.4.36 billion respectively.
21. Balance of Payments (BOP) remained at a surplus of Rs.26.65 billion in the review period against a deficit of Rs.63.68 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a surplus of 235.3 million in the review period against a deficit of 559.5 million in the same period of the previous year.

Foreign Exchange Reserves

22. Gross foreign exchange reserves increased to Rs.1095.98 billion as at mid-January 2020 from Rs.1038.92 billion as at mid-July 2019. In the US Dollar terms, the gross foreign exchange reserves increased to 9.69 billion as at mid-January 2020 from 9.50 billion as at mid-July 2019.
23. Of the total foreign exchange reserves, reserves held by NRB increased to Rs.947.38 billion as at mid-January 2020 from Rs.902.44 billion as at mid-July 2019. Reserves held by banks and financial institutions (except NRB) increased to Rs.148.59 billion as at mid-January 2020 from Rs.136.47 billion as at mid-July 2019. The share of Indian currency in total reserves stood at 22.8 percent as at mid-January 2020.



Foreign Exchange Adequacy Indicators

24. Based on the imports of the six months of the current fiscal year 2076/77, 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 31.6 percent, 70.2 percent and 29.1 percent respectively as at mid January 2020. Such ratios were 30 percent, 64.9 percent and 29 percent as at mid-July 2019.

Price of Oil and Gold

25. The price of oil (Crude Oil Brent) in the international market increased 9.6 percent to USD 64.45 per barrel in mid-January 2020 from USD 58.80 per barrel in the same period of the previous year. The price of gold increased 19.5 percent to USD 1545.10 per ounce in mid-January 2020 from USD 1292.75 per ounce in the same period of the previous year.

Exchange Rate

26. Nepalese currency vis-à-vis US dollar depreciated 3.3 percent in mid-January 2020 from mid-July 2019. It had depreciated 2.8 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.113.08 in mid-January 2020 compared to Rs.109.36 in mid-July 2019.

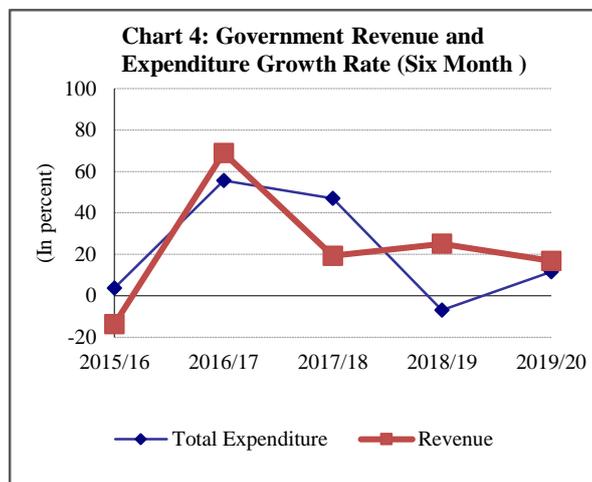
Fiscal Situation*

Fiscal Deficit/Surplus

27. During six months of 2019/20, fiscal position of the Government, based on banking transactions, remained at a surplus of Rs.119.31 billion compared to a surplus of Rs.82.06 billion in the corresponding period of the previous year.

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.378.17 billion. Such expenditure was Rs.339.29 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.483.72 billion. Total government revenue was Rs. 414.27 billion in the corresponding period of the previous year.



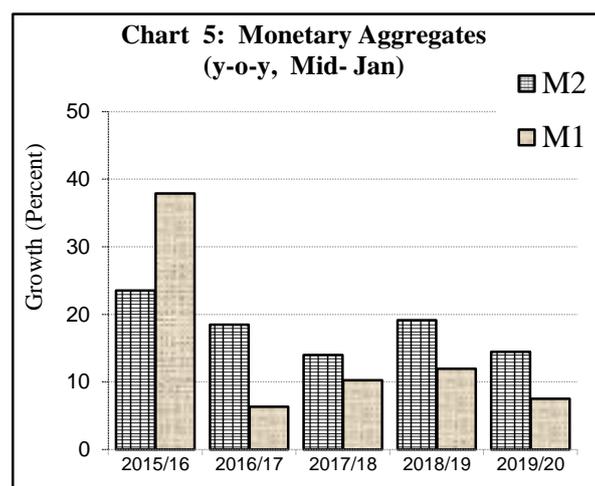
Cash Balance

30. Balance at various accounts of the GoN maintained with NRB remained Rs.241.78 billion (including Rs.58.46 billion in Local Authorities Account) in mid-January 2020.

Monetary Situation

Money Supply

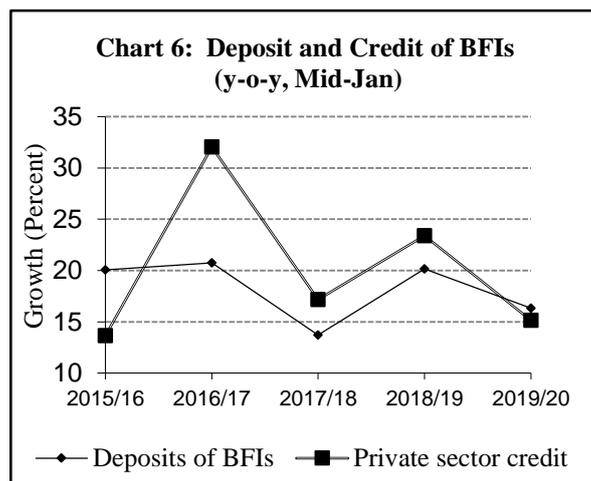
31. Broad money (M2) increased 5.3 percent in the review period compared to an increase of 6.4 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 14.5 percent in mid-January 2020.
32. Net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs.26.65 billion (2.7 percent) in the review period compared to a decrease of Rs.63.68 billion (6 percent) in the corresponding period of the previous year.
33. Reserve money decreased 5.6 percent in the review period compared to a decrease of 13.1 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 7.0 percent in mid-January 2020.



* 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 increased 2.2 percent in the review period compared to an increase of 8.7 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 14.1 percent in mid-January 2020.
35. Monetary sector's claim on the private sector increased 8.7 percent in the review period compared to a growth of 12.7 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 14.9 percent in mid-January 2020.



Deposit Mobilization

36. Deposits at Banks and Financial Institutions (BFIs) increased 6.2 percent in the review period compared to an increase of 7.7 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 16.3 percent in mid-January 2020.
37. The share of demand, saving, and fixed deposits in total deposits stands at 8.5 percent, 31.9 percent and 49.2 percent respectively in mid-January 2020 (Table 2). Such shares were 8.6 percent, 33.3 percent and 47.9 percent respectively a year ago.

Table 2: Structure of Deposits at Banks and Financial Institutions (Percent)

Deposits	Mid-Jul				Mid-Jan	
	2016	2017	2018	2019	2019	2020
Demand	9.1	8.7	9.3	9.7	8.6	8.5
Saving	43.3	35.4	34.5	32.8	33.3	31.9
Fixed	30.5	43.2	44.8	46.3	47.9	49.2
Other	17.1	12.7	11.3	11.2	10.2	10.4

38. The share of institutional deposits in total deposits of BFIs stands at 45.1 percent in mid-January 2020. Such share was 45.1 percent in mid-January 2019.

Credit Disbursement

39. Credit to the private sector from BFIs increased 8.6 percent in the review period compared to a growth of 12.7 percent in the corresponding period of the previous year. On y-o-y basis, credit to the private sector from BFIs increased 15.1 percent in mid-January 2020.
40. Of the total outstanding credit of the BFIs, 64.9 percent is against the collateral of land and building and 13.5 percent against the collateral of current assets (agricultural and non-agricultural products). Such ratios were 63.1 percent and 14.5 percent respectively a year ago.
41. Loan of BFIs to agriculture sector increased 9.6 percent, industrial production sector increased 8.7 percent, construction sector increased 9.4 percent, transportation, communication and public sector increased 8.9 percent and service industry sector increased 10.6 percent in the review period.
42. In the review period, term loan extended by BFIs increased 15.8 percent, overdraft increased 5.4 percent, trust receipt (import) loan increased 2.4 percent, demand and working capital loan increased 10.1 percent, real estate loan (including residential personal home loan) increased 8.0 percent, hire purchase loan increased 1.1 percent and margin nature loan increased 0.6 percent.

Liquidity Management

43. In the review period, NRB mopped up Rs.58 billion liquidity through open market operations. Rs.100.35 billion liquidity was mopped up in the corresponding period of the previous year.
44. In the review period, Rs. 92.07 billion liquidity was injected including 39.52 billion through repo and Rs.52.55 billion through standing liquidity facility (SLF). Rs. 6.72 billion was injected through SLF in the corresponding period of the previous year.
45. In the review period, NRB injected liquidity of Rs.193.40 billion through the net purchase of USD 1.70 billion from foreign exchange market. liquidity of Rs.160.29 billion was injected through the net purchase of USD 1.40 billion in the corresponding period of the previous year.
46. NRB purchased Indian currency (INR) equivalent to Rs.227.28 billion through the sale of USD 2 billion in the review period. INR equivalent to Rs.272.48 billion was purchased through the sale of USD 2.16 billion 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 promoting productive sector activities and export amounted to Rs.19.75 billion in mid-January 2020. Of which, general refinance of Rs.16.35 billion and export refinance of Rs.1.40 billion was availed.
48. The outstanding amount of refinance extended to BFIs for providing concessional housing loan to earthquake victims stands at Rs.1.74 billion as of mid-January 2020. The number of earthquake victims utilizing such loan is 1,592.

Concessional Loan

49. The outstanding concessional loan extended to 20,791 borrowers for selected agriculture and livestock businesses stands Rs.45.08 billion as of mid-January 2020. The concessional loan outstanding to other headings remains Rs.1.93 billion utilized by 3,187 beneficiaries.

Inter-bank Transaction

50. In the review period, inter-bank transactions among commercial banks amounted to Rs.926.53 billion and among banks and financial institutions (excluding transactions among commercial banks) Rs.91.42 billion. Such transactions were Rs.691.49 billion and Rs.103.45 billion respectively in the corresponding period of the previous year.

Interest Rates

51. The weighted average 91-day Treasury bills rate increased to 3.17 percent in the sixth month of 2019/20 from 0.86 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 2.84 percent a year ago, decreased to 1.76 percent in the review month.
52. The average base rate of commercial banks decreased to 9.45 percent in the review month from 9.80 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 6.79 percent and 11.94 percent respectively in the review month. Such rates were 6.72 percent and 12.29 percent respectively in the corresponding month of the previous year.

Merger and Acquisition

53. After the introduction of merger and acquisition policy by this Bank, the number of BFIs involved in this process reached 185. Out of which, the license of 140 BFIs was revoked thereby forming 45 BFIs.

Financial Access

54. Of the total 753 local levels, commercial banks extended their branches at 745 levels as of mid-January 2020 (Table 3).

55. The total number of BFIs licensed by NRB is 164 in mid-January 2020 (Table 4). Of which, 27 commercial banks, 24 development banks, 22 finance companies, 90 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 9,394 in mid-January 2020 from 8,686 in mid-July 2019.

Province	No. of Local Levels	Local Levels having Bank Branches
Province 1	137	136
Province 2	136	135
Bagmati	119	117
Gandaki	85	84
Province 5	109	109
Karnali	79	78
Far West	88	86
Total	753	745

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	Mid-Jul 2018	Mid-Jul 2019	Mid-Jan 2020	Mid-Jul 2018	Mid-Jul 2019	Mid-Jan 2020
Commercial Banks	28	28	27	3023	3585	4011
Development Banks	33	29	24	993	1267	1293
Finance Companies	25	23	22	186	205	229
Microfinance Financial Institutions	65	90	90	2449	3629	3861
Infrastructure Development Banks	-	1	1	-	-	-
Total	151	171	164	6651	8686	9394

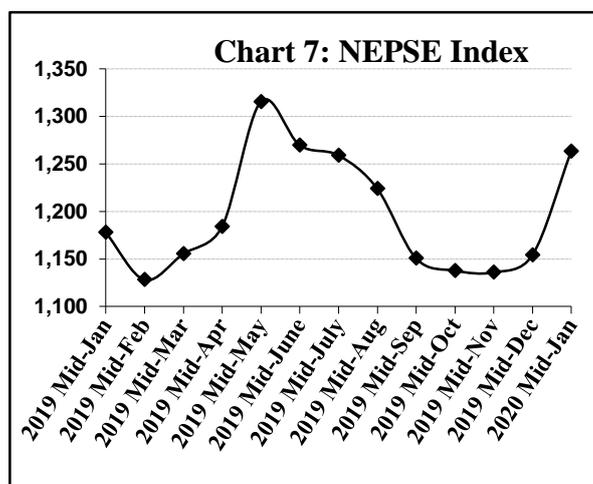
* Detail information is available at <http://emap.nrb.org.np/>

Capital Market

56. The NEPSE index stood at 1263.4 points in mid-January 2020 compared to 1178 points in mid-January 2019. Such index was 1259 in mid-July 2019.

57. Stock market capitalization on, y-o-y basis, increased 12.1 percent to Rs. 1610.69 billion in mid-January 2020. Market capitalization in mid-July 2019 stood at Rs. 1567.50 billion

58. The number of companies listed at NEPSE stood 212 in mid-January 2020 out of which 149 are Bank and Financial Institutions (BFIs) 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 215 in mid-July 2019.



59. The share of BFIs and insurance companies in stock market capitalization is 79.3 percent. Such share for hydropower companies is 6.3 percent, manufacturing and processing industries 3.7 percent, hotels 1.6 percent, trading companies 0.3 percent and the share of other sector companies is 8.8 percent.
60. The paid-up value of the 4.62 billion listed shares at NEPSE stood at Rs. 452.53 billion in mid-January 2020.
61. Securities worth Rs 53.14 billion were listed at NEPSE during the six months of 2019/20. Such securities comprise debenture worth Rs. 15.46 billion, bonus shares worth Rs. 14.33 billion, ordinary shares worth Rs. 10.56 billion, mutual fund worth Rs. 5.75 billion , right shares worth Rs. 2.56 billion and others worth Rs. 4.47 billion.
62. Securities Board of Nepal approved the total issuance of securities worth Rs. 20.31 billion which includes debentures worth Rs. 16.50 billion, right share worth Rs. 2.47 billion, mutual fund worth Rs. 1 billion and ordinary share worth Rs. 340 million in the review period.