

# Current Macroeconomic and Financial Situation of Nepal

(Based on One Month's Data Ending Mid-August, 2020/21)

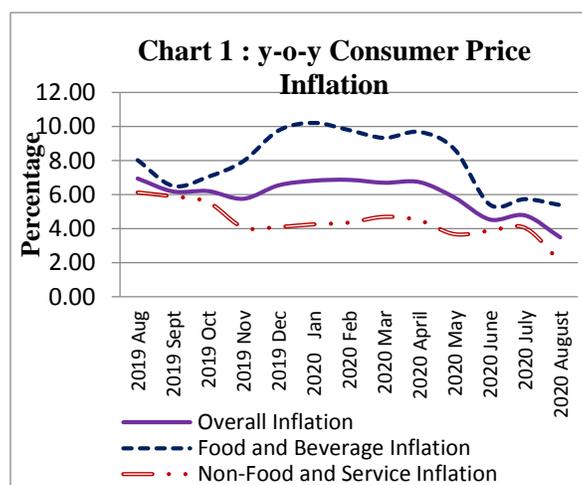
## Major Highlights

- Inflation remained 3.49 percent on y-o-y basis.
- Imports decreased 19.6 percent and exports increased 8.9 percent.
- Remittances increased 23.0 percent.
- Balance of Payments remained at a surplus of Rs.51.46 billion.
- Gross foreign exchange reserves stood at USD 12.02 billion.
- Federal Government spending amounted to Rs.1.95 billion and revenue collection Rs.58.81 billion.
- Broad money (M2) expanded 0.3 percent. On y-o-y basis, M2 expanded 18.9 percent.
- Deposits at BFIs and claims on private sector broadly remain same at the level of mid-July 2020. However, on y-o-y basis, deposits increased 19.0 percent and claims on private sector 11.3 percent.

## Inflation

### Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 3.49 percent in mid-August 2020 compared to 6.95 percent a year ago. Food and beverage inflation stood at 5.38 percent whereas non-food and service inflation stood at 2.04 percent in the review month.
2. The price of pulses and legumes, meat and fish and tobacco products rose significantly in the review month compared to mid-July 2019. The price of vegetables increased 28.21 percent in mid-August 2020 compared to a month ago.
3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 3.31 percent, 4.02 percent, 2.72 percent and 4.07 percent inflation respectively. These regions had witnessed 8.63 percent, 6.46 percent, 6.00 percent and 5.57 percent inflation respectively a year ago.



**Table 1: y-o-y Consumer Price Inflation (Percent)**

Particulars	Mid-August 2019	Mid-July 2020	Mid-August 2020
<b>Overall Inflation</b>	<b>6.95</b>	<b>4.78</b>	<b>3.49</b>
Food and Beverage	8.02	5.73	5.38
Non-food and Service	6.12	4.04	2.04

## Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 7.33 percent in the review month compared to 8.26 percent a year ago.
- The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 7.44 percent, 8.10 percent and 2.63 percent respectively. The wholesale price of construction materials dropped 2.33 percent in the review month.

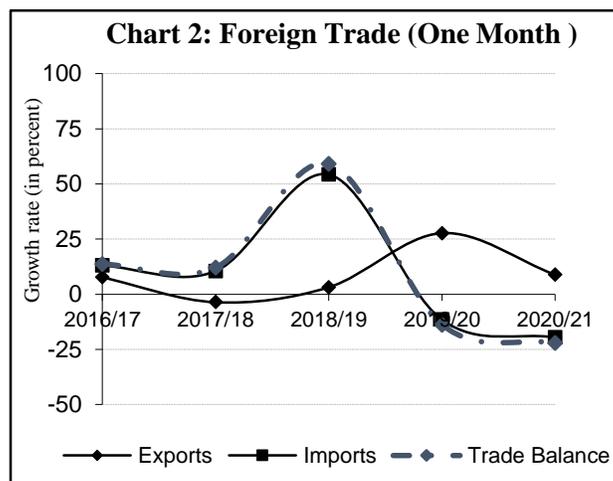
## Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 1.34 percent in the review month. Such growth rate was 13.43 percent a year ago largely influenced by an increase in the salary of government as well as private sector employees. In the review month, salary index and wage rate index increased 1.03 percent and 1.43 percent respectively.

## External Sector

### Merchandise Trade

- In the first month of 2020/21, merchandise exports increased 8.9 percent to Rs.9.62 billion compared to an increase of 27.7 percent a year ago. Destination-wise, exports to India and other country increased 4.4 percent and 25.5 percent respectively whereas exports to China decreased 71.7 percent. Exports of pashmina, woolen carpet, medicine (ayurvedic), herbs, and jute goods, among others, increased whereas exports of palm oil, juice, cardamom, polyester yarn and threads, and zinc sheet, among others, decreased in the review period.



- In the first month of 2020/21, merchandise imports decreased 19.6 percent to Rs.85.81 billion compared to a decrease of 11.5 percent a year ago. Destination-wise, imports from India, China and other countries decreased 16.8 percent, 39.7 percent, and 10.5 percent respectively. Imports of rice, telecommunication equipment and parts, crude soyabean oil, coal, and edible oil, among others, increased whereas imports of petroleum products, transport equipment and parts, other machinery and parts, M.S. billet, and hot-rolled sheet in coil, among others, decreased in the review period.
- Based on customs points, exports from Birgunj, Bhairahawa, Tribhuvan International Airport, Nepalgunj, Mechi and Krishnanagar Customs Office increased whereas exports from all other customs points decreased. On the import side, imports from other customs points has decreased except Bhairahawa, Nepalgunj, Krishnanagar, Kailali, Tatopani, and Kanchanpur Customs Office in the review period.
- Total trade deficit narrowed down 22.2 percent to Rs.76.19 billion in the first month of 2020/21. Such deficit had contracted 13.9 percent in the corresponding period of the previous year. The export-import ratio increased to 11.2 percent in the review period from 8.3 percent in the corresponding period of the previous year.

## **Export-Import Price Index**

11. The y-o-y unit value export price index, based on customs data, increased 0.5 percent and the import price index decreased 3.8 percent in the first month of 2020/21. The terms of trade (ToT) index increased 4.4 percent in the review month compared to an increase of 3.1 percent in the corresponding month of the previous year.

## **Services**

12. Net services income remained at a deficit of Rs.2.45 billion in the review period compared to a deficit of Rs.3.41 billion in the same period of the previous year.
13. Under the service account, travel income decreased 86.1 percent to Rs.605.6 million in the review period which was Rs.4.36 billion in the same period of the previous year.
14. Under the service account, travel payments decreased 77.4 percent to Rs.1.58 billion, including Rs.1.39 billion for education. Such payments were Rs.7.02 billion and Rs.3.49 billion respectively in the same period of the previous year.

## **Remittances**

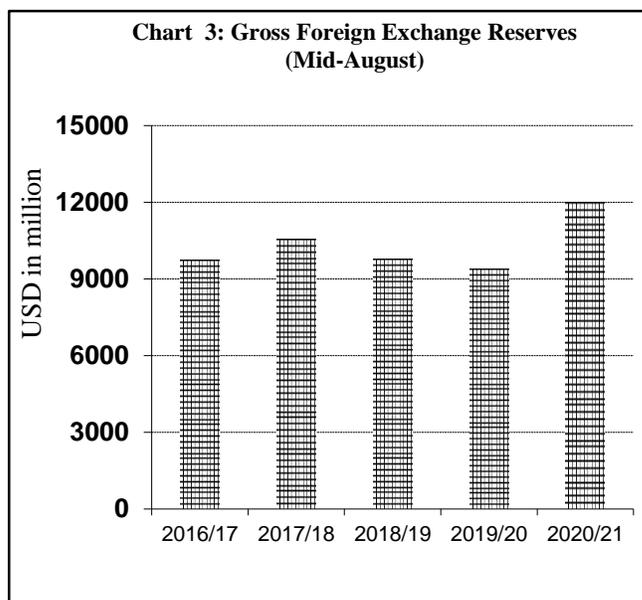
15. Remittance inflows increased 23.0 percent to Rs.92.71 billion in the review month compared to an increase of 2.0 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 14.5 percent compared to an increase of 0.7 percent in the corresponding period of the previous year.
16. Number of Nepali workers (institutional and individual-new and legalized) taking approval for foreign employment decreased 99.2 percent in the review period. It had decreased 19.0 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 80.0 percent in the review period. It had decreased 1.3 percent in the same period of the previous year.
17. Net transfer income increased 20.0 percent to Rs.101.87 billion in the review period. Such income had increased 0.2 percent in the same period of the previous year.

## **Current Account and Balance of Payments**

18. The current account remained at a surplus of Rs.25.41 billion in the review month against a deficit of Rs.9.34 billion in the same period of the previous year. In the US Dollar terms, the current account recorded a surplus of 212.1 million in the review month against a deficit of 83.8 million in the same period last year.
19. In the review period, capital transfer increased 6.7 percent to Rs.1.10 billion and net foreign direct investment (FDI) decreased 3.3 percent to Rs.1.39 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.1.03 billion and Rs.1.44 billion respectively.
20. Balance of Payments (BOP) registered a surplus of Rs.51.46 billion in the review period. Such surplus was Rs.6.05 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a surplus of 429.4 million in the review period compared to a surplus of 54.2 million in the same period of the previous year.
21. In addition to the previously followed IMF's Balance of Payments Manual (BPM5), Nepal's BOP statistics are also published as per BPM6 from the first month of 2020/21.

## Foreign Exchange Reserves

22. Gross foreign exchange reserves increased 2.5 percent to Rs.1436.73 billion in mid-August 2020 from Rs.1401.84 billion in mid-July 2020. In the US Dollar terms, the gross foreign exchange reserves increased to 12.02 billion in mid-August 2020 from 11.65 billion in mid-July 2020.
23. Of the total foreign exchange reserves, reserves held by NRB increased to Rs.1260.38 billion in mid-August 2020 from Rs.1226.12 billion in mid-July 2020. Reserves held by banks and financial institutions (except NRB) increased to Rs.176.36 billion in mid-August 2020 from Rs.175.71 billion in mid-July 2020. The share of Indian currency in total reserves stood at 23.0 percent in mid-August 2020.



## Foreign Exchange Adequacy Indicators

24. Foreign exchange adequacy has increased significantly. Based on the imports of the first month of 2020/21, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 17.3 months, and merchandise and services imports of 15.6 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 38.1 percent, 129.7 percent and 33.8 percent respectively in mid-August 2020. Such ratios were 37.2 percent, 105.7 percent and 33.1 percent respectively in mid-July 2020.

## Price of Oil and Gold

25. The price of oil (Crude Oil Brent) in the international market decreased 24.0 percent to US Dollar 44.86 per barrel in mid-August 2020 from US Dollar 59.0 per barrel a year ago. The price of gold increased 28.3 percent to US Dollar 1944.75 per ounce in mid-August 2020 from US Dollar 1515.25 per ounce a year ago.

## Exchange Rate

26. Nepalese currency vis-à-vis the US Dollar appreciated 0.7 percent in mid-August 2020 from mid-July 2020. It had depreciated 3.7 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.119.55 in mid-August 2020 compared to Rs.113.55 in mid-August 2019.

# Fiscal Situation\*

## Federal Government

### Fiscal Deficit/Surplus

27. In the first month of 2020/21, fiscal position of the Government, based on banking transactions, remained at a surplus of Rs.58.93 billion compared to a surplus of Rs.76.97 billion in the corresponding period of the previous year.

### Expenditure and Revenue<sup>#</sup>

28. In the review period, total expenditure of the federal government based on banking transactions (excluding direct payments and unrealized cheques) stood at Rs.1.95 billion. Such expenditure was Rs.2.62 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.58.81 billion. Total government revenue was Rs.77.53 billion in the corresponding period of the previous year.

### Cash Balance

30. Balance at various accounts of the GoN maintained with NRB remained Rs.196.56 billion (including Provincial government and Local Authorities Account) in mid-August 2020.

## Provincial Government

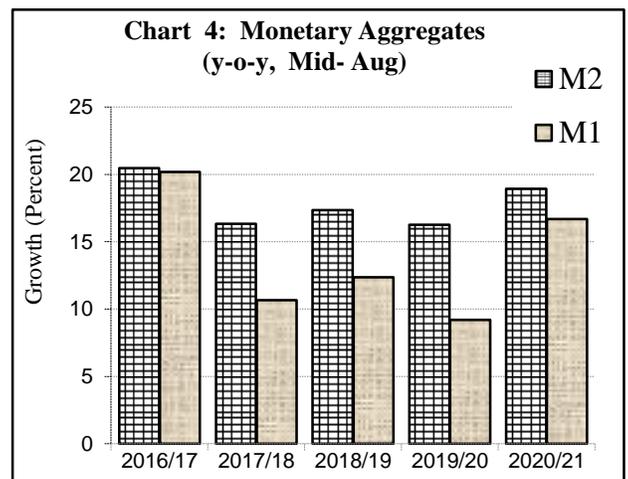
31. In the first month of 2020/21, total resource mobilization of provincial governments was Rs.8.05 billion. In this period, the federal government has transferred Rs.4.02 billion as grants and revenue from divisible fund to provincial governments. During this period, provincial governments have mobilized the resource of Rs.4.03 billion from revenue and other receipts.

# Monetary Situation

## Money Supply

32. Broad money (M2) expanded 0.3 percent in the review period compared to the contraction of 0.4 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 18.9 percent in mid-August 2020.

33. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 51.46 billion (3.9 percent) in the review period compared to an increase of Rs.6.05 billion (0.6 percent) in the corresponding period of the previous year.



\*Based on data reported by Banking Department of NRB and Commercial Banks conducting government transactions and report released from 81 DTCOs and payment centers.

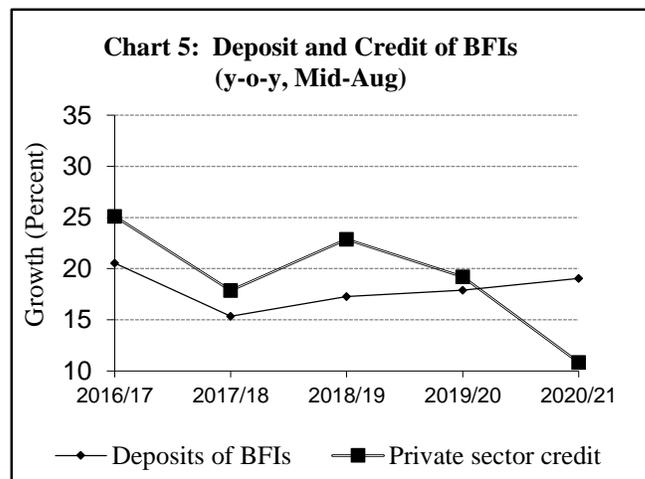
<sup>#</sup> After excluding previous year's recovery.

34. Reserve money increased 1.4 percent in the review period compared to a decrease of 6.2 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 37 percent in mid-August 2020.

### Domestic Credit

35. Domestic credit decreased 1.4 percent in the review period compared to a contraction of 1.1 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 13.3 percent in mid-August 2020.

36. There is no change in claims on private sector in the review period compared to a growth of 1.1 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 11.3 percent in mid-August 2020.



### Deposit Mobilization

37. Deposits at Banks and Financial Institutions (BFIs) decreased 0.1 percent in the review period compared to a contraction of 0.4 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 19 percent in mid-August 2020.

38. The share of demand, saving, and fixed deposits in total deposits stands at 7.7 percent, 32.2 percent and 50.6 percent respectively in mid-August 2020. Such shares were 7.9 percent, 32.9 percent and 48.0 percent respectively a year ago.

Deposits	Mid-July				Mid-August	
	2017	2018	2019	2020	2019	2020
Demand	8.7	9.3	9.7	10.0	7.9	7.7
Saving	35.4	34.5	32.8	31.9	32.9	32.2
Fixed	43.2	44.8	46.3	48.6	48.0	50.6
Other	12.7	11.3	11.3	9.4	10.4	9.5

39. The share of institutional deposits in total deposit of BFIs stands at 43.8 percent in mid-August 2020. Such share was 44.7 percent in mid-August 2019.

### Credit Disbursement

40. Private sector credit from BFIs decreased 0.5 percent in the review period compared to a growth of 0.5 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 10.8 percent in mid-August 2020.

41. In the review period, private sector credit from commercial banks and finance companies decreased 0.6 percent and 3.1 percent respectively while that of development banks increased 0.9 percent.

42. In the review period, out of the total outstanding credit of the BFIs, 66.1 percent is against the collateral of land and building and 12.7 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 64.1 percent and 13.6 percent respectively a year ago.

43. Outstanding loan of BFIs to agriculture sector decreased 1.8 percent, industrial production sector decreased 1.4 percent and wholesale and retail sector decreased 1.6 percent while that of construction

sector increased 0.2 percent, transportation, communication and public sector increased 2.3 percent and service industry sector increased 1.5 percent in the review period.

44. In the review period, term loan extended by BFIs increased 1.4 percent, demand and working capital loan increased 0.5 percent, real estate loan (including residential personal home loan) increased 0.1 percent and margin nature loan increased 0.3 percent while that of overdraft decreased 2.2 percent, trust receipt (import) loan decreased 9 percent and hire purchase loan decreased 1.4 percent.

### **Liquidity Management**

45. In the review period, NRB mopped up Rs. 60 billion liquidity through reverse repo auction on a cumulative basis. Rs.30 billion liquidity was mopped up in the corresponding period of the previous year. Rs. 3.3 billion liquidity was injected through standing liquidity facility (SLF) in the corresponding period of the previous year.
46. In the review period, NRB injected liquidity of Rs.52.19 billion through the net purchase of USD 435.7 million from foreign exchange market. Liquidity of Rs.20.11 billion was injected through the net purchase of USD 178.6 million in the corresponding period of the previous year.
47. The NRB purchased Indian currency (INR) equivalent to Rs.38.37 billion through the sale USD 320 million in the review period. INR equivalent to Rs.46.81 billion was purchased through the sale of USD 420 million in the corresponding period of previous year.

### **Refinance and Concessional Loan**

48. The outstanding amount of refinance provided by this bank is Rs.3.22 billion in mid-August 2020.
49. As of mid-August 2020, the outstanding concessional loan is Rs.59.56 billion extended to 32,455 borrowers. Of which, Rs.54.11 billion has been extended to 24,764 borrowers for selected agriculture and livestock businesses, whereas concessional loan to other sectors has been disbursed Rs.5.45 billion to 7,691 beneficiaries.

### **Inter-bank Transaction**

50. In the review period, inter-bank transactions among commercial banks amounted to Rs.1 billion and among other financial institutions (excluding transactions among commercial banks) to Rs.11.71 billion. Such transactions were Rs.146.21 billion and Rs.13.84 billion respectively in the corresponding period of previous year.

### **Interest Rates**

51. The weighted average 91-day treasury bills rate remained at 0.21 percent in mid-August 2020, which was 0.21 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 1.19 percent a year ago, decreased to 0.02 percent in mid-August 2020.
52. The average base rate of commercial banks decreased to 8.08 percent in mid-August 2020 from 9.45 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 5.77 percent and 10.47 percent respectively in mid-August 2020. Such rates were 6.77 percent and 12.08 percent respectively a year ago.

## Merger and Acquisition

53. After introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 198. Out of which, the license of 151 BFIs was revoked thereby forming 47 BFIs.

## Financial Access

54. Of the total 753 local levels, commercial banks extended their branches at 747 levels as of mid-August 2020. The number of local levels having commercial bank branches was 737 a year ago (Table 3).

55. The total number of BFIs licensed by NRB decreased to 153 in mid-August 2020 (Table 4). As of mid-August 2020, 27 commercial banks, 20 development banks, 21 finance companies, 84 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 9813 in mid-August 2020 from 9765 in mid-July 2020.

Province	No. of Local Levels	Local Levels having Bank Branches	
		mid-August 2019	mid-August 2020
Province 1	137	136	136
Province 2	136	134	136
Bagmati	119	117	117
Gandaki	85	84	85
Province 5	109	109	109
Karnali	79	75	78
Sudur Paschim	88	82	86
<b>Total</b>	<b>753</b>	<b>737</b>	<b>747</b>

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	Mid-July 2019	Mid-July 2020	Mid-August 2020	Mid-July 2019	Mid-July 2020	Mid-August 2020
Commercial Banks	28	27	27	3585	4436	4490
Development Banks	29	20	20	1267	1029	1009
Finance Companies	23	22	21	205	243	244
Microfinance Financial Institutions	90	85	84	3629	4057	4070
Infrastructure Development Bank	1	1	1	-	-	-
<b>Total</b>	<b>171</b>	<b>155</b>	<b>153</b>	<b>8686</b>	<b>9765</b>	<b>9813</b>

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

## Electronic Payment Transaction

56. Electronic payment transaction has increased significantly due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments (Table 5).

S.N	Particulars	No. of Transactions		Total Amount (Rs. in millions)	
		Mid-July 2020	Mid-August 2020	Mid-July 2020	Mid-August 2020
1	RTGS	37297	34937	11,463,256	8,715,619
2	ATM-Cash Withdrawal	6302846	4769340	54,763	38,393
3	ECC	1260169	1039330	792,007	657,113
4	IPS	596538	347854	223,651	156,360
5	Connect IPS	696447	633134	51,306	47,367
6	Debit Cards	3316554	5426368	25,894	41,787
7	Credit Cards	119610	154698	584	708
8	Prepaid Cards	5249	8986	36	57
9	Internet Banking	653459	205735	19,048	3,082
10	Mobile Banking	5817681	5923411	18,839	18,393
11	Branchless Banking	83249	53350	1,338	1,042
12	Wallet	10179557	10177889	10,222	7,579
13	QR-Based Payments*	NA	195016	NA	589
14	Point of Sales (POS)*	NA	532911	NA	1,858
15	E-Commerce*	NA	168627	NA	1,201

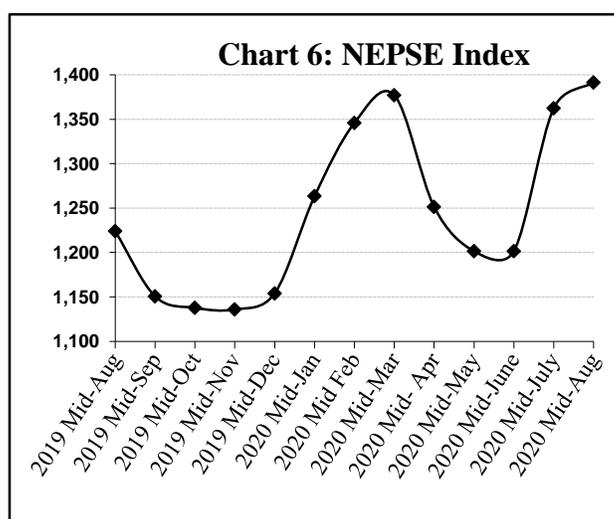
\*Data collection started from Mid-August 2020.

## Capital Market

57. NEPSE index stood at 1391.5 points in mid-Aug 2020 compared to 1224 points in mid-Aug 2019. Such index was 1362.4 in mid-July 2020.

58. Stock market capitalization in mid-Aug 2020 stood Rs.1836.79 billion compared to Rs.1792.76 billion in mid-Jul 2020.

59. Number of companies listed at NEPSE stood 208 in mid-August 2020, out of which 143 are Bank and Financial Institutions (BFIs) and insurance companies, 33 hydropower companies, 19 manufacturing and processing industries, 4 hotels, 4 trading companies and 5 others. The number of companies listed at NEPSE was 212 in mid-July 2020.



60. Share of BFIs and insurance companies in stock market capitalization is 78.3 percent. Such share for hydropower companies is 5.2 percent, manufacturing and processing industries 3.5 percent, hotels 1.1 percent, trading companies 0.3 percent and the share of other sector companies is 11.6 percent.

61. The paid-up value of 4.83 billion listed shares at NEPSE stood Rs.473.88 billion in mid-Aug 2020.
62. Securities worth Rs 6.15 billion were listed at NEPSE during the first month of 2020/21. Such securities comprise bonus shares worth Rs.2.93 billion, debenture worth Rs. 2 billion and ordinary shares worth Rs.1.22 billion.
63. Securities Board of Nepal approved the total issuance of ordinary share worth Rs.638.6 million in the review period.

## Impact of COVID-19

64. The adverse impact of COVID-19 has been witnessed on various sectors of economy, particularly on external trade, capital spending of the government and credit expansion of BFIs.

**Table 6 : Monthly Situation of Major Economic Indicators**

(Amounts Rs. Billion)

Particulars	2019					2020				
	Mid-Month									
	Mar-Apr	Apr-May	May-Jun	Jun-July	July-Aug	Mar-Apr	Apr-May	May-Jun	Jun-Jul	Jul-Aug
Consumer Inflation (Y-O-Y)	4.44	5.29	6.16	6.02	6.95	6.74	5.83	4.54	4.78	3.49
Consumer Inflation (Compared to previous month)	0.58	1.19	1.14	0.64	2.58	0.62	0.34	-0.10	0.86	1.33
Food and Beverage	1.35	1.54	2.52	1.40	3.10	1.68	0.59	-0.55	1.71	2.76
Non Food and Service	-0.02	0.93	0.06	0.04	2.18	-0.21	0.14	0.26	0.20	0.22
Exports	8.6	8.7	9.3	9.3	8.8	3.9	3.3	5.9	9.7	9.6
Imports	112.5	116.5	121.7	118.7	106.7	58.3	42.6	75.7	96.0	85.8
Travel Income	7.1	9.1	5.4	5.1	4.4	1.7	0.9	1.2	3.0	0.6
Travel Spending	6.4	5.7	6.8	9.1	7.0	1.3	0.6	1.0	1.3	1.6
Remittance Inflows	71.0	72.1	73.7	80.3	75.4	34.5	53.9	94.0	101.4	92.7
Government Expenditure	81.1	86.2	-	-	4.3	64.6	85.8	122.3	210.5	2.0
Current Expenditure	57.7	65.3	-	-	3.6	44.6	76.7	98.4	116.0	1.7
Capital Expenditure	19.2	19.4	-	-	0.6	8.7	9.1	11.9	65.2	0.1
Revenue	81.0	59.1	-	-	66.8	43.9	16.1	41.1	146.0	58.8
Deposit Mobilization	24.9	29.2	43.0	129.3	-14.2	53.4	44.8	74.1	173.1	-5.4
Private Sector Credit	46.5	15.6	24.8	30.1	14.7	40.0	-13.3	-10.4	36.8	-17.3
Weighted Average Deposit Rate	6.7	6.7	6.6	6.6	6.8	6.7	6.4	6.2	6.0	5.8
Weighted Average Lending Rate	12.3	12.2	12.2	12.1	12.1	11.8	11.0	10.4	10.1	10.5
Base Rate of Commercial Banks	9.64	9.59	9.48	9.57	9.45	9.36	8.96	8.66	8.50	8.08

Source : Nepal Rastra Bank and FCGO.

65. The imports of industrial supplies, fuel, capital goods, transport equipment, parts and accessories decreased owing to the impact of COVID-19 on the economy.

**Table. 7: Trend of Imports\***

*(Amounts in Rs. Billion)*

S.N.	Classification of Goods	2019					2020				
		Mid-Month					Mid-Month				
		Mar-Apr	Apr-May	May-June	June-July	July-Aug	Mar-Apr	Apr-May	May-June	June-July	July-Aug
1	Foods and Beverages	16.9	16.2	16.8	14.7	15.1	13.4	16.7	19.9	18.2	19.5
2	Industrial Supplies	39.3	41.2	44.2	43.8	39.0	19.1	10.4	26.2	35.2	28.2
3	Fuels and Lubricants	22.1	22.6	24.6	21.1	15.7	10.9	8.3	7.9	15.0	8.5
4	Capital goods, Parts and Accessories	15.6	16.5	17.2	20.6	17.1	8.0	2.8	10.2	15.3	14.2
5	Transport Equipment, Parts and Accessories	8.7	10.5	9.3	9.0	9.6	2.5	0.6	3.4	4.0	6.0

\* Major commodities based on UN trade statistics' classification by broad economic categories (revision 4)