

Current Macroeconomic and Financial Situation of Nepal

(Based on Six Month's Data Ending Mid-January, 2020/21)

Major Highlights

- Inflation remained 3.56 percent on y-o-y basis.
- Imports decreased 4.8 percent and exports increased 6.1 percent.
- Remittances increased 11.1 percent in NPR terms and 6.7 percent in USD terms.
- Balance of Payments remained at a surplus of Rs.124.92 billion.
- Gross foreign exchange reserves stood at USD 12.78 billion.
- Federal Government spending amounted to Rs.415.75 billion and revenue collection Rs.422.24 billion.
- Broad money (M2) expanded 9.6 percent. On y-o-y basis, M2 expanded 23.0 percent.
- Deposits at BFIs increased 9.2 percent and claims on private sector increased 11.0 percent. On y-o-y basis, deposits increased 22.0 percent and claims on private sector 15.0 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 3.56 percent in the sixth month of 2020/21 compared to 6.82 percent a year ago. Food and beverage inflation stood at 4.27 percent whereas non-food and service inflation stood at 2.99 percent in the review month.

2. The price of ghee and oil; fruit; pulses and legumes; and meat and fish sub-groups rose 17.01 percent, 16.58 percent, 11.48 percent and 10.68 percent respectively on y-o-y basis.

3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 3.55 percent, 2.87 percent, 4.72 percent and 3.38 percent inflation respectively. These regions had witnessed 7.24 percent, 7.46 percent, 5.39 percent and 5.01 percent inflation respectively a year ago.

Wholesale Price Inflation

4. The y-o-y wholesale price inflation stood at 6.18 percent in the review month compared to 7.88 percent a year ago.

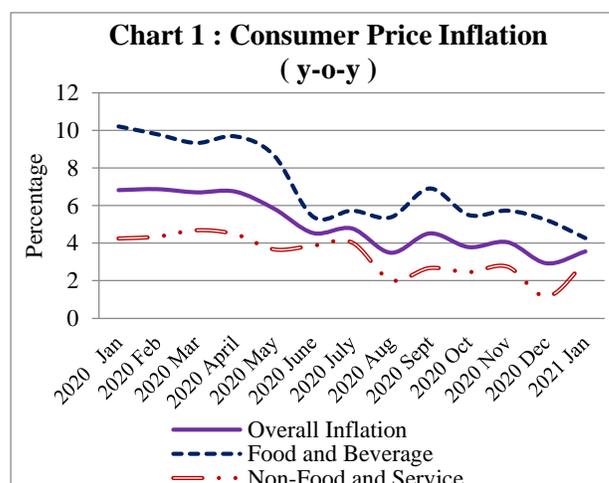


Table 1: y-o-y Consumer Price Inflation (Percent)

Mid-Month			
Particulars	Dec/Jan 2019	Nov/Dec 2020	Dec/Jan 2020
Overall Inflation	6.82	2.93	3.56
<i>Food and Beverage</i>	<i>10.21</i>	<i>5.23</i>	<i>4.27</i>
<i>Non-food and Service</i>	<i>4.25</i>	<i>1.16</i>	<i>2.99</i>

- The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 6.28 percent, 6.65 percent and 3.20 percent respectively.

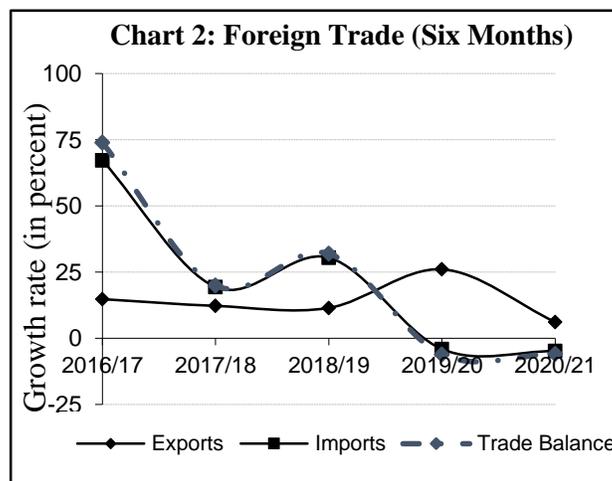
Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 1.72 percent in the review month. Such growth rate was 10.04 percent a year ago. In the review month, wage rate index increased 2.22 percent.

External Sector

Merchandise Trade

- In six months of 2020/21, merchandise exports increased 6.1 percent to Rs.60.80 billion compared to an increase of 26.1 percent in the same period of the previous year. Destination-wise, exports to India and other countries increased 8.4 percent and 4.0 percent respectively whereas exports to China decreased 50.0 percent. Exports of cardamom, polyester yarn and threads, jute goods, pashmina, noodles, among others, increased whereas exports of palm oil, pulses, zinc sheet, juice, wire, among others, decreased in the review period.



- In six months of 2020/21, merchandise imports decreased 4.8 percent to Rs.661.25 billion compared to a decrease of 4.0 percent a year ago. Destination-wise, imports from India, increased 3.5 percent whereas imports from China and other countries decreased 18.5 percent, and 17.4 percent respectively. Imports of rice, crude soyabean oil, M.S. billet, gold, telecommunication equipment and parts, among others, increased whereas imports of petroleum products, aircraft spareparts, crude palm oil, other machinery and parts, silver, among others, decreased in the review period.
- Based on customs points, exports from Dry Port, Biratnagar, Kailali, Tatopani, Kanchanpur and Rasuwa Customs Office decreased whereas exports from all the other customs points increased in the review period. On the import side, imports from all the other customs points decreased except Bhairahawa, Biratnagar, Nepalgunj, Krishnanagar, Kailali and Kanchanpur Customs Offices in the review period.
- Total trade deficit narrowed down 5.8 percent to Rs.600.45 billion in six months of 2020/21. Such deficit had decreased 6.1 percent in the same period of the previous year. The export-import ratio increased to 9.2 percent in the review period from 8.2 percent in the same period of the previous year.

Export-Import Price Index

- The y-o-y unit value export price index, based on customs data, increased 2.2 percent and the import price index decreased 1.4 percent in the sixth month of 2020/21. The terms of trade (ToT) index increased 3.6 percent in the review month against a decrease of 0.6 percent a year ago.

Services

12. Net services income remained at a deficit of Rs.25.67 billion in the review period compared to a deficit of Rs.3.73 billion in the same period of the previous year.
13. Under the service account, travel income decreased 92.0 percent to Rs.3.32 billion in the review period which was Rs.41.29 billion in the same period of the previous year.
14. Under the service account, travel payments decreased 59.7 percent to Rs.15.08 billion, including Rs.12.66 billion for education. Such payments were Rs.37.46 billion and Rs.17.89 billion respectively in the same period of the previous year.

Remittances

15. Remittance inflows increased 11.1 percent to Rs.495.31 billion in the review period compared to an increase of 0.6 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 6.7 percent to 4.19 billion in the review period compared to an increase of 0.9 percent in the same period of the previous year.
16. Number of Nepali workers (institutional and individual-new and legalized) taking approval for foreign employment decreased 77.6 percent in the review period. It had increased 17.7 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 68.9 percent in the review period. It had increased 0.5 percent in the same period of the previous year.
17. Net transfer increased 8.9 percent to Rs.549.51 billion in the review period. Such transfer had decreased 0.4 percent in the same period of the previous year.

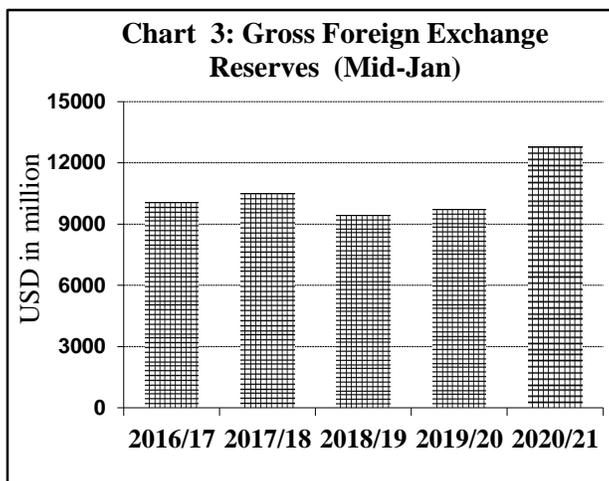
Current Account and Balance of Payments

18. The current account remained at a deficit of Rs.49.53 billion in the review period compared to a deficit of Rs.79.65 billion in the same period of the previous year. In the US Dollar terms, the current account registered a deficit of 422.7 million in the review period compared to a deficit of 699.4 million in the same period of the previous year.
19. In the review period, capital transfer decreased 8.1 percent to Rs.6.85 billion and net foreign direct investment (FDI) decreased 37.2 percent to Rs.7.66 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.7.46 billion and Rs.12.20 billion respectively.
20. Balance of Payments (BOP) registered a surplus of Rs.124.92 billion in the review period as compared to a surplus of Rs.26.65 billion in the same period of the previous year. In the US Dollar terms, the BOP recorded a surplus of 1.05 billion in the review period compared to a surplus of 235.3 million in the same period of the previous year.

Foreign Exchange Reserves

21. Gross foreign exchange reserves increased 6.6 percent to Rs.1493.75 billion in mid-January 2021 from Rs.1401.84 billion in mid-July 2020. In the US Dollar terms, the gross foreign exchange reserves increased 9.7 percent to 12.78 billion in mid-January 2021 from 11.65 billion in mid-July 2020.

22. Of the total foreign exchange reserves, reserves held by NRB increased 7.5 percent to Rs.1318.66 billion in mid-January 2021 from Rs.1226.12 billion in mid-July 2020. Reserves held by banks and financial institutions (except NRB) decreased 0.4 percent to Rs.175.09 billion in mid-January 2021 from Rs.175.71 billion in mid-July 2020. The share of Indian currency in total reserves stood at 23.7 percent in mid-January 2021.



Foreign Exchange Adequacy Indicators

23. Based on the imports of six months of 2020/21, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 13.9 months, and merchandise and services imports of 12.6 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 39.7 percent, 105.2 percent and 32.2 percent respectively in mid-January 2021. Such ratios were 37.2 percent, 105.7 percent and 33.1 percent respectively in mid-July 2020.

Price of Oil and Gold

24. The price of oil (Crude Oil Brent) in the international market decreased 13.9 percent to US Dollar 55.52 per barrel in mid-January 2021 from US Dollar 64.45 per barrel a year ago. The price of gold increased 20.3 percent to US Dollar 1858.85 per ounce in mid-January 2021 from US Dollar 1545.10 per ounce a year ago.

Exchange Rate

25. Nepalese currency vis-à-vis the US Dollar appreciated 3.0 percent in mid-January 2021 from mid-July 2020. It had depreciated 3.3 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.116.92 in mid-January 2021 compared to Rs.120.37 in mid-July 2020.

Fiscal Situation

Federal Government

Expenditure and Revenue

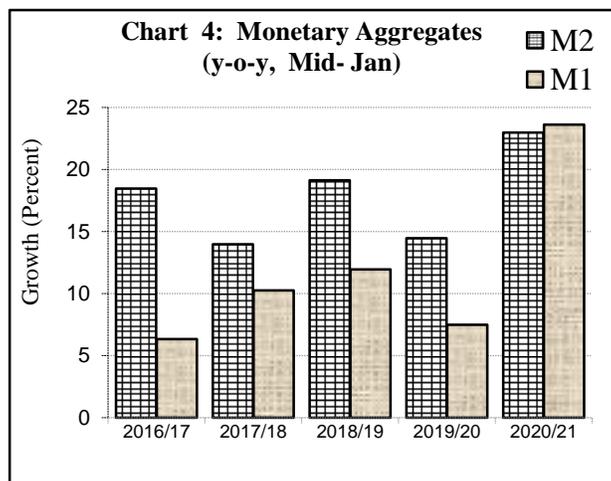
26. In the review period, total expenditure of the federal government according to Financial Comptroller General Office (FCGO), Ministry of Finance, stood at Rs.415.75 billion. The recurrent expenditure, capital expenditure and financing expenditure stood at Rs.342.36 billion, Rs. 50.82 billion and Rs. 22.57 billion respectively in the review period.

27. In the review period, revenue mobilization (including the amount to be transferred to provincial and local governments) stood at Rs.422.24 billion. The tax revenue and non tax revenue amounted Rs.386.53 billion and Rs.35.70 billion in the review period.
28. In the review period, domestic debt mobilization of federal government amounted Rs.57 billion, including Rs.7 billion through treasury bills and Rs.50 billion through development bonds.

Monetary Situation

Money Supply

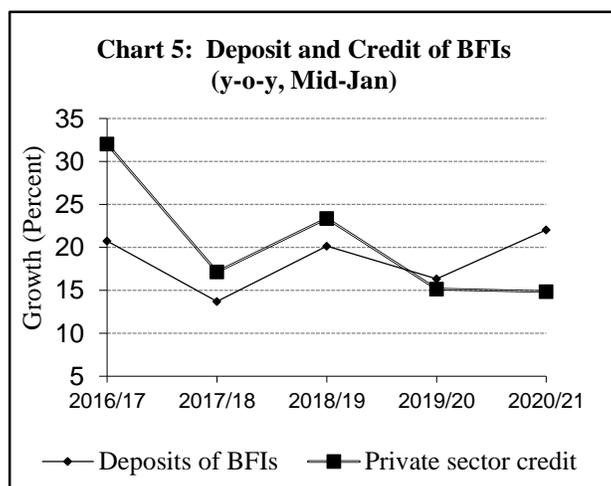
29. Broad money (M2) expanded 9.6 percent in the review period compared to the growth of 5.3 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 23.0 percent in mid-January 2021.
30. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs.124.92 billion (9.4 percent) in the review period compared to an increase of Rs.26.65 billion (2.7 percent) in the corresponding period of the previous year.



31. Reserve money decreased 4.9 percent in the review period compared to a decrease of 5.6 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 27.6 percent in mid-January 2021.

Domestic Credit

32. Domestic credit increased 8.2 percent in the review period compared to a growth of 2.4 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 20.1 percent in mid-January 2021.
33. Monetary Sector's claims on private sector increased 11.0 percent in the review period compared to a growth of 8.7 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 15.0 percent in mid-January 2021.



Deposit Mobilization

34. Deposits at Banks and Financial Institutions (BFIs) increased 9.2 percent in the review period compared to a growth of 6.2 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 22.0 percent in mid-January 2021.

35. The share of demand, saving, and fixed deposits in total deposits stands at 8.5 percent, 33.6 percent and 49.2 percent respectively in mid-January 2021. Such shares were 8.5 percent, 31.9 percent and 49.2 percent respectively a year ago.

Deposits	Mid-Jul				Mid-Jan	
	2017	2018	2019	2020	2020	2021
Demand	8.7	9.3	9.7	10.0	8.5	8.5
Saving	35.4	34.5	32.8	31.9	31.9	33.6
Fixed	43.2	44.8	46.3	48.6	49.2	49.2
Other	12.7	11.3	11.3	9.4	10.4	8.7

36. The share of institutional deposits in total deposit of BFIs stands at 42.5 percent in mid-January 2021. Such share was 45.1 percent in mid-January 2020.

Credit Disbursement

37. Private sector credit from BFIs increased 11.4 percent in the review period compared to a growth of 8.6 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 14.9 percent in mid-January 2021.

38. In the review period, private sector credit from commercial banks, development banks and finance companies increased 11.3 percent, 15.3 percent and 0.3 percent respectively.

39. In the review period, out of the total outstanding credit of the BFIs, 66.3 percent is against the collateral of land and building and 12.2 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 64.9 percent and 13.5 percent respectively a year ago.

40. Outstanding loan of BFIs to agriculture sector increased 20.2 percent, industrial production sector increased 6.9 percent, construction sector increased 6.3 percent, transportation, communication and public sector increased 6.9 percent, wholesale and retail sector increased 9.5 percent and service industry sector increased 11.9 percent in the review period.

41. In the review period, term loan extended by BFIs increased 11.5 percent, overdraft increased 13.4 percent, demand and working capital loan increased 13.6 percent, real estate loan (including residential personal home loan) increased 4 percent, margin nature loan increased 50.2 percent and trust receipt (import) loan increased 5.6 percent while that of hire purchase loan decreased 4.4 percent.

Liquidity Management

42. In the review period, NRB mopped up Rs.241.34 billion liquidity of which Rs.89.54 billion is through reverse repo auction and Rs.151.80 billion through deposit collection. Rs.58 billion liquidity consisting of Rs.28 billion reverse repo auction and Rs.30 billion deposit collection was mopped up in the corresponding period of the previous year. Rs.92.07 billion liquidity was injected including Rs.39.52 billion through repo and Rs.52.55 billion through standing liquidity facility (SLF) in the corresponding period of the previous year.

43. In the review period, NRB injected liquidity of Rs.251.02 billion through the net purchase of USD 2.12 billion from foreign exchange market. Liquidity of Rs.193.40 billion was injected through the net purchase of USD 1.70 billion in the corresponding period of the previous year.

44. The NRB purchased Indian currency (INR) equivalent to Rs.241.31 billion through the sale USD 2.04 billion in the review period. INR equivalent to Rs.229.55 billion was purchased through the sale of USD 2.02 billion in the corresponding period of previous year.

Refinance and Concessional Loan

45. The outstanding amount of refinance provided by NRB is Rs.69.96 billion in mid-January 2021. Besides, in accordance with the Refinance Manual-2077, applications of the bulk refinance Rs. 45.25 billion for 37 BFIs is in the process of approval.
46. As of mid-January 2021, the outstanding concessional loan is Rs.100.37 billion extended to 60,879 borrowers. Of which, Rs.76.59 billion has been extended to 33,817 borrowers for selected agriculture and livestock businesses, whereas concessional loan to other sectors has been disbursed Rs.23.77 billion to 27,062 beneficiaries.

Inter-bank Transaction

47. In the review period, BFIs interbank transactions amounted Rs.290.78 billion including inter-bank transactions among commercial banks Rs.189.18 billion and among other financial institutions (excluding transactions among commercial banks) Rs.101.60 billion. In the corresponding period of previous year, such transaction was Rs.1017.95 billion including Rs 926.53 billion among commercial banks and Rs.91.42 billion among other financial institutions (excluding transactions among commercial banks).

Interest Rates

48. The weighted average 91-day treasury bills rate remained at 0.87 percent in mid-January 2021, which was 3.17 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 1.76 percent a year ago, decreased to 0.14 percent in mid-January 2021. The average inter-bank rate of BFIs which is considered as operating target of monetary policy, stood 0.18 percent in mid-January 2021.
49. The average base rate of commercial banks decreased to 7.18 percent in mid-January 2021 from 9.43 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 5.0 percent and 9.09 percent respectively in mid-January 2021. Such rates were 6.79 percent and 11.94 percent respectively a year ago.

Merger and Acquisition

50. After introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 213. Out of which, the license of 151 BFIs was revoked thereby forming 52 BFIs.

Financial Access

51. Of the total 753 local levels, commercial banks extended their branches at 749 levels as of mid-January 2021. The number of local levels having commercial bank branches was 745 a year ago (Table 3).
52. The total number of BFIs licensed by NRB decreased to 144 in mid-January 2021

Province	No. of Local Levels	Local Levels having Bank Branches		Local bodies in the process of having bank branch	
		mid-Jan 2020	mid-Jan 2021	District	Rural Municipality
Province 1	137	136	136	Taplejung	Mikkwakhola
Province 2	136	135	136	-	-
Bagmati	119	117	118	Dhading	Rubi Valley
Gandaki	85	84	85	-	-
Lumbini	109	109	109	-	-
Karnali	79	78	78	Jajarkot	Junichande
Sudur Paschim	88	86	87	Bajhang	Kanda
Total	753	745	749	4	4

(Table 4). As of mid-January 2021, 27 commercial banks, 19 development banks, 21 finance companies, 76 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 10,187 in mid-January 2021 from 9765 in mid-July 2020.

Table 4: Number of BFIs and their Branches*						
Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	Mid-Jul 2019	Mid-Jul 2020	Mid-Jan 2021	Mid-Jul 2019	Mid-Jul 2020	Mid-Jan 2021
Commercial Banks	28	27	27	3585	4436	4613
Development Banks	29	20	19	1267	1029	1048
Finance Companies	23	22	21	205	243	254
Microfinance Financial Institutions	90	85	76	3629	4057	4272
Infrastructure Development Bank	1	1	1	-	-	-
Total	171	155	144	8,686	9,765	10,187

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

Electronic Payment Transaction

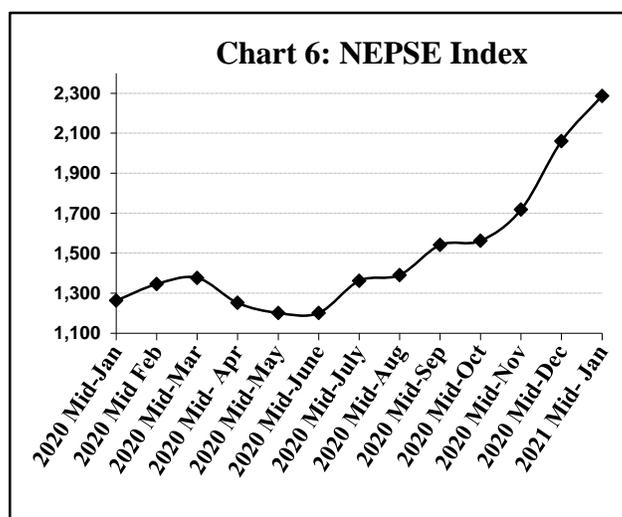
53. Electronic payment transaction has increased significantly due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments (Table 59).

Capital Market

54. NEPSE index stood at 2286.6 points in mid-Jan 2021 compared to 1263.4 points in mid-Jan 2020. Such index was 1362.4 in mid-July 2020.

55. Stock market capitalization in mid-Jan 2021 stood Rs. 3079.94 billion compared to Rs. 1792.76 billion in mid-Jul 2020.

56. Number of companies listed at NEPSE stood 215, out of which 145 are Bank and Financial Institutions (BFIs) and insurance companies, 37 hydropower companies, 19 manufacturing and processing industries, 4 hotels, 4 trading companies and 6 others. The number of companies listed at NEPSE was 212 in mid-July 2020.



57. Share of BFIs and insurance companies in stock market capitalization is 71.9 percent. Such share for hydropower companies is 6.4 percent, manufacturing and processing industries 4.7 percent, hotels 0.8 percent, trading companies 0.5 percent and the share of other sector companies is 15.7 percent.

58. The paid-up value of 5.35 billion listed shares at NEPSE stood Rs. 525.79 billion in mid-Jan 2021.
59. Securities worth Rs. 181.25 billion were listed at NEPSE during the six month of 2020/21. Such securities comprise government development bond worth Rs. 150 billion, ordinary share worth Rs. 13.83 billion, bonus shares worth Rs. 7.26 billion, debenture worth Rs. 7 billion, right share worth Rs. 2.5 billion and mutual fund worth Rs. 653 million.
60. Securities Board of Nepal approved the total issuance of securities worth Rs. 20.56 billion which includes ordinary share worth Rs. 10.46 billion, debentures worth Rs. 6.64 billion, right share worth Rs. 1.96 billion and mutual fund worth Rs. 1.5 billion in the review period.