

Current Macroeconomic and Financial Situation of Nepal

(Based on Eleven Month's Data Ending Mid-June, 2020/21)

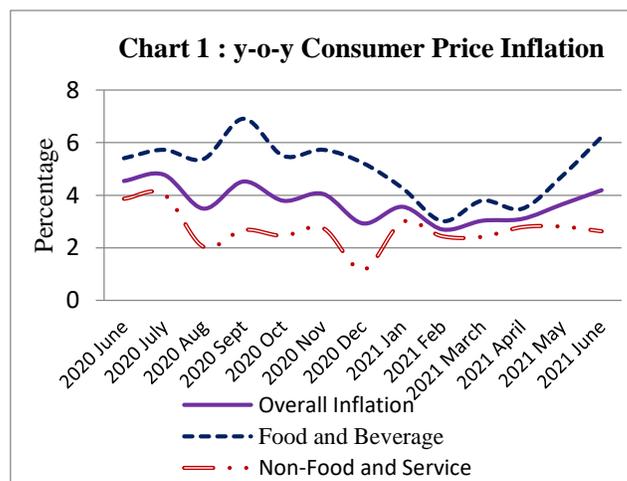
Major Highlights

- *CPI-based Inflation remained 4.19 percent on y-o-y basis.*
- *Imports increased 25.7 percent and exports increased 37.8 percent.*
- *Remittances increased 12.6 percent in NPR terms and 10.4 percent in USD terms.*
- *Balance of Payments remained at a deficit of Rs.15.15 billion.*
- *Gross foreign exchange reserves stood at USD 11.71 billion.*
- *Federal Government spending amounted to Rs.916.85 billion and revenue collection Rs.812.35 billion.*
- *Broad money (M2) expanded 16.1 percent. On y-o-y basis, M2 expanded 21.4 percent.*
- *Deposits at BFIs increased 15.3 percent and claims on the private sector increased 25.3 percent. On y-o-y basis, deposits increased 20.8 percent and claims on the private sector 24.6 percent.*

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 4.19 percent in the eleventh month of 2020/21 compared to 4.54 percent a year ago. Food and beverage inflation stood at 6.22 percent whereas non-food and service inflation stood at 2.63 percent in the review month.
2. The price of ghee and oil; tobacco products; non-alcoholic drinks; and transportation sub-groups rose 30.98 percent, 9.84 percent, 9.81 percent and 9.70 percent respectively on y-o-y basis.
3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 3.87 percent, 4.47 percent, 4.32 percent and 1.72 percent inflation respectively. These regions had witnessed 4.43 percent, 4.86 percent, 4.13 percent and 4.34 percent inflation respectively a year ago.



Mid-Month			
Particulars	May/June 2020	April/May 2021	May/June 2021
Overall Inflation	4.54	3.65	4.19
<i>Food and Beverage</i>	<i>5.41</i>	<i>4.72</i>	<i>6.22</i>
<i>Non-food and Service</i>	<i>3.87</i>	<i>2.81</i>	<i>2.63</i>

Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 9.00 percent in the review month compared to 3.96 percent a year ago.
- The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 9.65 percent, 9.53 percent and 3.92 percent respectively. The wholesale price of construction materials increased 8.16 percent in the review month.

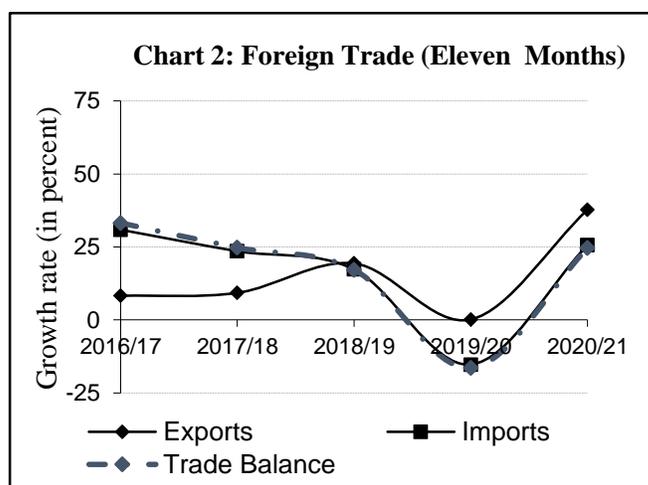
Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 1.98 percent in the review month. Such growth rate was 7.40 percent a year ago. In the review month, wage rate index increased 2.56 percent.

External Sector

Merchandise Trade

- During the eleven months of 2020/21, merchandise exports increased 37.8 percent to Rs.121.25 billion compared to an increase of 0.2 percent in the same period of the previous year. Destination-wise, exports to India and other countries increased 43.3 percent and 25.9 percent respectively whereas exports to China decreased 17.4 percent. Exports of soyabean oil, cardamom, polyester yarn and threads, jute goods, woollen carpet, among others, increased whereas exports of palm oil, pulses, zinc sheet, wire, cattlefeed, among others, decreased in the review period.
- During the eleven months of 2020/21, merchandise imports increased 25.7 percent to Rs.1383.36 billion against a decrease of 15.3 percent a year ago. Destination-wise, imports from India, China and other countries increased 32.2 percent, 24.0 percent and 9.9 percent respectively. Imports of transport equipment & parts, crude soyabean oil, M.S. billet, rice, telecommunication equipment and parts, among others, increased whereas imports of aircraft spareparts, crude palm oil, video television and parts, coldrolled sheet in coil, silver, among others, decreased in the review period.
- Based on customs points, exports from Tatopani, Kanchanpur and Rasuwa Customs Offices 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 increased except Tatopani and Rasuwa Customs Offices in the review period.
- Total trade deficit increased 24.6 percent to Rs.1262.11 billion during the eleven months of 2020/21. Such deficit had decreased 16.4 percent in the same period of the previous year. The export-import ratio increased to 8.8 percent in the review period from 8.0 percent in the same period of the previous year.



Export-Import Price Index

11. The y-o-y unit value export price index, based on customs data, increased 4.9 percent and the import price index increased 8.1 percent in the eleventh month of 2020/21. The terms of trade (ToT) index decreased 2.9 percent in the review month against an increase of 2.4 percent a year ago.

Services

12. Net services income remained at a deficit of Rs.58.10 billion in the review period compared to a deficit of Rs.1.23 billion in the same period of the previous year.
13. Under the service account, travel income decreased 88.6 percent to Rs.6.66 billion in the review period which was Rs.58.63 billion in the same period of the previous year.
14. Under the service account, travel payments decreased 40.9 percent to Rs.30.65 billion, including Rs.23.31 billion for education. Such payments were Rs.51.83 billion and Rs.25.12 billion respectively in the same period of the previous year.

Remittances

15. Remittance inflows increased 12.6 percent to Rs.870.94 billion in the review period against a decrease of 3.2 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 10.4 percent to 7.39 billion in the review period against a decrease of 5.2 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 59.9 percent in the review period. It had decreased 12.4 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 47.1 percent in the review period. It had decreased 31.1 percent in the same period of the previous year.
17. Net transfer increased 11.4 percent to Rs.971.04 billion in the review period. Such a transfer had decreased 3.9 percent in the same period of the previous year.

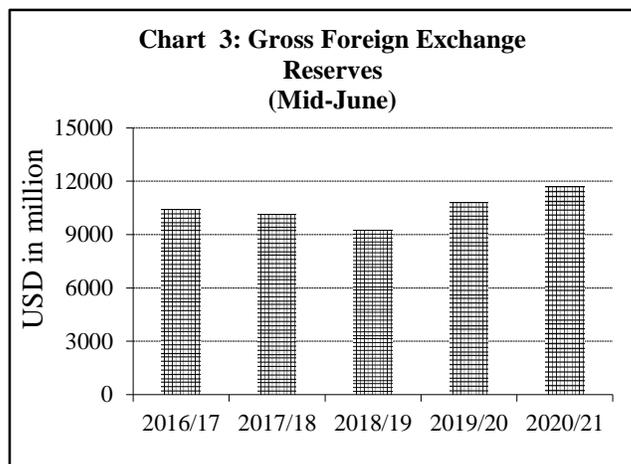
Current Account and Balance of Payments

18. The current account remained at a deficit of Rs.293.97 billion in the review period compared to a deficit of Rs.62.59 billion in the same period of the previous year. In the US Dollar terms, the current account registered a deficit of 2.51 billion in the review period compared to a deficit of 578.5 million in the same period of the previous year.
19. In the review period, capital transfer increased 8.4 percent to Rs.14.15 billion and net foreign direct investment (FDI) decreased 13.4 percent to Rs.16.20 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.13.05 billion and Rs.18.72 billion respectively.
20. Balance of Payments (BOP) registered a deficit of Rs.15.15 billion in the review period against a surplus of Rs.179.37 billion in the same period of the previous year. In the US Dollar terms, the BOP recorded a deficit of 140.8 million in the review period against a surplus of 1.50 billion in the same period of the previous year.

Foreign Exchange Reserves

21. Gross foreign exchange reserves decreased 2.6 percent to Rs.1365.65 billion in mid-June 2021 from Rs.1401.84 billion in mid-July 2020. In the US Dollar terms, the gross foreign exchange reserves increased 0.6 percent to 11.71 billion in mid-June 2021 from 11.65 billion in mid-July 2020.

22. Of the total foreign exchange reserves, reserves held by NRB decreased 2.3 percent to Rs.1197.65 billion in mid-June 2021 from Rs.1226.12 billion in mid-July 2020. Reserves held by banks and financial institutions (except NRB) decreased 4.4 percent to Rs.168.0 billion in mid-June 2021 from Rs.175.71 billion in mid-July 2020. The share of Indian currency in total reserves stood at 24.6 percent in mid-June 2021.



Foreign Exchange Adequacy Indicators

23. Based on the imports during the eleven months of 2020/21, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 11.1 months, and merchandise and services imports of 10.1 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 32.0 percent, 76.6 percent and 27.8 percent respectively in mid-June 2021. Such ratios were 35.8 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 increased 87.5 percent to US Dollar 72.27 per barrel in mid-June 2021 from US Dollar 38.54 per barrel a year ago. The price of gold increased 7.6 percent to US Dollar 1865.60 per ounce in mid-June 2021 from US Dollar 1733.50 per ounce a year ago.

Exchange Rate

25. Nepalese currency vis-à-vis the US Dollar appreciated 3.2 percent in mid-June 2021 from mid-July 2020. It had depreciated 9.7 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.116.62 in mid-June 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 data of Financial Comptroller General Office (FCGO), Ministry of Finance, stood at Rs.916.85 billion. The recurrent expenditure, capital expenditure and financing expenditure amounted to Rs.700.61 billion, Rs.143.09 billion and Rs.73.15 billion respectively in the review period (Annex-13).

27. In the review period, revenue mobilization (including the amount to be transferred to provincial and local governments) stood at Rs.812.35 billion. The tax revenue and non tax revenue amounted Rs.758.38 billion and Rs.53.98 billion respectively in the review period (Annex-13).
28. In the review period, domestic debt mobilization of federal government amounted Rs.148.52 billion, including Rs.41.50 billion through treasury bills, Rs.105 billion through development bonds, Rs.2 billion through citizen saving certificates and Rs.15.3 million through foreign employment bond.

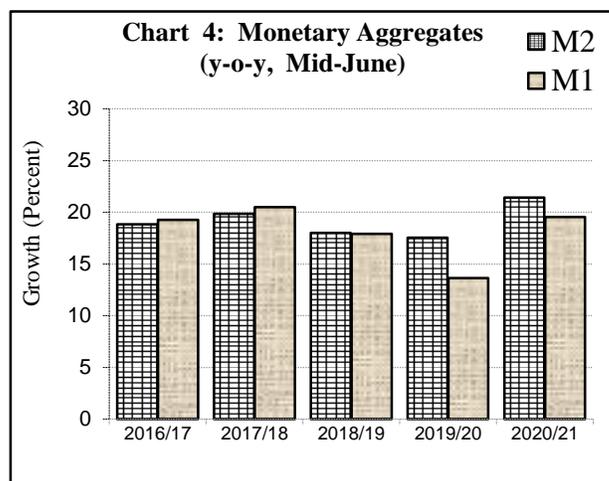
Provincial Government

29. In the review period, total resource mobilization of provincial governments remained Rs.137.21 billion. The federal government transferred Rs.104.69 billion as grants and revenue from divisible fund to provincial governments and the provincial governments mobilized Rs.32.53 billion in terms of revenue and other receipts in the review period. In the review period, total expenditure of provincial governments stood at Rs.109.95 billion.

Monetary Situation

Money Supply

30. Broad money (M2) expanded 16.1 percent in the review period compared to the growth of 12.9 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 21.4 percent in mid-June 2021.
31. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs.15.15 billion (1.1 percent) in the review period compared to an increase of Rs.179.37 billion (18.2 percent) in the corresponding period of the previous year.



32. Reserve money decreased 6.1 percent in the review period compared to an increase of 8.9 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 9.3 percent in mid-June 2021.

Domestic Credit

33. Domestic credit increased 21.5 percent in the review period compared to a growth of 12.9 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 22.2 percent in mid-June 2021.
34. Monetary Sector's claims on the private sector increased 25.2 percent in the review period compared to a growth of 13.2 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 24.6 percent in mid-June 2021.

Deposit Mobilization

35. Deposits at Banks and Financial Institutions (BFIs) increased 15.3 percent in the review period compared to a growth of 13.3 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 20.8 percent in mid-June 2021.

36. The share of demand, saving, and fixed deposits in total deposits stands at 8.6 percent, 34.3 percent and 48.5 percent respectively in mid-June 2021. Such shares were 8.7 percent, 32.2 percent and 48.2 percent respectively a year ago.

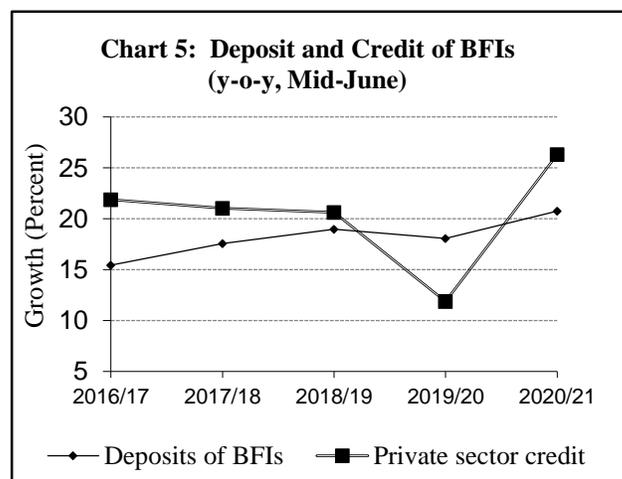
Deposits	Mid-July		Mid-June	
	2019	2020	2020	2021
Demand	9.7	10.0	8.7	8.6
Saving	32.8	31.9	32.2	34.3
Fixed	46.3	48.6	48.2	48.5
Other	11.3	9.4	10.8	8.6

37. The share of institutional deposits in total deposit of BFIs stands at 41.22 percent in mid-June 2021. Such a share was 44.98 percent in mid-June 2020.

Credit Disbursement

38. Private sector credit from BFIs increased 24.9 percent in the review period compared to a growth of 10.7 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 26.3 percent in mid-June 2021.

39. In the review period, private sector credit from commercial banks, development banks and finance companies increased 25.2 percent, 25.3 percent and 9.9 percent respectively.



40. In the review period, out of the total outstanding credit of the BFIs, 65.7 percent is against the collateral of land and building and 13.0 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 65.5 percent and 13.3 percent respectively a year ago.

41. Outstanding loan of BFIs to the agriculture sector increased 40.2 percent, industrial production sector 19.1 percent, construction sector 14.6 percent, transportation, communication and public sector 15.9 percent, wholesale and retail sector 25.4 percent and service industry sector 18.2 percent in the review period.

42. In the review period, term loan extended by BFIs increased 24.8 percent, overdraft 28.2 percent, demand and working capital loan 24.1 percent, real estate loan (including residential personal home loan) 11.9 percent, margin nature loan 87.6 percent and trust receipt (import) loan 53.2 percent while that of hire purchase loan decreased 5.5 percent.

Liquidity Management

43. In the review period, NRB mopped up Rs.303.29 billion liquidity of which Rs.109.54 billion was through reverse repo auction and Rs.193.75 billion through deposit collection. In the corresponding period of the previous year, Rs.78 billion liquidity was mopped up consisting of Rs.48 billion through reverse repo auction and Rs.30 billion through deposit collection.

44. In the review period, NRB injected Rs.192.56 billion liquidity of which Rs.59.29 billion was through repo and Rs.133.27 billion through standing liquidity facility (SLF). In the corresponding period of the previous year, Rs.219.16 billion liquidity was injected of which Rs.115.87 billion was through repo and Rs.103.28 billion through standing liquidity facility (SLF).
45. In the review period, NRB injected liquidity of Rs.371.14 billion through the net purchase of USD 3.14 billion from foreign exchange market. Liquidity of Rs.416.76 billion was injected through the net purchase of USD 3.58 billion in the corresponding period of the previous year.
46. The NRB purchased Indian currency (INR) equivalent to Rs.489.98 billion through the sale of USD 4.16 billion in the review period. INR equivalent to Rs.401.03 billion was purchased through the sale of USD 3.48 billion in the corresponding period of previous year.

Refinance, Concessional Loan and Business Continuity Loan

47. As of mid-June 2021, NRB approved Rs.148.35 billion refinance. The outstanding amount of refinance remained Rs.127.09 billion.

Approval Process	Approved Amount (Rs. in billion)	No. of Borrowers	No. of BFIs
Client Evaluation	45.74	337	34
Bulk Basis (A, B and C class)	92.38	48550	46
Bulk Basis (D class)	10.23	-	28
Total	148.35	48,887	-

48. As of mid-June 2021, the outstanding concessional loan is Rs.150.96 billion extended to 96,852 borrowers. Of which, Rs.102.83 billion has been extended to 44,007 borrowers for selected commercial agriculture and livestock businesses. Likewise, Rs. 44.66 billion loan has been extended to 50,513 women entrepreneurs. Total 2,332 borrowers have been availed Rs.3.47 billion concessional loan to other sectors.
49. Business continuity loan has been extended to the Covid-19 affected tourism, cottage, small and medium industries for payment of salaries to workers and employees in line with 'Business Continuity Loan Procedure, 2020'. Under this provision, Rs.822.4 million loan has been approved as of mid-June 2021.

Inter-bank Transaction

50. In the review period, BFIs interbank transactions amounted Rs.1614.32 billion including Rs.1429.16 billion inter-bank transactions among commercial banks and Rs.185.16 billion among other financial institutions (excluding transactions among commercial banks). In the corresponding period of previous year, such transactions was Rs.1591.23 billion including Rs.1469.81 billion among commercial banks and Rs.121.42 billion among other financial institutions (excluding transactions among commercial banks).

Interest Rates

51. The weighted average 91-day treasury bills rate remained at 3.79 percent in the eleventh month of 2020/21, which was 2.81 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 2.80 percent a year ago, increased to 3.21

percent in the review month. The average inter-bank rate of BFIs which is considered as operating target of monetary policy, stood 3.24 percent in the review month.

52. The average base rate of commercial banks decreased to 6.66 percent in the eleventh month of 2020/21 from 8.66 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 4.72 percent and 8.46 percent respectively in the review month. Such rates were 6.17 percent and 10.43 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 220 as of mid-June 2021. Out of which, the license of 166 BFIs was revoked thereby forming 54 BFIs.

Financial Access

54. Of the total 753 local levels, commercial banks extended their branches at 750 levels as of mid-June 2021. The number of local levels having commercial bank branches was 746 a year ago (Table 4).

Province	No. of Local Levels	Local Levels having Bank Branches		Local bodies in the process of having bank branch	
		mid-June 2020	mid-June 2021	District	Rural Municipality
Province 1	137	136	137	-	-
Province 2	136	136	136	-	-
Bagmati	119	117	118	Dhading	Rubi Valley
Gandaki	85	84	85	-	-
Lumbini	109	109	109	-	-
Karnali	79	78	78	Jajarkot	Junichande
SudurPaschim	88	86	87	Bajhang	Saipal
Total	753	746	750	3	3

55. The total number of BFIs licensed by NRB remained 138 in mid-June 2021 (Table 5). As of mid-June 2021, 27 commercial banks, 18 development banks, 20 finance companies, 72 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 10,611 in mid-June 2021 from 9765 in mid-July 2020 (Table 5).

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	mid-July 2019	mid- July 2020	mid-June 2021	mid-July 2019	mid-July 2020	mid-June 2021
Commercial Banks	28	27	27	3585	4436	4694
Development Banks	29	20	18	1267	1029	1016
Finance Companies	23	22	20	205	243	264
Microfinance Financial Institutions	90	85	72	3629	4057	4637
Infrastructure Development Bank	1	1	1	-	-	-
Total	171	155	138	8,686	9,765	10,611

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

Electronic Payment Transaction

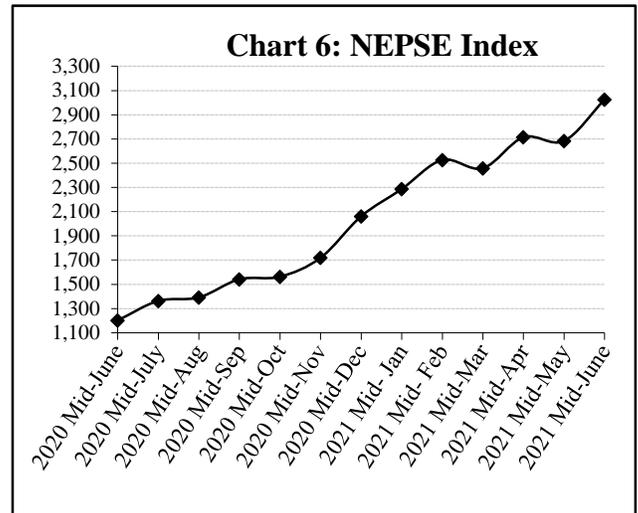
56. Electronic payment transaction has increased significantly due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments (Table 59).

Capital Market

57. NEPSE index stood at 3025.8 in mid-June 2021 compared to 1362.4 in mid-July 2020.

58. Stock market capitalization in mid-June 2021 stood Rs.4216 billion compared to Rs.1792.76 billion in mid-July 2020.

59. Number of companies listed at NEPSE reached 220 in mid-June 2021, out of which 144 are Bank and Financial Institutions(BFIs) and insurance companies, 40 hydropower companies, 19 manufacturing and processing industries, 5 hotels, 4 trading companies, 5 investment companies and 3 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 68.4 percent. Such share for hydropower companies is 8.9 percent, investment companies 8.0 percent, manufacturing and processing industries 3.7 percent, hotels 1.5 percent, trading companies 0.6 percent and the share of other companies is 9.0 percent.

61. The paid-up value of 5.82 billion shares listed at NEPSE stood Rs.572.92 billion in mid-June 2021.

62. Securities worth Rs.332.87 billion were listed at NEPSE during the eleven months of 2020/21. Such securities comprise government development bond worth Rs. 219.95 billion, bonus shares worth Rs.43.58 billion, ordinary share worth Rs.42.17 billion, debenture worth Rs.17.55 billion, right share worth Rs. 5.52 billion and mutual fund worth Rs.4.10 billion.

63. Securities Board of Nepal approved the total issuance of securities worth Rs.56.53 billion which includes debentures worth Rs.20.54 billion, right share worth Rs.14.05 billion, ordinary share worth Rs.13.54 billion and mutual fund worth Rs.8.40 billion in the review period.