

Current Macroeconomic and Financial Situation of Nepal

(Based on One Month's Data Ending Mid-Aug, 2021/22)

Major Highlights

- *CPI-based Inflation remained 4.35 percent on y-o-y basis.*
- *Imports increased 75.7 percent and exports increased 115.9 percent.*
- *Remittances decreased 18.1 percent in NPR terms and 17.5 percent in USD terms.*
- *Balance of Payments remained at a deficit of Rs.38.75 billion.*
- *Gross foreign exchange reserves stood at USD 11.42 billion.*
- *Federal Government spending amounted to Rs.10.49 billion and revenue collection Rs.93.26 billion.*
- *Broad money (M2) contracted 1.6 percent. On y-o-y basis, M2 expanded 19.5 percent.*
- *Deposits at BFIs decreased 1.6 percent and claims on the private sector increased 1.6 percent. On y-o-y basis, deposits increased 19.6 percent and claims on the private sector 28.4 percent.*

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 4.35 percent in the first month of 2021/22 compared to 3.49 percent a year ago. Food and beverage inflation stood at 3.86 percent whereas non-food and service inflation stood at 4.74 percent in the review month.
2. The price of ghee and oil, non-alcoholic drinks, tobacco products and transportation sub-categories rose 29.07 percent, 10.51 percent, 10.12 percent and 9.43 percent respectively on y-o-y basis.
3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 3.70 percent, 4.11 percent, 5.63 percent and 3.58 percent inflation respectively. Inflation in these regions was 3.31 percent, 4.02 percent, 2.72 percent and 4.07 percent respectively a year ago.

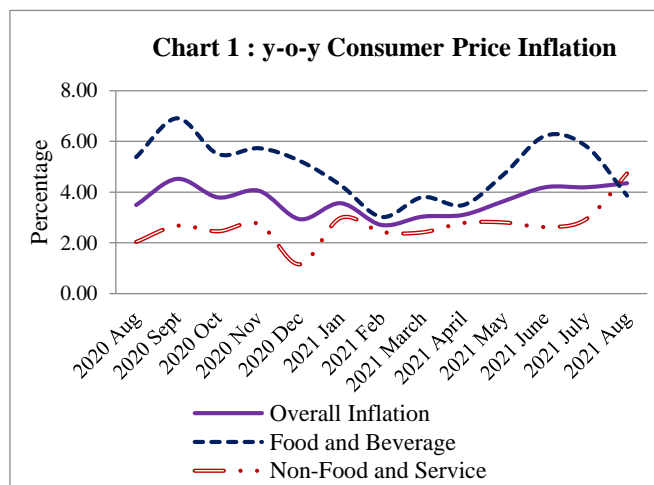


Table 1: y-o-y Consumer Price Inflation (Percent)

Mid-Month			
Particulars	July/Aug 2020	Jun/July 2021	July/Aug 2021
Overall Inflation	3.49	4.19	4.35
<i>Food and Beverage</i>	5.38	5.81	3.86
<i>Non-food and Service</i>	2.04	2.94	4.74

Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 4.25 percent in the review month compared to 7.33 percent a year ago.
- The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 1.30 percent, 5.72 percent and 6.19 percent respectively. The wholesale price of construction materials increased 11.54 percent in the review month.

Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 5.05 percent in the review month. Such a growth rate was 1.34 percent a year ago. In the review month, salary index and wage rate index increased 9.44 and 3.80 percent, respectively.

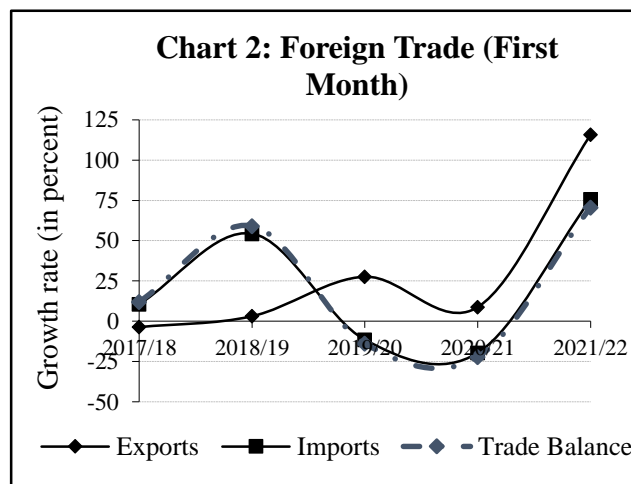
Inflation in Nepal and India

- The y-o-y consumer price inflation in Nepal in the first month of 2020/21 remained 4.35 percent. Such inflation in India was 5.30 percent in August 2021.

External Sector

Merchandise Trade

- During the first month of 2021/22, merchandise exports increased 115.9 percent to Rs.20.76 billion compared to an increase of 8.9 percent in the same period of the previous year. Destination-wise, exports to India, China and other countries increased 167.0 percent, 47.8 percent and 17.5 percent respectively. Exports of soyabean oil, palm oil, polyester yarn & thread, juice, oil cake, among others increased whereas exports of cardamom, medicine (ayurvedic), herbs, wire, readymade leather goods, among others decreased in the review period.



- During the first month of 2021/22, merchandise imports increased 75.7 percent to Rs.150.73 billion against a decrease of 19.6 percent a year ago. Destination-wise, imports from India, China and other countries increased 58.7 percent, 87.6 percent and 120.8 percent respectively. Imports of petroleum products, transport equipment & parts, crude soyabean oil, M.S. billet, gold, among others increased whereas imports of chemical fertilizer, cement, tobacco, aircraft spareparts, readymade garments among others decreased in the review period.
- Based on customs points, exports from Kanchanpur, Mechi and Nepalgunj Customs Offices decreased whereas exports from all other customs points increased in the review period. On the import side, imports from Kailali Customs Office decreased whereas imports from all other customs points increased in the review period.

11. Total trade deficit increased 70.6 percent to Rs.129.97 billion during the first month of 2021/22. Such a deficit had decreased 22.2 percent in the same period of the previous year. The export-import ratio increased to 13.8 percent in the review period from 11.2 percent in the same period of the previous year.
12. During the first month of 2021/22, merchandise imports from India by paying US Dollar amounted Rs. 18.86 billion. Such amount was Rs. 9.26 billion in the same period of the previous year.

Composition of Foreign Trade

13. As per the Broad Economic Categories (BEC), the intermediate and final consumption goods accounted for 31.8 percent and 68.2 percent of the total exports respectively, whereas the ratio of capital goods in total exports remained negligible at 0.02 percent in the review period. In the same period of the previous year, the ratio of intermediate, capital and final consumption goods remained 32.0 percent, 2.8 percent and 65.3 percent of total exports respectively.
14. On the imports side, the share of intermediate goods remained 53.7 percent, capital goods 11.5 percent and final consumption goods remained 34.8 percent in the review period. Such ratios were 50.6 percent, 13.8 percent and 35.6 percent respectively in the same period of the previous year.

Export-Import Price Index

15. The y-o-y unit value export price index, based on customs data, increased 4.2 percent and the import price index increased 9.6 percent in the first month of 2021/22. The terms of trade (ToT) index decreased 4.9 percent in the review month against an increase of 4.4 percent a year ago.

Services

16. Net services income remained at a deficit of Rs.10.12 billion in the review period compared to a deficit of Rs.3.09 billion in the same period of the previous year.
17. Under the service account, travel income increased 118.6 percent to Rs.1.33 billion in the review period which was Rs.608 million in the same period of the previous year.
18. Under the service account, travel payments increased 217.9 percent to Rs.5.12 billion, including Rs.3.47 billion for education. Such payments were Rs.1.61 billion and Rs.1.42 billion respectively in the same period of the previous year.

Remittances

19. Remittance inflows decreased 18.1 percent to Rs.75.96 billion in the review period in contrast to an increase of 23.0 percent in the same period of the previous year. In the US Dollar terms, remittance inflows decreased 17.5 percent to Rs.638.2 million in the review period against a growth of 14.5 percent in the same period of the previous year.
20. Number of Nepali workers (institutional and individual-new and legalized) taking approval for foreign employment increased significantly to 13,800 in the review period. It had decreased 99.2 percent in the same period of the previous year. Likewise, the number of Nepali workers (Renew entry) taking approval for foreign employment increased 286.1 percent to 11,628 in the review period. It had decreased 80.0 percent in the same period of the previous year.

21. Net transfer decreased 16.4 percent to Rs.85.21 billion in the review period. Such a transfer had increased 20.0 percent in the same period of the previous year.

Current Account and Balance of Payments

22. The current account remained at a deficit of Rs.47.90 billion in the review period compared to a surplus of Rs.24.89 billion in the same period of the previous year. In the US Dollar terms, the current account registered a deficit of 402.4 million in the review period compared to a surplus of 207.7 million in the same period of the previous year.

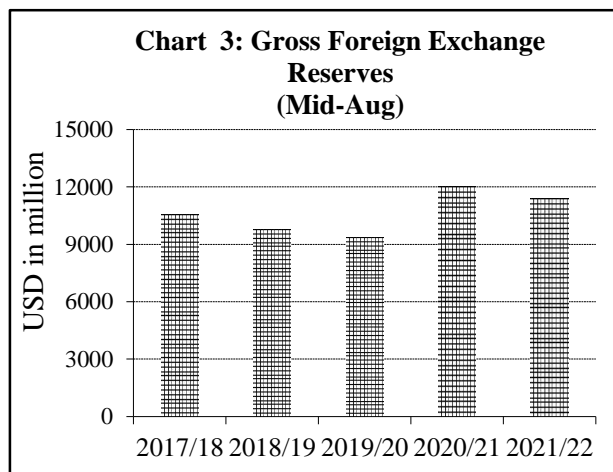
23. In the review period, capital transfer decreased 38.0 percent to Rs.679.7 million and net foreign direct investment (FDI) decreased 65.5 percent to Rs.480.6 million. In the same period of the previous year, capital transfer and net FDI amounted to Rs.1.10 billion and Rs.1.39 billion respectively.

24. Balance of Payments (BOP) registered a deficit of Rs.38.75 billion in the review period against a surplus of Rs.51.46 billion in the same period of the previous year. In the US Dollar terms, the BOP recorded a deficit of 325.5 million in the review period against a surplus of 429.4 million in the same period of the previous year.

Foreign Exchange Reserves

25. Gross foreign exchange reserves decreased 3.2 percent to Rs.1353.82 billion in mid-August 2021 from Rs.1399.03 billion in mid-July 2021. In the US Dollar terms, the gross foreign exchange reserves decreased 2.8 percent to 11.42 billion in mid-August 2021 from 11.75 billion in mid-July 2021.

26. Of the total foreign exchange reserves, reserves held by NRB decreased 3.1 percent to Rs.1206.51 billion in mid-August 2021 from Rs.1244.63 billion in mid-July 2021. Reserves held by banks and financial institutions (except NRB) decreased 4.6 percent to Rs.147.31 billion in mid-August 2021 from Rs.154.39 billion in mid-July 2021. The share of Indian currency in total reserves stood at 25.2 percent in mid-August 2021.



Foreign Exchange Adequacy Indicators

27. Based on the imports during the first month of 2021/22, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 9.3 months, and merchandise and services imports of 8.3 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 31.7 percent, 69.4 percent and 26.7 percent respectively in mid-August 2021. Such ratios were 32.8 percent, 84.7 percent and 27.1 percent respectively in mid-July 2021.

Price of Oil and Gold

28. The price of oil (Crude Oil Brent) in the international market increased 56.2 percent to US Dollar 70.07 per barrel in mid-August 2021 from US Dollar 44.86 per barrel a year ago. The price of gold decreased 8.1 percent to US Dollar 1786.35 per ounce in mid-August 2021 from US Dollar 1944.75 per ounce a year ago.

Exchange Rate

29. Nepalese currency vis-à-vis the US Dollar appreciated 0.5 percent in mid-August 2021 from mid-July 2021. It had appreciated 0.7 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.118.50 in mid-August 2021 compared to Rs.119.04 in mid-July 2021.

Fiscal Situation

Federal Government

Expenditure and Revenue

30. 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.10.49 billion. The recurrent expenditure and capital expenditure amounted to Rs.9.56 billion and Rs.0.93 billion respectively in the review period (Annex-13).
31. In the review period, revenue mobilization (including the amount to be transferred to provincial and local governments) stood at Rs.93.26 billion. The tax revenue and non tax revenue amounted Rs.76.19 billion and Rs.17.07 billion respectively in the review period (Annex-13).

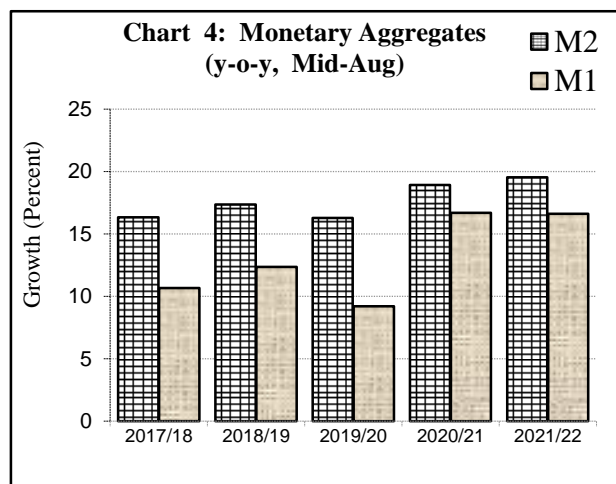
Provincial Government

32. In the review period, total resource mobilization of provincial governments remained Rs.8.53 billion. The federal government transferred Rs.4.88 billion as grants and revenue from federal divisible fund to provincial governments and the provincial governments mobilized Rs.3.65 billion in terms of revenue and other receipts in the review period. In the review period, total expenditure of provincial governments stood at Rs.6.5 million.

Monetary Situation

Money Supply

33. Broad money (M2) decreased 1.6 percent in the review period compared to the growth of 0.3 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 19.5 percent in mid-August 2021.
34. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs. 38.75 billion (2.9 percent) in the review period compared to an increase of Rs.51.46 billion (3.9 percent) in the corresponding period of the previous year.



35. Reserve money decreased 9.7 percent in the review period compared to an increase of 1.4 percent in the corresponding period of the previous year. On y-o-y basis, reserve money decreased 6.3 percent in mid-August 2021.

Domestic Credit

36. Domestic credit decreased 0.5 percent in the review period compared to a decrease of 1.4 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 27.9 percent in mid-August 2021.
37. Monetary Sector's claims on the private sector increased 1.6 percent in the review period compared to a decrease of 0.02 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 28.3 percent in mid-August 2021.

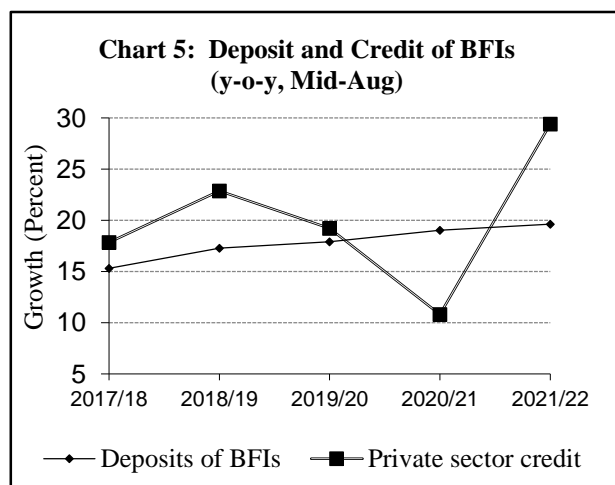
Deposit Mobilization

38. Deposits at Banks and Financial Institutions (BFIs) decreased 1.6 percent in the review period compared to a decrease of 0.1 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 19.6 percent in mid-August 2021.
39. The share of demand, saving, and fixed deposits in total deposits stands at 7.8 percent, 34.3 percent and 49.5 percent respectively in mid-August 2021. Such shares were 7.7 percent, 32.2 percent and 50.6 percent respectively a year ago.
40. The share of institutional deposits in total deposit of BFIs stands at 41.4 percent in mid-August 2021. Such a share was 43.8 percent in mid-August 2020.

Deposits	Mid-July		Mid-August	
	2020	2021	2020	2021
Demand	10.0	10.4	7.7	7.8
Saving	31.9	34.2	32.2	34.3
Fixed	48.6	47.0	50.6	49.5
Other	9.4	8.4	9.5	8.4

Credit Disbursement

41. Private sector credit from BFIs increased 1.2 percent in the review period compared to a decrease of 0.5 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 29.4 percent in mid-August 2021.
42. In the review period, private sector credit from commercial banks, development banks and finance companies increased 1.1 percent, 2.0 percent and 1.6 percent respectively.
43. In the review period, out of the total outstanding credit of the BFIs, 66.2 percent is against the collateral of land and building and 12.8 percent against the collateral of current assets (agricultural and non-agricultural products). Such ratios were 66.1 percent and 12.7 percent respectively a year ago.
44. Outstanding loan of BFIs to the agriculture sector increased 2.0 percent, industrial production sector 1.4 percent, construction sector 1.3 percent, transportation, communication and public sector 1.0 percent, wholesale and retail sector 0.5 percent and service industry sector 0.4 percent in the review period.



45. In the review period, term loan extended by BFIs increased 2.0 percent, overdraft 1.4 percent, demand and working capital loan 0.7 percent, real estate loan (including residential personal home loan) 1.5 percent, margin nature loan 2.1 percent and hire purchase loan 1.8 percent while that of trust receipt (import) loan decreased 0.4 percent.

Liquidity Management

46. In the review period, NRB mopped up Rs.60 billion liquidity of which Rs.28.35 billion was through reverse repo auction and Rs.31.65 billion through deposit collection. In the corresponding period of the previous year, Rs.60 billion liquidity was mopped up through reverse repo auction.

47. In the review period, NRB injected Rs. 59.62 billion liquidity of which Rs.4.06 billion was through repo and Rs. 55.55 billion through standing liquidity facility (SLF).

48. In the review period, NRB injected liquidity of Rs.7.08 billion through the net purchase of USD 59.5 million from foreign exchange market. Liquidity of Rs.52.19 billion was injected through the net purchase of USD 435.7 million in the corresponding period of the previous year.

49. The NRB purchased Indian currency (INR) equivalent to Rs.50 billion through the sale of USD 420 million in the review period. INR equivalent to Rs.38.37 billion was purchased through the sale of USD 320 million in the corresponding period of previous year.

Refinance, Concessional Loan and Business Continuity Loan

50. The outstanding amount of refinance provided by NRB remained Rs.118.49 billion in mid-August 2021.

Types	2020/21		Mid-August, 2021	
	No. of borrowers	Amount	No. of borrowers	Amount
General	11296	98750	11	1117
Special	2040	14620	3	455
Micro, Cottage and Small enterprises	35554	35380	-	-
Total	48890	148750	14	1572

51. As of mid-August 2021, the outstanding concessional loan is Rs.172.17 billion extended 1,11,471 borrowers. Of which, Rs.112.75 billion has been extended to 48,498

borrowers for selected commercial agriculture and livestock businesses. Likewise, Rs. 55.79 billion loan has been extended to 60,322 women entrepreneurs. Total 2,651 borrowers have been availed Rs. 3.64 billion concessional loan to other sectors.

52. 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, 2077'. Under this provision, Rs. 1 billion loan has been approved as of mid-August 2021.

Inter-bank Transaction

53. In the review period, BFIs interbank transactions amounted Rs.333.46 billion including Rs.305.55 billion inter-bank transactions among commercial banks and Rs. 27.91 billion among other financial institutions (excluding transactions among commercial banks). In the corresponding period of previous year, such transactions was Rs.12.71 billion including Rs.1 billion among commercial banks

and Rs.11.71 billion among other financial institutions (excluding transactions among commercial banks).

Interest Rates

54. The weighted average 91-day treasury bills rate remained at 0.66 percent in the first month of 2021/22, which was 0.21 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.02 percent a year ago, increased to 2.13 percent in the review month. The average inter-bank rate of BFIs which is considered as operating target of monetary policy, stood 2.18 percent in the review month, which was 0.30 percent year ago.
55. The average base rate of commercial banks decreased to 6.71 percent in the first month of 2021/22 from 8.08 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 4.76 percent and 8.48 percent respectively in the review month. Such rates were 5.77 percent and 10.47 percent respectively a year ago.

Merger and Acquisition

56. After introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 229 as of mid-August 2021. Out of which, the license of 171 BFIs was revoked thereby forming 58 BFIs.

Financial Access

57. Of the total 753 local levels, commercial banks extended their branches at 750 levels as of mid-August 2021. The number of local levels having commercial bank branches was 747 a year ago.
58. The total number of BFIs licensed by NRB remained 133 in mid-August 2021. As of mid-August 2021, 27 commercial banks, 18 development banks, 17 finance companies, 70 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 10,720 in mid-August 2021 from 10,683 in mid-July 2021 (Table 4).

Table 4: Number of BFIs and their Branches*						
Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	mid-July 2020	mid- July 2021	mid-August 2021	mid-July 2020	mid- July 2021	mid-August 2021
Commercial Banks	27	27	27	4436	4753	4766
Development Banks	20	18	18	1029	1023	1023
Finance Companies	22	17	17	243	222	226
Microfinance Financial Institutions	85	70	70	4057	4685	4705
Infrastructure Development Bank	1	1	1	-	-	-
Total	155	133	133	9765	10683	10720

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

Electronic Payment Transaction

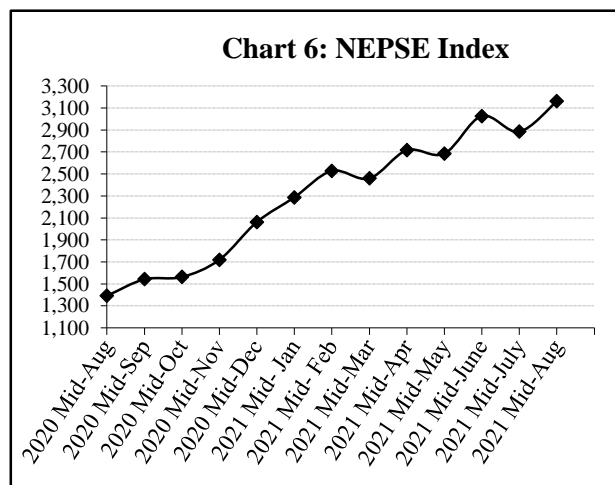
59. Electronic payment transaction has increased significantly due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments (Table 59).

Capital Market

60. NEPSE index stood at 3160.1 in mid-August 2021 compared to 1391.5 in mid-August 2020.

61. Stock market capitalization in mid-August 2021 stood Rs.4414 billion compared to Rs.1837 billion in mid-August 2020.

62. Number of companies listed at NEPSE reached 220 in mid-August 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 208 in mid-August 2020.



63. Share of BFIs and insurance companies in stock market capitalization is 68.2 percent. Such a share for hydropower companies is 9.8 percent, investment companies 8.4 percent, manufacturing and processing industries 3.9 percent, hotels 1.4 percent, trading companies 0.5 percent and the share of other companies is 7.8 percent.

64. The paid-up value of 5.85 billion shares listed at NEPSE stood Rs.575.50 billion in mid-August 2021.

65. Securities worth Rs.17.73 billion were listed at NEPSE during the first month of 2021/22. Such securities comprise debenture worth Rs.13.75 billion, ordinary share worth Rs.2.88 billion, bonus shares worth Rs.573.9 million and right share worth Rs.524.1 million.

66. Securities Board of Nepal approved the total issuance of securities worth Rs.4.82 billion which includes mutual fund worth Rs.3 billion, ordinary share worth Rs.1.57 billion and right share worth Rs.243.3 million in the review period.