



# Nepal Rastra Bank

Economic Research Department, Baluwatar, Kathmandu

## Current Macroeconomic and Financial Situation of Nepal

(Based on Eleven Months' Data Ending Mid-June, 2021/22)

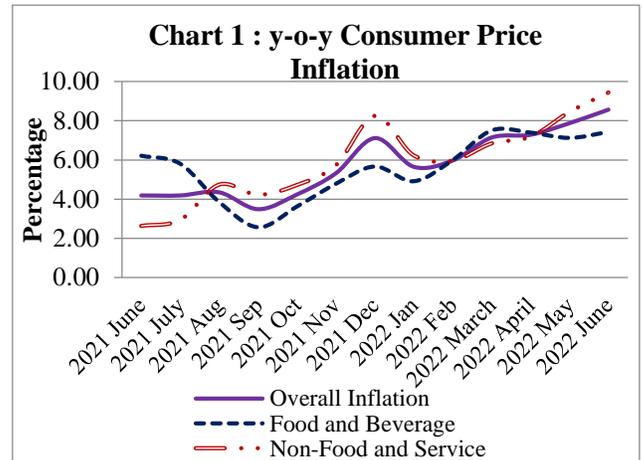
### Major Highlights

- *CPI-based Inflation remained 8.56 percent on y-o-y basis.*
- *Imports increased 27.5 percent, exports increased 53.3 percent and trade deficit increased 25 percent.*
- *Remittances increased 3.8 percent in NPR terms and increased 1.5 percent in USD terms.*
- *Balance of Payments remained at a deficit of Rs. 269.81 billion.*
- *Gross foreign exchange reserves stood at USD 9.45 billion.*
- *Federal Government spending amounted to Rs.1035.61 billion and revenue collection Rs.942.13 billion.*
- *Broad money (M2) increased 3.9 percent. On y-o-y basis, M2 increased 9.0 percent.*
- *Deposits at BFIs increased 5.7 percent and private sector credit increased 13.5 percent. On y-o-y basis, deposits increased 11.3 percent and private sector credit 15.7 percent.*

## Inflation

### Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 8.56 percent in the eleventh month of FY 2021/22 compared to 4.19 percent a year ago. Food and beverage inflation stood at 7.43 percent whereas non-food and service inflation stood at 9.44 percent in the review month. The average monthly y-o-y inflation for 11 months was 6.09 percent.
2. Under the food and beverage category, the prices of ghee & oil, milk products & eggs, tobacco products, alcoholic drinks and pulses & legumes sub-categories rose by 22.60 percent, 11.22 percent, 9.70 percent, 9.68 and 9.13 percent respectively on y-o-y basis. Likewise, under the non-food and services category, the prices of transportation, education, furnishing & household equipment, recreation & culture and housing &



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

Particulars	Mid-Month		
	May/June 2021	Apr/May 2022	May/June 2022
<b>Overall Inflation</b>	<b>4.19</b>	<b>7.87</b>	<b>8.56</b>
<i>Food and Beverage</i>	6.22	7.13	7.43
<i>Non-food and Service</i>	2.63	8.45	9.44

utilities sub-categories rose by 25.79 percent, 11.64 percent, 8.30 percent, 8.21 percent and 7.84 percent respectively on y-o-y basis.

3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 8.32 percent, 8.29 percent, 9.28 percent and 8.92 percent inflation respectively. Inflation in these regions was 3.87 percent, 4.47 percent, 4.32 percent and 1.72 percent respectively a year ago.

### Wholesale Price Inflation

4. The y-o-y wholesale price inflation stood at 14.77 percent in the review month compared to 9.00 percent a year ago. The average monthly y-o-y wholesale price inflation for 11 months was 9.26 percent.
5. The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased by 15.84 percent, 15.34 percent and 7.83 percent respectively. The y-o-y wholesale price of construction materials increased by 25.25 percent in the review month.

### Salary and Wage Rate Index

6. The y-o-y salary and wage rate index increased by 8.50 percent in the review month. Such a growth was 1.98 percent a year ago. In the review month, salary index and wage rate index increased by 9.44 and 8.24 percent, respectively. The average monthly y-o-y salary and wage rate index (SWRI) for 11 months was 6.42 percent.

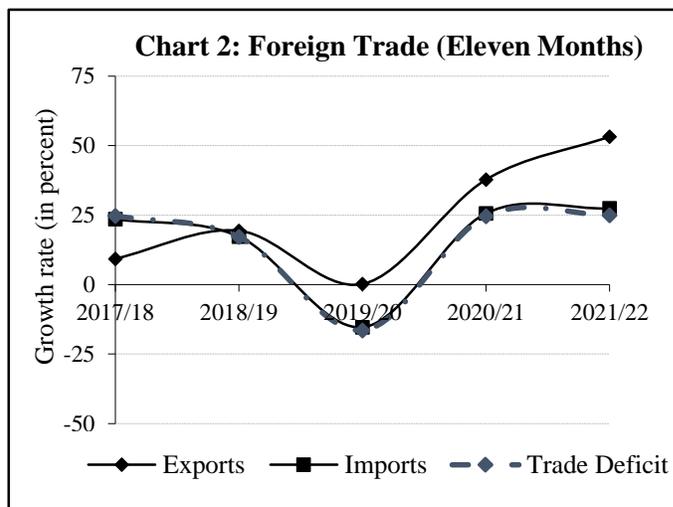
### Inflation in Nepal and India

7. In the eleventh month of FY 2021/22, the y-o-y consumer price inflation in Nepal remained at 8.56 percent. Such inflation in India was 7.04 percent in May 2022.

## External Sector

### Merchandise Trade

8. During the eleven months of 2021/22, merchandise exports increased 53.3 percent to Rs.185.84 billion compared to an increase of 37.8 percent in the same period of the previous year. Destination-wise, exports to India and other countries increased 61.8 percent and 30.1 respectively whereas exports to China decreased 21.4 percent. Exports of palm oil, soyabean oil, polyester yarn and thread, woolen carpets, zinc sheet, among others, increased whereas exports of cardamom, tea, medicine (ayurvedic), toothpaste, wire, among others, decreased in the review period.



9. During the eleven months of 2021/22, merchandise imports increased 27.5 percent to Rs.1763.22 billion compared to an increase of 25.7 percent a year ago. Destination-wise, imports from India, China and other countries increased 24.2 percent, 16.0 percent, and 46.1 percent respectively. Imports of

petroleum products, medicine, crude palm oil, gold, other machinery and parts, among others, increased whereas imports of M.S. billet, chemical fertilizer, cement, rice/paddy, pulses, among others, decreased in the review period.

10. Based on customs points, exports from Kanchanpur and Mechi Customs Office decreased whereas exports from all the other major customs points increased in the review period. On the import side, imports from all the major customs points increased in the review period.
11. Total trade deficit increased 25.0 percent to Rs.1577.39 billion during the eleven months of 2021/22. Such a deficit had increased 24.6 percent in the corresponding period of the previous year. The export-import ratio increased to 10.5 percent in the review period from 8.8 percent in the corresponding period of the previous year.
12. During the eleven months of 2021/22, merchandise imports from India by paying convertible foreign currency amounted Rs.200.82 billion. Such amount was Rs.173.26 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 47.4 percent and 52.6 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 29.7 percent, 0.4 percent and 69.9 percent of total exports respectively.
14. On the imports side, the share of intermediate goods remained 52.4 percent, capital goods 10.2 percent and final consumption goods remained 37.4 percent in the review period. Such ratios were 53.5 percent, 11.8 percent and 34.7 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 7.7 percent and the import price index increased 19.3 percent in the eleventh month of 2021/22. The terms of trade (ToT) index decreased 9.8 percent in the review month compared to a decrease of 2.9 percent a year ago.

### **Services**

16. Net services income remained at a deficit of Rs.99.93 billion in the review period compared to a deficit of Rs.63.89 billion in the same period of the previous year.
17. Under the service account, travel income increased 281.3 percent to Rs.25.52 billion in the review period which was Rs.6.69 billion in the same period of the previous year.
18. Under the service account, travel payments increased 170.8 percent to Rs.83.37 billion, including Rs.59.99 billion for education. Such payments were Rs.30.79 billion and Rs.23.45 billion respectively in the same period of the previous year.

### **Remittances**

19. Remittance inflows increased 3.8 percent to Rs.904.18 billion in the review period compared to 12.6 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased

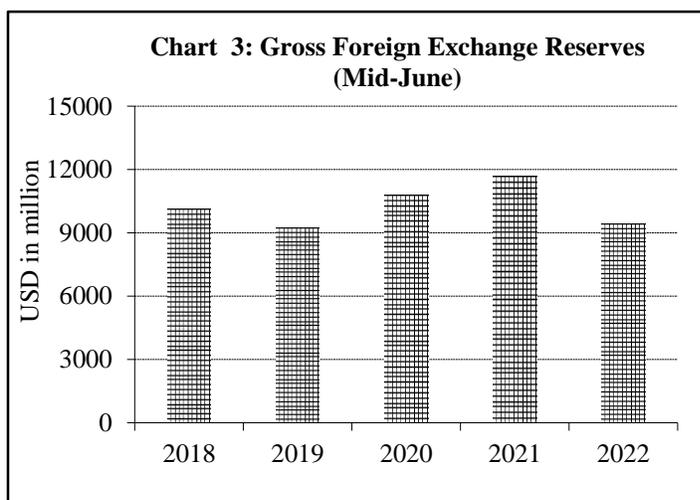
1.5 percent to 7.51 billion in the review period against an increase of 10.5 percent in the same period of the previous year.

20. Number of Nepali workers (institutional and individual-new and legalized) taking approval for foreign employment increased significantly to 313,367 in the review period. It had decreased 68 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment increased 208.3 percent to 259,091 in the review period. It had decreased 52.1 percent in the same period of the previous year.

21. Net transfer increased 3.6 percent to Rs.1006.07 billion in the review period. Such a transfer had increased 11.5 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.595.73 billion in the review period compared to a deficit of Rs.298.11 billion in the same period of the previous year. In the US Dollar terms, the current account registered a deficit of 4.96 billion in the review period compared to deficit of 2.54 billion in the same period last year.



23. In the review period, capital transfer decreased 32.9 percent to Rs.9.49 billion and net foreign direct investment (FDI) increased 7.1 percent to Rs.17.35 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.14.15 billion and Rs.16.20 billion respectively.

24. Balance of Payments (BOP) remained at a deficit of Rs.269.81 billion in the review period against a deficit of Rs.15.15 billion in the same period of the previous year. In the US Dollar terms, the BOP remained at a deficit of 2.26 billion in the review period against a deficit of 140.8 million in the same period of the previous year.

### Foreign Exchange Reserves

25. Gross foreign exchange reserves decreased 15.9 percent to Rs.1176.84 billion in mid-June 2022 from Rs.1399.03 billion in mid-July 2021. In the US dollar terms, the gross foreign exchange reserves decreased 19.6 percent to 9.45 billion in mid-June 2022 from 11.75 billion in mid-July 2021.

26. Of the total foreign exchange reserves, reserves held by NRB decreased 17.1 percent to Rs.1031.89 billion in mid-June 2022 from Rs.1244.63 billion in mid-July 2021. Reserves held by banks and financial institutions (except NRB) decreased 6.1 percent to Rs.144.95 billion in mid-June 2022 from Rs.154.39 billion in mid-July 2021. The share of Indian currency in total reserves stood at 25 percent in mid-June 2022.

### Foreign Exchange Adequacy Indicators

27. Based on the imports of eleven months of 2021/22, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 7.53 months, and merchandise and

services imports of 6.73 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 24.3 percent, 56.1 percent and 22 percent respectively in mid-June 2022. Such ratios were 32.7 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 75.8 percent to US dollar 127.02 per barrel in mid-June 2022 from US dollar 72.27 per barrel a year ago. The price of gold decreased 2.5 percent to US dollar 1818.30 per ounce in mid-June 2022 from US dollar 1865.60 per ounce a year ago.

### Exchange Rate

29. Nepalese currency vis-à-vis the US dollar depreciated 4.43 percent in mid-June 2022 from mid-July 2021. It had appreciated 3.22 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.124.56 in mid-June 2022 compared to Rs.119.04 in mid-July 2021.

## Fiscal Situation

### Federal Government

#### Expenditure and Revenue

30. During the eleven months of 2021/22, total expenditure of the federal government according to data of Financial Comptroller General Office (FCGO), Ministry of Finance, stood at Rs.1035.61 billion. The recurrent expenditure, capital expenditure and financial expenditure amounted to Rs.814.54 billion, Rs.137.96 billion and Rs.83.10 billion respectively in the review period

Particulars	Amount (Rs. in Billion)		Percentage Change		As Percentage of Budget	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
<b>Total Expenditure</b>	<b>916.85</b>	<b>1035.61</b>	<b>3.7</b>	<b>13.0</b>	<b>62.2</b>	<b>63.4</b>
<i>Recurrent Expenditure</i>	700.61	814.54	4.5	16.3	73.8	76.5
<i>Capital Expenditure</i>	143.09	137.96	13.0	-3.6	40.5	36.5
<i>Financial Management</i>	73.15	83.10	-15.7	13.6	42.3	43.9
<b>Total Revenue</b>	<b>812.35</b>	<b>942.13</b>	<b>25.4</b>	<b>16.0</b>	<b>80.3</b>	<b>79.8</b>
<i>Tax Revenue</i>	758.38	872.54	28.9	15.1	83.1	81.7
<i>Non-Tax Revenue</i>	53.98	69.59	-9.2	28.9	54.6	61.8

Source: Financial Comptroller General Office

31. In the review period, revenue mobilization (including the amount to be transferred to provincial and local governments) stood at Rs.942.13 billion. The tax revenue and non tax revenue amounted Rs.872.54 billion and Rs.69.59 billion respectively in the review period (Table 2).

32. In the review period, federal government mobilized Rs.175.47 billion domestic debt including Rs.85.0 billion from treasury bills, Rs.89.50 billion from development bonds and Rs.0.97 billion from citizen saving certificates.

### Cash Balance

33. Balance at various accounts of the GoN maintained with NRB remained Rs.351.91 billion (including Provincial government and Local Authorities Account) in mid-June 2022. Such a balance was Rs.198.76 billion in mid-July 2021.

## Provincial Government

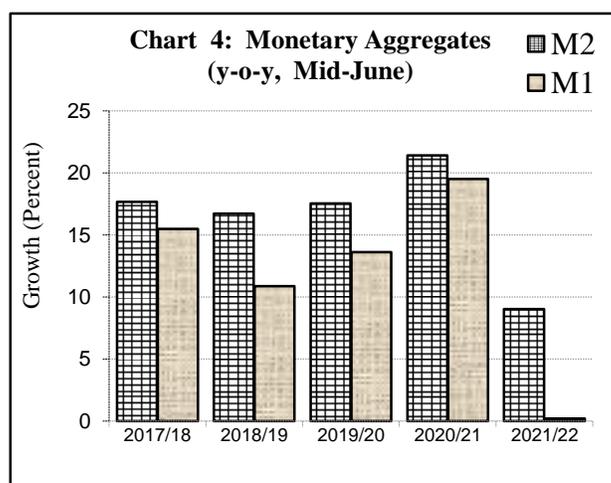
34. In the review period, total resource mobilization of provincial governments remained Rs.164.15 billion. The federal government transferred Rs.125.50 billion as grants and revenue from federal divisible fund to provincial governments and the provincial governments mobilized Rs.38.65 billion in terms of revenue and other receipts in the review period. In the review period, total expenditure of provincial governments stood at Rs.112.27 billion.

## Monetary Situation

### Money Supply

35. Broad money (M2) increased 3.9 percent in the review period compared to a growth of 16.1 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 9.0 percent in mid-June 2022.

36. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs. 269.81 billion (20.2 percent) in the review period compared to the decrease of Rs.15.15 billion (1.1 percent) in the corresponding period of the previous year.



37. Reserve money decreased 16.2 percent in the review period compared to a decrease of 6.1 percent in the corresponding period of the previous year. On y-o-y basis, reserve money decreased 6.2 percent in mid-June 2022.

### Domestic Credit

38. Domestic credit increased 12.4 percent in the review period compared to an increase of 21.9 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 17.3 percent in mid-June 2022.

39. Monetary Sector's claims on the private sector increased 15.0 percent in the review period compared to an increase of 25.2 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 16.0 percent in mid-June 2022.

### Deposit Mobilization

40. Deposits at Banks and Financial Institutions (BFIs) increased 5.7 percent in the review period compared to an increase of 15.3 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 11.3 percent in mid-June 2022.

**Table 3: Deposits at Banks and Financial Institutions (Percentage Share)**

Deposits	Mid-July		Mid-June	
	2020	2021	2021	2022
Demand	10.0	10.4	8.6	8.8
Saving	31.9	34.2	34.3	27.1
Fixed	48.6	47.0	48.5	57.1
Other	9.5	8.4	8.6	7.0

41. The share of demand, saving, and fixed deposits in total deposits stands at 8.8 percent, 27.1 percent and 57.1 percent respectively in mid-June 2022. Such shares were 8.6 percent, 34.3 percent and 48.5 percent respectively a year ago.
42. The share of institutional deposits in total deposit of BFIs stands at 38.57 percent in mid-June 2022. Such a share was 41.22 percent in mid-June 2021.

### Credit Disbursement

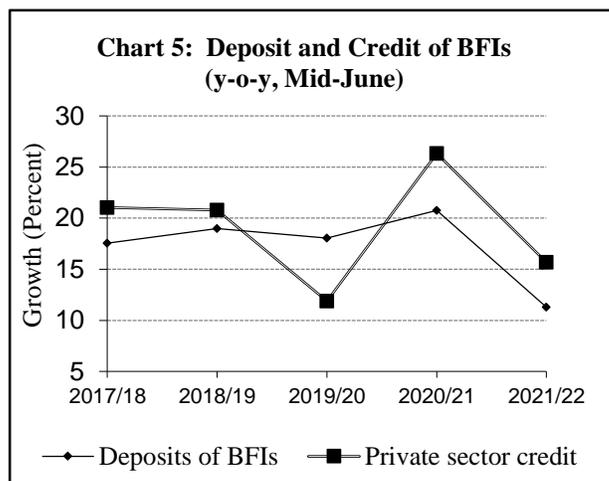
43. Private sector credit from BFIs increased 13.5 percent in the review period compared to an increase of 24.9 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 15.7 percent in mid-June 2022.

44. In the review period, private sector credit from commercial banks, development banks and finance companies increased 13.1 percent, 14.7 percent and 29 percent respectively.

45. In the review period, out of the total outstanding credit of the BFIs, 66.8 percent is against the collateral of land and building and 12.3 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 65.7 percent and 13 percent respectively a year ago.

46. Outstanding loan of BFIs to the agriculture sector increased 20.1 percent, industrial production sector 9.6 percent, transportation, communication and public sector 12.6 percent, wholesale and retail sector 14.6 percent and service industry sector 5 percent in the review period.

47. In the review period, term loan extended by BFIs increased 22.7 percent, overdraft 12.6 percent, demand and other working capital loan 17.9 percent, real estate loan (including residential personal home loan) 16.8 percent and hire purchase loan 2.5 percent while that of trust receipt (import) loan decreased 53.8 percent and margin nature loan 17.6 percent.



### Liquidity Management

48. During 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, liquidity of Rs.303.29 billion was absorbed of which Rs.109.54 billion was through reverse repo and Rs. 193.75 billion through deposit collection auction.

49. In the review period, NRB injected Rs.8582.10 billion liquidity on turnover basis of which Rs.450.01 billion was through repo, Rs.55.92 billion through outright purchase and Rs.8076.17 billion through standing liquidity facility (SLF).

50. In the review period, NRB injected liquidity of Rs.299.62 billion through the net purchase of USD 2.47 billion from foreign exchange market. Liquidity of Rs.370.18 billion was injected through the net purchase of USD 3.13 billion in the corresponding period of the previous year.

51. The NRB purchased Indian currency (INR) equivalent to Rs.529.74 billion through the sale of USD 4.40 billion in the review period. INR equivalent to Rs.489.98 billion was purchased through the sale of USD 4.16 billion in the corresponding period of previous year.

### Refinance, Concessional Loan and Business Continuity Loan

52. The outstanding amount of refinance provided by NRB remained Rs.114.97 billion in mid-June 2022.

Types	2020/21		Mid-June, 2022	
	No. of borrowers	Amount	No. of borrowers	Amount
General	11296	98750	13112	90260
Special	2040	14620	1707	12290
Micro, Cottage and Small enterprises	35554	35380	9486	13150
<b>Total</b>	<b>48890</b>	<b>148750</b>	<b>24305</b>	<b>115700</b>

53. As of mid-June 2022, the outstanding concessional loan remained at Rs.215.91 billion extended to 147,147 borrowers. Of which, Rs.139.84 billion has been extended to 60,618 borrowers for

selected commercial agriculture and livestock businesses. Likewise, Rs.72.38 billion loan has been extended to 83,669 women entrepreneurs. Total of 2,860 borrowers have been availed Rs.3.69 billion concessional loan to other sectors.

54. 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.1.15 billion loan has been approved as of mid-June 2022.

### Inter-bank Transaction

55. In the review period, BFIs' interbank transactions amounted Rs.2875.51 billion including Rs.2576.60 billion inter-bank transactions among commercial banks and Rs.298.91 billion among other financial institutions (excluding transactions among commercial banks). In the corresponding period of previous year, such transactions was Rs.1614.32 billion including Rs.1429.16 billion among commercial banks and Rs.185.16 billion among other financial institutions (excluding transactions among commercial banks).

### Interest Rates

56. The weighted average 91-day treasury bills rate remained at 9.90 percent in the eleventh month of 2021/22, which was 3.79 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 3.21 percent a year ago, increased to 7.01 percent in the review month. The weighted average inter-bank rate of BFIs stood 7 percent in the review month. Such a rate was 3.24 percent a year ago.

Types	mid-June 2021	mid-June 2022
91-day treasury bills rate	3.79	9.90
Inter-bank rate	3.21	7.01
Base rate	6.66	9.39
Deposit rate	4.72	7.34
Lending rate	8.46	11.54

57. The average base rate of commercial banks stood 9.39 percent in the eleventh month of 2021/22, which was 6.66 percent a year ago. Weighted average

deposit rate and lending rate of commercial banks stood at 7.34 percent and 11.54 percent respectively in the review month. Such rates were 4.72 percent and 8.46 percent respectively a year ago.

### Merger and Acquisition

58. After introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 243 as of mid-June 2022. Out of which, the license of 177 BFIs was revoked thereby forming 66 BFIs.

### Financial Access

59. Of the total 753 local levels, commercial banks extended their branches at 750 levels as of mid-June 2022 same as a year ago.

60. The total number of BFIs licensed by NRB remained 127 in mid-June 2022. As of mid-June 2022, 27 commercial banks, 17 development banks, 17 finance companies, 65 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 11,492 in mid-June 2022 from 10,683 in mid-July 2021 (Table 6).

<b>Table 6: Number of BFIs and their Branches*</b>						
<b>Bank and Financial Institutions</b>	<b>Number of BFIs</b>			<b>Branches of BFIs</b>		
	<b>mid-July 2020</b>	<b>mid- July 2021</b>	<b>mid-June 2022</b>	<b>mid-July 2019</b>	<b>mid-July 2020</b>	<b>mid-June 2022</b>
Commercial Banks	27	27	27	4436	4753	4994
Development Banks	20	18	17	1029	1023	1116
Finance Companies	22	17	17	243	222	264
Microfinance Financial Institutions	85	70	65	4057	4685	5118
Infrastructure Development Bank	1	1	1	-	-	-
<b>Total</b>	<b>155</b>	<b>133</b>	<b>127</b>	<b>9765</b>	<b>10683</b>	<b>11492</b>

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

### Electronic Payment Transaction

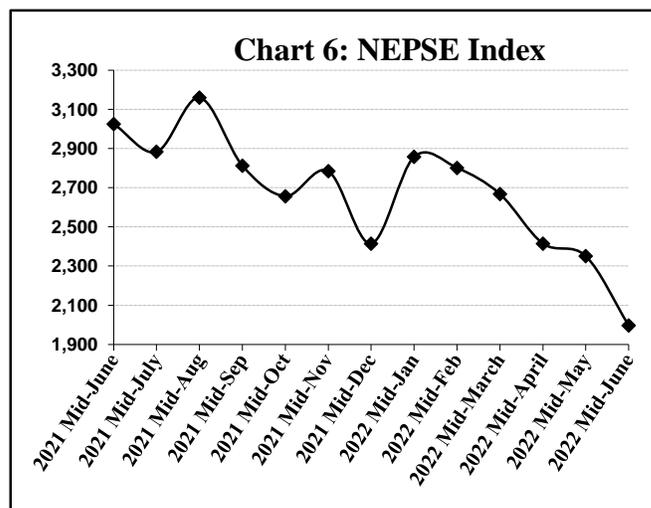
61. Electronic payment transaction has increased significantly due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments (Data base Table 59).

## Capital Market

62. NEPSE index stood 1996.3 in mid-June 2022 compared to 3025.8 in mid-June 2021.

63. Stock market capitalization in mid-June 2022 stood Rs.2844.11 billion compared to Rs.4216.0 billion in mid-June 2021.

64. Number of companies listed at NEPSE reached 232 in mid-June 2022, out of which 146 are Bank and Financial Institutions (BFIs) and insurance companies, 49 hydropower companies, 19 manufacturing and processing industries, 6 investment companies, 5 hotels, 4 trading companies and 3 others. The number of companies listed at NEPSE was 220 in mid-June 2021.



65. Share of BFIs and insurance companies in stock market capitalization is 67.7 percent. Such a share for hydropower companies is 10.8 percent, investment companies 7 percent, manufacturing and processing industries 4.1 percent, hotels 1.6 percent, trading companies 0.3 percent and the share of other companies is 8.5 percent.

66. The paid-up value of 6.74 billion shares listed at NEPSE stood Rs.664.64 billion in mid-June 2022.

67. Securities worth Rs.194.18 billion were listed at NEPSE during the eleven months of 2021/22. Such securities comprise development bond worth Rs.54.50 billion, bonus shares worth Rs.51.81 billion, debenture worth Rs.49.16 billion, ordinary share worth Rs.24.08 billion, right share worth Rs.10.88 billion and mutual fund worth Rs.3.75 billion.

68. Securities Board of Nepal approved the total public issuance of securities worth Rs.28.15 billion which includes debenture worth Rs.11.28 billion, mutual fund worth Rs.6.9 billion, ordinary share worth Rs.6.51 billion and right share worth Rs.3.46 billion in the review period.