



Nepal Rastra Bank

Economic Research Department, Baluwatar, Kathmandu

Current Macroeconomic and Financial Situation of Nepal

(Based on First Months' Data Ending Mid-August, 2022/23)

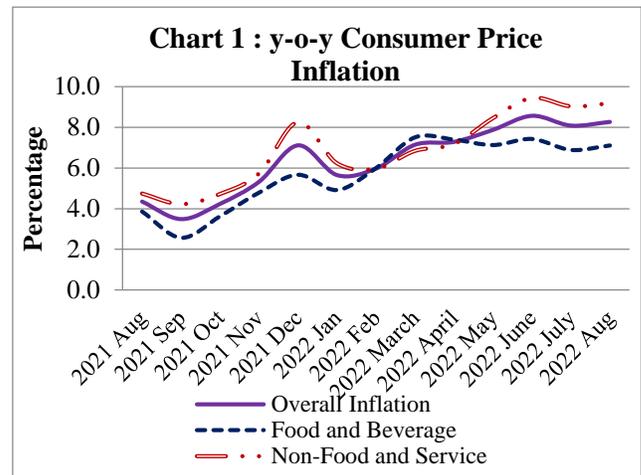
Major Highlights

- *CPI-based Inflation remained 8.26 percent on y-o-y basis.*
- *Imports decreased 12.9 percent, exports decreased 28.7 percent and trade deficit decreased 10.4 percent.*
- *Remittances increased 20.3 percent in NPR terms and increased 12.5 percent in USD terms.*
- *Balance of Payments remained at a deficit of Rs.22.63 billion.*
- *Gross foreign exchange reserves stood at USD 9.42 billion.*
- *Federal Government spending amounted to Rs.22.26 billion and revenue collection Rs.79.72 billion.*
- *Broad money (M2) decreased 1.9 percent. On y-o-y basis, M2 increased 6.4 percent.*
- *Deposits at BFIs decreased 2.0 percent and private sector credit decreased 0.05 percent. On y-o-y basis, deposits increased 8.6 percent and private sector credit 11.8 percent.*

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 8.26 percent in the first month of FY 2022/23 compared to 4.35 percent a year ago. Food and beverage inflation stood at 7.11 percent whereas non-food and service inflation stood at 9.18 percent in the review month.
2. Under the food and beverage category, the prices of ghee & oil, fruits, restaurant & hotel, alcoholic drinks and milk products & eggs sub-categories rose by 19.58 percent, 18.79 percent, 11.84 percent, 10.24 and 10.19 percent respectively on y-o-y basis.
3. Likewise, under the non-food and services category, the prices of transportation, health, furnishing & household equipment, education and housing & utilities sub-categories rose by 23.88 percent, 10.54 percent, 9.04 percent, 8.11 percent and 7.86 percent respectively on y-o-y basis.



4. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 7.39 percent, 8.72 percent, 8.64 percent and 6.64 percent inflation respectively. Inflation in these regions were 3.70 percent, 4.11 percent, 5.63 percent and 3.58 percent respectively a year ago.

Table 1: y-o-y Consumer Price Inflation (Percent)			
Mid-Month			
Particulars	July/Aug 2021	Jun/July 2022	July/Aug 2022
Overall Inflation	4.35	8.08	8.26
Food and Beverage	3.86	6.89	7.11
Non-food and Service	4.74	9.03	9.18

Wholesale Price Inflation (WPI)

5. The y-o-y wholesale price inflation stood at 12.58 percent in the review month compared to 4.25 percent a year ago.
6. The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 10.62 percent, 14.68 percent and 6.87 percent respectively. The wholesale price of construction materials increased 19.36 percent in the review month.

Salary and Wage Rate Index (SWRI)

7. The y-o-y salary and wage rate index increased 11.06 percent in the review month. Such a growth rate was 5.05 percent a year ago. In the review month, salary index and wage rate index increased 10.69 and 11.18 percent, respectively.

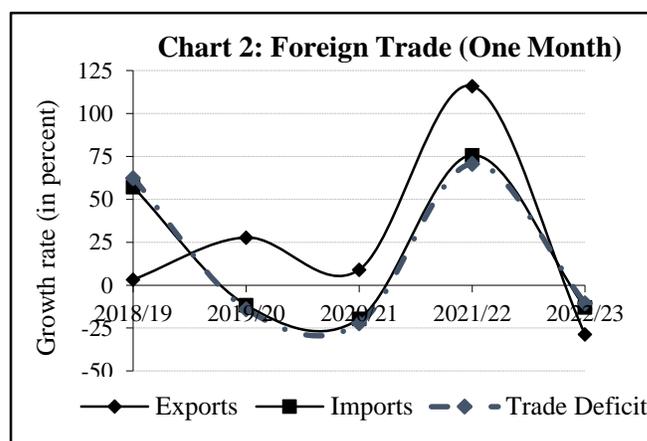
Consumer Price Inflation in Nepal and India

8. The y-o-y consumer price inflation in Nepal as of mid August 2022/23 remained 8.26 percent. Such inflation in India stood at 7.00 percent in August 2022.

External Sector

Merchandise Trade

9. During the first month of 2022/23, merchandise exports decreased 28.7 percent to Rs.14.81 billion against an increase of 115.9 percent in the same period of the previous year. Destination-wise, exports to India and China decreased 36.5 percent and 24.4 percent respectively whereas exports to other countries increased 5.7 percent. Exports of palm oil, zinc sheet, readymade garments, medicine (ayurvedic), particle board, among others, increased whereas exports of soyabean oil, oil cakes, jute goods, juice, cardamom, among others, decreased in the review period.



10. During the first month of 2022/23, merchandise imports decreased 12.9 percent to Rs.131.29 billion against an increase of 75.7 percent a year ago. Destination-wise, imports from India, China and other countries decreased 12.1 percent, 10.5 percent, and 15.9 percent respectively. Imports of petroleum products, sponge iron, medicine, chemical fertilizer, crude palm oil, among others, increased whereas

imports of transport equipment & parts, M.S. billet, telecommunication equipments and parts, crude soyabean oil, hot rolled sheet in coil, among others, decreased in the review period.

11. Based on customs points, exports from Krishnanagar, Kailali, Mechi and Tribhuvan Airport Customs Offices increased whereas exports from all the other major customs points decreased in the review period. On the import side, imports from Tatopani, Jaleswor, Dry Port, Kailali and Rasuwa Customs Offices increased whereas imports from all the other major customs points decreased in the review period.
12. Total trade deficit decreased 10.4 percent to Rs.116.48 billion in the first month of 2022/23. Such a deficit had increased 70.6 percent in the corresponding period of the previous year. The export-import ratio decreased to 11.3 percent in the review period from 13.8 percent in the corresponding period of the previous year.
13. In the review period, merchandise imports from India by paying convertible foreign currency amounted Rs.13.37 billion. Such amount was Rs.18.86 billion in the same period of the previous year.

Composition of Foreign Trade

14. As per the Broad Economic Categories (BEC), the intermediate and final consumption goods accounted for 59.4 percent and 40.5 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 31.8 percent, 0.02 percent and 68.2 percent of total exports respectively.
15. On the imports side, the share of intermediate goods remained 53.7 percent, capital goods 8.7 percent and final consumption goods remained 37.7 percent in the review period. Such ratios were 53.7 percent, 11.5 percent and 34.8 percent respectively in the same period of the previous year.

Export-Import Price Index

16. The y-o-y unit value export price index, based on customs data, increased 11.8 percent and the import price index increased 19.4 percent in the first month of 2022/23. The terms of trade (ToT) index decreased 6.4 percent in the review month compared to a decrease of 4.9 percent a year ago.

Services

17. Net services income remained at a deficit of Rs.11.06 billion in the review period compared to a deficit of Rs.10.13 billion in the same period of the previous year.
18. Under the service account, travel income increased 56.0 percent to Rs.2.60 billion in the review period which was Rs.1.67 billion in the same period of the previous year.
19. Under the service account, travel payments increased 83.8 percent to Rs.10.05 billion, including Rs.7.13 billion for education. Such payments were Rs.5.47 billion and Rs.3.47 billion respectively in the same period of the previous year.

Remittances

20. Remittance inflows increased 20.3 percent to Rs.92.21 billion in the review period against a decrease of 17.4 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 12.5 percent to 724.05 million in the review period against an decrease of 16.8 percent in the same period of the previous year.

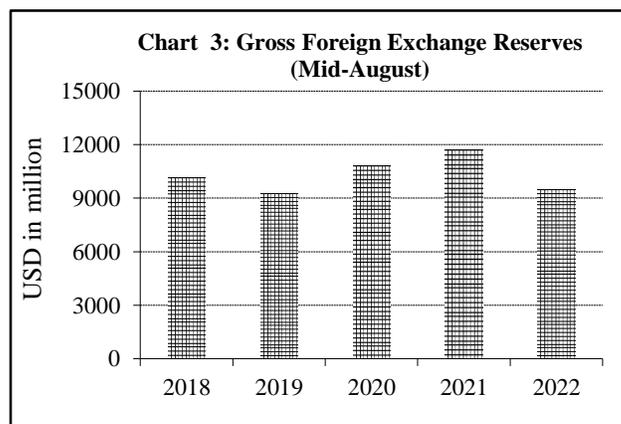
21. Number of Nepali workers (institutional and individual-new) taking approval for foreign employment increased 222.8 percent to 44,540 in the review period. The number of Nepali workers (Renew entry) taking approval for foreign employment increased 75.4 percent to 20,390 in the review period. It had increased 286.1 percent in the same period of the previous year.
22. Net transfer increased 18.4 percent to Rs.101.69 billion in the review period. Such a transfer had decreased 15.7 percent in the same period of the previous year.

Current Account and Balance of Payments

23. The current account remained at a deficit of Rs.16.26 billion in the review period compared to a deficit of Rs.47.29 billion in the same period of the previous year. In the US Dollar terms, the current account registered a deficit of 127.68 million in the review period compared to deficit of 397.36 million in the same period last year.
24. In the review period, capital transfer increased 17.7 percent to Rs.800.34 million and net foreign direct investment (FDI) remained a negative of Rs.1.40 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.679.72 million and Rs.480.57 million respectively.
25. Balance of Payments (BOP) remained at a deficit of Rs.22.63 billion in the review period compared to a deficit of Rs.38.75 billion in the same period of the previous year. In the US Dollar terms, the BOP remained at a deficit of 177.68 million in the review period compared to a deficit of 325.53 million in the same period of the previous year.

Foreign Exchange Reserves

26. Gross foreign exchange reserves decreased 1.5 percent to Rs.1197.85 billion in mid-August 2022 from Rs.1215.80 billion in mid-July 2022. In the US dollar terms, the gross foreign exchange reserves decreased 1.2 percent to 9.42 billion in mid-August 2022 from 9.54 billion in mid-July 2022.



27. Of the total foreign exchange reserves, reserves held by NRB decreased 0.7 percent to Rs.1049.11 billion in mid-August 2022 from Rs.1056.39 billion in mid-July 2022. Reserves held by banks and financial institutions (except NRB) decreased 6.7 percent to Rs.148.74 billion in mid-August 2022 from Rs.159.41 billion in mid-July 2022. The share of Indian currency in total reserves stood at 22.9 percent in mid-August 2022.

Foreign Exchange Adequacy Indicators

28. Based on the imports of first month of 2022/23, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 9.4 months, and merchandise and services imports of 8.0 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 24.7 percent, 66.8 percent and 22.2 percent respectively in mid-August 2022. Such ratios were 25.1 percent, 57.8 percent and 22.1 percent respectively in mid-July 2022.

Price of Oil and Gold

29. The price of oil (Crude Oil Brent) in the international market increased 36.1 percent to US dollar 95.36 per barrel in mid-August 2022 from US dollar 70.07 per barrel a year ago. The price of gold decreased 0.6 percent to US dollar 1774.85 per ounce in mid-August 2022 from US dollar 1786.35 per ounce a year ago.

Exchange Rate

30. Nepalese currency vis-à-vis the US dollar appreciated 0.3 percent in mid-August 2022 from mid-July 2022. It had appreciated 0.5 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.127.16 in mid-August 2022 compared to Rs.127.51 in mid-July 2022.

Fiscal Situation

Federal Government

Expenditure and Revenue

31. During the first month of 2022/23, total expenditure of the federal government according to data of Financial Comptroller General Office (FCGO), Ministry of Finance, stood at Rs.22.26 billion. The recurrent expenditure, capital expenditure and financial expenditure amounted to Rs.5.66 billion, Rs.1.48 billion and Rs.15.12 billion respectively in the review period

Particulars	Amount (Rs. in Billion)		Percentage Change	
	2021/22	2022/23	2021/22	2022/23
Total Expenditure	10.49	22.26	430.2	112.1
<i>Recurrent Expenditure</i>	9.56	5.66	453.0	-40.8
<i>Capital Expenditure</i>	0.94	1.48	601.4	58.8
<i>Financial Management</i>	0.00	15.12	-	-
Total Revenue	93.26	79.72	58.6	-14.5
<i>Tax Revenue</i>	76.19	70.64	34.7	-7.3
<i>Non-Tax Revenue</i>	17.07	9.08	656.0	-46.8

Source: Financial Comptroller General Office

32. In the review period, revenue mobilization (including the amount to be transferred to provincial and local governments) stood at Rs.79.72 billion. The tax revenue and non tax revenue amounted Rs.70.64 billion and Rs.9.08 billion respectively in the review period (Table 2).

Cash Balance

33. Balance at various accounts of the GoN maintained with NRB remained Rs.294.25 billion (including Provincial government and Local Authorities Account) in mid-August 2022. Such a balance was Rs.227.69 billion in mid-July 2022.

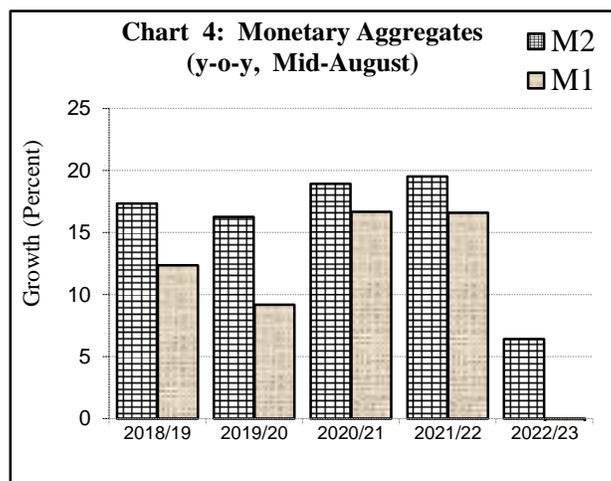
Provincial Government

34. In the review period, total resource mobilization of provincial governments remained Rs.10.81 billion. The federal government transferred Rs.4.97 billion as grants and revenue from federal divisible fund to provincial governments and the provincial governments mobilized Rs.5.84 billion in terms of revenue and other receipts in the review period. In the review period, total expenditure of provincial governments stood at Rs.279.9 million.

Monetary Situation

Money Supply

35. Broad money (M2) decreased 1.9 percent in the review period compared to a decline of 1.6 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 6.4 percent in mid-August 2022.
36. The net foreign assets (NFA, after adjusting foreign exchange valuation gain/loss) decreased Rs.22.63 billion (2 percent) in the review period compared to a decrease of Rs.38.75 billion (2.9 percent) in the corresponding period of the previous year.
37. Reserve money decreased 7.3 percent in the review period compared to a decrease of 9.7 percent in the corresponding period of the previous year. On y-o-y basis, reserve money decreased 9 percent in mid-August 2022.



Domestic Credit

38. Domestic credit decreased 0.9 percent in the review period compared to a decrease of 0.3 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 13.7 percent in mid-August 2022.
39. Monetary Sector's claims on the private sector increased 0.5 percent in the review period compared to an increase of 1.6 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 12.1 percent in mid-August 2022.

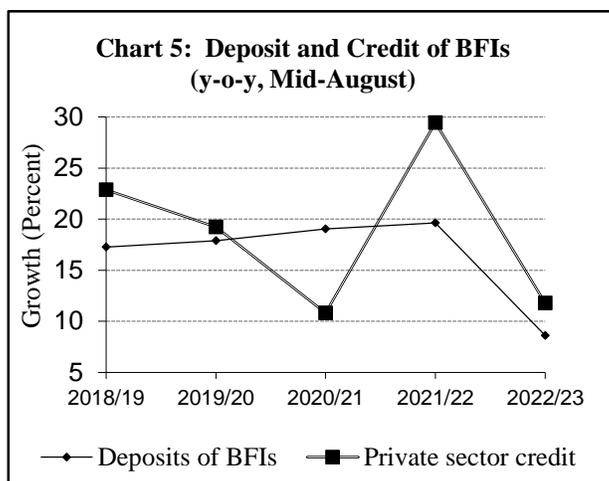
Deposit Mobilization

40. Deposits at Banks and Financial Institutions (BFIs) decreased 2 percent in the review period compared to a decrease of 1.6 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 8.6 percent in mid-August 2022.
41. The share of demand, saving, and fixed deposits in total deposits stands at 7.2 percent, 26.9 percent and 55.8 percent respectively in mid-August 2022. Such shares were 7.8 percent, 34.3 percent and 49.5 percent respectively a year ago.
42. The share of institutional deposits in total deposit of BFIs stands at 37.4 percent in mid-August 2022. Such a share was 41.4 percent in mid-August 2021.

Deposits	Mid-July		Mid-August	
	2021	2022	2021	2022
Demand	10.4	8.9	7.8	7.2
Saving	34.2	27.6	34.3	26.9
Fixed	47.0	55.8	49.5	55.8
Other	8.4	7.7	8.4	7.1

Credit Disbursement

43. Private sector credit from BFIs decreased 0.05 percent in the review period compared to an increase of 1.2 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 11.8 percent in mid-August 2022.
44. In the review period, private sector credit from commercial banks increased 0.01 percent whereas such credit from development banks and finance companies decreased 0.4 percent and 0.7 percent respectively.



45. In the review period, out of the total outstanding credit of the BFIs, 66.6 percent is against the collateral of land and building and 12.4 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 66.2 percent and 12.8 percent respectively a year ago.
46. Outstanding loan of BFIs to the agriculture sector increased 0.2 percent, industrial production sector 2.3 percent, transportation, communication and public sector 1.2 percent and service industry sector 1.2 percent in the review period. During the same period, such loan to the construction sector and wholesale & retail sector has decreased 2.1 percent and 0.1 percent respectively.
47. In the review period, term loan extended by BFIs increased 1.8 percent, overdraft 0.8 percent, trust receipt (import) loan 0.8 percent, demand and working capital loan 1.1 percent, real estate loan (including residential personal home loan) 3 percent, hire purchase loan 1.2 percent whereas margin nature loan decreased 4.6 percent.

Liquidity Management

48. In the review period, NRB injected Rs. 864.09 billion liquidity of which Rs.49.38 billion was through repo and Rs.814.71 billion through standing liquidity facility (SLF).
49. In the review period, NRB injected liquidity of Rs.40.53 billion through the net purchase of USD 0.32 billion from foreign exchange market. Liquidity of Rs.7.08 billion was injected through the net purchase of USD 0.06 billion in the corresponding period of the previous year.
50. The NRB purchased Indian currency (INR) equivalent to Rs.53.44 billion through the sale of USD 0.42 billion in the review period. INR equivalent to Rs.50 billion was purchased through the sale of USD 0.42 billion in the corresponding period of previous year.

Refinance, Concessional Loan and Business Continuity Loan

51. The outstanding amount of refinance provided by NRB remained Rs.110.40 billion in mid-August 2022.
52. As of mid-August 2022, the outstanding concessional loan is Rs.213.66 billion extended to 147,023 borrowers. Of which, Rs.139.48 billion has been extended to 59,879 borrowers for selected commercial agriculture and livestock businesses. Likewise, Rs. 70.52 billion loan has been extended

to 84,305 women entrepreneurs. Total 2,839 borrowers have availed Rs.3.66 billion concessional loan in other sectors.

53. 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. 0.97 billion loan has been approved as of mid-August 2022.

Inter-bank Transaction

54. In the review period, BFIs interbank transactions amounted Rs.356.46 billion including Rs.315.49 billion inter-bank transactions among commercial banks and Rs.40.97 billion among other financial institutions (excluding transactions among commercial banks). In the corresponding period of the previous year, such transactions was Rs.333.46 billion including Rs.305.55 billion among commercial banks and Rs.27.91 billion among other financial institutions (excluding transactions among commercial banks).

Interest Rates

55. The weighted average 91-day treasury bills rate remained at 10.64 percent in the first month of 2022/23, which was 0.66 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 2.13 percent a year ago, increased to 8.02 percent in the review month. The average inter-bank rate of BFIs which is considered as operating target of monetary policy, stood 8.05 percent in the review month. Such a rate was 2.18 percent a year ago.

Types	mid-August 2021	mid-August 2022
91-day treasury bills rate	0.66	10.64
Inter-bank rate	2.13	8.02
Base rate	6.71	9.72
Deposit rate	4.76	7.64
Lending rate	8.48	11.94

56. The average base rate of commercial banks increased to 9.72 percent in the first month of 2022/23 from 6.71 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 7.64 percent and 11.94 percent respectively in the review month. Such rates were 4.76 percent and 8.48 percent respectively a year ago.

Merger and Acquisition

57. After introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 245 as of mid-August 2022. Out of which, the license of 178 BFIs was revoked thereby forming 67 BFIs.

Financial Access

58. Of the total 753 local levels, commercial banks extended their branches at 752 levels as of mid-August 2022. The number of local levels having commercial bank branches was 750 a year ago.
59. The total number of BFIs licensed by NRB remained 126 in mid-August 2022 (Table 5). As of mid-August 2022, 26 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 11,555 in mid-August 2022 from 11,528 in mid-July 2022 (Table 5).

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	mid-July 2021	mid- July 2022	mid-August 2022	mid-July 2021	mid-July 2022	mid-August 2022
Commercial Banks	27	26	26	4753	5009	5031
Development Banks	18	17	17	1023	1118	1120
Finance Companies	17	17	17	222	267	269
Microfinance Financial Institutions	70	65	65	4685	5134	5135
Infrastructure Development Bank	1	1	1	-	-	-
Total	133	126	126	10683	11528	11555

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

Electronic Payment Transaction

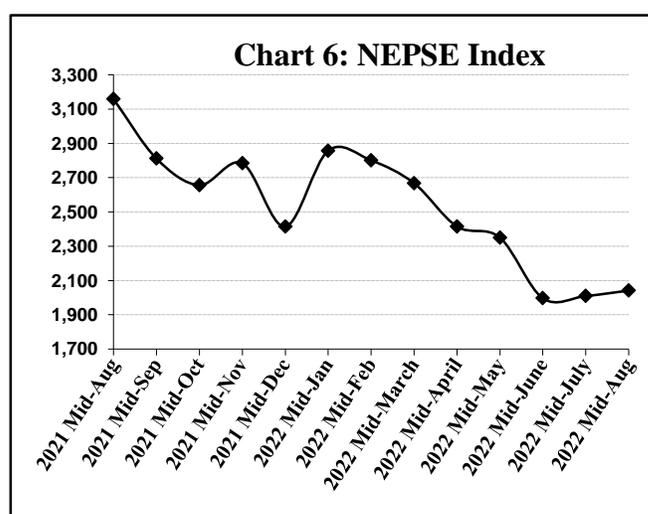
60. Electronic payment transaction has increased significantly due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments (Table 59).

Capital Market

61. NEPSE index stood 2041.1 in mid-August 2022 compared to 3160.1 in mid-August 2021.

62. Stock market capitalization in mid-August 2022 stood Rs.2914.68 billion compared to Rs.4414.11 billion in mid-August 2021.

63. Number of companies listed at NEPSE reached 235 in mid-August 2022, out of which 145 are Bank and Financial Institutions (BFIs) and insurance companies, 53 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-August 2021.



64. Share of BFIs and insurance companies in stock market capitalization is 66.8 percent. Such a share for hydropower companies is 11.2 percent, investment companies 7 percent, manufacturing and processing industries 4.2 percent, hotels 1.6 percent, trading companies 0.4 percent and the share of other companies is 8.7 percent.

65. The paid-up value of 6.74 billion shares listed at NEPSE stood Rs.664.71 billion in mid-August 2022.

66. Securities worth Rs.56.10 billion were listed at NEPSE during the first month of 2022/23. Such securities comprise government development bond worth Rs.35 billion, bonus shares worth Rs.8.11 billion, debenture worth Rs.5.74 billion, ordinary share worth Rs.4.78 billion, mutual fund worth Rs.2.24 billion and right share worth Rs.232 million.
67. Securities Board of Nepal approved the total public issuance of securities worth Rs.5.37 billion which includes debenture worth Rs.3.04 billion, mutual fund worth Rs.1.2 billion, right share worth Rs. 950 million and ordinary share worth Rs.176.6 million in the review period.