

Current Macroeconomic and Financial Situation of Nepal

(Based on Nine Month's Data Ending Mid-April, 2020/21)

Major Highlights

- *CPI-based Inflation remained 3.10 percent on y-o-y basis.*
- *Imports increased 13.1 percent and exports increased 20.2 percent.*
- *Remittances increased 16.5 percent in NPR terms and 13.0 percent in USD terms.*
- *Balance of Payments remained at a surplus of Rs.42.54 billion.*
- *Gross foreign exchange reserves stood at USD 11.96 billion.*
- *Federal Government spending amounted to Rs.690.28 billion and revenue collection Rs.683.87 billion.*
- *Broad money (M2) expanded 14.2 percent. On y-o-y basis, M2 expanded 23.9 percent.*
- *Deposits at BFIs increased 13.7 percent and claims on the private sector increased 21.8 percent. On y-o-y basis, deposits increased 23.0 percent and claims on the private sector 21.7 percent.*

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 3.10 percent in the ninth month of 2020/21 compared to 6.74 percent a year ago. Food and beverage inflation stood at 3.49 percent whereas non-food and service inflation stood at 2.79 percent in the review month.
2. The price of ghee and oil; meat and fish; tobacco products; and non-alcoholic drinks sub-groups rose 21.38 percent, 12.61 percent, 10.41 percent and 10.18 percent respectively as of Mid-April 2021 on y-o-y basis.
3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain registered inflation of 3.24 percent, 2.92 percent, 3.38 percent and 1.54 percent respectively. These regions had witnessed 7.19 percent, 7.04 percent, 5.84 percent and 4.83 percent inflation respectively a year ago.

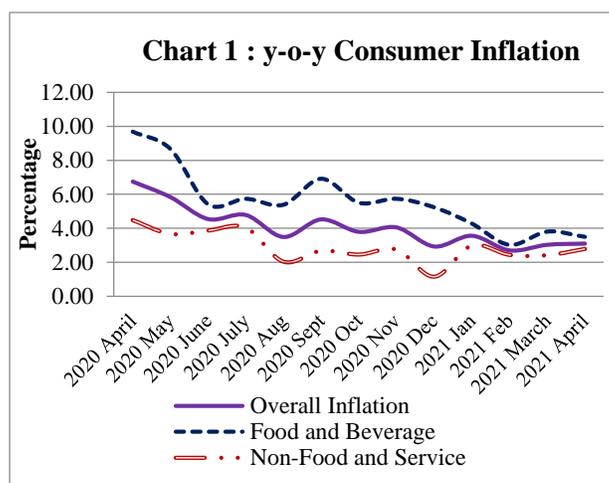


Table 1: y-o-y Consumer Price Inflation (Percent)

Particulars	Mid-Month		
	Mar/April 2020	Feb/Mar 2021	Mar/April 2021
Overall Inflation	6.74	3.03	3.10
<i>Food and Beverage</i>	9.68	3.80	3.49
<i>Non-food and Service</i>	4.48	2.42	2.79

Wholesale Price Inflation

4. The y-o-y wholesale price inflation stood at 6.14 percent in the review month compared to 7.77 percent a year ago.
5. The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 7.42 percent, 5.84 percent and 3.70 percent respectively. The wholesale price of construction materials increased 5.96 percent in the review month.

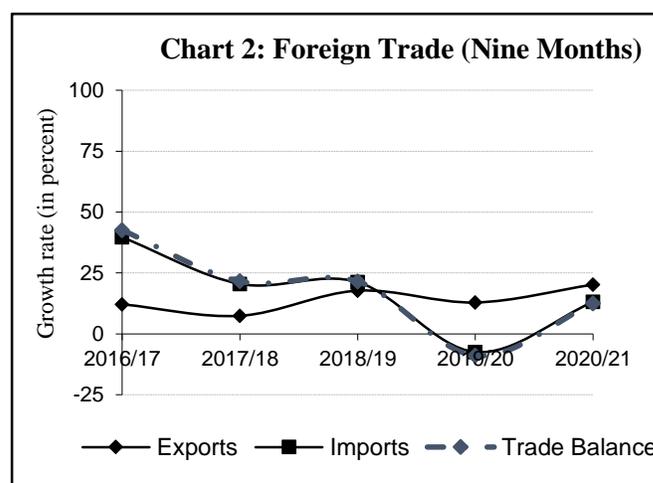
Salary and Wage Rate Index

6. The y-o-y salary and wage rate index increased 1.89 percent in the review month. Such growth rate was 7.49 percent a year ago. In the review month, wage rate index increased 2.43 percent.

External Sector

Merchandise Trade

7. During the nine months of 2020/21, merchandise exports increased 20.2 percent to Rs.94.77 billion compared to an increase of 12.9 percent in the same period of the previous year. Destination-wise, exports to India and other countries increased 23.5 percent and 14.5 percent respectively whereas exports to China decreased 27.3 percent. Exports of soyabean oil, cardamom, jute goods, polyester yarn and threads, pashmina, among others, increased whereas exports of palm oil, pulses, zinc sheet, wire, cattlefeed, among others, decreased in the review period.



8. During the nine months of 2020/21, merchandise imports increased 13.1 percent to Rs.1111.40 billion against a decrease of 7.5 percent a year ago. Destination-wise, imports from India and China increased 20.3 percent and 7.7 percent respectively whereas imports from other countries decreased 2.3 percent. Imports of transport equipment & parts, crude soyabean oil, M.S. billet, rice, telecommunication equipment and parts, among others, increased whereas imports of aircraft spareparts, petroleum products, crude palm oil, video television and parts, silver, among others, decreased in the review period.
9. Based on customs points, exports from Dry Port, Kailali, 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 Tribhuvan International Airport, Jaleswor, Tatopani and Rasuwa Customs Offices in the review period.
10. Total trade deficit increased 12.5 percent to Rs.1016.63 billion in nine months of 2020/21. Such deficit had decreased 8.9 percent in the same period of the previous year. The export-import ratio increased to 8.5 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 3.3 percent and the import price index increased 6.7 percent in the ninth month of 2020/21. The terms of trade (ToT) index decreased 3.2 percent in the review month against an increase of 3.9 percent a year ago.

Services

12. Net services income remained at a deficit of Rs.49.13 billion in the review period compared to a deficit of Rs.1.08 billion in the same period of the previous year.
13. Under the service account, travel income decreased 90.2 percent to Rs.5.54 billion in the review period which was Rs.56.68 billion in the same period of the previous year.
14. Under the service account, travel payments decreased 47.0 percent to Rs.26.75 billion, including Rs.21.07 billion for education payments. Such payments were Rs.50.47 billion and Rs.24.60 billion respectively in the same period of the previous year.

Remittances

15. Remittance inflows increased 16.5 percent to Rs.729.02 billion in the review period against a decrease of 4.2 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 13.0 percent to 6.19 billion in the review period against a decrease of 4.9 percent in the same period of the previous year.
16. Number of Nepali workers (institutional and individual-new and legalized) taking approval for foreign employment decreased 66.7 percent in the review period. It had increased 10.2 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 55.7 percent in the review period. It had decreased 15.0 percent in the same period of the previous year.
17. Net transfer increased 14.4 percent to Rs.814.36 billion in the review period. Such a transfer had decreased 4.7 percent in the same period of the previous year.

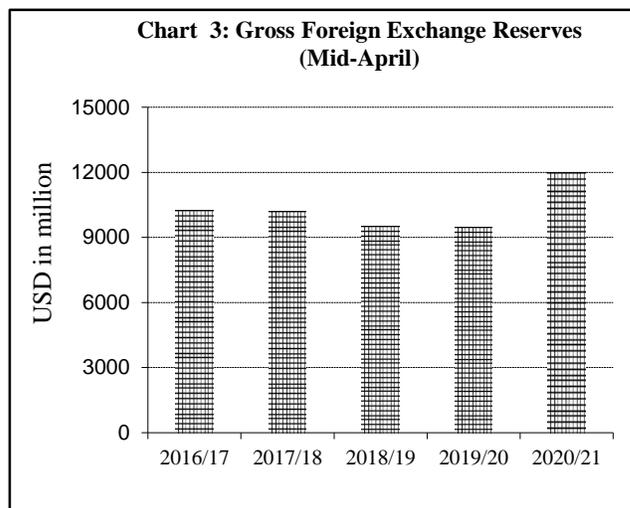
Current Account and Balance of Payments

18. The current account remained at a deficit of Rs.207.41 billion in the review period compared to a deficit of Rs.126.09 billion in the same period of the previous year. In the US Dollar terms, the current account registered a deficit of 1.77 billion in the review period compared to a deficit of 1.10 billion in the same period of the previous year.
19. In the review period, capital transfer increased 10.7 percent to Rs.12.86 billion and net foreign direct investment (FDI) decreased 25.0 percent to Rs.12.35 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.11.62 billion and Rs.16.48 billion respectively.
20. Balance of Payments (BOP) registered a surplus of Rs.42.54 billion in the review period as compared to a surplus of Rs.36.61 billion in the same period of the previous year. In the US Dollar terms, the BOP recorded a surplus of 348.1 million in the review period compared to a surplus of 321.0 million in the same period of the previous year.

Foreign Exchange Reserves

21. Gross foreign exchange reserves increased 2.2 percent to Rs.1433.27 billion in mid-April 2021 from Rs.1401.84 billion in mid-July 2020. In the US Dollar terms, the gross foreign exchange reserves increased 2.7 percent to 11.96 billion in mid-April 2021 from 11.65 billion in mid-July 2020.

22. Of the total foreign exchange reserves, reserves held by NRB increased 2.2 percent to Rs.1253.17 billion in mid-April 2021 from Rs.1226.12 billion in mid-July 2020. Reserves held by banks and financial institutions (except



NRB) increased 2.5 percent to Rs.180.10 billion in mid-April 2021 from Rs.175.71 billion in mid-July 2020. The share of Indian currency in total reserves stood at 24.4 percent in mid-April 2021.

Foreign Exchange Adequacy Indicators

23. Based on the imports during the nine months of 2020/21, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 11.9 months, and merchandise and services imports of 10.8 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 33.6 percent, 89.9 percent and 29.7 percent respectively in mid-April 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 210.6 percent to US Dollar 62.83 per barrel in mid-April 2021 from US Dollar 20.23 per barrel a year ago. The price of gold increased 4.0 percent to US Dollar 1747.95 per ounce in mid-April 2021 from US Dollar 1680.65 per ounce a year ago.

Exchange Rate

25. Nepalese currency vis-à-vis the US Dollar appreciated 0.5 percent in mid-April 2021 from mid-July 2020. It had depreciated 10.2 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.119.80 in mid-April 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.690.28 billion. The recurrent expenditure, capital expenditure and financing expenditure amounted to Rs.526.97 billion, Rs.105.73 billion and Rs.57.59 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.683.87billion. The tax revenue and non tax revenue amounted Rs.636.70 billion and Rs.47.17 billion in the review period(Annex-13).
28. In the review period, domestic debt mobilization of federal government amounted Rs.112.52 billion, including Rs.20.5 billion through treasury bills, Rs.90 billion through development bonds, Rs.2 billion through citizen saving certificates and Rs.15.3 million through foreign employment bond.

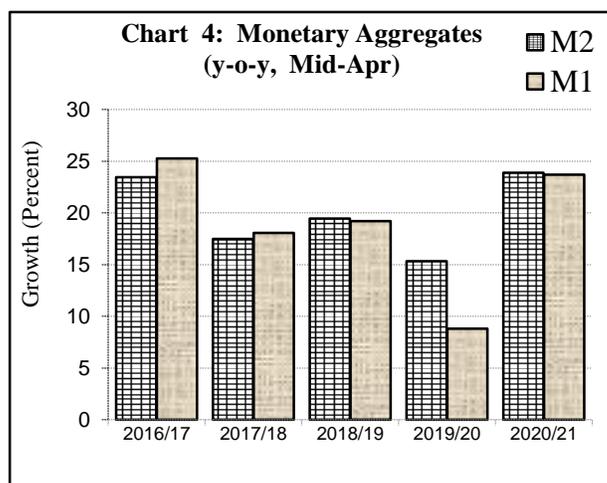
Provincial Government

29. In the review period, total resource mobilization of provincial governments remained Rs.104.39 billion. The federal government transferred Rs.71.33 billion as grants and revenue from divisible fund to provincial governments and the provincial governments mobilized Rs.33.06 billion in terms of revenue and other receipts in the review period. In the review period, total expenditure of provincial governments stood at Rs.62.65 billion.

Monetary Situation

Money Supply

30. Broad money (M2) expanded 14.2 percent in the review period compared to the growth of 8.9 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 23.9 percent in mid-April 2021.
31. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs.42.54 billion (3.2 percent) in the review period compared to an increase of Rs.36.61 billion (3.7 percent) in the corresponding period of the previous year.



32. Reserve money decreased 8.9 percent in the review period compared to a decrease of 4.4 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 20.8 percent in mid-April 2021.

Domestic Credit

33. Domestic credit increased 16.4 percent in the review period compared to a growth of 9.1 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 21.1 percent in mid-April 2021.
34. Monetary Sector's claims on the private sector increased 21.8 percent in the review period compared to a growth of 12.7 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 21.7 percent in mid-April 2021.

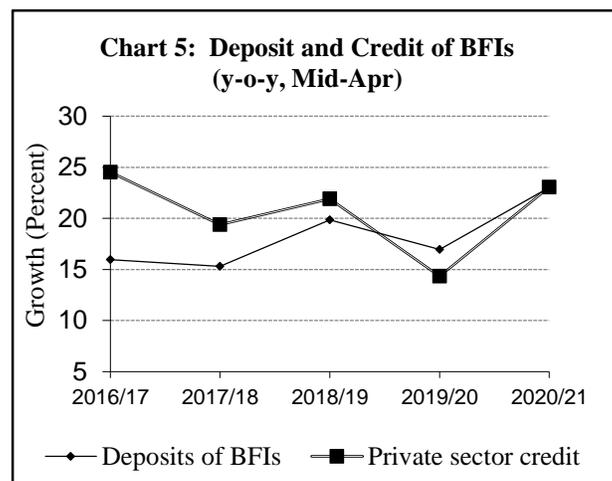
Deposit Mobilization

35. Deposits at Banks and Financial Institutions (BFIs) increased 13.7 percent in the review period compared to a growth of 9.7 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 23.0 percent in mid-March 2021.

Deposits	Mid-July				Mid-April	
	2017	2018	2019	2020	2020	2021
Demand	8.7	9.3	9.7	10.0	8.5	8.5
Saving	35.4	34.5	32.8	31.9	32.2	35.1
Fixed	43.2	44.8	46.3	48.6	49.3	48.2
Other	12.7	11.3	11.3	9.4	10.0	8.2

36. The share of demand, saving, and fixed deposits in total deposits stands at 8.5 percent, 35.1 percent and 48.2 percent respectively in mid-April 2021. Such shares were 8.5 percent, 32.2 percent and 49.3 percent respectively a year ago.

37. The share of institutional deposits in total deposit of BFIs stands at 41.7 percent in mid-April 2021. Such a share was 44.4 percent in mid-April 2020.



Credit Disbursement

38. Private sector credit from BFIs increased 22.5 percent in the review period compared to a growth of 11.5 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 23.1 percent in mid-April 2021.

39. In the review period, private sector credit from commercial banks, development banks and finance companies increased 22.6 percent, 25.0 percent and 10.2 percent respectively.

40. In the review period, out of the total outstanding credit of the BFIs, 65.9 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 65.1 percent and 13.3 percent respectively a year ago.

41. Outstanding loan of BFIs to the agriculture sector increased 35.7 percent, industrial production sector increased 17.0 percent, construction sector increased 12.7 percent, transportation, communication and public sector increased 13.8 percent, wholesale and retail sector increased 20.8 percent and service industry sector increased 16.8 percent in the review period.

42. In the review period, term loan extended by BFIs increased 22.2 percent, overdraft increased 27.5 percent, demand and working capital loan increased 20.1 percent, real estate loan (including residential personal home loan) increased 12.4 percent, margin nature loan increased 82.3 percent and trust receipt (import) loan increased 40.8 percent while that of hire purchase loan decreased 5.4 percent.

Liquidity Management

43. During 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 review period, NRB injected liquidity of Rs.1.02 billion through repo and Rs.7.12 billion through standing liquidity facility (SLF). In the corresponding period of the previous year, Rs.58 billion liquidity mopped up through reverse repo auction of Rs.28 billion and deposit collection of Rs.30 billion. On the other

hand, Rs.187.04billion liquidity was injected including Rs.113.99 billion through repo and Rs.73.06 billion through standing liquidity facility (SLF) in the corresponding period of the previous year.

44. In the review period, NRB injected liquidity of Rs.324.84 billion through the net purchase of USD 2.75 billion from foreign exchange market. Liquidity of Rs.305.23 billion was injected through the net purchase of USD 2.66 billion in the corresponding period of the previous year.
45. The NRB purchased Indian currency (INR) equivalent to Rs.404.70 billion through the sale USD 3.44 billion in the review period. INR equivalent to Rs.350.01 billion was purchased through the sale of USD 3.06 billion in the corresponding period of previous year.

Refinance, Concessional Loan and Business Continuity Loan

46. The outstanding amount of refinance provided by NRB remained Rs.123.14 billion in mid-April 2021 to 48860 borrowers.

Approval Process	Approved Amount (Rs. in billion)	No. of Borrowers	No. of BFIs
Client Evaluation	43.19	310	33
Bulk Basis (A, B and C class)	92.38	48550	80
Bulk Basis (D class)	10.23	-	28
Total	145.80	48,860	-

47. As of mid-April 2021, the outstanding concessional loan is Rs.142.02 billion extended to 89,879 borrowers. Of which, Rs.96.60 billion has been extended to 42,447 borrowers for selected commercial and livestock businesses. Likewise, Rs. 42.16 billion loan has been extended to 45,128 women entrepreneurs. Concessional loan to other sectors has been disbursed Rs.3.26 billion to 2,304 borrowers.
48. 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. 420 million loan has been extended as of mid-April 2021.

Inter-bank Transaction

49. In the review period, BFIs interbank transactions amounted Rs.1034.92 billion including inter-bank transactions among commercial banksRs.875.50 billion and among other financial institutions (excluding transactions among commercial banks) Rs.159.42 billion. In the corresponding period of previous year, such transactions was Rs.1378.80 billion including Rs.1262.27 billion among commercial banks and Rs.116.53 billion among other financial institutions (excluding transactions among commercial banks).

Interest Rates

50. The weighted average 91-day treasury bills rate remained at 2.13 percent in the ninth month of 2020/21, which was 2.76 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, decreased to 2.03 percent in the review month. The average inter-bank rate of BFIs which is considered as operating target of monetary policy, stood 2.03 percent in the review month.
51. The average base rate of commercial banks decreased to 6.90 percent in the ninth month of 2020/21 from 9.36 percent a year ago. Weighted average deposit rate and lending rate of commercial banks

stood at 4.79 percent and 8.61 percent respectively in the review month. Such rates were 6.74 percent and 11.77 percent respectively a year ago.

Merger and Acquisition

52. After introduction of merger and acquisition policy with a motive of strengthening financial stability, the number of BFIs involved in this process reached 216. Out of which, the license of 164 BFIs has been revoked thereby forming 52 BFIs.

Financial Access

53. Of the total 753 local levels, commercial banks extended their branches at 750 levels as of mid-April 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-April 2020	mid-April 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	Kanda
Total	753	746	750	3	3

54. The total number of BFIs licensed by NRB remained 140 in mid-April 2021 (Table 5). As of mid-April 2021, 27 commercial banks, 18 development banks, 20 finance companies, 74 microfinance financial institutions and 1 infrastructure development bank were in operation. The number of BFIs branches reached 10,546 in mid-April 2021 from 9765 in mid-July 2020.

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	Mid-Jul 2019	Mid-Jul 2020	Mid-April 2021	Mid-Jul 2019	Mid-Jul 2020	Mid-April 2021
Commercial Banks	28	27	27	3585	4436	4702
Development Banks	29	20	18	1267	1029	1013
Finance Companies	23	22	20	205	243	263
Microfinance Financial Institutions	90	85	74	3629	4057	4468
Infrastructure Development Bank	1	1	1	-	-	-
Total	171	155	140	8,686	9,765	10,546

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

Electronic Payment Transaction

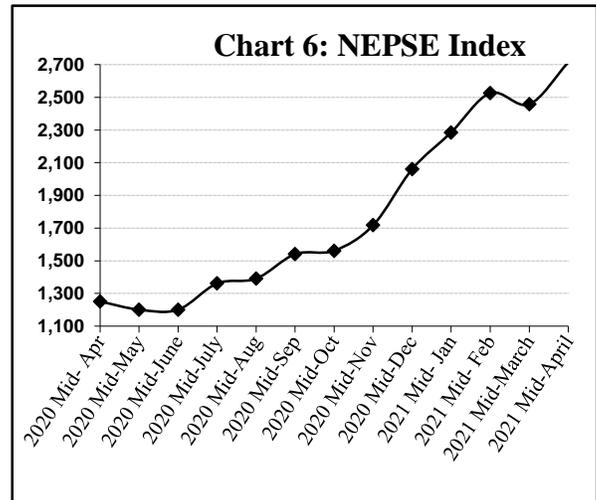
55. Electronic payment transactions have increased tremendously due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments amidst COVID-19 pandemic (Table 59).

Capital Market

56. NEPSE index stood at 2714.8 in mid-April 2021 compared to 1251.5 in mid-April 2020. Such an index was 1362.4 in mid-July 2020.

57. Stock market capitalization in mid-April 2021 stood Rs. 3758.98 billion compared to Rs. 1792.76 billion in mid-July 2020.

58. Number of companies listed at NEPSE stood 218, out of which 145 are Bank and Financial Institutions (BFIs) and insurance companies, 38 hydropower companies, 19 manufacturing and processing industries, 5 hotels, 4 trading companies, 4 investment companies and 3 others. The number of companies listed at NEPSE was 212 in mid-July 2020.



59. Share of BFIs and insurance companies in stock market capitalization remained 69.3 percent in mid-April 2021. Such a share for hydropower companies was 7.9 percent, investment companies 7.8 percent, manufacturing and processing industries 3.6 percent, hotels 1.7 percent, trading companies 0.6 percent and the share of other companies was 9.1 percent.

60. The paid-up value of 5.67 billion shares listed at NEPSE stood Rs. 557.70 billion in mid-April 2021.

61. Securities worth Rs.318.85 billion were listed at NEPSE during the nine months of 2020/21. Such securities comprise government development bond worth Rs.219.95 billion, ordinary share worth Rs.39.47 billion, bonus shares worth Rs.38.11 billion, debenture worth Rs.14.55 billion, right share worth Rs.3.92 billion and mutual fund worth Rs.2.85 billion.

62. Securities Board of Nepal approved the total issuance of securities worth Rs.29.21 billion which includes ordinary share worth Rs.11.59 billion, debentures worth Rs.11.84 billion, mutual fund worth Rs.3.30 billion and right share worth Rs.2.48 billion in the review period.