



Nepal Rastra Bank

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Current Macroeconomic and Financial Situation of Nepal

(Based on Six Months' Data Ending Mid-January, 2021/22)

Major Highlights

- *CPI-based Inflation remained 5.65 percent on y-o-y basis.*
- *Imports increased 51.1 percent and exports increased 95.5 percent.*
- *Remittances decreased 5.5 percent in NPR terms and 6.2 percent in USD terms.*
- *Balance of Payments remained at a deficit of Rs.241.23 billion.*
- *Gross foreign exchange reserves stood at USD 9.89 billion.*
- *Federal Government spending amounted to Rs.506.70 billion and revenue collection Rs.542.05 billion.*
- *Broad money (M2) increased 2.8 percent. On y-o-y basis, M2 increased 14.3 percent.*
- *Deposits at BFIs increased 3.8 percent and claims on the private sector increased 12.0 percent. On y-o-y basis, deposits increased 15.5 percent and claims on the private sector 27.4 percent.*

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 5.65 percent in the sixth month of 2021/22 compared to 3.56 percent a year ago. Food and beverage inflation stood at 4.92 percent whereas non-food and service inflation stood at 6.23 percent in the review month.
2. The prices of ghee and oil; transportation; alcoholic drinks; tobacco products and pulses & legumes sub-categories rose 21.22 percent, 14.07 percent, 11.37 percent, 10.48 percent and 9.22 percent respectively on y-o-y basis.
3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 5.28 percent, 6.15 percent, 5.34 percent and 5.22 percent inflation respectively. Inflation in these regions was 3.55 percent, 2.87 percent, 4.72 percent and 3.38 percent respectively a year ago.

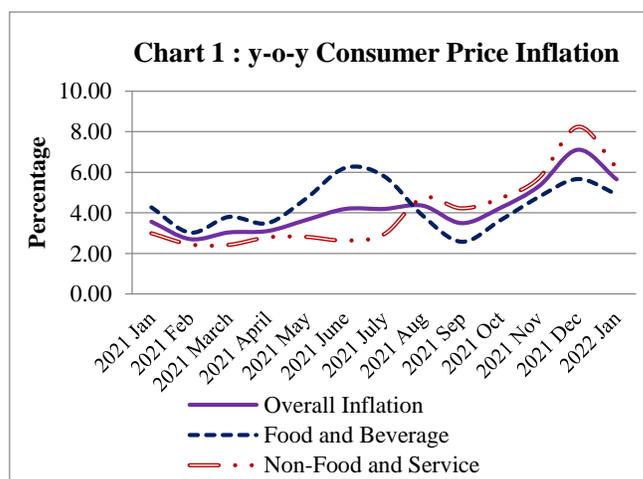


Table 1: y-o-y Consumer Price Inflation (Percent)

| Particulars | Mid-Month | | |
|-----------------------------|--------------|--------------|--------------|
| | Dec/Jan 2020 | Nov/Dec 2021 | Dec/Jan 2021 |
| Overall Inflation | 3.56 | 7.11 | 5.65 |
| <i>Food and Beverage</i> | <i>4.27</i> | <i>5.67</i> | <i>4.92</i> |
| <i>Non-food and Service</i> | <i>2.99</i> | <i>8.25</i> | <i>6.23</i> |

Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 8.08 percent in the review month compared to 6.18 percent a year ago.
- The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 9.10 percent, 7.67 percent and 7.14 percent respectively. The y-o-y wholesale price of construction materials increased 17.51 percent in the review month.

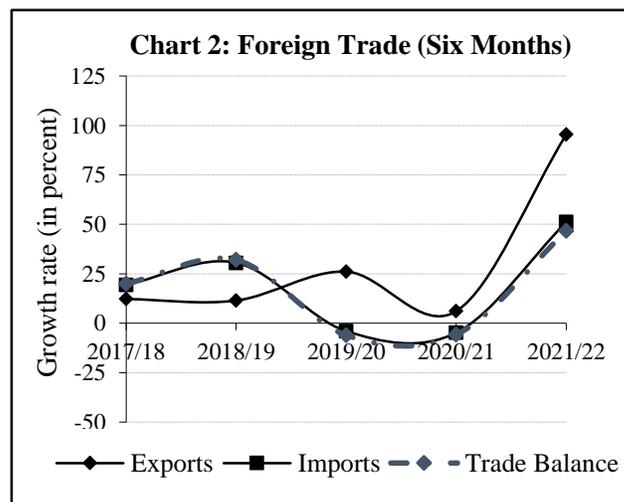
Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 5.77 percent in the review month. Such a growth was 1.72 percent a year ago. In the review month, salary index and wage rate index increased 9.44 and 4.73 percent respectively.

External Sector

Merchandise Trade

- During the six months of 2021/22, merchandise exports increased 95.5 percent to Rs.118.85 billion compared to an increase of 6.1 percent in the same period of the previous year. Destination-wise, exports to India and other countries increased 121.8 percent and 30.2 respectively whereas exports to China decreased 10.2 percent. Exports of palm oil, soyabean oil, oil cakes, juice, woolen carpets, among others, increased whereas exports of cardamom, tea, herbs, zinc sheet, wire, among others, decreased in the review period.
- During the six months of 2021/22, merchandise imports increased 51.1 percent to Rs.999.34 billion against a decrease of 4.8 percent a year ago. Destination-wise, imports from India, China and other countries increased 37.5 percent, 51.5 percent, and 98.2 percent respectively. Imports of petroleum products, medicine, crude palm oil, transport equipment, vehicle and other parts, crude soyabean oil, among others, increased whereas imports of M.S. billet, cement, pulses, molasses sugar, insecticides, among others, decreased in the review period.
- Based on customs points, exports from Kanchanpur, Mechi, and Nepalgunj 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.
- Total trade deficit increased 46.6 percent to Rs.880.49 billion during the six months of 2021/22. Such a deficit had contracted 5.8 percent in the corresponding period of the previous year. The export-import ratio increased to 11.9 percent in the review period from 9.2 percent in the corresponding period of the previous year.



11. During the six months of 2021/22, merchandise imports from India by paying convertible foreign currency amounted Rs.110.91 billion. Such amount was Rs.83.01 billion in the same period of the previous year.

Composition of Foreign Trade

12. As per the Broad Economic Categories (BEC), the intermediate and final consumption goods accounted for 47.8 percent and 52.2 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 31.9 percent, 0.6 percent and 67.5 percent of total exports respectively.

13. On the imports side, the share of intermediate goods remained 53.7 percent, capital goods 10.9 percent and final consumption goods 35.4 percent in the review period. Such ratios were 52.6 percent, 12.0 percent and 35.4 percent respectively in the same period of the previous year.

Export-Import Price Index

14. The y-o-y unit value export price index, based on customs data, increased 10.5 percent and the import price index increased 12.3 percent in the sixth month of 2021/22. The terms of trade (ToT) index decreased 1.6 percent in the review month against an increase of 3.6 percent a year ago.

Services

15. Net services income remained at a deficit of Rs.46.17 billion in the review period compared to a deficit of Rs.28.52 billion in the same period of the previous year.

16. Under the service account, travel income increased 207.5 percent to Rs.10.24 billion in the review period which was Rs.3.33 billion in the same period of the previous year.

17. Under the service account, travel payments increased 95.8 percent to Rs.29.72 billion, including Rs.17.48 billion for education. Such payments were Rs.15.18 billion and Rs.12.76 billion respectively in the same period of the previous year.

Remittances

18. Remittance inflows decreased 5.5 percent to Rs.468.45 billion in the review period against an increase of 11.1 percent in the same period of the previous year. In the US Dollar terms, remittance inflows decreased 6.2 percent to 3.93 billion in the review period against an increase of 6.7 percent in the same period of the previous year.

19. Number of Nepali workers (institutional and individual-new and legalized) taking approval for foreign employment increased significantly to 167,513 in the review period. It had decreased 89.0 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment increased 298.1 percent to 130,212 in the review period. It had decreased 75.5 percent in the same period of the previous year.

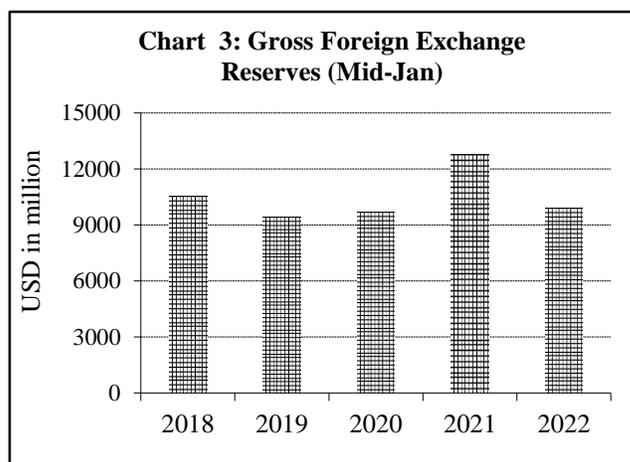
20. Net transfer decreased 4.9 percent to Rs.523.01 billion in the review period. Such a transfer had increased 8.9 percent in the same period of the previous year.

Current Account and Balance of Payments

21. The current account remained at a deficit of Rs.354.07 billion in the review period compared to a deficit of Rs.51.68 billion in the same period of the previous year. In the US Dollar terms, the current account registered a deficit of 2.97 billion in the review period compared to deficit of 440.8 million in the same period last year.
22. In the review period, capital transfer decreased 20.0 percent to Rs.5.48 billion while net foreign direct investment (FDI) increased 48.1 percent to Rs.11.34 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.6.85 billion and Rs.7.66 billion respectively.
23. Balance of Payments (BOP) remained at a deficit of Rs.241.23 billion in the review period against a surplus of Rs.124.92 billion in the same period of the previous year. In the US Dollar terms, the BOP remained at a deficit of 2.02 billion in the review period against a surplus of 1.05 billion in the same period of the previous year.

Foreign Exchange Reserves

24. Gross foreign exchange reserves decreased 16.7 percent to Rs.1165.80 billion in mid-January 2022 from Rs.1399.03 billion in mid-July 2021. In the US Dollar terms, the gross foreign exchange reserves decreased 15.9 percent to 9.89 billion in mid-January 2022 from 11.75 billion in mid-July 2021.
25. Of the total foreign exchange reserves, reserves held by NRB decreased 18.4 percent to Rs.1015.59 billion in mid-January 2022 from Rs.1244.63 billion in mid-July 2021. Reserves held by banks and financial institutions (except NRB) decreased 2.7 percent to Rs.150.21 billion in mid-January 2022 from Rs.154.39 billion in mid-July 2021. The share of Indian currency in total reserves stood at 24.5 percent in mid-January 2022.



Foreign Exchange Adequacy Indicators

26. Based on the imports of six months of 2021/22, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 7.2 months, and merchandise and services imports of 6.6 months. The ratio of reserves-to-GDP (previous fiscal year), reserves-to-imports and reserves-to-M2 stood at 27.3 percent, 54.8 percent and 22.0 percent respectively in mid-January 2022. Such ratios were 32.8 percent, 84.7 percent and 27.1 percent respectively in mid-July 2021.

Price of Oil and Gold

27. The price of oil (Crude Oil Brent) in the international market increased 57.0 percent to US Dollar 87.17 per barrel in mid-January 2022 from US Dollar 55.52 per barrel a year ago. The price of gold decreased 1.9 percent to US Dollar 1822.95 per ounce in mid-January 2022 from US Dollar 1858.85 per ounce a year ago.

Exchange Rate

28. Nepalese currency vis-à-vis the US Dollar appreciated 0.94 percent in mid-January 2022 from mid-July 2021. It had appreciated 2.87 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.117.92 in mid-January 2022 compared to Rs.119.04 in mid-July 2021.

Fiscal Situation

Federal Government

Expenditure and Revenue

29. During the six 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.506.70 billion. The recurrent expenditure, capital expenditure and financing expenditure amounted to Rs.406.41 billion, Rs.50.81 billion and Rs.49.47 billion respectively in the review period (Table 2).

| Particulars | Amount (Rs.in Billion) | | | Percentage Change | |
|------------------------------|------------------------|---------------|---------------|-------------------|--------------|
| | 2076/77 | 2077/78 | 2078/79 | 2077/78 | 2078/79 |
| Total Expenditure | 410.47 | 415.74 | 506.70 | 1.3 | 21.9 |
| <i>Recurrent Expenditure</i> | 309.65 | 342.36 | 406.41 | 10.6 | 18.7 |
| <i>Capital Expenditure</i> | 63.14 | 50.82 | 50.81 | -19.5 | 0.0 |
| <i>Financial Management</i> | 37.67 | 22.57 | 49.47 | -40.1 | 119.2 |
| Total Revenue | 433.15 | 422.23 | 542.05 | -2.52 | 28.38 |
| <i>Tax Revenue</i> | 391.98 | 386.53 | 493.99 | -1.39 | 27.80 |
| <i>Non-Tax Revenue</i> | 41.18 | 35.70 | 48.06 | -13.30 | 34.62 |

Source: Financial Comptroller General Office

30. In the review period, revenue mobilization (including the amount to be transferred to provincial and local governments) stood at Rs.542.05 billion (Table 2). The tax revenue and non tax revenue amounted Rs.493.99 billion and Rs.48.06 billion respectively in the review period.
31. In the review period, domestic debt mobilization of federal government amounted Rs.6.0 billion through treasury bills.

Cash Balance

32. Balance at various accounts of the GoN maintained with NRB remained Rs.277.82 billion (including Provincial government and Local Authorities Account) in mid-Jan 2022 compared to Rs.194.70 billion in mid-July 2021.

Provincial Government

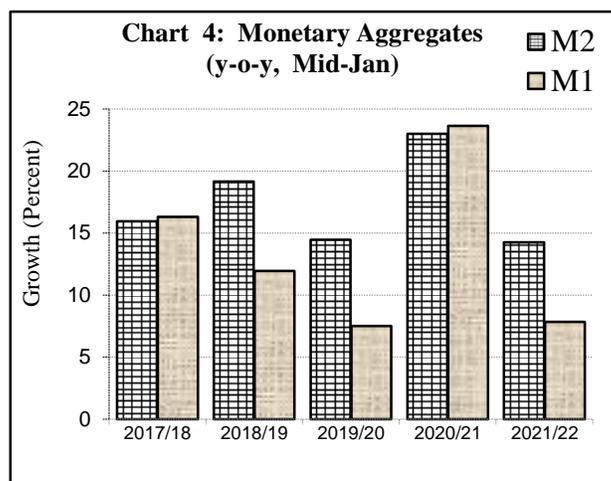
33. In the review period, total resource mobilization of provincial governments remained Rs.80.91 billion. The federal government transferred Rs.58.95 billion as grants and revenue from federal divisible fund to provincial governments and the provincial governments mobilized Rs.21.96 billion in terms of revenue and other receipts in the review period. In the review period, total expenditure of provincial governments stood at Rs.39.30 billion.

Monetary Situation

Money Supply

34. Broad money (M2) increased 2.8 percent in the review period compared to the growth of 9.6 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 14.3 percent in mid-January 2022.

35. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs. 241.23 billion (18.1 percent) in the review period in contrast to an increase of Rs.124.92 billion (9.4 percent) in the corresponding period of the previous year.



36. Reserve money decreased 14.1 percent in the review period compared to a decrease of 4.9 percent in the corresponding period of the previous year. On y-o-y basis, reserve money decreased 5.0 percent in mid-January 2022.

Domestic Credit

37. Domestic credit increased 8.2 percent in the review period compared to an increase of 8.7 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 26.6 percent in mid-January 2022.

38. Monetary Sector's claims on the private sector increased 12.0 percent in the review period compared to an increase of 11.0 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 27.4 percent in mid-January 2022.

Deposit Mobilization

39. Deposits at Banks and Financial Institutions (BFIs) increased 3.8 percent in the review period compared to an increase of 9.2 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 15.5 percent in mid-January 2022.

40. The share of demand, saving, and fixed deposits in total deposits stands at 8.5 percent, 30.3 percent and 54.4 percent respectively in mid-January 2022. Such shares were 8.5 percent, 33.6 percent and 49.2 percent respectively a year ago.

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

| Deposits | Mid-July | | Mid-January | |
|----------|----------|------|-------------|------|
| | 2020 | 2021 | 2020 | 2021 |
| Demand | 10.0 | 10.4 | 8.5 | 8.5 |
| Saving | 31.9 | 34.2 | 33.6 | 30.3 |
| Fixed | 48.6 | 47.0 | 49.2 | 54.4 |
| Other | 9.5 | 8.4 | 8.7 | 6.8 |

41. The share of institutional deposits in total deposit of BFIs stands at 39.2 percent in mid-January 2022. Such a share was 42.5 percent in mid-January 2021.

Credit Disbursement

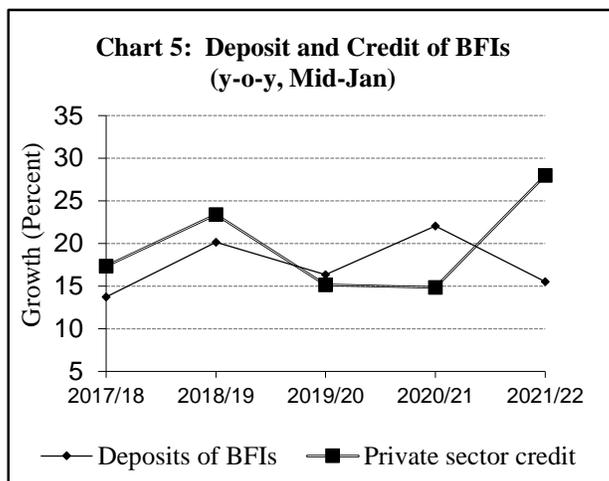
42. Private sector credit from BFIs increased 12.1 percent in the review period compared to an increase of 11.4 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 28.0 percent in mid-January 2022.

43. In the review period, private sector credit from commercial banks, development banks and finance companies increased 11.8 percent, 12.7 percent and 21.0 percent respectively.

44. In the review period, out of the total outstanding credit of the BFIs, 66.5 percent is against the collateral of land and building and 12.6 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 66.3 percent and 12.2 percent respectively a year ago.

45. Outstanding loan of BFIs to the agriculture sector increased 13.0 percent, industrial production sector 11.9 percent, transportation, communication and public sector 8.5 percent, wholesale and retail sector 12.7 percent and service industry sector 5.1 percent in the review period.

46. In the review period, term loan extended by BFIs increased 10.0 percent, overdraft 21.1 percent, demand and other working capital loan 10.9 percent, real estate loan (including residential personal home loan) 12.8 percent and hire purchase loan 4.9 percent while that of trust receipt (import) loan decreased 14.2 percent and margin nature loan 6.2 percent.



Liquidity Management

47. 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, it was Rs.241.34 billion liquidity of which Rs.89.54 billion was through reverse repo and Rs. 151.80 billion through deposit collection auction.

48. In the review period, NRB injected Rs.3366.96 billion liquidity of which Rs.323.85 billion was through repo, Rs.27.22 billion through outright purchase and Rs.3015.89 billion through standing liquidity facility (SLF).

49. In the review period, NRB injected liquidity of Rs.80.26 billion through the net sale of USD 667.4 million from foreign exchange market. Liquidity of Rs.251.02 billion was injected through the net purchase of USD 2.12 billion in the corresponding period of the previous year.

50. The NRB purchased Indian currency (INR) equivalent to Rs.260.07 billion through the sale of USD 2.18 billion in the review period. INR equivalent to Rs.241.31 billion was purchased through the sale of USD 2.04 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.158.38 billion in mid-January 2022.

52. As of mid-January 2022, the outstanding concessional loan is Rs.213.58 billion extended to 1,40,521 borrowers. Of which, Rs.136.01 billion has been extended to 57,626 borrowers for selected commercial agriculture and livestock businesses. Likewise, Rs. 73.85 billion loan has been extended to 80,061 women entrepreneurs. Total of 2,834 borrowers have been availed Rs. 3.72 billion concessional loan to other sectors.

| Table 4: Approved Refinance as of Refinance Procedure, 2020 | | | | |
|--|-------------------------|---------------|--------------------------|---------------|
| (Rs. In millions) | | | | |
| Types | 2020/21 | | Mid-January, 2022 | |
| | No. of borrowers | Amount | No. of borrowers | Amount |
| General | 11296 | 98750 | 13074 | 85700 |
| Special | 2040 | 14620 | 1707 | 12290 |
| Micro, Cottage and Small enterprises | 35554 | 35380 | 9486 | 8100 |
| Total | 48890 | 148750 | 24267 | 106090 |

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, 2020'. Under this provision, Rs. 1.13 billion loan has been approved as of mid-January 2022.

Inter-bank Transaction

54. In the review period, BFIs interbank transactions amounted Rs.1839.54 billion including Rs.1626.04 billion inter-bank transactions among commercial banks and Rs.213.50 billion among other financial institutions (excluding transactions among commercial banks). In the corresponding period of previous year, such transactions was Rs.290.78 billion including Rs.189.18 billion among commercial banks and Rs.101.60 billion among other financial institutions (excluding transactions among commercial banks).

Interest Rates

55. The weighted average 91-day treasury bills rate remained at 5.07 percent in the sixth month of 2021/22, which was 0.87 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.14 percent a year ago, increased to 4.76 percent in the review month. The weighted average inter-bank rate of BFIs which is considered as operating target of monetary policy, stood 4.77 percent in the review month. Such a rate was 0.18 percent a year ago.

56. The average base rate of commercial banks stood 8.42 percent in the sixth month of 2021/22 which was 7.18 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 6.37 percent and 9.44 percent respectively in the review month. Such rates were 5.0 percent and 9.09 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 239 as of mid-January 2022. Out of which, the license of 177 BFIs was revoked thereby forming 62 BFIs.

Financial Access

58. Of the total 753 local levels, commercial banks extended their branches at 750 levels as of mid-January 2022. The number of local levels having commercial bank branches was 749 a year ago.

59. The total number of BFIs licensed by NRB remained 129 in mid-January 2022. As of mid-January 2022, 27 commercial banks, 17 development banks, 17 finance companies, 67 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 11,215 in mid-January 2022 from 10,683 in mid-July 2021 (Table 5).

| Table 5: Number of BFIs and their Branches* | | | | | | |
|---|----------------|----------------|------------------|------------------|---------------|------------------|
| Bank and Financial Institutions | Number of BFIs | | | Branches of BFIs | | |
| | mid-July 2020 | mid- July 2021 | mid-January 2022 | mid-July 2019 | mid-July 2020 | mid-January 2022 |
| Commercial Banks | 27 | 27 | 27 | 4436 | 4753 | 4856 |
| Development Banks | 20 | 18 | 17 | 1029 | 1023 | 1065 |
| Finance Companies | 22 | 17 | 17 | 243 | 222 | 248 |
| Microfinance Financial Institutions | 85 | 70 | 67 | 4057 | 4685 | 5046 |
| Infrastructure Development Bank | 1 | 1 | 1 | - | - | - |
| Total | 155 | 133 | 129 | 9765 | 10683 | 11215 |

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

Electronic Payment Transaction

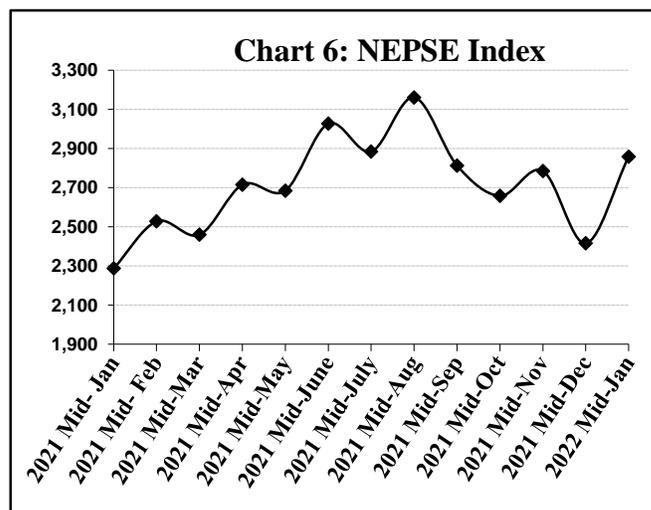
60. Electronic payment transaction has increased significantly due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments (Database Table 59).

Capital Market

61. NEPSE index stood 2857.8 in mid-January 2022 compared to 2286.6 in mid-January 2021.

62. Stock market capitalization in mid-January 2022 stood Rs.4037.13 billion compared to Rs.3079.94 billion in mid-January 2021.

63. Number of companies listed at NEPSE reached 225 in mid-January 2022, out of which 143 are Bank and Financial Institutions (BFIs) and insurance companies, 46 hydropower companies, 19 manufacturing and processing industries, 5 hotels, 5 investment companies, 4 trading companies and 3 others. The number of companies listed at NEPSE was 215 in mid-January 2021.



64. Share of BFIs and insurance companies in stock market capitalization is 67.1 percent. Such a share for hydropower companies is 10.6 percent, investment companies 7.2 percent, manufacturing and processing industries 4.4 percent, hotels 1.4 percent, trading companies 0.5 percent and the share of other companies is 8.9 percent.

65. The paid-up value of 6.54 billion shares listed at NEPSE stood Rs.644.40 billion in mid-January 2022.

66. Securities worth Rs.82.31 billion were listed at NEPSE during the six months of 2021/22. Such securities comprise debenture worth Rs.46.16 billion, ordinary share worth Rs.15.46 billion, right share worth Rs.8.93 billion, bonus shares worth Rs.8.01 billion and mutual fund worth Rs.3.75 billion.
67. Securities Board of Nepal approved the total issuance of securities worth Rs.9.41 billion which includes debenture worth Rs.3.8 billion, mutual fund worth Rs.3 billion, ordinary share worth Rs.1.57 billion and right share worth Rs.1.04 billion in the review period.