

Current Macroeconomic and Financial Situation of Nepal

(Based on Three Month's Data Ending Mid-October, 2020/21)

Major Highlights

- Inflation remained 3.79 percent on y-o-y basis.
- Imports decreased 12.7 percent and exports increased 14.3 percent.
- Remittances increased 12.6 percent in NPR terms and 7.6 percent in USD terms.
- Balance of Payments remained at a surplus of Rs.101.09 billion.
- Gross foreign exchange reserves stood at USD 12.55 billion.
- Federal Government spending amounted to Rs.176.99 billion and revenue collection Rs.172.36 billion.
- Broad money (M2) expanded 5.6 percent. On y-o-y basis, M2 expanded 20.9 percent.
- Deposits at BFIs increased 4.9 percent and claims on private sector increased 4.2 percent. However, on y-o-y basis, deposits increased 20.9 percent and claims on private sector 12.4 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 3.79 percent in the third month of 2020/21 compared to 6.21 percent a year ago. Food and beverage inflation stood at 5.50 percent whereas non-food and service inflation stood at 2.46 percent in the review month.
2. The price of vegetables sub-group rose 23.1 percent and pulses and legumes sub-group rose 13.86 percent on y-o-y basis.
3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 3.35 percent, 4.46 percent, 3.03 percent and 4.39 percent inflation respectively. These regions had witnessed 8.14 percent, 5.75 percent, 4.89 percent and 5.11 percent inflation respectively a year ago.

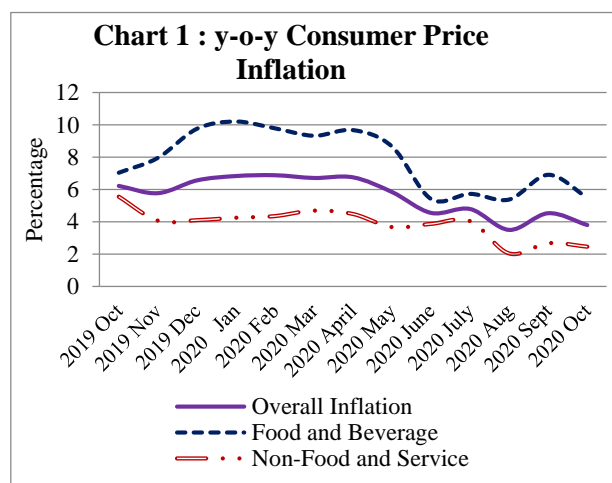


Table 1: y-o-y Consumer Price Inflation (Percent)

Mid-Month			
Particulars	Sept/Oct 2019	Aug/Sep 2020	Sept/Oct 2020
Overall Inflation	6.21	4.52	3.79
Food and Beverage	7.04	6.91	5.50
Non-food and Service	5.55	2.68	2.46

Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 8.26 percent in the review month compared to 7.29 percent a year ago.
- The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 8.87 percent, 8.78 percent and 3.13 percent respectively. The wholesale price of construction materials dropped 2.13 percent in the review month.

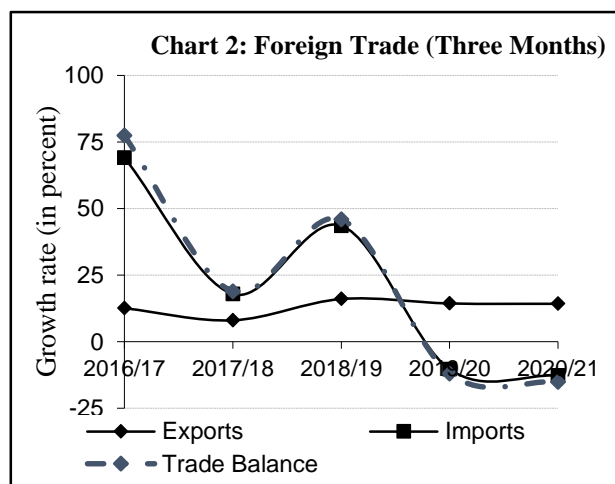
Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 0.92 percent in the review month. Such growth rate was 12.08 percent a year ago. In the review month, wage rate index increased 1.19 percent.

External Sector

Merchandise Trade

- In three months of 2020/21, merchandise exports increased 14.3 percent to Rs.31.05 billion compared to an increase of 14.4 percent in the same period of the previous year. Destination-wise, exports to India and other countries increased 19.4 percent and 7.4 percent respectively whereas exports to China decreased 53.2 percent. Exports of jute goods, polyester yarn and threads, noodles, cardamom, and pashmina among others increased whereas exports of palm oil, pulses, zinc sheet, handicrafts, and skin among others decreased in the review period.



- In three months of 2020/21, merchandise imports decreased 12.7 percent to Rs.292.27 billion compared to a decrease of 10.3 percent a year ago. Destination-wise, imports from India, China and other countries decreased 6.6 percent, 26.9 percent, and 19.0 percent respectively. Imports of rice, crude soyabean oil, telecommunication equipment and parts, edible oil, and coal among others increased, whereas imports of petroleum products, transport equipment and parts, aircraft spareparts, other machinery and parts, and crude palm oil among others decreased in the review period.
- Based on customs points, exports from Dry Port, Kailali, Kanchanpur and Rasuwa Customs Office decreased whereas exports from all other customs points increased in the review period. On the import side, imports from all other customs points decreased except Bhairahawa, Biratnagar, Nepalgunj, Krishnanagar and Kailali Customs Offices in the review period.
- Total trade deficit narrowed down 15.1 percent to Rs.261.22 billion in three months of 2020/21. Such deficit had contracted 12.0 percent in the same period of the previous year. The export-import ratio increased to 10.6 percent in the review period from 8.1 percent in the same period of the previous year.

Export-Import Price Index

- The y-o-y unit value export price index, based on customs data, increased 1.1 percent and the import price index decreased 3.8 percent in the third month of 2020/21. The terms of trade (ToT) index

increased 5.1 percent in the review month compared to an increase of 4.4 percent a year ago.

Services

12. Net services income remained at a deficit of Rs.10.59 billion in the review period compared to a deficit of Rs.6.05 billion in the same period of the previous year.
13. Under the service account, travel income decreased 91.5 percent to Rs.1.47 billion in the review period, which was Rs.17.33 billion in the same period of the previous year.
14. Under the service account, travel payments decreased 74.8 percent to Rs.5.29 billion, including Rs.4.40 billion for education. Such payments were Rs.21.0 billion and Rs.10.18 billion respectively in the same period of the previous year.

Remittances

15. Remittance inflows increased 12.6 percent to Rs.258.86 billion in the review period against a decrease of 5.1 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 7.6 percent to 2.18 billion in the review period against a decrease of 4.7 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 96.8 percent in the review period. It had decreased 3.7 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 78.6 percent in the review period. It had decreased 0.9 percent in the same period of the previous year.
17. Net transfer increased 10.2 percent to Rs.286.91 billion in the review period. Such transfer had decreased 3.8 percent in the same period of the previous year.

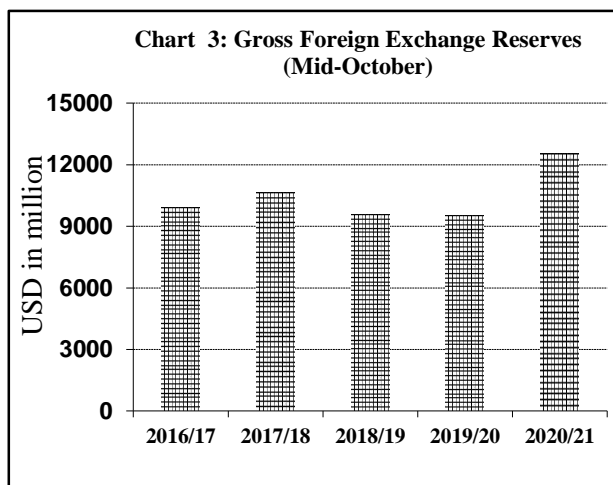
Current Account and Balance of Payments

18. The current account remained at a surplus of Rs.34.36 billion in the review period against a deficit of Rs.22.47 billion in the same period of the previous year. In the US Dollar terms, the current account recorded a surplus of 288.2 million in the review period against a deficit of 198.4 million in the same period last year.
19. In the review period, capital transfer decreased 3.3 percent to Rs.3.56 billion and net foreign direct investment (FDI) decreased 26.8 percent to Rs.2.92 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.3.68 billion and Rs.3.99 billion respectively.
20. Balance of Payments (BOP) registered a surplus of Rs.101.09 billion in the review period. Such surplus was Rs.14.43 billion in the same period of the previous year. In the US Dollar terms, the BOP recorded a surplus of 851.0 million in the review period compared to a surplus of 127.8 million in the same period of the previous year.

Foreign Exchange Reserves

21. Gross foreign exchange reserves increased 4.9 percent to Rs.1470.26 billion in mid-October 2020 from Rs.1401.84 billion in mid-July 2020. In the US Dollar terms, the gross foreign exchange reserves increased 7.8 percent to 12.55 billion in mid-October 2020 from 11.65 billion in mid-July 2020.

22. Of the total foreign exchange reserves, reserves held by NRB increased 5.1 percent to Rs.1288.55 billion in mid-October 2020 from Rs.1226.12 billion in mid-July 2020. Reserves held by banks and financial institutions (except NRB) increased 3.4 percent to Rs.181.71 billion in mid-October 2020 from Rs.175.71 billion in mid-July 2020. The share of Indian currency in total reserves stood at 23.1 percent in mid-October 2020.



Foreign Exchange Adequacy Indicators

23. Based on imports of three months of 2020/21, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 15.6 months, and merchandise and services imports of 14.1 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 39.0 percent, 117.3 percent and 32.9 percent respectively in mid-October 2020. Such ratios were 37.2 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 decreased 30.3 percent to US Dollar 41.34 per barrel in mid-October 2020 from US Dollar 59.35 per barrel a year ago. However, the price of gold increased 27.6 percent to US Dollar 1905.05 per ounce in mid-October 2020 from US Dollar 1492.65 per ounce a year ago.

Exchange Rate

25. Nepalese currency vis-à-vis the US Dollar appreciated 2.8 percent in mid-October 2020 from mid-July 2020. It had depreciated 4.1 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.117.12 in mid-October 2020 compared to Rs.120.37 in mid-July 2020.

Fiscal Situation*

Federal Government

Fiscal Deficit/Surplus

26. Fiscal position of the government, based on banking transactions, remained at a surplus of Rs.316.8 million in the review period compared to a surplus of Rs.46.38 billion in the corresponding period of the previous year.

Expenditure and Revenue[#]

27. In review period, total expenditure of the federal government based on banking transactions (excluding direct payments and unrealized cheques) stood at Rs.176.99 billion. Such expenditure was Rs.172.33 billion in the corresponding period of the previous year.

28. In review period, revenue collection based on banking transactions (including the amount to be transferred to provincial and local governments) stood at Rs.172.36 billion. Total government revenue was Rs.211.28 billion in the corresponding period of the previous year.

Cash Balance

29. Balance at various accounts of the GoN maintained with NRB remained Rs.213.39 billion (including Provincial government and Local Authorities Account) in mid-October 2020.

Provincial Government

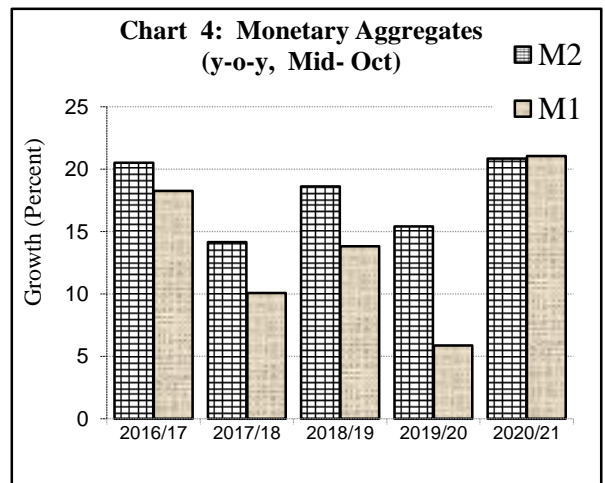
30. In the review period, total resource mobilization of provincial governments was Rs.27.38 billion. The federal government has transferred Rs.18.44 billion as grants and revenue from divisible fund to provincial governments and the provincial governments have mobilized Rs.8.95 billion in terms of revenue and other receipts in the review period.

Monetary Situation

Money Supply

31. Broad money (M2) expanded 5.6 percent in the review period compared to the growth of 3.2 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 20.9 percent in mid-October 2020.

32. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs.101.09 billion (7.6 percent) in the review period compared to an increase of Rs.14.43 billion (1.5 percent) in the corresponding period of the previous year.



*Based on data reported by Banking Department of NRB and Commercial Banks conducting government transactions and report released from 81 DTCOs and payment centers.

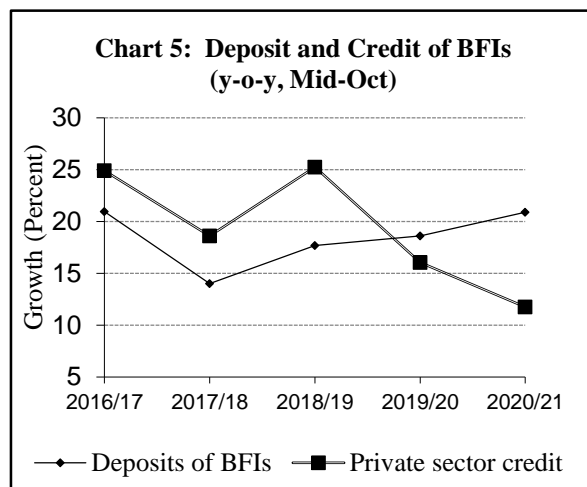
[#] After excluding previous year's recovery.

33. Reserve money increased 1.7 percent in the review period compared to the growth of 2.7 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 25.6 percent in mid-October 2020..

Domestic Credit

34. Domestic credit increased 2.8 percent in the re view period compared to the growth of 2.2 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 14.3 percent in mid-October 2020.

35. Monetary Sector's claims on private sector increased 4.2 percent in the review period compared to a growth of 4.4 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 12.4 percent in mid-October 2020.



Deposit Mobilization

36. Deposits at Banks and Financial Institutions (BFIs) increased 4.9 percent in the review period compared to a growth of 3 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 20.9 percent in mid-October 2020.

37. The share of demand, saving, and fixed deposits in total deposits stands at 9.1 percent, 32.8 percent and 49.4 percent respectively in mid-October 2020. Such shares were 8.2 percent, 33 percent and 47.8 percent respectively a year ago.

Deposits	Mid-Jul				Mid-Oct	
	2017	2018	2019	2020	2019	2020
Demand	8.7	9.3	9.7	10.0	8.2	9.1
Saving	35.4	34.5	32.8	31.9	33.0	32.8
Fixed	43.2	44.8	46.3	48.6	47.8	49.4
Other	12.7	11.3	11.3	9.4	11.0	8.7

38. The share of institutional deposits in total deposit of BFIs stands at 43.2 percent in mid- October 2020. Such share was 44.8 percent in mid- October 2019.

Credit Disbursement

39. Private sector credit from BFIs increased 4 percent in the review period compared to a growth of 4.3 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 11.7 percent in mid- October 2020.

40. In the review period, private sector credit from commercial banks and development banks increased 4 percent and 5.2 percent respectively while that of finance companies decreased 0.5 percent.

41. 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 12.6 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 64.4 percent and 13.7 percent respectively a year ago.

42. Outstanding loan of BFIs to agriculture sector increased 6 percent, industrial production sector increased 1 percent, construction sector increased 1.8 percent, transportation, communication and public sector increased 5.1 percent, wholesale and retail sector increased 4.7 percent and service industry sector increased 6.7 percent in the review period.

43. In the review period, term loan extended by BFIs increased 3.9 percent, overdraft increased 3.7 percent, demand and working capital loan increased 9.6 percent, real estate loan (including residential personal home loan) increased 0.6 percent and margin nature loan increased 17.8 percent while that of trust receipt (import) loan decreased 6.6 percent and hire purchase loan decreased 2.7 percent.

Liquidity Management

44. In the review period, NRB mopped up Rs.90 billion liquidity including Rs.60 billion through reverse repo auction and Rs.30 billion through deposit collection instrument. Rs.30 billion liquidity was mopped up in the corresponding period of the previous year. Rs.89.32 billion liquidity was injected including Rs.39.52 billion through repo and Rs.49.80 billion through standing liquidity facility (SLF) in the corresponding period of the previous year.

45. In the review period, NRB injected liquidity of Rs.147.43 billion through the net purchase of USD 1.24 billion from foreign exchange market. Liquidity of Rs.102.22 billion was injected through the net purchase of USD 898.5 million in the corresponding period of the previous year.

46. The NRB purchased Indian currency (INR) equivalent to Rs.99.64 billion through the sale USD 840 million in the review period. INR equivalent to Rs.119.98 billion was purchased through the sale of USD 1.06 billion in the corresponding period of previous year.

Refinance and Concessional Loan

47. The outstanding amount of refinance provided by this bank is Rs.3.84 billion in mid-October 2020. Of which, general refinance of Rs.2.85 billion and earthquake victim refinance of Rs.986 million was availed.

48. As of mid-October 2020, the outstanding concessional loan is Rs.72.47 billion extended to 41,618 borrowers. Of which, Rs.61.25 billion has been extended to 27,369 borrowers for selected agriculture and livestock businesses, whereas concessional loan to other sectors has been disbursed Rs.11.22 billion to 14,249 beneficiaries.

Inter-bank Transaction

49. In the review period, BFIs did interbank transactions equal to Rs.81.15 billion including inter-bank transactions among commercial banks equal to Rs.32.17 billion and among other financial institutions (excluding transactions among commercial banks) equal to Rs.48.98 billion. In the corresponding period of previous year, such transaction was Rs.627.18 billion including Rs 583.31 billion among commercial banks and Rs.43.88 billion among other financial institutions (excluding transactions among commercial banks).

Interest Rates

50. The weighted average 91-day treasury bills rate remained at 0.63 percent in mid-October 2020, which was 4.33 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 4.62 percent a year ago, decreased to 0.11 percent in mid-October 2020. The average inter-bank rate of BFIs, which is considered as operating target of monetary policy, stood 0.16 percent in mid-October 2020.

51. The average base rate of commercial banks decreased to 7.73 percent in mid-October 2020 from 9.56 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 5.45

percent and 9.83 percent respectively in mid- October 2020. Such rates were 6.75 percent and 11.98 percent respectively a year ago.

Merger and Acquisition

52. After introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 207. Out of which, the license of 157 BFIs was revoked thereby forming 50 BFIs.

Financial Access

53. Of the total 753 local levels, commercial banks extended their branches at 748 levels as of mid-October 2020. The number of local levels having commercial bank branches was 741 a year ago (Table 3).

Province	No. of Local Levels	Local Levels having Bank Branches		Local bodies in the process of having presence of commercial bank branch	
		mid-Oct 2019	mid-Oct 2020	District	Rural Municipality
		Province 1	137		
Province 2	136	134	136	-	-
Bagmati	119	117	117	Dhading	Rubi Valley, Netrawati
Gandaki	85	84	85	-	-
Lumbini	109	109	109	-	-
Karnali	79	78	78	Jajarkot	Junichande
Sudur Paschim	88	83	87	Bajhang	Kanda
Total	753	741	748	4	5

54. The total number of BFIs licensed by NRB decreased to 146 in mid-October 2020 (Table 4). As of mid-October 2020, 27 commercial banks, 19 development banks, 21 finance companies, 78 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 9903 in mid-October 2020 from 9765 in mid-July 2020.

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	Mid-July 2019	Mid-July 2020	Mid-October 2020	Mid-July 2019	Mid-July 2020	Mid-October 2020
	Commercial Banks	28	27	27	3585	4436
Development Banks	29	20	19	1267	1029	1023
Finance Companies	23	22	21	205	243	249
Microfinance Financial Institutions	90	85	78	3629	4057	4117
Infrastructure Development Bank	1	1	1	-	-	-
Total	171	155	146	8686	9765	9903

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

Electronic Payment Transaction

55. 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 5).

Table 5: Electronic Payment Transactions									
S. N.	Particulars	No. of Transaction				Total Amount (NPR in Million)			
		mid-July 2020	mid-Aug 2020	mid-Sept 2020	mid-Oct 2020	mid-July 2020	mid-Aug 2020	mid-Sept 2020	mid-Oct 2020
1	RTGS*	37297	34616	28137	41385	1567959	1213870	835526	1406545
2	ATM-Cash Withdrawal	6302846	4769340	3797969	5388502	54763	38393	32320	46785
3	ECC	1260169	1039330	677845	1061661	792007	657113	402477	687075
4	IPS	596538	347854	656142	1077322	223651	156360	153073	234498
5	ConnectIPS	696447	633134	895586	1259291	51306	47367	61958	88979
6	Debit Cards	3316554	5426368	4118182	5952693	25894	41787	33667	49109
7	Credit Cards	119610	154698	76317	128460	584	708	407	760
8	Prepaid Cards	5249	8986	4587	7706	36	57	30	58
9	Internet Banking	653459	205735	208934	275933	19048	3082	4741	6314
10	Mobile Banking	5817681	5923411	5961339	7850154	18839	18393	20340	28804
11	Branchless Banking	83249	53350	37344	47650	1338	1042	815	1066
12	Wallet	10179557	10177889	9415447	10175962	10222	7579	7339	9883
13	QR-Based Payments	-	195016	179150	265125	-	589	648	969
14	Point of Sales (POS)	-	532911	314110	586731	-	1858	1223	2349
15	E-Commerce**	-	168627	87007	113052	-	1201	561	794

* Transaction amount of mid-July and mid-August 2020 are revised.

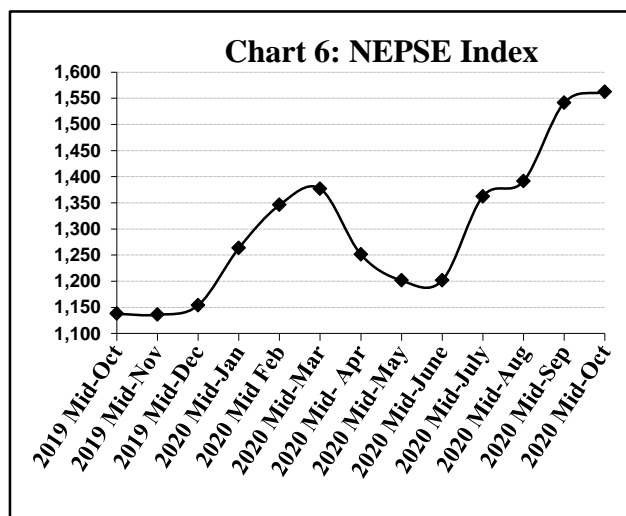
**Online payment using cards

Capital Market

56. NEPSE index stood at 1562.5 in mid-Oct 2020 compared to 1137.8 a year ago. Such index was 1362.4 in mid-July 2020.

57. Stock market capitalization in mid-Oct 2020 stood Rs.2082.58 billion compared to Rs.1792.76 billion in mid-Jul 2020.

58. Number of companies listed at NEPSE stood 209, out of which 143 are Bank and Financial Institutions (BFIs) and insurance companies, 33 hydropower companies, 19 manufacturing and processing industries, 4 hotels, 4 trading companies and 6 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 is 75.4 percent. Such share for hydropower companies is 6.6 percent, manufacturing and processing industries 3.5 percent, hotels 1.1 percent, trading companies 0.3 percent and the share of other sector companies is 13.1 percent.

60. The paid-up value of 4.89 billion listed shares at NEPSE stood Rs.479.83 billion in mid-Oct 2020.

61. Securities worth Rs.117.67 billion were listed at NEPSE during the three month of 2020/21. Such securities comprise government development bond worth Rs.100 billion, ordinary share worth Rs.6.97 billion, bonus shares worth Rs.4.96 billion, debenture worth Rs.4 billion, right share worth Rs.1.09 billion and mutual fund worth Rs.653 million.

62. Securities Board of Nepal approved the total issuance of securities worth Rs.2.67 billion which includes debentures worth Rs.1.2 billion, ordinary shares worth Rs.938.6 million and right shares worth Rs.533.7 million in the review period.

Impact of COVID-19

63. The adverse impact of COVID-19 has been witnessed on various sectors of economy, particularly on external trade, revenue mobilization, capital spending and credit expansion.
64. The imports of industrial supplies, fuel, capital goods, transport equipment, parts and accessories decreased owing to the impact of COVID-19 on the economy in the initial period of lockdown. However, such imports have increased in Sept-Oct.

Table. 6: Trend of Imports*

(Rs. Billion)

S.N.	Classification of Goods	2019							2020						
		Mid-Month							Mid-Month						
		Mar-Apr	Apr-May	May-June	June-July	July-Aug	Aug-Sept	Sept-Oct	Mar-Apr	Apr-May	May-June	June-July	July-Aug	Aug-Sept	Sept-Oct
1	Foods and Beverages	16.9	16.2	16.8	14.7	15.1	18.4	14.9	13.4	16.7	19.9	18.2	19.5	20.6	20.1
2	Industrial Supplies	39.3	41.2	44.2	43.8	39.0	41.2	35.0	19.1	10.4	26.2	35.2	28.2	33.0	39.5
3	Fuels and Lubricants	22.1	22.6	24.6	21.1	15.7	15.6	14.0	10.9	8.3	7.9	15.0	8.5	8.4	10.3
4	Capital goods, Parts and Accessories	15.6	16.5	17.2	20.6	17.1	19.1	15.8	8.0	2.8	10.2	15.3	14.2	16.2	18.0
5	Transport Equipment, Parts and Accessories	8.7	10.5	9.3	9.0	9.6	13.9	13.4	2.5	0.6	3.4	4.0	6.0	6.2	12.5

* Major commodities based on UN Trade statistics' classification by broad economic categories (revision 4)