

Current Macroeconomic and Financial Situation of Nepal

(Based on Nine Months' Data of 2019/20)

Major Highlights

- Inflation remained 6.74 percent on y-o-y basis and 6.53 percent on average during nine months.
- Imports decreased 7.5 percent and exports increased 12.9 percent.
- Remittances decreased 4.0 percent.
- Balance of Payments remained at a surplus of Rs.36.61 billion.
- Gross foreign exchange reserves stood at Rs.1155.90 billion. This level of reserve is sufficient to cover the prospective merchandise and services imports for 9.5 months.
- Federal Government spending based on banking transactions amounted to Rs.638.01 billion and revenue collection Rs.590.76 billion.
- Broad money (M2) expanded 8.9 percent. On y-o-y basis, M2 expanded 15.3 percent.
- Deposits at Banks and Financial Institutions expanded 9.7 percent and bank credit to the private sector expanded 11.5 percent. On y-o-y basis, deposits increased 16.9 percent and credit 14.3 percent.

Real Sector

1. Gross Domestic Product has been estimated to grow 2.3 percent in 2019/20 according to the Central Bureau of Statistics. Due to the effect of COVID-19, economic growth is estimated to be lower in the current fiscal year. The COVID effect has been translated into the negative growth of mining and quarrying, manufacturing, construction, hotel and restaurant and transportation sub sectors.
2. Agriculture, industry and service sectors estimated to grow 2.6 percent, 3.2 percent and 2.0 percent respectively. The share of agriculture, industry and service sectors in GDP stands 27.6 percent, 14.3 percent and 58.1 percent respectively in 2019/20 (Table 1).
3. Gross domestic saving to GDP stands 18.1 percent in 2019/20. Ratio of gross capital formation, gross fixed capital formation and gross national saving to GDP stands 50.2 percent, 28.1 percent and 46 percent respectively.
4. Provincewise, Sudur Paschim Province is estimated to witness the highest growth, 4.1 percent, and Bagmati province is estimated to have the lowest growth, 1.2 percent, in 2019/20. The share of Bagmati province in the GDP is estimated to be the highest, 35.8 percent, while that of Karnali province the lowest, 4.3 percent.

Sectors	2017/18	2018/19R	2019/20P
Agriculture*	28.6	27.5	27.6
Industry	14.9	15.1	14.3
Service	56.6	57.4	58.1
Real GDP Growth			
GDP growth	6.7	7.0	2.3
Agriculture*	2.8	5.1	2.6
Industry	9.6	7.7	3.2
Service	7.2	7.3	2.0

* Agriculture, Forestry and Fishing

P: Preliminary Estimate.

R: Revised Estimate

Source: Central Bureau of Statistics

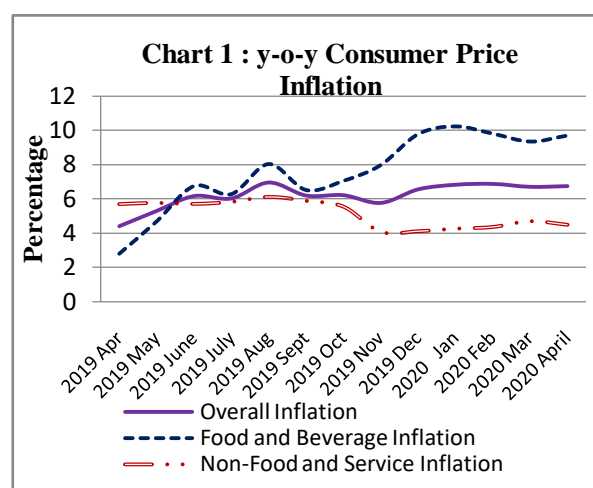
Province	GDP growth rate		Provincial Share in GDP	
	2018/19*	2019/20**	2018/19*	2019/20**
Province 1	7.4	3.4	15.7	15.8
Province 2	8.1	2.3	13.6	13.8
Bagmati	6.4	1.2	36.4	35.8
Gandaki	6.7	2.7	8.9	8.9
Province 5	6.8	2.0	14.2	14.2
Karnali	8.1	3.6	4.2	4.3
Sudurpaschim	6.9	4.1	7.0	7.2

Source: Central Bureau of Statistics. *Revised Estimates. ** Preliminary Estimates.

Inflation

Consumer Price Inflation

- The y-o-y consumer price inflation stood at 6.74 percent in mid-April 2020 compared to 4.44 percent a year ago. Food and beverage inflation stood at 9.68 percent whereas non-food and service inflation stood at 4.48 percent in the review month.
- Within the food and beverage group, the price of vegetables, fruits, spices and pulses and legumes sub-groups rose significantly in the review month. Within the non-food and service group, the price of education, health and clothes and footwear subgroups rose moderately in the review month.
- In the review month, the Kathmandu Valley witnessed 7.19 percent inflation followed by 7.04 percent in the Terai, 5.84 percent in the Hill and 4.83 percent in the Mountain. These regions had witnessed 4.74 percent, 3.95 percent, 4.80 percent and 6.20 percent inflation respectively a year ago.



- The y-o-y consumer price inflation in Nepal in the review month stood at 6.74 percent where as such rate in India (in March) was 5.91 percent. Such rate of inflation in Nepal and India was 4.44 percent and 2.86 percent in the corresponding period of the previous year.

Particulars	Mid-April 2019	Mid-Mar 2020	Mid-April 2020
Overall Inflation	4.44	6.70	6.74
<i>Food and Beverage</i>	2.81	9.33	9.68
<i>Non-food and Service</i>	5.73	4.69	4.48

Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 7.77 percent in the review month compared to 4.38 percent a year ago.
- The y-o-y wholesale prices of consumption goods; intermediate goods and capital goods increased 8.20 percent, 8.47 percent and 2.75 percent respectively. The wholesale price of construction materials dropped 3.76 percent in the review month.

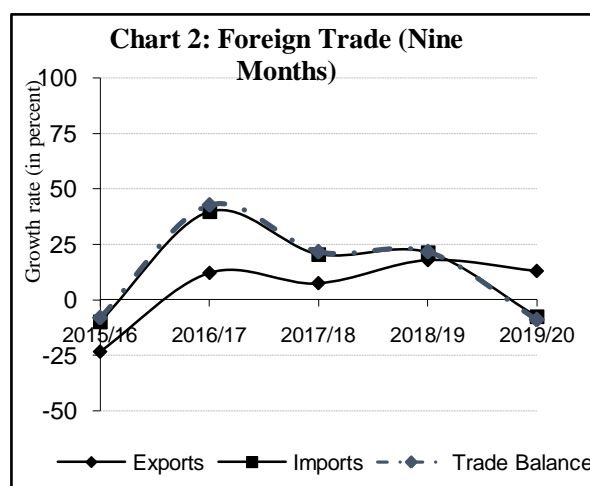
Salary and Wage Rate Index

11. The y-o-y salary and wage rate index increased 7.49 percent in the review month compared to 9.64 percent a year ago. In the review month, salary index and wage rate index increased 13.55 percent and 5.86 percent respectively.

External Sector

Merchandise Trade

12. In nine months of 2019/20, merchandise exports increased 12.9 percent to Rs.78.82 billion compared to an increase of 17.7 percent a year ago. Destination-wise, exports to India increased 25.4 percent whereas exports to China and other country decreased 28.1 percent and 7.5 percent, respectively. Exports of palm oil, cardamom, medicine (ayurvedic), herbs, toothpaste, among others, increased whereas exports of zinc sheet, wire, readymade garment, juice, woolen carpet, among others decreased in the review period.



13. In nine months of 2019/20, merchandise imports decreased 7.5 percent to Rs.982.53 billion against an increase of 21.3 percent in the same period of the previous year. Destination-wise, imports from other countries increased 3.1 percent whereas imports from India and China decreased 12.3 percent and 1.0 percent, respectively. Imports of crude palm oil, chemical fertilizer, hot rolled sheet in coil, crude soyabean oil, computer and parts, among others increased whereas imports of petroleum products, M.S. billet, transport equipment and parts, gold, cement, among others decreased in the review period.
14. Based on customs points, exports from Birgunj, Biratnagar, Mechi and Tatopani Customs Office increased whereas exports from other customs points decreased. On the import side, imports from Dry Port Customs Office increased whereas imports from other customs points decreased in the review period.
15. Total trade deficit narrowed down 8.9 percent to Rs.903.72 billion in the nine months of 2019/20. Such deficit had expanded 21.5 percent in the same period of the previous year. The export-import ratio increased to 8.0 percent in the review period from 6.6 percent in the corresponding period of the previous year.

Export-Import Price Index

16. The y-o-y unit value export price index, based on customs data, increased 0.6 percent and the import price index decreased 3.2 percent in mid-April 2020. The terms of trade index increased 3.9 percent in mid-April 2020 against a decrease of 1.9 percent in the corresponding period of the previous year.

Services

17. Net services income remained at a deficit of Rs.4.59 billion in the review period compared to a deficit of Rs.9.62 billion in the same period of the previous year.
18. Under the service account, travel income increased 0.6 percent to Rs. 55.76 billion in the review period which was Rs.55.43 billion in the same period of the previous year.

19. Under the service account, travel payments decreased 26.4 percent to Rs.50.22 billion, including Rs.24.65 billion for education. Such payments were Rs.68.26 billion and Rs.35.44 billion respectively in the same period of the previous year.

Remittances

20. Remittance inflows decreased 4 percent to Rs.626.90 billion in the review period against an increase of 20.9 percent in the same period of the previous year. In the US Dollar terms, such inflows decreased 4.7 percent in the review period against an increase of 9.9 percent in the corresponding period of the previous year.

21. Number of Nepali workers (institutional and individual-new and legalized) taking approval for foreign employment increased 10.2 percent in the review period. It had decreased 37.5 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 15 percent in the review period. It had increased 4.6 percent in the same period of the previous year.

22. Net transfer income decreased 4.4 percent to Rs.713.11 billion in the review period. Such income had increased 20.9 percent in the same period of the previous year.

Current Account and Balance of Payments

23. The current account registered a deficit of Rs. 135.54 billion in the review period. Such deficit was Rs.204.80 billion in the same period of the previous year. In the US Dollar terms, the current account deficit remained 1.18 billion in the review period compared to 1.80 billion a year ago.

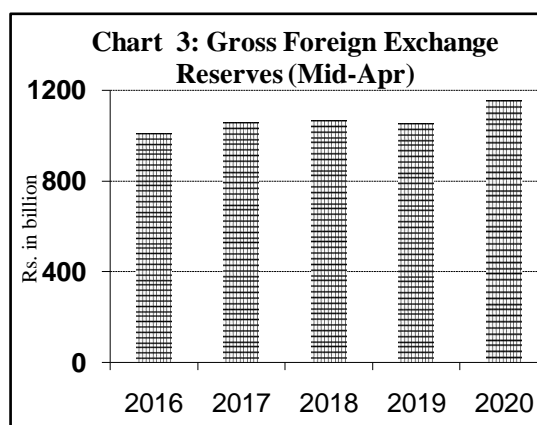
24. In the review period, capital transfer and foreign direct investment (FDI) in Nepal amounted to Rs.11.62 billion and Rs.16.48 billion respectively. In the same period of the previous year, capital transfer and FDI amounted to Rs.12.48 billion and Rs.7.10 billion respectively.

25. Balance of Payments (BOP) remained at a surplus of Rs.36.61 billion in the review period against a deficit of Rs.64.68 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a surplus of 321 million in the review period against a deficit of 568.5 million in the same period of the previous year.

Foreign Exchange Reserves

26. Gross foreign exchange reserves increased 11.3 percent to Rs.1155.90 billion in mid-April 2020 from Rs.1038.92 billion in mid-July 2019. In the US Dollar terms, the gross foreign exchange reserves decreased to 9.49 billion in mid-April 2020 from 9.50 billion in mid-July 2019.

27. Of the total foreign exchange reserves, reserves held by NRB increased to Rs.996.08 billion in mid-April 2020 from Rs.902.44 billion in mid-July 2019. Reserves held by banks and financial institutions (except NRB) increased to Rs.159.81 billion in mid-April 2020 from Rs.136.47 billion in mid-July 2019. The share of Indian currency in total reserves stood at 22.9 percent in mid-April 2020.



Foreign Exchange Adequacy Indicators

28. Based on the imports of the nine months of 2019/20, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 10.7 months, and merchandise and services imports of 9.5 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 30.7 percent, 78.8 percent and 29.6 percent respectively in mid-April 2020. Such ratios were 30 percent, 64.9 percent and 29.0 percent in mid-July 2019.

Price of Oil and Gold

29. The price of oil (Crude Oil Brent) in the international market decreased 71.7 percent to USD 20.23 per barrel in mid-April 2020 from USD 71.57 per barrel in the same period of the previous year. The price of gold increased 29.9 percent to USD 1680.65 per ounce in mid-April 2020 from USD 1294.30 per ounce in the same period of the previous year.

Exchange Rate

30. Nepalese currency vis-à-vis US Dollar depreciated 10.18 percent in mid-April 2020 from mid-July 2019. It had depreciated 0.9 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.121.76 in mid-April 2020 compared to Rs.109.36 in mid-July 2019.

Fiscal Situation*

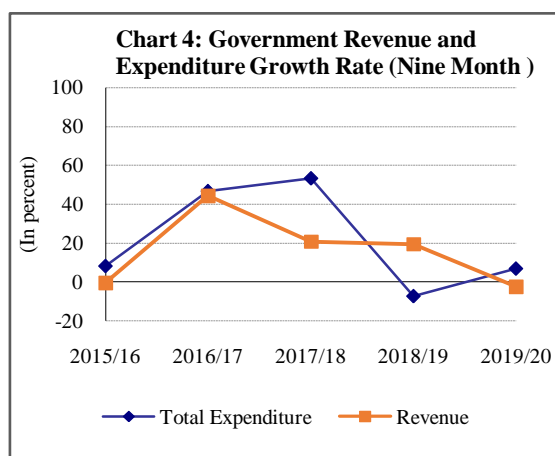
Federal Government

Fiscal Deficit/Surplus

31. During nine months of 2019/20, fiscal position of the Government, based on banking transactions, remained at a deficit of Rs.56.28 billion compared to a surplus of Rs.17.29 billion in the corresponding period of the previous year.

Expenditure and Revenue[#]

32. In the review period, total expenditure of the federal government based on banking transactions (excluding direct payments and unrealized cheques) stood at Rs.638.01 billion. Such expenditure was Rs.596.62 billion in the corresponding period of the previous year.



33. In the review period, revenue collection based on banking transactions (including the amount to be transferred to provincial and local governments) stood at Rs.590.76 billion. Total government revenue was Rs. 604.60 billion in the corresponding period of the previous year.

Debt Mobilization

34. In the review period, the government has mobilized Rs.55 billion internal loan and Rs. 45.78 billion external loan.

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

[#] After excluding previous year's beruju recovery.

Cash Balance

35. Balance at various accounts of the GoN maintained with NRB remained Rs.162.31 billion (including Rs.62.86 billion in Local Authorities Account) in mid-April 2020.

Province Government

36. During nine months of 2019/20, total expenditure of the province governments stood at Rs.56.53 billion. In the review period, resources mobilization of province governments was Rs.93.56 billion. In this period, the federal government has transferred Rs.60.54 billion as grants and revenue from divisible fund to province governments. During this period, province governments have mobilized the resource of Rs.33.01 billion from province revenue and other receipts.

Monetary Situation

Money Supply

37. Broad money (M2) increased 8.9 percent in nine months of 2019/20 compared to an increase of 9.3 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 15.3 percent in mid-April 2020.

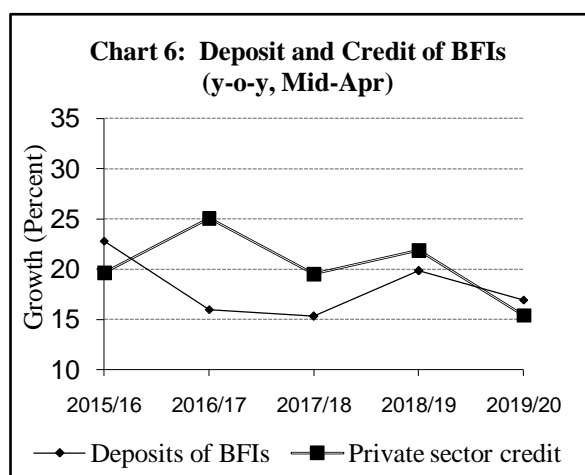
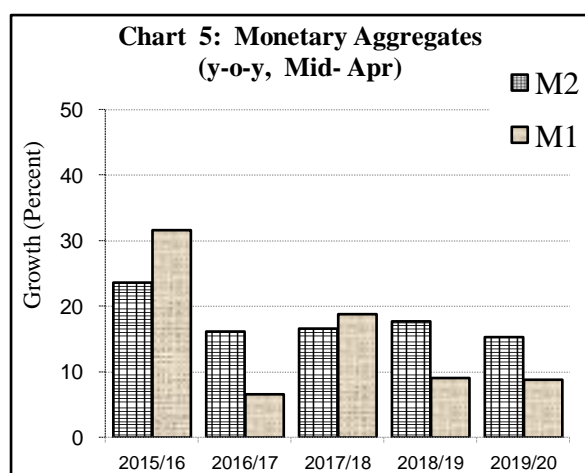
38. Net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs.36.61 billion (3.7 percent) in the review period compared to a decrease of Rs.64.68 billion (6.1 percent) in the corresponding period of the previous year.

39. Reserve money decreased 4.4 percent in the review period compared to a decrease of 10 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 4.6 percent in mid-April 2020.

Domestic Credit

40. Domestic credit increased 8.9 percent in the review period compared to an increase of 13.2 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 16.8 percent in mid-April 2020.

41. Monetary sector's claim on the private sector increased 12.7 percent in the review period compared to a growth of 16.4 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 15.4 percent in mid-April 2020.



Deposit Mobilization

42. Deposits at Banks and Financial Institutions (BFIs) increased 9.7 percent in the review period compared to an increase of 10.6 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 16.9 percent in mid-April 2020.

Deposits	Mid-July				Mid-April	
	2016	2017	2018	2019	2019	2020
Demand	9.1	8.7	9.3	9.7	8.6	8.5
Saving	43.3	35.4	34.5	32.8	33.6	32.2
Fixed	30.5	43.2	44.8	46.3	47.3	49.3
Other	17.1	12.7	11.3	11.2	10.5	10.0

43. The share of demand, saving, and fixed deposits in total deposits stands at 8.5 percent,

32.2 percent and 49.3 percent respectively in mid-April 2020 (Table 4). Such shares were 8.6 percent, 33.6 percent and 47.3 percent respectively a year ago.

44. The share of institutional deposits in total deposits of BFIs stands at 44.4 percent in mid-April 2020. Such share was 45.2 percent in mid-April 2019.

Credit Disbursement

45. Credit to the private sector from BFIs increased 11.5 percent in the review period compared to a growth of 16.5 percent in the corresponding period of the previous year. On y-o-y basis, credit to the private sector from BFIs increased 14.3 percent in mid-April 2020.

46. Of the total outstanding credit of the BFIs, 65.1 percent is against the collateral of land and building and 13.3 percent against the collateral of current assets (agricultural and non-agricultural products). Such ratios were 64 percent and 14.1 percent respectively a year ago.

47. Loan of BFIs to agriculture sector increased 14.8 percent, industrial production sector increased 12.8 percent, construction sector increased 12.4 percent, transportation, communication and public sector increased 14.7 percent and service industry sector increased 19.2 percent in the review period.

48. In the review period, term loan extended by BFIs increased 24.7 percent, overdraft increased 7.8 percent, trust receipt (import) loan increased 15.9 percent, demand and working capital loan increased 11.3 percent, real estate loan (including residential personal home loan) increased 8.6 percent, margin nature loan increased 4.4 percent and hire purchase loan increased 0.1 percent.

Liquidity Management

49. In the review period, Rs. 186.83 billion liquidity was injected including Rs. 113.77 billion through repo and Rs.73.06 billion through standing liquidity facility (SLF). Rs. 49.53 billion was injected including Rs. 39.53 billion through repo and Rs. 9.72 billion through SLF in the corresponding period of the previous year.

50. In the review period, NRB mopped up Rs.58 billion liquidity through open market operations. Liquidity of Rs.100.35 billion was mopped up in the corresponding period of the previous year.

51. In the review period, NRB injected liquidity of Rs.305.86 billion through the net purchase of USD 2.67 billion from foreign exchange market. Liquidity of Rs.252.22 billion was injected through the net purchase of USD 2.21 billion in the corresponding period of the previous year.

52. NRB purchased Indian currency (INR) equivalent to Rs.350.09 billion through the sale of USD 3.06 billion in the review period. INR equivalent to Rs.393.77 billion was purchased through the

sale of USD 3.16 billion and other convertible foreign currencies in the corresponding period of the previous year.

Refinance

53. The outstanding refinance facility provided by the NRB at a concessional rate for promoting productive sector activities and export amounted to Rs.18.31 billion in mid-April 2020. Of which, general refinance of Rs.15.21 billion and export refinance of Rs.744.4million was availed.
54. The outstanding amount of refinance extended to BFIs for providing concessional housing loan to earthquake victims stands at Rs.1.89 billion as of mid-April 2020. The number of earthquake victims utilizing such loan is 1,592.

Concessional Loan

55. The outstanding concessional loan extended to 23,409 borrowers for selected agriculture and livestock businesses stands Rs.50.47 billion as of mid-April 2020. The concessional loan outstanding to other headings remains Rs.3.41 billion utilized by 5,250 beneficiaries.

Inter-bank Transaction

56. In the review period, inter-bank transactions among commercial banks amounted to Rs. 1262.27 billion and among banks and financial institutions (excluding transactions among commercial banks) Rs.116.53 billion. Such transactions were Rs.1150.80 billion and Rs.159.82 billion respectively in the corresponding period of the previous year.

Interest Rates

57. The weighted average 91-day Treasury bills rate decreased to 2.13 percent in the ninth month of 2019/20 from 4.44 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 5.28 percent a year ago, decreased to 2.13 percent in the review month.
58. The average base rate of commercial banks decreased to 9.36 percent in the review month from 9.64 percent a year ago. Weighted average deposit and lending rates of commercial banks stood at 6.74 percent and 11.77 percent respectively in the review month. Such rates were 6.67 percent and 12.28 percent respectively in the corresponding month of the previous year.

Merger and Acquisition

59. After the introduction of merger and acquisition policy by this Bank, the number of BFIs involved in this process reached 187. Out of which, the license of 142 BFIs was revoked thereby forming 45 BFIs.

Financial Access

60. Of the total 753 local levels, commercial banks extended their branches at 746 levels as of mid-April 2020 (Table 5).
61. The total number of BFIs licensed by NRB is 162 in mid-April 2020 (Table 6). Of which, 27 commercial banks, 23 development banks, 22 finance companies, 89 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 9,692 in mid-April 2020 from 8,686 in mid-July 2019.

Province	No. of Local Levels	Local Levels having Bank Branches
Province 1	137	136
Province 2	136	136
Bagmati	119	117
Gandaki	85	84
Province 5	109	109
Karnali	79	78
Far West	88	86
Total	753	746

Table 6: Number of BFIs and their Branches*						
Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	Mid-Jul 2018	Mid-Jul 2019	Mid-Apr 2020	Mid-Jul 2018	Mid-Jul 2019	Mid-Apr 2020
Commercial Banks	28	28	27	3023	3585	4218
Development Banks	33	29	23	993	1267	1216
Finance Companies	25	23	22	186	205	239
Microfinance Financial Institutions	65	90	89	2449	3629	4019
Infrastructure Development Bank	-	1	1	-	-	-
Total	151	171	162	6651	8686	9692

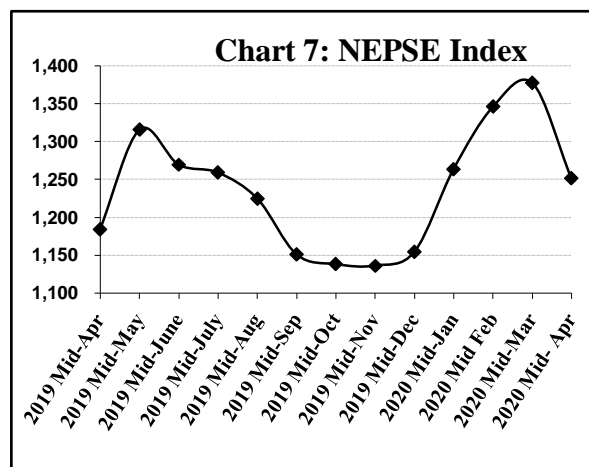
* Detailed information is available at <http://emap.nrb.org.np/>

Capital Market

62. Nepal Stock Exchange has remained closed from 23rd March 2020 due to the preventive measures adopted by the Government of Nepal in order to contain the spread of Covid-19.

63. The NEPSE index stood at 1251.5 points in mid-April 2020 compared to 1184 points in mid-April 2019. Such index was 1259 in mid-July 2019.

64. Stock market capitalization in mid-April 2020 stood Rs. 1600.20 billion compared to Rs. 1567.50 billion in mid-July 2019.



65. The number of companies listed at NEPSE stood 212, out of which 148 are Bank and Financial Institutions(BFIs) and insurance companies, 33 hydropower companies, 19 manufacturing and processing industries, 4 hotels, 4 trading companies and 4 others. The number of companies listed at NEPSE was 215 in mid-July 2019.

66. The share of BFIs and insurance companies in stock market capitalization is 80.1 percent. Such share for hydropower companies is 5.9 percent, manufacturing and processing industries 3.7 percent, hotels 1.3 percent, trading companies 0.3 percent and the share of other sector companies is 8.8 percent.

67. The paid-up value of the 4.70 billion listed shares at NEPSE stood at Rs. 460.46 billion in mid-April 2020.

68. Securities worth Rs 81.55 billion were listed at NEPSE during the nine months of 2019/20. Such securities comprise bonus shares worth Rs. 26.25 billion, debenture worth Rs. 21.46 billion, ordinary shares worth Rs. 12.16 billion, mutual fund worth Rs. 5.75 billion, right shares worth Rs. 4.11 billion and others worth Rs. 11.83 billion.

69. Securities Board of Nepal approved the total issuance of securities worth Rs. 30.89 billion in the review period, which includes debentures worth Rs. 21.45 billion, right share worth Rs. 4.41 billion, ordinary share worth Rs. 3.23 billion and mutual fund worth Rs. 1.80 billion.

Impact of COVID-19

70. The government of Nepal has put the stay-at-home order into effect since March 24, 2020. This is intended to control the spread of Covid-19 by maintaining social distance. The measures taken to control the spread of COVID-19 have made industries to operate at low capacity and supply chain has been affected. Construction of big projects has slowed down and services relating to public transportation have remained closed.
71. The economy has started to bear the brunt of COVID-19. The economic growth is estimated to decelerate substantially in this fiscal year as compared to the last. The Central Bureau of Statistics (CBS) has estimated the economy to expand by 2.28 percent this fiscal year. Annual average economic growth in the last three years was 7.3 percent. The COVID-19 related uncommon situation has significantly dragged down the growth, whereas under the normal scenario, the economy was estimated to grow around 7 percent. The gap between the pre-COVID projection and recently released growth estimate by the CBS is assumed to translate into the loss of nominal GDP by approximately Rs.168 billion.
72. The impact of COVID has been observed in other sectors of the economy as well. Food and beverage inflation has slightly increased in mid-April from mid-March 2020. Total exports, imports and remittance inflows have contracted. Government's revenue collection and expenditure have also been affected. Deposit collection and credit disbursement, however, have remained normal. The weighted average interest on deposit has decreased marginally whereas interest on credit remains stable.

Table 7 : Monthly Situation of Major Economic Indicators			
Particulars	Rs. In Billion		
	2019	2020	
	Mid-Apr	Mid-Mar	Mid-Apr
Consumer Inflation (y-o-y)	4.44	6.70	6.74
Consumer Inflation (Compared to Previous Month)	0.58	-0.27	0.62
Food and Beverage	1.35	-0.66	1.68
Non Food and Service	-0.02	0.04	-0.21
Total Export	8.6	9.9	3.9
Total Import	112.5	120.6	58.3
Travel Credit	7.1	5.1	1.6
Travel Debit	6.4	5.4	1.2
Remittance Inflow	71.0	79.2	34.5
Total Government Expenditure	-	124.1	64.6
Recurrent Expenditure	-	85.1	44.6
Capital Expenditure	-	19.6	8.7
Total Revenue	-	54.4	43.9
Total Deposit	24.9	51.0	53.4
Private Sector Credit	46.5	35.6	40.0
Weighted Average Interest Rate on Deposit	6.7	6.8	6.7
Weighted Average Interest Rate on Credit	12.3	11.8	11.8

Source: Nepal Rastra Bank and FCGO.