

# Current Macroeconomic and Financial Situation of Nepal

(Based on Five Month's Data Ending Mid-December, 2020/21)

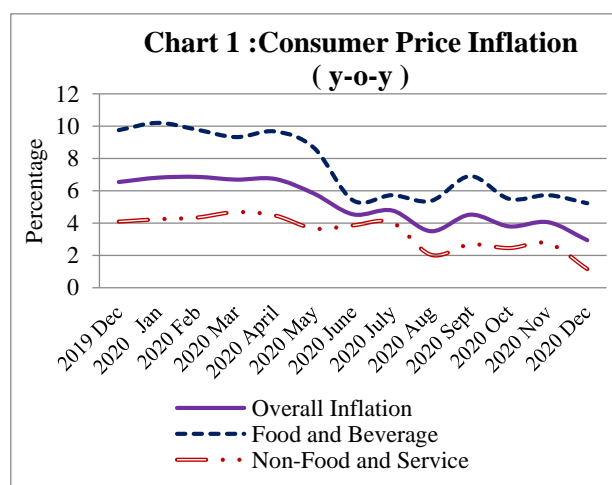
## Major Highlights

- Inflation remained 2.93 percent on y-o-y basis.
- Imports decreased 9.6 percent and exports increased 5.1 percent.
- Remittances increased 10.9 percent in NPR terms and 6.4 percent in USD terms.
- Balance of Payments remained at a surplus of Rs.106.48 billion.
- Gross foreign exchange reserves stood at USD 12.54 billion.
- Federal Government spending amounted to Rs.306.66 billion and revenue collection Rs.301.23 billion.
- Broad money (M2) expanded 7.4 percent. On y-o-y basis, M2 expanded 22.5 percent.
- Deposits at BFIs increased 6.5 percent and claims on private sector increased 7.9 percent. On y-o-y basis, deposits increased 21.6 percent and claims on private sector 13.1 percent.

## Inflation

### Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 2.93 percent in the fifth month of 2020/21 compared to 6.55 percent a year ago. Food and beverage inflation stood at 5.23 percent whereas non-food and service inflation stood at 1.16 percent in the review month.
2. The price of fruit; ghee and oil; vegetables; and pulses and legumes sub-groups rose 14.75 percent, 13.01 percent, 11.44 percent and 10.74 percent respectively on y-o-y basis.
3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 3.71 percent, 2.35 percent, 3.95 percent and 4.22 percent inflation respectively. These regions had witnessed 7.60 percent, 6.66 percent, 5.27 percent and 4.83 percent inflation respectively a year ago.



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

Particulars	Mid-Month		
	Nov/Dec 2019	Oct/Nov 2020	Nov/Dec 2020
<b>Overall Inflation</b>	<b>6.55</b>	<b>4.05</b>	<b>2.93</b>
Food and Beverage	9.76	5.73	5.23
Non-food and Service	4.10	2.75	1.16

## Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 7.46 percent in the review month compared to 8.98 percent a year ago.
- The y-o-y wholesale price of intermediate goods and capital goods increased 13.33 percent and 3.26 percent respectively while price of consumption goods dropped 0.60 percent. The wholesale price of construction materials increased 2.64 percent in the review month.

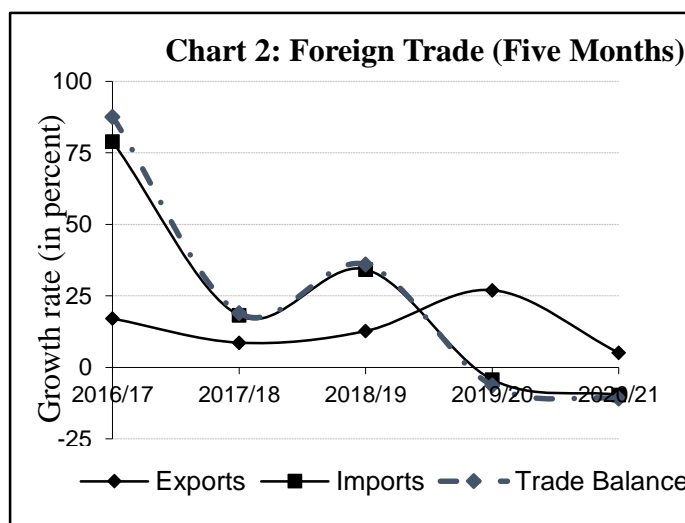
## Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 0.99 percent in the review month. Such growth rate was 10.04 percent a year ago. In the review month, wage rate index increased 1.28 percent.

## External Sector

### Merchandise Trade

- In five months of 2020/21, merchandise exports increased 5.1 percent to Rs.50.06 billion compared to an increase of 27.0 percent in the same period of the previous year. Destination-wise, exports to India and other countries increased 8.6 percent and 0.8 percent respectively whereas exports to China decreased 55.2 percent. Exports of cardamom, jute goods, polyster yarn and threads, noodles, pashmina, among others, increased whereas exports of palm oil, pulses, zinc sheet, woolen carpet, textiles, among others, decreased in the review period.



- In five months of 2020/21, merchandise imports decreased 9.6 percent to Rs.525.50 billion compared to a decrease of 4.2 percent a year ago. Destination-wise, imports from India, China and other countries decreased 1.1 percent, 24.4 percent, and 20.8 percent respectively. Imports of crude soyabean oil, rice, M.S. billet, telecommunication equipment and parts, coal, among others, increased whereas imports of petroleum products, aircraft spareparts, crude palm oil, other machinery and parts, transport equipment and parts, among others, decreased in the review period.
- Based on customs points, exports from Dry Port, Biratnagar, Kailali, Tatopani, Kanchanpur and Rasuwa Customs Office 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 decreased except Bhairahawa, Biratnagar, Nepalgunj, Krishnanagar, Kailali and Kanchanpur Customs Offices in the review period.
- Total trade deficit narrowed down 10.9 percent to Rs.475.44 billion in five months of 2020/21. Such deficit had contracted 6.3 percent in the same period of the previous year. The export-import ratio increased to 9.5 percent in the review period from 8.2 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 1.7 percent and the import price index decreased 2.0 percent in the fifth month of 2020/21. The terms of trade (ToT) index increased 3.8 percent in the review month compared to an increase of 3.2 percent a year ago.

## **Services**

12. Net services income remained at a deficit of Rs.21.29 billion in the review period compared to a deficit of Rs.3.01 billion in the same period of the previous year.
13. Under the service account, travel income decreased 93.5 percent to Rs.2.30 billion in the review period which was Rs.35.56 billion in the same period of the previous year.
14. Under the service account, travel payments decreased 63.5 percent to Rs.11.42 billion, including Rs.9.71 billion for education. Such payments were Rs.31.31 billion and Rs.14.70 billion respectively in the same period of the previous year.

## **Remittances**

15. Remittance inflows increased 10.9 percent to Rs.416.81 billion in the review period against a decrease of 0.2 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 6.4 percent to 3.52 billion in the review period compared to an increase of 0.4 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 77.9 percent in the review period. It had increased 11.8 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 69.4 percent in the review period. It had increased 7.6 percent in the same period of the previous year.
17. Net transfer increased 8.5 percent to Rs.459.87 billion in the review period. Such transfer had decreased 1.1 percent in the same period of the previous year.

## **Current Account and Balance of Payments**

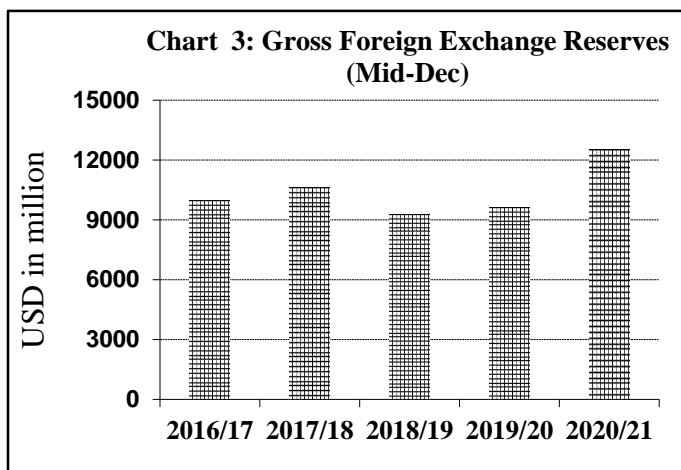
18. The current account remained at a deficit of Rs.21.32 billion in the review period compared to a deficit of Rs.65.13 billion in the same period of the previous year. In the US Dollar terms, the current account recorded a deficit of 182.4 million in the review period compared to a deficit of 572.0 million in the same period of the previous year.
19. In the review period, capital transfer decreased 16.0 percent to Rs.4.75 billion and net foreign direct investment (FDI) decreased 31.5 percent to Rs.4.50 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.5.65 billion and Rs.6.57 billion respectively.
20. Balance of Payments (BOP) registered a surplus of Rs.106.48 billion in the review period as compared to a surplus of Rs.23.30 billion in the same period of the previous year. In the US Dollar terms, the BOP recorded a surplus of 896.5 million in the review period compared to a surplus of 205.9 million in the same period of the previous year.

## Foreign Exchange Reserves

21. Gross foreign exchange reserves increased 5.2 percent to Rs.1474.34 billion in mid-December 2020 from Rs.1401.84 billion in mid-July 2020. In the US Dollar terms, the gross foreign exchange reserves increased 7.7 percent to 12.54 billion in mid-December 2020 from 11.65 billion in mid-July 2020.

22. Of the total foreign exchange reserves, reserves held by NRB increased 5.9 percent to Rs.1298.72 billion in mid-December 2020 from Rs.1226.12 billion in mid-July 2020.

Reserves held by banks and financial institutions (except NRB) decreased 0.1 percent to Rs.175.62 billion in mid-December 2020 from Rs.175.71 billion in mid-July 2020. The share of Indian currency in total reserves stood at 23.9 percent in mid-December 2020.



## Foreign Exchange Adequacy Indicators

23. Based on the imports of five months of 2020/21, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 14.4 months, and merchandise and services imports of 13.0 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 39.1 percent, 108.7 percent and 32.4 percent respectively in mid-December 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 25.4 percent to US Dollar 50.77 per barrel in mid-December 2020 from US Dollar 68.04 per barrel a year ago. The price of gold increased 25.2 percent to US Dollar 1850.65 per ounce in mid-December 2020 from US Dollar 1477.90 per ounce a year ago.

## Exchange Rate

25. Nepalese currency vis-à-vis the US Dollar appreciated 2.4 percent in mid-December 2020 from mid-July 2020. It had depreciated 3.2 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.117.53 in mid-December 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 deficit of Rs.12.72 billion in the review period compared to a surplus of Rs.62.23 billion in the corresponding period of the previous year.

### Expenditure and Revenue<sup>#</sup>

27. In the review period, total expenditure of the federal government based on banking transactions (excluding direct payments and unrealized cheques) stood at Rs.306.66 billion. Such expenditure was Rs.287.84 billion in the corresponding period of the previous year.

28. In the review period, revenue collection based on banking transactions (including the amount to be transferred to provincial and local governments) stood at Rs.301.23 billion. Total government revenue was Rs.337.71 billion in the corresponding period of the previous year.

### Cash Balance

29. Balance at various accounts of the GoN maintained with NRB remained Rs.245.70 billion (including Provincial government and Local Authorities Account) in mid-December 2020.

## Provincial Government

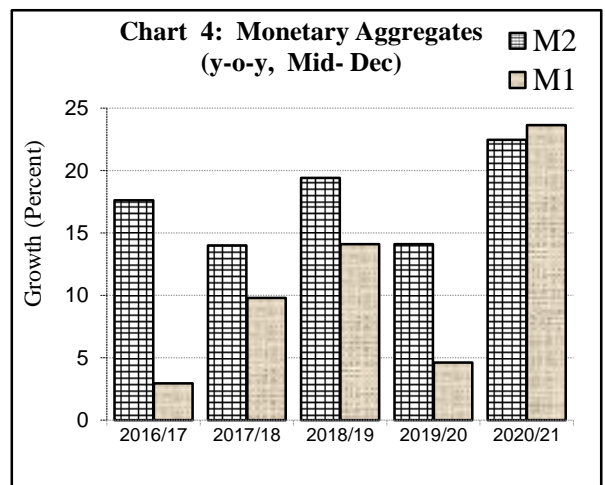
30. In the review period, total resource mobilization of provincial governments was Rs.61.27 billion. The federal government transferred Rs.37.43 billion as grants and revenue from divisible fund to provincial governments. The provincial governments have mobilized Rs.23.84 billion in terms of revenue and other receipts in the review period. Similarly, provincial governments spending stood Rs. 31.17 billion in the review period.

# Monetary Situation

## Money Supply

31. Broad money (M2) expanded 7.4 percent in the review period compared to the growth of 3.6 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 22.5 percent in mid-December 2020.

32. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs.106.48 billion (8 percent) in the review period compared to an increase of Rs.23.30 billion (2.4 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.

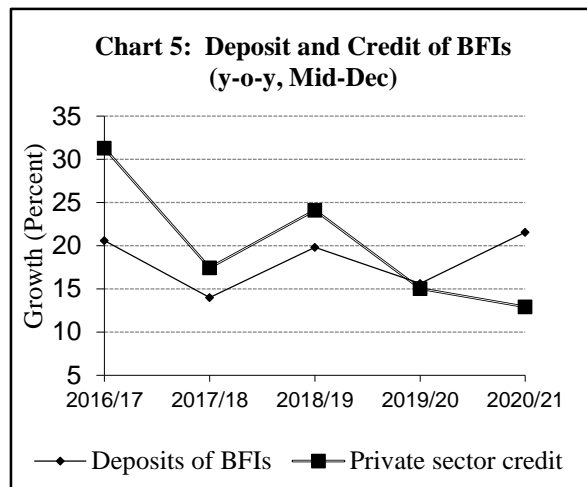
<sup>#</sup> After excluding previous year's recovery.

33. Reserve money decreased 5.5 percent in the review period compared to the decrease of 2.7 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 23.1 percent in mid-December 2020.

### Domestic Credit

34. Domestic credit increased 6 percent in the review period compared to the growth of 3.5 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 16.3 percent in mid-December 2020.

35. Monetary Sector's claims on private sector increased 7.9 percent in the review period compared to a growth of 7.3 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 13.1 percent in mid-December 2020.



### Deposit Mobilization

36. Deposits at Banks and Financial Institutions (BFIs) increased 6.5 percent in the review period compared to a growth of 4 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 21.6 percent in mid-December 2020.

37. The share of demand, saving, and fixed deposits in total deposits stands at 8.1 percent, 33.1 percent and 50.0 percent respectively in mid-December 2020. Such shares were 8.1 percent, 32.0 percent and 49.1 percent respectively a year ago.

Deposits	Mid-Jul				Mid-Dec	
	2017	2018	2019	2020	2019	2020
Demand	8.7	9.3	9.7	10.0	8.1	8.1
Saving	35.4	34.5	32.8	31.9	32.0	33.1
Fixed	43.2	44.8	46.3	48.6	49.1	50.0
Other	12.7	11.3	11.3	9.4	10.8	8.8

38. The share of institutional deposits in total deposit of BFIs stands at 42.7 percent in mid-December 2020. Such share was 45.4 percent in mid-December 2019.

### Credit Disbursement

39. Private sector credit from BFIs increased 7.1 percent in the review period compared to a growth of 6.2 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 12.9 percent in mid-December 2020.

40. In the review period, private sector credit from commercial banks, development banks and finance companies increased 7.0 percent, 9.0 percent and 0.4 percent respectively.

41. In the review period, out of the total outstanding credit of the BFIs, 66.3 percent is against the collateral of land and building and 12.1 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 64.7 percent and 13.6 percent respectively a year ago.

42. Outstanding loan of BFIs to agriculture sector increased 12 percent, industrial production sector increased 3 percent, construction sector increased 3.7 percent, transportation, communication and public sector increased 5.6 percent, wholesale and retail sector increased 5.9 percent and service industry sector increased 9.2 percent in the review period.

43. In the review period, term loan extended by BFIs increased 7.1 percent, overdraft increased 6.8 percent, demand and working capital loan increased 9.9 percent, real estate loan (including residential personal home loan) increased 2.6 percent, margin nature loan increased 34.6 percent, trust receipt (import) loan increased 1.6 percent while that of hire purchase loan decreased 3.3 percent.

### **Liquidity Management**

44. In the review period, NRB mopped up Rs.161.80 billion liquidity including Rs.60 billion through reverse repo auction and Rs.101.80 billion through deposit collection instrument. Rs.30 billion liquidity was mopped up in the corresponding period of the previous year. Rs.90.07 billion liquidity was injected including Rs.39.52 billion through repo and Rs.50.55 billion through standing liquidity facility (SLF) in the corresponding period of the previous year.

45. In the review period, NRB injected liquidity of Rs.221.84 billion through the net purchase of USD 1.87 billion from foreign exchange market. Liquidity of Rs.161.58 billion was injected through the net purchase of USD 1.42 billion in the corresponding period of the previous year.

46. The NRB purchased Indian currency (INR) equivalent to Rs.191.96 billion through the sale USD 1.62 billion in the review period. INR equivalent to Rs.197.59 billion was purchased through the sale of USD 1.74 billion in the corresponding period of previous year.

### **Refinance and Concessional Loan**

47. The outstanding amount of refinance provided by NRB is Rs.24.11 billion in mid-December 2020.

48. As of mid-December 2020, Rs. 50.07 billion refinance to 40,983 borrowers has been approved by NRB in the category of bulk refinance under the provision of "Refinance Procedure, 2020". Likewise, Rs. 20.71 billion refinance has been approved to 151 borrowers under the category of client evaluation.

49. As of mid-December 2020, the outstanding concessional loan is Rs.86.30 billion extended to 52,048 borrowers. Of which, Rs.68.69 billion has been extended to 30,807 borrowers for selected agriculture and livestock businesses, whereas concessional loan to other sectors has been disbursed Rs.17.61 billion to 21,241 beneficiaries.

### **Inter-bank Transaction**

50. In the review period, BFIs did interbank transactions Rs.207.09 billion including inter-bank transactions among commercial banks Rs.128.53 billion and among other financial institutions (excluding transactions among commercial banks) Rs.78.56 billion. In the corresponding period of previous year, such transaction was Rs.872.05 billion including Rs 797.90 billion among commercial banks and Rs.74.16 billion among other financial institutions (excluding transactions among commercial banks).

### **Interest Rates**

51. The weighted average 91-day treasury bills rate remained at 0.60 percent in mid-December 2020, which was 1.64 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 0.78 percent a year ago, decreased to 0.10 percent in mid-December 2020. The average inter-bank rate of BFIs which is considered as operating target of monetary policy, stood 0.13 percent in mid-December 2020.

52. The average base rate of commercial banks decreased to 7.36 percent in mid-December 2020 from 9.46 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 5.14 percent and 9.37 percent respectively in mid-December 2020. Such rates were 6.80 percent and 11.93 percent respectively a year ago.

### Merger and Acquisition

53. After introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 211. Out of which, the license of 159 BFIs was revoked thereby forming 52 BFIs.

### Financial Access

54. Of the total 753 local levels, commercial banks extended their branches at 749 levels as of mid-December 2020. The number of local levels having commercial bank branches was 743 a year ago (Table 3).

Province	No. of Local Levels	Local Levels having Bank Branches		Local bodies in the process of having bank branch	
		mid-Dec 2019	mid-Dec 2020	District	Rural Municipality
Province 1	137	136	136	Taplejung	Mikkwakhola
Province 2	136	135	136	-	-
Bagmati	119	117	118	Dhading	Rubi Valley
Gandaki	85	84	85	-	-
Lumbini	109	109	109	-	-
Karnali	79	78	78	Jajarkot	Junichande
Sudur Paschim	88	84	87	Bajhang	Kanda
<b>Total</b>	<b>753</b>	<b>743</b>	<b>749</b>	<b>4</b>	<b>4</b>

55. The total number of BFIs licensed by NRB decreased to 144 in mid-December 2020 (Table 4). As of mid-December 2020, 27 commercial banks, 19 development banks, 21 finance companies, 76 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 10,086 in mid-December 2020 from 9765 in mid-July 2020.

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	Mid-July 2019	Mid-July 2020	Mid-December 2020	Mid-July 2019	Mid-July 2020	Mid-December 2020
Commercial Banks	28	27	27	3585	4436	4585
Development Banks	29	20	19	1267	1029	1032
Finance Companies	23	22	21	205	243	253
Microfinance Financial Institutions	90	85	76	3629	4057	4216
Infrastructure Development Bank	1	1	1	-	-	-
<b>Total</b>	<b>171</b>	<b>155</b>	<b>144</b>	<b>8,686</b>	<b>9,765</b>	<b>10,086</b>

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

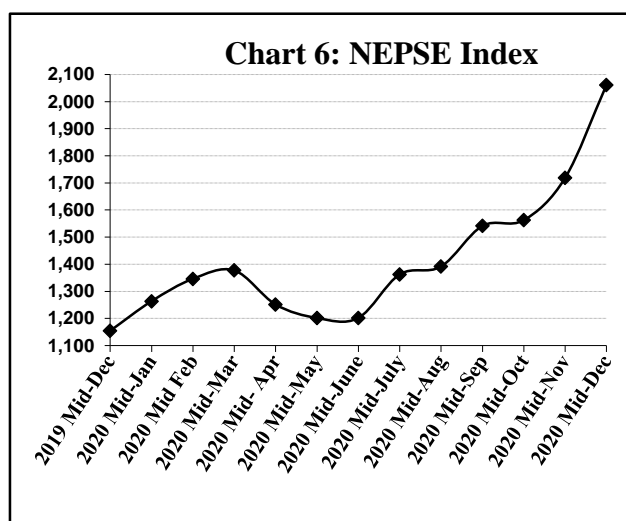


## Capital Market

56. NEPSE index stood at 2061.4 in mid-Dec 2020 compared to 1154.1 in mid-Dec 2019. Such index was 1362.4 in mid-July 2020.

57. Stock market capitalization in mid-Dec 2020 stood Rs.2763.66 billion compared to Rs.1792.76 billion in mid-July 2020.

58. Number of companies listed at NEPSE stood 212, out of which 144 are Bank and Financial Institutions (BFIs) and insurance companies, 35 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 71.1 percent. Such share for hydropower companies is 6.5 percent, manufacturing and processing industries 4.2 percent, hotels 1.0 percent, trading companies 0.4 percent and the share of other sector companies is 16.7 percent.

60. The paid-up value of 5 billion and 6.1 million unit shares listed at NEPSE stood Rs.491.24 billion in mid-Dec 2020.

61. Securities worth Rs.177.37 billion were listed at NEPSE during the first five months of 2020/21. Such securities comprise government development bond worth Rs.150 billion, ordinary share worth Rs.11.41 billion, bonus shares worth Rs.5.8 billion, debenture worth Rs.7 billion, right share worth Rs.2.5 billion and mutual fund worth Rs.653 million.

62. Securities Board of Nepal approved the total issuance of securities worth Rs.8.1 billion which includes debentures worth Rs.5.04 billion, ordinary share worth Rs.2.02 billion, right share worth Rs.533.7 million and mutual fund worth Rs.500 million in the review period.

## Electronic Payment Transaction

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

## **Impact of COVID-19**

64. The economy affected due to COVID-19 from mid-March 2020, has started to improve. The imports of industrial raw materials, fuels, capital goods among others has started to increase (Table 60a and 60b).
65. The survey conducted by NRB during mid-Nov – mid-Dec 2020 on the impact of COVID-19 on the economy, also shows that the economy is gradually recovering. The survey conducted during mid-June – mid-July, 2020 had shown that 4 percent of industries/businesses were fully operational whereas the latest survey has shown that 54 percent of industries/businesses are fully operational. Similarly, the production/transaction level of industries/businesses compared to the pre-COVID period has reached 50 percent as per the latest survey compared to 29 percent in mid-June – mid-July.