

Current Macroeconomic and Financial Situation of Nepal

(Based on Four Month's Data Ending Mid-November, 2020/21)

Major Highlights

- Inflation remained 4.05 percent on y-o-y basis.
- Imports decreased 10.6 percent and exports increased 10.8 percent.
- Remittances increased 11.2 percent in NPR terms and 6.4 percent in USD terms.
- Balance of Payments remained at a surplus of Rs.110.65 billion.
- Gross foreign exchange reserves stood at USD 12.65 billion.
- Federal Government spending amounted to Rs.250.41 billion and revenue collection Rs.240.15 billion.
- Broad money (M2) expanded 6.4 percent. On y-o-y basis, M2 expanded 21.9 percent.
- Deposits at BFIs increased 5 percent and claims on private sector increased 5.4 percent. On y-o-y basis, deposits increased 20.8 percent and claims on private sector 12.3 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 4.05 percent in the fourth month of 2020/21 compared to 5.76 percent a year ago. Food and beverage inflation stood at 5.73 percent whereas non-food and service inflation stood at 2.75 percent in the review month.
2. The price of vegetables sub-group rose 20.88 percent and pulses and legumes sub-group rose 13.70 percent on y-o-y basis.
3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 3.39 percent, 4.69 percent, 3.64 percent and 4.32 percent inflation respectively. These regions had witnessed 6.50 percent, 6.04 percent, 4.56 percent and 4.01 percent inflation respectively a year ago.

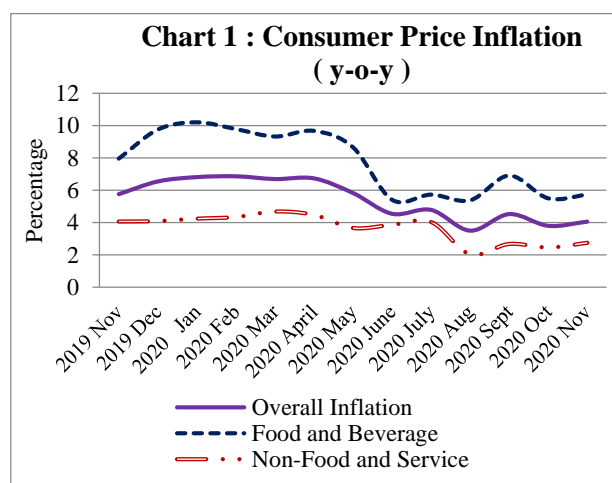


Table 1: y-o-y Consumer Price Inflation (Percent)

| Mid-Month | | | |
|----------------------|--------------|---------------|--------------|
| Particulars | Oct/Nov 2019 | Sept/Oct 2020 | Oct/Nov 2020 |
| Overall Inflation | 5.76 | 3.79 | 4.05 |
| Food and Beverage | 7.96 | 5.50 | 5.73 |
| Non-food and Service | 4.07 | 2.46 | 2.75 |

Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 9.41 percent in the review month compared to 7.57 percent a year ago.
- The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 7.72 percent, 11.48 percent and 3.45 percent respectively. The wholesale price of construction materials dropped 0.19 percent in the review month.

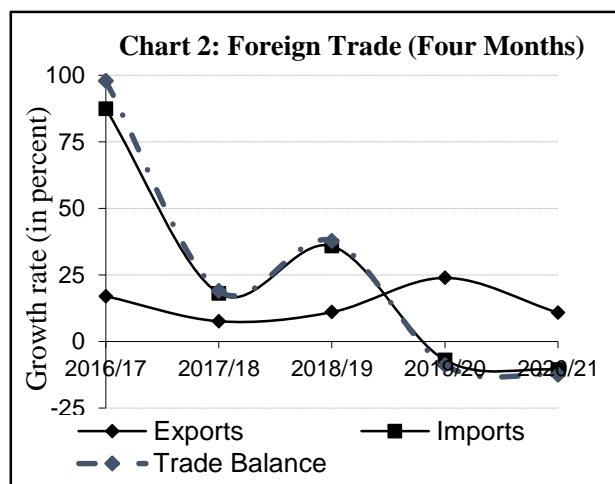
Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 0.85 percent in the review month. Such growth rate was 10.46 percent a year ago. In the review month, wage rate index increased 1.10 percent.

External Sector

Merchandise Trade

- In four months of 2020/21, merchandise exports increased 10.8 percent to Rs.40.20 billion compared to an increase of 23.9 percent in the same period of the previous year. Destination-wise, exports to India and other countries increased 14.9 percent and 6.5 percent respectively whereas exports to China decreased 59.2 percent. Exports of cardamom, jute goods, polyester yarn and threads, noodles, and medicine (ayurvedic) among others increased whereas exports of palm oil, pulses, zinc sheet, handicrafts, and skin among others decreased in the review period.



- In four months of 2020/21, merchandise imports decreased 10.6 percent to Rs.402.49 billion compared to a decrease of 6.9 percent a year ago. Destination-wise, imports from India, China and other countries decreased 3.1 percent, 25.0 percent, and 19.8 percent respectively. Imports of rice, crude soyabean oil, telecommunication equipment and parts, edible oil, and medical equipments and parts among others increased whereas imports of petroleum products, aircraft spareparts, transport equipment and parts, crude palm oil and other machinery and parts among others decreased in the review period.
- Based on customs points, exports from Dry Port, 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, and Kailali Customs Offices in the review period.
- Total trade deficit narrowed down 12.5 percent to Rs.362.29 billion in four months of 2020/21. Such deficit had contracted 8.9 percent in the same period of the previous year. The export-import ratio increased to 10.0 percent in the review period from 8.1 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 0.9 percent and the import price index decreased 4.2 percent in the fourth month of 2020/21. The terms of trade (ToT) index increased 5.3 percent in the review month compared to an increase of 5.9 percent a year ago.

Services

12. Net services income remained at a deficit of Rs.15.64 billion in the review period compared to a deficit of Rs.2.49 billion in the same period of the previous year.
13. Under the service account, travel income decreased 93.1 percent to Rs.1.88 billion in the review period which was Rs.27.14 billion in the same period of the previous year.
14. Under the service account, travel payments decreased 68.6 percent to Rs.8.03 billion, including Rs.6.80 billion for education. Such payments were Rs.25.59 billion and Rs.12.11 billion respectively in the same period of the previous year.

Remittances

15. Remittance inflows increased 11.2 percent to Rs.337.72 billion in the review period against a decrease of 2.8 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 6.4 percent to 2.85 billion in the review period against a decrease of 1.9 percent in the same period of the previous year.
16. Number of Nepali workers (institutional and individual-new and legalized) taking approval for foreign employment decreased 75.8 percent to 19251 in the review period. It had increased 5.6 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 67.9 percent to 25931 in the review period. It had increased 9.1 percent in the same period of the previous year.
17. Net transfer increased 8.8 percent to Rs.373.04 billion in the review period. Such transfer had decreased 2.9 percent in the same period of the previous year.

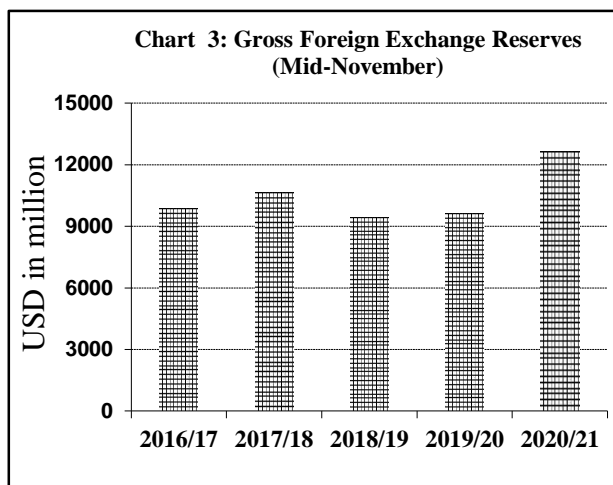
Current Account and Balance of Payments

18. The current account remained at a surplus of Rs.20.46 billion in the review period against a deficit of Rs.34.12 billion in the same period of the previous year. In the US Dollar terms, the current account recorded a surplus of 170.8 million in the review period against a deficit of 300.8 million in the same period of the previous year.
19. In the review period, capital transfer decreased 9.3 percent to Rs.4.15 billion and net foreign direct investment (FDI) decreased 23.9 percent to Rs.3.75 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.4.57 billion and Rs.4.92 billion respectively.
20. Balance of Payments (BOP) registered a surplus of Rs.110.65 billion in the review period. Such surplus was Rs.27.29 billion in the same period of the previous year. In the US Dollar terms, the BOP recorded a surplus of 931.7 million in the review period compared to a surplus of 240.8 million in the same period of the previous year.

Foreign Exchange Reserves

21. Gross foreign exchange reserves increased 7.4 percent to Rs.1506.06 billion in mid-November 2020 from Rs.1401.84 billion in mid-July 2020. In the US Dollar terms, the gross foreign exchange reserves increased 8.6 percent to 12.65 billion in mid-November 2020 from 11.65 billion in mid-July 2020.

22. Of the total foreign exchange reserves, reserves held by NRB increased 8.6 percent to Rs.1332.06 billion in mid-November 2020 from Rs.1226.12 billion in mid-July 2020. Reserves held by banks and financial institutions (except NRB) decreased 1.0 percent to Rs.173.99 billion in mid-November 2020 from Rs.175.71 billion in mid-July 2020. The share of Indian currency in total reserves stood at 23.2 percent in mid-November 2020.



Foreign Exchange Adequacy Indicators

23. Based on the imports of four months of 2020/21, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 15.4 months, and merchandise and services imports of 14.0 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 40.0 percent, 116.3 percent and 33.4 percent respectively in mid-November 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 34.4 percent to US Dollar 41.51 per barrel in mid-November 2020 from US Dollar 63.32 per barrel a year ago. The price of gold increased 28.9 percent to US Dollar 1890.90 per ounce in mid-November 2020 from US Dollar 1466.90 per ounce a year ago.

Exchange Rate

25. Nepalese currency vis-à-vis the US Dollar appreciated 1.1 percent in mid-November 2020 from mid-July 2020. It had depreciated 4.5 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.119.07 in mid-November 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.10.23 billion in the review period compared to a surplus of Rs.65.92 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.250.41 billion. Such expenditure was Rs.219.17 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.240.15 billion. Total government revenue was Rs.275.02 billion in the corresponding period of the previous year.

Cash Balance

29. Balance at various accounts of the GoN maintained with NRB remained Rs.220.98 billion (including Provincial government and Local Authorities Account) in mid-November 2020.

Provincial Government

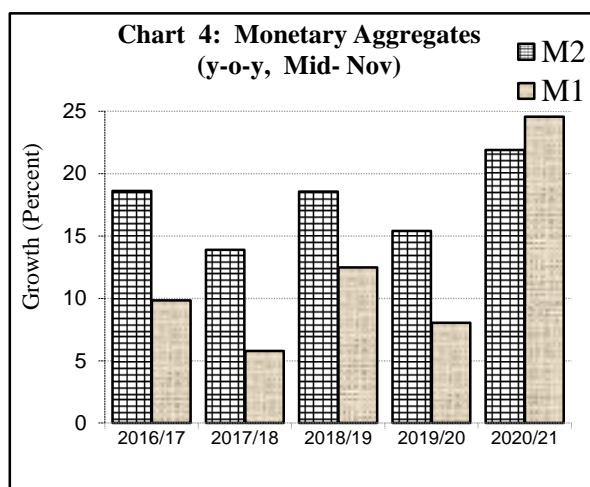
30. In the review period, total resource mobilization of provincial governments was Rs.40.90 billion. The federal government transferred Rs.29.90 billion as grants and revenue from divisible fund to provincial governments and the provincial governments have mobilized Rs.10.99 billion in terms of revenue and other receipts in the review period.

Monetary Situation

Money Supply

31. Broad money (M2) expanded 6.4 percent in the review period compared to the growth of 3.1 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 21.9 percent in mid-November 2020.

32. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs.110.65 billion (8.3 percent) in the review period compared to an increase of Rs.27.29 billion (2.8 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.

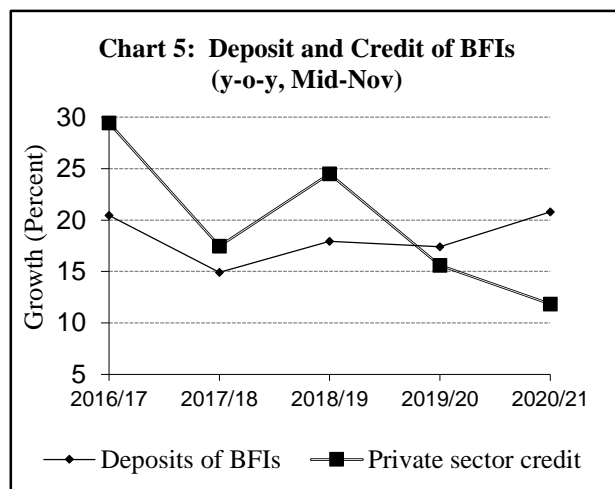
[#] After excluding previous year's recovery.

33. Reserve money increased 5.5 percent in the review period compared to the contraction of 1.1 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 35.2 percent in mid-November 2020.

Domestic Credit

34. Domestic credit increased 4.4 percent in the review period compared to the growth of 2.5 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 15.7 percent in mid-November 2020.

35. Monetary Sector's claims on private sector increased 5.4 percent in the review period compared to a growth of 5.7 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 12.3 percent in mid-November 2020.



Deposit Mobilization

36. Deposits at Banks and Financial Institutions (BFIs) increased 5 percent in the review period compared to a growth of 3.1 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 20.8 percent in mid-November 2020.

37. The share of demand, saving, and fixed deposits in total deposits stands at 7.9 percent, 33.4 percent and 50.1 percent respectively in mid-November 2020. Such shares were 7.7 percent, 32.5 percent and 48.7 percent respectively a year ago.

| Deposits | Mid-Jul | | | | Mid-Nov | |
|----------|---------|------|------|------|---------|------|
| | 2017 | 2018 | 2019 | 2020 | 2019 | 2020 |
| Demand | 8.7 | 9.3 | 9.7 | 10.0 | 7.7 | 7.9 |
| Saving | 35.4 | 34.5 | 32.8 | 31.9 | 32.5 | 33.4 |
| Fixed | 43.2 | 44.8 | 46.3 | 48.6 | 48.7 | 50.1 |
| Other | 12.7 | 11.3 | 11.3 | 9.4 | 11.1 | 8.6 |

38. The share of institutional deposits in total deposit of BFIs stands at 42.7 percent in mid- November 2020. Such share was 44.7 percent in mid- November 2019.

Credit Disbursement

39. Private sector credit from BFIs increased 4.9 percent in the review period compared to a growth of 5 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 11.8 percent in mid- November 2020.

40. In the review period, private sector credit from commercial banks and development banks increased 4.9 percent and 6.3 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, 66.2 percent is against the collateral of land and building and 12.4 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 64.5 percent and 13.6 percent respectively a year ago.

42. Outstanding loan of BFIs to agriculture sector increased 7.4 percent, industrial production sector increased 1.6 percent, construction sector increased 3.1 percent, transportation, communication and

public sector increased 5.5 percent, wholesale and retail sector increased 4.7 percent and service industry sector increased 7.6 percent in the review period.

43. In the review period, term loan extended by BFIs increased 5.7 percent, overdraft increased 4.3 percent, demand and working capital loan increased 7.6 percent, real estate loan (including residential personal home loan) increased 3.8 percent and margin nature loan increased 21.6 percent while that of trust receipt (import) loan decreased 2.8 percent and hire purchase loan decreased 3.3 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.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.201.06 billion through the net purchase of USD 1.70 billion from foreign exchange market. Liquidity of Rs.136.56 billion was injected through the net purchase of USD 1.20 billion in the corresponding period of the previous year.
46. The NRB purchased Indian currency (INR) equivalent to Rs.144.69 billion through the sale USD 1.22 billion in the review period. INR equivalent to Rs.160.96 billion was purchased through the sale of USD 1.42 billion in the corresponding period of previous year.

Refinance and Concessional Loan

47. The outstanding amount of refinance provided by this bank is Rs.5.96 billion in mid-November 2020. Of which, general refinance of Rs.5.07 billion and earthquake victim refinance of Rs.900 million was availed.
48. As of mid-November 2020, the outstanding concessional loan is Rs.79.75 billion extended to 46,343 borrowers. Of which, Rs.65.30 billion has been extended to 28,768 borrowers for selected agriculture and livestock businesses, whereas concessional loan to other sectors has been disbursed Rs.14.45 billion to 17,575 beneficiaries.

Inter-bank Transaction

49. In the review period, BFIs did interbank transactions equal to Rs.133.08 billion including inter-bank transactions among commercial banks equal to Rs.71.88 billion and among other financial institutions (excluding transactions among commercial banks) equal to Rs.61.20 billion. In the corresponding period of previous year, such transaction was Rs.755.25 billion including Rs 697.02 billion among commercial banks and Rs.58.23 billion among other financial institutions (excluding transactions among commercial banks).

Interest Rates

50. The weighted average 91-day treasury bills rate remained at 0.79 percent in mid-November 2020, which was 3.83 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 2.59 percent a year ago, decreased to 0.14 percent in mid-November 2020. The average inter-bank rate of BFIs which is considered as operating target of monetary policy, stood 0.16 percent in mid-November 2020.

51. The average base rate of commercial banks decreased to 7.57 percent in mid-November 2020 from 9.50 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 5.31 percent and 9.52 percent respectively in mid- November 2020. Such rates were 6.81 percent and 12.07 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-November 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 bank branch | |
|---------------|---------------------|-----------------------------------|--------------|---|------------------------|
| | | mid-Nov 2019 | mid-Nov 2020 | District | Rural Municipality |
| Province 1 | 137 | 136 | 136 | Taplejung | Mikkwakhola |
| 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-November 2020 (Table 4). As of mid-November 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 9,937 in mid-November 2020 from 9765 in mid-July 2020.

| Bank and Financial Institutions | Number of BFIs | | | Branches of BFIs | | |
|-------------------------------------|----------------|---------------|-------------------|------------------|---------------|-------------------|
| | Mid-July 2019 | Mid-July 2020 | Mid-November 2020 | Mid-July 2019 | Mid-July 2020 | Mid-November 2020 |
| Commercial Banks | 28 | 27 | 27 | 3585 | 4436 | 4541 |
| Development Banks | 29 | 20 | 19 | 1267 | 1029 | 1026 |
| Finance Companies | 23 | 22 | 21 | 205 | 243 | 252 |
| Microfinance Financial Institutions | 90 | 85 | 78 | 3629 | 4057 | 4118 |
| Infrastructure Development Bank | 1 | 1 | 1 | - | - | - |
| Total | 171 | 155 | 146 | 8686 | 9765 | 9937 |

*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).

| Particulars | No. of Transaction | | | | | Total Amount (NPR in Million) | | | | |
|----------------------|--------------------|--------------|--------------|--------------|--------------|-------------------------------|--------------|--------------|--------------|--------------|
| | Mid-Jul 2020 | Mid-Aug 2020 | Mid-Sep 2020 | Mid-Oct 2020 | Mid-Nov 2020 | Mid-Jul 2020 | Mid-Aug 2020 | Mid-Sep 2020 | Mid-Oct 2020 | Mid-Nov 2020 |
| RTGS* | 37297 | 34616 | 28137 | 41385 | 34765 | 1567959 | 1213870 | 835526 | 1406545 | 1108297 |
| ATM-Cash Withdrawal | 6302846 | 4769340 | 3797969 | 5388502 | 6016320 | 54763 | 38393 | 32320 | 46785 | 55490 |
| ECC | 1260169 | 1039330 | 677845 | 1061661 | 877695 | 792007 | 657113 | 402477 | 687075 | 545185 |
| IPS | 596538 | 347854 | 656142 | 1077322 | 654918 | 223651 | 156360 | 153073 | 234498 | 170810 |
| ConnectIPS | 696447 | 633134 | 895586 | 1259291 | 1028037 | 51306 | 47367 | 61958 | 88979 | 73594 |
| Debit Cards | 3316554 | 5426368 | 4118182 | 5952693 | 6650567 | 25894 | 41787 | 33667 | 49109 | 58472 |
| Credit Cards | 119610 | 154698 | 76317 | 128460 | 141333 | 584 | 708 | 407 | 760 | 816 |
| Prepaid Cards | 5249 | 8986 | 4587 | 7706 | 5760 | 36 | 57 | 30 | 58 | 60 |
| Internet Banking | 653459 | 205735 | 208934 | 275933 | 221405 | 19048 | 3082 | 4741 | 6314 | 5436 |
| Mobile Banking | 5817681 | 5923411 | 5961339 | 7850154 | 7643296 | 18839 | 18393 | 20340 | 28804 | 25654 |
| Branchless Banking | 83249 | 53350 | 37344 | 47650 | 48454 | 1338 | 1042 | 815 | 1066 | 1009 |
| Wallet | 10179557 | 10177889 | 9415447 | 10175962 | 9749707 | 10222 | 7579 | 7339 | 9883 | 8592 |
| QR-Based Payments | - | 195016 | 179150 | 265125 | 241818 | - | 589 | 648 | 969 | 939 |
| Point of Sales (POS) | - | 532911 | 314110 | 586731 | 668319 | - | 1858 | 1223 | 2349 | 3038 |
| E-Commerce** | - | 168627 | 87007 | 113052 | 112706 | - | 1201 | 561 | 794 | 820 |

* Transaction amount of mid-Jul and mid-Aug 2020 are revised.

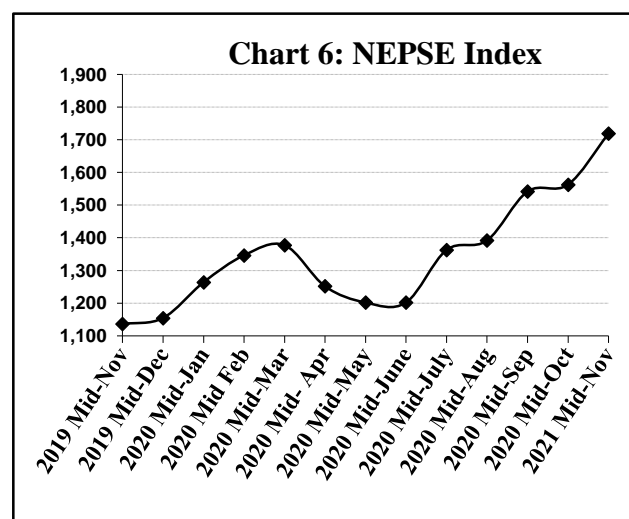
**Online payment using cards

Capital Market

56. NEPSE index stood at 1718.5 points in mid-Nov 2020 compared to 1136 points in mid-Nov 2019. Such index was 1362.4 in mid-July 2020.

57. Stock market capitalization in mid-Nov 2020 stood Rs.2302.76 billion compared to Rs.1792.76 billion in mid-Jul 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 73.3 percent. Such share for hydropower companies is 6.6 percent, manufacturing and processing industries 3.6 percent, hotels 1.1 percent, trading companies 0.5 percent and the share of other sector companies is 15 percent.
60. The paid-up value of 4.94 billion listed shares at NEPSE stood Rs.484.80 billion in mid-Nov 2020.
61. Securities worth Rs.121.65 billion were listed at NEPSE during the four month of 2020/21. Such securities comprise government development bond worth Rs.100 billion, ordinary share worth Rs.9.45 billion, bonus shares worth Rs.5.53 billion, debenture worth Rs.4 billion, right share worth Rs.2.02 billion and mutual fund worth Rs.653 million.
62. Securities Board of Nepal approved the total issuance of securities worth Rs.5.41 billion which includes debentures worth Rs.3.44 billion, ordinary share worth Rs.938.6 million ,right share worth Rs.533.7 million and mutual fund worth Rs.500 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 real sector, external trade, revenue mobilization, capital spending and credit expansion. (Table-59a)
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 started to increase since Aug-Sept. (Table-59b)