



Nepal Rastra Bank

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Current Macroeconomic and Financial Situation of Nepal

(Based on Nine Months' Data Ending Mid-Apr, 2021/22)

Major Highlights

- *CPI-based Inflation remained 7.28 percent on y-o-y basis.*
- *Imports increased 32.0 percent and exports increased 69.4 percent.*
- *Remittances decreased 0.6 percent in NPR terms and 2.2 percent in USD terms.*
- *Balance of Payments remained at a deficit of Rs.268.26 billion.*
- *Gross foreign exchange reserves stood at USD 9.61 billion.*
- *Federal Government spending amounted to Rs.794.26 billion and revenue collection Rs.789.26 billion.*
- *Broad money (M2) increased 3.5 percent. On y-o-y basis, M2 increased 10.4 percent.*
- *Deposits at BFIs increased 5.1 percent and private sector credit increased 13.5 percent. On y-o-y basis, deposits increased 12.2 percent and private sector credit 17.8 percent.*

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 7.28 percent in the ninth month of 2021/22 compared to 3.10 percent a year ago. Food and beverage inflation stood at 7.40 percent whereas non-food and service inflation stood at 7.18 percent in the review month. Average inflation remained 5.62 percent during the review period.
2. Under the food and beverage category, the prices of ghee & oil, milk products & eggs, pulses & legumes, and tobacco products sub-categories rose by 28.36 percent, 11.56 percent, 10.53 and 8.91 percent respectively on y-o-y basis. Likewise, under the non-food and services category, the prices of transportation, education, and miscellaneous goods & services sub-categories rose by 20.16 percent, 8.79 percent and 8.17 percent respectively on y-o-y basis.

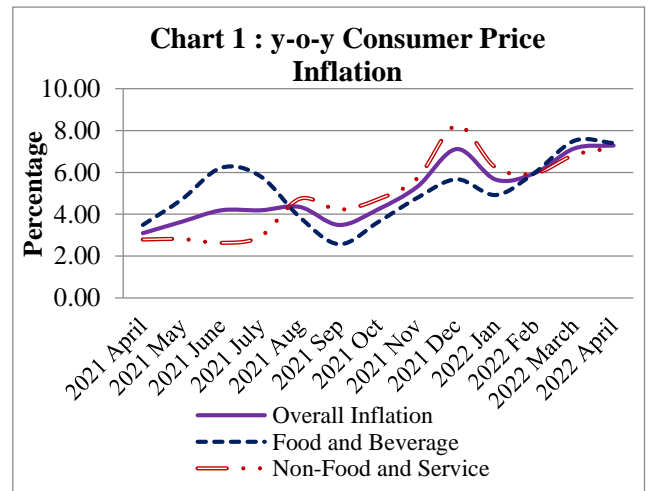


Table 1: y-o-y Consumer Price Inflation (Percent)

Particulars	Mid-Month		
	Mar/Apr 2021	Feb/Mar 2022	Mar/Apr 2022
Overall Inflation	3.10	7.14	7.28
<i>Food and Beverage</i>	<i>3.49</i>	<i>7.51</i>	<i>7.40</i>
<i>Non-food and Service</i>	<i>2.79</i>	<i>6.84</i>	<i>7.18</i>

- In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 6.25 percent, 7.61 percent, 7.79 percent and 8.25 percent inflation respectively. Inflation in these regions was 3.24 percent, 2.92 percent, 3.38 percent and 1.54 percent respectively a year ago.

Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 14.42 percent in the review month compared to 6.14 percent a year ago.
- The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 17.07 percent, 14.13 percent and 7.22 percent respectively. The y-o-y wholesale price of construction materials increased 25.22 percent in the review month.

Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 8.52 percent in the review month. Such a growth was 1.89 percent a year ago. In the review month, salary index and wage rate index increased 9.44 and 8.27 percent respectively.

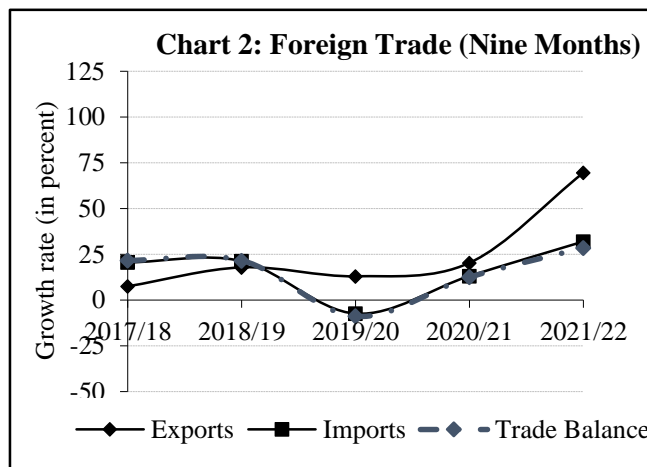
Inflation in Nepal and India

- In the ninth month of 2020/21, the y-o-y consumer price inflation in Nepal remained 7.28 percent. Such inflation in India was 6.95 percent in March 2022.

External Sector

Merchandise Trade

- During the nine months of 2021/22, merchandise exports increased 69.4 percent to Rs.160.57 billion compared to an increase of 20.2 percent in the same period of the previous year. Destination-wise, exports to India and other countries increased 86.9 percent and 25.5 respectively whereas exports to China decreased 21.8 percent. Exports of palm oil, soyabean oil, polyester yarn and thread, woolen carpets, oil cakes, among others, increased whereas exports of cardamom, tea, wire, toothpaste, copper wire rod, among others, decreased in the review period.



- During the nine months of 2021/22, merchandise imports increased 32.0 percent to Rs.1466.66 billion compared to an increase of 13.1 percent a year ago. Destination-wise, imports from India, China and other countries increased 24.4 percent, 28.6 percent, and 59.2 percent respectively. Imports of petroleum products, medicine, crude palm oil, other machinery and parts, gold, among others, increased whereas imports of M.S. billet, chemical fertilizer, cement, pulses, molasses sugar, among others, decreased in the review period.
- Based on customs points, exports from Kanchanpur and Mechi Customs Office decreased whereas exports from all the other major customs points increased in the review period. On the import side, imports from all the major customs points increased in the review period.

11. Total trade deficit increased 28.5 percent to Rs.1306.09 billion during the nine months of 2021/22. Such a deficit had increased 12.5 percent in the corresponding period of the previous year. The export-import ratio increased to 10.9 percent in the review period from 8.5 percent in the corresponding period of the previous year.
12. During the nine months of 2021/22, merchandise imports from India by paying convertible foreign currency amounted Rs.167.53 billion. Such amount was Rs.139.28 billion in the same period of the previous year.

Composition of Foreign Trade

13. As per the Broad Economic Categories (BEC), the intermediate and final consumption goods accounted for 47.2 percent and 52.7 percent of the total exports respectively, whereas the ratio of capital goods in total exports remained negligible in the review period. In the same period of the previous year, the ratio of intermediate, capital and final consumption goods remained 31.8 percent, 0.5 percent and 67.7 percent of total exports respectively.
14. On the imports side, the share of intermediate goods remained 53.2 percent, capital goods 10.5 percent and final consumption goods remained 36.3 percent in the review period. Such ratios were 53.4 percent, 11.7 percent and 34.8 percent respectively in the same period of the previous year.

Export-Import Price Index

15. The y-o-y unit value export price index, based on customs data, increased 9.9 percent and the import price index increased 17.6 percent in the ninth month of 2021/22. The terms of trade (ToT) index decreased 6.5 percent in the review month compared to a decrease of 3.2 percent a year ago.

Services

16. Net services income remained at a deficit of Rs.80.35 billion in the review period compared to a deficit of Rs.53.26 billion in the same period of the previous year.
17. Under the service account, travel income increased 232.3 percent to Rs.18.47 billion in the review period which was Rs.5.56 billion in the same period of the previous year.
18. Under the service account, travel payments increased 130.5 percent to Rs.61.89 billion, including Rs.43.67 billion for education. Such payments were Rs.26.85 billion and Rs.21.17 billion respectively in the same period of the previous year.

Remittances

19. Remittance inflows decreased 0.6 percent to Rs.724.74 billion in the review period against an increase of 16.5 percent in the same period of the previous year. In the US Dollar terms, remittance inflows decreased 2.2 percent to 6.05 billion in the review period against an increase of 13.1 percent in the same period of the previous year.
20. Number of Nepali workers (institutional and individual-new and legalized) taking approval for foreign employment increased significantly to 256,031 in the review period. It had decreased 74.9 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment increased 199.9 percent to 206,629 in the review period. It had decreased 60.7 percent in the same period of the previous year.

21. Net transfer decreased 0.7 percent to Rs.808.92 billion in the review period. Such a transfer had increased 14.4 percent in the same period of the previous year.

Current Account and Balance of Payments

22. The current account remained at a deficit of Rs.512.71 billion in the review period compared to a deficit of Rs.210.51 billion in the same period of the previous year. In the US Dollar terms, the current account registered a deficit of 4.28 billion in the review period compared to deficit of 1.80 billion in the same period last year.

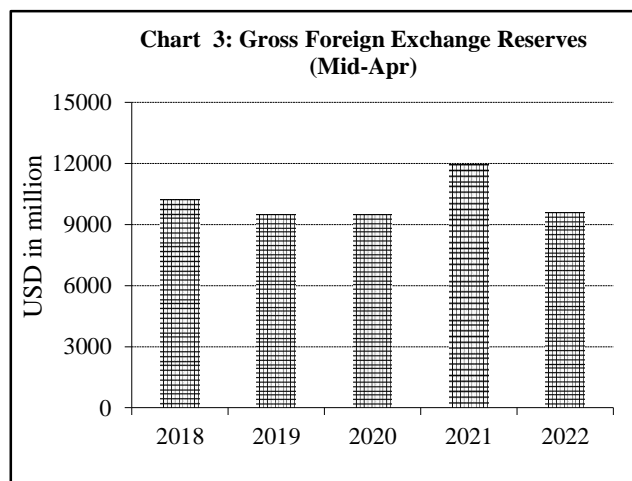
23. In the review period, capital transfer decreased 39.5 percent to Rs.7.78 billion and net foreign direct investment (FDI) increased 33.7 percent to Rs.16.51 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.12.86 billion and Rs.12.35 billion respectively.

24. Balance of Payments (BOP) remained at a deficit of Rs.268.26 billion in the review period against a surplus of Rs.42.54 billion in the same period of the previous year. In the US Dollar terms, the BOP remained at a deficit of 2.25 billion in the review period against a surplus of 348.1 million in the same period of the previous year.

Foreign Exchange Reserves

25. Gross foreign exchange reserves decreased 16.5 percent to Rs.1167.92 billion in mid-April 2022 from Rs.1399.03 billion in mid-July 2021. In the US dollar terms, the gross foreign exchange reserves decreased 18.2 percent to 9.61 billion in mid-April 2022 from 11.75 billion in mid-July 2021.

26. Of the total foreign exchange reserves, reserves held by NRB decreased 17.9 percent to Rs.1021.45 billion in mid-April 2022 from Rs.1244.63 billion in mid-July 2021. Reserves held by banks and financial institutions (except NRB) decreased 5.1 percent to Rs.146.48 billion in mid-April 2022 from Rs.154.39 billion in mid-July 2021. The share of Indian currency in total reserves stood at 24.3 percent in mid-April 2022.



Foreign Exchange Adequacy Indicators

27. Based on the imports of nine months of 2021/22, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 7.4 months, and merchandise and services imports of 6.6 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 24.1 percent, 55.2 percent and 21.9 percent respectively in mid-April 2022. Such ratios were 32.7 percent, 84.7 percent and 27.1 percent respectively in mid-July 2021.

Price of Oil and Gold

28. The price of oil (Crude Oil Brent) in the international market increased 72.7 percent to US dollar 108.49 per barrel in mid-April 2022 from US dollar 62.83 per barrel a year ago. The price of gold increased 13.1 percent to US dollar 1976.75 per ounce in mid-April 2022 from US dollar 1747.95 per ounce a year ago.

Exchange Rate

29. Nepalese currency vis-à-vis the US dollar depreciated 2.04 percent in mid-April 2022 from mid-July 2021. It had appreciated 0.48 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.121.52 in mid-April 2022 compared to Rs.119.04 in mid-July 2021.

Fiscal Situation

Federal Government

Expenditure and Revenue

30. During the nine months of 2021/22, total expenditure of the federal government according to data of Financial Comptroller General Office (FCGO), Ministry of Finance, stood at Rs.794.26 billion. The recurrent expenditure, capital expenditure and financial expenditure amounted to Rs.625.50 billion, Rs.103.79 billion and Rs.64.97 billion respectively in the review period

Particulars	Amount (Rs. in Billion)			Percentage Change	
	2019/20	2020/21	2021/22	2020/21	2021/22
Total Expenditure	675.81	690.47	794.26	2.2	15.0
<i>Recurrent Expenditure</i>	495.43	527.05	625.50	6.4	18.7
<i>Capital Expenditure</i>	105.59	105.84	103.79	0.2	-1.9
<i>Financial Management</i>	74.78	57.59	64.97	-23.0	12.8
Total Revenue	590.64	683.87	789.26	15.8	15.4
<i>Tax Revenue</i>	539.54	636.70	727.79	18.0	14.3
<i>Non-Tax Revenue</i>	51.10	47.17	61.47	-7.7	30.3

Source: Financial Comptroller General Office

31. In the review period, revenue mobilization (including the amount to be transferred to provincial and local governments) stood at Rs.789.26 billion. The tax revenue and non tax revenue amounted Rs.727.79 billion and Rs.61.47 billion respectively in the review period (Table 2).
32. In the review period, federal government mobilized Rs.105.47 billion domestic debt including Rs.50.0 billion treasury bills, Rs.54.50 billion development bonds and Rs 0.97 billion citizen saving certificates.

Cash Balance

33. Balance at various accounts of the GoN maintained with NRB remained Rs.333.08 billion (including Provincial government and Local Authorities Account) in mid-Apr 2022 compared to Rs.200.18 billion in mid-July 2021.

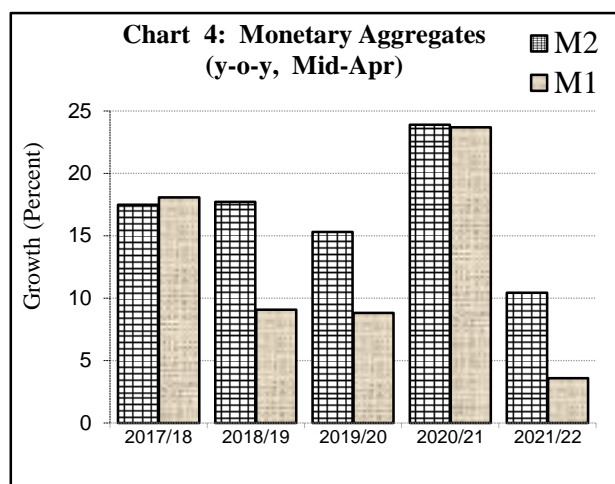
Provincial Government

34. In the review period, total resource mobilization of provincial governments remained Rs.125.53 billion. The federal government transferred Rs.90.04 billion as grants and revenue from federal divisible fund to provincial governments and the provincial governments mobilized Rs.35.48 billion in terms of revenue and other receipts in the review period. In the review period, total expenditure of provincial governments stood at Rs.80.62 billion.

Monetary Situation

Money Supply

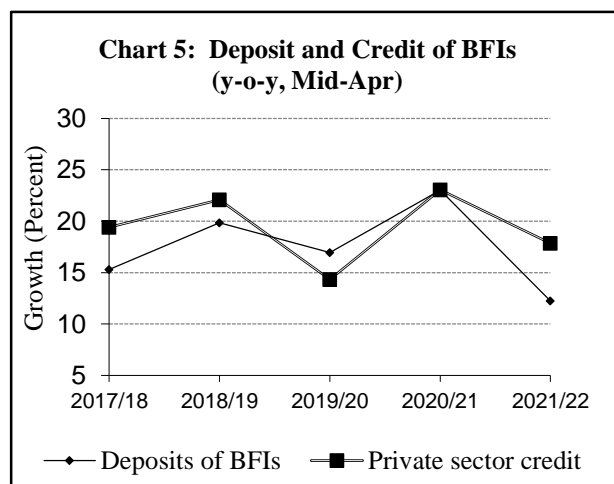
35. Broad money (M2) increased 3.5 percent in the review period compared to a growth of 14.2 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 10.4 percent in mid-April 2022.
36. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) decreased Rs. 268.26 billion (20.1 percent) in the review period in contrast to an increase of Rs.42.54 billion (3.2 percent) in the corresponding period of the previous year.



37. Reserve money decreased 15.3 percent in the review period compared to a decrease of 8.9 percent in the corresponding period of the previous year. On y-o-y basis, reserve money decreased 2.2 percent in mid-April 2022.

Domestic Credit

38. Domestic credit increased 10.7 percent in the review period compared to an increase of 17 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 20.2 percent in mid-April 2022.
39. Monetary Sector's claims on the private sector increased 13.7 percent in the review period compared to an increase of 21.8 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 17.9 percent in mid-April 2022.



Deposit Mobilization

40. Deposits at Banks and Financial Institutions (BFIs) increased 5.1 percent in the review period compared to an increase of 13.7 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 12.2 percent in mid-April 2022.

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

Deposits	Mid-July		Mid-April	
	2020	2021	2021	2022
Demand	10.0	10.4	8.5	8.7
Saving	31.9	34.2	35.1	28.7
Fixed	48.6	47.0	48.2	56.1
Other	9.5	8.4	8.2	6.5

41. The share of demand, saving, and fixed deposits in total deposits stands at 8.7 percent, 28.7 percent and 56.1 percent respectively in mid-April 2022. Such shares were 8.5 percent, 35.1 percent and 48.2 percent respectively a year ago.
42. The share of institutional deposits in total deposit of BFIs stands at 38.6 percent in mid-April 2022. Such a share was 41.7 percent in mid-April 2021.

Credit Disbursement

43. Private sector credit from BFIs increased 13.5 percent in the review period compared to an increase of 22.5 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 17.8 percent in mid-April 2022.
44. In the review period, private sector credit from commercial banks, development banks and finance companies increased 13.1 percent, 14.8 percent and 27.3 percent respectively.
45. In the review period, out of the total outstanding credit of the BFIs, 66.9 percent is against the collateral of land and building and 12.3 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 65.9 percent and 12.3 percent respectively a year ago.
46. Outstanding loan of BFIs to the agriculture sector increased 16.9 percent, industrial production sector 9.7 percent, transportation, communication and public sector 10 percent, wholesale and retail sector 16 percent and service industry sector 7.8 percent in the review period.
47. In the review period, term loan extended by BFIs increased 17.6 percent, overdraft 22.2 percent, demand and other working capital loan 17.3 percent, real estate loan (including residential personal home loan) 11.9 percent and hire purchase loan 4.6 percent while that of trust receipt (import) loan decreased 49.9 percent and margin nature loan 11 percent.

Liquidity Management

48. During the review period, NRB mopped up Rs.60 billion liquidity of which Rs.28.35 billion was through reverse repo auction and Rs.31.65 billion through deposit collection. In the corresponding period of the previous year, it was Rs.303.29 billion liquidity of which Rs.109.54 billion was through reverse repo and Rs. 193.75 billion through deposit collection auction.
49. In the review period, NRB injected Rs.6242.72 billion liquidity of which Rs.413.05 billion was through repo, Rs.55.92 billion through outright purchase and Rs.5773.75 billion through standing liquidity facility (SLF).
50. In the review period, NRB injected liquidity of Rs.203.09 billion through the net purchase of USD 1.68 billion from foreign exchange market. Liquidity of Rs.324.92 billion was injected through the net purchase of USD 2.75 billion in the corresponding period of the previous year.
51. The NRB purchased Indian currency (INR) equivalent to Rs.419.18 billion through the sale of USD 3.50 billion in the review period. INR equivalent to Rs.404.70 billion was purchased through the sale of USD 3.44 billion in the corresponding period of previous year.

Refinance, Concessional Loan and Business Continuity Loan

52. The outstanding amount of refinance provided by NRB remained Rs.116.90 billion in mid-April 2022.

53. As of mid-April 2022, the outstanding concessional loan is Rs.216.06 billion extended to 145,693 borrowers. Of which, Rs.138.84 billion has been extended to 59,931 borrowers for selected commercial agriculture and livestock businesses. Likewise, Rs.73.52 billion loan has been extended to 82,926 women entrepreneurs. Total of 2,836 borrowers have been availed Rs.3.69 billion concessional loan to other sectors.

Types	2020/21		Mid-April, 2022	
	No. of borrowers	Amount	No. of borrowers	Amount
General	11296	98750	13084	86930
Special	2040	14620	1707	12290
Micro, Cottage and Small enterprises	35554	35380	9486	8100
Total	48890	148750	24277	107320

54. Business continuity loan has been extended to the Covid-19 affected tourism, cottage, small and medium industries for payment of salaries to workers and employees in line with 'Business Continuity Loan Procedure, 2020'. Under this provision, Rs.1.13 billion loan has been approved as of mid-April 2022.

Inter-bank Transaction

55. In the review period, BFIs' interbank transactions amounted Rs.2568.91 billion including Rs.2299.22 billion inter-bank transactions among commercial banks and Rs.269.68 billion among other financial institutions (excluding transactions among commercial banks). In the corresponding period of previous year, such transactions was Rs.1034.92 billion including Rs.875.50 billion among commercial banks and Rs.159.42 billion among other financial institutions (excluding transactions among commercial banks).

Interest Rates

56. The weighted average 91-day treasury bills rate remained at 7.58 percent in the ninth month of 2021/22, which was 2.76 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 2.03 percent a year ago, increased to 6.99 percent in the review month. The weighted average inter-bank rate of BFIs which is considered as operating target of monetary policy, stood 7 percent in the review month. Such a rate was 2.03 percent a year ago.

Types	mid-April 2021	mid-April 2022
91-day treasury bills rate	2.76	7.58
Inter-bank rate	2.03	6.99
Base rate	6.90	9.17
Deposit rate	4.79	7.11
Lending rate	8.61	10.78

57. The average base rate of commercial banks stood 9.17 percent in the ninth month of 2021/22, which was 6.90 percent a year ago. Weighted average deposit rate and lending rate of commercial banks

stood at 7.11 percent and 10.78 percent respectively in the review month. Such rates were 4.79 percent and 8.61 percent respectively a year ago.

Merger and Acquisition

58. After introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 241 as of mid-April 2022. Out of which, the license of 177 BFIs was revoked thereby forming 64 BFIs.

Financial Access

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

60. The total number of BFIs licensed by NRB remained 127 in mid-April 2022. As of mid-April 2022, 27 commercial banks, 17 development banks, 17 finance companies, 65 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 11,398 in mid-April 2022 from 10,683 in mid-July 2021 (Table 6).

Table 6: Number of BFIs and their Branches*						
Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	mid-July 2020	mid- July 2021	mid-April 2022	mid-July 2019	mid-July 2020	mid-April 2022
Commercial Banks	27	27	27	4436	4753	4949
Development Banks	20	18	17	1029	1023	1093
Finance Companies	22	17	17	243	222	261
Microfinance Financial Institutions	85	70	65	4057	4685	5095
Infrastructure Development Bank	1	1	1	-	-	-
Total	155	133	127	9765	10683	11398

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

Electronic Payment Transaction

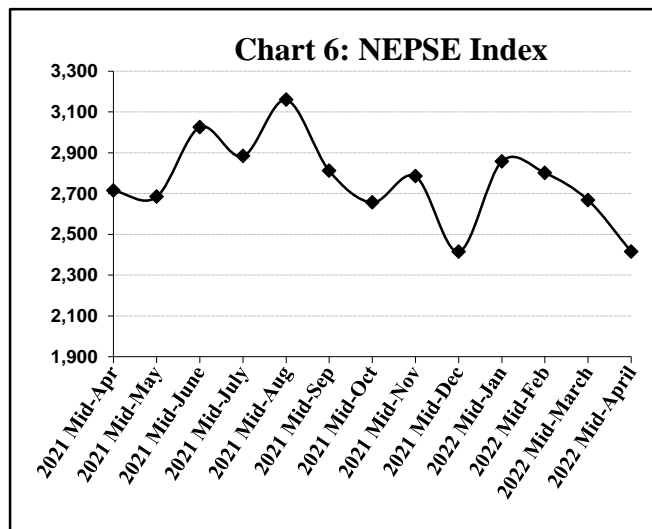
61. Electronic payment transaction has increased significantly due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments (Database Table 59).

Capital Market

62. NEPSE index stood 2415.3 in mid-April 2022 compared to 2714.8 in mid-April 2021.

63. Stock market capitalization in mid-April 2022 stood Rs.3426.11 billion compared to Rs.3758.97 billion in mid-April 2021.

64. Number of companies listed at NEPSE reached 229 in mid-April 2022, out of which 145 are Bank and Financial Institutions (BFIs) and insurance companies, 47 hydropower companies, 19 manufacturing and processing industries, 6 investment companies, 5 hotels, 4 trading companies and 3 others. The number of companies listed at NEPSE was 218 in mid-April 2021.



65. Share of BFIs and insurance companies in stock market capitalization is 67.6 percent. Such a share for hydropower companies is 10.2 percent, investment companies 7.1 percent, manufacturing and processing industries 4 percent, hotels 1.6 percent, trading companies 0.4 percent and the share of other companies is 9.1 percent.

66. The paid-up value of 6.68 billion shares listed at NEPSE stood Rs.658.33 billion in mid-April 2022.

67. Securities worth Rs.182.76 billion were listed at NEPSE during the nine months of 2021/22. Such securities comprise government bond worth Rs.54.50 billion, debenture worth Rs.49.16 billion, bonus shares worth Rs.47.96 billion, ordinary share worth Rs.18.09 billion, right share worth Rs.9.31 billion and mutual fund worth Rs.3.75 billion.

68. Securities Board of Nepal approved the total public issuance of securities worth Rs.15.05 billion in the review period which includes debenture worth Rs.4.8 billion, ordinary share worth Rs.3.79 billion, right share worth Rs.3.46 billion and mutual fund worth Rs.3 billion.