



Nepal Rastra Bank
Economic Research Department, Baluwatar, Kathmandu
Current Macroeconomic and Financial Situation of Nepal
(Based on First Month Data Ending Mid-August, 2023/24)

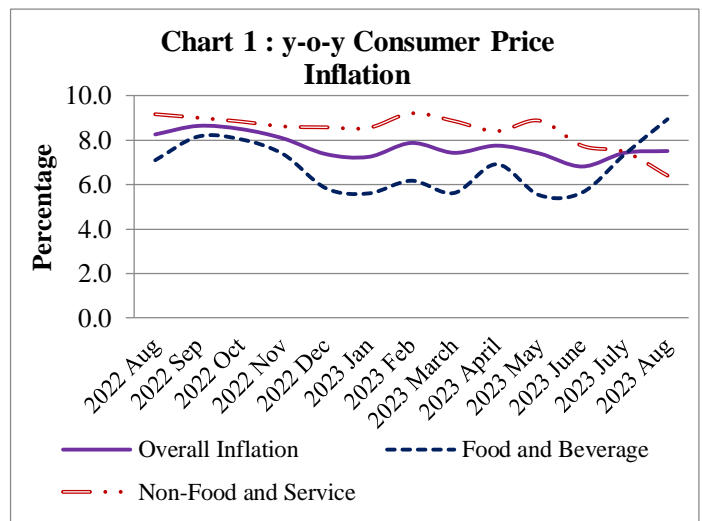
Major Highlights

- *CPI-based Inflation remained 7.52 percent on y-o-y basis.*
- *Imports decreased 1.6 percent, exports decreased 8.7 percent and trade deficit decreased 0.7 percent.*
- *Remittances increased 25.8 percent in NPR terms and 21.5 percent in USD terms.*
- *Balance of Payments remained at a surplus of Rs.32.90 billion.*
- *Gross foreign exchange reserves stood at NPR 1573.12 billion and 11.85 billion in USD terms.*
- *Nepal Government expenditure amounted to Rs.35.04 billion and revenue collection Rs.78.87 billion.*
- *Broad money (M2) decreased 2.4 percent. On y-o-y basis, M2 increased 10.8 percent.*
- *Deposits at BFIs decreased 2.3 percent and private sector credit decreased 0.1 percent. On y-o-y basis, deposits increased 11.9 percent and private sector credit increased 3.8 percent.*

Inflation

Consumer Price Inflation (CPI)

1. The y-o-y consumer price inflation stood at 7.52 percent in mid-August 2023 compared to 8.26 percent a year ago. Food and beverage inflation stood at 8.95 percent whereas non-food and service inflation stood at 6.42 percent in the review month.
2. Under the food and beverage category, y-o-y price index of spices sub-category increased 45.56 percent, cereal grains & their products 13.20 percent, milk products & eggs 12.19 percent, restaurant & hotel 11.05 percent and vegetable 10.80 percent while y-o-y price index of ghee & oil sub-category decreased 15.13 percent.



3. Under the non-food and services category, y-o-y price index of recreation & culture sub-category increased 15.55 percent, education 9.10 percent, housing & utilities 6.93 percent and furnishing & household equipment 6.79 percent while y-o-y price index of transportation sub-category decreased 0.81 percent.

4. In the review month, y-o-y consumer price inflation in the Kathmandu Valley, Terai, Hill and Mountain region surged to 8.50 percent, 6.70 percent, 7.50 percent and 11.46 percent respectively. Inflation in these regions were 7.39 percent, 8.72 percent, 8.64 percent and 6.64 percent respectively a year ago.

| Table 1: y-o-y Consumer Price Inflation (Percent) | | | |
|---|---------------|---------------|---------------|
| Mid-Month | | | |
| Particulars | July/Aug 2022 | Jun/July 2023 | July/Aug 2023 |
| Overall Inflation | 8.26 | 7.44 | 7.52 |
| Food and Beverage | 7.11 | 7.38 | 8.95 |
| Non-food and Service | 9.18 | 7.48 | 6.42 |

Wholesale Price Inflation (WPI)

- The y-o-y wholesale price inflation stood at 4.34 percent in mid-August 2023 compared to 12.58 percent a year ago.
- The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 8.00 percent, 2.55 percent and 2.72 percent respectively. The y-o-y wholesale price of construction material decreased by 0.05 percent in the review month.

Salary and Wage Rate Index (SWRI)

- The y-o-y salary and wage rate index increased 5.36 percent in mid-August 2023 compared to 11.57 percent a year ago. In the review month, salary index and wage rate index increased 1.05 and 6.67 percent respectively.

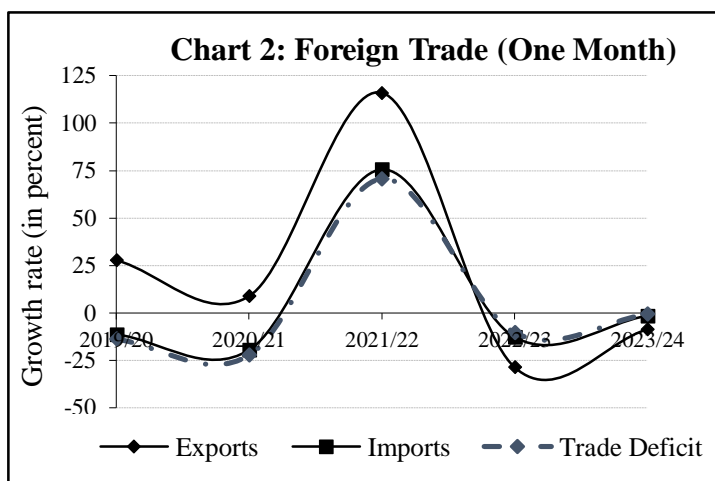
Consumer Price Inflation in Nepal and India

- The y-o-y consumer price inflation in Nepal remained at 7.52 percent in mid-August 2023. Such inflation in India stood at 6.83 percent in August 2023.

External Sector

Merchandise Trade

- During the first month of 2023/24, merchandise exports decreased 8.7 percent to Rs.13.53 billion compared to a decrease of 28.7 percent in the same period of the previous year. Destination-wise, exports to India decreased 20.8 percent whereas exports to China and other countries increased 527.2 percent and 15.4 percent respectively. Exports of cardamom, zinc sheet, particle board, juice, ginger, among others increased whereas exports of palm oil, soyabean oil,



medicine (ayurvedic), pashmina, silverware and jewelries, among others decreased in the review period.

10. During the first month of 2023/24, merchandise imports decreased 1.6 percent to Rs.129.24 billion compared to a decrease of 12.9 percent a year ago. Destination-wise, imports from India and China increased 3.3 percent and 17.0 percent respectively while imports from other countries decreased 23.1 percent. Imports of rice/paddy, M.S. wire rod, bars, coils and others, chemical fertilizer, hot rolled sheet incoil, electrical goods, among others increased whereas imports of petroleum products, crude soyabean oil, crude palm oil, medicine, M.S. billet, among others decreased in the review period.
11. Based on customs points, exports from Bhairahawa, Dry Port, Jaleswor, Kanchanpur, Krishnagar, Mechi, Nepalgunj, Rasuwa and Tribhuvan Airport Customs Offices increased whereas exports from all the other major customs points decreased in the review period. On the import side, imports from Bhairahawa, Dry Port, Jaleswor, Kanchanpur, Krishnanagar, Nepalgunj, Rasuwa and Tatopani Customs Offices increased whereas imports from all the other major customs points decreased in the review period.
12. Total trade deficit decreased 0.7 percent to Rs.115.71 billion during the first month of 2023/24. Such a deficit had decreased 10.4 percent in the corresponding period of the previous year. The export-import ratio decreased to 10.5 percent in the review period from 11.3 percent in the corresponding period of the previous year.
13. During the first month of 2023/24, merchandise imports from India by paying convertible foreign currency amounted Rs.17.30 billion. Such amount was Rs.13.37 billion in the same period of the previous year.

Composition of Foreign Trade

14. As per the Broad Economic Categories (BEC), the intermediate and final consumption goods accounted for 53.6 percent and 46.1 percent of the total exports respectively, whereas the ratio of capital goods in total exports remained negligible at 0.3 percent in the review period. In the same period of the previous year, the ratio of intermediate, capital and final consumption goods remained 59.4 percent, 0.02 percent and 40.5 percent of total exports respectively.
15. On the imports side, the share of intermediate goods remained 54.9 percent, capital goods 9.7 percent and final consumption goods 35.4 percent in the review period. Such ratios were 53.7 percent, 8.7percent and 37.7 percent respectively in the same period of the previous year.

Export-Import Price Index

16. The y-o-y unit value export price index, based on customs data, increased 3.7 percent and the import price index decreased 8.6 percent in the first month of 2023/24. The terms of trade (ToT) index increased 13.5 percent in the review month.

Services

17. Net services income remained at a deficit of Rs.11.27 billion in the review period compared to a deficit of Rs.10.71 billion in the same period of the previous year.
18. Under the service account, travel income increased 62.6 percent to Rs.4.39 billion in the review period which was Rs.2.70 billion in the same period of the previous year.
19. Under the service account, travel payments increased 54.0 percent to Rs.17.26 billion, including Rs.10.75 billion for education. Such payments were Rs.11.21 billion and Rs.7.13 billion respectively in the same period of the previous year.

Remittances

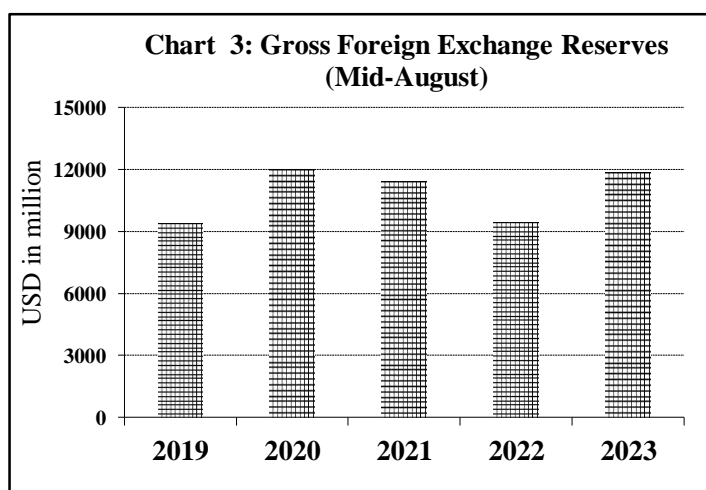
20. Remittance inflows increased 25.8 percent to Rs.116.02 billion in the review period compared to an increase of 20.3 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 21.5 percent to 879.8 million in the review period compared to an increase of 12.5 percent in the same period of the previous year.
21. Number of Nepali workers (institutional and individual-new) taking approval for foreign employment decreased 12.1 percent to 39152 in the review period. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 19.5 percent to 16423 in the review period. It had increased 75.4 percent in the same period of the previous year.
22. Net transfer increased 26.1 percent to Rs.128.21 billion in the review period. Such a transfer had increased 18.4 percent in the same period of the previous year.

Current Account and Balance of Payments

23. The current account remained at a surplus of Rs.12.99 billion in the review period against a deficit of Rs.15.13 billion in the same period of the previous year. In the US Dollar terms, the current account registered a surplus of 98.5 million in the review period against a deficit of 118.8 million in the same period last year.
24. In the review period, capital transfer decreased 65.9 percent to Rs.272.6 million and net foreign direct investment (FDI) remained a positive of Rs.2.65 billion. In the same period of the previous year, capital transfer amounted to Rs.800.3 million and net FDI amounted to a negative of Rs.1.40 billion.
25. Balance of Payments (BOP) remained at a surplus of Rs.32.90 billion in the review period against a deficit of Rs.19.76 billion in the same period of the previous year. In the US Dollar terms, the BOP remained at a surplus of 249.5 million in the review period against a deficit of 155.2 million in the same period of the previous year.

Foreign Exchange Reserves

26. Gross foreign exchange reserves increased 2.2 percent to Rs.1573.12 billion in mid-August 2023 from Rs.1539.36 billion in mid-July 2023. In the US dollar terms, the gross foreign exchange reserves increased 1.2 percent to 11.85 billion in mid-August 2023 from 11.71 billion in mid-July 2023.



27. Of the total foreign exchange reserves, reserves held by NRB increased 2.9 percent to Rs.1385.24 billion in mid-August 2023 from Rs.1345.78 billion in mid-July 2023. Reserves held by banks and financial institutions (except NRB) decreased 2.9 percent to Rs.187.89 billion in mid-August 2023 from Rs.193.59 billion in mid-July 2023. The share of Indian currency in total reserves stood at 21.9 percent in mid-August 2023.

Foreign Exchange Adequacy Indicators

28. Based on the imports of first month of 2023/24, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 12.5 months, and merchandise and services imports of 10.3 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 29.2 percent, 85.7 percent and 26.3 percent respectively in mid-August 2023. Such ratios were 28.6 percent, 83.0 percent and 25.1 percent respectively in mid-July 2023.

Price of Oil and Gold

29. The price of oil (Crude Oil Brent) in the international market decreased 10.6 percent to US dollar 85.24 per barrel in mid-August 2023 from US dollar 95.36 per barrel a year ago. The price of gold increased 6.8 percent to US dollar 1896.35 per ounce in mid-August 2023 from US dollar 1774.85 per ounce a year ago.

Exchange Rate

30. Nepalese currency vis-à-vis the US dollar depreciated 1.0 percent in mid-August 2023 from mid-July 2023. It had appreciated 0.3 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.132.43 in mid-August 2023 compared to Rs.131.17 in mid-July 2023.

Fiscal Situation

Nepal Government

Expenditure and Revenue

31. According to Ministry of Finance, Financial Comptroller General Office (FCGO), the total expenditure of the Nepal Government stood at Rs.35.04 billion during the first month of 2023/24. The recurrent expenditure, capital expenditure and financial expenditure amounted to Rs.12.14 billion, Rs.0.82 billion and Rs.22.08 billion respectively in the review period.

| Particulars | Amount (Rs. in Billion) | | | Percentage Change | |
|------------------------------|-------------------------|--------------|--------------|-------------------|-------------|
| | 2021/22 | 2022/23 | 2023/24 | 2022/23 | 2023/24 |
| Total Expenditure | 10.49 | 22.26 | 35.04 | 112.1 | 57.4 |
| <i>Recurrent Expenditure</i> | 9.56 | 5.66 | 12.14 | -40.8 | 114.5 |
| <i>Capital Expenditure</i> | 0.94 | 1.48 | 0.82 | 58.8 | -44.6 |
| <i>Financial Management</i> | 0.00 | 15.12 | 22.08 | - | - |
| Total Revenue | 93.26 | 79.72 | 78.87 | -14.5 | -1.1 |
| <i>Tax Revenue</i> | 76.19 | 70.64 | 70.18 | -7.3 | -0.7 |
| <i>Non-Tax Revenue</i> | 17.07 | 9.08 | 8.70 | -46.8 | -4.2 |

Source: Financial Comptroller General Office

32. In the review period, total revenue mobilization of Nepal Government (including the amount to be transferred to provincial and local governments) stood at Rs.78.87 billion. The tax revenue amounted Rs.70.18 billion and non tax revenue Rs.8.70 billion in the review period (Table 2).

Cash Balance of Government

33. Cash Balance at various accounts of the GoN maintained with NRB remained Rs.208.93 billion (including Provincial Governments and Local Government Account) in mid-August 2023. Such balance was Rs.71.98 billion in mid-July 2023.

Provincial Government

Expenditure and Revenue

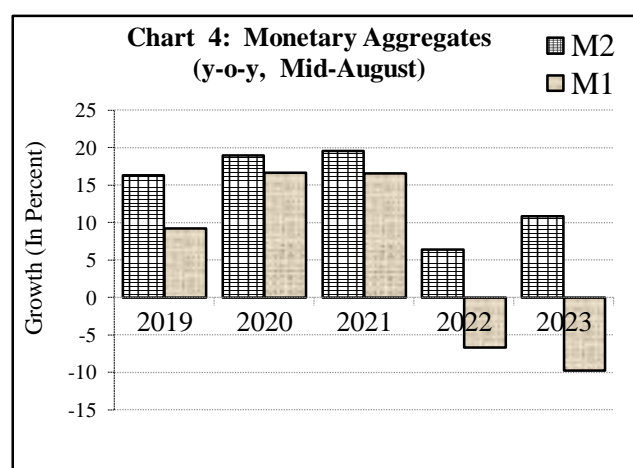
34. In the review period, total expenditure and resource mobilization of provincial governments stood Rs.50.8 million and Rs.8.35 billion respectively. The total resource mobilization of provincial governments includes the grants and revenue transferred from the Nepal Government amounting Rs.4.77 billion and revenue and other receipts of the provincial governments amounting Rs.3.59 billion in the review period.

Monetary Situation

Money Supply

35. Broad money (M2) decreased 2.4 percent in the review period compared to a decrease of 1.9 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 10.8 percent in mid-August 2023.

36. The net foreign assets (NFA, after adjusting foreign exchange valuation gain/loss) increased Rs.32.90 billion (2.3 percent) in the review period in contrast to a decrease of Rs.19.76 billion (1.8 percent) in the corresponding period of the previous year.



37. Reserve money decreased 9.6 percent in the review period compared to a decrease of 7.3 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 7.7 percent in mid-August 2023.

Domestic Credit

38. Domestic credit decreased 2.3 percent in the review period compared to a decrease of 0.9 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 7.3 percent in mid-August 2023.

39. Monetary Sector's net claims on government decreased 13.9 percent in the review period compared to a decline of 10.7 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 30.0 percent in mid-August 2023.

40. Monetary Sector's claims on the private sector increased 0.3 percent in the review period compared to an increase of 0.5 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 4.3 percent in mid-August 2023.

Deposit Mobilization

41. Deposits at Banks and Financial Institutions (BFIs) decreased Rs.133.24 billion (2.3 percent) in the review period compared to a decline of Rs.100.77 billion (2.0 percent) in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 11.9 percent in mid-August 2023.

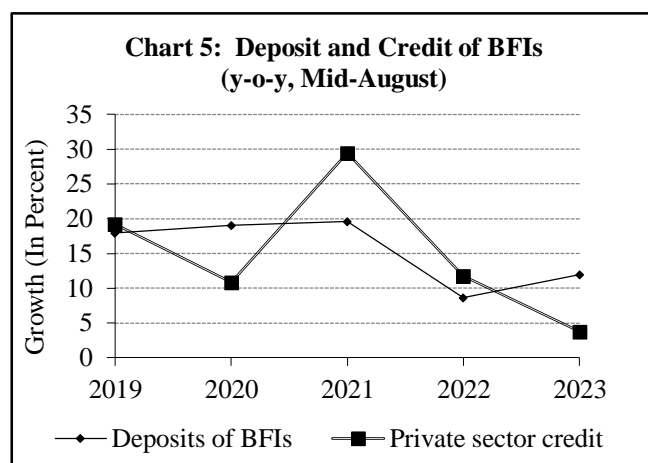
Table 3: Deposits at Banks and Financial Institutions (Percentage Share)

| Deposits | Mid-July | | Mid-August | |
|----------|----------|------|------------|------|
| | 2022 | 2023 | 2022 | 2023 |
| Demand | 8.9 | 7.7 | 7.2 | 5.0 |
| Saving | 27.6 | 26.6 | 26.9 | 26.7 |
| Fixed | 55.8 | 58.9 | 58.8 | 61.3 |
| Other | 7.7 | 6.8 | 7.1 | 7.0 |

42. The share of demand, saving and fixed deposits in total deposits stood at 5.0 percent, 26.7 percent and 61.3 percent respectively in mid-August 2023. Such shares were 7.2 percent, 26.9 percent and 58.8 percent respectively a year ago.
43. The share of institutional deposits in total deposit of BFIs stood at 35.2 percent in mid-August 2023. Such a share was 37.4 percent in mid-August 2022.

Credit Disbursements

44. Private sector credit from BFIs decreased Rs.4.35 billion (0.1 percent) in the review period compared to a decline of Rs.2.31 billion (0.05 percent) in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 3.8 percent in mid-August 2023.
45. The shares of private sector credit from BFIs to non-financial corporation and household stand at 64.0 percent and 36.0 percent respectively in mid-August 2023. Such shares were 63.7 percent and 36.3 percent a year ago.



46. In the review period, private sector credit from commercial banks and development banks decreased by 0.1 percent and 0.2 percent respectively whereas the private sector credit from finance companies increased 0.9 percent.
47. In the review period, out of the total outstanding credit of the BFIs, 12.1 percent is against the collateral of current assets (such as agricultural and non-agricultural products) and 67.1 percent against land and building. Such ratios were 12.4 percent and 66.6 percent respectively a year ago.
48. In the review period, outstanding loan of BFIs to the industrial production sector increased 1.1 percent, transportation, communication and public sector 1.5 percent, service industry sector 0.7 percent and consumable sector 0.9 percent while the agriculture sector loan decreased 0.9 percent, construction sector 1.5 percent, and wholesale and retail sector 1.3 percent,.
49. In the review period, term loan extended by BFIs increased 2.4 percent, real estate loan (including residential personal home loan) 0.3 percent, cash credit loan 7.6 percent, margin nature loan 0.1 percent and trust receipt (import) loan 5.0 percent whereas overdraft loan decreased 28.9 percent (mainly due to reclassification of loan from the recent year), and hire purchase loan decreased 16.8 percent.

Liquidity Management

50. In the review period, NRB availed total liquidity of Rs.145.90 billion on turnover basis, of which, Rs.1.20 billion was through standing liquidity facility (SLF) and Rs.144.70 billion through Overnight Liquidity Facility (OLF). In the corresponding period of the previous year, Rs.864.09 billion net amount of liquidity was availed through various instruments of open market operations including SLF.
51. In the review period, NRB injected liquidity of Rs.61.22 billion through the net purchase of USD 463.7 million from foreign exchange market. Liquidity of Rs.40.53 billion was injected through the net purchase of USD 319.2 million in the corresponding period of the previous year.

52. The NRB purchased Indian currency (INR) equivalent to Rs.31.67 billion through the sale of USD 240 million in the review period. INR equivalent to Rs.53.44 billion was purchased through the sale of USD 420 million in the corresponding period of previous year.

Refinance, Concessional Loan and Business Continuity Loan

53. The outstanding amount of refinance provided by NRB remained Rs.1.23 billion in mid-August 2023.

54. As of mid-August 2023, the outstanding concessional loan remained Rs.196.36 billion extended to 145,225 borrowers. Of which, Rs.135.77 billion has been extended to 59,919 borrowers for selected commercial agriculture and livestock businesses. Likewise, Rs.57.57 billion loan has been extended to 82,627 women entrepreneurs. Total 2,679 borrowers have availed Rs.3.02 billion concessional loan in other specified sectors.

55. 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'. The outstanding loan extended under this provision remained Rs.607.1 million as of mid-August 2023.

Inter-bank Transaction

56. In the review period, BFIs interbank transactions amounted Rs.655.44 billion on turnover basis including Rs. 561.67 billion inter-bank transactions among commercial banks and Rs.93.77 billion among other financial institutions (excluding transactions among commercial banks). In the corresponding period of the previous year, such transactions was Rs.356.46 billion including Rs.315.49 billion among commercial banks and Rs.40.97 billion among other financial institutions (excluding transactions among commercial banks).

Interest Rates

57. The weighted average 91-days treasury bills rate remained at 5.92 percent in the first month of 2023/24, which was 10.64 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among BFIs, which was 8.05 percent a year ago, decreased to 5.87 percent in the review month.

58. The average base rates of commercial banks, development banks and finance companies stood 10.11 percent, 11.87 percent and 13.28 percent respectively in the first month of 2023/24. The average base rate of commercial banks was 9.72 percent in the corresponding month a year ago.

59. Weighted average deposit rates of commercial banks, development banks and finance companies stood 8.0 percent, 9.28 percent and 10.13 percent respectively in the review month. Likewise, the weighted average lending rate of commercial banks, development banks and finance companies stood 12.24 percent, 13.88 percent and 14.66 percent respectively in the review month. Weighted average deposit rate and lending rate of commercial banks were 7.64 percent and 11.94 percent respectively a year ago.

| Table 4: Weighted Average Interest Rate (percent) | | |
|--|-----------------|-----------------|
| Types | Mid-August 2022 | Mid-August 2023 |
| 91-days treasury bills rate | 10.64 | 5.92 |
| Inter-bank rate of BFIs | 8.05 | 5.87 |
| Base rate | | |
| Commercial banks | 9.72 | 10.11 |
| Development banks | - | 11.87 |
| Finance companies | - | 13.28 |
| Deposit rate | | |
| Commercial banks | 7.64 | 8.00 |
| Development banks | - | 9.28 |
| Finance companies | - | 10.13 |
| Lending Rate | | |
| Commercial banks | 11.94 | 12.24 |
| Development banks | - | 13.88 |
| Finance companies | - | 14.66 |

Financial Access

60. The total number of BFIs licensed by NRB remained 112 in mid-August 2023 (Table 5). As of mid-August 2023, 20 commercial banks, 17 development banks, 17 finance companies, 57 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches remained 11,574 in mid-August 2023 compared to 11,589 in mid-July 2023.

| Bank and Financial Institutions | Number of BFIs | | | Branches of BFIs | | |
|-------------------------------------|----------------|---------------|-----------------|------------------|---------------|-----------------|
| | mid-July 2022 | mid-July 2023 | mid-August 2023 | mid-July 2022 | mid-July 2023 | mid-August 2023 |
| Commercial Banks | 26 | 20 | 20 | 5009 | 5049 | 5021 |
| Development Banks | 17 | 17 | 17 | 1118 | 1128 | 1131 |
| Finance Companies | 17 | 17 | 17 | 267 | 284 | 289 |
| Microfinance Financial Institutions | 65 | 57 | 57 | 5134 | 5128 | 5133 |
| Infrastructure Development Bank | 1 | 1 | 1 | - | - | - |
| Total | 126 | 112 | 112 | 11528 | 11589 | 11574 |

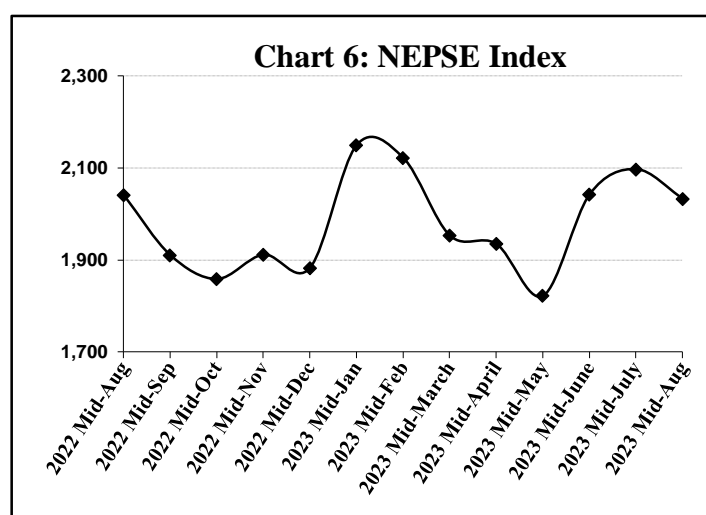
*Updated information is available at <http://emap.nrb.org.np/>

Capital Market

61. NEPSE index stood 2033.1 in mid-August 2023 compared to 2041.1 in mid-August 2022.

62. Stock market capitalization in mid-August 2023 stood Rs.3043.01 billion compared to Rs.2914.68 billion in mid-August 2022.

63. Number of companies listed at NEPSE reached 254 in mid-August 2023. Out of the total listing, 132 are Bank and Financial Institutions (BFIs) and insurance companies, 81 hydropower companies, 20 manufacturing and processing industries, 7 hotels, 6 investment companies, 4 trading companies and 4 others. The number of companies listed at NEPSE were 235 in mid-August 2022.



64. Share of BFIs and insurance companies in stock market capitalization is 63.4 percent in mid-August 2023. Such a share for hydropower companies is 12.5 percent, investment companies 7.0 percent, manufacturing and processing industries 4.9 percent, hotels 3.4 percent, trading companies 0.6 percent and the share of other companies is 8.3 percent.

65. The paid-up value of 7.59 billion shares listed at NEPSE stood Rs.749.24 billion in mid-August 2023.

66. Securities worth Rs.11.21 billion were listed at NEPSE during the first month of FY 2023/24. Such securities comprise ordinary share worth Rs.10.40 billion and bonus shares worth Rs.803.2 million.

67. Securities Board of Nepal approved the total public issuance of ordinary share worth Rs.1.67 billion in the review period.