

Current Macroeconomic and Financial Situation of Nepal

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

Major Highlights

- Inflation remained 4.54 percent on y-o-y basis and 6.28 percent on average during eleven months.
- Imports decreased 15.3 percent and exports increased 0.2 percent.
- Remittances decreased 3.0 percent.
- Balance of Payments remained at a surplus of Rs.179.37 billion.
- Gross foreign exchange reserves stood at USD 10.79 billion. This level of reserve is sufficient to cover the prospective merchandise and services imports for 11.7 months.
- Federal Government spending based on banking transactions amounted to Rs.843.94 billion and revenue collection Rs.647.80 billion.
- Broad money (M2) expanded 12.9 percent. On y-o-y basis, M2 expanded 17.5 percent.
- Deposits at Banks and Financial Institutions expanded 13.3 percent and credit to the private sector expanded 10.7 percent. On y-o-y basis, deposits increased 18.1 percent and credit 11.9 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 4.54 percent in mid-June 2020 compared to 6.16 percent a year ago. Food and beverage inflation stood at 5.41 percent whereas non-food and service inflation stood at 3.87 percent in the review month.
2. Within the food and beverage group, the price of pulses and legumes, tobacco products, spices, alcoholic drinks, and fruit sub-groups rose significantly in the review month.
3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 4.43 percent, 4.86 percent, 4.13 percent and 4.34 percent inflation respectively. These regions had witnessed 7.10 percent, 5.80 percent, 5.70 percent and 6.46 percent inflation respectively a year ago.

Wholesale Price Inflation

4. The y-o-y wholesale price inflation stood at 3.96 percent in the review month compared to 5.32 percent a year ago.

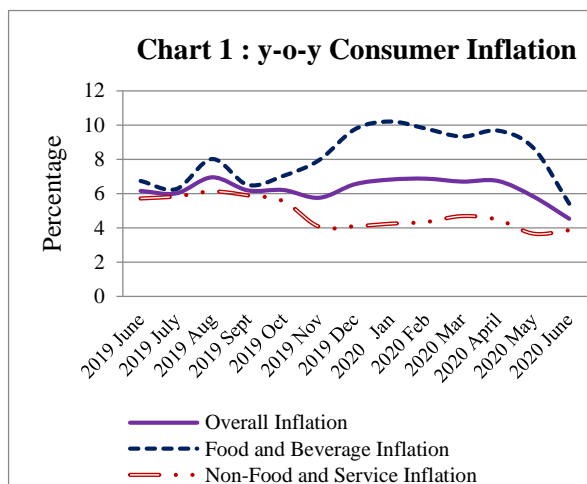


Table 1: y-o-y Consumer Price Inflation (Percent)

Particulars	Mid-June 2019	Mid-May 2020	Mid-June 2020
Overall Inflation	6.16	5.83	4.54
Food and Beverage	6.74	8.66	5.41
Non-food and Service	5.71	3.67	3.87

- The y-o-y wholesale prices of intermediate goods and capital goods increased 6.60 percent and 3.62 percent respectively. The wholesale price of consumption goods and construction materials dropped by 0.34 percent and 4.67 percent respectively in the review month.

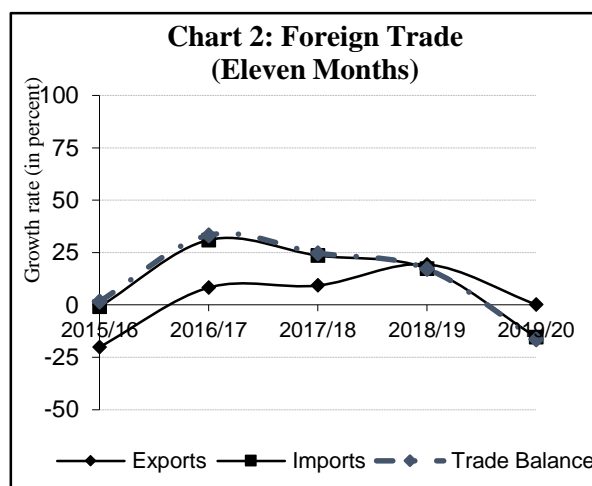
Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 7.48 percent in the review month compared to 9.54 percent a year ago. In the review month, salary index and wage rate index increased 13.55 percent and 5.85 percent respectively.

External Sector

Merchandise Trade

- In eleven months of 2019/20, merchandise exports increased 0.2 percent to Rs.88 billion compared to an increase of 19.4 percent a year ago. Destination-wise, exports to India increased 11.2 percent whereas exports to China and other countries decreased 42.1 percent and 18.3 percent, respectively. Exports of palm oil, medicine (ayurvedic), herbs, plastic utensils, M.S. pipe, among others increased whereas exports of zinc sheet, wire, polyester yarn and threads, woolen carpet, readymade garment among others decreased in the review period.



- In eleven months of 2019/20, merchandise imports decreased 15.3 percent to Rs.1100.81 billion against an increase of 17.3 percent in the same period of the previous year. Destination-wise, imports from India, China and other countries decreased 20.3 percent, 9.0 percent, and 4.1 percent, respectively. Imports of crude palm oil, crude soyabean oil, chemical fertilizer, computer and parts, edible oil, among others increased whereas imports of gold, M.S. billet, petroleum products, transport equipment and parts, other machinery and parts among others decreased in the review period.
- Based on customs points, exports from Birgunj and Tatopani Customs Office increased whereas exports from all other customs points decreased. On the import side, imports from all other customs points except Dry Port and Tatopani Customs Office decreased in the review period.
- Total trade deficit narrowed down 16.4 percent to Rs.1012.81 billion in the eleven months of 2019/20. Such deficit had expanded 17.2 percent in the same period of the previous year. The export-import ratio increased to 8.0 percent in the review period from 6.8 percent in the corresponding period of the previous year.

Export-Import Price Index

- The y-o-y unit value export price index, based on customs data, decreased 1.6 percent and the import price index decreased 4.0 percent in mid-June 2020. The terms of trade index increased 2.4 percent in mid-June 2020 against a increase of 0.5 percent in the corresponding period of the previous year.

Services

12. Net services income remained at a deficit of Rs.4.89 billion in the review period compared to a deficit of Rs.9.27 billion in the same period of the previous year.
13. Under the service account, travel income decreased 17.6 percent to Rs. 57.86 billion in the review period which was Rs.70.25 billion in the same period of the previous year.
14. Under the service account, travel payments decreased 35.8 percent to Rs.51.83 billion, including Rs.25.16 billion for education. Such payments were Rs.80.78 billion and Rs.40.99 billion respectively in the same period of the previous year.

Remittances

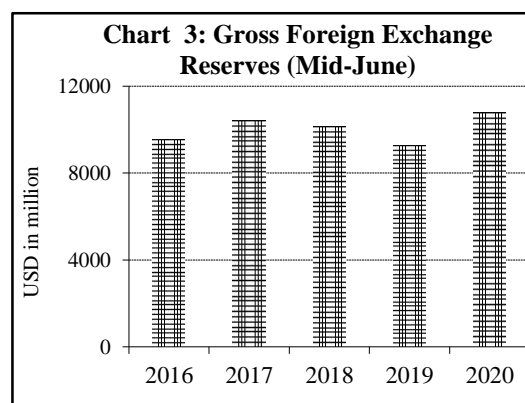
15. Remittance inflows decreased 3.0 percent to Rs.774.87 billion in the review period against an increase of 17.5 percent in the same period of the previous year. In the US Dollar terms, such inflows decreased 5.1 percent in the review period against an increase of 8.1 percent in the same period of the previous year.
16. Number of Nepali workers (institutional and individual-new and legalized) taking approval for foreign employment decreased 12.4 percent in the review period. It had decreased 35.7 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 31.1 percent in the review period. It had increased 5.4 percent in the same period of the previous year.
17. Net transfer income decreased 3.6 percent to Rs.872.78 billion in the review period. Such income had increased 16.6 percent in the same period of the previous year.

Current Account and Balance of Payments

18. The current account deficit decreased 71.2 percent to Rs. 71.64 billion in the review period. Such deficit was Rs.249.08 billion in the same period of the previous year. In the US Dollar terms, the current account deficit remained at 656.4 million in the review period compared to 2.20 billion a year ago.
19. In the review period, capital transfer and net foreign direct investment (FDI) in Nepal amounted to Rs.13.05 billion and Rs.18.72 billion respectively. In the same period of the previous year, capital transfer and FDI amounted to Rs.13.88 billion and Rs.11.80 billion respectively.
20. Balance of Payments (BOP) remained at a surplus of Rs.179.37 billion in the review period against a deficit of Rs.90.83 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a surplus of 1.50 billion in the review period against a deficit of 803.1 million in the same period of the previous year.

Foreign Exchange Reserves

21. Gross foreign exchange reserves increased 25.8 percent to Rs.1306.46 billion in mid-June 2020 from Rs.1038.92 billion in mid-July 2019. In the US Dollar terms, the gross foreign exchange reserves increased to 10.79 billion in mid-June 2020 from 9.50 billion in mid-July 2019.
22. Of the total foreign exchange reserves, reserves held by NRB increased to Rs.1142.78 billion in mid-June 2020



from Rs.902.44 billion in mid-July 2019. Reserves held by banks and financial institutions (except NRB) increased to Rs.163.68 billion in mid-June 2020 from Rs.136.47 billion in mid-July 2019. The share of Indian currency in total reserves stood at 24.5 percent in mid-June 2020.

Foreign Exchange Adequacy Indicators

23. Based on the imports of the eleven months of 2019/20, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 13.3 months, and merchandise and services imports of 11.7 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 34.7 percent, 97.5 percent and 32.3 percent respectively in mid-June 2020. Such ratios were 30.0 percent, 64.9 percent and 29.0 percent in mid-July 2019.

Price of Oil and Gold

24. The price of oil (Crude Oil Brent) in the international market decreased 39.0 percent to USD 38.54 per barrel in mid-June 2020 from USD 63.13 per barrel in the same period of the previous year. The price of gold increased 28.3 percent to USD 1733.50 per ounce in mid-June 2020 from USD 1351.25 per ounce in the same period of the previous year.

Exchange Rate

25. Nepalese currency vis-à-vis US Dollar depreciated 9.66 percent in mid-June 2020 from mid-July 2019. It had depreciated 1.8 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.121.05 in mid-June 2020 compared to Rs.109.36 in mid-July 2019.

Fiscal Situation*

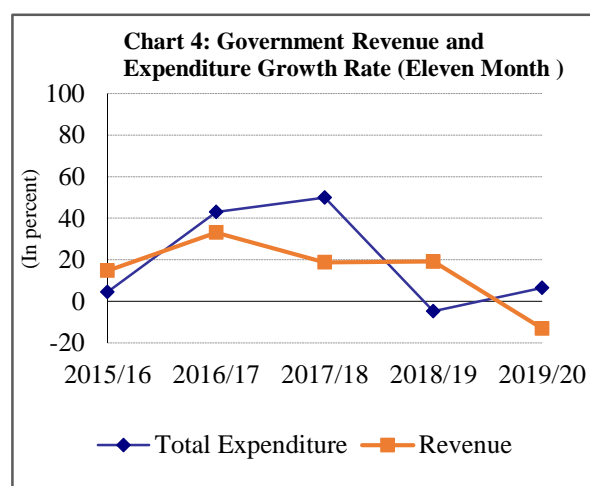
Federal Government

Fiscal Deficit/Surplus

26. During eleven months of 2019/20, fiscal position of the Government, based on banking transactions, remained at a deficit of Rs.210.55 billion compared to a deficit of Rs.35.77 billion in the corresponding period of the previous year.

Expenditure and Revenue[#]

27. In the review period, total expenditure of the federal government based on banking transactions (excluding direct payments and unrealized cheques) stood at Rs.843.94 billion. Such expenditure was Rs.792.63 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.647.80 billion. Total government revenue was Rs.745.59 billion in the corresponding period of the previous year.

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

[#] After excluding previous years recovery.

Debt Mobilization

29. In the review period, the government has mobilized Rs.175.0 billion internal debt and Rs.79.14 billion external loan.

Cash Balance

30. Balance at various accounts of the GoN maintained with NRB remained Rs.164.50 billion (including Provincial government and Local Authorities Account) in mid-June 2020.

Province Government

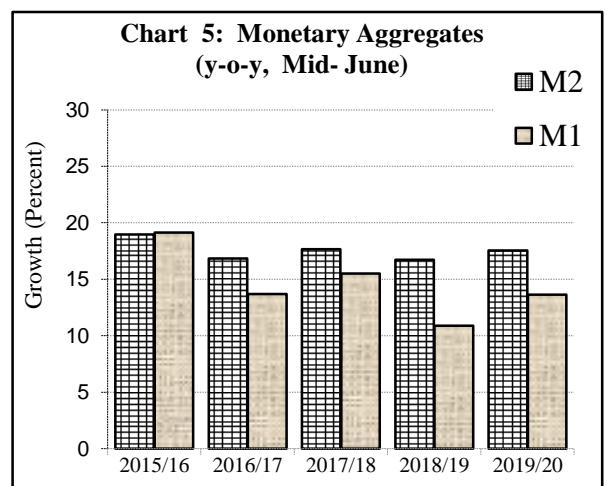
31. During eleven months of 2019/20, total expenditure of the province governments based on banking transactions stood at Rs.82.17 billion. In the review period, resources mobilization of province governments was Rs.108.84 billion. In this period, the federal government has transferred Rs.75.92 billion as grants and revenue from divisible fund to province governments. During this period province governments has mobilized the resource of Rs.32.92 billion from province revenue and other receipts.

Monetary Situation

Money Supply

32. Broad money (M2) increased 12.9 percent in eleven months of 2019/20 compared to an increase of 11.2 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 17.5 percent in mid-June 2020.

33. Net foreign assets (NFA after adjusting foreign exchange and gold valuation gain/loss) increased Rs.179.37 billion (18.2 percent) in the review period compared to a decrease of Rs.90.83 billion (8.6 percent) in the corresponding period of the previous year.

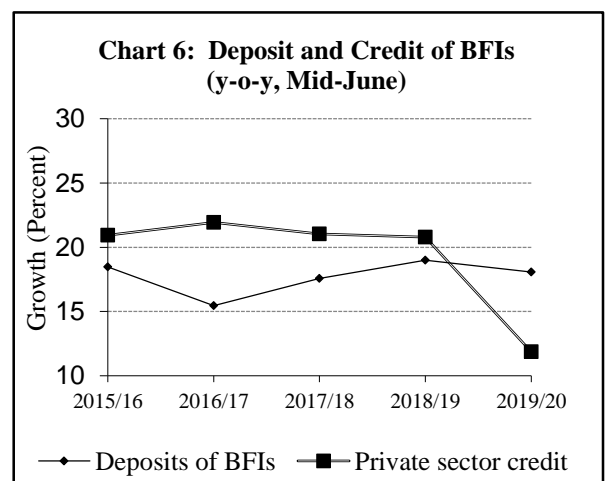


34. Reserve money increased 8.9 percent in the review period compared to a decrease of 10 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 19.2 percent in mid-June 2020.

Domestic Credit

35. Domestic credit increased 12.6 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 16.9 percent in mid-June 2020.

36. Monetary sector's claim on the private sector increased 13.2 percent in the review period compared to a growth of 19.3 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 13 percent in mid-June 2020.



Deposit Mobilization

37. Deposits at Banks and Financial Institutions (BFIs) increased 13.3 percent in the review period. Such deposits had increased 13.3 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 18.1 percent in mid-June 2020.

Deposits	Mid-July				Mid-June	
	2016	2017	2018	2019	2019	2020
Demand	9.1	8.7	9.3	9.7	9.2	8.7
Saving	43.3	35.4	34.5	32.8	32.5	32.2
Fixed	30.5	43.2	44.8	46.3	47.6	48.2
Other	17.1	12.7	11.3	11.2	10.7	10.9

38. The share of demand, saving, and fixed deposits in total deposits stands at 8.7 percent, 32.2 percent and 48.2 percent respectively in mid-June 2020 (Table 2). Such shares were 9.2 percent, 32.5 percent and 47.6 percent respectively a year ago.

39. The share of institutional deposits in total deposits of BFIs stands at 45 percent in mid-June 2020. Such share was 45.1 percent in mid-June 2019.

Credit Disbursement

40. Credit to the private sector from BFIs increased 10.7 percent in the review period compared to a growth of 18.2 percent in the corresponding period of the previous year. On y-o-y basis, credit to the private sector from BFIs increased 11.9 percent in mid-June 2020.

41. Of the total outstanding credit of the BFIs, 65.5 percent is against the collateral of land and building and 13.3 percent against the collateral of current assets (agricultural and non-agricultural products). Such ratios were 64.4 percent and 13.6 percent respectively a year ago.

42. Loan of BFIs to agriculture sector increased 13.1 percent, industrial production sector increased 11.1 percent, construction sector increased 11.7 percent, transportation, communication and public sector increased 16.6 percent and service industry sector increased 19 percent in the review period.

43. In the review period, term loan extended by BFIs increased 26.1 percent, overdraft 4.8 percent, trust receipt (import) loan 22.6 percent, demand and working capital loan 10.1 percent, real estate loan (including residential personal home loan) 7.5 percent, margin nature loan 4.9 percent whereas hire purchase loan decreased 1.2 percent.

Liquidity Management

44. In the review period, Rs.219.15 billion liquidity was injected including Rs.115.87 billion through repo and Rs.103.28 billion through standing liquidity facility (SLF). Liquidity of Rs.287.57 billion was injected including Rs.141.29 billion through repo and Rs.146.28 billion through SLF in the corresponding period of the previous year.

45. In the review period, NRB mopped up Rs.78 billion liquidity through open market operations. Liquidity of Rs.100.35 billion was mopped up in the corresponding period of the previous year.

46. In the review period, NRB injected liquidity of Rs.417.33 billion through the net purchase of USD 3.59 billion from foreign exchange market. Liquidity of Rs.330.72 billion was injected through the net purchase of USD 2.92 billion in the corresponding period of the previous year.

47. NRB purchased Indian currency (INR) equivalent to Rs.401.03 billion through the sale of USD 3.48 billion in the review period. INR equivalent to Rs.478.14 billion was purchased through the sale of USD 3.90 billion and other convertible foreign currencies in the corresponding period of the previous year.

Refinance

48. The outstanding refinance facility provided by the NRB at a concessional rate for promoting productive sector activities and export amounted to Rs.11.82 billion in mid-June 2020. Of which, general refinance of Rs.9.99 billion and export refinance of Rs.220.02 million was availed.
49. The outstanding amount of refinance extended to BFIs for providing concessional housing loan to earthquake victims stands at Rs.1.61 billion as of mid-June 2020.

Concessional Loan

50. The outstanding concessional loan extended to 23,318 borrowers for selected agriculture and livestock businesses stands Rs.51.47 billion as of mid-June 2020. The concessional loan outstanding to other headings remains Rs.4.07 billion utilized by 5,839 beneficiaries.

Inter-bank Transaction

51. In the review period, inter-bank transactions among commercial banks amounted to Rs.1469.81 billion and among banks and financial institutions (excluding transactions among commercial banks) Rs.121.42 billion. Such transactions were Rs.1554.65 billion and Rs.194.85 billion respectively in the corresponding period of the previous year.

Interest Rates

52. The weighted average 91-day Treasury bills rate decreased to 2.81 percent in the eleventh month of 2019/20 from 5.50 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 6.91 percent a year ago, decreased to 2.80 percent in the review month.
53. The average base rate of commercial banks decreased to 8.66 percent in the review month from 9.48 percent a year ago. Weighted average deposit and lending rates of commercial banks stood at 6.17 percent and 10.43 percent respectively in the review month. Such rates were 6.64 percent and 12.20 percent respectively in the corresponding month of the previous year.

Merger and Acquisition

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

Financial Access

55. Of the total 753 local levels, commercial banks extended their branches at 746 levels as of mid-June 2020 (Table 3).
56. The total number of BFIs licensed by NRB is 163 in mid-June 2020 (Table 4). Of which, 27 commercial banks, 23 development banks, 22 finance companies, 90 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 9,716 in mid-June 2020 from 8,686 in mid-July 2019.

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

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	Mid-Jul 2018	Mid-Jul 2019	Mid-June 2020	Mid-Jul 2018	Mid-Jul 2019	Mid-June 2020
Commercial Banks	28	28	27	3023	3585	4239
Development Banks	33	29	23	993	1267	1216
Finance Companies	25	23	22	186	205	239
Microfinance Financial Institutions	65	90	90	2449	3629	4022
Infrastructure Development Bank	-	1	1	-	-	-
Total	151	171	163	6651	8686	9716

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

57. Nepal Stock Exchange remained closed from mid-May to mid-June due to the preventive measures put in place to contain the spread of COVID-19.

Impact of COVID-19

58. Economic activities have been affected due to COVID-19. However, with the partial lifting of lockdown since June 15, economy is expected to return to normalcy.

Table 5 : Monthly Situation of Major Economic Indicators

Rs. In Billion

Particulars	2019				2020			
	Mid-Month							
	Mar-Apr	Apr-May	May-Jun	Jun-July	Feb-Mar	Mar-Apr	Apr-May	May-Jun
Consumer Inflation (Y-O-Y)	4.44	5.29	6.16	6.02	6.70	6.74	5.83	4.54
Consumer Inflation (Compared to Previous Month)	0.58	1.19	1.14	0.64	-0.27	0.62	0.34	-0.10
Food and Beverage	1.35	1.54	2.52	1.40	-0.66	1.68	0.59	-0.55
Non Food and Service	-0.02	0.93	0.06	0.04	0.04	-0.21	0.14	0.26
Export	8.6	8.7	9.3	9.3	9.9	3.9	3.3	5.9
Import	112.5	116.5	121.7	118.7	120.6	58.3	42.6	75.7
Travel Income	7.1	9.1	5.4	5.1	5.1	1.7	0.9	1.2
Travel Spending	6.4	5.7	6.8	9.1	5.4	1.3	0.6	1.0
Remittance Inflow	71.0	72.1	73.7	80.3	79.2	34.5	53.9	94.0
Government Expenditure	81.1	86.2	-	-	124.1	64.6	85.8	123.4
Current Expenditure	57.7	65.3	-	-	85.1	44.6	76.7	98.4
Capital Expenditure	19.2	19.4	-	-	19.6	8.7	9.1	12.5
Revenue	81.0	59.1	-	-	54.4	43.9	16.1	41.1
Deposit Mobilization	24.9	29.2	43.0	129.3	51.0	53.4	44.8	74.1
Private Sector Credit	46.5	15.6	24.8	30.1	35.6	40.0	-13.3	-10.4
Weightage Average Interest Rate on Deposit	6.7	6.7	6.6	6.6	6.8	6.7	6.4	6.2
Weightage Average Interest Rate on Credit	12.3	12.2	12.2	12.1	11.8	11.8	11.0	10.4

Source : Nepal Rastra Bank and FCGO

59. The development of payment infrastructure and increasing use of electronic payment instrument has facilitated the financial transaction even during the lockdown period.(Table 6)

Table 6 : Electronic Payment Transaction

Payment Instruments	Transaction Amount (Rs. in million)			No of Transaction		
	mid-April 2020	mid-May 2020	mid-June 2020	mid-April 2020	mid-May 2020	mid-June 2020
ATM	29898.0	27846.6	35480.4	3863586	3488903	3989509
Mobile Banking	5642.9	8640.8	18071.7	4090928	4642504	6085022
Internet Banking	626.3	1711.7	2668.5	54618	111396	130678
RTGS	772585.3	1068919.0	1177603.5	16158	14863	20755
ECC	345373.0	269125.1	413704.0	573896	361472	674068
IPS	90604.1	114901.8	156683.5	209770	206952	301301
Connect IPS	13815.4	23991.0	39346.1	235993	320689	477147
e-Commerce*	143.9	311.1	458.7	62449	55658	489222
POS*	440.3	1197.1	1572.6	102388	306313	463547
Wallet*	1262.3	2419.6	3250.1	4479579	6841409	7428727
QR Code [#]	201.6	180.8	323.2	89050	83351	120622

* Number and amount of transaction in the month of mid- April includes from March 24 to April 12, 2020

Included only the transactions of Phone Pay Service Pvt. Ltd.