

Current Macroeconomic and Financial Situation of Nepal

(Based on Two Month's Data Ending Mid-September, 2020/21)

Major Highlights

- Inflation remained 4.52 percent on y-o-y basis.
- Imports decreased 22.1 percent and exports increased 10.5 percent.
- Remittances increased 8.1 percent in NPR terms and 2.6 percent in USD terms.
- Balance of Payments remained at a surplus of Rs.67.63 billion.
- Gross foreign exchange reserves stood at USD 12.20 billion.
- Federal Government spending amounted to Rs.53.55 billion and revenue collection Rs.105.37 billion.
- Broad money (M2) expanded 0.9 percent. On y-o-y basis, M2 expanded 19.4 percent.
- Deposits at BFIs and claims on private sector broadly remain same at the level of mid-July 2020. However, on y-o-y basis, deposits increased 18.7 percent and claims on private sector 10.3 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 4.52 percent in the second month of 2020/21 compared to 6.16 percent a year ago. Food and beverage inflation stood at 6.91 percent whereas non-food and service inflation stood at 2.68 percent in the review month.
2. The price of vegetables, pulses and legumes rose significantly in the review month compared to a year ago.
3. In the review month, the Kathmandu Valley, Terai, Hill and Mountain witnessed 3.66 percent, 4.71 percent, 4.73 percent and 4.51 percent inflation respectively. These regions had witnessed 7.90 percent, 5.69 percent, 5.09 percent and 5.02 percent inflation respectively a year ago.

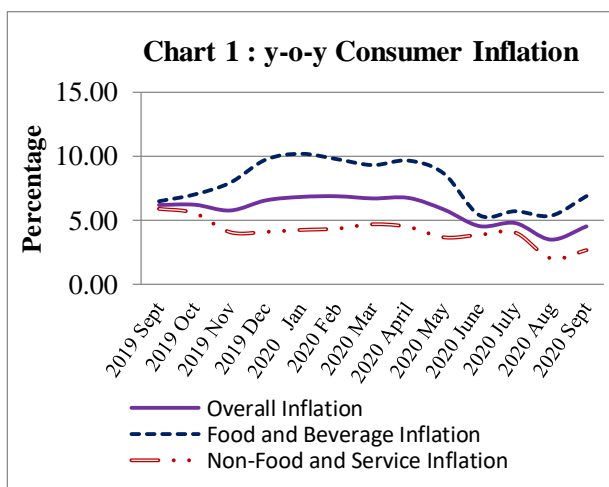


Table 1: y-o-y Consumer Price Inflation (Percent)

Particulars	Mid-Month		
	Aug/Sept 2019	Jul/Aug 2020	Aug/Sept 2020
Overall Inflation	6.16	3.49	4.52
<i>Food and Beverage</i>	6.51	5.38	6.91
<i>Non-food and Service</i>	5.89	2.04	2.68

Wholesale Price Inflation

- The y-o-y wholesale price inflation stood at 8.80 percent in the review month compared to 6.40 percent a year ago.
- The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased 10.93 percent, 8.62 percent and 2.61 percent respectively. The wholesale price of construction materials dropped 2.13 percent in the review month.

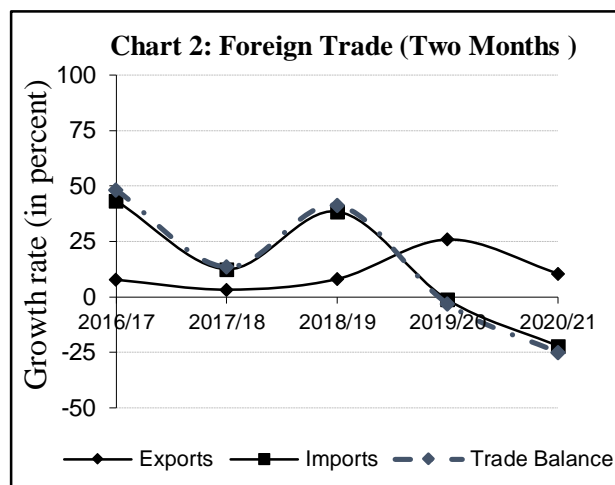
Salary and Wage Rate Index

- The y-o-y salary and wage rate index increased 1.20 percent in the review month. Such growth rate was 12.90 percent a year ago. In the review month, salary index and wage rate index increased by 0.01 percent and 1.55 percent respectively.

External Sector

Merchandise Trade

- In two months of 2020/21, merchandise exports increased 10.5 percent to Rs.20.44 billion compared to an increase of 25.9 percent in the same period of the previous year. Destination-wise, exports to India increased 18.7 percent whereas exports to China and other countries decreased 54.9 percent and 2.9 percent respectively. Exports of medicine (ayurvedic), noodles, herbs, jute goods, and pashmina, among others, increased whereas exports of palm oil, pulses, juice, textiles, and zinc sheet, among others, decreased in the review period.



- In two months of 2020/21, merchandise imports decreased 22.1 percent to Rs.178.85 billion compared to a decrease of 1.2 percent a year ago. Destination-wise, imports from India, China and other countries decreased 16.5 percent, 40.1 percent, and 23.6 percent respectively. Imports of rice, crude soyabean oil, telecommunication equipment and parts, edible oil, and coal, among others, increased whereas imports of petroleum products, transport equipment and parts, other machinery and parts, readymade garments, and crude palm oil, among others, decreased in the review period.
- Based on customs points, exports from Birgunj, Bhairahawa, Biratnagar, Nepalgunj, Mechi, Krishnanagar and Kailali Customs Office increased whereas exports from all the other customs points decreased in the review period. On the import side, imports from all the other customs points decreased except Nepalgunj, Krishnanagar and Kailali Customs Offices in the review period.
- Total trade deficit narrowed down 24.9 percent to Rs.158.40 billion in two months of 2020/21. Such deficit had contracted 3.1 percent in the corresponding period of the previous year. The export-import ratio increased to 11.4 percent in the review period from 8.1 percent in the corresponding period of the previous year.

Export-Import Price Index

11. The y-o-y unit value export price index, based on customs data, increased 0.7 percent and the import price index decreased 4.0 percent in the second month of 2020/21. The terms of trade (ToT) index increased 4.9 percent in the review month compared to an increase of 4.1 percent a year ago.

Services

12. Net services income remained at a deficit of Rs.5.45 billion in the review period compared to a deficit of Rs.5.80 billion in the same period of the previous year.
13. Under the service account, travel income decreased 90.5 percent to Rs.973.7 million in the review period which was Rs.10.21 billion in the same period of the previous year.
14. Under the service account, travel payments decreased 80.0 percent to Rs.2.92 billion, including Rs.2.47 billion for education. Such payments were Rs.14.63 billion and Rs.7.64 billion respectively in the same period of the previous year.

Remittances

15. Remittance inflows increased 8.1 percent to Rs.165.73 billion in the review period against a decrease of 0.6 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 2.6 percent to 1.39 billion in the review period against a decrease of 1.6 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 99.2 percent in the review period. It had increased 0.2 percent in the same period of the previous year. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 86.5 percent in the review period. It had increased 10.3 percent in the same period of the previous year.
17. Net transfer increased 4.4 percent to Rs.183.66 billion in the review period. Such transfer had increased 0.5 percent in the same period of the previous year.

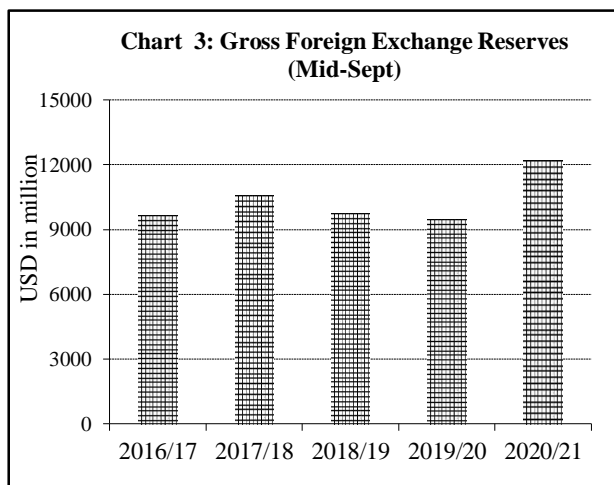
Current Account and Balance of Payments

18. The current account remained at a surplus of Rs.26.07 billion in the review period against a deficit of Rs.22.69 billion in the same period of the previous year. In the US Dollar terms, the current account recorded a surplus of 217.6 million in the review period against a deficit of 200.3 million in the same period last year.
19. In the review period, capital transfer decreased 33.7 percent to Rs.1.96 billion and net foreign direct investment (FDI) increased 23.2 percent to Rs.2.44 billion. In the same period of the previous year, capital transfer and net FDI amounted to Rs.2.96 billion and Rs.1.98 billion respectively.
20. Balance of Payments (BOP) registered a surplus of Rs.67.63 billion in the review period. Such surplus was Rs.8.83 billion in the same period of the previous year. In the US Dollar terms, the BOP recorded a surplus of 566.2 million in the review period compared to a surplus of 78.5 million in the same period of the previous year.

Foreign Exchange Reserves

21. Gross foreign exchange reserves increased 2.3 percent to Rs.1433.67 billion in mid-September 2020 from Rs.1401.84 billion in mid-July 2020. In the US Dollar terms, the gross foreign exchange reserves increased to 12.20 billion in mid-September 2020 from 11.65 billion in mid-July 2020.

22. Of the total foreign exchange reserves, reserves held by NRB increased to Rs.1255 billion in mid-September 2020 from Rs.1226.12 billion in mid-July 2020. Reserves held by banks and financial institutions (except NRB) increased to Rs.178.66 billion in mid-September 2020 from Rs.175.71 billion in mid-July 2020. The share of Indian currency in total reserves stood at 23.1 percent in mid-September 2020.



Foreign Exchange Adequacy Indicators

23. Based on the imports of two months of 2020/21, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 16.5 months, and merchandise and services imports of 14.9 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 38.1 percent, 124.5 percent and 33.6 percent respectively in mid-September 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 37.1 percent to US Dollar 41.23 per barrel in mid-September 2020 from US Dollar 65.59 per barrel a year ago. The price of gold increased 30.6 percent to US Dollar 1961.80 per ounce in mid-September 2020 from US Dollar 1502.10 per ounce a year ago.

Exchange Rate

25. Nepalese currency vis-à-vis the US Dollar appreciated 2.4 percent in mid-Septemeber 2020 from mid-July 2020. It had depreciated 4.3 percent in the same period of the previous year. The buying exchange rate per US Dollar stood at Rs.117.54 in mid-September 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 surplus of Rs.50.37 billion in the review period compared to a surplus of Rs.105.05 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.53.55 billion. Such expenditure was Rs.43.12 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.105.37 billion. Total government revenue was Rs.141.51 billion in the corresponding period of the previous year.

Cash Balance

29. Balance at various accounts of the GoN maintained with NRB remained Rs.207.99 billion (including Provincial government and Local Authorities Account) in mid-September 2020.

Provincial Government

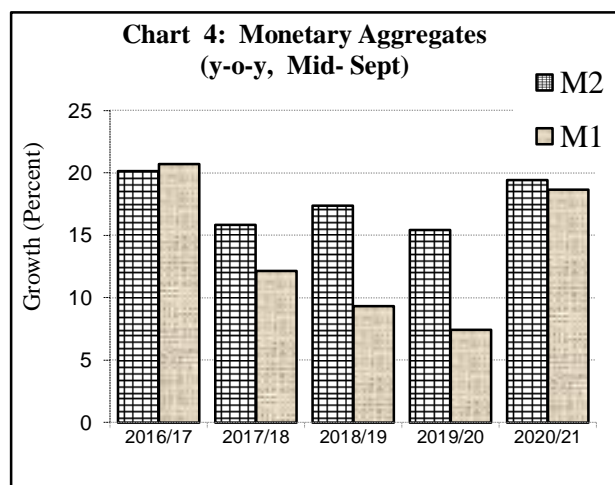
30. In the review period, total resource mobilization of provincial governments was Rs.15.08 billion. The federal government has transferred Rs.9.46 billion as grants and revenue from divisible fund to provincial governments and the provincial governments have mobilized the resource of Rs.5.63 billion from revenue and other receipts in the review period.

Monetary Situation

Money Supply

31. Broad money (M2) expanded 0.9 percent in the review period compared to the contraction of 0.2 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 19.4 percent in mid-September 2020.

32. The net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs. 67.63 billion (5.1 percent) in the review period compared to an increase of Rs.8.83 billion (0.9 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.

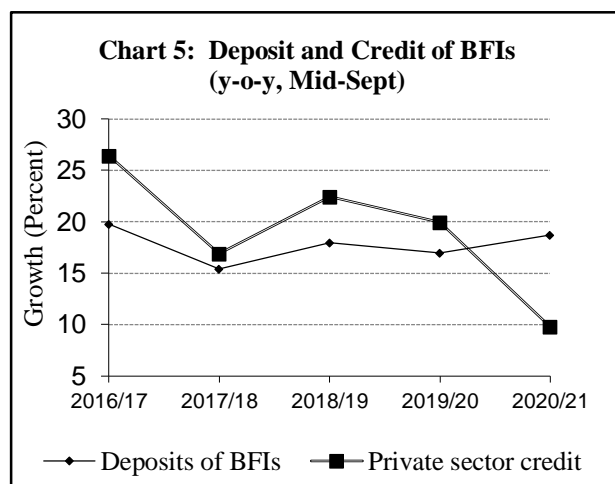
[#] After excluding previous year's recovery.

33. Reserve money increased 0.3 percent in the review period compared to a decrease of 9.5 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 40.4 percent in mid-September 2020.

Domestic Credit

34. Domestic credit decreased 0.3 percent in the review period compared to a contraction of 0.1 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 13.3 percent in mid-September 2020.

35. Monetary Sector's claims on private sector increased 1.6 percent in the review period compared to a growth of 3.6 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 10.3 percent in mid-September 2020.



Deposit Mobilization

36. Deposits at Banks and Financial Institutions (BFIs) increased 0.5 percent in the review period compared to a growth of 0.4 percent in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 18.7 percent in mid-September 2020.

37. The share of demand, saving, and fixed deposits in total deposits stands at 7.5 percent, 32.6 percent and 50.9 percent respectively in mid-September 2020. Such shares were 7.9 percent, 32.5 percent and 48.3 percent respectively a year ago.

Deposits	Mid-Jul				Mid-Sept	
	2017	2018	2019	2020	2019	2020
Demand	8.7	9.3	9.7	10.0	7.9	7.5
Saving	35.4	34.5	32.8	31.9	32.5	32.6
Fixed	43.2	44.8	46.3	48.6	48.3	50.9
Other	12.7	11.3	11.3	9.4	11.3	9.0

38. The share of institutional deposits in total deposit of BFIs stands at 43.2 percent in mid-September 2020. Such share was 44.6 percent in mid-September 2019.

Credit Disbursement

39. Private sector credit from BFIs increased 0.5 percent in the review period compared to a growth of 2.5 percent in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 9.8 percent in mid-September 2020.

40. In the review period, private sector credit from commercial banks and development banks increased 0.5 percent and 1.2 percent respectively while that of finance companies decreased 1.7 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 12.8 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 64.3 percent and 13.7 percent respectively a year ago.

42. Outstanding loan of BFIs to agriculture sector decreased 0.1 percent, industrial production sector decreased 0.2 percent, construction sector decreased 1.2 percent while that of transportation,

communication and public sector increased 3.1 percent, wholesale and retail sector increased 0.2 percent and service industry sector increased 3.3 percent in the review period.

43. In the review period, term loan extended by BFIs increased 1.7 percent, demand and working capital loan increased 2.8 percent and margin nature loan increased 4.7 percent while that of overdraft decreased 1.3 percent, real estate loan (including residential personal home loan) decreased 0.5 percent, trust receipt (import) loan decreased 7.9 percent and hire purchase loan decreased 1.4 percent.

Liquidity Management

44. In the review period, NRB mopped up Rs. 60 billion liquidity through reverse repo auction on a cumulative basis. Rs.30 billion liquidity was mopped up in the corresponding period of the previous year. Rs. 34.02 billion liquidity was injected through standing liquidity facility (SLF) in the corresponding period of the previous year.
45. In the review period, NRB injected liquidity of Rs.85.27 billion through the net purchase of USD 715.1 million from foreign exchange market. Liquidity of Rs.52.46 billion was injected through the net purchase of USD 460.7 million in the corresponding period of the previous year.
46. The NRB purchased Indian currency (INR) equivalent to Rs.64.39 billion through the sale USD 540 million in the review period. INR equivalent to Rs.55.07 billion was purchased through the sale of USD 780 million in the corresponding period of previous year.

Refinance and Concessional Loan

47. The outstanding amount of refinance provided by this bank is Rs.1.76 billion in mid-September 2020. Of which, general refinance of Rs. 730 million and earthquake victim refinance of Rs. 1.03 billion was availed.
48. As of mid-September 2020, the outstanding concessional loan is Rs.64.95 billion extended to 36,181 borrowers. Of which, Rs.57.44 billion has been extended to 25,589 borrowers for selected agriculture and livestock businesses, whereas concessional loan to other sectors has been disbursed Rs.7.52 billion to 10,592 beneficiaries.

Inter-bank Transaction

49. In the review period, inter-bank transactions among commercial banks amounted to Rs.7.38 billion and among other financial institutions (excluding transactions among commercial banks) to Rs.30.24 billion. Such transactions were Rs.395.87 billion and Rs.29.38 billion respectively in the corresponding period of previous year.

Interest Rates

50. The weighted average 91-day treasury bills rate remained at 0.13 percent in the second month of 2020/21, which was 2.73 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 1.69 percent a year ago, decreased to 0.08 percent in review month.

51. The average base rate of commercial banks decreased to 7.83 percent in the second month of 2020/21 from 9.53 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 5.61 percent and 10.18 percent respectively in review month. Such rates were 6.80 percent and 11.97 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 747 levels as of mid-September 2020. The number of local levels having commercial bank branches was 739 a year ago (Table 3).
54. The total number of BFIs licensed by NRB decreased to 149 in mid-September 2020 (Table 4). As of mid-September 2020, 27 commercial banks, 19 development banks, 21 finance companies, 81 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 9851 in mid-September 2020 from 9765 in mid-July 2020.

Province	No. of Local Levels	Local Levels having Bank Branches	
		mid- Sept 2019	mid- Sept 2020
Province 1	137	136	136
Province 2	136	134	136
Bagmati	119	117	117
Gandaki	85	84	85
Lumbini	109	109	109
Karnali	79	77	78
SudurPasc him	88	82	86
Total	753	739	747

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	Mid-Jul 2019	Mid- Jul 2020	Mid- Sept 2020	Mid-Jul 2019	Mid- Jul 2020	Mid- Sept 2020
Commercial Banks	28	27	27	3585	4436	4505
Development Banks	29	20	19	1267	1029	1021
Finance Companies	23	22	21	205	243	246
Microfinance Financial Institutions	90	85	81	3629	4057	4079
Infrastructure Development Bank	1	1	1	-	-	-
Total	171	155	149	8686	9765	9851

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

Electronic Payment Transaction

55. The use of the electronic means of payment is increasing due to the development of payment system infrastructure and the policy of encouraging electronic means of payment (Table 5).

S. N.	Particulars	No. of Transaction			Total Amount (NPR in Million)		
		mid-July 2020	mid-Aug 2020	mid-Sept 2020	mid-July 2020	mid-Aug 2020	mid-Sept 2020
1	RTGS*	37297	34616	28137	1567959	1213870	835526
2	ATM-Cash Withdrawal	6302846	4769340	3797969	54763	38393	32320
3	ECC	1260169	1039330	677845	792007	657113	402477
4	IPS	596538	347854	656142	223651	156360	153073
5	ConnectIPS	696447	633134	895586	51306	47367	61958
6	Debit Cards	3316554	5426368	4118182	25894	41787	33667
7	Credit Cards	119610	154698	76317	584	708	407
8	Prepaid Cards	5249	8986	4587	36	57	30
9	Internet Banking	653459	205735	208934	19048	3082	4741
10	Mobile Banking	5817681	5923411	5961339	18839	18393	20340
11	Branchless Banking	83249	53350	37344	1338	1042	815
12	Wallet	10179557	10177889	9415447	10222	7579	7339
13	QR-Based Payments	-	195016	179150	-	589	648
14	Point of Sales (POS)	-	532911	314110	-	1858	1223
15	E-Commerce**	-	168627	87007	-	1201	561

* Transaction amount of mid-July and mid-August 2020 are revised.

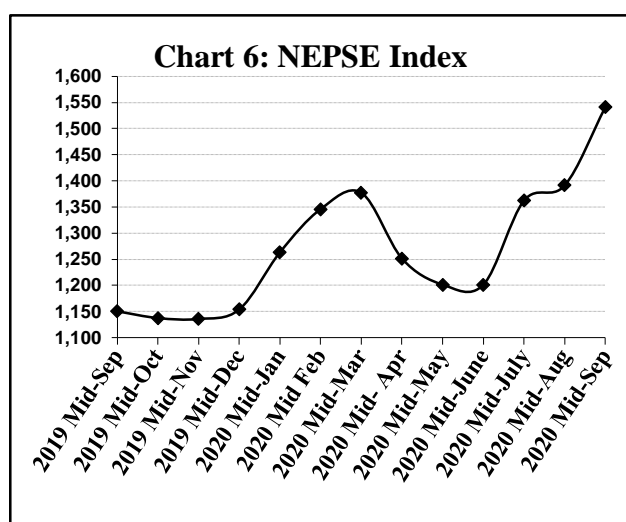
**Online payment using cards

Capital Market

56. NEPSE index stood at 1541.4 in mid-Sept 2020 compared to 1150.7 a year ago. Such index was 1362.4 in mid-July 2020.

57. Stock market capitalization in mid-Sept 2020 stood Rs. 2049.28 billion compared to Rs. 1792.76 billion in mid-Jul 2020.

58. Number of companies listed at NEPSE stood 210, out of which 144 are Bank and Financial Institutions (BFIs) and insurance companies, 33 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 75.8 percent. Such share for hydropower companies is 5.9 percent, manufacturing and processing industries 3.6 percent, hotels 1.1 percent, trading companies 0.3 percent and the share of other sector companies is 13.3 percent.

60. The paid-up value of 4.87 billion listed shares at NEPSE stood Rs. 477.79 billion in mid-Sept 2020.

61. Securities worth Rs. 111.67 billion were listed at NEPSE during the two month of 2020/21. Such securities comprise government development bond worth Rs. 100 billion, ordinary share worth Rs. 4.45 billion, bonus shares worth Rs. 3.87 billion, debenture worth Rs. 2 billion, right share worth Rs. 702 million and mutual fund worth Rs. 653 million.
62. Securities Board of Nepal approved the total issuance of securities worth Rs. 1.30 billion which includes ordinary share worth Rs. 938.6 million and right share worth Rs. 364 million in the review period.

Impact of the COVID-19

63. The adverse impact of COVID-19 has been witnessed on various sectors of economy, particularly on external trade, capital spending of the government and credit expansion of BFIs.

Table 6 : Monthly Situation of Major Economic Indicators

(Rs. Billion)

Particulars	2019						2020					
	Mid-Month											
	Mar-Apr	Apr-May	May-Jun	Jun-Jul	July-Aug	Aug-Sept	Mar-Apr	Apr-May	May-Jun	Jun-Jul	Jul-Aug	Aug-Sept
Consumer Inflation (y-o-y)	4.44	5.29	6.16	6.02	6.95	6.16	6.74	5.83	4.54	4.78	3.49	4.52
Consumer Inflation (Compared to previous month)	0.58	1.19	1.14	0.64	2.58	-0.15	0.62	0.34	-0.10	0.86	1.33	0.84
Food and Beverage	1.35	1.54	2.52	1.40	3.10	-0.34	1.68	0.59	-0.55	1.71	2.76	1.11
Non Food and Service	-0.02	0.93	0.06	0.04	2.18	-0.01	-0.21	0.14	0.26	0.20	0.22	0.62
Exports	8.6	8.7	9.3	9.3	8.8	9.7	3.9	3.3	5.9	9.7	9.6	10.8
Imports	112.5	116.5	121.7	118.7	106.7	122.8	58.3	42.6	75.7	96.0	85.8	93.0
Travel Income	7.1	9.2	5.6	5.1	4.4	5.8	3.3	0.9	1.2	2.3	0.6	0.4
Travel Spending	6.4	5.7	6.8	9.1	7.0	7.6	1.3	0.6	1.0	1.3	1.6	1.3
Remittance Inflows	71.0	72.1	73.7	80.3	75.4	77.9	34.5	54.0	94.0	101.4	92.7	73.0
Government Expenditure	81.1	86.2	-	-	4.2	55.0	64.6	85.8	122.3	210.5	2.0	69.0
Current Expenditure	57.7	65.3	-	-	3.5	50.0	44.6	76.7	98.4	116.0	1.7	63.0
Capital Expenditure	19.2	19.4	-	-	0.6	4.5	8.7	9.1	11.9	65.2	0.1	4.6
Revenue	81.0	59.1	-	-	67.2	71.6	43.9	16.1	41.1	146.0	58.8	46.6
Deposit Mobilization	24.9	29.2	43.0	129.3	-14.2	28.4	53.4	44.8	74.1	173.1	-5.4	23.4
Private Sector Credit	46.5	15.6	24.8	30.1	14.7	57.3	40.0	-13.3	-10.4	36.8	-17.3	34.1
Weighted Average Deposit Rate	6.7	6.7	6.6	6.6	6.8	6.8	6.7	6.4	6.2	6.0	5.8	5.6
Weighted Average Lending Rate	12.3	12.2	12.2	12.1	12.1	12.0	11.8	11.0	10.4	10.1	10.5	10.2
Base Rate of Commercial Banks	9.64	9.59	9.48	9.57	9.45	9.5	9.36	8.96	8.66	8.50	8.08	7.83

Source : Nepal Rastra Bank and FCGO.

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.

Table. 7:Trend of Imports*

(Rs.Billion)

S.N.	Classification of Goods	2019						2020					
		Mid-Month						Mid-Month					
		Mar-Apr	Apr-May	May-June	June-July	July-Aug	Aug-Sept	Mar-Apr	Apr-May	May-June	June-July	July-Aug	Aug-Sept
1	Foods and Beverages	16.9	16.2	16.8	14.7	15.1	18.4	13.4	16.7	19.9	18.2	19.5	20.6
2	Industrial Supplies	39.3	41.2	44.2	43.8	39.0	41.2	19.1	10.4	26.2	35.2	28.2	33.0
3	Fuels and Lubricants	22.1	22.6	24.6	21.1	15.7	15.6	10.9	8.3	7.9	15.0	8.5	8.4
4	Capital goods, Parts and Accessories	15.6	16.5	17.2	20.6	17.1	19.1	8.0	2.8	10.2	15.3	14.2	16.2
5	Transport Equipment, Parts and Accessories	8.7	10.5	9.3	9.0	9.6	13.9	2.5	0.6	3.4	4.0	6.0	6.2

* Major commodities based on UN trade statistics' classification by broad economic categories (revision 4)