



Nepal Rastra Bank

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Current Macroeconomic and Financial Situation of Nepal

(Based on Five Months' Data Ending Mid-December, 2022/23)

Major Highlights

- *CPI-based Inflation remained 7.38 percent on y-o-y basis.*
- *Imports decreased 20.7 percent, exports decreased 34.6 percent and trade deficit decreased 18.8 percent.*
- *Remittances increased 23.0 percent in NPR terms and 13.1 percent in USD terms.*
- *Balance of Payments remained at a surplus of Rs.45.87 billion.*
- *Gross foreign exchange reserves stood at NPR 1292.56 billion and 9.82 billion in USD terms.*
- *Federal Government expenditure amounted to Rs.435.21 billion and revenue collection Rs.326.89 billion.*
- *Broad money (M2) increased 1.9 percent. On y-o-y basis, M2 increased 7.4 percent.*
- *Deposits at BFIs increased 2.2 percent and private sector credit increased 1.6 percent. On y-o-y basis, deposits increased 9.5 percent and private sector credit increased 4.1 percent.*

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation remained at 7.38 percent in mid-December 2022 compared to 7.11 percent a year ago. Food and beverage inflation stood at 5.85 percent whereas non-food and service inflation rose to 8.59 percent in the review month.
2. Under the food and beverage category, y-o-y consumer price index of restaurant & hotel sub-category increased 15.56 percent, tobacco products 11.81 percent, cereal grains & their products 9.39 percent, milk products & eggs 9.07 percent, and alcoholic drinks 8.84 percent.
3. Under the non-food and services category, y-o-y consumer price index of transportation sub-category increased

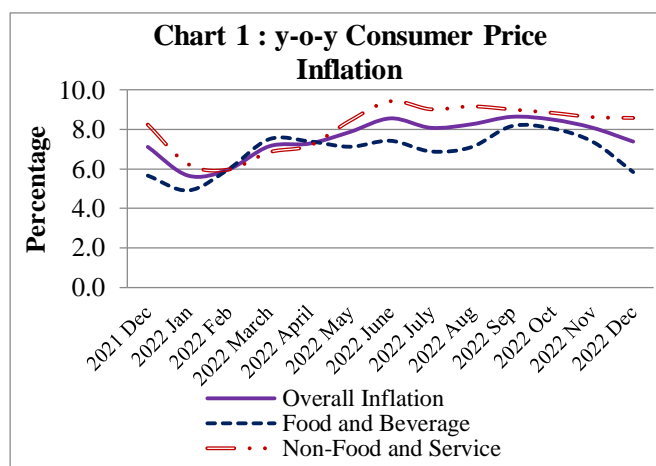


Table 1: y-o-y Consumer Price Inflation (Percent)

Particulars	Mid-Month		
	Nov/Dec 2021	Oct/Nov 2022	Nov/Dec 2022
Overall Inflation	7.11	8.08	7.38
Food and Beverage	5.67	7.38	5.85
Non-food and Service	8.25	8.63	8.59

17.33 percent, health 11.22 percent, recreation & culture 8.76 percent, housing & utilities 8.29 percent and furnishing & household equipment 8.29 percent.

4. In the review month, consumer price inflation in the Kathmandu Valley, Terai, Hill and Mountain remained 6.56 percent, 8.00 percent, 7.32 percent and 6.48 percent respectively. Inflation in these regions were 5.91 percent, 7.52 percent, 6.95 percent and 4.91 percent respectively a year ago.

Wholesale Price Inflation

5. The y-o-y wholesale price index increased 9.15 percent in the review month compared to 7.22 percent a year ago.
6. The y-o-y wholesale price of consumption goods, intermediate goods and capital goods increased by 3.49 percent, 13.14 percent and 4.69 percent respectively. The wholesale price of construction materials increased by 10.51 percent in the review month.

Salary and Wage Rate Index

7. The y-o-y salary and wage rate index increased 9.73 percent in the review month. Such growth rate was 6.53 percent a year ago. In the review month, salary index and wage rate index increased by 12.39 and 8.95 percent, respectively.

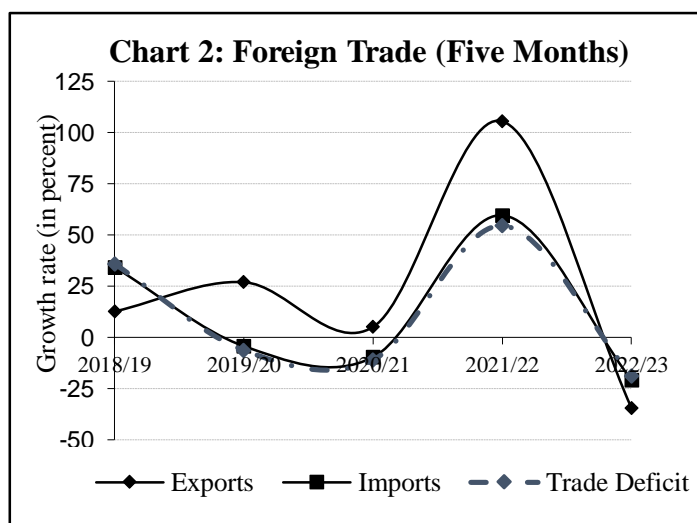
Consumer Price Inflation in Nepal and India

8. The y-o-y consumer price inflation in Nepal remained at 7.38 percent in mid-December 2022. Such inflation in India stood at 5.72 percent in December 2022.

External Sector

Merchandise Trade

9. During the five months of 2022/23, merchandise exports decreased 34.6 percent to Rs.67.30 billion against an increase of 105.6 percent in the same period of the previous year. Destination-wise, exports to India and China decreased 43.7 percent and 35.9 percent respectively whereas exports to other countries increased 7.1 percent. Exports of zinc sheet, particle board, woolen carpets, cardamom, tea, among others, increased whereas exports of soyabean oil, palm oil, oil cakes, textiles, silverware and jewelries, among others, decreased in the review period.



10. During the five months of 2022/23, merchandise imports decreased 20.7 percent to Rs.664.75 billion against an increase of 59.5 percent a year ago. Destination-wise, imports from India, China and other countries decreased 20.0 percent, 22.6 percent, and 21.4 percent respectively. Imports of petroleum products, sponge iron, gold, chemical fertilizer, aircraft spareparts, among others, increased whereas imports of transport equipment & parts, M.S. billet, silver, medicine, crude soyabean oil, among others, decreased in the review period.
11. Based on customs points, exports from Dry Port, Jaleswor, Kailali, Krishnanagar, Mechi and Tribhuwan Airport Customs Offices increased whereas exports from all the other major customs points decreased in the review period. On the import side, imports from all the major customs points decreased in the review period.
12. Total trade deficit decreased 18.8 percent to Rs.597.44 billion during the five months of 2022/23. Such a deficit had increased 54.7 percent in the corresponding period of the previous year. The export-import ratio decreased to 10.1 percent in the review period from 12.3 percent in the corresponding period of the previous year.
13. During the five months of 2022/23, merchandise imports from India by paying convertible foreign currency amounted Rs.50.20 billion. Such amount was Rs.92.34 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 53.4 percent and 46.5 percent of the total exports respectively, whereas the ratio of capital goods in total exports remained negligible at 0.05 percent in the review period. In the same period of the previous year, the ratio of intermediate, capital and final consumption goods remained 47.1 percent, 0.02 percent and 52.9 percent of total exports respectively.
15. On the imports side, the share of intermediate goods remained 53.1 percent, capital goods 9.0 percent and final consumption goods remained 38.0 percent in the review period. Such ratios were 53.8 percent, 10.9 percent and 35.4 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 1.6 percent and the import price index increased 11.1 percent in the fifth month of 2022/23. The terms of trade (ToT) index decreased 8.5 percent in the review month compared to a decrease of 3.1 percent a year ago.

Services

17. Net services income remained at a deficit of Rs.26.68 billion in the review period compared to a deficit of Rs.38.13 billion in the same period of the previous year.
18. Under the service account, travel income increased 132.9 percent to Rs.23.63 billion in the review period which was Rs.10.14 billion in the same period of the previous year.
19. Under the service account, travel payments increased 64.0 percent to Rs.42.08 billion, including Rs.28.81 billion for education. Such payments were Rs.25.65 billion and Rs.13.53 billion respectively in the same period of the previous year.

Remittances

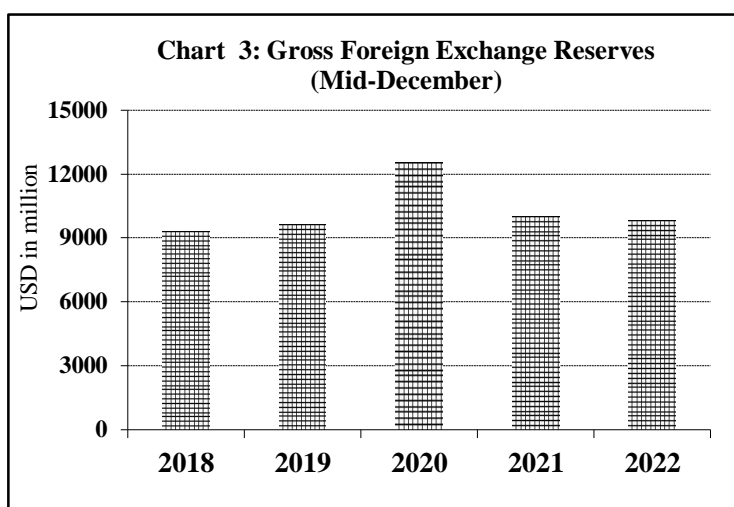
20. Remittance inflows increased 23.0 percent to Rs.480.50 billion in the review period against a decrease of 6.3 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 13.1 percent to 3.71 billion in the review period against a decrease of 6.8 percent in the same period of the previous year.
21. Net transfer increased 21.6 percent to Rs.530.06 billion in the review period. Such a transfer had decreased 5.3 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.37.91 billion in the review period compared to a deficit of Rs.298.51 billion in the same period of the previous year. In the US Dollar terms, the current account registered a deficit of 297.2 million in the review period compared to deficit of 2.51 billion in the same period last year.
23. In the review period, capital transfer decreased 25.3 percent to Rs.3.47 billion and net foreign direct investment (FDI) remained Rs.604.9 million. In the same period of the previous year, capital transfer and net FDI amounted to Rs.4.64 billion and Rs.7.07 billion respectively.
24. Balance of Payments (BOP) remained at a surplus of Rs.45.87 billion in the review period compared to a deficit of Rs.195.01 billion in the same period of the previous year. In the US Dollar terms, the BOP remained at a surplus of 346.8 million in the review period against a deficit of 1.64 billion in the same period of the previous year.

Foreign Exchange Reserves

25. Gross foreign exchange reserves increased 6.3 percent to Rs.1292.56 billion in mid-December 2022 from Rs.1215.80 billion in mid-July 2022. In the US dollar terms, the gross foreign exchange reserves increased 3.0 percent to 9.82 billion in mid-December 2022 from 9.54 billion in mid-July 2022.



26. Of the total foreign exchange reserves, reserves held by NRB increased 7.8 percent to Rs.1139.22 billion in mid-December 2022 from Rs.1056.39 billion in mid-July 2022. Reserves held by banks and financial institutions (except NRB) decreased 3.8 percent to Rs.153.34 billion in mid-December 2022 from Rs.159.41 billion in mid-July 2022. The share of Indian currency in total reserves stood at 22.9 percent in mid-December 2022.

Foreign Exchange Adequacy Indicators

27. Based on the imports of five months of 2022/23, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 10.0 months, and merchandise and services imports of 8.7 months. The ratio of reserves-to-GDP, reserves-to-imports and reserves-to-M2 stood at 26.6 percent, 72.6 percent and 23.0 percent respectively in mid-December 2022. Such ratios were 25.1 percent, 57.8 percent and 22.1 percent respectively in mid-July 2022.

Price of Oil and Gold

28. The price of oil (Crude Oil Brent) in the international market increased 11.7 percent to US dollar 82.34 per barrel in mid-December 2022 from US dollar 73.71 per barrel a year ago. The price of gold increased 0.8 percent to US dollar 1783.55 per ounce in mid-December 2022 from US dollar 1768.65 per ounce a year ago.

Exchange Rate

29. Nepalese currency vis-à-vis the US dollar depreciated 3.14 percent in mid-December 2022 from mid-July 2022. It had depreciated 1.69 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.131.64 in mid-December 2022 compared to Rs.127.51 in mid-July 2022.

Fiscal Situation

Federal Government

Expenditure and Revenue

30. During the five months of 2022/23, total expenditure of the federal government according to data of Financial Comptroller General Office (FCGO), Ministry of Finance, stood at Rs.435.21 billion. The recurrent expenditure, capital expenditure and financial management expenditure amounted to Rs.354.26 billion, Rs.33.99 billion and Rs.46.96 billion respectively in the review period.

Particulars	Amount (Rs. in Billion)		Percentage Change	
	2021/22	2022/23	2021/22	2022/23
Total Expenditure	387.03	435.21	17.9	12.4
<i>Recurrent Expenditure</i>	317.33	354.26	13.1	11.6
<i>Capital Expenditure</i>	28.40	33.99	-21.0	19.7
<i>Financial Management</i>	41.30	46.96	250.8	13.7
Total Revenue	412.40	326.89	36.9	-20.7
<i>Tax Revenue</i>	380.23	301.46	33.6	-20.7
<i>Non-Tax Revenue</i>	32.17	25.43	92.6	-21.0

Source: Financial Comptroller General Office

31. In the review period, total revenue mobilization of Federal Government (including the amount to be transferred to provincial and local governments) stood at Rs.326.89 billion. The tax revenue amounted Rs.301.46 billion and non tax revenue Rs.25.43 billion in the review period (Table 2).

Cash Balance of Government

32. Cash Balance at various accounts of the GoN maintained with NRB remained Rs.182.43 billion (including Provincial Governments and Local Government Account) in mid-December 2022. Such balance was Rs.227.69 billion in mid-July 2022.

Provincial Government

Expenditure and Revenue

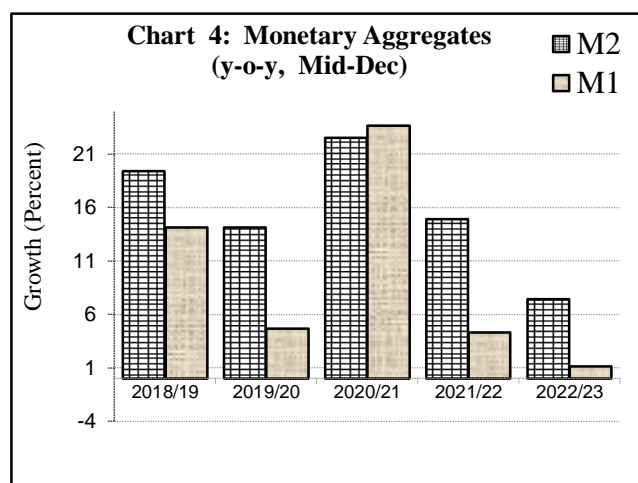
33. In the review period, total expenditure of provincial governments stood at Rs.35.65 billion. In the review period, total resource mobilization of provincial governments remained Rs.52.89 billion, of which the federal government transferred Rs.36.92 billion as grants and revenue from federal divisible fund and the provincial governments mobilized Rs.15.97 billion in terms of revenue and other receipts in the review period.

Monetary Situation

Money Supply

34. Broad money (M2) increased 1.9 percent in the review period compared to an increase of 1.3 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 7.4 percent in mid-December 2022.

35. The net foreign assets (NFA, after adjusting foreign exchange valuation gain/loss) increased Rs.45.87 billion (4.1 percent) in the review period in contrast to a decrease of Rs.195.01 billion (14.6 percent) in the corresponding period of the previous year.



36. Reserve money increased 2.1 percent in the review period in contrast to a decrease of 11.5 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 2.2 percent in mid-December 2022.

Domestic Credit

37. Domestic credit increased 3.0 percent in the review period compared to an increase of 7.2 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 10.1 percent in mid-December 2022.

38. Monetary Sector's net claims on government increased 3.2 percent in the review period which had declined 20.3 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 63.5 percent in mid-December 2022, which had increased 13.8 percent in mid-December 2021.

39. Monetary Sector's claims on the private sector increased 3.1 percent in the review period compared to an increase of 11.1 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 5.0 percent in mid-December 2022.

Deposit Mobilization

40. Deposits at Banks and Financial Institutions (BFIs) increased Rs.111.15 billion (2.2 percent) in the review period compared to an increase of Rs.78.44 billion (1.7 percent) in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 9.5 percent in mid-December 2022.

41. The share of demand, saving, and fixed deposits in total deposits stands at 7.6 percent, 25.7 percent and 60.3 percent respectively in mid-December 2022. Such shares were 7.1 percent, 31.5 percent and 54.3 percent respectively a year ago.

42. The share of institutional deposits in total deposit of BFIs stands at 37.2 percent in mid-December 2022. Such a share was 39.0 percent in mid-December 2021.

Deposits	Mid-July		Mid-December	
	2021	2022	2021	2022
Demand	10.4	8.9	7.1	7.6
Saving	34.2	27.6	31.5	25.7
Fixed	47.0	55.8	54.3	60.3
Other	8.4	7.7	7.1	6.4

Credit Disbursement

43. Private sector credit from BFIs increased Rs.73.30 billion (1.6 percent) in the review period compared to an increase of Rs.423.13 billion (10.4 percent) in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 4.1 percent in mid-December 2022.

44. The shares of private sector credit from BFIs to non-financial corporation and household stand at 64.1 percent and 35.9 percent respectively in mid-December 2022. Such shares were 64.0 percent and 36.0 percent a year ago.

45. In the review period, private sector credit from commercial banks, development banks and finance companies increased 1.4 percent, 3.8 percent and 0.5 percent respectively.

46. In the review period, out of the total outstanding credit of the BFIs, 66.8 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 66.5 percent and 12.4 percent respectively a year ago.

47. In the review period, outstanding loan of BFIs to industrial production sector increased 6.0 percent, transportation, communication and public sector 4.3 percent, service industry sector 3.9 percent, agriculture sector 3.9 percent, construction sector 3.5 percent, and wholesale & retail sector 2.5 percent.

48. In the review period, term loan extended by BFIs increased 6.0 percent, overdraft 9.4 percent, trust receipt (import) loan 0.2 percent, demand and working capital loan 3.7 percent, real estate loan (including residential personal home loan) 0.5 percent whereas hire purchase loan and margin nature loan decreased by 5.0 percent and 6.7 percent respectively.

Liquidity Management

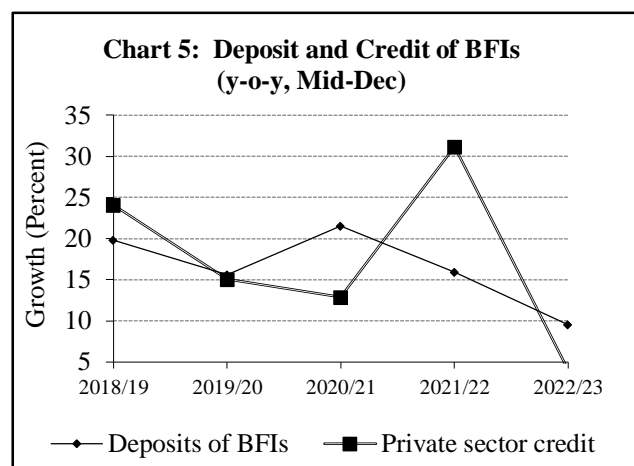
49. In the review period, NRB injected Rs.3007.75 billion liquidity of which Rs.241.20 billion was through repo, Rs.83.85 billion through outright purchase auction and Rs.2682.70 billion through standing liquidity facility (SLF). In the corresponding period of the previous year, Rs.2661.06 billion net amount of liquidity was injected through various instruments.

50. In the review period, NRB injected liquidity of Rs.274.35 billion through the net purchase of USD 2.12 billion from foreign exchange market. Liquidity of Rs.66.43 billion was injected through the net purchase of USD 552.8 million in the corresponding period of the previous year.

51. The NRB purchased Indian currency (INR) equivalent to Rs.235.34 billion through the sale of USD 1.82 billion in the review period. INR equivalent to Rs.216.91 billion was purchased through the sale of USD 1.82 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.100.37 billion in mid-December 2022.



53. As of mid-December 2022, the outstanding concessional loan is Rs.209.32 billion extended to 148,550 borrowers. Of which, Rs.138.71 billion has been extended to 60,851 borrowers for selected commercial agriculture and livestock businesses. Likewise, Rs. 67.33 billion loan has been extended to 84,865 women entrepreneurs. Total 2,834 borrowers have availed Rs.3.27 billion concessional loan in other specified sectors.
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'. The outstanding loan extended under this provision is Rs.875.0 million as of mid-December 2022.

Inter-bank Transaction

55. In the review period, BFIs interbank transactions amounted Rs.1653.86 billion including Rs.1500.26 billion inter-bank transactions among commercial banks and Rs.153.60 billion among other financial institutions (excluding transactions among commercial banks). In the corresponding period of the previous year, such transactions was Rs.1419.80 billion including Rs.1235.72 billion among commercial banks and Rs. 184.08 billion among other financial institutions (excluding transactions among commercial banks).

Interest Rates

56. The weighted average 91-days treasury bills rate remained at 10.67 percent in the fifth month of 2022/23, which was 5.04 percent in the corresponding month a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 4.96 percent a year ago, increased to 7.96 percent in the review month. The average inter-bank rate of BFIs which is considered as operating target of monetary policy, stood 8.00 percent in the review month. Such a rate was 4.97 percent a year ago.

Types	Mid-December 2021	Mid-December 2022
91-days treasury bills rate	5.04	10.67
Inter-bank rate	4.96	7.96
Base rate	8.25	10.69
Deposit rate	6.24	8.46
Lending rate	9.29	12.74

57. The average base rate of commercial banks increased to 10.69 percent in the fifth month of 2022/23 from 8.25 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 8.46 percent and 12.74 percent respectively in the review month. Such rates were 6.24 percent and 9.29 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 247 as of mid-December 2022. Out of which, the license of 179 BFIs was revoked thereby forming 68 BFIs.

Financial Access

59. Of the total 753 local levels, commercial banks extended their branches at 752 levels as of mid-December 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 125 in mid-December 2022 (Table 5). As of mid-December 2022, 26 commercial banks, 17 development banks, 17 finance companies, 64 microfinance financial institutions and 1 infrastructure development bank are in operation. The

number of BFIs branches reached 11,650 in mid-December 2022 from 11,528 in mid-July 2022 (Table 5).

Table 5: Number of BFIs and their Branches*						
Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	mid-July 2021	mid- July 2022	mid-December 2022	mid-July 2021	mid-July 2022	mid-December 2022
Commercial Banks	27	26	26	4753	5009	5099
Development Banks	18	17	17	1023	1118	1127
Finance Companies	17	17	17	222	267	276
Microfinance Financial Institutions	70	65	64	4685	5134	5148
Infrastructure Development Bank	1	1	1	-	-	-
Total	133	126	125	10683	11528	11650

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

Electronic Payment Transaction

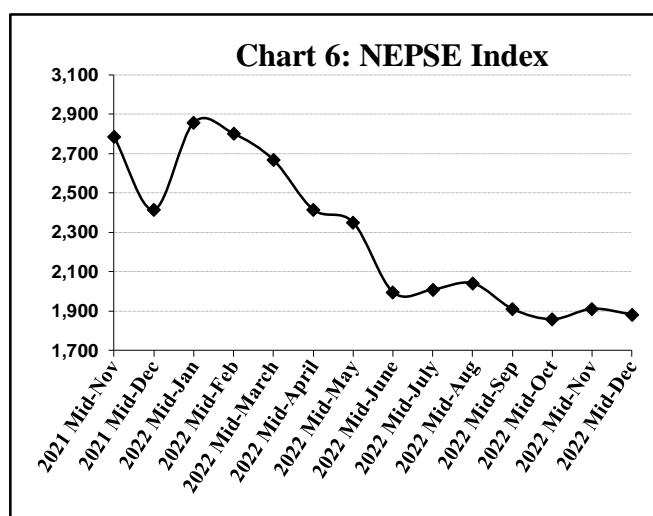
61. Electronic payment transaction has remained substantial due to the development of payment infrastructure, policy of encouraging electronic payments and gradual adoption of electronic payment instruments .

Capital Market

62. NEPSE index stood 1882.6 in mid-December 2022 compared to 2414.6 in mid- December 2021.

63. Stock market capitalization in mid-December 2022 stood Rs.2721.11 billion compared to Rs.3394.7 billion in mid-December 2021.

64. Number of companies listed at NEPSE reached 247 in mid-December 2022, out of which 148 are Bank and Financial Institutions (BFIs) and insurance companies, 62 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 224 in mid-December 2021.



65. Share of BFIs and insurance companies in stock market capitalization is 67.2 percent. Such a share for hydropower companies is 11 percent, investment companies 6.3 percent, manufacturing and processing industries 4.4 percent, hotels 1.7 percent, trading companies 0.4 percent and the share of other companies is 9 percent.

66. The paid-up value of 6.93 billion shares listed at NEPSE stood Rs.683.76 billion in mid-December 2022.

67. Securities worth Rs.92.78 billion were listed at NEPSE during the first five months of 2022/23. Such securities comprise government development bond worth Rs.35 billion, debenture Rs.28.44

billion, ordinary share Rs.11.5 billion, bonus shares Rs.9.74 billion, mutual fund Rs.4.49 billion and right share Rs.3.59 billion.

68. Securities Board of Nepal approved the total public issuance of securities worth Rs.16.55 billion in the review period which includes debenture worth Rs.7.2 billion, mutual fund Rs.5.95 billion, ordinary share Rs.2.45 billion and right share Rs.953.6 million.