

# MACROECONOMIC ANALYSIS OF NEPAL

Mid- April 2023 (Based on Nine months' data published by NRB)



**Machhapuchpuchhre Capital Limited**  
**Research, Strategy & Product Development**





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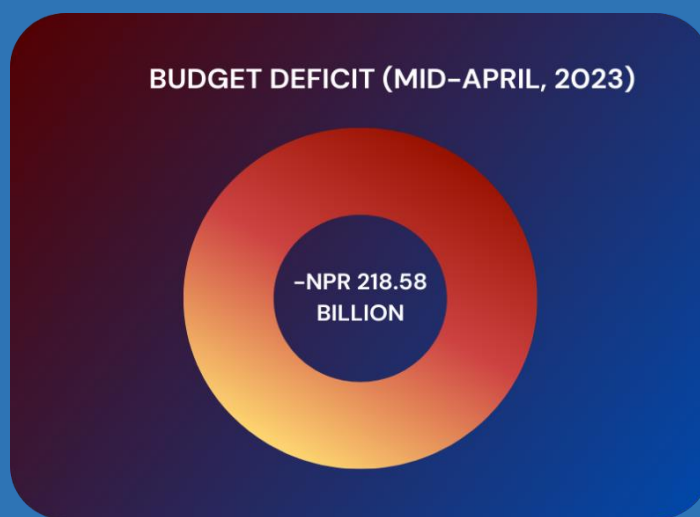
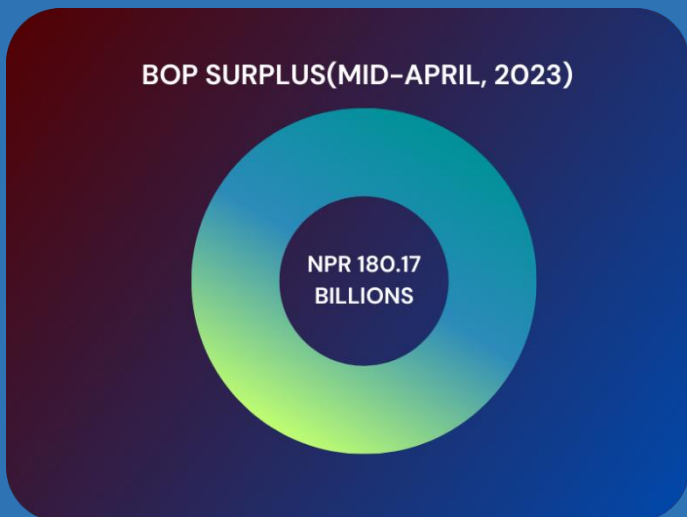
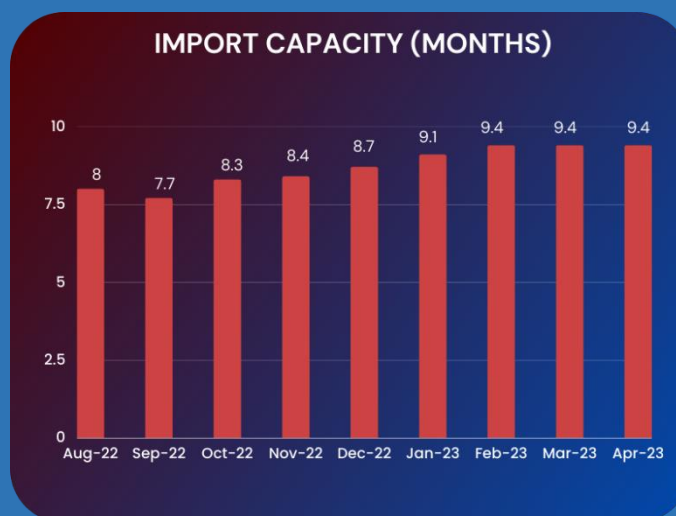
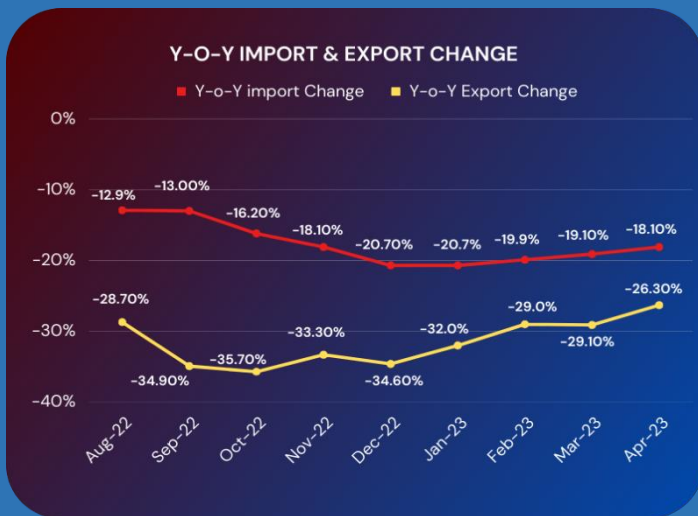
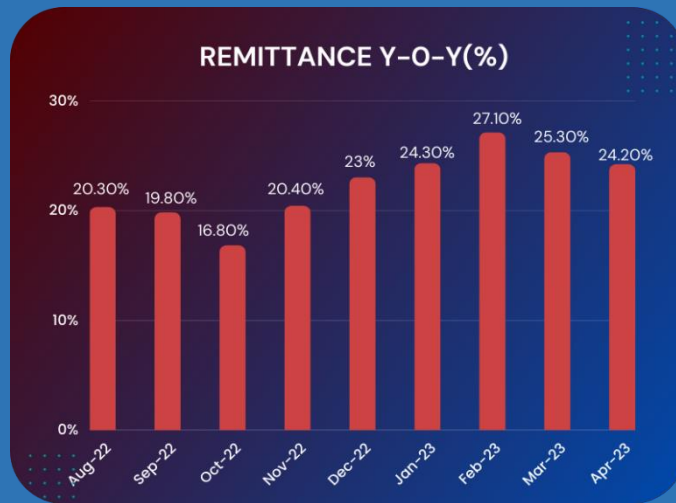
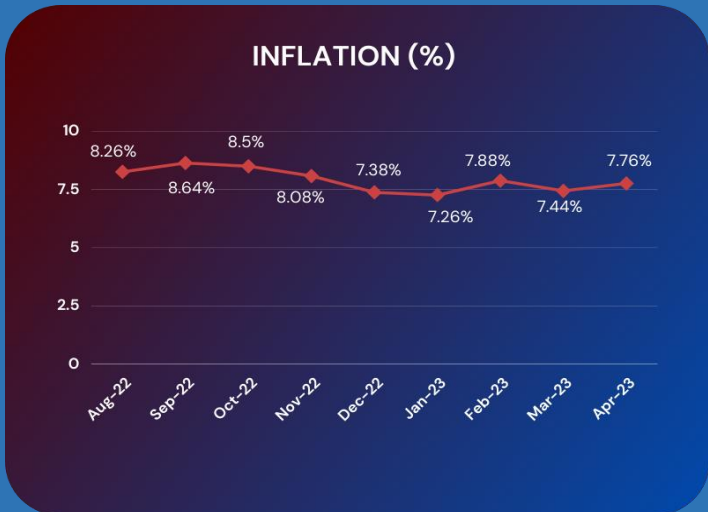
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# Key Highlights





## • Inflation

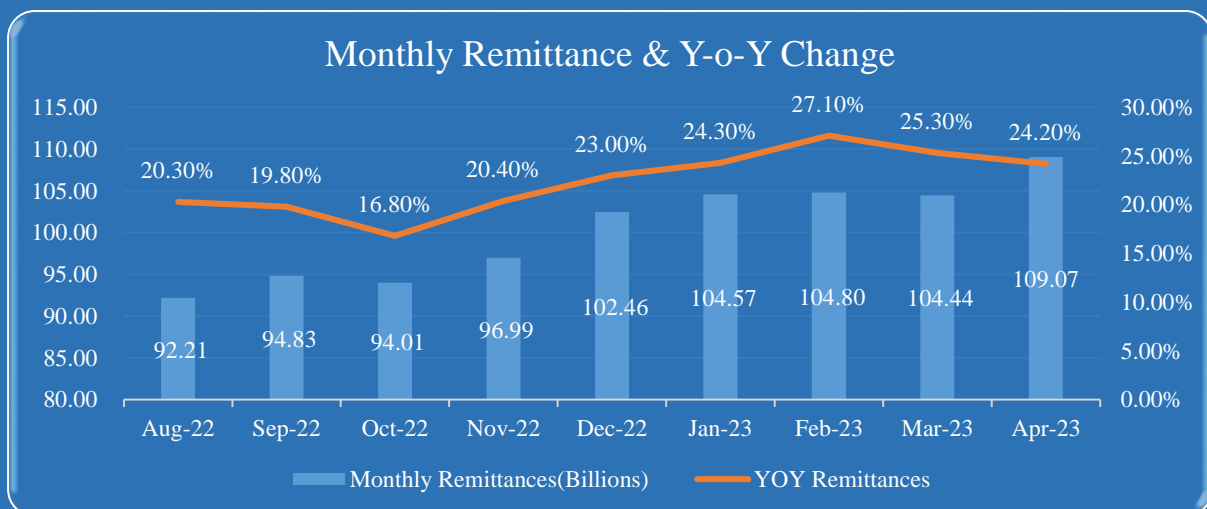
Mid-April 2022	Mid-Mar 2023	Mid- April 2023
7.28%	7.44%	7.76%

The inflation as of Mid-April 2023 stands at 7.76% which has slightly increased as compared to the previous month and to that of the same period of the previous year.

## • Remittance

Date	Amount (in billions)	% Change
Mid-April 22	724.74	24.20%
Mid-April 23	903.39	

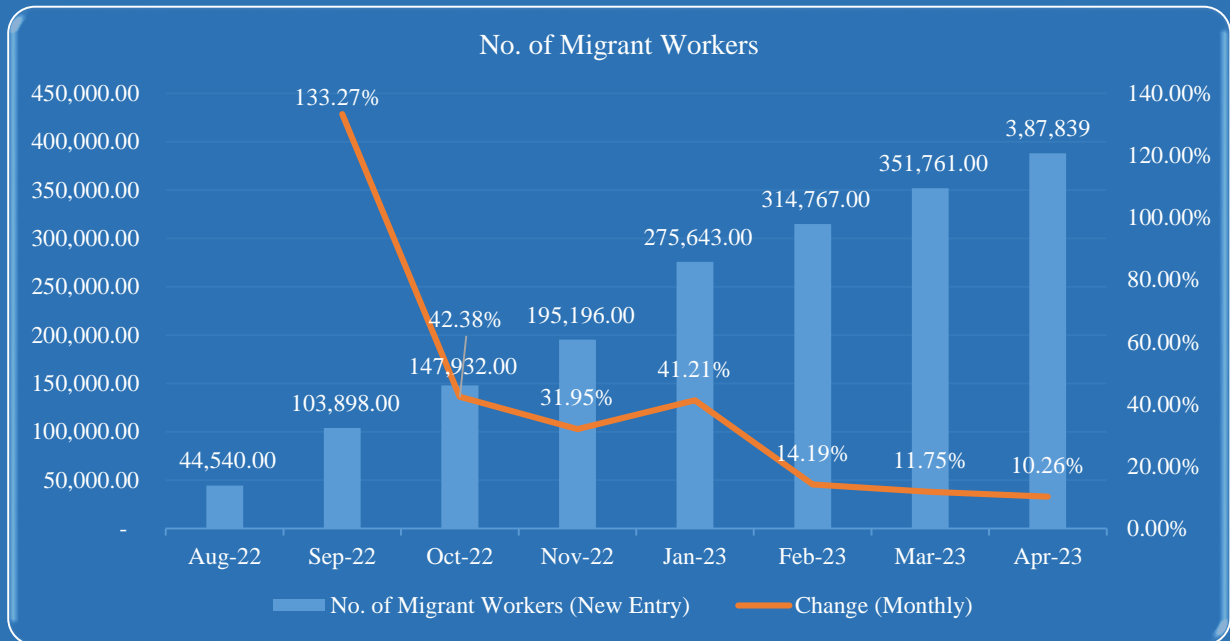
The remittance has increased by 24.20% to 903.39 billion as of Mid- April 2023 on a Y-o-Y basis. In the same period of the previous year, the remittance figure stood at 724.74 billion.



Nepal's economy is highly dependent on remittance. The remittance increased by 24.20% on a Y-o-Y basis as of Mid-April 2023. The Y-o-Y change has slightly decreased compared to the previous month however remittance is in an increasing trend on a monthly basis for the current fiscal year. The remittance has been more than Rs 100 billion for the five consecutive months. Also, the monthly remittance figure is highest in the month of Mid-April, 2023. As of Mid-April 2023, the remittance to GDP ratio has increased to 18.62% from 16.99% during the corresponding period last year. Nepal has the largest remittance inflow as a share of GDP in the South Asian region. According to the World Bank's 2021 data, the Remittance to GDP ratio of Nepal is 22.7% whereas other South Asian Nations' figures are below 10%.



- **No. of Migrant Workers**



As of Mid-April 2023, the number of migrant workers taking new entry is 3,87,839 while the number of migrant workers taking renew entry stands at 2,17,959. In the same period of the previous year, the no. of new entry stood at 2,56,031 while the renewed entry stood at 2,06,629. Since the number of migrant workers is on the increasing trend, we can expect further increase in the remittance in the upcoming months.

As of Mid-April 2023, the number of migrant workers is in increasing trend on a monthly basis. The no. of migrant workers (new entry) increased by 10.26% as of mid-April 2023. Currently, Malaysia is the number one destination nation for Nepali migrant workers with the share of 48.3% followed by UAE, Saudi Arabia, and Qatar.





- **No. of Tourist Arrival**

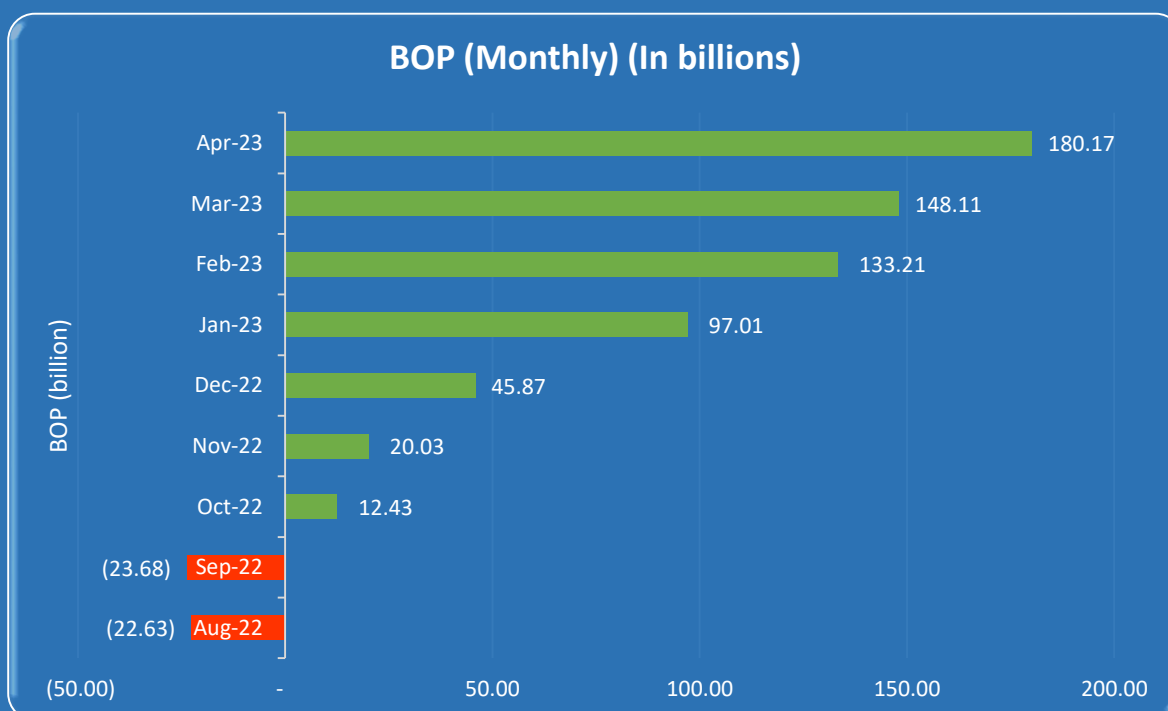


The number of tourist arrivals, which had significantly decreased in the year 2020 due to pandemic, is slowly increasing. The no. of tourist arrivals increased from 1.5 lakh to 6.14 lakhs in the F.Y. 2022. As of the first four months of the year 2023, the number of tourist arrival stood at 3.27 lakhs which was around 1.37 lakhs only in the same period of the previous year. The no. of tourist arrival increased by nearly 138.68% in the first four months of the year 2023 as compared to the same period of previous year. The gradual increased number of tourists coming to the nation is expected to have a positive impact on the hospitality sector of the nation.

The government of Nepal has decided to mark the period from 2023 to 2033 as the Visit Nepal Decade (VND) with the aim of revitalizing the nation's tourism sector, which suffered significant setbacks due to Covid-19 pandemic over the past two years and with the longer-term goal of establishing Nepal as a leading destination in the global tourism market. In fact, the Ministry of Culture, Tourism and Civil Aviation has already prepared a Strategic Action Plan to make the VND 2023-33 successful. It plans to increase the number of tourist arrival to 3.5 million (excluding Indian nationals) and to generate 1 million additional jobs in the tourism industry. Likewise, the government aims to increase per tourist per day spending from the present 48 US dollars to 125 US dollars. This is expected to boost tourism's contribution to the country's gross domestic product.



- **Balance of Payment (BOP)**

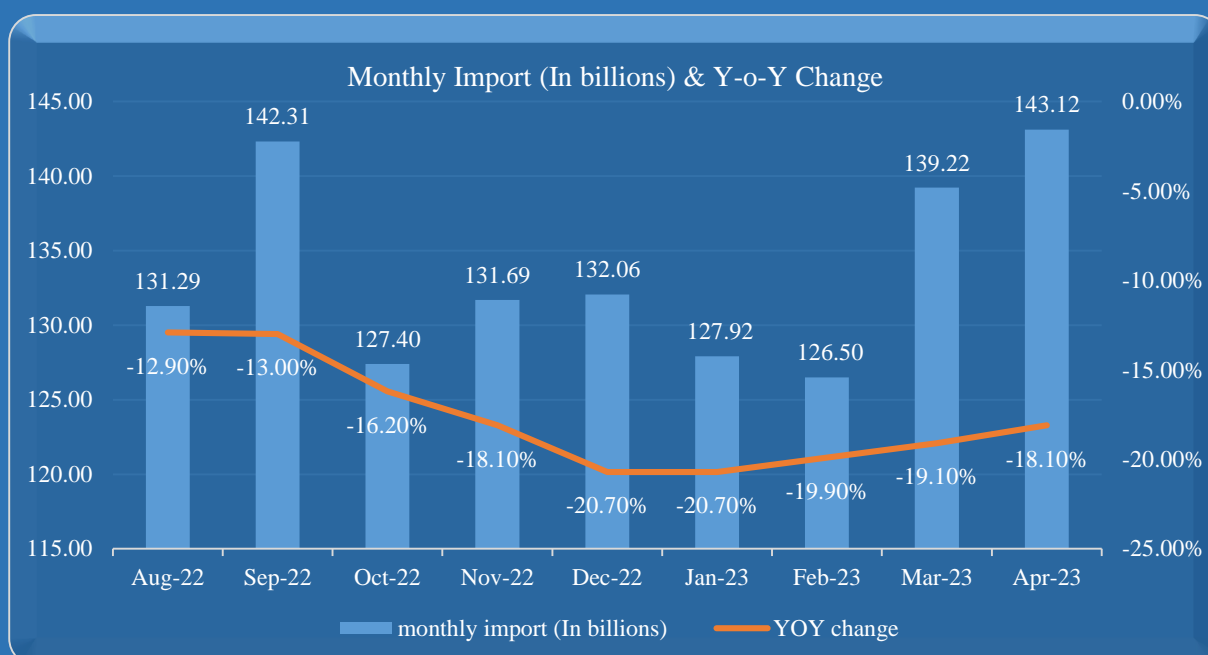


As of Mid-April 2023, the BOP remained at a surplus of Rs.180.17 billion. In the same period of the last year, it was at a deficit of Rs.268.26 billion. The BOP surplus trend has continued from Mid-October 2022. The import ban and increase in remittance has reduced the pressure on BOP and trade deficit. This effect is seen on the BOP surplus of Mid-April as well. However, with the import restrictions being lifted as of Mid-December 2022, it had been expected that it would impact the import but after the import restrictions has been lifted, however there is no significant increase in the import as of now. It is crucial to closely monitor imports in the upcoming months to keep a close eye on the liquidity position of the economy.

- **Imports**

Date	Amount (in billions)	% Change
Mid Apr-22	1466.66	-18.08%
Mid Apr-23	1201.51	

The import has decreased by 18.08% as of Mid-April 2023 to 1201.51 billion on a Y-o-Y basis. In the same period of the previous year, the import figure stood at 1466.66 billion. The import restrictions placed on late April 2022, has led to a decrease in import in the current fiscal year. The import restrictions lifted early in December might increase the imports in the upcoming months.



As of Mid-April 2023, the monthly imports increased to 143.12 billion from 139.22 billion in the previous month. Destination-wise, imports from India, China have decreased by 16.4 percent, 23.0 percent respectively, and it has decreased by 19.4% for other countries. Although total imports have declined on y-o-y basis, the import of petroleum products (having share of 19.2% in total imports) have increased by 5.7% compared to previous years' same period which indicates increase in consumption during the period considering the fact that oil prices have reduced during the review period. Reduction of the import in this fiscal year is majorly contributed by the decline in the import of the Machinery and Parts with the share of 4.5% in total imports by 22.6% and the import of Transport Equipment, Vehicle and Other Vehicle Spare parts having the share of 3.8% in total imports by massive 55.6%

#### • Top Five Imports

S. N	Top 5 Imports	Nine Months (In Mn.)(Mid-April 2023)	Share in Total imports (%)	Percentage Change
1	Petroleum Products	230,899.00	19.2	5.7
2	Other Machinery and Parts	54,461.40	4.5	-22.6
3	Transport Equip, Vehicle & Other Vehicle Spare Parts	45,219.60	3.8	-55.6
4	Medicine	37,381.00	3.1	-40.1
5	Gold	37,296.70	3.1	11.0

The Top 5 Imports as of Mid-April 2023 have been presented in the above table. The data shows that while the import of petroleum products increased from that of the same period of the previous year, the



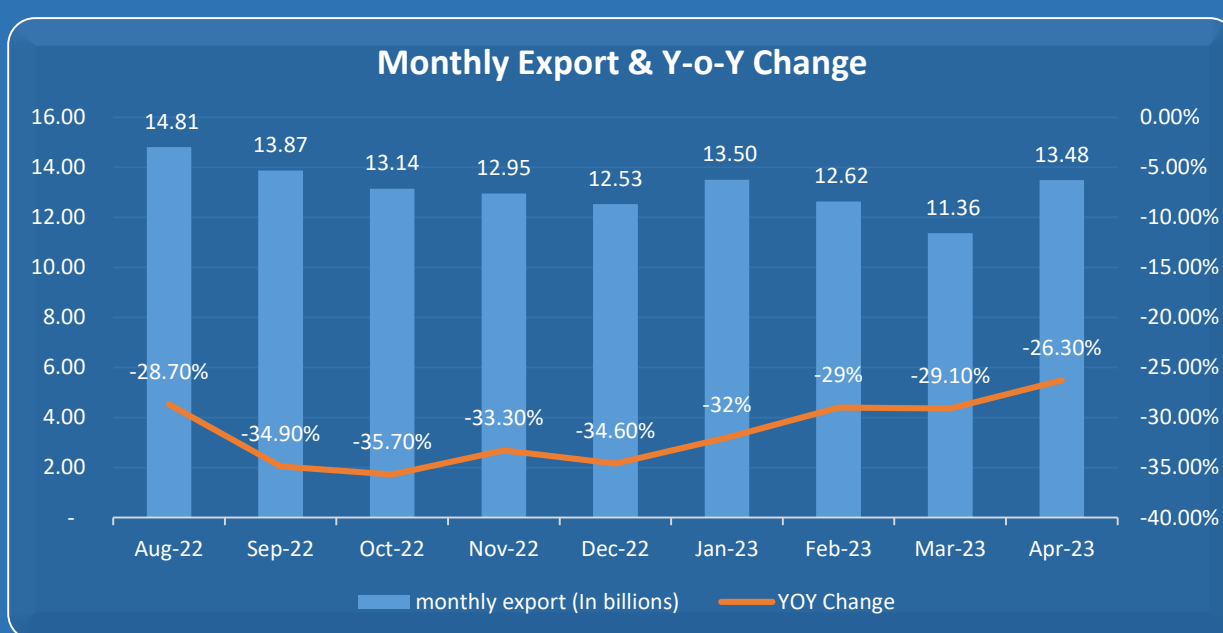


import of vehicles and other machinery have majorly decreased by 55.6% and 22.6% respectively which is the effect of import restrictions placed.

- **Exports**

Date	Amount (in billions)	Y-o-Y% Change
Mid Apr-22	160.57	-26%
Mid Apr-23	118.28	

The exports have decreased by -26% to 118.28 billion as of Mid-April 2023 on a Y-o-Y basis. In the same period of the previous year, the exports stood at 160.57 billion.



Talking about the monthly export, the exports stood at 13.48 billion as of Mid-April 2023. In the previous month, the exports stood at 11.36 billion. Destination wise, exports to India and China decreased 35.1 percent while exports to China and other countries increased by 2.2 percent and 8.1 percent (Y-o-Y Change). A significant reduction in the exports is majorly due to the massive decline in the export of Palm Oil and Soya Bean Oil (having a combined share of 21.7% in total export) by 52.5% and 80.5% respectively compared to last years' same period. Whereas the export of woolen carpet with 7.2% share in total export has increased by 23.4% in the review period. Similarly, Nepal has exported electricity worth 7.9 billion in the first nine months of current fiscal year against 1.01 billion in the same period of previous year.

The total trade deficit has decreased by 17.1 percent to Rs.1083.23 billion during the nine months of the current fiscal year. Such a deficit had increased 28.5 percent in the corresponding period of the previous year. The export-import ratio decreased to 9.8 percent in the review period from 10.9 percent in the corresponding period of the previous year.



### • Top Five Exports

S.N	Top 5 Exports	Nine Months (Mid-April 2023) (In Mn.)	Share in Total Exports (%)	Percentage Change
1	Palm Oil	17,297.90	14.6	-52.5
2	Woolen Carpet	8,472.40	7.2	23.4
3	Soyabean Oil	8,432.30	7.1	-80.5
4	Polyester Yarn & Thread	7,668.60	6.5	10.4
5	Cardamom	6,336.90	5.4	66.0

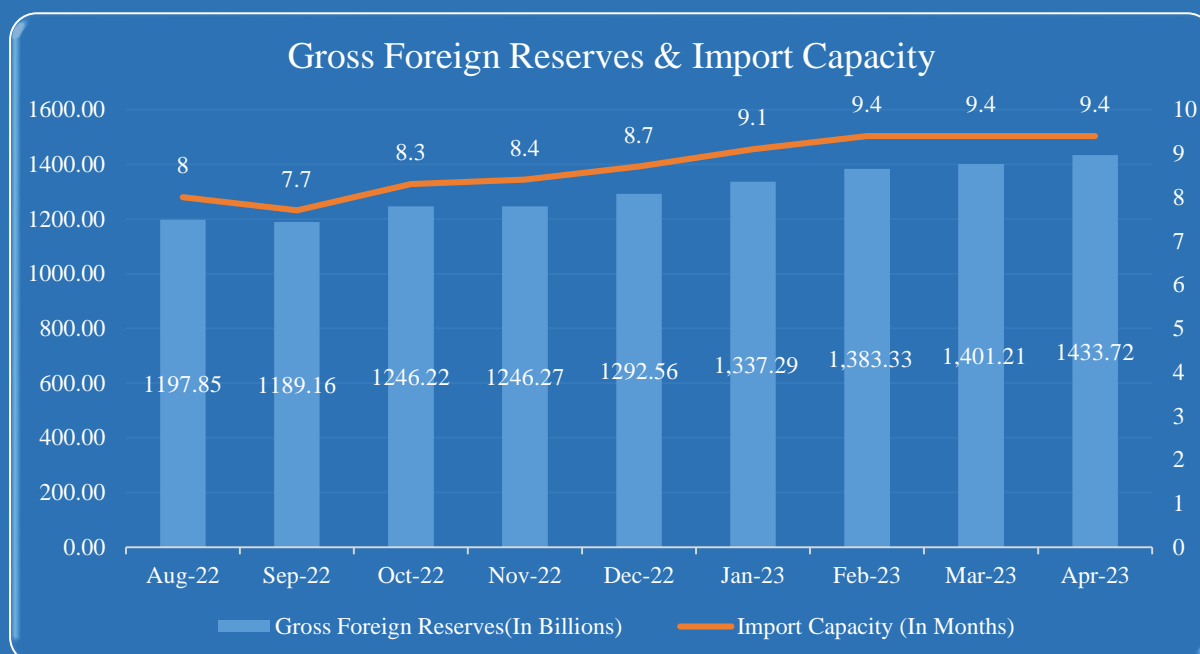
The top five exports from our country have been presented in the above table. The exports of Palm oil, and Soya bean oil, the two major export goods of Nepal have significantly decreased by 52.5% and 80.5% respectively in the first nine months of the current fiscal year 2022/23. The major reason behind the decrease in exports of these two goods is the increased import duty on these edible oils from Nepal by the Indian government that decreased the export of our edible oils in our neighboring country, India. The sharp decline in the exports of these two major exporting goods may have contributed to the decline in the overall exports figure. However, the exports of Woolen Carpet, Polyester Yarn & Thread has increased by 23.4% and 10.4% respectively while the exports of Cardamom have significantly increased by 66% in the first nine months of the current fiscal year.

Electricity Exports (In Mn)				
S.N.	Export	2021/22	2022/23	Percentage Change
		Nine months	Nine months	
1	Electricity	1014.7	7916.9	680%

Looking into the exports of electricity from Nepal, the data shows that the exports of electricity has significantly increased by 680% on Y-o-Y basis in the nine months of the current fiscal year 2022/23. The major reasons behind the sharp increase in electricity export figure is due to the successful production of electricity through the operation of “Upper Tamakoshi Hydropower Project” that increased the production capacity to 2,190 MW. The electricity exports are also further expected to rise as Nepal has finalized an agreement with Bangladesh for the trading of power from the upcoming wet season (June-November) with export of 40-50 MW from Nepal.



- **Gross Foreign Reserves & Import Capacity**

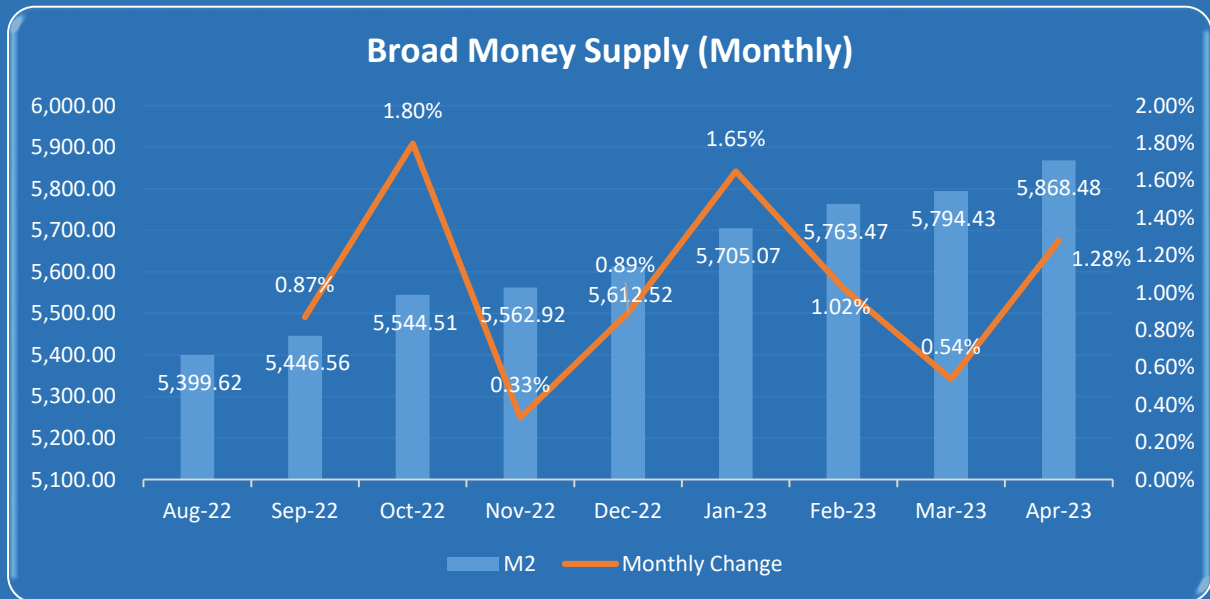


The Gross Foreign Reserves and import capacity is in an increasing trend in the FY 2022/23. As of mid-April 2023, gross foreign reserves stood at 1433.72 billion which was 1167.92 billion in the same period of the previous year. The gross foreign reserves increased to 1433.72 billion from 1401.21 billion in Mid-March 2023. Likewise, the import capacity for merchandise and service imports remained constant at 9.4 months as of Mid-April 2023 compared to the previous month.

Currently, Nepal's import capacity and gross foreign exchange reserves are in a favorable position, alleviating concerns of the nation experiencing a situation similar to Sri Lanka, which underwent an economic crisis due to a shortage of gross foreign exchange.



- **Broad Money Supply**



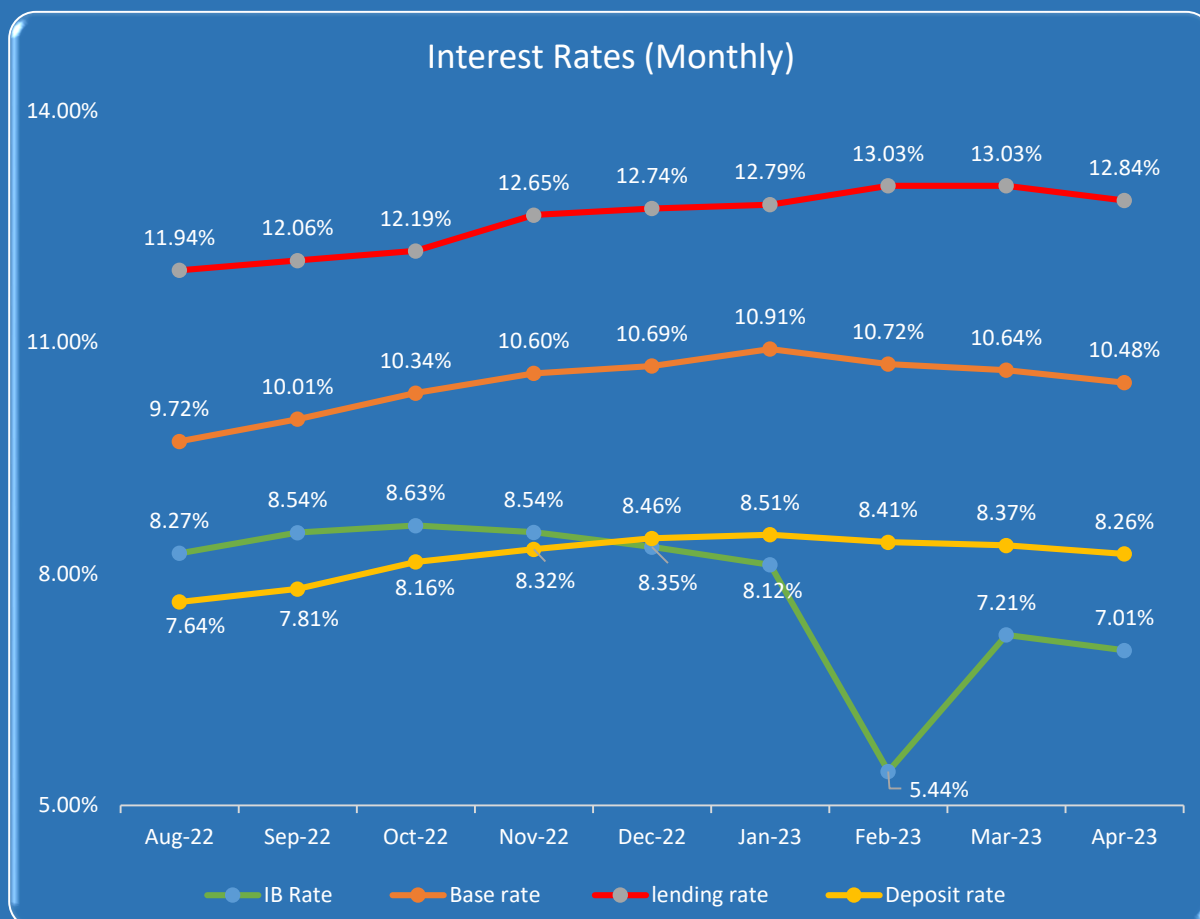
Broad money supply is a measure of the total amount of money in an economy that is readily available for spending. It includes all physical currency, such as banknotes and coins, as well as money held in various types of accounts, such as demand deposits, time deposits, and savings deposits. The broad money supply figure has been in an increasing trend in the current fiscal year even though it is increasing in a lower percentage. The money supply increase in the economy is a positive indication that money is in circulation in the economy, hence aiding liquidity in the market.



- **Interest Rates**

The interest rate has increased on a yearly basis due to the liquidity crisis in the economy.

*Weighted Average Monthly Interest Rates (Line Chart)*



To control rising inflation and excessive lending in the unproductive sectors, NRB implemented several measures to reduce market liquidity, resulting in a rise in the market interest rate. Likewise, the interest has increased in the months of Mid-August to Mid-December. But, with the gradual liquidity ease, the interbank rate has decreased. The interbank rate has decreased from 8.35% from Mid-Dec 2022 to 5.44% in Mid-February 2023. However, there has been notable rise in the interbank rate to 7.01% as of Mid-April signifying a reemergence of liquidity tightening during the period. The weighted average base rate, deposit rate and lending rate, which reached their peak point in Mid-March 2023, have started to reduce as we approach Mid-April 2023.

The interest rates on the fixed deposits have been decreased to 9.99% from the month of Baishakh 2080 by commercial banks and such interest rates are to be maintained in the month of Jestha as well. Also, the requirement to maintain the spread rate of 4.2% and 4.0% from Chaitra 2079 and Asadh 2080, would lead to decrease in the lending rate as well. Thus, it is expected that the lending rate might be revised to a lower rate in the upcoming months. This



may signal an ease of liquidity in the market. This may encourage credit growth in the banking system.

### • Government Revenue and Expenditure

Date	Government Revenue		Government Expenditure	
	Amt. in billions	% of Target Budget	Amt in billions	% of Target Budget
Mid-May 2022	922.36	74.35%	908.86	55.66%
Mid-May 2023	797.35	54.66%	1,047.76	58.41%

The government revenue and expenditure as of Mid-May 2023 is 797.35 billion and 1047.76 billion respectively. The government revenue and expenditure has reached 54.66% and 58.41% of the target budget respectively. The government revenue has decreased in the current year compared to the same period of the previous year. This is due to the import restrictions placed due to which sufficient import taxes could not be collected in the government revenue.

However, the government revenue has slightly increased to 55.21% and the government expenditure has also slightly increased to 59.3% (as of 4<sup>th</sup> Baishakh 2080) of the target budget. The money in circulation also depends on the disbursement of government expenditure. The government expenditure has slightly increased as compared to that of the same period of last year. Higher government expenditure aids in easing the liquidity situation in the economy.

Date	Capital Expenditure
Mid-May 2022 (15th May)	31.28 %
Mid-May 2023 (15th May)	33.04%

Source: FCGO

Capital expenditure is the most important component of government expenditure as it helps to accelerate the economy through development projects. The capital expenditure utilized by the government as of Baisakh end stood at 33.04% (Mid-May 2023). While it is at a slightly higher rate than the capital expenditure utilized the year before, it is still a very minimal percentage of capital expenditure being utilized. It is the trend in Nepal to spend the majority of the budget allocated to the capital expenditure only during the fourth quarter of the fiscal year. The government is most likely to accelerate the utilization of capital expenditure at the end of fiscal year. Thus, the inability of the government to spend on capital expenditure will negatively affect employment possibilities, the liquidity of the banking system, and the quality of development projects.

Date	Government Revenue (Billions)	Government Expenditure (Billions)	Budget Deficit/Surplus (Billions)
Mid-May 22	922.42	908.87	13.55
Mid-May 23	797.35	1,047.76	-250.41

Source: FCGO

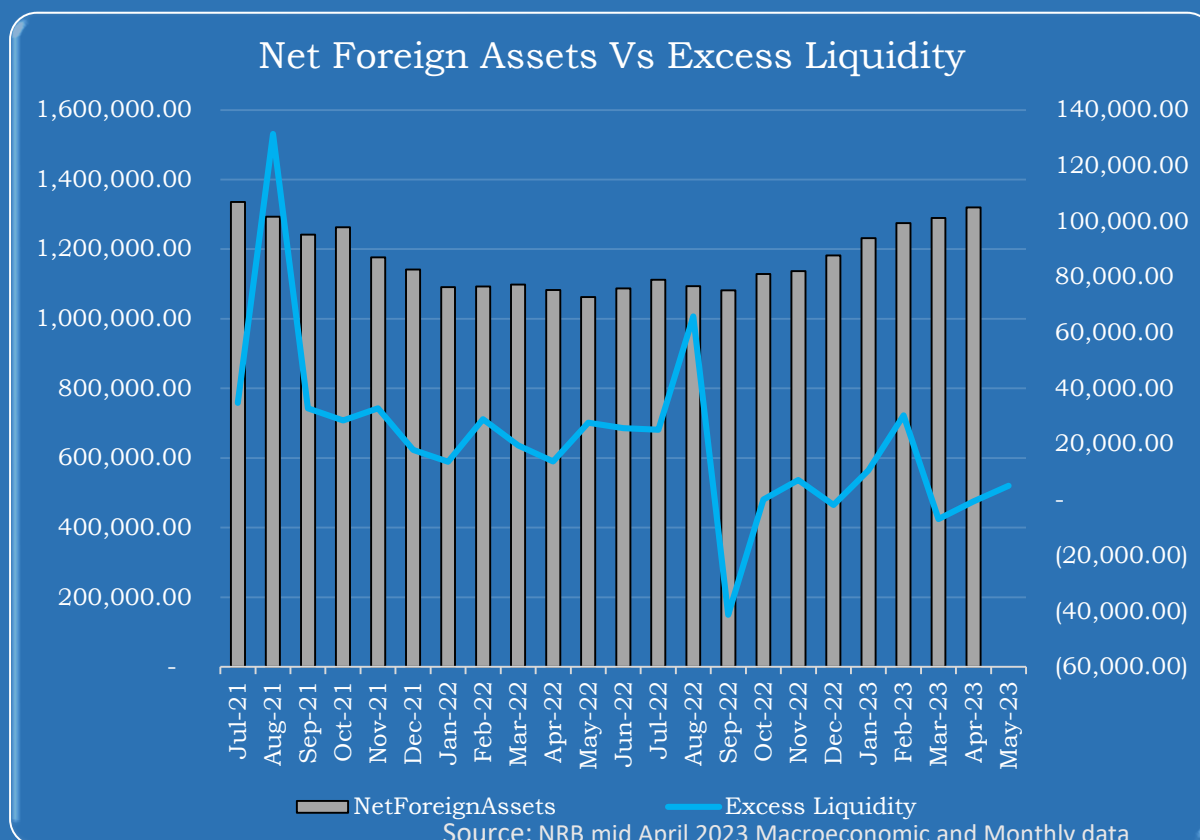
As of Mid-May 2023, there is a budget deficit of 250.41 billion due to the increased government expenditure compared to the government revenue. Likewise, the government revenue





collection has been inadequate as compared to the previous year due to the import restrictions that were implemented to preserve the depleting gross foreign reserves in the post pandemic phase. Budget deficit generally leads to a higher level of borrowing.

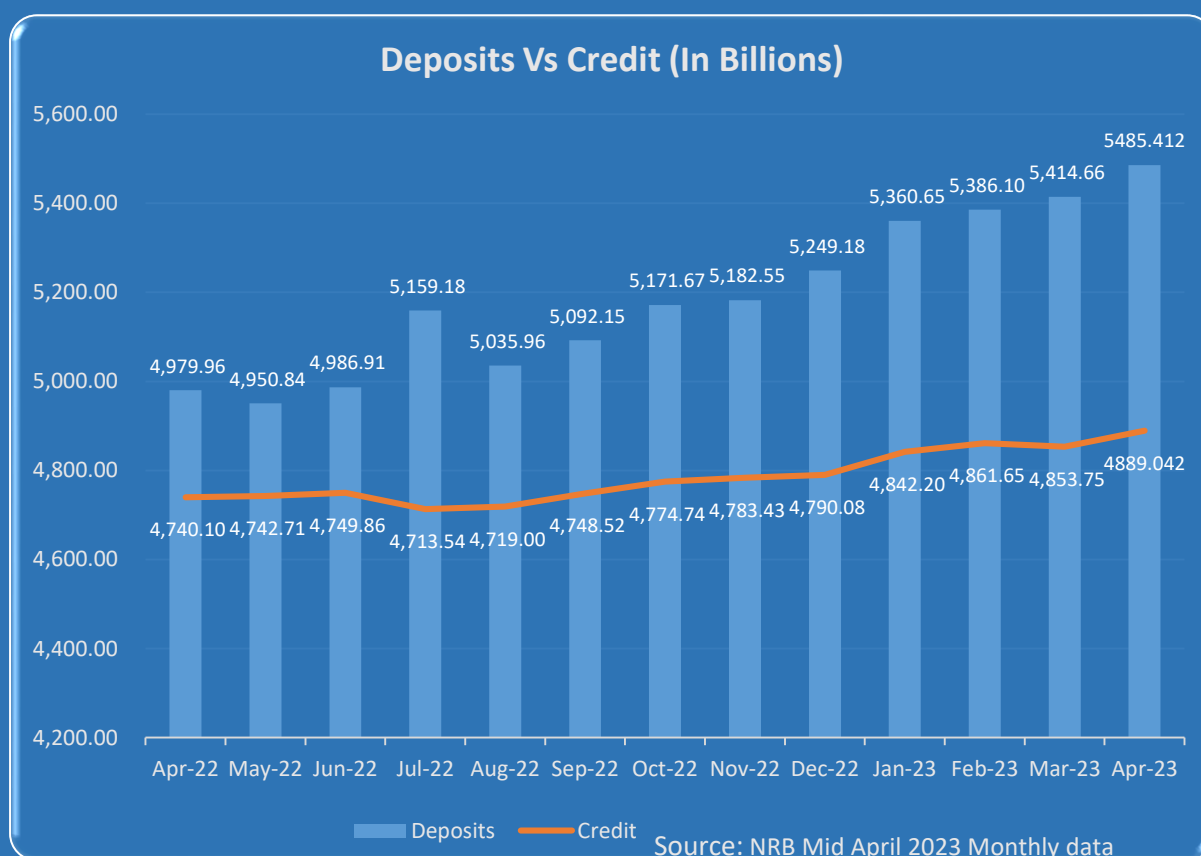
- **Market Liquidity**



The position of excess liquidity stood at around 5.01 Billion (As of Mid-April 2023). The excess liquidity has improved from that of the previous month but has relatively decreased compared to that of January 2023. The excess liquidity stood at around 200.43 billion as of Mid-August 2020. The position of excess liquidity currently indicates that liquidity has been extremely exhausted as the result of the persisting credit crisis in the Nepalese economy which arose as a result of excessive lending during the post-COVID period and the rising import figure. However, in comparison to the excess liquidity figure of Mid-August 2022 which stood at 41.27 billion in deficit, the liquidity situation in the current month has improved significantly. This may be attributed to the import restrictions placed and the discouragement of loans flowing into unproductive sectors. The import has decreased by 18.10% (As of Mid-April 2023) on a Y-o-Y basis. The import restrictions have been lifted as of early December; hence we can expect the import to increase in the upcoming months which may directly affect the liquidity position of the economy. Remittance has increased by 24.2% (As of Mid-April 2023) on a Y-o-Y basis. Exports, however, have decreased by 26.30% as of Mid-April 2023 on a Y-o-Y basis. The net foreign assets of the country have increased by 2.35% in the current month from that of the previous month, which was at 1.11%. The deposit and credit have increased by 7% and 3.5% in the fiscal year 2022/23 as of Mid-April, 2023.



- **Total Deposits and Credit**



The total deposits have increased by 1.31% and the lending has decreased by 0.73% respectively as of Mid-April compared to that of the previous month. The total deposits stand at 5485.41 billion and the total credit stands at 4889.04 billion as of Mid-April 2023. In the current month, deposits have increased while credit growth is low, which indicates slow loan disbursement in the present time and an ease of liquidity in the market.

As of 17<sup>th</sup> May 2023, the total deposit has further increased to 5488 billion and the total lending has reached 4838 billion with the CD ratio and weighted average interbank rate at 84.92% and 7.00% respectively.



## Monthly Macroeconomic Overview

As per Asian Development Outlook, April 2023, Nepal's economic growth is estimated to be moderate at 4.1% in the FY 2023, down from an estimated growth of 5.8% in FY 2022. The projected slowdown in Nepal's gross domestic product (GDP) growth can be primarily attributed to factors such as the implementation of a restrictive monetary policy, weakened domestic demand, the winding down of COVID-19 stimulus measures, and ongoing challenges in the global economic landscape.

Despite the challenges, the macroeconomic situation as of Mid-April 2023 presents a modestly improving economic outlook overall. The balance of payments (BOP) surplus as of mid-March was recorded at 148.11 billion, which increased further to 180.17 billion in mid-April 2023, mainly due to the rising inflow of remittance into the country and declining imports. Furthermore, the loosened import restrictions and the removal of the cash margin requirement for the imports of certain goods implemented from the month of Poush has led to increase in monthly figure of March and April but import is still in decreasing trend as of Y-o-Y basis. The inflation rate of Nepal stands at 7.76% above the targeted limit of 7% set by NRB.

The price of crude oil has decreased by 20.30% on a Y-o-Y basis from USD 108.49 per barrel to USD 86.51 per barrel. The decrease in price per barrel also leads to a significant decrease in the import figure of the country as petroleum products fall into the topmost import of the country with a market share of 19.2%. The government of Nepal's policy to promote electric vehicles within the country is expected to lead to a gradual decrease in the import of petroleum products. On the one hand, the reduced reliance on imported petroleum products will result in reduced expenditure on imports. On the other hand, the increased usage of domestically produced electricity for powering electric vehicles can contribute to the economic development of Nepal.

The export figure is still in a decreasing trend. It is mainly because of the change in import duties imposed by India which has affected Nepal's top exports - Palm Oil and Soybean Oil. This trend may persist in the upcoming months and could have adverse implications for the country's BOP. Nonetheless, a positive development is the rising electricity exports, which can be viewed as a silver lining in the present difficult circumstances.

As per the fifth meeting of the Joint Steering Committee held in Bangladesh, Bangladesh has agreed to purchase 40 MW of electricity from Nepal through India's transmission lines. If Nepal succeeds in selling electricity to Bangladesh, it will be Nepal's first electricity power export outside India. If this agreement succeeds, the exports from our country shall increase leading to a decrease in the trade deficit to a certain extent.

The central bank's attempt to maintain a comfortable import capacity by increasing gross foreign exchange reserves, taking lessons from the crisis in Sri Lanka, has been successful. However, the implementation of import controls has resulted in a loss of government revenue in the form of import and excise duties, leading to a budget deficit. This has created a vicious cycle where attempts to improve one economic indicator come at the expense of another. As of mid-May 2023, there remains a budget deficit of 250.4 billion due to reduced government revenue collection.



Due to the existing budget deficit, the government has been trying to accumulate funds through internal borrowings. NRB has been constantly issuing treasury bills to raise funds. The total internal borrowing as of Baisakh 2080 has reached 110.43 billion as of the current fiscal year according to the data from Public Debt Management Department.

The capital expenditure budget utilized by the government till Baishak end (Mid-May) stood at only 33.04% which is slightly higher than the corresponding period of the previous year. However, the capital expenditure is very minimal as of the target budget implying a negative impact on the infrastructural development, employment, and liquidity in the banking sector. The capital expenditure budget is also less likely to be met as the country already has a massive budget deficit.

As of April 2023, India's inflation rate stood at an 18-month low of 4.7%, indicating falling inflation in our neighboring country. This could be a positive sign for our country as our economy is closely linked with India's economy. With the highest import share in India, a decrease in inflation may imply a reduced cost of import for our country and a positive impact on the preservation of gross foreign reserves.

As for the situation of liquidity in the economy, there have been efforts to improve the liquidity crisis through several measures, including extending the inclusion of 80% of government deposits in the deposits of BFIs and the recurring issue of Repo. Similarly, NRB has lowered the bank rate by 1% to 7.5% with the aim of lowering interest rates and increasing the money supply. However, it has also raised concerns of increasing the already high inflation.

The Non-Performing Loans (NPL) of the BFIs are also alarmingly increasing in the current fiscal year. As of the 3rd quarter of 2079/80, the average NPL of commercial banks has reached 2.30 from 1.11 in the same period of the previous year whereas the average NPL of development banks has reached 4.85 from 2.60 in the same period of the previous year. To counter the alarmingly increasing NPL, the third quarterly revision of the Monetary Policy has brought in measures to ease the pressure on borrowers such as to extend the loan repayment time and for loan restructuring.



## **Conclusion**

To conclude, currently, the economic situation shows a positive and improving outlook with reduced imports, remittance growth and BOP surplus. The decline in the market interest rate might become the catalyst for increasing economic activities and mitigating the impact of the recession. With the falling inflation rate in our neighboring country, India, the inflation rate of our country may also decrease in the upcoming months. There is also a prospect for the enhancement of the electricity export industry.

However, various factors such as the imports in the upcoming months after the import restrictions have been lifted must be observed for their effect on the overall economy. Additionally, budget deficit and high NPL in the BFIs are also cautionary factors for the economy. The need of government's substantial internal borrowing due to high budget deficit to meet the government expenditure might hinder significant decline in the interest rate in the economy. Nonetheless, efforts have been made to mitigate the high budget deficit and NPL. Along with that, the global recession is also expected to have some effect on determining the economic situation in the near future. Also, bank failures one after another in the global context, have created fear among investors in the global scenario. This is also to be closely observed in the Nepalese economy.

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