GLOBAL MONEY WEEK

PLAN YOUR MONEY, PLANT YOUR FUTURE

MACROECONOMIC ANALYSIS OF NEPAL

Mid- Feb 2023 (Based on seven months’ data published by NRB)

Machhapuchpuchhre Capital Limited

Research, Strategy & Product Development

Our Contents

Macroeconomic Situation Analysis as of Mid-Feb 2023

Key Highlights :

- CPI-based Inflation stood at 7.88 percent on a y-o-y basis.
- Remittance increased by 27.1% on a Y-o-Y basis.
- Balance of Payment remained at a surplus of Rs.133.21 billion as of Mid-Feb 2023.
- Imports and Exports decreased by 19.9% and 29.0% as of Mid-February on a Y-o-Y basis.
- The Gross Foreign Reserves stands at Rs.1383.33 Billion with the import capacity of 10.8 months.
- Broad Money Supply increased by 4.70 to 5763.47 billion as of Mid-Feb 2023.
- Trade deficit decreased to 18.7 percent to Rs.825.73 billion during the seven months of the current fiscal year.
- Budget deficit stood at 113.42 billion as of Mid-Feb 2023.

- **Inflation**

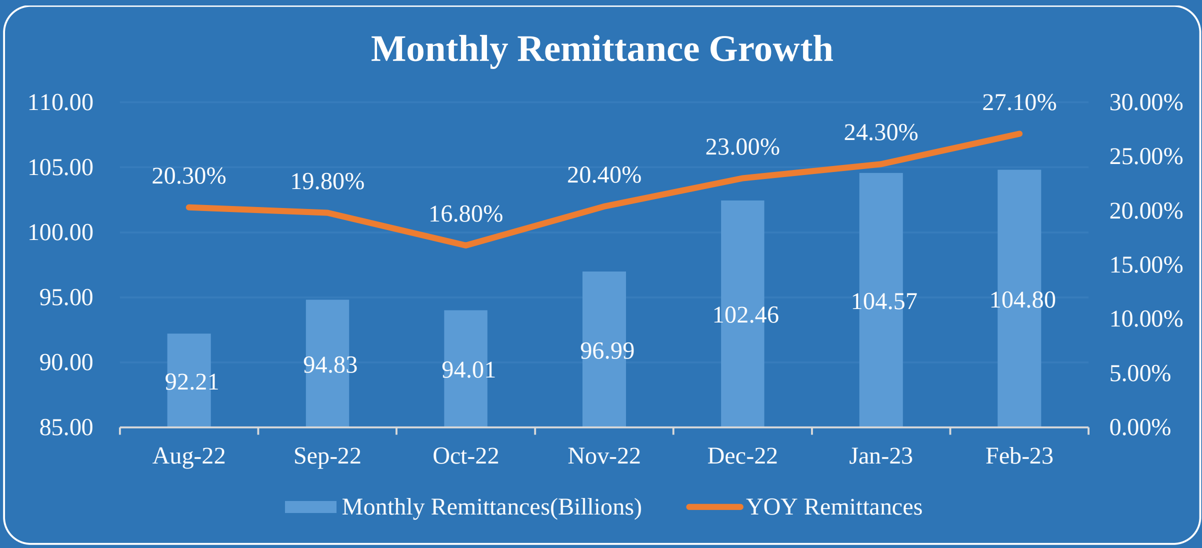
Mid-Feb 2022	Mid-Jan 2023	Mid-Feb 2023
5.97%	7.26%	7.88%

The inflation as of Mid-Feb 2023 stands at 7.88% which has slightly increased as compared to that of inflation of previous month. However, as compared to the same period of the previous year, the inflation has significantly increased.

- **Remittance**

Date	Amount (in billions)	Y-o-Y % Change
Feb-22	540.12	27.10%
Feb-23	689.88	

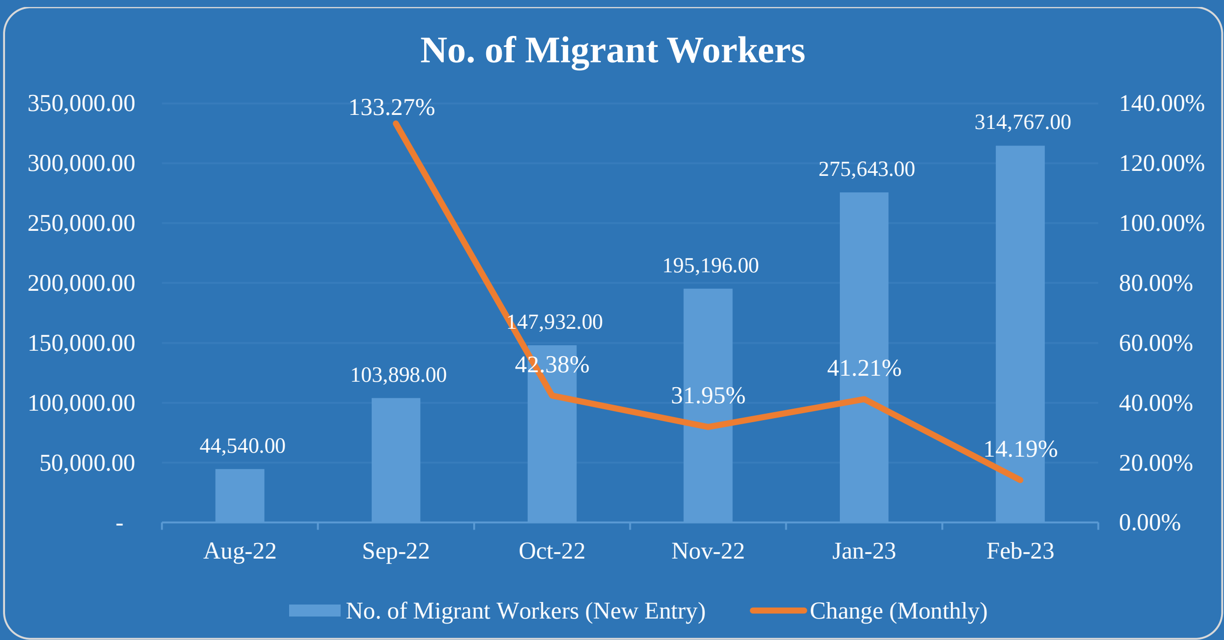
The remittance has increased by 27.10% to 689.88 billions as of Mid-February 2023 on a Y-o-Y basis. In the same period of the previous year, the remittance figure stood at 540.12 billion.



Talking about the monthly change, the remittance increased by 27.10% in the previous month of January 2022. It is continuously in an increasing trend on a monthly basis for the current fiscal year.

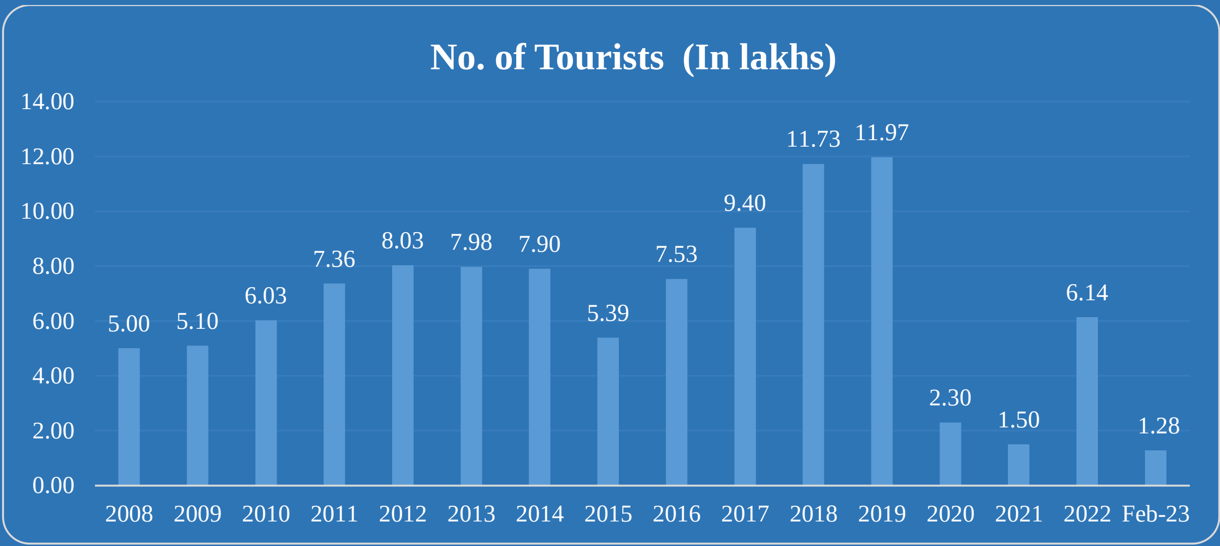
As of mid-Feb 2023, the number of migrant workers taking new entry is 314,767 while the number of migrant workers taking renew entry stands at 167,708. In the same period of the previous year, the no. of new entry stands at 200,102 while the renew entry stands at 152,325. Since, the number of migrant workers is in the increasing trend, we can expect further increase in the remittance in the upcoming months. As of Mid-Feb 2023, the remittance to GDP ratio has increased to 14.22%, up from 12.66% during the corresponding period last year.

- **No. of Migrant Workers**



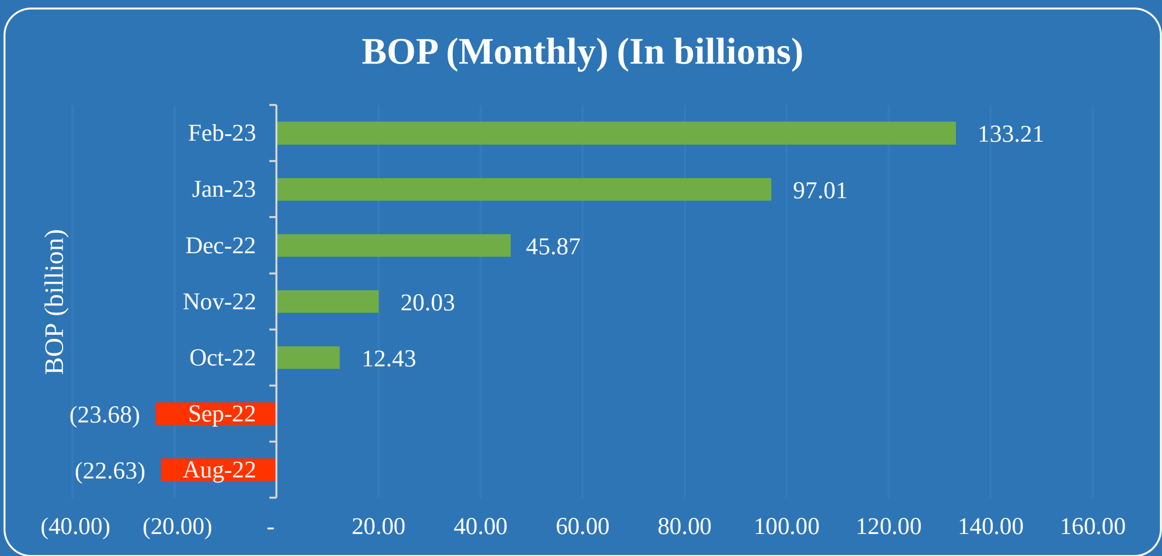
As of mid-Feb 2023, the number of migrant workers is in increasing trend on a monthly basis. The no of migrant workers (new entry) increased by 14.19% as of mid-Feb 2023.

- **No. of Tourist Arrival**



The number of tourist arrival that had significantly decreased in the year 2020 due to pandemic is slowly increasing. The no. of tourist arrival increased from 1.5 lakh to 6.14 lakhs in the F.Y. 2022. As of first two months (Jan & Feb) of the year 2023, the number of tourist arrival stood at 1.28 lakhs which was around 36 thousand only in the same period of the previous year. The no of tourist arrival increased by nearly 249% in the first two months of the year 2023 as compared to the same period of previous year.

- **Balance of Payment (BOP)**

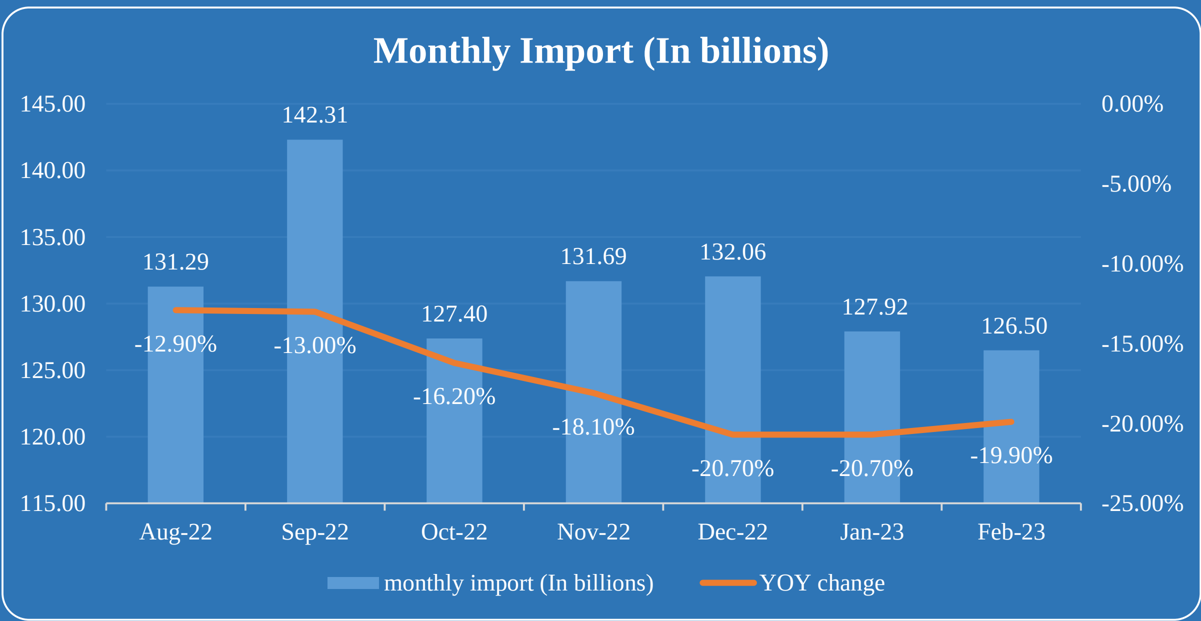


As of mid Feb 2023, the BOP remained at a surplus of Rs.133.21 billion. In the same period of the last year, it was at a deficit of Rs.247.03 billion. The BOP surplus trend has continued from Mid-October 2022. The import ban and increase in remittance has reduced the pressure on BOP and trade deficit. This effect is seen on the BOP surplus of Mid-February 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 for one month, there is no affect in the import as of now. However, the import is to be closely monitored for the upcoming months.

- **Imports**

Date	Amount (in billions)	Y-o-Y % Change
Mid- Feb-22	1147.46	-19.90%
Mid- Feb-23	919.17	

The import has decreased by 19.90% as of Mid-Feb 2023 to 919.17 billion on a Y-o-Y basis. In the same period of the previous year, the import figure stood at 1147.46 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 may affect the import in the upcoming months.



As of mid-Feb 2023, the monthly import decreased to 126.50 billion from 127.93 billion in the previous month. Destination-wise, imports from India, China have decreased by 18 percent, 24.3 percent, and 22% for other countries. Although, total imports have declined on y-o-y basis, the import of petroleum products (having share of 19.1% in total imports) have increased by 12.6% compared to previous years' same period owing to increase in oil prices in international market. 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 4.4% in total imports by 25.3% and the import of Transport Equipment, Vehicle and Other Vehicle Spare parts having the share of 3.9% in total imports by massive 57.9%.

- **Top Five Imports**

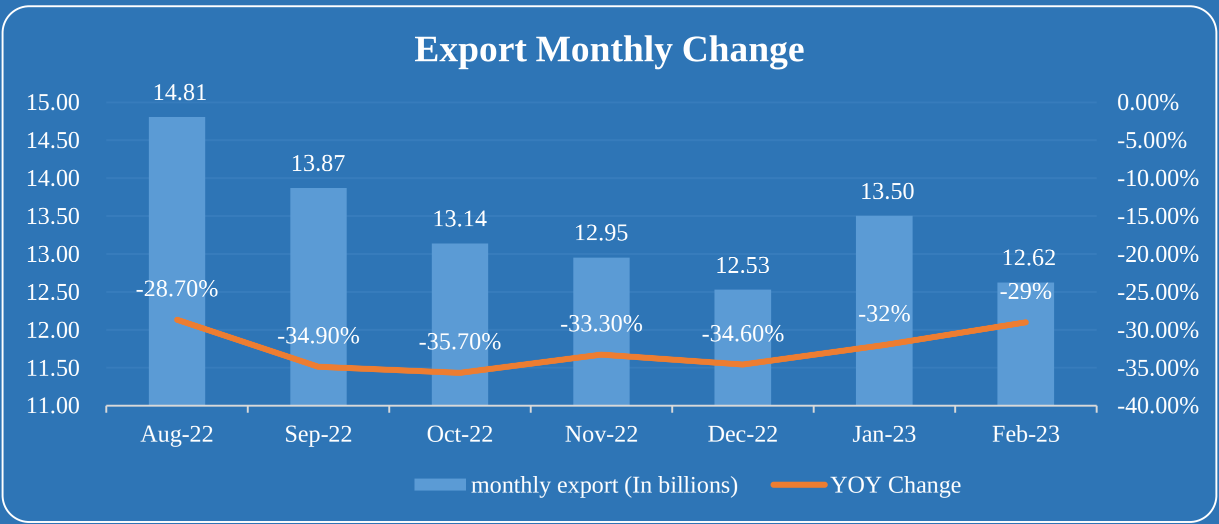
S.N	Top 5 Imports	Seven Months (Mid-Feb 2023)	Share in Total imports (%)	% Change
1	Petroleum Products	175,393.94	19.1	12.6
2	Other Machinery and Parts	40,597.28	4.4	-25.3
3	Transport Equip, Vehicle & Other Vehicle Spare Parts	36,203.03	3.9	-57.9
4	Gold	31,017.85	3.4	12.3
5	Medicine	26,961.52	2.9	-47.4

The Top 5 Imports as of Mid-February 2023 has been presented in the following table. The data shows that while the import of petroleum products increased from that of the same period of previous year, the import of vehicles and other machinery have majorly decreased by 57.9% and 25.3% respectively which is the effect of import restrictions placed.

- **Exports**

Date	Amount (in billions)	Y-o-Y % Change
Feb-22	131.66	-29%
Feb-23	93.43	

The exports have decreased by -29% to 93.43 billion as of Mid-February 2023 on a Y-o-Y basis. In the same period of the previous year, the export stood at 131.66 billion.



Talking about the monthly export changes, the exports stood at 12.62 billion as of mid- Feb 2023.In the previous month, the export stood at 13.50 billion. Destination wise, exports to India and China decreased 37.7 percent and 13.4 percent respectively whereas exports to other countries increased 8 percent. Significant reduction in the exports is majorly due to the massive decline in the export of Palm Oil and Soya bean Oil (having combined share of more than 23.8 in total export) by 59.23% and 77.54% respectively compared to last years' same period. Whereas the export of woolen carpet with 6.9% share in total export has increased by 27.16% in the review period. Similarly, Nepal has exported electricity worth 7.5 billion in the first seven months of current fiscal year against 0.77 billion in the same period of previous year.

Total trade deficit decreased 18.7 percent to Rs.825.73 billion during the seven months of the current fiscal year. Such a deficit had increased 38.4 percent in the corresponding period of the previous year. The export-import ratio decreased to 10.2 percent in the review period from 11.5 percent in the corresponding period of the previous year.

- **Top Five Exports**

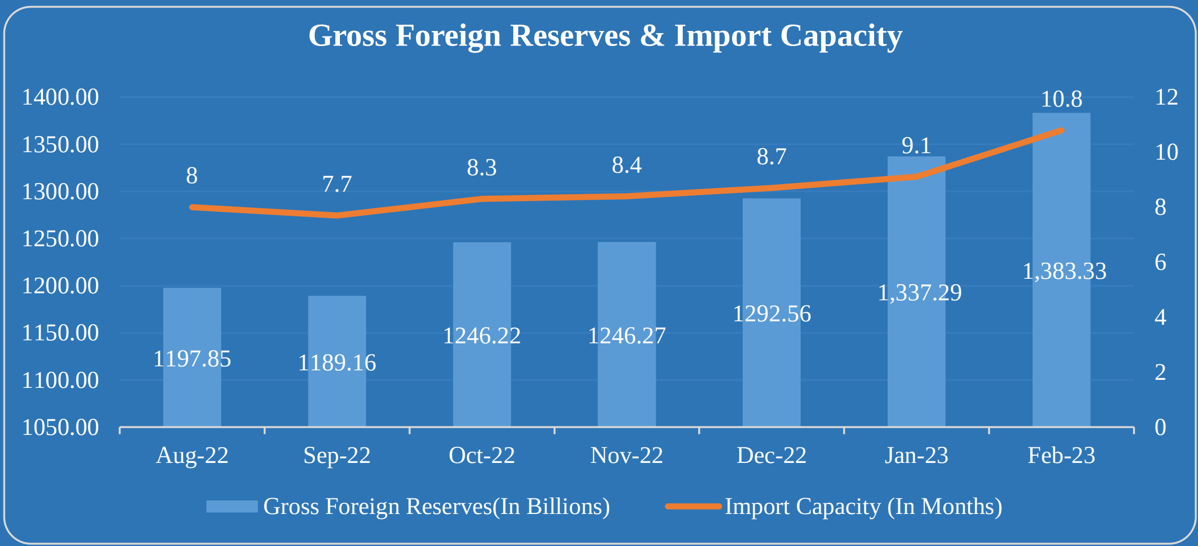
S.N	Top 5 Exports	Seven Months (Mid-Feb2023)	Share in Total Exports (%)	% Change
1	Palm Oil	13,926.73	14.9	-59.2
2	Soya bean Oil	8,277.57	8.9	-77.5
3	Woolen Carpet	6,452.66	6.9	27.2
4	Polyester Yarn & Thread	5,991.76	6.4	13.4
5	Cardamom	4,878.39	5.2	85.5

The top five exports from our country have been presented in the following table. The exports of Palm oil, and Soya bean oil, the two major export goods of Nepal have significantly decreased by 59.23% and 77.54% respectively in the first seven 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 27.16% and 13.44% respectively while the exports of Cardamom have increased by 85.52% in the first seven months of the current fiscal year.

Electricity Exports				
		2021/22	2022/23	
S.N.	Export	Seven months	Seven months	Percentage Change
1	Electricity	774.9	7568.2	877%

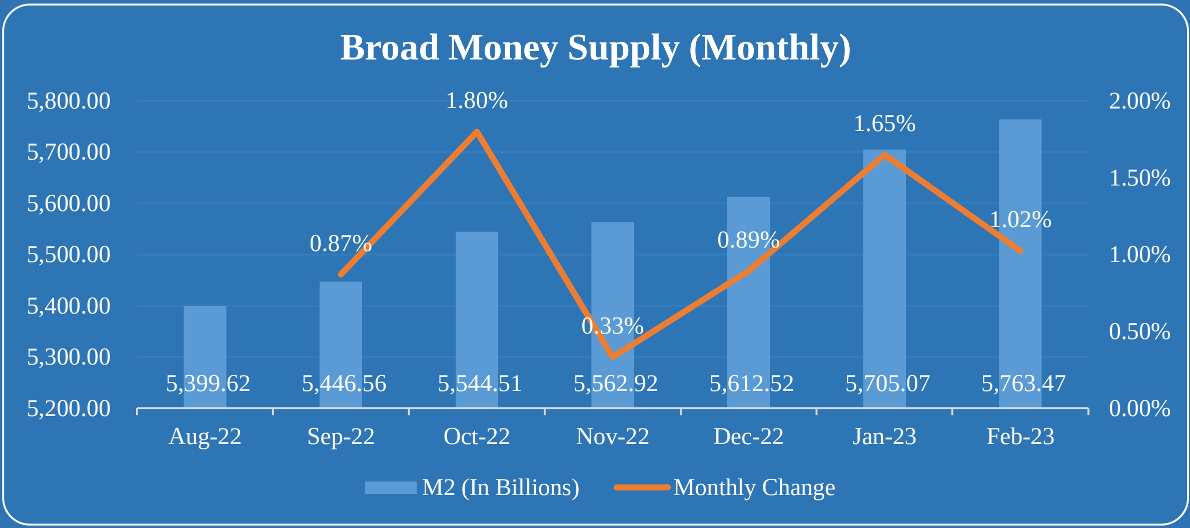
Looking into the exports of electricity from Nepal, the data shows that the exports of electricity has significantly increased by 877% on Y-o-Y basis in the seven months of the current fiscal year 2022/23. The major reasons behind the sharp increase in electricity export figure is due to the successful production of electricity through the operation of “Upper Tamakoshi Hydropower Project” that increased the production capacity to 2,190 MW and the MCC-Nepal with US aid targeted to increase electricity production has helped Nepal to increase its electricity trade with its neighboring countries.

- **Gross Foreign Reserves & Import Capacity**



The Gross Foreign Reserves and import capacity is in increasing trend as of Mid-February, 2023. As of mid- Feb 2023, gross foreign reserves stood at 1383.33 billion which was 1173.02 billion in the same period of the previous year. The gross foreign reserves increased to 1383.33 billion from 1337.29 billion in Mid-January 2023. Likewise, the import capacity for merchandise and service imports as of Mid-February also increased to 10.8 months from 9.1 months in Mid-January 2023. The increase in foreign reserves and import capacity presents a positive scenario in the economy.

- **Broad Money Supply**



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 in the money 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.

Interest Monthly

Date	IB Rate	Base rate	Lending rate	Deposit rate
Aug-22	8.27%	9.72%	11.94%	7.64%
Sep-22	8.54%	10.01%	12.06%	7.81%
Oct-22	8.63%	10.34%	12.19%	8.16%
Nov-22	8.54%	10.60%	12.65%	8.32%
Dec-22	8.35%	10.69%	12.74%	8.46%
Jan-23	8.12%	10.91%	12.79%	8.51%
Feb-23	5.44%	10.72%	13.03%	8.41%

Likewise, the interest has increased in the months of Mid-August, Mid-September, Mid-October, Mid-November and Mid-December. The increased interest rates were mainly implemented to tackle the liquidity crisis in order to increase the deposits and discourage the lending. But, with the gradual liquidity ease, the interbank rate has decreased. The interbank rate has decreased from 8.35% from Mid-Dec 2022 to 8.12% in Mid-January 2023 and 5.44%.

However, from the beginning of the month of Magh, the interest rate on fixed deposits of commercial banks have decreased from 12.13% to 11%. The 11% on fixed deposit has continued in Chaitra 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. Thus, it is expected that the lending rate might be revised to a lower rate in the quarterly revision. This may signal an ease of liquidity in the market.

- **Government Revenue and Expenditure**

Date	Government Revenue		Government Expenditure	
	Amt. in billions	% of Target Budget	Amt. in billions	% of Target Budget
Mid-Feb 2022	664.36	53.56%	591.02	36.20%
Mid-Feb 2023	554.24	38%	667.66	37.22%

The government revenue and expenditure as of Mid-Feb 2023 is 554.24 Billion and 667.66 Billion respectively. The government revenue and expenditure has reached 38% and 37.22% of the target budget respectively. The government revenue has decreased in the current year compared to the same period of previous year. This may be due to the import restrictions placed due to which import taxes could not be collected in the government revenue. However, the government revenue has increased to 43.28% and the government expenditure has increased to 44.01% (as of Chaitra 5, 2079) 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.

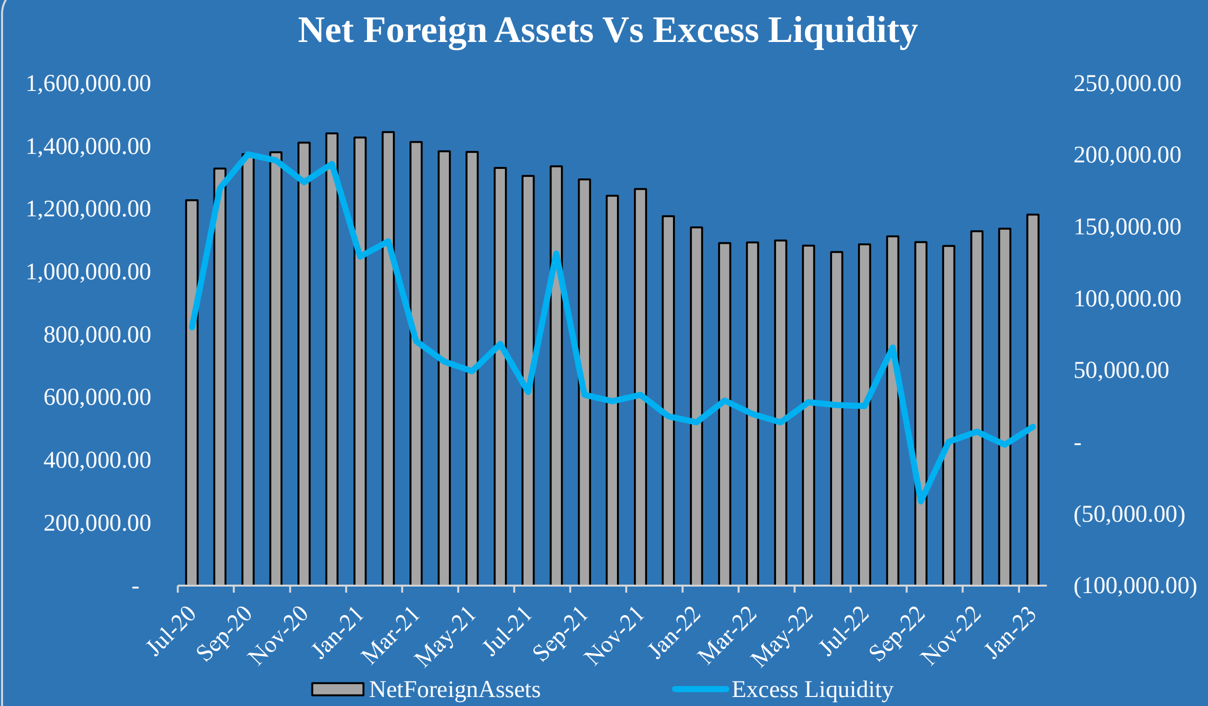
Date	Capital Expenditure
Mid-March 2022 (14th March)	20.40%
Mid-March 2023 (14th March)	22.15%

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 Falgun ends 17.43% (Mid-Feb 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. 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)
Feb-22	664.36	591.02	73.34
Feb-23	554.24	667.66	-113.42

As of Mid-Feb 2023, there is a budget deficit of 113.42 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 was implemented to preserve the depleting gross foreign reserves in the post pandemic phase. Budget deficit generally leads to a higher level of borrowing.

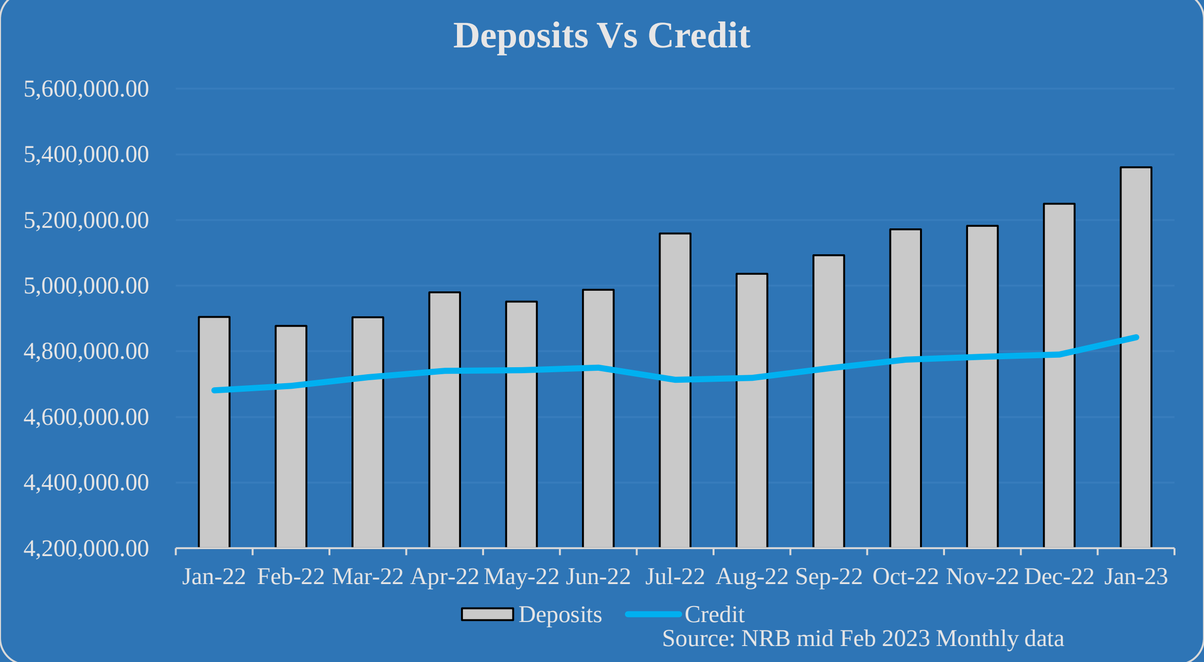
- **Market Liquidity**



Source: NRB mid Feb 2023 Macroeconomic and Monthly data

The position of excess liquidity stood at around 29.32 billion in surplus figure (As of Mid-February 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 19.9% (As of Mid-February 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 27.1% (As of Mid-February 2023) on a Y-o-Y basis. Export however has decreased by 29% as of Mid-February 2023 on a Y-o-Y basis. The net foreign assets of the country have increased by 3.56% in the current month from that of previous month which was at 2.21%. The deposit and credit have increased by 5% and 3.20% in the fiscal year 2022/23 as of Mid-February,2023.

- **Total Deposits and Lending**



The total deposits and lending increased by 0.47% and 0.40% respectively as of Mid-February compared to that of the previous month. The total deposits stand at 5386.09 billion and the total credit stands at 4861.65 billion as of Mid-February 2023. In the current month, deposits have increased in higher percentage than credit which indicates a slight decrease in loan demand in the present time and an ease of liquidity in the market.

As of 15th March, the total deposit has further increased to 5402 billion and the total lending has reached 4812 billion with the CD ratio and weighted average interbank rate at 85.69% and 7.01% respectively.

Conclusion

The brief overview of the macroeconomic situation as of Mid-February 2023 presents a positive economic situation overall. The BOP Surplus as of Mid-January stood at 97.10 billion which further increased to 133.21 billion in Mid- February 2023. The major contribution in the BOP surplus is due to the increasing inflow of remittance in the country. Furthermore, the loosened import restrictions and the removal of cash margin requirement for the imports of certain goods implemented from the month of Poush was expected to have an impact on the import figures in the next month but however as of two months, there has been no such effect. Even with a BOP surplus, the export figure is still in a decreasing trend, hence we can say that remittance plays an important role in increasing the BOP surplus in the country. The export was majorly affected by the change in import duty of India hampering the top exports of Nepal; Palm Oil and Soybean Oil. Hence, we can further expect the export to be affected in the upcoming months, which might be a hindrance in the country's BOP. The foreign reserves also have been increasing. Gross foreign reserves also have not been affected due to the upliftment of import restrictions. However, there is the budget deficit of 113.42 Billion as of mid-February 2023 due to increased government expenditure as compared to the government revenue collection.

As for the situation of liquidity in the economy, the liquidity crisis has been eased in recent times with various measures such as extension of inclusion of 80% of Government deposit in the deposits of BFIs, the recurrent issue of Repo. it may be further affected with the advance tax collection in Chaitra and the cut of capital expenditure 13%.

To conclude, currently the economic situation shows a positive outlook with the growth of remittance and BOP surplus. However, various factors such as the imports in the upcoming months after the import restrictions have been lifted, must be observed for its effect on the overall economy. Along with that, the global recession is also expected to have some effect in determining the economic situation in the near future. Also, the bank failures one after another in the global context, have created fear among the investors in the global scenario. This is also to be closely observed for the Nepalese economy.