

MACROECONOMIC ANALYSIS OF NEPAL

Asadh 2080 (Based on Twelve months' data published by NRB)



Machhapuchpuchhre Capital Limited
Research, Strategy & Product Development





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1. MONTHLY MACROECONOMIC OVERVIEW

As per Asian Development Outlook, April 2023, Nepal's economic growth is estimated to be moderate at 4.1% in the year 2023, down from an estimated growth of 5.8% in the year 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 Asadh 2080 presents a modestly improving economic outlook overall. The balance of payments (BOP) surplus as of Asadh 2080 has reached 290.52 Billion. The BOP surplus in the current fiscal year can be attributed majorly 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 an increase in the monthly figure of import but it is still in a decreasing trend as of Y-o-Y basis. The inflation rate of Nepal stands at 7.44% as of Asadh 2080 which is above the targeted limit of 7% set by NRB.

The price of crude oil has decreased by 32.90% on a Y-o-Y basis from USD 112.26 per barrel to USD 75.32 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 be adverse for the country's BOP but it may not be significant due to the low export-to-import ratio of only 9.7% as of Asadh 2080. 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 Asadh 2080, there is a budget deficit of 397.87 billion due to reduced government revenue collection.



The capital expenditure budget utilized by the government till Asadh end (Jun-Jul) stood at only 61.17% 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.

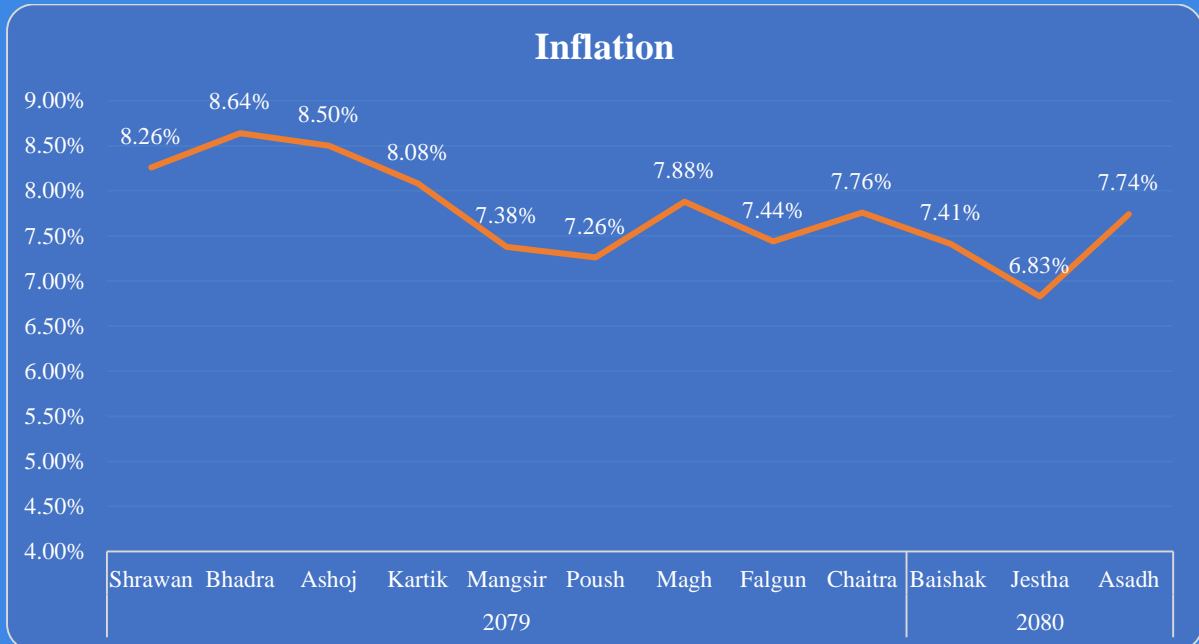
As of July 2023, India's inflation rate stood at 7.44% which was the highest since April 2022. This could directly affect our economy as our economy is closely linked with India's economy. India has also banned the export of non-basmati rice. With the highest import share in India, the increase in inflation may imply an increased cost of import for our country and impact the gross foreign reserves of our country.

As for the situation of liquidity in the economy, the efforts to maintain liquidity have proved to be successful with various efforts including extending the inclusion of 80% of government funds in the deposits of BFIs and the recurring issue of Repo. As the liquidity situation of the country recovered greatly, the allowance of including 80% of government funds in deposits has been discontinued.



2. MACROECONOMIC INDICATORS

2.1 Inflation

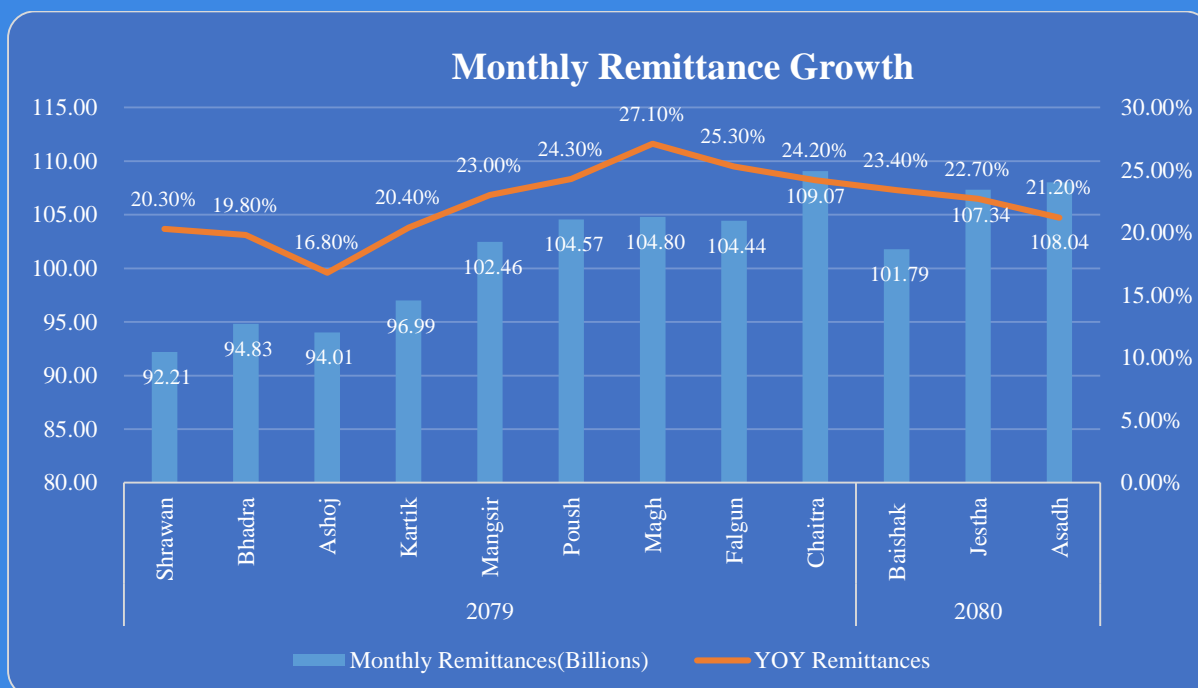


The inflation as of Asadh 2080 stands at 7.74% which has slightly increased as compared to the previous month while it has slightly decreased as compared to the first month of the fiscal year 2079/80.

2.2 Remittance

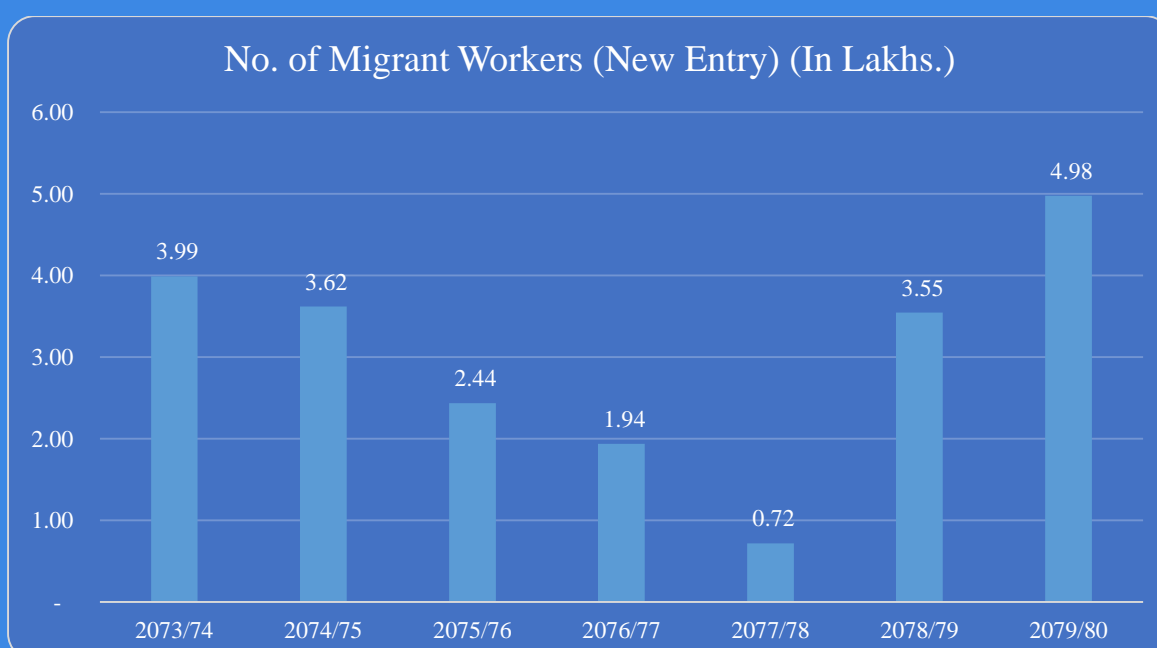
Date	Amount (in Billions)	% Change
Asadh 2079	1007.31	21.2%
Asadh 2080	1220.56	

The remittance has increased by 21.2% to 1220.56 Billion as of Asadh 2080 on a Y-o-Y basis. In the same period of the previous year, the remittance figure stood at 1007.31 Billion.



Nepal's economy is highly dependent on remittance. The remittance increased by 21.20% on a Y-o-Y basis as of Asadh 2080. 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 eight consecutive months. As of Asadh 2080, the remittance to GDP ratio has increased to 25.16% from 20.76% 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%.

2.3 No. of Migrant Workers





As of Asadh 2080, the number of migrant workers taking new entry is 4.98 Lakhs while the number of migrant workers taking renewed entry stands at 2.77 Lakhs. In the same period of the previous year, the number of new entries stood at 3.55 Lakhs while the renewed entry stood at 2.82 Lakhs. Since the number of migrant workers is on an increasing trend, we can expect a further increase in remittance in the upcoming months.

As of Asadh 2080, the number of migrant workers is increasing trend on a monthly basis. The number of migrant workers (new entry) increased by 40.3% as of Asadh 2080 on a Y-o-Y basis. Currently, Malaysia is the number one destination nation for Nepali migrant workers with a share of 44.1% followed by UAE, Saudi Arabia, and Qatar.

2.4 No. of Tourist Arrival



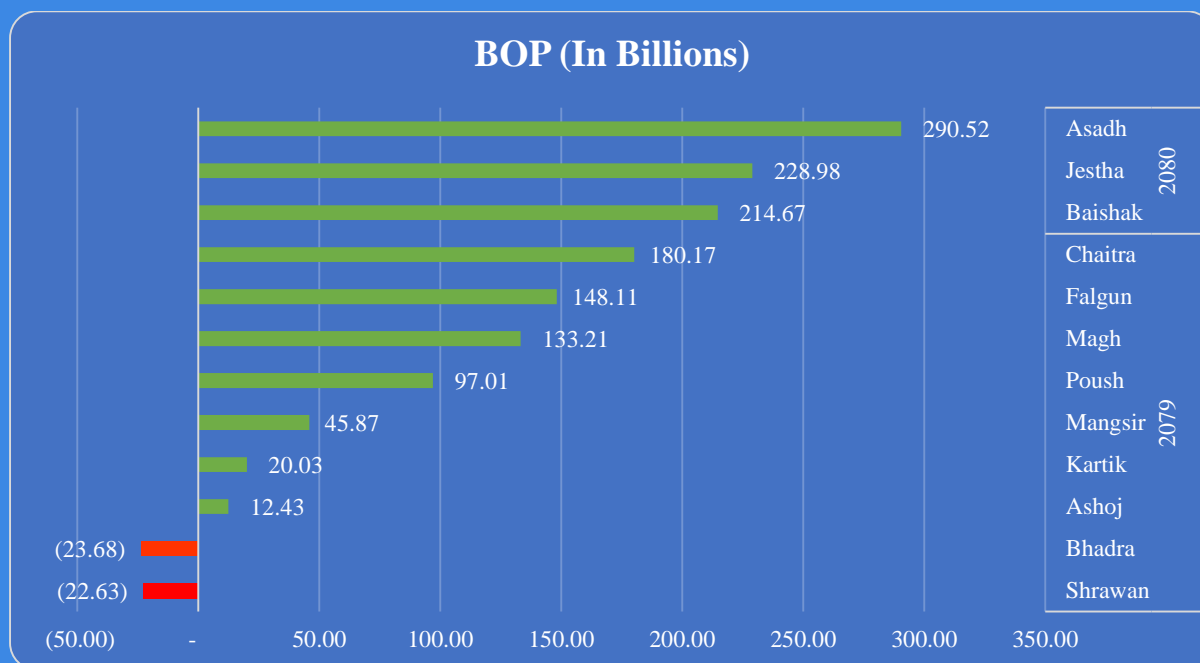
The number of tourist arrivals, which had significantly decreased in the year 2020 due to the pandemic, is slowly increasing. The number of tourist arrivals increased from 1.5 lakh to 6.14 lakhs in the year 2022. As of July 2023, the number of tourist arrivals stood at 5.34 lakhs which was around 2.85 lakhs only in the same period of the 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) to revitalize the nation's tourism sector, which suffered significant setbacks due to the 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. The Ministry of Culture, Tourism, and Civil Aviation has already prepared a Strategic Action Plan to make the VND 2023-32 successful. It plans to increase the number of tourist arrivals 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.

2.5 Balance of Payment (BOP)

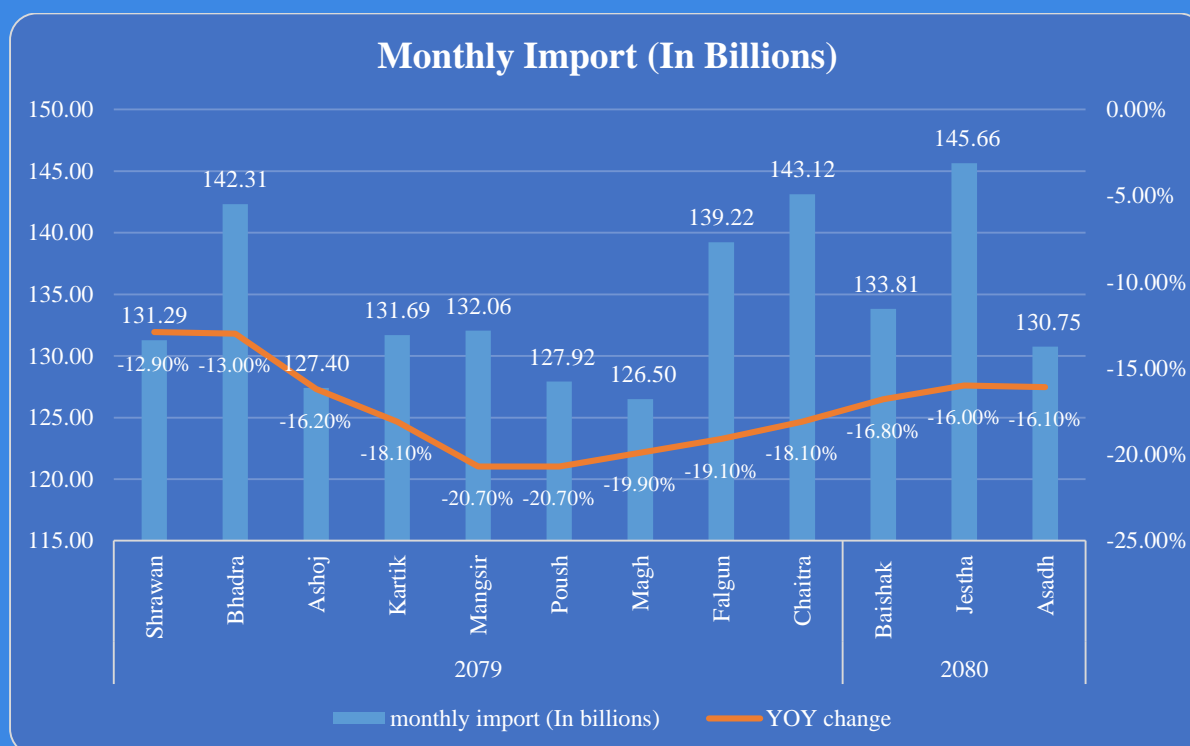


As of Asadh 2080, the BOP remained at a surplus of Rs.290.52 billion. In the same period of the last year, it was at a deficit of 255.26 billion. The BOP surplus trend has continued from mid-October 2022. The import ban and increase in remittance have reduced the pressure on BOP and the trade deficit. This effect is seen in the BOP surplus of Asadh as well. However, with the import restrictions being lifted as of Poush 2079, it had been expected that it would impact the import but after the import restrictions have been lifted, 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.

2.6 Imports

Date	Amount (in billions)	% Change
Asadh 2079	1,920.45	
Asadh 2080	1,611.73	-16.1%

The import has decreased by 16.1% as of Asadh 2080 to 1611.73 billion on a Y-o-Y basis. In the same period of the previous year, the import figure stood at 1920.45 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 Asadh 2080, the monthly imports decreased to 130.75 billion from 145.66 billion in the previous month. Destination-wise, imports from India and China have decreased by 14.4% percent, and 15.9% percent respectively, and it has decreased by 20.7% for other countries. The reduction in the import in this fiscal year is majorly attributed to the decline in the import of Machinery and Parts with a share of 4.5% in total imports by 20.3% and the import of Transport Equipment, Vehicle, and Other Vehicle Spare parts having a share of 3.8% in total imports by massive 50.1%

2.6.1 Top Five Imports

S. N	Top 5 Imports	Twelve Months (in millions) (Asadh 2080)	Share in Total imports (%)	Percentage Change
1	Petroleum Products	309,877.03	19.2	-7.3
2	Other Machinery and Parts	72,946.85	4.5	-20.3
3	Transport Equip, Vehicle, and other Vehicle Spare Parts	61,799.77	3.8	-50.1
4	Medicine	47,658.35	3.0	-37.4
5	Gold	43,886.41	2.7	2.8

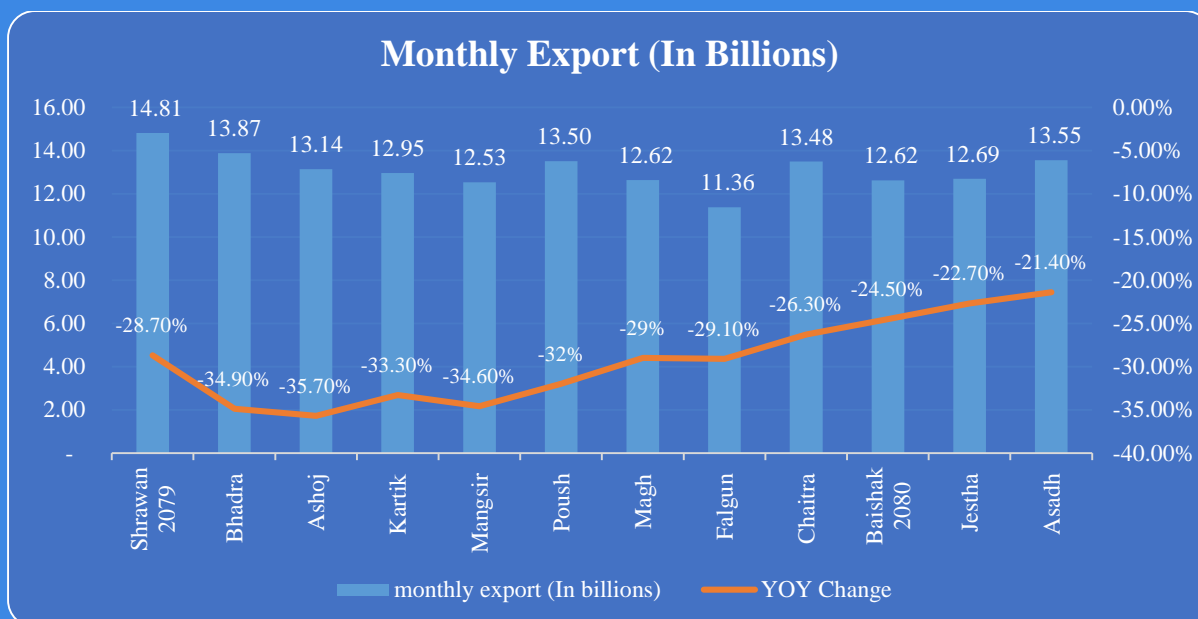
The Top 5 Imports as of Asadh 2080 have been presented in the above table. The data shows that the import of vehicles and other machinery has majorly decreased by 50.1% and 20.6% respectively which is the effect of import restrictions placed. Also, the import of petroleum products has declined by 7.3% as compared to the same period of previous year.



2.7 Exports

Date	Amount (in billions)	Y-o-Y% Change
Asadh 2079	200.03	-21.4%
Asadh 2080	157.14	

The exports have decreased by 21.4% to 157.14 billion as of Asadh 2080 on a Y-o-Y basis. In the same period of the previous year, the exports stood at 200.03 billion.



Talking about the monthly export, the exports stood at 13.55 billion as of Asadh 2080. In the previous month, the exports stood at 12.69 billion. Destination-wise, exports to India decreased by 31.3 percent while exports to China increased by significantly by 118.3 percent and 10.7 percent to other countries (Y-o-Y Change). A reduction in the exports is majorly due to the massive decline in the export of Palm Oil and Soya soybean oil (having a combined share of 20.4% in total exports) by 50.1% and 82.4% respectively compared to last year's same period. Whereas the export of woolen carpets with a 7.3% share in total exports has increased by 7.3% in the review period. Similarly, Nepal has exported electricity worth 10.43 billion in the first current fiscal year 2079/80 against 3.3 billion in the same period of the previous year.

The total trade deficit has decreased by 15.5 percent to Rs.1454.59 billion in the current fiscal year. Such a deficit had increased 23.0 percent in the corresponding period of the previous year. The export-import ratio decreased to 9.87 percent in the review period from 10.4 percent in the corresponding period of the previous year.



2.7.1 Top Five Exports

S.N	Top 5 Exports	Twelve Months (In millions) (Asadh 2080)	Share in Total Exports (%)	Percentage Change
1	Palm Oil	20,509.12	13.1	-50.1
2	Woolen Carpet	11,503.49	7.3	20.3
3	Polyester Yarn & Thread	10,550.17	6.7	10.9
4	Soyabean Oil	8,475.99	5.4	-82.4
5	Cardamom	8,255.98	5.3	72.8

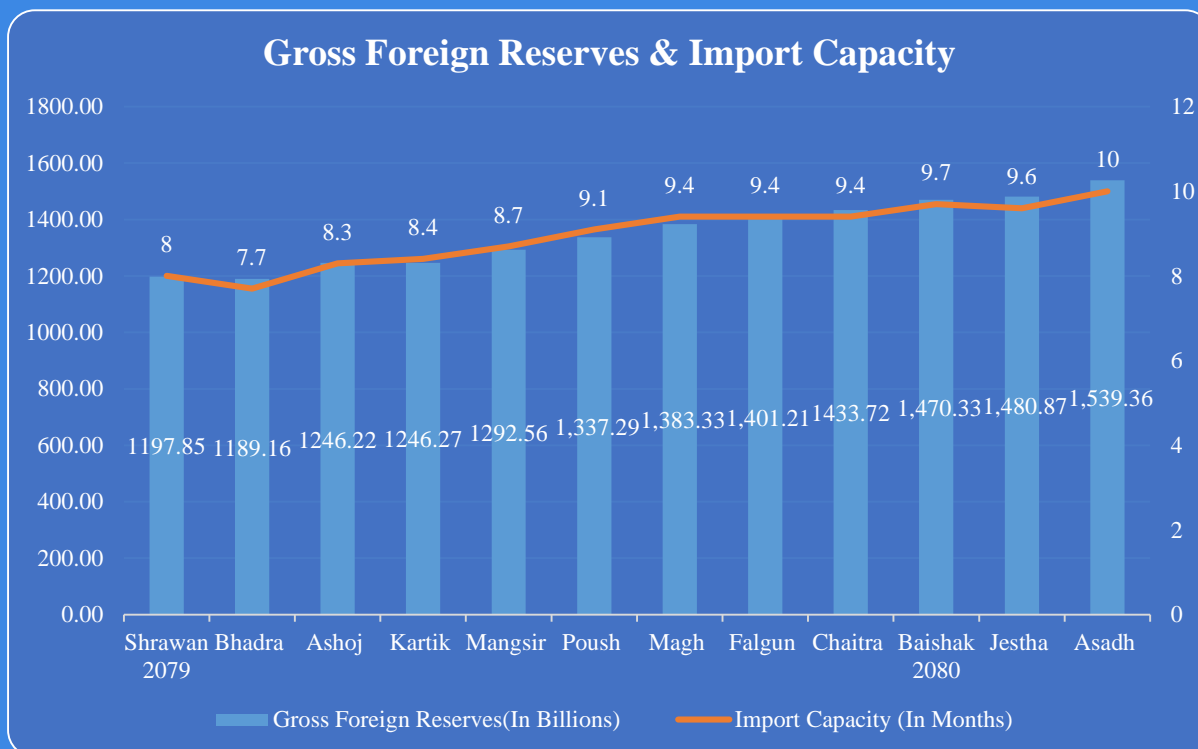
The top five exports from our country have been presented in the above table. The exports of Palm oil, and soybean oil, the two major export goods of Nepal have significantly decreased by 50.1% and 82.4 % respectively in the current fiscal year 2079/80. The major reason behind the decrease in exports of these two goods is the increased import duty on these edible oils from Nepal by the Indian government which decreased the export of our edible oils to 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 export figure. However, the exports of Woolen Carpet, Polyester Yarn, and thread have increased by 20.3% and 10.9% respectively while the exports of Cardamom have significantly increased by 72.8% in the fiscal year 2079/80 compared to the previous year.

Electricity Exports				
S.N.	Export	2078/79	2079/80	Percentage Change
		Asadh	Asadh	
1	Electricity	3,328.24	10,429.46	213%

Looking into the exports of electricity from Nepal, the data shows that the exports of electricity have significantly increased by 213% on a Y-o-Y basis in the current fiscal year 2079/80. The major reason behind the sharp increase in electricity export figure is due to the successful production of electricity through the operation of the “Upper Tamakoshi Hydropower Project” which increased the production capacity to 2,190 MW. Further, with the announcement of a restructuring of NEA and HIDCL in the financial budget of 2080/81, electricity production shall increase creating further prospects for electricity exports. Additionally, Nepal and Bangladesh have agreed to the power trading of around 40-50MW of electricity from Nepal. If Nepal succeeds in selling electricity to Bangladesh, it will become the country’s first power export outside India. It can become a catalyst for increasing exports in the upcoming months.



2.8 Gross Foreign Reserves & Import Capacity

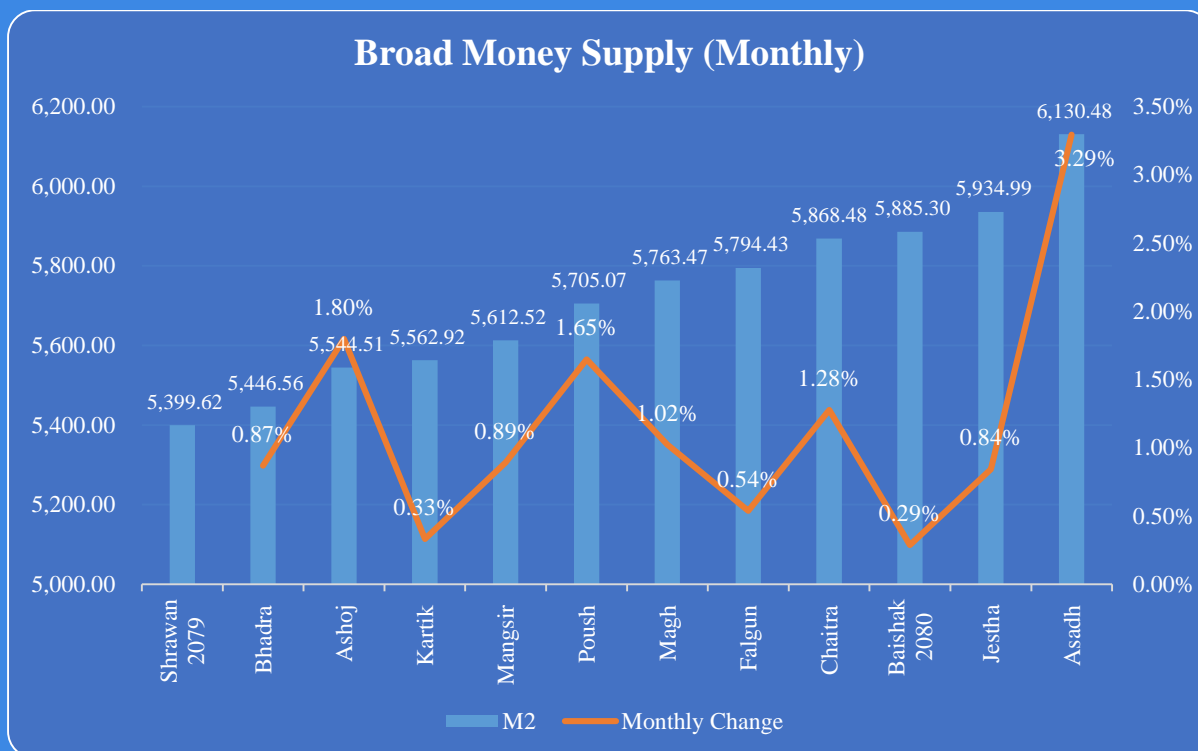


The Gross Foreign Reserves and import capacity is on an increasing trend in FY 2079/80. As of Asadh 2080, gross foreign reserves stood at 1539.36 billion which was 1215.80 billion in the same period of the previous year. The gross foreign reserves increased to 1539.36 billion from 1480.89 billion in Jestha 2080. Likewise, the import capacity for merchandise and service imports has increased to 10 months as of Asadh 2080.

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.



2.9 Broad Money Supply



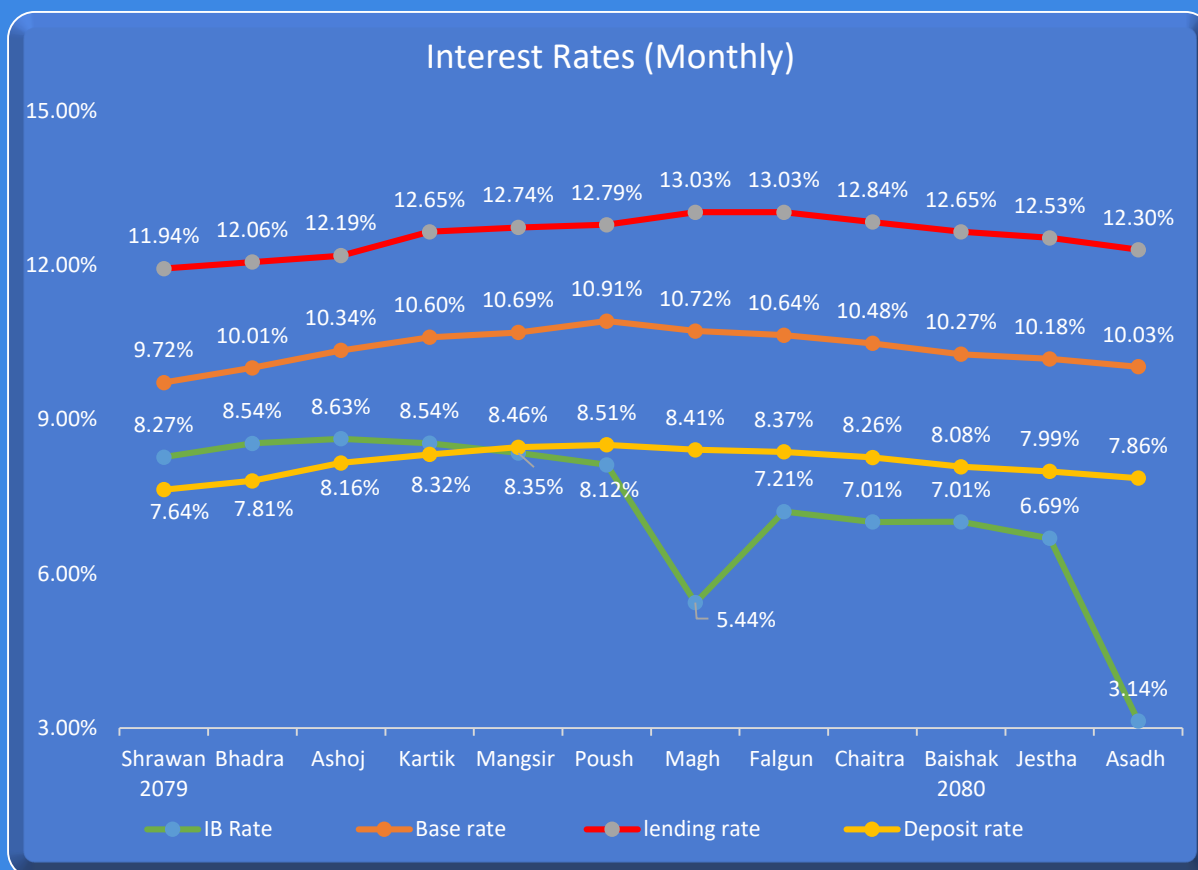
Broad money supply is a measure of the total amount of money in an economy that is readily available for spending. It includes all physical currency, such as banknotes and coins, as well as money held in various types of accounts, such as demand deposits, time deposits, and savings deposits. The broad money supply figure has been in an increasing trend in the current fiscal year and had the highest monthly growth of 3.29% in the last month of the current fiscal year. 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.



2.10 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 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 from Shrawan to Mangsir 2079. But, with the gradual liquidity ease, the interbank rate has decreased. The interbank rate has decreased from 8.35% in Mangsir to 5.44% in Magh 2079. However, there has been a notable rise in the interbank rate to 7.01% in Chaitra signifying a reemergence of liquidity tightening during the period. However, the liquidity persevered in the ending month of the current fiscal year with the interbank rate coming down to as low as 3.14%. The weighted average base rate, deposit rate, and lending rate, which reached their peak point in Falgun 2079, have gradually decreased in the ending months of the current fiscal year.

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 till the month of Asadh as well. Also, the requirement to maintain the spread rate of 4.0% till Asadh 2080, has led to a decrease in the average lending rate as well.



NBA (Nepal Bankers' Association) has decided to end the interest cartelization from the start of the new fiscal year 2080/81. This allows the banks to determine the interest rate according to their own accord depending on the liquidity situation.

As per the latest interest rates published by commercial banks for the month of Bhadra 2080, 12 commercial banks have increased their deposit interest rates, 4 banks have decreased their interest rates and 4 have kept them constant following the previous month's interest rate. As most of the banks have increased their deposit interest rate, it is expected that the average deposit rate, lending rate, and base rate will slightly increase in the upcoming month.

From the next fiscal year 2080/81 starting from Shrawan, NRB has removed the facility of the provision to count 80% of local funds as deposits for commercial banks, which has decreased the deposits by Rs. 100 Billion. This indicates that the interbank rate will increase in the month of Shrawan 2080.

2.11 Government Revenue and Expenditure

Date	Government Revenue		Government Expenditure	
	Amt. in billions	% of Target Budget	Amt in billions	% of Target Budget
Asadh 2079	1,134.71	91.47%	1,296.24	79.39%
Asadh 2080	1,031.69	70.73%	1,429.56	79.69%

The government revenue and expenditure as of Asadh 2080 are 1031.69 billion and 1429.56 billion respectively. The government revenue and expenditure has reached 70.73% and 79.69% of the target budget respectively as of the end of the fiscal year 2079/80. 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 expenditure disbursed is similar to that of the previous year. The money in circulation also depends on the disbursement of government expenditure. Higher government expenditure aids in easing the liquidity situation in the economy.

Date	Capital Expenditure
Asadh 2079	57.18%
Asadh 2080	61.17%

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 Asadh end stood at 61.17%. 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.



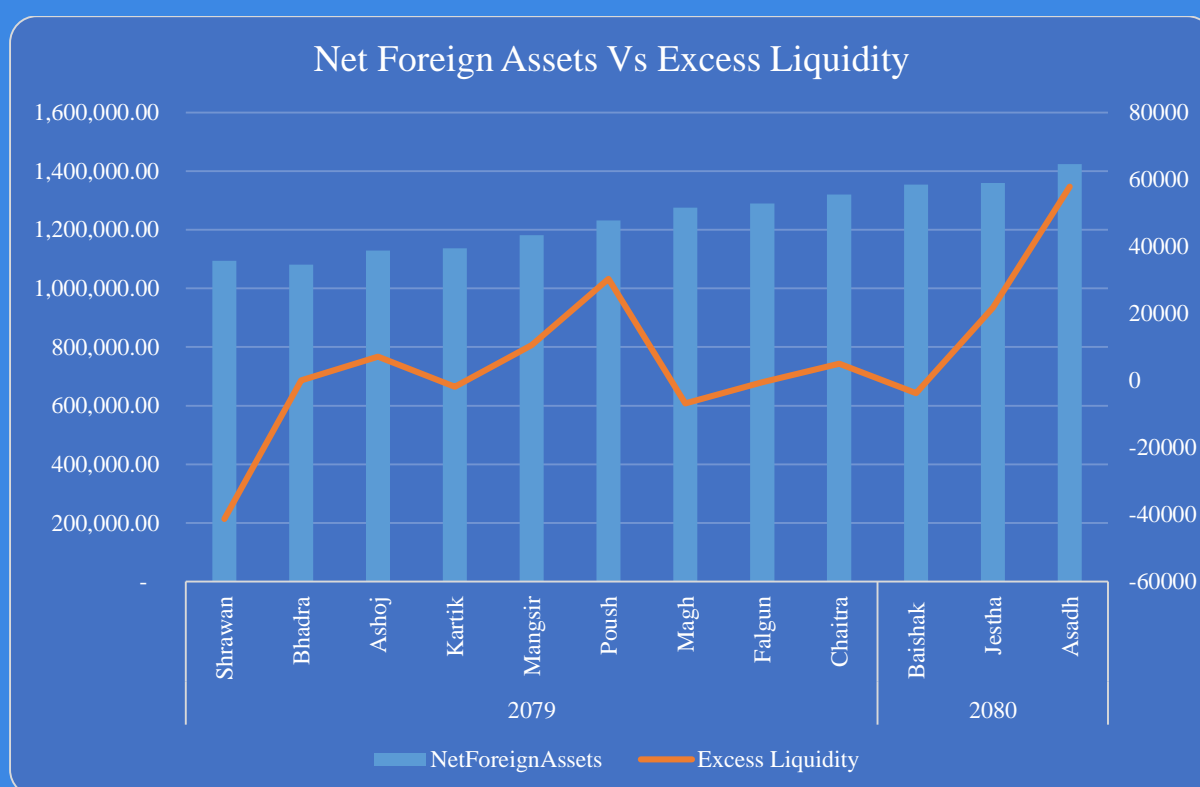
Date	Government Revenue(Billions)	Government Expenditure (Billions)	Budget Deficit/Surplus (Billions)
Asadh 2079	1,134.71	1,296.24	-161.53
Asadh 2080	1,031.69	1,429.56	-397.87

Source: FCGO

As of Asadh 2080, there is a budget deficit of 397.87 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. A budget deficit generally leads to a higher level of borrowing.

2.12 Market Liquidity

In Millions.



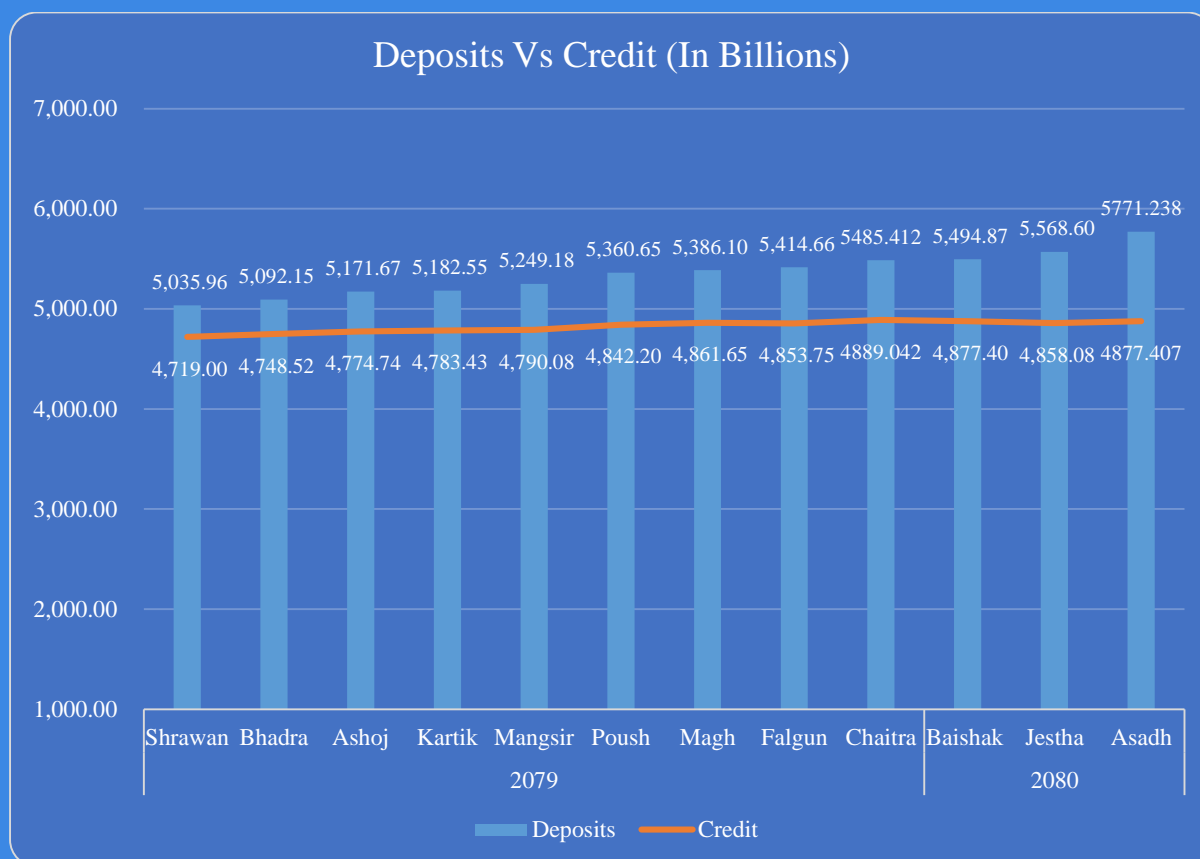
The position of excess liquidity stood at around 57.84 Billion (As of Asadh 2080). The excess liquidity has improved from and is nearing the excess liquidity figure of 65.88 Billion of the previous fiscal year. The excess liquidity stood at a deficit of 41.27 billion as of Shrawan 2079. The position of excess liquidity indicates that liquidity had 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, the liquidity situation has improved greatly in the current fiscal year. This may be attributed to the import restrictions placed the discouragement of loans flowing into unproductive sectors and the allowance to count 80% of local funds as deposits.

The import has decreased by 16.10% (As of Asadh 2080) on a Y-o-Y basis. The import restrictions have been lifted as of early December; which was expected to drive the import figure affecting the liquidity position of the economy. However, due to low demand in the



economy, the import figure has not increased drastically which has protected the gross foreign reserves and liquidity in the current fiscal year. Remittance has increased by 21.20% (As of Asadh 2080) on a Y-o-Y basis. Exports, however, have decreased by 21.40% as of Asadh 2080 on a Y-o-Y basis. The net foreign assets of the country have increased by 4.71% in the current month which is the highest monthly growth of NFA in the current fiscal year. The deposit and credit have increased by 12.30% and 3.80% in the fiscal year 2079/80.

2.13 Total Deposits and Credit



The total deposits have increased by 3.64% and the lending has decreased by 0.40% as of Asadh 2080 compared to the previous month. The total deposits stand at 5771.24 billion and the total credit stands at 4877.41 billion as of Asadh 2080. In the current month, deposits have increased while credit growth is low, which indicates slow loan disbursement in the present time and ease of liquidity in the market.



3 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.

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. The soaring inflation in India is also expected to hit Nepal in the upcoming months.

Along with that, the global recession spread worldwide is also expected to have some effect on determining the economic situation shortly. China's economy is also suffering from an economic slowdown; an effect arising from the COVID-19 outbreak. U.S. business activity also approached the stagnation point in August, with growth at its weakest since February as demand for new business in the vast service sector contracted.

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