

# MACROECONOMIC ANALYSIS OF NEPAL

Shrawan 2080 (Based on One months' data published by NRB)



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





## TABLE OF CONTENTS

<b>1.</b>	<b>MONTHLY MACROECONOMIC OVERVIEW.....</b>	<b>1</b>
<b>2.</b>	<b>MACROECONOMIC INDICATORS.....</b>	<b>2</b>
2.1	INFLATION.....	2
2.2	REMITTANCE.....	3
2.3	NO. OF MIGRANT WORKERS.....	3
2.4	NO. OF TOURIST ARRIVAL.....	4
2.5	BALANCE OF PAYMENT (BOP).....	5
2.6	IMPORTS.....	5
2.6.1	<i>Top Five Imports</i> .....	6
2.7	EXPORTS.....	6
2.7.1	<i>Top Five Exports</i> .....	7
2.8	GROSS FOREIGN RESERVES & IMPORT CAPACITY.....	8
2.9	BROAD MONEY SUPPLY.....	9
2.10	INTEREST RATES.....	9
2.11	GOVERNMENT REVENUE AND EXPENDITURE.....	10
2.12	MARKET LIQUIDITY.....	11
2.13	TOTAL DEPOSITS AND CREDIT.....	12
<b>3</b>	<b>CONCLUSION.....</b>	<b>12</b>



## 1. MONTHLY MACROECONOMIC OVERVIEW

As per Asian Development Outlook, April 2023, Nepal's economic growth is estimated to be moderate at 4.3% in the year 2023, last year (2022) the estimated growth was only 1.9%. The projected slowdown in Nepal's gross domestic product (GDP) growth in the year 2022 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 in the first month of the fiscal year 2080/81 (Shrawan 2080) presents a modestly improving economic outlook overall. The balance of payments (BOP) surplus in Shrawan 2080 is 32.90 Billion. The BOP surplus in the recent fiscal year reached 290.52 Billion (12 Months) so the surplus figure in the first month of fiscal year provides an optimistic view that the BOP Surplus will continue in the present fiscal year as well. The BOP Surplus can be attributed majorly to the rising inflow of remittance into the country and declining imports. The inflation rate of Nepal stands at 7.52% as of Shrawan 2080 which is above the targeted limit of 6.5% set by NRB.

The price of crude oil has decreased by 10.60% on a Y-o-Y basis from USD 95.36 per barrel to USD 85.24 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 (Market share =14.6%). The GoN'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 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. Additionally, Nepal has signed a long term power purchase agreement with India for the export of 10,000 MW within the span of 10 years. If Nepal succeeds in selling electricity to Bangladesh and India, it will be Nepal's first electricity power export outside India. It would also lead to an increase in exports, leading to a decrease in the trade deficit to a certain extent.

In the previous fiscal year, NRB's attempt to preserve gross foreign reserves through the implementation of import controls led to loss of government revenue in the form of import and excise duties. This measure led to a budget deficit of 397.87 Billion in the FY 2079/80. In order to manage the budget deficit, government has resorted to raising funds from internal borrowing. The government has set a target of acquiring internal loans worth Rs 240 billion in the current fiscal year 2080/81, while a total of Rs 55 billion will be collected by the first quarter end in mid-October.

As for the situation of liquidity in the economy, the efforts to maintain liquidity have proved to be successful with various

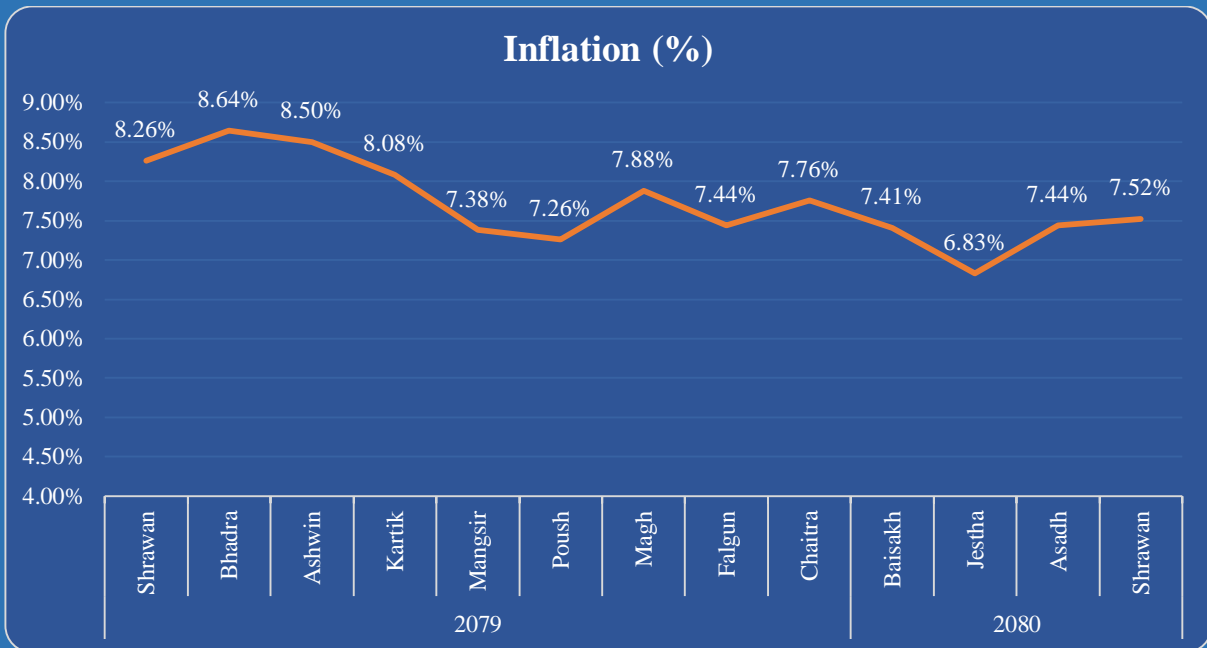


efforts including extending the inclusion of 80% of government funds in the deposits of BFIs and the recurring issue of Repo. As the liquidity situation of the country recovered greatly, the allowance of including 80% of government funds in deposits had been discontinued as of the

end of FY 2079/80. However, at the end of Bhadra 2080, the government has once again permitted the BFIs to count 60% of government funds as deposits so as to aid liquidity in the hopes of the interest rate decrease.

## 2. MACROECONOMIC INDICATORS

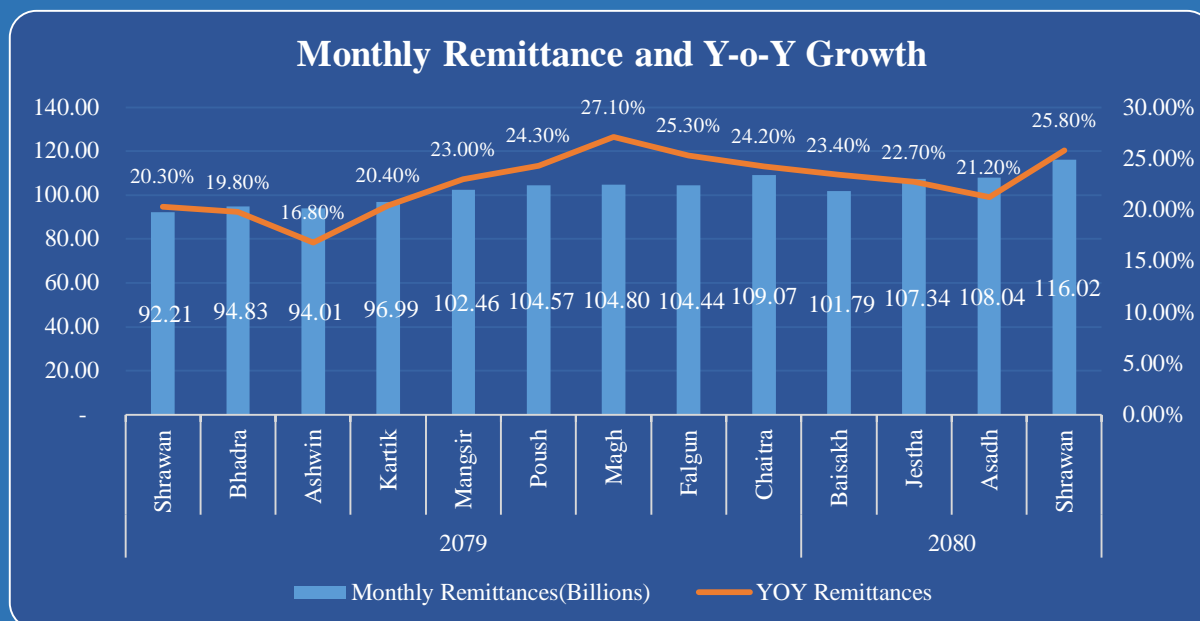
### 2.1 Inflation



The inflation as of Shrawan 2080 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. However, it is still above the targeted rate of 6.5% limit set by the central bank in the monetary policy for FY 2080-81. Meanwhile, India's CPI inflation surged to a 15-month high of 7.44% in July but then decreased to 6.83% in August 2023. These fluctuations in India's CPI inflation hold direct implications for Nepal's economy, given the close economic ties between the two nations. India has also banned the export of non-basmati rice which would affect the consumer prices in Nepal as well. Hence, the rising prices of crude oil and increase in consumer prices due to India's export ban could potentially increase inflation rate of Nepal in the upcoming months.



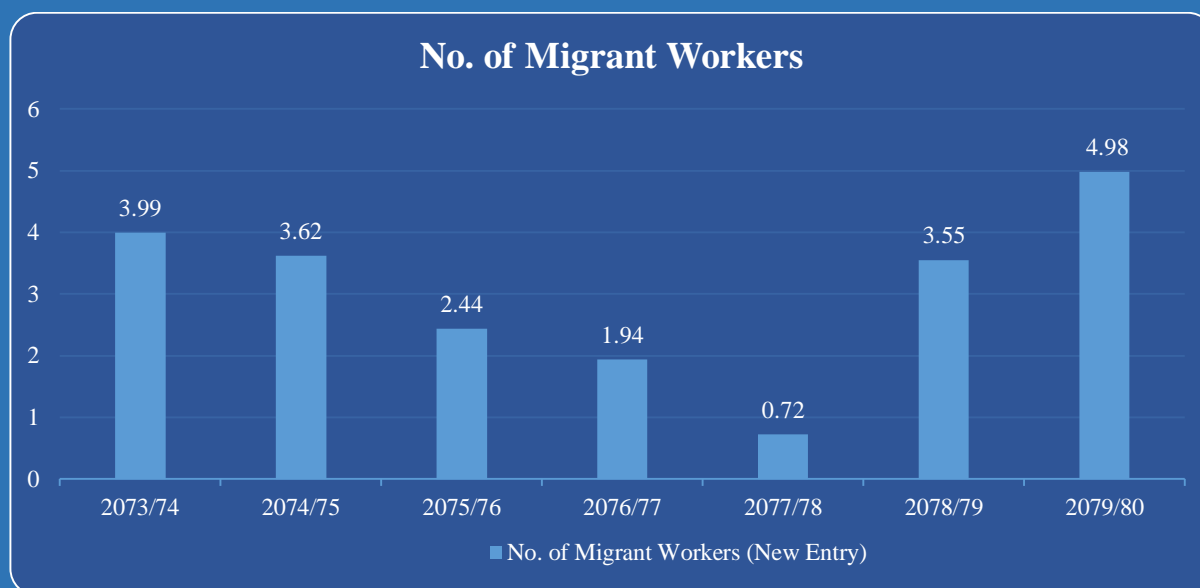
## 2.2 Remittance



Nepal's economy is highly dependent on remittance so the growth of remittance can be considered positive for the economy. The remittance increased by 25.80% on a Y-o-Y basis as of Shrawan 2080. In the same period of the previous year, the monthly remittance figure stood at 92.21 Billion.

The remittance has been more than Rs 100 billion for the nine consecutive months now. As of Shrawan 2080, the remittance to GDP ratio has increased to 2.16% from 2.90% 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

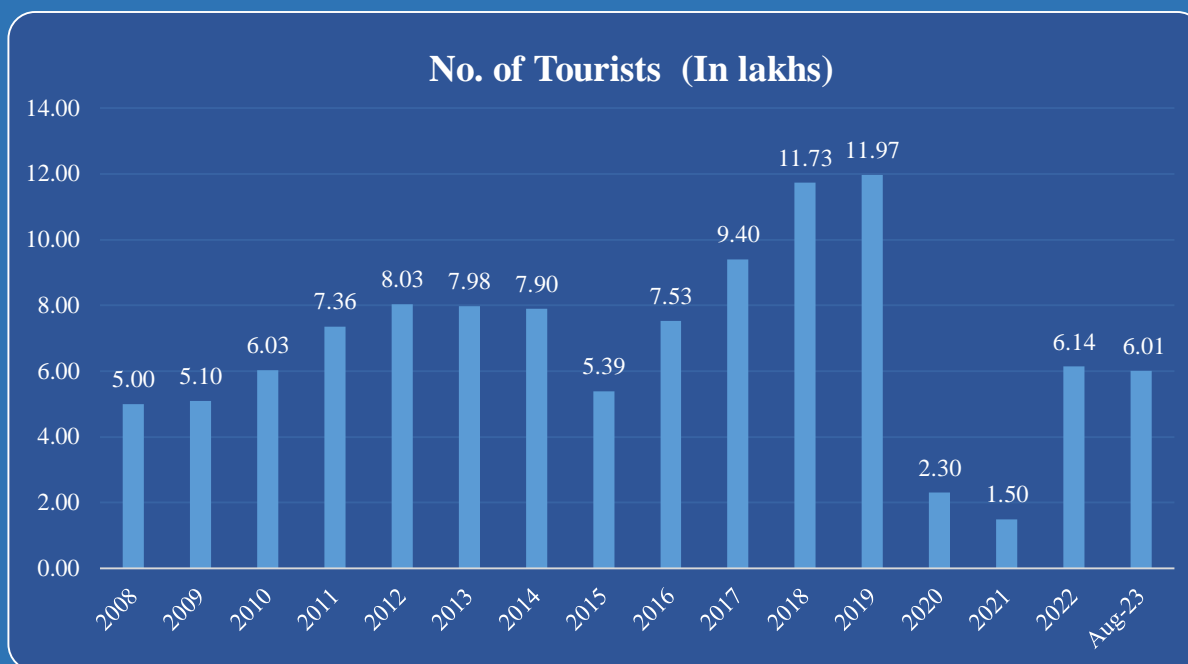






The above chart presents the yearly data of no. of migrant workers from the FY 2073/74 to the recent FY 2079/80. As of Shrawan 2080, the number of migrant workers (new entry) has reached 39,152 in the first month of FY 2080/81 which is a 12.1% decrease from the same period of previous year. The number of migrant workers (renew entry) decreased by 19.5% as of Shrawan 2080 on a Y-o-Y basis. Currently, UAE is the number one destination nation for Nepali migrant workers with a share of 21.3% followed by Malaysia, Saudi Arabia, and Qatar.

## 2.4 No. of Tourist Arrival

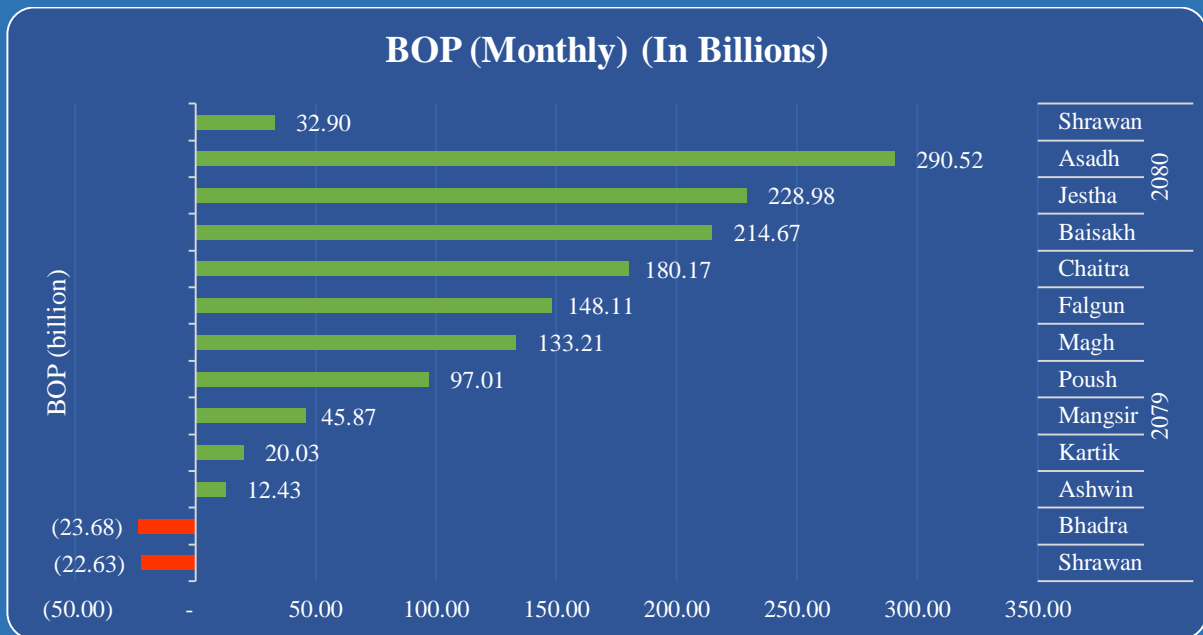


The number of tourist arrivals, which had significantly decreased in the year 2020 due to the pandemic, is slowly increasing. The number of tourist arrivals increased from 1.5 lakh to 6.14 lakhs in the year 2022. As of August 2023 (As of 8 Months), the number of tourist arrivals stood at 6.01 lakhs which 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.

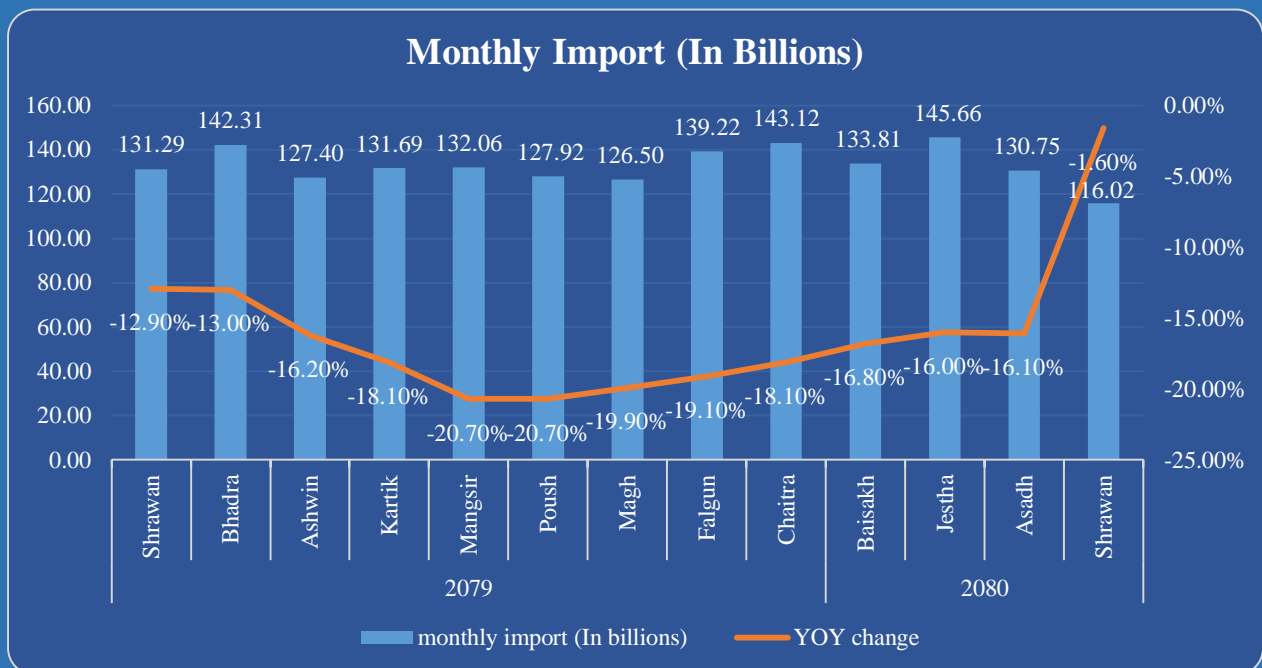


## 2.5 Balance of Payment (BOP)



As of Shrawan 2080, the BOP remained at a surplus of Rs.32.90 billion. In the same period of the last year, it was at a deficit of 22.63 billion. The reduced import caused by economic slowdown and increase in remittance have reduced the pressure on BOP and the trade deficit which has significantly contributed to BOP Surplus. It is crucial to closely monitor import figure to keep a close eye on the liquidity position of the economy as the import restrictions has been completely lifted.

## 2.6 Imports





## Macroeconomic Situation of Nepal as of Shrawan 2080/81

The import has decreased by 1.60% as of Shrawan 2080 to 129.24 billion on a Y-o-Y basis. In the same period of the previous year, the import figure stood at 131.29 billion.

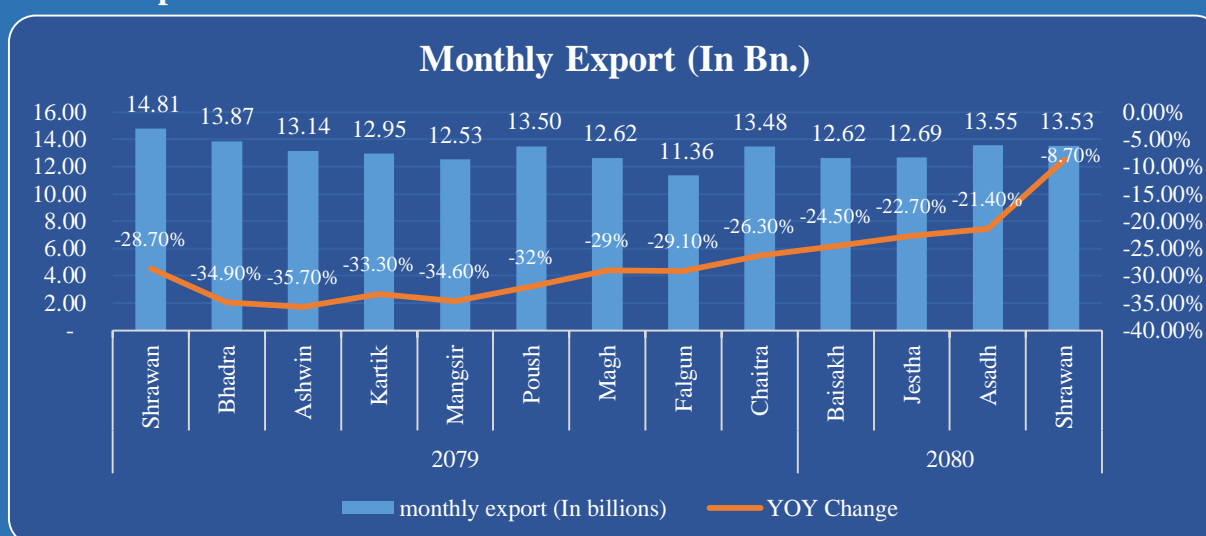
The monthly imports decreased to 116.02 billion in Shrawan 2080 from 130.75 billion in the previous month. Destination-wise, imports from India have increased by 3.3% percent, and imports from China has decreased by 12.1% percent respectively, and it has decreased by 23.1% for other countries. The reduction in the import in the current month can be attributed to the decline in the import of Petroleum products with a share of 14.6% in total imports by 17.9% and the import of Transport Equipment, Vehicle, and Other Vehicle Spare parts having a share of 4.3% in total imports by 5.9%.

### 2.6.1 Top Five Imports

S.N	Top 5 Imports	One Months (In Mn.)(Mid-Aug 2023)	Share in Total imports (%)	Percentage Change
1	Petroleum Products	18,847.59	14.6	-17.9
2	Transport Equip, Vehicle & Other Vehicle Spare Parts	5,570.45	4.3	-5.9
3	Other Machinery and Parts	5,567.63	4.3	-1.8
4	Rice/Paddy	4,264.09	3.3	82.5
5	Hot rolled sheet in coil	3,930.69	3.0	47.4

The Top 5 Imports in the month of Shrawan 2080 have been presented in the above table. The data shows that the import of petroleum products has decreased by 17.9% as compared to same period of previous year whereas the import of Rice/Paddy and Hot rolled Sheet in coil has substantially increased by 82.5% and 47.4% respectively on a Y-o-Y basis. The lumpy skin disease, which has killed thousands of oxen, low monsoon rainfall and slow pace of paddy transplantation have raised the possibility of a reduced paddy harvest which may have led to the massive increase in import of Rice/Paddy in fear of possible food crisis. Additionally, the import of hot rolled sheet in coil has also shown substantial increase indicating the need of materials for constructions.

### 2.7 Exports







The exports have decreased by 8.70% to 13.53 billion as of Shrawan 2080 on a Y-o-Y basis. In the same period of the previous year, the exports stood at 14.81 billion.

Talking about the monthly export, the exports stood at 13.53 billion as of Shrawan 2080. In the previous month, the exports stood at 13.55 billion. Destination-wise, exports to India decreased by 20.8 percent while exports to China increased by massively by 527.2 percent and 15.4 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 by 88.5% due to India's decision on increasing import duty on oils imported from Nepal. Whereas export of Polyester Yarn & Thread, Cardamom, Zinc Sheet, woolen carpet and readymade garments has significantly increased. These exports have emerged as top exports of Nepal. Similarly, Nepal has exported electricity worth 15.06 billion in the first month of current fiscal year 2080/81 which has decreased against 20.32 billion in the same period of the previous year.

The total trade deficit has decreased by a mere 0.7 percent to Rs.115.71 billion in the first month of current fiscal year. Such a deficit had increased 10.4 percent in the corresponding period of the previous year. The export-import ratio decreased to 10.5 percent in the review period from 11.3 percent in the corresponding period of the previous year.

### 2.7.1 Top Five Exports

S.N	Top 5 Exports	One Months (In Mn.) (Mid-August 2023)	Share in Total Exports (%)	Percentage Change
1	Polyester Yarn & Thread	984.88	7.3	19.2
2	Cardamom	964.61	7.1	322.0
3	Zinc sheet	958.41	7.1	85.3
4	Woolen Carpet	956.64	7.1	3.7
5	Readymade Garments	680.47	5.0	16.8

The top five exports from our country have been presented in the above table. While the overall export figure has decreased as a result of massive decrease in export of palm oil and soybean oil following the increase in import duty of oils imported from Nepal by India, it has also encouraged the export of domestically produced/available goods. The exports of Polyester Yarn, and thread, cardamom, zinc sheet, woolen carpet and readymade garments have impressively increased in the FY 2080/81 compared to the previous year. Nepal is considered to be the world's largest cardamom producer. Hence, Nepal's has prospects in diversifying its cardamom exports in the global market apart from India.

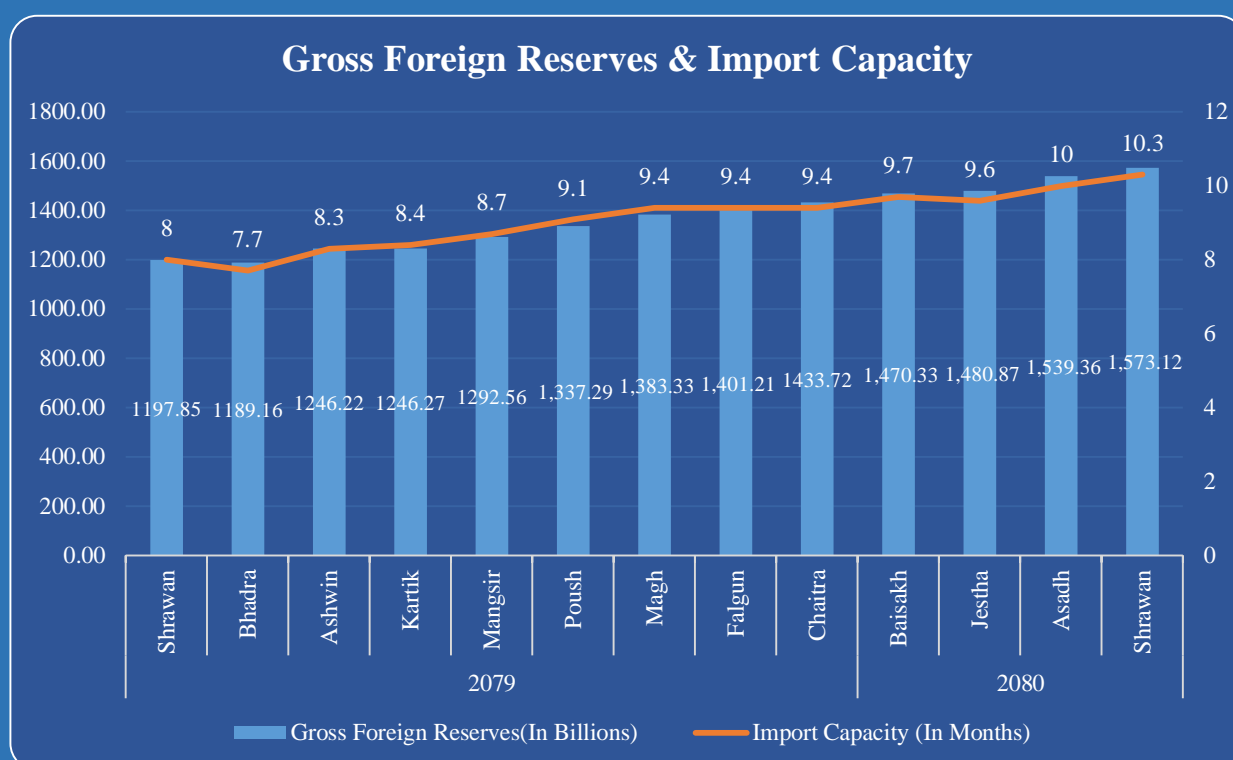
Electricity Exports				
S.N.	Export	2022/23	2023/24	% Change
		One months (In Mn.)	One months (In Mn.)	
1	Electricity	2032.0	1506.7	-26%

Looking into the exports of electricity from Nepal, the data shows that the exports of electricity have decrease of 26% on a Y-o-Y basis in the current fiscal year 2080/81. However, there is prospect of electricity exports in the near future due to various reasons. The "Upper Tamakoshi Hydropower Project" has increased the production capacity to 2,190 MW. Further, with the



announcement of 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

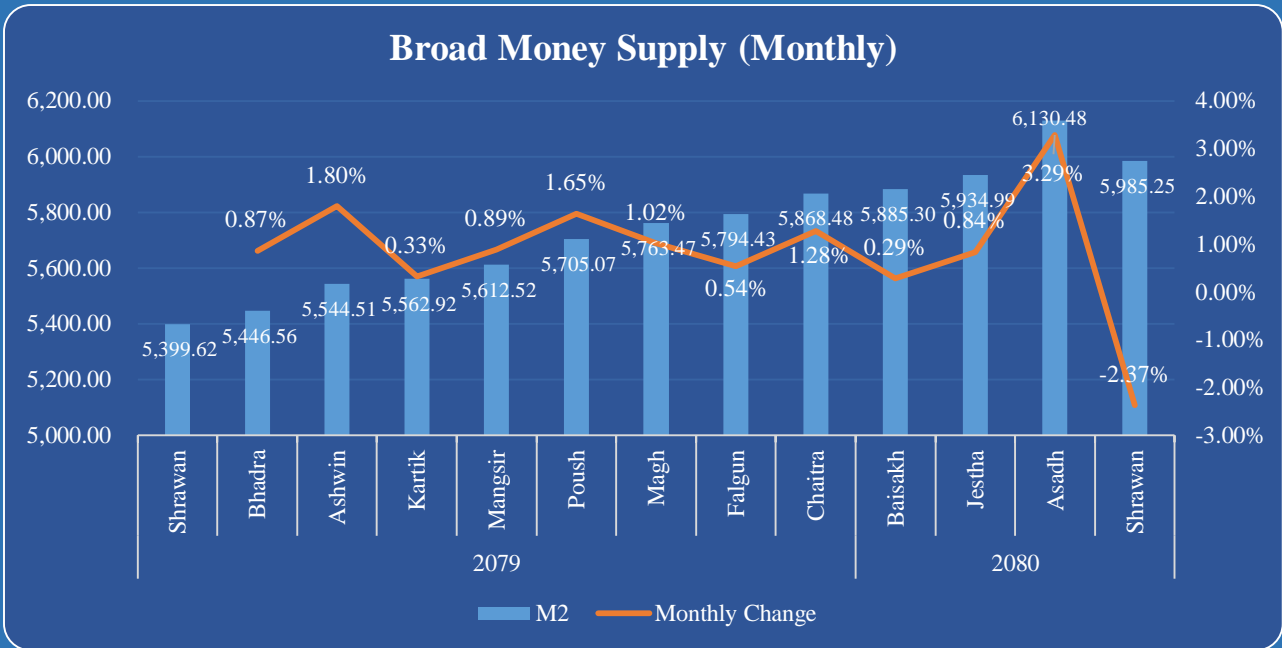


The Gross Foreign Reserves and import capacity is on an increasing trend in FY 2080/81 as well. As of Shrawan 2080, gross foreign reserves stood at 1573.12 billion which was 1197.85 billion in the same period of the previous year. The gross foreign reserves increased to 1573.12 billion from 1539.36 billion in Asadh 2080. Likewise, the import capacity for merchandise and service imports has increased to 10.3 months as of Shrawan 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.



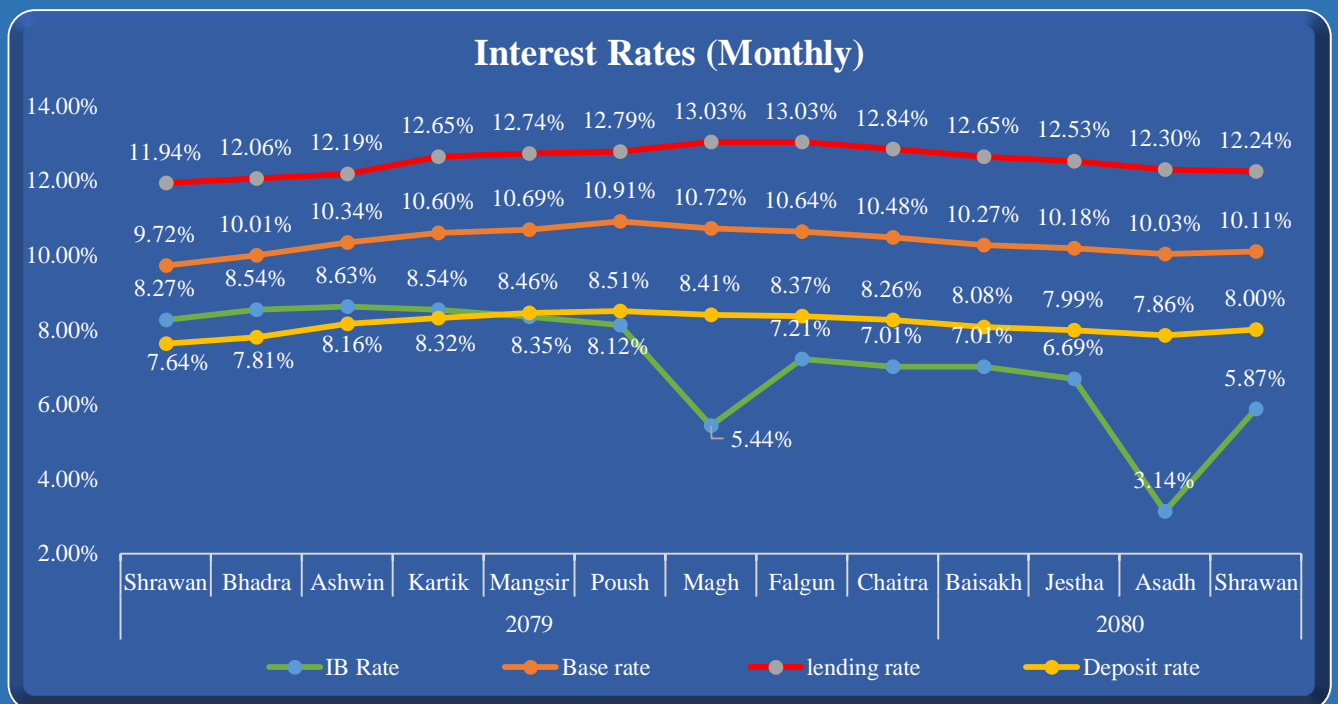
## 2.9 Broad Money Supply



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 had been in an increasing trend in the previous fiscal year and has slightly decreased by 2.37% in the beginning month of the new fiscal year.

## 2.10 Interest Rates

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 through Shrawan to Mangsir 2079. But, with the gradual liquidity ease, the interbank rate had 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 previous fiscal year with the interbank rate coming down to as low as 3.14%. The interbank rate in the beginning month of FY 2080/81 once again increased to 5.87% which may be due to decrease in liquidity with the removal of facility on counting 80% of local funds in deposits.

As per NBA's decision to end the interest rate cartelization, commercial banks are allowed to set the interest rates on their own accord (Increase or decrease of 10% from previous months' average) depending on their liquidity situation. Also, the requirement to maintain the spread rate of 4.0% from Asadh 2080, has led to a decrease in the average lending rate as well.

As per the latest interest rates published by commercial banks for the month of Ashwin 2080, 8 commercial banks have increased their deposit interest rates, 8 banks have decreased their interest rates and 4 have kept them constant following the previous month's interest rate.

From the current 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. However, at the end of Bhadra 2080, the government has once again permitted the BFIs to count 60% of government funds as deposits so as to aid liquidity in the hopes of the interest rate decrease.

## 2.11 Government Revenue and Expenditure

Date	Government Revenue		Government Expenditure	
	Amt. in billions	% of Target Budget	Amt. in billions	% of Target Budget
Shrawan 2079	91.00	6.24%	22.26	1.24%
Shrawan 2080	88.14	5.99%	35.04	2.00%

The government revenue and expenditure as of Shrawan 2080 are 88.14 billion and 35.04 billion respectively. The government revenue and expenditure has reached 5.99% and 2% of the target budget respectively as of the beginning of the fiscal year 2080/81. The government revenue is slightly less in the current year compared to the same period of the previous year.

However, the government expenditure disbursed is slightly higher than 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
Shrawan 2079	0.39%
Shrawan 2080	0.27%

Source: FCGO



## Macroeconomic Situation of Nepal as of Shrawan 2080/81

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 Shrawan end stood at 0.27%. 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.

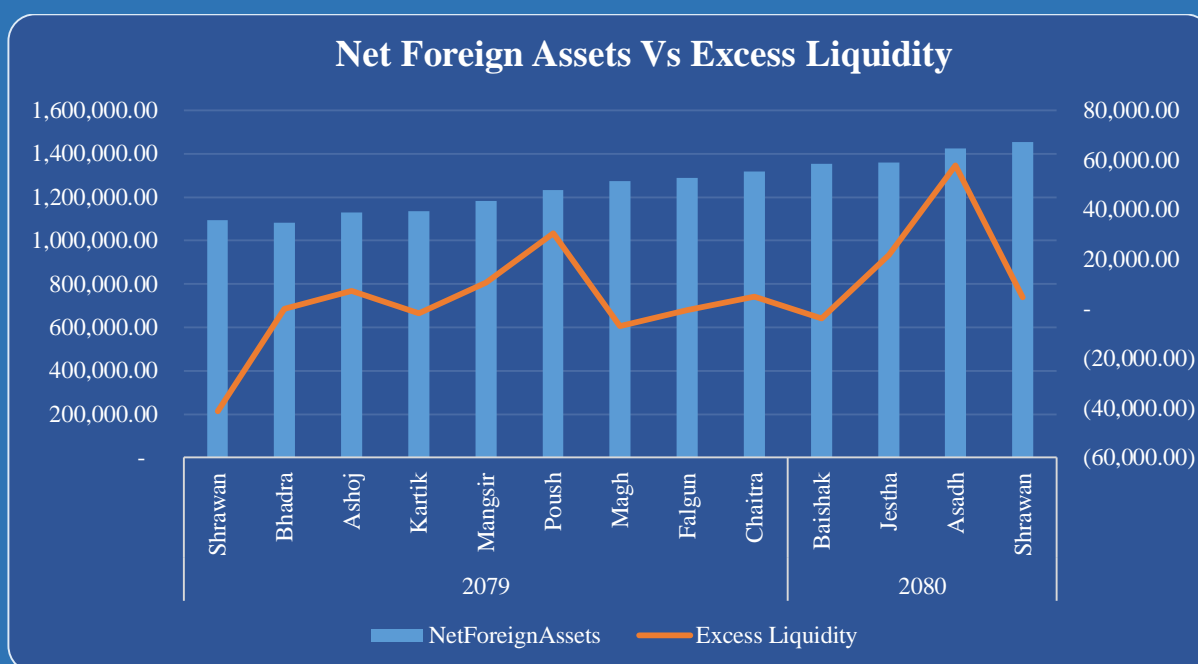
Date	Government Revenue(In Bn.)	Government Expenditure (In Bn.)	Budget Deficit/Surplus (In Bn.)
Shrawan 2079	91.00	22.26	68.74
Shrawan 2080	88.14	35.04	53.10

Source: FCGO

As of Shrawan 2080, there is a budget surplus of 53.10 billion which is lower compared to the budget surplus amount of the same period of previous year.

### 2.12 Market Liquidity

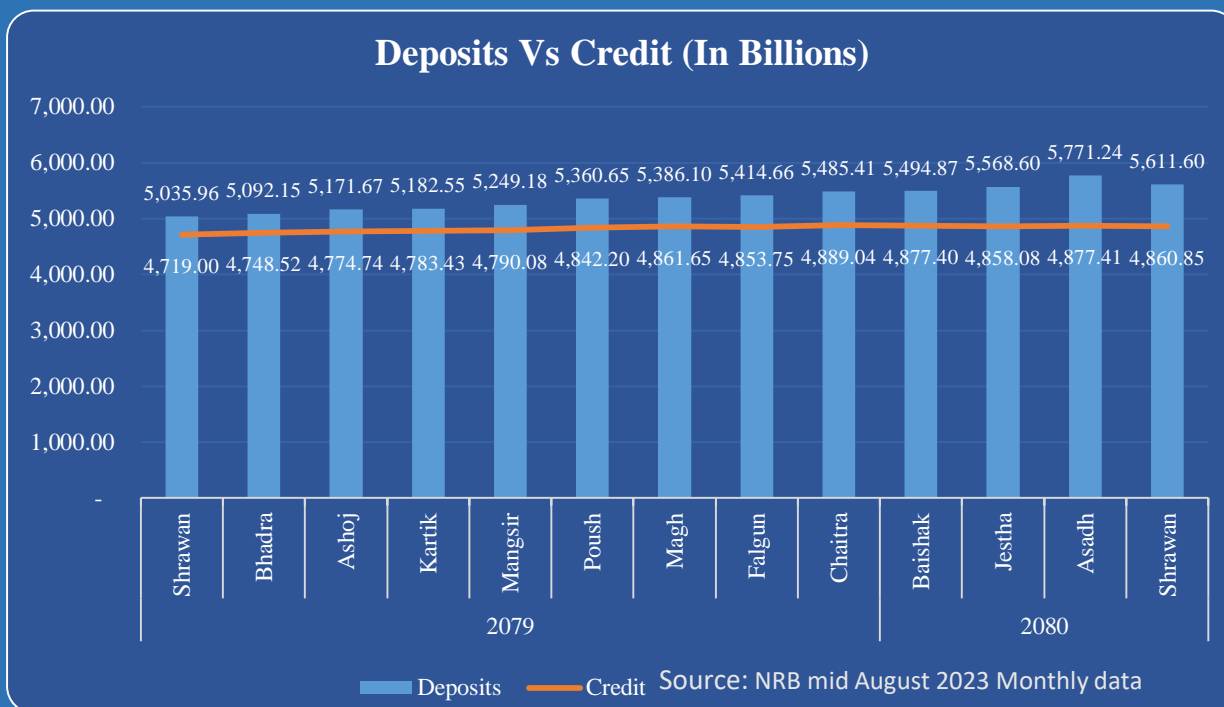
In Millions.



The position of excess liquidity stood at around 4.52 Billion (As of Shrawan 2080). The excess liquidity has drastically declined from the previous month which stood at 57.84 Billion. The position of excess liquidity had been in an extremely vulnerable state after 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. The liquidity situation had improved greatly at the end of the previous fiscal year which 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 liquidity figure may have shown a drastic fall due to removal of counting 80% of local funds as deposits facility. At the end of Bhadra 2080, decision has been made on the allowance of counting 60% of local funds as deposits which may affect the liquidity figure positively. The decreased import figure, increased remittance has positively affected the net foreign assets of the country with the growth of 2.08% in the current month.



## 2.13 Total Deposits and Credit



The total deposits have decreased by 2.77% and the lending has decreased by 0.34% as of Shrawan 2080 compared to the previous month. The total deposits stand at 5611.60 billion and the total credit stands at 4860.85 billion as of Shrawan 2080. In the current month, both deposits and credits have decreased, which indicates slow deposit growth and loan disbursal in the present time.

### 3 Conclusion

In conclusion, the current economic outlook in Nepal appears positive and improving outlook supported by reduced imports, growth in remittances, and a surplus in the balance of payments. However, it's important to note that the reduction in imports, initially due to restrictive policies and more recently because of economic slowdown, may not be a sustainable, long-term solution, especially without corresponding growth in domestic production. While the increase in remittances is a boost to the economy, it also signals a significant outflow of active manpower from the nation, which can pose challenges to the country's long-term economic growth prospects. Despite a comfortable liquidity position compared to the previous year, interest rates have not decreased as expected, resulting in limited credit expansion and subdued market demand. Moreover, the inflation rate remains higher than the targeted rate set by the central bank. And the government's ineffectiveness in allocating and spending funds for capital expenditure presents challenges in sustaining a favorable liquidity position in the economy throughout the year.

Nevertheless, there exists the possibility of making positive contributions to the economy through the opportunity to export electricity. Presently, with the Credit to Deposit Ratio staying within the 82% range, there is an excess of loanable funds exceeding 250 billion within the banking industry. If the government and central bank implement appropriate policies and





---

*Macroeconomic Situation of Nepal as of Shrawan 2080/81*

strategies, improving liquidity could be utilized for credit expansion at a lower interest rate. This, in turn, would stimulate demand in the market, boosting economic activity in the country. The reduction in market interest rates, coupled with increased liquidity, could serve as a catalyst for enhancing economic activities and mitigating the impact of the economic slowdown.

*Disclaimer: Machhapuchhre Capital (MCL) is an investment management service provider licensed by the Securities Exchange Board of Nepal (SEBON). The aforementioned information is the outcome of the analysis of the current macroeconomic condition done by this company with the sole purpose of providing information to the investors and the customers of MCL. All the readers are advised to make investment decisions based on their study and analysis.*

*(Remember us for quality and tailored customer service experience on portfolio management services, DP-related services, underwriting, and corporate advisory-related services We are always glad to cater to your needs.)*

*-MCL*