

MACROECONOMIC ANALYSIS OF NEPAL

Mid- March 2023 (Based on Eight months' data published by NRB)



Machhapuchpuchhre Capital Limited
Research, Strategy & Product Development





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Macroeconomic Situation Analysis as of Mid-March 2023

Key Highlights:

- CPI-based Inflation stood at 7.44 percent.
- Remittance increased by 25.3% on a Y-o-Y basis.
- Balance of Payment remained at a surplus of Rs.148.11 billion as of Mid-March 2023.
- Imports and Exports decreased by 19.10% and 29.10% as of Mid-March on a Y-o-Y basis.
- The Gross Foreign Reserves stands at Rs.1401.21 billion with the import capacity of 9.4 months.
- Broad Money Supply increased by 5.30% to 5794.43 billion as of Mid-March 2023.
- Trade deficit decreased by 17.90 percent to Rs.953.59 billion during the eight months of the current fiscal year.
- Budget deficit stood at 195.04 billion as of Mid-March 2023.

• Inflation

Mid-March 2022	Mid-Feb 2022	Mid-March 2023
7.14%	7.88%	7.44%

The inflation as of Mid-Mar 2023 stands at 7.44% which has slightly decreased as compared to that of inflation of the previous month. However, as compared to the same period of the previous year, the inflation has slightly increased.

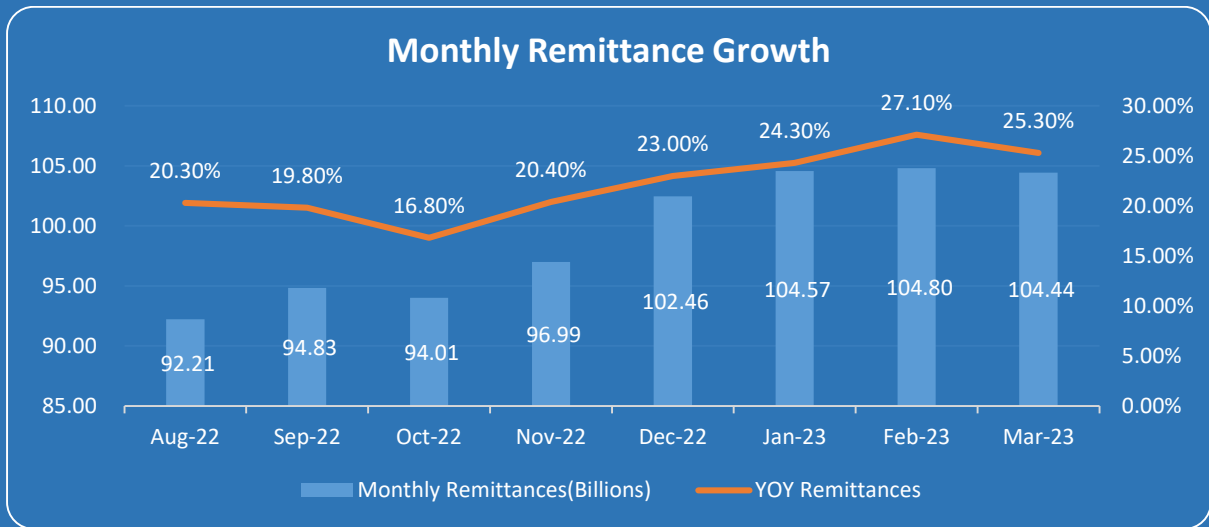
• Remittance

Date	Amount (in billions)	% Change
Mar-22	631.19	25.3%
Mar-23	794.32	

The remittance has increased by 25.3% to 794.32 billion as of Mid-March 2023 on a Y-o-Y basis. In the same period of the previous year, the remittance figure stood at 631.19 billion.

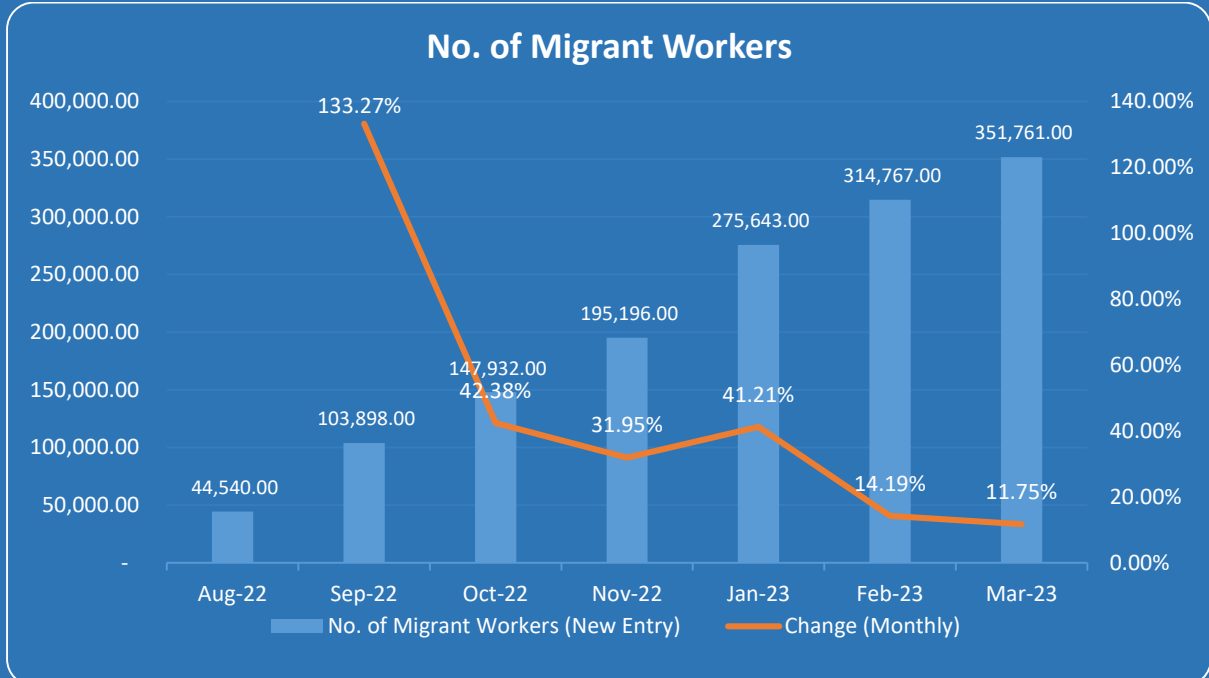


Macroeconomic Situation of Nepal as of Mid-March 2023



Talking about the monthly change, the remittance increased by 27.10% in the previous month of February 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 four consecutive months.

• No. of Migrant Workers



As of Mid-Mar 2023, the number of migrant workers taking new entry is 351,761 while the number of migrant workers taking renew entry stands at 192,559. In the same period of the previous year, the no. of new entry stands at 314,767 while the renewed entry stood at 178,262. Since the number of migrant workers is on the increasing trend, we can expect further increase



Macroeconomic Situation of Nepal as of Mid-March 2023

in the remittance in the upcoming months. As of Mid-March 2023, the remittance to GDP ratio has increased to 16.37% from 14.79% during the corresponding period last year.

As of Mid-March 2023, the number of migrant workers is in increasing trend on a monthly basis. The no. of migrant workers (new entry) increased by 11.75% as of mid-March 2023.

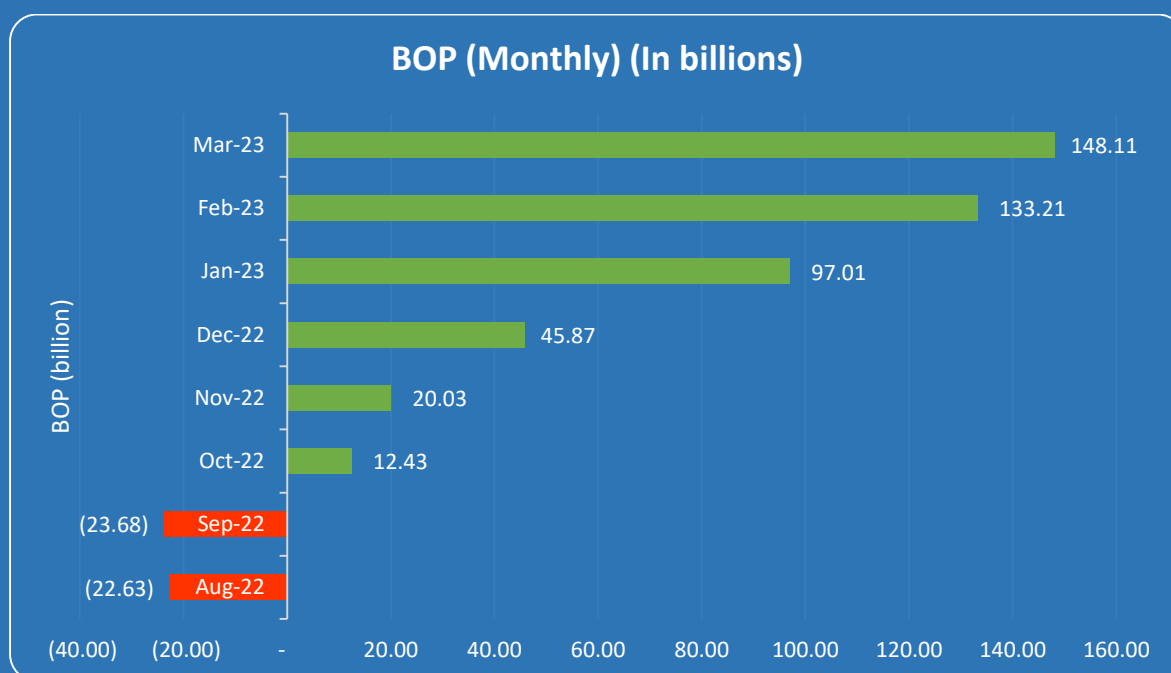
- **No. of Tourist Arrival**



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 three months of the year 2023, the number of tourist arrival stood at 2.28 lakhs which was around 78 thousand only in the same period of the previous year. The No. of tourist arrival increased by nearly 136.69% in the first three 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.



- **Balance of Payment (BOP)**

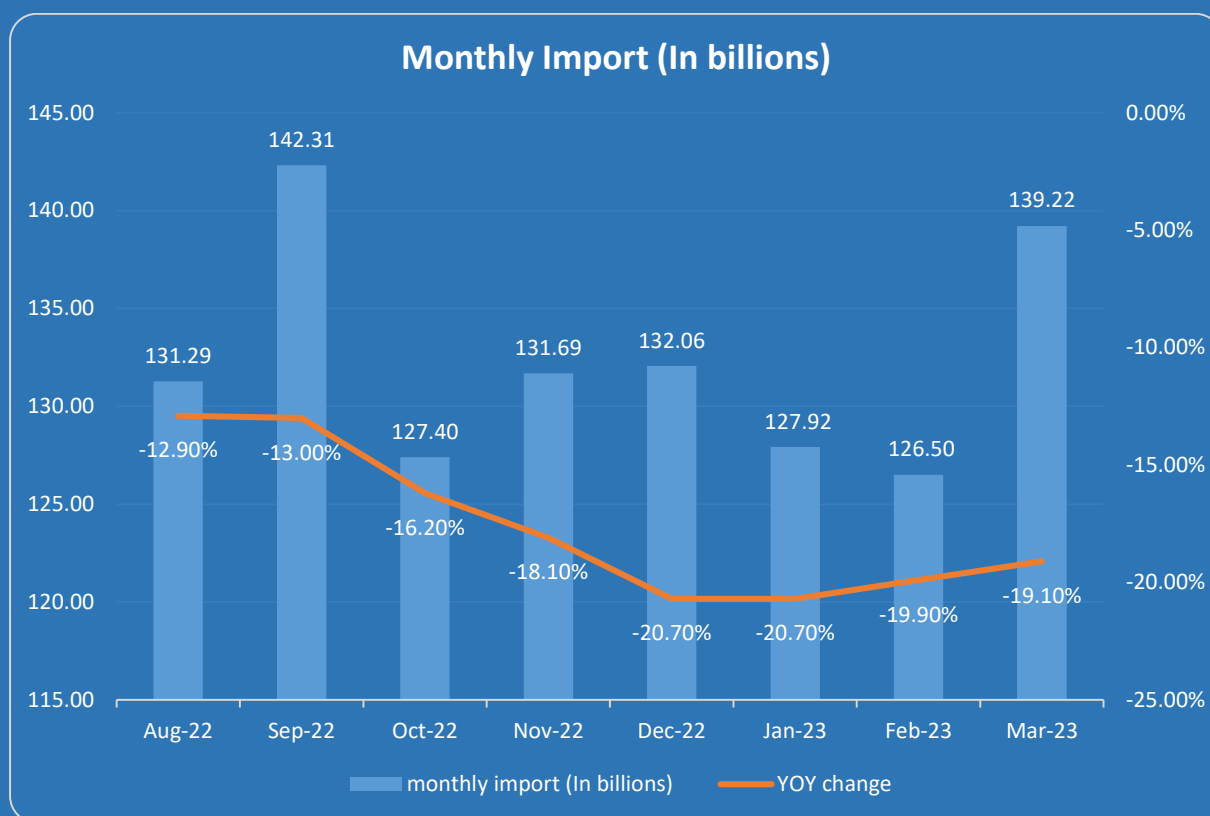


As of Mid-March 2023, the BOP remained at a surplus of Rs.148.11 billion. In the same period of the last year, it was at a deficit of Rs.258.64 billion. The BOP surplus trend has continued from Mid-October 2022. The import ban and increase in remittance has reduced the pressure on BOP and trade deficit. This effect is seen on the BOP surplus of Mid-March 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 affect in the import as of now. However, the imports are to be closely monitored for the upcoming months.

- **Imports**

Date	Amount (in billions)	% Change
Mar-22	1308.73	
Mar-23	1058.39	-19.10%

The import has decreased by 19.13% as of Mid-March 2023 to 1058.39 billion on a Y-o-Y basis. In the same period of the previous year, the import figure stood at 1308.73 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-March 2023, the monthly imports increased to 139.22 billion from 126.50 billion in the previous month. Destination-wise, imports from India, China have decreased by 17.6 percent, 21.7 percent respectively, and it has decreased by 21.4% 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 9.6% 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 4.5% in total imports by 23.0% and the import of Transport Equipment, Vehicle and Other Vehicle Spare parts having the share of 3.8% in total imports by massive 57.4%.

• Top Five Imports

S.N	Top 5 Imports	Eight Months (Mid-March 2023) (Millions)	Share in Total imports (%)	Percentage Change
1	Petroleum Products	202,966.94	19.2	9.6
2	Other Machinery and Parts	48,010.88	4.5	-23.0
3	Transport Equip, Vehicle & Other Vehicle Spare Parts	40,288.85	3.8	-57.4
4	Gold	35,851.33	3.4	9.7
5	Medicine	31,178.75	2.9	-43.4

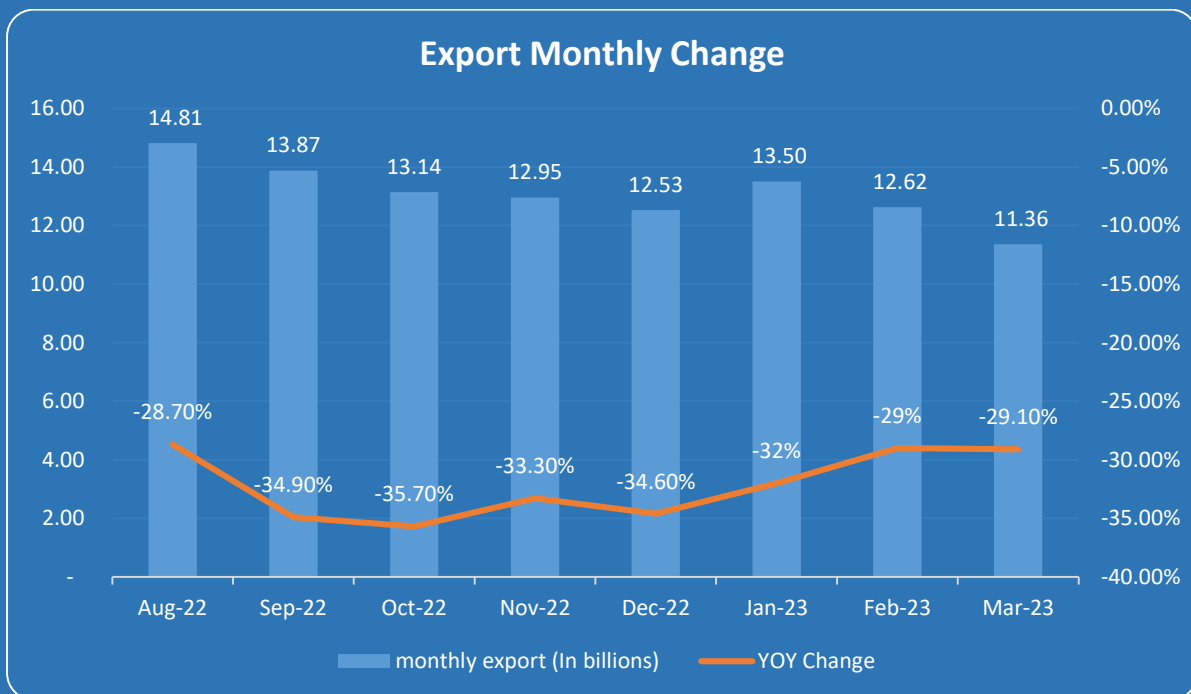


The Top 5 Imports as of Mid-March 2023 has been presented in the above table. The data shows that while the import of petroleum products increased from that of the same period of previous year, the import of vehicles and other machinery have majorly decreased by 57.4% and 23.0% respectively which is the effect of import restrictions placed.

• Exports

Date	Amount (in billions)	Y-o-Y% Change
Mar-22	147.75	
Mar-23	104.80	-29.10%

The exports have decreased by -29% to 104.80 billion as of Mid-March 2023 on a Y-o-Y basis. In the same period of the previous year, the exports stood at 147.75 billion.



Talking about the monthly export changes, the exports stood at 11.36 billion as of Mid-March 2023. In the previous month, the exports stood at 12.62 billion. Destination wise, exports to India and China decreased 37.5 percent and 4.9 percent respectively whereas exports to other countries increased by 6 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 more than 22.5% in total export) by 57% and 79.8% respectively compared to last years' same period. Whereas the export of woolen carpet with 7% share in total export has increased by 25.2% in the review period. Similarly, Nepal has exported electricity worth 7.9 billion in the first eight months of current fiscal year against 1.01 billion in the same period of previous year.

The total trade deficit has decreased by 17.90 percent to Rs.953.59 billion during the eight months of the current fiscal year. Such a deficit had increased 34.50 percent in the



corresponding period of the previous year. The export-import ratio decreased to 9.9 percent in the review period from 11.3 percent in the corresponding period of the previous year.

• Top Five Exports

S.N	Top 5 Exports	Eight Months (Mid- March 2023) (Millions)	Share in Total Exports (%)	Percentage Change
1	Palm Oil	15,181.90	14.5	-57.0
2	Soyabean Oil	8,372.26	8.0	-79.8
3	Woolen Carpet	7,379.70	7.0	25.2
4	Polyester Yarn & Thread	6,724.61	6.4	9.4
5	Cardamom	5,844.50	5.6	80.5

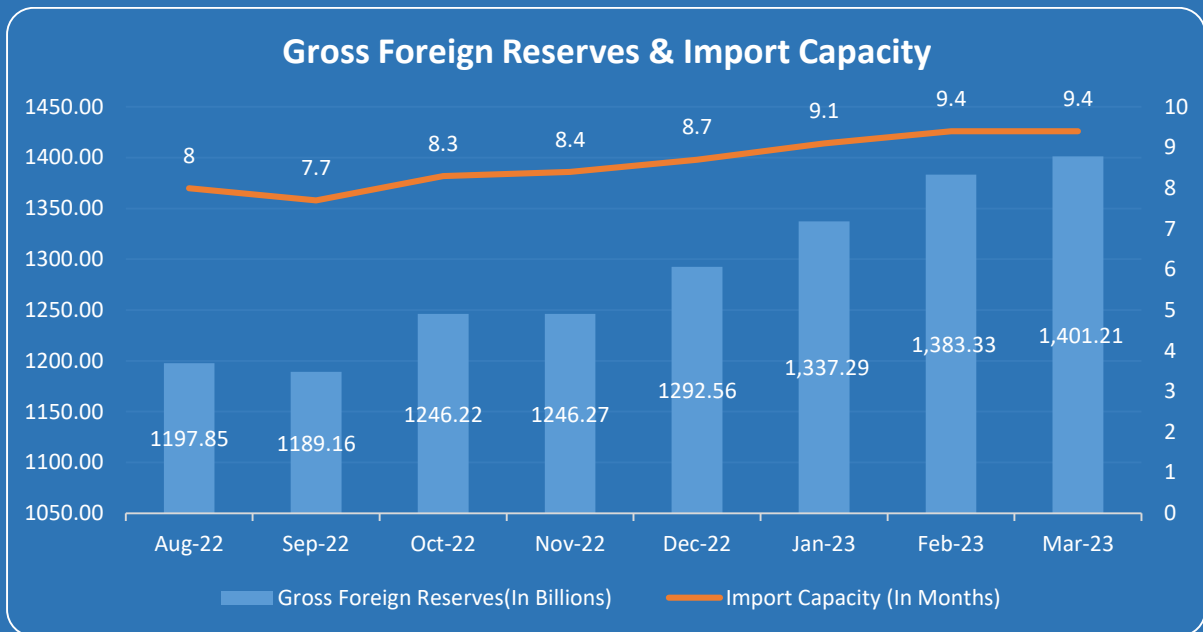
The top five exports from our country have been presented in the following table. The exports of Palm oil, and Soya bean oil, the two major export goods of Nepal have significantly decreased by 57% and 79.8% respectively in the first eight months of the current fiscal year 2022/23. The major reason behind 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 25.2% and 9.4% respectively while the exports of Cardamom have increased by 80.5% in the first eight months of the current fiscal year.

Electricity Exports				
S.N.	Export	2021/22	2022/23	Percentage Change
		Eight months	Eight months	
1	Electricity	1014.0	7916.8	681%

Looking into the exports of electricity from Nepal, the data shows that the exports of electricity has significantly increased by 681% on Y-o-Y basis in the eight 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.

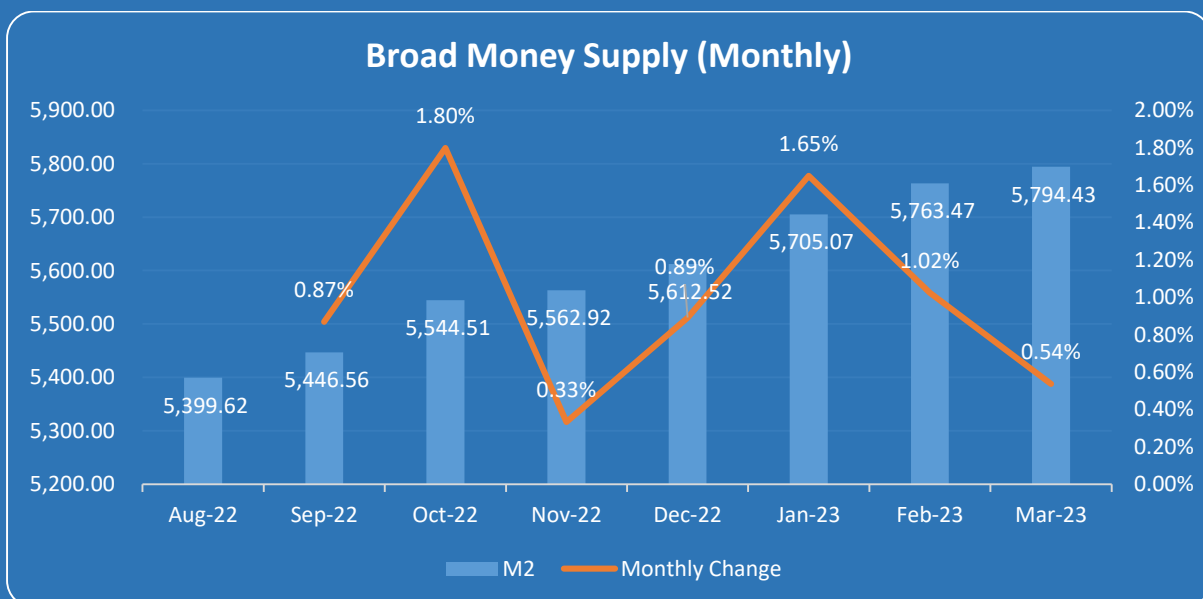


- **Gross Foreign Reserves & Import Capacity**



The Gross Foreign Reserves and import capacity is in an increasing trend as of Mid-March 2023. As of mid- March 2023, gross foreign reserves stood at 1401.21 billion which was 1171.00 billion in the same period of the previous year. The gross foreign reserves increased to 1401.21 billion from 1383.33 billion in Mid-February 2023. Likewise, the import capacity for merchandise and service imports remained constant at 9.4 months as of Mid-March 2023. The increase in foreign reserves and import capacity presents a positive scenario in the economy.

- **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

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%
Mar-23	7.21%	10.64%	13.03%	8.37%

Likewise, the interest has increased in the months of Mid-August, Mid-September, Mid-October, Mid-November, and Mid-December. 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. 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 an increase in the interbank rate to 7.21% as of Mid-March signifying a tightness in liquidity during the period.

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 but has been decreased to 9.99% for the month of Baishakh, 2080. 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 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-Mar 2022	841.76	67.86%	794.26	48.64%
Mid-Mar 2023	724.47	49.67%	943.05	52.57%

The government revenue and expenditure as of Mid- March 2023 is 724.47 billion and 943.05 billion respectively. The government revenue and expenditure has reached 49.67% and 52.57% 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 50.46% and the government expenditure has also slightly increased to 53.25% (as of 9th Baisakh, 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-March 2022 (14th March)	27.45%
Mid-March 2023 (14th March)	28.19%

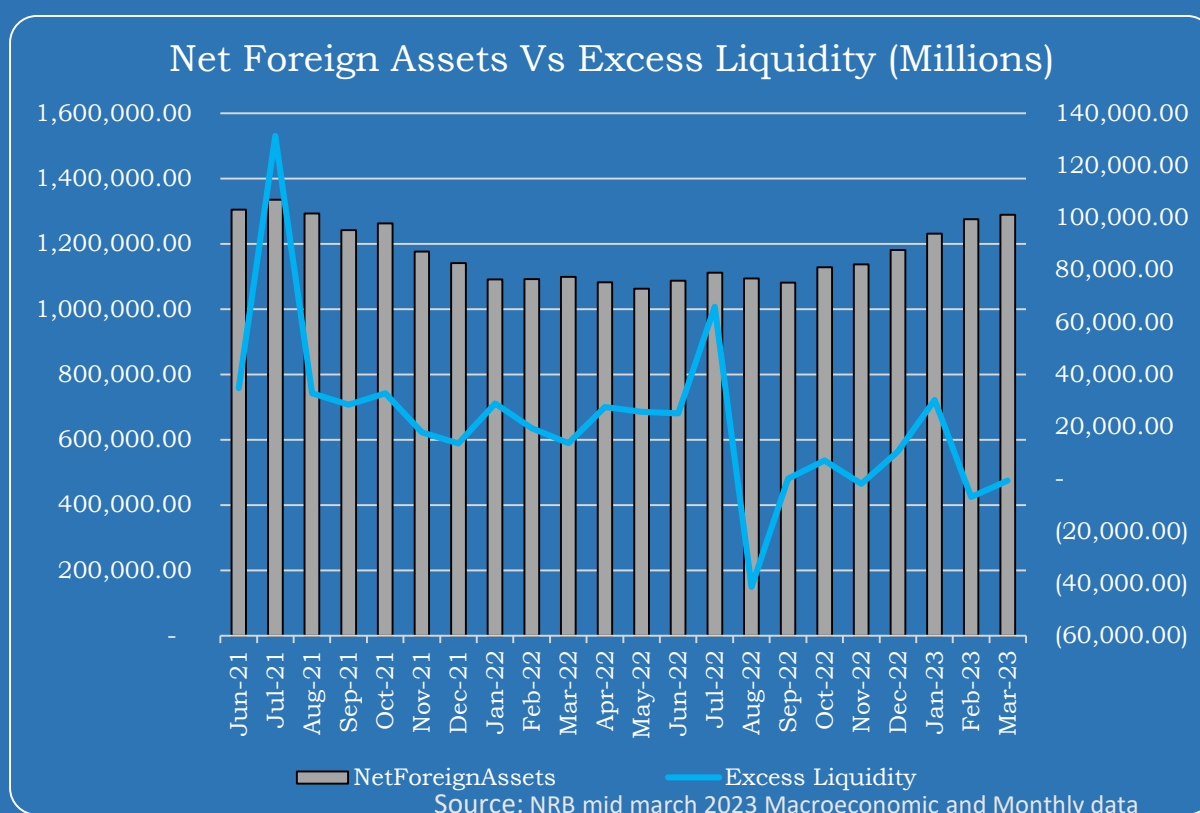
Capital expenditure is the most important component of government expenditure as it helps to accelerate the economy through development projects. The capital expenditure utilized by the government as of Falgun end stood at 28.19% (Mid-March 2023). While it is at a slightly higher rate than the capital 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)
Mar-22	841.76	794.26	47.5
Mar-23	724.47	943.05	-218.45

As of Mid-March 2023, there is a budget deficit of 218.45 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**

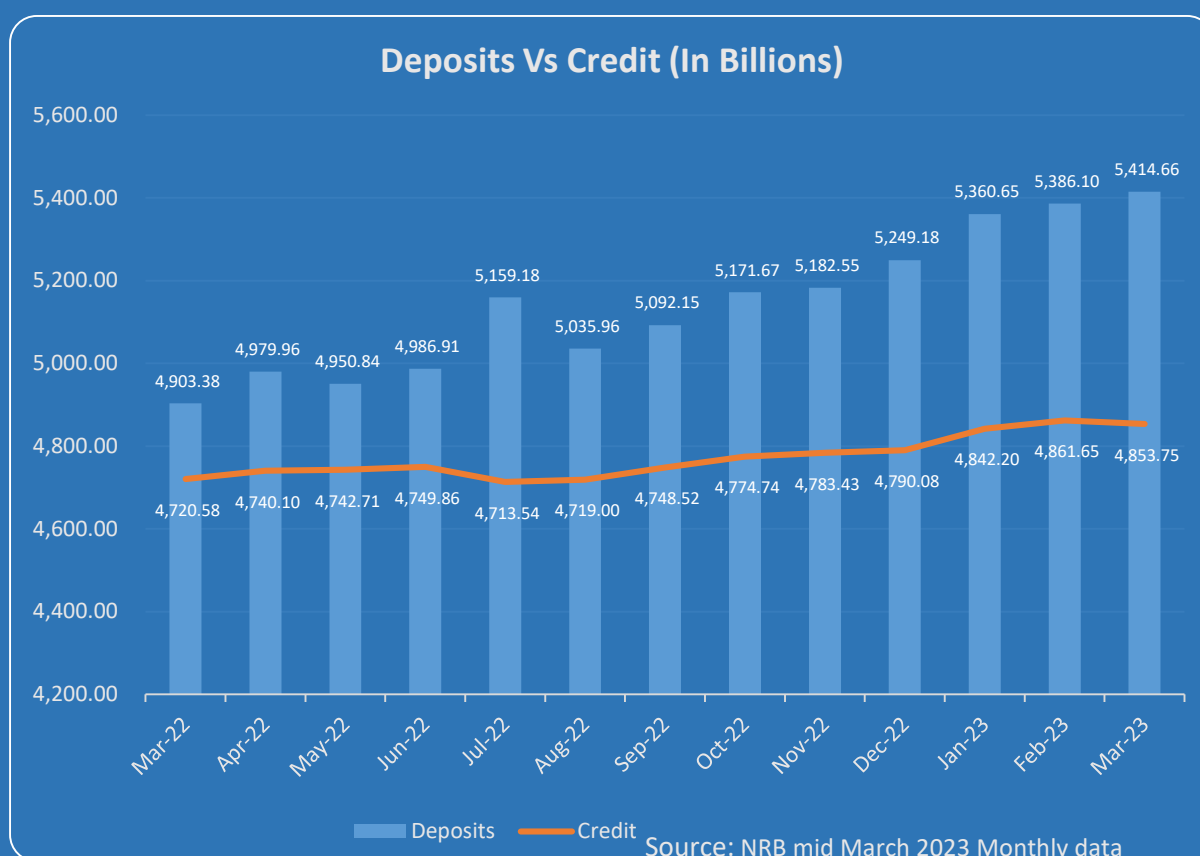


The position of excess liquidity stood at around 563.20 million in deficit figure (As of Mid-March 2023). The excess liquidity has improved to that of the previous month but has relatively decreased compared to that of January 2023. The excess liquidity stood at around 200.43 billion as of Mid-August 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 19.10% (As of Mid-

March 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 25.30% (As of Mid-March 2023) on a Y-o-Y basis. Exports, however, have decreased by 29.10% as of Mid-February 2023 on a Y-o-Y basis. The net foreign assets of the country have increased by 1.11% in the current month from that of the previous month, which was at 3.56%. The deposit and credit have increased by 5.50% and 4.6% in the fiscal year 2022/23 as of Mid-March, 2023.



- **Total Deposits and Credit**



The total deposits have increased by 0.53% and the lending has decreased by 0.16% respectively as of Mid-March compared to that of the previous month. The total deposits stand at 5363.30 billion and the total credit stands at 4749.30 billion as of Mid-March 2023. In the current month, deposits have increased while credit has decreased, which indicates a decrease in loan disbursement in the present time and an ease of liquidity in the market.

As of 18th April 2023, the total deposit has further increased to 5447 billion and the total lending has reached 4803 billion with the CD ratio and weighted average interbank rate at 85.47% and 7.01% respectively.



Conclusion

The brief overview of the macroeconomic situation as of Mid-March 2023 presents an improving economic situation overall. The balance of payments (BOP) surplus as of mid-February was recorded at 133.21 billion, which increased further to 148.11 billion in mid-March 2023, largely due to the rising inflow of remittance into the country and declining imports. 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, there has been no such significant effect in the past three months. 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. The central bank's attempt to maintain a comfortable import capacity by increasing gross foreign exchange, 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 trying to improve one economic indicator causes difficulty in another. However, there is a budget deficit of 156.45 billion as of mid-March 2023 due to reduction in the government revenue collection.

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. It may be further affected with the advance tax collection in Chaitra and the cut of capital expenditure by 13%.

To conclude, currently the economic situation shows a positive and improving outlook with the growth of remittance and BOP surplus. The decline in the market interest rate might become the catalyst for increasing economic activities and mitigating the impact of recession. 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, 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 for the Nepalese economy.

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