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1. MONTHLY MACROECONOMIC OVERVIEW

The economic situation in Nepal during the eighth month of the fiscal year 2080/81, presents a positive economic outlook with a surplus in the balance of payments (BOP) of 327.55 billion in Falgun 2080. This surplus, sustained over several months, suggests the continuation of such a trend for the remainder of the fiscal year. The surplus figure is largely due to increased remittance inflows and reduced imports. Inflation remains stable at 4.82%, below the threshold set by the NRB.

Asian Development Bank (ADB) has projected that Nepal's economy will grow by 3.6% in the current fiscal year 2080/81 and by 4.8% by the next fiscal year. The World Bank (WB) has projected Nepal's economy to grow by 3.3% in the current fiscal year and by 4.6% in the next fiscal year. While the forecasts of the two organizations are different, both of them seem optimistic in terms of the economic growth of Nepal.

The price of oil in international markets has been at a 5-month high due to geopolitical conflicts. The price of crude oil has increased by 9.40% on a Y-o-Y basis to USD 83.95 per barrel. The increase in price per barrel of oil also leads to an increase in the import figure of the country as petroleum products fall into the topmost import of the country (Market share: 18.5%).

The signs of Nepal's economy improving are brought upon by the increasing remittance figure from the no. of Nepali migrant workers going abroad and the increase in the no. of tourists. But that alone is making our economy more dependent and not self-reliant. This makes the country very vulnerable and susceptible to global economic concerns.

One of the prospective options for the country's economy that could be a positive development is the rising electricity exports. Nepal has signed an agreement with Bangladesh to sell 40MW of electricity from Nepal. Additionally, Nepal has signed a long-term power purchase agreement with India for the export of 10,000 MW within 10 years. If Nepal succeeds in harnessing its extensive hydropower potential, it will contribute to an increase in exports, leading to a decrease in the trade deficit.

With the improving economic outlook, there are foreign investment commitments, signaling a promising economic shift. NRB has revised its regulations to promote foreign investment in the Nepalese stock market. The newly appointed finance minister, Mr. Barshaman Pun has also urged the Asian Development Bank (ADB) to boost investment in the country, especially in development projects. Nepal is also hosting the Nepal Investment Summit 2024 in Baishak on 16 and 17, 2081. It is reported that more than 385 guests from 55 countries are participating in the conference. This conference is an excellent opportunity to increase foreign investment in projects based in Nepal.

The management of budget deficits seems to be a matter of concern for the economy. The government has been putting effort into managing the budget deficit of the previous fiscal year amounting to 397.87 billion through both internal and external borrowing. According to data released by the Public Debt Management Office, Nepal's public debt has decreased in Chaitra to 2.385 trillion compared to the previous month's Rs 2.388 trillion.

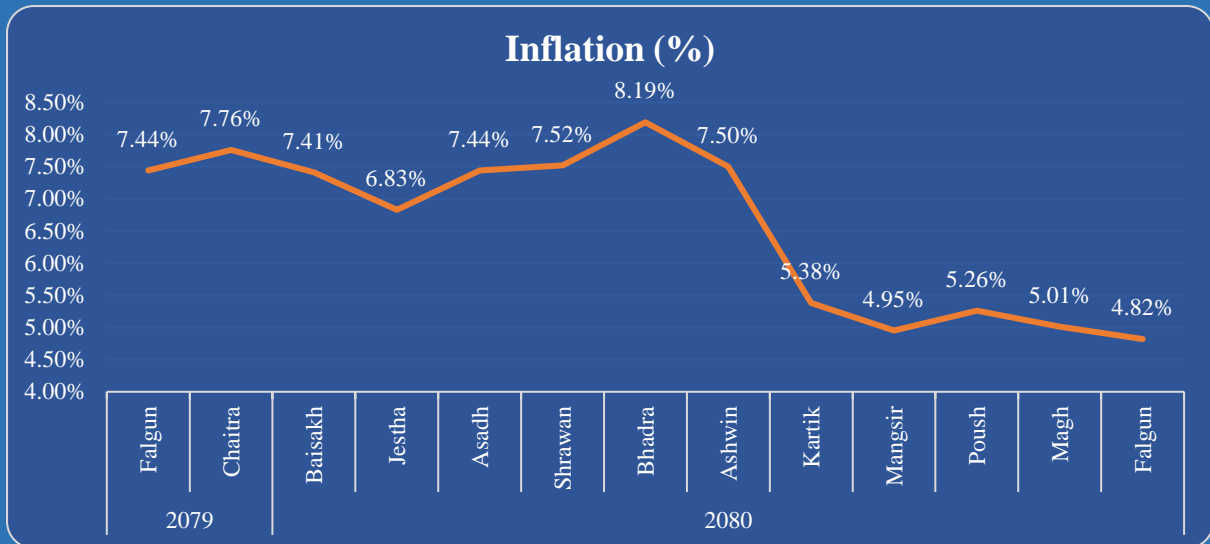


There is sufficient liquidity in the economy, the interest rates are in a downward trend

however there is subdued loan demand due to the persisting economic slowdown.

2. MACROECONOMIC INDICATORS

2.1 Inflation

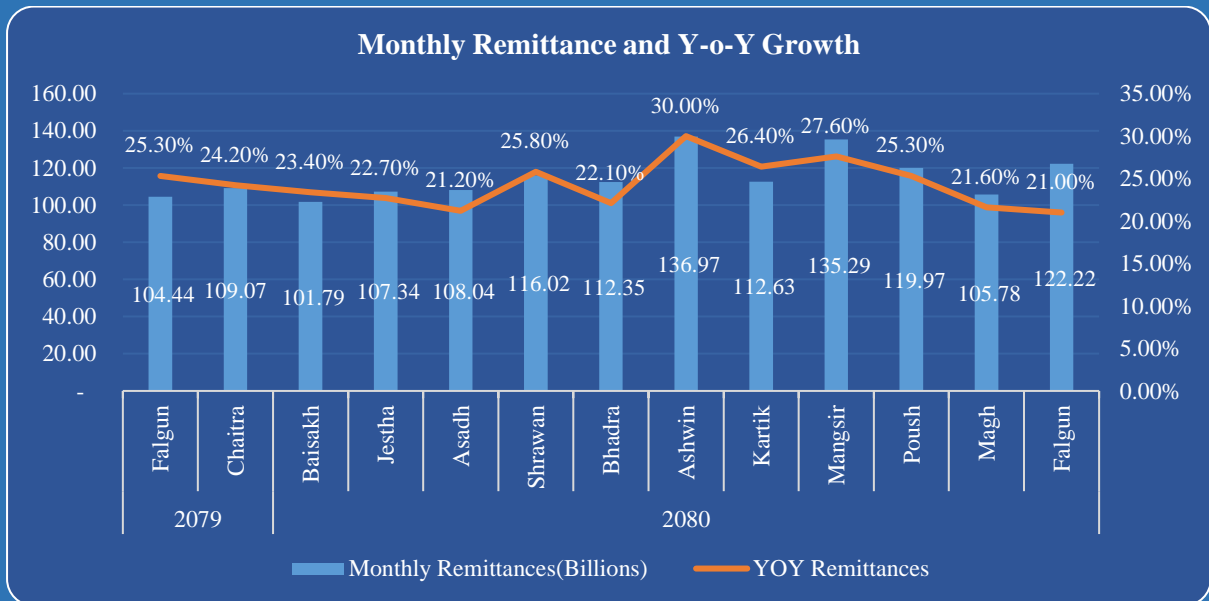


The inflation as of Falgun 2080 has decreased as compared to the previous month and from the same period of the previous year. The inflation rate; of 4.82% is below the threshold of 6.5% set by NRB. Food and Beverage inflation stood at 5.94% whereas non-food and service inflation stood at 3.95%.

The decreasing trend of inflation is also the case for our neighboring country; India. It has been reported that India's retail inflation decreased to 4.85% in March 2024 which is reported to be 5 months low. The decrease in India's inflation rate could have influenced a decrease in the inflation of Nepal as the large share of imports of Nepal is held by the neighboring country.



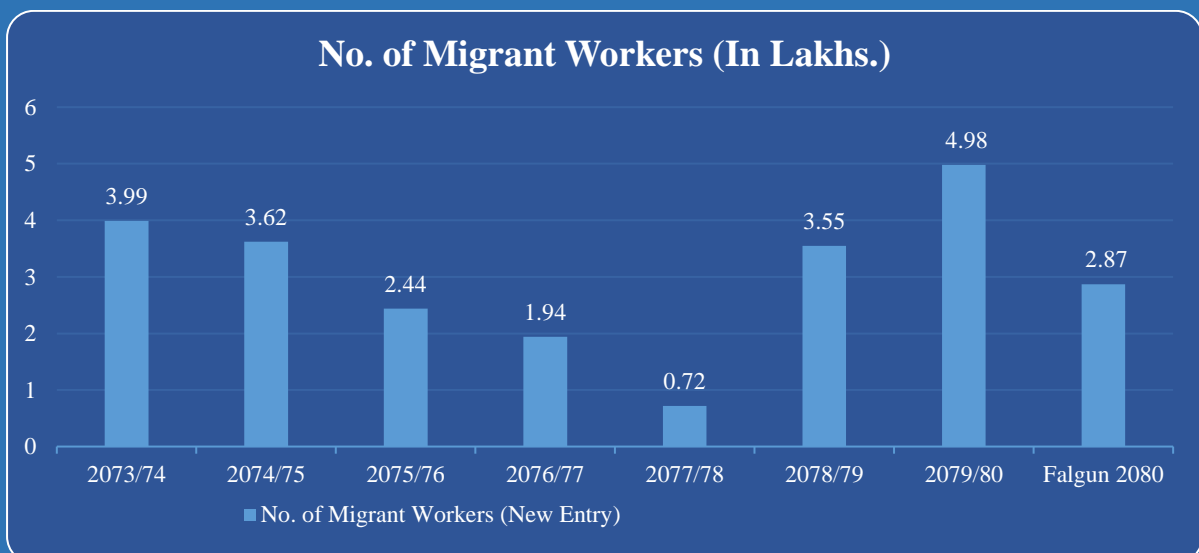
2.2 Remittance



The remittance increased by 21% on a Y-o-Y basis and reached 961.22 billion as of Falgun 2080. The remittance figure in the corresponding period of the previous year stood at 794.32 billion.

Nepal has the largest remittance inflow as a share of GDP in the South Asian region. According to the World Bank's 2022 data, the Remittance to GDP ratio of Nepal is 22.8% 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 Falgun 2080, the number of migrant workers (new entry) has reached 2.87 Lakhs in the eight months of FY 2080/81 which is an 18.4% decrease from the same period of the previous year. Currently, UAE is the number one destination nation for Nepali migrant workers with a share of 27.9% followed by Malaysia, Saudi Arabia, and Qatar.



2.4 No. of Tourist Arrival

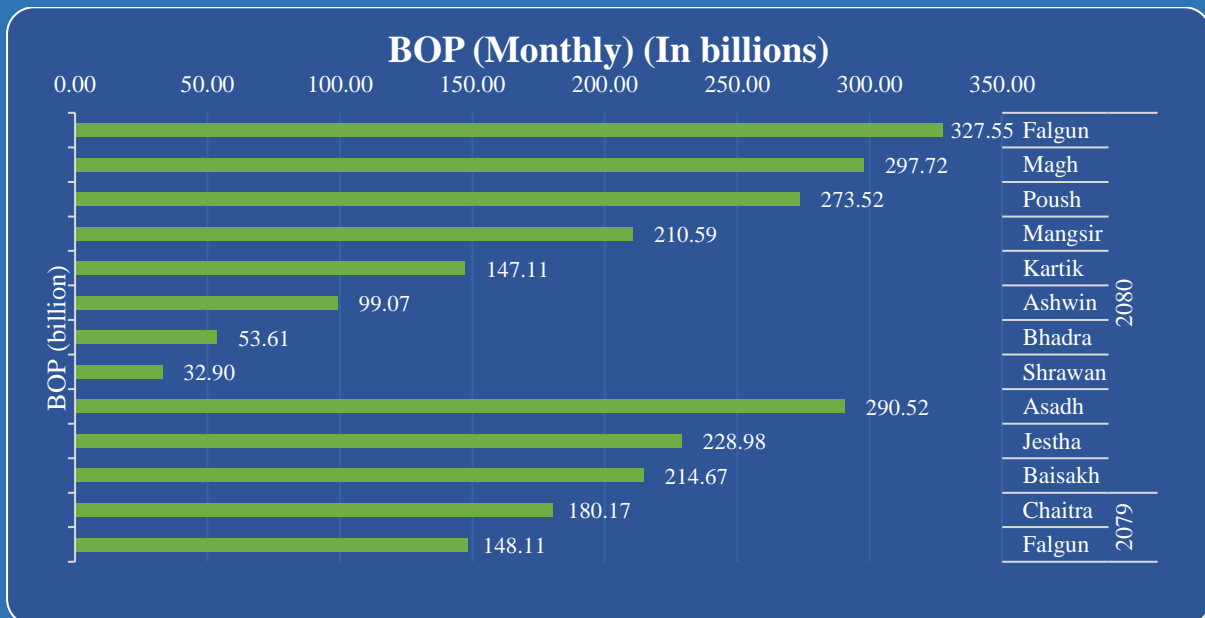


The effect of the Pandemic on the tourism industry has been recovered as the tourism industry is gradually flourishing. In 2023, the no. of tourist arrivals increased significantly as compared to the total no of tourist arrivals in recent years.

As of 3 months on March 2024, the no. of tourist arrivals have reached 3.05 Lakhs.

The GoN has also made efforts to develop and revitalize the tourism sector through Visit Nepal Decade (VND). The Ministry of Culture, Tourism, and Civil Aviation also has planned on increasing the number of tourist arrivals to 3.5 million excluding Indian Nationals and job creation of 1 million in the industry.

2.5 Balance of Payment (BOP)



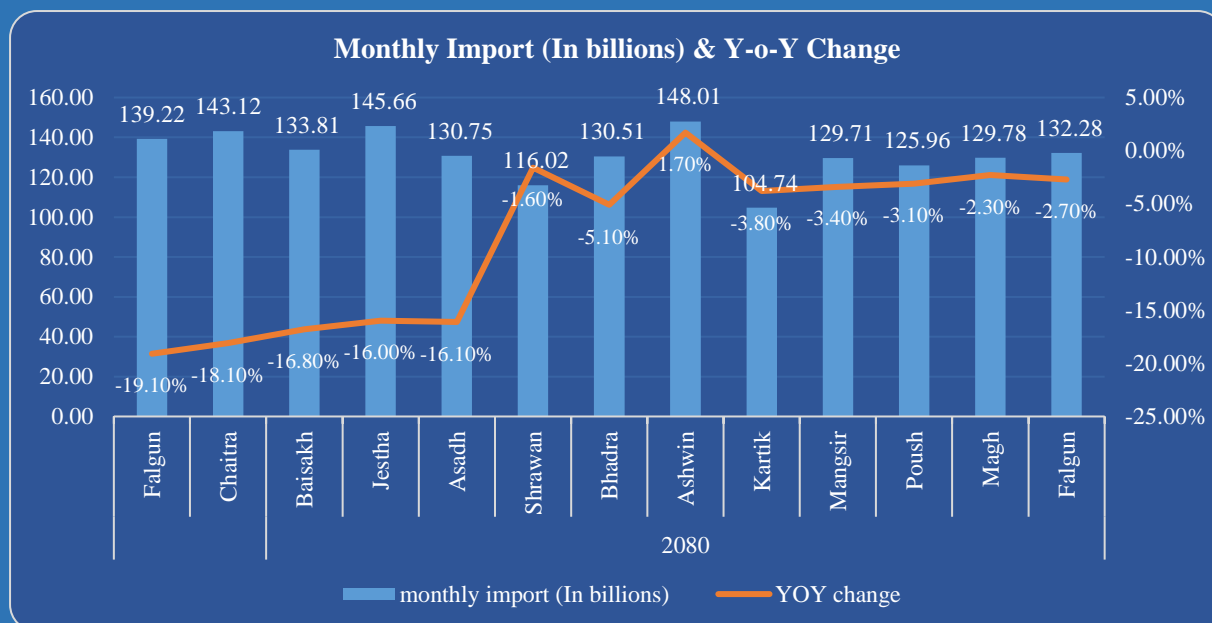
As of Falgun 2080, the BOP remained at a surplus of Rs.327.55 billion. In the same period last year, it was at a surplus of 148.11 billion. The BOP Surplus figure of eight months has surpassed the BOP surplus figure of the previous fiscal year, which corroborates that the



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economic situation of the present fiscal will demonstrate an improved situation compared to the previous year.

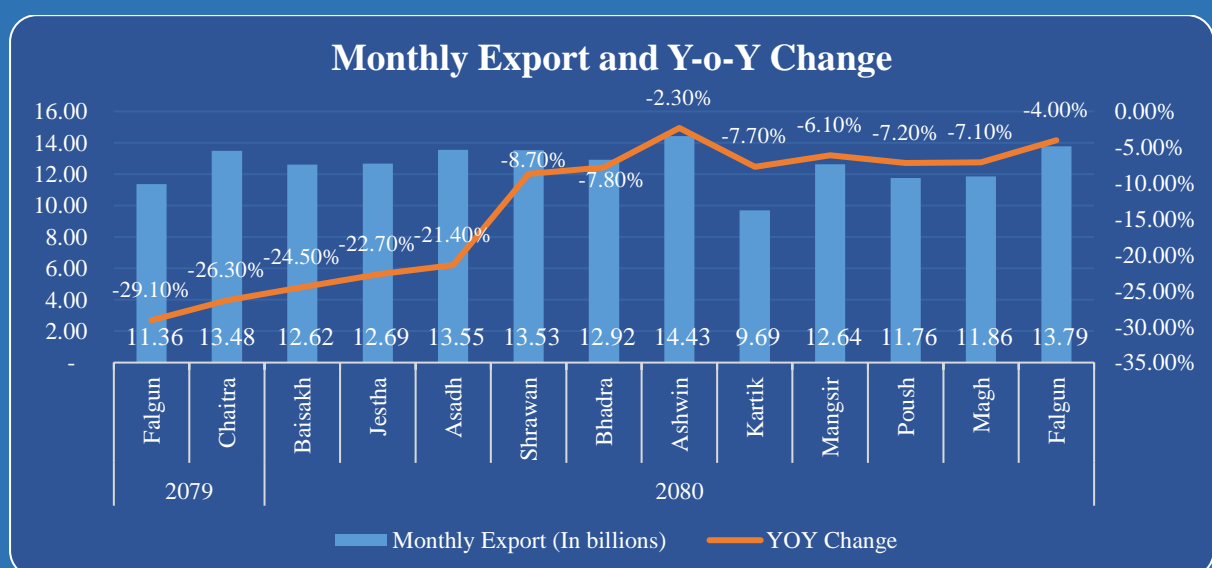
2.6 Imports



The import has decreased by 2.70% as of Falgun 2080 to 1030.22 billion on a Y-o-Y basis. In the same period of the previous year, the import figure stood at 1058.39 billion. The monthly import figure has however slightly increased to 132.28 billion.

Destination-wise, imports from India with a market share of 61.9%, have decreased by -2.8%, and imports from China with a market share of 18.9% have increased by 33.7% respectively, and have decreased by 22.9% for other countries with a market share of 19.1%. Among the imported products, Petroleum Products has the highest share in total imports totaling 18.5%.

2.7 Exports





Macroeconomic Situation of Nepal as of Falgun 2080/81

The exports have decreased by 4% to 100.62 billion as of Magh 2080 on a Y-o-Y basis. In the same period of the previous year, the exports stood at 104.80 billion.

Destination-wise, exports to India with a market share of 68.1% decreased by 7.7%, while exports to China with a market share of 1.9 % increased by an astonishing 275.5%.

The total trade deficit has decreased by 2.5% to Rs.929.61 billion during the eight months of the current fiscal year. Such a deficit had decreased by 17.9 percent in the corresponding period of the previous year. The export-import ratio decreased to 9.8 percent in the review period from 9.9 percent in the corresponding period of the previous year.

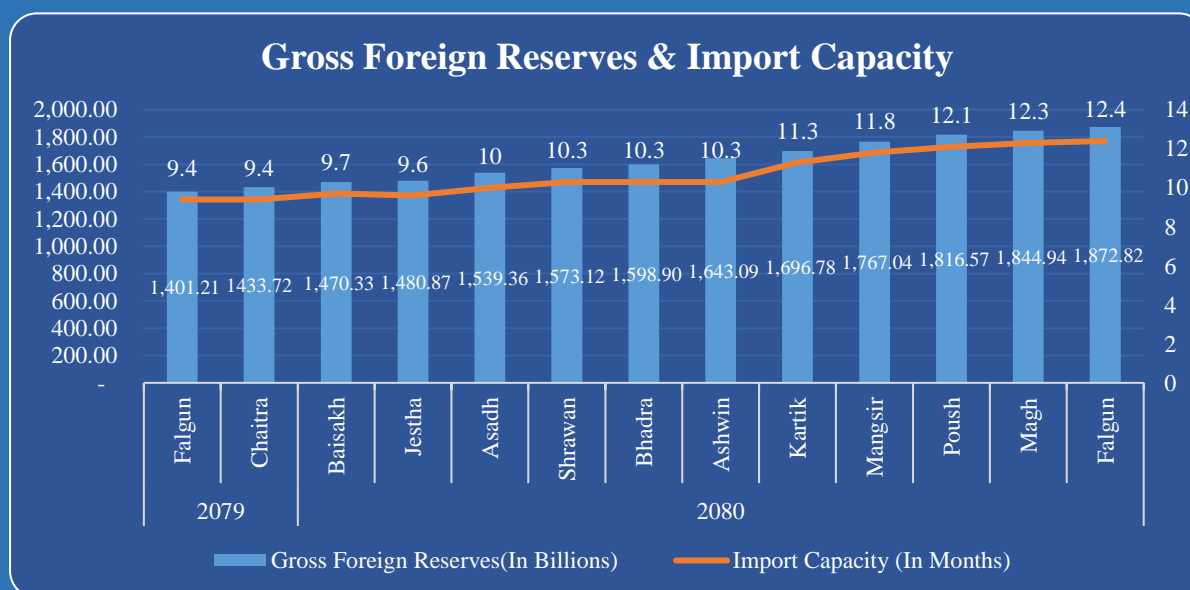
Electricity Exports (In Mn.)				
S.N.	Export	2022/23	2023/24	Percentage Change
		Eight months	Eight months	
1	Electricity	8,437.83	12,419.38	47.19%

Similarly, Nepal has exported electricity worth 12.42 billion in the eight months of the current fiscal year 2080/81 which has increased from 8.44 billion in the same period of the previous year, which is an increase of 47.19% in percentage terms.

There is the prospect of electricity exports due to various reasons. A recent study has identified that Nepal has the potential to harness over 72,000 MW of hydropower, but as of date, Nepal's installed capacity is around 2,800 MW till date. 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 has agreed with Bangladesh and India to export electricity.

One of the key challenges that the country must counter to fully operate electricity export at an extensive level is that in the dry season, Nepal itself needs to import electricity to meet its electricity demand.

2.8 Gross Foreign Reserves & Import Capacity

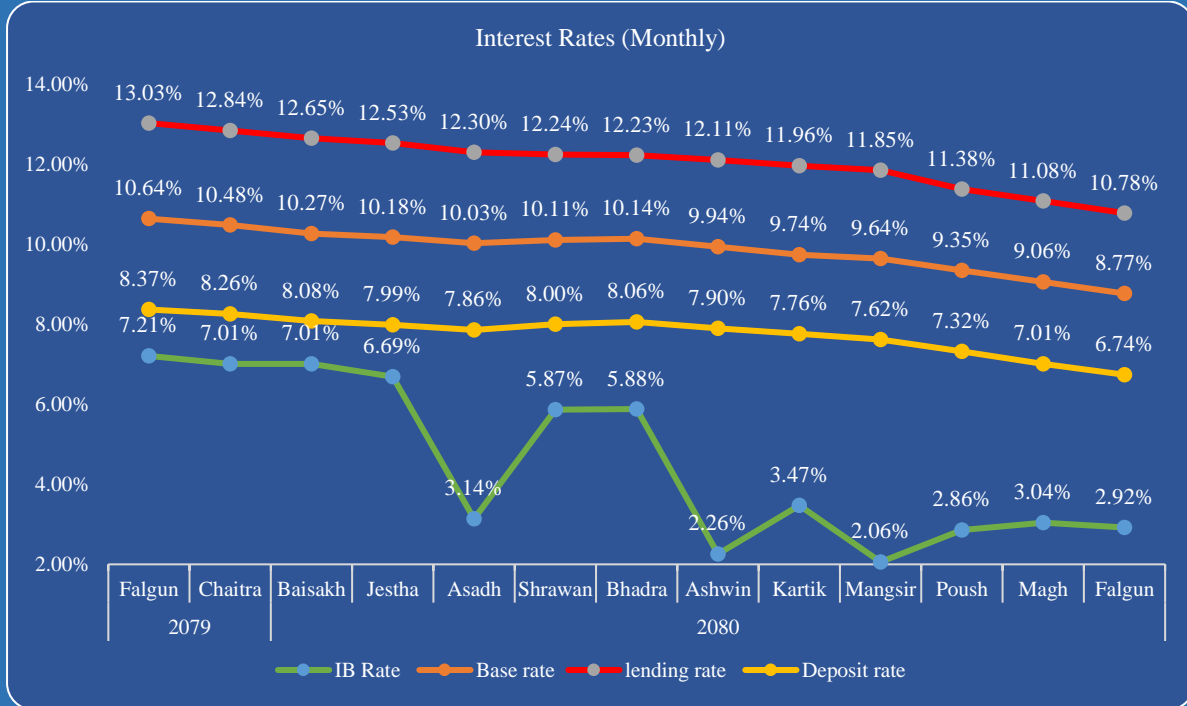


As of Falgun 2080, gross foreign reserves stood at 1,872.82 billion which was 1,401.21 billion in the same period of the previous year. Likewise, the import capacity for merchandise and service imports increased to 12.4 months as of Falgun 2080.



2.9 Interest Rates

Weighted Average Monthly Interest Rates (Line Chart)



The interest rates which were at a higher level in the previous year have come down in the current fiscal year to a lower level signaling significant ease of liquidity in the current year. The interbank rate as of Falgun 2080/81 is 2.92% which has come down below the interbank threshold of 3% set by NRB.

As per the latest interest rates published by commercial banks for the month of Baishak 2080, 13 commercial banks have decreased their deposit interest rates, 2 banks have increased their interest rates and 5 have kept them constant following the previous month's interest rate. The average FD rate for individuals in Baishak is 7.071%, down from the previous month's 7.254% in the commercial bank industry.

2.10 Government Revenue and Expenditure

Date	Government Revenue		Government Expenditure	
	Amt. in billions	% of Target Budget	Amt. in billions	% of Target Budget
Falgun 2079	622.78	42.70%	779.23	43.44%
Falgun 2080	663.83	45.08%	801.58	45.77%

The government revenue and expenditure as of Falgun 2080 are 663.83 billion and 801.58 billion respectively which is 45.08% and 45.77% of the target budget. 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 (% of Target Budget)	Budget Deficit/Surplus (Billions)
Falgun 2079	22.15%	-156.45
Falgun 2080	26.89%	-137.75

Source: FCGO

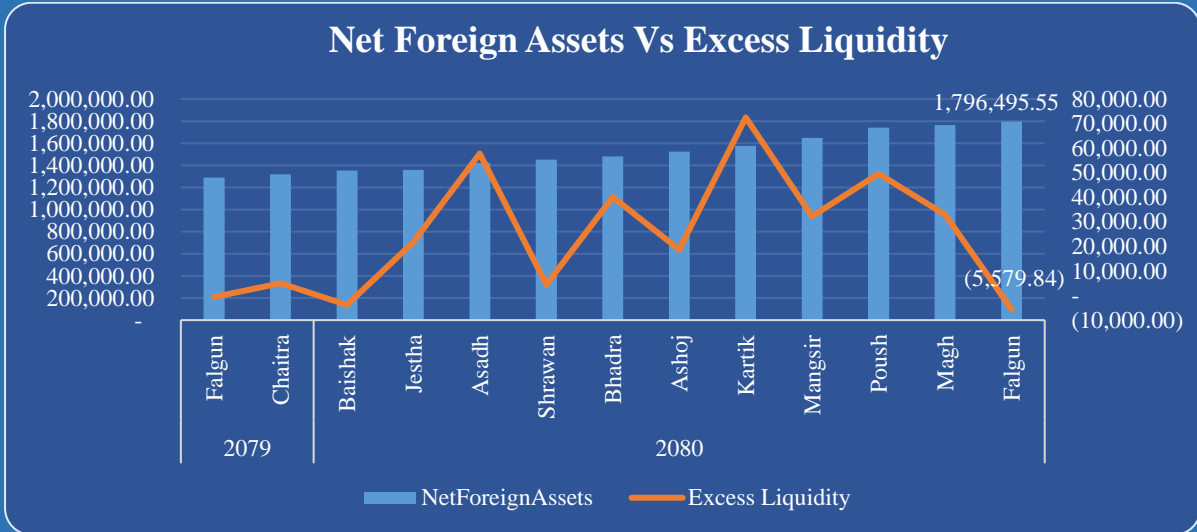


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Capital expenditure which helps to accelerate the economy through development projects has reached 26.89% of the target budget as of Falgun 2080. As of Falgun 2080, there is a budget deficit of 137.75 billion which can be taken as a slight improvement compared to the same period of the previous year.

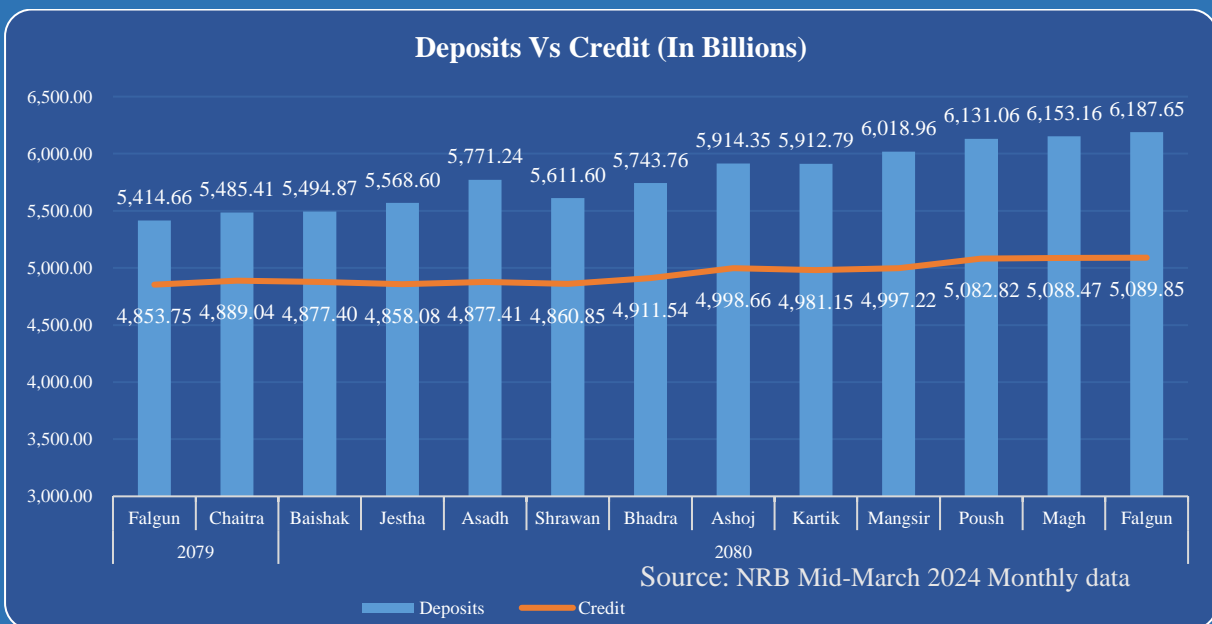
2.11 Market Liquidity

In Millions.



The position of excess liquidity decreased to a negative figure of -5.58 billion (As of Falgun 2080). The excess liquidity has decreased by a lot from the previous month which stood at around 32.93 billion. The decreased import figure and increased remittance have positively affected the net foreign assets of the country with a growth of 1.84% and have reached 1.79 trillion in the current month.

2.12 Total Deposits and Credit





Macroeconomic Situation of Nepal as of Falgun 2080/81

The total deposits have slightly increased by 0.56% and the lending has increased by 0.03% as of Falgun 2080 compared to the previous month. The total deposits are 6,187.65 billion, and the total credit is 5,089.85 billion as of Falgun 2080.

3. Conclusion

The report on the current macroeconomic situation of Nepal presents a steady economic development with all the major economic indicators leading to an optimistic picture. However, the current economic slowdown has a part in the decrease of imports leading to the BOP Surplus. The growth of remittance is also questionable in the long term as it leads to economic dependency. Inflation has also come down to a lower level but might potentially be affected by the geopolitical rifts, and tight financial conditions in the global world.

There is an excess of loanable funds exceeding 480 billion in the banking industry, with little to no demand caused by the economic slowdown. The persisting budget deficit is also another challenge for the economy of Nepal.

Favorable policies and strategies implementation along with the current state of liquidity and interest rates at a lower level can help counter the ongoing economic slowdown in the country.

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