

MACROECONOMIC ANALYSIS OF NEPAL

Magh 2080 (Based on Seven months' data published by NRB)



Machhapuchpuchhre Capital
Research, Strategy & Product Development





TABLE OF CONTENTS

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



1. MONTHLY MACROECONOMIC OVERVIEW

The economic situation in Nepal during the seventh month of the fiscal year 2080/81 shows signs of improvement, with a surplus in the balance of payments (BOP) of 297.72 billion in Magh 2080. This surplus, sustained over several months, suggests a positive outlook for the remainder of the fiscal year, largely due to increased remittance inflows and reduced imports. Inflation remains stable at 5.01%, below the threshold set by the NRB.

According to the South Asian Development Update and Nepal Development Update 2023, Nepal's economic growth is expected to rebound to 3.9% in 2024 and further to 5% in 2025, following a modest growth rate of 1.9% last year.

The price of crude oil has decreased by 1.80% on a Y-o-Y basis from USD 85.46 per barrel to USD 83.88 per barrel. The price of crude oil in the international market is in a volatile state due to global geopolitical risks. The decrease in price per barrel of oil also helps decrease the import figure of the country as petroleum products fall into the topmost import of the country (Market share: 18.4%). The GoN's preference for promoting electric vehicles can aid in the decrease in the import of petroleum and the overall import figure. On the other hand, the increased usage of domestically produced electricity for powering electric vehicles can contribute to the economic development of Nepal.

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. The most recent data from the Department of Industry (DoI) reveals an impressive 28.45% surge in foreign investment from Magh to Falgun in 2080. This surge, totaling Rs 29.13 billion, not only highlights renewed foreign investor confidence but also presents a potential opportunity for the government to capitalize on this momentum. 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.

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,



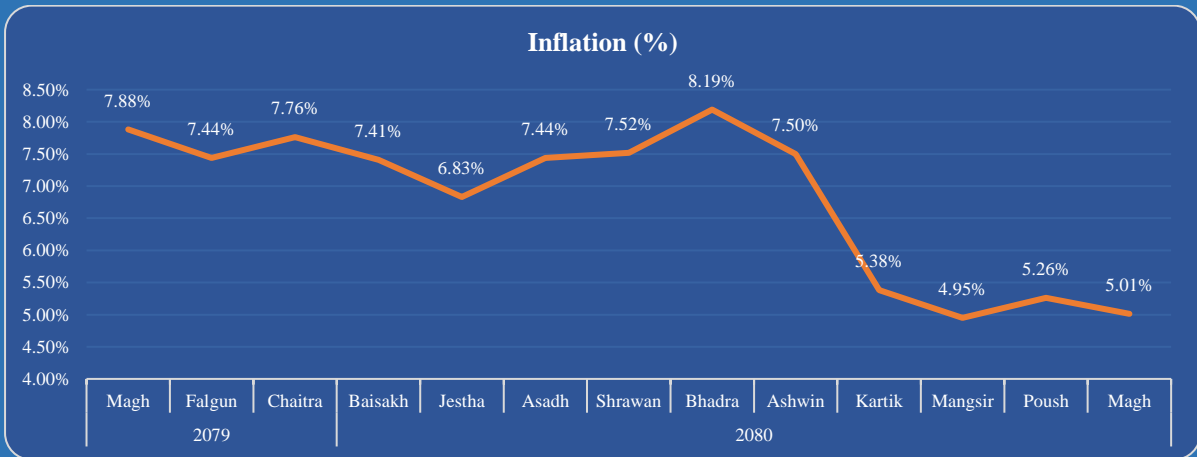
Macroeconomic Situation of Nepal as of Magh 2080/81

Nepal's public debt has escalated to Rs 2.388 trillion as of Falgun (mid-March) of the current fiscal year 2023/24.

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

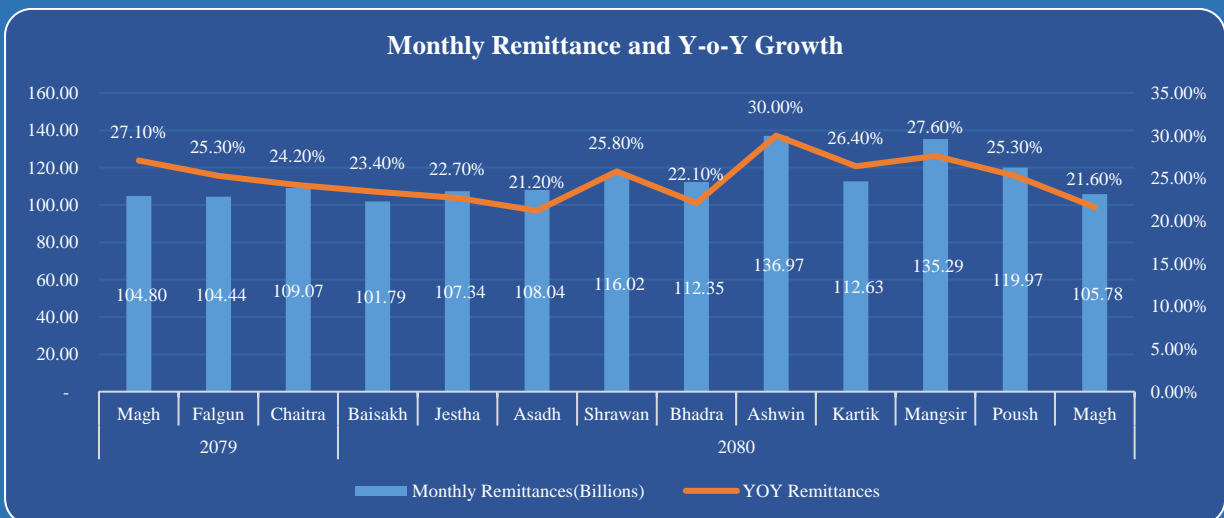
2.1 Inflation



The inflation as of Magh 2080 has decreased as compared to the previous month and from the same period of the previous year. The inflation rate; of 5.01% is below the threshold of 6.5% set by NRB. Food and Beverage inflation stood at 6.51% whereas non-food and service inflation stood at 3.85%.

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 5.09% in February 2024. 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



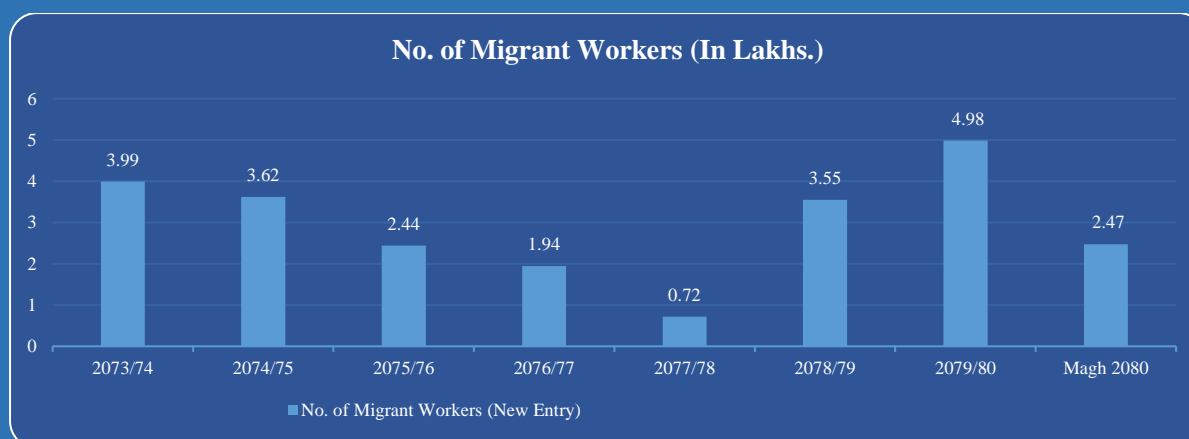


Macroeconomic Situation of Nepal as of Magh 2080/81

The remittance increased by 21.60% on a Y-o-Y basis and reached 839 billion as of Magh 2080. The remittance figure in the corresponding period of the previous year stood at 689.88 billion.

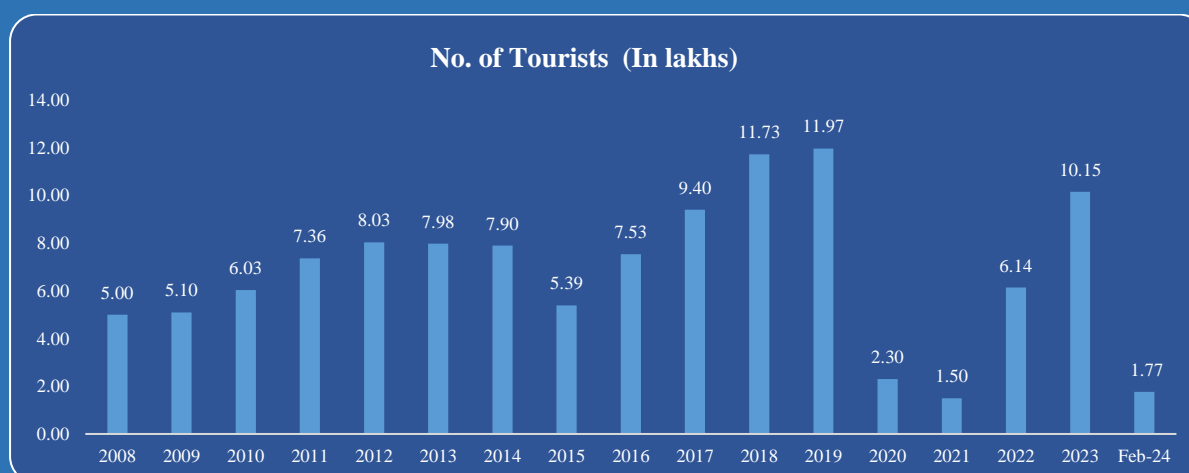
Nepal has the largest remittance inflow as a share of GDP in the South Asian region. According to the World Bank's 2022 data, the Remittance to GDP ratio of Nepal is 22.8% whereas other South Asian Nations' figures are below 10%.

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 Magh 2080, the number of migrant workers (new entry) has reached 2.47 Lakhs in the seven months of FY 2080/81 which is a 21.5% 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 26.3% 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.

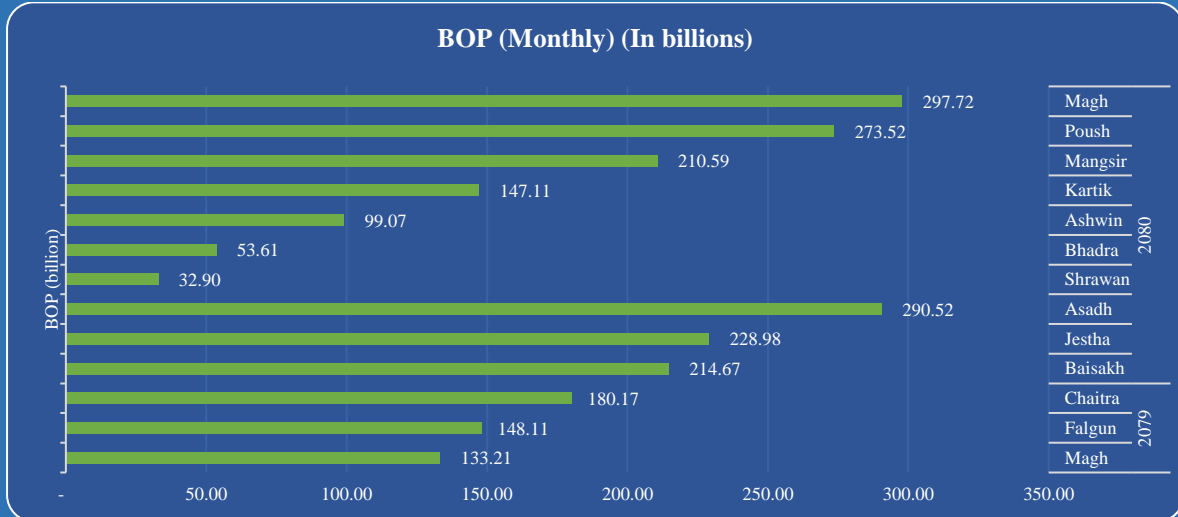
The GoN has also made efforts to develop and revitalize the tourism sector through Visit Nepal Decade (VND). The Ministry of Culture, Tourism, and Civil Aviation also has planned on



Macroeconomic Situation of Nepal as of Magh 2080/81

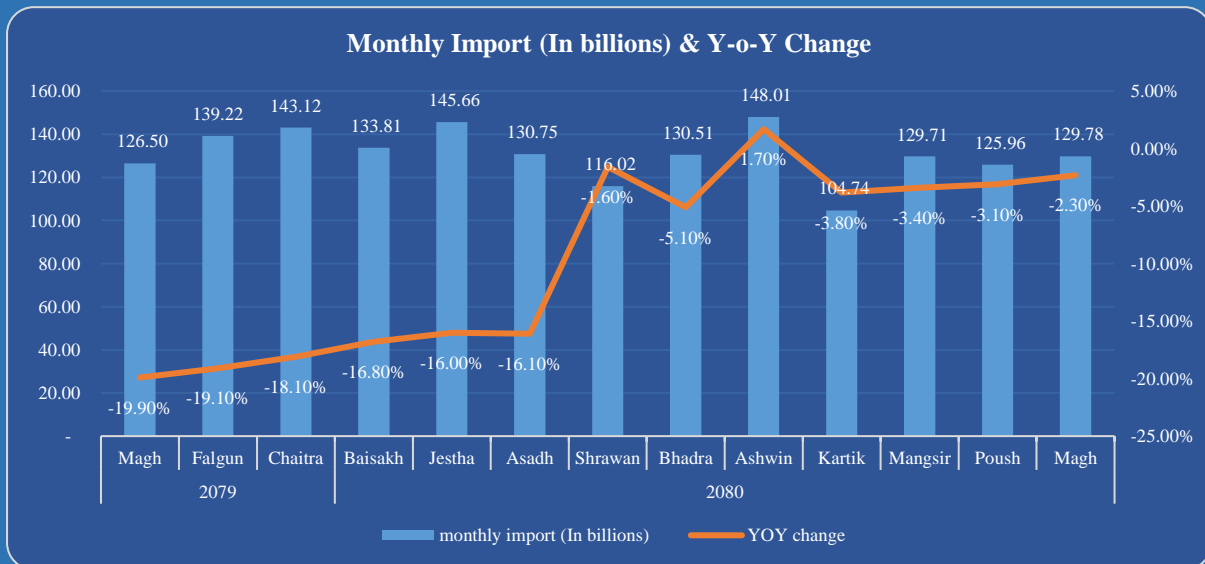
increasing the number of tourist arrivals to 3.5 million excluding Indian Nationals and job creation of 1 million in the industry.

2.5 Balance of Payment (BOP)



As of Magh 2080, the BOP remained at a surplus of Rs.297.72 billion. In the same period last year, it was at a surplus of 133.21 billion. The BOP Surplus figure of seven months has surpassed the BOP surplus figure of the previous fiscal year, which corroborates that the economic situation of the present fiscal will demonstrate an improved situation compared to the previous year.

2.6 Imports



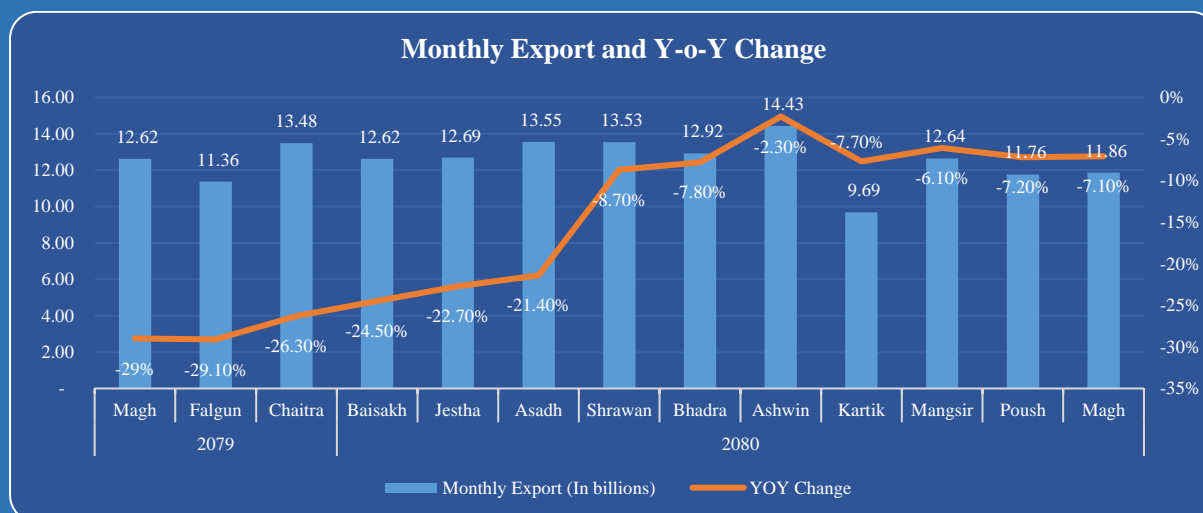
The import has decreased by 2.30% as of Magh 2080 to 897.94 billion on a Y-o-Y basis. In the same period of the previous year, the import figure stood at 919.17 billion. The monthly import figure has however slightly increased to 129.78 billion.

Destination-wise, imports from India with a market share of 61.8%, have decreased by -2.8%, and imports from China with a market share of 19.30% have increased by 38.4% respectively,



and have decreased by 23.8% for other countries with a market share of 18.9%. Among the imported products, Petroleum Products has the highest share in total imports totaling 18.4%.

2.7 Exports



The exports have decreased by 7.10% to 86.83 billion as of Magh 2080 on a Y-o-Y basis. In the same period of the previous year, the exports stood at 93.43 billion.

Destination-wise, exports to India with a market share of 67.6% decreased by 11.3%, while exports to China with a market share of 2.1% increased by an astonishing 338.8%.

The total trade deficit has decreased by 1.80% to Rs.811.11 billion during the seven months of the current fiscal year. Such a deficit had decreased by 18.70 percent in the corresponding period of the previous year. The export-import ratio decreased to 9.7 percent in the review period from 10.2 percent in the corresponding period of the previous year.

Electricity Exports (In Mn.)				
S.N.	Export	2022/23	2023/24	Percentage Change
		Seven months	Seven months	
1	Electricity	8,437.79	12,405.07	47.02%

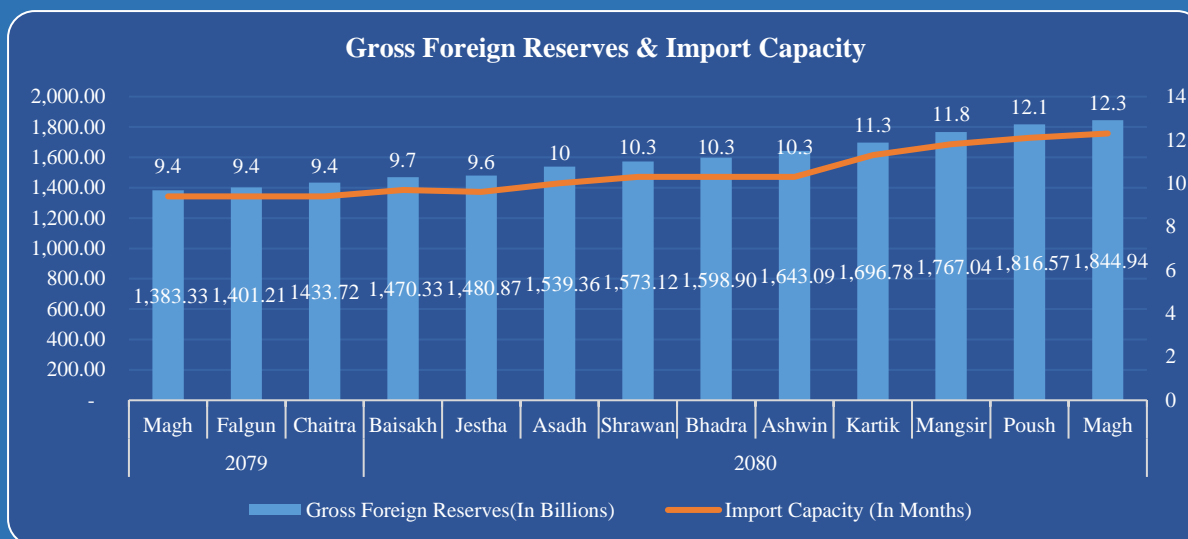
Similarly, Nepal has exported electricity worth 12.41 billion in the seven months of the current fiscal year 2080/81 which has increased from 8.44 billion in the same period of the previous year, which is an increase of 47.02% in percentage terms.

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.

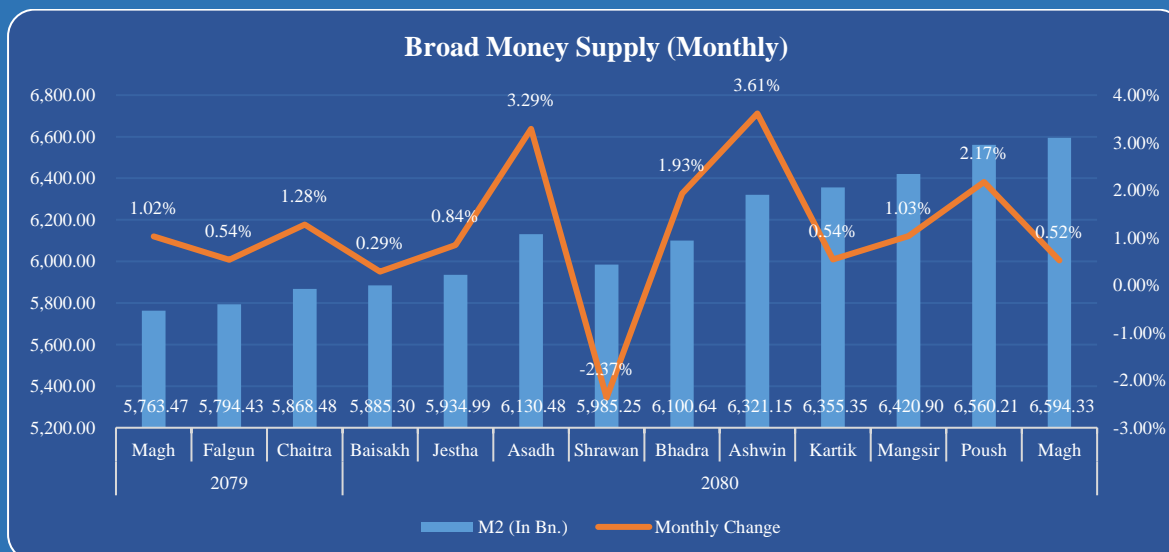


2.8 Gross Foreign Reserves & Import Capacity



As of Magh 2080, gross foreign reserves stood at 1,844.94 billion which was 1,383.33 billion in the same period of the previous year. The gross foreign reserves increased by 17.28% from Shrawan to Magh in 2080. Likewise, the import capacity for merchandise and service imports increased to 12.3 months as of Poush 2080.

2.9 Broad Money Supply

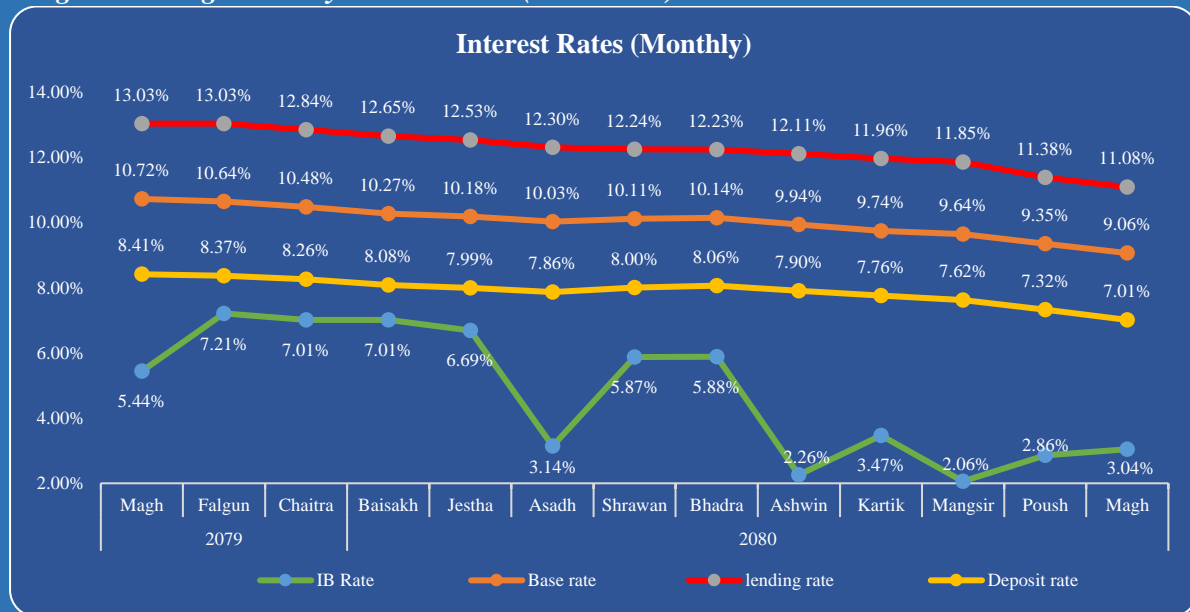


Broad money supply is a measure of the total amount of money in an economy that is readily available for spending. It includes all physical currency, such as banknotes and coins, as well as money held in various types of accounts, such as demand deposits, time deposits, and savings deposits. The broad money supply figure had been in an increasing trend in the previous fiscal year and has slightly increased by 0.52% in the seventh month of the fiscal year 2080/81.



2.10 Interest Rates

Weighted Average Monthly Interest Rates (Line Chart)



The interest rates which were at a higher level in the previous year has 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 Magh 2080/81 is 3.01% which is barely above the interbank threshold of 3% set by NRB.

As per the latest interest rates published by commercial banks for the month of Chaitra 2080, 17 commercial banks have decreased their deposit interest rates, 1 bank has increased their interest rates and 2 have kept them constant following the previous month's interest rate. The average FD rate for individuals in Falgun is 7.254%, down from the previous month's 7.758% in the commercial bank industry.

2.11 Government Revenue and Expenditure

Date	Government Revenue		Government Expenditure	
	Amt. in billions	% of Target Budget	Amt. in billions	% of Target Budget
Magh 2079	554.24	38.00%	667.66	37.22%
Magh 2080	591.56	40.17%	686.75	39.21%

The government revenue and expenditure as of Magh 2080 are 591.56 billion and 686.75 billion respectively which is 40.17% and 39.21% 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	Budget Deficit/Surplus (Billions)
Magh 2079	17.43%	-113.42
Magh 2080	21.05%	-95.19

Source: FCGO

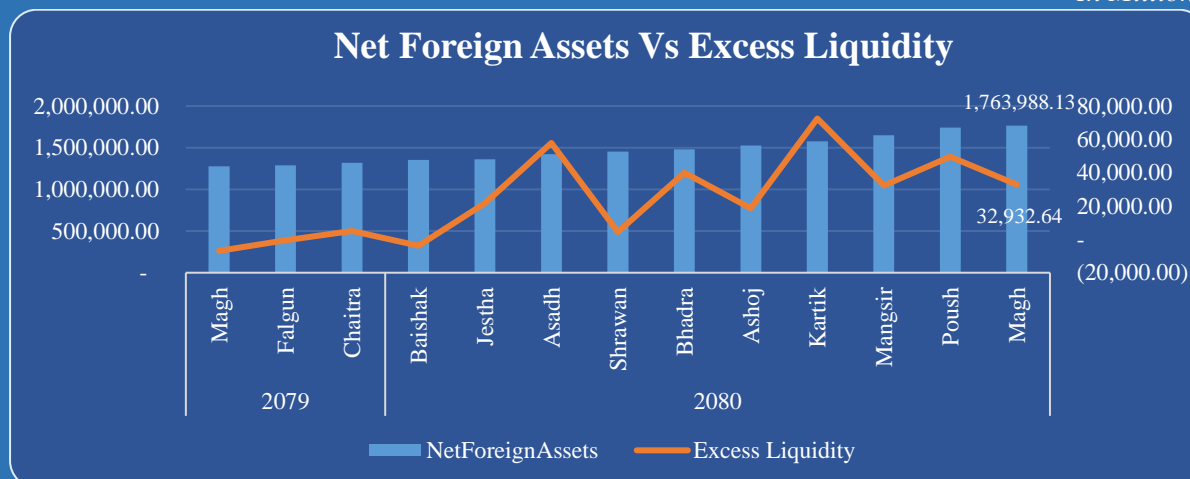


Macroeconomic Situation of Nepal as of Magh 2080/81

Capital expenditure which helps to accelerate the economy through development projects has reached 21.05% of the target budget as of Magh 2080. As of Magh 2080, there is a budget deficit of 95.19 billion which can be taken as an improvement compared to the same period of the previous year.

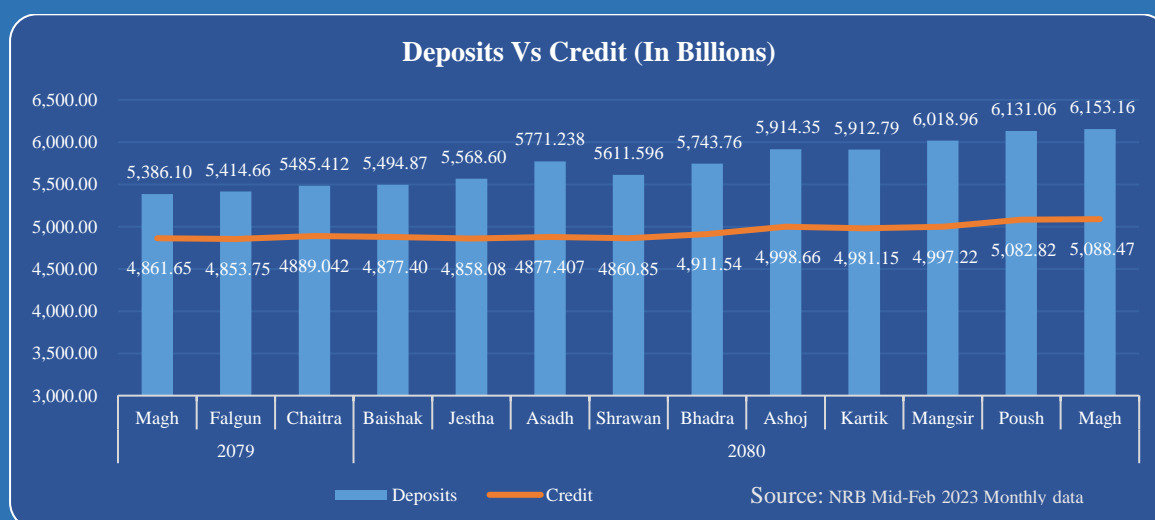
2.12 Market Liquidity

In Millions.



The position of excess liquidity stood at around 32.93 billion (As of Magh 2080). The excess liquidity has decreased compared to the previous month which stood at around 49.63 billion. The certain decrease in liquidity could be due to the BFIs depositing their excess liquidity in NRB due to low loan demand currently. The decreased import figure and increased remittance have positively affected the net foreign assets of the country with a growth of 1.37% and have reached 1.76 trillion in the current month.

2.13 Total Deposits and Credit



The total deposits have slightly increased by 0.36% and the lending has increased by 0.11% as of Magh 2080 compared to the previous month. The total deposits are 6,153.16 billion, and the total credit is 5,088.47 billion as of Magh 2080.



3. Conclusion

The current economic situation of Nepal has presented a persevering progressive development of the economy as almost all of the major economic indicators show improvement. However, it is also to be noted that currently there is an economic slowdown in the country due to which certain macroeconomic indicators such as import show a decrease contributing to the BOP Surplus consequently. The benefit of growing remittance figure is also questionable in the long term because the increase in the outflow of human resources is detrimental to the economic development of any country. 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.

While there is sufficient liquidity in the economy; there is an excess of loanable funds exceeding 450 billion in the banking industry, and there is little to no loan demand due to the economic slowdown even with the interest rates at the lowest point in over a year. 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 possibly help counter the ongoing economic slowdown in the country.

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