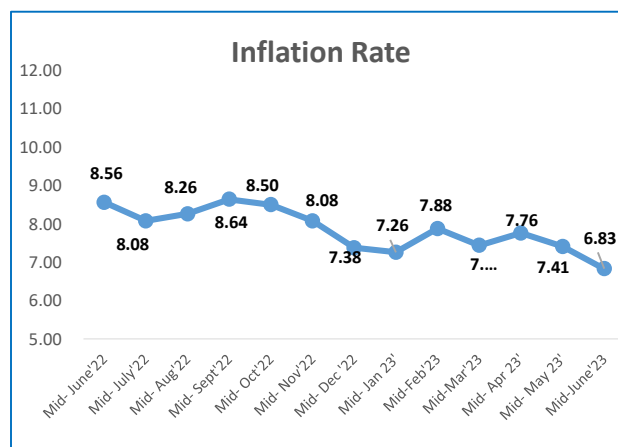
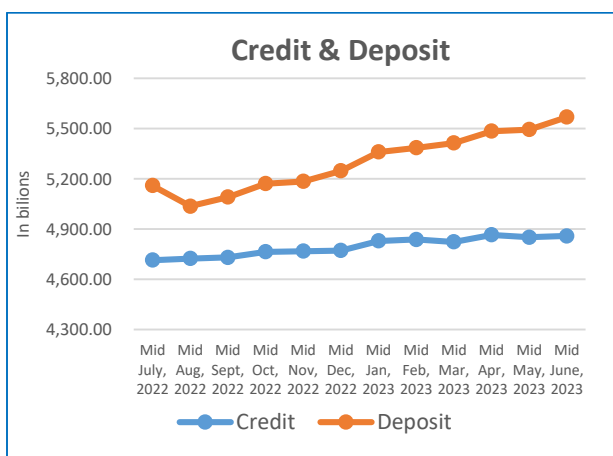
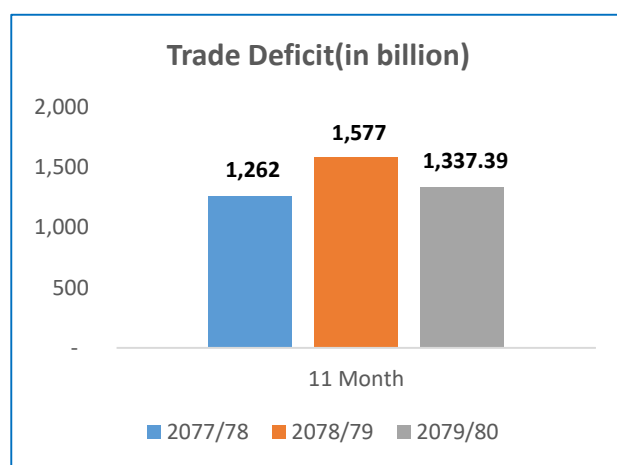
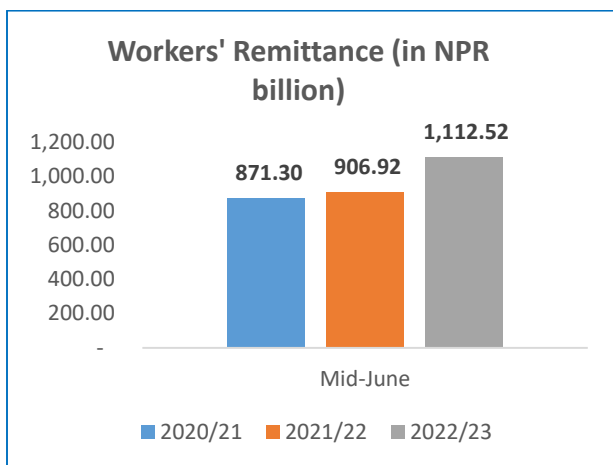
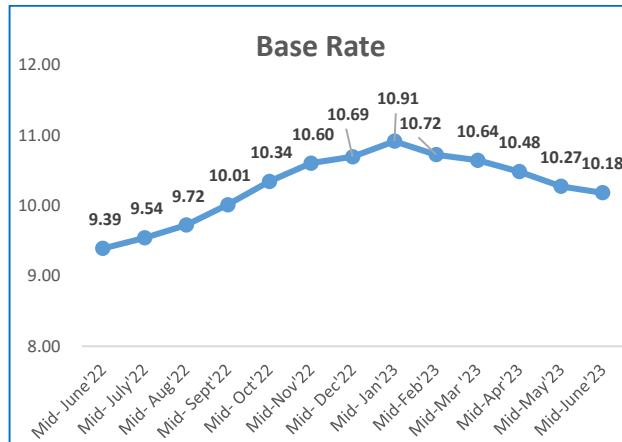
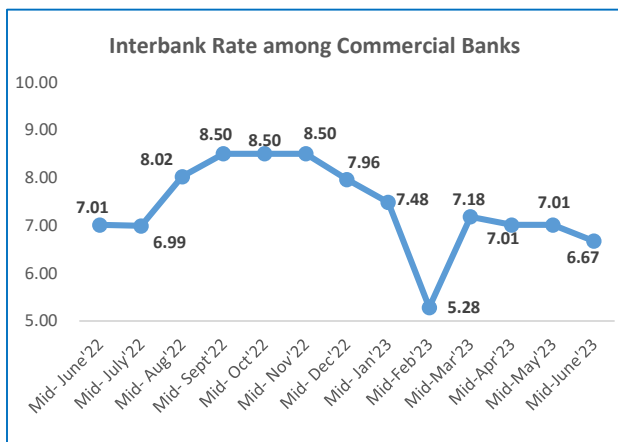




# MACROECONOMIC SITUATION OF NEPALESE ECONOMY

## BASED ON ELEVEN MONTH'S DATA OF FY 2022/23



## **Current Global Macroeconomic Situation**

### **Goldman Sachs says India will overtake the U.S. to become the world's second-largest economy by 2075**

India is poised to become the world's second-largest economy by 2075, leapfrogging not just Japan and Germany, but the U.S. too, says Goldman Sachs. Currently, India is the world's fifth-largest economy, behind Germany, Japan, China and the U.S. On top of a burgeoning population, driving the forecast is the country's progress in innovation and technology, higher capital investment and rising worker productivity, the investment bank wrote in a recent report. "Over the next two decades, the dependency ratio of India will be one of the lowest among regional economies," said Goldman Sachs Research's India economist, Santanu Sengupta. A country's dependency ratio is measured by the number of dependents against the total working-age population. A low dependency ratio indicates that there are proportionally more working age adults who are able to support the youth and elderly.

<https://www.cnbc.com/2023/07/10/india-to-become-worlds-second-largest-economy-by-2075-goldman-sachs.html>

### **This is 'the end of the beginning' of the battle against inflation, economist says**

Central banks are at "the end of the beginning" in their battle against inflation, as several factors keep core prices persistently high, according to top Societe Generale economist Kokou Agbo-Bloua. Markets are eagerly awaiting key inflation prints from the U.S. later this week, with the core annual consumer price index (CPI) — which excludes volatile food and energy prices — remaining persistently high to date, despite the headline figure gradually edging closer to the Federal Reserve's 2% target. The persistence of labor market tightness and the apparent resilience of the economy means the market is pricing around a more-than 90% chance that the Fed will hike interest rates to a range of between 5.25% and 5.5% at its meeting later this month, according to CME Group's FedWatch tool. U.S. inflation cooled in May to an annual 4%, its lowest annual rate in more than two years, but core inflation rose by 0.4% month-on-month and 5.3% year-on-year. In assessing the current state of global policymakers' efforts to tame inflation, Agbo-Bloua quoted former British Prime Minister Winston Churchill's remarks in a 1942 speech: "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

<https://www.cnbc.com/2023/07/10/this-is-the-end-of-the-beginning-of-the-battle-against-inflation-economist-says.html>

### **Euro zone enters recession after Germany, Ireland growth revision**

The euro zone entered a recession in the first quarter of this year, and economists are not optimistic for the coming months. The 20-member bloc reported gross domestic product of -0.1% for the first quarter, according to revised estimates from the region's statistics office, Eurostat, released Thursday. In a first reading, the agency had said the euro zone grew by 0.1% over the first three months of the year. This pronouncement was adjusted down after Germany also cut its growth figures for the same period, an effectively entered a recession. Ireland also made a downward revision to its growth rate, now showing a contraction of almost 5%. Before the weak performance over January-March, the euro zone also contracted by 0.1% in the last quarter of 2022. The two consecutive quarters of negative GDP performance have also dragged the wider region into a technical recession. "News that GDP contracted in the first quarter after all means that the euro zone has already fallen into a technical recession. We suspect that the economy will contract further over the rest of this year," Andrew



Kenningham, chief Europe economist at Capital Economics, said in a note Thursday. Ireland, the Netherlands, Germany and Greece are among the euro economies that reported an economic quarter-on-quarter contraction for the first quarter. Household consumption dropped by 0.3% in the first quarter, highlighting the pressures that consumers are facing amid higher prices.

<https://www.cnbc.com/2023/06/08/euro-zone-enters-recession-after-germany-ireland-growth-revision.html>

### **US trade deficit widens to 6-month high, expected to dent economic growth**

The U.S. trade deficit widened by the most in eight years in April as imports of goods rebounded while exports of energy products declined, a trend that if sustained, could result in trade being a drag on economic growth in the second quarter. The increase reported by the Commerce Department was the biggest since April 2015 and pushed the trade gap to the highest level in six months. It led economists to expect that trade could chop off as much as 2.5 percentage points from gross domestic product this quarter, unless imports reversed course, a tall order given the persistent strength in domestic demand. A strong dollar and slowing global demand could curb exports. The trade deficit jumped 23.0% to \$74.6 billion. Data for March was revised to show the trade gap narrowing to \$60.6 billion instead of the previously reported \$64.2 billion. The government revised the goods trade data from 2018 while the trade services figures were revised from 2017. Those revisions showed the trade deficit was not as large as previously thought in the first quarter. As a result, economists expect the government to raise its GDP growth estimate for the January-March quarter to as high as a 2.3% annualized rate when it publishes its third estimate later this month. Adjusted for inflation, the goods trade deficit shot up 16.5% to \$95.8 billion in April.

<https://www.cnbc.com/2023/06/08/euro-zone-enters-recession-after-germany-ireland-growth-revision.html>

### **China says it told the U.S. and Europe about the export controls in advance**

China's Ministry of Commerce said the country told the U.S. and Europe about this week's export controls in advance. China did so through "export control dialogue channels," commerce ministry spokesperson Shu Jueting said in Mandarin, translated by CNBC. China does not target any specific country with the restrictions, she said, reiterating their goal is to protect national security. The commerce ministry announced Monday that starting Aug. 1 China would restrict exports of gallium and germanium — two metals used in semiconductor manufacturing. That means companies in China need to apply for licenses in order to export the metals. China produces most of the world's gallium and germanium, which are not found naturally but produced by refining other metals. Spokesperson Shu said the ministry had yet to receive any applications for export licenses, and noted the rules don't take effect until Aug. 1.

<https://www.cnbc.com/2023/07/06/china-says-it-told-us-europe-about-chip-metals-export-controls-in-advance.html>



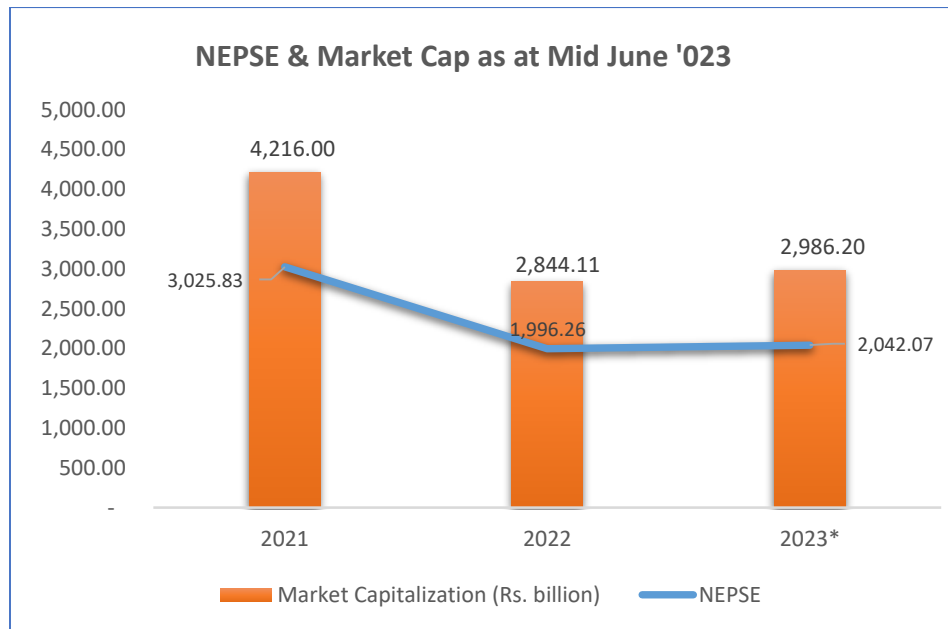
## Summary of Eleven Month Macroeconomic Situation F/Y 2022/23

This macroeconomic report is prepared based on Eleven month data of FY 2022/23 published by NRB. The key macro-economic indicators and variables are highlighted in the table below and explained in further section:

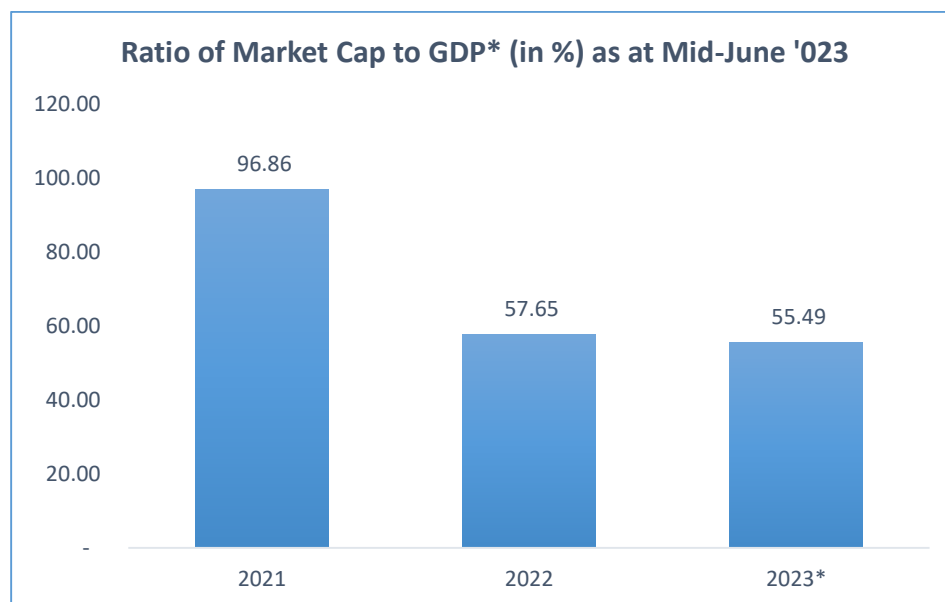
Head	Details	Amount
A. NEPSE	2042.07 points as on Mid-June-2023 2,076.96 points as on Mid-July-2023	
B. INTEREST RATES		
<i>Inter Bank Rate</i>	6.67%	
<i>Base Rate</i>	10.18%	
C. INFLATION	6.83%	
D. DEPOSIT AND LENDING GROWTH		
<i>Deposit Growth</i>	7.95%	NPR 582.85 billion
<i>Loan Growth</i>	3.16%	NPR 148.95 billion
E. LIQUIDITY MANAGEMENT		
<i>Liquidity Absorption</i>	NPR 5.0 billion ( <i>Liquidity absorption through reverse repo auction</i> )	
<i>Liquidity Injection</i>	NPR 5253.16 billion ( <i>liquidity injected through standing liquidity facility NPR 2727.11 billion, Repo NPR 414.47 billion, outright purchase NPR 89.70 billion and Overnight Liquidity Facility NPR 2021.87</i> )	
F. Balance of Payment Position	NPR 228.98 billion surplus	
G. Remittance Growth		
<i>In US Dollar Terms</i>	13.02%	USD 980.66 million
<i>In NPR Terms</i>	22.67%	NPR 205.61 billion

## A. NEPSE and Ratio of Market Cap to GDP

The NEPSE index at Mid-June 2023 increased by 2.29% percent to close at 2,042.07 points, compared to 1,996.26 points in the same period of last year. The Market capitalization of NEPSE as well increased from NPR 2,844.11 billion in Mid-June 2022 to NPR 2,986.20 billion in Mid-June 2023.



On the other hand, the ratio of Market capitalization of NEPSE to GDP at Mid-June 2023 has decreased to 55.49 percent compared to 57.65 percent in the last year during the same review period.



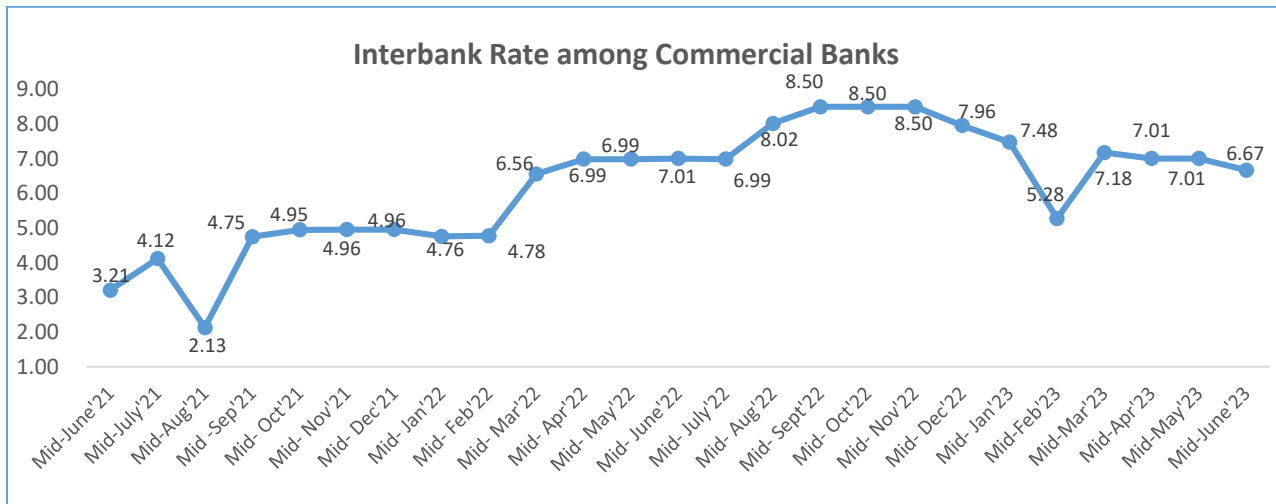
*\*GDP at Current Price*

## B. INTEREST RATES

To evaluate the current scenario of interest rate in the economy, interbank rate and base rate of commercial banks are taken into consideration.

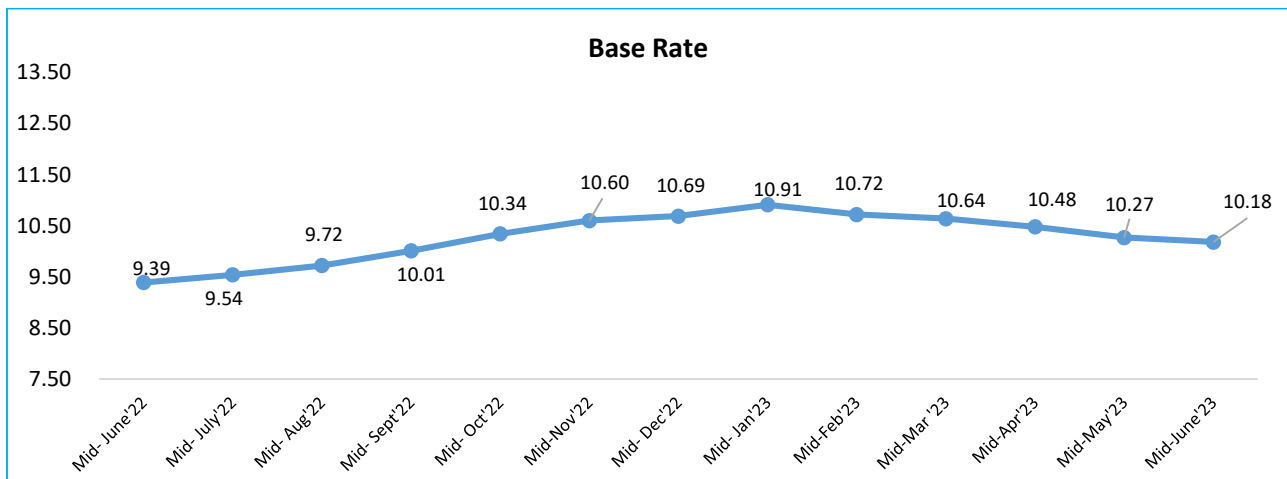
### *Interbank Rate*

The interbank rate of commercial banks was 3.21 percent in Mid-June, 2021 which has been gradually increasing since then and has reached to 6.67 percent in Mid-June, 2023 indicating tightening of liquidity in the banking system. The interbank rate during the same period a year ago stood at 7.01 percent.



### *Base Rate*

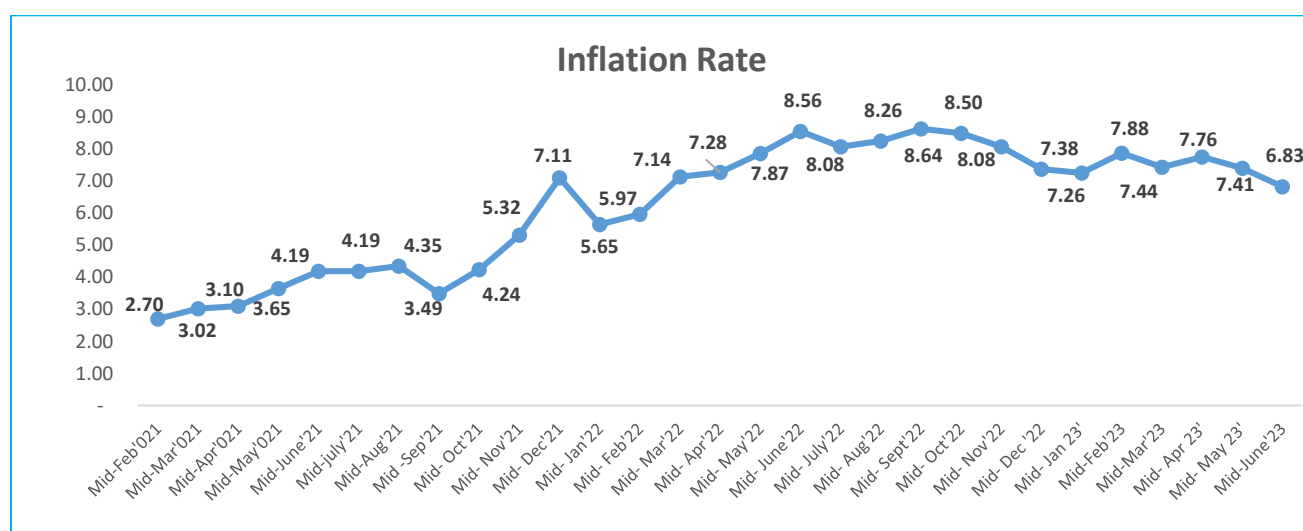
The base rate of commercial banks stands at 10.18 percent in Mid-June, 2023 compared to 9.39 percent a year ago. This has set the Weighted average lending rate at 12.53 percent. On the other hand, the Weighted average deposit rate stands at 7.99 percent. Such rates were 11.54 percent and 7.34 percent respectively in the corresponding month of the previous year.



### C. INFLATION RATE

The y-o-y consumer price inflation remained at 6.83 percent in mid-June 2023 compared to 8.56 percent a year ago. Food and beverage inflation stood at 5.66 percent whereas non-food and service inflation rose to 7.76 percent in the review month. Under the food and beverage category, y-o-y price index of spices sub-category increased 35.29 percent, restaurant and hotel 14.36 percent, cereal grains and their products 13.06 percent, milk products and eggs 10.98 percent and tobacco products 8.49 percent.

Under the non-food and services category, y-o-y price index of recreation and culture sub-category increased 15.75 percent, miscellaneous goods and services 9.33 percent, education 10.56 percent, housing and utilities 8.41 percent and furnishing and household equipment 7.83 percent.

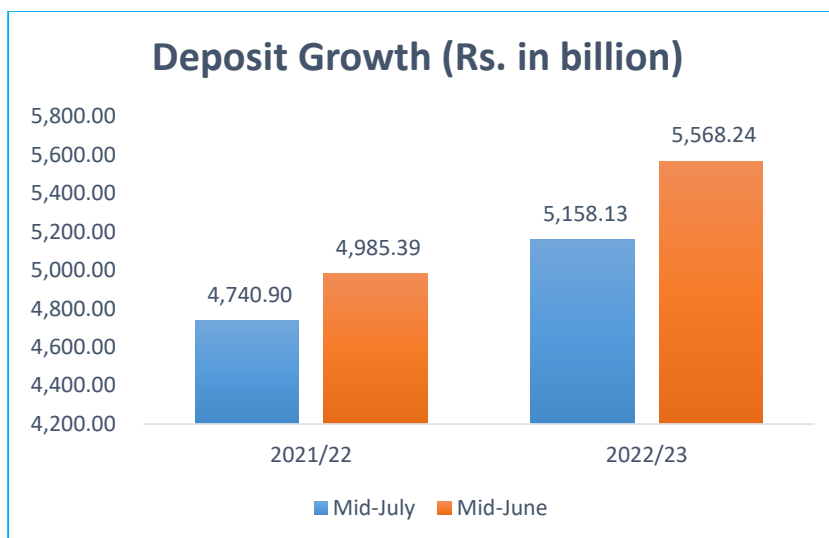


### D. DEPOSIT AND LENDING GROWTH

**Deposit Growth:** Deposits at Banks and Financial Institutions (BFIs) increased Rs. 445.13 billion (8.8 percent) in the review period compared to an increase of Rs.266 billion (5.7 percent) in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 12.2 percent in mid-June 2023. The share of demand, saving, and fixed deposits in total deposits stands at 7.9 percent, 25.6 percent and 59.8 percent respectively in mid-June 2023. Such shares were 8.8 percent, 27.1 percent and 57.1 percent respectively a year ago.

*Rs. in billion*

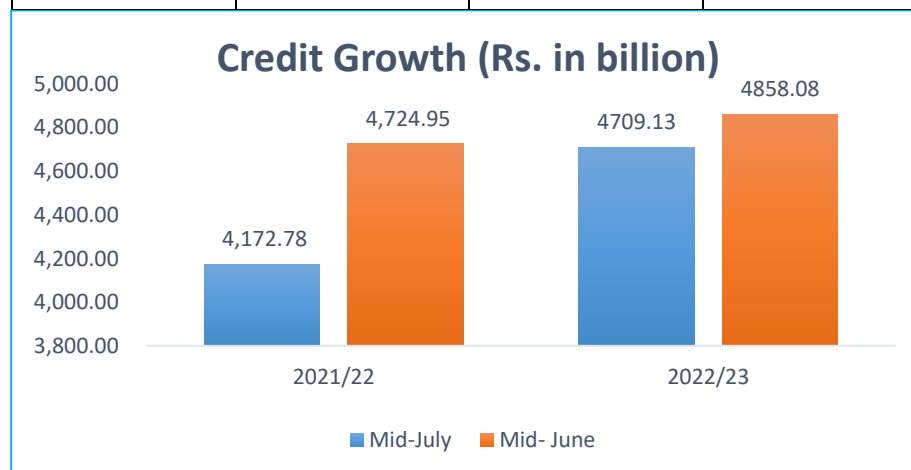
Year	Mid-July	Mid-June	% Change
2021/22	4,740.90	4,985.39	5.16%
2022/23	5,158.13	5,568.24	7.95%



**Credit Growth:** Private sector credit from BFIs increased Rs.157.36 billion (3.4 percent) in the review period compared to an increase of Rs.552.71 billion (13.5 percent) in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 3.0 percent in mid-June 2023. The shares of private sector credit from BFIs to non-financial corporation and household stand at 62.6 percent and 37.4 percent respectively in mid-June 2023. Such shares were 63.3 percent and 36.7 percent a year ago. In the review period, private sector credit from commercial banks, development banks and finance companies increased 3.2 percent, 6.0 percent and 0.9 percent respectively.

*Rs. in billion*

Year	Mid-July	Mid- June	% Change
2021/22	4,172.78	4,724.95	13.23%
2022/23	4,709.13	4,858.08	3.16%







## E. LIQUIDTY MANAGEMENT

### *Summary of Monetary Operation during FY 2022/23*

Details	Mid-Jun	
	2021/22	2022/23
<b>A. Liquidity Injection</b>	<b>8,582,095.00</b>	<b>5,253,156.01</b>
1. Repo	270,000.00	97,972.60
2. Outright Purchase	55,915.90	89,700.00
3. Repo Auction *	180,013.00	316,500.00
4. Standing Liquidity Facility	8,076,166.10	2,727,112.30
5. Overnight Liquidity Facility <sup>#</sup>	-	2,021,871.11
<b>B. Liquidity Absorption</b>	<b>60,000.00</b>	<b>5,000.00</b>
1. Reverse Repo	28,350.00	5,000.00
2. Outright Sale	-	-
3. Deposit Collection Auction	31,650.00	-
4. Deposit Collection Auction *	-	-
<b>C. Net Liquidity Injection (+) / Absorption (-)</b>	<b>8,522,095.00</b>	<b>5,248,156.01</b>

\* Transaction under Interest Rate Corridor

In the review period, NRB injected Rs.5253.16 billion liquidity on turnover basis of which Rs.414.47 billion was through repo, Rs.89.70 billion through outright purchase auction, Rs.2727.11 billion through standing liquidity facility (SLF) and Rs.2021.87 billion through Overnight Liquidity Facility (OLF). During the period, the NRB absorbed Rs.5 billion liquidity through reverse repo auction. In the corresponding period of the previous year, Rs.8522.10 billion net amount of liquidity was injected through various instruments. In the review period, NRB injected liquidity of Rs.687.42 billion through the net purchase of USD 5.26 billion from foreign exchange market. Liquidity of Rs.299.62 billion was injected through the net purchase of USD 2.47 million in the corresponding period of the previous year. The NRB purchased Indian currency (INR) equivalent to Rs.562.19 billion through the sale of USD 4.30 billion in the review period.



## F. FISCAL SITUATION

### *Fiscal Deficit/Surplus*

During the Eleven months of 2022/23, total expenditure of the federal government according to data of Financial Comptroller General Office (FCGO), Ministry of Finance, stood at Rs.1176.07 billion. The recurrent expenditure, capital expenditure and financial management expenditure amounted to Rs.877.39 billion, Rs.153.08 billion and Rs.145.59 billion respectively in the review period.

Particulars	Rs. in million	
	Govt. Exp. (Cash Basis)	Govt. Revenue
2021/22	1,035,607.7	942,125.7
2022/23	1,176,065.7	836,854.3
<b>Y-O-Y Growth</b>	<b>13.56%</b>	<b>-11.17%</b>

Source: <https://www.fcgo.gov.np>

## G. BALANCE OF PAYMENT POSITION

(Rs. in million)

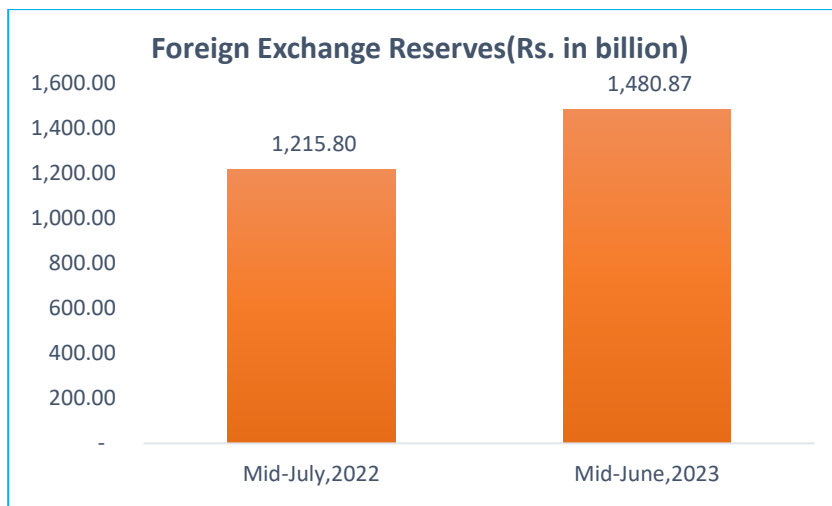
Particulars		2020/21	2021/22	2022/23
		Eleven Months	Eleven Months	Eleven Months
A	Current Account	(298,107.17)	(592,140.38)	(69,397.63)
B	Capital Account (Capital Transfer)	14,151.75	9,491.82	7,351.48
C	Financial Account (Excluding Group E)	183,402.15	264,021.63	216,016.01
	<b>BOP ( Surplus )</b>	15,147.42	269,806.84	(228,977.17)

\*P = Provisional

Balance of Payments (BOP) remained at a surplus of Rs.228.98 billion in the review period compared to a deficit of Rs.269.81 billion in the same period of the previous year. In the US Dollar terms, the BOP remained at a surplus of 1.74 billion in the review period against a deficit of 2.26 billion in the same period of the previous year. The current account remained at a deficit of Rs.69.40 billion in the review period compared to a deficit of Rs.592.14 billion in the same period of the previous year. In the US Dollar terms, the current account registered a deficit of 536.1 million in the review period compared to deficit of 4.93 billion in the same period last year.

## H. Foreign Exchange Reserve

Gross foreign exchange reserves increased 21.80 percent to Rs. 1480.87 billion in Mid-June 2023 from Rs.1215.80 billion in mid-July 2022. In the US dollar terms, the gross foreign exchange reserves increased 18.5 percent to 11.30 billion in mid-June 2023 from 9.54 billion in mid-July 2022.



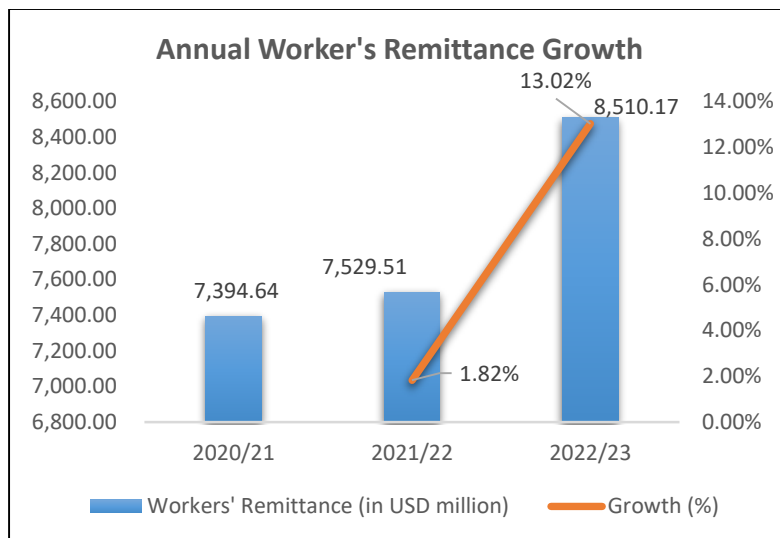
Of the total foreign exchange reserves, reserves held by NRB increased 25.1 percent to Rs.1321.25 billion in mid-June 2023 from Rs.1056.39 billion in mid-July 2022. Reserves held by banks and financial institutions (except NRB) increased 0.1 percent to Rs.159.63 billion in mid-June 2023 from Rs.159.41 billion in mid-July 2022. The share of Indian currency in total reserves stood at 22.9 percent in mid-June 2023.

## WORKERS' REMITTANCE

The workers' remittance growth rate is subject to different terms of US Dollar and Nepalese Currency based on exchange rate of NPR with US Dollar. Hence, the workers' remittance growth in terms of US Dollar and NPR has been presented below:

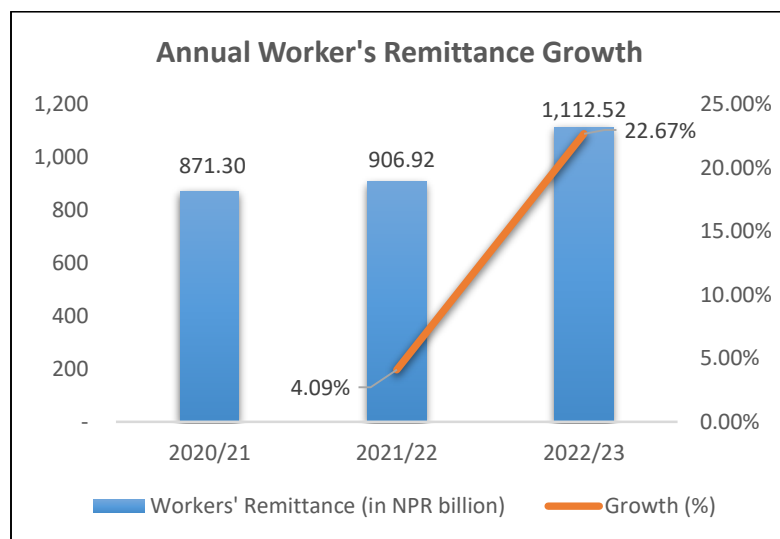
### *Remittance in Dollar Terms*

In US Dollar terms, the workers' remittance increased by 13.02 percent amounting to 8.51 billion in the review period compared to an increase of 1.82 percent in the same period of the previous period.



### ***Remittance in NPR terms***

On the other hand, in NPR terms, the workers' remittance increased by 22.67 percent amounting to 1,112.52 billion in the review period compared to an increase of 4.09 percent in the same period of previous period.



Number of Nepali workers (institutional and individual-new) taking approval for foreign employment increased 46.6 percent to 459,415 in the review period. The number of Nepali workers (Renew entry) taking approval for foreign employment increased 0.5 percent to 260,262 in the review period. It had increased 208.3 percent in the same period of the previous year. Net transfer increased 21.9 percent to Rs.1229.82 billion in the review period. Such a transfer had increased 3.8 percent in the same period of the previous year.