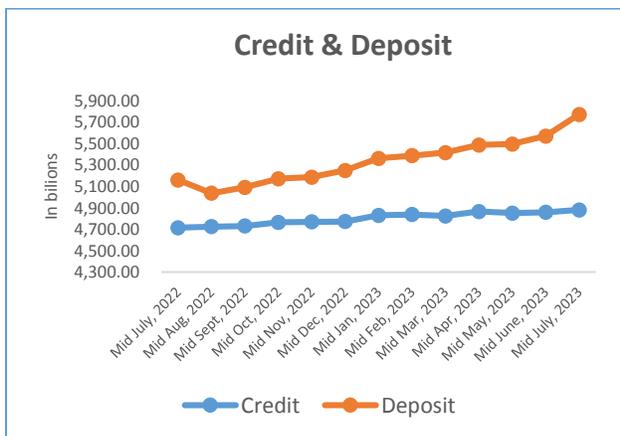
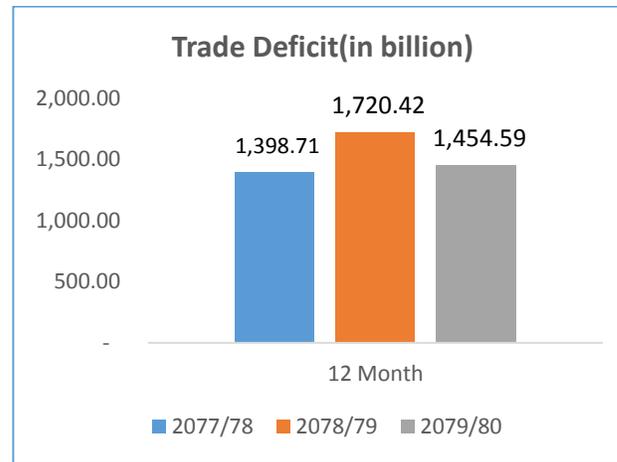
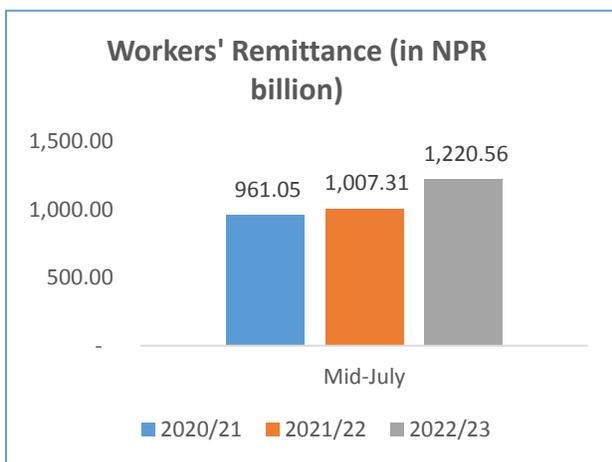
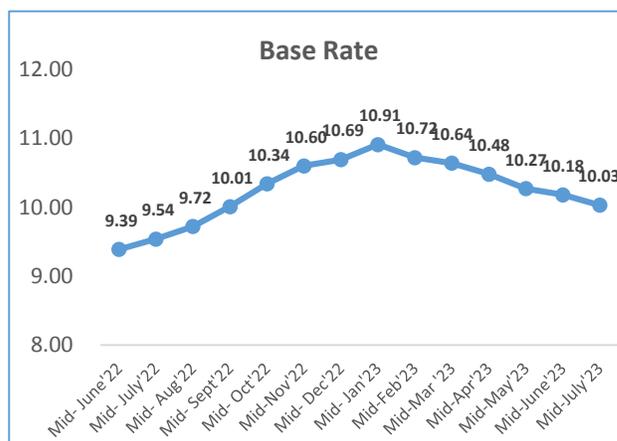
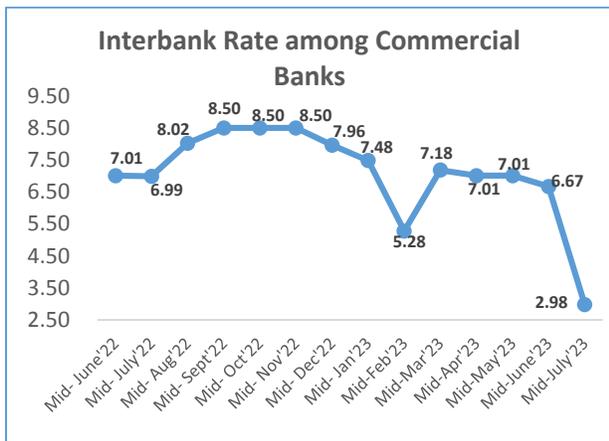




# MACROECONOMIC SITUATION OF NEPALESE ECONOMY

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



## **Current Global Macroeconomic Situation**

### **July CPI report shows inflation gauge rose 3.2%, less than expected**

The consumer price index rose 3.2% from a year ago in July, a sign that inflation has lost at least some of its grip on the U.S. economy. Prices accelerated a seasonally adjusted 0.2% for the month, in line with the Dow Jones estimate, the Bureau of Labor Statistics reported Thursday. However, the annual rate was slightly below the 3.3% forecast though higher than June and the first increase in more than a year. Excluding volatile food and energy prices so-called core CPI also increased 0.2% for the month, matching the estimate and equating to a 12-month rate of 4.7%, the lowest since October 2021. The annual rate for the core also was slightly below a Dow Jones consensus estimate for 4.8%. Markets reacted positively to the report, with futures tied to the Dow Jones Industrial Average up more than 200 points and Treasury yields mostly lower.

<https://www.cnbc.com/2023/08/10/cpi-inflation-july-2023-.html>

### **China's downside risks are growing, and its economy is less likely to reach 5% this year**

Without more stimulus, China is increasingly likely to miss its growth target of around 5% this year, economists said. The country on Tuesday suspended releases of data on youth unemployment, which had recently soared to records. Other data for July showed a broad slowdown, worsened by the property market slump. "Prolonged weakness in property construction will add to destocking pressures in the industrial space and depress consumption demand as well," Tao Wang, head of Asia economics and chief China economist at UBS Investment Bank, said in a note. "In such a case, economic momentum may stay subdued in the rest of the year and China may miss this year's growth target of around 5%," she said. "Deflation pressures could persist longer in such a scenario. The economy would then warrant much stronger or unconventional policies to revive." China is the world's second-largest economy, and accounted for nearly 18% of global GDP in 2022, according to World Bank data.

<https://www.cnbc.com/2023/08/16/china-economy-may-miss-5percent-growth-amid-property-consumption-risks.html>

### **China reports big data miss in July, stops releasing youth unemployment numbers**

China reported July data that broadly missed expectations. The National Bureau of Statistics report also did not include the unemployment figure for young people, which has soared to record highs in recent months. Retail sales rose by 2.5% in July from a year ago, below expectations for a 4.5% increase, according to analysts polled by Reuters. Industrial production rose by 3.7% in July from a year ago, below the 4.4% increase analysts had expected. Fixed asset investment rose by 3.4% for the first seven months of the year from a year ago, below the 3.8% forecast by the Reuters poll. The urban unemployment rate ticked up to 5.3% in July from 5.2% in June.



<https://www.cnbc.com/2023/08/15/china-economy-july-industrial-output-fixed-asset-retail-data.html>

**Retail sales increased 0.7% in July, better than expected as consumer spending is holding up**

Consumer spending held up well in July as inflation slowed, with retail sales turning in a stronger-than-expected showing for the month, the Commerce Department reported Tuesday. The advanced retail sales report showed a seasonally adjusted increase of 0.7% for the month, better than the 0.4% Dow Jones estimate. Excluding autos, sales rose a robust 1%, also against a 0.4% forecast. Both readings were the best monthly gains since January. July's numbers were boosted by a 1.9% jump in spending at online retailers, while sporting goods and related stores increased 1.5% and food service and drinking places rose 1.4%. On the downside, furniture sales slumped 1.8% and electronics and appliance stores reported a 1.3% drop. Gas station sales rose just 0.4% on the month despite rising prices at the pump. As saving has begun to dry up, shoppers have shown a willingness to use credit cards, the balances of which exceeded \$1 trillion for the first time in the second quarter of 2023. July's data showed that spending was widespread, with most categories showing increases. However, motor vehicle sales fell 0.3% as well. On a 12-month basis, sales rose 3.2%, which is exactly in line with the annual increase in the CPI.

<https://www.cnbc.com/2023/08/15/retail-sales-report-july-2023.html>

**China surprises with rate cuts as economy grapples with 'confidence crisis'**

China's central bank unexpectedly cut rates on Tuesday, as policymakers continued to ramp up support for its struggling economy. Early Tuesday, the People's Bank of China trimmed the interest rate on 401 billion yuan (\$55.25 billion) worth of one-year medium-term lending facility (MLF) loans from 2.65% to 2.50. It was the second rate cut in three months. The move came just before China posted largely disappointing July data. Industrial output rose by 3.7% in July from a year ago, below the 4.4% increase analysts had expected, while retail sales also rose at a slower pace by 2.5% last month. Then in the late afternoon, the PBOC cut short term rates. Overnight, seven-day, and one-month standing lending facility rates were each trimmed by 10 basis points to 2.65%, 2.8% and 3.15%, respectively. China is facing a "confidence crisis" as Beijing's policy delay is being perceived as "inaction" to spur growth, according to an economist. After an initial rebound from the pandemic earlier this year, China's economy has come to grips with long-standing problems and slowing global demand for its products. Exports plunged by 14.5% year-on-year in July, following a 12.4% drop in June. Factory activity contracted for a fourth straight month in July, according to an official survey.

<https://www.cnbc.com/2023/08/15/china-is-grappling-with-a-confidence-crisis-says-economist.html>



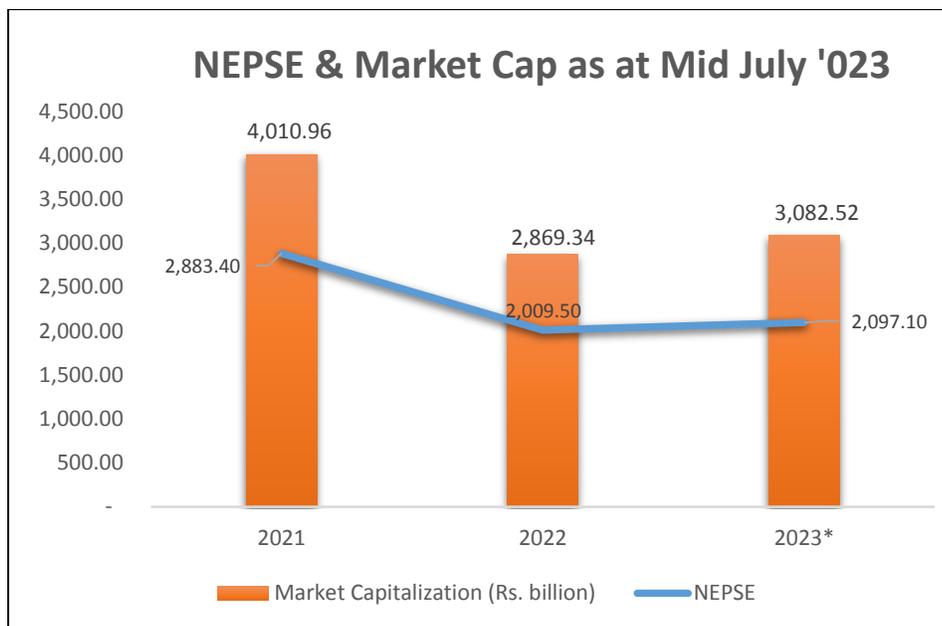
## Summary of Twelve Month Macroeconomic Situation F/Y 2022/23

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:

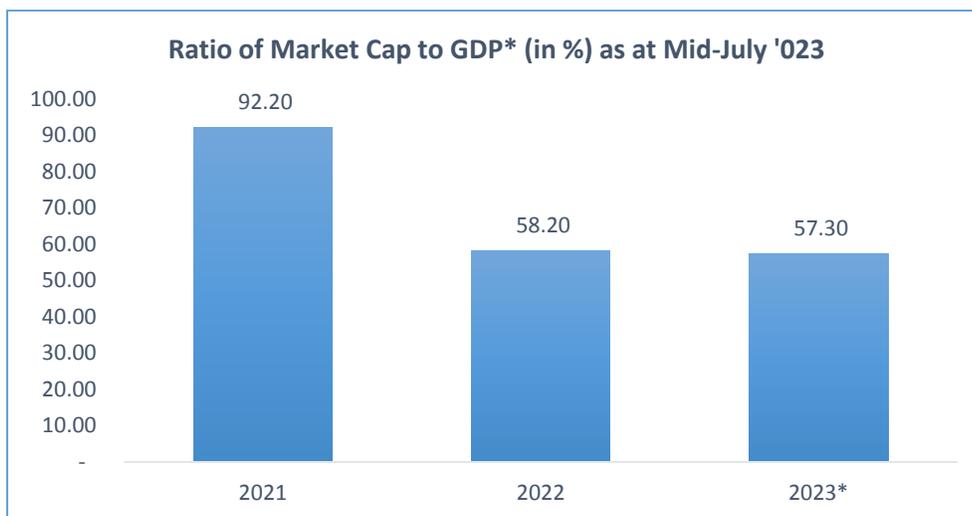
Head	Details	Amount
A. NEPSE	2,097.10 points as on Mid-July-2023 2,011.22 points as on 20-Aug-2023	
B. INTEREST RATES		
<i>Inter Bank Rate</i>	2.98%	
<i>Base Rate</i>	10.03%	
C. INFLATION	7.44%	
D. DEPOSIT AND LENDING GROWTH		
<i>Deposit Growth</i>	11.86%	NPR 611.93 billion
<i>Loan Growth</i>	3.61%	NPR 170.15 billion
E. LIQUIDITY MANAGEMENT		
<i>Liquidity Absorption</i>	NPR 1.08 billion ( <i>Liquidity absorption through reverse repo auction</i> )	
<i>Liquidity Injection</i>	NPR 5518.18 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 2286.90</i> )	
F. Balance of Payment Position	NPR 290.515 billion surplus	
G. Remittance Growth		
<i>In US Dollar Terms</i>	12.09%	USD 1006.20 million
<i>In NPR Terms</i>	21.17%	NPR 213.25 billion

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

The NEPSE index at Mid-July 2023 increased by 4.36% percent to close at 2,097.10 points, compared to 2,009.50 points in the same period of last year. The Market capitalization of NEPSE as well increased from NPR 2,869.34 billion in Mid-July 2022 to NPR 3,082.52 billion in Mid-July 2023.



On the other hand, the ratio of Market capitalization of NEPSE to GDP at Mid-July 2023 has decreased to 57.30 percent compared to 58.20 percent in the last year during the same review period.



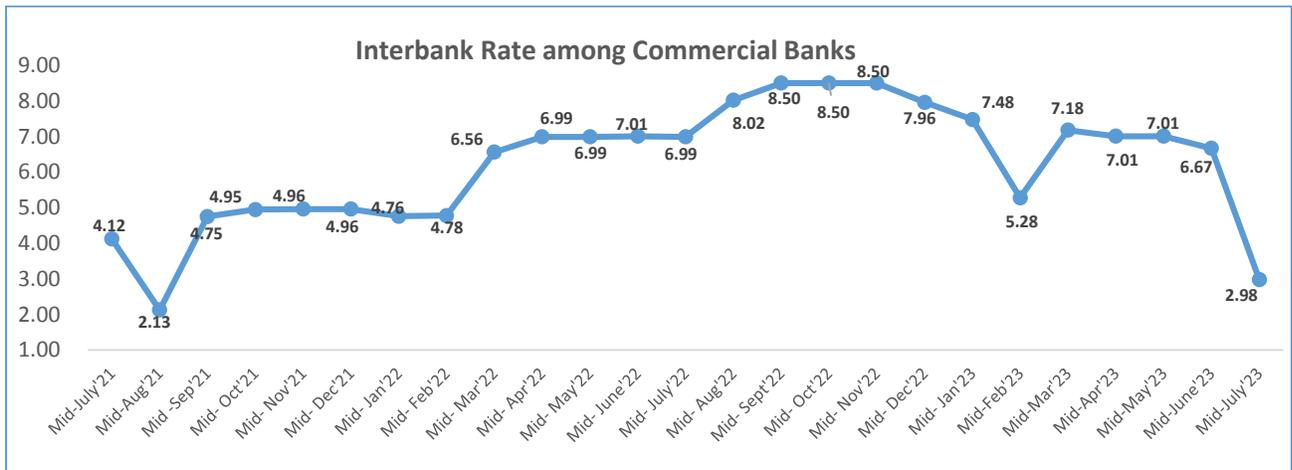
*\*GDP at Current Price*

## 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.

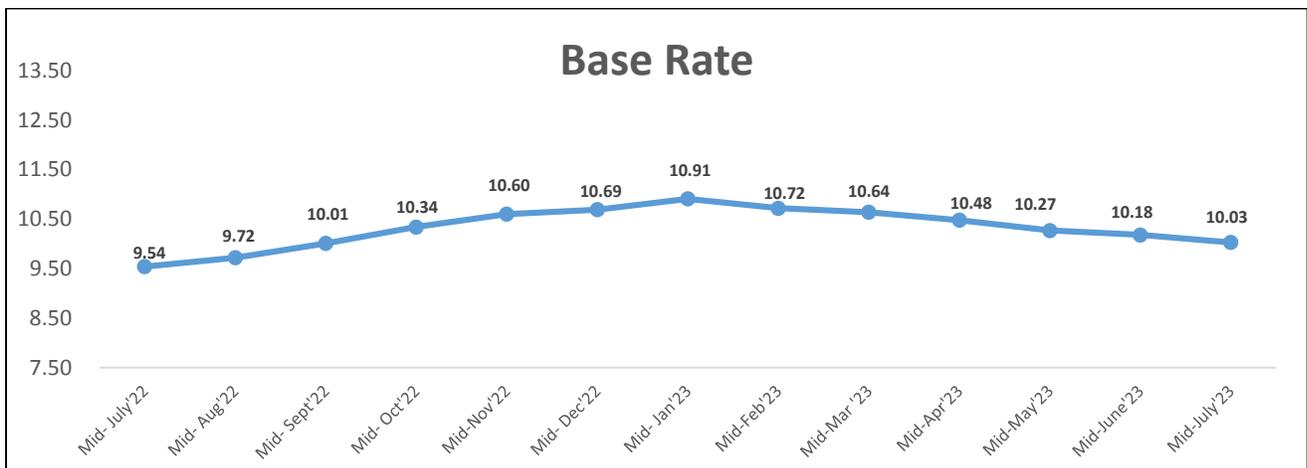
### *Interbank Rate*

The interbank rate of commercial banks was 4.12 percent in Mid-July, 2021 which has been gradually increasing since then and has reached to 2.98 percent in Mid-July, 2023 indicating flow of liquidity in the banking system. The interbank rate during the same period a year ago stood at 6.99 percent.



### *Base Rate*

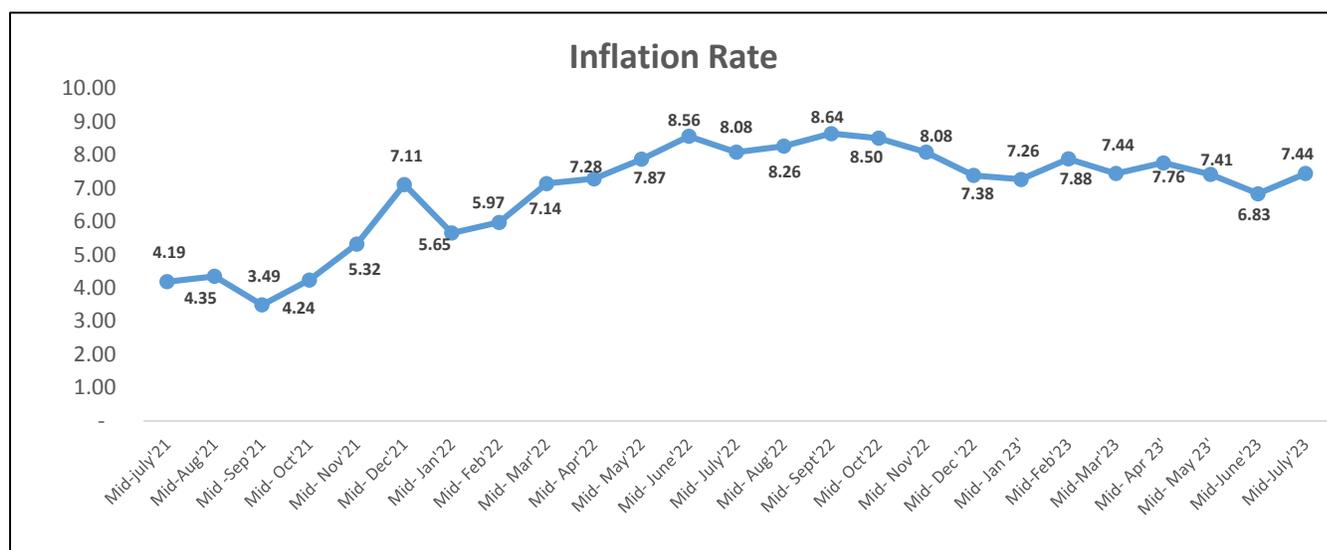
The base rate of commercial banks stands at 10.03 percent in Mid-July, 2023 compared to 9.54 percent a year ago. This has set the Weighted average lending rate at 12.30 percent. On the other hand, the Weighted average deposit rate stands at 7.86 percent. Such rates were 11.62 percent and 7.41 percent respectively in the corresponding month of the previous year.



### C. INFLATION RATE

The y-o-y consumer price inflation remained at 7.44 percent in mid-July 2023 compared to 8.08 percent a year ago. Food and beverage inflation stood at 6.62 percent whereas non-food and service inflation rose to 8.62 percent in the review month. Under the food and beverage category, y-o-y price index of spices sub-category increased 12.50 percent, restaurant and hotel 14.42 percent, cereal grains and their products 10.70 percent, milk products and eggs 9.23 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 10.18 percent, education 8.79 percent, housing and utilities 8.65.

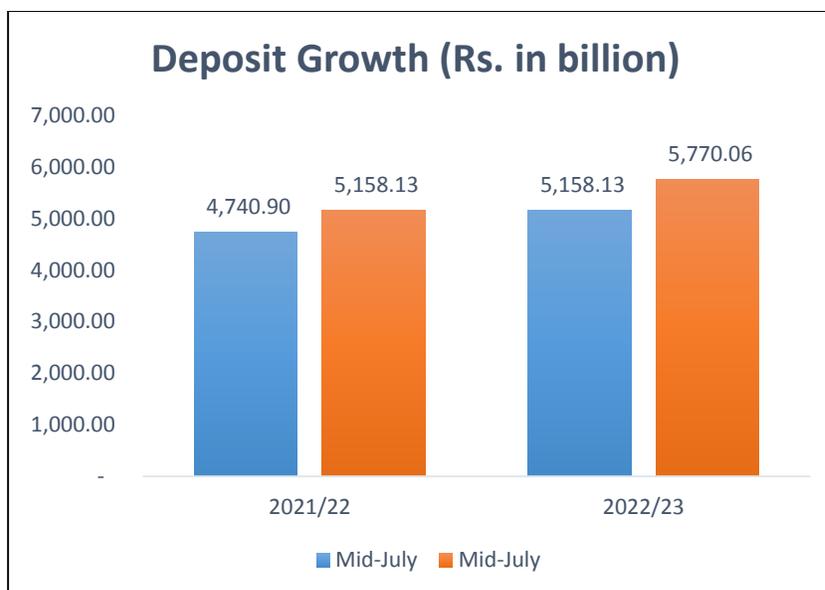


### D. DEPOSIT AND LENDING GROWTH

**Deposit Growth:** Deposits at Banks and Financial Institutions (BFIs) increased Rs 611.93 billion (11.86 percent) in the review period compared to an increase of Rs.417.23 billion (8.8 percent) in the corresponding period of the previous year. On y-o-y basis, Deposits at Banks and Financial Institutions (BFIs) increased 12.3 percent in the review year compared to a growth of 9.0 percent in the previous year. The share of demand, saving, and fixed deposits in total deposits stands at 7.7 percent, 26.6 percent and 58.9 percent respectively in mid-July 2023. Such shares were 8.9 percent, 27.6 percent and 55.8 percent respectively a year ago.

*Rs. in billion*

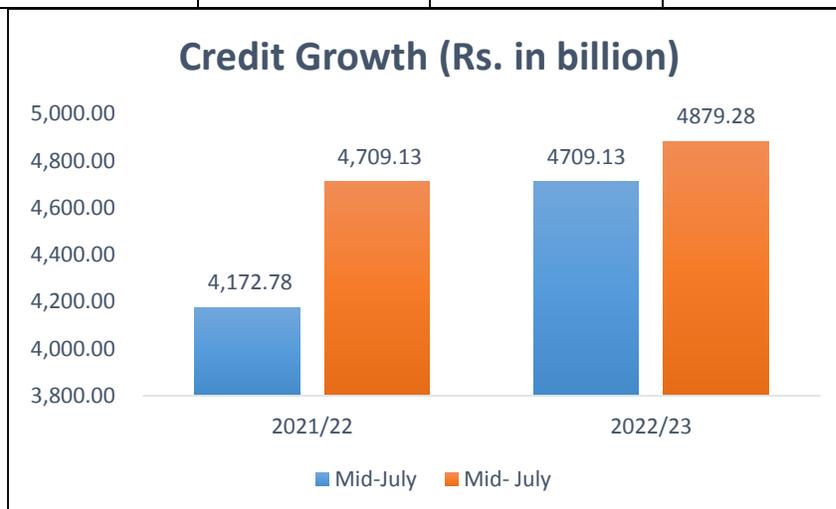
Year	Mid-July	Mid-July	% Change
2021/22	4,740.90	5,158.13	8.80%
2022/23	5,158.13	5,770.06	11.86%



**Credit Growth:** Private sector credit from BFIs increased Rs.170.15 billion (3.61 percent) in the review period compared to an increase of Rs.536.35 billion (12.85 percent) in the corresponding period of previous year. On y-o-y basis, credit to the private sector from BFIs increased 3.8 percent in the review year compared to a growth of 13.1 percent in the previous year. The shares of private sector credit from BFIs to non-financial corporation and household stand at 62.7 percent and 37.3 percent respectively in mid-July 2023. Such shares were 63.3 percent and 36.7 percent a year ago.

*Rs. in billion*

Year	Mid-July	Mid- June	% Change
2021/22	4,172.78	4,709.13	12.85%
2022/23	4,709.13	4,879.28	3.61%





## E. LIQUIDTY MANAGEMENT

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

Details	Mid-July	
	2021/22	2022/23
<b>A. Liquidity Injection</b>	<b>9,702,410.00</b>	<b>5,518,186.20</b>
1. Repo	270,000.00	316,500.00
2. Outright Purchase	55,915.90	89,700.00
3. Repo Auction *	206,388.00	97,972.60
4. Standing Liquidity Facility	9,170,106.10	2,727,112.30
5. Overnight Liquidity Facility <sup>#</sup>	-	2,286,901.30
<b>B. Liquidity Absorption</b>	<b>60,000.00</b>	<b>108,200.00</b>
1. Reverse Repo	28,350.00	88,200.00
2. Outright Sale	-	-
3. Deposit Collection Auction	31,650.00	20,000.00
4. Deposit Collection Auction *	-	-
<b>C. Net Liquidity Injection (+) / Absorption (-)</b>	<b>9,642,410.00</b>	<b>5,409,986.20</b>

\* Transaction under Interest Rate Corridor

In the review period, NRB injected Rs.5,518.18 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.2286.9 billion through Overnight Liquidity Facility (OLF). During the period, the NRB absorbed Rs.88.20 billion liquidity through reverse repo auction. In the corresponding period of the previous year, Rs.9642.41 billion net amount of liquidity was injected through various instruments. In the review period, NRB injected liquidity of Rs. 712.50 billion through the net purchase of USD 5.45 billion from foreign exchange market. Liquidity of Rs.355.57 billion was injected through the net purchase of USD 2.91 billion in the corresponding period of the previous year. The NRB purchased Indian currency (INR) equivalent to Rs. 596.37 billion through the sale of USD 4.56 billion in the review period.



## F. FISCAL SITUATION

### *Fiscal Deficit/Surplus*

During the twelve months of 2022/23, total expenditure of the federal government according to data of Financial Comptroller General Office (FCGO), Ministry of Finance, amounted to Rs.1429.56 billion in 2022/23 compared to Rs.1296.24 billion a year ago. The recurrent expenditure, capital expenditure and financial management expenditure amounted to Rs.1005.76 billion, Rs.233.70 billion and Rs.190.11 billion respectively in the review period.

	<i>Rs. in million</i>	
	<b>Govt. Exp. (Cash Basis)</b>	<b>Govt. Revenue</b>
2021/22	1,296,244.7	1,065,340.0
2022/23	1,429,564.0	957,153.7
<b>Y-O-Y Growth</b>	<b>10.29%</b>	<b>-10.16%</b>

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

## G. BALANCE OF PAYMENT POSITION

*(Rs. in million)*

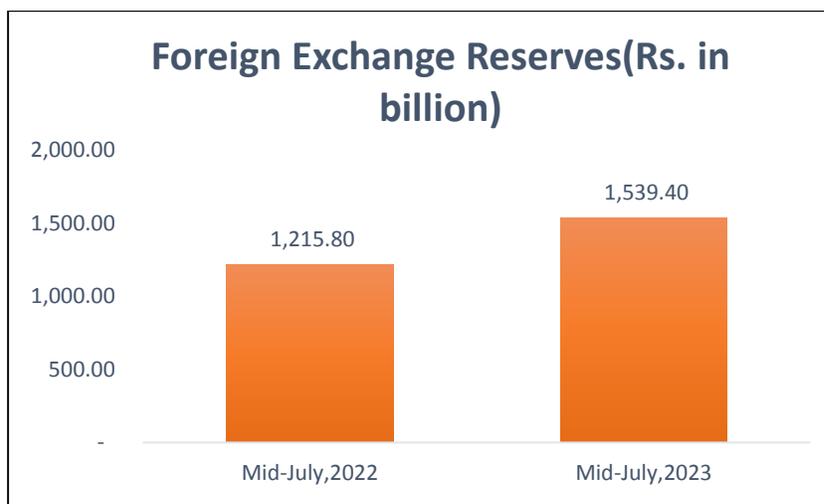
Particulars		2020/21	2021/22	2022/23
		Twelve Months	Twelve Months	Twelve Months
A	Current Account	(333,671.90)	(623,376.50)	(72,158.40)
B	Capital Account (Capital Transfer)	15,263.70	9,992.44	7,541.68
C	Financial Account (Excluding Group E)	236,921.82	331,038.82	237,120.35
	<b>BOP ( Surplus )</b>	<b>(1,226.71)</b>	<b>255,259.07</b>	<b>(290,515.37)</b>

\*P = Provisional

Balance of Payments (BOP) remained at a surplus of Rs.290.52 billion in the review period compared to a deficit of Rs.255.26 billion in the same period of the previous year. In the US Dollar terms, the BOP remained at a surplus of 2.21 billion in the review period against a deficit of 2.15 billion in the same period of the previous year. The current account remained at a deficit of Rs.72.16 billion in the review period compared to a deficit of Rs.623.38 billion in the same period of the previous year. In the US Dollar terms, the current account registered a deficit of 557.12 million in the review period compared to deficit of 5.17 billion in the same period last year.

## H. Foreign Exchange Reserve

Gross foreign exchange reserves increased 26.6 percent to Rs. 1539.36 billion in Mid-July 2023 from Rs.1215.80 billion in mid-July 2022. In the US dollar terms, the gross foreign exchange reserves increased 23.1 percent to 11.74 billion in mid-July 2023 from 9.54 billion in mid-July 2022.



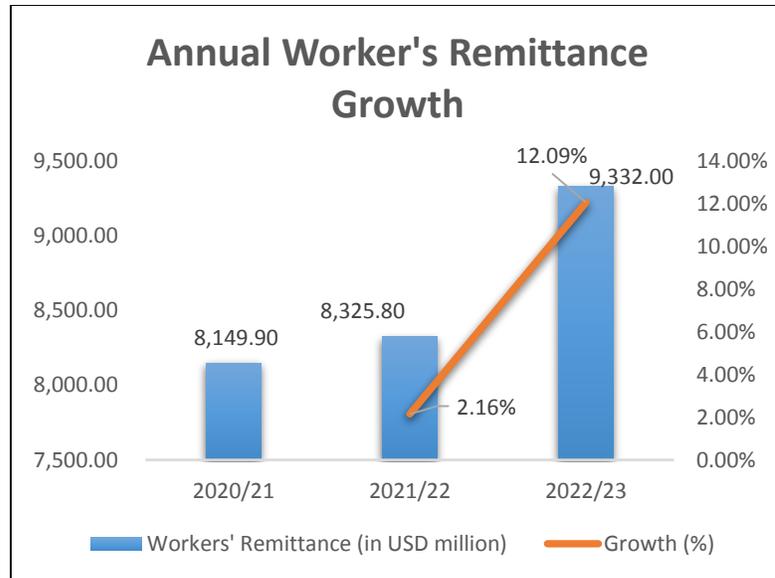
Of the total foreign exchange reserves, reserves held by NRB increased 27.4 percent to Rs. 1345.78 billion in mid-July 2023 from Rs. 1056.39 billion in mid-July 2022. Reserves held by banks and financial institutions (except NRB) increased 21.4 percent to Rs. 193.59 billion in mid-July 2023 from Rs.159.41 billion in mid-July 2022. The share of Indian currency in total reserves stood at 22.5 percent in mid-July 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:

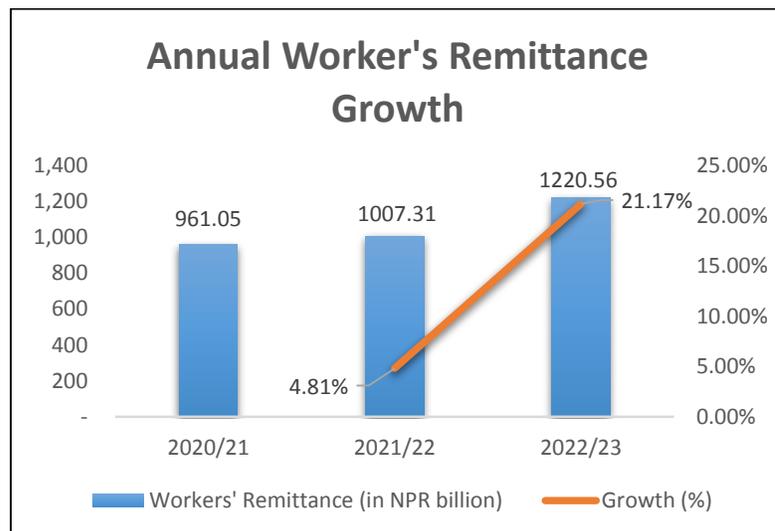
#### ***Remittance in Dollar Terms***

In US Dollar terms, the workers' remittance increased by 12.09 percent amounting to 9.33 billion in the review period compared to an increase of 2.16 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 21.17 percent amounting to 1220.56 billion in the review period compared to an increase of 4.81 percent in the same period of previous period.



Number of Nepali workers (institutional and individual-new) taking approval for foreign employment increased 40.3 percent to 497,704 in the review period. The number of Nepali workers (Renew entry) taking approval for foreign employment decreased 1.8 percent to 277,272 in the review period. It had increased 392.0 percent in the same period of the previous year. Net transfer increased 20.6 percent to Rs.1348.48 billion in the review period. Such a transfer had increased 4.3 percent in the same period of the previous year.