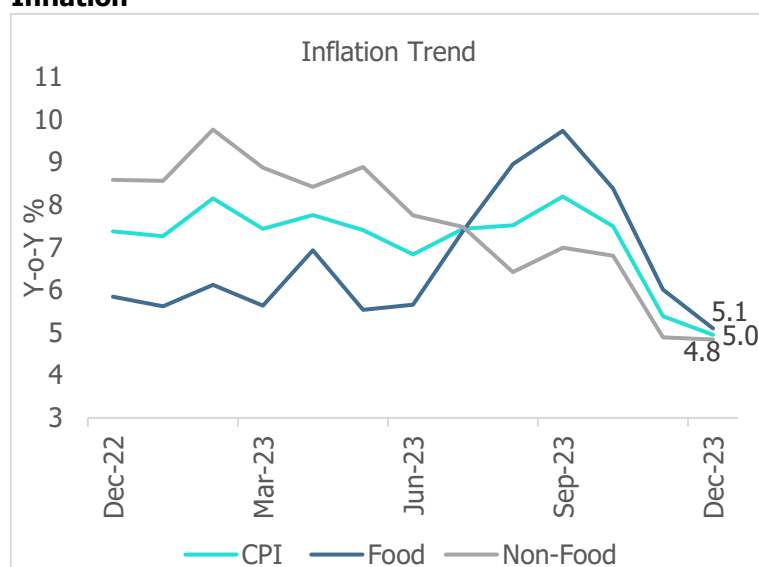


Nepal's macroeconomic situation in mid-December 2023 has been marked by controlled inflation, a surplus in the balance of payments and robust foreign exchange reserves. Notably, the nation achieved a historically high foreign exchange reserve during this period, attributed to an upsurge in remittance inflows and a reduction in imports. This heightened reserve serves as a crucial buffer, fortifying the economy against potential external shocks. The Consumer Price Inflation has displayed a downward trajectory since mid-September. However, amidst these positive developments, concerns linger over the widening trade deficit due to higher imports in mid-December compared to the previous month.

## Inflation



Source: Nepal Rastra Bank

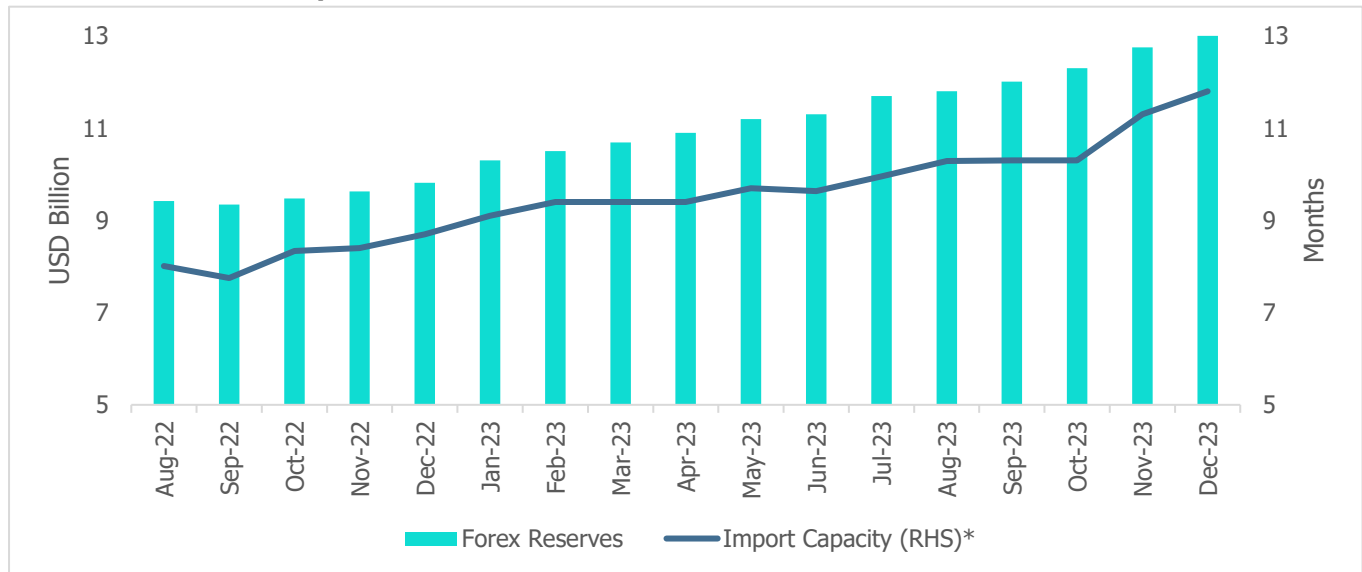
Consumer price inflation in Nepal has experienced a notable downward trajectory in recent months. The Consumer Price Inflation declined to 5% (y-o-y) in mid-December, from the peak of 8.2% in mid-September. This moderation in inflation is evident in food and beverage category, with a 5.1% rate, and non-food and service categories, where it stood at 4.8%. The Wholesale Price Inflation witnessed a significant decline, plummeting to 2.6% from 9.1% a year ago. Further, the growth in salary and wage rate index slowed to 5.7% in mid-December 2023, compared to 9.7% a year prior.

Apart from base effect, several factors contributed to this subdued inflationary

pressure. The moderation in prices of commodities within sub-categories like ghee & oil, vegetables, and meat & fish compared with a year ago period played a role. Additionally, two reductions in petrol, diesel and kerosene prices in mid-December (Rs 3 per litre) and mid-January (Rs 1 per litre) by the Nepal Oil Corporation, and decline in prices of vegetables, fruits, spices, and sugar compared with the previous month, have further reinforced this trend. The moderation in growth rates in both the salary and wage rate index has also contributed to a decrease in consumer price inflation.

## External Sector

### Forex Reserves and Import Cover

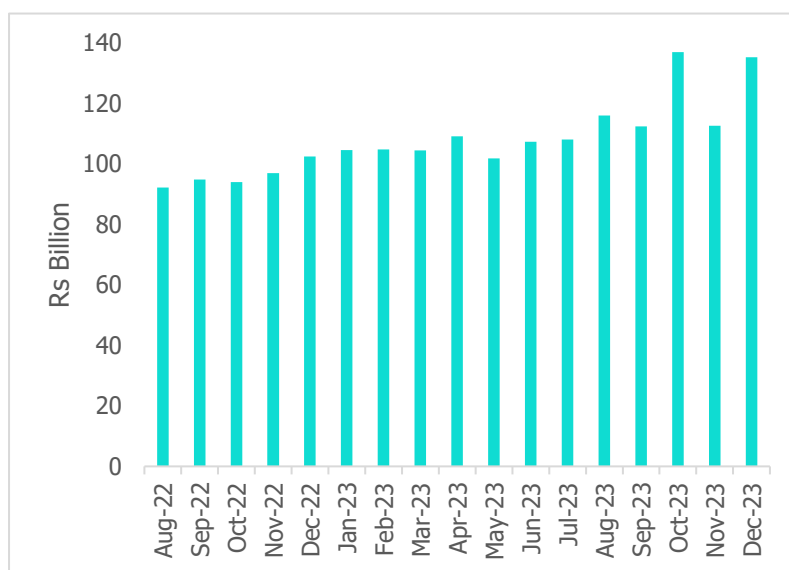


Source: Nepal Rastra Bank (\*Import capacity includes cover for merchandise & services)

Nepal has achieved a historic high in foreign currency reserves, reaching USD 13.31 billion, primarily attributed to a substantial increase in remittance inflows over the past few months. The foreign currency reserves, as of mid-December, have surged by 13.6% in the first five months of the current fiscal year. This boost in reserves serves as a buffer for import-dependent countries like Nepal.

Remittance inflows witnessed a remarkable 25% increase since mid-July, reaching Rs 135.29 billion in mid-December. Between mid-July and mid-December, a total of 277,592 Nepalese obtained approval for foreign employment. This includes 173,555 individuals receiving government approval for the first time and 104,037 individuals securing renewals for their positions in foreign companies at their employment destinations.

### Workers' Remittances



Source: Nepal Rastra Bank

In mid-December, exports saw a 1% increase, reaching Rs 12.6 billion, while imports experienced a 1.8% decline, totalling Rs 129.7 billion. The trade deficit widened, reaching Rs 117.1 billion in mid-December from Rs 95.1 billion in the previous month. Country's current account surplus stood at Rs 140.23 billion for the first five month of the fiscal year. In the same period last year, the current account had a deficit of Rs 41.21 billion. The improvement is seen on account of higher net transfers led by remittances and reduction in trade deficit.

Furthermore, the balance of payments (BoP) recorded a surplus of Rs 210.59 billion in the first five months of the fiscal year, compared to a surplus of Rs 45.87 billion in the corresponding period of the previous year.

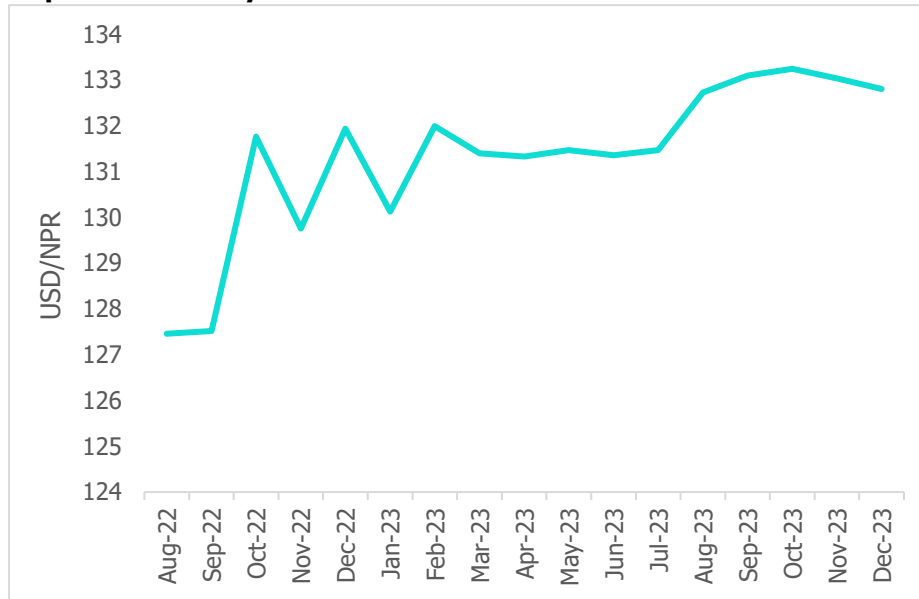
### Interest rates

Post the first quarterly review of the monetary policy, the repo rate was reduced to 5.5% in mid-December, down from 6.5% in mid-November. The bank rate was also revised to be at 7%, down from 7.5% in mid-November. The weighted average deposit rate stood at 7.6% for mid-December down from 7.8% in mid-November. This was 78bps lower than the corresponding month last year. The weighted average lending rate also plunged to 11.8% from 12% in mid-November. This was 85bps lower than the corresponding month last year.

### Currency Movement

The Nepalese currency has been stable throughout this fiscal year. It has weakened 1% from mid-July 2023 to mid-December 2023.

### Nepalese Currency Movement



Source: Nepal Rastra Bank

### Monthly Data of Key Economic Variables

Indicators (Mid-Month)	August	September	October	November	December
	2023	2023	2023	2023	2023
Consumer price inflation (y-o-y%)	7.5	8.2	7.5	5.4	4.9
Wholesale price inflation (y-o-y%)	4.3	4.8	2.8	2.1	2.6
Export growth (y-o-y%)	-8.7	-6.9	9.8	-25.2	0.9
Import growth (y-o-y%)	-1.6	-8.3	16.1	-20.5	-1.8
Trade deficit (Rs billion)	115.7	117.5	133.6	95.1	117.1
Worker's remittances (Rs billion)	116	228.4	365.3	477.9	613.3
Foreign exchange reserves (\$ billion)	11.8	12	12.3	12.8	13.3
Domestic credit (y-o-y%)	7.3	7.6	9	8.8	8.5
Deposits (y-o-y%)	11.9	13.2	14.9	14.3	15
Repo rate (%)	6.5	6.5	6.5	6.5	5.5
Bank rate (%)	7.5	7.5	7.5	7.5	7
Weighted average deposit rate (%)	8	8.1	7.9	7.8	7.6
Weighted average lending rates (%)	12.2	12.2	12.1	12	11.8

Source: Nepal Rastra Bank

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