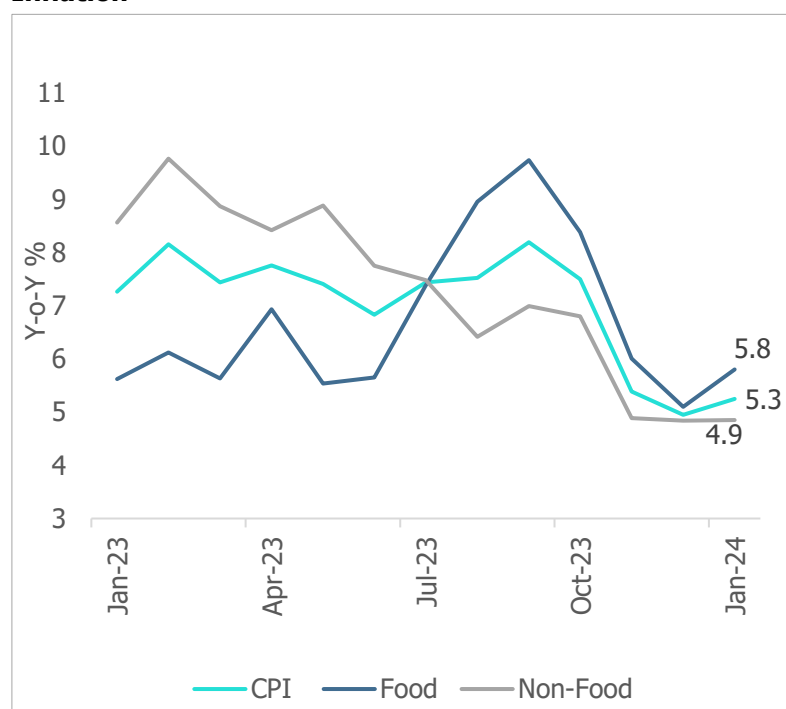


February 28, 2024 | Economics

Nepal's macroeconomic situation in mid-January 2024 has been marked by increased inflation, a surplus in the balance of payments and robust foreign exchange reserves. Notably, the country attained a historically high foreign exchange reserve during this period, owing to high remittance inflows and a decrease in imports. This acts as a vital safeguard, protecting the economy against possible external disruptions. However, export slowdown and declining tourist arrivals remain a challenge.

## Inflation



Source: Nepal Rastra Bank

During mid-January, the consumer price inflation increased to 5.3% (y-o-y), up from 5% in mid-December. The increase is evident from food and beverage category inflation, which stood at 5.8%, up from 5.1% in mid-December, whereas the non-food and service category inflation inched up to 4.9% from 4.8% in mid-December. The y-o-y price index of ghee & oil, vegetables, meat & fish and transportation sub-categories exhibited a downward trend. On the other hand, y-o-y prices of cereal grains & their products, pulses and spices surged. The Wholesale price inflation edged up to 3.4% (y-o-y) from 2.6% in mid-December. Further, the growth in the salary and wage rate index slowed to 5.6% in mid-January, compared to 10.3% a year ago. Moreover, base effect was also at play. These factors led to a surge in consumer price inflation.

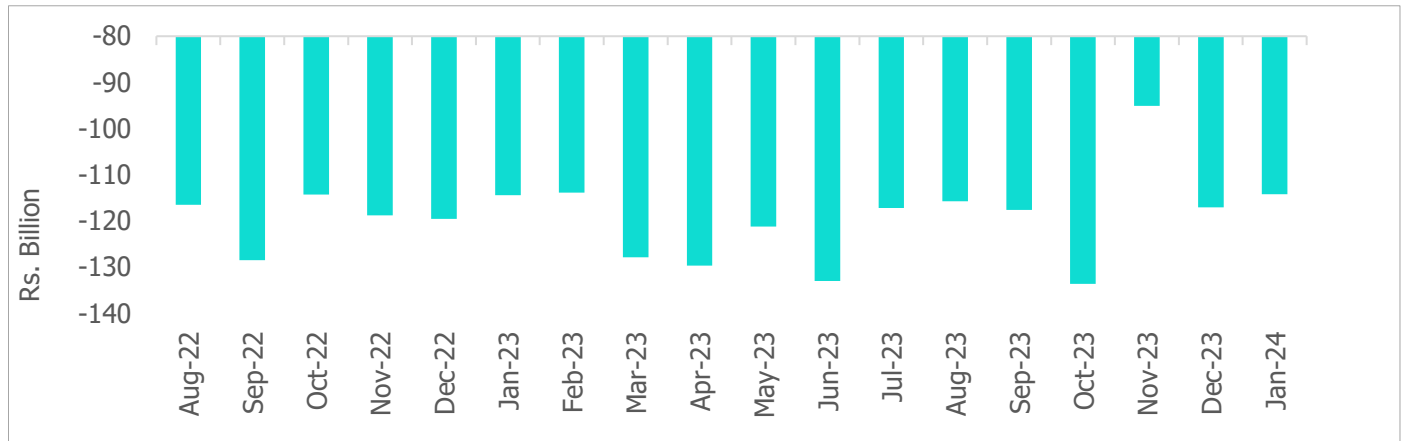
## Mid-term Review of Monetary Policy and Interest Rates

In its mid-term review of monetary policy, the Nepal Rastra Bank has chosen to maintain the status quo, avoiding significant policy adjustments. Notably, with a repo rate cut of 100bps in their December monetary policy review, market rates have started to decrease with a lagged monetary policy transmission. The weighted average deposit rate stood at 7.3% in mid-January down from 7.6% in mid-December. The weighted average lending rate also decreased to 11.4% from 11.9% in mid-December. The Central Bank's position is focused on the notion that the ongoing decline in interest rates and the increased liquidity will spur credit availability, thereby enhancing the overall dynamism of the economy.

## External Sector

Nepal's merchandise exports dropped by 13% (y-o-y) to Rs 11.8 billion in the month ending mid-January. Even on a sequential basis, exports registered a contraction this month as against a rise of 30% previous month. Meanwhile, merchandise imports decreased 1.5% (y-o-y) to Rs 126 billion against a decrease of 21% a year ago in the month ending mid-January. The total trade deficit narrowed to Rs 114 billion in mid-January from Rs 117 billion in the previous month.

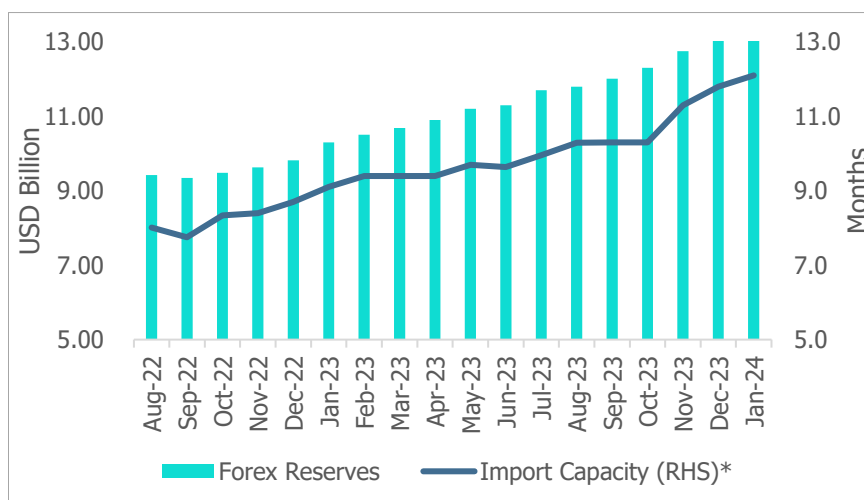
## Trade Deficit



Source: Nepal Rastra Bank

Nepal has achieved a historic high in foreign currency reserves, reaching USD 13.69 billion, primarily attributed to a decrease in imports and a substantial increase in remittance inflows over the past few months. The foreign currency reserves, as of mid-January, have surged by 17% in the first six months of the current fiscal year. This surge in reserves acts as a cushion for import-dependent nations such as Nepal. The foreign exchange reserves are adequate to cover prospective merchandise and services imports for 12.1 months. Remittance inflows witnessed a remarkable 11% increase since mid-July, reaching Rs 120 billion in mid-January.

## Forex Reserves and Import Cover



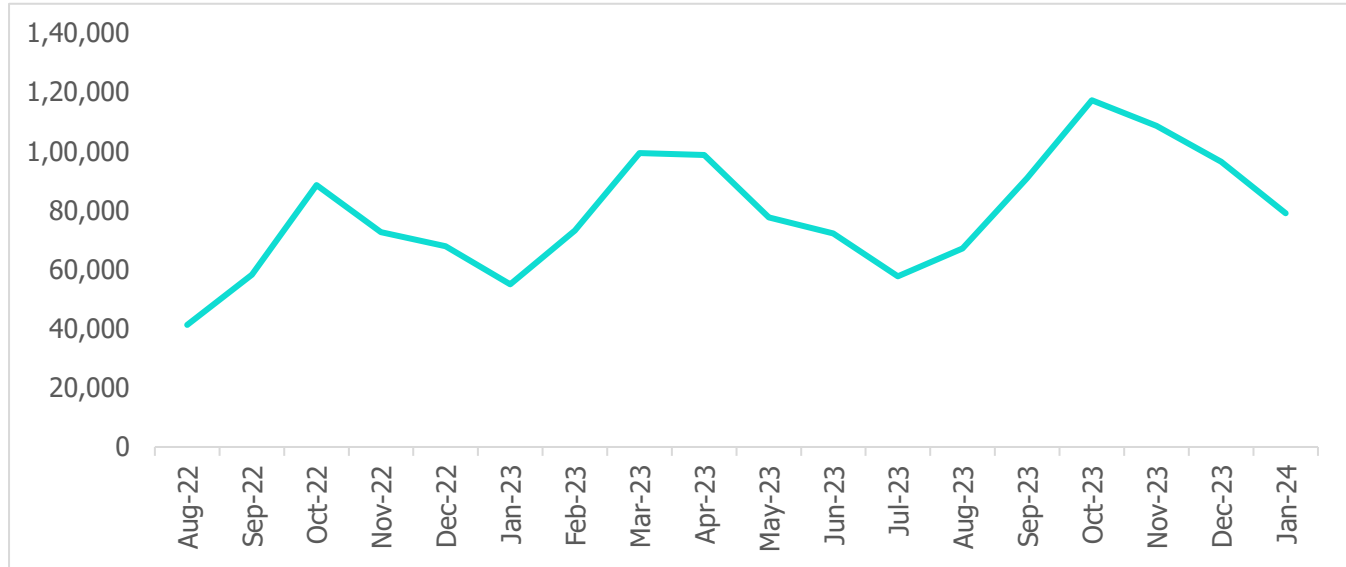
Source: Nepal Rastra Bank (\*Import capacity includes cover for merchandise & services)

Country's current account surplus stood at Rs 161.6 billion for the first six months of the fiscal year. In the same period last year, the current account had a deficit of Rs 35.6 billion. The improvement is seen on account of higher net transfers led by remittances and reduction in trade deficit as compared to the same period last year. Furthermore, the balance of payments (BoP) recorded a surplus of Rs 273.5 billion in the first six months of the fiscal year, compared to a surplus of Rs 92.1 billion in the corresponding period of the previous year.

## Tourism

Tourist arrivals in Nepal have been witnessing a downward trend for the past 3 months. Tourist arrivals declined 18% (m-o-m) to 79,100 in mid-January. A total of 10.1 lakh tourists visited Nepal in 2023, while there were 6.1 lakh tourists visited in 2022.

### Tourist Arrivals



Source: Nepal Rastra Bank

### Monthly Data of Key Economic Variables

Indicators (Mid-Month)	September	October	November	December	January
	2023	2023	2023	2023	2024
Consumer price inflation (y-o-y%)	8.2	7.5	5.4	5.0	5.3
Wholesale price inflation (y-o-y%)	4.8	2.8	2.1	2.6	3.4
Export growth (y-o-y%)	-6.9	9.8	-25.2	0.9	-12.9
Import growth (y-o-y%)	-8.3	16.1	-20.5	-1.8	-1.5
Trade deficit (Rs billion)	117.5	133.6	95.1	117.1	114.2
Worker's remittances (Rs billion)	112.4	137.0	112.6	135.3	120.0
Foreign exchange reserves (\$ billion)	12.0	12.3	12.8	13.3	13.7
Domestic credit (y-o-y%)	7.6	9.0	8.8	8.5	8.6
Deposits (y-o-y%)	13.2	14.9	14.3	15.0	14.9
Repo rate (%)	6.5	6.5	6.5	5.5	5.5
Bank rate (%)	7.5	7.5	7.5	7.0	7.0
Weighted average deposit rate (%)	8.1	7.9	7.8	7.6	7.3
Weighted average lending rates (%)	12.2	12.1	12.0	11.8	11.4

Source: Nepal Rastra Bank

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