

# Nepal: Navigating Through Challenging Times

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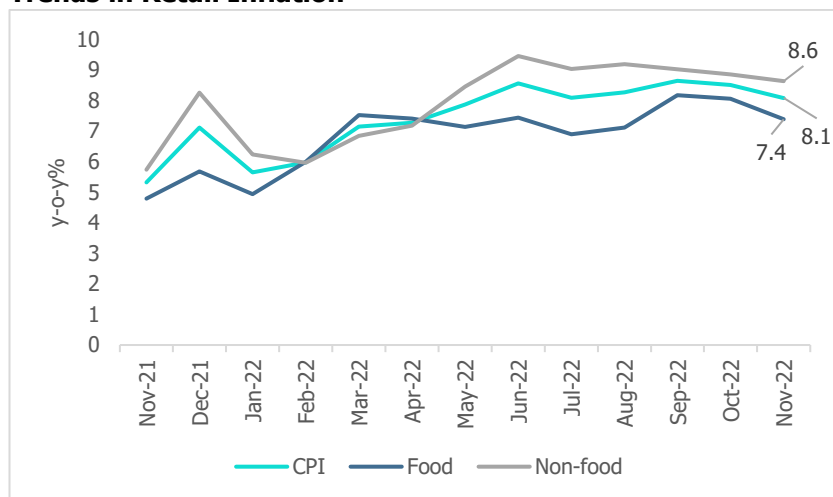
Nepalese economy has been dealing with a challenging environment since the coronavirus pandemic. Major macro indicators like inflation rate, government expenditure, government revenue, interest rate, exchange rate, foreign direct investment (FDI) and forex reserves have been reeling under pressure and still far from their pre-pandemic levels. While elevated inflation has made daily life challenging for households, dim revenue collections and soaring recurrent expenditures have created fiscal challenges for the government.

## Inflation Continues to Moderate but Still High

Retail inflation inched down to 8.1% in the month ended mid-November compared with 8.5% in the previous month but remained elevated. This was the sixth consecutive month in which retail inflation has remained above 8%. Non-food and service inflation moderated marginally to 8.6% despite health and transportation inflation recording double-digit growth in this category. Food inflation also came down to 7.4% in November from 8.1% in the previous month, supported by fall in vegetable prices. In the coming months, Nepal's retail inflation is likely to ease further on account of a favourable base, tighter monetary policy, and an easing in commodity prices.

Wholesale inflation fell to 10% in the month ended mid-November from the high of 13.7% in the previous month. The wholesale inflation has remained in double digits for the past ten months. In the coming months, easing of commodity and oil prices could further help in lowering wholesale inflation.

## Trends in Retail Inflation



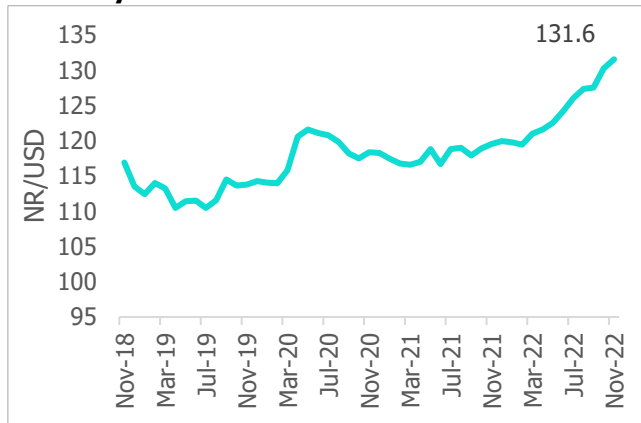
Source: Nepal Rastra Bank

## Trade Balance Improves; Currency and FDI Flows Remain Weak

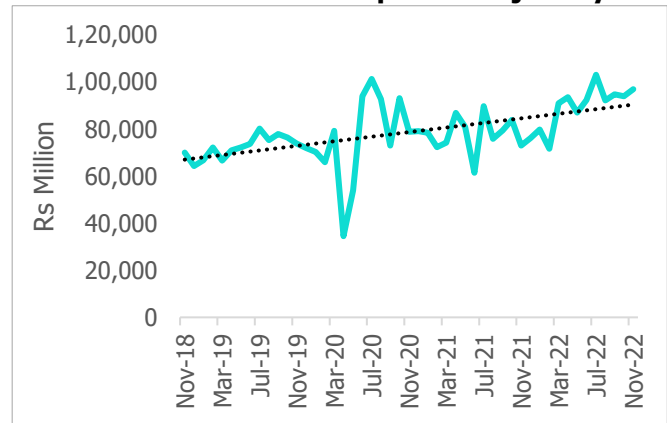
Nepal's merchandise exports declined 24.1% to Rs 12.9 billion in the month ending mid-November, as against an increase of 86.5% in the same period of the previous year. For the same period, merchandise imports decreased 23.3% to Rs 131.7 billion against an increase of 56% a year ago. The total trade deficit decreased to Rs 118.7 billion in the month to mid-November compared with an increase of 53% in the corresponding period of the previous year. Reduction in trade deficit and healthy remittance inflows have been supporting the overall balance of

payments. Remittances continue to register healthy growth and stood almost 31% higher when compared to pre-pandemic period of November 2019. But foreign direct investment (FDI) flows have been disappointing. FDI flows stood at Rs 12.2 billion from mid-July to mid-November, almost 60% less in the current fiscal year compared to the same period last year. Nepalese currency also continued to remain weak and depreciated by 4.4% against US dollar in mid-November 2022 from mid-July 2022. Weaker Nepalese rupee will continue to put pressure on country's external balance, inflation, and foreign debt.

### Currency Continue to Remain Weak

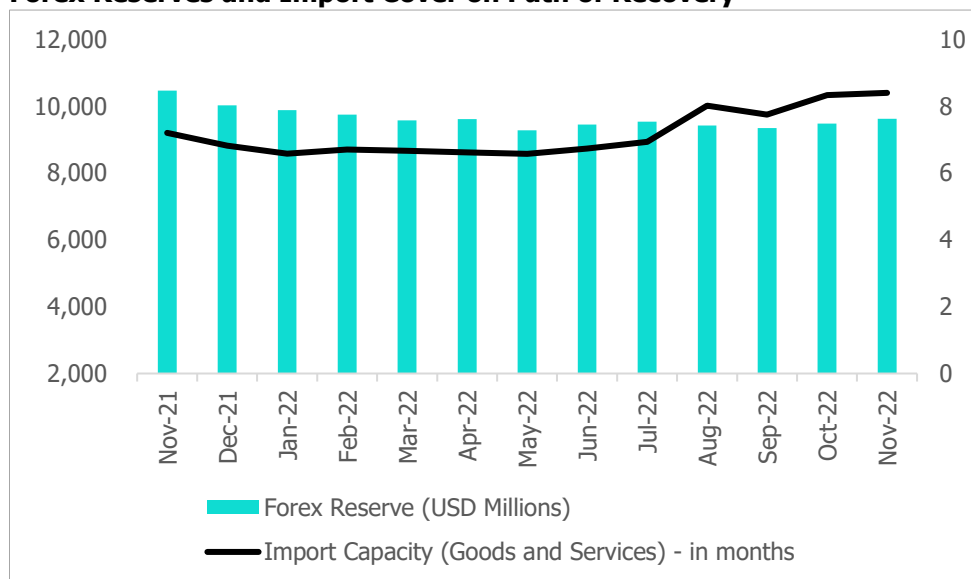


### Remittances Continue on Upward Trajectory



Source: Nepal Rastra Bank

### Forex Reserves and Import Cover on Path of Recovery



Source: Nepal Rastra Bank

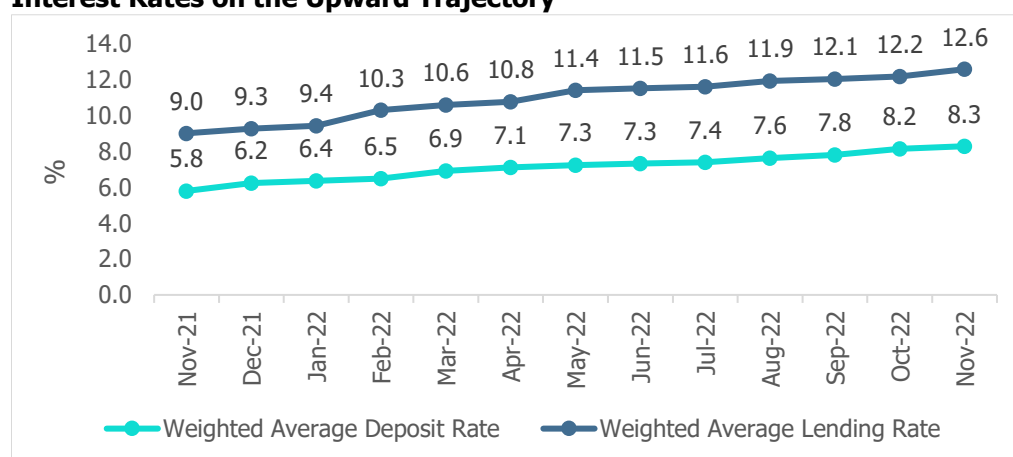
Nepal's foreign exchange reserves increased by 1.6% (m-o-m) to USD 9.6 billion in the month that ended mid-November but remained 8% less when compared with pre-pandemic level (November 2019). The current level of forex reserve is sufficient to cover imports of goods and services for 8.4 months (higher than the target of 7 months). However, it remained less when compared to average import cover of 12.4 months in 2020/21.

### Capex Spending and Revenue Collection Disappoints

Latest report published by the Financial Comptroller General Office (FCGO) showed that the government's capital expenditure in the first five month of current fiscal year remained bleak. Out of the allocated budget of Rs 380 billion under the heading of capital expenditure for the current fiscal year, only 9% has been spent so far.

During the first five months of this fiscal year, revenue collection has stood at 24.5% of the target. The government's revenue collection this year has slumped due to the strict policy adopted to control imports to ease the pressure on the country's foreign exchange reserves.

### Interest Rates on the Upward Trajectory



Source: Nepal Rastra Bank

The weighted average lending increased to 12.7% in November from 9% a year ago. During the same period, the weighted average deposit rate has gone up by 2.5 percentage points to 8.3% in the month ended mid-November 2022. High lending rate will further suppress the domestic demand and manufacturing activities.

Rising remittances inflow and moderation in commodity prices will continue to support Nepalese economy. Tourist arrival is expected to rebound to pre-pandemic levels but rising Covid concerns might slow the pace of recovery.

### Monthly Data of Key Economic Variables

Indicators (Mid-Month)	November 2021	September 2022	October 2022	November 2022
Consumer price inflation (y-o-y%)	6.0	8.6	8.5	8.1
Wholesale price inflation (y-o-y%)	6.7	14.0	13.7	10.0
Export growth (y-o-y%)	86.5	-40.4	-37.5	-24.1
Import growth (y-o-y%)	55.8	-13.1	-22.3	-23.3
Trade deficit (Rs billion)	154.7	128.4	114.3	118.7
Worker's remittances (Rs billion)	73.1	94.8	94.0	97.0
Foreign exchange reserves (\$ billion)	10.5	9.3	9.5	9.6
Domestic credit (y-o-y%)	28.8	11.7	10.5	10.5
Deposits (y-o-y%)	17.2	7.4	8.2	8.6
Bank rate (%)	5.0	8.5	8.5	8.5
Weighted average deposit rate (%)	5.80	7.81	8.16	8.32
Weighted average lending rates (%)	9.02	12.06	12.19	12.65

Source: Nepal Rastra Bank

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