

Nepal economy November 2020

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An update on the economy of Nepal for three months of the financial year 2020/21 (July 15th – June 14th) has been presented here wherein the domestic economic situation, external sector scenario, fiscal position, banking and monetary policy stance have been analysed.

Snapshot of the economy

Table 1: Annual data

Indicators	2016/17	2017/18	2018/19	2019/20
Real GDP growth at producers' price (%)	8.2	6.7	7.0	2.3
Nominal GDP growth at producers' price	18.7	13.9	13.6	8.9
GDP (current prices : Rs bn)	2,674	3,044	3,458	3,767
GFCF/ GDP (%)	31.4	34.5	33.7	28.1

Source: Nepal Rastra Bank

Table 2: Monthly data

Indicators	Oct 2019	July 2020	August 2020	Oct 2020
Consumer price inflation (y-o-y%)	6.2	3.5	4.5	3.8
Wholesale price inflation (y-o-y%)	7.3	7.3	8.8	8.3
Export growth (y-o-y%)	-4.2	8.9	12	22.4
Import growth (y-o-y%)	-25.3	-19.6	-24.2	7.6
Trade deficit growth (y-o-y%)	-26.8	-22.7	-27.3	6.2
Trade deficit(Rs bn)	96.8	76.1	82.2	102.8
Worker's remittances (Rs bn)	76.5	92.7	73.0	93.1
Foreign exchange reserves (\$ bn)	9.5	12.0	12.2	12.5
Domestic credit (YoY%)	18.6	13.3	13.3	14.3
Deposits (YoY%)	18.6	19.0	18.7	20.9
Bank rate (%)	6.0	5.0	5.0	5.0
Weighted average deposit rate (%)	6.75	5.77	5.61	5.45
Weighted average lending rates (%)	11.98	10.47	10.18	9.83

Source: Nepal Rastra Bank

Weak outlook on Nepal's economy by IMF and World Bank for 2020/21

- The economy is estimated to grow by 2.3% in 2019/20 as per the estimates of the Central Bureau of Statistics compared with 7% grow recorded in 2018/19. The notable decline in growth can be attributed to the outbreak of COVID-19 and its impact on various sectors in the economy.
- Agriculture, industry and services sectors are estimated to grow by 2.6%, 3.2% and 2% in 2019/20, notably lower than last year.
- The gross fixed capital formation (as a % of GDP) also fell sharply from 33.7% in 2018/19 to 28.1% in 2019/20, reflective of weak investment activity in the economy.
- As of 25 November 2020, the Ministry of Health and Population (MoHP) has confirmed a total of 2,26,026 cases, 115,675 recoveries, and 862 deaths in the country. The viral disease has been detected in all provinces and districts of the country, with Bagmati Province and Kathmandu being the worst hit province and district respectively.
- The **International Monetary Fund (IMF)** forecasts Nepal's economy to grow by zero percent in fiscal 2019/20 while it is projected to grow by 2.5% in 2020/21. The IMF has warned that rising COVID-19 cases in the country pose downside risks to the country's economic growth.
- On the other hand, the **World Bank** said that the economy has grown by 0.2% in 2019/20 and is projected to grow by 0.6% in 2020/21 owing to continuation in localized lockdowns and disruptions to tourism. The forecast adds that should COVID-19 persist for a longer duration, economic growth could fall to 0.1% but if vaccine is available, it could recover to 2%.

Retail and wholesale inflation eases in October 2020

- Retail inflation (YoY%) eased to 3.8% in October compared with 4.8% in September 2020 and 6.2% in the corresponding month last year. Sharp moderation in both food and non-food inflation have led to easing of retail inflation in October 2020.
 - Food and beverages inflation has fallen to 5.5% in October 2020 compared with 7% in October 2019 chiefly on account of deflation in the meat and fish segment (-3.21%) and low inflation in milk (1.3%) and spices (1.4%).
 - However, inflation in pulses (13.8%) and vegetables (23.1%) continues to remain at elevated levels.
 - Inflation in the non-food and services basket has eased considerably to 2.5% in October 2020 compared with 5.6% in corresponding period last year. There has been low inflation in the housing and utilities segment (0.7%) and education (0.1%) which has a weight of 28% in the CPI basket. Transportation (7.2%) and other miscellaneous commodities have registered elevated levels of inflation in October 2020.
- Wholesale inflation eased marginally to 8.3% in October 2020 compared with 8.8% in September 2020 but continues to remain at elevated levels. Wholesale inflation was at 7.3% in October 2019.
 - High food inflation (17.9%) has been the key reason driving elevated wholesale inflation in October 2020. Deflation in the fuel and power segment (-4.4%) has limited the upside to wholesale inflation.
 - Within the manufactured goods segment, sub-segments like chemicals (8.6%) and paper (8%) have recorded high inflation. On the other hand, there are segments like non-metallic minerals (-1.6%) and electronics (-3.5%) which have recorded deflation in October 2020. Food, beverages and tobacco (5.4%) and basic metals (4.6%) have moderate inflation, both accounting for 28% of the total WPI basket.

External Sector – Widening trade deficits and increase in forex reserves

Trade deficit widens in October

- Trade deficit widened sharply to Rs 1.02 bn in October 2020, 6.3% higher than corresponding period last year. Trade deficit for the first quarter of the fiscal was at Rs 2.6 bn, 15% higher than corresponding period last year.
 - Imports at Rs 113 bn in October 2020 were 7.6% higher than corresponding month last year. Exports at Rs 10.6 bn during the month are 22% higher than corresponding period last year.
 - For the first 3 months of the fiscal, total exports have grown by 14.3%, in line with the same growth rate last year while imports have fallen by 12.7% compared with 10.3% decline last year. A sharp deterioration in imports has led to narrowing of trade deficit in the first quarter.
 - Major commodities which have seen a growth in exports during these three months are: polyester yarn (14.8%), jute goods (23.8%) and cardamom (17.1%). Within the top 20 commodities which account for 45% of total exports, only 2 categories have recorded a fall in exports.
 - Commodities which have seen a sharp decline in imports during these 3 months are: petroleum products (-44.8%) and transport equipment (-23.2%). Imports of rice (109%) and soyabean oil (103.5%) have increased considerably.

Improvement in worker's remittances

- Worker's remittances registered a notable uptick and grew by 21.7% in October 2020 (yoy%) to Rs 93.1 bn. Despite forecasts from multi-lateral institutions about likely fall in workers' remittances, the improvement can be ascribed to lower reverse migration seen in Nepal coupled with resumption of economic activities in countries where Nepalis are working as laborers.

Current account surplus during first quarter of 2020/21

- For the three months of fiscal 2020/21, Nepal has recorded a current account surplus of \$288 mn compared with a current account deficit of \$198 mn in the corresponding period last year. Narrowing of trade deficit and increase in workers' remittances have been the key reasons driving the current account in surplus during these months.

Increase in foreign exchange reserves

- The foreign exchange reserves were US \$12.5 bn as on mid-October 2020, 7.8% higher than mid-October 2019.
- Based on the imports of three months of 2020/21, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 15.6 months, and merchandise and services imports of 14.1 months.

Appreciation of domestic currency

- The domestic currency (month average) during August – October 2020 has strengthened by 2.7% from the end of the previous financial year. The US-Dollar/ Nepali rupee exchange rate averaged Rs 117.5/\$ in October 2020 compared with Rs 118.2/\$ in the previous month.

Fall in crude oil prices and increase in gold prices

- The price of Brent crude oil (\$/ barrel) was \$41.3/barrel in mid-October 2020, 30.3% lower than corresponding period last year. Weak demand outlook owing to the coronavirus –led lockdown in most global economics have dragged the price of Brent crude lower.
- The price of Gold (\$/ounce) has increased to \$1,905/ounce as at mid-October 2020, 27.6% higher than corresponding period last year. This has largely been on account of safe-haven demand amidst the coronavirus pandemic, which has led to investors shifting away from riskier assets. However, with reports of positive development around COVID-19 vaccine, there has been a slight moderation in gold prices.

Government finances continue in surplus

- The government balance (difference between total revenue and expenditure) recorded a surplus of Rs 316 mn during August-October 2020 compared with a surplus of 46.4 bn in the corresponding period last year.
 - Sub-classification of revenue shows fall in revenue under various heads like VAT (-9.8%), customs (-3.9%) and excise (-11.9%). Revenues under income tax have seen a flat growth of 0.9% during the first 3 months of the fiscal.
 - Total expenditure has increased by 2.7% during these three months.

Bank Credit and Deposits

- Incremental domestic credit expanded by 2.8% during August-October 2020 compared with growth of 2.2% in the corresponding period last year. On y-o-y basis, domestic credit growth has moderated to 14.3% as on October 2020 compared with 18.6% growth last year.
- Deposits at Banks and Financial Institutions (BFIs) rose sharply by 4.9% during August-October 2020 compared with a growth of 3% in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 20.9% as on October 2020 compared with 18.6% growth last year.

Key interest rates

- The bank rate (key policy rate) was stable at 5% in October 2020.
- The weighted average deposit rate at 5.45% in October 2020 was 16 bps lower than last month and 1.3% lower than corresponding month last year.
- The weighted average lending rate for commercial banks at 9.83% in October 2020 was 35 bps lower than last month and 2.2% lower than corresponding month last year.

Capital Markets

- The NEPSE index at 1,562 points as on mid-October 2020 was 37.3% higher than corresponding period last year.
- The stock market capitalization at 2082 bn as of mid-October 2020 is 44% higher than last year.

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