

# Nepal Economy: Q1 FY24 Debt Position Worsens

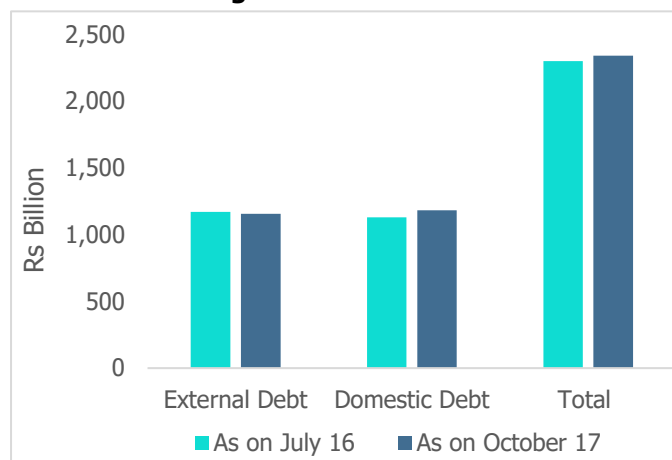
November 23, 2023 | Economics

Nepal's public debt increased by Rs 41.3 billion in the first quarter of the current fiscal year, reaching a total outstanding debt of Rs 2,340.6 billion according to data from the Public Debt Management Office. This total includes Rs 1,157.2 billion in external debt and Rs 1,183.4 billion in domestic debt. The Government of Nepal's outstanding debt for Q1 FY24 saw a 1.8% increase, resulting in a total debt-to-GDP ratio of 43.5% in Q1 FY24, up from 42.7% in the previous quarter. This consisted of an external debt-to-GDP ratio of 21.5% and a domestic debt-to-GDP ratio of 21.9%.

The rise in overall debt was primarily due to continued domestic borrowing by the government, despite a decrease in external debt amid higher debt servicing costs in Q1 FY24. Nepal's external debt decreased by Rs 13 billion while domestic debt grew by Rs 54.27 billion during this period.

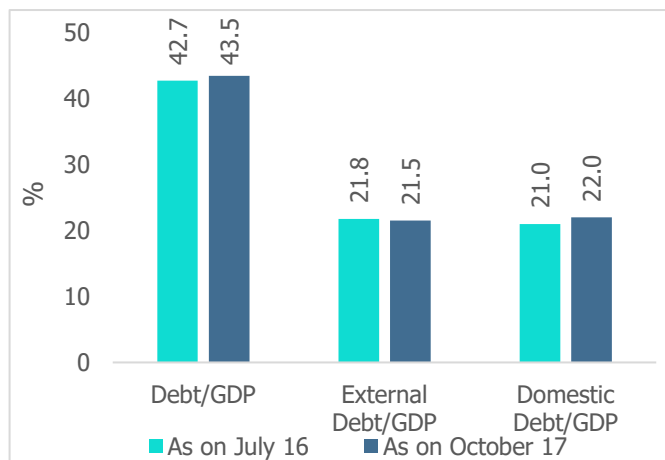
Despite the escalating debt, the International Monetary Fund (IMF) doesn't view the government as being in debt distress. The IMF foresees public debt stabilizing at approximately 50% of GDP in the medium term. Similarly, the Asian Development Bank's (ADB) April Outlook Report underscores a low risk of debt distress in Nepal, citing a low external debt-to-GDP ratio and favourable external servicing-to-exports indicators.

## Total Outstanding Debt Position



Source: PDMO, Nepal

## Debt to GDP Ratio



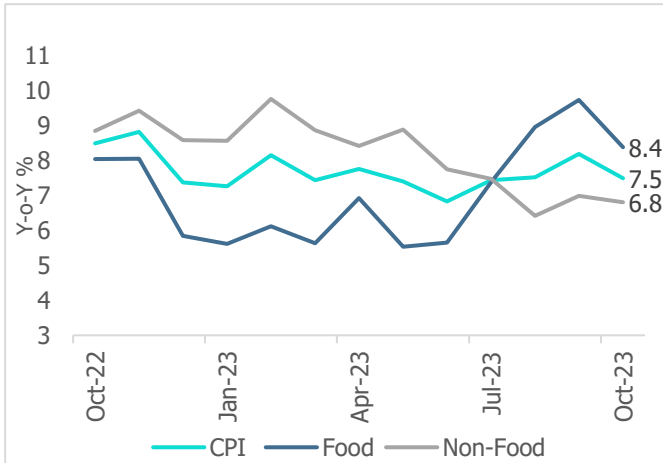
Source: PDMO, Nepal

## Retail Inflation Moderates in October

Retail inflation eased from a near 1-year high seen in September, albeit remaining well above the central bank's FY24 target of 6.5% in the first three months of the fiscal year. Retail inflation moderated to 7.5% y-o-y in October, on account of softening of price pressures in both food and the non-food and services component. Food inflation eased 136 basis points to 8.4% y-o-y, on the back of sharp moderation in items such as cereals and vegetables. However, other key items such as meat & fish, and ghee and oil, (which account for 5% and 3% in the CPI basket, respectively), registered an increase in inflation. Meanwhile, the non-food and services component eased in October. Non-food and services inflation rose 6.8% y-o-y in October, from 7% y-o-y in September. The easing of inflation pressures was witnessed in key components such as housing and utilities, furnishing and household equipment and transportation. Meanwhile, wholesale price index (WPI)-based inflation moderated to its lowest level since June 2018, to 2.8% y-o-y

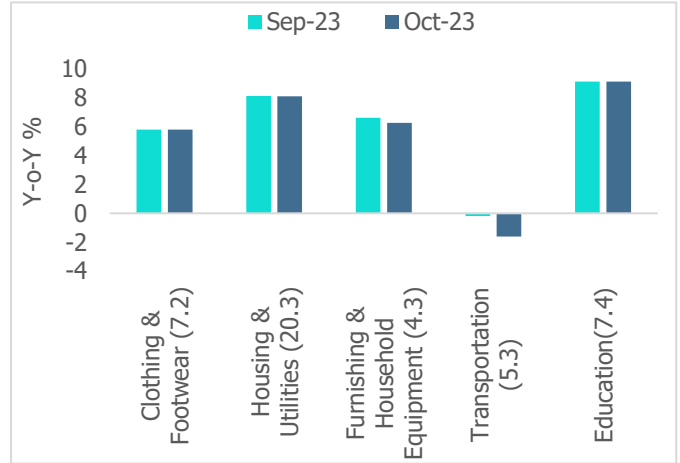
in October. Inflation in the primary goods and manufactured commodities slowed, while that of the fuel & power segment remained in contractionary zone for the fifth straight month.

**Food Inflation Moderates in October**



Source: Nepal Rastra Bank

**Non-Food & Services Inflation- Top 5**



Source: Nepal Rastra Bank (Figures in bracket represent share in overall CPI basket.)

**Trade Deficit Widens to Highest Level in 15 Months**

In October, Nepal witnessed a widening trade deficit, reaching Rs 133.6 billion, the highest since July 2022, compared to a deficit of Rs 114.3 billion in the same period last year. This expansion in the deficit was fueled by a significant surge in imports, totaling Rs 148 billion, marking a 16% increase, alongside a 10% rise in exports to Rs 14.4 billion.

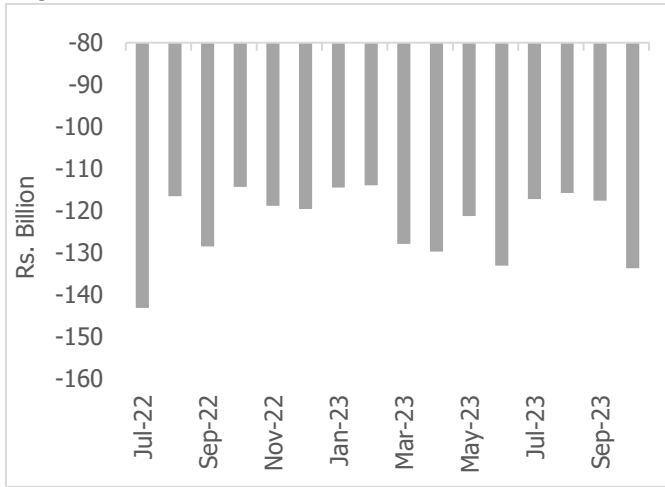
The trade deficit for the first three months of the fiscal year stood at Rs 367 billion, slightly up from Rs 359 billion in the corresponding period a year ago. Examining destination-wise exports during this fiscal year, there was a 9.4% decrease in exports to India, while exports to China and other countries saw substantial increases of 345.9% and 9.5%, respectively.

Certain export categories, such as zinc sheet, particle board, juice, cardamom, polyester yarn, and thread, experienced growth. However, exports of palm oil, soybean oil, jute goods, woollen carpets, and resin declined during this period. Meanwhile, Nepal’s current account balance moved to a surplus of Rs 59 billion in the first three months of the fiscal year, compared to a deficit of Rs 35 billion a year ago.

Worker’s remittances, which account for nearly 25% of GDP, continued to record healthy growth in the first three months of FY24. Remittances stood at Rs 365 billion, up 30% from the corresponding period last year. Going ahead however, Nepal Rastra Bank expects the growth rate of remittance inflows in 2023-24 to moderate given the higher base of remittance inflows in 2022-23.

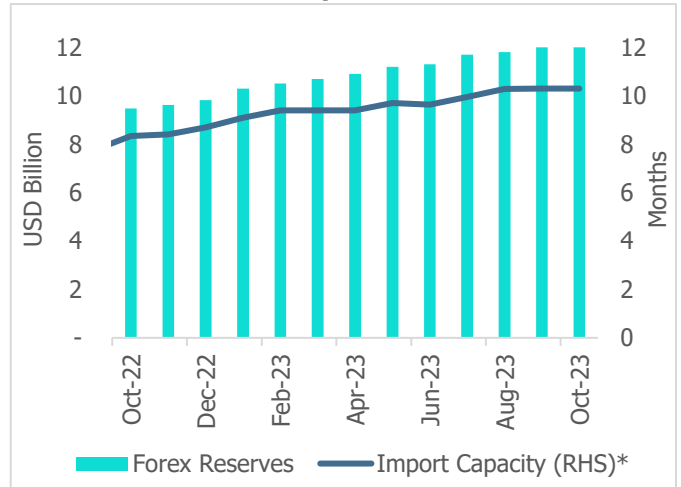
With the rise in remittances income, Nepal's foreign exchange reserves increased 30% (y-o-y) to USD 12.3 billion in October. The current level of forex reserve is sufficient to cover imports of goods and services for 10.3 months, up from 8.3 months a year ago. As per NRB’s FY24 monetary policy, the central bank aims to keep foreign exchange reserves at levels sufficient to cover at least 7 months’ imports of goods and services. Meanwhile, in the first three months of FY24, foreign direct investment stood at USD 25.6 million, nearly 75% higher than the same period in the previous year. That said, the overall balance of payment remained at a surplus of Rs 99 billion in FY24, as against a surplus of Rs 12.4 billion in the year-ago period

**Nepal’s Trade Deficit Worsens**



Source: Nepal Rastra Bank

**Forex Reserves and Import Cover**

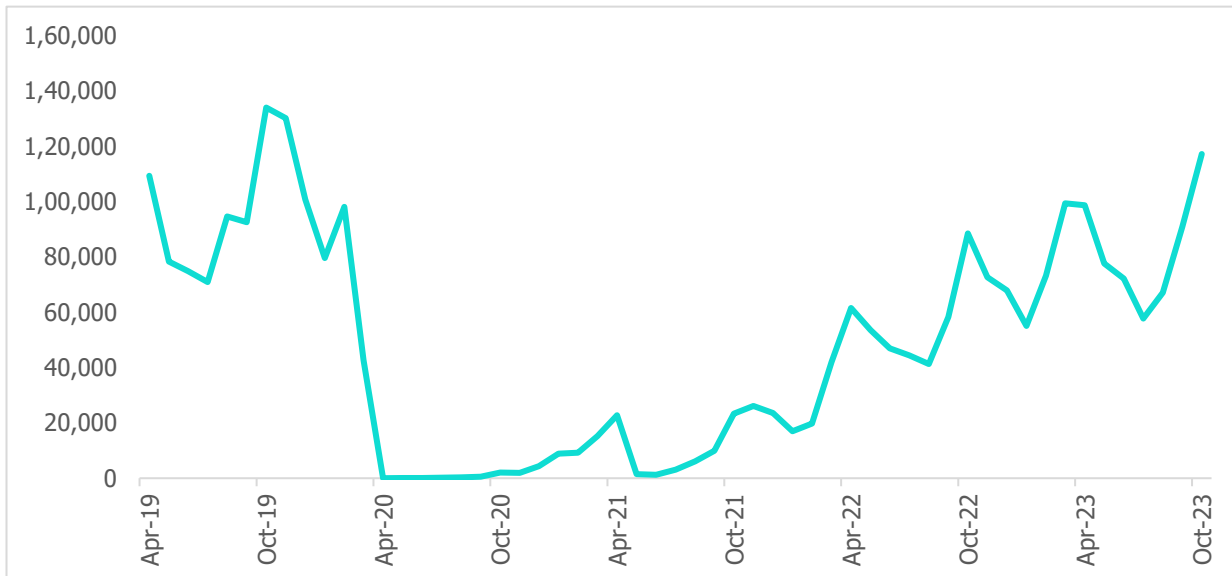


Source: Nepal Rastra Bank (\*Import capacity includes cover for merchandise & services)

**Tourist Arrivals Climb to Near 4-year High**

Tourist arrivals rose to 1,17,306 in October, its highest monthly level since November 2019, taking the FY24 footfall to 2,75,471. This compares to 1,88,200 tourist arrivals in the same period a year ago. The improved performance of the tourism industry bodes well for economic growth, given its significant contribution to the contact-intensive services sector. Through the government’s efforts to promote Nepal’s natural and cultural heritage at an international level, the budget targets an increase in the number of foreign tourist arrivals to 1 million in 2023. The government has also declared the years 2023-2032 as the ‘Decade of Tourism’, aiming to improve the quality of tourist services.

**Tourist Arrivals Rise to Pre-COVID Levels**



(Note: Data for October is for the month-ending mid-October)

### Monthly Data of Key Economic Variables

Indicators (Mid-Month)	June 2023	July 2023	August 2023	September 2023	October 2023
Consumer price inflation (y-o-y%)	6.8	7.4	7.5	8.2	7.5
Wholesale price inflation (y-o-y%)	3.1	4.9	4.3	4.8	2.8
Export growth (y-o-y%)	1.58	-4.5	-8.7	-6.9	9.8
Import growth (y-o-y%)	-8	-17	-1.6	-8.3	16.1
Trade deficit (Rs billion)	132.9	117.2	115.7	117.5	133.6
Worker's remittances (Rs billion)	1,112	1,220	116.0	228.4	365.3
Foreign exchange reserves (\$ billion)	11.2	11.7	11.8	12.0	12.3
Domestic credit (y-o-y%)	8.8	8.7	7.3	7.6	9.0
Deposits (y-o-y%)	12.2	12.3	11.9	13.2	14.9
Bank rate (%)	7.5	7.5	7.5	7.5	7.5
Weighted average deposit rate (%)	8.0	7.8	8.0	8.1	7.9
Weighted average lending rates (%)	12.5	12.3	12.2	12.2	12.1

Source: Nepal Rastra Bank

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