

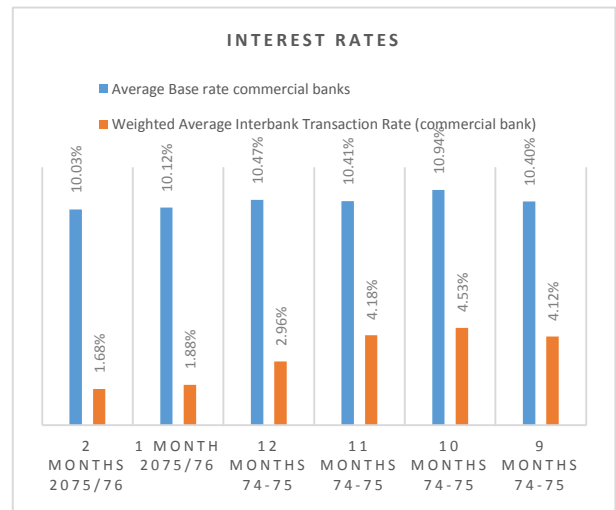
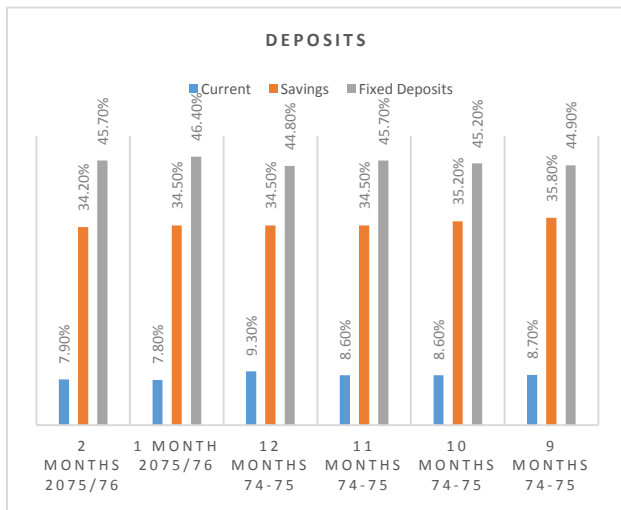
# Macroeconomic Update Report

## 2<sup>nd</sup> Month, FY 2075/76

The following is an analysis of Nepal Rastra Bank's Macroeconomic update report published for the 2<sup>nd</sup> month of Fiscal Year 2075/76

### BANKING SECTOR

We see a continuation of the trend where Loan growth, at 2.0% has been higher than deposit growth of 1.30%. This has been the key reason for the credit crunch that the banks had been facing leading to higher interest rates. What is relevant to the stock market is that this year, the proportion of deposits in FDs is 45.70% which is lower than the previous months 46.40%. However, the current trend is tending towards higher proportion of deposits into fixed deposits. This is a negative for the stock market as we see the continuation of the trend where the proportion of fixed deposits are rising. Since a large portion of the savings in the economy is being locked into Fixed Deposits, this reduces the demand side of the equation in the stock market which is another area of investments of the savings.



Liquidity constraints seem to have improved from the previous months. Since the interest rates for loans are based on base rates, businesses are having to bear higher costs of interest on loans and will still need to wait further for the interest rates on loans to go down.

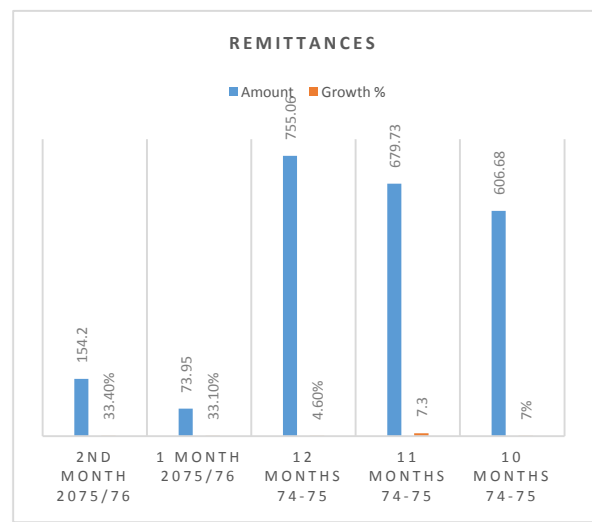
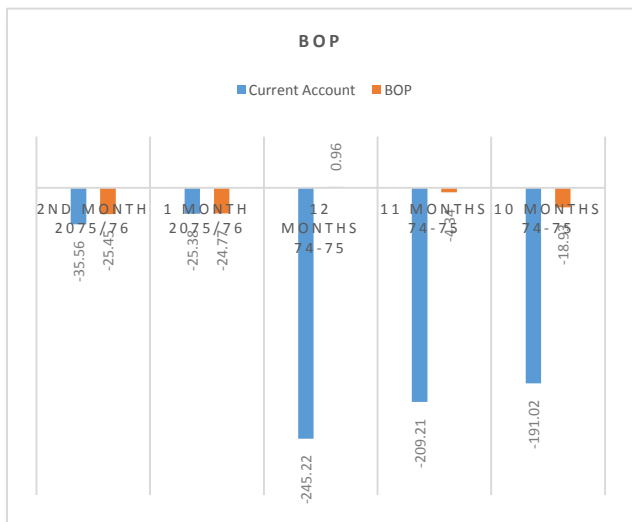
Interbank transaction rate has also fallen significantly to 1.68% from previous month's value of 1.88%. This rate was only 0.39% last year. The high interbank transaction rate

indicates a tight liquidity situation. However, we are seeing a continued decline in the interbank transaction rate reflecting an easing in the liquidity constraints.

The interbank transaction rates have decreased from previous month's value. Since interbank transaction rate is early indication of liquidity situation, we should watch out for any spikes or declines in it for future direction of interest rates.

## BOP

Current account is at a deficit of 35.56 billion rupees which during the same period last year was at a deficit of only 19.74 billion. Balance of payment is at a deficit of 24.45 billion which is the same period last year was at a deficit of 5.87 billion. A BOP deficit of the Nepalese economy is a matter of concern and needs to be addressed by the Government by implementing measures that encourage domestic production and consumption. There has been a significant rise in Remittances for the review month. **Remittances grew by 33.40% in this period when compared to the same period in the last fiscal year.** The Nepali economy has been highly dependent on remittances for economic growth and welfare.

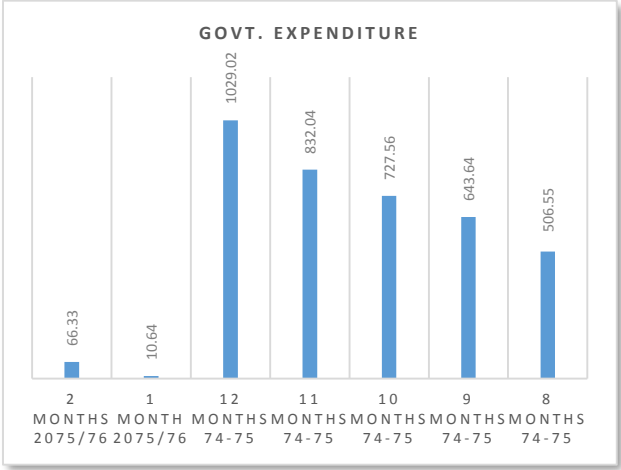
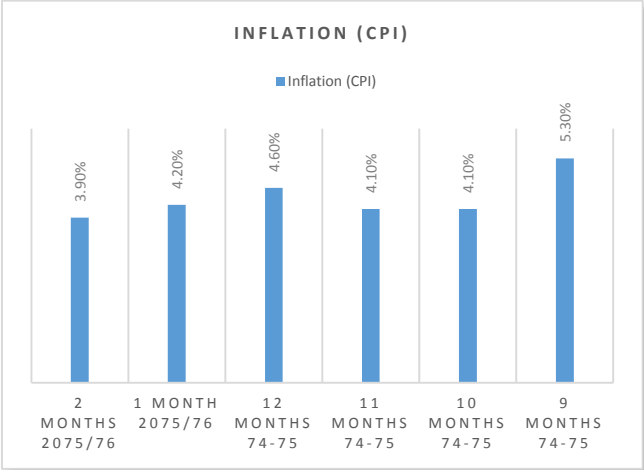


## MONEY SUPPLY M2

Broad Money Supply (M2) grew by 0.10 % in the review period while last year the increase in money supply was 1.80 % during the same period. **Growth in money supply has an inflationary effect on all assets and this includes stock market valuations as well and a decline will have deflationary effect.**

## GOVERNMENT EXPENDITURE

Government Expenditure has increased by 245.8 % in review period compared to the same period last year. Increase in government spending can act as a stimulus in the economy by passing the purchasing power to the private entities and hence spurring the business cycle.



**INFALTION (CPI)**

The CPI for the end of the review period was 3.90%. We can see a continued downward trend in inflation.

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