

# **Macroeconomic Situation Report**

**First Quarter Update: FY 2023-24**



**Macro-Fiscal Policy Division**

**Department of Macro-Fiscal and Development Finance**

**November 2023**

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The *Macroeconomic Situation Report* is a quarterly report produced by the Department of Macro-Fiscal and Development Finance (DMDF), Ministry of Finance (MoF) presenting a comprehensive macroeconomic performance and outlook of the economy based on the technical inputs from the Macroeconomic Framework Technical Committee (MFCTC) and strategic guidance from the Macroeconomic Framework Coordination Committee (MFCC). The report embodies the broad four sectors of the economy including the assessment of the risks from macroeconomic developments, examining the impact of new fiscal policies on fiscal developments and economic growth. The report also monitors the macro economy, fiscal policy implementations, and budget execution, in order to identify deviations from the annual budget forecasts.

The report presents various facets of the public finances of the State including revenue resources and expenditure trends, major fiscal indicators and also highlights some of the monetary aggregates. The report can be used as a reference document for policy makers, and those with a long-term interest in many aspects of the state's economy.

This report presents the state of the economy, fiscal position and current economic situation as of 30<sup>th</sup> September, 2023.

## **1. GLOBAL AND REGIONAL OUTLOOK**

### **1.1 Global and Regional Economic Situation**

The Global Economy displayed remarkable resilience despite the energy and food market disruption by the Russia-Ukraine War and the unprecedented tightening of the global monetary condition conditions to combat decades-high inflation. However, the growth remains slow and uneven with growing global divergence.

While inflation is gradually brought under control, the full recovery towards the pandemic appears increasing out of reach, especially in emerging markets and developing countries.

According to IMF's World Economic Outlook released in October 2023, global growth is estimated to slow from 3.5 percent in 2022 to 3 percent and 2.9 percent in 2023 and 2024 respectively, well below the historical averages.

There is a growing divergence with a slowdown in growth more pronounced in advanced economies than in emerging markets and developing ones. While advanced countries like the US saw an upward revision in growth driven by resilient consumption and investment, the Euro area was revised downward. Many emerging markets economies proved resilient, with the notable exception of China which is facing growing headwinds from its real estate crisis and weakening confidence.

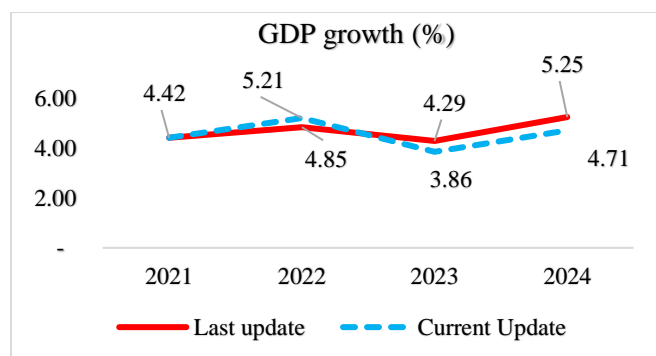
The Indian Economy is projected to grow from 7.2 percent in 2022 to 6.3 percent in 2023 and 2024. The growth estimate saw an upward revision of 0.2 percentage points from the July update reflecting stronger-than-expected consumption during April-June.

## 2. DOMESTIC ECONOMIC DEVELOPMENTS

### 2.1 Growth Performance and Outlook

The economy is anticipated to grow by 3.86 percent in 2023, a decrease of 1.36 percentage points from a growth of 5.21 percent in 2022. The reduction in the growth estimate is primarily due to the better-than-expected economic performance in 2022.

**Chart 2.1: GDP Growth**



**Table 2.1 Sector Growth**

Sectors	2021	2022	2023	2024
GDP at market Prices	4.42	5.21	3.86	4.71
Agriculture, livestock, and forestry	1.42	(1.15)	1.83	1.59
Industry	3.94	5.60	(6.23)	1.60
Services	5.79	6.82	10.52	7.29

The agricultural sector is projected to grow by 1.83 percent in 2023 from a negative growth of (1.15) percent in 2022. The crops and livestock production sector are expected to drive this with an estimated growth of 1.81 percent and 2.76 percent respectively, while forestry and logging sector growth is estimated to decline by (0.16) percent.

However, the industry sector is estimated to decline by (6.23) percent primarily due to the slowdown of economic activities anticipated in the construction and electricity sector by (21.48) percent and (0.12) percent. The significant decline in the construction sector is driven by the government and hydropower construction due to a reduction in the government spending and hydropower disbursement for the ongoing hydropower construction. Conversely, the manufacturing and mining & quarrying sectors are estimated to exhibit a positive growth of 4.54 percent and 7.87 percent respectively.

The service sector, which accounts for more than 50 percent of GDP, is estimated to grow by 10.52 percent in 2023. The Wholesale & Retail Trade, Transport & Storage, and Public Administration & defense contributed to about 2.0 percent, 2.2 percent, and 3.0 percent to the service sector growth with a respective growth estimate of 9.07 percent, 16.88 percent, and 15.08 percent.

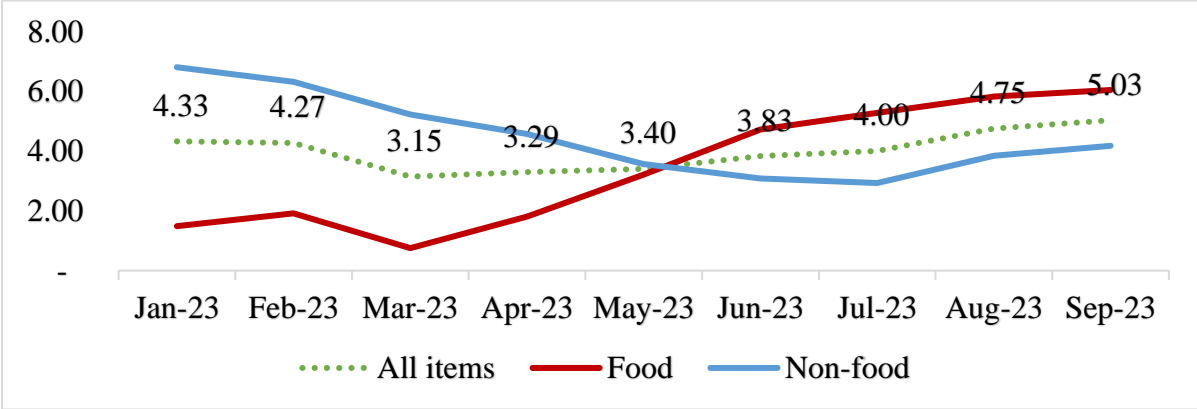
In the medium term, the economy is expected to have a strong positive growth trajectory on account of the commissioning of major hydropower projects, recovery of the tourism sector, and government spending during the implementation of the 13<sup>th</sup> FYP.

However, there is downside risk to the outlook due to the energy and food price volatility, financial markets, and growing geopolitical divergence.

**2.2 Inflation**

While Non-food prices have been the primary driver of inflation in 2022 due to the volatile global energy markets and service sector, the increase in food prices began to drive the inflation from May 2023 with a weightage of 45.95 percent to the overall inflation.

*Chart 2.2: Consumer Price Index*



As of September 2023, the prices of goods and commodities increased by 5.03 percent compared to the same period last year. Both food and non-food prices increased by 6.05 percent and 4.18 percent respectively. Similarly, the month-on-month CPI increased by about 0.59 percent from August due to an increase in non-food prices while food prices decrease by (0.15) during the same period.

The surge in inflation has significantly deteriorated the purchasing power of money with Nu. 100 in September 2023 only worth Nu. 57 at December 2012 prices.

### 3. FISCAL DEVELOPMENTS

#### 3.1 Resources

The domestic revenue for the FY 2023/24 is revised to Nu. 53,094.94 million from the budget estimate of Nu. 46,245.78 million. The revision is mainly on account of the better performance in revenue collection for FY 2022/23 from the CIT, Sales Tax, and Tourism Royalty than initially estimated. Additionally, the profit transfer of Nu. 5269.21 million has been received from RMA, which is a significant increase from the budget estimate of Nu. 800 million.

As of September 2023, the domestic revenue of Nu. 14,848.42 million has been realized, including the one-time profit transfer from RMA, which is 28 percent of the total revised estimate.

*Table 3.1: Domestic Resource*

	Particulars	FY 2022/23	FY 2023/24			
		Actual Revenue Collection	Approved Budget	Revised target	collection as of 30th Sep	% of revised
	<b>Total Revenue</b>	44,874.88	46,245.78	53,094.94	14,848.42	28%
A	<b>Taxes</b>	31,486.54	31,871.47	33,494.06	7,482.13	22%
1	<b>Taxes on Income, Profits &amp; Cap. Gains</b>	14,644.60	14,436.17	15,236.92	4,671.83	31%
	o.w. CIT	10,487.88	10,419.87	10,888.26	3,751.59	34%
	BIT	1,712.98	1,823.65	1,803.57	282.44	16%
	PIT	2,443.75	2,192.66	2,545.09	637.81	25%
2	<b>Taxes on Property</b>	162.98	693.32	701.81	33.07	5%
3	<b>Taxes on Goods and Services</b>	9,162.34	9,725.38	9,544.36	2,322.07	24%
	o.w. Sales Tax	7,154.81	7,467.68	7,465.30	1,870.99	25%
	Excise Duty	574.82	627.89	612.09	150.23	25%
	Green Tax	906.78	1,019.75	904.74	185.40	20%
4	<b>Customs Duty</b>	787.38	712.59	809.69	164.40	20%
5	<b>Other Taxes</b>	6,729.24	6,304.02	7,201.28	290.76	4%
	o.w. Royalty	6,649.64	6,146.00	7,062.84	269.12	4%
B	<b>Other Revenue</b>	11,474.51	12,564.06	17,650.49	6,643.13	38%
	o.w. Interest Receipt from Corp.	2,528.97	2,871.96	2,630.95	1,240.23	47%
	DHI Dividend	3,361.00	4,280.91	2,959.86	-	0%
	Profit Transfer RMA	810.55	800.00	5,269.21	5,269.21	100%
	Profit Transfer MHP	4,464.40	2,500.00	2,500.00	-	0%
C	<b>Current Rev. from Govt. Agencies</b>	1,487.31	1,297.78	1,397.49	688.15	49%
D	<b>Capital Rev. from Govt. Agencies</b>	426.52	512.46	552.90	35.02	6%

The estimate for the FY 2023/24 is as maintained in the budget report with no additional donor source. The grants estimate for the current FY is all the spillover activities and commitments already made for 12<sup>th</sup> FYP which ended on 30<sup>th</sup> June 2023.

As of 30<sup>th</sup> September, a grant of Nu. 1,477.80 million has been received for the current FY which is 23 percent of the total estimate. Of the total grants received, Nu.789.01 million was received from the Government of India while Nu. 688.79 million was received from the other development partners.

**Table 3.2 External Grants**

	Particulars	FY 2022-23	FY 2023-24		
		Actual Receipt	Approved Budget	As of 30th September,	% Received
I	External Grants	14,308.63	6,367.4	1,477.80	23%
1	GoI	10,968.04	2,320.1	789.01	34%
	PTA & SDP	8,418.04	2,320.1	789.01	34%
	Programme Grants	2,550.00	-	-	-
2	Others	3,340.59	4,047.3	688.79	17%
	Project-tied Grants	3,340.59	4,047.3	688.79	17%
	Programme Grants	-	-	-	-
II	Internal Grants (Trust Funds)	520.69	488.3	21.85	4%
	<b>Total Grants</b>	<b>14,829.33</b>	<b>6,855.7</b>	<b>1,499.65</b>	<b>22%</b>

### 3.2 Expenditure

The expenditure for the FY 2023/24 is estimated at NU. 75,016.1 million which is an increase of 0.28 percent from the FY 2022/23. Of the total expenditure, Nu. 45,700.4 million, constituting 61 percent of the total expenditure, is the recurrent expenditure while Nu. 29,315.7 million is capital expenditure. The expenditure utilization as of 30<sup>th</sup> September stands at 17 percent.

**Table 3.3: Expenditure**

Particulars	FY 2022-23	FY 2023-24			
	Actual	Approved Budget	Revised	Utilization as of 30th September	% Utilization
<b>Total Expenditure</b>	<b>74,808.0</b>	<b>74,861.6</b>	<b>75,016.1</b>	<b>12,406.0</b>	<b>17%</b>
Current Expenditure	35,619.6	45,545.9	45,700.4	9,523.1	21%
Primary Current	31,391.5	40,486.3	40,315.7	7,929.4	20%
Interest Payment	4,228.1	5,059.7	5,384.7	1,593.7	30%
Capital Expenditure	33,798.2	29,315.7	29,315.7	2,882.9	10%



### 3.3 Fiscal Framework

With the revised resource estimate of Nu.59,950.6 million and expenditure of Nu. 75,01.1 million, the fiscal deficit is estimated at Nu. 15,065.4 million which is 5.2 percent of GDP, a significant reduction from the initial budget fiscal deficit estimates of 9.7 percent of GDP. The fiscal deficit is expected to be financed through the next external borrowing of Nu. 3,471.7 million and net internal borrowing of Nu. 6,276.4 million with the net lending of Nu. (5,317.3) million.

**Table 3.4: Fiscal Framework**

	Particulars	2022/23	2023/24	2023/24	2024/25
		Actual	Budget	Revised	Estimate
<b>A</b>	<b>Revenue &amp; Grants</b>	<b>60,468.8</b>	<b>53,513.2</b>	<b>59,950.6</b>	<b>68,675.1</b>
1	Domestic Revenue	44,874.9	46,245.8	53,094.9	50,034.7
2	Grants & receipts	15,594.0	7,267.5	6,855.7	18,640.3
<b>B</b>	<b>Outlay</b>	<b>68,820.1</b>	<b>74,861.6</b>	<b>75,016.1</b>	<b>78,492.3</b>
1	Current	35,428.0	45,545.9	45,700.4	48,489.4
2	Capital	33,798.2	29,315.7	29,315.7	30,003.0
	Advance/Suspense	406.1			
	Other Net Payments	2,870.9			
<b>C</b>	<b>Fiscal Balance</b>	<b>(11,222.1)</b>	<b>(21,348.4)</b>	<b>(15,065.4)</b>	<b>(9,817.3)</b>
	Fiscal deficit (% of GDP)	(4.7)	(9.7)	(5.2)	(3.0)
<b>D</b>	<b>Financing</b>	<b>11,222.1</b>	<b>21,348.4</b>	<b>15,065.4</b>	<b>9,817.3</b>
	Net Lending	(4,255.3)	(2,596.5)	(5,317.3)	(6,009.3)
	Net External	3,077.0	2,202.7	3,471.7	9,559.1
	Net Domestic	3,889.8	16,549.2	6,276.4	(5,751.1)

While formulation of 13<sup>th</sup> FYP is still in progress, for the FY 2024/25 the total resource is estimated at Nu. 68,675.1 million. Of the total resource estimated, the domestic revenue is estimated at Nu. 50,034.7 million and the grants from GoI and Other Development Partners are estimated at Nu. 14,444.64 million and Nu.5,183.44 respectively.

Similarly, with the estimated current expenditure of Nu. 48,489.4 million and Capital expenditure of Nu. 30,003.0 million, the total expenditure is estimated at Nu. 78,492.3 million. This will result in a fiscal deficit of Nu. 9,817.3 million which is 3.0 percent of GDP.

### 3.4 Public Debt

The total public debt as of 30<sup>th</sup> June 2023 stood at Nu. 276,976 million. The debt stock comprises the external debt of Nu. 244,186 million accounting for 88 percent of the total debt stock and the domestic debt of Nu. 32,791 million constituting 12 percent of the total debt stock.

*Table 3.5 Total Public Debt*

Particulars	2020/21	2021/22	2022/23	2023/24
	Actual			Estimate
<b>Total Public Debt</b>	<b>238,399</b>	<b>256,874</b>	<b>276,977</b>	<b>287,571</b>
% of GDP	123%	119%	106%	99%
<b>1. Domestic Debt</b>	<b>17,074</b>	<b>28,061</b>	<b>32,791</b>	<b>26,101</b>
% of GDP	9%	13%	13%	9%
% of Total Public Debt	7%	11%	12%	9%
<b>2. External Debt</b>	<b>221,324</b>	<b>228,812</b>	<b>244,186</b>	<b>261,470</b>
% of GDP	114%	106%	94%	90%
% of Total Public Debt	93%	89%	88%	91%
<b>2.1. Hydro Debt</b>	162,359	162,944	168,648	174,486
<b>2.2. Non-Hydro Debt</b>	58,965	65,868	75,538	86,984

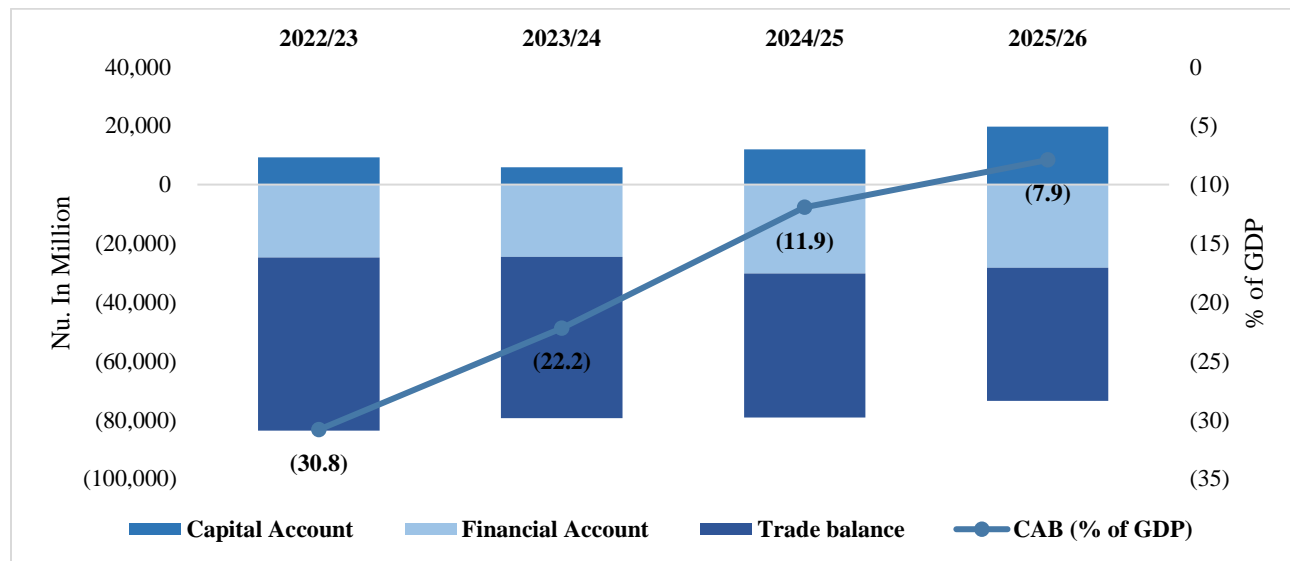
For FY 2023/24, the total public debt is estimated to increase to Nu. 287,571 million which is an increase of 4 percent from the current debt stock. While the domestic debt is estimated to decrease due to the repayment of the government bond, the external debt is estimated to increase from the additional hydropower disbursement and budgetary borrowings to meet the financing gap.

The hydropower debt is estimated to increase to Nu. 174,486 million in FY 2023/24 from the total outstanding debt of Nu. 168,648 million. Similarly, the non-hydropower debt is estimated to increase at Nu. 86,984 million from the Nu. 75,538 million in the current FY.

#### 4. BALANCE OF PAYMENT

The current account deficit is estimated to narrow from 30.8 percent of GDP in FY 2022-23 to 22.2 percent of GDP in FY 2023-24 due to the narrowing of the trade deficit and improvement in the financial inflows related to grants and borrowings.

*Chart 4.1: Balance of Payment*



#### Trade performance:

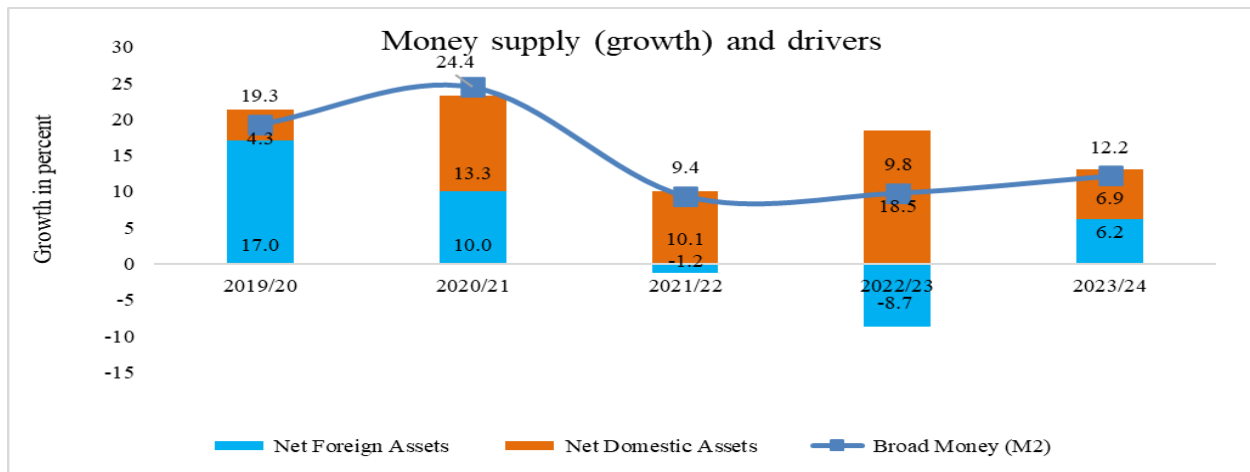
The export saw a minimal increase of 2.4 percent from Nu. 26,363.0 million from January to September 2022 to Nu. 26,999.4 million during the same period in 2023. On the other hand, the imports saw a decline of 6.0 percent from Nu. 88,910.8 million to Nu. 83,578.4 million during the same period.

As a result, the trade deficit saw an improvement from Nu. 62,547.8 million to Nu. 56,579.1 million during the same period.

## 5. MONETARY AND CREDIT

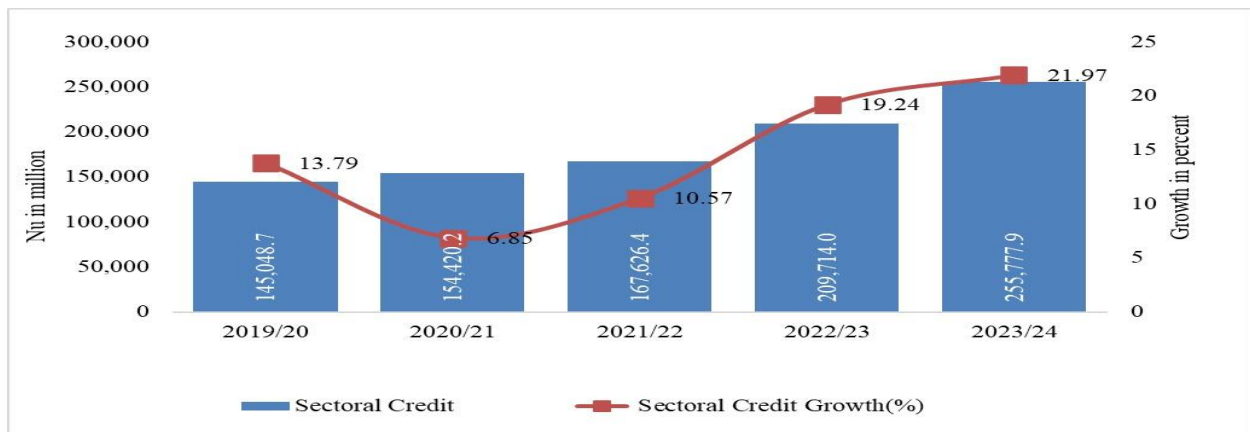
The money supply saw a growth of 9.8 percent during FY 2022/23 due to the moderate growth in aggregate deposits. While the Net Domestic Asset has recorded a growth of 18.5 percent, the Net Foreign Asset, however, declined by 8.7 percent due to a deterioration in the balance of payment performance position.

**Chart 5.1 Money Supply**



The sectoral credit saw a growth of 19.2 percent resulting in an outstanding credit of Nu. 209,714.0 million in FY 2022/23. The housing sector accounts for the highest share followed by the service & tourism sector of total domestic credit. The sectoral credit is further estimated to grow by 21.9 percent in FY 2023/24.

**Chart 5.2: Sectoral Credit**



## 6. RISK AND CHALLENGES

Downside risks to the outlook will continue to persist emanating from both external and domestic environments. Some of the possible risks and challenges based on the current update are listed below:

***Inflationary Pressure:*** The slow post-pandemic recovery, trade war, and the deteriorating geopolitical environment impacted the price of commodities, especially food and energy. While there has been moderation in the food and energy prices recently, with the above constraints still active, inflationary pressure and supply shock remain a risk.

***Hydro:*** Although hydropower has traditionally fueled economic growth, the necessity for diversification has become more pronounced due to climate change-related risks and the imperative of creating sufficient employment opportunities for youth. Given the strong reliance on rainfall and weather patterns for electricity generation, any deviation such as lower-than-expected rainfall or technical breakdowns in hydropower production will have repercussions on economic growth and government revenues. Furthermore, any possible delays in hydropower project completion will impact growth prospects.

***Structural issue and unemployment:*** Economic diversification and youth unemployment continue to remain a macroeconomic challenge. This is leaving a significant number of human capital untapped, thereby possibly losing out on enhanced economic activity and productivity.

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